

## LIFE INSURANCE (C3) SUBCOMMITTEE

## Reference:

1971 Proc. Vol. II, p. 5301972 Proc. Vol. I, p. 598

J. Richard Barnes, Chairman, Colorado

Thomas D. O'Malley, Vice-Chairman, Florida

AGENDA

1. Report of the Insurance Department Task Force to Study and Report on Policy Loan Interest Rates (Chairman, James R. Carlisle, Examiner, Alabama Insurance Department).
2. Report of the Technical Task Force to Study Development of NAIC Model Regulation for Price Illustrations of Life Insurance Products (Chairman, Daniel D. Andersen, Actuary, Iowa Insurance Department).
3. Report of the Technical Task Force to Study Suggested Changes in Valuation and Non-forfeiture Law -- Annuities (Chairman, Henry F. Ries, Chief Actuary, Colorado Insurance Department).
4. Report of the Task Force to Study Illustrations Used in Selling Equity Insurance and Leased Life Insurance, as well as Replacement of Life Insurance with non-similar products (Zone IV to report).
5. "Perspective for Tomorrow" -- extract from the Report of the Institute of Life Insurance.
6. Discussion of Disclosure of Agents' Commissions.
7. Discussion of split life insurance. (Placed on Agenda at the request of Zone V).
8. Any other matters submitted for consideration.

The Life Insurance (C3) Subcommittee met in the Grand Ballroom at 1:30 p.m., Tuesday, June 13, 1972, at the Denver Hilton in Denver, Colorado. A quorum was present.

The Report of the Insurance Department Task Force to Study and Report on Policy Loan Interest Rates was distributed. Manuel Gorman representing LIAA and ALC indicated that it was apparently a one man Report and that other Task Force members had not had the opportunity to review and participate. He submitted a statement on behalf of ALC and LIAA objecting to the contents of the Report.

In executive session, it was unanimously agreed that the Task Force report was not responsive to the questions propounded to it and that a new Task Force should be appointed and given more explicit instructions as to their assignment.

Daniel D. Andersen, Actuary of the Iowa Insurance Department, submitted a report of the Technical Task Force to Study Development of NAIC Model Regulations for Price Illustrations of Life Insurance Products. Richard Minck, Actuary for LIAA and ALC, reported that those organizations have reconstituted their Joint Committee concerned with this subject and are continuing their study. They offered their assistance to the Task Force and pointed out that there are some theoretical problems involved in part of our Task Force's recommendations.

In executive session, it was unanimously agreed to continue the Task Force as it has suggested, covering the areas referred to in its preliminary Report, which is attached.

Henry F. Ries, Chief Actuary of the Colorado Insurance Department gave the report of the Technical Task Force to Study Suggested Changes of Valuation and Non-forfeiture Laws - Annuities. The Report recommends the following changes in the proposed law previously submitted by the industry:

1. Set the maximum statutory interest rate at 4% for deferred annuities for all life insurance and benefits supplementary thereto.
2. Raise the maximum statutory interest rate to 6% for all group annuities and single premium immediate individual annuities with a cutback as of December 31, 1980.
3. Introduce the 1971 group annuity mortality table and the 1971 individual annuity mortality table as statutory standards to replace present standards or reduce the statutory maximum interest rates from 4¼% to 4% with a cutback to 3½% December 31, 1980.

Richard Minck, representing ALC and LIAA, recommended immediate action to approve industry's recommendations and spoke against the Task Force's changes, both as to the 4% figure and the automatic reversion after 1980.

In executive session, it was unanimously agreed to direct the Task Force to explore the matter further jointly with the industry committee to attempt a resolution of the differences of opinion.

With regard to the agenda item on illustrations used in selling equity insurance and leased life insurance, it was unanimously agreed in executive session to appoint a Task Force to pursue this subject.

A brief summation of E.J. Moorehead's report of "Project 2" was given. Because it is not far enough along for any conclusions, no further action was taken. It is understood that Mr. Moorehead will furnish members of this Subcommittee with copies of his report when ready.

Dave Feintuch indicated Michigan's concern about the possible requirement of commission disclosure in the sale of life insurance and the feeling that the NAIC should come up with a standard disclosure procedure at an early time. In executive session, it was unanimously agreed that Michigan should be requested to present some specific recommendations for the Subcommittee's consideration.

The committee felt strongly that a Task Force should be appointed to explore the problems of split life and make recommendations to NAIC regarding same. A Task Force is to be appointed.

On the subject of whether or not model laws and regulations should be prepared for life, accident and health forms, the committee requested that Zone II be directed to make some specific recommendations to the Subcommittee.

On "Other Items", John Nietman, Jr., representing LIAA and ALC reported that industry has formed a special committee to concern itself with premium financing of college business. They want to work with NAIC on further revisions of the guidelines. The specific amendment they suggest is to add a paragraph 17 as follows:

17. An insurer may submit to the Commissioner any procedure it intends to follow which deviates from the requirements of this Regulation and the Commissioner may approve such procedure if he finds that it is the equivalent of the requirements of this Regulation and gives the same measure of protection to the applicant as is provided hereby.

In executive session, the Subcommittee felt that this needed further study before adoption.

There being no other business to come before the Subcommittee, the meeting was adjourned.

Hon. J. Richard Barnes, Chairman, Colorado; Hon. Thomas D. O'Malley, Vice-Chairman, Florida; Hon. John G. Bookout, Alabama; Hon. Oscar H. Ritz, Indian; Hon. John G. Ryan, Massachusetts; Hon. Evelyn Gandy, Mississippi; Hon. William Y. McCaskill, Missouri; Hon. Richard C. McDonough, New Jersey; Hon. Edwin S. Lanier, North Carolina; Hon. F. Frank Howatt, Oregon; Hon. Ned Price Texas; Hon. Everette S. Francis, Virginia.

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COST COMPARISONS AND PRICE ILLUSTRATIONS OF LIFE INSURANCE PRODUCTS(C3) TASK FORCEPreliminary ReportDenver, ColoradoJune, 1972

In accordance with instructions from the (C3) Subcommittee, this Task Force has commenced its study of cost comparisons of life insurance products. The Task Force has met on two occasions following study of extensive background material on the subject.

Based on our review of the Report of the Joint Special Committee on Life Insurance Costs, the files of that Committee, writings in numerous technical and trade journals, responses to inquiries from this Task Force from interested persons within the insurance industry, educators and consumer representatives, in addition to research of individual members of the Task Force, we conclude that, although the Traditional Net Cost Method gives a true indication of the difference between dollars paid to and dollars payable by an insurance company, assuming an unchanged dividend scale and surrender of the policy at the end of the measurement period, it is inappropriate for cost comparison purposes due primarily to its lack of recognition of the times of payments. We further conclude that, although the introduction of interest is important, the inclusion of the significant effects of mortality and persistency is necessary in order to produce an index which is theoretically more precise and responsive, and which is less subject to manipulation to thwart the purposes of the cost comparison method.

In our research, we have encountered a wide divergence of opinion. Although we believe that no method of cost comparison entirely satisfies all desired criteria, we are seriously considering a general method which we believe will eliminate more of the significant objections than any other method proposed to this date. This method will reflect interest, mortality and persistency and will produce a relative value index expressed in the form of a ratio. We believe that a dollar and cents figure is susceptible to and encourages misrepresentation and that the use of a ratio, analogous to an efficiency ratio, would minimize this danger.

The Task Force realizes that a method including interest, mortality and persistency involves a calculation which is somewhat more complicated and more difficult to implement, explain and understand than the Traditional Method or the Interest Adjusted Method; nevertheless, we believe this method will be very little more difficult to use in actual practice, and that the inclusion of mortality and persistency as well as interest will most probably be so important as to justify a somewhat more complicated method of calculation.

Practical considerations of implementation alone should not deter us from providing the best tool available for the benefit of purchasers of life insurance in the comparison of costs of life insurance products. It is our recommendation that the N.A.I.C. adopt a cost comparison method which will not be subject to criticism due to inadequacy, resulting in the need for early future improvement. The easy course would be to accept the Interest Adjusted Method, but we believe that this would merely be a stepping stone on the road to a more theoretically sound cost comparison method, and that the N.A.I.C. would soon find it to be necessary to modify its position, at greater expense and inconvenience both to the insurance industry and to the consumers.

Service corporations supporting the insurance industry will undoubtedly publish complete volumes of cost comparison figures based on the comparison method ultimately adopted by the N.A.I.C. We believe that this extreme likelihood, combined with recognition of the extensive computer facilities within the industry, renders consideration of the theoretically superior cost comparison method to be feasible.

The Task Force also recommends that the use of a cost comparison index not be made mandatory in every sales situation, but be made available upon request. We have reached this conclusion based on the realization that no satisfactory cost measurement has been or is likely to be developed which is of value in and of itself, but can be meaningful only in a comparison situation. Therefore, the forced introduction of a cost comparison index in a situation where comparison is not anticipated might only introduce or exaggerate misunderstanding or misrepresentation.

Inasmuch as it would appear to be logical to include a requirement of adequate disclosure in the sale of life insurance in a model regulation covering cost comparisons, we request that the scope of our study be extended to include that subject.

Although we have formulated some very broad general concepts in this preliminary report, a substantial amount of work remains before a completed Model Regulation can be presented for the consideration of your Subcommittee. Recognizing

the lack of facilities available to the Task Force, the Joint Special Committee on Life Insurance Costs, which was recently reactivated, has offered assistance in testing a refined usable method, based on criteria specified by the Task Force.

Accordingly, it is the intention of this Task Force to continue to work toward the development of a Model Regulation relating to cost comparisons of life insurance products, and to complete our work prior to the N.A.I.C. meeting in Atlanta.

Your subcommittee should note that after a method of cost comparison shall have been adopted by the N.A.I.C., it will be necessary to modify the Model Replacement Regulation, in order to reflect such adopted method of comparison.

We have found the comments of various individuals, who have conducted extensive research involving cost comparison methods, to have been extremely valuable, and we would suggest that the (C3) Subcommittee request written statements to be mailed by any interested person directly to each member of the Task Force. Each statement so submitted will receive our careful consideration and will have an appropriate impact on the final report of the Task Force.

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## VARIABLE ANNUITIES AND OTHER CONTRACTS (C4) COMMITTEE

### Reference:

1971 Proc., Vol. II, p. 535

1972 Proc., Vol. I, p. 606

Samuel Van Pelt, Chairman, Nebraska

Johnnie L. Caldwell, Vice-Chairman, Georgia

### AGENDA

1. Report of Industry Advisory Committee.
2. Status report on Variable Life Insurance exemption petition and hearings before the Securities and Exchange Commission.
3. Discussion of changes needed to update model regulation.
4. Any other matters submitted for consideration.

The Variable Annuities and Other Contracts (C4) Subcommittee met in the Grand Ballroom of the Hilton hotel, Denver, Colorado, at 9:00 a.m. on Wednesday, June 14, 1972. A quorum was present.

The Chairman called for the Industry Advisory Committee report and it was presented by Larry D. Gilbertson, Chairman of the Industry Advisory Committee. He recommended that the report of the Task Force on Reserves for Minimum Death Benefit Guarantees Under Variable Life Insurance Contracts be adopted. This report has been approved by the joint ALC-LIAA Actuarial Committee.

The Chairman gave a brief status report on the industry petition for exemption and the hearings thereon before the Securities Exchange Commission. The Chairman also expressed his deep appreciation for the work done by Bruce Clements and the NAIC Central Office Staff in connection with these proceedings.

The Chairman reported that certain up-dating of the model regulation was needed, particularly in the area of agents' licensing. However, since this matter is being considered by the Subcommittee to Draft Model Regulations for Uniform Agents and Brokers Licensing (B2), no action was deemed necessary by this Subcommittee at the present time.

There being no further matters submitted for consideration, the Subcommittee went into executive session.

In executive session, the Subcommittee voted to defer action on the report and recommendations of the Industry Advisory Committee, and to submit the report of the Task Force on Reserves for Minimum Death Benefit Guarantees Under Variable Life Insurance Contracts to the actuaries of the various departments represented on the Subcommittee, for future analysis and review. The department actuaries' comments will be considered by the Subcommittee in the December, 1972 meeting.

The Subcommittee formally expressed its appreciation for the splendid work done by Mr. Bruce Clements, and the NAIC Staff, in representing the NAIC in the S.E.C. proceedings, and particularly in assisting Commissioner Barger and Director Van Pelt in the preparation and delivery of their oral presentation at that proceeding.

There being no further business to come before the Subcommittee, the same thereupon adjourned.

Hon. Samuel Van Pelt, Chairman, Nebraska; Hon. Johnnie L. Caldwell, Vice-Chairman, Georgia; Hon. Millard Humphrey, Arizona; Hon. Edward P. Lombard, D.C.; Hon. James Baylor, Illinois; Hon. Harold B. McGuffey, Kentucky; Hon. Berton W. Heaton, Minnesota; Hon. Pedro J. Fernandez Badillo, Puerto Rico; Hon. Benjamin R. Schenck, New York; Hon. John W. Lindsay, South Carolina.

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#### EMPLOYER-EMPLOYEE GROUP COVERAGES (C) TASK FORCE

June, 1972

This Task Force and its Industry Advisory Committee were appointed as the result of action at the June, 1971 Annual Meeting. Their charge was to explore the problems which arise when group coverage is terminated because of the failure of the policyholder to pay premiums. It was recognized that consideration should also be given to the loss of coverage which may occur as the result of a change in carriers.

The Industry Advisory Committee submitted an interim report at the December NAIC Meeting suggesting principles which could be incorporated in a model regulation. Those principles related only to Employer-Employee Group Coverage and covered the following:

1. If coverage is continued beyond the expiration of the grace period by action of the carrier, the carrier should be liable for claims incurred thereafter until it gives written notice of discontinuance to the employer.
2. The employer should be requested to notify employees of termination of coverage and warned about his liability if collections are continued.
3. Existing contracts at time of amendment and all new contracts must provide for reasonable extensions of benefits during total disability.

4. Employees should be protected against loss as result of change in carriers.

The Task Force accepted the Industry Advisory Committee report. The parent committee received the Task Force report but asked for further consideration of the respective obligations of employers and insurers in event of termination due to failure of the employer to pay premiums.

The Industry Advisory Committee submitted a revised regulation to the Task Force together with Mr. Cathle's letter of March 21. The Task Force's re-draft of that suggested regulation was reviewed at a joint meeting of the Task Force and the Industry Advisory Committee May 24. The proposed model regulation developed at that meeting was furnished to all insurance regulatory officials as of May 25. Due to a drafting error, one technical change has been made in the first line (Section (7)(c)2.b.ii), in order to keep it consistent with the remainder of the rule. This change has been incorporated in the copy of the proposed regulation attached to this Report.

#### Principal Features of Proposed Model Regulation

1. Applies to all group and group-type coverage for employees or union or association members. It is intended to include group insurance, the Blues' group remittance plans, and wholesale and franchise plans. Group-type is defined in detail so as to exclude salary savings or salary budget plans.
2. If coverage is continued beyond the grace period by action of the carrier, the carrier must give notice of discontinuance. Also, the carrier must furnish a supply of notice forms to the employer or other premium remitter for distribution to covered employees or members.
3. Reasonable extensions of benefits are required for total disability existing at termination of a group policy or contract, if the policy or contract is subject to the regulation and is issued or amended after the regulation becomes effective. An extension of at least 12 months is required for major medical and comprehensive medical type coverages. For other hospital and medical coverage an extension of 90 days is required.
4. The remainder of the regulation is devoted to provisions intended to prevent loss of coverage solely because of a change in carriers.

The prior carrier remains liable only to extent of accrued liabilities and extensions.

The succeeding carrier must cover all persons eligible for coverage in accordance with its plan of benefits. Rules are established for the coverage of other persons covered by the prior carrier who are members of the class eligible for coverage under the succeeding carrier's plan. For such other persons a minimum level of benefits is required at the level of the prior carrier's plan, and coverage must be continued for certain minimum periods as specified. If the succeeding carrier's plan contains a pre-existing condition exclusion, the insured nevertheless will receive at least the benefit of the prior plan or the benefits of the new plan without regard to the pre-existing condition limitation, whichever is the lesser.

The regulation contains provisions designed to give the insured credit, under the succeeding carrier's plan, for the satisfaction of any deductible or waiting period provisions of the prior plan.

Finally, when the succeeding carrier is to pay benefits at the level of the prior plan, it is provided that at the request of the succeeding carrier, the prior carrier shall furnish the information that the succeeding carrier needs for this purpose.

The Task Force and Industry Advisory Committee believe that the adoption of the proposed regulation will provide a satisfactory resolution of the problems relating to the termination of coverage which led to the formation of the Task Force. Furthermore, the provisions designed to protect individual insureds against the loss of coverage due solely to a change in carriers will be of significant benefit to the public.

Both the Task Force and the Industry Advisory Committee recommend the adoption of Task Force Report and the adoption of the proposed regulation by the several states.

The Task Force expresses its appreciation for the dedicated work of the Industry Advisory Committee listed below and to its Chairman, Mr. Lawrence M. Cathles, Jr.

R. Donald Albright, Provident Life and Accident Ins. Co.  
 Horace R. Baker, Jr., John Hancock Mutual Life Ins. Co.  
 Thomas R. Bodine, Connecticut General Life Ins. Co.  
 Paul E. Brown, Bankers Life Company  
 Lawrence M. Cathles, Jr., Aetna Life & Casualty  
 Melvin B. Engler, United Benefit Life Ins. Co.  
 Richard A. Loebach, Continental Assurance Co.  
 Charles B. Strome, Jr., Equitable Life Assurance Soc. of U.S.  
 William Timmons, Blue Cross-Blue Shield  
 Howard B. Woodside, Sentry Life Ins. Co.  
 Robert E. Younger, The Prudential Ins. Co. of America

Hon. Stanley C. DuRose, Chairman, Wisconsin; Hon. J. Richard Barnes, Colorado; Hon. Oscar Ritz, Indiana; Hon. Richard McDonough, New Jersey.

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**MODEL REGULATION**  
**GROUP COVERAGE DISCONTINUANCE AND REPLACEMENT**

Section (1) **AUTHORITY.** These rules and regulations are adopted and promulgated by [title of supervisory authority] pursuant to sections [§\_\_\_\_\_] of [the\_\_\_\_\_Insurance Code].

Section (2) **SCOPE.** They are applicable to all insurance policies and subscriber contracts issued or provided by an insurance company or a non-profit service corporation on a group or group-type basis covering persons as employees of employers or as members of unions [or associations].

Section (3) **DEFINITION.** The term "group-type basis" means a benefit plan, other than "salary budget" plans utilizing individual insurance policies or subscriber contracts, which meets the following conditions:

- (a) Coverage is provided through insurance policies or subscriber contracts to classes of employees or members defined in terms of conditions pertaining to employment or membership.
- (b) The coverage is not available to the general public and can be obtained and maintained only because of the covered person's membership in or connection with the particular organization or group.
- (c) There are arrangements for bulk payment of premiums or subscription charges to the insurer or non-profit service corporation.
- (d) There is sponsorship of the plan by the employer, union, [or association].

Section (4) **EFFECTIVE DATE OF DISCONTINUANCE FOR NON-PAYMENT OF PREMIUM OR SUBSCRIPTION CHARGES.**

- (a) If a policy or contract subject to these rules and regulations provides for automatic discontinuance of the policy or contract after a premium or subscription charge has remained unpaid through the grace period allowed for such payment, the carrier shall be liable for valid claims for covered losses incurred prior to the end of the grace period.
- (b) If the actions of the carrier after the end of the grace period indicate that it considers the policy or contract as continuing in force beyond the end of the grace period (such as, by continuing to recognize claims subsequently incurred), the carrier shall be liable for valid claims for losses beginning prior to the effective date of written notice of discontinuance to the policyholder or other entity responsible for making payments or submitting subscription charges to the carrier. The effective date of discontinuance shall not be prior to midnight at the end of the third scheduled work day after the date upon which the notice is delivered.



Section (5) REQUIREMENTS FOR NOTICE OF DISCONTINUANCE.

- (a) Any notice of discontinuance so given by the carrier shall include a request to the group policyholder or other entity involved to notify employees covered under the policy or subscriber contract of the date as of which the group policy or contract will discontinue and to advise that, unless otherwise provided in the policy or contract, the carrier shall not be liable for claims for losses incurred after such date. Such notice of discontinuance shall also advise, in any instance in which the plan involves employee contributions, that if the policyholder or in any instance in which the plan involves employee contributions, that if the policyholder or in any instance in which the plan involves employee contributions, that if the policyholder or other entity continues to collect contributions for the coverage beyond the date of discontinuance, the policyholder or other entity may be held solely liable for the benefits with respect to which the contributions have been collected.
- (b) The carrier will prepare and furnish to the policyholder or other entity at the same time a supply of a notice form to be distributed to the employees or members concerned indicating such discontinuance and the effective date thereof, and urging the employees or members to refer to their certificates or contracts in order to determine what rights, if any, are available to them upon such discontinuance.

Section (6) EXTENSION OF BENEFITS.

- (a) Every group policy or other contract subject to these rules and regulations hereafter issued, or under which the level of benefits is hereafter altered, modified, or amended, must provide a reasonable provision for extension of benefits in the event of total disability at the date of discontinuance of the group policy or contract, as required by the following paragraphs of this section.
- (b) In the case of a group life plan which contains a disability benefit extension of any type (e.g., premium waiver extension, extended death benefit in event of total disability, or payment of income for a specified period during total disability), the discontinuance of the group policy shall not operate to terminate such extension.
- (c) In the case of a group plan providing benefits for loss of time from work or specific indemnity during hospital confinement, discontinuance of the policy during a disability shall have no effect on benefits payable for that disability or confinement.
- (d) In the case of hospital or medical expense coverages other than dental and maternity expense, a reasonable extension of benefits or accrued liability provision is required. Such a provision will be considered "reasonable" if it provides an extension of at least twelve months under "major medical" and "comprehensive medical" type coverages, and under other types of hospital or medical expense coverages provides either an extension of at least ninety days or an accrued liability for expenses incurred during a period of disability or during a period of at least ninety days starting with a specific event which occurred while coverage was in force (e.g., an accident).
- (e) Any applicable extension of benefits or accrued liability shall be described in any policy or contract involved as well as in group insurance certificates. The benefits payable during any period of extension or accrued liability may be subject to the policy's or contract's regular benefit limits (e.g., benefits ceasing at exhaustion of a benefit period or of maximum benefits).

Section (7) CONTINUANCE OF COVERAGE IN SITUATIONS INVOLVING REPLACEMENT OF ONE CARRIER BY ANOTHER.

- (a) This section shall indicate the carrier responsible for liability in those instances in which one carrier's contract replaces a plan of similar benefits of another.
- (b) Liability of prior carrier. The prior carrier remains liable only to the extent of its accrued liabilities and extensions of benefits. The position of the prior carrier shall be the same whether the group policyholder or other entity secures replacement coverage from a new carrier, self-insures, or foregoes the provision of coverage.

(c) Liability of Succeeding Carrier.

1. Each person who is eligible for coverage in accordance with the succeeding carrier's plan of benefits (in respect of classes eligible and activity at work and non-confinement rules) shall be covered by that carrier's plan of benefits.
2. Each person not covered under the succeeding carrier's plan of benefits in accordance with paragraph 1, above must nevertheless be covered by the succeeding carrier in accordance with the following rules if such individual was validly covered (including benefit extension) under the prior plan on the date of discontinuance and if such individual is a member of the class or classes of individuals eligible for coverage under the succeeding carrier's plan. Any reference in the following rules to an individual who was or was not totally disabled is a reference to the individual's status immediately prior to the date the succeeding carrier's coverage becomes effective.
  - a. The minimum level of benefits to be provided by the succeeding carrier shall be the applicable level of benefits of the prior carrier's plan reduced by any benefits payable by the prior plan.
  - b. Coverage must be provided by the succeeding carrier until at least the earliest of the following dates:
    - i) the date the individual becomes eligible under the succeeding carrier's plan as described in paragraph 1. above.
    - ii) for each type of coverage, the date the individual's coverage would terminate in accordance with the succeeding carrier's plan provisions applicable to individual termination of coverage (e.g., at termination of employment or ceasing to be eligible dependent, as the case may be.
    - iii) in the case of an individual who was totally disabled, and in the case of a type of coverage for which Section (6) requires an extension of accrued liability, the end of any period of extension or accrued liability which is required of the prior carrier by Section (6) or, if the prior carrier's policy or contract is not subject to that Section, would have been required of that carrier had its policy or contract been subject to Section (6) at the time the prior plan was discontinued and replaced by the succeeding carrier's plan.
3. In the case of a pre-existing conditions limitation included in the succeeding carrier's plan, the level of benefits applicable to pre-existing conditions of persons becoming covered by the succeeding carrier's plan in accordance with this subsection during the period of time this limitation applies under the new plan shall be the lesser of:
  - a. the benefits of the new plan determined without application of the pre-existing conditions limitation; and
  - b. the benefits of the prior plan.
4. The succeeding carrier, in applying any deductibles or waiting periods in its plan, shall give credit for the satisfaction or partial satisfaction of the same or similar provisions under a prior plan providing similar benefits. In the case of deductible provisions, the credit shall apply for the same or overlapping benefit periods and shall be given for expenses actually incurred and applied against the deductible provisions of the prior carrier's plan during the 90 days preceding the effective date of the succeeding carrier's plan but only to the extent these expenses are recognized under the terms of the succeeding carrier's plan and are subject to a similar deductible provision.

5. In any situation where a determination of the prior carrier's benefit is required by the succeeding carrier, at the succeeding carrier's request the prior carrier shall furnish a statement of the benefits available or pertinent information, sufficient to permit verification of the benefit determination or the determination itself by the succeeding carrier. For the purposes of this section, benefits of the prior plan will be determined in accordance with all of the definitions, conditions, and covered expense provisions of the prior plan rather than those of the succeeding plan. The benefit determination will be made as if coverage had not been replaced by the succeeding carrier.

Section (8) EFFECTIVE DATE.

These rules and regulations shall take effect on [at least 120 days after promulgation].

TRUSTEED GROUP INSURANCE (C) TASK FORCE  
June, 1972.

The Task Force on Trusteed Group Insurance met on Tuesday, May 2, 1972, at the Arlington Hotel in Hot Springs, Arkansas. A quorum was present, consisting of Commissioner William Huff of Iowa, Commissioner Ben Murphy of Wyoming, Jack Clator of Texas and Director Samuel Van Pelt of Nebraska, Chairman. Prior to the meeting the Task Force reviewed a number of trusteed group plans presently in operation.

The chairman advised all persons present that the task force was inquiring into those situations where an association establishes a trust in a state, purchases a group life, health, or disability policy from a company authorized to do business in that state, and then solicits members of the association who resides in other states. A potential regulatory gap arises if the situs state has less restrictive group laws than the states in which the policy is sold, and if the issuing company is not licensed, nor the policy approved, in the states where the policy is sold.

Since this was the first meeting of the Task Force, members of the public were invited to submit their views. A representative of the Health Insurance Association of America referred to the NAIC consideration of this problem in 1955, and advised that it was then concluded that there was a regulatory void, but no solution was agreed upon. He further stated that under the existing mechanism, insurance is offered to the consumer at a lower rate, and that this should not be inhibited by state regulation. He suggested that adoption of the model group law by all states would virtually eliminate the problem.

A representative from the Life Insurance Association of America stated that his Association did not want more than one insurance department regulating interstate group plans. He suggested that self-insurance would become an alternative if regulation becomes too restrictive.

In executive session the Task Force unanimously adopted the following recommendations:

- (1) That all states which have not presently done so be encouraged to adopt the NAIC model group law.
- (2) That the Unauthorized Insurance Model Act be amended to eliminate the exemption pertaining to trusts.
- (3) That until all states adopt the model group law, the NAIC draft and adopt a model law requiring that all trusteed group policies offered for sale within a state conform to the group laws of that state.

Since recommendations 2 and 3 involved model laws, it is assumed that they will be referred to the Laws, Legislation, and Regulation (B) Committee for necessary drafting and consideration. However, if suggested statutory language is desired, the Task Force would be happy to submit it.

Hon. Samuel Van Pelt, Chairman, Nebraska Insurance Department; Hon. William Huff, Commissioner of Iowa; Hon. Ben Murphy, Wyoming; Mr. Jack Clator, Texas.

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