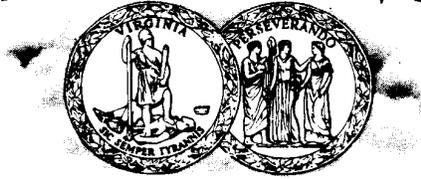


COMMONWEALTH OF VIRGINIA



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STATE CORPORATION COMMISSION BUREAU OF INSURANCE

May 25, 1989

Administrative Letter
1989-9

TO: All Companies Licensed to Write Life Insurance and Accident and Sickness Insurance in Virginia

RE: Approval of Living Benefit Provisions Attached to or Included in Life Insurance Policies

As a result of requests from many insurers who wish to market the types of coverage referenced above, we have recently conducted a study of these new kinds of benefits with the intent of determining whether and under what conditions the Bureau of Insurance will grant approval to filings of this nature.

It is our position that in order for sufficient experience to be developed with regard to these new and innovative products, some leeway must be granted so that the products can be marketed.

Effective immediately, therefore, we will begin to accept so-called "living benefit" provisions for approval for use in the Commonwealth of Virginia. There will, however, be some specific criteria that must be adhered to before such filings will be considered, and these have been set out below. General criteria will be applicable to all "living benefit" provisions; additional criteria have been established for each of the three separate and distinct benefit types defined as follows:

A. Long Term Care

A long term care benefit is one advertised, marketed, offered, or designed to provide coverage for not less than twelve consecutive months for each covered person on an expense incurred, indemnity, prepaid or other basis, for one or more necessary or medically necessary diagnostic, preventive, therapeutic, rehabilitative, maintenance, personal care, mental health or substance abuse services, provided in a setting other than an acute care unit of a hospital.

B. Advanced Death Benefit

An advanced death benefit is one that provides for the acceleration of life or endowment or annuity benefits in advance of the time they would otherwise be payable.

C. Specified Disease

A specified disease benefit is one in which a portion of the death benefit is paid upon occurrence of a covered disease as defined in the policy or rider.

GENERAL CRITERIA FOR ALL LIVING BENEFIT PROVISIONS

1. Each filing must contain an actuarial memorandum illustrating reserving methods and premium development.
2. A separate premium schedule for the benefit must be included with the policy whether premiums are deducted from the policy accumulation fund or are charged in addition to the premium for the base policy.
3. The effect of the benefit payments on the face amount of the policy, loans, cash values and premiums, if any, must be clearly stated in the rider.
4. The definition of "terminal" or "fatal" illness must be no more restrictive than that a licensed physician has determined that life expectancy is no more than six months.
5. If the benefit is to be provided by rider, the Bureau of Insurance must be provided with a list of all approved forms to which the rider will be attached.
6. If the benefit can result in the payment of 100% of the face amount, the rider or policy shall prominently disclose this.
7. The first page of each rider or policy shall contain a prominent statement in boldface type similar to the following:

"Benefits paid under the rider or policy may be taxable. If so, you or your beneficiary may incur a tax obligation. As with all tax matters, you should consult your personal tax advisor to assess the impact of this benefit."

8. The company must annually submit as part of its annual statement filing a special experience exhibit for the purpose of monitoring the adequacy of the reserving methods.

Each of the three benefit types has additional approval criteria applicable to it, as set out below.

LONG TERM CARE BENEFIT CRITERIA

1. Long term care benefits must meet all the requirements of Chapter 52 of Title 38.2 of the Code of Virginia, as amended.
2. A long term care benefit will be considered as an accident and sickness benefit attached to or included in a life policy.
3. A long term care benefit must give the policyholder access to cash values if a value is built up.
4. Waiting periods not to exceed 12 consecutive months after issue of the rider or policy are permissible.
5. Long term care benefits must satisfy the loss ratio standards as set forth by Virginia Insurance Regulation No. 22 (Case No. INS810039).
6. Long term care benefits should be carefully reviewed to determine whether they will need to comply with the required accident and sickness policy provisions referenced in Section 38.2-3503 of the Code of Virginia, as amended.

ADVANCED DEATH BENEFIT CRITERIA

1. Advanced death benefit provisions will be considered as life insurance as defined in Section 38.2-102 of the Code of Virginia, as amended.

SPECIFIED DISEASE BENEFIT CRITERIA

1. Specified disease benefits will be considered as accident and sickness benefits.
2. Specified disease benefits must list and define covered diseases.
3. Specified disease benefits must satisfy the loss ratio standards as set forth by Virginia Insurance Regulation No. 22. (Case No. INS810039).

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4. Specified disease benefits should be carefully reviewed to determine whether they will need to comply with the required accident and sickness policy provisions referenced in Section 38.2-3503 of the Code of Virginia, as amended.

Any company desiring reconsideration of forms which previously have been disapproved or had their approval withdrawn is requested to notify us, in writing, that they wish to have us reconsider the forms.

Should any clarification be required as to the intent of this letter or the requirements of the Virginia State Corporation Commission, Bureau of Insurance, with regard to the approval of forms as described in this letter, please contact the Bureau's Life and Health Forms and Rates Section.

Sincerely yours,



Steven T. Foster
Commissioner of Insurance

STF/ds