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Individual Disability Policy Provisions

The Uniform Policy Provisions Law was developed by the National Association of Insurance Commissioners (NAIC). The law includes ***mandatory provisions*** that **are required** to be included in individual disability (health) insurance policies. ***The insurance company may reword the uniform provisions so long as the new wording is more beneficial to the insured***.

A provision may be known as a clause or an agreement.
Provisions contain the rights and responsibilities of both parties to the contract.

A. Uniform Mandatory Provisions...

(a.k.a. ***Standard Provisions***) make disability (accident and health) policies conform to certain standard regulations. These provisions were put together with the intention of ***protecting the insured (consumer).*** *These Mandatory Provisions will also be tested on the State's Law portion of the disability pre-licensing exam.*

1. **The Entire Contract** provision states that the contract is made up of the policy, application, endorsements, and riders. All statements in the application will be deemed representations (statements believed to be true) and not warranties (statements in the policy guaranteed to be true).
   - The contract may not be changed unilaterally once it is issued. No changes are valid unless approved and endorsed by an executive officer of the insurer.
   - The purpose of the provision is to assure the policy owner that they have in their possession all necessary documents concerning their insurance coverage.

2. **Time Limit on Certain Defenses**, a.k.a. Incontestability Period, states that after a policy has been in force for two years, the insurer cannot contest or void the claim, nor can it cancel the policy other than for non-payment of premium or fraud committed by the insured such as filing a false claim. (Therefore, the first 2 years from the effective date is the CONTESTABLE period.)

Reasons the policy can be canceled in the first two years are limited to material misrepresentation or material concealment. Policies may be canceled at any time for fraud or non-payment of premiums.

- If a policy is canceled or a claim is voided for **material misrepresentation or concealment,** all paid premiums must be refunded (**no interest**) to the policy owner.
- ***Concealment*** is the ***withholding of facts*** from an insurance company. An example is not telling the insurer at the time of the application that you are leaving the field of accounting (a low-risk occupation) and will be starting your logging business (a high-risk occupation) in the next few months. *A lie* told by the applicant to the insurance company is a ***misrepresentation***.
- ***Material fact*** is information that, had it been known, would have caused the insurer to reject the application or issue the policy on ***substantially different terms*** (e.g., a rate-up, surcharge, or exclusion rider).

- Lying about using tobacco, age, or gender is ***NOT*** considered material. (The policy benefits will be adjusted.)
- Not material does not mean unimportant, rather, if discovered in the first 2 years the policy **cannot** be voided and there is **no 2-year time limit** on discovery to change the benefit.

3. **Grace Period** extends coverage past the due date. Claims are still covered minus the past due premium, but ***no interest is charged*** to the insured. The Grace Period must be no less than **seven days** for weekly payment plans, **10 days** for monthly payment plans, and **31 days** for payment plans over 30 days.

4. **Reinstatement** allows a lapsed policy to be put back in force. However, an application for reinstatement might be required. The insurer must respond within 45 days of the reinstatement application or the policy is automatically reinstated.

   - A ***reinstated policy establishes a new* 10-day *probation period for sickness*** and a new **two-year** time limit on certain defenses. *A policy reinstated on the 1st, coverage for sickness would not be in effect until the 11th day (immediate coverage for accidents).*
   - A company needs to make sure if a client is late on payment one month it is not repeated the second month (45 days). If a person pays late repeatedly it can set a precedent if payment is accepted without notice of cancellation and the due date might be changed according to the client and the courts.

5. **Notice of Claim…** A written notice of claim must be given to the insurer within **20 days** after the date of loss, if reasonably possible. Notifying the agent is acceptable. In the event of legal **incapacity,** this provision will be waived.

6. **Claim Forms** are used by the insured to file proof of loss. The insurer should send the claim form within **15 days** after the notice of claim. If the forms are not furnished, the insured may submit a written statement to the insurance company to satisfy the proof of loss.

7. **Proof of Loss** states that the insured or claimant has **90 days** to file a proof of loss with the insurer from the date of loss. In the event of legal **incapacity,** this provision could be extended for up to one year or waived entirely.

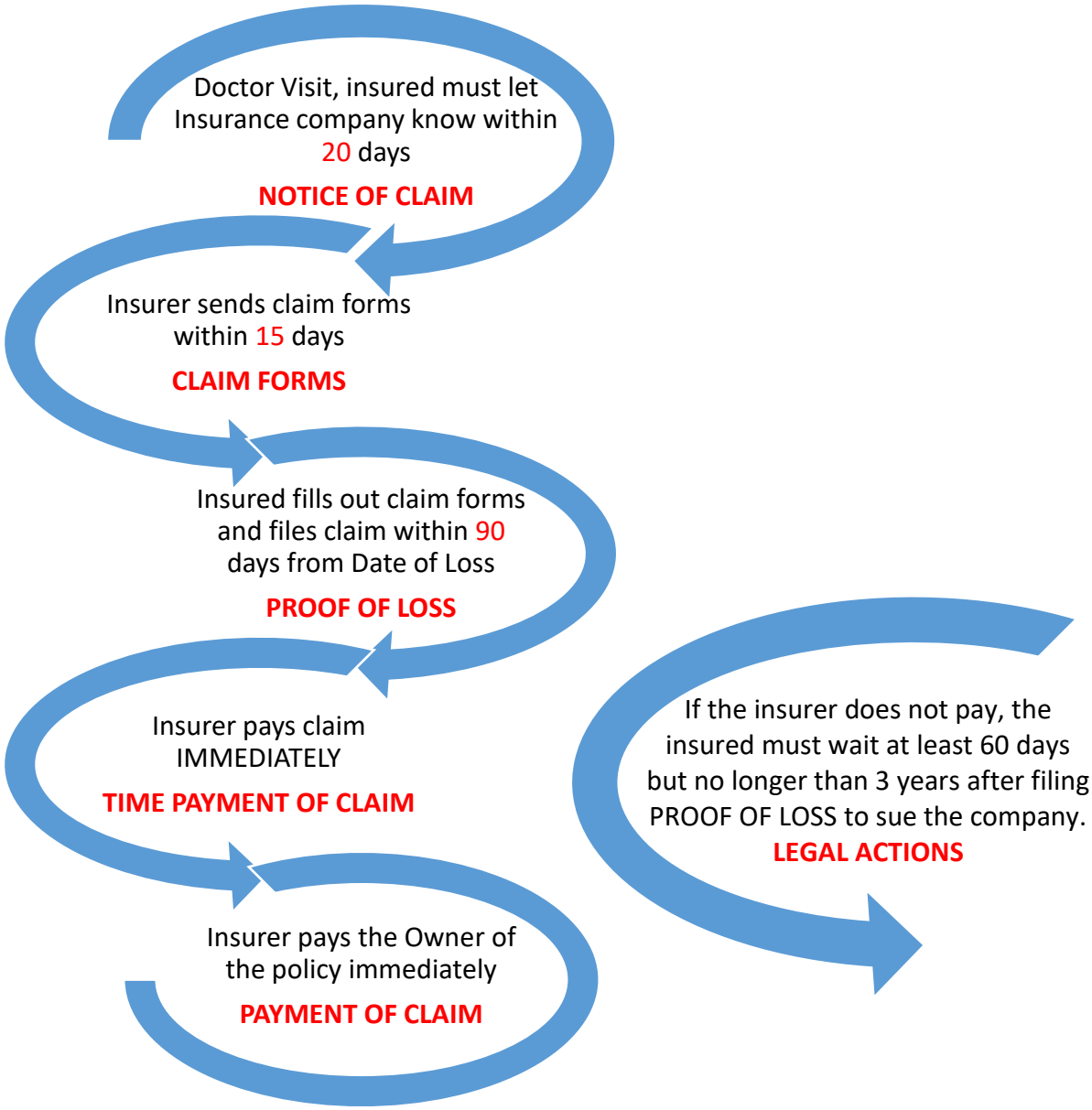
8. **Time of Payment of Claim** states that the insurer must pay claims ***immediately*** after receipt of proof of loss, except for claims involving periodic payments, such as disability income policies. Disability income (*loss-of-time*) benefits must be paid **at least monthly**.

9. **Payment of Claims** will be made to the owner, beneficiary, or the insured's estate if there is no beneficiary. Indemnity for loss of life will be paid to the designated beneficiary. Indemnities for hospital, nursing, medical, or surgical services may be paid directly to the health care provider (a.k.a. Assignment of Benefits).

10. **Legal Actions** provision requires that ***no legal action be started*** against the insurance company to collect benefits sooner than **60 days** *after the proof of loss is filed with the insurer.* This waiting period allows the insurer time to evaluate the claim. The statute of limitations is **three years** from the date the proof of loss is filed with the insurer.

11. **Physical Exam/Autopsy** states that the insurer may require a physical exam of the insured at **reasonable** intervals (usually every six months) should the insured be receiving benefits. ***In the event of the death of the insured, an autopsy may be sought at the insurance company's expense, unless prohibited by law.***

12. **Change of (Revocable) Beneficiary** is the policy owner's right. For the change to be effective, it must be in writing by the owner and approved by the insurer in the form of an endorsement. A beneficiary is a party to whom the benefits of a policy are payable.



B. Uniform Optional Provisions... *protect the insurance companies*. If they are used in a policy, the provision must conform to the following standard **industry language**.

1. **Change of Occupation** provision states that by changing to a more hazardous occupation, the insured is entitled only to the indemnities the original premium would have purchased in a policy written for that more hazardous occupation. This means the **income benefit will be lowered.** By changing to a less hazardous occupation, the insured is entitled to **a reduced premium** and a refund of premium.

2. **Misstatement of Age/Gender (Sex)** provision states that **benefits will be adjusted** so the insurer pays for the benefit the premium would have purchased had the correct age or sex been known. ***Time Limit on Certain Defenses does not apply to this provision***. Whenever the insurer learns of the misstatement, the benefits will be adjusted. The policy cannot be canceled due to this fact.

3. **Illegal Occupation:** This provision acts like an exclusion and states the insured is not covered if they are engaged in an illegal occupation. Criminal and illegal acts of the insured are NOT covered.

4. **Intoxicants, Narcotics, or other controlled substances:** This provision acts like an exclusion and states the insured is not covered if they are under the influence of intoxicants or narcotics unless they are under a doctor's care.

C. Other (Common) Policy Provisions... Policy provisions state the rights and obligations of both the policy owner and the insurance company under the insurance contract. The exact wording may differ from company to company, but the content and effect of the common provisions are constant in the industry and some are actual State laws.

1. **Examination Period/Free-Look…**Evaluation Period/ Right to Examine: this policy provision gives the owner a ***minimum*** of **10 days** to look at the policy from the date the policy is ***delivered to the owner***. This provision gives the owner the right to return the policy for a ***full refund***. The insurer has 30 days to refund the paid premiums or pay an additional 10% penalty to the insured.

2. **Insuring Clause** (a.k.a. agreement) represents ***the insurance company's promise to pay*** under the conditions stipulated in the policy. This clause performs the following functions: ***describes the general scope and limits of coverage, provides any definitions required, and sets forth the conditions under which benefits will be paid***.

3. **Consideration Clause** (a.k.a. **Premium Clause**) identifies the fact that the policy owner must pay premiums as value to the insurance company for the insurance company's promise to pay. ***It also states the mode and amount of the premium payment***. The modes include: annual, semi-annual, quarterly, monthly, and pre-authorized checking.

4. **Coinsurance…** A provision found in Major Medical policies whereby the insurance company and the policy owner share covered losses in agreed proportions. The insured pays for a percentage of the expenses in excess of the deductible (usually 20% or 30%). ***The purpose of the coinsurance feature is to prevent overuse of the contract benefits by making the claimant pay part of the claim.***

5. **Copay** The dollar amount the patient pays the doctor directly prior to services. This dollar amount does not change based on the services provided except for Emergency Room or hospital costs. The benefit of a copay is the client knows what the visit will cost each time, whereas coinsurance changes depending on the services and billing. Copays are usually found in a managed care plan.

6. **Probationary Period Provision** is the time period in which there is ***no coverage for sickness*** (usually 30 days) and begins when a policy goes into effect. This provision helps the insurer to avoid paying benefits for losses due to illness contracted before the policy was issued (***adverse selection***).

7. **Exclusions** are items that are not covered. Common exclusions for a medical policy would include injuries from war or acts of war, dental care (although pediatric dental is required, it is not necessarily part of a health plan) vision care, benefits payable under workers' compensation, injuries while committing a crime, custodial care, cosmetic services and supplies, hearing care, etc.

8. **Conformity with State Statutes** is how the carriers can change coverage without having to write a new policy (which they can't due to the Entire Contract provision) if there is a law change or a client moves to a different state.

   "This policy is subject to the laws of the state where the insured resides. If any part of the policy does not comply with the law, it will be treated by us as if it did."

9. **Other Insurance Provision…** Prevents over indemnification. This will stipulate whether the other insurance pays on a pro-rata basis or whether it will pay primary or excess.