

# HEALTH NET LIFE COMMERICAL BUSINESS LIFE UNDERWRITING GUIDELINES

Many of the Underwriting Guidelines are included in the LifeAQS Rating System to address basic rules requiring referral of quotes to Underwriting. LifeAQS **does not** include all Underwriting Guidelines. Each operator is accountable for maintaining standards published in the existing Underwriting Guidelines.

It remains the Account Executive and/or Account Manager responsibility to acquire all the underwriting information needed to evaluate a group prospect and the requested plan insurance as well as the information needed to determine price. Accuracy and compliance of the Underwriting Guidelines are critical to the acceptability of the risk.

The Underwriting Guidelines for *groups over 51 subscribers* incorporated in LifeAQS are as follows:

1. Groups *over 250 eligible subscribers or exceeding \$50,000 in annual combined Life, Supplemental Life and AD&D premium* must be submitted to Underwriting for rating. The group size rule coincides with the existing Medical Underwriting Guidelines.
2. **SIC restrictions** apply. Prospects for groups categorized, as a “marginal risk” as stated in the Underwriting Guidelines must be forwarded to Underwriting for quotation (regardless of size). Field quoting will be allowed for certain marginal industries as specified in the “Special Guidelines for Specific Industries”. *See attachment*
3. **Virgin groups** (no prior group coverage). A group with existing coverage is considered “Virgin” if (a) the employer does not participate in a group life plan as of the date of the proposal.
4. Any inquires or requests that are may be considered **exceptions** to Health Net Life’s standard practices, contract provisions or underwriting guidelines should be referred to Underwriting. Some examples are:
  - a. Any request with regard to replacement (no loss-no gain) provisions or conversion options.
  - b. Any request of waiving the limitations for conversions
  - c. Requests to increase benefits above the prior carrier’s design
  - d. Any situation where a guaranteed issue limit is an important issue for the broker/consultant or policyholder
  - e. Any request for an open enrollment and/or the waiving of any evidence requirements
  - f. Any request for **non-standard** Age Reduction Schedules for Life and AD&D. Consideration may will be given to the alternative reduction schedule as long as they meet the ADEA requirements.

\*\*These types of requests need to be review for potential **adverse selection**.

5. Requests to upgrade the incumbent carrier’s Life plan (in amounts or terms) **must** be approved by Underwriting. The employer group’s life insurance plan must be both adequate and proportionate to the employee’s loss.
6. Basic Life & Accidental Death & Dismemberment **must** be offered on a non-contributory basis (100% employer contribution to the employee premium). It’s expected under this requirement that **all** eligible employees will enroll in the life coverage. The Underwriter must approve a contribution formula less than 100%.

7. Supplemental Life when written in conjunction with Basic Life may be offered on a contributory basis (0% - employer contribution level). **All employees eligible for the Basic Life plan must also be eligible for Supplemental Life coverage.**

- a. Supplemental Life participation levels based on the total eligible lives determines the Guarantee Issue limit. See minimum participation and GI limits below:

| No. of Eligible Lives | Participation Percentage | Supplemental GI Limit            | Plan of Benefits   |
|-----------------------|--------------------------|----------------------------------|--|
| 50 but < 500          | >50%                     | The lesser of 3XBAE or \$300,000 | 1 to 3 X BAE in increments of \$1,000, \$5,000 or \$10,000 are allowed not to exceed 3 X BAE |
| " "                   | >44 but<49%              | The lesser of 3XBAE or \$250,000 | " "  |
| " "                   | >40 but<44%              | The lesser of 3XBAE or \$200,000 | " "  |
| " "                   | >35 but<39%              | The lesser of 3XBAE or \$150,000 | " "  |
| " "                   | >30 but <34%             | The lesser of 3XBAE or \$100,000 | " "  |
| " "                   | >25 but <29%             | The lesser of 3XBAE or \$50,000  | " "  |

**\*\*GI means Guarantee Issue**

**\*\*BAE means Based on Annual Earnings**

8. **All groups** are ineligible for Basic Life and AD&D coverage where more than 30% of the proposed insureds are over age 55.
9. **All groups** are ineligible for Supplemental Life and AD&D coverage where more than 30% of the participating insureds are over age 55.
- a. Any employee age 70 or older who is to be eligible for Supplemental Life must be discussed with Underwriting prior to quote. It is important to ascertain that the covered person is a legitimate employee working the required number of hours (full-time employee) and are not given special consideration due to an atypical association with the employer.
10. The employee must be a **permanent full-time** employee who meets the requirements of the Actively-at-Work in order to be **eligible** for life coverage. The standard definition of full-time is 30 hours per week. Any change from the standard is subject to Underwriting approval.
11. The following Coverage Combinations are “**stand-alone**” meaning that they may be the only coverage issued to a policyholder except that:
- Accidental Death & Dismemberment (AD&D) must be written with Basic Life
  - Dependent Group Life (DGL) must be written with Basic Life
  - Supplemental Life must be written with Basic Life
  - Supplemental AD&D must be written with Basic Life/AD&D and Supplemental Life.
  - Supplemental DGL must be written with Supplemental Life

12. The minimum Basic Life Benefit amount is \$10,000. Maximum Basic Life Benefit is \$1,000,000.
- a. Flat Benefit Schedules are available in \$1,000 increments.
  - b. Times Earnings Schedules are based on multiple of employee's earnings and are available in **increments of 1x, 2x, and 3x**. Earnings are defined by the employer and do not include bonuses and/or commissions. Requests for multiple of earnings other than ones listed are subject to underwriting review.
  - c. Class Schedules (Flat Benefit Amount or Multiple of Earnings) may be used to determine eligibility and/or benefit amount. The class description may be based on occupation, earnings, years of service., etc. so long as the classes are clearly defined and mutually exclusive.
    1. A class must contain at **least 2** insured lives.
    2. The maximum number of classes allowed is based on the number of insured lives as follows:
      - a. **Three** classes are allowed for groups of 51-249. Request for more than three classes are subject to underwriting approval.
      - b. **Five** classes are allowed for groups of 250 or more lives. Requests for more than five classes are subject to Underwriting approval.
      - c. The average benefit amount (or principal sum) allowed for a given class cannot **exceed two and one-half (2.5) times** the average benefit amount of the next lower level

\*\*The maximum benefit amount (principal sum) provided under either the flat or times earning schedule cannot **exceed five times** an **employee's annual salary** for employer groups with more than **51** or more lives.

\*\*The Schedule of Benefits listed above are subject to the minimum and maximum benefit requirements listed above.

13. The Guarantee Issue Limit and Overall Benefit Maximums are as follows:

The Basic Guarantee Issue Limit is the lesser of:

1. The Average Certificate Multiplier multiplied by the Average Certificate\*
2. The Basic Guarantee Issue Limit as shown in the following table.

| Total Volume**<br>(\$1,000) | Average<br>Certificate<br>Multiplier | Basic Guarantee Issue<br>Limit | Basic Benefit Maximum |
|-----------------------------|--------------------------------------|--------------------------------|-----------------------|
| less than 250               | 3.5                                  | \$65,000                       | \$300,000             |
| 250 but < 500               | 4                                    | \$85,000                       | \$325,000             |
| 500 but < 1,000             | 5                                    | \$125,000                      | \$350,000             |
| 1,000 but < 2,000           | 6                                    | \$175,000                      | \$400,000             |
| 2,000 but < 3,000           | 7                                    | \$250,000                      | \$450,000             |
| 3,000 but < 5,000           | 8                                    | \$300,000                      | \$500,000             |
| 5,000 but < 15,000          | 9                                    | \$350,000                      | \$550,000             |
| 15,000 but < 25,000         | 10                                   | \$400,000                      | \$600,000             |
| 25,000 but < 40,000         | 11                                   | \$450,000                      | \$700,000             |
| 40,000 and over             | 12                                   | \$500,000                      | \$750,000             |

\*The average certificate is the average amount of Group Life insurance per employee based on the total volume of the Group Life insurance.

\*\*Total Volume includes Basic and Supplemental Volume when determining the Basic Guaranteed Issue Limit under the Basic and Supplemental Life program.

14. A group demonstrating poor ***persistence*** (defined as more than two carriers in the last five years) is not eligible for field quoting. Requests for quote submitted to Underwriting need to include detail information on carrier history.
15. ***Medical Evidence of Insurability (EOI) is necessary for the following reasons:***
  - a. For amounts in excess of the Guarantee Issued (GI) Limit. The GI Limit is based on total and average volume of insurance for a particular employer group..
  - b. Any employee requesting coverage more than 31 days after the date he/she becomes eligible is considered a late entrant, subject to EOI review and may be declined. If Underwriting approves the coverage requiring EOI, the member will be added as of their original date of eligibility and premium will be charged from the eligibility date through current (back premium collection may be necessary).
16. Prospect reveals information indicating the presence of ***(a) claim history or (b) disabilities other than pregnancies***. For small groups, claim experience is still important in making a determination that the group is an acceptable risk, even though the “dollar amount” of the claim experience may have no credibility. Abnormally high number of claims may foretell of inherent problems specific to the group or industry.
17. Request for quotes with ***non-standard eligibility*** (example: Retirees, Part-time employees (defined as employees who work less than 30 hours but at least 20 hours per week are considered part-time employees), Seasonal employees, Domestic Partner coverage, etc.) must be quoted in Underwriting.
18. ***Waiting Periods*** can vary by group but exceptions for individuals are ***not permitted***. Eligible employees will become effective on the first of the month following completion of the waiting period selected by the employer.
19. All ***non-standard*** commission requests must be forwarded to Underwriting. The life commission scale is called the Life3 downgraded.
20. Any group presented with information alluding to significant growth in the employee population with anticipated increases in eligibility of 20% or more during the twelve months prior to the proposed effective date must be referred to Underwriting. Similarly, groups with significant decrease in the employee (20% or more) population must be referred to Underwriting.
21. Prospects for ***groups in business less than two years*** are not eligible for field quoting.
22. Life quotes other than ***Total Replacement*** are subject to Underwriting approval.

23. Basic Dependent Group Life (DGL) is an optional coverage chosen by the policyholder. An eligible employee may elect to participate in Basic DGL provided they have also elected the Basic Life coverage. It is encouraged that Basic DGL plans maintain a **75%** participation level among all employees who have dependents. In addition to our underwriting guidelines, some states will mandate a 75% participation level. At the present time, *California mandates a 75% participation level.*

**Dependent Group Life Plan schedules available:**

| <b>Relationship</b>                                    | <b>Plan 1</b> | <b>Plan 2</b> |
|--|---------------|---------------|
| <b>Spouse</b>  | \$2,000       | \$5,000       |
| <b>Child</b><br>>6 months <21 age<br>(unmarried child) | \$1,000       | \$2,000       |
| <b>Child</b><br>>14 days <6 months                     | \$100         | \$200         |
| <b>Child</b><br>Birth < 14 days                        | \$0           | \$0           |

- a. Basic DGL may be offered on a contributory or non-contributory basis
- b. The same age reduction schedule that applies to the employee will be applied to the dependent spouse coverage.
- c. The employer group may choose if the Basic DGL is to include coverage for the spouse only or the spouse and child
- d. Only one child schedule may be used per case.
- e. Dependent Group Life (DGL) require a **minimum 15% (except California as noted above)** of the *total eligible employees* to participate in the DGL coverage.
- f. California mandates that Dependent students be covered through age 22, if dependent child coverage is offered.

## Special Guidelines for Specific Industries

- 1) Employer Groups with SICs of 1711 through 1752, Special Trade Contractors that are **50% or more** dependent on residential construction are ineligible.
- 2) Employer Groups with SIC of 6512 and 6513, Real Estate Building Operators are eligible for white-collar management and administrative employees only. Employees who work and reside at the employer's managed property are not eligible. The blue collar employees, if exceptionally approved by Underwriting, may be included provided the employer has all of the following characteristics:
  - a) Group is to be involved in commercial (non-residential) real estate business
  - b) Group must have a minimum of 51 insured lives
  - c) Group must be in business a minimum of 5 years
  - d) Group must have stable enrollment and good financials
  - e) Group may have a maximum blue-collar content of 33%
- 3) Employer Groups with SIC of 6531 (Real Estate Investment Trusts), eligibility **must exclude** all employees who are compensated, in whole or part, through **commission income**.
- 4) Employer Groups with SIC of 6732 (Educational, Religious Trusts), 6733 (Trusts, NEC), 6792 (Oil Royalty Traders), 6794 (Patent Owners & Lessors), 6798 (Real Estate Investment Trusts) and 6799 (Investors, Inc.) **must have a true employer/employee relationship**. The "relationship" must be established prior to releasing a quote. Please contact your underwriter should you have any questions on whether or not an employee/employer relationship exists.
- 5) Employer Groups with SIC 7992 (Public Golf Courses) groups **must not** include the following:
  - a) Any Seasonal Employees
  - b) Facility should operate year round
- 6) Employer Groups with SIC 8211 (Elementary and Secondary Schools), school districts must have the authority to contract for the coverage and make the required contributions to premium. Evidence of the right to contract may be a copy of, or reference to, the specific statute involved and/or written opinion for the school district's legal counsel. The responsible party appointed to act on behalf of the school district must have the "capacity to make a contract" or be a broker of record. **Yearly bid situations should be avoided where the lowest rate is the prominent consideration.**
- 7) Employer Groups with SIC 8331 (Job Training & Related Services), 8351 (Child Day Care Services), 8361 (Residential Care) and 8399 (Social Services, NEC), social and membership groups contain the majority of non-profit organization groups. **A true employer/employee relationship must exist prior to releasing a quote.** Please contact your underwriter should you have any questions on whether or not an employee/employer relationship exists.

# Needed Life Proposal Information

- Prior Carrier and Plan Design Information:
  1. **Proposed Effective Date**
  2. **Proposed Plan Design (if different than Current)**
  3. **Current Total Eligible Employees and Current Participation (if contributory)**
  4. **Employer Contribution Level**
  5. **Number of Times a Prospect has Changed Carriers within the Past Five Years**
  6. Current and Renewal rates (if available)
  7. Waiting Period
  8. Reason employer group is out to bid
  
- Prospect Eligibility Information:
  1. **Situs State (if other than California)**
  2. **Nature of Business(Es) and SIC code for all entities (the nature of business should be consistent with the Employees' Occupations)**
  3. **Years in Business**
  4. Financial Stability Inquiry (Dun & Bradstreet if requested by Underwriting)
  5. Claim Experience by plan and class for the last 3-5 years (typically not available for groups with less than 500 total eligibles)
  
- Administrative Information:
  1. **Commission Scale**
  2. **Type of Administration**
    - **Home Office Billing (HO)**
    - **Self-Administration (SA)**
    - **Third Party Administration (TPA)**
  3. Agent/Broker
  
- Census Information for Each Eligible Employee
  1. **Gender**
  2. **Date of Birth**
  3. **Salary/Earnings (if benefit is a function of earnings)**
  4. **Occupation (if benefit is by classification)**
  5. Supplemental Life Information (current enrollment broken out by employee and volume, if available)
  6. Dependent Group Life Information (current enrollment broken out by spouse and child, if available)
  7. Employee State of Residence and Zip Code (if quoting out of state lives)

\*\*Items in **Bold** are essential items to Quote

\*\*The above list applies to cases less than 250 lives and isn't all-inclusive. The Underwriter may request additional information if needed.