**Section 1405.40 Policy Forms**

a) Payment of Premiums

1) Advance Premium Deposits – A fund or account for payment of unspecified premiums (whether by policy or by rider) must conform to the requirements of Section 240 of the Code.

2) Grace Period – Policy must provide for continuance in force during the grace period and deduction (not necessarily payment) of any unpaid premium in settlement under the policy pursuant to Section 224(1)(b) of the Code.

b) Continuation of Premiums Beyond Maturity

If a policy provides for continuation of premiums, on an optional basis, beyond an initial or normal maturity date, it must be made clear that coverage and all applicable policy provisions also continue while premiums are being paid. The policyholder must be made aware of applicable policy values while premiums are so continued: either by including those values in the policy or by specifying that notices of the current value will be sent to the policyholder upon request.

c) Automatic Premium Loan Provision

1) Policy may provide benefit on a positive elective basis, but not as an automatic nonforfeiture benefit. For provisions regarding automatic premium loans in applications, see Section 1405.30(c).

2) Provision must conform to the loan provision of the policy, subject to Sections 224(1)(f), 229.3 and 229.5 of the Code. The provision must permit revocation of election upon written request.

3) *Notification of the policyholder with respect to the initial interest rate on* an automatic *premium loan must be made as soon as it is reasonably practicable after making the initial loan,* but in no event more than 90 days after the initial loan is made. *Notification need not be given to the policyholder when a further premium loan is added unless a loan rate increase occurs* (Section 229.5(b)(5)(ii) and (iii) of the Code). When a loan rate increase occurs, reasonable advance notice of any increase in rate must be made. In no event shall the notice be given less than 15 days prior to the increase in rate.

d) Loan Interest Rate

1) Provision must conform to Sections 224(1)(f), 229.3 and 229.5 of the Code. Any variable rate must include a specified maximum rate of interest. The Department requires filing of a description of procedure for changing a variable rate and notifying those policyowners who have outstanding loans of the rate change, which must be made on a non-discriminatory basis.

2) The interest rate charged on a policy loan or the interest rate charged upon reinstatement of any policy form that was made under a policy issued after January 1, 1982 will not exceed the rate prescribed in Section 229.5 of the Code, either as a maximum rate of not more than 8% or an adjustable maximum interest rate established from time to time by the life insurer as permitted by law, unless the policyholder agrees in writing to the applicability of those provisions.

e) Contestability in Life Policies

The period of contestability shall be determinable from the policy, i.e., by reference to a specified issue date, policy date or effective date, as referred to in subsection (t).

f) Limitation of Coverage

Any limitation of coverage in event of death by suicide or other specified causes must be confined within the contestability period of the policy to comply with Section 225(l)(c) and (l)(f) of the Code. Exceptions to this restricted limitation are given in Section 224(l)(c) of the Code and subsection 1405.40(t)(2) of this Section.

g) Time Limit on Claims

1) Filing of Death Claims – There is no time limit for filing death claims if the claim is not conditioned upon other contingencies, i.e., prior disability or accident. Section 224(1)(j) of the Code requires, when there is a claim on a policy due to the death of the insured, settlement shall be made upon receipt of due proof of death. For purposes of this subsection (g)(1), due proof consists of sufficient evidence to establish in a court a prima facie case for payment of the claim. Therefore, any limitation with respect to death claims arising during and contingent upon the insured's continued disability must be limited to a requirement that proof of disability be furnished within a stipulated period as a condition precedent to consideration of a death claim.

2) Filing of Disability Claims – Reasonable limits are permitted. The form may require notification of disability during lifetime and continuance of disability and may eliminate accrual of benefits because of any disability that was in existence more than one year prior to furnishing proof of disability.

h) Participating or Non-Participating

A policy must indicate whether the policy is participating or non-participating.

i) Dividend Provisions

The following is applicable to individual policy forms:

1) Disposition of Dividends Left With the Company – The policy must indicate what disposition will be made of outstanding dividend credits in event of lapse, termination or maturity of the policy.

2) Other Dividend Options – In addition to the dividend options required under Section 224(1)(e) of the Code, provisions pertaining to the automatic withdrawal of any accumulated dividends, or current and unapplied dividends for the purpose of paying premiums unpaid at the end of a grace period, may be included if the policy provides for the notification of the policyholder of the application of dividends and the policyholder is given a minimum of 30 days after the date of the notice within which to direct the insurer to reverse the dividend transaction.

3) One-Year Term Insurance Dividend Option – Provision must be made for the disposition of the value of any one-year term insurance addition in the event of lapse of the policy. The policy may either provide for application of any cash value of the remaining one-year term insurance under nonforfeiture options, or a continuation of the term insurance.

j) Nonforfeiture Values

The nonforfeiture value table must illustrate loan values and options available for each of the first 20 years of the policy or its term, if less, and include a provision that, upon request, the company will furnish an extension of the table. Values and statements in the policy must fulfill the requirements of Section 229.2 of the Code.

k) Standard Nonforfeiture Law – Paid-up Insurance Upon Death of Insured (Family Policy)

A spouse or children entitled to paid-up insurance upon the death of a covered person under a family or parent-child policy shall be given the right to obtain the net cash surrender value of the paid-up insurance, and the form shall so state. In lieu of a table of such values, a statement may be included that a notice of the current values will be furnished by the company on request, as provided for in Section 229.2(6) of the Code.

l) Inapplicable Language

Inapplicable language is prohibited if the inclusion of that language results in inconsistencies or ambiguities or is misleading, as is required by Section 143 of the Code.

m) Back Dating of Life Policy

While the Code prohibits a provision under which any policy purports to be issued or take effect more than six months before the original application was made, this limitation is not applicable in conversion from or exchanges of one form of policy or annuity to or for another form provided credit is given for the reserve accumulation of the converted or terminated policy, and the form clearly spells out acceptable provisions relating to indebtedness, tabular cash values, dividends, effective date, and dividend accumulations, if any, under the new policy, as is prohibited by Section 225(1)(b) of the Code. The conversion or exchange may not result in the policyholder being charged for insurance protection that was not received.

n) Settlement at Maturity – Commuted Value of Unpaid Installments

The form shall:

1) provide the basis for determining any commuted value, as is provided for by Section 224(1)(k) of the Code; and

2) indicate whether benefits at death shall be payable to an estate or to a named beneficiary.

o) Supplemental Benefits

1) Supplemental Death and Dismemberment benefits may be added to a life policy when limited to accidental cause only.

2) Language in such supplemental benefits that does not employ "result" language, and that establishes an accidental means test or uses words such as "external", "violent", or "visible wound" is prohibited. Additionally, contributory language (e.g., "or indirectly", "wholly or in part", or "contributed to by") is also prohibited. For purposes of this subsection (o)(2), "result" language includes, but is not limited to, death as a result of war, death as a result of suicide and death as a result of flying. For purposes of this subsection (o)(2), "accidental means test" requires that both the cause and result of the accident be an accident.

3) Provisions for loss due to accident or accidental injury shall not contain language limiting, reducing or excluding liability for a loss resulting from purely accidental circumstances (e.g., involuntary or unintentional ingestion of poison or an infectious organism, or inhalation of poisonous gases or fumes) as provided for by Section 143 of the Code.

4) Other supplemental benefits may be added to the policy for conditions that result in a total and permanent disability, as provided by Section 4 of the Code. For purposes of this subsection (o)(4), "total and permanent disability" means an inability to work and earn money because of an injury or illness from which recovery is unlikely at any time in the future and that is expected to continue indefinitely or result in death.

p) Combination Life and Accident and Health Coverages in Individual Policies

Life and Accident and Health coverages may be combined in an individual policy, provided all statutory requirements are met and the form meets the other tests for approval in Section 143. All individual policies submitted must contain a premium breakdown as to coverages.

q) Spendthrift and Creditor Clause

The policy may include a Spendthrift and Creditor Clause providing in substance that, except as may be otherwise provided in the policy, a Beneficiary may not, at or after the maturity of the policy, assign, transfer or encumber any benefits payable under the policy and, to the extent permitted by law, any such benefits shall not be subject to the claims of any creditor of any Beneficiary. Because of the limitations in the statutory provisions relating to the exemption from execution, attachment, garnishment or other process for the debts or liabilities of the insured, no reference to these statutory exemptions is required as is provided for by Sections 238 and 241 of the Code.

r) Family Policy – Names of Spouse and Children

1) It is necessary to name the spouse and/or children in either the application or policy only when a separate premium is charged for the individual insured in either of such categories.

2) For additional family policy guidelines, refer to 50 Ill. Adm. Code 1403.

s) Term Life Insurance – Conversion of Term Life Insurance

A form providing term life insurance with conversion rights without evidence of insurability may not withhold such right of conversion because the covered person has established a waiver of premium disability claim. The form may, however, withhold waiver of premium benefits under any new policy resulting from the conversion, or, as an alternative, reduce the face amount in the new policy by not exceeding 25% if waiver of premium benefits is requested and provided in the new policy.

t) Option to Purchase Additional Life Insurance – Incontestability and Suicide Clause

1) Any new policy issued pursuant to a purchase option guaranteeing insurability shall provide that the period specified in the incontestability clause shall expire no later than two years from the latter of date of issue of the original policy, date of issue of the rider containing the purchase option, date of change of the original policy requiring proof of insurability or date of last reinstatement of original policy, as is provided for by Section 224(1)(c) of the Code.

2) Any new policy issued pursuant to a purchase option may contain a limitation of coverage with respect to death by suicide during the period the policy would be contestable in the absence of issuance under the purchase option, as provided for by subsection (f).

3) Company shall indicate to the Department how the incontestability provision of the new policy will be amended.

4) The request form for the exercise of a purchase option shall be furnished to the Department. It may contain medical questions provided it is clearly stated that such questions are to be answered only if coverages additional to those permitted under the option are applied for.

u) Insurable Interest at time of Exercising Option

In a guaranteed purchase option, a provision may not be included requiring the existence of an insurable interest when the person exercising the right to purchase is other than the insured.

v) Riders and Endorsements

1) Descriptive Title – Unless the nature of the rider or endorsement is obvious (e.g., Home Office Endorsement), the form shall contain a correct descriptive title. Use of words such as "preferred", "special", "select" or "inflation" is prohibited as provided for by Section 143 of the Code.

2) Effective Date – Rider or endorsement shall show its effective date, if other than effective date of policy, either within the text or by reference to a policy provision or in the schedule of benefits.

3) Format – Riders and endorsements that are forwarded to the policyowner for attachment to the policy shall contain the following information:

A) Name of company.

B) Identity of policy and insured, e.g., Attached to and made a part of Policy No.\_\_\_\_\_ Insured: \_\_\_\_\_\_\_\_\_\_.

C) Effective date of the rider or endorsement.

D) Signature of at least one company official.

4) Reduction of Benefits – If benefits are reduced, the reduction may be made only pursuant to a signed request or acceptance of the policy owner.

5) Riders or endorsements may not be used to amend another rider or endorsement.

(Source: Amended at 43 Ill. Reg. 3259, effective February 25, 2019)