

AMENDED IN SENATE MARCH 10, 2016
AMENDED IN ASSEMBLY APRIL 28, 2015
AMENDED IN ASSEMBLY MARCH 26, 2015
CALIFORNIA LEGISLATURE—2015–16 REGULAR SESSION

ASSEMBLY BILL

No. 565

Introduced by Assembly Member Cooley

February 24, 2015

An act to amend ~~Section 10270.6~~ Sections 10203.4, 10270.6, and 10271.1 of the Insurance Code, relating to insurance.

LEGISLATIVE COUNSEL'S DIGEST

AB 565, as amended, Cooley. Group *life and* disability insurance: required provisions.

Existing law provides for the regulation of specified insurance products, including group *life and* disability insurance, by the Insurance Commissioner. Existing law ~~requires~~ *provides that insurance under a group life insurance policy may be extended to insure the dependents of each insured employee under the group policy, as specified. Existing law defines a dependent for these purposes as including the employee's spouse and all children from birth until 26 years of age, or a child 26 years of age or older who is both incapable of self-sustaining employment by reason of intellectual disability or physical handicap and chiefly dependent upon the employee for support and maintenance, as specified.*

This bill would clarify that the group policyholder would be authorized to elect coverage for dependent children under a group life insurance policy based on factors, including marital status, student status, residency, or support requirements, and, for dependent children over

the age of majority, the group policyholder would be authorized to elect coverage at age variations up to the limiting age.

Existing law requires a group disability master insurance policy to include a provision that the insurer will issue to the policyholder for delivery to an individual insured under the policy an individual certificate that sets forth a statement as to the insurance protection to which he or she is entitled and to whom it is payable.

This bill would provide that instead the insurer may include in the master insurance policy a provision that the insurer will issue the certificate directly to the insured individual. This bill would make other technical, nonsubstantive changes.

Existing law defines a waiver of premium benefit or a waiver of monthly deduction benefit under a life insurance contract as a supplemental benefit that operates to safeguard a life insurance contract against lapse when the insured becomes totally disabled, as defined by the supplemental benefit, and continues until the end of the insured's disability or the period specified by the supplemental benefit, consistent with specified restrictions. Existing law requires, if the insured's total disability begins before the insured attains 60 years of age, the insurer to waive all premiums or monthly deductions due for the period that the insured continues to be totally disabled. Existing law requires, if the insured's total disability begins when the insured is 60 years of age or older, the insurer to waive all premiums or monthly deductions due for the period that the insured continues to be totally disabled up to 65 years of age.

This bill would require an insurer, for an insured who becomes totally disabled before attaining 60 years of age and is covered by a group life insurance policy that includes a supplemental benefit, to waive all premiums or monthly deductions due for the period of total disability up to the time the insured attains 65 years of age. The bill would also permit an insurer, for an insured who becomes totally disabled on or after 60 years of age and is covered by a group life insurance policy that includes a supplemental benefit, to collect premiums as long as the insurer offers the group policyholder the option of having the insurer waive premiums up to 65 years of age.

Vote: majority. Appropriation: no. Fiscal committee: no.
State-mandated local program: no.

The people of the State of California do enact as follows:

1 **SECTION 1.** *Section 10203.4 of the Insurance Code is amended*
2 *to read:*

3 10203.4. (a) Insurance under a group life insurance policy
4 issued pursuant to Sections 10202, 10202.8, 10203, 10203.1, and
5 10203.7 may be extended to insure the dependents, or any class
6 or classes thereof, of each insured employee who so elects, in
7 amounts in accordance with some plan that precludes individual
8 selection and that shall not be in excess of 100 percent of the
9 insurance on the life of the insured employee. *The group*
10 *policyholder may elect coverage for dependent children based on*
11 *factors, including marital status, student status, residency, or*
12 *support requirements, and, for dependent children over the age*
13 *of majority, the group policyholder may elect coverage at age*
14 *variations up to the limiting age.*

15 (b) “Dependent” includes the member’s spouse ~~and all children~~
16 ~~from birth until 26 years of age, or a child 26 years of age or a~~
17 ~~minor child, as well as a child older than the age of majority up~~
18 ~~to a maximum of 26 years of age, or an older child who is both~~
19 ~~incapable of self-sustaining employment by reason of an~~
20 ~~intellectual disability or physical handicap and chiefly dependent~~
21 ~~upon the employee for support and maintenance if proof of the~~
22 ~~incapacity and dependency is furnished to the insurer by the~~
23 ~~employee within 31 days of the child’s attainment of the limiting~~
24 ~~age and subsequently as may be required by the insurer, but not~~
25 ~~more frequently than annually after the two-year period following~~
26 ~~the child’s attainment of the limiting age.~~

27 (c) The premiums for the insurance on the dependents may be
28 paid by the employer, the employee, or the employer and the
29 employee jointly.

30 **SECTION 1.**

31 **SEC. 2.** *Section 10270.6 of the Insurance Code is amended to*
32 *read:*

33 10270.6. Every group disability master policy shall contain
34 the following provisions:

35 (a) A provision that the policy, the application of the
36 policyholder, and the individual applications, if any, of the
37 individuals insured shall constitute the entire contract between the
38 parties, and that all statements made by the policyholder, or by the

1 individuals insured shall, in the absence of fraud, be deemed
2 representations and not warranties, and that no such statement shall
3 be used in defense to a claim under the policy, unless it is contained
4 in a written application.

5 (b) A provision that the insurer will issue to the policyholder
6 for delivery to the individuals insured under that policy, or a
7 provision that the insurer will issue directly to the insured, an
8 individual certificate setting forth a statement as to the insurance
9 protection to which he or she is entitled and to whom payable.

10 (c) A provision that to the group or class thereof originally
11 insured shall be added from time to time all new employees,
12 members or pupils of the policyholder eligible to and applying for
13 insurance in that group or class.

14 (d) A statement that the policy is not in lieu of and does not
15 affect any requirement for coverage by workmen's compensation
16 insurance.

17 *SEC. 3. Section 10271.1 of the Insurance Code is amended to*
18 *read:*

19 10271.1. (a) (1) Supplemental benefits that operate to
20 safeguard life insurance contracts against lapse are defined as a
21 waiver of premium benefit or a waiver of monthly deduction
22 benefit, as applicable, in which the insurer waives the premium or
23 monthly deduction for a life insurance contract when the insured
24 becomes totally disabled, as defined by the supplemental benefit,
25 and where the waiver continues until the end of the insured's
26 disability, or for the period specified by the supplemental benefit,
27 consistent with paragraph (5).

28 (2) For purposes of this subdivision, total disability shall not be
29 less favorable to the insured than the following:

30 (A) During the first 24 months of total disability, the insured is
31 unable to perform with reasonable continuity the substantial and
32 material duties of his or her job due to sickness or bodily injury.

33 (B) After the first 24 months of total disability, the insured, due
34 to sickness or bodily injury, is unable to engage with reasonable
35 continuity in any other job in which he or she could reasonably be
36 expected to perform satisfactorily in light of his or her age,
37 education, training, experience, station in life, or physical and
38 mental capacity.

39 (3) The definition of total disability may also include
40 presumptive total disability, such as the insured's total and

1 permanent loss of sight of both eyes, hearing of both ears, speech,
2 the use of both hands, both feet, or one hand and one foot.

3 (4) The insurer may require total disability to continue for an
4 uninterrupted period of time specified by the supplemental benefit,
5 or the insurer may allow separate periods of disability to be
6 combined.

7 (5) The waiver of premium or monthly deduction benefit shall
8 continue for the period specified by the supplemental benefit, but
9 shall not be less favorable to the insured than the following:

10 (A) If the insured's total disability begins before the insured
11 attains 60 years of age, the insurer shall waive all premiums or
12 monthly deductions due for the period that the insured continues
13 to be totally ~~disabled~~. *disabled, except in the case of coverage*
14 *under group life insurance policies where, if the insured's total*
15 *disability begins before the insured attains 60 years of age, the*
16 *insurer shall waive all premiums or monthly deductions due for*
17 *the period of total disability up to 65 years of age. Nothing in this*
18 *subdivision shall preclude the insurer from extending a*
19 *supplemental benefit for longer periods.*

20 (B) If the insured's total disability begins after the age specified
21 in subparagraph (A), the insurer shall waive all premiums or
22 monthly deductions due for the period that the insured continues
23 to be totally disabled up to 65 years of ~~age~~. *age, except in the case*
24 *of coverage under group life insurance policies where, subject to*
25 *the insurer offering the group policyholder the option to have the*
26 *insurer waive premiums up to 65 years of age, premiums are not*
27 *required to be waived for a disability that begins on or after the*
28 *date the insured attains 60 years of age. Nothing in this subdivision*
29 *shall preclude the insurer from extending a supplemental benefit*
30 *for longer periods.*

31 (6) In addition to the permissible exclusions listed in subdivision
32 (g) of Section 10271, the insurer may exclude a total disability
33 occurring after the policy anniversary or supplemental contract
34 anniversary, as applicable and as defined by the supplemental
35 benefit, on which the insured attains a specified age of no less than
36 65 years.

37 (b) "Special surrender benefit" is defined as a "waiver of
38 surrender charge benefit" wherein the insurer waives the surrender
39 charge usually charged for a withdrawal of funds from the cash
40 value of a life insurance contract or the account value of an annuity

1 contract if the owner, insured, or annuitant, as applicable, meets
2 any of the following criteria:

3 (1) Develops any medical condition where the owner's,
4 insured's, or annuitant's life expectancy is expected to be less than
5 or equal to a limited period of time that shall not be restricted to
6 a period of less than 12 months or greater than 24 months.

7 (2) Is receiving, as prescribed by a physician, registered nurse,
8 or licensed social worker, home care or community-based services,
9 as defined in subdivision (a) of Section 10232.9, or is confined in
10 a skilled nursing facility, convalescent nursing home, or extended
11 care facility, which shall not be defined more restrictively than as
12 in the Medicare program, or is confined in a residential care facility
13 or residential care facility for the elderly, as defined in the Health
14 and Safety Code. Out-of-state providers of services shall be defined
15 as comparable in licensure and staffing requirements to California
16 providers.

17 (3) Has any medical condition that would, in the absence of
18 treatment, result in death within a limited period of time, as defined
19 by the supplemental benefit, but that shall not be restricted to a
20 period of less than six months.

21 (4) Is totally disabled, as follows:

22 (A) During the first 24 months of total disability, the owner,
23 insured, or annuitant, as applicable, is unable to perform with
24 reasonable continuity the substantial and material duties of his or
25 her job due to sickness or bodily injury.

26 (B) After the first 24 months of total disability, the owner,
27 insured, or annuitant, as applicable, due to sickness or bodily injury,
28 is unable to engage with reasonable continuity in any other job in
29 which he or she could reasonably be expected to perform
30 satisfactorily in light of his or her age, education, training,
31 experience, station in life, or physical and mental capacity.

32 (C) The definition of total disability may also include
33 presumptive total disability, such as the insured's total and
34 permanent loss of sight of both eyes, hearing of both ears, speech,
35 the use of both hands, both feet, or one hand and one foot.

36 (D) The insurer may require the total disability to continue for
37 an uninterrupted period of time specified by the supplemental
38 benefit, or the insurer may allow separate periods of disability to
39 be combined.

- 1 (5) Has a chronic illness as defined pursuant to either
2 subparagraph (A) or (B):
3 (A) Either of the following:
4 (i) Impairment in performing two out of seven activities of daily
5 living, as set forth in subdivisions (a) and (g) of Section 10232.8,
6 meaning the insured needs human assistance, or needs continual
7 substantial supervision.
8 (ii) The insured has an impairment of cognitive ability, meaning
9 a deterioration or loss of intellectual capacity due to mental illness
10 or disease, including Alzheimer’s disease or related illnesses, that
11 requires continual supervision to protect oneself or others.
12 (B) Either of the following:
13 (i) Impairment in performing two out of six activities of daily
14 living as described in subdivisions (b), (d), (e), and (f) of Section
15 10232.8 due to a loss of functional capacity to perform the activity.
16 (ii) Impairment of cognitive ability, meaning the insured needs
17 substantial supervision due to severe cognitive impairment, as
18 described in subdivisions (b), (d), and (e) of Section 10232.8.
19 (6) Has become involuntarily or voluntarily unemployed.
20 (c) The term “supplemental benefit” means a rider to or
21 provision in a life insurance policy, certificate, or annuity contract
22 that provides a benefit as set forth in subdivision (a) of Section
23 10271.