Approved: March 16, 1993
Date

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

The meeting was called to order by Chairperson Richard Bond at 9:10 a.m. on March 12, 1993 in Room 529-S of the Capitol.

Members present: Senators Lawrence, Lee, Moran, Praeger, and Steffes.

Committee staff present: William Wolff, Legislative Research Department
Fred Carman, Revisor of Statutes
June Kossover, Committee Secretary

Conferees appearing before the committee: George Barbee, Barbee & Associates
Charles McGrew, Clark/Bardes Inc., Dallas, TX
David Murrell, Kansas Group Life Insurance Company
William Sneed, AmVestors

Others attending: See attached list

Senator Steffes made a motion, seconded by Senator Praeger, to approve the minutes of the meeting of March 11, 1993. The motion carried.

The hearing was opened on **HB 2083**, insurable interest of employers in their employees. George Barbee, Barbee & Associates, appeared before the committee to give a brief background of this legislation and to introduce his client, Charles McGrew, Clark/Bardes Inc. Mr. McGrew explained the need for this legislation and provided a prepared list of questions and answers. (Attachment #1.) In response to Senator Bond's question, Mr. McGrew explained that the object of the bill is to allow companies to issue a collateral amount of life insurance relating to the aggregate projected liability for retired employee benefits. Senator Lee asked for clarification and Mr. McGrew explained in detail the procedure of investing in life insurance policies and having access to the cash value of the policies, as well as death benefits, to fund retiree benefits. There were no further questions for Mr. McGrew.

David Murrell, Kansas Group Life Insurance Company, also appeared as a proponent of the bill and to request an amendment to reduce the definition of group from 5 to 3 employees. (Attachment #2.)

Bill Sneed, AmVestors, clarified for Senator Moran why the group size was originally set at 5 employees.

There were no further questions and no other conferees; the hearing was closed.

Senator Lawrence moved to adopt the amendment reducing the group requirement to 3 employees. Senator Steffes seconded the motion. The motion carried.

Senator Lawrence made a motion to recommend **HB 2083** favorably as amended. The motion was seconded by Senator Praeger. The motion carried.

The committee adjourned at 9:40 a.m.

The next meeting is scheduled for Tuesday, March 16, 1993.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

GUEST LIST

SENATE

COMMITTEE: FINANCIAL INSTITUTIONS AND INSURANCE   DATE: 3/12/93

NAME	ADDRESS	ORGANIZATION
Charles R. McGuire	3811 Turtle Creek Blvd. Dallas, Texas 75219	Clark/Bardes, Inc.
Brad Smoot	Topeka	BCBS
Dave Murrell	Topeka	K.G.L.
Jennifer Rose	Topeka	KGL
George Barbee	Topeka	Clark/Bardes
Bill SNEED	TOPEKA	Am. Inv Life
Fred Palenske	Topeka	Kansas Group Life
DAVID A. ROSS	TOPEKA	Ks. Assn. of Life Underwriters
David Hanson	Topeka	Ks ~~Life Resp~~ Life Assoc
Lee Wright	Overland Park	Farmers Ins. Group

STATEMENT

To: Senate Financial Institutions and Insurance Committee
From: Charles McGrew
Re: Insurable Interest
Date: March 12, 1993

My name is Charles McGrew. I am General Counsel for the firm of Clark/Bardes, Inc., headquartered in Dallas, Texas. Since 1967 our firm has been involved in the business of helping corporations use specially designed life insurance products as a means of funding and financing long-term, benefit-related liabilities. Prior to 1986, almost all of our work was with the funding of supplemental executive compensation and supplemental benefit plans. However, beginning in 1986 companies began to seriously address the problem of funding post-retirement health care liabilities.

This interest in post-retirement health care costs and their impact on company finances was brought about by the insistence of the Financial Accounting Standards Board that companies begin to accrue for and report on their books the amounts of unfunded liability which those companies had promised their employees for post-retirement health care benefits.

You may have read most recently of the $20+ billion hit to its 1993 financial statement that General Motors will take. This is a direct result of the application of what has now become the Financial Accounting Standard (FAS) 106. While most companies do not have liabilities of the magnitude posted by General Motors, nonetheless, it is common to experience currently undertaken liabilities in companies that range from $100 million to $1 billion of <u>present value</u> cost, with cash requirements in the multi-billion dollar range.

Companies have historically paid for post-retirement health care costs on a pay-as-you-go basis, expensing claims as they come due from year to year. Now, companies must accrue for the entire future value of the liability, and they are actively and vigorously investigating ways to pre-fund or finance these liabilities and not lay the burden on future management increases in cost and cash requirements and liability may cause the benefits not to be paid or to be substantially reduced.

There is no special provision made in federal tax law for companies to obtain a tax deduction for pre-funding post-retirement health care, except in one instance, and the range of options available to employers for dealing with these huge unfunded liabilities are quite limited. Employers have found that the use of life insurance products is one of the most effective ways of dealing with the funding of these long-term liabilities.

When a life insurance product is purchased on the life of an employee for the benefit of an entity other than the insured himself, there must be an insurable interest that the employer has in the life of the employee. When Clark/Bardes began to explore the use of life insurance products as funding mechanisms for post-retirement health care liabilities, we very early encountered the difficulty of putting these products into place, because of the lack of clarity or, more frequently the lack of existence of state laws with respect to insurable interest. For example, Kansas, like many other states, does not have a state statute dealing with insurable interest.

Our company determined several years ago that in many states, the only way that employers could effectively use life insurance products, where insurance was to be placed upon a broad cross section of their employees, rather than just a few executives, was for the legislature to either clarify

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the law or adopt statutes that would give employers the type of guidance they needed. Accordingly, we first approached the Virginia Legislature in 1989 and were successful in having a unanimous adoption of a new insurable interest law. That law provided employers with tests which they could understand and easily calculate to determine insurable interest and guide them in their ability to ask employees to allow their lives to be insured.

Since that time, Clark/Bardes, as well as other industry groups and associations, and in some cases bar associations, employer trade associations and other interested parties have promoted and seen the adoption of new insurable interest legislation passed in Maryland, Illinois, Michigan, Maine, Delaware, Georgia, Arkansas, Minnesota, California and Texas. Each of these pieces of legislation has had as its public policy basis the need to provide employers with both the ability and the guidance to insure their employees for the purpose of funding long-term employee-related liabilities.

The difficulty with the law in the past in other states and, currently, in Kansas has been that there are no guidelines provided as to the amount of insurance that an employer may take out on non-management and retired employees. What this bill does is specifically give an employer an insurable interest and then provide a measuring device as to the amount of insurance that can be purchased. This measurement is based upon the liability that the corporation has undertaken with respect to its employee welfare benefit plans, as defined under the federal Employee Retirement Income Security Act, known as ERISA. The amount of coverage that an employer can insure the life of an employee for, when it avails itself of this statute, is an amount commensurate with the liabilities that the employer has undertaken for those plans.

It is important to note that the employee must be notified that the employer wishes to insure his or her life and must be given the opportunity to decline having his or her life insured. Under current Kansas law there is no requirement that an employee consent to having his or her life insured. We are aware of a few brokerage groups which advise companies that they can insure employees for substantial amounts without the employee's consent. This is, we believe, poor public policy, and it does not create a level business playing field for those of us who wish to engage in these transactions with prudence, care and certainty.

There are two types of insurance that are used in funding post-retirement health care. In the first type of insurance plan the corporation is the owner and beneficiary of the life insurance policies. When this type of insurance is used, the employer is primarily after the tax benefits connected with loans of the cash value from the insurance policy. There are substantial long-term tax benefits permitted in the Internal Revenue Code that an employer can derive from this policy loan transaction. In this manner, the federal government is providing indirect support to employers greatly assisting them in the financing of their post-retirement health care liabilities. Long term, the tax benefits connected with the policies are of greater value than the death benefits, but because these are life insurance policies the employer must still be concerned about the application of the insurable interest rules.

The second type of usage of an insurance policy involves the purchase of insurance products by a trust created under Section 501(c)(9) of the Internal Revenue Code, which allows employers a tax deduction for pre-funding post-retirement health care. The trust is the owner and beneficiary of the policies; it invests in insurance products as a means of sheltering the growth of the trust assets, which in this case are the cash values of the insurance policies.

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The earnings on the cash values themselves provide the offset under FAS 106 which allows the corporation to reduce the liability on its books. Unlike pension plans, funds set aside in a 501(c)(9) trust are not blessed with tax free growth, and an insurance policy is the only means available to obtain tax free growth in trust assets, aside from investing in tax free municipal bonds.

Under current Kansas law, the closest that the statutes come to addressing the issue of insurable interest is in Section 17-6102(16) of the Corporations Code where a domestic corporation is given the power to

"provide insurance for its benefit on the life of any of its directors, officers or employees, or on the life of any stock holder for the purpose of acquiring at his death shares of its stock owned by such stock holder."

This provision clearly authorizes a Kansas corporation to insure employees for its benefit, but it leaves the employer, and those of us who try to counsel them, with no guidance with respect to the amount of insurance which can be purchased. The only other guidance on this issue comes from a 1943 case titled Geisler v. Mutual Benefit Health and Accident Association. This case provides a test for insurable interest that requires a "reasonable pecuniary interest justifying the expectation of benefit or advantage from the continued life of the insured."

Neither of these tests provide employers or their consultants or advisers with a basis to know precisely what is expected, and so the tendency is to act with extreme or even undue caution or, more frequently, simply not to engage in the transaction because of a lack of certainty.

A suitable analogy might be based upon traffic speed laws. If a person were to enter Kansas and drive on its highways, that person could reasonably assume that driving was permitted, if not invited and, further, that some speed limit was applicable. However, if Kansas posted no speed limit signs, guidance would not be present for motorists to govern their driving behavior and some would drive exceptionally slow, others would apply the law of their own state, and still others would assume that there was some speed limit that applied, but they would go as fast as they could until they knew what it was.

The situation is roughly the same for employers and their advisers wishing to apply the very broad statements of insurable interest law currently on the books or decided in Kansas. There is no consistency of application and no standard by which companies can rationally make decisions, and as a result of this many employers, rather than even take conservative stances on this matter, are simply deciding that they will not look at these funding options for post-retirement health care until such time as the law is made clear. In other instances, we are aware of a few brokerage organizations that are viewing the current situation as an invitation to speed until caught which is not good for the citizens and employers of Kansas and likewise not beneficial for those of us who try to advise our clients carefully and wish to do so on a level playing field.

The effect of passage of the statute we are offering would be: 1.) to add substance and clarity to the law that now exists; 2.) to create a better climate in which employers can make business decisions about a matter of significant financial impact on the companies; 3.) provide an understandable, measurable basis for the determination of an employers insurable interest, rationally related to a specific liability that the employer has already undertaken; 4.) guarantee to employees the right to consent as to whether they wish to be insured by the employer or not.

Questions and Answers in connection with Insurable Interest Legislation (HB 2083)

Q.1. In measuring the long term liabilities of post-retirement needs, what are those liabilities under ERISA?

A. The measure of liabilities which these policies would fund or finance is the cost of "welfare benefit plans". Welfare benefit plans is a defined term under ERISA and covers nearly every employee related benefit except cash compensation and pensions. No pension type plans would be included in the calculation quantifying the liability to be funded. Qualified pensions, non-qualified deferred compensation and executive stock incentive type plans are not included in the definition of welfare benefit plans. The focus of corporate America today is on the promises it has made regarding health care for current and future retirees. The Financial Accounting Standards Board has recently determined that an employer should recognize these costs over the working lives of its employees rather than on a pay-as-you-go-basis which had been the practice previously. This caused GM to book a $20 billion liability recently. Although an extreme case, liabilities in the hundreds of millions are not uncommon. Life insurance is a stable, reliable funding instrument which develops its benefits (gains) over time, just like welfare benefit liabilities (costs) develop over time.

Q.2. Why do we need this legislation if we are already doing it?

A. Employers contemplating this type of program need guidance on two subjects, quantity and consent. We would like to set out ground rules so that companies which consult on this type of funding and legal counselors who provide advise to corporate employers in Kansas will know how much insurance may be purchased on a given employee and whether or not the employee's consent to be insured is required. Since Kansas statutory and case law are currently silent on both subjects, counselors are in a position akin to driving on roads which have no speed limit signs. Since the road is there, one expects that driving is allowed, but how fast? Likewise, one expects that this type of transaction is allowed, but how much? Depending on the tendencies of the counsellor a conservative small amount of coverage might be chosen or an aggressive large amount. Also, the employer might choose to notify the employee of coverage or ask his permission to effectuate the insurance, or neither. Guidance is needed. Although not a reason in itself to pass legislation, a majority of states have some sort of insurable interest statute and approximately 10 states have recently passed the more modern type of statute proposed here. Certainly, this legislation would make it easier to do business in Kansas. It could attract the the location of an insurance transaction (and its premium taxes) to Kansas where a large multistate employer had a choice of situs. Given the availability of proper funding, employers would be encouraged to keep the cost of welfare benefit funding in the private sector where it belongs rather than adding it to already overburdened public funding requirements.

Q.3. Are policies on terminated employees surrendered at termination?

A. Under all existing state statutes (except Utah), and at common law, once insurable interest is established at the issuance of a life insurance policy, that interest continues as valid indefinitely even though the original basis for the interest terminates. Because life insurance values develop over time, the law has allowed policyholders to continue to hold policies to death even through the relationship that originally validated the interest has ended. This concept is especially pertinent to this type of transaction where a corporation owns policies for investment purposes and would lose much of the earnings and all of the tax benefits of the policy if it were forced to surrender policies before the death of the insured. Given the turnover experienced at all levels of employment in American industry, a requirement to surrender a policy on terminated employees and acquire a new policy on new employees would cause substantial "churning" and greatly reduce the return.

Q.4. Are there any age restrictions?

A. No.

Q.5. Do premiums vary according to age?

A. Premiums may vary by age depending on the structure of the plan. Some carriers require that the same premium be placed on each person in order to issue insurance without the requirement of a medical exam. In other cases, groups or classes of employees are established with insurance amounts reflecting salary levels. Since the higher salaries tend to go to older more experienced workers, higher premiums tend to be paid on older workers.

Q.6. Are physical exams required?

A. No. Medical exams are not usually required. Where a large cross-section of employees is insured, insurers assume that the employer's mortality experience will reflect the experience of the population at large. Typically the only questions asked are whether the individual is currently actively at work and whether he has missed work more than 3 days of the last 60 because of illness.

Q.7. What is meant by Negative Consent?

A. If the employee's consent to be insured is required in a state it can be of two types: Positive or Negative. With positive consent an employee is mailed a card to return if he consents to be insured. With negative consent, the employee is mailed a card which indicates that he will be insured <u>unless</u> he returns the card indicating that he refuses to be insured. Although both approaches achieve essentially the same result, more employees tend to be insured under the negative consent approach because lost or forgotten cards imply consent.

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Q.8. What is the range of coverage per employee?

A. In our experience, for this type of plan the amount of coverage on each employee ranges from $30,000 to $130,000, however, amounts in excess of $100,000 are unusual. Coverage amounts are determined by age, sex, salary and the amount of the liability to be funded.

Q.9. Explain the reference to Internal Revenue Code 414.

A. Companies are often in more than one business. Some companies have operating divisions while others split different operations into separate corporate entities. The financial results under either approach are substantially the same in that controlled groups are required to consolidate their financials. Expenses and liabilities incurred by subsidiary and affiliated companies belong to a parent company, in the economic sense, just as if the parent had incurred them directly. This reference takes account of this economic reality and would allow a parent company to insure the employees of its subsidiaries to the extent of benefit liabilities. It is more efficient to have all of the insurance owned and administered at one central location. The Regulations under I.R.C. 414 define "controlling interest" for tax purposes as ownership of 80% or more of the voting shares of a company. Reg. Sec. 1.414(c)-2(b)(2)(A). Reducing that number to 51% for the purpose of insurable interest in this statute would simply allow the employees of more diversely owned subsidiaries to be insured in a more efficient manner.

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TESTIMONY ON HOUSE BILL 2083

Presented to

The Senate Financial Institutions & Insurance Committee

by

Dave Murrell, Vice President & COO
Kansas Group Life Insurance Company
Topeka, Kansas

March 12, 1993

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Mr. Chairman and Members of the Committee:

I am Dave Murrell with Kansas Group Life Insurance Company. I appreciate the opportunity to speak to you today regarding an amendment we would like to propose to House Bill 2083. A copy of the amendment and my written testimony is being distributed. As you know, 1992 Senate Bill 561, among other things, required health insurers which sell in the small group market to offer a guaranteed issue product to groups 3 to 25 in size. Notwithstanding the passage of Senate Bill 561, existing law K.S.A. 40-2209(A)(1) was, and continues to be in place, which requires an employer to have at least 5 employees in order to be issued a health insurance contract directly from an insurance company. When the provisions of Senate Bill 561 are considered in conjunction with this other statute, it is clear those groups that have 3 or 4 employees could only obtain a guaranteed issue product through an association or a trust arrangement. To ensure that all insurance companies operating in the small group market would be required to guarantee issue coverage to groups 3 and 4 in size and not just those insurers participating in trust or association business, the Kansas Insurance Department proposed 1993 Senate Bill 24 which amends K.S.A. 40-2209(A)(1) by reducing the minimum number of employees required for a direct issued contract from 5 to 3. Thus, if Senate Bill 24 passes, all insurers functioning in the small employer market in the state of Kansas will be required to guarantee issue coverage to groups 3 to 25 in size.

Senate Bill 24 was passed by the Senate and was heard in the House Financial Institutions and Insurance Committee yesterday. The amendment that we are proposing to House Bill 2083 parallels the change suggested by Senate Bill 24, except that it amends the statute which sets forth legitimate mechanisms for the issuance of group life insurance coverage as opposed to group health insurance coverage. The amendment to House Bill 2083 suggests that the minimum number of employees required for a direct issued group life insurance contract be reduced from 5 to 3. This change will allow life insurance companies the ability to offer group life insurance policies to those groups 3 and 4 in size.

Kansas Group Life Insurance Company, and I suspect other insurance companies, utilize the same sales force to market both health insurance products as well as life insurance products. In our case, we are a subsidiary of Blue Cross and Blue Shield of Kansas, and market life insurance products to those groups to which Blue Cross provides health insurance. If the life statute is not made to reflect the health statute the dilemma faced by insurance companies who combine the sale of both life and health insurance through the same sales representatives will be that such insurers would not be in a position to offer a group life insurance product in conjunction with the group health insurance coverage to those groups 3 and 4 in size. This would mean that those employees in groups 3 and 4 in size would be limited to individual products or would have to belong to a trust or association. In general, individual products are underwritten, and commonly, are more expensive than a similar product issued on a group basis.

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We hope that you will view this amendment in a favorable light and would point out that this change would not only simplify the marketing process for insurers who market life and health insurance through the same sales representative, but it would also accrue to the benefit of those purchasing insurance in groups 3 or 4 in size by making available to them group products which, again, are generally a better buy than individual products.

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That concludes my formal comments. I would again like to express my appreciation for the opportunity to discuss this amendment with you and would be happy to answer any questions you might have.

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Session of 1993

HOUSE BILL No. 2083

By Committee on Financial Institutions and Insurance

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AN ACT relating to insurance; ~~concerning the insurable interest of employers in their employees~~.

concerning life insurance

amending K.S.A. 1992 Supp. 40-433 and repealing the existing section

Be it enacted by the Legislature of the State of Kansas:

Section 1. (a) An employer, or a trust which is sponsored by an employer for the benefit of its employees, shall have an insurable interest in each of the lives of the employer's employees, directors or retired employees. Notwithstanding the provisions of K.S.A. 40-433, and amendments thereto, the employer or trust may insure such employees', directors' or retired employees' lives for such employer's or trust's benefit on an individual or group basis with the consent of the insured.

(b) The consent requirement of subsection (a) shall be deemed to be satisfied if: (1) The employee, director or retired employee is provided with a written notice that the employer or trust intends to obtain life insurance coverage with respect to such person's life; and (2) the employee, director or retired employee fails to provide written notification to the employer or trust, within 30 days from the date that the notice was transmitted, that such person does not consent to the employer obtaining life insurance coverage on such person's life. It shall be unlawful for the employer or trust to retaliate against any person for refusing to consent to the issuance of life insurance on such person's life.

(c) The extent of the employer's or trust's insurable interest in nonmanagement and retired employees shall be limited to an amount commensurate with the aggregate projected liabilities to such employees under all employee welfare benefit plans, as defined in 29 U.S.C. 1002(1), calculated in accordance with generally accepted actuarial principles. Determination of the existence and extent of the insurable interest shall be made at the time the contract of insurance becomes effective, but need not exist at the time the loss occurs.

(d) For purposes of this section, "employer", means any individual, sole proprietorship, partnership, limited liability company, corporation or any other entity that is legally doing business in this state; the term shall also include all entities or persons which are controlled by or affiliated with any of the foregoing. The determination of whether any entity or person is controlled by or affiliated with another shall be made by applying the principles set forth in subsections (b) or (c) of section 414 of the internal revenue code of 1986, as in effect on January 1, 1993, except that all references therein to "80%" shall be changed to 51%.

(e) This section shall not be interpreted to define all instances in which an insurable interest exists.

(f) The provisions of this section shall apply to all insurance contracts in force on or after the effective date of this section.

For Sec. 2., see attached

Sec. 3. K.S.A. 1992 Supp. 40-433 is hereby repealed.

Sec. ~~2.~~ 4 This act shall take effect and be in force from and after its publication in the statute book.

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Sec. 2. K.S.A. 40-333 is hereby amended to read as follows:

40-433. No policy of group life insurance shall be delivered in this state unless it conforms to one of the following descriptions:

(1) A policy issued by an insurance company organized under the laws of the state of Kansas on its employees and agents, which agents for the purpose of this act only shall be deemed employees, the beneficiaries under such policies to be persons designated by each insured, or a policy issued to an employer, or to the trustees of a fund established by an employer, which employer or trustees shall be deemed the policyholder, to insure employees of the employer for the benefit of persons other than the employer, both subject to the following requirements: (a) The employees eligible for insurance under the policy shall be all of the employees of the employer, or all of any class or classes thereof determined by conditions pertaining to their employment. The policy may provide that the term "employees" shall include the employees of one or more subsidiary corporations, and the employees, individual proprietors, and partners of one or more affiliated corporations, proprietors or partnerships if the business of the employer and of such affiliated corporations, proprietors or partnerships is under common control through stock ownership, contract or otherwise. The policy may provide that the term "employees" shall include the individual proprietor or partners if the employer is an individual proprietor or a partnership. The policy may provide that the term "employees" shall include retired employees. No director of a corporate employer shall be eligible for insurance under the policy unless such person is otherwise eligible as a bona fide employee of the corporation by performing services other than the usual duties of a director. No individual proprietor or partner shall be eligible for insurance under the policy unless the proprietor or partner is actively engaged in and devotes a substantial part of their time to the conduct of the business of the proprietor or partnership. A policy issued to insure the employees of a public body may provide that the term "employees" shall include elected or appointed officials. (b) The premium for the policy shall be paid by the policyholder, either wholly from the employer's funds or funds contributed by the employer, or partly from such funds and partly from funds contributed by the insured employees. No policy shall be issued on which the entire premium is to be derived from funds contributed by the insured employees. A policy on which part of the premium is to be derived from funds contributed by the insured employees may be placed in force only if at least 75% of the then eligible employees, excluding any as to whom evidence of individual insurability is not satisfactory to the insurer, elect to make the required contribution. A policy on which no part of the premium is to be derived from funds contributed by the insured employees shall insure all eligible employees, or all except any as to whom evidence of individual insurability is not satisfactory to the insurer. (c) The policy shall cover at least ~~five~~ three employees at date of issue. (d) The amounts of insurance under the policy

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shall be based upon some plan, precluding individual selection either by the employees or by the employer or trustees.

(2) A policy issued to a creditor, who shall be deemed the policyholder, to insure debtors of the creditor, subject to the following requirements: (a) The debtors eligible for insurance under the policy shall be all of the debtors of the creditor whose indebtedness is repayable in installments, or all of any class or classes thereof determined by conditions pertaining to the indebtedness or to the purchase giving rise to the indebtedness. (b) The premium for the policy shall be paid by the policyholder, either from the creditor's funds or from charges collected from the insured debtors, or from both. A policy on which part or all of the premium is to be derived from the collection from the insured debtors of identifiable charges not required of uninsured debtors shall not include, in the class or classes of debtors eligible for insurance, debtors under obligations outstanding at its date of issue without evidence of individual insurability unless at least 75% of the then eligible debtors elect to pay the required charges. A policy on which no part of the premium is to be derived from the collection of such identifiable charges shall insure all eligible debtors, or all except any as to whom evidence of individual insurability is not satisfactory to the insurer. (c) The policy may be issued only if the group of eligible debtors is then receiving new entrants at the rate of at least 100 persons yearly, or may reasonably be expected to receive at least 100 new entrants during the first policy year, and only if the policy reserves to the insurer the right to require evidence of individual insurability if less than 75% of the new entrants become insured. (d) The amount of insurance on the life of any debtor shall at no time, under one or more policies, exceed the amount owed by that debtor which is repayable in installments to the creditor, or $50,000, whichever is less. (e) The insurance shall be payable to the policyholder. Such payment shall reduce or extinguish the unpaid indebtedness of the debtor to the extent of such payment.

(3) A policy issued to a labor union, which shall be deemed the policyholder, to insure members of such union for the benefit of persons other than the union or any of its officials, representatives or agents, subject to the following requirements: (a) The members eligible for insurance under the policy shall be all of the members of the union, or all of any class or classes thereof determined by conditions pertaining to their employment, or to membership in the union, or both.

(b) The premium for the policy shall be paid by the policyholder, either wholly from the union's funds, or partly from such funds and partly from funds contributed by the insured members specifically for their insurance. No policy shall be issued on which the entire premium is to be derived from funds contributed by the insured members specifically for their insurance. A policy on which part of the premium is to be derived from funds contributed by the insured members specifically for their insurance may be placed in force only if at least 75% of the then eligible members excluding any as to whom evidence of individual insurability is not satisfactory to the insurer, elect to make the required contributions. A policy on which no part of the premium is to be derived from funds contributed by the insured members specifically for their insurance shall insure all eligible members, or all except any as to whom evidence of individual insurability is not satisfactory to the insurer.

(c) The policy shall cover at least 25 members at date of issue.

(d) The amounts of insurance under the policy shall be based upon some plan precluding individual selection either by the members or by the union.

(4) A policy issued to the trustees of a fund established in this state by two or more employers if a majority of the employees to be insured of each employer are located within the state, or to the trustees of a fund established by one or more labor unions, or by one or more employers and one or more labor unions, which trustees shall be deemed the policyholder, to insure employees of the employers or members of the unions for the benefit of persons other than the employers or the unions, subject to the following requirements: (a) The persons eligible for insurance shall be all of the employees of the employers or all of the members of the unions, or all of any class or classes thereof determined by conditions pertaining to their employment, or to membership in the unions, or to both. The policy may provide that the term "employees" shall include retired employees and the individual proprietor or partners if any employer is an individual proprietor or a partnership. No director of a corporate employer shall be eligible for insurance under the policy unless such person is otherwise eligible as a bona fide

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employee of the corporation by performing services other than the usual duties of a director. No individual proprietor or partner shall be eligible for insurance under the policy unless the proprietor or partner is actively engaged in and devotes a substantial part of their time to the conduct of the business of the proprietor or partnership. The policy may provide that the term "employees" shall include the trustees or their employees, or both, if their duties are principally connected with such trusteeship. (b) The premium for the policy shall be paid by the trustees either wholly from funds contributed by the employer or employers of the insured persons, or by the union or unions, or by both, or partly from such funds and partly from funds contributed by the insured employees. No policy shall be issued on which the entire premium is to be derived from funds contributed by the insured persons. The policy shall insure all eligible persons, or all except any as to whom evidence of individual insurability is not satisfactory to the insurer. (c) The policy shall cover at date of issue at least 100 persons and not less than an average of five persons per employer unit. (d) The amounts of insurance under the policy shall be based upon some plan precluding individual selection either by the insured persons or by the policyholder, employers, or union.

(5) A policy issued to an association which has been organized and is maintained for purposes other than that of obtaining insurance, insuring at least 25 members, employees, or employees of members of the association for the benefit of persons other than the association or its officers. The term "employees" as used herein shall be deemed to include retired employees. The premiums for the policies shall be paid by the policyholder, either wholly from association funds, or funds contributed by the members of such association or by employees of such members or any combination thereof. The amounts of insurance under the policy shall be based upon some plan precluding individual selection either by the insured person or by the association or by the member.

(6) Any policy issued pursuant to this section may be extended to insure the employees against loss due to the death of their spouses or the employees' children under 21 years of age, or employees' children 21 years or older who are attending an educational institution and relying upon the insured employees for financial support, or any class or classes thereof, subject to the following requirements:

(a) The premium for the insurance shall be paid by the policyholder, either from the employer's funds or from funds contributed by the insured employees, or from both. If any part of the premium is to be derived from funds contributed by the insured employees, the insurance with respect to spouses and children may be placed in force only if at least 75% of the then eligible employees, excluding any as to whose family members' evidence of insurability is not satisfactory to the insurer, elect to make the required contribution. If no part of the premium is to be derived from funds contributed by the employees, all eligible employees, excluding any as to whose family members' evidence of insurability is not satisfactory to the insurer, shall be insured with respect to their spouses and children.

(b) The amounts of insurance shall be based upon some plan precluding individual selection either by the employees or by the policyholder, or employer and shall not exceed with respect to any spouse or child, 50% of the insurance on the life of such insured employee.

(c) Upon termination of the insurance with respect to the spouse of an employee by reason of the employee's termination of employment or death, the spouse insured pursuant to this section shall have the same conversion rights as to the insurance on such spouse's life as is provided for the employee under K.S.A. 40-434 and amendments thereto.

(d) Notwithstanding the provisions of K.S.A. 40-434 and amendments thereto only one certificate need be issued for delivery to an insured person if a statement concerning any dependent's coverage is included in such certificate.

(7) A policy may be issued to any other group which the commissioner of insurance finds is the proper subject of a group life insurance policy or contract. Any such group shall be subject to any appropriate conditions or provisions relating thereto which the commissioner may establish or require, consistent with the provisions of this act, and such conditions and provisions shall be included in the policy or contract.

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