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BULLETIN NO. 2022-05

TO: All authorized insurers issuing life insurance policies or annuities to Alabama residents; preneed sellers

FROM: Mark Fowler *MWF*
Acting Commissioner of Insurance

DATE: September 28, 2022

RE: Use of graded benefit provisions in life insurance or annuities used to fund preneed contracts

EFFECTIVE: Immediately

This Bulletin clarifies the Alabama Department of Insurance's position on use of graded benefit provisions in life insurance policies or annuities used to fund preneed contracts.

Effective immediately, the Department will accept graded benefit provisions in life insurance policies and annuities used to fund preneed contracts for approval as provided in Ala. Code § 27-14-8. In that respect and given Department rule 482-3-004-.11(5), the Department no longer construes Ala. Code § 27-17A-3(a) as necessarily prohibiting use of graded benefit provisions provided proper disclosure of the existence, use, and possible effects of the graded benefit provision is set out in the policy or annuity form. The Alabama Preneed Funeral and Cemetery Act, Ala. Code §§ 27-17A-1 *et seq.*, prescribes that life insurers are subject to the Insurance Code. As long as the existence, use, and possible effects of graded benefit provisions are properly disclosed, the Department will approved such provisions for use in connection with preneed contracts.

Life insurers are advised that all policy forms must comply with the disclosure requirements in Department regulation 482-1-131 and, in particular, rule 482-1-131-.06. Annuity disclosures must comply with the requirements in Department regulation 482-1-129. Preneed sellers using life insurance or annuities as a preneed contract funding mechanism are advised that any life insurance or annuities written must, in the aggregate, cover at least the initial retail price of the preneed contract subject to operation of any disclosed and approved graded benefit provision. Where graded benefit products are used, preneed sellers are responsible for furnishing

appropriate advice to the preneed buyer about whether funding by life insurance or annuities is advisable under the circumstances.

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