STANDARDS FOR GROUP DISABILITY INCOME INSURANCE
INITIAL RATE FILINGS

Scope: The Standards for Initial Rate Filings for Group Disability Income Insurance shall apply to insurance policies, riders, endorsements and amendments for disability income plans that are underwritten on a group basis. The benefits provided may be short term, long term or combined short term and long term.

These standards shall also apply to group policy forms for which rates are being revised only for new business to be issued on or after the effective date of the rate filing. The filings shall specify what the term “new business” includes, such as new group policies to be issued on or after the effective date of the rate filing, additional benefits added to group policies that were issued before the effective date of the rate filing, etc.

As used in these standards “disability income” means group coverage that provides periodic income if a Covered Person becomes Disabled.

Mix and Match: These standards are not available to be used in combination with State Product Components as described in Section 110(b) of the Operating Procedure for the Filing and Approval of Product Filings.

Self-Certification: These standards are not available to be filed using the Rule for the Self-Certification of Product Components Filed with the Interstate Insurance Product Regulation Commission.

Drafting Notes:

(1) All terms used in these standards shall have the same meaning as defined in the standards for the group disability income insurance policies

(2) Any reference to “policy” in these standards shall not include an individual policy because these standards only apply to group forms.
§ 1. CRITERIA FOR REVIEW

A. GENERAL

The Interstate Insurance Product Regulation Commission will review group disability income initial rate filings and may disapprove any initial rate filing for any of the following reasons:

(1) The premiums charged are unreasonable in relation to the benefits provided, or are excessive, inadequate, or unfairly discriminatory;

(2) The provisions permit the insurance company to vary premiums for Covered Persons, and the variances are not based upon sound underwriting and sound actuarial principles reasonably related to actual or reasonably anticipated loss experience;

(3) The premiums unfairly discriminate between Covered Persons of the same actuarial risk class, or between risks of essentially the same degree of hazard;

(4) The premiums discriminate on the basis of race, color, creed, national origin, or sexual orientation;

(5) The premiums unfairly discriminate on the basis of marital status or civil union status in states where civil union relationships are recognized; however, this does not prohibit actuarially justified spousal, couple, partner, or civil union discounts; or

(6) The rate filing fails to comply with the standards.

§ 2. ADDITIONAL SUBMISSION REQUIREMENTS

A. GENERAL

The following additional submission requirement applies to initial rate filings for group disability income insurance:

(1) If the initial rate filing is being submitted on behalf of an insurance company, include a letter or other document authorizing the firm to file on behalf of the insurance company.
B. ACTUARIAL SUBMISSION REQUIREMENTS

(1) An actuarial memorandum prepared, dated, and signed by a member of the American Academy of Actuaries who provides the information shall be included and shall provide at least the following information:

(a) A general description of the benefits provided and any limitations or exclusions under the policy and certificate forms, including, but not limited to, premium payment period, premium classes, coverage period, benefit period, premium structure (issue age, attained age, attained age banded, etc.), and available issue ages.

(b) For multi-life plans, the company may use “premium class” to establish discounts based on case characteristics, documented in the Actuarial Memorandum, such as, for example, number of lives, who pays the premium, and/or premium mode. The criteria for the discount should be applied consistently between groups. In addition, the company shall submit adequate experience data to support the use of the same Minimum Loss Ratio (MLR) requirement for multi-life plans utilizing a discount as for those where a discount is not applicable. Such experience data should indicate that any expense savings occurring as a result of the discount are accompanied by a commensurate reduction in expected claims costs for multi-life plans where the discounts are applied.

(b) A description of the market and marketing methods for the policy form;

(c) A description of the renewability provision under the policy including a statement as to whether the policy is Noncancellable, Guaranteed Renewable, or Optionally Renewable or Conditionally Renewable.

(d) A complete set of premium rates applicable under the policy form for each marketing methodology and the adjustment factors. Where variations such as those described in (b) above or any other rating factor modifies the premium scales provided, a full description of each modification shall be provided;

(e) A brief description of how rates were determined for each marketing methodology, including the complete description and source of each assumption used in pricing the product including, but not limited to:

(i) Mortality;

(ii) Voluntary termination (if separate from mortality);
(iii) Morbidity (including any trend assumption);

(iv) Investment return;

(v) Distribution of business (by mode, premium class, sex, issue age, etc.); and

(vi) Percentage of premium allocated for commissions, expenses and profit. Expenses, including contingency/risk margins (for expenses, pricing variations that reflect percent of premium, dollars per policy and/or dollars per unit of benefit shall be included as well as overall expenses plus contingency and risk margins as a percent of premium on a present value basis);

(f) A description of the determination of the MLR applicable to the policy form. The MLR shall be determined as follows:

(i) The Initial MLR shall be based on the guidelines below using the Renewal Provision for the policy:

<table>
<thead>
<tr>
<th>Renewal Provision</th>
<th>Initial MLR %</th>
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<tbody>
<tr>
<td>Conditionally Renewable</td>
<td>55</td>
</tr>
<tr>
<td>Guaranteed Renewable</td>
<td>55</td>
</tr>
<tr>
<td><strong>Optionally Renewable</strong></td>
<td><strong>55%</strong></td>
</tr>
<tr>
<td>Noncancellable</td>
<td>50</td>
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</tbody>
</table>

(ii) Adjustments to Initial MLR to determine MLR. The adjustment below should be made only if the expected average annual premium for the policy form, considering the distribution of business assumptions in § 2B(1)(f)(v) above, is less than $2,500:

The initial MLR shown in the table above shall be adjusted according to the formula below, where:

MLR = (Initial MLR)* (A-25*I)/A and

I = [CPI-U, Year (N-1)] / 103.9 where

(I) The value for A is the average annual policy premium.
The average annual policy premium shall be estimated by the insurer based on an anticipated
distribution of business by all significant criteria having a price difference, such as age, gender, amount,
dependent status, rider frequency, etc., except assuming an annual mode for all policies;

(II) (N-1) is the calendar year immediately preceding the calendar year (N) in which the rate filing is
submitted to the Interstate Insurance Product Regulation Commission; and

(III) CPI-U is the consumer price index for all urban consumers, for all items, and for all regions of the U.S.
combined, as determined by the U.S. Department of Labor, Bureau of Labor Statistics. The CPI-U 1982-
84=100 for any year is the value as of September;

(iii) Limitation on Adjustments to Initial MLR

In no event shall the adjustment to the initial MLR be more than 510%; and

(iv) The discount rate, average annual policy premium (A), and MLR shall be shown as part of the information in
Appendix A attached to these standards.

(g) Documentation of the Anticipated Loss Ratio (ALR) applicable to the policy form for each marketing methodology and
a description of the ALR methodology used in its determination. The ALR is the ratio of the present value of the
expected benefits to the present value of the expected premiums over the entire period for which rates are computed to
provide coverage. Interest shall be used in the calculation of this loss ratio. Active life reserves should not be
considered in the ALR calculations. The assumptions used in developing the ALR should be consistent with those used
in the pricing process as provided in § 2B(1)(fe); [error in IDI draft]

(h) Durational loss ratio table. The projected year-by-year premium and claims experience used in determining the ALR or
ALRs applicable to the policy form, together with each year’s anticipated loss ratio based on that experience, shall be
shown for a period of at least 329 years. The durational loss ratio information shall be presented in the format shown in
Appendix A attached to these standards; and

(i) An explanation of the review performed by the actuary prior to making the statements in § 2B(3)(d) and (e).
(2) The document containing the premium rate schedules shall contain a statement that the premium rate schedules are those to which the information in the actuarial memorandum applies.

(3) An actuarial certification prepared, dated, and signed by a member of the American Academy of Actuaries who provides the information shall be included and shall provide at least the following information:

(a) To the best of the actuary’s knowledge and judgment, the rate filing is in compliance with all applicable Interstate Insurance Product Regulation Commission standards;

(b) The premiums charged are reasonable in relation to the benefits provided; and

[c] [Drafting Note to certifying actuary: Premiums charged will be assumed to be reasonable in relation to the benefits provided if the ALR for the product, determined in accordance with § 2B(1)(h), is not less than the MLR for the product, determined in accordance with § 2B(1)(g) and when added to the overall expenses plus contingency and risk margin percentage does not exceed 100%].

[c] [Drafting Note to Interstate Insurance Product Regulation Commission reviewing actuary: An ALR for the product lower than the MLR for the product, determined according to § 2B(1)(g), shall not be permitted and the premiums charged will not be assumed reasonable in relation to the benefits provided unless the insurer demonstrates that the ALR is determined in accordance with sound actuarial principles, does not result in unfair discrimination in sales practices, and is otherwise in substantial compliance with the requirements of § 2B(1)(h)].

(c) The rate filing complies with all applicable Actuarial Standards of Practice;

(d) The policy design and coverage provided have been reviewed and taken into consideration; and

(e) The underwriting and claims adjudication processes have been reviewed and taken into consideration.

(4) If the actuary is unable to provide the actuarial certification indicated in (2) without qualification, include a detailed explanation.

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INDIVIDUAL DISABILITY INCOME INSURANCE INITIAL RATE FILING
Appendix A

Company Name:
Policy Form Number:

Minimum and Projected Loss Ratio Assumptions

<table>
<thead>
<tr>
<th>Discount Rate:</th>
<th>Average Annual Policy Premium (A):</th>
<th>Minimum Loss Ratio (MLR):</th>
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Distribution of Business by Premium Class*:

* The distribution of business for the projection should be the same as the distribution of business used to establish the Average Annual Premium. Each premium class segment should be shown.

Anticipated Loss Ratio

<table>
<thead>
<tr>
<th>Duration</th>
<th>Earned Premium*</th>
<th>Incurred Claims**</th>
<th>Loss Ratio</th>
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Total Lifetime (Undiscounted)

Total Lifetime (Discounted)

Total Lifetime (Undiscounted) Loss Ratio = Σ Incurred Claims / Σ Earned Premium ***
Total Lifetime (Discounted) Loss Ratio = PV(Incurred Claims) / PV(Earned Premium) ***

* Earned Premiums means paid premium minus change in unearned premium.
** Incurred Claims means change in claim reserve plus claims paid.
*** Sums (Σ) and Present Values (PV) to be determined over all future coverage periods.