STANDARDS FOR FILING REVISIONS TO RATE FILING SCHEDULES IN INDIVIDUAL DISABILITY INCOME INSURANCE POLICIES AS APPLICABLE TO THE FOLLOWING PRODUCTS:

- DISABILITY INCOME PLANS
- BUY-SELL PLANS;
- KEY PERSON PLANS
- BUSINESS OVERHEAD EXPENSE PLANS

Scope: These standards shall apply to insurance policies, riders, endorsements and amendments for disability income plans, buy-sell plans, key person plans and business overhead expense plans that are individually underwritten, including such policies that are marketed through employer and association sponsored groups (“multi-life” plans). The benefits provided may be short term, long term or combined short term and long term.

These standards shall apply to closed blocks of policy forms and to open blocks of policy forms (where sales are currently being made) where the rate revision will apply to both the in force and new business.

These standards shall not apply to 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.

As used in these standards “disability income” means disability income plans, buy-sell plans, key person plans and business overhead expense plans, including multi-life plans, as applicable.

Mix and Match: These standards are not available to be used in combination with State Product Components as described in Section 1101(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. The references to “policy” or “plan” do not preclude Fraternal Benefit Societies from substituting “certificate” in their forms.

2. All terms used in these standards shall have the same meaning as defined in the standards for the individual disability income insurance policies, disability business overhead expense insurance policies, buy-sell insurance policies, and key person insurance policies, as applicable.

3. Any reference to “policy” in these standards shall not include a group policy or a group certificate because these standards only apply to individual forms.
§ 1 CRITERIA FOR REVIEW

A. GENERAL

The Interstate Insurance Product Regulation Commission will review rate schedule filings for individual disability income insurance policies and may disapprove any rate schedule revision 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 company to vary premiums for insureds, 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 individuals 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 schedule revision filing fails to comply with these standards.

§ 2 ADDITIONAL SUBMISSION REQUIREMENTS

The following additional submission requirements apply to rate schedule revision filings for individual disability income insurance policies:

A. GENERAL

(1) If the rate schedule revision filing is being submitted on behalf of the company, include a letter or other document authorizing the firm to file on behalf of the insurance company.

(2) The request for approval of a rate schedule revision filing shall be subject to the Operating Procedure for the Filing and Approval of Product Filings and shall be submitted to the Interstate Insurance Product Regulation Commission at least 30 days prior to the required rate revision notice period as provided in the policy.
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 address at least the following information:

(a) A general description of the benefits provided and any limitations or exclusions under the policy form, 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) 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 Conditionally Renewable, as defined in the Core Standard for Individual Disability Income Insurance Policies;

(d) A complete set of premium rates applicable under the policy form for each marketing methodology. Where variations such as those described in (a) 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 the revised premium rates were determined for each marketing methodology, including the complete description and source of each assumption used in determining the revised premium rates 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) 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) The scope and reason for the rate revision, including a description of the experience emerging under any of the initial, or subsequently revised, experience factors that, in the company’s opinion, justifies the need for the rate revision. A statement shall also be
included indicating that the revision applies to in force business and to new business as well;

(g) An indication of all past revisions approved by the Interstate Insurance Product Regulation Commission with respect to the policy form and the dates the rate revisions were approved;

(h) The estimated average annual premium per policy, before and after the rate revision, and a description of the relationship of the revised premium rates to the current premium rates. The average annual policy premium shall be estimated by the insurer based on the current 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;

(i) The Anticipated Loss Ratio (ALR) for the product, as initially filed with the Interstate Insurance Product Regulation Commission;

(j) The Anticipated Future Loss Ratio (AFLR) applicable to the policy form for each marketing methodology. The AFLR is the ratio of the present value of the expected incurred claims to the present value of the expected earned premiums over the entire future period for which the revised premium 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 AFLR calculations;

(k) The Lifetime Anticipated Loss Ratio (LALR) applicable to the policy form for each marketing methodology derived by dividing (i) by (ii) where:

(i) Is the sum of the accumulated incurred claims from the original filing date of the form with the Interstate Insurance Product Regulation Commission to the effective date of the premium rate revision, and the present value of expected future incurred claims; and

(ii) Is the sum of the accumulated earned premiums from original filing date of the form with the Interstate Insurance Product Regulation Commission to the effective date of the premium rate revision, and the present value of expected future earned premiums.

Such present values shall be calculated over the entire future period for which the revised earned premiums are computed to provide coverage. Such accumulated incurred claims and earned premiums shall include an explicit estimate of the actual incurred claims and earned premiums from the last date for which an accounting has been made to the effective date of the premium rate revision. Interest shall be used in the calculation of these accumulated claims and premiums;

(l) The Durational loss ratio table. The historical actual and projected anticipated year-by-year earned premium and incurred claims experience used in determining the LALR (or
LALR’s) applicable to the policy form, together with each year’s historical actual and projected anticipated loss ratio based on that experience, shall be shown. Historical experience shall be shown from the date of the initial rate filing with the Interstate Insurance Product Regulation Commission and projected experience shall be shown for a period of at least 20 years. The durational loss ratio shall be in the format described in Appendix A to these standards;

(m) The assumptions applying to the “future period for which the revised premiums are computed to provide coverage” indicated in (j) and (k) above shall be provided in the format described in Appendix A to these standards and should be reasonable in relation to those provided in (e) above;

[Drafting Note: For example, if future rates of inflation are a major factor, the period of projection of such rates should be short, such as 3 to 5 years only. Other assumptions, however, may still appropriately apply over the entire future policy renewal period, particularly in cases where the premium rate structure is level premiums based on the insured’s age at issue.]

(n) A justification and supporting documentation for the use of the proposed revised premium rates, if either the AFLR or the LALR, determined according to (j) and (k) above, is less than the ALR for the product, as initially filed with the Interstate Insurance Product Regulation Commission; and

(o) 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 provided are reasonable in relation to the benefits provided; and

[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, as originally filed with the Interstate Insurance Product Regulation Commission, is less than both the AFLR and the LALR for the product, determined according to sections (1)(j) and (1)(k), respectively].

[Drafting Note to Interstate Insurance Product Regulation Commission reviewing actuary: An ALR for the product, as originally filed with the Interstate Insurance Product]

Regulation Commission, greater than either the AFLR or the LALR for the product, determined according to sections(1)(j) and (1)(k), respectively, 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 LALR 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 this standard.

(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.

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

(3) If the actuary is unable to provide the actuarial certification indicated in (2) without qualification, include a detailed explanation.
Standards for Filing Revisions to Rate Filing Schedules in Individual Disability Income Insurance Policies
RAUS 2018-9 (April 5, 2018)

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