



## **IIPRC-DI-G-H11-RATE CHANGE**

### **UNIFORM STANDARDS FOR FILING REVISIONS TO RATE FILING SCHEDULES IN GROUP DISABILITY INCOME INSURANCE POLICIES**

1. Date Adopted: February 24, 2016
2. Purpose and Scope: These standards 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 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.

3. Rules Repealed, Amended or Suspended by the Rule: None.
4. Statutory Authority: Among the IIPRC's primary purposes and powers is to establish reasonable uniform standards for the insurance products covered in the Interstate Insurance Product Regulation Compact ('Compact'), specifically pursuant to Article I §2, Article IV §2 and Article VII §1 of the Compact, as enacted into law by each IIPRC member state.
5. Required Findings: None
6. Effective Date: June 8, 2016

Date: 2/24/2016

Adopted by the IIPRC

Uniform Standards for Filing Revisions to Rate Filing Schedules in Group Disability Income Insurance Policies

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IN GROUP DISABILITY INCOME INSURANCE POLICIES**

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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 group coverage that provides periodic income to *Covered Persons* who become *Disabled*.

Terms not defined in these standards that are capitalized and italicized have the meanings specified in the Group Disability Income Insurance Policy and Certificate Uniform Standards for Employer Groups.

**Mix and Match:** These standards are not available to be used in combination with State Product Components as described in Section 111(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:** 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 rate schedule filings for group 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;

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- (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 or expenses;
- (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 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 group disability income insurance policies:

### **A. GENERAL**

- (1) If the rate schedule revision 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.
- (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 shall be included and shall address and support each applicable item required as part of the actuarial certification and shall provide 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, 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;

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- (c) A description of the renewability provision under the policy including a statement as to whether the policy is *Noncancellable*, *Guaranteed Renewable*, *Optionally Renewable* or *Conditionally Renewable*.
- (d) A complete set of *Premium* rates applicable under the policy form for each marketing methodology and adjustment factors;
- (e) A brief description of how the revised *Premium* rates were determined for each marketing methodology;
- (f) A complete description and source of each assumption used in determining the revised *Premium* rates;

**Drafting Note:** Certain actuarial requirements may or may not apply depending upon the nature of the rating characteristics including types of *Premium* structure (e.g., issue age or attained age) and type of renewability (e.g., *Optionally Renewable* or *Guaranteed Renewable*) and the documented assumptions and pricing approach are expected to vary based on the description of the *Premium* structure and guarantee period. To the extent that certain items listed in these standards are not applicable, indication to that effect is acceptable. Actuarial Standard of Practice (ASOP) 8 Regulatory Filings for Health Benefits, Accident and Health Insurance and Entities Providing Health Benefits provides guidance concerning the key pricing assumptions, underlying actuarial judgments and the manner in which the premium rates are to be tested against regulatory benchmarks as outlined in the Criteria for Review.

- (g) 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 an insurance 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;
- (h) 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;
- (i) The estimated average annual *Premium* per *Covered Person* under the 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 *Premium* per *Covered Person* under the policy shall be estimated by the insurance company based on the current distribution of business by all significant criteria having a price difference, such as age, gender, amount, etc., except assuming an annual mode for all policies;
- (j) The Anticipated Loss Ratio (ALR) for the product, as initially filed with the Interstate Insurance Product Regulation Commission;

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- (k) 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 and shall be the same rate as used in the initial rate filing. Active life reserves should not be considered in the AFLR calculations;
  
- (l) 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* and shall be the same rate as used in the initial rate filing.

- (m) 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 sufficient to estimate anticipated lifetime loss ratio, but in no instance less than 3 years. The durational loss ratio shall be in the format described in Appendix A-2 to these standards;
  
- (n) 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-1 to these standards and should be reasonable in relation to those provided in (f) above;

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- (o) For issue age only, 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

**Drafting Note:** Depending upon the nature of the rating characteristics including types of *Premium* structure (e.g., issue age or attained age) and type of renewability (e.g., *Optionally Renewable* or *Guaranteed Renewable*), items (k), (l), (m), are expected to be modified. For example, for *Optionally Renewable* or *Conditionally Renewable* and/or attained age rated products, it may be appropriate to provide a 3-5 years of historical experience to support a requested rate revision, to include *Premiums*, *Premiums* adjusted to proposed rate basis, number of claims, incurred claims, loss ratio, adjusted loss ratio, target loss ratio, actual to target and proposed actual to target. *Premiums*, claims and expenses shall be adjusted to a basis consistent with the revised pricing assumptions to demonstrate the reasonability of the revised rates. Such modifications should be clearly documented, with a rationale provided.

- (p) 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;

**Drafting Note:** *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) 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.

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- (4) If the actuary is unable to provide the actuarial certification indicated in (3) without qualification, include a detailed explanation.

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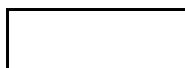
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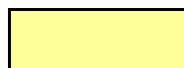
**GROUP DISABILITY INCOME INSURANCE REVISIONS TO RATE FILINGS**

**Appendix A -1**

 = USER INPUT

 Valuation Year

 = FORMULA DRIVEN

 Interest Rate

**FORMULAS**

**Incurred Claims**  $t$  = Paid Claims by Year Incurred  $t$  + Change in Claims Reserve  $t$

**Loss Ratio**  $t$  = Incurred Claims  $t$  / Earned Premium  $t$

**Projected Incurred Claims**  $t$  = Incurred Claims  $t-1$  X Combined Claims Factors  $t$  X Policy Persistency  $t$

**Projected Earned Premium**  $t$  = Earned Premium  $t-1$  X Combined Premium Factors  $t$  X Policy Persistency  $t$

**Incurred Claims with Interest**  $t$  = Incurred Claims  $t$  X (1+Interest Rate)<sup>(Valuation Year - t)</sup>

**Earned Premium with Interest**  $t$  = Earned Premium  $t$  X (1+Interest Rate)<sup>(Valuation Year - t)</sup>

**Past Total** = Sum of the portion of the column for the experience years

**Future Total** = Sum of the portion of the column for the projected years

**Lifetime Total** = Past Total + Future Total

**Combined Premium Factors**  $t$  = Premium Rate Increase  $t$  X Aging  $t$

**Combined Claims Factors**  $t$  = Claims Trend  $t$  X Aging  $t$

**Policy Persistency**  $t$  = 1 - Lapses  $t$  - Shock Lapses  $t$

***Comments:***

1. If a full year of experience is not available for the valuation year, the actuary must make an assumption for the projected experience for the rest of the year.
2. If the actuary uses a premium rate increase in the renewal years, it must be equal to the claims trend.

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**FACTORS FOR EXPERIENCE PROJECTION**

Projection Year	<u>Premium Factors</u>			<u>Claims Factors</u>			<u>Persistency Factors</u>		
	Premium Rate Increase	Aging	Combined Premium Factors	Claims Trend	Aging	Combined Claims Factors	Lapses	Shock Lapses	Policy Persistency
t									
t+1									
.									
.									
.									
.									
.									
.									

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**Appendix A - 2**

	Calendar Year	Without Interest					With Interest		
		Paid Claims by Year Paid	Change in Claims Reserve	Incurred Claims	Earned Premium	Loss Ratio	Incurred Claims	Earned Premium	Loss Ratio
<b>Past Experience</b>	19XX								
	.								
	.								
	.								
	.								
	.								
	.								
	20YY (t-1)								
<b>Experience Projection</b>	T								
	t+1								
	.								
	.								
	.								
	.								
	.								
	Past Future Lifetime								
<b>Total</b>									