UNIFORM STANDARDS FOR GROUP DISABILITY INCOME INSURANCE INITIAL RATE FILINGS

Scope: The Uniform 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 issued to employer groups and non-employer groups, as described herein, provided the groups are authorized under the laws of the jurisdiction where the policy is delivered or issued for delivery.~~underwritten on a group basis.~~ The benefits provided may be short term, long term or combined short term and long term.

With respect to non-employer groups, approval of a group policy and certificate by the Commission shall not be deemed as approval to use or issue the product to a non-employer group. A non-employer group must be approved or permitted by the Compacting State as required under the applicable state laws and procedures before a product filing approved by the Commission pursuant to the applicable group Uniform Standards may be issued to a non-employer group.

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.*

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 Note: 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 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 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 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 and certificate forms, 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;

(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 the adjustment factors.

(e) A brief description of how rates were determined for each marketing methodology;

(f) A complete description and source of each assumption used in pricing;

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) A description of and supporting documentation for the determination of the Minimum Loss Ratio (MLR) applicable to the policy form based on the average annual *Premium* per *Covered Person* under the policy. 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:

Renewal Provision	Initial MLR %
Conditionally Renewable	55
Guaranteed Renewable	55
Optionally Renewable	55
Noncancellable	50

(ii) Adjustments to Initial MLR to determine MLR. The adjustment below should be made only if the expected average annual policy *Premium* per *Covered Person* for the policy form, considering the distribution of business assumptions in § 2B(1)(e)(vi) 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* per *Covered Person*.

The average annual policy *Premium* per *Covered Person* 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, etc., except assuming an annual mode for all policies;

Documentation of the estimation shall be included.

(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 [1982-84=100] 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) Companies shall make adjustments to the Initial MLR for high average premium plans to determine the MLR. The adjustment below should be made if the expected average annual premium for the policy form, considering the distribution of business assumptions in § 2B(1)(e)(vi) above, is greater than $15,000:

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

MLR = (Initial MLR)* (A+150*I)/A and

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

(I) The value for A is the average annual policy *Premium* per *Covered Person*.

The average annual policy *Premium* per *Covered Person* 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 for any year is the value as of September;

(iv) Limitation on Adjustments to Initial MLR. In no event shall the adjustment to the initial MLR be more than 5%; and

(v) The discount rate and the average annual policy *Premium* per *Covered Person* ~~under the policy, average annual policy *Premium*~~ (A), and MLR shall be shown as part of the information in Appendix A attached to these standards.

(h) 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 § 2 B(1)(e)(iv);

(i) 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 sufficient to estimate anticipated lifetime loss ratio, but in no instance less than 3 years. The durational loss ratio information shall be presented in the format shown in Appendix A attached to these standards; 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*) the Durational Loss ratio table is expected to be modified. For example, for *Optionally Renewable* or *Conditionally Renewable* and/or attained age rated products, it may be appropriate to either assume 100% termination or 100% renewal at the end of the first projection year and limit the projection to 3 years. Such modifications should be clearly documented, with a rationale provided.

(j) 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.

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

GROUP DISABILITY INCOME INSURANCE INITIAL RATE FILINGS
Appendix A

Company Name:
Policy Form Number:

Minimum and Projected Loss Ratio Assumptions		
Discount Rate:		**Distribution of Business by Premium Class*:**
Average Annual Policy Premium *(A)* **:**		
Minimum Loss Ratio *(MLR)* **:**		

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

Anticipated Loss Ratio

Duration		Earned Premium*	Incurred Claims**	Loss Ratio
1				
.				
.				
.				
20				
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 (∑) and Present Values (PV) to be determined over all future coverage periods.