



## IIPRC-DI-I-H11-RATE

[https://www.insurancecompact.org/compact\\_rlmkng\\_record.htm](https://www.insurancecompact.org/compact_rlmkng_record.htm)

### STANDARDS FOR INITIAL RATE FILINGS FOR INDIVIDUAL DISABILITY INCOME INSURANCE AS APPLICABLE TO THE FOLLOWING PRODUCTS:

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

Effective Date: November 19, 2018

**Scope:** The *Standards for Initial Rate Filings for Individual Disability Income Insurance* 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 also 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. The filings shall specify what the term “new business” includes, such as new policies to be issued on or after the effective date of the rate filing, additional benefits added to policies that were issued before the effective date of the rate filing, etc.

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 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:**

- (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 individual 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 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 or expenses;
- (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 filing fails to comply with the standards.

**§ 2 ADDITIONAL SUBMISSION REQUIREMENTS**

**A. GENERAL**

These standards are substantially based on the NAIC Guidelines For Filing of Rates For Individual Health Insurance Forms (#134).

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

Yes N/A

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

**B. ACTUARIAL SUBMISSION REQUIREMENTS**

Yes N/A

		(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 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) For multi-life plans, the company may use “premium class” to establish discounts based on case characteristics, documented in the Actuarial

Standards for Initial Rate Filings for Individual Disability Income Insurance Checklist

		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 Anticipated Loss Ratio (ALR) requirement for 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 plans where the discounts are applied.								
		(c) A description of the market and marketing methods for the policy form;								
		(d) A description of the renewability provision under the policy including a statement as to whether the policy is Noncancellable, Guaranteed Renewable, or Conditionally Renewable;								
		(e) A complete set of premium rates applicable under the policy form for each marketing methodology. 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;								
		(f) 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) Expenses, including contingency/risk margins shall include: A. For expenses, pricing variations that reflect percent of premium, dollars per policy and/or dollars per unit of benefit; and B. Overall expenses plus contingency and risk margins as a percent of premium on a present value basis								
		(g) A description of the determination of the MLR applicable to the policy form, including, when applicable, each discount. 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 border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>Renewal Provision</u></th> <th style="text-align: left;"><u>Initial MLR %</u></th> </tr> </thead> <tbody> <tr> <td>Conditionally Renewable</td> <td>55</td> </tr> <tr> <td>Guaranteed Renewable</td> <td>50</td> </tr> <tr> <td>Noncancellable</td> <td>45</td> </tr> </tbody> </table>	<u>Renewal Provision</u>	<u>Initial MLR %</u>	Conditionally Renewable	55	Guaranteed Renewable	50	Noncancellable	45
<u>Renewal Provision</u>	<u>Initial MLR %</u>									
Conditionally Renewable	55									
Guaranteed Renewable	50									
Noncancellable	45									
		(ii) Companies may make adjustments to the Initial MLR for low average premium plans to determine the 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)(e)(v) above, is less than \$2,500:  The initial MLR shown in the table above shall be adjusted according to the formula below, where:								

		<p style="text-align: center;"><math>MLR = (Initial\ MLR) * (A - 25 * I) / A</math> and</p> <p style="text-align: center;"><math>I = [CPI-U, Year (N-1)] / 103.9</math> where</p> <p>(A) The value for A is the average annual policy premium</p> <p style="padding-left: 40px;">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;</p> <p>(B) (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</p> <p>(C) 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;</p>
		<p>(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)(v) above, is greater than \$15,000:</p> <p>The initial MLR shown in the table above shall be adjusted according to the formula below, where:</p> <p style="text-align: center;"><math>MLR = (Initial\ MLR) * (A + 150 * I) / A</math> and</p> <p style="text-align: center;"><math>I = [CPI-U, Year (N-1)] / 103.9</math> where</p> <p>(A) 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;</p> <p>(B) (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</p> <p>(C) 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</p>

Standards for Initial Rate Filings for Individual Disability Income Insurance Checklist

		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% up or down; and
		(v) 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.
		(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 § 2B(1)(e);
		(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 of at least 20 years. The durational loss ratio information shall be presented in the format shown in Appendix A attached to these standards; and
		(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; and  <i>[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%].</i>  <i>[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</i>

Date: 11/19/2018

Standards for Initial Rate Filings for Individual  
Disability Income Insurance Checklist

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

The Reviewer Checklist is intended for the sole purpose of assisting a company product filer ("User") in understanding the requirements of the applicable Uniform Standard(s) for IIPRC product filings. Users are hereby notified not to rely solely upon the Reviewer Checklist in preparing a product filing or in complying with the IIPRC Uniform Standards, Rules and Operating Procedures. The User also acknowledges there is a possibility of human, mechanical or technical error in the development, presentation or use of the Reviewer Checklist. The Interstate Insurance Product Regulation Commission (Commission) accepts no liability for any loss, cost or damage caused by use of this tool, including without limitation, direct or indirect, incidental, special, consequential or exemplary or punitive damages arising out of the use or inability to use the Reviewer Checklist. There are no warranties either express or implied and User specifically acknowledges the Commission does not warrant the truth, accuracy or completeness of the Reviewer Checklist.



**INDIVIDUAL DISABILITY INCOME INSURANCE INITIAL RATE FILINGS**

**Appendix A**

**Company Name:**

**Policy Form Number:**

<b>Minimum and Projected Loss Ratio Assumptions</b>							
<b>Discount Rate:</b> <b>Average Annual Policy Premium (A):</b> <b>Minimum Loss Ratio (MLR):</b>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%; text-align: center; border: 1px solid black; height: 20px;"></td> <td style="width: 60%; padding-left: 20px;"><b>Distribution of Business by Premium Class*:</b></td> </tr> <tr> <td style="border: 1px solid black; height: 20px;"></td> <td style="padding-left: 20px;">_____</td> </tr> <tr> <td style="border: 1px solid black; height: 20px;"></td> <td style="padding-left: 20px;">_____</td> </tr> </table>		<b>Distribution of Business by Premium Class*:</b>		_____		_____
	<b>Distribution of Business by Premium Class*:</b>						
	_____						
	_____						

*\* 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			
<b>Total Lifetime (Undiscounted)</b>			
<b>Total Lifetime (Discounted)</b>			

**Total Lifetime (Undiscounted) Loss Ratio** =  $\Sigma$  Incurred Claims /  $\Sigma$  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 ( $\Sigma$ ) and Present Values (PV) to be determined over all future coverage periods.