GUIDELINES FOR FILING OF RATES FOR INDIVIDUAL HEALTH INSURANCE FORMS

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Section 1. General

A. Every policy, rider or endorsement form affecting benefits that is submitted for approval shall be accompanied by a rate filing unless the rider or endorsement form does not require a change in the rate. Any subsequent addition to or change in rates applicable to the policy, rider or endorsement shall also be filed.

B. General Contents of All Rate Filings

The purpose of this guideline, including its Appendix, is to provide appropriate guidelines for the submission and the filing of individual health insurance rates and to establish standards for determining the reasonableness of the relationship of benefits to premiums. Each rate submission shall include an actuarial memorandum describing the basis on which rates were determined and shall indicate and describe the calculation of the ratio, hereinafter called "anticipated loss 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. Each rate submission must also include a certification by a qualified actuary that to the best of the actuary's knowledge and judgment the entire rate filing is in compliance with the applicable laws and regulations of the state to which it is submitted and that the benefits are reasonable in relation to premiums.

Drafting Note: Assumptions applying to the future "period for which rates are computed" should be reasonable in relation to the circumstances. For example, if future rates of inflation are a major factor, the period of projection of such rates normally should be short, such as three to five years only. Other assumptions, however, may still appropriately apply over the entire future policy renewal period, particularly in cases where the basic rate structure is one of level premiums based on original issue age.

C. Previously Approved Forms

Filings of rate revisions for a previously approved policy, rider or endorsement form shall also include the following:

(1) A statement of the scope and reason for the revision, and an estimate of the expected average effect on premiums, including the anticipated loss ratio for the form;

(2) A statement as to whether the filing applies only to new business, only to in force business, or both, and the reasons therefore;

(3) A history of the experience under existing rates, including at least the data indicated in Section 1D. The history may also include, if available and appropriate, the ratios of actual claims to the claims expected according to the assumptions underlying the existing rates. Additional data might include: substitution of actual claim run-offs for claim reserves and liabilities, determination of loss ratios with the increase in policy reserves subtracted from premiums rather than added to benefits, accumulation of experience fund balances,

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substitution of net level policy reserves for preliminary term policy reserves, reserve adjustments arising because of select period loss experience, adjustment of premiums to an annual mode basis, or other adjustments or schedules suited to the form and to the records of the company. All additional data shall be reconciled, as appropriate, to the required data; and

(4) The date and magnitude of each previous rate change, if any.

D. Experience Records

(1) Insurers shall maintain records of earned premiums and incurred benefits for each calendar year for each policy form, including data for rider and endorsement forms that are used with the policy form, on the same basis, including all reserves, as required for the Accident and Health Policy Experience Exhibit. Separate data may be maintained for each rider of endorsement form to the extent appropriate. Subject to approval of the commissioner, experience under forms that provide substantially similar coverage and provisions that are issued to substantially similar risk classes and that are issued under similar underwriting standards, may be combined for purposes of evaluating experience data in relation to premium rates and rate revisions, particularly where statistical credibility would be materially improved by the combination. Once such a combining of forms is adopted, however, the insurer may not afterward again separate the experience, except with approval of the commissioner.

(2) The data shall be for all years of issue combined and for each calendar year of experience utilized in the rate determination process (but never less than the last three years). For example, for policies originally filed under this guideline, experience since inception would be required because of the utilization of the rule in Section 2B(2)(b)(ii). Here, it is permissible to combine experience for calendar years prior to the most recent five.

E. Evaluating Experience Data

In determining the credibility and appropriateness of experience data, due consideration must be given to all relevant factors, such as:

(1) Statistical credibility of premiums and benefits, e.g., low exposure, low loss frequency;

(2) Experienced and projected trends relative to the kind of coverage, e.g., inflation in medical expenses, economic cycles affecting disability income experience;

(3) The concentration of experience at early policy durations where select morbidity and preliminary term reserves are applicable and where loss ratios are expected to be substantially lower than at later policy durations. Where this consideration is pertinent, ratios of actual to expected claims, on a select basis, will often be appropriate for an adequate evaluation; and

(4) The mix of business by risk classification.

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Section 2. Reasonableness of Benefits in Relation to Premiums

A. New Forms

(1) With respect to a new form under which the average annual premium as defined in Paragraph (5) below, is expected to be at least as large as the maximum $X in Paragraph (3) below but not more than the minimum $X in Paragraph (4) below, benefits shall be deemed reasonable in relation to premiums provided the anticipated loss ratio is at least as great as shown in the following table:

Type of Coverage	Renewal Clause			
	OR	CR	GR	NC
Medical Expense	60%	55%	55%	50%
Loss of Income and Other	60%	55%	50%	45%

(2) Definitions of Renewal Clause

OR - Optionally Renewable: renewal is at the option of the insurance company.

CR -

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D. Past experience, as specified in Section 2D of the guidelines, any other available data the insurer may wish to provide.

E. Brief description of how revised rates were determined, including the general description and source of each assumption used. For expenses, include percent of premium, dollars per policy, or dollars per unit of benefit, or both.

F. The anticipated future loss ratio and description of how it was calculated.

G. The anticipated loss ratio that combines cumulative and future experience, and description of how it was calculated.

H. Anticipated loss ratio presumed reasonable according to the guidelines.

I. If Subsection F or G is less than Subsection H, supporting documentation for the use of such premium rates.

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Table 5 - Alternate Combined Experiences

	Accumulated	Present Value	Total
Premiums	$20,000,000	$30,000,000	$50,000,000
Benefits	20,000,000	18,000,000	38,000,000
Loss Ratio	1.000	.600	.760

While the present value of future premiums could be increased under the Section 2B(2)(b) test to recover past losses and still meet the 60% benchmark, the test in Section 2B(2)(a) would preclude such an increase.

It is believed that this test will be rather simple to apply, in practice, from readily available records. It will be an effective tool in reviewing the reasonableness of rate increases.

Section 2B, as amended, is not intended to substitute new standards retroactively in place of standards in effect before the date of these guidelines. It is not intended that the rules be changed in the middle of the contract period. On the other hand, the principles of these guidelines may have been implicit in a state's former rules and guidelines.

It should be emphasized again that the tests in Section 2A and 2B have to do with benchmarks, not legal minimums. Section 2C mentions some situations in which lower loss ratios may be justifiable. If, however, a rate submission meets the benchmark standards and includes full documentation as described in the guidelines and this appendix, the requirement that benefits be reasonable in relation to premiums should be considered met.

Chronological Summary of Action (all references are to the Proceedings of the NAIC)

1980 Proc. I 29, 38, 406, 410, 413, 416-425 (adopted).
1983 Proc. I 6, 35, 644, 652-659 (revised).
1983 Proc. II 16, 22, 638, 644, 646-655 (amended and reprinted).

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