Health Insurance Reserves Minimum Reserve Requirements - VM-25

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The NAIC solicits comments on this draft. Comments should be sent to John Engelhardt, NAIC, at JEngelha@naic.org by Nov. 3, 2008.

VM-25 HEALTH INSURANCE RESERVES MINIMUM RESERVE REQUIREMENTS

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A. Purpose

1. The following requirements apply to all individual and group accident and health insurance policies subject to the Standard Valuation Law, excluding credit disability insurance, which is included in a different section of this manual.

B. Definitions

1. The term "annual claim cost" means the net annual cost per unit of benefit before the addition of expenses, including claim settlement expenses, and a margin for profit or contingencies. For example, the annual claim cost for a $100 monthly disability benefit, for a maximum disability benefit period of one year, with an elimination period of one week, with respect to a male at age 35, in a certain occupation might be $12, while the gross premium for this benefit might be $18. The additional $6 would cover expenses and profit or contingencies.

Drafting Note: Definitions for "claims liability" and for "claims reported" were deleted.

2. The term "claim reserve" means a liability established with respect to any incurred contractual benefits not yet paid as of the valuation date.

3. The term "company" means a licensed insurer.

Drafting Note: It is assumed that this will apply to all entities writing accident and health insurance no matter how they are licensed, including life and health insurers, HMO's, HMDI's and property and casualty companies.

4. The term "contract reserve" means a liability established with respect to inforce contracts equal to the excess of the present value of claims expected to be incurred after a valuation date over the present value of future valuation net premiums.

5. The term "date of disablement" means the earliest date the insured is considered disabled under the definition of disability in the contract. Normally this date will coincide with the start of any elimination period.

6. The term "elimination period" means a specified number of days, weeks, or months starting at the beginning of each period of loss, during which no benefits are payable.

7. The term "gross premium" means the amount of premium charged by the company.

Drafting Note: The definition of "group insurance" was deleted.

8. The term "level premium" means a premium, whether guaranteed or not, calculated to remain unchanged throughout either the lifetime of the policy or for some shorter projected period of years. Although it is calculated to remain level, it may be changed if any of the assumptions on which it was based are revised at a later time. Generally, the annual claim costs are expected to increase each year and the company, instead of charging premiums that correspondingly increase each year, charges a premium calculated to remain level for a period of years or for the lifetime of the contract. The benefit portion of the premium is therefore more than needed to provide for the cost of benefits during the earlier years of the policy and less than the actual cost in the later years.

9. The term "long-term care insurance" means any insurance policy or rider advertised, marketed, offered or designed to provide coverage for not less than twelve (12) consecutive months for each covered person on an expense incurred, indemnity, prepaid or other basis; for one or more necessary or medically necessary diagnostic, preventive, therapeutic, rehabilitative, maintenance or personal care services, provided in a setting other than an acute care unit of a hospital. Such term also includes a policy or rider which provides for payment of benefits based upon cognitive impairment or the loss of functional capacity. Insurers; fraternal benefit societies; nonprofit health, hospital, and medical service corporations; prepaid health plans; health maintenance organizations or any similar organization, to the extent they are otherwise authorized to issue life or health insurance, may issue long-term care insurance. Long-term care insurance does not include any insurance policy which is offered primarily to provide basic Medicare supplement coverage, basic hospital expense coverage, basic medical-surgical expense coverage, hospital confinement indemnity coverage, major medical expense coverage, disability income or related asset-protection coverage, accident only coverage, specified disease or specified accident coverage, or limited benefit health coverage.

10. The term "modal premium" means the premium payable on a contract based on a premium term, which could be annual, semi-annual, quarterly, monthly, or weekly. For example, if the annual premium is $100 and if, instead, monthly premiums of $9 are paid, the modal premium is $9.

Drafting Note: The definition of "negative reserve" was deleted.

11. The term "preliminary term reserve method" means a method of valuation whereby the valuation net premium for each year falling within the preliminary term period is exactly sufficient to cover the expected incurred claims of that year, so that the terminal reserves will be zero at the end of the year. As of the end of the preliminary term period, a new constant valuation net premium (or stream of changing valuation premiums) becomes applicable such that the present value of all such premiums is equal to the present value of all expected claims incurred after the end of the preliminary term period.

12. The term "present value of amounts not yet due on claims" means the reserve for "claims reserve" (see definition) discounted at interest.

Drafting Note: The definition of "rating block" was deleted

13. The term "terminal reserve" means the reserve at the end of a contract year and is defined as the present value of expected incurred claims after that contract year minus the present value of future valuation net premiums.

14. The term "unearned premium reserve" means that portion of the premium paid or due to the company which is applicable to the period of coverage extending beyond the valuation date. Thus if an annual premium of $120 was paid on November 1, $20 would be earned as of December 31 and the remaining $100 would be unearned. The unearned premium reserve could be on a gross basis as in this example or on a valuation net premium basis.

15. The term "valuation net modal premium" means the modal fraction of the valuation net annual premium that corresponds to the gross modal premium in effect on any contract to which contract reserves apply. Thus if the mode of payment in effect is quarterly, the valuation net modal premium is the quarterly equivalent of the valuation net annual premium.

16. The term "valuation net premium" means one element of an array of net premiums. Each net premium is a uniform percentage of the respective gross premium except for net premiums during the preliminary term period. The net premiums are calculated such that the present value of all such premiums is equal to the present value of all expected claims incurred.

C. Claim Reserves

1. A company shall hold claim reserves for all incurred but unpaid claims on all health insurance policies, and shall hold appropriate claim expense reserves for the estimated expense of settlement of all incurred but unpaid claims.

Drafting Note: A paragraph requiring the testing for reasonableness and adequacy of claim reserves for prior years using runoff schedules was deleted.

2. For policies where the claim reserve is calculated as a present value, the maximum interest rate for claim reserves is as specified below.

    a. For claim reserves on policies that require contract reserves, the maximum interest rate is the maximum rate permitted by the Computation of Minimum Standard by Calendar Year of Issue section of VM-5 of the valuation manual in the valuation of whole life insurance issued on the same date as the claim incurral date.

    b. For claim reserves on policies not requiring contract reserves, the maximum interest rate is the maximum rate permitted by the Computation of Minimum Standard by Calendar Year of Issue section of VM-5 of the valuation manual in the valuation of single premium immediate annuities issued on the same date as the claim incurral date, reduced by one hundred basis points.

Drafting Note: The valuation interest rates were moved from section I.

3. The minimum morbidity assumptions for disability income insurance are as specified in I.1, except that at the option of the company:

    a. For individual disability income claims incurred on or after[enter operative date of valuation manual], assumptions regarding claim termination rates for the period less than two years from the date of disablement may be based on the company's experience, if such experience is considered credible, or upon other assumptions designed to place a sound value on the liabilities.

    b. For group disability income claims incurred on or after [enter operative date of valuation manual]:

        i. Assumptions regarding claim termination rates for the period less than two (2) years from the date of disablement may be based on the company's experience, if experience is considered credible, or upon other assumptions designed to place a sound value on the liabilities;

        ii. Assumptions regarding claim termination rates for the period two (2) or more years but less than five (5) years from date of disablement may be based on the company's experience on business if the experience is credible and for which the company maintains underwriting and claim administration control.

    c. With respect to C.3.b.ii, for experience to be considered credible for purposes of these requirements, the company should be able to provide claim termination patterns over no more than six (6) years reflecting at least 5,000 claims terminations during the third through fifth claims durations on reasonably similar

applicable policy forms. Prior to the adoption by a company of either C.3.b.ii, a plan of modification to the reserve basis must be prepared and must include:

i. An analysis of the credibility of the experience;

ii. A description of how the company's experience is to be used in modifying the morbidity assumptions specified in H.1;

iii. A description and quantification of the margins to be included; and

iv. A summary of the financial impact that the modified reserve basis would have had on the company's last filed annual statement.

4. For disability income contracts with an elimination period, the date of disablement is the date that benefits would have begun to accrue in the absence of an elimination period.

5. Claim reserves for survivor income benefits contained in group long-term disability contracts must be established based on the design of the survivor income benefits including the minimum period of disability before the spouse of a disabled person becomes eligible for a survivor income benefit and the amount of the benefit.

Drafting Note: The language in paragraph 5 is from Actuarial Guideline XXVIII. A sentence regarding approximations was deleted.

6. For insurance other than disability insurance, the morbidity assumptions or assumptions for other contingencies for insurance other than disability income must be based on the company's experience, if such experience is credible, or upon other assumptions designed to place a sound value on the liabilities. For claims liabilities and claim reserves to reflect "sound values" and/or reasonable margins, morbidity (and if necessary mortality) tables of valuation based on credible experience should be adjusted regularly to maintain reasonable margins.

7. A company shall test all claim reserves for prior valuation years for adequacy and reasonableness using claim runoff schedules in accordance with the statutory financial statement including consideration of any residual unpaid liability.

8. A generally accepted actuarial reserving method or other reasonable method or a combination of methods may be used to estimate all claim liabilities. The methods used for estimating liabilities generally may be aggregate methods, or various reserve items may be separately valued. Approximations based on groupings and averages may also be employed.

Drafting Note: A paragraph requiring that valuation tables based on credible experience should be adjusted regularly was deleted.

D. Unearned Premium Reserves

Drafting Note: The term "premium reserves" was changed to "unearned premium reserves." Note that premium deficiency reserves are not included in VM-25.

Drafting Note: A paragraph regarding due and unpaid premiums being treated as premiums in force was deleted.

1. Unearned premium reserves are required for all contracts with respect to the period of coverage for which premiums, other than premiums paid in advance, have been paid beyond the date of valuation.

2. The minimum unearned premium reserve with respect to any contract is the pro rata unearned modal premium that applies to the premium period beyond the valuation date, with such premium determined on the basis of:

a. The valuation net modal premium on the contract reserve basis applying to the contract; or

b. The gross modal premium for the contract if no contract reserve applies.

3. To the extent provided for elsewhere, the sum of the unearned premium reserves and the contract reserves for all contracts of a company subject to contract reserve requirements shall not be less than the greater of:

a. Gross modal unearned premium reserve on all such contract, as of the date of valuation, and

b. Expected claims for the period beyond the valuation date

Drafting Note: The following paragraph was deleted: "In no event may the sum of the unearned premium and contract reserves for all contracts of the company subject to contract reserve requirements be less than the gross modal unearned premium reserve on all such contracts, as of the date of valuation. Such reserve must never be less than the expected claims for the period beyond the valuation date represented by such unearned premium reserve, to the extent not provided for elsewhere."

4. A company may employ suitable approximations and estimates in computing unearned premium reserves; including but not limited to groupings, averages and aggregate estimation. Such approximations or estimates must be tested periodically to determine their continuing adequacy and reliability.

E. Contract Reserves

1. Unless otherwise specified below, contract reserves are required for individual and group contracts with constant or level premiums, and all individual and group contracts with respect to which, due to the gross premium pricing structure at issue, the value of the future benefits at any time exceeds the value of any appropriate future valuation net premiums at that time. This evaluation may be applied on a rating block basis if the total premiums for the block were developed to support the total risk assumed and expected expenses for the block each year and a qualified actuary certifies the premium development. The actuary should state in the certification that premiums for the rating block were developed such that each year's premium was intended to cover that year's costs without any pre-funding. If the premium is also intended to recover costs for any prior years, the actuary should also disclose the reasons for and magnitude of such recovery. Minimum contract reserves are determined on the basis specified in the remainder of this section.

2. Contract reserves are not required for contracts that cannot be continued beyond one year from issue or for contracts already in force on January 1, 2001 for which contract reserves were not required by the company's domiciliary state.

3. Contract reserves may be applied on a rating block basis if the total premiums for the block were developed to support the total cost of contractual benefits and related expenses and if a qualified actuary has certified the premium development. If premium rates for the rating block were determined such that each year's premium is intended to cover that year's costs, contract reserves are not required, subject to the provisions of subsection H. If premium rates for the rating block were designed to prefund future year's costs, contract reserves are required.

Drafting Note: The following paragraph was deleted: "This evaluation may be applied on a rating block basis if the total premiums for the block were developed to support the total risk assumed and expected expenses for the block each year, and a qualified actuary certifies the premium development. The actuary should state in the certification that premiums for the rating block were developed such that each year's premium was intended to cover that year's costs without any pre-funding. If the premium is also intended to recover costs for any prior years, the actuary should also disclose the reasons for and magnitude of such recovery. The values specified in this paragraph must be determined on the basis specified in this subsection."

Drafting Note: The following paragraph was deleted: "If premium rates are determined for a block such that each year's premium is intended to cover that year's cost, the rating block approach above results in no contract reserves, unless required by G. If premium rates for a block are designed to prefund future years' costs, contract reserves are required."

Drafting Note: The following paragraph was deleted: "Contracts not requiring a contract reserve are contracts that cannot be continued after one year from issue and contracts already in force on January 1, 2001 for which no contract reserve was required by the company's domiciliary state."

Drafting Note: The following paragraph was deleted: "The contract reserve is in addition to claim reserves and premium reserves."

4. The methods and procedures for determining contract reserves must be consistent with those used to determine claim reserve for those same contracts. For example, the definition of the date of incurral must be the same in both determinations.

5. Revisions to the assumptions underlying contractual premiums that impact contract reserves must be reflected in the calculation of contract reserves no later than the effective date of the revised premiums.

6. Contract reserves may be calculated separately with respect to each distinct contract benefit. A negative reserve for one contract benefit may offset positive reserves for another contract benefit, but the total contract reserve for all benefits combined may not be less than zero.

7. For coverage that contains any nonforfeiture benefits the contract reserve on a policy basis must not be less than the net single premium for the nonforfeiture benefits on the valuation date. For purposes of this paragraph, nonforfeiture benefits include contingent benefits upon lapse of such coverage only during the period of time that the benefit may be exercised.

8. The maximum interest rate is the maximum interest rate allowed in the valuation of whole life insurance issued on the same date as the health insurance contract, as specified in the Computation of Minimum Standard by Calendar Year of Issue section of VM-5 of this valuation manual.

9. The minimum mortality assumptions are as specified in subsection I.2.

10. The minimum morbidity assumptions are as specified in I.1 subject to the following:

    a. Contracts for which morbidity assumptions are not specified in I.1 must be valued using morbidity tables established for reserve purposes by a qualified actuary. Those morbidity tables must contain a pattern of incurred claims cost that reflects the underlying morbidity, must incorporate provision for adverse deviation and must not be constructed for the primary purpose of minimizing reserves.

    b. Valuation net premiums used under each contract must have a structure consistent with the gross premium structure at issue of the contract as this relates to advancing age of insured, contract duration and period for which gross premiums have been calculated. If the gross premiums for a policy form do not vary by age, the valuation net premiums will nonetheless vary based on age at issue for each contract, since at issue the present value of valuation net premiums for a contract must equal the present value of tabular claim costs.

    c. For contracts issued on or after the operative date of the valuation manual, morbidity assumptions must incorporate a provision for adverse deviation based on the best estimate of anticipated future experience by a qualified actuary. Morbidity assumptions may not incorporate any expectation of future morbidity improvement.

Drafting Note: The following paragraph was deleted: "If the morbidity assumptions specified in H.1 are on an aggregate basis, the morbidity assumptions specified in H.1 may be adjusted to reflect the effect of company underwriting by policy duration. The adjustments must be appropriate to the company's underwriting."

Drafting Note: The following section was deleted: "Morbidity improvement is a change, in the combined effect of claim frequency and the present value of future expected claim payments given that a claim has occurred, from the current morbidity tables or experience that will result in a reduction to reserves. It is not the intent of this provision to restrict the

ability of the actuary to reflect the morbidity impact for a specific known event that has occurred and that is able to be evaluated and quantified"

11. The maximum termination rate assumptions are as specified in I.3.

12. The reserve method is applied only in relation to the date of issue of a contract and is

    a. For insurance other than long-term care and contracts providing return of premium or other deferred cash benefits, the two-year full preliminary term method;

    b. For long-term care insurance, is the one-year full preliminary term method;

    c. For contracts providing return of premium or other deferred cash benefits, the one year preliminary term method if the benefits are provided at any time before the twentieth anniversary or the two year preliminary term method if the benefits are only provided on or after the twentieth anniversary.

13. Provided the contract reserves on all contracts to which an alternate method or valuation basis is applied are not less in the aggregate than the reserve determined according to the applicable standards specified above, the company, in determining its contract reserves, may:

    a. In place of the above specified assumptions, use any reasonable assumptions as to interest rates, termination and/or mortality rates, and rates of morbidity or other contingency; or

    b. In place of the above specified methods, use other methods including, but not limited to the following: the net level premium method; the one-year full preliminary term method; prospective valuation on the basis of actual gross premiums with reasonable allowance for future expenses; the use of approximations such as those involving age groupings, groupings of several years of issue, average amounts of indemnity, grouping of similar contract forms; the computation of the reserve for one contract benefit as a percentage of, or by other relation to, the aggregate contract reserves exclusive of the benefit or benefits so valued; and the use of a composite annual claim cost for all or any combination of the benefits included in the contracts valued.

    c. Use approximations such as: those involving age groupings, groupings of several years of issue, groupings of average amounts of indemnity, or groupings of similar contract forms; the computation of the reserve for one contract benefit as a percentage of, or by other relation to, the aggregate contract reserves exclusive of the benefit or benefits so valued; and the use of a composite annual claim cost for all or any combination of the benefits included in the contracts valued.

14. The total contract reserve established shall incorporate provisions for moderately adverse deviations.

Drafting Note: The following paragraph was deleted: "The company shall conduct an appropriate annual review of prospective contract liabilities on contracts valued by tabular reserves, to determine the continuing adequacy and reasonableness of the tabular reserves giving consideration to future gross premiums. The company shall make appropriate increments to such tabular reserves if such tests indicate that the basis of such reserves is no longer adequate subject, however, to the minimum standards in E.6 - E.12." This change takes away the adequacy of contract reserves at the individual contract level.

15. In the event a company has a contract or a group of related similar contracts, for which future gross premiums will be restricted by contract, insurance department regulations, or for other reasons, such that the future gross premiums reduced by expenses for administration, commissions, and taxes will be insufficient to cover future claims, the company shall establish contract reserves for such shortfall in the aggregate.

F. "Waiver of Premium" Reserves

1. Determination of waiver of premium reserves involves several special considerations. First, the disability valuation tables promulgated by the NAIC are based on exposures that include contracts on premium waiver as in-force

contracts. Therefore, contract reserves based on these tables are NOT reserves on "active lives", but rather reserves on contracts "in force." This is true for the 1964 CDT and for both the 1985 CIDA and CIDB tables. Accordingly, tabular reserves using any of these tables should value reserves on the following basis:

a. Claim reserves should include reserves for premiums expected to be waived, valuing as a minimum the valuation net premium being waived.

b. Premium reserves should include contracts on premium waiver as in-force contracts, valuing as a minimum the unearned modal valuation net premium being waived.

c. Contract reserves should include recognition of the waiver of premium benefit in addition to other contract benefits provided for, valuing as a minimum the valuation net premium to be waived.

2. If a company is, instead, valuing reserves on an active life table, or if a specific valuation table is not being used but the company's gross premiums are calculated on a basis that includes in the projected exposure only those contracts for which premiums are being paid, then it may not be necessary to provide specifically for waiver of premium reserves. Any company using such a true "active life" basis should carefully consider whether or not additional liability should be recognized on account of premiums waived during periods of disability or during claim continuation.

G. Reinsurance

1. Increases to, or credits against, reserves carried, arising because of reinsurance assumed or reinsurance ceded, must be determined in a manner consistent with these minimum reserve standards and with all applicable provisions of the reinsurance contracts which affect the company's liabilities.

H. Health Insurance Reserve Adequacy and Additional Reserves

1. Minimum reserves must be determined for claim reserves, unearned premium reserves, contract reserves, and waiver of premium reserves separately in accordance with Sections C, D, E, F.

2. With respect to any block of contracts, or with respect to a company's health business as a whole, a prospective gross premium valuation is the ultimate test of reserve adequacy as of a given valuation date. Such a gross premium valuation will take into account, for contracts in force, in a claims status, or in a continuation of benefits status on the valuation date, the present value as of the valuation date of: all expected benefits unpaid, all expected expenses unpaid, and all unearned or expected premiums, adjusted for future premium increases reasonably expected to be put into effect.

3. A gross premium valuation is to be performed whenever a significant doubt exists as to reserve adequacy with respect to any major block of contracts, or with respect to the company's health business as a whole. When a company determines that adequacy of its health insurance reserves requires reserves in excess of the minimum standards specified herein, the company shall hold such increased reserves and the increased reserves are the minimum reserves for that company.

4. Whenever minimum reserves, as defined in sections C,D,E,F, exceed reserve requirements as determined by a prospective gross premium valuation, such minimum reserves remain the minimum requirement pursuant to the valuation manual.

5. A company shall hold reserves for experience rated contracts such that

a. The method used to estimate the reserves is reasonable based on the company's procedures and is consistent among reporting periods unless the change is clearly identified; and

b. The assumptions used are not inconsistent with the assumptions made in determining other reserves.

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I. Minimum Standards

I.1 Morbidity

1. Minimum morbidity standards for valuation of specified individual contract health insurance benefits are as follows:

a. For Disability Income Benefits Due to Accident or Sickness:

i. Contract Reserves:

(a) The 1985 Commissioners Individual Disability Tables A (85CIDA); or

(b) The 1985 Commissioners Individual Disability Tables B (85CIDB).

Each company shall elect, with respect to all individual contracts issued in any one statement year, whether it will use Tables A or Tables B as the minimum standard.

ii. Claim Reserves:

(a) For claims incurred on or after January 1, 2002:

The 1985 Commissioners Individual Disability Table A (85CIDA) with claim termination rates multiplied by the following adjustment factors:

Duration	Adjustment Factor	Adjusted Termination Rates*
Week 1	0.366	0.04831
2	0.366	0.04172
3	0.366	0.04063
4	0.366	0.04355
5	0.365	0.04088
6	0.365	0.04271
7	0.365	0.04380
8	0.365	0.04344
9	0.370	0.04292
10	0.370	0.04107
11	0.370	0.03848
12	0.370	0.03478
13	0.370	0.03034
Month 4	0.391	0.08758
5	0.371	0.07346
6	0.435	0.07531
7	0.500	0.07245
8	0.564	0.06655
9	0.613	0.05520
10	0.663	0.04705
11	0.712	0.04486
12	0.756	0.04309
13	0.800	0.04080
14	0.844	0.03882
15	0.888	0.03730

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Duration	Adjustment Factor	Adjusted Termination Rates*
16	0.932	0.03448
17	0.976	0.03026
18	1.020	0.02856
19	1.049	0.02518
20	1.078	0.02264
21	1.107	0.02104
22	1.136	0.01932
23	1.165	0.01865
24	1.195	0.01792
Year 3	1.369	0.16839
4	1.204	0.10114
5	1.199	0.07434
6 and later	1.000	**

*The adjusted termination rates derived from the application of the adjustment factors to the DTS Valuation Table termination rates shown in exhibits 3a, 3b, 3c, 4, and 5 (*Transactions of the Society of Actuaries* (TSA) XXXVII, pp. 457-463) is displayed. The adjustment factors for age, elimination period, class, sex, and cause displayed in exhibits 3a, 3b, 3c, and 4 should be applied to the adjusted termination rates shown in this table.

**Applicable DTS Valuation Table duration rate from exhibits 3c and 4 (TSA XXXVII, pp. 462-463).

The 85CIDA table so adjusted for the computation of claim reserves shall be known as 85CIDC (The 1985 Commissioners Individual Disability Table C).

(b) For claims incurred prior to January 1, 2002:

Each company may elect which of the following to use as the minimum standard for claims incurred prior to January 1, 2002:

(i) The minimum morbidity standard in effect for contract reserves on currently issued contracts, as of the date the claim is incurred, or

(ii) The standard as defined in Item I.1.1.a, applied to all open claims.

Once a company elects to calculate reserves for all open claims on the standard defined in I.1.1.b.i, all future valuations must be on that standard.

b. For Hospital Benefits, Surgical Benefits and Maternity Benefits (scheduled benefits or fixed time period benefits only):

i. Contract Reserves:

The 1974 Medical Expense Tables, Table A, Transactions of the Society of Actuaries, Volume XXX, pg. 63. Refer to the paper (in the same volume, pg. 9) to which this table is appended, including its discussions, for methods of adjustment for benefits not directly valued in Table A: "Development of the 1974 Medical Expense Benefits," Houghton and Wolf.

ii. Claim Reserves: No specific standard.

c. Cancer Expense Benefits (Scheduled benefits or fixed time period benefits only).

i. Contract Reserves: The 1985 NAIC Cancer Claim Cost Tables.

ii. Claim Reserves: No specific standard.

d. Accidental Death Benefits.

i. Contract Reserves: The 1959 Accidental Death Benefits Table.

ii. Claim Reserves: Actual amount incurred.

e. Other Individual Benefits.

i. Contract Reserves: For all other individual contract benefits, morbidity assumptions are to be determined as provided in the reserve standards.

ii. Claim Reserves: For all benefits other than disability, claim reserves are to be determined as provided in the standards.

2. Minimum morbidity standards for valuation of specified group contract health insurance benefits are as follows:

a. Disability Income Benefits Due to Accident or Sickness.

i. Contract Reserves: The 1987 Commissioners Group Disability Income Table (87CGDT).

ii. Claim Reserves: The 1987 Commissioners Group Disability Income Table (87CGDT);

b. Other Group Benefits.

i. Contract Reserves: For all other group contract benefits, morbidity assumptions are to be determined as provided in the reserve standards.

ii. Claim Reserves: For all benefits other than disability, claim reserves are to be determined as provided in the standards.

I.2 Mortality

1. Unless 2. below applies, the mortality basis used for all policies except long-term care individual policies and group certificates issued on or after [enter operative date of valuation manual] shall be according to a table (but without use of selection factors) allowed by law for the valuation of whole life insurance issued on the same date as the health insurance contract.

2. For long-term care insurance individual policies or group certificates issued on or after [enter operative date of valuation manual], the mortality basis used shall be the 1994 Group Annuity Mortality Static Table.

I.3 Terminations

1. Under contracts for which premium rates are not guaranteed, and where the effects of company underwriting are specifically used by policy duration in the valuation morbidity standard or for return of premium or other deferred cash benefits, total termination rates may be used at ages and durations where these exceed specified mortality table rates, but not in excess of the lesser of eighty percent of the total termination rate used in the calculation of the gross premiums or eight percent.

2. For long-term care individual policies or group certificates issued on or after [enter operative date of valuation manual], the contract reserve shall be established on the basis of:

   a. Mortality (as specified in I.2); and

   b. Terminations other than mortality, where the terminations are not to exceed:

      i. For policy year one, the lesser of eighty percent (80%) of the voluntary lapse rate used in the calculation of gross premiums and six percent (6%);

      ii. For policy years two (2) through four (4), the lesser of eighty percent (80%) of the voluntary lapse rate used in the calculation of gross premiums and four percent (4%);

      iii. For policy years five (5) and later, the lesser of one hundred percent (100%) of the voluntary lapse rate used in the calculation of gross premiums and two percent (2%), except certificates under policies issued to one or more employers or labor organizations, or to a trust or to the trustees of a fund established by one or more employers or labor organizations, or a combination thereof, for employees or former employees or a combination thereof, or for members or former members or a combination thereof, of a labor organization where the 2% shall be three percent (3%).

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