CR 89-107

RECEIVED
OCT 10 1989
8:50 am.
Revisor of Statutes
Bureau

RECEIVED
OCT - 6 1989
SECRETARY OF STATE

STATE OF WISCONSIN)
OFFICE OF THE COMMISSIONER OF INSURANCE)

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETINGS:

I, Robert D. Haase, Commissioner of Insurance and custodian of the official records of said Office, do hereby certify that the annexed order repealing and recreating a rule relating to minimum reserve standards for individual or group accident and sickness policies was issued by this Office on October 6, 1989.

I further certify that said copy has been compared by me with the original on file in this Office and that the same is a true copy thereof, and of the whole of such original.

IN TESTIMONY WHEREOF, I have hereunto subscribed my name in the City of Madison, State of Wisconsin, this 6th day of October, 1989.

Robert Haase

Robert D. Haase
Commissioner of Insurance

6258T

12-1-89

RECEIVED
OCT 10 1989
Revisor of Statutes
Bureau

RECEIVED
OCT - 6 1989
SECRETARY OF STATE

ORDER OF THE COMMISSIONER OF INSURANCE

REPEALING AND RECREATING A RULE

To repeal and recreate s. Ins 3.17 relating to minimum reserve standards for individual or group accident and sickness policies.

ANALYSIS PREPARED BY THE COMMISSIONER OF INSURANCE

Statutory authority: ss. 601.41 (3) and 623.04, Stats.

Statute interpreted: s. 623.04 and 623.15, Stats.

The purpose of this rule is to establish minimum standards for claim, premium and contract reserves required of insurers, including fraternal benefit societies, writing accident and sickness insurance policies in Wisconsin. The National Association of Insurance Commissioners (NAIC) recently revised its model regulation on this topic. This rule brings Wisconsin's regulation into conformity with the revised NAIC model regulation.

The NAIC recently adopted updated morbidity tables for individual and group health insurance. Insurers doing business in Wisconsin may not use these new morbidity tables until allowed to do so by the Commissioner through administrative rule. The rule will allow the insurers to use the new tables.

The rule requires periodic review of reserve standards by insurers as well as the establishment of additional reserves if actual experience so requires. This feature will be valuable to the Commissioner in regulating these insurers' financial condition, especially when these insurers develop and introduce into the marketplace new products for which past experience is unknown.

Noteworthy provisions of the rule include:

(1) Applies to any insurer issuing a policy providing individual or group accident and sickness insurance coverage, except credit accident and sickness insurance.

(2) Requires insurers to use a prospective gross premium valuation as the ultimate test of reserve adequacy for any block of contracts or with respect to the insurers' accident and sickness business as a whole.

(3) Establishes minimum standards for claim reserves on disability income and other benefits, including minimum standards on maximum interest rates and minimum morbidity standards. Insurers may use any generally accepted or reasonable actuarial method or combination of methods to estimate claim liabilities.

(4) Establishes minimum standards for unearned premium reserves, including valuation of the minimum unearned premium. Insurers may employ suitable approximations and estimates in computing premium reserves.

(5) Requires contract reserves for all contracts which use level premiums or for which the value of future benefits at any time exceeds the value of any appropriate future valuation net premiums at that time. Contract reserves are not required for contracts which cannot be continued after one year from issue or certain other contracts already in force on the rule's effective date. Allows, under specified conditions, alternative valuation

methods and assumptions as to contract reserve calculations. The insurer must annually review its prospective contract liabilities to determine the continuing adequacy and reasonableness of its reserves. The insurer must make appropriate increases in its reserves if the tests indicate inadequate reserve levels.

(6) Insurers must make appropriate increases to or credits against their reserves due to reinsurance assumed or ceded.

(7) Establishes specific morbidity, interest, and mortality standards used in reserve level calculations of benefits for disability income, hospital or medical, cancer expense, accidental death or other contracts. These standards provide for phase-in periods in which insurers may adjust to the new reserve requirements. The phase-in period runs until 1992.

SECTION 1. Ins 3.17 is repealed and recreated to read:

<u>Ins 3.17 RESERVES FOR ACCIDENT AND SICKNESS INSURANCE POLICIES</u>. (1) PURPOSE. This section establishes required minimum standards under ch. 623, Stats., for claim, premium and contract reserves of insurers writing accident and sickness insurance policies.

(2) SCOPE. This section applies to any insurer, including a fraternal benefit society, issuing a policy providing individual or group accident and sickness insurance coverages as classified under s. Ins 6.75 (1) (c) or (2) (c). This section does not apply to credit insurance as classified under s. Ins 6.75 (1) (c) 1 or (2) (c) 1.

(3) DEFINITIONS. In this section:

(a) "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.

NOTE: 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.

(b) "Claims accrued" means that portion of claims incurred on or prior to the valuation date which result in liability of the insurer for the payment of benefits for medical services which have been rendered on or prior to the valuation date, and for the payment of benefits for days of hospitalization and days of disability which have occurred on or prior to the valuation date, which the insurer has not paid as of the valuation date, but for which it is liable, and will have to pay after the valuation date.

NOTE: This liability is sometimes referred to as a liability for accrued benefits. A claim reserve, which represents an estimate of this accrued claim liability, must be established.

(c) "Claims incurred" means a claim for which the insurer has become obligated to make payment, on or prior to the valuation date.

(d) "Claims reported" means those claims that have been incurred on or prior to the valuation date of which the insurer has been informed, on or prior to the valuation date.

NOTE: These claims are considered as reported claims for annual statement purposes.

(e) "Claims unaccrued" means that portion of claims incurred on or prior to the valuation date which result in liability of the insurer for the payment of benefits for medical services expected to be rendered after the valuation date, and for benefits expected to be payable for days of hospitalization and days of disability occurring after the valuation date.

NOTE: This liability is sometimes referred to as a liability for unaccrued benefits. A claim reserve, which represents an estimate of the unaccrued claim payments expected to be made (which may or may not be discounted with interest), must be established.

(f) "Claims unreported" means those claims that have been incurred on or prior to the valuation date of which the insurer has not been informed, on or prior to the valuation date.

NOTE: These claims are considered as unreported claims for annual statement purposes.

(g) "Date of disablement" means the earliest date on which the insured is considered as being disabled under the definition of disability in the contract, based on a physician's evaluation or other evidence.

(h) "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.

(i) "Gross premium" means the amount of premium charged by the insurer. It includes the net premium, based on claim cost, for the risk together with any loading for expenses, profit or contingencies.

(j) "Group insurance" includes blanket insurance.

(k) "Individual insurance" includes franchise insurance.

(l) "Level premium" means a premium calculated to remain unchanged throughout either the lifetime of the policy, or for some shorter projected period of years.

NOTE: The level premium need not be guaranteed; in which case, 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 insurer, 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. In this case the benefit portion of the premium is 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. The building of a prospective contract reserve is a natural result of level premiums.

(m) "Modal premium" means the premium paid on a contract based on a premium term which could be annual, semiannual, quarterly, monthly, or weekly.

NOTE: Thus if the annual premium is $100 and if, instead, monthly premiums of $9 are paid then the modal premium is $9.

(n) "Negative reserve" means a negative terminal reserve value due to the values of the benefits decreasing with advancing age or duration.

(o) "Preliminary term reserve method" means the method of valuation under which 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 reserve 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 claims expected to be incurred following the end of the preliminary term period.

(p) "Present value of amounts not yet due on claims" means the reserve for claims unaccrued which may be discounted at interest.

(q) "Reserve" includes all items of benefit liability, whether in the nature of incurred claim liability or in the nature of contract liability

548R6
10/06/89

relating to future periods of coverage, and whether the liability is accrued or unaccrued.

NOTE: An insurer under its contracts promises benefits which result in:

On claims incurred, payments expected to be made after the valuation date for accrued and unaccrued benefits are liabilities of the insurer which should be provided for by establishing claim reserves; or

Claims which are expected to be incurred after the valuation date. Any present liability of the insurer for these future claims should be provided for by the establishment of contract reserves and unearned premium reserves.

(r) "Terminal reserve" means the reserve at the end of the contract year which is the present value of benefits expected to be incurred after that contract year minus the present value of future valuation net premiums.

(s) "Unearned premium reserve" means that portion of the premium paid or due to the insurer which is applicable to the period of coverage extending beyond the valuation date.

NOTE: 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.

(t) "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.

(4) RESERVES IN EXCESS OF MINIMUM RESERVE STANDARDS. An insurer subject to this section may determine that the adequacy of its accident and sickness reserves requires reserves in excess of the minimum standards specified in this section. The insurer shall hold and consider the excess reserves as its minimum reserves.

(5) PROSPECTIVE GROSS PREMIUM VALUATION. (a) With respect to any block of contracts, or with respect to an insurer's accident and sickness business as a whole, a prospective gross premium valuation is the ultimate test of reserve adequacy as of a given valuation date. The gross premium valuation shall 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 adjusted for future premium increases reasonably expected to be put into effect, of:

1. All expected benefits unpaid.
2. All expected expenses unpaid.
3. All unearned or expected premiums.

(b) The insurer shall perform a gross premium valuation whenever a significant doubt exists as to reserve adequacy with respect to any major block of contracts, or with respect to the insurer's accident and sickness business as a whole. In the event inadequacy is found to exist, the insurer shall make immediate loss recognition and restore the reserves to adequacy. The insurer shall hold adequate reserves, inclusive of claim, premium and contract reserves, if any, with respect to all contracts, regardless of whether contract reserves are required for the contracts under these standards.

(c) Whenever minimum reserves, as defined in these standards, exceed reserve requirements as determined by a prospective gross premium valuation, the minimum reserves remain the minimum requirement under these standards.

(6) CLAIM RESERVES. (a) General claim reserve requirements are:

1. Claim reserves are required for all incurred but unpaid claims on all accident and sickness insurance policies;

2. Appropriate claim expense reserves are required with respect to the estimated expense of settlement of all incurred but unpaid claims; and

3. The insurer shall test reserves for prior valuation years for adequacy and reasonableness along the lines of claim run-off schedules in accordance with the statutory financial statement including consideration of any residual unpaid liability.

(b) Minimum standards for claim reserves are as follows:

1. For disability income:

a. The maximum interest rate for claim reserves is specified in Appendix A;

b. Minimum standards with respect to morbidity are those specified in Appendix A; except that, at the option of the insurer, for claims with a duration from date of disablement of less than two years, the insurer may base the reserves on the insurer's experience, if the experience is considered credible, or upon other assumptions designed to place a sound value on the liabilities;

c. For contracts with an elimination period, the insurer shall measure the duration of disablement as dating from the time that benefits would have begun to accrue had there been no elimination period.

2. For all other benefits:

a. The maximum interest rate for claim reserves is specified in Appendix A;

b. The insurer shall base the reserve on the insurer's experience, if this experience is considered credible, or upon other assumptions designed to place a sound value on the liabilities;

(c) General claim reserve methods are as follows:

1. The insurer may use any generally accepted or reasonable actuarial method or combination of methods to estimate all claim liabilities.

2. The methods used for estimating liabilities generally may be aggregate methods, or various reserve items may be separately valued. The insurer may also employ approximations based on groupings and averages. The insurer shall, however, determine adequacy of the claim reserves in the aggregate.

(7) PREMIUM RESERVES. (a) General premium reserve requirements are:

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. If premiums due and unpaid are carried as an asset, the insurer shall treat the premiums as premiums in force, subject to unearned premium reserve determination. The insurer shall carry as an offsetting liability the value of unpaid commissions, premium taxes, and the cost of collection associated with due and unpaid premiums; and

3. Insurers may appropriately discount to the valuation date the gross premiums paid in advance for a period of coverage commencing after the next premium due date which follows the date of valuation. The insurer shall hold this discounted premium either as a separate liability or as an addition to the unearned premium reserve which would otherwise be required as a minimum.

(b) Minimum standards for unearned premium reserves are as follows:

1. 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 the 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.

2. However, the sum of the unearned premium and contract reserves for all contracts of the insurer subject to contract reserve requirements may not be less than the gross modal unearned premium reserve on all of the contracts, as of the date of valuation. To the extent not provided for elsewhere in this section, this reserve may not be less than the expected claims for the period beyond the valuation date represented by the unearned premium reserve.

(c) General premium reserve methods are as follows:

1. In computing premium reserves, the insurer may employ suitable approximations and estimates; including, but not limited to, groupings, averages and aggregate estimation.

2. The insurer shall periodically test the approximations or estimates to determine their continuing adequacy and reliability.

(8) CONTRACT RESERVES. (a) General contract reserve requirements are:

1. Contract reserves are required, unless otherwise specified in subd. 2 for:

a. All individual and group contracts with which level premiums are used; or

b. 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. The insurer shall determine the values specified in this subparagraph on the basis specified in par. (b);

2. Contracts not requiring a contract reserve are:

a. Contracts which cannot be continued after one year from issue; or

b. Contracts already in force on the effective date of these standards for which no contract reserve was required under the immediately preceding standards;

3. The contract reserve is in addition to claim reserves and premium reserves; and

4. The insurer shall use methods and procedures for contract reserves that are consistent with those for claim reserves for any contract, or else shall make appropriate adjustment when necessary to assure provision for the aggregate liability. The insurer shall use the same definition of the date of incurral in both determinations.

(b) The basis for determining minimum standards for contract reserves are:

1. Minimum standards with respect to morbidity are those set forth in Appendix A. Valuation net premiums used under each contract shall 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. The insurer shall value contracts for which tabular morbidity standards are not specified in Appendix A using tables established for reserve purposes by a qualified actuary meeting the requirements of s. Ins 6.12 and acceptable to the commissioner;

NOTE: The consistency between the gross premium structure and the valuation net premium is required only at issue, because the impact on the consistency after issue of regulatory restrictions on premium rate increases is still under study.

2. The maximum interest rate is specified in Appendix A;

3. a. The insurer shall use termination rates in the computation of reserves on the basis of a mortality table as specified in Appendix A except as noted in the following paragraph.

b. Under contracts for which premium rates are not guaranteed, and where the effects of insurer underwriting are specifically used by policy duration in the valuation morbidity standard, the insurer may use total termination rates at ages and durations where these exceed specified mortality table rates, but not in excess of the lesser of:

i. Eighty percent of the total termination rate used in the calculation of the gross premiums, or

ii. Eight percent.

c. Where a morbidity standard specified in Appendix A is on an aggregate basis, the insurer may adjust the morbidity standard to reflect the effect of insurer underwriting by policy duration. The adjustments shall be appropriate to the underwriting and acceptable to the commissioner;

4. The minimum reserve is the reserve calculated on the two-year full preliminary term method; that is, under which the terminal reserve is zero at the first and also the second contract anniversary. The insurer may apply the two-year preliminary term method only in relation to the date of issue of a contract. The insurer shall apply reserve adjustments introduced later, as a result of rate increases, revisions in assumptions or for other reasons, immediately as of the effective date of adoption of the adjusted basis;

5. The insurer may offset negative reserves on any benefit against positive reserves for other benefits in the same contract, but the total contract reserve with respect to all benefits combined may not be less than zero.

(c) Provided the contract reserve on all contracts to which an alternative method or basis is applied is not less in the aggregate than the amount determined according to the applicable standards specified in this section; an insurer may use any reasonable assumptions as to interest rates,

548R13
10/06/89

termination or mortality rates or both, and rates of morbidity or other contingency. Also, subject to the preceding sentence, the insurer may employ methods other than the methods stated in this section in determining a sound value of its liabilities under the contracts, including, but not limited to the following:

1. The net level premium method;

2. The one-year full preliminary term method;

3. Prospective valuation on the basis of actual gross premiums with reasonable allowance for future expenses;

4. 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;

5. 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

6. The use of a composite annual claim cost for all or any combination of the benefits included in the contracts valued.

(d) 1. Annually, the insurer shall make an appropriate review of the insurer's 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 insurer shall make appropriate increments to the tabular reserves if the tests indicate that the basis of the reserves is no longer adequate. Any appropriate increments to tabular reserves made by the insurer under this paragraph shall comply with the minimum standards of par. (b).

2. If an insurer has a contract or a group of related similar contracts, for which future gross premiums will be restricted by the

commissioner, the contract, or some other reason, such that the future gross premiums reduced by expenses for administration, commissions, and taxes will be insufficient to cover future claims, the insurer shall establish contract reserves for the shortfall in the aggregate.

(9) DETERMINATION OF ADEQUACY. The insurer shall determine the adequacy of its accident and health insurance reserves on the basis of the claim reserves, premium reserves, and contract reserves combined. However, the standards established in this section emphasize the importance of determining appropriate reserves for each of these three reserve categories separately.

(10) REINSURANCE. The insurer shall determine, in a manner consistent with these minimum reserve standards and with all applicable provisions of the reinsurance contracts which affect the insurer's liabilities, increases to, or credits against reserves carried, arising because of reinsurance assumed or reinsurance ceded.

548R15
10/06/89

APPENDIX A. SPECIFIC STANDARDS FOR MORBIDITY, INTEREST AND MORTALITY

I. MORBIDITY

A. Minimum morbidity standards for valuation of specified individual contract accident and sickness insurance benefits are as follows:

(1) Disability income benefits due to accident or sickness.

(a) Contract reserves:
Contracts issued on or after January 1, 1968, and prior to January 1, 1987:
The 1964 Commissioners Disability Table (64 CDT)

Contracts issued on or after January 1, 1992:
The 1985 Commissioners Individual Disability Tables A (85CIDA); or

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

Contracts issued during 1987 through 1991:
Optional use of either the 1964 Table or the 1985 Tables.

Each insurer 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. The insurer may, however, elect to use the other tables with respect to contracts issued in any subsequent statement year.

(b) Claim reserves:
The minimum morbidity standard in effect for contract reserves on currently issued contracts, as of the date the claim is incurred.

(2) Hospital benefits, surgical benefits and maternity benefits (scheduled benefits or fixed time period benefits only).

(a) Contract reserves:
Contracts issued on or after January 1, 1955, and before January 1, 1987:
The 1956 Intercompany Hospital-Surgical Tables.
Contracts issued on or after January 1, 1992:
The 1974 Medical Expense Tables, Table A, <u>Transactions</u> 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.
Contracts issued during 1987 through 1991:
Optional use of either the 1956 Intercompany Tables or the 1974 Medical Expense Tables.

(b) Claim reserves:
No specific standard. See (5).

(3) Cancer expense benefits (scheduled benefits or fixed time period benefits only).

(a) Contract reserves:
Contracts issued on or after January 1, 1992:
The 1985 NAIC Cancer Claim Cost Tables.

Contracts issued during 1986 through 1991:
Optional use of the 1985 NAIC Cancer Claim Cost Tables.

(b) Claim reserves:
No specific standard. See (5).

(4) Accidental death benefits.

(a) Contract reserves:
Contracts issued on or after January 1, 1992:
The 1959 Accidental Death Benefits Table.

Contracts issued during 1965 through 1991:
Optional use of the 1959 Accidental Death Benefits Tables.

(b) Claim reserves:
Actual amount incurred.

(5) Other individual contract benefits.

(a) Contract reserves:
For all other individual contract benefits, morbidity assumptions are to be determined as provided in the reserve standards.

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

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

(1) Disability income benefits due to accident or sickness.

(a) Contract reserves:
Contracts issued prior to January 1, 1989:
The same basis, if any, as that employed by the insurer as of January 1, 1989.

Contracts issued on or after January 1, 1992:
The 1987 Commissioners Group Disability Income Table (87CGDT).

Contracts issued during 1989 through 1991:
Optional use of the 1989 standard or the 1987 CGDT.

(b) Claim reserves:
For claims incurred on or after January 1, 1992:
The 1987 Commissioners Group Disability Income Table (87CGDT).

For claims incurred prior to January 1, 1987:
The 1964 Commissioners Disability Table (64CDT).

For claims incurred during 1987 through 1991:
Optional use of either the 1964 Table or the 1987 Table.

(2) Other group contract benefits.

(a) Contract reserves:
For all other group contract benefits, morbidity assumptions are to be determined as provided in the reserve standards.

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

II. INTEREST

A. For contract reserves the maximum interest rate is the maximum rate permitted by law in the valuation of whole life insurance issued on the same date as the accident and sickness insurance contract.

B. For claim reserves the maximum interest rate is the maximum rate permitted by law in the valuation of whole life insurance issued on the same date as the claim incurral date.

III. MORTALITY

The mortality basis used shall be according to a table (but without use of selection factors) permitted by law for the valuation of whole life insurance issued on the same date as the accident and sickness insurance contract.

NOTE: The tables referenced in this Appendix may be found as follows:

The 1964 Commissioners Disability Table, 1965 Proceedings of the National Association of Insurance Commissioners, Vol. I, pgs. 78-80.

The 1985 Commissioners Individual Disability Tables A, 1986 Proceedings of the National Association of Insurance Commissioners, Vol. I, pgs. 574-589.

The 1985 Commissioners Individual Disability Tables B, 1985 Proceedings of the National Association of Insurance Commissioners, Vol. I, pgs. 486-540.

The 1956 Intercompany Hospital-Surgical Tables, 1957 Proceedings of the National Association of Insurance Commissioners, Vol. I, pgs. 83-85.

The 1985 NAIC Cancer Claim Cost Tables, 1986 Proceedings of the National Association of Insurance Commissioners, Vol. I, pgs. 609-623.

The 1959 Accidental Death Benefits Table, Transactions of the Society of Actuaries, Vol. XI, pg. 754.

The 1987 Commissioners Group Disability Income Table, 1987 Proceedings of the National Association of Insurance Commissioners, Vol. II, pgs. 557-619.

NOTE: Reserves for waiver of premium. Waiver of premium reserves involve 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:

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

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

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.

If an insurer is, instead, valuing reserves on what is truly an active life table, or if a specific valuation table is not being used but the insurer'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 insurer using the true "active life" basis should carefully consider, however, whether or not additional liability should be recognized on account of premiums waived during periods of disability or during claim continuation.

EFFECTIVE DATE. In accordance with s. 227.22 (2) (intro.), Stats., this section shall take effect on the first day of the month following publication.

Dated at Madison, Wisconsin, this 6th day of October, 1989.

Robert D. Haase
Commissioner of Insurance

548R19
10/06/89