**Section 2004.40 Claim Reserves – Present Value of Amounts Not Yet Due on Claims**

a) General (Also called "Disabled Life Reserves" in the case of insurance providing loss-of-time benefits for disability due to accident or sickness) Reserves are required for claims on all health insurance policies, group and individual in Section 2004.20(b) providing benefits for continuing loss, such as loss-of-time or hospitalization.

b) Claim reserve standards for total disability due to accident or sickness

1) Interest. The maximum interest rate for reserves shall be 3½% compounded annually.

2) Morbidity. The reserve shall be established in accordance with the 1964 Commissioners Disability Table, except that for unreported claims and resisted claims and, at the option of the company, claims with a duration of disablement of less than two years, reserves may be based on the individual company's experience or other assumptions designed to place a sound value on the liabilities. Reserves based on such experience or assumptions shall be verified by the development of each year's claims over a period of years.

3) For policies with an elimination period, the duration of disablement shall be considered as dating from the time that benefits would have begun to accrue had there been no elimination period.

4) A new disability connected with a previous disability which had a duration of at least one year and terminated within six months of the new disability shall be considered a continuation of the previous disability.

c) Reserve standards for all other claim reserves

1) Interest. The maximum interest rate for reserves shall be 3½% compounded annually.

2) Morbidity or other contingency. The reserve shall be based on the individual company's experience or other assumptions designed to place a sound value on the liabilities. The results shall be verified by the development of each year's claims over a period of years.

d) Valuation procedures

The company may employ suitable approximations and estimates, including but not limited to groupings and averages, in computing claim reserves.