**Section 2012.110 Loss Ratio**

a) This Section shall apply to all long-term care insurance policies or certificates, except those covered under Sections 2012.64, 2012.112 and 2012.113.

b) Notice of Rate Schedule Increase

1) An insurer shall provide notice of a pending premium rate schedule increase, including an exceptional increase, to the Director at least 30 days prior to the notice to the policyholders. The notice shall include:

A) An actuarial memorandum documenting that benefits under the long-term care insurance policies are reasonable in relation to premiums by demonstrating that the expected loss ratio meets the requirements in subsection (c), calculated in a manner that provides for adequate reserving of the long-term care insurance. In evaluating the expected loss ratio, due consideration shall be given to all relevant factors, including:

i) Statistical credibility of incurred claims experience and earned premiums;

ii) The period for which rates are computed to provide coverage;

iii) Experienced and projected trends;

iv) Concentration of experience within early policy duration;

v) Expected claim fluctuation;

vi) Experience refunds, adjustments or dividends;

vii) Renewability features;

viii) Interest;

ix) Experimental nature of the coverage;

x) Product features such as long elimination periods (period between when the claim arises and insured is eligible to receive benefits), high deductibles and high maximum limits.

B) A statement that, upon approval of the requested amount, the insurer agrees to not implement future rate increases on each subject policy for 3 years from the date of implementation of a single rate increase for each policy form.

C) In lieu of a single increase, the insurer may request a series of scheduled rate increases that are actuarially equivalent to the single amount requested by the insurer over the lifetime of the policy. The entire series would be reviewed and considered at one time as part of the current rate increase filing. After implementation of the first increase, the insurer is subject to the 3-year monitoring provision in Section 2012.112(d), but the Director is allowed to require modification of later increases that were not appropriate based on the experience following the initial rate increase. When determining the rate comparison for new business, forms subject to a series of increases shall not be included.

D) A statement indicating whether the increase or series of scheduled increases triggers the offering of a contingent benefit upon lapse. The insurer shall offer a contingent benefit upon lapse for any increase, whether a single increase or a series of scheduled increases, that would trigger the offering of the contingent benefit upon lapse as defined in Section 2012.127(d). The insurer shall notify policyholders and certificate holders of the contingent benefit upon lapse, in conjunction with the implementation of a rate increase. If the rate increase is approved as a series of scheduled increases and the sum of all scheduled increases would ultimately trigger the offering of the contingent benefit upon lapse, the insurer will be required to include the contingent benefit upon lapse and the notification at the time of each scheduled increase.

E) The premium increase notification letter to policyholders at the time of the premium rate increase for informational purposes. The insurer shall clearly disclose to policyholders the following elements:

i) The amount of the premium rate increase requested and implementation schedule (e.g., single premium increase applied or phased in through a series of premium increases);

ii) Available benefit reduction/rate increase mitigation actions;

iii) Clear disclosure addressing the guaranteed renewable nature of the policy/coverage and that the insured should understand that premium rates may increase again in the future; and

iv) Offer of contingent benefit upon lapse, if applicable.

2) At the request of the insurer, the Director may also consider other options that may be made available to insureds that may mitigate the impact of the rate increases on the insured population or alternative actuarial methodologies relating to the rate increase. The insurer shall provide an explanation and demonstration on how the methodology is actuarially justified and/or how the new mitigation option may reasonably benefit insureds. No alternative method/approach may be used until it has been accepted by the Director.

c) Loss Ratio

1) The expected loss ratio shall be at least:

A) the greater of 60% or the lifetime loss ratio used in the original pricing, applied to the current rate schedule on July 1, 2018; plus

B) Either:

i) 80% applied to any premium increase that is filed after that date on an individual policy form; or

ii) 75% applied to any premium increase that is filed on a group policy form.

2) All present and accumulated values used to determine rate increases shall use the maximum valuation interest rate for contract reserves as specified in 50 Ill. Adm. Code 2004 (Accident and Health Reserves). The actuary shall disclose as part of the actuarial memorandum the use of any appropriate averages.

d) Subsections (b) and (c) shall not apply to life insurance policies that accelerate benefits for long-term care. A life insurance policy that funds long-term care benefits entirely by accelerating the death benefit is considered to provide reasonable benefits in relation to premiums paid, if the policy complies with all of the following provisions:

1) The interest credited internally to determine cash value accumulations, including long-term care, if any, is guaranteed not to be less than the minimum guaranteed interest rate for cash value accumulations without long-term care set forth in the policy;

2) The portion of the policy that provides life insurance benefits meets the nonforfeiture requirements of Section 229.2 of the Code;

3) The policy meets the disclosure requirements of Sections 351A-9.1 and 351A-9.2 of the Code;

4) Any policy illustration that meets the applicable requirements of 50 Ill. Adm. Code 1406;

5) An actuarial memorandum is filed with the Department that includes:

A) A description of the basis on which the long-term care rates were determined;

B) A description of the basis for the reserves;

C) A summary of the type of policy, benefits, renewability, general marketing method, and limits on ages of issuance;

D) A description and a table of each actuarial assumption used. For expenses, an insurer must include percent of premium dollars per policy and dollars per unit of benefits, if any;

E) A description and a table of the anticipated policy reserves and additional reserves to be held in each future year for active lives;

F) The estimated average annual premium per policy and the average issue age;

G) A statement as to whether underwriting is performed at the time of application. The statement shall indicate whether underwriting is used and, if used, the statement shall include a description of the type or types of underwriting used, such as medical underwriting or functional assessment underwriting. Concerning a group policy, the statement shall indicate whether the enrollee or any dependent will be underwritten and when underwriting occurs; and

H) A description of the effect of the long-term care policy provision on the required premiums, nonforfeiture values and reserves on the underlying life insurance policy, both for active lives and those in long-term care claim status.

(Source: Amended at 42 Ill. Reg. 4867, effective February 27, 2018)