
SUBSTITUTE HOUSE BILL 2548

State of Washington 54th Legislature 1996 Regular Session

By House Committee on Health Care (originally sponsored by Representatives Dyer, Morris and L. Thomas)

Read first time 02/02/96.

1 AN ACT Relating to establishing minimum loss ratios for health care
2 service contractors and disability insurers; adding a new section to
3 chapter 48.44 RCW; adding a new section to chapter 48.21 RCW; and
4 adding new sections to chapter 48.20 RCW.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 NEW SECTION. **Sec. 1.** A new section is added to chapter 48.44 RCW
7 to read as follows:

8 (1) Benefits shall be at least:

9 (a) Sixty-five percent for individual subscriber contract forms;

10 (b) Seventy percent for franchise plan contract forms; and

11 (c) Eighty percent for group contract forms.

12 (2) With the approval of the commissioner, contract, rider, and
13 endorsement forms that provide substantially similar coverage may be
14 combined for the purpose of determining the anticipated loss ratio.

15 NEW SECTION. **Sec. 2.** A new section is added to chapter 48.21 RCW
16 to read as follows:

17 The following standards and requirements apply to group and blanket
18 disability insurance policy forms and manual rates:

1 (1) Specified disease group insurance shall generate at least a
2 seventy-five percent loss ratio regardless of the size of the group.

3 (2) Group disability insurance, other than specified disease
4 insurance, as to which the insureds pay all or substantially all of the
5 premium shall generate loss ratios no lower than those set forth in the
6 following table.

7	Number of Certificate Holders	Minimum Overall
8	at Issue, Renewal, or Rerating	Loss Ratio
9	9 or less	60%
10	10 to 24	65%
11	25 to 49	70%
12	50 to 99	75%
13	100 or more	80%

14 (3) Group disability policy forms, other than for specified disease
15 insurance, for issue to single employers insuring less than one hundred
16 lives shall generate loss ratios no lower than those set forth in
17 subsection (2) of this section for groups of the same size.

18 (4) The calculating period may vary with the benefit and premium
19 provisions. The company may be required to demonstrate the
20 reasonableness of the calculating period chosen by the actuary
21 responsible for the premium calculations.

22 (5) A request for a rate increase submitted at the end of the
23 calculating period shall include a comparison of the actual to the
24 expected loss ratios and shall employ any accumulation of reserves in
25 the determination of rates for the selected calculating period and
26 account for the maintenance of such reserves for future needs. The
27 request for the rate increase shall be further documented by the
28 expected loss ratio for the new calculating period.

29 (6) A request for a rate increase submitted during the calculating
30 period shall include a comparison of the actual to the expected loss
31 ratios, a demonstration of any contributions to or support from the
32 reserves, and shall account for the maintenance of such reserves for
33 future needs. If the experience justifies a premium increase it shall
34 be deemed that the calculating period has prematurely been brought to
35 an end. The rate increase shall further be documented by the expected
36 loss ratio for the next calculating period.

37 (7) The commissioner may approve a series of two or three smaller
38 rate increases in lieu of one larger increase. These should be

1 calculated to reduce the lapses and antiselection that often result
2 from large rate increases. A demonstration of such calculations,
3 whether for a single rate increase or a series of smaller rate
4 increases, satisfactory to the commissioner, shall be attached to the
5 filing.

6 (8) Companies shall review their experience periodically and file
7 appropriate rate revisions in a timely manner to reduce the necessity
8 of later filing of exceptionally large rate increases.

9 (9) The definitions in section 5 of this act and the provisions in
10 section 4 of this act apply to this section.

11 NEW SECTION. **Sec. 3.** A new section is added to chapter 48.20 RCW
12 to read as follows:

13 The following standards and requirements apply to individual
14 disability insurance forms:

15 (1) Benefits shall be at least sixty percent over a calculating
16 period chosen by the insurer and satisfactory to the commissioner.

17 (2) The calculating period may vary with the benefit and renewal
18 provisions. The company may be required to demonstrate the
19 reasonableness of the calculating period chosen by the actuary
20 responsible for the premium calculations. A brief explanation of the
21 selected calculating period shall accompany the filing.

22 (3) Policy forms, the benefits of which are particularly exposed to
23 the effects of inflation and whose premium income may be particularly
24 vulnerable to an eroding persistency and other similar forces, shall
25 use a relatively short calculating period reflecting the uncertainties
26 of estimating the risks involved. Policy forms based on more
27 dependable statistics may employ a longer calculating period. The
28 calculating period may be the lifetime of the contract for guaranteed
29 renewable and noncancellable policy forms if such forms provide
30 benefits that are supported by reliable statistics and that are
31 protected from inflationary or eroding forces by such factors as fixed
32 dollar coverages, inside benefit limits, or the inherent nature of the
33 benefits. The calculating period may be as short as one year for
34 coverages that are based on statistics of minimal reliability or that
35 are highly exposed to inflation.

36 (4) A request for a rate increase to be effective at the end of the
37 calculating period shall include a comparison of the actual to the
38 expected loss ratios, shall employ any accumulation of reserves in the

1 determination of rates for the new calculating period, and shall
2 account for the maintenance of such reserves for future needs. The
3 request for the rate increase shall be further documented by the
4 expected loss ratio for the new calculating period.

5 (5) A request for a rate increase submitted during the calculating
6 period shall include a comparison of the actual to the expected loss
7 ratios, a demonstration of any contributions to and support from the
8 reserves, and shall account for the maintenance of such reserves for
9 future needs. If the experience justifies a premium increase it shall
10 be deemed that the calculating period has prematurely been brought to
11 an end. The rate increase shall further be documented by the expected
12 loss ratio for the next calculating period.

13 (6) The commissioner may approve a series of two or three smaller
14 rate increases in lieu of one large increase. These should be
15 calculated to reduce lapses and anti-selection that often result from
16 large rate increases. A demonstration of such calculations, whether
17 for a single rate increase or for a series of smaller rate increases,
18 satisfactory to the commissioner, shall be attached to the filing.

19 (7) Companies shall review their experience periodically and file
20 appropriate rate revisions in a timely manner to reduce the necessity
21 of later filing of exceptionally large rate increases.

22 NEW SECTION. **Sec. 4.** A new section is added to chapter 48.20 RCW
23 to read as follows:

24 Sections 2 and 3 of this act apply to all insurers and to every
25 disability insurance policy form filed for approval in this state after
26 the effective date of this act, except:

27 (1) Additional indemnity and premium waiver forms for use only in
28 conjunction with life insurance policies;

29 (2) Medicare supplement policy forms that are regulated by chapter
30 284-55 WAC;

31 (3) Credit insurance policy forms issued pursuant to chapter 48.34
32 RCW;

33 (4) Group policy forms other than:

34 (a) Specified disease policy forms;

35 (b) Policy forms, other than loss of income forms, as to which all
36 or substantially all of the premium is paid by the individuals insured
37 thereunder;

1 (c) Policy forms, other than loss of income forms, for issue to
2 single employers insuring less than one hundred employees;

3 (5) Policy forms filed by health care service contractors or health
4 maintenance organizations;

5 (6) Policy forms initially approved, including subsequent requests
6 for rate increases and modifications of rate manuals.

7 NEW SECTION. **Sec. 5.** A new section is added to chapter 48.20 RCW
8 to read as follows:

9 (1) The "expected loss ratio" is a prospective calculation and
10 shall be calculated as the projected "benefits incurred" divided by the
11 projected "premiums earned" and shall be based on the actuary's best
12 projections of the future experience within the "calculating period."

13 (2) The "actual loss ratio" is a retrospective calculation and
14 shall be calculated as the "benefits incurred" divided by the "premiums
15 earned," both measured from the beginning of the "calculating period"
16 to the date of the loss ratio calculations.

17 (3) The "overall loss ratio" shall be calculated as the "benefits
18 incurred" divided by the "premiums earned" over the entire "calculating
19 period" and may involve both retrospective and prospective data.

20 (4) The "calculating period" is the time span over which the
21 actuary expects the premium rates, whether level or increasing, to
22 remain adequate in accordance with his or her best estimate of future
23 experience and during which the actuary does not expect to request a
24 rate increase.

25 (5) The "benefits incurred" is the "claims incurred" plus any
26 increase, or less any decrease, in the "reserves."

27 (6) The "claims incurred" means:

28 (a) Claims paid during the accounting period; plus

29 (b) The change in the liability for claims that have been reported
30 but not paid; plus

31 (c) The change in the liability for claims that have not been
32 reported but which may reasonably be expected.

33 The "claims incurred" does not include expenses incurred in
34 processing the claims, home office or field overhead, acquisition and
35 selling costs, taxes or other expenses, contributions to surplus, or
36 profit.

37 (7) The "reserves," as referred to in sections 2 and 3 of this act
38 include:

- 1 (a) Active life disability reserves;
- 2 (b) Additional reserves whether for a specific liability purpose or
3 not;
- 4 (c) Contingency reserves;
- 5 (d) Reserves for select morbidity experience; and
- 6 (e) Increased reserves that may be required by the commissioner.
- 7 (8) The "premiums earned" means the premiums, less experience
8 credits, refunds, or dividends, applicable to an accounting period
9 whether received before, during, or after such period.
- 10 (9) Renewal provisions are defined as follows:
- 11 (a) "Guaranteed renewable" means renewal cannot be declined by the
12 insurance company for any reason, but the insurance company can revise
13 rates on a class basis.
- 14 (b) "Noncancellable" means renewal cannot be declined nor can rates
15 be revised by the insurance company.

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