**Section 2004.20 Active Life Reserves – Individual Policies**

a) General Provisions

Active life reserves are required for all in force policies and are in addition to any reserves required in connection with claims. For policy types in subsections (b)(1)-(3) of this Section, the minimum reserve shall be determined as specified in this Part. It should be emphasized, however, that these are minimum standards and higher, adequate reserves shall be established by the company in any case in which experience indicates that these minimum standards do not place a sound value on the liabilities under the policy. For policy types in subsection (b)(4) of this Section, the minimum reserve shall be the gross pro rata unearned premium.

b) Types of individual accident and health insurance policies

1) Policies that are noncancellable or noncancellable and guaranteed renewable for life or to a specified age, such as 60 or 65.

2) Policies that are guaranteed renewable for life or to a specified age, such as 60 or 65, but under which the company reserves the right to change the scale of premiums.

3) Policies in which the company has reserved the right to cancel or refuse renewal for one or more reasons, but has agreed implicitly or explicitly that, prior to a specified time or age, it will not cancel or decline renewal solely because of deterioration of health after issue; however, policies shall not be considered of this type if the company has reserved the right to refuse renewal provided the right is to be exercised at the same time for all policies in the same category, unless premiums are based on the level premium principle.

4) All other individual policies.

5) Notices:

A) This subsection (b) does not classify "franchise" as a type of policy. Such policies are frequently written under an agreement limiting the company's right to cancel or refuse renewal. Usually the right is reserved to refuse renewal of all policies in the group or other categories such as those ceasing to be members of the association, and this would place those policies, in subsection (b)(4) of this Section in accordance with the last clause under subsection (b)(3) of this Section. However, if premiums are based on the level premium principle or if the renewal privilege granted to the individual insured meets the requirements for policies in subsections (b)(1)-(3) of this Section, the franchise policy shall be so classified for reserve purposes.

B) "Family group accident and health insurance policies", as defined in Section 367(4) of the Code [215 ILCS 5/367(4)], should have active life reserves determined under this Section.

C) A policy may have guarantees qualifying it as a policy listed in subsections (b)(1)-(3) of this Section until a specified age or duration, after which the guarantees, or lack of guarantees, may qualify it as a policy such as listed in subsections (b)(1)-(4) of this Section. In such case, the policy in each period shall be considered for reserve purposes according to the type to which it then belongs.

D) Where all of the benefits of a policy, as provided by rider or otherwise, are not of the same type as listed in this subsection (b), each benefit shall be considered for reserve purposes according to the type to which it belongs.

c) Reserve standards for policies in subsections (b)(1)-(3) of this Section.

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

2) Mortality:

A) 1941 Commissioners Standard Ordinary Table, or

B) 1958 Commissioners Standard Ordinary Table, or

C) 1941 Standard Industrial Mortality Table, or

D) Commissioners 1961 Standard Industrial Mortality Table, or

E) Such other table as may be approved by the Director of the Department of Insurance (Director).

3) Morbidity or Other Contingency:

A) Total disability due to accident or sickness. The minimum standard shall be the 1964 Commissioners Disability Table.

B) Hospital Expense Benefits. The minimum standard shall be the 1956 Inter-company Hospital Table.

C) Surgical Expense Benefits. The minimum standard shall be the 1956 Inter-company Surgical Table.

D) Accidental Death Benefits. The minimum standard shall be the 1959 Accidental Death Benefits Table.

E) All other benefits. The company shall adopt standards to produce reserves which place a sound value on the liabilities under such benefit.

4) Negative Reserves. Negative reserves on any benefit may be offset against positive reserves for other benefits in the same policy, but the mean reserve on any policy shall never be taken as less than one-half the valuation net premium.

5) Preliminary Term. The minimum reserve shall be on the basis of a two-year preliminary term.

6) Reserve Method. Mean reserves diminished by appropriate credit for valuation net deferred premiums, or, mid-terminal reserves plus gross or net pro rata unearned premium reserves. In no event, however, may the aggregate reserve for all policies be less than the gross pro rata unearned premium under those policies.

7) Alternative Valuation Procedures and Assumptions. Provided the reserve on all policies to which the method or basis is applied is not less in the aggregate than the amount determined according to the applicable standards specified above, the company may use any reasonable assumptions as to the interest rate, mortality rates, or the rates of morbidity or other contingency, and may introduce an assumption as to the voluntary termination of policies. Also, subject to the preceding condition, the company may employ methods other than the methods stated above in determining a sound value of its liabilities under such policies, including but not limited to the following:

A) Optional use of either the level premium, the one-year preliminary term, or the two-year preliminary term method.

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

C) The use of approximations such as those involving age groupings, groupings of several years of issue or average amounts of indemnity.

D) The computation of the reserve for one policy benefit as a percentage of, or by other relation to, the aggregate policy reserves, exclusive of the benefit or benefits so valued.

E) The use of a composite annual claim cost for all or any combination of the benefits included in the policies valued.

8) For statement purposes, the net reserve liability may be shown as the excess of the mean reserve over the amount of net unpaid and deferred premiums, or, regardless of the underlying method of calculation, it may be divided between the gross pro rata unearned premium reserve and a balancing item for the "additional reserve".

(Source: Amended at 32 Ill. Reg. 13191, effective July 25, 2008)