**Section 2012.112 Premium Rate Schedule Increases**

a) This Section shall apply as follows:

1) Except as provided in subsection (a)(2), this Section applies to any long-term care policy or certificate issued in this State on or after January 1, 2003 and prior to July 1, 2018.

2) For certificates issued on or after July 1, 2002 and before July 1, 2018, under a group long-term care insurance policy as defined in Section 351A-1(e)(1) of the Code, if the policy was in force prior to July 1, 2002, the provisions of this Section shall apply on the policy anniversary following July 1, 2003.

b) 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 and shall include:

1) Information required by Section 2012.62.

2) Certification by a qualified actuary that:

A) If the requested premium rate schedule increase is implemented and the underlying assumptions that reflect moderately adverse conditions are realized, no further premium rate schedule increases are anticipated;

B) The premium rate filing is in compliance with the provisions of this Section;

C) The insurer may request a premium rate schedule increase less than what is required under this Section. The Director may approve that premium rate schedule increase without submission of the certification in subsection (b)(2)(A) if:

i) the actuarial memorandum discloses the premium rate schedule increase necessary to make the certification required under subsection (b)(2)(A);

ii) the premium rate schedule increase filing satisfies all other requirements of this Section; and

iii) the premium rate increase filing is, in the opinion of the Director, in the best interest of policyholders.

3) An actuarial memorandum justifying the rate schedule change request that includes:

A) Lifetime projections of earned premiums and incurred claims based on the filed premium rate schedule increase; and the method and assumptions used in determining the projected values, including reflection of any assumptions that deviate from those used for pricing other forms currently available for sale;

i) Annual values for the 5 years preceding and the 3 years following the valuation date shall be provided separately;

ii) The projections shall include the development of the lifetime loss ratio, unless the rate increase is an exceptional increase;

iii) The projections shall demonstrate compliance with subsection (c); and

iv) For exceptional increases, the projected experience should be limited to the increases in claims expenses attributable to the approved reasons for the exceptional increase; and in the event the Director determines, as provided in the definition of "Exceptional Increase" found in Section 2012.30, that offsets may exist, the insurer shall use appropriate net projected experience;

B) Disclosure of how reserves have been incorporated in this rate increase whenever the rate increase will trigger the contingent benefit upon lapse;

C) Disclosure of the analysis performed to determine why a rate adjustment is necessary, which pricing assumptions were not realized and why, and what other actions taken by the company have been relied on by the actuary;

D) A statement that policy design, underwriting and claims adjudication practices have been taken into consideration;

E) In the event that it is necessary to maintain consistent premium rates for new certificates and certificates receiving a rate increase, the insurer will need to file composite rates reflecting projections of new certificates.

4) A statement that renewal premium rate schedules are not greater than new business premium rate schedules except for differences attributable to benefits, unless sufficient justification is provided to the Director.

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

6) 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. However, after implementation of the first increase, the insurer is subject to the three-year monitoring provision in subsection (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.

7) The insurer shall file with the Director 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:

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

B) Available benefit reduction/rate increase mitigation actions;

C) 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

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

8) Sufficient information for review and approval by the Director of the premium rate schedule increase.

c) All premium rate schedule increases shall be determined in accordance with the following requirements:

1) Exceptional increases shall provide that 70% of the present value of projected additional premiums from the exceptional increase will be returned to policyholders in benefits;

2) Premium rate schedule increases shall be calculated such that the sum of the accumulated value of incurred claims, without the inclusion of active life reserves, and the present value of future projected incurred claims, without the inclusion of active life reserves, will not be less than the sum of the following:

A) The accumulated value of the initial earned premium times the greater of:

i) 58%; or

ii) the originally filed loss ratio;

B) 85% of the accumulated value of prior premium rate schedule increases on an earned basis;

C) The present value of future projected initial earned premiums times the greater of:

i) 58%; or

ii) the originally filed loss ratio; and

D) 85% of the present value of future projected premiums not in subsection (c)(2)(C) on an earned basis;

3) In the event that a policy form has both exceptional and other increases, the values in subsections (c)(2)(B) and (D) will also include 70% for exceptional rate increase amounts;

4) 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; and

5) The present value of future projected incurred claims calculated in subsection (c)(2) shall be on a best estimate basis.

d) For each rate increase that is implemented, the insurer shall file for review and approval by the Director updated projections, as defined in subsection (b)(3)(A), annually for the next 3 years and include a comparison of actual results to projected values. The Director may extend the period to greater than 3 years if actual results are not consistent with projected values from prior projections. For group insurance policies that meet the conditions in subsection (k), the projections required by this subsection (d) shall be provided to the policyholder in lieu of filing with the Director.

e) If any premium rate in the revised premium rate schedule is greater than 200% of the comparable rate in the initial premium schedule, lifetime projections, as defined in subsection (b)(3)(A), shall be filed for review and approval by the Director every 5 years following the end of the required period in subsection (d). For group insurance policies that meet the conditions in subsection (k), the projections required by this subsection (e) shall be provided to the policyholder in lieu of filing with the Director.

f) If the Director has determined that the actual experience following a rate increase does not adequately match the projected experience and that the current projections under moderately adverse conditions demonstrate that incurred claims will not exceed proportions of premiums specified in subsection (c), the Director:

1) May require the insurer to implement any of the following:

A) Premium rate schedule adjustments; or

B) Other measures to reduce the difference between the projected and actual experience.

2) Should give consideration to subsection (b)(3)(E) when determining whether the actual experience adequately matches the projected experience.

g) If the majority of the policies or certificates to which the increase is applicable are eligible for the contingent benefit upon lapse, the insurer shall file:

1) A plan, subject to the Director's approval, for improved administration or claims processing designed to eliminate the potential for further deterioration of the policy form requiring further premium rate schedule increases, or both, or to demonstrate that appropriate administration and claims processing have been implemented or are in effect; otherwise the Director may impose the condition in subsection (h); and

2) The original anticipated lifetime loss ratio, and the premium rate schedule increase that would have been calculated according to subsection (c) of this Section had the greater of the original anticipated lifetime loss ratio or 58% been used in the calculations described in subsections (c)(2)(A) and (c)(2)(C).

h) Significant Adverse Lapsation

1) For a rate increase filing that meets the following criteria, the Director shall review, for all policies included in the filing, the projected lapse rates and past lapse rates during the 12 months following each increase to determine if significant adverse lapsation has occurred or is anticipated:

A) The rate increase is not the first rate increase requested for the specific policy form or forms;

B) The rate increase is not an exceptional increase; and

C) The majority of the policies or certificates to which the increase is applicable is eligible for the contingent benefit upon lapse.

2) In the event significant adverse lapsation has occurred, is anticipated in the filing or is evidenced in the actual results as presented in the updated projections provided by the insurer following the requested rate increase, the Director may determine that a rate spiral exists. Following the determination that a rate spiral exists, the Director may require the insurer to offer, without underwriting, to all in force insureds subject to the rate increase the option to replace existing coverage with one or more reasonably comparable products being offered by the insurer or its affiliates.

A) The offer shall:

i) Be subject to the approval of the Director;

ii) Be based on actuarially sound principles, but not be based on attained age; and

iii) Provide that maximum benefits under any new policy accepted by an insured shall be reduced by comparable benefits already paid under the existing policy.

B) The insurer shall maintain the experience of all the replacement insureds separate from the experience of insureds originally issued the policy forms. In the event of a request for a rate increase on the policy form, the rate increase shall be limited to the lesser of:

i) The maximum rate increase determined based on the combined experience; and

ii) The maximum rate increase determined based only on the experience of the insured's originally issued form plus 10%.

i) If the Director determines that the insurer has exhibited a persistent practice of filing inadequate initial premium rates for long-term care insurance, the Director may, in addition to the provisions of subsection (h), prohibit the insurer from either of the following:

1) Filing and marketing comparable coverage for a period of up to 5 years; or

2) Offering all other similar coverages and limiting marketing of new applications to the products subject to recent premium rate schedule increases.

j) Subsections (a) through (i) shall not apply to policies for which the long-term care benefits provided by the policy are "Incidental", as defined in Section 2012.30, 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 insurance benefits other than long-term care coverage meets the nonforfeiture requirements as applicable in any of the following:

A) Section 229.2 of the Code;

B) Section 229.4 of the Code;

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

4) The portion of the policy that provides insurance benefits other than long-term care coverage meets the requirements as applicable in the following:

A) Policy illustrations as required by 50 Ill. Adm. Code 1406;

B) Disclosure requirements in 50 Ill. Adm. Code 1551;

5) An actuarial memorandum is filed with the Director 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 insurance policy, both for active lives and those in long-term care claim status.

k) 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 that 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.

l) Subsections (f) and (h) shall not apply to group insurance policies as defined in Section 351A-1(e)(1) of the Code if:

1) The policies insure 250 or more persons and the policyholder has 5,000 or more eligible employees of a single employer; or

2) The policyholder, and not the certificate holders, pays a material portion of the premium, which shall not be less than 20% of the total premium for the group in the calendar year prior to the year a rate increase is filed.

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