The IIPRC and Product Filing Submissions: Three examples

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The Interstate Insurance Product Regulation Commission (IIPRC) is transforming the manner in which companies prepare a product filing submission, submit for regulatory review and approval, and then implement products through their systems and distribution channels. We explore in this article the uniform standards for three asset-based insurance products and discuss trends and potential changes coming soon.

BACKGROUND

In March 2004, the "Compact" was created when Colorado and Utah enacted the model legislation for insurance products covering life, annuities, long-term care, and disability income.[1] Today, 43 states and Puerto Rico have enacted the Compact, representing a combined 75 percent of the nationwide premium volume for these asset-based insurance products. The IIPRC has approved over 4,000 insurance products for over 200 insurance companies since commencement of its operations in 2007.[2]

The Compact is an agreement between states that accept products approved by the IIPRC pursuant to detailed uniform standards, which have the force and effect of law and are binding in those states. In order for uniform standards to be effective, they must be adopted by a minimum of two-thirds of the IIPRC members, and each state has a sovereign right to opt out of a uniform standard. For these reasons, the uniform standards are detailed and comprehensive, reflecting stringent form and actuarial requirements. Product filings undergo a thorough form, and, if applicable, actuarial review for compliance with the relevant uniform standard.

Over 90 uniform standards are available for companies to use to file products with a wide variety of product lines, benefit features, and combinations, including individual life, annuities, long-term care, and disability income, along with group term life for employer groups. The development process for uniform standards allows for input from regulators, industry professionals, and consumers at multiple stages of development.

Accelerated death benefits

The Individual Standards for Accelerated Death Benefits (ACCDB) were originally adopted in 2007 and provide for the advanced payment of death proceeds under a life insurance policy for the occurrence of a qualifying event.[3] In 2014, the IIPRC adopted the accelerated death benefit uniform standard for group term life and updated the individual ACCDB uniform standard under its five-year review process. While these uniform standards follow many of the provisions in the National Association of Insurance Commissioners (NAIC) Accelerated Death Benefits Model Regulation, other provisions recognize chronic illness triggers, along with federal requirements for tax qualification under Section 101(g) of the Internal Revenue Code (IRC).

Under the ACCDB standards, a terminal illness must always be included as a qualifying event as a benefit. Other qualifying events may also be included, such as chronic illness; a medical condition requiring extraordinary medical intervention; continuous and permanent institutional confinement; and specified medical conditions drastically limiting life span. The filing usually consists of separate riders for terminal illness, critical illness, and/or chronic illness. Regarding chronic illness, the ACCDB standards now have two available definitions. The definition in the original version continues if there exists a permanent inability to perform a minimum of two activities of daily living (ADLs) without substantial assistance or permanent severe cognitive impairment. There is also an alternative definition following IRC Sections 7702B and 101(g). The ACCDB standards require the option for payment of the benefits in a lump sum and may also provide for periodic payments, recognizing additional requirements for tax-qualified ACCDB payments.

Products filed under the ACCDB standards cannot be described as long-term care insurance or as providing long-term care benefits. One of the actuarial requirements is a certification that the value and premium of the accelerated death benefit is incidental to the life coverage. While the standards prohibit a premium or cost of insurance charges for a terminal illness qualifying event, it requires for all other qualifying events a certification demonstrating that the value of the accelerated death benefits provided on an aggregate basis does not exceed 10 percent. The formula required in the demonstration must show the relationship between the net single premium for the base policy benefits assuming the non-death accelerated death benefit trigger and the net single premium for the base policy benefits assuming there is no accelerated death benefit.

Stand-alone long-term care insurance

Insurers that want to provide long-term care insurance or long-term care benefits derived from a life or annuities policy generally file under the IIPRC individual long-term care (iLTC) uniform standards. In 2010, the IIPRC adopted a set of 10 uniform standards for the individual long-term care insurance product line.[4] The uniform standards were the subject of multiple rounds of public comments and discussion with input from Compacting States, consumer representatives, state legislators, and company representatives. The outcome of this process was a set of consumer-oriented product and rate filing requirements promoting rate stabilization across the participating Compacting states. Thirty-nine of 44 Compacting states are participating in the iLTC standards and accepting Compact-approved products in their markets. In 2010, Hawaii and Indiana exercised their sovereign right to opt out of the iLTC uniform standards, because of circumstances unique to their respective states. In their enacting Compact legislation, New Jersey, Nevada, Arizona, and Montana included an opt-out of the standards for long-term care, though Nevada removed its opt-out two years after joining the Compact.

A requirement in the Compact unique to long-term care insurance specifies that the uniform standards provide the same or greater consumer protections than protections set forth in the NAIC Long-Term Care Insurance Model Act and Model Regulation.[5] The uniform standards require the following consumer protections, among others: benefits trigger on inability to perform not more than two ADLs; exclusions based on mental and nervous disorders are prohibited; preexisting condition exclusions are limited to six months; minimum offer requirements (inflation, issue age rates, home health care) must be included; there must be a minimum home health care coverage of 50 percent of nursing home coverage; and minimum readability requirements (Flesch score of 50) must be met. With respect to rates, the uniform standards require the company to file an actuarial memorandum, rate schedules, pricing assumptions, and annual rate certifications. The IIPRC maintains a spreadsheet of sample assumptions on its website to help filers achieve the level of detail required. The IIPRC carefully reviews this information and will require a demonstration that margins do not deviate materially across issue ages.

During the development of the uniform standards, member commissioners had significant discussion about the level of rate increases being sought on closed blocks of business and added more safeguards into the uniform standards to ensure companies are regularly assessing the adequacy of their rates on in-force and new business. Once the IIPRC approves a long-term care product, an annual actuarial certification is required to be filed by Dec. 31 of each year after approval. Based upon a company's review of the experience and assumptions, the actuary must certify that the approved rates continue to be sufficient to cover anticipated costs under moderately adverse experience and that the premium rate schedule is reasonably expected to be sustainable over the life of the form with no future premium increases anticipated within the approved margins. Companies with approved iLTC filings are further required to provide an updated actuarial memorandum every three years as well as an action plan for establishing adequate margins when they are unable to make the required actuarial certification.

The uniform standards require a provision in the form that the insurer will provide an advanced notice of 60 days to policyholders prior to potential rate increases. Insurers seeking rate increases on approved rate schedules (other than rate schedule increases for new business) cannot introduce a new rating characteristic that was not included as a rating characteristic in the initial rate filing. Because of the concern of significant rate increase requests, the uniform standards provide that requests to increase Compact-approved rate schedules in excess of 15 percent will be approved by the Compacting states, with the IIPRC providing an advisory review under the uniform standards. The IIPRC continues to review rate increase requests of 15 percent or below.

The IIPRC has provided detailed guidance for insurers for submission of individual long-term care product filings in its Filing Information Notice 2013-2.[6]

Combination products

Insurers can also use the iLTC uniform standards to file accelerated death benefit riders for long-term care services and enhanced or extensions of iLTC benefit riders. With respect to the life insurance policy, the filer will comply with the applicable uniform standards for the life product and will use the iLTC uniform standards to develop the rider, outline of coverage, and supporting documentation. For benefit riders where the payment of benefits is contingent upon receipt of long-term care services, and such payment does not exceed $1 of long-term care benefit for each $1 of reduction in death benefits, the rate filing uniform standards do not apply. For extension of benefit riders or riders that do not fit the dollar-for-dollar exemption, rate schedules and supporting actuarial information must be submitted.

TRENDS AND CHANGES ON THE HORIZON

The IIPRC has approved approximately 4,000 products since inception of its product operations in 2007. Life products comprise 55 percent of the filing volume, annuities 29 percent, long-term care 14 percent, and the remainder a small but growing percentage for disability income.[7] The IIPRC sees a high volume of riders under the Additional Standards for Accelerated Death Benefits. With respect to individual long-term care insurance products, the IIPRC has approved more than 20 full products since December 2010 and more than double that amount with respect to the combination riders for long-term care benefits. The IIPRC utilizes the online NAIC System for Electronic Rate and Form Filing (SERFF) Filing Access, which insurers may use to locate Compact-approved product filings.

Pursuant to its rules, the IIPRC is required to conduct a periodic five-year review of its Uniform Standards, Rules and Operating Procedures in a manner similar to what is regularly required by state regulatory agencies.[8] Under the IIPRC's five-year review process, the Commission determines the need for continuation, repeal, or amendment of a rule based primarily on whether circumstances or underlying assumptions have changed since the last time the rule was adopted, amended, or reviewed.

The iLTC uniform standards, adopted in 2010, are currently in the five-year review process, with written comments being accepted until Dec. 1, 2015.[9] The IIPRC will then summarize these written comments as well as include its own suggested changes and clarifications, based on application of the uniform standards in its product filing operations. Once the IIPRC's report and recommendation are transmitted to the Product Standards Committee (PSC), there will be an opportunity for additional public comments including on proposed changes the PSC may recommend to the Management Committee and IIPRC during the process.

As indicated earlier, the iLTC uniform standards require consumer protections at least as great as those in the NAIC Model Regulation. In the fall of 2014, the NAIC updated the LTC Insurance Model Regulation, and these changes will be considered during the five-year review process to determine if they should be included in the uniform standards. The following updates to the Model Regulation, with respect to actuarial and rate requirements, will likely be considered in the five-year review:

- **Margin to claims:** The 2014 Model Regulation requires the actuary to include at least a 10 percent margin for adverse claims in initial pricing. The actuary may potentially file a lower margin, provided that claims volatility—a key component of rate stability—can be addressed through means outside the explicit claims margin in premiums. Under the new Model Regulation, the actuary is also required to state the source of the margin, for instance as a margin applied to the lapse, incidence, or continuance assumption.

- **Reserve sample calculation:** The 2014 Model Regulation requires the actuary to provide details or a sample calculation of the reserve amounts to be held.

- **Requested rate increases:** Under the 2014 Model Regulation, rate increases requested by the company may be less than those actuarially justified if the actuarially justified increase is specified and if the commissioner deems that the lower rate increase is in the best interest of the policyholder.

The IIPRC provides a wide array of information on its website, at http://www.insurancecompact.org, including: all adopted uniform standards with applicable checklists and drafting history in the Record section; uniform standards that are being considered or are open for comment in the Docket section; and useful filing information for insurers in the Insurance Company Resources section. The IIPRC team, including the form reviewers and actuaries, are also a valuable resource and work with filers both before and during a product submission to answer questions and provide guidance with respect to the uniform standards and filing process.

ENDNOTES

1. NAIC (July 2003). Interstate Insurance Product Regulation Compact. Model Law, 692. Retrieved Oct. 20, 2015, from http://www.insurancecompact.org/documents/compact_statute.pdf.
2. IIPRC (July 31, 2015). IIRPC Product Filing Statistics. Retrieved Oct. 20, 2015, from *http://www.insurancecompact.org/documents/member_resources_prod_stats.pdf.*
3. The current and original versions of this uniform standard, along with Standards History can be found at *http://www.insurancecompact.org/compact_rlmkng_record.htm.*
4. These uniform standards, along with Standards History can be found at http://www.insurancecompact.org/compact_rlmkng_record.htm.
5. See Model Compact, Article IV, Section 2, at *http://www.insurancecompact.org/documents/compact_statute.pdf.*
6. IIPRC (February 5, 2013). Filing Information Notice 2013:2: Individual Long-Term Care Filings. Retrieved October 20, 2015, from h*ttp://www.insurancecompact.org/documents/FIN_2010-3.pdf.*
7. IIPRC Product Filing Statistics, ibid.
8. IIPRC (2013). Record of Uniform Standards and Operating Procedures adopted by the Commission. Retrieved October 20, 2015, from *http://www.insurancecompact.org/compact_rlmkng_record.htm.*
9. See Phase 6 for Uniform Standards under Five-Year Review of Uniform Standards, Rules and Operating Procedures on the Docket, at *http://www.insurancecompact.org/compact_rlmkng_docket.htm.*

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