

SECTION .0200 - HEALTH INSURANCE MINIMUM RESERVE STANDARDS

11 NCAC 11F .0201 DEFINITIONS

As used in this section and in the Statement of Actuarial Opinion required by the NAIC Annual Statement Instructions pursuant to G.S. 58-2-165:

- (1) "Annual claim cost" means the net annual cost per unit of benefit before the addition of expenses, including claim settlement expenses, and a margin for profit or contingencies. For example, the annual claim cost for a one hundred dollar (\$100.00) monthly disability benefit, for a maximum disability benefit period of one year, with an elimination period of one week, with respect to a male at age 35, in a certain occupation might be twelve dollars (\$12.00), while the gross premium for this benefit might be eighteen dollars (\$18.00). The additional six dollars (\$6.00) would cover expenses and profit or contingencies.
- (2) "Claims accrued" means that portion of claims incurred on or before the valuation date that result in liability of the insurer for the payment of benefits for medical services that have been rendered on or before the valuation date, and for the payment of benefits for days of hospitalization and days of disability that have occurred on or before the valuation date, that the insurer has not paid as of the valuation date, but for which it is liable, and will have to pay after the valuation date. This liability is sometimes referred to as a liability for "accrued" benefits. A claim reserve, which represents an estimate of this accrued claim liability, must be established.
- (3) "Claims reported" means when an insurer has been informed that a claim has been incurred, if the date reported is on or before the valuation date, the claim is considered as a reported claim for annual statement purposes.
- (4) "Claims unaccrued" means that portion of claims incurred on or before the valuation date that result in liability of the insurer for the payment of benefits for medical services expected to be rendered after the valuation date, and for benefits expected to be payable for days of hospitalization and days of disability occurring after the valuation date. This liability is sometimes referred to as a liability for "unaccrued" benefits. A claim reserve, which represents an estimate of the unaccrued claim payments expected to be made (that may or may not be discounted with interest), must be established.
- (5) "Claims unreported" means when an insurer has not been informed, on or before the valuation date, concerning a claim that has been incurred on or before the valuation date, the claim is considered as an unreported claim for annual statement purposes.
- (6) "Date of disablement" means the earliest date the insured is considered as being disabled under the definition of disability in the contract, based on a doctor's evaluation or other evidence. Normally this date will coincide with the start of any elimination period.
- (7) "Elimination period" means a specified number of days, weeks, or months starting at the beginning of each period of loss, during which no benefits are payable.
- (8) "Gross premium" means the amount of premium charged by the insurer. It includes the net premium (based on claim-cost) for the risk, together with any loading for expenses, profit or contingencies.
- (9) "Group insurance" means blanket insurance and franchise insurance and any other forms of group insurance.
- (10) "Level premium" means a premium calculated to remain unchanged throughout either the lifetime of the policy, or for some shorter projected period of years. The premium need not be guaranteed; in which case, although it is calculated to remain level, it may be changed if any of the assumptions on which it was based are revised at a later time. Generally, the annual claim costs are expected to increase each year and the insurer, instead of charging premiums that correspondingly increase each year, charges a premium calculated to remain level for a period of years or for the lifetime of the contract. In this case the benefit portion of the premium is more than needed to provide for the cost of benefits during the earlier years of the policy and less than the actual cost in the later years. The building of a prospective contract reserve is a natural result of level premiums.
- (11) "Long-term care insurance" has the same meaning as in G.S. 58-55-20(4); and also means a policy or certificate that provides for payment of benefits based upon cognitive impairment or the loss of functional capacity.

- (12) "Modal premium" means the premium paid on a contract based on a premium term that could be annual, semi-annual, quarterly, monthly, or weekly. Thus if the annual premium is one hundred dollars (\$100.00) and if, instead, monthly premiums of nine dollars (\$9.00) are paid then the modal premium is nine dollars (\$9.00).
- (13) "Negative reserve" means a terminal reserve that has a value of less than zero resulting from benefits that decrease with advancing age or duration.
- (14) "Preliminary term reserve method" means the method of valuation under which the valuation net premium for each year falling within the preliminary term period is exactly sufficient to cover the expected incurred claims of that year, so that the terminal reserves will be zero at the end of the year. As of the end of the preliminary term period, a new constant valuation net premium (or stream of changing valuation premiums) becomes applicable such that the present value of all such premiums is equal to the present value of all claims expected to be incurred following the end of the preliminary term period.
- (15) "Qualified Actuary" means an individual who:
- (a) is a member in good standing of the American Academy of Actuaries; and
 - (b) is qualified to sign statements of actuarial opinion for life and health insurance company annual statements in accordance with the American Academy of Actuaries qualification standards for actuaries signing such statements; and
 - (c) is familiar with the valuation requirements applicable to life and health insurance companies; and
 - (d) has not been found by the Commissioner (or if so found has subsequently been reinstated as a qualified actuary), following appropriate notice and hearing to have:
 - (i) violated any provision of, or any obligation imposed by, the insurance law or other law in the course of his or her dealings as a qualified actuary; or
 - (ii) been found guilty of fraudulent or dishonest practices; or
 - (iii) demonstrated his or her incompetency, lack of cooperation, or untrustworthiness to act as a qualified actuary; or
 - (iv) submitted to the Commissioner during the past five years, pursuant to this rule, an actuarial opinion or memorandum that the Commissioner rejected because it did not meet the provisions of this rule including standards set by the Actuarial Standards Board; or
 - (v) resigned or been removed as an actuary within the past five years as a result of acts or omissions indicated in any adverse report on examination or as a result of failure to adhere to generally acceptable actuarial standards; and
 - (e) has not failed to notify the Commissioner of any action taken by any commissioner of any other state similar to that under Sub-item (15)(d) of this Paragraph.
- (16) "Rating block" means a grouping of contracts determined by the valuation actuary based on common characteristics filed with the Commissioner, such as a policy form or forms having similar designs.
- (17) "Reserve" means all items of benefit liability, whether in the nature of incurred claim liability or in the nature of contract liability relating to future periods of coverage, and whether the liability is accrued or unaccrued. An insurer under its contracts promises benefits that result in:
- (a) Claims that have been incurred, that is, for which the insurer has become obligated to make payment, on or before the valuation date. On these claims, payments expected to be made after the valuation date for accrued and unaccrued benefits are liabilities of the insurer that should be provided for by establishing claim reserves; or
 - (b) Claims that are expected to be incurred after the valuation date. Any present liability of the insurer for these future claims should be provided for by the establishment of contract reserves and unearned premium reserves.
- (18) "Terminal reserve" means the reserve at the end of a contract year, and is defined as the present value of benefits expected to be incurred after that contract year minus the present value of future valuation net premiums.
- (19) "Unearned premium reserve" means the value of that portion of the premium paid or due to the insurer that is applicable to the period of coverage extending beyond the valuation date. Thus if an annual premium of one hundred twenty dollars (\$120.00) was paid on November 1, twenty dollars (\$20.00) would be earned as of December 31 and the remaining one hundred dollars (\$100.00)

would be unearned. The unearned premium reserve could be on a gross basis as in this example, or on a valuation net premium basis.

- (20) "Valuation net modal premium" means the modal fraction of the valuation net annual premium that corresponds to the gross modal premium in effect on any contract to which contract reserves apply. Thus if the mode of payment in effect is quarterly, the valuation net modal premium is the quarterly equivalent of the valuation net annual premium.

History Note: Authority G.S. 58-2-40; 58-58-50(k);
Temporary Adoption Eff. January 21, 1994 for a period of 180 days or until the Permanent Rule becomes effective, whichever is sooner;
Eff. April 1, 1994;
Amended Eff. August 1, 2004;
Pursuant to G.S. 150B-21.3A, rule is necessary without substantive public interest Eff. December 20, 2015.