
ENGROSSED 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) The anticipated loss ratio shall be deemed reasonable in
9 relation to the amount charged provided the anticipated loss ratio is
10 at least:

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

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

13 (c) Eighty percent for group contract forms.

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

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

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

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

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

| 9 Number of Certificate Holders | Minimum Overall |
|-----------------------------------|-----------------|
| 10 at Issue, Renewal, or Rerating | Loss Ratio |
| 11 9 or less | 60% |
| 12 10 to 24 | 65% |
| 13 25 to 49 | 70% |
| 14 50 to 99 | 75% |
| 15 100 or more | 80% |

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

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

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

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

1 (7) The commissioner may approve a series of two or three smaller
2 rate increases in lieu of one larger increase. These should be
3 calculated to reduce the lapses and antiselection that often result
4 from large rate increases. A demonstration of such calculations,
5 whether for a single rate increase or a series of smaller rate
6 increases, satisfactory to the commissioner, shall be attached to the
7 filing.

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

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

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

15 The following standards and requirements apply to individual
16 disability insurance forms:

17 (1) The overall loss ratio shall be deemed reasonable in relation
18 to the premiums if the overall loss ratio is at least sixty percent
19 over a calculating period chosen by the insurer and satisfactory to the
20 commissioner.

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

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

1 coverages that are based on statistics of minimal reliability or that
2 are highly exposed to inflation.

3 (4) A request for a rate increase to be effective at the end of the
4 calculating period shall include a comparison of the actual to the
5 expected loss ratios, shall employ any accumulation of reserves in the
6 determination of rates for the new calculating period, and shall
7 account for the maintenance of such reserves for future needs. The
8 request for the rate increase shall be further documented by the
9 expected loss ratio for the new calculating period.

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

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

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

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

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

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

34 (2) Medicare supplement policy forms that are regulated by chapter
35 48.66 RCW;

36 (3) Credit insurance policy forms issued pursuant to chapter 48.34
37 RCW;

38 (4) Group policy forms other than:

- 1 (a) Specified disease policy forms;
- 2 (b) Policy forms, other than loss of income forms, as to which all
3 or substantially all of the premium is paid by the individuals insured
4 thereunder;
- 5 (c) Policy forms, other than loss of income forms, for issue to
6 single employers insuring less than one hundred employees;
- 7 (5) Policy forms filed by health care service contractors or health
8 maintenance organizations;
- 9 (6) Policy forms initially approved, including subsequent requests
10 for rate increases and modifications of rate manuals.

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

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

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

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

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

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

31 (6) The "claims incurred" means:

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

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

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

37 The "claims incurred" does not include expenses incurred in
38 processing the claims, home office or field overhead, acquisition and

1 selling costs, taxes or other expenses, contributions to surplus, or
2 profit.

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

5 (a) Active life disability reserves;

6 (b) Additional reserves whether for a specific liability purpose or
7 not;

8 (c) Contingency reserves;

9 (d) Reserves for select morbidity experience; and

10 (e) Increased reserves that may be required by the commissioner.

11 (8) The "premiums earned" means the premiums, less experience
12 credits, refunds, or dividends, applicable to an accounting period
13 whether received before, during, or after such period.

14 (9) Renewal provisions are defined as follows:

15 (a) "Guaranteed renewable" means renewal cannot be declined by the
16 insurance company for any reason, but the insurance company can revise
17 rates on a class basis.

18 (b) "Noncancellable" means renewal cannot be declined nor can rates
19 be revised by the insurance company.

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