

**TITLE 50: INSURANCE**  
**PART 2012 TRADITIONAL LONG-TERM CARE INSURANCE**  
**CHAPTER I: DEPARTMENT OF INSURANCE**  
**SECTION 2012.112 PREMIUM RATE SCHEDULE INCREASES**

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**Section 2012.112 Premium Rate Schedule Increases**

- a) This Section shall apply as follows:
  - 1) Except as provided in subsection (a)(2) of this Section, this Section applies to any traditional long-term care policy issued in this State on or after January 1, 2003.
  - 2) For certificates issued on or after July 1, 2002, under a group traditional long-term care insurance policy as defined in Section 2012.30, which 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;
  - 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) of this Section; 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; and
  - 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; and
- 5) Sufficient information for review 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 58%;
    - 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 58%; and
    - D) 85% of the present value of future projected premiums not in subsection (c)(2)(C) of this Section 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) of this Section will also include 70% for exceptional rate increase amounts; and
  - 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 2004.20(c) (Accident and Health Reserves). The actuary shall disclose as part of the actuarial memorandum the use of any appropriate averages.

- d) For each rate increase that is implemented, the insurer shall file for review by the Director updated projections, as defined in subsection (b)(3)(A) of this Section, 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) of this Section, 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) of this Section, shall be filed for review by the Director every 5 years following the end of the required period in subsection (d) of this Section. For group insurance policies that meet the conditions in subsection (k) of this Section, 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) of this Section, 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) of this Section 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) of this Section; 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)(1)(A) and (C) of this Section.
- h) 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:

- 1) For a rate increase filing that meets the following criteria:
  - 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 are 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 traditional long-term care insurance, the Director may, in addition to the provisions of subsection (h) of this Section, 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) of this Section shall not apply to policies for which the traditional 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 traditional long-term care, if any, is guaranteed not to be less than the minimum guaranteed interest rate for cash value accumulations without traditional long-term care set forth in the policy;
- 2) The portion of the policy that provides insurance benefits other than traditional long-term care coverage meets the nonforfeiture requirements as applicable in any of the following:
  - A) Section 229.2 of the Illinois Insurance Code [215 ILCS 5/229.2];
  - B) Section 229.4 of the Illinois Insurance Code [215 ILCS 5/229.4];
- 3) The policy meets the disclosure requirements of Sections 2012.60, 2012.62 and 2012.64;
- 4) The portion of the policy that provides insurance benefits other than traditional 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 1451;
- 5) An actuarial memorandum is filed with the Director that includes:
  - A) A description of the basis on which the traditional 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 traditional 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 traditional long-term care claim status.

- k) Subsections (f) and (h) of this Section shall not apply to group insurance policies as defined in Section 2012.30 where:
- 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 certificateholders, 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: Added at 26 Ill. Reg. 8835, effective July 1, 2002)