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REMARKS:

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Notice 94-8

**HEALTH AND ACCIDENT CONTRACT AND UNEARNED
PREMIUM RESERVE STANDARDS**

July 7, 1994

In Pennsylvania Insurance Department Notice 1994-2 concerning Valuation of Health and Accident Reserves, Valuation Data Standards, dated February 24, 1994 and addressed to the president of each Pennsylvania domestic property and casualty company authorized to write accident and health insurance, the Department described the supporting data and information that insurers must submit annually concerning the calculation of the company's health and accident reserves. In addition, we noted that pursuant to Section 84a.6. of the Minimum Reserve Standards for Individual and Group Health and Accident Insurance Contracts regulation adopted effective October 23, 1993, the minimum standards apply to both new issues and in force contracts. In response to questions concerning application of the standards to contracts issued prior to October 23, 1993, following is the Department's position and requirements.

1. Contract reserves will not be required for contracts issued prior to October 23, 1993 that are not either non-cancellable or guaranteed renewable. Please note that pursuant to Section 84a.5.(b)(1)(II) of the regulation, the unearned premium reserve for a contract if no contract reserve applies must be determined using a *gross* modal premium. In other words, at least a gross unearned premium reserve must be held for each such contract.

2. Contract reserves are required for business issued prior to October 23, 1993 if the contract is non-cancellable or guaranteed renewable.

a) A net level premium, one-year preliminary term or a two-year preliminary term method may be used for all such business, including long term care.

b) The morbidity, interest rate and termination rates standards of the regulation apply in calculating the contract reserves for this business with the following clarifications.

(i) The 1990 CSO mortality tables and the dynamic interest rates are the minimum standards for issues of January 1, 1989 and later.

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(ii) For contracts issued during the period from the company's operative date thru December 31, 1988 the minimum contract reserves can be determined based on either the 1958 CSO mortality table and 4.5% interest or the 1980 CSO mortality tables and dynamic interest rates.

3. Section 84a.6. applies in determining whether contract reserves are required for contracts issued on or after October 23, 1993. Note that the one-year preliminary term method is required for long term care contracts, as defined in Section 84a.8. of the regulation, and for return of premium or other deferred cash benefits if the benefits are provided at any time before the 20th anniversary.

4. Pursuant to Section 84a.5.(b)(2) of the regulation, the sum of the unearned premium and contract reserves for contracts subject to contract reserve requirements must not be less than the gross unearned premium reserve. The comparison of the sum of the unearned premium and contract reserves with the gross unearned premium reserve may be made on an aggregate basis for all contracts subject to the contract reserve requirements.

Any questions concerning the content of this notice should be addressed to Carol Slack, Actuarial Supervisor, Bureau of Accident and Health Insurance, Office of Rate and Policy Regulation, Harrisburg, PA 17120, (717) 783-2118.

Cynthia M. Maleski
COMMISSIONER OF INSURANCE

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