4. Paid and incurred/earned loss ratios for each of the years recognized in (c)3 above, where the incurred/earned loss ratio should be calculated both without and with the change in active life reserves;

5. The assumptions used in the calculation of the loss ratio, including:

i. The annual claim costs (ultimate) by attained age and sex;

ii. The select and/or anti-select morbidity factors by policy duration (year) by issue age and sex;

iii. The lapse and mortality rates, by policy duration by issue age and sex;

iv. The secular trend factors by policy duration by issue age and sex;

v. The interest rates by policy duration, which rates shall equal a carrier's recent, current and future expected new investment return rates (after investment expenses, but before Federal income taxes). Alternatively, the Department will permit use of a six percent interest rate graded linearly to four percent over 10 years and four percent thereafter or a five percent level interest rate. The Commissioner shall review annually the alternate interest rate and adjust those rates based on corporate bond yields for Aaa and Baa bonds as reported in U.S. Financial Data which is published by the Research and Public Information Division of the Federal Reserve Bank of St. Louis. The Commissioner shall provide public notice of new alternate interest rates by publication in the New Jersey Register;

vi. Expenses by policy duration, including commission, override and bonus rates; other marketing expense rates; other maintenance expense rates; any new-market expense rates; other acquisition expense rates; and the explicit profit margin or risk charged on a per policy issue, per policy in force, per dollar of claim, per dollar of premium, and any other applicable basis;

vii. The distribution of expected policies by policy and rider benefits by issue age and sex; and

viii. A summary statement of the underwriting standards (such as short form medical and risk questionnaire, long form medical and risk questionnaire, medical examination), the marketing distribution system, and the market (that is, the segment(s) of the general public, for example, middle income based on predetermined ZIP code selections) for the policy forms;

6. The specific formulas and methodology used in calculating gross premiums; and

7. A certification signed by an actuary who is a member of the American Academy of Actuaries stating that the assumptions are appropriate to the policy form, reasonably represent the expected experience for the policy form and fully disclose the basis of the calculation of the anticipated loss ratio.

Public Notice: Alternate Interest Rates for Rate Submissions.
See: 39 N.J.R. 3566(b).

11:4-34.18 Premium rate schedule increases

(a) This section applies to any individual long-term care policy issued in this State on or after January 18, 2006 and for which initial rates were filed pursuant to N.J.A.C 11:4-34.8.

(b) A carrier shall request approval of a revised premium rate schedule, including an exceptional increase, from the Commissioner at least 60 days prior to sending the notice to be provided to the policyholders, and the carrier's request shall include:

1. Information required by N.J.A.C. 11:4-34.7 concerning disclosure of rating practices;

2. Certification by a qualified actuary that:

i. If the requested premium rate schedule increase is implemented and the underlying assumptions for the revised rate filing which reflect moderately adverse conditions are realized, no further premium rate schedule increases are anticipated; and

ii. The premium rate filing is in compliance with the provisions of N.J.A.C. 11:4-34.18;

3. An actuarial memorandum justifying the rate schedule change request that includes:

i. Lifetime projections of earned premiums and incurred claims (on a year-to-year basis), 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;

ii. Disclosure of how reserves have been incorporated in this rate increase whenever the rate increase will trigger a contingent benefit upon lapse;

iii. Disclosure of the analysis performed to determine why a rate adjustment is necessary, which pricing assumptions were not realized and why, a comparison of the pricing assumptions and current assumptions and what other actions taken by the carrier have been relied on by the actuary; and

iv. A statement that policy design, underwriting and claims adjudication practices have been taken into consideration;

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 Commissioner; and

5. Sufficient information for review and approval of the premium rate schedule increase by the Commissioner.

(c) All premium rate schedule increases shall be determined in accordance with the following requirements:

1. Exceptional increases shall provide that 70 percent of the present value of projected additional premiums from the exceptional increase will be returned to policyholders in benefits whose cost exceeds the assumed cost in the initial premium;

2. Premium rate schedule increases that are not exceptional 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:

i. The accumulated value of the initial earned premium times 58 percent;

ii. Eighty-five percent of the accumulated value of prior premium rate schedule increases on an earned basis;

iii. The present value of future projected initial earned premiums times 58 percent; and

iv. Eighty-five percent of the present value of future projected premiums not in (c)2iii above on an earned basis;

3. In the event that a policy form has both exceptional and other increases, the values in (c)2ii and iv above will also include seventy percent 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 N.J.A.C. 11:4-6.16.

(d) For each rate increase that is implemented, the carrier shall file for approval by the Commissioner updated projections, as defined in (b)3i above, annually for the next three years and include a comparison of actual results to projected values. The Commissioner may extend the period to greater than three years if actual results are not consistent with projected values from prior projections. For group insurance policies that insure 250 or more persons where the policyholder has 5,000 or more eligible employees of a single employer or where the policyholder pays 20 percent or more of the total premium for the group in the calendar year prior to the year a rate increase is filed, the projections required by this subsection shall be provided to the policyholder in lieu of filing with the Commissioner.

(e) If any premium rate in the revised premium rate schedule is greater than 150 percent of the comparable rate in the initial premium schedule, lifetime projections, as defined in (b)3i above, shall be filed for approval by the Commissioner every five years following the end of the required period in (d) above.

(f) If the Commissioner has determined that the actual experience following a rate increase does not adequately match the projected experiences and that the current projections under moderately adverse conditions demonstrate that incurred claims will not exceed proportions of premiums specified in (c) above, the Commissioner may require the carrier to implement either of the following:

1. Premium rate schedule adjustments; or

2. Other measures to reduce the difference between the projected and actual experience.

(g) If 25 percent or more of the policies to which the increase is applicable are eligible for the contingent benefit upon lapse, the carrier shall file:

1. A plan, subject to Commissioner approval, for improved administration and/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 Commissioner may impose the condition in (h) below; and

2. The original anticipated lifetime loss ratio, and the premium rate schedule increase that would have been calculated according to (c) above had the greater of the original anticipated lifetime loss ratio or 58 percent been used in the calculations described in (c)2i and iii above.

(h) If 25 percent or more of the policies to which a rate increase is applicable are eligible for contingent benefit upon lapse, the Commissioner 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.

(i) In the event significant adverse lapsation has occurred, is anticipated in the filing or is evident in the actual results as presented in the updated projections provided by the carrier following the requested rate increase, the Commissioner may determine that a rate spiral exists. Following the determination that a rate spiral exists, the Commissioner may require the carrier 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 carrier or its affiliates. If the carrier or its affiliates are no longer offering one or more reasonably comparable products, the Commissioner may take other steps, including requiring pooling of all of the carrier's long term care policies for rating purposes, or disapproving or reducing rate increase requests.

1. The offer shall:

i. Be subject to the approval of the Commissioner;

ii. Be based on actuarially sound principles, but not on attained age; and

iii. Provide that maximum benefits under any new policy accepted by an insured shall be reduced by