Sec. 38a-78-13. Claim reserves

(a) **General**.

(1) Claim reserves are required for all incurred but unpaid claims on all health insurance policies. For contracts with an elimination period, the duration of disablement shall be measured as dating from the time that benefits would have begun to accrue had there been no elimination period.

(2) Appropriate claim expense reserves are required with respect to the estimated expense of settlement of all incurred but unpaid claims.

(3) All such reserves for prior valuation years are to be tested for adequacy and reasonableness along the lines of claim runoff schedules in accordance with the statutory financial statement including consideration of any residual unpaid liability.

(4) For claim reserves on policies that require contract reserves, the claim incurral date is to be considered the "issue date" for determining the table and interest rate to be used for claim reserves.

(5) The maximum interest rate for claim reserves is specified in Appendix A.

(6) With respect to claim reserves for policies issued before the operative date of the Valuation Manual, the requirements for claim reserves on claims incurred after such operative date shall be as described in the Valuation Manual based on the incurred date of the claim.

(b) **Minimum Morbidity Standards for Individual Disability Income Claim Reserves.**

(1) Each insurer shall elect the standard set forth in subdivision (2) or (3) of this subsection and apply such standard to all open claims. Once an insurer elects to calculate reserves for all open claims on the standard defined in subdivision (2) or (3) of this subsection, all future valuations must be on that basis.

(2) Prior to the effective date for the insurer, as determined pursuant to subdivision (5) of this subsection, the minimum standards with respect to morbidity are those specified in Appendix A, except that, at the option of the insurer, assumptions regarding claim termination rates for the period less than two years from the date of disablement may be based on the insurer's experience, if such experience is considered credible (consistent with accepted actuarial practice) by the Commissioner, or, with the approval of the Commissioner, upon other assumptions designed to place a sound value on the liabilities.

(3) For claims incurred on or after January 1, 2020, the minimum standards are those specified in Appendix A (as derived in accordance with Actuarial Guideline L, as included in the most current version of the NAIC Accounting Practices and Procedures Manual), including:

(A) The use of the insurer's own experience;

(B) An adjustment to include an own experience measurement margin; and

(C) The application of a credibility factor.

(4) In determining the minimum reserves in accordance with subdivision (3) of this subsection, the provisions of subparagraphs (A) to (C), inclusive, of subdivision (3) of this subsection shall not apply if:

(A) The insurer meets the Own Experience Measurement Exemption provided in Actuarial Guideline L, as included in the most current version of the NAIC Accounting

Practices and Procedures Manual; or

(B) For worksite disability policies with benefit periods of not more than two years, at the option of the insurer, disabled life reserves may be based on the insurer's experience, if such experience is considered credible (consistent with accepted actuarial practice) by the Commissioner, or, with the approval of the Commissioner, upon other assumptions and methods designed to place a sound value on the liabilities.

(5) An insurer may begin to use the minimum reserve standards described in subdivision (3) of this subsection for claims incurred earlier than January 1, 2020, but not prior to January 1, 2017.

(6) An insurer may, not later than January 1, 2023, (or such earlier date the insurer elects under subdivision (5) of this subsection) apply the new standards in subdivision (3) of this subsection to all open claims incurred prior to the effective date of subdivision (3) of this subsection for the insurer. Once an insurer elects to calculate reserves for all open claims based on subdivision (3) of this subsection, all future valuations shall be on that basis.

(c) **Minimum Morbidity Standards for Group Disability Income Claim Reserves.**

(1) For group long-term disability income claims incurred prior to the effective date selected by the company pursuant to subdivision (3) of this subsection, and group disability income claims that are not group long-term disability income, the minimum standards with respect to morbidity are those specified in Appendix A except that, at the option of the insurer:

(A) Assumptions regarding claim termination rates for the period less than three years from the date of disablement may be based on the insurer's experience, if the experience is considered credible (consistent with accepted actuarial practice) by the Commissioner, or, with the approval of the Commissioner, upon other assumptions designed to place a sound value on the liabilities.

(B) For group long-term disability income claims, the standards as defined in subdivision (2) of this subsection may be applied to all open claims.

Once an insurer elects to calculate reserves for all open claims on a more recent standard, then all future valuations shall be on that basis.

(2) For group long-term disability income claims incurred on or after January 1, 2020, the minimum standards with respect to morbidity shall be based on the 2012 GLTD termination table, or a subsequent table, with consideration of:

(A) The insurer's own experience computed in accordance with Actuarial Guideline XLVII, as included in the most current version of the NAIC Accounting Practices and Procedures Manual;

(B) An adjustment to include an own experience measurement margin derived in accordance with Actuarial Guideline XLVII, as included in the most current version of the NAIC Accounting Practices and Procedures Manual; and

(C) A credibility factor derived in accordance with Actuarial Guideline XLVII, as included in the most current version of the NAIC Accounting Practices and Procedures Manual.

(3) An insurer may begin to use the minimum reserve standards set forth in subdivision (2) of this subsection at a date earlier than January 1, 2020, but not prior to the effective date of this regulation. An insurer may apply the standards in subdivision (2) of this

subsection to all open claims incurred prior to the effective date of subdivision (2) of this subsection for the insurer. Once an insurer elects to calculate reserves for all open claims based the standards set forth in subdivision (2) of this subsection, all future valuations shall be on the basis of said standards.

(d) **Minimum Morbidity Standard for Other Health Insurance Claim Reserves**. The reserve should be based on the insurer's experience, if the experience is considered credible (consistent with accepted actuarial practice) by the Commissioner, or, with the approval of the Commissioner, upon other assumptions designed to place a sound value on the liabilities.

(e) **Claim Reserve Methods Generally.** A generally accepted actuarial reserving method, or a combination of generally accepted methods, may be used to estimate all claim liabilities. Any other reasonable method, if the method is approved by the Commissioner prior to the statement date, may be used to estimate all claim liabilities. The methods used for estimating liabilities generally may be aggregate methods, or various reserve items may be separately valued. Approximations based on groupings and averages may also be employed. Adequacy of the claim reserves, however, shall be determined in the aggregate.

(Effective September 28, 1993; Amended December 2, 1998; Amended August 31, 2018)