

July 1, 1986

SUBJECT: INSURANCE

Circular Letter No. 9

TO: ALL INSURERS, OTHER THAN ARTICLE 43 CORPORATIONS, LICENSED TO WRITE ACCIDENT AND HEALTH INSURANCE

SUBJECT: ACCIDENT AND HEALTH INSURANCE STATUTORY CONVERSION COVERAGE

Chapter 268 of the Laws of 1985, which amended Section 3221 of the New York Insurance Law, takes effect. July 1, 1986 and mandates new benefit levels for basic hospital and surgical and major medical conversion policies and/or certificates.

To assist insurers in their compliance with the amended law, this Circular Letter sets forth premium rates for the new benefit levels and guidelines for their implementation. In general, guidelines for policy form approval, benefit design and overinsurance standards remain in effect as set forth in Circular Letter No. 20 (1982). Please note, however, that Chapter 367 of the Laws of 1984 recodified the Insurance Law so that statutory Sections 162 and 221, mentioned in Circular Letter No. 20 (1982), have been renumbered as Sections 3221 and 4235 respectively. In addition, Chapter 869 of the Laws of 1984 amended the Insurance Law to permit, at the insurer's option, the offering of conversion coverage through a group policy and certificate mechanism.

A sample major medical claim illustration is attached as Appendix A to this Circular Letter. This illustration reflects the new benefit levels as enacted under Chapter 268. However, the claim administration procedures outlined in this illustration remain consistent with those in Circular Letter No. 20 (1982).

Rates deemed reasonable for the new Plans required by Chapter 268 of the Laws of 1985 are listed in Appendix B. Graduations and other rate structures not listed will be considered for approval by the Department, provided the bases for such variations are consistent with the promulgated rates.

Premium rates for policies issued in accordance with previously enacted conversion statutes will not be changed at this time. New premium rates will be considered for adoption in 1987 if justified by credible experience submitted by the industry.

Rates for ages 60 and over represent 120% of the net premium referred to in Section 3221(f). These rates are fixed until July 1, 1991. The rates for under age 60 are likewise intended to be sufficient until July 1, 1991 unless credible experience indicates otherwise.

As was required by Circular Letter No. 20 (1982), carriers are expected to maintain their group conversion experience separately for each Plan of coverage (i.e. for each of the three basic Plans and for each of the three major medical premium levels). In collecting this experience, incurred claims should be separated into paid and reserve components. It should be noted that as with previously promulgated Plans the premium rates are not intended to be self-supporting.

Premium rates set forth in this Circular Letter contemplate coverage of [ILLEGIBLE WORD]mal out-patient services as covered expenses.

Very truly yours,

[SIGNATURE]

JAMES P. CORCORAN

Superintendent of Insurance

Appendix A  
Sample Major Medical Claim

The sample claim chosen for illustration contains the following charges:

	Amount
1. Room and Board \$ 440 per day for 10 days	\$ 4,400.00
2. Miscellaneous	\$ 3,900.00
3. Surgical Procedure	\$ 6,200.00

I. Major Medical Without Basic Coverage

Since the statute allows limits to the amount payable under Surgical and Room and Board, rather than limits on Covered Expenses, an equivalent amount of covered charges must be deducted. In both cases, "equivalent covered charges" equals the payment divided by 0.8. The calculations resulting from this interpretation are:

	Charges	Covered Expenses
R & B	\$ 4,400.00	\$ 2,250.00 n1
Misc.	3,900.00	3,900.00
Surg.	6,200.00	5,812.50 n2
	\$ 14,500.00	\$ 11,962.50

Payment before considering out-of-pocket limit (o.o.p.) is

$$(\$ 11,962.50 - \$ 500.00) \times .8 = \$ 9,170.00$$

Amount o.o.p. = (covered expenses) - (payment)

$$= \$ 11,962.50 - \$ 9,170.00$$

$$= \$ 2,792.50$$

Therefore, an additional \$ 792.50 is payable, for a total claim payment of \$ 9,962.50.

II. Major Medical With Basic Plan III Coverage:

A. Plan III pays:	Payment
1. R & B of \$ 180 x 10	\$ 1,800.00
2. Miscellaneous	1,800.00
3. Surgical	3,610.00 n3

Total \$ 7,210.00

B. Major Medical:

Since the basic payment is \$ 7,210, which exceeds \$ 500, the basic payment becomes the deductible.

Covered Charges	Payment
1. Room and Board: The minimum of:	
a. (\$ 440-\$ 180) x 10 = \$ 2,600.00	
b. \$ 180 x 10/.8 = \$ 2,250.00	\$ 1,800.00 n4
c. (hospital's semi-private rate) x 10/.8	
2. Misc.: (\$ 3,900-\$ 1,800) = \$ 2,100.00	1,680.00
3. Surg.: The minimum of:	
a. (\$ 6,200-\$ 3,610) = \$ 2,590.00	2,072.00
b. \$ 2,500 x 1.9/.8 = \$ 5,937.50	
c. (75% of R & C)/.8 = \$ 5,812.50	
	\$ 5,552.00

Amount o.o.p.:

$$(\$ 2,250.00 + \$ 2,100.00 + \$ 2,590.00) - \$ 5,552.00 = \$ 1,388.00$$

Therefore, total payment is still \$ 5,552.00 under the major medical [ILLEGIBLE WORD]verage.

$$n1 \$ 2,250.00 = (\$ 180/\text{day}) \times (10 \text{ days})/.8, \text{ assuming the hospital's semi-private rate is at least } \$ 180.$$

$$n2 \$ 5,812.50 = \text{Minimum of:}$$

- a. \$ 6,200.00 (charges)
- b. \$ 5,937.50 = (\$ 2,500 Society of Actuaries scheduled amount, assuming a "maximum" procedure) x (1.9, to convert to Reg. 62 schedule)/.8
- c. \$ 5,812.50 = (75% of \$ 6,200 assumed as Reasonable and Customary)/.8

$$n3 (\$ 1,900 \text{ SOA schedule}) \times 1.9 = \$ 3,610$$

$$n4 \text{ Assuming the hospital's most common semi-private rate is at least } \$ 180.00$$

APPENDIX B

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Revised Gross Annual Premiums for Forms Under the Law

On or After July 1, 1986:

Basic Plan I

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## GROSS ANNUAL PREMIUMS FOR FORMS UNDER THE LAW ON OR AFTER JULY 1, 1986

## BASIC PLAN: I

AT-  
TAINED

AGE	MALE RATE	FEMALE RATE				
		Non- Maternity		Maternity		
		Married		Unmarried		
		Inception Basis	Immediate Basis (as increment in 1st year)	Inception Basis	Immediate Basis (as increment in 1st year)	
< 25	169	248	240	60	50	13
25-29	169	268	240	60	46	11
30-34	175	314	150	38	30	8
35-39	205	350	41	10	12	3
40-44	251	413	6	2	3	1

AT-TAINED AGE	MALE RATE	FEMALE RATE					
		Non-Maternity		Married Maternity		Unmarried Maternity	
		Inception Basis	Immediate Basis	Inception Basis	Immediate Basis	Inception Basis	Immediate Basis
			(as increment in 1st year)		(as increment in 1st year)		(as increment in 1st year)
45-49	301	426	0	0	0	0	0
50-54	360	423	0	0	0	0	0
55-59	393	383	0	0	0	0	0
60-64	456	387	0	0	0	0	0

[ILLEGIBLE WORDS]UE AGE	MALE RATE	FEMALE RATE				
		Non-Maternity		Married Maternity		
		Inception Basis	Immediate Basis	1st yr. only	Level OR Annual	
			(as increment)			
< 25	182	278	213	60	13	
25-29	185	307	168	60	13	
30-34	215	350	85	38	8	
35-39	251	387	21	10	2	
40-44	301	420	2	2	0	
45-49	350	426	0	0	0	
50-54	410	426	0	0	0	
55-59	433	397	0	0	0	
60-64	456	387	0	0	0	

[ILLEGIBLEWORDS]UE AGE	FEMALE RATE			
		Maternity Unmarried		
	Inception Basis	Immediate Basis (as increment)		
		1st yr. only	OR	Level Annual
< 25	43	13		3
25-29	33	11		3
30-34	19	8		2
35-39	7	3		1
40-44	1	1		0
45-49	0	0		0
50-54	0	0		0
55-59	0	0		0
60-64	0	0		0
	Non-Maternity	Maternity		
		Inception Basis	Immediate Basis (as increment)	
			1st yr. Only	Level Annual
CHILDREN (one or more)	225	11	3	1

Increase maternity premiums 9% for Regulation 62 surgical schedule.

## BASIC PLAN: II

AT-TAINED AGE	MALE RATE	FEMALE RATE					
		Non-Maternity	Married		Unmarried		
			Inception Basis	Immediate Basis (as increment in 1st year)	Inception Basis	Immediate Basis (as increment in 1st year)	
< 25	271	390	414	103	86	22	
25-29	271	430	414	103	79	20	
30-34	288	512	259	65	52	13	
35-39	341	569	71	18	21	5	
40-44	417	674	10	3	5	1	
45-49	506	711	0	0	0	0	
50-54	612	701	0	0	0	0	
55-59	668	641	0	0	0	0	
60-64	784	648	0	0	0	0	

ISSUE AGE	MALE RATE	FEMALE RATE				
		Non-Maternity	Married			
			Inception Basis	Immediate Basis (as increment) 1st yr. only	Level OR Annual	
<25	294	446	367	103	23	
25-29	304	503	290	103	23	
30-34	350	572	147	65	14	
35-39	420	635	37	18	4	
40-44	499	698	4	3	1	
45-49	588	707	0	0	0	
50-54	691	711	0	0	0	
55-59	731	661	0	0	0	

ISSUE AGE	MALE RATE	FEMALE RATE			
		Non-Maternity	Inception Basis	Maternity Married	Immediate Basis (as increment)
				1st yr. only	Level Annual
				OR	
60-64	784	648	0	0	0

ISSUE AGE	FEMALE RATE		
	Inception Basis	Maternity Unmarried Immediate Basis (as increment)	Level Annual
		1st yr. only	OR
<25	74	22	5
25-29	57	20	4
30-34	32	13	3
35-39	12	5	1
40-44	2	1	0
45-49	0	0	0
50-54	0	0	0
55-59	0	0	0
60-64	0	0	0

CHILDREN (one or more)	Non-Maternity	Maternity		
		Inception Basis	Immediate Basis (as increment)	Level Annual
			1st yr. Only	OR
	337	18	5	1

Increase maternity premiums 8% for Regulation 62 surgical schedule.

## BASIC PLAN: III

AT-TAINED AGE	MALE RATE	FEMALE RATE				
		Non-Maternity	Married		Unmarried	
			Inception Basis	Immediate Basis	Inception Basis	Immediate Basis
				(as increment in 1st year)		(as increment in 1st year)
< 25	370	526	542	136	113	28
25-29	370	582	542	136	103	26
30-34	397	707	340	85	69	17
35-39	469	784	93	23	28	7
40-44	582	936	14	3	7	2
45-49	704	982	0	0	0	0
50-54	863	979	0	0	0	0
55-59	952	899	0	0	0	0
60-64	1137	906	0	0	0	0

ISSUE AGE	MALE RATE	FEMALE RATE				
		Non-Maternity	Married		Unmarried	
			Inception Basis	Immediate Basis	Inception Basis	Immediate Basis
				(as increment)		(as increment)
				1st yr. only	OR	Level Annual
< 25	403	602	481	136		30
25-29	420	688	380	136		30
30-34	486	784	193	85		19
35-39	585	876	48	23		5
40-44	701	965	5	3		1
45-49	836	985	0	0		0
50-54	988	995	0	0		0
55-59	1051	926	0	0		0

ISSUE AGE	MALE RATE	FEMALE RATE			
		Non-Maternity	Inception Basis	Maternity Married	Immediate Basis (as increment)
				1st yr. only	Level Annual
				OR	
60-64	1137	906	0	0	0

ISSUE AGE	FEMALE RATE		
	Unmarried Inception Basis	Maternity Immediate Basis (as increment)	Level Annual
		1st yr. only	OR
< 25	97	28	6
25-29	75	26	6
30-34	42	17	4
35-39	15	7	2
40-44	3	2	0
45-49	0	0	0
50-54	0	0	0
55-59	0	0	0
60-64	0	0	0

CHILDREN (one or more)	Non-Maternity	Maternity		
		Inception Basis	Immediate Basis (as increment)	Level Annual
			1st yr. Only	OR
	440	24	6	1

Increase maternity premiums 10% for Regulation 62 surgical schedule.

PLAN: Major Medical Supplementing No Basic Plan or Basic Plans I or II

AT-TAINED

AGE	MALE RATE	FEMALE RATE					
		Non-Maternity		Married		Unmarried	
			Inception Basis	Immediate Basis	Inception Basis	Immediate Basis	
				(as increment in 1st year)			(as increment in 1st year)
< 25	602	782	538	81	112		17
25-29	642	1042	538	81	102		15
30-34	778	1276	337	51	68		10
35-39	1021	1554	92	14	27		4
40-44	1156	1773	14	2	7		1
45-49	1429	2104	0	0	0		0
50-54	1720	2249	0	0	0		0
55-59	2368	2461	0	0	0		0
60-64	2524	2524	0	0	0		0

ISSUE AGE

MALE RATE

FEMALE RATE

ISSUE AGE	MALE RATE	FEMALE RATE			
		Non-Maternity		Married	
		Inception Basis	Immediate Basis		
			1st yr. only	OR	Level Annual
< 25	678	999	477	81	18
25-29	784	1250	377	81	18
30-34	969	1497	191	51	11
35-39	1184	1822	48	14	3
40-44	1399	1988	5	2	0
45-49	1698	2218	0	0	0
50-54	2058	2361	0	0	0



physicians fees.

Increase maternity premiums 13% for Regulation 62 surgical schedule.

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PLAN: Major Medical Supplementing Basic Plan III or Better

ATTAINED

AGE	MALE RATE	FEMALE RATE				
		Non- Maternity	Married Maternity		Unmarried Maternity	
			Inception Basis	Immediate Basis (as increment in 1st year)	Inception Basis	Immediate Basis (as increment in 1st year)
< 25	398	564	340	51	71	11
25-29	425	714	340	51	65	10
30-34	545	911	213	32	43	6
[ILLEGIBLE WORDS]-39	716	1050	58	9	17	3
[ILLEGIBLE WORDS]-44	760	1200	9	1	4	1
[ILLEGIBLE WORDS]-49	850	1375	0	0	0	0
[ILLEGIBLE WORDS]-54	999	1524	0	0	0	0
[ILLEGIBLE WORDS]-59	1440	1708	0	0	0	0
[ILLEGIBLE WORDS]-64	1465	1772	0	0	0	0

ISSUE AGE	MALE RATE	FEMALE RATE				
		Non-Maternity	Inception Basis	Maternity Married	Immediate Basis (as increment)	
				1st yr. only	OR	Level Annual
[ILLEGIBLE WORDS]25	453	700	301	51		11
[ILLEGIBLE WORDS]-29	532	864	238	51		11
[ILLEGIBLE WORDS]-34	660	1033	120	32		7
[ILLEGIBLE WORDS]-39	779	1179	30	9		2
[ILLEGIBLE WORDS]-44	865	1333	3	1		0
[ILLEGIBLE WORDS]-49	1004	1487	0	0		0
50-54	1218	1623	0	0		0
55-59	1450	1735	0	0		0
60-64	1465	1772	0	0		0

ISSUE AGE	FEMALE RATE				
	Inception Basis	Maternity Unmarried	Immediate Basis (as increment)		
			1st yr. only	OR	Level Annual
[ILLEGIBLE WORDS]25	61	11			2
[ILLEGIBLE WORDS]-29	47	10			2
[ILLEGIBLE WORDS]-34	27	6			1
[ILLEGIBLE WORDS]-39	9	3			1
[ILLEGIBLE WORDS]-44	2	1			0
[ILLEGIBLE WORDS]-49	0	0			0
50-54	0	0			0
55-59	0	0			0
60-64	0	0			0

	Non-Maternity	Maternity		
		Inception Basis	Immediate Basis	
			(as increment)	
			1st yr. only	OR
CHILDREN (one or more)	287	15	2	1

Increase non-maternity premiums 8% for all-cause plan. Reduce non-maternity prem[ILLEGIBLE WORDS] if coverage for private-duty nursing and in-hospital psychiatric care is not provided, and if there is an inside limit on in-hospital physicians fees.

Decrease maternity premiums 12% for Regulation 62 surgical schedule.

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PLAN: Major Medical Supplementing a Hospital Service Plan Covering 21 Days or More (An additional 8% has been included in the non-maternity premiums for this all-cause plan)

AT-TAINED

AGE	MALE RATE	FEMALE RATE					
		Non-Maternity	Married		Unmarried		
			Inception Basis	Immediate Basis		Inception Basis	Immediate Basis
				(as increment in 1st year)			
< 25	267	375	241	36	50	8	
25-29	285	481	241	36	46	7	
30-34	365	599	151	23	31	5	
35-39	480	717	41	6	12	2	
40-44	497	835	6	1	3	0	
45-49	569	921	0	0	0	0	
50-54	669	1021	0	0	0	0	
55-59	939	1124	0	0	0	0	
60-64	1003	1151	0	0	0	0	

ISSUE AGE	MALE RATE	FEMALE RATE				
		Non- Maternity	Maternity			
			Inception Basis	Married		
				Immediate Basis (as increment)		
			1st yr. only	OR	Level Annual	
< 25	303	468	214	36	8	
25-29	355	580	169	36	8	
30-34	440	695	86	23	5	
35-39	518	806	21	6	1	
40-44	573	906	2	1	0	
45-49	670	992	0	0	0	
50-54	810	1075	0	0	0	
55-59	966	1135	0	0	0	
60-64	1003	1151	0	0	0	

## ISSUE AGE

## FEMALE RATE

	Maternity Unmarried			
	Inception Basis	Immediate Basis (as increment)		
		1st yr. only	OR	Level
				Annual
< 25	43	8	[ILLEGIBLE WORDS]	
25-29	33	7	[ILLEGIBLE WORDS]	
30-34	19	5	1	
35-39	7	2	0	
40-44	1	0	0	
45-49	0	0	0	
50-54	0	0	0	
55-59	0	0	0	
60-64	0	0	0	

	Non-Maternity	Maternity		
		Inception Basis	Immediate Basis	
			(as increment)	
			1st yr. only	OR
CHILDREN (one or more)	197	12	2	1

Reduce non-maternity premiums 8% for per-cause plan. Reduce non-maternity premiums 6% i coverage for private-duty nursing and in-hospital psychiatric care is not provided, and if there is an inside limit on in-hospital physicians fees.

Increase maternity premiums 28% for Regulation 62 surgical schedule.

#### Assumptions for Maternity Premiums

##### For Group Conversion Policies

1. Birth frequencies: 1983 live birth rate per female in New York State excluding New York City.
2. Unmarried frequencies were increased 10% to cover situations where actual marital status is unknown or where it changes from unmarried to married.
3. No anti-selection was assumed except in the first year for immediate maternity coverage. A 25% increase was assumed in the first-year maternity claim costs for the basic plans and a 15% increase was assumed in the first-year maternity claim costs for the major medical plans.
4. Average hospital stay for normal delivery: 3.6 days.
5. Average hospital miscellaneous charge as of 1/1/90 for normal delivery: \$ 1,450.
6. Average cost for normal delivery (excluding fees for prenatal and postnatal care) as of 1/1/90: \$ 1,050. Average cost for physician's services for prenatal and postnatal care as of 1/1/90: \$ 650.
7. 75% loss ratio.