STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE
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NASHVILLE, TENNESSEE 37243

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GOVERNOR

ELAINE A. McREYNOLDS
COMMISSIONER

July 1, 1993

TO: LICENSED ACCIDENT AND HEALTH COMPANIES

FROM: ELAINE McREYNOLDS, COMMISSIONER

SUBJECT: PREMIUM RATE INCREASES ON INDIVIDUAL HEALTH POLICIES

1. The Department is concerned about the practice of closing off blocks of these policies for rate increase purposes, and introducing into the market a new policy form which is rated separately. This is a form of "cherry picking" which has in many cases resulted in unfair treatment of policyholders in the closed block.

Effective July 1, 1993, the Department will require rate filings on closed blocks to include loss experience on all forms which replaced them in the marketplace. For example:

(1) Major Medical Form 100
- Issued 1965 through 1990.
- Replaced by Major Medical Form 110 on January 1, 1991. No further sales under Form 100.
- No further replacements. Form 110 continues to be sold.
- 25% increase filed on Form 100 effective January 1, 1994.
- The Department will require the actuarial memorandum filed under Rule 0780-1-20 to combine experience under Form 100 and Form 110.

(2) Hospital-Surgical Form 200
- Issued 1980 through 1990.
- Form 200 closed off and replaced by Form 210 effective January 1, 1991.
- Form 210 also closed off and replaced by Form 220 on January 1, 1993. Form 220 continues to be sold.
- 25% increase filed on Form 200 effective January 1, 1995.
- The Department will require the actuarial memorandum to combine loss experience under Forms 200, 210 and 220.

2. A replacement form will be defined as an individual hospital, surgical, medical or major medical form which replaces another form in a given market. For example:
- Major medical form with preferred provider option replaces traditional major medical form in the regular agency market.
- Hospital indemnity form replaces hospital-surgical form in the home service market.

3. Any filing of a new form must include a list of old forms which are being replaced. The department may request current experience on the replaced forms as part of its review of premium rates on the new form.

4. The Department will require all filings for a premium rate increase to include the number of Tennessee policies in force and also the loss experience on those policies by calendar year since inception.

5. The Department is concerned that, in some cases, Tennesseans may be subsidizing the nationwide loss experience. Therefore, on all filings for a premium rate increase, please recompute the nationwide earned premiums assuming the rate increases approved in Tennessee had been used everywhere.

6. The Tennessee Court of Appeals has opined that Tennessee insurance statutes are applicable where group policies are issued to an out of state trust with certificates to be delivered or issued for delivery in this state. Accordingly it is the Department's opinion that out-of-state group policies issued to out-of-state trusts or associations when individuals in Tennessee are solicited for coverage under certificates under such policies are subject to the jurisdiction and prior approval of this Department. Rates and forms for such policies should be filed as for in-state policies.

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