

INSURANCE

DEPARTMENT OF BANKING AND INSURANCE

DIVISION OF INSURANCE

Actuarial Services

Minimum Standards for Specified Disease and Critical Illness Coverages

Loss Ratio Standards

Proposed Amendments: N.J.A.C. 11:4-53.2 and 53.6

Authorized By: Kenneth E. Kobylowski, Commissioner, Department of Banking and Insurance.

Authority: N.J.S.A. 17:1-8.1, 17:1-15.e, 17B:27-49, and 17B:30-1 et seq.

Calendar Reference: See Summary below for explanation of exceptions to calendar requirement.

Proposal Number: PRN 2014-176.

Submit comments by December 19, 2014, to:

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The agency proposal follows:

Summary

The Department's rules regarding minimum standards for specified disease and critical illness coverages at N.J.A.C. 11:4-53.2 define "critical illness coverage" as "coverage that pays a level lump sum benefit upon diagnosis of a specified disease without payment of further benefits in connection with hospital and medical care for the treatment of the specified disease." Group critical illness policies are growing in popularity in the employer and association markets.

N.J.A.C. 11:4-53.6 requires group critical illness products to maintain a loss ratio of at least 75 percent, while individual products are required to maintain at least a 60 percent loss ratio. The loss ratio differences recognize the higher administrative and marketing costs of direct-to-consumer sales and servicing in the individual market. In the case of employer-sponsored group insurance, the employer provides much of the administration and outreach. To a lesser extent, this is also true of group policies issued to associations, where some but not all of the administration and outreach is performed by the association. In that case, administrative costs are expected to be higher than for employer-sponsored insurance but lower than for individual insurance marketed directly to individuals. The current loss ratio standard may have the unintended consequence of limiting the use of group contract designs for associations because of the higher-than-appropriate minimum loss ratio. Accordingly, the Department is proposing to amend N.J.A.C. 11:4-53.2 by adding a definition of association that is consistent with the usage of that term in N.J.S.A. 17B:27-27 and 17B:27-68.e and amending the definition of "policy," "policy form," or "form" to specifically reference group policies issued to associations. An amendment to N.J.A.C. 11:4-53.6 is also proposed to prescribe a 65 percent loss ratio requirement for group policies that provide critical illness coverage and are issued to associations.

A 60-day comment period is provided on this notice of proposal, and therefore, pursuant to N.J.A.C. 1:30-3.3(a)5, the proposal is not subject to the provisions of N.J.A.C. 1:30-3.1 and 3.2 governing rulemaking calendars.

Social Impact

The proposed amendments are expected to have a favorable impact on consumers by increasing the capacity for insurers to provide critical illness coverage through group policies issued to associations with a more favorable loss ratio and, consequently, at lower rates than individual policies that provide such coverage.

Economic Impact

The proposed amendments would have a favorable impact on consumers who are members of associations. The proposed amendments would also have a favorable impact on insurers who sell group critical illness coverage to associations. Providing a loss ratio requirement for group critical illness coverage sold to associations at 65 percent will enable these insurers to price such products more accurately, considering their somewhat higher cost structure than employer-based group coverage but lower cost structure than individual insurance. The new loss ratio requirement for group critical illness policies issued to associations will enable insurers providing these products to compete more effectively with insurers providing individual coverage by permitting them to capture the limited administrative and marketing efficiencies of such policies in their rates. As a result, insurers will be able to provide association members with critical illness coverage at lower rates than those charged on individual policies that provide such coverage due to their being subject to a higher minimum loss ratio than is currently applicable to individual policies marketed through associations.

Federal Standards Statement

A Federal standards analysis is not required because the proposed amendments are not subject to any Federal requirements or standards.

Jobs Impact

The Department does not anticipate that any jobs will be generated or lost as a result of the proposed amendments.

Agriculture Industry Impact

The Department does not expect any agriculture industry impact from the proposed amendments.

Regulatory Flexibility Statement

A regulatory flexibility analysis is not required because the insurers subject to the requirements imposed by the proposed amendments do not employ fewer than 100 full-time employees, and, therefore, are not “small businesses” as that term is defined by the Regulatory Flexibility Act, N.J.S.A. 52:14B-16 et seq.

Housing Affordability Impact Analysis

The proposed amendments will have no impact on affordable housing in New Jersey, and there is no likelihood that the proposed amendments would evoke a change in the average costs associated with housing because the proposed amendments concern loss ratio requirements for association-based group critical illness coverage.

Smart Growth Development Impact Analysis

The proposed amendments will have no impact on smart growth and there is no likelihood that the proposed amendment would evoke a change in housing production in Planning Areas 1 or 2, or within designated centers, under State Development and

Redevelopment Plan in New Jersey because the proposed amendments concerns loss ratio requirements for association-based group critical illness coverage.

Full text of the proposal follows (additions indicated in boldface **thus**; deletions indicated in brackets [thus]):

SUBCHAPTER 53. MINIMUM STANDARDS FOR SPECIFIED DISEASE AND
CRITICAL ILLNESS COVERAGES

11:4-53.2 Definitions

The following words and terms, as used in this subchapter, shall have the following meanings unless the context clearly indicates otherwise:

...

“Association” means an organization of persons joined together for a special purpose or business, or the attainment of some common objective, other than a legally established corporation or partnership, or fraternal benefit society, organized without capital stock, and whose activities are carried on for the sole benefit of its members and for purposes other than obtaining insurance.

...

“Policy,” “policy form,” or “form” means any policy, contract, rider, certificate, or other document that sets forth or summarizes the essential features of the coverage issued to an individual or group, **including an association**, by a carrier.

...

11:4-53.6 Loss ratio standards

(a) In order to assure that benefits are reasonable in relation to the premium charged, the minimum loss ratio for specified disease and critical illness policies shall be as follows:

1. For [group] policies **issued to groups other than associations**, at least 75 percent;
2. For individual policies, at least 60 percent[.]; **and**
3. **For group policies issued to associations, at least 65 percent.**

(b) – (f) (No change.)