

March 12, 1957

SUBJECT: INSURANCE

WITHDRAWN

TO ALL AUTHORIZED INSURERS WRITING GROUP LIFE AND GROUP ACCIDENT AND HEALTH INSURANCE:

The purpose of this letter is to acquaint all insurers authorized to write Group Life and Group Accident and Health insurance of the Department's view in respect to a request for approval to make quotations on new group cases on a basis which might not require the collection of the full manual premium for the first policy year of insurance.

The question has been asked whether on selected cases where it was felt the favorable aspects of the risk would warrant, the insurer would collect during the first policy year only a portion of the full monthly premium, e.g., 75% or 80%. This would be subject to an agreement by the policyholder that, in the event the claim experience recorded during the first policy year resulted in inadequate premiums under the method proposed, the company would collect an additional premium at the end of the first policy year. This additional premium would be equal to the difference between the amount actually paid by the group and 100% of the full manual premiums less any dividend payable under the policy at the end of the first year.

The plan as suggested was reviewed by Department Counsel and he has opined that:

"Under this proposal the company would contract in a group life insurance policy for a premium less than the minimum prescribed by Section 204(2) of the Insurance Law."

In addition, Counsel pointed out that, in Department's circular letter of December 21, 1949 with reference to "So-called Retention Agreements or Statements," it was ruled:

"If a group life insurance policy is submitted for approval which proposes to use the basis described. . . for determining premiums, approval would not be granted if the retrospective rating formula and its factors included in the policy at issue could result, for the first or any renewal year, in an initial premium rate or in an actual premium determined retrospectively less than the minimum promulgated by this Department in accordance with Section 204(2)."

The Department has ruled that the proposal is, in effect, a retrospective rating formula; is contrary to the above ruling and does not conform with the requirements of Section 204(2) of the New York Insurance Law.

Any similar procedure involving the collection during the first policy year of a lesser premium on group accident and health insurance policies than the manual rates filed with this Department would not conform with Section 221(7) and would be in violation thereof.

Please acknowledge receipt of this letter.

Very truly yours,

(Signed) LEFFERT HOLZ

Superintendent of Insurance