

(i) The original material submitted to CMS for review, as specified in § 403.232(b) or § 403.239(a); and

(ii) Any additional information, that the insuring organization submits to CMS.

(3) Within 15 days after the administrative review is completed, CMS will inform the insuring organization in writing of the final decision, with an explanation of the final decision.

(4) If the final decision is that a policy lose its certification, the loss of certification will go into effect 15 days after the date of CMS's notice informing the insuring organization of the final decision.

VOLUNTARY CERTIFICATION PROGRAM:  
LOSS RATIO PROVISIONS

**§ 403.250 Loss ratio calculations: General provisions.**

(a) *Basic formula.* The expected loss ratio is calculated by determining the ratio of benefits to premiums.

(b) *Calculations.* The insuring organization must calculate loss ratios according to the provisions of §§ 403.251, 403.253, and 403.254.

**§ 403.251 Loss ratio date and time frame provisions.**

(a) *Initial calculation date* means the first date of the period that the insuring organization uses to calculate the policy's expected loss ratio.

(1) The initial calculation date may be before, the same as, or after the date the insuring organization sends the policy to CMS for review, except—

(2) The initial calculation date must not be earlier than January 1 of the calendar year in which the policy is sent to CMS.

(b) *Loss ratio calculation period* means the period beginning with the initial calculation date and ending with the last day of the period for which the insuring organization calculates the policy's scale of premiums.

(c) To calculate "present values", the insuring organization may ignore discounting (an actuarial procedure that provides for the impact of a variety of factors, such as lapse of policies) for loss ratio calculation periods not exceeding 12 months.

**§ 403.253 Calculation of benefits.**

(a) *General provisions.* (1) Except as provided for in paragraph (a)(2) of this section, calculate the amount of "benefits" by—

(i) Adding the present values on the initial calculation date of—

(A) Expected incurred benefits in the loss ratio calculation period, to—

(B) The total policy reserve at the last day of the loss ratio calculation period; and

(ii) Subtracting the total policy reserve on the initial calculation date from the sum of these values.

(2) To calculate the amount of "benefits" in the case of community or pool rated individual or group policies rerated on an annual basis, calculate the expected incurred benefits in the loss ratio calculation period.

(b) *Calculation of total policy reserve—*

(1) *Option for calculation.* The insuring organization must calculate "total policy reserve" according to the provisions of paragraph (b) (2) or (3) of this section.

(2) *Total policy reserve: Federal provisions.* (i) "Total policy reserve" means the sum of—

(A) Additional reserve; and

(B) The reserve for future contingent benefits.

(ii) *Additional reserve* means the amount calculated on a net level reserve basis, using appropriate values to account for lapse, mortality, morbidity, and interest, that on the valuation date represents—

(A) The present value of expected incurred benefits over the loss ratio calculation period; less—

(B) The present value of expected net premiums over the loss ratio calculation period.

(iii) *Net premium* means the level portion of the gross premium used in calculating the additional reserve. On the day the policy is issued, the present value of the series of those portions equals the present value of the expected incurred claims over the period that the gross premiums are computed to provide coverage.

(iv) *Reserve for future contingent benefits* means the amounts, not elsewhere included, that provide for the extension of benefits after insurance coverage terminates. These benefits—

**§ 403.254**

(A) Are predicated on a health condition existing on the date coverage ends;

(B) Accrue after the date coverage ends; and

(C) Are payable after the valuation date.

(3) *Total policy reserve: State provisions.* “Total policy reserve” means the total policy reserve calculated according to appropriate State law or regulation.

**§ 403.254 Calculation of premiums.**

(a) *General provisions.* To calculate the amount of “premiums”, calculate the present value on the initial calculation date of expected earned premiums for the loss ratio calculation period.

(b) *Specific provisions.* (1) *Earned premium for a given period means—*

(i) Written premiums for the period; plus—

(ii) The total premium reserve at the beginning of the period; less—

(iii) The total premium reserve at the end of the period.

(2) *Written premiums in a period means—*

(i) Premiums collected in that period; plus—

(ii) Premiums due and uncollected at the end of that period; less—

(iii) Premiums due and uncollected at the beginning of that period.

(3) *Total premium reserve* means the sum of—

(i) The unearned premium reserve;

(ii) The advance premium reserve; and

(iii) The reserve for rate credits.

(4) *Unearned premium reserve* means the portion of gross premiums due that provide for days of insurance coverage after the valuation date.

(5) *Advance premium reserve* means premiums received by the insuring organization that are due after the valuation date.

(6) *Reserve for rate credits* means rate credits on a group policy that—

(i) Accrue by the valuation date of the policy; and

(ii) Are paid or credited after the valuation date.

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**§ 403.256 Loss ratio supporting data.**

(a) For purposes of requesting CMS certification under § 403.232, the insuring organization must submit the following loss ratio data to CMS for review—

(1) A statement of why the policy is to be considered, for purposes of the loss ratio standards, an individual or a group policy.

(2) The earliest age at which policyholders can purchase the policy.

(3) The general marketing method and the underwriting criteria used for the selection of applicants to whom coverage is offered.

(4) What policies are to be included under the one policy form, by the dates the policies are issued.

(5) The loss ratio calculation period.

(6) The scale of premiums for the loss ratio calculation period.

(7) The expected level of earned premiums in the loss ratio calculation period.

(8) The expected level of incurred claims in the loss ratio calculation period.

(9) A description of how the following assumptions were used in calculating the loss ratio.

(i) Morbidity.

(ii) Mortality.

(iii) Lapse.

(iv) Assumed increases in the Medicare deductible.

(v) Impact of inflation on reimbursement per service.

(vi) Interest.

(vii) Expected distribution, by age and sex, of persons who will purchase the policy in the coming year.

(viii) Expected impact on morbidity by policy duration of—

(A) The process used to select insureds from among those that apply for a policy; and

(B) Pre-existing condition clauses in the policy.

(b) For purposes of requesting continued CMS certification under § 403.239(a), the insuring organization must submit the following to CMS—

(1) A description of all changes in the loss ratio data, specified in paragraph (a) of this section, that occurred since CMS last reviewed the policy.

(2) The past loss ratio experience for the policy, including the experience of