COMMISSIONER OF SECURITIES & INSURANCE
OFFICE OF THE MONTANA STATE AUDITOR

INSTRUCTIONS FOR ESTIMATING THE COUNT OF INSURED LIVES

The following are guidelines for estimating the number of insured lives in Montana covered by disability insurance (as defined in 33-1-207, MCA) by your company.

For indemnity and HMO disability insurance plans, estimate this number of insured lives by following these steps. A demonstration of the calculation shown in steps 5 and 6 below, shown separately for each disability insurance policy form with premium volume in Montana, must accompany this estimate.

1 Determine the total disability insurance premium on policies in force during the year, separately for each policy form.

2 For each policy form, determine the "average plan" sold under that form. Plans may be differentiated by deductible/coinsurance level or by other features unique to specific plans. The "average plan" is the plan which most nearly represents the total plans sold under that policy form. This could be the plan with the highest premium volume, a plan between (in value) two or more plans with significant premium volumes, or a plan selected by some other indication that it fairly represents an average of the plans sold.

3 Determine the gross premium for each average plan for each of the following family categories: (a) a single insured individual; (b) an insured individual and spouse; (c) an insured family (that is, an insured individual, the spouse and the children); and (d) an insured individual and the children. Each gross premium should be based on policyholder characteristics which affect the rates (such as age, geographic area, occupation, etc.) that fairly represent an average for the blocks of business covered by the policy. This yields the average gross premium for each family category for each average plan under each policy form, and is represented by "Average Gross Premium$_y$" in the formula in step 5 below, where "y" refers to one of the four family categories described above.

4 Determine the average distribution of the four family categories above. That is, determine what percent of policies are sold to single individuals, what percent are sold to individual and spouse combinations, and so on. This distribution could change from policy to policy. Each percentage is represented by "Percent$_y$" in the formula in step 5 below.

5 Calculate the policy form's average premium per insured using the formula:

$$\frac{\Sigma_{\text{all y}}\ \text{Average Gross Premium}_y \times \text{Percent}_y}{\Sigma_{\text{all y}}\ \text{Average Number of Insureds}_y \times \text{Percent}_y} = \text{Average Premium per Insured}$$

The "Average Number of Insureds$_y$" for each family category is as follows: 1 for a single insured individual, 2 for an insured individual and spouse, 4 for an insured family and 3 for an insured individual with children.

6 Calculate the total number of insureds for the policy form as follows:

$$\frac{\text{Total In Force Premium}}{\text{Average Premium per Insured}} = \text{Total Number of Insureds}$$

7 The final step is to add all the estimates of number of insureds under each disability insurance policy form to arrive at a single estimate.

Stop loss and excess of loss insurers must contact each entity insured by these coverages to obtain the number of insureds, including dependents, covered under the contract, and add these counts. The insurer must demonstrate the method of determining the total number by submitting the name of each entity covered under the contract and the total number of insureds covered under each. If this number includes insureds which were counted by a primary insurer, submit the number of lives which were already counted, then subtract that number from the total number to get the number of lives not already counted. Be sure to submit all three numbers.