Branch McNeal
Partner

3131 East Camelback Road, Suite 300
Phoenix, AZ 85016
602 522 6500 Fax 602 957 9573
Branch.mcneal@mercer.com
www.mercer.com

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

October 22, 2010

Ms. Alix Shafer
Assistant Director, Life & Health Division
Arizona Department of Insurance
2910 North 44th Street, Suite 210
Phoenix, AZ 85018-7269

Subject: Proposal to assist the Arizona Department of Insurance (ADOI) with actuarial consulting to support work under the 2010 grant to Arizona for Health Insurance Premium Review – Cycle I

Dear Ms. Shafer:

Mercer Government Human Services Consulting (Mercer) is pleased to submit this proposal to provide actuarial consulting services to ADOI in support of your work under Arizona's Grant for Health Insurance Premium Review – Cycle I. If Mercer is selected to perform this work for ADOI it will be done under our Arizona Statewide Contract for Actuarial Services (Contract Number SCC070018-5-A3). This letter will outline our proposed approach and scope of work, as well as our proposed staffing and estimated budget.

Scope of Work and Proposed Approach

Proposed action steps are presented below to support the objectives and milestones submitted in ADOI's grant application. Mercer will work with ADOI to refine these proposed action steps, and related timing, in order to finalize the actual work to be performed.

Measurable Objective 1.A.

Milestone 1.A.v. *"By June 30, 2011, develop at least one consumer-friendly key-indicator of individual rate filings, for example, an item on the individual actuarial certification showing per-capita increases to premium of each rate revision."*

- Participate in and/or observe the results of the public comment process as identified in milestone 1.A.i.
- Review data/information currently collected by ADOI in order to identify potential indicators.
- Perform targeted research of other state's/industry standard indicators.

- Review proposed/revised data elements based on any changes to rate filing requirements to identify potential indicators.
- Present recommended options.
- Finalize proposed indicator(s).
- Participate in any additional public feedback process.

Milestone 1.A.vi. *"By June 30, 2011, develop at least one consumer-friendly key-indicator from the annual small group base premium and index rate submissions."*

- Participate in and/or observe the results of the public comment process as identified in milestone 1.A.i.
- Review data/information currently collected by ADOI in order to identify potential indicators.
- Perform targeted research of other state's/industry standard indicators.
- Review proposed/revised data elements based on any changes to rate filing requirements to identify potential indicators.
- Present recommended options.
- Finalize proposed indicator(s).
- Participate in any additional public feedback process.

Measurable Objective 1.B.

Milestone 1.B.i. *"By October 31, 2010, develop the criteria and process for substantive review."*
Note – The due date for this milestone will have to be amended. We believe this milestone can be completed approximately four weeks after work begins.

- Review current applicable State statute and regulations.
- Review current rate filing submission requirements and forms.
- Meet with/interview ADOI staff responsible for review of rate filings.
- Understand/determine any limitations or parameters surrounding a revised substantive review process.
- Perform limited research of other states' standard substantive review processes.
- Review a sample of 2010 filings to identify what information is typically included in the filings and what questions are unanswered in the submissions.
- Draft and propose substantive review process.
- Finalize proposed substantive review process.

Milestone 1.B.ii. *"By April 20, 2011, based on the new criteria and process, conduct substantive review of 100% of administratively complete initial rate filings and 75% of rate revision filings that insurers submit between November 1, 2010 and April 30, 2011."*
Note – Because this Milestone is dependent on the timing of Milestone 1.B.i., some refinement of the time periods involved in this milestone may be necessary. Mercer will work collaboratively with ADOI in order to finalize the date parameters for this Milestone.

- Perform the final accepted substantive review process developed in Milestone 1.B.i. with experienced and credentialed actuaries.
- This step may include a live and/or written question and answer process with the filing actuary and/or the insurance organization's representative(s).
- Record issues and findings from substantive rate reviews.

Milestone 1.B.iii. *"By May 15, 2011, for each filing reviewed under 1.B.ii., determine how often the actuarial certification of compliance is supported by the substantive review. In other words, how often can ADOI rely on the actuarial certification?"*

- Based on the substantive review process developed in Milestone 1.B.i. and performed in Milestone 1.B.ii., summarize and report to ADOI on the findings of the reviews for each filing reviewed.

Milestone 1.B.iv. *"By May 31, 2011, if the conclusion in the previous milestone (1.B.iii) is that the ADOI generally cannot rely on the actuarial certification, determine the reasons why."*

1.B.iv-a. *"By June 30, 2011, draft revisions to the existing form and related filing requirements as appropriate to make the actuarial certification a reliable tool."*

- Based on the findings from the milestones above, develop proposed revisions to filing requirements, forms and processes related to initial and revised individual health insurance rate filings.
- Any proposed revisions will be developed in a manner that minimizes change while maximizing impact.

1.B.iv-b. *"By August 15, 2011, obtain stakeholder input on the draft revisions, any changes proposed under 1.A.v., above, other revisions to facilitate insurers' filing and ADOI review of the form, and a reasonable implementation date for the revised form."*

- Participate in stakeholder input process as ADOI sees fit.
- Discuss input received with ADOI and revise final filing requirements, forms and processes.

Measurable Objective 1.C.

Milestone 1.C.i. *"By February 28, 2011, identify key indicators for compliance with small group rate-setting factors."*

- Review current applicable State statute and regulations.
- Review current rate filing submission requirements and forms.
- Meet with/interview ADOI staff responsible for review of rate filings.
- Perform limited research of other states' standard submission requirements.

Milestone 1.C.ii. *"By April 30, 2011, summarize information and variations in A.R.S. § 20-2311(E) non-standardized actuarial and in A.R.S § 20-2311(G) non-standardized base premium and index rate submissions for calendar year (CY) 2009 and CY 2010."*

- Review a sample of CY 2009 and 2010 filings to identify what information is typically included in the filings and what questions are unanswered in the submissions.
- Summarize and report on variations found from the review of historical filings.
- Present findings to ADOI.

Milestone 1.C.iii. *"By June 30, 2011, based on 1.C.i. and 1.C.ii., draft a standardized form for the small group actuarial certification and for submission of base premium and index rates, to be used by insurers for their CY 2011 filings."*
Note – If the standardized form is not finalized until June 30, 2011, it may not be feasible to require use/submission of the form for all of CY 2011.

- Based on the findings from the milestones above, draft a standardized form for the small group actuarial certification and for submission of base premium and index rates.
- The form will include the key indicator(s) developed under 1.C.i. and 1.A.vi.
- Participate in stakeholder input process (1.C.iv.) as requested by ADOI.

Miscellaneous Project Support
Mercer will assist ADOI with limited other activities necessary to support the overall grant project. For example, Mercer will provide summary write-ups of our activities, if necessary, for the completion of the quarterly grant reporting to HHS. In addition, ADOI may require Mercer's limited assistance in review and/or development activities related to the System for Electronic Rate and Form Filing (SERFF). Such activities are included in the scope of work and estimated pricing contained within this proposal letter.

Proposed Project Budget and Staffing

A summary of the estimated hours and total cost by staff level for the project is described in the table below. Mercer will make every effort to limit the hours (and cost) necessary to fulfill the tasks included within the scope of work. It is acknowledged that it may be possible to complete all tasks under this scope of work for less than the estimated budget presented below.

Labor Category	Hourly Rate		Estimated Hours		Estimated Total
Agency Project Leader	$395.00	per hour X	15	hours =	$ 5,925.00
Senior Actuary	$475.00	per hour X	150	hours =	$71,250.00
Consulting Actuary	$350.00	per hour X	150	hours =	$52,500.00
Actuarial Analyst	$180.00	per hour X	155	hours =	$27,900.00
Admin Support	$75.00	per hour X	9	hours =	$ 675.00
Total estimated hours and cost			**479**		**$158,250.00**

Mercer will submit a monthly invoice for the hours worked during the previous month. Mercer will bill the lesser of actual charges incurred or the estimated aggregate budget.

The anticipated primary team members by staff level include:

- Agency Project Leader: Branch McNeal, CPA
- Senior Actuaries: Kevin Russell, FSA, MAAA, Kevin Lurito, FSA, MAAA and Mike Nordstrom, ASA, MAAA
- Consulting Actuaries: Ron Betz, MAAA and Ron Ogborne, FSA, MAAA
- Actuarial Analyst: TBD
- Administrative Support: TBD

Our actuaries have experience in rate development for individual and small group health insurance products. We have also performed rate reviews and rate audits of health insurance premiums.

MERCER

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GUY CARPENTER OLIVER WYMAN

Thank you for the opportunity to provide our proposal. We look forward to discussing this letter with you and are ready to start the project as soon as we receive notification from you to begin. Please feel free to contact me at 602 522 6599 with any questions.

Sincerely,

Branch McNeal

Copy:
Mike Nordstrom
Kevin Lurito
Kevin Russell
Ron Betz
Ron Ogborne