June 20, 2011

Measurable Objective No. 1.C
Arizona Department of Insurance

Final

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Contents

1. Measurable objective No. 1.C 1
   - Milestone 1.C.ii. 1

2. Background 2

3. Observed variation in submissions 3
   - A.R.S. § 20-2311(E) 3
   - A.R.S. § 20-2311(G) 5

4. Summary 7

Appendix A 9

Appendix B 12

1

Measurable objective No. 1.C

"To determine whether the actuarial certification submission required by A.R.S. §20-2311(E) is a reliable tool for ADOI to use to determine whether small group rates in the market comply with the law and, if it is not, to develop a standardized form that is a reliable tool."

Milestone 1.C.ii.

"By April 30, 2011, summarize information and variation 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."

2

Background

Mercer Government Human Services Consulting (Mercer), a part of Mercer Health & Benefits LLC, has reviewed the current applicable state law related to the development of small employer group premium rates and rating practices as captured in A.R.S. §20-2311. Mercer has also reviewed a portion of the CY 2009 and CY 2010 small employer group certification statements, including the base premium and index rate submissions.

For CY 2009, Mercer reviewed 27 small employer group submissions that reflect approximately 96.5% of the total covered lives in 2009. Two of these submissions identified that they either do not actively market small group products, or will withdraw from the Arizona market. For CY 2010, Mercer reviewed 19 small employer group submissions that reflect approximately 60.4% of the total covered lives in 2009 (a report of covered lives in 2010 was not available during this review). Three of these submissions identified that they either do not actively market small group products, or will withdraw from the Arizona market.

Arizona law does not require insurers to submit small employer group premium rates; therefore, the Arizona Department of Insurance (ADOI) does not review any premium rates for the small group market. However, A.R.S. §20-2311 does provide guidance related to rating practices and requires the submission of specific documents, including certifications, base premium rates and index rates.

The following section summarizes and describes the observed variation as it relates to the submissions for the CY 2009 and CY 2010 small employer group actuarial certifications and base premium and index rate submissions applicable to A.R.S. § 20-2311(E) and A.R.S. § 20-2311(G), respectively.

It has been observed that there is limited standardization of format or language related to the actuarial certification, which makes determining compliance with the small group laws subject to some interpretation. Standardizing the certification would help to enhance the review process and provide more consistency in determining compliance with the small group laws.

3

Observed variation in submissions

A.R.S. § 20-2311(E)

Each accountable health plan shall file annually with the director a written statement by a member of the American Academy of Actuaries or another individual acceptable to the director certifying that, based on an examination by the individual, including a review of the appropriate records and of the actuarial assumptions of the accountable health plan and methods used by the accountable health plan in establishing base premium rates, index rates and premium rates for small employer health benefit plans:

1. *The accountable health plan is in compliance with the applicable provisions of this article.*
2. *The rating methods are actuarially sound.*

Variation

Mercer observed significant variation in the filed small employer group actuarial certifications. Most certifications included general statements of compliance without any detail or description as to the methods and processes used to determine compliance with the law. Despite the general nature of these certifications, Mercer considered these types of certifications to be compliant based on indirect, general statements of compliance.

Other certifications were very explicit in illustrating the testing procedures and review methods performed, as well as identifying any non-compliance issues discovered during the review and the remedial action taken to address the situation. Mercer considered these types of certifications to be compliant based on explicit statements of compliance.

To illustrate the range of variation observed during the review process, the bulleted list on the following page identifies various topics identified in different certifications. Most certifications included only a general statement of compliance, but others provided much more detail to explicitly illustrate how compliance was determined.

- General statements of compliance with A.R.S. § 20-2311
- General statements of compliance utilizing the language contained specifically in A.R.S. § 20-2311(E)
- Explicit statements of compliance with each subsection of A.R.S. § 20-2311
- An opening statement describing the purpose of the certification
- A description of the signing actuary, including their qualifications and role with the accountable health plan
- Qualified statements identifying reliance on other parties for a portion of the review process, including other actuarial staff, legal staff and underwriters
- Explicit statements certifying that various components of the rating process have been reviewed, including:
  - A review of system edits
  - Variation in new business versus renewal business processes
  - A review of the actuarial assumptions and rating methodologies
  - Quantifying the number of group policies reviewed
  - Identifying specific non-compliance issues identified during the review process
  - Providing the remedial action taken to address the situation
- Compliance with the Actuarial Standard of Practice #26
- An explicit statement attesting to the actuarial soundness of the rating practices
- A brief description of the rating procedures utilized to develop premium rates

Examples of specific small employer group actuarial certifications that contained explicit statements of compliance and more detailed descriptions about the accountable health plan's review processes and testing procedures are, National Association of Insurance Commissioners (NAIC) #73288, NAIC #68420 and NAIC #79413. Some combination of the various components contained in these certifications could be used to develop a more standardized small employer group actuarial certification.

Statutory requirements

At a minimum, for the review under A.R.S. § 20-2311(E), Mercer verified that the certifications contained explicit statements that (1) the accountable health plan is in compliance with the applicable provisions of this article, and (2) the rating methods are actuarially sound. In addition, Mercer verified that, for the time periods under review, the signing actuary was a member of the American Academy of Actuaries and that they were in compliance with the continuing professional development requirement as identified on the Society of Actuaries website.

Three submissions in CY 2009 and two submissions in CY 2010 did not include an explicit statement that the rating methods are actuarially sound. However, it should be noted that these submissions did make general statements that the business was administered within all of the rating provisions identified in A.R.S. § 20-2311.

In addition, one submission each in CY 2009 and CY 2010 may not meet the statutory requirement that the signing actuary comply with the continuing professional development requirement in the American Academy of Actuaries and Society of Actuaries. The signing actuary is not listed as compliant in the Society of Actuaries' directory. This issue is specific to one accountable health plan for both certification time periods. Mercer recommends additional follow up in this case to determine compliance.

Additional observations

Mercer noted additional variation observed in the small employer group actuarial certifications. These observations are not explicitly identified in A.R.S. § 20-2311(E). These additional observations are listed below:

- Not all certifications included the accountable health plan's NAIC number
- Not all certifications explicitly identified the annual time period covered by the certification

A.R.S. § 20-2311(G)

Each accountable health plan shall annually file with the director for informational purposes the accountable health plan's base premium rates and index rates. On request, the director shall make the base premium rates or the index rates available to the public for inspection.

Variation

Mercer observed variation in the base premium and index rate submissions as provided by the accountable health plans. The variation ranged from submitting a single base premium and index rate, to submitting a rate manual, including a tabular listing of rates by product type and demographics.

Other variation observed in the base premium and index rate submissions are listed below:

- Not all submissions explicitly identified the effective date for the filed rates
- The submissions reported various effective dates for the base premium and index rates. Observed examples include:
  - January 1st for the year corresponding with the small employer group actuarial certification
  - January 1st for the year following the small employer group actuarial certification
  - Other dates including an April 1st effective date and a December 1st effective date

Statutory requirements

For the purposes of this review, Mercer interpreted A.R.S. § 20-2311(G) to require the submission of at least one base premium and index rate. Additionally, Mercer utilized the definitions of base premium rate and index rate as explicitly defined in A.R.S. § 20-2301(A.3) and (A.14), respectively. These definitions are listed below:

Base premium rate means, for each rating period, the lowest premium rate that could have been charged under a rating system by the accountable health plan to small employers for health benefits plans involving the same or similar coverage, family size and composition, and geographic area.

Index rate means, as to a rating period, the arithmetic average of the applicable base premium rate and the highest premium rate that could be charged under a rating system by the accountable health plan to small employers for a health benefits plan involving the same or similar coverage, family size and composition, and geographic area.

Eleven submissions in CY 2009 and eight submissions in CY 2010 did not meet all the requirements of A.R.S. § 20-2311(G) because either base premium rates or index rates were not filed, or no rates were filed at all. Additionally, two submissions in CY 2009 and one submission in CY 2010 provided rate manuals without a specific base premium rate and index rate. These submissions provide additional information not required under the current law, but do not provide the explicit information that is required by current law. The detailed results of this review are displayed in Appendices A and B as attachments to this report.

4

Summary

The summarized information and observations described in the previous sections are based on Mercer's review of the CY 2009 and CY 2010 small employer group certification statement and base premium and index rate submissions, as provided by ADOI. The submissions provided to Mercer are assumed to reflect complete submissions as provided by the accountable health plans. If, through additional review, it is discovered that supporting documents were filed with ADOI, but were not included as a part of this review, the results and observations as stated in this report may be amended to reflect any new information relevant to this review. Mercer also utilized its understanding and interpretation of A.R.S. §20-2311 in developing the results and observations identified in this report.

The findings and observations detailed in this report identify significant variation in how the accountable health plans submit the small employer group actuarial certifications, including the base premium and index rate submissions. A more detailed tracking of Mercer's findings for each small employer group submission reviewed are attached as Appendix A for the CY 2009 submissions and Appendix B for the CY 2010 submissions.

In general, most of the small employer group actuarial certifications meet the requirements of A.R.S. § 20-2311(E) as currently stated. A few submissions were lacking an explicit statement in the certification that the rating methods are actuarially sound. Also, a couple of other submissions were lacking evidence of the signing actuary's completion of continuing professional development requirements, as required by the Society of Actuaries.

However, the findings suggest that increased standardization and prescriptive language would enhance the reliability and confidence placed on these small employer group actuarial certifications to meet the requirements of the law in a more explicit manner. The findings also suggest that increased standardization and definitions of terms would enhance the reliability and comparability of the base premium and index rate submissions.

Mercer will review these findings with ADOI and discuss recommendations related to enhancements for increased standardization in the submitted forms. Mercer will also recommend additions or changes to the existing forms to increase the reliability for ADOI to use these documents in determining whether small group rates in the market meet the requirements of the law. These additional tasks will be conducted as a part of milestone task 1.C.iii.

Appendix A

CY 2009 Small Group Submissions – Summary of Analyses

NAIC	Cert Year	Date Stamp	2009 SG Lives[a]	2009 % of SG Lives	Meets Requirements of A.R.S. § 20-2311 (G)				
					Base Rate	Index Rate	Multiple Filed Rates	Effective Date	Meets Requirement
53589	2010	2/26/2010	80,909	27.9%	$ 383.00	$ 958.00	No	1/1/2010	Yes
79413	2009	4/1/2010	64,338	22.2%	$ 183.06	$ 457.65	No	1/1/2010	Yes
96016	2009	4/1/2010	25	0.0%	$ 178.30	$ 445.76	No	1/1/2010	Yes
84506	2009	4/1/2010	452	0.2%	$ 173.60	$ 433.99	No	1/1/2010	Yes
66141	2009	2/23/2010	15,419	5.3%	$ 310.11	$ -	Yes	4/1/2010	No
95206	2009	2/23/2010	4,106	1.4%	$ 279.37	$ -	No	4/1/2010	No
95125	2009	3/15/2010	1,175	0.4%	$ 274.51	$ 686.28	Yes	4/1/2010	Yes
62308	2009	3/15/2010	4,794	1.7%	$ 327.08	$ 817.69	Yes	4/1/2010	Yes
72052		3/29/2010	-	0.0%					No
95109		3/29/2010	17,049	5.9%					No
60054		3/29/2010	36,634	12.6%					No
95885	2009	4/1/2010	20,688	7.1%	$ 4,928.11	$ 12,320.28	No	1/1/2010	Yes
73288	2009	4/1/2010	17,664	6.1%	$ 4,465.31	$ 11,163.28	No	1/1/2010	Yes
68420	2009	2/25/2010	216	0.1%	$ 268.00	$ 669.00	Yes	1/1/2009	Yes
70408	2009	2/26/2010	240	0.1%					No
69477	2009	2/26/2010	380	0.1%		$ 424.00	Yes	12/1/2009	No
65080	2009	2/26/2010	4,874	1.7%		$ 424.00	Yes	12/1/2009	No
61727	2009	2/16/2010	82	0.0%	$ 321.29	$ 803.23	No	1/1/2010	Yes
67636		1/25/2010	1,818	0.6%	$ 135.07	$ 337.67	No		Yes
61271	2009	2/26/2010	4,483	1.5%	Provided rate manual				No
65781	2009	3/1/2010	384	0.1%					No
69078	2009	3/1/2010	222	0.1%	Provided rate manual			1/1/2010	No
90638	2009	3/1/2010	317	0.1%					No
62863	2009	2/25/2010	3,200	1.1%	$ 551.27	$ 1,378.18	No	1/1/2009	Yes
90328	2009	3/1/2010	243	0.1%					No

Notes:

a) The reported small group lives reflect unaudited information.

CY 2009 Small Group Submissions – Summary of Analyses

NAIC	Implicit and Explicit Statements to be Included in the Actuarial Certification per A.R.S. § 20-2311 (E)						
	MAAA	Were Records Tested	Reviewed Rating Methods	Reviewed Rating Assumptions	Statement of Compliance	Statement to Actuarial Soundness	Meets Requirement
53589	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
79413	Yes	Explicit Stmt	Explicit Stmt	Explicit Stmt	Yes	No	No
96016	Yes	Qualified Stmt	Qualified Stmt	Qualified Stmt	Yes	Yes	Yes
84506	Yes	Explicit Stmt	Explicit Stmt	Explicit Stmt	Yes	Yes	Yes
66141	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
95206	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
95125	Yes	Explicit Stmt	Explicit Stmt	Explicit Stmt	Yes	No	No
62308	Yes	Explicit Stmt	Explicit Stmt	Explicit Stmt	Yes	No	No
72052	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
95109	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
60054	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
95885	Yes	Explicit Stmt	Explicit Stmt	Explicit Stmt	Yes	Yes	Yes
73288	Yes	Explicit Stmt	Explicit Stmt	Explicit Stmt	Yes	Yes	Yes
68420	No	Explicit Stmt	Explicit Stmt	Explicit Stmt	Yes	Yes	Yes
70408	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
69477	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
65080	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
61727	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
67636	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
61271	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
65781	Yes	Explicit Stmt	Explicit Stmt	Explicit Stmt	Yes	Yes	Yes
69078	Yes	Explicit Stmt	Explicit Stmt	Explicit Stmt	Yes	Yes	Yes
90638	Yes	Explicit Stmt	Explicit Stmt	Explicit Stmt	Yes	Yes	Yes
62863	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
90328	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes

Notes:

a) The reported small group lives reflect unaudited information.

Appendix B

CY 2010 Small Group Submissions – Summary of Analyses

NAIC	Cert Year	Date Stamp	2009 SG Lives[a]	2009 % of SG Lives	Compliant with A.R.S. § 20-2311 (G)				
					Base Rate	Index Rate	Multiple Filed Rates	Effective Date	Meets Requirement
53589	2011	2/16/2011	80,909	27.9%	$ 415.00	$ 1,036.00	No	1/1/2011	Yes
66141	2010	2/3/2011	15,419	5.3%	$ 342.36	$ -	Yes	4/1/2011	No
95206	2010	2/3/2011	4,106	1.4%	$ 307.13	$ -	No	4/1/2011	No
95125	2010	2/28/2011	1,175	0.4%	$ 220.06	$ 550.15	No	4/1/2011	Yes
62308	2010	2/28/2011	4,794	1.7%	$ 235.14	$ 587.84	No	4/1/2011	Yes
72052		2/24/2011	-	0.0%					No
95109		2/24/2011	17,049	5.9%					No
60054		2/24/2011	36,634	12.6%					No
68420	2010	2/28/2011	216	0.1%	$ 282.00	$ 705.00	Yes	1/1/2010	Yes
70408	2010	2/23/2011	240	0.1%		$ 2,181.00	Yes	1/1/2010	No
69477	2010	2/23/2011	380	0.1%		$ 526.12	Yes	1/1/2010	No
65080	2010	2/23/2011	4,874	1.7%		$ 526.12	Yes	1/1/2010	No
70629	2010	2/15/2011	-	0.0%	$ 372.70	$ 931.74	No	1/1/2011	Yes
67636[b]		1/28/2011	1,818	0.6%	$ 146.51	$ 366.27	No		Yes
61271	2010	2/10/2011	4,483	1.5%	Provided rate manual				No
62863	2010	2/11/2011	3,200	1.1%	$ 640.66	$ 1,600.27	Yes	1/1/2010	Yes
82406	2010	3/28/2011		0.0%	$ 190.03	$ 475.07	No	1/1/2011	Yes

Notes:

a) The reported small group lives reflect unaudited information.

b) NAIC #67636 has indicated that it has withdrawn from all markets. Its last group sold was effective 02/01/2010, and its last renewal was effective 07/01/2010.

CY 2010 Small Group Submissions – Summary of Analyses

NAIC	Implicit and Explicit Statements to be Included in the Actuarial Certification per A.R.S. § 20-2311 (E)						
	MAAA	Were Records Tested	Reviewed Rating Methods	Reviewed Rating Assumptions	Statement of Compliance	Statement to Actuarial Soundness	Meets Requirement
53589	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
66141	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
95206	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
95125	Yes	Explicit Stmt	Explicit Stmt	Explicit Stmt	Yes	No	No
62308	Yes	Explicit Stmt	Explicit Stmt	Explicit Stmt	Yes	No	No
72052	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
95109	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
60054	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
68420	No	Explicit Stmt	Explicit Stmt	Explicit Stmt	Yes	Yes	Yes
70408	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
69477	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
65080	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
70629	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
67636[b]	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
61271	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
62863	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes
82406	Yes	General Stmt	General Stmt	General Stmt	Yes	Yes	Yes

Notes:

a) The reported small group lives reflect unaudited information.

b) NAIC #67636 has indicated that it has withdrawn from all markets. Its last group sold was effective 02/01/2010, and its last renewal was effective 07/01/2010.

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