Health Insurance Rate Review Grant Program

Arizona Department of Insurance

June 23, 2011

Welcome!

- Introductions
- Overview of Rate Review Grant Program
- Individual Health Insurance Rate Review
  - Current ADOI Process
  - Actuarial Evaluation of Current ADOI Process
  - ADOI Summary of Evaluation Results
  - Options for Improvement

Welcome!

- Small Group Rate Submissions
  - Current ADOI Process
  - Actuarial Evaluation of Current ADOI Process
  - ADOI Summary of Evaluation Results
  - Options for Improvement
- Follow-Up Industry Meeting in July
- Questions and Feedback

Overview of Grant Program

- Purpose: Increase the Transparency and Effectiveness of ADOI's Rate Review
- $550,441
- Grant period August 9, 2010 - September 30, 2011
- Created three temporary full-time staff positions
- Retained Mercer as actuarial consultants

ADOI GRANT OBJECTIVES

- Transparency
  - Improve Public Access to Meaningful Information
- Effectiveness of Compliance Review
  - Evaluate Current Rate Oversight Process
  - As Appropriate, Modify Current Process
  - Enhance Process, Not Expand Authority

TRANSPARENCY

- Find Out the Meaning of “Meaningful”
  - Explain Current System
  - Ask for Suggestions and Priorities

- Meaningful Information

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  Key Indicators (Snapshots)

TRANSPARENCY ACTIVITIES

- "Transparency Team"
- Eight Consumer Meetings, Statewide.
  - Six on Rate Review in General
  - Two Focused on Actual Filings/Submissions
- On-line Survey: 392 Responses
- On-line FAQs
- Dedicated E-mail Address

TRANSPARENCY IN FILINGS: CONSUMERS WANT TO KNOW...

- How often/how much has my company raised rates in the last few years?
- What are the main reasons my company raised rates this year? (And keep it simple!)
- How many other people/groups are getting an increase?

TRANSPARENCY IN FILINGS: CONSUMERS WANT TO KNOW...

- The company told my agent the average rate increase would be 10%. Why did my premium go up 25%?
- Why did my premium go up? I never go to the doctor!
- Is my increase higher or lower than other increases?

TRANSPARENCY AT LARGE: CONSUMERS WANT TO KNOW...

- How much does Arizona law allow insurers to raise rates?
- Is my rate increase legal?
- Why doesn’t ADOI stop insurers from raising rates?

EFFECTIVENESS

- Current Review Process
  - Individual Rate Filings
    - ARS § 20-1342.02
    - AAC R20-6-6-7
  - Small Group Rate Submissions
    - Annual Actuarial Certification
      ARS § 20-2311(E)
    - Annual Base Premium and Index Rates
      ARS § 20-2311(G)
  - No HMO Review; No Large Group Review.

CURRENT ADOI COMPLIANCE REVIEW - INDIVIDUAL

- "Form/Rate" Filing: Insurers must file rates with every new policy form.
  - ADOI approves or disapproves filing
- "Rate" or "Rate Revision" Filing: Insurers must file every rate revision before implementing it.
  - ADOI files or rejects the filing
- ADOI practice is to give an opportunity to correct before disapproving or rejecting.

CURRENT ADOI COMPLIANCE REVIEW - INDIVIDUAL

- Administrative Requirements
  - Checklist
  - Actuarial Certification (P-124)
  - Actuarial memorandum, as required by rule.

- Administrative review based primarily on the checklist and P-124. Is everything there?

CURRENT ADOI COMPLIANCE REVIEW - INDIVIDUAL

- Statutory Substantive Standard – Benefits may not be “unreasonable in relation to the premium charged.”
- Standard in Rule – Benefits deemed reasonable if the filing show a certain anticipated loss ratio (ALR)
  - ALR for most major medical filings = at least as great as 55%
  - Contents of filings
    - Actuarial memorandum “shall describe or indicate the calculation of the [ALR].”
    - Expected average effect on premium
    - Rate history and experience

CURRENT ADOI COMPLIANCE REVIEW - INDIVIDUAL

- Substantive review based primarily on the P-124.
  - No. 3(d). What is the average rate increase requested for this revision? ____ %
  - No. 5. The anticipated loss ratio standard required by AAC R20-6-607 for this type of coverage and form is ___%.
  - No. 6. The anticipated loss ratio based on the rates proposed under this rate submission is ____%.

ACTUARIAL EVALUATION OF CURRENT REVIEW PROCESS – INDIVIDUAL

- Substantive Reviews
  - Form/Rate Filings
  - Rate Revision Filings
- Compliance with AAC R20-6-607
- Accuracy in completing P-124 Form
- Compliance with Checklist Standards, Rate Filing Instructions and Actuarial Standards of Practice

ACTUARIAL EVALUATION OF CURRENT REVIEW PROCESS – INDIVIDUAL

- Some Elements Reviewed – Form/Rate and Rate Revision Filings
  - Response to Checklist Standards
  - The Anticipated Loss Ratio (ALR) that Applies to this Type of Form
  - The ALR Based on the Rates Proposed
  - Certification by Qualified Actuary

ACTUARIAL EVALUATION OF CURRENT REVIEW PROCESS – INDIVIDUAL

- Some Elements reviewed – Form/Rate and Rate Revision Filings (cont'd)
  - The basis for the proposed rates and the calculation of the ALR in the Actuarial Memorandum
  - Trend Development
  - Explanation of Load Factors

ACTUARIAL EVALUATION OF CURRENT REVIEW PROCESS – INDIVIDUAL

- Some Elements Reviewed – Form/Rate Filings Only
  - A Description of the Formulation of New Rates
  - An Actuarial Validation of the Methodology and Assumptions
  - An Explanation of Factors Used
  - Schedule of Amounts to be Charged.

ACTUARIAL EVALUATION OF CURRENT REVIEW PROCESS – INDIVIDUAL

- Some Elements Reviewed –Revisions Only
  - Scope and Reason for Rate Revision
  - Experience/History as Required by the Rule
  - Expected Average Effect on Premiums
  - Number of Affected Policy-Holders
  - How the Changes Were Calculated and Actuarial Validation of the Methodology
  - Current/Proposed Rates, Showing How the Change was Applied

ADOI SUMMARY OF EVALUATION - INDIVIDUAL

- Total of 63 Filings
  - 25 Rate Revisions
  - 38 Form/Rates
- Checklist Complete: 22 out of 63 Filings.
  - For rate revisions: 1 out of 25 filings.
- Actuarial Certification (P-124) Complete: 43 out of 63 Filings.
- P-124 Requirements Are Ambiguous.
  - E.g., Question 7: What is “average rate increase?”

ADOI SUMMARY OF EVALUATION - INDIVIDUAL

- Actuarial Memorandum Adequately Supports Rate and Actuarial Certification (P-124): 24 out of 63 Filings

- **Actuarial Memorandum Describes Calculation of ALR: 33 out of 63 Filings**

ADOI SUMMARY OF EVALUATION - INDIVIDUAL

- Anticipated Loss Ratio (ALR) Stated as a Numerical Value: 52 out of 63 Filings.
  - Examples of Numerical Value:
    - 75%
    - 69.3%
  - Numerical Value ≠:
    - ≥ 55% or > 65%
    - 72% to 84%

INDIVIDUAL RATE FILINGS: OPTIONS ???

- Discontinue Checklist

AND

- Develop Actuarial Memorandum Template, for example:
  - Section 1. Scope and Reason for Rate Revision
  - Section 2. Loss Experience
  - Section 3. 5 year history
  - Section 4. Factors (“applicable criteria”), e.g. Age, Sex, Dependent Status, et. al.
  - Section 5. Description of Calculation of ALR

INDIVIDUAL RATE FILINGS: OPTIONS ???

- Separate Template For New Rates and Rate Revisions

- Revise P-124, for example:
  - Require Numerical Value ALR. No carrots; no ranges.
  - Standardized “Average Rate Increase” such as HHS Weighted Average
  - Separate P-124 For New Rates and Rate Revisions

INDIVIDUAL RATE FILINGS: OPTIONS ???

- P-124 as a Place for Transparency Key Indicators
  - Factors in Determining Rate Changes
  - Recent Rate History
  - Meaningful Information about the Increase, Other Than the Average
    - Minimum and Maximum Increase?

CURRENT ADOI COMPLIANCE REVIEW -SMALL GROUP

- Completely Different Regulatory Requirements Than Individual
  - Annual Actuarial Certification of Compliance With Statutory Requirements (ARS § 20-2311(E))
  - Annual Filing for "Informational Purposes" of Base Premium and Index Rates (ARS § 20-2311(G))

CURRENT ADOI COMPLIANCE REVIEW -SMALL GROUP

- Annual Actuarial Certification (ARS § 20-2311(E))
  - Log in submissions
  - Ad hoc review, in response to complaints, questions or public record requests
  - Last comprehensive compliance check was in 2007.
- Annual Base Premium and Index Rates (ARS § 20-2311(G))
  - Same as above

ACTUARIAL EVALUATION OF SUBMISSIONS – SMALL GROUP

- Review Process
  - Data sources
    - ARS § 20-2311
    - CY2009 and CY 2010 actuarial certifications
    - Accompanying base premium rates and index rates
  - Process
    - Develop consistent review criteria
    - Uniform application of criteria

ACTUARIAL EVALUATION OF SUBMISSIONS – SMALL GROUP

- Criteria
  - ARS § 20-2311(E)
    - Statement of compliance with the applicable provisions of this article
    - Statement that the rating methods are actuarially sound
    - Annual certification by a MAAA
    - Conducted a review of the records, assumptions and methods utilized in developing premium rates

ACTUARIAL EVALUATION OF SUBMISSIONS – SMALL GROUP

- Review Process
  - Outcomes
    - Summarize results
    - Identify areas for improvement
    - Propose changes, standardization
  - Notes
    - This was not a review of the actual premium calculations, methodology or appropriate application of case characteristics in the small group market

ADOI SUMMARY OF EVALUATION ACTUARIAL CERTIFICATION

- Total of 42 Submissions in 2009 and 2010
- 42 out of 42 state that the company complies with “applicable provisions of this article” (ARS § 20-2311(E)(1)).
- 37 out of 42 state that the company’s “rating methods are actuarially sound.” (ARS § 20-2311(E)(2))

ADOI SUMMARY OF EVALUATION - ACTUARIAL CERTIFICATION

- 13 out of 42 stated that the actuary conducted the review required by ARS § 20-2311(E) of:
  - Appropriate records
  - Actuarial assumptions of the company
  - Methods used to establish small group rates.

ADOI SUMMARY OF EVALUATION - ACTUARIAL CERTIFICATION

- Variation in the statements of compliance
  - Statements of compliance with each subsection of ARS § 20-2311
  - Qualified statements of compliance, identifying reliance on other parties
  - The purpose of the certification

ADOI SUMMARY OF EVALUATION - ACTUARIAL CERTIFICATION

- NAIC number not always given
- Annual certification period not always identified
- Explicit statement of compliance with ASOP #26
- The signing actuary's qualifications

ADOI SUMMARY OF EVALUATION - ACTUARIAL CERTIFICATION

- Various explicit statements about components of review
  - A review of system edits
  - A review of actuarial assumptions and rating methods
  - New business versus renewal business processes
  - The number of policies reviewed
  - Identifying non-compliance and remedial action

ADOI SUMMARY OF EVALUATION - BASE PREMIUM/INDEX RATES

- Total of 42 Annual Certifications Submitted in 2009 and 2010
- 20 out of 42 Filed Base Premium AND Index Rates.
- 9 out of 42 Filed Base Premium OR Index Rates, but Not Both.

ADOI SUMMARY OF EVALUATION BASE PREMIUM/INDEX RATES

- Of the 29 that submitted one or both rates, 17 filed a single rate for each. 12 filed multiple rates for each.
- 13 out of 42 filed neither base premium nor index rates.
  - 22% of 2009 small group market.
  - 3 out of the 13 attached rate manuals but did not point out the base premium or index rates.

SMALL GROUP SUBMISSIONS OPTIONS ???

- Develop Annual Certification Template, for example:
  - Statement that the company complies with applicable provisions of this article
  - Statement that the company's "rating methods are actuarially sound."

SMALL GROUP SUBMISSIONS OPTIONS ???

- Statement that actuarial review included:
  - Appropriate Records
  - Actuarial Assumptions
  - Rating Methods

- Statement of Compliance with ASOP # 26

SMALL GROUP SUBMISSIONS OPTIONS ???

- NAIC #
- Calendar Year Covered by Certification
- For Transparency Key Indicators
  - Factors in Determining Rates
  - Rate Increase History
  - Number of policies reviewed and/or number of covered lives

SMALL GROUP SUBMISSIONS OPTIONS ???

- Develop Template (Surprise!) for Base Premium and Index Rates, for example:
  - Effective Date
  - Designate Single Rate or Multiple Rates
  - Certification by Officer or Actuary

SMALL GROUP SUBMISSIONS OPTIONS ???

- Transparency Items: Is there any way to make base premium rates and index rates meaningful to consumers?
  - Plain English explanation of base premium rate and index rate as defined in ARS §§ 20-2301(3) and (14)

QUESTIONS & FEEDBACK

Your Turn!!!