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Measurable Objective No. 1.C
Arizona Department of Insurance

MERCER

Government Human Services Consulting

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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.i.

"By February 28, 2011, identify key indicators for compliance with small group rate-setting factors."

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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 (Appendix A). Mercer has also reviewed a portion of the 2009 small employer group certification statements, including the base premium and index rate submissions. ADOI has also provided Mercer with a summary of consumer complaints from the small employer group market which identifies that ultimate price or premium increase is the primary driver for consumer complaints in this market.

Arizona law does not require insurers to file 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.

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 to be more prescriptive would help in enhancing the review process and provide more consistency in determining compliance with the small group laws.

The following section describes various key indicators which could be used to determine compliance with the small group rating regulations, including the applicable forms and filings.

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Key indicators

Rating practices

A.R.S. §20-2311 A–C provides guidance related to the application of specific rating factors, deviations from the index rate and limitations related to premium changes.

Specifically, A.R.S. §20-2311 A provides for no more than a 60% variation in premiums charged to a small employer from the filed index rate for health benefits plans involving the same or similar case characteristics.

A.R.S. §20-2311 B requires that rating practices related to demographic characteristics shall be applied consistently across all small employer groups. Additional requirements are also provided as it relates to the development of geographic area factors.

A.R.S. §20-2311 C prescribes protections as it relates to percentage increases in premium rates charged to small employer groups for a new rating period.

As premium rates, rating manuals and rating factors are not required to be filed with the ADOI, compliance under the current regulatory environment is limited to the actuarial certification statement and any additional information as provided by the accountable health plans.

A key indicator that may be used to determine compliance with A.R.S. §20-2311 A–C is:

- Based on a review of the actuarial certification as required in A.R.S. §20-2311 E, determine whether the certification addresses each of the prescribed rating rules listed above either directly with explicit statements of compliance or indirectly with a general statement of compliance.

Disclosure information

A.R.S. §20-2311 D requires that an accountable health plan fully disclose to the small employer group certain key elements about the health benefits plan each time an offer is presented. These key elements include:

- *Rating practices for small employer health benefits plans, including rating practices for different populations and benefit designs.*
- *The extent to which premium rates for the small employer are established or adjusted based on the actual or expected variation in claims costs or health condition of the employees of the small employer and their dependents.*
- *The accountable health plan's right to change premium rates, the extent to which premiums can be modified and the factors that affect changes in premium rates.*

Key indicators that may be used to determine compliance with A.R.S. §20-2311 D are:

- Based on a review of the documentation and communication filed with the ADOI, determine whether the accountable health plan addresses compliance with the disclosure information listed above either directly with explicit statements of compliance or indirectly with a general statement of compliance.
- Based on a review of the documentation and communication filed with the ADOI, if the required disclosure information is determined to be included with the accountable health plan's offer to a small employer group as a disclosure statement or another form of communication, a sample of the language should be on file with the ADOI.

Actuarial certification

A.R.S. §20-2311 E states that:

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.*

At a minimum, the certification should specifically address or include the items listed below which can be used as key indicators to determine compliance with A.R.S. §20-2311 E:

- Based on a review of the actuarial certification, determine if the written statement is signed by a member of the American Academy of Actuaries.
- If the statement is not signed by a member of the American Academy of Actuaries, then documentation from the director approving this individual as an acceptable signer must be provided.

- Based on a review of the actuarial certification, determine if the accountable health plan provides a description of their rating systems and edits, highlighting how the systems control for compliance with A.R.S. §20-2311.
- Based on a review of the actuarial certification, determine if the accountable health plan provides a description of the testing procedures, proportion of policies tested, outcomes and resolutions used in determining compliance with A.R.S. §20-2311.
- Based on a review of the actuarial certification, determine if it provides a statement that the rating methods and assumptions are actuarially sound.
- Based on a review of the actuarial certification, determine if it provides a statement that the accountable health plan is in compliance with A.R.S. §20-2311.

Additional recommendations related to the actuarial certification which are not explicitly required in A.R.S. §20-2311, nor explicitly prohibited, are as follows:

- As a part of the small group rate review processes performed by ADOI, verify that the signing actuary is a member, currently in good standing, with the American Academy of Actuaries and is compliant with all continuing education requirements (verification can be accessed through an on-line directory at www.actuary.org).
- Note exceptions for follow-up if the signing actuary does not have health credentials. For example, if the actuary's credentials reflect either casualty designations (ACAS or FCAS) or pension designations (EA, MSPA, FSPA). Common accepted credentials for signing actuarial certifications or providing statements of actuarial opinion for health related work are FSA or ASA.
- Based on a review of the actuarial certification, determine if the certification is in compliance with the Actuarial Standards of Practice No. 28 (ASOP 28). ASOP 28, Compliance with statutory and regulatory requirements for the actuarial certification of small employer health benefits plans, provides binding requirements on professional work performed by actuaries who prepare certifications of compliance in the small employer group market, including identifying the issues to be addressed and the required documentation to develop with the certification. ASOP 28 can be found at www.actuarialstandardsboard.org/asops.asp. Compliance can be determined either through an explicit statement of compliance or indirectly based on a review of the actuarial certification as compared to the requirements outlined in ASOP 28.

Retention of records

A.R.S. §20-2311 F requires that each accountable health plan retain a copy of the certification statement referenced in subsection E for examination at its principal place of business.

The ADOI's receipt of the accountable health plan's certification statement referenced in subsection E is stated as a key indicator in determining compliance with A.R.S. §20-2311. Therefore, verifying that the accountable health plan has retained a copy of the certification statement is not recommended to be included as a key indicator for compliance with A.R.S. §20-2311.

Base premium rates and index rates

A.R.S. §20-2311 G requires that each accountable health plan file annually the base premium rate(s) and index rate(s) with the director for informational purposes.

Key indicators which may be used to determine compliance with A.R.S. §20-2311 G are:

- Based on a review of the accountable health plan's filing, verify that the base premium rate(s) and the index rate(s) are specifically identified in the filing to the director and that they reflect the appropriate contract period.
- Based on a review of the accountable health plan's filing, validate that the filed base premium rate(s) and index rate(s) are in compliance with A.R.S. §20-2311 A by utilizing the following formula:

  *Base Premium Rate = Index Rate * (1 – 0.60)*

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Summary

The key indicators for compliance with A.R.S. §20-2311 described in the previous sections reflect recommendations based on Mercer's review of a sample of the 2009 small employer group certification statement, base premium and index rate submissions, consumer complaint summaries and Mercer's understanding of A.R.S. §20-2311.

As additional review is conducted related to the 2009 and 2010 small employer group certification statements, base premium and index rate submissions, Mercer will track additional observations and make recommendations related to enhancements for increased standardization in the forms and filings, and will recommend additions or changes to the existing forms and filings to increase the reliability for ADOI to use these documents in determining whether small group rates in the market comply with the law. These tasks will be conducted and summarized as a part of milestone tasks 1.C.ii and 1.C.iii.

Appendix A

Arizona Revised Statutes – Title 20 Insurance – Section 20-2311 Premium rates and rating practices

20-2311. Premium rates and rating practices

A. The premium rate that an accountable health plan charges during a rating period for a health benefits plan issued to a small employer shall not vary by more than sixty per cent from the index rate for health benefits plans involving the same or similar coverage, family size and composition, and geographic area.

B. In establishing premium rates for health benefits plans offered to small employers:
   1. An accountable health plan making adjustments with respect to demographic characteristics shall apply those adjustments consistently across all small employers.
   2. An accountable health plan may not use a geographic area that is smaller than a county or smaller than an area that includes all areas in which the first three digits of the zip code are identical, whichever is smaller.

C. The percentage increase in the premium rate that is charged to a small employer for a new rating period may not exceed the sum of the following:
   1. The percentage change in the base premium rate.
   2. Fifteen percentage points.
   3. Any adjustment due to a change in coverage, family size or composition, geographic area or demographic characteristics.

D. At the time an accountable health plan offers a health benefits plan to a small employer, the accountable health plan shall fully disclose to the employer all of the following:
   1. Rating practices for small employer health benefits plans, including rating practices for different populations and benefit designs.
   2. The extent to which premium rates for the small employer are established or adjusted based on the actual or expected variation in claims costs or health condition of the employees of the small employer and their dependents.
   3. The accountable health plan's right to change premium rates, the extent to which premiums can be modified and the factors that affect changes in premium rates.

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

F. Each accountable health plan shall retain a copy of the statement required by subsection E for examination at its principal place of business.

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.

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