Illinois Department of Insurance

PAT QUINN
Governor

MICHAEL T. McRAITH
Director

TO: ALL COMPANIES AUTHORIZED TO WRITE HEALTH INSURANCE IN ILLINOIS

FROM: MICHAEL T. MCRAITH MTM

DATE: NOVEMBER 1, 2010

RE: COMPANY BULLETIN 2010–08

REQUIRED SUBMISSION AND APPROVAL OF ACTUARIAL MEMORANDUM AND JUSTIFICATION REVIEW STANDARDS FOR NEW AND RENEWAL HEALTH RATES

Under Section 2794 of the Public Health Service Act (PHS Act), added by Section 1003 of the Federal Patient Protection and Affordable Care Act (PPACA), Pub. L. 111-148, the Secretary of the Department of Health and Human Services (HHS) and the States are required to establish a premium reporting and review process. PPACA further requires all health insurance issuers (issuers) to disclose and justify an unreasonable premium increase prior to the use of the increase.

Consistent with Section 2794 of the PHS Act, and pursuant to the Illinois Insurance Code, this bulletin outlines the data elements and required documentation for each submission of new rate filings, rate revisions or justifications of an existing rate. Beginning December 1, 2010, all SERFF and/or CD ROM rate filings must be filed with an Excel spreadsheet providing the data required by the attached Rate Data Collection Form, along with a PDF version of that Excel spreadsheet. On or before February 1, 2011, issuers will be able to file rate filings electronically through the Department's website. Notice will be sent when the ability to file electronically new rates, rate revisions or justifications of an existing rate becomes available.

Public disclosure of information rate modification and justification used to establish such modification is required by federal law.

There are two documents which accompany this bulletin. The first is the ***Rate Filing Actuarial Memorandum and Justification Review Standards*** document. This document explains the sections and content required for each rate filing. Issuers must provide the requested documentation. The second document is the ***Rate Data Collection Form***. This form is an Excel spreadsheet which must be completed and filed through SERFF.

The filing and/or the posting of the rate information does not constitute ratification or approval of the rate filing. The rate filing will be reviewed and the issuer will be notified by the Department of any action taken.

As HHS provides further guidance, the Department will review this guidance and provide clarification to all health insurance issuers. Please direct questions regarding this bulletin to Mr. Gerald Lucht at Gerald.Lucht@illinois.gov.

Rate Filing Actuarial Memorandum and Justification Review Standards

General Instructions

A health insurance issuer offering group or individual health insurance coverage (including a grandfathered health plan) shall, submit all new rate filings and rate revisions. The assumptions presented shall be appropriate at the time of the filing and shall clearly identify all rating factors and methods proposed to be changed.

Each rate filing actuarial memorandum and justification shall include the following sections and content:

Section	Content
Scope and Purpose of Filing	This section shall specify whether this is a new filing, a rate revision, or a justification of an existing rate. If the filing is a rate revision, the reason for the revision shall be stated.
Requested Rate Action	The average requested rate increase or rate decrease.
Status	Indicate whether the policy form(s) that are the subject of the rate action are: a. Open – new policies are still being issued or b. Closed – no new policies are being issued.
Description of Benefits	This section shall include a brief description of the benefits provided by the policy.
Renewability Clause	This section shall identify the renewability classification of the form.
Applicability	This section shall specify whether the insurer anticipates new issues under the form or renewals only.
Morbidity	This section shall describe the morbidity basis for the form, including the source or sources used.
Mortality	This section shall state the mortality basis.
Persistency	This section shall state and describe the lapse rates used.
Expenses	This section shall include a brief description of any expense assumptions used, including, for example, per policy and percentage of premium expense for acquisition, maintenance, and commissions. These must be provided separately for each policy year.
Marketing Method	This section shall provide a brief description of the market and the marketing method.
Underwriting	This section shall provide a brief description of the extent to which this product will be underwritten, if any, and the expected impact by duration and in total, on the claim costs.
Premium Classes	This section shall state all the attributes upon which the premium rates vary.
Issue Age Range	This section shall specify the issue age range of the form. A statement shall be made as to whether the premiums are on an issue age, attained age or other basis.
Area Factors	This section shall include a brief description for any area factors used, and an explanation of any changes since the last filing. The area factors and definitions must also be displayed.
Average Annual Premium	This section shall display the average annual premium for both Illinois and the nation. If a rate adjustment is proposed, average annual premiums reflecting the Premium Schedule both before and after the proposed adjustment shall be provided.
Premium Modalization Rules	This section shall display the modalization factors and fees as applicable.

Trend Assumptions – Medical and Insurance	a. This section must describe the trend assumptions used in pricing, which assumptions must be appropriate for the specific line of business, product design, benefit configuration, and time period. b. All factors affecting the projection of future claims must be presented. c. The trend assumptions shall be presented under two categories: (I) Medical Trend: the combined effect of medical provider price increases, utilization changes, medical cost shifting, and new medical procedures and technology. In determining medical trend from underlying data, the analysis: (A) Shall use credible data and make appropriate adjustments to claims data to isolate the effects of medical trend only; and (B) Shall not include the effects of underwriting wear-off, aging, or changes to claim costs due to changes in demographics, policy coverages, geographic distribution, or reinsurance. (II) Insurance Trend: the combined effect of underwriting wear-off, deductible leveraging, anti-selection resulting from rate increases, and discontinuance of new sales. Medical trend must be determined or assumed before insurance trend can be determined. "Underwriting wear-off" means the gradual increase from initial low expected claims which result from underwriting selection to higher expected claims for later (ultimate) durations.
Minimum Required Loss Ratio for the Form	This section shall state the minimum required loss ratio for the form.
Anticipated Loss Ratio	This section shall provide the anticipated loss ratio and the interest rate(s) used in the determination of the value. The target loss ratio for an annually rated group policy form may be reduced upon demonstration and justification of an increase in administrative costs, but not less than the minimum required standard for the policy form. When claim cost projections include the effect of medical trend, premium projections shall also include the effects of such trend.
Distribution of Business	This section shall provide the anticipated issue distribution for new policy forms and the actual in-force distribution for rate revisions. All criteria having a rating difference shall be included.
Contingency and Risk Margins	This section shall describe the contingency and risk margins anticipated for the Policy Form at the time of the filing.
Experience on the Form (Past and Future Anticipated)	This section shall display the actual experience on the form and that expected for the future and shall include: a. Past Experience: Experience from inception (or the last 3 years for annually rated group coverages) shall be displayed, although, with proper interest adjustment, the experience for calendar years more than 10 years in the past may be combined. Excluding annually rated group policy forms, earned premiums, actual incurred and expected claims experience shall also be displayed, for each policy year or issue year, within the calendar year. The following information shall be displayed : (I) Year, (II) Earned premium, (III) Paid claims, for past periods only (IV) Change in claim liability and reserve, for past periods only. These reserves shall be updated to reflect actual claim runoff as it develops. (V) Incurred claims (=(III)+(IV)), (VI) Incurred loss ratio (=(V)/(II)), b. Future periods where the projected values are based on in-force experience: (I) The experience period used as the basis for determining projected values shall be clearly indicated. (II) The projected values shall represent the experience that the actuary fully expects to occur. In order for the proposed premium schedule or rate change to be reasonable, the underlying experience used as the basis of a projection must be reflective of the experience anticipated over the rating period.

Experience on the Form (Past and Future Anticipated) – cont.	(III) Projection years shall include columns I, II, V and VI as indicated in sub-subparagraph 23.a. above. (IV) Projections shall be based on existing in-force business with no new sales assumed during the projection period. (V) A summary of the historical and projected data shall be provided for all experience columns providing the accumulated past values, future values, and lifetime values both with and without interest and with and without the proposed rate change. c. Projections for new forms or otherwise not based on experience shall: (I) Project an initial assumed cohort of new business with no new sales assumed during the projection period; and (II) Shall display columns for each policy year, anticipated premiums, claims and loss ratios and include the lifetime values both with and without interest. d. The experience exhibit shall be submitted electronically in an active Excel worksheet or workbook, i.e., not converted to a PDF or other image format. Formulas used to develop other values in the worksheet or workbook shall be included.
Lifetime Loss Ratio	This is the loss ratio determined over the rating period for annually rated groups. For other forms, the loss ratio is derived by dividing A by B where: a. A is the accumulation with interest of incurred claims from the original effective date of the policy form to the evaluation date, and the present value of future incurred claims over the entire future lifetime of the policy form; and b. B is the accumulation with interest of earned premiums from the original effective date of the policy form to the evaluation date, and the present value of future earned premiums over the entire future lifetime of the policy form. c. The evaluation date is the endpoint of the actual experience review period.
History of Rate Adjustments	This section shall list the approval dates and average percentage rate adjustments in Illinois since inception.
Number of Policyholders	This section shall report the number of Illinois policyholders/certificate holders who will be affected by the proposed rate revision, and the number of policyholders/certificate holders in-force nationwide.
Proposed Effective Date	This section shall state the proposed effective date and method of the proposed rate revision implementation.
Actuarial Certification	a. Certification by a qualified actuary that: (I) The entire rate filing is in compliance with the applicable laws and regulations of the State of Illinois and the applicable Federal statues and regulations; (II) Complies with all applicable Actuarial Standards of Practice; and b. In making the certification: (I) The actuary shall recognize that the certification is a prescribed statement of actuarial opinion. c. A qualified actuary is one who is a member of the Society of Actuaries or the American Academy of Actuaries, and who is qualified in the area of health insurance. d. If the actuary is unable to provide the certification without qualification, a detailed explanation and reason for the qualification shall be provided as part of the certification.

EXPERIENCE SPREADSHEET FORMAT

Projection Assumptions:

Rate increase effective XX/XX/XXXX:	
Claim Trend:	
Insurance Trend:	
Lapse Rate:	
Aging:	

	Calendar Year	Earned Premium	Paid Claims	Change in Claim Liability & Reserve	Incurred Claims	Loss Ratio
	INCEPTION					
	…					
	…					
	…					
	…					
PAST	2009					
FUTURE	2010			XXX		
	2011			XXX		
	…			XXX		
	…			XXX		
	…			XXX		
	…			XXX		
	…			XXX		
	…			XXX		
END OF PROJECTION PERIOD				XXX		

Totals:	Past	xxx	xxx
	Future	xxx	xxx
	Lifetime	xxx	xxx

With Interest: x.x%

Totals:	Past	xxx	xxx
	Future	xxx	xxx
	Lifetime	xxx	xxx