



AMERICAN ACADEMY *of* ACTUARIES

Nov. 1, 2011

Hon. Therese Murray, President
Massachusetts Senate
State House Room 332
Boston, MA 02113

Hon. Bruce E. Tarr, Minority Leader
Massachusetts Senate
State House Room 308
Boston, MA 02113

Dear President Murray and Minority Leader Tarr:

On behalf of the American Academy of Actuaries'¹ Premium Review Work Group, I offer the following comments that I hope you will consider as you debate the potential implications associated with an override of the Governor's veto of certain sections of H.3535, the 2012 state budget. In particular, we call to your attention to the provisions that require any disapproval of rates to be "supported by sound actuarial assumptions and methods,"² and their effect on the health insurance rate-development and rate-review processes. We want to stress that health insurance premium oversight needs to be based on actuarial principles, including:

- Health insurance premiums should be adequate to pay projected claims, expenses, and supporting risk charges;
- Premium rating oversight should be done in conjunction with insurer solvency oversight;
- Premium oversight requires strong actuarial representation.

Actuaries and actuarial principles play key roles in both the rate-development and regulatory rate-review processes. According to the Code of Massachusetts Regulations,³ the actuarial attestation of health insurance rates should be signed by a member of the American Academy of Actuaries. Members of the Academy, as well as members of other national, U.S.-based actuarial organizations, are subject to the profession's Actuarial Standards of Practice (ASOPs). ASOP No. 8, *Regulatory Filings for Health Plan Entities*, specifies: "The actuary should review the assumptions employed in the filing for reasonableness. The assumptions should be reasonable in the aggregate and for each assumption individually." If there is a conflict between this standard and applicable law or regulation, however, then the applicable law or regulation would take

¹ The American Academy of Actuaries (Academy) is a 17,000-member professional association whose mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

² Sections 107 and 108 of Massachusetts Bill H.3535.

³ Code of Massachusetts Regulation 211 Sections 41 and 66.

precedence. This reinforces the importance of ensuring that relevant laws and regulations recognize the need for assumptions supporting rate increases and rate oversight be based on actuarial principles.

I appreciate the opportunity to offer these comments and would be happy to discuss them with you further. If you have any questions or would like additional information, please contact Heather Jerbi, the Academy's senior health policy analyst (202.785.7869; Jerbi@actuary.org).

Sincerely,

Michael S. Abroe, MAAA, FSA
Chairperson, Premium Review Work Group
American Academy of Actuaries

Cc: Governor Deval Patrick
Hon. Robert A. DeLeo, Speaker of the House, Massachusetts House
Hon. Bradley H. Jones, Jr., Minority Leader, Massachusetts House