



# AMERICAN ACADEMY *of* ACTUARIES

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Ms. Julia Philips  
Chairperson, Accident and  
Health Working Group  
National Association of Insurance Commissioners  
2301 McGee, Suite 800  
Kansas City, MO 64108-3600

Re: Health Insurance Rate Filing Guidelines

February 24, 2000

Dear Ms. Philips:

The American Academy of Actuaries<sup>1</sup> is in the process of developing guidelines for filing health insurance rates with state regulatory agencies as requested by the Accident and Health Working Group in your letter to Steve Kern dated December 10, 1999. The Academy's Health Insurance Rate Filing Task Force held its first meeting in Minneapolis on February 2 and there was a very thorough discussion of the possible approaches to this issue.

We would appreciate further guidance from your Working Group before the Task Force undertakes additional work on this project. This guidance will assist the Task Force in narrowing the scope of its work and determine how much time will be required to develop the guidelines.

It was not entirely clear from your letter whether you view the Academy's work product as an interim step until the NAIC undertakes a reworking of the existing guidelines/regulation or if you want the Academy to do the first draft of entirely new guidelines or regulations. If we are only doing a minor revision of the current guidelines/regulation, the work could be completed by the end of this year. If, however, you anticipate the Academy as doing a major overhaul of the rate filing regulation, it may very well take longer to finish the project.

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<sup>1</sup> The American Academy of Actuaries is the public policy organization for actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the profession. The Academy is non-partisan and assists the public policy process through the presentation of clear and objective actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualification and practice and the Code of Professional Conduct for all actuaries practicing in the United States.

If you would like us to undertake an overhaul of the current way in which health insurance rates are filed, then there are a number of approaches to the development of guidelines or regulations that were discussed by our Task Force. It would be helpful if the Accident and Health Working Group could identify which of these approaches they feel are most appropriate.

- (1.) **Keep the existing reliance on loss ratios as the method to evaluate rate filings**
- (2.) **Rate Pooling** – rates would be permitted so long as they fall within certain specified rating bands (similar to the approach used in some states for the small employer group market).
- (3.) **Guaranteed loss ratios** – if the policy does not meet an initial loss ratio, the insurer would need to file additional information with the regulatory agency or face some type of penalty when requesting a subsequent rate increase.
- (4.) **Allow automatic rate increases within certain ranges** – if the increase falls within a specified range (for example, 10%), the rate would be automatically approved when filed.
- (5.) **Competitive markets** – If the market in the state meets certain measures of competitiveness, then rates would be approved when filed.

The Task Force also discussed a number of policy implications and implementation issues that might be considered when deciding which approach to follow.

- Is a loss ratio the most appropriate measure of the “reasonableness” of a premium rate?
- If the loss ratio is used, is the current definition acceptable?
- Is it necessary to fine-tune the existing regulation/guidelines or is a new approach needed?
- Should the scope of the current regulation/guidelines be expanded to cover other product lines?
- What is the relationship between retroactive and prospective loss ratios.
- Are there certain types of “unforeseen circumstances” under which rate increases should be permitted without regulatory review?
- Is the proposed approach consistent with existing rules/guidelines such as deficiency reserve requirements, risk-based capital standards, etc.?
- Does the approach address problems with delays in approving rates?
- Will the methodology reduce the workload of regulators and increase the efficiency of the review process?
- Are there issues with closed blocks of business that will need to be resolved?
- Are there transitional issues (market disruption) that need to be resolved?

The Academy Task Force will start its work on this project once we have received further direction on these issues. I am available to meet with the Accident and Health Working Group to

further outline the general approaches developed by our Task Force and discuss the policy implications.

If you have any questions, please let me know.

Sincerely,

William Bluhm, Chairperson  
Health Insurance Rate Filing Task Force

cc: Diana Wright, NAIC  
Health Insurance Rate Filing Task Force