Health Practice Note 1995–8
November 1995

Small Group Certification

Introduction

This practice note was prepared by a work group organized by the Committee on State Health of the American Academy of Actuaries.The work group was charged with developing a description of some of the current practices used by health actuaries in the United States.This practice note is somewhat unusual in that it has been prepared prior to the adoption of an actuarial standard of practice by the Actuarial Standards Board (ASB).The work group responsible for this practice note believes that the practice note will be useful to actuaries who are faced with the requirement of preparing small group certifications.It should be recognized that the information contained in this practice note provides guidance, but is not a definitive statement as to what constitutes generally accepted actuarial practice in this area.The work group does not intend to establish a standard of practice by publishing this practice note.

This practice note is based on three National Association of Insurance Commissioners (NAIC) Models: (1) the Premium Rates and Renewability of Coverage for Health Insurance Sold to Small Groups Model Act, (2) the Small Employer Health Insurance Availability Model Act, and (3) the Model Regulation to Implement the Small Employer Health Insurance Availability Model Act.Throughout the practice note specific quotations from the various models are followed by the proper citations.When the more general reference of *NAIC Model Acts* is used, it applies to concepts and requirements that are found in all three models.To the extent that the laws of a particular state differ from the NAIC Model Acts, practices described in this note may not be appropriate for use in that state.This practice note has not been promulgated by the ASB or any other authoritative body of the American Academy of Actuaries, nor is it binding on any actuary.

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Comments are welcome as to the appropriateness of the practice notes, desirability of annual updates, substantive disagreements, etc.Comments should be sent to Peter L. Perkins, Chairperson of the Committee on State Health, at his Directory address.

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Q. Why is there a need for a practice note that addresses small group certification?

A. A practice note is needed for this topic because the small group certification requirements are relatively new, and because a need exists to assist actuaries in their efforts to develop appropriate methods of actuarial practice to satisfy these requirements.

The NAIC Model Acts and the statutes enacted by many states require an actuarial certification that a small employer carrier is in compliance with provisions relating to premium rate restrictions and, depending on the jurisdiction, certain other aspects of the law.A number of situations have developed that require an actuary to use judgment in certifying compliance.The actuary is performing a certification of both the expectation and fact of compliance.

This practice note is intended to provide guidance to actuaries developing such certifications and to encourage reasonable consistency in the work being performed by different actuaries.It is not intended to mandate particular practices, or to discourage innovation in responding to regulatory requirements.

Q. What is an actuary certifying to when a statement of compliance with small group legislative and regulatory requirements is made?

A. This depends upon the legal and regulatory requirements of the jurisdiction in which the business is being certified.In each case, the certifying actuary usually will find it prudent to understand the specific requirements of the applicable laws and regulations of the state to which the certification is being made.

The need to understand specific state laws and regulations extends to both the scope of the requirements and the specific rating requirements.For example, if an insured's residence is in a different state than the group master policy's situs of issue, the actuary typically will wish to confirm that there are no extra-territorial requirements.

The NAIC Model Act, Premium Rates and Renewability of Coverage for Health Insurance Sold to Small Groups (hereafter the Premium Rates Model Act) (section 2.A), defines an *actuarial certification* as a written statement that a small employer carrier is in compliance with section 4 (Restrictions Relating to Premium Rates) of this act, based on a review of methods, actuarial assumptions, and appropriate records.

Furthermore, the Small Employer Health Insurance Availability Model Act (hereafter the Small Employer Model Act) (section 6.E.(2)) requires an actuarial certification that the carrier is in compliance with the act, and that the rating methods of the carrier are actuarially sound.

When the actuary *certifies compliance*, it generally means that the actuary has conducted appropriate tests and reviews and has determined that the carrier complies with the NAIC Model Acts.In preparing opinions on compliance, the actuary may review the following:

1. Classes of business (defined below) have been established in accordance with applicable laws.

2. Index rates (defined below) have been calculated as required by law.

3. Premium rates (defined below) for groups within a class do not vary from the index rate for that class by more than is allowed by the law, taking into account any differences in case characteristics (also defined below), except for groups where transition period allowances are applicable and permitted by law.

4. The index rate for any class does not exceed the index rate for any other class by more than is allowed by law, except for groups where transition period allowances are permitted.

5. Rate increases from the prior rating period do not exceed the percentage increases allowed by law.

6. Rating restrictions associated with permitted case characteristics have been met.

7. Rates have been calculated in compliance with applicable laws, and with any regulations established by the commissioner to implement the law.

8. Differences in rates for plan design are reasonable, reflect objective design differences, and do not include differences in the nature of groups assumed to elect a plan, to the extent permitted by law.

9. Rating methods and practices are in accordance with sound actuarial principles, to the extent permitted by law.

In addition, the actuary's examination generally includes a review of the appropriate records, assumptions, and methods used by the carrier in establishing premium rates for small employer health plans.This review typically is such that the actuary can gain assurance that non-compliance is not the result of inappropriate business practice.

The NAIC Model Acts specifically require that the actuarial certification cover a carrier's compliance with premium rate restrictions.However, for each jurisdiction, the legislation may have additional certification requirements on subjects such as underwriting or plan design.

The actuary may review the specific requirements of the state in which the opinion will be filed before preparing the certification.

Furthermore, the NAIC Small Employer Model Act (section 6.D) contains certain disclosure requirements that an actuary generally includes in the examination.

Q. What coverages are subject to certification?

A. Again, this depends upon the specific legislative requirements of each state.In general, the laws apply to small group health plans.Group dental, group life, group disability, group credit, group accident-only, and other limited benefit plans are not usually covered.

Individual health insurance issued to small employers may be addressed in the legislation as well.Many states have made their small employer laws applicable to both individual and group insurance plans.Other states have passed separate individual accident and health insurance reform laws.Where individual health insurance is addressed in the legislation, it typically is incorporated into the certification process.

Q. What is a *small employer group?*

A. A *small employer group* usually is any sole proprietor, firm, corporation, partnership, or association actively engaged in business whose total employed work force consisted of a minimum and maximum (varies by state) number of eligible employees, the majority of whom are employed within the individual state on at least 50% of the small employer's working days during the preceding year (Small Employer Model Act, section 3.BB).

The NAIC Model Acts define who is an eligible employee, and who must be included in determining whether a group is classified as small.The contract or policy may define eligibility, as may corporate structure.

Companies that are affiliated or that are eligible to file a combined tax return for purposes of state taxation usually may be considered one employer for purposes of determining eligible employees.An eligible employee may include an employee on a part-time, temporary, or

substitute basis.The statute or regulation will usually specify the minimum required work hours for eligibility.

Q. What are *case characteristics?*

A. *Case characteristics* generally are the objective criteria or attributes of a small employer group that are used in the development of the group's premium rates (the Small Employer Model Act, section 3.G).Examples of case characteristics are age/sex composition, group size, geographic areas in which the employees reside, industry classification of the employer, the number of employees and dependents, and other objective criteria that can be established by a carrier.Case characteristics typically do not include claims experience, health status, or duration of coverage from the date of issue, even though these criteria are objective to some degree.Variation by benefit plan, including restrictive provider network plans, usually is also permitted in addition to the case characteristics described above.

The actuary typically will wish to become familiar with the individual state's regulation, which may specify and limit the list of objective criteria that may be used in determining premium rates for small employers within that state.Some states may require the insurance department to conduct an independent actuarial study to demonstrate that a criterion being used as a case characteristic other than those specified in the regulation is actuarially justified as an objective criterion for determining premium rates.Other states may require the small employer carrier to demonstrate and obtain approval from the insurance department before using any case characteristic other than the specified list of case characteristics contained in the state's regulation.

Q. What is a *midpoint* or *index rate?*

A. The NAIC Small Employer Model Act (section 3.P) defines an *index rate* as the arithmetic average of the lowest and the highest premium rate charged, or which could be charged, to small employers with similar case characteristics (defined above) and similar benefits.The index rate measures the midpoint of the rate range after all benefits and case characteristics have been recognized or held constant.

For example, under the NAIC Model Acts, claims experience, health status, and duration may not be case characteristics.Thus, the index rate measures the midpoint of the rate range driven by claims experience, health status, and duration.All other rate distinctions (e.g., age, sex, and area) generally are held constant in determining the index rate.

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Q. What is the *new business rate?*

A. The NAIC Small Employer Model Act (section 3.R) defines the *new business rate* as the "lowest premium charged, or which could have been charged or offered, to a small employer with similar case characteristics and similar benefits."The new business rate identifies the lowest possible rate for a given group's benefits and case characteristics after all underwriting and rating factors have been applied.

For example, if a carrier reflects duration and/or health status (which usually are not allowable case characteristics) in the carrier's rate calculation, then the new business rate is usually determined by the maximum rate reduction for duration and health status.All other rate distinctions (e.g., age, sex, and area) generally are held constant in determining the new business rate.

Q. What is a *community rate?*

A. The NAIC Model Acts do not define a *community rate*.However, some variations on small group reform legislation do reference a community rate.When referenced, a *community rate* typically means a rate for coverage that applies to all members of a pool of risks and that is independent of most or all case characteristics.Where some case characteristics are used, the resultant rate is known as a *modified community rate*.

Q. What is a *premium rate?*

A. The NAIC Small Employer Model Act (section 3.T) defines *premium* as "all monies paid by a small employer and eligible employees as a condition of receiving coverage from a small employer carrier, including any fees or other contributions associated with the health benefit plan."This definition includes all monetary consideration paid by a small employer to obtain, prepay, or otherwise fund its health care costs according to a plan of benefits.

With this definition in mind, a *premium rate* may be defined as the specific amount of money per unit of coverage to be paid by a small employer for that coverage.The premium rate is typically determined by benefit level, health status, claims experience, duration, and case characteristics of the employer and its employees.The premium rates are determined by applying formulas and factors contained in a carrier's rate manual.

An example using the four rate definitions follows.

Assume the following:

1. A single set of health benefits and health care delivery arrangements.

2. Premium rates that vary by all allowed case characteristics plus health status, claims experience, and duration.

3. A small group with the following set of case characteristics:

Average Age:	X years old
Location:	Urban
Industry:	Manufacturing
Percent Female:	Y%

4. Rates and rate factors are as follows:

Premium rate for the group identified in (3) above:	$200

Due to health underwriting, claims experience, and duration loads and credits, the

Lowest possible premium rate for this group:	$150
Highest possible premium rate for this group:	$300

5. For all groups with the same case characteristics and benefits,

50% are being charged:	$200
45% are being charged:	$150
5% are being charged:	$300

The various rates defined above are as follows:

Index or midpoint rate $= \frac{\$150 + \$300}{2} = \$225$

New business rate = $150

Community rate = (.50 x $200) + (.45 x $150) + (.05 x $300) = $182.50

Premium rate for the group identified in (3) = $200

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Q. What is a *class of business?*

A. A *class of business* typically is a distinct grouping of a small employer carrier's small group health business (see the Small Employer Model Act, section 3.H).Some examples of bases for establishing a class of business under the NAIC Model Acts are as follows:

1. Health benefit plans that are marketed and sold through individuals and organizations that do not market or sell other distinct groupings of a carrier's small group health insurance business.For example, policies sold only through brokers might constitute a separate class from policies sold by direct marketing.

2. Blocks of business that have been acquired from another small employer carrier as a distinct grouping of plans.

3. Health benefit plans that are provided through an association of small employers that was not formed for the purposes of obtaining insurance.The actuary generally is prudent to be knowledgeable of the individual state's regulation because the NAIC Model Acts provide for a minimum number of small employers to be members of the association in order to qualify as a separate class, and that number may vary from state to state.

4. Health benefit plans that are in a class of business which meets the requirements for the exception to the premium rate restrictions between classes of business as approved by the commissioner.

Based on the above criteria, a new policy form typically does not define a class of business.

Also, the NAIC Premium Rates Model Act (section 2.E.(2)) provides that an insurer may establish a maximum of two additional groupings (or subclasses) under each of the above categories “on the basis of underwriting criteria which are expected to produce substantial variation in the health care costs.”Section 2.E.(3) of this act also provides for the insurance commissioner of a state to approve the establishment of additional classes of business that the commissioner finds would enhance the efficiency and fairness of the small employer marketplace.The actuary is generally prudent to review the individual state's regulation to determine if additional classes of business may be defined.

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Q. What is a *transition period?*

A. A *transition period* is the time period that small employer carriers are given to bring their small employer group classes of business into compliance with the individual state's rating restrictions.This is usually the phase-in period for the regulation.

Q. How can compliance be demonstrated?

A. Each major requirement of the law (of the particular state) that is required to be included in the actuarial certification is addressed in the demonstration of compliance.The following are examples of such requirements:

1. Establishment of classes of business.

2. Restrictions relating to premium rates:
    a. between class limits (index rates).
    b. within class limits.
    c. increase limits (new business and existing business).
    d. uniform application of rate adjustments to individuals.
    e. limits on industry factors.
    f. uniform application of rating factors.
    g. acceptable list of rating factors.
    h. no involuntary transfers in or out of a class of business.

3. Renewability of coverage.

4. Other small employer carrier requirements (disclosure, records, other).

Compliance usually may be demonstrated most efficiently by describing the practice and procedures in place that assure compliance.For example, if all rates are determined as a risk factor multiplied by a single rate table, compliance with “within class limits” may be shown by indicating that risk factors are required by the rating system to be in a specified range (e.g., .75 to 1.25).Reference may be made to any tests done to audit the operation of the rating system.

Where structures or procedures do not guarantee compliance, calculations usually may be shown that measure the restricted quantities.For example, if rating factors differ for two classes of business, index rates generally are calculated and compared for appropriate test populations.A test at one point in time during the year is usually sufficient, as long as rate change information is provided to show that compliance existed at each point during the year.

Q. What statements are included in the certification?

A. The certification generally includes the statement that the actuary has reviewed the applicable statute and the company's rates and practices, and believes that the rates and practices are in compliance with the statute for the specified year.

Q. What disclosures are included?

A. The actuary generally discloses any deviation from standard actuarial practice that was used in determining compliance, and the nature, rationale, and effect of such deviation.In addition, comments on data and reliance on others may be indicated.

Q. What tests are performed to demonstrate compliance?

A. The actuary usually performs the tests necessary to prove and document compliance with the applicable small employer laws and regulations for which the certification is being made.The level of testing required generally will vary both with the specific certification requirements of the particular state and the complexity of the rating practices employed by the small employer carrier.For example, for a carrier that uses a pure community rating approach, a thorough review of rating and underwriting practices may constitute a sufficient level of testing.On the other hand, group specific calculations may be required of a carrier that incorporates all allowable rating parameters in its rating structure.

Generally, tests are performed that demonstrate that the underwriting methods and premium rates charged are established according to the following:

1. based on generally accepted actuarial methods and in accordance with sound actuarial principles, to the extent permitted by law;

2. such that the index rate for any class of business does not exceed the index rate for another class by the prescribed percentage;

3. such that the premium rates for small employers with similar case characteristics within a class of business do not vary from the index rate of that class by more than the prescribed percentage; and

4. such that the percentage increase in renewal premium rates has not exceeded the sum of the following:

a. the percentage change in the new business premium rate measured from the first day of the prior rating period to the first day of the new rating period;

b. an adjustment, not to exceed a prescribed annual percentage adjusted pro rata for periods of less than 1 year, due to the claims experience, health status, or duration of coverage of the employees or dependents of the small employer; and

c. any adjustment due to a change in coverage or changes in the case characteristics of the small employer, as determined from the carrier's rate manual for the class of business.

The actuary typically will wish to determine if the state has put forth testing procedures that must be followed or if specific policy data must accompany the certification.In the absence of prescribed testing procedures, the actuary usually will wish to be satisfied that the tests performed are sufficient to support the certification.

The complexity of the testing method called for generally depends upon the rating practices employed by the carrier.One approach that is generally appropriate for most small employer carriers is to base the testing on the rate manual that must be maintained for each class of business.

The requirement to test that the rating practices are based on generally accepted actuarial methods and in accordance with sound actuarial principles can often be satisfied with a review of the various rating factors included in the rate manual.The actuary typically confirms that only permitted case characteristics are being used and that such factors are uniformly applied.If not involved with the development of such factors, the actuary generally reviews the reasonableness of the range of values being used.A familiarity with the underwriting and renewability rules of the carrier is also usually desirable to support an unqualified opinion.

A demonstration of how the rate manual(s) can be used to test compliance with the rating restrictions of the NAIC Model Acts is as follows:

1. *Within a Class*—All possible group premium rates can be expressed as a percentage of the new business premium rate (or the lowest rate that could be charged) for similar case characteristics, as calculated from the rate manual for that class.To be in compliance, none of these percentages can exceed the maximum percentage permitted in the state.While transition rules may apply, for this purpose it is generally preferable if identical groups have identical rates.The maximum allowable percentage can be calculated as the ratio of the highest permitted deviation from the index rate to that of the lowest.Alternatively, the same basic procedure can be followed using all possible group rates expressed as a percentage of the index rate.

2. *Between Classes*—Because each group is likely to have a unique set of case characteristics, one theoretically correct way to prove compliance between classes is to calculate the index rate for each set of case characteristics under the rating criteria of each and every class of business.The resulting index rates for each set of case characteristics for any given class of business would not exceed the index rates for each set of case characteristics for any other class by more than the prescribed percentage.

A comparison of the rate manuals of the various classes is often an important part of the testing process.Such a comparison may yield many areas where simplifying assumptions are possible.

3. *Rate Increases*—The method of expressing a group's premium rate as a percentage of the new business rate for that class can be used to test compliance with the renewal rate increase limits.Group rates for the prior period can be expressed as a percentage of the new business rate for the first day of the prior period, as calculated from the rate manual for that class.The same ratio can then be calculated for the renewal period.A rate increase can be deemed to be in compliance if it results in these ratios differing by less than the percentage increase allowed for claims experience, health status, or duration of coverage.This method usually adjusts automatically for the change in the new business rate and any changes in coverage or case characteristics.

The actuary also typically reviews proposed rate increases on group cases that filed complaints with the various state departments of insurance during the period covered by the certification.

Other testing methods may be appropriate depending upon the rating practices of the carrier.Testing may be performed once per year, in conjunction with forming the actuarial certification, or continuously using an automated testing system.In all situations, to form an unqualified opinion, the actuary usually will wish to be satisfied that every rate and rate change implemented by the small employer carrier meets all applicable rating restrictions.Sampling and manual analysis can often satisfy this requirement.

Testing Method I

One possible testing methodology simplifies the comparison of index rates for small employer groups with similar case characteristics by using a larger unit of analysis called the *case characteristic type*.This method can be used for testing between classes and within a class.In this context, a *case characteristic type* is a unit of analysis that combines groups with reasonably similar case characteristics and coverages in order to simplify the calculation and comparison of index rates.Each group is assigned to a case characteristic type in such a way that each type is reasonably homogenous from a case characteristic standpoint.An average premium rate per employee per group can then be calculated by applying the appropriate rate manual and any group-specific surcharges or discounts.

To this point, the methodology described relates to premiums actually charged.The concept of index rate also usually makes allowances for rates that could have been charged.The actuary determines the average rate per employee for each group within a class of business and for each case characteristic type cell, based on the lowest rates possible in the rating manual.

Index rates can then be determined for each class of business for each case characteristic type.The actuary can then perform the required tests for index rates between classes of business and for group-specific rates relative to the index rate within a class of business.

This methodology can function as a "safe harbor" test, assuming that the cost differences related to differences in case characteristics within a case characteristic type are included in the test against the permitted tolerances.

Testing Method II

Another testing methodology can be used in situations when a company uses a single rate manual where rates within each class of business are expressed as a factor times a base cell rate.The starting point for rating a group would be a base cell rate assigned to a particular set of demographic characteristics (e.g., age, sex, and area).All other rating cells are then calculated using a factor times the base cell rate.As long as the underwriting load or discount is less than the maximum permitted deviation from the index rate, compliance with the rating requirements within a class usually may be assumed.

Compliance with rating requirements between classes can usually be demonstrated as follows:

1. Select a statistically significant sample of groups from each class.

2. Calculate the total premiums for each class of business using the rate manual for each class.This means that if there are *N* classes, there will be *N* premium totals.

3. Adjust the total premium amounts by the maximum underwriting loads or discounts for each class of business.

4. Compare the percentage difference for each pair of total premiums for all classes, and test against the allowable variance between classes of business.

5. Test each class of business in a similar fashion.

Individual Policies

For states where individual insurance is addressed under the statute, different approaches are found.Several states have a basic health plan that must be issued to both individuals as well as groups.The index rate must be calculated on both the individual and group business combined. Variances may be allowed for geographic or demographic factors and for additional benefits issued over the base plan.

Where a state extends authority over individual policies under the statute, the premium rates of those individual policies generally would be included in the index rate calculations, and the individuals would be treated as one-person groups and assigned to the appropriate case characteristic type.

Q. May a sample be tested to demonstrate compliance?

A. Yes, a sample may be tested to *demonstrate* compliance.However, a sample passing the required tests is generally unlikely to provide sufficient grounds for the actuary to be reasonably satisfied that the premium rates for all groups meet the small group rating requirements of the state and for the actuary to give an unqualified certification.

When a sample is used to demonstrate compliance, the actuary typically chooses one that is unbiased and fairly represents the rating and business practices employed by the carrier.The actuary also determines if the certification requirements of the particular state mandate any specific sampling methods.

Both random and nonrandom sampling techniques may be appropriate.When choosing a sampling technique, the actuary is generally prudent to consider the rating and business practices of the carrier.Random samples generally produce a better representation of the entire population.However, if the actuary can determine specific groupings of cases that are more likely to represent problems, a nonrandom sample may be more appropriate.

The actuary generally will wish to (1) keep detailed records of the samples chosen and (2) document the methods used to produce such samples.An appropriate statement describing the rationale for choosing such a method is generally included in the documentation.

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Q. If a sample is used, how may the sample size be determined?

A. The appropriate sample size will vary based on the size of the class of business and the rating practices of the small employer carrier.The actuary usually attempts to determine a sample size that fairly represents the total population of the carrier and that adequately demonstrates complete compliance with the small group rating regulations of the state.The actuary also generally determines if the certification requirements of the particular state mandate any specific sample size.

Advanced statistical sampling techniques may be employed to determine the minimum sample size necessary to represent the population for a given set of criteria.However, a more subjective determination by the actuary, based upon an analysis of the rating practices of the carrier, may yield a more meaningful sample size for the demonstration.

Q. What statements does the certification include if certain rates or factors are not in compliance?

A. If the actuary determines that the company's rates or rating factors do not comply with statutory requirements in the state in which the certification is being filed, the actuary usually issues a qualified report.The actuary is generally prudent to include statements describing in detail the areas in which the rates are not in compliance.

A statement such as the following might be used to provide this disclosure:

> In the course of my review of the compliance of the rates and rating methodology of [insert company name], I discovered that _____'s rates (or rating factors) do not appear to comply with the statutory requirements of [name of state] in the following ways:
>
> (There follows an explanation of the areas in which the rates and/or rating factors do not comply with statutory requirements.)

Q. What statements are made by the actuary about corrections of rates or factors not in compliance?

A. Typically, the actuary's certification addresses the rates and rating practices for the prior year.However, it may be appropriate to include comments concerning current rating practices.Assuming that the company has taken actions to refund premiums charged in excess of the

statutory maximum for the period covered by the opinion, the actuary may wish to include a statement such as the following:

> _____ has taken corrective actions to remedy the noncompliance of its rates as described above.Such actions include the refund of premiums to policyholders whose rates exceeded the maximum allowable rates under [identify statutory requirement].Such refunds amount to [show amount being refunded].In addition, rates (or rating factors) have been adjusted so that they now comply with the statutory requirements.

Q. To what period does the certification apply?

A. In general, the certification applies to the calendar year prior to the certification date, or to another period as may be specified by the statutes.When advance filing of rates is required, the actuary will generally certify that the rates are in compliance for the effective period of the rate filing.

Q. What documentation is retained to substantiate the certification?

A. The actuary may wish to retain suitable records of tests performed to substantiate conclusions drawn in certifying compliance.Where sampling is used, verification of the sampling technique as statistically valid may also be retained.Furthermore, corrective actions may be documented and used as a review basis for the next testing cycle.These records typically include the following:

1. A description of classes of business.

2. A description of benefit plans currently available and/or in force for each class, including copies of contracts.

3. A list of the groups in each class.

4. A description of the methods used to develop rate manuals.

5. A description of the method used to develop rates for any specific group, including case characteristics used, industry factors used, and methods used to adjust rates due to claims experience, health status, or duration of coverage.

6. Actual rate manuals and rating factors. Documentation generally is sufficiently complete to calculate the rates for any group whose case characteristics and other rating variables are known.

7. Descriptions, for each class of business, of the rating periods used, the new business rates, the base premium rates, and the corresponding highest premium rates.

8. A written demonstration of compliance (see above question).

9. A listing of those groups that would be out of compliance but for transition period rules.

10. Demonstration of compliance for a sample of groups.

11. Copies of relevant statutes and regulations on which compliance is based.

Q. What disclosures may be made when business practices are likely to result in noncompliance?

A. If, in the review process, the actuary determines that noncompliance is likely to result from certain business practices, the actuary may feel obliged to discuss the information.

For example, if rates for any case are found to fall outside the range of allowable rates due to a regular business practice of forgiving due and unpaid premiums for a group of cases, then the actuary generally will not wish to certify that the rating structure complies without appropriate disclosures.If, however, the forgiving of premiums results from normal practice, and is random in nature, the rating structure may comply, but further analysis will likely be required.Furthermore, if a company forgives the rate increases required to adjust for a discovered noncompliance (see above question), then disclosure of the noncompliance and the solution is generally sufficient.

Q. What reference materials are available?

A. The following materials are available for guidance:

1. The actuarial standards of practice promulgated by the Actuarial Standards Board.

2. The qualification standards for public statements of actuarial opinion promulgated by the American Academy of Actuaries.

3. Applicable statutes requiring the certification.

4. The NAIC's *Guidance Manual in the Evaluation of Rating Manuals and Filings Concerning Small Employer Health Insurance* (June 11, 1994).