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Consulting Actuaries • Insurance Advisors

4400 Route 9 South • Suite 1200 • Freehold, NJ 07728 • (732) 780-0330 • Fax (732) 780-2706

August 30, 2013

Ms. Debra Judy
Policy Director
Colorado Consumer Health Initiative
1580 Logan Street, Suite 340
Denver, Colorado 80203

Re: Golden Rule Insurance Company
Individual Health - Major Medical
Rate Filing Submitted on July 30, 2013
Proposed Rate Increase of 28.0%
SERFF Tracking No. AMMS-129139364

Dear Ms. Judy:

In accordance with your request, we have reviewed the above captioned individual health insurance rate filing by Golden Rule Insurance Company (GRIC) submitted to the Colorado Department of Regulatory Agencies, Division of Insurance (CODOI) on July 30, 2013. The purpose of this document is to assist the Colorado Consumer Health Initiative (CCHI) in submitting comments on the GRIC filing to the CODOI.¹ It should not be used for any other purpose. Our comments are based upon the information contained in the SERFF filing that CCHI provided to us, as well as other publicly available documents.²

The GRIC filing proposed an overall rate increase of 28.0% with an implementation date requested of November 1, 2013.³ The total premium increase being requested is about \$3.5 million.⁴ The average premium increase per policyholder is about \$1,328.⁵ The prior rate change was an increase of 8.4% effective October 15, 2012.⁶ The combined impact of these two changes is an increase of 38.8%.⁷ The currently proposed rate increase alone, as well as in

¹ This would include CCHI submitting this letter to CODOI.

² These types of documents are commonly relied upon by actuaries and are generally considered reliable. However, we have not verified that the information contained in the filing or documents are accurate.

³ GRIC filing, Filing at a Glance and General Information Page

⁴ GRIC filing; Rate Information Page, written premium change for this program

⁵ [\$42,365,843 (written premium for this program) / 8,932 (number of policyholders)] X 28.0% (requested rate increase) , GRIC filing; Rate Information Page

⁶ GRIC filing; Rate Information Page

⁷ $38.8\% = (1.280 \times 1.084 - 1) \times 100\%$

combination with the prior rate increase, constitute very large rate increases over a short period of time and most likely will result in “rate shock” and financial hardship for policyholders.⁸

Performing a detailed actuarial review of the filing was hampered because of a lack of documentation regarding the ratemaking factors used in the rate filing.⁹

GRIC considered many of the significant components of the ratemaking calculation to be confidential, and did not include that information in the filing. The areas GRIC considered confidential included¹⁰:

- Underwriting Wear-Off
- Affiliated Carrier's Trend Experience
- Morbidity
- Projection Computation Details

With regard to the trend factor, GRIC claimed to use an annual trend of 8.0% + Underwriting Wear-Off (UWVO).^{11,12} Data was not provided to support that value. Instead the filing provided the following general vague passages “Trend assumptions are based on nationwide data of an affiliated carrier’s experience for similar lines of business” and “Past data, various models and business judgment of future economic developments are all used in estimating future trend, and as such, we believe our 8.0% trend assumption is reasonable. As part of UnitedHealthcare, we have a team of actuarial professionals in our Healthcare Economics (HCE) whose responsibilities include developing forward-looking trend projections and monitoring historical performance in relation to trend. We have relied upon this team to provide guidance on trends appropriate for our Colorado rate development.”¹³

An 8% trend appears high in relation to the general recognition that health care expenditures have been increasing at historically low rates recently, as demonstrated by the following two items:

⁸ GRIC for this program has 8,932 policyholders and 17,648 covered lives. GRIC filing; Rate Information Page

⁹ Our comments are based upon the information available. If additional information were available that could have an impact upon our comments. If an issue in the rate filing is not discussed in this letter, that should not be taken to mean that we agree with the procedures used in the rate filing.

¹⁰ GRIC filing, Confidentiality Index

¹¹ GRIC filing, Actuarial Memorandum, Section L

¹² As previously discussed, GRIC did not provide information regarding the value or derivation of the UWVO

¹³ GRIC filing, Actuarial Memorandum, Section L

Health care prices in July 2013 were 1.1% higher than in July 2012, matching the June 2013 level, and up only one-tenth from the May 2013 rate, which was the all-time low in our series that extends back to January 1990. The 12-month moving average, at 1.6%, is a new low for our data.¹⁴

Prices for personal consumption expenditures on health care goods and services rose just 1.1% over the 12 months ending in May, the slowest rate in nearly 50 years, according to a blog post yesterday by Alan Krueger, chairman of the president's Council of Economic Advisers. "The slowdown in PCE health care inflation has been widespread, with important contributions from two large components: hospital and nursing home services (which comprise 42% of total health care expenditures) and outpatient services (which comprise 34% of total health care expenditures)," he wrote. "...In sum, data from across the economy – covering consumers, government and private employers – point to the same conclusion: health care cost growth has slowed. A mounting body of research finds that structural changes are driving a substantial part of the recent slowdown in health care cost growth, suggesting that the trend may persist."¹⁵

There are also issues regarding the "Benefits Ratio Projections" in the GRIC rate filing.¹⁶ The projected loss ratio "without increase" is 89.6%.¹⁷ In comparison to the "experience period 4/1/12-3/31/13" loss ratio of 72.6%, that is an increase of 23.4%.¹⁸ That difference is much more than can be accounted for by an annual trend of 8%. Hence, in addition to the 8% annual trend possibly being overstated, GRIC applied other factors that increased the projected loss ratio compared to the historical loss ratio.

There also appear to be some inconsistencies between several of the values in the filing. While the "Benefits Ratio Projections" section of the Actuarial Memorandum shows an incurred

¹⁴ Altarum Institute, August 2013 Price Brief, www.altarum.org

¹⁵

http://www.ahanews.com/ahanews/jsp/display.jsp?dcrpath=AHANEWS/AHANewsNowArticle/data/ann_073013_PCE&domain=AHANEWS

¹⁶ GRIC filing, Actuarial Memorandum, Section P

¹⁷ *Ibid.*

¹⁸ $23.4\% = [89.6\% / 72.6\% - 1] \times 100\%$

loss ratio of 72.6% from 4/1/12-3/31/13, the “Data Requirements” section of the Actuarial Memorandum¹⁹ shows incurred loss ratios of 69.8% for Calendar Year 2012 and 63.0% for 2013 (to March). It is not clear why the incurred loss ratio from 4/1/12-3/31/13 would be larger than both the incurred loss ratios for Calendar Year 2012 and for 2013 (to March). While there might be some explanation for this, it was not possible to evaluate this because of the lack of data, documentation and calculations in the filing.

Another apparent inconsistency is between the projected loss ratio “with increase” of 79.1% and “without increase” of 89.6%.²⁰ This is a difference of 13.3%.²¹ It is not clear why this is so much smaller than the 28% rate increase proposed by GRIC. Again, while there might be some explanation for this, it was not possible to evaluate this because of the lack of data, documentation and calculations in the filing.

Another item that might want to be explored is the relationship of the rate increase requested in this GRIC filing compared to the individual comprehensive health coverage experience reported by GRIC for Colorado in the 2012 Supplemental Health Care Exhibit (SHCE).²² The SHCE shows an underwriting profit of about \$1.5 million, or 2% of premium for GRIC in Colorado for 2012. It is not clear why such a large rate increase is needed given the historical underwriting profits for individual comprehensive health coverage for GRIC in Colorado.

In summary, we believe that adequate documentation and support for critical ratemaking components used in the filing was not provided.

Please contact me if there is anything you would care to discuss.

Sincerely,



Allan I. Schwartz
FCAS, ASA, MAAA, FCA, ARE, AIC
APA, AU, AIAF, ARM, API, ACS, CRRA
President

¹⁹ GRIC filing, Actuarial Memorandum, Section N

²⁰ GRIC filing, Actuarial Memorandum, Section P

²¹ $13.3\% = [89.6\% / 79.1\% - 1] \times 100\%$

²² GRIC references and relies on the 2012 SHCE in its rate filing; GRIC filing, Actuarial Memorandum, Section H