

Final Disposition Letter

State Tracking # 280386 and 280387

Company: Golden Rule Insurance Company

Product Line: Individual Generation 23 and Generation 25

Grandfathered (GF) and Non-Grandfathered (NGF) Combined

Filing 280386: Comprehensive Major Medical (CMM)

Filing 280387: Basic Hospital & Surgical (H&S)

Rate Change Summary

Effective Dates of Rate Changes: November 1, 2013 to October 31, 2014.

Average Rate Change Requested: 28.0%

This purpose of these filings are for Golden Rule Insurance Company (GRIC) to implement premium increases of 28.0% on all members on their Generation 23, 25 Individual Comprehensive Major Medical (CMM) and Basic Hospital & Surgical (H&S) products effective November 1, 2013. These rate filings are for both Grandfathered (GF) and Non-Grandfathered (NGF) members.

Golden Rule has submitted some documents in this filing as being "Confidential", meaning that they are included in the filing to support the rate increase, but they are not available for public view.

The Optional enhanced Supplemental Accident Benefit is receiving a 14.3% increase.

Rate Methodology

The CMM and H&S products in this filing are being pooled for rate setting purposes.

Experience Used for Rate Setting: Golden Rule included 3.25 years of experience for these plans, from January 2010 through March 2013. Experience was included for GF and NGF business separately and combined. The most recent 12 month incurred experience period used as the base in the projection calculation was April 2012 – March 2013:

NGF Experience: 71.8% Loss Ratio based on an average of 16,285 covered lives.

GF Experience: 76.2% Loss Ratio based on an average of 3,127 covered lives.

Combined Experience: 72.6% Loss Ratio based on an average of 19,412 covered lives.

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Golden Rule also provided the Federal Uniform Rate Review Template (URRT) which must accompany Individual NGF filings and be reported in HIOS. The URRT is not required for GF member filings and does not contain GF member experience. In the URRT Golden Rule provides experience for the 2012 calendar year period for NGF members. This 2012 NGF experience is also provided in the Colorado actuarial memorandum. The Federal URRT is not the official rating development or calculation. Rather it represents a standardized projected average premium calculation that is used by CMS for comparing and gauging premium development and rate changes. Following is a comparison of the 2012 experience in the URRT and in the Actuarial Memorandum.

URRT:

2012 NGF Experience: 67.38% Loss Ratio based on an average of 15,253 lives (183,043 mm).

Actuarial Memorandum:

2012 NGF Experience: 67.8% Loss Ratio based on an average of 15,135 covered lives.

2012 NGF & GF Experience: 69.8% Loss Ratio based on an average of 18,454 covered lives.

Annual Health Cost Pricing Trend: 8.0%.

Golden Rule submitted 4 years of Nationwide quarterly claim trend data split separately for Medical and Pharmacy. This data was initially submitted as “confidential”, although Golden Rule has now made it available for public view. The data shows historical trends as well as normalized trends adjusted for demographic and benefit changes from period to period.

2012 Medical Normalized Historic Trend: 7.7%

2012 Pharmacy Normalized Historic Trend: 8.29%

The 8.0% pricing trend falls in line with the normalized historic data. Note that commercial Individual claims trends may differ from general cost index increases due to cost sharing leveraging effects and other factors specific to a block of business and product type. The 8% pricing trend proposed by Golden Rule falls within the middle range of Individual business trends being used in 2014 in the Colorado Individual insurance market.

Experience Consistency: The Division received comments concerning the reported loss ratios in specific quarters and periods that consumer groups felt were not consistent. For example:

69.8% Loss Ratio for 2012

63.0% Loss ratio for 1st. Quarter 2013.

72.6% Loss ratio for the Apr 2012 – Mar 2013 experience period.

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The question was raised as to why the loss ratio for the period from Apr 2012 through Mar 2013 could be larger than the loss ratio for the other two overlapping periods. The Division was able to verify that this data is correct and does not represent an error, it results from the fact that the 1st quarter 2012 had a much lower loss ratio than 1st quarter 2013. The first quarter of the year tends to be the lowest due to seasonality and the loss ratios from year to year have tended to increase as the block of business has matured. Both of these are normal developments.

Projection Calculation: Golden Rule provided a detailed projection calculation showing monthly premium and claims for both the experience period (Apr 2012 – Mar 2013) and the new rating period (Nov 2013 – Oct 2014). This calculation was submitted as being confidential. The projected loss ratios with and without the 28% proposed rate increases were:

Experience Period Loss ratio: 72.6%

Projected Loss Ratio Without Rate Increases: 89.6%

Projected Loss Ratio With Rate Increases: 79.1%

Target Loss Ratio Based on Needed Retention: 79.1%

The 28% premium rate increase is not applied to all members on November 1st, rather each member receives the increase at their normal renewal date between Nov 2013 and Oct 2014. Hence the impact of the 28% rate increase only decreases the projected loss ratio from 89.6% to 79.1%. The Division requested and received the schedule from Golden Rule showing the number of members anticipated to renew in each month during the 12 month rating period, and when they would receive the proposed increase.

The increase from the experience period loss ratio of 72.6% to the projected rating period loss ratio of 89.6% (without rate increase) is largely driven by the 12.5% uwwo trend that Golden Rule is applying. This is in addition to the 8% annual health cost claim trend. Golden Rule provided as “confidential” some of the support for how their uwwo factors were developed.

Golden Rule may not sell these plans to any new members commencing on January 1, 2014, because this block of business is not ACA compliant for 2014. Golden rule did not file an ACA compliant block of business for 2014 in Colorado. GF members may continue on their non-ACA-compliant plans in 2014 and beyond. However, NGF members would normally need to move to an ACA compliant plan when they reach their regular renewal date in 2014. So for example, a member who just renewed in June 2013 would be allowed to stay on their plan until June 2014 when they would be required to go and find an ACA compliant plan. Alternatively, issuers in

Colorado may “Early Renew” NGF members on Dec 30, 2013 and allow them to stay on their current plans through 2014. In this case NGF members are not eligible to move to an ACA plan mid-year 2014 at their prior renewal date, and must wait until the open enrollment period for 2015 to move to an ACA plan in January 2015 and potentially obtain premium subsidies.

Golden Rule is proposing rate increases in this filing to continue for NGF members through October 2014, and has reflected this in their projections by assuming NGF members may stay on their plans throughout 2014. This results in Golden Rule applying larger uwwo increases to claims projections for 2014 because these NGF members then have large uwwo factors accumulating throughout 2014. Since Golden Rule may not sell any new plans in 2014 the average plan duration increases quickly throughout 2014.

Premium Retained to Cover Expenses, Taxes Fees and Profits

Administrative costs: Expenses the insurance company pays to operate this insurance plan.

This includes all expenses not directly related to paying claims, such as, but not limited to, salaries of company employees, the cost of the company’s offices and equipment, commissions to agents to sell and service policies, subsidies to cover legally required plans such as portability, and taxes.

Profit: The amount of money remaining after claims and administrative expenses are paid. Margin is the comparable term for a nonprofit insurance company.

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Total average premium retention is 20.9% shown as follows:

	% of Premium Retained
<u>Issuer Primary Expense and Profit Retention</u>	
General Administrative Expenses:	9.70%
Commissions:	4.80%
Profit and Contingencies After Taxes:	0.10%
FIT - Federal Income Taxes:	0.80%
Investment Income:	0.00%
Total:	15.40%
<u>Retention for Additional Required Taxes, Fees and Assessments</u>	
PPACA Health Insurer Fee:	1.40%
PPACA Reinsurance Fee:	1.90%
Exchange user fees:	NA
Premium Taxes:	2.00%
State Income Taxes:	0.00%
Other Fees, Assessments, Taxes:	0.00%
Total:	5.30%
<u>Additional Allowed for QI & Member Welfare Section</u>	
Quality Improvement:	0.20%
Community Charitable:	
IT for ICD-10 Conversion (max allowed 0.3%):	
Total:	0.20%
Total Premium Retention For All Purposes (A + B + C):	20.90%
Colorado Conventional Loss Ratio (100% - D):	79.10%
Simplified Federal MLR Loss Ratio: $(E + C) / (100\% - B - FIT)$:	84.4%

Division Objections

The Division requested for Golden Rule to provide separate rating projections for GF and NGF members for the new rating period. Golden Rule declined to provide the requested projections.

The division now requests Golden Rule to submit the Individual GF business in a separate rate filing from the Individual NGF business in any future rate filings. The GF business has sufficient membership in the experience period to be rated on their own. Colorado rating regulations use 2,000 life years as being 100% credible for index rate setting purposes. Golden Rule's Individual GF business had 3,127 life years during the Apr 2012 – Mar 2013 experience period. In future rate filing years if the GF experience falls below 100% credibility levels then Golden Rule should supplement the data with similar experience from similar blocks of business.

The Division does not accept the support provided for the excessive 12.5% uwwo trend. The support has been made confidential in this filing.

On January 1, 2014 higher cost and older members, particularly ones who are eligible for premium subsidies, are more likely to move to the Exchange. The Division asked Golden Rule for the impact of these members leaving in their projection. Golden Rule's projection does not reflect any impact from these members transitioning to ACA Exchange plans in January 2014.

Consumer comments have noted that this block of business has recently been running much lower loss ratios than target. Golden Rule has achieved their 2% profit margin for their Colorado Individual business in 2012 largely based on the favorable experience of members in this block of business. Nationally in 2012 Golden Rule achieved a 6.8% net income as a percent of premium. A fairness issue has now been raised as to why Golden Rules rate adjustment should be allowed to impact these members to such a large degree. By regulation, the Division has wide latitude in considering a company's profit levels, renewal and rating strategies, and any other factors in determining whether a rate increase should be allowed or should be deemed to be excessive.

The Division continues to object to the large claims adjustment that increases the estimated cost of members in these plans. Golden Rule has made support for the large claims adjustment confidential in this filing.

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The Division objects to the commission levels and lack of support. GRIC did not provide adequate data to support the levels of commissions for the new rating period.

Disapproved Rate Changes

The Division has disapproved these rate filings due to the objections noted in the section above.