

Issuer Module 3: Calculation of the “Subject to Review” Threshold Transcript

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This segment is Module 3 of the Health Insurance Issuer Rate Review Training. It will cover the calculation of the “Subject to Review” Threshold and how to properly determine whether a given proposed rate increase “triggers” the threshold and becomes subject to review. This section corresponds to Section 3.1.2 of the Rate Review Issuer Manual.

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In this slide we address what is subject to the threshold test.

Precisely a rate increase is subject to review if it meets the criteria set forth in §154.200 of the regulation. This means that this applies to Products sold in the Individual and Small Group health insurance market. Let's define the underlined terms.

A “Product” means a package of health insurance coverage benefits with a discrete set of rating and pricing methodologies that a health insurance issuer offers in a State. Plans are subsets of Products, that is, a “Product” may have one or more “Plans” within it.

In the case of multiple plans the average increase is premium weighted across all plans in order to calculate the average annual premium rate increase.

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Grandfathered plans are not subject to the regulation and thus are not subject to the threshold test and cannot become subject to review.

Otherwise filings or increases on or after a certain date are subject to the threshold test.

So for what product increases is the Threshold test applied?

Those products with increases are subject to the test if sold in the Individual or Small Group market, and are not grandfathered, and have filing or effective dates in a certain range.

Those proposed increases filed in a State on or after September 1, 2011 are subject to the test. In a State that does not require rate increases to be filed, proposed rate increases that are effective on or after September 1, 2011 are subject to the test.

What is not included in this set?

The Large Group market is not subject to the rate review regulation.

Individual and Small Group Association business is not subject to the Regulation presently.

Insurance coverage that meets the “excepted benefits” definition set forth in section 2791(c) of the PHS Act is not subject to the rate review regulation.

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Reporting Level

The lowest level of granularity used in a Preliminary Justification submission is the product level.

A Preliminary Justification data set is submitted at either the product level, or at an aggregate product “pooling level.” It is not submitted at the plan level. Remember we defined the terms plan and product earlier. Multiple plans may exist in one product.

The pooling level is defined as when two or more products data are combined for reporting the Preliminary Justification data set. This is permitted only when two things are true: (1) All the products pooled share experience for rate making purposes; AND (2) they are treated the same, that is, both products have essentially the same rate increase on the same effective date.

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The notion of Rate vs. Premium increase.

In applying the threshold test, one calculates an average premium rate increase and compares it to the applicable threshold value for that State (10% initially). In doing so one must be sure to include and exclude certain factors. In this slide we endeavor to articulate what is included and what is not included.

Generally speaking, let's say that there is no change whatsoever in premium rates, that is, there is perhaps no rate filing or one where every rate factor is kept constant. In reality for some insureds, the premium that they are billed or pay may still change. Factors that may affect this billable premium, if you will, include durational factors, geographical factors, and elective factors. In such a case we say that since the underlying premium rate structure is unchanged there is a zero percent increase in the premium rate as far as the threshold test is concerned. That is, for purposes of the threshold test the age and other factors for each insured is held constant.

So if a person with an age rated policy moves up an age cell, the associated increase is not counted in the threshold test. Similarly, if an insured moves from an urban to a rural zip code (or vice versa) and there is a difference in the geographic factor associated with this, that factor is also held constant. In addition, if an insured elects different coverage, say a single individual with self-only coverage becomes married and elects family coverage, that increase in premium is also excluded from the threshold test.

The population for the purposes of the threshold test is held constant at the point of the effective date of the increase. This then captures the effect of the change to the underlying rate structure on the premium rates for the insureds as opposed to a premium increase.

Finally the threshold test value is a variable. Although the threshold value is 10% for all States and markets initially, beginning on September 1, 2011, it may vary by State beginning September 1, 2012.

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The threshold test is a simple comparison of the average rate increase to the threshold value this is represented in a value labeled the threshold rate increase.

The frame of reference is the point in time of the effective date of the rate increase.

The annual consumer-reported average rate increase is the difference in premium rate: the new premium rate on the effective date of the increase minus the beginning of year premium rate divided by the beginning premium rate.

In the case of different premium increases for different cohorts, one determines the average increase by premium weighting the increases. So in the case of multiple plans the average increase is premium weighted across all plans in order to calculate the aggregate threshold rate increase.

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In Example 1, there is a 12% increase that raises the annual premium from \$1,200 per year to \$1,344. This results in an annual average consumer reported rate increase (threshold rate increase) of 12% which exceeds the threshold value of 10% and places the rate increase under subject to review.

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In Example 2, there is an 8% increase that raises the annual premium from \$1,200 per year to \$1,296. This results in an annual average consumer reported rate increase (threshold rate increase) of 8% which is below the threshold value of 10% and means the rate increase would not be subject to review.

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When there are multiple increases within a one year period, then for the Threshold test one has to combine the effects of the two increases and examine the aggregate effect from the frame of reference of the effective date for the later increase.

If a filing does not trigger the threshold and become subject to review, a later increase will not cause that filing to change status and become subject to review should their combined effect trigger the threshold.

When only the combined effect of two increases triggers the threshold, then only the later filing for the incremental increase would become subject to review. The earlier filing ***will not retroactively be made subject to review***, it can only become so when tested at the time it is filed (or for States that do not require an increase to be filed, when first implemented).

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In Example 3 a, there is an 8% increase that raises the annual premium from \$1,200 per year to \$1,296. This results in an annual average consumer reported rate increase (threshold rate increase) of 8% which is below the threshold value of 10% and means the rate increase would not be subject to review.

Later, within a year (6 months here) an additional increase for 4% is filed.

The first increase of 8% would not trigger the threshold at the time it is filed by itself.

The second increase, when its effect is added to that of the first, exceeds the threshold and would trigger review.

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In Example 3 b, there is the same 8% increase that raises the annual premium from \$1,200 per year to \$1,296; however, the filing also includes the second increase of 4% in a combined filing. This results in an annual average consumer reported rate increase (threshold rate increase) of 12%, which exceeds the threshold value of 10% and means the rate increase would be subject to review.

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In Example 4, there is a 6% increase that is implemented such that it repeats semi-annually. This raises the annual premium from \$1,200 per year to \$1,272 in January and to \$1,344 in July. This results in an annual average consumer reported rate increase (threshold rate increase) of 12% which exceeds the threshold value of 10% and means the rate increase would be subject to review.

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We have added a field in Section F of Part I of the Preliminary Justification to capture the annual average consumer reported rate increase (threshold rate increase) value.

This value should be calculated for the product or (pooled products being submitted together) and entered here for each case the threshold rate increase equals or exceeds the threshold for an increase.

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Part I of the Preliminary Justification requires issuers to provide claims, admin, and underwriting information for the 12-month period immediately before and after the rate increase effective date. In our Preliminary Justification Instructions Webinar, we stated that the overall rate increase that is automatically calculated on the worksheet should match the overall rate increase calculated through the threshold test.

This will be the case when issuers are not implementing multiple or phased in rate increases such as for example a one time 11% increase that is assessed to all insureds on the rate increase effective date.

However, we would like to clarify that the calculated rate increase amount in Section C will not match the annual consumer reported rate increase (threshold rate increase) calculation in cases where an issuer implements multiple periodic increases. For example, the threshold rate increase calculation will not match the overall rate increase calculation in Section C if the issuer is proposing a rate increase implemented quarterly upon policy renewal.

The rate increase exercise on the worksheet requires issuers to show how their anticipated costs will change between the current year (status quo) and under the rate increase. Issuers should always enter Sections A, B, and C with historical and projected data that represents their actual experience and trend assumptions. Issuers should not modify their data in order to make the overall rate increase calculation in Section C match the threshold rate increase rate increase calculation statistic used in the threshold test.

The information contained in Sections A,B, C of the Preliminary Justification are intended to give consumers a standardized presentation of changes in issuers claims, admin and underwriting gain/loss revenue needs. This data is not intended to directly tie to the annual average consumer reported rate increase (threshold rate increase).

Please note that we have updated the Issuer Rate Review Manual to reflect the changes to the Preliminary Justification instructions discussed in this training.