

Medicare Supplement Policy Forms Specific Information to Include in Rate Revision Filings

A premium rate revision request should be submitted separately for each policy form. The following information should be included in each rate revision filing:

Purpose of the Filing

There should be a statement that the purpose of the filing is to request a rate revision and demonstrate compliance with loss ratio standards.

General Description

A general description of the policy and benefits should be provided, including:

- Issuer name
- Form number
- Type of policy (i.e., individual, group, individual SELECT, group SELECT, pre-standardized individual, pre-standardized group)
- Benefit description
- Renewal provision
- Marketing approach
- Underwriting method
- Preexisting condition exclusion
- Issue-age limits (including availability to individuals eligible for Medicare due to a disability)
- Premium basis (e.g., issue age or community)
- Name, actuarial credentials, address, and phone number of actuary rendering the certification
- Target lifetime loss ratio for which the insurer is pricing
- The date the rate request submitted was approved by the issuer's domiciliary state (if applicable).
- Disclosure of whether or not the policy form is open or closed.

Scope and Reason for Rate Request

The reason for the rate revision must be clearly described. The scope of the rate revision, whether it applies to all rates uniformly or differs by rating attribute should be clearly indicated. Also, the effective date and timing of the rate revision should be described (e.g., effective January 1 upon policy renewal or anniversary).

Methodology and Assumptions Used to Determine the Rates

This methodology section should include:

- The general rate methodology used to calculate the rates.
- The degree to which provisions for inflation trends, aging, and the wearing-off of the effects of selection have been provided for in the pricing.
- The timing and magnitude of future rate revisions that are anticipated in the filing.
- The commission schedule.
- The commission level and methodology for policyholders who are replacing other coverage.
- Actuarial assumptions, including:
 - lapse rates, including the basis for choosing lapse rates.
 - morbidity assumptions, including the source of the assumptions and the effects of selection year by year.
 - interest rate used to discount cash flows.

The rate methodology should properly reflect the prefunding of future incurred claims inherent in the rating methodology. The filing should include explicit statements that make clear the extent of the prefunding.

Demonstration of Equivalence for Change in Rating Methodology

If an issuer is proposing a change in the rating methodology (e.g., change in attained-age relationships, introduction of new rating factor), the issuer must clearly describe the change. The two rating methodologies must produce equivalent expected results as of the estimated effective date of the change. Future rate revisions must maintain this percentage relativity.

Rate Sheets and Rating Factors

The current rate schedule and the proposed rate schedule for the state must be attached, including all rating factors. The expected period of time for which the rates will apply must also be stated.

Companies should document the approach that is used to deal with the situation where the state of residence is no longer the state of issue.

Rate History

The history of rate changes in the last five years (with implementation dates) for the form in the state should be included. If rate revisions were not applied uniformly across all rating factors, this should also be noted. Also, the effective date and timing of the rate revision should be described (e.g., effective January 1 upon policy renewal or anniversary).

In-Force Policy Counts

The number of policies for the state and nationwide in-force for the policy form should be included (both current counts and historical counts since inception).

Historical Incurred Claims

Historical incurred claims by duration must be included. These should be included for each historical calendar year on either a policy-duration basis or a calendar-year-of-issue basis. The incurred claims should not include claims expenses or active life reserves. State experience should always be provided. If the proposed rates are based on national experience, the national data must also be provided. State and national data should be reported consistently on either a policy-duration or calendar-duration basis. Claims should be reported on a direct basis only, and should not reflect the adjustments for assumed or ceded reinsurance arrangements except assumption reinsurance.

Historical Earned Premiums

Historical earned premium by duration must be provided either on a policy-duration or calendar-year-of-issue basis. This must be provided on a basis consistent with the reporting of incurred claims. An adjustment should also be shown for premium refunds. The earned premium should include all modal loadings and policy fees. The change in active life reserves should not be subtracted from the earned premium. State experience should always be provided. If the proposed rates are based on national experience, the national data must also be provided. Premiums should be reported on a direct basis only, and should not reflect the adjustments for assumed or ceded reinsurance arrangements except assumption reinsurance.

Experience and Loss Ratio Projection

Loss ratio standards must be met over the period for which rates are computed to provide coverage. Since the policies are guaranteed renewable, it is reasonable to define this period as the total life of the policy. Future experience (premiums, claims and loss ratios) must be projected. The filing must clearly state the assumptions used to prepare such projections, including:

- Definition of loss ratio.
- Base period of projection and whether based on state or national experience.
- Lapse rates.
- Trend and rationale for trend.
- Method for incorporating wearing-off of selection.
- Assumptions regarding future premium rate revisions.
- Interest rates for discounting and accumulating.

This projection should be made both with and without the proposed rate revision.

Non-credible Experience

If an issuer's statewide experience is not credible for purposes of projecting expected future experience, the projection should be based on a larger block. In some cases, particularly in-force business and comparable standardized plans, combining the experience of several plans within the state may be appropriate. In other cases, the projection should be made based on national experience. State historical experience should be provided in all filings, even if nationwide experience is used to demonstrate compliance with the loss ratio requirements and to develop premium adjustments.

Loss Ratio Demonstration

Currently targeted loss ratios should not be lower than the originally filed anticipated loss ratios unless explicit approval has been granted by the director. The issuer should demonstrate that the requested rates are consistent with the loss ratios originally anticipated for the policy:

1. The sum of accumulated past incurred claims and the present value of projected future claims must equal or exceed the applicable percentage times the sum of accumulated past earned premiums and projected future earned premiums. For standardized policies, the accumulated experience begins with inception. For pre-standardized policies, the accumulated experience begins with the SSAA-94 effective date.
2. The ratio of the present value of future claims to the present value of future premium must equal or exceed the applicable percentage. For rate structures that include some prefunding, the future loss ratio standard should be revised as appropriate, to properly reflect the prefunding.
3. For all policies or certificates in force less than three years, the expected third-year loss ratio must be greater than or equal to the applicable percentage.
4. For pre-standardized policies, the sum of the lifetime accumulated past incurred claims and the present value of projected future claims must equal or exceed the originally filed loss ratio times the sum of the lifetime accumulated past earned premiums and projected future earned premiums.

Actuarial Certification

The actuarial certification should state that, to the best of the actuary's knowledge and judgment, the following items are true with respect to the filing:

- The assumptions present the actuary's best judgment as to the expected value for each assumption and are consistent with the issuer's business plan at the time of the filing.
- The anticipated lifetime loss ratio, future loss ratios, and third-year loss ratio all exceed the applicable ratio.
- The filed rates maintain the proper relationship between policies that had different rating methodologies.
- The filing was prepared based on the current standards of practice as promulgated by the Actuarial Standards Board.
- The filing is in compliance with applicable laws and regulations in the state.
- The rates are reasonable in relationship to benefits.