AMERICAN ACADEMY of ACTUARIES

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March 30, 2016

Ms. Kim Cones
Acting Director, Rate Review Division
Center for Consumer Information and Insurance Oversight
Centers for Medicare & Medicaid Services

Re: Comments on 2017 Unified Rate Review Template Instructions

Dear Ms. Cones:

On behalf of the American Academy of Actuaries'[1] Premium Review Work Group, I would like to offer a number of comments related to the 2017 Unified Rate Review Template (URRT) instructions. We have two general comments; the remainder are specific recommendations identified by page number.

General Comments

- There are a number of places in the instructions in which discussion of mapping is included (e.g., pages 25, 27, 29 and 33). We recommend putting discussions of mapping in a single place. We appreciate the examples provided in Appendix B, but would recommend that the discussion be placed at the start of Section 2.2 in the "Plan Mapping Instructions" section because much of the guidance is located there currently. The instructions could then uniformly refer users back to Section 2.2 for discussion and to the Appendix for examples.

- Version 3.3 of the URRT includes wider tolerances than previous versions; however, there are two places in which the overall tolerances may not be appropriate. Worksheet 2 of the URRT calculates total premium as the plan adjusted index rate multiplied by member months in both the experience period and the projection period. Because of this direct relationship, we would expect that the percentage error between the experience period plan adjusted index rate in cell F55 of Worksheet 2 and the experience period premium PMPM in cell G14 of Worksheet 1 to be similar to the percentage error between the total premium in cell F57 Worksheet 2 and the total experience period premium in cell F14 of Worksheet 1. Similarly, we would expect the percentage error between the projected plan adjusted index rate in cell F81 of Worksheet 2 and the projected gross premium PMPM in cell V43 of Worksheet 1 to be similar to the percentage error between the projected total premium in cell F83 of Worksheet 2 and the projected total gross premium in cell X43 of Worksheet 1. Currently the plan adjusted index rate is subject to a 50 percent tolerance in the experience period in cell A55 of Worksheet 2 and the projection period in cell A81 of Worksheet 2, while total

[1] The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

premium is subject to a much smaller 5 percent tolerance in both the experience period in cell A57 of Worksheet 2 and the projection period in cell A83 of Worksheet 2.

For the projection period, there are a few reasons why plan adjusted index rate and premium should be different in the projection period, specifically the impact of tobacco rating and quarterly trend (in the small group market only), and a 5 percent tolerance would be reasonable for the plan adjusted index rate and total premium entries in Section IV of Worksheet 2. For the experience period, however, there are numerous additional expected causes for variation between premium and the plan adjusted index rate, including actual vs. expected demographics, risk adjustment, and reinsurance, so an error tolerance of 50 percent seems appropriate for the total premium and plan adjusted index rates in Section III of Worksheet 2. In fact, it may be most appropriate for there to be no comparison between Worksheet 1 and Worksheet 2 for the experience period. Therefore, although 50 percent is more reasonable for the experience period comparison due to these reasons, we recommend no comparison in future URRTs between these experience period items.

Specific Recommendations and Requests for Clarification

- *As-of Date (title page)*. The as-of date currently shows Jan. 20, 2015; this should be updated.

- *Index Rate (page 8)*. We recommend the first sentence be changed from “The Index Rate is the claims costs…” to “The Index Rate is the allowed claims costs…”

- *Plan Adjusted Index Rate (page 8)*. We recommend adding the following at the end of the sentence in the first bullet: “including an adjustment to make this a non-tobacco user rate.”

- *Plan Adjusted Index Rate (page 8)***.** We recommend adding “and Risk Adjustment user fees” to the fourth bullet. The sentence would now read, “Administrative costs, excluding Exchange user fees and Risk Adjustment user fees (which are already accounted for in the Market-Wide Adjusted Index Rate).”

- *Fees (page 9).* In the second sentence, we recommend removing “Reinsurance contributions” and adding “(Exchange user fees).” The sentence would now read, “The only exception is the application of the Risk Adjustment user fees and Marketplace user fees (Exchange user fees), which are…”

- *Calibration (page 9).* In the first sentence of the second paragraph, we recommend adding “each of.” The sentence would now read, “For each of the allowable rating factors of age and geography, there is ONLY ONE calibration allowed.”

- *Consumer Adjusted Premium Rate, Tobacco Use (page 10).* We recommend changing “Plan Adjusted Index Rate” to “non-tobacco user Premium Rate.” The sentence would now read, “A tobacco use surcharge (limited to 50 percent of the non-tobacco user Premium Rate) may be applied to…”

- *Premiums (net of MLR Rebate) in Experience Period (page 14).* In the first paragraph at the top of the page, we recommend you consider adding “including the expected Risk Adjustment receivables or payables and Risk Corridor receivables or payables” after “Start with premiums earned." These items would be counted as premiums earned; however, because they are not currently spelled out, some issuers might miss these items. Risk Adjustment is spelled out on page 13 to be included in the experience period premiums, but it has been dropped from the more prescriptive description on page 14. In addition, Risk Corridor has not been mentioned, although it is also an experience period revenue item. If issuers know the risk corridor amount they owe to CMS, it should be included as a decrement to revenue. Amounts owed and expected to be paid by CMS to issuers for the experience period may not be able to be estimated because funding for receivables is dependent on actual payables and the availability of other appropriations. We recommend including Risk Corridor payables to the extent they can be estimated.

- *Plan Mapping Instructions (page 27, 1(b)(i)).* Rate changes should be measured for enrollees when they are mapped from terminating plan(s) to new plan(s), because the renewal notice that enrollees receive will either indicate or imply a rate change. We recommend that the change be measured by weighting the plan adjusted index rate of the terminating plan(s) using current enrollment, and weighting the proposed plan adjusted index rate of the new plan(s) by assumptions of choices the current enrollees are likely to make. The rate change should also be adjusted by the average change in rating area factors and tobacco rating factors, if any, by applying all the appropriate factors using the current enrollment. The resulting rate change can then be used to determine whether the threshold increase has been triggered.

- *Product ID (page 29).* The plan mapping instructions do not address situations in which part of a plan's service area is eliminated and the terminated members are mapped into a new plan. We recommend providing clarification that this plan's experience would be included in the renewing plan's column on the URRT for the experience period and the mapped members' projected experience would be included in the projected experience period for the new plan, which is receiving the members from the terminated service area.

- *AV Pricing Value (pages 31-32).* For the 2014 plan year, the AV pricing values were used to determine rates. An "index plan" had to be specified and given an AV pricing value of 1.0 and rates for other plans were determined by multiplying the index plan's rates by the AV pricing value of the plan in question. In 2015, this method of determining rates was replaced with one based on the plan adjusted index rates. Therefore, we recommend the AV pricing value be removed from the template.

  If the AV pricing value is retained, requiring the following method might simplify establishing and reviewing the AV pricing values. Our understanding is that because an index plan is no longer required, the AV pricing values can be of any magnitude—only the relationship between the AV pricing values matters. One way to set the AV pricing values is to divide the plan adjusted index rate by the market adjusted index rate.

  The proposed instructions state, "It is likely to have a spread from one plan to another that emulates the spread in the Plan Adjusted Index Rates of the same plans." We believe this should say "must" instead of "is likely to." Our understanding is that the AV pricing values must be proportional to the non-tobacco rates for the plan and that the plan adjusted index rates also must be proportional to the non-tobacco rates for the plan. Therefore, the AV pricing values *must* be proportional to the plan adjusted index rates.

The proposed instructions also state, “If an issuer chooses to apply tobacco user factors, which is an allowable member-level rating factor, the issuer must make an adjustment so that the resulting Plan Adjusted Index Rate would remove the portion of the cost that is expected to be recouped through the tobacco surcharge.” Because this is in the section on AV pricing values, this sentence should refer to AV pricing value rather than plan adjusted index rate.

- *AV Pricing Value (catastrophic plans—page 32).*The proposed instructions state that no catastrophic eligibility adjustment is allowed for metallic plans because doing so “effectively [excludes] catastrophic plan experience from the single risk pool, which is not consistent with the single risk pool provision.” The index rate for the projection period, by definition, includes expected catastrophic plan experience, which lowers the index rate from what it would be with metallic plans alone. Allowing an adjustment to reflect the expected catastrophic experience in the catastrophic plans would require an offsetting adjustment to metallic plans in order for the composite catastrophic adjustment to aggregate to 1.0, thereby maintaining the integrity of the index rate and demonstrating overall inclusion of the catastrophic plans in the single risk pool. Prohibiting an adjustment to metallic plans results in the projected experience of catastrophic plans being given double weight in rates, as it is the sole basis of catastrophic rates and is also present with equal weight in metallic rates. This also results in an unlevel playing field, as issuers with larger catastrophic enrollment experience a larger impact due to the double-counting of projected catastrophic experience. We recommend that an adjustment for the impact of the catastrophic eligibility criteria be allowed to metallic plans in order to maintain consistency of the single risk pool and produce rates that are consistent with the benefits provided.

- *Plan ID (page 34)*: The statement “Plan IDs contain four digits” should be “Plan IDs contain 14 digits.” The template will not accept a four-digit Plan ID.

- *Cumulative Rate Change Percent (over the 12 months prior – page 36).* In the first indented paragraph, we recommend adding the word “plan’s.” The sentence would now read, “This should be measured as the change in the premium rates tables over the 12 month prior rate…table using the plan’s current distribution of enrollment by age, geographic area, and tobaccos status.”

- *Section II: Components of Premium Increase (page 37).* Many issuers do not develop rates at this level of detail (i.e., inpatient, outpatient, etc.). Therefore, while the statistics for “total” are correct, the accuracy of any single component as reported may be unreliable for any type of analysis or aggregation. We therefore recommend either deleting this section or making it optional for issuers.

- *Average Current Rate PMPM (page 38).* In the last complete sentence in the last paragraph, we recommend adding the words, “or the latest rates that are currently under review by the applicable regulatory agency, or are anticipated to be submitted.” The sentence would then read, “In the case of small group rates where a trend is filed and approved, the Average Current Rate PMPM should reflect the latest approved rate, or the latest rates that are currently under review by the applicable regulatory agency, or are anticipated to be submitted.” By making this change, there will be consistency with the language used on page

35 under Historic Rate Increases, second to last paragraph, first sentence, "For the current calendar year, include all rate changes that have been approved, are currently under review by the applicable regulatory agency, or are anticipated to be submitted."

- *EHB Percent of TP (page 47).* In the first paragraph at the top of the page, we recommend clarifying whether the Risk Adjustment user fee for this calculation should be considered as part of claims rather than as part of Taxes and Fees, as it is used in many parts of the URRT (currently the adjustment for this item is required to be used to adjust claim values, and is not included in the administrative expenses or taxes and fees: this is what we mean by "considered part of claims"). Alternatively, please clarify whether the intent is to show the value of EHBs only, and thus, ask the issuer to include the Risk Adjustment user fee in the Taxes and Fees, as would normally be reflected outside of the URRT.

- *Allowed Claims which are not the Issuer's Obligation (page 49).* In the first bullet, second sentence, we recommend adding the word "in." The sentence would now read, "…the cost-sharing amount included in this value…"

- *Reason for Rate Increase(s) (page 53).* We recommend adding back the bullet on "Anticipated changes in payments from and contributions to the Federal Transitional Reinsurance Program." This bullet is required for one more year, as the removal of the reinsurance program will result in additional rate increases needed for the individual market, and removal of contributions to the reinsurance program will result in a slight decrease to the increase needed for the small group market.

- *Age Curve Calibration (page 63).* We appreciate the change allowed to the age calibration to reflect the fact that no revenue is allowed for more than three dependent children under age 21. This correctly allows for the "0" revenue factor for the age factor for more than three dependent children.

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We appreciate the opportunity to provide these comments, and we welcome the opportunity to discuss them with you further. If you have any questions or would like to discuss, please contact Heather Jerbi, the Academy's assistant director of public policy, at (202-785-7869 or jerbi@actuary.org).

Sincerely,

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Chairperson, Premium Review Work Group
American Academy of Actuaries