AMERICAN ACADEMY of ACTUARIES

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November 10, 2015

Steve Ostlund, Acting Chair
Medicare Supplement Refund Subgroup
National Association of Insurance Commissioners

Re: Questions regarding Academy's MSWG Rate Refund Formula Recommendation Report (Nov. 11, 2014)

Dear Steve,

The American Academy of Actuaries'[1] Medicare Supplement Work Group (MSWG) appreciates the opportunity to respond to the questions posed regarding the work group's analysis of and potential modifications to the Medicare Supplement refund formula.

> Question 1: *What distribution of issue ages was used by the Academy in the development of its recommended durational loss ratio curves?*
>
> There is no explicit assumption regarding underlying issue age distribution. This is consistent with the existing refund filing formula. The initial basis for the recommendation comes from and is consistent with the prior MSWG report on loss ratio curves dated March 10, 2004.[2]
>
> For further discussion, as noted in the "Assumption Sets" section of the report on page 5, "*The work group discussed various assumption sets (i.e., premium trend, termination rates, durational loss ratios) based on collective experience and observations of industry experience. The work group ultimately settled on four assumption sets for both attained age and issue age rate structures. It is the opinion of the work group that these assumption sets encompass a reasonable lower and upper bound of industry levels. Based on the prior work of the Academy and the Reden & Anders report, the work group determined that the number of years the benchmark would use to reach a "lifetime" 65 percent loss ratio needed to be increased from 15 years to 30 years for issue age rating. For consistency, the same 30 years was used in the work related to attained age benchmarks as well.*
>
> *It could be argued that assumptions also could vary, especially over a 30 year period, based on age at issue in order to recognize the increasing impact of mortality at the later durations and plan, due to variations in benefits. The data was available by plan; however, a cursory review*

[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.

[2] http://www.actuary.org/files/publications/Report%20to%20NAIC%20on%20MedSUpp%20031004.pdf

showed insufficient data for many plans to develop specific benchmark variations. Prior Academy reports of Medicare Supplement experience showed that the largest portion of policies were issued prior to age 70. The current formula does not vary the benchmark factors by issue age, and any such addition would add considerable administrative complexity and increase auditing costs. The proposed assumption sets were developed without a variation for either issue age or plan."

Question 2: *Provide a more detailed explanation of the concept of "premium fit – actual to projected ratio" presented on page 8 of the Academy report.*

The ratio has as the numerator the actual earned premium (EP) for the reporting years studied (2006-2008) exclusive of the current year issued business consistent with line 3 of the refund form. The denominator consists of calculated "projected premium" using the applicable EP benchmark factors (i.e., columns c and g of the refund forms) for the particular refund filing formula under review. The numerator and denominator reflect the total across all companies and plans utilized in the data set.

The intent of this ratio is to test the overall accuracy of each alternative refund filing formula in producing EP benchmark factors that are close to actual historical EP levels; a ratio closer to 100 percent indicates increased accuracy of the particular formula under review. These results played a role in our choice of the assumption "Set 4" under both the issue age and attained age rate structure to form the basis of our recommended refund filing formulas.

However, it should be emphasized that the underlying data used for analysis consists of only four states: Florida, Oregon, Virginia, and Washington. As such, the data includes a much higher representation of issue age rated business (due to the presence of Florida records and only three other states) than would be the case of a dataset representative of the nation as a whole.

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The work group welcomes the opportunity to discuss its report and recommendations with you at your convenience. If you have any questions or would like to discuss further, please contact David Linn, the Academy's health policy analyst (202.223.8196; linn@actuary.org).

Sincerely,

Kenneth L. Clark, MAAA, FSA
Chairperson, Medicare Supplement Work Group
American Academy of Actuaries