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MEMORANDUM

SENT VIA EMAIL

TO: Health Insurance Plan of Iowa (HIPIOWA) Board of Directors, Cecil Bykerk (Executive Director), Debbie McCormick

FROM: Peggy Onstott

DATE: January 21, 2014

RE: HIPIOWA 2014 Average Market Rates and Premium Rates (Major Medical Plans and Medicare Carveout Plan)

I have prepared average market rates and premium rates for all plans offered by HIPIOWA. These rates are effective for the rating period coinciding with calendar year 2014. The purpose of this memo is to document the 2014 average market rate (AMR) findings as well as the Board's action with regard to premium rates adopted for 2014. The methodology and assumptions used to develop the AMR are summarized in this memo. Premium rates adopted by the HIPIOWA Board are provided with discussion. Supporting exhibits are provided in separate files.

A. Introduction

It is HIPIOWA's practice to review premium rates annually. The Board must approve rates for the next rating period, which coincides with calendar year 2014. The Iowa Division of Insurance does not have approval authority over HIPIOWA's rates but does review them.

In accordance with HIPIOWA statutes, rates for a given risk classification for the HIPIOWA plans are to be *no more than* 150% of the *average premium* for that classification charged by the top five carriers. In determining the average premium, rates charged by the carriers are actuarially adjusted for the difference between carrier plan benefits and HIPIOWA plan benefits. By statute, the rate determination must include all business in force, both currently issued and closed blocks. The resulting average premium is referred to as the "**average market rate**" or **AMR**.

HIPIOWA AMR are computed as a weighted average of premium rates charged in the Iowa individual market to both ***currently issued*** and ***closed blocks*** of business. The weights are determined from the relative market share of each company, based on total number of lives in force. Not all carriers are surveyed for the purpose of determining HIPIOWA AMR. The inclusion of carriers beyond the top five would not have a material effect on AMR. Market data is obtained directly from representatives of the top carriers. HIPIOWA plan data is obtained from the administrator, BMI.

B. Background

With the introduction of the Iowa Marketplace (referred to as IAMP in the memo) in 2014, there were new issues to consider along with the normal AMR development process. At the outset, information was requested from all carriers who would be offering individual plans (as vs. small group) in the IAMP in 2014, in addition to the top 5 carriers. Carriers were requested to provide benefit and rate information on plans to be offered in and outside the IAMP, in addition to the information normally requested for AMR. There was some degree of uncertainty at the time, because not all plans/rates were approved.

After an initial review, it was clear that inclusion of benefit plans (*metallic*) offered in the IAMP would be inappropriate for purposes of 2014 rates. Two major contributing factors are (1) there are no in force lives associated with the new plans to apply in computing the weighted average, and (2) until HIPIOWA adopts rating factors that are compliant with PPACA rules, it would not be feasible to meld rates under two different rating structures.

The approach used for determining the 2014 AMR was to assume a continuation of all plans at the time to 2014 (both currently issued and closed blocks). The 2014 rates were determined as of the midpoint of 2014 (7/1/14). The weighted average was determined from the carrier-provided data regarding lives in force by plan and aggregate demographic breakdowns at the time.

C. Average Market Rates for Major Medical Plans

The resulting 2014 average market rates for each major medical plan, gender, and age are shown in Exhibit 1-A (non-tobacco users) and Exhibit 1-B (tobacco-users). 2014 AMR increased by about 3.3% for all plans. Premium rates for the optional maternity benefit increased by the same percent. Exhibit 2 shows the AMR rates and percentage change for a representative age (age 49) for each HIPIOWA plan.

Exhibit 3 shows the 2014 AMR rating factors by gender, attained age, and tobacco use. No change was made in these factors at this time. There was no change in the relative plan differentials.

Please bear in mind that the change in HIPIOWA 2014 AMR reflects carrier rate actions during 2013. That is, the 2013 AMR were based on carrier rates effective for 2012 *but trended to July 2013*. This is because when HIPIOWA AMR were developed in the fall of 2012, not all carriers had 2013 rates finalized. The ***actual*** 2013 rate actions taken by carriers may not have matched the assumed trends. To the extent that carriers implemented lower rate increases than assumed, there is a lower rate increase between 2013 AMR and 2014 AMR because 2013 AMR were essentially "overstated". The converse is also true for carriers that implemented higher rate increases than stated trends. This is why HIPIOWA AMR increases vary from average trends.

D. Premium Rates for Major Medical Plans

Premium rates for HIPIOWA plans are required by statute to be *no more than* 150% of the AMR. The HIPIOWA Board of Directors determines the level of premium rates. Since 2005, premium rates have been set at 150% of AMR, except that rates for the optional maternity benefit have been set at 100% of AMR in recent years.

For 2014, the Board elected *not to increase premium rates*, i.e. premium rates will be the same as for 2013 [1]. The current Major Medical premium rates would **represent about 145.2% of the 2014 AMR**, for all plans, gender, tobacco use, and age. The one exception is the optional maternity benefit, where premium rates would **represent about 96.8% of the 2014 AMR.** For your information, 2014 premium rates are shown in Exhibits 4A-4B.

[1] Note, however, that an individual member may experience a rate increase when aging up.

E. Average Market Rates for Medicare Carveout Plan

Medicare Carveout (MC) plan market rate information is not available as this is not generally offered in the individual market. The approach used to develop MC AMR is similar to that for major medical plans, but simpler. An actuarial equivalence adjustment is determined using an industry-rating model for the difference between *expected costs* for the "standard plan" and the same plan offered on a Medicare Carveout basis. The standard plan in this case is Plan B ($1000 deductible). The rating model takes into consideration the expected morbidity levels of under-age 65 disabled with Medicare Carveout benefits.

Table 1 summarizes the AMR for the MC plan, which is *without* drug benefits. Exhibit F-1 also shows ratios of the MC to Traditional $1000 Plan AMR, for selected ages. The 2014 MC average market rates **increased by about 3.3%**; this is the same rate increase as for Major Medical plans.

F. Premium Rates for Medicare Carveout (MC) Plan

For 2014, the Board's decision *not to increase premium rates* extends to the MC Plan. The current MC premium rates would **represent about 96.8% of the 2014 AMR**. For your information, 2014 premium rates are shown in Table 2.

Please let me know if you have any questions or comments. I appreciate the opportunity to provide these actuarial services to HIPIOWA.