To: Commissioner Nick Gerhart
From: Craig Magnuson, FSA, MAAA, FCA
Cc: Tom Keller, FSA, MAAA, FCA
Subject: WHPI 2017 Pre-ACA Grandfathered & Transitional plans IM Rate Filing – SERFF# WMIA-130554761
Date: August 12, 2016

Scope and Purpose

The scope and purpose of this engagement was to provide actuarial review of the Wellmark Health Plan, Inc. (WHPI) January 2017 Individual Grandfathered and Transitional plan Rate Filing, SERFF Tracking Number WMIA-130554761, originally provided to Magnum Actuarial Group, LLC (Magnum) on May 10, 2016. This report is intended to be used by the Iowa Insurance Division (IID) to support their work on this rate filing. Unapproved use for other purposes may not be appropriate.

Recommendation and Findings

We have reviewed the WHPI January 2017 Grandfathered and Individual Transitional plan Rate Filing, SERFF Tracking Number: WMIA-130554761, originally submitted on May 10, 2016. WHPI has requested a uniform 42.6% rate increase for Transitional products and a 0% increase for Grandfathered products (1 policy), to be effective on January 1, 2017.

While the filing includes both Grandfathered and Transitional plans, this report will focus on the review of the Transitional proposed rate increase only. The Grandfathered block consists of 1 policy, with no increase being proposed for that policy.

Our review focused on the compliance of this request with Iowa law, notably, Chapter 513C, the requirements set forth by HHS under Section 2794 of the Public Health Services Act as added by Section 1003 of the PPACA.

In dealing with the question of reasonableness, we considered only applicable and relevant laws and regulations, not issues such as affordability and company profitability. The report concludes with our analysis of the reasonableness of the request in that light.

Based on those criteria, the proposed rate increase request by WHPI is reasonable and we recommend approval.

Responsible Actuaries

Craig Magnuson reviewed the above rate filing for completeness, data accuracy, projection methods and appropriateness of the projected rate increase. Tom Keller provided peer review. We are Partner level actuaries for Magnum and meet the qualification standards as required by the American Academy of Actuaries. We are available to provide any supplementary information or answer any questions that may arise in regards to this work product. We have no conflicts of interest with either the IID or WHPI.

Sources of Data

The data underlying this analysis was provided by WHPI via the initial rate filing of May 10, 2016. The information included the Actuarial Memorandum, the IID required Assister File, the annual 513C certification and the rate manuals. The products included within this filing are Iowa Grandfathered (1 policy) and Transitional plans.

We have not conducted a detailed audit or verification of this data and information. We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have found no material defects. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review of the data. Such a review was beyond the scope of our assignment.

Compliance with HHS Requirements – The Adequate Justification Test

HHS has said a rate increase request could be judged as unreasonable if it is unjustified, i.e., if the "data or documentation … is incomplete, inadequate or otherwise does not provide a basis upon which the reasonableness of an increase may be determined."

As noted above under Sources of Data, WHPI provided data and documentation sufficient for Magnum to independently determine that the proposed rates are reasonable, so there is adequate justification.

Compliance with Chapter 513C of Iowa Law – Discrimination Testing

The discrimination sections of Chapter 513C require that rates between blocks of business not exceed 2.028 to 1 and that a rate increase for a given block of business is not 15% more than another block of business due to claims experience.

We relied upon the State of Iowa Certificate of Compliance, signed by Justin Knight, FSA, MAAA, Team Leader - Actuarial, on June 8, 2016 as indication of compliance with both Chapter §513C.5 and Iowa Administrative Code 191-75.6(1).

Consequently, we concluded that the proposed rates meet Iowa's non-discrimination test.

Magnum's Analysis of the Filing – Not Excessive

The adjustments that comply with federal law are to translate the projected loss ratio over the pricing period to an equivalent projected MLR, as defined by the ACA and HHS regulations. Because, mathematically, the MLR will always be greater than the loss ratio, if the projected loss ratio is at least 80%, the rate request is not excessive under Iowa Bulletin 11-06.

As stated in the Actuarial Memorandum, the projected loss ratio for the Transitional plans, with the proposed rate increase of 42.6% for 2017 is 97.5%. Based on WHPI projections, the MLR projected MLR threshold standard of 80%.

Magnum's analysis included utilizing proprietary models to independently confirm that WHPI's loss ratios during the period the rates would be in effect are likely to meet or exceed the 80% MLR threshold. In addition, we reviewed key actuarial inputs, namely trend assumptions and target loss ratios, for reasonableness.

The review of each of these items is detailed below.

Rate Increase Derivation

WHPI provided membership, earned premiums and incurred claims by month from May 2012 (inception of the Transitional pool) through April 2016, via the Assister File that accompanied the rate filing. That information, along with a schedule of past rate increases that had been implemented, was used by Magnum to independently derive justified rate increases using our models.

Claims Trend and Underwriting Wear-off

Incurred claims trend is one of the key drivers in evaluating the requested rate increase. One of the challenges of reviewing claims trend for a recently underwritten book of business (this book first issued policies in May of 2012) is separating underlying medical trend from the impact of underwriting wear-off. It is not possible to split underwriting wear-off from the medical trend using only the data within the Assister file. In these situations, we typically:

- Develop our own estimate of overall trend, which includes the impact of durational wear-off, from data supplied by WHPI in the Assister file,
- Compare our overall trend results against the assumptions used by WHPI in the rate development process (both including the impact of durational wear-off),
- Develop our own estimate of durational wear-off of the WHPI blocks of business, using our proprietary durational wear-off assumptions, using member month information included within the Assister file,
- Compare the underlying medical trend assumption that will result from removing the assumed durational wear-off from the composite trend assumption against other WHPI filings and current industry norms.

WHPI's trend analysis was based on an analysis of members, by pool, with 36 months of continuous coverage. The combined trend/wear off assumptions used in the rate calculations by WHPI were set at 20%, which is significantly below what their own 2 year trend analysis showed. The trend analysis, and the ultimate assumption used, presented by WHPI in its actuarial memorandum include the impact of durational wear-off.

We found that the limited amount of data within the Assister file provided by WHPI produced trend results that did not have a good fit for our internal models. This is due to the limited amount of experience within the Assister file and the large amount of implicit underwriting wear-off within the data, as the business was first issued in May of 2012.

In our analysis, we have used Wellmark, Inc. trend that we derived in the 2017 Wellmark Pre-ACA rate filing, SERFF #WMIA-130554697. Our judgment was that this block of business was much larger, and 100% credible, and did not have the same degree of underwriting wear-off included within the data. In our judgment, it is a much better measure of trend over the period in question.

The result of that analysis was that the underlying trend rate, without underwriting wear-off, was at an annual rate of 8.82%. This is the trend rate that Magnum will use in its models in our independent justification of the proposed rate increase by WHPI.

Magnum Derived Justified Rate Increase Calculation

Using Magnum proprietary models, we projected the 2017 future loss ratios, including the WHPI proposed 42.6% rate increase. The results are shown in Exhibit 1. Additional assumptions utilized include:

- Actual experience and rate increases applied historically to derive on-level premiums for each block for the 12 month period of April 2015 through March of 2016 (the experience period),
- For the Magnum estimate, we have assumed an 8.82% annual trend rate, along with 7.29% adjustment to reflect additional underwriting wear-off between the experience period and the 2017 projected period,
- For the WHPI estimate, we are using the proposed 20% annualized trend rate, which is inclusive of the impact of underwriting wear-off,

As shown in Exhibit 1, Magnum pricing models, using WHPI proposed medical trend, including the impact of underwriting wear-off, produces a projected 2017 loss ratio of 99.4%. The same approach, but using Magnum medical trend with a specific assumption for underwriting wear-off, produces a projected 2017 loss ratio of 89.9%. The Magnum estimate is considerably lower due to using the Wellmark trend rate from their larger book of business, and separately calculating an estimate of underwriting wear-off to reflect the expected increase in loss ratio from the experience period to the projection period. Both projections are considerably above the 80% MLR threshold.

We find, based on the analysis above, the rate increase request to be not excessive.

Conclusions

WHPI has requested rate increases for Iowa Grandfathered and Transitional Individual policies, to be effective January 1, 2017 for the following blocks of policies:

- 42.6% for Transitional policies and,
- 0.0% for the one Grandfathered policy in force.

The proposed rates meet the three defined criteria for reasonableness:

- Justified – WHPI provided information sufficient for Magnum to independently validate that the proposed rates are reasonable so there is adequate justification.
- Not Discriminatory – WHPI has provided the appropriate certifications of compliance with Iowa Chapter 513C.

- Not Excessive – Magnum independently confirmed the MLR on WHPI's Transitional individual business is likely to meet or exceed the 80% Federal MLR threshold.

Consequently, Magnum believes that the WHPI proposed rate increase is reasonable.

EXHIBIT 1

WHPI RATE INCREASE CALCULATION

	Magnum (WM Inc.) Trend	WHPI Assumed Trend
	12 Mo Exp	**12 Mo Exp**
Beginning Experience Period	4/1/2015	4/1/2015
Ending Experience Period	3/31/2016	3/31/2016
Midpoint	10/1/2015	10/1/2015
Beginning Rating Period	1/1/2017	1/1/2017
Ending Rating Period	12/31/2017	12/31/2017
Midpoint	7/1/2017	7/1/2017
Annual Claims Trend	8.82%	20.00%
Experience Period Member Months	32,627	32,627
Earned Premium	$4,577,196	$4,577,196
Earned Premium PMPM	$140.29	$140.29
Onlevel Earned Premium	$5,540,504	$5,540,504
Onlevel Earned Premium PMPM	$169.81	$169.81
Incurred Claims	$5,707,110	$5,707,110
Incurred Claims PMPM	$174.92	$174.92
Months Trend	21.0	21.0
Trend Factor	1.1594	1.3758
Durational Wear-off Adjustment	1.0729	1.0000
Trended Claims	$217.60	$240.66
Loss Ratio - Raw	124.7%	124.7%
OnLevel Loss Ratio	128.1%	141.7%
Target LR	**85.5%**	**85.5%**
Originally Proposed Increase	**42.6%**	**42.6%**
LR w/ Wellmark Proposed Increase	**89.9%**	**99.4%**

Exhibit 1

Magnum Questions/Requests in Filing Review Process

Magnum note: The responses included several supporting exhibits marked "proprietary and confidential," and as such, will not be included within this report.

1. I have noted that the Actuarial Memorandum (AM) does not comply with ASOP 41, which applies to actuarial communications, in a number of areas. For example, please review section 3.1.4 "Identification of Responsible Actuary". Please note that this was just one example that was evident. I would suggest updating the memorandum to be consistent with all Actuarial Standards of Practice. This same issue exists within the Wellmark, Inc. Pre-ACA filing, submitted to Iowa on the same day as this filing.

   WHPI response: An Actuarial Certification with my signature was included with the filing to encompass the entire filing submission as myself being the responsible actuary. We are refiling the Actuarial Memorandums of both companies to also include the responsible actuary identification.

2. The Iowa Assister file details monthly experience beginning April 2012. The AM indicates that this filing includes a rate change for Individual Transitional products. Please verify that WHPI issued no policies (transitional or otherwise) between the beginning date of transitional products, March 23, 2010, and April 2012.

   WHPI response: WHPI had 1 policy on a Grandfathered plan, which was effective prior to March 23, 2010. WHPI did not issue any other policies until 4/1/2012. All policies issued on or after 4/1/2012, but before 1/1/2014 represent the transitional products in this filing. There are grandfathered products as well, but there is only the one policy on those products.

3. Please explain why no rate increases were submitted for this block of business for calendar years 2014 and 2015. It appears from a review of experience that this block, given that it had been recently underwritten, was performing worse than expectations in both 2012 and 2013, which would have comprised the experience used in deriving potential needed rate increases on the block in 2014 and 2015. Would you agree that that the need for large increases in 2016 and 2017 was driven, at least partially, by the decision to forego increases in 2014 and 2015?

   WHPI response: Had rate increases been given earlier, you are correct, the larger rate increases requested for 2016 and 2017 would have been lower. However, due to the experience in 2011-2013 of this block of business and the small adjustments allowed for credibility in the MLR calculation, this block of business was required to pay rebates in

2014. It would have been difficult to raise premiums much on a block of business that was required to pay rebates back to its members.

4. Given credibility issues, we feel it would be more appropriate to use two years of experience (4/1/2014 to 3/31/2016) in defining the starting point of the WHPI rate calculation.

   Aetna response: We disagree. While two years of experience gives you more credibility, older data does not provide an accurate picture of the true costs of claims for this block of business, particularly since the block is experiencing wear-off from underwriting.

   Magnum comment: Credibility is very much an actuarial judgment issue. WHPI does make a valid point that it is better to use more recent experience. It is also important to ensure credible experience. The experience has over 32,000 months of experience. Some actuaries will point to written state standards of 24,000 months (Medicare Supplement) as being 100% credible. Since credibility does include actuarial judgment, WHPI using the most recent 12 months of experience, rather than 24 months, is their best judgment. While we would prefer using 24 months in this case, it is not inappropriate for WHPI to utilize the most recent 12 months in this filing.

5. In regards to Trend estimates within the AM, we recognize that it is very difficult to derive appropriate trend estimates within a block of business whose experience is recently underwritten. As you correctly pointed out in the AM, underwriting wear-off is a large portion of your claims trend calculation. Have you considered developing rates with separate assumptions of medical trend and underwriting wear-off? Our review and analysis would lead us to the following:
   - Using an annual trend assumption of 9% would appear to be consistent with the Wellmark Inc. Pre-ACA rate filing, assuming that the difference between the various pools presented would constitute the underwriting wear-off of trend (you can confirm using your actual data).
   - Our opinion is that it would be more appropriate to use a two year experience period as the starting point for deriving the needed rate increase, due to credibility issues of using just one year (i.e., using the period of 4/1/2014 – 3/31/2016).
   - Our estimate of the approximate underwriting wear-off of the business, from the experience period mentioned above, to the calendar year 2017 pricing period, would be approximately 10.7%. Admittedly, this is based on derived monthly exposures by monthly duration based on the data presented in the Assister file, along with a historical underwriting wear-off pattern based on our past experience.

- Utilizing the analysis discussed above, along with the target 85.5% loss ratio for calendar year 2017 would result in a needed rate increase of approximately 32.7% for this rate filing.

WHPI response: We recognize that there are other ways to calculate the needed rate increase for this block of business which would come up with different results. However we feel our requested increase is still appropriate. We also recognize that this is still a relatively small block of business that was underwritten. The monthly claims PMPM of $175.47 for the period of 4/1/2015 – 3/31/2016 is relatively low. An annual 10% claims increase for Wellmark Inc. would equate to about a $26 PMPM increase. A similar dollar increase in this block of business would equate to about a 15% increase in paid claims.

Recalculating the needed increase with our original data, but applying a 10% annual trend, more consistent with the WI pre-ACA trend percentage used, and 1.2% annual UW wear-off adjustment (number taken from SOA source written by Milliman actuary Leigh Wachenheim, FSA, MAAA in 2006) we would calculate a 42.5% needed increase. The attached Excel spreadsheet *UW Wear-off and Trend Split Rate Calculations.xlsx* shows this calculation. We would be happy to discuss this will you at your request.

Magnum response: We have reviewed the included worksheet. It supports the requested rate increase, as did the original recommendation. In addition, our own analysis, using our best estimate of trend and underwriting wear-off, using the most recent 12 months of experience, supports the requested rate increase.

6. Please provide additional justification for the credibility standard proposed by WHPI in regards to the experience based utilized in the rate development process.

WHPI response: We believe that using the most recent year of experience is appropriate for the purposes of defining a starting point to project claims costs for the following two reasons:

- Credibility: In assessing whether or not the single risk pool portion of the experience period for this filing is credible, we considered Wellmark's Large Group Underwriting parameters for guidance. Within the Large Group market, Wellmark essentially considers groups larger than 2,000 members to be fully credible. The single risk pool experience for this filing represents approximately 2,300 members, which we would consider fully credible. In addition, one can also refer to applications of credibility formulas, such as the following from the Mahler/Dean chapter on credibility in the textbook *"Foundations of Casualty Actuarial Science":* (Note: the lengthy formulas omitted by Magnum). Wellmark's risk pool member exposure in the experience period for this individual filing is 34,701, which is greater than 24,000 and thus indicates full credibility.

- Appropriateness of the 2015 period: One concern with the issue of credibility is the impact of large claims. With a small pool, a relatively low number of large claimants can disproportionately skew the total results of the block. We reviewed the claims experience for the 2015 calendar year of this block and compared it to the previous calendar year. We also compared it to a much larger book of individual business (Iowa Individual Wellmark Inc Pre ACA) for the same periods of time. Below are the results:

  Distribution of claims:

  Distribution of claims:

	2014 WHPI	2015 WHPI	2014 Inc	2015 Inc
$0 - $10,000	56%	38%	34%	31%
$10,000 - $50,000	28%	25%	32%	32%
$50,000 - $100,000	8%	17%	15%	14%
$100,000+	9%	20%	18%	23%
% members with $0 claims	23%	21%	24%	23%

A few key findings of the 2015 WHPI experience include the following:

i. 21% of members had $0 claims. This is consistent with the previous period (23%) as well as the Wellmark Inc experience (23%, 24%)
ii. 20% of total claims dollars for 2015 WHPI were attributed to high dollar claimants (those with claims exceeding $100,000 for the period). Large claims do not appear to skew the results for this time period.
iii. The 2014 WHPI experience is more heavily weighted towards lower claim amounts. With more recently underwritten members, it would make sense that a greater portion of claims would be of lower severity. As the block matures, the average severity should increase. This seems to have happened in 2015.

We believe that the base period for projecting is more appropriately represented by the 2015 experience. Not only do we believe that it is large enough to be credible, we would also be concerned with blending of it with the 2014 results. While the blending of the periods makes for more exposure, we do not feel that the exposure in 2014 appropriately reflects the actual current maturity of this block. We would be concerned that it would overly dilute the base projection period.

Magnum comment: This question was a follow up to our Question #4. WHPI has adequately supported their use of the 12 month experience period in the rate increase calculation.