



**STATE OF CONNECTICUT**  
*INSURANCE DEPARTMENT*

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In the Matter of:

THE PROPOSED RATE INCREASE APPLICATION  
OF GOLDEN RULE INSURANCE COMPANY

Docket No. LH 15-95

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**ORDER**

I, Katharine L. Wade, Insurance Commissioner of the State of Connecticut, having read the record in the above captioned matter, do hereby adopt the findings and recommendations of Kristin Campanelli, Hearing Officer, which are contained in the attached Proposed Final Decision, and issue the following orders, TO WIT:

1. The rates filed by Golden Rule to be effective January 1, 2016 are excessive and the rate Application increases are disapproved in accordance with Conn. Gen. Stat. §38a-481.
2. The recommended rate revisions determined in the actuarial analysis presented in the discussion section are actuarially sound, and are adequate, not excessive and not unfairly discriminatory in accordance with Conn. Gen. Stat. §38a-481.
3. The following changes to the rating assumptions for rates effective January 1, 2016 are accepted:
  - Reducing the 2014-2015 unit cost trend from 4.9% to 3.8%
  - Use the 2014 experience developed at 100% credibility

- Eliminating the revised population risk morbidity adjustment of 1.077
  - Reducing the risk adjustment of -\$123.81 pmpm to -\$90.00 pmpm
  - Reducing the commissions from 8% to 4.2%
4. Golden Rule will recalculate the rates using the recommended revised rating assumptions with an effective date of January 1, 2016 and submit a revised rate filing to the Department no later than September 3, 2015.

Dated at Hartford, Connecticut, this 27th day of August, 2015.



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Katharine L. Wade  
Insurance Commissioner



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**PROPOSED FINAL DECISION**

**I. INTRODUCTION**

On April 6, 2015, Golden Rule Insurance Company (“Golden Rule” or “Applicant”), filed a rate application regarding the Applicant’s individual rates for off exchange plans (“Application”) with the Connecticut Insurance Department (“Department”) pursuant to Conn. Gen. Stat. §38a-481. Although there is no statutory requirement that a rate hearing be held, on July 6, 2015, Insurance Commissioner Katharine L. Wade (“Commissioner”) issued a notice of public hearing. The Commissioner ordered that a public hearing be held on July 27, 2015, concerning the Application.

A copy of the notice for the public hearing was filed with the Office of the Secretary of State on July 7, 2015 and was published on the Department’s Internet website. The notice indicated that the Application was available for public inspection at the Department, and that the Department was accepting written statements concerning the Application. In accordance with Conn. Agencies Regs. §38a-8-48, the Applicant was designated as a party to this proceeding.

On July 7, 2015, the Commissioner appointed the undersigned to serve as Hearing Officer in this proceeding.

On July 27, 2015, the public hearing on the Application was held before the undersigned. The following individuals testified at the public hearing on behalf of the Applicant: Scott Westphal, Senior Actuary. Sam S.F. Caligiuri, Esq., of Day Pitney LLP represented the Applicant.

The following Department staff participated in the public hearing: Paul Lombardo, ASA, MAAA, Life and Health Actuary and Mary Ellen Breault, ASA, MAAA.

Pursuant to the published hearing notice, the public was given an opportunity to speak at the hearing or to submit written comments on the Application with respect to the issues to be considered by the Commissioner no later than the close of business July 31, 2015. Public comment by persons who are not parties or intervenors "shall be given the same weight as legal argument." Conn. Agencies Regs. §38a-8-51(b). Two members of the public provided oral comment during the two public comment sessions at the hearing. Members of the public who provided oral public comment were Lynne Ide, Universal Health Care Foundation of Connecticut and Albert May, CONECT.

As of the close of the record for public comment at the close of business July 31, 2015, there were five (5) written communications containing public comment, some from persons who also provided oral comment and one signed by more than one person. All of the written comments were in opposition to the Application. The major theme in the opposition letters and oral comments was overall objection to Golden Rule's application. Some of the comment letters and oral comments included some detailed description of the hardship of Golden Rule rates on the consumers who made the comments.

Golden Rule was directed to submit supplemental information no later than July 31, 2015. Golden Rule timely submitted the supplemental information on July 31, 2015 and the record was closed as of July 31, 2015.

## **II. FINDINGS OF FACT**

After reviewing the exhibits entered into the record of this proceeding, the testimony of the witnesses, and utilizing the experience, technical competence and specialized knowledge of the Department, the undersigned makes the following findings of fact:

1. On April 6, 2015, Golden Rule electronically filed a rate application ("Application") requesting an increase of 18.5% on the Applicant's individual rates for off exchange plans to be effective January 1, 2016.
2. Golden Rule testified that this Application is a filing made by Golden Rule Insurance Company and is applicable only to Connecticut based business, products offered in Connecticut, and based on Connecticut statutory requirements.
3. The filing included an Actuarial Certification by Joseph Polley, FSA, MAAA, and Director of Actuarial Services.
4. Mr. Westphal testified that the filing was compliant with state filing guidelines, actuarial standards, including specifically Actuarial Standards of Practice No. 8, Regulatory Filings for Health Plan Entities ("ASOP 8"), and that data quality was reconciled to financial statements.
5. Golden Rule testified that health care costs and utilization are the two main drivers of increasing health insurance premiums across all product lines. The rising cost of hospital benefits and the use of new, more expensive prescription drugs impact the utilization mix as there is a shift to use the newer products and services.
6. The experience period used for the rate development is the 12-month period from January 1 2014 through December 31, 2014, paid through February 2015.

7. Golden Rule is requesting an average rate increase of 18.5% with a range from 10.2% to 24.2%, for plans with effective dates of 1/1/16.
8. This filing represents 3,414 covered lives in Connecticut.
9. Earned premium for Golden Rule non-grandfathered business in Connecticut for 2014 is approximately \$28,654,278.
10. Golden Rule has included a total annual trend adjustment of 15.5% applicable from the 2014 experience period to the 2016 plan year. The total trend assumption has been broken out into 6.1% (3% annually) for utilization and 8.9% (4.9% for 2014-2015 and 3.8% for 2015-2016) for cost. The total annual trend assumption is based on an affiliated small group carrier's annual trend assumption. The affiliated small group data was also used to develop the credibility manual rate.
11. Population morbidity risk and other projection factors are consistent with the factors used in the previously approved rate filing.
12. As Golden Rule does not have credible experience for individual medical guarantee issue products, they relied on the guarantee issue claims experience and rate development of the 2015 product.
13. The following data adjustments were made:
  - Trend: Golden Rule's rates were developed from the previously approved rates and the trend, described above, was applied.
  - Benefit Differential: Adjustments were made to reflect the benefit variations between the 2015 individual portfolio and the proposed 2016 individual product.
  - Demographic/Geographic Adjustment: Golden Rule anticipates that their individual business will have a different age/gender composition and a



<u>Service</u>	<u>Trend</u>	<u>Trend</u>	<u>Trend</u>
Facility	-30.11%	52.50%	6.58%
Physician	-28.17%	26.88%	-8.86%
Preventive Care	-37.51%	24.10%	-22.44%
Other	-25.97%	5.15%	-22.16%
<u>Prescription Drug</u>	<u>--28.38%</u>	<u>31.64%</u>	<u>-5.73%</u>
Grand Total	-30.14%	37.21%	-4.15%

Above is the trend analysis provided in the original filing, Golden Rule revised this analysis with no further explanation of why the values changed so dramatically. Below is the Grand Total from the revised exhibit:

	<u>Utilization</u>	<u>Unit Cost</u>	<u>Overall</u>
<u>Service</u>	<u>Trend</u>	<u>Trend</u>	<u>Trend</u>
Grand Total	-14.1%	30.2%	11.8%

Facility category includes: emergency room; hospice; inpatient facility; outpatient facility; skilled nursing facility; other

Physician category includes: anesthesiology; diagnostic testing-office/clinic; diagnostic testing-other; office visits; other; other physician services; psyche and substance abuse; spine & back disorder; surgery

Preventive Care category includes: routine MAM/PSA/PAP/HPV; routine office visits; routine services

Other: DME/prosthetics; home health; other; other medical supplies; physical therapy; radiation/chemotherapy

Prescription Drug: Medco Data (copay plans and discount cards); retail Rx

19. Trend assumptions are based on data of an affiliated carrier's experience for similar lines of business. Past data, various models and business judgment of future economic developments are all used in estimating future trend. As part of UnitedHealthcare, we have a team of actuarial professionals in our Healthcare Economics (HCE) area whose responsibilities include developing forward-looking trend projections and monitoring historical performance in relation to trend. Golden Rule has relied upon this team to provide guidance on trends appropriate for our Connecticut rate development.

20. Medical technology trend is one of many factors that influence medical utilization and unit cost trends. We have provided Appendix B, C and D to provide the analysis of trends available in our data. Our data does not support further analysis.

21. Changes in the morbidity of the population are assumed to increase claims by a factor of 1.169 from the experience period to the projection period. There is a morbidity adjustment due to underwriting wear-off from the experience period to the projection period. Underwriting wear-off represents the variation in individual medical insurance claims by policy duration, where claims are higher at later policy durations as more time has elapsed since initial underwriting. Golden Rule Insurance Company conducted an internal study to calculate average underwriting wear-off by policy duration. Nationwide experience of similar products that were marketed from 1998 through 2010, for claims incurred from 1998 through 2011, was used in the calculation of claims selection factors. Underwriting wear-off is represented by the change in claims selection factors over time.

22. Golden Rule Insurance Company anticipates paying an average of \$123.95 PMPM for risk adjustment transfers.

23. The 12.9% Administrative Expense Load includes commissions, quality improvements and SG&A.

- Commissions: Golden Rule Insurance Company anticipates commissions of approximately 8.0% of premium for 2016.
- Quality Improvements: We assumed 0.2% of premium for quality improvement expenses based on an affiliated carrier's individual market.
- SG&A: It is estimated that approximately 4.7% of premium will be allocated to SG&A for 2016.

24. Golden Rule's projected profit margin for the 2016 rating period is approximately 3.2% of premium.

Premium	100.0%
Claims	-57.2%
Premium Tax	-1.8%
Reinsurance Fees	-0.4%
Reinsurance Recoveries	3.5%
Risk Adjustment User Fees	-0.0%
Risk Adjustment Transfers	-23.2%
Net Insurer Fees	-2.0%
PCORI Fee	-0.03%
Commissions	-8.0%
SG&A	-4.7%
<u>Quality Improvements</u>	<u>-0.2%</u>
Pre-Tax Income:	6.0%
<u>Income Tax</u>	<u>-2.8%</u>
After-Tax Income:	3.2%

25. Taxes and Fees are expected to be 6.5% and include premium tax, insurer fees, exchange fees, PCORI fees and federal income tax.

- Premium Tax: The premium tax rate is 1.75% in the state of Connecticut.
- Insurer Fees: Each insurance carrier's assessment of insurer fees will be based on earned health insurance premiums in the prior year, with certain exclusions. UnitedHealthcare (parent company of Golden Rule Insurance Company) estimates that 1.965% of its 2016 premium will be allocated for insurer fees.
- PCORI Fees: This product will be offered for the 2016 plan year, with a PCORI fee of \$2.08 per member per year, or \$0.17 PMPM. This equates to approximately 0.03% of premium in Connecticut.
- Federal Income Tax: Income tax is projected to be 2.8% of premium and is calculated as 35% \* (Pre-Tax Income + Insurer Fees), since insurer fees are not tax deductible.

26. The projected loss ratio using the federally prescribed MLR methodology for calendar year 2016 is 82.9%.

Claims	57.2%
Reinsurance Recoveries	-3.5%
Quality Improvements	0.2%
<u>Risk Adjustment Transfers</u>	<u>23.2%</u>
Total MLR Claims	77.1%
Premium	100.0%
Premium Tax	-1.8%

Income Tax	-2.8%
Reinsurance Fee	-0.4%
Net Insurer Fees	-2.0%
PCORI Fee	0.0%
<u>Risk Adjustment User Fee</u>	<u>0.0%</u>
<u>Total MLR Premium</u>	<u>93.0%</u>
MLR:	82.9%

27. The single risk pool reflects all covered lives for every non-grandfathered product and plan combination for Golden Rule Insurance Company in the state of Connecticut. It is established in accordance with the requirements of 45 CFR part 156, 156.80(d).

28. The index rate represents 99.85% of the projected allowed claims PMPM for this block of business. Benefits in excess of EHBs include diabetic eye-exams, nutrition counseling visits, and wigs, which is expected to account for 0.15% of allowed claims.

29. The market adjusted index rate includes market-wide adjustments for the federal reinsurance program, risk adjustment and exchange user fees.

### III. DISCUSSION

Conn. Gen. Stat. §38a-481 provides that individual health insurance rates must be filed with the commissioner. The commissioner may disapprove such rates if the rates are found to be excessive, inadequate or unfairly discriminatory. While these terms are not defined in Conn. Gen. Stat §38a-481, the Legislature has given us guidance as to their meanings through other statutes dealing with rate filings. Conn.

Gen. Stat. §38a-665, which addresses rates pertaining to commercial risk insurance provides in relevant part:

Rates shall not be excessive or inadequate, as herein defined, nor shall they be unfairly discriminatory. No rate shall be held to be excessive unless (1) such rate is unreasonably high for the insurance provided or (2) a reasonable degree of competition does not exist in the area with respect to the classification to which such rate is applicable. No rate shall be held inadequate unless (A) it is unreasonably low for the insurance provided, and (B) continued use of it would endanger solvency of the insurer, or unless (C) such rate is unreasonably low for the insurance provided and the use of such rate by the insurer using same has, or, if continued, will have the effect of destroying competition or creating a monopoly.

Conn. Agencies Reg. §38a-474-3, which governs rate filings for Medicare

Supplement products provides in relevant part:

The commissioner shall not approve a rate for a Medicare supplement policy that is excessive, inadequate, unreasonable in relation the benefits provided or unfairly discriminatory.

Lacking any other statutory definitions in Conn. Gen. Stat. §38a-38a-481, we therefore use the definitions in Conn. Gen. Stat. §38a-665, and the reasonableness elements espoused in that statute as well as Conn. Agencies Reg. §38a-474-3, and along with standard actuarial principles for health insurance, the Department uses the following standards for the review of health insurance rate filings. The Department deems rates excessive if they are unreasonably high in relation to the benefits provided and the underlying risks. Rates are deemed inadequate if they are unreasonably low in relation to the benefits provided and the underlying risks, and continued use of it would endanger the solvency of the insurer. Rates would be deemed unfairly discriminatory if the methodology to develop the rates is not actuarially sound and is not applied in a fairly consistent manner so that resulting rates were not reasonable in relation to the benefits and underlying risks. The actuarial review of the rate Application to determine if the rates are reasonable, i.e. not excessive, inadequate or unfairly discriminatory,

must be in compliance with ASOP 8 issued by the Actuarial Standards Board of the American Academy of Actuaries.

A primary concern raised by members of the public is that the applied for increases would not be affordable for the renewing policyholders. Affordability, however, is relative to each person and subjective, and although of overall concern, is not a standard for rate review within the statute or standard actuarial principles.

To determine if the rates filed by Golden Rule are reasonable in relation to the benefits provided, the Department actuarial staff completed an actuarial analysis to review the experience, assumptions and projections used in the Application. Since this filing incorporates all the new rating requirements of the Affordable Care Act (ACA)<sup>1</sup> effective 1/1/2014, with some modifications due to federal regulations that impact future year's premiums, the Department used criteria spelled out in the latest HHS rate regulations as a template for review along with previously issued CT Insurance Department Bulletins that discuss the requirements for rate filings.

The undersigned reviewed the utilization and unit cost trend assumed in the rate filing and is recommending revising the 2014-2015 unit cost trend from 4.9% to 3.8%. Based upon the federal MLR for this filing of 82.9% before the impact of the credibility adjustment, the Department believes that the proposed pricing supports the required 80% loss ratio for small group business.

Golden Rule made a decision to use their 2015 pricing as a starting point to build the rates for 2016. Golden Rules' 2015 pricing was based 100% off of their 2013 individual block of business in CT, with adjustments and no credibility adjustment to manual. The Department requested that Golden Rule use 2014 actual experience as a starting point using the same methodology as last year's rate development. Golden

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<sup>1</sup> Patient Protection and Affordable Care Act, 42 U.S.C. § 18001 et seq. (2010)

Rule responded by providing 2014 experience as the starting point, trended it forward two years to 2016 and reduced the Population Risk Morbidity assumption from a factor of 1.169 to 1.077. This generated a PMPM claim estimate of \$464.30 compared to \$453.17 using the 2015 rates as the starting point. Based upon this updated experience the undersigned is recommending that Golden Rule use the 2014 experience developed at 100% credibility, reducing the unit cost trend as identified above and eliminating the Population Risk Morbidity adjustment of 1.077.

The undersigned reviewed the estimated risk adjustment of -\$123.81 on a pmpm basis. Based on Golden Rule's significant covered lives change from 2013 (11,598) to 2015 (3,415), the undersigned is recommending that the estimated risk adjustment be reduced to -\$90.00 pmpm.

In Golden Rule's response to rate hearing questions, the company identified that there has been a change to the commission schedule that will change the impact as a percentage of premium from 8% to 4.2%, the undersigned recommends that Golden Rule make this change in the rate filing.

In the 2015 pricing the Connecticut Insurance Department required that all individual carriers in the non-grandfathered market in Connecticut use a \$45,000 attachment point (per HHS guidance), a \$250,000 reinsurance cap, and a 70 percent coinsurance rate.

The coinsurance rate assumption was based upon the following:

- The federal government has allowed states to decide whether or not to allow existing non-grandfathered, non-ACA compliant plans (grand-mothered plans for ease of explanation) to continue to renew until sometime in 2016. These grand-mothered plans are considered transitional plans and carriers will not have access to the temporary reinsurance program for these plans. A number of

states have elected to allow these transitional plans while Connecticut has not. All Connecticut individual plans, as of 1/1/2015 and beyond, will be considered fully ACA compliant plans eligible for the temporary reinsurance program.

- As a result, the Department believes that there will be excess funds available in 2015 since all transitional individual plans will not have access to the reinsurance program and were originally expected to be fully ACA compliant by 2015 when the funding parameters were originally set.

Since the assumptions for the attachment point and coinsurance level have changed from 2015 to 2016, this resulted in an increase to premiums and is reasonable.

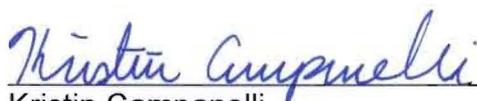
#### **IV. CONCLUSION AND RECOMMENDATION**

Based on the foregoing and the record of the July 27, 2015 public hearing, the undersigned concludes that the rates filed by Golden Rule to be effective January 1, 2016 are excessive and recommends that the Insurance Commissioner disapprove the rate Application increases in accordance with Conn. Gen. Stat. §38a-481. The undersigned concludes that the recommended rate revisions determined in the actuarial analysis presented in the discussion section are actuarially sound, and are adequate, not excessive and not unfairly discriminatory in accordance with Conn. Gen. Stat. §38a-481. The undersigned recommends that the Commissioner accept the following changes to the rating assumptions for rates effective January 1, 2016:

- Reducing the 2014-2015 unit cost trend from 4.9% to 3.8%
- Use the 2014 experience developed at 100% credibility
- Eliminating the revised population risk morbidity adjustment of 1.077
- Reducing the risk adjustment of -\$123.81 pmpm to -\$90.00 pmpm
- Reducing the commissions from 8% to 4.2%

The undersigned recommends that the Insurance Commissioner order Golden Rule to recalculate the rates using the recommended revised rating assumptions with an effective date of January 1, 2016 and submit a revised rate filing to the Department no later than September 3, 2015.

Dated at Hartford, Connecticut, this 27<sup>th</sup> day of August, 2015.



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Kristin Campanelli  
Hearing Officer