



Health Insurance Issuer Rate Review Training

*Module 2: Technical Instructions for
Completing the Preliminary Justification*

Module 2: Technical Instructions for Completing the
Preliminary Justification



Information About This Training Module

- This training module includes three parts:
 - ▣ Part I: Rate Summary Worksheet
 - ▣ Part II: Explanation of the Rate Increase
 - ▣ Part III: Rate Filing Documentation When CMS Is Reviewing the Increase



Part I

Rate Summary Worksheet

Rate Summary Worksheet – Example Worksheet

Per the Instructions, health insurance issuers proposing rate increases above the threshold fill in only those cells that are highlighted in GREY. The other cells are auto-populated.

A. Base Period Data

Start Period: 01/01/2011 End Period: 01/01/2012

Service Categories	Member Months	Total Allowed	Net Claims	Cost Sharing	Cost Sharing PMPM	Net PMPM	Allowed PMPM
Inpatient	10,000	\$ 313,250.00	\$ 244,955.00	\$ 68,295.00	\$ 6.89	\$ 24.44	\$ 31.33
Outpatient	10,000	\$ 311,000.00	\$ 242,580.00	\$ 68,420.00	\$ 6.84	\$ 24.28	\$ 31.10
Professional	10,000	\$ 774,000.00	\$ 603,720.00	\$ 170,280.00	\$ 17.03	\$ 60.37	\$ 77.40
Prescription Drugs	10,000	\$ 498,000.00	\$ 368,500.00	\$ 129,500.00	\$ 12.95	\$ 36.85	\$ 49.80
Other	10,000	\$ 45,800.00	\$ 35,700.00	\$ 10,100.00	\$ 1.01	\$ 3.57	\$ 4.58
Capitation	10,000	\$ 75,000.00	\$ 75,000.00	\$ -	\$ -	\$ 7.50	\$ 7.50
Total	10,000	\$ 2,017,050.00	\$ 1,569,855.00	\$ 447,195.00	\$ 44.72	\$ 156.99	\$ 201.71

B. Claim Projections

B1. Adjustment to the Current Rate

Start Period: 01/02/2011 End Period: 01/01/2012

Service Categories	Overall Medical Trend	Projected Allowed PMPM	Net Claims	Cost Sharing
Inpatient	1.0154	\$ 31.81	\$ 25.13	0.21
Outpatient	1.0462	\$ 32.54	\$ 25.70	0.21
Professional	1.0204	\$ 79.60	\$ 62.85	0.21
Prescription Drugs	1.0669	\$ 53.13	\$ 39.85	0.25
Other	1.0155	\$ 4.65	\$ 3.67	0.21
Capitation	1.0100	\$ 7.58	\$ 7.58	0.00
Total		\$ 209.30	\$ 164.81	0.21

B2. Claims Projection for Future Rate

Start Period: 01/03/2011 End Period: 01/02/2012

Service Categories	Overall Medical Trend	Projected Allowed PMPM	Net Claims	Cost Sharing
Inpatient	1.0783	\$ 34.30	\$ 26.75	0.22
Outpatient	1.1185	\$ 36.39	\$ 28.39	0.22
Professional	1.0877	\$ 86.58	\$ 67.53	0.22
Prescription Drugs	1.1316	\$ 60.12	\$ 44.79	0.26
Other	1.0812	\$ 5.03	\$ 3.92	0.22
Capitation	1.0210	\$ 7.73	\$ 7.73	0.00
Total		\$ 230.15	\$ 179.11	0.22

B3. Medical Trend Breakout

Factor	Impact
Utilization	50.0%
Unit Cost	40.0%
Other Factors	10.0%

C. Components of Current and Future Rates

	Future Rate		Prior Estimate of Current Rate		Difference	
	PMPM	%	PMPM	%	PMPM	%
1. Projected Net Claims	\$ 179.11	76.20%	\$ 159.20	75.73%	\$ 19.91	80.22%
2. Administrative Costs	\$ 45.75	19.46%	\$ 43.33	20.61%	\$ 2.42	9.75%
3. Underwriting Gain/Loss	\$ 10.19	4.34%	\$ 7.70	3.66%	\$ 2.49	10.03%
4. Total Rate	\$ 235.05	100.00%	\$ 210.23	100.00%	\$ 24.82	100.00%
5. Overall Rate Increase		11.81%				

D. Components of Rate Increase

Claims Components	Impact on Rate	Percent
1. Inpatient	\$ 1.97	9.87%
2. Outpatient	\$ 3.05	15.30%
3. Professional	\$ 5.51	27.68%
4. Prescription Drugs	\$ 5.24	26.32%
5. Other	\$ 0.30	1.50%
6. Capitation	\$ 0.16	0.80%
7. Cost Share	\$ (1.92)	-9.66%
8. Correction of Prior Net Claims Estimate	\$ 5.61	28.18%
9. Total	\$ 19.91	100.00%

Claims Restatement for Current Rate Period

Start Period:	End Period:	
01/01/2011	12/31/2011	
a. Prior Net Claims Estimate for Current Rate Period		\$ 159.20
b. Re-Estimate of Net Claims PMPM for Current Rate Period		\$ 164.81

E. List of Annual Average Rate Changes Requested and Implemented in the Past Three Calendar Years

Calendar Year	New Form	Requested	Implemented
2010	N	10.00%	10.00%
2009	N	8.00%	8.00%
2008	N	7.00%	7.00%

F. Range and Scope of Proposed Increase

Number of Covered Individuals	900
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	Range of Rate Increase
Minimum % Increase	5.00%
Maximum % Increase	13.60%



Rate Summary Worksheet – Health Care Services

□ Brief Descriptions of Categories of Health Care Services

1. Inpatient
2. Outpatient
3. Professional
4. Prescription Drugs
5. Other
6. Capitated Services

Service Categories
Inpatient
Outpatient
Professional
Prescription Drugs
Other
Capitation
Total



Rate Summary Worksheet – Base Period

Base Period

1. Date of the period that is the basis for the issuer's projections
2. Member Months in the base period (the same for all service categories)
3. Allowed Claims including estimates of claims incurred but unpaid
4. Net Claims after cost sharing is applied



Rate Summary Worksheet – Base Period (Continued)

□ Example

A. Base Period Data

Start Period: 01/01/2011

End Period: 01/01/2012

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Rate Summary Worksheet – Claim Projections

- Projection Periods, Trend, and Cost Sharing
 1. B2. Projection period, the one-year period beginning with the effective date of the proposed rate change
 2. B1. Period one year before the projection period
 3. Trend adjustments to go from base period to B1 period to projection period. Trend is the rate of increase in allowable costs from one period to another.
 4. Cost sharing percentages expressed in decimal form



Rate Summary Worksheet – Claim Projections (Continued)

□ Example

B. Claim Projections

B1. Adjustment to the Current Rate

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Rate Summary Worksheet – Medical Trend Breakdown

- Medical Trend Breakdown
 1. Utilization
 2. Unit cost
 3. Other factors

B3. Medical Trend Breakout

Factor	Impact
Utilization	50.0%
Unit Cost	40.0%
Other Factors	10.0%



Rate Summary Worksheet – Components of Current and Future Rate

□ Current and Future Rate Components

1. The “current” rate is the rate in effect 12 months prior to the proposed rates, based on the filing that established that old rate
2. PMPM components are net claims, administrative costs, and underwriting gain/loss

C. Components of Current and Future Rates

	Future Rate		Prior Estimate of Current Rate		Difference	
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5. Overall Rate Increase		11.81%				



Rate Summary Worksheet – Rate Increase History, Range and Scope of Proposed Increases

- Rate Increase History, Range and Scope of Proposed Increases
 1. The rate increase history over three calendar years should address both requested and implemented levels
 2. Number of individuals estimated to be covered as of the effective date of the increase
 3. Minimum and maximum values of the proposed increases



Rate Summary Worksheet – Rate Increase History, Range and Scope of Proposed Increases (Continued)

□ Example

D. Components of Rate Increase

	Impact on Rate	Percent
Claims Components		
1. Inpatient	\$ 1.97	9.87%
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Claims Restatement for Current Rate Period

Start Period: 01/01/2011 End Period: 12/31/2011

8.a. Prior Net Claims Estimate for Current Rate Period	\$ 159.20
8.b. Re-Estimate of Net Claims PMPM for Current Rate Period	\$ 164.81

E. List of Annual Average Rate Changes Requested and Implemented in the Past Three Calendar Years

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F. Range and Scope of Proposed Increase

Number of Covered Individuals
900

	Range of Rate Increase
Minimum % Increase	5.00%
Maximum % Increase	13.60%



Part II

Explanation of the Rate Increase



Explanation of the Rate Increase

- Scope and Range of the Increase - number of people impacted and how the rate increase varies
- Summary of the historical revenue, claims, expenses and profit on the product, and how the rate increase should impact that in the future



Explanation of the Rate Increase (Continued)

- How provider costs and utilization contribute to the need for the rate increase
- How legally required benefit changes contribute to the need for the rate increase
- How administrative costs and anticipated profits contribute to the need for the rate increase



Part III

Rate Filing Documentation

When CMS is Reviewing the Increase



Rate Filing Documentation

When CMS is Reviewing the Increase Categories 1 - 4

- Information Describing the Filing, Categories 1 through 4
 1. Items (a) through (k) in category 1 identify issuer and the particular filing
 2. Items (i) through (vi) in category 2 give specifics on the underlying insurance product
 3. Category 3 gives details on the rate increase
 4. Category 4 discloses the average annual premium before and after the rate increase and the recent rate increase history



Rate Filing Documentation

When CMS is Reviewing the Increase Category 5

□ Historical Experience, Category 5

1. How many people are covered? How many policyholders if this is group? What is the written premium for a recent period?
2. What is the past earned premium and incurred claim experience (including a cumulative loss ratio if this is individual business), and what other experience if any did the issuer use?
3. Details on credibility, claim reserves, and contract reserves



Rate Filing Documentation

When CMS is Reviewing the Increase Category 6

- How Did the Issuer Determine the Rate Increase, Category 6
 1. Different categories of non-claim expenses, and impact of mandates
 2. Impact of the proposed premium increase
 3. Specific details of how the rate increase was determined, including methodology and all relevant actuarial assumptions



Rate Filing Documentation

When CMS is Reviewing the Increase Categories 7 -10

- **Certain Outcomes, Categories 7 through 10**
 1. Category 7, for individual business only, presents the cumulative loss ratio and details of how it was calculated
 2. Category 8 presents the future loss ratio for one year from the increase effective date and details of how it was calculated. This is not the “adjusted” federal medical loss ratio (MLR).
 3. Category 9, for individual business only, presents the lifetime loss ratio (generally consistent with the NAIC lifetime loss ratio model) and details of how it was calculated
 4. Category 10 gives the federal MLR standard and certain related calculations



Rate Filing Documentation

When CMS is Reviewing the Increase – Loss Ratio Calculation

□ Example of Presentation of Individual Loss Ratio Calculation

- ▣ Below is an example of a presentation that usually meets the needs of displaying the results of the individual lifetime loss ratio calculation

	w/o interest		w/ interest		
Year	Earned Premiums	Incurred Claims	Earned Premiums	Incurred Claims	Loss Ratio
Inception Year	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX



Rate Filing Documentation

When CMS is Reviewing the Increase – Historical Data

2009	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX
2010	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX
Historical Totals	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX
2011	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX
2012	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX
2013	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX



Rate Filing Documentation

When CMS is Reviewing the Increase – Projected Year Analysis

	w/o interest		w/ interest		
Year	Earned Premiums	Incurred Claims	Earned Premiums	Incurred Claims	Loss Ratio
Inception Year	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX

2009	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX
2010	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX
Historical Totals	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX
2011	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX
2012	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX
2013	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX
Future	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX
Lifetime	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX



Future	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX
Lifetime	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX



Contacts

- Please submit your questions about this training to RateReview@hhs.gov
- Submitted questions will be addressed during CMS Rate Review User Group calls
- User Group calls will take place in August and September (see training confirmation email for details)