



# Health Insurance Issuer Rate Review Training

## *Module 3: “Subject to Review” Threshold*



# Calculation of the “Subject to Review” Threshold - Test

## What is Subject to the Threshold test:

- Products sold in the Individual and Small Group health insurance market. A Product may have one or more Plans within it

### Multiple plans

- In the case of multiple plans, the average increase is premium weighted across all plans in order to calculate the average annual premium rate increase



# Calculation of the “Subject to Review” Threshold - Test

## What is subject to the Threshold test (continued):

- For non-grandfathered plans as defined in 45 C.F.R. § 147.140
- On or after certain dates:
  - Proposed rate increases filed in a State on or after September 1, 2011
  - In a State that does not require rate increases to be filed, proposed rate increases effective on or after September 1, 2011



# Calculation of the “Subject to Review” Threshold – Preliminary Justification Data / Pooling

- A Preliminary Justification data set is submitted at either the product level, or at an aggregate product pooling level
- Pooling level - two or more products’ data are combined for reporting the Preliminary Justification data set
  - Two or more products may be reported at the pooling level if they all share experience for rate making purposes, and are treated the same, e.g. have essentially the same rate increase on the same effective date



# Calculation of the “Subject to Review” Threshold

## – Rate vs. Premium

- Rate vs. Premium increase
  - Excluded from the Threshold test is the effect of certain factors that may impact a “premium” but do not change “rates.” These include:
    1. Durational factors such as age
    2. Geographic factors
    3. Elective factors
  - The population of the product and the age, etc. for the insureds is held constant as of the effective date of the increase for the threshold calculation. This captures the effect of the change to the underlying rate structure on Premium Rate vs. Premium increase
- The Threshold test uses a variable test value. The threshold value is 10% for all States and markets beginning on September 1, 2011



# Calculation of the “Subject to Review” Threshold

## – Threshold Test

- The Threshold test is performed by first calculating the threshold rate increase as of the effective date of an increase
- The year window period used to determine the annual increase is the retrospective period ending on the effective date of the increase
- This threshold rate increase is determined at the effective date of the rate increase as the premium weighted average over all insureds, of the difference of the new premium rate and the beginning year premium rate divided by the beginning year premium
- The threshold rate increase is compared to the threshold value, if it is equal to or exceeds the threshold value, this triggers the threshold and the proposed increase is subject to review, otherwise it is not



# Calculation of the “Subject to Review” Threshold – Threshold Test

## Example 1:

- Simple 12% increase across the board effective January 1<sup>ST</sup>

Annual premium rises from \$1,200 to \$1,344, or a \$100 per month premium moves to \$112 per month for all insureds:

$$\$1,344 - \$1,200 / \$1,200 =$$

$$(12 \text{ months} \times \$112 \text{ per month}) - (12 \text{ mo} \times \$100 \text{ per mo}) / 12 \text{ mo} \times \$100 \text{ per month} = 12\%$$

- The threshold rate increase of 12% exceeds the 10% threshold value



# Calculation of the “Subject to Review” Threshold – Threshold Test

## Example 2:

- Simple 8% increase across the board effective January 1<sup>st</sup>

Annual premium rises from \$1,200 to \$1,296, or a \$100 per month premium moves to \$108 per month

$$\$1,296 - \$1,200 / \$1,200 =$$

$$(12 \text{ months} \times \$108 \text{ per month}) - (12 \text{ mo} \times \$100 \text{ per mo}) / 12 \text{ mo} \times \$100 \text{ per month} = 8\%$$

- The threshold rate increase of 8% is below the 10% threshold value





# Calculation of the “Subject to Review” Threshold

## – Multiple Increases

- Multiple and Periodic increases
  - When the effective date of an increase falls within one year of an earlier increase that is filed separately, then, for the Threshold test one has to combine the effects of the two increases and examine the aggregate effect from the frame of reference of the effective date for the later increase
  - At the time of the latter filing, if the threshold test equals or exceeds the threshold trigger of 10%, **the latter filing** would become subject to review. The earlier filing **will not retroactively be made subject to review**, it will only be tested at the time it is filed (or first implemented\*).

\* For States that do not require an increase to be filed.



# Calculation of the “Subject to Review” Threshold

## – Threshold Test

### Example 3a:

- An 8% increase across the board effective January 1<sup>st</sup>, is followed by a later 4% increase effective July. The two increases are filed separately.
- The first increase of 8% would not trigger the threshold.
- The second increase would occur as follows:  
Annual premium of \$1,200 increases first to \$1,296 then to \$1,344 or the \$100 per month premium first increase to \$108 per month and then to \$112 per month  
$$\frac{\$1,344 - \$1,200}{\$1,200} =$$
$$12 \text{ months} \times \$112 \text{ per month} / 12 \text{ months} \times \$100 \text{ per month} = 12\%$$
- The threshold rate increase of 12% is above the 10% threshold value. Thus the 4% increase would trigger the threshold since it is really part of a two part 12% increase that occurs within one year.



# Calculation of the “Subject to Review” Threshold – Threshold Test

## Example 3b:

- An 8% increase across the board effective January 1<sup>st</sup>, is followed by a later 4% increase effective July. The two increases are part of one filing.

Annual premium of \$1,200 increases first to \$1,296 then to \$1,344 or the \$100 per month premium first increase to \$108 per month and then to \$112 per month

$$\$1,344 - \$1,200 / \$1,200 =$$

$$12 \text{ months} \times \$112 \text{ per month} / 12 \text{ months} \times \$100 \text{ per month} = 12\%$$

- The threshold rate increase of 12% is above the 10% threshold value



# Calculation of the “Subject to Review” Threshold

## – Threshold Test

### Example 4:

- A 6% increase across the board effective January 1<sup>st</sup>, is implemented semi-annually. The multiple increases are part of one filing.

Annual premium rises from \$1,200 to \$1,344, or a \$100 per month premium moves to \$112 per month for all insureds:

$$\$1,344 - \$1,200 / \$1,200 =$$

$$(12 \text{ months} \times \$112 \text{ per month}) - (12 \text{ mo} \times \$100 \text{ per mo}) / 12 \text{ mo} \times \$100 \text{ per month} = 12\%$$

- The threshold rate increase of 12% exceeds the 10% threshold value
- If a filing has periodic increases with multiple effective dates for its component increases, the greatest threshold rate increase for the filing should be used.



# Rate Summary Worksheet

A Field for the threshold rate increase has been added to Section F of the Preliminary Justification Rate Summary Worksheet (Spreadsheet)

## F. Range and Scope of Proposed Increase

Number of Covered Individuals
900

Threshold Rate Increase
13.00%

	Range of Rate Increase
Minimum % Increase	10.50%
Maximum % Increase	15.60%



# Rate Summary 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	\$ 244,355.00	\$ 68,895.00	\$ 6.89	\$ 24.44	\$ 31.33
Outpatient	10,000	\$ 311,000.00	\$ 242,580.00	\$ 68,420.00	\$ 6.84	\$ 24.26	\$ 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
<b>Total</b>	<b>10,000</b>	<b>\$ 2,017,050.00</b>	<b>\$ 1,569,855.00</b>	<b>\$ 447,195.00</b>	<b>\$ 44.72</b>	<b>\$ 156.99</b>	<b>\$ 201.71</b>

**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	1.0284	\$ 79.60	\$ 62.68	0.21
Prescription Drugs	1.0669	\$ 53.13	\$ 39.65	0.25
Other	1.0155	\$ 4.65	\$ 3.67	0.21
Capitation	1.0100	\$ 7.58	\$ 7.58	0.00
<b>Total</b>		<b>\$ 209.30</b>	<b>\$ 164.81</b>	<b>0.21</b>

**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
<b>Total</b>		<b>\$ 230.15</b>	<b>\$ 179.11</b>	<b>0.22</b>

**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%				



# Contacts

- Please submit your questions about this training to [RateReview@hhs.gov](mailto: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)