

**LIFE & HEALTH**

**Advisory Memorandum on Small Group Health Insurance**

To: All Insurers of Health Benefit Plans<sup>1</sup> in the Small Employer Group Health Insurance Market

From: Life and Health Division

Date: January 31, 2012

Re: **New Data Submission Requirements for Small Group Rate Filings  
Pursuant to NCGS 58-2-190 Commissioner may require special reports and  
NCGS 58-50-131 Premium rates for health benefit plans; approval authority; hearing**

As required by newly adopted NCGS 58-50-131 (Session Laws 2011-196, s 4), all insurers in the small employer group health insurance market ("Small Employer Carriers", NCGS 58-50-110(23)) must receive prior approval of all premium rate schedules, and amendments thereto, utilized in North Carolina.

In order to ensure compliance with the prior approval requirements and to facilitate the transition:

- Every Small Employer Carrier must receive the Department's prior approval of a rate filing with an effective date no later than July 1, 2012 for use in the small employer group health insurance market in North Carolina.
- Small Employer Carriers who have previously received the Department's approval for a rate scheduled for the small employer group market to be in effect on July 1, 2012 must notify the Life & Health Division of this fact by sending an email with the SERFF tracking number(s) associated with the filing(s) to Jean Holliday, Regulatory Project Manager/Health Care Reform Supervisor at [jean.holliday@ncdoi.gov](mailto:jean.holliday@ncdoi.gov) or 919-733-5060, ext. 346. The email must be sent no later than March 1, 2012.
- Small Employer Carriers who have previously received the Department's acknowledgement for a rate schedule for the small employer group market to be in effect on July 1, 2012 must submit a filing pursuant to the first bullet above. A rate acknowledgement is not considered to be equivalent to a rate approval.

Rate filings required by this memorandum must be submitted to the Life & Health Division no later than March 15, 2012 in order to assure adequate time for Departmental review. The rate filing must include an actuarial memorandum outlining the development of the premium rate schedule and all required data elements as outlined later in this document.

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<sup>1</sup> Health benefit plan as defined in NCGS 58-3-167

### **New Data Submission Requirements for Small Employer Group Health Insurance Rate Filings**

Additionally, pursuant to the authority granted the Commissioner of Insurance under NCGS 58-2-40(10) and North Carolina's designation from the US Department of Health and Human Services (DHHS) as an "effective rate review program" in both the individual and small employer group markets, Small Employer Carriers are hereby notified of new data requirements for premium rate revision filings related to health benefit plans in the small employer group market. For any such filing submitted on or after September 1, 2011 with a weighted average rate increase of ten percent (10%) or more annually, as defined in 45 CFR Part 154, the Small Employer Carrier must submit Parts I and II of the Preliminary Rate Justification (PRJ) documents as developed by the U.S. Department of Health and Human Services' Center for Consumer Information and Insurance Oversight (CCIIO) with the filing in SERFF, in addition to the required HIOS reporting. Refer to the General Instructions in SERFF for specific instructions on submitting this information. *Note that as both Parts I and II of the PRJ are required by federal law to be published on the Small Employer Carrier's website, the Department cannot accept any rate filing submission which attempts to designate either document as trade secret.*

### **New Requested Data for All Small Employer Group Health Insurance Rate Filings**

In addition, Small Employer Carriers are strongly encouraged to submit the information below on **ALL** (both subject to federal reporting and not subject to federal reporting) small group related rate filings in order to facilitate the Department's review of rate filings' compliance with statutory and regulatory standards.

All numerical data requested in Numbers 1 through 10 must be submitted in a single Excel (2007 or 2003 Version) spreadsheet in multiple tabs appropriately labeled. The Excel spreadsheet should be attached to the Supporting Documentation tab in SERFF. All other items that are narrative in nature may be included in the Actuarial Memorandum or in other supplemental documentation and added to the SERFF file in a PDF format on the Supporting Documentation tab.

- 1) The numerical calculation of the threshold rate increase as defined by CCIIO, including the aggregate premium before and after the rate increase, number of members<sup>2</sup>, number of enrollees (employees), number of policyholders (employer groups), and average rate increase for each rate increase effective date/month.
- 2) Completed Part I of the Preliminary Rate Justification. *Note this information is **REQUIRED** for filings subject to federal reporting as noted above, and **STRONGLY ENCOURAGED** for other filings.*

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<sup>2</sup> As used throughout the memorandum, means employees and dependents, aka, "lives".

- 3) For each major service category, e.g. inpatient hospital, outpatient hospital, physician, pharmacy, etc., show annual results and supply monthly historical data for:
    - (a) Total allowed and covered costs and the change in total allowed and covered costs per member per month (pmpm),
    - (b) Admissions and the change in total admission per 1,000 members or days per 1,000 members for inpatient hospital,
    - (c) Scripts and the change in scripts per 1,000 members for pharmacy,
    - (d) For all other major services, the number and the change in the number of services per 1,000 members, and
    - (e) Cost sharing and changes in cost sharing pmpm, only if these have changed with this filing.
  - 4) A description of how the trend is developed for each major service category and a detailed trend analysis, including a comparison of actual vs. expected trend for the past thirty-six months.
  - 5) A description of benefit changes and a numerical demonstration of the impact of each change on rates. Please specify which changes were made to comply with federal or state law.
  - 6) A description and numerical demonstration of the impact of all changes in the enrollee risk profile, e.g. age/gender, industry, underwriting loads, etc.
  - 7) A description and numerical demonstration of the impact of changes in reserve needs, e.g., examine the treatment of changes in contract reserves in loss ratio calculations.
  - 8) A comparison of administrative costs as a percent of premium and on a pmpm basis for both current and proposed rates, broken into the following categories:
    - a) Commissions
    - b) Programs that improve health care quality
    - c) Other general expenses
    - d) Premium taxes
    - e) Licensing/regulatory fees
    - f) Profit/contingencies
    - g) Investment income
    - h) Other (please describe)
  - 9) The current capital and surplus for the regulated entity for which this filing is made and discussion of whether the proposed rate change is necessary to maintain the company's solvency or to maintain rate stability and prevent excessive rate increases for the line of business in the future.
  - 10) A discussion and a numerical demonstration of how the proposed rates will affect the company's Risk Based Capital (RBC). This must include an exhibit of historical and prospective RBC ratios.
  - 11) A discussion of how the proposed rates were determined to meet the requirements of NCGS 58-50-131 to be reasonable relative to the level of benefits provided, and not excessive, unjustified, inadequate, or unfairly discriminatory.
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- 12) The HIOS Product Codes and Names that correlate to the insurance form(s) to which the filing is associated.
- 13) The effective date and SERFF or NCDI Tracking Number of the Small Employer Carrier's last small group rate filing in North Carolina.
- 14) The opining/certifying actuary must include in the Actuarial Memorandum the following or similar language:
  - a) "I, (*name and professional designations of actuary*) am of the opinion that upon my next annual retrospective analysis of all small employer groups, that the proposed rates will be in compliance with NCGS 58-50-130(b)."
  - b) "I, (*name and professional designations of actuary*) am of the opinion that this filing is in compliance with the applicable Federal and State Laws and Regulations concerning the Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act of 2010."
- 15) The certifying actuary must include in the Actuarial Memorandum the following language:
  - a) "I, (*name and professional designations of actuary*) do hereby certify that each rate filing has been prepared in accordance with the following:
    - i) Actuarial Standard of Practice No. 8, "Regulatory Filings for Rates and Financial Projections for Health Plans,"
    - ii) Actuarial Standard of Practice No. 26, "Compliance with Statutory and Regulatory Requirements for the Actuarial Certification of Small Employer Health Benefit Plans,"
    - iii) Actuarial Standard of Practice No. 31, "Documentation in Health Benefit Plan Ratemaking," and
    - iv) Actuarial Standard of Practice No. 41, "Actuarial Communications."

Small Employer Carriers are reminded that pursuant to Session Law 2011-196, effective July 1, 2011, all small employer group health insurance premium rate schedules must be approved by the Commissioner prior to the use of the rate in this State. Small Employer Carriers are encouraged to plan ahead and submit such rate revisions to the Department at least 4 months prior to the desired effective date. Lastly, the standards related to small group rating found in NCGS 58-50-130(b) through (g) and Title 11 NCAC 16.0801 will also continue to apply.

Any questions related to this bulletin should be directed to Jean Holliday, Regulatory Project Manager/Health Care Reform Supervisor in the Life & Health Division at [jean.holliday@ncdoi.gov](mailto:jean.holliday@ncdoi.gov) or 919-733-5060, x346.