

# 2015 Health Insurance Premium Rate Filings: Challenges and Options

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Congratulations on making it through 2014 rate reviews! Now it's time to start preparing for 2015 filings. The 2014 rating process was filled with many challenges and uncertainty, especially for issuers operating in the individual market. The biggest challenge in 2014 pricing for the individual market was estimating population morbidity. Issuers' approaches to estimating individual market morbidity in 2014 varied greatly and not surprisingly, their resulting estimates also varied considerably.

clear expectations regarding rate filing timelines and issuers' use of emerging 2014 experience will likely benefit through increased issuer confidence in 2015 rates and more complete, clear rate filings. Also, while the use of emerging 2014 experience will be most valuable for individual market pricing, small group market pricing can also be improved from the use of emerging experience.

## What information will be available in April through June 2014 to improve individual market pricing confidence?

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*Regulators and exchanges should consider the timing and value of allowing issuers to incorporate emerging 2014 experience into their 2015 rate filings, when determining deadlines and review processes.*

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- **Enrollment data:** Actual enrollment and demographic data can be compared to the 2014 pricing assumptions. This data will be available throughout the open enrollment process; however, with open enrollment in the individual market running through March, issuers may not have a complete picture of market demographics until April.
- **Medical and Pharmacy Claim data:** While claims incurred in a particular month can take up to six months to be fully paid, significant information, including leading indicators such as pharmacy claims, will be available, and each additional month of data will increase the accuracy of 2015 rate development. In addition, medical claim data can be used to develop preliminary risk scores (see below and a more detailed description of the Wakely Risk Adjustment Reporting Project at the end of this paper).
- **Preliminary risk scores:** Wakely Consulting Group will be offering a service to issuers to provide historic and expected 2014 risk scores for both the issuer's own population(s) and the market averages for the individual and small group markets. This will allow issuers to identify morbidity changes in their own books of business,

The expected timing of 2015 pricing poses similar challenges. If state and federal deadlines for rate filings are in March/April 2014, consistent with the 2014 pricing submission deadlines, issuers will be significantly limited in the amount of 2014 experience they will be able to consider. If not already contemplated and implemented, states should consider adjusting the rate filing process and deadlines to allow issuers to use emerging 2014 experience.

Allowing the use of emerging 2014 experience in the process will significantly improve issuers' confidence in their 2015 rate levels which will benefit consumers, regulators and issuers. Rate filing deadlines, competitive dynamics and state workloads and resources may make such timing allowances difficult. However, the benefits of allowing issuers to use emerging experience are significant enough to make such allowances worth considering. States that set

as well as the relative morbidity of their population to each market as a whole. It will also allow them to test their 2014 morbidity assumption for the individual market relative to the small group market as a whole and possibly update that assumption for 2015. The Wakely project is intended to provide information to assist the issuers in recording payables and receivables throughout 2014, but early reporting for 2015 pricing is also a focus. Wakely will perform this analysis multiple times throughout 2014 to capture emerging experience. The first round will be performed using January and February 2014 claims, with results expected in early May.

The information above will give issuers and their pricing actuaries the ability to compare their pricing assumptions to credible, emerging information.

### **What approaches should regulators consider when planning for 2015 rate reviews?**

States currently vary their approaches to the filing process, with some allowing more flexibility than others. In considering the following approaches, regulators should keep in mind how each approach interacts with state law and regulations, deemers, public disclosure, competitive bidding processes, and availability of resources.

- **Set later rate filing deadlines:** Although this is the most straight-forward approach, it may be challenging because of rate review resource availability. Additionally, states with federally-facilitated Marketplaces may not have control over the deadlines for participating issuers.

- **Allow for rate updates:** This approach would provide the most flexibility to issuers to adjust their pricing based on emerging experience. Regulators should consider whether to set deadlines for updates or allow updates throughout the review process.
- **Allow for only specific types of rate updates:** This approach would limit the adjustments that could be made to those specified by the state. These might include any combination of risk adjustment, enrollment/demographics, claims, or other factors. This approach, while providing flexibility to issuers, would also allow regulators to prioritize their reviews, starting with the rating components that would not be subject to updating (such as trend and plan level, geographic and tobacco use factors), to avoid having to do duplicative work.

### **Filing Timeline**

The following filing timeline provides an example of how states can provide issuers with additional flexibility.

- March 31, 2014: Open Enrollment ends
- April 30, 2014: Initial rate filing deadline\*
- May 31, 2014: Rate filing update deadline with adjustments for final morbidity and demographic assumptions
- July 31, 2014: Rate reviews completed\*

*\*Based on 2013 schedule for states with a federally-facilitated marketplace and subject to change.*

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## ***Wakely Consulting 2014 Risk Adjustment Reporting Project***

**In 2012 and 2013, Wakely performed a risk adjustment simulation project for 40 participating issuers in 26 states. The simulation assisted issuers in determining their population risk profiles relative to other issuers in the market, and in estimating individual market morbidity using small group morbidity as the baseline. In 2014, Wakely will use the federal risk adjustment model to calculate participating issuer risk scores based on 2013 data, as well as emerging 2014 data. The project will provide critical 2015 pricing information for use in states with timelines that allow use of the information.**

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To discuss the recommendations in this paper or the Wakely 2014 Risk Adjustment Reporting Project, please contact Julia Lerche at (919) 279-0366 / [Julia.Lerche@wakely.com](mailto:Julia.Lerche@wakely.com) or Ross Winkelman at (720) 226-9801 / [RossW@wakely.com](mailto:RossW@wakely.com).