



CHESTER J. CULVER
GOVERNOR

SUSAN E. VOSS
COMMISSIONER OF INSURANCE

PATTY JUDGE
LT. GOVERNOR

MEMO

TO: The Honorable Chet Culver, Governor
The Honorable Patty Judge, Lt. Governor
FROM: Susan E. Voss, Commissioner *Susan E. Voss*
RE: Wellmark Blue Cross Blue Shield Individual Health Insurance Rate Review
DATE: March 29, 2010

Your office requested the Division hire a third-party certified actuary, independent of any relationship with Wellmark Blue Cross Blue Shield to conduct a secondary review of Wellmark's recently approved request for health insurance premium rate increases that were scheduled to take effect on April 1, 2010 in the individual market. You requested that Wellmark "stay" the rate increase for thirty days pending the review. And you directed that all costs for the independent review be paid by Wellmark. In addition, you requested that the independent actuary also verify the processes followed by the Division's staff actuary in the recent rate increase approval decision to assure that the Division was conforming to best practices in its health insurance rate increase review processes.

The Division selected INS Consultants, Inc. located in Philadelphia, Pennsylvania to conduct both requests above. INS is an independent actuarial consulting firm that only provides consulting actuarial services to government regulators. They have never provided actuarial services to Wellmark.

The Division submitted the original Wellmark rate filing to INS on March 8, 2010. In order to maintain complete neutrality, the Division did not submit the underlying review done by the Division's credentialed actuary in order that INS's review would be performed without bias. In addition, the Division separately submitted a detailed explanation and documentation of the process conducted by the Division's actuary in reviewing a rate filing. INS appointed separate actuaries to review the Wellmark rate filing and the Division's actuarial analysis procedure. Frank W. Podrebarac and Mark Bolab reviewed the Wellmark rate filing. Arthur Lucker reviewed the Division's methodology for reviewing accident and health rate increase filings.

The Division received the written reports from INS dated March 25, 2010. The conclusions are as follows:

A. Wellmark Blue Cross and Blue Shield of Iowa Rate Revision Analysis

Findings by INS:

1. Anticipated lifetime loss ratios comply with Iowa Administrative Code 191-36.10(2) (514D) because they exceed the minimum anticipated lifetime loss ratio specified in Iowa Administrative Code 191-36.10(1) (514D).
2. Wellmark's incurred expense for these blocks was over 18% of premium. The sum of the incurred expense and the 5/2010-4/2011 (the period for the proposed rate increase) loss ratio

for each block produces “combined ratios” over 100% (over 120% for the BTP.) The “combined” ratios on these blocks will result in an expected economic loss for Wellmark, thus supporting the need for the rate increase.

Discussion: INS does not utilize the same methodology as the Iowa Insurance Division (as noted in the actuarial review completed by Mr. Lucker.) Therefore, two separate actuarial analyses were performed on the same rate proposal with a similar conclusion. It should be noted that Wellmark’s association business also engaged an independent actuarial firm to review the rate increase proposals. While we are not privy to any conclusions reached by the independent review of the Association blocks, we were told that the rates proposed by Wellmark were ultimately accepted by the Association.

Upon further review, it should be noted that several of the blocks of business received no rate increase for several years. For example, one block received no rate increase in 2007, 2008, and 2009. (The 2010 proposed increase is 10.44%.) Another block of business received no rate increase in 2007 and 2008. The block received a rate increase of 10% in 2009 with a proposed rate increase in 2010 of 17.19%.

The analysis completed by INS concludes that the rate revisions comply with Iowa law and are within the appropriate guidelines for approval.

A copy of the INS Review is attached for your information and review. The cost assessed to Wellmark for the independent review is an hourly rate of \$210. 17.75 hours of analysis was expended for a total cost to Wellmark of \$3,727.50.

B. INS Review of Iowa Insurance Division Methodology for Reviewing Accident and Health Rate Increase Filings

Finding by INS:

The IID’s methodology is actuarial acceptable and is reasonable in comparison to INS’ methodology.

Discussion: While INS does not use the same underlying methodology in reviewing a rate filing, the overall results should meet the same balanced outcome in conjunction with the rate standards under Iowa law. INS was provided the Division’s methodology to determine if it met the actuarial standards set forth for credentialed life and health actuaries. INS reviewed the description of the analysis of the Iowa Insurance Division actuary including the actuarial memorandum, the compliance with state regulations including minimum loss ratios, medical trend, historical and projected experience, credibility of state experience, projection assumptions and methodology, expected and experience loss ratios (including actual to expected ratios), and history of rate increases. INS examined the Division’s projection methodology and calculations and found them to be reasonable.

A copy of the INS Review is attached for your information and review. The estimated cost for the review of the Insurance Division rate review methodology is approximately \$472.50.

In Conclusion, INS Consultants, Inc. concluded that the rate proposals filed by Wellmark Blue Cross Blue Shield were appropriate based upon the information submitted and the statutory and administrative

guidelines of Iowa law. In addition, the consultants found the methodology of review provided by the Iowa Insurance Division meets the guidelines for actuarial review and analysis by a credentialed actuary. Please let me know if you have questions regarding this report.

Attachments:

1. INS Review of Wellmark Rate Revisions For Individual Comprehensive Major Medical Policies
2. Letter from Arthur Lucker, FSA, MAAA; INS Consultants, Inc Re: INS Review of Iowa Insurance Division Methodology for Reviewing Accident and Health Rate Increase Filings