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May 23, 2012

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Ms. Mary M. Hooper, ASA, MAAA
Life and Health Actuary
Maine Bureau of Insurance
76 Northern Avenue
Gardiner, ME 04345

Dear Marti,

The Board of the Maine Guaranteed Access Reinsurance Association (MGARA) has authorized Milliman to submit on their behalf the rate filing for the reinsurance rates that will become effective on July 1, 2012 for the MGARA reinsurance program that becomes effective on that date.

The attached rate filing document presents the reinsurance rates that have been developed for the reinsurance program and describes the approach that was used in the development. These are the rates that will be charged to Member Insurers for reinsured lives.

Contact information for this rate filing:

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Please contact me with any questions about the rate filing or if you need any additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "W. J. Thompson".

William J. Thompson, FSA, MAAA
Principal & Consulting Actuary



**Maine Guaranteed Access Reinsurance Association
2012 Rate Filing**

May 23, 2012

Prepared by:

William J. Thompson, FSA, MAAA

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I. INTRODUCTION AND SCOPE

Carrier Information

The Maine Guaranteed Access Reinsurance Association (MGARA) is a Maine mutual benefit nonprofit corporation created pursuant to Title 13-B and Title 24-A, Chapter 54-A of the Maine Revised Statutes. MGARA was established pursuant to Maine Public Law Chapter 90, “An Act to Modify Rating Practices for Individual and Small Group Health Plans and to Encourage Value-based Purchasing of Health Care Services” (“PL 90”), exclusively for the purpose of providing a reinsurance program for the higher risk segment of Maine’s individual health insurance market in order to reduce insurance costs in that market and assure availability of affordable health insurance to residents of the State of Maine by providing reinsurance of a significant portion of the coverage provided through individual health insurance policies offered by its Member Insurers.

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Scope and Purpose

The Board of MGARA has asked Milliman, Inc. to file the reinsurance rates that will become effective July 1, 2012 for the reinsurance program that becomes effective on that date.

This rate filing presents the reinsurance rates that have been developed for the reinsurance program and describes the approach that was used in the development. These are the rates that will be charged to Member Insurers for reinsured lives.

The format of this rate filing is intended to follow the guidelines of Rule 940 and the Rate Filing Review Requirements Checklist for Individual Health Plans (H151).

Description of Benefits

As indicated above, MGARA was created to act as a reinsurer for the individual insurance market in Maine. As such, MGARA’s contracts are with the insurance companies (i.e. “Member Insurer”) and not directly with insured individuals. MGARA will reimburse a Member Insurer with respect to claims the Member Insurer has paid

during each calendar year for a covered person under an eligible health plan reinsured by MGARA for covered benefits under the eligible health plan as follows:

- (i) 90% of claims paid in excess of \$7,500 up to and including \$32,500; and
- (ii) 100% of claims paid in excess of \$32,500

In Force Business

Appendix A describes the Individual medical marketplace in Maine over the past three years. This report was prepared by the Bureau of Insurance. As of September 30, 2011, there were 36,210 persons covered under individual medical insurance in Maine. Nearly all of that coverage was written by three carriers:

- Anthem Blue Cross Blue Shield
- Mega Life and Health
- Harvard Pilgrim Health Care (Dirigo Health)

The insurers who write individual medical insurance and/or who have an inforce book of individual medical insurance in Maine are eligible to cede lives to MGARA.

Proposed Effective Date

The effective date of the reinsurance premiums is July 1, 2012. This is the date the reinsurance program becomes effective.

Acknowledgement of Qualification

I, William J. Thompson, am a Consulting Actuary for Milliman. I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

II. RATE RECOMMENDATIONS FOR 2012

The MGARA Board has approved the reinsurance rates presented in the table below for an effective date beginning July 1, 2012. The rate percentage presented below is intended to remain in effect until it is amended by the MGARA Board in a future rate filing.

	Reinsurance rate All Plans
Percent of Premium	90%

For each insured life ceded to the reinsurance pool, MGARA will collect 90% of the insured policy premium for each month of coverage.

III. 2012 RATE DEVELOPMENT

The MGARA rate development was guided by Title 24-A, Chapter 54-A, §3958(2) of the Maine Revised Statutes, which sets forth the premium rate requirements for the reinsurance program as follows:

2. Premium rates. The association, as part of the plan of operation under section 3953, subsection 3, shall establish a methodology for determining premium rates to be charged member insurers to reinsure persons eligible for coverage under this chapter. The methodology must include a system for classification of persons eligible for coverage that reflects the types of case characteristics used by insurers for individual health plans pursuant to section 2736-C, together with any additional rating factors the association determines to be appropriate. The methodology must provide for the development of base reinsurance premium rates, subject to approval of the superintendent, set at levels that, together with other funds available to the association, will be sufficient to meet the anticipated costs of the association. The association shall periodically review the methodology established under this subsection and may make changes to the methodology as needed with the approval of the superintendent. The association may consider adjustments to the premium rates charged for reinsurance to reflect the use of effective cost containment and managed care arrangements by an insurer.

Additional guidance was provided by the MGARA Plan of Operations which states:

“Reinsurance premium rates shall be determined as a fixed percentage of the gross premiums charged for individual health plans offered by Member Insurers, to be set at levels that, together with other funds available to the Association, will be sufficient to meet the Association’s anticipated costs.”

MGARA’s objectives in developing the reinsurance rates were stated as follows:

“Rates need to reflect the key drivers/variables that affect the cost of the benefits that are being provided. Rate levels need to be sufficient, in total, such that, together with assessments, they cover the claims and expenses of the reinsurance pool. Rates should be equitable in that there shouldn’t be any intentional subsidy of rates for one benefit plan to another or one carrier to another. The rate methodology also needs to be easy to implement and administer for both the carriers and for MGARA.”

The Board considered a number of rating methodologies, including:

1. Percent of premium
2. Table of rates for each benefit plan
3. Table of base rates with adjustment factors for plan design
4. A standardized reinsurance plan and single rate table

Consideration of the advantages and disadvantages of each of these four approaches led to the Board's adoption of the percent of premium approach. Advantages of this rating methodology include the relative ease of administration for both MGARA and the insurers, the need for less frequent updates than rate tables (e.g. medical trend is at least partially reflected as rates increase), and the ease of use when dealing with family policies, especially where rates for family coverage are not the sum of rates for the individuals on the policy.

The decision to use a single percentage of policy premium to apply to all policies was the result of a balance between recognizing the major drivers that would support a range of percentages and finding an easy to use and explain rating methodology. Milliman constructed models that developed the expected percentages of premium that would be associated with the MGARA benefits for various plan deductibles, effective dates of coverage during the year, and different levels of morbidity relative to a standard risk population. The Board reviewed and evaluated these variations and elected to recommend a single percentage that would apply to all reinsured policies.

The MGARA Board also decided that all persons covered under a policy were to be reinsured to MGARA whenever an individual on that policy needed to be ceded due to the automatic ceding criteria or was to be ceded due to the carrier's voluntary ceding decision based on claims history (for ceding from inforce business) or review of the MGARA health assessment form. The ceding of the entire policy serves two main purposes. First, the rates for family policies may not be the sum of the rates for the individuals on the policy, so ceding the entire policy eliminated the need to determine how to allocate the policy premium among the individuals covered by the policy. Second, by ceding all family members, the MGARA pool would add some lives to the pool whose expected claims are low, thereby creating a risk pool with a blend of relatively healthy lives along with unhealthy lives.

Milliman developed a financial model for MGARA to be used to evaluate various options and assumptions associated with implementing reinsurance components of Public Law Chapter 90 (PL90). The model was used to test several reinsurance rate scenarios in order to allow the Board to recommend the reinsurance rates.

The key data and assumptions utilized in the model include:

1. Three years of claims history for the major individual insurance carriers in Maine

Milliman received de-identified enrollment and claims information from Anthem, Mega Health, and Harvard Pilgrim for 2009, 2010 and 2011. This information included enrollment periods of coverage for each person under each contract inforce during that three year period, along with the monthly premiums for the coverage, a summary of the plan of benefits (e.g. deductible, coinsurance percentage, out of pocket maximum) and actual claim payments made for each person along with the diagnoses associated with those claims.

Milliman used this data to create a profile of the individual business in Maine with emphasis on the medical conditions of the covered lives along with the claims incurred by these persons. This data became the framework for mapping persons into the MGARA pool by diagnosis and/or by expected claims levels. The distribution of claims by persons with various medical conditions was also used in the development of the list of automatic ceding conditions.

2. Efficiency of Carrier Underwriting

Carriers will voluntarily cede policies to the MGARA pool when the carrier believes that the reinsurance claim recoveries will exceed the premium cost associated with ceding the policy to the pool. For policies reinsured from the carrier's inforce business, the carriers will have claim experience for those policies. For policies issued starting in July 2012, the carriers will have only the health assessment form to use in making their reinsurance decision. We believe the carriers will be more efficient in reinsuring from their inforce business than from new business. Also, over time, the efficiency of underwriting will likely improve as the carriers gain more experience with the MGARA program.

The MGARA reinsurance pool will initially be comprised primarily of policies reinsured from existing inforce business. This category of business will dominate the pool in 2012 and into 2013. As such, the MGARA Board focused its attention on the efficiency of underwriting from inforce business. The Milliman model allowed testing of three degrees of underwriting efficiency: high, medium, and low. A high degree of efficiency indicates that a carrier will accurately determine the persons who will have large claim amounts and will cede them to the pool. Similarly, the carrier will accurately identify those persons who are not expected to have large claim amounts and will not cede them to the pool.

The Board elected to assume carriers will be highly efficient in identifying policies to cede on a voluntary basis. The table below shows the likelihood that a carrier will cede persons to the pool on a voluntary basis based on the expected annual claims that person that person will incur. The model uses a stochastic approach to determine which person(s), and hence which policies, will be ceded to the pool based on these efficiency factors.

**Percent of persons with Annual Claims
who will be ceded to MGARA**

Annual Claim Amount	High Efficiency
<\$10000	1%
\$10,000-50,000	60%
\$50,000-100,000	90%
>\$100,000	99%

3. Number of assessable lives in Maine

MGARA makes periodic assessments of up to \$4 per member per month (pmpm) against all insurers, TPAs, and other vendors that provide insurance or medical administration to covered persons in Maine. The assessment excludes state and federal employees and Medicare and Medicaid beneficiaries. After reviewing a number of sources, the Board relied on data provided by Gorman Actuarial LLC in their December 2011 report titled “The Impact of PL90 on Maine’s Individual Health Insurance Markets”. Table 1 of that report showed net membership of 532,404 lives as being subject to MGARA assessments. The Board reduced this number to 500,000 for purposes of modeling the base assessments, under the assumption that there will be some underreporting of assessable lives by carriers and administrators.

4. Defining the conditions under which persons would be automatically ceded to the MGARA Pool

The following section of Maine law that created MGARA requires The Board to develop a list of medical conditions that would require automatic ceding to the MGARA pool.

MRS 24-A, Chapter 54-A, §3959 2. Designation without application. The board shall develop a list of medical or health conditions for which a person is automatically designated for reinsurance. A person who demonstrates the existence or history of any medical or health conditions on the list developed by the board may not be required to complete the health statement specified in subsection 1. The board may amend the list from time to time as appropriate.

The MGARA Board determined that the automatic reinsurance ceding conditions should be chosen to include individuals with serious medical conditions that may result in very large claims from time to time but not necessarily every year and sometimes not at all. The conditions selected should also be among those that occur with some regularity in the Maine individual marketplace. The intent is to transfer a portion of high risk individuals from the individual insurance market to MGARA balanced with the need to keep the MGARA pool financially viable and not so large as to be difficult to manage. This is accomplished by ceding enough Individuals from the Maine individual insurance marketplace with these conditions such that the revenue from individuals with these conditions, together with the assessment revenue, will spread the risk sufficiently to cover the pool’s claims and expenses.

Milliman used a combination of the actual experience data provided by the carriers for their individual insurance business in Maine and Milliman databases and tools to create several proposed lists of automatic ceding conditions for the MGARA Board’s

review. The criterion used to identify a person as having one of the selected conditions was the diagnosis codes that were provided by the carriers for each member along with the total claim amounts for those members. The actual Maine individual insurance marketplace data was supplemented with frequencies and distributions of claim amounts from Milliman databases to use as reference points when the Maine data was sparse.

Based on these criteria and testing of several alternative sets of automatic ceding conditions, the MGARA Board decided that the following eight conditions would require automatic ceding to the pool:

- Uterine Cancer
- Metastatic Cancer
- Prostate Cancer
- Chronic Obstructive Pulmonary Disease (COPD)
- Congestive Heart Failure
- HIV Infection
- Renal Failure
- Rheumatoid Arthritis

As indicated earlier, all lives on a policy will be ceded whenever a person covered by a policy is ceded to the pool because of having a condition on the automatic ceding list or because of the carrier's decision to cede the person to the pool.

5. MGARA Expenses

The rates need to cover the expenses of the operations of MGARA as well as the claims that it will reinsure. The following expenses were assumed in the development of the MGARA premium rate of 90% of the policy premium:

- TPA Expenses to administer the MGARA enrollment, billing and claims: \$8.00 pmpm
- Other expenses of MGARA, including legal, actuarial, audit and related costs: \$100,000 per year

6. Risk Charges

The Board determined that a goal of the MGARA pool is that it should be self-sufficient based on revenue from the base assessment of \$4.00 pmpm plus the premiums received for lives reinsured to the pool. That is, the supplemental assessment of up to \$2.00 pmpm should not be an expected part of annual revenues. Consequently, the Board determined that the rates should be set with a margin for adverse deviation. That margin was set at approximately 10% of the MGARA expected claims and expenses.

APPENDIX A: Market Snapshot - Individual Medical

Company (State of Domicile) NAIC#	Number Insured ¹			Market Share		
	12/31/09	12/31/10	09/30/11	12/31/09	12/31/10	09/30/11
Companies Currently Offering Coverage:						
Anthem BC/BS (Maine) - 52618						
- PPO	19,269	17,478	16,489	50%	48%	46%
- HMO Maine ²	14	13	10	0%	0%	0%
Mega Life & Health (OK) 97055	12,607	12,969	14,094	33%	36%	39%
HPHC 18975	6,086	4,961	5,079	16%	14%	14%
Aetna Health (Maine) 95517	16	13	15	0%	0%	0%
CIGNA (Maine) 95447	10	0	0	0%	0%	0%
Harvard Pilgrim (MA) 96911	2	2	2	0%	0%	0%
Subtotal	38,004	35,436	35,689	98%	98%	99%
Companies Renewing but Not Offering New Coverage:						
Golden Rule (IL) 62286	294	244	206	1%	1%	1%
Washington National (IL) 70319	87	66	56	0%	0%	0%
Prudential (NJ) 68241	81	72	61	0%	0%	0%
AXA Equitable Life 62944	76	73	62	0%	0%	0%
American Republic (IA) 60836	56	52	44	0%	0%	0%
State Farm (IL) 25178	32	25	21	0%	0%	0%
Mutual of Omaha (NE) 71412	1	0	0	0%	0%	0%
Other	61	84	71	0%	0%	0%
Subtotal	688	616	521	2%	2%	1%
TOTAL	38,692	36,052	36,210	100%	100%	100%

¹ Unavailable data is estimated and shown in **bold**. Yearly totals for Number Insured reflect actual counts submitted from 940 reports and may differ slightly from financial statement data.

² HMO Maine is a line of business of Anthem Blue Cross and Blue Shield.

Source: Bureau of Insurance