

**STATE OF MAINE
DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION
BUREAU OF INSURANCE**

IN RE:)
)
BANKERS LIFE AND CASUALTY COMPANY)
2002 RATE FILING FOR)
INDIVIDUAL STANDARDIZED MEDICARE)
SUPPLEMENT POLICIES)
_____)

IN RE:)
)
BANKERS LIFE AND CASUALTY COMPANY)
2002 RATE FILING FOR GROUP)
STANDARDIZED MEDICARE SUPPLEMENT)
POLICIES)
_____)

DECISION AND ORDER

IN RE:)
)
BANKERS LIFE AND CASUALTY COMPANY)
2002 RATE FILING FOR PRE-)
STANDARDIZED MEDICARE SUPPLEMENT)
POLICIES)
)
Consolidated Docket No. INS-01-2549)
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This Decision and Order is issued in the above-captioned proceeding by Alessandro A. Iuppa, Superintendent of the Maine Bureau of Insurance ("the Superintendent").

I. PRIOR DECISION AND ORDERS

On February 12, 2002, the Superintendent issued a Decision and Order denying approval of Bankers Life and Casualty Company's (Bankers Life's) 2002 Rate Filing for Individual Standardized Medicare Supplement Policies and Bankers Life's 2002 Rate Filing for Pre-standardized Medicare Supplement Policies, but specified conditions under which he would approve those rate filings.

In an Order dated February 26, 2002, the Superintendent approved revised rates for Bankers Life's individual Medicare supplement policies, thereby leaving for resolution in this consolidated matter only the Bankers Life 2002 Rate Filing for Group Standardized Medicare Supplement Policies.

II. THE GROUP RATE FILINGS

On September 7, 2001, Bankers Life filed with the Superintendent proposed rate increases for its Standardized Medicare Supplement Group Policy Forms GP-A11 and GP-A12, each such form consisting of nine different certificate forms corresponding to the nine Standardized Medicare Supplement Plans A through I. Specifically, Bankers Life requests rate increases ranging from 0% to 25.0%, depending on plan design. The weighted average proposed rate increase is 10%.

This Decision and Order addresses only the propriety of the proposed rates for Bankers Life's group Medicare supplement policies. This Decision and Order does not address the issue of whether Bankers Life has satisfied the compliance requirements pertaining to the issuance of group Medicare supplement policies covering residents of Maine.

III. PROCEDURAL HISTORY

The Superintendent determined that it would be in the best interest of the public to consolidate these three rate filings into a single proceeding and to hold a hearing. Pursuant to his Notice of Pending Proceeding and Hearing dated October 19, 2001, the Superintendent ordered a hearing to be held at 1:00 p.m. on November 27, 2001, in the Kennebec Room of the Maine Department of Professional and Financial Regulation in Gardiner, Maine. This Notice of Pending Proceeding and Hearing provided a process by which interested persons could intervene as parties to the proceeding. No one applied to become an intervenor.

On November 27, 2001, the Superintendent held the hearing. Richard Diamond, Life and Health Actuary Maine Bureau of Insurance, Marti Hooper, Senior Insurance Analyst Maine Bureau of Insurance and the Superintendent's legal counsel, Andrew Black, Assistant Attorney General, assisted the Superintendent. Christopher Roach, Esq. represented Bankers Life. In support of its filing, Bankers Life provided exhibits and live testimony by Patrick Fleming, FSA, MAAA, Vice-President of the Bankers Life actuarial department. Priscilla Tucker provided unsworn public testimony at the hearing.

On December 5, 2001, Bankers Life provided further documents and information pursuant to the Superintendent's information request at the hearing. On December 20, 2001, the Superintendent issued an additional information request pertaining solely to the filing of the rates for Bankers Life's group Medicare supplement policies. Bankers Life, submitted its responses on January 18, 2002. On February 7, 2002, the Superintendent issued a further information request pertaining solely to the group rates. On February 19, 2002, the Superintendent granted a request by Bankers Life for an extension of time to respond to the information request. Bankers Life responded to the information request on February 22, 2002.

III. LEGAL STANDARD

Bankers Life is required by 24-A M.R.S.A. § 2736(1) and Maine Bureau of Insurance Rule chapter 275 § 14(C) to file with the Superintendent proposed policy rates for its group Medicare supplement insurance products. Bankers Life bears the burden of proving by a preponderance of the evidence that the proposed rates are not inadequate, excessive, or unfairly discriminatory. In addition, Bankers Life is required pursuant to 24-A M.R.S.A. § 5004, 24-A M.R.S.A. § 2413(1)(F), and Insurance Rule chapter 275 § 14(A)(1) to show that in accordance with accepted actuarial principles and practices its proposed rates for the standardized Medicare supplement group policies should yield a loss ratio of at least 75% for the entire period for which the rates are computed to provide coverage. Pursuant to Insurance Regulation chapter 275 § 14(A)(2), Bankers Life must also demonstrate that the expected loss ratio when combined with the experience to date complies with these loss ratio standards.

IV. EVIDENCE AND ANALYSIS

According to documents filed by Bankers Life, the proposed 2002 annual rates, and changes in the rates of the nine standardized plans that Bankers Life offers to Maine residents through group Medicare supplement policies are as follows:

Plan Option for forms GR-A11 and GR-A12	Certificates In-force in Maine 6/2001	2001 Annual Rate	Proposed 2002 Annual Rate	Proposed Rate Change Dollars	Proposed Rate Change
Plan A	3	\$1,192.40	\$1,371.26	+178.86	+15.0%
Plan B	16	\$1,424.82	\$1,424.82	0.00	0.0%
Plan C	31	\$1,984.52	\$2,113.51	+128.99	+6.5%
Plan D	383	\$1,663.51	\$1,663.51	0.00	0.0%
Plan E	459	\$1,466.88	\$1,642.90	+176.02	+12.0%
Plan F	30	\$1,957.07	\$1,957.07	0.00	0.0%
Plan G	302	\$1,334.82	\$1,668.53	+333.71	+25.0%
Plan H	0	\$5,425.95	\$6,239.84	+813.89	+15.0%
Plan I	0	\$6,441.43	\$7,407.65	+966.22	+15.0%
Average					+10.0%
Aggregate	1,224				

Michelle M. Mihalo, ASA, MAAA, certified that the filings were in compliance with the applicable laws of the State of Maine and with the Rules of the Bureau of Insurance.

A. Rate Relativities

1. Plan C

In its response to discovery requests, Bankers Life states that based on the benefit differences of the various plans, the premium rates for Plans D, E, and G should be fairly similar and that the premium rate for Plan C should be in the range of \$100.00 more than the rates for Plans D, E, and G. Fleming testified that the primary difference between Plan C and these other plans is that Plan C contains a Medicare Part B deductible benefit that pays a maximum benefit of \$100.00 annually.

Bankers Life proposes premiums of \$1,663.51 for Plan D, \$1,642.90 for Plan E, and \$1,668.53 for Plan G. Bankers Life proposes premiums of \$2,113.51 for Plan C. Thus, the amount by which the proposed cost of Plan C exceeds the proposed cost of Plans D, E, and G ranges from \$444.96 to \$470.61, instead of being approximately equal to \$100.00. The proposed rate for Plan C is also higher than the proposed rate of \$1,957.07 for Plan F. Plan F provides all of the benefits of Plan C plus 80% of Medicare Part B excess charges.

Although some of the proposed cost difference might be justified by actual or reasonably anticipated differences in utilization, the proposed level of rate differential is excessive and must be reduced.

2. Plan H

According to Bankers Life's responses to discovery requests, the only coverage that Plan H contains that Plans C, D, and E do not is prescription drug coverage that caps the annual benefit at \$1,250.00. The proposed annual rates for Plans C, D, and E are \$2,113.51, \$1,665.51, and \$1,642.90, respectively. The proposed annual rate for Plan H is \$6,239.84. Therefore, consumers who purchase Plan H instead of Plans C, D, or E, will pay between \$4,126.33 and \$4,596.32 more in annual premiums, even though the maximum annual benefits could total only \$1,250.00. While higher utilization of other benefits is to be expected on plans that cover prescription drugs, there is no evidence on the record to support so large a difference in the rates between these plans.

3. Plan I

According to Bankers Life's responses to discovery requests, the only difference between Plan I and Plan G is that Plan I contains prescription drug coverage that caps the annual benefit at \$1,250.00. Bankers Life proposes an annual rate of \$7,407.65 for Plan I and an annual rate of \$1,668.53 for Plan G. Therefore, consumers who purchase Plan I instead of Plan G will pay \$5,739.12 for a benefit that, at most, can total \$1,250.00. Here again, while higher utilization of other benefits is to be expected on plans that cover prescription drugs, there is no evidence on the record to support so large a difference in the rates between these plans.

B. Additional Rates for Alternative Modes of Payment

According to its filings, Bankers Life charges additional premiums for those insureds who choose a payment mode other than an annual premium payment. The amounts of the incremental premium payments under each of these modes are computed by multiplying the annual rate by a factor and then adding \$1.00. The table below depicts the various alternative modes of payment and the additional annual premium that each mode would require.

Payment Mode	Factor	Additional Annual Premium
Monthly bank draft or payroll deduction	0.08583	3% of Annual Rate + \$12.00
Semi-annual payments	0.515	3% of Annual Rate + \$2.00
Quarterly payments	0.2625	5% of Annual Rate + \$4.00
Monthly direct bill	0.09167	10% of Annual Rate + \$12.00

One effect of the application of these factors to the annual rates is that within a particular payment mode the rate relativity problems of Plans C, H, and I become further exacerbated.

V. FINDINGS AND CONCLUSIONS

Upon review and analysis of the record in this proceeding, the Superintendent finds and concludes as follows:

1. The proposed rates for the group standardized Medicare supplement policies do not adequately improve the consistency between rates and benefits of the various plan options.
2. The proposed rates for the group standardized Medicare supplement policies would create inequities among certificate holders with respect to the rates paid and benefits received under the various plan options.
3. The proposed rate for Plans GR-A11C and GR-A12C is excessive. The existing 2001 annual rate for these plans should be decreased by five percent (5%) to \$1,885.29 for 2002 in order to mitigate the rate relativity problems described above in Section IV.A.1.
4. The proposed rate for Plans GR-A11H and GR-A12H is excessive. The 2001 annual rate for these plans should be decreased by 49.0% to \$2,767.23 in order to mitigate the rate relativity problems described above in Section IV.A.2.
5. The proposed rate for Plans GR-A11I and GR-A12I is excessive. The 2001 annual rate for these plans should be decreased by 56.5% to \$2,802.02 in order to mitigate the rate relativity problems described above in Section IV.A.3.

6. When the proposed rates are adjusted so that they are no longer excessive as indicated in these Findings and Conclusions, they will meet the applicable minimum loss ratio standards.

VI. ORDER

Pursuant to 24-A M.R.S.A. §§ 2736 and 2736-B, the Superintendent hereby ORDERS:

1. Approval of the filed rates for Bankers Life Group Standardized Medicare Supplement Policy Forms GR-A11A through GR-A11I and GR-A12A through GR-A12I is DENIED.

2. Revised rate filings for Bankers Life Group Standardized Medicare Supplement Policy Forms GR-A11A through GR-A11I and GR-A12A through GR-A12I may be submitted for review on or before March 27, 2002, and shall be APPROVED, effective May 1, 2002, if found to be consistent with the terms of this Decision and Order, specifically, in accordance with Findings and Conclusions 3 through 5.

VII. NOTICE OF APPEAL RIGHTS

This Decision and Order is a final agency action of the Superintendent of Insurance within the meaning of the Maine Administrative procedure Act. It may be appealed to the Superior Court in the manner provided in 24-A M.R.S.A. § 236, 5 M.R.S.A. § 11001-11007, and M.R.Civ.P. 80C. Any party to the proceeding may initiate an appeal within thirty (30) days after receiving this notice. Any aggrieved non-party whose interests may be substantially and directly affected by this Decision may initiate an appeal within forty (40) days of the date of this Decision. There is no automatic stay pending appeal; application for stay may be made in the manner provided in 5 M.R.S.A. § 11004.

PER ORDER OF THE SUPERINTENDENT OF INSURANCE

DATED: March 21, 2002

Alessandro A. Iuppa
Superintendent of Insurance