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HEALTH COVERAGE
Filing Guidance Notice 2013-L

TO: Health Insurance Carriers Submitting Rate Filings Subject to M.G.L. c. 176J
FROM: Chet Lewandowski, Health Actuary, Health Care Access Bureau
DATE: June 14, 2013
RE: Submission of Additional Rate Filing Material for Rates Intended to Be Effective for Coverage Issued or Renewed in 2014

This Division of Insurance (“Division”) issues this Filing Guidance Notice to inform health insurance carriers (“Carriers”) regarding the submission of additional materials in rate filings required under M.G.L. c. 176J, § 6 for rates intended to be effective for coverage issued or renewed in 2014.

According to 211 CMR 66.09(2)(a), “[e]very carrier, as a condition of doing business under M.G.L. c. 176J and 211 CMR 66.00, must file all changes to small group base premium rates and to small group rating factors electronically at least 90 days before their proposed effective dates.” Among the items to be included within a rate filing, carriers are to submit “information requested by the commissioner, including, but not limited to, any information requested by the commissioner on behalf of the National Association of Insurance Commissioners,” as specified in 211 CMR 66.09(3)(n).

In rate years prior to 2014, Carriers have submitted plan-specific rates developed using rating factors permitted under Massachusetts law. Many of these state rating factors will not be permitted in 2014, with the implementation of the federal Patient Protection and Affordable Care Act, and related federal regulations, on and after January 1, 2014. Due to these changes in rating factors, trying to compare the 2014 base rates to the 2013 base rates is no longer relevant. The rates in 2013 were normalized for the rating factors that were allowed in 2013. The 2014 rates will be normalized for the rating factors that will be allowed in 2014.

Consequently, the Division requests that all rate filings for coverage effective in 2014 include materials that enable the Division to understand each plan's proposed base rate increase for 2014. In order to do this, the Division has updated its standard rate filing worksheet – which is required to be submitted with rate filings as indicated in Filing Guidance Notice 2012-B – to be used with filings for rates to be effective in 2014. The updated worksheet is being forwarded electronically to each health plan offering small group coverage in Massachusetts.

The Division has made changes to the worksheet so that Carriers can map membership from pre-2014 products to those in effect in 2014. Also, within the last page of this worksheet, Carriers shall include information that explains the nature of the 2014 over 2013 base rate increases. In completing this worksheet, Carriers should use the following steps:

1. Start with 1st quarter 2013 base rates by plan.

Use the January, February, and March 2013 base rates included in page (a) of the rate filing worksheet that was put on file in November 2012.

2. Back out normalization factor(s) used to calculate the 1st quarter 2013 rates.

Adjust the 1st quarter 2013 base rates by removing the normalization factor used in that filing. Each Carrier will determine what was used to calculate the average rating factors to “normalize” its revenue requirement to calculate its base rate in 2013. For example, Carriers may have “normalization” adjustments for any of the following:

- i. Each or some of the 2013 allowable rating factors (i.e., age, area, industry, participation, group size, coop adjustment, intermediary discount)
- ii. The 15% rate shock bumper in 2013
- iii. A combined 2-to-1 rating factor

For example, if a Carrier used a normalization factor of 1.1 in the January 2013 base rate, this should be removed to determine the Carrier's revenue requirement by plan offering for that month.

3. Adjust the 2013 revenue requirement using 2014 allowable rating factors

Calculate new 2013 average rating factors to normalize their base rates by using the underlying population mix used to calculate the 2013 rates. These average rating factors should be used to normalize the 2013 revenue requirement calculated in Step 2.

For example, if a Carrier used 2011 claims experience to calculate 2013 rates, then the Carrier should use the 2011 population mix with the 2014 allowable rating factors to calculate average rating factors.

4. Include the adjusted 2013 base rates in page (a) of the rate filing worksheet.

5. Provide information.

Carriers should provide details and any supporting schedules on how they “unnormalize” the 2013 base rates. Carriers then should provide their calculation of the new 2013 normalization factors, using the 2014 allowable rating factors and population mix that support the development of the 2013 rates.