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What No One Ever Told Me About the Rate Filing Process

by Karl G. Volkmar

In my experience, it is difficult (if not impossible) to make money in many health insurance product lines unless you have the ability to:

1) Quickly and accurately tabulate and review emerging experience; and,

2) Quickly respond to adverse emerging experience by taking the corrective actions necessary to help ensure that projected future experience is (at least) more in line with pricing expectations.

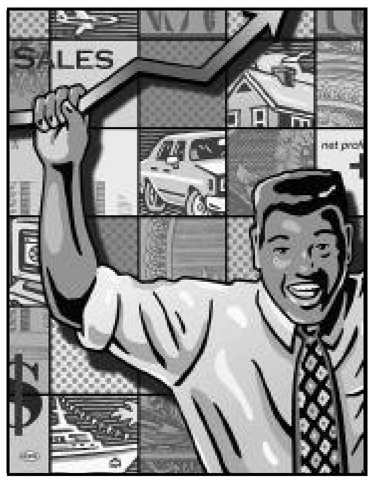
A list of corrective actions could include "rate increases," many of which would be subject to state filing and approval requirements.

As I mentioned in my last article, I have spent nearly all of my actuarial career in health insurance, and most of that time working with supplemental health products (e.g., LTC, Medicare supplement, and specified disease). While I have some group experience in certain product lines, most of my experience has been with individual products. This background has certainly impacted my exposure to the rate filing process, as well as my opinions regarding that process.

Overview - What I Wanted to Believe

When I first started working on rate filing projects, I wanted to believe that the optimal approach to filing for rate increases was a standardized approach. I wanted to believe that any debates or discussions arising during the recommendation development or filing processes would be actuary-to-actuary, and that they would surround data issues, credibility, the projection methodology, and assumptions. I wanted to believe that the harder I worked on a specific rate filing, the better chance I had of obtaining regulatory approval for that filing.

Anyone who has worked on rate filings will tell you that the above paragraph does NOT, in many cases, accurately characterize these aspects of the rate filing process. In the following sections, I will attempt to outline a few major differences between reality and the above. This list is not meant to be exhaustive, nor does it present issues in any particular order. I have simply attempted to present a few items for consideration and further discussion.



"Generic"

As I mentioned, I wanted to believe that the optimal approach to filing for rate increases was a standardized approach. I will focus my discussion here on the concept of the "generic" (a.k.a., "nationwide") filing.

As actuaries working on rate filings, our primary method of presenting or communicating a proposed rate increase, along with the reasoning behind and justification for that increase, is the actuarial memorandum and its attachments. If there were a "standardized" approach to rate filing, my assumption would be that there is a standard actuarial memorandum and attachments that would satisfy many-to-most scenarios. While this was closer to being true 10-15 years ago, the concept of a "generic" filing today seems to be getting closer to "not applicable" every year.

As in any area of business, a cost-benefit trade-off exists — if you research all state-specific laws and regulations, attempt to anticipate any state-specific filing requirements and/or respond in advance to the typical DOI questions for each state, and modify each and every memorandum based on the above, is that in the best interest of the company? Will the time and resource cost of assembling and implementing this information "pay off" in ultimate approval and implementation time-savings? My experience with this has varied — I would be interested in hearing other perspectives.

Simplicity Versus Complexity

As an actuary without much practical experience, my inclination was to believe that the faster the filing and approval process should be. My initial response, in retrospect, is that this is generally not true. The following outlines a couple of reasons:

a) the more time I put into developing and creating a rate increase filing;

b) the more thorough and complete the actuarial memo and the underlying actuarial work; and,

c) the more I research and try to anticipate state-specific filing requirements,

a) In some cases, the more information you provide (even if it's not material to the filing), the more questions are generated; and,

b) The regulations for a given state can change or be applied differently year-to-year, company-to-company, depending on who reviews the filing and their interpretations of the regulations.

In my experience, the easier a filing is to walk through and explain, the easier the approval process will be. Obviously, we need to be thorough; however, it is usually in the company's best interest to be thorough without being unnecessarily complicated or providing unnecessary detail.

You Don't Get What You Ask For

When you file for a rate increase, you will not get what you ask for on an aggregate, nationwide basis. In my experience, there are a few items that help create this phenomenon:

a) **The Negotiation Principle -**
In practice, what you ask for is perceived to be the high-end amount, regardless of what the actuarial memorandum and other supporting documentation indicate. Do you want to test this principle? Concede a few points from the proposed rate increase request in a given state and observe the impact on the timing of regulatory approval.

b) **Direct Consumer Accountability -**
Many times, the DOI rate reviewers are directly or indirectly involved with consumer complaints. Obviously, this creates pressure for the regulators to limit increases as much as possible.

c) **Visibility -**
For example, election year and/or media issues are real and can be very influential in the rate filing approval process.

If a company needs an X% aggregate increase, how should it account for this phenomenon? This can be a tough issue to address — I would be interested to hear how other actuaries attempt to handle it.

The Politics of Getting Things Approved

An important "reality" in the rate filing process is that who you know and the status of your relationship with that person(s) is at least as important as the actuarial work itself. The keys to all types of relationships are also keys here — consistency, trust, honesty, and humility. Building and maintaining these relationships is an important part of developing an effective rate filing process.

"Always remember that the rate filing process and its purpose are bigger than you. Don't jeopardize your professional standards, your reputation, your company's/client's reputation and their financial standing by 'cutting corners' in an attempt to expedite the rate filing process."

Given the above, you can see how "burning bridges" can be devastating to a professional relationship, and therefore to your company. Always remember that the rate filing process and its purpose are bigger than you. Don't jeopardize your professional standards, your reputation your company's/client's reputation, and their financial standing by "cutting corners" in an attempt to expedite the rate filing process.

Reality - A Summary

As I mentioned in my last article, the health business is a high risk/low reward business. It must be aggressively, comprehensively, and constantly managed in order to be profitable. As part of this management, a company needs to develop an efficient, effective rate filing process.

In order to develop an optimal rate filing process, a company needs to realize that this is a "people business," and that every state and person involved is different. As an actuary working for that company, you need to learn the details for every significant state in which your company does business — how its review process works, the people involved, its relevant laws/regulations, and its political landscape. While this may be a challenge, the rewards can be significant.

I would be interested in hearing any comments/criticisms you have regarding the issues presented in this article. Please contact me with any questions/comments via phone at (317) 580-8661 or via e-mail at *kvolkmar@tici.com*.

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