



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

American Republic Insurance Company Grandfathered 2Q 2011 Rate Filing

Finding of Facts

1. Connecticut specific experience:

Calendar Year	Earned Premium	Incurred Claims	Actual Loss Ratio	Expected Loss Ratio	Members
1981-1998	31,798,227	17,416,090	54.8%	n/a	n/a
1999	4,146,542	2,223,588	53.6%	59.9%	3,117
2000	5,617,498	3,921,398	69.8%	59.3%	3,789
2001	6,022,138	3,590,677	59.6%	62.1%	3,246
2002	5,654,508	3,837,418	67.9%	64.6%	2,499
2003	5,285,318	3,427,669	64.9%	65.9%	1,920
2004	4,547,355	2,919,882	64.2%	66.3%	1,482
2005	3,659,278	2,135,032	58.3%	67.8%	1,050
2006	2,511,145	1,572,285	62.6%	69.9%	608
2007	1,694,948	963,249	56.8%	71.6%	365
2008	1,291,586	1,311,667	101.6%	72.5%	266
2009	1,045,699	878,878	84.0%	73.0%	190
2010 (Jan-Oct)	712,116	978,597	137.4%	73.5%	114
Total	73,986,358	45,176,430	61.1%	n/a	

The actual-to-expected from 1999 through October 2010 is 1.01.

2. Unit cost and utilization trend is not tracked by broad service category. American Republic attempts to validate observed trends by reviewing industry trend studies and adjusting those industry trends to account for plan specific characteristics, such as deductible sizes and anti-selective lapsation. Splitting trends by service category for products with similar benefits would have limited credibility. The block is managed by tracking actual to expected loss ratios, where expected loss ratios are based on pricing assumptions and vary by policy month since issue. The company also tracks its PMPM claim trends, on an aggregate basis, coupled with industry data, to estimate future claims trend.
3. The overall annual medical trend factor for this product is 11.0% annually. According to American Republic the trend factors are consistent with recent company trend experience. This trend differs from basic medical trend due to other factors that impact individual medical insurance trends. The approximate components of trend, based on company experience and industry data are: (A) Medical Trend – medical provider increases: 4.0%; utilization and new medical procedures and technology: 3.5%; medical cost shifting: 1.0%. (B) Insurance

Trend – deductible leveraging: 2.5%. The total medical trend is 8.5% and the total insurance trend is 2.5%, totaling 11.0%.

4. The retention in 2010 Schedule H (Column 12) was 29.2% (including cost containment expenses, and underwriting gain). This includes other products in other states. The retention for this product on a nationwide basis, based upon inception-to-date nationwide experience, is 100% - 69.5% or 30.5%. (In recent years the retention is much lower or negative). The inception-to-date nationwide retention is reasonably consistent with Schedule H.
5. Assuming the 2010 loss ratio ends at 105.2% (consistent with the first 10 months of 2010), the adjusted loss ratio after the rate increase would be approximately 85.7%. This was calculated as $105.2\% \times 1.11 (\text{trend}) / 1.35 = 85.7\%$, this is in excess of the 80% MLR even before adjustments are made for quality improvement expenses, premium taxes, and credibility, etc.
6. These policy forms are “grandfathered” under PPACA. Pursuant to federal healthcare reform, the following benefit and certificate provision changes occurred on 1/1/2011: (1) removal of lifetime maximums; (2) prohibition of rescissions except for fraud or intentional misrepresentation of material fact; and (3) extending dependent coverage until age 26. American Republic believes the cost impact of these “grandfathered” benefits will be negligible for this block of business, and have not increased rates on the grandfathered policies due to these new benefits.
7. This rate increase request of 35% is for the following policy forms: A-3326CT; A-3056CT; A-3166CT; A-2718CT; A-2744CT; A-2745CT; A-2746CT; A-2434CT; A-2484CT and A-2927CT. The original effective date of the rate increase request was 4/1/11, but due to the time that has elapsed as a result of American Republic providing the Insurance Department the necessary information the new effective date is 7/1/2011.

Department Summary

Based upon the Connecticut specific experience provided, actual claim experience has met pricing expectations. The actual-to-expected ratio from 1999 through October 2010 is 1.01. The inception-to-date loss ratio is 61.1% and the membership count is down to 114 as of October 2010. Most of the future experience will be muted by the low membership count when added to the inception-to-date experience. As this is a closed block of business and has been for some time, the company is no longer incurring acquisition expenses.

American Republic identified that the overall annual medical trend factor is 11%, but did not provide any data to support this medical trend. The company did not provide unit

cost and utilization data by broad service category, which is part of the new submission requirements in Connecticut insurance bulletin HC-81.

Department Disposition

Based upon the finding of fact, and the summary information described above, the requested rate increase of 35% is disapproved as submitted. This is a closed block of business which has performed at the level the company initially expected in their pricing. The company has not provided any data in support of the 11% trend assumption and has not fulfilled the data requirements of the insurance bulletin. As this business is winding down there can be wide swings in experience from year-to-year due to the lack of credibility in membership. Any increase at this time is determined to be excessive. The disapproval of this rate increase request leaves the rates neither excessive, inadequate nor unfairly discriminatory.

Dated May 23, 2011.

A handwritten signature in cursive script that reads "Paul Lombardo". The signature is written in black ink on a white background.

Paul Lombardo, A.S.A., M.A.A.A.
Insurance Actuary