

Cycle II Phase I Grant Application

Health Insurance Rate Review Grant Program

PROJECT NARRATIVE

INTRODUCTION

The State of Nevada, represented by the Nevada Division of Insurance (“Division”) is submitting the attached application for Cycle II funding under the Health Insurance Rate Review Grant Program. Our continuing commitment to improving health insurance rate review effectiveness and transparency under the Cycle II grant program is detailed in this narrative, the Budget Narrative, and the Work Plan.

The growth of the Division’ rate review section under Cycle I was effective, yet those changes are minor in relation to our planned enhancements for Cycle II.

Under Cycle II, the Division will expand the rate review staff, add an additional actuarial consulting firm, and expand consumer involvement through a multi-faceted approach. The Division will launch a rate review focused website to broaden our consumer outreach program to include a greater number of Nevadans and partner with the University of Nevada, Las Vegas to present health care data in an accessible format.

PAST PROGRESS and CURRENT RATE REVIEW PROCESS

Current Rate Review Status

The passage of Assembly Bill 74 has provided the Division with the ability to review all individual and small group products available in the State of Nevada. The new legislation takes effect on October 1, 2011. Prior to the passage of AB 74 the Division had rate review authority over all HMO products and PPO products for the individual market.

With the additional staff and consulting assets provided by the Cycle I grant funds, the Division has been able to thoroughly review each filing at a level never before possible. All filing assumptions, historical data, and conclusions are carefully analyzed and carriers must respond to each resulting inquiry.

The Division recognizes that accurate rate filings are necessary to make meaningful conclusions. Although the Division is aware that insurers were to correct all filing omissions or inaccuracies beginning in January 2011, time and operational constraints prevented the Division from taking action earlier this year. However, effective July 1, 2011 the Division implemented a zero error tolerance policy regarding the filings made through the System for Electronic Rate and Form Filing (“SERFF”). In particular, the Rate Review Detail (“R2D2”) section will be closely monitored for insurer posting errors. Insurers will be required to either resubmit an incorrect filing or correct minor errors through the Post Submission Update mechanism.

The actuarial staff has uncovered misrepresentations and provided the quantifiable support needed to build solid justifications for each rate filing decision. The Management Analyst has organized historical data and current filing documentation, and prepared the required quarterly reporting.

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In the first quarter, from January 1, 2011 through March 31, 2011, seventeen of the thirty rate filings received were disapproved. The comparison below illustrates this more stringent review.

Insurer	Filing Type	2010 Rate Filings		2011 Rate Filings	
		Rate Requested	Decision	Rate Requested	Decision
Humana	Individual PPO	5.40%	Approved	4.32%	Negotiated to .5%
Aetna Life	Individual PPO	17%	Approved	8.40%	Negotiated to 2.3%
World Insurance	Individual PPO	14%	Approved	20%	Denied
American Rep.	Individual PPO	18.50%	Approved	27.60%	Denied
Principal Life	Conversion	10.40%	Approved	4.95%	Denied

Current level of resources

Nevada's current rate review resources include the existing staff prior to the Cycle I grant with the addition of a staff actuary, management analyst and actuarial consultants. More changes were anticipated under Cycle I but regulatory restraints postponed the hiring of the additional personnel. Prior to the Cycle I grant program the Nevada rate review program had a budget averaging \$90,000 annually. Our Cycle I Grant application proposed an additional \$996,982 in the federal 2011 fiscal year. Required state legislative grant approval resulted in the grant changes being made in February 2011 and the restrictions on expanding the transparency mandates has dramatically limited the funds required to-date. Only 30% of the allotted funds will be utilized through September 30, 2011.

Current budget and staffing

The Division's fiscal 2011 budget reflected revenue and expenditures of \$10,197,563, not including the Cycle I grant funds. The Division employs 90 individuals not including the current rate review program contract staff.

The health care insurance rate review section's budget and the proposed use of Cycle II funds are delineated within the Budget Narrative section of this application. The impact of the Cycle I Grant has exceeded the expenditures required to achieve those gains. The Division's fiscal prudence to-date reflects our dedication to the final outcome; to fully accomplish our goals it will be necessary to utilize the Cycle II funds requested in the proposed budget.

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Through June 30, 2011 only \$159,769 of the allotted \$1,000,000 has been expended:

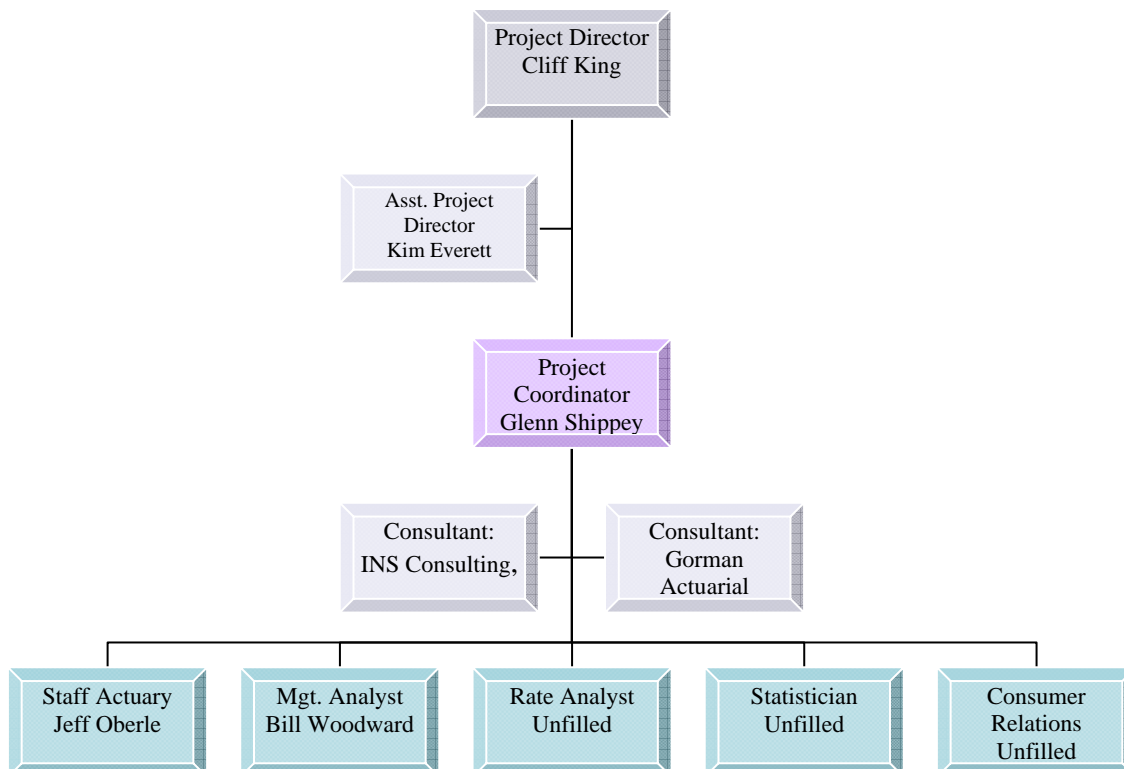
- \$19,000 for the SERFF upgrade
- \$12,369 for IT equipment and expenses
- \$99,000 personnel costs
- \$20,000 INS Consultants, Inc. fees
- \$5,250 rent
- \$3,650 travel
- \$ 500 supplies

Budget: Individual Market v. Group Market

The number of filings in Nevada is such that no market division of labor is required, therefore the budget is not segregated between the individual and group market.

Proposed Organizational Structure

Below is the proposed organizational structure. Comprehensive rate review will continue to be the primary focus with secondary emphasis on expanded data collection, analysis and utilization. The rate analyst position is required to accommodate the additional small group PPO market workload.



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Current and Proposed Staff Qualifications

- **Project Director** - Mr. King has an excellent overall perspective with over 39 years of insurance experience in a variety of positions within insurance regulation and the private sector.
- **Assistant Project Director** – Ms. Everett’s experience will continue to be a valued resource for the rate review program. Her managerial skill developed in both the Division and within industry continues to prove insightful and effective.
- **Project Coordinator** - Mr. Shippey’s background is founded in academia with an emphasis in mathematics and statistics. He has over a decade of insurance experience, including seven years in a rate review capacity.
- **Rate Review Actuary** – Mr. Oberle has an MS in mathematics from Portland State University. He is an Associate of the Society of Actuaries (ASA) and a member of the American Academy of Actuaries (MAAA) with over 15 years of actuarial experience.
- **Statistician** - Currently unfilled. This position will provide a needed expertise in the areas of quantitative analysis, operational reporting utilities, general output statistics and data base analysis. The Statistician will also focus on premium trend analysis to improve the Division’s statistical understanding of that key rate component.
- **Rate Analyst** - Currently unfilled. This position will be under the direct supervision of the Project Coordinator and will support the staff actuary.
- **Management Analyst** – Mr. Woodward is a graduate of Southern Methodist University (BBA) with graduate studies at the Haas School of Management at the University of California, Berkeley. He has three decades of management experience with an emphasis on accounting and financial analysis.
- **Consulting firms**
 - *INS Consulting Inc (“INS”)* - A Philadelphia based firm founded in 1987 that provides actuarial review and consulting services to the Division. INS has only regulatory agency clients to avoid industry conflicts of interest. To-date the Division has been very pleased with the professionalism of their work product and the advice and counsel provided by Mr. Art Lucker.

Gorman Actuarial – Ms. Gorman heads a respected actuarial consulting firm founded in January 2006 in Marlborough, Massachusetts. The firm serves the Divisions of Insurance in Massachusetts, Maine and Rhode Island. Ms. Gorman is simultaneously involved with Nevada’s Insurance Exchange Project.

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Rate Filing Work Load

The passage of AB 74 will result in an initial doubling of the approximate 100 rate filings reviewed under the previous legal mandate that exempted group PPO filings. Every small group carrier in the state will be required to present an initial filing under the new legislation. Thereafter, the Division anticipates an average of 170 to 180 total annual rate filings. Below is a breakdown of 2009 and 2010 filings with estimates of 2011, 2012 and 2013 activity that incorporate AB 74 provisions. In addition to the increase in the number of filings submitted to the Division, our time attributed to the review of each filing has increased.¹

MARKET	2009	2010	2011	2012	2013
Individual Filings	41	51	57	54	56
Small Group Filings	20	22	103	81	84
Large Group Filings	36	33	38	36	34
Total Filings	97	106	198	171	174

Maintenance of Effort

The structure and accompanying portion of those salaries that were associated with rate review before July 2010 remain unchanged. A hierarchy of Division approvals is needed to approve grant related expenditures.

Consumer Protections

Rate Disclosure and Advance Notice to Consumers

Currently, the Division posts a monthly update of the information listed below on the Division's Health Care Reform website page. This available information will be expanded when the Rate Review website is launched as discussed later in this document.

- Insurer
- Market / Segment
- Product
- Submission Date
- Average Proposed Rate Change
- Minimum Proposed Rate Change
- Maximum Proposed Rate Change
- Lives Covered
- Status
- Approved Change
- Effective Date

¹ The Division estimated 16 hours of analysis time per individual market and 10 hours per group market filing prior to the receipt of Cycle I funding. The current total hours per filing are estimated to be 28 and 22, respectively. INS spends approximately seven hours per filing. The staff actuary dedicates 10 to 12 hours per filing depending on the market. The staff that existed prior to Cycle I will continue to devote an estimated 12 and 8 hours for each individual and group filing, respectively. The tracking and technical support time spent by the management analyst and IT specialist are not included in this total.

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Formal Agency Hearings 2010 - The only formal rate hearing was held on June 29, 2010. The petitioner asserted that he was aggrieved by the Division's approval of a 13% rate increase to Anthem Blue Cross and Blue Shield. The hearing finding was in favor of the Division, noting that the petitioner presented no evidence on his behalf and that the original filing of a 23.5 % increase was denied by the Division.

The Division and Nevada consumers are still somewhat constrained in one important area. Nevada consumers are not currently made aware of proposed rate increases and therefore, do not have the necessary information to evaluate in order to request a hearing before the Commissioner on a proposed rate increase. NRS 679B.310² has been used on a limited basis in the past to justify hearings prior to implementation of a rate increase.

Examination and Oversight

Actions taken against Insurers - There have not been any disciplinary or punitive actions taken against health providers in the State of Nevada in the last two years.

Plain Language Opportunities

All Nevada filings must be accompanied by a readability certificate with a Flesch score greater than 40 points. The Division is currently planning a uniform rate filing template that will include a "Plain Speaking Summary" of the filing that will be available for public scrutiny.

² **NRS 679B.310 Administrative procedures; hearings in general.**

1. The Commissioner may hold a hearing, without request by others, to determine whether an insurer or an employee of an insurer has engaged in unsuitable conduct and for any other purpose within the scope of this Code.

2. The Commissioner shall hold a hearing:

(a) If required by any other provision of this Code; or

(b) Upon written application for a hearing by a person aggrieved by any act, threatened act, or failure of the Commissioner to act, or by any report, rule, regulation or order of the Commissioner, other than an order for the holding of a hearing, or an order issued on a hearing of which the person had notice. The application must be filed in the Division within 60 days after the person knew or reasonably should have known of the act, threatened act, failure, report, rule, regulation or order, unless a different period is provided for by any other law applicable to the particular matter, in which case the other law governs.

3. Any such application for a hearing must briefly state the respects in which the applicant is so aggrieved, together with the grounds to be relied upon as a basis for the relief to be sought at the hearing.

4. If the Commissioner finds that the application is made in good faith, that the applicant would be so aggrieved if his or her grounds are established and that the grounds otherwise justify the hearing, the Commissioner shall hold the hearing within 30 days after the filing of the application, unless postponed by mutual consent. Failure to hold the hearing upon application therefor of a person entitled thereto as provided in this section constitutes a denial of the relief sought, and is the equivalent of a final order of the Commissioner on hearing for the purpose of an appeal pursuant to [NRS 679B.370](#).

5. Pending the hearing and decision thereon, the Commissioner may suspend or postpone the effective date of the previous action of the Commissioner.

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Consumer Inquiries and Complaints

The Division tracks inquiries, complaints, and recoveries, but only breaks the complaints by line of insurance. This information is shown on the chart below:

Consumer Inquiries and Complaints in Nevada			
	2008	2009	2010
Total Inquiries	31,320	31,639	29,084
Health Complaints	522	559	469
Funds Recovered	\$ 863,421	\$ 385,706	\$ 404,789

MEETING CYCLE II PROGRAM REQUIREMENTS

Effective Rate Review Program

The application for the Cycle II Grant states the following effective rate review program criteria:

1. The State receives data and documentation sufficient to determine whether a rate increase is unreasonable;
2. The State has adequate resources to effectively review that data and documentation in a timely manner;
3. The State's review examines the reasonableness of the assumptions used by the issuer in developing its rate proposal and the validity of the historical data underlying those assumptions, in accordance with specific areas of analysis set forth in the regulation;
4. The State's determination of whether a rate increase is unreasonable is based on a standard set forth in State statute or regulation.

The Division currently meets all four standards of this initial definition of "effective" in relation to the individual, group HMO, and small group PPO markets as well as the expanded definition outlined in the May 19, 2011 CMS Rate Increase Disclosure and Review; Final Rule.

Performance Grant

The Division formally requests the Performance Grant funding available for the State of Nevada. Nevada is deserving of this funding based upon the passage of AB 74, which expanded our rate review authority to include all individual and small group policies in Nevada and the Division's Cycle I rate review advancements.

Planned Enhancements

Outreach Program

The planned outreach meetings detailed in the Division's Cycle I application were unavoidably delayed until the end of this legislative session, June 6, 2011. The December 2010 approval for the grant funding necessitated the Cycle I rate review enhancements be implemented during the first quarter 2011 just as the Nevada Legislature went into session. In addition, two legislative bills, Assembly Bill 74 and

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309, were introduced that would have had a sizable impact on the outreach meeting message content. This uncertainty compelled us to postpone our planned activities. The Division is currently planning a series of meetings this summer and fall in Las Vegas, Reno / Carson City and Elko.

The content of these public meetings will include:

- Impact of Health Care Reform on health insurance rates and coverage
- The rights of Nevada citizens regarding health insurance coverage
- A review and explanation of federal and state websites
- Distribution of a list of health insurance resources and summary brochures
- Question and Answer period

The majority of the meetings will be held in Las Vegas and Henderson where 70% of the Nevada population resides. The Division recognizes it is also important to cover the rural markets where less access to state resources limits exposure including Reno, Carson City, Elko, Ely, Laughlin and other smaller cities within the state.

Under the recently filed Cycle I Re-Budget Request, the Division proposed purchasing Audio/Visual equipment to expand our coverage to the outlying communities and smaller consumer groups.

Data Center

The Division believes the Center for Health Information Analysis (“CHIA”), an independent research center at the University of Nevada Las Vegas, provides valuable medical data to the Nevada consumer. CHIA works in conjunction with the Nevada HHS Division of Healthcare Financing and Policy (“DHCFP”) to compile and publish hospital patient discharge data for 50 of the most common medical and surgical diagnoses reported by Nevada’s largest hospitals in the annual Nevada Personal Health Choices publication.³

The data center funding available through Grant Cycle II will enable the Division to expand the information provided to CHIA to include additional fee based and payee data. The CHIA data are offered to consumers through a well-designed, user-friendly data portal ([Nevada Compare Care, Nevadans’ Source for Transparency in Health Care](http://www.nevadacomparecare.net) (www.nevadacomparecare.net). A consumer may compare hospitals’ treatment cost and care by selecting an ailment or procedure and comparing the patient count, average length of stay, average daily charge, and average total charge for hospitals within the consumer’s area. This tool is a valuable asset to the Nevada consumers and its expansion furthers the goals of the Affordable Care Act. (“ACA”).

³ Nevada statute NRS 449.485 and NAC 449.951-449.969 state that all Nevada hospitals are required to submit their inpatient data to CHIA on a monthly basis. Information provided to CHIA is available at: http://www.unlv.edu/Research_Centers/chia/hospitalinpatientdata/excel/CHIA%20-UB92%20&%20UB04%20Distribution%20Format%20-20110310.xls

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Section 2794(d) of the ACA sets out five criteria to be met by an approved Medical Reimbursement Data Center:

- 1) Develop fee schedules and other database tools that fairly and accurately reflect market rates for medical services;
- 2) Use the best statistical methods and data processing technology;
- 3) Regularly update such fee schedules and other database tools;
- 4) Make health care cost information readily available to the public; and
- 5) Regularly publish information concerning the statistical methodologies used by the center.

The Division intends to seek authority to require carriers to report medical reimbursement data directly to CHIA, beginning January 1, 2013. CHIA may be used as an all payer claims data repository to satisfy the risk adjustment data collection requirements pursuant to CMS-9975-P.

Rate Review Website

The Division has initiated the design and launch of a website dedicated to Nevada's health insurance review activities that will be financed jointly under Grant Cycles I and II. The site will primarily be a consumer access point for health benefit plan rate filing information including the filing itself, a link to the carrier's presentation of the filing and the posting of the Division analysis summary upon disposition.

The site will also offer a number of assistance sources for Nevada consumers, including:

- General consumer health insurance coverage information.
- An explanation of the Division's rate filing review process.
- A confidential question or comment mechanism for Division response.
- An option for policyholders to receive electronic notification of carrier filings.
- Link to pertinent State of Nevada and federal websites.
- An individual and small group market summary rate filing report.
- A reference page with press releases, Division HHS reports, and applicable regulatory and industry articles and reports.
- A well promoted link to the CHIA research findings through the consumer Nevada Compare Care portal.

The site is under development by the Nevada Division of Information Technology ("DOIT"), using the well respected content management system developed by Ektron. The site will be welcoming and accessible from the Division of Insurance site with appropriate reciprocal linkage. The launch date is September 1, 2011 and DOIT has assured the Division that this aggressive target is achievable.

Rate Review Policy and Procedure

The addition of the staff actuary, INS Consulting Inc. and a planned association with Gorman Actuarial's services has added a depth and thoroughness not available prior to

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the Cycle I grant. The planned addition of a rate analyst will allow the actuary to focus on more technical analyses. No other significant changes in the area of rate review are necessary at this time.

Rate Review Transparency and Public Input

The following steps will be implemented to enhance rate review transparency:

- A weekly update of received, under consideration and reviewed rate filings will be posted to the Division's Health Benefit Plan website within 5 days of receipt by the Division.
- Links from the Division Health Benefit Plan website to posted rate filings maintained for up to three years.
- The posting of Nevada's rate filings from 8/1/2010 on the Rate Review website
- The website rate filing postings to include: 1) Division's actuarial memorandum 2) The Division's Determination 3) Insurer's rate tables, cover letter and actuarial supporting data 4) The Consumer Disclosure about Proposed Health Insurance Rate Increase 5) Other pertinent documents.
- Suitable public comments addressing the proposed changes will also be available on the Rate Review website.

SUMMARY

The Division has proposed a comprehensive plan spanning three years that will both improve existing rate review and expand the consumer's access to all aspects of the health coverage system. The plan will enable the Division to maintain the actuarial standards that have added much to the Division's review capacity, develop a data center for use by public and private parties to compare health care costs, and broaden the access of all Nevadans to health care coverage information through an outreach program and a website. The Division will seek to maximize the grant funds, provide timely and informative quarterly reports and work closely with HHS and CCIIO if re-budgeting is required.

With the endorsements of Governor Brian Sandoval, Nevada's Division of Insurance seeks the approval of Health and Human Services in awarding the Cycle II Grant Phase I under the Health Insurance Rate Review Grant Program. Thank you for your time and consideration of this application, we look forward to working with your Department over the next three years.