D.C. Appleseed Attachment A

Requests needed to analyze 12/9/2013 Rector report

1) Pages 21 through 23 of The Rector Report indicate that numerous aspects went into modification of the Rating Adequacy and Fluctuation factor. The cited aspects include:
   a. Trend Miss Modeling;
   b. Trend Modeling;
   c. Modeling for Medical Loss Ratio Restrictions;
   d. Modeling for Increased Regulatory Oversight Over Premium Rates; and
   e. Modeling for Effects of Health Care Reform Not Reflected in the Milliman model.
      i. Underwriting restrictions;
      ii. Policyholder behavioral changes; and
      iii. Coverage mandates.

For each of these aspects, we request:
   a) All documents provided by Milliman to Rector and used by Rector for its determination of the “probability of the occurrence and the outcome of certain events related to each of the 12 factors”;
   b) Any other documents used by Rector for its determination of the “probability of the occurrence and the outcome of certain events related to each of the 12 factors”; and
   c) Details on how much, if any, each of the above aspects impacted the probabilities and charges in the tabular values presented on page 22 of The Rector Report.

2) Page 18 of The Rector Report indicates that the Milliman model is a three component process with the first component being to “use a stochastic modeling process to calculate potential gain or loss outcomes.” Page 10 of The Rector Report indicates that the Milliman model generated “hundreds of thousands of potential gain or loss outcomes taking onto account a number of potential events and the probability of occurrence and relative severity of those outcomes.” Milliman then “incorporates the financial results associated with the selected loss outcome into pro-forma financial projections to determine what the impact to GHMSI’s surplus would be.” We request:
   a. a spreadsheet that includes in rank order all the potential gain or loss outcomes that were generated by the first component of the process and for each outcome a listing of the value of each of the 13 factors that help create that outcome; and
   b. a spreadsheet that provides in the same rank order as 2(a) the projected impact on GHMSI’s surplus after pro-forma financial projections were made.
3) Page 27 of The Rector Report states “The Milliman stochastic model employs 12 different factors, and for each of these factors, Milliman selects the probability of the occurrence and the severity of certain events related to these factors.” Rector goes on to say, “We analyzed the probability of the occurrence and the outcome of certain events related to each of the 12 factors. For nine of the 12 factors, we agreed with Milliman’s conclusions. However, for three of the factors we made modifications to the probability of the occurrence and the outcome of certain events.” Finally, Rector states, “Milliman did not include probabilities relative to GHMSI’s projected premium growth in the stochastic modeling process… we asked Milliman to instead include selected probabilities of premium growth levels in its model.”

In The Rector Report, Rector provides tables that show the probability of the occurrence and the outcome of the following events:

   a. Provision for Rating and Adequacy Fluctuation;
   b. Provision for Impact of Catastrophic Events;
   c. Provision for Unidentified Growth and Development; and
   d. Annual Premium Growth Rates.

Based on the above descriptions in The Rector Report we request complete tabular information (similar to that provided in The Rector Report for each of the above factors) for each of the nine factors that Rector agreed with Milliman on the probability of the occurrence and the outcome of certain events. If any of these factors represents the impact of more than one component we request detailed information on each component of each factor.

4) On pages 27-30 of The Rector Report is a discussion of Premium Growth Levels. We request the following information relative to this discussion:

   a. Pages 28-29 of The Rector Report states “we took into account the current size of enrollment in GHMSI’s individual products and available research regarding estimated increases in the individual insured market.” Please provide:
      i. The referenced “available research regarding estimated increases in the individual insured market.”;
      ii. The current size of enrollment in GHMSI’s individual products; and
      iii. The projected size of enrollment in GHMSI’s individual products in each future year.

   b. Page 29 of The Rector Report states that levels of premium growth were distinguished between Non-FEP and FEP premium. Please clarify which lines of business (i.e., individual, small group, large group, Medicare Supplement, Dental, Vision, Other) to which the Non-FEP premium growth rate was applied.
c. Pages 28-29 of The Rector Report states that the following considerations were taken into account in determining GHMSI’s future premium growth levels: Enrollment Changes Including Health Care Reform Effects, Rising Health Care Costs, Policyholder Cost-Sharing Decisions. Please identify the specific impacts of each of these considerations in establishing GHMSI’s future premium growth levels and which lines of business (i.e., individual, small group, large group, Medicare Supplement, Dental, Vision, Other) to which each consideration was applied.

5) Page 34 of The Rector Report says that “we performed tests to validate the general accuracy and completeness of the Milliman model and assumptions” and “[t]hose tests enabled us to conclude … that it is appropriate to use the Millman model … and that key assumptions incorporated in to the model … are appropriate.” Please state all the validation tests that were performed and provide us the data from these tests that confirm the appropriateness of the Milliman model and the assumptions used in it.

6) Page 25 of The Rector Report says: “In order to determine the minimum amount of surplus that GHMSI should maintain under appropriate testing methodologies, we considered whether any other RBC and confidence levels are appropriate for purposes of determining whether GHMSI’s surplus is excessive.” And page 31 of the Rector Report states: “We believe the tests we used to select the Benchmark—1) a 200% RBC threshold at a 98% confidence level, and 2) a 375% RBC threshold at an 85% confidence level—strike the proper balance between the various aspects of the MIEAA standard’s requirements. After extensively analyzing Milliman’s model (including reviewing the appropriate confidence levels and RBC levels to be selected for use in the model) and making various adjustments to it, we believe the model, as adjusted, allows for a determination of the amount of surplus necessary so that GHMSI both operates consistently with financial soundness and efficiency and satisfies its community health reinvestment obligation.”

   a. Please state what other RBC levels and confidence levels you considered and, if you calculated them, please state the minimum amount of surplus indicated by those other RBCs and confidence levels;
   b. Please explain Rector’s view as to why these numbers (200% RBC at 98% confidence; 375% RBC at 85% confidence) “strike the proper balance” between MIEAA’s requirements;
   c. Please identify each respect in which Rector’s application of the MIEAA standards, as it understood them, reduced the target surplus ratio to less than it would have been absent of those standards; and
d. For each such reduced item, state the amount of the reduction in the target surplus ratio.

7) Page 32 of The Rector Report says that “we took into account both the positive and negative impacts to GHMSI’s operations arising from health care reform.” Please state each of the impacts of health care reform accounted for and quantify the impact of each of those in the model used to support The Rector Report.

8) Page 12 of The Rector Report states, “As described in Section IV.C. of this Report, GHMSI needs to have its surplus not fall below a 958% RBC level in order to meet the first test (200% RBC level at a 98% confidence level) and have its surplus not fall below a 746% RBC level in order to meet the second test (375% RBC level at an 85% confidence level).” Please explain, in detail, why Rector’s target surplus ratio changed from 600% (to avoid a 200% RBC level at a 99% confidence level) in its 2009 report to 958% (to avoid a 200% RBC at a 98% confidence level) in the current report.

9) Page 18 of Rector provides: “In order to be appropriately conservative, this stochastic modeling process incorporates and measures the possibility that extremely adverse events could occur, including the possibility that multiple adverse events could occur simultaneously.” Please describe what events Milliman considered “extremely adverse events” in the stochastic modeling and whether Rector made any adjustments or modifications to the probability that these events would occur or the gain or loss outcomes associated with such occurrences.