
FEHB Program Carrier Letter

All Carriers

U.S. Office of Personnel Management
Office of Insurance Programs

Letter No. 1999-017B

Date: April 28, 1999

Fee-for-service [14] Experience-rated HMO [14] Community-rated []

SUBJECT: 2000 Rate Instructions for Experience-Rated Plans

Enclosed are the questionnaire and tables that will constitute your rate proposal for participation in the FEHBP for 2000. You must fully document all estimates with respect to assumptions and actuarial methodology. Your submission is due on May 31, 1999.

For plans participating in the DoD Pilot Project you must submit separate abbreviated documentation. This is the same documentation as for new plans which is noted in the questionnaire under item 1 (c).

All plans must complete Tables 1, 2 and the questionnaire. HMO's must complete Table 3 and include it with the submission and submit Table 4 as soon as the May data is available but no later than June 20. If you provide some services through capitation, enclose separate schedules covering 1998 as well as the 4 and 5 month periods for 1999 in which claims are broken out by capitated services, non-capitated services, and total services.

Fee for service plans may omit Tables 3 and 4 but must confirm that the submission of monthly incurred claims is current.

If your plan has two options, rate each option as a separate plan and submit separate documentation for each option.

You should set your proposed rates so that the sum of the ending special reserve balance plus the ending contingency reserve balance moves toward the reserve goal of 2 months of total outgo. If you project that your rates will not achieve the reserve goal as of December 31, 2000, please explain why your proposed rates are more reasonable than rates which would achieve the 2-month goal.

You should send one copy of the submission including your proposal, the summary statement to your December 31, 1998, accounting statement, the questionnaire and appropriate tables to:

Office of Personnel Management
Ms. Nancy H. Kichak
Director, Office of Actuaries
1900 E Street, NW., Room 4307
Washington, DC 20415

Please send a duplicate hard copy to:

Office of Personnel Management
Mr. Frank D. Titus
Assistant Director for Insurance Programs
1900 E Street, NW., Room 3424
Washington, DC 20415

Email a Lotus, Excel or Quattro version of the questionnaire to
RVGRESCH@OPM.GOV.

If you have any questions, please contact Ms. Sherry Simon or
Mr. Ron Gresch at (202) 606-0722. You will receive a statement
of your December 31, 1998, contingency reserve balance in the
near future.

Sincerely,

Frank D. Titus
Assistant Director
for Insurance Programs

Enclosures

Experience-Rated Questionnaire for 1999 Rates

Note: Options are Rated as Separate Plans and Require Separate Questionnaires

- 1a. Attach a copy of the summary statement of your 12/31/98 accounting statement.
- 1b. Email the information as shown in the enclosed sample format on the following page to RVGRESCH@OPM.GOV.
- 1c. Abbreviated documentation for new plans and DoD Pilot Project: Item numbers refer to the questionnaire.

Item 2	year 2000 only (rates enrollment, subscription income)
Item 9	year 2000 only (Present Year claims) <i>explain the basics of your projected claims number</i>
Item 12	year 2000 only (expenses and reinsurance)
Item 14(a) (8)-(10) only	(12/31/2000 contingency reserve balance)
Item 14(b) (4)-(8) only	(interest plus investment income)
Item 14(c) (1)-(5)	(Financial Summary and Special Reserve-2000)
Table 2	(2000 biweekly Net-to-Carrier Rates)

If you use Lotus, Excel or Quattro for the questionnaire, email such a file to the above address as well.

Plan XYZ
Code 1A
High Option
Actuarial Contact: Joe Comet
Telephone:999-555-1234
Fax:999-555-9876
e-mail: jcomet@xyz.com

	1996	1997	1998	1999	2000
Subscription Income Adjusted for Accrual(\$000)	1144000.0	1274000.0	1339000.0		
Interest Income Adjusted for Accrual(\$000) LOC and Carrier	6864.0	7644.0	8034.0		
Claims Paid in Calendar Year x No accrual [1999 Paid through 4 month]	1115400.0	1242150.0	1305525.0		
Claims incurred in 1996 paid in:	915200.0	183040.0	18304.0		
Claims incurred in 1997 paid in:		1019200.0	203840.0	10192.0	
Claims incurred in 1998 paid in:			1071200.0	74984.0	
Claims incurred in 1999 paid in:				267800.0	
Total Non-claims Expenses(\$000), no accrual adjustment	80080.0	89180.0	93730.0		
Accrued Reserve 12/31/98 (\$000)			217587.5		
Special Reserve 12/31/98 (\$000)			108793.8		
Biweekly Net-to-Carrier Rate					
Self	80.00	90.00	95.00	100.00	105.00
Family	180.00	200.00	210.00	220.00	230.00
Biweekly Net-to-Carrier Rate Change for Benefits Only					
Self		0.00	0.00	0.00	0.00
Family		0.00	0.00	0.00	0.00
Initial Estimated Enrollment					
Self	100000	100000	100000	100000	100000
Family	200000	200000	200000	200000	200000

2. Reconcile your 1997 and 1998 premium income to your 1997 and 1998 enrollment by adjusting enrollment to agree with premium income actually received. For 1997 and 1998 premium income use accounting summary figures for Semi-Monthly Premiums received by your LOC account adjusted by beginning and ending accrued values. It is advisable to perform a similar reconciliation for 1999 using the fact that most second monthly payments consist of one monthly annuitant premium and one biweekly premium and most first monthly payments consist of one biweekly premium.

	<u>Biweekly Net-to- Carrier Rates</u>		<u>Initial Estimated Enroll- ment</u>		<u>Calcu- lated Income</u>	<u>Actual Premium Income</u>	<u>Adjusted* Average Enroll- ment</u>
1997							
Self	_____	x	_____	x 26 =	_____	_____	_____
Family	_____	x	_____	x 26 =	_____	_____	_____
Total			_____		_____	_____	_____
1998							
Self	_____	x	_____	x 26 =	_____	_____	_____
Family	_____	x	_____	x 26 =	_____	_____	_____
Total			_____		_____	_____	_____
1999							
Self	_____	x	_____	x 26 =	_____	_____	_____
Family	_____	x	_____	x 26 =	_____	_____	_____
Total			_____		_____	_____	_____
2000 (Projected)							
Self	_____	x	_____	x 26 =	_____		
Family	_____	x	_____	x 26 =	_____		
Total			_____		_____		

*Adjusted Enrollment = Initial Estimated Enrollment x (Actual Premium Income/Calculated Income)

3. (a) As of 12/31/98 what were the total claims paid to date for services incurred in

1996

1997

1998

(b) As of 4/30/99 what were the claims paid in 1999 for services incurred in

1996

1997

1998

1999

The sum of these values should equal the claims paid in the first 4 months of 1999

(c) What is your estimate of the ultimate claims and what portion of these claims have been paid as of 12/31/98 and as of 4/30/99.

<u>Ultimate Claims</u>	<u>Portion Paid as of 12/31/98 (a)/(c)</u>	<u>Portion Paid as of 4/30/99 [(a)+(b)]/(c)</u>
1996 _____	P1= _____	_____
1997 _____	P2= _____	_____
1998 _____	P3= _____	_____
1999 _____		_____

The portion paid as of 12/31/98 and as of 4/30/99 should be representative of past experience. If they are not, explain why. Ultimate claims and the portion paid as of 12/31/98 (P1,P2,P3) will be used in item 11.

Explanation if Necessary:

The product of the prior year's claims and the factors in items 4, 5, 6, 7, and 8 below should equal the present year's claims and for 1997 and 1998 should agree with the ultimate claims stated in item 3. Item 9 contains a summary of items 4, 5, 6, 7 and 8.

4. What was the change in enrollment factor for:

1997 to 1998 _____

1998 to 1999 _____

What is your estimated factor for:

1999 to 2000 _____

You should weight the aggregate enrollment factor for both self and family contracts by either premiums or claims.

We prefer that you obtain the enrollment factor by using a weighted average of claims costs broken down by groups such as active, Medicare and non-Medicare annuitants enrollees and by self and family contracts. Please provide your best estimate of claims cost by type of claimant and category of enrollment. If you do not have claims data available, we suggest you use the following weights:

	<u>Self</u>	<u>Family</u>
Active	46	121
Medicare Annuitants	56	105
Non-Medicare Annuitants	106	194

The formula you would use would appear as follows:

$$EF(yr) = \frac{[46xASE(yr)]+[56xMSE(yr)]+[106xNMSE(yr)]+[121xAFE(yr)]+[105xMFE(yr)]+[194xNMFE(yr)]}{[46xASE(yr-1)]+[56xMSE(yr-1)]+[106xNMSE(yr-1)]+[121xAFE(yr-1)]+[105xMFE(yr-1)]+[194xNMFE(yr-1)]}$$

where

EF = Enrollment Factor

ASE = Active Self Enrollment
 MSE = Medicare Self Enrollment
 NMSE = Non-Medicare Self Enrollment
 AFE = Active Family Enrollment
 MFE = Medicare Family Enrollment
 NMFE = Non-Medicare Family Enrollment

To obtain the factor weighted by premiums use the following formula:

$$EF(yr) = \frac{[SE(yr) \times SP(yr-1)] + [FE(yr) \times FP(yr-1)]}{[SE(yr-1) \times SP(yr-1)] + [FE(yr-1) \times FP(yr-1)]}$$

where EF = Enrollment Factor
 SE = Self Enrollment
 FE = Family Enrollment
 SP = Self Premium
 FP = Family Premium

Explanation if Necessary:

5. What was the change in benefits factor for:

1997 to 1998 _____

1998 to 1999 _____

What is your estimated factor for:

1999 to 2000 _____

You should weight the aggregate benefit factor for both self and family contracts by premiums and enrollment. You should base all benefit changes on premium rate changes that were agreed upon during prior rating unless better data is available, i.e.,

$$BF(yr) = \frac{[SE(yr) \times [SP(yr-1) + SBC(yr)]] + [FE(yr) \times [FP(yr-1) + FBC(yr)]]}{[SE(yr) \times SP(yr-1)] + [FE(yr) \times FP(yr-1)]}$$

where BF = Benefit Factor
 SE = Self Enrollment
 SP = Self Premium
 FE = Family Enrollment
 FP = Family Premium
 SBC = Self Benefit Change
 FBC = Family Benefit Change

If your gross premium rates are substantially different than claims plus expenses it will be necessary to adjust your calculated benefits factors.

Explanation if Necessary:

6. What was the trend factor for:

	<u>Trend Factor</u>	=	<u>Inflation Factor</u>	x	<u>Utilization Factor</u>
1997 to 1998	_____		_____		_____

What trend factor is projected for:

1998 to 1999	_____	=	_____	x	_____
1999 to 2000	_____	=	_____	x	_____

Explanation if Necessary:

7. Selection as a result of movement between plans in the FEHBP is common. You can quantify this factor for a given year using the following:

$$SEL = \frac{1 + [(EI-1) \times RUI] + [(ED-1) \times RUD]}{EI + ED - 1}$$

where SEL = Selection Factor
 EI = Enrollment Increase Factor
 ED = Enrollment Decrease Factor
 RUI = Relative utilization of Enrollment Increases

RUD = Relative utilization of Enrollment
Decreases

As an illustration, suppose that in 1996 your plan consisted of 100 enrollments who cost \$1000 each. In 1996 your plan gained 30 enrollments and lost 40 enrollments. The enrollments the plan gained would have cost \$1400 in 1996 and the enrollments the plan loss cost \$800 in 1996. The selection factor for 1997 is

$$1.222 = \frac{[1. \times 1.0] + [.3 \times 1.4] + [-.4 \times .8]}{1 + (.3) + (-.4)}$$

What were these factors if any for:

	Selection	EI	ED	RUI	RUD
1997 to 1998	_____	_____	_____	_____	_____
What factors if any are projected for:					
1998 to 1999	_____	_____	_____	_____	_____
1999 to 2000	_____	_____	_____	_____	_____

Explanation if Necessary:

8. What other factors such as the institution or expansion of a PPO have had an effect upon incurred claims:

	Total of other Factors				
1997 to 1998	_____	=	_____	x	_____ x _____
What other factors if any will have an effect upon incurred claims:					
1998 to 1999	_____	=	_____	x	_____ x _____
1999 to 2000	_____	=	_____	x	_____ x _____

Explanation if Necessary:

9. Summary of Incurred Claims Development

<u>Year</u>	<u>Enrollment Factor</u>	<u>Benefit Factor</u>	<u>Trend Factor</u>	<u>Selection Factor</u>	<u>Other Factors</u>	<u>Present Year Claims</u>
1997						_____
1998	x _____	x _____	x _____	x _____	x _____	= _____
1999	x _____	x _____	x _____	x _____	x _____	= _____
2000	x _____	x _____	x _____	x _____	x _____	= _____

10. December 31, 1998 Special Reserve

- (a) 1996, 1997 and 1998 claims paid through 12/31/98 _____
 - (b) 1996, 1997 and 1998 estimated incurred claims _____
 - (c) (b) - (a) _____
 - (d) 12/31/98 accounting statement accrued reserve _____
 - (e) 12/31/98 accounting statement special reserve _____
 - (f) [(e) + (d) - (c)] _____
- (a) is from item 3(a)
 (b) is from item 3(c)
- (c) is your most recent estimate of the 12/31/98 accrued reserve
 (f) is your most recent estimate of the 12/31/98 special reserve

11. Accrued Reserves

- (a) 12/31/98 accrued reserve [from 10(c)] _____
- (b) 12/31/99 estimated accrued reserve
 - = 1997 ultimate claims x (1-P1)
 - + 1998 ultimate claims x (1-P2)
 - + 1999 estimated claims x (1-P3)

- (c) 12/31/00 estimated accrued reserve
 - = 1998 ultimate claims x (1-P1)
 - + 1999 ultimate claims x (1-P2)
 - + 2000 estimated claims x (1-P3)
 - [claims from 3(c) and 9]
 - [P1, P2 and P3 are from 3(c)]

12. Expenses

<u>Year</u>	<u>Total Amount</u>	<u>Service Charge</u>
1998		
1999		
2000		

(Allowable expenses and service charge is negotiated with the Office of Insurance Programs.)

Describe your reinsurance arrangements if any.

13. 1999 Contingency Payment, Interest and Investment Income, and Reserve Calculations

- (a) Contingency Reserve
 - (1) Contingency Reserve Balance 12/31/98 (from OPM's Office of Actuaries) _____
 - (2) Claims Paid During Last 6 Months of 1998 _____
 - (3) Administrative Expenses for 1998 _____
 - (4) Three and One-Half Months of Total _____

Outgo [(7/12) x (2)] + [(7/24) x (3)] _____

(5) Preferred Minimum Balance of 1-1/2
Month of Total Outgo [(3/7) x (4)] _____

(6) Accrued Reserve + Special Reserve
12/31/98 [10(c) + 10(f)] _____

(7) 1999 Contingency Reserve Payment (compute as follows)

(a) (4)-(6) = _____ [put 0 here if (4)-(6) is negative]

(b) (1)-(5) = _____ [put 0 here if (1)-(5) is negative]

(c) Contingency Reserve Payment:
Lesser of (a) and (b) = _____

Return of Excess to the Contingency Reserve Fund:

(d) If (4)-(6) is negative, that is if the accrued reserve plus special reserve exceeds three and one-half total outgo, the excess must be returned to the contingency reserve fund. What is it?
(6)-(4) = _____

(8) Payments to Contingency Reserve Fund
During 1999 (approximately 3.88% of premium income) _____

(9) Interest on Contingency Reserve Fund
During 1999 _____

$$= IR \times [BCR + .5 \times (PCR) - .5 \times (CRP) + SIF]$$

$$= .05 \times [(1) + .5 \times (8) + .5 \times [(7)(d) - (7)(c)] + (3/52 \times SI)]$$

where IR = Interest Rate
BCR = Beginning Contingency Reserve Balance
PCR = 1999 Payments to Contingency Reserve
CRP = 1999 Contingency Reserve Payment to Plan
SIF = Subscription Income Float
SI = 1999 Subscription Income

(10) Contingency Reserve Balance 12/31/99
(1) + (8) + (9) + [7(d) - 7(c)] _____

(b) Interest plus Investment Income

- (1) Accrued Reserve + Special Reserve as 12/31/98 _____
- (2) Accounting Statement Premium Income
Accrued but Unpaid as of 12/31/98 _____
- (3) 1999 Contingency Reserve Payment
13(a)(7)(c) - 13(a)(7)(d) _____
- (4) 1999 Total Premium Income _____
- (5) 1999 Incurred Claims _____
- (6) 1999 Expenses _____
- (7) 1999 Average Investment Balance:
(1)-(2)+{.5 x [(3)+(4)-(5)-(6)]} _____
- (8) 1999 Interest Plus Investment Income:
.0500 x (7) _____
- (c) Financial Summary and Special Reserve - 1999
- (1) Income
- (a) Premium Income _____
- (b) Contingency Reserve Payment
[13(a)(7)(c)] - [13(a)(7)(d)] _____
- (c) Interest Plus Investment Income _____
- (d) Total _____
- (2) Outgo
- (a) Incurred Claims [9] _____
- (b) Expenses [12] _____
- (c) Total _____
- (3) Gain (Loss) [1(d) - 2(c)] _____
- (4) Reserves
- (a) Beginning Special [10(f)] _____
- (b) Ending Special [3 + 4(a)] _____
- (c) Ending Contingency [13(a)(10)] _____
- (5) Reserve Goal (in number of months)
{12 x [4(b) + 4(c)]} / 2(c) _____
14. 2000 Contingency Payment, Investment Income, and Reserve Calculations

(a) Contingency Reserve

- (1) Contingency Reserve Balance 12/31/99 _____
[from 13(a)(10)]
- (2) Claims Paid During Last 6 Months of _____
1999. Use the Product of 1998 Claims
from 13(a)(2) and the Percentage Change
from 1998 incurred Claims to 1999
incurred claims [item 9].
- (3) Administrative Expenses for 1999 _____
- (4) Three and One-Half Months of Total _____
Outgo [(7/12) x (2)] + [(7/24) x (3)]
- (5) Preferred Minimum Balance of 1-1/2 _____
Month of Total Outgo [(3/7) x (4)]
- (6) Accrued Reserve + Special Reserve _____
12/31/99 [11(b) + 13(c)(4)(b)]
- (7) 2000 Contingency Reserve Payment _____
(compute as follows)
- (a) (4)-(6) = _____ (put 0 here if (4)-(6) is
negative)
- (b) (1)-(5) = _____ (put 0 here if (1)-(5) is
negative)
- (c) Contingency Reserve Payment:
Lesser of (a) and (b) = _____
- Return Of Excess to the Contingency Reserve
Fund:
- (d) If (4)-(6) is negative, that is if the accrued
reserve plus special reserve exceeds three and
one-half months of total outgo, the excess
must be returned to the contingency reserve
fund. What is it?
(6)-(4) = _____
- (8) Payments to Contingency Reserve Fund _____
During 2000 (approximately 3.88% of
premium income)
- (9) Interest on Contingency Reserve Fund _____
During 2000

$$= IRx[BCR+.5x(PCR) -.5x(CRP)+SIF]$$

$$= .05x[(1)+.5x(8)+.5x[(7)(d)-7(c)]+(3/52xSI)]$$

where IR = Interest Rate
 BCR = Beginning Contingency Reserve Balance
 PCR = 2000 Payments to Contingency Reserve
 CRP = 2000 Contingency Reserve Payment to Plan
 SIF = Subscription Income Float
 SI = 2000 Subscription Income

(10) Contingency Reserve Balance 12/31/00 _____
 (1) + (8) + (9) + [(7)(d) - (7)(c)]

(b) Interest plus Investment Income

(1) Accrued Reserve+Special Reserve as of _____
 12/31/99

(2) Premium Income Accrued but Unpaid _____
 as of 12/31/99. Use the Product of
 b(2) for 1998 and the Percentage
 Change in Premium Income Between 1998
 and 1999 from Item 2.

(3) 2000 Contingency Reserve Payment _____
 14(a)(7)(c) - 14(a)(7)(d)

(4) 2000 Total Premium Income _____

(5) 2000 Incurred Claims _____

(6) 2000 Expenses _____

(7) 2000 Average Balance: _____
 (1)-(2)+{.5 x [(3)+(4)-(5)-(6)]}

(8) 2000 Interest Plus Investment Income: _____
 .05 x (7)

(c) Financial Summary and Special Reserve - 2000

(1) Income

(a) Premium Income _____

(b) Contingency Reserve Payment _____
 [14(a)(7)(c)] - [14(a)(7)(d)]

(c) Interest plus Investment Income _____

(d) Total _____

- (2) Outgo
 - (a) Incurred Claims [9] _____
 - (b) Expenses [12] _____
 - (c) Total _____
- (3) Gain (Loss) [1(d) - 2(c)] _____
- (4) Reserves
 - (a) Beginning Special [13(c)(4)(b)] _____
 - (b) Ending Special [3 + 4(a)] _____
 - (c) Ending Contingency [14(a)(10)] _____
- (5) Reserve Goal (in number of months)
 $\{12 \times [4(b) + 4(c)]\} / 2(c)$ _____

Explanation of rates if Reserve goal does not equal 2 months outgo:

TABLE 1

**Projection of Financial Results for
for 1998, 1999 and 2000**

1998

- A. Income
 - 1. Premium Income
 - 2. Contingency Reserve Payment

- 3. Interest Plus Investment Income
- 4. Total
- B. Outgo
 - 1. Incurred Claims
 - 2. Expenses
 - 3. Total
- C. Gain (Loss)
- D. Reserves
 - 1. Beginning Special
 - 2. Ending Special (D1+C)
 - 3. Ending Contingency
- E. Months of Reserves $(12 \times (D2+D3) / B3)$

1999

- A. Income
 - 1. Premium Income
 - 2. Contingency Reserve Payment
 - 3. Interest Plus Investment Income
 - 4. Total
- B. Outgo
 - 1. Incurred Claims
 - 2. Expenses
 - 3. Total
- C. Gain (Loss)
- D. Reserves
 - 1. Beginning Special
 - 2. Ending Special (D1+C)
 - 3. Ending Contingency
- E. Months of Reserves $(12 \times (D2+D3) / B3)$

2000

- A. Income
 - 1. Premium Income
 - 2. Contingency Reserve Payment
 - 3. Interest Plus Investment Income
 - 4. Total
- B. Outgo
 - 1. Incurred Claims
 - 2. Expenses
 - 3. Total
- C. Gain (Loss)
- D. Reserves
 - 1. Beginning Special
 - 2. Ending Special (D1+C)
 - 3. Ending Contingency
- E. Months of Reserves $(12 \times (D2+D3) / B3)$

TABLE 2

1999 and 2000 Biweekly Net-to-Carrier Rates for

	<u>Self</u>	<u>Family</u>
A. 1999 Rates		
B. 2000 Rates		
1. Experience Change		
2. Benefit Change		
3. Other Changes		

- 4. Total (A+B1+B2+B3)
- C. Percent Change from 1999 to 2000
- 1. Experience Change
 - 2. Benefit Change
 - 3. Other Changes
 - 4. Total

TABLE 3

Carrier Name: _____ Code: _____

Health Benefit Charges Paid
During Four Month Period Ending
April 30, 1999

Monthly Claims Paid

MONTH	AMOUNT PAID	YEAR INCURRED
-------	-------------	---------------

		1999	1998	1997 & PRIOR
Jan Feb Mar Apr				
TOTAL				

TABLE 4

Carrier Name: _____ Code: _____

Health Benefit Charges Paid
During Five Month Period Ending
May 31, 1999

Monthly Claims Paid

MONTH	AMOUNT PAID	YEAR INCURRED		
		1999	1998	1997 & PRIOR

Jan Feb Mar Apr May				
TOTAL				