

Premium Rate Filings

**COMMONWEALTH OF KENTUCKY
ENVIRONMENTAL AND PUBLIC PROTECTION CABINET
OFFICE OF INSURANCE**

The following Advisory Opinion is to advise the reader of the current position of the Kentucky Office of Insurance (the "Office") on the specified issue. The Advisory Opinion is not legally binding on either the Office or the reader.

**Kentucky Office of Insurance
Advisory Opinion 2006-02**

TO: ALL INSURERS AUTHORIZED TO TRANSACT BUSINESS IN KENTUCKY
THE INDEPENDENT INSURANCE AGENTS OF KENTUCKY, INC.
THE PROFESSIONAL INSURANCE AGENTS OF KENTUCKY
ALL AGENTS LICENSED TO TRANSACT BUSINESS IN KENTUCKY

FROM: R. GLENN JENNINGS, EXECUTIVE DIRECTOR
KENTUCKY OFFICE OF INSURANCE

RE: PREMIUM RATE FILINGS UNDER KRS 304.17A-095, KRS 304.17A-0952, KRS 304.17A-0954
and 806 KAR 17:150

The Kentucky Office of Insurance (Office) finds it necessary to clarify which factors are acceptable in developing premium rates to be charged to Kentucky policyholders. Beginning with rate filings submitted after February 1, 2006, the Office only will recognize the factors provided in KRS 304.17A-095, KRS 304.17A-0952, KRS 304.17A-0954 and 806 KAR 17:150.

Premium rates for a health benefit plan issued or renewed to an individual, a small group, an association, and an employer organized association shall be subject to the guidelines set forth in KRS 304.17A-0952 and KRS 304.17A-0954, as applicable. Specifically, these statutes allow the following two (2) categories of factors to be calculated in the rates: (a) health status/risk factors and (b) case characteristics. The health status/risk factors are listed in KRS 304.17A-0952(5)(b) and KRS 304.17A-0954(3)(b). These factors are claims experience, mental and physical condition, including medical condition, medical history, and health service utilization, or duration of coverage. Case characteristics are listed in KRS 304.17A-0952(6) and KRS 304.17A-0954(4) and include age, gender, occupation or industry, and geographic area.

In addition, premium rates for a health benefit plan issued or renewed to an individual, a small group, an association, or an employer organized association shall be subject to 806 KAR 17:150, which allows two (2) more types of factors to be included in the premium rates: (a) trend rate and (b) benefit factor

adjustment. Trend rate is addressed in 806 KAR 17:150 Section 6(2)(h). And, the benefit factor adjustment for each benefit plan is addressed in 806 KAR 17:150 Section 6(2)(e).

Since the original implementation of 806 KAR 17:150, the Office has allowed insurers to propose additional rating factors described as promoting more equitable or more competitive rates for certain policyholders. Examples of such factors include group size, case size, volume adjustment, utilization adjustment, and compliance factors. While logical cost differentials tend to exist for these factors, review of the resulting rating outcomes suggests that the impact may have become duplicative among factors and/or the factors submitted are no longer in line with a logical rating differential.

The resulting rates charged to different individuals within the same group or within the same classes of business appear to no longer be consistent with the intent of the law. The Office has approved increases which appear to be a reasonable increase over prior year rates on average, but which vary much more widely for individuals within those groups due to the application of multiple factors.

In summary, a total of four types of factors may be included in rate filings. They are health status/risk factors, case characteristics, trend rate, and benefit factor adjustment. Rate filings that include any factors not mentioned above will be deemed to not be in compliance with KRS 304.17A-095, KRS 304.17A-0952, KRS 304.17A-0954 and 806 KAR 17:150, and thus, disapproved. The factors in question have been categorized by insurers as revenue neutral, impacting case-specific rates, but not the aggregate outcome across the block. Therefore, the Office expects this change of limiting rate factors to have the same impact on the spread of rates charged by insurers, but should not impact the aggregate revenue increases sought by insurers.

Any questions should be addressed to Carrie Banahan, Deputy Executive Director, at (502) 564-6088 or Jill Mitchell, Branch Manager, at (502) 564-6088.

 /s/ R. Glenn Jennings

R. Glenn Jennings, Executive Director
Kentucky Office of Insurance

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