Project Narrative

New York State Insurance Department

Application for Grants to Support States in Health Insurance Rate Review- Cycle II

CFDA: 93.511 August 15, 2011

The New York State Insurance Department ("Insurance Department" or the "Department") respectfully submits this application to the U.S. Department of Health and Human Services, Center for Consumer Information and Insurance Oversight (HHS) for $4,469,996 under Cycle II of the Grants to Support States in Health Insurance Rate Review. The Department has an effective rate review program in all markets, as determined by HHS on July 1, 2011, and is therefore applying for a Cycle II, Phase I grant. Our grant request includes the following components:

- $3 million "baseline" award.
- $869,996 "workload" award, based on HHS's calculations sent to the Insurance Department on July 15, 2011.
- $600,000 "performance" award. New York is eligible for the award because it has the ability to disapprove rates in the individual, small group and community rated large group markets under New York's prior approval law.

A. Description of Past Progress and Current Rate Review Program/Process

Current Rate Review Process and Resources

1. Rate Review Process. The Department has prior approval authority over two types of premium rate filings: (1) Rates for new policy forms and amended policy forms (rate changes associated with benefit changes). These reviews are conducted primarily in the Department's Albany office. (2) Rate adjustments for existing policy forms, without associated benefit changes. These reviews are conducted primarily in the Department's New York City office. Details of each rate review process are specified below.

(a) Prior Approval of rates for new and amended policy forms: The Department is authorized to prior approve all initial rate filings and rate changes that are associated with benefit changes to an existing policy form. (Statutory note: The statutory authority for this process is separate from the recently enacted prior approval law, which gave the Department authority over rate adjustments for policy forms with no associated benefit changes, as described in (b) below. The review process described in this section predates the recently enacted prior approval law, which is one reason the functions are conducted out of two separate offices). Under this rate review process, the

Department reviews the supporting material and either approves, modifies or rejects the rate filing. The Department requires insurers to submit an actuarial certification indicating that the filing is in compliance with the applicable laws and regulations and that the benefits are reasonable in relation to the premium charged. This allows the Insurance Department to rely on the Code of Professional Conduct and the Standards of Practice that the actuaries must follow. The following criteria are currently used by the Department during the prior approval review process: 1) premiums are reasonable in comparison to the benefits provided; 2) expected loss ratio meets the required minimum loss ratio standard; 3) claims experience justifies the proposed rate increase; 4) derivation and assumptions used comply with the applicable insurance laws and regulations governing rate development and rate filings; and 5) reviewer's actuarial judgment.

b. Prior approval of rate changes for existing policy forms (no benefit changes): New York's prior approval law, enacted in June 2010, authorizes the Insurance Department to reject or modify an application for a premium rate adjustment to an existing policy if the Department finds that the proposed rate adjustment is unreasonable, excessive, inadequate or unfairly discriminatory. The Department's determination must be supported by sound actuarial assumptions and methods, and the Department may consider the financial condition of the insurer in making its determination.

The Department used Cycle I grants to standardize and streamline rate applications. The Department developed a checklist of material to be submitted by insurers in connection with renewal rate filings, as well as standard exhibits for insurers to submit information regarding the insurer and affected policies, FOIL exemption requests, a plain English narrative summary, summary of proposed percentage rate changes, distribution of contracts affected by the rate changes, summary of policy form and benefit changes, and historical data.

The Department also began to make enhancements to its annual and quarterly NYS Supplement financial statement filings to require insurers to submit detailed market segment information (such as data by large group vs. small group vs. individual and by broad product type). The Department has also developed an internal process to review insurer's financial filings as part of the rate review process. This information is important not only to review the impact of premiums on solvency, but also to allow the Department to consider the insurers' financial condition when reviewing rates, which is specifically authorized in the prior approval statute.

The Department also began requesting insurers to submit information on their entire book of business in particular market segments (i.e., individual, small group, large group). This information

will allow the Department to better understand the insurer's pricing strategies and the impact of the Department's decision on the insurer's book of business. Along the same lines, the Department has requested insurers to submit only one rate application for all of its products annually. The Department will allow a mid-year submission in specified circumstances.

2. Current Level of Resources: IT Capacity.

Rate Filings: The Insurance Department uses the NAIC's System for Electronic Rate and Form Filing ("SERFF"), which is a web-based system that allows insurers to upload the documents associated with rate filings for review by the Department. Filing instructions, including hyperlinks to rating and product checklists are available to rate filers via SERFF. The links take rate filers directly to the checklists and guidance that are publicly available on the Insurance Department website.

The Department downloads the data fields and documents in the submission from SERFF into Docupace so that the Department has, on-site, its own record of the filings submitted via SERFF and paper. Docupace is a web based electronic filing system used to save data fields and index scanned images, PDF documents and Microsoft files (Excel, Word, etc.). The Department has found that this system is insufficient to meet its increased needs under prior approval and the ACA and to meet the needs of the rate review enhancements proposed under Cycle I and Cycle II grant opportunities. (The Department will be submitting requests for a Cycle I no cost extension and a maintenance of effort reallocation related to Docupace).

The Department currently does not have a good system to archive information contained in rate applications or in the Department's rate decisions.

Financial Filings: Annual and quarterly financial statement filings using the NAIC national blanks are submitted in hard copy format directly to the Department and electronically either via the internet directly to the NAIC or via CD-ROM to the Department's Systems Bureau. The electronic NAIC annual and quarterly statement data is accessible by the Department via the NAIC's I-Site application.

Similar to the filing of the national blanks, annual and quarterly statement filings of the NYS Supplement information are also filed in hard copy format directly to the Department and electronically either via the internet directly to the NAIC or via CD-ROM to the Department's Systems Bureau. However, the NYS Supplement data received by the NAIC is not accessible via I-Site. The NAIC receives and transfers these filings to the Department's Systems Bureau in both PDF and electronic formats. The PDF files are uploaded to the Department's portal applications for access. The electronic data files for the NYS Supplement filings are accessible and may be queried using a

Microsoft Access database. This system, however, is not user friendly, and the Department is limited in its ability to manipulate or archive the NYS Supplement data.

Other data sources: The Department currently has limited ability to access and use other external data sources. Under Cycle I, the Department will be purchasing data from FAIR Health, Inc. and the Milliman Health Cost Guidelines, but needs to ensure that the Department can effectively and efficiently access these data sources and use them in the rate review process. The Department currently does not have the resources to use much of the data from other agencies, such as the New York State Department of Health (DOH). We also note that the Department is working with the NYS All Payer Database initiative, which was recently established to develop an all payer claims database. Also, New York received an Early Innovator Grant from HHS, and the Department is coordinating its IT upgrades with the Early Innovator team.

With the Cycle I grant, the Department funded the following projects:

- Contract with NAIC to enhance SERFF to address data collection and reporting requirements
- Increase data storage capability
- Website enhancements (see Consumer Protections)
- Begin to expand the Department's ability to extract and query financial data reported by insurers in the New York Supplement to their annual filings
- In conjunction with SERFF enhancements, the Department proposed to enhance Docupace to include the data fields added to SERFF and to allow Docupace data to be transferred to the prior approval website.

A portion of the cost of these proposals will be included in a no cost extension application the Department will be submitting to HHS. The Department will also be submitting a maintenance of effort reallocation request for funds that were originally budgeted for other IT projects related to Docupace.

3. Current Level of Resources: Budget and Staffing

The Insurance Department's budget is comprised of (a) funding for the direct costs of the Department plus other insurance related initiatives in the State including the regulatory costs of other State agencies, and (b) subsidies for insurance programs (primarily health insurance related). The Department's total budget for the fiscal year that ended March 31, 2011 totaled $450,344,555. Of this amount, $145,605,513 was dedicated to funding the activities of the Department. The remainder was sub-allocated for other insurance related purposes.

The actuarial unit that currently reviews the prior approval rate filings for new policy / amended policy forms consists of eight actuaries who report to the Deputy Chief Actuary who is a Fellow of the Society of Actuaries (FSA) and a Member of the American Academy of Actuaries (MAAA). Three of these actuaries are FSAs and three are Associates of the Society of Actuaries (ASA). Of this group, two actuaries are devoted to new / amended policy forms and rate adjustments to long-term care and disability policies. Prior approval rate filings that are rate adjustments for existing policies are reviewed by six individuals who report to the Deputy Chief Actuary and Assistant Chief Actuary who are both FSAs (a portion of their time is devoted to contributing to and overseeing implementation of Cycle I and Cycle II Grant initiatives). One of the six in the unit is an FSA, and each of others has passed at least one of the examinations sponsored by the Society of Actuaries.

For the period July 1, 2010 - July 31, 2011, the Department received 143 prior approval rate adjustment filings for existing policy forms and 1,617 prior approval rate filings for new / amended policy forms.

Under Cycle I, the Department proposed hiring two actuaries and one examiner. The Department hired one actuary and one examiner. Actuaries have traditionally been difficult to attract and hire due to State pay scales and State fiscal constraints. (The Department will be submitting a maintenance of effort reallocation request for funds that were originally budgeted for the unfilled actuarial position.) Although we have reviewed all prior approval rate applications in a timely manner, the Department continues be understaffed in relation to rate review.

4. Consumer Protections.

The prior approval law requires insurers to send policyholders notice of proposed rate increases on or before the date the insurer submits its rate application to the Department. This notice is intended to provide policyholders with information about the proposed rate changes and allows policyholders to submit comments on the proposed rate changes to the insurer and the Department. In compliance with statute, the Department posts the comments it receives on its website. The prior approval law does not contain a provision for public hearings, although the Superintendent, under his general authority, may conduct public hearings.

The prior approval law also requires insurers to provide policyholders with 60 days advance notice of the final (as opposed to proposed) rate change approved by the Department. The Department is working with consumer groups and insurers to draft guidance regarding both notice requirements.

With Cycle I grant funds, the Department developed a health insurance premium webpage that contains general information about prior approval, FAQs, information regarding proposed rate

increases including plain English narrative summaries provided by insurers, information regarding approved rate increases by insurers, and consumers' comments on rate increases. For the period January 1, 2011 through July 31, 2011, the Department received more than 1,550 comments and/or complaints, which were reviewed and responded to by Department staff prior to the final rate decision.

One of the challenges for the Department in making more information publicly available is insurers' broad claims of exemption from FOIL. We have been working with the Department's Office of General Counsel to respond to FOIL requests with the goal of maximizing disclosure.

5. Examination and Oversight.

New York's prior approval law was enacted a little more than a year ago, so the Department has not investigated rate applications, other than through the rate review process and through review of financial statement reporting data. Under the previous file and use process, refunds to small group and individual policyholders for the 2008 and 2009 experience years totaled approximately $21 million and $17.7 million, respectively. Refunds under the file and use process for the 2010 experience year is tentatively estimated to be $71.6 million for the small group/individual market and $44.7 million for the large group community rated market.

Separately, in 2008 and 2009, the Insurance Department executed stipulations with 3 insurers, which included penalties for failure to send proper or timely notice to approximately 11,000 enrollees before implementing a file and use rate increase.

The Department did not conduct any public hearings in regard to rate review in the past year. As noted above, although the prior approval law allows a public comment process, it does not provide for public hearings.

B. Proposal to Meet Cycle II Program Requirements

1. Improving Rate Filing Requirements (Total budgeted amount: $20,856)

As noted above, the Department developed a standard checklist and exhibits for rate applications and is working to increase its capacity to review financial information in conjunction with rate applications. The Department will continue improving these enhancements with Cycle II grants funds. Specifically, the Department proposes to use grant funds for the following activities:

(a) Improve presummarized data in financial filings and rate applications. (Work will be done in-house). The Department will continue to standardize the NYS Supplement quarterly and annual statement filing, which the Department began in Cycle I and will continue in Cycle II. Currently HMO, NY Insurance Law Article 43 (not for profit) and NY Insurance Law Article 42 (for profit)

companies do not file identical information. The Department will revise the submission requirements to make the information consistent and to require more detailed information regarding underlying costs and quality improvement expenditures. (See also IT enhancements related to financial filings, below).

The Department will also enhance Exhibits submitted with rate applications, possibly to include summary information that would be part of each actuarial memorandum, such as trend assumptions and their justification, rate development exhibit showing how needed rate change developed, and rate changes implemented during prior 24 months.

Timeline/Milestones:

- Update and standardize all NYS Supplement forms: (October 2011 – January 2012)
- Draft Exhibit revisions, review updates with stakeholders, post Exhibits for use by insurers (October 2011 – January 2012)

(b) Improve the web portal application through which insurers submit loss ratio reports. (Work will be done in house.) The Department proposes to enhance the rate review process by improving and upgrading the web-based portal application through which insurers can submit loss ratio reports. Loss ratio reports are required to be submitted by insurers under the prior approval statute by June 30th following the applicable plan year. The loss ratio report contains paid claim data and claims run out data, which the Department uses to determine the MLR for the previous year based on actual (as compared to projected) claims data. The New York loss ratio report is filed separately from the new Federal MLR reporting requirements.

Timeline/Milestones:

- [will be done in conjunction with upgrades being implemented by the web consultant, outlined below]

(c) Revise rate applications to include information regarding rates for Qualified Health Plans offered through the Exchange. (Work will be done in house.) The Insurance Department anticipates retaining sole authority over the review and approval of premium rates and rate increases for plans offered both inside and outside the Exchange. The Department, therefore, will have to develop a means to identify rate applications that pertain to Qualified Health Plans offered through the Exchange. If any additional information is needed for Qualified Health Plans, the Department will revise its rate applications to include such information. For instance, the actuarial value (to be specified by HHS) of particular Qualified Health Plans should be included. Revising the rate applications to meet the needs of the Exchange will enhance the review of rates that pertain to Qualified Health Plans.

Timeline/Milestones (implementation is dependent on receiving Federal guidance on actuarial value and State decisions on the role of the Exchange (active purchaser vs clearinghouse; insurer participation in the Exchange, etc)):

- Coordinate with Exchange regarding information needs (October 2011 – January 2013)
- Revise rate applications (by January 1, 2013)

(d) Enhance SERFF to capture HHS reporting requirements. (Budgeted amount: $20,856). The NAIC will develop enhancements to SERFF to capture data that insurers are required to report to HHS on proposed rate increases over 10%. The NAIC has apportioned the cost of these enhancements to States. The following SERFF enhancements will be made (Note: the descriptions below were provided by the NAIC. The Department is providing funding for these enhancements, but will have to consider whether it will adopt all of them. For instance, the Health Filing Access Interface platform for public comments may be duplicative with the Department's website application for public comments. We will examine which platform to avoid inefficiencies and consumer confusion):

- **Cycle II Data Collection from Industry:** The SERFF system will be enhanced to assist with the collection of all parts of the industry Preliminary Justification for rate increases. Part I, the Rate Increase Summary Worksheet, will be collected as an attachment to a Submission Requirement. The SERFF system will parse this attachment into database fields to allow for search and export capabilities. Part II, the Written Explanation of Rate Increase, will also be collected with the filing submission—which is Part III, Rate Filing Documentation. Finally, a Submission Requirement will be added to collect the Consumer Disclosure form. Companies will be expected to retrieve the Consumer Disclosure Form from the Health Insurance Oversight System (HIOS) and upload it to SERFF.
- **Data Input to HHS:** SERFF will be modified to allow the Department to enter a Summary of Rate Review and/or a State Filing Summary. The Department will be able to submit the Summary of Rate Review to HHS via SERFF following the review process.
- **Enhancements to HFAI:** The Health Filing Access Interface (HFAI) will be enhanced to allow states to display the information above and to accept and process public comments on rate filings. The Department will have the option to make the Rate

Increase Summary Worksheet, the Consumer Disclosure Form, the State Filing Summary, and the Summary of Rate Review available to the public as part of the HFAI system or via SERFF's existing public access.

- **Public Comments:** Additionally, HFAI and SERFF will be enhanced to support the collection of public comments via HFAI and to provide states an interface to manage the collection and posting of those comments from SERFF.

Timeline/Milestones:

- Implement NAIC enhancements when developed.

2. Enhancing rate review process – Staffing (Total budgeted amount: $2,300,640)

(a) Continue to fund actuary and examiner hired under Cycle I grant (Budgeted amount: $417,280 plus fringe). Because the actuary and examiner funded from the Cycle grant were hired later than expected due to difficulties in the hiring process, the Department will submit a no cost extension to continue funding those positions with Cycle I funds until June 30 2012. After that date, the Department proposes to continue funding those two positions with Cycle II funds until the end of the Cycle II grant period (September 30, 2014).

Timeline/Milestones:

- Continue funding actuary and examiner position from June 30, 2012 – September 30, 2014

b. Hire a contractor to assist actuarial review. (Budgeted amount: $150,000)

The Department proposes to hire actuarial contractors to add capacity at times when there are a large volume of rate applications. The Department's busiest time is from July through September when we can receive up to fifty rate applications with effective dates of January 1 of the next year. Senior actuarial staff have been working to train the new hires at the same time they must handle their existing workload. The Department proposes to use grant funds for all three years of Cycle II to hire consulting actuaries to pick up some of the rate review workload during the busiest rate season.

Timeline/Milestones:

- Draft RFP/hire actuarial contractor (October 2011 – March 2012).
- Schedule and assign actuarial contractors (March 2012 – September 2014)

(c) Hire two additional actuaries in Year 2 of the Cycle II grant period. (Budgeted amount: $425,558 plus fringe). The Department proposes hiring two actuaries to fully staff our actuarial needs.

We propose hiring the new actuaries in year 2 of the Cycle II grant period because the Department will be training the Cycle I hires during Year 1. It is expected that the Department will retain the Cycle 1 and Cycle II actuary positions and transition them to permanent positions after September 30, 2014 to replace expected retirements and other attrition.

Timeline/Milestones:

- Recruit and hire two actuaries (October 2012 – March 2013)

(d) Hire a contractor to conduct audits of rate applications. (Budgeted amount: $450,000) A key element in rate review is understanding the reasonableness and accuracy of the data provided in support of a rate adjustment application from both an actuarial and a solvency perspective. The Department currently analyzes rate applications against existing benchmark financial data submitted by the companies and is working to enhance reporting of business segment data. We also conduct triennial examinations, which incorporate some data verification. However, much of the data provided in rate applications are off traditional reporting cycles and are based on allocations and estimates, and will require more intensive review in the initial years of enhanced rate review. The Insurance Department proposes to hire a contractor to help it conduct annual audits for selected insurers (based on market share) to verify that proper procedures are in place to assure that rate applications submitted to the Department are based on accurate business segment financial and actuarial data as allocated to those rate applications. These audits will include specific data verification on a random sample basis related to the most recent rate applications, as well as a review of data underlying MLR reporting and loss ratio reports submitted to the Department. In some cases these audits may be coordinated with other States via the NAIC in order to look more broadly at a multi-State health entity requesting rate increases in other States and New York. The outcome of these audits will enhance rate review by determining whether recent applications were based on accurate information and provide greater assurance that future rate applications will reflect accurate experience on which rate projections will be made. This will also improve accountability that the rates put into effect meet all of the requirements for providing value to policyholders. To the extent that the requested grant funds for this purpose are adequate, the audits may also target the effectiveness of quality improvement initiatives as to their current and future impact on claim costs as included and projected in rate requests.

Timeline/Milestones:

- Draft RFP/hire audit contractor (October 2011-March 2012).
- Schedule and conduct audits (April 2012 – September 2014)

(e) Actuary and Examiner Training. (Budgeted amount: $30,000). The expertise of the actuarial and examiner staff working on the prior approval process will have a direct bearing on the quality of the Department's rate review process. The Department therefore proposes to use Cycle II grant funds to improve the proficiency of its actuaries and examiners through attendance at seminars and trainings and through the purchase of training materials. Specific expenditures will be determined throughout the grant period as opportunities arise, when the Department can assess the best use of this allocation.

Timeline/Milestones:

- Fund trainings and purchase educational materials as opportunities arise (October 2011 – September 2014).

(f) Funding of current staff working on Cycle II projects. (Budgeted amount: $308,159 plus fringe). The Department proposes to fund current staff activities related to Cycle II projects, as outlined in the budget narrative submitted in this grant application.

3. Enhancing rate review process - IT Capacity (Total budgeted amount: $1,648,500)

Two aspects of the Department's rate review function need to be upgraded: IT systems and data used in the rate review process. The Department's current IT systems were developed before the prior approval law was enacted and do not provide capabilities to meet the Department's needs under the New York prior approval law or the ACA. We therefore need to upgrade our systems and tailor them to the needs and goals of the Department's rate review enhancement efforts.

Also, data that the Department uses for rate review is primarily supplied by insurers in their rate adjustment applications. Expanding the use of internal and external data sources will increase the Department's ability to analyze rate applications and determine whether proposed rates are reasonable and not excessive, as required under the prior approval law.

The Department therefore proposes two related categories of upgrades to its IT systems:

- Enhance internal IT operations.
- Expand the use of available data sources.

(a) Enhance internal IT operations

The Department has determined that its current IT systems are insufficient to meet its increased needs under prior approval and the ACA. The various functional units that perform work related to rate review physically reside in the New York City and Albany offices, but there is no standardized or integrated system for them to use. The current IT systems were developed before prior approval was enacted and were not developed to manage the prior approval rate application process or the data

necessary for rate review. Also, with the development of the Exchange, the Department will need to coordinate various IT functions with the Exchange. Therefore, the Department proposes to hire IT consultants to conduct a complete evaluation and upgrade of its IT software, hardware, systems and applications related to rate review. The IT upgrades will provide the Department with a comprehensive, coordinated system that will meet the following goals to enhance the Department's rate review process:

(1) Integrate and coordinate the work of Department's New York City and Albany Health Bureau offices. As described above, the Albany office reviews applications for premium rates for new and amended policy forms. The New York City office reviews applications for rate adjustments without associated benefit changes. The two offices need to be better coordinated so the Department can track rate changes approved by both offices, coordinate work flow, and understand the implications of benefit changes, particularly those that occur "off cycle" from the New York City applications. Coordination between the new/amended policy form process and the rate adjustment process for existing policies is essential to avoid rate anomalies and unexplained rate increases. This will provide better functionality and information for the Department and better protection for consumers.

(2) Replace or upgrade Docupace. The Department's current Docupace system is an electronic filing system and does not contain a workflow feature. Implementation of a workflow system will help the Department track rate applications during the review process, make rate review more efficient and facilitate the goal of integrating and coordinating the work of the New York City and Albany offices. The Department will continue to need an electronic filing system, but we would like to integrate it with a workflow function.

(3) Maximize use of enhancements to SERFF. The Department's current systems are unable to provide user-friendly search mechanisms that would maximize the use of the SERFF upgrades made under Cycle I. The Department proposes to increase functionality related to SERFF to make better use of data contained in it. These upgrades would, for instance, allow the Department to search the SERFF fields in the rate review process and generate reports using SERFF data. (Note: These are not enhancements to SERFF, per se, but to the Department's internal systems that use data reported through SERFF.).

(4) Develop capacity to transfer rate information to the Exchange. One of the key functions of the Exchange will be to develop a website that will have information about Qualified Health Plans, premiums and cost sharing. Because the Insurance Department

anticipates that it will retain sole authority to review and approve premium rates for plans offered both inside and outside the Exchange, it will be necessary to develop the capacity to transfer to the Exchange data regarding premium rates for Qualified Health Plans. The Department and the Exchange will likely have to coordinate IT systems related to Department recommendations to the Exchange (outlined in section 7 below), consumer complaints and other information. The Department and its consultants will coordinate with the Exchange and any of its contractors as the Exchange develops its IT systems and website. The Department's IT systems will be upgraded as necessary to transfer premium rate data and other information to the Exchange to meet the requirements of the ACA.

(b) Expand Use of Available Data Sources

In determining whether a rate or rate adjustment is unreasonable or excessive, the Department currently relies, in large part, on information and data submitted by insurers. The Department proposes to expand the data it uses in reviewing rate applications to improve the Department's ability to assess the information submitted by insurers and help the Department compare data across lines of business and across insurers. The Department proposes to hire an IT consultant to help build internal databases and develop the software, hardware, systems and applications necessary to maximize efficient use of internal and external databases. To the extent possible, this work will take into consideration and coordinate with standardized data elements developed by the National Organization of Health Data Organizations, the American National Standards Institute, the ASC X12, and other accredited organizations.

1. Develop internal databases. The Department proposes to develop three databases.

   (a) Claims trend database. Gather data from insurers regarding utilization, unit cost, per member per month (pmpm) by broad service categories, including data on billed charges, allowed charges and paid claims, which will enable the Department to develop claims trends that are not impacted by changes in plans' cost sharing. This will help the Department evaluate claims trend assumptions contained in rate applications and provide the Department with a sense of provider discount levels by company and level of cost sharing. (Note: this will not be a claims database, like that being developed by the NYS All Payer Database initiative, but will include higher level data.)

   (b) Rate requested/rate approved database. Provide a vehicle to gather and store data on requested rate adjustments and approved rate adjustments to establish a database that can be used in the rate review process to review historic rate adjustments at the

company, business segment and policy form level. Currently this information is collated manually. This data will be searchable based on criteria to be defined. This will also include the key indicators outlined in the "Evaluation Plan" section below and will be used to assist in the monitoring process. The Department also proposes to create a mechanism to make this database available to the public and the Exchange, if possible. This database can also be used in making recommendations to the Exchange whether insurers should be excluded from participation in the Exchange based on a pattern or practice of excessive or unjustified rate increases, or other criteria, in accordance with the ACA (see section 7, below).

(c) Financial filings database. Provide a vehicle to gather and store data from insurers' NYS Supplement and other financial filings. This data is currently not uniform and cannot be efficiently searched and manipulated. This enhancement will significantly increase the Department's ability to analyze insurers' financial data and loss experience when reviewing rate adjustment applications.

2. Expand Use of External Databases. There are various external data sources available that can assist the Department in reviewing premium rates. For instance in the Cycle I grant, the Department contracted to receive data from FAIR Health, Inc. and the Milliman Health Cost Guidelines. The Department will begin to use that data during Years 1 and 2 of the Cycle II grant period and will continue our subscription to that data in Year 3. Also, DOH has various data that could be used by the Department, including Medicaid data, data from HEDIS (Healthcare Effectiveness Data and Information Set) and QARR (DOH's Quality Assurance Reporting Requirements), which measure the performance of health plans and their participating practitioners. Further, New York is developing the New York State All Payer Database, which was recently authorized as part of the 2011-2012 budget.

The Department, with the main IT consultant, will analyze how the Department can effectively and efficiently access these data sources and use them in the rate review process, generate analytics and management reports, and develop the IT enhancements to achieve those goals. Portions of this project can be done in conjunction with the Study on Increasing Premium Value outlined in section 5 below.

Timeline/Milestones for IT Enhancements:

The Department proposes to conduct the IT Enhancements in three phases:

Phase 1: Hire IT planning consultant. (October 2011 – March 2012. Budgeted amount: $49,500). The Department will hire a planning consultant to generally evaluate the Department's "as is" capacity, i.e., current rate review business processes and related IT applications, as well as external data sources that the Department can use. The contractor will assist the Department to define a realistic "to be" vision and goals in relation to available IT upgrades. The contractor will also conduct a data topology study and a gap analysis to determine what upgrades are needed to achieve the Department's goals. The planning consultant will help the Department develop specific requirements for drafting the RFP to hire the main IT consultant (see below). The Department's aim is to use a contractor for under $50,000 to avoid the time and expense of doing a full procurement.

Phase 2: Draft RFP/Hire main IT Consultant. (March 2012 – October 2012. Work will be done in house). Based on the Phase 1 analysis, the Department will write an RFP to procure the services of a consultant to implement the goals of Phase 3. The Department plans to use Department staff to draft and evaluate the RFP.

Phase 3: Develop and Implement Enhancements. (October 2012 – September 2014. Budgeted amount: $1,500,000). The Department anticipates that the main IT consultant will conduct a similar, but more much detailed, "as is" and "to be" gap analysis and develop and implement the necessary IT upgrades specified above. The Department expects implementation to involve software and hardware upgrades. The main IT consultant will directly perform and/or oversee the overall operations of the project and be responsible for the day-to-day project activities and coordination with vendors and the Department's designated liaison. The consultant will design and/or direct the project and each step of its implementation, be responsible for overall program evaluation, monitor and evaluate each step of the project and offer feedback, and provide essential service and training.

Data Purchase. The Department also proposes to purchase FAIR Health and Milliman data in Year 3 of the Cycle II grant period. (The Department has recently purchased data from these companies and will not have to update the data until Year 3) (Budgeted amount: $99,000.)

4. Enhancing consumer protection standards- improve public access and transparency
(Budgeted amount: $300,000)

The prior approval law recognizes the importance of consumer input to the rate review process by allowing policyholders to submit comments on the proposed rate changes to the insurer and to the Department. As specified in the prior approval statute the Department posts such comments on its

website. To give consumers a meaningful opportunity to make comments, they need access to information contained in rate applications. The importance of public access is also recognized in the ACA, which will require insurers to post justifications for certain rate increases on their websites and to report information regarding those increases to State Insurance Departments and HHS.

The Insurance Department has developed a webpage containing general information about prior approval, FAQs, detailed information about proposed rate adjustments and approved rate adjustments, and other information. The Department would, however, like to significantly improve its website and hire a consultant to accomplish the following goals:

- Meet with consumer groups and other stakeholders to help identify what information would be most helpful to consumers, formats that are easily understandable for consumers, and user-friendly functionality for the webpage.

- Implement recommendations by consumer groups and stakeholders.

- Add more underlying data about rate adjustments, including information from the databases the Department is developing (see section 3, above), and information insurers are required to report under the ACA.

- Make the rate review webpage more user friendly by developing a search engine for consumers to find information about their specific policies and premium rates and providing links to other useful websites.

- Coordinate, as much as possible, the Department's website with the Exchange website to ensure user-friendly links and consistent information across both platforms.

- Incorporate information in languages other than English to meet the needs of New York's diverse population.

This work will be done in conjunction with enhancements to the web portal application, described in the section 1(b) regarding rate applications enhancements, above.

To accomplish these goals, the Department proposes to issue an RFP to procure the services of a consultant who will work with Department staff, consumer groups and other stakeholders to identify ways to improve the website and to develop and implement the improvements. The web consultant

will design and/or direct the project and each step of its implementation, be responsible for overall program evaluation, monitor and evaluate each step of the project and offer feedback, and provide essential service and training. The website consultant should, if necessary, be able to work with and coordinate with the planning and main IT consultants that the Department proposes to hire for the IT enhancements specified in section 3, above.

Timeline/Milestones:

- Draft RFP, hire consultant: October 2011 – April 2012
- Meet with consumer groups and other stakeholders to identify website improvements: April 2012 – June 2012
- Implement upgrades: June 2012 – December 2012

5. Study on Increasing Premium Value: How the Department's prior approval process can increase the value of premium dollars and incentivize quality improvement. (Budgeted amount: $200,000)

Increasingly, health care reform has focused on the value of health care expenditures and improving the quality of care. For instance, the ACA authorizes (and New York is establishing) a Health Insurance Exchange that will create a market place where consumers can choose Qualified Health Plans based on price and value. The ACA also credits, in medical loss ratio calculations, insurers' expenditures to improve quality of care. A number of efforts, both State and Federal, are underway to reform payment models to maximize the value of health care dollars, including accountable care organizations and medical home pilot projects. This year, New York State Governor Cuomo launched the Medicaid Redesign Team to find ways to restructure Medicaid to reduce costs and increase quality and efficiency in the Medicaid program.

These efforts are aimed at examining the underlying cost drivers of health care and how payers can increase the value of the services they are paying for and/or the services that insured's premiums are paying for. The Insurance Department, as regulator of commercial insurers, is charged with ensuring that premium rates are not unreasonable or excessive. The underlying purpose of the prior approval law is to ensure that policyholders are receiving value for their premium dollars. The Department also recognizes the importance of quality improvement. The Department, however, has not had the tools to review underlying value and quality improvement expenditures in its rate review process.

The Department therefore proposes to hire a consultant to conduct a study of how the prior approval process can be used to increase the value of premium dollars and incentivize quality improvement expenditures, using the various data sources now available, the new payment models being developed in the market place, and the new reporting requirements under the ACA. The study can be used as a catalyst for discussions with stakeholders as to how insurers can increase value and quality and the role the Department plays in incentivizing insurers in that regard. Recommendations from this group can be implemented by the Insurance Department to improve the rate review process by giving the Department better tools to determine that rates are reasonable and that consumers' premiums represent the best value in relation to the services they are purchasing. To the extent possible, the recommended enhancements will be coordinated with, and may inform, the enhancements being implemented by the main IT consultant.

Timeline/Milestones for Premium Value Study:

- Draft RFP/hire consultant to conduct the study: October 2011- March 2012.
- Consultant conducts and completes study: March 2012 – July 2012
- Stakeholder meetings to review the study's findings and develop a set of recommendations for the Department: July 2012 – September 2012.
- Review recommendations and implement those that the Insurance Department and Governor's office finds to be feasible. Coordinate with main IT consultant: October 2012–June 2013.

6. Reporting to Secretary on rate increase patterns (Work will be done in house) The Department will continue to report rate filing data and health insurance trends, as specified by the Secretary, using the process established under Cycle I.

7. Recommendations to Exchange (Work will be done in house)

The ACA requires the Insurance Department to make recommendations, as appropriate, to the State Exchange about whether particular health insurers should be excluded from participation in the Exchange based on a pattern or practice of excessive or unjustified rate increases or other reasons. The Department is working with the Early Innovator Grant team to develop workflow and protocols to ensure the necessary transfer of data and information between the Department and the Exchange. Internally, the Department will develop the program and capacity to make its recommendations to the Exchange. The "rate requested/rate approved" database that the Department proposes to develop (see section 3, above) can be used in making the recommendations. The Department proposes to conduct

periodic reviews of this database and other available information and to develop recommendations, as necessary, to the Exchange.

8. Mentoring States

New York, which has an effective rate review mechanism, would welcome the opportunity to become a mentor State to assist other States that are developing effective rate review mechanisms. We note that New York was also chosen by HHS to be an Early Innovator State in developing the Exchange and in that capacity is working with other Early Innovator States and with other States in general on Exchange related issues.

9. Evaluation Plan

The Insurance Department will continually monitor and evaluate its progress in achieving the goals and projects set forth in this grant application. Key indicators will include:

- Number of rate adjustment applications submitted
- Number of rate adjustment reviews completed
- Average number of days for each rate adjustment review
- Number of rate increases approved, modified and disapproved
- Weighted average rate increase overall and for each market segment
- Weighted average impact of Insurance Department rate actions overall and for each market segment
- Number of comments received
- Number of audits conducted and outcome of each audit
- Actual subsequent MLR vs. Target MLR in rate decision

The Department will collate this information manually, and when the "rates requested/rates approved" database is established (see section 3, above), the process for collating the information will be computerized. The Department will use this data for quarterly reporting to HHS.

The baseline data for each of these indicators is as follows:

- Number of rate adjustment applications submitted:
  - Individual, Small Group, Large Group and Healthy NY: 115
  - Medicare Supplement: 28

- Number of rate adjustment reviews completed:
  - Individual, Small Group, Large Group and Healthy NY: 74
  - Medicare Supplement: 20

- Average number of days for each rate adjustment review:
  - Individual, Small Group, Large Group and Healthy NY 67
  - Medicare Supplement: 75

- Number of rate increases approved, modified and disapproved
  - Individual, Small Group, Large Group and Healthy NY: 22 Approved
    49 Modified
    3 Disapproved
    1 Withdrawn

  - Medicare Supplement 10 Approved
    7 Modified
    3 Disapproved

- Weighted average rate increase overall and for each market segment (approved):
  - Overall 10.04%
  - Individual 15.94%
  - Small Group 8.22%
  - Large Group 8.16%
  - Healthy NY 8.54%
  - Medicare Supplement 3.9%

- Weighted average impact of Insurance Department rate actions overall and for each market segment:
  - Overall (-3.43%)
  - Individual (-6.23%)
  - Small Group (-3.95%)
  - Large Group (-0.83%)
  - Healthy NY (-0.40%)
  - Medicare Supplement (-0.30%)

- Number of comments received: 4,000 per year (estimated)

- Number of audits conducted and outcome of each audit: 0 completed to date (The Department will be hiring an auditor contractor with Cycle II funds. It is estimated we will conduct 3 audits per year commencing in 2012)

- Actual subsequent MLR vs. Target MLR in rate decision: (The Department will be developing the capacity to gather this data with Cycle II funding)