

# ACTUARIAL MEMORANDUM

Pursuant to Colorado Regulation 4-2-11 Section 6, rate filings must contain an Actuarial Memorandum. The Division of Insurance developed this template Memorandum, to reduce the number of returned incomplete filings. **For additional information and tables to be added please enter in the “additional information” field under each section where appropriate.** Review Colorado Regulation 4-2-11 Section 6 for detailed instructions at: <http://www.dora.state.co.us/insurance/regs/rb.htm>

General filing requirements, Actuarial Certification requirements, and submission requirements are identified in [Section 5](#) of Colorado Regulation 4-2-11. For requirements by line of business, see [Section 7](#) of this regulation. Rate filings submitted without ALL requirements of the regulations could be disapproved or rejected by the Colorado Division of Insurance.

<b>Company:</b>	
<b>NAIC #:</b>	
<b>SERFF Filing #:</b>	

<b>A: SUMMARY</b>	
<b>1. Reason(s):</b>	
<b>2. Marketing method(s):</b>	<input type="checkbox"/> Agency / Broker <input type="checkbox"/> Internet <input type="checkbox"/> Direct Response <input type="checkbox"/> Other:
<b>3. Premium Classification(s):</b>	
<b>4. Product Description(s):</b>	
<b>5. Policy Forms Impacted:</b>	
<b>6. Age Basis:</b>	<input type="checkbox"/> Issue Age <input type="checkbox"/> Renewal Age <input type="checkbox"/> Attained Age <input type="checkbox"/> Both Issue & Attained Age Other:
<b>Additional Information:</b>	

<b>B. ASSUMPTION, MERGER OR ACQUISITION</b>	
<b>1. Is product part of assumption, acquisition, or merger (from or with another company)?</b>	
<b>Assumption:</b>	Yes <input type="checkbox"/> No <input type="checkbox"/>
<b>Acquisition:</b>	Yes <input type="checkbox"/> No <input type="checkbox"/>
<b>Merger:</b>	Yes <input type="checkbox"/> No <input type="checkbox"/>
<b>2. If yes, provide name of company(s):</b>	
<b>3. Closing Date of assumption, merger or acquisition:</b>	
<b>Additional Information:</b>	

<b>C. RATING PERIOD</b>	
<b>Proposed Effective Date:</b>	(MM/DD/YYYY)
<b>Rating Period:</b>	to
<b>Additional Information:</b>	

**D. UNDERWRITING**

1.  New Product

Provide a brief description, including expected impact on claim costs by duration and in total:

2.  Existing Product

Provide Changes:

Additional Information:

**E. EFFECT OF LAW CHANGES**

Identify and quantify changes resulting from mandated benefits and other law changes:

N/A

Additional Information:

**F. RATE HISTORY**

Provide rate changes made in at least the last three years (If available)

Initial Filing

**COLORADO**

State Tracking Number or SERFF Tracking Number	Effective Date	% OF CHANGE			
		Minimum	Average	Maximum	Cumulative for past 12 Months

**NATIONWIDE**

Effective Date	Average % of change	Cumulative for past 12 Months

Additional Information:

**G: COORDINATION OF BENEFITS**Provides actual loss experience net of any savings: Yes  No 

Additional Information:

**H. RELATIONSHIP OF BENEFITS TO PREMIUM**

1. *Medicare Supplement and Long-Term Care Policies:* See Section 7(E) and 7(F) of this regulation.
2. *Retention Percentage:*
  - Adequately support the reasonableness of the relationship of the projected benefits to projected earned premiums for the rating period.
  - Each component should reflect the average assumption used in pricing averaged over all pricing cells, policy durations, benefit levels, etc. Change descriptions as necessary.
  - If the product **was not** initially priced using a lifetime loss ratio standard, the retention percentage is equal to 1 minus the **targeted** loss ratio.
  - If the product was initially priced using a lifetime loss ratio standard, the retention percentage is equal to 1 minus the **lifetime** loss ratio.

Description	Percentage	Support
Commissions		
General expenses		
Premium taxes		
Profit/Contingencies		
Investment Income		
Other		
<b>Total Retention</b>		

**Benefits Ratio Guidelines:** The Division recommended benefit ratio guidelines are listed below. Targeted loss ratios below these guidelines shall be actuarially justified. Policy forms priced at, or above, these benefits ratios may be unacceptable, if one or more of the retention components is not supported.

Minimum Loss Ratio Guidelines	
Comp Major Med (Individual)	65%
Comp Major Med (Small Group)	70%
Comp Major Med (Large Group)	75%
Specified or Dread Disease	60%
Limited Benefit Plan	60%
Disability Income	60%
Dental/Vision	60%
Stop Loss	60%
Conversion Products (mandatory minimum)	125%

For individual products issued to HIPAA eligible individuals, the premiums for these products cannot be more than 2 times the premiums for the underlying underwritten product.

**Targeted Loss Ratio:**

(This number should equal 1 minus the total retention percentage listed above.)

Additional Information:

**I. LIFETIME LOSS RATIO**

N/A

1. Was the product priced initially using a lifetime loss ratio standard?  Yes      No      If so please provide

2. Average policy duration in years as of the end of the experience period:

3. Experience Period:

**Experience Period**

Year	Earned Premiums	Incurred Claims	Actual Benefit Ratio	Expected Benefits Ratio	Ratio of Actual/Expected Benefits Ratio

**Rating Period**

Year	Earned Premiums	Incurred Claims	Projected Benefits Ratio	Expected Benefits Ratio	Ratio of Projected/Expected Ratio

Note If additional information is required (extremely large tables) Please copy and paste tables into the row below labeled "additional information" or attach properly labeled exhibits and list exhibit name under additional information.

4. Interest Rate used to determine accumulated values and present values in the above tables:

Additional information:

## J. PROVISION FOR PROFIT AND CONTINGENCIES

If material, investment income from unearned premium reserves, reserves from incurred losses, and reserves from incurred but not reported losses must be considered in the ratemaking process.

1. Provision for Profit and Contingencies: Pre-FIT  After tax

2. Proposed load in excess of 7% after tax.  
Provide detailed support:

Additional information:

## K. DETERMINATION OF PROPOSED RATES

Include all underlying rating assumptions, with detailed support for each assumption. This explanation may be on an aggregate expected loss basis or as a per-member-per-month (PMPM) basis.

1. Explain, in detail, how rates and/or rate changes were developed:

2. Provide adequate support for all assumptions and methodologies used:

Additional Information:

## L. TREND

- Describe the trend assumptions used in pricing. Each assumption must be separately discussed, adequately supported, and must also be appropriate for the specific line of business, product design, benefit configuration, and time period.
- Any and all factors affecting the projection of future claims must be presented and adequately supported.
- If practical, separately list each trend component using the categories below. The Total Average Annualized Trend MUST be filled out
- Underwriting wearoff means the gradual increase from initial low expected claims that result from underwriting selection to higher expected claims for later (ultimate) durations. Underwriting wearoff does not apply to guaranteed issue products.

Itemized trend component	Trend (%)
<b>MEDICAL TREND (total)</b>	
Medical provider price increase	
Utilization changes	
Medical cost shifting	
Medical procedures and new technology	
<b>INSURANCE TREND (total)</b>	
Underwriting wearoff	
Deductible leveraging	
Antiselection	
<b>PHARMACEUTICAL TREND (total)</b>	
Price increases	
Utilization changes	
Cost shifting	
Introduction of new brand and generic drugs	
<b>TOTAL AVERAGE ANNUALIZED TREND (required)</b>	

Additional information:

### M. CREDIBILITY

The Colorado standard for fully credible data is 2,000 life years and 2,000 claims. Both standards must be met within a maximum of three years, if the proposed rates are based on claims experience.

- Discuss the credibility of the Colorado data with the proposed rates based upon as much Colorado data as possible.
- Identify and discuss the source, applicability and use of collateral data used to support partially credible Colorado data. The use of collateral data is only acceptable if the Colorado data does not meet the full credibility standard.
- The formula for determining the amount of credibility to assign to the data is  $\text{SQRT}\{(\#\text{life years or claims})/\text{full credibility standard}\}$ . The full credibility standard is defined above.

<b>1. Credibility Percentage (Colorado Only):</b>	<b>If other, please specify</b>
The above credibility percentage is based upon:	<input type="checkbox"/> Life Years <input type="checkbox"/> Claims <input type="checkbox"/> Other (please specify)
<b>2. Number of years of data used to calculate above credibility percentage:</b>	
<b>3. Discuss how and if aggregated data meets the Colorado credibility requirement and how the rating methodology was modified for the partially credible data, if applicable.</b>	
<b>Additional Information: (including collateral data, if used)</b>	

### N. DATA REQUIREMENTS

Colorado-only basis for at least 3 years. **Include** national, regional or other appropriate basis, if the Colorado data is not fully credible. The experience period must include consecutive data no older than 9 months prior to the proposed effective date.

#### COLORADO

Year*	Earned Premium	Incurred Claims	Loss Ratio	Average Covered Lives	Number of Claims	Colorado On Rate Level Premium
2007						
2008						
2009						
01/2010 –MM/2010						

\*This column should be Calendar Year. If fractional year is used, identify period as MM/YYYY – MM/YYYY

**Above data is for:**     N/A     Existing Product     Comparable Product     Other \_\_\_\_\_ (please specify)

#### OTHER DATA

Year	Earned Premium	Incurred Claims	Average Covered Lives	Number of Claims

**Above data is for:**     N/A     Existing Product     Comparable Product     National  
 (Check all the apply)     Other (please specify) \_\_\_\_\_

**Experience Period:**    From \_\_\_\_\_ to \_\_\_\_\_

**Additional Information:**

**O. SIDE-BY-SIDE COMPARISON** N/A

If the proposed rating factor(s) are new, the memorandum must specifically so state, and provide detailed support for each of the factors.

Description	Current Rate/ Rating Factor/ Rating Variable	Proposed Rate/ Rating Factor/Rating Variable	Percentage Increase/ Decrease
If the above table is not used, please identify the location of the Side-by-Side Comparison in the rate filing:			
Description and detailed support for new rating factor(s):			
Additional Information:			

**P. BENEFITS RATIO PROJECTIONS****PROJECTED EXPERIENCE FOR RATING PERIOD**

	Premiums	Incurred Claims	Benefits Ratio
Projected Experience Without Rate Change			
Projected Experience With Rate Change			
If priced using a lifetime loss ratio standard, the above projections should show the projected lifetime loss ratios and should include the entire lifetime of the product(s), or a time frame over which the lifetime loss ratio will be achieved. Above projections include (check only one box):	<input type="checkbox"/> Colorado <input type="checkbox"/> Nationwide <input type="checkbox"/> Blended CO/Nationwide <input type="checkbox"/> Other (please specify) _____		
Additional Information:			

**Q. OTHER FACTORS**

Identify and provide support for other rating factors and definitions, including area factors, age factors, gender factors, etc.:	
Additional Information:	