

Actuarial Services Proposal

**Prepared by Magnum Actuarial Group, LLC
In Response to
State of West Virginia INS11006
Request for Quotation
Actuarial Review and Consulting Services for
Health Insurance Rate Filings**

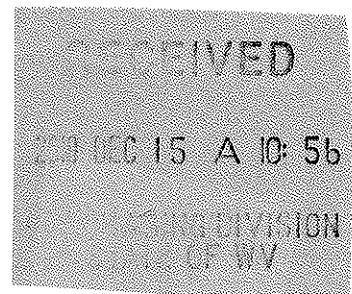


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Executive Summary

Magnum Actuarial Group, LLC (Magnum) is an actuarial firm that founded by the former President & CEO and the former Vice President and Individual Medical Actuary of Assurant Health, one of the three largest commercial writers of Individual and Small Group Major Medical in the country. We propose to provide the actuarial services requested by the State of West Virginia Division Office of the Insurance Commissioner (OIC) in its RFQ INS11006. As written, the RFQ is focused heavily on supporting and enhancing the OIC's efforts to use prospective rate reviews to ensure that West Virginia residents and businesses obtaining fair value for their health insurance dollars:

- Identifying additional data elements the OIC should require in conjunction with rate filings
- Conducting reviews, document findings, and presenting recommendations in compliance with PPACA-related HHS regulations, West Virginia regulations concerning minimum loss ratios and pricing constraints, and the relevant Actuarial Standards of Practice (ASOP's), primarily 8 and 41
- Preparing and conducting monthly rate review training sessions for OIC policy and rate analyst staff
- Developing a written rate review manual that can be used as a rate review checklist

The RFQ also refers to providing other management consulting services and performing special reviews. The principals who would be involved in this engagement have extensive industry senior management experience that qualifies them for such a role and would welcome the opportunity to contribute in other ways.

From our reading of West Virginia's Cycle 1 grant request, law, and regulations, it appears that the OIC does have the authority to conduct Individual and Small Group rate reviews, but not necessarily Group. Given the myriad of adjustments in the MLR calculation, the 73% Small Group minimum loss ratio standard will probably be appropriate under PPACA, but the OIC may want to re-visit its current 65% minimum lifetime loss ratio Individual market standard. West Virginia's current Individual market loss ratio guarantee mechanism is similar to PPACA's MLR rebates with several issues that should be resolved, e.g., the threshold and the definition of the ratios themselves. Magnum would be glad to help with these and similar issues.

Magnum Actuarial Group

Background

Appendices A and B show biographies and contact information for Magnum's founders and senior partners – Tom Keller and Craig Magnuson. With over 60 years in the health insurance business as hands-on actuaries, senior executives, and consultants, we are fluent and intimately familiar with the three primary subject areas of this engagement:

- Industry pricing practices, actuarial techniques, assumptions, data sources, and objectives
- Actuarial Standards of Practice and Guidelines for Professional Conduct
- State rate filing requirements and processes

Our experience has prepared us well to handle the environment in which we would carry out this engagement:

- Serving on the high risk pool boards in North Dakota, Montana, and New Hampshire and helping Kentucky re-write its Individual market regulations provided sound object lessons in building a base of understanding about those local markets and their insurance departments' roles and concerns, exactly what we would make our first priority in West Virginia,
- Building the business plans for two companies considering entering the Individual market and participating on Academy of Actuary committees advising the NAIC on MLR and Reinsurance-related issues has given us a good understanding of the changes PPACA is driving.
- We follow correspondence of Academy of Actuaries Rate Review working group providing advice to the NAIC. We have joined the recently formed Academy committee that will be drafting a new actuarial practice note on rate reviews.
- Being called on, or volunteering, to present actuarial, financial, and strategic issues to Boards, employee and management groups, insurance agents, and other actuaries has developed our skills for communicating technical information in sometimes emotionally-charged atmospheres.
- The management positions we have held enable us to interact with industry executives on a peer to peer basis.
- Although not mentioned in our resumes, our involvement mentoring actuarial students and Tom's tenure as a popular Introductory Physics teaching assistant at UC, Berkeley demonstrate that we could train OIC staff effectively. Because of his relative proximity to Charleston, Tom would conduct most of the necessary on-site training.

Consulting Projects

We established Magnum in February, 2007 with the express intent of bringing high level actuarial consulting services to any organization involved or interested in the Individual and Small Group Medical markets. Since then, we have provided services to companies ranging from large, long-established nationwide companies to single state health plans just entering the Individual market. Our engagements and related work product have included a wide range of projects.

- Individual
 - Product design and new business pricing
 - In force business re-pricing
 - Stat and GAAP valuation
 - Appointed Actuary tests and certifications
 - Experience analysis/ A to E testing
 - Market entry business plan development
 - TPA due diligence
 - Outsourcing master contractor
 - MIS design and implementation
 - Business plan financial modeling
 - Representation with reinsurers
 - DOI problem resolution
- Small Group - self-funded product design and pricing
- MLR projections and strategy development
- M&A
 - Divestiture-related ASOP 19 actuarial valuations of Individual blocks for two major P&C companies
 - Divestiture-related ASOP 19 actuarial valuation of an Individual LTC for a major P&C company

Appendix C shows contact information for people familiar with the experience we have described – quality of work, ability to meet schedules, ability to meet special project constraints, cost and cost control, and accuracy and integrity in contract administration. We ask that West Virginia does not make this information part of publicly available information and have marked it as “confidential.”

Legal Registration and Address

Magnum is registered as a Limited Liability Company in the State of Wisconsin with the legal address of:

Magnum Actuarial Group, LLC
N87 W27101 Perennial Terrace
Hartland, WI 53029
(Office) 262-538-3955
(Cell) 414-745-3929
(Fax) 262-538-0409

Correspondence concerning this RFQ should be directed to Craig Magnuson, Senior Partner and Secretary, at that address.

Magnum’s EIN is 20-8446156.

Certifications

Magnum certifies that it:

Request for Quotation INS11006
Actuarial Review and Consulting Services for Health Insurance Rate Filings
Magnum Actuarial Group, LLC

- Has no current or anticipated conflicts of interest with providing the proposed services to West Virginia and would promptly notify the OIC if one arose.
- Neither it nor its principals is presently debarred, proposed for debarment, declares ineligible or voluntarily excluded from participation, by any Federal department or agency, from transactions involving the use of Federal funds
- Does not discriminate in our employment practices with regard to race, color, creed, religion, age, sex, ancestry, national origin, or disability.
- Has read and would accept the West Virginia State Government HIPAA Business Associate Addendum as part of the agreement.
- Is not a debtor as defined in West Virginia Code §5A-3-10a. We have attached a signed and notarized Purchasing Affidavit.
- Accepts the Confidentiality provisions outlined in the RFQ.
- Would, if awarded the contract, register with the Purchasing Division and pay the \$125 fee.
- Would, if awarded the contract, complete the form LLF-1, register Magnum as a foreign LLC in West Virginia and pay the \$150 fee.
- Would, if requested, accept payment via the West Virginia Visa Purchasing Card.

Magnum's View on Consumer Protections and Rate Reviews

We believe that the mindset of any firm the OIC considers to conduct reviews and help design process is as much part of their qualifications as its experience, knowledge, and technical skills.

Prospective and Retrospective Consumer Protections – Why Both?

The rate review and approval process is a *prospective* mechanism because it seeks to ensure that consumers will be receiving fair value for their health insurance dollars before it allows a company to start selling at the proposed rates, usually by demonstrating that the rates should generate at least specified minimum loss ratios. Title 114 Section 31 of West Virginia's regulatory code, AHIP's summary of state minimum loss ratio standards, and the summary of its Cycle 1 grant request on Healthcare.gov indicates that in the Individual market, the OIC will accept either a 60% minimum loss ratios guarantee with rebates or an actuarially sound demonstration of a 65% expected lifetime loss ratio. Except for uninsured health benefit plans, the prospective standard for Small Group is 73%

PPACA's MLR rebates and the current West Virginia minimum loss ratio guarantees are *retrospective* mechanisms because, after the fact, they do ensure, at least in theory, that consumers have received some specified minimum return.

According to AHIP, in the Individual market, 34 states apply either a *prospective* or *retrospective* mechanism. A few states apply both. Application of either mechanism is far less widespread in the Small Group and Group markets. Under PPACA, all states will be expected to apply both in all Major Medical market segments. Some states are uncertain about whether they will attempt to apply prospective reviews in the Group market because of a long list of practical problems that the Academy of Actuaries has sent to the NAIC.

Some have asked whether the level of redundancy created by PPACA is really necessary. Unless those portions of the law are overturned, it's a moot question, but still worth considering. Because of the financial asymmetry of the MLR rebate calculations, some companies will attempt to put substantial margins in the rates they file. The credibility adjustments incorporated in the NAIC's proposed MLR rebate regulations increase the possibility that companies that bake large margins into their pricing will not pay rebates simply because of what is being referred to as "false negatives" in the calculation. Our involvement in the Academy of Actuaries working group that provided advice to the NAIC on these regulations has made us aware that they are not airtight. We expect companies to find ways to avoid paying rebates despite the NAIC's best attempts to anticipate all potential loopholes. A *prospective* rate review and approval process is probably still necessary to improve the odds that the consumer obtains fair value.

The question some states are asking is, in effect, "How intense and how transparent should that *prospective* rate review be?" Based on its RFQ, it appears West Virginia will consider increasing the intensity of its current process.

Rate Review Intensity

Rate review intensity is determined by the data obtained, the analytical tools applied to the data, and the stringency of the standards applied to the results of the analysis. The more intense the process, the stronger the prospective protection it provides. Some states that already review rates prospectively are considering increasing the intensity of their process. The summary of West Virginia's intended use of Cycle 1 grant funding found in HealthCare.gov says that it "*will hire consulting actuaries to review current rate filing requirements and recommend additional data elements needed to strengthen review process.*"

We assume that West Virginia will continue to rely on minimum loss ratio analysis. We expect questions it will address want to address several questions:

- Will it add Group to the market segments whose rates are subject to prior approval review? Its grant proposal suggests that it won't and there would be formidable questions if it did.
- For the Individual and Small Group markets, should the lifetime minimum loss ratio benchmarks become lifetime MLR benchmarks? How much margin, if any, should be allowed below the MLR rebate threshold?
- Will the OIC attempt to verify independently that the assumptions disclosed in the actuarial memoranda are consistent with the projected lifetime loss ratio (or MLR)?
- Will it continue to conduct full prospective reviews of all rates, or implement a two stage process, using an expedited review to identify "unreasonable" requests and subjecting only those to a full review?

Magnum has the experience and proprietary analytical tools to help answer those questions and support whichever direction the OIS decides to take.

Rate Review Transparency

The same HealthCare.gov summary says that the DOI “*make modifications to its IT systems to be able to make public consumer-friendly descriptions of rate filings.*” If it decides to expand public disclosure concerning “reasonable” rate increases, companies will have concerns about potential disclosure of proprietary trade secrets to competitors. Our senior executive level industry experience gives us a good perspective on which of those concerns are legitimate and which obstructionist.

Scope of Work

It’s simple to express the scope of work in broad terms – to provide whatever assistance the OIC requests in using prospective and retrospective rate reviews as an effective tool for ensuring that consumers receive fair value for their health insurance premiums. The OIC has identified some of those roles beforehand:

- Identifying additional data elements the OIC should require in conjunction with rate filings
- Conducting reviews, document findings, and presenting recommendations in compliance with PPACA-related HHS regulations, West Virginia regulations concerning minimum loss ratios and pricing constraints, and the relevant Actuarial Standards of Practice (ASOP’s), primarily 8 and 41
- Preparing and conducting monthly rate review training sessions for OIC policy and rate analyst staff
- Developing a written rate review manual that can be used as a rate review checklist

There are others we believe may be waiting on the horizon:

- Resolving inconsistencies between PPACA-related HHS regulations and current West Virginia insurance law and regulations
- Taking point on negotiations with carriers
- Testifying at public hearings and legislative deliberations
- Recommending which company confidentiality requests to honor
- Creating a two-step review process to concentrate resources on requests needing the closest scrutiny
- Implementing MLR rebate oversight

There may be others. West Virginia’s request to structure compensation on a fixed hourly rate basis would give the OIS to expand or contract our role with minimal effort.

Bid Amount

Magnum would bill \$285 per hour for all partner time for the entire life of the initial contract, at least one year, and until renewal or a new contract is put in place.

We have reviewed and would comply with the State of West Virginia's Travel Rules, except, for convenience's sake, we would book our own travel and use Magnum company credit cards.

Unless we incurred expense connecting to services such as SERFF, we anticipate no other charges.

X 

Craig Magnuson FSA, MAAA, FCA
Senior Partner and Secretary

Appendices

Appendix A - Biography for Tom Keller FSA, MAAA, FCA

Tom is a senior executive who has served as CEO, CFO and Chief Actuary in both large, well established, financially sound companies and small, cash-strapped, entrepreneurial organizations. His background in health insurance and actuarial work dates back to 1971, when he began as an actuarial student in Travelers' Group department. Over the years, he has become intimately familiar with just about every form of health insurance. His wide range of experience has involved him deeply in M&A, regulatory and rating agency relationships, strategic and financial planning, and change management.

Immediately prior to forming Magnum Actuarial Group, LLC, Tom served as Executive Vice President and CFO of Imerica Financial Corporation, a venture-backed start-up, focused on the Individual Major Medical marketplace. Tom was responsible for building and running Finance, Actuarial and Underwriting, with heavy involvement in all back office and IT issues, and, ultimately, selling the company to an investor group in Colorado.

Tom spent 11 years with Fortis (now Assurant), serving first as CFO and Chief Actuary of the U.S. parent company and then as the first President of what is now known as Assurant Health in Milwaukee. He was instrumental in leading Assurant Health to be one of the two largest commercial Small Group and Individual Health companies in the United States. While with Fortis, he served on the Boards of HIAA and Private Healthcare Systems (PHCS).

In addition, he has held CFO positions at RewardsPlus, and AMEX Life Insurance Company, where he progressed from actuarial student to Group Actuary to Controller to head of the Life and Annuity profit center to CFO.

Currently Tom is an active participant in the Academy of Actuaries MLR and Reinsurance/Risk Sharing advisory working groups.

Tom graduated magna cum laude as a scholarship/bursary job/loan student with a BA in physics from Yale, studied for a year as a National Science Foundation Fellow at the University of California, Berkeley, and went through the Pepperdine MBA extension program. He is one of the few actuaries to pass every exam on the first try, finishing the entire sequence in four years.

Contact Information:

Tom Keller FSA, MAAA, FCA
Senior Partner
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Biltmore Lake, NC 28715
Office Phone: (828) 665-3577
Cell Phone: (828) 230-6485
Fax: (828) 633-1081
Tom.Keller@magnumactuary.com

Appendix B - Biography for Craig Magnuson FSA, MAAA, FCA

Craig is a senior executive who has spent the majority of his career specializing in Individual Health insurance. Craig has an extensive background in product pricing and development, renewal plan pricing and profit optimization, actuarial/IT data issues, and state compliance and regulatory issues.

Immediately prior to forming Magnum Actuarial Group, LLC, Craig served as Senior Vice President and Chief Actuary of Imerica Life and Health Insurance Company. At Imerica, Craig was responsible for all actuarial and product development functions, along with heavy involvement with the marketing and IT areas of the company.

Craig also spent 17 years with Assurant Health, serving in various actuarial capacities within Individual Health Markets during his tenure. Craig's roles at Assurant included Vice President, Renewal and Compliance Actuary, where Craig was responsible for optimizing Individual Health renewal business profitability and retention and Vice President, New Business Pricing Actuary, where Craig was responsible for pricing and product development in the Individual Medical book of business.

Craig was also responsible for Individual Medical compliance issues and served on the Board of Directors for the Montana, New Hampshire and North Dakota state high risk pools. Between those roles and his responsibility for new and renewal business rate filings, Craig has cultivated good working relationships with the DOI's in many states and helped the State of Kentucky revise its Individual Medical rate regulations to re-open the market while protecting the interests of consumers.

Craig graduated cum laude with a BS from Carroll University (Waukesha, Wisconsin); double majoring in Computer Science and Economics. In addition to his actuarial designations, Craig has also achieved the Fellow, Life Management Institute (FLMI) designation, along with the Health Insurance Associate (HIA) designation.

Contact Information:

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Fax: (262) 538-0409
Craig.Magnuson@magnumactuary.com

Appendix C – References

Reference	Relationship
James E Oatman FSA, MAAA VP GM, Individual West Markets Wellpoint (480) 883-7980	Jim was a colleague at Fortis, now Assurant Health and suggested that we offer our services to DOI's seeking help with rate reviews. 8/1993-1/2005
Peter Hendee FSA, MAAA Vice President and Health Actuary United American Insurance Company (972) 569-3646	Magnum has provided experience review and product pricing services, including working with the state of Nevada to resolve difficult rate approval issues. 8/2007 - Current
Jim Lubinski Chief Financial Officer Imerica Life and Health Insurance Company (303) 928-8775 (Business) (303) 506-7939 (Mobile)	Magnum provided all of Imerica's actuarial services, including product design and pricing recommendations, MIS design, and valuation. 2/2007-3/2010.
Greg Pence FSA, MAAA, FCA Chief Actuarial Officer Lovelace Health Plan (505) 727-5283	Magnum developed business plan financial projections and evaluated experience, set rates, and wrote actuarial memorandum for the first renewal of their Individual product.8/2010-Current
Maureen Lawson Manager, Product Development Network Health Plan (920) 720-1244	Magnum worked with Maureen to create NHP's business plan for entering the Individual market. Entry deferred pending resolution of open healthcare reform issues. 6/2009-4/2010
Cecil Bykerk FSA, MAAA, FCA President CDByberk Consulting LLC (402) 501-8701	Craig served on High Risk Pool Boards that Cecil chaired.
Rowen Bell FSA, MAAA Divisional Vice President and Actuary Health Care Services Corporation (312) 653-6453	Tom serves on the Academy of Actuaries MLR Advisory Group that Rowen chairs. 6/2010 - Current

STATE OF WEST VIRGINIA
Purchasing Division

PURCHASING AFFIDAVIT

West Virginia Code §5A-3-10a states: No contract or renewal of any contract may be awarded by the state or any of its political subdivisions to any vendor or prospective vendor when the vendor or prospective vendor or a related party to the vendor or prospective vendor is a debtor and the debt owed is an amount greater than one thousand dollars in the aggregate.

DEFINITIONS:

"Debt" means any assessment, premium, penalty, fine, tax or other amount of money owed to the state or any of its political subdivisions because of a judgment, fine, permit violation, license assessment, defaulted workers' compensation premium, penalty or other assessment presently delinquent or due and required to be paid to the state or any of its political subdivisions, including any interest or additional penalties accrued thereon.

"Debtor" means any individual, corporation, partnership, association, limited liability company or any other form or business association owing a debt to the state or any of its political subdivisions. "Political subdivision" means any county commission; municipality; county board of education; any instrumentality established by a county or municipality; any separate corporation or instrumentality established by one or more counties or municipalities, as permitted by law; or any public body charged by law with the performance of a government function or whose jurisdiction is coextensive with one or more counties or municipalities. "Related party" means a party, whether an individual, corporation, partnership, association, limited liability company or any other form or business association or other entity whatsoever, related to any vendor by blood, marriage, ownership or contract through which the party has a relationship of ownership or other interest with the vendor so that the party will actually or by effect receive or control a portion of the benefit, profit or other consideration from performance of a vendor contract with the party receiving an amount that meets or exceeds five percent of the total contract amount.

EXCEPTION: The prohibition of this section does not apply where a vendor has contested any tax administered pursuant to chapter eleven of this code, workers' compensation premium, permit fee or environmental fee or assessment and the matter has not become final or where the vendor has entered into a payment plan or agreement and the vendor is not in default of any of the provisions of such plan or agreement.

Under penalty of law for false swearing (*West Virginia Code* §61-5-3), it is hereby certified that the vendor affirms and acknowledges the information in this affidavit and is in compliance with the requirements as stated.

WITNESS THE FOLLOWING SIGNATURE

Vendor's Name: Magnum Actuarial Group, LLC

Authorized Signature: *Craig C. Flynn* Date: December 3, 2010

State of Wisconsin

County of Waukesha, to-wit:

Taken, subscribed, and sworn to before me this 3 day of December, 2010

My Commission expires 2-3-2013, 20

NOTARY PUBLIC *Kathleen A. Wines*

