

SERFF Tracking #:	FEMC-130017955	State Tracking #:	FEMC-130017955	Company Tracking #:	PA2016RATES
State:	Pennsylvania	Filing Company:	Federated Mutual Insurance Company		
TOI/Sub-TOI:	H16G Group Health - Major Medical/H16G.003A Small Group Only - PPO				
Product Name:	SMALL GROUP HEALTH				
Project Name/Number:	PA2016RATES/PA2016RATES				

Supporting Document Schedules

Satisfied - Item:	Transmittal Letter (A&H)
Comments:	
Attachment(s):	Cover Letter.pdf
Item Status:	
Status Date:	

Satisfied - Item:	Actuarial Memorandum - Redacted
Comments:	
Attachment(s):	80148_20160101_SG_RedactedAM.pdf
Item Status:	
Status Date:	



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May 14, 2015

RE: Federated Mutual Insurance Company
FEIN No. 41-0417460 - NAIC No. 007-13935
Group Health Filing

Life and Health Division:

Federated Mutual Insurance Company is submitting the rating methodology and initial rates for its new ACA-compliant small employer group health product, FHC16, Policy Form GH 37 01 (01-16 ed.). The form has been filed separately under SERFF tracking number FEMC-130022676. SERFF binder number is FEMC-PA16-125040398.

Federated is requesting the rates proposed in this filing to be effective January 1, 2016.

Form GH 37 01 (01-16 ed.) is intended to be marketed entirely off-Exchange.

We respectfully request your review of this filing for approval.

Sincerely,

A handwritten signature in blue ink that reads "Kelly Rooks".

Kelly Rooks | Actuarial Data Analyst
Federated Insurance – Health Actuarial Services
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Actuarial Memorandum (Redacted)

Federated Mutual Insurance Company

**Small Group Rate Filing
Commonwealth of Pennsylvania
Policy Form Numbers GH 37 01 (01-16 ed.)**

Prepared for:
Federated Mutual Insurance Company

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EXHIBIT 1. GENERAL INFORMATION

Document Overview

This document contains the Part III Actuarial Memorandum for Federated Mutual Insurance Company's (Federated) small group block of business, effective January 1, 2016. This actuarial memorandum is submitted in conjunction with the Part I Unified Rate Review Template.

The purpose of the actuarial memorandum is to provide certain information related to the submission, including support for the values entered into the Part I Unified Rate Review Template, which supports compliance with the market rating rules and reasonableness of applicable rate increases. This information may not be appropriate for other purposes.

This information is intended for use by the Commonwealth of Pennsylvania Insurance Department, the Center for Consumer Information and Insurance Oversight (CCIIO), and their subcontractors to assist in the review of Federated's small group rate filing. However, we recognize that this certification may become a public document. Milliman makes no representations or warranties regarding the contents of this letter to other users. Likewise, other users of this letter should not place reliance upon this actuarial memorandum that would result in the creation of any duty or liability for Milliman under any theory of law.

Variability of Results

Differences between projections in this analysis and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent the assumptions in this memorandum are not realized.

Interpretation of Law/Regulations

The analysis in this report is based on our current understanding of federal and state rules and regulations. To the extent that these rules and regulations continue to evolve, our work may be subject to change. Milliman is not a law firm. Nothing in this correspondence should be construed as legal advice. In the event a legal interpretation is required, we recommend review by legal counsel.

Company Identifying Information

Company Legal Name: Federated Mutual Insurance Company
State: The Commonwealth of Pennsylvania has regulatory authority over these policies.
HIOS Issuer ID: 80148
Market: Small Group
Effective Date: January 1, 2016

Company Contact Information

Primary Contact Name: Kelly Rooks
Primary Contact Telephone Number: 1-800-533-0472 ext. 444-6871
Primary Contact Email: kjrooks@fedins.com

Description of Benefits

The form listed above is a Preferred Provider Organization (PPO) health insurance product marketed to small employers. Benefits are comprehensive in nature, and include prescription drugs.

Each plan included in this filing provides coverage for the essential health benefits, has an annual out-of-pocket limit, and has an actuarial value that complies with one of the four metal tiers.

EXHIBIT 2. PROPOSED RATE INCREASE(S) (REDACTED)

EXHIBIT 3. EXPERIENCE PERIOD PREMIUM AND CLAIMS

Paid Through Date

The experience reported on Worksheet 1, Section I of the URRT includes earned premium and claims incurred in Pennsylvania for the period of January 1, 2014 through December 31, 2014, with claims paid through January 2015. An adjustment was made for estimated IBNR, as described in more detail below.

Upon review of Federated's utilization data, it appeared that consistent utilization counts representing the same type of service were not available, and the average charge results per unit implied by the data did not appear to be reliable based on those counts. Therefore, the average charge values by service category in Worksheet 1, Section II were developed based on benchmark data from Milliman's Commercial *Health Cost Guidelines*TM, calibrated to Federated's population. The corresponding utilization counts were calculated based on the per member per month values and the assumed average charge.

Premiums (net of MLR Rebate) in Experience Period

Table 3.1 below shows earned premium, expected MLR rebates, and premium net of MLR rebates for the experience period for Federated's small group single risk pool in Pennsylvania on a per member per month (PMPM) basis. Earned premiums were provided by Federated from their internal systems. Federated has stated that it does not expect to pay any rebates for 2014 incuralls.

Table 3.1 Federated Mutual Insurance Company Premium Net of MLR Rebates	
2014 earned premium PMPM	\$422.65
2014 MLR rebates PMPM	\$0.00
2014 earned premium net of MLR rebates PMPM	\$422.65

Allowed and Incurred Claims Incurred During the Experience Period

The experience reported on Worksheet 1, Section I of the URRT shows Federated's Pennsylvania earned premium, allowed claims, and paid claims for the period of January 1, 2014 through December 31, 2014, with claims paid through January 2015.

Medical and prescription drug allowed and paid claim experience was provided by Federated. Medical claims are processed by Federated using their internal data systems. Allowed claims are reported directly in the system, and are not calculated from other fields. Prescription drug claims are processed by a Pharmacy Benefit Manager (PBM). Federated has no capitation arrangements for these products.

Completion factors for medical services and prescription drugs were provided by Federated at the service category level on an allowed and paid basis. Federated estimates IBNR using traditional actuarial practices and experience for their entire block of group medical business, which consists of similar products in 23 states. Completion factors are calculated across the entire block of group medical business due to the small amount of experience in each state. Federated has stated that reserves for the experience period were neither unusually high nor unusually low in aggregate. The reserves in Pennsylvania are higher due to the high volume of new enrollees late in 2014.

Table 3.2 below shows the percentage of total reported paid and allowed claims processed inside and outside of Federated's claim systems, and the percentage of claims estimated to be incurred but not yet reported as of January 2015.

Table 3.2 Federated Mutual Insurance Company Experience Period Allowed Claims, Paid Claims, and IBNR				
	Medical		Prescription Drugs^[1]	
Service Type	Allowed	Paid	Allowed	Paid
% Processed internally	87.0%	85.7%	1.0%	0.8%
% Processed externally	0.0%	0.0%	96.6%	96.6%
% IBNR	13.0%	14.3%	2.4%	2.5%

[1] Claims processed internally are for drugs dispensed in a professional, inpatient, or outpatient setting with line item billing.

EXHIBIT 4. BENEFIT CATEGORIES

Mapping of Federated Reporting Categories to URRT Service Categories

Federated categorizes utilization and cost information by benefit category using their internal claim reporting categories. Table 4.1 provides Federated's service categories, and the mapping from Federated category to URRT category.

Table 4.1 Federated Mutual Insurance Company Mapping from Federated Reporting Category to URRT Service Category	
Federated Reporting Category	URRT Service Category
Inpatient Facility	Inpatient Hospital
Outpatient Facility	Outpatient Hospital
Professional	Professional
Other and Miscellaneous	Other Medical
Pharmacy	Prescription Drug
[1]	Capitation

[1] Federated did not have capitation arrangements in the experience period, and there are no capitation arrangements anticipated for the projection period.

Federated's Methodology for Assigning Claims to a Reporting Category

Federated's internal claim system uses the following methodology to assign claims to their internal reporting categories.

Inpatient Facility

Facility and accommodation charges that appear on an 837I or UB with an accommodation charge.

For charges that are combined into a single fee due to provider billing or network arrangements, all charges (professional and facility) are assigned to the facility category.

Outpatient Facility

Facility charges that appear on an 837I or UB without an accommodation charge.

For charges that are combined into a single fee due to provider billing or network arrangements, all charges (professional and facility) are assigned to the facility category.

Professional

Provider charges that appear on 837P or HCFA that are not included for services covered under "Other"

Other and Miscellaneous

Charges submitted on and 837P or HCFA bill for Ambulance Services, Dental, Durable medical Equipment, Home Health Care, Medical Supplies, Prosthetics or Orthotics. Also includes any other services not attributed to one of the other categories.

Pharmacy

Charges processed by a PBM for prescription drugs dispensed by network pharmacies and charges for prescription drugs dispensed in a professional, inpatient, or outpatient setting with line item billing. The amount reported in Worksheet 1 of the URRT is net of pharmacy rebates.

“Other” Utilization Description in the URRT

The utilization description in the URRT is listed as “Other” for the “Other” service category, which includes a mix of visits, cases, and procedures.

EXHIBIT 5. PROJECTION FACTORS (REDACTED)

EXHIBIT 6. CREDIBILITY MANUAL RATE DEVELOPMENT (REDACTED)

EXHIBIT 7. CREDIBILITY OF EXPERIENCE

Description of Credibility Method Used

The method used to determine credibility of the base period experience was based on an internal Milliman study of commercial credibility. The study uses an approach similar to the one used by CMS to develop a credibility formula for Medicare Advantage/Prescription Drug plans, where:

$$\text{Credibility} = \sqrt{\frac{\text{Experience Member Months}}{\text{Full Credibility Threshold}}}$$

The full credibility threshold was set to 48,000 member months. This threshold was estimated to have a similar level of predictive accuracy as the CMS requirement for prediction accuracy in the Medicare Advantage space (i.e., within 10% of the actual value, 95% of the time, if the only source of variability is random fluctuations in claim costs).

Resulting Credibility Level Assigned to the Base Period Experience

The base data used in the experience projection includes the full year of 2014 data for all members ending in an ACA plan (excluding those remaining in transitional plans, but including any time enrolled in a non-ACA plan during the year). We counted member months for this experience base when determining the credibility to apply.

Since experience for Pennsylvania is also included in the nationwide credibility manual rate, a downward adjustment was applied to the experience period credibility in order to avoid double counting the base period experience. This adjustment was calculated by taking into consideration the proportion of the manual rate experience that is from the Pennsylvania base experience.

The calculation of the credibility of the base period experience is shown below in Table 7.1.

Table 7.1 Federated Mutual Insurance Company Credibility of Base Period Experience		
Description	Value	Annotation
Member Months - Base Experience	1,775	(a)
Member Months - Manual Rate	170,698	(b)
% Base Experience in the Manual Rate	1.0%	(c) = (a)/(b)
Credibility of Base Experience (no adjustment)	19.2%	(d) = sqrt[(a)/48,000]
Adjusted Credibility of Base Experience	18.4%	(e) = [(d)-(c)] / [1-(c)]

EXHIBIT 8. PAID TO ALLOWED RATIO

The following table provides support for the average paid to allowed ratio shown in Worksheet 1, Section III of the URRT. The table also demonstrates that the ratio is consistent with membership projections by plan included in Worksheet 2.

Table 8.1 Federated Mutual Insurance Company Average Paid to Allowed Factor Support	
Description	Value
Average projected allowed PMPM ^[1]	\$362.06
Average projected incurred claims PMPM ^[1]	\$301.23
Average projected paid to allowed ratio ^[1]	0.832
Average projected allowed PMPM ^[2]	\$362.06
Average actuarial value ^[3]	0.807

[1] Worksheet 1, Section III.

[2] Worksheet 2, Section IV.

[3] Based on actuarial values calculated using the federal actuarial value calculator, weighted on projected allowable cost by metal level.

Paid to allowed ratios for each plan were developed using Milliman's 2014 Commercial *Health Cost Guidelines*TM (HCG) actuarial rating model. The baseline HCGs correspond to large employer experience.

The ACA does not allow carriers to rate plans for expected differences in health status, but the expected impact of selection (i.e., the propensity of members with more significant healthcare needs to choose richer benefit plans) may be reflected in the pricing of the single risk pool as a whole. Therefore, the benefit plan analysis was performed twice, once to calculate the true revenue requirement (including the impact of selection), and the other to develop premium rating relativities in accordance with ACA rules (excluding the impact of selection).

Premium Rating Relativities (excluding selection)

Data from Milliman's HCGs were calibrated to Federated's average nationwide commercial small group allowed experience in 2014, and trended forward to the midpoint of 2016. An adjustment was made to reflect regional cost and utilization levels. The regional adjustment was developed by Federated and reflects anticipated differences in the underlying cost level of services provided in Pennsylvania relative to the other states where Federated operates (for clarity, this adjustment does not reflect geographic variations within Pennsylvania, just among state groupings).

Paid estimates for each plan were then developed by applying Federated's plan designs, including adjustments for coverage and cost sharing, at the detailed service category level.

The paid estimates by plan were used to calculate the AV and Cost Sharing factors described in Exhibit 15. They reflect expected differences in utilization due to cost sharing, but exclude expected differences in the health status of members expected to choose a particular plan. In particular, in this part of the analysis, every benefit plan was effectively valued assuming the same cohort of members was enrolled in it.

Paid to Allowed Ratio – True Revenue Requirement (including selection)

The same calibrated model that was used to calculate the premium rating relativities was also used to calculate the true expected allowed and paid values by plan. This time, however, allowed costs for each plan were adjusted to reflect the expected morbidity of members choosing the plan's metal level. Morbidity adjustments by metal level were

developed using internal Milliman research of risk scores in emerging 2014 ACA-compliant small group commercial data, and are intended to reflect market-wide selection effects. We focused on market-wide selection effects because risk adjustment is intended to account for carrier-specific selection effects that differ from the market average.

Paid estimates were then developed by applying Federated's plan designs, including adjustments for coverage and cost sharing, at the detailed service category level, as before.

Paid to allowed ratios reflecting the true revenue requirement were calculated as projected paid claims PMPM divided by projected allowed claims PMPM for each plan. Plan level paid to allowed ratios were weighted together by projected membership to arrive at the average factor shown in Table 8.1.

EXHIBIT 9. RISK ADJUSTMENT AND REINSURANCE (REDACTED)

EXHIBIT 10. NON BENEFIT EXPENSES AND PROFIT & RISK (REDACTED)

EXHIBIT 11. PROJECTED LOSS RATIO

Federal Medical Loss Ratio Methodology

The projected loss ratio based on the prescribed federal Medical Loss Ratio (MLR) methodology is 85.1%. The following table demonstrates Federated's premium development and the MLR calculation using rounded values. It includes the single risk pool ACA business in calendar year 2016. It does not include small group transitional business, or the impact of prior years.

Table 11.1 Federated Mutual Insurance Company Projected Federal Medical Loss Ratio – 2016	
	ACA-Compliant
Member Months	37,739
MLR Numerator Calculations	
Paid Claims PMPM	\$301.17
Claim-Related Retention (QI/Health IT) PMPM	\$0.00
Risk Adjustment Paid (Received) PMPM	\$0.00
MLR Numerator	\$301.17
MLR Denominator Calculations	
Premium PMPM	\$378.81
Premium-Related Retention (Taxes) PMPM ^[1]	\$22.14
Premium-Related Retention (Fees) PMPM ^[2]	\$2.58
MLR Denominator	\$354.08
Medical Loss Ratio^[3]	85.1%

[1] Includes the Health Insurer Tax, state premium taxes, and federal income taxes.

[2] Includes Federal Transitional Reinsurance contributions, the risk adjustment administrative fee, and PCORTF.

[3] Does not include the impact of a credibility adjustment, since the MLR without the adjustment already exceeds the minimum of 80%.

Pennsylvania Anticipated Loss Ratio

The anticipated loss ratio, calculated as the ratio of incurred claims to earned premium over the rate effective period, without any reference to MLR adjustments for risk adjustment, quality improvement expenses, or taxes and fees, is 79.5%. The anticipated loss ratio exceeds the loss ratio threshold set forth in 31 Pa. Code §89.83(b).

EXHIBIT 12. SINGLE RISK POOL

Federated's rates were developed using a single risk pool, established according to the requirements in 45 CFR section 156.80(d). They reflect all covered lives for every non-grandfathered product/plan combination in the Commonwealth of Pennsylvania small group health insurance market.

Note that the single risk pool includes transitional products/plans for purposes of the base rate experience; however, the experience for these policies has only been used in the projection to the extent that Federated anticipates the members in those policies will be enrolled in their fully ACA-compliant plans during the projected period. As described in Exhibit 20, Federated does not expect any of its existing transitional members to enroll in an ACA-compliant plan in 2016.

EXHIBIT 13. INDEX RATE (REDACTED)

EXHIBIT 14. MARKET ADJUSTED INDEX RATE

The Index Rate from Exhibit 13 was adjusted for the impact of the Federal reinsurance and risk adjustment programs to develop the Market Adjusted Index rate, as shown below in Table 14.1. Because Federated is not offering plans on the Exchange, there are no Marketplace user fees.

Table 14.1 Federated Mutual Insurance Company Market Adjusted Index Rate	
2016 Index Rate PMPM	\$369.83
<u>Market Adjustments</u>	
Net Risk Adjustment	\$0.18
Net Federal Transitional Reinsurance	\$2.80
Market Adjusted Index Rate PMPM	\$372.82

The Market Adjusted Index Rate is not calibrated. That is, it reflects the expected average demographic and area characteristics of the single risk pool in 2016.

The development of the net risk adjustment and net reinsurance assumptions was described in Exhibit 9. Since the Market Adjusted Index Rate PMPM is intended to be on an allowed basis and reflects the average quarterly trend, the values from Exhibit 9 were divided by the average paid to allowed ratio for the single risk pool and multiplied by the average quarterly trend to calculate the market adjustments shown in Table 14.1.

EXHIBIT 15. PLAN ADJUSTED INDEX RATE (REDACTED)

EXHIBIT 16. CALIBRATION (REDACTED)

EXHIBIT 17. CONSUMER ADJUSTED PREMIUM RATE DEVELOPMENT (REDACTED)

EXHIBIT 18. AV METAL VALUES

The Actuarial Value (AV) metal values included on Worksheet 2 are entirely based on the federal AV Calculator, as populated by Federated. Table 18.1 summarizes these values for each plan.

Table 18.1 Federated Mutual Insurance Company AV Metal Values										
Plan Name	AV		Plan Name	AV		Plan Name	AV		Plan Name	AV
1601A	90.0%		1610A	89.9%		1619A	70.6%		1628A	89.1%
1602A	81.2%		1611A	81.0%		1620A	69.3%		1629A	79.6%
1603A	70.9%		1612A	81.2%		1621A	80.8%		1630A	70.4%
1604A	70.9%		1613A	79.8%		1622A	70.7%		1631A	61.7%
1605A	71.3%		1614A	71.6%		1623A	71.2%			
1606A	71.4%		1615A	79.2%		1624A	71.7%			
1607A	72.0%		1616A	80.4%		1625A	61.3%			
1608A	70.7%		1617A	78.7%		1626A	61.8%			
1609A	61.8%		1618A	71.6%		1627A	59.0%			

EXHIBIT 19. AV PRICING VALUES (REDACTED)

EXHIBIT 20. MEMBERSHIP PROJECTIONS (REDACTED)

EXHIBIT 21. TERMINATED PRODUCTS

Table 21.1 includes the list of plans that have terminated since the experience period or will terminate upon renewal in 2015 or 2016.

Table 21.1 Federated Mutual Insurance Company Terminated Products			
Product Name	HIOS ID	Product Type	New Plan Mapping
140116	80148PA0030001	PPO	N/A
140216	80148PA0030002	PPO	N/A
140316	80148PA0030003	PPO	N/A
140416	80148PA0030004	PPO	N/A
140516	80148PA0030005	PPO	N/A
140616	80148PA0030006	PPO	N/A
140716	80148PA0030007	PPO	N/A
140816	80148PA0030008	PPO	N/A
140916	80148PA0030009	PPO	N/A
141016	80148PA0030010	PPO	N/A
141116	80148PA0030011	PPO	N/A
141216	80148PA0030012	PPO	N/A
141316	80148PA0030013	PPO	N/A
141416	80148PA0030014	PPO	N/A
141516	80148PA0030015	PPO	N/A
141616	80148PA0030016	PPO	N/A
141716	80148PA0030017	PPO	N/A
141816	80148PA0030018	PPO	N/A
1401A	80148PA0030019	PPO	N/A
1402A	80148PA0030020	PPO	N/A
1403A	80148PA0030021	PPO	N/A
1404A	80148PA0030022	PPO	N/A
1405A	80148PA0030023	PPO	N/A
1406A	80148PA0030024	PPO	N/A
1407A	80148PA0030025	PPO	N/A
1408A	80148PA0030026	PPO	N/A
1409A	80148PA0030027	PPO	N/A
1410A	80148PA0030028	PPO	N/A
1411A	80148PA0030029	PPO	N/A
1412A	80148PA0030030	PPO	N/A
1413A	80148PA0030031	PPO	N/A
1414A	80148PA0030032	PPO	N/A
1415A	80148PA0030033	PPO	N/A
1416A	80148PA0030034	PPO	N/A
1417A	80148PA0030035	PPO	N/A
1418A	80148PA0030036	PPO	N/A

Table 21.1
Federated Mutual Insurance Company
Terminated Products

Product Name	HIOS ID	Product Type	New Plan Mapping
1501A	80148PA0030055	PPO	N/A
1502A	80148PA0030056	PPO	N/A
1503A	80148PA0030057	PPO	N/A
1504A	80148PA0030058	PPO	N/A
1505A	80148PA0030059	PPO	N/A
1506A	80148PA0030060	PPO	N/A
1507A	80148PA0030061	PPO	N/A
1508A	80148PA0030062	PPO	N/A
1509A	80148PA0030063	PPO	N/A
1510A	80148PA0030064	PPO	N/A
1511A	80148PA0030065	PPO	N/A
1512A	80148PA0030066	PPO	N/A
1513A	80148PA0030067	PPO	N/A
1514A	80148PA0030068	PPO	N/A
1515A	80148PA0030069	PPO	N/A
1516A	80148PA0030070	PPO	N/A
1401B	80148PA0030037	PPO	N/A
1402B	80148PA0030038	PPO	N/A
1403B	80148PA0030039	PPO	N/A
1404B	80148PA0030040	PPO	N/A
1405B	80148PA0030041	PPO	N/A
1406B	80148PA0030042	PPO	N/A
1407B	80148PA0030043	PPO	N/A
1408B	80148PA0030044	PPO	N/A
1409B	80148PA0030045	PPO	N/A
1410B	80148PA0030046	PPO	N/A
1411B	80148PA0030047	PPO	N/A
1412B	80148PA0030048	PPO	N/A
1413B	80148PA0030049	PPO	N/A
1414B	80148PA0030050	PPO	N/A
1415B	80148PA0030051	PPO	N/A
1416B	80148PA0030052	PPO	N/A
1417B	80148PA0030053	PPO	N/A
1418B	80148PA0030054	PPO	N/A
1501B	80148PA0030071	PPO	N/A
1502B	80148PA0030072	PPO	N/A
1503B	80148PA0030073	PPO	N/A
1504B	80148PA0030074	PPO	N/A
1505B	80148PA0030075	PPO	N/A
1506B	80148PA0030076	PPO	N/A
1507B	80148PA0030077	PPO	N/A

Table 21.1
Federated Mutual Insurance Company
Terminated Products

Product Name	HIOS ID	Product Type	New Plan Mapping
1508B	80148PA0030078	PPO	N/A
1509B	80148PA0030079	PPO	N/A
1510B	80148PA0030080	PPO	N/A
1511B	80148PA0030081	PPO	N/A
1512B	80148PA0030082	PPO	N/A
1513B	80148PA0030083	PPO	N/A
1514B	80148PA0030084	PPO	N/A
1515B	80148PA0030085	PPO	N/A
1516B	80148PA0030086	PPO	N/A

EXHIBIT 22. PLAN TYPE

There are no differences between Federated's actual plan types and the plan type selected in the drop-down box in Worksheet 2, Section I of the Part I Unified Rate Review Template.

EXHIBIT 23. WARNING ALERTS

There are six warning alerts that occur on Worksheet 2.

1. The Plan Adjusted Index Rate in Section III of Worksheet 2 does not tie to Premiums (net of MLR Rebate) in Experience Period in Section I of Worksheet 1. This is because the Plan Adjusted Index Rate on Worksheet 2 reflects the projected mix of members in 2014, and premiums shown on Worksheet 1 reflect the actual mix of business sold. This is also because a Plan Adjusted Index Rate is not entered for non-single risk pool plans, per the URRT instructions.
2. The Total Premium value in Section III of Worksheet 2 does not tie to Premiums (net of MLR Rebate) in Experience Period in Section I of Worksheet 1. This is because the Plan Adjusted Index Rate on Worksheet 2 reflects the projected mix of members in 2014, and premiums shown on Worksheet 1 reflect the actual mix of business sold. This is also because a Plan Adjusted Index Rate is not entered for non-single risk pool plans, per the URRT instructions.
3. The Plan Adjusted Index Rate in Section IV of Worksheet 2 does not tie to Single Risk Pool Gross Premium Avg. Rate, PMPM in Section II on Worksheet 1. This is because the Plan Adjusted Index Rate on Worksheet 2 reflects the average quarterly trend for the single risk pool, and premiums shown on Worksheet 1 reflect the first quarter rate.
4. The Total Premium in Section IV of Worksheet 2 does not tie to Single Risk Pool Gross Premium Avg. Rate, PMPM in Section II on Worksheet 1. This is because the Plan Adjusted Index Rate on Worksheet 2 reflects the average quarterly trend for the single risk pool, and premiums shown on Worksheet 1 reflect the first quarter rate.
5. Total Incurred claims, payable with issuer funds in Section III of Worksheet 2 does not tie to Incurred Claims in the Experience Period on Worksheet 1 because the value on Worksheet 2 includes the impact of risk adjustment payments and the value on Worksheet 1 does not.
6. Incurred Claims PMPM in Section III of Worksheet 2 does not tie to Incurred Claims in the Experience Period on Worksheet 1 because the value on Worksheet 2 includes the impact of risk adjustment payments and the value on Worksheet 1 does not.

EXHIBIT 24. EFFECTIVE RATE REVIEW INFORMATION (OPTIONAL) (REDACTED)

EXHIBIT 25. RELIANCE

In performing this analysis, I relied on data and other information provided by Federated Mutual Insurance Company. I have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

I performed a limited review of the data used directly in the analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of the assignment.

A data reliance letter is attached to this Actuarial Memorandum.

EXHIBIT 26. ACTUARIAL CERTIFICATION

I am a Principal & Consulting Actuary with the firm of Milliman, Inc. Federated Mutual Insurance Company engaged me to provide the opinion herein.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. I am a member of the American Academy of Actuaries, and I meet its qualification standards to perform the analysis and render the actuarial opinion contained herein.

I certify to the best of my knowledge and judgment:

1. The projected Index Rate is:
 - In compliance with all applicable Commonwealth and Federal Statutes and Regulations (45 CFR 156.80(d)(1))
 - Developed in compliance with the applicable Actuarial Standards of Practice
 - Reasonable in relation to the benefits provided and the population anticipated to be covered
 - Neither excessive nor deficient based on my best estimates of the 2016 small employer market.
2. The Index Rate and only the allowable modifiers as described in 45 CFR 156.80(d)(1) and 45 CFR 156.80(d)(2) were used to generate plan level rates.
3. The percent of total premium that represents essential health benefits included in Worksheet 2, Sections III and IV were calculated in accordance with actuarial standards of practice.
4. The geographic rating factors used reflect only differences in the cost of delivery, and do not include differences for population morbidity by geographic area.
5. The CMS Actuarial Value Calculator was used to determine the AV Metal Values shown in Worksheet 2, Section I of the Part I Unified Rate Review Template for all plans.

The Part I Unified Rate Review Template (URRT) does not demonstrate the process used to develop proposed premium rates. It is representative of information required by Federal regulation to be provided in support of the review of rate increases, and for certification that the Index Rate is developed in accordance with Federal regulation and used consistently and only adjusted by the allowable modifiers.

The information provided in this actuarial memorandum is in support of the items illustrated in the URRT and does not provide an actuarial opinion regarding the process used to develop proposed premium rates. It does certify that rates were developed in accordance with applicable regulations, as noted.

Differences between the projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

Signed: 

Name: Hans K. Leida, PhD, FSA, MAAA

Title: Principal & Consulting Actuary

Date: May 8, 2015



121 East Park Square • P.O. Box 328 • Owatonna, Minnesota 55060
(507) 455-5200 • (800) 533-0472

**Federated Mutual Insurance Company
2016 ACA Small Group Rate Filings**

**Statement Regarding Accuracy of Data and Reliance on Assumptions
Provided by Federated Mutual Insurance Company**

I, Scott Haglund, hereby affirm that to the best of my knowledge and belief, the underlying data sources and information, described in the attached, provided by Federated Mutual Insurance Company (Federated) and relied upon by Milliman for use in preparing 2016 small group ACA filings are accurate and complete.

Further, I acknowledge that in preparing the rate filing documents, Milliman has relied on certain assumptions provided by Federated as described in the attached, and I affirm that to the best of my knowledge and belief, these assumptions are consistent with Federated's reasonable expectations regarding the 2016 performance of the small group ACA products.

Scott D. Haglund

Signature

Scott D Haglund

Name

VP & Director

Title

April 10, 2015

Date



121 East Park Square • P.O. Box 328 • Owatonna, Minnesota 55060
(507) 455-5200 • (800) 533-0472

**Federated Mutual Insurance Company
2016 ACA Small Group Rate Filings**

**List of Data, Information, and Assumptions Received from
Federated Mutual Insurance Company and Relied upon by Milliman**

(Redacted)

State:	Pennsylvania	Filing Company:	Federated Mutual Insurance Company
TOI/Sub-TOI:	H16G Group Health - Major Medical/H16G.003A Small Group Only - PPO		
Product Name:	SMALL GROUP HEALTH		
Project Name/Number:	PA2016RATES/PA2016RATES		

Correspondence Summary

Objection Letters and Response Letters

Objection Letters

Status	Created By	Created On	Date Submitted
Pending Industry Response	Cherri Sanders-Jones	06/29/2015	06/29/2015

Response Letters

Responded By	Created On	Date Submitted
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State: Pennsylvania **Filing Company:** Federated Mutual Insurance Company
TOI/Sub-TOI: H16G Group Health - Major Medical/H16G.003A Small Group Only - PPO
Product Name: SMALL GROUP HEALTH
Project Name/Number: PA2016RATES/PA2016RATES

Objection Letter

Objection Letter Status	Pending Industry Response
Objection Letter Date	06/29/2015
Submitted Date	06/29/2015
Respond By Date	07/13/2015

Dear Kelly Rooks,

Introduction:

June 29, 2015

Kelly Rooks, Actuarial Data Analyst
121 East Park Square
Owatonna, MN 55060

RE: Federated Mutual Insurance Company – Small Group Major Medical - PPO

Received: May 13, 2015 SERFF Tracking# FEMC-130017955

Dear Ms. Rooks:

The Pennsylvania Insurance Department has received and conducted a review of the above captioned filing. In order to complete the review, we are requesting the following information. To facilitate a timely review, we request this information be provided within 14 days of the date of this letter. If you have any questions or difficulties in providing the information within this time frame, please call me.

1. The actuarial memorandum indicates that this is a new product filing. It further states that, "Federated will be terminating the products currently offered in the small group market ... and offering groups the opportunity to choose amongst the new ACA-compliant plans..." Does Federated view the terminated products as a market withdrawal? If not, please explain how this is not a market withdrawal given that Federated is withdrawing all existing products from the market.

2. Please discuss and show how the product(s) and plans offered in 2016 are different than the product(s) and plans offered in 2015.

3. Please discuss the plan design changes (benefit and cost sharing) and why these changes have been proposed? What is the net cost change to benefits?

4. Please demonstrate that the plans included in this filing are not uniform benefit modifications to existing plans offered in 2015 and, further, that the modifications are inconsistent with the CMS guidance (CMS-9949-P) regarding uniform benefit modifications as identified below:

•(2) For purposes of this paragraph (f), modifications made solely pursuant to applicable Federal or State law are considered a uniform modification of coverage. Other types of modifications are considered a uniform modification of coverage if the product that has been modified meets all of the following criteria:

(i) The product is offered by the same health insurance issuer (within the meaning of section 2791(b)(2) of the PHS Act).

(ii) The product is offered as the same product type (e.g., preferred provider organization (PPO) or health maintenance organization (HMO)).

(iii) The product covers a majority of the same counties in its service area;

(iv) The product has the same cost-sharing structure, except for variation in cost sharing solely related to changes in cost and utilization of medical care, or to maintain the same level of coverage described in sections 1302(d) and (e) of the Affordable Care Act.

(v) The product provides the same covered benefits, except for changes in benefits that cumulatively impact the rate for the product by no more than 2 percent (not including changes required by applicable Federal or State law).

5. The actuarial memorandum indicates that, "While there are differences in cost sharing between the base period plans and the new plans that will be offered in the projection period, there are no material differences between the benefits covered in the experience period and the benefits covered in the projection period." Per CMS, a "product" is defined as "a package of health insurance coverage benefits with a discrete set of rating and pricing methodologies that a health insurance issuer offers in a state." In light of this definition, please explain how this is a new product when it is clearly stated that there are no material differences between the

State: Pennsylvania **Filing Company:** Federated Mutual Insurance Company
TOI/Sub-TOI: H16G Group Health - Major Medical/H16G.003A Small Group Only - PPO
Product Name: SMALL GROUP HEALTH
Project Name/Number: PA2016RATES/PA2016RATES

benefits covered in the experience period and the benefits covered in the projection period.

6. Please provide the 2016 schedule of benefits for each offered plan that corresponds to the AV screenshots. Please include the contract form number on each schedule of benefit. Also, provide the 2015 schedule of benefits for each currently offered plan including the corresponding contract form number on each schedule of benefit.

7. The actuarial memorandum indicates that, "Federated had three network options in Pennsylvania in 2014, and will have one network in 2016." Please discuss the network changes and the cost impact.

8. Please be advised that the referenced citation in 31 Pa. Code (§89.83(b)) is applicable to individual policies and not small group.

9. The actuarial memorandum indicates that, "Federated has stated that it does not expect to pay any rebates for 2014 incurrals." Please explain why Federated does not expect to pay rebates in 2014, given that incurred claims was less than 45% of premium.

10. Please provide Excel exhibits that show the development of all calibration adjustments.

11. Please provide all rating exhibits in Excel. Please retain all formulas.

12. Please provide the Department Rate Exhibit. The Rate Exhibit can be located by clicking on the following link:

http://www.portal.state.pa.us/portal/server.pt/community/product_and_rate_filing_requirements/9271. Under the 2016 ACA Rate Information, select the QHP Filings Data Exhibit. Ensure that all proposed rates are included on the exhibit.

13. Please be advised that each time the URRT is changed in SERFF, the URRT in HIOS must also be updated. Please acknowledge your understanding and certify that you are in compliance.

14. Does your company offer transitional policies in Pennsylvania? If so, what markets (individual and/or small group). Please provide the SERFF # for the approved transitional rate filing(s) and the number of transitional members enrolled in each market as of April 1, 2015.

15. For the January 1, 2016, through October 1, 2016 will Federated allow current enrolled groups of size 51-100 transitional relief? That is, will you allow a particular enrolled group to continue under the large group rating process? What is your current (2015) definition of small group? Please be advised that the experience period data should only include groups that meet the 2-50 group size. However, in the projection period, expected claims experience should reflect group policies for employers with 100 or fewer employees that the issuer expects to be enrolled in single risk pool compliant plans during the projection period. This may be done through the projection factors, use of a manual rate, or combination of the two. Please acknowledge your company's understanding and compliance.

Please be advised that there may be additional questions based on the responses to the above.

Response to this request should be provided via SERFF in Microsoft Excel spreadsheets (version 2010 or less). Please retain all formulas.

Should you have any questions regarding this correspondence, please contact me at (717) 787-5172.

Sincerely,

Cherri Sanders-Jones
Actuarial Review Division
Bureau of Accident & Health Insurance

Conclusion:

Sincerely,
Cherri Sanders-Jones