



## South Carolina Department of Insurance

MARK SANFORD  
Governor

SCOTT H. RICHARDSON  
Director of Insurance

July 6, 2010

The Office of Consumer Information and Insurance Oversight  
200 Independence Avenue, S.W.  
Washington, D.C. 20201

Dear OCIO Staff:

It is my pleasure to submit South Carolina's grant application for the first cycle of the Health Insurance Premium Grants provided under the Affordable Care Act (ACA). The title of our proposed project is "South Carolina Rate Review and IT Infrastructure Enhancement Grant."

The South Carolina Department of Insurance ("Department") is the designated entity responsible for ensuring the successful completion of the first cycle of the grant. The Department has existing authority to oversee and coordinate the proposed activities. The Department intends to use the grant funds to enhance our current rate review and reporting processes and related IT infrastructure.

Leslie Jones will serve as the Department Principal Investigator for the project. Leslie's contact information is shown below:

Leslie M. Jones, ASA, MAAA  
Chief Actuary & Deputy Director  
Actuarial, Market and Alternative Risk Transfer Services  
South Carolina Department of Insurance  
145 King Street, Suite 228  
Charleston, SC 29401  
Phone: 843-577-3413  
Fax: 843-7226105  
E-mail: ljones@doi.sc.gov

I look forward to our continued partnership in implementing the important reforms to our health care system provided under the Affordable Care Act.

Sincerely,

A handwritten signature in blue ink that reads "Scott H. Richardson".

Scott H. Richardson, CPCU  
Director

<b>Opportunity Title:</b>	"Grants to States for Health Insurance Premium Review-C
<b>Offering Agency:</b>	Ofc of Consumer Information & Insurance Oversight
<b>CFDA Number:</b>	93.511
<b>CFDA Description:</b>	Affordable Care Act (ACA) Grants to States for Health I
<b>Opportunity Number:</b>	RFA-FD-10-999
<b>Competition ID:</b>	ADOBE-FORMS-B
<b>Opportunity Open Date:</b>	06/07/2010
<b>Opportunity Close Date:</b>	07/07/2010
<b>Agency Contact:</b>	Gladys Melendez-Bohler Grant Specialist E-mail: Gladys.Melendez-Bohler@fda.hhs.gov Phone: 301-827-7168

This electronic grants application is intended to be used to apply for the specific Federal funding opportunity referenced here.

If the Federal funding opportunity listed is not the opportunity for which you want to apply, close this application package by clicking on the "Cancel" button at the top of this screen. You will then need to locate the correct Federal funding opportunity, download its application and then apply.

This opportunity is only open to organizations, applicants who are submitting grant applications on behalf of a company, state, local or tribal government, academia, or other type of organization.

\* **Application Filing Name:**

### Mandatory Documents

Move Form to Complete

Move Form to Delete

### Mandatory Documents for Submission

Application for Federal Assistance (SF-424)
Budget Information for Non-Construction Program
Assurances for Non-Construction Programs (SF-424)
Disclosure of Lobbying Activities (SF-LLL)
Project Abstract
Project Narrative Attachment Form
Objective Work Plan

### Optional Documents

Basic Work Plan
Project Abstract Summary
Other Attachments Form

Move Form to Submission List

Move Form to Delete

### Optional Documents for Submission

## Instructions

- 1** Enter a name for the application in the **Application Filing Name** field.
  - This application can be completed in its entirety offline; however, you will need to login to the Grants.gov website during the submission process.
  - You can save your application at any time by clicking the "Save" button at the top of your screen.
  - The "Save & Submit" button will not be functional until all required data fields in the application are completed and you clicked on the "Check Package for Errors" button and confirmed all data required data fields are completed.
  
- 2** Open and complete all of the documents listed in the **"Mandatory Documents"** box. **Complete the SF-424 form first.**
  - It is recommended that the SF-424 form be the first form completed for the application package. Data entered on the SF-424 will populate data fields in other mandatory and optional forms and the user cannot enter data in these fields.
  - The forms listed in the "Mandatory Documents" box and "Optional Documents" may be predefined forms, such as SF-424, forms where a document needs to be attached, such as the Project Narrative or a combination of both. "Mandatory Documents" are required for this application. "Optional Documents" can be used to provide additional support for this application or may be required for specific types of grant activity. Reference the application package instructions for more information regarding "Optional Documents".
  - To open and complete a form, simply click on the form's name to select the item and then click on the => button. This will move the document to the appropriate "Documents for Submission" box and the form will be automatically added to your application package. To view the form, scroll down the screen or select the form name and click on the "Open Form" button to begin completing the required data fields. To remove a form/document from the "Documents for Submission" box, click the document name to select it, and then click the <= button. This will return the form/document to the "Mandatory Documents" or "Optional Documents" box.
  - All documents listed in the "Mandatory Documents" box must be moved to the "Mandatory Documents for Submission" box. When you open a required form, the fields which must be completed are highlighted in yellow with a red border. Optional fields and completed fields are displayed in white. If you enter invalid or incomplete information in a field, you will receive an error message.
  
- 3** Click the **"Save & Submit"** button to submit your application to Grants.gov.
  - Once you have properly completed all required documents and attached any required or optional documentation, save the completed application by clicking on the "Save" button.
  - Click on the "Check Package for Errors" button to ensure that you have completed all required data fields. Correct any errors or if none are found, save the application package.
  - The "Save & Submit" button will become active; click on the "Save & Submit" button to begin the application submission process.
  - You will be taken to the applicant login page to enter your Grants.gov username and password. Follow all onscreen instructions for submission.

**Application for Federal Assistance SF-424**

* 1. Type of Submission: <input type="checkbox"/> Preapplication <input checked="" type="checkbox"/> Application <input type="checkbox"/> Changed/Corrected Application	* 2. Type of Application: <input checked="" type="checkbox"/> New <input type="checkbox"/> Continuation <input type="checkbox"/> Revision	* If Revision, select appropriate letter(s): <input type="text"/> * Other (Specify): <input type="text"/>
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* 3. Date Received: <input type="text"/> Completed by Grants.gov upon submission.	4. Applicant Identifier: <input type="text"/> SC Department of Insurance
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5a. Federal Entity Identifier: <input type="text"/> 57-62805003	5b. Federal Award Identifier: <input type="text"/>
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**State Use Only:**

6. Date Received by State: <input type="text"/>	7. State Application Identifier: <input type="text"/>
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**8. APPLICANT INFORMATION:**

\* a. Legal Name:  South Carolina Department of Insurance

* b. Employer/Taxpayer Identification Number (EIN/TIN): <input type="text"/> 57-6000286	* c. Organizational DUNS: <input type="text"/> 9628050030000
--	---

**d. Address:**

\* Street1:  1201 Main Street, Suite 1000  
Street2:   
\* City:  ColumbiA  
County/Parish:   
\* State:  SC: South Carolina  
Province:   
\* Country:  USA: UNITED STATES  
\* Zip / Postal Code:  29201-3291

**e. Organizational Unit:**

Department Name: <input type="text"/> SC Department of Insurance	Division Name: <input type="text"/> Market Services
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**f. Name and contact information of person to be contacted on matters involving this application:**

Prefix:  Ms. \* First Name:  Cathy  
Middle Name:   
\* Last Name:  Cauthen  
Suffix:

Title:  PPACA Project Coordinator

Organizational Affiliation:

\* Telephone Number:  803-737-6805 Fax Number:  803-737-6159

\* Email:  ccauthen@doi.sc.gov

**Application for Federal Assistance SF-424**

**\* 9. Type of Applicant 1: Select Applicant Type:**

A: State Government

Type of Applicant 2: Select Applicant Type:

Type of Applicant 3: Select Applicant Type:

\* Other (specify):

**\* 10. Name of Federal Agency:**

Ofc of Consumer Information & Insurance Oversight

**11. Catalog of Federal Domestic Assistance Number:**

93.511

CFDA Title:

Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review

**\* 12. Funding Opportunity Number:**

RFA-FD-10-999

\* Title:

"Grants to States for Health Insurance Premium Review-Cycle I" Office of Consumer Information and Insurance Oversight (OCIIO)

**13. Competition Identification Number:**

ADOBE-FORMS-B

Title:

**14. Areas Affected by Project (Cities, Counties, States, etc.):**

Add Attachment

Delete Attachment

View Attachment

**\* 15. Descriptive Title of Applicant's Project:**

South Carolina Rate Review and IT Infrastructure Enhancement Grant

Attach supporting documents as specified in agency instructions.

Add Attachments

Delete Attachments

View Attachments

**Application for Federal Assistance SF-424**

**16. Congressional Districts Of:**

\* a. Applicant

b. Program/Project

Attach an additional list of Program/Project Congressional Districts if needed.

Add Attachment

Delete Attachment

View Attachment

**17. Proposed Project:**

\* a. Start Date:

\* b. End Date:

**18. Estimated Funding (\$):**

* a. Federal	<input type="text" value="1,000,000.00"/>
* b. Applicant	<input type="text" value="0.00"/>
* c. State	<input type="text" value="0.00"/>
* d. Local	<input type="text" value="0.00"/>
* e. Other	<input type="text" value="0.00"/>
* f. Program Income	<input type="text" value="0.00"/>
* g. TOTAL	<input type="text" value="1,000,000.00"/>

**\* 19. Is Application Subject to Review By State Under Executive Order 12372 Process?**

a. This application was made available to the State under the Executive Order 12372 Process for review on

b. Program is subject to E.O. 12372 but has not been selected by the State for review.

c. Program is not covered by E.O. 12372.

**\* 20. Is the Applicant Delinquent On Any Federal Debt? (If "Yes," provide explanation in attachment.)**

Yes  No

If "Yes", provide explanation and attach

Add Attachment

Delete Attachment

View Attachment

**21. \*By signing this application, I certify (1) to the statements contained in the list of certifications\*\* and (2) that the statements herein are true, complete and accurate to the best of my knowledge. I also provide the required assurances\*\* and agree to comply with any resulting terms if I accept an award. I am aware that any false, fictitious, or fraudulent statements or claims may subject me to criminal, civil, or administrative penalties. (U.S. Code, Title 218, Section 1001)**

\*\* I AGREE

\*\* The list of certifications and assurances, or an internet site where you may obtain this list, is contained in the announcement or agency specific instructions.

**Authorized Representative:**

Prefix:  \* First Name:

Middle Name:

\* Last Name:

Suffix:

\* Title:

\* Telephone Number:

Fax Number:

\* Email:

\* Signature of Authorized Representative:

\* Date Signed:

## Key Contacts Form

**\* Applicant Organization Name:**

South Carolina Department of Insurance

Enter the individual's role on the project (e.g., project manager, fiscal contact).

**\* Contact 1 Project Role:** PPACA Project Coordinator

Prefix: Ms.

**\* First Name:** Cathy

Middle Name:

**\* Last Name:** Cauthen

Suffix:

Title: PPACA Project Coordinator

Organizational Affiliation:

**\* Street1:** 1201 Main Street, Suite 1000

Street2:

**\* City:** Columbia

County:

**\* State:** SC: South Carolina

Province:

**\* Country:** USA: UNITED STATES

**\* Zip / Postal Code:** 29201-3291

**\* Telephone Number:** 803-737-6805

Fax: 803-737-6159

**\* Email:** ccauthen@doi.sc.gov

Delete Entry

Next Person

### Project/Performance Site Location(s)

**Project/Performance Site Primary Location**

I am submitting an application as an individual, and not on behalf of a company, state, local or tribal government, academia, or other type of organization.

Organization Name:

DUNS Number:

\* Street1:

Street2:

\* City:  County:

\* State:

Province:

\* Country:

\* ZIP / Postal Code:  \* Project/ Performance Site Congressional District:

**Project/Performance Site Location 1**

I am submitting an application as an individual, and not on behalf of a company, state, local or tribal government, academia, or other type of organization.

Organization Name:

DUNS Number:

\* Street1:

Street2:

\* City:  County:

\* State:

Province:

\* Country:

\* ZIP / Postal Code:  \* Project/ Performance Site Congressional District:

**Additional Location(s)**

# ATTACHMENTS FORM

**Instructions:** On this form, you will attach the various files that make up your grant application. Please consult with the appropriate Agency Guidelines for more information about each needed file. Please remember that any files you attach must be in the document format and named as specified in the Guidelines.

**Important:** Please attach your files in the proper sequence. See the appropriate Agency Guidelines for details.

1) Please attach Attachment 1	<input type="text" value="Letter of Support SC.pdf"/>	<input type="button" value="Add Attachment"/>	<input type="button" value="Delete Attachment"/>	<input type="button" value="View Attachment"/>
2) Please attach Attachment 2	<input type="text" value="Cover Letter SC.pdf"/>	<input type="button" value="Add Attachment"/>	<input type="button" value="Delete Attachment"/>	<input type="button" value="View Attachment"/>
3) Please attach Attachment 3	<input type="text"/>	<input type="button" value="Add Attachment"/>	<input type="button" value="Delete Attachment"/>	<input type="button" value="View Attachment"/>
4) Please attach Attachment 4	<input type="text"/>	<input type="button" value="Add Attachment"/>	<input type="button" value="Delete Attachment"/>	<input type="button" value="View Attachment"/>
5) Please attach Attachment 5	<input type="text"/>	<input type="button" value="Add Attachment"/>	<input type="button" value="Delete Attachment"/>	<input type="button" value="View Attachment"/>
6) Please attach Attachment 6	<input type="text"/>	<input type="button" value="Add Attachment"/>	<input type="button" value="Delete Attachment"/>	<input type="button" value="View Attachment"/>
7) Please attach Attachment 7	<input type="text"/>	<input type="button" value="Add Attachment"/>	<input type="button" value="Delete Attachment"/>	<input type="button" value="View Attachment"/>
8) Please attach Attachment 8	<input type="text"/>	<input type="button" value="Add Attachment"/>	<input type="button" value="Delete Attachment"/>	<input type="button" value="View Attachment"/>
9) Please attach Attachment 9	<input type="text"/>	<input type="button" value="Add Attachment"/>	<input type="button" value="Delete Attachment"/>	<input type="button" value="View Attachment"/>
10) Please attach Attachment 10	<input type="text"/>	<input type="button" value="Add Attachment"/>	<input type="button" value="Delete Attachment"/>	<input type="button" value="View Attachment"/>
11) Please attach Attachment 11	<input type="text"/>	<input type="button" value="Add Attachment"/>	<input type="button" value="Delete Attachment"/>	<input type="button" value="View Attachment"/>
12) Please attach Attachment 12	<input type="text"/>	<input type="button" value="Add Attachment"/>	<input type="button" value="Delete Attachment"/>	<input type="button" value="View Attachment"/>
13) Please attach Attachment 13	<input type="text"/>	<input type="button" value="Add Attachment"/>	<input type="button" value="Delete Attachment"/>	<input type="button" value="View Attachment"/>
14) Please attach Attachment 14	<input type="text"/>	<input type="button" value="Add Attachment"/>	<input type="button" value="Delete Attachment"/>	<input type="button" value="View Attachment"/>
15) Please attach Attachment 15	<input type="text"/>	<input type="button" value="Add Attachment"/>	<input type="button" value="Delete Attachment"/>	<input type="button" value="View Attachment"/>

## Objective Work Plan

**Project:**

South Carolina Rate Review and IT Infrastructure Enhancement Grant

**\* Year:**      **\* Funding Agency Goal:**

1

To review the status of the health insurance market to determine if the rates being charged for products that are not subject to prior approval are reasonable as required by law.

**\* Objective:**

The South Carolina Department of Insurance will serve as the lead agency. As lead agency for this project, the South Carolina Department of Insurance will be responsible for general administration, management and oversight of project activities. This project has the following components: 1) Data collection and analysis; 2) Process and Systems Enhancement; 3) Policy formulation and recommendation; and 4) Reporting.

**\* Results or Benefits Expected:**

Data received will enable the Department to make policy recommendations regarding health insurance coverage and rates.

* Activities	* Position Responsible	* Time Period Begin	* Time Period End	* Non-Salary Personnel Hours
<p>I: Data Collection and Analysis</p> <p>The data collection component of this grant will be conducted in two phases: Phase I: Collection and Analysis of Historical Data and Phase II: Collection and Review of Current Rating Information. See below.</p>	Project Manager and Actuarial Consultant	09/01/2010	12/31/2010	0
<p>I. Phase I: Pursuant to §38-13-120, SCDOI will issue a data call to all insurers writing major medical insurance in our state requesting information about their rate filings for the past 3 years. Insurers will submit their data via SERFF.</p>	Project Manager and Actuarial Consultant	09/01/2010	10/29/2010	50
<p>I. Phase II: Insurers will be required to submit their current rate data. This data will be reviewed &amp; analyzed to determine if rates being offered are unreasonable based upon the definition approved by the Secretary of HHS. Staff training</p>	Project Manager and Actuarial Consultant	09/01/2010	02/28/2011	2,140
<p>II. Enhancing/Automating the Department's Rate Review &amp; Analysis Processes &amp; IT Infrastructure</p> <p>SCDOI will enhance the rate review IT infrastructure by addressing the interface inefficiency between SERFF and our legacy system.</p>	Project Manager and IT Staff/Consultant	09/01/2010	02/28/2011	100

## Objective Work Plan

* Activities	* Position Responsible	* Time Period Begin	* Time Period End	* Non-Salary Personnel Hours
<p>II. Phase I: State API Enhancement</p> <p>SCDOI will contract with IT consultants to enhance the API interface that allows it to extract data from the SERFF system to update our legacy systems. SCDOI plans to fully automate all of its forms.</p>	SCDOI IT Staff	09/01/2010	07/30/2011	1,000
<p>II. Phase II: SERFF Enhancements</p> <p>SCDOI plans to contract with the NAIC to enhance the capabilities of SERFF to collect the data elements set forth in the grant guidelines and make reports on behalf of the state.</p>	SCDOI IT Staff	09/01/2010	12/31/2010	0
<p>III: Other System/IT Infrastructure Enhancements</p> <p>It is estimated that some additional enhancements may be required once the definition of an unreasonable rate is finalized. An IT consultant will do the coding, programming and testing.</p>	SCDOI IT Staff	02/01/2011	06/30/2011	200
<p>IV: Reporting</p> <p>The Department will use the revised SERFF platform to report to the Secretary trend data and other data required under the grant guidelines.</p>	Project Manager	07/01/2011	08/31/2011	20

**\* Criteria for Evaluating Results or Benefits Expected:**

A successful project will generate accurate market data, allow our state's legacy system to interface with SERFF and produce accurate reports on trend data.

## Objective Work Plan

You may attach up to 17 additional Objective Work Plan forms here. To extract, fill and attach each additional form, follow these steps:

- Select the "Select to Extract the Objective Work Plan Attachment" button below.
- Save the file using a descriptive name to help you remember the content of the supplemental form that you are creating. When assigning a name to the file, please remember to give it the extension ".pdf" (for example, "Objective\_1.pdf"). If you do not name your file with the ".pdf" extension you will be unable to open it later, using Adobe Reader.
- Use the "Open Form" tool on Adobe Reader to open the new form you just saved.
- Enter your additional Objective information in this supplemental form, similar to the Objective Work Plan form that you see in the main body of your application.
- When you have completed entering information in the supplemental form, save and close it.
- Return to this page and attach the saved supplemental form you just filled in, to one of the blocks provided on this "attachments" form.

**Important:** Attach additional Objective Work Plan forms, using the blocks below. Please remember that the files you attach must be Objective Work Plan PDF forms that were previously extracted using the process outlined above. Attaching any other type of file may result in the inability to submit your application to Grants.gov. Note: It is important to attach completed forms only. Attach ONLY PDF (.pdf) forms where ALL required fields are filled out. Incomplete or missing data will cause your application to be rejected.

Select to extract the Objective Work Plan Attachment

1) Please attach Attachment 1	Principal Investigator SC.pdf	Add Attachment	Delete Attachment	View Attachment
2) Please attach Attachment 2	Project Manager SC.pdf	Add Attachment	Delete Attachment	View Attachment
3) Please attach Attachment 3		Add Attachment	Delete Attachment	View Attachment
4) Please attach Attachment 4		Add Attachment	Delete Attachment	View Attachment
5) Please attach Attachment 5		Add Attachment	Delete Attachment	View Attachment
6) Please attach Attachment 6		Add Attachment	Delete Attachment	View Attachment
7) Please attach Attachment 7		Add Attachment	Delete Attachment	View Attachment
8) Please attach Attachment 8		Add Attachment	Delete Attachment	View Attachment
9) Please attach Attachment 9		Add Attachment	Delete Attachment	View Attachment
10) Please attach Attachment 10		Add Attachment	Delete Attachment	View Attachment
11) Please attach Attachment 11		Add Attachment	Delete Attachment	View Attachment
12) Please attach Attachment 12		Add Attachment	Delete Attachment	View Attachment
13) Please attach Attachment 13		Add Attachment	Delete Attachment	View Attachment
14) Please attach Attachment 14		Add Attachment	Delete Attachment	View Attachment
15) Please attach Attachment 15		Add Attachment	Delete Attachment	View Attachment
16) Please attach Attachment 16		Add Attachment	Delete Attachment	View Attachment
17) Please attach Attachment 17		Add Attachment	Delete Attachment	View Attachment

## Project Abstract

The Project Abstract must not exceed one page and must contain a summary of the proposed activity suitable for dissemination to the public. It should be a self-contained description of the project and should contain a statement of objectives and methods to be employed. It should be informative to other persons working in the same or related fields and insofar as possible understandable to a technically literate lay reader. This Abstract must not include any proprietary/confidential information.

\* Please click the add attachment button to complete this entry.

Add Attachment

Delete Attachment

View Attachment

Project Abstract SC.pdf

## Project Narrative File(s)

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\* **Mandatory Project Narrative File Filename:**

[Add Mandatory Project Narrative File](#)

[Delete Mandatory Project Narrative File](#)

[View Mandatory Project Narrative File](#)

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To add more Project Narrative File attachments, please use the attachment buttons below.

[Add Optional Project Narrative File](#)

[Delete Optional Project Narrative File](#)

[View Optional Project Narrative File](#)

## Budget Narrative File(s)

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\* **Mandatory Budget Narrative Filename:**

[Add Mandatory Budget Narrative](#)

[Delete Mandatory Budget Narrative](#)

[View Mandatory Budget Narrative](#)

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To add more Budget Narrative attachments, please use the attachment buttons below.

[Add Optional Budget Narrative](#)

[Delete Optional Budget Narrative](#)

[View Optional Budget Narrative](#)

**BUDGET INFORMATION - Non-Construction Programs**

**SECTION A - BUDGET SUMMARY**

Grant Program Function or Activity (a)	Catalog of Federal Domestic Assistance Number (b)	Estimated Unobligated Funds		New or Revised Budget		
		Federal (c)	Non-Federal (d)	Federal (e)	Non-Federal (f)	Total (g)
1. Actuarial Services	93.511	\$	\$	\$ 558,700.00	\$	\$ 558,700.00
2. IT Enhancements	93.511			200,000.00		200,000.00
3. Staff	93.511			197,500.00		197,500.00
4. Equipment/Office Space	93.511			43,800.00		43,800.00
5. Totals		\$	\$	1,000,000.00	\$	1,000,000.00

**SECTION B - BUDGET CATEGORIES**

6. Object Class Categories	GRANT PROGRAM, FUNCTION OR ACTIVITY				Total (5)
	(1) Actuarial Services	(2) IT Enhancements	(3) Staff	(4) Equipment/Office Space	
a. Personnel	\$		\$ 190,000.00		\$ 190,000.00
b. Fringe Benefits					
c. Travel			7,500.00		7,500.00
d. Equipment				14,800.00	14,800.00
e. Supplies				3,000.00	3,000.00
f. Contractual	558,700.00	200,000.00			758,700.00
g. Construction					
h. Other				26,000.00	26,000.00
i. Total Direct Charges (sum of 6a-6h)	558,700.00	200,000.00	197,500.00	43,800.00	\$ 1,000,000.00
j. Indirect Charges					
k. TOTALS (sum of 6i and 6j)	\$ 558,700.00	\$ 200,000.00	\$ 197,500.00	\$ 43,800.00	\$ 1,000,000.00
7. Program Income	\$				

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**SECTION C - NON-FEDERAL RESOURCES**

(a) Grant Program	(b) Applicant	(c) State	(d) Other Sources	(e) TOTALS
8.	\$	\$	\$	\$
9. IT Enhancements				
10. Staff				
11. Equipment/Office Space				
<b>12. TOTAL (sum of lines 8-11)</b>	\$	\$	\$	\$

**SECTION D - FORECASTED CASH NEEDS**

	Total for 1st Year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
13. Federal	\$ 1,000,000.00	\$ 146,425.00	\$ 391,625.00	\$ 366,625.00	\$ 95,325.00
14. Non-Federal	\$	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
<b>15. TOTAL (sum of lines 13 and 14)</b>	\$ 1,000,000.00	\$ 146,425.00	\$ 391,625.00	\$ 366,625.00	\$ 95,325.00

**SECTION E - BUDGET ESTIMATES OF FEDERAL FUNDS NEEDED FOR BALANCE OF THE PROJECT**

(a) Grant Program	FUTURE FUNDING PERIODS (YEARS)			
	(b) First	(c) Second	(d) Third	(e) Fourth
16.	\$	\$	\$	\$
17. IT Enhancements				
18. Staff				
19. Equipment/Office Space				
<b>20. TOTAL (sum of lines 16 - 19)</b>	\$	\$	\$	\$

**SECTION F - OTHER BUDGET INFORMATION**

21. Direct Charges:		22. Indirect Charges:	
23. Remarks:			

## ASSURANCES - NON-CONSTRUCTION PROGRAMS

Public reporting burden for this collection of information is estimated to average 15 minutes per response, including time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding the burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Office of Management and Budget, Paperwork Reduction Project (0348-0040), Washington, DC 20503.

**PLEASE DO NOT RETURN YOUR COMPLETED FORM TO THE OFFICE OF MANAGEMENT AND BUDGET. SEND IT TO THE ADDRESS PROVIDED BY THE SPONSORING AGENCY.**

**NOTE:** Certain of these assurances may not be applicable to your project or program. If you have questions, please contact the awarding agency. Further, certain Federal awarding agencies may require applicants to certify to additional assurances. If such is the case, you will be notified.

As the duly authorized representative of the applicant, I certify that the applicant:

1. Has the legal authority to apply for Federal assistance and the institutional, managerial and financial capability (including funds sufficient to pay the non-Federal share of project cost) to ensure proper planning, management and completion of the project described in this application.
2. Will give the awarding agency, the Comptroller General of the United States and, if appropriate, the State, through any authorized representative, access to and the right to examine all records, books, papers, or documents related to the award; and will establish a proper accounting system in accordance with generally accepted accounting standards or agency directives.
3. Will establish safeguards to prohibit employees from using their positions for a purpose that constitutes or presents the appearance of personal or organizational conflict of interest, or personal gain.
4. Will initiate and complete the work within the applicable time frame after receipt of approval of the awarding agency.
5. Will comply with the Intergovernmental Personnel Act of 1970 (42 U.S.C. §§4728-4763) relating to prescribed standards for merit systems for programs funded under one of the 19 statutes or regulations specified in Appendix A of OPM's Standards for a Merit System of Personnel Administration (5 C.F.R. 900, Subpart F).
6. Will comply with all Federal statutes relating to nondiscrimination. These include but are not limited to: (a) Title VI of the Civil Rights Act of 1964 (P.L. 88-352) which prohibits discrimination on the basis of race, color or national origin; (b) Title IX of the Education Amendments of 1972, as amended (20 U.S.C. §§1681-1683, and 1685-1686), which prohibits discrimination on the basis of sex; (c) Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. §794), which prohibits discrimination on the basis of handicaps; (d) the Age Discrimination Act of 1975, as amended (42 U.S.C. §§6101-6107), which prohibits discrimination on the basis of age; (e) the Drug Abuse Office and Treatment Act of 1972 (P.L. 92-255), as amended, relating to nondiscrimination on the basis of drug abuse; (f) the Comprehensive Alcohol Abuse and Alcoholism Prevention, Treatment and Rehabilitation Act of 1970 (P.L. 91-616), as amended, relating to nondiscrimination on the basis of alcohol abuse or alcoholism; (g) §§523 and 527 of the Public Health Service Act of 1912 (42 U.S.C. §§290 dd-3 and 290 ee- 3), as amended, relating to confidentiality of alcohol and drug abuse patient records; (h) Title VIII of the Civil Rights Act of 1968 (42 U.S.C. §§3601 et seq.), as amended, relating to nondiscrimination in the sale, rental or financing of housing; (i) any other nondiscrimination provisions in the specific statute(s) under which application for Federal assistance is being made; and, (j) the requirements of any other nondiscrimination statute(s) which may apply to the application.
7. Will comply, or has already complied, with the requirements of Titles II and III of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (P.L. 91-646) which provide for fair and equitable treatment of persons displaced or whose property is acquired as a result of Federal or federally-assisted programs. These requirements apply to all interests in real property acquired for project purposes regardless of Federal participation in purchases.
8. Will comply, as applicable, with provisions of the Hatch Act (5 U.S.C. §§1501-1508 and 7324-7328) which limit the political activities of employees whose principal employment activities are funded in whole or in part with Federal funds.

9. Will comply, as applicable, with the provisions of the Davis-Bacon Act (40 U.S.C. §§276a to 276a-7), the Copeland Act (40 U.S.C. §276c and 18 U.S.C. §874), and the Contract Work Hours and Safety Standards Act (40 U.S.C. §§327-333), regarding labor standards for federally-assisted construction subagreements.
10. Will comply, if applicable, with flood insurance purchase requirements of Section 102(a) of the Flood Disaster Protection Act of 1973 (P.L. 93-234) which requires recipients in a special flood hazard area to participate in the program and to purchase flood insurance if the total cost of insurable construction and acquisition is \$10,000 or more.
11. Will comply with environmental standards which may be prescribed pursuant to the following: (a) institution of environmental quality control measures under the National Environmental Policy Act of 1969 (P.L. 91-190) and Executive Order (EO) 11514; (b) notification of violating facilities pursuant to EO 11738; (c) protection of wetlands pursuant to EO 11990; (d) evaluation of flood hazards in floodplains in accordance with EO 11988; (e) assurance of project consistency with the approved State management program developed under the Coastal Zone Management Act of 1972 (16 U.S.C. §§1451 et seq.); (f) conformity of Federal actions to State (Clean Air) Implementation Plans under Section 176(c) of the Clean Air Act of 1955, as amended (42 U.S.C. §§7401 et seq.); (g) protection of underground sources of drinking water under the Safe Drinking Water Act of 1974, as amended (P.L. 93-523); and, (h) protection of endangered species under the Endangered Species Act of 1973, as amended (P.L. 93-205).
12. Will comply with the Wild and Scenic Rivers Act of 1968 (16 U.S.C. §§1271 et seq.) related to protecting components or potential components of the national wild and scenic rivers system.
13. Will assist the awarding agency in assuring compliance with Section 106 of the National Historic Preservation Act of 1966, as amended (16 U.S.C. §470), EO 11593 (identification and protection of historic properties), and the Archaeological and Historic Preservation Act of 1974 (16 U.S.C. §§469a-1 et seq.).
14. Will comply with P.L. 93-348 regarding the protection of human subjects involved in research, development, and related activities supported by this award of assistance.
15. Will comply with the Laboratory Animal Welfare Act of 1966 (P.L. 89-544, as amended, 7 U.S.C. §§2131 et seq.) pertaining to the care, handling, and treatment of warm blooded animals held for research, teaching, or other activities supported by this award of assistance.
16. Will comply with the Lead-Based Paint Poisoning Prevention Act (42 U.S.C. §§4801 et seq.) which prohibits the use of lead-based paint in construction or rehabilitation of residence structures.
17. Will cause to be performed the required financial and compliance audits in accordance with the Single Audit Act Amendments of 1996 and OMB Circular No. A-133, "Audits of States, Local Governments, and Non-Profit Organizations."
18. Will comply with all applicable requirements of all other Federal laws, executive orders, regulations, and policies governing this program.

<p>* SIGNATURE OF AUTHORIZED CERTIFYING OFFICIAL</p> <p>Completed on submission to Grants.gov</p>	<p>* TITLE</p> <p>Director</p>
<p>* APPLICANT ORGANIZATION</p> <p>South Carolina Department of Insurance</p>	<p>* DATE SUBMITTED</p> <p>Completed on submission to Grants.gov</p>

# DISCLOSURE OF LOBBYING ACTIVITIES

Complete this form to disclose lobbying activities pursuant to 31 U.S.C.1352

Approved by OMB  
0348-0046

<b>1. * Type of Federal Action:</b> <input type="checkbox"/> a. contract <input checked="" type="checkbox"/> b. grant <input type="checkbox"/> c. cooperative agreement <input type="checkbox"/> d. loan <input type="checkbox"/> e. loan guarantee <input type="checkbox"/> f. loan insurance	<b>2. * Status of Federal Action:</b> <input type="checkbox"/> a. bid/offer/application <input checked="" type="checkbox"/> b. initial award <input type="checkbox"/> c. post-award	<b>3. * Report Type:</b> <input checked="" type="checkbox"/> a. initial filing <input type="checkbox"/> b. material change
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**4. Name and Address of Reporting Entity:**  
 Prime     SubAwardee

\* Name: South Carolina Department of Insurance

\* Street 1: 1201 Main Street, Suite 1000    \* Street 2: \_\_\_\_\_

\* City: Columbia    \* State: SC: South Carolina    \* Zip: 29201-3291

Congressional District, if known: SC-002

**5. If Reporting Entity in No.4 is Subawardee, Enter Name and Address of Prime:**

<b>6. * Federal Department/Agency:</b> US Dept of Health and Human Services	<b>7. * Federal Program Name/Description:</b> Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review CFDA Number, if applicable: 93.511
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<b>8. Federal Action Number, if known:</b> CFDA 93.511	<b>9. Award Amount, if known:</b> \$ _____
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**10. a. Name and Address of Lobbying Registrant:**

Prefix \_\_\_\_\_ \* First Name N/A    Middle Name \_\_\_\_\_

\* Last Name N/A    Suffix \_\_\_\_\_

\* Street 1: N/A    \* Street 2: \_\_\_\_\_

\* City: Columbia    \* State: SC: South Carolina    \* Zip: 29201-3291

**b. Individual Performing Services** (including address if different from No. 10a)

Prefix \_\_\_\_\_ \* First Name N/A    Middle Name \_\_\_\_\_

\* Last Name N/A    Suffix \_\_\_\_\_

\* Street 1: \_\_\_\_\_    \* Street 2: \_\_\_\_\_

\* City: \_\_\_\_\_    \* State: \_\_\_\_\_    \* Zip: \_\_\_\_\_

**11.** Information requested through this form is authorized by title 31 U.S.C. section 1352. This disclosure of lobbying activities is a material representation of fact upon which reliance was placed by the tier above when the transaction was made or entered into. This disclosure is required pursuant to 31 U.S.C. 1352. This information will be reported to the Congress semi-annually and will be available for public inspection. Any person who fails to file the required disclosure shall be subject to a civil penalty of not less than \$10,000 and not more than \$100,000 for each such failure.

\* Signature: Completed on submission to Grants.gov

\* Name: Prefix \_\_\_\_\_ \* First Name Scott    Middle Name H.  
\* Last Name Richardson    Suffix \_\_\_\_\_

Title: Director    Telephone No.: 803-737-6805    Date: Completed on submission to Grants.gov

## **Project Abstract**

The Patient Protection and Affordable Care Act (PPACA) requires the states and the Secretary of Health and Human Services to establish a process for the annual review of unreasonable increases in health insurance rates beginning in the 2010 plan year. As described more fully in the Project Narrative, only individual health insurance rates and some group health insurance rates are currently subject to prior approval in South Carolina. South Carolina law does not require most group health insurance rates to be reviewed prior to their use. Thus, this grant provides South Carolina a unique opportunity to assess and enhance its current rate review process.

The goals of this project are : 1) to establish a process for the comprehensive annual review of health insurance premiums to protect consumers from unreasonable, unjustified and/or excessive rate increases 2) to analyze the potential for abusive rating practices in different segments of the health insurance market; 3) to enhance our systems to enable us to capture required data, aggregate data, report critical information about health insurance rate filings; 4) to automate our process for reviewing rate filings; and 5) to review trends and rating practices in the individual as well as the small and large group health insurance market to help develop policy initiatives and make recommendations aimed at ensuring health insurance rates charged within the state are fair and reasonable.

The total budget for our proposal is \$1,000,000. The grant funds will be used as follows:

- To engage a consulting actuary to: 1) conduct a comprehensive review of all health insurance rate increases/filings in South Carolina to determine whether the rates being charged for this coverage are reasonable in relation to the benefits based upon the guideline loss ratios and the standard developed by the Secretary for unreasonable rate increases; and 2) to review, enhance and modify as necessary the Department's rate review process to ensure that health insurance rates are fair and reasonable;
- To modify and enhance the Department's legacy systems and the SERFF system interface to: 1) electronically process the rate filing based on the data analysis and federal requirements; 2) collect statistical information regarding the filing including all of the data elements required in Section V.A.1.c) 1) of the grant announcement; 3) aggregate data for rate filings as required in Section V.A.1.c)2) of the grant announcement; 4) report on rate trends in health insurance coverage as well as meet other reporting guidelines outlined in the grant announcement; and 5) to update the Department's legacy system with information processed in the SERFF system on a daily basis;
- To establish a health insurance statistical unit within the Office of Market Services to collect, analyze and report rate-making data; and
- To develop an interactive feature to the Department's website to enable consumers to access information about insurance rates.

## **Project Narrative**

Health insurance rates are regulated by the federal and state government. In general, states have the authority to regulate individual and certain group health insurance products. States regulate: individual insurance products, fully-insured employer-sponsored health insurance products and multiple employer welfare arrangements (MEWAs). Self-funded, employer-based plans are regulated by the federal government. Self-funded plans, other than MEWAs, are regulated by the federal government under the provisions of the Employee Retirement Income Security Act (ERISA) and the Public Health Service Act (PHSA). However, ERISA does not regulate premiums. The Health Insurance Portability and Accountability Act (HIPAA) prohibits discrimination against individual employees based on health status, but does not address health insurance rates. Notwithstanding, under ERISA, employers have a fiduciary duty to administer the plan in the interests of the beneficiaries. Until the enactment of the Affordable Care Act (ACA), no federal law restricted the amount that an employer could be charged for a health plan.

There are four main types of rate regulation in place in the individual and small group health insurance market. They include: actuarial justification<sup>1</sup>; rating bands<sup>2</sup>; adjusted community rating<sup>3</sup>; and community rating.<sup>4</sup> Rate regulation differs in the group and individual markets. In the individual health insurance market, most states, including South Carolina, rely on actuarially justified rating to regulate variations in insurance pricing. Most states have also enacted some form of regulation for the small group health insurance market. Large group rates are generally not subject to state rate filing requirements. In the small group market, rating bands are used by a number of states to prevent variation in insurance premiums.

### **History of Rate Regulation in South Carolina**

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<sup>1</sup> *Actuarial justification* means that the insurer must follow standards, such as those set by the American Academy of Actuary and the Actuarial Standards Board when setting rates. Rates must be expected to cover the losses of the plan. This requirement is often coupled with a medical loss ratio. Insurers must set their premiums to meet a certain medical loss ratio. An actuarially sound rate generally means that the rate is sufficient to pay future claims. An actuary generally has to file a certification or justification indicating that the rates were calculated in accordance with the state's laws and actuarial principles.

<sup>2</sup> *Rating bands* refers to the range within which insurance premiums must fall. Generally, insurance premium cannot exceed +/-20% of the index rate for a certain group.

<sup>3</sup> *Adjusted community rating* prohibits an insurer from charging premiums among members of the same group or community based on health status or claims history, but insurers may vary rates based on geography and family composition.

<sup>4</sup> *Community rating* or pure community means that insurers are not able to charge different rates among members of the same group. The Insurer must charge everyone in the same group or community the same rate. Rates cannot vary based on health status, claims history, age, etc.

## *The Small Group Market*

Over the years, South Carolina has taken a number of steps to improve the availability and affordability of health insurance in this state. During the 1990's, the majority of states enacted small group reforms designed to improve the availability of health insurance coverage. These reforms included rating restrictions, limitations on pre-existing exclusions, requiring guaranteed issue, guaranteed renewal and portability of coverage. In 1992, small group rating laws were enacted. However, these rating reforms did not address all of the issues in the small group market. Consequently, the South Carolina General Assembly responded to concerns about access to health insurance coverage by enacting the Small Employer Health Insurance Availability Act (Small Employer Availability Act) in 1994. The Act attempted to promote the availability of health insurance coverage in the small group market. The law required: 1) small employers to offer certain plans on a guaranteed issue basis; 2) the use of modified community rating; and 3) prohibited the use of health status in establishing rates in the small group health insurance market. This was generally known as Pre-HIPAA reform. While there may have been some temporary rate relief, the Small Employer Availability Act did not adequately stabilize insurance rates.

The guaranteed issue requirements coupled with modified community rating were causing insurers to leave the small group market. These requirements had a negative impact on the market because they did not allow insurers the rating flexibility necessary to recoup some of the costs of adverse selection. The rating provisions had to be changed. Consequently, the Small Employer Availability Act was amended in 1997 to allow some rating flexibility. Group size was added as a case characteristic for rating purposes. The allowable case characteristics for rating purposes in South Carolina include: age, gender, geographic area, industry, family composition, and group size. The legislation also permitted the use of health status for rating within certain limits. This was described as modified adjusted community rating. Rates stabilized temporarily a result of the adjusted community rating and flexible rating bands legislation introduced in 1997.

All of the reforms of the 1990's were expected to improve equity, expand access, decrease variation among premium levels and prevent destabilization of the market. The enactment of the Health Insurance Portability and Accountability Act (HIPAA) in 1997 marked the culmination of the 1990's reforms. Although price increases stabilized somewhat after the introduction of these reform initiatives, that soon changed and prices began to rise again. HIPAA did

not address rating. Additionally, none of the reforms adequately addressed health insurance cost drivers. A number of carriers exited the small group health insurance market in South Carolina (and nationally) citing HIPAA rules and a lack of profitability for this segment of the market as the reason for their exit.

### *The Individual Health Market*

Individual health insurance and certain group<sup>5</sup> premium rates have generally been subject to prior approval. See S.C. Code Ann. §38-71-310 (Supp. 2009). For many years, individual health insurance market premium rates have been subject to the requirement that premiums have to be reasonable in relation to benefits paid. See S.C. Code Ann. §38-71-310 (2002). Regulators generally monitor this by reviewing the insurer's loss ratios. South Carolina follows *The NAIC Guidelines for Filing of Rates for Individual Health Insurance Forms Model Act, #134*, which has a guideline loss ratio for various types of insurance coverage. This requirement was enacted in 1989 for individual health insurance rates.

### **Current Health Insurance Rate Review Capacity and Process** *General Health Insurance Rate Regulation*

Some South Carolina rate statutes are different, but for the most part, health insurance rate regulation is based on model laws developed by the National Association of Insurance Commissioners (NAIC), where membership consists of the chief insurance regulatory officials of all 50 states, the District of Columbia and the four territories. The level of rate regulation depends upon the type of product. It is generally proportional to the size and sophistication of the insurance consumer or group. Currently, all individual health insurance rates as well as group mass marketed, franchise and blanket policy rates are subject to prior approval. South Carolina law does not require most *group* rates to be reviewed prior to their use, however. Large groups or employers are generally considered to require less upfront rate regulation than individual consumers or small groups. The rates charged for these products must be reasonable in relation to the benefits charged, but they are not subject to review prior to use in this state. Large groups are generally considered to be more knowledgeable and to have the ability to negotiate insurance rates with an insurer. States typically do not interfere in that negotiation process. Consequently, large group, non-mass marketed rate filings are exempt from prior approval in South Carolina.

Rate regulation in the small group market is different. Small businesses, defined under South Carolina law to be businesses with no more than 50 employees, comprise most of the South Carolina labor market. Because small businesses dominate the small group health insurance market, most of the health insurance reform initiatives have been in the small group market. Affordability is cited by employers as the number one reason they are unable to offer health insurance benefits to their employees. Small group rates are not subject to prior approval based upon the expectation that the rating reforms enacted in the small group market will ensure appropriate rating controls.

Some products are issued through health maintenance organizations (HMOs). The Department licenses and regulates the insurers and the HMOs which offer health insurance products in the state. HMO's typically offer an in-network product only. However, they may also partner with an affiliated insurer to offer out-of-network services. This type of product is referred to as a Point-of-Service Product (POS). Insurers offer a variety of products in the health insurance market including, fee-for-service and products which offer both in-network and out of network benefits. The Department does not regulate PPOs (*i.e.*, preferred provider organizations) that do not assume insurance risk. If these groups do assume risk, then they are considered to be an HMO and must be licensed as such. As a general rule, insurers and HMOs are subject to the same rating requirements which vary by market as described more fully in the sections that follow.

### ***Rate Regulation in the Individual Market***

*Approximately 10%-15% percent of South Carolinians with private health insurance coverage purchase it in the individual market. Typically, these individuals are retired, self-employed or work for an employer that does not provide health insurance benefits.*

South Carolina requires prior approval of rates for individual comprehensive major medical policies pursuant to §38-71-310(B). Additionally, the individual health insurance market premium rates are regulated by the guideline that premiums must be reasonable in relation to benefits provided. This is done by reviewing the insurer's loss ratios. South Carolina follows the NAIC Guidelines for Filing of Rates for Individual Health Insurance Forms, Model #134, which has a guideline loss ratio for various types of insurance coverage. Insurers may file individual major medical policies pursuant to the loss ratio guarantee requirements set forth in §38-71-310(E). Rate filings falling within these statutory guidelines

are deemed reasonable in relation to benefits. Filings made pursuant to the loss ratio guarantee requirements are subject to annual refund requirements if the loss ratios do not meet or exceed the required minimum loss ratio. Insurers filing rates pursuant to our loss ratio guarantee provisions would be required to automatically issue a proportional refund if the required annual audit revealed loss ratios that did not meet or exceed the required minimum.

South Carolina's general filing requirements are found in Bulletin 2003-13. In addition, individual accident and health insurance rate filings must provide the information required in the NAIC guidelines for filing individual accident and health insurance rates. Insurers filing under our "loss ratio guarantee" provisions must provide the additional information set forth in §38-71-310(E) (attached). Attached as Exhibit C is the general checklist used in the review of rate filings submitted to the Department.

### ***Review Capacity and Process***

The Department reviewed and updated its processes for reviewing health insurance rate filings in 2005 and 2006. The Office of Market Services is responsible for the review and approval of all products forms and rates. There are currently 12 employees within that office. Each analyst is assigned to a certain line of insurance, e.g., health insurance, workers' compensation, etc. Some review product forms exclusively, others are cross-trained in rate and form review depending on the line of insurance and some review only rates. Additionally, the Department has two actuaries on staff with expertise in life, accident and health insurance ratemaking. The Department is rebuilding the staff in this area. Twenty-five percent of the LAH staff retired in 2010. Attached as Exhibit A is an organizational chart for the Office of Market Services.

### ***Review Process for Individual Health Insurance Products***

Procedures and checklists have been developed for every rate filing subject to prior approval. Most of these procedures are based on NAIC guidelines. Health insurance rates are reviewed initially by the rates analyst within the Office of Services. If necessary, rates are forwarded to the Associate Actuary and Chief Actuary for review. A rate filing may be forwarded to the Associate Actuary whenever the rate analyst is uncomfortable with any aspect of the rate filing. Additionally, new product submissions, unusual development or other unexplained entries may prompt a

consultation with the associate actuary. To ensure quality, the Manager of the Office of Market Services signs off on rates prior to disposition to ensure that rates are being reviewed in accordance with South Carolina law and established Department procedure.

A summary of the rate review process follows. Individual major medical rate filings are subject to prior approval per S.C Code § 38-71-310 (B).<sup>6</sup> The benefits must be reasonable in relation to premiums charged. Companies submit their experience, actuarial data and assumptions to support the loss ratio which must be greater than that set forth in the NAIC guidelines in order to substantiate a rate increase. Companies may choose to file a loss ratio guarantee per § 38-71-310 (E)<sup>7</sup> rather than an actual rate change filing. The loss ratio guarantee certifies that the ratio is not below that defined by the NAIC and requires refunds if deemed necessary.

The Department reviews rate filing submissions. The process of review was established by our internal actuaries and analysts in collaboration with the NAIC. The statutes and supplement (s) may be found on the Department's website,<sup>8</sup> along with Bulletin 2003-13 which provides more information regarding filing requirements. Bulletin 2003-13 is attached as exhibit B.

The filing guidelines provided for in the NAIC Model have been incorporated into a checklist that is used by the analyst. The guidelines establish standards for determining the reasonableness of the relationship of the premiums to the benefits. The checklist has each data element and/or required submission and is reviewed in its entirety with each filing. Any missing elements are requested and reviewed. The checklist includes items such as: actuarial memorandum describing basis on which rates were determined, description of the calculation of the loss ratio, morbidity, expenses, present value, interest, and an actuarial certification, to name a few. Benefits are deemed reasonable in relation to premium provided that the anticipated loss ratio and the lifetime anticipated loss ratio meet the standards provided by the NAIC.

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<sup>6</sup> S.C. Code Ann. §38-71-310(B) (2002).

<sup>7</sup> S.C. Code Ann. §38-71-310(E) (2002).

<sup>8</sup> <http://www.doi.sc.gov>

The Department may take the following action on an individual health insurance rate filing: approve, disapprove, or withdraw approval of a previously approved filing. South Carolina law provides that the director or his designee may approve a rate filing if it is determined that the premium rates charged for the insurance coverage are reasonable in relation to the benefits charged.<sup>9</sup> The director must disapprove premium rates if he determines that the benefits in the policies or certificates are unreasonable in relation to the premium charged. If this occurs, the director must notify the insurer of the reasons for disapproval and the insurer is entitled to appeal the action to the Administrative Law Judge Division.<sup>10</sup> If no action is taken on a filing to approve or disapprove it, the premium rates go into effect (i.e., deemed approved) after they have been pending for 90 days. South Carolina law gives the director the right to withdraw approval of forms and rates previously approved by the department if he determines that the forms no longer meet the standards of approval set forth in §38-71-310A)and (B).<sup>11</sup>

To date, the Department has not been able to collect credible statistical data on individual health insurance filings. Until recently, the Department had one actuary responsible for providing actuarial services to the Department. Therefore, we have not been able to audit the loss ratios provided by the insurers except on examination or during a market analysis review. Additionally, we do not have a record of any refunds for comprehensive medical plans with rates that have been filed for prior approval. There is evidence, however, that approximately 20 major medical filings were reduced prior to approval by the Department during 2009. In practice, any filing subject to prior approval would be returned to the insurer or disapproved if the filings did not comply with South Carolina law. In most instances, insurers withdraw filings, correct then resubmit them to the Department in accordance with Department instructions for its review.

Under South Carolina law, insurers filing rates pursuant to our loss ratio guarantee provisions would be required to automatically issue a proportional refund if the required annual audit revealed loss ratios that did not meet or exceed the required minimum.<sup>12</sup> Insurers will be asked as a part of the data call to provide information on any changes or

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<sup>9</sup> S.C. Code Ann. § 38-71-310 (2002).

<sup>10</sup> Id.

<sup>11</sup> Id.

<sup>12</sup> S.C. Code Ann. §38-71-\_\_\_\_ (2002).

adjustments in loss ratio, if any, and the number of rate refunds issued. Through the data collected, the Department will determine whether refunds should have been issued that were not.

#### ***Rate Regulation in the South Carolina Group Market***

Most group rate filings are not subject to prior approval. The following group products are subject to the rating requirements of §38-71-310<sup>13</sup>: group mass marketed (whether in state or out of state) pursuant to §38-71-740; blanket accident and health insurance pursuant to §38-71-1020 and franchise accident and health insurance, pursuant to §38-71-1110.

#### ***Rate Regulation in the South Carolina Large Group Market***

Insurers writing in the large group market must file their forms with the Department for prior approval pursuant to § 38-61-20 and § 38-71-720. The South Carolina Insurance Code generally does not provide rating requirements for insurance coverage marketed in the large group market. Unless the product falls within the category listed above, South Carolina law does not require insurers to file large group rates. Insurers are required to file policies with the Department for prior approval. Generally, Department staff will audit the filings that have been deemed exempt in accordance with § 38-61-20(C) periodically to determine whether the forms comply with South Carolina requirements regarding required policy provisions and coverage. Policies subject to HIPAA requirements and long term care and Medicare Supplement policies are subject to prior approval.

#### ***Rate Regulation in the South Carolina Small Group Market***

Sections 38-71-940 through 38-71-970 provide the rating requirements for insurance coverage marketed to small employers. Small group insurance rates in South Carolina are subject to adjusted modified community rating. Community rating generally means that the insurer has to charge every person the same rate. Adjusted community rating allows adjustments for certain case characteristics. Modified adjusted community rating allows changes for certain case characteristics *and* the health status of the insured. Section 38-71-940 provides that the premium rates charged to small employers with similar case characteristic for the same or similar coverage may not vary from the index

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<sup>13</sup> Section 38-71-310 requires insurers to file rates for prior approval before they may be offered in the state.

rate by more than 25% of the index rate. That effectively creates rating bands of +/-25% around the index (or average) rate for small employers in the same class of business. Rate increases may not be such that a small employer would no longer fall within the rating bands. In addition, rate increases are limited by the following restriction: insurers can adjust the index rate by no more than the adjustment in their new business rate plus 15% based on the health status of the group. Premiums can also be adjusted for changes in benefit design or case characteristics.

Insurers marketing their products to small employers are not required to file their small group rates with the Department. Instead, insurers must file annually a certification prepared by a credentialed actuary that certifies that the rates comply with South Carolina law and they are actuarially sound. The certifications are filed with the Department for information purposes only. Department staff check the actuarial certification to make sure that the actuary preparing the certification has complied with the requirements of South Carolina law regarding the content certification. Even though insurers are not required to submit their filing to the Department, they are required to maintain documentation of the business transacted by them and their rating practices. Documentation relating to the rating practices and methodology of the insurer are considered by South Carolina law to be proprietary information.

Through the grant, we will have the ability to hire actuaries to audit rates permitted under South Carolina law to determine whether they are reasonable in relation to benefits based on the Secretary's definition of what constitutes a reasonable rate. With the results of this audit, the Department will be able to formulate policy recommendations on modifications to South Carolina's small group rating laws.

Over the last several years, the number of fully-insured association trusts has increased in South Carolina. South Carolina law generally recognizes products sold by these organizations to be group insurance products. Consequently, the rates charged by insurers in this market are not subject to prior approval. As a part of this grant, the Department will review this segment of the market to make sure companies are not engaging in abusive rating practices and that they are not attempting to use the trust model to circumvent state insurance rate regulation.

**Current Level of Resources and Capacity for Reviewing Health Insurance Rates : Current IT systems and Capacity**

The Department currently uses the System for Electronic Rate and Form Filing (SERFF) in addition to a legacy system to facilitate form and rate filings and to track all filings. The Department also permits insurers to file paper filings. The SERFF system does not interface properly with our legacy system. Therefore, tracking data from SERFF must be manually input into our legacy system which is a burdensome process and makes it difficult to effectively track filings and collect pertinent data related to these filings. The Department intends to use grant funds to enhance its ability to collect pertinent data related to rate filings, to electronically process the rate filing based on the data analysis and federal requirements; to aggregate data for rate filings; and to report on rate trends in health insurance coverage as well as meet other reporting guidelines outlined in the grant announcement. Grant funds will not be used as a substitute for existing funding for our current IT systems and capacity. But, rather grant funds will be used enhance the state's rate review efforts by enhancing our existing IT systems and capacity.

**Current Level of Resources and Capacity for Reviewing Health Insurance Rates : Budget and Staffing**

The Life & Health Section of the Office of Market Services is responsible for reviewing health insurance policy forms and rates. Currently, we have one rates analyst assigned to review all individual accident and health insurance rates and any requests for rate increases filed in the state. Individual accident and health insurance includes a variety of different products (e.g., major medical, disability income, Medicare supplement, long term care insurance). The rates analyst is devoted full time to reviewing all individual accident and health insurance rates and rate filings. Approximately 20% of the filings reviewed are for major medical products. The rates analyst is a PhD mathematician who intends to take actuarial exams. She is supervised by a Program Manager who is responsible for managing the day to day activities of the Office of Market Services. The Program Manager is supervised by a Deputy Director who is also a credentialed life actuary and serves as the Department's Chief Actuary. The Department recently hired a second credentialed life actuary. Part of the life actuary's responsibility is to assist the rates analyst in her review of new rates and rate increase requests. In addition, the life actuary is responsible for small group rate certifications and loss ratio guarantee filings. The life actuary spends less than 5% of his time currently devoted to these endeavors.

The Program Manager and the Deputy Director spend less than 5% of their time in rate review endeavors. Grant funds will not be used as a substitute for existing funding for our rate review efforts. Grant funds will only be used to enhance the state’s rate review efforts.

**Current Funding for the Rate Review Process**

During FY 2009-10, \$780,140 of the Department’s budget was expended to support the Office of Product Regulation and Market Services. The Department has been allocated \$797,048 in funding for the 2010-11 fiscal year. The Department does not anticipate reductions in funding for this office. However, funding for this unit as well as other units of the Department is contingent upon state appropriations.

**Market Share Information**

The Department recently conducted a preliminary data call to assess the number of potential annual rate increase filings in the individual, small and large group market. Not all insurers have responded. However, the summary information below presents a reasonable picture of the relative magnitude of the markets and the number of rate increases that might be implemented and subject to review each year.

	Written Premium	Policy Forms/Groups	Policyholders/ Employees
Individual Market	\$224,437,431 (11.35%)	432	109,433
Small Group Market	\$617,932,915 (31.25%)	12,300	147,768
Large Group Market	1,134,743,259 (57.40%)	1,015	281,929
Total	\$1,977,113,605 (100%)	13,747	539,130

The Department estimates one rate increase filing per year per form in the individual market and one rate increase filing per group per year in the group markets. Based upon the responses received to date, more than 13, 747 rate increase filings could be filed each year. The Department estimates that 4-7 hours will be required to review each filing.

Currently, only individual rate increase filings are subject to prior approval. In addition, as noted above, over the last several years, the number of fully-insured association trusts has increased in South Carolina. South Carolina law generally recognizes products sold by these organizations to be group insurance products. Consequently, the rates charged by insurers in this market are not subject to prior approval. Thus, the number of rate requests currently subject to review in South Carolina is considerably less than 432. The Department intends to carefully study rating practices in the association trust market as a part of our grant proposal.

### **Consumer Protections**

Rate filings are made available to the public for inspection after they become effective. However, they are not “publicly disclosed.” There are a couple of options for retrieving copies of rate filings that have been reviewed and closed by the South Carolina Department of Insurance. There is a \$1 per page fee for printed or emailed files, \$45 per CD or USB Drive with as many files that can fit. (The USB drives must be furnished by the requestor.) A fifty dollar fee (\$50) per filing is charged for files that must be retrieved from Archives to cover the staff time required to pull and copy these filings. To retrieve a copy of a rate filing, consumers can:

1. Schedule an appointment to come to the Department where the filings can be viewed at our public kiosk. Most people bring a USB drive with them to save any files that they need, instead of printing them.

Appointments can be scheduled by calling 803-737-6113 or emailing [centralfiles@doi.sc.gov](mailto:centralfiles@doi.sc.gov).

2. Search the rate filings via the Department’s web site by visiting the Department’s [Company Filing Database](#). When consumers find the rate filings they are interested in receiving, they are instructed to email the filing number for each of the requested files and their billing address to [centralfiles@doi.sc.gov](mailto:centralfiles@doi.sc.gov). Department staff will send the filings to the Consumer once they are retrieved.

The Department has received complaints questioning the justification for premium rate increases. In general, the complaints are related to group health insurance policies that are not currently subject to prior approval.

### **Examination and Oversight**

The Department has not taken any action against insurance companies over the past two years regarding health insurance rates. Nor have any formal hearings relating to health insurance rates been requested.

## Proposed Rate Review Enhancements for Health Insurance

### **Expanding the Scope of Current Review and Approval Activities**

The Department intends to use a portion of the grant funds to engage a consulting actuary to 1) conduct a comprehensive review of all health insurance rate increases/filings in South Carolina to determine whether the rates being charged for this coverage are reasonable in relation to the benefits based upon the guideline loss ratios and the standard developed by the Secretary for unreasonable rate increases; and 2) establish a comprehensive rate review process that is meaningful and transparent and ensures that health insurance rates are fair and reasonable. If based upon the results of the consulting actuary's review, the Department determines that additional statutory authority is required to ensure that health insurance rates in South Carolina are reasonable in accordance with South Carolina law, then the Department will recommend these changes in the report it intends to make to the Secretary and members of the South Carolina General Assembly on the status of health insurance in South Carolina. Details regarding the measurable objectives, budget and timeline for this objective are provided below in the Section labeled Work Plan and Timeline.

### **Improve rate filing requirements**

#### *Expanding the Scope of Current Review and Approval Activities*

As noted above, the Department intends to use a portion of the grant funds to engage a consulting actuary to 1) conduct a comprehensive review of all health insurance rate increases/filings in South Carolina to determine whether the rates being charged for this coverage are reasonable in relation to the benefits based upon the guideline loss ratios and the standard developed by the Secretary for unreasonable rate increases; and establish a comprehensive rate review process that is meaningful and transparent and ensures that health insurance rates are fair and reasonable. Our expectation is that the consulting actuary will recommend enhancements to our current process, including: 1) identifying key factors and assumptions that influence proposed rate increases and defining appropriate data elements and documentation related to these factors that need to be captured to adequately assess the proposed rate increase; 2) establishing methods for assessing the appropriateness of rates for small and large group markets; and 3) ensuring that methods for assessing the appropriateness of rates in all markets take into account the MLR rebate requirement of

ACA and the process established by the Secretary and the states for the review and justification of unreasonable rate increases. Details regarding the measurable objectives, budget and timeline for this objective are provided below in the Section entitled *Work Plan and Timeline*.

*Enhancing the rate review process - Staffing*

The Department intends to use grant funds to hire a consulting actuary to 1) conduct a comprehensive review of all health insurance rate increases/filings in South Carolina to determine whether the rates being charged for this coverage are reasonable in relation to the benefits based upon the guideline loss ratios and the standard developed by the Secretary for unreasonable rate increases; and 2) establish a comprehensive rate review process that ensures that health insurance rates are reasonable. The Department also intends to hire a Project Manager to oversee implementation of the grant proposal and two actuarial analysts to assist in the rate review and data collection process. Details regarding the measurable objectives, budget and timeline for this objective are provided below in the Section entitled *Work Plan and Timeline*.

*Enhancing the rate review process - IT Capacity*

The Department intends to use grant funds to enhance the Department's legacy systems or SERFF system interface to: 1) electronically process the rate filing based on the data analysis and federal requirements; 2) collect statistical information regarding the filing including all of the data elements required in Section V.A.1.c) 1) of the grant announcement; 3) aggregate data for rate filings as required in Section V.A.1.c)2) of the grant announcement; and 4) report on rate trends in health insurance coverage as well as meet other reporting guidelines outlined in the grant announcement. Details regarding the measurable objectives, budget and timeline for this objective are provided below in the Section labeled *Work Plan and Timeline*.

*Enhancing Consumer Protection Standards*

The Department also intends to use grant funds to develop an interactive feature to the Department's website to enable consumers to access information about insurance rates. Information will include key information about the filing itself and the reason for the action taken on the filing. The Department also intends to host a public forum to disseminate the results of the data call and address the status of health insurance in South Carolina. Details regarding

the measurable objectives, budget and timeline for this objective are provided below in the Section labeled Work Plan and Timeline.

### **Reporting to the Secretary on Rate Increase Patterns**

The Department intends to enhance the Department's legacy systems or SERFF system interface to: collect statistical information regarding the filing including all of the data elements required in Section V.A.1.c) 1) of the grant announcement, as amended by the Special Terms and Conditions (STCs), if applicable; aggregate data for rate filings as required in Section V.A.1.c)2) of the grant announcement, as amended by the STCs, if applicable; and report on rate trends in health insurance coverage as well as meet other reporting guidelines outlined in the grant announcement, as amended by the STCs, if applicable. The Department understands that final data reporting requirements will be outlined in the STCs that will be provided to all states awarded a grant. The Department has included funds in the grant budget to enhance its SERFF application. SERFF will be modified to enable the states to collect and report statistical information.

## **Proposed Budget**

What follows is a summary of how South Carolina proposes to expend the grant funds to accomplish the work described in the Project Narrative:

### ***Personnel Services***

Leslie Jones, Chief Life Actuary, will serve as the principal investigator for this grant. In addition, the Department plans to hire the following grant personnel:

- A Project Manager will be hired for the duration of the project for 37.5 hours per week. This person to have significant actuarial experience or experience managing a health insurance plan. The budget includes \$100,000 for this position.
- An Accounting/Financial Analyst will be hired for the duration of this project for 20.0 hours per week. The budget includes \$20,000 for this position.
- Two actuarial assistants who will work under the direct supervision of the project manager. These two assistants will be responsible for assisting with data collection, reviewing current rate filing information, generating reports and performing any other duties necessary for the successful completion of the grant project. The budget includes \$70,000. The Department plans to recruit two actuarial students from the University of South Carolina's Actuarial Science program for these grant positions.

### ***Contractual Services***

To successfully conduct the work required under this grant, the Department needs to procure actuarial and IT services.

- ***Actuarial:*** The actuarial numbers in the budget are broken down by the different phases of the grant. ***Phase I*** of the data collection will be focused on collecting rating information for historical purposes. Insurers will be able to file this historical information directly into SERFF. We estimated that this component of the project would take about 500 hours of actuarial time at a rate of \$200 per hour. Actuaries would review and analyze the rating data, report their findings to the Department and then make recommendations about whether changes were needed to the Department's rate review process or South Carolina insurance laws. This estimate is based on the services of one actuary. ***Phase II*** of the data collection component involves the review and analysis of current rate filings to determine whether the rates charged for the product are unreasonable as that term is defined by the Secretary of Health and Human Services. This will be the bulk of the work required under the grant. We estimated that this portion of the grant would take about 2100 hours or about 4-5 months to complete. The time allocated for this phase includes data analysis and development

of the recommendations and report. **Phase III** of the data collection component includes updating the Department's processes and procedures. As a part of this grant, the Department wants to automate its checklists, other forms and other rate review procedures. The actuarial firm will assist the IT consultant in identifying the data elements necessary to automate these forms and enhance the current legacy system. We estimate that the work under this portion of the grant will take approximately 193.5 hours. The budget proposal estimates \$558,700 for these services.

- **IT Infrastructure Enhancement:** The IT infrastructure enhancement involves the SERFF and the Department's back office operations. We estimate that the enhancements will cost \$150,000-\$200,000. There are three components to the necessary enhancements: **Phase I** involves enhancements to the API Developer component. This is estimated to take about 1000 hours of work time. This work needs to start as soon as the grant is awarded. The Department will have to contract with an IT consultant to accomplish this part of the grant. **Phase II** involves the NAIC SERFF Enhancement. The Department would contract with the NAIC to handle this portion of the grant. The final portion the IT component of the grant . (**Phase III**) will be to make modifications to the system based on the final data elements and definitions provided by the Secretary. The Department will either select from the state contract or conduct an RFP solicitation for IT consulting services. The budget proposal includes \$200,000 for the IT work required under the terms of the grant.

### ***Office Space and Equipment***

- The budget allows \$43,800 for the Department to prepare office space and equipment to house the Project Manager, actuarial assistants and the Accounting/Financial Analyst for the duration of the program.
- The budget also involves the purchase of the following additional equipment: printer, scanner, projector, etc. The budget above includes \$ 14,800 for these items.

### ***Office Supplies***

Postage, printing, office supplies, and telephone usage have been included in the budget for program operation. The estimate for these items is \$3,000.

### ***Travel***

Seven Thousand five hundred dollars (7,500) has been included in the budget for travel. This includes travel for 1-2 persons to national meetings of the National Association of Insurance Commissioners or the United States Department of Health and Human Services related to actuarial matters or other issues related to the grant.