MILLIMAN REPORT

Actuarial Impact on Fixed Indemnity Plans of Tri-Agency Rule Proposal

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Commissioned by The American Council of Life Insurers

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Background

On July 7th, The Department of the Treasury, the Department of Labor, and the Department of Health and Human Services (hereafter "Tri-Agency") published proposed rule changes related to short-term limited durational insurance, hospital or other fixed indemnity coverage, specified disease insurance and taxation of fixed indemnity benefits. The proposed regulation has the potential to severely impact the scope of fixed indemnity coverage offered in the market today.

The American Council of Life Insurers (ACLI), which is a trade association for the life insurance industry, has engaged Milliman to assist with assessing the expected actuarial impact of the proposed Tri-Agency rule changes on fixed indemnity plans. All other products mentioned in the proposed Tri-Agency rule are outside the scope of this report.

Plan Designs

In order to conduct our analysis, it was necessary to establish two illustrative plan designs to evaluate the actuarial impact of benefits that may be removed due to the proposed Tri-Agency rule. As such, Milliman and ACLI surveyed ACLI member companies (between August 18, 2023 and August 23, 2023) to obtain common fixed indemnity benefit plan designs available in the market. Based on the plan design information provided by the ACLI members and conversations with ACLI and ACLI's members, ACLI selected two illustrative plan designs to use in Milliman's assessment. While these benefit designs are informed by submissions from member companies, the plan designs Milliman used for this analysis are meant to broadly represent typical plan designs that are available in the market. Plan A is illustrative of a streamlined benefit design largely focused on hospitalization elements, and Plan B is illustrative of a broader fixed indemnity benefit offering.

Each benefit was then individually evaluated by ACLI with respect to the proposed Tri-Agency rule and identified as permitted or non-permitted. ACLI performed an evaluation of permitted and non-permitted status on each benefit as it is currently described in the plan design. We have relied on that assessment in our work. It is possible that minor or moderate revisions to the benefit definition or the payment trigger could result in a change in permitted status. Such assessment was outside the scope of the analysis conducted. Additionally, it is possible that other parties may have a different opinion of the impact of the proposed Tri-Agency rule on permissibility, which could result in a materially different result than the analysis presented later in this report. Milliman has not performed an independent review of ACLI's assessment regarding potential benefit permissibility.

PLAN A

Figure 1 below illustrates the benefit design, key benefit features and permitted status for Plan A.

FIGURE 1: PLAN A BENEFIT DESIGN

BENEFIT	AMOUNT	LIMIT	PERMITTED STATUS*	ADDITIONAL NOTES
Hospital Confinement	$150/day	10 days per calendar year	Permitted	Includes confinement due to mental health or substance abuse
Intensive Care Unit	$150/day	10 days per calendar year	Non-permitted	Paid in addition to the hospital confinement benefit
Inpatient Rehabilitation	$75/day	10 days per calendar year	Non-permitted	
Hospital Admission	$1,500	8 times per calendar year	Non-permitted	
Observation Room	$100	1 time per calendar year	Non-permitted	Does not include observation in an outpatient facility
Wellness	$50	1 time per calendar year	Non-permitted	

* As determined by ACLI.

PLAN B

Figure 2 below illustrates the benefit design, key benefit features and permitted status for Plan B.

FIGURE 2: PLAN B BENEFIT DESIGN

BENEFIT	AMOUNT	LIMIT	PERMITTED STATUS*	ADDITIONAL NOTES
Hospital Admission	$1,000	1 time per calendar year	Non-permitted	
Hospital Confinement	$150/day	31 days per calendar year	Permitted	Includes confinement due to mental health or substance abuse
Hospital ICU	$150/day	10 days per calendar year	Non-permitted	Paid in addition to the hospital confinement benefit
Intermediate Intensive Care Unit	$75/day	10 days per calendar year	Non-permitted	Paid in addition to the hospital confinement benefit
Outpatient Doctor's Office Visit	$25/visit	6 visits per calendar year	Non-permitted	Does not include Telemedicine Service, which is a separate benefit
Telemedicine Service	$15/service	6 services per calendar year	Non-permitted	
Chiropractor Visit	$20/visit	4 visits per calendar year	Non-permitted	
Major Diagnostic Exams	$150	1 time per calendar year	Non-permitted	Covers CT/CAT, MRI, and EEG
Out of Hospital Prescription Drug	$20	5 prescriptions per calendar year	Non-permitted	A prior hospitalization is not required for this benefit to be payable
Hospital Emergency Room Visit	$100/visit	5 visits per calendar year	Non-permitted	
Emergency Room Observation	$50/visit	Once for each covered event per year and up to 5 total visits per year	Non-permitted	Greater than 4 hours, but less than 24 hours of observation
Emergency Room Observation	$100/visit	Once for each covered event per year and up to 5 total visits per year	Non-permitted	Greater than 24 hours of observation
Rehabilitation Facility	$75/day	30 days per calendar year	Non-permitted	Inpatient rehabilitation only
Inpatient Surgery and Anesthesia	$500	1 time per calendar year	Non-permitted	
Outpatient Surgery and Anesthesia	$250	1 time per calendar year	Non-permitted	Performed in a hospital or ambulatory surgical center
Facilities Fee for Outpatient Surgery	$75	1 time per calendar year	Non-permitted	Performed in a hospital or ambulatory surgical center
Outpatient Surgery and Anesthesia	$50	4 payments per calendar year	Non-permitted	Performed in a doctor's office, urgent care facility or emergency room.
Wellness	$50	1 payment per year	Non-permitted	

* As determined by ACLI.

Actuarial Impact

Milliman determined illustrative claim costs for each plan design for the permitted and non-permitted benefits in order to assess the actuarial impact of the proposed Tri-agency rule. Additional detail regarding the development of the illustrative claim costs is included in the methodology section of this report; however, please note that there are many factors beyond plan design that can affect the anticipated claim costs for fixed indemnity products. Such factors include, but are not limited to, group size, industry, participation level, and rate guarantee. Additionally, there are several elements of the plan design that can have a material impact on claim costs including, but not limited to, maternity coverage, facility definitions, and annual limits. For these elements, we have assumed a consistent basis within each plan design. We have also considered a consistent basis in the claim costs before and after the exclusion of the assumed non-permitted benefits.

The actuarial claim costs presented in our analysis are on a composite basis. As anticipated claim costs for many of the benefits contained in Plans A and B vary materially by age and gender, the age and gender distribution utilized in this analysis are critical assumptions. Both assumptions have been documented in the methodology section and the use of alternative assumptions may materially affect the results presented below.

For the purposes of our analysis, the actuarial impact is defined as the change in actuarial claim cost due to the removal of benefits. As an example, if half of the claim costs were to be removed, the resulting actuarial impact would be -50%.

PLAN A

Figure 3 below illustrates the actuarial impact of the proposed Tri-Agency rule on Plan A.

FIGURE 3: PLAN A ACTUARIAL IMPACT

PLAN DESIGN	ACTUARIAL CLAIM COST	ACTUARIAL IMPACT
All benefits included	$144.00	0%
Non-permitted benefits excluded	$33.34	-77%

As a result of removal of the non-permitted benefits, the Plan A anticipated claim cost has dropped by 77%. It should be noted that this estimate is based upon ACLI's interpretation that all service-based benefits would be non-permitted. Alternative interpretations could result in a lesser reduction in claim costs.

PLAN B

Figure 4 below illustrates the actuarial impact of the proposed Tri-Agency rule on Plan B.

FIGURE 4: PLAN B ACTUARIAL IMPACT

PLAN DESIGN	ACTUARIAL CLAIM COST	ACTUARIAL IMPACT
All benefits included	$246.88	0%
Non-permitted benefits excluded	$45.01	-82%

As a result of removal of the non-permitted benefits, the Plan B anticipated claim cost has dropped by 82%. It should be noted that this estimate is based upon ACLI's interpretation that all service-based benefits would be non-permitted. Alternative interpretations could result in a lesser reduction in claim costs.

Methodology

We developed the actuarial claim costs before and after implementation of the proposed Tri-Agency rule using the Milliman Health Cost Guidelines™ as well as our extensive experience in the fixed indemnity market. Additionally, we utilized assumptions that were informed by the Milliman Hospital Indemnity Survey.

The Milliman Health Cost Guidelines™ (HCGs) incorporate more than 70 years of research and consulting practice into suite of products utilized by Milliman consultants and clients. The HCGs are updated annual to address the latest trends and regulatory compliance issues. More than 100 risk-bearing entities rely on the HCGs, compiled from published and unpublished, private and public data sources, to model healthcare utilization and estimate claim costs.

The Milliman Hospital Indemnity Survey is a survey of hospital indemnity carriers in the U.S. market. The survey explores numerous facets of the hospital indemnity market, including sales and inforce, product profile, product features, offerings, target metrics, commissions and tech fees, enrollment and portability, pregnancy benefits, claims and billing, risks, competitors, popular benefits, and market topics. The 2022 survey, which is the most current edition as of the publication of this report, represented results from 35 carriers and $2.3 billion in inforce premium.

The items below describe key assumptions in our analysis.

- Employee / Primary-only coverage is reflected in our analysis
- No rate guarantee included
- No pre-existing condition included
- No portability, waiver of premium, or return of premium features included
- Coverage includes substance abuse, mental health, and maternity without a waiting period
- Guaranteed issue coverage
- No industry rating or adjustments applied
- All coverage is assumed to be elected by the employee / primary insured (e.g., no employer paid coverage included)
- Group characteristic assumptions:
  - Plan A: 11% - 20% participation with a 1,000 – 3,000 life group size
  - Plan B: 11% - 20% participation with a 50 – 99 life group size

For the purpose of calculating the composite individual only claim costs presented in this analysis, the following age distribution was utilized along with an equal gender distribution.

FIGURE 5: AGE DISTRIBUTION

AGE	DISTRIBUTION
<25	5%
25 - 29	10%
30 - 34	10%
35 - 39	10%
40 - 44	10%
45 - 49	10%
50 - 54	15%
55 - 59	15%
60 - 64	10%
65 +	5%

Caveats, Limitations, and Qualifications

Ashlee Borcan, Principal and Consulting Actuary and Jennifer Howard, Principal and Consulting Actuary, with Milliman, are members of the American Academy of Actuaries, and meet the qualification standards of the Academy to render the actuarial opinion contained herein. To the best of their knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. This report was commissioned by ACLI.

This report should be reviewed in its entirety. The information in this report is intended for the use of ACLI to provide an assessment of the actuarial impact of the proposed Tri-Agency rule. It may not be appropriate and should not be used for other purposes. This work has been prepared for ACLI to share with third-party stakeholders. We do not intend this information to benefit, or create a legal liability to, any third-party, even if we permit the distribution of our work product to such third-party. The information in this report is qualitative in nature, and no party should rely on this information without a thorough review and understanding of the assumptions and the methodology utilized in this report.

In preparing this work product, we have utilized actuarial models as defined by Actuarial Standard of Practice. The intended purpose of these models is to develop morbidity and rating projections for hospital indemnity products. Differences between our 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.

Our assessment was formed based on assessments of permitted and non-permitted benefits made by ACLI based upon the July 7, 2023 Tri-Agency published proposed rule. We accepted this information without audit but reviewed it for general reasonability and consistency. If the underlying data or information is inaccurate or incomplete, the contents of this report, along with many of our conclusions, may likewise be inaccurate or incomplete.

If there are material defects in the data and information, it is possible they would be uncovered by a detailed, systematic review and comparison of the data to search for questionable data values or for relationships that are materially inconsistent. Such a review is beyond the scope of this assignment.

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