

NEW JERSEY
INDIVIDUAL HEALTH COVERAGE PROGRAM BOARD
Trenton, NJ 08625

IN THE MATTER OF PRINCIPAL MUTUAL LIFE
INSURANCE COMPANY'S REQUEST FOR
EXEMPTION FROM ASSESSMENT FOR 1995
REIMBURSABLE LOSSES

ADMINISTRATIVE ORDER NUMBER 96-26

WHEREAS, the New Jersey Individual Health Coverage Program ("IHC") Board is authorized by the Individual Health Insurance Reform Act of 1992 ("IHC Act"), N.J.S.A. 17B:27A-2 et seq., and regulations promulgated thereunder, to administer the IHC Program, to assess members of the IHC Program on the basis of their proportionate share of program losses and administrative expenses and to take any legal actions necessary to recover assessments owed to the IHC Program;

WHEREAS, Principal Mutual Life Insurance Company ("Principal") is a "carrier" that filed a carrier Market Share and Net Paid Loss Report ("Exhibit K") with the IHC Board on February 28, 1995 which reported net earned premium of \$75,431,592;

WHEREAS, based on the net earned premium reported, and in accordance with N.J.S.A. 17B:27A-12 and N.J.A.C. 11:20-9.3, the Board notified Principal on May 3, 1995, that its minimum enrollment share for 1995 was 3,876 non-group persons;

WHEREAS, on February 22, 1995, Principal filed a request for exemption from assessment for reimbursable losses of the IHC Program pursuant to N.J.A.C. 11:20-9.2 for calendar year 1995. In doing so, Principal agreed to enroll the minimum number of non-group persons assigned to it by the IHC Board;

WHEREAS, the IHC Board granted Principal's request for a conditional exemption, contingent upon Principal's meeting its minimum enrollment share;

WHEREAS, on February 20, 1996, Principal reported, as required by N.J.A.C. 11:20-9.5, its enrollment of 568 non-group persons, or 14.65% of its minimum enrollment share;

WHEREAS, pursuant to N.J.A.C. 11:20-9.5(f)(1), any carrier granted a conditional exemption that enrolls or insures fewer than the minimum number of non-group persons allocated to that carrier by the Board shall be liable for a pro rata exemption from assessments based upon the percentage of the minimum number of non-group persons actually enrolled or insured by the member, subject to a demonstration by the member to the Board that the member has made a good faith effort to enroll or insure the minimum number of non-group persons allocated to it;

WHEREAS, a carrier that enrolls less than 50% of its minimum enrollment share must demonstrate a good faith marketing effort in accordance with the reporting criteria set forth at N.J.A.C. 11:20-9.6 and subject to the Board's review of the carrier's advertising, marketing and promotion efforts in direct support of sales of standard health benefits plans during the applicable calendar year;

WHEREAS, pursuant to N.J.A.C. 11:20-9.5(f)(2), if the Board finds that a member has not made a good faith effort to enroll or insure its minimum number of non-group persons, the member shall not receive a pro rata exemption;

WHEREAS, Principal filed, on June 25, 1996, a 1995 Good Faith Marketing Report (incorporated herein by reference), pursuant to N.J.A.C. 11:20-9.6, describing its marketing efforts and supplemented its report with information about agent commissions on July 16, 1996;

WHEREAS, in response to a September 6, 1996 request from the IHC Board for additional information and clarification of its marketing report, Principal responded to the Board, by letter dated September 19, 1996, which confirmed that none of its advertising in New Jersey was aimed specifically toward standard individual health benefits plans, its reported commissions of \$106,637.16 included renewals as well as new sales, and that its rates for the standard health benefits plans were not competitive with others available in the market;

WHEREAS, the IHC Board, on June 12, 1996, assessed Principal in the amount of \$947,486 for its share of 1995 reimbursable losses and administrative expenses, applying a pro rata exemption as a result of Principal's having met 14.65% of its minimum enrollment share, pending the Board's review of the Good Faith Marketing Report and follow-up information. Principal paid \$947,486 on July 9, 1996; and

WHEREAS, the IHC Board has reviewed Principal's Good Faith Marketing Report and, based upon the materials presented therein, concludes the following;

- Principal's marketing efforts consisted of media advertising directed at general name recognition and did not mention standard individual health benefits plans;
- Principal offered individual health benefits plans through two independent agencies, Rogers Benefit Group and Old Northwest Agents, Inc., which held meetings to train agents about life and health insurance products;
- Principal's actual enrollment of non-group persons declined from 1994 to 1995, from 664 to 568;
- Principal's efforts to sell individual health benefits plans could not, under the most favorable circumstances, have resulted in Principal's enrolling 3,876 non-group persons in calendar year 1995;

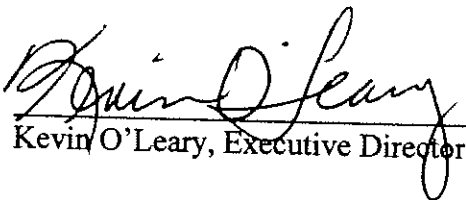
- Principal did not undertake a significant media advertising or other marketing campaign, in proportion to its minimum enrollment share, in direct support of sales of standard individual health benefits plans;
- Principal did not undertake significant efforts, in proportion to its minimum enrollment share, to educate licensed insurance producers about its standard individual health benefits plans or offer to pay competitive commission schedules for sales of such plans and offer competitive rates; and
- Principal has failed to demonstrate that it has made a good faith effort in 1995 to enroll the minimum number of non-group persons allocated to it by the Board, as required by N.J.A.C. 11:20-9.5(f)(1).

NOW THEREFORE, pursuant to the authority granted to the Board by N.J.S.A. 17B:27A-2 et seq., N.J.A.C. 11:20-9.5(f)(2), and all powers expressed or implied therein, and the decision of the Board as expressed by this Administrative Order;

IT IS on this 8th day of October, 1996,

ORDERED that Principal's request for an exemption from assessment for 1995 reimbursable losses of the IHC Program is hereby denied and, further, Principal shall not receive a pro rata exemption inasmuch as Principal failed to demonstrate a good faith marketing effort to enroll the minimum number of non-group persons assigned to it by the Board. The Board will recalculate the 1995 assessment pursuant to this decision and notify Principal of the adjusted assessment due following resolution of all pending appeals and recalculation of all carriers' assessments for calendar year 1995.

IT IS FURTHER ORDERED that, pursuant to N.J.A.C. 11:20-9.5(g), Principal may, within 20 days of the receipt of this Order, request a hearing in accordance with the Administrative Procedure Act, N.J.S.A. 52:14B-1 et seq. Any request for a hearing shall include a detailed explanation of the factual and legal reasons that the Board's action should be reconsidered.


Kevin O'Leary, Executive Director

11-18-96
Date

NEW JERSEY
INDIVIDUAL HEALTH COVERAGE PROGRAM

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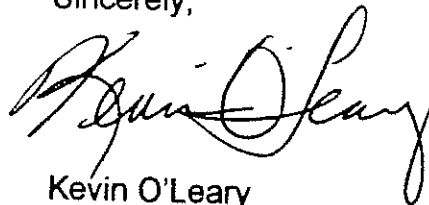
November 15, 1996

R.D. Crosby, Sr. Underwriting Consultant
Principal Mutual Life Ins. Co.
Des Moines, Iowa 50392-0001

Dear Mr. Crosby:

Enclosed please find the Individual Health Coverage Program Board's final decision regarding Principal Mutual Life Insurance Co.'s request for an exemption from of the 1995 assessment for Program losses. Please feel free to call me if you have any questions about the Order or the IHC Program generally.

Sincerely,



Kevin O'Leary
Executive Director

encl.