

U S **L H** **UNITED SECURITY**
LIFE AND HEALTH INSURANCE COMPANY

August 1, 2011

Mr. John M. Huff
Director
Missouri Department of Insurance
301 West High St., Room 530
P.O. Box 690
Jefferson City, MO 65101

RECEIVED

AUG 08 2011

MO. DEPT. OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

Amy Hoyt

Re: MLR Adjustment

Dear Director Huff,

I hope you are doing well. I am sure that you currently have your hands full, with the rolling out of the new PPACA reform changes. We recently forwarded the results of your MLR survey to your office on July 1st. From what we have been able to gather thus far, it doesn't appear that Missouri has made a final decision in regard to the filing of an MLR adjustment and we would like to ask that you take into consideration the following facts in making your final decision.

United Security Life and Health Insurance Company strongly believes that an MLR adjustment is needed to avoid significant disruption to the individual comprehensive major medical market in Missouri.

The insurance exchanges will not be available and functional until January 1, 2014. Until then, large carriers will continue to underwrite and decline risks that they are not willing to take. Small carriers have been in the marketplace taking those risks and providing a valuable service for those individuals who would otherwise not have comprehensive medical coverage.

Many small carriers will opt out of the marketplace at an 80% MLR without gradual phase-ins over four years. Agent commission contracts, network discount contracts, and numerous vendor contracts were set for lower than 80% loss ratios. These contracts have to be honored for the renewal years 2011 - 2013 when the mandated MLR is now 80%. Losses will certainly develop with no opportunity to get those losses back.

Having small carriers leave the market place will result in significant policyholder disruption as those with pre-existing conditions will lose coverage and not be able to replace it until 2014, and others may be forced to change from their current network doctors, while losing their year-to-date deductible and coinsurance accumulations they've

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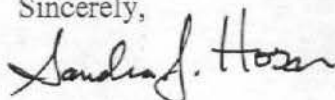
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already paid into. The policyholders of small carriers typically work closely with their independent insurance agents to obtain the best possible coverage for their personal needs within their geographical areas based on the hospitals and doctors within their current network. Independent agents are being driven out of the marketplace at the exact time they will be most needed. This will be very disruptive to the consumer. I am attaching some interesting articles for your review which I believe provides some surprising information in regard to the impact the MLR restrictions will have on companies.

United Security Life and Health respectfully asks that Missouri petition the HHS for an adjustment from the MLR requirement in its current form, and at the very least, propose a phase-in loss ratio of 65%, 70%, 75% and 80%.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Sandra J. Horn". The signature is written in a cursive, flowing style.

Sandra J. Horn
President

THE HILL

**Insurance agents say MLR rules create 'desperate' situation**

By Sam Baker - 06/02/11 05:15 PM ET

The cost and quality of healthcare will get worse because of healthcare reform rules that let the federal government review rates and set limits on how insurance companies spend their money, small businesses and insurance agents said Thursday.

Employers and agents are particularly concerned about rules that say insurers can only put 20 percent of their revenues toward profit and administrative expenses. Agents and brokers want their commissions to be carved out of the definition of administrative costs. Without that change, they fear insurers will squeeze broker commissions in order to free up money for other uses.

Agents and brokers are facing a "desperate economic situation" because of the requirements, said Janet Trautwein, chief executive of the National Association of Health Underwriters. She testified Thursday before the House Energy and Commerce Health Subcommittee.

Witnesses said the restrictions on spending — known as the medical loss ratio — will ultimately raise costs and reduce options for consumers. The MLR represents a "significant move toward government micromanagement of health insurance," University of Pennsylvania professor Scott Harrington said.

He added that the MLR rules "distort insurers' incentives for legitimate business decisions."

Rep. Mike Rogers (R-Mich.) has sponsored a bill to exclude brokers' commissions from insurers' calculations. Trautwein testified Thursday that because agents are mostly self-employed and are hired by consumers, rather than insurance carriers, their commissions shouldn't be considered administrative expenses.

Rep. Henry Waxman (D-Calif.) said brokers provide a valuable service but that carving out their commissions "in effect means increasing premiums and overhead expenses for the consumer."

The National Association of Insurance Commissioners is debating whether to endorse the Rogers bill.

Three states — Maine, Nevada and New Hampshire — have received adjustments from the MLR rules. The healthcare law requires insurers to spend 80 percent of their revenues on medical costs but lets HHS modify that standard if imposing it immediately would destabilize the state's insurance market.

Source:

<http://thehill.com/blogs/healthwatch/health-reform-implementation/164503-insurance-agents-say-mlr-rules-create-desperate-situation>

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Brave New World

ASJ's 2011 Health Insurance Market Study shows that the ACA is a true game-changer for agents and clients alike

BY HEATHER TRESE

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Health insurance agents across the nation seem to be asking one question: What happened to my commissions?

After the medical loss ratio provision of the Affordable Care Act went into effect, commissions across the country were slashed, leaving many agents wondering whether they were in the right business. Meanwhile, consumers, thinking that the government was about to swoop in with a new health insurance plan, shied away from agents and held out for the fix they hoped was coming.

Agent Sales Journal's 2011 Health Market Study, conducted in partnership with the National Association of Health Underwriters, shows how these very real concerns have changed the market. Agents are making less and selling less, facing new challenges and, for the first time since ASJ started the study in 2007, they're not optimistic about the future.

Product sales and market outlook

As the Affordable Care Act continues to be implemented bit by bit, many agents are being forced to shift their market focus. And while individual major medical still makes up a significant portion of their sales (76 percent), products like Medigap (55 percent) and long-term care insurance (45 percent) are receiving increased attention as agents expand their product lines.

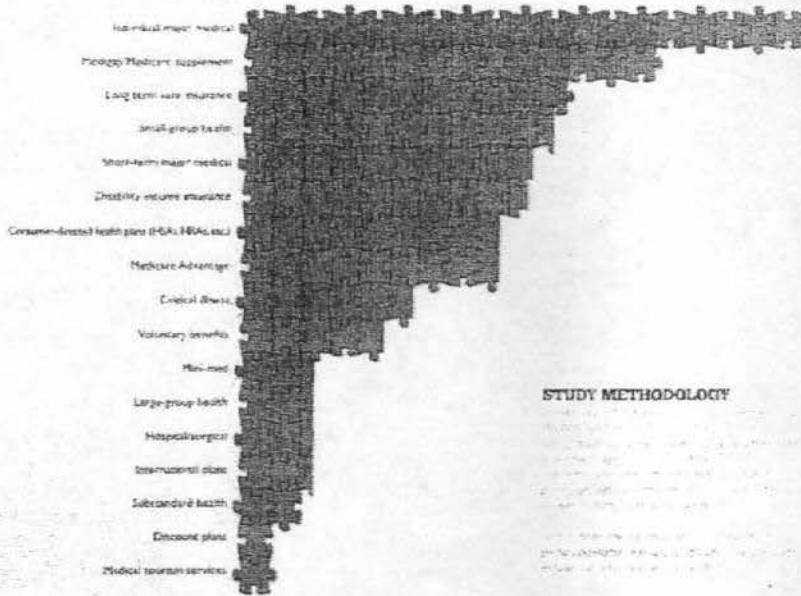
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Which of the following products have you sold in the last 12 months?



STUDY METHODOLOGY

The survey was conducted by a leading research firm, and the results are based on a representative sample of health insurance agents. The survey was conducted between [Month] and [Month], 2011. The sample size was [Number] agents, and the margin of error was [Percentage]. The survey was conducted via [Method].

2 3 4 5 Next Page

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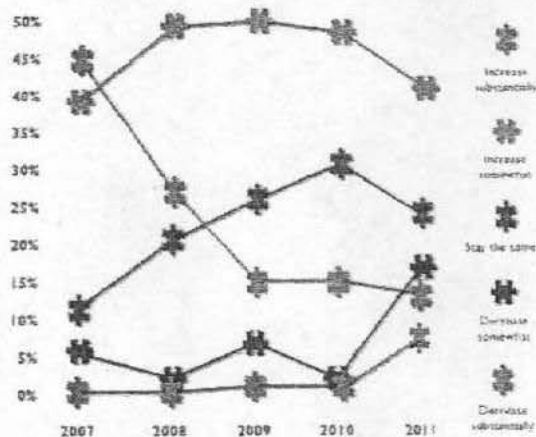
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"I plan to move into the Medicare supplement business [in the next 12 months] and hope to establish an 'Obama-proof' market for my business," said an independent agent from Plano, Texas who saw business decrease in the past year.

This agent isn't alone. In the past 12 months, 34 percent of agents saw their new individual health insurance business fall, and another 34 percent reported that it remained the same.

In light of this, it's no surprise that agents are becoming less optimistic about the future of the business: The percentage expecting a substantial increase in sales in the next year has fallen an average of 8 percentage points since 2007, while the percentage of agents expecting a decrease in their sales has increased 16 percent from 2010 to 2011.

» In the coming 12 months, do you expect your new individual health insurance sales to...



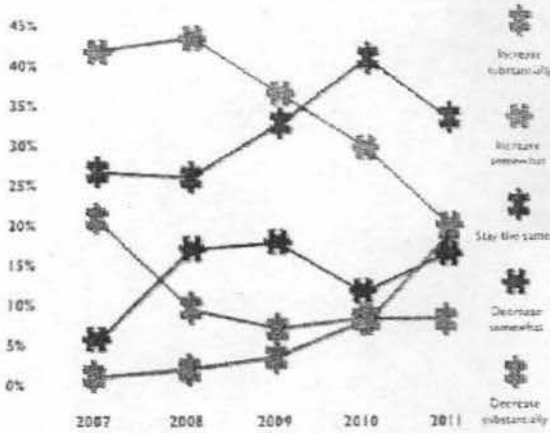
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Overcoming challenges

Do you support the new federal health care laws (The Affordable Care Act)?

Yes, and in their current form

Yes, but not to their current form

No, I do not think we need any type of changes to our health care system

Not sure

The perceived cost of health care is still a major challenge for insurance agents; 47 percent of respondents cited it as their top challenge when selling health policies.

Janet Trautwein, NAHU's CEO, thinks this is mostly a communication issue, though.

"Coverage is actually expensive, but clients may not understand why it is expensive," she said. "Health insurance is expensive because health care is expensive. We don't ask enough questions, we don't know how much a health service costs in advance. One of the things agents can do is talk to their clients about what IS in their control."

Another big challenge for insurance agents is rate increases, likely caused by the Affordable Care Act (38 percent). Troy Bangs, owner of Lake Travis Insurance and Financial Services, said in general rates have gone up, mainly as a result of several components of health care reform, including limits on cost-sharing on preventative and on lifetime maximums. Some carriers haven't increased their rates, however, and Bangs said agents could seek out carriers who are keeping them more stable. But unfortunately, rate increases are part of the health insurance market right now.

Other obstacles that agents face include a range of issues; some long-standing, others more recent: clients aren't qualified because of too many health problems (36 percent); difficult underwriting (29 percent); and the uncertainty of health care reform (20 percent).

ACA: Making business more difficult

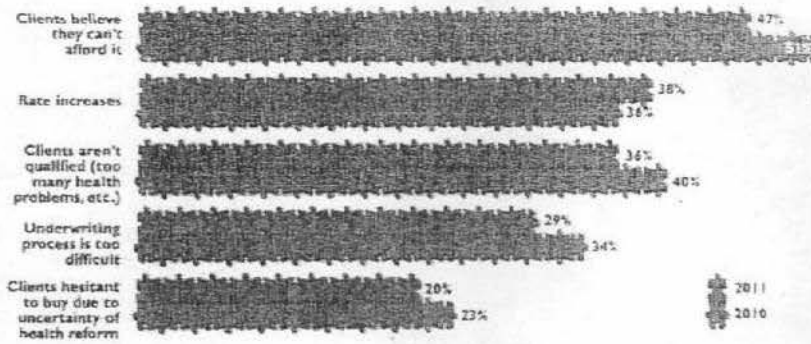
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)) What are your main challenges with selling individual health insurance?

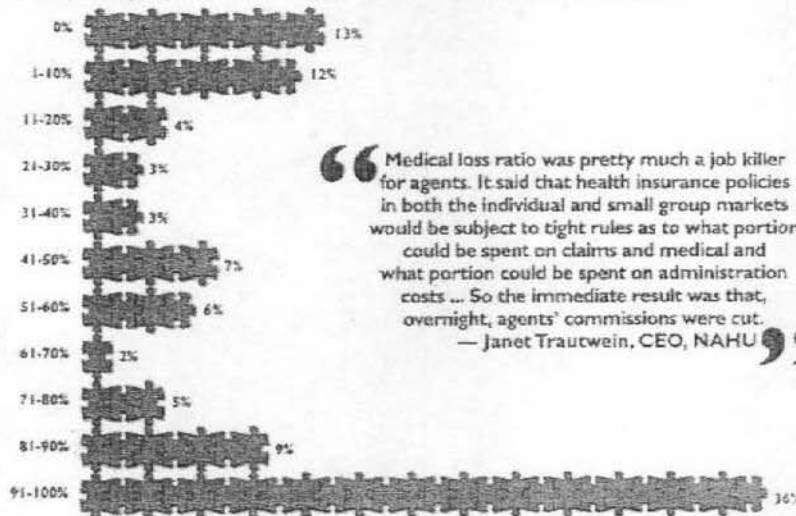


When health care reform was first introduced, many agents agreed that some type of change could be good for the health insurance industry. In 2010, when ASJ asked, "Do you support health care reform?" 87 percent of agents said that they did (though 8 percent said they would support reform in a different form.) This year, that number dropped a staggering 35 percent to 52 percent, with just 3 percent of agents supporting the legislation in its current form.

The reason for this dramatic decline likely has a lot to do with a massive decline in commissions over the past year. Fifty percent of agents received lower commissions from at least 70 percent of their individual major medical carriers, and 14 percent said their decrease has been 50 percent or more (46 percent reported commission cuts of 10-49 percent). Largely, these frightening numbers stem from the new medical loss ratio mandate.

"Medical loss ratio was pretty much a job killer for agents," Trautwein said. "It said that health insurance policies in both the individual and small group markets would be subject to tight rules as to what portion could be spent on claims and medical and what portion could be spent on administration costs ... So the immediate result was that, overnight, agents' commissions were cut."

)) What percentage of your individual major medical carriers are decreasing commissions in 2011?



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 — Janet Trautwein, CEO, NAHU

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Trautwein said NAHU is working with the department of Health and Human Services and the NAIC to modify the regulations so they're fairer to agents, and she's been happy with the headway they've made so far. Still, NAHU didn't want to wait on the commissioners to act, so they started lobbying on their own, and currently have a bill working with 45 co-sponsors in the House, which will subtract agent commissions from the medical loss ratio.

In the meantime, however, all this commission-slashing means that many agents are moving away from individual health insurance sales and expanding into fields they might not have explored otherwise.

"With the new ACA regulations and decreased commissions, the labor and resources involved in writing individual products is simply not worth the effort (not to mention the liability)," said an agent from Metairie, La.

Bangs noted that his insurance practice has started to expand in order to make up for the deficit caused by the ACA.

"Anytime you experience a 50 percent dent in your commissions, it's hard to rebuild that cash flow, and you have to do it through more business or new products," Bangs said. "You just have to understand other needs clients have, whether it's long-term care or life insurance ... specifically for 2011, we're focusing more on the senior market — Medicare Advantage and Medicare supplement."

But not everyone is feeling the pinch. Travis Middleton, president of Trademark Insurance Agency and treasurer of the Texas Association of Health Underwriters, said most of the changes he's felt from the ACA have been internal. Most companies have had to focus on repositioning themselves in the market and using more electronic communications. And while that's not ideal, he doesn't think it's been too detrimental.

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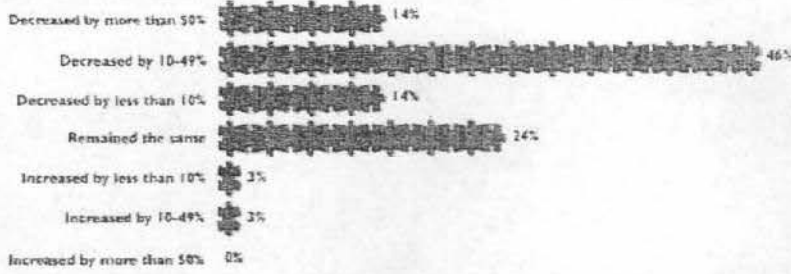


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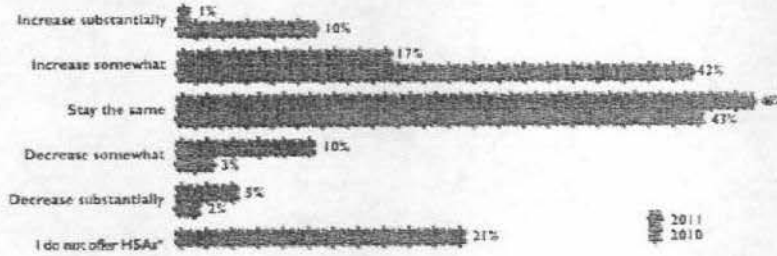
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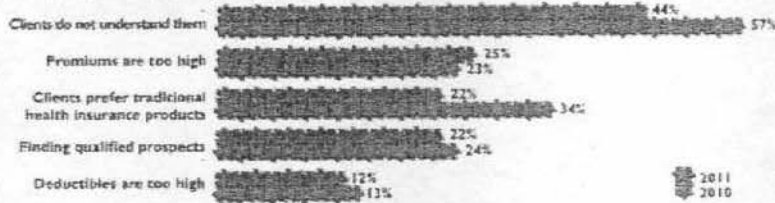
» In the past 12 months, have typical commissions for the individual major medical products you sell...



» In the past 12 months, did your HSA sales...



» What are your main challenges with selling HSAs?



Previous Page 1 2 3 5 Next Page

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Health savings accounts: The wave of the future?

Trautwein said that, when the ACA first passed, many people thought consumer-driven health products and health savings accounts would disappear. But in the last few years, the products have only increased in popularity.

"People like them," she said. "They find them affordable, they like the tax savings associated with the account, and they like the ability to save for the future."

And while health savings accounts haven't necessarily become any more popular over the past year, they haven't lost sales, either. Mostly, the product is remaining consistently popular, with 46 percent of agents reporting that their HSA sales remained the same. Even better, it seems that HSA understanding is increasing, as well; last year, 57 percent of agents reported that their clients found HSAs difficult to understand. This year, that number dropped to 44 percent.

Middleton said one of the reasons HSAs are so popular is because they put health care into the hands of the policyholder.

"It makes your health care easier to handle and easier to use," he said. "And I've got people who've been using HSAs 10 years or more and have substantial money saved in their HSAs. Those people are very happy with it."

This doesn't mean, however, that the product is problem-free. Trautwein said that the provision limiting deductibles on HSA plans could hurt small businesses if it's not repealed, because the business owners have to offset the cost of the deductible or find another plan.

Additionally, the restrictions on flexible spending accounts have been very unpopular. The first change is that FSAs can no longer be used to purchase over-the-counter medications, and the second limits the amount that can be added to the FSA to \$2,500.

"I know a lot of employees would like those two provisions to change, but I'm not sure they're going anywhere," Trautwein said.

Study Methodology

In February 2011, Agent's Sales Journal partnered with the National Association of Health Underwriters to survey licensed insurance professionals across the country about their experiences in the health insurance market. The names were randomly selected from Agent Media's proprietary database of health insurance agents.* Producers were

invited via email to take the survey.

**Editor's note: Agent Media owns Target Agent Lists, a proprietary database of financial services professionals that includes 1.8 million licensed life, health and annuity agents.*

Heather Trease is a freelance writer who has covered the insurance industry for a number of years. She is a frequent contributor to the Agent's Sales Journal. She can be reached at hntrease@gmail.com

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Page 2 of 2

Uncle Sam's meddling in health insurance rates is wrong and will hurt consumers

The US Department of Health and Human Services is trying to bully or shame health insurers into reducing their rate increases. The problem is that the federal government has no legal authority to regulate health insurance rates and doing so may actually drive prices up.

By Lawrence H. Mirel / June 13, 2011

Washington

On May 19, the US Department of Health and Human Services (HHS) issued a final regulation requiring that, starting on Sept. 1, 2011, health insurers filing for an “unreasonable” rate increase – namely one that exceeds 10 percent – must publicly justify their proposal, so that “consumers [will] know why they are paying the rates that they are.”

The problem is that the federal government has no legal authority to regulate health insurance rates. Insurance, including health insurance, is regulated by the states. The McCarran-Ferguson Act, which preserves the principle of state regulation of insurance, was not amended by the Patient Protection and Affordable Care Act, the law under which the new rule on health insurance rates was issued. So what is going on here? With no regulatory authority at all, HHS is trying to bully or shame health insurers into reducing their rate increases. The whole effort is an incredible exercise in chutzpah.

The fact sheet put out by HHS to explain the new regulation claims that “Many times insurance companies have been able to raise rates without explaining their actions to regulators or the public or justifying their reasons for their high premiums.” In fact, in most instances, health insurers do have to justify rate increases to their state regulators, by providing actuarial data that can be reviewed by the state regulator’s actuaries.

One can question why, in a competitive market (and health insurance is highly competitive in most parts of the country), private companies should have to justify rates at all. Health insurance is not a public utility (at least not yet, although that seems to be

the direction it is headed). Auto manufacturers don't have to justify rate increases to a government agency. Makers of washing machines don't have to. Why insurers? Oil companies are starting to face the same kinds of questions regarding gasoline prices at the pump, even though there is no evidence that gasoline prices are not highly competitive.

Who defines an 'unreasonable' rate?

But even if we accept the need to regulate prices for insurance – and there are some good arguments for doing so, given the complex and intangible nature of the product – states do that already. Under the laws of most, if not all, states, rate increases that are not actuarially justified can be denied or rolled back. What HHS seems to be saying is that even if rate increases can be actuarially justified, insurers can not use them if they are “unreasonable.” Where does that authority come from? Who determines what is “unreasonable?” Is a 10 percent increase unreasonable per se?

Even though there is no statutory authority for the federal government to deny or roll back health insurance rates, the effort being mounted by HHS will probably work, at least in the short term. Indeed, it is already having some effect, as some state regulators are denying rate increases for being unreasonable even if they are actuarially justified. Some companies are voluntarily forgoing rate increases that they would have sought previously.

Of course, there is a limit to what can be done by persuasion and publicity alone. Health insurers may simply go out of business if they can't make what they consider to be a reasonable profit. Already there is substantial consolidation in the industry as the large commercial health insurers – which are very efficient operations – are buying up or driving out of business their smaller or nonprofit competitors. That trend will continue and accelerate, so that eventually there will be only a handful of health insurers in the market.

At that point, it may indeed become necessary for government to step in and deal with the remaining companies as if they are public utilities. The HHS argument, then, becomes a self-fulfilling prophecy.

The causes of high insurance

Missing from the new HHS regulation is any discussion of why the cost of health insurance keeps going up so fast. Some of it, of course, is due to the widespread usage of very expensive new techniques for keeping alive, at great expense, people who would have died in earlier years. Everything from organ transplants to kidney dialysis to drug treatment for HIV is expensive not only to perform but also results in very expensive long-term recovery and maintenance costs.

Some is also due to overusage of medical services by people who are paying only a fraction of the real cost of their care, or overprescribing by physicians who are concerned

about being sued for malpractice or who don't want to tell their patients that the drugs they have seen advertised on television will not help them.

Some is due to our inability as a society to say that one treatment may be better and more effective than another, or that some providers do a better job than others. Instead we let virtually all proposed treatments and providers be advertised and made available to everyone, regardless of cost or relative effectiveness.

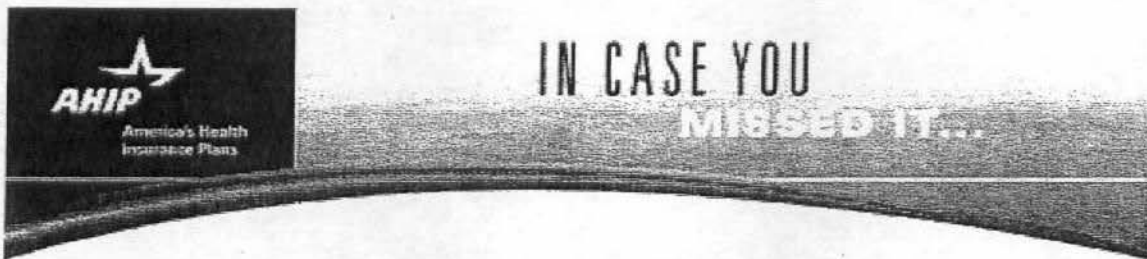
There is undoubtedly some "fat" in the insurance system. But the bottom line is that insurance really is simply a mechanism for paying costs, and unless the costs of the services paid for by insurers are controlled or reduced, there is only so much that can be gained by squeezing the insurance companies.

It will be very interesting to see how much pushback HHS gets from these new rules, how effective they will be, and how insurers targeted and "exposed" by HHS will react. I predict that they will find other ways to remain profitable or they will go out of business. Either road will not do much to improve our health-care system and may actually make things worse.

Lawrence H. Mirel is a partner at Wiley Rein LLP in Washington and heads the firm's Insurance Regulation & Legislation Group. He is the former Commissioner of Insurance, Securities and Banking for the District of Columbia and has been involved in insurance matters for more than 30 years.

UPENN PROFESSOR TESTIMONY ON HEALTH PLANS' PROFITS, RATE REVIEW AND MLR

Posted on June 2, 2011 by AHIP Coverage



The House Energy & Commerce Health Subcommittee's hearing on the health care law's regulations' impact on maintaining coverage and jobs included testimony from several outside experts. Janet Trautwein, representing the broker and agent community, submitted testimony regarding [the impact of the MLR on agents and brokers](#); Edward Fensholt of Lockton Companies, a privately held insurance brokerage and consulting company, testified about [the grandfathering provisions](#); and lastly, Scott Harrington, a professor from The Wharton School, argued about the negative impacts of the rate review and MLR provisions on consumers.

Harrington's testimony also included some important fact checking about health plans' profits and administrative costs. We have included highlights of his testimony below, and you can read his full [testimony here](#).

- "The PPACA's rate review and MLR provisions represent costly, bureaucratic interference...that will do little to enhance competition in health insurance markets and the availability and affordability of health insurance."
- "The rate review provisions and their implementation will not enhance consumer choice or lower premiums..."
- "The MLR provisions will...destabilize some states' markets, and could reduce incentives for certain beneficial innovations in coverage and payment."
- "...aggregate data do not support the notion that health insurers' expenses and profits are major drivers of high and rapidly growing health insurance premiums."
- "According to National Health Expenditure (NHE) data, the projected 'net cost' of private health insurance (premiums less benefits, including for self-funded plans) for 2010 was \$96.4 billion, representing 11.6 percent of \$829.3 billion in projected expenditures for private health insurance and 3.8 percent of \$2,569.6 billion in projected total health care expenditures."
- "The estimated MLR for all private health insurance (ratio of medical benefits to total premiums, including premium equivalents for self-funded plans) has averaged 87.8 percent since 1965, with little or no trend."
- "Health insurers' profit margins typically average about 3-5 percent of revenues."

- "Expense and profit data reported to state insurance regulators during 2006-2009 indicate that aggregate MLRs ranged from 85 to 88 percent for all insured coverage (including Medicare supplement and Medicare Advantage plans) and from 83 to 87 percent for comprehensive major medical coverage."
- "The limited antitrust exemption for the 'business of insurance' has little effect on health insurers; there is no evidence that it has raised prices, profits, or market concentration."
- "The rate review provisions will further politicize health insurance pricing. They will not enhance consumer choice, increase quality, or lower costs."
- "Market Destabilization and Waivers. Section 2718's implementation could destabilize markets in numerous states, especially for individual coverage. The NAIC leadership expressed concern to Secretary Sebelius of possible destabilization, including potential effects on premiums, insurer solvency, the number of insurers marketing products, consumers' ability to find coverage should their carrier leave the state, benefits and cost sharing of existing products, and consumers' access to agents and brokers. It urged the Secretary to consider a transition period for implementation and for deference to waiver requests. HHS has thus far granted waivers to three states."
- "...the minimum MLR rules will likely deter some innovation to develop new coverage arrangements, more cost-efficient provider networks, and information to guide consumer choice, including evidence on medically and cost-effective care."
- "...the MLR requirements will also likely discourage some coverage designs that could lower premiums but involve relatively high nonmedical costs in relation to insured benefits, such as certain high-deductible plans. They could discourage potential innovations in coverage design and managed care that might require a lower MLR in conjunction with lower premiums and better value for buyers. They could cause some plans to contract with narrower provider networks and/or enter into arrangements shifting more administration to providers."



WASHINGTON ★ UPDATE



May 31, 2011

House to Hold MLR Hearing with NAHU Witness



NAHU is very pleased to announce that our CEO Janet Trautwein has been asked to testify at the House Energy and Commerce Committee's Health Subcommittee hearing on Thursday entitled "PPACA's Effects on Maintaining Health Coverage and Jobs: A Review of the Health Care Law's Regulatory Burden."

The purpose of the hearing is to examine the impact of major rules issued by the Department of Health and Human Services implementing the Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act of 2010, including the medical loss ratio requirements. Janet will testify on behalf of the association about the severe financial impact the MLR requirements have had on independent agents and brokers. She will also speak in support of H.R. 1206, the bipartisan legislation introduced by congressmen Mike Rogers (R-MI) and John Barrow (D-GA) to remove independent agent and broker remuneration from the MLR calculation entirely.

IN THIS ISSUE

- * House to Hold MLR Hearing with NAHU Witness
- * The Federal Pre-Existing Condition Insurance Plan (PCIP) Announces That It Will Start Paying Agents and Brokers
- * Budget Battle Still Dominates National Health Policy Discussion
- * Senator Hatch Introduces Legislation to Improve HSA Access and Expand Small Business Coverage Options
- * PPACA Constitutional Challenge Update

The House hearing on MLR and other detrimental PPACA rules was announced just following the release of the National Association of Insurance Commissioners' (NAIC) study on the impact the MLR has had on producer commissions and consumer access to health insurance agents and brokers. The report concluded that there was no significant change to agent and broker commissions until January 1, 2011, the date the MLR became effective. At that time, a significant number of health insurance carriers nationwide reduced commissions, particularly first-year commissions in the individual and small group markets. The report also examined 2010 premium data reported by the carriers and attempted to estimate if the MLR rules had been in effect in 2010, what carrier rebates might have been if agent and broker commissions were included in the MLR calculation, partially included or completely excluded. The data showed that the majority of American insurance consumers would receive no rebate at all. Under the most dramatic of scenarios, using the imperfect data, the highest a rebate recipient would potentially receive would be \$8.09 a month. That rebate amount would apply to approximately one million individual health insurance market consumers. Those with group coverage who might have been eligible for a rebate would have received between \$1.10-\$2.10 a month, to be split with their employer based on the employer contribution percentage.

TOOLS

- * E-mail the Editor
- * Visit the NAHU Website
- * Printer Friendly Version

It is NAHU's view that agents and brokers, through their advice and counsel in designing effective benefit plans, answering consumer questions, helping to process claims and handling countless service issues, provide far more than \$1-\$8 in both cost savings and value each month to their clients. Furthermore, these will still be needed no matter how health reform moves forward. If insurance departments would have to pick up the slack, they would have to do so at tremendous cost to

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taxpayers. As Kansas Insurance Commissioner Sandy Praeger told *Politico* last July, "If we didn't have the agent community, we'd all have to double or triple the size of our consumer assistance divisions. The agent provides many of the answers to the questions that never come to us because they get resolved."

The NAIC Health Reform Actuarial Working Group approved their draft report on May 26, and now the NAIC's Health Insurance and Managed Care "B" Committee will discuss the report at its June 7 meeting. Once they complete their discussion, the NAIC's Professional Health Insurance Advisor (EX) Task Force will meet and use the report to help guide discussion as to whether or not they should endorse H.R. 1206.



| [Next Article >](#)

2000 N 14th St. Suite 450 Arlington, VA 22201
Ph. 703.276.0220 Fax 703.841.7797 www.nahu.org

**National Association of
Health Underwriters**



Hoyt, Amy

From: Joe Bottani IV [joebottani@archbrokerage.com]
Sent: Tuesday, August 23, 2011 9:28 AM
To: MLR-Comments
Subject: MLR Producer effect

The current MLR regulations have already led to a reduction in commission to producers – across all companies.

This has and will continue to impact our ability to work with consumers, will lead to producers exiting the marketplace, and will lead to a reduction of access to producers for all consumers.

It is my feeling that the producer commissions should be excluded from the MLR calculation.

Joe Bottani IV, ChFC
Arch Brokerage, Inc.
8084 Watson Road
Suite 100
Saint Louis, MO 63119

Tel 314-849-6363 ext. 104
Fax 314-849-9292
www.archbrokerage.com

**America's Health
Insurance Plans**

601 Pennsylvania Avenue, NW
South Building
Suite Five Hundred
Washington, DC 20004

202.778.3200
www.ahip.org



August 25, 2011

Mr. John M. Huff
Director
Missouri Department of Insurance, Financial Institutions, and Professional Registration
PO Box 690
Jefferson City, MO 65102

Dear Director Huff:

On behalf of America's Health Insurance Plans (AHIP), I thank you for scheduling the August 26 hearing to receive input regarding how federal medical loss ratio (MLR) requirements are likely to affect consumers and the individual health insurance market in Missouri. Given the specificity of the questions you have posed to carriers, I am confident that the hearing will yield ample evidence that seeking a waiver from CMS to permit plans to transition to the federal MLR levels over time, is right for consumers, the individual market, and Missouri.

As you know, AHIP is the national trade association representing the health insurance industry. AHIP's members provide health and supplemental benefits to more than 200 million Americans through employer-sponsored coverage, the individual insurance market, and public programs. More specifically, AHIP is proud that 13 member companies currently offer comprehensive major medical health insurance coverage in Missouri.

We know each individual carrier in Missouri is better positioned to provide you with the *specific* data you seek. We also want to offer these comments, which reflect AHIP's position on the issue based on a review of the key issues and discussions with our members.

We continue to believe that if Missouri does not seek the waiver, the result could be reduced competition, fewer choices for consumers, fewer options for existing enrollees, and thus market destabilization. We continue to urge you to apply for the waiver. Why? Because since 2010 we have seen companies announce their departure from the individual market based on the MLR requirements in other states, resulting in a less competitive market with fewer choices for consumers. And we know you have the ability to act on behalf of those consumers.

We are concerned that not seeking a transition period for implementation of the MLR requirements in the individual market in Missouri could also jeopardize the solvency of companies at a time when so many other activities related to health care reform implementation are underway. Current policies have been developed and underwritten under existing rules and standards. And as we cited in a previous letter to your office, the following statement from the American Academy of Actuaries aptly captures the challenges companies face in swiftly adjusting operations to a significantly lower MLR level without a transition period:

August 25, 2011

Page 2

“Applying an 80 percent MLR requirement to existing individual business that had originally been priced under different (lower) MLR expectations may require a company to reduce the premiums it ultimately retains (i.e., collected premiums less rebates) to levels that create losses, with little to no ability to recover those losses. Materially reducing the non-claims costs associated with existing business in order to reduce financial losses is unlikely to be feasible. Such a situation might lead some companies currently active in the individual market to terminate the existing blocks of business and leave the market, in an effort to avoid those future losses and the potential solvency concerns associated with those future losses. If some companies do exit the individual market, then those companies’ former policyholders may find themselves unable to find new coverage in the individual market for a period of years (noting that guaranteed issue requirements do not take effect until 2014), and would not be eligible for the new high risk pools created by PPACA §1101 during the first six months after cessation of coverage.”¹

Thank you for considering these comments. Should you have any questions or wish to discuss these comments further, please feel free to contact AHIP’s retained counsel Shannon Cooper (rep120@yahoo.com or 660-890-1432) or me (dbricker@ahip.org or 202-861-6378).

Sincerely,



Dianne L. Bricker
Regional Director – State Advocacy

¹ http://www.actuary.org/pdf/health/letter_academy_mlr_individual_market.pdf

Hoyt, Amy

From: Matt McGrath [MMcGrath@holmesmurphy.com]
Sent: Thursday, August 25, 2011 9:32 AM
To: MLR-Comments
Cc: ahenderson@craneagency.com; bluechip1@mindspring.com;
brads@cornerstoneinsurancegroup.com; dennis@dtdinsurance.com;
ebremer@liggettblackandco.com; HMaier@MRCTBP.com; kevin@conleyinsurance.com;
mmcgrath@holmesmurphy.com; slahuoffice@aol.com; sroth@allstate.com
Subject: MLR Appeal Letters
Attachments: MLR Aug 25 Letter.pdf

Dear Sirs,

Please find attached correspondence with comments regarding Medical Loss Ratio in the Individual Market.

(See attached file: MLR Aug 25 Letter.pdf)

Yours truly,

Matt McGrath
Division Vice President

Holmes Murphy & Associates
The Sevens Building
7777 Bonhomme, Suite 2300
Clayton, Mo 63105

T- 314-678-6400
T- 800-247-7756
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The Honorable John M. Huff,
Director
Missouri Dept. of Insurance, Financial Institutions and Professional
Development
301 W.High Street, Room
530
Jefferson City, Missouri 65101

August 25, 2011

Dear Commissioner Huff,

I am writing this letter for two reasons:


- 1) To deliver the attached letter signed by the 4 Missouri Associations representing the 26,128 licensed resident Accident & Health agents. Our Associations request that you appeal the MLR rule to the HHS.
- 2) As the St Louis Divisional Leader of Holmes Murphy & Associates -the nations 10th largest privately held insurance brokerage, we request that you appeal the MLR rule to HHS.

If the MLR is not successfully appealed our clients will be severely negatively impacted. They will be provided less choice in products and less service from our firm and thousands of others like us. The revenue loss to our firm will require us to make cuts.

This will mean huge job losses in Missouri. My firm and our competitors will not be able to afford to keep people in current well paid positions because of this rule.

If I can provide you any information that will assist you in appealing the MLR rule, please let me know.

Yours truly,


Matthew J. McGrath
Division Vice President
Holmes Murphy & Associates, Inc.

Cc: Governor Jeremiah W. (Jay) Nixon

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The Honorable John M. Huff, Director
Missouri Department of Insurance, Financial Institutions and Professional Development
301 West High Street – Room 530
Jefferson City, Missouri 65101

Dear Commissioner Huff,

This letter is being presented on behalf of the 26,128 licensed Accident & Health agents and brokers in the state of Missouri. Our associations include **The Missouri Association of Insurance Agents, the Missouri Association of Health Underwriters (MOAHU), The St Louis Association of Health Underwriters (SLAHU) and the Springfield Association of Health Underwriters (SAHU).**

Accident & Health agents in Missouri educate, communicate, deliver and service individual health insurance policies. We do not control price or plan design but we help our customers navigate an imperfect marketplace. Our members are not on the other end of a long distance telephone line like many health insurance carrier "customer service representatives." We are across the table, in their office, in their church and in their lives. We have a very good perspective on healthcare reform and are in favor of many major components. However, the MLR requirements are going to be extremely harmful to the individual health insurance market if not successfully appealed.

We formally request that the State seek a waiver from the U.S. Department of Health and Human Services (HHS) on the implementation of the medical loss ratio (MLR) requirements contained in the new federal health reform law.

As you know, one of the provisions of the Affordable Care Act (ACA) required health insurance carriers to comply with new rules regarding administration costs on January 1, 2011. Such rule requires that carriers spend no more than twenty percent (20%) in the individual market. It is clear that this restriction will erode carrier and agent competition in Missouri.

In Missouri the insurance market destabilization has already begun. The withdrawal of Mercy Health Plans as a result of its acquisition by GHP/Coventry and the takeover of Guardian's & Principal Mutual's group medical business by United Healthcare has resulted in fewer choices for Missouri's citizens and our employers.

Inaction on the MLR Waiver will clearly lead to less choice and less competition in Missouri. This is a fact about which we are educating our 26,128 agents and our hundreds of thousands of individual and business clients.

HHS has given states the authority to request a waiver on implementation of MLR. HHS has approved a number of waivers and there are more state waiver requests pending at HHS. We respectfully request you also apply for a MLR waiver which if approved, would preserve competition and choice for Missourians until the full effect of healthcare reform can take effect.

Yours truly,

Larry Case
Executive Vice President
Missouri Association of Insurance Agents
PO Box 1785
Jefferson City, MO 65102-1785
(573) 893-4301
lcas@moagent.org

Sam Drysdale
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Dennis Denny
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Charlotte Horsman
President
Springfield Association of Health Underwriters
chorsman@pjcinurance.com

Hoyt, Amy

From: Conrad, Kyle [kconrad@kemper.com]
Sent: Wednesday, August 31, 2011 5:08 PM
To: MLR-Comments
Subject: Hearing on Medical Loss Ratio in the Individual Market; Written Comments Submitted by Reserve National Insurance Company
Attachments: Reserve National Ins Co MLR-Comments.pdf

IMPORTANT MESSAGE: Our email domain has changed to @kemper.com. Please update your contact list with my new email address kconrad@kemper.com. For more information on the change, visit <http://www.snl.com/irweblinkx/file.aspx?IID=103308&FID=11657442>.

I have attached a copy of our written comments in connection with the hearing which was held on August 26, 2011, concerning the Medical Loss Ratio in the Individual Market.

Please let us know if there are any questions or if any further information would be helpful.

Thank you for considering our comments.

Kyle D. Conrad
Senior Vice President
and Associate Corporate Counsel
Reserve National Insurance Company
601 East Britton Road
Oklahoma City, OK 73114
Telephone: (405) 848-7931 or (800) 874-1431

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601 East Britton Road • Oklahoma City, OK 73114
www.ReserveNational.com

August 30, 2011

John M. Huff, Director
Dept. of Insurance, Financial Institutions and Professional Registration
P.O. Box 690
Jefferson City, MO 65102

RE: Reserve National Insurance Co. (NAIC# 68462) comments related to the effect of the Medical Loss Ratio on the individual health insurance market in MO

Dear Mr. Huff,

The following are Reserve National Insurance Company's comments in response to the Department's request for written comments (in lieu of attending the public hearing) related to the effect of the Medical Loss Ratio on the individual health insurance market in MO. Comments are limited to the issues we felt qualified to respond to:

- "Will the company withdraw from the individual market if an MLR adjustment is not sought?" RNIC has started to de-emphasize its PPACA MLR subject individual policies in response to the MLR requirements. We will still sell individual products in MO but they will be products that are not subject to PPACA MLR.
- "What impact will the 80% MLR have...?" Historically, RNIC has achieved about a 30% total expense (roughly 12-14% of which is commission) ratio on its PPACA MLR subject products which means that the products are profitable as long as the loss ratio is below about 70%. With an 80% loss ratio and general insurance expenses at 16-18% that puts us at 96-98% with no commissions – it seems highly unlikely that we could achieve profitability in this line of business with an 80% loss ratio.
- "What is the likelihood that the company will reduce commissions paid to producers as a result of the 80% MLR?" RNIC has reduced commissions on our PPACA MLR subject products to steer our agents toward products that are not subject to PPACA MLR (i.e. Hospital Indemnity, Specified Disease, etc.)
- "Will the application of the 80% MLR result in reduced access to producers by consumers, including but not limited to producers leaving the industry?" RNIC has had a difficult time recruiting new agents since PPACA (down 27.5% in 2011 through 7/31 compared to same period in 2010) so it stands to reason that current producers are also feeling uneasy about the future of health insurance sales' and are leaving the industry.

- "The number of individual market enrollees covered by issuers that are reasonably likely to exit the State absent an adjustment to the 80% MLR" As of 6/30/2011, RNIC has 1382 individuals insured under PPACA MLR subject policies.

Please let me know if you have any questions.

Regards,

Brad Ober, ASA, MAAA
Actuary
Reserve National Insurance Co.
bober@kemper.com

Hoyt, Amy

From: Robert Dial [rdial@unitedsecuritylandh.com]
Sent: Thursday, September 01, 2011 10:10 AM
To: MLR-Comments
Subject: FW: REMINDER: Medical Loss Ratio Public Hearing Notice and Request for Comments
Attachments: Medical Loss Ratio Notice of Hearing.pdf; MLR MO waiver questionnaire response 9-1-11.pdf; MLR letter to Director Huff 8-1-11 sjh.pdf.pdf

Importance: High

Pursuant to the below e-mail I am attaching our response which contains our answers to the requested questions. Please feel free to call me if you have any further questions.

Thanks
Bob

Robert G. Dial
Vice President/Secretary
Chief Compliance Officer
(708) 475-6100 ext. 6051
(708) 475-6129 (FAX)

From: Hoyt, Amy [mailto:Amy.Hoyt@insurance.mo.gov]
Sent: Monday, August 22, 2011 3:19 PM
Subject: REMINDER: Medical Loss Ratio Public Hearing Notice and Request for Comments

Please see the attached "Notice of Hearing – Medical Loss Ratio in Individual Market" issued by the Director of the Missouri Department of Insurance, Financial Institutions, and Professional Registration. Please note that the Hearing is scheduled for this Friday, August 26, 2011, beginning at 9:00 a.m. Written comments may be submitted prior to the hearing and until September 2, 2011 to MLR-Comments@insurance.mo.gov

Amy V. Hoyt
Health Insurance Counsel
Missouri Department of Insurance, Financial
Institutions, and Professional Registration
P.O. Box 690
Jefferson City, MO 65102
Phone: 573-751-1953
Fax: 573-526-4839
E-Mail: amy.hoyt@insurance.mo.gov
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NOTICE OF HEARING – MEDICAL LOSS RATIO IN INDIVIDUAL MARKET

The Director of the Department of Insurance, Financial Institutions and Professional Registration will hold a public hearing on August 26, 2011 at 9:00 a.m. in Room 490 of the Harry S Truman State Office Building, 301 West High Street, Jefferson City, Missouri. The purpose of this hearing will be to solicit testimony and comments related to the effect of the Medical Loss Ratio on the individual health insurance market in Missouri.

FORM OF COMMENTS

The Director is requesting comment from individual consumers, insurers or carriers, HMOs, producers, business entity producers, professional associations, public interest groups, and from any other person or entity with an interest in the Medical Loss Ratio ("MLR") rules as they apply to the health insurance marketplace in Missouri.

Comments should specifically and in detail address the following issues:

- Whether Missouri should request an adjustment to the MLR for the individual market in the state;
 - If so, the appropriate adjusted MLR and suggestions for the length of the transitional period in Missouri;
- The consequences to insurance companies offering individual coverage in Missouri if an adjustment is not sought, specifically related to the following issues:
 - Will the company withdraw from the individual market if an MLR adjustment is not sought? **Companies are asked to be specific: definitely will withdraw; withdrawal is under serious consideration; withdrawal is probable; withdrawal is possible; withdrawal is unlikely; will not withdraw?**
 - Is there sufficient capacity in the individual market to absorb additional enrollees if one or more companies were to withdraw from the individual market?
 - What impact will the 80% MLR have on the financial performance of companies in the individual market and how would financial performance be impacted if an adjusted MLR is sought by the State?
 - How many Missourians would be affected if one or more companies were to exit the individual market in Missouri?
 - How will premiums charged, benefits, and cost-sharing provided to consumers be affected if one or more companies were to withdraw from the market?
 - What is the likelihood that the company will reduce commissions paid to producers as a result of the 80% MLR?

- The consequences to producers and business entity producers offering products in the individual market if an adjustment is not sought, specifically related to the following issues:
 - What is the likelihood of companies making reduced payments to producers as a result of the 80% MLR and how would reduced commission payments impact the ability to serve consumers?
 - Will the application of the 80% MLR result in reduced access to producers by consumers, including but not limited to producers leaving the industry?

- The consequences of the imposition of the 80% MLR to consumers, specifically related to the following issues:
 - How many Missouri consumers would be impacted if one or more companies were to withdraw from the market absent an adjustment to the MLR?
 - Is there capacity in the individual market to absorb consumers if one or more companies withdraw from the market?
 - What other alternate coverage options are available in the State to consumers in the individual market in the event a company withdraws from the market?
 - How will consumers be affected in terms of premium charged and benefits and cost-sharing provided, if one or more companies were to withdraw from the market?

- Any other matter bearing on the six criteria HHS has identified, as set forth below, that impact the risk of market destabilization.

Comments may address the impact of Medical Loss Ratios on individuals, insurers, or producers, as well as any other individual or entity. Comments should be brief, specific, fact-based, and focused on the Missouri health insurance marketplace. Supporting data must be targeted to conditions in the State of Missouri.

The Director will use the information gathered along with information from other sources to determine whether Missouri should request an adjustment to the Medical Loss Ratio rules from the U.S. Department of Health and Human Services.

BACKGROUND

The federal regulations related to Medical Loss Ratios are published in the Federal Register, 75 Fed. Reg. 74864, *et seq.* (December 1, 2010) (45 C.F.R. Part 158). The regulations specify that adjustments to Medical Loss Ratio requirements are granted by the Secretary of HHS and are granted on a state-wide basis, not to individual insurers. Only the 80% ratio may be adjusted and only when the 80% ratio "may destabilize the individual market" in the state requesting the adjustment. The adjustment is not a waiver of all loss ratios. The request for an adjustment to the MLR standard for a state must be made by the State's insurance regulatory authority and the adjustment can be made for up to three years. 45 C.F.R. §158.310.

HHS outlines six criteria to determine the risk of destabilization:

1. The number of issuers reasonably likely to exit the State or cease offering coverage in the State absent an adjustment to the 80% MLR and the resulting impact on competition in the State;
2. The number of individual market enrollees covered by issuers that are reasonably likely to exit the State absent an adjustment to the 80% MLR;
3. Whether absent an adjustment to the 80% MLR standard consumers may be unable to access agents and brokers;
4. The alternate coverage options within the State available to individual market enrollees in the event an issuer withdraws from the market;
5. The impact on premiums charged, and on benefits and cost-sharing provided, to consumers by issuers remaining in the market in the event one or more issuers were to withdraw from the market; and
6. Any other relevant information submitted by the State's insurance commissioner, superintendent, or comparable official in the State's request.

WRITTEN COMMENTS

In lieu of or in addition to providing testimony or comments at the hearing, interested parties may also submit written comments. Such comments shall be submitted no later than 5:00 p.m. CDT on September 2, 2011 and shall be submitted via U.S. Mail, e-mail, or delivered in person as outlined below.

Mailing Address: John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration
P.O. Box 690
Jefferson City, MO 65102

Physical Address: Department of Insurance, Financial Institutions
and Professional Registration
Harry S Truman State Office Building
301 West High Street, Room 530
Jefferson City, MO 65101

E-Mail: MLR-Comments@insurance.mo.gov

Questions may be directed to: MLR-Comments@insurance.mo.gov
Amy Hoyt, 573-751-1953

September 1, 2011

Mr. John M. Huff, Director
Department of Insurance, Financial Institution
and Professional Registration
PO Box 690
Jefferson City, MO 65102

Re: MLR in Individual Market

Dear Director Huff,

This letter is in response to your recent request for comments related to the effect of the Medical Loss Ratio on the individual health insurance market in Missouri.

I am enclosing a copy of a letter our President, Sandra J. Horn, sent you on August 1st, outlining some reasons why the MLR waiver was needed. I am also providing below more specific answers to the items listed in your recent request:

- Should Missouri request an adjustment to the MLR for the individual market in the State: **Absolutely, a 65% 2011, 70% 2012, 75% 2013, 80% 2014 MLR accomplishes the desired outcome over a reasonable transition period.**
- Will the company withdraw from the individual market if an MLR adjustment is not sought? **Withdrawal is under serious consideration, if an MLR adjustment is not sought.**
- Is there sufficient capacity in the individual market to absorb additional enrollees if one or more companies were to withdraw from the individual market? **All small carriers will opt out of the market place at an 80% MLR. Having small carriers leave will result in significant policyholder disruption as those with pre-existing health conditions will lose coverage and not be able to replace it until 2014.**
- What impact will the 80% MLR have on the financial performance of companies in the individual market and how would financial performance be impacted if an adjusted MLR is sought by the State? **Agent commission contracts, network discount contracts and numerous vendor contracts were all set for claim losses much lower than 80%. These contracts still have to be honored for the**

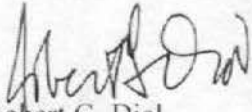
Quality Products from Caring Professionals

renewal years 2011-2013 when the mandated MLR is now at 80%. Losses will certainly develop with no opportunity to get those losses back.

- How many Missourians would be affected if one or more companies were to exit the individual market in Missouri? **USLH would have approximately 1,500 covered lives in Missouri be affected, mostly in the rural areas where more people are dependent on the private individual marketplace.**
- How will premiums charged, benefits, and cost-sharing provided to consumers be affected if one or more companies were to withdraw from the market? **As stated before, those insured's with pre-existing medical conditions may not be able to get coverage until 2014.**
- What is the likelihood that the company will reduce commissions paid to producers as a result of the 80% MLR. **Our new business commissions have already been reduced to give us an opportunity to survive the 80% mandate. We still have to honor the renewal commission rates.**
- What is the likelihood of companies making reduced payments to producers as a result of the 80% MLR and how would reduced commission payments impact the ability to serve consumers? **The likelihood is 100%. This reduction in commissions will drive out the independent agent from the marketplace, at the exact time they will be needed the most, to guide policyholders through the new myriads of obtaining health coverage.**
- Will the application of the 80% MLR result in reduced access to producers by consumers, including but not limited to producers leaving the industry? **Yes. The policyholders of small carriers typically work closely with their independent insurance agent to obtain the best possible coverage for their personal needs within their geographical areas based on the hospitals and doctors within their current network.**
- How many Missouri consumers would be impacted if one or more companies were to withdraw from the market absent an adjustment to the MLR? **This was answered in the 5th bullet item above.**
- Is there capacity in the individual market to absorb consumers if one of more companies withdraw from the market? **There may be capacity to absorb some of the consumers, but as mentioned above, if a person has prior pre-existing medical conditions, they may not qualify for full coverage until 2014.**
- What other alternative coverage options are available in the State to consumers in the individual market in the event a company withdraws from the market? **Most likely the high risk insurance pool, which would be at a higher premium rate than they are paying today.**

- How will consumers be affected in terms of premium charged and benefits and cost-sharing provided, if one or more companies were to withdraw from the market? **Again, if more companies were to withdraw from the market, it would put additional pressures on the existing companies that remain to provide full coverage at similar cost (premiums). Most likely many consumers would have lesser coverage at higher cost.**

Sincerely;



Robert G. Dial
Vice President Compliance
800-875-4422 x 6051
708-475-6129 Fax



August 1, 2011

Mr. John M. Huff
Director
Missouri Department of Insurance
301 West High St., Room 530
P.O. Box 690
Jefferson City, MO 65101

Re: MLR Adjustment

Dear Director Huff,

I hope you are doing well. I am sure that you currently have your hands full, with the rolling out of the new PPACA reform changes. We recently forwarded the results of your MLR survey to your office on July 1st. From what we have been able to gather thus far, it doesn't appear that Missouri has made a final decision in regard to the filing of an MLR adjustment and we would like to ask that you take into consideration the following facts in making your final decision.

United Security Life and Health Insurance Company strongly believes that an MLR adjustment is needed to avoid significant disruption to the individual comprehensive major medical market in Missouri.

The insurance exchanges will not be available and functional until January 1, 2014. Until then, large carriers will continue to underwrite and decline risks that they are not willing to take. Small carriers have been in the marketplace taking those risks and providing a valuable service for those individuals who would otherwise not have comprehensive medical coverage.

Many small carriers will opt out of the marketplace at an 80% MLR without gradual phase-ins over four years. Agent commission contracts, network discount contracts, and numerous vendor contracts were set for lower than 80% loss ratios. These contracts have to be honored for the renewal years 2011 – 2013 when the mandated MLR is now 80%. Losses will certainly develop with no opportunity to get those losses back.

Having small carriers leave the market place will result in significant policyholder disruption as those with pre-existing conditions will lose coverage and not be able to replace it until 2014, and others may be forced to change from their current network doctors, while losing their year-to-date deductible and coinsurance accumulations they've

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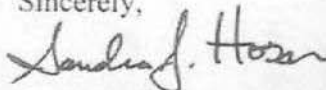
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800-875-4422 / 708-475-6100 Fax: 708-475-6120

already paid into. The policyholders of small carriers typically work closely with their independent insurance agents to obtain the best possible coverage for their personal needs within their geographical areas based on the hospitals and doctors within their current network. Independent agents are being driven out of the marketplace at the exact time they will be most needed. This will be very disruptive to the consumer. I am attaching some interesting articles for your review which I believe provides some surprising information in regard to the impact the MLR restrictions will have on companies.

United Security Life and Health respectfully asks that Missouri petition the HHS for an adjustment from the MLR requirement in its current form, and at the very least, propose a phase-in loss ratio of 65%, 70%, 75% and 80%.

Thank you for your consideration.

Sincerely,

A handwritten signature in cursive script that reads "Sandra J. Horn".

Sandra J. Horn
President

THE HILL



Insurance agents say MLR rules create 'desperate' situation

By Sam Baker - 11/17/11 11:55 AM EST

The cost and quality of healthcare will get worse because of healthcare reform rules that let the federal government review rates and set limits on how insurance companies spend their money, small businesses and insurance agents said Thursday.

Employers and agents are particularly concerned about rules that say insurers can only put 20 percent of their revenues toward profit and administrative expenses. Agents and brokers want their commissions to be carved out of the definition of administrative costs. Without that change, they fear insurers will squeeze broker commissions in order to free up money for other uses.

Agents and brokers are facing a "desperate economic situation" because of the requirements, said Janet Trautwein, chief executive of the National Association of Health Underwriters. She testified Thursday before the House Energy and Commerce Health Subcommittee.

Witnesses said the restrictions on spending — known as the medical loss ratio — will ultimately raise costs and reduce options for consumers. The MLR represents a "significant move toward government micromanagement of health insurance," University of Pennsylvania professor Scott Harrington said.

He added that the MLR rules "distort insurers' incentives for legitimate business decisions."

Rep. Mike Rogers (R-Mich.) has sponsored a bill to exclude brokers' commissions from insurers' calculations. Trautwein testified Thursday that because agents are mostly self-employed and are hired by consumers, rather than insurance carriers, their commissions shouldn't be considered administrative expenses.

Rep. Henry Waxman (D-Calif.) said brokers provide a valuable service but that carving out their commissions "in effect means increasing premiums and overhead expenses for the consumer."

The National Association of Insurance Commissioners is debating whether to endorse the Rogers bill.

Three states — Maine, Nevada and New Hampshire — have received adjustments from the MLR rules. The healthcare law requires insurers to spend 80 percent of their revenues on medical costs but lets HHS modify that standard if imposing it immediately would destabilize the state's insurance market.

Source:

<http://thehill.com/blogs/healthwatch/health-reform-implementation/164503-insurance-agents-say-mlr-rules-create-desperate-situation>

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AGENT'S SALES JOURNAL

Brave New World

July 3, 2011 | Health Insurance | Growth | 2011 | Health Insurance | Brave New World | Agent's Sales Journal

BY: [Name] | 100% |
Published 6/1/2011 | 100% | 100%

Health insurance agents across the nation seem to be asking one question: What happened to my commissions?

After the medical loss ratio provision of the Affordable Care Act went into effect, commissions across the country were slashed, leaving many agents wondering whether they were in the right business. Meanwhile, consumers, thinking that the government was about to swoop in with a new health insurance plan, shied away from agents and held out for the fix they hoped was coming.

Agent Sales Journal's 2011 Health Market Study, conducted in partnership with the National Association of Health Underwriters, shows how these very real concerns have changed the market. Agents are making less and selling less, facing new challenges and, for the first time since ASJ started the study in 2007, they're not optimistic about the future.

Product sales and market outlook

As the Affordable Care Act continues to be implemented bit by bit, many agents are being forced to shift their market focus. And while individual major medical still makes up a significant portion of their sales (76 percent), products like Medigap (55 percent) and long-term care insurance (45 percent) are receiving increased attention as agents expand their product lines.

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Uncle Sam's meddling in health insurance rates is wrong and will hurt consumers

The US Department of Health and Human Services is trying to bully or shame health insurers into reducing their rate increases. The problem is that the federal government has no legal authority to regulate health insurance rates and doing so may actually drive prices up.

By Lawrence H. Mirel / June 13, 2011

Washington

On May 19, the US Department of Health and Human Services (HHS) issued a final regulation requiring that, starting on Sept. 1, 2011, health insurers filing for an "unreasonable" rate increase – namely one that exceeds 10 percent – must publicly justify their proposal, so that "consumers [will] know why they are paying the rates that they are."

The problem is that the federal government has no legal authority to regulate health insurance rates. Insurance, including health insurance, is regulated by the states. The McCarran-Ferguson Act, which preserves the principle of state regulation of insurance, was not amended by the Patient Protection and Affordable Care Act, the law under which the new rule on health insurance rates was issued. So what is going on here? With no regulatory authority at all, HHS is trying to bully or shame health insurers into reducing their rate increases. The whole effort is an incredible exercise in chutzpah.

The fact sheet put out by HHS to explain the new regulation claims that "Many times insurance companies have been able to raise rates without explaining their actions to regulators or the public or justifying their reasons for their high premiums." In fact, in most instances, health insurers do have to justify rate increases to their state regulators, by providing actuarial data that can be reviewed by the state regulator's actuaries.

One can question why, in a competitive market (and health insurance is highly competitive in most parts of the country), private companies should have to justify rates at all. Health insurance is not a public utility (at least not yet, although that seems to be

UPENN PROFESSOR TESTIMONY ON HEALTH PLANS' PROFITS, RATE REVIEW AND MLR

Posted on June 2, 2011 by AHIP Coverage



IN CASE YOU

The House Energy & Commerce Health Subcommittee's hearing on the health care law's regulations' impact on maintaining coverage and jobs included testimony from several outside experts. Janet Trautwein, representing the broker and agent community, submitted testimony regarding [the impact of the MLR on agents and brokers](#); Edward Fensholt of Lockton Companies, a privately held insurance brokerage and consulting company, testified about [the grandfathering provisions](#); and lastly, Scott Harrington, a professor from The Wharton School, argued about the negative impacts of the rate review and MLR provisions on consumers.

Harrington's testimony also included some important fact checking about health plans' profits and administrative costs. We have included highlights of his testimony below, and you can read his full [testimony here](#).

- "The PPACA's rate review and MLR provisions represent costly, bureaucratic interference...that will do little to enhance competition in health insurance markets and the availability and affordability of health insurance."
- "The rate review provisions and their implementation will not enhance consumer choice or lower premiums..."
- "The MLR provisions will...destabilize some states' markets, and could reduce incentives for certain beneficial innovations in coverage and payment."
- "...aggregate data do not support the notion that health insurers' expenses and profits are major drivers of high and rapidly growing health insurance premiums."
- "According to National Health Expenditure (NHE) data, the projected 'net cost' of private health insurance (premiums less benefits, including for self-funded plans) for 2010 was \$96.4 billion, representing 11.6 percent of \$829.3 billion in projected expenditures for private health insurance and 3.8 percent of \$2,569.6 billion in projected total health care expenditures."
- "The estimated MLR for all private health insurance (ratio of medical benefits to total premiums, including premium equivalents for self-funded plans) has averaged 87.8 percent since 1965, with little or no trend."
- "Health insurers' profit margins typically average about 3-5 percent of revenues."



WASHINGTON ★ UPDATE



May 31, 2011

House to Hold MLR Hearing with NAHU Witness



NAHU is very pleased to announce that our CEO Janet Trautwein has been asked to testify at the House Energy and Commerce Committee's Health Subcommittee hearing on Thursday entitled "PPACA's Effects on Maintaining Health Coverage and Jobs: A Review of the Health Care Law's Regulatory Burden".

The purpose of the hearing is to examine the impact of major rules issued by the Department of Health and Human Services implementing the Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act of 2010, including the medical loss ratio requirements. Janet will testify on behalf of the association about the severe financial impact the MLR requirements have had on independent agents and brokers. She will also speak in support of H.R. 1206, the bipartisan legislation introduced by congressmen Mike Rogers (R-MI) and John Barrow (D-GA) to remove independent agent and broker remuneration from the MLR calculation entirely.

IN THIS ISSUE

- House to Hold MLR Hearing with NAHU Witness
- The Federal Pre-Existing Condition Insurance Plan (PCIP) Announces That It Will Start Paying Agents and Brokers
- Budget Battle Still Dominates National Health Policy Discussion
- Senator Hatch Introduces Legislation to Improve HSA Access and Expand Small Business Coverage Options
- PPACA Constitutional Challenge Update

TOOLS

- E-mail the Editor
- Visit the NAHU Website
- Printer Friendly Version

The House hearing on MLR and other detrimental PPACA rules was announced just following the release of the National Association of Insurance Commissioners' (NAIC) study on the impact the MLR has had on producer commissions and consumer access to health insurance agents and brokers. The report concluded that there was no significant change to agent and broker commissions until January 1, 2011, the date the MLR became effective. At that time, a significant number of health insurance carriers nationwide reduced commissions, particularly first-year commissions in the individual and small group markets. The report also examined 2010 premium data reported by the carriers and attempted to estimate if the MLR rules had been in effect in 2010, what carrier rebates might have been if agent and broker commissions were included in the MLR calculation, partially included or completely excluded. The data showed that the majority of American insurance consumers would receive no rebate at all. Under the most dramatic of scenarios, using the imperfect data, the highest a rebate recipient would potentially receive would be \$8.09 a month. That rebate amount would apply to approximately one million individual health insurance market consumers. Those with group coverage who might have been eligible for a rebate would have received between \$1.10-\$2.10 a month, to be split with their employer based on the employer contribution percentage.

It is NAHU's view that agents and brokers, through their advice and counsel in designing effective benefit plans, answering consumer questions, helping to process claims and handling countless service issues, provide far more than \$1-\$8 in both cost savings and value each month to their clients. Furthermore, these will still be needed no matter how health reform moves forward. If insurance departments would have to pick up the slack, they would have to do so at tremendous cost to

Hoyt, Amy

From: Anderson, Marta [mkanderson@cvty.com]
Sent: Friday, September 02, 2011 12:27 PM
To: MLR-Comments
Subject: Coventry Health Care/GHP MO-MLR waiver testimony
Attachments: MO-MLR waiver testimon-FINAL draft-09 02 2011 (2).doc



September 2, 2011

John M. Huff, Director
Department of Insurance, Financial Institutions, and Professional Registration
PO Box 690
Jefferson City, MO 65102

Dear Director Huff:

On behalf of Coventry Health Care of Kansas (CHCKS) and Coventry/Group Health Plan (GHP), we appreciate the opportunity to submit comments to the record of the public hearing by the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) on minimum medical loss ratio standards in the individual market held on August 26, 2011.

Consistent with our views expressed in written testimony submitted to DIFP in December 2010, we recommend that Missouri seek a federal adjustment (waiver) to the 80% minimum medical loss ratio (MLR) requirement under Section 2718 of the Affordable Care Act (ACA). CHCKS and GHP believe that a federal adjustment is necessary to avoid further instability and disruptions in the market for individual health insurance and the harmful impact on consumers who rely on such policies for their health coverage. Our health plans have seen the disruption in the individual market due to the 80% minimum MLR where agents and brokers are no longer available to assist consumers in the purchase of individual policies. Because of the uncertainty about the stability and viability of the individual market prior to 2014, GHP and CHCKS are also unable to make important business decisions, which is harmful for consumers, our business partners, and our employees. As a result, we support a decision by the State of Missouri to seek a waiver to the 80% minimum MLR requirement in 2011 for the individual market and an orderly transition period until 2014 to ensure continued access by Missourians to health coverage through individual health insurance plans.

Instability in the Individual Market

Individual health insurance plays an important role in providing high-quality, cost-effective health coverage in the State of Missouri. Based on the most recent data from the U.S. Census Bureau (2009), over 400,000 Missourians under age 65 were covered by

individual insurance.¹ This represents 7.9 percent of our under age 65 state population and exceeds the U.S. average of 6.3 percent.²

Based on the National Association of Insurance Commissioners' (NAIC) database of annual statement filings, almost half of all enrollees covered under individual plans (from almost 70 insurers) operate below the 80% MLR threshold in the ACA.³

The individual market has unique characteristics that differentiate it from the group or employer-based insurance market. While some individual market policyholders are long-time customers, most policies are purchased to provide interim health coverage and protect consumers against catastrophic financial loss until they obtain group coverage through an employer. In the U.S. Department of Health & Human Services' (HHS) interim final rule (IFR) on grandfathered plans, the government cited studies that estimate 40 to 67 percent of individual policies are in effect for less than one year.⁴ Prior to the establishment of state exchanges in 2014, it is likely that individual plans outside of guaranteed issue markets will continue to exhibit many of the characteristics of the pre-ACA market—i.e., short duration and coverage only for medical conditions that emerge after the purchase of the policy.

While the individual market characteristics noted above may persist until 2014, the new insurance requirements enacted under the ACA have fundamentally changed the market dynamics and economics of individual insurance. Yet, the ACA provides almost no accommodation for these significant market changes and no recognition of the need for an orderly transition period other than the possibility of a "federal adjustment"—presumably through a waiver process—in states where the application of the 80% minimum MLR standard "may destabilize the individual market."⁵

To avoid instability and disruptions in the individual market and the harmful impact on consumers who rely on such policies for their health coverage, GHP and CHCKS support a decision by Missouri to seek a federal adjustment to the 80% minimum MLR requirement under the ACA. In the absence of a waiver, we believe that the individual market would experience significant upheaval in 2011 through 2014. Further, without a thoughtful and well-planned transition period to adjust to the new minimum MLR rules, consumers could face the potential loss of coverage and difficulties finding a replacement policy. At a time when the economic climate in Missouri is already filled with challenges for consumers and businesses, the addition of new uncertainty in the individual market would not be welcomed.

¹U.S. Census Bureau: Income, Poverty, and Health Insurance Coverage in the United States (2009), Annual Social and Economic Supplement, Table HI05. http://www.census.gov/hhes/www/cpstables/032010/health/h05_000.htm. Accessed September 20, 2010.

²Ibid.

³National AAIC: Health Care Reform (PPACA) - Master Issue Resolution Document, IRD041, 15 Sept 2010.

⁴U.S. Department of Health & Human Services: Group Health Plans and Health Insurance Coverage Relating to Status as a Grandfathered Health Plan Under the Patient Protection and Affordable Care Act; Interim Final Rule and Proposed Rule, Federal Register, Vol. 75, No. 116, 17 June 2010.

⁵P.L. 111-148: The Patient Protection and Affordable Care Act, Section 2718.

Other State Actions to Seek an Individual Waiver

In response to the challenges in the individual market and recognizing the likely disruption, numerous states have already requested a federal waiver to the new individual MLR requirements. As of August 26, 2011, 14 states have applied for a federal adjustment. The HHS Secretary approved and granted adjustments in 4 states—Maine, New Hampshire, Nevada, and Kentucky—with only one state disapproval (North Dakota). The remaining state applications are still in the process of being evaluated by HHS with decisions not expected until later in the year. While there are important characteristics that distinguish the individual market in Missouri from those in Maine or Kentucky, it is clear that numerous other states have made a determination that the application of minimum MLR standards will have a deleterious effect on consumers in those states—and the same concepts and logic would apply in Missouri.

State Rationale for Waiver and Transition Period

While instability in the market is a critical factor in the decision by the State of Missouri to request a federal waiver, there are other key reasons why a waiver and transition period and plan are important to consumers in our State. The following section outlines some of those reasons:

1. Impact on Carriers, Jobs, and Competition: From a broad perspective, the application of an 80% MLR to existing individual business without an appropriate state-determined transition period could lead some insurers to exit the market or face unsustainable losses. This could result in insolvent carriers, significant job cuts, and more limited competition and add to our State's economic challenges.
2. Difficulties Finding Replacement Coverage and Limited High Risk Pool Funding: Consumers who rely on individual policies but lose their coverage due to market exits may find it difficult or impossible to find replacement coverage at any price. While the ACA created a temporary high risk health insurance pool program under the now-called "pre-existing coverage insurance program" (PCIP), it provided only limited funding. Under the PCIP, Missouri's share of federal funding is capped at \$81 million until the program ends on December 31, 2013.⁶ The PCIP could eventually be an option for some Missourians, but such individuals would be ineligible for PCIP coverage for at least 6 months, assuming program funding is still available and no waiting list has developed.
3. Discourage New Entrants and Potential Negative Impact on Competition: As noted earlier, the individual market differs from the group market because many Missourians who participate are looking for temporary coverage until employer-based coverage is available. Further, individual policies tend to run at lower MLR levels, especially in the early years of the policy, because coverage is targeted at future medical conditions. Consequently, insurers whose individual book of business has a higher proportion of newer policies will find it very difficult to meet the 80% MLR

⁶ HHS Office of Consumer Information & Insurance Oversight (OCIIO): Fact Sheet – Temporary High Risk Pool Program. http://www.hhs.gov/ociio/initiative/hi_risk_pool_facts.html. Accessed Sept 20, 2010.

requirement. This could create an uneven competitive playing field that actually discourages new market entrants and increases premium volatility.

4. Eliminate Consumer Choice and Potential Increase in Uninsured: Consumers in the individual market often have preferences for different products compared to the group market. These preferences result in the voluntary selection of plans that tend to run below an 80% MLR, even over the plan's lifetime. For example, individual market plans frequently have higher cost sharing features in exchange for lower monthly premiums. Requiring individual plans to operate at an 80% MLR with no transition period could make policies unaffordable to consumers and lead them to go without coverage—actually increasing the rate of uninsured. The rate of uninsured for the population under age 65 in Missouri is 13.5%. Almost 800,000 of our fellow citizens went without coverage for some part of 2009. Adopting an individual market MLR policy that could potentially increase the rate of uninsurance would be counterproductive to efforts aimed at reducing the number of the uninsured.⁷
5. Maintaining Brokers as an Important Source of Health Insurance: While some believe that reducing insurer administrative costs by eliminating brokers is an easy solution to attain the minimum MLR, brokers continue to play a valuable role in the individual market. Brokers help consumers sift through and understand highly complex health information, compare plans, and assist consumers with negotiations with insurers. Yet, we have already seen numerous instances where agents and brokers have stopped selling individual policies because of the significant changes to the compensation that have been the direct result of the 80% minimum MLR. Providing a waiver and transition period would allow brokers to maintain their key role in assisting consumers in the purchase of individual insurance plans that best meet their specific needs.

Recommendation

To avoid instability and disruption in the market for individual health insurance and the potential harmful impact on consumers who rely on such policies for their health care coverage, GHP and CHCKS believe that Missouri should seek a 3-year federal adjustment to the 80% minimum MLR requirement. Further, we recommend that Missouri propose to adjust the MLR by moving the individual market gradually over the 3-year period to the 80% MLR requirement until the new state-based insurance exchanges begin in 2014.

Under the HHS rule, Missouri must develop an adjustment proposal. We recommend a "glide path" approach that adjusts the individual MLR in equal annual increments. This is similar to the approach adopted by many other states in their applications to HHS. We recommend the following glide path to minimize market disruption, allow carriers to make the necessary adjustments to their business and contracts, and to ensure a continued competitive environment in the individual market:

⁷ U.S. Census Bureau: Income, Poverty, and Health Insurance Coverage in the United States (2009), Annual Social and Economic Supplement, Table H105. http://www.census.gov/hhes/www/cpstables/032010/health/h05_000.htm.

2011 – 65% MLR
2012 – 70% MLR
2013 – 75% MLR
2014 – 80% MLR

In the absence of a federal adjustment to the 80% MLR requirement, we are deeply concerned about the continued viability of the competitive market for individual health insurance business in Missouri.

Conclusion

Again, GHP and CHCKS appreciate the opportunity to submit written testimony to the record on this important issue. In sum, we support a decision to seek a waiver to the 80% minimum MLR for the individual market in 2011 and the development of an orderly transition period until 2014 to ensure continued and stable access by Missourians to health coverage through individual health plans.

Respectfully Submitted,

Roman Kulich

Roman Kulich
President
550 Maryville Centre Drive
St. Louis, MO 63141
314-506-1856

Hoyt, Amy

From: McGivern, Kelly [McgivernK@AETNA.com]
Sent: Thursday, September 01, 2011 2:19 PM
To: MLR-Comments
Subject: MLR Comments
Attachments: MLR Ind 090111 (2).pdf

Please accept the attached comments in response to the Request for Comments on MLR in the individual market.

Kelly McGivern | Director, Government Affairs | Aetna
7400 West Campus Rd, New Albany, OH 43054
Office: (614) 933-7040 | Mobile: 614-420-1240
mcgivernk@aetna.com

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Email: mcgivernk@aetna.com

September 1, 2011

Mr. John M. Huff
Director
Department of Insurance, Financial Institutions and Professional Registration
PO Box 690
Jefferson City, MO 65102

Re: Written Comments – MEDICAL LOSS RATIO IN INDIVIDUAL MARKET

Dear Director Huff:

As one of the nation's leaders in health care, dental, pharmacy, and other employee benefits, serving almost 20 million Americans in fifty states, including Missouri, we appreciate the opportunity to provide feedback on the potential negative impact on the Missouri individual insurance market if Missouri does not seek and obtain a waiver that allows for a phased in approach of the 80% Medical Loss Ratio (MLR) requirements.

As you know, Aetna had provided written feedback in December 2010 on this issue. These comments are consistent with our analysis at that time. Additionally, we believe that the recent market conduct exam to collect information in this area can provide needed data for the department to move forward with a wavier request.

Specifically, we suggest that Missouri seek a waiver that allows for an immediate MLR of 75% for 2011 with a phase in ending with 80% January 2014. We believe this will allow a gradual restructuring needed to accommodate changes that can reduce those costs defined as "administrative expenses" by HHS.

We believe that a requirement for full compliance with the 80% federal MLR prior to 2014 is likely to create competitive issues in Missouri. It will be difficult for many insurers to continue to provide coverage in the Missouri individual and small group markets during the transition because:

- Most of the products marketed for 2011 were priced and sold prior to the new MLR rules thus making a "cold turkey" conversion challenging for the market to absorb. These products still carry the same administrative requirements associated with underwriting, rating, distributions and other functions, – with many insurers involved with multi year contracts that cannot be modified overnight. A phase in that gradually raises the current standards every year allows time for insurers and brokers to adjust to the new rules and help to assure continued competition.

- The health care reform transition years – now through 2014 – will see a transformation of the insurance business as insurers re-invent their products to come into compliance with the Affordable Care Act. This includes benefit redesign to add 100% coverage for preventive services, new appeals processes, eligibility expansions and other initiatives intended to help consumers. While these initiatives add value for consumers, they will in the short term also require some intensive administrative operations to implement. Existing law has already imposed unusual administrative expenses during this time period because of the federally mandated – and previously scheduled – adoption of a new coding system called ICD-10, thus complicating even more our efforts to reduce administrative costs.

While we appreciate the interest in determining specifically whether insurance companies will withdrawal from the individual market if an MLR adjustment is not sought, we have not yet defined what our position would be in Missouri. We believe that it is critical that Missouri act to preserve competition and choice for consumers and employers. Inevitably companies with low market share that provide valuable consumer choice may have to evaluate whether to remain in Missouri. This has happened already in a number of states and we encourage Missouri to assume market evaluations may happen there as well.

We do know that a common sense practical application of health care reform is critical as is the need to move deliberately. As insurers gain experience with the new requirements of the Affordable Care Act, Missouri can use this experience to make fact-based decisions about the MLR as well as other statutory provisions. Until then, Aetna urges Missouri to seek federal permission to slowly phase-in these requirements.

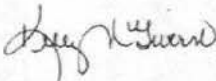
As always, please don't hesitate to call should you have any questions for us on this issue.

Sincerely,



Keith Barnes
President KS MO OK Markets

and



Director, Government Affairs
Mid-America Region

Hoyt, Amy

From: Tom Morrill [tom@morrillinsurancegroup.com]
Sent: Saturday, September 03, 2011 12:48 PM
To: MLR-Comments
Cc: Hoyt, Amy
Subject: MLR Comments

Importance: High

Dear Ms. Hoyt and the MO Department of Insurance,

My comments are a few hours late and I hope you will still accept my comments. I had major shoulder surgery on Friday August 26th, 2011 and was not able to attend the meeting. Since that time, I have been in recovery taking strong pain medications and have had only the use of one arm.

My MLR comments:

I believe MO should file for an exemption from the MLR requirements.

In 2003 my employer (Farmland Industries) of 18+ years went bankrupt. I lost my agriculture related job and my health insurance (including COBRA). I tried to purchase individual health insurance but was declined due to pre-existing conditions. I ended up accepting the very expensive MHIP plan. It was during this time of shopping for health insurance I discovered the process was complex, time consuming, frustrating and expensive. During this time was also when I decided I could become a health insurance broker and help others shop for plans from several carriers in one place.

I started my business with nothing in 2004. I built a health insurance exchange on the internet so clients could shop for plans from many companies in seconds. My income went from \$0 income in 2004 to around a gross income of \$48,000 in 2010 (about 90% from individual health insurance). Approximately 75% of my clients are Missouri residents. I have done this on my own with no employees or staff. I was not rich but content with my progress.

99% of the time, and for each new client, I spend at least 90 minutes on the phone and sending emails to help a person select a plan from the 50+ plans available on my website. It is a very rare event when someone buys a plan direct from my website without my personal assistance. Many times I will assist someone for an hour and, for various reasons, they will not buy a plan. Many times I will recommend they stay with their group plan, or they stay on COBRA, or they keep the policy they have in hand. I have become an expert at navigating all the options and helping a client find the best value for their money.....even if that means I do not sell a policy to them.

On January 1, 2011 most all of my insurance carriers (Humana, United Healthcare, Assurant, Aetna) cut the first year commissions for individual health insurance by 50%. And, subsequent years commissions were also cut but to a smaller percentage. My overall income has dropped by 35-40%. I am not able to survive on this level of income.

I have two choices, I can either sell more individual health insurance policies or I can start selling other types of insurance (life, long term care, disability, etc) and sell less individual health insurance.

I have decided to focus less on individual health insurance and help fewer people shop for individual health insurance. Since I already spend 35 hours a week on individual health insurance and my

business is very efficient, this is my only option. I estimate this will result in over 250 fewer Missouri residents accessing my expertise when purchasing a health insurance plan in 2011.

If the previous commission structures were restored, I could again help more Missouri residents manage their health insurance needs.

Thank you.

Best Regards,

Tom

Tom Morrill
Morrill Insurance Group
Kansas City, MO 64153
Small Group and Individual
Health, Life, Disability and Long Term Care
816-891-7771 Office



"The Right Insurance Plan is Just a Click Away!"

www.MorrillInsuranceGroup.com

Hoyt, Amy

From: mark.willse@americanenterprise.com
Sent: Friday, September 02, 2011 3:04 PM
To: MLR-Comments
Cc: lisa.sauer@americanenterprise.com
Subject: MLR-Comments - American Republic Insurance Company

We appreciate the opportunity to submit comments related to the MLR requirements for American Republic Insurance Company, as the implementation of the MLR regulations have the potential to significantly disrupt our individual major medical business. American Republic Insurance Company actively markets individual major medical insurance in Missouri and provides health insurance coverage to a significant number of insureds in Missouri.

In the absence of an MLR waiver, carriers may choose to terminate their existing blocks of business and leave the market, in an effort to avoid future losses and potential solvency concerns. This may leave many customers in Missouri without coverage and very personally disrupted if they are unable to find new coverage due to a health condition (before the consumer protections are in place in 2014 and due to ineligibility for the new high risk pools during the first six months after cessation of coverage).

For individual major medical policies that are individually underwritten, MLR's are much lower in the early years after a policy is issued and increase over time as underwriting "wears off" and more health problems develop. Continuing to issue significant amounts of newly underwritten policies over the next few years will only make it more difficult for us to achieve an 80 percent annual MLR across our block of individual medical business. This could serve as an incentive for us and other carriers who remain in the individual market to minimize their marketing activity prior to 2014, creating a potential lack of product availability for Missouri consumers over the next few years.

As a result of these issues, we respectfully ask that Missouri strongly consider requesting a waiver of the Individual Market MLR until 2014 to avoid disruption in the individual market and the negative impact the MLR requirement will have on Missouri residents, individual insurance carriers, and insurance agents and American Republic and its employees.

I. Whether Missouri should request an adjustment to the MLR for the individual market in the state.

Yes, American Republic Insurance Company strongly believes that an MLR waiver is needed to avoid significant disruption to the individual market in Missouri, ensuring that Missouri customers continue to have choice in the market and the ability to retain their existing coverage. Our preference is a transitional MLR of 65% for 2011, 70% for 2012, and 75% for 2013. This schedule will still require us to be prepared for the 2014 MLR requirement of 80%, but it would allow us more flexibility in designing the best transition. Anything higher than this transition schedule would likely cause significant disruption to our business model. We will still have to reduce expenses and agent compensation each year during the transition period as we approach 2014 (since business issued during the transition period from 2011 to 2013 will be subject to an 80% MLR in 2014), however these expense and commissions reductions would be much less drastic, allowing for a smoother, more orderly transition.

II. The consequences to companies offering individual coverage in Missouri if an adjustment is not sought.

The MLR regulations will have a significant financial impact on our Company. We operate with very narrow margins and the MLR requirement will likely result in losses, with limited possibility of future profitability. Our Company had strong sales results in 2010, resulting in a higher proportion of recently sold business with lower loss ratios. For individual major medical policies that are individually underwritten, MLR's are much lower in the early years after a policy is issued and increase over time as underwriting "wears off" and more health problems develop. Due to our inforce business being more weighted towards newer business, it will be very difficult for us to achieve an 80 percent annual MLR in 2011, and puts us at a disadvantage relative to companies that have more mature books of business and a more steady mix of older and newer policies (and a correspondingly higher MLR). Continuing to issue significant amounts of newly underwritten policies over the next few years from 2011 to 2013 will only make it more difficult for us to achieve an 80 percent annual MLR across our block of individual medical business. This could serve as an incentive for us and other carriers who remain in the individual market to minimize their marketing activity prior to 2014, creating a potential lack of product availability for Missouri consumers over the next few years.

Applying an 80 percent MLR requirement to existing individual business that had originally been priced under lower MLR expectations will most likely result in losses on this business, with little or no ability to recover those losses. Materially reducing the administrative (non-claims) costs associated with existing business in order to reduce financial losses is unlikely to be feasible. We have a large number of vendor contracts related to administration and claims management, as well as a large number of agent compensation contracts related to marketing, distribution, and servicing of policies. Our commission contracts generally cannot be changed retroactively for policies issued prior to the enactment of the new MLR requirements. Many of our other vendor contracts are "locked" in and require a few years to adjust. As a result, this will put significant pressure on our operating expenses, as it will not be possible to reduce the contractually agreed upon compensation related to these contracts on a timely basis. This will expose our Company to significant financial losses.

Additionally, it is more difficult to meet the 80% MLR in the individual market (especially for companies that focus exclusively on the individual market) due to the higher administrative expenses associated with marketing and servicing policies at an individual level, coupled with the lower average premiums in the individual market due to the higher average deductibles being sold in this market for affordability reasons. Further, the rebate mechanism will create a significant cost that cannot be offset by the margin in the business. Due to this combination, carriers may choose to terminate their existing blocks of business and leave the market, in an effort to avoid future losses and potential solvency concerns. This may leave many customers in Missouri without coverage and very personally disrupted if they are unable to find new coverage due to a health condition (before the consumer protections are in place in 2014 and due to ineligibility for the new high risk pools during the first six months after cessation of coverage). We believe that an MLR waiver is very important to allow for continued availability of coverage options (competition) and for the ability of insureds to retain the coverage they currently have in the private market.

We believe that an MLR waiver during the transition period, rather than an abrupt shift to an 80% MLR, will allow for a smoother and less disruptive transition period as we approach 2014. This will also allow for continued availability of coverage options and for the ability of insureds to retain the coverage they currently have in the private market. In addition, a full waiver will result in a greater likelihood of us being able to maintain a significant market presence throughout the transition period and be in a better position to compete in the market in 2014. An MLR waiver would still require us to be prepared for the 2014 MLR requirement, but it would allow us more flexibility in designing the best transition.

III. Consequences to brokers or agents offering products in the individual market if an adjustment is not sought.

We anticipate significant disruption to our distribution partners without a MLR waiver and anticipate substantially lower sales volume if the waiver is not obtained. Our organization relies on an agent model for distribution of our products and advising our customers, and we are not positioned to market directly to consumers at this time. Our customers work closely with their insurance agents to obtain the best possible coverage for their personal needs, and we believe our agents are compensated fairly for the services they provide. In the absence of a waiver, the compensation we pay to our agents will need to be significantly reduced, resulting in a business model that may no longer be viable for them to continue operating in this business. If our agents are forced to find alternative ways to make a living, this will cause significant disruption to our customers who rely on their expertise. Note that with an MLR waiver, we will still have to reduce agent compensation each year during the transition period as we approach 2014 (since business issued during the transition period from 2011 to 2013 would be subject to an 80% MLR in 2014), however the compensation reduction would be much less drastic, allowing for a smoother, more orderly transition.

V. Any other matter bearing on the six criteria HHS has identified, as set forth above, that impact the risk of market destabilization.

i. Continuation of Sales: We are hopeful that Missouri and other states will request an MLR waiver. We anticipate significant disruption to our distribution partners without a MLR waiver and anticipate substantially lower sales volume if the waiver is not obtained. Our organization relies on an agent model for distribution of our products and advising our customers, and we are not positioned to market directly to consumers at this time. Also, without an MLR waiver, continuing to issue significant amounts of newly underwritten policies over the next few years from 2011 to 2013 will only make it more difficult for us to achieve an 80% annual MLR across our block of individual medical business. This could serve as an incentive for us and other carriers who remain in the individual market to minimize their marketing activity prior to 2014, creating a potential lack of product availability in the individual market over the next few years and reducing consumer choice in Missouri.

ii. Exiting the Individual Market: We are continuing to evaluate the financial viability of our major medical line of business in light of Health Care Reform and the MLR regulation to ensure that we discharge our fiduciary duty to our Policyholders. Lack of an MLR waiver will significantly impact our decisions regarding new business and the

likelihood that our distributions will remain viable. Limited selling activities by us and other similarly positioned carriers will create less choice and competition in Missouri. In addition, the lack of new business within the block will continue to put pressure on our management decisions as it relates to the ability to keep the block active and could increase the likelihood of a decision to cancel the existing business.

iii. Potential impact on premiums paid by current policyholders - We believe that medical trends will increase from current levels primarily due to billed charges increasing and a more difficult negotiating environment with providers. We also expect increased utilization due to provider behavior under the new mandates. Further, we expect increased provider cost-shifting due to continued government cuts in public medical insurance programs, as well as more cost-shifting from the increasing population of uninsured and under-insured patients. As we approach a guarantee issue environment in 2014 with modified community rating, we expect premiums to increase significantly as younger, healthier insureds choose to opt out of coverage due to the prohibitive cost.

Initially, when considered in isolation, an 80% MLR will result in more dollars of premium being paid out in benefits and may result in lower initial premiums (if the new PPACA benefits don't offset all of this). However, due to the items noted above, our view is that premiums will increase at a faster pace in the new environment, and will be significantly higher than they would have otherwise been as we reach 2014.

We believe an MLR waiver is critical to maintain as much competition in the market as possible, so that Missouri consumers continue to have choices in the individual market and the ability to retain their existing coverage.

iv. Potential impact on benefits and cost-sharing of existing products - The absence of an MLR waiver could result in carriers minimizing their marketing activity prior to 2014, creating a potential lack of product availability for Missouri consumers over the next few years. Carriers may also choose to terminate their existing blocks of business and leave the market, in an effort to avoid future losses and potential solvency concerns associated with the MLR requirement. This will result in a lack of product availability and choice for Missouri consumers. In addition, if premium trends increase as indicated above, Missouri consumers may be forced to purchase coverage that has lower benefits and higher cost-sharing components, due to affordability issues.

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Please let me know if you have questions or need any additional information.

Sincerely,

Mark A Willse, FSA
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American Enterprise Group
515-245-2253

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Hoyt, Amy

From: mark.willse@americanenterprise.com
Sent: Friday, September 02, 2011 3:08 PM
To: MLR-Comments
Cc: lisa.sauer@americanenterprise.com
Subject: MLR-Comments - World Insurance Company

We appreciate the opportunity to submit comments related to the MLR requirements for World Insurance Company, as the implementation of the MLR regulations have the potential to significantly disrupt our individual major medical business. World Insurance Company actively markets individual major medical insurance in Missouri and provides health insurance coverage to a significant number of insureds in Missouri.

In the absence of an MLR waiver, carriers may choose to terminate their existing blocks of business and leave the market, in an effort to avoid future losses and potential solvency concerns. This may leave many customers in Missouri without coverage and very personally disrupted if they are unable to find new coverage due to a health condition (before the consumer protections are in place in 2014 and due to ineligibility for the new high risk pools during the first six months after cessation of coverage).

For individual major medical policies that are individually underwritten, MLR's are much lower in the early years after a policy is issued and increase over time as underwriting "wears off" and more health problems develop. Continuing to issue significant amounts of newly underwritten policies over the next few years will only make it more difficult for us to achieve an 80 percent annual MLR across our block of individual medical business. This could serve as an incentive for us and other carriers who remain in the individual market to minimize their marketing activity prior to 2014, creating a potential lack of product availability for Missouri consumers over the next few years.

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I. Whether Missouri should request an adjustment to the MLR for the individual market in the state.

Yes, World Insurance Company strongly believes that an MLR waiver is needed to avoid significant disruption to the individual market in Missouri, ensuring that Missouri customers continue to have choice in the market and the ability to retain their existing coverage. Our preference is a transitional MLR of 65% for 2011, 70% for 2012, and 75% for 2013. This schedule will still require us to be prepared for the 2014 MLR requirement of 80%, but it would allow us more flexibility in designing the best transition. Anything higher than this transition schedule would likely cause significant disruption to our business model. We will still have to reduce expenses and agent compensation each year during the transition period as we approach 2014 (since business issued during the transition period from 2011 to 2013 will be subject to an 80% MLR in 2014), however these expense and commissions reductions would be much less drastic, allowing for a smoother, more orderly transition.

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