



STATE OF MAINE
DEPARTMENT OF PROFESSIONAL
AND FINANCIAL REGULATION
BUREAU OF INSURANCE
34 STATE HOUSE STATION
AUGUSTA, MAINE
04333-0034

Paul R. LePage
GOVERNOR

Eric A. Cioppa
Superintendent

July 18, 2012

Michael Hash, Interim Director
Center for Consumer Information and Insurance Oversight
U.S. Department of Health & Human Services
200 Independence Avenue, SW
Washington DC 20201

Dear Mr. Hash:

On March 8, 2011, CCIIO granted the request submitted by the State of Maine for a three-year adjustment of the minimum loss ratio to 65% for the individual market in Maine. The adjustment was granted unconditionally for the first two years; *i.e.*, with respect to issuers' 2011 and 2012 loss experience. For purposes of rebates to be paid in 2014 by issuers whose 2013 MLRs fall below the minimum, the adjustment was granted "on the condition that the MBI [Maine Bureau of Insurance] provide CCIIO with updated data in 2012 that indicate a continued need for such an adjustment."

I am writing to provide you with updated information, and to request that you grant the third year of the adjustment.

In the approval letter, CCIIO concluded that even though only one insurer (MEGA) would be reasonably likely to depart this market in the absence of an adjustment to the minimum MLR, that insurer's 37% market share "is a particularly high market share for a departing issuer and is also a distinguishing factor of the MBI's application." This has not changed. MEGA's market share, according to the most recent data available to the Bureau, remains at 37%. Furthermore, despite the establishment of a subsidized reinsurance program to reduce volatility in the individual market, mitigate the risk posed by Maine's guaranteed issue and modified community rating requirements, and lower the overall cost of coverage, no new issuers have entered the market or given notice of intent to enter the market. Recent Maine legislation also gave issuers the incentive to guarantee an 80% MLR voluntarily, by exempting individual health insurance rate increases below 10% from Maine's prior approval requirements if the issuer agrees, notwithstanding any federal adjustment to the minimum MLR, to pay rebates on the basis of an 80% MLR, calculated in accordance with the



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federal MLR formula, including any credibility adjustment.¹ Nevertheless, MEGA has chosen to submit its most recent rate increase to prior regulatory approval, with the likelihood of a public hearing, rather than guarantee an 80% MLR. More detailed information on the current state of the market and MEGA's recent experience follows.

Updated information on Maine's individual market: According to the September 2010 enrollment data previously considered by CCIIO, there were three major issuers in Maine's individual health insurance market: Anthem Blue Cross Blue Shield of Maine (Anthem), MEGA Life & Health Insurance Company (MEGA), and Harvard Pilgrim Health Insurance Company (HPHC). Anthem had 18,297 enrollees, giving it a market share of approximately 49%. MEGA had 13,732 enrollees (37%), and HPHC had 4,935 enrollees (13%). There has been no improvement in these statistics. As of March 31, 2012, overall individual market enrollment has continued to decline, and there has been no material change in the three major companies' market shares: Anthem's enrollment was most recently measured at 16,812 (48%), compared to 12,399² for MEGA (37%) and 4,744 for HPHC (14%).

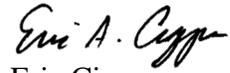
MEGA's recent experience and pending rate filing: For 2011, according to MEGA's federal MLR Reporting Form, MEGA's MLR, before credibility adjustment, was 76.3%. Because MEGA was entitled to a credibility adjustment of 3.7%, its MLR for rebate purposes was 80.0%. It should be noted that MEGA did not expect or intend to have that high a loss ratio, and MEGA's MLR Report also shows that it lost over \$2 million in Maine in 2011. On June 8, 2012, MEGA filed a rate request with the MBI indicating an average increase of 6.5%, and projecting an expected "pure" loss ratio (incurred claims divided by earned premiums) of 67.7%. Based on the quality improvement expenses and taxes reported for 2011, this is approximately equivalent to an MLR of 69.4% before the credibility adjustment, or 71.1% after the credibility adjustment expected to apply for 2012 experience. It should be noted that this filing is only for in-force policies and we anticipate an additional filing of rates for new business soon. MEGA's actual MLR will be based on a combination of these two blocks of policies. It should also be noted that MEGA's credibility adjustment does not in any way reduce the need to implement the conditionally approved third year of the adjustment to the minimum. MEGA's status as an insurer with "partially credible" experience, based on its relatively small enrollment in Maine, is the result of the high volatility associated with small books of business, and the determination by the Secretary that issuers in this situation need a safety margin to protect against the risk that results in any one year could be significantly better or worse than expected – in particular, both the risk that MEGA's actual 2013 experience might be significantly worse than expected, and that MEGA's actual 2012 experience might have significantly understated the losses that those enrollees would normally have experienced in a typical year.

¹ These changes to Maine's individual health insurance laws took effect July 1, 2012. It should be noted that at the same time, the limits applicable to rating factors for age and geographic area were modified. The law formerly restricted the variation for age and area combined to a range of 1.5 to 1. Under the new law, a range of 3 to 1 is allowed for age and a separate 1.5 to 1 range is allowed for geographic area. We do not believe these changes to the rating laws have a material impact on Maine's need for an adjustment.

² Estimated – enrollment was 12,513 as of December 31, 2011.

Therefore, the State of Maine is hereby requesting that its MLR adjustment remain in effect for 2013, consistent with the terms of the conditional approval granted by CCIIO on March 8, 2011. Please let us know if there is any additional supporting information you need in connection with this request.

Sincerely,

Handwritten signature of Eric A. Cioppa in black ink.

Eric Cioppa
Superintendent of Insurance