



*Dipattamenton Kontribusiyan Adu'ana*

DEPARTMENT OF

# REVENUE AND TAXATION

GOVERNMENT OF GUAM

*Gubetnamenton Guahan*

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June 14, 2011

Gary Cohen  
Acting Director  
Office of Oversight  
Department of Health & Human Services  
Centers for Medicare and Medicaid Services  
7500 Security Boulevard, Mail Stop C2-21-15  
Baltimore, Maryland 21244-1850

Re: Guam's Request for Adjustment to Medical Loss Ratio Standard

Dear Mr. Cohen:

Thank you for reviewing Guam's Request for Adjustment to Medical Loss Ratio Standard. In response to your questions, our office answers as follows:

1. Title 45 CFR §158.343 provides that any State that submits a request for adjustment to the MLR standard may hold a public hearing with respect to its application. Please indicate whether the Department has provided a forum for public input regarding the Department's application for an adjustment to the MLR standard. Please provide copies of any public input, other than the letters from the Guam Association of Health Plans and Insurance Association of Guam submitted with the Department's application, that the Department has received regarding its MLR standard adjustment request.

The Department did not hold any public hearing with respect to its application and did not provide a forum for public input regarding the Department's application for an adjustment to the MLR standard.

2. Please provide, for 2010, the ratio of direct losses incurred to direct premium earned in the Guam individual market for each issuer who provided coverage to more than 1,000 enrollees in that market.

None of the two issuers provided coverage to more than 1,000 enrollees in the Guam individual market.

3. Page 2 of the Department's application states that "Currently, only one health plan has written individual health plans in Guam but has verbally stated that it will serve notice to terminate and exit from the Guam market for fear of adverse selection by individual applicants." We read this to mean that only one issuer has verbally stated that it may withdraw from the Guam individual market, and that no issuer has given written notice of withdrawal. Please confirm that our reading of this statement is accurate.

If our reading of this statement is accurate, please identify that issuer and indicate the approximate timeframe, if any, the issuer suggested it would be providing notice to terminate and exit from the Guam market. Please also give the Department's assessment of the likelihood that adverse selection by individual applicants will occur, as raised by the issuer, and the likelihood of that issuer leaving the Guam individual health insurance market, given that, according to page 2 of the Department's application, (a) the Health Insurance Portability and Accountability Act would preclude the issuer from reentering that market for five years, and (b) Guam imposes no limitation upon issuers regarding rating based on health status.

Island Home Insurance Company has indicated that it will terminate and exit from the Guam individual market on December 31, 2013. However Island Home Insurance Company hedge that the company's intention to exit may change if there is a change in the law. Takecare Insurance Company has indicated that there is no final decision to terminate from the Guam individual market .

Since only two issuers are offering individual policies, consumers with children below 19 years old who have preexisting condition could enroll with these two companies. The net effect is that these two issuers could be adversely selected.

It is our belief that Takecare Insurance Company would reconsider from exiting from the Guam individual market due to the HIPAA requirement that precludes an issuer from reentering the market for five years.

4. Page 2 of the Department's application states that "Currently, only one health plan has written individual health plans in Guam but has verbally stated that it will serve notice to terminate and exit from the Guam market for fear of adverse selection by individual applicants." Given that fact, please give the Department's assessment of how likely it would be that one or more other issuers would enter the Guam individual health insurer market in the event the issuer that has served verbal notice carries through with its assertion. Please also explain the rationale underlying the Department's assessment.

The Guam individual market is very small. The other two issuers namely, Netcare Life and Health Insurance Company and Tokio Marine Pacific Insurance Ltd. have not issued policies in the Guam individual market. It is clear that if these two insurers would enter the individual market this time they must be ready to accept applicant children below 19 years old with or without preexisting medical condition .

5. Page 4 of the Department's application states that "In the event no adjustment is made to the MLR, one or two of the four health plan issuers will exit the Guam health insurance market." Please identify the issuer(s) that will exit. Please also describe the factors, events, or considerations that underlie the Department's conclusion that this will be the case.

The insurer that will exit in the Guam Individual Market in 2013 unless the law changes is Island Home Insurance Company. In the event the Netcare Life and Health Insurance Company is unable to gain more enrollees or increase the company's rates and substantially maintain its current enrollees, the company may be left without alternative but to withdraw.

6. Please confirm that the "Expense Ratio" figures appearing on page 3 of the Department's application are calculated by dividing the underwriting expenses for a particular company for a given year by that company's earned premium for that year.

It is confirmed that the Expense Ratio figures appearing on page 3 of the Department's application are calculated by dividing the underwriting expenses for a particular company for a given year by that company's earned premium for that year. The expense ratio was computed for the Guam market without segregation of the individual, small group employer and large group employer.

7. On page 4 of the Department's application, the Department requests that issuers in the Guam individual market be allowed to meet a 65 percent MLR for years 2011, 2012, and 2013. Please describe what consideration the Department gave to requesting an adjustment that would incrementally phase in the statutorily-required 80 percent MLR standard, rather than providing a single year transition to it.

Currently, the individual market in Guam is very small. Without a significant increase in the number of enrollees who are healthy together with those enrollees with preexisting medical condition, the MLR for the individual market would trend to become higher. The Department assumed that in 2014 more healthy individuals would enroll in the Guam individual market.

8. On page 4 of the Department's application, the Department notes that the request to adjust the individual health insurance market MLR standard for Guam to 65 percent for 2011-2013 was based on the loss ratio experience shown in the table on page 3 of its application. Please explain the factors or considerations surrounding the loss ratio experience shown in the table on page 3 that led the Department to conclude that it should request that the MLR standard for Guam's individual health insurance market be lowered to 65 percent.

The MLR figures include both the individual, the small and the large market. It is a general belief of the health insurance industry that individuals generally obtain health insurance due to medical need and have a higher medical loss ratio.

The individual market per issuer is set forth below.

Insurer	Guam Individual Market Preliminary Medical Loss Ratio		
	Net Health Premiums Earned	Net Incurred Claims	Preliminary Medical Loss Ratio
Island Home Ins Co	565,561	228,470	40.4%
Takecare Ins Co	194,681	184,471	94.8%
Total	760,242	412,941	54.3%

9. On page 4 of the Department's application, the Department states that, in the event that one or two issuers exit the Guam health insurance market, "there is no certainty that the remaining two issuers will be able to enroll more applicants without an increase in the capital and surplus of each of the remaining companies." Please give the Department's assessment of how likely it would be that the remaining issuers would not add the exiting issuers' enrollees to their books of business and explain the rationale underlying the Department's assessment.

Of the four issuers in the Guam market, only Tokio Marine Pacific Insurance Ltd has been increasing its capital and surplus. The table below shows the capital and surplus of the issuers for the last four (4) years:

Issuer	C& S 2007	C & S 2008	C& S 2009	C&S 2010
Island Home Ins Co	15,955,113	9,172,923	11,163,147	9,085,549
Netcare Life & Health Ins Co	1,561,911	1,440,590	1,397,397	1,328,927 **
Takecare Insurance Co	14,968,497	16,735,454	18,161,937	15,689,442
Tokio Marine Pacific Ins Ltd	14,983,136	21,953,060	30,134,096	39,501,156

\*\* The \$1,328,927 capital and surplus of this company is as of March 31, 2011.

10. With respect to the statement on page 4 of the Department's application that "there is no assurance that the remaining health plan issuers will not increase the premiums charged in the absence of competitive conditions," please give the Department's assessment of how likely it is that premiums will increase in the event that one or two issuers exit the Guam health insurance market, and explain the rationale underlying the Department's assessment. With respect to that assessment, please describe what consideration the Department gave to whether raising premiums would lower the remaining issuers' MLRs and could result in their having to pay rebates.

Some anecdotal information suggests that some insurers have priced some large markets at a discount to get the book of business from competing insurers. In the event one (1) issuer exits the market there is still competition among the three (3) remaining issuers. If two (2) insurers exit from the market there would be less competition. The remaining two (2) insurers may increase the premiums on the basis that the previous insurers did not correctly price the risks. However, per your observation, it is accurate to state that if the increases in premiums are not reasonable, the raising of premiums could result to a lower MLR and payment of rebates.

11. Please confirm, or comment upon the accuracy of the statement, made on page 2 of the November 4, 2010 letter from Guam Association of Health Plans, submitted with the Department's application, that "Because of Guam insurance laws, health insurers are required to conduct business through an agent." If it is accurate, please provide the citation to the statute, regulation, or guidance which sets forth that requirement.

No foreign insurer (issuer domiciled in any US jurisdiction) or alien (issuer domiciled outside of US jurisdiction) can obtain a certificate of authority unless such insurer shall appoint a resident general agent in Guam. In addition, the policy must be countersigned by the resident general agent in Guam. Please see 22 GCA §§ 15402; 15502; 18302; and 12 GCA §58128.4(a).

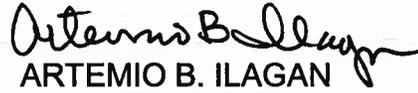
2. Page 2 of the Department's application suggests that only one issuer currently is operating in Guam's individual market. However, other information submitted by the Department (page 1 of the September 10, 2010 letter from the Insurance Association of Guam letter and page 6 of the August 27, 2010 letter from Guam Health Insurance Association) suggests that currently there is more than one issuer in Guam's individual

market. Please confirm how many issuers currently offer coverage in the Guam individual health insurance market.

There are in fact two (2) issuers of health insurance plans in the individual market, namely, Island Home Insurance Company with 2010 premiums of \$565,614 with 272 covered lives and Takecare Insurance Company with 2010 premiums of \$194,867 with 85 covered lives.

It is our hope that the above information provided adequate answers to the questions that were asked in your letter. Please let us know if you require more information.

Sincerely,



ARTEMIO B. ILAGAN  
Acting Banking and Insurance Commissioner