

July 12, 2011

Mr. Steve Larsen
Deputy Director for Oversight
Office of Consumer Information and Insurance Oversight
The U.S. Department of Health and Human Services
200 Independence Avenue, S.W.
Washington, D.C. 20201

Re: Guam Request for an Adjustment of the Medical Loss Ratio Standard

Dear Mr. Larsen,

As a member of the 31st Guam Legislature and Chairman of the Committee on Appropriations, Taxation, Public Debt, Banking, Insurance, Retirement, and Land the following comments are submitted for your consideration in the current request for adjustment to Guam's Medical Loss Ratio standard.

Many arguments are placed before you by representatives of Guam's four insurance companies and the Acting Insurance Commissioner. The Guam application buoyed by prose offers only anecdotal reasons to delay implementation of the MLR standards while offering no empirical proof to back up the claims in the application. Therefore, my comments will be made using a macro perspective about the data submitted by Mr. John Camacho from the Guam Department of Revenue and Taxation.

The most obvious missing information that allows the retention or administrative expense and profit to be measured for Guam insurance companies is member months or covered lives. Including number of covered lives will allow proper benchmarking of administrative costs and profit as they relate to standards in the fifty (50) states and other territories.

The number of residents covered by the four insurance companies in Guam is somewhere in the range of 80,000 to 85,000 during the period 2007 to 2009. The market share during those periods did not vary significantly except between 2007 and 2008 when Tokio Marine which is brokered locally by Calvo's SelectCare Insurance gained approximately 11,500 members from Zurich Insurance also known as Island Home which is brokered locally by Staywell Insurance.

Of the privately insured market, the individual plan market is serviced by two insurers and that cover fewer than 300 lives. The remaining estimated

90,000 residents of Guam are either uninsured or on some form of public assistance. This group represents the largest and most significant population which will require coverage solutions and in my opinion should be the number one focus of Guam Governor Edward J. B. Calvo and his administration, including the new Acting Insurance Commissioner Artemio Ilagan.

Estimated Guam Health Insurance Market

Health Coverage	2009	
TakeCare	26,000	14.9%
SelectCare	34,000	19.5%
NetCare	11,000	6.3%
StayWell	12,000	6.9%
Medicaid/Medically Indigent Program	39,258	22.5%
Other	9,000	5.2%
Uninsured	42,971	24.7%
Total Population	174,229	100.0%

In the Congressional Research Paper “The Market Structure of the Health Insurance Industry,” the uninsured population in the United States is 15.4% compared to 24.7% in Guam. Similarly, 14.1% of people in the United States utilize Medicaid or some other form of public assistance compared to 22.5% in Guam. Clearly low wages on Guam keep commercial health insurance coverage out of reach for a large segment of Guam’s population and there is an almost an emergency need to implement a health exchange.

Low wages on Guam are further demonstrated by the large number of tax filers that qualify for the Earned Income Credit (EIC).

Guam Distribution of Earned Income Tax Credit by Size of Adjusted Gross Income and Number of Qualifying Children, 2009

Source: Guam Department of Revenue and Taxation

Range of AGI	Returns with no qualifying children	Returns with one qualifying children	Returns with two qualifying children	Returns with three qualifying children	Total
\$0 - \$4,999	635	305	176	152	1,268
\$5,000 - \$9,999	883	600	368	239	2,090
\$10,000 - \$14,999	848	987	682	511	3,028
\$15,000 - \$19,999	129	948	715	568	2,360
\$20,000 - \$24,999	0	803	568	483	1,854
\$25,000 - \$29,000	0	710	446	402	1,558
\$30,000 - \$34,999	0	501	451	338	1,290
\$35,000 +	0	238	498	631	1,367
Grand Total	2,495	5,092	3,904	3,324	14,815

The latest estimate of the number of tax returns filed by the Guam Department of Revenue and Taxation for Tax Year 2009 is 55,459 of which 14,815 or 26.7% claimed

the EIC. Internal Revenue Service Statistics for the same period report that 18.4% of individual tax filers in the United States claimed the EIC.

If a health insurance exchange is enacted, market forces are likely to cause the private insurance companies to position themselves to compete within the exchange. If they do not, small businesses are likely to discontinue purchasing insurance from private insurers and enter the exchange thus potentially forcing the private insurers exit from the Guam market. It is not the MLR standards that will pressure the insurance companies to exit the market; it will be the much needed creation of a health insurance exchange to provide coverage for over 85,000+ people that can not afford private insurance.

Either the private insurance companies will adapt or they will exit and other competition will appear to provide the needed services in a health insurance exchange. It is my belief that the astute business people running the private insurance companies on Guam will modify their business model as needed to deal with the mandates of the Patient Protection and Affordable Care Act.

Guam Administrative Cost Ratios v. U.S. Administrative Cost Ratios

A common insurance industry administrative benchmark Per Member Per Month (PMPM) is added in the following table to the same information provided by Mr. Camacho in the Guam MLR Adjustment Request Application to demonstrate that the administrative costs on Guam are more often than not **lower** in comparison to mainland standards which is contrary to the premise and perspective offered throughout the entire Guam MLR Adjustment Request Application.

Guam Health Insurance Companies Self Reported Data from MLR Adjustment Request Application by Guam Insurance Commissioner

	Takecare 2009	Tokio Marine (Calvo's SelectCare - Broker) 2009	Netcare 2009	Island Home (Staywell - Broker) 2009	Total 2009
Incurred Losses	\$61,479,127	\$60,737,906	\$21,486,516	\$13,271,433	\$156,974,982
Underwriting Expenses	\$8,871,140	\$14,609,697	\$3,450,991	\$5,070,142	\$32,001,970
Earned Premium	\$75,929,892	\$75,887,145	\$23,904,343	\$19,293,591	\$195,014,971
Loss Ratio	81%	80%	90%	69%	80%
Expense Ratio	12%	19%	14%	26%	16%
Average Membership ¹	26,000	34,000	11,000	12,000	83,000
Administrative Per Member Per Month (PMPM) Cost ¹	\$28.43	\$35.81	\$26.14	\$35.21	\$32.13
Profit/Loss Per Member Per Month (PMPM) ¹	\$17.81	\$1.39	(\$8.03)	\$6.33	\$6.06

¹ Information added to Guam Insurance Commissioner data submitted in MLR Adjustment Request Application

² Includes over 10,000 Federal Employee Health Benefit Plan members

Guam Health Insurance Companies Self Reported Data from MLR Adjustment Request Application by Guam Insurance Commissioner

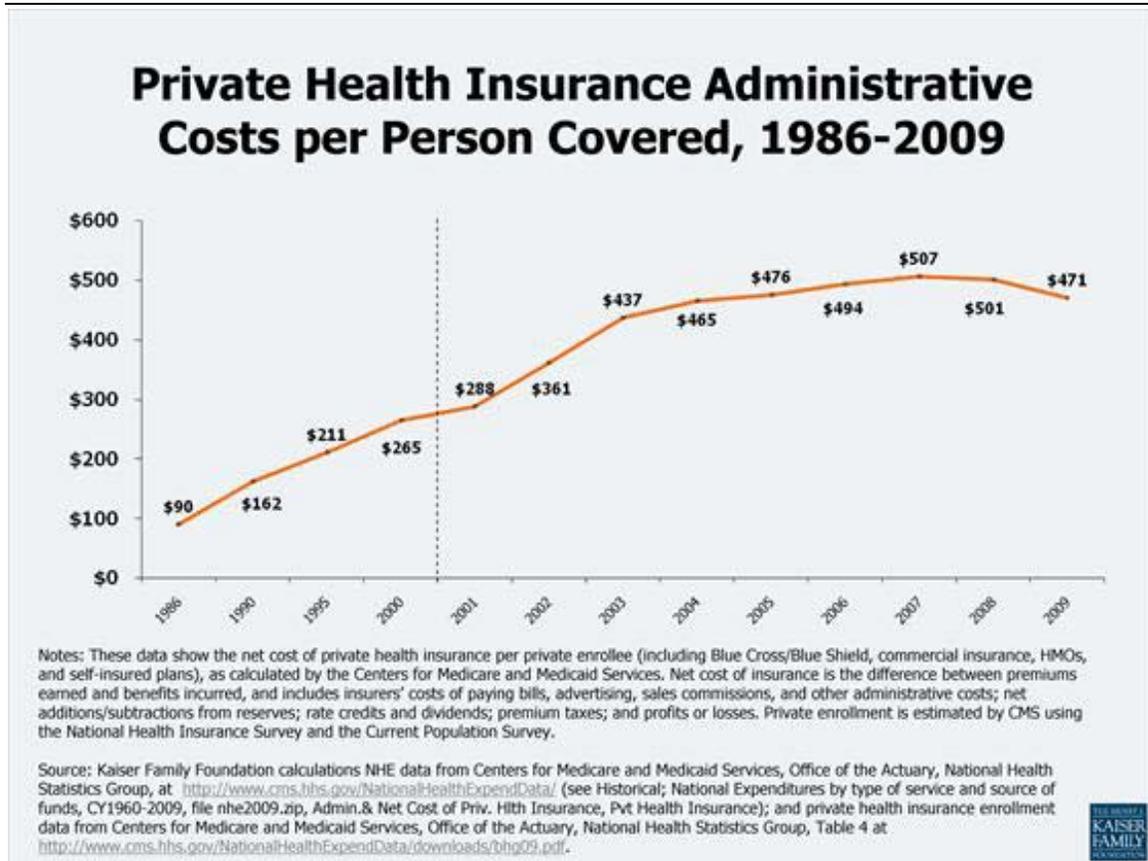
	Takecare 2008	Tokio Marine (Calvo's SelectCare - Broker) 2008	Netcare 2008	Island Home (Staywell - Broker) 2008	Total 2008
Incurring Losses	\$61,510,505	\$29,033,468	\$17,947,198	\$13,983,548	\$122,474,719
Underwriting Expenses	\$8,295,844	\$9,874,517	\$3,188,228	\$6,263,560	\$27,622,149
Earned Premium	\$75,206,812	\$39,302,074	\$21,567,837	\$19,841,619	\$155,918,342
Loss Ratio	82%	74%	83%	70%	79%
Expense Ratio	11%	25%	15%	32%	18%
Average Membership ¹	26,000	34,000	11,000	12,000	83,000
Administrative Per Member Per Month (PMPM) Cost ¹	\$26.59	\$24.20	\$24.15	\$43.50	\$27.73
Profit/Loss Per Member Per Month (PMPM) ¹	\$16.80	\$0.84	\$3.62	(\$2.16)	\$5.84
	2007	2007	2007	2007	2007
Incurring Losses	\$59,502,615	\$13,173,007	\$12,347,268	\$35,530,386	\$120,553,276
Underwriting Expenses	\$8,019,204	\$5,393,595	\$3,246,920	\$9,578,902	\$26,238,621
Earned Premium	\$72,409,816	\$18,959,004	\$20,230,527	\$37,862,137	\$149,461,484
Loss Ratio	82%	69%	61%	94%	81%
Expense Ratio	11%	28%	16%	25%	18%
Average Membership ¹	26,000	22,500	12,000	25,000	85,500
Administrative Per Member Per Month (PMPM) Cost ¹	\$25.70	\$19.98	\$22.55	\$31.93	\$25.57
Profit/Loss Per Member Per Month (PMPM) ¹	\$16.07	\$1.79	\$32.24	(\$24.36)	\$2.60

¹ Information added to Guam Insurance Commissioner data submitted in MLR Adjustment Request Application

² Includes over 10,000 Federal Employee Health Benefit Plan members

Compared to the Kaiser Family Foundation Statistics, Private Health Insurer Administrative Costs on a PMPM basis are on par or above all the Guam carriers with the exception of Island Home in 2007 and NetCare in 2009. In addition, Tokio Marine and Island Home are including broker commissions in the reported underwriting expense which further distorts the cost of administration and profit. As the statistics show, there is a vast gap between company's administrative costs (including profit) which may warrant further review and scrutiny of audited financial reports because as mentioned earlier, the numbers submitted earlier by Mr. Camacho are self-reported to the Department of Revenue and Taxation.

Kaiser Family Foundation Statistics	2005	2006	2007	2008	2009
Private Health Insurer Cost per person Covered	\$476	\$494	\$507	\$501	\$471
Retention Per Member Per Month (PMPM) Cost	\$39.67	\$41.17	\$42.25	\$41.75	\$39.25



On average, it has been estimated that the profit margin of private insurers in the Guam market ranges from 5 to 10%. I would encourage your office to perform actual audits of each company requesting for the MLR Adjustment Request Application ensure actual fairness and confirmation that an adjustment request from standards established by Section 2718 of the Public Health Service Act (PHSA) is necessary.

Offshore Administration

Each of the four Guam insurers also offshore administrative functions such as claims processing, utilization management, member enrollment, call centers, accounting and information technology management to the Philippines. Wages in the Philippines are much lower than in Guam or the US mainland which accounts for the lower administrative ratios. Reported monthly wages for insurance positions in the Philippines are listed on the following page.

TABLE 1 - Average Monthly Wage Rates of Time-Rate Workers on Full-Time Basis in Selected Industries and Occupations, Philippines: July 2008
Insurance and Pension Funding except Compulsory Social Security

Industry/Occupation	Average Monthly Wage Rates (P)	Average Monthly Wage Rates (\$)
2121 Actuaries	35,625	\$781.34
2122 Statisticians	21,121	\$463.23
2132 Computer Programmers	20,977	\$460.07
2411 Accountants and Auditors	29,594	\$649.06
3412 Insurance Representatives	15,919	\$349.14
3417 Appraisers and Valuers	15,097	\$331.11
4121 Accounting and Bookkeeping Clerks	14,329	\$314.27
4122 Statistical and Finance Clerks	14,690	\$322.18
4215 Debt Collectors and Related Workers	13,318	\$292.09
4225c Customer Service Representatives/Associates (in call centers)	14,346	\$314.64
9400c Unskilled Workers except Janitors, messengers and Freight Handlers	10,700	\$234.67
Exchange Peso to Dollars (July 2008)	45.595	

Source: Bureau of Labor Statistics and Employment Statistics, 2008 OCCUPATIONAL WAGES SURVEY (OWS)
<http://www.bles.dole.gov.ph/SURVEY%20RESULTS/OWS/2008ows%20Publication/Table%201.pdf>

The items brought forth in this letter are just a few of the matters that should be considered in the review of the Guam MLR Adjustment Request Application. As an elected official, rarely a day goes by without a resident or small business calling my office explaining their struggles with the high rate increases pushed by health insurance companies over the last several years. I am hopeful that your office will perform its due diligence and weigh all factors in your determination. Should you have any further questions or concerns, please do not hesitate to contact me at (671) 473-4238 or by email at senben@guam.net.

Sincerely,

Vicente (ben) Cabrera Pangelinan
Senator