STATE OF MICHIGAN

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GOVERNOR

DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
OFFICE OF FINANCIAL AND INSURANCE REGULATION
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COMMISSIONER

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TRANSMITTED VIA EMAIL

October 4, 2011

Mr. Gary M. Cohen
Acting Director, Office of Oversight
Center for Consumer Information and Insurance Oversight
200 Independence Avenue, S.W.
Washington, DC 20201

**Re: Michigan's Request for Adjustment to Medical Loss Ratio Standard
Responses to August 29, 2011 Letter**

Dear Acting Director Cohen:

This letter is in response to your August 29, 2011 letter requesting further information regarding Michigan's request for an individual market medical loss ratio adjustment. You had outlined 9 areas needing either further clarification or additional information. OFIR's responses to those items are as follows:

1. After revising Exhibit 2 to use life years rather than enrollees for the MLR calculation (see #9 below), we identified 12 issuers with indicated rebates under the 80% MLR standard. As indicated in our original request, two of the twelve issuers (MEGA, American Community) have already exited the individual market in Michigan. We requested the remaining 10 issuers to provide us with information regarding any plans offered that were unique to the marketplace. One issuer, Unicare Life and Health, confirmed it no longer writes individual health policies in Michigan. Of the nine other issuers, six responded as having one or more products they felt were unique with respect to the benefits or cost sharing features that provide more affordable coverage. The other four responded as either having no unique products or expressed uncertainty as to whether their products were unique. The unique coverages cited by the six issuers ranged from child only policies to those with larger cost-sharing features and/or lower annual limits allowing for more affordable coverage. Should these issuers choose to cease offering these policy types or exit the market altogether due to the increased costs imposed by the higher MLR requirement, insureds will have difficulty securing comparable coverage from other issuers.

   Regarding whether products in the state are in general comparable in product design and cost, the size and complexity of the various benefit plans makes it difficult to perform such a comparison. However, as MCL 500.3406f allows issuers in the individual market to exclude coverage for pre-existing conditions for the first six months, we are concerned that individuals with pre-existing conditions will find it difficult to secure comparable coverage should their current issuer decide to exit the market or significantly reduce its writings as nearly all issuers have the six month limitation on new policies. The Affordable Care Act (ACA) has eliminated pre-existing limitation restrictions for children 19 and under but others will find it difficult to obtain replacement coverage until 2014 when all pre-existing limitations are eliminated. Individuals can purchase health insurance through the state's high risk pool but they must go without health insurance for six months.

2. The 2010 Supplemental Health Care Exhibits for each issuer listed in Exhibit 2 are included in the attached Excel file labeled "2010 MI SHCE-Select Issuers."

3. Table 2 did contain a typographical error for BCS Life Insurance Company. The MLR After Credibility Adjustment should have been 86.0%. A corrected Table 2 is provided below in the response to Item 9.

4. We also surveyed the nine remaining issuers with MLRs below 80% about their use of multi-year agency agreements. With the exception of Aetna and Humana, all use either evergreen or multi-year agreements with expiration dates either in 2013 or beyond. Those agreements typically have fixed commission schedules for business written prior to ACA implementation, impacting their ability to meet the MLR standards with lower commissions. Nearly all have lowered commissions on new business but the higher renewal commissions will continue to impact their expenses over the next several years.

5. Your assumption regarding the treatment of exposures in the 2012 and 2013 credibility adjustment calculations is correct. We simply multiplied the annual enrollees by two for 2012 and three for 2013 to determine the credibility adjustments for those respective years. The other assumptions regarding claims, premiums, allowable fraud reduction expenses, quality improvement activities, and taxes were assumed to be the same for 2012 and 2013. The assumed loss ratios and other adjustments were based on the 2010 Supplemental Health Care Exhibit data available from the NAIC iSite database. We did not solicit comments from the issuers regarding the reasonableness of extrapolating the 2010 experience to 2012-13.

6. For commercial issuers and HMOs, all individual health insurance policies are subject to guaranteed renewal except in cases of fraud or misrepresentation, non payment of premium, where an insurer ceases offering the particular type of coverage, or if individual moves outside the service area (MCL 500.2213b, 500.3539). For non-profit health care corporations (e.g. BCBS MI), policies must be renewed except in cases of non payment of premium or when the individual is serving a sentence, satisfying a judgment, or making restitution related to a transaction or occurrence involving the health care corporation. (MCL 550.1401(3)).

   The state MLR standards for HMOs and non-profit health care corporations in Michigan are equivalent to those in the commercial market. Michigan Administrative Rules 500.801-806 apply to all individual health policies written in Michigan regardless of the type of insurer.

7. All issuers who responded indicated they have begun to adjust pricing in an attempt to meet the 80% MLR standard. However as indicated previously many have multi-year agency agreements and other business processes that make it difficult to price at the higher standard without incurring significant losses. Further, many have traditionally priced to a lifetime loss ratio at or above the stipulated minimums (55-60%). The purpose of OFIR's request is precisely to provide issuers with time to adjust their business processes to meet the 80% federal MLR standard by 2014.

8. OFIR has not held a public hearing with respect to the MLR application. However we have received copies of letters submitted to Secretary Sebelius by interested parties expressing either support or opposition. We have reviewed and considered the comments from these letters in our responses.

9. We have recalculated the credibility adjustments based on life-years rather than covered lives and concur with your calculations. We have also rounded the MLR to the nearest tenth of a percent consistent with your table. These two changes caused modest (2-3%) decreases in the estimated rebates under both the 80% and proposed MLR standards for 2011-2013. For example, the total rebate for 2011 under the 80% MLR decreased from $30.6 million to $29.9 million.

   Exhibits 1 and 2 have been updated to incorporate life-years into calculations. In addition, a revised set of Tables 2-4 is provided below:

Table 2 – Indicated Individual Medical Loss Ratios based on 2010 Results - REVISED

Rank	Issuer	MLR Before Credibility Adjustment	Credibility Adjustment	MLR After Credibility Adjustment
1	Blue Cross Blue Shield of Michigan	93.0%	0.0%	93.0%
2	Golden Rule Insurance Co. (United Health)	59.5%	1.5%	61.0%
3	Time Insurance Co (Assurant)	64.7%	1.7%	66.4%
4	BCS Life Insurance Co	84.1%	2.0%	86.1%
5	Aetna Life Insurance Co	70.1%	2.4%	72.6%
6	Humana Insurance Co	70.4%	2.5%	72.9%
7	World Insurance Co (American Enterprise)	52.1%	3.4%	55.5%

Source: *Exhibit 2 (from 2010 Supplemental Health Care Exhibits, Individual Comprehensive Health Coverage)*

Table 3 – Estimated Rebates and Impact on After Tax Gains/ (Losses) - REVISED

Rank	Issuer	Estimated Rebates	Estimated After-Tax Net Gain/ (Loss) Before Rebates - Individual	Estimate After-Tax Net Gain/ (Loss) After Rebates - Individual
1	Blue Cross Blue Shield of Michigan	$0.0	$(36.8)	$(36.8)
2	Golden Rule Insurance Co. (United Health)	10.0	10.0	3.5
3	Time Insurance Co (Assurant)	5.3	1.2	(2.3)
4	BCS Life Insurance Co	0.0	4.5	4.5
5	Aetna Life Insurance Co	1.7	3.2	2.1
6	Humana Insurance Co	1.3	0.0	(0.8)
7	World Insurance Co (American Enterprise)	2.9	0.7	(1.2)

Total – Largest Issuers (7)	**$21.1**	**$(17.2)**	**$(31.0)**
Other Issuers with > 1,000 Enrollees (11)	8.8	5.1	(0.6)
Total – Issuers with > 1,000 Enrollees (18)	29.9	(12.1)	(31.6)
Total - Companies with Indicated Rebates (12)	**$29.9**	**$22.0**	**$2.6**

Source: *Exhibit 2 (from 2010 Supplemental Health Care Exhibits, Individual Comprehensive Health Coverage)*

Notes:
(1) After-tax gain before rebates are estimated as the sum of underwriting profit plus an allocation of federal income taxes and investment income based the percentage written in the individual market.
(2) Assuming a 35% tax rate, the After-tax gain after rebates = After-tax gain before rebates – 65% x Estimated rebate
(3) Estimated rebates assume the 2010 MLR, number of enrollees, and adjusted premium are applicable to the 2011 year. Any changes to the non-claim expense structure, claims experience, size of insured population, and premium adequacy, among other factors, may cause the estimated rebates to be higher or lower than shown.

Table 4 – Impact of Proposed Phase-In MLR for Michigan ($Millions) - REVISED

Rank	Issuer	2011		2012		2013	
		80% MLR	**65% MLR**	**80% MLR**	**70% MLR**	**80% MLR**	**75% MLR**
1	BCBS of MI	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
2	Golden Rule	10.0	2.1	10.5	5.3	10.8	8.1
3	Time	5.3	0.0	5.5	1.6	5.9	4.0
4	BCS Life	0.0	0.0	0.0	0.0	0.0	0.0
5	Aetna Life	1.7	0.0	1.9	0.0	1.9	0.8
6	Humana	1.3	0.0	1.4	0.0	1.4	0.5
7	World Ins	2.9	1.1	3.0	1.8	3.0	2.5
Largest Issuers (7)		**$21.1**	**$3.2**	**$22.3**	**$8.7**	**$23.1**	**$15.9**
Other Issuers (11)		**8.8**	**2.4**	**9.7**	**4.7**	**10.1**	**7.4**
Total Issuers (18)		**$29.9**	**$5.6**	**$32.0**	**$13.4**	**$33.2**	**$23.3**

Note:
(1) Estimated rebates assume the 2010 MLR, number of enrollees, and adjusted premium are applicable to the 2011-2013 years. Any changes to the non-claim expense structure, claims experience, size of insured population, and premium adequacy, among other factors, may cause the estimated rebates to be higher or lower than shown.

The three companies cited in your letter, Madison National, American Republic, and Consumers Life had greater than 1,000 covered lives but less than 1,000 life-years in 2010. Since only companies with greater than 1,000 life-years are subject to the MLR requirements, none of these companies would have been required to pay a rebate in 2010. Looking forward into 2011, Madison National and American Republic both continue to actively write in Michigan and may indeed exceed the 1,000 life-years threshold. However it is difficult to predict whether and by how much they may exceed 1,000 life-years and thus equally difficult to estimate their rebates. Consumers Life has announced that Michigan policies will be transitioned to its parent company, Medical Mutual of Ohio, beginning July 1, 2011. This will reduce the likelihood that either Consumers or Medical Mutual will exceed the 1,000 life-years threshold in 2011 or 2012 as the business will be split between the two issuers until the business is fully transitioned to Medical Mutual.

We appreciate your continued consideration of our state's request and hope that the above responses will allow you to deem our application complete. Should you need any further information, please contact Kevin Dyke at (517) 335-1144 or dykek1@michigan.gov.

Best Regards,

R. Kevin Clinton

R. Kevin Clinton
Commissioner

Enclosures:
Exhibits 1 and 2 (REVISED)
Supplemental Health Care Exhibits, Part 1, Selected Issuers