Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

June 8, 2011

Mr. Gary Cohen
Acting Director, Office of Oversight CMS
Department of Health and Human Services
7500 Security Boulevard, Mail Stop C2-21-15
Baltimore MD 21244-1850

Re: Delaware's Request for Adjustment to Medical Loss Ratio Standard
Your letter of May 26, 2011

Dear Mr. Cohen:

I am writing in response to your letter that posed follow-up questions regarding the information the Department submitted with its application. A brief description of the questions and response are below.

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 DDI has provided a forum for public input regarding the DDI's application for an adjustment to the MLR standard. Please provide copies of any public input, other than the letters form NAIFA-Delaware, David Banet & Associates, and Financial House attached to the DDI's application, that the DDI has received regarding its MLR adjustment request.

   The request is posted on the Department website and an announcement was made at the monthly Health Care Commission meeting. Delaware provides mailboxes for consumers to use. Additionally, telephone numbers of key personnel are posted on the Delaware Department website. Two emails have been received; copies are attached. Additionally, one call has been received. The constituent wants someone to explain the MLR to her.

2. Page 1 of the DDI's application states that most of the individual products in Delaware are for medical expense and fall under the guaranteed renewable category, and hence have an MLR of 60 percent. Page 5 of the DDI's application confirms that "Delaware has a minimum loss ratio requirement of 60% in the individual market." Please indicate when the MLR first became 60 percent for guaranteed renewable medical expense products in the Delaware individual health insurance market.

Delaware's minimum loss ratio for guaranteed renewable medical expense plans (GRMEP) was 55% effective December 17, 1984. The minimum loss ration for GRMEP was changed to 60% effective January 1, 2010.

3. Page 2 of the DDI's application indicates that Blue Cross Blue Shield of Delaware ("BCBS"), Aetna Life Insurance Company ("Aetna"), and Golden Rule Insurance Company ("Golden") are the three major issuers in the Delaware individual health insurance market, "have an overwhelming majority of the market share" of that market, and are "actively offering insurance coverage in Delaware's individual market." Please identify every other issuer that is actively offering insurance coverage in the Delaware individual health insurance market.

   Freedom Life Insurance, John Alden and Time Insurance

4. Page 3 of the DDI's applications states that "Delaware is very concerned that at least two of the three companies may exit the market without some form of relief via the 'phase in' of the MLR, and page 5 of the DDI's application indicates that there are three major health insurers in Delaware and that the DDI fears that at least two of them will exit the market if an MLR adjustment is not granted. Please confirm that BCBS, Aetna, and Golden are the three companies to which these statements refer and identify which of those firms are the issuers that the DDI fears will leave the market. Please describe what each of those two issuers has said or done that has given the DDI this fear.

   BCBS, Aetna and Golden Rule are the dominant companies in the individual market. Based on estimated premiums, BCBS has the overwhelming market share of the individual market in Delaware. Aetna and Golden Rule have expressed interest in the DDI obtaining a waiver while BCBS has not expressed an interest in the waiver process. Although Aetna and Golden Rule have given no indication that they will exit the Delaware market, the Delaware Department of Insurance is concerned that if no relief from possible rebates is given to Aetna and Golden Rules via a reduced MLR requirement, it could cause companies to exit the market.

5. The DDI indicates on page 5 of its application that the DDI believes that the major carriers in the individual market will be forced to reduce the level of agent compensation, "resulting in a huge decrease in the number of active agents selling individual health insurance products," unless the DDI's MLR adjustment request is granted. Please provide the DDI's best estimate of what generally is the current level of agent compensation for individual health insurance business in Delaware, what that level would be if no MLR adjustment were granted, and what that level would be if DDI's request for adjustment is granted. Please also provide the DDI's best estimate of the number of active agents selling individual health insurance products in Delaware, what that number would be if no MLR adjustment were granted, and what that number would be if DDI's request for adjustment were granted.

Prior to 2011, agent commissions ranged from 10% - 20 %, the commissions were reduced to and average of 4% - 10%. These are averages. Some companies have tried arrangement for commissions. In talking with agents, it appears that if the MLR is granted, agents would be able to negotiate the current levels up somewhat.

It is not possible to provide the number of agents who actively sell health insurance exclusively in the individual market. There are over 2,000 agents licensed for the health line of authority, but there is no way of determining how many sell in the individual market.

6. Page 5 of the DDI's application states that the DDI fears that another issuer that was planning to come into the Delaware individual health insurance market will cancel its plans if an MLR adjustment is not granted. Please identify this issuer and describe what it has said or done that has led the DDI to this conclusion.

   Coventry Health and Life Insurance Company and Coventry HealthCare of Delaware have indicated that they would like to come into the Delaware individual market. They are still deciding what to do and have expressed interest in the outcome of the Department of Insurance's MLR waiver application.

7. With regard to the statement on page 5 of the DDI application that the DDI fears that at least two of the three major health insurers in Delaware will exit the market if an adjustment is not granted, please give the DDI'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 DDI's assessment.

   It is not likely that all enrollees from exiting insurers would be picked up by the remaining insurer(s). Delaware does not require a guarantee issue in the individual market. Therefore, any enrollee that loses individual insurance would most likely have to apply to the remaining company(ies) and go through the underwriting process. Those enrollees who have a pre-existing condition may be left without coverage for the 6 months waiting period imposed by the High Risk Pool.

8. Page 6 of the DDI's application notes that one carrier is planning to increase its presence in the Delaware individual health insurance market. Please identify this issuer and describe what it has said or done that has let the DDI to this conclusion.

   Please see response to number 6.

9. Please give the DDI's assessment of how likely it is that premiums will increase if the MLR adjustment the DDI has requested is not granted and explain the rationale underlying the Department's assessment.

Premiums will increase at the same rate whether or not the DDI request is granted. The DDI has a very strong rate review process and most approved increases are below 10%.

Please let me know if I may be of any further assistance.

Sincerely,

Linda Nemes

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