Paul R. LePage
GOVERNOR

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

Mila Kofman
SUPERINTENDENT

January 25, 2011

Steven Larsen
Director, Office of Oversight
Office of Consumer Information and Insurance Oversight
Via Electronic Mail

Dear Mr. Larsen:

This is in response to your letter of January 12, 2011 relating to Maine's Medical Loss Ratio Adjustment Request. We appreciate the opportunity to provide you with the additional information you have requested.

1. We did not have a hearing or any other formal process for public input concerning our application. However, the effort was widely and well publicized, with multiple national and local media reports. We have not received any written comments from consumers objecting to the request. Senator Snowe sent a letter to HHS in support of the request (copy attached).

2. There is no regulatory guidance. Insurers have not asked for a waiver or for guidance.

3. The Superintendent's conclusions are based on discussions with the company and past experience. In 2004 when a 75% loss ratio standard took effect, MEGA stopped offering small group products because they could not meet their profit goals. In the last seven years, MEGA's individual market share has grown in Maine. Based on their growth, the Superintendent believes that the company would continue to be in Maine until 2014 (assuming the waiver is granted).

4. We have not conducted a specific analysis of MEGA's administrative expenses. We could provide you with a transcript, exhibits, and other material we obtained through our rate review hearings – including sworn testimony from company representatives and supporting financial and actuarial data. It is ultimately a business decision for the company to make.

5. Although a 3-year phase-in would allow time for MEGA to adjust its business model if it chose to stay in this market, it is unlikely that MEGA will continue, after 2013, to offer individual health insurance products other than supplemental products not subject to the ACA. Because we anticipate new carriers entering the market in 2014, it is important to allow Maine's consumers with MEGA coverage to be able to keep the coverage they have until then. Starting in 2014, new carriers and coverage options will be available.

6. We have not consulted with Anthem on their ability to add a standardized product based on MEGA's current offerings. Please note that subsequent to our previous response, a moratorium on new regulations has been put in place in Maine.

7. The Dirigo program is not within the Bureau's jurisdiction. Policymakers in Maine will determine whether the program will be changed or eliminated. Legislation has been introduced to eliminate the program. Enrollment is currently open to all individuals and small businesses, but continued availability depends on program resources. Eligibility for discounted coverage and reduced cost sharing is based on annual income and assets. A PDF document with the DirigoChoice discount tables is attached. This document, available on the Dirigo Health Agency Website, shows the premium discount and reduction in plan deductibles and out-of-pocket limits, by income and asset categories. The premium rates to which the discounts apply are shown in "Appendix B3 HPHC DirigoChoice.pdf," attached to our initial submission.

8. People in the individual market pay the entire premium, unlike job-based coverage where the employer pays part of the premium. Consumers buy policies based on price and many can only afford higher deductible policies that have lower premiums. The standardized HMO policies are based on comprehensive care with no in-network deductibles or coinsurance and are priced higher than policies with deductibles. In 2009, 88% of Anthem's individual consumers bought plans with per-person deductibles of $5000 or more, and less than 0.1% of MEGA's consumers bought one of the comprehensive standardized plans.

9. The requested rates and calculations are on the attached spreadsheet, "Anthem+MEGA Rate Calc.xls." Note that the rates apply to both males and females because rate variations based on sex are not permitted in Maine. Also, there are many differences between the Anthem and MEGA products besides MEGA's 20% coinsurance, as detailed on the benefit comparison provides with our application ("Appendix C Benefit Chart.pdf").

10. The assumptions as to quality improvement (QI) expenses for Anthem and HPHC were ballpark estimates. Because this is a newly defined category for which data has not been collected in the past, more refined estimates are not available. However, cost containment expenses are reported in the Annual Statement and are generally in the range of 1% to 2% of premium. Only a portion of these expenses will qualify as QI, although there may be other QI expenses that are not categorized as cost containment. MEGA's policies are fee-for-service plans that do not use provider networks or other managed care techniques. Therefore we do not believe MEGA has a significant amount of QI expenses.

    Both Anthem and MEGA have reported in rate filings that their federal income tax is one-third of underwriting gain. That was the basis for the assumption.

    The rationale for the components of the 4.2% is as follows: The 2% premium tax is set in statute (36 M.R.S.A. § 2513). The 1.2% estimate for Dirigo access fees is based on information in rate filings. Anthem reported that the 2.14% fee applied to slightly less than 75% of its claims, so that the total fee represented 1.6% of total claims, which would be approximately 1.4% of premium. MEGA reported that the total fee represented 1.5% of total claims, which would be approximately 1.0% of premium. 1.2% was the middle of the range.

The remaining 1% is a rough estimate of other state taxes and fees, including payroll taxes, real estate taxes, licensing fees, etc.

11. Insphere agents in Maine are selling life insurance from ING and Minnesota Life, long-term care insurance from John Hancock, and disability income insurance from The Standard, Principal, and Met Life, as well as MEGA's health plans. We do not believe that Maine is a state that HealthMarkets has targeted for market exit irrespective of whether an adjustment to the MLR standard is granted. As noted earlier, MEGA's individual business in Maine has been growing. Its market share has increased from 5% at the end of 2004 to 37% as of September 30, 2010.

12. We have no basis to estimate or determine how many of MEGA's policyholders would not obtain other coverage if MEGA terminated its Maine policies. At a 2009 meeting, representatives of HealthMarkets, MEGA's parent company, provided us with a confidential exhibit showing the breakdown by income category of their Maine members. The company has given us permission to share this exhibit with HHS. It is attached.

Please let us know if you need additional information.

Sincerely,

Richard H. Diamond

Richard H. Diamond, FSA, MAAA
Life and Health Actuary