

Letter #1

Re: Clarification questions

- 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 NDID has provided a forum for public input regarding the NDID's application for an adjustment to the MLR standard. If there has been public input (other than the survey of health insurance companies noted in the NDID application and the letter from the National Association of Insurance and Financial Advisors of North Dakota included as Attachment C to that application), please provide copies of the correspondence, comments or other input the NDID has received in connection with its request for an adjustment to the MLR standard.**

NDID received a letter April 4, 2011 from Blue Cross Blue Shield of North Dakota's board of directors that includes comments about the MLR adjustment request. See Attachment 1.

No public forum has been held. However, the MLR application was posted on the Department's website and it was also emailed to a group of the Department's stakeholders.

- 2. Page 1 of the NDID's letter notes that it has had "many discussions with insurance carriers, the producer community and other stakeholders on the MLR percentage." Please identify who those other stakeholders were.**

Other stakeholders include legislators, media, provider groups, insurance industry organizations, children's health organizations, rural health organizations, medical associations and other state agencies.

- 3. As part of the NDID's process of deciding whether to request an MLR waiver, page 1 of the letter portion of the NDID's application states that "the Insurance Department conducted a survey of health insurance companies offering individual products in North Dakota [...] Eight companies were contacted; six responded." According to page 2 of the NDID's letter, "North Dakota currently has nine companies selling health insurance policies." Please identify the eight companies included in the survey, and identify and explain why the ninth company was not included in the survey.**

The following companies were contacted: American Republic, World Insurance, Companion Life, Heart of America Health Plan, Blue Cross Blue Shield of North Dakota, Medica, Sanford Health Plan and Assurant. Assurant is the parent company of John Alden Life Insurance Company and Time Insurance Company. When counted separately, the two Assurant companies bring the total number of companies doing business in the state to nine; however, just one survey was sent to Assurant as the parent company. That is the discrepancy between eight companies being sent the survey and nine doing business in North Dakota.

Note: Heart of America Health Plan and Companion Life were the two companies that did not respond.

- 4. Page 1 of the NDID’s letter notes that two companies’ responses to the survey described in Item 3 above included statements that “the absence of an MLR waiver may cause carriers to terminate existing blocks of business and leave the market.” In addition, page 4 of the NDID’s letter notes that “One carrier has stated that without a transition period, carriers may choose to terminate existing blocks of business to avoid future solvency issues.” Please identify the carriers that made these statements and clarify whether carriers have identified any specific issues that they believe may terminate existing blocks of business.**

“The absence of an MLR waiver may cause carriers to terminate existing blocks of business and leave the market.” This comment was made by American Republic Insurance Company and World Insurance Company.

“One carrier has stated that without a transition period, carriers may choose to terminate existing blocks of business to avoid future solvency issues.” This comment was made by American Republic Insurance Company and World Insurance Company.

- 5. Page 1-2 of the NDID’s letter notes that one of the surveyed issuers stated that it “saw no need for a phased-in approach” to the 80 percent MLR standard, “anticipating it would meet the requirement throughout 2011-13.” Please identify that issuer.**

Blue Cross Blue Shield of North Dakota

- 6. Page 2 of the NDID’s letter states that, of the nine companies selling individual insurance in the State, “Two of these companies were not selling in the state two years ago.” Please identify these two companies, both of which entered the North Dakota individual market after the North Dakota legislature lowered the State’s MLR from 65% to 55%. If not already provided in the table labeled “Medical loss ratios” in Attachment B, please provide the MLR of these two companies for each year since their entry into the North Dakota individual market.**

Medica Insurance Company and Sanford Health Plan were not selling in North Dakota two years ago. MLR information for Medica was included in Attachment B. Sanford Health Plan did not report an MLR for 2010 because it had just entered the individual market in late fall of 2010.

- 7. Page 2 of the NDID’s letter states that the addition of two new insurers and six new individual policies in the State over the last two years “indicates a strengthening in the individual market over the past several years” that “has been very advantageous for consumers in North Dakota.” Please provide any data that demonstrate the ways in which consumers have benefited from increased competition in the State’s individual market over the last several years, such as data demonstrating that premiums have decreased or increased less than projected over the last several years.**

Product offerings that weren't available in the individual health insurance market before are now available to consumers. The important impact of new companies in the individual health insurance market is choice for consumers. Choice for consumers is very advantageous at a time when health insurance expenditures are economically more important than ever.

8. Please explain the process, calculations and assumptions used to generate the figures provided in the table labeled "Estimated PPACA MLR for individual market business in North Dakota" in Attachment B.

John Alden

As of 12/31/2010, John Alden membership in North Dakota was 658 lives in the individual market. We do not expect North Dakota to be credible for MLR calculations in 2011.

Time Insurance Company

The 2009 and 2010 estimates are based on each year's premiums and claims data, adjusted by values for quality improvement expenses and taxes, licenses and fees, which were determined using data from the 2010 Supplemental Health Care Exhibit. A credibility adjustment is also included based on each year's enrollment and average deductible. The 2011 estimates are defined in more detail below.

World Insurance Company and American Republic Insurance Company

1. Incurred claims were divided by earned premiums to arrive at an incurred loss ratio for each applicable year.
2. Incurred claims were increased by 3% of earned premiums for assumed quality improvement expenses.
3. Earned premiums were decreased by 2.25% for assumed premium taxes, licenses, and fees.
4. An adjusted loss ratio was calculated by dividing the incurred claims from step 2 by the earned premiums in step 3.
5. Based on the life years exposed, the applicable credibility adjustment was determined.
6. Based on the average deductible in force, the applicable deductible factor was determined.
7. The credibility adjustment from step 5 was multiplied by the deductible factor from step 6 to determine the total credibility adjustment.
8. The credibility adjustment from step 7 was added to the adjusted loss ratio from step 4 to determine the PPACA MLR for North Dakota.

* Please note that the numbers provided were estimates. Also note that at the time we estimated the 2010 PPACA MLR, we did not have full year 2010 data available and estimated the 2010 numbers based on results through 9/30/2010.

Blue Cross Blue Shield of ND

The estimated PPACA MLR for individual market business for 2009 was calculated using incurred claims with a three month paid run out (estimated to be 98.7% complete) plus remaining estimated IBNR. Claims were reduced by the non-group conversion subsidy calculated from small and large group business (typically 1% of premium). Expenses to improve health care quality were estimated at .25% of gross income. Total estimated claims plus quality expenses were divided by actual gross income less premium taxes. A credibility adjustment factor of 1.45% was applied for life years between 25,000 and 50,000. This produced a 2009 estimated MLR of 107.6% for individual business. The 2010 individual MLR of 110.2% was calculated using 2010 paid claims plus estimated IBNR. The 2009 factors used for IBNR, non-group conversion subsidy, health care quality expenses and credibility were also used for 2010. Actual year-to-date income through November 2010 was used with December 2010 income estimated.

Medica Insurance Company

In accordance with PPACA requirements, pricing effective on 1/1/2011 was set to achieve an 80% target loss ratio. As stated in the MLR survey, MIC entered the ND market in late-2009 and historical experience is limited, so MIC used MN for a proxy for several pricing assumptions. MIC projected actual-to-expected results based on its blended MN, ND, and SD business over the effective range of the requested pricing.

Sanford Health Plan

Not applicable because the issuer didn't report.

- 9. As we read N.D.C.C. § 26.1-36.4-07, it appears that all issuers in the individual market in North Dakota are required to offer a “basic health benefit plan” and a “standard health benefit plan.” If so, please provide the total enrollment in these plans by issuer, the premiums for these plans and a description of the benefits offered under these plans.**

There are no individual basic or standard health benefits plans in force that the Department is aware of. These plans were originally designed for use in the small employer market in conjunction with the small employer carrier reinsurance program, which has since been discontinued for lack of use. Although the basic and standard benefit plans are required to be offered under statute, the plans are not popular due to their cost and benefit design (which has not changed since they were designed in 1994 and the Commissioner was not granted authority to make revisions to the plans). These plans are not guaranteed-issue in the individual market. See Attachments 2a and 2b (sample prototype plans).

- 10. As we read N.D.C.C. § 26.1-36-12.5, it appears that issuers in the individual market in North Dakota are allowed to offer consumers a “basic health insurance policy” exempt from State-mandated benefits. Please indicate which, if any, plans from the data provided in Attachment A to the application qualify as “basic health insurance polici[es].” If other plans not listed in Attachment A to the application qualify for**

exemptions from State-mandated benefits, please identify policies and provide the enrollment in the policies.

None qualify.

- 11. As we read N.D.C.C. § 26.1-36.4-04, in addition to HIPAA portability requirements, all issuers in North Dakota are required to credit prior coverage under an individual policy towards a pre-existing condition exclusion period if there was no break in coverage of more than 63 days. Please explain the applicability of this provision to the North Dakota individual market and describe how creditable coverage is defined.**

The portability provision required by N.D.C.C. § 26.1-36.4-04 is the same as for HIPAA except the definition of credible coverage is qualifying previous coverage. This is referenced to the definition found in the small employer N.D.C.C. § 26.1-36.3-01(28).

- 12. Please clarify the calendar year that pertains to the data in the table labeled “Premium and enrollee information for all individual major medical products in ND” in Attachment A. If the data are for 2009, please explain why the sums of the premiums for each of the first three insurance companies (Medica, American Republic and World) listed in the table “Premium and enrollee information for all individual major medical products in ND” are not equal to the 2009 figures given for those companies in the Attachment A table “Total earned premium on individual market products in North Dakota.”**

All numbers are from 2009, except Medica’s numbers are from 2010.

In the initial application, numbers in the table “Premium and enrollee information for all individual major medical products in ND” for American Republic and World Insurance Companies were annualized premiums instead of earned premiums. Following are the earned premium numbers for those companies and products:

Company	Product	Premium	# individual enrollees
American Republic Insurance Company	Major Medical Revamp	\$379,473	322
	ARS Value Choice	2,722	1
	Pinnacle CareAdvantage Complete	6,786	4
	UltraCare Medical Expense/CareGuard	124,494	74
	UltraCare AdvantageOne HSA	342,287	124
	UltraCare Preferred Gen 3	336,887	48
	UltraCare Preferred MSA Gen 3	114,522	18
	UltraComp Preferred Value	366,507	81
	UltraCare Preferred Gen 1	118,128	20
	UltraCare I, II, MajMed GR	72,711	6
	World Insurance Company	Major Medical Revamp	\$72,754
Choice		163,998	14
Combined Plus Filing		17,183	1
MAM Choice		190,569	15
WorldCare HDHP/HD Adv – Gen 4		3,395	3
Short Term Major Medical		2,482	1

13. In the Attachment A table “Total agent and broker commissions on individual market business in North Dakota,” Time Insurance Company’s 2010 commissions are marked as “n/a.” Please confirm that Time Insurance Company did not pay commissions in 2010. If Time did pay commissions, please provide that data.

Commissions from the 2010 SHCE (Part I, line 10.2, column 1 (for individual))
Time Insurance Co.: \$1,020,575

Also: Commissions from the 2010 SHCE (Part I, line 10.2, column 1 (for individual))
John Alden Life Insurance Co.: \$78,403

Letter #2

Re: Information needed

1. Page two of North Dakota’s application states that “North Dakota currently has nine companies selling individual health insurance policies.” However, Attachments A, B, and D provided data for only six insurers. For the three other issuers for which no data was included, please provide the number of individual enrollees by product, available premium data by product and individual health insurance market share within the State, as required by 45 CFR §158.321(d)(1).

Company	2009		
	Enrollees	Premium	Market share
Companion Life Insurance Company	292	\$650,712	0.64%
Heart of America HMO	283	\$885,797	0.87%
Sanford Health Plan	0	0	0

2. If any of the three issuers for which information is provided in response to Question 1 provide coverage in the North Dakota individual market to more than 1,000 enrollees, please also provide, as required by 45 CFR § 158.321(d)(2), the issuers: total earned premium, reported MLR, estimated MLR, commission expenses, estimated rebate, net underwriting profit, after tax profit and profit margin, RBC and whether the issuer has provided notice of exit.

None of the issuers cover more than 1,000 enrollees.

3. For each issuer that offers coverage in the North Dakota individual market, please provide the issuer’s individual health insurance market share in North Dakota, as required by 45 CFR § 158.321(d)(1).

Company	2009 market share
American Republic Insurance Company	1.80%
Blue Cross Blue Shield of ND	75.90%
Companion Life Insurance Company	0.64%
Heart of America HMO	0.87%
John Alden Life Insurance Company	1.32%
Medica Insurance Company	0.02%
Sanford Health Plan	0%
Time Insurance Company	10.60%
World Insurance Company	0.44%

4. Title 45 CFR § 158.322(c) requires an estimate of the rebates that would be paid if the issuers offering coverage in the individual market in the State were required to meet an 80 percent MLR for the MLR reporting years for which an adjustment is needed. The North Dakota Insurance Department (NDID), on page 5 of its application, states that it is seeking an adjustment to the MLR standard for 2011, 2012 and 2013. Attachment B to the application provides the estimated rebate requirement for individual market issuers in North Dakota for the years 2009 and 2010 if issuers were required to meet an

80 percent MLR. Please provide estimates of the rebates that would be paid by each issuer in North Dakota’s individual market for the years 2011, 2012 and 2013, as required by 45 CFR § 158.322(c).

Company	Rebate estimate		
	2011	2012	2013
American Republic Insurance Company	0	0	0
Blue Cross Blue Shield of ND	0	0	0
John Alden Life Insurance Company*	n/a	n/a	n/a
Medica Insurance Company**	0	0	0
Time Insurance Company***	\$0.7-\$0.8M	n/a	n/a
World Insurance Company	0	0	0

*As of 12/31/2010 the membership in North Dakota was 658 lives in the individual market. We do not expect North Dakota to be credible for MLR calculations in 2011.

** No rebates are expected as pricing effective on 1/1/2011 was set to achieve an 80% target loss ratio. MIC is prepared to offer rebates should the introduction of additional products on 4/2010 and 1/2011 draw large amounts of newly underwritten members, but the limited ND experience and rapid ND growth MIC is currently experiencing would indicate it is premature to determine the amount of rebates on the immature block of business when pricing is set to achieve the target loss ratio.

***Nationwide, we estimate our rebates for 2011 will be \$80-\$90 million. As of 12/31/2010, North Dakota represented 0.9% of our individual medical earned premium and therefore, the estimated rebate for North Dakota is \$0.7-\$0.8 million, which would equate to an estimated PPACA MLR of 72%-73%. The actual rebate will vary based on our experience within North Dakota and it is not uncommon for there to be swings in the loss ratio of +/- 15% when based on the number of lives in your state.

We have not published any estimates for 2012 and later years. These estimates cannot be determined to a sufficient level of certainty due to the unknown elements that are involved in these calculations, including potential changes in rates, lives, percentage of new business, and regulations. However, we note that our products will be priced to achieve the 80% PPACA MLR.

Sanford Health Plan

We don’t anticipate paying out any rebates as our projected target loss ratios exceed the minimum MLR set by the ACA. However, Sanford Health Plan is prepared to offer rebates should enrollment numbers increase above forecast and draw large amounts of newly underwritten members, but at this time it is premature to determine the amount of rebates on the immature block of business when pricing is set to achieve the target loss ratio.

5. For each issuer that provide coverage in the North Dakota individual market to more than 1,000 enrollees, please provide, as required by 45 CFR § 158.321(d)(2)(vii), the issuer’s after-tax profit and profit margin for the individual market business and consolidated business in the State.

Blue Cross Blue Shield of North Dakota

	All business	Individual	All other business
2009 after tax gain (loss)	\$10,000,000	(\$13,269,000)	\$23,269,000
2009 after tax margin	0.7%	(15.3%)	1.8%

Time Insurance Company

2009 Individual Market Profit (Loss)	(\$572,741)
2009 Individual Market Profit (Loss) Margin	(5.3%)
2009 Consolidated Profit (Loss)	(\$379,252)
2009 Consolidated Profit (Loss) Margin	(3.3%)

Medica Insurance Company

Prospectively, MIC targets 0.5% operating profit margin on its entire long-term block of business, but 2009 results produced -0.5%.

- 6. For each issuer that provides coverage in the North Dakota individual market to more than 1,000 enrollees, please indicate, as required by 45 CFR § 158.321(d)(2)(ix), whether the issuer has provided notice of exit.**

No insurers to-date have provided notice to the Department to exit the North Dakota individual health insurance market. See Attachment 1, page 6 of the PDF, for comments submitted by Blue Cross Blue Shield of North Dakota on this issue.

- 7. Please provide, as required by 45 CFR § 158.321(c), further information on the Comprehensive Health Association of North Dakota (North Dakota's high risk pool), including the specific eligibility requirements, the enrollment period, any enrollment caps or potential funding limitations, the waiting period for pre-existing conditions, and a schedule of premium rates.**

CHAND eligibility requirements: <http://www.chand.org/eligible/>

CHAND rates: <http://www.chand.org/rates/>

Potential funding limitations—none

The enrollment period for the Comprehensive Health Association of North Dakota (CHAND) is:

- 1) For a traditional and age 65 and over or disabled applicant (N.D.C.C. § 26.1-08-12(5)(a)&(c)): Within 180 days from the date of application for CHAND that written evidence has been received from an insurer that coverage has been denied, offered with an exclusionary or restrictive rider, offered at a higher rate than CHAND for comparable coverage, or reached the lifetime maximum. The lifetime maximum does not apply to an age sixty-five and over or disabled applicant.
- 2) For a HIPAA or TARRA applicant that meet those requirements as stated under N.D.C.C. § 26.1-08-12(5)(b)&(d) must apply for coverage within 63 days of termination of the qualifying coverage.

There are no enrollment caps for CHAND.

A 180-day waiting period for pre-existing conditions applies to a traditional and age sixty-five and over or disabled applicant. This waiting period may be reduced by the period covered by qualifying previous coverage if there has been a break no longer than

sixty-three days since termination of the previous coverage. HIPAA and TARRA applicants are not subject to a pre-existing condition waiting period.

- 8. Attachment B to the application designates Medica Insurance Company's risk based capital ratio for 2007, 2008 and 2009 as "n/a." We understand from the footnote to the table labeled "Medical loss ratios" in Attachment B that Medica entered the North Dakota individual market in 2009. Please provide, as required by 45 CFR § 158.321(d)(2)(viii), Medica's risk-based capital ratio for 2009.**

543.4%

- 9. Attachment B to the application designates Time Insurance Company's estimated MLR for the individual market business in North Dakota as "n/a" for 2009 and 2010, but the tables labeled "Company risk-based capital ratios" and "Medical loss ratios" in Attachment B indicate that this issuer was in the North Dakota individual market in 2009. Please provide, as required by 45 CFR § 158.321(d)(2)(iii), Time Insurance Company's estimated MLR for the individual market business in North Dakota, as determined in accordance with 45 CFR § 158.221, for both 2009 and 2010. Please also provide any assumptions used in arriving at these estimates.**

The estimated PPACA MLR for the individual market is 79.2% in 2009 and 65.0% in 2010.

Also: Based on the John Alden membership below 1,000 life years, North Dakota was not credible in 2009 and 2010 for the MLR calculations and no rebates would have been paid out.

- 10. Attachment B to the application designates Time Insurance Company's estimated rebate for the individual market business in North Dakota for both 2009 and 2010 as "n/a." Please provide, as required by 45 CFR §158.321(d)(2)(v), Time Insurance Company's estimated rebate for the individual market business in North Dakota, as determined in accordance with 45 CFR §§ 158.221 and 158.240, for each of these years.**

The estimated PPACA rebate for the individual market is \$73,897 in 2009 and \$1,386,493 in 2010.

- 11. The table labeled "Profitability" in Attachment B of the application appears to provide data on net underwriting margins for the individual market business and consolidated business of six insurers in the North Dakota individual market.**

- i. Please confirm that to calculate net underwriting profit for each company in the individual market, one would multiply each issuer's underwriting profit margin for the individual business by the issuer's total earned premium figure provided in Attachment A. As required by 45 CFR § 158.321(d)(2)(vi), please also provide the net underwriting profit for each issuers' consolidated**

business in North Dakota, which cannot be calculated based on the information already provided.

Blue Cross Blue Shield of ND

	All business	Individual business	All other business
2009 Underwriting gain loss)	\$8,628,000	(\$14,611,000)	\$23,239,000
2009 Underwriting margin	0.6%	(16.8%)	1.8%

John Alden Life Insurance Company

Both net underwriting profit and profit margin were provided for Individual Market and Consolidated business (Attachment B). The net underwriting profit is calculated as Earned Premium less Incurred Claims less Expenses.

Time Insurance Company

Both net underwriting profit and profit margin were provided in the attached forms for Individual Market and Consolidated business (Attachment B). The net underwriting profit is calculated as Earned Premium less Incurred Claims less Expenses.

World Insurance Company

This is correct.

Below are consolidated numbers for 2009. Note that World does not track profit margins by state. To get the numbers below, I allocated all individual medical income statement components to ND based on earned premiums except for the loss ratio, where I used the actual ND loss ratio.

2009 Net Underwriting Profit - Consolidated Business = (\$31,014), Net Underwriting Profit Margin

2009 Net Underwriting Profit Margin - Consolidated Business = -6.9%

Note that based on the segment income statements that were in place at American Enterprise prior to 2009, it is very difficult to get 2007 and 2008 numbers, even on an allocated basis. I am hopeful that the 2009 profit information will be sufficient for HHS, since they inquired about 2009 in the item below.

American Republic Ins Co

This is correct.

Below are consolidated numbers for 2009. Note that American Republic does not track profit margins by state. To get the numbers below, I allocated all individual medical income statement components to ND based on earned premiums except for the loss ratio, where I used the actual ND loss ratio.

2009 Net Underwriting Profit - Consolidated Business = (\$788,431)
2009 Net Underwriting Profit Margin - Consolidated Business = -42.3%

Note that based on the segment income statements that were in place at American Enterprise prior to 2009, it is very difficult to get 2007 and 2008 numbers, even on an allocated basis. I am hopeful that the 2009 profit information will be sufficient for the HHS.

Sanford Health Plan

Not applicable because the issuer didn't have creditable data for the individual market.

- ii. **A single underwriting profit margin figure is provided in each applicable year for Medica Insurance Company and Blue Cross Blue Shield of North Dakota. Please clarify whether these figures are for the individual market business or the consolidated business of these issuers, as required by 45 CFR § 158.321(d)(2)(vii). As also required by 45 CFR § 158.321(d)(2)(vii), please provide the net underwriting profit for each issuer in both the individual market business and consolidated business in North Dakota.**

Blue Cross Blue Shield of ND

The profit margins provided on the original form for 2007-2009 include all BCBSND business. See above for the underwriting profit (loss) by segment.

Medica Insurance Company

- (-0.5%) was actual for 2009 Individual and 2009 was the first year in ND.
- Consolidated Corporate was (2007 = na), (2008 = -6.8%), and (2009 = -18.4%)
- Net UW profit margin is a percent of earned premium for MIC.

- iii. **World Insurance Company's 2009 underwriting profit margin in the individual market is marked as "n/a." As required by 45 CFR § 158.321(d)(2)(vii), please either provide World Insurance Company's net underwriting profit or clarify that World Insurance Company did not generate an underwriting profit in its individual market business in 2009.**

Below are the World Insurance Company numbers for 2009. These are the same as the consolidated numbers above as we only have individual medical business in ND. Note that World does not track profit margins by state. To get the numbers below, I allocated all income statement components to ND based on earned premiums except for the loss ratio, where I used the actual ND loss ratio.

2009 Net Underwriting Profit - Consolidated Business = (\$31,014), Net Underwriting Profit Margin
2009 Net Underwriting Profit Margin - Consolidated Business = -6.9%

12. On pages 2 and 3 of the application, in response to 45 CFR § 158.321(b), which requires a description of the State’s market withdrawal requirements, the NDID does not specify that issuers must submit an application for withdrawal or that issuers must have active policies insured or assumed by another issuer. However, guidelines issued by the NDID, which can be found at <http://www.nd.gov/ndins/uploads/resources/465/guidelines-for-voluntary-withdrawals.pdf>, appear to contain these and other State market withdrawal requirements that, if application, should be described in the NDID’s application. Please explain the applicability, if any, of the requirements in the NDID Guidelines to the North Dakota health insurance market.

The document “Guidelines for Voluntary Withdrawals” would only apply if a company voluntarily withdraws from writing all lines of business in N.D. This has occurred very rarely in the past. Withdrawal from the individual health insurance market in ND is addressed under N.D.C.C. § 26.1-36.4-05(1)(f).