



# Texas Department of Insurance

**Life/Health Office, Mail Code 106-1A**

333 Guadalupe • P. O. Box 149104, Austin, Texas 78714-9104

512-322-3401 telephone • 512-322-3552 or 512-322-3506 fax • [www.tdi.texas.gov](http://www.tdi.texas.gov)

December 12, 2011

**By electronic mail**

Gary M. Cohen  
Acting Director, Office of Oversight  
Center for Consumer Information and Insurance Oversight  
Centers for Medicare and Medicaid Services  
Department of Health and Human Services  
200 Independence Avenue SW  
Washington, DC 20201

Re: Texas' Request for Adjustment to the Medical Loss Ratio Standard

Dear Acting Director Cohen:

We provide the following responses to your November 28, 2011, request for additional information in order to facilitate the Secretary's determination of Texas' application for an adjustment to the Medical Loss Ratio (MLR) standard.

- 1. In response to item 5 of CCIIO's September 7, 2011 letter, the Department stated that "[c]arriers have indicated in rate filings submitted to the Department that they plan to price specific products to achieve an 80 percent PPACA MLR standard," and that "[o]f the 34 carriers listed on 'Section 158.321(d)(2) Revised,' 12 have indicated that they are pricing individual products to achieve an 80 percent PPACA MLR." Please identify the issuers that have indicated, either in rate filings or otherwise, that they intend to price their products to 80 percent by name or, if they have requested anonymity, please identify them using the letter identifier assigned to that issuer in the Department's application.*

No carrier has indicated it intends to violate federal law. Carriers that specifically stated in their rate filings to the Department their intent to price products to achieve an 80 percent PPACA MLR standard are listed in Table 1. The remaining 22 credible carriers have not submitted rate filings to the Department in recent months.

As described in our application, in pricing products to achieve an 80 percent MLR standard, some carriers may jeopardize their profitability and solvency if they do not make significant reductions in expenses. It is important to recognize that a carrier's rate filing for one specific individual product may not be the best indicator of a carrier's overall pricing decisions and practices. Although a carrier may price a specific product to meet the PPACA MLR standard, that carrier may or may not achieve the PPACA MLR standard at the market level.

<b>Table 1: Carriers that Indicated Products Priced to Achieve an 80 Percent PPACA MLR Standard</b>
Carrier A
Carrier B
Carrier C
Carrier D
Carrier F
Carrier I
Carrier J
Standard Life and Casualty Insurance Company
Carrier O
Carrier P
Carrier V
State Farm Mutual Automobile Insurance Company

2. *Please confirm that the 2010 SHCEs for issuers “L,” “U,” and “V” were included with the Department’s November 14 submission, and if not, please provide their 2010 SHCEs. Additionally, please indicate which, if any, of these three issuers submitted a withdrawal plan pursuant to 28 Texas Insurance Code §§827.001-827.011 and 28 Texas Administrative Code §§7.1801-7.1808.*

The 2010 SHCEs for carriers “L,” “U,” and “V” were included in Attachment 1 of the Department’s November 14 submission. Carrier “U” submitted a withdrawal plan to the Department.

3. *Based on the 2010 SHCE data, issuer “K” (Southwest Life & Health Ins. Co.) had 995 covered lives, \$2 million in premium, and an 80% credibility-adjusted MLR. According to Attachment 2 to the Department’s November 14 letter, issuer “K” had 7,741 covered lives, \$10 million in premium, and a 56% MLR. While we appreciate that collecting assumptions information for all issuers would be burdensome for the Department, we are concerned with the magnitude of the discrepancy and the potential impact on our analysis, and ask that the Department explain the discrepancy in the MLR and the size of business for issuer “K.”*

Carrier “K” is Southwest Service Life Insurance Company, not Southwest Life and Health Insurance Company.

As shown on the spreadsheet containing carriers’ financial data, Southwest Service Life Insurance Company reported 7,741 covered lives, \$10.3 million in premium and a 56 percent PPACA MLR. Southwest Service Life Insurance Company did not submit a SHCE.

Southwest Life and Health Insurance Company is also included on the spreadsheet containing carriers’ financial data. Because the carrier requested confidentiality, the Department replaced the carrier’s name with a letter identifier. We have confirmed that the figures Southwest Life and Health Insurance Company provided to the Department for its

individual business match those provided on the 2010 SHCE. Note the carrier's figures that appear on the aforementioned spreadsheet reflect the combined individual and association business the carrier has in Texas.

4. *According to Attachment 2 to the Department's November 14 letter, issuer "Q" had a credibility-adjusted MLR of 94%, which suggests that issuer "Q" would not owe rebates under an 80% standard. However, Attachment 2 indicates estimated rebates of \$1.2 million for carrier "Q" under an 80% standard. Please correct the estimated MLR or rebate amount, or please explain the reason for this inconsistency.*

Carrier "Q" provided the Department with the figures that appeared on the two prior versions of the spreadsheet containing carriers' financial data. In the interest of providing the most accurate data possible, the Department contacted the carrier to inquire about the figures it supplied.

On November 29, 2011, carrier "Q" provided revised values for the "PPACA MLR without Credibility Adjustment" and the "PPACA MLR with Credibility Adjustment." The accompanying spreadsheet titled "Attachment 1 – Section 158.321(d)(2) Second Revision" includes these revisions.

5. *Please provide the 2010 SHCEs for National Health Ins. Co. and Tower Life Ins. Co. Please also provide a copy of the withdrawal letters from these two issuers, as well as American Republic Ins. Co. and World Ins. Co.*

Attachment 1 of our November 14 submission included the SHCE data for National Health Insurance Company. For your convenience, we have supplied it again, along with the SHCE data for Tower Life Insurance Company, as "Attachment 2 – Additional Carrier SHCE Data." The withdrawal letters for the four carriers listed above are included as "Attachment 3 – Carrier Withdrawal Letters."

Please let me know if you have any questions.

Sincerely,



Jan M. Graeber, ASA, MAAA  
Director/Chief Actuary  
Life, Accident and Health Office  
Texas Department of Insurance

**Attachments**

Attachment 1 – Section 158.321(d)(2) Second Revision

Attachment 2 – Additional Carrier SHCE Data

Attachment 3 – Carrier Withdrawal Letters