

## MLR Outline

We recognize that the lawmakers intended the MLR standards to drive value for consumers by assuring more premium dollars go to care costs and creating incentive to reduce administrative expenses.

No one wants these standards to have the unintended effect of causing volatility in premium rates. This could drive up the cost of health insurance coverage for consumers and reduce their choices in the marketplace.

We believe carefully crafted regulations can both assure consumers of the value lawmakers intended and recognize the uncertainties and risks represented by market selection dynamics.

### The MLR standard

- The definition of medical expense must include the valuable investments in care coordination, disease management, health information technology, wellness and fraud and abuse programs. These represent real value to members in terms of the direct benefits to their individual care and the positive impact on overall health care costs.
- Premiums and Claims must be aggregated to levels that are statistically credible. A minimum MLR while guaranteeing consumers a return provides no protection against statistical variation in experience. This variability could cause insurers to experience MLRs higher than the minimum that generate financial losses. These losses could force insurers to face solvency challenges or market exits. There is precedence for addressing credibility issues in the NAIC MLR Medigap Model Act.
- Recognize transitional issues –
  - o Today durational factors associated with underwritten business produce a “natural” curve in loss ratios. Most insurers manage this curve to stabilize rates over a longer period of years. While this may increase initial rates, it serves to generate more consistent rates over time. Stability is important to consumers because it protects them from financial exposure within their family budgets during a down economic time.
  - o Many of the federal law provisions (i.e. guarantee issue) that will allow insurers to reduce their current administrative expenses will not be implemented until 2014, years after the MLR provision take effect. .
- Recognize that state licensure rules often require insurers to align different products, such as HMOs and PPOs, with different legal entities. While those insurers manage these products as a group, statutory accounting by entity reports them separately.
- Everyone recognizes that administrative costs as a percentage of premium are affected by two factors:

- Membership size and the growth trend of the insurer's block of business;  
and
- Relative cost of fixed administrative expenses to the actuarial value of benefits.

If MLR requirements force smaller insurers to exit states, the requirement will not achieve another intended goal of the legislation to create greater competition among insurers. This will mean less choices for consumers.