Memorandum

March 21, 2012

To: Steve Ostlund, Chair HATF Subgroup on Medical Loss Ratios

Re: Comments on IRD14-006

America’s Health Insurance Plans (AHIP) appreciates the opportunity to provide these comments as our support for the issues discussed in IRD14-006. AHIP is the nation’s trade association representing member companies providing health, long-term care, dental, disability and supplemental coverage to more than 200 million Americans.

IRD14-006 raises the question of whether a shorter period than the current three-month run-out would be appropriate for the MLR calculations done for 2014 and later. The Description portion’s language suggests that the current three month run-out allows for a “minimal amount of potential error when compared to 12 months of incurred payments. A similar margin of error for estimation when comparing to 36 months of incurred claim payment might be associated with using year-end claim reserves, or only a one month run out period.”

The above description depends on a premise that is not clear from the HHS reporting format, where it is unclear whether run-out is fixed after the first 15 months (the experience year plus 3 months run-out) or whether all 3 years in the average are updated. The HHS instructions are internally inconsistent, and we have not seen further clarification on that issue yet. We note that, particularly because of the rule regarding 3 successive MLRs below the rebate threshold, each experience year must be able to stand alone for purposes of determining if the MLR calculation requires a rebate for the subscribers covered in that period. Based on those considerations, we believe it is important that each year be as accurate as possible and that the current three-month run-out provision be retained.

We do not support the use of a one-month run out period, nor the suggestion that it allows for a minimal amount of potential error. Instead, we support the use of a three-month run out period, to allow for each year’s calculation to be accurate as possible. We also note that quarterly based run-out must be determined for quarterly statement purposes, thus using that time period here will allow for more consistency in tracking and reporting.

We also point out the reality of insurers’ administrative time and resources crunch at during the end-of-year financial reporting timeframe. Companies’ financial reporting and actuarial reporting staff are working flat out in the first two months of the year to complete the annual financial report – and many of them are the same people that then have to complete the SHCE a month later, and 2 months later the HHS MLR Reporting Forms. As a result, we urge recognition that
regulatory timeframes can be set that would allow for reasonable time needed to assure the optimal accuracy.

Since the IRD addresses only the potential for a reduction in the run-out period, our comments do not address the value of using a longer run-out period or reflecting the more accurate run-out of other aspects of the MLR calculation so that all aspects use the same run-out period. It may be appropriate for this IRD to be expanded for these issues or another IRD be opened to address them.

And since the IRD addresses the question of whether a shorter period than the current three-month run-out would be appropriate for the MLR calculations done for 2014 and later, we question the value and accuracy of the opening statement in the description of the problem: “If the consumer is owed a rebate, it can be derived from premiums paid in January of the experience year, and currently can be delayed until August of the following year. This already represents a 20 month delay.”

We recommend it be deleted, for two reasons. The first and main reason is that it is simply not relevant to the discussion of run out. And the second is that it reflects incomplete facts, thus making it an inaccurate and misleading assertion. In fact, a very small number of individuals would fall into that category. Consider these examples as illustration: the majority of non group subscribers would have been covered for a 12-month period, and thus the lag would be only a maximum of 8 months. And in the case of a consumer who is an employee of a group owed a rebate who was hired in the rebate paid year (not the MLR reporting year), that consumer would be eligible to share in that rebate with up to less than one month lag.

And finally, we suggest more discussion of the table used in support of the prior IRD. There is a presumption that the insurer will know all claims costs after six months, and that reserves can all be calculated with perfect knowledge. What is not reflected is the potential impact of an estimate that was not perfectly accurate, and the impact that would have on MLRs. It is this challenge that sometime leads to a difference in the actual MLR below the estimated (regardless of the number of years of data that is used to determine the actual MLR).

Thank you.

Sincerely,

Candy Gallaher
SVP State Policy - AHIP
cc: Eric King, NAIC staff to HATF
    William C. Weller, Omega Squared – consultant to AHIP
    Tom Wildsmith, The Hay Group – consultant to AHIP