July 31, 2012

To: Steve Ostlund, Chair
   NAIC Health Actuarial Task Force’s MLR Subgroup

   Re: Comments Attributed to AHIP in Mr. Schwartz’s Letter

Dear Mr. Ostlund;

I write this letter in acceptance of your suggestion that I place my spoken comments during today’s conference call in a written document. We would like to note that AHIP does support the inclusion of rebates in the MLR calculations involving three year averaging as required by ACA.

In addition, AHIP wishes to take issue with the following sentence from Mr. Schwartz’s letter:

“The AHIP letter is based upon the faulty assumption that Congress intended the long term loss ratio (including rebates) to equal the target value.”

In our letter of July 6, 2012 we stated:

“We would also like to raise other concerns with the use of unrealistic assumptions in the tables that are presented in the documentation in opposition.”

Our letter also noted, as Point 2, the following:

“The tables assume that actual experience will exactly match expected experience every year. However, even if the average actual experience does match a reasonable pricing target, year-by-year variations will have an impact on the result, because of the one-sided nature of the rebate requirement. If a company prices to the threshold 80%, but actual experience is not 80% over every 3-year period, then over time the company will have a cumulative MLR (including rebates) greater than 80%.” [emphasis in original]

We made no statement about the intention of Congress in the July 6th letter. We believe that Congress intended to allow good and bad experience to be averaged as part of the calculation of the current year’s experience to determine if the MLR standard has been met. We do not believe that it was Congress’s intent to only allow prior bad experience (higher loss ratio) to offset...
current good experience (lower loss ratio), but to reflect to the extent possible prior good experience to offset current bad experience within each three year period. Part of the prior experience includes the amount of rebates paid (or used to reduce premiums).

Sincerely,

William C. Weller
Consultant to AHIP

cc: Allan Schwartz, AIS Risk Consultants, Inc.
Eric King NAIC Staff
Candy Gallaher, AHIP Senior Vice President