March 12, 202

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

Re: Comments on IRD14-007

America’s Health Insurance Plans (AHIP) appreciates the opportunity to provide these comments as our support for the issues raised in IRD14-007. AHIP is the nation’s trade association representing nearly 1,300 member companies providing health, long-term care, dental, disability and supplemental coverage to more than 200 million Americans.

IRD14-007 notes several reasons why the credibility assumptions used in MLR calculations for the years 2011 through 2013 need to be reviewed for the years 2014 and later. We agree with those reasons and note several others as support this review.

Beginning in 2014, the environment will be different from the environment of the distribution of claims experience that was used to develop the credibility standards for the 2011-2013 MLR calculations. To the extent that it is believed that these changes would materially revise the distribution of claims around the mean for blocks of business to which the MLR calculations are applied, the credibility adjustment tables should reflect such revised distribution across all block sizes.

During 2014-2016, the three reducing programs will be in effect: reinsurance, risk corridor, and risk adjustment. However, only the latter program will persist beyond 2016. Therefore, unless the NAIC wants to consider two new sets of credibility factors, one for use during 2014-2016 and another for use beyond 2017, we recommend that only the risk adjustment program be considered in recalculating the distribution of claims.

The presence of risk adjustment may reduce the standard deviation about the mean expected loss ratio, which would increase credibility, but there are other factors that may increase the standard deviation about the mean, especially for smaller blocks of business.

For example, rate restrictions by demographic components will result in some individuals paying less than their expected costs (e.g., older individuals) while others will pay too much (e.g., younger individuals). Each company will not have a distribution exactly equal to the distribution of the overall state and, therefore, must make assumptions about their future distribution when they develop rates for each future period. To the extent that a company’s distribution in actual practice of risk insured for that period is different from what they reasonably assumed, their “mean” will be different from their assumed “mean” and this aspect of the smaller plan risk is not reflected in the current credibility adjustment.
Another example is the reduced ability of risk adjustment to offset selection from guaranteed issue in the presence of a very weak (or no!) mandate. There is a similar effect for any other aspects of rating, risk classification and policy benefits that restrict a company’s ability to accurately reflect differences in possible future risk distributions. Since these factors affect individual, small group, and large group business differently, it is logical that credibility adjustment factors may need to be different for the Individual, Small Group and Large Group markets. In particular, during 2014-2016 Large Groups do not have risk adjustment and do not participate in the Exchanges.

Sincerely,

William C. Weller
Consultant to AHIP

c/c: Eric King, NAIC staff to HATF
    Candy Gallaher, AHIP