



April 29, 2010

Secretary Kathleen Sebelius
The U.S. Department of Health and Human Services
200 Independence Avenue, S.W.
Washington, D.C. 20201

Dear Secretary Sebelius:

When questioned about health reform during *Meet the Press* appearances, you stated, "... the market competition is decreasing in this country, that in the individual market, in the small group market where small employers are absolutely caught, they have no choice; and they are getting increasingly frustrated. We have . . . (basic) monopolies in many parts of the country (that) drive the costs up."

You have consistently—and admirably—argued for improved competition as a key to effective health reform. We couldn't agree more. And that's why we believe that changes to medical loss ratios in the individual and small group market must be structured to increase health insurance competition, instead of weakening it.

In 2009, the six largest public insurance companies wrote \$35.8 billion in individual and small group major medical. As a point of reference, our company wrote \$120 million in these sectors, mainly in rural markets. Obviously, we are small and lack economies of scale, but there are hundreds of companies like us. Combined, we are about 15 percent of the market. Last week, the individual market lost one "A" rated carrier because of health care reform. More will follow unless you take action.

The Need for Smaller Health Insurers

Why should anyone care if the small carriers exit the health insurance market? If they are not efficient, shouldn't those companies just go away? Although each company is unique, allow me to use our company as an example of the good that is done by small companies.

First, we are innovators. Our typical insurance plan in the individual market for a family costs about \$400 a month—roughly 50 percent lower than the national average. We were one of the first to embrace consumer-directed health plans, and continue to give premium discounts to customers based on their active participation in their health savings accounts. We tend to sell outside-the-box plan designs with higher deductibles, sometimes packaged with wellness or accident plans, and tele-medicine or nurse-on-call programs. We offer our customers a wide choice of provider networks and offer plans that do not have out-of-network penalties. Many larger companies have been reluctant to promote consumer-directed health plans because they would experience a significant decrease in premiums, and do not offer plans that can be personalized because they are more expensive to administer.

Second, we deliver a personal customer service experience. Our customers can restructure their plans without penalty when their family dynamics change.

Finally, we have a large presence in rural markets and work with local insurance agents. Anyone who grew up in a small town—like I did—knows that economies of scale and a one-size-fits-all mentality are counter to the very independence and self-reliance of most rural Americans. Small town America likes to do business with small town America. It's not about being Internet literate; it's about a way of life. (Health care cooperatives may have a future in rural America, but they will not exist until 2014).

Consideration for Smaller Carriers to Promote Competition

Unless smaller health insurance companies are given consideration in the minimum loss ratio standards, many will withdraw from the small group and individual markets. In fact, companies that rely solely on these product lines will be forced out of business and many jobs will be lost in one of the worst economies in memory. Competition will be reduced even further.

Please allow me to explain. As noted above, the premium for our typical insurance plan is roughly 50 percent lower than the national average, which means that our per-policy expenses are spread over a smaller premium base. In addition, we rely on independent agents to deliver a large percentage of our plans. Since we service underserved rural markets, our costs to write a case are higher than those of a company writing in an urban area. All of these factors cause our administrative costs to be about 5 percent or more higher than the larger insurers. If companies like ours cease to serve these markets, there are few immediate alternatives. The federal high-risk pool was not funded to cover newly uninsured people.

What can be done? About 15 years ago my state of Minnesota created lower loss ratios in the individual and small group market for carriers with less than a 3 percent market share. Other states have lower loss ratios for high-deductible plans because the premium is less. Another possible solution is to allow a portion of the agent commission to be a service fee. At a time with massive changes to insurance plans, the role of an experienced independent agent who provides consultative services should be enhanced not eliminated. (Exchanges may make it easier for individuals to buy plans, but they will not exist until 2014).

But let's step back from the nuances of how loss ratios can be structured—there are many solutions if you are committed to competition—and focus on the fundamental issue: When too much power is in the hands of too few, innovation is stifled and costs go up. It is basic economics.

Please ask the National Association of Insurance Commissioners to structure the requirements of medical loss ratio so as to promote (not stifle) competition and preserve a place for small carriers and independent agents.

Additional Information About the Author and The IHC Group:

Jeff Smedsrud is senior vice president and chief strategy and marketing officer for Independence Holding Company (NYSE: IHC). The IHC Group includes three insurance carriers, each rated A- (Excellent) by A.M. Best Company, and several administrative and medical management companies. It has approximately \$600 million of annual premiums in niche health and life insurance markets in most states.

Smedsrud has been active in health insurance reform since the 1980s. He helped create many of the 35 state programs for the medically uninsured, and was the founder of the National Association of State Comprehensive Health Insurance Plans (NASCHIP—the trade group for state risk pools). In the early 1990s he led a coalition of 16 national agricultural and rural organizations with more than 2 million members that supported principles of health reform. He has testified numerous times before state and federal legislative committees. He also has owned a large health insurance agency that focused on solutions for rural small businesses and the self-employed.