

June 1, 2010

The Honorable Kathleen Sebelius
Secretary
US Department of Health and Human Services
Hubert H. Humphrey Building
200 Independence Ave, SW
Washington, DC 20201

Dear Madame Secretary:

In your letter of April 12, 2010, to NAIC President Jane Cline and NAIC CEO Therese Vaughan you requested that the NAIC provide information to the U.S. Department of Health and Human Services (HHS) regarding implementation of the medical loss ratio provisions of the Patient Protection and Affordable Care Act (PPACA) by June 1, 2010. This letter is in response to that request.

The new federal law requires the NAIC to establish uniform definitions and standardized methodologies for calculating the medical loss ratio and rebates outlined in the law, subject to your certification. To ensure all views are heard and considered, and everyone has time to review proposals under consideration, the NAIC is using a very transparent, but time consuming, process. Since passage of PPACA, NAIC subgroups have held twelve open conference calls; received over 50 comment letters from various stakeholders; and, posted all drafts, call summaries and comment letters on the NAIC website. The NAIC has also received guidance from congressional offices and the Department of Health and Human Services.

While we are confident that this process will produce an excellent product, we will unfortunately not be able to complete it by June 1st as you have requested. We certainly appreciate the need to complete this project as soon as possible – waiting until the deadline of December 31, 2010 in the law is not an option – but we also appreciate, as you do, how critically important it is to do this right. The medical loss ratio and rebate program in PPACA have the potential to destabilize the marketplace and significantly limit consumer choices if the definitions and calculations are too restrictive. Equally, the medical loss ratio and rebate program could be rendered useless if the definitions and calculations are too broad. Only through an open, deliberative process can we hope to reach a reasonable consensus that meets the dual objectives of protecting consumers and preserving competitive markets.

The final NAIC report will include the definitions and methodologies for calculating rebates – as required by the law – as well as the processes for data submission and payment of the rebates by carriers, as requested in your letter of April 12. Additional information on current state laws and other issues was submitted by NAIC to HHS on May 14, 2010, as part of our response to the department's *Federal Register* questions. A copy of that response is attached.

As you stated in your letter, HHS and the NAIC have a strong partnership and will both play a key role in the successful implementation of the new law. The NAIC will continue to work diligently and transparently to complete its report on medical loss ratio, and will keep your office updated on our progress.

Sincerely,



Jane Cline
West Virginia Insurance Commissioner
NAIC President



Therese M. Vaughan, Ph.D.
NAIC Chief Executive Officer

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