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A P P E A R A N C E S

FOR THE MISSOURI DEPARTMENT OF INSURANCE:

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1 (Department Exhibit No. 1
2 was marked for identification.)

3 DIRECTOR HUFF: Good morning. We'll go
4 ahead and get started. I'm not sure we need a room
5 this big, but we have one, so we'll go ahead and use
6 it.

7 I'll go ahead and call the meeting to
8 order. We do have a court reporter here. It's 9:07
9 on Friday, August 26, in Room 490 at the Truman State
10 Office Building in Jefferson City, Missouri.

11 Good morning. My name's John Huff. I'm
12 director of the Department of Insurance, Financial
13 Institutions and Professional Registration. We have
14 retained the services of a court reporter for the
15 hearing for multiple purposes, but not the least of
16 which, if we decide to go forward with the adjustment
17 request, we'll have to have some documentation for
18 that.

19 The purpose of the hearing is to solicit
20 testimony on the record related to the effect of a
21 Medical Loss Ratio, MLR, in the individual health
22 insurance market only. We'll only speak to the
23 individual market.

24 At this time I would like to introduce
25 members of the Department who have been tasked with

1 Department of Health and Human Services promulgated
2 regulations implementing provisions of the Affordable
3 Care Act. Under those provisions, health care
4 insurance issuers will be required to meet specific
5 annual loss ratios or pay rebates to enrollees, also
6 known as the Medical Loss Ratio.

7 The PPACA, that the acronym stands for,
8 specifies that large group plans must have a medical
9 loss ratio 85 percent or higher, and small group and
10 individual market plans must have a loss ratio of
11 80 percent or higher. We had some confusion about
12 that earlier with folks that have -- probably don't
13 have as much background as folks in this room, but
14 the trigger, then, is if you're less than that loss
15 ratio -- say you're 76 percent -- then the difference
16 between 76 and 80 would be the amount rebated. The
17 20 percent would be reserved for cost of doing
18 business, profitability, administrative costs,
19 overhead.

20 Health insurance issuers are required to
21 report these ratios to HHS each year. If the ratio
22 is not met, the issuer must pay rebates to its
23 insureds. The regulations issued by HHS allow the
24 secretary to adjust the MLR standard that must be met
25 by issuers offering coverage in an individual market

1 in a state for a given MLR reporting year if it is
2 determined that the application of the 80-percent MLR
3 standard may destabilize the individual market in the
4 state.

5 As stated in the notice for this hearing,
6 the Department does seek testimony and comments from
7 individual consumers, insurers, HMOs, producers,
8 business entity producers, professional associations,
9 public interest groups, and from any other person or
10 entity with interest in Medical Loss Ratio rules as
11 they apply to the health marketplace in Missouri.

12 Any testimony should specifically, and in
13 detail, address the issues listed in the notice of
14 hearing. Copies of the notice of hearing are
15 available for your reference at the table near the
16 front door.

17 I do ask as folks testify that you be
18 brief, specific, fact-based and focused on the
19 Missouri health insurance marketplace. It's
20 important that we focus on Missouri and the impact to
21 Missouri for this Medical Loss Ratio.

22 I will use the information gathered
23 along -- I will use the information gathered, along
24 with information from other sources, to determine
25 whether Missouri should request an adjustment to the

1 MLR rules from the U.S. Department of Health and
2 Human Services.

3 A sign-in sheet marked "Witness List" has
4 been prepared and is located on the table near the
5 door. If you have not already done so, I would ask
6 that you now just -- and if you do want to be heard
7 today, come forward and go ahead and sign that
8 witness list. Please list your name and your
9 affiliation, your company or organization, if you
10 have one, after your name.

11 For purposes of the record, I will take
12 official notice of Exhibit 1, the notice of hearing
13 for this proceeding and the detailed description for
14 the submission of comments incorporated in the
15 notice. Exhibit 1 is admitted into the record.

16 (Department Exhibit No. 1 was admitted.)

17 DIRECTOR HUFF: We will proceed with
18 testimony in the order each witness' name appears on
19 the witness list. We'll give some latitude here, but
20 generally each witness will be allowed no more than
21 ten minutes or so to offer testimony on the record.

22 If an interested person or entity wishes
23 to make additional comments beyond the time limit, I
24 certainly welcome anyone to submit comments before
25 the close of business Friday, September 2, so a week

1 from today. If a witness is not substantially
2 addressing questions in the notice or is only
3 offering repetitive or cumulative evidence, I may
4 exercise my discretion to limit testimony than less
5 than the full amount of time, or the ten minutes.

6 If there are no procedural questions,
7 we'll go ahead and get started. We'll let folks
8 finish signing in. It's a beautiful fall day,
9 66 degrees in Mid-Missouri, and we're in the middle
10 of a conference room in the Truman Building so -- but
11 it could be worse. We could be bracing for Irene, or
12 we could be waiting for Bernanke this weekend.

13 We'll now proceed with the first witness
14 after you're sworn by the court reporter. Please
15 state your name, your affiliation, who you're
16 associated with, if any, and I'll go ahead and call
17 Eddie Anderson to offer testimony.

18 Feel free to have a seat there, and then
19 if you'll -- if you'll tell us your name and your
20 affiliation, and if you'll spell your name for the
21 court reporter, it would be helpful for us.

22 MR. ANDERSON: My name is Eddie Anderson,
23 E-d-d-i-e, A-n-d-e-r-s-o-n. I'm from Edina,
24 Missouri. I am here on behalf of the members of the
25 National Association of Insurance and Financial

1 Advisors, known as NAIFA Missouri. I'm the
2 president-elect of our state's association, which has
3 the largest membership of licensed insurance
4 procedures in our state.

5 We appreciate the opportunity to again
6 voice our concern on this issue raised over a year
7 ago in our letter of July 15, 2010, to the
8 Department.

9 We support in the strongest possible
10 terms the proposal for Missouri to request an
11 adjustment to the Medical Loss Ratio for the
12 individual market. We are encouraged by the NAIC
13 Health Insurance and Managed Care Committee report on
14 June 7, 2011, regarding producer compensation in the
15 Affordable Care Act.

16 NAIFA supports the recommendations being
17 studied to completely exclude producer compensation
18 from the MLR calculation. Should this recommendation
19 or legislation introduced in Congress by
20 representative Mike Williams of Michigan and John
21 Barrow of Georgia be adopted, we would withdraw our
22 objection to the MLR as enacted.

23 There are specific questions in the
24 notice we would like to address with regard to the
25 consequences to insurance companies offering

1 individual coverage in Missouri if an adjustment is
2 not sought, specifically related to the following
3 issues: The bullet point, What is the likelihood
4 that the company will reduce commissions to paid
5 producers as a result of the 80 percent MLR?

6 Realizing the implementation on
7 January 1, 2011, of the MLR, we urge support by
8 Missouri at the NAIC of pass-thru producer
9 commissions from the calculation. Since that did not
10 occur effective January 1, 2011, insurance producers
11 in Missouri were dealt a severe reduction in
12 commissions.

13 An April 2011 survey of NAIFA members in
14 the health insurance business found that 75 percent
15 had seen the level of their commissions decrease, and
16 another 13 percent had received notices from
17 insurance companies that commissions were going to be
18 going down in the near future.

19 Six in ten agents reported their
20 commissions had dropped by 25 percent or more since
21 that date. Seventeen percent said their commissions
22 had decreased by 50 percent or more. My personal
23 experience was a 27-percent drop in commissions.

24 With regard to the impact on reduced
25 commission payments toward the ability to serve

1 consumers, I can provide personal experience. In my
2 office we have employed a professional nurse on staff
3 who could help clients make sense of their coverage
4 in the system with problems and difficult decisions.

5 The drastic impact of the 27-percent
6 reduction in income left us unable to continue to
7 compensate her appropriately. She returned to
8 patient care in mid-February 2011.

9 The application of the 80-percent MLR has
10 reduced access to companies offering health
11 insurance. In July 2011, Cox Healthcare terminated
12 offering new policies to Missourians living outside
13 the 26 counties of southeast Missouri. It was the
14 only market available in much of Missouri for
15 policies for children. For the majority of consumers
16 in eastern Missouri, there is no insurance company to
17 accept children alone.

18 Thank you for this opportunity to voice
19 our concerns.

20 DIRECTOR HUFF: Thank you, Mr. Anderson.
21 If I could ask a couple of questions, I am very
22 concerned about the future roll of producers in the
23 state and, actually, nationwide as we go into some of
24 the implementation for the Affordable Care Act, and I
25 appreciate your comments about the reduction in

1 commissions coming through from some companies.

2 It's a little unclear to me when that
3 started, and so, if you could, give us some general
4 comments if you -- how you've experienced that, those
5 reductions, and how they may be tied to the medical
6 loss ratio.

7 And the second part of my question is:
8 What assurances have your members received from the
9 industry that if there is an adjustment for medical
10 loss ratios that some of that adjustment will be
11 reflected in commissions for your producers?

12 MR. ANDERSON: Thank you, Director.

13 We were notified in December of 2010 that
14 the reduction in our compensation would be effective
15 with all policies on January 1st of 2011, and so the
16 majority of the policies in our firm are with one
17 company, Anthem Blue Cross Blue Shield, but the other
18 carriers that we represent, another five companies,
19 have followed suit or have advised us that we will be
20 receiving a commission adjustment this year, so the
21 impact on us on January 1 was dramatic, and it
22 applied not only to new policies, but all enforced
23 business as well.

24 And the second part of your question
25 regarding any assurances from the companies that we

1 would receive an adjustment if the MLR was adjusted,
2 we received no assurances. And I think part of that
3 is because they don't anticipate that there will be
4 any adjustment to the MLR.

5 And in the case of Anthem Blue Cross Blue
6 Shield where they operate in multiple states, the
7 region that we are in comprises five states, and none
8 of those states have been successful in receiving a
9 waiver from the MLR, so that application has been
10 made across the board in that region and, like I
11 said, we have received no assurances.

12 The position that we have advocated for
13 is really a separate issue from the waiver, but it is
14 linked, very definitely, to the income that is
15 available to us to sustain our lifestyle. And the
16 average compensation for a health insurance producer
17 is \$47,000, not an executive compensation, I think
18 that was looked at, in determining that MLR level.

19 Our understanding was that it was an
20 effort to reduce executive compensation, which they
21 saw as excessive, and I have no basis to comment on
22 any reduction on executive compensation, but I
23 haven't seen anything in the industry magazines that
24 indicate that it's occurred.

25 DIRECTOR HUFF: Thank you.

1 MS. HOYT: You mentioned that you would
2 have to let one staff member go because of the
3 reduction in commissions and the reduction in income
4 to your organization. Have you heard of similar
5 stories from other firm owners?

6 MR. ANDERSON: I have heard stories, not
7 of reduction in staff, but of fellow producers who
8 have determined that they will no longer offer health
9 insurance to individuals because of the reduction in
10 their commissions, and they will concentrate on other
11 levels of services to clients that are financially
12 feasible for them.

13 I'm aware of at least five in my area
14 and, of course, I'm from rural northeast Missouri,
15 and our population is not -- doesn't support a lot of
16 agents, but we know that they have stopped
17 advertising. They have withdrawn from that
18 marketplace so they can concentrate on other lines of
19 business.

20 DIRECTOR HUFF: Anyone else?

21 (No response.)

22 DIRECTOR HUFF: Thank you very much. We
23 appreciate it.

24 Oh. I'm sorry.

25 MS. NELSON: I just to wanted to ask: For

1 your organization, how many members do you have in
2 the state?

3 MR. ANDERSON: How many producers --

4 MS. NELSON: Yes. Sorry.

5 MR. ANDERSON: -- do we have or how many
6 do --

7 MS. NELSON: Sorry. Producers. How many
8 producers do you have?

9 MR. ANDERSON: We have a total of 40
10 producers statewide.

11 MS. NELSON: And when you have the survey
12 results, the April survey, is that of just the
13 Missouri producers or was that a national survey?

14 MR. ANDERSON: No, that is a national
15 survey and not just of Missouri.

16 MS. NELSON: Thank you very much.

17 DIRECTOR HUFF: Okay. Thank you,
18 Mr. Anderson. We appreciate your testimony.

19 Just to put a little bit more color on
20 the national situation, there are eight states that
21 have pending applications for an adjustment, and we
22 have to continually correct ourselves and others when
23 they talk about a waiver. There is not an ability to
24 waive the MLR. It is an adjustment request to
25 potentially phase in the MLR.

1 Six states have been granted an
2 adjustment, and then one state was denied. North
3 Dakota was denied their request just for purposes of
4 summary, and we keep very close to that.

5 I was also negligent in not introducing
6 our elected officials with us, so Representative
7 Gosen, Representatives Kirkton and McNeil, welcome.
8 We appreciate your attendance and particularly your
9 interest in the Missouri consumers in the health care
10 market.

11 We'll go to Mr. Hill, James Hill, from
12 Missouri Healthcare For All.

13 MR. HILL: My name is Jim Hill. I serve
14 on the Board of Missouri Health Care For All, and I'm
15 here today on behalf of the Board and our executive
16 director, Rebecca McClanahan. I'm also here today as
17 a self-employed small business owner. I own a
18 consulting firm, of course, a nonprofit organization,
19 Faith Based Ministries.

20 Missouri Health Care For All is a
21 grassroots, nonpartisan movement of faith and
22 community leaders committed to securing quality,
23 affordable health care for all Missourians. We have
24 120 organizations who endorse our principles and more
25 than 7300 grassroots members.

1 We're very grateful for this process that
2 is beginning the implementation of the components of
3 the Affordable Care Act. In addition, we see the
4 question as to how to hold insurance companies
5 accountable to Missouri families and consumers as
6 fundamental in realizing the benefits of the new law.

7 Missouri Health Care For All firmly
8 believes that we have a moral obligation to make sure
9 that every person and family in our state has access
10 to rich health care resources that Missouri enjoys.

11 Now, we understand that we have a long
12 ways to go before everyone has access to health care
13 that they can afford in the community where they
14 live, no matter where they live or how much money
15 they make, but we believe it is a vision worth
16 pursuing and holding our officials and companies that
17 conduct business in Missouri accountable for that
18 vision.

19 We strongly assert that investing in
20 health care for all is both critically important for
21 the wellbeing of all Missourians and a sound economic
22 investment. Based on faith and ethical values, we
23 affirm that all persons should have the opportunity
24 for health care and healing.

25 On the basis of these convictions, we

1 believe that Missouri should not seek an adjustment
2 for waiver of the medical loss ratio standards for
3 insurance carriers. We believe this for several
4 reasons. The medical loss ratios are good for
5 consumers and small businesses which purchase
6 insurance.

7 The medical loss ratio assures that we
8 receive value for our premium dollars requiring this
9 80 percent of the premiums being used for medical
10 care versus administrative costs, profits, CEO pay,
11 or any other activities.

12 Secondly, we believe Missouri consumers
13 need more value for our premium dollars, and
14 insurance companies must be required to deliver more
15 value and more affordable premiums, and we think this
16 loss ratio pressures them to do that, to do a better
17 job of what they do, and it is one of the few cost-
18 containment provisions in the Affordable Care
19 Act that will really impact our families.

20 The Medical Loss Ratio, I think, is a
21 good public policy. It assures reasonable percentage
22 of health care premiums benefiting consumers and
23 families. We are concerned about compromising the
24 consumer protections vital for Missouri families in
25 order to benefit the health insurance industry.

1 The top five for-profit health insurers
2 alone reported 12.2 billion in profits in 2009.
3 Without the minimum medical loss ratios which we are
4 still well below the ratios achieved in the 1990s,
5 health plans would continue to spend excessively on
6 profits, disproportion of pay packages, lobbying, and
7 administrative activity.

8 Missouri consumers need this protection,
9 and we need the transparency, the increased
10 transparency that comes with that process. Your
11 department is working with the criteria that were
12 identified by the Department of Health and Human
13 Services we use in determining the risk of
14 destabilization in the insurance market.

15 We're grateful for your department's
16 effort to gather information about the health
17 insurance providers in our state, such as the
18 information released in the April 2011 report,
19 Medical Loss Ratio Estimates by Segment.

20 We still believe there is a significant
21 lack of information about carriers in Missouri and
22 insufficient data to really evaluate the
23 marketplace. We do know that Missouri families and
24 small businesses have been saddled with staggering
25 premium increases. The cost of insurance grew by a

1 startling 83 percent between 2000 and 2009 for
2 Missouri consumers.

3 The transparency of the Medical Loss
4 Ratio means that for the first time Missouri
5 consumers can actually learn and understand what
6 insurance companies are doing with our premium
7 dollars. We will be able to shop wisely with that
8 knowledge.

9 As a personal example, I purchased health
10 insurance for my wife and myself through my small
11 business, and the premiums more than doubled in the
12 last ten years. Both of us are healthy with no
13 serious health issues. Our provider is one of
14 Missouri's big three insurance providers.

15 When our premiums were raised to nearly
16 \$19,000 a year, we were forced into high-deductible
17 plans which give each of us \$5,000 deductibles, and
18 we still pay \$10,000 a year for our coverage.

19 Individuals and small businesses are
20 literally at the mercy of the insurance carriers in
21 our state, and this provision helps us to address
22 that problem.

23 For Missouri consumers, the Medical Loss
24 Ratio provisions are a significant opportunity and an
25 important piece of the Affordable Care Act, and it

1 makes coverage more affordable and the system more
2 transparent.

3 The new Medical Loss Ratio rules will
4 insure that consumers get good value for their
5 premiums. In addition, granting a waiver would deny
6 Missourians the rebates from these companies that
7 fail to meet the medical loss ratio standard.

8 Any potential adjustment should involve a
9 rigorous assessment by the Department, should be
10 transparent, should involve significant consumer
11 input and engagement. The Medical Loss Ratio is a
12 sound public policy.

13 If Missouri experiences adverse
14 consequences due to this, there are ways to address
15 that through modifying state laws to protect
16 consumers, many other tools, including rate review,
17 more stringent requirements on carriers who wish to
18 sell policies in Missouri and stronger consumer
19 protection.

20 We strongly urge the director and the
21 Department not to request a waiver lowering the
22 Medical Loss Ratio. Thank you.

23 DIRECTOR HUFF: Thank you, Reverend Hill,
24 for your testimony. I notice you did have a
25 document. If you'd like for that to be admitted into

1 the evidence, we'd be happy to take a copy of that.

2 THE WITNESS: I will.

3 DIRECTOR HUFF: Any questions for Reverend
4 Hill from the panel?

5 (No response.)

6 DIRECTOR HUFF: Thank you.

7 Moving down the list, the Honorable Joan
8 Bray, recently retired senator from St. Louis County.

9 MS. BRAY: Good morning. My name's Joan
10 Bray: J-o-a-n, B-r-a-y. I am the chair of the Board
11 of the Consumers Council of Missouri. Thank you,
12 Director Huff, for the opportunity to present
13 testimony this morning.

14 The Consumers Council of Missouri was
15 organized to educate and empower consumers statewide
16 and advocate for their interests. Health insurance
17 is one of the areas in which we work.

18 Health insurance is one of the most
19 stressful items in a household budget. Many
20 individuals and families have no health insurance
21 because it's too inexpensive [sic] and unavailable.

22 Many who pay health insurance premiums
23 are underinsured, and when they need the insurance,
24 it may not cover their needs. My own young adult son
25 was a victim of that circumstance. It has almost

1 forced him into bankruptcy.

2 And people who are covered by health
3 insurance often find it difficult to know what their
4 premiums are buying from the value of the money they
5 are spending. The Consumers Council believes
6 purchasers of health insurance should know what their
7 options are, what they are buying and the comparative
8 value of the health insurance products.

9 For too long the industry have been
10 veiled in mysterious and dense language with complex
11 numbers and calculations. This veil must be
12 removed. Terms of the agreement between insurer and
13 insured must be presented in clear and transparent
14 layperson language.

15 The new medical loss ratio requirements
16 are a step toward accomplishing such a goal. They
17 give consumers a straightforward calculation on how
18 their premium dollars are spent while setting a
19 minimum level of spending on medical benefits and
20 quality improvement at 80 percent in the individual
21 and small-group markets.

22 The Department has asked for public
23 comment on whether Missouri should request an
24 adjustment, the MLR, for the individual market in the
25 state. The Missouri Consumers Council says, No. We

1 are aware of enough evidence that would support a
2 request for such an adjustment of the 80 percent MLR
3 at this time.

4 In April of this year, the Department
5 proposed -- prepared and has now posted on its
6 website MLR estimates for each insurer in individual,
7 small-group, and large-group markets. Consumers
8 Council commends the Department for making this
9 information available. I do believe, however, that
10 more progress needs to be made in presenting the data
11 in clear and transparent layperson language.

12 The Department report shows that seven of
13 the seventeen insurers in the individual markets
14 subject to the 80-percent MLR requirement met or came
15 close to that mark. These insurers adjusted MLRs, as
16 reported by the Department, range from 77.2 percent
17 to 97.4 percent; however, the Department's data do
18 not show historical trends, nor does the Department
19 provide any explanation of why other insurers did not
20 meet the 80-percent goal or how difficult it would be
21 for other insurers to comply or pay rebates to
22 consumers.

23 The Department needs more information
24 before it, or anyone, can assess the impact of the
25 80-percent MLR on Missouri's individual market. The

1 information the Department needs to monitor the
2 impact of the MLR is information that consumers need
3 to make more informed choices about their health
4 insurance. It is also information that HHS indicates
5 should be included in states' analysis.

6 HHS has specified that states seeking a
7 waiver of the 80-percent MLR in the individual market
8 are to submit information about the MLRs for each
9 insurer. Information about profits and capital
10 reserves would provide a clear picture of where our
11 premium dollars are going. It may be that the
12 companies that fall below the 80-percent MLR make
13 exorbitant profits rather than using our premium
14 dollars to pay for medical care.

15 The data the Department has published
16 comparing MLR cross-carriers tells part of this
17 story. We need the rest. The Consumers Council
18 supports transparency and accountability. We support
19 the Department's effort to learn more about how
20 carriers in the individual market are spending
21 premium dollars and to make the information public.

22 We urge you that you issue another public
23 report that compares the profits and capital levels
24 of all health insurers in Missouri, but particularly
25 those in the individual market as part of the

1 Department's due diligence in determining the likely
2 impact of the 80-percent MLR on Missouri's individual
3 market.

4 Until the data are made available and the
5 public has an opportunity to comment, we believe it
6 is premature for Missouri to request an adjustment of
7 the 80-percent MLR.

8 DIRECTOR HUFF: Thank you, Senator Bray,
9 for your comments.

10 Any questions for Senator Bray?

11 (No response.)

12 DIRECTOR HUFF: Very well. And we have
13 your document. We'll submit that into testimony.

14 THE WITNESS: Thank you very much.

15 DIRECTOR HUFF: Thank you.

16 The next name I may need help with.

17 Dennis Denny.

18 MR. DENNY: Denny.

19 DIRECTOR HUFF: Mr. Denny.

20 MR. DENNY: Good morning, Director. My
21 name is Dennis. Last name is Denny, D-e-n-n-y. I am
22 the president of the St. Louis Association of Health
23 Underwriters from St. Louis, Missouri, and I'm going
24 to read -- give a letter here I'd like to read into
25 the record, a letter that was sent to Director Huff

1 as well as Governor Nixon, and I don't know if you
2 received this yet.

3 This was sent on behalf of myself,
4 Charlotte Horseman, president of the Springfield
5 chamber, Sam Drysdale, who is president of the
6 Missouri Association of Health Underwriters, and
7 Larry Cates, executive vice-president of the Missouri
8 Association of Insurance Agents.

9 Dear Commissioner Huff: This letter is
10 being presented on behalf of 26,128 licensed accident
11 health insurance agents and brokers in the state of
12 Missouri. Our associations include the Missouri
13 Association of Health Insurance Agents, the Missouri
14 Association of Health Underwriters, the St. Louis
15 Association of Health Underwriters, and the
16 Springfield Association of Health Underwriters.

17 Accident and health insurance agents in
18 Missouri educate, communicate, deliver, and service
19 individual health insurance policies. We do not
20 control price or plan design, but we help our
21 customers navigate an imperfect marketplace.

22 Our members are not on the other end of a
23 long-distance telephone line like many of the health
24 insurance carrier customer service representatives.
25 We are across the table in your office, in your

1 church, and in your lives daily.

2 We have a very good perspective on health
3 care reform and are in favor of the many major
4 components; however, the MLR requirements are going
5 to be extremely harmful to the individual health
6 insurance market if not successfully appealed.

7 We formally request the state to seek a
8 waiver or an adjustment from the U.S. Department of
9 Health and Human Services on the implementation of
10 the medical loss ratio requirements contained in the
11 new federal health reform law.

12 As you know, one of the provisions of the
13 Affordable Care Act requires health insurance
14 carriers to comply with new rules, require an
15 administration cost as of January 1, 2011. Such
16 rules require that carriers spend no more than
17 20 percent in the individual market on administrative
18 costs.

19 It is clear that this prescription would
20 erode the carrier and agent compensation in
21 Missouri. In Missouri, the insurance market
22 destabilization has already begun. The withdrawal of
23 Mercy Health Plans as a result of its acquisition by
24 GHP Coventry, the takeover of all of Guardian and
25 Principal Mutual's business by UnitedHealthcare in

1 this past year resulted in fewer choices for Missouri
2 citizens and our employers.

3 Inaction on the MLR waiver would clearly
4 leave less choice and less competition in Missouri.
5 This is a fact which we are educating our 26,000
6 agents and hundreds of thousands of individual and
7 business clients about.

8 Health and Human Services has given
9 states the authority to request a waiver on
10 implementation of the MLR. Health and Human Services
11 has approved a number of waivers, and there are more
12 state waiver requests pending at HHS.

13 We respectfully request you also apply
14 the MLR waiver, if approved, with Missouri
15 competition and choice Missourians until a full
16 effect of the Health Care Reform Law can take
17 effect. Yours truly, and then people I mentioned
18 earlier.

19 I just wanted to read that into the
20 record, Director. If you don't have this, you should
21 have it today, but that's what I wanted to read.

22 DIRECTOR HUFF: Thank you, Mr. Denny.
23 We'll just take a copy of it, if that's okay --

24 MR. DENNY: Sure.

25 DIRECTOR HUFF: -- so we can make sure we

1 get it admitted.

2 Any questions of Mr. Denny?

3 MR. DENNY: If I can say one other thing,
4 you asked a question before about how many
5 employees. He responded 40.

6 DIRECTOR HUFF: Mr. Denny, go back to the
7 mic for the court reporter.

8 MR. DENNY: I'm sorry. You asked a
9 question earlier today about how many employees that
10 he had. I think he replied 40. I think he was
11 referring to your organization, not NAIFA.

12 How many members does NAIFA have?

13 MR. ANDERSON: We have a thousand in the
14 state of Missouri.

15 MR. DENNY: We have a thousand in the
16 state of Missouri.

17 DIRECTOR HUFF: Mr. Denny, we have
18 questions.

19 MS. HOYT: A couple questions. Have you
20 done any similar surveys to what Mr. Anderson has
21 done that we spoke about earlier with your members in
22 terms of reduction in commissions? Can you give any
23 information about producers who are reducing staff in
24 offices?

25 MR. DENNY: Well, I know some producers,

1 for a fact, in St. Charles County have reduced their
2 number of staff. Basically, the companies effective
3 in January of this year have cut our compensation,
4 renewal compensation. First-year compensation, they
5 cut.

6 Mercy and GHP -- Mercy cut their
7 compensation to 60 percent on renewals. That's a
8 fact. GHP cut compensation 20 percent on renewals,
9 and then on the small business groups under five
10 lives, UnitedHealthcare now and GHP are paying not a
11 commission, but they're paying on a per-head basis,
12 \$10 per employee per month.

13 And I've been in this business 37 years,
14 and we cannot go out and service a two- or three-
15 person group for 20 or \$30 a month. By the time we
16 do the sales and the phone calls, do our prep work
17 and go out and do -- try and make the
18 recommendations, you can't do that and pay a support
19 staff.

20 I have five people working for me for
21 \$250 for a particular account, so those -- all
22 reductions came as of January of this year strictly
23 because of the MLR.

24 DIRECTOR HUFF: If I could ask
25 Mr. Denny -- this is a follow-up --

1 MR. DENNY: Sure.

2 DIRECTOR HUFF: -- because I do believe
3 that the producers add a significant amount of value
4 for the consumers explaining insurance products, and
5 particularly the suitability of those products for
6 consumers in the marketplace, but I'll ask you the
7 same question that I asked the earlier witness: Do
8 you have any assurances from the carriers that any
9 change or adjustment in the MLR will result in any
10 changes or going back to previous commissions that
11 would help your fellow producers?

12 MR. DENNY: I don't, and I don't believe
13 they will, but I believe as these things are cut,
14 they're going to continue to cut these compensation
15 agreements or whatever else, put more and more
16 restrictions on the agents.

17 Do I think the insurance carriers are
18 going to go back and say, Okay, the MLR's relieved;
19 we're going to go back and pay you what you were
20 receiving before? No, I do not.

21 DIRECTOR HUFF: Would you agree with me
22 that the change in that business model on
23 commissions, particularly related to renewals, has
24 been changing in the marketplace prior to the
25 Affordable Care Act and certainly prior to the MLR

1 restrictions that started on January 1st of 2011?

2 MR. DENNY: To a small extent, yes, over
3 the last couple years. Some of the carriers that
4 have withdrawn from the state were paying
5 astronomical commissions. When I heard some of those
6 commission numbers going around, the big three or the
7 big four carriers in the St. Louis area are pretty
8 much stable as what they're paying.

9 You have the random carrier that comes in
10 and occasionally pays 15 or 20 percent on
11 compensation, but then you run into the thing like
12 with Senator Bray where people don't always know what
13 they're buying.

14 I think a broker does an important part
15 of telling people exactly what they're getting and
16 explain to them, because the MLR is not going to help
17 with someone understanding the insurance contract.

18 If you have an exchange, that's not going
19 to help with someone understanding the insurance
20 contract. It's going to take a broker to -- so that
21 we go through continuing ed. -- the State requires
22 continuing ed. every year. We have an ethics course
23 we have to do every two years. These requirements
24 are good and important to keep the brokers and the
25 agents involved knowing what the changes are in the

1 laws and everything else.

2 Insurance products are constantly
3 changing, and I don't believe that a change in the
4 MLR is going to be a big consumer awareness benefit
5 for all the residents of the state of Missouri. I
6 believe the agents need to be involved.

7 DIRECTOR HUFF: And you quoted a potential
8 commission between 10 and 20 percent. Is that for
9 new business or renewal business?

10 MR. DENNY: For initial first year.

11 DIRECTOR HUFF: Then, if you can, give a
12 range, then, for renewal.

13 THE WITNESS: The renewals right now with
14 Mercy are at 4 percent. I think GHP is at 5
15 percent. Anthem, I think, is at 6 or 7, thereabouts,
16 on the individual side.

17 On the group side it's totally
18 different. The group side is not a -- under 50 lives
19 now is pretty much a per member, per month for most
20 of the carriers, and the disadvantage we have as
21 brokers is, the insurance carriers don't increase
22 that.

23 If we go out and we sell a 15-percent
24 rate increase to one of our clients and explain to
25 them five or six different alternatives, where

1 set. I mean, on the group insurance side, which we
2 basically do out of our office, is group insurance,
3 our compensation is set, and it's low.

4 You know, like I said, they pay us per
5 employee, per month. The only way we can make any
6 additional monies for the same amount of service that
7 we're doing -- and basically the insurance companies
8 have been cutting back. They're putting more and
9 more service on the brokers to communicate all the
10 changes in the law to our individual clients and our
11 group clients, especially on both a state and federal
12 level that we have a lot of clients that don't know
13 any changes on their -- when Missouri changed their
14 thing on small group to sort of mirror the Cobra, the
15 federal government, 95 percent of my group clients
16 would never have known that had we not informed them
17 of that.

18 And you have a bunch of people out there
19 that are breaking the law on a daily basis because
20 they're uninformed, and it's a big part of the
21 brokers to bring this to the people. That's why
22 we're required to carry professional liability
23 insurance in case there is a mistake made, but it's
24 pretty much the same.

25 DIRECTOR HUFF: Very well. Thank you very

1 much for your testimony.

2 Christopher Denny?

3 MR. DENNY: Morning. Chris Denny:

4 C-h-r-i-s, D-e-n-n-y. I'll be speaking on behalf of
5 brokers and actual consumers in the state of Missouri
6 regarding I believe there's an idea out there that
7 states -- that the MLR is going to actually recrease
8 [sic] premium amounts.

9 Let me first give you my background.

10 I've been a broker for about five years. I also
11 worked as a regional sales manager for Anthem Blue
12 Cross Blue Shield as a, kind of, executive for GHP,
13 both in the individual markets, so I'm fairly
14 familiar with how things work in insurance companies
15 and on a consumer basis.

16 Regarding the MLR, it is an idea out
17 there that putting the broker commission in there or
18 even having an MLR set at 80 percent is going to
19 reduce the costs of medical insurance to consumers.
20 That is actually very untrue. The thing that is
21 going to reduce costs to all the consumers is going
22 to be capitalism.

23 It's going to be competition between the
24 markets. Competition between the doctors, between
25 the hospitals. Right now all you have -- your major

1 problem with the health insureds is that you have
2 uninformed consumers.

3 I bet not even half the people in this
4 room could tell me how much a procedure costs at the
5 hospital. They think a doctor's visit costs \$20
6 because they're so used to copays. When you -- when
7 you start making it -- I believe it should be
8 transparent, but there should be transparency at the
9 doctors' offices and hospitals, and that's the only
10 way you are going to end up getting a reduced cost;
11 otherwise, premiums are still going to rise.

12 Health insurance carriers are going to
13 keep each other honest 'cause they have to, 'cause
14 each one is competing with the other, and that's the
15 way America's been ran since it was born, on
16 capitalism. It keeps everybody fair, and that's the
17 way it's been forever.

18 If you start making consumers wise, which
19 they are not, honestly, then they will start
20 realizing that they can start shopping around for
21 doctors and hospitals to drive costs down. That is
22 the only way to actually reduce the cost of health
23 insurance is to get the doctors and hospitals in
24 competition with one another, because the health
25 insurance carriers have been in competition with one

1 another for years. That has actually kept costs
2 down. And there are -- I don't have the exact
3 numbers, but I would assume that probably most of
4 them are running around 70 percent MLR anyway.

5 Just an example of current changes to our
6 newly passed laws: We had this in our office the
7 other day. It says, I am interested in receiving
8 some quotes for private health insurance coverage for
9 my child. It's a male; date of birth, 2004;
10 nonsmoking household, no health conditions; insurance
11 provider is currently UnitedHealthcare, I guess, for
12 the family.

13 I'm looking for basic coverage,
14 immunizations, regular checkups and emergency care.
15 Can you provide me with several quotes to compare?
16 I tried your website first but had trouble getting
17 quotes on a child-only policy.

18 The reason they can't get a quote for a
19 child-only policy is because of the new preexisting
20 condition laws and all health and -- health insurance
21 carriers decided to get out of the program at that
22 time because they could not take on the additional
23 costs. That is one example of how this Health
24 Affordable Act [sic] has already pretty much ruined
25 it for anybody trying to get health insurance

1 coverage for an individual child under the age of
2 18 -- 19. I'm sorry.

3 Another example of consumer, this is what
4 I can -- the only policy I can get this child at the
5 current moment would be an indemnity plan that pays,
6 well, generally nothing. It is just a reimbursement
7 plan that gives money for certain conditions that
8 don't even compare with the actual costs of any of
9 the conditions, such as open-heart surgery, which is
10 a \$324,000 a year, on average, cost.

11 With the indemnity plan they would
12 receive about -- maybe \$5,000. That's the best plan
13 I can get for this child on a stand-alone policy, and
14 that's due to health care reform.

15 Also a lot of consumers think that this
16 is an actual medical plan, and the only reason
17 that's -- they are informed otherwise is because of
18 brokers who actually inform them of it.

19 I have had people come to me with this
20 indemnity plan and think that they actually have
21 health insurance coverage. They do not, but the
22 health insurance carriers want them to think they do
23 and they are covered, but they don't know any better
24 because they don't know insurance because it's not an
25 interesting subject and they don't care to learn

1 about it.

2 That's pretty much it, but the MLR and
3 the cost, the premiums, are going to continue to rise
4 no matter what the MLR is. It does not matter to --
5 to get at the problem, you have to hit the root of
6 the problem, which would be the actual competition
7 between the hospitals, doctors, and pharmaceutical
8 companies, and that is the only way to bring down the
9 cost of health care.

10 Thank you.

11 DIRECTOR HUFF: Thank you, Mr. Denny.
12 Thank you for highlighting the change in child-only
13 policy. It's certainly been a disappointment for
14 carriers to start excluding those policies. There
15 are some options in Missouri for child-only policies,
16 and I encourage you to contact Angie Nelson to give
17 you options. There are a couple carriers that are
18 still offering those: Blue Cross and Blue Shield in
19 Kansas City is offering; Cox is still off--

20 MR. DENNY: MC Plus for kids, correct.

21 DIRECTOR HUFF: -- and also the high-risk
22 pool has two options, depending if -- how long the
23 child has been uninsured or, if not, they can go --
24 so there are a couple of options that I encourage
25 you --

1 MR. DENNY: They are expensive, and they
2 are income-based.

3 DIRECTOR HUFF: The high-risk pool is not
4 income-based, and the premiums start there -- I think
5 for under 17 about \$130 a month, so there are some
6 options.

7 MR. DENNY: There are some. It's a --
8 it's not a very good plan. We used to be able to get
9 children covered for around \$100 a month and have a
10 very nice deductible and copays. That is no longer
11 available. They can go to the high-risk pool and get
12 about a \$5,000 deductible, somewhere around there.
13 Not a very good plan, and it's pretty much based on
14 an HSA platform.

15 DIRECTOR HUFF: There are three options in
16 the pool, and the deductibles vary, but they start as
17 low as a thousand, but -- but there are some options,
18 and I appreciate your point because it is well-taken.

19 MR. DENNY: Thank you.

20 DIRECTOR HUFF: I'm sorry. Any questions
21 of Mr. Denny?

22 (No response.)

23 DIRECTOR HUFF: Mr. Case.

24 MR. CASE: My name's Larry Case, C-a-s-e.
25 I'm with the Missouri Association of Insurance

1 Agents. We've already had a letter where a cosigner
2 of -- read into the record, so I just wanted to go on
3 support on behalf of our membership of seeking a
4 waiver on the MLR at this time.

5 DIRECTOR HUFF: Any questions of Mr. Case?

6 (No response.)

7 DIRECTOR HUFF: Thank you, Mr. Case.

8 Ruth Ehresman.

9 MS. EHRESMAN: Good morning. My name is
10 Ruth Ehresman. It's E-h-r-e-s-m-a-n. I am the
11 director of health and budget policy for the Missouri
12 Budget Project, which is a public interest
13 organization whose mission is to increase economic
14 opportunities for all Missourians, particularly low-
15 and middle-income Missourians, and we feel that
16 health care -- access to affordable health care is a
17 critical component of everyone's economic
18 opportunity.

19 I want to thank you this morning, first,
20 for this opportunity to be here, and thank you for
21 holding this hearing, the second hearing, in fact.
22 Many of the states that are seeking an adjustment of
23 the Medical Loss Ratio have not held public hearings,
24 and we greatly appreciate the openness and the effort
25 that's gone into making opportunities for people to

1 offer suggestions.

2 I actually testified at the first
3 hearing, and my testimony this morning builds on
4 that. At the Missouri Budget Project, we're trying
5 to understand the range -- to better understand the
6 range of insurance options that are available to
7 individuals in Missouri.

8 And we, of course, went to your website
9 to look for information, and we appreciate the
10 information that was there, and we understand that in
11 the interim more information has been collected, but
12 it's not yet posted publicly.

13 What we did was go to the healthcare.gov
14 portal that offers -- it allows individuals to go
15 enter their age, their gender, their zip code, and
16 information about their medical status, and then it
17 gives an array of choices to people.

18 I have to say, I first used my own
19 demographic, which would be, you know, a woman, early
20 sixties who is completely healthy but unfortunately
21 had a fought with cancer. I had no choices except
22 the high-risk pool and Medicare, which I wasn't old
23 enough for it, so Medicaid was the other choice that
24 then it sent me to.

25 So we quickly moved away from entering

1 northeast Missouri, north-central Missouri, had 168
2 different choices listed. Actually, an overwhelming
3 number. It was very hard to make comparisons because
4 the volume of the plans was large, and there was
5 small differences in deductibles in -- and what was
6 covered. It was very difficult to make any
7 reasonable comparisons.

8 We did see that plans tended to be more
9 expensive in rural areas, again for the healthy young
10 woman. Premiums with the lowest deductibles were
11 about twice as expensive in Howell and Sullivan
12 counties as in the zip code 63113 in St. Louis, and
13 we chose that zip code because it was a high poverty
14 zip code and we suspected that costs might be higher
15 because of that.

16 A premium for the plans with the highest
17 deductibles were about four times more expensive in
18 Dunklin County than in Jackson and Atchison Counties
19 and about three times more expensive than
20 Springfield.

21 One of the big surprises to us was, when
22 we looked at the demographics from the Department's
23 side and information about medical loss ratios and
24 market share, the company with the largest market
25 share, Healthy Alliance, listed their products only

1 in rural areas, although we know that they're sold in
2 urban areas, in the City of St. Louis.

3 The companies with the second and fifth
4 largest market share, Golden Rule and Mercy, didn't
5 list any of its products on the portal. So the
6 incomplete pictures that data provides lead us to --
7 led us to many questions, including the extent to
8 which brokers are relied upon to drive traffic to
9 those larger companies and whether higher broker
10 fees, perhaps, contribute to lower medical loss
11 ratios.

12 We simply don't have sufficient data to
13 answer that question nor to determine the impact of
14 the MLR requirement on brokers. We greatly value the
15 services that insurance brokers provide, but we
16 really feel that we need comparative data on those
17 fees, probably broken down by zip codes to make
18 complete sense of this.

19 If we're going to look at the impact of a
20 company withdrawing from the market, we think that
21 zip code level data is absolutely essential to try to
22 make sense of that.

23 In Missouri, the individual market is
24 dominated by three companies: Healthy Alliance, with
25 about 31 percent of the market share, Golden Rule

1 with 17.8, and Blue Cross Blue Shield in Kansas City
2 was 17 percent.

3 Even though the market -- they have the
4 greatest market share, it appears there's a robust
5 number of companies offering plans in Missouri.

6 And the second attachment to this
7 compares the six states that have had determinations
8 by HHS that they granted an adjustment of the MLR
9 ratio, and it shows that most of them had fewer
10 companies offering products in the individual market,
11 and in many of those states, the lion's share was
12 held by one company, as much as 70 or 80 percent, so
13 when we're looking at the impact of the company
14 leaving the market, we think that all of that needs
15 to be taken into consideration.

16 So as we move forward, we'd like to urge
17 the Department to take four actions, and the first
18 would be to make public the responsive insurers in
19 the individual market about what action, if any, the
20 MLR requirement will lead them to take regarding the
21 sale of their products in Missouri. In addition, any
22 formal notice to leave the individual market should
23 be made public.

24 Second, we ask you to make public and
25 available for comment all the data required to

1 accompany an adjustment request prior to making a
2 decision about submitting a request. We understand
3 you're starting to collect some of that data, and
4 making it available in a form that is understandable
5 is very important.

6 To the extent that the Department does
7 not have the required data, we suggest that it should
8 require insureds to submit by zip code the number of
9 enrollees by product and the individual premium by
10 product, and we urge you to collect that information
11 annually, including total agents' and brokers'
12 commission expenses on individual insurance products,
13 the net underwriting profit for the individual market
14 business and consolidated business in the state, the
15 after-tax profit margin, and the risk-based capital.

16 And lastly, if any adjustment is
17 requested, we urge that that multi-year transition be
18 used to substantially move us towards the 80-percent
19 MLR as soon as possible to assure consumers a good
20 value for their dollar.

21 The need for data that will allow more
22 transparency is clear. Missouri's certainly at a
23 disadvantage in determining the impact of the MLR
24 requirement because we have no historical data for
25 comparison, so we urge you to take action as you're

1 able to obtain and make public the data that's needed
2 to make an informed decision about the adjustment in
3 the short-term and that will allow consumers in the
4 long-term to make better informed choices.

5 Thanks. I'll be glad to answer any
6 questions.

7 DIRECTOR HUFF: Thank you, Ms. Ehresman.
8 Thank you for highlighting -- one of our struggles
9 here is the data collection. Our ability and our
10 authority to collect data within the Department is
11 somewhat limited compared to some of the other
12 states, so it has been somewhat of a hurdle for us,
13 and we'll try to work through that with some of our
14 other authorities.

15 Any questions?

16 (No response.)

17 DIRECTOR HUFF: Thank you very much.

18 MS. EHRESMAN: Thank you very much.

19 DIRECTOR HUFF: Your document will be
20 admitted into the record as well.

21 I just have three more on the list, just
22 to give you a sense of timing-wise, and we'll go next
23 to Dr. Sidney Watson from St. Louis University.

24 MS. WATSON: I am Sidney Watson. I am not
25 a doctor. I am a lawyer. I am a professor at

1 St. Louis University in the Center for Health Loss
2 Studies, and thank you very much for having this
3 hearing.

4 This is my second time to testify before
5 the Department on the issue of medical loss ratios,
6 and when I testified in December, I highlighted the
7 struggle here in Missouri in analyzing the impact of
8 the medical loss ratio requirement on our insurers
9 because of the historical lack of data.

10 Following that hearing, the Department
11 required, in the 2010 filings, that companies file
12 their supplement health care exhibit, and there is
13 now a great deal more data available, some of which
14 you have already posted on your website, the medical
15 loss ratio estimates.

16 My appreciation to the Department for
17 making this information available. My special thanks
18 to Ms. Hoyt for responding very, very quickly to a
19 records request for some of the data. I spent some
20 of this week looking at the Department's spreadsheets
21 trying to analyze some of this data that was filed as
22 part of the supplemental health care exhibits.

23 I'd like to note that it's very good that
24 the Department has required these reports. It seems
25 to me that this form that's referred to by HHS is the

1 SHCE, is the evidence and data that HHS is looking at
2 for those states that have filed waiver requests.

3 Page 2 of my testimony, which I have in
4 front of me, is my attempt to make a transparent and
5 understandable chart for myself and for the general
6 public. I assume that this information's submitted
7 by the Department.

8 So to follow up on some of the testimony
9 I gave in December, I'd like to comment on some
10 things we now have a little bit more information
11 about in the Missouri individual market. In the
12 medical loss ratio adjustment process, what HHS is
13 concerned about, what the federal law is concerned
14 about, what I am sure the Department is concerned
15 about, is whether imposition of the 80-percent
16 minimum would result in instability, a destabilization
17 of the individual market, particularly a withdrawal
18 of the insurers or an increasing concentration.

19 According to the reports that are filed,
20 we have 17 insurers in the state who ride to the
21 individual market, who insure more than a thousand
22 lives, who would be subject to that minimum medical
23 loss ratio requirement. Since this is 2010 data,
24 this does include Mercy Health Plan as a separate
25 plan, and we heard about the acquisition of them by

1 Cox.

2 Among those 17 insurers -- and let me
3 also mention, there are 52 other insurers who are in
4 the market. Compared to the six states where HHS has
5 acted on an adjustment request, we cover more lives
6 in our individual market. We also have more insurers
7 serving that market.

8 While our top three riders in that market
9 serve about 66 percent of market share, that's a
10 lower level of market concentration than we see in
11 many states, particularly those that have had their
12 requests decided by HHS.

13 I think that's important to note, because
14 this issue with destabilization of the market and its
15 impact on consumer choice, HHS has been looking at
16 the applications, trying to see how it would affect
17 consumers' ability to purchase product from other
18 insurers, should some insurers choose to leave the
19 market because of the application of medical loss
20 ratios.

21 We do have a relatively large number of
22 insurers. The likelihood of a reduction seems less
23 here than in other states. The key issue we don't
24 know at this point is the impact on particular parts
25 of the state.

1 The data we have is statewide data. For
2 example, we know that Blue Cross and Blue Shield of
3 Kansas City only sells in the Kansas City area, so in
4 other parts of the states, other insurers may
5 dominate, and we simply don't know from the statewide
6 data.

7 It's interesting that so far today, even
8 though the Department asked for comments from
9 insurers on whether insurers intend to withdraw from
10 the market, may withdraw from the market or
11 considering withdrawing from the market because of
12 the imposition of the medical loss ratio, we have not
13 heard any testimony to that effect.

14 I did not see any documents filed on the
15 Department's website to that effect, and I don't know
16 if any insurers have filed formal notice with the
17 Department, and that is the primary concern here, the
18 effect on the insurance offerings in the market.

19 The other point I would make about market
20 concentration and offerings in the individual market
21 is, I would urge the Department, to the extent it has
22 authority to collect additional data or to analyze
23 the data it has available so that we better
24 understand what products are being offered by
25 individual zip code so we have a better idea of

1 whether there are market destabilization issues in
2 particular areas of the state.

3 The second issue I'd like to address is
4 the issue of the medical loss ratio itself and to
5 what extent companies in the state are able to -- and
6 have been meeting, at least according to the 2010
7 data, the 80-percent medical loss ratio requirement.

8 I think, as I mentioned already, 7 of the
9 17 companies that are subject to the medical loss
10 ratio requirements came close, or met that 80-percent
11 requirement with their credibility adjustment in
12 2010. For example, Blue Cross Blue Shield of
13 Kansas City had a 77.2 percent medical loss ratio.
14 That's within 2.8 percent of the requirement. They
15 should be able to, up to as high as 94.4 percent, for
16 the insurance company.

17 Of course one of the challenges here in
18 Missouri is we only now have data for one year. We
19 don't know what it says about trends. We don't know
20 what it says about the next year. I commend the
21 Department for collecting these new exhibits so we
22 will be able to gather additional data and understand
23 what is happening.

24 I'd like to also comment on this issue of
25 brokers' fees. One fact that HHS considers when a

1 state requests a waiver is whether absent an
2 adjustment of the 80-percent medical loss ratio
3 standard consumers may be unable to access agents and
4 brokers.

5 The hard issue to determine is whether
6 companies are restricting their brokers' fees for
7 some reason separate and apart from the medical loss
8 ratio requirement. The exhibits that were filed
9 newly in 2010, as I gathered that data from the Excel
10 spreadsheets that the Department has compiled,
11 brokers' fees in Missouri in the individual market
12 range from a low of 2 or 3 percent to a high of
13 11 and 18 percent. 18 percent by American Medical
14 Security Life; 11 percent -- or rather 15 percent
15 paid by Celtic Insurance, which is a subsidiary of
16 Centene Corporation.

17 This huge variation in the percentage of
18 premium dollars that our insurers in the individual
19 market are paying for broker fees is kind of hard to
20 make sense of what's going on. I think one of the
21 important pieces of data to note is, is there's no
22 correlation between a high medical loss ratio and
23 high or low broker fees.

24 We've heard testimony that Blue Cross
25 Blue Shield of Kansas City has cut its brokers fees,

1 but they don't really need to cut their brokers' fees
2 substantially to meet the 80 percent medical loss
3 ratio. They're already at 77.2 percent, so it's very
4 hard to track whether it's the medical loss ratio
5 that's causing a change in broker fees, and that is
6 one of the challenges going forward.

7 It's also important to note that,
8 actually, in other states some insurers have
9 increased their brokers' fees since passing the
10 Affordable Care Act. I note that Anthem increased
11 its broker fees in Kentucky.

12 I have two other comments I'd like to
13 make. One is: When HHS reviews a request for an
14 adjustment, one of the figures they compute is the
15 impact on a company's profits and risk-based capital
16 levels if they are unable to meet the medical loss
17 ratio requirements and have to pay rebates.

18 I'm sure you in the Department, as I,
19 have gone to the website and seen these calculations
20 in other states. They actually take the historic
21 medical loss ratio of the company, compute what the
22 rebate would be that's owed consumers and calculate
23 how that would affect the profits.

24 Until we have more information about net
25 underwriting profits in the individual and

1 consolidated business by each insurer, the after-tax
2 profit and profit margin and the risk-based capital
3 level, we really can't understand how imposition of
4 the medical loss ratios will affect each of the
5 insurers who sells in the individual market.

6 It appears that some of this information
7 was collected in the supplemental exhibits. I think
8 maybe some of them was not collected for 2010. I
9 don't know if the information is available on other
10 forms that the Department has, but I hope that the
11 Department would calculate this information, make it
12 available to the public, so that we have an
13 opportunity to comment on this factor that's crucial
14 in the way they're processed.

15 The final thing I want to note is that
16 the federal regulations specify that states
17 requesting an adjustment of the medical loss ratio
18 should submit with their request market data
19 indicating the number of individual enrollees by
20 product in the individual market, the premiums for
21 those products, and a description of those products,
22 including their deductibles, benefits, and cost-
23 sharing requirements.

24 What HHS has done, in particular, with
25 names request for an adjustment, what's to look at,

1 whether there was going to be an ongoing choice of
2 different types of products in the individual
3 market. Again, I realize there are restrictions on
4 the Department in terms of what it has the legal
5 authority to collect.

6 I also understand that some of this data
7 may be available through NAIC filings, but I think
8 this information about the products that are
9 available in the individual market, the scope of
10 these products and premiums, would help us understand
11 the extent to which the medical loss ratios may or
12 may not affect access to a variety of individual
13 insurance products.

14 Again, thank you for this opportunity to
15 comment on the medical loss ratios. These are new
16 rules for all of us. Thank you.

17 DIRECTOR HUFF: Thank you, Ms. Watson.

18 Any questions?

19 (No response.)

20 DIRECTOR HUFF: I appreciate the
21 information. The document will be entered as an
22 exhibit as well. Thank you.

23 I would just note and highlight part of
24 the Ms. Watson's comments, that one aspect of the
25 Affordable Care Act that is very much --

1 THE COURT REPORTER: Mr. Huff?

2 DIRECTOR HUFF: -- while there are certain
3 restrictions that come through for insurance
4 companies, there is the job of solvency stipulation,
5 maintaining -- the consequences of some things pull
6 through that may be good for some sectors and not
7 good for other sectors.

8 THE COURT REPORTER: Mr. Huff, I'm sorry.
9 I can't hear you.

10 DIRECTOR HUFF: I'm sorry. I'll keep my
11 voice up.

12 My only point was, that the result of
13 solvency, any solvency issues we have on a
14 limitation, rests with the Department, so if a
15 company gets into solvency issues, then that becomes
16 our responsibility, and so we always keep that in
17 mind in any decisions we make.

18 Thank you, Chris Watson. I have two more
19 names on the list. May have to help me with the
20 pronunciations.

21 Mr. Coyne, you'd like to testify?

22 MR. COYNE: Yes, please.

23 My name is James Coyne, and I'm the owner
24 of Coyne Agency, Incorporated, in Columbia,
25 Missouri. It's a small brokerage, and I've been

1 specializing in individual and family health
2 insurance, employer-group health insurance, and life
3 insurance for about the last fifteen years, and I
4 wanted to just touch on a couple of points.

5 I've seen, since the implementation of
6 the MLR, a loss of carriers available to me and a
7 loss of choices for my customers, and it's been very
8 concerning to me. The 17 carriers that were
9 mentioned, I'd like to see a list of them, because
10 you got me on that one. Golden Rule was bought out
11 by UnitedHealthcare. That's been a little while
12 ago. American Community Mutual out of Michigan went
13 out of business.

14 I would say in that case, might be
15 partially their own fault, but the regulations of
16 health care reform, the MLR being one of them, has
17 put a particularly onerous burden on the smaller
18 companies. Prudential was mentioned. Mercy was
19 mentioned. They're both either gone or now part of a
20 larger company which, again, gives me less choices
21 for my clients and gives my clients less choices.

22 I think the issue here that we're really
23 talking about is, Where's the money? And, you know,
24 I think -- I don't work for any particular insurance
25 company -- I work for my clients -- but it's been a

1 great concern to me to see the demonization of a
2 private industry, and I think that can be done to
3 anybody if your intention is to demonize.

4 When you look at, Where is the money, the
5 figures that I've seen range around 3 to 7 percent
6 profit margin for insurance companies. I agree with
7 the gentleman who spoke earlier, that the way you get
8 the cost of medical insurance down is real simple.
9 You get the cost of medical care down.

10 There was a negotiation going on with
11 providers in central Missouri with one of the major
12 carriers in trying to get the fees down that were
13 charged through the preferred provider network.

14 They were looking -- and, again, don't
15 quote me on this, but looking for an increase of
16 about 12 percent, and the doctors group was looking
17 for an increase of about 20 percent. Well, you know,
18 where do you think that those increase in fees end
19 up? They end up being paid by my clients. Again,
20 the way that you get the cost of medical insurance
21 down is to get the cost of medical care down, period.

22 When the smaller carriers leave the
23 market, you have a decrease, obviously, in
24 competition, which is the true thing that helps in
25 any market, and you also have a lack of innovation.

1 that I've known over the years in the business aren't
2 in the business anymore. I've known, you know,
3 people who've gone into ministry, who've gone into a
4 number of things, that the folks that I think that
5 you have left are kind of the hard-core fully-
6 invested, been doing it so long that it's really hard
7 to get out, which I would put myself in that
8 category, plus, I really love what I do, and I think
9 it's -- I think it's extremely important -- I think
10 it's underappreciated what your local broker in your
11 town, in your neighborhood -- someone had mentioned
12 earlier that goes to your church, that your kids play
13 on the same softball team, yadda, yadda, yadda.

14 That's a totally different relationship
15 than picking up the phone and calling an 800 number,
16 whether you happen to be calling the insurance
17 company's call center or you happen to be calling,
18 you know, the center for Medicare or whatever. It's
19 just a totally different thing.

20 People need guidance. They need help.
21 You know, it's kind of like the old saying that the
22 person who has himself for a client -- probably not
23 saying this right -- has a fool for -- in other
24 words, if you're -- if you represent yourself in
25 court, you're not very smart.

1 And I remember what one of my clients
2 said to me -- this is probably about six months ago.
3 They were -- we were having some difficulty with a
4 carrier and claims getting paid and so forth and so
5 forth, and I was digging into it and finding out what
6 was going on, et cetera, et cetera, making some
7 recommendation, and she looked at me and she said, I
8 don't trust them, but I trust you, and that really
9 made me feel good. I think it really kind of puts a
10 fine point to how important that relationship is.

11 And, you know, I think it's -- it's true
12 with any other type of insurance, someone you're
13 buying life insurance from or homeowners or
14 whatever. You want -- there has to be a level of
15 trust that the person is competent and that they have
16 your best interests in mind, and so I think it's real
17 important.

18 My income, and this is a rough estimate:
19 Since the MLR went into effect on January 1, down
20 about 35 percent. That's been difficult for my
21 business, for my family. I've pulled all of my
22 advertising, Yellow Pages, et cetera, et cetera, and
23 I'm -- I'm not going anywhere, but like I say,
24 there's -- we're losing a lot of good people.

25 The amount of service that I provide is

1 actually more now than it was before health care
2 reform. The carriers have had to retool all of their
3 products, so now you have people who are on old
4 products having to be transitioned to new products.

5 You have the new mandates, new rules that
6 have to be -- people have to understand what's going
7 on, et cetera, et cetera. So income down -- I have
8 the same number of customers, probably more than I
9 had a couple years ago, and more service.

10 The other gentleman earlier had mentioned
11 someone coming to his office with something that they
12 said was health insurance or a health plan that
13 wasn't, and I've seen a big rise in -- in that
14 market, if you want to call it that, indemnity plans
15 or mini-meds, or whatever the heck you want to call
16 it, that people think is health insurance and is not
17 at all.

18 You know, I pity the person who has one
19 of those policies that has a heart attack or
20 contracts cancer. They're going to be real unhappy.
21 And the reason for that is those type of plans are
22 not subject to an MLR. They don't have to operate
23 their entire company and pay all of their expenses on
24 20 percent.

25 I've even seen some of the major carriers

1 come out with plans like that as kind of an
2 alternative, and I think it's very dangerous, and its
3 really an illusionary kind of insurance. I don't --
4 I don't see how the MLR has done anything to lower
5 costs, in my experience. It certainly hasn't
6 increased competition. It's severely limited
7 competition.

8 And, I guess, really the question, the
9 basic question, is a philosophical one, and that is:
10 Do we trust the freedom of the business person and
11 the individual to buy and sell what they want, or do
12 we trust centralized planning and kind of commanding
13 controlled economy, and this is just one aspect of
14 that, but I would -- I would certainly like to see a
15 loosening of the 80-20. I would like to see it gone,
16 is what I would like to see, but that's not going to
17 happen. I think that's probably pretty much it.

18 DIRECTOR HUFF: Any questions for
19 Mr. Coyne? No? Yes?

20 MS. HOYT: I'll ask some similar questions
21 that I asked a couple of the other producers who
22 testified today. You mentioned that you've seen
23 reduction in your income. Have you made any plans?
24 Are you looking in the future toward reducing your
25 staff or things like that because of those

1 reductions?

2 MR. COYNE: Well, my -- my staff consists
3 of my daughter, so it's hard to reduce that because
4 you end up giving them money anyway, but I -- I had
5 considered, probably a year ago, hiring a broker or
6 two to work under me, and I'm -- I'm not planning on
7 that anymore.

8 MS. HOYT: You also mentioned that you had
9 noticed -- you knew several colleagues that has left
10 the business.

11 MR. COYNE: Right.

12 MS. HOYT: Has that happened since the
13 beginning of the year or has that been happening over
14 a period of years, or have you noticed more of it,
15 just anecdotally, in your experience this year?

16 MR. COYNE: Yeah, this year and the year
17 before. With health care reform, it's obviously made
18 the -- the -- being in the business a whole heck of a
19 lot more difficult, and so I would say within the
20 last year to two years, yeah, I've seen a lot of
21 people leave the business, and I haven't seen any new
22 people coming into business.

23 I mean, 15 years ago when I got into it,
24 you know, you'd see new people all time, you know,
25 young people saying, Hey, I want to get into the

1 health insurance business and I want to, you know,
2 serve customers, I want to build my business, you
3 know, people starting out, and I don't -- I don't see
4 any of that.

5 I see people like myself who've been
6 doing it forever and ever that, you know, don't want
7 to quit. They don't want to lose what they have and
8 don't want to -- I love what I do. I feel like it's
9 a real service and that people appreciate me, and so,
10 you know, I -- I don't want to -- I don't want to
11 lose that and I don't want my clients to lose me but,
12 yeah.

13 MS. HOYT: Thank you.

14 DIRECTOR HUFF: Anything else?

15 (No response.)

16 DIRECTOR HUFF: Thank you, Mr. Coyne.

17 Just by way of reference, all of the
18 written testimony that's submitted today, the
19 exhibits, we'll try to upload those this afternoon,
20 no later than Monday morning, so if anyone wants to
21 look at any of that documentation, we'll have it on
22 our website: insurance.mo.gov.

23 I have two other names: Mr. McCarty.

24 Mr. McCarty? Colin McCarty?

25 (No response.)

1 DIRECTOR HUFF: Okay. And then I have
2 Andrea Routh.

3 MS. ROUTH: Hi.

4 DIRECTOR HUFF: Good morning.

5 MS. ROUTH: Thank you, Director Huff and
6 staff. Good to see you guys today, and I know you're
7 all working hard. We appreciate the opportunity to
8 present some testimony on behalf of consumers and
9 consumer advocates in the state, and as you know, my
10 name is Andrea Routh, and I'm with the Missouri
11 Health Advocacy Alliance, which is a foundation
12 funded and privately -- private contribution-funded
13 collaboration of advocacy organizations throughout
14 the state, and our mission is to unite the consumer
15 voice for quality affordable health care choices in
16 Missouri.

17 Today we'd like to state for the record
18 that we do not believe that the information that is
19 now available to the public and to the Department
20 would give you enough data to seek an adjustment to
21 the medical loss ratio requirements, and we would
22 request that if new information or data is made
23 available in the coming months that it be made
24 available to the public so that it can be scrutinized
25 by consumers and the public alike.

1 As you know, we supported the Affordable
2 Care Act and its passage. We believe it keeps a
3 private market place in place. It provides increased
4 regulation of insurance, which we think is important
5 in our state, because insurance products in Missouri
6 are not currently affordable for a lot of our folks,
7 and that's why we see an increasingly large number of
8 uninsured.

9 We've testified previously before you in
10 December that we believe an adjustment is unwarranted
11 for three particular reasons. One is that
12 accommodations to ensure continued access to coverage
13 by consumers have already been put into the existing
14 regulation by protecting smaller insurers through the
15 three-tiered credibility classification, and as the
16 Department data shows so far, almost all participants
17 in the market are deemed to have partially credible
18 experience and therefore receive a credibility
19 adjustment in their MLR calculation.

20 The NAIC created this credibility
21 adjustment calculation after commissioning an
22 extensive analysis, which probably some of you have
23 reviewed in detail, but it was an extensive analysis
24 by a well-known national actuarial consulting firm,
25 and NAIC relied on their findings in making that

1 credibility adjustment available.

2 Number two, the process by which the MLR
3 provision was derived was public. It was researched,
4 and it was in unanimously accepted by the members of
5 the NAIC and certified by Health and Human Services.

6 This is a rigorous process, as many of
7 you know, with input by hundreds of regulators,
8 industry representatives, other interested parties,
9 including agents, brokers, consumers, and the like.

10 And number three, and maybe most
11 importantly, the purpose of the medical loss ratio
12 provision is to incentivize insurers to move to a new
13 business model, and that model would spend more of
14 the premium dollar on patient care and the quality --
15 improving the quality of care.

16 We know that that was the intent of the
17 law, because as we previously testified, Senator
18 Rockefeller, who's chair of the Senate Commerce
19 Committee, stated in a letter to Commissioner Jane
20 Kline, who was then president of the NAIC -- that
21 letter was dated May 7, 2010 -- that changing the way
22 insurance companies do business was the clear purpose
23 and intent of this provision of the law.

24 So as a previous person testified,
25 insurers do pool risk, and we recognize that, but

1 insurers have, over time, as they've become
2 for-profit companies, a need to demonstrate a profit
3 to their shareholders, they've also found ways to
4 select risk, avoid risk, therefore to demonstrate a
5 profit to their shareholders.

6 In the new model, which is intended to
7 have everyone in the system, insurers are going to
8 have to move to managing risk. They're going to have
9 to move to improving health, and they're going to
10 have to accept that there are going to have to be
11 changes in the incentives in the system.

12 So because the intent of the law is to
13 see that insurers seek a different business model, we
14 think that if the Department contemplates an
15 adjustment, the Department should actively seek the
16 data that HHS has asked the other states who have
17 sought adjustments previously.

18 Many of those who are laid out, I'm
19 certain, by Professor Sidney Watson, but I wanted to
20 repeat a couple of them that we with the Alliance
21 think are really critical. One is that for each
22 insurer who offers coverage in the individual market
23 in the state, its number of an individual enrollees,
24 by product, available individual premium data, by
25 product, and individual health insurance market share

1 within the state.

2 And, you know, as a former regulator, I
3 happen to know that Missouri is one of a couple of
4 states that hasn't had a lot of that data in the
5 past, that you're not given rate review authority, so
6 some of the premium data may not be available to the
7 Department yet, and you may have to seek that through
8 data cause, and we would request that you do that and
9 make sure that you have the data that you need.

10 For each issuer who offers coverage in
11 the individual market in the state to more than a
12 thousand enrollees, you need certain other
13 information, and the ones I wanted to highlight are:
14 Total agents' and brokers' commission expenses on
15 individual health insurance products, a reminder to
16 all of us that this adjustment can only apply in the
17 individual market. It is not for the small group
18 market, so what you're really wanting to focus on are
19 the individual products; and then an estimated rebate
20 for the individual market business in the state; net
21 underwriting profit for the individual market
22 business and consolidated business in the state;
23 after tax profit and profit margin for the individual
24 market business and consolidated business in the
25 state; and the risk-based capital level, and also

1 whether or not the state has been provided by the
2 insurers any kind of notice that they're going to
3 exit the market.

4 So these pieces of data, we think, are
5 critical, and we know that HHS has asked for these
6 from the other states who have sought adjustments, so
7 we think it would behoove us in Missouri if the
8 Department requested all of that data before making
9 the decision of whether or not you're going to ask
10 for an adjustment.

11 Another consideration the Department
12 could undertake is whether or not any of the
13 participants in the market have a history of
14 requesting extraordinary dividends to be remitted to
15 their parent company. This would give you an
16 indication of whether the difficulty in meeting the
17 requirement of the medical loss ratio is due to an
18 old business model that relies too much on
19 administrative costs or rather is a product of
20 unusually high profits derived from some fortuitous
21 conditions in the Missouri market that allowed them
22 to send, you know, the extraordinary dividend back to
23 their parent company.

24 So just in closing, as a previous witness
25 stated, he's seen an increase in customers in his

1 agency, and that's actually the intent of the
2 Affordable Care Act. We are out to have everyone
3 participate in this system, have some sort of
4 coverage, and have it be affordable, and the medical
5 loss ratio is part of that entire picture, so for
6 consumers, the medical loss ratio is part and parcel
7 of asking insurers to change their business models so
8 that we can move into this new world.

9 Certainly medical costs are a piece of
10 what would influence medical loss ratios, and there
11 are parts of the Affordable Care Act, as you know,
12 which are going to assist us with bringing down --
13 hopefully bringing down the increase in medical
14 costs.

15 Just in closing, too, I wanted to say
16 that most of us in the consumer world understand that
17 agents and brokers are a really important part of
18 this system and that some of the changes that
19 insurance companies are making with regard to agent-
20 broker compensation began way before the Affordable
21 Care Act was passed. They represent changes in
22 business models by certain companies.

23 We believe that in the new exchange
24 environment there will be a need for agents and
25 brokers, and we all are going to need to work through

1 you-all.

2 DIRECTOR HUFF: Again, we'll be
3 posting all of the testimony, hopefully, later
4 today on the Department website, submissions,
5 written submissions.

6 That's the bottom of my list.
7 Anyone else that wishes to testify today? Yes,
8 sir.

9 MR. DENNY: Can I come up again?

10 DIRECTOR HUFF: Please come back.
11 Round two.

12 MR. DENNY: Chris Denny, Denny and
13 Associates.

14 DIRECTOR HUFF: Yes.

15 MR. DENNY: I would just like to add
16 regarding the MLR, I do actually agree that
17 there should be an MLR, but I believe the MLR
18 should be on the hospitals and the doctors and
19 the pharmaceutical companies, because their
20 profits probably exceed that of the insurance
21 companies, and until we get those into control,
22 the rates will never reduce.

23 If this goes through, you will see
24 in a year the rates are still going to be on an
25 increase, in average, because the medical costs

1 go up every year.

2 I would also like to add that a
3 child-only policy on the Missouri state health
4 insurance plan, \$1,000 deductible, is \$225 per
5 month. I also believe it has a 12-month waiting
6 period on preexisting conditions; therefore,
7 it's not a very good health insurance plan, plus
8 the cost is more than double what I used to be
9 able to get on the individual market for stand-
10 alone children.

11 Thank you.

12 DIRECTOR HUFF: And of course the
13 high-risk pool has two different pools: The
14 state pool's the one that has the preexisting
15 condition requirement; the PSIP pool, the
16 federal pool, is the one that I was referencing
17 with the 130 rate. The issue with that pool, of
18 course, is it requires a six-month --

19 MR. DENNY: Six-month uninsured.

20 DIRECTOR HUFF: -- six-month
21 preexisting uninsured.

22 MR. DENNY: Most parents don't want
23 their kids to be uninsured for six months.

24 DIRECTOR HUFF: Hope not. I hope
25 they're taking that responsibility seriously.

1 Any other comments to be brought
2 today?

3 (No response.)

4 DIRECTOR HUFF: If not, has all
5 persons -- I'm admitting into the evidence the
6 Exhibits 2 through 9 and, again, those will be
7 posted.

8 If all persons who wish to testify
9 have done so, the hearing is now concluded. The
10 hearing record, however, will remain open until
11 5:00 p.m. next Friday, which is September 2, to
12 receive any additional written comments. Any
13 additional written comments may be submitted by
14 e-mail to mlriecomments@insurance.mo.gov. All
15 of this will be on the website -- or by mail
16 directly to Amy Hoyt, Health care counsel for
17 the Department, right here in the Truman
18 Building, P.O. Box 690, Jefferson City Missouri
19 65102.

20 Thank you for coming out this
21 morning, and I appreciate your attendance and
22 your interest in this issue.

23 (The hearing concluded.)

24

25

1
2 CERTIFICATE

3 I, Nancy L. Silva, RPR, a Certified
4 Court Reporter, CCR No. 890, the officer before
5 whom the foregoing hearing was taken, do hereby
6 certify that the witness whose testimony appears
7 in the foregoing hearing was duly sworn; that
8 the testimony of said witness was taken by me to
9 the best of my ability and thereafter reduced to
10 typewriting under my direction; that I am
11 neither counsel for, related to, nor employed by
12 any of the parties to the action in which this
13 hearing was taken, and further, that I am not a
14 relative or employee of any attorney or counsel
15 employed by the parties thereto, nor financially
16 or otherwise interested in the outcome of the
17 action.

18 _____
19 Nancy L. Silva, RPR, CCR
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25