BEFORE THE DEPARTMENT OF INSURANCE

FINANCIAL INSTITUTIONS & PROFESSIONAL REGISTRATION

STATE OF MISSOURI

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TRANSCRIPT OF PROCEEDINGS

PUBLIC HEARING

August 26, 2011

Jefferson City, Missouri

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In re: MEDICAL LOSS RATIO IN INDIVIDUAL MARKET

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EXHIBIT INSTRUCTIONS

Exhibits retained by Department of Insurance.

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Center for Health Law Studies *

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Witness List *

* Marked by counsel for the Department of Insurance

*Exhibits retained by the Department of Insurance

A P P E A R A N C E S

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

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

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

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

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

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

this project to break down what would be required if we go forward, so from my far right, your far left, Angie Nelson, who's our division director for Consumer Affairs. I will tell you right now, with the Joplin recovery effort, she may well be the busiest person in our department, so thank you, Angie, for taking time out this morning.

Brent Kabler, who many of you know is our statistician and leads our statistics department. You can thank him for the volumes of data on our website that helps many of the industry and consumers.

Molly White, many of you know, who leads our life and health section in the Department and is particularly busy now as we are going into some of the limitations of the Affordable Care Act and stays busy on the life side as well.

Many of you know, we, as a state, Missouri joined, in 2009, the Interstate Insurance Compact for asset-based products, so she stays very busy in that regard.

And finally, Amy Hoyt, who's our health care counsel with the Department, and Mary Erickson, our chief counsel for the insurance divisions.

Just by way of background, the U.S.

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

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

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

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

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

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

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

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

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

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

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

(Department Exhibit No. 1 was admitted.)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Thank you for this opportunity to voice our concerns.

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

commissions coming through from some companies.

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

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

MR. ANDERSON: Thank you, Director.

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

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

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

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

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

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

DIRECTOR HUFF: Thank you.

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

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

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

DIRECTOR HUFF: Anyone else?

(No response.)

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

Oh. I'm sorry.

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

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

MR. ANDERSON: How many producers --

MS. NELSON: Yes. Sorry.

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

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

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

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

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

MS. NELSON: Thank you very much.

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

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

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

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

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

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

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

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

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

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

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

On the basis of these convictions, we

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

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

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

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

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

Missouri consumers need this protection, and we need the transparency, the increased transparency that comes with that process. Your department is working with the criteria that were identified by the Department of Health and Human Services we use in determining the risk of destablization in the insurance market.

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

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

startling 83 percent between 2000 and 2009 for Missouri consumers.

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

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

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

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

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

makes coverage more affordable and the system more transparent.

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

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

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

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

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

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

THE WITNESS: I will.

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

(No response.)

DIRECTOR HUFF: Thank you.

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

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

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

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

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

forced him into bankruptcy.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Any questions for Senator Bray?

(No response.)

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

THE WITNESS: Thank you very much.

DIRECTOR HUFF: Thank you.

The next name I may need help with. Dennis Denny.

MR. DENNY: Denny.

DIRECTOR HUFF: Mr. Denny.

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

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

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

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

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

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

church, and in your lives daily.

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

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

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

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

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

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

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

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

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

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

MR. DENNY: Sure.

DIRECTOR HUFF: -- so we can make sure we

get it admitted.

Any questions of Mr. Denny?

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

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

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

How many members does NAIFA have?

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

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

DIRECTOR HUFF: Mr. Denny, we have questions.

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

MR. DENNY: Well, I know some producers,

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

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

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

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

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

MR. DENNY: Sure.

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

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

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

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

restrictions that started on January 1st of 2011?

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

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

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

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

laws and everything else.

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

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

MR. DENNY: For initial first year.

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

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

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

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

they're like this gentleman here, go to a high deductible plan or do an HRA, some sort of health reimbursement account to try to get them in the group plan, we're paid the same by the insurance companies, whether I have a client that's a 50-percent group, whether they're paying a million dollars in premium or whether they're paying $500,000 in premium. I am compensated the same, so it's my expectation that there's no room for us, there's no room for me, to pass on wage increases to my employees.

And I've been doing this for 37 years, and if it comes between me taking a big hit or letting go an employee, I'm going to let an employee go. We just have to be compensated fairly. We're not asking to be overly-compensated. We just don't want to be taken out of the picture altogether.

DIRECTOR HUFF: Just one last question. Are you seeing more pressure in the environment today on the renewal commissions or in the initial contracts?

MR. DENNY: I don't understand what you mean by "pressure."

DIRECTOR HUFF: Pressure in reductions in commissions from the carriers.

MR. DENNY: Well, they're pretty much

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

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

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

DIRECTOR HUFF: Very well. Thank you very

much for your testimony.

Christopher Denny?

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

Let me first give you my background. I've been a broker for about five years. I also worked as a regional sales manager for Anthem Blue Cross Blue Shield as a, kind of, executive for GHP, both in the individual markets, so I'm fairly familiar with how things work in insurance companies and on a consumer basis.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

about it.

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

Thank you.

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

MR. DENNY: MC Plus for kids, correct.

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

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

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

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

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

MR. DENNY: Thank you.

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

(No response.)

DIRECTOR HUFF: Mr. Case.

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

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

DIRECTOR HUFF: Any questions of Mr. Case?

(No response.)

DIRECTOR HUFF: Thank you, Mr. Case.

Ruth Ehresman.

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

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

offer suggestions.

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

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

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

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

So we quickly moved away from entering

any problems with health status and claimed ourselves to be healthy individuals who could afford to buy insurance. And we looked at three different demographics: A woman, age 28, a male the same age, and then we were especially interested in seeing what we got in rural areas 'cause we suspected that individuals in rural areas probably had fewer choices than people in urban areas, so we entered information for a healthy male aged 60 in a variety of rural areas across the state.

And, actually, we were surprised by several findings. The first attachment summarizes what we were given as the number of plans that were offered by each insurance company by county. We were surprised -- Category A refers to a healthy 20-year-old who can afford to buy insurance.

We actually found, according to the information on this website, that people in rural areas had more choices than people in urban areas, which was a bit of a surprise. There was not a difference by other demographic, people in the other age brackets and gender. He had certainly the same choices available. We were surprised by the number of choices.

You know, people in Milan County in

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Any questions?

(No response.)

DIRECTOR HUFF: Thank you very much.

MS. EHRESMAN: Thank you very much.

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

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

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

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

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

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

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

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

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

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

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

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

Cox.

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

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

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

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

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

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

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

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

whether there are market destablization issues in particular areas of the state.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DIRECTOR HUFF: Thank you, Ms. Watson.

Any questions?

(No response.)

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

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

THE COURT REPORTER: Mr. Huff?

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

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

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

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

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

Mr. Coyne, you'd like to testify?

MR. COYNE: Yes, please.

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

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

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

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

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

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

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

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

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

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

I've seen a lot of the smaller insurance companies, and some of the bigger ones, too, really come up with some wonderful ideas. One example would be a program called Comparison Care where the consumer can go out on the insurance website and they can plug in a procedure that they're going to be having done, obviously not a car accident, but say you're going to be having an elective procedure done or whatever.

If you go in and put in your zip code, the procedure that you're going to have done, it'll show you what it would cost at each facility in your area and the amount of those procedures that they do, the cost. Wonderful type of information. That's the kind of information that consumers need so that they can be informed to make good choices with -- you know, 'cause it's all their health care dollars. It's not magic. All insurance does is pool risk, you know. It's, How much does the product cost, period.

I'm not seeing any new health insurance companies come into Missouri. None have contacted me. I usually get phone calls, you know, trying to convince me to sell a product. I haven't -- if there's new ones coming in, it's news to me.

On the broker level, a lot of the people

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

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

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

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

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

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

The amount of service that I provide is

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

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

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

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

I've even seen some of the major carriers

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

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

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

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

reductions?

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

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

MR. COYNE: Right.

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

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

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

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

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

MS. HOYT: Thank you.

DIRECTOR HUFF: Anything else?

(No response.)

DIRECTOR HUFF: Thank you, Mr. Coyne.

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

I have two other names: Mr. McCarty. Mr. McCarty? Colin McCarty?

(No response.)

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

MS. ROUTH: Hi.

DIRECTOR HUFF: Good morning.

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

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

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

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

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

credibility adjustment available.

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

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

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

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

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

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

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

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

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

within the state.

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

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

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

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

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

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

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

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

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

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

that because we're going to see hundreds -- thousands more people in the private insurance market in the Medicaid market, and we're going to need to have navigators in the community-based organizations assisting those people, reaching out to them, helping them understand what's going on, and we're also in certain -- with certain customers and consumers we're going to need those agents and brokers; however, we do not believe that the answer to that, to the -- to the problems that the agents and brokers are having right now is to water down the medical loss ratios, so we would request that you look at all the data together as you're making your decision whether or not to seek an adjustment.

Any questions?

DIRECTOR HUFF: Very well. Thank you, Ms. Ruth.

Any questions for Ms. Routh?

(No response.)

DIRECTOR HUFF: Very well. I don't know if that's the testimony that you'd like for us to --

MS. ROUTH: It is.

DIRECTOR HUFF: If we can get a copy of that before --

MS. ROUTH: Yeah, I've got copies for

you-all.

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

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

MR. DENNY: Can I come up again?

DIRECTOR HUFF: Please come back. Round two.

MR. DENNY: Chris Denny, Denny and Associates.

DIRECTOR HUFF: Yes.

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

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

go up every year.

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

Thank you.

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

MR. DENNY: Six-month uninsured.

DIRECTOR HUFF: -- six-month preexisting uninsured.

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

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

Any other comments to be brought today?

(No response.)

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

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

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

(The hearing concluded.)

CERTIFICATE

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

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Nancy L. Silva, RPR, CCR