

Medical Loss Ratio Estimates, by Segment
Data from the 2010 Financial Annual Statement, Supplemental Health Care
Exhibit
Missouri Experience

Statistics Section

4-18-2011

The tables below were derived from the new Supplemental Health Care Exhibit, which was added to the financial annual statement for 2010. This new exhibit allows one to approximate the medical loss ratio (MLR) as defined in the Patient Protection and Affordable Care Act (PPACA).

The standard loss ratio customarily used in the insurance market is simply the ratio of claim losses to premium. The MLR modifies this ratio to allow for taxes and fees, and other types of spending such as expenditures made to improve health care quality. In addition, the ratio is subject to adjustments based on deductible amounts and the size of each carrier's book of business, since losses for smaller blocs with higher deductibles are subject to significantly greater volatility than are larger carriers. The entire MLR formula is presented at the end of this report.

The MLR estimate based on these adjustments is presented in the next to final column labeled *Credibility Adjusted MLR*. As a caveat, these figures represent carriers' experience in 2010, when the MLR targets were not in effect. Carriers may alter spending patterns, such as changing agent commission structures or expenditures for health care improvement, that could significantly impact the MLR for 2011.

**Individual Comprehensive Medical Expense
Missouri, 2010**

(Carriers with < 1,000 insureds are not subject to the MLR standard. The final MRL is not calculated for these carriers.)

Code	Name	Premium Earned (Col 1)	No. of Insureds (Col 2)	Premium Less Taxes (Col 3)	Direct Losses Incurred (Col 4)	Amt. Spent on Fraud Detection (Col 5)	Amt. Spent on Healthcare Improvement (Col 6)	Unadjusted MLR [(Col 4 + Col 5 + Col 6) / Col 3]	Credibility Adjusted MLR	% Point Difference from 80% Min. MLR
11529	Mercy Health Plans	\$24,064,866	12,435	\$24,725,758	\$20,758,998	\$699	\$307,974	85.2%	88.0%	-8.0%
13935	Federated Mutual Insurance Company	\$6,014	1	\$6,014	\$579			9.6%		
19275	American Family Mutual Insurance Co	\$11,793,220	2,925	\$11,793,220	\$7,835,735			66.4%	72.2%	7.8%
19704	American States Insurance Company	\$60,750	61	\$60,750	\$300,863			495.2%		
20443	Continental Casualty Company	\$643	6	\$631	\$8,728			1383.2%		
23043	Liberty Mutual Insurance Company	\$144	1	\$144						
25178	State Farm Mutual Automobile Ins Co	\$1,588,890	317	\$1,152,921	\$1,227,148			106.4%		
26581	Independence American Insurance Co	\$124,049	58	\$117,021	\$112,425	\$43	\$1,004	97.0%		
47171	Blue Cross And Blue Shield Of Kansas City	\$93,681,157	43,115	\$93,038,934	\$69,864,654		\$559,789	75.7%	77.2%	2.8%
56014	Thrivent Financial For Lutherans	\$367,549	8	\$367,549	\$483,216			131.5%		
58033	Knights Of Columbus	\$16,280	4	\$16,280	\$124			0.8%		
60040	Cox Health Systems Insurance Company	\$11,362,924	5,735	\$11,159,120	\$7,479,855		\$20,566	67.2%	71.3%	8.7%
60054	Aetna Life Insurance Company	\$11,454,348	5,458	\$10,505,787	\$8,954,608	\$0	\$37,945	85.6%	89.8%	-9.8%
60739	American National Insurance Company	\$115,836	33	\$112,287	\$193,024	\$68		172.0%		
60801	American Public Life Insurance Company	\$174,367	49	\$170,318	\$320,734			188.3%		
60836	American Republic Insurance Company	\$5,360,505	2,167	\$5,245,454	\$4,017,377		\$116,821	78.8%	85.7%	-5.7%
61271	Principal Life Insurance Company	\$11,922	0	\$10,985	\$8,875	\$0	\$3	80.8%		
61409	National Benefit Life Insurance Company	\$113		\$113						
61425	Trustmark Insurance Company	\$29,356	12	\$26,742	\$263		\$36	1.1%		
61832	Chesapeake Life Insurance Company The	\$245,338	106	\$229,367	\$65,866	\$957	\$95	29.2%		
61883	Central United Life Insurance Company	\$23,583	17	\$22,640	\$23,112			102.1%		
62286	Golden Rule Insurance Company	\$76,283,148	44,394	\$68,564,434	\$42,653,065		\$48,388	62.3%	63.8%	16.2%
62324	Freedom Life Insurance Co Of America	\$962,499	619	\$931,050	\$472,418		\$1,289	50.9%		
62413	Continental Assurance Company	\$23	0	\$21	-\$228			-1085.7%		

**Individual Comprehensive Medical Expense
Missouri, 2010**

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Code	Name	Premium Earned (Col 1)	No. of Insureds (Col 2)	Premium Less Taxes (Col 3)	Direct Losses Incurred (Col 4)	Amt. Spent on Fraud Detection (Col 5)	Amt. Spent on Healthcare Improvement (Col 6)	Unadjusted MLR [(Col 4 + Col 5 + Col 6) / Col 3]	Credibility Adjusted MLR	% Point Difference from 80% Min. MLR
63487	Investors Life Ins Co Of North America	\$1,988	0	\$1,988	\$7,391			371.8%		
64211	Guarantee Trust Life Insurance Co	\$228,474	17	\$224,913	\$369,917			164.5%		
64246	Guardian Life Insurance Co Of America	\$32,140	7	\$34,383	\$201,600	\$0	\$0	586.3%		
64513	Horace Mann Life Insurance Company	\$4,487	2	\$2,904	\$12,610			434.2%		
64580	Illinois Mutual Life Insurance Company	\$43,032	33	\$41,636				67.4%		
65080	John Alden Life Insurance Company	\$4,827,728	2,199	\$4,255,777	\$2,248,712		\$5,023	53.0%	59.8%	20.2%
65676	Lincoln National Life Insurance Company	\$261		\$261						
65757	Shelter Life Insurance Company	\$666,847	515	\$642,879	\$649,975			101.1%		
65781	Madison National Life Insurance Co Inc	\$61,556	54	\$60,048	\$17,982	\$5	\$528	30.8%		
65978	Metropolitan Life Insurance Company	\$115,256	1,214	\$115,256				55.2%	64.3%	15.7%
66087	Midwest National Life Insurance Co Of TN	\$2,121,740	727	\$1,851,558	\$1,059,549	\$15,405	\$1,623	58.1%		
66672	American General Life & Accident Ins Co	\$1,392	5	\$1,370	-\$101			-7.4%		
66915	New York Life Insurance Company	\$4,056,559	805	\$3,994,189	\$3,974,992			99.5%		
67784	Philadelphia American Life Insurance Co	\$38,259	22	\$37,561	\$42,528			113.2%		
68241	Prudential Insurance Company Of America	\$165,337	366	\$242,470	\$361,566			149.1%		
69078	Standard Security Life Insurance Co Of NY	\$841,063	412	\$819,378	\$501,967	\$70	\$8,398	62.3%		
69477	Time Insurance Company	\$43,021,382	20,363	\$42,100,086	\$27,790,875		\$70,731	66.2%	68.4%	11.6%
69698	New Era Life Ins Co Of The Midwest	\$195,759	49	\$193,482	\$139,425			72.1%		
69744	Union Labor Life Insurance Company	\$9,139	6	\$7,666	\$138,209			1802.9%		
70106	United States Life Insurance Company NY	\$5,073	2	\$6,199	\$624			10.1%		
70629	World Insurance Company	\$3,513,394	1,765	\$3,485,027	\$3,086,745		\$36,093	89.6%	97.4%	-17.4%
71463	Cica Life Insurance Company Of America	\$3,808	1	\$3,808	\$0					
71773	American National Life Ins Co Of TX	\$1,602,281	354	\$1,563,870	\$1,166,305	\$2,734		74.8%		
71870	Fidelity Security Life Insurance Company	\$542	0	\$533	-\$42,405			-7950.5%		
73288	Humana Insurance Company	\$9,545,451	5,518	\$8,773,504	\$5,211,149	\$0	\$0	59.4%	63.6%	16.4%
77720	Lifesecond Insurance Company	\$8,025	51	\$8,025	\$0					
78972	Healthy Alliance Life Insurance Co	\$205,961,790	77,036	\$189,592,732	\$132,100,137	\$0	\$2,466,430	71.0%	71.0%	9.0%

**Individual Comprehensive Medical Expense
Missouri, 2010**

(Carriers with < 1,000 insureds are not subject to the MLR standard. The final MRL is not calculated for these carriers.)

Code	Name	Premium Earned (Col 1)	No. of Insureds (Col 2)	Premium Less Taxes (Col 3)	Direct Losses Incurred (Col 4)	Amt. Spent on Fraud Detection (Col 5)	Amt. Spent on Healthcare Improvement (Col 6)	Unadjusted MLR [(Col 4 + Col 5 + Col 6) / Col 3]	Credibility Adjusted MLR	% Point Difference from 80% Min. MLR
79413	United Healthcare Insurance Company	\$2,854,513	749	\$2,624,563	\$2,140,335	\$0	\$14,192	82.1%		
80314	Unicare Life & Health Insurance Company	\$26,730	1	\$25,465	\$16,248	\$4	\$393	65.4%		
80799	Celtic Insurance Company	\$2,160,200	2,449	\$2,130,559	\$1,529,257	\$5,578		72.0%	78.2%	1.8%
81973	Coventry Health And Life Insurance Co	\$21,821,601	13,480	\$21,129,699	\$13,555,246	\$2,604	\$146,754	64.9%	67.7%	12.3%
82538	National Health Insurance Company	\$221,395	32	\$215,344	\$154,681			71.8%		
86231	Transamerica Life Insurance Company	\$5,561	18	\$5,456	\$4,222			77.4%		
86355	Standard Life And Accident Insurance Co	\$111,309	62	\$107,970	-\$50,733	\$0		-47.0%		
94250	Banner Life Insurance Company	\$150	2	\$150						
95109	Aetna Health Inc	\$62,247	12	\$76,764	\$55,607		\$602	73.2%		
95315	Good Health Hmo Inc DbA Blue-Care Inc	\$356,755	59	\$351,529	\$509,379		\$1,755	145.4%		
95358	Hmo Missouri Inc DbA Anthem BC & BS	\$3,143,090	388	\$3,086,568	\$2,736,783	\$0	\$14,717	89.1%		
95635	Cigna Healthcare Of St Louis Inc	\$32,481	4	\$64,078	\$4,296		\$103	6.9%		
95885	Humana Health Plan Inc	\$11,634	0	\$9,221	\$1,992	\$0	\$0	21.6%		
96377	Group Health Plan Inc	\$67,134	1	\$66,975	\$15,845	\$0	\$15	23.7%		
96385	Unitedhealthcare Of The Midwest Inc	\$133,380	5	\$118,783	\$19,641		\$110	16.6%		
96475	Healthlink Hmo Inc DbA Healthlink Hmo	\$59,916	21	\$58,521	\$281,768		\$0	481.5%		
97055	Mega Life And Health Insurance Company	\$4,670,779	1,527	\$3,971,928	\$2,142,283	\$26,047	\$4,921	54.7%	63.1%	16.9%
97179	American Medical Security Life Ins Co	\$5,804,836	1,739	\$5,361,200	\$3,914,793		\$3,839	73.1%	81.0%	-1.0%
98205	National Foundation Life Insurance Co	\$85,946	10	\$50,355	\$117,701		\$52	233.8%		

**Small Employer Comprehensive Medical Expense
Missouri, 2010**

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Code	Name	Premium Earned (Col 1)	No. of Insureds (Col 2)	Premium Less Taxes (Col 3)	Direct Losses Incurred (Col 4)	Amt. Spent on Fraud Detection (Col 5)	Amt. Spent on Healthcare Improvement (Col 6)	Unadjusted MLR [(Col 4 + Col 5 + Col 6) / Col 3]	Credibility Adjusted MLR	% Point Difference from 80% Min. MLR
11529	Mercy Health Plans	\$72,841,354	19,264	\$71,943,297	\$63,401,816	\$734	\$538,941	88.9%	91.2%	-11.2%
13935	Federated Mutual Insurance Company	\$20,898,521	5,994	\$20,549,687	\$14,076,546			68.5%	72.6%	7.4%
19720	American Alternative Insurance Corporation	\$2,390,960	774	\$2,390,960	\$2,540,984		\$3,554	106.4%		
47171	Blue Cross And Blue Shield Of Kansas City	\$153,471,590	22,346	\$147,117,423	\$115,793,256		\$1,226,162	79.5%	81.6%	-1.6%
60040	Cox Health Systems Insurance Company	\$16,492,639	4,842	\$16,217,732	\$13,194,269		\$36,281	81.6%	86.0%	-6.0%
60054	Aetna Life Insurance Company	\$36,698,329	8,675	\$35,193,234	\$30,004,798	\$2,460	\$328,078	86.2%	89.6%	-9.6%
60801	American Public Life Insurance Company	\$164,381	133	\$160,660	\$81,402			50.7%		
60836	American Republic Insurance Company	\$72,609	0	\$71,138	(\$10,697)		\$1,582	-12.8%		
61271	Principal Life Insurance Company	\$33,203,321	8,175	\$32,680,629	\$27,395,826	\$3,532	\$35,759	83.9%	87.4%	-7.4%
62863	Trustmark Life Insurance Company	\$12,424,145	2,720	\$12,154,049	\$8,858,975		\$33,148	73.2%	79.1%	0.9%
64211	Guarantee Trust Life Insurance Co	\$847,247	199	\$841,690	\$647,265			76.9%		
64246	Guardian Life Insurance Company Of America	\$1,037,824	92	\$1,110,251	\$845,507	\$706	\$3,087	76.5%		
65080	John Alden Life Insurance Company	\$15,649,788	4,951	\$15,554,716	\$11,813,790		\$10,943	76.0%	80.3%	-0.3%
65781	Madison National Life Insurance Company Inc	\$966,729	616	\$943,036	\$648,944	\$114	\$7,117	69.6%		
67539	Pan-American Life Insurance Company	\$159,282		\$155,300	\$46,586			30.0%		
68136	Protective Life Insurance Company	\$1,091		\$1,071	(\$633)			-59.1%		
69078	Standard Security Life Insurance Co Of NY	\$159,387	88	\$155,278	\$85,671	\$16	\$1,591	56.2%		
69477	Time Insurance Company	\$3,127,507	813	\$2,969,198	\$1,940,444		\$2,145	65.4%		
70408	Union Security Insurance Company	\$2,785,595	434	\$2,446,008	\$1,636,352		\$1,408	67.0%		
70629	World Insurance Company	\$10,442	5	\$10,357	\$7,587		\$107	74.3%		
71420	Sierra Health & Life Insurance Company Inc	\$924,445	556	\$909,745	\$824,300		\$2,957	90.9%		
72052	Aetna Health Insurance Company	\$800	0	\$630	\$381		\$17	63.2%		
73288	Humana Insurance Company	\$51,757,805	14,888	\$52,243,171	\$38,380,749	\$4,871	\$647,813	74.7%	77.3%	2.7%

**Small Employer Comprehensive Medical Expense
Missouri, 2010**

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77720	Lifeseure Insurance Company	\$199	0	\$199	\$0					
78972	Healthy Alliance Life Insurance Co	\$496,147,986	134,448	\$460,663,936	\$352,734,331	\$0	\$4,855,400	77.6%	77.6%	2.4%
79413	United Healthcare Insurance Company	\$276,881,400	73,854	\$261,979,932	\$194,805,486	\$36,442	\$3,357,115	75.7%	75.8%	4.2%
81108	United Security Life And Health Insurance Co	\$2,980,916	1,571	\$2,910,749	\$1,773,292			60.9%	69.2%	10.8%
81973	Coventry Health And Life Insurance Company	\$123,592,638	35,277	\$116,211,539	\$87,784,429	\$7,956	\$366,874	75.9%	77.6%	2.4%
90328	First Health Life & Health Insurance Company	\$76,003	0	\$48,011	(\$14,297)			-29.8%		
90638	Best Life And Health Insurance Company	\$42,020	4	\$39,461	\$200,299			507.6%		
95109	Aetna Health Inc	\$86,741	5	\$81,892	\$60,965		\$803	75.4%		
95309	Mercy Health Plans Of Missouri Inc	\$338,061	38	\$338,063	\$309,532	\$279	\$1,745	92.2%		
95315	Good Health Hmo Inc DbA Blue-Care Inc	\$52,020,495	6,751	\$51,324,696	\$44,073,416		\$518,627	86.9%	90.8%	-10.8%
95358	HMO Missouri Inc DBA Anthem BCBS	\$117,596,069	31,905	\$109,198,521	\$81,384,889	\$0	\$1,273,407	75.7%	77.4%	2.6%
95489	Coventry Health Care Of Kansas Inc	\$9,512,695	2,636	\$8,713,910	\$6,226,096	\$831	\$56,924	72.1%	78.1%	1.9%
95530	Cox Health Systems HMO Inc	\$4,219,860	850	\$4,052,182	\$3,552,883		\$10,782	87.9%		
95885	Humana Health Plan Inc	\$845,825	187	\$777,069	\$485,336	\$12	\$7,890	63.5%		
96377	Group Health Plan Inc	\$10,786,673	1,800	\$10,375,771	\$6,702,454	\$1,057	\$40,150	65.0%	72.7%	7.3%
96385	Unitedhealthcare Of The Midwest Inc	\$1,528,386	115	\$1,431,764	\$625,869		\$4,641	44.0%		

**Large Employer Comprehensive Medical Expense
Missouri, 2010**

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11529	Mercy Health Plans	\$117,852,913	33,518	\$116,400,012	\$102,580,310	\$2,327	\$871,970	88.9%	90.6%	-5.6%
13935	Federated Mutual Insurance Company	\$1,478,090	433	\$1,422,899	\$731,574			51.4%		
19275	American Family Mutual Insurance Co	\$1,740,711	315	\$1,740,711	\$1,738,345			99.9%		
47171	Blue Cross And Blue Shield Of KC	\$449,334,260	74,506	\$447,524,759	\$405,444,823		\$3,556,995	91.4%	91.4%	-6.4%
60040	Cox Health Systems Insurance Company	\$53,335,863	16,468	\$52,930,237	\$49,741,339		\$136,774	94.2%	96.7%	-11.7%
60054	Aetna Life Insurance Company	\$59,279,385	12,670	\$57,093,671	\$50,098,700	\$3,962	\$527,897	88.7%	91.5%	-6.5%
61271	Principal Life Insurance Company	\$17,644,861	4,758	\$17,544,645	\$14,881,772	\$2,008	\$20,332	84.9%	89.4%	-4.4%
62308	Connecticut General Life Ins Co	\$109,271,899	30,819	\$107,203,790	\$93,078,296		\$922,243	87.7%	89.5%	-4.5%
62863	Trustmark Life Insurance Company	\$3,823,598	880	\$3,747,053	\$2,873,728		\$9,866	77.0%		
64246	Guardian Life Insurance Co Of America	\$2,616,882	252	\$2,799,507	\$3,309,289	\$1,781	\$7,783	118.6%		
65080	John Alden Life Insurance Company	\$443,970	177	\$399,275	\$223,031		\$310	55.9%		
65757	Shelter Life Insurance Company	\$10,150,339	3,423	\$10,289,322	\$9,730,059			94.6%	100.0%	-15.0%
67539	Pan-American Life Insurance Company	\$277,591		\$270,651	\$69,909			25.8%		
69477	Time Insurance Company	\$371,121	185	\$404,348	\$403,469		\$255	99.8%		
70106	United States Life Insurance Company NY	\$482,643	926	\$556,350	\$454,776			81.7%		
72052	Aetna Health Insurance Company	\$115,143	690	\$178,638	\$335,845		\$1,138	188.6%		
73288	Humana Insurance Company	\$26,830,127	6,416	\$27,603,695	\$25,455,300	\$3,229	\$322,319	93.4%	97.3%	-12.3%
78972	Healthy Alliance Life Insurance Co	\$884,427,397	214,083	\$855,247,125	\$740,830,538	\$2,007	\$7,336,950	87.5%	87.5%	-2.5%
79413	United Healthcare Insurance Company	\$426,767,720	112,345	\$410,230,785	\$341,330,589	\$61,161	\$7,103,524	85.0%	85.0%	0
80314	Unicare Life & Health Insurance Company	\$645	0	\$639	\$565	\$0	\$1	88.6%		
81973	Coventry Health And Life Insurance Co	\$170,451,289	49,154	\$165,353,264	\$133,720,560	\$11,819	\$551,603	81.2%	82.6%	2.4%
94358	Usable Life	\$1,281,561	460	\$1,281,561	\$1,020,985			79.7%		

**Large Employer Comprehensive Medical Expense
Missouri, 2010**

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95109	Aetna Health Inc	\$14,957,754	3,117	\$14,807,053	\$12,513,710		\$148,228	85.5%	91.1%	-6.1%
95209	Cigna Healthcare Of Ohio Inc	\$5,363,118	1,074	\$5,604,861	\$4,046,016		\$34,898	72.8%	82.3%	2.7%
95309	Mercy Health Plans Of Missouri Inc	\$66,265,698	13,446	\$66,266,153	\$60,673,797	\$258	\$341,809	92.1%	94.9%	-9.9%
95315	Good Health Hmo Inc DBA Blue-Care HMO Missouri Inc DBA Anthem Blue	\$267,563,855	29,559	\$266,979,561	\$241,684,542		\$2,367,115	91.4%	93.2%	-8.2%
95358	Cross And Blue Shield	\$153,183,657	34,253	\$150,198,804	\$137,375,658	\$286	\$1,010,976	92.1%	93.8%	-8.8%
95489	Coventry Health Care Of Kansas Inc	\$52,151,211	12,393	\$52,102,983	\$46,939,842	\$2,813	\$192,718	90.5%	93.3%	-8.3%
95530	Cox Health Systems HMO Inc	\$7,185,167	1,868	\$6,952,693	\$4,925,807		\$14,950	71.1%	78.7%	6.3%
95635	Cigna Healthcare Of St Louis Inc	\$783,577	200	\$869,348	\$524,721		\$6,375	61.1%		
95885	Humana Health Plan Inc	\$38,316,555	7,323	\$38,048,744	\$31,342,038	\$545	\$430,304	83.5%	87.2%	-2.2%
96377	Group Health Plan Inc	\$64,721,340	16,798	\$61,878,008	\$48,458,889	\$3,054	\$115,947	78.5%	81.0%	4.0%
96385	Unitedhealthcare Of The Midwest Inc	\$61,413,691	14,404	\$60,305,194	\$50,992,273		\$399,651	85.2%	87.9%	-2.9%

Formula

The medical loss ratio adjusts the standard loss ratio, defined as (incurred losses / premium earned), upwards. The three primary adjustments are

1. Subtracting taxes and state insurance fees from premium
2. Adding expenditures for health care quality to losses
3. Adding up to 14 percentage points to the resulting ratio to adjust for the lack of statistical credibility for smaller plans.

Expressed mathematically, the MRL is equal to

$$[(C + Q) / (p - t - f)] + (b*d)$$

where

C= Incurred Losses

b = base credibility factor (see table below)

Q = Expenditures related to health care quality

d = deductible credibility factor (see table below)

p = earned premium

t = taxes

f = fees

The estimated rebate is simply the minimum loss ratio less the actual MLR multiplied by adjusted (or after tax) premium.

$$\text{Rebate} = (m - a) * (p - t - f)$$

m = statutory minimum loss ratio

a = adjusted loss ratio, or the MRL

Credibility Factors

HHS uses two credibility factors to adjust the MLR. Essentially, these factors inflate the MLR for smaller companies, and blocs of business that employ higher average deductibles. The base factor is determined according to the following table, using linear interpolation for values of life years not presented.

Example: for a company with 2,500 insureds, and an average deductible of \$2,500, the total credibility factor is $(5.2\% * 1.164) = 6.05\%$. This amount is added to the loss ratio.

The credibility factors were developed by the NAIC to avoid penalizing smaller insurers whose loss ratios are subject to large random variations. Strict application of the minimum loss ratio to these carriers would subject them to large refunds in some years, but require them to assume large losses in other years. Such a standard could push long-term loss ratios for small carriers well above those for large carriers, as illustrated in the following example.

Large insurers with statistically credible blocs of business should be able to achieve loss ratio targets with little annual deviations. In the following example, the large insurer is assumed to achieve and 80% loss ratio in every year. Smaller insurers should approach their target loss ratio in the long-run, but each annual loss ratio will be subject to random deviations that in some instances can be quite significant. Thus, in the example below, loss ratios range from 30% to 121%, even though the five-year average is 80%, or equal to that of the large insurer.

The second half of the table indicates the loss ratios after application of the minimum MLR standard. In those years in which the MLR falls below 80%, the small carrier must rebate the difference to policyholders, thus pushing the MLR to 80% in 2005 and 2007. This inflates the five-year average from 80% to 96%, significantly disadvantaging smaller carriers. To avoid the destabilization of health insurance markets, the NAIC and HHS effectively subjects smaller insurers to lower minimum MLR standards with the adoption of credibility factors.

Actual Loss Ratio						
	2005	2006	2007	2008	2009	Average
Large Insurer	80%	80%	80%	80%	80%	80%
Small Insurer	52%	102%	30%	95%	121%	80%

Loss Ratios Under Minimum Loss Ratio Standard						
	2005	2006	2007	2008	2009	Average
Large Insurer	80%	80%	80%	80%	80%	80%
Small Insurer	80%	102%	80%	95%	121%	96%

The MLR is subject to adjustments derived from the size of the bloc of business and the average deductible, as detailed in the following tables. Credibility factors for values not included in the tables are derived from linear interpolation. The credibility factors are multiplied and added to the MLR. For example, an insurer with 1,000 insureds and an average deductible of \$2,500 would have a credibility factor of

$5.2\% \times 1.164 = 6.08\%$. Thus, if this insurer achieved an MLR of 75%, their adjusted MLR would be $75\% + 6.08\% = 81.08\%$.

Base Credibility Factor	
Life Years	Factor
Less than 1,000	Not credible, not subject to MLR standard
1,000	8.3%
2,500	5.2%
5,000	3.7%
10,000	2.6%
25,000	1.6%
50,000	1.2%
75,000	0.0%

Deductible Factor	
Average deductible	Factor
\$0	1.000
\$2,500	1.164
\$5,000	1.402
\$10,000	1.736