

Testimony of
The Connecticut Society of Eye Physicians
Connecticut ENT Society
Connecticut Dermatology and Dermatologic Surgery Society
Connecticut Urology Society

Before the Insurance and Real Estate Committee

On March 1, 2012

S.B. No. 204 (RAISED) AN ACT CONCERNING THE STATE MEDICAL LOSS RATIO.

The Medical Loss Ratio Rule and why we need to codify this into Connecticut Statute

Good Morning Senator Crisco, Representative Megna and other distinguished members of the Insurance and Real Estate Committee. My name is Dr. Steven Levine. I am a board certified otolaryngologist and President of the Connecticut Ear, Nose & Throat Society, and I am here to represent over 1000 physicians in the above stated specialties in support of SB 204 An Act Concerning the State Medical Loss Ratio.

We specifically ask you (1) for support on establishing an 82% limitation on Medical Loss Ratios (hereinafter "MLR"); (2) for support on codifying the national accepted definitions for administrative and medical expenses in determining MLR established by the National Association of Insurance Commissioners (hereinafter "NAIC") on the consumer report card and elsewhere; and (3) for establishing meaningful and long term State of Connecticut penalties similar to those established by the Affordable Healthcare for noncompliance.

Of all the health insurance reforms contained in and currently in effect through the Affordable Care Act (H.R. 3962) passed by the United States Congress on June 25, 2010 and signed by the President, the most important and beneficial for American small businesses and individuals who purchase health insurance is the minimum MLR requirement set with a range of between 80 and 85%. Had this provision, which will first go in effect this year, been in place last year, Americans would have received rebates of \$447.4 million according to an in-depth analysis conducted by the actuaries of the NAIC.[1] The NAIC study concluded that nearly 16% of small businesses and 23% of all small business employees would have received rebates.[2] Carl McDonald, Senior Analyst and Director at Citi Investment Research, concluded from his own review of the data that the top five U.S. insurers alone would have rebated almost \$282 million to small businesses.[3] Actual rebates for 2011 will be realized in 2012 and may be greater or less than the NAIC or McDonald projections, but they are certain to be substantial and will most likely be used under rules released in 2011 by the US Department of Health and Human Services and the Department of Labor to reduce premiums for health insurance going forward.[4]

The Affordable Care Act requires health insurers in the small group market to spend at least 80 percent of their premium revenues (after deductions for taxes and regulatory fees) on payments for clinical services and expenses that improve the quality of care. An insurer that fails to meet this target must refund its enrollees annually (i.e., small businesses and individual purchasers of health insurance). The total amount refunded is equal to the product of the difference between the MLR target and the actual MLR and the total amount of premium revenue (after taxes and regulatory fees). Connecticut constituents would stand to receive refunds in the millions of dollars, since few if any insurers are fulfilling these MLRs.

Although the MLR requirement is already reducing the cost of health insurance for consumers, Washington lobbyists representing the health insurance industry are working hard to carve out this piece from the Affordable Health Care Act, since it directly limits the outrageous profits that these companies and their executives have enjoyed at our collective expense. Justifiable concerns have been raised that if the compositions of one or both of the chambers of Congress

change dramatically in the upcoming year, these provisions will be in jeopardy. This fact makes the codification of these limits imperative in Connecticut.

During the same year that the Affordable Care Act passed, New York State passed legislation that established medical loss ratio limits of 82% based on a medium average mirroring those already established in federal Act but effective sooner. As a result, over \$114 million in rebate premiums were returned to New York consumers in 2011 – about one fourth of what was projected by NAIC for the nation as a whole! We recommend that Connecticut set MLRs at 82%, matching the precedent set in New York.

National statistics show that nearly sixty percent (60%) of small businesses offer their employees' health benefits.[5] The average annual premium for single coverage for small businesses is nearly \$5,000 per year and family coverage is over \$14,000.[6] Between 2001 and 2011, premiums for small group family coverage grew by 103%. [7] The cost of health insurance is one of the largest fastest growing items in the budgets of many American small businesses, and increasingly individuals and families. Despite a doubling in premiums in 10 years, healthcare provider fee schedules have remained unchanged, raising the question, "Where is the money in healthcare going?"

Please note that the purpose of the MLR requirement is not to generate rebates, but rather to reduce premiums. It does this in two ways.

First, it provides a strong incentive for insurers to become more efficient, reducing administrative costs. As insurers reduce bureaucracy, they are able to reduce premiums for small businesses.

More importantly, however, the MLR requirement ensures that as medical costs themselves are reduced, premiums are reduced accordingly. This premise has long been supported by the medical community, who in 2009 sought to provide transparency through the MLR reporting on Connecticut's consumer report card. For most physicians it is perplexing to see rate hikes in premiums on healthcare when for the past five years it has been widely reported that the growth in health care spending has dropped significantly.[8] This may be due in part to reduced utilization because of the recession or because of increased cost sharing, but also is attributable to reductions in fee schedules for provider services or pharmaceutical costs caused by a number of widely used drugs now available at less expensive generic prices. The net result is that the MLR requirement results in insurers passing savings directly to consumers through reduced premiums.[9]

Connecticut has an opportunity to support a bill which will bring instant relief to consumers struggling with run-away health care premiums and insure that Connecticut consumers are protected. **Please support S.B. No. 204 AN ACT CONCERNING THE STATE MEDICAL LOSS RATIO** which will pass medical savings onto the consumer, mandate insurers to refrain from spending money on non-medical related costs, and preserve these savings even if the political climate changes in Washington.

Thank you References:

1 NAIC, Report of the Health Actuarial Task Force Working Group (2011),

http://www.naic.org/documents/committees_b_exposure_110607_phia_charge_report.pdf at p. 4.

2. NAIC, supra note 1 at p. 4.

3. Carl McDonald, 2010 Minimum MLR Rebate Analysis (2011), <https://ir.citi.com/26MByRrEaOyRCT1ZcYVa6lJpglc%2F7pmh7WJrHPzv6hs%3D> at p. 3

4. CMS, Medical Loss Ratio Final Rule.

5, Kaiser Family Foundation and Health Research and Educational Trust, Employer Health Benefits 2011 (2011), at p. 36

6. Id. at 20.

7. Id. at 20.

8. Anne Martin, et al., Recession Contributes to Slowest Annual Rate of Increase in Health Spending in Five Decades, Health Affairs, 30, no.1 (2011):11-22

9. Conn. Insurer Cuts Premiums as Industry Prepares for New Rules (2011), <http://www.kaiserhealthnews.org/Features/Insuring-Your-Health/Michelle-Andrews-on-premium-cuts-and-rebates.aspx>