

July 1, 2021

Re: Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act (#171)

Dear Ms. Arp and Mr. Schallhorn:

In a presentation to Consumer Liaison three years ago, I presented data on loss ratios reported in NAIC Experience Reports for several categories of products governed by Model #171: AD&D (individual and group) Specified Disease (individual and group) Other Medical (only individual is available),

At that time I found for about half the products I looked at, loss ratios had been stable over time, but low. In others, loss ratios were steadily declining.

Loss ratios for AD&D in both the group and individual market have averaged about 40%. This is actually lower than loss ratios for Credit Life Insurance, which is considered the epitome of a low value product. AD&D has been about 5 percentage points lower than Credit Life over the past decade. However, in looking at two more years of data in the most recent Experience Report, a downward trend is evident across more categories of products. For instance, while AD&D in the individual market was 40.94% in 2017, by 2019 it had dropped to 37.93%. In 2018 I reported that for Specified Disease, in the group market loss ratios had dropped from 68.64% in 2009 to 42.56% in 2017. For 2019, the loss ratio was 40.76%. In the individual market, Specified Disease 69.6% in 2009, and 61.5% in 2019.

“Other Medical” is the category that includes Hospitalization Insurance. In 2018 I reported that loss ratios had dropped from 66.58% in 2009 to 48.66% in 2017. However, by 2019 the number was 45.45%.

It is an empty exercise for a model law to be superficially revised without first doing any fact-finding on why these markets deliver so much less value to consumers than they did when earlier model law language was adopted. Is it because insurers now know who to sell or not to sell to? Or has restrictive plan language been added so fewer claims need to be paid? It is possible that claims have dropped organically due to greater safety or better preventive care. But that would beg the question of why fewer accidents and illnesses have not led to lower premiums, as one would expect in a competitive market. These issues need to be explored in depth and addressed by regulators before this process concludes.

Many of these products return less than half of premiums to policyholders who industry insists need this supplemental coverage to be made whole; other products are on a trajectory to pay out less than half in about a decade. Such products do not meaningfully spread risk but instead extract dollars from workers' take-home pay that might otherwise be spent at Main Street businesses in Oklahoma and Nebraska on goods and services that provide tangible value to consumers.

While my own view is that these products merit a far more prescriptive regulatory regime, I realize that "command-and-control" regulations have fallen out of favor. I hope the Subgroup will try to improve the functioning of these markets through tools such as disclosures that can harness consumer choice, and also nudge employee benefit professionals to take seriously their role as gatekeepers for supplemental products.

Thank you for your consideration of our views.

Yours very truly,

Jackson Williams  
Vice President, Public Policy