

Supplemental Health Care Exhibit (SHCE) - Preliminary Medical Loss Ratio (MLR) Cautionary Statement

Carriers that provide comprehensive individual and group health insurance have filed their 20XX SHCE (due April 1) with the NAIC and state insurance regulators. The form is filed on a state-by-state basis and in grand total. Line 7 on Part 1 reports a “Preliminary MLR” for the individual, small group, large group market segments and other market segments covered by the federal Patient Protection and Affordable Care Act (ACA). The line is meant to report exactly that—a preliminary MLR. **It is not meant to represent or replicate the MLR calculated by HHS/CMS in its MLR reporting form for actual rebate purposes.**

The SHCE was designed to fulfill reporting requirements imposed by the ACA. A primary objective is to provide HHS and state regulators with a redefined MLR and with financial data that closely ties to the annual statements filed by the carriers each year in order to facilitate solvency review. The SHCE uses definitions developed by the NAIC and adopted by HHS for components that were added to the traditional MLR calculation by the ACA requirements. The exhibit highlights those definitions and components, especially the significant added components of MLR, quality improvement expenses and premium stabilization programs.

The ACA’s redefined MLR adds quality improvement expenses to claims incurred in the MLR numerator (a limited allowance for fraud detection and mitigation expenses is also added). Premium stabilization accruals, payments and receipts result in adjustments to premiums earned and claims incurred for ACA MLR purposes. Other ACA taxes, regulatory fees and assessments are deducted from premiums earned in the denominator of the ACA’s MLR definition.

As described above, the preliminary MLR reported on Part 1, Line 7 of the SHCE discloses the impact of the definition/component changes only. The HHS Rebate Form (developed with significant actuarial input from the NAIC) due on July 31 each year, is designed to provide a final MLR number for the individual, small group, large group business market segments, mini-med plans, expatriate plans and student plans. That MLR/rebate calculation incorporates actuarial and some product aggregation adjustments in addition to considering the impact of the reworked MLR definition. These adjustments include (but are not limited to) the following:

- **The HHS Rebate Form includes a credibility adjustment that adjusts the reported MLR whenever the market segment has less than 75,000 member years. It can be expected that one or more market segment of many companies will be impacted by this adjustment which is not reflected in the SHCE.**
- **Premiums and claims for new business written each year can be excluded from the rebate calculation for that year if such new business accounts for 50% or more of the market segment. If excluded, the data would be added back in the subsequent year’s calculation for that market segment. The SHCE reflects all premium and claims data in the year it is earned or incurred.**
- **The HHS rebate calculation recognizes situations where coverage issued by two affiliated legal entities is coordinated into a single policy. The experience of these policies is pooled for rebate purposes. It is reported separately by each carrier in the SHCE.**
- **Three-year averaging for the actual rebate. The SHCE is meant to cover a single calendar year of data.**

Further, the rebate form which will not be filed with HHS until July 31 allows for a restatement of claims incurred to reflect three months of claims run out for enhanced accuracy.

A goal for the SHCE is to give regulators information and support financial and market analysis regarding the impact of the definitional changes on MLR specifically and reporting for solvency purposes generally. The rebate form takes the definitional changes to a conclusion by incorporating the adjustments described above to arrive at the final MLR for rebate purposes. Thus, regulators will now have all three parts to better understand the financial and market impacts for the MLR:

- 1. Traditional MLR before ACA adjustments (calculated from annual statement data).**
- 2. Impacts of change in MLR elements and definitions on the traditional MLR (this is the “Preliminary MLR” calculated in the SHCE).**
- 3. Impact of actuarial/aggregation and timing adjustments on MLR (from the HHS Rebate Form).**

Another goal is to have the definitions and location of data reported on the SHCE to be consistent with that reported on the HHS Rebate Form to the greatest extent practical, while still providing a tie-back to statutory accounting and “traditional” reporting in the annual statement blanks, leaving mainly the numerical differences. Remaining differences are tracked via a confidential reconciliation between the SHCE and the rebate form in order to support state regulator analysis and examination processes.

For those looking for a more representative number on the SHCE for an actual rebate, Part 1, Line 5.5 for Columns 1, through Columns 9 and 12 provides the company’s best estimate at 12/31/XX for a rebate to be paid on 20XX policies for each market segment (individual/small group/large group/mini-med plans/expatriate plans/student plans/and remittances to CMS on Medicare Part C and Part D). While regulators will expect to see a relatively high degree of accuracy in this number, insurers continue to raise warnings that while the total estimate across all states will be reasonably accurate, state-by-state estimates may vary in quality by carrier for 20XX.

It should also be noted that differences between HHS and state definitions for group size may also create a difference in how the market columns line up in the SHCE vs. the HHS Rebate Form. In addition, where the federal group and group size definition differs from state law or rule, it will necessarily create a disconnect between rating which follows state group size requirements, and rebates which follow federal group size requirements. These differences are expected to be phased out or eliminated in 2016.