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September 10, 2018

The Honorable Alex M. Azar, II  
Secretary  
U.S. Department of Health and Human Services  
200 Independence Ave., S.W.  
Washington, D.C. 20201

Dear Mr. Secretary:

The Alabama Department of Insurance (DOI) is pleased to provide additional support for the DOI's request of August 1, 2018, to adjust the Small Group Risk Adjustment transfers. We continue to believe the Alabama market (including an issuer with 97 percent market share) does not allow the national risk adjustment program to work as precisely as it would with a more balanced distribution of market share. We do not assert that the risk adjustment formula is flawed, only that it produces imprecise results in Alabama. Therefore, we ask that you rule favorably upon our request so that we may avoid a situation which results in less competition and increased consumer cost.

We believe that, to the greatest extent possible, this document should be made available to the public. However much of the information contained herein is taken from confidential data provided by the issuers. We have, therefore, redacted portions of the response that represent confidential company information.

Impact of Risk Adjustment Transfer Reductions

Alabama's unbalanced market leads us to believe that an adjustment in the formula as the DOI has proposed is required to more precisely reflect appropriate risk transfers. Removing one half of the calculated risk adjustment transfers would provide additional stability to our market. Table I provides data on premium, claims and transfers for the four remaining issuers in the Small Group market for the 2017 benefit year. Table II reduces the transfers by 50 percent, roughly approximating the impact of the proposed change. [REDACTED]

Similar data for other years, (excluding issuers that have left the market), show the largest issuer received a transfer each year, [REDACTED]

Table I: 2017 Alabama Small Group Premium, Claims and Risk Adjustment Transfers							
	Premium	Claims	%	Transfer	%	Combined	%
BCBS	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
UHCA	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
UHCI	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
VIVA	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Non-BCBS	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Table II: 2017 Alabama Small Group Premium, Claims and Modified Risk Adjustment Transfers							
	Premium	Claims	%	Transfer (x50%)	%	Combined	%
BCBS	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
UHCA	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
UHCI	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
VIVA	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Non-BCBS	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

De Minimis Impact on Premium

The federal regulation asks that we demonstrate our proposal would have a de minimis impact on necessary premium. As shown in the tables above, two issuers received payments from risk adjustment transfers for the 2017 benefit year. As we noted in our request, the amount of the transfer for the largest issuer, Blue Cross Blue Shield of Alabama, (BCBS) was de minimis (i.e. was under 1 percent of premium). United HealthCare Insurance Company, (UHCI) however received a transfer in excess of 1 percent of premium.

We interpret the regulation to imply an issuer would evaluate the Risk Adjustment results and make an adjustment in the premium rates to be charged in the following year. We thus looked at confidential material in the actuarial memorandum for both issuers to see if they would make a more than de minimis adjustment in their premium for next year due to the impact of transfers. We believe this confidential material suggests neither issuer would make a more than de minimis increase in premium based upon the loss of some of their risk adjustment transfer.

Each year, issuers in Alabama cooperate with the DOI to develop projected risk adjustment transfers expected to be announced each July 1<sup>st</sup>. These projections have been very accurate and are distributed to the issuers prior to the issuers submitting their rates. The issuers are able to review these estimates and can incorporate results in their rate making. It is reasonable to evaluate the material in the rate filing and its actuarial memorandum to see if issuers would revise an adjustment in the rates to reflect a change in projected risk adjustment transfers.

BCBS describes the process it uses to propose an adjustment to premium. [REDACTED]  
 [REDACTED] Our evaluation of BCBS's calculation, assuming a reduction of 50 percent, indicates the difference in the rate adjustment would again be less than de minimis.

UHCI calculates its rate adjustment based upon [REDACTED]

[REDACTED]  
Our evaluation of UHCI's calculation, assuming a reduction of 50 percent, indicates the difference in the rate adjustment would again be less than de minimis.

We believe this analysis of the two issuers' rate-making process demonstrates that reducing transfers by one half would not result in a more than de minimis increase in premium.

#### Future Expectations

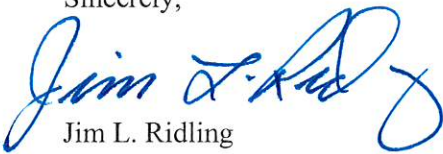
The DOI tried to evaluate the experience of the last four years to develop expectations for the future. The DOI concludes that the lack of credibility does not allow us to make such a projection. We again turned to the confidential information in the issuers' actuarial memoranda. [REDACTED]

#### Conclusion

In summary, we continue to believe a market like Alabama's with extremely unbalanced market share, the risk adjustment program lacks the precision it exhibits in other markets. We see the effect of the risk adjustment formula as overcompensating for the risk. [REDACTED]

We believe issuers are able to evaluate the experience in Alabama and will make decisions about their participation in our market based upon this information. If no adjustment is made, we believe we will have only two corporate groups, (representing perhaps three issuers), providing coverage in the Alabama Small Group market. We believe that if we are able to have a risk adjustment program that transfers only one half what the national program calculates, we will continue to have at least the current four issuers and will be more attractive to additional issuers considering our market.

Sincerely,



Jim L. Ridling  
Commissioner

cc: Randy Pate, Deputy Administrator and Director, CCIIO  
Jeff Wu, Associate Deputy Director for Policy Coordination, CCIIO