

United States Senate

WASHINGTON, DC 20510

June 1, 2011

The Honorable Kathleen Sebelius
Secretary
U.S. Department of Health and Human Services
200 Independence Ave, SW
Washington, DC 20201

Dear Secretary Sebelius:

I am writing to urge you to cautiously and conservatively review all applications from states requesting adjustments to the medical loss ratio (MLR) requirements defined by the Affordable Care Act. As you know, this provision guarantees that insurance premiums paid by families and by federal subsidies for the purchase of private health insurance are used for actual medical care, not wasteful administrative spending, marketing, executive compensation, or profits. It does this by requiring health insurers to spend at least 80 to 85 percent of premiums on actual health care services.

Since the requirement that insurance companies comply with the medical loss ratio began this year, I've heard reports from several sources that this provision is already leading to lower premiums for consumers. Last month, during a hearing in the Senate Health, Education, Labor and Pensions Committee, we heard testimony from Steve Larsen, the director of the office overseeing the implementation of MLR at the Centers for Medicare & Medicaid. In his testimony, he stated, "The MLR provision ensures consumers receive value for their premium dollars and encourages insurers to invest in the health of their policyholders, while maintaining insurance market stability. There are signs this provision has already helped to moderate premium increases." He also stated in his oral testimony that insurance companies "have been moderating the rate at which their rate increases would be proposed in light of the MLR targets... so they have consciously made a decision that in order to hit the targets they're going to have to slow the rate of premium growth. We also know based on conversations with insurance commissioners around the country that companies are making rate filings based on hitting the targets." This is the first clear statement that MLR is already succeeding in reining in costs.

Further evidence of provision's potential to lower premiums was provided in a report conducted by a working group of the National Association of Insurance Commissioners (NAIC). This analysis shows that if the MLR law's rebate provisions had been in effect in 2010, American consumers in all 50 states would have received rebates totaling almost \$2 billion from their health insurance companies. This is yet another indication of the importance of a conservative review of all future MLR adjustment applications. Weak MLR requirements will allow insurance companies to continue to spend exorbitant portions of the dollars they receive in premiums on administrative costs, marketing, and CEO profits, rather than health care services and rebates for consumers.

As you know, the federal regulation lists specific requirements for the granting of adjustments. I urge you to carefully consider whether the data provided by states in their MLR adjustment applications—and only those data—make a convincing case that their insurance markets would truly be destabilized by the enforcement of the MLR requirement, and request additional data when the application is incomplete.

I respectfully request that you provide regular updates to me on the waiver adjustment application and review process, and thank you for your careful consideration to this important matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Al Franken". The signature is fluid and cursive, with a long horizontal stroke at the end.

Al Franken
U.S. Senator