

The Federal Medical Loss Ratio (MLR) Calculations – Background and Initial Costs of Compliance

June 2011

In January 2011, AHIP conducted a survey of health insurance plans on costs of compliance with the new national Medical Loss Ratio (MLR) rule, as enacted in the Affordable Care Act (ACA) and described in an “interim final” rule issued by the Department of Health and Human Services (HHS) on December 1, 2010.

A preliminary analysis of the regulation and the data from this survey support four key points:

- Initial compliance costs (especially accounting, auditing, and contracts with providers and employers) will likely exceed the estimates that accompanied the regulation by a substantial amount for many health plans.
- Plans serving the individual and small-group markets are the most likely to be affected.
- There is no guarantee that the federal MLR rule will lower health costs and premiums. In fact, the incentives under the rule may lead to higher administrative costs, higher-cost benefits, and higher premiums.
- The rule could reduce the number of health plans competing in some markets.

Because the regulation is so new, many health plans are only beginning to tally its costs and assess its implications. Moreover, it is possible that the regulation will continue to be modified or further

clarified through additional guidance.¹ Nevertheless, the survey results raise several questions about the proposed implementation of the MLR, and they suggest some possible unintended consequences. For many health plans, the initial compliance costs alone will be substantial.

MLR BACKGROUND

The MLR concept is simple in theory. In general, a loss ratio is a health plan’s benefit payments (the numerator) divided by its premiums (the denominator).² Thus, a health plan with non-benefit expenses (including the costs of adjudicating claims and administering networks of health care providers, sales and marketing expenses, and profits or additions to reserves) that comprised 12 percent of premiums would have a loss ratio of 88 percent.

¹ For example, HHS issued supplementary guidance in question and answer format on May 13, 2011, after the data were collected for this survey. Based on AHIP’s preliminary interpretation of the new guidance, we believe it would not substantially change member plans’ responses to this survey. However, it is possible that subsequent guidance could revise the rule in ways that would reduce administrative costs of compliance.

² Under the proposed rule, certain quality improvement expenses are added to the numerator, and certain taxes paid by health plans are subtracted from the denominator.

Loss ratio calculations have been used by states for decades, usually as part of regulations designed to assure plan solvency, but also to help monitor pricing of regulated insurance products. The ACA requires that health plans provide rebates to consumers if their loss ratios are lower than 80 percent for individual and small-group coverage, or 85 percent for large-group coverage.³ These minimums are required in each state in which the health plan offers coverage.⁴

Because the MLR is based on a ratio, it has two moving parts, either of which can affect compliance with the rule. Most political discussion of the MLR has focused on health plans' administrative costs, such as reducing commissions to health insurance agents and salaries of health plan employees. However, changes to provider reimbursements, such as payments to hospitals, physicians, and suppliers, would also affect the ratio. Some attempts to comply with the MLR rule could affect both parts of the ratio simultaneously. For example, a plan could cut fraud prevention programs in an attempt to reduce administrative spending, which could have the effect of subsequently adding (perhaps inappropriate) payments to providers over time. On paper, the plan's loss ratio would "improve" by this action, with less administrative spending and greater payments to health care providers, but the health system could be worse for the result.

In theory, loss ratios are affected by many costs and expenses of health coverage, including:

- Claims adjudication expenses.
- Research and network development expenses.⁵
- Sales commissions and/or marketing expenses.
- General overhead and capital costs, including profits or additions to reserves.
- Reimbursement rates to health care providers.
- Higher- or lower-cost benefit packages (e.g., size of copayment amounts, scope of covered benefits, broader or narrower provider networks, coverage for out-of-network benefits).

However, attempting to change some of these expenses may not be efficient or economically feasible and could otherwise jeopardize a plan's ability to compete.

In a comprehensive study of analytic issues surrounding health reform proposals that was published prior to the national health reform debate, the Congressional Budget Office (CBO) emphasized the likelihood that plans whose loss ratios were out of compliance would exit markets:

"Some proposals would try to directly limit administrative costs by mandating minimum loss ratios—that is, by specifying that the amounts spent on benefits should be at least some specified percentage of the premium. That strategy could be problematic, however, because a high loss ratio may not imply greater efficiency on the part of an insurer. Moreover, whether insurers serving the individual and small-group markets could increase their loss ratios simply because they were required to do so is not clear, so the effects of such requirements on those

³ The MLR requirements apply only to "fully-insured" coverage, not self-funded coverage. Under self-funded coverage, which is provided by most large employers, the employer, not the insurer, assumes the risk of paying claims.

⁴ The MLR rebate requirements apply only to plans that have enrollment of more than 1,000 lives in a state.

⁵ Although certain quality improvement activities would not reduce health plans' loss ratios under the federal rule, expenses associated with research on health provider quality or performance, which could be used in network management or consumer awareness efforts, are not exempted.

markets are hard to predict. If the requirement was set too high, insurers would probably exit the market.”⁶

The MLR rule could thus create several unintended consequences, including increases in administrative costs (to comply with the rule), reductions in competition (from plans that exit markets), and overall increases in health costs (as lower-cost plans add benefits, increase provider reimbursements, or exit markets).

In general, compliance costs of the MLR rule will likely have the greatest impact on health plans with a large portion of their enrollment in the small-group and individual markets, where loss ratios are commonly below 80 percent. Loss ratios are lower for individual policyholders and the smallest groups for two reasons: (1) the costs of servicing individual and small-group policies tend to be higher than for large groups (where employers assume many administrative functions); and (2) individual and small-group policies tend to have lower benefit levels (such as higher deductibles or copayments) and thus may have lower premiums.

Likewise, health plans offering lower-cost benefit packages will be affected more than health plans offering more extensive benefit packages.⁷ On a per-enrollee basis, lower-cost benefit options are not necessarily less costly to administer. Thus, less-

costly health benefit plans will naturally have lower loss ratios and a greater likelihood of being noncompliant with the MLR rule, because their premiums are lower.

Finally, health plans with limited market shares and fixed costs of operation spread over fewer covered lives will face a higher likelihood of falling below the federal MLR than plans with larger market shares.

POLICY COMPLEXITIES AND ADJUSTMENTS

To counteract some of the inherent incentives for higher costs and reduced competition that accompany the use of an MLR to regulate administrative costs, the proposed rule contains several important adjustments. These adjustments are based on a model proposed by the National Association of Insurance Commissioners (NAIC) on October 27, 2010, which was largely adopted by HHS.⁸ Plans must report MLRs separately for each state, and the various adjustments apply to each market in each state. (The federal MLR calculations do not necessarily duplicate information that health plans currently provide to state regulators.)

In some cases, issues with the MLR regulation that pose incentive problems for insurers, such as incentives to cut back on fraud prevention programs, were not addressed in the NAIC proposals. In other cases, the regulation went beyond the NAIC model and added new complexities.

Newly-Issued Policies and the Credibility Adjustment for Small Risk Pools. The rule would exempt certain newly-issued policies from the MLR calculations for a

⁶ Congressional Budget Office, *Key Issues in Analyzing Major Health Insurance Proposals* (December 2008). See: <http://www.cbo.gov/ftpdocs/99xx/doc9924/toc.shtml>.

⁷ The rule makes an adjustment for high-deductible plans. However, it is unclear whether this adjustment will be sufficient to prevent plans specializing in high-deductible coverage from being adversely affected relative to plans offering lower-deductible coverage. Likewise, the rule does not make adjustments for health plans with lower benefit costs due to higher copayments, narrower provider networks, or a more limited scope of benefits.

⁸ NAIC model proposal. See: http://www.naic.org/documents/committees_ex_mlr_reg_asadopted.pdf.

period of time. This should help mitigate the disincentive for market entry and new competition.

The rule also has a “credibility adjustment” to allow plans with small risk pools in certain states to smooth loss ratios over several years. Without an adjustment for natural volatility of claims, the loss ratios for small pools would otherwise fluctuate from year to year, possibly leading to unjustified rebates one year and plan solvency issues the next.

However, for technical reasons, the credibility adjustment is not likely to be strong enough. It may not provide a sufficient degree of year-to-year smoothing of potentially volatile claims experience to protect health plans with relatively small numbers of enrollees from unpredictable swings in loss ratios.

High-Deductible Plans. The proposed rule contains an adjustment for deductible levels intended to account for the design of high-deductible plans, which tend to have lower premiums and therefore lower loss ratios.

However, it is unclear whether the adjustment for high-deductible plans will be enough to allow lower-cost, account-based plans, such as health savings account/high-deductible health plans (HSA/HDHPs), to meet the thresholds. And there is no adjustment to account for health plans that use other methods to keep premiums down – such as copayments or development of high-performance networks of providers (which, in turn, involve administrative analysis, quality measurement, and consumer interaction) – from being adversely affected by the rule.

Quality Improvement Activities. The MLR rule also exempted costs associated with certain quality-improvement activities and programs. This means that many programs to reduce preventable hospital

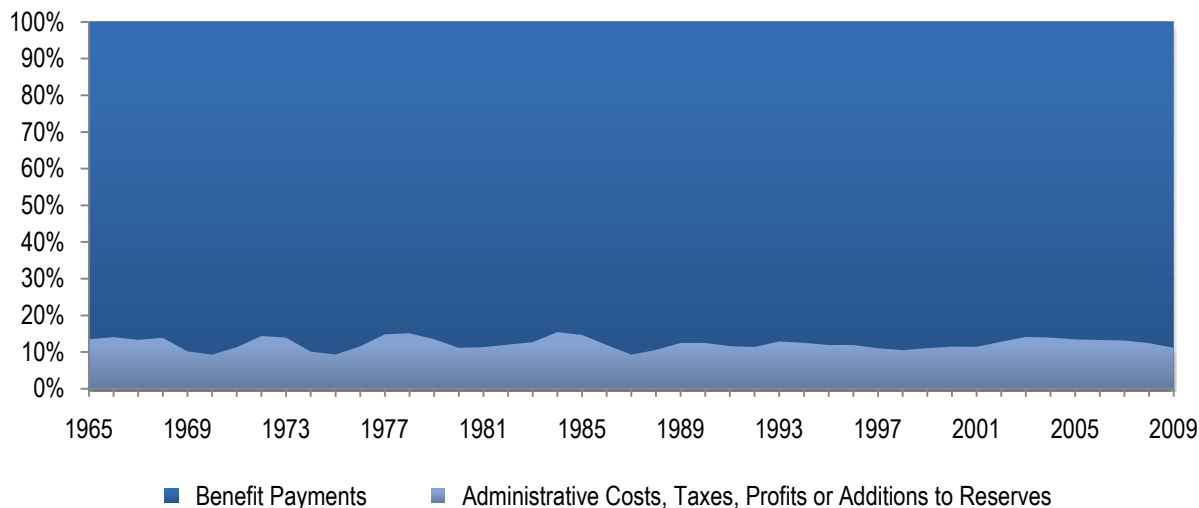
readmissions, help patients follow treatment plans, and coordinate care would not be penalized under the rule.

The exemption of quality improvement activities may not include vital research and data collection efforts. For example, health plans are increasingly using their own claims databases, along with publicly available claims and administrative cost data, to pinpoint indicators of sub-optimal care, such as high rates of hospital readmissions, adverse events (e.g., medical errors, healthcare-acquired infections, and injuries) and higher-than-average mortality or morbidity rates. Health plans may use this information in developing their provider networks or in providing information directly to patients. Because this research is not directly related to patient outcomes, it would be counted toward administrative costs – not as a quality improvement activity – under the MLR rule. Therefore, such research could be the first to be eliminated if a health plan’s operations were near the MLR threshold.

ICD-10 Coding. The MLR does not create an exception for ICD-10 coding implementation. ICD-10 is a new coding system required under federal law to be implemented by health plans over the next several years for quality tracking purposes. These implementation costs were not included as quality improvement activities under the MLR rule; this could particularly impact smaller health plans, whose ICD-10 implementation costs were estimated to be several times higher (on a per-member basis) than costs for large plans.⁹

⁹ AHIP Center for Policy and Research, *Health Plans’ Estimated Costs of Implementing ICD-10 Diagnosis Coding* (September 2010). See: <http://www.ahipresearch.org/pdfs/SurveyICD-10CostsSept2010.pdf>.

Figure 1. Composition of Private Health Insurance Premiums, 1965-2009



Source: Centers for Medicare & Medicaid Services (CMS). "National Health Expenditures by Type of Service and Source of Funds: Calendar Years 1965 to 2009."

Note: Private health insurance in the national health expenditures accounts includes both fully-insured and self-funded coverage, as well as supplemental health insurance and other health coverage (e.g. dental, long-term care).

Fraud Prevention. Successful fraud prevention efforts can directly affect both the numerator and the denominator of the MLR calculation. Companies spending significant sums on fraud prevention will be particularly at risk of falling below the MLR thresholds, both because of the cost of their anti-fraud programs (which is classified as an administrative cost) and because, by preventing fraudulent payments, their premiums are lower.¹⁰ However, there is no exemption from the MLR for anti-fraud efforts.

Administrative Costs of Vendors or Sub-Contractors. The HHS interim final rule added some requirements that were not included in the NAIC recommendations. For example, health plans must determine internal administrative costs for certain sub-contractors or

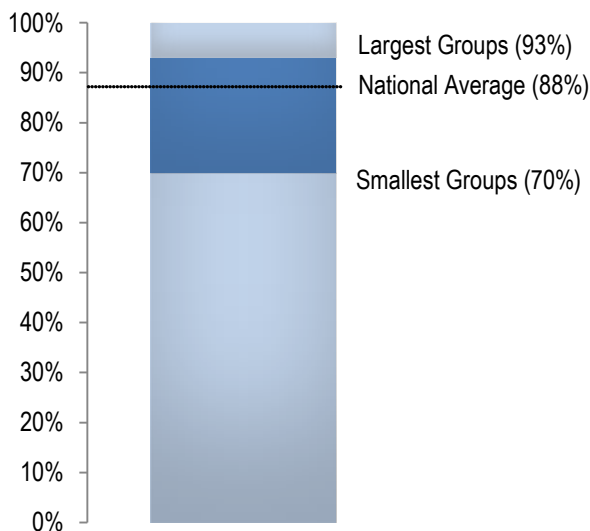
vendors, potentially including pharmaceutical benefit managers (PBMs), behavioral health plans, and reinsurers. It is not clear whether the requirement to ascertain the administrative cost of vendors and sub-contractors will apply in every circumstance, and this part of the rule could be clarified in further guidance from HHS.¹¹ As originally written, however, the costs of compliance could be very high.

Rebates to Employees. For the payment of rebates, employers are required to provide information about employees and former employees who may be eligible. However, if employers do not provide the

¹⁰ For an overview of health plans' anti-fraud efforts, see AHIP Center for Policy and Research, *Insurers' Efforts to Prevent Health Care Fraud* (January 2011). See: <http://www.ahipresearch.org/pdfs/FraudPrevention2011.pdf>.

¹¹ The May 13, 2011 supplementary guidance document from HHS notes that insurers only need to secure aggregated quality and administrative cost breakouts from each vendor rather than requiring a separate breakout for each individual vendor service. However, this may not reduce data processing work necessary to compute these numbers in the first place. See: Centers for Medicare & Medicaid Services (CMS). *Questions and Answers Regarding the Medical Loss Ratio Interim Final Rule* (May 13, 2011), available at http://ccio.cms.gov/resources/files/2011_05_13_mlr_q_and_a_guidance.pdf.

Figure 2. Typical Loss Ratios for Commercial Coverage



Sources: Congressional Budget Office “Key Issues” report (as cited in the paper). Centers for Medicare & Medicaid Services (CMS). “National Health Expenditures by Type of Service and Source of Funds: Calendar Years 1965 to 2009.”

necessary information, health plans remain liable for paying the rebates and are subject to fines and other sanctions for failure to pay. The cost to health plans of attempting to provide rebates to consumers in the absence of information provided by employers would also likely be high.

IMPACT ON THE INDIVIDUAL MARKET AND HEALTH PLANS SERVING THE SMALLEST GROUPS

Prior to the most recent health reform debate in Congress, CBO provided a discussion of the federal MLR concept.¹² This discussion was based in part

¹² Congressional Budget Office, *Key Issues in Analyzing Major Health Insurance Proposals* (December 2008). See: <http://www.cbo.gov/ftpdocs/99xx/doc9924/toc.shtml>.

on an earlier study by James Robinson published in the journal *Health Affairs*.¹³

The CBO discussion merits extended quotation:

“A common metric that is used to assess an insurer’s administrative costs is the ratio of claims payments to the total premium, referred to as the “medical loss ratio.” (The difference between the medical loss ratio and 100 percent is the share of the premium devoted to administrative expenses.) When comparing two plans that are equivalent on other dimensions, such as the total premium and quality of service, a low loss ratio could indicate a plan that is run less efficiently. But a loss ratio is not always indicative of a plan’s efficiency or value. For example, a health plan that devotes more resources to managing the use of health care services might have a relatively low loss ratio but also a lower overall premium. In contrast, a more lightly managed plan might have a high loss ratio but a correspondingly higher overall premium and might be covering more services that provide limited health benefits. The former plan, despite its low loss ratio, may well be preferable because of its lower overall premium for the package of services that it provides. Thus, a loss ratio provides just one way of evaluating a health plan’s administrative expenses.

Administrative costs typically vary not only by the type of insurance plan but also by the size and nature of the group being insured. Among employment-based plans, the share of the premium that pays for administrative costs varies

¹³ James C. Robinson, “Use And Abuse Of The Medical Loss Ratio To Measure Health Plan Performance,” *Health Affairs*, vol. 16, no. 4. (July/August 1997), pp. 176–187. See: <http://content.healthaffairs.org/content/16/4/176.full.pdf>.

*significantly by the size of firms, from about 7 percent for firms with at least 1,000 employees to 26 percent for firms with 25 or fewer employees. The latter loading factor is comparable with the one seen in the individual insurance market, where administrative costs account for nearly 30 percent of premiums.*¹⁴ Although the overall national average loss ratio for private health insurance has historically remained about 88 percent (see Figure 1), there is a wide spread in loss ratios by health insurance market. Based in part on an analysis provided by McKinsey Global Consulting, CBO estimates that loss ratios range from about 70 percent for some individual and small-group coverage to as high as 93 percent for very large groups with over 1,000 employees (see Figure 2).

Thus, the 80 percent MLR requirement for health plans offering coverage in the individual and small group markets is more likely to generate disruption of current coverage than the required 85 percent level for large groups.

SURVEY METHODOLOGY

Our survey asked health plans to examine the costs of calculating their federal loss ratio status under the proposed MLR rule and administering their compliance with the rule. This includes the start-up and ongoing costs of computation for the federal MLR process.

Importantly, the survey does not attempt to assess the costs of rebates themselves or the costs associated with changes in business operations (such as selling lines of business or changing reimbursement methods) designed to prevent loss ratios from falling below the federal thresholds. Because of the survey's limited time frame, and the preliminary nature of virtually all health plans' assessments and examinations of the issues surrounding compliance with the federal MLR, we could not field a traditional quantitative survey with closed-ended questions.

Instead, we asked health plans to respond to several general questions in a relatively open-ended format. These included questions about analytic, auditing, and accounting systems costs associated with compliance.

We also asked about the cost of providing rebates and the cost of compliance in multiple states (if applicable). The survey did not ask broader questions about compliance through other means, such as changes in reimbursements to health care providers, changes in benefits packages, or withdrawal from markets.

Survey respondents included 30 AHIP member companies, ranging from large health plans with more than 1 million covered lives to very small plans with fewer than 100,000 covered lives (see Table 1). Eleven of the responding plans operated in more than one state; 19 had single-state operations (see Table 2).

¹⁴ Congressional Budget Office, 2008 *Key Issues in Analyzing Major Health Insurance Proposals* (December 2008), Chapter 3 (Administrative Costs of Health Plans). See: <http://www.cbo.gov/ftpdocs/99xx/doc9924/toc.shtml>.

Table 1. Size Breakdown of Companies Responding to the Survey

Large (More than 1 Million Covered Lives)	11
Medium-Sized (500,000 to 1 Million Covered lives)	7
Small (100,000-500,000 Covered Lives)	10
Very Small (Fewer than 100,000 covered lives)	2

Source: AHIP Center for Policy and Research.

Table 2. Single-State versus Multi-State Operation Among Companies Responding to the Survey

Multi-State	11
Single-State	19

Source: AHIP Center for Policy and Research.

UNDERSTANDING THE SURVEY RESULTS

Survey results are shown in detail in the appendix. For each responding company, the appendix tables characterize any preliminary compliance costs identified, as well as notes on compliance costs and issues associated with:

- Accounting changes and contracts.
- Rebate calculations and distributing rebates.
- Auditing.
- Economies of scale for multi-state compliance (if applicable).
- Other requirements identified by the company.

In some cases, the responses were numerically precise, relaying estimates of costs or numbers of full-time equivalent (FTE) employees needed to manage compliance. In other cases, ranges of costs were given. In many cases, the responding company provided a narrative discussion, but numerical estimates were not yet available.

Because many health plans have only begun to assess the costs of compliance with the MLR rule, the results presented here are necessarily preliminary. In many cases, responding companies noted that their assessments and cost estimates were incomplete.

Nevertheless, even the partial and preliminary estimates from responding companies indicate the initial costs of implementing the federal MLR will be substantial for many health plans.

The results are not uniform. Some large, multi-state plans have identified preliminary compliance costs exceeding \$20 million. Plans noted difficulties estimating some of the requirements that were not in the NAIC model. For example, several respondents indicated that they have not completed estimates of the cost and operational feasibility of complying with the federal MLR requirement that health plans report the administrative costs of their vendors and contractors who provide health care services.

MAJOR THEMES FROM HEALTH PLAN RESPONSES

Accounting Costs Associated with Federal MLR Requirements Could Be Substantial. Several responding health plans noted that the accounting system and contracting costs related to the requirement for health plans to break out administrative and quality-of-care expenses at provider and vendor levels will require new accounting and system development costs. Health plan responses included the following:

"[The health plan] would need to develop system capabilities to extract and track claim information at the provider level for MLR reporting, not just at the state and segment level."

“We will need to add an entire function that does not exist today to inquire about the breakout of the vendor’s costs and review them for reasonability, then have our own assessment reviewed internally.”

“It will be very difficult to renegotiate these contracts because it would mean re-opening the contracts to other amendments. We would need significant legal time and additional resources on top of auditor time.”

“Coding changes to the systems will need to be formally communicated to all users, and multiple training sessions will need to be set up shortly after the coding changes are implemented. The company expects to incur significant training costs as a result of the new requirements.”

Requirement to Pay Rebates Directly to Employees and Former Employees in Group Plans Is Problematic.

The MLR rule requires health plans to be fully liable for rebate calculation and dissemination, even if employers do not provide employee information needed to comply. To meet the rule’s rebate requirements, health plans will need to undertake new forms of data collection and install new systems. The following are some sample responses:

“We will also need to develop additional audit capabilities to ensure we meet the obligation of ensuring that rebate checks are issued to individual subscribers if an employer elects to do so.”

“We do not request detailed information on contribution levels from our covered groups, so we would need to rely on the groups themselves to provide us this information or we would need to establish a system to collect it ourselves. This

would be very challenging and time consuming, especially on the small group side since we have over 36,000 small groups.”

“First, an employer’s agreement to take on this distribution burden does not shift the ultimate responsibility from [the health plan]. As such, [the health plan] remains responsible for an employer’s failure to do so or to do so in a manner that does not satisfy the regulatory requirements.”

“There is no penalty for a group that fails to provide timely information, and if a lack of response or incomplete response delays payment, the group may actually receive interest on any rebates and the issuer somehow retains liability for the accurate payment and distribution of those rebates even where employers may be uncooperative.”

Auditing Costs Could Be Substantial in Some Cases.

Several responding companies noted the auditing costs to prove compliance with MLR calculations and rebates:

“The aggregation of data at the state level rather than at the national level is a huge driver of expense that also creates additional costs since we will then have to produce the report multiple times. We are also validating our approach with an outside audit firm to ensure that the report and its compilation will [be validated by] external review. That audit is generating expense to the organization as well.”

“Audits would likely mirror intensity of state market conduct exams and annual financial audits. On average, these audits impact 2 to 3 FTEs in Finance (time fully allocated to the audit, at the expense of day-to-day activities). FTEs in

other departments are impacted as well. Audits typically span 2 to 6 months, and consume roughly 750 hours of staff time."

No Substantial Economies of Scale for Multi-State Plans. Health plans with operations in more than one state did not believe that costs would be substantially reduced due to economies of scale from multi-state operation:

"Reporting and compliance efforts are performed at a legal entity and state aggregation level, and thus the economies of scale would not be materially achieved unless aggregations were allowed at a higher entity or combined state-level basis."

Cost savings for not paying rebates in one state would not offset costs of determining whether rebates are owed...Being licensed in multiple states would entail separate reporting requirements for each state...Efficiencies are further challenged by intricacies of state-specific features of our business, as well as the difficulty of dividing expenses across multiple businesses."

"Each state has its own governing agencies such as the Department of Insurance and Department of Health that require all health insurers to report its operating results in accordance with the state's regulations. The type of reports that are submitted to each state largely depends on several factors such as state-prescribed accounting principles, products mix and the reporting entity's type of corporation. All systems, data elements, data structures and processes must be set up to conform to each state's unique requirements."

COMMENTARY

The federal MLR law was a political response to the myth that health insurers' administrative costs and profits were mainly responsible for driving up health care costs. This allowed the political discussion of the ACA to occur without addressing underlying factors driving health insurance premiums, including:

- Hospital prices are rising rapidly, in part due to horizontal mergers in local areas and the formation of negotiating cartels consisting of largely unrelated hospitals, and in part due to financial pressure from increasing numbers of uninsured and Medicare/Medicaid patients for whom reimbursements may not cover costs.¹⁵
- The high incidence of often-preventable illnesses, such as diabetes and heart disease, which continue to soar among younger people, due in part to poor lifestyle choices (bad diet, lack of exercise).
- The recession pushed millions of younger people off the insurance rolls, either because they lost their jobs or could no longer afford individual coverage, thus skewing average costs higher for those remaining insured.
- In many parts of the country and among many health care providers, medical care tends to be uncoordinated and focused on discrete services, not on patients' interrelated treatment needs or longer-term care management.
- Many health care providers still use pre-1990s technology for clinician-to-clinician

¹⁵ Robert A. Berenson, Paul B. Ginsburg, and Nicole Kemper, "Unchecked Provider Clout In California Foreshadows Challenges To Health Reform," *Health Affairs*, April 2010; 29(4): 699-705; AHIP Center for Policy and Research *Recent Trends in Hospital Prices in California and Oregon* (December 2010) See: <http://www.ahipresearch.org/pdfs/PricesCaliforniaOregon2010.pdf>.

communication (telephone, fax) and pre-1900s technology for clinician-to-patient communication and record-keeping (pen-and-paper patient records).

- Hospital safety and quality indicators, including adverse event and readmission rates, do not seem to be improving.

This survey indicates that at least some health plans expect significant new administrative costs to comply with the federal MLR regulation. Ironically, the added costs of compliance could make it more likely that their loss ratios would fall below the thresholds set in the rule.

Beyond the added cost, the rule has the potential to disrupt existing coverage. A recent report by researchers at the University of Minnesota estimates that in several states, most health insurers would currently fall below the 80 percent MLR threshold for individual market coverage:

"In 2009 ... we estimate that 29% of insurer-state observations in the individual market would have MLRs below the 80% minimum, corresponding to 32% of total enrollment. Nine states would have at least one-half of their health insurers below the threshold. If insurers below the MLR threshold exit the market, major coverage disruption could occur for those in poor health; we estimated the range to be between 104,624 and 158,736 member-years."¹⁶

An important but rarely mentioned implication of the MLR rule is its potential to stifle research by health

plans on improving patients' health outcomes and increasing providers' use of evidence-based treatment. Despite the efforts of HHS and NAIC, the distinctions between quality-improvement activities and administrative costs are not easy to delineate in regulation. For example, costs for network development generally are not exempted from the calculation of administrative costs; as a result, research used to develop provider contracts based on quality indicators not will likely count as quality improvement activity. Even HSA/HDHPs that do not have networks may conduct research to help consumers find providers with the highest quality and efficiency, and to detect fraud. Perhaps inadvertently, the MLR rule creates a disincentive for these types of research efforts. The loss of this information would come at a particularly inopportune time, especially as the ACA attempts to create new value- and quality-based purchasing systems and greater accountability in the health care system, often using these very types of data.

ACKNOWLEDGEMENTS

The data for this report were compiled by Dan LaVallee of AHIP's Center for Policy and Research. For more information, please contact Jeff Lemieux, Senior Vice President, at 202.778.3200 or visit www.ahipresearch.org.

¹⁶ Jean M. Abraham and Pinar Karaca-Mandic, "Regulating the Medical Loss Ratio: Implications for the Individual Market" American Journal of Managed Care Vol. 17, no. 3 (March 2011) See: http://www.ajmc.com/publications/issue/2011/2011-3-vol17-n3/AJMC_11mar_Abraham_211to218.

APPENDIX – Individual Company Survey Responses

HP101

Identified Costs of Compliance (may be incomplete)	Our current estimate of the investment required for 2011 is \$20–28 million. This would include 150,000–200,000 man hours spread over 450–600 individuals on IT investment and a similar number of man hours for business functions.
Notes on Accounting Costs of Compliance	<p>A thorough analysis of the Quality Improvement Activities (QIA) being performed at [the health plan] was conducted in 2010. However, this analysis will need to be re-visited a number of times throughout subsequent years:</p> <p>Annually – to account for cost center structure or activity changes that would impact QIA allocations.</p> <p>Monthly and Quarterly (potential for more frequent reviews) – to ensure that activities within the cost center have not changed significantly, as well as investigate any variances.</p> <p>As such, some level of organizational refinement needs to occur in order to better structure [the health plan] to evaluate, monitor, refine, and manage the QIA activities and expenses.</p> <p>Upfront costs will be incurred for internal and external resources needed to define, outline and establish QIA business operations. Additionally, as the QIA work evolves, a number of incremental staff will be needed to support the ongoing operational activities.</p> <p>Incremental systems costs will be incurred [in order] to configure, test and deploy functionality required to track and manage quality expenses (e.g., tracking QIA, calculating QIA, reports to monitor, changes in allocation logic).</p> <p>We will need to renegotiate the data feeds provided by TPA (Third-party Administrator) vendors in order to be compliant with MLR reporting.</p>
Notes on Rebate Calculations and Costs	<p>The premium contribution information required to comply with the rebate allocation to employers and to employees is not collected today by insurers. This will require new business processes and new IT systems and data fields to capture and maintain this information. It will have significant impact to customers who will need to provide additional information to insurers as well as be educated on the how rebates are determined and how they will need to be distributed.</p> <p>In addition, changes will be required to distribute the rebates to all impacted constituents which will include ensuring [that] appropriate accounting controls are in place to ensure full distribution of the rebates and compliance with the regulation. We expect that there will be significant questions that will need to be responded to from customers and individuals.</p> <p>Additionally, we anticipate potential issues with the interaction of group plan sponsors and auditors in providing adequate evidence that rebates were distributed to all insured members.</p>
Notes on Auditing	<p>Organizational changes will need to be made in order to properly audit and ensure compliance of the MLR calculations. Resources will need to be allocated to understanding and ensuring compliance with the following:</p> <ul style="list-style-type: none"> • MLR regulatory impacts on pricing & product strategies • Calculation of Enterprise, Pool and Employer/Employee rebates <p>[the health plan] currently operates in a highly regulated environment, subject to periodic examinations from both federal and state agencies, including the U.S. Securities and Exchange Commission, the U.S. Internal Revenue Service, almost all state departments of insurance or managed care and state departments of revenue. In addition, many customers, including the Federal government and the Centers for Medicare and Medicaid Services, have audit rights.</p>

HP101 (continued)

We anticipate significant costs will be incurred to comply with the rules and regulations promulgated by HHS including those related to compliance with the rule's reporting and rebate requirements. Since these regulations are new requirements, we anticipate incurring incremental costs associated with preparing documentation underlying the business process and addition additional staff in Compliance, Operations and Reporting areas. These individuals will need to be properly trained to work with auditors.

Notes on Economies of Scale Relative to State-by-State Compliance

[T]he level of effort needed to get data at the required state level far outweighs any economy of scaled gained from doing it for multiple states.

Other

There are incremental business costs with producing and filing additional statutory exhibits including both the statutory Blank and the Rebate Pool Reporting. The MLR requirements require changes to be made to actuarial functions including pricing.

Internal Management Reporting needs to be revised to provide appropriate level of information to Finance, Actuarial, Sales, and Underwriting on the performance of the MLR pools to ensure that [the health plan] is effectively complying [with] the minimum MLR requirements.

HP102

Identified Costs of Compliance (may be incomplete)	\$4-20 million start-up; \$2.2 million per year ongoing
Notes on Accounting Costs of Compliance	<p>We will need to: identify all affected contracts; determine which contracts are up for renewal (meaning we could insert this provision in a renegotiated contract); perform outreach to parties where contracts are not renewing; request breakdown of price (will be the most time-consuming); ensure that breakdowns are reported to Finance and Actuarial; ensure that any new contract is negotiated to contain this breakdown. Additionally, there will be related systems work necessary to automate this function.</p> <p>Both business contract owners and Legal will be involved in renegotiating the contracts. As of this time, we do not have a cost estimate available. We do expect that not all vendors will willingly share their cost information due to other contractual issues they may have, as well as protecting proprietary and/or confidential information.</p> <p>As of this time, we do not have a cost estimate available.</p>
Notes on Rebate Calculations and Costs	<p>Systems would need to include controls to ensure we are not paying both the group and the subscribers (which would result in duplicate payment).</p> <p>The additional volume increases checks generated and therefore more manual payment handling for stop/cancel/void or mail returns.</p> <p>Yes, we do anticipate difficulties, such as the following:</p> <ul style="list-style-type: none">• A fair number of groups will fail to respond to an insurer's request for contribution information, and that will leave the insurer with incomplete data for reimbursing all subscribers;• There is no penalty for a group that fails to provide timely information, and if a lack of response or incomplete response delays payment, the group may actually receive interest on any rebates and the issuer somehow retains liability for the accurate payment and distribution of those rebates even where employers may be uncooperative;• Employers will have to update their information anytime their contribution strategy changes and such change may not always occur within the underwriting cycle. Relying on the group to send notification of changes outside of underwriting time will result in some inaccuracies and delays; and• Given the liability rests with the issuer for payment, insurers may need to audit the information that groups provide for the purpose of distributing rebates. Those audits could inject delays into the process. <p>One-time costs will be about in the range of \$4 – 20M, depending on the complexity involved in system development. (For example, the development will be incredibly more complex if we must indicate contribution levels down to the subscriber level, which is likely since some groups offer different contribution to premium to different classes of employees.) Ongoing costs will be about \$1.1M per year; almost 70% of that is mailing rebates and rebate notices to subscribers. (Note that the HHS regulation does not permit electronic delivery of rebate notices.)</p>
Notes on Auditing	<p>Further dedicated resources to assist auditors will be required and involvement from external parties (actuaries and external audit vendors).</p> <p>Significant, as the need to obtain access and to validate such information to comply with Section 158.140 is beyond our direct control.</p> <p>Two to five staff members, depending on the frequency and scope of the audits.</p>

HP102 (continued)

Estimated annual costs are approximately \$1 million.

Notes on Economies of Scale Relative to State-by-State Compliance

Reporting and compliance efforts are performed at a legal entity and state aggregation level; and thus the economies of scale would not be materially achieved unless aggregations were allowed at a higher entity or combined state level basis.

Various vendor contracts are enterprise or legal entity maintained and require us have separate allocation processes in place to classify such by product and state and legal entity (when over a broader entity structure) for MLR reporting and rebate calculations.

They are not materially variable based on economies of scale, as reporting of rebates are at legal entity, product and state aggregation levels.

Only further aggregation of legal entity or state reporting would have a material impact to economies of scale.

Other

Obtaining information from employer groups as to average annual employee count for previous year (necessary to be able to categorize group as small or large under new standard).

Notice of rebate to members (regulation does not permit delivery of electronic notice); and if our interpretation of 158.240 (c) (2) is correct, the cost of performing an additional tax allocation down to the subscriber level.

HP103

Identified Costs of Compliance (may be incomplete)	\$225,000-606,000 start-up; \$51,000-129,000 per year ongoing.
Notes on Accounting Costs of Compliance	[The health plan] continues to assess both the internal and external costs associated with all MLR requirements. We have not done a detailed analysis by requirement. However, the issue above will require [the health plan] to have dedicated Provider Contracting resources to separate the administrative costs from medical costs of contracted vendors. The start-up requirement will impact internal [the health plan] resources as well as require help from our vendors. Any programmatic changes will result in additional direct costs to [the health plan] from its vendors. Also, [the health plan] will have to redesign its general ledger and payment process to meet this requirement.
Notes on Rebate Calculations and Costs	[The health plan] continues to assess both the internal and external costs associated with all MLR requirements. We have not done a detailed analysis by requirement. However the issue above will require [the health plan] to have dedicated Premium Billing, Accounting, Actuarial, and Information Technology resources to administer the rebate process. [the health plan] will have to redesign its general ledger and refund payment process to meet this requirement.
Notes on Auditing	[The health plan] continues to assess both the internal and external costs associated with all MLR requirements. We have not done a detailed analysis by requirement. However the issue above will require [the health plan] to have dedicated resources to internally audit reporting requirements and the rebate process. [the health plan] will have to invest in additional audit support staff to meet this requirement.
Notes on Economies of Scale Relative to State-by-State Compliance	[The health plan] continues to assess both the internal and external costs associated with all MLR requirements. However, [the health plan] presently operates in [one state] only so at this time the Multi-State issue does not impact [the health plan].
Other	<p data-bbox="492 1043 1406 1127">At a high level [the health plan] estimates the one-time costs relating to the MLR reporting requirements to be three to four times higher than the HHS estimates noted above. In addition, the ongoing costs will far exceed the HHS estimates above.</p> <p data-bbox="492 1161 1406 1310">The MLR reporting requirements will result in [the health plan] making significant internal infrastructure changes to its reporting systems and general ledger. Moreover, [the health plan] will have to dedicate significant internal resources from many functional areas (Premium Billing, Accounting, Actuarial, IT, Network Contracting, Claims Administration, Regulatory Affairs to name many) to administer the required changes to comply with the MLR requirements.</p>

HP104

Identified Costs of Compliance (may be incomplete)	\$300,000-600,000 start-up; \$300,000-600,000 per year ongoing.
Notes on Accounting Costs of Compliance	<p>Changes will need to be made to our reporting system and cost center structure. We are meeting with functional areas internally to determine QI versus administrative costs and ongoing system changes.</p> <p>It will be difficult to achieve the same level of detail with vendors due to limited resources and time constraints. We will review contracts to assess the expenses.</p> <p>Given our plan size, we would need to hire at least 1 FTE who could focus on the allocation requirement.</p> <p>As resources become more strained, the level of rigor in assessing and allocating will suffer.</p> <p>We are not sure that we plan to renegotiate at this time; this function would likely fall under the 1 FTE's job responsibility.</p> <p>We may have to make system changes in our ability to use group size for reporting based on the current system and definition of small group.</p> <p>Generally \$100,000-\$200,000 up-front and on an ongoing basis.</p>
Notes on Rebate Calculations and Costs	<p>Changes will need to be made to our reporting system given our plan size.</p> <p>Given our plan size, we would need to hire at least 1 FTE whose job responsibility would include rebate distribution.</p> <p>Generally \$100,000-\$200,000 up-front and on an ongoing basis.</p>
Notes on Auditing	<p>We would incorporate these audit requirements into our current audit plan. Our current structure to handle audits continues to become strained. No changes are needed at the present time, but these audit requirements will add to our stressed capacity.</p> <p>Minimal additional work would be required – this would be addressed up-front as described above.</p> <p>Generally no, but if this were to become a highly audited area, we would need to hire 1 additional FTE.</p> <p>If these audits are done with existing resources, additional costs would be minimal.</p> <p>If this area becomes highly audited it would become more expensive with ongoing costs; generally, \$100,000-\$200,000 up-front and on an ongoing basis.</p>
Notes on Economies of Scale Relative to State-by-State Compliance	<p>Each state's regulations are different.</p> <p>States are coming up with their own rules, requiring us to do it differently on a state-by-state basis.</p> <p>Costs are affected by the disparity in stricter state rules.</p> <p>We have some costs specific to a particular state while other operational costs apply to all states and are properly allocated.</p>

HP104 (continued)

We already have state-specific reporting and are required to meet each individual state's requirements.

Other

As the intensity of audits increase, costs will rise significantly. In order to comply in an environment with an activist regulator that systematically demands info through the regulatory process, we would need to increase our staff and use additional resources.

HP105

Identified Costs of Compliance (may be incomplete)	\$750,000 start-up; \$300,000-500,000 ongoing; \$300,000-400,000 additional
Notes on Accounting Costs of Compliance	<p>We will need to add an entire function that does not exist today to inquire about the breakout of the vendor's costs and review them for reasonability, then have our own assessment reviewed internally. This will add personnel for sure and costs certainly. This function does not exist today. We are a small plan and any cost of this nature will be material to us and could limit our ability to grow and possibly limit our access to capital which is dependent on the level of margin we can generate.</p> <p>Definitely, this will require between 2 and 3 additional personnel for at least a portion of the year – or an allocation of some of our existing Internal Audit staff. Outside audit costs will likely increase as they will now need to review our internal calculations and that is another cost that we will incur. For our department, this is about a 5% increase in costs – which is not insignificant where overall G & A is limited to begin with and margins are already squeezed from the compressed benchmarks.</p> <p>This is not entirely clear – but certainly some of senior management's time and outside legal costs will be incurred in renegotiating [...] contracts. A preliminary and rough estimate is that this will be an additional allocation of resources and costs of approximately \$500k per year for all of our major vendors – that touch the medical cost area. This is a very significant cost to a small health plan such as we are. These rules will likely play to the advantage of the very large organizations and harm the small health plans – while stifling new health plans and growth in existing health plans that are not already extremely large.</p> <p>We will need to upgrade some software within our accounting systems to track the [differentiation] in the types of costs incurred from outside parties and our own internal costs. The man hours associated with implementing these changes could be in the thousands – which is another significant cost.</p> <p>We roughly anticipate that the one-time costs will run \$750k – and will be incurred over a two year start-up period. We preliminarily estimate that the ongoing costs will be approximately \$300–500k in terms of man hours to track and manage this additional set of information for our organization. We estimate that an additional \$ 50–100k per annum will be incurred by outside auditors to review and test our calculations and records.</p>
Notes on Rebate Calculations and Costs	[Plan does not anticipate rebates.]
Notes on Auditing	<p>At this point, we believe that even without rebates, we will be audited by HHS or their appointees and that this will consume approximately 1500 man hours per year – which will have a cost of approximately \$200,000 with all associated overhead and payroll related costs. For a small organization, this is a significant supplemental cost, especially in the Medicare Advantage environment.</p>
Notes on Economies of Scale Relative to State-by-State Compliance	<p>We have not thought this through yet – but typically do not have separate contracts by vendor by state.</p>
Other	<p>There will be the cost of tracking changes in the regulations which are likely to arise. We have no accurate way to predict how much time of internal versus external resources will be required, but a rough estimate is that this is likely another \$50,000–100,000 per annum.</p>

HP106

Identified Costs of Compliance (may be incomplete)	\$1-2 million start-up; \$1-2 million per year ongoing; \$400,000-500,000 other costs.
Notes on Accounting Costs of Compliance	<p>[Total associated accounting costs will be] \$400K - \$500K</p> <p>Enhancing reporting system to produce new MLR reporting requirements</p> <p>[We] have leveraged our regular cost allocation update process and staff to include quality improvement activities.</p> <p>We have updated our cost allocation system to include identification of internal quality improvement activities. Vendor quality improvement services recorded as administrative expense (e.g., disease management) are assumed to be 100% quality improvement.</p> <p>This is based on our interpretation of the law where vendor contract bifurcation applies to contracts recorded as medical expense.</p>
Notes on Rebate Calculations and Costs	<p>One-time costs are estimated at \$1-2 million for system updates. Ongoing costs are estimated to be \$1-2 million in rebate check generation, postage, member communications and escheatment processes.</p> <p>We have not yet made a decision as to whether we would contract the rebate calculation and payment process with groups or handle that piece ourselves. Either way, we anticipate that getting the required information and/or documentation will be an onerous process.</p> <p>We are planning to capture all information in-house and will leverage existing staff and processes.</p>
Notes on Auditing	<p>Ongoing costs will include one external review on an annual basis and one part time internal hire. One-time and other ongoing costs are still being evaluated.</p> <p>We will increase staff or engage outside services to comply with auditing requirements.</p> <p>We will need to engage Legal, Procurement, Audit and our Business Leads to evaluate vendor contracts recorded as medical expense for bifurcation of administration and profit components.</p> <p>We will either increase staff or engage outside services as a significant block of audit hours will be allocated to MLR. Anticipate at minimum, one external review annually. We have not yet determined the amount of additional resources that will be required.</p>
Notes on Economies of Scale Relative to State-by-State Compliance	Not applicable
Other	Updating systems and processes for acquiring and retaining information necessary for the new definition on group size counts (i.e. average members versus eligible members) is not quantified at this point.

HP107

Identified Costs of Compliance (may be incomplete)	\$240,000-410,000 per year ongoing.
Notes on Accounting Costs of Compliance	<p>Both of our insurance companies contract with a related organization for management and administrative services. [the health plan] will be required to allocate administrative costs for health care and quality improvement costs. This will be a major undertaking for [them.] We will have to add new payroll allocation methods and may have to go as far as instituting timesheets for employees.</p> <p>[the health plan] will incur additional costs with incremental FTE's and vendors costs to coordinate obtaining information by department summarizing their employee costs between administrative related functions and health care and quality improvement costs and compiling the information on the attached Supplemental HealthCare Exhibit which will be required annually by the Department of Commerce of [state], the National Association of Insurance Commissioners (NAIC), and Federal HHS. Each of our third-party Disease Management contracts would also need to be reviewed and determined as to how much of the expense is related to administrative costs and healthcare and quality improvement costs.</p> <p>[the health plan] may likely have to add enhancements to the payroll and time and attendance modules. We may also have to add enhancements to the general ledger and accounts payable financial modules. \$100,000 - \$200,000 annually.</p>
Notes on Rebate Calculations and Costs	<p>We will need to develop elaborate spreadsheet modules that will list groups, members, member premium, rebate percentage and rebate amount. We will then need to integrate this information with our billing system and/or accounts payable system in order to give premium credits to groups or cut checks to members.</p> <p>Additional staff needed over time, incremental FTE's. No additional vendors anticipated. Yes, especially small groups.</p> <p>\$100,000 - \$150,000 annually.</p>
Notes on Auditing	<p>We may have to designate 1 or 2 people as MLR rebate specialists. A portion of their time would be dedicated to responding to audit requests.</p> <p>Additional staffing would be required. Estimate of .25 FTE.</p> <p>\$40,000 - \$60,000 annually.</p>
Notes on Economies of Scale Relative to State-by-State Compliance	Not applicable.
Other	None noted.

HP108

Identified Costs of Compliance (may be incomplete)	[Not yet estimated]
Notes on Accounting Costs of Compliance	<p>Our internal staff, in areas that utilize vendors for quality related functions, will assist the financial services staff in evaluating the services provided and determining the percentage that can be included as quality improvement expense.</p> <p>We do not anticipate having to hire additional staff or contract with vendors to help us perform this analysis.</p> <p>At this point in time we do not anticipate any renegotiation of contracts.</p> <p>At this time we do not believe these activities will generate significant start-up or ongoing costs.</p> <p>We will be developing allocation reports to capture costs appropriately categorized as quality improvement costs. The basis for these reports will be information obtained from departments that typically are responsible for these types of costs.</p>
Notes on Rebate Calculations and Costs	At this point we have not addressed this area – we are focusing on the MLR calculation.
Notes on Auditing	<p>At this point, we don't believe we will need to make any changes as we deal with these types of external audits on a regular basis, for example compliance audits for our Medicare Advantage enrollees.</p> <p>Not sure at this present time. We would need to see the actual audit requirements in order to assess this.</p>
Notes on Economies of Scale Relative to State-by-State Compliance	Not applicable.
Other	None noted.

HP109

Identified Costs of Compliance (may be incomplete)	\$1.65 million start-up; \$450,000 per year ongoing; \$200,000 other costs.
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Notes on Accounting Costs of Compliance	<p>We will need to negotiate with vendors to see if they can provide details based on admin vs. QI and understand their details to get a comfort level. If vendors push back then we will need to renegotiate contracts. We will need to assess this process with each vendor. We likely would also set up an audit function to audit vendors with high administrative expenses.</p> <p>We would have to hire multiple FTEs to oversee this process. We estimate 3 to 5 people new hires to deal with the start-up effort. We would also have current employees earmark time for this in order to implement the process, so total full time equivalent could be up to 10 people. (This is assuming that it would be difficult getting the data from external parties). Maintaining the process would probably involve closer to 3 FTEs once it is up and running.</p> <p>It will be very difficult to renegotiate these contracts because it would mean re-opening the contracts to other amendments. We would need significant legal time and additional resources on top of auditor time. Staff involvement would also include procurement, managers/VP managing relationships and negotiating terms. Finance and internal audit would also have to review financials.</p> <p>We may need to make changes in the billing system to accommodate the new billing requirements.</p> <p>Start-up costs to negotiate contracts would be expensive and for 10 people, a rough guess is around \$1.5M. To maintain the process, we would estimate about 3 people at \$450K.</p>
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Notes on Rebate Calculations and Costs	<p>We do not request detailed information on contribution levels from our covered groups, so we would need to rely on the groups themselves to provide us this information or we would need to establish a system to collect it ourselves. This would be very challenging and time consuming, especially on the small group side since we have over 36,000 small groups.</p> <p>If we pay rebates and employers do not distribute those, it would involve significant staff time. We would need to hire several part time employees and bring in extra data management resources.</p> <p>There is insufficient time between when we submit our final MLR and when we have to distribute rebates if we have to obtain data from employers and distribute rebates.</p> <p>This is difficult to estimate without further work, but we assume this will involve hundreds of thousands of dollars in additional staff resources.</p>
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Notes on Auditing	<p>We will not have information available on how employers have distributed rebates. We will therefore have to create new processes and hire new staff to oversee the potential distribution of rebates to ensure we are compliant. We will potentially need to update contracts to address rebates paid to employers. We may also need to build a tracking system for the information employers provide.</p> <p>We are not clear what vendor relationships would be implicated here since this would be done in-house.</p> <p>We believe this will cost hundreds of thousands of dollars for additional staff time and system changes. We will have to hire a contractor to make changes to our reporting systems.</p> <p>Additionally, our external auditor will need to review our rebate calculations to support our calculations.</p>
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Notes on Economies of Scale Relative to State-by-State Compliance	[The health plan] operates only in [one state], so we are not responding to this section.
Other	In order to implement a process to accurately reflect the MLR as calculated under the HHS and NAIC rules, we have had to engage in an extensive and staff-intensive survey of all of our cost centers and divide them into the appropriate categories (claims, QI, cost-containment, etc.). We also have had to build a new accounting system, at a cost of over \$100,000 to be able to track the new accounting method on a timely basis. We also intend to audit our initial MLR to ensure compliance with the new rules, which involves significant staff time and possibly hiring an outside auditor for a minimum of \$50,000.

HP110

Identified Costs of Compliance (may be incomplete)	\$40,000-50,000 total costs.
Notes on Accounting Costs of Compliance	1 staff member who would also cover staffing needed in sections 2 & 3 below. Costs involved will include the staff time for Legal and Accounting Department Staff This will require changes to the structure set up within current accounting system. Estimated staff time for Legal and Accounting Departments – approximately \$20,000 to \$50,000
Notes on Rebate Calculations and Costs	Require more significant accounting system changes, and potential need for software modification and/or addition. We currently have no group business so we are unable to respond.
Notes on Auditing	Will need to train and dedicate a staff member to this function. This will require additional reporting, analysis and data verification functions Not able to estimate at this time.
Notes on Economies of Scale Relative to State-by-State Compliance	Yes, if the plan is working with the same vendors in each state. This will depend on if the same vendors are used in each state and the group contracts in each state. If a report is required for each state, we do not see anticipate achieving savings.
Other	None noted.

<p>Identified Costs of Compliance (may be incomplete)</p>	<p>[Not yet estimated]</p>
<p>Notes on Accounting Costs of Compliance</p>	<p>Although the vendor payment allocation requirement may require us to make modest staffing changes, we do not anticipate these changes will be material. We do believe this requirement will require the re-negotiation of relevant vendor contracts, however, since existing agreements do not provide for cost allocation. While re-negotiating for allocation-compliance is in itself problematic, we are more concerned that opening negotiations on this narrow issue will lead to efforts by vendors to re-open other previously settled provisions, including costs and fees. This, along with the added expense to vendors necessitated by the allocation requirement itself (which vendors will shift back to us), will add to our overall administrative costs. These added costs may be consequential, because vendors may be forced to change their billing systems, practices and/or accounting methodologies to meet these requirements. While we currently cannot provide specific cost estimates resulting from this requirement, we will update you when such an estimate is available.</p>
<p>Notes on Rebate Calculations and Costs</p>	<p>We anticipate that distributing rebates to either employer groups or to individual employees will create operational and cost burdens for [the health plan]. While such burdens will be reduced initially if employer groups agree to disseminate rebates directly to their employees on [the health plan] behalf, even this is not without potential problems. First, an employer’s agreement to take on this distribution burden does not shift the ultimate responsibility from [the health plan]. As such, [the health plan] remains responsible for an employer’s failure to do so or to do so in a manner that does not satisfy the regulatory requirements. We will attempt to contractually obligate employer groups to comply with regulatory requirements in distributing rebates but, as mentioned above, this creates additional contracting challenges.</p> <p>An employer group that refuses to distribute rebates to its employees creates a different set of challenges for [the health plan]. We will be essentially at the mercy of the employer to provide us with the information necessary to allow [the health plan] to distribute the rebates, including a current census, addresses of former members, and percent of premium paid. Should the employer fail to provide this information (or fail to provide it in a timely manner), [the health plan] remains responsible, as the regulations do not impose an independent burden or obligation on the part of the employer. We will attempt to negotiate an appropriate indemnification provision into our agreements with employer groups but, again, this creates contracting challenges.</p> <p>Following up with groups that do not immediately make this information available will require dedicated personnel and [the health plan] may not know in advance whether additional personnel are necessary to accomplish this task. Moreover, when rebates are successfully distributed, staff hired for distribution purposes may no longer be necessary. Relying instead upon or engaging third-party vendors to accomplish these ends would also increase administrative costs.</p>
<p>Notes on Auditing</p>	<p>The MLR auditing provision will require us to expand the already substantial list of areas we routinely audit, but should not materially alter our existing audit requirements or add significantly to our auditing expenses. To the extent the MLR audit examines third-party relationships, however, we reiterate our concerns set forth above, specifically that adding such a provision will require (1) contractual re-negotiations with our vendors and employer groups; and (2) cooperation of vendors with allocation requirements and of employer groups with rebate distribution (despite not being independently subject to the regulatory requirements themselves). Additionally, we do anticipate a modest increase in costs relative to audits of [the health plan] performed by third-party auditors.</p> <p>While we currently cannot provide specific cost estimates resulting from this requirement, we will update you when such an estimate is available.</p>

HP111 (continued)

Notes on Economies of Scale Relative to State-by-State Compliance	Not applicable.
Other	None noted.

HP112

Identified Costs of Compliance (may be incomplete)	\$300,000 start-up; \$100,000-200,000 ongoing; plus \$1-2 million [per rebate] if rebates were necessary.
Notes on Accounting Costs of Compliance	We will involve the legal and accounting staff from [the health plan and vendors]. Although we do not anticipate added administrative expense for our efforts, we could potentially get a request for a pricing increase from our vendors. However, we do not believe this to require significant effort once identified and will resist any suggestion of a price increase. Our vendors could try to add [to] the cost of our service or [charge] \$300,000.
Notes on Rebate Calculations and Costs	<p>There will be an extensive amount of work to distribute rebates. We would need to collect information on each individual and find out how much each paid to determine the distribution. Dealing with those cancelled employees/groups and finding people could require significant effort. However, it is unlikely that we would ever pay a rebate.</p> <p>We would need to add staff but will probably seek to find a vendor who specializes in rebate distribution.</p> <p>Groups are not set up to provide the needed information [to distribute rebates].</p> <p>We believe that the cost will be in the neighborhood of \$1-2 million each time we would have to pay out a rebate.</p>
Notes on Auditing	<p>It is unknown how this requirement will be accomplished. We may be able to rely on the vendor's [system] or can do a random sample on-site. We have already added a person to compliance and are not anticipating more at this time.</p> <p>We are estimating \$100,000–200,000 to complete the compliance requirements, which would be ongoing costs.</p>
Notes on Economies of Scale Relative to State-by-State Compliance	Not applicable.
Other	We will need to perform ongoing monitoring in order to prepare in the event we would have to rebate premiums. However, those added costs have been built into previous estimates.

HP113

Identified Costs of Compliance (may be incomplete)	\$412,500-536,500 start-up; \$396,000 per year ongoing.
Notes on Accounting Costs of Compliance	[Cost breakout:] <ul style="list-style-type: none">• Actuarial and Data Management: \$100,000 in first year; \$77,500 per year thereafter• Finance and Accounting: \$47,500 per year• Underwriting and Enrollment: \$25,00 first year, estimate not yet complete for subsequent years• Legal: Estimate not yet complete• Operations/IT: \$240,000-364,000 in first year; \$271,000 per year thereafter.
Notes on Rebate Calculations and Costs	None noted.
Notes on Auditing	Audit Support/Model Audit Rule: Estimate not yet complete.
Notes on Economies of Scale Relative to State-by-State Compliance	None noted.
Other	None noted.

HP114

Identified Costs of Compliance (may be incomplete)	[Not yet estimated]
Notes on Accounting Costs of Compliance	<p>[Most contracts are not previously broken out.] Probably no organizational changes, but more administrative time and work to parse the costs.</p> <p>Most likely, would add additional work load to existing staff in Vendor Contract and Actuarial departments.</p> <p>Would require numerous discussions with vendors, legal review, and actuarial analyses.</p> <p>May require additional cost breakdowns and more time for reporting, etc.</p>
Notes on Rebate Calculations and Costs	<p>Most likely would add additional work load to existing staff. May have to contract with vendor to manage the printing and mailing.</p> <p>We have had experience with rebates. Rebates take a great deal of time and administrative effort, from calculating to processing the files for payment, and the printing and mailing. The federal provision is even more cumbersome, in that rebates get paid to former members, it requires knowledge of employer contributions (which we typically do not know) and identification and mailing to individuals if employers don't agree to handle. Major issue is getting information from employers on contribution levels.</p> <p>Major difficulties expected in getting this information from employers: Soliciting the information, following up to make sure we've received it, reviewing it for completeness, going back to verify as necessary, etc. In addition, employers could change their contribution amounts mid-year making it almost impossible to calculate.</p> <p>Estimating 100 person-hours just to run files, but that assumes having the correct and complete information from employers on contribution levels. Getting that information is going to require major effort by account management, and there is no guarantee that plans can get it. Printing, merging and mailing costs in addition.</p>
Notes on Auditing	<p>Increased information requests to vendors, more time involved.</p> <p>Most likely would add additional workload to existing staff.</p> <p>Would need to have single point of contact internally who could receive audit information requests, track them, and obtain information from the business units for auditors.</p>
Notes on Economies of Scale Relative to State-by-State Compliance	Not applicable
Other	None noted.

HP115

Identified Costs of Compliance (may be incomplete)	Not yet estimated.
Notes on Accounting Costs of Compliance	Minimal use of vendors.
Notes on Rebate Calculations and Costs	Calculating MLR will require a significant amount of work. Calculating the rebate amount and distributing rebates will be a moderate amount of work. We plan to re-contract with all groups requiring them to distribute money to employees. The concept of having health plans distribute rebates to group employees is impossible.
Notes on Auditing	Not yet estimated.
Notes on Economies of Scale Relative to State-by-State Compliance	Not applicable.
Other	None noted.

HP116

Identified Costs of Compliance (may be incomplete)	\$12,000 start-up.
Notes on Accounting Costs of Compliance	<p>Our initial implementation activities included a comprehensive review of our employees to determine what functional responsibilities could be counted as 'Activities to Improve Health Care Quality'. This review consisted of a series of communications, materials to read, templates to complete and face-to-face interviews with 13 leaders in Medical Affairs. We estimate the time for these activities took at least 100–120 man hours for everyone involved. At an average hourly rate of \$75 including a 35% benefits and facilities load, we estimate at least \$7,500–9,000 was spent on the review.</p> <p>Following the completion of the calendar year-end, there were additional hours needed to pull the raw expense data, compile it into usable form, and translate the data into Part 3 of the filing and review for reasonableness. I estimate the time need to complete these activities to be 50–80 man hours at \$60 per hour for another \$3,000 – \$4,800.</p> <p>Total estimated cost to Account for Quality versus Administrative Costs: \$12,000. Ongoing costs: TBD [(to be determined)].</p>
Notes on Rebate Calculations and Costs	Although we are still determining the impact, we feel this has the potential to be very costly and complicated to implement. We feel there is a real possibility that this provision will require systems changes and/or contracting with a vendor.
Notes on Auditing	Most of the above questions are still TBD [(to be determined)]. We do not contract with vendors for compliance or audit services, and so any additional work would be done by existing compliance and audit staff.
Notes on Economies of Scale Relative to State-by-State Compliance	Not Applicable.
Other	None noted.

HP117

Identified Costs of Compliance (may be incomplete)	\$177,000 start-up; \$160,000 per year ongoing.
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Notes on Accounting Costs of Compliance	None noted.
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Notes on Rebate Calculations and Costs	None noted.
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Notes on Auditing	None noted.
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Notes on Economies of Scale Relative to State-by-State Compliance	None noted.
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Other	None noted.
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HP118

Identified Costs of Compliance (may be incomplete)	\$350,000 start-up; \$150,000 per year ongoing.
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Notes on Accounting Costs of Compliance	<p>No organizational changes will be needed.</p> <p>No additional staff will be needed to complete this requirement.</p> <p>No accounting system changes will be needed.</p> <p>We don't anticipate any incremental costs associated with this requirement.</p>
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Notes on Rebate Calculations and Costs	<p>We estimate a one-time cost of approximately \$350,000 and ongoing costs of approximately \$150,000.</p> <p>Yes, we anticipate needing at least one additional full time employee equivalent.</p> <p>There will be employer groups that will not respond to our requests for information.</p> <p>The additional work for [the health plan] includes:</p> <ul style="list-style-type: none">▪ System modifications to store and access employer / employee premium contribution information▪ Mailings to employer groups to gather and maintain premium contribution information▪ Programming to calculate and report rebates▪ Develop and implement a process for locating former employees
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Notes on Auditing	<p>We estimate the one-time and ongoing costs to be minimal.</p> <p>An 'owner' of the rebate process will need to be identified and staff will need to be trained in all aspects of the process.</p>
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Notes on Economies of Scale Relative to State-by-State Compliance	Not applicable.
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Other	Costs associated with collecting and storing data required [in order] to determine MLR pools. As an example, the State considered sole proprietors to be small group (not individual) while the Feds include sole props in the individual pool. We currently do not have the ability to entirely separate sole prop data from small group data.
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HP119

Identified Costs of Compliance (may be incomplete)	\$10,000 start-up; \$5,000 per year ongoing.
Notes on Accounting Costs of Compliance	<p>No additional staffing costs are anticipated at this time. [the health plan] has not done a complete assessment of IT costs related enhancing and modifying accounting and ancillary supporting systems.</p> <p>Accounting system changes to align to premium, claims and administrative expense to market size is anticipated; today [the health plan] aligns financials based upon product and financial arrangements. Ancillary systems e.g. data warehouse data that support financial reporting are anticipated to enhance and to align to support reporting requirements.</p> <p>No organizational changes are anticipated at this time.</p>
Notes on Rebate Calculations and Costs	<p>It may be a challenge to get information in a timely fashion in the manner that the plan can use to turn out rebates quickly.</p> <p>No assessment has been vetted through the organization at this time.</p>
Notes on Auditing	<p>Initially, a re-examination of the type and method of documentation needed to support future audits. This activity is very broad and will cover administrative expense processes/reporting to IT/system support needs. Include in annual audit plan allotting trained resources.</p> <p>[Health plan will] ensure vendors are aware and in compliance with new MLR requirements. Would require working with vendors to review Quality vs. Admin cost breakouts, reporting tools, etc.</p> <p>May require some level of vendor assistance depending on level of complexity and volume of work. This would be a one-time cost only.</p> <p>One-time cost [estimated to be] 10K–50K hours x blended hourly rate Ongoing costs [are estimated to be] 5K–25K hours x blended hourly rate</p>
Notes on Economies of Scale Relative to State-by-State Compliance	Not clear yet.
Other	None noted.

HP120

Identified Costs of Compliance (may be incomplete)	\$100,000 total costs.
Notes on Accounting Costs of Compliance HP120	We have requested each of our major vendors (e.g., PBM, behavioral health, lab, radiology, management) to separate out their administrative versus medical costs. At least for now we do not expect to be charged for this. Over time, we may need an additional staff person to audit their reporting, so [we] would estimate \$100,000 in staffing to perform this work.
Notes on Rebate Calculations and Costs	<p>We are already subject to MLR minimums and rebate rules under [state] law for individual and small groups, and we have generally met the MLR minimums and, therefore, not needed to pay rebates. There could be incremental work for large group rebates under the federal law, but we do not expect that will be significant.</p> <p>We do anticipate difficulties in distributing rebates (if needed) because we do not have the information to allow us to allocate rebates between employers and members (based on their relative contributions to premiums).</p> <p>Our current understanding is that even if we contractually delegate this to our group customers, we (the health plan) would remain liable for appropriate distribution of rebates. This is an issue we need to continue to work on resolving.</p> <p>On a separate note, we believe the administrative costs associated with the rate review process could be more significant, particularly in the first year.</p>
Notes on Auditing	We are still developing an estimate for this function
Notes on Economies of Scale Relative to State-by-State Compliance	We are almost exclusively [in one state], so this is not relevant for us.
Other	None noted.

HP121

Identified Costs of Compliance (may be incomplete)	\$750,000 start-up; \$3.18-3.20 million per year ongoing.
Notes on Accounting Costs of Compliance	<p>Per verbal direction from HHS, issuers will not be required to report vendors' administrative expenses and profit, but must report issuer's payment to vendors. Responses below are based on the assumption that this is true. Administrative impacts, systems impacts, initial costs, and ongoing costs will be much greater if HHS requires more detail in reporting of vendor payments:</p> <ul style="list-style-type: none">• Enhancements to current accounting software, or purchase of additional software, will be required to capture the level of detail required by HHS.• Additional staff in Procurement will be required to coordinate with business areas to ensure expenditures on vendor contracts are accurately reported.• Anticipate adding 2 FTEs in Procurement (\$180,000 - \$200,000 per year, including benefits) to address vendor re-contracting, and coordinate collection and reporting of data.• Anticipate adding 1 FTE in Accounting, at a cost of \$80,000 per year (including benefits).• Legal and Audit staff will also be impacted by MLR reporting. It is not clear whether current staffing levels would absorb this work at the expense of other priorities versus adding new positions.• HHS reporting requirements would entail vendor contract updates. Deployment of contract changes could require going through the bid process with vendors to ensure they have the capability to conduct required reporting. New reporting requirements are likely to increase vendor costs.• Accounting systems will need to be enhanced to capture the level of vendor cost detail to be required by HHS. Anticipate purchasing additional software to accommodate the capturing of vendor data for reporting purposes. This will be an ongoing expense, although no cost estimate is currently available.• Given uncertainty about how the final regulations will look, it is difficult to gauge the cost impact of MLR. However, the costs to implement and maintain the new requirements can reasonably be anticipated to be several times higher than estimates generated by HHS.
Notes on Rebate Calculations and Costs	<p>Additional work would be involved in identifying groups/members to which rebates are owed. This could involve sending rebates to former employees of groups, and locating these individuals could add significant administrative work. Support from groups would entail providing frequent census updates in order to calculate prorated amounts owed to employees who terminate mid-year.</p> <p>Additional communications will need to be sent to groups requesting census data to ensure groups are accurately categorized by size.</p> <p>We are not currently performing functions of this type. Adding this function to our business practices will involve adding staff. We would likely use a vendor to perform this function, since payment of rebates would occur once per year, not throughout the year.</p> <p>We will need to calculate whether rebates are due, and then there will be a relatively short amount of time available for us to identify members to whom rebates are owed and locate them. We may contractually require that groups provide us with current address of any current/former member of group to aid in this process.</p> <p>Requirement to report MLR based on prior year's accounting practices will result in maintaining a second set of books. There will surely be accounting system changes required to accommodate MLR reporting.</p>

HP121 (continued)

Mailing costs are a certainty. Groups will need to be mailed requests for census information at least annually. The costs associated with this communication will be at least equal to the amount spent on group renewal mailings.

Rebate checks will be generated at a cost of approximately \$12 per check, including staff time and printing/ mailing costs. Assuming 10 percent of our membership is owed a rebate, this would result in almost \$3 million in administrative costs alone.

Notes on Auditing

Audits would likely mirror intensity of state market conduct exams and annual financial audits. On average, these audits impact 2 to 3 FTEs in Finance (time fully allocated to the audit, at the expense of day-to-day activities). FTEs in other departments are impacted as well. Audits typically span 2 to 6 months, and consume roughly 750 hours of staff time.

Vendor contracts will likely need to be amended to ensure compliance with auditing requirements. This will require staff time for Procurement, Legal and impacted business areas.

The FTEs expected to be added in Procurement would assist with coordinating audits. We anticipate adding 2 FTEs.

Accounting software upgrades will be required, though no estimate of cost is currently available. These costs will be incurred on an ongoing basis.

Additional staff will cost approximately \$180,000 to \$200,000 per year.

Notes on Economies of Scale Relative to State-by-State Compliance

We would have some established processes, but we would have to go through the processes in each state, thus reducing the benefits of economies of scale. We do not anticipate that the workload would go down much, if at all. Cost savings for not paying rebates in one state would not offset costs of determining whether rebates are owed.

Being licensed in multiple states would entail separate reporting requirements for each state. However, generally speaking, there are not separate vendor contracts. We don't run our processes multiple times because of multiple licenses. However, there are incremental costs resulting from maintaining multiple licenses.

There are challenges associated with allocating vendor costs across multiple state licenses. These challenges will likely add to the expense of MLR reporting.

Multi-state operations lead to increased administrative costs due to complexity in dividing data for state-specific reporting.

Common work across multi-state service area can reasonably be expected to result in administrative savings. However, processes for gathering data must be completed once for each service area, thus limiting benefits of economy of scale. Efficiencies are further challenged by intricacies of state-specific features of our business, as well as the difficulty of dividing expenses across multiple businesses.

Other

Substantial staff time has been allocated to understanding regulatory requirements. This will impact Legal, Procurement, Finance and multiple other business divisions.

<p>Identified Costs of Compliance (may be incomplete)</p>	<p>Not yet estimated.</p>
<p>Notes on Accounting Costs of Compliance</p>	<p>Cost center reviews will need to become more detailed for those cost centers that have third-party vendor contracts. Cost center reviews are conducted by our Finance department. The reviews include interviewing the leaders of the departments to determine what companies and products are supported as well as whether the costs of the department are considered cost containment expenses, claims administrative expenses and/or general and administrative expenses. The Finance division will need to ask about any third-party vendor contracts a cost center may have and will need to educate the department on ways to improve the construction of the contracts so that the vendor's costs can be separated into quality improvement expenses, administrative expenses and health care delivery expenses. This will ensure that accurate reporting will be reflected in the accounting systems.</p> <p>Our understanding with respect to this topic is that Health and Human Services (HHS) will be issuing further guidance on this topic. As a result, we have not done a significant amount of work in this area as we are waiting for the clarifying guidance from HHS.</p> <p>We do not plan on hiring additional staff or contracting with additional vendors to comply with the allocation requirement. We will continue to use existing resources for this analysis.</p> <p>As stated above, departments with third-party vendor contracts will need to work closely with the Finance department when renegotiating contracts to ensure that the contracts meets the requirements of Section 158.140 (breaking out of clinical, quality improvement and administrative expenses).</p> <p>We do not anticipate any major accounting system changes. To initially comply with this requirement, it will likely be a manual process, but as contracts are renegotiated minor changes will be made to the system.</p> <p>Since we only have a few third-party vendor contracts, we don't anticipate any significant additional costs to be in compliance with this requirement. Also, as stated above we are waiting for clarifying guidance from HHS before we spend too much time researching and adjusting our current business practices.</p>
<p>Notes on Rebate Calculations and Costs</p>	<p>A <u>significant</u> amount of work will need to be undertaken to distribute rebates to employer groups and to individuals, where applicable. System changes would need to be made to accommodate the issuing and mailing of rebate checks to individual policyholders for which detailed address information is not maintained. The formula to calculate the rebate amount due would have to be either programmed into a system or maintained separately in a database. The system changes can involve a company's accounts payable system as well as the accounts receivable/revenue system. Employers would have to provide the contributions made by employees in a timely fashion to ensure we have enough time to gather and review the data and to issue the rebate check. We consider the potential of distributing checks to individuals of employers to be one of the more onerous and costly tasks of this provision, but we have not yet quantified the impact.</p> <p>Our organization will initially handle the rebate distribution with the resources we have currently. Our experience with the first rebating process, will determine if we hire additional staff or use a vendor in the future.</p> <p>Our organization does anticipate difficulties with the timing of getting information from groups in order to calculate rebates.</p>

HP122 (continued)

Our organization is in the early stages of analyzing the effects of rebating on our operations, systems, etc. It is too early to estimate what costs will be involved and whether they are one-time or ongoing. Since systems are involved and we are talking about data that we currently do not even have in-house, we anticipate that this will be a significant cost for us.

Notes on Auditing	<p>Our organization does not anticipate needing to make any organizational changes to comply with the auditing requirements. Our organization has a Compliance department that coordinates all audits and has a good process in place to ensure all items requested for an audit are provided; documents are retained for the applicable timeframes and reports to established audit committee of the Board of Directors.</p> <p>As stated previously, as we renegotiate third-party vendor contracts, every effort will need to be made to ensure that the contract is explicit as to the services being offered so that they are classified appropriately in the accounting systems.</p> <p>Our organization does not anticipate hiring additional staff or contracting with additional vendors to comply with this requirement.</p> <p>While we do not have an estimate of the costs associated with these activities, we do anticipate being billed for any audits conducted by HHS, state insurance departments or any outside auditing firm. We may also see an increase in audit fees from our own independent auditors for the work the firm would need to do to be comfortable with any year end accruals for rebating.</p>
Notes on Economies of Scale Relative to State-by-State Compliance	<p>Since our insurance companies do not have multi-state operations, the questions in this section are not applicable.</p>
Other	<p>None noted.</p>

HP123

Identified Costs of Compliance (may be incomplete)	\$240,000 start-up; \$110,000 per year ongoing.
Notes on Accounting Costs of Compliance	<p data-bbox="488 346 1406 436">Our Healthcare Services Department will conduct the reviews and compile the reports, since they have the understanding of what constitutes quality improvements. We will add a cost accountant who will be involved and help as necessary.</p> <p data-bbox="488 470 1406 560">We have budgeted hiring one additional staff for our accounting area with a background in cost accounting to address this and other requirements of PPACA. We also anticipate needing at least ¼ FTE from our Quality Programs Department.</p> <p data-bbox="488 594 1406 653">We will need to ensure that the negotiation process involves the requirement of transparency from our vendors in the areas necessary to comply with MLR regulation.</p> <p data-bbox="488 686 1406 804">This will involve the business units that are responsible for the vendor contracts, accounting and possibly our actuarial services departments. Costs would include our staff's time in making the contractual changes necessary to comply as well perform periodic reviews of costs to ensure they are appropriately segregated and reasonable.</p> <p data-bbox="488 837 1406 896">This will require a significant overhaul to our general ledger structure and monthly financial reporting process.</p> <p data-bbox="488 930 1406 982">There will be greater costs initially, as contracts with external vendors. We estimate \$40,000 in start-up and \$10,000 annually in re-occurring costs.</p>
Notes on Rebate Calculations and Costs	<p data-bbox="488 997 1406 1056">This will require a significant amount of work involving accounting, actuarial/underwriting, marketing, IT and our corporate communications departments.</p> <p data-bbox="488 1089 1406 1180">We have budgeted hiring one additional staff for our accounting area with a background in cost accounting to address this and other requirements of PPACA. For the other functional areas affected, this will divert resources from other projects.</p> <p data-bbox="488 1213 1406 1270">This will depend largely on the number of segments of our business that require a rebate calculation, but we estimate \$75,000 in start-up and \$50,000 annually in re-occurring costs.</p>
Notes on Auditing	<p data-bbox="488 1285 1406 1375">We will need to organize our GL accounting system significantly to capture the required information. We will also need to embark on a company-wide effort to train staff on how to allocate their time and other resources to the new GL accounts.</p> <p data-bbox="488 1409 1406 1499">We have budgeted hiring one additional staff for our accounting area with a background in cost accounting to address this and other requirements of PPACA. For the other functional areas affected, this will divert resources from other projects.</p> <p data-bbox="488 1533 1406 1612">The changes required to our accounting system and training of our staff that is required will be a major expense, we anticipate \$125,000 in start-up costs and \$50,000 annually in re-occurring costs.</p>
Notes on Economies of Scale Relative to State-by-State Compliance	<p data-bbox="488 1627 1406 1686">We agree that certain compliance costs can be applied to multi-state operations, which will help compliance costs.</p> <p data-bbox="488 1719 1406 1810">Our health plan operates in only two states. We generally use the same vendors in both states, but there are some exceptions based on the special nature of the markets. One implication of multi-state operations is the requirement of interacting with the insurance division in each state,</p>

HP123 (continued)

since insurance is regulated at the state level. The impact of state insurance department requirements is not scalable and increases compliance costs.

As mentioned above, we only offer products in two states, so this is not a great concern for us. The impact of multi-state regulation will depend on the uniqueness of each market in the areas mentioned about.

It may not, depending on what, if any, impact there is on the MLR requirements resulting from the different states' regulators.

Other

Impact on corporate strategic planning, product management and actuarial services must also be considered as companies assess the markets they are in and the potential impact of the MLR requirements on their decision to remain in those markets.

HP124

Identified Costs of Compliance (may be incomplete)	\$300,000-500,000 start-up; \$150,000-250,000 per year ongoing.
Notes on Accounting Costs of Compliance	Not applicable.
Notes on Rebate Calculations and Costs	Not applicable.
Notes on Auditing	Not applicable.
Notes on Economies of Scale Relative to State-by-State Compliance	Not applicable.
Other	[Cost breakout:] <ul style="list-style-type: none">▪ Programming and configuration▪ Additional FTE's (2-5 in our case) for accounting, contracting, billing, enrollment & compliance▪ Printing & postage▪ Bank fees/check costs▪ Audit costs

Our current estimate with the information we have today, is that the additional costs to comply with the IFR (in aggregate) will be one-time costs [of] \$300,000-\$500,000 and recurring costs of \$150,000-\$250,000.

HP125

Identified Costs of Compliance (may be incomplete)	\$200,000 per year ongoing.
Notes on Accounting Costs of Compliance	<p>We believe we would most likely handle with existing staff and resources. In the worse case, we might temporarily add contract staff to assist.</p> <p>No renegotiating of third-party vendor contracts contemplated at this time. Functions and costs are not applicable.</p> <p>Reports need to be written for the extraction of data. We may have changes to our cost accounting, general ledger and primary operating systems.</p> <p>Personnel costs associated with the project team that evaluated and interpreted the new regulations, reporting requirements and impact on the company. HHS estimated amounts [...] seem reasonable. We would estimate our costs would be on the high end of these ranges – maybe even higher.</p>
Notes on Rebate Calculations and Costs	[W]e feel that that the rebate process will not require any system changes per se, but the administrative expense of each instance of "rebates" would probably be in the neighborhood of \$200k. The bulk of the cost is expected to be printing and temporary hires to handle phone call volumes and returned mail.
Notes on Auditing	We believe we would most likely handle with existing staff and resources. In the worse case, we might temporarily add contract staff to assist. Personnel costs associated with the project team that evaluated and interpreted the new regulations, reporting requirements and impact on the company. HHS estimated amounts [...] seem reasonable. We would estimate our costs would be on the high end of these ranges – maybe even higher.
Notes on Economies of Scale Relative to State-by-State Compliance	Not applicable.
Other	None noted.

Identified Costs of Compliance (may be incomplete)	Not yet estimated.
Notes on Accounting Costs of Compliance	<p>The organization is in the process of forming a committee that consists of representatives from various departments (i.e. billing, medical contracts, internal audit, and accounts payable), that will be impacted by the new reporting requirements. The committee's purpose is to determine the potential impact to the operations by evaluating the current process, discuss potential changes with the appropriate business process owners and implement those changes with guidance and support from the senior management.</p> <p>Currently we are still evaluating the need to hire additional staff or contract with additional vendors to comply with the allocation requirements.</p> <p>All third-party vendor contracts will require a thorough review and renegotiation to determine the appropriate allocation of cost to clinical, quality and administrative components. This will require the attention of network management, medical management, legal and finance staff.</p> <p>Potential functional areas to be considered would be the performance guarantees and reporting requirements of existing vendor contracts.</p> <p>The organization anticipates that significant changes to the existing accounting systems will need to be made in order to report the expenses in a finer level of detail. These changes will likely include the following:</p> <ul style="list-style-type: none"> ▪ <u>Allocation</u>: A new allocation process will need to be implemented and consistently applied to take into account the outside vendor's breakdown between administrative costs versus health care and quality improvement expenses. A finer level of detail will be required in order to categorize and allocate expenses to the proper "buckets". ▪ <u>General Ledger</u>: The organization expects to expand the use of "chartfields" by increasing the data elements to capture all details necessary to properly categorize these expenses. ▪ <u>Financial Reports</u>: Significant modifications will need to be made to all existing financial reports to ensure that the expenses are reported according to the new requirements. It is also anticipated that new financial reports will need to be created to comply with the new requirements. In addition, there will be higher report maintenance costs as a result of additional reports as well as an increase in data elements used to capture the expenses in a more granular level of detail. ▪ <u>System Interface</u>: Data feeds and system interfaces to the accounting system will need to be modified to accommodate the additional detail by reprogramming the system logics for data extraction, modification of data upload file formats and changes to the journal view. <ul style="list-style-type: none"> ○ Increasing the level of detail for reporting may also require additional memory space on the network servers. An assessment of the potential impact to the system's performance will be conducted to determine if software and hardware enhancements will be necessary. ▪ <u>Training</u>: Coding changes to the systems will need to be formally communicated to all users, and multiple training sessions will need to be set-up shortly after the coding changes are implemented. The Company expects to incur significant training costs as

a result of the new requirements.

- Documentation: All changes must be properly tested and documented. The Company's accounting policies and procedures manual will need to be updated to reflect the changes implemented.

Currently we are still evaluating the cost implications of this requirement.

Notes on Rebate
Calculations and Costs

[Paying rebates directly to employees or ex-employees, rather than to employees] would greatly increase the administrative burden of distributing refunds. In particular, if [the health plan] is required to issue rebates on employers' behalf, [the health plan] would need to address the dependency on the employer group for additional information on employee contributions which would incur greater effort and corresponding costs.

An alternative approach which may merit consideration is the approach taken by CMS for employer group Low Income Premium Subsidy (LIPS). For this program, the premium subsidy is remitted to the group. However, the group initially signs an agreement that the subsidy will be passed to employees/retirees on a timely basis.

Per above, shifting from calculating rebates from a group level (with no split in premium) to calculating rebates at a subscriber / group level (with splits in premium) dramatically increases the complexity in the calculation of the rebate, the generation of rebate checks, and the post-compliance work.

From an operational standpoint, depending on the number of rebates required to be issued at the member level, this could be an extensive work effort as each member would either need to be manual set up as a vendor in our disbursement system in order to process the refund or system feeds from the billing system to the disbursement system would need to be developed and implemented to facilitate the process.

Per below, the calculation of rebates would also be dependent on receiving timely information from groups re the % split, which would also be challenging

Currently we are still evaluating the need to hire additional staff or contract with additional vendors to assist with the rebate distribution.

Groups frequently do not respond to requests for information, even when required by law (such as for VDSA). It is very likely that several groups will not provide the required percentage split between group/subscriber.

Furthermore, based on employer's contribution structure, it is likely that the percentage may vary by employee (e.g., family subscribers may contribute more than individual subscribers).

Currently we are still evaluating the cost implications of issuing and disbursing these rebates on an organization wide basis at an employee/subscriber level.

Notes on Auditing

Currently we do not anticipate any significant organizational changes to comply with the auditing requirements.

Once an organization wide reporting template and allocation methodology has been established we would look to our legal and compliance areas to draft an addendum to the existing vendor contracts which will echo the implications of the MLR regulation.

Potential functional areas to be considered would be the performance guarantees and reporting requirements of existing vendor contracts.

HP126 (continued)

Currently we are still evaluating the cost implications of this requirement.

As with any regulatory audit, the intensity and frequency of these audits will determine if additional vendor or staffing assistance would be needed.

Notes on Economies of Scale Relative to State-by-State Compliance

The organization does not believe that the economies of scale will help contain compliance costs for insurers like [the health plan] that operate in a small number of states.

Each state has its own governing agencies such as the Department of Insurance and Department of Health that require all health insurers to report its operating results in accordance with the state's regulations. The type of reports that are submitted to each state largely depends on several factors such as state prescribed accounting principles, products mix and the reporting entity's type of corporation. All systems, data elements, data structures and processes must be set up to conform to each state's unique requirements.

Furthermore, the states may impose its own set of requirements in addition to the new provisions set forth by HHS.

The organization has subsidiaries that are licensed to operate in [more than one state]. [One state] based insurers currently have certain capabilities to comply with the new requirements, such as calculating and paying rebates, however on an enterprise-wide basis the organization needs to develop or significantly modify its information technology infrastructure to comply with the new requirements.

An evaluation of the organization's current systems and processes across the enterprise will be conducted to determine the specific modification requirements. These modifications will largely depend on each subsidiary's current systems and process set up, which are not uniform across the enterprise.

Other

None noted.

HP127

Identified Costs of Compliance (may be incomplete)	Within HHS ranges
Notes on Accounting Costs of Compliance	We anticipate needing to modify our behavioral healthcare and PBM contracts, which these entities will need to do for other payers as well. We do not anticipate any incremental costs with this exercise nor with our annual review and reporting from these vendors.
Notes on Rebate Calculations and Costs	<p>We estimate a need of .50 FTE (\$25,000) to administer rebates if required for a plan year. Most of this cost will be incurred in contracting our 500 small employer groups and gathering premium contribution information to be used in calculating the rebate splits between employee and employer. Although we try to gather this information when an employer groups first enrolls it is sometimes inaccurate and is not updated in subsequent years. We definitely expect difficulty in getting accurate responses from our customers and anticipate a great deal of follow-up will be required.</p> <p>By comparison, calculating and distributing rebates once the information is obtained should be relatively minor and can be accommodate with our existing finance systems and staff.</p>
Notes on Auditing	We expect relatively minor impact, which again can be performed by our existing finance resources and systems.
Notes on Economies of Scale Relative to State-by-State Compliance	Not applicable.
Other	None noted.

HP128

Identified Costs of Compliance (may be incomplete)	Within HHS ranges
Notes on Accounting Costs of Compliance	<p>Our structure as an integrated delivery system mixed model does not have the same reliance on vendors of the type described above as other carriers have.</p> <p>Please note that while other MLR issues may be addressed more efficiently through changes to our accounting system, no changes are planned at this time.</p>
Notes on Rebate Calculations and Costs	<p>We do not intend to fall below the minimum MLR. [O]ver enough years, [several] commercial lines of business aggregations [as well as more than one] carrier [...] operating in two states [...] will probably eventually fall below the minimum MLR sometime. [However] we believe it is more prudent to not devote significant administrative resources at this time planning on how to pay out rebates. Part of this rationale is our belief that additional clarity (and perhaps regulatory changes) will be made prior to 2012 rebates being payable assuming that our modeling is correct that we will not have any MLR rebates payable for 2011 insurance.</p>
Notes on Auditing	<p>We anticipate our Statutory Reporting department will handle the audits on the Supplemental Exhibit and of the rebate calculation reporting. In this sense, we will not need to make any changes; we will simply need to be prepared to be audited on slightly more reporting than the current Annual Statement reporting.</p> <p>No staff is being added specific to MLR compliance. This is additional work that could conceivably factor into an additional employee being hired at some point relative to what our FTE base would be otherwise.</p> <p>We believe we will be within HHS' range as stated in the second paragraph at the beginning of this questionnaire.</p>
Notes on Economies of Scale Relative to State-by-State Compliance	<p>We need to be clear in how we explain the costs. Each state filing has costs associated with it. The more filings we have due to the state-level granularity of the regulations, the more administrative costs we will incur. Each successive state filing should theoretically be completed more efficiently. Thus, our average cost per filing will decrease with increased granularity. As stated above, however, the total administrative cost to be absorbed into our premium rates over all of our states of operations will increase based on the regulatory decision to require state-level filings.</p> <p>The different licensure requirements of different states do not impact our administrative cost of filing MLR reporting at the state level. Having business reported by licensure type implies that state-level data already exists to be put into the MLR reporting format.</p> <p>Relatively little of our business is in the one state outside of the state where we are domiciled. We will make some appropriate allocations. We do not currently see this as a big hurdle administratively.</p> <p>Please see our answer to the first bullet point in the section. Average cost per state requirement decreases with more states, but total cost increases.</p>
Other	None noted.

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Identified Costs of Compliance (may be incomplete)	\$350,000 start-up; \$1.115 million per year ongoing.
Notes on Accounting Costs of Compliance	<p>We are still assessing specifically what needs to be done but plan to use an outside consultant to assist.</p> <p>We anticipate using a third-party, but details are still under review.</p> <p>[We] expect minimum \$15,000 annually ongoing with additional amounts for start-up.</p> <p>Still under review but current understanding is that this impacts one contracted vendor and will involve significant effort to break down costs as required and we anticipate pushback from the vendor involved since this will expose potential vendor profit information.</p>
Notes on Rebate Calculations and Costs	<p>Cost estimated assuming group rebate distribution and distribution to individual (non-group) members is about \$1 million per rebate period plus \$350,000 initial start-up costs.</p> <p>We are still assessing alternative approach for groups not willing to distribute but would anticipate significantly more work involved if that approach must be taken. This is a last resort option due to the complexity, volume, and amount of work that would be involved. Estimated 5000 IT hours. Additional staffing still under review but would expect first to redeploy existing staff from other projects.</p> <p>If we have to distribute rebates directly to employees then yes, there will be issues with timing of getting the information to calculate rebates. Timing in general is always a concern, ability to handle complexity and volume within 2-month timeframe from final report to issuance will be challenging, especially the first distribution.</p> <p>We have initially broadly assessed work needed for distribution to groups, assuming groups will fulfill this responsibility to distribute to employees. Work includes collecting, storing, and reporting of employer data not currently collected (group size information in particular), creating additional data tables and queries for processing MLR data, create and distribute rebate checks, General ledger accounting system changes, reconciliation, data storage for audits, etc. Approaches for handling returned mail, unclaimed, terminated subscribers and groups, etc. still to be determined.</p>
Notes on Auditing	<p>Additional cost estimate of \$100,000.</p> <p>[We are] still assessing vendor requirements.</p> <p>We anticipate 1 additional staff hire for reporting and audit requirements in Controller division.</p> <p>Still researching specific audit functions however, we anticipate additional audit assistance functions will need to be created for expanded audits for MLR and other PPACA provisions.</p>
Notes on Economies of Scale Relative to State-by-State Compliance	Since we are single-state plan, we have not assessed.
Other	Most additional costs covered in answers above. As stated above, if alternative approach must be developed to distribute rebates directly to employees for some groups, this will significantly increase costs.

Identified Costs of Compliance (may be incomplete)

\$5-10 million total costs.

Notes on Accounting Costs of Compliance

If the HHS intends this section of the interim final regulation to require issuers to separate out the administrative costs that a provider incurs from the clinical costs and adjust for those costs in the MLR calculation, this aspect of the interim final regulation will be particularly onerous for [health plan]. [Health plan] currently contracts with thousands of providers and we do not obtain information from providers on their administrative costs. Additionally, providers are typically unwilling to give [health plan] information on administrative costs since that may put them at a competitive disadvantage when negotiating reimbursement rates.

For hospitals and physicians, [health plan] would have no way to determine the portion of any given claim dollar that represents the administrative costs of the provider. To determine this, [health plan] would have to develop systems that could track claims by provider for the MLR calculation and then apply percentages to those claims, on a provider by provider basis, based on actual provider administrative cost data, to determine the administrative costs. This would require significant systems changes, data warehousing capabilities and additional personnel. The cost of this effort cannot be quantified at this time although it would be significant. [Health plan] contracts with thousands of providers on a national basis. Additionally, this requirement of the regulation is concerning as it requests that hospitals, physicians, and other healthcare professionals be able to separately account for administrative vs. professional service costs. The burden of being able to calculate such costs, and achieve a standard approach, is not sustainable nor value added in that such services appear to comprise very little of the average providers overhead and administrative costs.

[Health plan] also contracts with vendors and physician groups for other services such as laboratory, physical therapy, radiology, etc. The reimbursement under these contracts is typically a capitation payment, but can be on a fee for service arrangement also. Since [health plan] enters into these contracts with the expectation of significant medical cost savings, these providers do provide some utilization management services and do not typically disclose the portion of their expenses which are administrative in nature. Although the numbers of these vendors and physician groups are not large (less than 1,000) and [health plan] could obtain this information, we would still need to compile claim information at the provider level as well as at the state and segment level for calculation of the percentage of these claims that represents administrative costs. This would be extremely burdensome and expensive and would require the hiring of additional personnel.

Organizationally, [health plan] would not expect significant changes; however, additional personnel would be required in the areas of provider contracting, provider contracting financial analysis, and regulatory financial reporting to comply with this section of the regulation.

We would need to hire significant additional staff to gather information, review the financial information from providers, and determine the percentage of provider costs related to administrative expenses and then code those percentages into the system being developed for calculation of the MLR and rebate. Additional reconciliations of claim data would also be required which could potentially necessitate the hiring of additional personnel. We would also need to develop capabilities to extract claim data at the provider level, which we currently do not do. We do not know how many additional personnel would be required, but the provider contracting and regulatory reporting areas would be most affected.

We would likely need to negotiate provisions into our contracts to obtain financial data of the providers which would put additional burden on providers and health care vendors.

We would need to develop system capabilities to extract and track claim information at the provider level for MLR reporting, not just at the state and segment level. This would require systems changes to extract provider level claim data and apply administrative cost percentages and then allocate those claims to state and segment. Although the cost of this has not been estimated, it would likely be significant. This data would then need to be stored which would involve additional costs.

We have not yet finalized cost estimates, however, the total estimated start up costs of the MLR reporting is expected to be significant, excluding these changes in the HHS interim final regulation.

Notes on Rebate Calculations and Costs

We will need to build a vehicle to issue rebates either electronically or on paper or both to individuals as well as ensure that we have the necessary tracking in place to report to employers not wanting to participate in the rebate process directly.

We are currently assessing the effort and business processes required to distribute the rebates to individuals. Since the regulation requires us to maintain records which include the amount of premium paid by each subscriber; the amount of premium paid by group policyholders; the amount of rebate paid to each subscriber; the amount of rebate retained by group policyholders; and the amount of any unclaimed rebates and how and when they were distributed we will need to build out capabilities to track this information regardless of whether the employer elects to have us pay the rebate to the individual. This will require us to obtain information from employers on the amount or premium paid by each enrollee – data which we currently do not retain for group policyholders. We will then need to develop systems that will enable us to calculate the amount of rebate to be paid to the group policyholder and the individual subscribers based on their percentage of the premium paid and then store this data with evidence that the rebate has been paid to the individual subscriber. We will then need to establish customer service capabilities to answer calls about rebate checks issued and have the ability to pull up all information related to each enrollee in order to answer questions in a satisfactory manner. Since the rebates will be issued in the June – August timeframe, we expect that seasonal employees may be hired to absorb any increased call volume during that period.

We do expect to have to hire additional staff as well as make systems changes to handle the rebate distribution but do not have a cost estimate at this point.

We will also need to develop additional audit capabilities to ensure we meet the obligation of ensuring that rebate checks are issued to individual subscribers if an employer elects to do so. Simply having an employer sign an affidavit that they have appropriately distributed rebates to individual enrollees will not meet the spirit of the law in our opinion. We have not quantified this additional audit cost, but we anticipate at least one additional employee.

We do expect that we may encounter delays from groups in order to accurately calculate the rebates. A two month window is a short time to obtain information from group policyholders regarding premiums paid by each enrollee and the portion of the premium paid by the group policyholder. Once obtained we estimate that a period of time of one month will be required to issue a rebate check.

This is still under development, however, it is estimated to involve significant costs to develop systems capabilities and on-going costs associated with additional seasonal customer service support staff, additional audit capabilities and additional finance and treasury support to issue the rebate checks, reconcile accounts and handle unclaimed rebates. Future costs will vary with the volume of rebate checks issued.

Notes on Auditing

We are currently working with our outside audit firm to evaluate the impact of the reporting and rebate process. Once we have that external information we will use it to determine and validate our own sense that we will more than likely need to dedicate staff to the MLR reporting and

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rebate process creating a dedicated work unit. This dedicated work unit would be trained to work with auditors.

We would expect that this dedicated work unit could respond to audit requests by HHS and State Departments of Insurance. We do expect the effort associated with regulatory audits to increase.

At this time we do not have an estimate of the one-time and on-going costs of these activities.

We do expect that we are going to need to hire additional staff related to the work unit described above. We have not determined the number of additional staff required.

Notes on Economies of Scale Relative to State-by-State Compliance

We do not agree [that there would be economies of scale]. The costs to build the reporting and the rebate process are where the majority of expenses will be incurred. Building the MLR reporting process is a large project based upon the specific financial and data elements outlined by PPACA and the regulations around MLR. We currently do not maintain data for state regulatory reporting on the basis as that required for the MLR reporting. The production of multiple reports on a legal entity and state-by-state basis will involve additional staff and IT resources due to reporting on a state and segment basis. The reports will require validation prior to issuance to ensure the accuracy of the data.

We do not track quality and administrative costs by state. Allocation of expenses to each state in which a multi state health plan/issuer operates is a major undertaking which is a large portion of the costs involved in calculating MLR and rebate on a state-by-state level. The rebate calculations will be derived from the initial multistate allocation used to calculate the MLR. We believe the requirement to allocate on a state by level will increase the number of rebate checks to be issued and thereby increase the costs of rebate check issuance. These costs have not been quantified at this time.

The initial building of the reports is the driver of the costs. Once the reports are built and barring significant changes to NAIC or HHS reporting, we may be able to achieve some economies of scale.

Other

The aggregation of data at the state level rather than at the national level is a huge driver of expense that also creates additional costs since we will then have to produce the report multiple times. We are also validating our approach with an outside audit firm to ensure that the report and its compilation will withstand and external review. That audit is generating expense to the organization as well.