Opening Statement of
The Honorable Mike Coffman
Chairman, Subcommittee on Investigations, Oversight and Regulations
House Committee on Small Business
December 15, 2011
Hearing: "New Medical Loss Ratios: Increasing Health Care Value or Just Eliminating Jobs?"

Good morning. I call this hearing to order. I want to welcome our witnesses; we appreciate your participation and look forward to your testimony.

Under the health care reform law and its final rule, insurers must spend 80% of premium dollars for individual and small group policies on health claims. This Medical Loss Ratio means the amount that can be spent on administrative expenses is limited to 20%. If an insurer fails to meet the minimum requirements, it must issue rebates for the difference to its customers.

Insurance agent commissions are counted as administrative costs under HHS' rule. The agents – often small business owners themselves – assess the unique health insurance needs of small firms, recommend appropriate coverage and help to process claims. In several letters to the Department of Health and Human Services, the National Association of Insurance Commissioners or NAIC, the organization of state insurance commissioners which HHS entrusted with recommending the MLR formula, expressed concern about the adverse effects of the MLR on insurance producers (agents and brokers). On November 22, 2011, NAIC endorsed 26-0 a formal resolution urging HHS to "take whatever immediate actions are available to the department to mitigate the adverse effects the MLR rule is having on the ability of insurance producers to serve the demands and needs of customers and to more appropriately classify producer compensation in the final…rule." Unfortunately, HHS did not include NAIC'S recommendation in its rule, and agent and broker compensation remain a part of the administrative calculation.

We all want quality health care and affordable insurance premiums. But the MLR is likely to deter small insurers from entering the market and hasten the exit of established ones. Instead of protecting consumers, the MLR may dissuade insurers from making investments in anti-fraud, anti-waste, customer service and transparency tools because they are considered administrative, and those costs must be kept low. The MLR is an incentive for insurers to increase – not reduce – premiums, because they will need to improve their medical ratio and forgo administrative tool that can ultimately save money. And, as NAIC's resolution said, the MLR requirements "have had profound detrimental marketplace effects for insurance producers [agents and brokers]…"

In a recent study on implementation of the new MLRs, the U.S. Government Accountability Office said that "almost all of the insurers" it interviewed had decreased, or planned to decrease, commissions to brokers to reduce their MLRs so they can avoid issuing rebates. The National Association of Health Underwriters reports that nearly three quarters of agents have experienced reductions in their income because of MLRs, and more than a fifth have eliminated jobs at their agencies. Clearly, federal Medical Loss Ratios are a bad idea for small businesses.

I look forward to hearing from our witnesses today. I now yield to the Ranking Member for opening remarks.