Managed Care Regulation in FL

House Health Care Regulation Committee

February 9, 2005
Rich Robleto, Deputy Commissioner
Florida Office of Insurance Regulation
26 Active HMO Carriers
4.1 Million Floridians

Large Group 42%
Small Group 16%
Medicaid 18%
Medicare 13%
Healthy Kids/Other 7%
Individual 3%
Federal Employees 1%
Individual 3%

SOURCE: Data compiled by Florida Office of Insurance Regulation from quarterly solvency reports 09/30/2004
Financial Solvency Standards

• Minimum surplus that is the greater of:
  ▪ $1.5 million
  ▪ 10% of total liabilities
  ▪ 2% of total annualized premiums
• Annual and quarterly financial statements
• Annual CPA report
• Actuarial review of reserves
Other Solvency Standards

- Most products have required Forms and Rate review
- Affiliate transactions are regulated
- Management/Administrative/Provider contracts subject to review
- Biographical statements, fingerprints, background investigations required for owners/officers/directors
- Permitted investments specified
- On site examinations performed
Primary Causes of Life and Health Insolvencies for the period 1992 to 2002

<table>
<thead>
<tr>
<th>Cause</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequate Pricing</td>
<td>25%</td>
</tr>
<tr>
<td>Affiliate Problems</td>
<td>22%</td>
</tr>
<tr>
<td>Rapid Growth</td>
<td>13%</td>
</tr>
<tr>
<td>Alleged Fraud</td>
<td>11%</td>
</tr>
<tr>
<td>Investment Problems</td>
<td>8%</td>
</tr>
<tr>
<td>Reinsurance Failure</td>
<td>4%</td>
</tr>
<tr>
<td>Significant Change in Business</td>
<td>2%</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>15%</td>
</tr>
</tbody>
</table>

Form and Rate Review

- Ensure compliance with statute
  - Contract requirements
  - Consumer protections
  - Continuity of coverage

- Prohibit
  - Inconsistent, ambiguous or misleading clauses
  - Exceptions or conditions that deceptively affect risk purported to be assumed
  - Prohibit premium rates that are excessive, inadequate, or unfairly discriminatory
Florida Rate Regulation

- General
  - Minimum loss ratio
  - Prohibited practices
    - Durational rating
    - Select and ultimate rating
  - Required practices
    - Pooling of similar forms
Florida Rate Regulation

• Individual
  - Pre-funding of underwriting wear-off
  - 70% loss ratio

• Small Group
  - Modified community rating
    - Gender/age/family composition/tobacco use/ geographic area
    - Health status/claims experience/duration
  - 65% loss ratio

• Large Group
  - Exempt from prior approval of rates
  - 70% loss ratio
Questions

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Florida Rate Regulation

• How to develop a rate
  - Estimate claim costs per person
    - Projected from history
    - Actuarial studies and statistical tables
    - Other industry data
  - Add expenses load
    - Commissions and acquisition costs
    - Administrative costs
    - Profit/contingency
    - Limited by loss ratio
Florida Rate Regulation

• How to develop a rate
  ▪ Formula:
    - Claims cost divided by loss ratio equals premium rate
  ▪ Examples
    - Claims Cost = $75 pmpm
    - At 65% loss ratio, rate = $115.38
    - At 70% loss ratio, rate = $107.14
    - At 85% loss ratio, rate = $93.75