



KAY IVEY  
GOVERNOR

JIM L. RIDLING  
COMMISSIONER

STATE OF ALABAMA  
DEPARTMENT OF INSURANCE  
201 MONROE STREET, SUITE 502  
POST OFFICE BOX 303351  
MONTGOMERY, ALABAMA 36130-3351  
TELEPHONE: (334) 269-3550  
FACSIMILE: (334) 241-4192  
INTERNET: [www.aldoi.gov](http://www.aldoi.gov)

DEPUTY COMMISSIONERS  
JERRY WORKMAN  
MARK FOWLER  
CHIEF EXAMINER  
RICHARD L. FORD  
STATE FIRE MARSHAL  
SCOTT F. PILGREEN  
GENERAL COUNSEL  
REYN NORMAN

August 31, 2020

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

Dear Mr. Secretary:

The Alabama Department of Insurance (DOI) again provides additional support for the DOI's initial request made on November 27, 2017, to modify Small Group Risk Adjustment transfers. The DOI continues to believe the national risk adjustment program is unable to work as precisely in the Alabama Market. We provided support for our initial request the past two years. As before, we do not assert that the risk adjustment formula is flawed, only that it produces imprecise results in Alabama. Therefore, we ask that you continue to rule favorably upon our request to reduce small group risk adjustment transfers by 50% in addition to the administrative costs reduction.

We also ask that risk adjustment transfers for the Individual Market be reduced 50%. After reviewing maturing experience it has become clear the national risk adjustment program is unable to work as precisely for the Individual Market in Alabama as well.

Impact of Risk Adjustment Transfer Reductions for the Small Group Market

Alabama continues to believe removing one half of the calculated risk adjustment transfers would provide additional stability to our market. We have added a fifth issuer in the Small Group Market in Alabama, still representing just three corporate groups. The four issuers that have experience to report for 2018 and 2019 are Blue Cross and Blue Shield of Alabama, (BCBSAL), UnitedHealthcare of Alabama, Inc, (UHCA), UnitedHealthcare Insurance Company, (UHCI), and VIVA Health, Inc., (VIVA). DOI provides two tables to illustrate the financial impact of reductions in transfers.

Table 1<sup>1</sup> provides data on premium, claims, and transfers for these four issuers in the Small Group Market for the 2018 and 2019 benefit year. Table 2 then shows how a reduction in transfers by 50% would impact financial results. Note that this data is taken from a public source, (though we again must redact data from one of the sources). We believe this public source of data will provide more consistent and accessible results from year to year. (See endnote below for data definitions).

### De Minimis Impact on Premium in the Small Group Market

The federal regulation asks that we demonstrate our proposal would have a de minimis impact on necessary premium. We have relied upon rate filings for the year 2020 to evaluate the impact of reducing risk adjustment transfers. A reduction of 50% was approved last year for the 2020 plan year, so rates for 2020 were developed anticipating the 50% reduction. The impact of the reduction in transfers did not result in an adjustment to any rate exceeding a de minimis level of increase, (i.e. not more than 1 percent of premium).

### Future Expectations for the Small Group Market

We continue to lack credible information to project results beyond what our issuers have provided in their rate filings. We do not anticipate a significant change in the relativities within the market. We do anticipate that large transfers will continue to flow from issuers representing a very small share of the market to the issuer with a dominant market share.

### Impact of Risk Adjustment Transfer Reductions for the Individual Market

Alabama believes removing one half of the calculated risk adjustment transfers would provide additional stability to our market. We have two issuers in the Individual Market in Alabama. The two issuers are Blue Cross and Blue Shield of Alabama, (BCBSAL), and Bright Health Insurance Company, Inc., (BHIC). DOI provides the same formatted two tables to illustrate the financial impact of reductions in transfers.

Table 3 provides data on premium, claims, and transfers for the two issuers in the Individual Market for the 2018 and 2019 benefit year. Table 4 then shows how a reduction in transfers by 50% would impact financial results.

### De Minimis Impact on Premium in the Individual Market

The federal regulation asks that we demonstrate our proposal would have a de minimis impact on necessary premium. We have relied upon rate filings for the year 2020 to evaluate the impact of reducing risk adjustment transfers. The impact of the reduction in transfers did not result in an adjustment to any rate exceeding a de minimis level of increase, (i.e. not more than 1 percent of premium).

### Future Expectations for the Individual Market

We continue to lack credible information to project results beyond what our issuers have provided in their rate filings. However based upon the results of the last two years we do anticipate that large transfers will continue to flow from the small issuer to the issuer with a dominant market share.

### Conclusion

In summary, we continue to believe that in a market like Alabama's, with an extremely unbalanced market share, the risk adjustment program lacks the precision it exhibits in other markets.

If our request is not approved, we believe we will have only two corporate groups providing coverage in the Alabama Small Group Market and only one providing coverage in the Individual Market. However we believe that if we continue to have the modified risk adjustment program transferring one half the calculated transfers, we may grow the market in Alabama. We believe our current issuers will remain in the market.

We ask that you continue your approval of our request for flexibility on risk adjustment transfers, extending it for the 2022 policy year.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim L. Ridling". The signature is written in a cursive, flowing style.

Jim L. Ridling  
Commissioner

cc: Randy Pate, Deputy Administrator and Director, CCIO  
Jeff Wu, Deputy Director for Policy, CCIO

Table 3: Alabama Individual Market Premium, Claims, and Risk Adjustment Transfers								
2019	Premium	Share	Claim	%	100% Transfer	%	Combined	%
BCBSAL					6,135,530			
BHIC					(6,135,530)			
Total					-			
2018								
BCBSAL					2,970,458			
BHIC					(2,970,458)			
Total					-			
Table 4: Alabama Individual Market Premium, Claims, and Risk Adjustment Transfers (adjusted)								
2019	Premium	Share	Claim	%	50% Transfer	%	Combined	%
BCBSAL					3,067,765			
BHIC					(3,067,765)			
Total					-			
2018								
BCBSAL					1,485,229			
BHIC					(1,485,229)			
Total					-			

<sup>1</sup> Data for these tables is taken from issuer's "Supplemental Health Care Exhibit", (SHCE) published by the National Association of Insurance Commissioners, and from the "Summary Report on Permanent Risk Adjustment Transfers", (Summary Report), released by the Center for Consumer Information and Insurance Oversight.

Premium is developed from Part 1, line 1.1 of the SHCE with adjustments to remove Risk Adjustment accruals as identified in the table following Part 1.

Claims are taken from Part 1, line 5.0 of the SHCE.

Transfers are taken from Table 4 of section VI of the Summary Report.

**Table 1: Alabama Small Group Premium, Claims, and Risk Adjustment Transfers**

2019	Premium	Share	Claim	%	100% Transfer	%	Combined	%
BCBSAL	██████████	██	██████████	██	2,173,185	██	██████████	██
UHCA	██████████	██	██████████	██	(1,960,118)	██	██████████	██
UHCI	██████████	██	██████████	██	154,618	██	██████████	██
VIVA	██████████	██	██████████	██	(367,685)	██	██████████	██
Total	██████████	██	██████████	██	-	██	██████████	██
Non-BCBSAL	██████████	██	██████████	██	(2,173,185)	██	██████████	██
2018								
BCBSAL	██████████	██	██████████	██	2,587,810	██	██████████	██
UHCA	██████████	██	██████████	██	(920,616)	██	██████████	██
UHCI	██████████	██	██████████	██	(1,087,486)	██	██████████	██
VIVA	██████████	██	██████████	██	(579,708)	██	██████████	██
Total	██████████	██	██████████	██	-	██	██████████	██
Non-BCBSAL	██████████	██	██████████	██	(2,587,809)	██	██████████	██

**Table 2: Alabama Small Group Premium, Claims, and Modified Risk Adjustment Transfers (adjusted)**

2019	Premium	Share	Claim	%	50% Transfer	%	Combined	%
BCBSAL	██████████	██	██████████	██	1,086,593	██	██████████	██
UHCA	██████████	██	██████████	██	(980,059)	██	██████████	██
UHCI	██████████	██	██████████	██	77,309	██	██████████	██
VIVA	██████████	██	██████████	██	(183,843)	██	██████████	██
Total	██████████	██	██████████	██	-	██	██████████	██
Non-BCBSAL	██████████	██	██████████	██	(1,086,593)	██	██████████	██
2018								
BCBSAL	██████████	██	██████████	██	1,293,905	██	██████████	██
UHCA	██████████	██	██████████	██	(460,308)	██	██████████	██
UHCI	██████████	██	██████████	██	(543,743)	██	██████████	██
VIVA	██████████	██	██████████	██	(289,854)	██	██████████	██
Total	██████████	██	██████████	██	-	██	██████████	██
Non-BCBSAL	██████████	██	██████████	██	(1,293,905)	██	██████████	██



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GENERAL COUNSEL  
REYN NORMAN

October 22, 2020

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

Dear Mr. Secretary:

The state flexibility request Alabama submitted for the 2022 benefit year is for reductions in Risk Adjustment transfers for the Individual Market (catastrophic and non-catastrophic risk pools) and the Small Group Market in Alabama. The supporting information combined both individual market risk pools in support of our request.

Sincerely,

Jim L. Ridling  
Commissioner

cc: Randy Pate, Deputy Administrator and Director, CCIO  
Jeff Wu, Deputy Director for Policy, CCIO