MGARA
Maine Guaranteed Access Reinsurance Association

February 25, 2021

Testimony in Favor of
L.D. 352
An Act To Maintain the Integrity of the Individual and Small Group Health Insurance Markets

Senator Sanborn, Representative Tepler, and honorable Members of the Health Coverage Insurance and Financial Services Committee. My name is Chris Howard and I am testifying today on behalf of the Maine Guaranteed Access Reinsurance Association ("MGARA") Board of Directors in support of LD 352.

The Board is supporting LD 352 due to its grave level of concern regarding the proposed merger of the Small Group and Individual Markets. The Board is pleased and proud that MGARA has been able to deliver rate relief to the Individual Market throughout its period of operation and MGARA would enthusiastically support any program that would extend that benefit to other segments of the market, including Small Group, but without reducing the benefit being provided to the Individual Market or creating inordinate risk to MGARA's solvency and effectiveness.

The Board takes very seriously its fiduciary responsibility for MGARA, and it is in that capacity that the Board has asked me to speak with you today. In its simplest terms, the Board's concern is that the proposed merger presents an unacceptable risk to MGARA's overall effectiveness in relation to the relatively modest potential benefit to the Small Group Market and the reduction in benefit to the Individual Market. While the Board recognizes, and sympathizes with, the plight of the Small Group Market, the Board believes it is important to consider the trade-offs inherent in merging the markets and in the end sees significant risk and nominal benefit in the merger, which will at best generate a modest one-time adjustment of the market's continuing deterioration, at the cost of significantly reducing MGARA's ability to benefit the Individual Market, and potentially threatening MGARA's viability.

There have been three actuarial reports regarding the merger – (i) the Gorman Actuarial analysis prepared for the Bureau of Insurance, (ii) the Milliman report prepared for MGARA and (iii) the Wakely report, which was a limited engagement reviewing and commenting on the differences between the Gorman and Milliman reports. The Board has reviewed and considered all three actuarial reports and none presents a compelling case for the merger – in fact in the Board's view the reports, taken together, present a compelling case against the merger.

Our actuarial consultant, Milliman, is one of the world's most respected actuarial firms and they have guided MGARA to a solid position since 2012. Milliman's report indicates that the merger would reduce MGARA's ability to deliver benefit to the Individual Market by a margin of approximately 30% to 50%. That reduction is in large part due to (i) a reduction in Section 1332 pass-through payments, which Milliman is projecting at $5.4 million vs. Gorman's projection of $23.9 million.

The key driver of the amount of 1332 pass through payments to MGARA is the "value" given to the MGARA reinsurance program by the carriers in their so-called "with and without MGARA" rate filings. The Gorman analysis assumes the carriers will provide full credit for the value of the MGARA program, but that assumption is not consistent with our historical experience (both in our 2012 and our 2019 start-ups), the advice of Milliman and the carrier representatives on the Board. There is substantial risk that full credit will not be achieved for several years, resulting in draws on surplus and introducing the potential for year-to-year volatility into MGARA's operations that could continue to put downward pressure on the value attributed to MGARA by the carriers.

The Board hopes this testimony will not be viewed as unduly critical, because they understand the value in the overall goal - to bring relief to a deteriorating Small Group Market. The Board simply believes the risk and potential cost of the merger, in relation to its modest potential gain, is too significant to make this a prudent choice.