Missouri Health Advocacy ALLIANCE
Many Voices. One Mission.

May 16, 2016

Director John M Huff
Department of Insurance, Financial Institutions & Professional Registration
Truman State Office Building
Room 530 P.O. Box 690
Jefferson City, MO 65102

Re: Merger of Aetna and Humana

Dear Director Huff:

The Missouri Health Advocacy Alliance felt strongly that it was very important to weigh in on the discussion of the merger of Aetna and Humana and express our concern regarding the impact it may have on consumers in Missouri. We are worried that the merger of Aetna and Humana could lessen competition and harm Missouri consumers. We have a serious of questions regarding the impact of the merger in several areas. In the absence of a clear picture on the impact of the merger on Missouri's marketplace and on Missouri's consumers, we ask you to block the merger.

What do we know about the effect of mergers on the market and premium prices?

As we look at the possible mergers regarding Aetna and Humana, we have little data regarding the impact of mergers of this kind on health insurance premiums and health care costs. The studies we do have point to higher premiums for consumers and there is no evidence that savings are passed on to consumers.

Economic studies have demonstrated a direct correlation between health insurer concentration and higher premiums .[1] Erin Trish, a health economist at University of Southern California's Schaeffer Center for Health Policy and Economics, states "when insurers merge, there's almost always an increase in premiums." [2]

Two separate, retrospective economic studies on health insurance mergers found significant premium increases for consumers post-merger. One study found that the 1999 Aetna-Prudential merger resulted in an additional seven percent premium increase in 139 separate markets throughout the United States.

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[1] Dafny, Leemore S.. 2010. "Are Health Insurance Markets Competitive?." *American Economic Review*, 100(4):1399-1431.

[2] David Lazarus, *As Health insurers merge, consumers' premiums are likely to rise*, L.A. TIMES (July 10, 2015 4:00 AM), http://www.latimes.com/business/la-fi-lazarus-20150710-column.html

[3] Another study found that the 2008 United-Sierra merger resulted in an additional 13.7 percent premium increase in Nevada.[4]

With so little evidence that mergers actually reduce costs to consumers, I think we have to ask, are we seeing a strategy to reduce cost and increase quality for consumers or a race to increase revenue and market share to increase margins and profits?

Doesn't the Medical Loss Ratio protect Consumers?

Insurers also point to the medical loss ratio, or MLR, as a protection that ensures that seniors will benefit from the merger. The MLR requires insurers to spend most of their revenue from premiums on medical expenses for consumers, thus guaranteeing that consumers see a return on their premium payments. Medicare Advantage plans must spend 85 percent of their revenue on medical expenses.

Although the MLR provides some protection against a merged company charging inflated premiums, this protection is not sufficient. If it were, then every merger between two health insurance companies would be in consumers' interest. But it is entirely possible that insurers in the Medicare Advantage market are already satisfying the MLR standard. In the most comparable market, the large employer market, 77 percent of plans were already meeting the 85 percent threshold before it went into effect. If two merging insurers both have MLRs of 90 percent, for example, and the merged company jacks up premiums such that the resulting MLR drops to 85 percent, then consumers will have been harmed. Nor does the MLR protect against premium increases that reflect higher medical costs.

Lastly, the MLR is not plan specific but instead a broad measure based on an insurer's aggregate Medicare Advantage spending at the state and market levels. Therefore, individual plan offerings may not necessarily meet the MLR threshold, and a merger could allow insurers to offset a low MLR in one area with a high MLR in a different area.

Medicare Advantage

The Missouri Medicare Advantage market is highly concentrated. The Kaiser Family Foundation reports that in 2015, Missouri's Medicare Advantage enrollment was as follows: Total enrollment was 311,364. Aetna's Medicare Advantage market share was 30%, Anthem's was 2%, Cigna's market share was 0%, Humana's was 22%, United-Healthcare's was 31%, and the market share of all other firms was 15%. Post-merger Aetna-Humana would have over 50% of the market in the state. The Centers for Medicare & Medicaid Services finds that in 2015, Aetna and Humana both offer Medicare Advantage plans in 67 counties in Missouri. The impact of this merger on the Medicare Advantage market significantly reduces competition.

Can such a high concentration of insurers in the market create a barrier to entry? Does it stifle the motivation for innovations?

Rate Review

Rate review at the state level can stop unreasonable price increases in the individual and small group markets, provided state law provides this authority. Missouri's state law does not allow the Director to

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[3] Leemore Dafny *et al*., *Paying a Premium on Your Premium? Consolidation in the US Health Insurance Industry,* 102 AM. ECON. REV. 1161 (2012).

[4] Guardado et al. *The Price Effects of a Large Merger of Health Insurers: A Case Study of United-Sierra,* 1(3) HEALTH MANAGEMENT, POL'Y & INNOVATION 1 (2013).

refuse an unreasonable rate increase. How will the proposed merger affect states that do not now review and reject unreasonable premium prices?

What about access to providers?

In the Missouri Legislature, we have seen attempts to aggressively change regulation to narrow networks through changing the statutes. What are the possible effects of these mergers on access to health care providers? Please especially consider whether they could cause a diminution of access to providers that may not have negotiating power with insurers and to which consumers often lack access, such as: outpatient mental health providers, pediatric specialists, and hospitals and other providers located in low-income communities.

Agents and Brokers

Agents and brokers can be a trusted source of information for consumers. We have seen a series of changes in compensation for agents and brokers. Does the merger reduce incentives for agent and broker to participate and advise consumers?

We have great confidence in the Director and the Department in being advocates for the consumer. They have demonstrated this propensity in the past and we expect they will do so in the future. If past is prologue the department will do due diligence and proceed with caution. They will not rush for the consideration of the stockholder over the consumer.

With so many questions and so little clarity on the impact of the merger on Missouri we urge caution and ask you not to allow the merger to move forward at this time.

We would be happy to address any of the points raised in this comment. Please do not hesitate to contact us with any questions.

Respectfully submitted,

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