



**DEPARTMENT OF INSURANCE**  
**State of North Carolina**

1201 MAIL SERVICE CENTER  
RALEIGH, N.C. 27699-1201

**JIM LONG**  
COMMISSIONER OF INSURANCE

(919) 733-3058

April 18, 2006

The Honorable Michael Enzi  
Chairman, Committee on Health,  
Education, Labor and Pensions  
428 Dirksen Senate Office Building  
United States Senate  
Washington, DC 20510

The Honorable Ben Nelson  
720 Hart Senate Office Building  
United States Senate  
Washington, DC 20510

Dear Senators Enzi and Nelson:

I am writing to convey to you my views on S. 1955. I certainly appreciate your efforts to address the high cost of health insurance and its effect on employers' and individuals' ability to afford coverage. However, despite the fact that your bill would require associations to purchase fully-insured plans – which is a significant improvement over the numerous Association Health Plan bills that have been introduced over the last several years – this bill in its current form would still cause serious problems in the small group health insurance market. I urge you to reconsider your approach in order to address these concerns.

Following are the effects that S. 1955 would have that are of the greatest concern to me:

- The one-size-fits-all approach to rate regulation ignores the fact that each state has found a system of rate regulation that works for their small group market. This does not mean that health insurance is sufficiently affordable in each state, but that the system and amount of risk-spreading is in tune with the local market and business community. Drastically adjusting or eliminating risk-spreading will not address the true drivers of health insurance premiums – which are the price of and demand for medical goods and services, and neither will forcing a national standard for rating. Meanwhile, moving all states to the proposed rating system will disrupt the small group markets in many states including North Carolina. Although I have recently recommended some fine tuning to North Carolina's small group rating laws to my State legislators, I do not and would not recommend for North Carolina the drastic changes that would result if S. 1955 were enacted.
- The proposed rating system, coupled with the ability of insurers to opt out of offering benefits plans that include state-mandated benefits simply by offering a benefit plan that includes the mandates covered under the state employee plans of the five most populous states alongside of mandate-free plans, will result in increased fragmentation of the market and risk selection against the plans that include the mandates. People wanting to purchase the plans that cover the mandated benefits will find them unaffordable.

- States' ability to regulate the market conduct and other aspects of insurers' operations will be hamstrung by the "harmonization" provisions and the right of insurers to sue states for injunctive relief when they disagree with the interpretations or actions of a state insurance regulator.

For all of these reasons, S. 1955, if enacted, would cause the smallest employers and those with the poorest medical risks to have to pay more for coverage. (How much more depends on which state they are in and the rate regulation that applies currently.) In addition, the bill would limit the ability of insurance departments across the country to provide service and consumer protection through their market conduct, external review, and rate and form filings functions as they do today.

Senators, I hope that you will consider these concerns as you continue your work on S. 1955.

Very Truly Yours,

Jim Long

Cc: Senator Elizabeth Dole  
Senator Richard Burr