04 - 0323

Report of 2003 Loss Ratio Experience in the Individual and Small Employer Health Plan Markets for: Insurance Companies Nonprofit Health Service Plan Corporations and Health Maintenance Organizations

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Introduction

Under Minnesota Statutes, section 62A.021, subdivision 1(g), the Minnesota Departments of Health and Commerce are required to issue a public report each year listing, by health plan company, the actual loss ratios experienced in the individual and small employer markets in the State of Minnesota. This report includes loss ratios for the calendar year ending December 31, 2003, for health plan companies regulated by the Minnesota Departments of Health and Commerce. There is a public interest in dissemination of information that may help consumers to choose from among available health plan companies.

The loss ratio is a rough measure of how much of the premium revenue was spent on medical care. Revenue not used to pay medical expenses is used for health plan administration, marketing, taxes, other expenses, and net income. In reality, due to many reasons related to operation and measurement, loss ratios are not necessarily an indicator of value for a specific health plan company in any one year.

State law has established some minimum loss ratios for small group and individual plans to ensure a minimum value to the consumer. Some bills were passed in the 2002 legislative session that affect regulation of these products. For additional information regarding "File and Use" Legislation, see: Minnesota Statutes, section 62A.02, subdivision 2, or State of Minnesota Department of Commerce Bulletin 2002-5. For additional information regarding "Sixty Percent Loss Ratio" Legislation, see: Minnesota Statutes, section 62A.021, subdivision 1(g), or State of Minnesota Department of Commerce Bulletin 2002-4. For additional information regarding Limitations on Renewal Premium Increases, see: Minnesota Statutes, section 62L.08, subdivision 2a.

Roughly 10 percent of the population receives coverage through a small group, while 5 percent of the population purchases individual coverage. Of the remainder, 56 percent of the population receives coverage through a large group, 24 percent receives coverage through public programs, and 5 percent is uninsured. Claim cost levels have continued to increase for most health plan companies, leading to a series of high rate increases for small employer and individual health plans. Most large employers have self-insured plans, which allow them to reduce cost while having more control over their employee benefits. Self-insured plans are not subject to state benefit

mandates or state premium taxes and assessments. This option is not generally available to small employers, because they do not usually have the financial resources to accept the risk of large claims.

Definition of Loss Ratio

The loss ratio is the ratio of incurred claims to earned premiums. Health plan companies were asked to provide the total earned premium, incurred claims, and loss ratio for the year ending December 31, 2003, separately for the individual and small employer health plan markets. The small employer market includes non-compliant small employer plans that have been treated as part of the small employer block of business. The small employer market does not include employers with 51 or more employees, even if fewer than 51 employees from a group have enrolled for health plan coverage.

The individual market includes individual policies issued as conversions from group health plan coverage. However, if a company has conversion policies in force, but no other individual health plan business, it need not report data for the individual market.

Earned Premium

Earned premium is premium earned during 2003, without adjusting for any payments to the Minnesota Health Care Reinsurance Association (MHCRA) or private reinsurance arrangements. Earned premiums are equal to paid premium for the year plus uncollected premiums minus premiums paid in advance.

The number should be based on the most recent available estimates of the premium-related accrual amounts. The number includes any fees from policyholders such as enrollment fees, monthly fees, or processing fees. The number should be calculated without subtracting any commissions or marketing expenses from the premiums. Premiums do not include any payments for Administrative Services Only contracts or any fee-for-service income that was given on a non-insured basis to medical care providers.

Incurred Claims for Insurance Companies and Nonprofit Health Service Plan Corporations

Incurred claims include the paid-on-incurred claims for the year, plus a reserve for claims incurred but not yet paid, plus the change in any other reserves held, plus the expenses incurred during the year for the following items, where expenses for a functional area should include allocated costs such as electronic data processing equipment, office space, management, overhead, and so on.

- Any accrued expected value of withholds, bonuses, or other amounts to be paid to providers under contracts with the health plan company
- Any accrued prescription drug rebates or refunds from pharmaceutical companies (a reduction to the claims)
- Case management activities
- Capitations paid or accrued to providers for claims incurred during 2003
- Clinical quality assurance and other types of medical care quality improvement efforts
- Concurrent or prospective utilization review as defined in Minnesota Statutes, section 62M.02, subdivision 20
- Consumer education solely for health improvement
- Detection and prevention of payment for fraudulent requests for reimbursement
- Net reinsurance cost (premiums less claims) for the MHCRA and private reinsurance, and assessments by MHCRA
- Network access fees to Preferred Provider Organizations and other network-based health plans
- Provider contracting and credentialing costs
- Provider tax required by Minnesota Rules, part 295.52

Incurred Claims for Health Maintenance Organizations

Incurred claims include the paid-on-incurred claims for the year, plus a reserve for claims incurred but not yet paid, plus the change in any other reserves held, plus the expenses incurred during the year for the following items, where expenses for a functional area should include allocated costs such as electronic data processing equipment, office space, management, overhead, and so on.

The following are also included as incurred claims for health maintenance organizations:

- The 0.6% Medicaid surcharge paid by health maintenance organizations
- Any accrued expected value of withholds, bonuses, or other amounts to be paid to providers under contracts with the health maintenance organization
- Any accrued prescription drug rebates or refunds from pharmaceutical companies (a reduction to the claims)
- Case management activities involving direct patient care
- Capitations paid or accrued to providers for claims incurred during 2003
- Consumer education solely for health improvement involving direct patient care
- Net reinsurance cost (premiums less claims) for private reinsurance.
- Provider tax required by Minnesota law

The following are not included as incurred claims for health maintenance organizations:

- Concurrent or prospective utilization review as defined in Minnesota Statutes, section 62M.02, subdivision 20
- Provider contracting and credentialing costs
- Detection and prevention of payment for fraudulent requests for reimbursement
- Clinical quality assurance and other types of medical care quality improvement efforts
- Network access fees to Preferred Provider Organizations and other network-based health plans

Notes on Using the Results

How to Use the Data

In order to use the loss ratio data for a specific purpose, it is important to find out additional information relevant to that purpose. As discussed below, loss ratios may not be a good way to compare health plan companies, unless other information is taken into account.

For example, when the Commerce Department reviews health plan rates for compliance with statutory requirements, we ask for additional information to evaluate the rates, including:

- how the loss ratio has been calculated
- the benefits that will be offered
- any recent changes in rates or benefits
- national experience when Minnesota experience is not very credible
- an analysis of the relative newness of the experience
- any other information that will help evaluate whether rates will meet the statutory requirements

Unintentional Errors

The earned premiums, incurred claims, and loss ratios that are listed in this report have been provided by the health plan companies. We have not independently verified the loss ratios, and even the most careful process will sometimes include unintentional errors.

Calculation Methods

There are different ways of calculating a loss ratio, depending on the accounting method used for calculating earned premiums and incurred claims. One method is used for the statutory annual financial statement, and includes estimates of premiums and claims that have not yet been recorded, and also includes changes in the estimates for the previous year. Another method is commonly used for setting and filing rates. This method restates the earned premium and incurred claims using the most recent information, and does not incorporate adjustments from previous periods. For this report, we have asked the health plan companies to provide loss ratios using the second method.

Loss Ratio is not the Same as Value

The loss ratio can be a good measure of relative value if two health plan companies are very similar in the benefits they provide and other factors. In that case, the plan with the higher loss ratio would be a better value.

However, health plan companies differ in a variety of ways, and therefore the relative loss ratio is not always indicative of relative value. For example, one health plan company may not spend much effort preventing payment of fraudulent claims, while another may spend much more time and money, resulting in non-payment of many fraudulent claims. The first company would have a higher loss ratio due to the fraudulent claims it paid, but that would not be a value to the honest policyholders. Similarly, one health plan company may pay doctors and hospitals at a higher charge level than another, due to different contractual arrangements. Those higher payments do not represent greater value to the policyholder.

Also, every prospective policyholder is different, with different needs for health care. In order to compare health plan companies, it is necessary to review other aspects of the company affecting value, such as availability of particular medical care providers, quality of patient service, and quality of care management.

Statistical Fluctuation

Loss ratios also are subject to statistical fluctuation. Each individual's health care costs are more or less unpredictable, and the total incurred claims of a health plan company are also more or less unpredictable. Having a high or low loss ratio may have been due to such fluctuations, and may not be repeated in a future time period.

Recent Changes

Any change that has been made in a health plan company's business since the beginning of the reporting period also affects the loss ratio. For example, the rate levels or benefits offered may have changed significantly, due to legislative requirements or improvements offered by the health plan company.

Newness of Coverage

The newness of the health plans also has an effect on the loss ratio. Policies that have been recently sold typically have lower levels of claims than policies that have been in force for a year or more. Thus, a health plan company may have a relatively low loss ratio, due to a large proportion of relatively new policies, but its expected future loss ratio may not be low.

How Rates are Regulated

Minnesota Statutes, section 62A.02, requires all health plan rates to be approved by the Commissioner of Commerce or the Commissioner of Health before being used. The health plan company must supply actuarial reasons and data demonstrating that the benefits are reasonable in relation to the premiums. The Departments of Commerce and Health review all rates to verify reasonableness and compliance with other statutory limitations such as rate bands. Rate restrictions for small employer plans are specified in Minnesota Statutes, section 62L.08, and for individual plans are specified in Minnesota Statutes, section 62A.65.

Loss Ratio Standards

In addition to being reasonable and meeting rate restrictions, individual and small employer health plan rates must be calculated to meet the specific minimum loss ratio standards in Minnesota Statutes, section 62A.021. For health maintenance organizations and nonprofit health service plan corporations, Minnesota law requires that small employer group plans have rates that are set to achieve a minimum loss ratio of 71% to 82%, and that individual plans have rates that are set to achieve a minimum loss ratio of 68% to 72%.

Health maintenance organizations and nonprofit health service plan corporations have different minimum loss ratios based upon whether they are assessed less than 3% of the total annual amount assessed by the Minnesota Comprehensive Health Association (MCHA). The loss ratio requirements are:

Individual coverage:

- 72% for companies assessed 3% or more of the total annual MCHA assessment
- 68% for companies assessed less than 3% of the total annual MCHA assessment

Small employer coverage:

- 82% for companies assessed 3% or more of the total annual MCHA assessment
- 71% for companies assessed less than 3% of the total annual MCHA assessment, on their policies with fewer than 10 employees
- 75% for companies assessed less than 3% of the total annual MCHA assessment, on their policies with 10 or more employees

For insurance companies, Minnesota law requires that small employer group plans and individual plans have rates that are set to achieve a minimum loss ratio of 60%. For insurance companies (including affiliates) that are assessed more than 10% of the total annual MCHA assessment, the loss ratio standards used are the same as those used for health maintenance organizations and nonprofit health service plan corporations. Currently, only Medica Insurance Company falls into this category.

Individual Health Plan Loss Ratios

Attachments 1 and 2 list the loss ratios experienced in the individual health plan market in 2003 by health plan companies that cover individuals in that market. Not all health plan companies with individual health plans in force are included, as some had premium volume lower than $100,000, which we considered too low to include. Attachment 1 contains a list in order by decreasing premium volume of the health plan companies that responded. Attachment 2 contains an alphabetical list of the same health plan companies.

The loss ratios for 2003 for health plan companies ranged from 55% to 541%. The total loss ratio for 2003 for health plan companies is 89%, slightly higher than the 88% total loss ratio from last year.

The lowest loss ratios are usually on small, non-credible blocks of business. The highest loss ratios are usually on blocks of business that are primarily polices or certificates of coverage used as the mandated portability option required by Minnesota Statutes, section 62A.65, subdivision 5(b), for persons formerly covered in group health plans who have exhausted the mandated continuation coverage.

Small Employer Health Plan Loss Ratios

Any person, firm, corporation, partnership, association or other entity actively engaged in business (including political subdivisions of the state) is considered a small employer group if:

- it employed 2-50 workers who worked at least 20 hours per week on business days during the preceding calendar year; and
- it employs at least 2 current employees on the first day of the health plan year.

Attachments 3 and 4 list the loss ratios experienced in the small employer health plan market in 2003 by health plan companies that cover small employer groups. Attachment 3 contains a list in order by decreasing premium volume of the health plan companies that responded. Attachment 4 contains an alphabetical list of the same health plan companies.

The loss ratios for 2003 for health plan companies ranged from 52% to 105%. The total loss ratio for 2003 for health plan companies is 84%, slightly higher than the 83% total loss ratio from last year.

Additional Reference Sources

For information about insurance companies and nonprofit health service plan corporations

Minnesota Department of Commerce
Enforcement Division
85 Seventh Place East, Suite 500
St Paul, MN 55101-2198
(651) 296-2488; (800) 657-3602
www.commerce.state.mn.us

For information about health maintenance organizations

Minnesota Department of Health
Managed Care Systems Section
85 Seventh Place East
P.O. Box 64882
St. Paul, MN 55164-0882
(651) 282-5600; (800) 657-3916
www.health.state.mn.us/divs/hpsc/mcs/mcshome.htm

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Attachment 1

Premium Order List for Individual

Company	2003 Premiums	2003 Claims	Loss Ratio
** BCBSM, Inc.	$ 213,674,474	$ 185,244,849	87%
Fortis Insurance Company	$ 53,779,824	$ 43,718,823	81%
* HealthPartners	$ 48,747,194	$ 37,436,838	77%
* Medica	$ 20,200,569	$ 26,893,847	133%
World Insurance Company	$ 10,772,643	$ 10,534,148	98%
State Farm Mutual Automobile Insurance Company	$ 9,834,349	$ 9,927,076	101%
American Family Mutual Insurance Company	$ 8,156,618	$ 6,647,403	81%
Medica Insurance Company	$ 5,222,891	$ 8,872,558	170%
Golden Rule Insurance Company	$ 3,995,851	$ 3,028,921	76%
John Alden Life Insurance Company	$ 3,561,732	$ 1,953,252	55%
Thrivent Financial for Lutherans	$ 2,274,958	$ 3,289,744	145%
Principal Life Insurance Company	$ 1,506,910	$ 2,343,589	156%
Trustmark Insurance Company	$ 1,402,196	$ 1,616,337	115%
Fortis Benefits Insurance Company	$ 857,135	$ 1,077,829	126%
Prudential Insurance Company of America (The)	$ 265,202	$ 614,480	232%
Mutual of Omaha Insurance Company	$ 153,497	$ 830,450	541%
United Teacher Associates Insurance Company	$ 149,200	$ 151,926	102%
American Fidelity Assurance Company	$ 136,997	$ 101,117	74%
Total	$ 384,692,240	$ 344,283,187	89%

* Health Maintenance Organization (HMO)
** Nonprofit Health Service Plan Corporation

Attachment 2

Alphabetic List for Individual

	Company	2003 Premiums	2003 Claims	Loss Ratio
	American Family Mutual Insurance Company	$ 8,156,618	$ 6,647,403	81%
	American Fidelity Assurance Company	$ 136,997	$ 101,117	74%
**	BCBSM, Inc.	$ 213,674,474	$ 185,244,849	87%
	Fortis Benefits Insurance Company	$ 857,135	$ 1,077,829	126%
	Fortis Insurance Company	$ 53,779,824	$ 43,718,823	81%
	Golden Rule Insurance Company	$ 3,995,851	$ 3,028,921	76%
*	HealthPartners	$ 48,747,194	$ 37,436,838	77%
	John Alden Life Insurance Company	$ 3,561,732	$ 1,953,252	55%
*	Medica	$ 20,200,569	$ 26,893,847	133%
	Medica Insurance Company	$ 5,222,891	$ 8,872,558	170%
	Mutual of Omaha Insurance Company	$ 153,497	$ 830,450	541%
	Principal Life Insurance Company	$ 1,506,910	$ 2,343,589	156%
	Prudential Insurance Company of America (The)	$ 265,202	$ 614,480	232%
	State Farm Mutual Automobile Insurance Company	$ 9,834,349	$ 9,927,076	101%
	Thrivent Financial for Lutherans	$ 2,274,958	$ 3,289,744	145%
	Trustmark Insurance Company	$ 1,402,196	$ 1,616,337	115%
	United Teacher Associates Insurance Company	$ 149,200	$ 151,926	102%
	World Insurance Company	$ 10,772,643	$ 10,534,148	98%
	Total	$ 384,692,240	$ 344,283,187	89%

* Health Maintenance Organization (HMO)
** Nonprofit Health Service Plan Corporation

Attachment 3

Premium Order List for Small Employer

Company	2003 Premiums	2003 Claims	Loss Ratio
** BCBSM, Inc.	$ 515,745,818	$ 430,731,104	84%
* Medica	$ 335,691,562	$ 287,480,988	86%
* HealthPartners	$ 179,672,555	$ 148,961,576	83%
* Blue Plus	$ 86,035,685	$ 74,306,489	86%
Medica Insurance Company	$ 70,013,319	$ 56,885,764	81%
Federated Mutual Insurance Company	$ 43,687,235	$ 31,914,430	73%
* PreferredOne Community Health Plan	$ 34,601,000	$ 27,596,000	80%
Principal Life Insurance Company	$ 17,709,182	$ 14,218,063	80%
John Alden Life Insurance Company	$ 8,266,591	$ 8,685,673	105%
Fortis Insurance Company	$ 5,414,488	$ 5,217,031	96%
* First Plan of Minnesota	$ 2,938,278	$ 3,076,520	105%
Fortis Benefits Insurance Company	$ 1,116,782	$ 808,838	72%
* Sioux Valley Health Plan of Minnesota	$ 328,915	$ 171,912	52%
EPIC Life Insurance Company (The)	$ 240,207	$ 198,937	83%
Total	$ 1,301,461,617	$ 1,090,253,325	84%

* Health Maintenance Organization (HMO)
** Nonprofit Health Service Plan Corporation

Attachment 4

Alphabetic List for Small Employer

Company	2003 Premiums	2003 Claims	Loss Ratio
** BCBSM, Inc.	$ 515,745,818	$ 430,731,104	84%
* Blue Plus	$ 86,035,685	$ 74,306,489	86%
EPIC Life Insurance Company (The)	$ 240,207	$ 198,937	83%
Federated Mutual Insurance Company	$ 43,687,235	$ 31,914,430	73%
* First Plan of Minnesota	$ 2,938,278	$ 3,076,520	105%
Fortis Benefits Insurance Company	$ 1,116,782	$ 808,838	72%
Fortis Insurance Company	$ 5,414,488	$ 5,217,031	96%
* HealthPartners	$ 179,672,555	$ 148,961,576	83%
John Alden Life Insurance Company	$ 8,266,591	$ 8,685,673	105%
* Medica	$ 335,691,562	$ 287,480,988	86%
Medica Insurance Company	$ 70,013,319	$ 56,885,764	81%
* PreferredOne Community Health Plan	$ 34,601,000	$ 27,596,000	80%
Principal Life Insurance Company	$ 17,709,182	$ 14,218,063	80%
* Sioux Valley Health Plan of Minnesota	$ 328,915	$ 171,912	52%
Total	$ 1,301,461,617	$ 1,090,253,325	84%

* Health Maintenance Organization (HMO)
** Nonprofit Health Service Plan Corporation