Report of 2013 Loss Ratio Experience in the Individual and Small Employer Markets for: Insurance Companies Nonprofit Health Service Plan Corporations and Health Maintenance Organizations

June, 2014

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Introduction

Under Minnesota Statutes, section 62A.021, subdivision 1(h), 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, 2013, 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. See page 5 for a description of the requirements.

According to the Minnesota Health Care Markets Chartbook published by the Minnesota Department of Health in June, 2014, in 2013 about 56 percent of the population received coverage through an employer, while 5 percent of the population purchased individual coverage. About 31 percent of Minnesota's population received coverage through public programs, while 8 percent was uninsured. A study published by the State Health Access Data Assistance Center at the University of Minnesota in 2014 indicates that the most recent measurement of the uninsured population in Minnesota is 4.9 percent.

Claim cost levels have continued to increase for most health plan companies, leading to rate increases for small employer and individual health plans. Most large employers have self-insured plans, which allow them to have more control over their employee benefits and consistency for employees that live in different states. 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 provided on the Supplemental Health Care Experience Exhibit the total earned premium, incurred claims, and loss ratio for the year ending December 31, 2013, separately for the individual, small employer, and large employer health plan markets. The individual market includes individual policies issued as conversions from group coverage, and individual certificates issued to members of associations, but those are not included in this report, because state loss ratio requirements do not apply to them.

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.

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 plan changes 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.

Medical Loss Ratio as defined by the Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act (ACA) was passed by Congress and then signed into law by the President on March 23, 2010. The Federal requirements for medical loss ratios are provided under Section 2718 of the ACA. More detailed information regarding these requirements may be found in the Code of Federal Regulations Title 45, Part 158.

Starting in 2012, an insurer that does not spend enough of its premium dollars on health care must provide a rebate to the insured individual or to the policyholder, which may be the employer that purchased the insurance.

Under this law, an insurer's medical loss ratio (MLR) is the ratio of the issuer's payments for medical services and activities that improve health care quality to premium revenue (minus the issuer's Federal and State taxes, licensing, and regulatory fees). A medical loss ratio is the amount of health insurance premiums that an insurer spends on health care and activities to improve health care quality, as opposed to profits and administrative costs, including executive salaries, overhead, and marketing. It is expressed as a percentage: for example, a medical loss ratio of 90% means 9 out of 10 of all premium dollars net of taxes the insurer receives are spent on health care and quality improvement, with the other dollar spent on overhead, profits, and administrative costs.

Insurers must provide a rebate to consumers if the MLR is less than 85% in the large group market and 80% in the small group and individual markets. This rule does not apply to employers who operate a self-insured plan. In addition, the experience of very small insurers with less than 1,000 people enrolled cannot sufficiently confirm that they have or have not met the medical loss ratio standard, and as a result those insurers are deemed non-credible and are not required to provide rebates. An insurer with 1,000 to 75,000 people enrolled is considered to have partially-credible experience and a "credibility adjustment" is applied to its medical loss ratio under the federal law.

The amount of rebate to each enrollee is the total amount of premium revenue received by the issuer from the enrollee (after subtracting Federal and State taxes, licensing, and regulatory fees), multiplied by the difference between the medical loss ratio required by Federal law and the issuer's medical loss ratio, subject to the applicable credibility adjustment.

Effective January 1, 2011, carriers must report medical loss ratios for all fully insured plans to the Secretary of the U.S. Department of Health and Human Services. A "Plan Year" is defined as the calendar year. The first report, covering calendar year 2011, was filed on June 1, 2012. Insurers were required to make the first round of rebates to consumers in 2012. Starting in the summer of 2012, the U.S. Department of Health and Human Services posted insurers' reports and medical loss ratios on the Web at http://www.healthcare.gov/.

Medical Loss Ratio as Defined by Minnesota Law

Individual states can require a higher minimum loss ratio for insurers operating within their state, and can calculate the "loss ratio" differently from the federal definition. Minnesota law requires that individual, small employer, and large employer health plan rates meet the specific minimum loss ratio standards in Minnesota Statutes, section 62A.021. Minnesota's loss ratio is defined as incurred claims divided by earned premium, which is different from the federal MLR. 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).

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 large group plans, 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 10% or more 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.

Individual, Small Group and Large Group Loss Ratios

The loss ratios shown on Attachments 1 through 3 are based on the state definition of loss ratio. The column titled Preliminary MLR gives the preliminary estimate of the federal loss ratio from the health plan company's annual statement, in the Supplemental Health Care Exhibit. Domicile as show on Attachments 1 through 3 refers to the state in which the health plan company was first licensed and the state that has the primary regulatory responsibility.

Attachment 1 lists the loss ratios experienced in the individual health plan market in 2013 by 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 $300,000, which we considered too low to include.

The loss ratios for 2013 ranged from 55% to 925%. The total loss ratio for 2013 is 82%.

Attachment 2 lists the loss ratios experienced in the small employer health plan market in 2013 by health plan companies that cover small employer groups. Not all health plan companies with small employer health plans in force are included, as some had premium volume lower than $300,000, which we considered too low to include.

An entity actively engaged in business (including political subdivisions of the state) that meets the following criteria is considered a small employer group:

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

The loss ratios for 2013 ranged from 45% to 123%. The total loss ratio for 2013 for health plan companies is 87%.

Attachment 3 lists the loss ratios experienced in the large employer health plan market in 2013 by health plan companies that cover large employer groups. Not all health plan companies with large employer health plans in force are included, as some had premium volume lower than $300,000, which we considered too low to include.

Large Employer Group means a person, firm, corporation, partnership, association, or other entity actively engaged in business in Minnesota, including a political subdivision of the state, that employs more than 50 employees.

The loss ratios for 2013 ranged from 36% to 127%. The total loss ratio for 2013 for health plan companies is 86%.

Additional Reference Sources

For information about insurance companies and nonprofit health service plan corporations, please contact the Commerce Department at:

Minnesota Department of Commerce
Enforcement Division
85 Seventh Place East, Suite 500
St Paul, MN 55101-2198
(651) 539-1600; (800) 657-3602
www.insurance.mn.gov

For information about health maintenance organizations, please contact the Health Department at:

Minnesota Department of Health
Managed Care Systems Section
85 Seventh Place East
P.O. Box 64882
St. Paul, MN 55164-0882
(651) 201-5100; (800) 657-3916
www.health.state.mn.us/hmo

For information about this report, contact Melane Milbert at (651) 539-1754.
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Attachment 1

Supplemental Health Care Exhibit for 2013
Individual not including Association or Conversion Policies

Group Code	NAIC Number	Name	Domicile	Earned Premium	Incurred Claims	Loss Ratio	Preliminary Federal MLR	Covered Lives
473	19275	American Family Mut Ins Co	WI	5,917,850	3,262,650	55%	102%	1,975
3527	60836	American Republic Ins Co	IA	343,480	3,177,719	925%	-1364%	110
461	55026	BCBSM Inc	MN	458,190,947	355,514,000	78%	93%	139,556
707	62286	Golden Rule Ins Co	IN	1,455,883	1,251,099	86%	90%	260
1258	95766	HealthPartners Inc	MN	15,979,000	17,283,000	108%	114%	2,727
1258	44547	HealthPartners Ins Co	MN	53,738,000	45,452,000	85%	91%	26,540
19	65080	John Alden Life Ins Co	WI	2,608,188	1,636,188	63%	70%	917
1552	52626	Medica Health Plans	MN	5,560,982	8,456,183	152%	53%	432
1552	12459	Medica Ins Co	MN	106,802,111	102,155,810	96%	90%	48,907
3492	11817	PreferredOne Ins Co	MN	19,924,470	14,241,017	71%	78%	14,576
19	69477	Time Ins Co	WI	39,904,226	30,269,479	76%	80%	13,492
		Total		**710,425,137**	**582,699,145**	**82%**	N/A	**249,492**

Attachment 2

Supplemental Health Care Exhibit for 2013
Small Employer Group

Group Code	NAIC Number	Name	Domicile	Premium Earned	Incurred Claims	Loss Ratio	Preliminary Federal MLR	Covered Lives
461	55026	BCBSM Inc	MN	543,877,020	468,062,000	86%	91%	119,269
461	95649	Blue Plus	MN	1,637,670	2,019,271	123%	183%	5
7	13935	Federated Mut Ins Co	MN	31,932,465	23,814,958	75%	87%	7,886
1258	95766	Healthpartners Inc	MN	323,110,000	277,786,000	86%	91%	85,767
1258	44547	Healthpartners Ins Co	MN	76,514,000	71,263,000	93%	99%	16,760
19	65080	John Alden Life Ins Co	WI	642,725	458,103	71%	77%	84
1552	12459	Medica Ins Co	MN	299,272,020	267,717,416	89%	91%	67,374
3492	95724	PreferredOne Comm Hlth Plan	MN	36,264,677	32,881,040	91%	94%	10,512
3492	11817	PreferredOne Ins Co	MN	39,155,657	37,352,716	95%	97%	12,655
19	69477	Time Ins Co	WI	710,490	323,189	45%	53%	157
		Total		**1,353,116,724**	**1,181,677,693**	**87%**	N/A	**320,469**

Attachment 3

Supplemental Health Care Exhibit for 2013
Large Employer
Group

Group Code	NAIC Number	Name	Domicile	Premium Earned	Incurred Claims	Loss Ratio	Preliminary Federal MLR	Covered Lives
473	19275	American Family Mut Ins Co	WI	1,023,771	1,022,321	100%	100%	155
461	55026	BCBSM Inc	MN	1,066,123,006	960,776,506	90%	92%	209,513
461	95649	HMO dba Blue Plus	MN	17,303,672	13,870,474	80%	91%	3,072
901	67369	Cigna Hlth	CT	668,505	525,519	79%	88%	115
901	62308	Connecticut Gen Life Ins Co	CT	7,064,105	6,709,178	95%	100%	1,919
7	13935	Federated Mut Ins Co	MN	14,543,933	12,850,068	88%	103%	3,793
1258	52628	Group Hlth Plan Inc	MN	45,669,000	44,185,000	97%	99%	8,387
687	64211	Guarantee Trust Life Ins Co	IL	408,430	145,001	36%	202%	0
1258	95766	Healthpartners Inc	MN	313,632,000	250,539,000	80%	84%	50,998
1258	44547	Healthpartners Ins Co	MN	564,402,000	471,256,000	83%	89%	262,793
1552	52626	Medica Hlth Plans	MN	3,931,079	4,976,761	127%	351%	720
1552	12459	Medica Ins Co	MN	691,482,013	587,524,258	85%	90%	141,979
3492	95724	PreferredOne Comm Hlth Plan	MN	23,426,313	21,640,519	92%	98%	6,130
3492	11817	PreferredOne Ins Co	MN	91,261,807	79,169,091	87%	92%	22,872
1246	95725	Sanford Hlth Plan of MN	MN	2,477,302	2,377,601	96%	109%	461
19	69477	Time Ins Co	WI	476,592	364,222	76%	80%	54
		Total		**2,843,893,528**	**2,457,931,519**	86%	N/A	**712961**