

Report of 2011 Loss Ratio Experience in  
the Individual and Small Employer Markets  
for:  
Insurance Companies  
Nonprofit Health Service Plan Corporations  
and  
Health Maintenance Organizations

August, 2012





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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, 2011, 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 a chartbook published by the Minnesota Department of Health in July, 2012, about 7 percent of the population receives coverage through a small employer, while 5 percent of the population purchases individual coverage. About half of Minnesota's population receives coverage through a large employer, while 29 percent receives coverage through public programs, and 9 percent is uninsured.

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, 2011, 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, cost containment expenses, 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.

An insurer's medical loss ratio is the ratio of the issuer's incurred claims 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 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 percentage of premiums expended for clinical services and activities that improve health care quality 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 are 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 will post 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 medical loss ratio for insurers operating within their state. 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. 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 (State's percentage is higher than the Federal percentage of 80%, CFR section 158.211)
- 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.

With one exception, the loss ratio requirements in Minnesota are lower than those required by Federal law. As shown above, the exception is that in Minnesota the minimum loss ratio for small employer coverage by health maintenance organizations and nonprofit health service plan corporations that are assessed 3% or more of the total annual Minnesota Comprehensive Health Association assessment is 82%. Federal law would require a minimum loss ratio of 80%. Currently, Blue Cross and Blue Shield of Minnesota, HealthPartners, Inc., Medica Health Plan, and PreferredOne Community Health Plan fall into this category.

## Individual and Small Group Loss Ratios

**Attachment 1** lists the loss ratios experienced in the individual health plan market in 2011 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 2011 ranged from -18% to 96%. The total loss ratio for 2011 is 83%.

**Attachment 2** lists the loss ratios experienced in the small employer health plan market in 2011 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 2011 ranged from 43% to 132%. The total loss ratio for 2011 for health plan companies is 80%.

## **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) 296-2488; (800) 657-3602  
[www.insurance.mn.gov](http://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](http://www.health.state.mn.us/hmo)

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## Attachment 1

### Supplemental Health Care Exhibit for 2011 Individual not including Association or Conversion Policies

NAIC #	Name	Line Name		Loss Ratio
19275	American Family Mut Ins Co	Health premiums earned	7,310,840	71%
		Incurred claims (no drugs)	5,086,445	
		Prescription drugs	74,733	
		Underwriting gain/(loss)	271,301	
		Number of covered lives	2,659	
60836	American Republic Ins Co	Health premiums earned	504,436	60%
		Incurred claims (no drugs)	298,450	
		Prescription drugs	1,754	
		Pharmaceutical rebates	63	
		Underwriting gain/(loss)	-200,100	
		Number of covered lives	168	
55026	BCBSM Inc	Health premiums earned	454,620,656	80%
		Incurred claims (no drugs)	319,403,653	
		Prescription drugs	49,411,619	
		Pharmaceutical rebates	3,864,327	
		Incentive and bonuses	21,120,844	
		Underwriting gain/(loss)	-2,880,121	
		Number of covered lives	153,862	
62286	Golden Rule Ins Co	Health premiums earned	1,689,120	89%
		Incurred claims (no drugs)	1,344,455	
		Prescription drugs	192,514	
		Pharmaceutical rebates	28,720	
		Underwriting gain/(loss)	-100,941	
		Number of covered lives	363	
95766	Healthpartners Inc	Health premiums earned	24,719,000	96%
		Incurred claims (no drugs)	19,364,000	
		Prescription drugs	4,798,000	
		Pharmaceutical rebates	552,000	
		Underwriting gain/(loss)	-2,113,000	
		Number of covered lives	4,104	

## Attachment 1

### Supplemental Health Care Exhibit for 2011 Individual not including Association or Conversion Policies

NAIC #	Name	Line Name		Loss Ratio
44547	Healthpartners Ins Co	Health premiums earned	41,445,000	79%
		Incurred claims (no drugs)	30,487,000	
		Prescription drugs	2,426,000	
		Pharmaceutical rebates	216,000	
		Underwriting gain/(loss)	-393,000	
		Number of covered lives	20,638	
65080	John Alden Life Ins Co	Health premiums earned	3,275,280	92%
		Incurred claims (no drugs)	2,910,126	
		Prescription drugs	135,383	
		Pharmaceutical rebates	25,087	
		Underwriting gain/(loss)	-360,015	
		Number of covered lives	1,360	
52626	Medica Hlth Plans	Health premiums earned	7,729,015	91%
		Incurred claims (no drugs)	4,628,157	
		Prescription drugs	2,323,635	
		Incentive and bonuses	54,976	
		Underwriting gain/(loss)	348,437	
		Number of covered lives	94	
12459	Medica Ins Co	Health premiums earned	71,176,299	79%
		Incurred claims (no drugs)	51,500,927	
		Prescription drugs	4,982,407	
		Incentive and bonuses	-49,854	
		Underwriting gain/(loss)	5,973,032	
		Number of covered lives	38,523	
11817	PreferredOne Ins Co	Health premiums earned	10,243,838	66%
		Incurred claims (no drugs)	6,227,596	
		Prescription drugs	522,094	
		Pharmaceutical rebates	36,985	
		Underwriting gain/(loss)	619,511	
		Number of covered lives	6,776	

## Attachment 1

### Supplemental Health Care Exhibit for 2011 Individual not including Association or Conversion Policies

NAIC #	Name	Line Name		Loss Ratio
61271	Principal Life Ins Co	Health premiums earned	760,396	-18%
		Incurred claims (no drugs)	-159,681	
		Prescription drugs	32,417	
		Pharmaceutical rebates	8,171	
		Underwriting gain/(loss)	310,900	
		Number of covered lives	152	
69477	Time Ins Co	Health premiums earned	49,120,722	70%
		Incurred claims (no drugs)	32,745,519	
		Prescription drugs	1,958,215	
		Pharmaceutical rebates	362,333	
		Underwriting gain/(loss)	220,976	
		Number of covered lives	19,384	
70629	World Ins Co	Health premiums earned	5,017,923	84%
		Incurred claims (no drugs)	3,536,522	
		Prescription drugs	738,206	
		Pharmaceutical rebates	50,864	
		Underwriting gain/(loss)	-484,565	
		Number of covered lives	989	
<b>Total Loss Ratio</b>		<b>Health premiums earned</b>	<b>677,612,525</b>	<b>83%</b>
	<b>Incurred claims (no drugs)</b>	<b>477,373,169</b>		
	<b>Prescription drugs</b>	<b>67,596,977</b>		
	<b>Pharmaceutical rebates</b>	<b>5,144,550</b>		
	<b>Incentive and bonuses</b>	<b>21,125,966</b>		
	<b>Underwriting gain/(loss)</b>	<b>1,212,415</b>		
	<b>Number of covered lives</b>	<b>249,072</b>		

## Attachment 2

### Supplemental Health Care Exhibit for 2011 Small Employer Group

NAIC #	Name	Line Name		Loss Ratio
55026 BCBSM Inc		Health premiums earned	581,959,884	81%
		Incurred claims (no drugs)	400,811,294	
		Prescription drugs	61,211,276	
		Pharmaceutical rebates	3,715,994	
		Incentives and bonuses	11,774,668	
		Underwriting gain/(loss)	30,909,344	
		Number of covered lives	122,498	
13935 Federated Mut Ins Co		Health premiums earned	54,833,103	80%
		Incurred claims (no drugs)	39,499,446	
		Prescription drugs	4,976,031	
		Pharmaceutical rebates	731,312	
		Underwriting gain/(loss)	-23,325	
		Number of covered lives	13,079	
95649 HMO dba Blue Plus		Health premiums earned	20,632,418	77%
		Incurred claims (no drugs)	7,313,874	
		Prescription drugs	7,849,573	
		Pharmaceutical rebates	115,874	
		Incentives and bonuses	752,541	
		Underwriting gain/(loss)	2,175,155	
		Number of covered lives	3,685	
95766 Healthpartners Inc		Health premiums earned	305,733,000	79%
		Incurred claims (no drugs)	217,032,000	
		Prescription drugs	27,668,000	
		Pharmaceutical rebates	2,996,000	
		Underwriting gain/(loss)	18,635,000	
		Number of covered lives	79,719	
44547 Healthpartners Ins Co		Health premiums earned	78,243,000	79%
		Incurred claims (no drugs)	58,646,000	

## Attachment 2

### Supplemental Health Care Exhibit for 2011 Small Employer Group

NAIC #	Name	Line Name		Loss Ratio
		Prescription drugs	3,892,000	
		Pharmaceutical rebates	347,000	
		Underwriting gain/(loss)	3,853,000	
		Number of covered lives	17,962	
65080	John Alden Life Ins Co	Health premiums earned	800,663	132%
		Incurred claims (no drugs)	1,026,342	
		Prescription drugs	36,876	
		Pharmaceutical rebates	7,668	
		Underwriting gain/(loss)	-325,912	
		Number of covered lives	114	
52626	Medica Hlth Plans	Health premiums earned	1,385,427	67%
		Incurred claims (no drugs)	941,873	
		Prescription drugs	-16,999	
		Incentives and bonuses	9,855	
		Underwriting gain/(loss)	-191,203	
		Number of covered lives	576	
12459	Medica Ins Co	Health premiums earned	316,584,606	80%
		Incurred claims (no drugs)	221,967,098	
		Prescription drugs	30,507,025	
		Incentives and bonuses	-221,747	
		Underwriting gain/(loss)	10,961,066	
		Number of covered lives	79,059	
95724	PreferredOne Comm Hlth Plan	Health premiums earned	48,128,798	87%
		Incurred claims (no drugs)	36,782,559	
		Prescription drugs	5,768,072	
		Pharmaceutical rebates	468,483	
		Underwriting gain/(loss)	-1,152,285	
		Number of covered lives	11,273	

## Attachment 2

### Supplemental Health Care Exhibit for 2011 Small Employer Group

NAIC #	Name	Line Name		Loss Ratio
11817	PreferredOne Ins Co	Health premiums earned	30,217,764	87%
		Incurred claims (no drugs)	23,166,534	
		Prescription drugs	3,276,059	
		Pharmaceutical rebates	193,685	
		Underwriting gain/(loss)	-648,618	
		Number of covered lives	11,917	
61271	Principal Life Ins Co	Health premiums earned	660,440	75%
		Incurred claims (no drugs)	452,649	
		Prescription drugs	59,407	
		Pharmaceutical rebates	19,469	
		Underwriting gain/(loss)	-156,683	
		Number of covered lives	0	
69477	Time Ins Co	Health premiums earned	1,156,467	43%
		Incurred claims (no drugs)	396,483	
		Prescription drugs	103,671	
		Pharmaceutical rebates	7,801	
		Underwriting gain/(loss)	201,001	
		Number of covered lives	206	
<b>Total Loss Ratio</b>		<b>Health premiums earned</b>	<b>1,440,335,570</b>	<b>80%</b>
	<b>Incurred claims (no drugs)</b>	<b>1,008,036,152</b>		
	<b>Prescription drugs</b>	<b>145,330,991</b>		
	<b>Pharmaceutical rebates</b>	<b>8,603,286</b>		
	<b>Incentive and bonuses</b>	<b>12,315,317</b>		
	<b>Underwriting gain (loss)</b>	<b>64,236,540</b>		
	<b>Number of covered lives</b>	<b>340,088</b>		

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