

Report of 2012 Loss Ratio Experience in  
the Individual and Small Employer Markets  
for:

Insurance Companies  
Nonprofit Health Service Plan Corporations  
and  
Health Maintenance Organizations

May, 2013



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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, 2012, 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, 2012, 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 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. Minnesota's loss ratio is defined as incurred claims/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%. Since these loss ratios correspond to a federal MLR less than 80%, the Minnesota requirements are not higher than the federal MLR.

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.

## Individual and Small Group Loss Ratios

The loss ratios shown on Attachments 1 and 2 are based on the federal definition and not the state definition of loss ratio. Domicile as shown on Attachments 1 and 2 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 2012 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 2012 ranged from 42% to 187%. The total loss ratio for 2012 is 91%.

**Attachment 2** lists the loss ratios experienced in the small employer health plan market in 2012 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 2012 ranged from 35% to 92%. The total loss ratio for 2012 for health plan companies is 84%.

## **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 2012**

**Individual not including Association or Conversion Policies**

<b>Group Code</b>	<b>NAIC Number</b>	<b>Name</b>	<b>Domicile</b>	<b>Earned Premium</b>	<b>Incurred Claims</b>	<b>Loss Ratio</b>	<b>Preliminary MLR</b>	<b>Covered Lives</b>
473	19275	American Family Mut Ins Co	WI	6,295,972	2,635,084	42%	91%	4,711
461	55026	BCBSM Inc	MN	448,540,785	421,256,000	94%	95%	146,930
707	62286	Golden Rule Ins Co	IN	1,599,181	1,080,435	68%	76%	306
1258	95766	HealthPartners Inc	MN	23,189,000	21,361,000	92%	97%	3,238
	44547	HealthPartners Ins Co	MN	47,307,000	39,880,000	84%	90%	24,929
19	65080	John Alden Life Ins Co	WI	2,960,761	1,683,602	57%	66%	1,139
1552	52626	Medica Health Plans	MN	6,483,542	5,811,476	90%	80%	536
1552	12459	Medica Ins Co	MN	91,801,612	84,417,760	92%	95%	45,217
3492	11817	PreferredOne Ins Co	MN	13,460,528	9,122,758	68%	65%	9,355
19	69477	Time Ins Co	WI	44,282,937	33,350,445	75%	80%	15,167
3527	70629	World Ins Co	NE	2,428,992	4,532,928	187%	81%	94
<b>Total</b>				<b>688,350,310</b>	<b>625,131,488</b>	<b>91%</b>	<b>N/A</b>	<b>251,622</b>

**Attachment 2**

**Supplemental Health Care Exhibit for 2012  
Small Employer Group**

Group Code	NAIC		Domicile	Premium Earned	Incurred Claims	Loss Ratio	Preliminary	Covered Lives
	Number	Name					Federal MLR	
461	55026	BCBSM Inc	MN	528,746,073	461,675,285	87%	89%	115,743
461	95649	Blue Plus	MN	14,293,826	9,384,966	66%	85%	1,574
7	13935	Federated Mut Ins Co	MN	39,399,432	28,045,097	71%	84%	8,309
1258	95766	Healthpartners Inc	MN	314,170,000	248,189,000	79%	83%	82,420
	44547	Healthpartners Ins Co	MN	76,490,000	64,340,000	84%	90%	17,425
19	65080	John Alden Life Ins Co	WI	651,478	554,164	85%	87%	100
1552	12459	Medica Ins Co	MN	312,953,744	270,095,470	86%	91%	76,915
3492	95724	PreferredOne Comm Hlth Plan	MN	33,118,613	29,361,820	89%	96%	8,482
3492	11817	PreferredOne Ins Co	MN	41,919,799	38,758,217	92%	96%	13,253
19	69477	Time Ins Co	WI	982,144	341,146	35%	42%	194
<b>Total</b>				<b>1,362,725,109</b>	<b>1,150,745,165</b>	<b>84%</b>	<b>N/A</b>	<b>324,415</b>