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Report of 1999 Loss Ratio Experience in the Individual and Small Group Health Plan Markets for Health Maintenance Organizations

June, 2000

Minnesota Department of Commerce

Minn. Stat. 62A.021 Subd. 1

1997 Minn. Laws Chap. 225
Art. 2 Sec. 2

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INTRODUCTION

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, 1999 for health plan companies regulated by the Minnesota Departments of Health and Commerce.

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, net income and taxes. 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 which set the basic standard for licensure. There is also a public interest in dissemination of information which will help consumers to choose wisely from among available health plan companies.

COMPONENTS OF LOSS RATIO

The Minnesota Department of Health provided the following guidance for calculating loss ratios. This guidance applies to health plan companies which have at least $100,000 in premium revenue from the small employer group or individual markets. Health plan companies with premium revenues of less than $100,000 have insufficient data to calculate a valid loss ratio.

Definition of Earned Premiums

Earned premiums are equal to paid premiums for the year plus uncollected premiums minus premiums paid in advance. The most recent available estimates of the premium-related accrual amounts are reported.

Premiums earned during 1999 were reported, without adjusting for any payments to private reinsurance arrangements. Fees from policyholders such as enrollment fees, monthly fees, or processing fees are included as earned premiums. Commissions or marketing expenses are not subtracted from the premiums. Payments for Administrative Services Only contracts or any fee-for-service income that was given on a non-insured basis to medical care providers are not included as premiums earned.

Definition of Incurred Claims

Incurred claims are the paid-on-incurred claims for the year, plus a reserve for claims incurred but not yet paid, plus the change in any other claim reserves held (such as active life reserves or rate stabilization reserves).

The following are also included as incurred claims:

- The 0.6% Medicaid surcharge paid by health maintenance organizations (HMOs).
- Any accrued expected value of withholds, bonuses, or other amounts to be paid to providers for services provided in 1999.
- 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 1999.
- 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:

- 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.

COMPARISON OF MEDICAL EXPENSE TO PREMIUM REVENUE

The medical loss ratio is the cost ratio of medical expenses paid, compared to premium revenue received. It is calculated by dividing total medical expense by premium revenue. For the year ending December 31, 1999, Minnesota law requires that small employer group plans have a minimum loss ratio of 71 to 81%, and that individual plans have a minimum loss ratio of 68 to 71%.

Health plan companies are required to have different minimum loss ratios based upon whether they exceed 3% of total premium revenue of all health plan companies in the state.

Those categories and amounts, as established by Minnesota Statutes section 62A.021, are as follows:

- health plan companies with 3% or more of total premium revenue: minimum loss ratio of 81% for small employer group and 71% for individual.
- health plan companies with less than 3% of total premium revenue, and fewer than 10 employees in the small group being issued: minimum loss ratio is 71% for small employer group and 68% for individual.
- health plan companies with less than 3% of total premiums, and 10 or more employees in the small group being issued: minimum loss ratio is 75%

RELATIONSHIP TO TOTAL MEDICAL EXPENSE AND PREMIUM REVENUE

The medical loss ratios for small employer group and individual plans and products can be related back to the medical expenses listed in the annual report of each health plan company, except categories defined by Minnesota law.

In addition to incurred medical expenses, Minnesota Statutes section 62A.021 specifies certain additional expenses which must be included in the calculation of medical expenses for determination of medical loss ratio:

- Assessments by the reinsurance association created in chapter 62L.

- Any types of taxes, surcharges, or assessments created by Laws 1992, chapter 549, or created on or after April 23, 1992.

The accuracy of the annual reports is assured by requiring HMOs to obtain an audit and certification by an independent certified public accounting firm. There are detailed requirements for how certified public accountants (CPAs) conduct their audits and there are penalties for improper certification by a CPA. The Minnesota Department of Commerce has a trained financial audit staff who analyze and audit HMOs beyond the private audit. There are standards for independent governmental review which allow for some reliance on the reports of private auditors.

HMO REPORTING REQUIREMENTS

HMO annual and quarterly financial reports are required to be submitted to the Minnesota Department of Commerce on the nationally standardized report forms of the

National Association of Insurance Commissioners (NAIC). Minnesota has an additional supplement for regulatory purposes which incorporates details beyond the national standards. There are specific instructions published by the NAIC for the national forms and additional instructions published by Minnesota Department of Health for the Minnesota supplement. Medical expense is included in total expense, and premium income is included in revenue on the NAIC forms. In addition to regulatory reporting, the Health Economics Program (part of the Health Policy and Systems Compliance Division of the Minnesota Department of Health) collects detailed data from both health plans and providers in order to monitor and report changes in the state's health care market.

SMALL EMPLOYER GROUP HEALTH PLANS

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

Not all HMOs operating in Minnesota offer small employer health plans. Coverage is marketed, offered, sold, issued, or renewed only by those health plan companies that have chosen to participate in the small employer health plan market.

Premium rates will vary from employer to employer depending upon the general health status, claims experience and the age of the covered employees as well as the industry and work location of the employer. Overall rate increases by health plans are limited by general, age, and geographic rate bands. Rates for plans purchased by an employer may increase due to medical care inflation and for reasons related to the previously listed factors.

Alphabetic List for Small Employer

HMO	Premiums	Claims	Loss Ratio
Blue Plus	$59,132,680	$58,859,898	100%
First Plan of Minnesota	$1,987,698	$2,120,430	107%
HealthPartners	$76,335,175	$62,695,744	82%
Medica	$192,587,098	$158,324,220	82%
PreferredOne Community Health Plan	$8,907,000	$8,903,000	100%

INDIVIDUAL HEALTH PLANS

While most Minnesotans receive coverage through an employer, some Minnesotans purchase health insurance coverage directly from health plans.

The loss ratio table titled "Alphabetic List for Individual" includes data for both individual and conversion products. Conversion coverage is non-group coverage that is provided through the same health plan company that previously provided group coverage. Conversion coverage must be provided without underwriting and without any preexisting condition limitations.

Not all HMOs operating in Minnesota offer individual health plans. Coverage is marketed, offered, sold, issued or renewed only by those health plans that have chosen to participate in the individual health plan market.

Premium rates will vary from individual to individual depending upon the general health status, claims experience and the age of the covered individual. Overall rate increases by health plans are limited by general, age and geographic rate bands. Rates for plans purchased by an individual may increase due to any of these factors or to medical care inflation.

Alphabetic List for Individual

HMO	Premiums	Claims	Loss Ratio
First Plan of Minnesota	$751,723	$836,213	111%
HealthPartners	$25,562,222	$22,778,988	89%
Medica	$18,942,281	$20,863,828	110%

SERVICE AREAS

The Minnesota Department of Health licenses and certifies HMOs. Other insurers are licensed by the Minnesota Department of Commerce. All HMOs are licensed for the entire state of Minnesota. The Minnesota Department of Health produces maps of the service areas on the first business day of each month. For more information about service areas, please contact the Minnesota Department of Health at (651) 282-6314; (800) 657-3793.

LIST OF PARTICIPATING PLANS

The following lists participating HMOs in the small employer or individual health plan market as of December 31, 1999.

***Altru Health Plan**
3065 DeMers Avenue
Grand Forks, ND 58201
(701) 780-1600; (800) 675-2467

Blue Plus
3535 Blue Cross Road
P.O. Box 64179
St. Paul, MN 55164-0560
(651) 662-8000; (800) 382-2000

First Plan of Minnesota
409 17th Avenue
Two Harbors, MN 55616
(218) 834-7207; (800) 584-9488

HealthPartners
8100 - 34th Avenue South
Minneapolis, MN 55440-1309
(952) 883-5000; (800) 828-1159

Medica Health Plan
5601 Smetana Drive
Minneapolis, MN 55440-9310
(952) 945-8000; (800) 952-3455

PreferredOne Community Health Plan
6105 Golden Hills Drive
Golden Valley, MN 55416
(763) 847-3200; (800) 451-9597

***Sioux Valley Health Plan of Minnesota**
1200 North West Avenue
Sioux Falls, SD 57104-1335
(605) 357-6800; (800) 752-5863

*The loss ratio for this health plan company is not included in this report because the small employer group premium revenue is less than $100,000

ADDITIONAL REFERENCE SOURCES

For information about HMOs

Minnesota Department of Commerce
Insurance Division
133 East 7th Street
St. Paul, MN 55101-2333
(651) 296-2488; (800) 657-3602

Minnesota Department of Health
Managed Care Systems Section
121 East Seventh Place
P.O. Box 64975
St. Paul, MN 55164-0975
(651) 282-5600; (800) 657-3916