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A report from the Minnesota Department of Health

Report of 1997 Loss Ratio Experience in the Individual and Small Group Market

A Comparison of Medical Expenses to Premium Revenue for Health
Maintenance Organizations and Community Integrated Service
Networks in Minnesota

June 1, 1998

Minnesota Department of Health
Health Policy & Systems Compliance Division



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Report of 1997 Loss Ratio Experience in the Individual and Small Group Market

**A Comparison of Medical Expenses to Premium Revenue for Health
Maintenance Organizations and Community Integrated Service
Networks in Minnesota**



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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, 1997 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. Staff of the Minnesota Departments of Health and Commerce have been meeting with technical experts from the health plan companies, and expect to develop a more standardized definition for the June 1, 1999 loss ratio report.

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, 1997, Minnesota law requires that small employer group plans have a minimum loss ratio of 71 to 79%, and that individual plans have a minimum loss ratio of 68 to 69%.

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 79% for small employer group and 69% 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 premium, and 10 or more employees in the small group being issued: minimum loss ratio is 75% for small employer group and 68% for individual.

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 health maintenance organizations (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 Health 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 Minnesota Department of Health 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. Minnesota is well respected nationally for its health care policy analysis.

SMALL EMPLOYER GROUP PLAN

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 and community integrated service networks (CISNs) 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.

INDIVIDUAL PLANS

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

The loss ratio table titled "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 and CISNs 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.

Report of 1997 Loss Ratio Experience in the Individual and Small Group Health Plan Markets

A Comparison of Medical Expenses to Premium Revenue for Health Maintenance Organizations and Community Integrated Service Networks in Minnesota

Small Employer Group

	Premium Revenue	Medical Expenses	Loss Ratio	Minimum Loss Ratio
Blue Plus	\$28,840,221	\$27,343,380	94.8%	79%
Central Minnesota Group Health Plan	\$1,244,000	\$1,379,596	110.9%	75%
Dakota Community Health Plan	\$759,773	\$873,300	114.9%	75%
First Plan	\$1,284,217	\$1,121,877	87.4%	75%
HealthPartners	\$58,729,000	\$53,267,203	90.7%	79%
Medica	\$203,984,550	\$180,848,114	88.7%	79%
New Pioneer Health Plan	\$4,530,680	\$5,882,345	129.8%	75%
PreferredOne Community Health Plan	\$2,827,512	\$2,651,137	93.8%	75%

Source: Minnesota health plan companies in the individual and small employer markets that are regulated by the Minnesota Department of Health.

Individual

	Premium Revenue	Medical Expenses	Loss Ratio	Minimum Loss Ratio
Central Minnesota Group Health Plan	\$438,000	\$556,698	127.1%	68%
First Plan	\$682,893	\$657,078	96.2%	68%
HealthPartners	\$24,628,000	\$21,130,824	85.8%	69%
Medica	\$17,801,051	\$19,809,308	111.3%	69%

Source: Minnesota health plan companies in the individual and small employer markets that are regulated by the Minnesota Department of Health. Includes both individual and conversion products.

SERVICE AREAS

The Minnesota Department of Health licenses and certifies HMOs and CISNs. Other insurers are licensed by the Minnesota Department of Commerce. All HMOs and CISNs 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 (612) 282-6314; (800) 657-3793.

LIST OF PARTICIPATING PLANS

The following lists participating HMOs/CISNs in the small employer or individual health plan market as of December 31, 1997.

Blue Plus (HMO)

P.O. Box 64179
St. Paul, MN 55164
(612) 456-8000; (800) 382-2000

Central MN Group Health Plan (HMO)

1245 - 15th Street North
St. Cloud, MN 56303
(320) 259-7356; (800) 713-9080

Dakota Community Health Plan (CISN)

813 Center Avenue
Moorhead, MN 56560
(218) 287-1662

First Plan HMO

1010 Fourth Street
Two Harbors, MN 55616
(218) 834-7207; (800) 584-9488

HealthPartners (HMO)

8100 - 34th Avenue South
Minneapolis, MN 55440-1309
(612) 883-7000; (800) 828-1159

Medica Health Plan (HMO)

5601 Smetana Drive
Minneapolis, MN 55440-7001
(612) 992-2200; (800) 936-6880

New Pioneer Health Plan (CISN)

101 Willmar Avenue S.W.
Willmar, MN 56201-0817
(320) 231-6719; (800) 509-0497

PreferredOne Community Health Plan (CISN)

200 South Sixth Street, Suite 300
Minneapolis, MN 55402-1428
(612) 623-8282; (800) 451-9597

ADDITIONAL REFERENCE SOURCE

For information about HMOs or CISNs:

Minnesota Department of Health

Managed Care Systems
121 East Seventh Place
P.O. Box 64975
St. Paul, MN 55164-0975
(612) 282-5600; (800) 657-3916

