MEDICAL LOSS RATIO DISCLOSURE: A STEP TOWARDS CONSUMER TRANSPARENCY IN UTAH'S HEALTH EXCHANGE

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INTRODUCTION

Medical loss ratio is a term used by the insurance industry and actuaries to describe the portion of premium dollars that goes to pay for medical claims. For example, the sidebar at right shows that SelectHealth (IHC) has an overall medical loss ratio of 84.63. So for every dollar of premiums that the nonprofit SelectHealth collects, it pays out nearly 85 cents in claims. The other 15 cents represents the costs of running a business—administrative overhead, marketing, facilities and operating margin (or profits, in the case of for profit plans). From a consumer perspective, the higher the medical loss ratio, the more an insurance company is spending on actual health care. This gives the consumer reassurance that premium increases are due to increases in healthcare costs rather than insurance companies padding the bottom line.

The importance of states regulating medical loss ratios has come to the forefront in recent days. The current administration has demanded that WellPoint, one of California's largest insurance carriers, justify premium increases of up to 39% in its individual market rates. WellPoint officials insist the increases are due to the rising costs of health care and fewer healthy people being able to afford policies. Thus, the individual market is comprised of sicker individuals, who require more care, which drives up costs. The administration counters that WellPoint had reported a profit of $2.7 billion in 2009 and therefore cannot justify increasing premiums to that level.

Much of the bickering over this type of issue could have been avoided if California had rules in place governing medical loss ratios in the individual and small group market. Like California, Utah currently has no laws regulating medical loss ratios. However, the Utah Department of Insurance *does* require that insurance carriers report their overall loss ratios. These are included in the Department's annual report and listed at right.

Medical Loss Ratios by Carrier

Utah law currently requires health insurance carriers to report medical loss ratios for the carrier's full volume of business in the state. According to the 2008 Utah Department of Insurance report, the five largest insurance companies in the state had considerable variability in their medical loss ratios, as shown below.

Nonprofit Plans

- SelectHealth (IHC) 84.63
- Regence BCBS 79.11

For-Profit Plans

- Altius 82.21
- United Healthcare 75.63
- Healthwise 71.00
- If the three plans not currently at 80% were brought up to that level, there would be an additional $18.7 million in premiums redirected towards healthcare costs or returned to their policyholders
- If Utah were to impose an 85% medical loss ratio, Utahns would see $65.9 million redirected towards claims or returned to their policyholders

Medical Loss Ratios Laws in Other States

According to a report issued by Families USA, twelve states regulate medical loss ratios in the small group market.[i] There is wide variability between the states in the thresholds. Some require different standards in the very small employer market (2-10 employees) than for small businesses with more employees. All have a lower threshold for the individual market. Finally, Maryland, Vermont and Nevada have provisions for other groups. Maryland imposes as 82% ratio on large groups. Vermont requires insurers who participate in the safety net (these insurers would be comparable to PEHP and Molina in Utah, companies that provide services to Medicaid and CHIP recipients) to have an 80% medical loss ratio. Finally, Nevada requires that non-profit insurance groups meet a 75% ratio. . However, all require that these loss ratios be met before a carrier can increase premiums. Some states also require that if a carrier fails to meet the ratio, it must refund a portion of the premium dollars it collected to its policyholders. Usually this portion is the difference between the medical loss ratio achieved by the carrier and the threshold. During 2008, policyholders in Maine were refunded $7.6 million.[ii] In New York it was announced that 37,000 small businesses were to receive refunds totaling $50 million from one company that failed to meet the loss ratio threshold.[iii]

Include Medical Loss Ratios in HB294 to Strengthen the Exchange

UHPP is urging that medical loss ratios be included in the Exchange in two ways. First, carriers should be required to report ratios by plan rather than in aggregate. With this information at their fingertips, consumers can compare not only premium prices among different options but also the value they are getting for those prices. This will create a competitive advantage for plans that focus more on paying for services, rather than making profits.

Second, once the Exchange fully integrates the large group market in 2012, all plans offered on the Exchange must have a medical loss ratio of 80% or the product cannot continue to be sold on the Exchange. This is an ambitious step, but one UHPP feels gives the consumer confidence that participation in the Exchange is not seen by insurance companies as simply a way to increase profit margins. We also feel that by timing the medical loss ratio requirement with the full inclusion of the large group market, the Exchange will have a large enough risk pool that the requirement will not place undue burdens on carriers participating in the Exchange.

Conclusion

If, as has been said, the Exchange and Utah's health system reform efforts are about putting consumers in charge of their healthcare, the inclusion of these provisions about medical loss ratios will be critical. Consumers need to know the value they are getting for the premium dollars they are spending. They also need to know that the Exchange is not going to be considered a "cash cow" or, even worse, a dumping ground by insurance companies.

Beyond this, by having medical loss ratios in place, Utah policymakers can get a handle on how healthcare costs directly impact premium increases. Arming ourselves with that knowledge, we can more systematically address rising healthcare costs as they impact rising premiums.

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[i] States that have medical loss ratio statutes for the small group market include Delaware, Kentucky, Maine, Maryland, Minnesota, Nevada (if a non-profit), New Jersey, New York, North Dakota, Oklahoma, South Dakota, Vermont (if also a safety net provider) and Wyoming. Data compiled in *Medical Loss Ratios: Evidence from the States,* Health Policy Memo, June 2008, Families USA. Report is available at https://www.policyarchive.org/bitstream/handle/10207/8286/MedicalLossRatio.pdf?sequence=1

[ii] Ibid

[iii] *Governor Paterson Announces NY Small Businesses to Receive $50 Million in Insurance Refunds* (Press Release from State of New York Executive Chamber, May 29, 2008), available online at http://www.ins.state.ny.us/press/2008/p0805291.htm.