CENTER FOR HEALTH
INFORMATION AND ANALYSIS

ANNUAL REPORT ON THE PERFORMANCE OF THE MASSACHUSETTS HEALTH CARE SYSTEM

SUPPLEMENT 6: COMMERCIAL PAYER USE OF NON-MEDICAL FUNDS

CHIA.
center
for health
information
and analysis

Commercial Payer Use of Non-Medical Funds

The vast majority of payer-collected premium revenues are used to pay for member medical care. Remaining premium revenues are retained to pay for non-medical expenses, such as plan administration, broker fees, and premium taxes. Any residual funds represent payer surplus (profit). For certain employer groups, payers are required by state and federal regulations to spend specified minimum amounts (proportions of premiums) on member medical expenses. Payers that do not meet these Medical Loss Ratios (MLRs) are required to provide rebates to qualifying members.[1]

This Supplement provides information on Massachusetts commercial payers' premium retention levels, MLRs, and rebates for the fully-insured portion of the market from 2011 to 2013.[2] With the self-insured comprising 58% of Massachusetts' commercial membership in 2013 (see Supplement 10), overall results may be impacted by payers' self-insured experience and may be different than the payer-reported fully-insured results.

Key Findings:

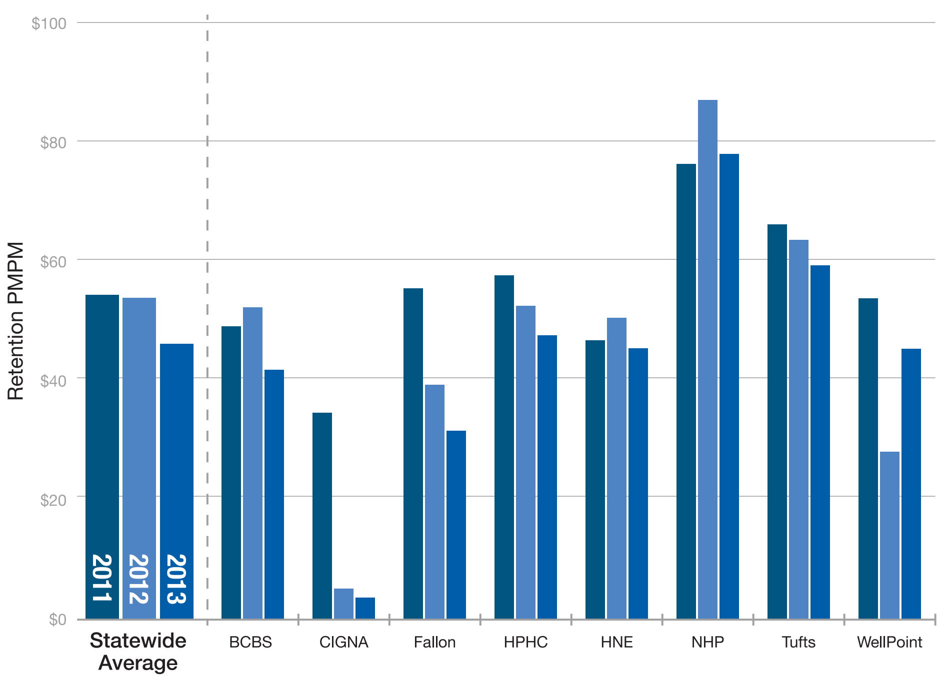
In 2013, payers retained an average of $46 per member per month (PMPM) of premiums collected – or approximately ten cents of every premium dollar. Payer premium retention declined 14% from 2012 to 2013.

The Individual segment of the Merged Market sustained losses each year from 2011 to 2013, with payers continually spending more in medical claims for these members than they collected in premiums.

Along with the overall retention drop from 2012 to 2013, total surplus for reporting payers fell by 76.7% to $35.4 million.

The average Massachusetts Medical Loss Ratio (MLR) for reporting payers rose to 0.90 in 2013, up from 0.89 in 2012. Total issued rebates PMPM by these payers halved from 2012 to 2013.

Commercial Payer Retention of Premiums



6.1 Premium Retention PMPM by Payer (2011-2013)

Payer premium "retention" is the portion of premium dollars not spent on member medical claims. In 2013, payers retained an average of $46 PMPM, approximately 10.8% of member premiums. Payer premium retention PMPM declined -15.1% from 2011, with most of the decline (-14.2%) occurring between 2012 and 2013.

From 2011 through 2013, Neighborhood Health Plan (NHP), the only payer with 100% fully-insured membership, maintained the highest average retention rates. In 2013, NHP's PMPM retention rate was 32% higher than that of the next highest payer, Tufts.

Figure 6.1: Premium Retention PMPM by Payer (2011-2013)

The Individual segment of the merged market had losses each year from 2011 to

[1] While retention is similar to the Net Cost of Private Health Insurance (NCPHI) and the inverse of MLR, as discussed within the Annual Report, these values differ based upon what they include and exclude in their calculations. See Technical Appendix for more information.

[2] Data in this section were reported by Blue Cross Blue Shield of Massachusetts (BCBS), CIGNA, Fallon Community Health Plan (Fallon), Harvard Pilgrim Health Care (HPHC), Health New England (HNE), Neighborhood Health Plan (NHP), Tufts Health Plan (Tufts) and WellPoint (UniCare). Data included in this analysis are for fully-insured contract members. For more information on contract membership, see Supplement 10.

[3] See Supplement 2 for more information on premium rates by market sector. See Supplement 10 for market sector definitions.

2013, with payers continually spending more in medical claims for these members than they collected in premiums. Of the other market sectors, the Jumbo Group had the lowest retention PMPM across all three years ($43 PMPM in 2013), which may reflect the lower premiums rates employers within these groups were able to negotiate.[3]

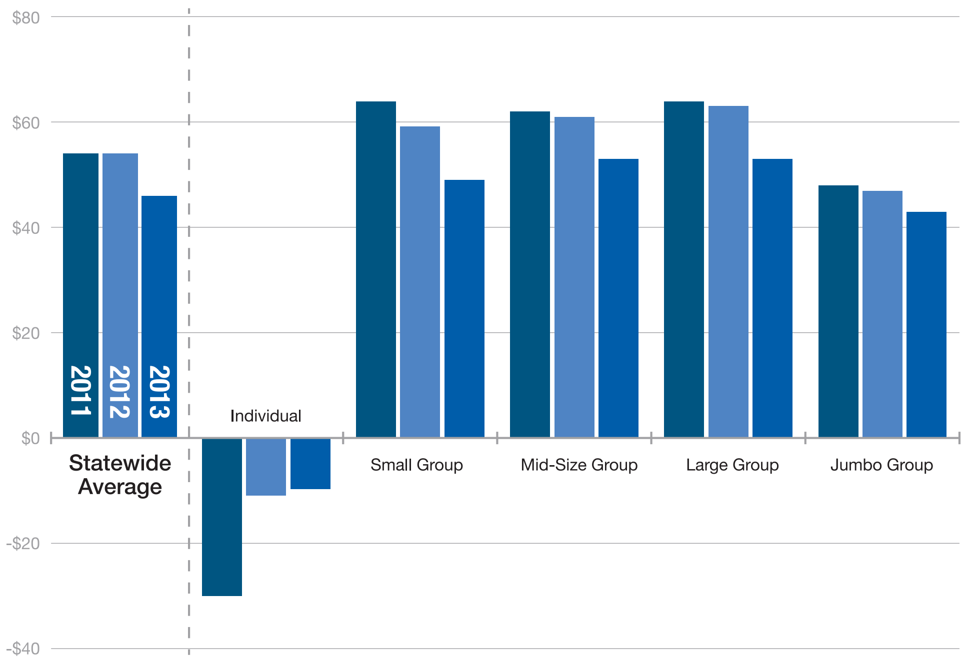
Figure 6.2: Premium Retention PMPM by Market Sector (2011-2013)

I. Components of Commercial Payer Premium Retention

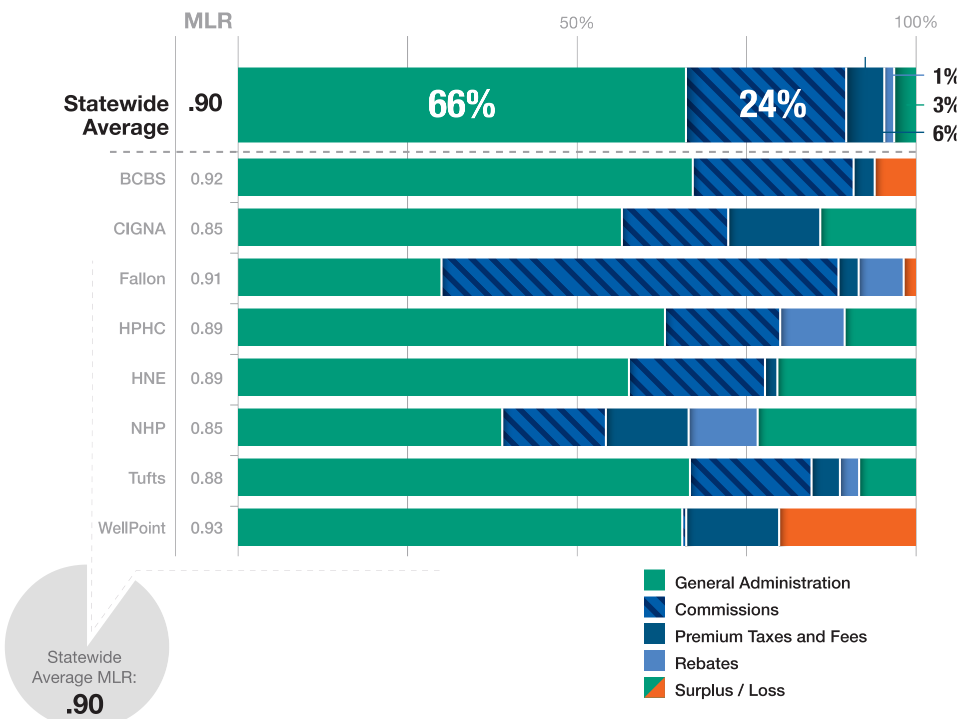
In 2013, general administrative expenses comprised two-thirds and broker commissions nearly one-quarter of all non-medical claims payer spending, on average.[4] Overall, payers retained 3.2% of non-medical spending as surplus (Figure 6.3). From 2011 through 2013, NHP reported the highest surplus levels of any payer (based on both PMPM and as a percent of total premium retention).

Along with the overall premium retention decline from 2012 to 2013, the total fully-insured surplus for the eight payers fell by 76.7% to $35.4 million. BCBS, Fallon, and WellPoint reported losses on their fully-insured business in 2013.[5]

Figure 6.3: Components of Payer Premium Retention (2013)



6.2 Premium Retention PMPM by Market Sector (2011-2013)



6.3 Components of Payer Premium Retention (2013)

Note: Losses represented by absolute values. Fallon classifies its expenses differently than other payers. For absolute CCIIO retention values, see Data Book.

Source: Oliver Wyman analysis of submitted federal CCIIO data for eight payers.

[4] Retention decomposition distribution remained relatively constant from 2011 to 2013, though in 2012, there was a proportional decline in general administration expenses and proportional increases in premium taxes and payer surpluses/losses.

[5] MLR and retention decomposition data from payer-submitted federal CCIIO data for eight payers is shown, as analyzed by Oliver Wyman. MLRs may not fully reconcile those reported by payers to Massachusetts Division of Insurance for rebate purposes. Total is the weighted average of the eight payers shown.

[6] MLR in Massachusetts is defined as the sum of a payer's incurred medical expenses, their

II. Commercial Payer Medical Loss Ratios and Rebates

Figure 6.3 displays each payer's MLR, as reported to the federal Center for Consumer Information and Insurance Oversight (CCIIO) in 2013. MLRs reflect the approximate proportion of premiums that a payer spent on members' medical care in 2013, adjusted for certain factors and post-rebates.[6] [7] The average Massachusetts MLR for reporting payers rose to 0.90 in 2013, up from 0.89 in 2012 and 0.88 in 2011.[8] A higher MLR indicates that more premium revenue was spent on member medical care as a proportion of premiums collected. In 2013, MLRs for Massachusetts-based payers ranged from 0.85 for NHP to 0.92 for BCBS.

When a payer's spending does not meet required MLRs – which vary depending upon federal and state regulations and by employer group size - payers issue rebates to qualifying members. Massachusetts' required MLRs are 0.90 for the Merged Market and 0.85 for the "Large Group" market.[9] Four payers – Fallon, HPHC, NHP, and Tufts – accounted for nearly all rebates issued in Massachusetts from 2011 to 2013. BCBS, HNE, and WellPoint did not report any rebate payments during the time period. The average rebate-eligible member received a rebate of $4.48 PMPM in 2013 (approximately $53.76 per member per year), down from $8.32 PMPM in 2012 and $8.14 PMPM in 2011.[10]

---

expenses for improving health care quality, and their expenses for deductible fraud, abuse detection, and recovery services, all divided by the difference of premiums minus taxes and assessments. Massachusetts 2012 and 2013 Small Group MLRs were higher than the 0.80 federal standard at 0.90, while its Large Group MLR was consistent with the federal standard at 0.85. Massachusetts' required MLR for Small Group will be 0.89 for 2014. Other adjustments may also be made.

7 Additional analysis on CCIIO data was provided by Oliver Wyman Actuarial Consulting

8 WellPoint had an MLR of 0.93 for its Small Group fully-insured population.

9 Note that the "Large Group", as defined for MLR purposes, differs from the "Large Group" market sector definition in Supplement 10. MLR "Small Group" is made up of all contract membership from employers with 1-5O enrollees as defined by Massachusetts Division of Insurance; MLR "Large Group" is made up of all contract membership from employers with 51 or more employees.

10 Rebates from the eight reporting payers comprised 98% of all Massachusetts rebates reported to CCIIO via federally-mandated MLR Reporting. A few discrepancies were identified between CCIIO MLR Reporting and CHIA payer-submitted data, with CHIA data determined to be the more accurate of the sources.

CHIA.
center
for health
information
and analysis

For more information, please contact:

CENTER FOR HEALTH INFORMATION AND ANALYSIS

Two Boylston Street
Boston, MA 02116
617.988.3100
www.mass.gov/chia

Publication Number 14-245-CHIA-07