**March 24, 2009** | **81st Legislature** | **House Insurance Committee**

# HB 531: MINIMUM MEDICAL LOSS RATIOS

Consumers and employers deserve to know that their hard-earned money going to health insurance premiums is used by insurance companies primarily for health care costs rather than insurance company administration, marketing, and profits. HB 531 sets standards for how insurance companies use premiums dollars that will introduce a much needed level of accountability and transparency to the health insurance market.

- **A "medical loss ratio" is the proportion of health insurance premiums used for covering medical expenses as opposed to non-medical costs like insurance company administration, marketing, and profit.**
- **Data from TDI show that in recent years, medical loss ratios for group health insurers have been as low as 22 percent.**
- **HB 531 sets reasonable medical loss ratio standards.**
- **Fifteen states set minimum medical loss ratios.**

## Premiums in Texas

Health insurance premiums are expensive. Employer-sponsored health insurance in Texas on average costs about $13,000 per year for family coverage and $4,600 per year for individual coverage. The health insurance industry in Texas brings in about $22 billion a year in premiums despite the fact that one out of four Texans lacks health insurance coverage.

Premiums taken in by health insurance companies are spent in two general categories: (1) health care costs—paying claims from doctors, hospitals, pharmacies, and other providers, and (2) non-medical costs, such as insurance company administration, marketing, taxes, and profits.

## Minimum Medical Loss Ratios

Medical loss ratios are the percentage of health insurance premium dollars spent on health care as opposed to non-medical cost. For example, a medical loss ratio of 75 percent, means that $0.75 of every premium dollar taken in is spent on medical services while $0.25 is spent on other non-medical costs. Setting minimum medical loss ratios prevents insurance companies from charging excessive rates and retaining large margins for profit and other non-medical expenses. The table below compares actual small employer market medical loss ratios in Texas to those in New Jersey and Minnesota. [1]

Small Employer Market MLRs, Minimum Standard and Actual

| | New Jersey 2005 | Minnesota 2006 | Texas 2006 |
|---|---|---|---|
| Minimum medical loss ratio standard | 75% | 71-82% | N/A |
| Actual medical loss ratio | 81% | 87% | 73% |

Small employer insurers in New Jersey and Minnesota achieve a higher loss ratio on average than the minimum standard.

## HB 531

HB 531 sets reasonable standards for medical loss ratios in Texas. Recognizing that there are more administrative expenses in selling policies to individuals than to large groups, HB 531 sets the following graduated standards:

- a 65 percent minimum medical loss ratio in the individual market;
- a 75 percent minimum medical loss ratio in the small employer market (for businesses with 2-50 employees); and
- an 80 percent minimum medical loss ratio in the large employer market (for businesses with more than 50 employees).

If an insurer falls below the standard, they must issue refunds to policyholders to make up the difference. If medical costs are lower than expected in any given year, the refund mechanism means that both insurers and policyholders can share benefit. HB 531 introduces a much needed level of accountability and transparency to the health insurance market.

## Minimum Medical Loss Ratios in Other States

Fifteen states set a minimum medical loss ratio standard in the small employer or individual markets.[2] If an insurance company does not meet the minimum medical loss ratio standard, some states require the company's premiums be adjusted accordingly the next year. Other states require insurance companies that fail to meet the standard to refund excess premiums to enrollees.[3]

Examples of Minimum Medical Loss Ratios in the Small Employer and Individual Markets

| State | Individual Market | Small Employer Market |
|---|---|---|
| Delaware | - | 75% |
| Kentucky | 65% | 70% - groups of 2-10<br>75% - groups of 11-50 |
| Maine | 65% | 75% - 78% |
| Maryland | 60% | 75% |
| Minnesota | 68% - 72% | 71% - 82% |
| New Jersey | 75% | 75% |
| New York | 80% | 75% |
| North Dakota | 55% | 70% |
| Oklahoma | - | 60% |
| South Dakota | 65% | 75% |
| Vermont | 70% | - |
| Washington | 77% | - |
| Wyoming | 60% | 73% |

Sources: Families USA, *Medical Loss Ratios: Evidence from the States*, Health Policy Memo, June 2008, www.familiesusa.org/assets/pdfs/medical-loss-ratio.pdf; and Minnesota Department of Commerce, *Report of 2006 Loss Ratio Experience in the Individual and Small Employer Health Plan Markets for: Insurance Companies Nonprofit Health Service Plan Corporations and Health Maintenance Organizations*, June 2007, www.state.mn.us/mn/externalDocs/Commerce/Current_Loss_Ratio_Report_052104013421_LossRatioReport.pdf.

- New Jersey requires a minimum 75% medical loss ratio in the small employer and individual markets and requires insurers to issue refunds to policyholders when the standard is not met. In 2005, the overall market medical loss ratios exceeded the state's minimum standards with a 82% actual medical loss ratio in the individual market and 81% in the small employer market.[4] The New Jersey Insurance Department reports that its minimum loss ratio standard is easy to administer, has helped control premiums in the individual market, and, due to the refund provision, allows both policyholders and insurance companies to benefit financially in good years when claim costs are less than expected.[5]

- Minnesota requires minimum medical loss ratios up to 72% in the individual market and 82% in the small employer market.[6] The Minnesota Department of Commerce publishes medical loss ratio information by carrier in an annual report required by state law. In 2006, the overall market medical loss ratios exceeded the state's minimum standards with a 93% actual medical loss ratio in the individual market and 87% in the small employer market.[7]

- In 2008, Washington increased its minimum medical loss ratio standard in the individual market from 72 to 77%.[8] The Washington State Office of the Insurance Commissioner maintains a website where consumers can access and compare insurers' medical loss ratios, profit margins, average premiums, premium increase in the last year, administrative costs, and surplus amounts.[9]

## Loss Ratio Experience in Texas

Currently, Texas does not set minimum medical loss ratios for health insurance or require insurance companies to report medical loss ratios to the Texas Department of Insurance (TDI). TDI does, however, collect data annually on the fully insured group health insurance market from which medical loss ratios can be calculated.[10] TDI does not collect equivalent data on the individual health insurance market. For health insurance policies sold in Texas from 2003 through 2006, the overall market medical loss ratio averaged 72% for the small employer market and 84% for the large employer market. However, the wide range in medical loss ratios between insurance companies (from 22% to 267%) shows that insurers vary considerably in the portion of premiums spent on medical care. The attached tables show medical loss ratios for Texas business in the small and large group markets by insurance company. Some of these insurance companies spent a surprisingly low percentage—some less than half—of Texans' premium dollars on medical expenses.

## Premium Oversight in Texas

Unlike most other states, Texas does nothing to oversee the reasonableness in health insurance premium pricing. Most states require insurers to file health insurance rates in the individual and/or small employer markets and review rates to ensure that they are reasonable in relation to the benefits offered. A minimum medical loss ratio does not go that far. Minimum medical loss ratios ensure that premiums are within a reasonable range in relation to claims paid, as opposed a specific premium rate being reasonable. Since Texas does not examine rates at all, a minimum medical loss ratio would be a step in the right direction toward accountability and transparency in premiums. Reporting of medical loss ratios would take fewer resources on the part of insurance companies and TDI that rate regulation.

## Bipartisan Support in Texas

Bills to set minimum medical loss ratios in Texas have been filed and cosponsored by both Republicans and Democrats, showing bipartisan support. Bills filed this session include:

- HB 531 Anchia (D-Dallas). Co-sponsored by Zerwas (R-Richmond), Shelton (R-Fort Worth), Donna Howard (D-Austin), and Hopson (D-Jacksonville);

- HB 2750 Eiland (D-Galveston). Companion bill is SB 1257 Averitt (R-Waco)

- SB 373 Shapleigh (D-El Paso); and

- SB 485 Deuell (R-Greenville). Co-sponsored by Davis (D- Fort Worth).

[1] New Jersey and Minnesota both set minimum medical loss ratio standards and have readily accessible data on actual medical loss ratio market averages.

[2] Families USA, *Medical Loss Ratios: Evidence from the States*, Health Policy Memo, June 2008, www.familiesusa.org/assets/pdfs/medical-loss-ratio.pdf.

[3] Families USA, *Medical Loss Ratios: Evidence from the States*, Health Policy Memo, June 2008, www.familiesusa.org/assets/pdfs/medical-loss-ratio.pdf.

[4] New Jersey Department of Banking and Insurance, *New Jersey Commercial Health Market 2005*, January 11, 2008, http://www.state.nj.us/dobi/lifehealthactuarial/2005comhealth_attach3.pdf.

[5] Families USA, *Understanding How Health Insurance Premiums are Regulated*, September 2006, www.familiesusa.org/assets/pdfs/rate-regulation.pdf.

[6] Minnesota varies minimum loss ratio standards by the insurer's market share. Companies with a larger market share must meet a higher loss ratio standard. In the small employer market, Minnesota also varies loss ratio standards for companies with a small market share by group size. Carriers must meet a lower standard on their policies sold to groups with fewer than 10 employees and a higher standard on policies sold to groups with 10 or more employees. Loss ratio standards range from 68 to 72% in the individual market and 71 to 82% in the small employer market.

[7] Minnesota Department of Commerce, *Report of 2006 Loss Ratio Experience in the Individual and Small Employer Health Plan Markets for: Insurance Companies Nonprofit Health Service Plan Corporations and Health Maintenance Organizations*, June 2007, www.state.mn.us/mn/externalDocs/Commerce/Current_Loss_Ratio_Report_052104013421_LossRatioReport.pdf.

[8] Families USA, *Medical Loss Ratios: Evidence from the States*, Health Policy Memo, June 2008, www.familiesusa.org/assets/pdfs/medical-loss-ratio.pdf.

[9] Washington State Office of the Insurance Commissioner, Health Carrier Information Comparison – Home, https://fortress.wa.gov/oic/hcis/public/comparisonhome.aspx.

[10] Data collected in TDI's annual Texas Group Accident and Health Insurance Survey. Data are collected only for Texas' fully insured business, so unlike medical loss ratios reported by companies in their Annual Statement filings with state regulators and NAIC, data from the TDI survey reflects just insurers' experience in Texas. TDI collects data for both the small employer and large group market, but does not collect similar data for the individual health insurance market. Data with medical loss ratio by insurer obtained through an open records request and Attorney General ruling.