CPPP Center for Public Policy Priorities

Testimony

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SB 1257 INCREASES PROTECTIONS AND ACCESS TO INFORMATION FOR HEALTH INSURANCE CONSUMERS

Texas' commercial health insurance market is considered "healthy" because it has a relatively large number of carriers writing coverage, is subject to a low level of regulation compared to other states, and generates $22 billion in premiums annually. The effect of this market on Texas consumers, however, is anything but healthy. For Texas health insurance consumers, this market produces some of the fastest growing premiums in the nation, one of the lowest rates of coverage through job-based insurance, and small employer premiums as high as $29,000 a year per employee. SB 1257 makes changes in the health insurance market which will allow consumers to maintain coverage during certain disputes with insurers, provide consumers with more information on health insurance, and establish a mechanism to review large rate increases for small employers to ensure they are justified.

Rescissions

Consumers expect that when they obtain health insurance, the insurance company has completed all medical underwriting and cleared up any questions about information on the application. Once the policy is in force, consumers expect to be covered according to the terms of their insurance contracts.

Insurance companies in Texas do not rescind (retroactively cancel policies in force) policies frequently, but when they do, it can have dire effects on the life and health of the policyholder. The types of triggers that would cause an insurance company to re-examine an application after a policy is in place likely include high-cost claims or requests for prior approval of surgeries or other expensive procedures. Too often, people whose policies are rescinded critically need health care and will be harmed by losing access to the care that coverage provides.

SB 1257 provides the following protections for consumers.

- Ensures that policyholders subject to a rescission have a right to an independent review during which time they maintain coverage. This ensures that access to necessary care is not disrupted. If the review finds that the rescission was appropriate, the policy is cancelled and the insurer can recover from the former policyholder.
- Requires insurance companies to notify policyholders about rescissions with an explanation of the reason leading to rescission.
- Prohibits health insurance companies from setting rescission quotas or compensating employees or contractors based on rescissions.

Posting Medical Loss Ratio Data

Premiums and Medical Loss Ratios

Health insurance premiums are expensive. Employer-sponsored health insurance in Texas on average costs about $13,000 per year for family coverage and $4,500 per year for employee-only 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. Medical loss ratios are the percentage of health insurance premium dollars spent on health care as opposed to non-medical costs. 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.

Medical Loss Ratios in Other States

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. At least fifteen states provide this assurance by setting a minimum medical loss ratio standard in the small employer or individual markets.[1]

At least three states, Minnesota, New Jersey, and Washington, make medical loss ratio information publicly available to consumers. All three states require insurers to report medical loss ratio data and then post that data online by insurance company. Minnesota releases an annual report with loss ratios *by carrier* for the small employer market and the individual health insurance market along with background information on medical loss ratios and what information they provide to consumers. New Jersey posts the same information and also includes medical loss ratio information for the large group market and data on market share and average premiums by company.

Washington 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. Information on medical loss ratios, average premiums, and premium increases are provided broken down by the individual, small employer, and large group markets. This range of data on the financial condition and performance of health insurers allows consumers in Washington to make well-informed decisions.

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.[2] 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.

Value of Medical Loss Ratio Data

To make health insurance decisions, employers and consumers must sift through policies with infinite variability that do not allow for apples-to-apples comparisons. It is difficult to compare plans based on costs, especially for small employers and individuals who must go through an underwriting process before they know what premiums will be charged. TDI has conducted many focus groups with small business owners to gain a better understanding of their health insurance decisions and small employers consistently indicate that they do not have enough information available to help them choose a plan. Giving Texans access to this information creates the ability to make an apples-to-apples comparison in at least one area. Just as importantly, it provides consumers with some very basic information on how their premium dollars are used. Medical loss ratios for HMO plans are already posted by health plan on TDI's website.

SB 1257

SB 1257 requires PPO plans to report medical loss ratios to TDI annually and TDI to post medical loss ratio data on its website. SB 1257 also requires PPO plans to report data on claims paid and premiums collected to policyholders for their plan.

Premium Rate Increases for Small Employers

Small businesses—those with 2 to 50 employees—traditionally face many challenges when trying to obtain health insurance coverage for their employees. One of the largest hurdles is accessing affordable coverage. While the average rate in Texas for small employer coverage in 2006 was $4,500 for employee-only coverage, many groups do not qualify for the average rate.[3] Employers with older or less healthy employees are assigned maximum rates many times higher than the average rate. Some small employers in Texas pay up to $29,000 a year per employee.[4] Small employers paying these astounding per-person premiums may wonder if the rates they are paying are justified; however, unlike many other states, Texas has no mechanism in place to ensure that rates charged to small employers are reasonable in relation to the benefits covered.

SB 1257 would allow small employers who believe they have received an excessive rate increase to file a complaint with the Office of Public Insurance Council (OPIC) if the increase is more than 15 percent. OPIC could investigate increases to determine if they are reasonable. If rates are found to be excessive in relation to the risks covered, OPIC could refer the complaint to TDI for action. This would create the only mechanism in Texas to review group coverage premiums to determine if they are reasonable or excessive. SB 1257 would also allow small employers to request information from their insurers about the percentage of increase related to health status and claims experience as opposed to other changes to the age, gender, size, etc. of the group.

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

[2] 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.

[3] Premium data from the Agency for Healthcare Research and Quality, 2006 Medical Expenditure Panel Survey Insurance Component.

[4] Texas Department of Insurance, Texas Group Accident and Health Insurance Survey, 2006