ConsumersUnion

POLICY & ACTION FROM CONSUMER REPORTS

HEALTH DATA REPORT
MAY 2012

Health Reform's 'Value for Your Dollar' Rule: Early Impact in Missouri

SUMMARY

Beginning in 2011, the Affordable Care Act required insurers covering small businesses and individuals to spend at least 80 percent of premiums on actual medical care and activities that improve the quality of care. Insurers will owe rebates to consumers if this standard isn't met. This new rule, known as the "medical loss ratio" (MLR) also shines a light on how insurers spend premium dollars with new reporting requirements and public disclosures.

Consumers Union (CU) reviewed 2011 MLR results for Missouri insurance companies in the individual and small group markets. CU found that the new rule benefits consumers in plans from some of Missouri's largest insurance companies with millions of dollars in forthcoming rebates and improved insurer efficiency. CU also found that all but one of the insurers owing rebates were profitable in 2011 even after rebates were taken into account. This report describes CU's findings about the impact of the new MLR rule in Missouri during its first year in effect.

Introduction

A new rule that demands better value from health insurance companies is beginning to change business practices at some of Missouri's largest insurance companies and consumers will soon be due millions of dollars in rebates, according to preliminary data released in April.

Enacted as part of the Affordable Care Act, also known as the health reform law, the new rule says that insurers must spend at least 80 percent of premiums on actual medical care and activities that improve the quality of care for small businesses and individuals who buy coverage on their own. For large group customers, the standard is 85 percent. If insurers miss the mark, they must rebate policyholders the difference.

The goal of the new rule – known as the medical loss ratio or "MLR" rule – is to ensure that consumers get better value for their money by encouraging insurers to be more efficient. To avoid paying rebates, insurers must be smarter in how they spend their premium revenue on marketing, CEO salaries, broker commissions, profits and other administrative costs.

The rule also brings broad new transparency and accountability to health insurers. It requires them for the first time to publicly disclose more details about how they spend premium dollars. By June 1 of each year, health insurers will file a report showing how much they spent on medical care and quality activities for the prior year. Starting in 2012, consumers will be able to view the reports by going to http://companyprofiles.healthcare.gov/, entering the name of their insurer, and choosing the Medical Loss Ratio tab.

Other new financial reporting requirements related to the MLR rule allowed Consumers Union (CU) to examine the early impact of the new rule in Missouri. CU examined filings that Missouri health insurers made in April showing preliminary results of their 2011 earnings, spending, and profits in the individual and small group markets.

Below are highlights of what we found in Missouri.

Consumers are due millions in premium rebates

Individual market insurers estimate that they will pay millions of dollars back to consumers, with Healthy Alliance and Golden Rule expecting the highest rebates.

The MLR rule went into effect on January 1, 2011. The first round of rebates must be paid by August 1, 2012, and will be based on insurers' 2011 spending. Rebates may be in the form of refund checks or a credit toward future premiums. CU examined rebate estimates for all insurers in the state expecting to owe rebates in the individual market or small group market.

In the Missouri individual market, several of the top health insurance companies expect to pay millions of dollars to policyholders, led by Healthy Alliance (trade name Anthem Blue Cross & Blue Shield, a WellPoint company), which anticipates giving $9.3 million back in rebates to 50,612 policyholders. Golden Rule has the second highest rebate amount, estimated at $3.9 million owed to 27,610 individual market policyholders.[1]

Chart 1 shows estimated rebates for the nine insurers that expect to owe rebates to individual market policyholders.

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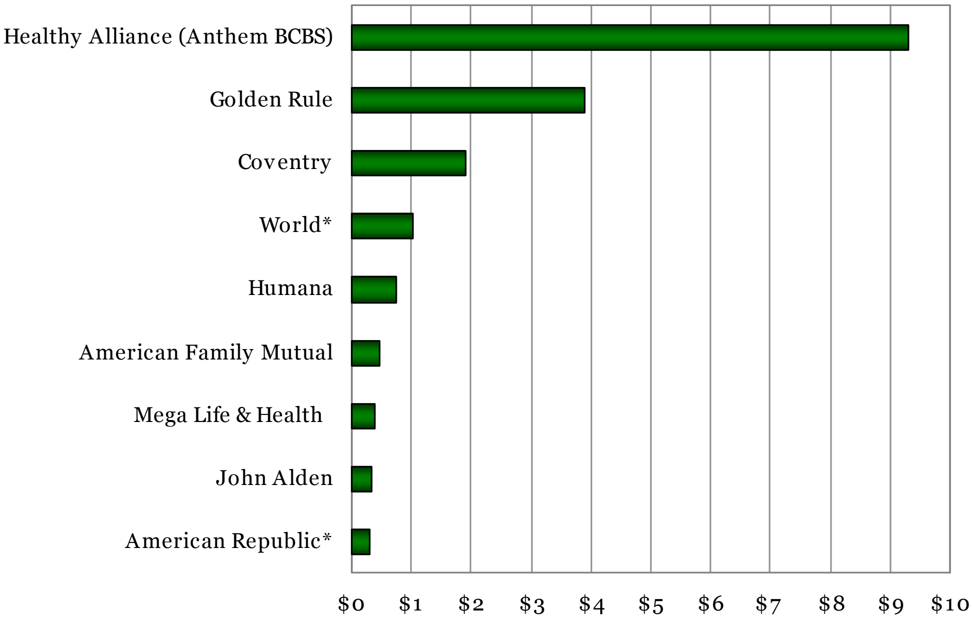
[1] "Policyholders" in this report does not include dependents. "Covered lives" includes both policyholders and dependents.

CHART 1: ESTIMATED 2012 REBATES MISSOURI INDIVIDUAL MARKET INSURERS

(in millions)



*Source: 2011 Supplemental Health Care Exhibits – Part 1, filed with the National Association of Insurance Commissioners. Companion Life Insurance Co. estimates owing total rebates of $215 in 2012 but complete SHCE data was not available for the company from the NAIC and this small rebate amount is likely de minimis therefore Companion was excluded from this report. * World Insurance Company & American Republic Insurance Company are subsidiaries of the American Enterprise Group which indicated in October 2011 that they would stop renewing individual market health insurance policies.*

In the small group market – where employers with fewer than 50 employees purchase coverage[2] - Healthy Alliance (Anthem BCBS) again leads in expected rebates estimating $19.7 million in rebates to 10,500 small businesses and other groups. Blue Cross Blue Shield of Kansas City (BCBS KC) estimates rebates of $5.5 million to 3,444 small businesses and other groups.

Chart 2 shows estimated rebates for the five insurers that expect to owe rebates to small group market policyholders.

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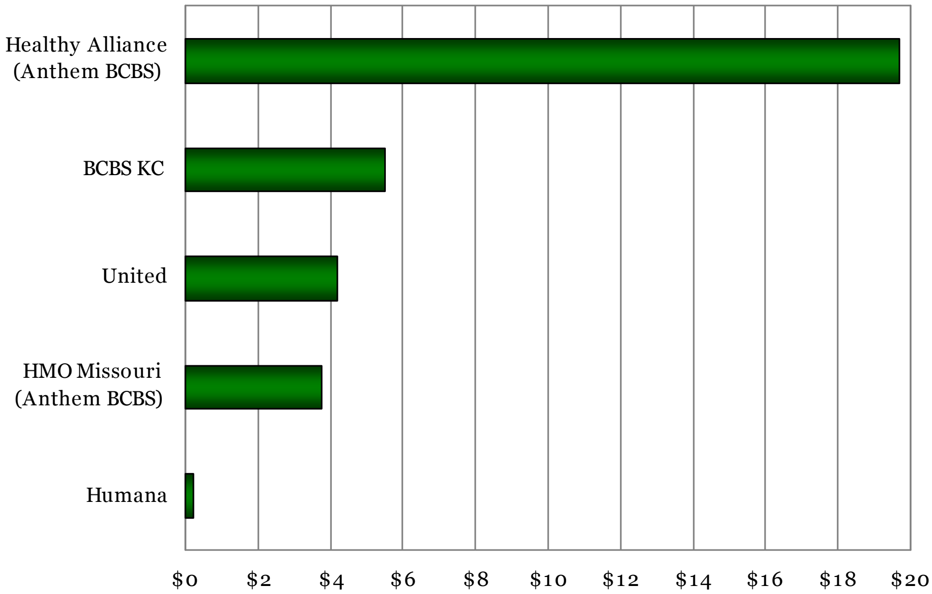
2 *See* Missouri Revised Statues § 379.930 (34). For the purpose of applying the MLR rule, before 2016 states will have the option to define "small employers" either as those with (1) 100 or fewer employees, or (2) 50 or fewer employees. Beginning in 2016, small employers will be defined as those with 100 or fewer employees.

CHART 2: ESTIMATED 2012 REBATES MISSOURI SMALL GROUP MARKET INSURERS



*Source: 2011 Supplemental Health Care Exhibits – Part 1, filed with the National Association of Insurance Commissioners. * HMO Missouri and Healthy Alliance are WellPoint companies both operating under the trade name Anthem Blue Cross & Blue Shield.*

Based on the data available, Consumers Union estimates total rebates for Missouri across all insurers could be as high as $18.4 million in the individual market and $33.3 million in the small group market. The Kaiser Family Foundation estimates similar total rebates in the individual and small group markets, and found overall rebates including the large group market may be as much as $64.5 million.[3]

Insurance companies issuing rebates will send notices to policyholders with information about the rebate. Insurers will issue group rebates to employers who will share them with employees who paid premiums or otherwise use them to benefit employees, depending on the type of plan.

These are preliminary estimates made by insurers and actual rebates reported by June 1 may differ slightly.

The rule is improving value for Missouri consumers

The top five insurers in the individual market based on total covered lives brought better value to their customers by increasing the portion of premiums

[3] *See* Kaiser Family Foundation, Insurer Rebates Under the Medical Loss Ratio: 2012 Estimates, April 2012.

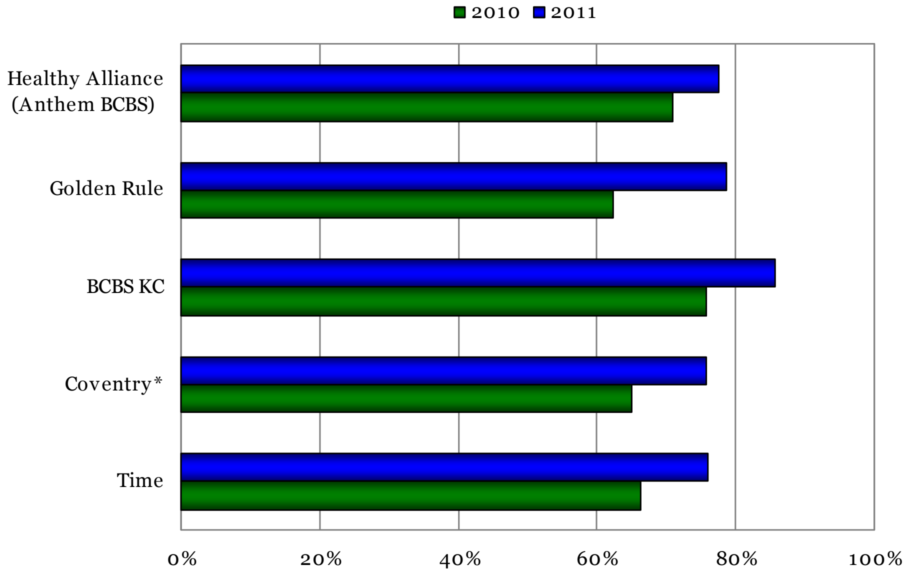
that they spent on actual medical care, including spending on activities to improve the quality of care.

For example, Healthy Alliance (Anthem BCBS), which covers about 79,000 people in the Missouri individual market, spent 66.2 percent of premiums on medical care in 2010, and spent 76.1 percent in 2011, as shown in Chart 3. Golden Rule, with about 49,000 people in the Missouri individual market, spent 62.3 percent of premiums on medical care in 2010 and 78.7 percent in 2011. Blue Cross Blue Shield of Kansas City, with about 44,000 covered lives in the individual market, improved value from 75.7 percent in 2010 to 85.7 percent in 2011, allowing the company to avoid paying rebates to policyholders in the individual market in 2012.

The percentage of premiums spent on medical care refers to the total amount an insurer spent, on average, for all the people it covers in a certain market in the state, such as the individual market or small group market.

These are preliminary MLR results and may not include some adjustments that some insurers can make for their final MLR reports to the U.S. Department of Health and Human Services. Therefore, final MLR percentages reported by June 1 may differ slightly.

CHART 3: 2010 vs. 2011 PERCENT OF PREMIUMS SPENT ON MEDICAL CARE IN MISSOURI INDIVIDUAL MARKET, TOP 5 COMPANIES



*Source: 2011 Supplemental Health Care Exhibits – Part 1, filed with the National Association of Insurance Commissioners. * Coventry Health and Life Insurance announced the acquisition of Mercy Health Plans in 2010 whose MLR in the invdividual market was 85.2% for 2011, likely improving Coventry's 2011 MLR.*

The top five insurers in the small group market - those covering more than 2,000 small businesses and other groups - showed less overall improved value for consumers. Coventry Life & Health Insurance Company improved the percentage of premiums spent on actual medical care, including spending on activities to improve the quality of care, from 75.9 percent to 81.2 percent. However, the company's acquisition of Mercy Health Plans in 2010 likely positively impacted Coventry's MLR as Mercy reported an 88.9 percent MLR in 2010, far above the required 80 percent.

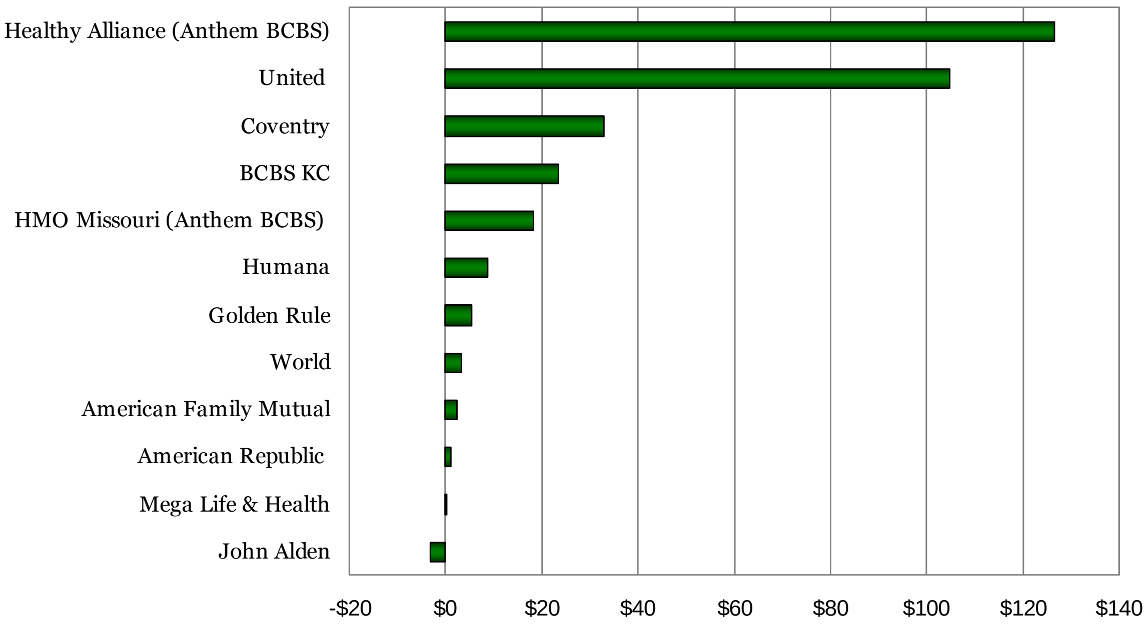
The only other major company reporting improved value for consumers is United Healthcare Insurance Company who increased their MLR from 75.7 percent in 2010 to 77.8 percent in 2011. The three other top small group insurers – Healthy Alliance, HMO Missouri, and Blue Cross Blue Shield of Kansas City – declined in value for consumers as they decreased the portion of premiums spent on actual medical care and activities to improve the quality of care between 2010 and 2011.

Insurers remain profitable

Even after estimated rebates or business adjustments that increased spending on medical care are taken into account, insurers anticipating rebates earned profits on their Missouri health insurance business in 2011. The preliminary results shown in Chart 4 demonstrate that insurers can offer greater value to their customers and still be profitable.

CHART 4: NET PROFITS ON MISSOURI HEALTH INSURANCE BUSINESS, 2011 REBATING INSURERS

(in millions)



Source: 2011 Supplemental Health Care Exhibits – Part 1, filed with the National Association of Insurance Commissioners. Chart 4 includes profits only on fully-insured health care businesses in Missouri.

Conclusion

Early evidence showing the impact of the new MLR rule during its first year in effect shows that many of Missouri's largest insurers are changing business practices or preparing for millions of dollars in rebates in response to the new law. At the same time, insurers remain profitable on Missouri business as a whole. For consumers and small businesses, this means the rule is bringing greater value for their premium dollars.

This report was written by Blake Hutson, Consumers Union Outreach Coordinator with assistance from Laurie Sobel, Senior Attorney.

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