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Basic Facts on Health Insurers in NH 2001-2004

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October 2005

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This paper is one of a series published by the NH Center for Public Policy Studies on the broad topic of health-care finance and insuring the New Hampshire workforce. The Concord-based Endowment for Health has sponsored this work.

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Basic Facts on Health Insurers in NH, 2001-2004

This report is an update to a similar report, "Commercial Health Insurers: Intermediaries in Health Care Finance," issued by the Center in October 2004.

Employer-sponsored health insurance comes in two types: fully-insured and self-insured. With a fully-insured product the employer pays an insurance company a contracted premium and the insurance company assumes all the risks associated with medical costs and claims. With a self-insured product the employer assumes the risks associated with medical costs and claims and pays an insurance company a fee to administer the coverage. Fully-insured products are regulated by the states. Self-insured products are largely unregulated. Because the NH Insurance Department regulates the fully-insured products, health insurers file regular reports with the department regarding the financing of those products. Data from those reports are publicly available. Data regarding self-insured plans are in the hands of the thousands of employers and their insurance companies and are not generally publicly available. For that reason, we have only a partial picture of the coverage and costs of employer-sponsored health insurance in New Hampshire.

The remainder of this report is based on the data submitted to the NH Department of Insurance by five New Hampshire health insurance companies regarding only their fully-insured products.¹ The companies are Aetna U.S. Healthcare², Anthem Health Plans of New Hampshire, Cigna Healthcare of New Hampshire, Harvard Pilgrim Health Care of New England, and Matthew Thornton Health Plan. (While Matthew Thornton is part of Anthem, it files its reports separately with the department and thus is presented separately throughout this report.) Nationally, 70% of insured individuals are covered by this type of insurance while 30% are covered by self-insured products.³ We do not know the comparable percentages for New Hampshire.

In 2004 these five insurers received \$1,211,561,879 in premiums to cover the health care costs of 372,390 persons. Revenue received by the insurers averaged \$3,272 per member-year. This was a slight increase of 0.3% in covered lives from the prior year. Premiums received per member-year increased \$222 from \$3,050 or 7.3%.

The number of member-months insured by these five companies declined by 15.8% in the three years since 2001 and the number of members declined by 14.0%. This should not be interpreted to mean that the number of people who are insured has similarly declined. One possibility is that employers have switched from purchasing insurance to being self-insured. (The State of New

¹ Data are taken from annual financial reports filed with NH Department of Insurance and available on the website of the National Association of Insurance Commissioners at <http://www.naic.org/consumer/>. These figures include Medicare supplemental insurance; federal employees health benefit plans, Medicaid, and comprehensive health insurance.

² Aetna did not cover any New Hampshire residents in 2004, but their data has been included to maintain comparability with prior years.

³ Blue Cross Blue Shield Association, "Understanding Health Plan Administrative Costs," 2003.

Hampshire, for example, did just this in 2004.) Other data show small, if any, increases in the number of New Hampshire residents who are uninsured.⁴ The previously covered lives are now likely covered by self-insurance plans of employers or by other insurers. Because self-insured employers do not report their data to the Insurance Department, we cannot observe directly an offsetting increase in lives covered in that manner.

From the premiums received in 2004, \$1,032,974,314 was used to pay for medical, hospital and other claims. \$90,034,872 was used for general administrative expenses, \$58,196,213 was used for claims adjustment expenses, and \$29,214,555 was the net gain from the underwriting. Of every \$1,000 in premiums received, \$853 was used to pay claims, \$122 was required for administrative expenses, and \$24 was net profit.

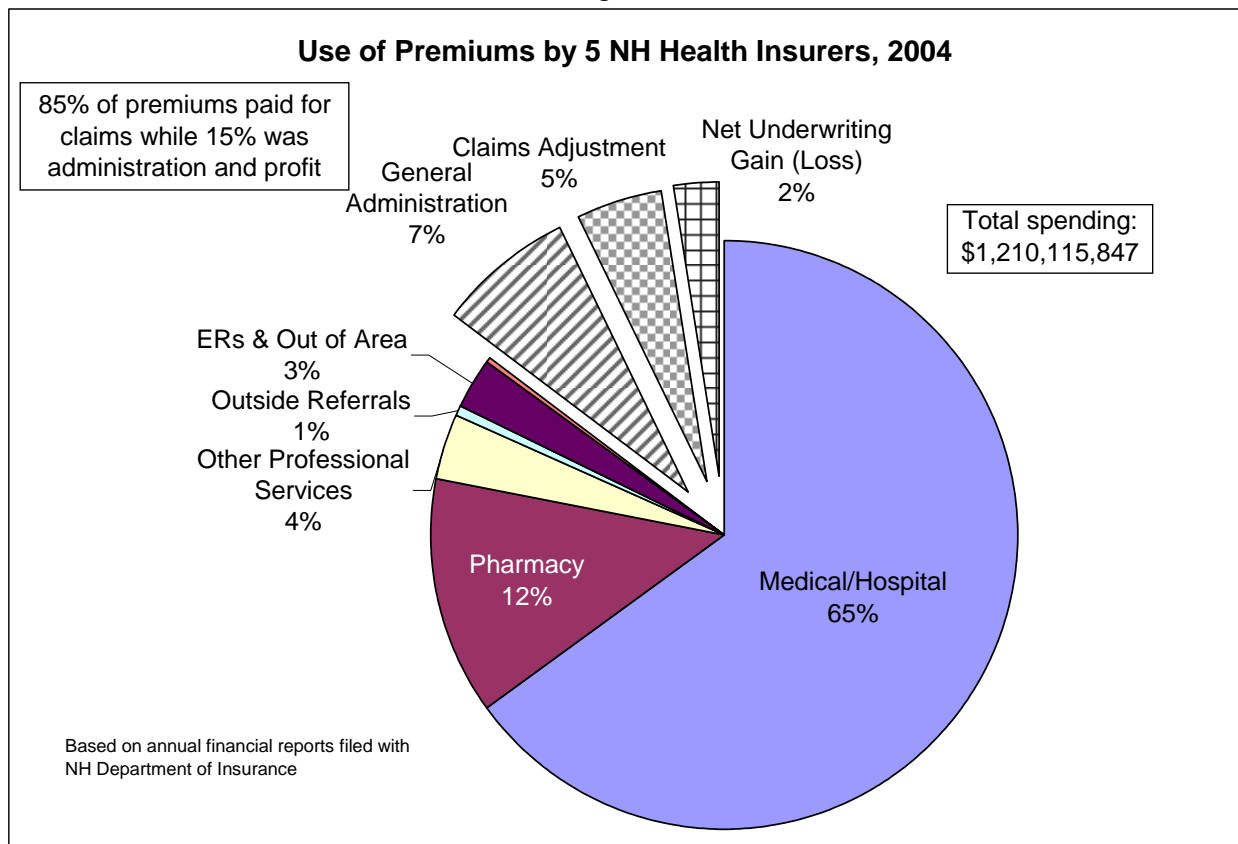
As shown in Table 1, between 2001 and 2004, premium income per member-month increased 20.6% while medical claims paid out increased 26.0%. Average premiums charged by the companies did not increase as fast as the claims being paid. Net underwriting profit per member-month fell by slightly more than 1/3 during this time.

Table 1

Underwriting Finances of 5 NH Health Insurers					
	2001	2002	2003	2004	% change in 3 years
Enrolled members	432,901	444,820	371,272	372,390	-14.0%
Member-months	5,280,024	5,290,688	4,936,816	4,443,481	-15.8%
Net Premium Income	\$1,194,219,196	\$1,241,571,726	\$1,254,608,757	\$1,211,561,879	1.5%
Total medical and hospital claims	\$973,778,586	\$1,003,260,608	\$1,035,193,680	\$1,032,974,314	6.1%
Claims Adjustment Expenses	\$50,160,374	\$63,893,427	\$68,615,016	\$58,196,213	16.0%
General Administrative Expenses	\$100,326,769	\$107,312,895	\$113,653,270	\$90,034,872	-10.3%
Net Underwriting Profit (Loss)	\$56,638,560	\$63,051,904	\$36,029,896	\$29,214,515	-48.4%
Per Member Year					
Net Premium Income	\$2,714.12	\$2,816.05	\$3,049.60	\$3,271.93	20.6%
Total medical and hospital claims	\$2,213.12	\$2,275.53	\$2,516.26	\$2,789.64	26.0%
Claims Adjustment Expenses	\$114.00	\$144.92	\$166.78	\$157.16	37.9%
General Administrative Expenses	\$228.01	\$243.40	\$276.26	\$243.15	6.6%
Net Underwriting Profit (Loss)	\$128.72	\$143.01	\$87.58	\$78.90	-38.7%

⁴ 1st Quarter of 2005: Index of Population Lacking Health Insurance, New Hampshire Center for Public Policy Studies, found at: <http://www.unh.edu/nhcpps/2005Q1.pdf>.

Figure 1



In 2004 out of each \$1,000 of health insurance premiums paid, the NH insurers paid \$130 for pharmaceuticals and \$724 in claims for hospital, physician and other medical services. They used \$122 to cover administrative and claims processing costs, and kept \$24 as net operating profit. (For comparison, the latest data available nationwide is for 2001 and shows \$116 going toward administrative expenses and \$27 as net operating profit.)⁵

The 15% of premiums that did not pay for claims can be broken down further. As shown in Figure 2, salaries, wages, and benefits for employees of the insurers was the largest single expense. The state tax on insurance premiums was also part of the non-claims expenses.

⁵ Blue Cross Blue Shield Association, "Understanding Health Plan Administrative Costs," citing data from Milliman, USA, "Health Plan Administrative Cost Trends, 2003."

Figure 2

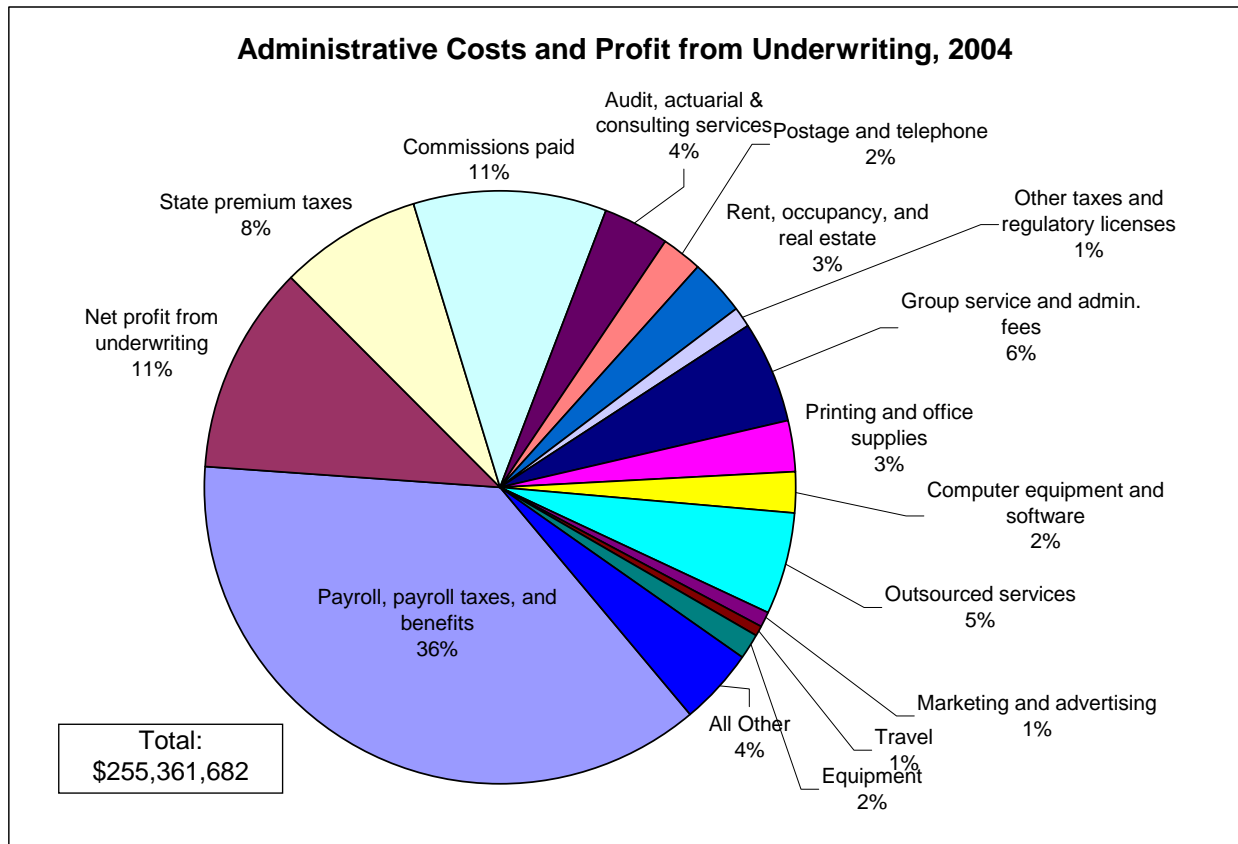
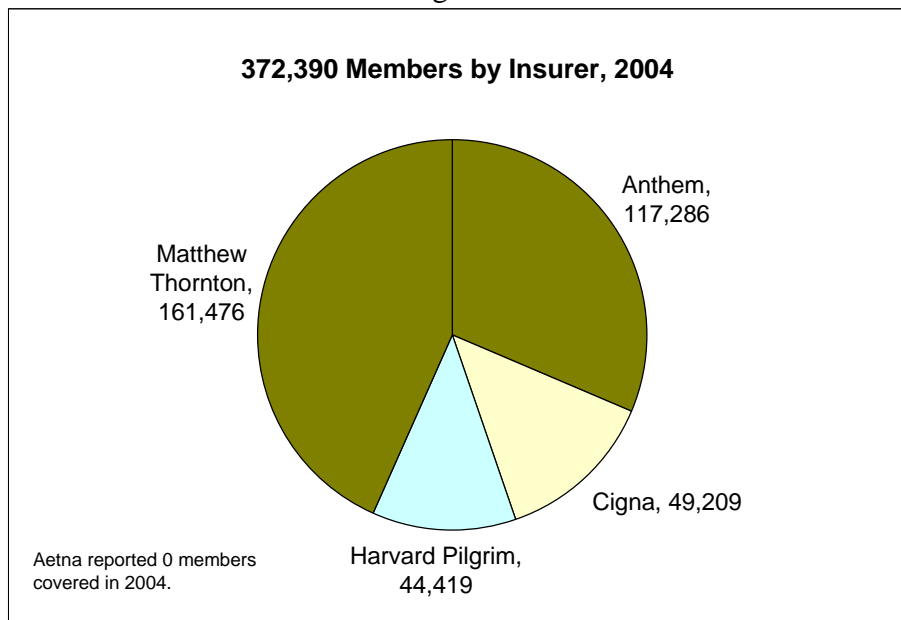


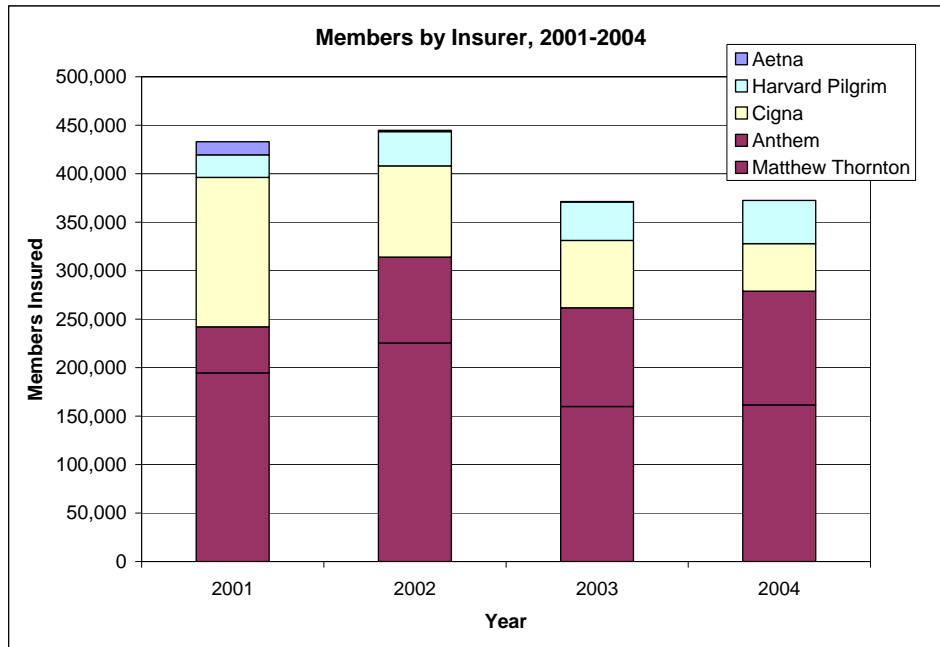
Figure 3 shows the number of lives covered by each of the five carriers in 2004. Anthem-Matthew Thornton, a single entity, covers 75% of the persons covered by this type of health insurance.

Figure 3



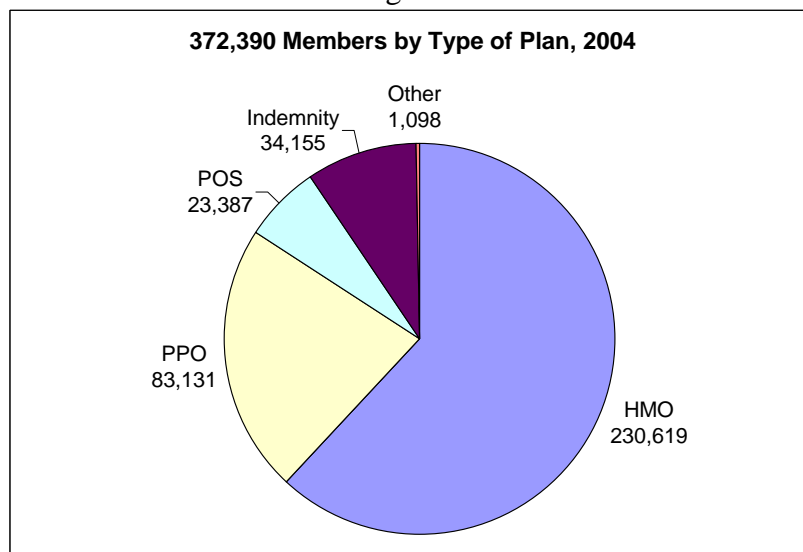
Over the past few years, Aetna and Cigna have both experienced a decline in numbers of covered lives and market share while Anthem and Harvard Pilgrim have shown increases. Figure 4 displays the number of fully-insured members by each of the companies over the 2001-2004 period. Both Figure 3 and Figure 4 display Anthem and Matthew Thornton in the same shade as they are actually part of the same company.

Figure 4



Of the 372,390 member lives covered, the majority were enrolled in HMOs. Figure 5 displays the number of lives covered by different types of insurance plans at the end of 2004.

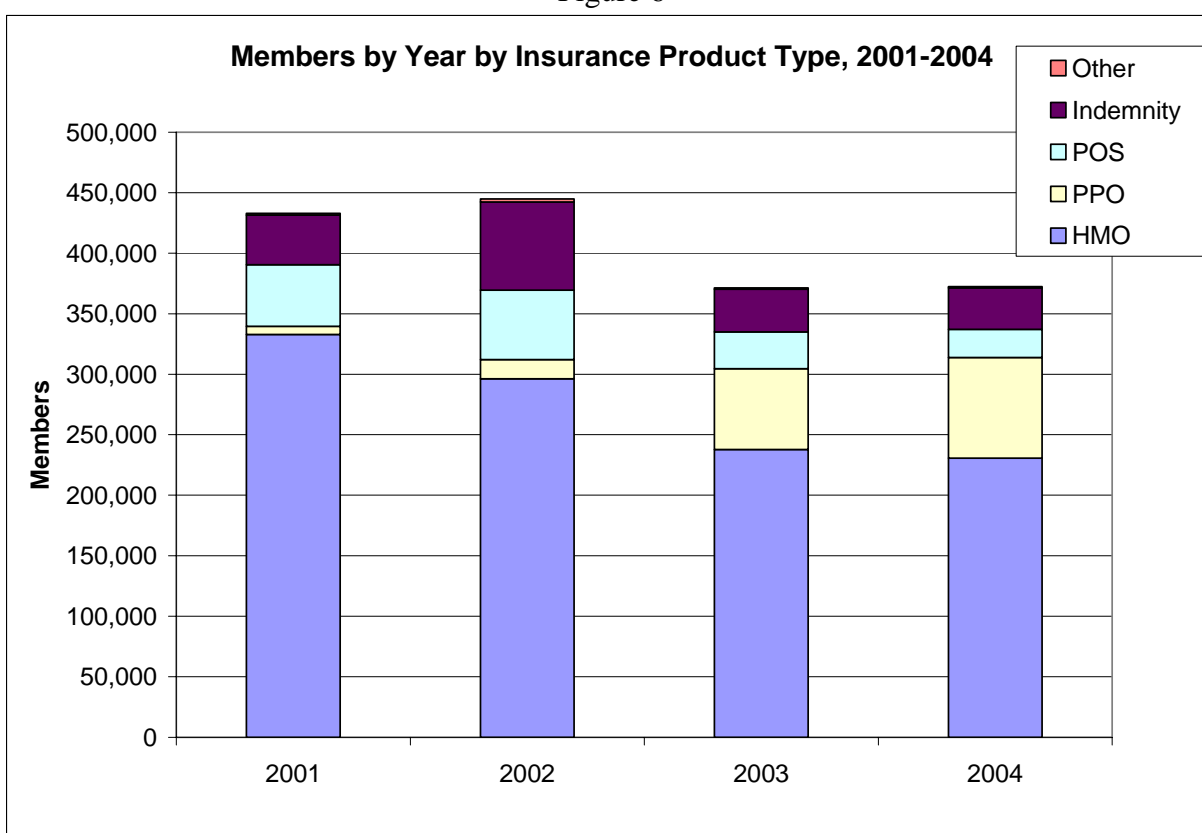
Figure 5



The number of members enrolled in Health Maintenance Organizations (HMOs) has been in decline while the number enrolled in Preferred Provider Organizations (PPOs) has increased as shown in Figure 6.

HMOs are the most restrictive of the insurance product types. The company will pay for a service only if your Primary Care Physician has referred you to a provider within the company's network. A PPO plan is somewhat less restrictive: you need not be referred to a provider if the provider is in the company's network. In a Point of Service (POS) plan, if you obtain services from a non-network provider, you will have to pay a higher portion of the bill than if you used an in-network provider. In a traditional indemnity plan, you can obtain services from any provider and the company will pay a portion of the bill.

Figure 6

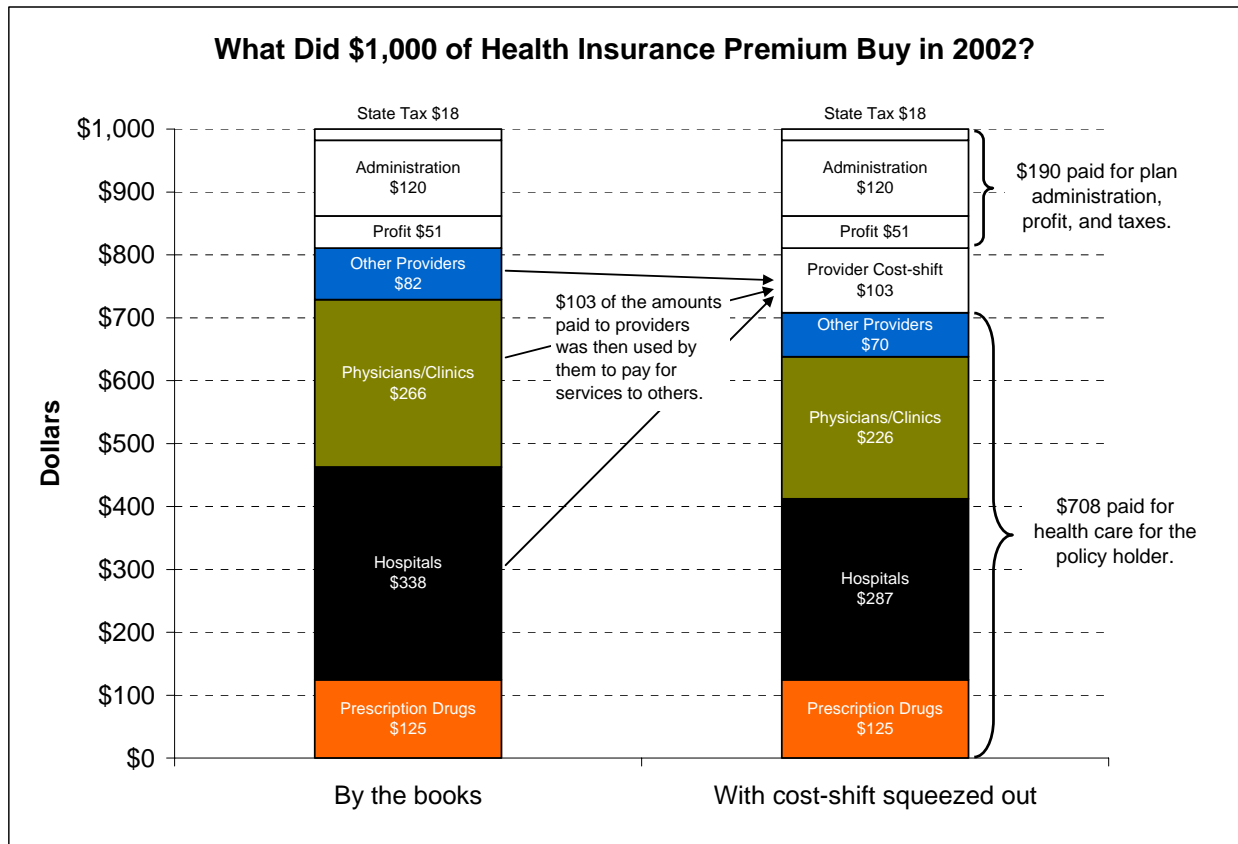


Cost-shifting by health care providers results in payments by insurers on behalf of those who are insured that exceed the actual cost of their services.⁶ Using 2002 data, we estimate that in that year \$103 of every \$1000 of insurance premium was paid to providers as part of the cost shift to cover costs of services to the uninsured, Medicare, and Medicaid patients. This is shown in Figure 7. Of each \$338 an insurer paid to hospitals, the hospitals used \$287 to cover the cost of services for the claimant and \$51 was cost-shifted to pay for services to others. In medical

⁶ More information about cost-shifting can be found in "A Framework for Thinking About Cost-Shifting in Health Care," New Hampshire Center for Public Policy Studies, November 2004 which can be viewed at <http://www.unh.edu/nhcpps/health/ibcost.pdf>.

practices, \$40 out of each \$266 paid by an insurer was cost-shifted. Among other providers \$12 out of \$82 was cost-shifted. The rightmost column in Figure 7 shows the amount of each \$1,000 of premium that was used to pay for services to the claimant after the insurer’s administrative costs and profits and provider cost-shifting has been removed.

Figure 7



More Information in the Future?

Beginning in late 2005 health insurers will begin providing copies of all processed claims to the state’s new Health Care Information System. This new database will include information on the types and costs of services to the self-insured as well as fully insured. The database will be managed by the Maine Health Information Center under a contract with the NH Department of Health and Human Services in cooperation with the NH Insurance Department. It will enable important and sophisticated analysis of how the health care system and the health insurance system in the state are changing. The first useful annual data is not likely to be available until the middle of 2007. Because this will be a claims database, it will not include information on the total number of people insured, only on those for whom claims are actually made during a given period of time. Nor will it include data on those who are uninsured or those whose health care is paid for by Medicare or Medicaid. Nor will it have information on the quality of services or health outcomes.

It would be helpful if federal law allowed and state law required all companies that are administering self-insured plans for employers in New Hampshire to report annually aggregate numbers equivalent to those that they provide annually for their fully-insured plans. Collecting the equivalent of members, member-months, type of plan, plan revenue, and plan expenses would result in a more complete, and therefore more informative, picture of the status of health insurance in our state.

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