

National Minimum Medical Loss Ratio Would Save Tens of Billions of Dollars For Businesses, Individuals

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ONLY 16 YEARS AGO, health insurance companies spent almost all of the premiums they collected to pay for actual health services. The leading insurers used 95 cents of every premium dollar on medical benefits, according to the consulting firm PricewaterhouseCoopers, a benchmark the industry referred to as a 95 percent “medical loss ratio.”¹ That was in 1993, the year President Clinton proposed comprehensive health reform. Within 12 months the insurance industry had torpedoed the plan and reform was dead. Experts correctly forecast it would be many years before Washington tackled the issue again.

Ever since, health insurance executives have pursued mergers, acquisitions and initial public offerings that have turned the for-profit health insurance industry into a juggernaut.² Wall Street investors cheered as private, for-profit companies grew at a feverish pace. CEOs spent lavishly on sales and advertising to win market share away from home-grown non-profits that traditionally had low marketing costs. In response, non-profits had to behave more like for-profits, stepping up spending on sales and marketing and intensifying efforts to exclude the sick.^{3,4}

Many non-profits decided that if they couldn't beat the for-profits, they should join them. Beginning in the mid-1990s, more than a dozen non-profit Blue Cross companies that dominated their state markets converted into for-profit companies and were eventually acquired to form the nation's biggest investor-owned insurer, WellPoint Inc. Last year, WellPoint reported about 35 million members, the most of any private plan.⁵

Along the way, health insurers' medical loss ratios plummeted even as medical costs and premiums grew faster than overall inflation. By 2007 investor-owned health insurers had reduced spending on actual medical care to 81 percent of premiums collected, according to the analysis by PricewaterhouseCoopers, which often consults with the health insurance industry's main trade group.⁶ The remaining 19 percent of premiums went to profits, marketing, executive salaries, administrative expenses, sales commissions, and the cost of weeding out sick people whose conditions might make them unprofitable to insure.⁷ Although the PricewaterhouseCoopers study gives an average for major investor owned insurance companies, other studies have found that in the individual and small group markets smaller insurers routinely have medical loss ratios that are much lower. A recent study of these markets found many as low as 60 percent.⁸ By comparison, the public Medicare program has consistently had a benefit ratio greater than 97 percent since 1993.⁹

In an effort to restore balance to the health insurance industry and protect consumers, the Senate bill should set a minimum medical loss ratio of 90 percent for health insurers.¹⁰ Health plans falling short of the minimum would be required to rebate the difference to their customers—a powerful incentive to meet the standard. This is a crucial policy that would rein in the skyrocketing health costs that have demolished jobs, left nearly 50 million people uninsured and burdened doctors and hospitals with the costs of caring for people without insurance.¹¹

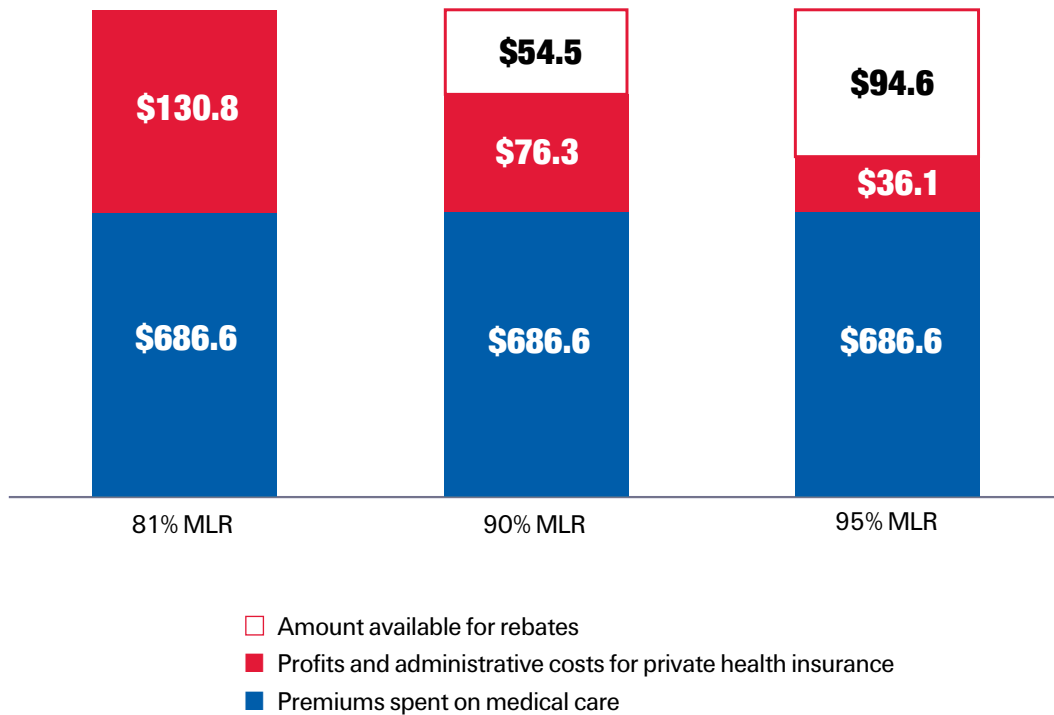
A new minimum medical loss ratio and requirements that health insurance plans conform to standardized benefits packages (with standardized enrollment and claims forms) would save significant sums and end industry practices that encourage the marketing of needlessly complicated plans, which enable insurers to game the system and sidestep legitimate medical costs. Over 10 years the amendment would reap hundreds of billions of dollars in savings for beleaguered employers as well

as families that buy insurance directly, according to Andrew Kurz, former chief financial officer of Blue Cross Blue Shield of Wisconsin.

Setting this benchmark for operating efficiency would function as a mini-stimulus package, redirecting tens of billions of dollars to individuals and small businesses and creating or saving jobs that would otherwise be casualties of rising health insurance costs.¹²

Raising Medical Loss Ratios Would Produce Huge Rebates for Businesses, Individuals¹³

Amount of Premium Dollars Spent on Medical Care Versus Insurance Costs Under Three Scenarios, 2008 (in billions of dollars)



Impact of Minimum Medical Loss Ratio on Premiums

Private health insurance premiums, 2008 ¹⁴	\$817 billion
Average medical loss ratio of investor owned private health insurance companies, 2007 ¹⁵	81 percent
Minimum medical loss ratio proposed in Senate amendment ¹⁶	90 percent
Share of private health insurance enrollment controlled by investor-owned companies, 2008 ¹⁷	About 50 percent
Money available under Senate amendment for rebate to members of investor-owned health plans, 2008	\$36.8 billion
10-year savings to enrollees in investor-owned insurers from Senate amendment's minimum medical loss ratio	\$368 billion
Rough estimate of money available for rebate from all health insurers, assuming national medical loss ratio of 90 percent and enrollment-weighted average	\$54.5 billion
Average medical loss ratio for investor-owned insurers, 1993 ¹⁸	95 percent
Percentage difference between 1993 and 2007 medical loss ratios of investor-owned insurers	14 percentage points
Dollar difference between 1993 and 2007 medical loss ratios of investor-owned insurers based on 2008 premium revenues	\$94.6 billion based on enrollment-weighted average

Endnotes

- ¹PricewaterhouseCoopers, “Beyond the sound bite: Review of presidential candidates’ proposals for health reform,” 2008. Accessed at <http://www.pwc.com/us/en/healthcare/publications/popups/medical-loss-ratio.jhtml>.
- ²Health Care for America Now, “Net Income of Major U.S. Health Insurers, 2000 – 2008 (in millions),” 2009. Accessed at [http://healthcareforamericanow.org/page/-/documents for download/090728 Net Income of Major Health Insurers 2000-2008 - Final-1.pdf](http://healthcareforamericanow.org/page/-/documents%20for%20download/090728%20Net%20Income%20of%20Major%20Health%20Insurers%202000-2008%20-%20Final-1.pdf).
- ³Government Accountability Office, “Private Health Insurance: 2008 Survey Results on Number and Market Share of Carriers in the Small Group Health Insurance Market,” February 27, 2009. Accessed at <http://www.gao.gov/new.items/d09363r.pdf>.
- ⁴Shaya Tayefe Mohajer, “State didn’t try to collect fine from Blue CrossHealth care enforcers admit they knew they’d be outgunned in court,” Associated Press, July 4, 2008. Accessed at <http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2008/07/04/BUSB11JV3B.DTL>.
- ⁵Wellpoint, “10-K statement ending December 31, 2008,” 2009. Accessed at <http://ir.wellpoint.com/phoenix.zhtml?c=130104&p=irol-SECText&EXT=aHR0cDovL2NjYm4uMTBrd2l6YXJkLmNvbS94bWwvZmlsaW5nLnhtbD9yZXVpXRIbmsmaXBhZ2U9NjE1Mzc0MyZhdHRhY2g9T04mc1hCUkw9MQ%3d%3d>.
- ⁶The medical loss ratios are based on premium figures from fully insured covered lives.
- ⁷PricewaterhouseCoopers, “Beyond the sound bite: Review of presidential candidates’ proposals for health reform,” 2008. Accessed at <http://www.pwc.com/us/en/healthcare/publications/popups/medical-loss-ratio.jhtml>; Wendell Potter, “The Insurance Industry’s Lethal Bottom Line—and Sen. Al Franken’s Solution,” Huffington Post, December 6, 2009. Accessed at http://www.huffingtonpost.com/wendell-potter/the-insurance-industrys-l_b_382001.html
- ⁸Families USA, “Medical Loss Ratios: Evidence from the States” June 2008. Accessed at <http://www.familiesusa.org/assets/pdfs/medical-loss-ratio.pdf>.
- ⁹Center for Medicare and Medicaid Services
- ¹⁰Congressional Record. Accessed at <http://thomas.loc.gov/cgi-bin/query/F?r111:29:./temp/~r111UWhuE5:e140480>.
- ¹¹Wendell Potter, “The Insurance Industry’s Lethal Bottom Line -- and Sen. Al Franken’s Solution,” Huffington Post, December 6, 2009. Accessed at http://www.huffingtonpost.com/wendell-potter/the-insurance-industrys-l_b_382001.html.
- ¹²Neeraj Sood, Neeraj, Arkadipta Ghosh, and José J. Escarce (2009). “Employer-Sponsored Insurance, Health Care Cost Growth, and the Economic Performance of U.S. Industries” Health Research Services. Online: <http://www.hsr.org/hsr/abstract.jsp?aid=594371976>.
- ¹³Figures in the chart are based on an 81% medical loss ratio for the largest investor owned insurers. Together the insurers cover more than 100 million people, or 50 percent of those insured by private insurers. The amount available for a rebate is calculated using 50 percent of the amount spent nationally on private insurance premiums. Centers for Medicare & Medicaid Services, “National Health Expenditure Projections 2008-2018.” Accessed at <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/proj2008.pdf>.
- ¹⁴Centers for Medicare & Medicaid Services, “National Health Expenditure Projections 2008-2018.” Accessed at <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/proj2008.pdf>.
- ¹⁵PricewaterhouseCoopers, “Beyond the sound bite: Review of presidential candidates’ proposals for health reform,” 2008. Accessed at <http://www.pwc.com/us/en/healthcare/publications/popups/medical-loss-ratio.jhtml>.
- ¹⁶Wendell Potter, “The Insurance Industry’s Lethal Bottom Line -- and Sen. Al Franken’s Solution,” Huffington Post, December 6, 2009. Accessed at http://www.huffingtonpost.com/wendell-potter/the-insurance-industrys-l_b_382001.html.
- ¹⁷University’s John F. Kennedy School of Government, “Health Care Delivery Covered Lives – Summary of Findings,” The Health Care Delivery Policy Program, 2008. Accessed at [http://www.hks.harvard.edu/m-rcbg/hcdp/numbers/Covered Lives Summary.pdf](http://www.hks.harvard.edu/m-rcbg/hcdp/numbers/Covered%20Lives%20Summary.pdf).
- ¹⁸PricewaterhouseCoopers, “Beyond the sound bite: Review of presidential candidates’ proposals for health reform,” 2008. Accessed at <http://www.pwc.com/us/en/healthcare/publications/popups/medical-loss-ratio.jhtml>.

Medical Loss Ratio (MLR) Data for Largest Health Insurers in Selected States, 2008*

State	Insurer	Revenue from Premiums (in millions of dollars)**	Medical Costs (in millions of dollars)	Medical Loss Ratio	Senate Proposed Minimum MLR	Percent Difference	Money Available for Rebate to Members
Arizona♦	UnitedHealth	\$73,608	\$60,359	82.0%	90%	8.0%	\$ 5,889,000,000
Arkansas	BCBS AR	\$1,071	\$889	83.0%	90%	7.0%	\$75,000,000
California♦	WellPoint	\$57,101	\$47,736	83.6%	90%	6.4%	\$3,654,000,000
Connecticut♦	WellPoint	\$57,101	\$47,736	83.6%	90%	6.4%	\$3,654,000,000
Delaware♦	CareFirst BCBS	\$6,320	\$5,568	88.1%	90%	1.9%	\$120,000,000
Florida♦	UnitedHealth	\$73,608	\$60,359	82.0%	90%	8.0%	\$5,889,000,000
Indiana♦	WellPoint	\$57,101	\$47,736	83.6%	90%	6.4%	\$3,654,000,000
Louisiana	BCBS LA	\$2,115	\$1,777	84.0%	90%	6.0%	\$127,000,000
Maine♦	WellPoint	\$57,101	\$47,736	83.6%	90%	6.4%	\$3,654,000,000
Michigan	BCBS MI	\$9,880	\$8,640	87.4%	90%	2.6%	\$252,000,000
Missouri♦	WellPoint	\$57,101	\$47,736	83.6%	90%	6.4%	\$3,654,000,000
Nevada♦	UnitedHealth	\$73,608	\$60,359	82.0%	90%	8.0%	\$5,889,000,000
New Hampshire♦	WellPoint	\$57,101	\$47,736	83.6%	90%	6.4%	\$3,654,000,000
New Mexico♦	UnitedHealth	\$73,608	\$60,359	82.0%	90%	8.0%	\$5,889,000,000
New York♦	WellPoint	\$57,101	\$47,736	83.6%	90%	6.4%	\$3,654,000,000
North Carolina	BCBS NC	\$12,590	\$10,714	85.1%	90%	4.9%	\$617,000,000
Ohio♦	WellPoint	\$57,101	\$47,736	83.6%	90%	6.4%	\$3,654,000,000
Pennsylvania	Highmark BlueCross Blue Shield	\$11,020	\$9,687	87.9%	90%	2.1%	\$231,000,000
Pennsylvania	Independence BlueCross	\$11,414	\$10,079	88.3%	90%	1.7%	\$194,000,000
Virginia♦	WellPoint	\$57,101	\$47,736	83.6%	90%	6.4%	\$3,654,000,000
Washington♦	Premera	\$ 3,126	\$2,707	86.6%	90%	3.4%	\$106,000,000
West Virginia♦	Coventry	\$10,563	\$8,873	84.0%	90%	6.0%	\$634,000,000
Wisconsin♦	UnitedHealth	\$73,608	\$60,359	82.0%	90%	8.0%	\$5,889,000,000

* All work is based upon the best publicly available data on premium revenues and medical loss ratios.

** Data from National Association of Insurance Commissioners and company 10-K filings with the U.S. Securities and Exchange Commission for the year ending Dec. 31, 2008. Premium figures are from fully insured covered lives.

♦ The largest insurer in this state is a multi-state insurer. All figures include data from all states where the company operates.

Medical Loss Ratio (MLR) Data for Largest Investor-Owned Multi-State Commercial Health Insurers, 2008*

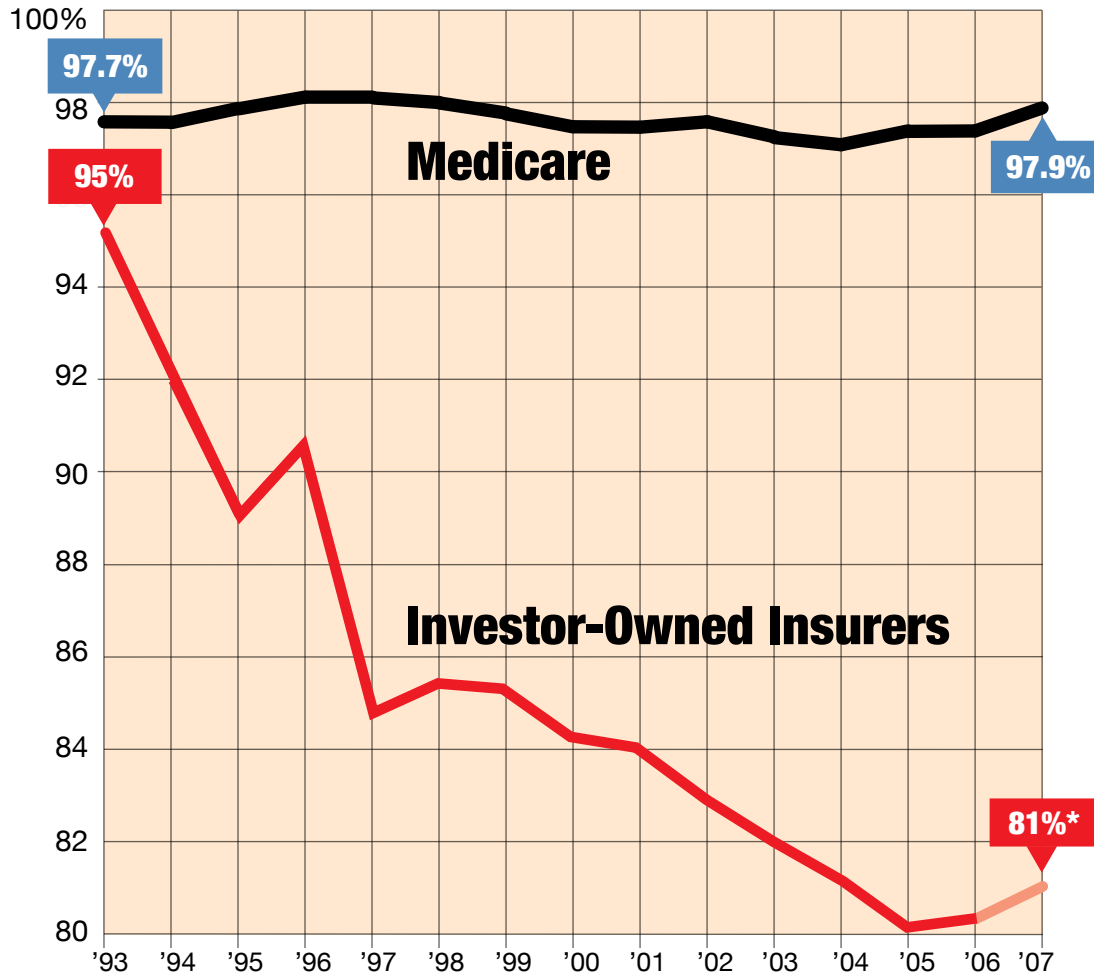
	Revenue from Premiums (in millions of dollars)*	Medical Costs (in millions of dollars)	Medical Loss Ratio	Senate Proposed Minimum MLR	Percent Difference	Covered Lives (in thousands)			Money Available for Rebate to Members**	Average Rebate Available to Family of Four**
						Risk-Based	Fee-Based	Total		
Aetna	\$25,507	\$20,788	81.5%	90%	8.5%	5,595	10,893	16,488	\$2,168,100,000	\$1,550
UnitedHealth Group	\$73,608	\$60,359	82.0%	90%	8.0%	10,360	15,985	26,345	\$5,888,600,000	\$2,274
Cigna	\$8,856	\$7,253	81.9%	90%	8.1%	3,583	8,096	11,679	\$717,300,000	\$801
WellPoint	\$57,101	\$47,736	83.6%	90%	6.4%	16,529	18,520	35,049	\$3,654,500,000	\$884
Coventry	\$10,563	\$8,873	84.0%	90%	6.0%	2,910	1,718	4,628	\$633,800,000	\$871
Humana	\$28,064	\$23,714	84.5%	90%	5.5%	8,218	2,870	11,088	\$1,543,500,000	\$751
Healthnet	\$12,392	\$10,769	86.9%	90%	3.1%	2,864	856	3,720	\$384,200,000	\$537
Total Premiums and Volume-Weighted Average MLR	\$216,091	\$179,492	83.1%	90%	6.9%	50,059	58,938	108,997	\$14,990,000,000	\$1,198

* Total medical premiums from company SEC filings for the year ending Dec. 31, 2008. Premiums are for fully insured covered lives.

** Estimated value of rebates for fully insured enrollees. Does not include administrative-service-only customers.

Medical Benefit Ratios of Private Insurers, Public Medicare Plan, 1993-2007

Percentage of federal Medicare benefit outlays spent on medical care compared with percentage of premium revenue spent on medical care by investor-owned private insurance companies



*Estimated

Sources: PricewaterhouseCoopers' Health Research Institute, U.S. Center for Medicare & Medicaid Services