

Do Insurance Costs Explain Differences in Health Plan Premiums?

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Results

- Insurance related expenses for HMOs account for 10 to 20% of health care premiums in the central U.S. and in Wisconsin
 - Medical expenses and health care premiums are strongly related.
 - In 2005, Milwaukee had highest premiums & medical expenses.
- Within MSAs, insurance-related expenses
 - Vary widely from plan to plan and year to year
 - Are uncorrelated with plan specific premiums
- Across MSAs, insurance-related expenses
 - Vary somewhat from MSA to MSA
 - Milwaukee's insurance expenses were relatively high in 2005.
 - These expenses were much higher than for 2003 or 2004 for both Wisconsin and Central US MSAs.

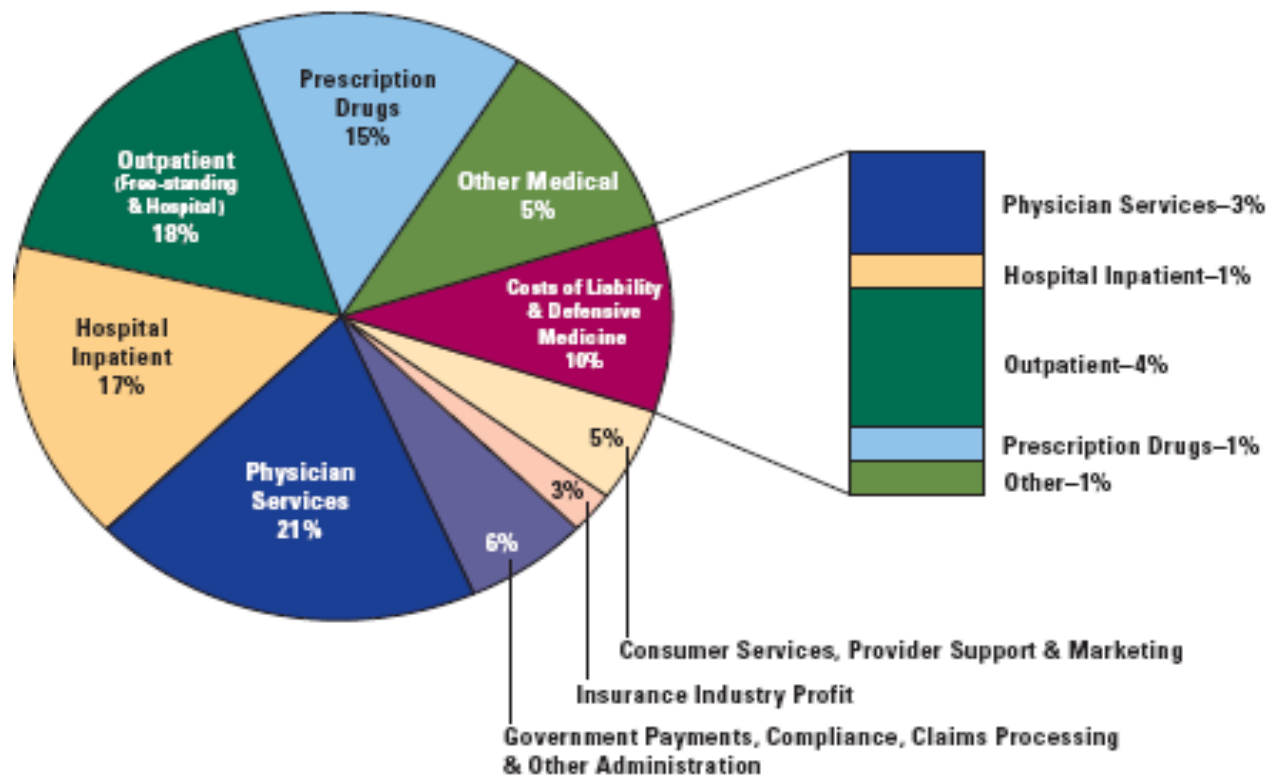
Results (Continued)

- **HMO financial performance features**
 - Lower insurance expenses for provider sponsored plans than for carrier sponsored plans
 - For national insurance plans, performance varied widely both across and within MSAs
- **Southeastern Wisconsin HMOs in 2003-2005**
 - Had markedly higher premiums than HMOs in Northeastern and Southern Wisconsin
 - Had higher administrative expenses than those for Northeastern and Southern Wisconsin
 - Had markedly higher profits than those for Northeastern and Southern Wisconsin
- **78% of enrollees in firms with 200 or more workers are in self-funded plans**
 - (KFF/HRET Employee Health Benefit Survey 2006)

PWC Report on Cost Drivers: 14% of Spending Goes to Non-Medical Items

EXHIBIT 4

Estimated Breakdown of Insurance Premiums With Medical Liability and Defensive Medicine Extracted, 2005



Sources: Adapted from Centers for Medicare & Medicaid Services, National Health Accounts, 2005 and Midwest Business Group on Health, April 2003.

Methodology

- Use HMO plan data reported to states for 2005 as base
 - Financial information is state wide – some items are specific to commercial HMO plans while other indicators are computed from entire health plan.
 - Enrollments are recorded regionally within each state
 - Cincinnati, Cleveland and Columbus, Ohio data are from the 2004Sources: 2006 Managed Care Reports – Allan Baumgarten and Missouri Health Maintenance Organization Report 2006
- Enrollment weights used to calculate regional/MSA indicators
- Three years of information used when available for commercial HMOs
 - Premium PMPM
 - Medical Expenditures PMPM
 - Medical Loss Ratio

HMO Enrollment by MSA -2005

MSA	HMO Enrollment	Penetration Rate
Chicago	1,401,811	15.0%
Cincinnati	530,496	19.4%
Cleveland-Akron	748,370	25.4%
Columbus	244,086	11.9%
Denver	749,879	28.5%
Detroit	1,441,528	29.5%
Kansas City	172,011	15.8%
Milwaukee	481,324	23.3%
Minneapolis	649,372	23.1%
St. Louis	199,493	16.8%

Comments on HMO Enrollments

- HMO enrollments include commercial, Medicare and Medicaid members
- Overall, enrollment rates have declined, but some segments (Medicare) have increased with the Medical Modernization Act of 2003.
- Milwaukee's HMO share (23%) is in the middle of the sampled MSAs. [12% - 30%]
- Provider payment might be in salary, capitation, or discounted fee-for-service form.

Key Indicators

- Medical Loss Ratio = $\text{Medical\$} / \text{Premium\$}$
- Commercial Premium PMPM
- Commercial Medical Expenses PMPM
- Administrative Expenses PMPM
- Administrative Expenditures as % of Entire Health Plan Revenue
- Profit Margin = $\text{Net Income as \% of Entire Health Plan Revenue}$

Medical Loss Ratio (MLR)

- MLR is the most commonly cited indicator of performance and values depend on
 - Plan type: capitation (High MLR) vs. fee-for-service (Low MLR)
 - Whether medical management is done by providers (High MLR) or by insurers (Low MLR)
 - Character of health plans (HMO, POS, and PPO) and enrollment weights for each insurance company
- Result: MLR provides neither a clear signal of efficiency nor performance
- Reference: James C. Robinson, Health Affairs 1997

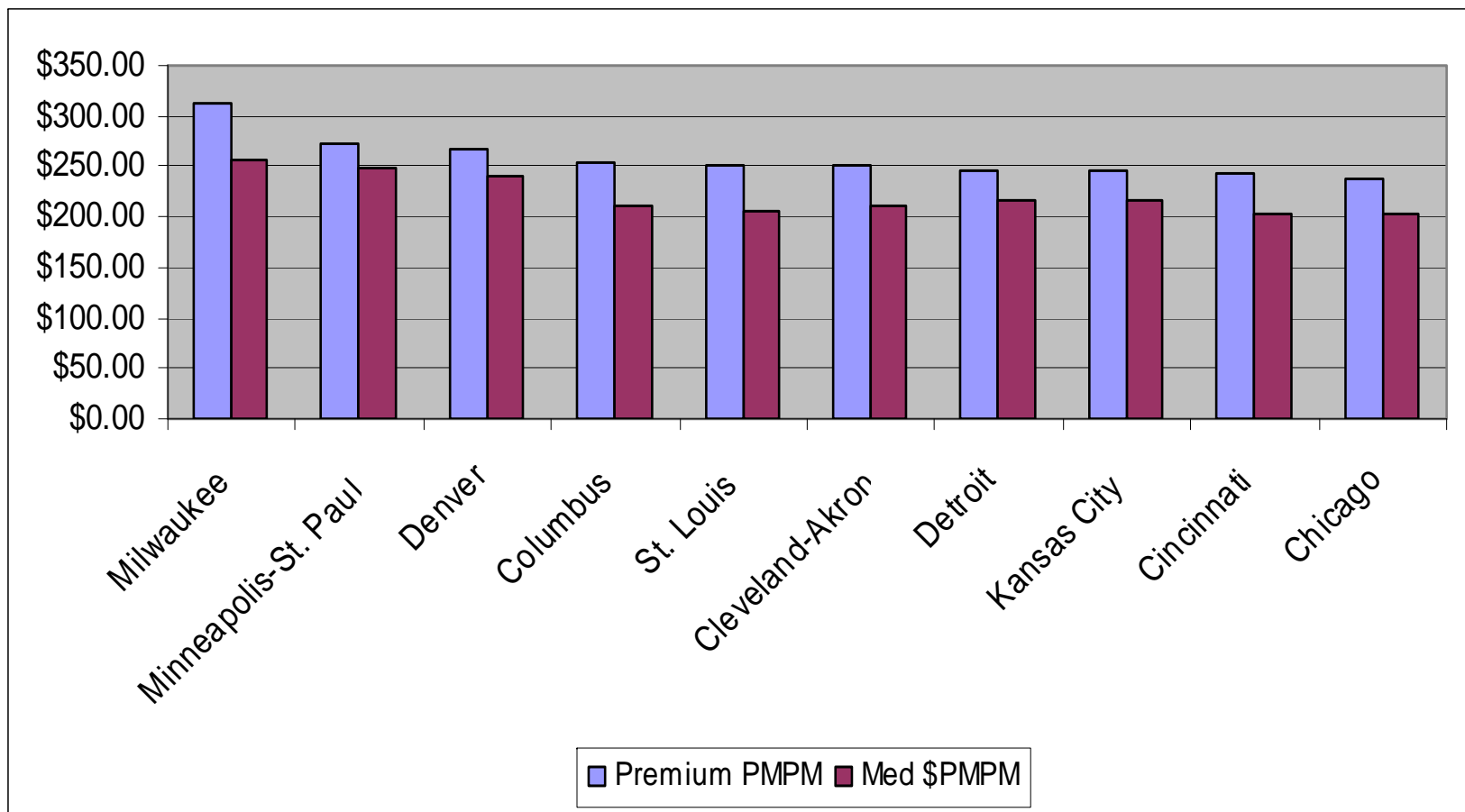
Medical Loss Ratios – 2003 - 2005

MLR	2003 - Low	2003 High	2004 - Low	2004-High	2005-Low	2005-High
Minneapolis	82.1%	92.1%	82.8%	93.5%	84.0%	90.6%
Milwaukee	77.0%	95.4%	76.5%	93.1%	76.7%	88.6%
Ohio	72.5%	91.5%	75.7%	92.8%	na	Na
Chicago	75.6%	90.0%	80.1%	88.6%	79.1%	88.4%
Detroit	79.5%	90.9%	79.2%	90.7%	79.9%	91.0%
Denver	72.2%	88.7%	76.9%	91.0%	79.5%	93.5%

Commentary on Medical Loss Ratio (MLR) Evidence

- High MLRs exist for provider sponsored HMOs such as Kaiser Permanente and Dean
- “For – Profit” HMOs MLRs range from mid-70s to high 80s
- MLR values in the mid-80s are commonplace
- MLR range for Milwaukee does not differ greatly from those of other areas

HMO Commercial Premiums & Expenditures PMPM - 2005



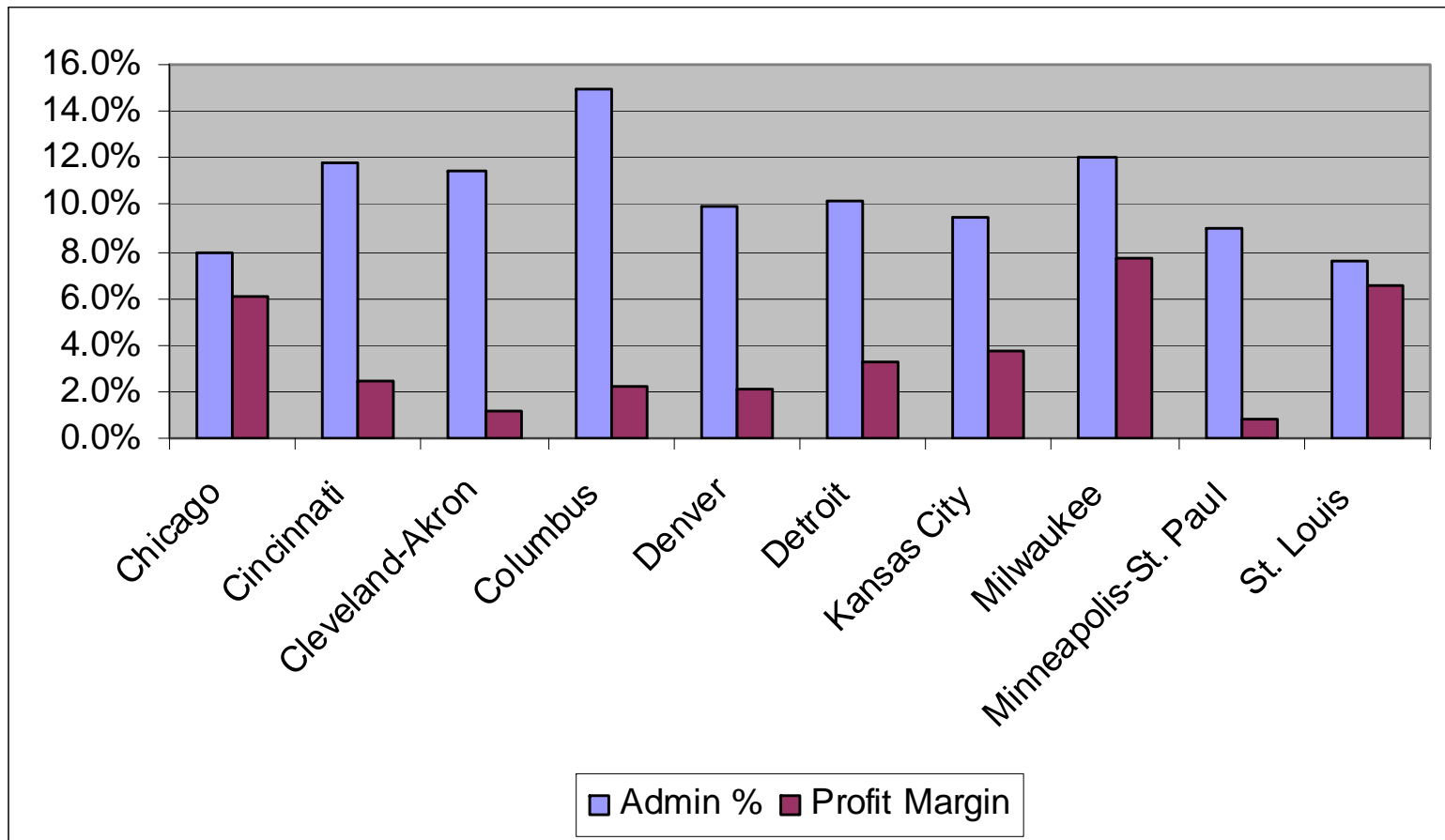
Commentary on 2005 Premiums & Expenditures Per Member Per Month

- Milwaukee Premiums (\$311.53) exceed second highest (Minneapolis) by \$40 PMPM and lowest (Chicago) by \$75 PMPM
- Milwaukee Medical Expenses (\$256.30) exceed all but Minneapolis and Denver by at least \$40 PMPM
- Conclusion: Largest portion of difference in premium comes from medical expenses

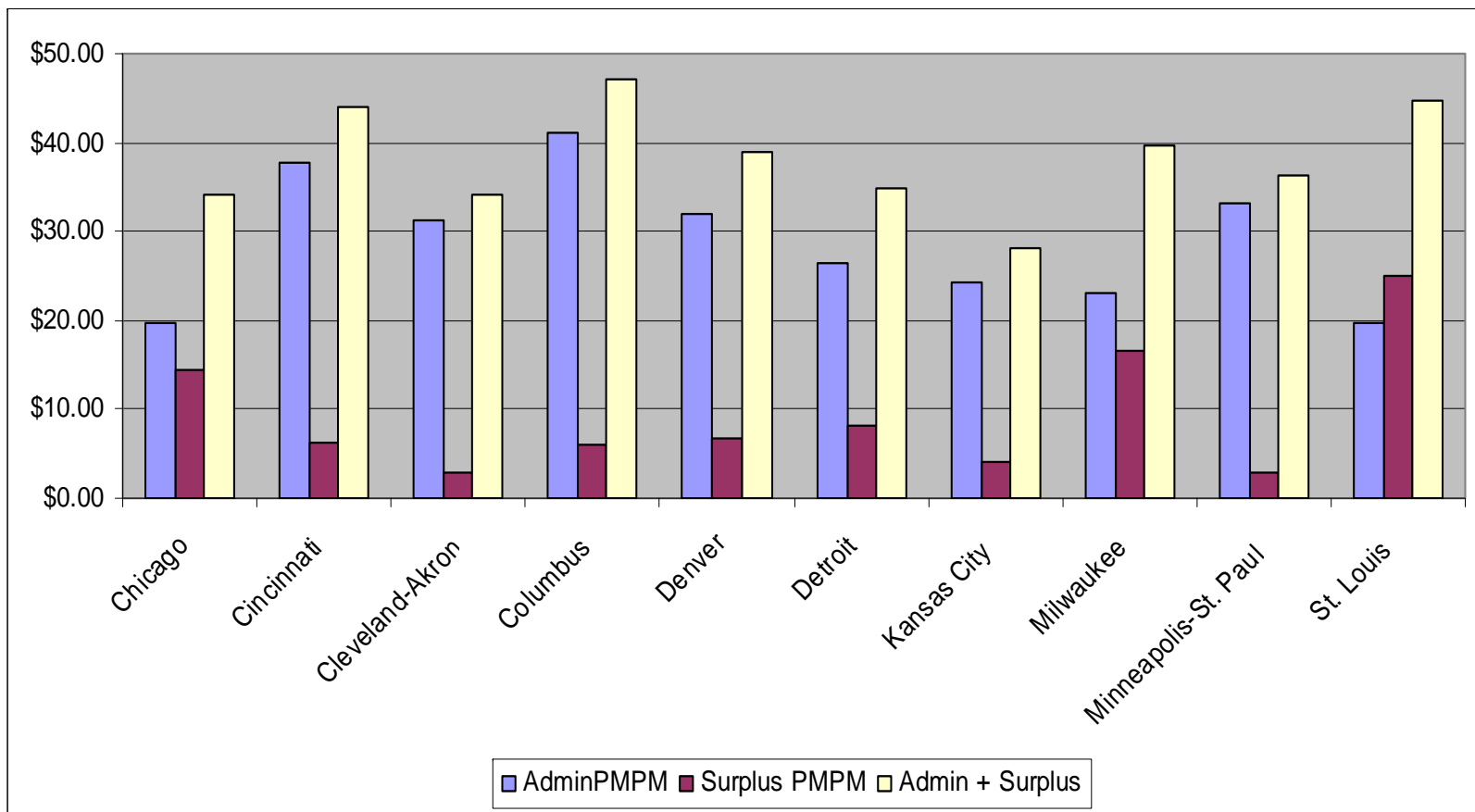
Range of Premiums for 2005

- Cleveland, Minneapolis, and Chicago had a narrow premium range – no more than \$20 PMPM separated top from bottom whereas Milwaukee's range was \$56 PMPM.
- The highest premium in Cincinnati, Cleveland, Columbus, Chicago, & Detroit was less than \$270 PMPM whereas the lowest premium for Milwaukee was \$301 PMPM.
- Lowest premium in Milwaukee (United Health Care) was greater than the highest premium for all other areas but St. Louis (United Health Care)
- Premium ranking by MSA was not correlated to market share; that is, large market share need not mean high premium.

Administrative and Profit Shares of Health Plan Revenue - 2005



Administrative Expenses PMPM



Commentary on Administrative and Profit Shares of Revenue - 2005

- Data reflect entire HMO book of business (not just commercial) and all revenue
- Areas with high profit margins tend to have low administrative expenses and visa-versa
- In 2005, Milwaukee health plans had moderately high administrative expenses (12.1%) and relatively high profits (7.8%)
- Milwaukee - Admin Expenses (\$23.04) ranked 3rd lowest; net income (\$16.67) ranked 2nd highest.
- Milwaukee - Sum of admin expenses and profits (\$39.71) ranked 4th out of ten.

Wisconsin HMO Regions 2003-2005 Shares of Health Plan Revenues

2005

Region	Administrative Share	Profit Margin
Southeast (Includes Milwaukee)	12.1%	7.8%
Northeast (Includes Fox Valley and Green Bay)	10.0%	1.5%
Southern (Includes Madison)	8.6%	0.6%

2004

Region	Administrative Share	Profit Margin
Southeast	10.5%	5.4%
Northeast	9.7%	2.3%
Southern	8.7%	1.4%

2003

Region	Administrative Share	Profit Margin
Southeast	11.1%	4.4%
Northeast	9.1%	2.1%
Southern	8.2%	2.8%

Comments on Southeast Region which includes Milwaukee MSA

- Southeast's Administrative Share for 2005 (12.7%) was above that for 2004 (10.5%) and 2003 (11.1%)
- Southeast's Profit Margin for 2005 (7.8%) was above that for 2004 (5.5%) and 2003 (4.4%)
- Interstudy 2006 Profit Margins for Wisconsin HMOs
 - Average for Wisconsin Plans – (1.8%) - 2006 vs. (3.5%) - 2005
 - Compcare (2.9%), Humana (3.8%), United (3.6%)
 - BlueC/BlueS (4.1%), WI Physician Services (2.5%)
- Summary: 2005 profit margins for SE for HMOs were above historical norms of roughly 3%. 2006 profit margins close to historical norms

Commentary on Southeast WI vs. Northeast and Southern Regions

- Southeast Administrative Share - above those for Northeast and Southern Regions for all three years
- Southeast Profit Margins - above those for Northeast and Southern Regions for all three years
- Conclusion: both administrative expense share and profit margin were higher in the SE than in NE and S for all three years
- Vigilance is necessary to ensure that administrative costs and profit margins don't deviate markedly from historical norms.

Wisconsin HMO Regions 2003-2005 – Per Member Per Month History

2005

Region	Premium	Medical Expenses	Medical Loss Ratio
Southeast	\$311.53	\$256.30	82.3%
Northeast	\$271.36	\$230.04	84.8%
Southern	\$252.57	\$230.28	91.2%

2004

Region	Premium	Medical Expenses	Medical Loss Ratio
Southeast	\$282.33	\$234.67	83.1%
Northeast	\$250.65	\$215.23	85.9%
Southern	\$238.88	\$213.08	89.2%

2003

Region	Premium	Medical Expenses	Medical Loss Ratio
Southeast	\$274.38	\$229.48	83.6%
Northeast	\$212.26	\$187.85	88.5%
Southern	\$236.04	\$209.08	88.6%

Commentary on Premiums and Expenses for Wisconsin Regions

- Southeast Region Premium PMPM exceeded other regions by at least \$30 – 2003 through 2005
- Southeast Region Medical Expenses PMPM exceeded other regions by at least \$20 – all 3 years
- Result: Medical Loss Ratio for SE was below that for NE and S for all 3 years
- Conclusion: Both medical expenses and non-medical portions of the premium were higher in the SE than in the NE or the S for all 3 years

Further Commentary

- HMOs in Northeast and Southern regions have had very low profit margins. Some NE plans (Touchpoint and Prevea Health Plan) have sold out to larger insurers and profit margins and premiums have risen.
- Key Southern Region HMOs remain largely provider sponsored HMOs that feature either scale (Dean Health) or successful management (Group Health Cooperative South Central WI)

Conclusions

- Insurance-related expenses vary widely from year to year and plan to plan.
- Primary focus of investigation should be on the drivers of medical expenses.
- Insurance cost differences across plans, especially in Milwaukee, deserve further scrutiny
- Markets served mostly by national plans have higher premiums and insurance expenses than those served mostly by provider or locally sponsored HMOs.

Consequences of High Health Care Costs

- Regardless of the cost of specific components of the health care premium, the total cost of health care in Milwaukee remains markedly higher than that for other MSAs in the central US.
- Relatively high healthcare costs cannot be shifted onto those employees who are the most mobile.
- Thus, high health care costs will make it difficult for Milwaukee firms to attract and retain skilled employees, essential for sustainable economic growth.