

Assessing the Financial Performance of Health Insurers Paying a Rebate under ACA

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ABSTRACT

Purpose: Affordable Care Act (ACA) requires health insurers across the three major commercial markets of individual, small group, and large group to pay a regulated percentage amount of their premium dollars paid out in medical expenses and quality care improvement activities. This law is referred to as “Medical Loss Ratio (MLR) Regulation. The aim of this study is to conduct a descriptive analysis of the financial performance of health insurers that paid rebates compared to health insurers that did not pay a rebate from 2012 to 2013. This analysis was also conducted within for-profit vs. non-profit ownership as well.

Methods: The study identified 2,111 credible insurers in 2013 with 21 percent paying a rebate and 1,940 credible insurers in 2012 with 23 percent paying a rebate. The study applied a non-parametric approach, specifically the median test, to assess the difference in the median values of each financial performance ratio by rebate vs. non-rebate insurers as well as within ownership categories.

Results: In 2012 and 2013 within the individual market, rebate health insurers generated a profit margin of over 5 percent compared to an operating loss position for non-rebate health insurers. For the small and large group markets, rebate insurers earned profits in excess of 6 percent for both study periods while non-rebate insurers earned profit margins between 1 to 2 percent. In addition, for-profit rebate insurers had higher profit margins than non-profit margins within the individual and small group markets.

Conclusion: Rebate insurers had significantly higher administrative cost ratio for each year and higher profit margin. Within the ownership categories, the majority of insurers that did not comply with MLR regulation and paid a rebate were for-profit. Therefore for-profit entities place a greater value on profitability. One reason may relate to the fact that over 60 percent of these insurers were affiliated with publicly-traded insurance companies, whereby there is greater financial pressure from stockholders and analysts to maximize profitability, especially within the short-term. A second reason may stem from the uncertainty that corporate owners face in finding the right balance of maintaining a regulated profit position and complying with the regulation of the law.

Introduction

Under Affordable Care Act (ACA), health insurers across the three major commercial markets of individual, small group, and large group are regulated by the amount of premium dollars paid out in medical expenses and quality care improvement activities. As part of the ACA, this regulation was implemented in 2011 and is typically referred to as “Medical Loss Ratio (MLR) Regulation” (Department of Health and Human Services, 2010). For individual and small group insurers, they are required to pay out 80 percent of their premium dollars in medical claims and for the large group insurers they are required to pay out 85 percent of their premium dollars in medical claims.

For health insurers with medical loss ratios less than these regulated percentages, these insurers are required to pay out a rebate to their members. This rebate is computed by multiplying the percentage difference from the regulated value by the premium revenues earned for the specific insurance product. Given this background, health policy makers and state insurance regulators would want to gain insight if there are any financial implications on health insurers that do pay a rebate. Therefore, the aim of this study is to conduct a descriptive analysis of the financial performance of health insurers that paid rebates compared to health insurers that did not pay a rebate from 2012 to 2013. Given that the financial objective of for-profit insurers is to maximize stockholder wealth by enhancing profits, another important policy question is to assess whether issuer ownership (for-profit vs. non-profit) has any relationship with paying a rebate.

Data and Methods

Under the ACA, only credible insurers, which are defined as insurers with 1,000 or more members, are required to comply with the MLR regulation.¹ The financial accounts to compute the medical loss ratio were collected from the medical loss ratio public use files from CMS Center for Consumer Information Insurance Oversight (CCIIO) for both 2012 and 2013 for all three commercial markets (CCIIO, 2015). To measure the key financial performance ratios: medical loss ratio, administrative cost ratio and profit margin ratios (Robinson, 1997), the financial accounts were mapped back to conform with National Association of Insurance Commissioners (NAIC) Supplemental Health Care Exhibit (SCHE) Form, which presents the key financial summary accounts to compute underwriting gain and loss or profit margin.²

¹ For 2012, credible membership was measured by summing current year average members with 2011 average members. For 2013, credible membership was measured by summing current year average members with 2011 and 2012 average members.

² In conversation with NAIC personnel and CMS CCIIO personnel, the financial accounts for NAIC Supplemental Health Care Exhibit (SCHE) Form may differ from the financial accounts in the CMS CCIIO MLR form. However, the CCIIO MLR form does not present summary accounts to compute profit margin. It is important to note that the numerator for the medical loss ratio is defined as net incurred medical claims, which is measured by total incurred claims plus other adjustments that include the following adjustments for rebates; adding payment for rebates paid for the current year, adding

Even though the sampling process included a representative sample of state health insurers, the distribution of their key financial performance ratios were highly variable and not normally distributed. The study identified 2,111 credible insurers in 2013 with 21 percent paying a rebate and 1,940 credible insurers in 2012 with 23 percent paying a rebate. Therefore, for both 2012 and 2013, the study applied a non-parametric approach, specifically the median test, to assess the difference in the median values of the each financial ratio by rebate vs. non-rebate insurers. However, the limitation of this approach is that does not allow one to test specifically for the association of other market and organization factors on these financial measures. Further median test analysis was also conducted each year to test for median differences by rebate for insurers operating as for-profit and non-profit entities.³

Results

Exhibit 1 identifies the number of credible health insurers as well as credible insurers that paid a rebate from 2012 to 2013. For some of the years across all three markets, there were health insurers that did not report key financial accounts to compute these ratios but were considered credible based on prior year membership and for some of these insurers they paid a rebate. The underlying reason for this outcome was that credible status was based on summary membership of current and prior years,⁴ and for the current year, some insurers appeared to be withdrawing from the market and had minimal or no premiums and medical claims for the current year.

Exhibit 1 highlights how the number of credible insurers have increased from 1,940 in 2012 to 2,111 in 2013, which reflects how summarizing prior year membership increased by nine percent the number of insurers becoming credible in 2013. In terms of paying a rebate, percentage of insurers paying a rebate decreased from 35 percent to 31 percent while the percentage of insurers paying a rebate in small group market remained 18 percent in both time frames and declined slightly from 15 percent to 13 percent in the large group market.

estimates of rebates unpaid for the current year, and subtracting estimated rebates unpaid from the prior year.

³ The study found that 60 percent of the for-profits were owned by publicly-traded health insurers.

⁴ In the case of 2012, credible membership was measured by summing the membership for both 2011 and 2012. In the case of 2013, credible membership was measured by summing membership for 2011, 2012 and 2013. Across all three markets, there were health insurers that paid a rebate but have limited financial data and therefore; the study was unable to compute their financial ratios. For large group market in 2013:30 insurers had limited reported financial data and 3 paid rebate and 2012: 7 insurers with limited financial data and zero insurers paid no rebate. For small group market, 2013: 27 insurers with limited financial data and 3 paid rebate and 2012 all financial data were for all credible insurers. For individual market: 2013 7 insurers had limited financial data and 1 paid rebate; 2012, 1 issuer limited financial data and zero no rebate.

Exhibit 1: Number and percentage of credible insurers paying a rebate for 2013 and 2012.

2013			
Markets	N of Credible Insurers	N of Insurers Pay Rebate	% of Credible Insurers Pay Rebate
Individual Market	747	229	31%
Small Group Market	667	123	18%
Large Group Market	697	92	13%
All Markets	2111	444	21%
2012			
Markets	N of Credible Insurers	N of Insurers Pay Rebate	% of Credible Insurers Pay Rebate
Individual Market	655	229	35%
Small Group Market	622	111	18%
Large Group Market	663	102	15%
All Markets	1940	442	23%

Financial Ratios

Exhibits 2 through 4 present the financial ratios by rebate health insurers compared to non-rebate health insurers across the three markets for 2012 and 2013. In addition, the analysis also controls for ownership by comparing these financial ratios: rebate vs. non-rebate health insurers within for-profit and non-profit ownership. Within the individual market (see Exhibit 1), in 2012 93 percent (195 / 209) and in 2013 95 percent (217/228) of insurers paying a rebate were for-profits insurers. However in both study periods, only 37 percent (195 / (195+322)) of all credible for-profits paid a rebate. In terms of the financial performance measures, Exhibit 2 shows significantly lower medical loss ratio for rebate health insurers, (74.5% in 2012 and 73.9% in 2013) compared to non-rebate insurers (86.9% in 2012 and 87.8% in 2013). In addition, rebate insurers had significantly higher administrative cost ratio for each year and higher profit margin. For both 2012 and 2013 rebate insurers had significantly higher profit margins than non-rebate insurers. Rebate insurers earned in excess of 5 percent compared to operating loss position for non-rebate insurers. Similar outcomes occurred for the for-profit insurers that paid a rebate. Although there is a limited sample size for non-profit rebate insurers, their medical loss ratio was 80.8 percent in 2012 and 79.1 percent in 2013 compared to 91.8 percent for non-rebate non-profit insurers.

Exhibit 2: Median financial ratios of rebate issuer vs. non-rebate issuer for individual market, 2012 and 2013.

	2012			2013		
	Rebate Insurers	Non Rebate Insurers	p	Rebate Insurers	Non Rebate Insurers	p
ALL Credible Insurers, n=	209	445		228	511	
Medical loss ratio	74.5%	86.9%	*	73.9%	87.8%	*
Administrative costs ratio	19.4%	15.5%	*	19.1%	14.7%	*
Profit margin ratio	5.2%	-4.2%	*	6.2%	-5.6%	*
For-Profit Credible Insurers, n=	195	322		217	370	
Medical loss ratio	73.3%	85.6%	*	72.9%	86.0%	*
Administrative costs ratio	19.5%	16.5%	*	19.2%	14.8%	*
Profit margin ratio	5.5%	-3.7%	*	6.6%	-4.8%	*
Non-profit Credible Insurers, n=	14	123		11	141	
Medical loss ratio	80.8%	91.8%	**	79.1%	91.8%	**
Administrative costs ratio	18.2%	14.2%	*	17.5%	14.4%	
Profit margin ratio	0.0%	-5.5%	**	3.4%	-6.5%	**

* Significant at p<0.01

** Significant at p<0.05

Within the small group market (see Exhibit 3), in 2012 83 percent (93 / 111) and in 2013 86 percent (106/123) of insurers paying a rebate were for-profits insurers. However in both study periods, only 22 percent (93 / (93+323)) in 2012 and 24 percent (106/ (106+326)) in 2013 of all for-profits paid a rebate. Exhibit 3 shows a significantly lower medical loss ratio for rebate health insurers, (76.8% in 2012 and 77% in 2013) compared to non-rebate insurers (85.3% in 2012 and 84.6% in 2013). In addition, rebate insurers had significantly higher administrative cost ratio for each year and higher profit margin. For both 2012 and 2013 rebate insurers generated a profit margin around 8 percent compared to around 2 percent profit margin for non-rebate insurers. Similar outcomes occurred for the for-profit insurers that paid a rebate. For both study periods, non-profit rebate insurers had medical loss ratio around 80 percent compared to 87 percent for non-rebate non-profit insurers. Rebates non-profit insurers earned a significantly higher profit margin, which was in excess of 5% for both periods, than non-rebate insurers.

Exhibit 3: Median financial ratios of rebate issuer vs. non-rebate issuer for small group market, 2012 and 2013.

	2012		p	2013		p
	Rebate Insurers	Non Rebate Insurers		Rebate Insurers	Non Rebate Insurers	
ALL Credible Insurers, n=	111	506		123	520	
Medical loss ratio	76.8%	85.3%	*	77.0%	84.6%	*
Administrative costs ratio	14.4%	12.6%	*	16.0%	12.8%	*
Profit margin ratio	8.2%	2.0%	*	7.9%	1.9%	*
For-Profit Credible Insurers, n=	93	323		106	326	
Medical loss ratio	75.8%	84.1%	*	76.7%	83.4%	*
Administrative costs ratio	14.7%	13.7%		16.3%	14.2%	
Profit margin ratio	8.9%	2.2%	*	8.5%	2.2%	*
Non-profit Credible Insurers, n=	18	183		14	194	
Medical loss ratio	79.5%	87.2%	*	79.8%	87.0%	*
Administrative costs ratio	14.0%	11.1%	**	13.6%	11.3%	
Profit margin ratio	5.1%	1.4%	**	5.4%	1.6%	*

* Significant at p<0.01

** Significant at p<0.05

Within the large group market (see Exhibit 4), in 2012 and 2013 94 percent (96 /102) (84/89) of insurers paying a rebate were for-profits insurers. However in both study periods, only 22 percent (96 / (96+337)) in 2012 and 19 percent 84/ (84+351) in 2013 of all for-profits paid a rebate. Exhibit 4 shows a significantly lower medical loss ratio for rebate health insurers compared to non-rebate insurers. In 2012, there was wider difference (81.2% vs. 89.6%) between medical loss ratio of rebate insurers and non-rebate insurers than in 2013 (83.7% vs. 88.6%). Rebate insurers had significantly higher administrative cost ratio and higher profit margins for each year than non-rebate insurers. For 2012 rebate insurers generated a profit margin of 7.7 percent compared to 1.0 percent profit margin for non-rebate insurers. For 2013 rebate insurers' profit margin declined slightly to 6.2 percent compared to 1.8 percent profit margin for non-rebate insurers.

Similar outcomes occurred for the for-profit insurers that paid a rebate. Although there is limited sample, in 2012, non-profit rebate insurers had medical loss ratio around 80 percent compared to 91.2 percent for non-rebate non-profit insurers. In 2013, non-profit rebate insurers had medical loss ratio of 84.4 percent compared to 90.5 percent for non-rebate non-profit insurers. Rebate non-profit insurers earned a significantly higher profit margin in both periods. In 2012, non-profit rebate insurers generated a profit margin of 11.5 percent; however in 2013, the profit margin declined to 7.7 percent, while non-rebate insurers earned a profit margin of less than 1 percent in both periods.

Exhibit 4: Median financial ratios of rebate issuer vs. non-rebate issuer for large market, 2012 and 2013.

	2012			2013		
	Rebate Insurers	Non Rebate Insurers	p	Rebate Insurers	Non Rebate Insurers	p
ALL Credible Insurers, n=	102	554		89	578	
Medical loss ratio	81.2%	89.6%	*	83.7%	88.6%	*
Administrative costs ratio	11.2%	9.5%	**	12.1%	9.6%	*
Profit margin ratio	7.7%	1.0%	*	6.2%	1.8%	*
For-Profit Credible Insurers, n=	96	337		84	351	
Medical loss ratio	81.2%	88.2%		83.6%	87.4%	*
Administrative costs ratio	11.5%	10.0%		12.4%	10.2%	*
Profit margin ratio	7.7%	1.9%	*	6.2%	2.6%	*
Non-profit Credible Insurers, n=	6	217		5	227	
Medical loss ratio	80.3%	91.2%	*	84.4%	90.5%	
Administrative costs ratio	8.6%	8.8%		7.8%	8.9%	
Profit margin ratio	11.5%	0.5%	*	7.7%	0.8%	

* Significant at p<0.01

** Significant at p<0.05

Discussion

Overall, rebate insurers are performing well financially across all three commercial insurance markets for both 2012 and 2013. In the individual market, rebate health insurers were highly profitable while non-rebate health insurers operated at a loss. More importantly, their operating loss position increase to over 5 percent in 2013 while rebate insurers increased to over 6 percent in 2013. Rising profit margins for rebate insurers appear to stem from a slight decline in the medical loss ratio and administrative cost ratio. For the small and large group markets, rebate insurers earned profits in excess of 6 percent for 2013 but experienced a decrease in profit margin from the prior year. The combination of higher medical loss ratios and administrative cost ratios are contributing to this decline in profit margin in both small and large group markets. Controlling for ownership, for-profit owned health insurers that paid a rebate earned significantly higher profits than for-profits insurers that did not pay rebate. Within the small and large group markets, it appears lower medical loss ratio rather than administrative contributed to this higher profitability. In the individual market, it appears the combination of lowering medical and administrative expenses were underlying drivers behind higher profit margin.

Although the sample size is limited, non-profit insurers paying a rebate in the small and large group markets also generated profit margins in excess of five percent compared to non-rebate paying insurers. Significantly lower medical loss ratio may have contributed to these higher earnings. However in the individual market, in 2012, non-profit rebate insurers operated at breakeven position but increased their profit position to 3.4 percent in 2013. Lowering their medical loss and administrative cost ratios may have been reason behind this rise in profits.

Conclusion

The ACA MLR regulation required commercial health insurers to pay a rebate to their members if their medical loss ratio was below the threshold of 80 percent for the individual and small group markets and 85 percent for the large group market. For the individual and large group market over 90 percent of the insurers paying a rebate were for-profit entities, while over 80 percent of the insurers in the small group market were for-profit. However within the individual market only 37 percent of for-profits insurers paid a rebate while less than 25 percent in the small and large group markets paid a rebate. From a profitability perspective, in the individual and small group markets, for-profit rebate insurers generated profits margins that were over 600 basis points higher than non-rebate counterparts and over 350 basis points higher in the large group market.

There are several underlying reasons why a smaller percentage of for-profit health insurers did not comply with this regulation and place greater value on their profitability. One reason may relate to the fact that over 60 percent of these insurers were affiliated with publicly-traded insurance companies, whereby there is greater financial pressure from stockholders and analysts to maximize profitability, especially within the short-term. A second reason may stem from the uncertainty that corporate owners face in finding the right balance of maintaining a regulated profit position and complying with the regulation of the law. Therefore, it appears they still favor a higher profit position over complying with this regulation (Spencer & Howatt, 2014). Conversely, less than 11 percent of non-profit insurers are paying a rebate across all three markets. Although these non-profit state insurers need to generate a profit to maintain their solvency, the majority of non-profit are complying with their non-profit mission by either lowering their premiums and/or paying out more of their claims in medical expenses.

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