



The Premium Dollar

How does a health plan spend the money it collects?



The Premium Dollar, Divided by Commercial Health Care Expenditures in 2018



Source: CHIA Data from 2019 Annual Report on the Performance of the Massachusetts Health Care System; data from Division of Insurance 2018 Annual Comprehensive Financial Statement

What's included in "administrative expenses?"



- enrolling and billing members
- paying claims to providers
- customer service
- investments in new technology and information systems
- care management programs for chronic diseases or complex conditions
- reporting requirements mandated by state and federal agencies
- government taxes and assessments on the health plans

144%

increase from 2017 to 2018

in taxes and fees imposed on health plans resulting from the ACA's Health Insurance Tax

Administrative expenses include rebates to members under Medical Loss Ratio requirements set by the government.

If health plans in Massachusetts spend less than 88% of premiums collected on direct medical care for members, they must rebate the difference back to the member.

In 2018, the health plan MLR was 87% resulting in \$47 million returned in MLR rebates to health plan members



\$47 million in rebates

returned to health plan members in 2018



Administrative expenses may include "surplus", the portion of premiums that health plans are permitted to keep.

Under state law, if a health plan's surplus exceeds 1.9% of premiums, premium rates filed by the health plan will be disapproved as excessive by the Division of Insurance.

Surplus is typically directed into health plan reserves, money set aside to pay for unanticipated claims costs to ensure that hospitals and providers are paid.



0.5 - 1.0% profit

with the remainder to ensure claims are paid.

