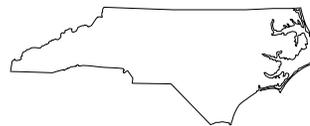


Statistical Brief

Prepared by the State Center for Health Statistics



For the Council on Health Policy Information

www.schs.state.nc.us/SCHS

August 1997

HEALTH COSTS IN NORTH CAROLINA – Accounting for Accident and Health Insurance Costs

by Kathryn B. Surles, M.Ed.

This brief is one of a series devoted to assessing health costs in North Carolina. A preceding brief examines changes in hospital costs and charges.¹ The next briefs will examine expenditures for health by North Carolina's state and county governments. As soon as data for 1994 and 1995 become available, other briefs are expected to include analyses of personal health care spending by type of service and analyses of expenditures by the Medicare and Medicaid programs.

Health insurance coverage is a major problem in North Carolina and one that is not easily monitored. As recently described, survey estimates of coverage vary.^{2,3} Among its 1994 recommendations, the state's Health Planning Commission (later, the Health Care Reform Commission) recommended establishment of an on-going system of monitoring the numbers of uninsured.⁴ In its final report, the Health Care Reform Commission states that "Government has an important role to play in assuring that the health insurance and managed care systems which are licensed in the state are acting in the best interest of the consumer." According to that report, North Carolina has nearly one million of its citizens with no health insurance and an additional one million with inadequate insurance. Approximately 200,000 of the uninsured are children.⁵

Explanatory Notes

This brief is organized into two sections. The first describes commercial business regulated by the North Carolina Department of Insurance and the second describes the health

insurance plans for government employees working in North Carolina. Data are from the Department of Insurance, the State Health Benefits Office, the North Carolina Association of County Commissioners, and the North Carolina League of Municipalities. The last three entities administer health insurance plans for state, county, and municipal employees, retirees, and their dependents. Data from the Department of Insurance include the Federal Employees Health Benefits Program. Not included in this brief are data for certain employee plans sponsored by private employers, such as IBM, and data for Medicaid, Medicare, and other government insurance programs for the poor and the elderly.

In this brief, the following definitions apply.

Credit Insurance – A special class of disability insurance used in credit transactions.

Earned Premiums – Premiums for coverage actually provided during a period of time for policies written prior to or during the period.

Written Premiums – Premiums entered on the insurer's books during a period of time.

Incurred Losses – The sum of amounts paid and amounts held in reserve for losses incurred during a period of time.

Loss Ratio – The ratio of incurred losses to earned premiums.

For data year 1993, dollar amounts reported by the Department of Insurance were to the nearest \$1,000.

Commercial Business Regulated by the Department of Insurance

– Market Shares

Chart 1 depicts percentage distributions of written premiums by type of coverage for calendar years 1990 and 1995. Over that 5-year period, the market share for Health Maintenance Organizations (HMOs) nearly doubled while that for Hospital-Medical-Dental Service Corporations declined. Total premiums written by all companies increased 46 percent, from \$2.69 billion in 1990 to \$3.93 billion in 1995.



Statistical Brief No 10

N.C. Department of Environment, Health, and Natural Resources

On an annual basis, the Department of Insurance ranks companies according to their written premiums. In 1995, Blue Cross and Blue Shield of North Carolina accounted for \$981 million or one-fourth of total written premiums. Nineteen HMOs accounted for \$795 million in written premiums. As a percent of total accident and health written premiums, the largest HMOs were Healthsource of North Carolina, Inc. (5.0%), Kaiser Foundation Health Plan of North Carolina (4.9%), PHP, Inc. (3.9%), and PARTNERS National Health Plans of North Carolina, Inc. (3.4%). Together, these four HMOs accounted for \$673 million in written premiums, representing 85 percent of total HMO business and 17 percent of total accident and health business in 1995.

– Financial Status

A crude means used in the insurance industry to assess a company’s potential profitability is the loss ratio. The **lower** the loss ratio, the more potential dollars the company has to cover administrative costs and profit. Conversely, the **higher** the loss ratio, the less dollars the company has to cover administrative costs and profit.

For single data years, the loss ratios by type of coverage fluctuated substantially. Thus, Chart 2 uses a 3-year ratio. Based on this rough indicator, it appears that credit insurance is the most profitable. The other types of insurance appear to be at their expected profit level or somewhat better.⁶

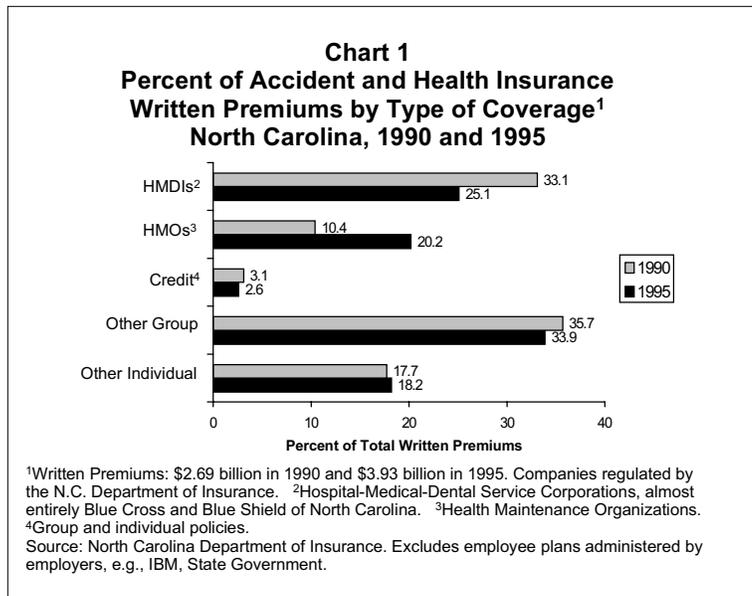
The Department of Insurance was unable to provide data for 1991 and 1992. However, comparing the loss ratios for 1993-95 to those for 1990, the profit margin of insurance companies appears to have changed very little.

Health Insurance Plans for Government Employees

In North Carolina in 1994, approximately one of every six nonfarm workers was employed by some form of government. Thus, insurance plans for government workers represent a substantial amount of all accident and health insurance activity in the state.

– Federal Employees

As noted before, data from the Federal Employees Health Benefits Program are reported to the Department of Insurance. In 1995, written and earned premiums were \$96.1 and \$96.4 million respectively. The

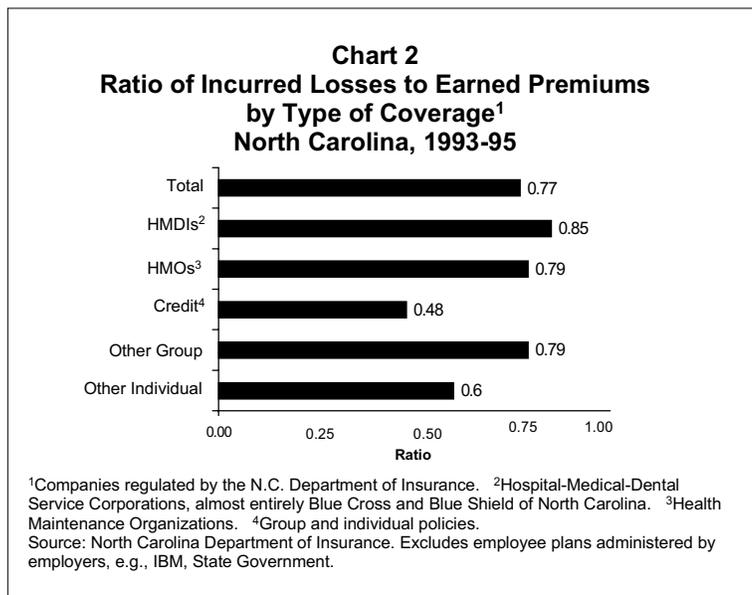


1993-95 loss ratio was 0.96. Data prior to 1993 are not separately available in summary reports.

– State Employees⁸

For coverage effective October 1, 1996, the state’s Comprehensive Major Medical Plan and the plans of 12 Health Maintenance Organizations (HMOs) were available to state employees/retirees (including teachers) and their dependents. In each case, the state contributes \$144.60 per month per employee or retiree, while individual employees/retirees pay for the additional cost of HMO and/or dependent coverage.

Membership in HMO’s has grown rapidly, rising 58 percent between June 1995 and October 1996. Currently, 1 out of 5 members of the State Health Benefits Program receives care through an HMO.



For the 12 HMO's, state employee/retiree contributions and claims data are not available from the State Health Benefits Office because subscribers deal directly with the individual HMO. The data below apply **only** to the state's Comprehensive Major Medical Plan:

	FY 1990	FY 1995	Percent Change
Membership*	422,023	416,214	- 1.4
Contributions*†	\$426,584,415	\$600,225,967	+ 40.7
Claims*	\$421,847,343	\$549,716,369	+ 30.3

*Employees/retirees and their dependents.

†In 1991, the state's monthly contribution per employee/retiree increased from \$107.90 to the current \$144.60.

– County Employees⁹

The Health Insurance Trust of the North Carolina Association of County Commissioners utilizes the benefit plans of Blue Cross and Blue Shield of North Carolina to provide coverage for county employees/retirees and their dependents. Types of plans, dependent coverage, costs, and employer contributions vary widely. Typically, the county pays all or a portion of the cost for active employees, while the individual pays for retiree and dependent coverage.

Began July 1, 1995, the Health Insurance Trust reports the following data for FY 1996:

Employees*	19,000
Contributions†	\$49 million
Claims Paid†	\$39 million

*Count does not include insured retirees and dependents.

†Includes contributions/claims for retirees and dependents.

Based on information for January 1, 1997, approximately 22,000 employees and \$54 million in contributions are expected in FY 1997.

– Municipal Employees¹⁰

The North Carolina League of Municipalities offers four plans through a self-insurance pool. For active employees, the municipality pays the employee's cost, while municipalities vary with respect to retiree and dependent coverage. Usually, those costs are paid by the individual.

For the plan most frequently used by active employees, current costs range from \$161.78 per month for the employee to \$405.86 for the employee's entire family.

Data provided by the League show the following:

	FY 1990	FY 1995	Percent Change
Employees/Retirees*	10,900	11,000	+ 0.9
Contributions†	\$16.8 million	\$23.4 million	+ 39.3
Claims Paid†	\$11.5 million	\$17.1 million	+ 48.7

*Counts do not include insured dependents.

†Includes contributions/claims for insured dependents.

From these data, it appears that the self-insurance pool is quite solvent; the annual loss ratios (claims divided by contributions) are low (0.68 and 0.73). However, the loss ratio (0.87) for a third year (FY 1993) confirms substantial volatility in the single-year ratios.

Conclusion

Among accident and health insurance companies doing business in North Carolina, total written premiums rose 46 percent between 1990 and 1995 and the market share for HMOs nearly doubled. At the same time, available data suggest that profit margins of the different types of companies changed very little with credit insurance remaining particularly profitable.

At the national level, private health insurance premiums rose only 0.5 percent in 1996 – substantially below the increase in underlying costs. Ginsburg attributes that in part to “the very new, really intense competitiveness in health insurance markets.”¹¹

The State Center plans to continue monitoring the insurance data described in this brief. Details of the data may be obtained from the Financial Compliance Section of the North Carolina Department of Insurance and other listed sources.

Data are not currently available on the number of policies and number of insureds represented by the premiums and losses reported to the Department of Insurance. These data would permit a more definitive assessment of trends in accident and health insurance activity in North Carolina. Other information needed to monitor insurance coverage levels include the age, race, ethnicity, and county of residence of each insured and claimant. These same data are needed from the public and private employers who underwrite their own employee health plans.

References

¹N.C. Department of Environment, Health, and Natural Resources, “Health Costs in North Carolina – Recent Changes in Hospital Statistics,” *Statistical Brief*. No. 9, July 1997.

²N.C. Department of Environment, Health, and Natural Resources, State Center for Health Statistics. “Health Insurance Coverage of North Carolina Children – Recent Survey Estimates,” *Statistical Brief*. No. 2, August 1996.

³Center for Health Policy Research and Education. Current Population Survey sample estimates for coverage during 1994 as reported by population in March 1995. Duke University, March 15, 1996.

⁴North Carolina Health Planning Commission Recommendations. Raleigh, December 21, 1994.

⁵North Carolina Health Care Reform Commission. *The Final Report: The Recommendations*. Raleigh, December 31, 1996.

⁶Personal communication, Kathryn Surles with Walter James, N.C. Department of Insurance. Raleigh, January 22 and 29, 1997.

⁷U.S. Bureau of the Census, *Statistical Abstract of the United States: 1995* (115th edition). Washington, D.C., 1995.

⁸Personal communication, Kathryn Surles with Gordon Daughtry, State Health Benefits Office. Raleigh, December 12, 1996.

⁹Personal communication, Kathryn Surles with Patrick Marshall, N.C. Association of County Commissioners. Raleigh, January 30, 1997.

¹⁰Personal communication, Kathryn Surles with Lynn Honeycutt, N.C. League of Municipalities. Raleigh, January 21, 1997.

¹¹Center for Studying Health System Change, *Issue Brief*, "Health Care Costs: Will They Start Rising Rapidly Again?" No. 10. Washington, D.C., June 1997.

For more information about this data:
e-mail: Schs_Info@mail.ehnr.state.nc.us

State of North Carolina
James B. Hunt Jr., Governor
**Department of Environment, Health,
and Natural Resources**
Wayne McDevitt, Secretary
State Center for Health Statistics
Delton Atkinson, M.S.P.H., M.P.H., Director

