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## Whither goes health insurer profit?

Starting January 1, 2011, health insurers will report their Medical Loss Ratio (MLR) in each state where they do business. MLR is the percentage of revenues that the insurer spends on medical services, plus its costs for quality improvement programs. (For a great summary of the MLR regulation, see [Health Reform Watch's article by Bradley Latino](#).)

Under health reform, the MLR has to be at least 85% of revenues from large group plans and 80% of revenues from small group and individual plans.

The rules, in effect, set the insurers' profits. The most an insurer can earn is a 15% profit on large group business, and 20% on small groups and individuals. And out of that profit, an insurer has to pay other costs - such as regulatory filing fees, reinsurance for high dollar claims, and taxes on investments.

Will insurers leave the business to find more profitable ventures?

**I doubt it.** The rules appear to be in line with insurers' past practices.

Last November, the Senate Commerce Committee analyzed health insurer MLRs. (See [Senate Pressing Insurers on the Amount of Premiums They Spend on Care](#), *New York Times*.) The Senate found that for-profit insurers spent 84% of revenues on medical care in the large group market, and 80% of revenues for small employers. Perhaps it is no accident that the rules chose 85% and 80% for the targets.

Smaller insurers might be driven out of the market, however. Simply by virtue of being small, these insurers spend more per dollar on overhead. Also, having a smaller number of insured people means that medical costs are less predictable. One year a small insurer might spend only 60% on medical costs and the next year, spend 95%. Even allowing an 8.3% cushion, as suggested by the National Association of Insurance Commissioners (NAIC), may not be enough to keep some small insurers in business.

With fewer insurers, will we end up paying more for insurance?

**I doubt it.** Uwe Reinhardt, economics professor at Princeton, argues compellingly that having more insurers in a market area does not lead to lower prices. See Reinhardt's blog, "[Competition's Shortcomings in Curtailing Health Care Costs.](#)"

Some experts have argued that health reform will turn insurers into public utilities. But as long as the profit margin is enough to attract investors, then the business will thrive.

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