SPOTLIGHT ON MARYLAND:
Health Insurance Premiums,
the Underwriting Cycle and Carrier Surpluses

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Overview

- The net cost of insurance and the underwriting cycle
- Trends in Maryland
  - Underwriting gains and administrative costs
  - Insurer surplus or unobligated funds
- Implications for premiums and the market
The Net Cost of Insurance

- Net cost of insurance
  \[= \text{premiums minus medical benefits}\]

- Nationally, the net cost of insurance has grown as a percent of premiums ... 

- While aggregate premium growth slowed due to coverage loss and benefit redesign
Nationally, the net cost of insurance is nearly 14 percent of premium

The Underwriting Cycle

- Net cost – administrative cost = underwriting gain

- Historically, underwriting gains have moved in cycles lasting about 6 years

- Since 1990, underwriting cycles have been longer and more shallow, probably reflecting
  - Competition with managed care and effort to deter entry
  - Growing market concentration
Trends in Maryland

- Administrative costs have declined as a percent of premium
- But underwriting gains have risen faster
- On net, employers and consumers have seen the net cost of insurance rise as a percent of premiums
Underwriting Gain & Administrative Cost as a Percent of Premiums: Group Coverage in Maryland

- Underwriting Gain

- Administrative Cost
  - Trend: 4%, 7%, 6%, 6%, 12%
Insurer Surplus

- Underwriting gains not spent in the current year accumulate as insurer surplus.
- Measured using NAIC accounting conventions, surplus accounts for most or all of an insurer’s “total authorized risk-based capital” or TAC.
- Insurers must hold TAC of at least 200% of “authorized control-level” risk-based capital, or ACL (BCBS = 375%).
Total Authorized Risk-Based Capital in Maryland Relative to Regulatory Levels

- Total authorized capital (TAC) in $billions
- TAC per authorized control level risk-based capital
Implications for Premiums

- Downturn of the underwriting cycle and lower administrative costs may finally offer Maryland employers premium relief.

- With shallower and longer cycles, insurers could hold lower surplus throughout the cycle.

- But insurers cite other reasons for maintaining high surplus—e.g., a potential terrorist attack.
Implications for the Market

• In general, regulators have a bias toward greater surplus

• But in a concentrated market, it may have unintended consequences:
  – Deter new market entry
  – Raise consumer prices, but not improve market stability