



**Division of Insurance**  
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The Division of Insurance is pleased to present the results of the 2008 Colorado Health Insurance Cost Report pursuant to § 10-16-111(4)(a), C.R.S. This report presents an aggregated summary of the costs of providing healthcare in the state of Colorado, as reported by insurance carriers that provide healthcare services in Colorado. This information will be useful to consumers, the industry and the public in determining the factors that drive insurance premiums in our state.

In 2008, the Colorado General Assembly passed and the Governor signed into law House Bill 08-1389 regarding the insurance rates paid by citizens of the state of Colorado. The bill's intent is to ensure that insurance coverage be accessible to all Coloradans, and that in order to provide accessible, affordable coverage, insurance rates should not be excessive, inadequate or unfairly discriminatory. In accordance with Section 9 of the bill, § 10-16-111(4)(a), C.R.S., health insurance carriers doing business in the state of Colorado are required to report a variety of health insurance cost information to the Division of Insurance. The Commissioner of Insurance is required to aggregate this data and publish the information on the Division's website.

To aid in the submission of this data, the Division prepared a Health Insurance Cost Report to be completed by each insurer. A total of 325 insurers submitted this report on their costs for 2008. As required, the report below is an aggregated summary of the data collected

**2008 Health Insurance Cost Report as required by C.R.S. § 10-16-111(4)<sup>(1)</sup>**

<b>Statute Requirement</b>	<b>Average Per Company</b>	<b>Total Sum of All Companies</b>	<b>Percent of Colorado Earned Health Insurance Premium</b>
Direct Earned Premium for Colorado Health Insurance Business	\$25,681,409	\$8,346,457,890	100.00 %
Dividends Returned to Colorado Policyholders	\$9,632	\$3,130,296	0.04 %
Executive Salaries, stock options or bonuses <sup>(2)</sup>	\$90,146	\$29,297,471	0.35 %
Insurance Producer Commissions	\$944,112	\$306,863,543	3.68 %
Payments to Legal Counsel	\$16,878	\$5,485,488	0.07 %
Provision for Profit and Contingencies <sup>(3)</sup>	\$2,113,372	\$686,845,876	8.23 %
Administrative Expenditures <sup>(4)</sup>	\$3,212,290	\$1,043,994,244	12.51 %
• Advertising or Marketing Expenditures	\$211,161	\$21,025,952	0.82 %
• Paid Lobbying Expenditures <sup>(5)</sup>	\$1,817	\$590,388	0.01 %
• Non-executive Staff Salaries <sup>(2)</sup>	\$1,215,690	\$395,099,137	4.73 %
Expenditures for Disease or Case Management Programs or Patient Education and Other Cost Containment Expenses or Quality Improvement Expenses	\$1,102,805	\$358,177,728	4.29 %
Charitable Contributions – Not for Profit Companies <sup>(6)</sup>	\$3,184,761	\$60,510,456	1.61 %
Charitable Contributions – For Profit Companies	\$4,331	\$1,325,339	0.03 %
Investment Income <sup>(7)</sup>	\$550,446	\$178,894,862	2.14 %
Reserves On Hand	\$7,797,254	\$2,534,107,586	N/A
Total Adjusted Capital (Amount of Surplus)	\$1,107,002,483	\$359,775,806,967	N/A
Risk Based Capital Requirement	\$168,278,106	\$54,690,384,361	N/A
Federal Income Taxes	\$218,234	\$70,925,897	0.85 %
State and Local Taxes, Licenses and Fees	\$159,230	\$51,749,823	0.62 %
The Cost of Providing or Arranging Healthcare Services	\$20,752,400	\$6,744,530,011	80.81 %
Administrative Ratio (Loss Ratio) <sup>(4)</sup> (Administrative Expenditures / Earned Premium)	12.51 %	N/A	N/A
Actual Benefits Ratio (Cost of Providing Healthcare Services / Earned Premium)	80.81 %	N/A	N/A

Note: The sum of the Administrative Ratio, Actual Benefits Ratio and Provision for Profit and Contingencies does not equal 100%. This is due to investment income and rounding issues that arose when companies applied a proration method to determine the Colorado health portion of the data they were submitting.

## The Number of Lives Insured Under Benefit Plans Offered to Small Employers <sup>(8)</sup>

	Basic Plans	Standard Plans	HSA	All Other Small Group Plans	Totals
<b>Indemnity</b>	0	5	0	603	608
<b>HMO</b>	1,907	1,847	7,996	25,277	37,027
<b>PPO</b>	1,919	1,939	17,925	122,823	144,606
<b>Multi-Option</b>	39	271	47,565	100,882	148,757
<b>Totals</b>	3,865	4,062	73,486	249,585	330,998

### Footnotes

<sup>(1)</sup> The statistics reported are based on the data reported by the companies that responded to a request for information from the Colorado Division of Insurance as required by C.R.S. § 10-16-111(4). Companies were asked to report information on all types of health insurance written in the state of Colorado, including but not limited to major medical, dental, vision, accidental death and dismemberment, disability income, long-term care, Medicare supplement and credit accident and health insurance. The data has been aggregated only for those companies that reported Colorado earned health insurance premium. There were 380 companies required to file the Colorado Health Insurance Cost Report, 325 submitted data. For the 55 companies that did not submit a report, their direct earned premium totaled approximately \$144.6 million, with incurred losses of approximately \$109.7 million.

<sup>(2)</sup> The executive salaries were reported by companies on a nationwide basis and were allocated to Colorado health only business by the Division of Insurance on a direct earned premium basis. The executives included are those reported on the Supplemental Compensation exhibit that accompanies each company's Annual Financial Statement. Non-executive staff salaries include the salaries of those not reported under executive salaries. Given the business structure of many insurance companies, in which senior executives are generally responsible for multiple states or lines of business, it is difficult to determine a meaningful figure for the salaries paid to executives for a company's Colorado health insurance business.

<sup>(3)</sup> The Division asked companies to report net income on a Colorado health only business basis, which was used for this figure. This measure is before federal income tax.

<sup>(4)</sup> Administrative expenses include all general administrative expenses, including but not limited to producer commissions, staff salaries and taxes, licenses and fees.

<sup>(5)</sup> Paid lobbying expenditures denotes external expenses on lobbying and may not include the salaries of employees whose job functions include governmental relations or legal services related to regulatory issues. This also does not include trade associations that may be providing lobbying services.

<sup>(6)</sup> Includes the domestic not for profit health insurance providers and all fraternal health insurance companies.

<sup>(7)</sup> The Division gathered the total investment income from each company's annual financial statement and allocated it to the Colorado health portion based on the health reserves reported in the Health Insurance Cost Report and total national reserves reported on the annual financial statements. This information was not submitted as part of each carrier's report.

<sup>(8)</sup> A small employer is defined as one having 50 employees or less. There were 21 such companies used to determine these statistics, as stated in the Division's 2008 Small Group Activity Report.

## Trend – Health Insurance Colorado 2008

Another element of the Health Cost Insurance Report (HICR) included asking insurers to provide trend information. “Trend” or “trending” means any procedure for projecting losses to the average date of loss, or of projecting premium or exposures to the average date of writing.

The HICR requested that companies report medical trend, pharmaceutical trend and their components. Medical and pharmaceutical trend are made up of four components, provider price increases, utilization changes, cost shifting and the introduction of new procedures and technology or the introduction of new drugs. The combination of these four components yields “Subtotal Medical Trend” or “Subtotal Rx Trend”. There is an additional element to trend, called insurance trend. Insurance trend is the change in costs based on insurance related factors, such as underwriting wear off, deductible leveraging and anti-selection. When you consider Insurance Trend in combination with ‘Subtotal Medical Trend’ or “Subtotal RX Trend”, the result is total medical trend or total prescription drug trend, respectively.

**Upon reviewing the information submitted for the HICR, very few companies reported trend figures.** This is likely a combination of the fact that certain types of insurance do not have a trend associated with their premium rating, and for companies with multiple lines of business, it would be difficult for them to isolate the trend associated with their entire block of business.

Below is a summary of the trend information that was received from the HICR. The first two tables identify the number of companies that reported each type of trend figure, by group size. The second two tables show the average trend reported, by those that did report, by type of trend and group size. **Some companies reported only subtotals or total trend figures so the numbers will not add across the table, nor will the average trends multiply across to equal the total average trend.**

### Number of companies that reported medical trend on the Health Insurance Cost Report \*

	Medical Provider Price Increases	Medical Utilization Changes	Medical Cost Shifting	Medical Procedures and Technology	Subtotal Medical	Subtotal Medical Insurance	Total Medical
<b>Individual</b>	14	11	6	8	33	26	40
<b>Large Group</b>	19	15	6	8	28	14	34
<b>Small Group</b>	10	8	4	3	22	15	25

### Number of companies that reported Pharmaceutical trend on the Health Insurance Cost Report \*

	Rx Price Increases	Rx Utilization Changes	Rx Cost Shifting	Rx Introduction of New Drugs	Subtotal Rx	Subtotal Rx Insurance	Total Rx
<b>Individual</b>	8	7	1	6	24	24	31
<b>Large Group</b>	10	6	1	4	17	13	23
<b>Small Group</b>	7	7	1	4	13	9	17

\* 325 companies submitted a Health Insurance Cost Report

### Medical Trend Averages by Trend Type Reported

	Medical Provider Price Increases	Medical Utilization Changes	Medical Cost Shifting	Medical Procedures and Technology	Subtotal Medical	Subtotal Medical Insurance	Total Medical
<b>Individual</b>	11.24%	-14.70%	1.50%	1.93%	8.15%	4.91%	<b>11.39%</b>
<b>Large Group</b>	9.66%	2.45%	1.04%	1.32%	9.18%	2.82%	<b>10.79%</b>
<b>Small Group</b>	3.56%	-2.79%	-8.17%	-11.62%	9.22%	0.60%	<b>8.45%</b>

### Pharmaceutical Trend Averages by Trend Type Reported

	Rx Price Trend	Rx Utilization Trend	Rx Cost Shifting Trend	Rx New Drug Trend	Subtotal Rx Trend	Subtotal Rx Insurance Trend	Total Rx Trend
<b>Individual</b>	4.37%	3.80%	2.40%	1.86%	11.12%	6.10%	<b>15.67%</b>
<b>Large Group</b>	4.85%	1.75%	2.40%	1.80%	9.75%	4.33%	<b>12.29%</b>
<b>Small Group</b>	4.74%	4.19%	1.38%	1.54%	8.96%	8.37%	<b>11.43%</b>

## Pure Direct Loss Ratio Summary Report – Colorado 2008

	Direct Premiums Written (000's)	Direct Premiums Earned (000's)	Direct Losses Incurred (000's)	Pure Direct Loss Ratio
A&H Health	\$6,041,812	\$5,924,423	\$5,046,650	85.18%
A&H Life	\$3,032,945	\$3,035,911	\$2,307,268	76.00%
A&H Property	\$69,484	\$56,708	\$39,272	69.25%
Credit A&H Life	\$9,847	\$11,283	\$2,400	21.27
Credit A&H Property	\$3,758	\$3,771	\$1,380	36.60%
A&H Fraternal	\$10,751	\$10,132	\$6,095	60.16%
<b>Colorado totals</b>	<b>\$9,168,597</b>	<b>\$9,042,228</b>	<b>\$7,403,065</b>	<b>81.87%</b>

### 2008 Colorado Health Premiums and Loss Ratios by Line of Business

Colorado 2008	Direct Premiums Written (000's)	Direct Premiums Earned (000's)	Direct Losses Incurred (000's)	Pure Direct Loss Ratio
<b>A&amp;H Health</b>				
Individual Comprehensive	\$382,203	\$375,701	\$280,816	74.74%
Group Comprehensive	\$2,805,139	\$2,792,910	\$2,365,363	84.69%
Vision Only	\$39,575	\$39,547	\$29,542	74.70%
Dental Only	\$631,372	\$537,194	\$519,314	96.67%
Federal Employees Health	\$579,817	\$574,053	\$528,756	92.11%
Medicare Supplement	\$30,203	\$29,254	\$18,224	62.30%
Title XVIII Medicare	\$1,463,583	\$1,464,266	\$1,199,100	81.89%
Title XIX Medicaid	\$47,912	\$47,912	\$41,046	85.67%
Other	\$62,008	\$63,586	\$64,489	101.42%
<b>Total for Lines of Business A&amp;H Health</b>	<b>\$ 6,041,812</b>	<b>\$ 5,924,423</b>	<b>\$ 5,046,650</b>	<b>85.18%</b>
<b>A&amp;H Life</b>				
Group accident and health	2,022,394	2,012,098	1,549,211	76.99%
Collectively renewable A&H	365	282	230	81.56%
Non-cancelable A&H	81,874	81,323	79,907	98.26%
Guaranteed renewable A&H	338,992	340,001	174,048	51.19%
Non-renewable for stated reasons only	186,894	186,140	127,868	68.69%
Other accident only	1,036	978	1,049	107.26%
Medicare Title XVIII exempt from state taxes or fees	383,606	397,213	361,046	90.89%
All other A&H	10,082	10,208	8,072	79.08%
Federal Employees' Health Benefit Plan	7,702	7,668	5,837	76.12%
<b>Total for Lines of Business A&amp;H Life</b>	<b>3,032,945</b>	<b>3,035,911</b>	<b>2,307,268</b>	<b>76.00%</b>
<b>A&amp;H Property</b>				
Group accident and health	\$37,635	\$35,957	\$20,905	58.14%
Collectively renewable A&H	\$1	\$1	0	0%
Non-cancelable A&H	0	\$21	-\$10	-47.62%*
Guaranteed renewable A&H	\$25,639	\$14,145	\$16,347	115.57%
Non-renewable for stated reasons only	\$3,449	\$3,716	\$2,084	56.08%
Other accident only	\$1,032	\$1,137	-\$888	-78.10%*
Medicare Title XVIII exempt from state taxes or fees	0	0	0	0%
All other A&H	\$1,728	\$1,731	\$834	48.18%
Federal employees health benefits program premium	0	0	0	0%
<b>Total for Lines of Business A&amp;H Property</b>	<b>\$69,484</b>	<b>\$56,708</b>	<b>\$39,272</b>	<b>69.25%</b>
<b>Credit A&amp;H Life</b>	<b>\$9,847</b>	<b>\$11,283</b>	<b>\$2,400</b>	<b>21.27%</b>
<b>Credit A&amp;H Property</b>	<b>\$3,758</b>	<b>\$3,771</b>	<b>\$1,380</b>	<b>36.60%</b>
<b>A&amp;H Fraternal</b>	<b>\$10,751</b>	<b>\$10,132</b>	<b>\$6,095</b>	<b>60.16%</b>
<b>Colorado Totals</b>	<b>\$9,168,597</b>	<b>\$9,042,228</b>	<b>\$7,403,065</b>	<b>81.87%</b>

\* Negative losses incurred may be a result of a company holding a loss reserve on pending claims that became unnecessary and resulted in the company releasing the reserve; or may result from a recovery from another party.

## Glossary

**A&H insurance-** coverage for accidental injury, accidental death, or sickness. Benefits include paid hospital expenses, medical expenses, surgical expenses, and income payments.

**Cost Containment expense** —Expenses that an insurer incurs to reduce the number of health services provided or the cost of services. This includes expenditures for disease or case management programs or patient education and other cost containment or quality improvement expenses.

**General administrative expense** — Expenses an insurer incurs to run its business. This includes all expenses that are not directly attributed to settling and paying claims of members. Examples are commissions, marketing and advertising expenses, and salaries of non-claims personnel.

**Lines of business** — Comprehensive, Medicare supplement, dental only, vision only, Federal Employees Health Benefit Plan, Medicare, Medicaid, disability income, accidental death and dismemberment, long-term care, etc.

**Medicare** — A federal health insurance program for people 65 years of age and older, and for people of all ages with certain disabilities. Eligibility is not income based.

**Medicaid** — A federal/state program that provides health coverage for certain categories of people with low incomes.

**Medical loss ratio / Pure Direct Loss Ratio** — The percent of health insurance premiums spent on medical claims. A 0.96 loss ratio means that 96 percent of the insurer's health insurance premiums purchased medical services. The more technical definition of medical loss ratio is claims incurred divided by net premium earned.

**Net claims incurred** (The Cost of Providing for or Arranging Healthcare Services) — Cost for hospital and medical benefits, emergency room, prescription drugs and various other benefits offered by carriers minus recoveries from the reinsurer plus the change in the unpaid claim liability. The *unpaid claim liability* is the insurer's estimate of the cost for claims already reported but not yet paid and an estimate of claims incurred by a member but not yet submitted for payment.

**Net income** — The net result of all revenue, claims incurred, expenses, investment results, taxes, and write-offs.

**Net investment income (or gain)** — Includes all income earned from invested assets minus expenses associated with investments plus the profit (or loss) realized from the sale of assets.

**Net premium earned** — The amount charged by the insurer to the policyholder for the effective period of the contract, reinsurance premiums, plus the change in the unearned premium liability. The *unearned premium liability* is the portion of the premium that has been received by the insurer for insurance that has not yet been provided. It is the amount that would have to be returned to the policyholder if the policy was canceled before the end of the policy period.

**Risk-based Capital (RBC) Requirement** — A method for evaluating an insurer's surplus in relation to its overall business operations in consideration of its size and lines of business written. An insurer's RBC is calculated by applying factors to various assets, premium, and reserve items. The calculation produces the "authorized control level." The RBC ratio is the insurer's surplus divided by the authorized control level. The state is authorized to take regulatory action against an insurer that fails to maintain surplus equal to 200 percent of its authorized control level.

**Reserves** — Funds created to pay anticipated claims or expenses.

**Surplus** — The amount an insurance company's assets exceed its liabilities. Additional funds are *surplus* over and above what the insurer expects to pay out for medical claims, expenses, taxes, and other obligations. All insurers must, by law, maintain minimum levels of surplus to ensure they will be able to meet their financial obligations to policyholders. Surplus includes common and preferred stock issued to its shareholders, any funds that are contributed to the insurer, and the accumulation of the insurer's net income or losses since its inception.