



COLORADO

**Department of
Regulatory Agencies**

Division of Insurance

Colorado Health Insurance Cost Report

Aggregated Data

2020

In accordance with § 10-16-111(4)(a)(b)&(c), C.R.S.



August 1, 2022

To the Members of the House and Senate,

I am pleased to submit the Annual Health Insurance Report of the Commissioner of Insurance covering calendar year 2020, pursuant to §10-16-111(4)(c) and (d), C.R.S.

This report summarizes the health insurance marketplace in Colorado - including the financial status of health insurance carriers, health insurance premiums, factors that drive premiums, and overall trends impacting the marketplace - both in the individual and group markets.

This year's report covers year seven of the implementation of the Affordable Care Act (ACA) and the first year of the COVID-19 public health emergency. As the ACA continues, the Division of Insurance remains committed to monitoring the reforms and changes brought about by the law and those made to the law. The Division of Insurance is committed above all else to consumer protection.

The Division welcomes the opportunity to provide this analysis of health insurance in Colorado.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Michael Conway', is written in a cursive style.

Michael Conway
Commissioner of Insurance



The Division of Insurance (Division) is pleased to present the results of the 2020 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 major medical 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 Coloradans. The bill's intent is to ensure insurance coverage is accessible to all Coloradans; and, in order for coverage to be accessible, it must be affordable, and therefore insurance rates should not be excessive, inadequate or unfairly discriminatory. In accordance with § 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. 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 16 insurers writing major health coverage plans in Colorado representing more than 95% of total written premium submitted this report on their costs for 2020. An aggregate summary of this data is included below.

2020 Highlights

- Approximately 78% of health insurance premiums collected in Colorado went directly to the cost of providing healthcare services. The amount of premium spent on medical expenses has been declining since 2016, when the costs of providing or arranging healthcare services accounted for 86.2% of written premiums.
- In 2020, the total direct written premium for health insurance business decreased by just over \$375 million dollars, falling from approximately \$6.2 billion in 2019 to \$5.8 billion in 2020. Prior to 2020, the total written premium for health insurance had been increasing since 2018.
- Administrative expenditures increased by approximately \$87 million dollars from 2019, and accounted for nearly 20% of health insurance premiums collected in 2020. Health insurance companies spent more on charitable giving (an increase of \$47 million) and legal expenses (an increase of \$8 million) in 2020 than in 2019, and less on lobbying (a decrease of \$200 thousand dollars).
- In 2020, as compared to 2019, the number of covered lives in the individual market increased whereas the number of covered lives in the small and large group markets decreased.

2020 Health Cost Report Aggregated Summary as required by C.R.S. § 10-16-111(4)¹

Statute Requirement	Average Per Company	Total Sum of All Companies	Percent of Colorado Earned Health Insurance Premium
Direct Written Premium for Colorado Health Insurance Business	\$362,017,909.15	\$5,792,286,546	100.0%
Direct Earned Premium for Colorado Health Insurance Business	\$361,870,777.37	\$5,789,932,438	100.0%
Authorized Control-level RBC	\$11,889,168.09	\$190,226,689	3.3%
Reserves On Hand	\$21,486,466.89	\$343,783,470	5.9%
Investment Income	\$7,101,700.64	\$113,627,210	2.0%
Net Income	\$45,613,580.88	\$729,817,294	12.6%
Surplus	\$22,589,600.84	\$361,433,614	6.2%
Capital	\$25,943,467.51	\$415,095,480	7.2%
Dividends to Stockholders	(\$7,051,420.15)	(\$112,822,722)	-1.9%
Executive Compensation allocated to Colorado Premiums	\$14,769,796.84	\$236,316,749	4.1%
Executive Salaries	\$1,912,010.64	\$30,592,170	0.5%
Executive Stock Options	\$8,551,432.73	\$136,822,924	2.4%
Executive Bonuses	\$4,306,353.47	\$68,901,656	1.2%
Administrative Expenditures	\$71,588,133.43	\$1,145,410,135	19.8%
Advertising or Marketing Expenditures	\$1,269,390.26	\$20,310,244	0.4%
Charitable Contributions	\$5,895,799.18	\$94,332,787	1.6%
Dividends Returned to Colorado Policyholders	\$0.00	\$0	0.0%
Expenditures for Disease or Case Management Programs or Patient Education and Other Cost Containment Expenses	\$7,562,791.50	\$121,004,664	2.1%
Insurance Producer Commissions	\$7,065,927.42	\$113,054,839	2.0%
Legal Expenses	\$707,355.22	\$11,317,684	0.2%
Paid Lobbying Expenditures	\$25,892.15	\$414,274	0.0%
Staff Salaries	\$14,589,189.24	\$233,427,028	4.0%
Federal Income Taxes	\$10,130,702.28	\$162,091,236	2.8%
State and Local Taxes, Licenses and Fees	\$7,934,016.01	\$126,944,256	2.2%
All Other Administrative Expenses	\$16,407,070.16	\$262,513,123	4.5%
Cost of Providing or Arranging Healthcare Services	\$282,855,633.36	\$4,525,690,134	78.2%
Administrative Expenses ²	\$71,588,133.43	\$1,145,410,135	19.8%
Medical Expenses ³	\$282,855,633.36	\$4,525,690,134	78.2%
Provision for Profit and Contingencies	\$7,427,010.59	\$118,832,169	2.1%

¹ The statistics presented 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 only major medical types of health insurance written in the state of Colorado. The Executive Salaries were reported by companies on a nationwide basis and were allocated to Colorado major medical health 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 the Annual Financial Statement.

² The total of Advertising or Marketing Expenditures, Charitable Contributions, Dividends Returned to Colorado Policyholders, Expenditures for Disease or Case Management Programs or Patient Education and Other Cost Containment Expenses, Insurance Producer Commissions, Legal Expenses, Staff

Salaries, Paid Lobbying Expenditures, Federal Income Taxes, State and Local Taxes, Licenses and Fees and All Other Administrative Expenses is used to calculate the Administrative Expenses.

³The Cost of Providing or Arranging Healthcare Services is equal to a company's Direct Losses Incurred and used to determine the Medical Expenses.

Premiums - Colorado Health Insurance

In general, health insurance premium rates are determined by the sum of:

- projected medical expenses from claims;
- administrative expenses, including commissions and taxes; and
- profit and contingency factors.

Carriers are required to provide a projection of each of the components above as a percent of premium in rate filings submitted to the Division. The Division then evaluates whether each of the components is reasonable to determine whether a requested rate increase or decrease is appropriate. This section contains information for premiums for health benefit plans in the individual, small group (2-99 employees), and large group (100 or more employees) markets (excluding self-insured employers), including individual and small group plans sold through Connect for Health Colorado, the state's exchange.

Major Medical Health Benefit Plan Premiums

In 2020, large group health benefit plans had the largest direct written premium (\$3.1 billion), followed by small group plans sold off the Exchange (\$1.4 billion). The direct written premium for all markets, with the exception of small group plans offered on the Exchange, decreased in 2020, resulting in an overall decrease in total written premium from the previous year (from approximately \$6.2 billion in 2019 to \$5.8 billion in 2020).

Administrative expenses remained relatively stable between 2019 and 2020, accounting for around 10% of premium in both years. Administrative costs varied across markets, decreasing for large group plans, while increasing for individual plans sold both on and off the Exchange. This variability between markets was not seen for costs associated with providing healthcare services (also called incurred losses); in 2020, the amount that carriers spent for care delivery decreased in all markets, resulting in a total decrease in service delivery spending from 2019 (\$5.1 million) to 2020 (\$4.5 million).

Major Medical Health Benefit Plans - Premiums

Health Benefit Plans (values shown are in 1,000s)	Individual On Exchange	Individual Off Exchange	Small Group On Exchange	Small Group Off Exchange	Large Group	Total
Premiums						
Colorado Direct Written Premium ¹	\$882,154	\$389,258	\$2,046	\$1,391,407	\$3,127,421	\$5,792,287
Colorado Direct Earned Premium ²	\$875,773	\$387,927	\$2,046	\$1,391,231	\$3,132,955	\$5,789,932
Administrative Expenses³						
Administrative Expenses	\$127,361	\$51,729	\$208	\$195,553	\$247,464	\$622,315
Cost of providing healthcare services						
Incurred Losses	\$586,594	\$258,055	\$1,514	\$1,069,697	\$2,609,830	\$4,525,690
Administrative Ratio	14.54%	13.33%	10.14%	14.06%	7.90%	10.75%
Actual Benefits Ratio	66.98%	66.52%	73.99%	76.89%	83.30%	78.16%
Average Provision for Profit and Contingencies	18.48%	20.14%	15.87%	9.06%	8.80%	11.09%

¹ Written Premium refers to the amount of premium customers are required to pay for policies written during the accounting period. This differs from Earned Premium, which is the portion of the total premium amount corresponding to the coverage provided during a given accounting period.

² Earned Premium refers to the portion of the total premium amount corresponding to the coverage provided during a given period of time.

³ The total of Advertising or Marketing Expenditures, Charitable Contributions, Dividends Returned to Colorado Policyholders, Expenditures for Disease or Case Management Programs or Patient Education and Other Cost Containment Expenses, Insurance Producer Commissions, Legal Expenses, Staff Salaries, Paid Lobbying Expenditures, Federal Income Taxes, State and Local Taxes, Licenses and Fees and All Other Administrative Expenses is used to calculate Administrative Expenses.

Major Medical Health Benefit Plan Enrollment/Coverage

In 2020, over 150,000 Coloradans were covered in individual on-Exchange plans. This represents an increase of nearly 13,000 individuals from 2019. Coverage in individual off-exchange plans also increased in 2020, from approximately 63,000 in 2019 to just over 70,000 in 2020. Coverage in group health benefit plans - including large group and small group plans sold on and off the exchange - declined in 2020.

Major Medical Health Benefit Plans - Colorado Covered Lives

Health Benefit Plan Covered Lives (Table shows actual numbers)	Individual On Exchange	Individual Off Exchange	Small Group On Exchange	Small Group Off Exchange	Large Group	Total
Number of covered lives ¹ as of 12/31/2019	139,840	63,020	544	253,842	568,702	1,025,949
Number of covered lives as of 12/31/2020	152,388	70,063	458	234,826	519,411	977,146
Number of individual policyholders ² as of 12/31/2019	93,276	38,182	400	163,762	302,177	597,797
Number of individual policyholders as of 12/31/2020	104,119	43,092	349	154,302	273,469	575,331
Number of Member Months in 2020	1,794,021	916,710	5,547	2,938,324	6,417,938	12,072,540
Companies with Earned Premiums	8	14	2	13	14	16

¹ Covered lives = total number of people covered under an insurance policy; multiple people (i.e., dependents) may be included on a single policy; this number therefore higher than number of policyholders

² Policyholders = the number of unique policies written for individual subscribers/certificate holders/policyholders

Major Medical Health Benefit Plan Loss Ratio

Medical expenses are the cost of paying for health care services for the insured, and include payments to hospitals, doctors and other providers. The medical loss ratio (MLR), which is the ratio of medical expenses incurred divided by premiums earned, is a reflection of the cost of healthcare delivery and a key measure of whether premium rates are reasonable. Under the Affordable Care Act, an insurance company is required to rebate premiums when it fails to spend at least 80 percent of premiums collected in a state's small group and individual markets on medical care and quality improvement. It must spend at least 85 percent of premiums on these activities in a state's large group market or pay a rebate.

Based on data received by the Division, in 2020 the loss ratio for all major medical health benefit plans (individual, small group, and large group) in Colorado was approximately 80%, down from 85% in 2019. A reduction in the total amount spent on medical care (incurred losses) exceeded a reduction in earned premium, resulting in a lower loss ratio. A similar pattern took place across all market segments, with individual, small group, and large group all experiencing reductions in the amount paid for health care services that exceeded reductions in earned premiums.

Colorado Major Medical Health Benefit Plan Coverage Summary

Major Medical Health Coverage ¹	Earned Premium	Incurred Losses	Loss Ratio ²
Individual Coverage	\$1,266,885	\$850,649	67.14%
Small Group Coverage	\$1,393,278	\$1,071,211	76.88%

Large Group Coverage	\$3,850,098	\$3,274,379	85.05%
Colorado Major Medical Totals	\$6,510,261	\$5,196,239	79.82%

¹ Data taken from all supplemental health exhibits submitted to the NAIC.

² The federal medical loss ratio is not the same as Colorado's benefit ratio, in that the federal MLR makes modifications to its calculation such as subtracting out federal and state taxes, licensing and regulatory fees, as well as expenses to improve the quality of care.

Colorado also has rate standards in place for health insurance products that are not subject to the ACA, which set requirements that benefits are reasonable in relation to the premium charged, and include a referenced expected loss ratio. The minimum loss ratio requirements for health insurance products outside of health benefit plans are outlined in Colorado Insurance Regulations 4-2-11 and 4-3-1. The minimum loss ratio for Medicare Supplement insurance is 65% for individual business and 75% for group business.

In 2020, the loss ratio for Title XIX Medicaid increased by approximately 18 percentage points, jumping from around 80% in 2019 to nearly 98% in 2020. The amount spent on medical care for those covered by Title XIX Medicaid increased by over \$173 million, while earned premium increased by just under \$5 million. The loss ratio for other coverages decreased slightly in 2020, falling from 76% to 72% for Medicare Supplement, from 85% to 83% for Title XVIII for Medicare Advantage.

Colorado Other Health Plan Coverage Summary

Other Health Coverages ²	Written Premium	Earned Premium	Incurred Losses	Loss Ratio
Medicare Supplement	\$88,959,983]\$88,415,879	\$63,707,896	72.05%
Title XVIII Medicare Advantage	\$4,868,086,961	\$4,862,613,408	\$4,037,531,590	83.03%
Title XIX Medicaid	\$968,668,144	\$950,754,763	\$927,371,557	97.54%
All Other Coverages	\$1,242,302,211	\$1,224,133,058	\$1,129,595,806	92.28%
Other Health Coverages Total	\$7,168,017,299	\$7,125,917,108	\$6,158,206,849	86.42%

² Data taken from state filing pages submitted to the NAIC.

Trend - Colorado Health Insurance

“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. Medical cost trend is the projected increase in the costs of medical services assumed in setting premiums for health insurance plans. Insurance companies use medical cost trends to estimate what the same plan would cost in the next year.

Companies reporting trend information must use the best assessment and allocation methods they can to assign portions of total medical trend to those categories of interest to the Division and the public. The information in this section represents an estimate of the portion of total trend that is accounted for by reported cost categories.

Colorado Medical Trend In Detail¹

Carriers report on medical trend across four categories: provider price changes, utilization, cost shifting, and new medical procedures and technology. In 2020, the companies reported a decrease in the average total medical trend for individual health benefit plans sold on and off the Exchange, driven largely by decreases in a predicted decline in utilization changes. Similar decreases were observed in average total medical trend and average trend due solely to utilization changes for small group plans sold on the exchange; however, medical trend across all categories, including average total medical trend, was positive for small group plans sold off Exchange. In the large group market, predicted decreases in trend due to changes in utilization were

¹ The Division of Insurance relies solely upon the Health Cost Survey results to populate the tables above. Insurance trend information is not universally reported.

offset by predicted increases in other categories - most notably an increase in trend due to provider price changes - leading to an increase in predicted average total medical trend.

Total Medical Trend by Year by Type of Health Insurance

Medical Trend	Average Medical Trend due solely to Provider Price Changes	Average Medical Trend due solely to Utilization Changes	Average Medical Trend due solely to Cost-shifting	Average Medical Trend due solely to New Medical Procedures and Technology	Average Total Medical Trend
Individual on Exchange	3.50%	-5.82%	1.38%	-0.20%	-1.23%
Individual off Exchange	2.03%	-9.83%	0.91%	0.09%	-7.00%
Small Group on Exchange	5.23%	-28.85%	2.57%	0.00%	-23.20%
Small Group off Exchange	3.67%	0.20%	1.17%	0.26%	5.28%
Large Group	14.90%	-4.36%	0.93%	0.32%	2.21%

Pharmaceutical cost trend is the projected increase in the costs of pharmaceutical services assumed in setting premiums for health insurance plans. Insurance companies also use pharmaceutical cost trend, in addition to medical trend, to estimate what the same plan would cost in the next year.

Similar to medical trend, carriers report pharmaceutical trend by four categories: pharmaceutical price changes, utilization changes, cost-shifting, and new drugs. In 2020, companies reported decreases in pharmaceutical trend across all cost categories, leading to a decrease in average total pharmaceutical trend, in large group plans and individual plans sold both on and off the Exchange. For small group plans sold on the Exchange, carriers predicted a large decrease in pharmaceutical price changes, which resulted in a large overall decrease in average total pharmaceutical trend despite a predicted increase in utilization changes. For small group plans sold off the Exchange, however, smaller increases were reported in each cost category, leading to an overall increase in average total pharmaceutical trend.

Total Pharmaceutical Trend by Year by Type of Health Insurance

Pharmaceutical Trend	Average Rx Trend due solely to Pharmaceutical Price Changes	Average Rx Trend due solely to Utilization Changes	Average Rx Trend due solely to Cost-shifting	Average Rx Trend due solely to New Drugs	Average Total Rx Trend
Individual on Exchange	-0.84%	-2.64%	-0.50%	3.87%	-2.25%
Individual off Exchange	-1.99%	-4.15%	0.80%	2.60%	-4.90%
Small Group on Exchange	-39.19%	3.59%	-3.36%	0.43%	-38.86%
Small Group off Exchange	3.69%	2.31%	0.72%	1.80%	8.35%
Large Group	-0.49%	-7.46%	0.02%	2.90%	-5.71%

Conclusion

This report examines the factors impacting premiums in Colorado’s health insurance market, the overall trends in both the individual and group markets (both small and large group), and the financial status of health insurers in our state. It provides insight into how premiums collected in Colorado in 2020 were used for major health insurance coverage. As the ACA continues into the eighth year of implementation, and as the COVID-19 pandemic continues to unfold, the Division remains committed to monitoring impacts to the marketplace, and above all else to the protection of Colorado consumers.