



COLORADO

**Department of
Regulatory Agencies**

Division of Insurance

Colorado Health Insurance Cost Report

Aggregated Company Data

2021

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



July 14, 2023

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 2021, 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 eight of the implementation of the Affordable Care Act (ACA). 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 'MC', is positioned above the printed name of the Commissioner of Insurance.

Michael Conway
Commissioner of Insurance

The Division of Insurance (Division) is pleased to present the results of the 2021 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 the 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 law's intent is to ensure insurance coverage is accessible to all Coloradans; 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 17 insurers writing major health coverage plans in Colorado representing more than 95% of total written premium submitted this report on their costs in 2021. An aggregate summary of the data is included below.

2021 Highlights

- Approximately 89% of health insurance premiums collected in Colorado went directly to the cost of providing healthcare services. This is the first year since 2016 that the amount of premium spent on medical expenses has increased. The costs of providing or arranging healthcare services increased from 78% in 2020.
- In 2021, the total direct written premium for health insurance business remained relatively constant to 2020 at \$5.7 billion.
- Administrative expenses decreased by \$43 million from 2020, from 19.8% of written premium to 19.1%. Health insurance companies spent more on advertising and marketing (an increase of \$18.6 million), and less on staff salaries (a decrease of \$135 million) in 2021 than in 2020.
- In 2021, as compared to 2020, the number of covered lives in the individual market increased whereas the number of covered lives in the small and large group markets decreased.

2021 Health Cost Report Aggregated Summary 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 | \$340,395,332.27 | \$5,786,720,649 | 100.4% |
| Direct Earned Premium for Colorado Health Insurance Business | \$338,975,338.84 | \$5,762,580,760 | 100.0% |
| Authorized Control-level RBC | \$15,077,499.42 | \$256,317,490 | 4.4% |
| Reserves On Hand | \$25,591,621.24 | \$435,057,561 | 7.5% |
| Investment Income | \$5,498,068.99 | \$93,467,173 | 1.6% |
| Net Income | \$12,999,354.29 | \$220,989,023 | 3.8% |
| Surplus | \$24,552,215.67 | \$417,387,666 | 7.2% |
| Capital | \$32,416,645.29 | \$551,082,970 | 9.6% |
| Dividends to Stockholders | \$1,548,780.21 | \$26,329,264 | 0.5% |
| Executive Compensation allocated to Colorado Premiums | \$1,173,497.00 | \$429,793,182 | 7.5% |
| Executive Salaries | \$318,408.00 | \$132,139,323 | 2.3% |
| Executive Stock Options | \$472,644.00 | \$148,770,934 | 2.6% |
| Executive Bonuses | \$382,445.00 | \$148,882,925 | 2.6% |
| Administrative Expenditures | \$43,801,012.68 | \$1,102,318,904 | 19.1% |
| Advertising or Marketing Expenditures | \$2,290,384.24 | \$38,936,532 | 0.7% |
| Charitable Contributions | \$2,316,673.65 | \$39,383,452 | 0.7% |
| 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 | \$6,516,404.05 | \$110,778,869 | 1.9% |
| Insurance Producer Commissions | \$6,794,843.24 | \$115,512,335 | 2.0% |
| Legal Expenses | \$203,959.66 | \$3,467,314 | 0.1% |
| Paid Lobbying Expenditures | \$34,446.48 | \$585,590 | 0.0% |
| Staff Salaries | \$12,354,727.83 | \$210,030,373 | 3.6% |
| Federal Income Taxes | \$1,564,092.02 | \$26,589,564 | 0.5% |
| State and Local Taxes, Licenses and Fees | \$11,725,481.51 | \$199,333,186 | 3.5% |
| All Other Administrative Expenses | \$21,041,275.77 | \$357,701,688 | 6.2% |
| The Cost of Providing or Arranging Healthcare Services | \$300,553,411 | \$5,109,407,989 | 88.7% |
| Administrative Expenses ² | \$64,842,288.45 | \$1,102,318,904 | 19.1% |
| Medical Expenses ³ | \$300,553,411.00 | \$5,109,407,989 | 88.7% |
| Provision for Profit and Contingencies | (\$26,420,360.73) | (\$449,146,132) | -7.8% |

¹The 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.

²The 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 2021, large group health benefit plans had the largest direct written premium (\$3 billion), followed by small group plans sold off the Exchange (\$1.4 billion). The total direct written premium decreased by \$5.5 million. Administrative expenses increased from 10.75% of premium in 2020 to 11.28% of premium in 2021. The costs associated with providing healthcare services (also called incurred losses) increased in 2021 from \$4.5 billion to \$5.1 billion, with increases seen across all markets.

| Health Benefit Plans | Individual On Exchange | Individual Off Exchange | Small Group On Exchange | Small Group Off Exchange | Large Group | Total |
|---|------------------------|-------------------------|-------------------------|--------------------------|-----------------|-----------------|
| Premiums | | | | | | |
| Colorado Direct Written Premium ¹ | \$889,940,848 | \$409,865,517 | \$1,655,316 | \$1,434,859,376 | \$3,050,399,591 | \$5,786,720,649 |
| Colorado Direct Earned Premium ² | \$875,706,968 | \$406,894,854 | \$1,653,766 | \$1,433,996,563 | \$3,044,328,610 | \$5,762,580,760 |
| Administrative Expenses³ | | | | | | |
| Administrative Expenses | \$138,681,837 | \$59,136,867 | \$184,279 | \$202,754,003 | \$249,347,964 | \$650,104,950 |
| The Cost of Providing or Arranging Healthcare Services | | | | | | |
| Incurred Losses | \$843,456,779 | \$391,362,898 | \$2,689,872 | \$1,145,799,046 | \$2,726,099,394 | \$5,109,407,989 |
| Administrative Ratio | 15.84% | 14.53% | 11.14% | 14.14% | 8.19% | 11.28% |
| Actual Benefits Ratio | 96.32% | 96.18% | 162.65% | 79.90% | 89.55% | 88.67% |
| Average Provision for Profit and Contingencies | -12.15% | -10.72% | -73.79% | 5.96% | 2.26% | 0.05% |

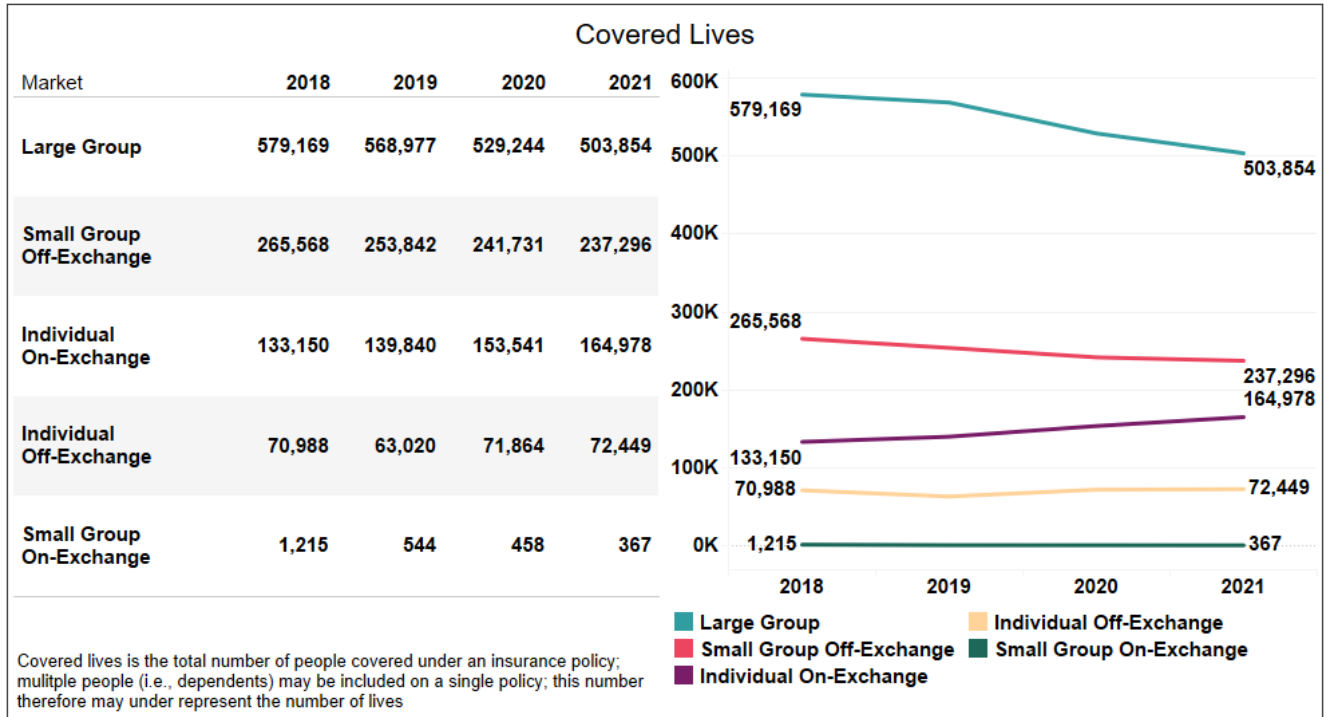
¹ Written Premium refers to the amount of premium customers are required to pay for policies written during the accounting period. This differs from Earned Premium, which is the portion of the total premium amount corresponding to the coverage provided during a given accounting period.

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 the Administrative Expenses.

Major Medical Health Benefit Plan Enrollment/ Coverage

In 2021, over 160,000 Coloradans were covered in individual on-Exchange plans, this represents an increase of over 11,000 individuals from 2020, when there were over 150,000 Coloradans in individual on-Exchange plans.



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 the 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 2021, the loss ratio for all major medical health benefit plans (individual, small group, and large group) in Colorado was approximately 88.7%, an increase from 79.8% in 2020. This increase was seen across all markets, with the individual market accounting for the largest increase.

| Major Medical Health Coverage | Earned Premium | Incurred Losses | Loss Ratio |
|--------------------------------------|------------------------|------------------------|---------------|
| Individual Coverage | \$1,282,601,822 | \$1,234,819,677 | 96.27% |
| Small Group Coverage | \$1,435,650,329 | \$1,148,488,918 | 80.00% |
| Large Group Coverage | \$3,044,328,610 | \$2,726,099,394 | 89.55% |
| Colorado Major Medical Totals | \$5,762,580,760 | \$5,109,407,989 | 88.67% |

Trend

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 a portion 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.

Total Medical Trend by Year by Type of Health Insurance

Carriers report on medical trend across four categories: provider price changes, utilization, cost shifting, and new medical procedures and technology. In 2021, the companies reported an increase across all markets. This is driven largely by increases in a predicted increase in utilization changes.

Medical Trend by Health Insurance Market

| Medical Trend | Medical trend due solely to provider price changes | Medical trend due solely to utilization changes | Medical trend due solely to medical cost-shifting | Medical trend due solely to new medical procedures and technology | Total Medical Trend |
|--------------------------|--|---|---|---|---------------------|
| Individual On Exchange | -0.14% | 6.57% | -0.48% | 0.34% | 5.06% |
| Individual Off Exchange | -2.06% | 8.20% | -0.91% | 0.13% | 4.03% |
| Small Group On Exchange | -31.23% | 221.74% | 7.87% | 0.00% | 138.68% |
| Small Group Off Exchange | -2.58% | 10.49% | -0.48% | 0.31% | 7.05% |
| Large Group | -1.12% | 8.77% | -0.02% | 0.42% | 7.75% |

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 2021, companies reported increases in pharmaceutical trend across all markets except small group

on-Exchange plans. These increases are driven primarily by pharmaceutical price changes and to a lesser extent, increases in utilization.

Pharmaceutical Trend by Health Insurance Market

| Pharmaceutical Trend | Prescription drug trend due solely to pharmaceutical price changes | Prescription drug trend due solely to utilization changes | Prescription drug trend due solely to cost-shifting | Prescription drug trend due solely to introductions of new drugs | Total Prescription Drug Trend |
|--------------------------|--|---|---|--|-------------------------------|
| Individual On Exchange | 5.43% | 1.03% | 0.07% | 0.81% | 7.79% |
| Individual Off Exchange | 5.92% | 2.57% | 0.25% | 1.12% | 8.98% |
| Small Group On Exchange | -24.26% | 29.85% | -3.53% | 0.40% | -4.74% |
| Small Group Off Exchange | 1.22% | 2.19% | -1.38% | 2.54% | 4.98% |
| Large Group | 4.58% | 3.00% | -0.31% | 2.64% | 9.67% |

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 2021 were used for major health insurance coverage. As the ACA continues into the ninth 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.