HCSC
Health Care Service Corporation

Minimum Loss Ratio

Overview
A minimum loss ratio (MLR) is a proposed requirement that health insurers spend a specified minimum percentage of premium dollars on medical care or a maximum amount on "administrative expenses." Some proposals would require insurers to make refunds or adjust premiums if the MLR is not met.

HCSC Position
Health Care Service Corporation (HCSC) believes that MLRs are not indicators of a quality health plan and a mandatory MLR would restrict innovations and consumer services. Restricting the ability of health plans to invest in necessary technology updates, for example, impedes efforts to implement vital tools such as electronic health records, secure electronic means for patients to communicate with physicians and the development of modern claims adjudication and payment systems.

As a mutual not-for-profit organization, HCSC reinvests all of its profits back into its local health care delivery system. There is no distribution of profits to shareholders and surplus dollars go into reserves so we can meet future claims obligations and reinvest back into the health and health care services of our communities.

It is important to note that administrative expense is not a significant contributor to rising health insurance premiums. According to a PriceWaterhouse Coopers report entitled, "The Factors Fueling Rising Healthcare Costs 2006," the health care premium increases between 2004 and 2005 were driven by increased utilization (43%), general inflation (27%) and health care price increases in excess of inflation (30%). The last category was driven by increased costs of labor, higher-priced technologies, provider consolidation and movement among purchaser toward broader-access health plans. Administrative costs are not cited as a cost driver.

Moreover, arbitrary MLR requirements endanger many features of health plans that consumers have come to expect and value but may be considered "administrative expenses" when lawmakers set regulations. Some examples:

- HCSC delivers comprehensive, integrated medical care management programs, which are designed to proactively engage members across the health care continuum. These programs include wellness, lifestyle management, health counseling, care management and condition and case management. These and other care management strategies have been designed to impact and improve patient health outcomes and control health care costs.
- Health plans routinely distribute literature on wellness and preventive measures, quality data and other resources to allow consumers to make informed decisions about their health care and lifestyles. These important outreach and education efforts can result in enhanced consumer satisfaction, healthier individuals and, ultimately, control health care costs.
- The advancement of health information technology and administrative simplification efforts have the ability to dramatically reduce both the incidence of medical errors and the cost of providing health care; these efforts, however, require both commitment and capital.

While these and many similar programs may increase administrative costs and therefore generate a lower MLR, they also can significantly improve patient health outcomes and reduce the overall cost of health care. Imposing inflexible and arbitrary MLR requirements provides a disincentive for health plans to implement and administer these types of programs that directly benefit patients.

About Health Care Service Corporation
Health Care Service Corporation, a Mutual Legal Reserve Company, is the largest customer-owned health insurer in the United States and the fourth largest health insurer in the country overall, with 12.4 million members in its Blue Cross and Blue Shield plans in Illinois, New Mexico, Oklahoma and Texas. The company is an independent licensee of the Blue Cross and Blue Shield Association. HCSC also has a rating of AA- (Very Strong) from Standard and Poor's, Aa3 (Excellent) from Moody's and A+ (Superior) from A.M. Best Company. For more information, visit www.HCSC.com.