Administrative Expenses and Investment Income for Health Plans and County-Based Purchasers: Guidelines and Recommendations

Report to the Minnesota Legislature 2009

Minnesota Department of Health

March 2009

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Protecting, maintaining and improving the health of all Minnesotans

March 3, 2009

The Honorable Linda Berglin
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Saint Paul, MN 55155-1606

The Honorable Thomas Huntley
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The Honorable John Marty
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The Honorable Paul Thissen
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Committee
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Saint Paul, MN 55155

To the Honorable Chairs:

Senate File 3322, section 12 directed the Commissioner of Health to report to the Legislature on guidelines and recommendations intended to assure consistency in reporting of administrative expenses and investment income for health plans and county based purchasing entities. In addition, the report was to provide recommendations for examining the reasonableness of administrative expenditures for publicly funded health programs.

The Department contracted with Deloitte Consulting LLT to research these issues and provide a written report of its findings and recommendations. Information was provided by nine entities: three large health plans; three small health plans; and three county based purchasers. The Executive Summary and the full Report are enclosed for your review. The key findings and recommendations from this study are:

- **Administrative Expenses:** There is a wide variation in the methodology used by the six health plans and three county based purchasers to allocate administrative expenses. Methods include direct allocation by product, member months, revenue, claim counts, square footage, and estimates of staff time and call center statistics. All of these methods are reasonable ways to allocate certain administrative costs. While some plans used similar methods of allocation, no two plans used the exact same methodology. Four health plans and one county based purchaser use direct allocation to a product line as well as other methods of allocation. Although more sophisticated methods might result in more accurate allocation, enhanced methods would likely result in increased administrative costs to the plans.

  Based on Deloitte's review of several possible allocation methods, the report concludes that direct allocation to specific lines of business is the most accurate, assuming this information is available. Expenses that cannot be directly allocated should then be allocated based on

another method such as claim counts. Reducing the methods allowed to report administrative expenses will provide more consistency between the plans. Should the Legislature determine that having consistency across plans is desirable, perhaps a phase-in would allow those plans not currently using a product line method of allocation to move to that over time, and incur less cost.

- **Investment income:** There are a variety of methods used by five health plans and the three county based purchasers to allocate investment income. Methods used are generally simpler than those used to allocate administrative expenses. Five plans allocate based on revenue, three by operating or net income, and one plan uses member months. Deloitte performed an analysis of annual reports to the Department of Health where investment income was allocated to lines of business and products using four simple allocation methods: member months; revenue; claims dollars, and underwriting gains/losses. Deloitte then compared this to the allocation of investment income used by the plans. The results vary significantly by allocation method for all plans, and most lines of business have extremely large variation. Based on this analysis, the report recommends allocation of investment income based on cumulative net/operating income over time by business/product line.

- **Recommendations and costs of developing standards:** The third issue addressed in this Report is to provide recommendations and estimated costs of developing detailed standards and procedures for examining the reasonableness of administrative expenses by individual publicly funded program. Should the Legislature adopt the guidelines recommended in the Report, we would develop detailed standards and procedures as well as a reporting template for use by all plans that participate in the publicly funded programs. To conduct this work, we would establish an advisory committee to provide assistance, with representation from the health plans, county based purchasers, Departments of Human Services and Commerce. We would anticipate the need to contract with an outside consultant to conduct the work for this project. We anticipate that this project would cost approximately $100,000 to complete.

If you have questions or would like to discuss this in more detail, please contact Irene Goldman, Director of Managed Care, at 651-201-5166.

Sincerely,

Sanne Magnan, M.D., Ph.D.
Commissioner
P. O. Box 64975
St. Paul, Minnesota 55164-0975

Enclosure

Administrative Expense Study

for the

Minnesota Department of Health

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November 7, 2008

Scott Leitz
Assistant Commissioner
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St. Paul, MN 55164-0975

Re: Administrative Expense Study

Dear Scott:

The following report addresses the findings of our analysis regarding development of guidelines for the allocation of administrative expenses and investment income by Minnesota health plans and county based purchasing organizations. We have reviewed the administrative expense allocation methods for numerous health plans. A description of our analysis and the results are contained in the following report.

As requested our report provides recommendations for developing guidelines for consistent procedures for allocating administrative expenses and investment income across commercial and public lines of business and across individual public programs for health plans and county based purchasing plans. Our report also addresses recommendations and cost estimates for developing detailed standards and procedures for examining the reasonableness of health plan and county based purchasing plan administrative expenditures for publicly funded programs.

We would be pleased to provide any additional information and discuss our report. Should you have any questions, please feel free to contact Pat at (612) 397-4033 / ppechacek@deloitte.com.

Sincerely,

Deloitte Consulting LLP

Deloitte Consulting LLP

By: Patrick L. Pechacek

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Executive Summary

Background

With the passing of Senate File No. 3322 into law, Section 12 directs the State of Minnesota Department of Health (the State) to conduct a study and report to the legislature regarding guidelines and recommendations that would allow for consistent comparison of health plans and county-based purchasing plans administrative expenses and investment income. Additionally, the State is to provide recommendations as to the steps and costs necessary to develop standards and procedures for examining the reasonableness of administrative expenses by program and functional area once those guidelines are adopted. The State has retained Deloitte Consulting LLP (Deloitte Consulting) for assistance with this study.

The goals of the study are to:

1. Develop guidelines for allocating administrative expenses.
2. Develop guidelines for allocating investment income.
3. Provide recommendations and cost estimates to develop standards and procedures to examine the reasonableness of administrative expenses for publicly funded programs.

Worksteps

To conduct this study, we collected and analyzed data and information from several health and county-based purchasing plans. Currently, the State collects a number of reports that capture administrative expenses at multiple levels. These reports include information specified by the National Association of Insurance Commissioners (NAIC) and reporting unique to the State of Minnesota. We reviewed this information and detailed 2007 reports as part of our analysis. We also sent a data request and questionnaire to the health plan organizations to obtain additional information necessary to conduct the study. The study was focused on those plans providing health care services to commercial and public programs, which narrowed the scope to eleven plans.

Findings

Based on the review of the responses to the data request regarding administrative expense allocation methods being employed, it is clear that health plan organizations currently utilize a wide variety of allocation methods. Out of the nine plans which provided information regarding their allocation methods, many of the plans had similar methods or common themes but no two plans used the exact same methodology. All these methods are generally reasonable. The wide variance in allocation methods leads to significant differences when comparing expense allocations by product across the health plan organizations. Additional details are provided in the body of this report.

The chart below provides a high level summary of the administrative expense allocation methods used by nine plans.

<table>
<tr><th colspan="3">2007 Administrative Expense Allocation Methods</th></tr>
<tr><th colspan="3">Large Plans Offering Both Commercial and Public Programs</th></tr>
<tr><th>Plan A</th><th>Plan B</th><th>Plan C</th></tr>
<tr><td>• Allocation methods include:
– direct allocation to a product line
– member months
– weighted member months
– claim counts
– FTE's
– square footage
– interviews</td><td>• Overhead costs allocated based on Headcount and square feet
• Operation costs allocated based on fixed percentages determined by manager interviews
• Cost center specific functional costs are allocated based on membership counts and claim counts</td><td>• Expenses allocated based on:
– claims processed
– member months
– call center statistics
– estimates of staff time</td></tr>
<tr><th colspan="3">Other Plans Offering Primarily Public Programs</th></tr>
<tr><th>Plan D</th><th>Plan E</th><th>Plan F</th></tr>
<tr><td>• All expenses that can be are allocated to:
– product line
• The remaining expenses are allocated based on:
– premium revenue</td><td>• Expenses allocated based on:
– direct allocation to a product line
– claims expense</td><td>• Claims and adjustment expenses are allocated by cost drivers that are appropriate for each cost center.
• General administrative expenses are allocated to line of business based on a combination of FTEs, revenue, and member months</td></tr>
<tr><th colspan="3">County Based Plans Offering Public Programs Only</th></tr>
<tr><th>Plan G</th><th>Plan H</th><th>Plan I</th></tr>
<tr><td>• Allocated based on member months</td><td>• Direct allocation to a product line using member months</td><td>• Allocated based on reported revenue</td></tr>
</table>

Based on the review of the responses to the data request regarding investment income allocation methods being employed, again it was clear that the health plans are deploying a variety of allocation methods.. The methods used to allocate investment income are generally simpler than those used to allocate administrative expenses. There was more consistency among methods being used than demonstrated for the administrative expense allocation. However, many of the plans allocate investment income based on revenue which has limited correlation to operating income or earnings.

The chart provides a high level overview of the investment allocation methods used by nine plans.

2007 Investment Income Allocation Methods		
Large Plans Offering Both Commercial and Public Programs		
Plan A	**Plan B**	**Plan C**
• Based on cumulative net income or net loss of that product line since that product has been offered, applied against averaged rate of return on investment portfolio for that year	• Revenue	• Based on adjusting operating income for current year, with investment income on the prior years' surplus classified as "other".
Other Plans Offering Primarily Public Program		
Plan D	**Plan E**	**Plan F**
• Based on a blended percentage of a product line's revenue with the percentage of that product line's three-year average earnings.	• Premium (revenue)	• No response
County Based Plans Offering Public Programs Only		
Plan G	**Plan H**	**Plan I**
• Member months	• Capitation revenue	• Revenue

Recommendations for Guidelines

As noted earlier, the first part of this project was to develop guidelines for a consistent and reasonable method for allocating administrative expenses by line of business or individual public program. Based on our analysis we would recommend that plans employ a hierarchical allocation method. **This hierarchical method would directly allocate expenses to specific lines of business or products when such information is available and then allocate the remaining expenses based on another method such as claims counts.**

The second part of this task was to develop guidelines for allocating investment income by line of business or product. **We would recommend allocation based upon cumulative net/operating income over time by business line/product.**

We would recommend these guidelines be implemented in the Minnesota Supplemental Report #1 which the State requires be submitted for all Health Maintenance Organizations (HMOs), Community Integrated Service Networks (CISNs), County-Based Purchasers (CBPs), and Accountable Provider Networks (APNs).

Recommendations for Developing Detailed Standards and Procedures

The second major task was to develop recommendations as to the steps and costs necessary to develop standards and procedures for examining the reasonableness of expenses by individual public program and functional area. Based on our conversations with the State regarding available resources to develop detailed standards and procedures, the development of a final reporting template, standards and procedures would be driven by Department of Health with input from an advisory committee and from health plans.

Presuming that the guidelines recommended in this report are adopted and plans are able to allocate total administrative expenses and investment income in a similar fashion, the following steps and estimated costs could be used to develop detailed standards and procedures for examining the reasonableness of administrative expenses by individual publicly funded program.

The development of this process would require two steps. First, the State would need to define consistent guidelines to complete a report similar in design to a combined Minnesota Supplemental Report #1 by program and the Health Plan Financial and Statistical Report by functional area. We would recommend using these two reports as the individual program and functional area definitions in the new report. The State would develop the report with input from an advisory committee of representatives from the Departments of Human Services and Commerce. Additional input would be provided by health plan organizations at the State's request. A sample of a report by program and functional area is included in Appendix I.

Second, once the report is defined, the State will need to develop standards and procedures for examining the reasonableness of expenses. Again the State would work with an advisory committee of representatives from the Departments of Human Services and Commerce.

Finally, the study was to provide an estimate of costs if the guidelines are adopted by the legislature and it is necessary to develop detailed standards and procedures for examining the reasonableness of expenses by individual public program and functional area as described. Assuming that the legislation was effective in August and a final report was due to the legislature in January 2010, the project would be completed in about a five to six month period. As the result of our discussions with the State, it our understanding that a reasonable cost estimate for this effort is approximately $200,000. This estimate does not include staffing for future examinations of reasonableness performed by the State, nor does it include any savings or costs incurred by health plans to comply with the resulting guidelines.

Background

Following the passage of Senate File No. 3322, Section 12 requires the State to perform a study and report to the legislature regarding guidelines and recommendations that would allow for consistent comparison of health plans and county-based purchasing plans administrative expenses. The State has retained Deloitte Consulting LLP ("Deloitte Consulting") for assistance with this study.

Section 12 of Senate File No. 3322 reads:

> Section 12. Health Plan and County-Based Purchasing Plan Requirements
>
> The commissioner of health shall develop and report to the legislature under Minnesota Statues, section 3.195, by January 15, 2009, guidelines to ensure that health plans, and county-based purchasing plans where applicable, have consistent procedures for allocating administrative expenses and investment income across their commercial and public lines of business and across individual public programs. The guidelines shall be consistent with generally accepted accounting principles and principles from the National Association of Insurance Commissioners. The guidelines shall not have the effect of changing allocation for Medicare-related programs as permitted by federal law and the Centers for Medicare and Medicaid Services. The report shall include recommendations and cost estimates for developing detailed standards and procedures for examining the reasonableness of health plan and county-based purchasing plan administrative expenditures for publicly funded programs. These standards and procedures must include a process for detailed examinations of individual programs and functional areas.

The State and Deloitte Consulting divided this study into two tasks. The first task was to better understand how health plans and county-based purchasing plans are allocating administrative expenses and investment income in order to develop allocation guidelines that are reasonable and consistent. Particular attention was focused on how administrative expenses are allocated between commercial, Medicare and Medicaid programs. As expected, there were significant differences between plans with multiple health products (commercial and public programs) versus those with only public business and those with only commercial business. Further differences were expected and observed between larger and smaller health plans and county-based purchasing organizations.

Following a review of available administrative expense reports, a data request was sent to numerous health plans and county-based purchasing plans to understand how administrative expenses and investment income are standardly allocated for these reports. The responses to this data request were reviewed to understand how plans allocate administrative expenses and investment income by individual program and product. Various allocation methods were assessed and compared to current allocation methods.

The second task of the study was to develop recommendations and cost estimates for developing detailed standards and procedures for examining the reasonableness of administrative expenses. These standards and procedures will need to include a process for detailed examinations of individual programs and functional areas.

Limitations

We have not audited any of the data in the various financial reports or data requests; however, we have reviewed this data for reasonability. We have assumed without audit or verification that all data and information provided to us is complete and accurate. If the underlying data or information provided is inaccurate or incomplete, the results of our review may likewise be inaccurate or incomplete.

Final responsibility for the conclusions reached and examination judgments will remain with the State. The results of our analysis are only valid based on the data available through the development of this report. Data that may become available subsequent to this report could alter the results of our analysis.

Worksteps

The first step in this analysis was to gather the information that would drive the study. We obtained available 2007 data, financial statements and reports already provided to the State Departments of Commerce and Health for 13 unique plans. This information is collected either through NAIC reporting or State-specific reporting. The study was focused on those plans providing health care services to commercial and public programs, which narrowed the scope to eleven plans.

It was necessary to gather further information from the health plan organizations. A data request was sent to the eleven health plans and county-based purchasing plans. The data request asked for detailed information regarding how plans currently allocate administrative expenses and investment income along lines of business and products. Individual plans bucket administrative expenses in two buckets when performing NAIC and State specific reporting, claims adjustment and general administrative expenses. Plans allocate these expenses by line of business and product for the 2007 Minnesota Supplement Report #1 and the Analysis of Operations by Line of Business report. The data request also asked if the plans had the capability to break down the administrative expense information in Part 3 – Analysis of Expenses of the Underwriting and Investment Exhibit by line of business or individual public program. The plans were also asked to provide detailed information concerning how the investment income shown in the 2007 Minnesota Supplement Report #1 and the Exhibit of Net Investment Income is allocated across lines of business and individual products. Finally, the plans were asked to describe in detail how indirect healthcare expenses are allocated by functional area/category and what expense items are included in the "general administrative" expense category in the 2007 Section 8 of the Health Plan Financial and Statistical Report (HPFSR) which summarizes indirect expenses by predefined functional category.

The data request was submitted to:

- Blue Plus
- HealthPartners
- Medica
- Ucare
- First Solutions
- Itasca Medical Care
- Metropolitan Health Plan
- PreferredOne
- PrimeWest
- South Country Health Alliance
- Sanford Health Plan

A response was received from all of the above plans except for Sanford Health Plan. PreferredOne responded to the data request but noted they only have commercial business and do not provide any coverage in public programs. We have ignored PreferredOne in this review since the focus of this study was to review how plans allocate between commercial and public lines of business and across individual public programs. As a result, nine plans were the focus of the analysis.

The responses to the data requests were reviewed and summarized in order to understand the various allocation methods utilized by health plans and county-based purchasing plans.

Information from the Minnesota Supplement Report #1 and the Analysis of Operations by Line of Business report were obtained and summarized for the nine plans. The claims adjustment and general administrative expenses and investment income were allocated based on member months, revenue, claims and underwriting gain/loss (for investment income only). These allocations were then compared to the current allocation method being employed by the plans.

In our review of the Minnesota Supplement Report #1 and the Analysis of Operations by Line of Business report, we found the Minnesota Supplement Report #1 to be more comprehensive and detailed. It appeared to provide a more appropriate breakdown of data by lines of business and products and more appropriate data for the analysis such as member months and investment income. Our following analysis is mainly focused on the information in the Minnesota Supplement Report #1. This report is required under Minnesota Statutes and is the report the State of Minnesota has the most control over regulating what is shown in the report and how the data should be allocated.

Data

Deloitte Consulting utilized the following information in our analysis:

1. 2007 National Association of Insurance Commissioner's (NAIC) Annual Statements
   a. Pursuant to Minnesota Statute, every health plan company doing business in the State of Minnesota must file NAIC annual statement blanks with the Commissioners of Health or Commerce
   b. The exhibits that detail administrative expenses and investment income in the NAIC annual statements reviewed in this study include:
      i. Analysis of Operations by Line of Business Report
      ii. Underwriting and Investment Exhibit, Part 3 – Analysis of Expenses
      iii. Exhibit of Net Investment Income

2. 2007 Minnesota Annual Statement Pages
   a. Additionally every health plan company doing business in the State of Minnesota must file additional annual reports required by the State
   b. The Minnesota Supplement Report #1in the annual statement

3. 2007 Health Plan and Financial Statistical Reports
   a. Under Minnesota Statutes 62J.301, subdivision 3 and Minnesota Statutes section 62J.38 every health plan company with health care premium revenue for Minnesota residents must annually submit a Health Plan Financial and Statistical Report to the Minnesota Department of Health
   b. Section 8 of the Health Plan Financial and Statistical Report – Indirect Health Care Expenses

4. Data Request
   a. Health plan responses to data request regarding allocation of administrative expenses and investment income for the reports listed above

In reviewing the various reports provided, the Analysis of Operations by Line of Business Report and the Minnesota Supplemental Report #1 both do a reasonable job of identifying expenses by commercial and public lines of business as well as individual programs.

The Underwriting and Investment Exhibit, Part 3 and the Exhibit of Net Investment Income provide more detail of administrative expenses (i.e. rent, salaries) and investment income (i.e. stocks, bonds), but do not provide detail by line of business or individual program.

The Health Plan and Financial Statistical Report-Section 8 provides detail on indirect expenses that must be certified as being consistent with the NAIC annual statements. This report monitors expenses by predefined functional areas (i.e. Billing, Claims Processing, Customer Service), but does not provide detail by line of business or individual program.

Examples of the annual statements, statistical reports, a copy of the data request, and plan responses to the data request are provided in the Appendices.

Results and Findings

Administrative Expense Allocation Methods Review

Based on our review of the responses to the data request regarding administrative expense allocation methods being employed in the Minnesota Supplement Report #1, it is clear that the plans are using a wide variety of allocation methods. Out of the nine plans which provided information regarding their allocation methods, many of them had similar methods or common themes but no two plans used the exact same methodology. The larger plans used more complex, hierarchical methods, which split expenses (first, directly by product lines and then on several other methods). The methods used some combination of allocation factors such as direct allocation to line of business or product, member months, revenue, claim counts, square footage, number of full-time employees, interviews with managers and staff, estimates of staff time, and call center statistics. All these methods are a reasonable way to allocate certain administrative costs. Other plans used simpler methods that used only one or a few allocation methods.

Even though no two organizations use the exact same methodology, there is some overlap with the same or similar allocations being used as part of the methodology. Five plans use a direct allocation to line of business or product, six plans use member months as a allocation method, four use claim information, and three plans use revenue. The table below shows the administrative expense allocation method used by each plan.

<table>
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• Operation costs allocated based on fixed percentages determined by manager interviews
• Cost center specific functional costs are allocated based on membership counts and claim counts</td><td>• Expenses allocated based on:
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– premium revenue</td><td>• Expenses allocated based on:
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– claims expense</td><td>• Claims and adjustment expenses are allocated by cost drivers that are appropriate for each cost center.
• General administrative expenses are allocated to line of business based on a combination of FTEs, revenue, and member months</td></tr>
<tr><th colspan="3">County Based Plans Offering Public Programs Only</th></tr>
<tr><th>Plan G</th><th>Plan H</th><th>Plan I</th></tr>
<tr><td>• Allocated based on member months</td><td>• Direct allocation to a product line using member months</td><td>• Allocated based on reported revenue</td></tr>
</table>

Summary of Expenses by Health Plan

The following table shows the current administrative expenses from the 2007 Minnesota Supplement Report #1. The plans are grouped into three categories: 1) large plans that offer both commercial and public programs 2) other plans that offer primarily public programs (Medicare and Medicaid) 3) county based plans that offer only public programs (primarily Medicaid).

The table below shows the 2007 administrative expense levels by plan. The various health care organizations have significantly different administrative expense levels and also significantly different methods for distributing administrative expenses between claims adjustment and general administrative expenses. It should be noted that the size of plan and product mix also play a significant role in revenue and expense variations.

2007 Administrative Expense Levels by Plan

	Member Months	Revenue $	Revenue PMPM	Claims Adjustment Expense PMPM	General and Administrative Expense PMPM	Total Administrative Expense PMPM	Administrative Expense % of Revenue
Large Plans offering both commercial and public programs							
Blue Plus	2,303,650	813,293,652	353.05	15.05	13.80	28.85	8.17%
HealthPartners	3,997,211	1,527,444,000	382.13	8.40	25.09	33.48	8.76%
Medica	2,262,480	1,027,943,109	454.34	6.15	28.99	35.14	7.73%
Large Plan Total	**8,563,341**	**3,368,680,761**	**393.38**	**9.59**	**23.08**	**32.67**	**8.31%**
Other Plans offering primarily public programs							
UCare	1,485,596	1,015,579,733	683.62	5.93	52.89	58.82	8.60%
First Solutions	132,750	68,840,138	518.57	28.10	14.40	42.50	8.19%
Metropolitan Health Plan	209,835	120,949,185	576.40	21.99	111.41	133.40	23.14%
Other Plan Total	**1,828,181**	**1,205,369,056**	**659.33**	**9.39**	**56.81**	**66.20**	**10.04%**
County Based Plans offering only public programs							
Itasca Medical Care	63,869	36,173,224	566.37	1.90	67.89	69.79	12.32%
South Country Health Alliance	289,494	154,520,392	533.76	1.82	49.32	51.15	9.58%
PrimeWest	123,936	89,713,504	723.87	46.34	68.01	114.34	15.80%
County Based Plan Total	**477,299**	**280,407,120**	**587.49**	**13.39**	**56.66**	**70.05**	**11.92%**
All Plan Total	**10,868,821**	**4,854,456,937**	**446.64**	**9.72**	**30.23**	**39.95**	**8.95%**

Excludes non-MN products, Dental, Medical Management, and Administrative Services Only
Source: 2007 Minnesota Supplement Report #1

PreferredOne responded to the data request but noted they only have commercial business and do not provide any coverage in public programs. We have ignored PreferredOne in this review since the focus of this study was to review how plans allocate between commercial and public lines of business and across individual public programs. It should be noted that the county-based above table does not include revenue and administrative expenses for all lines of business or products a plan may offer, such as dental, administrative services only, medical management and non-Minnesota products. These categories make up a minor portion of total revenue and administrative costs and were not reviewed in detail in this study.

Definition of terms in the above table:

- PMPM – per member per month
- Claims adjustment expense - All costs and expenses allocable to a specific claim that are incurred by a plan in the investigation, appraisal, adjustment, settlement, litigation, defense or appeal of a specific claim, including court costs and costs of supersedes and appeal bonds, and including post-judgment interest.
- General and administrative expense - Money spent in operating a business (rent, salaries, telephone charges, etc.) that is not directly associated with production of goods or services.
- Total administrative Expense - The sum of claims adjustment and general and administrative expenses
- Admin percentage of Revenue - The administrative expense divided by revenue. This shows what portion of a plan's revenue is for administrative expenses.

As the table below shows, plans have significantly different administrative expense levels by category of plan, line of business and product.

2007 Administrative Expense Levels by Product

		Member Months	Revenue $	Revenue PMPM	Claims Adustment Expense PMPM	General and Administrative Expense PMPM	Total Administrative Expense PMPM	Administrative Expense % of Revenue
Large Plans that offer both commercial and public programs (Blue Plus, HealthPartners and Medica)	Commercial	4,671,675	1,352,468,060	289.50	7.90	22.12	30.03	10.37%
	Medicare Supplement	48,482	32,958,829	679.82	7.30	47.56	54.87	8.07%
	Medicare + Choice	13,588	2,976,015	219.02	14.21	13.03	27.25	12.44%
	Medicare Cost	398,601	229,815,201	576.55	11.02	31.98	42.99	7.46%
	MN Senior Health Options	256,435	580,886,576	2265.24	41.30	72.67	113.97	5.03%
	MN Disability Health Options	0	0	0.00	0.00	0.00	0.00	0.00%
	Ability Care	0	0	0.00	0.00	0.00	0.00	0.00%
	General Assistance Medical Care	118,248	96,689,482	817.68	9.87	29.89	39.76	4.86%
	Public Medical Assistance Program	2,016,872	742,378,733	368.08	9.66	20.20	29.86	8.11%
	MNCare	1,039,440	330,507,865	317.97	8.70	15.55	24.24	7.62%
	Total For All Products	**8,563,341**	**3,368,680,761**	**393.38**	**9.59**	**23.08**	**32.67**	**8.31%**
Other Plans that offer primarily public programs (First Solutions, Metropolitan Health Plan and Ucare)	Commercial	20,666	7,469,672	361.45	11.06	5.85	16.91	4.68%
	Medicare Supplement	2,851	698,354	244.95	2.94	26.23	29.17	11.91%
	Medicare + Choice	445,502	394,430,563	885.36	8.80	79.12	87.92	9.93%
	Medicare Cost	0	0	0.00	0.00	0.00	0.00	0.00%
	MN Senior Health Options	119,540	269,849,780	2257.40	34.81	171.41	206.22	9.14%
	MN Disability Health Options	10,504	76,527,115	7285.52	46.61	415.40	462.00	6.34%
	Ability Care	0	0	0.00	0.00	0.00	0.00	0.00%
	General Assistance Medical Care	62,822	52,440,147	834.74	17.22	79.27	96.48	11.56%
	Public Medical Assistance Program	878,074	306,219,517	348.74	6.08	34.32	40.40	11.58%
	MNCare	288,222	97,733,908	339.09	6.70	29.32	36.02	10.62%
	Total For All Products	**1,828,181**	**1,205,369,056**	**659.33**	**9.39**	**56.81**	**66.20**	**10.04%**
County Based Plans that offer only public programs (Itasca Medical Care, PrimeWest and South Country Health Alliance)	Commercial	0	0	0.00	0.00	0.00	0.00	0.00%
	Medicare Supplement	0	0	0.00	0.00	0.00	0.00	0.00%
	Medicare + Choice	0	0	0.00	0.00	0.00	0.00	0.00%
	Medicare Cost	0	0	0.00	0.00	0.00	0.00	0.00%
	MN Senior Health Options	54,311	114,765,036	2113.11	67.53	133.70	201.23	9.52%
	MN Disability Health Options	0	0	0.00	0.00	0.00	0.00	0.00%
	Ability Care	7,499	6,777,644	903.81	1.83	76.91	78.74	8.71%
	General Assistance Medical Care	12,838	9,173,192	714.53	8.90	52.29	61.18	8.56%
	Public Medical Assistance Program	362,735	133,823,689	368.93	6.46	45.27	51.73	14.02%
	MNCare	39,916	15,867,559	397.52	6.37	52.89	59.27	14.91%
	Total For All Products	**477,299**	**280,407,120**	**587.49**	**13.39**	**56.66**	**70.05**	**11.92%**
All Plans	Commercial	4,692,341	1,359,937,732	289.82	7.92	22.05	29.97	10.34%
	Medicare Supplement	51,333	33,657,183	655.66	7.06	46.38	53.44	8.15%
	Medicare + Choice	459,090	397,406,578	865.64	8.96	77.17	86.13	9.95%
	Medicare Cost	398,601	229,815,201	576.55	11.02	31.98	42.99	7.46%
	MN Senior Health Options	430,286	965,501,392	2243.86	42.81	107.80	150.61	6.71%
	MN Disability Health Options	10,504	76,527,115	7285.52	46.61	415.40	462.00	6.34%
	Ability Care	7,499	6,777,644	903.81	1.83	76.91	78.74	8.71%
	General Assistance Medical Care	193,908	158,302,821	816.38	12.19	47.37	59.56	7.30%
	Public Medical Assistance Program	3,257,681	1,182,421,939	362.96	8.34	26.80	35.14	9.68%
	MNCare	1,367,578	444,109,332	324.74	8.21	19.54	27.75	8.54%
	Total For All Products	**10,868,821**	**4,854,456,937**	**446.64**	**9.72**	**30.23**	**39.95**	**8.95%**

Excludes non-MN products, Dental, Medical Management, and Administrative Services Only

Source: 2007 Minnesota Supplement Report #1

Descriptions of the above programs can be found in the Appendices.

As noted earlier, the table shown above does not include revenue and administrative from all lines of business. The non-MN products, dental, medical management and administrative services only business have been excluded.

Administrative Expense Allocations in the Underwriting and Investment Exhibit – Part 3 Analysis of Expenses

The Analysis of Expense Report contains very detailed administrative expense categories such as rent, salaries, commissions, legal fees, postage, real estate expenses, etc. An example of this report can be found in Appendix F.

The data request also asked the plans if they had the ability to provide administrative costs in the Part 3 Analysis of Expenses by line of business or product. Three of the nine plans, including two of the large plans, stated they did not have the ability to split these expenses by line of business or product while the other plans are able to do this. If these three plans were to comply, it would require a significant change in administrative expense allocation methods and may also result in a significant cost to change current systems.

This report is also defined by the National Association of Insurance Commissioners which is an association of insurance regulators from all 50 states. Any changes to this report would require agreement from other state regulators and be very difficult to accomplish.

Administrative Expense Allocations in the Health Plan Financial and Statistical Report

Under Minnesota Statutes 62J.301, subdivision 3 and Minnesota Statutes section 62J.38 every health plan company with health care premium revenue for Minnesota residents must annually submit a Health Plan Financial and Statistical Report (HPFSR) to the Minnesota Department of Health.

The HPFSR annually monitors health care expenditures by collecting data from all health plan companies providing health coverage to Minnesota residents. An example of this report can be found in Appendix H.

This report is controlled by the Minnesota Department of Health and requires certification to be consistent with audited financial statements. Section 8 of this report provides administrative expenses by functional area and may be the basis for the second task of detailed examinations of individual programs and functional areas. However, administrative expenses in the report are not split by line of business or individual program. Four plans are able to allocate the HPFSR report administrative expenses by line of business or product.

Analysis and Discussion of Administrative Expense Allocation Methods

The more complex the administrative allocation method employed, the more accurate the allocation should be. However, this added sophistication will likely result in additional administrative costs. A plan has to weigh the costs and benefits of utilizing a complex and costly allocation method. Many of the larger plans appear to have decided the benefits outweigh the costs. Smaller plans have not adopted such complex allocation methods. They generally have fewer products or lines of business and don't require the same level of complexity. also In addition, they may not be able to incur this extra cost and remain competitive.

The Accounting Practices and Procedures Manual contains Statements of Statutory Accounting Principles (SSAP). SSAP No. 70 defines the Allocation of Expenses into claim adjustment expense, general administrative expenses and investment expenses. It states: "Allocation to the above categories should be based on a method that yields the most accurate results. Specific identification of an expense with an activity that is represented by one of the categories above will generally be the most accurate method. Where specific identification is not feasible allocation of expenses should be based upon pertinent factors or ratios such as studies of employee activities, salary ratios or similar analysis."

Deloitte Consulting performed an analysis using the data provided in the Minnesota Supplement Report #1 and the Analysis of Operations by Line of Business Report. From this, two large expense categories are identified: 1) claims adjustment and 2) general and administrative expenses. In our analysis, these expense items were allocated to lines of business and products using three primary allocation methods utilizing available reported information: 1) member months, 2) revenue and 3) claims dollars. It is apparent that plans use significantly different methods for allocating operating expenses into claims adjustment expenses versus other general and administrative expenses. Therefore, our analysis focused on total administrative expenses. The allocation of the administrative expenses using these methods was compared to the total administrative expenses currently being utilized by the plans. The results vary significantly for all plans. Using any one of these methods for all plans creates significantly different results from what is currently being employed. A discussion of each method follows.

Direct Allocation

Allocating administrative expenses directly to the appropriate line of business or product should be the most accurate method. This is consistent with SSAP No. 70. However, direct allocation is significantly complex and costly. For example, it can take significant time and cost to understand what percentage of each employee's time is spent on each line of business and product and then allocate their salaries and benefits based on this proportion. It may also require additional reporting and enhanced time and attendance tracking systems. This method may be fairly easy to use to allocate certain expenses such as sales, marketing and commission expenses or for dedicated resources. Five plans currently utilize this allocation method in some capacity. Details regarding the plans use of direct allocation were not provided, so no further analysis was performed.

Revenue

The revenue method simply distributes the administrative expense by business line or product based on the revenue generated. This method may not be a reasonable allocation method since a line of business or product does not necessarily have higher expenses just because it brings in more revenue. A high revenue line of business or product may utilize a similar amount of staff time as lines of business or products that are lower revenue. Three plans currently utilize a revenue allocation method in some capacity.

The below table compares the current allocation method utilized by the plans versus an allocation method based solely on revenue. As the data shows, the administrative expenses allocated to each line of business and product differs significantly.

Comparison of 2007 Current Allocation Method versus Revenue Allocation Method

Total Administrative Expense PMPM - Includes All Plans

	Total	Commercial	Medicare Supp	Medicare + Choice	Medicare Cost	MN Senior Health Options	MN Disability Health Options	Ability Care	General Assistance Medical Care	Public Medical Assistance Program	MN Care
Current Allocation Method	39.95	29.97	53.44	86.13	42.99	150.61	462.00	78.74	59.56	35.14	27.75
Revenue Allocation Method	39.95	25.93	58.65	77.44	51.58	200.72	651.72	80.85	73.03	32.47	29.05
Dollar Difference	**0.00**	**-4.04**	**5.21**	**-8.69**	**8.58**	**50.11**	**189.72**	**2.11**	**13.47**	**-2.67**	**1.30**
% Difference	**0.00%**	**-13.49%**	**9.75%**	**-10.09%**	**19.97%**	**33.27%**	**41.06%**	**2.68%**	**22.62%**	**-7.59%**	**4.69%**

Excludes non-MN products, Dental, Medical Management, and Administrative Services Only

Based on information from the 2007 Minnesota Supplement Report #1

Claims

Similar to the Revenue method, allocation of all administrative expenses may be distributed across products and business lines based upon paid or incurred claims. *Like the revenue method, higher claims levels do not necessarily suggest that higher administrative expense loads are justified.*

Alternatively, claim counts may be a preferred method. Claims counts would more closely correlate to effort than claims costs since similar resources could be expended to handle a smaller claim as for a larger claim.

Plans seem to use significantly different methods for allocating total operating expenses into claims adjustment expenses versus other general and administrative expenses. Because of this, using claims data may not be very appropriate for allocating general and administrative or total administrative expenses. For example, allocating the salaries and benefits of staff in departments such as legal, human resources, actuarial, finance, accounting, etc., based on claim counts may not make sense since these costs are not directly related to the number of claims that occur. Four plans currently utilize this allocation method in some capacity.

The following table compares the current allocation method utilized by the plans versus an allocation method based solely on claims dollars. Claim counts were not available in the 2007 financial reports so claim dollars were used instead. If available, claim counts may have been a better proxy; plans should be able to provide this information. It should also be recognized that plans will vary significantly on their definition of a claim count (which is not an issue if only used to allocate expenses within the plan). As the data shows, the administrative expenses allocated to each line of business and product differs significantly by plan.

Comparison of 2007 Current Allocation Method versus Claims Dollars Allocation Method

Total Administrative Expense PMPM - Includes All Plans

	Total	Commercial	Medicare Supp	Medicare + Choice	Medicare Cost	MN Senior Health Options	MN Disability Health Options	Ability Care	General Assistance Medical Care	Public Medical Assistance Program	MN Care
Current Allocation Method	39.95	29.97	53.44	86.13	42.99	150.61	462.00	78.74	59.56	35.14	27.75
Claims Dollars Allocation Method	39.95	25.84	50.46	76.24	52.91	189.41	665.71	75.68	91.09	32.38	30.79
Dollar Difference	**0.00**	**-4.13**	**-2.98**	**-9.89**	**9.92**	**38.80**	**203.70**	**-3.06**	**31.54**	**-2.76**	**3.04**
% Difference	**0.00%**	**-13.77%**	**-5.57%**	**-11.48%**	**23.08%**	**25.76%**	**44.09%**	**-3.89%**	**52.96%**	**-7.85%**	**10.97%**

Excludes non-MN products, Dental, Medical Management, and Administrative Services Only

Based on information from the 2007 Minnesota Supplement Report #1

Member Months

Using member months to allocate administrative expenses may be appropriate for certain variable expenses that increase as more members are enrolled. For example, outsourced services and corresponding fees paid to vendors may be based on contracts that pay the vendor a fixed dollar amount per member. *This method is not as appropriate for fixed expenses, such as rent, that decrease on a per member basis as more members are enrolled.* This method would also give each line of business and product a consistent per member per month cost. *However, this may not be reasonable since all lines of business and products will not have the same cost per member.* Some lines of business or products will be more costly due to aggressive marketing strategies, higher underwriting costs, higher number of

claims, additional costs for adjudicating and paying claims, requiring more staff to work on the line of business or product, etc. Also, as a line of business or product gains members, economies of scale are achieved and fixed expenses are spread over more members. Six plans currently utilize this allocation method in some capacity.

The table below compares the current allocation method utilized by the plans versus an allocation method based solely on member months. As the data shows, the administrative expenses allocated to each line of business and product differ significantly.

Comparison of 2007 Current Allocation Method versus Member Months Allocation Method

Total Administrative Expense PMPM - Includes All Plans

	Total	Commercial	Medicare Supp	Medicare + Choice	Medicare Cost	MN Senior Health Options	MN Disability Health Options	Ability Care	General Assistance Medical Care	Public Medical Assistance Program	MN Care
Current Allocation Method	39.95	29.97	53.44	86.13	42.99	150.61	462.00	78.74	59.56	35.14	27.75
Member Month Allocation Method	39.95	39.95	39.95	39.95	39.95	39.95	39.95	39.95	39.95	39.95	39.95
Dollar Difference	**0.00**	**9.98**	**-13.49**	**-46.17**	**-3.04**	**-110.66**	**-422.05**	**-38.78**	**-19.60**	**4.82**	**12.21**
% Difference	**0.00%**	**33.32%**	**-25.24%**	**-53.61%**	**-7.06%**	**-73.47%**	**-91.35%**	**-49.26%**	**-32.91%**	**13.71%**	**43.99%**

Excludes non-MN products, Dental, Medical Management, and Administrative Services Only
Based on information from the 2007 Minnesota Supplement Report #1

Other Methods

There are other sound and reasonable methods that may be deployed. For example, call center statistics can be used to allocate the expenses of the call center based on the number of calls received for each line of business or product. However, these statistics are not a good method for allocation of other expenses, such as rent. Square footage could be used to allocate rent (assuming that cost is consistent for all space across the organization) if it is clear that certain portions of a building or staff focus all of their time on one line of business or product. Interviews with managers or staff to develop estimates of what proportion of expenses are attributable to certain lines of business or products may be a sound method for allocating certain expenses. These interviews, however, take a significant amount of time and are still based on estimates by the managers or staff. Several of these could easily be converted to the direct allocation methodology. Four plans currently utilize one of these other allocation methods in some capacity.

Recommended Guidelines for Allocation of Administrative Expenses

The purpose of this report is to develop guidelines for a consistent and reasonable method for allocation of administrative expenses and investment income by line of business or product. We observed no two plans that have a similar methodology to allocate administrative expenses. Based on our analysis we would recommend that plans employ a hierarchical allocation method. This hierarchical method would directly allocate expenses to specific lines of business or products when such information is available and then allocate the remaining expenses based on another method such as claims counts. The direct allocation method would be more accurate than any other method, but also most expensive and prohibitively difficult to implement.

Investment Income Allocation Methods

Based on the review of the responses to the data request regarding investment income allocation methods being employed in the Minnesota Supplement Report #1 and the Exhibit of Net Investment Income, it is clear that the plans utilize a variety of allocation methods. Out of the eight plans which provided information regarding their allocation methods, many of the plans had similar methods or common themes but used differing methodologies. The methods used to allocate investment income are generally simpler than those used to allocate administrative expenses.

Investment income was allocated by five plans based on revenue, three plans used operating or net income, and one plan used member months. The table below shows the investment income allocation method employed by each plan.

2007 Investment Income Allocation Methods		
Large Plans Offering Both Commercial and Public Programs		
Plan A	**Plan B**	**Plan C**
• Based on cumulative net income or net loss of that product line since that product has been offered, applied against averaged rate of return on investment portfolio for that year	• Revenue	• Based on adjusting operating income for current year, with investment income on the prior years' surplus classified as "other".
Other Plans Offering Primarily Public Program		
Plan D	**Plan E**	**Plan F**
• Based on a blended percentage of a product line's revenue with the percentage of that product line's three-year average earnings.	• Premium (revenue)	• No response
County Based Plans Offering Public Programs Only		
Plan G	**Plan H**	**Plan I**
• Member months	• Capitation revenue	• Revenue

As the table below shows, plans have significantly different investment income levels by category of plan, line of business and product.

2007 Investment Income Levels by Product

		Member Months	Revenue $	Revenue PMPM	Net Underwriting Gain/Loss PMPM	Investment Income PMPM	Investment Income % of Revenue	Investment Income % of Underwriting Gain/Loss
Large Plans that offer both commercial and public programs (Blue Plus, HealthPartners and Medica)	Commercial	4,671,675	1,352,468,060	289.50	0.27	2.19	0.75%	818.39%
	Medicare Supplement	48,482	32,958,829	679.82	97.39	548.94	80.75%	563.63%
	Medicare + Choice	13,588	2,976,015	219.02	57.38	4.85	2.21%	8.45%
	Medicare Cost	398,601	229,815,201	576.55	-2.01	4.22	0.73%	-210.41%
	MN Senior Health Options	256,435	580,886,576	2265.24	230.96	26.66	1.18%	11.54%
	MN Disability Health Options	0	0	0.00	0.00	0.00	0.00%	0.00%
	Ability Care	0	0	0.00	0.00	0.00	0.00%	0.00%
	General Assistance Medical Care	118,248	96,689,482	817.68	-191.44	-4.25	-0.52%	2.22%
	Public Medical Assistance Program	2,016,872	742,378,733	368.08	4.36	2.53	0.69%	58.07%
	MNCare	1,039,440	330,507,865	317.97	-15.86	3.03	0.95%	-19.10%
	Total For All Products	**8,563,341**	**3,368,680,761**	**393.38**	**4.07**	**6.21**	**1.58%**	**152.57%**
Other Plans that offer primarily public programs (First Solutions, Metropolitan Health Plan and Ucare)	Commercial	20,666	7,469,672	361.45	32.05	6.07	1.68%	18.93%
	Medicare Supplement	2,851	698,354	244.95	34.21	25.33	10.34%	74.06%
	Medicare + Choice	445,502	394,430,563	885.36	6.34	13.31	1.50%	209.81%
	Medicare Cost	0	0	0.00	0.00	0.00	0.00%	0.00%
	MN Senior Health Options	119,540	269,849,780	2257.40	37.53	53.63	2.38%	142.89%
	MN Disability Health Options	10,504	76,527,115	7285.52	85.53	64.85	0.89%	75.82%
	Ability Care	0	0	0.00	0.00	0.00	0.00%	0.00%
	General Assistance Medical Care	62,822	52,440,147	834.74	-119.42	7.50	0.90%	-6.28%
	Public Medical Assistance Program	878,074	306,219,517	348.74	1.60	3.89	1.11%	242.91%
	MNCare	288,222	97,733,908	339.09	1.08	11.27	3.32%	1044.91%
	Total For All Products	**1,828,181**	**1,205,369,056**	**659.33**	**1.74**	**11.13**	**1.69%**	**639.12%**
County Based Plans that offer only public programs (Itasca Medical Care, PrimeWest and South Country Health Alliance)	Commercial	0	0	0.00	0.00	0.00	0.00%	0.00%
	Medicare Supplement	0	0	0.00	0.00	0.00	0.00%	0.00%
	Medicare + Choice	0	0	0.00	0.00	0.00	0.00%	0.00%
	Medicare Cost	0	0	0.00	0.00	0.00	0.00%	0.00%
	MN Senior Health Options	54,311	114,765,036	2113.11	212.04	35.16	1.66%	16.58%
	MN Disability Health Options	0	0	0.00	0.00	0.00	0.00%	0.00%
	Ability Care	7,499	6,777,644	903.81	36.05	13.42	1.49%	37.23%
	General Assistance Medical Care	12,838	9,173,192	714.53	-160.92	9.97	1.40%	-6.20%
	Public Medical Assistance Program	362,735	133,823,689	368.93	-44.85	5.61	1.52%	-12.51%
	MNCare	39,916	15,867,559	397.52	-105.25	6.33	1.59%	-6.02%
	Total For All Products	**477,299**	**280,407,120**	**587.49**	**-22.52**	**9.27**	**1.58%**	**-41.17%**
All Plans	Commercial	4,692,341	1,359,937,732	289.82	0.41	2.20	0.76%	541.11%
	Medicare Supplement	51,333	33,657,183	655.66	93.88	519.86	79.29%	553.73%
	Medicare + Choice	459,090	397,406,578	865.64	7.85	13.06	1.51%	166.26%
	Medicare Cost	398,601	229,815,201	576.55	-2.01	4.22	0.73%	-210.41%
	MN Senior Health Options	430,286	965,501,392	2243.86	174.83	35.22	1.57%	20.15%
	MN Disability Health Options	10,504	76,527,115	7285.52	85.53	64.85	0.89%	75.82%
	Ability Care	7,499	6,777,644	903.81	36.05	13.42	1.49%	37.23%
	General Assistance Medical Care	193,908	158,302,821	816.38	-166.09	0.50	0.06%	-0.30%
	Public Medical Assistance Program	3,257,681	1,182,421,939	362.96	-1.86	3.24	0.89%	-174.14%
	MNCare	1,367,578	444,109,332	324.74	-14.90	4.86	1.50%	-32.64%
	Total For All Products	**10,868,821**	**4,854,456,937**	**446.64**	**2.51**	**7.17**	**1.61%**	**285.66%**

Excludes non-MN products, Dental, Medical Management, and Administrative Services Only

Source: 2007 Minnesota Supplement Report #1

Descriptions of the above programs can be found in Appendix A.

The table shown above does not include revenue and investment income from all lines of business. The non-MN products, dental, medical management and administrative services only business have been excluded.

Definition of terms in the above table not previously defined:

- Investment Income – Income earned from all forms of investments, including investment fees earned relating to uninsured plans.
- Net Underwriting Gain/Loss - Revenue less claim administrative expenses. Gain or loss not considering investment income.

Deloitte Consulting performed an analysis where the investment income in the Minnesota Supplement Report #1 and the Exhibit of Net Investment Income were allocated to lines of business and products using four simple allocation methods: member months, revenue, claims dollars and underwriting gain/loss. It should be noted that the underwriting gain/loss used was for the same year as the investment income. A more reasonable approach would be to use the underwriting gain/loss from the previous year or years; however, this information is not currently available.

The allocation of the investment income using these four methods was compared to the allocation of investment income currently being utilized by the plans. The results vary significantly by allocation method for all plans, and almost all lines of business have extremely large variations.

The below table compares the current allocation method utilized by the plans versus an allocation method based solely on revenue (which is the method five plans currently use). As the data shows, the investment income allocated to each line of business and product differs significantly.

Comparison of 2007 Current Allocation Method versus Revenue Allocation Method

Total Investment Income PMPM - Includes All Plans

	Total	Commercial	Medicare Supp	Medicare + Choice	Medicare Cost	MN Senior Health Options	MN Disability Health Options	Ability Care	General Assistance Medical Care	Public Medical Assistance Program	MN Care
Current Allocation Method	7.17	2.20	519.86	13.06	4.22	35.22	64.85	13.42	0.50	3.24	4.86
Revenue Allocation Method	7.17	4.65	10.53	13.90	9.26	36.03	116.97	14.51	13.11	5.83	5.21
Dollar Difference	**0.00**	**2.45**	**-509.33**	**0.84**	**5.03**	**0.80**	**52.12**	**1.09**	**12.61**	**2.59**	**0.35**
% Difference	**0.00%**	**111.29%**	**-97.98%**	**6.44%**	**119.11%**	**2.28%**	**80.38%**	**8.10%**	**2538.96%**	**79.82%**	**7.20%**

Excludes non-MN products, Dental, Medical Management, and Administrative Services Only
Based on information from the 2007 Minnesota Supplement Report #1

Based on our analysis, we would recommend allocation of investment income based on cumulative net/operating income over time by business line/product.

Recommendations and Cost Estimates for Developing Detailed Standards and Procedures

As part of this study, Section 12 of Senate File 3322 asks for recommendations as to the steps and costs necessary to develop standards and procedures for examining the reasonableness of expenses by individual public program and functional area. Based on our conversations with the State regarding available resources to develop detailed standards and procedures, the development of a final reporting template, standards and procedures would be driven by Department of Health with input from an advisory committee and from health plans.

Presuming that the guidelines recommended in this report are adopted and plans are able to allocate total administrative expenses and investment income in a similar fashion, the following steps and estimated costs could be used to develop detailed standards and procedures for examining the reasonableness of administrative expenses by individual publicly funded program.

The State currently does not receive the information needed to compare administrative costs by individual program and functional area. Development of a report collecting this additional level of information would be required to develop standards and procedures for examining the reasonableness of expenses. The development of this process would require two steps.

First, the State would need to define consistent guidelines to complete a report similar in design to a combined Minnesota Supplemental Report #1 by program and the Health Plan Financial and Statistical Report by functional area. We would recommend using these two reports as the individual program and functional area definitions in the new report. The State would develop the report with input from an advisory committee of representatives from the Departments of Human Services and Commerce. Additional input would be provided by health plan organizations at the State's request. A sample of a report by program and functional are is included in Appendix I.

Second, once the report is defined, the State would need to develop standards and procedures for examining the reasonableness of expenses. Again the State would work with an advisory committee of representatives from the Departments of Human Services and Commerce.

Finally, the study was to provide an estimate of costs if the guidelines are adopted by the legislature and it is necessary to develop detailed standards and procedures for examining the reasonableness of expenses by individual public program and functional area as described. Assuming that the legislation was effective in August and a final report was due to the legislature in January 2010, the project would be completed in about a five to six month period. As the result of our discussions with the State, it our understanding that a reasonable cost estimate for this effort is approximately $200,000. This estimate does not include staffing for future examinations of reasonableness performed by the State, nor does it include any savings or costs incurred by health plans to comply with the resulting guidelines.

Appendices

Appendix A – Definitions of Various Products and Lines of Business

Commercial – Commercial or private health insurance is any kind of health insurance paid for by somebody other than the government. This insurance may be employer-sponsored or privately purchased.

Medicare Supplement – A Medicare Supplement or Medigap policy is health insurance sold by private insurance companies to fill the "gaps" in Original Medicare Plan coverage. Medicare Supplement policies help pay some of the health care costs that the Original Medicare Plan doesn't cover. If you are in the Original Medicare Plan and have a Medicare Supplement policy, then Medicare and your Medicare Supplement policy will each pay its share of covered health care costs.

Medicare Choice – Medicare Choice is part of the Medicare Advantage. Medicare Advantage (MA) Plans are health plan options that are approved by Medicare and run by private companies. They are part of the Medicare program and are sometimes called “Part C.” Medicare Advantage Plans are offered in many areas of the country by private companies that sign a contract with Medicare. Medicare pays a set amount of money to these private health plans for their members’ health care. People must have both Medicare Part A and Part B to join a Medicare Advantage Plan.

Medicare Cost - A Cost Contract provides the full Medicare benefit package. Payment is based on the reasonable cost of providing services. Beneficiaries are not restricted to the HMO or CMP to receive covered Medicare services, i.e. services may be received through non-HMO/CMP sources and are reimbursed by Medicare intermediaries and carriers.

MSHO/MDHO – Minnesota Senior Health Options (MSHO) and Minnesota Disability Health Options (MDHO) are managed care products that integrate Medicare and Medicaid financing; acute and long-term care service delivery, for dually eligible and Medicaid eligible physically disabled adults and elderly in a ten county area in Minnesota, including the Twin Cities. Enrollment in MSHO and MDHO is voluntary and available to dually eligible beneficiaries living in institutions, community enrollees who meet institutional placement criteria and other community enrollees whose needs do not meet institutional levels of care.

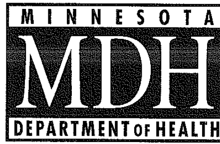
GAMC (General Assistance Medical Care) – Provides medical care for low-income Minnesotans who do not qualify for MA (Medical Assistance – Minnesota’s Medicaid program) or other state and federal programs – primarily low-income adults, ages 21- 64, who do not have any dependent children.

PMAP (Prepaid Medical Assistance Program) - Prepaid Medical Assistance Project Plus (PMAP+) provides a managed care delivery system to Medicaid eligibles in Minnesota. PMAP is currently enrolling recipients in eighty-three of Minnesota s eighty-seven counties. The PMAP demonstration also provides title XIX matching funds for expansion coverage groups enrolled in MinnesotaCare. The demonstration eligibility expansion includes uninsured pregnant women, infant and children with an income of up to 275 percent of the FPL and parents/caretaker relatives with income up to 275 percent of the FPL or $50,000 and with assets up to $20,000.

MNCare – MNCare is a publicly subsidized program for Minnesotans who do not have access to affordable health care coverage. Residents (except for some children) are not eligible if their employer offers health insurance and pays at least half of the monthly cost.

Ability Care – A Special Needs Basic Care program. Designed to help people with disabilities access health care, medications and support services they need. This program is offered by South Country Health Alliance.

Appendix B – Data Request



Protecting, maintaining and improving the health of all Minnesotans

September 15, 2008

Re: **DATA REQUEST**

Dear Health Plan:

Following the passage of Senate File No. 3322, the Minnesota Department of Health (MDH) is required to perform a study and report to the legislature on guidelines and recommendations that would allow for consistent comparison of health plans and county-based purchasing plans administrative expenses. Section 12 of Senate File No. 3322 reads:

> **Section 12. Health Plan and County-Based Purchasing Plan Requirements**
> The commissioner of health shall develop and report to the legislature under Minnesota Statutes, section 3.195, by January 15, 2009, guidelines to ensure that health plans, and county-based purchasing plans where applicable, have consistent procedures for allocating administrative expenses and investment income across their commercial and public lines of business and across individual public programs. The guidelines shall be consistent with generally accepted accounting principles and principles from the National Association of Insurance Commissioners. The guidelines shall not have the effect of changing allocation for Medicare-related programs as permitted by federal law and the Centers for Medicare and Medicaid Services. The report shall include recommendations and cost estimates for developing detailed standards and procedures for examining the reasonableness of health plan and county-based purchasing plan administrative expenditures for publicly funded programs. These standards and procedures must include a process for detailed examinations of individual programs and functional areas.

Members of the Departments of Health, Commerce, and Human Services are working together to conduct this study. Deloitte Consulting LLP has been engaged to assist with the project. As part of the study, we want to better understand what you are doing in order to develop guidelines that are reasonable and acceptable. Your response will provide valuable input in the development of these guidelines and help to shape the standards and procedures used moving forward. We are requesting the following details regarding information currently provided to and utilized by the Departments of Commerce, Health, and Human Services:

[Note: The following information will be treated as confidential, pursuant to Statute MS60A.03, Subdivision 9]

1. Annual Statements

[Pursuant to Minn. Stat. 60A.13, subd. 1, every insurance company, including fraternal benefit societies, and reciprocal exchanges, doing business in the State of Minnesota, must file with the Commissioner, annually, on or before March 1, and pursuant to Minn. Stat. 62D.08, subd. 2 every health maintenance organization shall annually, on or before April 1, file the appropriate verified National Association of Insurance Commissioner's (NAIC) annual statement blank, prepared in accordance with the NAIC's *Accounting Practices and Procedures Manual*.]

a. Allocation of Expenses by Lines of Business report and Minnesota Supplemental Report #1:

Claims adjustment expenses and General administrative expenses

i. Please describe in detail how you currently allocate claims adjustment and general administrative expenses by lines of business and product for the 2007 financial statement.
ii. What is the basis and rationale for this allocation method?
iii. Is this allocation method consistent with that used to complete the statements for the previous three years? If different, please describe the changes.
iv. Do you anticipate any changes in your allocation method for the 2008 statement? If so, please describe.

b. Part 3 – Analysis of Expenses:

See "Underwriting and Investment Exhibit"

i. Do you have the capability to provide Part 3- Analysis of Expenses by lines of business or across individual public programs? If so, would this allocation method match the current allocation of claims adjustment and general administrative expenses by lines of business/product (described in 1.a. above)?
ii. If not, please explain why.

c. Investment Income:

See "Exhibit of Net Investment Income" and Minnesota Supplemental Report #1

i. How do you allocate investment income across lines of business and individual products in the 2007 Minnesota Supplemental Report #1?
ii. Is this allocation method consistent with the previous three years statements? If different, please describe the changes.
iii. Do you anticipate any changes for the 2008 statement in your allocation method? If so, please describe.

2. Health Plan Financial and Statistical Report (HPFSR)

[The Minnesota Department of Health (MDH) annually monitors health care expenditures by collecting data from health plan companies (including commercial insurers, HMOs and other payers). If your company had health care premium revenue for Minnesota residents, you must submit the Health Plan Financial and Statistical Report (HPFSR) to MDH as required under Minnesota Statutes section 62J.301, subdivision 3, and Minnesota Statutes section 62J.38.]

a. Indirect Healthcare Expenses:

See "Section 8 of the Health Plan Financial and Statistical Report"

i. Please describe in detail how you currently allocate expenses by functional area/category for the 2007 financial statement.
ii. What is the basis and rationale for this allocation method?
iii. Is this allocation method consistent with the previous three years?

iv. Do you anticipate any changes for the 2008 statement in your allocation method?
v. Are all administrative fees, including disease management fees, included in the Section 8 report? If any administrative fees are not included, please describe.
vi. What are the expense items that are included in General administrative expense category? What percentage of the total "General administrative" expense category do each of these items represent?
vii. Do you allocate these expense categories by lines of business and product? If so, please provide detail.
viii. If not, what is your rationale for not allocating by line of business and product.
ix. Please confirm that Section 8 of the Health Plan Financial and Statistical Report corresponds with Analysis of Operations by Lines of Business, lines 19 and 20 of the Annual Statement.

Thank you in advance for your time, effort, and participation in this important study. Please email responses to **attach.commerce@state.mn.us** (secure location) by Tuesday, September 30th. If you have questions regarding this request, please contact Pete Roverud at Deloitte Consulting LLP (proverud@deloitte.com, phone 612-397-4670) or Jacqueline Gardner at the Department of Commerce (jaki.gardner@state.mn.us, phone 651-297-7030).

Sincerely,

Minnesota Department of Health	Minnesota Department of Commerce
By: Darcy Miner	By: Jacqueline L Gardner
Title: Director, CM Division	Title: Assistant Commissioner

Appendix C – Summarized Data Request Responses

State of MN Administrative Expense Study

	Question	Comments	Plan A	Plan B	Plan C	Plan D	Plan E	Plan F	Plan G	Plan H	Plan I
1 a i	**Describe the allocation method used for Claims Adjustment and general administrative expenses by lines of business and product.**	Allocation methods for Claims Adjustment and General Administrative Expenses: • Member months (6 plans) • Direct allocation to product line (4 plans) • Claim information (4 plans) • Revenue (3 plans) *Note: many plans use more than one allocation method. • Most large plans use a hierarchal system to determine cost driver used for each expense. • Smaller plans rely on one cost driver for all expenses.	Allocation methods include: • direct allocation to a product line • member months • weighted member months • claim counts • FTE's • square footage • interviews	Overhead costs allocated based on: • Headcount • square feet Operation costs allocated based on: • fixed percentages determined by manager interviews Cost center specific functional costs are allocated based on: • membership counts • claim counts.	Expenses allocated based on: • claims processed • member months • call center statistics • estimates of staff time	All expenses that are can be allocated to: • product line The remaining expenses are allocated based on: • premium revenue	Expenses allocated based on: • direct allocation to a product line • claims expense	Claims and adjustment expenses are allocated by cost drivers that are appropriate for each cost center. General administrative expenses are allocated to LOB's bases on a combination of: • FTE's • Revenue • member months	Expenses allocated based on: • member months	Expenses allocated based on: • direct allocation to a product line • member months	Expenses allocated based on: • reported revenue
ii	**What is the basis and rationale for this allocation method?**	The most common rationale for allocation method is using the most accurate, efficient cost driver available.	The basis is a comprehensive administration model which allocates those costs across the product lines that are disclosed on the statutory filings.	This method allows the plan to expense the best available cost driver.	Interviews with management about best allocation statistics.	Premium revenue is the basis because Ucare believes it is the most reasonable and cost efficient method.	When not possible to allocate based on product, costs are spread equally to each product based on claims expense.	This method applies a fair and accurate measure of allocation.	The majority of systems, vendor contracts, rent, utilities, etc. benefit all lines of business equally.	When not possible to allocate based on product, costs are spread equally to each product based on membership.	Revenue is closely proportionate to the actual incurrence of expenses by line of business.
ii	**Is this consistent with the allocation method used for previous 3 years?**	All plans have used the same allocation method for the past 3 years.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
iv	**Do you anticipate any changes to the allocation method?**	Only one plan has considered changing the allocation method that will be used next year.	No	No	No	No	No	Perhaps, the plan evaluates the allocation basis for validity every year.	No	No	No
b i	**Do you have the capability to provide Part 3 Analysis of Expenses by lines of business or across individual public programs?**	• 6 plans have the capability to provide Part 3 Analysis of Expenses by LOB or access individual public programs • The allocation method used would match the current allocation method used for claims adjustment and general administrative expenses for 5 of the 6 plans. • 4 plans do not have the capability	No	Yes, the allocation method would match the current allocation method for claims adjustment and general administrative expenses. However, would be different as splits between lines 19 and 20 on page 7 of the annual statement.	No	Yes, the allocation method would match the current allocation method for claims adjustment and general administrative expenses.	Yes, the allocation method would match the current allocation method for claims adjustment and general administrative expenses.	Yes, the allocation method would match the current allocation method for claims adjustment and general administrative expenses.	No	Yes, the allocation method would match the current allocation method for claims adjustment and general administrative expenses.	Yes, the allocation method would match the current allocation method for claims adjustment and general administrative expenses.
ii	**If not, why?**	Reasons plans don't have the capability to provide Part 2 Analysis of Expenses by LOB or access individual public programs: • Don't have systems in place • Difficult process • Believe that a functional view is more meaningful than a LOB view	Has the capability to breakdown administrative expenses by function, but not by product line. They believe a functional view provides more meaningful information.	N/A	Does not have the systems in place to provide this information.	N/A	N/A	N/A	It would be difficult to get an exact or accurate split of expenses.	N/A	N/A

State of MN Administrative Expense Study

		Comments	Plan A	Plan B	Plan C	Plan D	Plan E	Plan F	Plan G	Plan H	Plan I
c	i	**Describe the allocation of investment income across lines of business and individual products in the 2007 Minnesota Supplemental Report #1.**	Allocation methods of investment income across LOB and products in the 2007 Minnesota Supplemental Report #1: • Revenue (5 plans) • Operating income (2 plans) • Member months (1 plan)	Based on cumulative net income or net loss of that product line since that product has been offered applied against averaged rate of return on investment portfolio for that year	Pro rata based on revenue	Based on adjusting operating income for current year, with investment income on the prior years' surplus classified as "other".	Based on a blended percentage of a product line's revenue with the percentage of that product line's 3 year average earnings.	Based on ratio of each products' premium to the total premium (revenue)	No Response	Percentage of total member months for each line of business	Based on capitation revenue received for each program.	Pro rata share based on revenue
	ii	**Is this consistent with the allocation method used for previous 3 years?**	Allocation method consistent with previous 3 years? • Yes: 7 plans • No: 2 plans – Reasons include new programs, previously used CF analysis multiplied by average T-bill rate	Yes	No, prior years' allocation was based on an estimated cash flow analysis for each line of business multiplied by the average t-bill rate.	Yes	Yes	Yes	No Response	Yes	No. 2006: 50/50 between the two programs with greatest revenue. 2005: 100% to plan with with the greatest revenue	Yes
	iii	**Do you anticipate any changes to the allocation method?**	No plans expect any changes to the allocation method next year.	No	No	No	No	No	No Response	No	No	No
2 a	i	**Describe the allocation of expenses by functional area for the Health Plan Financial Statistical Report.**	Allocation methods of functional area for 2008 financial statement: • Salary – employee job duties, departmental head counts (4 plans) • Other Expenses – internal reports (3 plans) • By department/functional area (5 plans) • By cost centers (2 plans) *Note: many plans use more than one allocation method	Map each accounting unit to a functional area. They do not allocate accounting units to multiple functional areas.	Expenses initially recorded in cost centers based on metrics such as headcount, square feet, etc. Expenses for cost centers performing work over multiple functions are allocated based on a fixed percentage based on cost center manager interviews.	Based on the activities performed within the individual departments	Based on the activities performed within the individual departments. Expenses are downloaded by department and categorized by compensation and all other expenses.	Uses cost centers that are set-up to mirror those expense categories included in the HPFSR	Based on employee departmental headcounts and an estimated amount of time the department employees spend on the functional categories.	Salary is allocated by a direct relationship to the job duties, claims processor salaries are allocated to the Claims Processing expense category, other non-salary indirect expenses are allocated based on the corresponding expense category	Use departmental financial reports to allocate expenses to the functional areas	Salary and benefits are allocated based on employee's responsibilities; other expenses are allocated based on contract, invoice and/or expense forms that document the purpose of the expense
	ii	**What is the basis and rationale for this allocation method?**	The most common rationale for allocation method is conducting internal interviews or reviews.	Does not allocate Indirect Healthcare expense to the functional area. It is a direct one-to-one relationship between accounting units and functional area.	Allows for each cost center's expenses to be identified to a functional area with the intent of using the best available method	Annual reviews of cost center activity with departmental management	Annual reviews of cost center activity with departmental management	This method is used except for a few exceptions in the fiscal services, general administration, and ASO areas.	Most cost effective and efficient manner to derive the functional categories and meet the report requirements.	Best representation of our administrative costs	Accumulate financial information by product and functional area for external and internal reporting	The method is accurate and administratively simple.
	iii	**Is this consistent with the allocation method used for previous 3 years?**	All plans have used the same allocation method for the past 3 years.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	iv	**Do you anticipate any changes to the allocation method?**	No plans expect any changes to the allocation method next year.	No	No	No	No	No	No	No	No	No

State of MN Administrative Expense Study

	Comments	Plan A	Plan B	Plan C	Plan D	Plan E	Plan F	Plan G	Plan H	Plan I
v Are all administrative fees included in the Section 8 report? If any are excluded, explain.	All plans include all administrative fees in the Section 8 Report except Medica. They don't include outsourced medical management fees because these are allocated to medical expense.	Yes	Yes	No, outsourced medical management fees are not included as they are classified as medical expense	Yes	Yes	Yes	Yes	Yes	Yes
vi What are the expense items included in General Administrative expense and the percentage of total General Administrative expense that they represent?	Most common significant categories: • Salaries /Benefits • Information Technology/Systems • Real Estate/Rent/Utilities • Departmental (Accounting/Actuarial/Consulting/Finance/HR/Legal)	57% - Information Services 14% - Administration Building Costs 6% - Dental Plan Administration 6% - Finance 4% - Presidents Division 4% - Legal 4% - Human Resources 3% - Health Informatics 2% - All Other	42% - Legal/Executive/Other Corporate 16% - All Other 13% - Drug Claim Processing 10% - Finance/Accounting 10% - IS Support 9% - Real Estate	36.7% - Information systems 24.3% - Exec. Mngt./Support 18.2% - Facilities 15.0% - Human resources/Payroll 5.8% - Legal	These expenses include : • general finance • human resources • facilities expenses They represent approximately 70% of general administrative total expenses.	Salary Expenses: 67% - General Administrative 28% - Information Technology 5% - ASO Business Other Expenses: 44% - General Administrative 84% - Information Technology -28% - ASO Business (revenue offsets other expenses)	38% - Salaries/Wages/ Benefits 23% - Auditing/ Actuarial/Consulting 11% - Contracted Staff 9% - Marketing/Advertising 8% - Rent 4% - Commissions 7% - Other	Expenses in the General Category include: • Rent/Utilities • Paper • Computers • Office supplies • Cleaning Plan has not assigned any percentages to the items.	19.2% - Salaries/Benefits 18.4% - Interest Expense 12.9% - Consulting Services 11.3% - Depreciation 5.8% - Actuarial Services 5.5% - Telephone Expense 4.1% - Auditing Fees 22.8% - All Other	35% - Salaries/benefits 13% - Committee & Board Meetings 10.5% - Office Operations 9.3% - Liability Insurance Coverages 7.6% - Staff Education 4.9% - Errors and Omissions Coverage 4.7% - Consulting 4.7% - Employee recruitment 4.4% - Bank Fees 5.9% - All Other
vii Do you allocate these expense categories by lines of business and product? If so, explain.	Do you allocate these expense categories by lines of business and product? • No: 5 plans • Yes: 5 plans – 3 plans allocate by member months, 2 plans allocate by claim information	No	Yes, the allocation method is the same method used in 1.a.i.	No	No	Yes, expenses are allocated to LOB based on a Percentage of Claims paid.	Yes, the allocation method is the same method used in 1.a.i.	No	Yes, expenses are allocated to products based on the number of member months.	No
viii If not, what is your rationale?	Rationale for not allocating these expense categories by lines of business and product? • Difficult process • Wouldn't provide meaningful information • Inefficient	Maps each accounting unit to a functional area. They do not allocate accounting units to multiple functional areas.	N/A	Extensive efforts would be required to include that level of detail in the format needed of this report.	Multiple layers of allocation would not provide a meaningful reflection of the by product expense.	N/A	N/A	The only line of business reported on the HPFSR is Minnesota Public Programs. Since only one line of business is reported, allocation is not necessary.	N/A	Economies of scale, administrative efficiency, and the nature of the business
ix Does section 8 of the Health Plan Financial and Statistical Report correspond with Analysis of Operations by Lines of Business, lines 19 and 20 of the Annual Statement?	Does Section 8 of the HPFSR correspond with Analysis of Operations by LOB? • Yes: 5 plans • No: 5 plans (reasons specific to each company)	No, they do not correspond due to: • Third party admin. operational costs • Expenses related to certain other related activities	No, they correspond except that Section 8 is adjusted to represent expenses only related to Minnesota enrollment.	Yes	No, they correspond except for the reporting of revenue and costs associated with Administrative Services Only business.	No, they correspond except for $535,905 of expense for other taxes and assessments which is reported in Section 9 of the HPFSR.	Yes	No, do not report data on the Analysis of Operations by LOB on the Annual Statement, as the only LOB is Minnesota Public Programs. Therefore, they do not need to differentiate on the Analysis report.	Yes	Yes

Appendix D – Minnesota Supplement Report #1

< Name of HMO >

Minnesota Supplement Report #1
STATEMENT OF REVENUE, EXPENSES AND NET INCOME
For the Year Ending December 31, 2007
Public Information, Minnesota Statutes § 62D.08

NAIC #	NAIC Descritption As found on page 4 of the Annual Statement	1	2	3	4	5	6	7	8	9	10	11	12	13	14
		NAIC Totals	Non-Minnesota Products (Eliminations)	Total Minnesota Products	Commercial	Medicare + Choice	Medicare Cost	MN Senior Health Options (MSHO)	MN Disability Health Options (MDHO)	General Assistance Medical Care (GAMC)	Prepaid Medical Assistance Program (PMAP)	MNCare	Dental	Other: Please Specify	Administrative Services Only
1	Member Months														
	REVENUES:														
2	Net Premium Income (including $ non-health premium income)														
3	Change in unearned premium reserves and serve for rate credits														
4	Fee-for-service (net of $ medical expenses)														
5	Risk revenue														
6	Aggregate write-ins for other health care related revenues (Line 699)	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
7	Aggregate write-ins for other non-health revenues (Line 799)	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
8	TOTAL REVENUES (Lines 2 through 7)	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
	EXPENSES:														
9	Hospital/medical benefits														
10	Other professional services														
11	Outside referrals														
12	Emergency room and out-of-area														
13	Prescription drugs														
14	Aggregate write-ins for other hospital and medical expenses (Line 1499)	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
15	Incentive Pool and Withhold Adjustments														
16	TOTAL EXPENSES (Lines 9 through 15)	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
	LESS														
17	Net reinsurance recoveries														
18	Total hospital and medical (Lines 16 minus 17)	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
19	Non-health claims														
20	Claims adjustment expenses														
21	General administrative expenses														
22	Increase in reserves for life, accident and health contracts (including $ increase in reserves for life only)														
23	Total underwriting deductions (Lines 18 through 22)	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
24	Net underwriting gain or (loss)(Lines 8 minus 23)	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
25	Net investment income earned														
26	Net realized captial gains or (losses)														
27	Net investment gains or (losses)(Lines 25 plus 26)	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
28	Net gain or (loss) from agents' or premium balances charged off														
29	Aggregate write-ins for other income or expenses (Line 2999)	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
30	Net income or (loss) before federal income taxes (Lines 24 plus 27 plus 28 plus 29)	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
31	Federal and foreign income taxes incurred														
32	Net income (loss) (Lines 30 minus 31)	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR

Appendix E – Analysis of Operations by Line of Business Report

ANALYSIS OF OPERATIONS BY LINES OF BUSINESS

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1. Net premium income	-	-	-	-	-	-	-	-	-	-
2. Change in unearned premium reserves and reserve for rate credit	-	-	-	-	-	-	-	-	-	-
3. Fee-for-service (net of $...medical expenses)	-	-	-	-	-	-	-	-	-	XXX
4. Risk revenue	-	-	-	-	-	-	-	-	-	XXX
5. Aggregate write-ins for other health care related revenues	-	-	-	-	-	-	-	-	-	XXX
6. Aggregate write-ins for other non-health care related revenues	-	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	-
7. Total revenues (Lines 1 to 6)	-	-	-	-	-	-	-	-	-	-
8. Hospital/medical benefits	-	-	-	-	-	-	-	-	-	XXX
9. Other professional services	-	-	-	-	-	-	-	-	-	XXX
10. Outside referrals	-	-	-	-	-	-	-	-	-	XXX
11. Emergency room and out-of-area	-	-	-	-	-	-	-	-	-	XXX
12. Prescription drugs	-	-	-	-	-	-	-	-	-	XXX
13. Aggregate write-ins for other hospital and medical	-	-	-	-	-	-	-	-	-	XXX
14. Incentive pool, withhold adjustments and bonus amounts	-	-	-	-	-	-	-	-	-	XXX
15. Subtotal (Lines 8 to 14)	-	-	-	-	-	-	-	-	-	XXX
16. Net reinsurance recoveries	-	-	-	-	-	-	-	-	-	XXX
17. Total hospital and medical (Lines 15 minus 16)	-	-	-	-	-	-	-	-	-	XXX
18. Non-health claims (net)	-	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	-
19. Claims adjustment expenses including $...cost containment expenses	-	-	-	-	-	-	-	-	-	-
20. General administrative expenses	-	-	-	-	-	-	-	-	-	-
21. Increase in reserves for accident and health contracts	-	-	-	-	-	-	-	-	-	XXX
22. Increase in reserves for life contracts	-	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	-
23. Total underwriting deductions (Lines 17 to 22)	-	-	-	-	-	-	-	-	-	-
24. Net underwriting gain or (loss) (Line 7 minus Line 23)										
DETAILS OF WRITE-INS										
0501.	-	-	-	-	-	-	-	-	-	XXX
0502.	-	-	-	-	-	-	-	-	-	XXX
0503.	-	-	-	-	-	-	-	-	-	XXX
0598. Summary of remaining write-ins for Line 5 from overflow page	-	-	-	-	-	-	-	-	-	XXX
0599. Totals (Lines 0501 through 0503 plus 0598) (Line 5 above)										XXX
0601.	-	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	-
0602.	-	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	-
0603.	-	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	-
0698. Summary of remaining write-ins for Line 6 from overflow page	-	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	-
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 6 above)		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	-
1301.	-	-	-	-	-	-	-	-	-	XXX
1302.	-	-	-	-	-	-	-	-	-	XXX
1303.	-	-	-	-	-	-	-	-	-	XXX
1398. Summary of remaining write-ins for Line 13 from overflow page	-	-	-	-	-	-	-	-	-	XXX
1399. Totals (Lines 1301 through 1303 plus 1398) (Line 13 above)										XXX

Appendix F – Underwriting and Investment Exhibit, Part 3 – Analysis of Expenses

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - ANALYSIS OF EXPENSES

	Claim Adjustment Expenses		3	4	5
	1	2			
	Cost Containment Expenses	Other Claim Adjustment Expenses	General Administrative Expenses	Investment Expenses	Total
1. Rent ($...for occupancy of own building)	-	-	-	-	-
2. Salaries, wages and other benefits	-	-	-	-	-
3. Commissions (less $...ceded plus $...assumed)	-	-	-	-	-
4. Legal fees and expenses	-	-	-	-	-
5. Certifications and accreditation fees	-	-	-	-	-
6. Auditing, actuarial and other consulting services	-	-	-	-	-
7. Traveling expenses	-	-	-	-	-
8. Marketing and advertising	-	-	-	-	-
9. Postage, express and telephone	-	-	-	-	-
10. Printing and office supplies	-	-	-	-	-
11. Occupancy, depreciation and amortization	-	-	-	-	-
12. Equipment	-	-	-	-	-
13. Cost or depreciation of EDP equipment and software	-	-	-	-	-
14. Outsourced services including EDP, claims, and other services	-	-	-	-	-
15. Boards, bureaus and association feeds	-	-	-	-	-
16. Insurance, except on real estate	-	-	-	-	-
17. Collection and bank service charges	-	-	-	-	-
18. Group service and administration fees	-	-	-	-	-
19. Reimbursements by uninsured plans	-	-	-	-	-
20. Reimbursements from fiscal intermediaries	-	-	-	-	-
21. Real estate expenses	-	-	-	-	-
22. Real estate taxes	-	-	-	-	-
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes	-	-	-	-	-
23.2 State premium taxes	-	-	-	-	-
23.3 Regulatory authority licenses and fees	-	-	-	-	-
23.4 Payroll taxes	-	-	-	-	-
23.5 Other (excluding federal income and real estate taxes)	-	-	-	-	-
24. Investment expenses not included elsewhere	-	-	-	-	-
25. Aggregate write-ins for expenses	-	-	-	-	-
26. Total expenses incurred (Lines 1 to 25)	-	-	-	-	(a) -
27. Less expenses unpaid December 31, current year	-	-	-	-	-
28. Add expenses unpaid December 31, prior year	-	-	-	-	-
29. Amounts receivable relating to uninsured plans, prior year	-	-	-	-	-
30. Amounts receivable relating to uninsured plans, current year	-	-	-	-	-
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30)					
DETAIL OF WRITE INS					
501.	-	-	-	-	-
502.	-	-	-	-	-
503.	-	-	-	-	-
598. Summary of remaining write-ins for Line 25 from overflow page	-	-	-	-	-
599. Totals (Lines 2501 through 2503 + 2598) (Line 25 above)					

(a) Includes management fees of $...to affiliates and $...to non-affiliates.

Appendix G – Net Investment Income Report

EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. Government bonds	-	-
1.1 Bonds exempt from U.S. tax	-	-
1.2 Other bonds (unaffiliated)	-	-
1.3 Bonds of affiliates	-	-
2.1 Preferred stocks (unaffiliated)	-	-
2.11 Preferred stocks of affiliates	-	-
2.2 Common stocks (unaffiliated)	-	-
2.21 Common stocks of affiliates	-	-
3. Mortgage loans	-	-
4. Real estate	-	-
5. Contract loans	-	-
6. Cash, cash equivalents and short-term investments	-	-
7. Derivative instruments	-	-
8. Other invested assets	-	-
9. Aggregate write-ins for investment income	-	-
10. Total gross investment income	-	-
11. Investment expenses	-	-
12. Investment taxes, licenses and fees, excluding federal income taxes	-	-
13. Interest expense	-	-
14. Depreciation on real estate and other invested assets	-	-
15. Aggregate write-ins for deductions from investment income	-	-
16. Total deductions (Lines 11 through 15)	-	-
17. Net investment income (Line 10 minus Line 16)	-	-
DETAILS OF WRITE-INS		
0901.	-	-
0902.	-	-
0903.	-	-
0998. Summary of remaining write-ins for Line 9 from overflow page	-	-
0999. Totals (Lines 0901 through 0903) plus 0998 (Line 9, above)	-	-
1501.		-
1502.		-
1503.		-
1598. Summary of remaining write-ins for Line 15 from overflow page		-
1599. Totals (Lines 1501 through 1503) plus 1598 (Line 15, above)		-

Appendix H – Section 8 of Health Plan Financial and Statistical Report

#N/A

Section 8: Indirect Health Care Expenses (Medical and Dental) — **Calendar Year 2007**

General Instructions

Indirect Expense Category	Salaries and Benefits *Only* for salary and benefits of central office staff not providing direct patient care	Other Expense *Other than* for salary and benefits of central office staff not providing direct patient care	Total Indirect Health Care Expense (by category)
Billing and Enrollment			0
Claim Processing			0
Detection and Prevention of Fraud			0
Customer Service			0
Product Management and Marketing			0
Underwriting			0
Regulatory Compliance and Government			0
Lobbying			0
Provider Relations and Contracting			0
Quality Assurance and Utilization Management			0
Wellness and Health Education			0
Research and Product Development			0
Charitable Contributions			0
General Administration			0
Total Indirect Health Care Expenses	0	0	0

Section 9: Taxes and Assessments — **Calendar Year 2007**

MinnesotaCare Tax	
Other Taxes and Assessments	

Please put taxes and assessments on these two lines only. Do not include these taxes in the total indirect expenses above.

Section 10: Capital Costs — **Calendar Year 2007**

	2007 Incurred	2007 Payments
Capital Costs on Behalf of a Hospital or Clinic		
Capital Acquisitions		
Other Capital Costs		
Total Capital Expenditures	0	0

Report any capital costs incurred this calendar year and any capital payments made this calendar year. Depreciation associated with these capital expenses are reported above as part of organizational expenses.

You have reached the end of the HPFSR. Reports Are Due no later than April 1, 2008.

Send the report to: drmreport@health.state.mn.us

Appendix I – Sample Report by Individual Program and Functional Area

Sample Supplemental Report of Expenses by Functional Area For the Year Ending Decembr 31, 2008														
	Total Indirect Health Care Expense (by category)													
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
	NAIC Totals	Non-Minnesota Products (Eliminations)	Total Minnesota Products	Commercial	Medicare + Choice	Medicare Cost	MN Senior Health Options (MSHO)	MN Disability Health Options (MDHO)	General Assistance Medical Care	Prepaid Medical Assistance Program	MNCare	Dental	Other: Please Specify	Administrative Services Only
Category/Functional Area														
Billing and Enrollment														
Claim Processing														
Detection and Prevention of Fraud														
Customer Service														
Product Management and Marketing														
Underwriting														
Regulatory Comliance and Government														
Lobbying														
Provider Relations and Contracting														
Quality Assurance and Utilization Management														
Wellness and Health Education														
Research and Product Development														
Charitable Contributions														
General Administration														
Total Indirect Health Care Expenses														

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