State Health Reform Assistance Network
Charting the Road to Coverage

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Using Data from the National Association of Insurance Commissioners for Health Reform Evaluation

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Introduction

A key goal of the Affordable Care Act (ACA) is to improve the functioning of insurance markets through increased regulation of health insurers. Specifically, the ACA will change the insurance marketplace through:

- The regulation of Medical Loss Ratios (MLRs);
- The regulation of premium increases (also known as rate review regulation); and
- The introduction of subsidized and regulated coverage through Health Insurance Exchanges for lower-income Americans lacking access to affordable employer-sponsored coverage.

It is essential that these ACA provisions are evaluated during their implementation in order to facilitate any regulatory modifications that might be needed in the future to ensure that the provisions achieve their intended market outcomes. One set of rich data well-suited for empirical evaluation of marketplace responses to new regulations is collected by the National Association of Insurance Commissioners (NAIC). The following brief provides background on the NAIC, its data collection, the new types of data it's collecting for health reform monitoring purposes, and the research opportunities (both within and across states) afforded by this new data.

Background on the NAIC

The NAIC is the national standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia, and the five U.S. territories. The NAIC is the vehicle by which state insurance regulators establish standards and best practices, conduct peer review, and coordinate regulatory oversight of insurance markets (NAIC, 2013).

NAIC Data

In its role as a regulatory support organization, the NAIC collects and compiles data from insurers classified as property and casualty, life, health, fraternal, or title insurers. With respect to health insurance, the NAIC collects data from annual financial filings submitted by insurers to the insurance department of each state in which they sell their products. Historically, these data sets have been used

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by industry leaders to determine market share, conduct market research, and monitor industry trends. NAIC data is unique because it allows inter-state comparisons of insurance markets that would otherwise by feasible only by collecting data from each state individually.

NAIC Data and the ACA: The Supplemental Health Care Exhibit (SHCE)

With the implementation of the ACA provisions related to the regulation of the insurance marketplace, the NAIC has actively collaborated with the U.S. Department of Health and Human Services (HHS), designing standard measures, definitions, and methodologies related to the regulatory targets of these provisions (such as the MLR).[1] To monitor insurance compliance with the new ACA regulations, the NAIC has designed new supplementary filing forms for insurers. One such form is a new reporting exhibit, the Supplemental Health Care Exhibit (SHCE; Table 1), to be filed by health, life, fraternal, and property/casualty insurers that sell health insurance policies within the individual and fully-insured small and large group markets. This exhibit, which was first collected in the 2010 filing year, includes specific information to support HHS regulatory enforcement efforts surrounding MLRs. Currently, the 2010, 2011, and 2012 NAIC Supplemental Health Care Exhibits are available for use by researchers and policy analysts.

The SHCE includes detailed information from each insurer on the following:

- Number of covered lives
- Number of policies
- Member months
- Health premiums earned
- Federal taxes
- State taxes
- Premium and other taxes
- Incurred claims
- Incurred expenses for improving health care quality
- Claims adjustment expenses, general expenses, and administrative expenses

Within the SHCE, insurers separately report on comprehensive medical coverage in the individual, small group, and large group markets as well as on mini-med plans (i.e., those with annual limits of $250,000 per person per year), for each state in which they operate business. The information collected on the SHCE is distinct from the traditional information collected from the Annual Statements of Health Insurers in several key ways: (1) its comprehensive representation of the insurance market; (2) its separation of the small and large group markets; and (3) its breakdown of general administrative expenses and claims adjustment expenses.

SHCE: Comprehensive Market Share Analyses

Prior to 2010, NAIC data excluded insurers for whom health insurance comprises less than 95 percent of their business (i.e., insurers that sell health insurance but are not formally classified as health insurers).[2] For example, major life insurers could potentially have a large market share in the individual and group comprehensive medical insurance market segments, but it was not possible, prior to 2010, to gauge their presence within states.

Starting with the 2010 filing year, the SHCE provides a unique opportunity to evaluate a complete picture of the health insurance market. Because the exhibit is filed by life, fraternal, and property/casualty insurers in addition to health insurers, it is now possible to construct counts of all insurance carriers selling comprehensive coverage. The reported number of policies, covered lives, member months, and premiums earned can also be used to conduct a more complete market share analysis.

Limitations of NAIC Data

A major limitation of the health insurance data collected by NAIC is that they generally exclude most insurers in California, which composes a significant portion of the nation's insurance market. The reason for this exclusion is that the vast majority of health insurers operating within California are regulated by the California Department of Managed Health Care rather than the state's insurance department and therefore do not file with the NAIC.

The NAIC Market Share Reports for Accident and Health Insurers are an exception to this rule, as they include premium and market share data for California health insurers, with data obtained by NAIC directly from the California Department of Managed Health Care. Otherwise, NAIC statistical reports that include California are those that provide information on aggregate (i.e., not insurer-level) industry statistics, with aggregate California data provided by the California Insurance Department.

[1] For example, see the list of NAIC responsibilities as of April 2010 at http://www.naic.org/documents/index_health_reform_naic_tasks.pdf.

[2] Please refer to Abraham and Karaca-Mandic (2011) for more detail on the comprehensiveness of the NAIC data. Dafny, Dranove, et al., (2011) also provide a discussion of the NAIC data.

Additionally, since information on all market players is now available, it is possible to directly construct measures of market competition, such as concentration indices, by state.

SHCE: Separate Analyses for Small Group and Large Group Markets

State data collected by the NAIC before 2010 report comprehensive medical coverage for the small and large groups together as the "group market," making it impossible to study research or policy questions related only to the small group market by state prior to the 2010 filing year. However, the SHCE reports comprehensive medical coverage for the individual, small group, and large group markets separately, allowing the study of premiums, claims, Medical Loss Ratios, and other insurer behaviors specific to the small group market.

SHCE: Monitoring MLR Components and Administrative Expenses

Prior to 2010, data collected by the NAIC did contain information on administrative expenses and claims adjustment expenses, but this information was not easily accessible on a state-specific basis, and the information was not broken out by business segment (i.e., individual, small group, and large group). The SHCE, however, provides a detailed state-specific and segment-specific breakdown for administrative and claims adjustment expenses so that it is possible to separately analyze these insurer expenses by state and by business segment without difficulty.

Limitations of the SHCE

The SHCE was developed with the primary purpose of measuring relevant components of insurers' MLRs (claims, premiums, quality improvement, and expenses for detection of fraud and abuse) and tracking their administrative expenses (e.g., claims adjudication, total general and administrative expenses, including sales and brokers fees), and other financial aspects of insurers selling health coverage. While the SHCE facilitates a number of new analyses that were not previously possible using NAIC data, the SHCE does have limitations:

- While the SHCE contains information on business segments beyond the individual and group markets, these segments are grouped together in a way that inhibits precise, segment-specific analyses. For example, the SHCE lumps Medicare, Medicaid, CHIP, and any other federal or state-sponsored plans into the single, larger category of "government business."
- The SHCE lacks information on health services utilization encounters such as the physician and non-physician ambulatory encounters and hospital inpatient days incurred.[3]
- The figures reported in the SHCE do not allow for calculating exact MLR rebates. This is because HHS allows claims to be revised after the June filing for an additional three months,[4] and "preliminary" MLRs are subject to further credibility adjustments (for size, plan design, "mini-med" status, and high shares of newly issued policies).[5,6]

Pre-2010 Workarounds for MLR Components and Administrative Expenses

It is possible to obtain an imperfect estimate of each insurer's claim adjustment expenses and general administrative expenses prior to 2010 by using two exhibits contained in the annual filings submitted to the NAIC:

1. The **NAIC "Underwriting and Investment" Exhibit of the Annual Statements of Health Insurers** contains a detailed breakdown of each health insurer's claim adjustment expenses and general administrative expenses. However, this exhibit does not disaggregate this information by state or by whether the expenses were incurred in the individual market, group market, or any other business segment in which the insurer may be operating.
2. The **NAIC "Analysis of Lines of Business" Exhibit of the Annual Statements of Health Insurers** contains aggregate claims adjustment expenses and aggregate general administrative expenses, reporting separately for comprehensive medical coverage, Medicare supplemental, Dental, Vision, Federal Employees Health Benefit Plan, Title XVIII Medicare, and Title XIX Medicaid. While this exhibit is not available by state, one could use the member-years of each insurer reported by state, year, and individual versus group market (from the state pages) to apportion administrative expenses and claims adjustment expenses to the insurer's individual market for each state-year.[i]

[i] *For more details on this workaround, please refer to Karaca-Mandic, Abraham, and Simon (2013).*

[3] This information continues to be available, post-2010, in the state forms (i.e., Annual Statements of Health Insurers") filed by health insurers. However, these forms are still only filed by insurers for whom health insurance comprises 95 percent or more of their business. Therefore, analyses relying on these forms will exclude life, fraternal, and property/casualty insurers that sell health insurance but are not formally classified as health insurers. In addition, these forms still do not separate the group market into its small and large group components.

[4] http://www.naic.org/documents/committees_e_health_reform_solvency_impact_exposure_related_doc_shce_preliminary_mlr_cautionary_statement.pdf

[5] The term "preliminary" refers to the base calculation prior to any adjustments being applied.

[6] Healthcare.gov 2012c

Conclusions

Many relevant policy and research questions can be answered using the SHCE. Already, several studies have begun investigating changes in administrative expenses, profits, and the MLR by state and market segment (McCue & Hall, 2012). Another study in progress examines insurer entry and exit, as well as the adjustments insurers have been making in the separate components of their MLR to comply with the MLR regulation (Abraham, Karaca-Mandic, Simon, 2013). SHCE data could also be used by individual states to monitor the health insurance market. For example, states could monitor market entry and exit of life insurers and health insurers; industry consolidation; diversification of insurers' portfolios; and changes in insurers' size.

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