

# Appendix A:

## Guide to Insurance Company Financial Information

### Insurance Company Premium and Expense Reports

The summarized financial data used in this report was developed from the annual statements filed by each insurer. The Insurance Division of the Department of Consumer and Business Services created a report for each insurer that summarized premium, expense, and financial status information. The summary reports are available on the Insurance Division's Web site at:

[http://www.cbs.state.or.us/external/ins/insurer/financial\\_regulation/expense\\_summary/reports.html](http://www.cbs.state.or.us/external/ins/insurer/financial_regulation/expense_summary/reports.html).

*Definitions of each of the items and ratios contained in the summarized premium and expense reports are defined below:*

#### **Lines of Business:**

**All** — Comprehensive, Medicare supplement, dental only, vision only, Federal employees health benefit plan, Medicare, Medicaid, stop loss, disability income, other health, other nonhealth.

**Comprehensive** — Individual plans and all group plans (Oregon SEHI, HIPAA small group, and large group).

**Medicare** — Coverage to Medicare subscribers.

**Medicaid** — Coverage to Medicaid subscribers.

**Cumulative member months** — A member month is equivalent to one member for whom the insurer has recognized capitation-based premium revenue for one month. Cumulative member months is the member month year-to-date total.

**Average member months** = Cumulative member months divided by 12.

**Net premium earned** — The amount charged by the insurer to the policyholder for the effective period of the contract plus the change in the unearned premium liability. The **unearned premium liability** is the portion of the premium that has been received by the insurer for insurance that has not yet been provided. It is the amount that would have to be returned to the policyholder if the policy was cancelled before the end of the policy period.

**Other revenue** — Includes “fee-for-service” income which is revenue from services provided to nonmembers [i.e., members of affiliated insurers (“out-of-area”), and welfare-type services] and to members for services excluded from their prepaid benefit package. Includes “risk revenue,” which is revenue for providing services to another insurer (making its network available to another insurer's members).

Both types of “other revenue” result in insurance risk to the insurer. Expenses related to fee-for-service income are netted directly out of the revenue for reporting purposes. Expenses related to risk revenue are included in the expenses of the insurer.

**Total revenue** = Net premium earned plus other revenue.

**Claims incurred** — Cost for hospital and medical benefits, emergency room, prescription drugs minus recoveries from the reinsurer plus the change in the unpaid claim liability. The **unpaid claim liability** is the insurer's estimate of the cost for claims already reported but not yet paid and an estimate of claims incurred by a member but not yet submitted for payment.

**Claims incurred as a percentage of revenue is the medical loss ratio** — *Medical loss ratio* is the amount of revenue from health insurance premiums that is spent to pay for the medical services covered by an insurance policy. A 0.96 loss ratio means that 96 percent of the insurer's health insurance premiums were spent on purchasing medical services.

**Medical loss ratio** = Claims incurred divided by total revenue.

**Claims adjustment expense** — Expenses attributable to claims settlement; includes cost-containment expenses. Included in claims adjustment expenses are all expenses directly attributed to settling and paying claims of insureds. Included in this category are salaries of claims personnel. (There was a change to the allocation of expenses effective Dec. 31, 2003. Prior to that time, cost-containment expenses were included in general expenses.)

**Claims adjustment expense as a percentage of revenue is the claim adjustment expense ratio.**

**Claim adjustment expense ratio** = Claim adjustment expenses divided by total revenue.

# Health Insurance in Oregon

**General administrative expense** — Costs associated with the general administration of the insurer, i.e., the expenses an insurer incurs to run its business. Included in general administrative expenses are all expenses that are not directly attributed to settling and paying claims of insureds. Included in this category are commissions, marketing and advertising expenses, and salaries of nonclaims personnel.

**General administrative expense as a percentage of revenue is the administrative expense ratio.**

**Administrative expense ratio** = Administrative expenses divided by total revenue.

**Net underwriting gain/(loss)** — Gain or loss remaining after an insurer pays claims and expenses, and is the amount remaining from the total revenue less claims incurred, less claims adjustment and general administrative expenses. It is the amount an insurer earns from its insuring activities. When insurers collect more premiums than they pay in medical claims, claims expenses, and administrative expenses, the insurer has an underwriting gain. If the medical claims, claims expenses, and administrative expenses exceed the premiums collected, the insurer has an underwriting loss.

**Net underwriting gain/(loss)** = Total revenue minus claims incurred minus claims adjustment expenses minus general administrative expenses.

**Net investment income (or gain)** — Includes all income earned from invested assets minus expenses associated with investments, plus the profit (or loss) realized from the sale of assets.

**Taxes and other adjustments** — Includes federal and foreign income taxes, and income and expenses that are not included in the underwriting results or investment results. Generally these include net gain/(loss) from write-off of agent/premium balances, restructuring costs, pension adjustments, other extraordinary expenses not related to underwriting or investments.

**Net income** — The net result of all revenue, claims incurred, expenses, investment results, taxes and write-offs. This report uses the term “*profit margin*” as synonymous with net income.

**Net income/(loss)** = Net underwriting gain/(loss) plus net investment gain/(loss) plus taxes and other adjustments.

**Net income as a percentage of revenue** — Net income divided by total revenue

**Surplus** — Additional funds (“*surplus*”) over and above what the insurer expects to pay out for medical claims, expenses, taxes, and other obligations. All insurers must, by law, maintain minimum levels of surplus to ensure they will be able to meet their financial obligations to policyholders. Surplus includes common and preferred stock issued to its shareholders, any funds that are contributed to the insurer, and the accumulation of the insurer’s net income or losses since its inception.

**RBC ratio** — Risk-based capital is a method for evaluating an insurer’s surplus in relation to its overall business operations in consideration of its size and lines of business written. An insurer’s RBC is calculated by applying factors to various assets, premium, and reserve items. The calculation produces the “authorized control level.” The RBC Ratio is the insurer’s surplus divided by the authorized control level. The state is authorized to take regulatory action against an insurer that fails to maintain surplus equal to 200 percent of its authorized control level.

**Premium to surplus ratio** — This ratio measures an insurer’s ability to support its existing business, as well as any growth. Since surplus provides a cushion for claims and expenses that exceed what the insurer expected, this ratio measures the adequacy of the surplus cushion available for unexpected claims and expenses.

## Insurance Company Financial Statements

Detailed financial statements are filed by each insurer covering its financial status and income and expense activity for each calendar quarter and each calendar year. The annual statement (prepared as of Dec. 31 of each year) is due to be filed with the Insurance Division March 1 of each year. The quarterly statements are prepared as of March 31 due to be filed May 15; as of June 30 due to be filed Aug. 15; and Sept. 30 due to be filed Nov. 15.

The detailed financial statements for Oregon domestic insurers are available at the Insurance Division's office in Salem. Call (503) 947-7982 to schedule an appointment to review filed statements. A copier is available (5 cents per page) for public use.

Insurers also file their financial statements electronically with the National Association of Insurance Commissioners. State insurance departments also file

summarized information with the NAIC about consumer complaints against insurer. The NAIC makes basic financial and complaint information available on its Web site, [www.naic.org](http://www.naic.org). The following information is available without registration or charge: summarized closed complaint reports, licensing by state, and basic financial information (premium, assets, liabilities, financial profile). By setting up an account with the NAIC Consumer Information Source, you can access complete financial statement filings. Each year the NAIC allows you to access information on five insurers free of charge. After the first five, there is a charge.

To access the NAIC's insurer information, go to the NAIC Web site, select "[Consumer Information Source](#)," and follow the directions for accessing information.