

Commercial Carrier Discounts, 2018-2020

Issue Brief

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Prepared by Freedman HealthCare

Summary of Findings

Carrier discounts may get passed along to consumers as cost savings, so large discounts are beneficial to consumers. Yet small differences in the size of discounts can make large impacts on insurers' financial performance. As a result, differences in discount size can make the insurance market uncompetitive for some carriers. Freedman HealthCare assisted the NHID in examining recent carrier discounts in light of prior NHID reports.

Key findings

1. Discounts continue to vary by carrier, and larger carriers continue to have larger discounts.
2. Discounts have gotten larger (deeper) over time.
3. In the group market, discounts are smaller but vary more than in the individual market.
4. Discounts vary by service type, particularly in the group market. In the group market, carriers have larger discounts for other facility and professional services than for hospital inpatient or outpatient services.

Carrier discounts are crucial to insurer competitiveness and therefore to NH insurance market stability. Sizable differences in discounts persist among NH insurers, especially in the group market.

Background

To assess the competitiveness of health insurance carriers operating in the state, since 2010 the New Hampshire Insurance Department (NHID) has analyzed and tracked the discounts obtained from health care provider charges.¹ The NHID believes competitiveness between carriers helps keep costs low to the benefit of NH ratepayers.

Previous reports found that the New Hampshire insurance market had a limited amount of competition, that discounts varied between carriers, and that the largest carrier, Anthem, usually achieved the highest discounts across varied plan types, markets segments, and medical services. In 2018, NHID found that carrier discounts slowly increased over time and variation in discounts persisted between carriers.

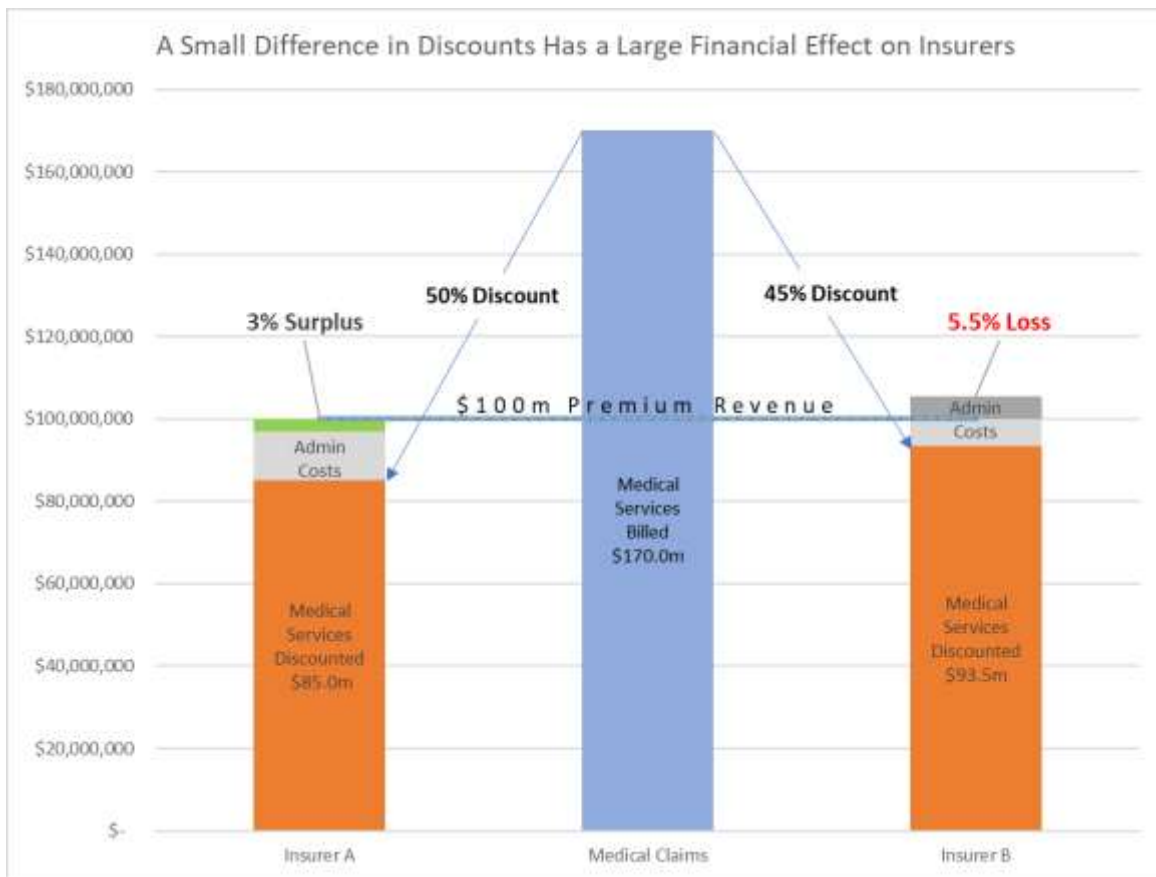
This study examines the discounts obtained by NH carriers in the years 2018 through 2020. It compares NH's carriers across market segments (Group and Individual) and service types (hospital inpatient, hospital outpatient, other facility, and professional).

Introduction

¹ 2010 report: https://www.nh.gov/insurance/reports/documents/pay_prov.pdf 2012 report: https://www.nh.gov/insurance/reports/documents/nhid_prov_disc_study_partII.pdf 2018 report: Health Insurance Carrier Payments to Providers: An Updated Review of Carrier Discounts, NHID, July 13, 2018.

Discounts are the difference between what a health insurance carrier is billed for a medical service and the carrier’s allowed payment for that service. For example, if a service is billed at \$100 and the insurer’s allowed rate² is \$70, the discount is \$30, or 30% of the billed amount. For health insurers, about 85% of premiums are used to pay providers of health care supplies or services. Most of the remaining 15% goes to pay the insurer’s administrative expenses, which include claims processing and data systems, staff, and other operating and capital expenses. Any additional amount is surplus³. Insurer surpluses are typically in the single digits; insurance is a low-margin business. With the largest expense being medical costs and surplus margins being low, a difference of even a few percentage points in discount rates may mean the difference between a successful and growing carrier and one that struggles to remain viable.

To illustrate the importance of discounts, consider two insurers which each sell \$100,000,000 in policies. They have the same provider network and their members receive identical services. However, Insurer A has a 5% better discount than Insurer B.



Because of its favorable discounts, Insurer A is financially stable and profitable. Insurer

² This example, and this analysis, examines “allowed” costs of care. The allowed amount is paid by a combination of insurer payment plus patient payment (in the form of co-payment, coinsurance, or deductible).

³ For-profit firms’ net earnings are called profits, non-profit firms’ net earnings are called surplus. In both cases, net earnings may be used to invest in the firm’s operations. Further, for-profit firms may distribute earnings to its shareholders.

B, with discounts of 5% less, is not profitable and will struggle to continue operations.

Results

Discount Size and Variation. Carrier discounts continue to vary among NH’s major carriers, and the size of the discounts increased from 2018 to 2020 in nearly all cases.

Figure 1. Group Market Carrier Discounts, 2018-2020

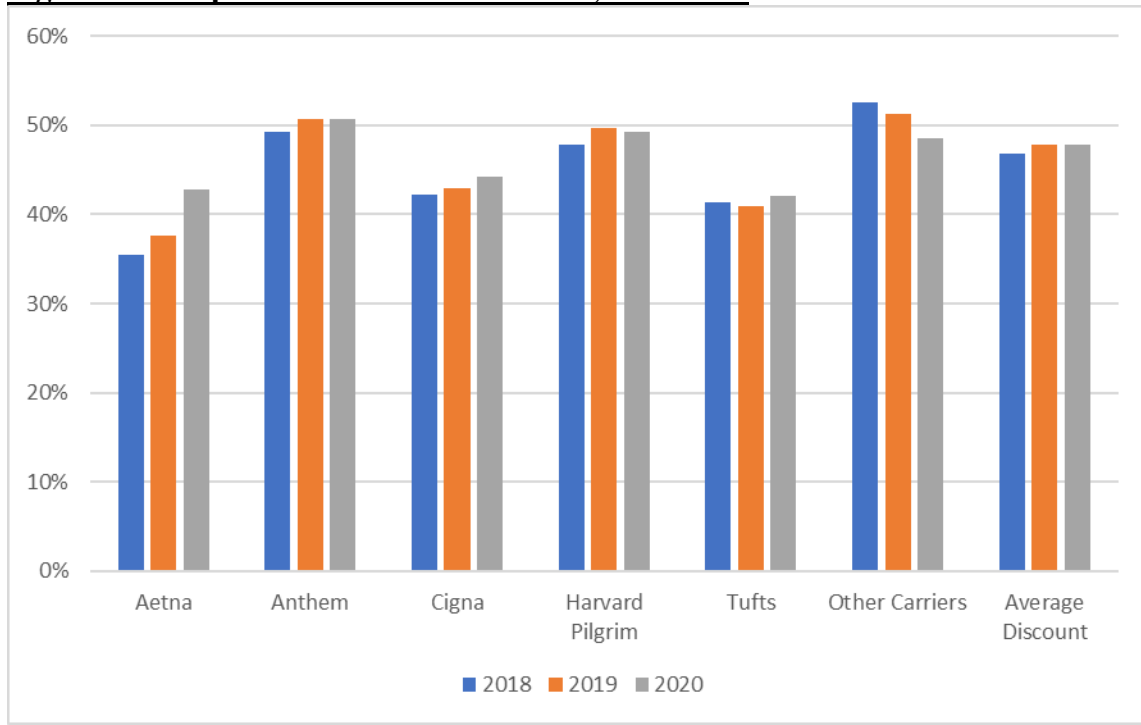


Figure 1 shows five large carriers in the group market. Anthem’s discounts exceeded those of its four nearest competitors in all years and were lower only than the discounts for Other Carriers in 2018 and 2019. For all five major carriers shown, discount size increased over time, continuing the trend noted in NHID’s 2018 report.

Figure 2. Individual Market Carrier Discounts, 2018-2020

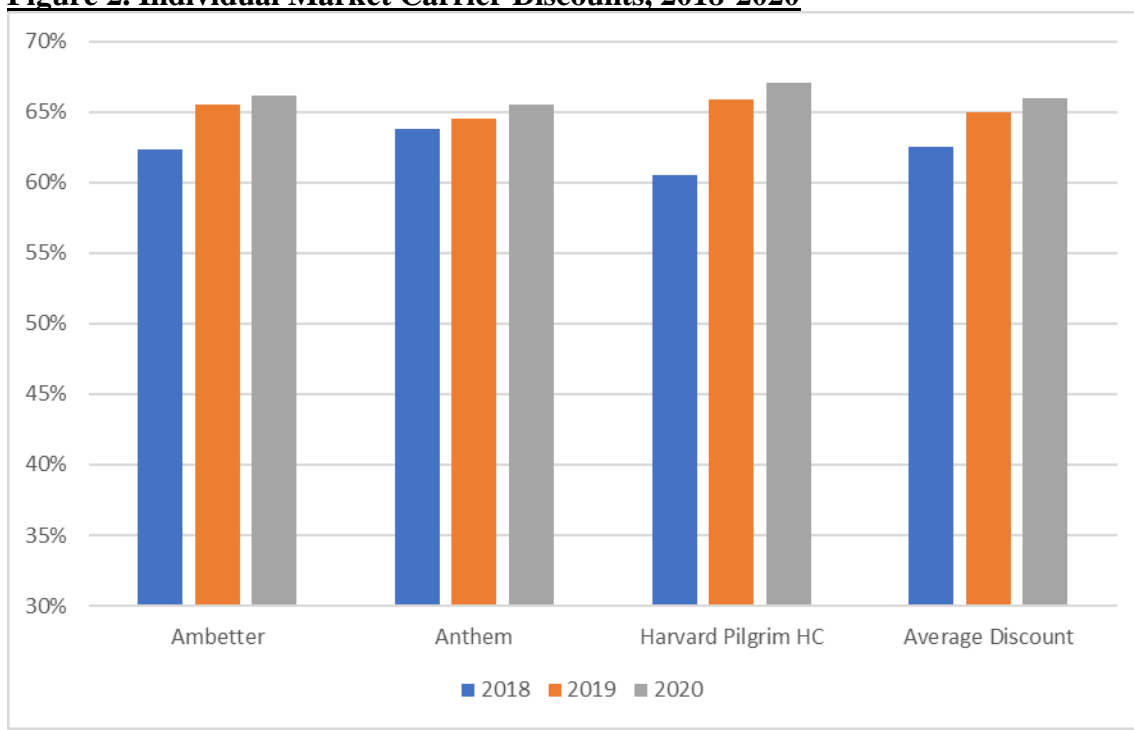


Figure 2 shows the three carriers participating in the individual market. The average discount was larger than in the group market. Each of the three carriers had one year with the largest discounts, though averaged across all three years, Anthem’s discounts were largest. As in the group market, discount size increased over time.

Discounts and Market Share. As seen in the three earlier reports, the larger carriers tended to have the largest discounts.

Figures 3 and 4 show the relationship between the average discounts and market share for carriers in the group and individual markets. The R-squared value⁴ is substantial in both markets and demonstrates how market size explains much of the variation in discount rates.

⁴ The R-squared value, also written R^2 , is the square of the correlation coefficient (R) and represents the fraction of variation that is explained by the single variable—in this case, the carrier’s market share. For the group market, about 28% of the differences between carriers in their discount is explained by their size alone. In the individual market, size explains 90% of the difference.

Figure 3. Relationship Between Market Share and Discount, Group Market

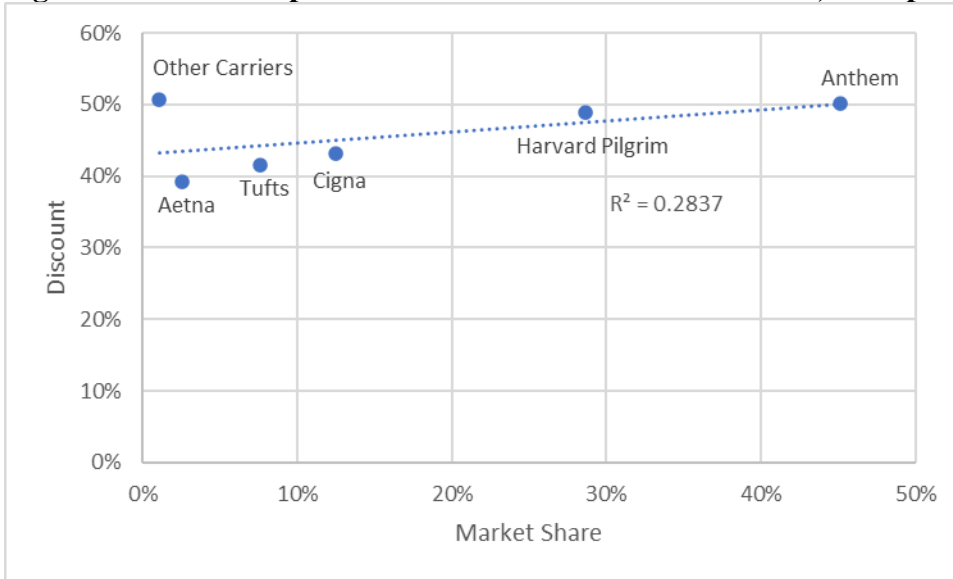
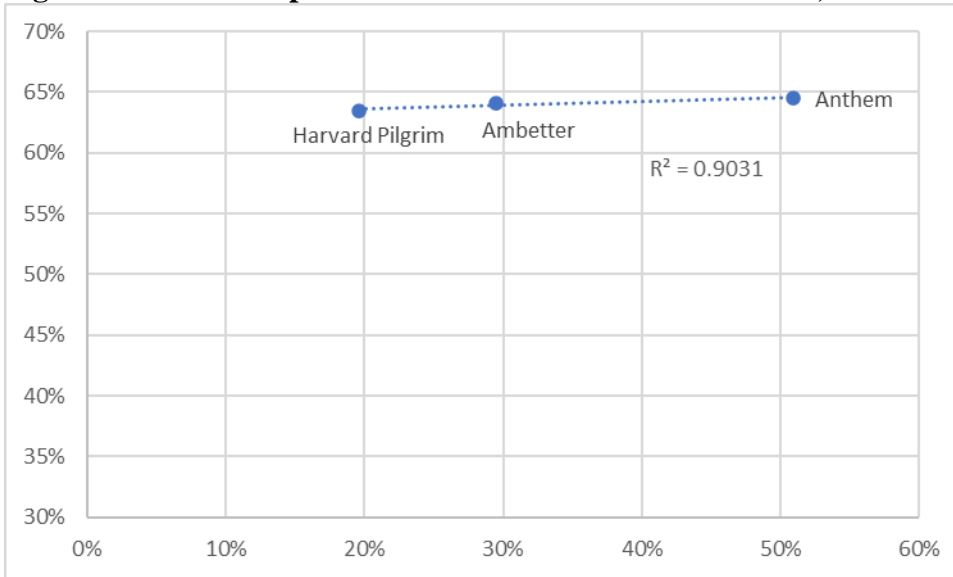
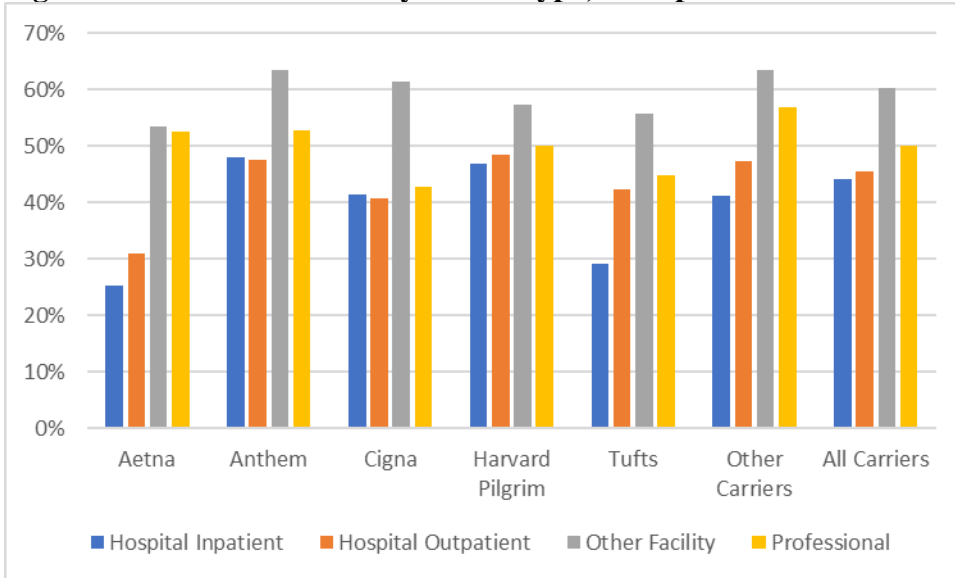


Figure 4. Relationship Between Market Share and Discount, Individual Market



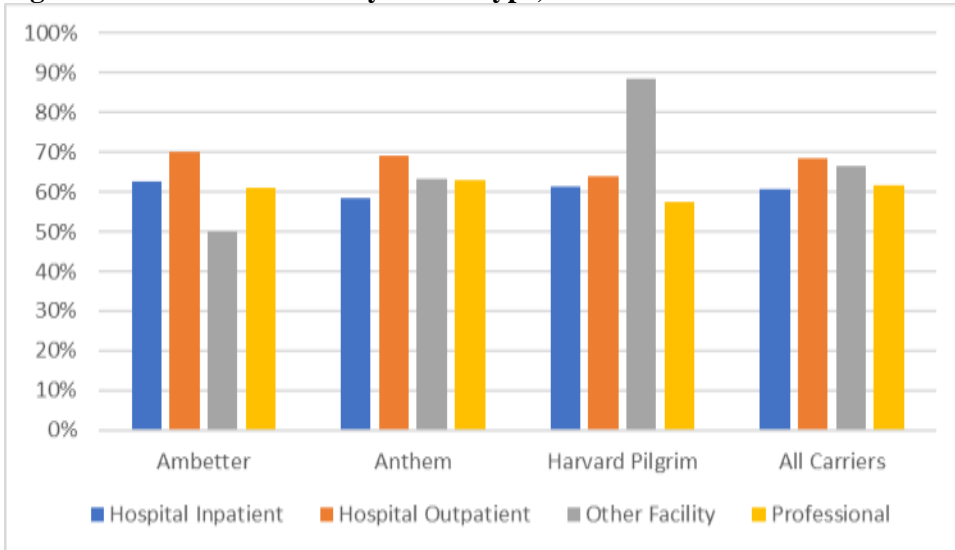
Discounts by Service Types. Just as discounts vary by market segment, they also differ by the type of service. Figure 5 shows carrier discounts for four service types: hospital inpatient, hospital outpatient, other facility, and professional. For all carriers, discounts are largest for other facility and professional. The lowest discounts are for hospital inpatient and outpatient. Within each of these types of service, carriers have sizable differences in discounts. For example, for hospital inpatient, has more than a 20-point (25% vs. 48%) disadvantage vs. Anthem. For professional services, differences are less pronounced than for hospital inpatient. Still, Anthem has a 10-point advantage (53% vs. 43%) over Cigna.

Figure 5. Carrier discounts by service type, Group Market



In the individual market, discounts are generally larger and more consistent across service types, as seen in Figure 6.

Figure 6. Carrier discounts by service type, Individual market



Summary/Conclusions

Using NHCHIS data, NHID continues to see sizable differences in carrier discounts, especially in the group market. The discounts have gotten larger (deeper) over time and vary by service type. The largest carriers get the largest discounts, leaving smaller competitors at a disadvantage.

Acknowledgements

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Appendix. Methods.

Data. This analysis uses 2018-2020 data from the New Hampshire Comprehensive Health Information System (NHCHIS), which includes enrollment and claims information on all fully insured policies for New Hampshire residents. Smaller carriers (less than \$500,000 in annual allowed claims) are combined as Other Carriers when presenting data. Data for one plan (United Healthcare) are not shown due to data quality issues. Pharmacy spending is not included.

For each carrier, the discount percentage was calculated for calendar years (CY) 2018, 2019, and 2020. Services that were included in this analysis were:

- Claims where the carrier was the primary payer for the service (Claim Status of '01')
- Allowed and billed amounts that were greater than or equal to \$0
- Claims that were paid by a commercial carrier
- Patient age was less than 65 years old on the date of service

Non-claims payments, also known as alternative payments, were not included in the analysis.

Analysis. Each carrier's discount is reported as a percentage and is calculated as the percent difference between the total billed amount and total allowed amount (mathematically as $1 - (\text{Allowed Amount} / \text{Billed amount}) \times 100\%$).

The discount percentages can be interpreted as the average discount for each service paid by a carrier to a provider, but these discounts will vary by the specific service and provider.

The analysis evaluated discounts by setting, which includes Facility and Professional settings. Facility settings were defined as claims where provider billed under a revenue code and under a bill type using Centers for Medicare and Medicaid Services' (CMS) UB-04 form. Hospital inpatient facilities were defined as facilities where the provider billed for bill type '11', and hospital outpatient facilities were identified as facilities where the provider billed for bill type '13'. Facilities that were not billed under bill type '11' or '13' were categorized as "Other Facility." Professional settings were defined as claims that were not billed under a revenue code or were not billed under a bill type.

Individual markets were defined as policies that were sold and issued to individuals and not employers, whereas group markets were defined as policies that were sold and issued to employers or that were sold to individuals as group conversion policies.

Carrier market shares were calculated by finding the percent share of the total billed amount for a carrier relative to the sum of total billed amounts across all carriers in the analysis.