Citizens League

Minnesota HMO Review 1989

Public affairs research and education in the Twin Cities metropolitan area

MINNESOTA
HMO REVIEW
1989

May 1990

Reprinted March 1991

Citizens League
708 South Third Street
Suite 500
Minneapolis, Minnesota 55415
(612) 338-0791

MINNESOTA
HMO REVIEW
1989

INTRODUCTION

Minnesota's dynamic health care marketplace is widely viewed as a proving ground for new managed care ventures. This report provides a concise compilation and analysis of key trends affecting health care delivery in the state. It focuses on the experience of the state's ten active health maintenance organizations (HMOs) in 1989. Most of the information is drawn from the annual reports that each HMO submits to the Minnesota Department of Health. We appreciate the cooperation of the department's staff.

The Citizens League has been closely involved in many Minnesota efforts to devise and implement solutions to problems of health care costs, access, and quality. The League's most recent report in this area analyzed the link between state-mandated health benefits and the challenge of providing access to health care coverage.[1]

We are pleased to present this report as part of our effort to inform ongoing debates about health care in Minnesota. If this year's report is well received, the Citizens League will consider preparing annual editions that would also include analyses of some of the other important forces in the Minnesota market, particularly preferred provider organizations. Questions about this report should be directed to Allan Baumgarten at the Citizens League.

BACKGROUND

Health maintenance organizations are prepaid health plans providing comprehensive care to enrollees. The first prepaid plan in Minnesota was formed in 1944. Eleven HMOs currently operate in Minnesota, enrolling more than 1.1 million persons.[2] Minnesota is one of five states where more than one-fifth of the population is enrolled in HMOs. As shown in Figure 1, Minnesota's HMOs range in size from less than 5,000 members to 290,000.

During the last part of the 1980s, HMOs in the state operated in a volatile environment. Plan-provider relations became openly contentious. Aggressive ventures into Medicare plans and rural areas turned sour and raised concerns about consumer protection. Finances were sometimes shaky: two small HMOs were declared insolvent in 1987, and others were absorbed into larger operations.

---

1 Citizens League, *Access, Not More Mandates: A New Focus for Minnesota Health Policy*, 1989.

2 As shown in Figure 1, two HMOs--Group Health and Blue Plus--operate "sister" HMOs through which they offer certain types of plans. Although these are considered separate entities for purposes of annual reporting and the financial standards described below, their activities are consolidated into the financial statements of the primary HMO. In this report, we have compressed the data from Blue Plus and Minnesota Health Plans, Inc., and from Group Health and Group Care.

FIGURE 1

MINNESOTA HMOs AT A GLANCE

HMO	Headquarters	Parent, Owner, or Manager	Year Opened	1989 Enrollment	Federally Qualified?	History/Status
Blue Plus	Eagan	Blue Cross and Blue Shield of Minnesota	1974	103,192	Yes*	Changed name from HMO Minnesota in 1988. Absorbed Coordinated Health Care HMO in 1988. Includes Minnesota Health Plans, Inc., nonfederally qualified HMO
First Plan	Two Harbors	Blue Cross and Blue Shield of Minnesota	1944	8,766	No	Blue Cross/Blue Shield assumed control in 1986
Group Health	Minneapolis	Group Health, Inc.	1957	262,936	Yes*	Includes Group Care, nonfederally qualified HMO.
Central Minnesota Group Health Plan	St. Cloud	Group Health, Inc.	1979	14,370	No	Became operating subsidiary of Group Health in 1988.
Mayo	Rochester	Mayo Foundation	1986	4,924	No	
MedCenters	Edina	PARTNERS National Health Plans (Aetna)	1973	260,356	No	Formed by merger of MedCenter Health Plan and Nicollet-Eitel Health Plan in 1983
Metropolitan Health Plan	Minneapolis	Hennepin County	1983	10,087	No	
NWNL Health Network	Saint Paul	Northwestern National Life Insurance Co.	1984	12,013	No	Founded as Senior Health Plan. Acquired and renamed by NWNL in 1987.
Physicians Health Plan	Minnetonka	United Health Care	1975	291,462	No	
Share Health Plan	Bloomington	United Health Care	1973	145,014	Yes**	
U-Care	Minneapolis	University of MN Dept of Family Practice	1989	0	No	Created for Medicaid Demonstration Project

* Also operates a non-federally qualified HMO.
** Share dropped its federal qualification effective mid-1990
NOTE: Two other HMOs, More HMO Plan and Health Partners, were declared insolvent in 1987.

FINANCES

Surpluses and Losses

After three consecutive years of losses, Minnesota's HMO industry returned to profitability in 1989. A combination of hefty premium increases and membership reductions in the past two years resulted in an overall surplus of $27.5 million on 1989 revenues of $1.5 billion. Table 1 shows the trend in earnings by HMOs since 1986.

While the industry as a whole made money, four individual HMOs ended the year with losses. Three HMOs--MedCenters, PHP, and Share--each reported surpluses of more than $8 million. However, more than half of Share's surplus of $8.5 million resulted from a one-time gain on the sale of its stock in United Health Care, its management company. According to reports in *Health Week*, Share and PHP, both managed by United Health Care, have been discussing a merger.

TABLE 1

HMO EARNINGS: 1986 - 1989

	1986	1987	1988	1989	4-YR TOTAL
Blue Plus	($1,742,432)	($4,533,209)	($3,168,688)	($1,558,058)	($11,002,387)
First Plan	84,083	41,549	226,969	(84,566)	268,035
Group Health	1,566,019	110,000	1,639,000	4,113,000	7,428,019
Central MN Group Health	(126,886)	(1,145,927)	(586,221)	79,967	1,779,067)
Mayo	13,188	(89,416)	(477,481)	(190,377)	(744,086)
MedCenters	(1,622,618)	(1,690,438)	1,652,113	8,673,853	7,012,910
Metropolitan	112,404	129,424	(277,838)	(249,068)	(285,078)
NWNL	(283,285)	(282,962)	(1,328,439)	33,233	(1,861,453)
PHP	154,000	($9,823,000)	1,471,000	8,172,000	(26,000)
Share	(1,542,000)	(5,384,000)	106,000	8,464,000	1,644,000
Others HMOs*	(1,086,297)				(1,086,297)
Total Surplus/ (Loss)	($4,473,824)	($22,667,979)	($743,585)	$27,453,984	($431,404)
Total Revenue	$759,285,291	$1,166,792,481	$1,286,611,855	$1,486,889,561	$4,699,579,188
Margin	-0.60%	-1.90%	-0.10%	1.80%	0.0%

* Other HMOs are Health Partners and More HMO Plan, declared insolvent in 1987.

HMOs were under pressure in 1989 to accumulate surpluses to meet new state net worth standards. Prior to 1988, HMOs in Minnesota were subject to minimal financial requirements. There was no formal minimum net worth requirement and only a modest restricted deposit requirement of $100,000, which state regulators waived in most instances.

The need for more intensive oversight of HMOs' finances was demonstrated in 1987. In that year, two small Minnesota HMOs--More HMO Plan in Virginia and Health Partners in the Brainerd and Marshall areas--were declared insolvent and began respective liquidation processes that are still not complete. At the same time, three large HMOs--Physicians Health Plan (PHP), Share, and MedCenters--were posting large losses and showing very thin reserves.

Compliance with New Net Worth Requirements

Responding to the insolvencies and other concerns about HMOs' finances, the 1988 Legislature required a phased-in buildup of HMOs' net worth and set new standards for working capital and restricted reserves. Each HMO must have positive working capital and, by the end of 1993, have net worth equal to at least $1 million or one month of its operating expenses.[3] They must also have restricted deposits of at least $500,000.

As of December 31, 1989, several of the HMOs in the state did not, on their own, meet the first interim requirement of net worth equal to at least $1 million or one-fifth of one month of expenses. Table 2 shows the results for 1989 and the amount that HMOs must add to their reserves by the end of 1993.

TABLE 2

HMO COMPLIANCE WITH NEW NET WORTH REQUIREMENTS

HMO	1989 net worth*	Required 1989	Need to add	Required 1993**	Need to add
Blue Plus	$1,000,000	$2,894,479	$1,894,479	$10,472,393	$9,472,393
First Plan	937,735	1,000,000	62,265	1,000,000	62,265
Group Health	40,137,000	6,217,551	0	31,087,756	0
Central MN Group Health	-1,166,386	1,000,000	2,166,386	1,150,284	2,316,670
Mayo	-744,086	1,000,000	1,744,086	1,000,000	1,744,086
MedCenters	7,589,138	4,806,759	0	24,033,796	16,444,658
Metropolitan	466,284	1,000,000	533,716	1,000,000	533,716
NWNL	-3,086,885	1,000,000	4,086,885	1,193,002	4,279,887
PHP	13,377,000	6,356,479	0	31,782,395	18,405,395
Share	3,511,000	3,511,000 ***	0	19,800,291	16,289,291

* Net worth calculated as the difference between "admitted assets" as defined in statute and liabilities.

** Requirement based on expenses reported for 1989. Presumably most HMOs will show increased expenses in 1993.

*** Share complies because it can reduce its net worth requirement by part of the cost of its reinsurance.

With the conspicuous exception of Group Health, which already has net worth well above its 1993 requirement, the other HMOs will still need to build their net worth. PHP, for example, will need to add $18.2 million to its net worth by the end of 1993, based on its 1989 operations.

All of those HMOs whose own net worth was inadequate have parent organizations that formally guarantee the HMO's net worth or otherwise satisfy state regulators that they will help cover the HMO's obligations in the event of insolvency. Their liability would normally be limited to the difference between the HMO's net worth and its required net worth. For example, Blue Plus, the HMO operated by Blue Cross and Blue Shield of Minnesota (BCBSM), has $1.9 million less than required in net worth. BCBSM guarantees the HMO's net worth requirement. Under 1990 amendments to the Minnesota HMO Act, it will have to identify separate funds with which it guarantees the net worth of Blue Plus.

---

3 *Minn. Laws* 1988, Chapter 612; *Minn. Stat.* §62D.042

Other HMOs not independently meeting net worth requirements are Central Minnesota Group Health Plan (now a subsidiary of Group Health, Inc.), NWNL Health Network (owned by Northwestern National Life Insurance Co.), and Mayo Health Plan (owned by the Mayo Foundation). Figure 2 shows the guarantee arrangements that these HMOs have with their parent or affiliate companies.

FIGURE 2

ORGANIZATIONS GUARANTEEING MINIMUM NET WORTH OF HMOs

HMO	Guaranteeing Organization	Terms	1989 Obligation
Blue Plus	Blue Cross and Blue Shield of Minnesota	In the event of insolvency or dissolution of Blue Plus, BCBSM agrees to make any additional contributions which are necessary during the period of insolvency or prior to termination of business upon dissolution.	$1,894,479
First Plan	Blue Cross and Blue Shield of Minnesota	BCBSM has agreed to, in the event of insolvency or dissolution of the HMO, fund any contractual or other financial obligation of the HMO. In December 1989, BCBSM loaned $504,940 to the HMO for the purpose of establishing the controlled fund required by statute.	$62,265
Central MN Group Health	Group Health	Group Health will maintain level of net worth needed; will advance funds as needed to pay debts.	$2,166,386
Mayo	Mayo Foundation	Provides $2.5 million guarantee	$1,744,086
Metropolitan	Hennepin County	In January 1990, the Hennepin County Board of Commissioners authorized the county to serve as a guaranteeing organization for the HMO in order to meet the net worth and working capital requirements of the (HMO) Act.	$533,716
NWNL	NWNL	Guarantees to transfer to HMO such funds necessary to pay all claims and costs in the event of an order rehabilitation, up to $4.5 million.	$4,086,885

As a nonprofit health service plan, BCBSM is itself subject to a stricter net worth requirement under state law. It must maintain net worth equal to two months of operations.[4] In 1989, it posted a $15.8 million surplus, bringing its net worth up to 2.2 months of operations.

Table 3 shows some other key financial indicators for Minnesota HMOs. Three of the four largest HMOs improved their current ratio in 1989. Four HMOs reported negative working capital.

4 *Minn. Stat.* §62C.09

TABLE 3

OTHER KEY FINANCIAL INDICATORS

HMO	Current Ratio* 1988	1989	Trend	Working Capital	Weeks of Working Capital
Blue Plus	1.01	0.88	⇓	($3,588,156)	-1.50
First Plan	1.44	1.27	⇓	$449,590	2.53
Group Health	1.43	1.31	⇓	$16,439,000	2.29
Central MN Group Health	0.30	0.40	⇑	($1,564,604)	-5.89
Mayo	0.36	0.33	⇓	($844,086)	-6.10
MedCenters	1.05	1.18	⇑	$7,767,429	1.40
Metropolitan	1.64	0.97	⇓	($62,490)	-0.32
NWNL	1.06	1.11	⇑	$479,158	1.74
PHP	1.00	1.09	⇑	$6,613,000	0.90
Share	0.87	1.03	⇑	$1,402,000	0.31

* "Current ratio" = current assets/current liabilities. If the ratio is greater than 1.0, current assets exceed current liabilities.

REVENUES

Premiums

To a large extent, these new surpluses have come from the sharp premium increases passed along to employers and individuals in the past two years. Base premium rates reported to the Department of Health increased 20 percent on average in 1989, although four HMOs reported keeping their increase below 15 percent. Table 4 shows the base premiums reported for January 1990.[5]

By comparison, the medical care portion of the consumer price index for the Twin Cities area increased by 5.7 percent during 1989. Thus, HMO premiums increased by more than twice the rate of medical care inflation.

TABLE 4

PREMIUM INCREASES IN 1989

HMO	Rate Increase* 1989-1990	Base Premium 1/90
Blue Plus	10.6%	$248.60
First Plan	17.5%	235.00
Group Health	14.0%	276.55
Central MN Group Health	26.2%	213.81
Mayo	11.1%	300.20
MedCenters	16.0%	209.80
Metropolitan	65.9%	340.00
NWNL	13.3%	182.00
PHP	17.5%	240.98
Share	15.3%	195.05

* Rates based on two-person household as of January 1, 1989, and January 1, 1990, as reported to the Department of Health.

5 Several HMOs have suggested to us that the tables reported to the Department of Health may not usefully reflect their actual pricing practices.

Viewed another way, HMO revenues per member per month increased by an average of 18.1 percent during 1989. Because most HMOs must continue to build up their net worth in the next four years to meet state standards, these double-digit increases are likely to continue.

Coordination of Benefits

Many families have more than one health benefit plan covering some members of the family. A few HMOs have been able to use coordination of benefits to go to the second insurer and to recover part of the costs paid to medical providers. While only five HMOs reported any revenue from that source, the amount recovered by all HMOs has grown from $1.9 million in 1987 to $16.6 million. MedCenters is by far the largest user: it reported revenues of $15.5 million in 1989.

ENROLLMENT

A reduction in enrollment has also helped finances at some HMOs that did not renew groups with high costs. With more than 1.1 million HMO enrollees, Minnesota is one of three states where more than 20 percent of the population is enrolled in HMOs. Table 5 shows 1989 enrollment of just over 1.1 million. About 86 percent of the enrollment is in commercial plans; most of the rest is in Medicare plans.

TABLE 5

1989 HMO ENROLLMENT

HMO	Regular	Medicare	Medicaid	Total
Blue Plus	88,652	14,540	0	103,192
First Plan	7,786	908	72	8,766
Group Health	241,068	18,808	3,060	262,936
Central MN Group Health	14,185	185	0	14,370
Mayo	4,543	381	0	4,924
MedCenters	247,731	12,625	0	260,356
Metropolitan	5,395	0	4,692	10,087
NWNL	7,330	44	4,639	12,013
PHP	239,117	40,759	11,586	291,462
Share	103,735	41,279	0	145,014
TOTAL	959,542	129,529	24,049	1,113,120
SHARE BY PLAN	86.2%	11.6%	2.2%	100.0%

As shown in Figure 4, enrollment in Minnesota's HMOs grew steadily until it peaked at 1.2 million in 1987. Double-digit increases were common in those years, as Minnesotans signed up in large numbers. However, enrollment then dropped by 101,000 in 1988. It remained generally steady in 1989. Figure 5 shows how enrollment changed at the different HMOs. PHP led the decline: it lost more than 103,000 members in the past two years, although it still remains the largest HMO in Minnesota. Share and MedCenters lost 28,205 and 27,244, respectively.

Some of the enrollment decline occurred when HMOs halted some of their operations outside the Twin Cities area. For example, after failing to reach a contract with the St. Cloud Hospital, PHP dropped out of the St. Cloud area. MedCenters also discontinued contracts with providers in some outstate cities.

Medicare enrollment was a major contributor to growth during the mid-1980s. However, it began to decline, and enrollment in HMO Medicare plans has dropped in each of the past four years. PHP, Share, and MedCenters lost a total of 44,000 Medicare enrollees.

While HMOs are dropping some employers, it appears that some employers may be dropping their HMOs. The A. Foster Higgins benefits consulting firm reported that the percent of Minnesota employers offering HMO coverage to employees has dropped from 78 percent in 1987 to 71 percent last year. This is still higher than the national average of 62 percent.

Among the four largest HMOs, only Group Health showed growth between 1987 and 1989. It netted more than 52,000 members, and slid past

FIGURE 4

ENROLLMENT IN MINNESOTA HMOs: 1980 - 1989

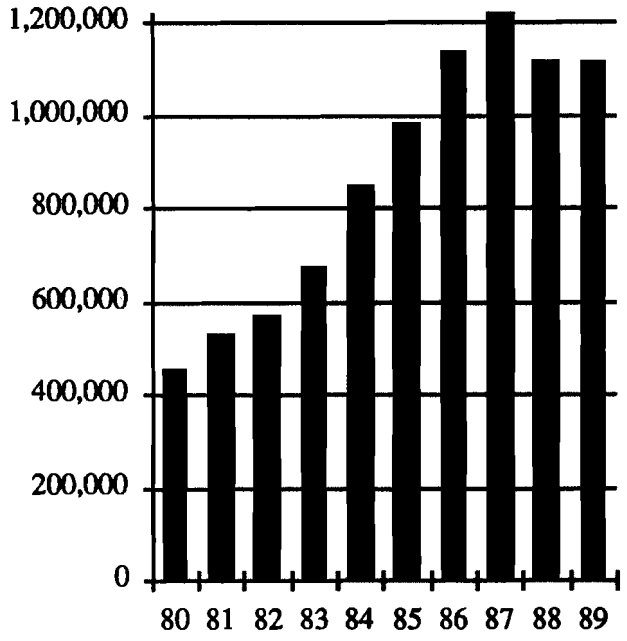
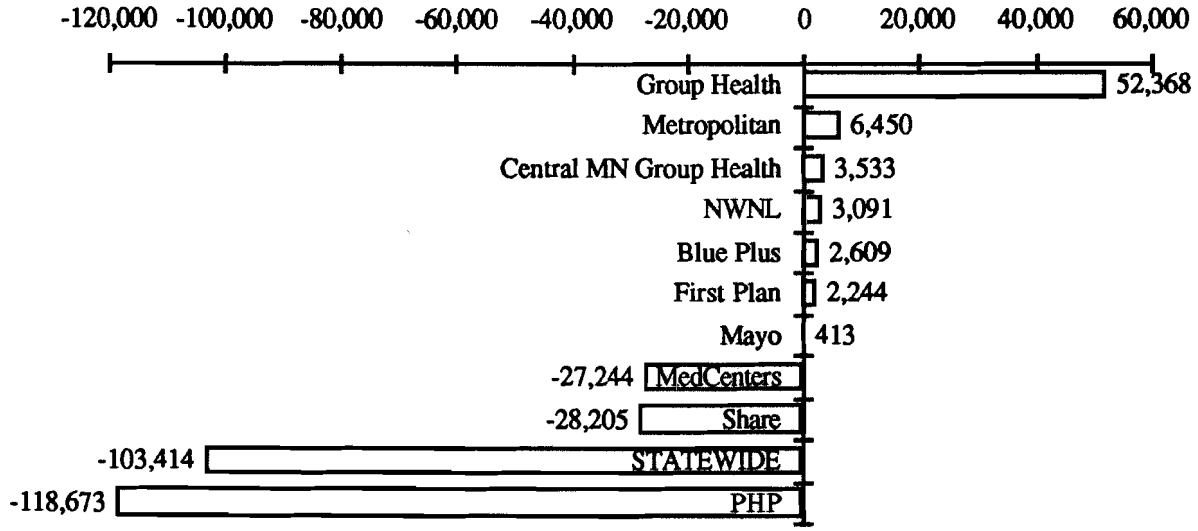


FIGURE 5

CHANGES IN HMO ENROLLMENT SINCE 1987



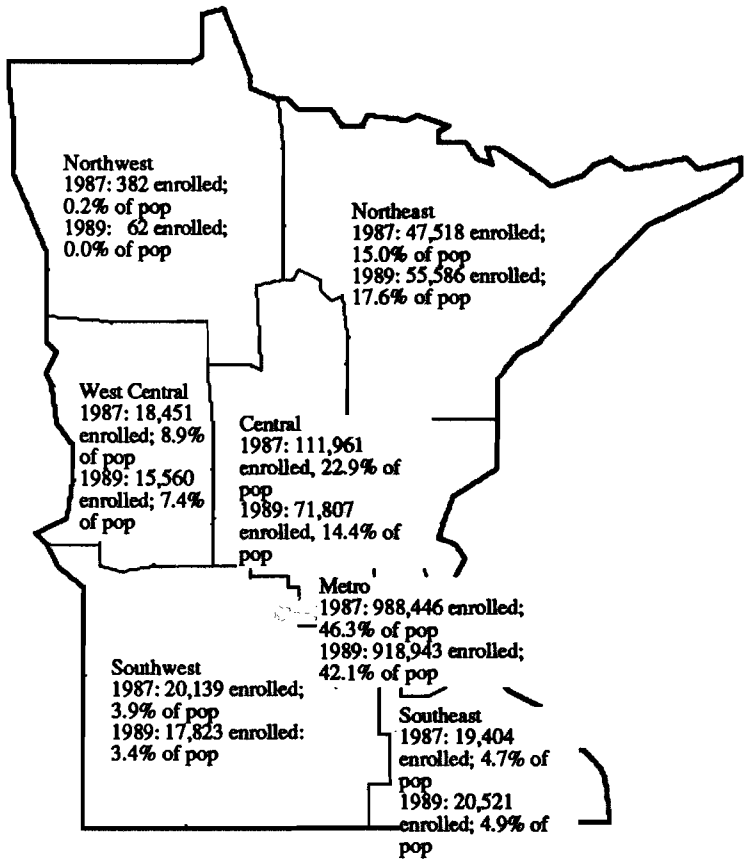
MedCenters to regain second place. All of the smaller HMOs also showed some growth. Group Health made significant gains in major groups such as the state government/University of Minnesota groups. Under the state's formula for contributing to health insurance premiums, Group Health became the best bargain for employees to choose.

Figure 6 provides additional details about the change in HMO enrollment by region of the state. Enrollment has historically been highest in the Twin Cities region, the central part of the state, and northeastern Minnesota. There is virtually no HMO enrollment in the northwestern part of the state.

Enrollment in the seven-county Twin Cities region dropped from 46.3 percent of the population in 1987 to 42.1 percent in 1989. The central region showed a sharper drop, while enrollment in northeastern Minnesota grew during those years.

FIGURE 6

HMO ENROLLMENT BY REGION IN 1987 AND 1989



Open-Ended Plans

Open-ended HMO plans have become very popular in recent years. In an open-ended plan, HMO enrollees receive comprehensive coverage through their HMO providers, but also receive indemnity insurance coverage, with some enrollee cost-sharing, when they use providers outside the HMOs network. Almost all Minnesota HMOs now offer open-ended plans.

According to InterStudy, the Excelsior-based health policy research group, about 30 percent of Minnesota's HMO enrollees are in such plans.[6] Nearly two-thirds of PHP's members are in such plans. Much of Group Health's gain in recent years was through its Group Care operations, through which it offers "open-ended" plans. The Prudential Insurance Company of America co-sponsors these plans for many groups and writes the indemnity insurance part of the plan.

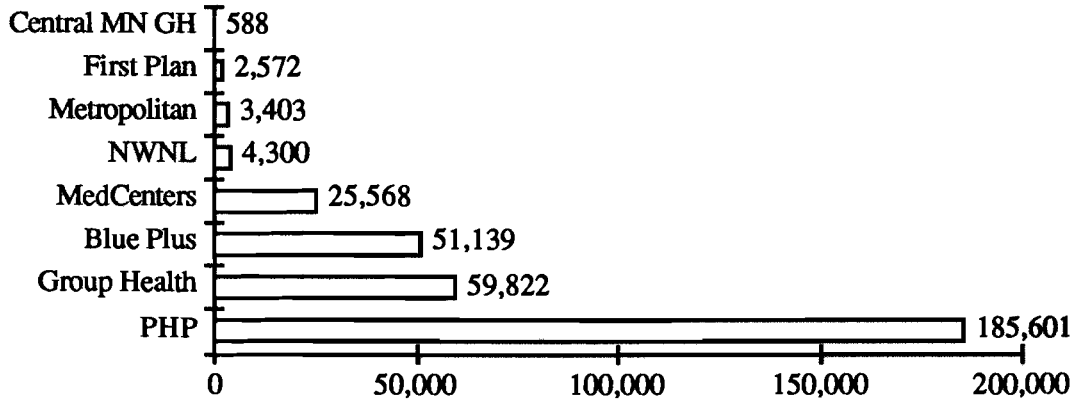
While these plans are steadily becoming more popular around the country, Minnesota HMOs still account for half of the enrollment in open-ended plans in the U.S. Figure 7 shows open-ended enrollment in Minnesota HMOs as reported from InterStudy's 1989 surveys.

---

6 InterStudy, *The InterStudy Edge*, 1990, Volume 1.

FIGURE 7

ENROLLMENT IN HMO OPEN-ENDED PLANS



Source: InterStudy, *InterStudy Edge*, 1990, Vol. 1.

EXPENSES

Hospital Expenses and Utilization

Inpatient hospital care is the largest single expense for HMOs. During 1989, Minnesota HMOs paid hospitals $487 million plus additional amounts for emergency room care and care at non-network hospitals. In the 1970s, HMOs were heavily touted for their ability to hold down health care costs by shifting expensive hospital care to less expensive clinic and outpatient procedures.

In the past, HMOs have been successful in reducing the number and length of hospitalizations. However, Minnesota's HMOs have experienced slow but steady increases in hospital use in recent years. Between 1987 and 1989, the rate of hospital days per 1,000 enrollees of all ages increased 8.5 percent to 614.0 days. The average length of hospital stays also increased by about 11.7 percent to 5.93 days. Note that two HMOs with a large proportion of Medicaid enrollees--Metropolitan Health Plan and NWNL Health Network--report higher than average hopsital use for their under-65 enrollees.

Based on data provided by the Health Economics Program at the Minnesota Department of Health, HMOs continue to use fewer hospital days than the population at large. Inpatient days per 1,000 population statewide was estimated to be 659.7 in 1989, down from 710.0 in 1987. However, average lengths of stay are somewhat higher for HMOs: the state average for all patients decreased from 5.84 days in 1987 to 5.76 days in 1989.

Tables 6 and 7 show that, for both measures of hospital use, the increase has been modest for enrollees below age 65, but much more significant for older enrollees. The average inpatient days per 1,000 enrollees below 65 was 310.5 in 1989; the average was 2,662.6 for enrollees over 65. For the under 65 group, much of the increase can be attributed to PHP. Almost all plans showed significant increases for their over-65 enrollees.

TABLE 6

INPATIENT DAYS PER 1000 ENROLLEES: 1987 AND 1989

	Under 65			Over 65		
	1987	1989	Change	1987	1989	Change
Blue Plus	310.4	315.8	1.7%	2,033.5	2,848.1	40.1%
First Plan	339.7	345.6	1.7%	1,081.7	1,675.4	54.9%
Group Health	289.9	284.0	-2.0%	1,294.0	1,697.3	31.2%
Central MN Group Health	242.8	272.3	12.2%	95.8	283.0	195.6%
Mayo	590.0	572.0	-3.1%	2,980.0	1,572.0	-47.2%
MedCenters	249.0	253.0	1.6%	1,602.0	1,257.0	-21.5%
Metropolitan	948.7	549.2	-42.1%	2,918.6	5,139.2	76.1%
NWNL	1,082.6	927.1	-14.4%	1,825.9	391.7	-78.5%
PHP	310.3	363.9	17.3%	1,665.6	5,043.7	202.8%
Share	299.3	293.9	-1.8%	1,366.4	1,375.0	0.6%
STATEWIDE	298.9	310.5	3.9%	1,594.1	2,662.6	67.0%

TABLE 7

AVERAGE LENGTH OF INPATIENT STAY: 1987 AND 1989

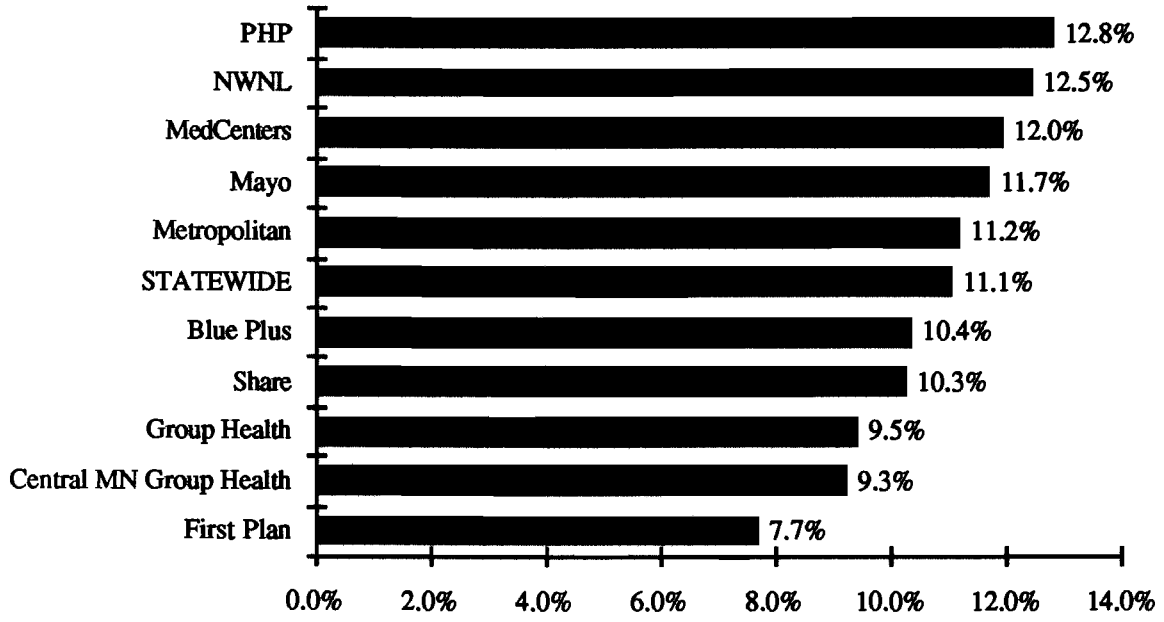
	Under 65			Over 65		
	1987	1989	Change	1987	1989	Change
Blue Plus	3.96	4.18	5.7%	6.21	8.07	29.9%
First Plan	4.73	4.48	-5.3%	6.35	7.67	20.8%
Group Health	4.33	4.25	-2.0%	6.12	7.05	15.3%
Central MN Group Health	4.00	4.20	5.0%	1.50	3.60	140.0%
Mayo	5.10	5.30	3.9%	6.60	6.50	-1.5%
MedCenters	3.80	3.90	2.6%	6.20	6.10	-1.6%
Metropolitan	4.77	4.31	-9.6%	6.38	6.58	3.1%
NWNL	6.40	6.30	-1.6%	6.20	6.20	0.0%
PHP	4.20	4.77	13.6%	6.40	12.83	100.5%
Share	3.90	3.97	1.8%	5.50	5.38	-2.2%
STATEWIDE	4.13	4.32	4.6%	6.15	8.90	44.6%

Administrative Costs

Administrative costs are also a key item for HMOs, as well as one of the fastest growing items in the nation's health care budget. Figure 8 shows that, on average, HMOs spent 11.1 percent of their expenses on administrative costs. PHP's administrative percentage is the highest, at 12.8 percent. First Plan, a small HMO in Two Harbors, has the smallest percentage spent on administration.

FIGURE 8

ADMINISTRATIVE PERCENTAGE OF 1989 EXPENSES



Management Arrangements and Fees

As originally conceived, HMOs integrated medical practice and administration. In Minnesota today, many HMOs exist on three levels: the medical providers; the HMO, often a corporate shell which, under Minnesota law, is organized as a nonprofit corporation; and a for-profit management company. The newest HMOs in the state--Mayo Health Plan and NWNL Health Network--both created for-profit management firms at the same time that the HMO was organized.

Figure 9 shows the arrangements of those HMOs with management companies. Typically, they are paid some percentage of gross premium revenue, although a few HMOs have devised other fee arrangements in recent years that link the management company's fee to the HMO's performance.

FIGURE 9

HMO MANAGEMENT ARRANGEMENTS AND FEES

HMO	MANAGEMENT	FEE ARRANGEMENT	1988 FEES	1989 FEES	OTHER ACTIVITIES
Blue Plus	Blue Cross and Blue Shield of Minnesota	HMO charged for receiving substantially all general and administrative services.	$9,541,096	$12,234,656	
MedCenters	PARTNERS National Health Plans (Aetna)	Fee based, in general, on a percentage of the HMO's gross revenues.	$28,656,165	$28,824,001	Operates Medical Insurance Services LTD, a wholly-owned reinsurance subsidiary which reinsures certain risks of MHP and certain other HMOs.
Mayo	Mayo Management Services, Inc. (MMSI), a for-profit corporation wholly owned by Mayo Foundation	HMO pays an annually negotiated percentage of its gross revenues. For the year ended 12/31/89, the negotiated percentage was 12% for Group Services and 15% for Medicare Supplemental Services.	$416,921	$746,404	
NWNL	NWNL Health Management Corp., a wholly owned subsidiary of NWNL Benefits Corp	Based on premium revenues.	$1,559,256	$1,238,378	
PHP	United HealthCare Management Corporation	PHP pays UMC a fee calculated as a percentage of PHP's consolidated revenue.	$43,891,000	$45,601,000	PHP owns 100% of Physicians Insurance Company (PIC) which, until December 1989, wrote the indemnity portion of its open-ended plans. Physicians Health Choice is a for-profit subsidiary of PIC which sells adminstrative services contracts to employer groups.
Share	Share Development Corp., a wholly-owned subsidiary of United HealthCare Corporation	(Not public data)	$15,914,000	$18,345,000	

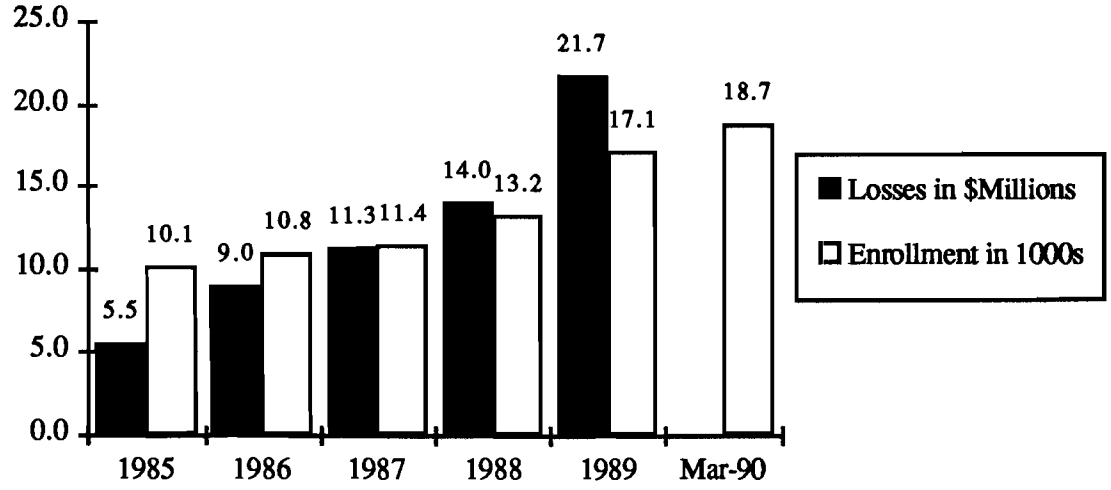
Minnesota Comprehensive Health Association

Since 1987, HMOs have had to contribute to the Minnesota Comprehensive Health Association (MCHA), the state's risk health insurance pool. MCHA was created in 1975 to provide health coverage for persons who had been rejected by the private market for medical reasons. Blue Cross and Blue Shield of Minnesota is the administrator of the plan. By law, premiums are limited to 125 percent of the rates for comparable plans in the private market.

Eligibility has been broadened several times since then, most recently in 1990, to include persons who are laid off from their employment or who cannot exercise continuation rights for group policies. In addition, exclusions for pre-existing conditions are now waived in many cases. As shown in Figure 10, enrollment in MCHA has grown steadily in recent years, going from 10,139 persons in 1985 to 18,733 persons enrolled in March 1990. According to a 1988 U.S. General Accounting Office report, MCHA enrolls more persons than similar plans in 15 other states combined.

FIGURE 10

MCHA LOSSES AND ENROLLMENT SINCE 1985



The plan's losses have increased even faster. As shown in the figure, MCHA operates at a substantial and growing loss. In 1989, it posted a loss of $21.7 million.

MCHA's losses are recovered by assessments against contributing members to MCHA in proportion to their premium volume. HMOs, Blue Cross and Blue Shield of Minnesota, and commercial insurers are all assessed, based on their insured business. Before 1987, only the commercial insurers contributed. Now, because they account for such a high percentage of insurance premiums paid in the state, HMOs and Blue Cross/Blue Shield pay 70 percent of the assessments. Because of the federal ERISA preemption, self-insuring employers are not assessed for any share of the MCHA deficit.[7]

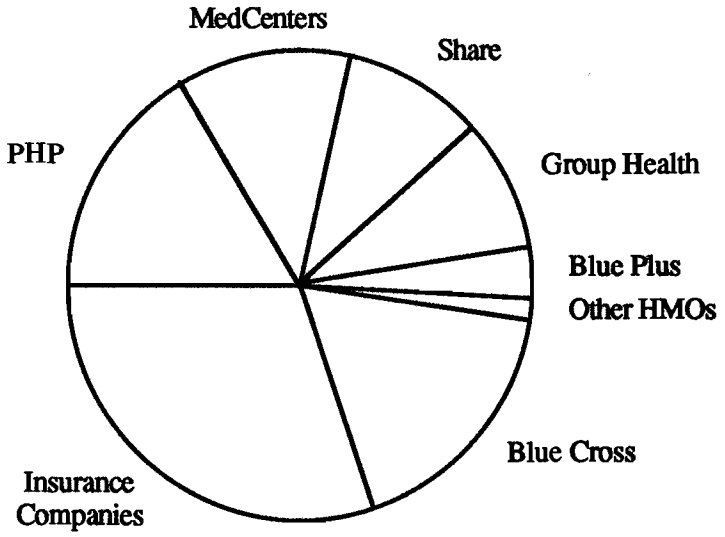
---

7 The federal Employment Retirement Income Security Act of 1974 (ERISA) preempts state regulation of *employee benefit plans*, although it specifically reserves to the state authority to regulate *insurance*. The distinction is not always clear, especially since many self-insuring firms purchase stop-loss insurance to protect against liability for large claims. However, most courts hold that states cannot regulate the content of self-insured health plans or assess those firms for state pools like MCHA on the same basis as insured plans.

As MCHA's losses increase, the assessments have become a significant expense for HMOs. Figure 11 shows how MCHA's first interim assessment for 1990 of $17 million is divided among the different contributors. PHP, for example, faces an interim assessment for 1990 of $2.8 million. Its total assessment for 1990 is likely to equal about one percent of its revenues.

FIGURE 11

HOW THE 1990 MCHA INTERIM ASSESSMENT OF $17 MILLION IS SPLIT



IN SUMMARY

Minnesota's HMO industry enters the 1990s in improved financial condition and with its hold on a large share of the market intact. However, it faces several important challenges. First, HMO use of hospitals is increasing, and HMO enrollees are looking more like the state at-large in their use of hospitals. Second, some HMOs may also face more fundamental financial problems. Most of them will need to keep raising premiums at double-digit rates in order to build up their reserves to meet state requirements, to fund increasing assessments to MCHA, and to keep up with health care inflation. Some may consolidate with other HMOs or insurance companies to secure their financial base.

At the same time as they try to increase premiums, they must deal with a heightened level of dissatisfaction by employers. The number of employers offering HMO plans to their employees has declined in Minnesota. While a "revolt" by employers against HMOs and other health plans is frequently discussed, it is hard to find actual cases of where it has happened. Yet, employers will not be pleased by the prospect of more years of double-digit premium increases. They will explore their current options and may band together to identify new ones. For example, employers who offer several HMOs and other insurance plans may conclude that they will improve their situation by reducing the number of plans offered and bringing all their employees into one large group, not necessarily covered by an HMO.

Now Available:

School Shopper Help for Parents

THE SCHOOL BOOK:
A Comprehensive Guide to Elementary Schools in the Twin Cities

For the first time, Minnesota parents who are selecting schools will have a concise source of comparative information. *The School Book, A Comprehensive Guide to Elementary Schools in the Twin Cities,* a new publication from the Citizens League, is now available. The book profiles 449 public and private elementary schools.

The book features information about each school's curriculum, foreign languages, building and facilities, extracurricular activities, number of students and teachers, class size, equipment and technology, grading system, parent organizations and communications, and services to families (e.g., latchkey, breakfast). Each school profile includes a self-description of the school's teaching philosophy and strengths. Also included in the book is information about what to consider when choosing a school, an explanation of Minnesota's school choice law, an application for the open enrollment program, and a Metropolitan Council map of public schools and districts in the region.

The book can be obtained by calling the Citizens League at 612/338-0791 or by using the order form on the next page. Cost of the book is $12.95 plus $3.00 shipping and handling.

RECENT CITIZENS LEAGUE REPORTS

These reports are the product of the League's unique program of citizen-based research. To order copies, use the form on the next page.

Remaking the Minnesota Miracle: Facing New Fiscal Realities	10-8-90
Because That's Where the Money Is: Why the Public Sector Lobbies	6-28-90
Does the System Maltreat Children?	4-3-90
Wiring Minnesota: New State Goals for Telecommunications	11-16-89
Losing Lakes: Enjoyment of a Unique Metropolitan Resource is Threatened	11-8-89
Access, Not More Mandates: A New Focus for Minnesota Health Policy	9-21-89
Community: A Resource for the '90s	7-25-89
The Metropolitan Council: Strengthening Its Leadership Role	3-23-89
Building Tomorrow by Helping Today's Kids	12-16-88
Chartered Schools = Choices for Educators + Quality for All Students	11-17-88
Cut Tax Exemptions, Boost Equity and Accountability	10-20-88
Stopping AIDS: An Individual Responsibility	5-09-88
The Public's Courts: Making the Governor's Nominating Process Statutory	1-28-88
Make the Present Airport Better-Make A New Airport Possible	12-17-87
Cooperatively-Managed Schools: Teachers as Partners	8-05-87
The New Weigh to Recycle	5-22-87
First Class Property Tax System	4-27-87
Start Right with "Right Start": A Health Plan for Minnesota's Uninsured	2-24-87
New Destinations for Transit	10-28-86
Commitment to Focus: More of Both	8-27-86
State Civil Service: People Make the Difference	6-12-86
It's Only a Game: A Lottery in Minnesota	2-11-86
Power to the Process: Making Minnesota's Legislature Work Better	9-19-85
Accountability for the Development Dollar	6-20-85

For titles and availability of earlier reports contact the Citizens League office, 612-338-0791.

WHAT THE CITIZENS LEAGUE IS

The Citizens League has been an active and effective public affairs research and education organization in the Twin Cities metropolitan area since 1952.

Volunteer research committees of League members study policy issues in depth and develop informational reports that propose specific workable solutions to public issues. Recommendations in these reports often become law.

Over the years, League reports have been a reliable source of information for governmental officials, community leaders, and citizens concerned with public policy issues of our area.

The League depends upon the support of individual members and contributions from businesses, foundations, and other organizations throughout the metropolitan area. *For membership information, please call 612/338-0791.*

Citizens League Research on Health Care in Minnesota:

Three Opportunities

We hope that you found this report useful. The Citizens League, a nonprofit public affairs research and education organization in the Twin Cities, has long been involved in research and initiatives in Minnesota's dynamic health care marketplace.

With the publication of *Minnesota HMO Review: 1989* this year, the League took an important step in assembling and analyzing important information about health care in the state. The report received wide national and local coverage because it is the first of its kind: a dispassionate, intelligent analysis of trends in a key health care marketplace.

We are now offering three opportunities to make this expertise work for you.

Opportunity 1: Send Copies of *Minnesota HMO Review: 1989*

By sharing copies of this report with your clients and associates, they'll see that you understand the importance of having the best analysis and information. We offer an attractive discount for purchases of multiple copies.

REPORT PRICES

Quantity	League Member	Non-Member
10-20 copies	$3.00	$5.00
21 or more	$2.00	$4.00

If you not already a League member, consider joining now.

Opportunity 2: Use Our Data Files

Our staff built computer files with three years of data from the HMOs' annual reports to the Commissioner of Health and other sources. With your own copy of the data, you can use your computers to analyze trends affecting the HMOs, providers, and employers that you work with.

Sample data file excerpt

FILE: Income Statement: Expense and revenue items (1987-89), 5-year surplus/(loss) analysis, administrative cost analysis

REVENUES	1989			
HMO	Member months	Premium	Medicare	Total revenue
Blue Plus	1,237,673	$77,522,659	$38,275,038	$122,689,782
First Plan	103,738	6,628,806	591,677	9,154,013
Group Health	3,186,727	202,058,000	54,837,000	377,181,000
Central MN Group Health	166,013	12,081,994	47,518	13,883,924
Mayo	69,093	6,145,496	0	7,009,126
MedCenters	3,106,650	220,394,691	48,989,293	297,090,939
Metropolitan	98,586	8,099,362	0	9,877,942
NWNL	109,073	13,457,396	247,800	14,349,835
PHP	3,404,000	253,224,000	111,361,000	389,576,000
Share	1,793,622	111,087,000	122,721,000	246,077,000
TOTAL	13,275,175	$910,699,404	$377,070,326	$1,486,889,561

The 16 data files include data for several years on everything from HMOs' balance sheets and income statements to their enrollment, hospital stays and state risk pool (MCHA) assessments. Besides the base data, the files include the calculations and analysis used to prepare the report.

The data files are organized using Microsoft Excel 2.2 for Macintosh computers and are copied onto a 3-1/2 inch disk. We also offer 5-1/4 inch disks for use on IBM/DOS personal computers using Lotus 1-2-3.

COST OF DATA SET: $95. Includes printouts of all files.

Opportunity 3: Hire Our Expertise

If you want a more detailed analysis, but don't have the staff, time, or computers to do it, hire our staff to do the work for you. They can efficiently perform the analysis and prepare the memos, graphics, or presentations that you need.

CONSULTATION FEE: $1,200 per day. Includes data set.

ORDER FORM

1. Report Copies

Please send ____ copies of
Minnesota HMO Review 1989
@ $___ = $___

2. Data File Sets

Please send ____ copies @ $95 = $_

Specify ☐ Macintosh ☐ IBM

3. Consulting Requests

Please contact me:

Name _____

☐ My check is enclosed
☐ Charge my Visa/Master Card

Card # _____

Exp. Date _____

Name _____

Company _____

Address _____

_____

City _____

State, Zip _____

Phone _____

Please return this order to:

CITIZENS LEAGUE
708 South 3rd Street
Suite 500
Minneapolis, Minnesota 55415
612/338-0791

Please direct questions to
Allan Baumgarten, Associate Director

CITIZENS LEAGUE PUBLICATIONS

PRICE LIST

	MEMBER PRICE	NON-MEMBER PRICE
• **MINNESOTA HMO REVIEW 1989**		
• **PUBLIC AFFAIRS DIRECTORY**		
1st copy	$5.00	$10.00
2nd - 10th	$3.00	$ 6.00
• **THE SCHOOL BOOK**	$10.00	$12.95
(Call for discounts on quantity orders)		
• **REPORTS**		
1st copy	FREE	$10.00
2nd - 10th	$5.00	$ 9.00
11th and more	$4.00	$ 8.00

==========

CITIZENS LEAGUE PUBLICATIONS

ORDER COUPON

Quantity	Publication	Cost
_____	_____	$_____
_____	_____	$_____
_____	_____	$_____
	TOTAL AMOUNT OF ORDER	**$_____**

Name _____

Address _____

_____

City, State, Zip_____

Phone _____

☐ Make checks payable to Citizens League
OR

☐ Charge to Visa/Master Card Account#_____Exp. Date____
Signature_____

☐ Send Citizens League membership information

Mail this form to: Citizens League, 708 South 3rd Street, Suite 500, Minneapolis, MN 55415
Or FAX your credit card orders to 612-337-5919

Citizens League

708 South 3rd Street, Suite 500
Minneapolis, Minnesota 55415
612/338-0791

MEMBERSHIP APPLICATION

Name **Home Phone**

Address

City **State** **Zip**

Employer **Work Phone**

Position **FAX #**

Employer's Address

Send Mail to: ❑ **Home** ❑ **Office**

***Spouse Information**

Name

Employer

Position **Work phone**

Work Address

I will join at this level:

DONOR $1,000 or more	❑
SUSTAINING $500 - 999	❑
CONTRIBUTING $75 - 199	❑
***FAMILY $50**	❑
INDIVIDUAL $35	❑
FULL-TIME STUDENT $20	❑
BUSINESS $150	❑

Referred by: _____

Membership is tax-deductible and includes a one-year subscription to the *Minnesota Journal*

*Family membership entitles you to a second *Minnesota Journal*. Please indicate the name and address of the recipient.

Join the Citizens League and help make things happen

IMPACT

Being a member of the Citizens League means you care about what happens in Minnesota and believe that good public policy depends upon an informed citizenry. League members can participate in citizen research that helps to shape public policy. Membership also offers these additional benefits:

PUBLICATIONS

- ***Minnesota Journal*** — 22 issues a year of timely public affairs news, analysis and commentary, including the League's annual property tax survey.
- ***Public Affairs Directory*** — a handy listing of agencies, organizations and officials involved in making and implementing public policy.
- ***The School Book*** — a comprehensive guide to elementary schools in the Twin Cities.
- **Citizens League reports** — full reports and statements on topics studied — free copies are a benefit of membership.

MEETINGS

- **Mind-Opener breakfast meetings** — every Tuesday from Labor Day to Memorial Day. Public officials, community and business leaders meet with League audiences to discuss and debate timely issues.
- **The DeSantis Series: Neighborhood Issues in Focus — Speakers** explore issues of neighborhood economic development.
- **Seminars** -- occasional, in-depth discussion of issues.