

WHY HEALTH INSURANCE COMPANIES HAVE MEDICAL RESERVES



When we pay our health insurance premiums, we expect our money to pay for medical care. So why do Minnesota's health insurers set aside some of the premiums we pay? The answer is simple. *Insurers need to save a portion of our premiums to make sure our medical bills will always be paid, even when times are tough.*

What medical reserves are for

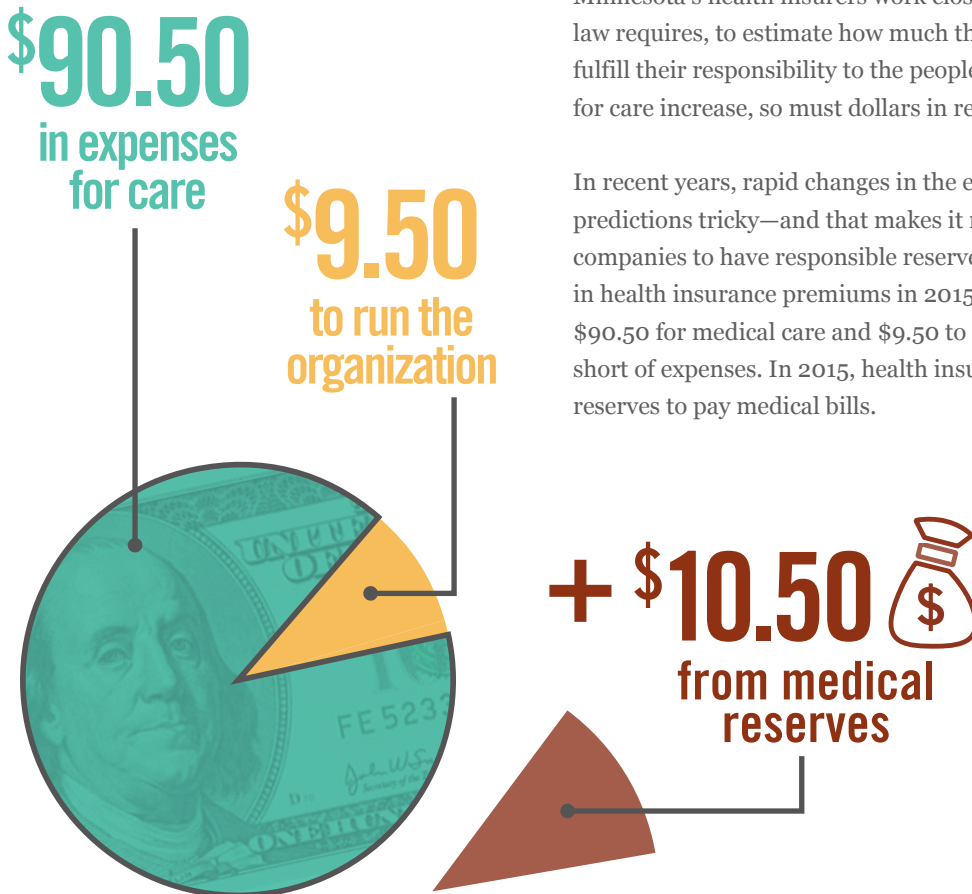
Being financially responsible means saving for a rainy day. All kinds of organizations—counties and hospitals, factories and school districts, corner businesses and multinational corporations—set aside a portion of their income to make sure they can keep going through unpredictable expenses and hard times. The same is true for Minnesota's health insurance companies.

In fact, state law requires our health insurers to keep funds in reserve to make sure they can pay policyholders' medical claims, make necessary investments in technology and service, and be prepared for the unexpected. Reserves provide the financial stability that allow our insurers to fulfill their responsibilities to Minnesotans. And our health insurance companies are accountable solely to their members—not stockholders or Wall Street.

How much our health insurers save

Minnesota's health insurers work closely with state government officials, as state law requires, to estimate how much they will need to save in reserves in order to fulfill their responsibility to the people they insure. As enrollment and expense for care increase, so must dollars in reserve.

In recent years, rapid changes in the economics of health care have made accurate predictions tricky—and that makes it more important than ever for our insurance companies to have responsible reserves. For every \$100 a Minnesota family paid in health insurance premiums in 2015, our insurance companies paid about \$90.50 for medical care and \$9.50 to run the business. But our premiums fell far short of expenses. In 2015, health insurers took an additional \$72 million from reserves to pay medical bills.



What our health insurers do with reserves

- **Prepare for the unexpected.** Even in Minnesota, we're not immune to sudden catastrophes that send many people to the hospital in a short time. Reserves make sure that our health insurers will be able to pay for care in the event of a large-scale medical crisis, like an epidemic illness.
- **Bridge delays in government payments.** The state hires health insurers to provide insurance for many Minnesotans enrolled in Medicaid and MinnesotaCare. To balance the state budget, the state reduces or delays the amount it pays for that coverage. Reserves ensure that doctors and others who provide care to Minnesotans covered by public programs continue to get paid, even when hundreds of millions of dollars in government payments to the health plans are reduced or delayed.
- **Withstand the uncertainty in health insurance today.** We've all heard (over and over again) health care is changing. These changes effect reserves as well. No company knows who will sign up for its insurance plan or what companies the state will decided to work with. Companies must be prepared for huge changes each year, including gaining or losing thousands of policyholders. While reserves may look high one year, an enrollment swing could mean the reserves are too low the next year.

How much is enough?

What new prescription drugs or medical devices are on their way and how expensive will they be? How many policyholders do we have and what kind of care might they need at their age? How many of my current policyholders need ongoing lifesaving treatment? What are state government leaders, members of Congress and the president working on and how could it effect policyholders? If the worst happens and we have to sell everything to pay for the care our policyholders need, how much will we get by selling our equipment, buildings, etc.?

Answers to these questions and others help health insurance financing experts, large corporations, creditors and people who regulate health insurance companies think about how much money a specific company needs to have in reserve. The balance for our health insurance companies is to have enough money in reserve to protect policyholders and earn the confidence of business customers while at the same time ensuring state government leaders, policyholders and others that the reserves aren't too high to serve our community's needs.