

**Texas Mandated Benefit  
Cost and Utilization  
Summary Report**

**October 2005 - September 2006  
Reporting Period**



**Texas Department  
of Insurance**



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## EXECUTIVE SUMMARY

In order to measure the costs associated with mandated health benefits, the 77<sup>th</sup> Texas Legislature enacted HB 1610 directing TDI to collect data annually and authorizing the Commissioner of Insurance to adopt necessary rules. This report summarizes the data collected for the 12-month reporting period of October 2005 through September 2006.

Data is collected for both group and individual fully-insured health insurance plans. Insurers with \$10 million or more in annual group premiums and/or at least \$2 million in individual premiums are required to file a report. HMOs (Health Maintenance Organizations) with at least \$10 million in premiums for basic-service plans must also submit a report. For 2006, a total of 58 insurers and HMOs submitted the data summarized in this report. Separate data is provided for mandated **benefits** which must be included in all benefit plans and for mandated **offerings** which the purchaser decides to include or decline.

The first two tables provide an overview of the 2006 mandated benefit data collected for this report and includes 2005 data for comparison purposes. However, this summary data must be considered in the context of the other information provided in this report in order to fully understand its value and limitations.

As indicated in Table 1, claims costs for the 20 mandated benefits for which data was collected total \$378.84 million, or 4.40 percent of all claims paid under group benefit plans. Mandated *offerings* resulted in an additional cost of \$5.03 million, or 0.06 percent of claims. The average annual premium cost of including the 20 benefits was estimated at \$107.71 for an individual with single coverage (i.e., employee-only) and \$271.10 for family coverage. Administrative expenses for mandated benefits accounted for an added \$64.84 million in costs, or 0.75 percent of total claims paid, while administrative expenses for mandated offerings accounted for \$850,000 or 0.01 percent of claims paid. While these figures represent a relatively small percentage of the total claims paid and total premium costs, additional costs would likely be attributed to the other mandated benefits for which data is not collected.

Though much of the data reported in 2006 were consistent with 2005 data submissions, several changes for both mandated benefits and mandated offerings are worth noting. The average annual premium estimate for family mandated benefit coverage increased by 22 percent from \$222 in 2005 to \$271 in 2006, while the average annual premium estimate for single mandated benefit coverage increased by 1.6 percent from \$106 to \$108. The number of mandated benefit claims decreased by 14.2 percent (3,952,000 to 3,391,000), while the value of mandated benefit claims increased by less than one percent. Mandated offers experienced a substantial across-the-board decrease in the number of claims (114,000 to 67,000), value of claims (\$9,039,000 to \$5,033,000), single premium cost (\$4.54 to \$3.12), family premium cost (\$8.72 to \$7.80), and administrative cost (\$1,404,000 to \$850,000) from 2005 to 2006.

**Table 1 – Overview of Group Mandated Benefit  
and Mandated Benefit Offering Plans in 2005-2006\***

	2005	2006	% Change
<b>Overall Group Accident and Health Data</b>			
Total Premiums Earned	\$9,631,046,021	\$9,893,975,476	2.73%
Total Claims Paid	\$7,643,208,512	\$8,611,086,426	12.66%
<b>Mandated Benefit Data*</b>			
Total Mandated Benefit Claims Paid	\$375,950,869	\$378,837,949	0.77%
Number of Mandated Benefit Claims Paid	3,951,847	3,391,051	-14.19%
Mandated Benefit Costs as a Percentage of Total Claims Paid	4.92%	4.40%	-10.57%
Mandated Benefit Costs as a Percentage of Total Premiums Earned	3.90%	3.83%	-1.79%
Average Annual Premium Cost Estimate of Mandated Benefits– Single (i.e., Employee-only) Coverage	\$105.98	\$107.71	1.6%
Average Annual Premium Cost Estimate of Mandated Benefits – Family (i.e., Employee and Family) Coverage	\$222.14	\$271.10	22.0%
Total Estimated Administrative Costs for Mandated Benefits	\$65,849,921	\$64,842,405	-1.53%
Mandated Benefit Administrative Costs as a Percentage of Total Claims	0.86%	0.75%	-12.79%
<b>Mandated Benefit Offering Data**</b>			
Total Mandated Benefit <i>Offering</i> Claims Paid	\$9,038,595	\$5,032,602	-44.32%
Number of Mandated Benefit <i>Offering</i> Claims Paid	113,795	66,652	-41.43%
Mandated Benefit <i>Offering</i> Costs as a Percentage of Total Claims Paid	0.12%	0.06%	-50.00%
Mandated Benefit <i>Offering</i> Costs as a Percentage of Total Premiums Earned	0.09%	0.05%	-44.44%
Average Annual Premium Cost Estimate of Mandated Benefit <i>Offerings</i> – Single (i.e., Employee-only) Coverage	\$4.54	\$3.12	-31.3%
Average Annual Premium Cost Estimate of Mandated Benefit <i>Offerings</i> – Family (i.e., Employee and Family) Coverage	\$8.72	\$7.80	-10.6%
Total Estimated Administrative Costs for Mandated Benefit <i>Offerings</i>	\$1,403,520	\$850,458	-39.41%
Mandated Benefit <i>Offering</i> Administrative Costs as a Percentage of Total Claims Paid	0.02%	0.01%	-50.00%

\* Represents 20 mandated benefits for which data was collected.

\*\* Represents 2 mandated offerings for which data was collected

For individual (non-group) benefit plans, total premiums earned increased by seven percent to \$1.196 billion in 2006, while total claims paid increased by 54 percent to \$1.099 billion. Mandated benefit costs were \$39.62 million which represented 3.31 percent of total premiums and 3.60 percent of total claims (Table 2). Premium costs for single coverage increased by 12.58 percent from 2005 to 2006, while premium costs for family coverage increased by 20.58 percent. In dollar terms, the average annual premium cost for single coverage increased from \$54.52 in 2005 to \$61.38 in 2006, while family coverage rose from \$117.72 to \$141.95.

**Table 2 – Overview of Individual Mandated Benefit Plans in 2005-2006\***

	2005	2006	% Change
<b>Overall Individual Accident and Health Data</b>			
Total Premiums Earned	\$1,116,479,607	\$1,195,654,165	7.09%
Total Value of All Claims Paid	\$715,960,856	\$1,098,994,736	53.50%
<b>Mandated Benefit Data</b>			
Total Value of Mandated Benefit Claims Paid	\$34,658,911	\$39,617,878	14.31%
Total Number of Mandated Benefit Claims Paid	408,590	458,994	12.34%
Mandated Benefit Costs as a Percentage of Total Claims	4.84%	3.60%	-25.62%
Mandated Benefit Costs as a Percentage of Total Premiums	3.10%	3.31%	6.77%
Average Annual Premium Cost Estimate of Mandated Benefits– Single Coverage	\$54.52	\$61.38	12.58%
Average Annual Premium Cost Estimate of Mandated Benefits – Family Coverage	\$117.72	\$141.95	20.58%
Total Estimated Administrative Costs	\$11,174,651	\$15,350,850	37.37%
Administrative Costs as a Percentage of Total Claims	1.56%	1.40%	-10.26%

*\*Represents 13 mandated benefits for which data was collected.*

It is important to note that TDI did not collect data on every mandated benefit. Some mandated benefits that require coverage of groups of people (such as newborns with birth defects) are not associated with a specific medical procedure or diagnosis code. Therefore, they cannot generally be identified by insurers based on the information included in the standard insurance claim format, which is the source of the data reported to TDI. As such, the cost estimates provided in this report represent *only* the costs attributed to the 20 specific mandated benefits and two mandated offerings listed herein (see pages 5-6).

Finally, this report also does not provide a cost-benefit analysis of the mandates, which is necessary to identify any cost savings that occur as a result of improved health status or a

reduction in future health costs due to the medical care associated with a mandated benefit. These cost savings would, to some extent, offset the total cost of the mandates. The report also does not measure the “marginal cost” of benefits, which is usually significantly lower than the full cost. Even without a mandate provision, many carriers would voluntarily provide some mandated coverages. The marginal cost is the cost of new coverage added only because of the benefit requirement.

## SURVEY OVERVIEW

### *Legislation*

To evaluate the cost of mandated health insurance benefits and their impact on health benefit coverage, state law requires the Texas Department of Insurance (TDI) to collect cost and utilization data on certain mandated benefits. Under rules adopted by TDI, health insurers and health maintenance organizations (HMOs) are required to submit mandated benefit premium and claims data annually in an electronic format developed by TDI. Insurers must submit data for group policies if they report \$10 million or more in direct premium in the state of Texas for **group** accident and health insurance policies on their most recent annual statement. An insurer must also submit data for individual policies if they report \$2 million or more in direct premiums for **individual** accident and health policies in Texas. HMOs are subject to the reporting requirements if they collect \$10 million or more in direct commercial premiums for basic service benefit plans. This report summarizes the data collected for benefit plans in effect from October 2005 through September 2006.

### *Definition of Mandated Benefits – Reporting Limitations*

For purposes of this report, the mandated benefits which are subject to data collection and reporting include those benefits required by state law that cover a specific medical condition or illness or a specific medical service. As directed by the enabling legislation, TDI adopted by rule the requirements and specifications for mandated benefit data collection and reporting. However, the rule does not require insurers to report data on *all* mandated benefits due to the lack of specific standardized medical codes for some mandated benefits, or other detailed information that insurers require to identify such claims. Throughout the legislative process and subsequent rule development, TDI acknowledged that the availability of precise benefit and premium cost data is limited to those mandated benefits that can be identified using information provided on insurance claim forms, including standard medical diagnosis and procedure codes. Insurers and HMOs require that all claims filed by physicians and providers include these codes, which are used to identify the patient's medical condition and treatment. These codes allow an insurer/HMO to determine if the medical condition and subsequent treatment are covered benefits under the policy, and enable an insurer to pay a claim under the terms of the insurance contract. Use of these standardized codes also allows insurers/HMOs to collect and report mandated benefit cost and utilization data to TDI in a uniform manner. For example, there is a specific procedure code that a physician uses to file an insurance claim for a mammogram. Insurers/HMOs use this procedure code to identify all mammography mandated benefit claims and can easily report that data to TDI in a manner that is consistent across all companies/HMOs.

Some mandated benefits, however, do not require coverage of a specific illness or medical treatment for which there is a standard medical or procedure code that allows insurers/HMOs to identify the appropriate claims. For example, one mandated benefit requires coverage of any newborn child that has health problems on the same basis as any

healthy newborn child. In other words, the insurer/HMO cannot decline coverage for a newborn child if the child is born with medical problems. However, the list of possible congenital birth defects or health conditions that would normally result in an insurer's decision to decline coverage for a newborn child (in the absence of the mandated benefit) is extensive and would vary among companies depending on the seriousness of the medical condition, the child's prognosis, and the insurers' underwriting requirements for various conditions. In addition, the insurer/HMO must continue to provide coverage for the child as long as he/she is eligible as a dependent, so many of the children still covered as a result of the mandated benefit are no longer newborns but may be any age up to 25. As such, it is impossible for insurers/HMOs to identify those individuals who are covered under this particular mandated benefit provision and to identify which of the services they received (i.e., claims paid) are due specifically to the mandated benefit requirement. Because of these and other data limitations, the rule does not require insurers/HMOs to report data on **all** mandated benefits, just those mandated benefits for which specific diagnosis and procedure codes exist. After significant evaluation of existing mandated benefits and input from numerous interested parties, the final rule requires data reporting for the following mandated benefits:

- Benefits Related to the Treatment of Acquired Brain Injury;
- AIDS and HIV Related Care;
- Chemical Dependency;
- Childhood Immunizations;
- Colorectal Cancer Testing;
- Craniofacial Surgery for Children;
- Diabetes Education and Testing Supplies;
- Hearing Screenings for Children;
- Mammography Screening;
- Nutritional Supplements for PKU and Other Inheritable Diseases;
- Oral Contraceptives (if prescription drugs are covered);
- Osteoporosis Detection;
- Prescription Contraceptive Drugs, Devices and Related Services (if prescription drugs are covered);
- PSA Testing for Prostate Cancer;
- Psychiatric Day Treatment;
- Reconstructive Breast Surgery Following a Mastectomy;
- Serious Mental Illness – Limited to 45 Inpatient and 60 Outpatient Days of Service;
- Serious Mental Illness – Full Parity for Universities and Local Governments;
- Telemedicine Services; and
- Treatment of Temporomandibular Joint Conditions (TMJ).

In addition to the mandated benefits above, state law also requires that some benefits be *offered* to insureds, but allows the purchaser to decide whether to accept or decline the offer. The two “mandatory offerings” for which data is collected include:

- In-Vitro Fertilization, and
- Treatment for Loss of Speech or Hearing.

The Appendix at the end of this report includes a comprehensive list and explanation of each of these benefits along with its legal basis.

### ***Data Collection Methodology***

For each of the mandated benefits subject to the reporting requirements, insurers/HMOs must report the following information for both group insurance plans and individual insurance plans:

- number of claims paid for each mandated benefit;
- total dollar value of claims paid for each mandated benefit;
- the average annual premium cost for each mandated benefit; and
- the estimated annual administrative cost attributed to each mandated benefit.

In addition, carriers report enrollment, total premium and total claim data for both group and individual plans that allows additional analysis on a company-level basis as well as on an aggregated, industry-wide basis. To the extent possible, TDI provided specific directions to assure uniform reporting across companies. Due to standard industry practices for claims payment forms and the use of standard codes for medical diagnoses and services, the data collected for the total number of claims paid and the total dollar value of claims paid are consistent across carriers. However, the process insurers/HMOs use to determine premium costs and administrative costs for mandated benefits varies from company to company. Although all companies use similar actuarial principles, there are technical variances among carriers that result in methodological differences in the way they develop cost estimates. As such, the data reported for premium and administrative costs are collected according to each company's internal guidelines rather than an industry-wide standard. More discussion of this issue is provided later in this report.

The reporting rule also requires carriers to provide premium cost estimates separately for "single coverage" and "family coverage" to demonstrate the cost impact of mandated benefits on the least expensive and most expensive forms of coverage. "Single coverage" as used in this report refers to coverage provided to a single individual and does not include any dependent coverage for children or a spouse. "Family coverage" refers to coverage provided to the employee/enrollee plus children and a spouse. Single coverage is the least expensive category since it insures only one individual, and family coverage is the most expensive type since it insures the entire family. The rule does not require premium estimates of other categories of coverage, including "employee/enrollee and spouse" (which does not include coverage for any children), or "employee/enrollee and children" (which does not include coverage for a spouse).

It must also be noted that the data reported by carriers is not "audited" by TDI. However, TDI does review all data submitted by each company to identify extreme data anomalies

and outliers suggesting data collection or entry errors. Carriers submitting questionable data are contacted to verify the accuracy of the information and correct any errors. Companies are responsible for assuring that the information they report is accurate and complete and are asked to provide supporting documentation if TDI determines the data may be inconsistent or inaccurate.

All data in this report is aggregated and represents industry-wide averages. The statute specifically prohibits TDI from publishing data that identifies any specific company.

### ***Company Participation***

A total of 55 insurers and HMOs filed data included in this report. Insurance companies must submit data if their most recently filed annual financial statement indicates Texas business of \$10 million or more in direct premiums for group accident and health insurance policies, or \$2 million or more in direct premiums for individual accident and health insurance policies. HMOs must report if their most recently filed annual statement shows a total of \$10 million or more in direct commercial premiums earned in Texas. Companies that do not meet the minimum premium requirements are not required to file a report.

TDI exempted from reporting those companies that met the \$10 million or \$2 million threshold but wrote insurance plans that are not subject to the mandated benefit requirements. Many companies focus on specialized types of accident and health insurance such as long-term care coverage, accident-only policies, or credit accident and health plans. These benefit plans are not required to include the mandated benefits and are not, therefore, subject to the mandated benefit reporting requirements. Although the premiums for these plans are reported on the annual statement as part of the total group or individual accident and health premiums, the annual statement data does not provide enough detail to allow TDI to identify and automatically exclude those companies from reporting. However, prior to the reporting due date, TDI allowed companies to inform the Department of the nature of their business and request an exemption.

Of the 58 insurers and HMOs that submitted data, 44 provided information on group benefit plans and 24 provided information on individual benefit plans. Fourteen of the carriers reported only individual data, 34 reported only group data, and the remaining ten provided both group and individual benefit plan data. The 44 group carriers reported total Texas premiums of \$9,893,975,476 for 2006. The 24 carriers providing data on individual benefit plans reported total premiums of \$1,195,654,165. Following is a summary of the data results reported separately for group benefit plans and individual benefit plans.

## GROUP BENEFIT PLAN RESULTS

### *Mandated Benefit Claims Costs and Utilization*

As explained earlier, TDI provided insurers and HMOs a specific list of standard diagnosis and procedure codes associated with each of the mandated benefits for which data is collected. Using these codes, the companies can uniformly identify and report the claims costs associated with each benefit. For each of the mandated benefits, insurers and HMOs were required to provide the total dollar value of claims paid and the number of claims paid. Aggregate claims data is reported for all group policies subject to the mandated benefit requirements.

The insurers and HMOs providing group data reported a total of 3,391,051 mandated benefit claims, representing a total claims value of \$378,837,949 (Table 3). The total value of **all** claims paid (including mandated benefits and all other claims), was \$8,629,855,985. **Thus, the reported mandated benefit claims paid in 2006 represented a total of 4.40 percent of all claims paid.** An additional \$5,032,602 was paid for mandated *offering* benefits, representing 0.06 percent of all claims paid.

A review of the data for each mandated benefit shows that each benefit accounted for less than one percent of total claim costs. Claims paid for reconstructive breast surgery following a mastectomy represented the highest percentage of claims at 0.62 percent. Diabetes education and supplies accounted for the next highest percentage of costs at 0.60 percent of total claims, followed by claims paid for serious mental illness (0.56 percent), colorectal cancer testing (0.42 percent) and hearing screening for children (0.41 percent). The least costly benefits were nutritional supplements for PKU (Phenylketonuria) and other inheritable diseases, and telemedicine services; both benefits had claims totaling less than 0.01 percent of total claims paid.

A review of the claims data filed by all carriers indicated several companies submitted claims that were considerably higher than the industry average reported by all other companies for certain benefits, including: reconstructive surgery following a mastectomy; diabetes education and supplies; and childhood hearing and screening. In response to TDI's request for additional information, carriers explained that claim costs for these benefits may sometimes include other costs not specifically related to the mandated benefit requirements due to the common practice of "bundling" certain services into one claim or procedure code. For example, reconstructive surgery following a mastectomy may also include some charges related to the actual mastectomy (which is NOT a mandated benefit) if both procedures are performed at once. A surgeon performing both procedures may submit one claim that includes both the mastectomy fee and the reconstructive surgery fee. The hospital bill also will likely be submitted as one claim including the patient's costs related to both the mastectomy and the reconstructive surgery. When trying to identify those costs related solely to the mandated benefit requirement for reconstructive surgery, some health plans pro-rate the claims reported to TDI or use some other methodology to estimate only those costs attributed to the mandated benefit requirement. Others do not, however, which results in significantly

higher claims costs. As such, the claim costs reported for reconstructive surgery following a mastectomy *does* include some costs attributed to the mastectomy procedure.

Similarly, claims for childhood hearing and screening tests and for diabetes education and supplies are often submitted as part of a claim that includes other services. A patient may see a physician for several medical problems, including diabetes. As part of that visit, the patient may receive advice and educational information and/or training which is noted on the claim as diabetes educational services. The cost of that service may be “bundled” with other services provided during that visit and is submitted under one single procedure code. When collecting the claims data for this particular benefit, the insurer may include the cost of the entire “bundled” claim, which includes services not related to the mandated benefit. Likewise, if a child receives the hearing and screening test as part of a well-child visit that includes other services, the entire claim may be counted as attributed to the hearing and screening mandated benefit if it is “bundled” with other services. Though it is impossible to estimate the extent to which this occurs, the additional expenses are an added factor that should be acknowledged when evaluating the true cost of each mandated benefit.

Finally, when the mandated benefit claims in 2006 are compared to 2005 data, the vast majority of benefits had consistent ratios to total claims paid. AIDS/HIV treatment, diabetes education and supplies, and TMJ treatment were the major exceptions. Diabetes education and supplies costs decreased from 0.74 percent to 0.60 percent of total claims, while AIDS/HIV treatment decreased from 0.32 percent to 0.22 percent. Treatment of TMJ doubled from 0.02 percent to 0.04 percent of total claims.

**Table 3 – Group Benefit Plans  
Mandated Benefit Claims Costs**

Mandated Benefit	Mandated Benefit Claims Paid		Claims as a Percentage of Total Claims Paid	
	2005	2006	2005	2006
Acquired Brain Injury	\$14,675,648	\$15,450,652	0.19%	0.18%
AIDS/HIV Treatment	\$24,670,145	\$19,237,578	0.32%	0.22%
Chemical Dependency	\$15,900,785	\$15,262,568	0.21%	0.18%
Childhood Immunizations	\$30,187,518	\$31,857,788	0.39%	0.37%
Colorectal Cancer Testing	\$36,101,628	\$36,120,235	0.47%	0.42%
Craniofacial Surgery for Children	\$1,293,930	\$1,166,035	0.02%	0.01%
Diabetes Education and Supplies	\$56,501,339	\$52,053,365	0.74%	0.60%
Hearing Screening for Children	\$33,433,456	\$34,886,945	0.44%	0.41%
Mammography Screening	\$27,832,262	\$28,356,229	0.36%	0.33%
Nutritional Supplements for PKU and Other Inheritable Diseases	\$197,126	\$142,285	0.00%	0.00%
Oral Contraceptives	\$14,030,415	\$15,291,498	0.18%	0.18%
Osteoporosis Detection	\$3,732,657	\$3,579,037	0.05%	0.04%
Prescription Contraceptive Drugs, Devices and Related Services	\$6,916,203	\$6,249,691	0.09%	0.07%
PSA Testing for Prostate Cancer	\$5,623,517	\$5,238,581	0.07%	0.06%
Psychiatric Day Treatment	\$7,301,302	\$6,037,870	0.10%	0.07%
Reconstructive Breast Surgery Following a Mastectomy	\$50,501,619	\$53,392,015	0.66%	0.62%
Serious Mental Illness – 45 Inpatient and 60 Outpatient Days	\$41,022,403	\$47,899,712	0.54%	0.56%
Serious Mental Illness – Full Parity for Universities, Local Governments	\$3,981,842	\$3,241,925	0.05%	0.04%
Telemedicine Services	\$225,991	\$152,387	0.00%	0.00%
TMJ Treatment	\$1,821,083	\$3,221,553	0.02%	0.04%
<b>TOTAL</b>	<b>\$375,950,869</b>	<b>\$378,837,949</b>	<b>4.92%</b>	<b>4.40%</b>

For mandated benefit offerings, in-vitro fertilization accounted for 0.02 percent of total claims in 2006, while treatment of speech or hearing loss accounted for 0.04 percent. Total claims for both benefits combined decreased by nearly one-half from 2005 to 2006.

**Table 4 – Group Benefit Plans  
Mandated Benefit Offering Claims Costs**

Mandated Benefit Offering	Mandated Benefit Offering Claims Paid		Claims as a Percentage of Total Claims Paid	
	2005	2006	2005	2006
In-Vitro Fertilization	\$1,930,688	\$1,389,486	0.03%	0.02%
Treatment of Speech or Hearing Loss	\$7,107,907	\$3,643,134	0.09%	0.04%
<b>TOTAL</b>	<b>\$9,038,595</b>	<b>\$5,032,602</b>	<b>0.12%</b>	<b>0.06%</b>

Companies were also required to report the **number** of claims that were paid for each mandated benefit. The data varies significantly among benefits, since utilization of certain mandates is limited based on the prevalence of the medical condition, the frequency of the benefit, and whether the benefit applies to a limited population (such as children only or men age 50 and older). For example, claims for prescription oral contraceptives recorded the highest utilization due to the fact that prescriptions are routinely filled on a monthly basis. Each time the prescription is refilled, a separate claim is noted. Thus, although there were 870,000 claims representing over 24 percent of all mandated benefit claims, many of these were for repeat prescription refills. Other benefits, such as colorectal cancer screenings and PSA testing for prostate cancer, are generally limited to only one occurrence per year and are used primarily by older adults. The lower utilization rate of 3.98 percent for colorectal cancer screenings and 4.50 percent for PSA testing is not surprising given the limited population to which these benefits apply.

In most cases, the 2006 utilization data is comparatively consistent with the data submitted in 2005. Changes worth noting include an increase in the number of osteoporosis detection claims from 0.62 percent of all mandated benefit claims to 0.90 percent, while claims for TMJ treatment increased from 0.13 percent of total claims to 0.30 percent. Diabetes education and supplies claims decreased from 15.60 percent to 11.96 percent of the total number of mandated benefit claims; even so, this accounted for the second highest utilization rate among all benefits for which data was collected. As in 2005, oral contraceptives remained the most frequently used benefit, rising slightly from 22.02 percent to 24.19 percent of total claims. Other benefits with the highest utilization rates included mammography screening (10.01 percent) and childhood immunizations (10.00 percent). Those four benefits combined accounted for nearly 60 percent of the number of mandated benefits paid.

**Table 5 – Group Benefit Plans  
Mandated Benefit Utilization**

Mandated Benefit	Number of Mandated Benefit Claims Paid		Percentage of the Total Number of Mandated Benefit Claims	
	2005	2006	2005	2006
Acquired Brain Injury	221,145	180,798	5.60%	5.33%
AIDS/HIV Treatment	40,049	37,680	1.01%	1.11%
Chemical Dependency – Total Expenditures (Inpatient and Outpatient Combined)	25,806	20,363	0.65%	0.60%
Childhood Immunizations	384,966	339,062	9.74%	10.00%
Colorectal Cancer Testing	167,562	134,933	4.24%	3.98%
Craniofacial Surgery for Children	886	751	0.02%	0.02%
Diabetes Education and Supplies	616,676	405,589	15.60%	11.96%
Hearing Screening for Children	278,560	214,264	7.05%	6.32%
Mammography Screening	342,026	339,537	8.65%	10.01%
Nutritional Supplements for PKU and Other Inheritable Diseases	994	703	0.03%	0.02%
Oral Contraceptives	870,231	820,257	22.02%	24.19%
Osteoporosis Detection	24,549	30,373	0.62%	0.90%
Prescription Contraceptive Drugs, Devices and Related Services	388,261	299,283	9.82%	8.83%
PSA Testing for Prostate Cancer	140,771	152,501	3.56%	4.50%
Psychiatric Day Treatment	34,344	25,742	0.87%	0.76%
Reconstructive Breast Surgery Following a Mastectomy	86,304	81,883	2.18%	2.41%
Serious Mental Illness – 45 Inpatient and 60 Outpatient Days	305,142	274,400	7.72%	8.09%
Serious Mental Illness – Full Parity for Universities, Local Governments	17,608	21,736	0.45%	0.64%
Telemedicine Services	959	1,037	0.02%	0.03%
TMJ Treatment	5,008	10,159	0.13%	0.30%
<b>TOTAL</b>	<b>3,951,847</b>	<b>3,391,051</b>	<b>100.00%</b>	<b>100.00%</b>

With regard to the mandated benefit offerings, treatments for speech or hearing loss were responsible for the vast majority of claims in both 2005 and 2006 since this benefit is more widely applicable to the general population than are benefits for in-vitro fertilization. As a percentage of both the mandated benefits and mandated offerings *combined*, speech and hearing treatments accounted for 1.67 percent of the total number of claims and in-vitro fertilization was responsible for 0.24 percent of the total claims.

**Table 6 – Group Benefit Plans  
Mandated Benefit Offering Utilization**

Mandated Benefit Offering	Number of Mandated Offering Benefit Claims Paid		Percentage of the Total Number of Mandated Offering Claims Paid	
	2005	2006	2005	2006
In-Vitro Fertilization	10,437	8,627	9.17%	12.94%
Treatment of Speech or Hearing Loss	103,358	58,025	90.83%	87.06%
<b>TOTAL</b>	<b>113,795</b>	<b>66,652</b>	<b>100.00%</b>	<b>100.00%</b>

***Claims Costs vs. Claims Utilization***

Mandated benefits with the highest claims costs are not necessarily the benefits most frequently used. While this is not the case with diabetes education and supplies – the second most expensive benefit – some of the other more expensive benefits are used by a relatively small percentage of people but result in relatively high claims costs. Reconstructive breast surgery following a mastectomy and serious mental illness accounted for 14.09 percent and 12.64 percent, respectively, of all mandated benefit claims costs, but combined they represent just 10 percent of the total number of mandated benefits claims. Oral contraceptives accounted for 24.19 percent of the total number of claims (again, most likely because of the repeat prescription refills on a regular basis), but only 4.04 percent of the claims costs. Table 7 illustrates the variable relationship between claims costs and utilization of services.

**Table 7 – Group Benefit Plans  
Comparison of Mandated Benefit Utilization  
and Mandated Benefit Claims Costs**

Mandated Benefit	Percentage of the Total Number of Mandated Benefit Claims		Percentage of the Total Dollars Paid for Mandated Benefit Claims	
	2005	2006	2005	2006
Acquired Brain Injury	5.60%	5.33%	3.90%	4.08%
AIDS/HIV Treatment	1.01%	1.11%	6.56%	5.08%
Chemical Dependency	0.65%	0.60%	4.23%	4.03%
Childhood Immunizations	9.74%	10.00%	8.03%	8.41%
Colorectal Cancer Testing	4.24%	3.98%	9.60%	9.53%
Craniofacial Surgery for Children	0.02%	0.02%	0.34%	0.31%
Diabetes Education and Supplies	15.60%	11.96%	15.03%	13.74%
Hearing Screening for Children	7.05%	6.32%	8.89%	9.21%
Mammography Screening	8.65%	10.01%	7.40%	7.49%
Nutritional Supplements for PKU and Other Inheritable Diseases	0.03%	0.02%	0.05%	0.04%
Oral Contraceptives	22.02%	24.19%	3.73%	4.04%
Osteoporosis Detection	0.62%	0.90%	0.99%	0.94%
Prescription Contraceptive Drugs, Devices and Related Services	9.82%	8.83%	1.84%	1.65%
PSA Testing for Prostate Cancer	3.56%	4.50%	1.50%	1.38%
Psychiatric Day Treatment	0.87%	0.76%	1.94%	1.59%
Reconstructive Breast Surgery Following a Mastectomy	2.18%	2.41%	13.43%	14.09%
Serious Mental Illness – 45 Inpatient and 60 Outpatient Days	7.72%	8.09%	10.91%	12.64%
Serious Mental Illness – Full Parity for Universities, Local Governments	0.45%	0.64%	1.06%	0.86%
Telemedicine Services	0.02%	0.03%	0.06%	0.04%
TMJ Treatment	0.13%	0.30%	0.48%	0.85%
<b>TOTAL</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

For mandated offerings, speech and hearing therapy accounted for 87.06 percent of the total number of claims and 72.39 percent of the total dollars paid for mandated offerings (Table 8). In-vitro fertilization services were used much less frequently, representing 12.94 percent of the number of claims and 27.61 percent of mandated offering costs. While treatments for speech or hearing loss are still responsible for the vast majority of total claim numbers and claim costs for mandated offerings, in-vitro fertilization services did see a noticeable increase from the 2005 numbers.

**Table 8 – Group Benefit Plans  
Comparison of Mandated Benefit Offering Utilization  
and Mandated Benefit Offering Claims Costs**

Mandated Benefit Offering	Percentage of the Total Number of Mandated Offering Claims		Percentage of the Total Dollars Paid for Mandated Offering Claims	
	2005	2006	2005	2006
In-Vitro Fertilization	9.17%	12.94%	21.36%	27.61%
Speech/Hearing Therapy	90.83%	87.06%	78.64%	72.39%
<b>TOTAL</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

***Comparability to Past Mandated Benefit Data Collected by TDI***

Since 1992, TDI has been collecting mandated benefit cost and experience data from the largest insurance carriers (representing 65 to 75 percent of the health insurance premium volume) and all HMOs. The initial data set was limited to only 10 mandated benefits, but it was later expanded to include additional benefits in 1998. Other benefits were later added due to the enactment of legislation in 1999 and 2001. Although the current reporting requirements under Chapter 38, TIC, are more extensive and include more carriers, the aggregated claims cost data has varied only slightly since 2001. Table 9 summarizes mandated benefit claim costs since 2001 and demonstrates that claims costs have remained markedly consistent over time, actually decreasing by 2.66 percent since all of the current benefits were included in 2003.

**Table 9 – Group Benefit Plans  
Mandated Benefit Claims Costs Comparison: 2001 - 2006**

Mandated Benefit	Mandated Benefit Claims Costs as a Percentage of Total Claims					
	2001	2002	2003	2004	2005	2006
Acquired Brain Injury			0.39%	0.37%	0.19%	0.18%
AIDS/HIV Treatment	0.32%	0.28%	0.10%	0.19%	0.32%	0.22%
Chemical Dependency – Total Expenditures (Inpatient and Outpatient)	0.30%	0.23%	0.16%	0.21%	0.21%	0.18%
Childhood Immunizations	0.38%	0.39%	0.59%	0.46%	0.39%	0.37%
Colorectal Cancer Testing			0.25%	0.30%	0.47%	0.42%
Craniofacial Surgery for Children	0.02%	0.02%	0.02%	0.02%	0.02%	0.01%
Diabetes Education and Supplies	0.81%	0.81%	0.44%	0.65%	0.74%	0.60%
Hearing Screening for Children	0.43%	0.43%	0.37%	0.38%	0.44%	0.41%
Mammography Screening	0.23%	0.27%	0.29%	0.29%	0.36%	0.33%
Nutritional Supplements for PKU and Other Inheritable Diseases	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Oral Contraceptives	0.24%	0.27%	0.24%	0.27%	0.18%	0.18%
Osteoporosis Detection	0.01%	0.01%	0.02%	0.02%	0.05%	0.04%
Prescription Contraceptive Drugs, Devices and Related Services			0.09%	0.10%	0.09%	0.07%
PSA Testing for Prostate Cancer	0.06%	0.06%	0.08%	0.08%	0.07%	0.06%
Psychiatric Day Treatment	0.15%	0.09%	0.14%	0.08%	0.10%	0.07%
Reconstructive Breast Surgery Following a Mastectomy	0.75%	1.01%	0.69%	0.66%	0.66%	0.62%
Serious Mental Illness – 45 Inpatient and 60 Outpatient Days	0.74%	0.59%	0.49%	0.54%	0.54%	0.56%
Serious Mental Illness – Full Parity for Universities, Local Governments			0.05%	0.04%	0.05%	0.04%
Telemedicine Services	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TMJ Treatment	0.08%	0.07%	0.03%	0.03%	0.02%	0.04%
<b>TOTAL</b>	<b>4.52%</b>	<b>4.53%</b>	<b>4.51%</b>	<b>4.69%</b>	<b>4.92%</b>	<b>4.40%</b>

***Mandated Benefit Premium Costs***

In addition to claims cost data, insurers and HMOs were also required to provide premium cost estimates for each mandated benefit. To compare the cost of coverage for a single-employee/enrollee and for individuals who select coverage for their entire family (the employee/enrollee, spouse and children), carriers provided separate cost estimates

for single coverage and for family coverage. These two benefit options represent the least expensive option and the most expensive option available under group benefit plans and thus provide a good representation of the premium cost differentials. Other enrollment options for which TDI did not collect premium estimates include employee/enrollee-plus-spouse and employee/enrollee-plus-children. Thus, while the premium estimates provided show the range of costs, they are not representative of all cost categories.

It is important to note that carriers have often reported that they do not routinely develop price estimates for each separate mandated benefit provided under a health benefit plan. Although insurers and HMOs have testified both to the Legislature and TDI that each mandated benefit added to a policy increases the cost of the policy, the companies are usually unable to provide cost estimates. TDI has, through previous data calls, attempted to collect premium cost estimates for each mandated benefit, but the data was inconsistent or, according to most insurers, “unavailable.”

Though all carriers use similar actuarial methodologies to establish health insurance premium rates, the exact process and underlying data assumptions used are highly protected trade secrets that are not generally subject to public disclosure. TDI does not normally approve or review group health insurance rates, and a standardized methodology for setting rates does not exist. As such, to promote consistency in the reported data, the mandated benefit reporting instructions directed insurers and HMOs to estimate a premium cost for each benefit based on the company’s actual claims experience. Accordingly, the estimated premium cost should have a reasonable relationship to the claims actually paid for the same benefit. Notwithstanding this instruction, insurers and HMOs have complete discretion in determining how they develop this cost.

As shown in Table 10, the premium cost estimates for each mandated benefit varied significantly. The least expensive mandated benefits for both single coverage and family coverage are telemedicine and nutritional supplements for PKU and other diseases. Serious mental illness was the most costly benefit under a family plan at \$36.27, followed by childhood immunizations (\$32.47) and diabetes education and supplies (\$30.00). Similarly, for single coverage, serious mental illness, diabetes education and supplies, and childhood immunizations had the highest premium costs, at \$14.42, \$12.24, and \$11.90 respectively.

When comparing 2006 premium estimates to 2005, the *total single* premium increased by less than two percent from \$105.98 to \$107.71. Four benefits accounted for most of the cost increase; childhood immunizations premiums increased from \$9.02 to \$11.90, mammography screening increased from \$6.91 to \$9.90, diabetes education and supplies increased from \$10.40 to \$12.24, and hearing screening for children increased from \$7.94 to \$9.74. These increases were largely offset by several other benefits that declined in premium costs; of note are serious mental illness – full parity (\$5.55 to 2.85), TMJ treatment (\$3.63 to \$1.17); and reconstructive breast surgery following a mastectomy (\$9.73 to \$8.27). The *total* average cost of mandated benefits under a **family** policy increased from \$222.14 in 2005 to \$271.10 in 2006. The largest increases included

childhood immunizations (\$22.68 to \$32.47), diabetes education and supplies (\$20.37 to \$30.00), mammography screening (\$13.23 to \$22.36), and hearing screening (\$17.70 to \$24.28). The average annual premium costs of several benefits decreased, the largest of which were TMJ (\$7.92 to \$3.09) and oral contraceptives (\$10.08 to \$9.33).

**Table 10 – Group Benefit Plans  
Mandated Benefit Annual Premium Cost Estimates**

Mandated Benefit	Average Annual Premium Cost Estimates – Single Coverage		Average Annual Premium Cost Estimates – Family Coverage	
	2005	2006	2005	2006
Acquired Brain Injury	\$4.94	\$4.95	\$10.02	\$11.79
AIDS/HIV Treatment	\$4.95	\$4.70	\$7.86	\$11.28
Chemical Dependency	\$7.41	\$8.52	\$18.87	\$24.10
Childhood Immunizations	\$9.02	\$11.90	\$22.68	\$32.47
Colorectal Cancer Testing	\$6.07	\$6.13	\$12.41	\$15.30
Craniofacial Surgery for Children	\$0.56	\$0.43	\$1.15	\$1.10
Diabetes Education and Supplies	\$10.40	\$12.24	\$20.37	\$30.00
Hearing Screening	\$7.94	\$9.74	\$17.70	\$24.28
Mammography Screening	\$6.91	\$9.90	\$13.23	\$22.36
Nutritional Supplements for PKU & Other Diseases	\$0.29	\$0.27	\$0.72	\$0.58
Oral Contraceptives	\$4.37	\$4.09	\$10.08	\$9.33
Osteoporosis Detection	\$0.72	\$0.53	\$1.05	\$1.26
Prescription Contraceptive Drugs, Devices and Services	\$2.96	\$2.95	\$7.32	\$7.06
PSA Testing for Prostate Cancer	\$3.59	\$2.30	\$4.68	\$5.56
Psychiatric Day Treatment	\$2.99	\$2.25	\$6.23	\$5.99
Reconstructive Breast Surgery Following Mastectomy	\$9.73	\$8.27	\$21.28	\$22.44
Serious Mental Illness – 45 Inpatient Days/60 Outpatient	\$13.60	\$14.42	\$31.37	\$36.27
Serious Mental Illness – Full Parity (Applies to Gov’t & University Employees Only)	\$5.55	\$2.85	\$6.55	\$6.61
Telemedicine	\$0.35	\$0.09	\$0.66	\$0.23
TMJ	\$3.63	\$1.17	\$7.92	\$3.09
<b>TOTAL</b>	<b>\$105.98</b>	<b>\$107.71</b>	<b>\$222.14</b>	<b>\$271.10</b>

From 2005 to 2006, the average annual premium for mandated offerings decreased from \$4.54 to \$3.12 for single coverage and increased from \$8.72 to \$7.80 for family coverage (Table 11). The average annual premium cost decreased for in-vitro fertilization from \$1.76 to \$0.89 for single coverage and from \$3.99 to \$2.30 for family coverage. Costs for speech and hearing therapy decreased from \$2.78 to \$2.23 for single coverage and increased from \$4.74 to \$5.50 for family coverage.

**Table 11 – Group Benefit Plans  
Mandated Benefit Offering Average Annual Premium Cost Estimates**

Mandated Benefit Offering	Average Annual Premium Cost Estimates – Single Coverage		Average Annual Premium Cost Estimates – Family Coverage	
	2005	2006	2005	2006
In-Vitro Fertilization	\$1.76	\$0.89	\$3.99	\$2.30
Speech/Hearing Therapy	\$2.78	\$2.23	\$4.74	\$5.50
<b>TOTAL</b>	<b>\$4.54</b>	<b>\$3.12</b>	<b>\$8.72</b>	<b>\$7.80</b>

The range of premium costs reported by insurers/HMOs for each mandated benefit was extremely wide, which raises questions regarding how some companies estimated premium costs. While **claims** cost data varied only marginally from company to company, **premium** cost estimates were much less consistent. For example, the range of estimated annual premium costs reported for single coverage for certain benefits varied as follows:

- Reconstructive breast surgery following a mastectomy (\$0-\$133);
- Diabetes education and supplies (\$0-\$151);
- TMJ (\$0-\$95); and
- Serious mental illness – full parity (\$0-\$118);

Similar variations were reported for family-coverage estimates for each mandated benefit. The wide range in premium costs did not appear to follow any particular pattern or order. In some cases, an insurer had a relatively low or average premium estimate for most benefits but reported extremely high costs for other benefits relative to the other carriers. Though in some cases the higher premium estimate did correlate to a higher claim cost for that particular company, this was not generally the case. The variations also were not consistent depending on the size of the company. The largest carriers often reported both the highest premium estimates as well as the lowest premium estimates.

Multiple companies also submitted premium amounts for all or specific benefits that were clearly inaccurate upon further analysis. For example, some companies submitted single coverage premiums that were the same as, or even higher than, the family premiums for a specific benefit. In other cases, the premium reported by a company for a specific benefit could be five, ten, or even twenty times the industry average. Since some of these

numbers were clear outliers that significantly skewed the industry average and showed no relationship to the actual claims paid, these figures were removed from the survey sample to make the data in Tables 10-13 and 21-22 more reliable.

Although TDI does not generally review group insurance rates and thus has no data base against which to measure the “reasonableness” of the carriers’ mandated benefit premium cost estimates, we can compare the **estimated** premium costs with the **actual** claim costs to determine whether the premium estimates bear any relationship to the value of the claims paid. Though not required to demonstrate that premium cost estimates for a mandated benefit are reasonable, TDI instructed carriers to determine premium cost estimates based on the actual claims paid. To evaluate whether the premium estimates were consistent with the value of the claims paid, TDI compared the actual claim cost-per-certificate of coverage with the premium estimates provided by the companies. Using the number of certificates of coverage issued and the total claims paid for each benefit, TDI calculated an average claim cost per certificate of coverage. While this data is not a premium calculation and does not account for other operating expenses besides claims costs, it does compare, for each mandated benefit, the relative balance between premium cost estimates with the actual claims paid. In Table 12, the first column provides TDI’s calculation of the average annual claim cost-per-certificate using data submitted by the insurers and HMOs. The second column provides the average premium cost as reported by carriers for single coverage. The third column provides the average premium cost as reported by carriers for family coverage. As the table shows, the average premium estimates appear consistent with the average claims paid using the aggregated data. The total average annual claim cost per all certificates (single coverage, employee/enrollee and spouse, employee/enrollee and children, and family coverage) is \$186.74, compared to a total estimated premium cost of \$271.10 for family coverage and \$107.71 for single coverage. While the aggregated averages for all companies are reasonable, the data submitted by some insurers were well outside the average range and showed no relationship between claims paid and premium cost estimates.

Although the total claims costs and premium estimates show a reasonable relationship, it is interesting to note that several mandated benefits had average claim costs per certificate that did not fall between the estimated annual premiums for single and family coverage. For example, the cost-per-certificate for reconstructive breast surgery following a mastectomy was \$24.79, which exceeded the premiums of \$8.27 for single coverage and \$22.44 for family coverage. Certificate costs for colorectal cancer testing and osteoporosis detection were also each above estimated premiums. On the other hand, the certificate cost of \$7.07 for chemical dependency was significantly lower than the estimated annual premiums of \$8.52 and \$24.10. Similarly, per-certificate costs for nutritional supplements for PKU and other diseases, prescription contraceptive drugs and devices and related services, and telemedicine services also fell below the premiums.

Also worth noting is that five mandated benefits accounted for more than half of both the premium costs and the total average claim costs per certificate. For family coverage, the following mandates accounted for 54.3 percent of the premium costs: serious mental illness, childhood immunizations, hearing screening for children, diabetes education and

supplies, and chemical dependency. For single coverage, the same five benefits accounted for 52.8 percent of the total premium costs. Five benefits also accounted for 58.0 percent of the total average annual claim costs per certificate: serious mental illness, reconstructive breast surgery, diabetes education and supplies, colorectal cancer testing, and hearing screening for children.

**Table 12 – Group Benefit Plans  
A Comparison of Actual Claims Costs-per-Certificate with  
Average Annual Premium Costs per Mandated Benefit in 2006**

<b>Mandated Benefit</b>	<b>Average Annual Claim Cost Per Certificate</b>	<b>Average Annual Premium Cost Estimates – Single Coverage</b>	<b>Average Annual Premium Cost Estimates – Family Coverage</b>
Acquired Brain Injury	\$7.17	\$4.95	\$11.79
AIDS/HIV Treatment	\$8.93	\$4.70	\$11.28
Chemical Dependency	\$7.07	\$8.52	\$24.10
Childhood Immunizations	\$15.69	\$11.90	\$32.47
Colorectal Cancer Testing	\$17.96	\$6.13	\$15.30
Craniofacial Surgery for Children	\$0.55	\$0.43	\$1.10
Diabetes Education and Supplies	\$24.16	\$12.24	\$30.00
Hearing Screening	\$16.22	\$9.74	\$24.28
Mammography Screening	\$13.05	\$9.90	\$22.36
Nutritional Supplements for PKU and Other Diseases	\$0.07	\$0.27	\$0.58
Oral Contraceptives	\$7.06	\$4.09	\$9.33
Osteoporosis Detection	\$1.67	\$0.53	\$1.26
Prescription Contraceptive Drugs, Devices and Services	\$2.91	\$2.95	\$7.06
PSA Testing for Prostate Cancer	\$2.43	\$2.30	\$5.56
Psychiatric Day Treatment	\$4.61	\$2.25	\$5.99
Reconstructive Breast Surgery Following a Mastectomy	\$24.79	\$8.27	\$22.44
Serious Mental Illness – 45 Inpatient Days/60 Outpatient Days	\$25.21	\$14.42	\$36.27
Serious Mental Illness – Full Parity (Applies to Gov't & University Employees Only)	\$5.61	\$2.85	\$6.61
Telemedicine	\$0.08	\$0.09	\$0.23
TMJ	\$1.50	\$1.17	\$3.09
<b>TOTAL</b>	<b>\$186.74</b>	<b>\$107.71</b>	<b>\$271.10</b>

For mandated offerings (Table 13), the average annual claim cost per certificate of \$4.06 fell between the single premium of \$3.12 and the family premium of \$7.80. The claim cost per certificate for in-vitro fertilization also fell between the single and family premiums, while the cost of speech and hearing therapy (\$2.14) was below both the single premium (\$2.23) and family premium (\$5.50).

**Table 13 – Group Benefit Plans  
A Comparison of Actual Claims Costs-per-Certificate with  
Average Annual Premium Costs per Mandated Offering in 2006**

<b>Mandated Benefit Offering</b>	<b>Average Annual Claim Cost Per Certificate</b>	<b>Average Annual Premium Cost Estimates- Single Coverage</b>	<b>Average Annual Premium Cost Estimates – Family Coverage</b>
In-Vitro Fertilization	\$1.92	\$0.89	\$2.30
Speech/Hearing Therapy	\$2.14	\$2.23	\$5.50
<b>TOTAL</b>	<b>\$4.06</b>	<b>\$3.12</b>	<b>\$7.80</b>

***Mandated Benefit Administrative Costs***

Finally, insurers and HMOs were required to provide an estimate of the annual administrative costs incurred as a result of the mandated benefit requirements. Administrative costs generally include such expenses as claims payment, processing preauthorizations and referrals, and revisions of marketing materials and policy forms to include new mandated benefits. The insurers/HMOs were instructed to only include first-year re-printing expenses if the costs were incurred within that year. For example, if a mandate was enacted in 2001, the additional costs incurred with new marketing and material printing requirements would only be reported for the first year the benefit took effect.

As with premium cost estimates, TDI gave insurers/HMOs wide discretion to determine the value of the administrative costs associated with a specific mandated benefit. The result was huge variation in the reports of those costs. On a company-by-company basis, TDI analyzed the data in a number of different ways to determine whether there was a consistent methodology or pattern to the expenses reported, including: average administrative costs per claim for each mandated benefit; average administrative cost per mandated benefit based on the dollar value of the claims paid for each benefit; and aggregated total administrative costs for all mandated benefits relative to total claims dollars. In some cases, it was apparent that companies used one of these methods to estimate administrative costs. However, other companies’ data suggests that some other process was used that resulted in inconsistent data within each company’s report.

Table 14 shows that the total administrative costs associated with these mandated benefits were \$65,849,921 in 2005 and \$64,842,405 in 2006. This represents 17.1 percent of the

total mandated benefit claims costs and 0.75 percent of total claims costs in 2006, a 12.8 percent decrease from the 2005 figure of 0.86 percent.

**Table 14 – Group Benefit Plans  
Mandated Benefit Administrative Cost Estimates**

Mandated Benefit	Total Administrative Costs		Administrative Costs as a Percentage of Total Claims Paid	
	2005	2006	2005	2006
Acquired Brain Injury	\$3,020,362	\$3,713,555	0.04%	0.04%
AIDS/HIV Treatment	\$4,590,936	\$3,331,237	0.06%	0.04%
Chemical Dependency	\$2,339,898	\$2,489,139	0.03%	0.03%
Childhood Immunizations	\$4,468,439	\$4,575,818	0.06%	0.05%
Colorectal Cancer Testing	\$6,318,280	\$4,478,636	0.08%	0.05%
Craniofacial Surgery for Children	\$234,526	\$170,443	0.00%	0.00%
Diabetes Education and Supplies	\$9,805,870	\$10,335,564	0.13%	0.12%
Hearing Screening	\$6,736,979	\$6,754,192	0.09%	0.08%
Mammography Screening	\$4,764,065	\$4,880,570	0.06%	0.06%
Nutritional Supplements for PKU and Other Diseases	\$54,239	\$476,455	0.00%	0.01%
Oral Contraceptives	\$2,207,183	\$2,378,225	0.03%	0.03%
Osteoporosis Detection	\$434,828	\$382,364	0.01%	0.00%
Prescription Contraceptive Drugs, Devices and Services	\$1,311,332	\$1,074,797	0.02%	0.01%
PSA Testing for Prostate Cancer	\$1,413,632	\$845,483	0.02%	0.01%
Psychiatric Day Treatment	\$536,481	\$618,712	0.01%	0.01%
Reconstructive Breast Surgery Following a Mastectomy	\$10,142,484	\$11,575,413	0.13%	0.13%
Serious Mental Illness – 45 Inpatient Days/60 Outpatient Days	\$6,207,590	\$5,795,734	0.08%	0.07%
Serious Mental Illness – Full Parity (Applies to Gov't & University Employees Only)	\$591,978	\$524,372	0.01%	0.01%
Telemedicine	\$73,252	\$28,097	0.00%	0.00%
TMJ	\$597,567	\$413,599	0.01%	0.00%
<b>TOTAL</b>	<b>\$65,849,921</b>	<b>\$64,842,405</b>	<b>0.86%</b>	<b>0.75%</b>

The total administrative costs associated with mandated offerings decreased from \$1,403,520 in 2005 to \$850,458 in 2006. These costs accounted for 16.9 percent of total mandated offering claims paid and 0.01 percent of total claims paid in 2006.

**Table 15 – Group Benefit Plans  
Mandated Benefit Offering Administrative Cost Estimates**

Mandated Benefit Offerings	Total Administrative Costs		Administrative Costs as a Percentage of Total Claims Paid	
	2005	2006	2005	2006
In-Vitro Fertilization	\$325,945	\$252,220	0.00%	0.00%
Speech/Hearing Therapy	\$1,403,520	\$598,238	0.02%	0.01%
<b>TOTAL</b>	<b>\$1,403,520</b>	<b>\$850,458</b>	<b>0.02%</b>	<b>0.01%</b>

Benefits that accounted for a higher percentage of the total number of claims would logically also account for higher administrative costs due to increased costs associated with processing higher claim volumes. Also, companies could consider added costs associated with certain mandated benefits that require additional administrative services for specialist referrals and treatment authorizations. Most companies, however, appeared to determine administrative costs using claims costs rather than claims volume. With a few exceptions, insurers did not appear to vary cost estimates based on the different levels of administrative services required for individual mandated benefits.

To measure the relationship between administrative costs and claims paid, we compared the administrative costs as a percentage of total claims paid with the mandated benefit claims costs as a percentage of total claims paid. The results appear in Table 16. The data generally support the concept that carriers estimated administrative expenses based on claims dollars paid rather than on the number of claims paid. For example, reconstructive breast surgery following a mastectomy and diabetes education and supplies accounted for the highest percentage of claims costs (0.62 percent and 0.60 percent) and had the highest percentage of administrative costs (0.13 percent and 0.12 percent, respectively). Diabetes education and supplies, however, had a high claim volume (11.96 percent), while reconstructive breast surgery accounted for only 2.41 percent of total claims. These trends are obvious on an aggregate basis, but it should be noted that the same relationship was not always apparent on a company-by-company basis.

**Table 16 – Group Benefit Plans  
Mandated Benefit Administrative Costs and Claims Costs Comparison**

Mandated Benefit	Administrative Cost as a Percentage of Total Claims Paid		Claims Costs as a Percentage of Total Claims Paid	
	2005	2006	2005	2006
Acquired Brain Injury	0.04%	0.04%	0.19%	0.18%
AIDS/HIV Treatment	0.06%	0.04%	0.32%	0.22%
Chemical Dependency	0.03%	0.03%	0.21%	0.18%
Childhood Immunizations	0.06%	0.05%	0.39%	0.37%
Colorectal Cancer Testing	0.08%	0.05%	0.47%	0.42%
Craniofacial Surgery for Children	0.00%	0.00%	0.02%	0.01%
Diabetes Education and Supplies	0.13%	0.12%	0.74%	0.60%
Hearing Screening	0.09%	0.08%	0.44%	0.41%
Mammography Screening	0.06%	0.06%	0.36%	0.33%
Nutritional Supplements for PKU and Other Diseases	0.00%	0.01%	0.00%	0.00%
Oral Contraceptives	0.03%	0.03%	0.18%	0.18%
Osteoporosis Detection	0.01%	0.00%	0.05%	0.04%
Prescription Contraceptive Drugs, Devices and Services	0.02%	0.01%	0.09%	0.07%
PSA Testing for Prostate Cancer	0.02%	0.01%	0.07%	0.06%
Psychiatric Day Treatment	0.01%	0.01%	0.10%	0.07%
Reconstructive Breast Surgery Following a Mastectomy	0.13%	0.13%	0.66%	0.62%
Serious Mental Illness – 45 Inpatient Days/60 Outpatient Days	0.08%	0.07%	0.54%	0.56%
Serious Mental Illness – Full Parity (Gov't & University Employees Only)	0.01%	0.01%	0.05%	0.04%
Telemedicine	0.00%	0.00%	0.00%	0.00%
TMJ	0.01%	0.00%	0.02%	0.04%
<b>TOTAL</b>	<b>0.86%</b>	<b>0.75%</b>	<b>4.92%</b>	<b>4.40%</b>

When the 2005 mandated offering data is compared to 2006 (Table 17), administrative costs as a percentage of total claims decreased from 0.02 percent to 0.01 percent, while claims costs as a percentage of total claims paid also decreased by half, from 0.12 percent to 0.06 percent.

**Table 17 – Group Benefit Plans  
Mandated Offer - Administrative Costs and Claims Costs Comparison**

<b>Mandated Benefit Offerings</b>	<b>Administrative Costs as a Percentage of Total Claims Paid</b>		<b>Claims Costs as a Percentage of Total Claims Paid</b>	
	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>
In-Vitro Fertilization	0.00%	0.00%	0.03%	0.02%
Speech/Hearing Therapy	0.02%	0.01%	0.09%	0.04%
<b>TOTAL</b>	<b>0.02%</b>	<b>0.01%</b>	<b>0.12%</b>	<b>0.06%</b>

## **INDIVIDUAL BENEFIT PLAN RESULTS**

Insurers who reported \$2 million or more in individual insurance premiums for benefit plans that are subject to the mandated benefit requirements are required to file a mandated benefit cost and utilization report. Most HMOs do not offer individual coverage, but were required to file a report if they offered individual coverage and their combined individual and group premiums totaled \$10 million or more. One HMO and 23 insurance companies met the minimum financial threshold for a total of 24 survey respondents. These 24 companies issued 399,098 individual insurance contracts that generated \$1,195,654,165 in total premiums for calendar year 2006. Because individual plans are not required to provide the same mandated benefits as are group plans, the individual carriers provided data on 13 mandated benefits and no mandated offerings. A summary and analysis of the data is provided below. It is important to note that one company inadvertently transposed its oral contraceptive responses and its prescription contraceptive drugs, devices and related services responses on the 2005 survey, and these responses have been corrected for this report.

### ***Mandated Benefit Claims Costs and Utilization***

Mandated benefit claims costs for individual benefit plans totaled \$39,617,878 (Table 18). This figure represents 3.60 percent of all claims paid, which totaled \$1,098,994,736. As a percentage of the total premiums collected, mandated benefits cost 3.31 percent. These numbers reflect a slightly lower percentage than the group mandated benefits, as would be expected since not all mandated benefits apply to individual benefit plans. Reconstructive breast surgery following a mastectomy was the most expensive mandated benefit, followed by diabetes education and supplies. The least expensive mandated benefits were telemedicine services and craniofacial surgery for children.

A comparison of 2005 and 2006 data shows that mandated benefit claims increased by just under \$5 million during that period. The ratio of mandated benefit claims to total claims, however, fell significantly from 4.84 percent to 3.60 percent. Among the noteworthy findings, reconstructive breast surgery following a mastectomy increased from \$13.54 million to \$16.06 million, diabetes education and supplies increased from \$3.32 million to \$4.82 million, and acquired brain injury claims costs rose from \$320,000 to \$1.35 million. Claims for AIDS/HIV treatment fell considerably from \$3.62 million to \$1.65 million, and craniofacial surgery for children declined from \$117,000 to \$77,000.

**Table 18 – Individual Benefit Plans  
Mandated Benefit Claims Costs**

Mandated Benefit	Mandated Benefit Claims Paid		Mandated Benefit Claims as a Percentage of Total Claims	
	2005	2006	2005	2006
Acquired Brain Injury	\$320,291	\$1,351,514	0.04%	0.12%
AIDS/HIV Treatment	\$3,619,643	\$1,645,463	0.51%	0.15%
Childhood Immunizations	\$3,990,471	\$4,438,929	0.56%	0.40%
Colorectal Cancer Testing	\$2,236,604	\$2,275,249	0.31%	0.21%
Craniofacial Surgery for Children	\$117,097	\$77,247	0.02%	0.01%
Diabetes Education and Supplies	\$3,316,882	\$4,819,187	0.46%	0.44%
Hearing Screening for Children	\$2,920,376	\$3,648,084	0.41%	0.33%
Mammography Screening	\$2,190,104	\$2,711,813	0.31%	0.25%
Oral Contraceptives	\$1,894,875	\$2,095,852	0.26%	0.19%
Prescription Contraceptive Drugs, Devices and Related Services	\$255,494	\$247,080	0.04%	0.02%
PSA Testing for Prostate Cancer	\$256,010	\$248,072	0.04%	0.02%
Reconstructive Breast Surgery Following a Mastectomy	\$13,541,074	\$16,055,834	1.89%	1.46%
Telemedicine Services	\$690	\$3,554	0.00%	0.00%
<b>TOTAL</b>	<b>\$34,658,911</b>	<b>\$39,617,878</b>	<b>4.84%</b>	<b>3.60%</b>

Utilization of mandated benefits under individual plans also closely followed claims for group plans (Table 19). Due to the fact that they are repeatedly refilled, oral contraceptives and prescription contraceptive drugs and devices and related services accounted for over 48 percent of the total number of mandated benefit claims filed. Telemedicine services and craniofacial surgery for children accounted for the least number of claims, with 11 and 86 total claims, respectively.

A comparison of 2005 and 2006 data shows little change in the benefit utilization patterns of most mandated benefits, although there were a few exceptions. The total number of claims for hearing screening for children increased from 22,194 to 27,878, while diabetes education and supplies increased at a similar rate from 25,503 to 30,319. Claims for acquired brain injury also rose substantially from 1,249 in 2005 to 3,017 in 2006.

**Table 19 – Individual Benefit Plans  
Mandated Benefit Utilization**

Mandated Benefit	Number of Mandated Benefit Claims Paid		Percentage of the Total Number of Mandated Benefit Claims	
	2005	2006	2005	2006
Acquired Brain Injury	1,249	3,017	0.31%	0.66%
AIDS/HIV Treatment	2,443	2,192	0.60%	0.48%
Childhood Immunizations	47,528	51,341	11.63%	11.19%
Colorectal Cancer Testing	18,390	19,417	4.50%	4.23%
Craniofacial Surgery for Children	89	86	0.02%	0.02%
Diabetes Education and Supplies	25,503	30,319	6.24%	6.61%
Hearing Screening for Children	22,194	27,878	5.43%	6.07%
Mammography Screening	53,644	58,200	13.13%	12.68%
Oral Contraceptives	180,747	199,257	44.24%	43.41%
Prescription Contraceptive Drugs, Devices and Related Services	19,499	24,224	4.77%	5.28%
PSA Testing for Prostate Cancer	15,617	18,106	3.82%	3.94%
Reconstructive Breast Surgery Following a Mastectomy	21,677	24,946	5.31%	5.43%
Telemedicine Services	10	11	0.00%	0.00%
<b>TOTAL</b>	<b>408,590</b>	<b>458,994</b>	<b>100.00%</b>	<b>100.00%</b>

As with group benefit plans, we also compared the relationship between claim volume and claim costs to determine whether higher claims utilization resulted in higher total claims costs (Table 20). Though there was some correlation, there also were some noted exceptions. When combined, prescription contraceptive drugs, devices and related services and oral contraceptives accounted for almost 50 percent of the total number of mandated benefit claims, but in dollar terms they only accounted for six percent of claims. In contrast, reconstructive breast surgery accounted for only 5.43 percent of the total number of claims. It was clearly the most expensive mandated benefit, however, with over 40 percent of all mandated benefit costs. Similarly, AIDS/HIV treatment accounted for only 0.48 percent of the total number of claims, but had a value of 4.15 percent of all mandated benefit costs. For the remaining benefits, however, higher utilization generally resulted in higher claims costs.

A comparison of 2005 data to 2006 shows that the total dollars paid for acquired brain injury increased from 0.92 percent to 3.41 percent, while diabetes education and supplies increased from 9.57 percent to 12.16 percent. AIDS/HIV treatment decreased significantly from 10.44 percent to 4.15 percent of total dollars paid, a rate of decrease that far outpaced the reduction experienced in the total number of claims for the benefit (0.60 percent to 0.48 percent).

**Table 20 – Individual Benefit Plans  
Comparison of Mandated Benefit Utilization  
and Mandated Benefit Claims Costs**

Mandated Benefit	Percentage of the Total Number of Mandated Benefit Claims		Percentage of the Total Dollars Paid for Mandated Benefits	
	2005	2006	2005	2006
Acquired Brain Injury	0.31%	0.66%	0.92%	3.41%
AIDS/HIV Treatment	0.60%	0.48%	10.44%	4.15%
Childhood Immunizations	11.63%	11.19%	11.51%	11.20%
Colorectal Cancer Testing	4.50%	4.23%	6.45%	5.74%
Craniofacial Surgery for Children	0.02%	0.02%	0.34%	0.19%
Diabetes Education and Supplies	6.24%	6.61%	9.57%	12.16%
Hearing Screening for Children	5.43%	6.07%	8.43%	9.21%
Mammography Screening	13.13%	12.68%	6.32%	6.84%
Oral Contraceptives	44.24%	43.41%	5.47%	5.29%
Prescription Contraceptive Drugs, Devices and Related Services	4.77%	5.28%	0.74%	0.62%
PSA Testing for Prostate Cancer	3.82%	3.94%	0.74%	0.63%
Reconstructive Breast Surgery Following a Mastectomy	5.31%	5.43%	39.07%	40.53%
Telemedicine Services	0.00%	0.00%	0.00%	0.01%
<b>TOTAL</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

***Mandated Benefit Premium Costs***

Insurers and HMOs also provided annual premium cost data for two enrollment categories of coverage under individual benefit plans: single coverage (which insures one

individual only), and family coverage (which insures parents and children). These two categories represent the least expensive coverage available and the most expensive. As explained earlier in the report, TDI did not give insurers and HMOs a specific methodology to use in calculating premium costs for each mandated benefit. While companies generally follow the same actuarial principles to establish premium costs, there are many methodological variations. Because there is no “standard” process, TDI allowed carriers to use their own formula for developing premium cost estimates, but also instructed them to evaluate how their estimate relates to the actual claims experience for each mandated benefit.

Of the 24 companies that provided individual policy data, six did not provide premium cost estimates. The remaining 17 companies did provide usable estimates which are summarized below. As shown in Table 21, insurers and HMOs reported the highest premium charge for childhood immunizations, at \$36.39 per-contract-per-year for family coverage. Hearing screening was the second most expensive benefit at \$14.74, followed diabetes education and supplies at \$14.44 per year. For single coverage, companies charged the most for childhood immunizations, which had a cost of \$16.35 per-contract-per-year. Diabetes education and supplies had the second highest premium at \$6.52, followed by mammography screening at \$6.21.

As with the group benefit plans, in some cases, companies’ premium estimates for specific mandated benefits were extremely high relative to the actual cost of providing the benefit as indicated by claims paid. Despite the inconsistencies in premium cost estimates for certain mandated benefits, however, the overall total annual premium costs on an aggregated basis did appear reasonable based on the value of total mandated benefit claims paid. All mandated benefits combined resulted in a total annual premium of \$61.38 for single coverage and \$141.95 for family coverage.

When the 2006 data is compared to 2005, the average single premium increased by just under 13 percent from \$54.52 to \$61.38. Among the benefits with the most significant increases were childhood immunizations (\$10.63 to \$16.35), colorectal cancer testing (\$3.11 to \$5.21), and oral contraceptives (\$3.53 to \$4.69). The most notable decreases were for mammography screening (\$8.34 to \$6.21), reconstructive breast surgery following a mastectomy (\$6.46 to \$5.33), and diabetes education and supplies (\$6.98 to \$6.52).

The average family premium increased by 20.6 percent from \$117.72 to \$141.95. The benefits with the largest increases for family coverage were childhood immunizations (\$22.37 to \$36.39), colorectal cancer testing (\$7.90 to \$11.64), and hearing screening (\$11.42 to \$14.74). The most notable decreases were for AIDS/HIV treatment (\$4.11 to \$2.88), reconstructive breast surgery following a mastectomy (\$14.37 to \$13.58), and mammography screening (\$13.14 to \$12.46).

**Table 21 – Individual Benefit Plans  
Mandated Benefit Annual Premium Cost Estimates**

Mandated Benefit	Average Annual Premium Cost Estimates – Single Coverage		Average Annual Premium Cost Estimates – Family Coverage	
	2005	2006	2005	2006
Acquired Brain Injury	\$2.79	\$3.21	\$6.14	\$7.31
AIDS/HIV Treatment	\$0.93	\$1.17	\$4.11	\$2.88
Childhood Immunizations	\$10.63	\$16.35	\$22.37	\$36.39
Colorectal Cancer Testing	\$3.11	\$5.21	\$7.90	\$11.64
Craniofacial Surgery for Children	\$0.44	\$0.31	\$0.89	\$0.78
Diabetes Education and Supplies	\$6.98	\$6.52	\$14.66	\$14.44
Hearing Screening	\$4.58	\$5.05	\$11.42	\$14.74
Mammography Screening	\$8.34	\$6.21	\$13.14	\$12.46
Oral Contraceptives	\$3.53	\$4.69	\$8.31	\$10.89
Prescription Contraceptive Drugs, Devices and Services	\$4.41	\$4.68	\$11.02	\$11.66
PSA Testing for Prostate Cancer	\$2.17	\$2.50	\$3.04	\$4.80
Reconstructive Breast Surgery Following a Mastectomy	\$6.46	\$5.33	\$14.37	\$13.58
Telemedicine	\$0.16	\$0.15	\$0.42	\$0.39
<b>TOTAL</b>	<b>\$54.52</b>	<b>\$61.38</b>	<b>\$117.72</b>	<b>\$141.95</b>

To further evaluate the reasonableness of the premium estimates in relation to the actual claims paid, we also compared the average annual claim cost-per-certificate of coverage with the premium estimates provided by carriers. Using enrollment data and claims cost data provided by each insurer/HMO, TDI calculated the average claim cost-per-certificate as shown in column two of Table 22. This average cost is calculated based on all claims paid for all categories of coverage combined (single, family, parent and child, and adult plus spouse). As the table shows, the total average claim cost per certificate is actually higher than either the single or family premium averages, suggesting that higher claims costs do not necessarily correlate with the relative value of premium estimates. For example, based on claims paid, reconstructive breast surgery was the most costly benefit at an average cost of \$61.66 per certificate, but its premium estimates were \$5.33 for single coverage and \$13.58 for family coverage. Again, these are average figures; premium estimates for some individual companies corresponded more closely to the actual claims costs than is reflected in the aggregated average.

**Table 22 – Individual Benefit Plans**  
**A Comparison of Actual Claims Costs-per-Certificate with**  
**Average Annual Premium Costs for Single and Family Coverage**

Mandated Benefit	Average Annual Claim Cost Per Certificate	Average Annual Premium Cost Estimates – Single Coverage	Average Annual Premium Cost Estimates – Family Coverage
Acquired Brain Injury	\$5.20	\$3.21	\$7.31
AIDS/HIV Treatment	\$6.34	\$1.17	\$2.88
Childhood Immunizations	\$17.12	\$16.35	\$36.39
Colorectal Cancer Testing	\$8.62	\$5.21	\$11.64
Craniofacial Surgery for Children	\$0.30	\$0.31	\$0.78
Diabetes Education and Supplies	\$18.29	\$6.52	\$14.44
Hearing Screening	\$14.07	\$5.05	\$14.74
Mammography Screening	\$9.99	\$6.21	\$12.46
Oral Contraceptives	\$7.77	\$4.69	\$10.89
Prescription Contraceptive Drugs, Devices and Services	\$0.95	\$4.68	\$11.66
PSA Testing for Prostate Cancer	\$0.95	\$2.50	\$4.80
Reconstructive Breast Surgery Following a Mastectomy	\$61.66	\$5.33	\$13.58
Telemedicine	\$0.01	\$0.15	\$0.39
<b>TOTAL</b>	<b>\$151.27</b>	<b>\$61.38</b>	<b>\$141.95</b>

***Mandated Benefit Administrative Costs***

Finally, the participating insurers and HMOs were asked to estimate the average annual administrative cost associated with each mandated benefit. TDI did not prescribe a specific methodology since administrative costs are calculated differently by different carriers. As such, TDI allowed each carrier to make their own determination, but specified that the carrier should only report the initial implementation costs associated with a newly enacted mandated benefit (i.e., new training materials for agents, policy re-prints) if it actually incurred those costs during the reporting year.

The administrative costs for all mandated benefits combined are \$15,350,850, which represents 1.40 percent of the total cost of all claims paid (Table 23) and 1.28 percent of total premiums. These numbers are slightly higher than the data reported by the group carriers. However, the actual estimates provided by some carriers were extremely high relative to the total claims paid. While the aggregated data is reasonable, the varying methodologies used by companies to calculate their own administrative costs resulted in some extreme cost estimates on a company-level basis.

A comparison of 2006 data to 2005 shows that the only percentage cost increases were for acquired brain injury (less than 0.01 percent to 0.04 percent), diabetes education and supplies (0.11 percent to 0.17 percent), oral contraceptives (0.07 percent to 0.08 percent), and reconstructive breast surgery following a mastectomy (0.53 percent to 0.58 percent). The largest decreases in administrative costs as a percentage of total claims paid were for AIDS/HIV treatment (0.22 percent to 0.06 percent), colorectal cancer testing (0.11 percent to 0.08 percent), and childhood immunizations (0.18 percent to 0.13 percent) and hearing screening for children (0.18 percent to 0.12 percent).

**Table 23 – Individual Benefit Plans  
Mandated Benefit Administrative Cost Estimates**

Mandated Benefit	Total Administrative Costs		Administrative Costs as a Percentage of Total Claims Paid	
	2005	2006	2005	2006
Acquired Brain Injury	\$35,791	\$488,510	0.00%	0.04%
AIDS/HIV Treatment	\$1,554,254	\$701,410	0.22%	0.06%
Childhood Immunizations	\$1,321,780	\$1,396,697	0.18%	0.13%
Colorectal Cancer Testing	\$805,516	\$892,576	0.11%	0.08%
Craniofacial Surgery for Children	\$40,433	\$69,591	0.01%	0.01%
Diabetes Education and Supplies	\$781,670	\$1,901,825	0.11%	0.17%
Hearing Screening for Children	\$1,267,531	\$1,337,983	0.18%	0.12%
Mammography Screening	\$886,811	\$1,016,803	0.12%	0.09%
Oral Contraceptives	\$522,825	\$848,364	0.07%	0.08%
Prescription Contraceptive Drugs, Devices and Related Services	\$53,741	\$94,622	0.01%	0.01%
PSA Testing for Prostate Cancer	\$107,197	\$133,124	0.01%	0.01%
Reconstructive Breast Surgery Following a Mastectomy	\$3,796,459	\$6,424,055	0.53%	0.58%
Telemedicine Services	\$643	\$45,290	0.00%	0.00%
<b>TOTAL</b>	<b>\$11,174,651</b>	<b>\$15,350,850</b>	<b>1.56%</b>	<b>1.40%</b>

To determine whether mandated benefits with higher claims costs also resulted in higher administrative costs, Table 24 compares the average administrative costs as a percentage of total claims with the average claims costs as a percentage of total claims. The two are consistent for the most part, with reconstructive breast surgery accounting for the highest claims cost (1.46 percent) and administrative cost (0.58 percent). Following are childhood immunizations and diabetes education and supplies, which each account for approximately 0.40 percent of claims costs and have administrative costs of 0.15 percent of total claims. These data are consistent with many companies' calculations of administrative costs strictly as a percentage of the claims costs, which necessarily ties

higher claims costs to higher administrative costs. Although this is a reasonable methodology, it does not take into account that administrative costs may vary among benefits depending on such factors as the volume of claims processed and a cost-per-claim factor, or whether certain benefits require additional administrative services such as treatment authorizations or specialist referrals. Overall, administrative costs as a percentage of total claims paid decreased from 1.56 percent in 2005 to 1.40 percent in 2006, while mandated benefit claims costs as a percentage of total claims paid also decreased from 4.84 percent to 3.60 percent.

**Table 24 – Individual Benefit Plans  
Mandated Benefit Administrative Costs and Claims Costs Comparison**

Mandated Benefit	Administrative Costs as a Percentage of Total Claims Paid		Claims Costs as a Percentage of Total Claims Paid	
	2005	2006	2005	2006
Acquired Brain Injury	0.00%	0.04%	0.04%	0.12%
AIDS/HIV Treatment	0.22%	0.06%	0.51%	0.15%
Childhood Immunizations	0.18%	0.13%	0.56%	0.40%
Colorectal Cancer Testing	0.11%	0.08%	0.31%	0.21%
Craniofacial Surgery for Children	0.01%	0.01%	0.02%	0.01%
Diabetes Education and Supplies	0.11%	0.17%	0.46%	0.44%
Hearing Screening for Children	0.18%	0.12%	0.41%	0.33%
Mammography Screening	0.12%	0.09%	0.31%	0.25%
Oral Contraceptives	0.06%	0.08%	0.12%	0.19%
Prescription Contraceptive Drugs, Devices and Related Services	0.02%	0.01%	0.18%	0.02%
PSA Testing for Prostate Cancer	0.01%	0.01%	0.04%	0.02%
Reconstructive Breast Surgery Following a Mastectomy	0.53%	0.58%	1.89%	1.46%
Telemedicine Services	0.00%	0.00%	0.00%	0.00%
<b>TOTAL</b>	<b>1.56%</b>	<b>1.40%</b>	<b>4.84%</b>	<b>3.60%</b>

## **CONCLUSION**

This report demonstrates the impact of mandated benefit provisions on claims costs and premium costs for both group and individual insurance plans sold to Texans during the period of October 2005 through September 2006. The data show that each added benefit results in some additional cost to both the insurer and the purchaser of a health benefit plan. However, as a percentage of total claims paid by insurers, mandated benefit expenses are relatively small.

This study does not take into account the cost savings that accompany some mandated benefits. As has been documented in various studies, the treatment and care associated with many mandated benefits are expected to improve and maintain the health of insured Texans and may reduce the need for future medical treatment in some cases, thus lowering the long-term cost of care. As such, any meaningful discussion of mandated benefits should consider both the short and long term economic impact as well as the equally important impact on health status.

The following appendix provides detailed definitions for the mandated benefits and mandated offerings that are included in this report, as well as accident and health and HMO citations in the Texas Insurance Code and the Texas Administrative Code. Questions concerning this report should be directed to TDI's Life, Health & Licensing Division at 512-305-7342.

## **APPENDIX: DEFINITIONS OF MANDATED BENEFITS AND MANDATED OFFERINGS**

### ***Mandated Benefits***

**Acquired Brain Injury** – an HMO plan or accident and health policy may not exclude coverage for cognitive rehabilitation therapy, cognitive communication therapy, neurocognitive therapy and rehabilitation, neurobehavioural, neurophysiological, neuropsychological and psychophysiological testing or treatment, neurofeedback therapy, remediation, post-acute transition services, or community reintegration services necessary as a result of and related to an acquired brain injury. Coverage may be subject to deductibles, co-payments, and annual or maximum payment limits that are consistent with other similar coverage under the policy. This benefit applies to both group and individual HMO and accident and health plans.

Legal Basis: Texas Insurance Code Chapter 1352

**AIDS, HIV and Related Illnesses** - an HMO plan or accident and health policy may not exclude, deny or cancel coverage for HIV, AIDS, or HIV-related illnesses. Applies to group insurance plans and HMO benefit plans.

Legal Basis: Texas Insurance Code §§1364.001 – 1364.053, 1364.101, 1551.205, and 1601.109; 28 Texas Administrative Code §3.3057(d), Exhibit A

**Chemical Dependency** – benefits for the necessary care and treatment of chemical dependency must be provided on the same basis as other physical illnesses generally. Benefits for treatment of chemical dependency may be limited to three separate series of treatments for each covered individual and must be in accordance with the standards adopted under Sections 3.80001-3.8030, Texas Administrative Code. Applies to group insurance plans and HMO benefit plans. Does not apply to a plan issued to a small employer.

Legal Basis: Texas Insurance Code Chapter 1368; 28 Texas Administrative Code §§3.8001 – 3.8030

**Childhood Immunizations** –any HMO plan or accident and health policy that provides benefits for a family member of the enrollee must provide coverage for each covered child from birth through the date the child is six years old for (1) immunizations against diphtheria; haemophilus influenza type b; hepatitis B; measles; mumps; pertussis; polio; rubella; tetanus; varicella; and rotovirus; and 2) any other immunization that is required by law for the child. Immunizations may not be subject to a deductible or co-payment requirement. Applies to individual and group insurance plans and HMO benefit plans; does not apply to plans issued to a small employer.

Legal Basis: Texas Insurance Code §1367.053; 28 Texas Administrative Code §11.506(2) and §11.508(a)(9)(G)

**Colorectal Cancer Testing** – an HMO plan or accident and health policy that provides benefits for screening medical procedures must provide coverage for each person enrolled in the plan who is 50 years of age or older and at normal risk for developing colon cancer for expenses incurred in conducting a medically recognized screening examination for the detection of colorectal cancer. An insured must have the choice of at least one of the following: (1) a fecal occult blood test performed annually and a flexible sigmoidoscopy performed every five years, or (2) a colonoscopy performed every 10 years. Applies to individual and group insurance plans and HMO benefit plans; does not apply to plans issued to a small employer.

Legal Basis: Texas Insurance Code Chapter 1363

**Craniofacial Surgery for Children** – any HMO plan or accident and health policy that provide benefits to a child who is younger than 18 years of age must define “reconstructive surgery for craniofacial abnormalities” in the evidence of coverage or policy to mean surgery to improve the function of, or to attempt to create a normal appearance of, an abnormal structure caused by congenital defects, developmental deformities, trauma, tumors, infections, or disease. Any EOC must provide coverage for reconstructive surgery for craniofacial abnormalities for a child who: (1) is younger than 18 years of age; and (2) has maintained continuous coverage from the date of birth in accordance with laws relating to portability. Applies to individual and group benefit plans and HMO benefit plans; does not apply to plans issued to a small employer.

Legal Basis: Texas Insurance Code §1367.153

**Diabetes Education and Supplies** – any HMO plan or accident and health policy which provides benefits for the treatment of diabetes and associated conditions must provide coverage to each qualified enrollee for diabetes self-management training programs. The coverage must be in accordance with the standards adopted under Sections 21.2601-21.2607, Subchapter R, Title 28, Texas Administrative Code. Applies to individual and group insurance plans and HMO benefit plans. Does not apply to a plan issued to a small employer.

Legal Basis: Texas Insurance Code Chapter 1358; 28 Texas Administrative Code §§21.2601 – 21.2607

**Hearing Screening for Children** – any HMO plan or accident and health policy that provides benefits for a family member of the enrollee/insured must provide coverage for each covered child for: (1) a screening test for hearing loss from birth through the date the child is 30 days old, as provided by Chapter 47, Health and Safety Code; and (2) necessary follow-up care related to the screening test from birth through the date the child

is 24 months old. Benefits may be subject to co-payment/coinsurance requirements, but may not be subject to a deductible requirement or dollar limits. These limitations and requirements must be stated in the EOC/policy. Applies to both individual and group insurance policies and HMO plans. Does not apply to a plan issued to a small employer.

Legal Basis: Texas Insurance Code §1367.103

**Mammography Screening** – any HMO plan or accident and health policy must provide an annual screening by low-dose mammography for females 35 years old or older on the same basis as other radiological examinations. Applies to both individual and group insurance plans and HMO plans.

Legal Basis: Texas Insurance Code §1356.005; 28 Texas Administrative Code Chapter 11

**Nutritional Supplements for PKU and Other Inheritable Diseases** – any accident and health policy or HMO plan that provides benefits for prescription drugs must include dietary formulas for the treatment of phenylketonuria (PKU) or other heritable diseases. Applies to group insurance policies and HMO plans.

Legal Basis: Texas Insurance Code Chapter 1359

**Oral Contraceptives** – an accident and health policy or HMO plan must provide benefits for oral contraceptives when all other prescription drugs are covered. Applies to individual and group accident and health plans and HMO benefit plans.

Legal Basis: 28 Texas Administrative Code §21.404

**Osteoporosis Detection** – an accident and health policy or HMO plan must provide coverage to qualified enrollees for medically accepted bone mass measurement to determine the enrollee's risk of osteoporosis and fractures associated with osteoporosis. Applies to group accident and health plans and HMO plans.

Legal Basis: Texas Insurance Code Chapter 1361

**Prescription Contraceptive Drugs, Devices and Related Services** – an accident and health policy and HMO plan that provides benefits for prescription drugs or devices may not exclude or limit benefits for: (1) a prescription contraceptive drug or device or device approved by the United States Food and Drug Administration; or (2) an outpatient contraceptive service. Coverage for abortifacients or any other drug or device that terminates a pregnancy is not required to be covered. Any deductible, co-payment or other cost-sharing provision applicable to prescription contraceptive drugs or devices or outpatient contraceptive services may not exceed that required for other prescription

drugs or devices or outpatient services covered under the benefit plan. Applies to both individual and group accident and health plans and HMO plans.

Legal Basis: Texas Insurance Code §1369.104

**PSA Testing for Prostate Cancer** – an accident and health policy or HMO plan that provides benefits for diagnostic medical procedures must provide coverage for each male enrolled in the plan for expenses incurred in conducting an annual medically recognized diagnostic examination for the detection of prostate cancer. Minimum benefits must include: (1) a physical examination for the detection of prostate cancer; and (2) a prostate-specific antigen test used for the detection of prostate cancer for each male enrolled in the plan who is: (a) at least 50 years of age and asymptomatic; or (b) at least 40 years of age with a family history of prostate cancer or another prostate cancer risk factor. Applies to both individual and group accident and health policies or HMO plans. Does not apply to a benefit plan issued to a small employer.

Legal Basis: Texas Insurance Code §1362.003 and §1575.159; 28 Texas Administrative Code §11.508(a)(9)(E)

**Psychiatric Day Treatment** – an accident and health policy or HMO plan that provides benefits for treatment of mental illness in a hospital must include benefits for treatment in a psychiatric day treatment facility. Determination of policy benefits and benefit maximums will consider each full day of treatment in a psychiatric day treatment facility equal to one-half day of treatment in a hospital or in-patient program. On rejection of mandated benefits, the insurer shall offer and the policyholder can select an alternate level of benefits, but any negotiated benefits must include benefits for treatment in a psychiatric day treatment facility equal to at least one-half of that provided for treatment in hospital facilities. Applies to a group accident and health policy and HMO plan.

Legal Basis: Texas Insurance Code §§1355.101 – 1355.106

**Reconstructive Breast Surgery Following a Mastectomy** – an accident and health policy and HMO plan that provides benefits for mastectomy must provide coverage for (1) reconstruction of the breast on which the mastectomy has been performed; (2) surgery and reconstruction of the other breast to achieve a symmetrical appearance; and (3) prostheses and treatment of physical complications, including lymphedemas, at all stages of the mastectomy. The coverage may be subject to co-payments that are consistent with other benefits under the EOC or policy, but may not be subject to dollar limitations other than the policy lifetime maximum for A&H. Applies to individual and group accident and health policies and HMO plans.

Legal Basis: Texas Insurance Code §1357.003 and §1357.004; 28 Texas Administrative Code §11.508(a)(5)(A)

Note: This benefit is also required under federal law.

**Serious Mental Illness – 45 Inpatient and 60 Outpatient Days** – a group accident and health plan and HMO plan must provide coverage for 45 days of inpatient treatment, and 60 visits for outpatient treatment, including group and individual outpatient treatment coverage, for serious mental illness in each calendar year; (b) may NOT include a lifetime limit on the number of days of inpatient treatment or the number of outpatient visits covered under the plan; and (c) must include the same amount limits and deductibles for serious mental illness as for physical illness. Applies to group accident and health plans and HMO plans. This is a mandated offer for small employer benefit plans.

Legal Basis: Texas Insurance Code §1355.004 and §1551.205

**Serious Mental Illness – Full Parity for Universities, Local Governments** – accident and health policies and HMO benefit plans provided under the Texas State College and University Employees Uniform Insurance Benefits Act or to certain specific governmental employee groups must provide benefits for serious mental illness that are as extensive as for any other physical illness. Applies to any policy offered under the Texas State Employees Uniform Group Insurance Benefits Act (Article 3.50-2, TIC) and the Texas State College and University Employees Uniform Insurance Benefits Act – Section 1601.109, and Local Governments, Article 3.51-5A(a)(2), Texas Insurance Code.

Legal Basis: Texas Insurance Code §1355.151 and §1601.109

**Telemedicine Services** – an accident and health policy and HMO plan may not exclude telemedicine medical services or a telehealth service from coverage solely because the service is not provided through a face-to-face consultation. Telemedicine medical services and telehealth services may be subject to a deductible or co-payment requirement; however, the deductible or co-payment may not exceed the amount that is required for a comparable medical service when provided through a face-to-face consultation. Applies to an individual or group accident and health policy and HMO plan. Does not apply to a benefit plan issued to a small employer.

Legal Basis: Texas Insurance Code §1455.004; 28 Texas Administrative Code §11.1607(i), (j) and (k)

**Temporomandibular Joint (TMJ) Treatment** - an accident and health policy or HMO plan that provides benefits for diagnostic or surgical treatment of skeletal joints must provide comparable coverage for diagnostic or surgical treatment of conditions affecting the temporomandibular joint that is necessary due to (1) an accident; (2) a trauma; (3) a congenital defect; (4) a developmental defect; or (5) a pathology. Applies to both individual and group accident and health policies and HMO plans. Does not apply to a benefit plan issued to a small employer.

Legal Basis: Texas Insurance Code §1360.004

## ***Mandated Offerings***

**In-Vitro Fertilization** – unless rejected in writing by the group contract holder, any accident and health policy and HMO benefit plan providing coverage for pregnancy-related procedures must offer and make available coverage for outpatient expenses that may arise from in-vitro fertilization procedures. Applies to a group accident and health policy and HMO benefit plan.

Legal Basis: Texas Insurance Code §§1366.003 – 1366.004

**Treatment of Speech and Hearing Loss** – an accident and health policy and HMO plan shall offer, and the group contract holder shall have the right to reject, coverage for the necessary care and treatment of loss or impairment of speech or hearing that is not less favorable than for physical illness generally. The group contract holder may select an alternative level of coverage if the insurer or HMO offers such coverage. Applies to group accident and health policies and HMO plans.

Legal Basis: Texas Insurance Code §§1365.003 – 1365.004; 28 Texas Administrative Code §11.510(2)