

# Comparison of Medicare Part C and Part D Margins in Puerto Rico and the Total United States

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Puerto Rico Medicare Advantage Prescription Drug (MAPD) plans have consistently had a lower profit margin compared to the national average for all MAPD plans from 2012 to 2016.

Each year as part of their annual statement filings, health insurance companies are required to fill out the Analysis of Operations by Line of Business exhibit. Part of this exhibit details the profitability of Medicare Advantage Prescription Drug (MAPD) plans. In this paper, commissioned by Medical Card Systems Inc. on behalf of the Medicaid and Medicare Advantage Association of Puerto Rico (MMAA), we will use this publicly available exhibit to examine how MAPD margins in Puerto Rico compare with the rest of the United States.

## Results

For this analysis, profit margin was defined as Underwriting Gain divided by Net Total Premium as found in the Analysis of Operations by Line of Business exhibit.

Table 1 below shows the profitability for MAPD plans for the 5-year period of 2012-2016 and the 2-year period of 2015 - 2016 for Puerto Rico and the entire United States. For both time periods, Puerto Rico MAPD plans have a lower profit margin, with the most recent 2-year period having a profit margin of 0.5% for Puerto Rico plans compared to a national average of 2.0%. These differences in results are material.

**TABLE 1: 5-YEAR AND 2-YEAR MAPD PROFITABILITY COMPARISON**

	PUERTO RICO	NATIONAL AVERAGE	DIFFERENCE	NATIONAL DIVIDED BY PUERTO RICO
<b>5 YEAR (2012-2016)</b>	0.99%	2.23%	1.24%	2.25
<b>2 YEAR (2015-2016)</b>	0.51%	1.99%	1.48%	3.88

As seen in Table 2, every year between 2012 and 2016 the average profit margin for Puerto Rico is lower than the national

average. The maximum difference is in 2016, where the national average is ten times greater than the Puerto Rico MAPD margin. Also worth noting is that the more recent Puerto Rico profit margins have dropped significantly from 2012 and 2013 levels.

**TABLE 2: ANNUAL MAPD PROFITABILITY COMPARISON (2012-2016)**

	PUERTO RICO	NATIONAL AVERAGE	DIFFERENCE	NATIONAL DIVIDED BY PUERTO RICO
<b>2012</b>	3.43%	4.47%	1.04%	1.30
<b>2013</b>	1.84%	2.20%	0.36%	1.20
<b>2014</b>	-1.03%	1.14%	2.18%	1.11*
<b>2015</b>	0.73%	0.83%	0.10%	1.14
<b>2016</b>	0.30%	3.06%	2.76%	10.18
<b>AVERAGE</b>	0.99%	2.23%	1.24%	2.25

\*absolute value

## Methodology

This analysis was developed using the publicly available 2012 through 2016 Analysis of Operations by Line of Business exhibits included with the health NAIC annual statement blanks. To aggregate the data we used the S&P Global Market Intelligence database.

We used the S&P Global Market Intelligence Health Market Share database to determine the legal entities with MAPD membership in Puerto Rico in 2016. These legal entities had effectively all of their total MAPD membership in Puerto Rico. This database utilized the state pages from the NAIC Annual Health Statement to aggregate membership. As well, for context, over the 5-year period the average annual Net Total Premium for the Puerto Rico plans was over \$4 billion and all MAPD plans was over \$120 billion.

Please note that this exhibit does not contain information on all MAPD plans as not every plan fills out the NAIC Health Insurance Annual Statement blank. Some plans are required to file under the NAIC Life Insurance Annual Statement blank. The Life Insurance Annual Statement does not contain a breakout for MAPD plans and thus was excluded from this analysis. As well, this analysis does not include plans that file with the Department of Managed Care in California.

All plans that have major medical insurance plans, regardless of if they fill out the Life or Health Annual Statement, are required to file a Supplemental Health Care Exhibit. Based on an analysis of the 2015 and 2016 Supplemental Health Care Exhibits, 73% of MAPD and standalone Prescription Drug (PDP) plan members are in plans with companies that fill out the Health Insurance Annual statement. Members with companies completing this Statement constitute 87% of premiums earned. While that is not exclusively MAPD, we believe that this information along with the fact that all Puerto Rico MAPD plans fill out the Health Annual Statement makes the use of the health annual statement an appropriate comparison. We used 2015 and 2016 to calculate these values as 2015 was the first year the Supplemental Health Care Exhibit split out MAPD and PDP plans.

## Conclusion

Based on our analysis, from 2012 through 2016 there is a material difference in the profitability of MAPD plans operating in Puerto Rico compared to the total for all MAPD plans in the NAIC Health Insurance Annual Statement blank. During this time period, the average Puerto Rico profit margin has been lower than the national average each and every year. On average, over the 5 year period, the national MAPD margin has been 2.25 times greater than Puerto Rico. Further, the average overall Puerto Rico profit margin in more recent years has declined significantly from 2012 and 2013 levels.

## Caveats and Limitations

We prepared this work for the specific purpose of providing information to the Medicaid and Medicare Advantage Association of Puerto Rico (MMAA), its member companies, and CMS. This information should not be used for any other purpose. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work. Milliman's work is not intended to guide or determine any specific individual situation and any third party should consult qualified professionals before taking specific actions. This work was performed under existing Consultant Services Agreements and related third party agreements.

In performing this analysis, we relied on public data and other information provided by CMS, NAIC, and other entities. We did not audit this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete. We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they will be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review is outside the scope of this work



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