
**Thomas P. DiNapoli
COMPTROLLER**



Audit Objective..... 2
Audit Results - Summary..... 2
Recommendation 3
Audit Scope and Methodology..... 3
Authority 3
Reporting Requirements..... 3
Contributors to the Report 4

**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY**

UNITED HEALTHCARE

**CALCULATION OF RISK
CHARGE COSTS**

Report 2007-S-134

AUDIT OBJECTIVE

Our audit objective was to determine whether United Health Care was using an appropriate method for calculating charges to the State for insuring the risk associated with the medical/surgical and major medical component of the New York State Health Insurance Program.

AUDIT RESULTS - SUMMARY

The New York State Health Insurance Program (Program) provides health insurance coverage to active and retired State, participating local government and school district employees and their dependents. The Empire Plan (Plan) is the primary health benefits plan for the Program. There were 1.07 million individuals insured by the Plan in 2007.

The Department of Civil Service (Department) contracts with insurance carriers to provide health insurance coverage under each of the four components of the Plan: medical/surgical and major medical; hospitalization; prescription drug; and mental health/substance abuse. United provides the medical/surgical and major medical coverage. During the four years January 1, 2004 through December 31, 2007, United charged the Department \$71.6 million for the risk associated with insuring the Plan.

United is responsible for estimating the gross premium payments that the State must pay during each year to cover the anticipated cost of claims and administrative expense. At the end of each year, United is responsible to reconcile the gross premiums paid by the State with the actual claims expenses and administrative costs. When gross premiums paid during the year exceed the actual claims expenses and administrative costs, United must pay the excess amount back to the State.

This excess is referred to as a “dividend.” Gross premiums less the dividend is known as “net” premium. For each of the last 20 years that United has insured the medical/surgical and major medical provisions of the Plan, United has overestimated gross premiums resulting in a dividend returned to the Department.

The Department pays each insurer a fee for insuring risk under the Plan. This is known as the “risk” charge. United calculates its risk charge to the Department using a percentage applied to gross premiums. Using this approach, United charged the Department \$71.6 million for insuring the risk associated with the medical/surgical and major medical provisions of the Plan over the four years ended December 31, 2007.

However, the other insurers who provide the hospitalization, prescription drug and mental health/substance abuse components of the Plan, use net premiums to calculate the risk charge. Since United’s gross premiums have consistently overestimated actual claims plus administrative costs (resulting in a dividend), calculating the risk charge using gross premiums rather than net premiums results in United consistently charging the Department more insurance risk than ought to be charged. In fact, if United had calculated its risk charge using net premiums rather than gross premiums, the Department could have saved \$3.9 million over the four years ended December 31, 2007.

When we examined the State’s contract with United we noted that it did not contain language regarding the method to be used for calculating risk charge. We recommend that United utilize net premiums rather than gross premiums when calculating insurance risk to be charged to the State.

This report, dated February 9, 2009, is available on our website at: <http://www.osc.state.ny.us>.

Add or update your mailing list address by contacting us at: (518) 474-3271 or
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

Recommendation

Work with the Department to develop a method of assessing risk charges consistent with the other three insurers in the Plan.

AUDIT SCOPE AND METHODOLOGY

Our audit focused on risk charges paid by the Plan during the period January 1, 2004 to December 31, 2007. To accomplish our objectives, we met with officials from United and the Department to help understand the risk assumed by the insurers and how risk charges are assessed. We analyzed risk charges in the Plan financial statements for 2004 to 2007. We also reviewed the contract, contract renewals, and related correspondence between the Department and United.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated

duties as the chief fiscal officer of New York State. These include operating the State's accounting systems; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

AUTHORITY

This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law; we audited certain payments made by the New York State Health Insurance Program's Empire Plan for administrative expenses associated with the Plan for the period January 1, 2004 through December 31, 2007.

REPORTING REQUIREMENTS

We shared preliminary copies of this report with United officials for their review and comment. United agreed to work with the Department to prospectively establish a method of calculating the risk charge consistent with the other insurers of the Plan.

Within 90 days of the final release of this report, we request that the President of United Health Care report to the State Comptroller, advising what steps were taken to implement the recommendation contained herein, and if it was not implemented, the reason why.

CONTRIBUTORS TO THE REPORT

Major contributors to this report were Kenneth Shulman, David Fleming, Brian Krawiecki, Arnold Blanck, and Taryn Davila-Webster.