



QUESTION 2: NEW RULES FOR DENTAL INSURANCE

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EXECUTIVE SUMMARY

The idea behind dental insurance is relatively straightforward. You pay the insurance company a certain amount every month; they agree to cover some of the costs of your dental care.

But what happens if they're collecting a lot more from those monthly premium payments than they're paying out for treatment.

Is that unfair? Or just part of the business model? And should the state get involved, perhaps by requiring dental insurers to spend a certain percentage of their monthly premiums on patient care — just as we already do for medical insurance?

Voters will get to answer these questions in November as part of Ballot Question 2, which would set new rules for dental insurers, including a requirement that 83 cents of every dollar collected in premiums is spent on patients' dental work.

This 83 cent standard is referred to as the "loss ratio." And as part of our mission to help voters understand state ballot questions, we have reviewed relevant research and spoken with a variety of experts about the potential impact a minimum loss ratio could have on dental insurance and care in Massachusetts.

We found that:

- This ballot question is built on relatively thin information. It's not clear whether dental insurers are currently close to — or far from — the proposed 83 percent requirement. Indeed, there's no clear basis for the 83 percent figure, and imposing it would make us the only state with a fixed loss ratio for dental insurance.
- The limited information we do have suggests dental insurers could probably adapt to the 83 percent standard, just as medical insurers did with the similar standards set by the Affordable Care Act. Those most likely to struggle are the smaller, less-efficient dental insurers.
- Insurers could meet the 83 percent loss ratio in a number of ways, including by covering a wider range of procedures or by allowing dentists to charge higher prices for dental services. Some price increases might then pass through to patients.
- Question 2 also includes a number of reporting requirements that would shed useful light on the dental insurance market and allow for better-grounded regulations moving forward.

In the sections that follow, we describe this ballot initiative in greater detail, share further background on insurance loss ratios, and discuss the likely impact of “yes” and “no” votes.

WHAT BALLOT QUESTION 2 WOULD DO

The critical element of this ballot question is the proposed **83 percent loss ratio for dental insurers**.

It would require that at least 83 cents of every dollar insurers charge in monthly subscriber premiums be spent on dental care, leaving 17 cents for administrative costs, taxes, and profit.

Question 2 would also:

- **Limit increases in the formula used to set premiums**, requiring the commissioner of the division of insurance to block proposals considered “excessive, inadequate, or unreasonable in relation to the benefits charged.” This would apply to premiums that violate the 83 percent loss ratio, as well as companies whose administrative costs or surpluses are growing quickly.
- **Require insurers to issue rebates** when they don’t meet the 83 percent loss ratio in any given year.
- **Expand reporting requirements for insurance plans**, encompassing a range of financial and operating data. This information would be public, allowing for fuller research and a better understanding of the industry.

If passed, these changes would take effect on January 1, 2024.

THE INSPIRATION FOR QUESTION 2

Insurance is supposed to help patients manage risk and afford necessary care — not help insurers generate excessive profits or maintain high administrative costs.

In order to get insurers to focus more on care, Question 2 borrows from the world of medical insurance, where minimum loss ratios are already

the standard. Here in Massachusetts, medical insurers are required to spend either 85 or 88 percent of their monthly premiums on care ([depending on the type of plan](#)).

While the loss ratios for medical insurance have been controversial, most insurers have successfully adjusted their practices to meet the standards.

It’s not unreasonable to expect the same from a dental insurance loss ratio: insurers could gradually adjust to the new expectations, limiting market disruptions and minimizing any rebates for consumers.

However, this outcome is not guaranteed. There are some important differences between the dental and medical worlds worth considering.

- Medical insurers are generally allowed to make a number of valuable adjustments to their loss ratios that are unavailable to dental insurers under the language of this ballot question, including deducting the cost of taxes and getting credit for investments in case management and other changes that improve outcomes.
- When crafting loss ratios for medical insurance, lawmakers and regulators were guided by copious information about market dynamics and the financial health of insurers. There is no similar information about the current finances of dental insurers in Massachusetts. The one [relevant study being circulated](#) uses sound methods but was commissioned by a national trade group for dental insurers (Note: the authors would not answer our questions or discuss their findings with us.)
- Medical insurance is built on a totally different financial model, with large premiums and huge risks from unexpected medical expenses. By contrast, dental insurance involves much lower premiums, stricter usage limits, and costs that are generally capped to obviate risk. Given the differences, it’s not clear that a loss ratio approach is necessary — or that you can just import a number from the medical world.

- Whereas the loss ratios in the Affordable Care Act were part of a broader effort to restrain rising health care costs, the same cost pressures [don't seem to afflict dental care](#), where cost growth is limited by payout caps and co-insurance. Dental premiums remain fairly affordable, generally dozens of dollars a month rather than the hundreds or thousands required for health insurance.

IMPACT OF A "YES" VOTE

Voting "yes" on Question 2 would trigger a range of changes in the Massachusetts dental insurance market: some relatively small, some potentially more substantial.

Most important, dental insurers would need to rethink their operations to ensure that 83 cents of every dollar they collect from customer premiums is actually paid out in care.

It's hard to say exactly how dramatic this restructuring would be, as we don't know whether most dental insurers are already close to the 83 percent level — or quite far away.

The one Massachusetts-focused study we do have — which was commissioned by a national trade group of dental insurers — suggests that many of the largest insurance plans [have loss ratios close to 80 percent](#), meaning their transition to an 83 percent standard should be relatively manageable. And this comports with numbers from [elsewhere in the country](#).

If that's right, consumers are unlikely to see rebates from Question 2 and, if they do, those rebates would likely be small.

There are just a few ways for an insurance company to improve their loss ratio and meet the new standard:

- 1) Lower monthly premiums, so they're taking in less money.

- 2) Streamline operations, so they're spending less on administrative costs or reducing profits

- 3) Pay more in dental claims, whether by covering more procedures or allowing dentists to bill higher prices for services.

If Question 2 passes, we could potentially see a mix of all three, but there's little reason to expect an even balance.

Note, for instance, that the easiest change may be for dental insurers to raise their payments to dentists.

Consider the dynamics. Usually, when dentists and insurers negotiate, they have opposing interests: Dentists want to raise prices to increase their earnings, while insurers want to limit price increases in order to boost profits.

But the requirement that insurers spend at least 83 percent of their premiums on dental care warps this dynamic. It makes insurers more willing to accept dentists' push for higher prices, because that would help insurers meet the new loss ratio. So if Question 2 passes, dentists will be in a particularly strong short-term negotiating position.

And if insurers do agree to higher prices, some share of these price hikes will likely be paid by patients. One reason is that most dental insurance includes fairly high co-insurance rates, where the patient pays a percentage of the total cost. Another is that with higher prices more patients will hit their annual maximum — and need to pay for any additional care with their own money.

Now, there may be some offsetting factors for consumers. Insurers could also try to meet the new loss ratio by lowering monthly premiums, which would reduce the cost of coverage. But this is an unlikely strategy, as reducing premiums has the perverse effect of making the insurer's administrative costs look even higher.

On net, Question 2 is unlikely to have a major effect on consumer costs. It probably won't trigger the

kind of big, premium reductions that could make insurance more affordable; and while it might inspire price increases that trickle down to consumers, the scale of these increases should be limited.

If there is greater turmoil, it's likely to affect smaller insurers. Generally speaking, managing a dental insurance plan requires a baseline amount of administrative capacity: computing and accounting systems, payment and claims processes, regulatory compliance, etc. Meeting these baseline requirements is harder for smaller plans, because they can't spread their fixed costs across a large number of subscribers. The result is a lower loss ratio and administrative costs that make up a bigger share of the budget.

These kinds of plans could struggle to meet the 83 percent standard. Some may need to completely revamp their financing (potentially raising both premiums and prices); some could even exit the market, leaving Massachusetts consumers with fewer choices.

Finally — but still importantly — the reporting requirements of Question 2 would substantially increase our understanding of the finances of the Massachusetts dental insurance market, enabling better regulation and more deliberate policy adjustments moving forward.

A Potential Backstop: Self-Funded Insurers

A large share of the Massachusetts dental insurance market is actually made up of employers that manage their own insurance pool while paying an insurance company to handle administration.

These self-funded plans would not be subject to the 83 percent loss ratio in Question 2.

So if the ballot question has any unintended consequences — pushing more insurers than expected out of business — the self-funded part of the market could serve as a kind of escape hatch, scaling up to help organizations that need an alternative approach to dental insurance.

Plus, if this does happen, Question 2 would allow us to track the impact, as it includes new reporting requirements for self-funded plans.

IMPACT OF A “NO” VOTE

If voters reject this ballot question, the status quo will continue, which means dental insurance companies will maintain their current balance of premiums and prices.

At the same time, there will be no reporting changes or broad improvement in our knowledge of the underlying finances of dental insurers in Massachusetts.

OPTIONS FOR THE LEGISLATURE

Most ballot questions in Massachusetts are just like regular laws, subject to alteration or amendment by the Legislature — without having to go back to voters. This gives lawmakers a vital role, allowing them to tweak ballot proposals in order to maximize impact and minimize risks.

If Question 2 passes, there are some changes the Legislature might consider.

- The formula for calculating loss ratios might be altered so dental insurers can exclude taxes and license fees — as is the standard for loss ratios among medical insurers.
- To smooth implementation, it might make sense to phase in the 83 percent requirement over a few years rather than jumping directly to that level.

By contrast, if Question 2 fails, the Legislature might pursue some of the less contentious elements to improve our understanding of the dental insurance market and expand access to quality care.

- New regulatory requirements might still be introduced. Other states that have debated dental loss ratios — including [California](#) and [Maine](#)— have generally opted for this approach, asking insurers to report their loss ratios rather than imposing a mandate.
- Lawmakers might pursue a more comprehensive approach to dental care in Massachusetts, including a mix of expanded subsidies for low-income residents, direct rate setting, and increased power for regulators.

CONCLUSION

A “yes” vote on Question 2 would introduce new rules for dental insurers in Massachusetts, including expanded financial reporting and a requirement that 83 cents of every dollar collected in monthly premiums goes directly to dental care — rather than profits or administrative costs.

The precise impact of this change is hard to assess, both because we would be the first state to introduce a uniform rule and because we lack detailed information about the current finances of dental insurers. Based on the limited information we do have, it seems likely that insurers will be able to meet the new standards with a mix of operational changes that includes somewhat increased prices for dental care.

A “no” vote would maintain the status quo, including the current dearth of information about true costs and profits among dental insurers.

We at the Center for State Policy Analysis do not take a position on Question 2 — or any ballot initiative — but we hope this brief gives voters the information they need to make a sound decision on this complex issue.



Contributors

In assembling this report, the Center for State Policy Analysis was aided by a number of individuals with expertise in health and dental insurance. However, the final contents reflect our best judgment and are not necessarily endorsed by reviewers.

Author

Evan Horowitz

Executive Director

CENTER FOR STATE POLICY ANALYSIS

TISCH COLLEGE, TUFTS UNIVERSITY

Reviewer

Amy Lischko

Professor of the Practice

Community Health and Economics

TUFTS UNIVERSITY