Healthcare BUSINESS STRATEGY™

The Latest Health Insurance Market Trends

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by Mark Farrah Associates

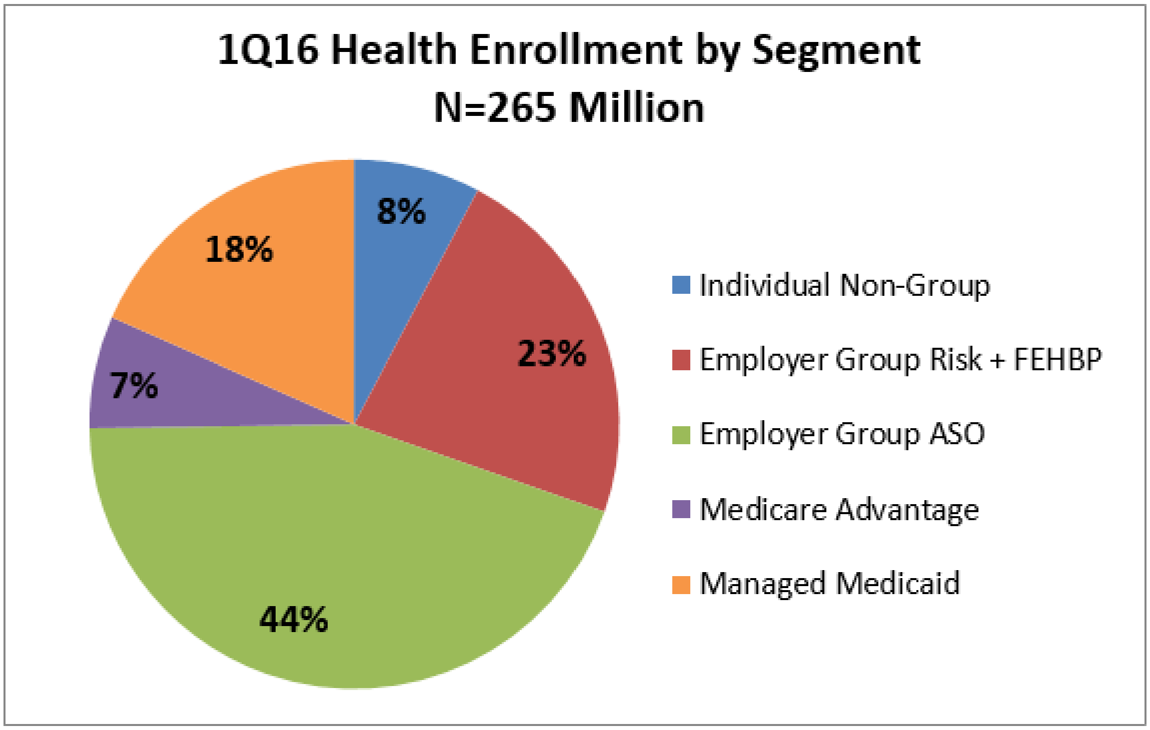
Despite pending mergers and uncertainty about Obamacare and policy changes in light of the upcoming Presidential election, many health insurers continue to successfully grow business. Seasoned competitors, adept at meeting the demands of a changing industry, are implementing programs to control costs, retain customers and attract new accounts. Health plans nationwide are pursuing opportunities in Medicaid, Medicare and Marketplace programs, and ASO (administrative services only) business is also a growth target. This analysis provides insights about the latest year-over-year enrollment trends, comparing 1st quarter 2015 with 1st quarter 2016 segment membership. With ACA implementation well into the third year, the latest trends indicate the pace of growth in segments positioned for Obamacare expansion has slowed considerably.

Insurance companies provided medical coverage for approximately 265 million people as of March 31, 2016, based on membership data filed in statutory financial reports. The Employer Group ASO (administrative services only for self-funded plans) and Employer Group Risk segments remain the largest sources of coverage in the industry, collectively enrolling 178 million people. From 1Q15 to 1Q16, growth was most significant in the Managed Medicaid segment as 3.9 million more members joined state-subsidized plans. Meanwhile, year-over-year growth slowed considerably in the Individual Non-Group segment. Health insurers added only 150,000 members to Individual Non-Group plans, including both on and off exchange options.

Segment by Segment

Based on a year-over-year analysis comparing 1Q15 with 1Q16 membership figures, approximately 20.5 million people are currently enrolled in Individual, Non-Group medical plans. MFA's analysis found aggregate enrollment in the Individual segment grew by only 1% from March 2015 through March 2016, vastly different from the 37% growth plans experienced in the prior year. Though Individual enrollment reports by carrier include both "on" and "off" Exchange members, this data is the only means of assessing state-by-state competition in the segment.

It has been a tumultuous year for the Marketplaces. The industry's top lobby organization, America's Health Insurance Plans (AHIP), has been vocal about risk corridor payments the Administration owes health plan members; the risk corridor program was intended to help cushion companies against the volatility of the new Marketplace. Some insurers are proposing sharp premium hikes while others have announced they will pull out of the Exchanges in 2017.



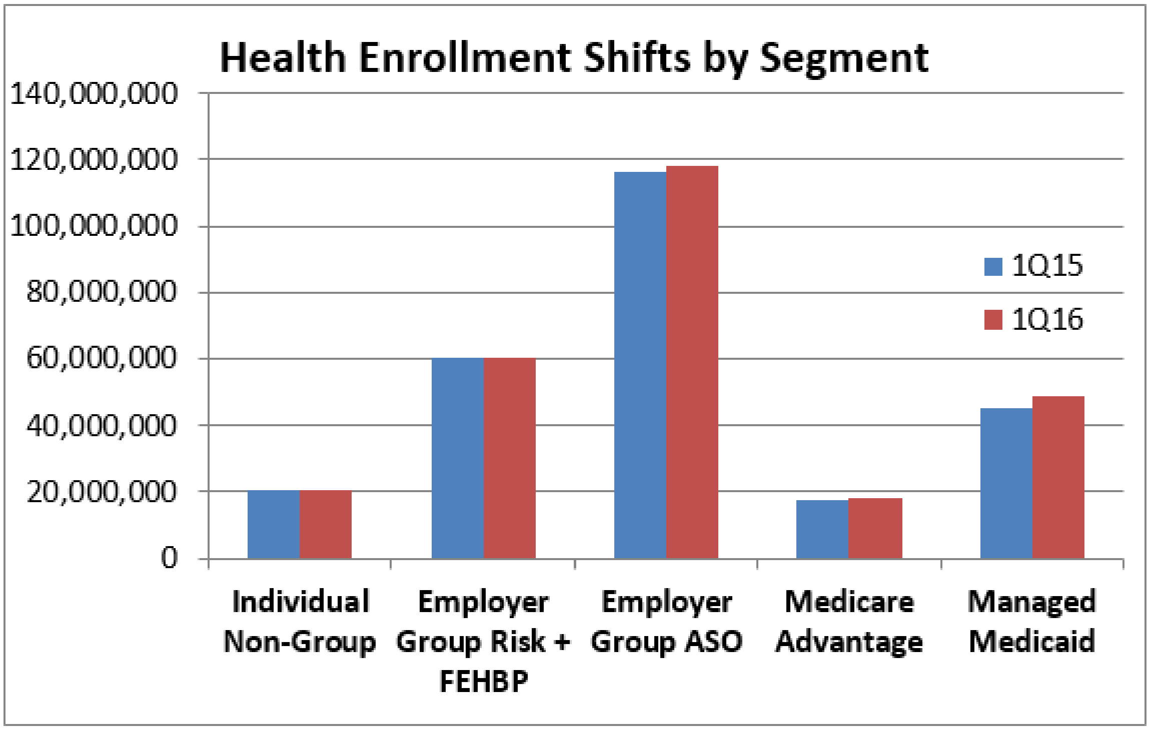
Source: Health Coverage Portal™, Mark Farrah Associates

- Year over year, Managed Medicaid membership increased by 3.9 million, representing 9% growth, down from 35% growth in the prior year. Managed Care Organizations (MCOs), the insurance carriers reporting Medicaid members, now provide coverage for almost 48.8 million beneficiaries but it's important to note that other types of plans also compete in the Medicaid segment. For example, in New York, Prepaid Health Services Plans (PHSPs) cover the majority of Medicaid beneficiaries. These plans submit special performance reports to the state but are not required to file NAIC statutory financial statements. According to CMS reports, some 72 million people rely on Medicaid as their source of health insurance coverage this year.

  In April 2016, CMS released a final rule to update Medicaid managed care. Health plans, state Medicaid officials, consumer groups and policy experts are reviewing the proposed changes that include caps on insurer profits, more rigorous state oversight of provider networks, and quality rating systems. For more information, refer to Medicaid Moving Forward on the Medicaid.gov (https://www.medicaid.gov/entry/2016/04/25/37332.html) website.
- Membership in Medicare Advantage (MA) plans increased from 17.3 million as of 1Q15 to 18.2 million as of 1Q16, according to CMS reports. MA plans provide coverage for approximately 32% of all those eligible for Medicare benefits.

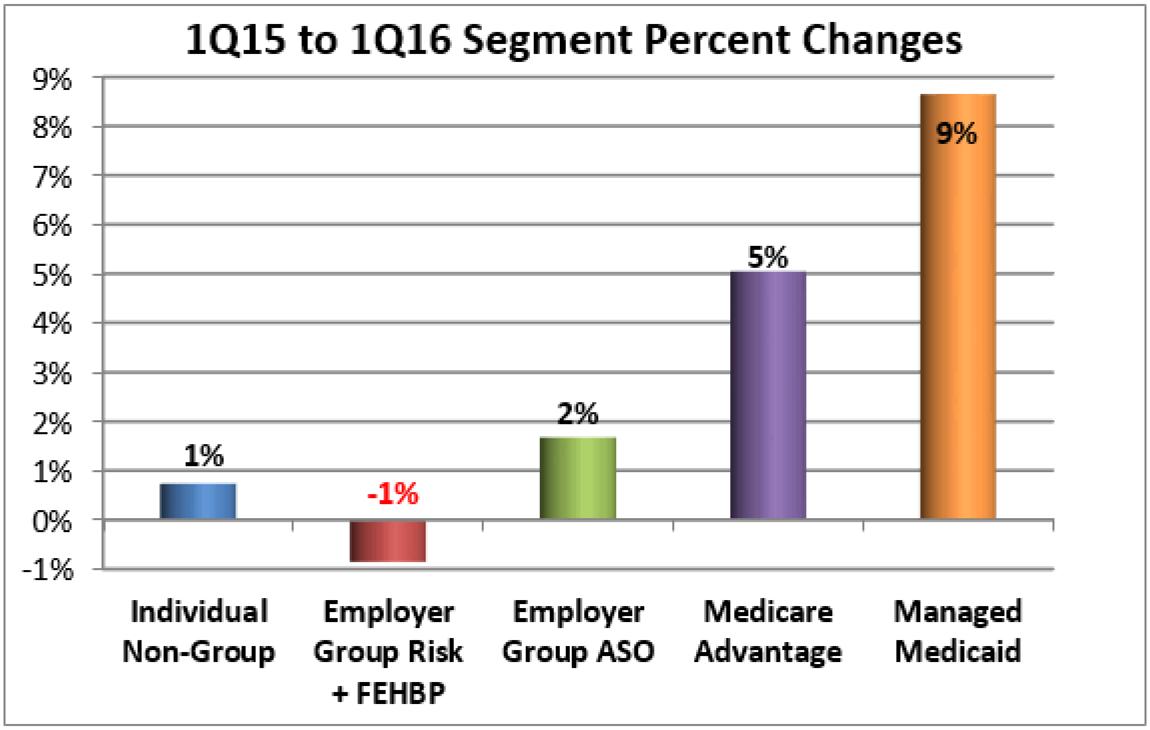
  Medicare Advantage reimbursement rates for 2017 will increase slightly by 0.85% on average. CMS also announced it will phase in cuts to employer-sponsored Medicare Advantage plans over the next two years. Industry analysts expect these policy changes will contribute to instability in employer-based Medicare retiree plans.
- The latest figures continue to show ongoing decline in the Employer Group Risk segment but the pace of decline has slowed. From 1Q15 to 1Q16, membership decreased from 60.6 million to 60.1 million. Health insurance experts have monitored this downward trend for more than a decade and postulated many contributing factors, e.g. employers phasing out retirement benefits and higher rates of public health insurance eligibility. Nonetheless, employers are still the dominant source of health coverage for Americans and many employers continue to offer risk-based plans.
- According to MFA's recent estimates, employer group ASO (administrative services only for self-funded business) membership grew by approximately 1.9 million members in the last year. MFA identified approximately 118 million ASO covered lives by company. This supports accounts of growth in self-

funded employer groups in recent years due in part to employer exemptions from many of the ACA's benefit mandates and requirements.



Source: Health Coverage Portal™, Mark Farrah Associates

It is important to note that MFA applied year-end 2015 enrollment figures for select carriers that are not required to report health enrollment on a quarterly basis. Furthermore, year-end 2015 enrollment was also used for a small number of health plans that are required to report quarterly enrollment but hadn't yet filed. Employer group ASO figures may be estimated by Mark Farrah Associates using credible company and industry resources. Individual Non-Group membership reported by some carriers may include CHIP (Children's Health Insurance Program). These adjustments may have resulted in moderate understatement or overstatement of enrollment changes by segment. Findings reflect enrollment reported by carriers with business in the U.S. and U.S. territories. Data sources include CMS (Centers for Medicare and Medicaid Services), NAIC (National Association of Insurance Commissioners) and the CA DMHC (California Department of Managed Health Care).



Source: Health Coverage Portal™, Mark Farrah Associates

Looking Ahead

Health insurers are bracing for change as mergers and acquisitions and the Presidential election in the coming months may shake up the industry. Though full repeal of the ACA is unlikely, many consultants see potential for significant revisions to the law, particularly if the Republican party prevails.

How the administration's goal to provide health insurance coverage to millions of uninsured Americans will ultimately play out remains to be seen. Many health plans have reported losses on exchange business and are concerned about the future of Individual business on the public exchanges. Companies are keeping a close watch to assess the viability of this business in 2016 to determine their course of action.

For the past year, the industry has been in the midst of two mega-mergers - Anthem with Cigna and Humana with Aetna. If regulators approve these mergers, without a doubt, the competitive landscape will be altered segment by segment. Executives from the companies involved have indicated they expect the transactions to be completed in 2016, but some industry experts anticipate the process may take longer, given the magnitude of the deals.

In the meantime, insurers with a vested interest in healthcare will continue to innovate, diversify and adapt with the times. Health plans large and small will keep working to solidify their footholds and pursue new and profitable business opportunities in the wake of competitive shifts and policy changes.

About Mark Farrah Associates (MFA)

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