February 15, 2017

Third Quarter 2016 Health Insurance Enrollment Trends

Health insurance enrollment trends have reflected noticeable shifts over the past year amidst the debate about the future of the U.S. health care system. Health companies nationwide continue to invest in growth pursuits that are aligned with the ultimate goal of providing high-quality health care that is coordinated, cost-effective, and affordable. Pursuing opportunities in government programs, converting providers to value-based reimbursement contracts, M&A's and achieving greater levels of transparency from providers and payers have been common strategies among many leading companies. However, the industry continues to prepare for unknown and unpredictable market changes.

This analysis presents key findings from Mark Farrah Associates' (MFAs) review of the latest year-over-year enrollment trends, comparing 3rd quarter 2015 with 3rd quarter 2016 segment membership. The latest trends continue to indicate a decline in the Individual, Non-Group segment and a significantly slower pace of growth in the Employer Group Risk segment. In contrast, Medicare Advantage, Managed Medicaid and ASO (administrative services only) business segments continue to experience steady increases in membership.

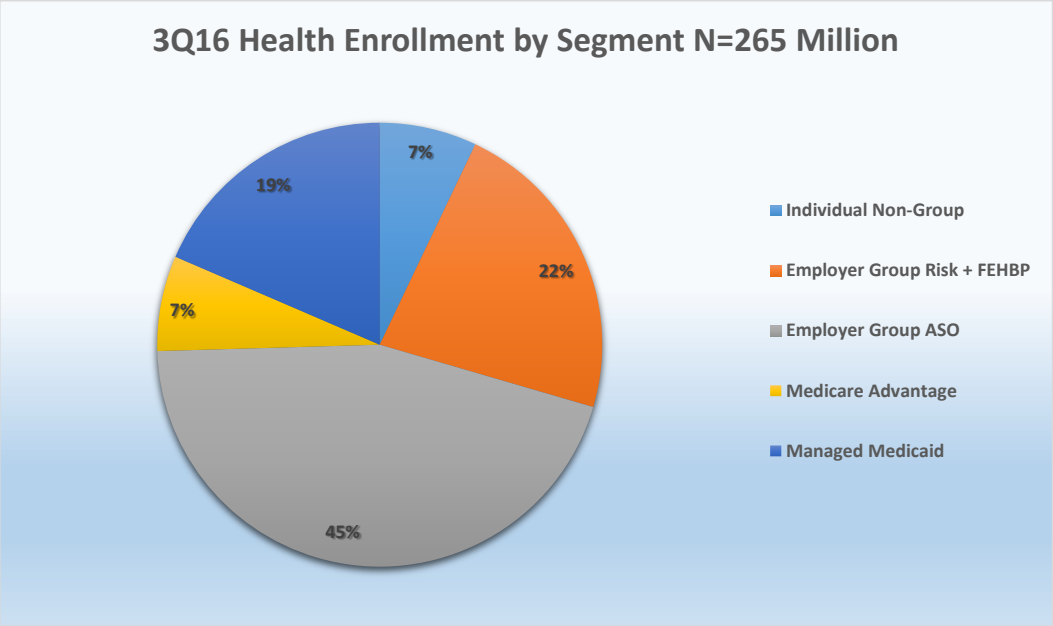
As of September 30, 2017, approximately 266 million people receive medical coverage from U.S. health insurers, based on membership data filed in statutory financial reports. The Employer Group ASO (administrative services only for self-funded plans) segment remains the largest source of coverage in the industry, collectively enrolling over 119 million people in third quarter 2016. From 3Q15 to 3Q16, membership growth was most significant in the Managed Medicaid segment as 4 million more members joined state-subsidized plans, year-over-year. Meanwhile, enrollment performance in the Individual Non-Group segment lost 216,000 members, including members both on and off the exchange.

Third Quarter Segment Performance

Based on data filed in statutory financial reports from the NAIC (National Association of Insurance Commissioners) and the CA DMHC (California Department of Managed Health Care), MFA's assessment of Individual, Non-group medical plans, both "on" and "off" the exchange, found aggregate year-over-year enrollment declined by 1%, from 19.1 million in September of 2015 to 18.8 million in September of 2016. In contrast, Individual membership grew 4.9% between 3Q14 and 3Q15 reflecting a notable year-over-year increase. However, insurers were beginning to realize the adverse financial effects resulting from the growth in the individual market and the Affordable Care Act's (ACAs) premium stabilization programs (reinsurance, risk adjustment and risk corridors) failure to reduce or mitigate the overall financial uncertainty in the early years of the exchanges.

Consequently, many health insurance giants were forced to write off significant amounts of anticipated ACA funding and several have sued to recoup losses. The volatility of the exchange program has many insurers taking precautions by proposing sharp premium hikes or withdrawing from the exchanges, altogether. It is therefore not surprising to see the small decline in individual membership. Additionally,

should the Trump administration repeal significant portions of the ACA, further enrollment shifts within the Individual segment could be significant.



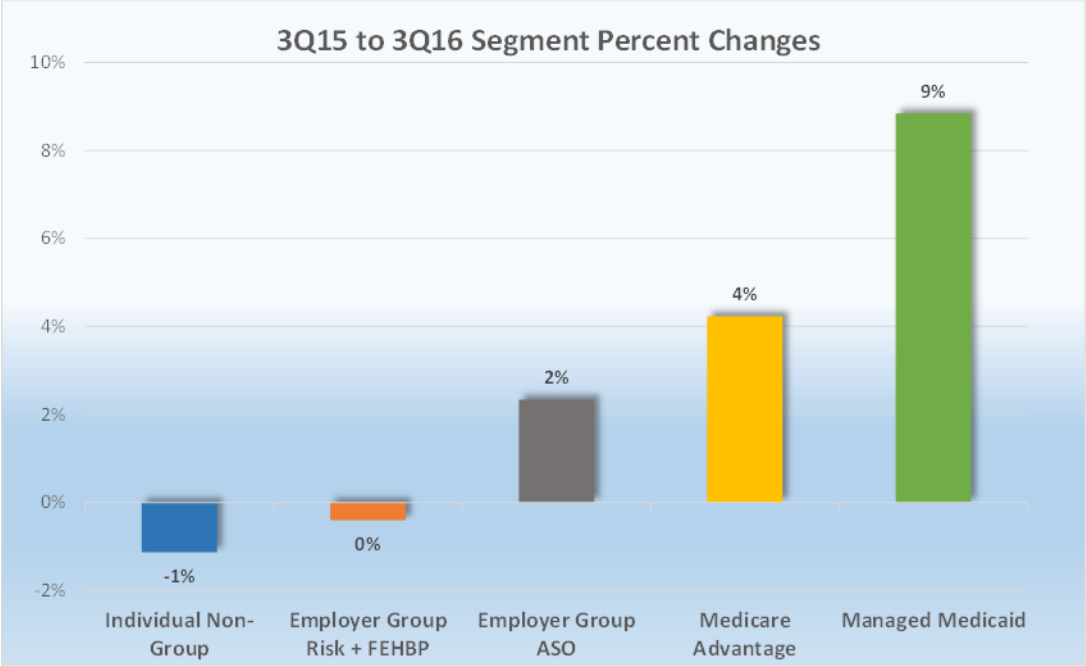
Source: Health Coverage Portal ™, Mark Farrah Associates

Year over year, Managed Medicaid membership increased by approximately 4 million, representing 9% growth, down from 15% growth in the prior year's third quarter comparisons. Managed Care Organizations (MCOs), the insurance carriers reporting Medicaid members, now provide coverage for over 50 million beneficiaries but it's important to note that some plans submit special performance reports to the state but are not required to file NAIC statutory financial statements. According to CMS reports, a total of over 74.3 million people rely on Medicaid as their source of health insurance coverage as of December 2016.

In April 2016, CMS released a final rule governing Medicaid managed care. According to CMS, the goals for revising the regulations were to align rules governing Medicaid managed care with those of other sources of coverage, implement statutory provisions, strengthen beneficiary protections and strengthen efforts to reform delivery systems that serve Medicaid beneficiaries. Health plans, state Medicaid officials, consumer groups and policy experts are continuing to adjust to the changes. In addition, on January 18, 2017, CMS issued a final rule on pass-through payments for Medicaid managed care, preventing states from increasing or adding pass-through payments for hospitals, physicians or nursing homes to those that were in place when final Medicaid managed care regulations took effect. The final rule is effective March 20, 2017.

MA plans provide coverage for approximately 33 percent of those eligible for Medicare benefits. According to plan-reported statutory financial reports, membership in Medicare Advantage (MA) plans

increased from 17.6 million as of 3Q15 to 18.4 million as of 3Q16. In April of 2016, CMS finalized its 2017 final rate notice for Medicare Advantage and Part D prescription drug programs. Under the final rule, CMS proposed an increase in Medicare Advantage rates of 0.85 percent on average for 2017 and expected an increase of 3.05 percent on average in revenues. CMS also announced it will phase in cuts to employer-based Medicare Advantage plans over the next two years. However, for 2018, CMS recently proposed an increase in MA payment rates of 0.25 percent on average and the average change in Medicare Advantage insurers' revenue is expected to increase 2.75 percent. Additionally, CMS announced it may also consider not enforcing cuts to employer-sponsored Medicare Advantage plans. The final 2018 rate notice is expected to be released by April 3, 2017.

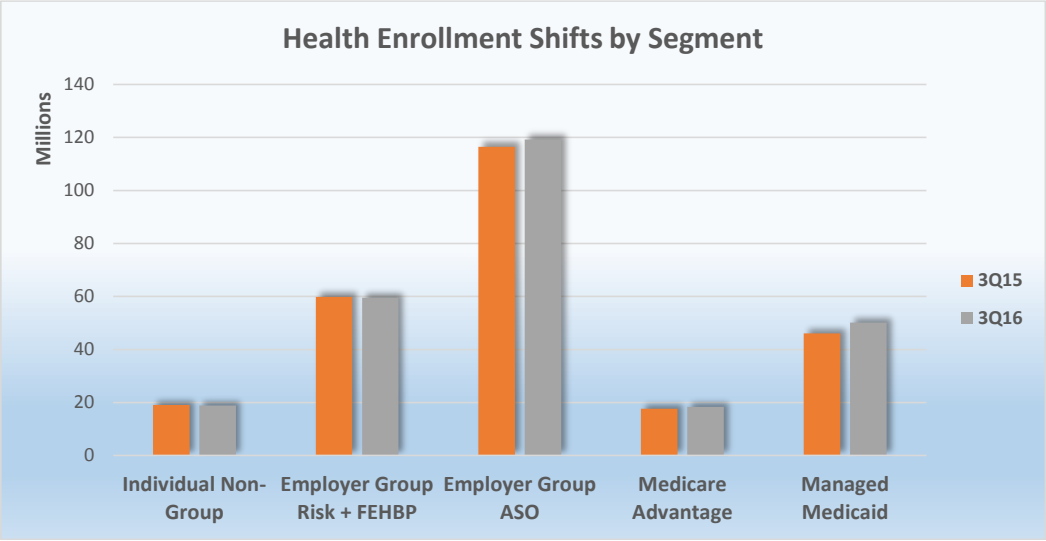


Source: Health Coverage Portal ™, Mark Farrah Associates

The latest figures show Employer Group Risk membership, including the Federal Employees Health Benefit Plans (FEHBP) membership, dropped slightly between 3Q15 and 3Q16. Year-over-year membership for this segment decreased by just 245,000, from approximately 59.7 million to 59.5 million members. The group risk segment has been on the decline in recent years, down over 10 million members since 2012, but, nonetheless, employers are a 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 2.7 million members from September of 2015 to September of 2016. MFA identified approximately 119 million ASO covered lives by company, which encompassed 45% of total health enrollment by segment for 3Q16. Over the past few years, the ACA

has been a key driver of growth in employer group, self-insured health business; therefore, major changes to the law or an outright repeal and replacement will be of key interest to employers.



Source: Health Coverage Portal ™, Mark Farrah Associates

It is important to note that MFA estimated third quarter 2016 enrollment 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 NAIC (National Association of Insurance Commissioners) and the CA DMHC (California Department of Managed Health Care).

Industry Outlook

Trump's ambitious health care agenda for 2017 is pushing health insurers to strategically modify their ongoing businesses and operating performances. The potential of repeal and replacement of the Affordable Care Act and the possibility of restructuring Medicare and Medicaid to reduce federal spending are key items that insurers are closely monitoring. In addition, mergers and acquisitions of health plans large and small are likely to drive insurers' strategic and operational decisions, potentially altering the competitive landscape for 2017 and forward. Regardless, health plans will continue to solidify whatever footholds they have established and stay focused on controlling costs and retaining customers in order to uphold healthy competition. As always, Mark Farrah Associates will continue to report on important plan performance and competitive shifts across all segments.

About Mark Farrah Associates (MFA)

Mark Farrah Associates (MFA) is a leading provider of health plan market data and analysis tools for the healthcare industry. If your company relies on accurate assessments of health plan market share to support business planning, we encourage you to contact us to learn more about our products. Our portfolio includes Health Coverage Portal™, County Health Coverage ™, Medicare Business Online™, Medicare Benefits Analyzer™ and Health Plans USA™ - - www.markfarrah.com.