



2015 Small Group Health Insurance Market

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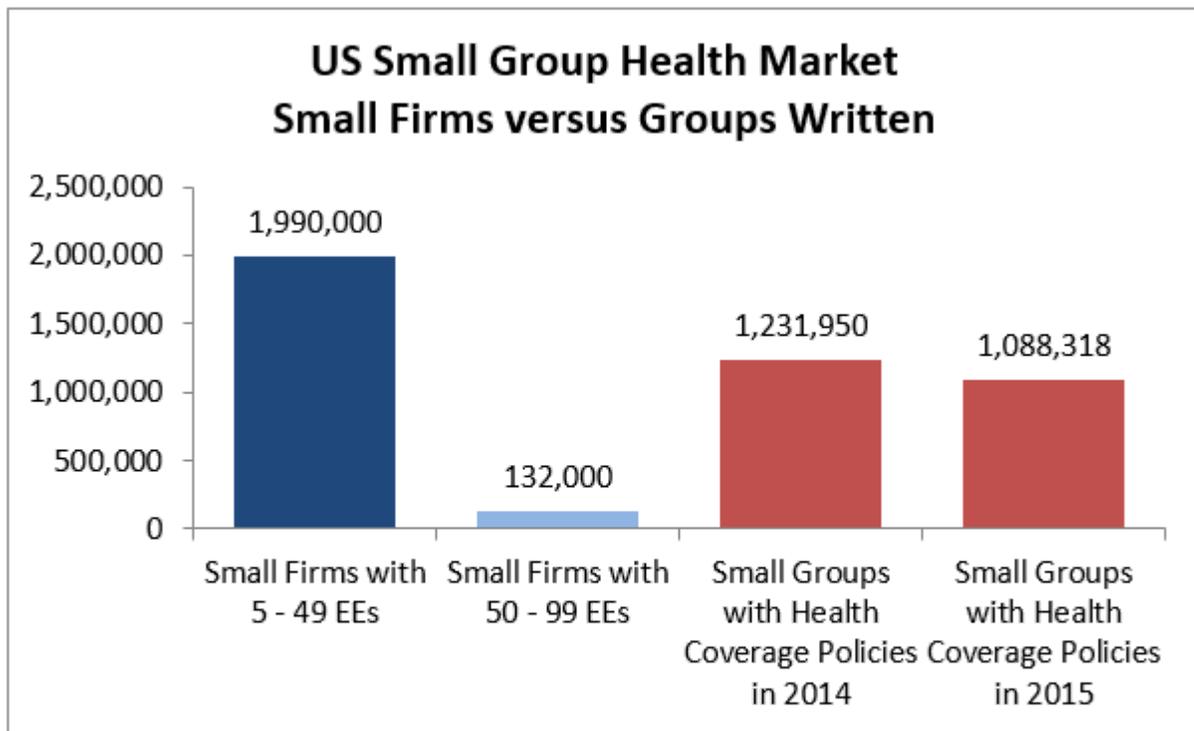
by Mark Farrah Associates

In 2015, small group health insurers provided coverage for 13.537 million people through policies written within 1.088 million small employer groups. The year-over-year trend continues to show a decline in the number of covered lives and groups with the market experiencing an 11.7% decrease in the number of covered groups and a 6.9% decline in covered lives since 2014. Even with this decline, the size of the market keeps it an attractive business target for commercial health insurers. Achieving profitability in the segment has become increasingly challenging for many firms, even the segment leaders. While UnitedHealth, Health Care Service Corporation (HCSC) & Aetna lead the segment in policies written and covered lives, only UnitedHealth reported an underwriting gain for 2015.

Mark Farrah Associates (MFA) analyzed information from the Supplemental Health Care Exhibit (SHCE) in conjunction with 2015 statistics from the Bureau of Labor Statistics to assess trends in the small group health insurance market. The detailed financials presented in the SHCE that insurance carriers file annually with the National Association of Insurance Commissioners (NAIC) are highly useful for tracking and comparing enrollment and financial results by payer. This assessment focuses on small group market penetration and profitability.

The Small Group Market

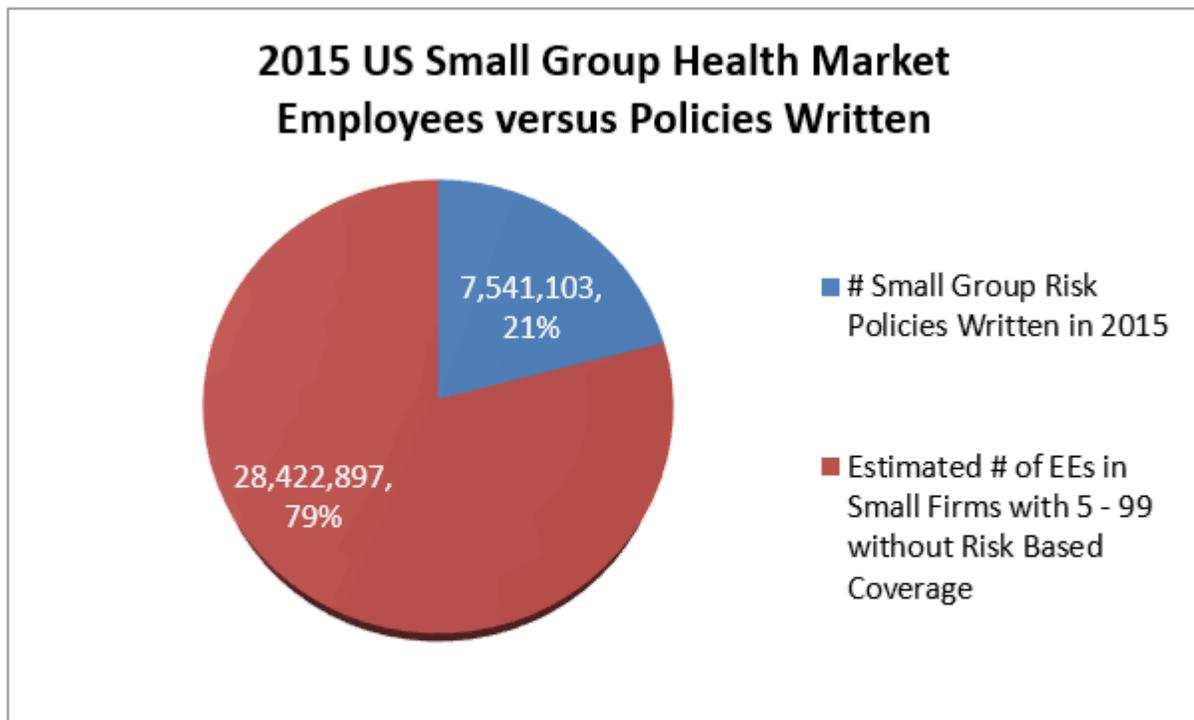
Approximately 2 million small businesses, with 5 to 49 employees, comprise the largest market for small group health insurance. Including larger small businesses with 50 to 99 employees, the total market increases to 2.1 million firms. According to the latest SHCE data, insurance companies provided risk-based health insurance coverage for 1.088 million small employers in 2015 which implies roughly a 55% market penetration. Approximately 144K fewer small groups were reported by carriers in 2015 when compared with 2014 figures.



Sources: Data from the NAIC Supplemental Health Care Exhibit as available in Mark Farrah Associates' Health Coverage Portal™; 2015 Business Employment Dynamics Data by Firm Size Class, Bureau of Labor Statistics

2015 statistics from the Bureau of Labor Statistics suggest that approximately 36 million people work for small employers (5 to 99 EEs). The majority (26.9 million) work for firms that employ 5 to 49 workers. Referring to 2015 data from the SHCE, about 7.5 million small group policies were underwritten last year. Factors related to this assessment that have not been included in this discussion would be average size of insured firms, health insurance take-up rates and the number of self-insured among small employers.

By virtue of size, the small group health insurance segment continues to represent a substantial market opportunity, but health plans have struggled to maintain penetration in the segment. Since the onset of the ACA regulations and exchanges, the number of small group employers offering comprehensive, risk-based medical insurance has declined from approximately 26% to 21%.

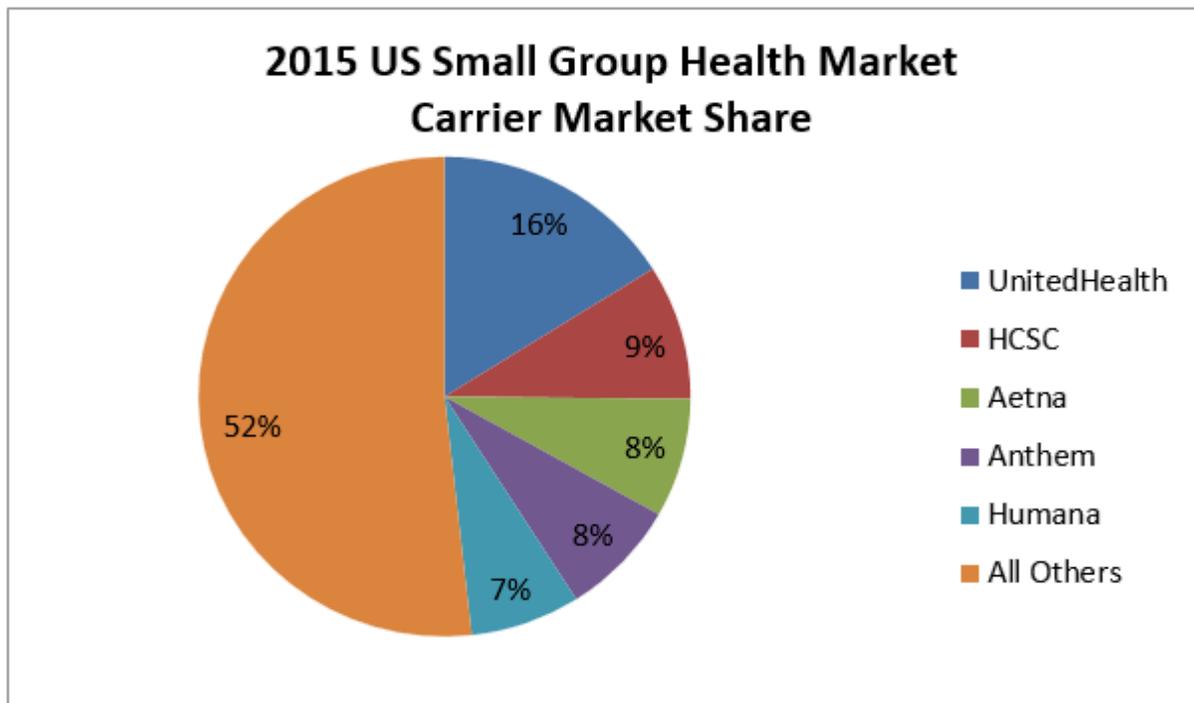


Sources: Data from the NAIC Supplemental Health Care Exhibit as available in Mark Farrah Associates' Health Coverage Portal™, 2015 Business Employment Dynamics Data by Firm Size Class, Bureau of Labor Statistics

Small Group Health Insurers

Approximately 277 health plans compete in the small group market, based on an assessment of plans that covered at least 1,000 lives in 2015. These plans are owned and operated by some 137 insurance companies spanning national, publicly-traded companies, private and/or mutual insurance companies, Blue Cross Blue Shield plans and other regional not-for-profit plans.

Based on total covered lives, the top 5 small group carriers industrywide are UnitedHealth, HCSC (Health Care Service Corporation), Aetna, Anthem and Humana. Collectively, they provide coverage for more than 6.5 million people, owning 48% of the fully insured small group market. While the combined market share for these top 5 carriers remained unchanged compared to 2014, covered lives decreased by 508K, or 6.7%.



Sources: Data from the NAIC Supplemental Health Care Exhibit as available in Mark Farrah Associates' Health Coverage Portal™.

With respect to underwriting performance, UnitedHealth and Anthem lead the small group market with respect to underwriting profits and overall financial performance. Both Companies earned healthy returns on their aggregate small group book of business and the majority of their health plans met required MLR thresholds for 2015. The ACA (Affordable Care Act) requires that health insurance carriers submit Medical Loss Ratios (MLR) to Health and Human Services (HHS) for review on an annual basis. Carriers must issue rebates to policyholders if MLR minimum standards are not met. In the small group market, carriers must spend at least 80% of all premium dollars collected on medical care.

UnitedHealth plans collectively reported an underwriting gain of \$547 million resulting in a 5.5% profit margin. Anthem plans combined underwriting gain was \$283 million, also with a 5.5% profit margin.

These top 2 companies combined for \$830 million in underwriting profit. The remaining 135 companies combined for an \$86 million underwriting loss.

In Conclusion

While the number of small businesses has steadily increased since the onset of the ACA, health insurers continue to experience declines in the number of risk-based policies written which results in fewer small group covered lives. Since 2013, covered lives decreased by 19%, while the number of policies written dropped by approximately 25%. With the enforcement of ACA mandates beginning in 2016 for firms with 50 or more employees, health insurers may have an opportunity to increase small group business as employers balance the impact of mandate related fines with the cost of offering health insurance. Some small firms have opted to self-fund their medical insurance benefits and industry reports suggest this may be a growing trend.

Small employers currently have several options for assisting with health insurance benefits including making defined contributions towards individual health coverage, using the SHOP marketplace or joining a health insurance Co-Op. Yet, many smaller firms opt to not offer group insurance or subsidize health benefits due to increasing costs.

As industry transformation continues, Mark Farrah Associates will continue to monitor enrollment and segment changes to identify market shifts and evaluate competitive positioning.

About Mark Farrah Associates (MFA)

The data used in this analysis brief was obtained from Mark Farrah Associates' Health Coverage Portal™ using Supplemental Health Care Exhibit (SHCE) data as reported in the NAIC Annual Financial Statement. Each year, MFA updates its products with the latest SHCE data. Additionally, MFA maintains financial data as well as enrollment and market share for the health insurance industry in the subscription-based Health Coverage Portal™.

For more information about our products, refer to the product videos and brochures available on Mark Farrah Associate's [website \(/Default.aspx\)](#) or call 724-338-4100.

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Mark Farrah Associates
Phone: 724.338.4100
Web: www.markfarrah.com

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