Fourth Quarter 2016 Health Insurance Enrollment Trends and Segment Performance

April 21, 2017

Based on membership data filed in statutory financial reports from the NAIC (National Association of Insurance Commissioners) and the CA DMHC (California Department of Managed Health Care), Mark Farrah Associates (MFA) assessed the latest year-over-year enrollment trends, comparing 4th quarter 2015 with 4th quarter 2016 segment membership. As of December 31, 2016, nearly 264 million people received medical coverage from U.S. health insurers. This number is up from 260 million, a 1% increase, from a year ago as the industry continues to manage the uncertainty of market changes related to future federal actions.

The latest trends indicate *membership gains* for Medicare Advantage, Managed Medicaid and Employer Group ASO (administrative services only) business segments while the

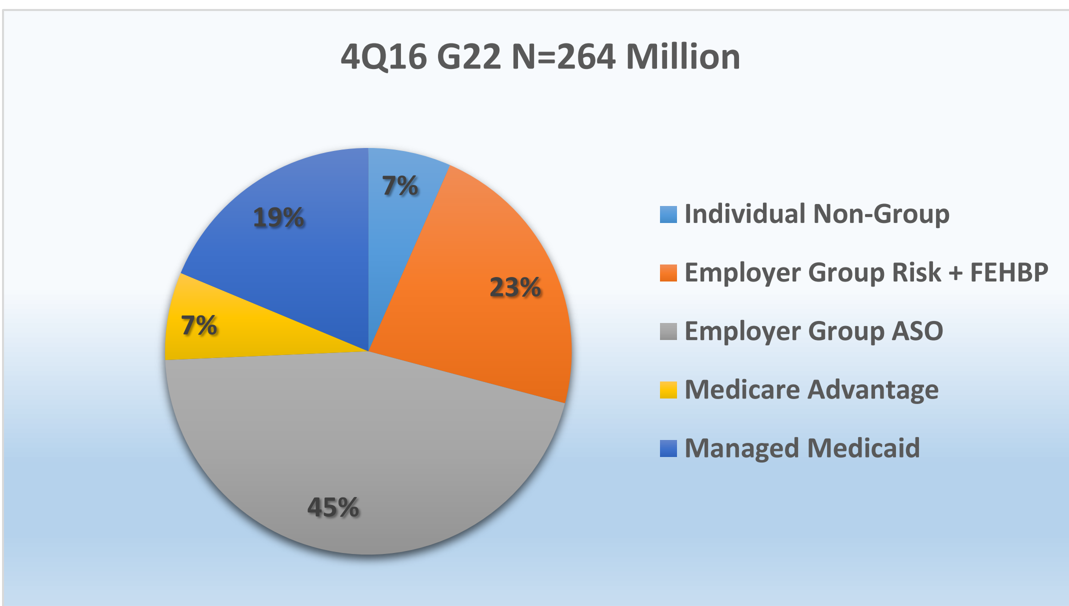
Individual, Non-Group segment and the Employer Group Risk segments continued to experience declines year-over-year.

Annual Segment Performance

As of December 31, 2016, the Employer Group ASO (administrative services only for self-funded plans) business remained the largest source of coverage in the industry with over 119 million people enrolled, collectively. From 4Q15 to 4Q16, membership growth was most significant in the Managed Medicaid segment as 3.3

million more members joined state-subsidized plans, year-over-year. In contrast, the Individual Non-Group segment lost approximately 535,000 members and the Employer Group Risk segment, including the Federal Employees Health Benefit Plans (FEHBP) business, experienced a significant decline of 1.1 million members.

MFA's assessment of Individual, Non-Group medical plans, both "on" and "off" the exchange, found aggregate year-over-year enrollment saw a 3% decline from 17.9 million in December of 2015 to 17.3 million in December of 2016. This is a notable difference from the 5.8% increase in Individual membership between 2014 and 2015, adding approximately 990,000 more members year-over-year due to growth from the exchanges. However, the volatility of the Affordable Care Act's (ACAs) exchange program forced many insurers to dramatically raise premiums in order to make up for financial losses or withdraw from the exchanges altogether, negatively impacting membership in 2016.



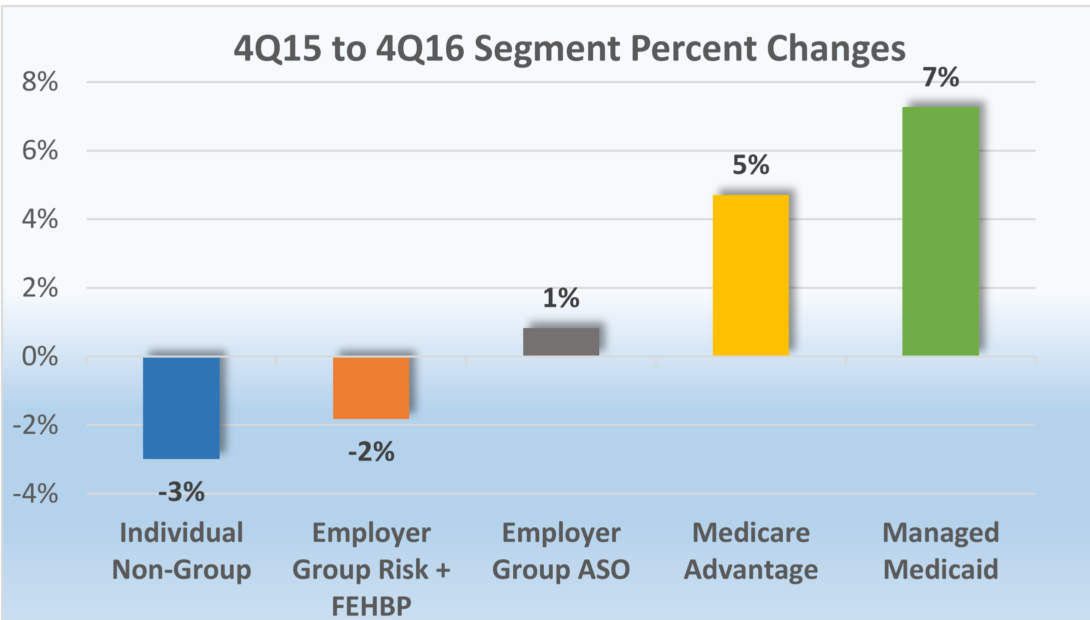
Source: Health Coverage Portal ™, Mark Farrah Associates

Year over year, Managed Medicaid membership increased by over 3.3 million, representing 7% growth, down from 14% growth in the prior year's fourth quarter comparisons. Approximately 50 million Medicaid beneficiaries receive healthcare through Managed Care Organizations (MCOs), but it's important to note that some plans submit special performance reports to the state and are not required to file NAIC statutory financial statements or the CA DMHC. According to the Centers for Medicare & Medicaid Services (CMS), nearly 74.5 individuals were enrolled in Medicaid and the Children's Health Insurance Program (CHIP) as of January 2017.

On March 24th, 2017, the withdrawal of the American Health Care Act (AHCA) lead to many unanswered questions regarding the future of Medicaid which has become a central issue amidst the healthcare debate. While there is currently no apparent Plan B by the Trump administration to overhaul Medicaid, changes to the system are inevitable as states continue to grapple with budget constraints and rising medical costs. In the wake of the AHCA's demise, state officials have begun to reevaluate their Medicaid programs. Proposed state policy changes include renewed expansion efforts, state Medicaid waiver programs, and more states transitioning away from a fee-for-service model to Medicaid managed care programs.

Medicare Advantage (MA) enrollment continued to demonstrate steady growth year-over-year. Approximately 34% of the 58 million people eligible for Medicare are enrolled in MA plans across the United States and U.S. territories. Membership in Medicare Advantage (MA) plans increased from 17.6 million as of December 31, 2015 to 18.4 million at year-end 2016, according to plan-reported statutory reports.

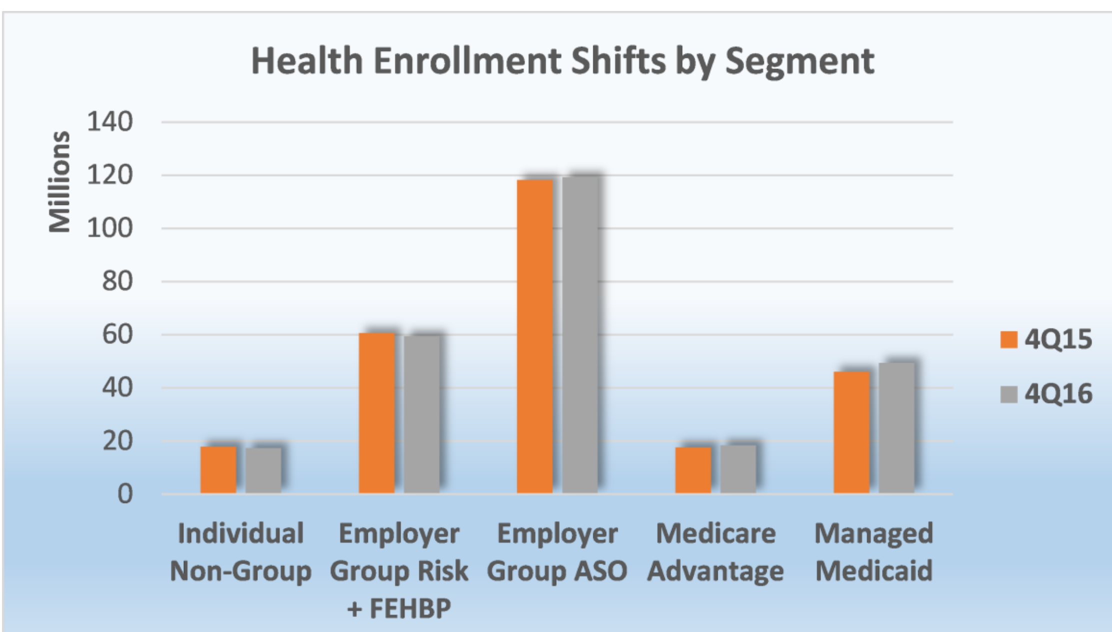
On April 3, 2017, CMS issued final updates to the Medicare Advantage and Part D Prescription Drug programs for 2018 in its Rate Announcement and Call Letter. On average, a 0.45 percent rate increase is expected for Medicare Advantage and Part D plans in 2018 which was a marginal increase from the .25 percent rate increase that was proposed in the February Advanced Notice and Draft Call Letter.   Plans can expect a total estimated change of 2.95% in revenue when accounting for the expected growth in coding trend. Also, CMS said it will continue to use the bid-to-benchmark ratios used for 2017 payment to calculate MA Employer Group Waiver Plans (EGWPs) payments for 2018. Policies are still subject to change as CMS is releasing a Request for Information to solicit feedback through April 24, 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, experienced a 2% decline between 4Q15 and 4Q16. Year-over-year membership for this segment decreased by over 1.1 million, from nearly 60.6 million to approximately 59.5 million members. The percentage of large group employers offering health insurance benefits to their employees has remained relatively stable, but in the wake of the ACA, the group risk segment has suffered declines in recent years, especially in the small group market. One reason for this is that more employers have made the decision to switch to self-insured plans. Nevertheless, employers continue to be a dominant source of health coverage in the U.S. As more and more insurance giants threaten to pull out of the exchanges, employees purchasing individual exchange policies may find that there are fewer choices and higher costs of healthcare. If this trend continues, it could mean an increase of Group risked-based plan offerings and membership growth for this segment in the future.

According to MFA's recent estimates, employer group ASO (administrative services only for self-funded business) membership grew by approximately 980,000 members from December of 2015 to December of 2016. MFA identified approximately 119 million ASO covered lives, which encompassed 45% of total health enrollment by segment for 4Q16. Over the past few years, employer group self-funded contracts have been a large part of health insurers' business due in part to the ACA. Therefore, any policy changes to the law under the Trump administration will continue to be of key interest to employers and health plans.



Source: Health Coverage Portal ™, Mark Farrah Associates

It is important to note that MFA estimated fourth 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).

Looking Ahead

As changes in the U.S. health insurance industry continue to evolve under President Trump, health companies remain focused on improving healthcare with the goal of providing high-quality care that is coordinated, cost-effective, and affordable. However, the Republican healthcare agenda continues to be uncertain and the future of the Affordable Care Act (ACA) is unclear. Several major insurers including UnitedHealthcare, Cigna, Aetna and Humana have reduced their marketplace footprint and some have completely withdrawn from the exchanges altogether. These exits could potentially mean even higher premiums and less competition for insurers.

Health plans have stressed a justifiable need for stability in the federal and state exchange insurance markets. On April 13, 2017, in an effort to increase choices for consumers and encourage health insurance market stability, the Centers for Medicare & Medicaid Services (CMS) issued the Final Market Stabilization Rule for the 2018 plan year. According to CMS, the rule finalizes changes to improve the risk pool, lower premiums and promote stability within the individual and small group markets.

Under the final rule: the 2018 annual open enrollment period will be shortened to better align with Medicare and the private market, encouraging consumers to enroll in coverage before the beginning of the year; there will be stricter requirements for individuals to provide supporting documentation for special enrollment periods; individuals will be required to pay back overdue premiums before enrolling into a new plan with the same issuer; insurers will be given flexibility to design more choices with lower premium options for consumers; and finally, the rule will return oversight of network adequacy to states as they are best positioned to review network adequacy. While the proposed changes may help to stabilize the individual and small group market, long-term solutions to the remaining issues surrounding the ACA and the U.S. healthcare system have yet to be addressed.

Needless to say, the market outlook is uncertain. The Trump administration claims to have viable ideas to help bolster competition in order to broaden choices for consumers and lower costs, however, a clear plan to restore the market remains undetermined. As the healthcare landscape continues to experience a period of transformation, the need for health insurer market share and financial performance data is in high demand. Mark Farrah Associates continues to monitor enrollment changes and competitive shifts across all healthcare segments.

Health Coverage Portal™

The data used in this analysis brief was obtained from Mark Farrah Associates' Health Coverage Portal™ database. 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 these products, refer to the product videos and brochures available in the products section of our website or call 724-338-4100.

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.

Healthcare Business Strategy is a free monthly brief that presents analysis of important issues and developments affecting healthcare business today. If you would like to be added to our email distribution list, please submit your email to the "*Subscribe to MFA Briefs*" section in the grey area at the bottom of the page.