Healthcare BUSINESS STRATEGY™

Individual Health Insurance Benchmark

9/20/2013
by Debra A. Donahue

In less than two weeks, the first nationwide open enrollment period for individuals purchasing health insurance coverage gets underway through federal and state-based Marketplaces (also referred to as Exchanges). Mark Farrah Associates (MFA) analyzed data reported by health insurers, to the National Association of Insurance Commissioners (NAIC) and the California Department of Managed Health Care (CA DMHC), and found 11.3 million people directly purchased individual major medical health insurance coverage in 2012, roughly the same as the previous year. Now that health insurance coverage is mandated by The Patient Protection and Affordable Care Act (ACA), millions of additional people are expected to enroll in non-group health insurance products between October 1, 2013 and March 31, 2014, the end of the open enrollment period.

The Congressional Budget Office estimated that by 2019, approximately 24 million people will purchase their own coverage through the Exchanges. Much of the increase is expected to come from the uninsured. The U.S. Census Bureau estimates that 47.9 million persons of all ages were uninsured in 2012. Many people already on non-group, small group and Medicaid plans will be renewing coverage on the Exchanges. Congressional workers, currently in the Federal Employee Health Benefit Program, will also be shopping for coverage in the new marketplaces. This brief presents an analysis of the current individual market with insights about major players and product options, which will serve as a benchmark for comparing results of the open enrollment period, which should be available with the 2014 first and second quarter NAIC/CA DMHC results next year.

Non-employment, Non-public Health Insurance

According to the most recent U.S. Census Bureau data[1], for persons under age 65, 7.3% or 19.4 million people purchase health insurance directly. The Census data is based on surveys of consumers and may include products such as Short Term, Student or Limited Benefit (also known as Mini-Med) products.

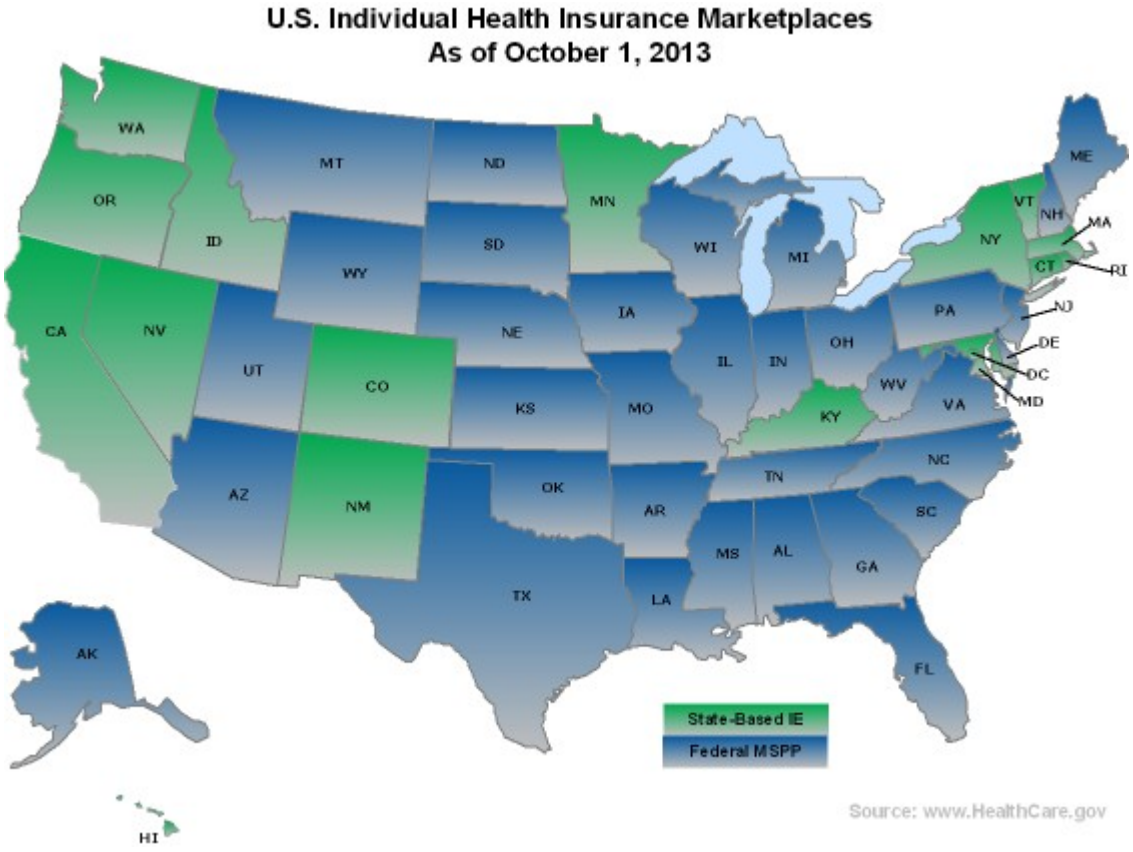
Traditionally, individual health insurance plans are plans marketed and sold directly to individuals. Unlike group coverage, with an individual policy the consumer pays the full premium for themselves and any family members covered under the policy. ACA changed this definition and now many individuals who seek coverage will be subsidized by state and federal government programs. The previous sharp delineation between Public and Individual products will soon be blurred.

Members of Congress and their congressional staff will also be purchasing health insurance through the new marketplaces due to provisions in the ACA. However, they will still receive the standard employer contribution according to the Office of Personal Management (OPM). Historically the 541 members of Congress, their families and staff, roughly 27,000 people, would have been counted under the Federal Employee Health Benefit Program (FEHBP), a sub-segment under the traditional Group sector. They will most likely be reported as individual covered lives as of January 1, 2014.

Individual Marketplaces

The Patient Protection and Affordable Care Act (ACA) signed into law in March 2010 had insurers scrambling to create products and enhance business processes to cover a large influx of new customers. It also had state governments across the country debating whether or not to create their own State-based Individual Exchanges

(IE) and then implement them before the October 1, 2013 open enroll period begins. Seventeen states have established state-based exchanges.



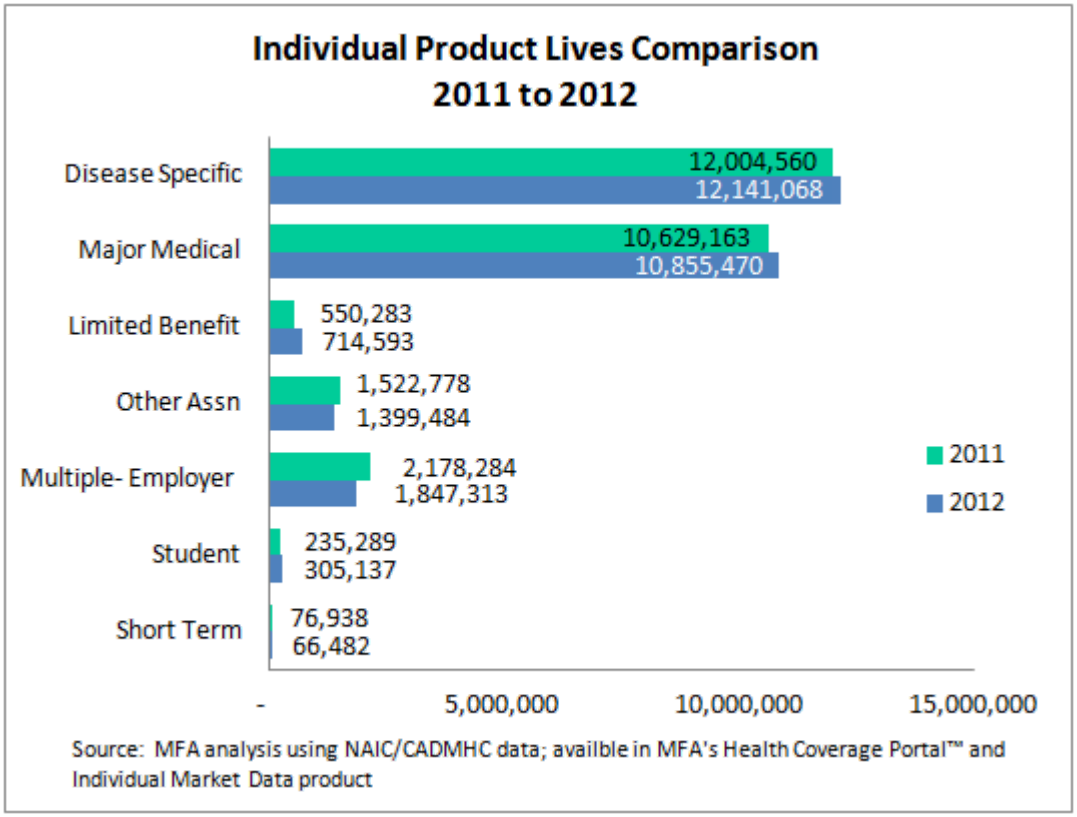
States that did not establish health insurance marketplaces or exchanges will be covered by the Multi-State Plan Program (MSPP). MSPP is a program established under §1334 of the Affordable Care Act. ACA directed OPM to contract with private health insurance carriers to offer at least two Multi-State Plans (MSPs) in each state which are available to eligible individuals and small businesses and offered through a Health Insurance Marketplace (Marketplace). Under the law, an MSPP carrier may phase in the States in which it offers coverage over four years, but it must offer MSPs on Exchanges in all States and the District of Columbia by the fourth year in which the MSPP carrier participates in the MSPP. OPM, which has administered the largest multi-state health insurance program in the nation for decades, aims to administer the MSPP in a manner that is consistent with State insurance laws. The U.S. Department of Health and Human Services (HHS) manages the Health Insurance Marketplace (Healthplan.gov) where consumers will go to shop and apply for coverage. People who live in U.S. territories including: American Samoa, Guam, Northern Mariana Islands, Puerto Rico, and the Virgin Islands, are not eligible for the exchanges.

Health Insurance Coverage Today

Currently, individuals directly purchase a diverse array of health insurance products from major medical to specific disease coverage. Many of the non-group health insurance products are supplemental in nature and there are multiple distribution channels such as multiple employer associations and trusts and other associations where the self-employed can acquire group rates for insurance that can be categorized under the individual market.

Health plans historically reported enrollment under multiple segments through the Accident and Health Policy Exhibit and Exhibit of Premiums, Enrollment and Utilization in the Annual Statutory filings with the NAIC. Using data filed by insurance carriers with the applicable state's insurance commissioners nearly 14.1 million people purchased major medical insurance either by directly purchasing coverage (classified as individual in this report); or through a multiple-employer association, such as a chamber of commerce policy for the self-employed or businesses with one employee; or through an association, such as an artist guild. This excludes Medicare recipients and people enrolled in other government sponsored programs such as Medicaid and SCHIP.

Direct purchase plans have historically been medically underwritten and formerly could exclude people with pre-existing coverage; so many self-employed individuals sought multiple-employer or association policies that cover all individuals that met the criteria of the sponsor. Most carriers have already removed underwriting practices that were banned under the Patient Protection and Affordable Care Act such as medically underwriting individual policies, excluding people with preexisting conditions and/or capping benefit limits, which may make the need for association sponsors that offer health coverage obsolete.



Major Medical Coverage

Major medical insurance is a form of health care coverage that provides benefits for most types of medical expenses that may be incurred. When most people use the term "Major Medical" in connection with health insurance, they mean health insurance that provides some level of comprehensive coverage for doctors, hospitals and prescription drug expenses. Individual major medical plans can be provided by many types of organizations including health maintenance organizations (HMO), preferred provider organizations (PPO) and traditional indemnity plans. Benefit packages may include first dollar coverage with minimal copayments and no deductibles to what is commonly referred to as consumer-directed health plans, products with coinsurances and/or high deductible options. This range of options is expected to continue in the Health Insurance Marketplaces.

Identifying the number of individuals who purchased major medical insurance is challenging. The numbers differ depending on the source used and the types of policies purchased. The U.S. Census Bureau reported 19.4 million people purchased health insurance directly in 2012. Health plans reported 10.8 million purchased Individual Major Medical coverage in 2012 through the Accident and Health Policy Exhibit and Exhibit of Premiums, Enrollment and Utilization in the Annual Statutory filings. If Limited Benefit, Student, Short-Term, Multiple Employer and Other Associations, are added to Individual Major Medical Coverage then 15.2 million people could be considered to have Individual coverage as reported by health plans. In 2010, following passage of the ACA, the NAIC required health plans to report enrollment and financial data in clearly defined individual, small group and large group categories through the Supplemental Health Care Exhibit (SHCE). California managed care plans that file statutory financial and enrollment reports through the Department of Managed Health Care, but not the NAIC, also began reporting enrollment in the same categories as the SHCE in 2012.

Together these sources provide the best benchmark for Individual Major Medical insurance enrollment. Using the combined NAIC/CA DMHC data, more than 11.3 million people directly purchased Individual Major Medical coverage in 2012.

Local Blue Cross Blue Shield (BCBS or Blue Cross and/or Blue Shield) plans typically dominate the individual major medical markets in most states, often enjoying a near monopoly in this segment. Historically, many Blues plans were deemed "the insurer of last resort" in exchange for tax advantages. An insurer of last resort is a plan that accepts 'uninsurable' persons who have expensive and/or chronic diseases, and cannot obtain coverage at market rates. ACA "leveled the playing field" by requiring all health plans, that participate in the Individual market, to accept all eligible applicants. Prior to ACA, national non-Blues plans had already begun to gain ground. Aetna, Humana and UnitedHealth are often the second or third tier carrier of choice in many states. As of 2012, Blue Cross plans along with their non-Blues subsidiaries insured roughly 58% of all people with Individual Major Medical policies. Based on data reported in the SHCE and CA DMHC filings, WellPoint, with Blues plans in 14 states, is the leading provider of Individual Major Medical coverage in the U.S. WellPoint also offers non-group coverage through its UniCare subsidiary in most of the 50 states.

Individual Major Medical Parent	Market Share 2012	Covered Lives 2011	Covered Lives 2012	Percent Change
WellPoint	17%	1,883,061	1,881,867	0%
UnitedHealth	8%	919,937	954,720	4%
HCSC	8%	818,716	848,141	4%
Humana	4%	466,890	505,483	8%
Aetna	4%	441,501	422,458	-4%
Total Top Five Companies	41%	4,530,105	4,612,669	2%
Source: MFA's Health Coverage Portal™ and Individual Market Data				

Much of UnitedHealth Group's Individual business is through various types of associations. By using data from the SHCE and CA DMHC, UnitedHealth Group ranked second nationwide in the Individual segment. Health Care Service Corporation (HCSC) operates primarily through Blues plans in Illinois, New Mexico, Montana, Oklahoma and Texas. HCSC's Dearborn National subsidiary also offers individual solutions throughout the U.S. Humana stepped up marketing efforts on individual products and expanded the business line in multiple states during 2011 and saw a 23% increase in enrollment in 2011. Humana's data showed an 8% increase in 2012. Aetna Advantage Plans for individuals, families and the self-employed are offered and/or underwritten by Aetna Life Insurance Company (Aetna) directly and/or through an out-of-state blanket trust, and in Pennsylvania by Aetna Health Inc.

Premiums and Expenses

According to SHCE data, health plans received $27.8 billion in adjusted premiums earned from the individual segment in 2012, an increase of 4% from 2011. They paid out $23.6 billion in incurred claims during the same time frame, up 7% over total incurred claims in 2011. On a per member per month* basis health plans received $224 in adjusted premiums earned and paid out $190 in incurred claims during 2012. In aggregate, the 171 health insurance carriers that participated in the Individual segment in 2012 lost $594 million, or $4.79 PMPM for this line of business. It will be interesting to see what happens in 2014 as this segment expands.

Prior to employer groups and government entities sponsoring health coverage, individuals picked up the tab for their own insurance. With employer groups reducing benefits, continued instability in the jobs market, and the new exchanges in place, the individual market will grow. The question is at what cost.

[1]*U.S. Census Bureau, Health Insurance Coverage Status and Type by State and Age for All People: 2012 issued September 2013*

**PMPM is calculated as aggregate reported premiums earned or claims incurred for the year divided by total member months for the year. Member months are the sum of total number of lives insured at a pre-specified day of each month (usually the last day) of the reported year. One member that is insured for all 12 months would count as 12 member months.*

About this Report

This brief is based on an analysis of data filed by Health; Life, Accident and Health; Property and Casualty; and Fraternal companies with the National Association of Insurance Commissioners (NAIC) and the CA Department of Managed Care as of December 2012 through December 2013. When available, MFA primarily uses data from the Supplemental Health Care Exhibit and Accident and Health Policy Exhibit of the NAIC Annual Statements. Mark Farrah Associates applies research methodologies to present a better understanding of individual, non-group competition by carrier and state. The data used in this report has been captured and is available through Mark Farrah Associates' Health Coverage Portal™ database or can be purchased separately.

About Health Coverage Portal™

Market data for health insurance companies can be analyzed in many ways to provide strategic planning insights. The challenge is finding & aggregating the right data. The solution is the Health Coverage Portal™, a database that integrates market measures for all types of health coverage. 50-state Health Coverage Portal™ - and Selective-state Health Coverage Portal™ subscription rates are available. Custom portal designs can also be created upon request.

To learn more click on HEALTH COVERAGE PORTAL™ (/products/Health-Coverage-Portal.aspx).

About Mark Farrah Associates (MFA)

Mark Farrah Associates (MFA) is a leading data aggregator and publisher providing health plan market data and analysis tools for the healthcare industry. We are a licensed redistributor of NAIC data. MFA's Health Coverage Portal™ includes both risk-based and administrative services only membership and detailed financial data by plan, parent, state, region and nationally. Committed to simplifying analysis of health insurance business, our products include Health Coverage Portal™, County Health Coverage™, Health Insurer Insights™, Medicare Business Online™, Medicare Benefits Analyzer™, and Health Plans USA™.

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Debra A. Donahue is Vice President of Market Analytics & Online Products with MFA

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