

An Analysis of Individual and Small Group Health Insurance Trends

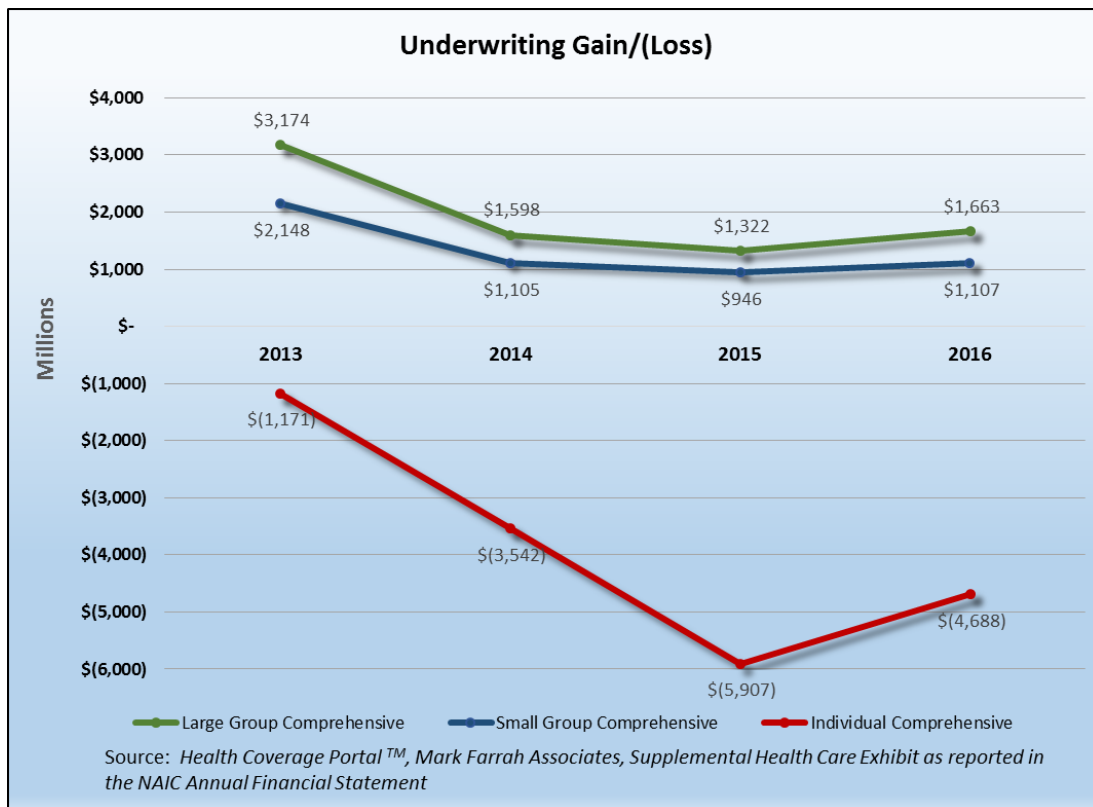
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On April 1, 2017, health plans across the country submitted their Supplemental Health Care Exhibits (SHCE) as part of the 2016 National Association of Insurance Commissioners' (NAIC) Annual Financial Statements. The SHCE contains financial performance metrics, membership, and Preliminary MLR at the state level. Subscribers to Mark Farrah Associates' (MFAs) Health Coverage Portal or the SHCE & MLR Data have access to this important information.

MFA examined some of the key findings from its latest analysis of the SHCE, including a focus on performance within Individual and Small Group comprehensive insurance segments. Plans in these two segments face the added constraint of a standard (minimum) MLR (Medical Loss Ratio), a key component of the Risk Corridor program, one of three premium stabilization programs instituted by the Affordable Care Act (ACA). With three full years of health insurance activity under the ACA, it is evident that the law has had significant impact on membership, premiums and medical costs.

Segment Overview

Segment membership shifts are perhaps the most obvious indication of the ACA's impact and direction since December 2013. Total enrollment in Individual plans increased 39% between 2013 and 2015 but fell 4.4% between 2015 and 2016. Membership in group plans has declined every year with the onset of ACA with Small Group dropping 24% and Large Group declining by 13%. Overall, commercial enrollment declined by 8.6% (5.75 million members) to approximately 61 million. Meanwhile, Medicaid enrollment has surged to approximately 75 million members, a 27.4% gain since before the onset of the ACA. In addition to shifts in membership, segment profitability has also been impacted with material declines across Individual, Small Group and Large Group comprehensive lines between 2013 and 2015. After multiple years of premium increases, 2016 saw some improvement.



While all three commercial segments experienced significant declines in profitability between 2013 and 2015, 2016 resulted in improved profitability. The Large Group segment underwriting gain grew from 1.3 billion to almost 1.66 billion, or 25.8% between 2015 and 2016. Concurrently, both the Small Group and Individual segments experienced improvement in underwriting gain/loss of 17% and 21%, respectively. Over the four year period, the underwriting gain/loss for the Large Group segment decreased by 47.6% and the Small Group segment dropped by 48.4%. While the Individual segment demonstrated a large improvement over 2015, segment profitability is still down 300% since 2013.

Premiums paid by consumers have continued to increase across all segments, and for the first time since the onset of the ACA, premium growth outpaced the growth in claims incurred for the Large Group and Individual segments. Large Group segment adjusted premiums PMPM (per member per month) increased over 15% since 2013 while claims incurred increased by nearly 17% during the same period. For 2016, Large Group premiums PMPM grew by 4.9%, outpacing the 4.7% growth in medical claims. Similarly, the Small Group segment saw increases in adjusted premiums PMPM of 13.2%, offset by a 15.7% increase in claims incurred since 2013. However, growth in claims incurred PMPM still outpaced the growth in

premiums PMPM for 2016. The Individual segment experienced the most volatility with premiums since 2013 increasing 52% on a PMPM basis. Individual claims incurred rose by over 77% on a PMPM basis over the same period. For 2016, premiums PMPM grew an additional 12.2% over 2015, outpacing the 4.8% growth in claims incurred.

Individual Comprehensive Segment

Many plans in the Individual segment continue to struggle with rising medical costs which have frequently outpaced premium rate increases. Focusing on the segment leaders for this analysis, we will look at the four year trend in membership, claims incurred PMPM, adjusted premium PMPM and their SHCE-reported MLR.

Individual Segment - Members				
Company	2013	2014	2015	2016
UnitedHealth	996,544	732,020	1,135,222	1,293,323
Anthem	1,693,778	1,231,263	1,121,322	1,092,008
HCSC	868,863	1,566,609	1,625,406	1,162,797
Guidewell	379,415	595,684	574,848	749,036
Aetna	708,135	1,007,799	1,063,695	952,774

Source: Health Coverage Portal™, Mark Farrah Associates, Supplemental Health Care Exhibit as reported in the NAIC Annual Financial Statement

Segment leadership is based upon 2016 SHCE-reported adjusted premiums by company. UnitedHealth, Anthem, Health Care Service Corporation (HCSC), Guidewell Mutual Holding Group and Aetna collectively gained over .6 million of the 3.5 million members added to the total individual segment between 2013 and 2016. UnitedHealth and Guidewell experienced the largest growth in membership, while Anthem contracted during the period.

Individual Segment - Incurred Claims PMPM				
Company	2013	2014	2015	2016
UnitedHealth	\$197	\$222	\$319	\$377
Anthem	\$196	\$251	\$280	\$345
HCSC	\$184	\$314	\$381	\$341
Guidewell	\$198	\$334	\$379	\$343
Aetna	\$181	\$243	\$253	\$293

Source: Health Coverage Portal™, Mark Farrah Associates, Supplemental Health Care Exhibit as reported in the NAIC Annual Financial Statement

Dramatic increases in medical costs have occurred within the Individual segment. In fact, this was conducive to leading companies leaving Marketplaces in several states and many other plans are following suit. Average incurred claims PMPM increased from \$197 in 2013 to \$350 in 2016, a 77% increase. Not surprisingly, this trend is evident in varying extents among segment leaders. HCSC saw an 85% jump and UnitedHealth experienced a 92% increase in its incurred claims PMPM. Anthem, Guidewell, and Aetna also realized increases in incurred claims PMPM over the four year period although below that of the average for the industry.

Individual Segment - Adjusted Earned Premium PMPM				
Company	2013	2014	2015	2016
UnitedHealth	\$226	\$240	\$321	\$385
Anthem	\$242	\$283	\$304	\$374
HCSC	\$226	\$271	\$327	\$336
Guidewell	\$240	\$341	\$420	\$412
Aetna	\$209	\$243	\$244	\$302

Source: Health Coverage Portal™, Mark Farrah Associates, Supplemental Health Care Exhibit as reported in the NAIC Annual Financial Statement

Increasing medical costs have led to premium increases within the segment. Since 2013, adjusted premiums PMPM have increased approximately 52%. Guidewell's 71% increase is the largest among the leaders followed by UnitedHealth's increase of 70%. In 2013, premium revenue PMPM for all 5 leaders was larger than claims incurred. In 2016, after multiple years of large premium hikes, incurred claims for only one of the five leading companies, HCSC, were larger than adjusted earned premiums.

Individual Segment Weighted Average MLR				
Company	2013	2014	2015	2016
UnitedHealth	87.2%	92.9%	92.1%	94.9%
Anthem	81.9%	89.9%	86.3%	88.3%
HCSC	83.2%	117.9%	103.7%	95.2%

Guidewell	83.3%	98.6%	82.6%	80.1%
Aetna	87.7%	100.9%	96.4%	94.0%
<i>Source: Health Coverage Portal™, Mark Farrah Associates, Supplemental Health Care Exhibit as reported in the NAIC Annual Financial Statement</i>				

The Medical Loss Ratio (MLR) illustrates the relationship between premiums and medical costs. While it is clear that there has been improvement since 2014, most of the industry leaders are still working to get back to pre-ACA ratios. Guidewell and Anthem have done the best job among segment leaders in balancing premium increases along with increased claims.

It is important to note that Mark Farrah Associates is reporting all data as filed with the NAIC (National Association of Insurance Commissioners) in the annual SHCE. We are not adjusting the data to account for differences in the number of reporting plans between 2013 and 2016 nor have we adjusted for missing plans year over year. For purposes of this analysis, MFA has calculated a weighted average MLR based upon adjusted premiums.

Small Group Comprehensive Segment

Overall this segment has been more stable than the Individual segment but has experienced losses in membership. Furthermore, growth in medical costs for the Small Group segment has outpaced growth in premiums. Focusing on the segment leaders for this analysis, we will look at the four year trend in membership, claims incurred PMPM, adjusted premium PMPM and their SHCE-reported MLR.

Small Group Segment - Members				
Company	2013	2014	2015	2016
UnitedHealth	2,631,898	2,211,481	2,175,155	2,454,888
HCSC	1,265,992	1,270,155	1,230,085	1,122,545
Anthem	1,656,267	1,277,821	1,060,130	916,943
Aetna	1,564,737	1,333,474	1,084,762	788,611
Humana	958,917	930,414	979,171	802,477
<i>Source: Health Coverage Portal™, Mark Farrah Associates, Supplemental Health Care Exhibit as reported in the NAIC Annual Financial Statement</i>				

Segment leadership is based upon 2016 SHCE reported adjusted premiums by company. As stated previously, Small Group segment membership decreased

approximately 24% since 2013. The five leaders in this segment, UnitedHealth, HCSC, Anthem, Aetna and Humana experienced 50% of the loss, losing 2 million of the 4 million members leaving the segment. Anthem and Aetna experienced the greatest loss of members. United was the only top plan to see membership growth in 2016 for this segment.

Small Group Segment - Incurred Claims PMPM				
Company	2013	2014	2015	2016
UnitedHealth	\$315	\$329	\$339	\$356
HCSC	\$309	\$323	\$351	\$372
Anthem	\$289	\$295	\$299	\$337
Aetna	\$239	\$257	\$287	\$332
Humana	\$181	\$202	\$207	\$197

Source: Health Coverage Portal™, Mark Farrah Associates, Supplemental Health Care Exhibit as reported in the NAIC Annual Financial Statement

While costs have risen within the segment, growth in claims incurred has been more manageable as compared with the Individual segment. Average incurred claims PMPM have increased from \$292 in 2013 to \$337 in 2016, a 15.7% increase. The segment leaders have also experienced varying increases. Aetna's incurred claims PMPM increased 39% over the four year period. HCSC saw a 20% increase in incurred claims PMPM costs while Humana's claims grew by 9%.

Small Group Segment - Adjusted Earned Premium PMPM				
Company	2013	2014	2015	2016
UnitedHealth	\$387	\$394	\$414	\$431
HCSC	\$371	\$376	\$396	\$425
Anthem	\$351	\$355	\$363	\$407
Aetna	\$289	\$298	\$326	\$375
Humana	\$226	\$249	\$247	\$239

Source: Health Coverage Portal™, Mark Farrah Associates, Supplemental Health Care Exhibit as reported in the NAIC Annual Financial Statement

Average adjusted premium PMPM for the segment rose from \$349 in 2013 to \$395 in 2016, a 13.2% increase. All segment leaders have raised their premiums to offset medical cost increases. Aetna's adjusted premium PMPM increased 29.6% over the

four year period. Anthem saw a 16.2% increase in its adjusted premium PMPM, and UnitedHealth and HCSC also increased premiums. Humana, facing less claims cost pressure in this segment, only increased premium PMPM by 5.5% between 2013 and 2016.

Small Group Segment Weighted Average MLR				
Company	2013	2014	2015	2016
UnitedHealth	82.5%	84.6%	82.7%	83.5%
HCSC	84.0%	86.3%	89.1%	87.8%
Anthem	83.3%	84.1%	83.4%	83.9%
Aetna	83.4%	87.2%	89.1%	89.1%
Humana	82.1%	83.5%	85.7%	84.6%

Source: Health Coverage Portal™, Mark Farrah Associates, Supplemental Health Care Exhibit as reported in the NAIC Annual Financial Statement

Overall, the leading plans have been able to better manage MLRs within the Small Group segment as compared to bigger challenges in the Individual Segment. Since 2013, Aetna's 29.6% increase in premium PMPM did not offset its 39% increase in incurred claims PMPM, resulting in a 6.8% increase in its weighted average MLR. Similarly, HCSC's incurred claims PMPM grew by 14.7%, while adjusted premium PMPM grew by 20.2% leading to a 4.6% growth in its weighted average MLR.

Conclusion

The industry has begun to stabilize after two financially challenging years in 2014 and 2015. Premiums have caught up with medical costs, but the Individual and Group segments still have a long way to go to return to pre-ACA profitability. The Individual segment has borne the brunt of medical cost increases relating to the ACA, and while 2016 was notably better than 2015, the segment is still suffering large underwriting losses leading to plans decreasing their footprint in the market and less consumer choice. While the Small Group and Large Group segments have fared better, their profitability only improved marginally in 2016. Proper balancing of premium increases and cost control will be needed to return to pre-ACA levels of underwriting profitability. As the industry continues to change, Mark Farrah Associates will continue to analyze and report on important ACA and plan performance related topics. Please stay tuned for future analysis briefs with valuable insights about the health care industry.

SCHE Data

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 or call 724-338-4100.

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Glossary

Weighted Average MLR – For analysis purposes, Mark Farrah Associates calculated average Preliminary MLR weighted on the adjusted premiums for each company by segment. The MLRs used in the calculation are average ratios based upon 2013 – 2016 as reported in the NAIC's Supplemental Health Care Exhibit.