



## Growing Individual Market Options

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by Debra A. Donahue

Individual (Non-group) health insurance is an important and growing market for health plans. It is emerging as a diversified product line for insurers targeting people without access to group-sponsored or government-sponsored coverage. According to recently released 2009 CDC data, "for persons under age 65, approximately 8% of private health plans are directly purchased<sup>1</sup>." The same report also estimates that 46.3 million persons of all ages were uninsured in 2009. The bad economy and unemployment continue to shift laid-off workers into individual plans. Insurers are also scrutinizing product portfolios to prepare for new business in response to the Patient Protection and Affordable Care Act (PPACA), signed into law in March 2010. This brief will present an analysis of the individual market with insights about major players and product options. It also includes data on supplemental individual product lines, such as critical illness, and alternative distribution channels, like multiple-employer trusts and other association business.

### Non-employment, Non-public Health Insurance

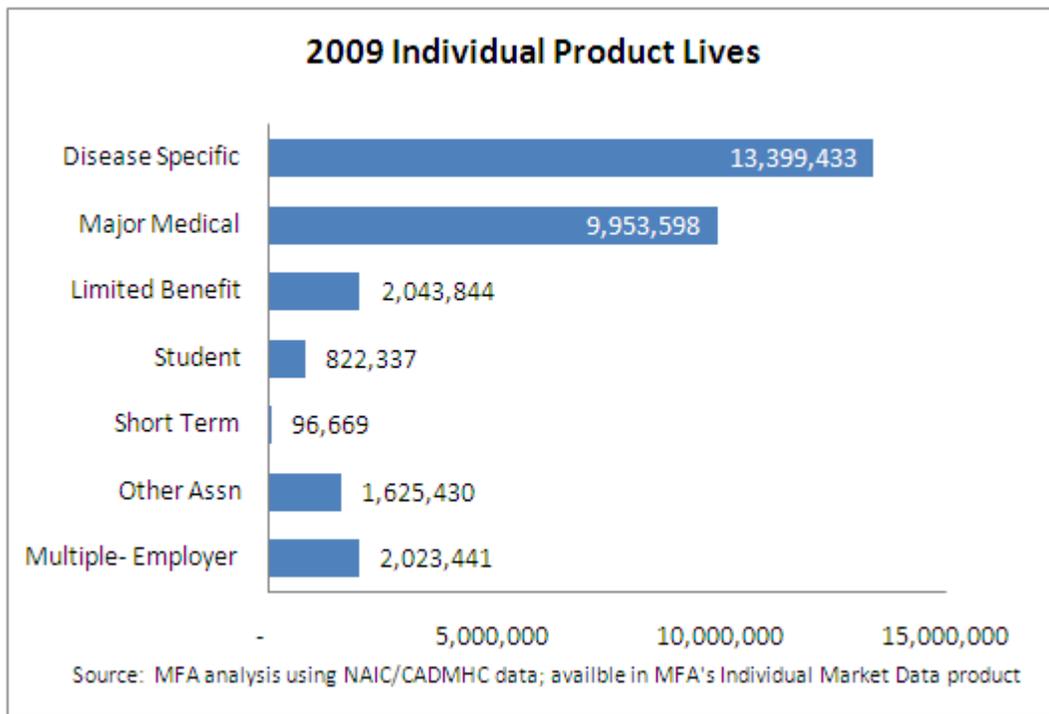
Individual health insurance plans are health insurance plans marketed and sold directly to individuals. Unlike group coverage, with an individual policy the consumer pays the full premium for themselves and any family members covered under the policy. Non-group or individual health insurance is emerging as a diversified product line for insurers targeting people without access to employer-sponsored or government-sponsored coverage. According to recently released 2009 CDC data, "for persons under age 65, approximately 8% of private health plans are directly purchased<sup>1</sup>." The same report also estimates that 46.3 million persons of all ages were uninsured in 2009.

The Patient Protection and Affordable Care Act (PPACA), signed into law in March 2010, has insurers scrutinizing product portfolios to prepare for new business opportunities and modifying business practices to cover additional consumers. PPACA requires among other provisions that states, that haven't already done so, establish Health Benefit Exchanges. The Congressional Budget Office estimates that in 2019, approximately 24 million people will purchase their own coverage through the Exchanges.

Other factors, beyond reform, are also driving the sale of individual health policies. The bad economy and unemployment continue to shift laid-off workers into individual plans. The elimination of government COBRA subsidies may also force some individuals to look for non-group options. Furthermore, some consumers desire greater portability with health coverage because changing jobs has become more common.

Individuals directly purchase a diverse array of health insurance products from major medical to specific disease coverage. Many of the non-group 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.

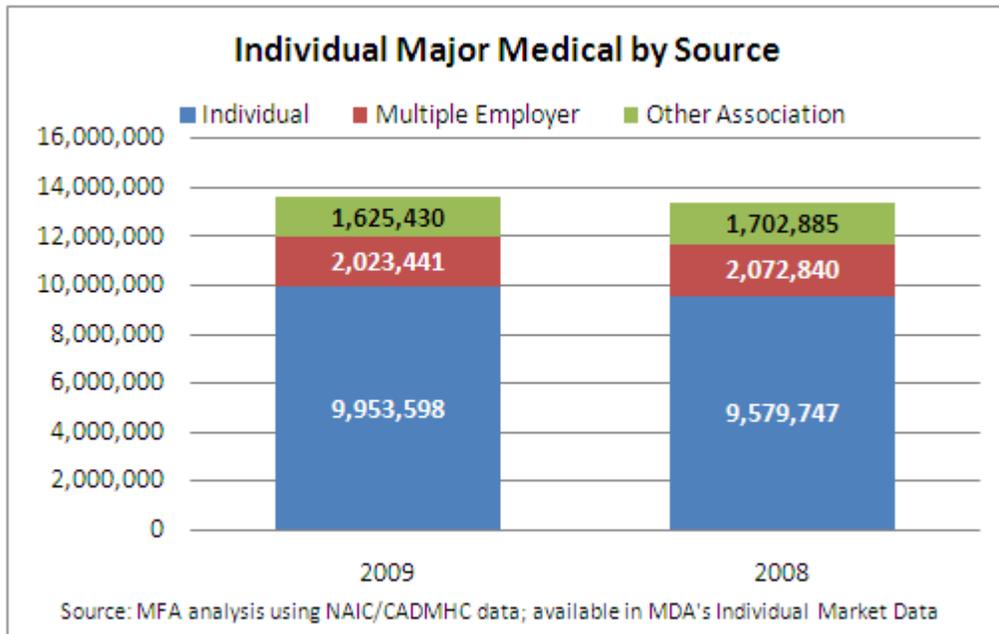
<sup>1</sup>U.S. Centers for Disease Control and Prevention, Health Insurance Coverage: Early Release of Estimates From the National Health Interview Survey, 2009 (Released 6/20/2010)



## 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.

Identifying the number of individuals who purchased major medical insurance is challenging. The numbers differs depending on the source used and the types of policies purchased. Using data filed by insurance carriers with the applicable state's insurance commissioners more than 13.6 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. This option is most appealing to the self-employed segment and offers comprehensive coverage usually at significant cost to the individual. Direct purchase plans have historically been medically underwritten and may 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.



Roughly 10 million people directly purchased individual coverage in 2009, up 4% over 2008. Local 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. However, national plans are beginning to gain ground. Aetna, Humana and UnitedHealth have been moving in as the second or third tier carrier of choice in many states. Many of the carriers have been medically underwriting individual policies, excluding people with preexisting conditions and/or capping benefit limits, techniques that may be banned under the Patient Protection and Affordable Care Act.

| Individual Major Medical<br>Parent   | Market Share<br>2009 | Covered Lives |           | Percent<br>Change |
|--------------------------------------|----------------------|---------------|-----------|-------------------|
|                                      |                      | 2009          | 2008      |                   |
| WellPoint                            | 21.4%                | 2,132,558     | 2,284,259 | -7%               |
| HCSC                                 | 7.9%                 | 786,254       | 669,403   | 17%               |
| Aetna                                | 4.5%                 | 450,823       | 250,212   | 80%               |
| BCBS of FL                           | 3.7%                 | 370,675       | 357,543   | 4%                |
| Humana                               | 3.7%                 | 368,247       | 326,590   | 13%               |
| <b>Total Top Five<br/>Companies</b>  | 41%                  | 4,108,557     | 3,888,007 | 6%                |
| Source: MFA's Individual Market Data |                      |               |           |                   |

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. Health Care Services Corporation (HCSC) operates primarily through Blues plans in Illinois, New Mexico, Oklahoma and Texas. HCSC's Dearborn National subsidiary also offers individual solutions throughout the U.S. 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. Aetna stepped up marketing efforts on individual products and expanded the business line in multiple states during 2009.

### Supplemental Products

Many health-related products directly purchased by individuals are intended to supplement other more traditional policies. Limited Benefit, Disease or Catastrophic Illness, even some types of Student coverage are all considered to be supplemental products. Under the healthcare reform legislation, health insurers cannot offer limited-benefit plans through state exchanges, and such plans do not qualify as offering "essential benefits."

Disease Specific, also known as named disease and critical illness, is an example of a supplemental option and is the largest directly-purchased, health-related product line. These policies provide benefits only for the diagnosis and/or treatment of a specifically named disease or diseases, such as cancer.

| Disease Specific<br>Parent | Market Share<br>2009 | Covered Lives |           | Percent<br>Change |
|----------------------------|----------------------|---------------|-----------|-------------------|
|                            |                      | 2009          | 2008      |                   |
| American Family Corp       | 55%                  | 7,397,120     | 7,491,936 | -1%               |

|                                      |     |            |            |     |
|--------------------------------------|-----|------------|------------|-----|
| UnumProvident                        | 6%  | 820,487    | 808,798    | 1%  |
| Liberty National                     | 6%  | 792,557    | 797,021    | -1% |
| Conseco                              | 5%  | 689,804    | 710,430    | -3% |
| Allstate Ins                         | 5%  | 649,126    | 626,365    | 4%  |
| <b>Total Top Five Companies</b>      | 77% | 10,349,094 | 10,434,550 | -1% |
| Source: MFA's Individual Market Date |     |            |            |     |

Benefits can be paid as expense incurred, per diem or as a principal sum. Roughly 13.4 million lives were covered under these products in 2009, by 92 parent companies. The top five companies cover 77% of the market. American Family Corporation Group, (the parent organization of AFLAC), with business in the U.S. and abroad, insures the bulk of this segment (55%). UnumProvident, its nearest competitor, saw a 1% gain between 2008 and 2009. AFLAC offers several options under this category including cancer/specified disease, lump sum critical illness, hospital intensive care and specified health event policies. UnumProvident offers critical illness, accident and medical support insurance.

Limited benefit plans, also known as mini-medical or defined benefit plans, cover another 2 million people. These products are often referred to as a "cousin" of disease specific policies because they work basically the same way but cover more generic illnesses or accidents.

| Limited Benefits<br>Parent           | Market Share<br>2009 | Covered Lives |           | Percent<br>Change |
|--------------------------------------|----------------------|---------------|-----------|-------------------|
|                                      |                      | 2009          | 2008      |                   |
| Universal American<br>Fin Corp       | 78%                  | 1,588,025     | 1,705,962 | -7%               |
| American Family<br>Corp              | 8%                   | 171,072       | 182,180   | -6%               |
| WellPoint                            | 3%                   | 63,086        | 82,065    | -23%              |
| Conseco                              | 3%                   | 58,224        | 56,296    | 3%                |
| Regence                              | 2%                   | 31,273        | 36,887    | -15%              |
| <b>Total Top Five<br/>Companies</b>  | 94%                  | 1,911,680     | 2,063,390 | -7%               |
| Source: MFA's Individual Market Date |                      |               |           |                   |

Limited benefits cover a broad array of policies, but most offer some pre-determined dollar benefit paid directly to the beneficiary and not a medical provider. The NAIC definition includes limited dental, vision and prescription drug coverage in this line; MFA excluded obvious ancillary benefit carriers from this analysis. Some states prohibit the sale of limited benefit policies. Other states exempt limited-benefit health insurance products from conventional major medical plan mandates.

Universal American's Pennsylvania Life subsidiary's Acute Care and Hospital Indemnity products make up the majority of limited benefits policies sold in the U.S. With nearly 1.6 million covered lives in this category Universal American covers 78% of the market. American Family Corporation follows a distant second with 8% market share.

Due to regulatory issues and better consumer education, limited benefit products are on the decline. These products often have a negative reputation because consumers, unaware of the true costs of medical care, unable to afford other types of individual policies, or simply misunderstanding what they are buying, purchase these options as a substitute for major medical coverage and end up bankrupt by an illness.

Another type of individual insurance is directly-purchased Student policies. Student plans cover comprehensive health insurance or provide supplemental options, particularly for younger students. These policies typically cover students for both accident and health benefits while they are enrolled and attending school or college. These can be either individual policies or group policies endorsed by the school or college.

| Student                              | Market Share | Covered Lives  |                | Percent Change        |
|--------------------------------------|--------------|----------------|----------------|-----------------------|
|                                      |              | 2009           | 2008           |                       |
| <b>Parent</b>                        | <b>2009</b>  | <b>2009</b>    | <b>2008</b>    | <b>Percent Change</b> |
| Pupil Benefits Plan                  | 86%          | 705,381        | 725,165        | -3%                   |
| Guarantee Trust                      | 12%          | 95,018         | 126,707        | -25%                  |
| Assurant                             | 1%           | 11,757         | 12,398         | -5%                   |
| Medico Ins                           | 0%           | 3,881          | *              | -                     |
| National Guardian Life Ins           | 0%           | 3,158          | *              | -                     |
| <b>Total Top Five Companies</b>      | <b>100%</b>  | <b>819,195</b> | <b>864,270</b> | <b>-5%</b>            |
| * Did not report in 2008             |              |                |                |                       |
| Source: MFA's Individual Market Data |              |                |                |                       |

Pupil Benefits Plan, Inc., the largest company reporting enrollment in this area, offers student supplemental coverage. It is a student accident insurance carrier providing coverage to students attending New York public and private school districts, pre-K through 12th grade. Coverage is for all school-sponsored activities, interscholastic athletics, work-study programs, field trips, and altercations. Guarantee Trust the second largest carrier offers health, accident, and athletic insurance plans for K-12 schools, community and junior colleges, universities, and other special risk clients such as athletic groups, camps, child care and special events.

The coverage shown in the above table are only policies purchased by individuals directly from the carrier, another 3.276 million students purchase coverage sponsored through a school or college. Most students are covered either as dependents on their family's plan or through university-sponsored options. One of the first PPACA provisions to be enacted extends the age of dependents to age 26 for family policies; this will undoubtedly have an impact on the student coverage market.

One of the smallest supplemental health coverage product lines is Short Term. Short term plans provide coverage for a limited period of time, usually from one to six months. Some carriers do offer coverage for up to 12 months but this is rare. Assurant Inc.'s, Time Insurance subsidiary is the major player in this space, insuring 31% of the covered lives in 2009. These plans are used by people between jobs or individuals who have a waiting period before their employer or other coverage begins. Short-term health insurance plans are not usually comprehensive in nature but do provide coverage for unforeseen accidents or illnesses and typically exclude coverage for preventive care. Pre-existing conditions are not usually covered by these plans. A further draw-

back for short term plans is they are not considered coverage by the Health Insurance Portability and Accountability Act (HIPAA). Even though someone is insured through these products, HIPAA will consider them as having a break in coverage and therefore pre-existing conditions can be excluded by the future insurer as well. The fate of short term products may also be in jeopardy following enactment of all PPACA provisions.

#### A Favorable Future

Prior to employer groups and government entities sponsoring health coverage, individuals picked up the tab for their own insurance. With employer groups reducing benefits, continuing high unemployment and opportunities in the group and government markets shrinking, the individual market will continue to grow. Non-group or individual health insurance is already emerging as a diversified product line for many insurers with national plans exerting pressure on entrenched local plans. Although, many of these new product lines were off to a slow start due to the federal government subsidizing COBRA benefits, Congress did not extend federal assistance beyond June 1, 2010.

Many other factors will also drive the development and growth of directly-purchased health insurance. The Congressional Budget Office estimates that in 2019, approximately 24 million people will purchase their own coverage through the Health Benefit Exchanges. Other factors to consider include the entrepreneurial spirit that typically arises following economic downturns. Recovery usually starts with the formation of micro-businesses and these self-employed individuals will need health coverage for themselves and any part time employees. To compete they may also look toward new business models that may not include offering traditional employment benefits to their staff. Furthermore, consumers want greater portability with health coverage because changing jobs has become more common. There is also a growing group of older unemployed workers who are opting for early or partial retirement rather than seek permanent work. Too young for Medicare, they will be seeking alternative medical coverage options. All these factors should accelerate the sale of individual health policies.

## About This Report

This brief is based on an analysis of data filed by Health and Life, Accident and Health companies with the National Association of Insurance Commissioners (NAIC) and the CA Department of Managed Health Care as of December 2008 through December 2009. Mark Farrah Associates applied research methodologies to construct an accurate and comprehensive dataset presenting individual, non-group enrollment by competitor / carrier and state. The data used in this report has been captured and is available through Mark Farrah Associates' Health Coverage Portal tool or can be purchased separately.

## Individual Health Market Data

Mark Farrah Associates has constructed a valuable tool to help you identify individual product penetration and insurer enrollment and market share by state. We've identified 30 million covered lives across individual health lines including: Major medical; disease-specific; short-term benefits; limited benefits; student coverage; and plans sold by trade associations & trusts.

[Click here for information and pricing - Individual Health Market Data - or call 207.985.8484 \(/products/Individual/2010\\_Indiv\\_offer.pdf\).](#)

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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 data tool 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™.

The Health Coverage Portal™ includes the latest market metrics for the individual health insurance market. This easy to use online database contains plan specific financial and membership information from 2006 through current. Data can be analyzed by plan or parent organization, state, region and national levels and is easily downloaded for use in Excel or other spreadsheet software for user specific analysis.

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*Debra A. Donahue is Vice President Market Analysis and Online Products with MFA*

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Mark Farrah Associates

Phone: 724.338.4100

Web: [www.markfarrah.com](http://www.markfarrah.com)

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