



Health Plans Continue to See Revenue Shift Away from Commercial

5/31/2012

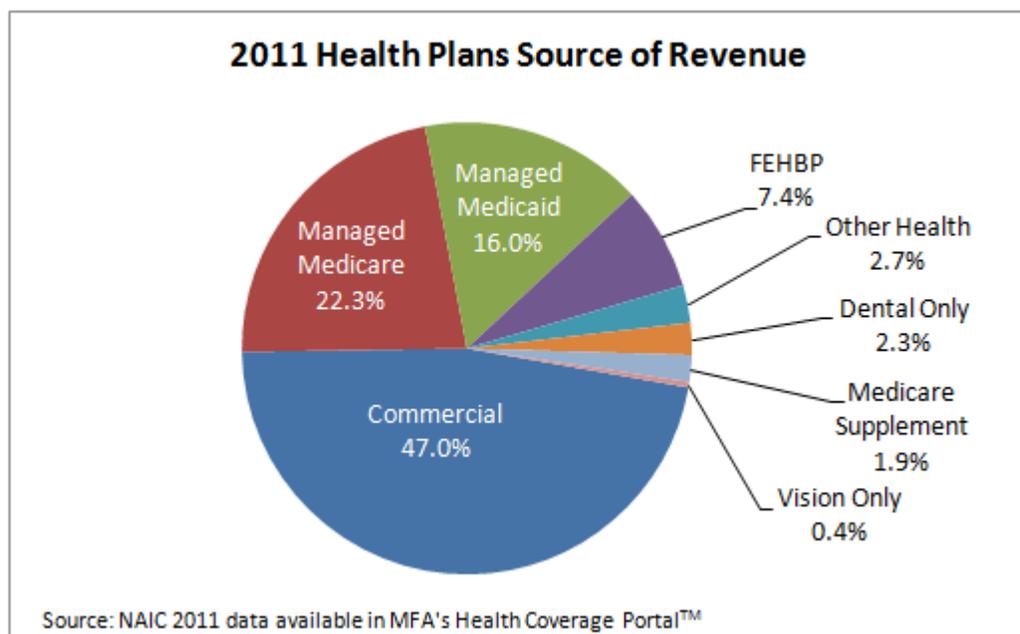
by Debra A. Donahue

Aggregate revenues reported by U.S. health plans totaled \$408.9 billion for 2011, up from \$386.0 billion in 2010, or 5.9%, according to an analysis by Mark Farrah Associates of data filed with the National Association of Insurance Commissioners (NAIC)*. During the same period combined medical expenses increased 5.8% and the average number of people covered grew 1.1%. Less than half of total health plan revenues for 2011 came from commercial, comprehensive medical products (fully insured) sold to employers and individuals. Due to economic and demographic changes health insurers have seen a shift in sources of revenue, with average comprehensive commercial coverage down approximately 1.8 million people and managed Medicaid enrollment up by 1.3 million year-over-year.

This brief presents key findings from Mark Farrah Associates' review of financial results filed by health plans with the National Association of Insurance Commissioners (NAIC), in particular the Analysis of Operations by Lines of Business data.

Revenue Sources

Analysis of 2011 health plan data filed with insurance regulators for year-end 2011 shows a 1.1% increase in the average number of people covered and a 5.9% increase in health plan revenues between December 2010 and December 2011. Health insurers in the United States reported a 3.6% underwriting gain on \$408.9 billion in total revenues for 2011, up from a 3.3% underwriting gain on \$385.6 billion one year ago. Less than half of total revenue for health insurers comes from commercial, comprehensive medical products (fully insured) sold to employers and individuals.



* NAIC data excludes California managed care plans; Life and Property & Casualty insurers that sell medical plans are also excluded from this report. For a more comprehensive study, Mark Farrah Associates' Health Coverage Portal™ does include financial and membership data for these entities.

Due to economic and demographic changes health insurers have seen a shift in sources of revenue. Comprehensive, risk-based commercial coverage as a percentage of total revenues has fallen from 59% in 2006 to 47% in 2011. The growing senior population accounts for some of the growth in the Medicare segment; managed Medicare products now account for 22% of health plan total revenues, up from 16% in 2006. Revenue from state Medicaid programs also grew as a percentage of total revenues, from 10% in 2006 to 16% in 2011, a consequence of current economic conditions and a result of more states moving toward managed care to insure low income residents.

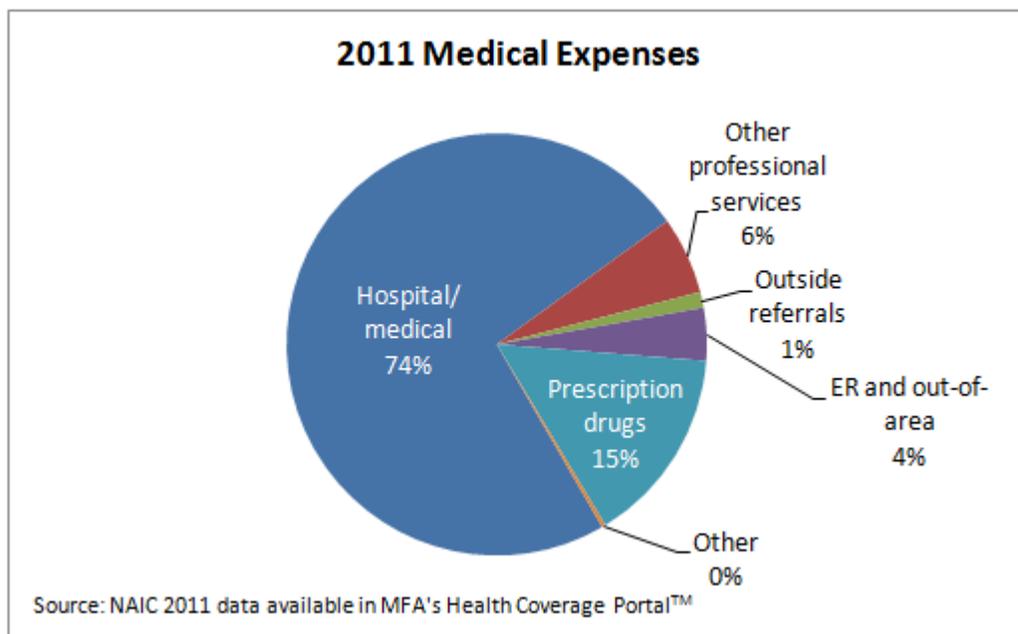
Medical Expenses

The escalating cost of medical expenses is an ongoing concern among health plans, consumers, and legislators. Results for 2011 show 83 cents of every dollar received in commercial revenue for comprehensive medical coverage goes toward medical expenses, down from 87 cents in 2009. The amount paid for managed Medicare members' medical expenses has remained fairly consistent as a percentage of revenues since 2006, with approximately 85% of revenues used to cover medical costs. At 94%, the Federal Employee Health Benefits Plan (FEHBP), the health insurance most congressional members have, has the highest percentage of premium dollars going toward medical expenses. The FEHBP program also has the lowest administrative costs for health plans because enrollment and marketing expenses for the program are captured under the \$10.8 billion fiscal year 2012 FEHBP budget.

Percentage of Revenues Spent on Medical Expenses By Line of Business			
Line of Business	2009	2010	2011
FEHBP	93.7%	93.4%	93.5%
Managed Medicaid	87.8%	85.5%	85.4%
Managed Medicare	85.2%	84.9%	85.1%
Commercial Comprehensive (Hospital & Medical)	86.5%	83.8%	83.4%
Medicare Supplement	82.1%	80.8%	81.2%
Dental Only	79.8%	79.6%	78.4%
Vision Only	78.4%	76.2%	75.9%

Source: NAIC 2011 data available in MFA's Health Coverage Portal™

Approximately \$353.5 billion was outlaid for medical expenses in 2011, with health plans recovering about 2.2% of those charges through reinsurance. On average 74% of total medical payments reimburse hospitals and physicians for their services (referred to as hospital/medical benefits). Approximately 15% of the outlay for medical expenses is used for prescription drugs. Slightly more than 79% of managed Medicare medical expense goes toward hospital/medical benefits and 11% on prescription drugs. For Medicaid, the amount spent on various types of medical expenses is 72% for hospital/medical benefits and 10% on prescription drugs. In comparison, 76% of commercial plan medical expense is expended on hospital/medical benefits and 16% on prescription drugs.



Demographic, economic and political shifts will certainly result in further changes in the health care industry and rebalancing market mix is an important strategy. To stay abreast of what is happening with health plans MFA's Health Coverage Portal™ is the tool you need.

The Health Coverage Portal™ is the complete solution for health insurance market data. This robust online database provides access to detailed performance measures for more than 1,000 U.S. insurance carriers selling major medical coverage. Financials include company assets, liabilities, net worth, revenue, expenses, income, loss ratios, margins and more. Membership breakdowns are presented for private risk, self-insured, group, individual, Medicare Supplement, Medicare Advantage, Managed Medicaid and more. Historical data enables year-over-year and quarter-to-quarter performance comparisons. Subscribers also have access to profiles of industry leaders and market analysis reports.

MFA's primary source is the National Association of Insurance Commissioners (NAIC); other sources include the California Department of Managed Health Care (DMHC), the Centers for Medicare & Medicaid Services (CMS) and the U.S. Census Bureau.

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™, Health Insurer Insights™, Medicare Business Online™, Medicare Benefits Analyzer™, Health Plans USA™ and the new County Health Coverage™, which offers population and health plan enrollment data by county nationwide.

Healthcare Business Strategy is a FREE monthly brief that presents analysis of important issues and developments affecting healthcare business today. If you aren't on our email distribution list, [click here \(/email-options/subscribe-to-healthcare-business-strategy.aspx\)](/email-options/subscribe-to-healthcare-business-strategy.aspx) to subscribe now.

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



Mark Farrah Associates

Phone: 724.338.4100

Web: www.markfarrah.com

© Copyright 1997-2018. All rights reserved. Unauthorized use is prohibited. Healthcare Business Strategy™ is the product of Mark Farrah Associates. No part of this product may be reproduced, in any form or by any means, including posting in its entirety in blogs or other media applications, without permission in writing from Mark Farrah Associates - (724) 338-4100.