



Health Plans See Revenue Shift Away from Commercial

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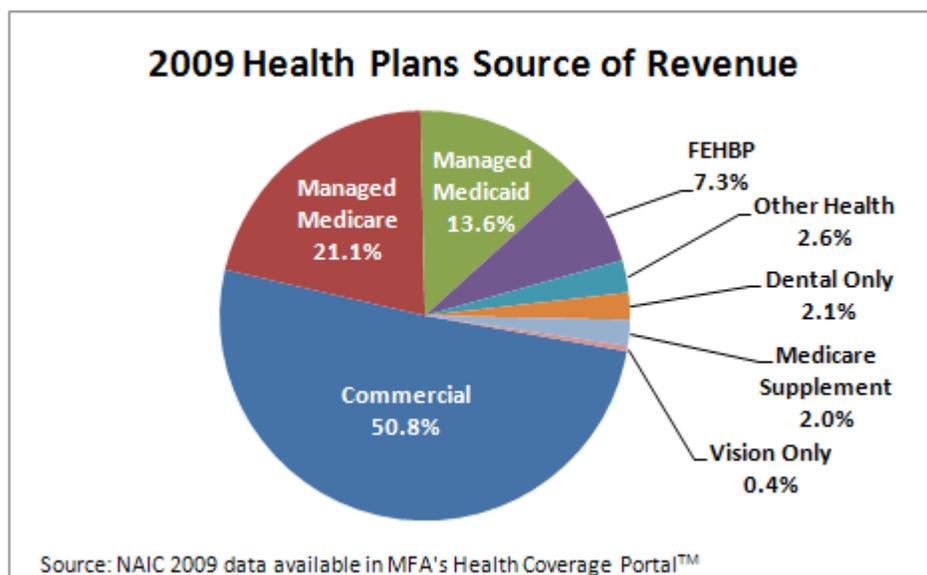
by Debra A. Donahue

Aggregate revenues reported by U.S. health plans totaled \$370.8 billion for 2009, up from \$346.1 billion in 2008, or 7.2%, according to an analysis of data filed with the National Association of Insurance Commissioners (NAIC)*. During the same period combined medical expenses increased 8.1% and the average number of people covered grew 5.5%. Approximately half of total health plan revenues for 2009 came from products sold commercially to employers and individuals that include comprehensive hospital and medical coverage. Due to economic and demographic changes health insurers have seen a shift in sources of revenue, with average comprehensive commercial coverage down approximately 1.5 million people and managed Medicaid enrollment up by 1.8 million.

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 2009 health plan data filed with insurance regulators for year-end 2009 shows a 5.5% increase in the average number of people covered and a 7.2% increase in health plan revenues between December 2008 and December 2009. Health insurers in the United States reported a 1.6% underwriting gain on \$370.8 billion in total revenues for 2009, down from a 2.6% underwriting gain on \$346.1 billion one year ago. Slightly more than half of total revenue for health insurers comes from products sold commercially to employers and individuals that include comprehensive hospital and medical coverage.



* 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.

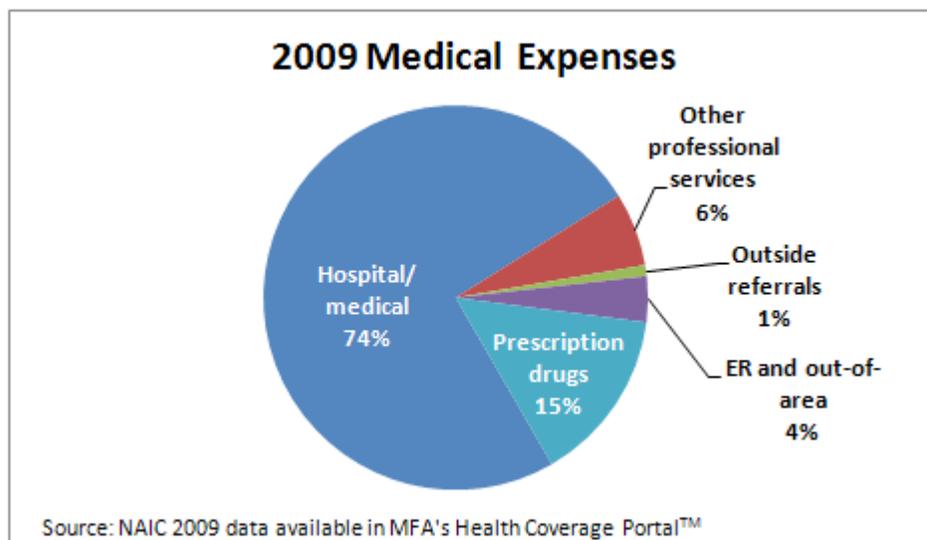
Due to economic and demographic changes health insurers have seen a shift in sources of revenue. Comprehensive commercial coverage as a percentage of total revenues has fallen from 59% in 2006 to 51% in 2009. The growing senior population accounts for some of the growth in the Medicare segment, managed Medicare products now account for 21% 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 14% in 2009, a consequence of current economic conditions and a result of more states moving toward managed care to insure low income residents.

Medical Expenses

The percentage of revenue spent on medical expenses is a hot topic with legislators. Regulators are working diligently to formulate the definition of medical loss ratio (MLR) for the minimum MLR standards in the Patient Protection and Affordable Care Act (PPACA) portion of the Health Care and Education Reconciliation Act of 2010 (HCERA), commonly referred to as the health care reform bills. In the meantime, an MLR proxy can be calculated using total hospital and medical expenses divided by total revenues by line of business as reported to the NAIC. Using this method, results for 2009 shows 87 cents of every dollar received in commercial revenue for comprehensive medical coverage goes toward medical expenses, up from 83 cents in 2006. 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 MLR. 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 billion FEHBP budget.

Percentage of Revenues by Line of Business Spent on Medical Expenses				
Line of Business	2006	2007	2008	2009
FEHBP	93%	93%	93%	94%
Title XIX Medicaid	86%	87%	87%	88%
Commercial Comprehensive (Hospital & Medical)	83%	84%	85%	87%
Title XVIII Medicare	85%	85%	85%	85%
Medicare Supplement	81%	83%	82%	82%
Dental Only	79%	79%	80%	80%
Vision Only	75%	76%	78%	78%
Source: Analysis NAIC data available through MFA Health Coverage Portal™				

Approximately \$329 billion was expended on medical cost in 2009, with health plans recovering about 2.4% 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 80% 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 11% on prescription drugs. In comparison, 77% of commercial plan total medical expense is expended on hospital/medical benefits and 15% on prescription drugs.



As regulators interpret PPACA and HCERA legislation and formulate new policies and procedures for health plans, it is helpful to know how all the industry participants fared, particularly key competitors. 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.

Mark Farrah Associates (MFA) is pleased to announce a new Health Coverage Portal™ feature that enables subscribers to analyze health plans' sources of revenues and expenses by multiple lines of business such as comprehensive health, dental and/or vision. "Operations by Lines of Business" allows users to select and download data to an Excel spreadsheet for further analysis. Data field elements are from annual health statements filed with the National Association of Insurance Commissioners (NAIC). Subscribers can filter by parent, plan and domicile and then select fields such as net premium income or emergency room and out-of-area expenses data based on their individual analysis criteria.

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.

The MFA data partner for this product 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 distributor of NAIC data. MFA's Health Coverage Portal™ includes both risk-based and administrative services only (ASO) membership and financial data by plan, parent, state, region and nationally. Committed to simplifying analysis of health insurance business, our products include Medicare Business Online™, the new Medicare Benefits Analyzer, Health Coverage Portal™, Health Insurer Insights™ and Health Plans USA™.

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