

Improved Profitability for the Individual Health Insurance Sector and Other Segment Insights

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Increased pressure amidst the influx of activity surrounding healthcare reform is creating both challenges and opportunities for health insurance companies. The ebb and flow of decline and growth continue to drive competition in this ever-changing industry. Health plans are consistently evaluating performance measures and how they fare against their competitors. Controlling costs while ensuring quality care for members remains common ground for all issuers.

This brief presents key findings from Mark Farrah Associates' (MFAs) review of mid-year profitability for commercial and government lines of health insurance business. MFA compared second quarter, year-over-year profitability for the Individual, Employer Group, Medicare and managed Medicaid segments. Financial insights were gleaned from aggregated 2Q16 and 2Q17 National Association of Insurance Commissioners (NAIC) statutory financial data from MFA's Health Coverage Portal™.

A common industry measure to assess health plan profitability, the traditional medical loss ratio (also known as the medical expense ratio), is calculated by dividing health care costs/claims incurred by premiums earned. This ratio indicates the amount of premium dollars spent on medical expenses. The higher the ratio, the less room there is for the plan to pay for its administrative costs, potentially impacting profitability. Per member per month (PMPM) calculations are

also used to determine the amount of premium dollars earned and the amount of medical costs incurred for each member on a monthly basis. These calculations are performed by dividing premiums or medical claims incurred by the number of reported member months for the plan.

About Our Analysis

Data for this analysis was sourced from Mark Farrah Associates' Health Coverage Portal™, Quarterly Exhibit of Premiums, Enrollment & Utilization as reported in the NAIC Financial Statements. Approximately 80% of health insurance market is represented within the exhibit. Managed Medicaid plans & California HMO plans that do not report to the NAIC, along with NAIC-reporting Life, Accident & Health, and Property & Fraternal Insurance plans do not file the exhibit. In order to improve the accuracy of our assessment, member month data was estimated due to incomplete reporting by a small number of plans.

Individual Segment Findings

There's no denying the Individual health insurance market has endured its fair share of challenges. In order for this segment to be sustainable there must be adequate membership and a balanced risk pool, slow growth in healthcare spending while maintaining quality of care and enough health insurer participation and plan offerings to bolster consumer choice. The volatility of the Affordable Care Act's (ACAs) exchange program forced many insurers to significantly raise premiums to make up for financial losses due to imbalanced risk pools, or withdraw from the exchanges altogether. In 2016, insurance premiums exceeded medical care costs for many insurers; however, segment profitability was still elusive to most plans. MFA's assessment of mid-year 2017 profitability for the Individual market indicates improved overall results.

For second quarter 2017, premiums earned increased 8.6% while medical expenses incurred decreased 6.1% from second quarter 2016. While these changes are

significant, they do not tell the full story due to the 11% decrease in individual enrollment between 2016 and 2017. On a PMPM basis, which accounts for changes in membership, premiums increased 21%, significantly outpacing the 4.7% increase in health care services (medical expenses) incurred. Through the first two quarters of 2017, the average medical expense ratio for this segment was 77%, as compared to 89% the previous year. All of the top five health plans in the Individual segment reported improved medical expense ratios as of the end of 2Q17.

Mid-year Profitability - Individual Segment			
	2Q2016	2Q2017	Change
Health Premiums Earned	\$31,536,486,047	\$34,239,586,968	8.6%
Health Care Services Incurred	28,129,198,780	26,417,596,419	-6.1%
Med Expense Ratio	89.2%	77.2%	
Member Months	92,020,117	82,556,137	-10.3%
Premiums PMPM	343	415	21.0%
Health Care Expenses PMPM	306	320	4.7%

Source: Health Coverage Portal™, Mark Farrah Associates, Quarterly Exhibit of Premiums, Enrollment and Utilization as reported in the NAIC Financial Statements

For a market that has historically faced financial challenges, even before the onset of the Affordable Care Act, current year results are indicating an overall trend toward profitability. However, double digit annual increases in premiums are not sustainable, and it is clear that change is needed in the segment. How much of this change will be driven by federal and state action is currently a hot topic in Washington D.C. As health insurance companies continue to keep a close eye on their market performance and the remaining exchange insurers prepare for open enrollment beginning November 1, 2017, the future of this health insurance segment will remain uncertain.

Employer Group Segment Findings

Employer Group risk continues to maintain a strong presence in the healthcare sector although this segment has seen membership declines over the past few

years. This decline has been chiefly caused by many businesses turning to self-insured models along with loss of the retiring baby boom population from the workplace. For second quarter 2017, premiums earned increased 1% and medical expenses incurred slightly increased .4% from second quarter 2016. On a PMPM basis, premiums earned have increased 6.4% over 2Q16, while health care services incurred increased by 5.6%. The growth in premiums pushed the average medical expense ratio for this segment down to 81.8% for 2Q17 from 82.3% in 2Q16.

Mid-year Profitability - Group Segment			
	2Q2016	2Q2017	Change
Health Premiums Earned	\$77,856,608,348	\$78,708,355,287	1.1%
Health Care Services Incurred	64,104,614,130	64,357,446,272	0.4%
Med Expense Ratio	82.3%	81.8%	
Member Months	195,545,002	185,818,592	-5.0%
Premiums PMPM	398	424	6.4%
Health Care Expenses PMPM	328	346	5.6%

Source: Health Coverage Portal™, Mark Farrah Associates, Quarterly Exhibit of Premiums, Enrollment and Utilization as reported in the NAIC Financial Statements

Medicare Segment Findings

Increasing demand for Medicare Advantage (MA) plan coverage continues as the Baby Boomer generation ages into retirement. Regardless of proposed regulations and the uncertainty surrounding the ACA, the MA market remains strong. In April of 2017, CMS issued final updates to the Medicare Advantage and Part D Prescription Drug programs for 2018 in its [Rate Announcement and Call Letter](#) . On average, a 0.45% rate increase is expected for Medicare Advantage and Part D plans in 2018. CMS estimated that rates for MA plans can expect an increase of 2.95%. Also, CMS said it will continue to use the bid-to-benchmark ratios used for 2017 payment to calculate MA Employer Group Waiver Plans (EGWPs) payments for 2018. With the Annual Election Period (AEP) for Medicare Advantage and

prescription drug plans beginning October 15, 2017, MA plans will compete by offering new pricing and product options to beneficiaries.

Mid-year Profitability - Medicare Segment			
	2Q2016	2Q2017	Change
Health Premiums Earned	\$79,998,985,195	\$85,671,594,462	7.1%
Health Care Services Incurred	68,144,209,783	73,415,329,555	7.7%
Med Expense Ratio	85.2%	85.7%	
Member Months	85,754,171	90,623,499	5.7%
Premiums PMPM	933	945	1.3%
Health Care Expenses PMPM	795	810	1.9%

Source: Health Coverage Portal™, Mark Farrah Associates, Quarterly Exhibit of Premiums, Enrollment and Utilization as reported in the NAIC Financial Statements

For second quarter 2017, premiums earned increased 7.1% and medical expenses incurred rose 7.7% from second quarter 2016, outpacing growth in premium. On a PMPM basis, premiums earned increased 1.3% over 2Q16, while health care services incurred increased 1.9%. The increase in medical expenses helped push the medical expense ratio up to 85.7%.

Managed Medicaid Segment Findings

The Medicaid program is the largest government health program in the United States as measured by enrollment. Accordingly, it is also one of the largest budget expenditures for state governments. As of June 2017, CMS (Centers for Medicare and Medicaid Services) reported 74.4 million beneficiaries were enrolled in Medicaid and the Children's Health Insurance Program (CHIP) with roughly 65% receiving care from managed care organizations (MCOs). Mostly as a result of expansion programs under the ACA, health plans and service providers experienced strong Medicaid growth over the early years of ACA. The pace of managed Medicaid enrollment has slowed for NAIC-reporting health plans between 2016 and 2017. After years of rapid growth, Medicaid constitutes a large portion of revenue for many health plans. While Medicaid remains a large sector of the health

insurance landscape, it is by no means safe from current legislative turmoil. Proposed state budget cuts could have a big impact on the managed Medicaid market in years to come.

Mid-year Profitability - Managed Medicaid Segment			
	2Q2016	2Q2017	Change
Health Premiums Earned	\$82,939,833,899	\$90,205,094,508	8.8%
Health Care Services Incurred	72,488,847,505	82,098,020,055	13.3%
Med Expense Ratio	87.4%	91.0%	
Member Months	224,320,373	228,445,009	1.8%
Premiums PMPM	370	395	6.8%
Health Care Expenses PMPM	323	359	11.2%

Source: Health Coverage Portal™, Mark Farrah Associates, Quarterly Exhibit of Premiums, Enrollment and Utilization as reported in the NAIC Financial Statements

For second quarter 2017, premiums earned increased 8.8% while medical expenses incurred increased 13.3%, from second quarter 2016. On a PMPM basis, premiums earned increased 6.8% over 2Q16, while health care services incurred jumped 11.2%. The increase in medical expenses pushed the medical expense ratio up to 91% from 87.4% in 2Q16.

Conclusion

While the past year has certainly caused a flurry of concern, many insurers continue to move forward and adapt to the changing healthcare environment. Segment profitability for mid-year 2017 has shown improved results for the Individual market. Group and Medicare have remained relatively steady in terms of profitability while Medicaid is showing some signs of decreased profitability. While this analysis of mid-year segment performance sheds light upon profitability trends for 2017, it's a wait and see proposition until final financial results are revealed in spring of 2018. Mark Farrah Associates will continue to analyze and report on important health insurance performance and related topics. Stay tuned for future analysis briefs with valuable insights about the health care industry.

About Mark Farrah Associates (MFA)

Mark Farrah Associates (MFA) is a leading provider of health plan market data and analysis tools for the healthcare industry. If your company relies on accurate assessments of health plan market share to support business planning, we encourage you to [contact us](#) to learn more about our products. Our portfolio includes Health Coverage Portal™, County Health Coverage™, Medicare Business Online™, Medicare Benefits Analyzer™ and Health Plans USA™ — www.markfarrah.com.

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