



Individual Health Insurance Options Boom or Bust

6/26/2012

by Debra A. Donahue

Health insurance purchased by individual consumers will be impacted the most by the impending U.S. Supreme Court (SCOTUS) decisions on the Patient Protection and Affordable Care Act (ACA). For health insurers, this segment has emerged as a diversified product line targeting people without access to group-sponsored or government-sponsored coverage. It is often referred to as the Non-group or simply the Individual market. If SCOTUS upholds the constitutionality of the portion of ACA mandating insurance coverage for all, the Individual market has the potential to boom considerably in 2014. If the law or only the mandated insurance portion is struck down, the market for this product may remain in limbo for the foreseeable future. This brief will present an analysis of the current 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.

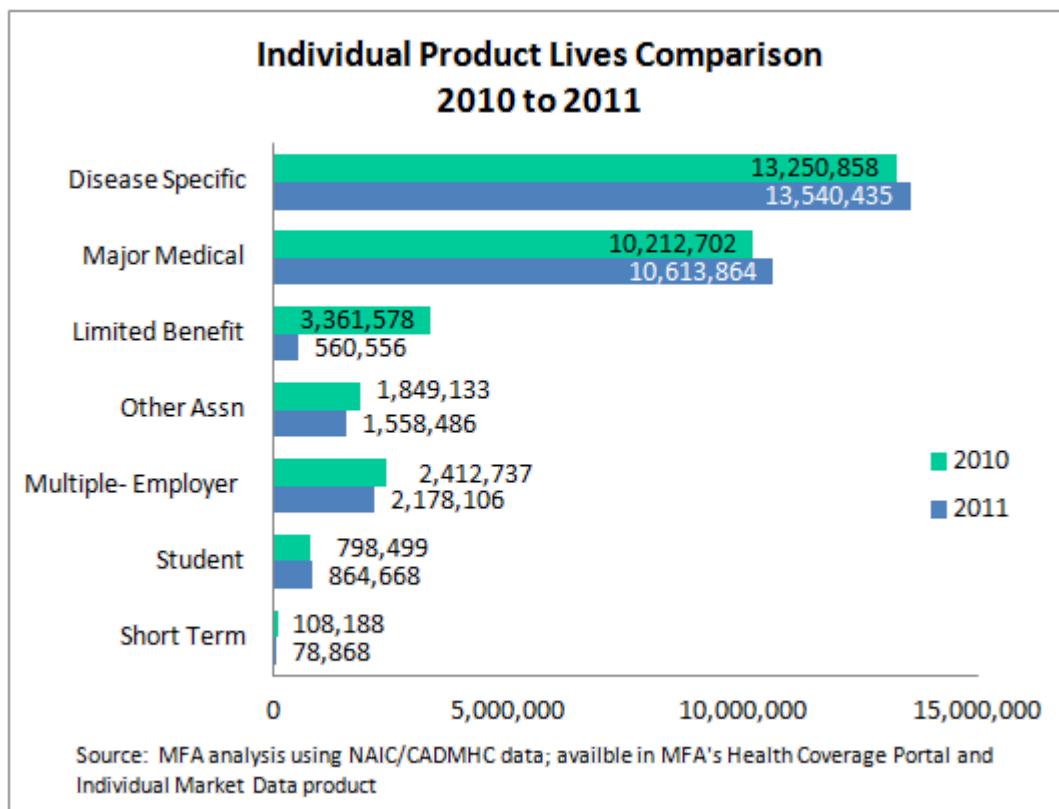
Non-employment, Non-public Health Insurance

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 growing and diversified product line for insurers targeting people without access to employer-sponsored or government-sponsored coverage. According to the most recent U.S. Census Bureau data¹, for persons under age 65, 7.1% or 18.9 million purchase health insurance directly. The same report also estimates that 49.9 million persons of all ages were uninsured in 2010.

The Patient Protection and Affordable Care Act (ACA) signed into law in March 2010, and now pending imminent judgment by the U.S. Supreme Court, had insurers scrambling to create products and enhance business processes to cover a large influx of new consumers. ACA requires among other provisions that states, that haven't already done so, establish Health Benefit Exchanges. The Congressional Budget Office estimated that by 2019, approximately 24 million people will purchase their own coverage through the Exchanges.

¹U.S. Census Bureau, Health Insurance Coverage Status and Type by State and Age for All People: 2010 issued September 2011

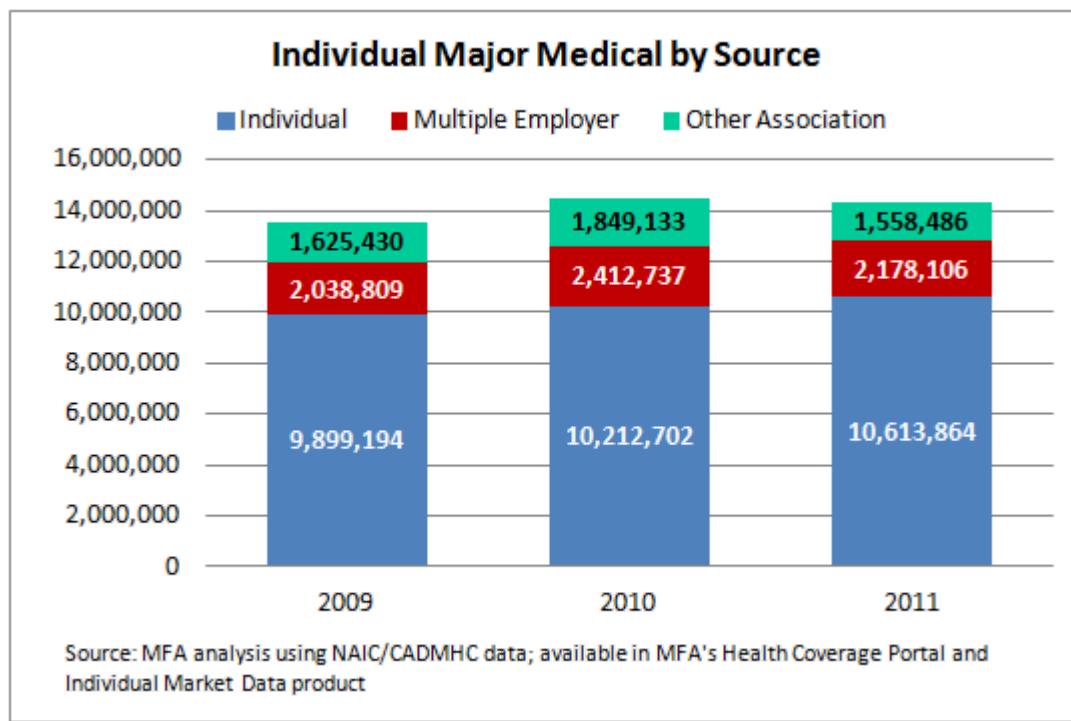
Currently, individuals directly purchase a diverse array of health insurance products from major medical to specific disease coverage. Many of the non-group products are supplemental in nature and there are multiple distribution channels such as multiple employer associations and trusts and other associations where the self-employed can acquire group rates for insurance that can be categorized under the individual market.



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 differ depending on the source used and the types of policies purchased. Using data filed by insurance carriers with the applicable state's insurance commissioners nearly 14.4 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 11 million people directly purchased individual coverage in 2011, up 4% over 2010. 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 already removed underwriting practices that were banned under the Patient Protection and Affordable Care Act such as medically underwriting individual policies, excluding people with preexisting conditions and/or capping benefit limits.

Individual Major Medical	Market Share	Covered Lives		Percent Change
		2011	2010	
WELLPOINT INC GRP	19%	1,901,016	1,972,132	4%
HCSC GRP	8%	833,313	823,138	-1%
AETNA GRP	4%	486,957	442,119	-9%
HUMANA GRP	4%	373,318	460,648	23%
BCBS OF FL GRP	4%	383,105	441,453	15%
Total Top Five Companies	39%	3,977,709	4,139,490	4%

Source: MFA's Health Coverage Portal and 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. Humana stepped up marketing efforts on individual products and expanded the business line in multiple states during 2011 and saw a 23% increase in enrollment in 2011.

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. It is important to note that some employers are offering supplemental products to their workers as voluntary benefit options, where the employee pays for the total costs of the coverage but it is usually done so through a payroll deduction. Reporting for voluntary products is ambiguous. Some carriers consider these options as non-group and others report them under group.

Disease Specific, also known as named disease and critical illness, 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	Market Share	Covered Lives		Percent Change
		2010	2011	
PARENT	2011			
AMERICAN FAMILY CORP	53%	7,034,781	7,203,876	2%
UNUMPROVIDENT CORP	6%	826,225	835,307	1%
LIBERTY NATL	6%	763,298	764,896	0%
CONSECO	5%	678,953	670,059	-1%
ALLSTATE INS	5%	668,239	655,274	-2%
Total Top Five Companies	75%	9,971,496	10,129,412	2%

Source: MFA's Health Coverage Portal and Individual Market Data

Benefits can be paid as expense incurred, per diem or as a principal sum. More than 10 million lives were covered under these products in 2011, by 90 parent companies. The top five companies cover 75% of the market. American Family Corporation Group, (the parent organization of AFLAC) insures the bulk of this market (53%). UnumProvident, its nearest competitor, saw a 1% gain between 2010 and 2011. 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, covered 3 million people in 2010. 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. The definition of limited benefits covers a broad array of policies, but most offer some pre-determined dollar benefit paid directly to the beneficiary and not a medical provider. Some states prohibit the sale of limited benefit policies. Other states exempt limited-benefit health insurance products from conventional major medical plan mandates.

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." A substantial decline in limited benefit offering was noted in 2011. Major carriers that previously reported significant enrollment reported considerable declines in this product line between 2010 and 2011, perhaps indicating they have withdrawn these products from the market.

Limited Benefits	Market Share	Covered Lives		Percent Change
		2010	2011	
PARENT	2011			
AMERICAN FAMILY CORP GRP	29%	1,118,134	161,423	-86%
HEALTHMARKETS GRP	19%	82,709	107,639	30%
HUMANA GRP	17%	62,663	97,626	56%
CONSECO GRP	11%	60,867	63,360	4%
BLUE CROSS OF ID	5%	26,322	27,632	5%
Total Top Five Companies	82%	1,350,695	457,680	-66%

Source: MFA's Health Coverage Portal and Individual Market Data

Universal American, the leading limited benefits carrier in 2010, changed its product portfolio in 2011 and reported nearly a 100% decline in this product line from 2010 to 2011. American Family Corporation reported a considerable decline in limited benefit enrollment but now ranks first with 29% market share. WellPoint which was among the top five carriers in 2010 also reported substantial declines in limited benefit enrollment.

Due to regulatory issues and better consumer education, limited benefit products have declined since 2008. 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. These plans also came under scrutiny with increased reporting requirements under ACA medical loss ratio rebate regulations. With so much uncertainty surrounding this option, it is not surprising many plans decided to exit this line.

Student coverage is another ambiguous line of supplemental health care business. Pupil Benefits Plan, Inc., the largest company reporting enrollment in this area, is a student accident insurance carrier. It provides 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 ACA provisions that extended the age of dependents to age 26 for family policies was expected to have an impact on the student coverage market; however this segment increased 8% between 2010 and 2011.

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 20% of the covered lives in 2011. 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. The number of reported enrollees in this segment has declined by 27% between 2010 and 2011.

An Uncertain 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 should 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.

Should the Supreme Court uphold the individual mandate in ACA, The Congressional Budget Office estimates that in 2019, approximately 24 million people will purchase their own coverage through the Health Benefit Exchanges. Many more may purchase coverage directly from a carrier. If SCOTUS overturns the provision, or the entire bill, then Congress or state government may step in and enact legislation to aid individuals in obtaining health insurance directly from carriers. Additional legislation in an election year is unlikely so short-term investment by carriers in the individual product line may be a bust. It will be far from smooth sailing for the individual market over the next year.

About This Report

This brief is based on an analysis of data filed by Health; Life, Accident and Health; Property and Casualty; and Fraternal companies with the National Association of Insurance Commissioners (NAIC) and the CA Department of Managed Care as of December 2009 through December 2011. When available, MFA primarily uses data from the Accident and Health Policy Exhibit of the NAIC Blank. Mark Farrah Associates applies research

methodologies to present a better understanding of individual, non-group competition by carrier and state. The data used in this report has been captured and is available through Mark Farrah Associates' Health Coverage Portal database 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 nearly 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. Call 207.985.8484 for more information and product pricing options.

About Health Coverage Portal™

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 database 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™ \(/products/health-coverage-portal.aspx\)](#).

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 \(/email-options/subscribe-to-healthcare-business-strategy.aspx\)](#) 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.