



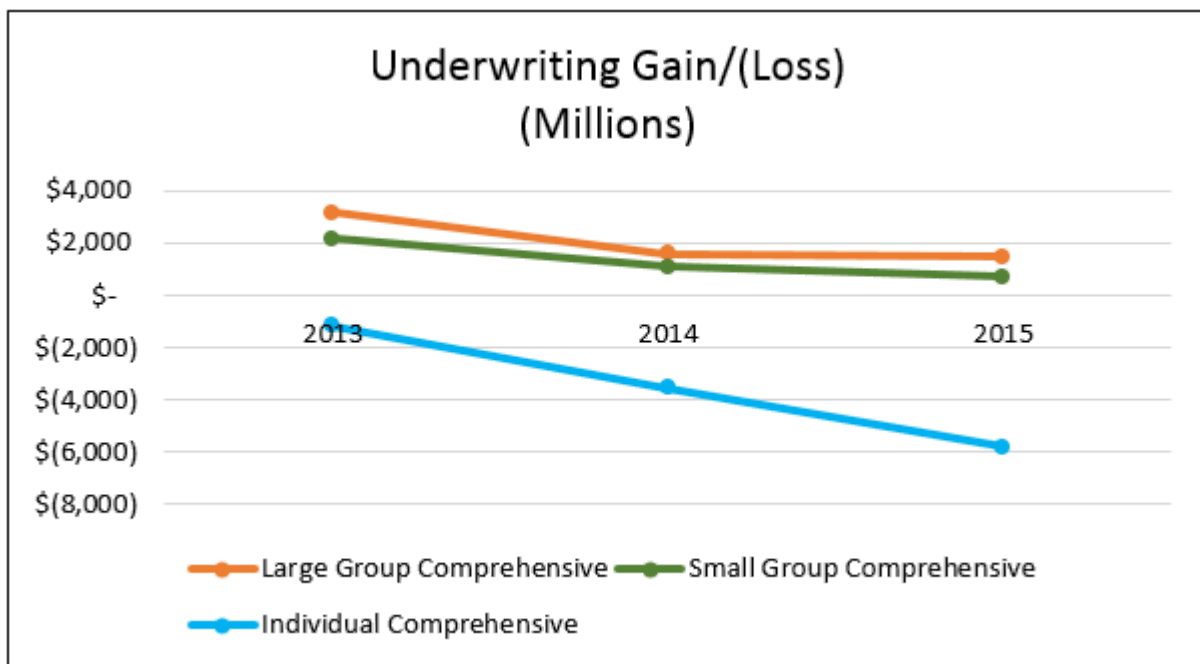
Key Trends within the Individual and Small Group Health Insurance Segments

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by Mark Farrah Associates

With two full years of health insurance activity under the Affordable Care Act (ACA), some interesting trends are beginning to emerge. Major shifts in enrollment, segment profitability struggles and higher premiums were key findings that surfaced from our analysis.

Segment membership shifts is perhaps the most obvious indication of the ACA's impact and direction since December 2013. Enrollment in Individual plans increased 14.4% while dropping by 19.8% for Small Group and 12.5% for Large Group. Overall, commercial enrollment declined by 9.4% (6.5 million members) to approximately 63 million. Meanwhile, Medicaid enrollment has skyrocketed to almost 72 million members, a 22% gain since before the onset of the ACA. In addition to shifts in membership, segment profitability has also been impacted with material declines across Individual, Small Group and Large Group comprehensive lines.



Source: Health Coverage Portal™, Mark Farrah Associates, Supplemental Health Care Exhibit as reported in the NAIC Annual Financial Statement

While all three commercial segments experienced significant declines in profitability between 2013 and 2014, the Large Group segment declined an additional 7.4% between 2014 and 2015. Concurrently, both the Small Group and Individual segments continued to experience substantial declines in underwriting gain/loss of 36% and 64%, respectively. Over the two year period, the underwriting gain/loss for the Large Group segment decreased by 53.4% and the Small Group segment dropped by 67%. The Individual segment reported a \$1.2 billion underwriting loss in 2013 and the segment as a whole further deteriorated to a \$3.6 billion loss in 2015.

Premiums paid by consumers have increased across all segments however, the growth in claims incurred has outpaced premium increases leading to profitability declines. Large Group segment adjusted premiums PMPM (per member per month) increased over 10% since 2013 while claims incurred increased by more than 12% during the same period. Similarly, the Small Group segment saw increases in adjusted premiums PMPM of 7.3%, offset by a 9.4% increase in claims incurred. The Individual segment experienced the most volatility with premiums since 2013, with close to a 60% increase on a PMPM basis. However, Individual claims incurred rose by almost 100% on a PMPM basis over the same period.

In this month's Healthcare Business Strategy™, Mark Farrah Associates (MFA) examines some of the key findings found in our latest analysis of the Supplemental Health Care Exhibit (SHCE), with a focus on performance within Individual and Small Group comprehensive insurance segments. Plans in these two segments face the added constraint of a standard (minimum) MLR (Medical Loss Ratio), a key component of the Risk Corridor program, one of three premium stabilization programs instituted by the ACA.

Individual Comprehensive Segment

Many plans in this segment continue to struggle with rising medical costs which have frequently outpaced premium rate increases. Focusing on the segment leaders for this analysis, we will look at the three year trend in membership, claims incurred PMPM, adjusted premium PMPM and their SHCE- reported MLR.

Individual Segment - Members			
Company	2013	2014	2015
HCSC	868,863	1,566,609	1,625,406
UnitedHealth	996,544	732,020	1,135,222
Anthem	1,693,778	1,231,263	1,121,322
Humana	592,942	1,270,527	1,139,933
Aetna	708,135	1,007,799	1,063,695

Source: Health Coverage Portal™, Mark Farrah Associates, Supplemental Health Care Exhibit as reported in the NAIC Annual Financial Statement

Segment leadership is based upon 2015 SHCE-reported membership by company. As stated previously, Individual segment membership has increased 14.4% since 2013. These five companies captured 67.5% of the growth, gaining over 1.2 million of the 1.8 million members added to the segment. HCSC (Health Care Service Corporation) and Humana experienced the largest growth in membership, while Anthem contracted during the 2013-2015 period.

Individual Segment - Incurred Claims PMPM			
Company	2013	2014	2015
HCSC	\$184	\$314	\$381
UnitedHealth	\$197	\$222	\$319
Anthem	\$196	\$251	\$280
Humana	\$116	\$205	\$232
Aetna	\$181	\$243	\$253

Source: Health Coverage Portal™, Mark Farrah Associates, Supplemental Health Care Exhibit as reported in the NAIC Annual Financial Statement

Dramatic increases in medical costs have occurred within the Individual segment. In fact, this was conducive to leading companies leaving Marketplaces in several states and other plans are indicating they may follow. Average incurred claims PMPM increased from \$169 in 2013 to \$338 in 2015, a 99.4% increase. Not surprising, this trend is evident in varying extents among segment leaders. HCSC has seen a 107.4% jump and Humana has experienced a 100% increase in their incurred claims PMPM, while UnitedHealth, Anthem and Aetna realized considerably lower incurred claims increases than the industry average.

Individual Segment - Adjusted Earned Premium PMPM			
Company	2013	2014	2015
HCSC	\$226	\$271	\$327
UnitedHealth	\$226	\$240	\$321
Anthem	\$242	\$283	\$304
Humana	\$146	\$200	\$224
Aetna	\$209	\$243	\$244

Source: Health Coverage Portal™, Mark Farrah Associates, Supplemental Health Care Exhibit as reported in the NAIC Annual Financial Statement

Increasing medical costs have contributed to premium increases within the segment. Since 2013, adjusted premiums PMPM have increased approximately 60%. Humana's 53% increase is the largest amongst the leaders followed by HCSC's increase of 45%. Overall, both for the segment as a whole and for the leading companies, premiums have not kept pace with rising claims costs leading to segment financial losses. In 2013, premium revenue for all 5 leaders was larger than claims incurred. In 2015, even with large premium hikes, incurred claims for three of the five leading companies (HCSC, Humana & Aetna) were larger than adjusted earned premiums.

Individual Segment Weighted Average MLR			
Company	2013	2014	2015
HCSC	83.2%	117.9%	103.7%
UnitedHealth	87.2%	92.9%	92.1%
Anthem	81.9%	89.9%	86.3%
Humana	81.5%	103.9%	87.1%
Aetna	87.7%	100.9%	96.4%

Source: Health Coverage Portal™, Mark Farrah Associates, Supplemental Health Care Exhibit as reported in the NAIC Annual Financial Statement

The Medical Loss Ratio (MLR) illustrates the relationship between premiums and medical costs. While it is clear that there has been improvement since 2014, the industry leaders are still working to get back to Pre-ACA ratios. UnitedHealth and Anthem have done the best job amongst segment leaders in balancing premium increases along with increased claims. HCSC has made progress since 2014, however incurred claims still outpaced premiums earned in 2015.

It is important to note that Mark Farrah Associates is reporting all data as filed with the NAIC (National Association of Insurance Commissioners) in the annual SHCE. We are not adjusting the data to account for differences in the number of reporting plans between 2014 and 2013 nor have we adjusted for missing plans year over year. For purposes of this analysis, MFA has calculated a weighted average MLR based upon adjusted premiums.

Small Group Comprehensive Segment

Overall this segment has been more stable than the Individual segment but has experienced losses in membership. Furthermore, growth in medical costs for the Small Group segment has outpaced growth in premium. Focusing on the segment leaders for this analysis, we will look at the three year trend in membership, claims incurred PMPM, adjusted premium PMPM and their SHCE-reported MLR.

Small Group Segment - Members			
Company	2013	2014	2015
UnitedHealth	2,631,898	2,211,481	2,175,155
HCSC	1,265,992	1,270,155	1,230,085
Anthem	1,656,267	1,277,821	1,060,130
Aetna	1,564,737	1,333,474	1,084,762
Humana	958,917	930,414	979,171

Source: Health Coverage Portal™, Mark Farrah Associates, Supplemental Health Care Exhibit as reported in the NAIC Annual Financial Statement

Segment leadership is based upon 2015 SHCE reported membership by company. As stated previously, Small Group segment membership has decreased approximately 20% since 2013. These 5 companies experienced 47.8% of the loss, losing over 1.5 million of the 3.3 million members leaving the segment. Anthem, Aetna and UnitedHealth experienced the greatest loss of members. Humana is the only top plan to see membership growth in this segment.

Small Group Segment - Incurred Claims PMPM			
Company	2013	2014	2015
UnitedHealth	\$315	\$329	\$339
HCSC	\$309	\$323	\$351
Anthem	\$289	\$295	\$299
Aetna	\$239	\$257	\$287
Humana	\$181	\$202	\$207

Source: Health Coverage Portal™, Mark Farrah Associates, Supplemental Health Care Exhibit as reported in the NAIC Annual Financial Statement

While costs have risen within the segment, growth in claims incurred has been much more manageable as compared with the Individual segment. Average incurred claims PMPM have increased from \$292 in 2013 to \$319 in 2015, a 9.4% increase. The segment leaders have also experienced varying increases. Aetna's incurred claims PMPM increased 20.4% over the two year period. Humana saw a 14.7% increase in their incurred claims PMPM costs while HCSC's claims grew by 13.4%. UnitedHealth and Anthem both experienced lower than industry average increases in their incurred claims PMPM.

Small Group Segment - Adjusted Earned Premium PMPM			
Company	2013	2014	2015
UnitedHealth	\$387	\$394	\$414
HCSC	\$371	\$376	\$395
Anthem	\$351	\$355	\$363

Aetna	\$289	\$298	\$326
Humana	\$226	\$249	\$247
<i>Source: Health Coverage Portal™, Mark Farrah Associates, Supplemental Health Care Exhibit as reported in the NAIC Annual Financial Statement</i>			

Average adjusted premium PMPM for the segment rose from \$349 in 2013 to \$375 in 2015, a 7.3% increase. The segment leaders have also raised their premiums to offset medical cost increases. Aetna's adjusted premium PMPM increased 12.8% over the two year period. Humana saw a 14.7% increase in their adjusted premium PMPM while UnitedHealth and HCSC saw increases in line with the industry average. Anthem, facing less claims cost pressure in this segment, has only increased premium PMPM by 3.5%.

Small Group Segment Weighted Average MLR			
Company	2013	2014	2015
UnitedHealth	82.5%	84.6%	82.7%
HCSC	84.0%	86.3%	89.4%
Anthem	83.3%	84.1%	83.4%
Aetna	83.4%	87.2%	89.1%
Humana	82.1%	83.5%	85.7%
<i>Source: Health Coverage Portal™, Mark Farrah Associates, Supplemental Health Care Exhibit as reported in the NAIC Annual Financial Statement</i>			

Overall, the leading plans have been able to better manage MLRs within the Small Group segment as compared to bigger challenges in the Individual Segment. UnitedHealth and Anthem were able to return to Pre-ACA ratios by managing growth in incurred claims with appropriate increases in premium. Aetna's 12.8% increase in premium PMPM did not offset their 20.4% increase in incurred claims PMPM, resulting in a 6.8% increase in their weighted average MLR. Similarly, HCSC's incurred claims PMPM grew by 13.4%, while adjusted premium PMPM grew by 6.5%; leading to a 6.5% growth in their weighted average MLR.

Conclusion

In conclusion, the industry is attempting to stabilize after a financially-challenging 2014. The Individual segment has borne the brunt of medical cost increases relating to the ACA. Premiums have increased considerably, but have not kept pace with rising costs in many cases. The Risk Corridor program failed to materially help with mitigating costs as intended and this was financially disruptive to many plans. While the Small Group and Large Group segments have fared better, their profitability has also declined over the past two years. Proper balancing of premium increases and cost control will be needed to return to pre-ACA levels of underwriting profitability. As the industry continues to change, Mark Farrah Associates will continue to analyze and report on important ACA and plan performance related topics. Please stay tuned for future analysis briefs with valuable insights about the health care industry.

SHCE Data

The data used in this analysis brief was obtained from Mark Farrah Associates' Health Coverage Portal™ using Supplemental Health Care Exhibit (SHCE) data as reported in the NAIC Annual Financial Statement. Each year, MFA updates its products with the latest SHCE data. Additionally, MFA maintains financial data as well as enrollment and market share for the health insurance industry in the subscription-based Health Coverage Portal™.

For more information about our products, refer to the product videos and brochures available on Mark Farrah Associate's website or call 724-338-4100.

About Mark Farrah Associates (MFA)

Mark Farrah Associates (MFA) is a leading aggregator of health plan market data and provides analysis tools for the healthcare industry. Our products include Med Supp Market Data™, Medicare Business Online™, Medicare Benefits Analyzer™, Health Coverage Portal™, County Health Coverage™, Health Insurer Insights™, and Health Plans USA™.

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Glossary

Weighted Average MLR – For analysis purposes, Mark Farrah Associates calculated average Preliminary MLR weighted on the adjusted premiums for each company by segment. The MLRs used in the calculation are average ratios based upon the 2013 – 2015 years as reported in the NAIC's Supplemental Health Care Exhibit.



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