



Managed Medicaid Growth Continues for Health Plans

9/6/2013

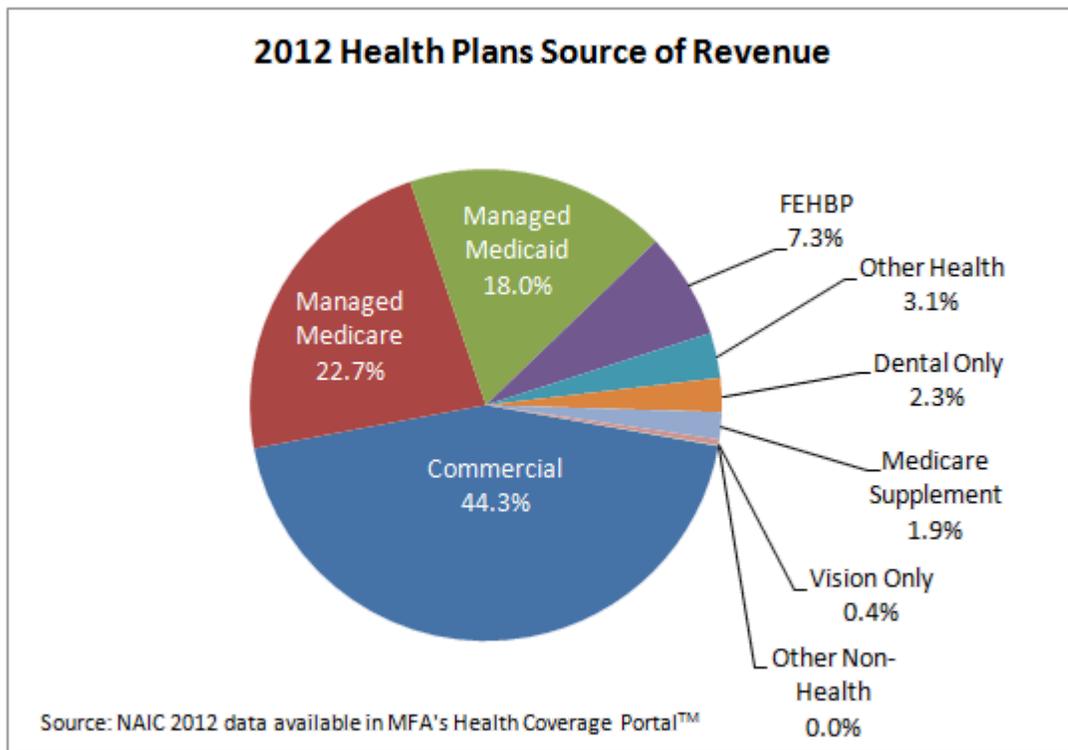
by Debra A. Donahue

Aggregate revenues reported by U.S. health plans totaled \$435.2 billion for 2012, up from \$409.4 billion in 2011, or 6.3%, according to an analysis by Mark Farrah Associates (MFA) of data filed with the National Association of Insurance Commissioners (NAIC)*. During the same period combined medical expenses increased 7.5% and the average number of people covered grew 0.4%. Roughly 44% of total health plan revenues for 2012 came from commercial, comprehensive medical products (fully insured) sold to employers and individuals, this is down significantly from nearly 60% in 2006. In 2012, managed Medicaid revenues represented 18% of total health plan revenues, up from only 10% in 2006.

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 2012 health plan data filed with insurance regulators for year-end 2012 shows a 0.4% increase in the average number of people covered (the average number of people covered is member months for the year divided by 12) and a 6.3% increase in health plan revenues between December 2011 and December 2012. Health insurers in the United States reported a 2.7% underwriting gain on \$435.2 billion in total revenues for 2012, down from a 3.6% underwriting gain on \$409.4 billion one year ago. Less than half of total 2012 revenue for health insurers came 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.

Sources of revenue for health plans continue to shift from Commercial to Managed Medicaid. Comprehensive, risk-based commercial coverage as a percentage of total revenues has fallen from 59% in 2006 to 44% in 2012. Managed Medicaid revenue as a percentage of total revenues for health plans grew from 10% in 2006 to 18% in 2012. From 2011 to 2012 Commercial revenues increased only three tenths of a percent (0.3%) while Medicaid revenues increased 19.0% for the same time frame. The growing senior population has fostered growth in the Medicare segment; Managed Medicare products now account for 22.7% of health plan total revenues, up from 16% in 2006. Continued economic challenges and uncertainty about health reform has more employers shifting to self-insured products. As a result, Commercial sector revenues have declined. Medicaid growth can also be attributed to the state of the economy and health reform changes, as more states opt for managed Medicaid programs to serve the growing number of people eligible for these programs.

Medical Expenses

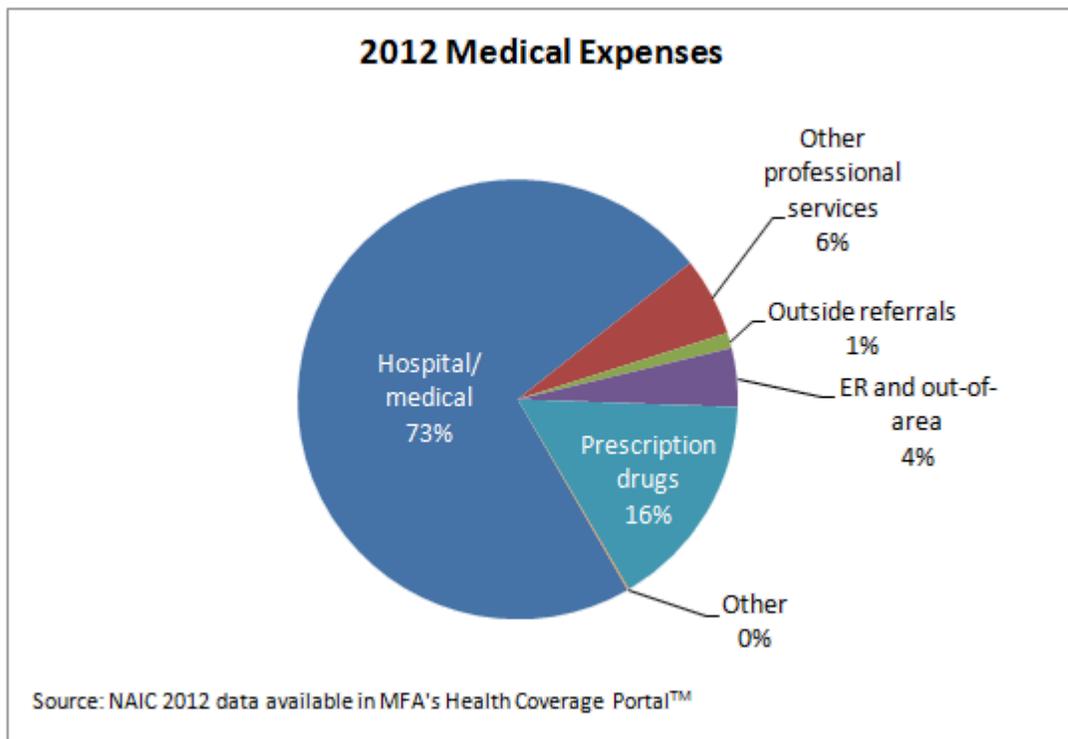
The escalating cost of medical expenses is an ongoing concern among health plans, consumers, and legislators. Results for 2012 show nearly 85 cents of every dollar received in commercial revenue for comprehensive medical coverage goes toward medical expenses, up from 84 cents in 2010. Medical expenses for Medicaid business also increased between 2010 and 2012. For every dollar received in Medicaid revenue, health plans paid out 85.5 cents in medical expenses in 2010 and paid out 87.5 cents in 2012. 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.

Percentage of Revenues by Line of Business Spent on Medical Expenses			
Line of Business	2010	2011	2012
FEHBP	93.4%	93.5%	93.6%
Managed Medicaid	85.5%	85.4%	87.5%
Managed Medicare	84.9%	85.2%	85.2%

Commercial Comprehensive (Hospital & Medical)	83.8%	83.4%	84.8%
Medicare Supplement	80.8%	81.2%	80.0%
Dental Only	79.6%	78.4%	77.1%
Vision Only	76.2%	75.9%	75.4%
Source: NAIC 2012 data available in MFA's Health Coverage Portal™			

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 \$2 billion fiscal year 2013 United States Office of Personnel Management (OPM) budget. OPM, which is the agency that administers the FEHBP program, was tasked by the Affordable Care Act with implementing the Multi-State Plan Program (MSPP), the national health insurance exchange program set to begin enrolling members as of October 1, 2013. In August 2013, OPM issued a proposed rule to implement the Affordable Care Act (ACA) requirement that members of Congress and congressional staff employees choose health plans offered through health insurance exchanges. That is quite an incentive to make sure the program is up and running smoothly and efficiently. Health plans participating in the MSPP will be contracting with OPM in much the same way plans participating in the FEHBP program do today.

Across the United States for all health plans that report data through the NAIC, approximately \$381 billion was outlaid for medical expenses in 2012, with health plans recovering about 2.4% of those charges through reinsurance. On average 73% of total medical payments reimburse hospitals and physicians for their services (referred to as hospital/medical benefits). Approximately 16% 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 68% for hospital/medical benefits and 14% on prescription drugs. In comparison, 73% 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.

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 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™, County Health Coverage™, Health Insurer Insights™, Medicare Business Online™, Medicare Benefits Analyzer™, and Health Plans USA™.

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