



Mid-Year Health Insurance Enrollment Trends and Market Outlook

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by Mark Farrah Associates

Health plans nationwide continue to experience increased pressure to redefine their approach in search of growth. Pursuing opportunities in government programs, converting providers to value-based reimbursement contracts, engaging in M&A's and implementing innovative, consumer-centric products are common growth strategies for many leading health plans. With the recent outcome of the Presidential election, the healthcare industry is bracing for change. Uncertainties around the future of Obamacare, health care policy changes and the pending mega mergers will continue to influence insurers' strategic and operational decisions for the upcoming year. Regardless, seasoned health insurers are adept at meeting the demands of the ever evolving industry and will continue to stay competitive and focused on controlling costs and retaining customers.

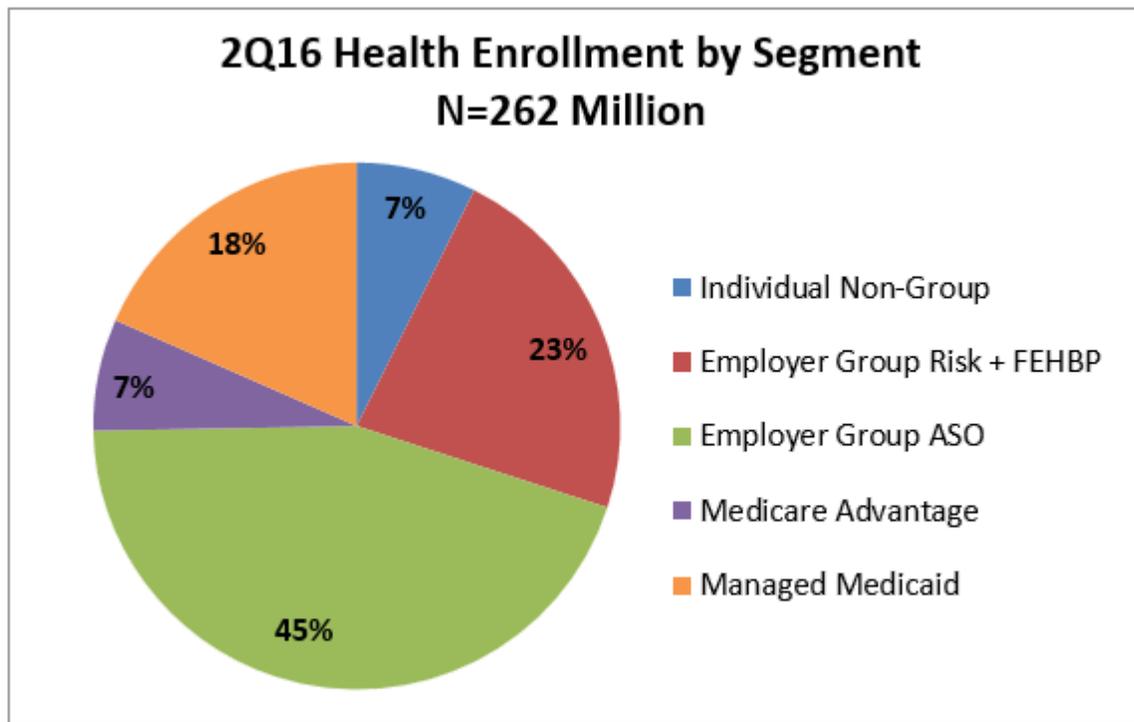
This analysis presents key findings from Mark Farrah Associates' (MFAs) review of the latest year-over-year enrollment trends, comparing 2nd quarter 2015 with 2nd quarter 2016 segment membership. The latest trends indicate an ongoing decline in the Individual Non-Group segment, reflecting adverse impacts of the Affordable Care Act, and a slowing pace of growth in the Employer Group Risk segment. In contrast, Medicare Advantage, Managed Medicaid and ASO (administrative services only) businesses continue to be strong growth levers for the industry.

Insurance companies provided medical coverage for approximately 262 million people as of June 30, 2016, based on membership data filed in statutory financial reports. The Employer Group ASO (administrative services only for self-funded plans) segment remains the largest source of coverage in the industry, collectively enrolling over 117 million people in second quarter 2016. From 2Q15 to 2Q16, growth was most significant in the Managed Medicaid segment as 3.5 million more members joined state-subsidized plans. Meanwhile, year-over-year enrollment performance in the Individual Non-Group segment lost 664,000 members, including members both on and off the exchange.

Segment by Segment

Based on a year-over-year analysis comparing 2Q15 with 2Q16 membership figures, approximately 19.3 million people are currently enrolled in Individual, Non-Group medical plans. MFA's analysis found aggregate enrollment in the Individual segment declined by 3% from June 2015 through June 2016, significantly different from the 8% growth plans experienced between 2Q14 and 2Q15. Though Individual enrollment reports by carrier include both "on" and "off" Exchange members, this data is the only means of assessing state-by-state competition in the segment.

As the ACA health exchanges enter the fourth year, the industry remains cautious. Though the risk corridor program was intended to reduce overall financial uncertainty in the early years of the exchanges, it proved to be generally ineffective for many plans. Health plans have reported both gains and losses since the enactment of the Marketplaces but the volatility of the program has many insurers proposing sharp premium hikes or withdrawing from the exchanges for 2017, altogether. On the other hand, some leading insurers have experienced great success, however, the future Obamacare now resides in the hands of the new Trump administration. While a full repeal is unlikely, talks of keeping certain key provisions and completely replacing other parts of the law are already being discussed.



Source: Health Coverage Portal™, Mark Farrah Associates

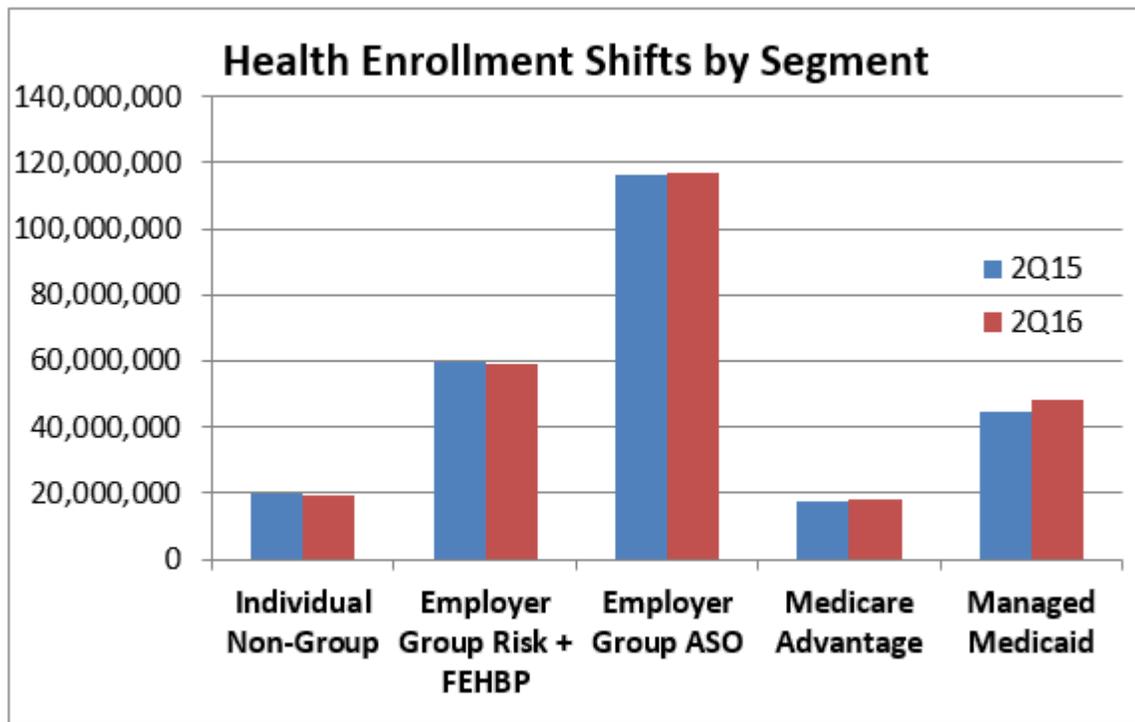
Year over year, Managed Medicaid membership increased by approximately 3.8 million, representing 9% growth, down from 23% growth in the prior year's second quarter comparisons. Managed Care Organizations (MCOs), the insurance carriers reporting Medicaid members through statutory financial statements, now provide coverage for almost 48.3 million beneficiaries but it's important to note that other types of plans also compete in the Medicaid segment. For example, in New York, Prepaid Health Services Plans (PHSPs) cover the majority of Medicaid beneficiaries. These plans submit special performance reports to the state but are not required to file NAIC statutory financial statements. According to CMS reports, a total of over 73.1 million people rely on Medicaid as their source of health insurance coverage as of August 2016.

Membership in Medicare Advantage (MA) plans increased from 17.4 million as of 2Q15 to nearly 18 million as of 2Q16, according to plan reported statutory financial reports. MA plans provide coverage for approximately 32% of all those eligible for Medicare benefits.

Medicare Advantage reimbursement rates for 2017 increased slightly by 0.85% on average. CMS will also phase in cuts to employer-sponsored Medicare Advantage plans over the next two years. Industry analysts expect these policy changes may contribute to instability in employer-based Medicare retiree plans.

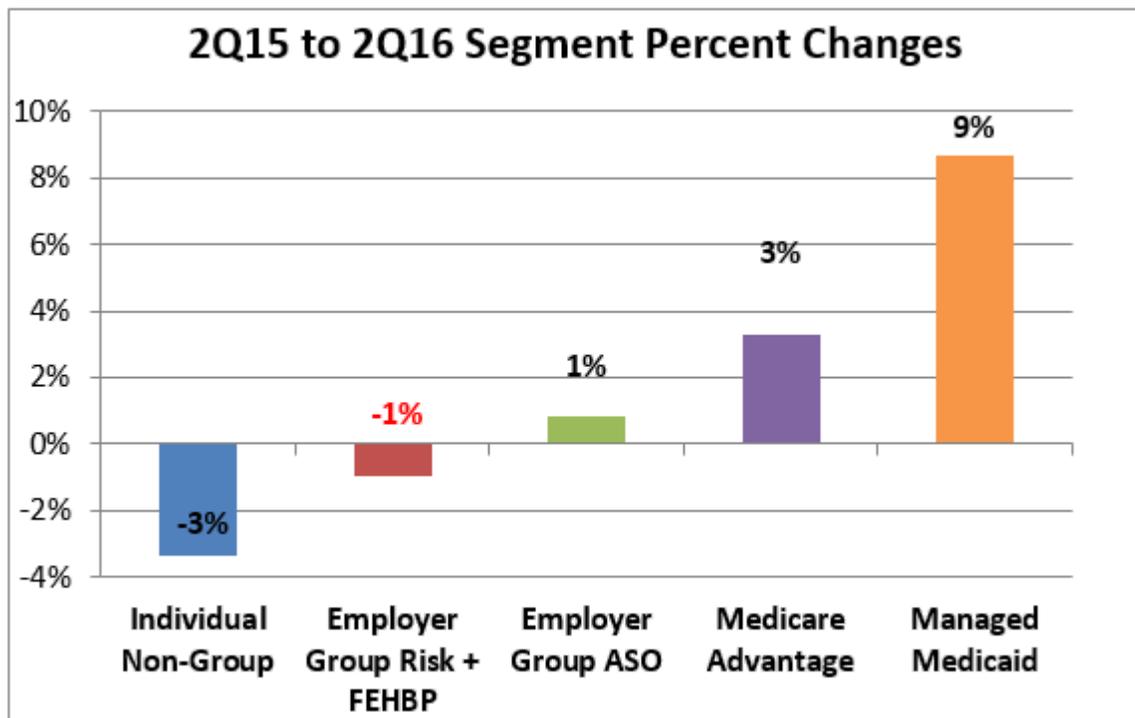
The latest figures continue to show ongoing decline in the Employer Group Risk segment but the pace of decline has slowed. From 2Q15 to 2Q16, membership decreased by just 1% from 59.9 million to 59.3 million. Health insurance experts have monitored this downward trend for more than a decade and postulated many contributing factors, e.g. employers phasing out retirement benefits and higher rates of public health insurance eligibility. Nonetheless, employers are still the dominant source of health coverage for Americans and many employers continue to offer risk-based plans.

According to MFA's recent estimates, employer group ASO (administrative services only for self-funded business) membership grew by approximately 952,000 members in the last year. MFA identified approximately 117 million ASO covered lives by company. This supports accounts of growth in self-funded employer groups in recent years due in part to employer exemptions from many of the ACA's benefit mandates and requirements.



Source: Health Coverage Portal™, Mark Farrah Associates

It is important to note that MFA estimated second quarter 2016 enrollment for a small number of health plans that are required to report quarterly enrollment but hadn't yet filed. Employer group ASO figures may be estimated by Mark Farrah Associates using credible company and industry resources. Individual Non-Group membership reported by some carriers may include CHIP (Children's Health Insurance Program). These adjustments may have resulted in moderate understatement or overstatement of enrollment changes by segment. Findings reflect enrollment reported by carriers with business in the U.S. and U.S. territories. Data sources include NAIC (National Association of Insurance Commissioners) and the CA DMHC (California Department of Managed Health Care).



Source: Health Coverage Portal™, Mark Farrah Associates

A Look Ahead

As the industry prepares for unknown and unpredictable market changes, health insurers will be keeping a close watch on President-elect Trump's health care proposals. The future of the Affordable Care Act (ACA), the pending mergers and acquisitions and rising health care costs are at the forefront of the issues at hand. Many health plans continue to report losses on exchange business but a full repeal of the ACA would mean the loss of millions of customers for insurance companies. While this would be an unlikely solution, potentially significant revisions to the law will most likely occur. How the new administration plans to devise a strategy to provide health insurance coverage to millions of uninsured Americans has yet to be determined.

In addition, health insurance merger and acquisition activity could potentially create a significant impact on health plan competition. On one hand, an influx of health plan consolidation could provide opportunities for increased efficiencies, lower costs, increased innovation and a higher quality of care. However, mega mergers such as Anthem with Cigna and Humana with Aetna could make it difficult for the potential of new entrants or for smaller companies to survive on their own. If regulators approve these mergers, the competitive landscape will be altered segment by segment.

Without a doubt, the industry may be in for huge shifts that could markedly change the healthcare landscape. It will be interesting to see what transpires under the new administration but in the meantime, health insurers will continue to work toward maintaining their competitive advantage and adapt with the times. Mark Farrah Associates will continue to monitor and report on important plan performance and competitive shifts across all segments.

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