



New Insights about the Commercial Health Insurance Market

6/3/2011

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June 17, 2011 Update:

Commercial Business Snapshot observations were amended to correct errors in reporting of financial data.

The Commercial segment is the largest market for U.S. health insurance carriers. Exciting new insights into this segment are currently available thanks to the Patient Protection and Affordable Care Act (PPACA) and new National Association of Insurance Commissioners (NAIC) filing requirements. Mark Farrah Associates (MFA) previously discussed the new health plan reporting requirements mandated to support PPACA and health reform initiatives in a January 2011 report, [New Health Plan Reporting Requires More Transparency \(/healthcare-business-strategy/New-Insights-about-the-Commercial-Health-Insurance-Market.aspx\)](#). Now, we're analyzing results from the first round of reporting as 521 insurance companies filed the new Supplemental Health Care Exhibit with their 2010 Annual Statements. Reporting companies included Health, Life, Property and Fraternal insurers with direct, comprehensive major medical health business. This brief presents key observations about the Commercial Health Insurance Market based on MFA's preliminary analysis.

A Quick Refresher

On August 17, 2010, the NAIC approved the Supplemental Health Care Exhibit (Supplemental Exhibit). This supplemental schedule is filed by April 1st of each year and reporting began with the 2010 Annual Statutory Financial Statements. The purpose of this Supplemental Exhibit is to assist state and federal regulators in identifying and defining elements that make up the medical loss ratio (MLR). The Supplemental Exhibit also tracks and compares enrollment and financial results of health care business as reported in the Annual Statutory Financial Statements by customer segment.

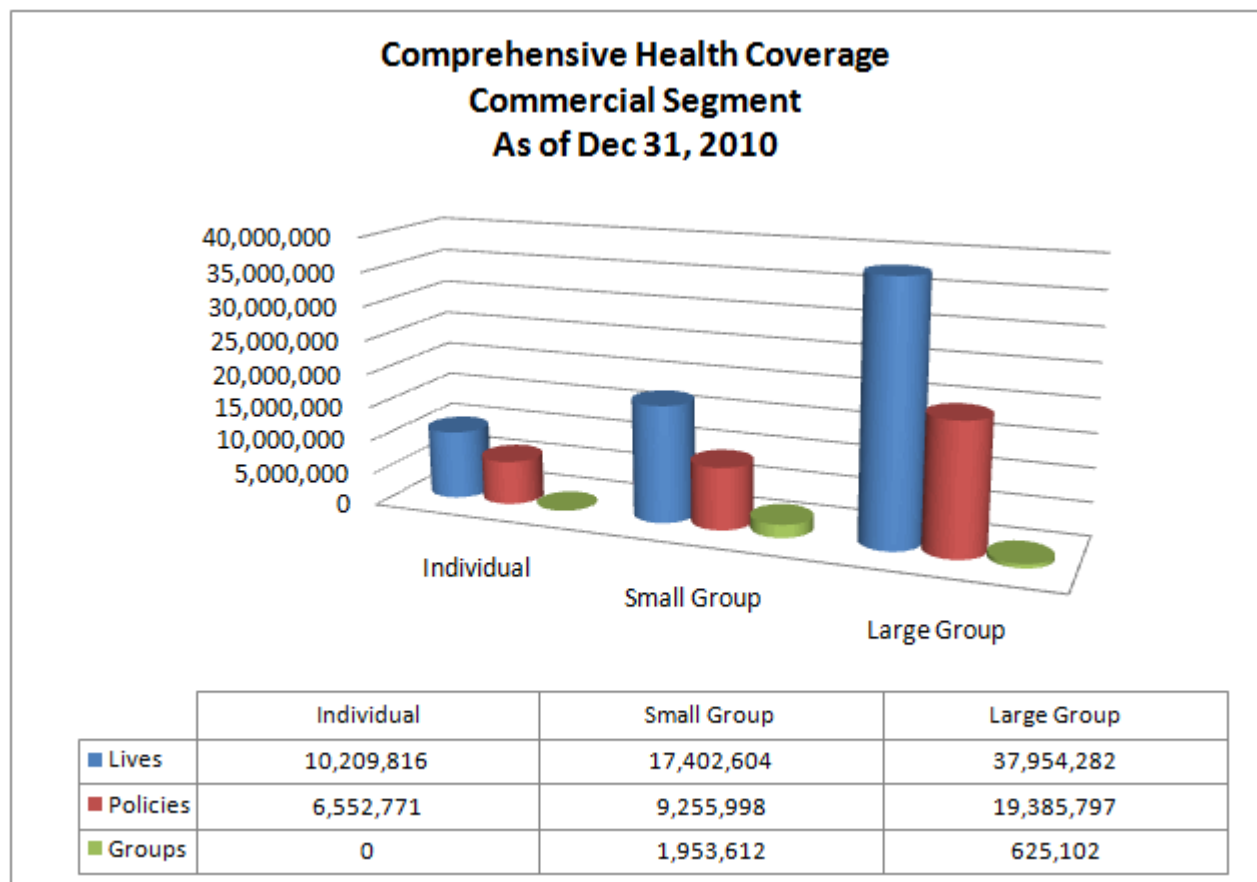
All types of insurance entities with comprehensive major medical business that currently submit data to the NAIC, including Health; Life, Accident & Health; Property & Casualty; and Fraternal, are required to file the Supplemental Exhibit. California HMOs that file annual statements with the California Department of Managed Health Care were not required to file the Supplemental Exhibit with their Annual 2010 filings. Some small, single-state insurers that are not required by state regulators to submit NAIC Annual Statutory Financial Statements are also exempt.

Only insurers that sell individual, small group or large group comprehensive health coverage are required to complete the exhibit. Comprehensive health coverage includes business that provides for medical coverage including hospital, surgical and major medical. The new Supplemental Exhibit is prepared separately for each state in which the company has written direct comprehensive major medical health business. A grand total exhibit is also required. The Supplemental Exhibit reports detailed income statement and enrollment data based on individual, small group employer, large group employer, government business, other business, other health, and uninsured plans. For the following analysis Mark Farrah Associates aggregated the grand total pages of the Supplemental Exhibit for the Individual, Small Group and Large Group segments. However, more detailed data is available in MFA's Health Coverage Portal™.

The new exhibit, with more segment granularity, is definitely a vehicle for improved competitive analysis as it presents enrollment and financial data, state-by-state for Individual-non-group, Small Group and Large Group markets. It is important to reiterate California managed care plans, regulated by the California Department of Managed Health Care, were not required to file this data for 2010. This competitive assessment does not include adequate representation of the California market. Additionally, keep in mind, we are talking about the aggregate performance of 521 plans representing licensed entities within 241 insurance companies who filed the new Supplemental Exhibit for 2010. Not all Commercial risk plans filed the Supplemental Exhibit but the majority did so.

Commercial Enrollment & Market Mix

Commercial risk plans offering medical coverage insured a total of 83.7 million people as of December 31, 2010, according to annual financial statements filed with the NAIC. Health plans completing the new Supplemental Exhibit reported nearly 65.6 million people in Individual, Small Group and Large Group segments. By Mark Farrah Associates' estimation the new data includes 78% of the total Commercial risk population. While compliance appears better than initially expected for plans submitting data for the Supplemental Exhibit, data anomalies, omissions and extraneous reporting may have occurred.



Source: MFA's Health Coverage Portal™ data from the NAIC Supplemental Health Care Exhibit

In the Supplemental Exhibits, health plans reported more than 10.2 million people were covered by 6.6 million individual policies in 2010. Individual is defined as health insurance where the policy is issued to an individual covering the individual and/or their dependents in the individual (non-group) market. This includes conversions from group policies. Only comprehensive major medical health business should be included here. However, it was noted that some plans, who do not indicate they sell Individual major medical insurance on their websites, did report individual enrollment in the Supplemental Exhibit for 2010.

Approximately 17.2 million people received health insurance through 1.9 million small employer groups as of December 2010. The average number of covered lives per small group was 8.9 in 2010. Small group employer is defined as groups with up to 100 employees, except in states exercising an option under PPACA to define small

groups up to 50 employees until 2016. Every state in the U.S. currently defines small group up to 50 employees.

The large group employer category includes the Federal Employees Health Benefit Program (FEHBP) and state and local fully insured government programs. Nearly 38 million people are covered by commercial risk plans offered by 625,000 large employer groups according to the Supplemental Exhibit data, with an average of 60.7 covered lives per group. It is important to note that the majority of large employer groups in the United States self-insure their employees' medical plans and are therefore excluded from this data. The low number of covered lives per employer group supports Mark Farrah Associates' theory that the definition being used for small employer is up to 50 employees.

Leading Commercial risk health plans including UnitedHealth, WellPoint, Health Care Services Corporation (HCSC), Aetna and Kaiser Foundation Health Plan all have different Commercial risk market mix profiles. UnitedHealth Group, the leading Commercial risk carrier based on total membership, obtained 52% of its commercial risk membership from large groups, 37% from small group and 11% from the individual market. In contrast, Kaiser Foundation Health Plans' market mix is made up of 81% large group, 13% small group and just 6% from the individual segment. Kaiser recently began offering large employer groups that wish to participate in its managed care model, an administrative services only alternative. This may explain its high large group market percentage.

2010 Commercial Risk Market Mix for Leading Plans			
Plan	Individual	Small Group	Large Group
UnitedHealth	11%	37%	52%
WellPoint	20%	26%	54%
HCSC	18%	21%	61%
Aetna	12%	32%	56%
Kaiser Foundation	6%	13%	81%
Total All Plans	16%	27%	58%

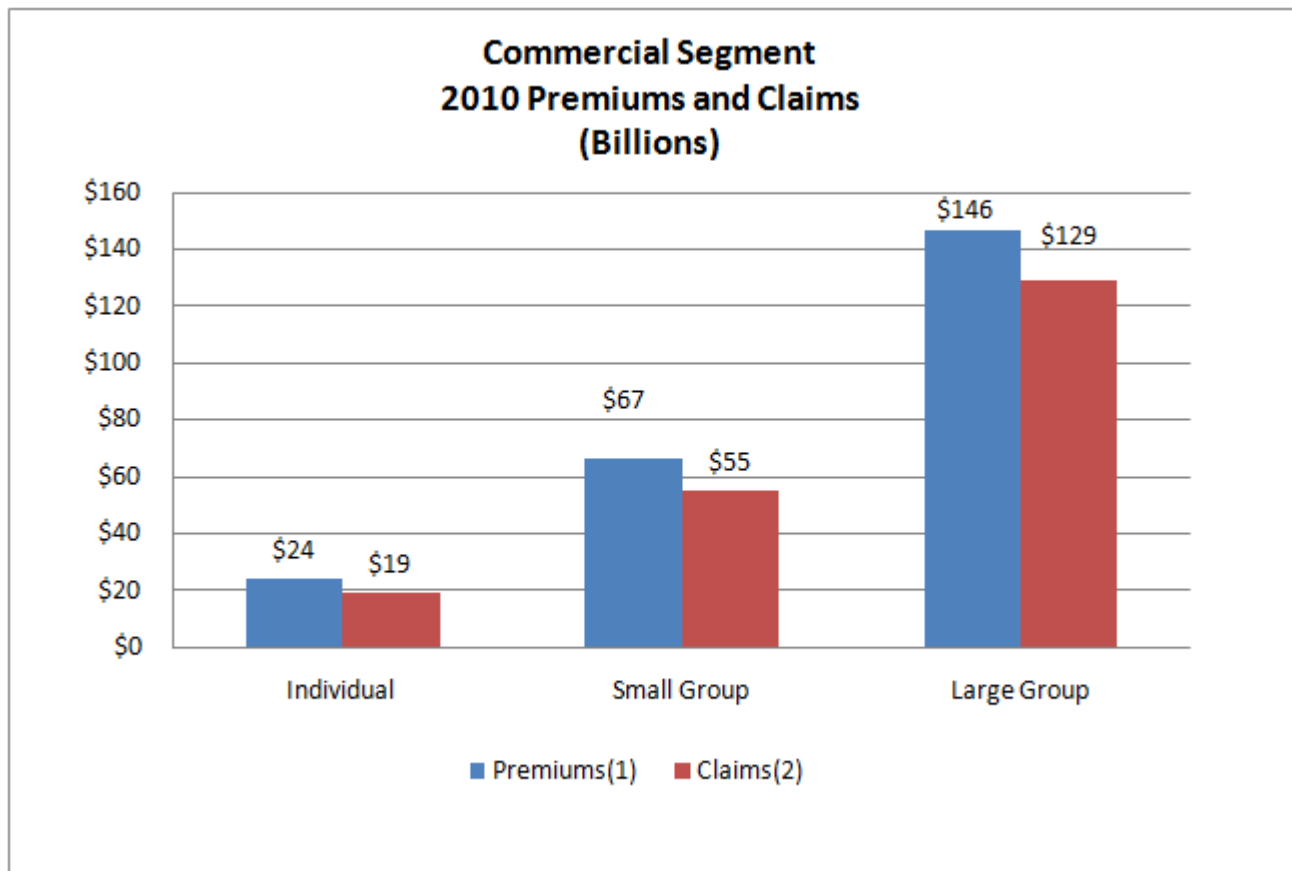
Source: Analysis of NAIC Supplemental Health Care Exhibit data available in MFA's Health Coverage Portal™

Commercial Business Snapshot

The Supplemental Exhibit has three parts: Part 1 summarizes the data from the other parts and includes data on premiums, claims, quality expenses, general and administrative expenses - including agent and broker fees and commissions, and the number of policies, covered lives, number of groups and member months. Part 2 includes a detailed break out of health premiums earned and direct claims incurred. Part 3 includes a detailed break out of expenses related to improving health care quality and claims adjustment expenses.

Commercial plans earned \$237.5 billion in premiums (commercial net adjusted premium earned after reinsurance) and incurred \$204.1 billion in claims (commercial net insured claims after reinsurance) during 2010. The aggregate loss ratio, incurred claims as a percent of earned premiums, was 85.9%. The aggregate premiums on a per member per month (pmpm) basis¹ for 2010 was \$299.34 pmpm; with an individual premium of \$201.59 pmpm, small group at \$317.87 pmpm and a large group premium of \$316.36 pmpm. The aggregate net insured claims after reinsurance was \$257.24 pmpm.

¹Premiums or Claims for the segment divided by total member months for the segment.



Source: Mark Farrah Associates' analysis of data filed with the NAIC in the Supplemental Health Care Exhibit - Part 1 (Group Totals); data available in MFA's Health Coverage Portal™

(1) Premiums = commercial net adjusted premium earned after reinsurance; (2) Claims = commercial net insured claims after reinsurance

Aside from detailed information on market segment premiums, claims and membership on a state-by-state, plan level basis, the new Supplemental Exhibit data also revealed health plans paid out, under the commercial segment, close to \$7.4 billion in agent, broker fees and commissions; \$1.7 billion in defined expenses for improving health; and \$39.4 million in expenses for ICD-10 implementation.

Analyzing market share by small and large group segments for Commercial risk has always been a challenge for the industry. The Supplemental Exhibit data makes this considerably easier and yields some interesting results. A few examples: In Connecticut, WellPoint (Anthem Blue Cross and Blue Shield of Connecticut) is the leading large group Commercial risk carrier, while EmblemHealth (ConnectiCare) is in second place; in the small group market, UnitedHealth (UnitedHealthcare and Oxford Health) is the leading carrier with WellPoint (Anthem Blue Cross and Blue Shield of Connecticut) in second place. In Pennsylvania, the large group segment leader is Highmark Blue Cross Blue Shield, followed by Independence Blue Cross; for the small group segment the leader is Aetna followed by Highmark.

Often there is an entirely different market leader when the individual segment is evaluated. Market share can now be determined based on segment enrollment or based on revenues or even claims paid down to the per member per month level.

From an analytical perspective there is a wealth of information being reported by plans. It certainly goes a long way toward creating a more transparent industry. The majority of health plans have done a remarkable job in complying with the level of data requested. For anyone wishing to understand their local competition better or analyze this data on a more regional or national level, Mark Farrah Associates has the data you need. We are positioned to capture, interpret and analyze important data elements from the Supplemental Exhibits. In fact, much of this data is already available in Mark Farrah Associates' Health Coverage Portal™.

About Health Coverage Portal™

Health plans file statutory data on a quarterly and annual basis with state insurance regulators. Financial statements are prepared using statutory accounting rules as defined by the National Association of Insurance Commissioners (NAIC). For companies seeking comprehensive market data, MFA offers the Health Coverage Portal™ (</products/health-coverage-portal.aspx>), a unique online application that integrates NAIC statutory and MFA self-insured datasets. The Health Coverage Portal™ provides easy access to financials, PMPM comparisons, ratios, membership and market share. Call MFA at 207.985.8484 to schedule an online demo of the Health Coverage Portal™.

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 financial data by plan, parent, state, region and nationally. Committed to simplifying analysis of health insurance business, our products include Medicare Business Online™, Medicare Benefits Analyzer™, Health Coverage Portal™, Health Insurer Insights™ and Health Plans USA™.

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