

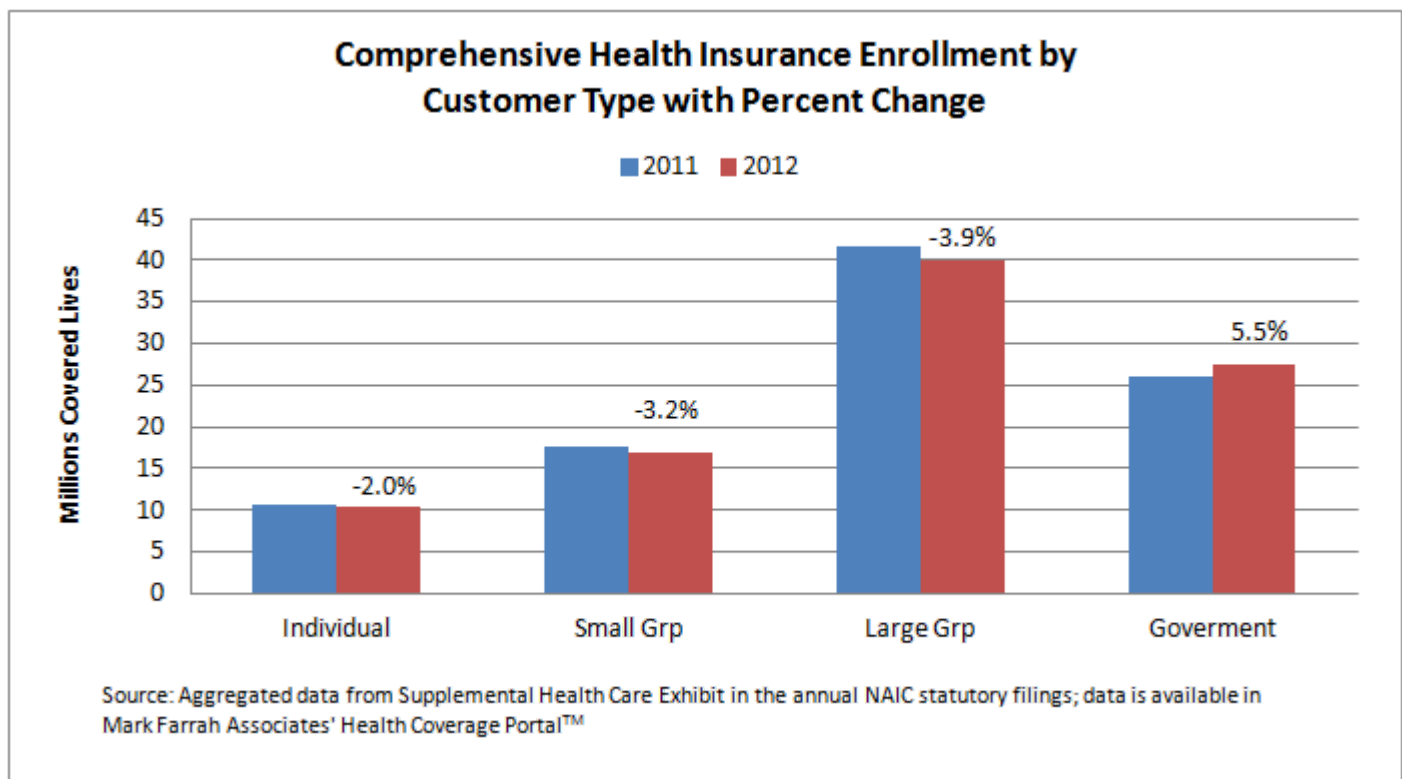


## Small Group Health Insurance Enrollment Decline Continues

6/14/2013

by Debra A. Donahue

In 2012, more than 17.7 million people received comprehensive health insurance through fully-insured small group policies, compared to nearly 40.1 million people who received similar coverage through fully-insured large group policies. Mark Farrah Associates' (MFA's) analysis of information from the Supplemental Health Care Exhibit (SHCE), that insurance carriers file annually with the National Association of Insurance Commissioners (NAIC), found enrollment in health insurance plans for small and large businesses declined 3.2% and 3.9%, respectively, between 2011 and 2012. In contrast, enrollment was up 5.5% for products offered through government entities. Growth in Individual plans also declined in 2012 but this may be associated with a reclassification of student products in the SHCE.



While small group enrollment declined 3.2%, the total number of small employer insured groups as reported by health plans declined 9.3%, from 1.70 million small groups in 2011 to 1.55 million small groups in 2012. This is down significantly from the 2.03 million in 2010. It is uncertain if the loss of over 150,000 small businesses from this health insurance segment in 2012 is due to the economy, health care reform initiatives or is a reporting anomaly.

For small employers the average number of enrollees per group increased from 10.3 in 2011 to 11.0 in 2012. Between 2010 and 2011, the number of small group members per group increased from 8.9 to 10.3. MFA thought the change in enrollment size from 2010 to 2011 suggested a change in the reporting of small group's data. The Patient Protection and Affordable Care Act (ACA) regulations define a small group as an employer

with less than 100 employees. However, many states and health plans historically defined small business as 50 or less employees. Based on NAIC guidelines, which mention that carriers can use the individual state's definition when completing the SHCE until 2014, it is unclear if the change noted in the number of covered lives per employer group is a reporting phenomenon or a market shift. The average number of covered lives per large group increased from 155.9 in 2011 to 208.5 in 2012. This supports the notion that the average small group size increased because of the change in reporting.

### Premiums, Claims and Administrative Cost Differences

A primary budget concern for most business owners has been the increase in health insurance premiums. Based on information filed in the SHCE, small business (SG) owners paid on average \$348.84 per member per month\* (PMPM) in 2012. Large group business (LG) owners paid on average \$347.29 in premiums PMPM in 2012, slightly less than the SG PMPM. These rates reflect an increase of 2.29% for small groups and 1.45% for large groups between 2011 and 2012.

<b>2012/2011 Premiums, Claims and Admin Costs Comparison Per Member Per Month</b>			
Year-over-Year Percent Change			
<b>Small Group (SG)</b>	<b>Premiums</b>	<b>Incurred Claims</b>	<b>Admin Costs</b>
SG 2012	\$348.84	\$281.09	\$32.52
SG 2011	\$341.03	\$270.62	\$33.35
Percent Change	2.29%	3.87%	-2.47%
<b>Large Group (LG)</b>	<b>Premiums</b>	<b>Incurred Claims</b>	<b>Admin Costs</b>
LG 2012	\$347.29	\$301.52	\$19.25
LG 2011	\$342.34	\$293.38	\$19.40
Percent Change	1.45%	2.78%	-0.80%
<b>PMPM Differential SG less LG</b>			
	<b>Premiums</b>	<b>Incurred Claims</b>	<b>Admin Costs</b>
2012	\$1.55	-\$20.43	\$13.28
2011	-\$1.30	-\$22.76	\$13.95
<b>Percent Difference between SG and LG</b>			
	<b>Premiums</b>	<b>Incurred Claims</b>	<b>Admin Costs</b>
2012	0.45%	-6.78%	68.99%
2011	-0.38%	-7.76%	71.88%
Source: Aggregated data from Supplemental Health Care Exhibit in the annual NAIC statutory filings; data is available in Mark Farrah Associates' Health Coverage Portal			

Small groups incurred \$281.09 PMPM in claims during 2012, more than \$20 less PMPM than large groups, and \$32.52 PMPM in administrative costs for the same year, roughly \$13 more than large groups in 2012.

### Leading Small Group Health Competitors

The leading competitors in the small group market are UnitedHealth, WellPoint, Health Care Service Corporation (HCSC) and Aetna. Together these four plans insure 40% of the total small group market and collectively they earned \$28.6 billion of the \$69.9 billion in total small group adjusted premiums reported for 2012.

<b>2012 Top Health Insurance Carriers Covering Small Business</b>			
	<b>Covered Lives</b>	<b>Market Share</b>	<b>Adj. Premiums</b>
UNITEDHEALTH	2,622,945	15%	\$11,530,771,305
WELLPOINT	1,846,379	11%	\$8,148,226,945
HCSC	1,192,646	7%	\$4,975,088,890
AETNA	1,191,011	7%	\$3,961,123,119
Total Top Plans	6,852,981	40%	\$28,615,210,259
All Others	10,177,704	60%	\$41,313,073,451
Total	17,030,685	100%	\$69,928,283,710

Source: Aggregated data from Supplemental Health Care Exhibit in the annual NAIC statutory filings; data is available in Mark Farrah Associates' Health Coverage Portal

HCSC and UnitedHealthcare saw gains in the small group market from 2011 to 2012, adding 6.0% and 0.4% members respectively. WellPoint and Aetna reported small business enrollment declines for the same period. These same four companies are the top carriers covering large group business, in the same order, however they insure 38% of the large group fully-insured market.

It is unlikely we will see much change in the small group market until health insurance exchanges kick in for 2014. Reasons for the decline in group enrollment may be the economy, reporting changes, shifts to administrative services only arrangements by both large and small groups, or attrition due to lack of new options being developed as health plans await the advent of health insurance exchanges. Much ado has been made over the impact of ACA on small businesses. Among many other benefits to businesses, proponents of the legislation see the health insurance exchanges as an opportunity for small business workers to have more health insurance coverage options. Opponents see among many other concerns, employment growth barriers due to insurance requirements or penalty fees. Regardless of which side of the fence you are on the uncertainty continues to shadow employer and health plan decision making.

## 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) as of December 2011 and December 2012. MFA primarily used data from the Supplemental Health Care Exhibit of the NAIC Blank. Plans that primarily file with the California Department of Managed Health Care are excluded from this report. Mark Farrah Associates applies research methodologies to present a better understanding of small group market competition by carrier and state. The data used in this report is available through Mark Farrah Associates' Health Coverage Portal database.

*\* A member is anyone covered by the insurance policy and includes dependents as well as the employee. PMPM is calculated by taking the revenue or expense category divided by the member months for the period. One member enrolled in a health plan for 12 months equals 12 member months for the year.*

## 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.

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