



## The Small Group Health Insurance Market

7/30/2014

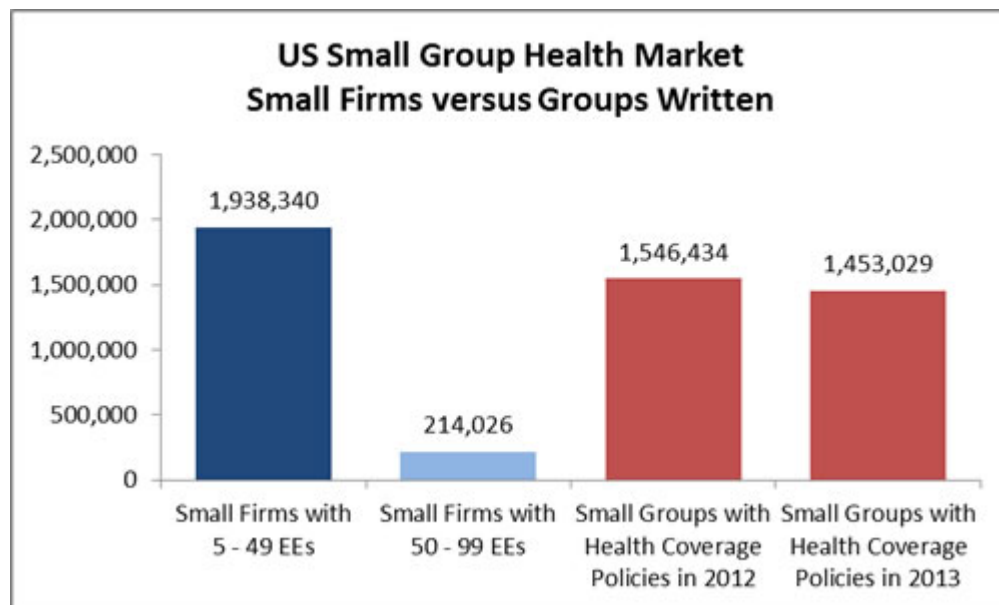
by Mark Farrah Associates

In 2013, small group health insurers provided coverage for 16.687 million people through policies written within 1.453 million small employer groups. The year-over-year trend continues to show a decline in the number of covered lives and groups but nonetheless this sizeable market remains an attractive business target for commercial health insurers. Three leading health insurance companies dominated with respect to underwriting gains in 2013, accounting for 71% of segment profits. The combined 71% share of profits is notable considering these carriers account for only 33% of total covered lives in the small group market.

Mark Farrah Associates (MFA) analyzed information from the Supplemental Health Care Exhibit (SHCE) in conjunction with US Census business statistics to assess trends in the small group health insurance market. The detailed financials presented in the SHCE that insurance carriers file annually with the National Association of Insurance Commissioners (NAIC) are highly useful for tracking and comparing enrollment and financial results by payer. This assessment focuses on small group market penetration and profitability.

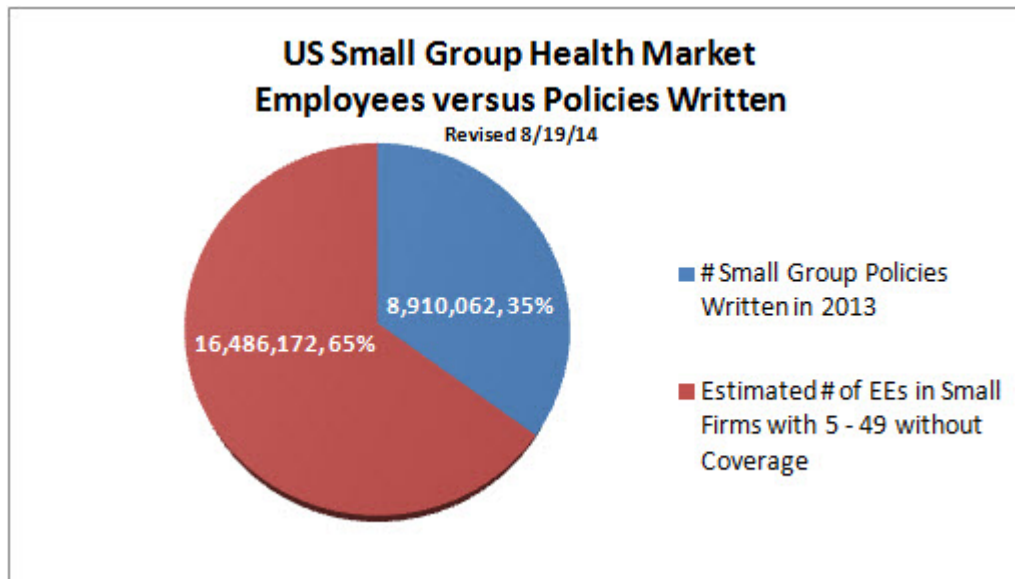
### The Small Group Market

More than 1.9 million small businesses, with 5 to 49 employees, comprise the primary target market for small group health insurance. If we consider businesses with 50 to 99 employees, the total market increases to 2.1 million firms. According to the latest SHCE data, insurance companies provided risk-based health insurance coverage for 1.453 million small employers in 2013 which implies roughly a 75% market penetration. Approximately 93,000 fewer small groups were reported by carriers in 2013 when compared with 2012 figures.



Sources: Data from the NAIC Supplemental Health Care Exhibit as available in Mark Farrah Associates' Health Coverage Portal TM; 2011 Statistics of US Business, US Census Bureau

2011 Statistics of US Business from the Census Bureau suggest that approximately 33 million people work for small employers (5 to 99 EEs). The majority (25.4 million) work for firms that employ 5 to 49 workers. Referring to 2013 data from the SHCE, about 8.9 million small group policies were underwritten last year, which amounts to an estimated 35% of the 5 to 49 small employee pool. As to why this implied percentage of those covered is much lower than the firm penetration estimate, many factors that were not addressed would have a bearing. This discussion and analysis did not include important variables such as average size of insured firms, small employer insurance eligibility and take-up rates, part-time and temporary employees and the number of self-insured among small employers. *Note this section of our analysis was updated and revised on 8/19/2014.*

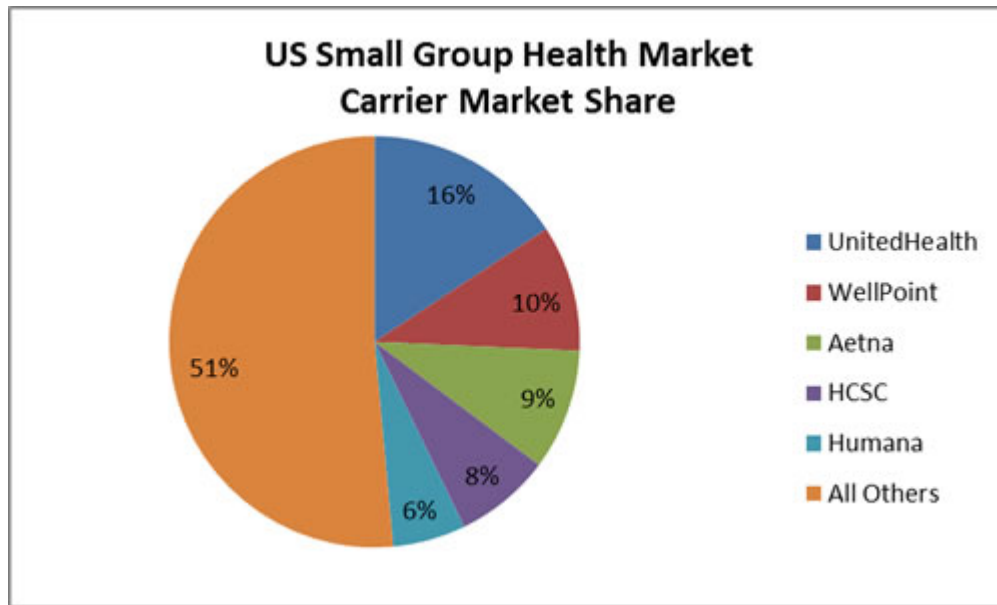


By virtue of size, the small group health insurance continues to represent a substantial market opportunity. Health insurers are keeping an eye on health reform results, attempting to gauge how regulatory changes will affect market composition. It is difficult to anticipate how many more small employers will opt out of providing health policies in light of emerging public exchanges.

### Small Group Health Insurers

Approximately 300 health plans compete in the small group market, based on an assessment of plans that covered at least 1,000 lives in 2013. These plans are owned and operated by some 140 insurance companies spanning national, publicly-traded companies, private and/or mutual insurance companies, Blue Cross Blue Shield plans and other regional not-for-profit plans.

Based on total covered lives, the top 5 small group carriers industrywide are UnitedHealth, WellPoint, Aetna, HCSC (Health Care Service Corporation) and Humana. Collectively, they provide coverage for more than 8 million people, owning 49% of the insured small group market. Combined market share for these top 5 carriers increased from 45% in 2012, due in large part to Aetna's acquisition of Coventry which ranked as the number 6 carrier in 2012.



With respect to underwriting performance, UnitedHealth Group, WellPoint and Health Care Service Corporation lead the small group market with respect to underwriting profits and overall financial performance. These plans earned healthy returns on their aggregate small group book of business and the majority of their health plans met required MLR thresholds for 2013. (The ACA (Affordable Care Act) requires that health insurance carriers submit Medical Loss Ratios (MLR) to Health and Human Services for review on an annual basis. Carriers must issue rebates to policyholders if MLR minimum standards are not met. In the small group market, carriers must spend at least 80% of all premium dollars collected on medical care.)

UnitedHealth Group plans collectively reported an underwriting gain of \$831 million resulting in a 7% profit margin. WellPoint plans combined underwriting gain was \$505 million, with a 7% profit margin. Health Care Service Corporation plans generated \$201 million with a 4% profit margin.

	<b>Small Group Underwriting Gain</b>	<b>Small Group Profit Margin</b>	<b>Small Group Aggregate Medical Loss Ratio</b>	<b>Small Group Aggregate Admin Expense Ratio</b>
UnitedHealth Group	\$830,993,870	7%	82%	10%
WellPoint	\$505,047,189	7%	82%	10%
Health Care Svc Corp	\$201,300,377	4%	83%	12%
<b>Top 3</b>	<b>\$1,537,341,436</b>			
<b>Industry Total</b>	<b>\$2,171,802,222</b>			

These top 3 companies garnered the lion's share of underwriting profit, about 71% of the small group segment total, despite having a lower overall percentage of premiums earned and number of covered lives.

## In Conclusion

Looking forward, a potential game-changer in the small group market will be the implementation of the Small Business Health Options Program better known by the acronym SHOP. This program was originally set to open the same day as the individual exchange in October of 2013 but has been delayed until November of 2014 for coverage beginning January 2015. Eligibility for the 2015 year is limited to employer groups of 50 or less but will increase to 100 or less for 2016.

The SHOP will allow business owners and or administrators to control the coverage level as well as the amount they pay toward coverage for their employees. In some cases they can benefit from a tax credit worth up to 50% on the amount they apply toward coverage depending on eligibility. Tax credits are highest for small businesses with 10 employees or less and whose full-time employees make less than \$25,000; about half of the small businesses in America have 10 or fewer full-time employees.

As industry transformation continues, Mark Farrah Associates will continue to monitor enrollment and segment changes in order to identify market shifts and evaluate competitive positioning.

### **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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