MILLIMAN RESEARCH REPORT

Medicare Advantage financial results for 2019

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Introduction

Medicare Advantage (MA) is a government-sponsored program that offers an alternative to traditional fee-for-service (FFS) Medicare, where private health plans, otherwise known as Medicare Advantage organizations (MAOs) provide benefits to Medicare beneficiaries. MAOs offer a number of different network-based plan designs in their defined service area with differing additional benefits, levels of member cost sharing, Part D coverage, and member premiums.

MA has grown in popularity since its induction in 1997 as Medicare+Choice, expanding significantly the last 10 years, from 25% of Medicare-eligible members in 2011 to over 40% in 2020.[1] MAOs contract with the Centers for Medicare and Medicaid Services (CMS) to deliver and manage the healthcare benefits under the Medicare program as well as their administrative costs and profit in exchange for predetermined capitation revenue. The federal government largely funds the cost of the program, with the revenue received by private plans based on laws, regulations, and an underlying bidding process established, regulated, and overseen by CMS.[2] Members may also pay a monthly premium depending on the plan design and the capitation revenue.

Most benefit plans offer coverage for additional benefits not covered by traditional FFS Medicare. Services like eyeglasses or contacts, hearing aids, dental, transportation, over-the-counter (OTC) drugs, and gym memberships are a few of the more common additional benefits provided by MAOs. Plans can also customize their benefit packages to offer certain benefits to a subset of chronically ill enrollees. In addition to offering additional benefits, MAOs can offer Medicare-covered services at cost sharing below traditional FFS Medicare. MA also includes prescription drug coverage through Part D. Most MAO benefit plans include Part D as part of the benefit plan. Part D is also largely funded by the federal government through subsidies by CMS. There are certain programs within Part D where the MAO is not at risk, such as Low-Income Cost Sharing (LICS), Coverage Gap Discount Program (CGDP), and federal reinsurance. MAOs receive prospective payments for these programs that are trued up at the end of the year.

MAOs are licensed health insurance entities and are required to file a statutory annual statement with the state insurance regulator. The statutory annual statement is a standard reporting structure developed and maintained by the National Association of Insurance Commissioners (NAIC), with prescribed definitions allowing comparisons among various reporting entities.

Milliman prepares the Medicaid financial results summary every year and released its 12th iteration of the Medicaid financial results summary focusing on 2019 earlier this year[3]. This report is structured very similar to the Medicaid financial summary report and is the first iteration of the Medicare report focusing on MAO financials. This report focuses on the results in the Medicare Advantage market for 2019.

This report summarizes the calendar year (CY) 2019 experience for selected financial metrics of organizations reporting Medicare Advantage experience under the Title XVIII Medicare line of business on the NAIC annual statement. The information was compiled from the reported annual statements.[4] Individual reporting entities may be excluded from this report for the following reasons:

- Did not submit a health annual statement
- Reported less than $10 million in annual Medicare (Title XVIII) revenue
- Otherwise omitted from the NAIC database of health annual statements utilized for this report

[1] Centers for Medicare & Medicaid Services. Medicare Advantage State/County Penetration 2020-11. Retrieved December 20, 2020, from https://www.cms.gov/research-statistics-data-and-systemsstatistics-trends-and-reportsmcradvpartdenroldatama-state-county/ma-statecounty-penetration-2020-11

[2] State of the 2020 Medicare Advantage Industry. Retrieved November 11, 2020, from https://us.milliman.com/en/insight/state-of-the-2020--medicare-advantage-industry-as-strong-as-ever

[3] Medicaid managed care financial results for 2019. Retried November 11, 2020, from https://us.milliman.com/en/insight/medicaid-managed-care-financial-results-for-2019

[4] National Association of Insurance Commissioners. Annual Statement Database, as delivered by S&P Global, Inc, all rights reserved.

The primary purpose of this report is to provide reference and benchmarking information for certain key financial metrics used in the day-to-day analysis of MAO financial performance. This report summarizes the financial results on a composite basis for all reporting MAOs.

This is the first annual iteration of the Medicare report, reflecting financial information for CY 2019 and analysis related to administrative costs reported by the MAOs.

- Appendix 1 provides additional detail and stratifications of the financial metrics presented in this report.
- Appendix 2 provides the methodology and assumptions utilized in developing the metrics presented in this report.
- Appendix 3 provides a mapping of CMS regions.
- Appendix 4 provides a summary of state-by-state financial metrics.

Summary of CY 2019 financial results

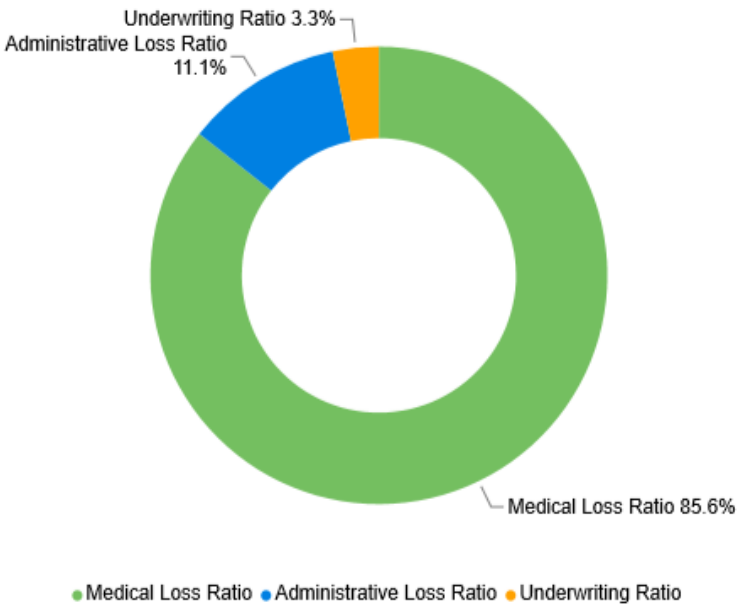
The CY 2019 financial information analyzed for this report comprises information for 333 reporting entities across 42 states. Information from Alaska, Delaware, Mississippi, Montana, North Dakota, South Dakota, Vermont, and Wyoming were not represented, primarily because the reporting entities in these states were excluded based on the filtering criteria used for this report. The annual statements were retrieved from an online database. In addition to the limiting criteria used to select companies in his report, certain MAOs may be omitted from this report because of their exclusions from the online database. For example, California has a very large number of MAOs, but results for only three entities were included in this report because there were no annual statements found in the online database due to differences in California health and NAIC health filings.

The MAO financials included in this report comprise information from MA only and MAPD plans. The financial data for the MAOs was compiled to produce outcomes of key financial metrics for various company groupings. The distribution of results is summarized in this report to allow for user reference and benchmarking purposes. Unless otherwise stated, only companies with at least $10 million in MA revenue were used in this analysis.

The primary financial metrics that we analyzed for this report include the medical loss ratio (MLR), administrative loss ratio (ALR), underwriting (UW) ratio, and risk-based capital (RBC) ratio. The selected metrics focus primarily on the income statement values of the financial statement, except for the RBC ratio, which is a capital (or solvency) measure. Appendix 2 of this report documents the methodology and formulas behind these metrics.

Figure 1 summarizes the composite CY 2019 financial results for the 333 companies meeting the criteria selected for this study. The total MA revenue base represents approximately $216.4 billion with achieved underwriting gains of 3.3%.

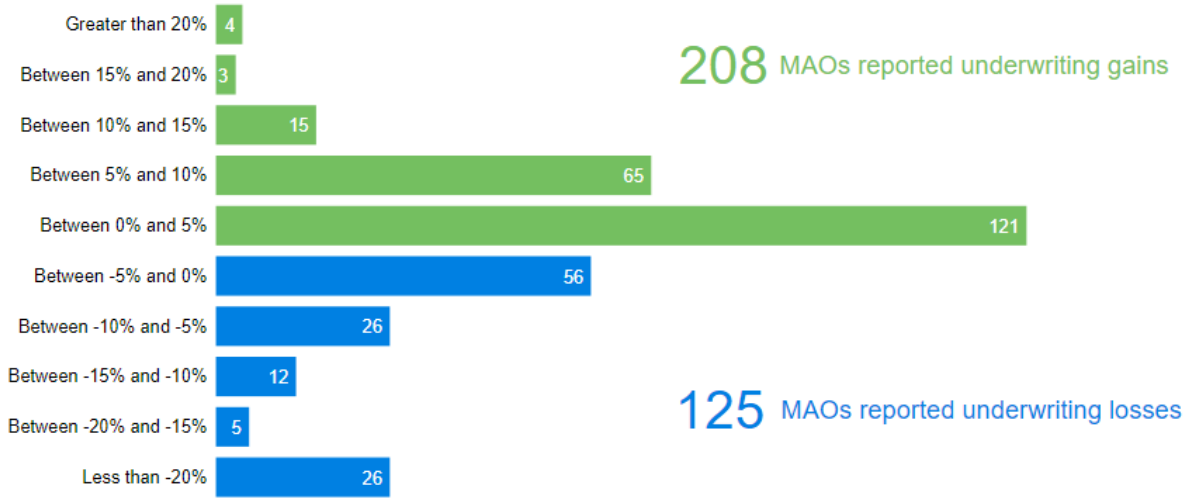
FIGURE 1: COMPOSITE CY 2019 FINANCIAL RESULTS



Notes: Values have been rounded.

The positive UW ratio of 3.3% represents a composite across identified MAOs, with considerable variances by individual MAOs. Figure 2 provides a distribution of the number of MAOs within ranges of UW ratios specific to CY 2019, indicating that slightly more than 60% of the MAOs reported gains, with the remaining MAOs reporting underwriting losses. Over half of MAOs reported an underwriting margin within a range of plus or minus 5%.

FIGURE 2: CY 2019 UNDERWRITING RATIO DISTRIBUTION

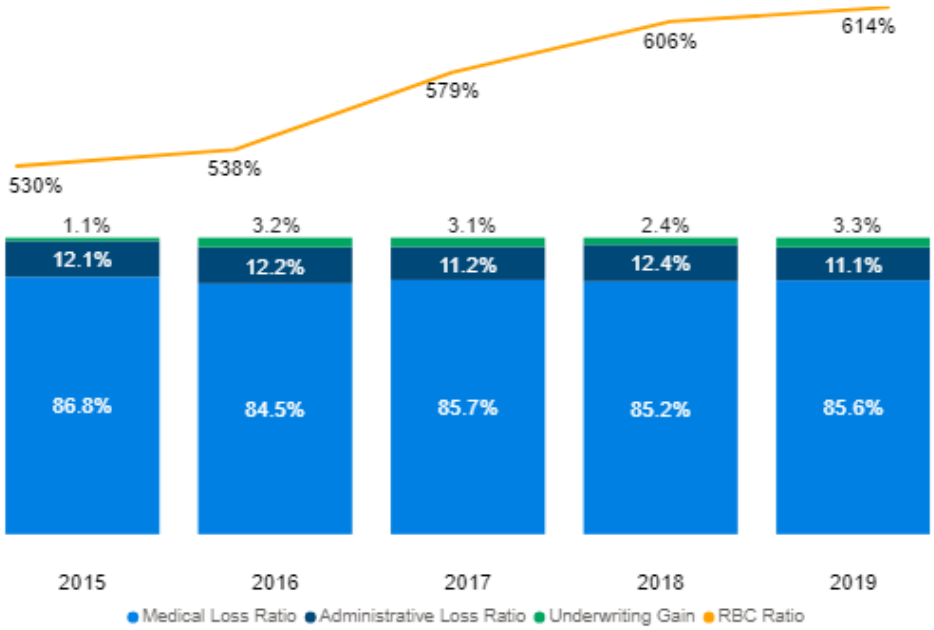


Appendix 3 shows the grouping of states into regions consistent with the state to region mapping used by CMS. While the aggregate underwriting gain is 3.3%, Appendix 4 provides a summary of the UW ratio and other financial metrics analyzed in our report on a state-by-state basis.

Regions 8 and 9 have the highest underwriting ratios, exceeding 5% on average, while Region 10 has the lowest underwriting ratio at less than 1%. A number of Western states achieved high UW ratios. For example, Nevada and Colorado have an MA UW ratio of approximately 7%. A number of Mid-Western states like Nebraska, Illinois, and Wisconsin also had very favorable UW ratios that are 5% and above. Size matters as MAOs achieve ALR economies of scale and more revenue to absorb claim fluctuations. No state within the top 10 sorted by CY 2019 member months has a negative underwriting ratio (only two of the bottom 10 states in terms of MA member months have a positive UW ratio in the MA market).

Over the past five years, the growth in MA revenue reflects a 57% increase. Enrollment included in the report increased by 34% over the same five-year period, with the largest year-over-year increase of over 9% coming between from CY 2017 to CY 2018. Figure 3 summarizes the composite financial results for the most recent five-year period. The companies in each year are not the same; however, the criteria used to select the companies are consistent from year to year.

FIGURE 3: FIVE-YEAR HISTORICAL FINANCIAL RESULTS



Several observations on the MA market can be made over the most recent five years. A few takeaways are the following:

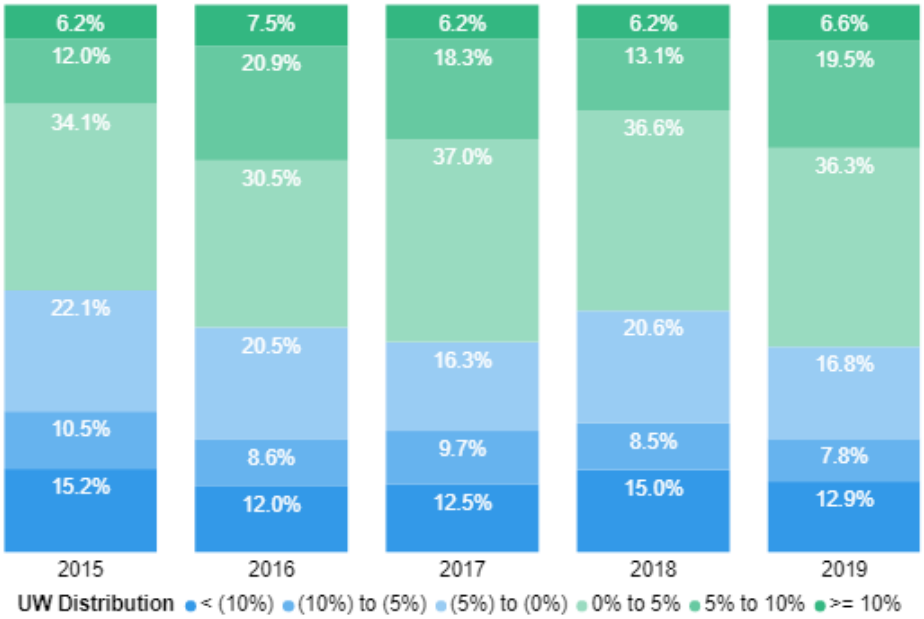
- Following a 1.1% aggregate UW ratio in CY 2015, the composite UW ratio has been greater than 3.0% in three of the last four years.
- The aggregate ALR fluctuated between 11.0% and 12.5% from CY 2015 through CY 2019. As expected, the two lowest ALR years in this time period were in CY 2017 (when there was a moratorium on the Health Insurance Providers Fee [HIPF]) and in CY 2019 when the HIPF fee was suspended until CY 2020. The HIPF has ultimately been suspended going forward.[5]
- Risk-based capital ratios have increased from 530% in CY 2015 to 614% in CY 2019.
- The MLR was stable and between 84.5% and 86.8% from CY 2015 to CY 2019.

Please note the MLR calculated throughout this report is the MLR formula as defined in Appendix 2 and not the CMS MLR formula used for MLR rebates.

While Figure 3 illustrates the overall changes in the underwriting results over the last five years, it is also important to understand how the underwriting results have varied across MAOs. Figure 4 illustrates the distribution of underwriting results in the MA market for each calendar year from the MAOs included in our analysis.

[5] Consolidated Appropriations Act, 2016. Retrieved December 18, 2020, from https://www.congress.gov/bill/114th-congress/house-bill/2029/text

FIGURE 4: DISTRIBUTION OF UNDERWRITING RESULTS BY YEAR



The composite UW ratio has increased over the five-year historical period from 1.1% in CY 2015 to 3.3% in CY 2019. The percentage of MAOs reporting gains increased, while the percentage of MAOs reporting losses decreased over time. The composite UW ratio reported by the MAOs in CY 2019 represents an aggregate underwriting gain of approximately $7.0 billion in relation to the $216.4 billion of revenue.

Administrative cost analysis

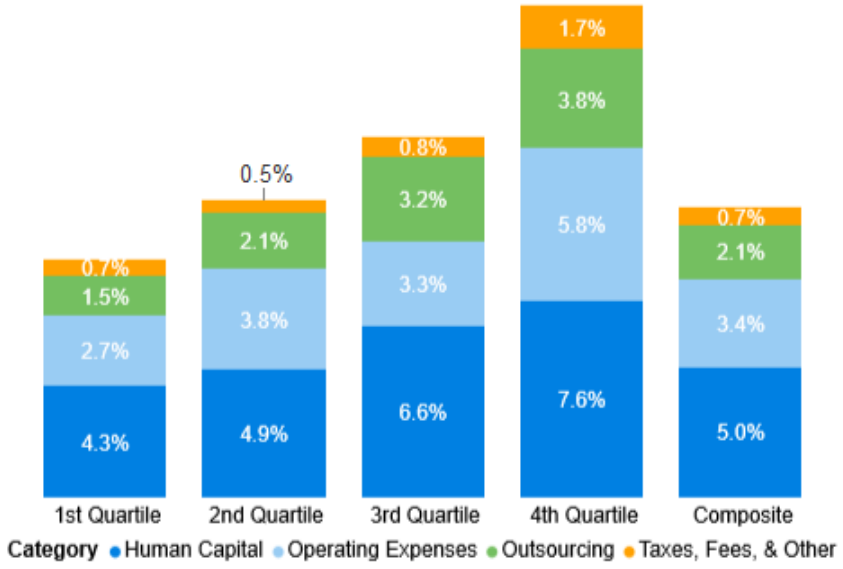
MEDICARE ADVANTAGE FOCUSED MAOS

The previous section of this report contains analyses of key financial metrics for 333 MAOs that reported operations in the Medicare Title XVIII line of business, based on page 7 of the NAIC annual statement (Analysis of Operations by Line of Business). This section examines the administrative expenses reported by the MAOs on the Underwriting and Investment Exhibit Part 3 Analysis of Expenses page. This information is only reported at an aggregate MAO level and detailed administrative expense information is not stratified by line of business (e.g., Medicare). Therefore, the results presented in this section of the report are limited to the 162 MAOs that are defined as MA-focused in the database used for this summary. The ALRs reported by the MA-focused MAOs were relatively consistent with the remaining 171 MAOs, which were defined as non-MA-focused. The 162 MA-focused MAOs account for approximately 67% of the MA revenue summarized for purposes of this report, with an average 11.1% ALR. The remainder of this section summarizes the reported administrative costs for only the MA-focused MAOs.

SUMMARY OF RESULTS

The primary expense categories used in the Analysis of Operations by Line of Business page include the claim adjustment expenses (CAE) and general administrative expenses (GAE). The CAE and GAE categories are further stratified by additional subcategories of expenses in the Underwriting and Investment Exhibit Part 3 Analysis of Expenses page, which is the basis of the administrative expense categories illustrated in this administrative cost analysis. Figure 5 summarizes the CY 2019 administrative expenses by quartile of ALR performance for the 162 companies with an MA focus. The administrative expenses are stratified by administrative cost categories summarized from the Underwriting and Investment Exhibit Part 3 Analysis of Expenses page.

FIGURE 5: ADMINISTRATIVE LOSS RATIO BY QUARTILE OF ALR PERFORMANCE

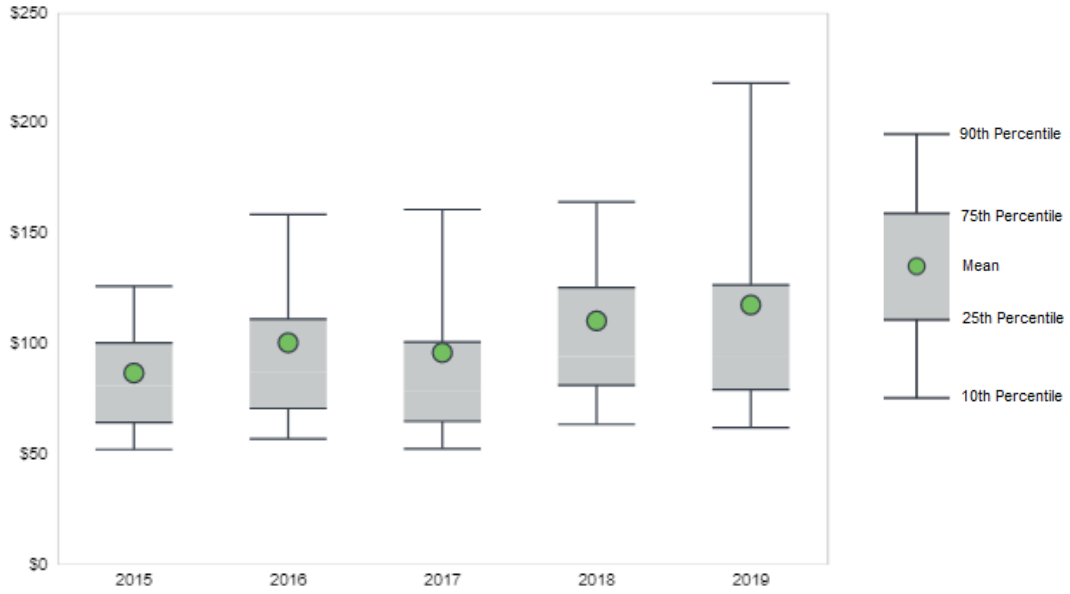


Note: Values have been rounded.

In composite, MAOs grouped in the fourth quartile have higher administrative loss ratios across all expense types compared to MAOs grouped in the first, second and third quartiles.[6] Human capital (costs related to salaries, wages, and other items specific to in-house staffing resources) accounts for the majority of the increase in administrative costs, although other expense types also increase steadily from quartile to quartile.

Figure 6 summarizes the administrative cost per member per month (PMPM) for the most recent five-year period for all companies matching the inclusion criteria indicated in this report.

FIGURE 6: ADMINISTRATIVE COST PMPM BY YEAR



Note: Values have been rounded.

[6] A quartile is a cut point dividing the number of data points in a data set into four parts, or quarters, of roughly equal size.

Figure 6 illustrates an overall increase in the reported administrative cost on a PMPM basis from CY 2015 to CY 2019. There was a significant increase in the mean administrative cost PMPM from CY 2017 to CY 2018. The average annualized increase in the mean is approximately 6.4% from CY 2015 to CY 2019. The percentiles illustrated are less sensitive to outliers and changes in reported administrative expense for the largest health plans. Similar to Figure 5, the data used in Figure 6 only includes entities with an MA focus. We also excluded data for entities that have administrative expense PMPMs greater than $500 PMPM.

The PMPM increase from CY 2015 to CY 2019 is likely attributable to general inflationary trends as well as changes in the membership covered by the MAOs in this study, such as the increase in the number of beneficiaries in special needs plans (SNPs), which have higher claim and administrative costs. The range of administrative cost PMPMs over the years was unexpected and is likely attributable to a combination of drivers such as more start-ups entering the market with higher initial years' fixed administrative costs; increased prevalence of SNPs, which require more intensive member care coordination; and/or other enrollment changes that can affect the PMPMs.

Conclusion

More than 40% of people age 65 and older in the United States enroll in MA.[7] With Baby Boomers aging into Medicare, combined with new additional benefits, benefit flexibility allowed by CMS, and lower premiums, the MA market will continue to grow and play an even bigger role in the Medicare market. The Congressional Budget Office (CBO) predicts that MA penetration will increase to 47% of the Medicare market over the next decade.[8] The results in this analysis show that the majority of MAOs are profitable. MAOs are an integral part of the delivery system for Medicare-eligible enrollees, and their financial results will help us understand the viability and the continued sustainability of private health insurers in the MA market.

The results in this report provide reference and benchmarking information for certain key financial metrics used in the day-to-day analysis of MAO financial performance. It is likely that the COVID-19 public health emergency will significantly impact the financial results in CY 2020 and possibly beyond.

Limitations and data reliance

The results contained in this report were compiled using data and information obtained from the statutory annual statements for MAOs filed with the respective state insurance regulators. The annual statements were retrieved from an online database. In addition to the limiting criteria used to select companies in this report, certain MAOs may be omitted from this report because of the timing of annual statement submissions or their exclusions from the online database.

The information was relied upon as reported and without audit. We performed a limited review of the data for reasonableness and consistency. To the extent that the data reported contained material errors or omissions, the values contained within this report would likewise contain similar reporting errors.

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The views expressed in this research paper are made by the authors and do not represent the opinions of Milliman, Inc. Other Milliman consultants may hold alternative views and reach different conclusions from those shown.

[7] Centers for Medicare & Medicaid Services. Medicare Advantage State/County Penetration 2020-11. Retrieved December 20, 2020, from https://www.cms.gov/research-statistics-data-and-systemsstatistics-trends-and-reportsmcradvpartdenroldatama-state-county/ma-statecounty-penetration-2020-11

[8] Congressional Budget Office. Medicare—CBO's May 2019 Baseline. Retrieved December 18, 2020, from https://www.cbo.gov/system/files?file=2019-05/51302-2019-05-medicare.pdf

Qualifications

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. Shyam Kolli and Greg Sgrosso are members of the American Academy of Actuaries and meet the qualification standards for performing the analyses in this report.

Appendix 1: Financial metrics and MAO characteristics

In addition to the figures illustrated in the body of this report, we analyzed the financial metrics stratified by certain MAO characteristics to understand the potential impact that these characteristics have on the reported financial results. The figures in Appendix 1 illustrate the following financial metrics and MAO characteristics:

FINANCIAL METRICS

- Medical loss ratio
- Underwriting ratio
- Risk-based capital ratio
- Administrative loss ratio

MAO CHARACTERISTICS

- CMS region (see chart in Appendix 3)
- Annual Medicare revenue
- Annual Medicare revenue PMPM
- MAO type (Medicare-focused versus all other MAOs)
- Underwriting gain/loss

FIGURE 7: MEDICAL LOSS RATIO: CY 2019 RESULTS

GROUPING	CATEGORY	N	REVENUE (IN $ BILLIONS)	PERCENTILE MEAN	10TH	25TH	50TH	75TH	90TH
COMPOSITE	COMPOSITE	333	216.4	85.6%	78.0%	82.1%	86.2%	90.2%	96.4%
CMS	REGION 1	19	7.7	86.5%	81.9%	85.1%	88.6%	92.1%	96.7%
REGION	REGION 2	32	23.9	86.2%	79.8%	83.3%	87.0%	89.0%	100.7%
	REGION 3	37	13.3	85.7%	76.8%	82.2%	86.3%	90.2%	100.7%
	REGION 4	62	35.5	86.0%	80.3%	83.9%	86.7%	89.3%	106.5%
	REGION 5	70	61.6	84.9%	75.2%	80.5%	85.4%	90.5%	92.8%
	REGION 6	48	24.1	85.5%	79.3%	80.7%	85.5%	92.0%	100.8%
	REGION 7	12	7.5	82.8%	81.7%	82.8%	83.9%	89.6%	100.2%
	REGION 8	11	7.3	84.9%	72.5%	79.7%	84.0%	86.1%	87.5%
	REGION 9	18	23.1	85.9%	80.0%	84.7%	87.3%	91.6%	103.3%
	REGION 10	24	12.4	88.3%	78.0%	81.9%	85.7%	90.0%	96.5%
ANNUAL	$10 MILLION TO $100 MILLION	123	5.0	89.0%	75.4%	80.9%	88.0%	92.5%	108.2%
REVENUE	$100 MILLION TO $500 MILLION	109	26.8	87.1%	77.7%	81.2%	86.1%	91.6%	95.7%
	$500 MILLION TO $1 BILLION	48	35.1	86.4%	81.9%	83.8%	86.2%	88.6%	92.1%
	MORE THAN $1 BILLION	53	149.6	85.1%	80.6%	82.8%	85.0%	87.2%	90.6%
REVENUE	LESS THAN $900	94	27.0	87.0%	79.3%	83.6%	88.6%	93.5%	110.2%
PMPM	$900 to $1,000	59	63.7	85.9%	81.5%	84.4%	86.9%	89.8%	92.6%
	$1,000 to $1,200	83	86.8	85.5%	79.9%	83.2%	86.0%	89.8%	95.3%
	MORE THAN $1,200	97	38.9	84.5%	74.8%	79.6%	83.7%	88.0%	92.0%
BUSINESS	MEDICARE FOCUSED	162	145.3	84.9%	79.7%	82.1%	86.0%	90.3%	98.5%
FOCUS	ALL OTHERS	171	71.2	87.0%	77.0%	82.0%	86.4%	90.2%	95.7%
GAIN/(LOSS)	REPORTED A GAIN	208	189.2	84.4%	76.9%	80.3%	83.9%	86.3%	88.7%
POSITION	REPORTED A LOSS	125	27.3	94.1%	86.3%	88.6%	91.6%	96.5%	114.2%

FIGURE 8: UNDERWRITING RATIO: CY 2019 RESULTS

GROUPING	CATEGORY	N	REVENUE (IN $ BILLIONS)	PERCENTILE MEAN	10TH	25TH	50TH	75TH	90TH
COMPOSITE	COMPOSITE	333	216.4	3.3%	-13.6%	-2.8%	1.6%	5.3%	8.8%
CMS	REGION 1	19	7.7	1.3%	-8.4%	-2.9%	0.3%	1.9%	3.9%
REGION	REGION 2	32	23.9	1.3%	-14.2%	-7.3%	2.0%	5.5%	8.7%
	REGION 3	37	13.3	2.4%	-14.4%	-3.9%	2.4%	4.5%	8.5%
	REGION 4	62	35.5	2.9%	-29.3%	-2.6%	0.7%	4.1%	7.1%
	REGION 5	70	61.6	3.8%	-5.8%	-1.5%	2.9%	6.9%	10.1%
	REGION 6	48	24.1	3.3%	-19.3%	-5.9%	0.8%	5.5%	8.8%
	REGION 7	12	7.5	4.1%	-19.9%	-10.0%	-1.7%	3.1%	6.1%
	REGION 8	11	7.3	6.0%	3.1%	3.4%	3.8%	7.5%	8.1%
	REGION 9	18	23.1	5.6%	-22.6%	-0.7%	1.0%	5.8%	8.4%
	REGION 10	24	12.4	0.6%	-9.0%	-1.8%	1.1%	4.5%	7.4%
ANNUAL	$10 MILLION TO $100 MILLION	123	5.0	-5.4%	-29.5%	-9.3%	-1.3%	3.6%	9.2%
REVENUE	$100 MILLION TO $500 MILLION	109	26.8	0.8%	-10.9%	-2.7%	2.3%	6.3%	10.1%
	$500 MILLION TO $1 BILLION	48	35.1	2.3%	-2.0%	0.8%	2.4%	4.3%	6.0%
	MORE THAN $1 BILLION	53	149.6	4.2%	-0.1%	1.9%	3.6%	5.9%	7.5%
REVENUE	LESS THAN $900	94	27.0	-0.1%	-29.2%	-11.3%	-2.1%	2.0%	7.0%
PMPM	$900 to $1000	59	63.7	2.8%	-5.8%	-0.5%	1.6%	4.3%	6.1%
	$1000 to $1200	83	86.8	4.1%	-5.1%	-1.6%	2.6%	5.6%	7.9%
	MORE THAN $1200	97	38.9	4.4%	-9.7%	-1.4%	3.1%	8.4%	12.4%
BUSINESS	MEDICARE FOCUSED	162	145.3	3.9%	-16.2%	-4.0%	1.9%	4.8%	7.4%
FOCUS	ALL OTHERS	171	71.2	1.8%	-9.7%	-2.4%	1.3%	6.0%	11.3%
GAIN/(LOSS)	REPORTED A GAIN	208	189.2	4.7%	0.8%	2.1%	4.2%	7.3%	10.2%
POSITION	REPORTED A LOSS	125	27.3	-6.6%	-31.7%	-14.5%	-5.6%	-2.3%	-0.8%

FIGURE 9: RISK-BASED CAPITAL RATIO: CY 2019 RESULTS

GROUPING	CATEGORY	N	REVENUE (IN $ BILLIONS)	PERCENTILE MEAN	10TH	25TH	50TH	75TH	90TH
COMPOSITE	COMPOSITE	333	216.4	613.6%	277.2%	342.4%	462.5%	663.9%	934.5%
CMS	REGION 1	19	7.7	527.1%	302.8%	345.2%	467.4%	653.7%	686.1%
REGION	REGION 2	32	23.9	526.9%	251.5%	332.0%	430.5%	729.5%	976.8%
	REGION 3	37	13.3	430.0%	289.6%	342.8%	406.7%	532.8%	755.0%
	REGION 4	62	35.5	656.7%	238.7%	326.0%	399.7%	597.1%	1008.4%
	REGION 5	70	61.6	689.6%	337.1%	398.5%	496.2%	619.7%	945.4%
	REGION 6	48	24.1	471.1%	271.2%	310.6%	428.6%	683.8%	899.3%
	REGION 7	12	7.5	508.2%	282.4%	308.7%	472.6%	571.8%	821.0%
	REGION 8	11	7.3	647.0%	340.3%	512.3%	582.9%	700.5%	971.6%
	REGION 9	18	23.1	584.5%	296.7%	340.0%	507.0%	634.0%	1041.0%
	REGION 10	24	12.4	794.4%	340.0%	373.2%	585.2%	872.1%	1328.9%
ANNUAL	$10 MILLION TO $100 MILLION	123	5.0	657.6%	270.5%	338.5%	464.0%	697.0%	968.6%
REVENUE	$100 MILLION TO $500 MILLION	109	26.8	563.1%	304.7%	332.9%	463.4%	635.0%	889.6%
	$500 MILLION TO $1 BILLION	48	35.1	629.2%	271.2%	365.0%	475.0%	682.8%	906.0%
	MORE THAN $1 BILLION	53	149.6	623.5%	251.6%	349.4%	424.6%	585.0%	814.5%
REVENUE	LESS THAN $900	94	27.0	795.4%	309.6%	369.5%	552.9%	836.7%	1133.8%
PMPM	$900 to $1000	59	63.7	603.7%	338.8%	378.4%	538.7%	760.5%	1052.2%
	$1000 to $1200	83	86.8	503.5%	272.8%	344.0%	462.5%	581.9%	726.1%
	MORE THAN $1200	97	38.9	596.3%	241.8%	312.1%	353.3%	533.0%	709.2%
BUSINESS	MEDICARE FOCUSED	162	145.3	448.4%	266.9%	330.3%	419.5%	578.7%	793.3%
FOCUS	ALL OTHERS	171	71.2	671.5%	310.7%	359.2%	527.7%	715.0%	1084.4%
GAIN/(LOSS)	REPORTED A GAIN	208	189.2	602.8%	311.4%	350.0%	485.2%	662.9%	945.7%
POSITION	REPORTED A LOSS	125	27.3	644.5%	256.7%	319.7%	440.3%	663.9%	919.5%

FIGURE 10: ADMINISTRATIVE LOSS RATIO: CY 2019 RESULTS

GROUPING	CATEGORY	N	REVENUE (IN $ BILLIONS)	PERCENTILE MEAN	10TH	25TH	50TH	75TH	90TH
COMPOSITE	COMPOSITE	333	216.4	11.1%	8.2%	10.2%	12.5%	15.3%	20.2%
CMS	REGION 1	19	7.7	12.1%	9.4%	10.5%	12.5%	14.4%	18.6%
REGION	REGION 2	32	23.9	12.5%	9.4%	10.9%	12.8%	14.5%	16.9%
	REGION 3	37	13.3	11.8%	9.1%	9.9%	12.6%	14.7%	22.6%
	REGION 4	62	35.5	11.2%	8.6%	10.5%	12.8%	15.5%	18.3%
	REGION 5	70	61.6	11.3%	7.2%	9.7%	11.6%	14.5%	20.3%
	REGION 6	48	24.1	11.1%	8.9%	10.3%	12.4%	16.5%	25.6%
	REGION 7	12	7.5	13.0%	11.9%	13.9%	15.3%	18.0%	25.6%
	REGION 8	11	7.3	9.2%	9.7%	10.2%	11.1%	14.7%	16.5%
	REGION 9	18	23.1	8.5%	6.7%	8.5%	9.8%	12.6%	17.5%
	REGION 10	24	12.4	11.1%	7.6%	9.7%	12.8%	13.7%	15.6%
ANNUAL	$10 MILLION TO $100 MILLION	123	5.0	16.5%	9.8%	11.2%	14.4%	19.6%	27.3%
REVENUE	$100 MILLION TO $500 MILLION	109	26.8	12.1%	7.1%	9.6%	12.6%	14.9%	16.6%
	$500 MILLION TO $1 BILLION	48	35.1	11.3%	8.4%	9.6%	11.4%	13.0%	13.9%
	MORE THAN $1 BILLION	53	149.6	10.7%	8.3%	9.7%	10.9%	12.6%	14.3%
REVENUE	LESS THAN $900	94	27.0	13.1%	9.6%	11.5%	14.1%	17.9%	25.6%
PMPM	$900 to $1000	59	63.7	11.3%	7.1%	9.8%	12.4%	13.6%	15.1%
	$1000 to $1200	83	86.8	10.5%	7.9%	9.7%	11.2%	13.7%	16.9%
	MORE THAN $1200	97	38.9	11.1%	8.4%	9.9%	11.7%	15.4%	20.0%
BUSINESS	MEDICARE FOCUSED	162	145.3	11.1%	9.2%	10.5%	12.9%	15.4%	21.4%
FOCUS	ALL OTHERS	171	71.2	11.1%	7.2%	9.6%	12.2%	14.9%	19.4%
GAIN/(LOSS)	REPORTED A GAIN	208	189.2	10.9%	7.4%	9.6%	11.5%	13.8%	16.0%
POSITION	REPORTED A LOSS	125	27.3	12.5%	9.8%	11.6%	14.1%	18.6%	29.1%

Appendix 2: Definition of financial metrics

The financial metrics calculated for purposes of this report include medical loss ratio (MLR), administrative loss ratio (ALR), underwriting ratio (UW ratio), risk-based capital (RBC) ratio, and administrative cost PMPM. These selected metrics focus primarily on the income statement values of the financial statement except for the RBC ratio, which is a capital (or solvency) measure.

The financial metrics selected encompass five of the primary ratios used by MAOs, regulators, and other stakeholders to evaluate the financial performance of an MAO. The metrics are defined in greater detail below.

MEDICAL LOSS RATIO (MLR)

MLR is a common financial metric used to report and benchmark the financial performance of an MAO. The MLR represents the proportion of revenue used by the MAO to fund claim expenses. The MLR is stated as a percentage, with claim expense in the numerator and revenue in the denominator.

In terms of the statutory annual statement, the MLR was defined as follows:

MLR =	(TOTAL HOSPITAL AND MEDICAL EXPENSES + INCREASE IN RESERVES FOR A&H CONTRACTS) ÷ TOTAL REVENUE
WHERE:	TOTAL HOSPITAL AND MEDICAL EXPENSES: TITLE XVIII–MEDICARE (P.7, L.17, C.7) INCREASE IN RESERVES FOR ACCIDENT AND HEALTH (A&H) CONTRACTS: TITLE XVIII–MEDICARE (P.7, L.21, C.7) TOTAL REVENUE: TITLE XVIII–MEDICARE (P.7, L.7, C.7)

As noted previously, the MA Part D program includes prospective payments for LICS, CGDP, and federal reinsurance. MAOs are not at risk for these programs. Neither the prospective payments nor the annual true-ups should be reported as revenue. The Part D program also includes a risk corridor program where the MAOs and CMS share in favorable or unfavorable prescription drug experience relative to a bid target. The risk corridor payments or receivables should be included in revenue.

Actuaries and financial analysts use the MLR as a measure of premium adequacy and often compare the resulting programs. The target loss ratios (the claim cost included in the premium or capitation rate) vary by state and populations enrolled. Additionally, there may be reporting differences among MAOs as to what is classified as medical expense versus administrative expense.

As previously noted, the definition of MLR for purposes of this report may not be consistent with other definitions.

UNDERWRITING RATIO

The UW ratio is the sum of the MLR and the ALR (defined below) subtracted from 100%. A positive UW ratio indicates a financial gain, while a negative UW ratio indicates a loss. This financial metric is used to report and benchmark the financial performance of an MAO in consideration of both medical and administrative expenses. The UW ratio represents the funding after medical and administrative expenses. The UW ratio is stated as a percentage, with total underwriting gain or loss in the numerator and revenue in the denominator.

In terms of the statutory annual statement, the UW ratio was defined as follows:

UW RATIO =	NET UNDERWRITING GAIN OR (LOSS) ÷ TOTAL REVENUE
WHERE:	NET UNDERWRITING GAIN OR (LOSS): TITLE XVIII–MEDICARE (P.7, L.24, C.7) TOTAL REVENUE: TITLE XVIII–MEDICARE (P.7, L.7, C.7)

The UW ratio is focused on the income from operations and excludes consideration of investment income and income taxes. The UW ratio requires interpretation and considerations similar in nature to the MLR and ALR metrics.

RISK-BASED CAPITAL RATIO (RBC RATIO)

The RBC ratio is a financial metric used by many insurance regulators to monitor the financial health or solvency of the MAOs. The RBC ratio represents the proportion of the required minimum capital that is held by the MAO as of a specific date (the end of the financial reporting period). The RBC ratio is stated as a percentage or a ratio, with total adjusted capital (TAC) in the numerator and authorized control level (ACL) in the denominator.

The NAIC prescribes a specific formula to develop both the TAC and the ACL. Further, the MAO is subjected to various action levels based on the resulting RBC ratio, as follows:

- Company action level (TAC is between 150% and 200% of the ACL RBC)
- Regulatory action level (TAC is between 100% and 150% of the ACL RBC)
- Authorized control level (TAC is between 70% and 100% of the ACL RBC)
- Mandatory control level (TAC is less than 70% of the ACL RBC)

In terms of the statutory annual statement, the RBC ratio was defined as follows:

RBC RATIO =	TOTAL ADJUSTED CAPITAL ÷ AUTHORIZED CONTROL LEVEL
WHERE:	TOTAL ADJUSTED CAPITAL: TOTAL ADJUSTED CAPITAL–CURRENT YEAR (P.28, L.14, C.1) AUTHORIZED CONTROL LEVEL: AUTHORIZED CONTROL LEVEL–CURRENT YEAR (P.28, L.15, C.1)

Note: The RBC ratio is not unique to the MA line of business as it is calculated at the company level. Therefore, companies reporting non-Medicare business will reflect composite RBC ratios for all lines of business within the reported legal entity.

ADMINISTRATIVE LOSS RATIO (ALR)

ALR is also a common financial metric used to report and benchmark the financial performance of an MAO. The ALR represents the proportion of revenue that was used by the MAO to fund administrative expenses. The ALR is stated as a percentage, with administrative expense in the numerator and revenue in the denominator.

In terms of the statutory annual statement, the ALR was defined as follows:

ALR =	(CLAIM ADJUSTMENT EXPENSES + GENERAL ADMINISTRATIVE EXPENSES) ÷ TOTAL REVENUE
WHERE:	CLAIM ADJUSTMENT EXPENSES: TITLE XVIII–MEDICARE (P.7, L.19, C.7) GENERAL ADMINISTRATIVE EXPENSES: TITLE XVIII–MEDICARE (P.7, L.20, C.7) TOTAL REVENUE: TITLE XVIII–MEDICARE (P.7, L.7, C.7)

The ALR requires interpretation and considerations similar in nature to the MLR metric outlined above, most notably impacted by the state and federal taxes levied on MAOs across the different states.

ADMINISTRATIVE COST PMPM

The administrative cost PMPM is the second metric for analyzing administrative expenses because of the fixed cost nature of certain components of the administrative expense. The administrative cost PMPM was defined as follows:

ADMIN PMPM =	(CLAIM ADJUSTMENT EXPENSES + GENERAL ADMINISTRATIVE EXPENSES) ÷ CURRENT YEAR MEMBER MONTHS
WHERE:	CLAIM ADJUSTMENT EXPENSES: TITLE XVIII–MEDICARE (P.7, L.19, C.7) GENERAL ADMINISTRATIVE EXPENSES: TITLE XVIII–MEDICARE (P.7, L.20, C.7) CURRENT YEAR MEMBER MONTHS: TITLE XVIII-MEDICARE (P.30 GT, L.6, C.8)

The administrative cost PMPM net of taxes and fees illustrated in this report estimated the taxes and fees consistently with the methodology utilized for the ALR net of taxes and fees.

ADMINISTRATIVE EXPENSE CATEGORIES

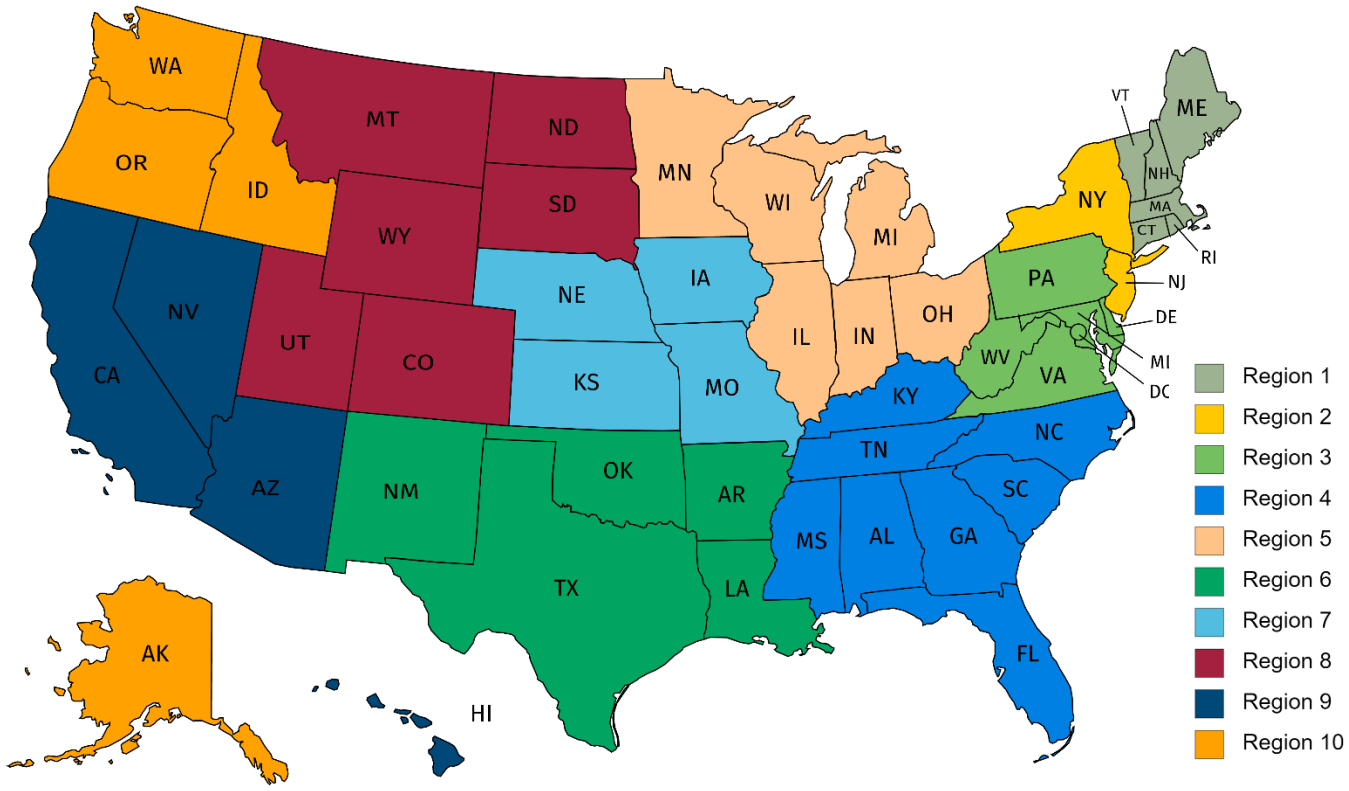
The administrative expenses reported on the Underwriting and Investment Exhibit Part 3 Analysis of Expenses page are broken out into 25 specific line items. These line items were grouped into five administrative expense categories to better illustrate the components of administrative cost incurred by the MAOs. The subcategories were selected to be intuitive groupings as well as meaningful with respect to their relative magnitudes. The following descriptions outline each administrative expense category:

- Human capital: Administrative costs associated with the employment of MAO staff.
- Outsourcing: Administrative costs associated with functions outsourced to a third party.
- Operating expenses: Administrative costs associated with the day-to-day costs of running the MAO.
- Taxes and fees: Administrative costs associated with taxes and fees incurred by the MAO. Payroll taxes were assigned to the human capital category. Real estate taxes were assigned to the operating expenses category. Federal and state income taxes are not included on the Underwriting and Investment Exhibit Part 3 Analysis of Expenses page and are not included in this administrative expense category.
- Other expenses: Administrative costs for aggregate write-ins.

FIGURE 11: ADMINISTRATIVE CATEGORY DEFINITION

ADMINISTRATIVE EXPENSE BREAKDOWN		U&I EXHIBIT PART 3 EXPENSES (COLUMNS 3-4)
HUMAN CAPITAL	SALARIES, WAGES, AND OTHER BENEFITS	LINE 2
	BOARDS, BUREAUS, AND ASSOCIATION FEES	LINE 15
	INSURANCE, EXCEPT ON REAL ESTATE	LINE 16
	PAYROLL TAXES	LINE 23 .4
OUTSOURCING	AUDITING, ACTUARIAL, AND OTHER CONSULTING SERVICES	LINE 6
	OUTSOURCED SERVICES INCLUDING EDP, CLAIMS, AND OTHER SERVICES	LINE 14
OPERATING EXPENSES	RENT	LINE 1
	COMMISSIONS	LINE 3
	LEGAL FEES AND EXPENSES	LINE 4
	CERTIFICATIONS AND ACCREDIDATION FEES	LINE 5
	TRAVELING EXPENSES	LINE 7
	MARKETING AND ADVERTISING	LINE 8
	POSTAGE, EXPRESS, AND TELEPHONE	LINE 9
	PRINTING AND OFFICE SUPPLIES	LINE 10
	OCCUPANCY, DEPRECIATION, AND AMORTIZATION	LINE 11
	EQUIPMENT	LINE 12
	COST OR DEPRECIATION OF EDP EQUIPMENT AND SOFTWARE	LINE 13
	COLLECTION AND BANK SERVICE CHARGES	LINE 17
	GROUP SERVICE AND ADMINISTRATION FEES	LINE 18
	REAL ESTATE EXPENSES	LINE 21
	REAL ESTATE TAXES	LINE 22
	INVESTMENT EXPENSES NOT INCLUDED ELSEWHERE	LINE 24
TAXES AND FEES	STATE AND LOCAL INSURANCE TAXES	LINE 23 .1
	STATE PREMIUM TAXES	LINE 23 .2
	REGULATORY AUTHORITY LICENSES AND FEES	LINE 23 .3
	OTHER (EXCLUDING FEDERAL INCOME AND REAL ESTATE TAXES)	LINE 23 .5
OTHER	AGGREGATE WRITE-INS FOR EXPENSES	LINE 25
EXCLUDED	REIMBURSEMENTS BY UNINSURED PLANS	LINE 19
	REIMBURSEMENTS FROM FISCAL INTERMEDIARIES	LINE 20

Appendix 3: CMS regions



PUERTO RICO IS INCLUDED IN REGION 2

Appendix 4: Financial results by state

While the MA financial results are relatively stable at a nationwide level, the financial results may vary significantly from state to state. Figure 12 provides the average MLR, ALR, and UW ratio for each state with at least one MAO included in this analysis. Please note that MAOs were assigned to their states of domicile, and results for MAOs that report operations from multiple states within one entity would therefore be included within a single state.

FIGURE 12: STATE OF DOMICILE

STATE	N	MEMBER MONTHS (IN MILLIONS)	MLR	ALR	UW RATIO	RBC RATIO
Alabama	4	1.7	89.6%	11.7%	-1.3%	548.3%
Arizona	9	2.2	88.7%	11.0%	0.3%	632.9%
Arkansas	7	2.1	82.7%	11.3%	6.0%	619.6%
California	3	0.8	90.9%	9.2%	-0.1%	978.4%
Colorado	5	5.6	84.8%	8.3%	6.9%	545.8%
Connecticut	5	3.0	83.1%	13.6%	3.3%	555.5%
Florida	28	18.9	86.1%	10.6%	3.3%	461.4%
Georgia	9	2.3	85.5%	12.2%	2.3%	536.4%
Hawaii	3	0.8	96.1%	6.4%	-2.6%	453.2%
Idaho	2	0.5	91.3%	13.2%	-4.5%	921.9%
Illinois	14	7.6	82.6%	12.3%	5.1%	579.7%
Indiana	3	2.7	95.3%	10.4%	-5.7%	450.0%
Iowa	1	0.1	83.4%	26.3%	-9.7%	682.8%
Kansas	1	0.0	83.0%	17.3%	-0.3%	280.5%
Kentucky	5	4.1	85.0%	11.6%	3.4%	383.2%
Louisiana	6	3.2	84.7%	13.0%	2.3%	606.5%
Maine	3	0.7	91.2%	11.0%	-2.2%	452.6%
Maryland	7	1.5	90.2%	7.8%	1.9%	349.3%
Massachusetts	7	2.4	90.1%	10.7%	-0.7%	479.4%
Michigan	15	7.9	88.4%	10.6%	1.0%	595.7%
Minnesota	8	4.8	84.1%	11.6%	4.3%	626.4%
Missouri	8	4.6	83.4%	13.9%	2.7%	554.2%
Nebraska	2	3.1	82.0%	11.7%	6.2%	305.7%
Nevada	3	17.3	84.7%	8.3%	7.0%	490.2%
New Hampshire	2	0.5	91.5%	10.9%	-2.4%	591.8%
New Jersey	8	2.3	87.1%	13.0%	-0.1%	1103.0%
New Mexico	5	0.6	84.2%	11.0%	4.8%	2855.4%
New York	20	13.9	87.2%	12.2%	0.6%	500.9%
North Carolina	6	1.2	89.8%	14.6%	-4.3%	508.7%
Ohio	13	4.9	85.9%	11.5%	2.6%	529.0%
Oklahoma	6	1.0	86.0%	11.2%	2.8%	641.9%
Oregon	13	5.7	88.2%	10.1%	1.7%	556.0%
Pennsylvania	18	9.5	84.9%	12.2%	2.9%	480.2%
Rhode Island	2	1.5	83.9%	12.7%	3.5%	508.6%
South Carolina	6	0.4	85.4%	13.6%	0.9%	559.2%
Tennessee	4	3.2	83.5%	12.2%	4.4%	660.5%
Texas	24	13.7	86.1%	10.8%	3.1%	409.9%
Utah	6	1.8	85.1%	12.1%	2.8%	754.2%
Virginia	8	1.0	84.7%	14.4%	0.9%	539.8%
Washington	9	6.6	88.2%	11.8%	0.0%	876.1%
West Virginia	4	0.3	91.6%	11.1%	-2.7%	431.1%
Wisconsin	17	35.2	83.7%	11.1%	5.1%	588.1%
Puerto Rico	4	7.1	83.4%	13.2%	3.4%	287.7%
Total	**333**	**208.3**	**85.6%**	**11.1%**	**3.3%**	**587.5%**

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