Medicare Advantage organizations: Financial results for 2023

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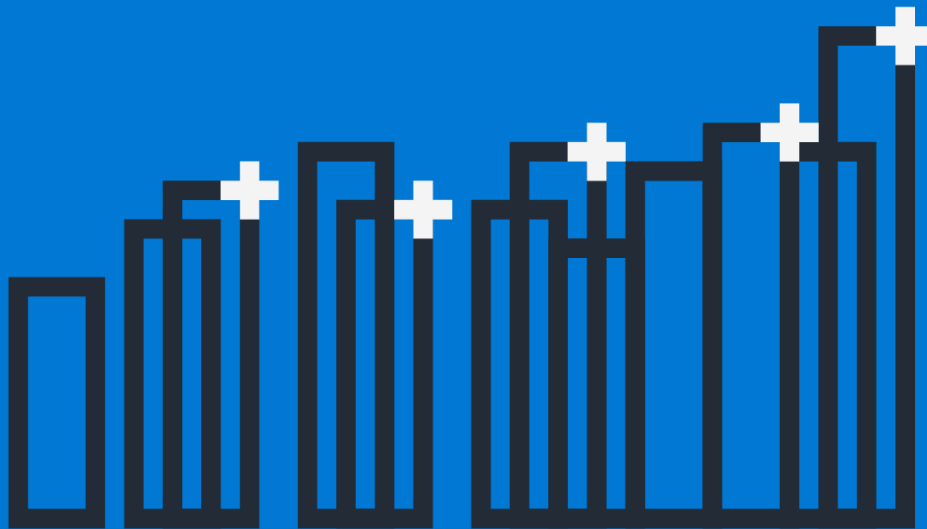
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Introduction

This report summarizes financial information and analysis related to administrative costs reported by Medicare Advantage organizations (MAOs) for calendar year (CY) 2023. It includes Medicare Advantage prescription drug (MAPD) plans but excludes prescription drug plans (PDP). This is the fifth annual update of this report. The prior editions addressed CY 2019 through CY 2022 experience and can be obtained from the Milliman website. The methodology used to generate this year's report is substantially consistent with the prior year's report.

Enrollment in Medicare Advantage (MA) continues to grow, with 54%[1] of Medicare-eligible beneficiaries opting for this government-sponsored program where private health plans provide benefits to Medicare beneficiaries as an alternative to traditional fee-for-service (FFS) Medicare. The primary source of this growth is beneficiaries switching from FFS to MA and from new enrollees who are aging into the program selecting MA. MAOs contract with the Centers for Medicare and Medicaid Services (CMS) to provide healthcare benefits under Medicare. They manage medical expenses, administrative costs, and profit in exchange for set 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]

Traditional FFS Medicare allows members to visit any doctor anywhere in the United States that accepts Medicare. In contrast, MAOs typically offer network-based plan designs in their defined service areas with differing additional benefits, levels of member cost sharing, prescription drug coverage, and member premiums.

Most MA benefit plans offer coverage for additional benefits not covered by traditional FFS Medicare. Recently there has been a slower growth in supplemental benefits compared to the double-digit annual growth we saw from 2021 to 2023. Despite the slower growth, we see general enrollment plans continue to enhance key supplemental benefits. Dental, vision, hearing, over-the-counter (OTC) health-related items, and fitness are some of the most prevalent supplemental benefits, with more than 90% of beneficiaries enrolling in plans offering these benefits. Some of the other common supplemental benefits offered by MAOs include acupuncture, meals, and podiatry services. More plans are beginning to incorporate benefits to help address social determinants of health such as grocery cards, non-emergency transportation, and in-home support services. Plans can also customize their benefit packages to offer certain benefits to a subset of chronically ill enrollees. Combined benefit structures have also gained in popularity in recent years. Combined benefit structures give plans flexibility to combine multiple benefits under a single maximum plan benefit limit, a single visit limit, or varying allowances by benefit within the package.[3]

In addition to offering additional benefits, MAOs can offer Medicare-covered services at cost-sharing levels less than traditional FFS Medicare. Traditional FFS Medicare includes a Part A inpatient hospital deductible and daily coinsurance (for days above 60) while MAOs may require the member to pay a copay upon hospital admittance or for the first few days of the stay. Traditional FFS Medicare also includes a Part B deductible and 20% coinsurance that applies to hospital outpatient and physician services while an MAO may require fixed copays that can vary by type and place of service. Most MA plans also offer a maximum member out-of-pocket cost (MOOP).

MA can also include prescription drug coverage through Medicare Advantage Part D (MAPD) plans. Most MAO benefit plans include Part D as part of the benefit plan. Part D is funded by member premiums and 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), the 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 can differentiate their Part D coverage through their formulary and member cost sharing, generally below the initial coverage limit (ICL). The Inflation Reduction Act (IRA) will bring the most significant changes in 2025 to the Part D program since its inception. Please refer to our website for a deeper dive: Healthcare provisions in the Inflation Reduction Act.

1. Freed, M. et al. (August 8, 2024). Medicare Advantage in 2023: Enrollment Update and Key Trends. Kaiser Family Foundation. Retrieved October 23, 2024, from https://www.kff.org/medicare/issue-brief/medicare-advantage-in-2024-enrollment-update-and-key-trends/.

2. Friedman, J.M., & Yeh, M. (January 2024). State of the 2024 Medicare Advantage Industry: General enrollment plan valuation and benefit offerings. Retrieved December 2024, from https://www.milliman.com/en/insight/state-of-the-2024-medicare-advantage-industry-general-enrollment.

3. See https://www.milliman.com/en/insight/2024-combined-benefits-medicare-advantage-tracking-benefit-strategy.

MAOs are licensed health insurance entities and are required to file a statutory annual statement with their state insurance regulators. 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.

This report summarizes the CY 2023 experience for selected financial metrics of organizations reporting Medicare Advantage experience under the Title XVIII Medicare line of business on the NAIC annual statement. We compiled this information 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

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.

▪ Appendix 1 provides additional detail and stratifications of the financial metrics presented in this report.

▪ Appendix 2 provides the methodology and assumptions used in developing the metrics presented in this report.

Summary of CY 2023 financial results

The CY 2023 financial information analyzed for this report comprises information for 431 reporting entities across 47 states, compared to 426 entities across the same 47 states from the prior year's report. Information from Alaska, Montana, and Wyoming is not represented, primarily because the reporting entities in these states were excluded based on the filtering criteria described in the following paragraph. Of these 431 reporting entities, we identified 79 entities as provider-sponsored health plans (PSHPs), based on publicly available parent organization information and their status as provider entities. In this shortlist of 79 entities, we excluded large national PSHPs (such as Kaiser), as these plans are not representative of the subset being targeted for comparison purposes. We analyzed the financial performance of PSHPs separately from the traditional MAOs to identify any significant differences between the two entity types. These findings are outlined in later sections of this report. We retrieved the annual statements 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 their exclusions from the online database.

The MAO financials included in this report comprise information from MA-only and MAPD plans and do not include standalone prescription drug plans (PDPs). We compiled the financial data for the MAOs to produce outcomes of key financial metrics for various company groupings. We summarized the distribution of results 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 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.

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

Figure 1 summarizes the composite CY 2023 financial results for the 431 companies meeting the criteria selected for this study. The total MA revenue base represents over $384 billion with achieved underwriting gains of 1.1% (down from 3.0% last year). The lower margins in CY 2023 are consistent with information delivered in earnings calls and industry reports in the MA market. MAOs have reported pressures on margins due to higher inpatient and outpatient utilization combined with competitive pressures around benefit offerings. In comparison, for CY 2023, the 79 PSHPs meeting the criteria selected for this study showed underwriting losses of 2% in aggregate compared to 1.4% loss in CY 2022.

FIGURE 1: COMPOSITE CY 2023 FINANCIAL RESULTS
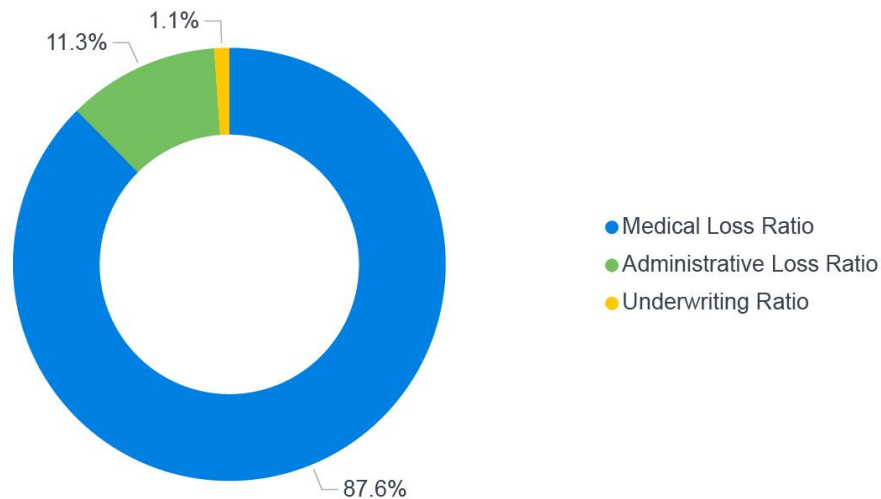
Note: Values have been rounded.

Figure 2 shows the distribution of MAOs (including PSHPs) within ranges of UW ratios specific to CY 2023, indicating that there were significantly more MAOs reporting losses (259 MAOs) compared to those reporting gains (172 MAOs), which differs from CY 2022 when there was a relatively even split. Approximately half of the MAOs reported an underwriting margin within a range of plus or minus 5%. Like last year, in general, plans with larger membership have been more profitable compared to the smaller plans, as can be seen in Figure 9 of Appendix 1. The underwriting ratio distribution for plans with greater than $1 billion in revenue is significantly different from the nationwide average, with more than 50% of those plans reporting gains. Therefore, while more MAOs reported losses than gains, the composite UW ratio represents a gain as shown in Figure 1. Figure 3 provides a view of the 79 PSHPs, which represents a significantly different distribution, with only 35% of all PSHPs reporting gains. About 18% of the PSHPs are reporting losses of more than 20%.

FIGURE 2: CY 2023 UNDERWRITING RATIO DISTRIBUTION

40% of MAOs reported underwriting gains

Category	Value
Greater than 20%	0.9%
Between 15% and 20%	0.7%
Between 10% and 15%	2.1%
Between 5% and 10%	8.8%
Between 0% and 5%	27.4%
Between -5% and 0%	22.5%
Between -10% and -5%	11.8%
Between -15% and -10%	9.5%
Between -20% and -15%	4.2%
Less than -20%	12.1%

60% of MAOs reported underwriting losses
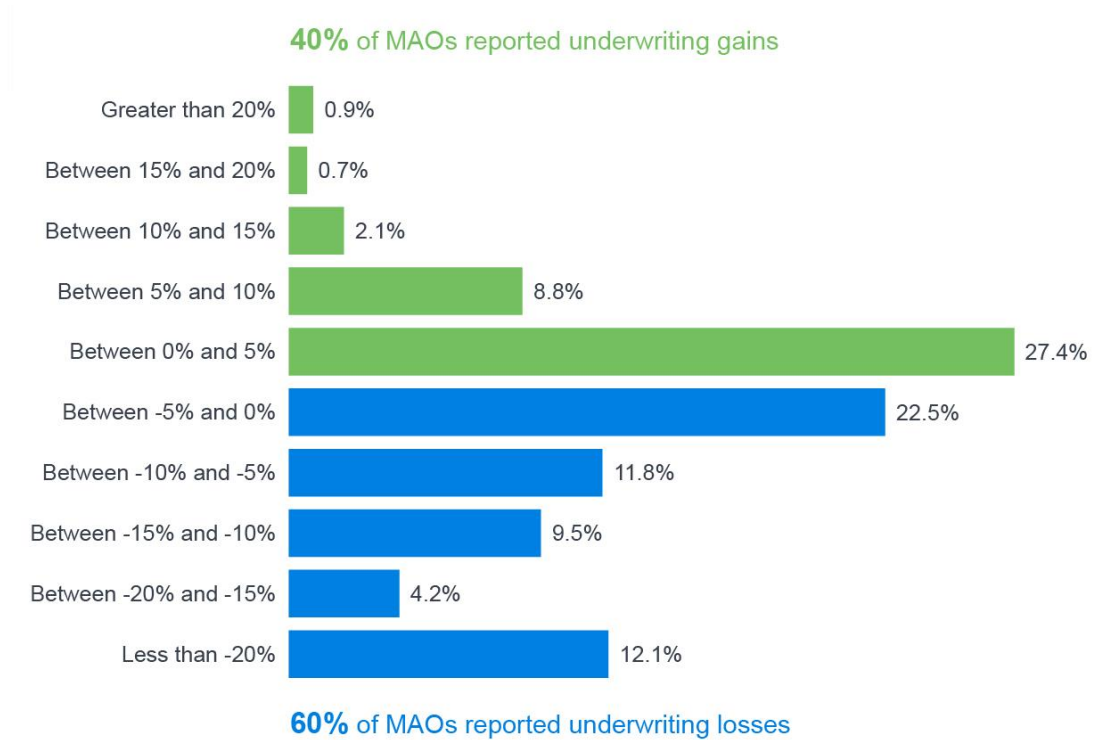
FIGURE 3: CY 2023 UNDERWRITING RATIO DISTRIBUTION (PROVIDER-SPONSORED HEALTH PLANS ONLY)

35% of MAOs reported underwriting gains

Category	Value
Greater than 20%	1.3%
Between 15% and 20%	0.0%
Between 10% and 15%	2.5%
Between 5% and 10%	5.1%
Between 0% and 5%	26.6%
Between -5% and 0%	26.6%
Between -10% and -5%	6.3%
Between -15% and -10%	7.6%
Between -20% and -15%	6.3%
Less than -20%	17.7%

65% of MAOs reported underwriting losses
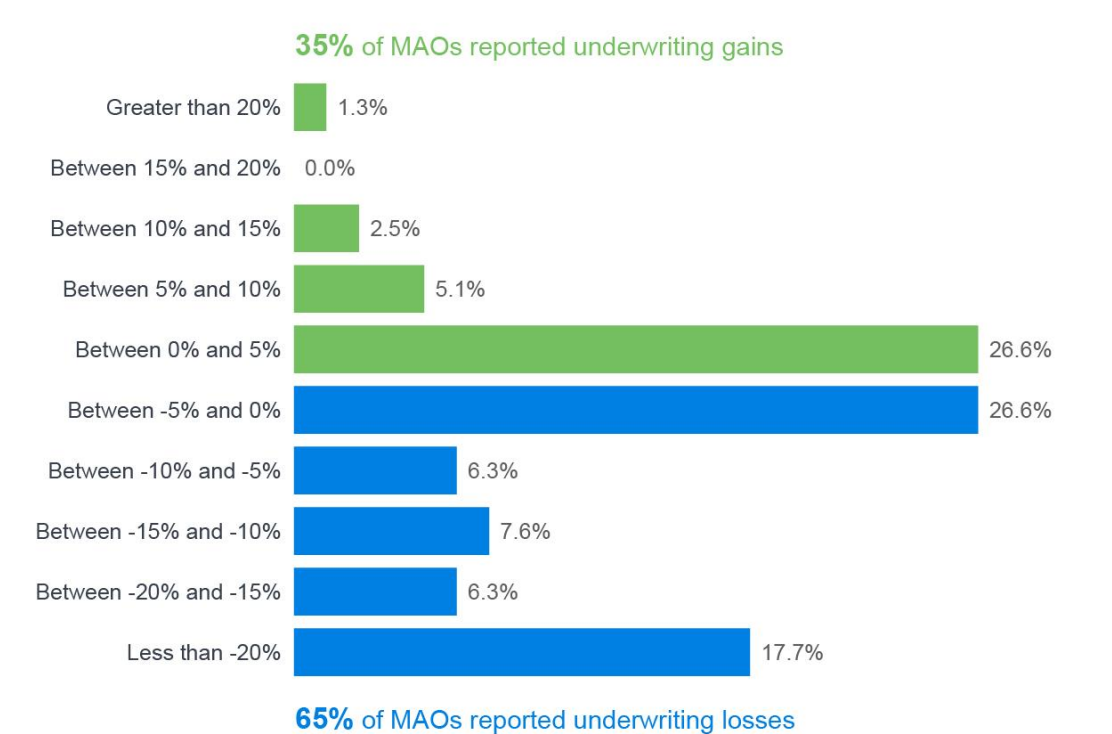
Over the past five years, aggregate MA revenue (in dollars) has grown by 80%. The main drivers of the revenue growth include the year-to-year increase in CMS benchmark revenue, the increase in average star ratings from 4.06 in 2019 to 4.14 in 2023,[5] and enrollment growth in the MA market from the increase in Medicare eligibles as well as the increase in the MA penetration rate. Enrollment included in this report increased by 48% over the same five-year period, with a year-over-year increase of over 7% growth this past year, down from 14% growth in the prior year. Figure 4 summarizes the composite financial results for the most recent five-year period. The companies in each year's sample are not the same; however, the criteria used to select the companies are consistent from year to year.

FIGURE 4: FIVE-YEAR HISTORICAL FINANCIAL RESULTS
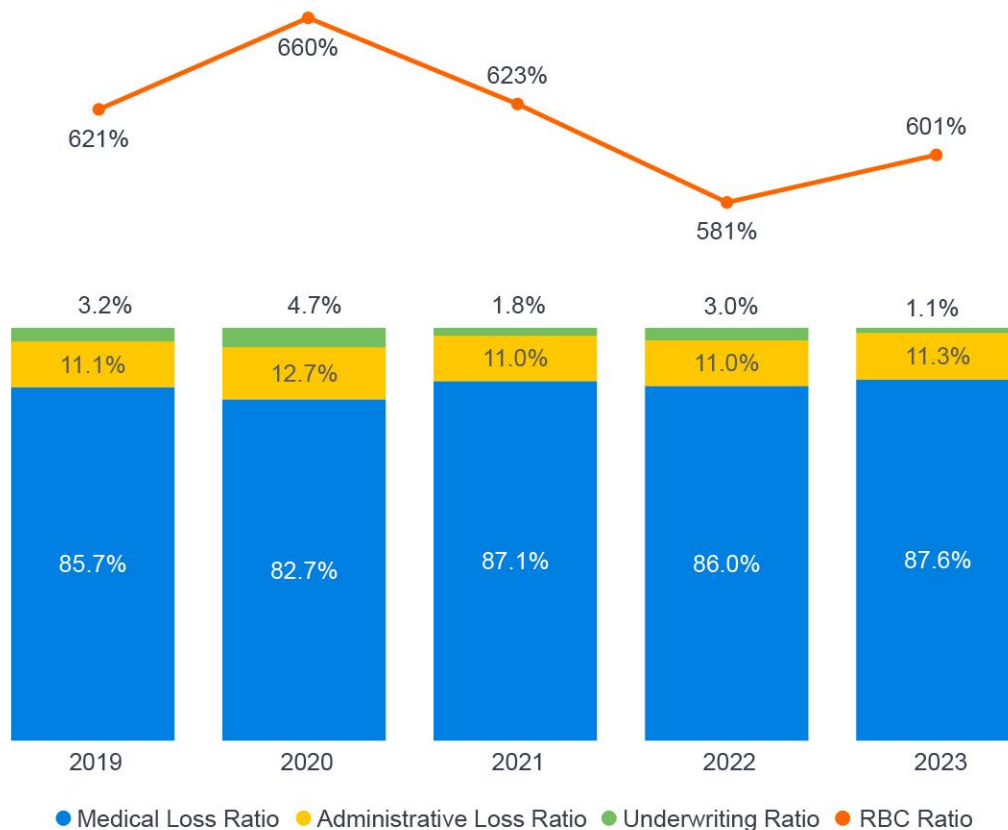
We note the following observations on the MA market over the most recent five years:

- The composite UW ratio for CY 2023 is the lowest margin we have seen in the last five years. CY 2021 at 1.8% margin was the only other year when the MA margin dropped below 2% during the last five years.

- The aggregate administrative loss ratio (ALR) over the last five years has generally remained stable at approximately 11% except in CY 2020. There was a moratorium on the Health Insurance Provider Fee (HIPF) in 2019, and HIPF was permanently suspended starting CY 2021, which potentially explains to some degree the lower ALRs in these years compared to CY 2020.[6]

- Risk-based capital ratios have generally stayed above 600% except for the dip in CY 2022.

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5. Average member weighted star ratings by year for 2019 and 2023 were calculated from these sources:
   https://www.cms.gov/files/document/2021starratingsfactsheet-10-13-2020.pdf and
   https://www.cms.gov/files/document/fact-sheet-2025-medicare-advantage-and-part-d-star-ratings.pdf.

6. The full text of the Consolidated Appropriations Act, 2016, is available at https://www.congress.gov/bill/114th-congress/house-bill/2029/text.

▪ The MLR in CY 2022 decreased by 1% after significantly increasing in CY 2021 relative to CY 2020, where the pandemic had an impact.

Please note that the MLR calculated throughout this report is the MLR formula as defined in Appendix 2 below and not the CMS MLR formula used for MLR rebates. This is consistent with how MLR is reported on the statutory annual statement and does not make the adjustments that CMS allows for credibility, quality improvement activities, and taxes and fees or Part D reinsurance amounts.

While Figure 4 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 5 illustrates the distribution of underwriting results in the MA market for each calendar year from the MAOs included in our analysis.

FIGURE 5: DISTRIBUTION OF UNDERWRITING RESULTS BY YEAR
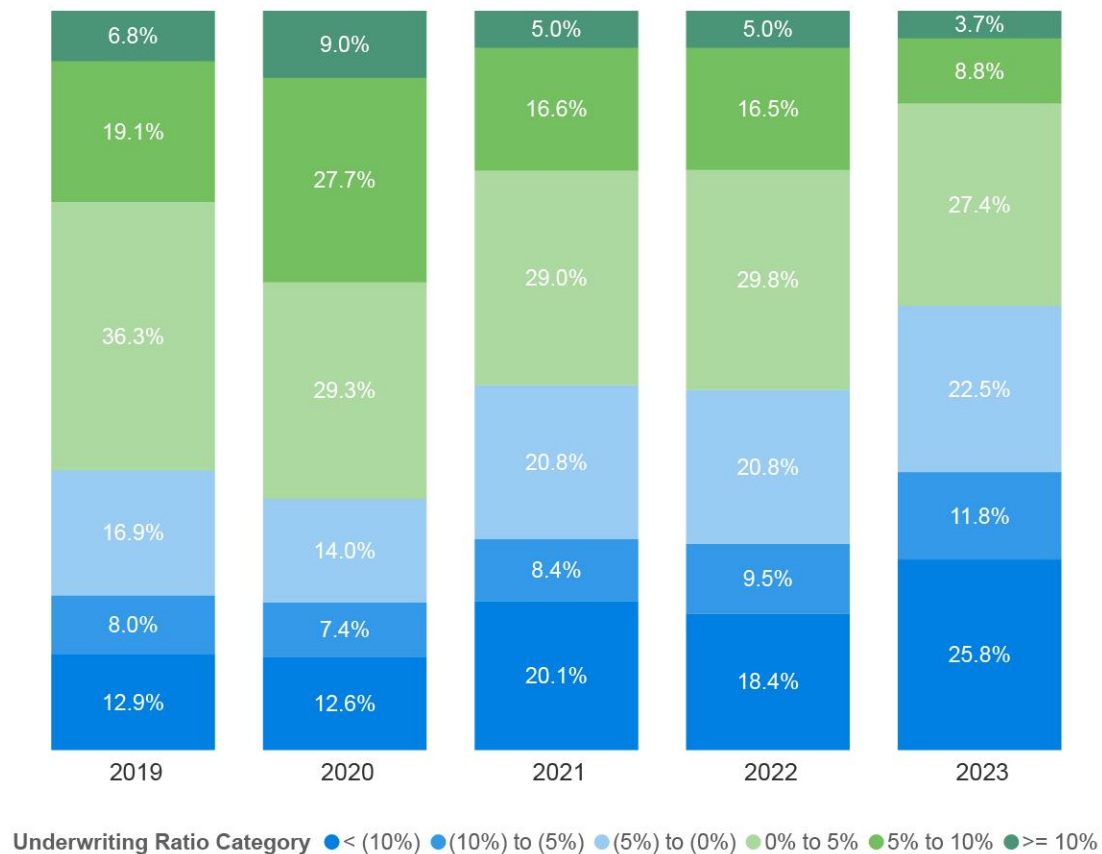
The composite UW ratio decreased in CY 2023 to 1.1% and is the new five-year historical low after the previous historical low of 1.8% in CY 2021. The percentage of plans with a positive margin has decreased significantly compared to prior years. During 2020 and years before the pandemic, approximately 60% of the plans reported positive underwriting margins. This decreased to approximately 50% in the last two years and is now at only 40% in CY 2023. The composite UW ratio reported by the MAOs in CY 2023 represents an aggregate underwriting gain of approximately $4.3 billion in relation to the $384 billion of revenue.

Administrative cost analysis

MEDICARE ADVANTAGE-FOCUSED MAOS

The results presented in this section of the report are limited to the 261 MAOs that are defined as MA-focused in the database used for this summary. The ALRs reported by the MA-focused MAOs were approximately 1% lower than the remaining 170 MAOs, which were defined as non-MA-focused. The 261 MA-focused MAOs account for over 74% of the MA revenue summarized for the purposes of this report, with an average 11.0% 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 6 summarizes the CY 2023 administrative expenses by quartile of ALR performance for the 261 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 6: ADMINISTRATIVE LOSS RATIO BY QUARTILE OF ALR PERFORMANCE
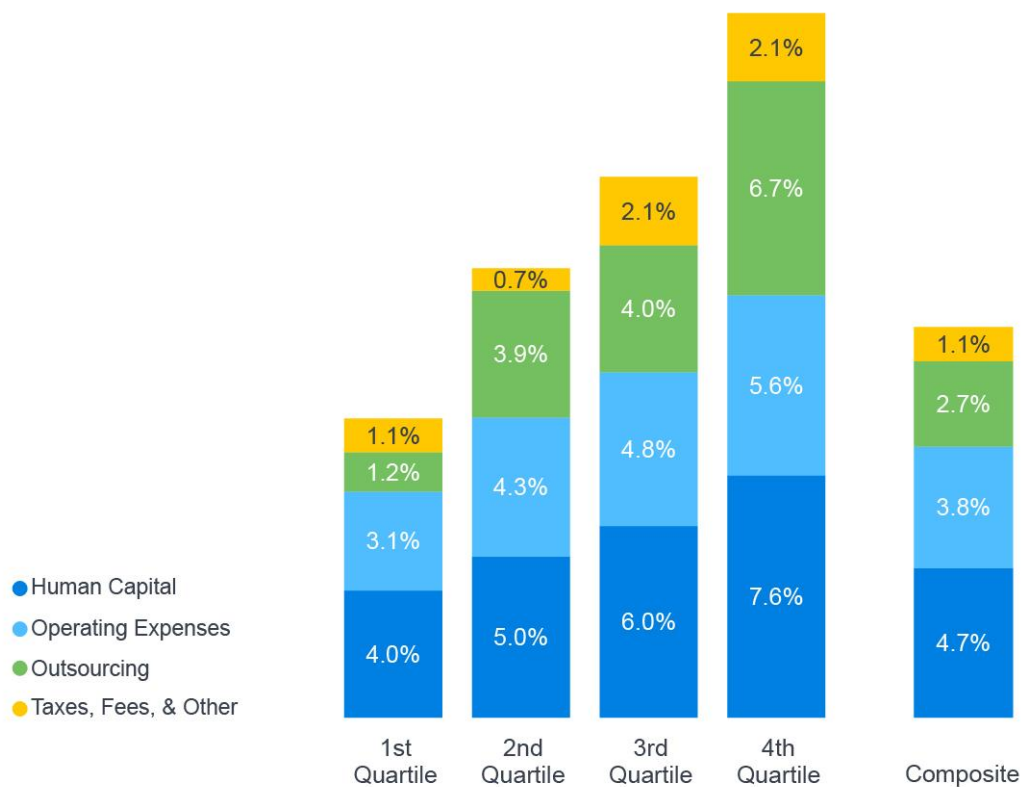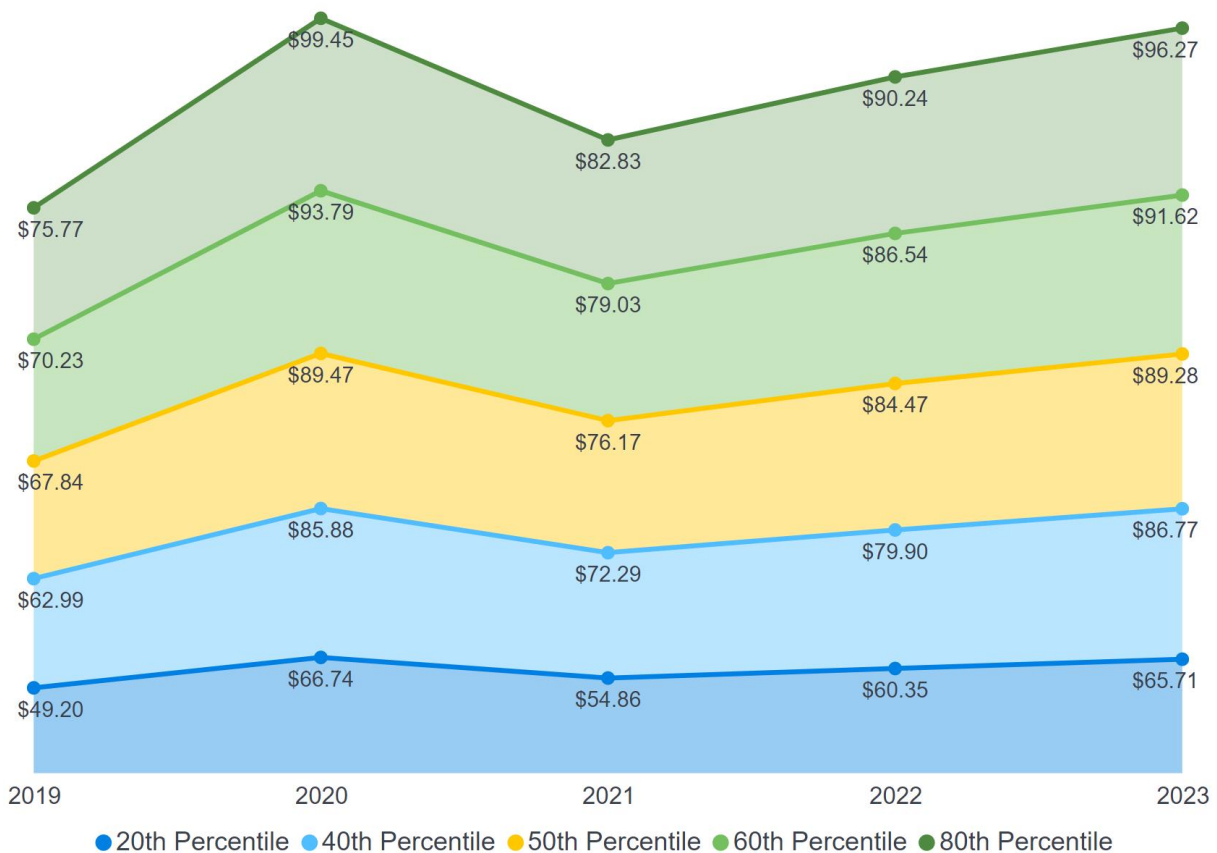

Note: Values have been rounded.

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.[7] Between the third and fourth quartiles, human capital (costs related to salaries, wages, and other items specific to in-house staffing resources), operating expenses, and outsourcing account for most of the increase in administrative costs.

Figure 7 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 7: ADMINISTRATIVE COST PMPM BY YEAR

Note: Values have been rounded.

Figure 7 illustrates an overall increase in the reported administrative cost on a PMPM basis from CY 2019 to CY 2023. We observed a significant decrease in the administrative cost PMPM from CY 2020 to CY 2021, likely due to the inclusion of the HIPF in 2020, but HIPF was suspended in all the other years during this five-year period. The average annualized increase in the median is approximately 7.0% from CY 2019 to CY 2023. The percentiles illustrated are less sensitive to outliers and changes in reported administrative expense for the largest health plans.

The PMPM increase from CY 2019 to CY 2023 is mostly 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 is likely attributable to a combination of drivers such as more start-ups entering the market with higher fixed administrative costs in the initial years; increased prevalence of SNPs, which require more intensive member care coordination; and/or other enrollment changes that can affect the PMPMs.

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7. 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.

Conclusion

Medicare Advantage remains popular and continues to grow. More than 54% of people eligible for Medicare in the United States enroll in MA.[8] However, we are beginning to observe some pressure on the MAO underwriting margins resulting from flattening payment rates from CMS combined with higher utilization across inpatient and outpatient service categories based on guidance from large MAOs during their earnings calls. Our analysis shows that only 40% of the total MAOs (including PSHPs) reported underwriting gains in CY 2023. Some smaller and medium-sized carriers have exited the market due to low enrollment or other challenges. The star ratings program, which measures and evaluates the quality of care in MA, continues to evolve, and many MAOs have seen their star ratings decrease. Plans will have to adapt to improve their star ratings to secure higher revenue amounts. MAOs offer popular coverage options for Medicare beneficiaries, 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.

Limitations and data reliance

We compiled the results contained in this report using data and information obtained from the statutory annual statements for MAOs filed with the respective state insurance regulators. We retrieved the annual statements from an online database on June 28, 2024. 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.

Milliman developed certain models to estimate the values included in this correspondence. The intent of the models was to estimate the MAO financial results presented in this report. We reviewed the models, including their inputs, calculations, and outputs, for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant actuarial standards of practice (ASOP). The models rely on data and information as input to the models. We relied upon certain data and information for this purpose and accepted it without audit. To the extent that the data and information provided is not accurate or is not complete, the values provided in this correspondence may likewise be inaccurate or incomplete. Milliman's data and information reliance includes the NAIC annual statement database. The models, including all input, calculations, and output, may not be appropriate for any other purpose.

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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.

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8. Freed, M. et al., Kaiser Family Foundation, op cit.

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 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

- Annual Medicare revenue
- Annual Medicare revenue PMPM
- MAO type (Medicare-focused versus all other MAOs)
- Underwriting gain/loss

FIGURE 8: MEDICAL LOSS RATIO: CY 2023 RESULTS

GROUPING	CATEGORY	N	REVENUE (IN $BILLIONS)	PERCENTILE MEAN	10TH	25TH	50TH	75TH	90TH
COMPOSITE	COMPOSITE	431	384.0	88%	79%	84%	88%	95%	103%
ANNUAL	$0 MILLION TO $100 MILLION	178	7.1	91%	75%	81%	88%	97%	111%
REVENUE	$100 MILLION TO $500 MILLION	127	31.2	91%	83%	85%	89%	96%	102%
	$500 MILLION TO $1 BILLION	59	41.6	90%	82%	86%	89%	94%	99%
	MORE THAN $1 BILLION	67	304.1	87%	82%	85%	87%	91%	98%
REVENUE	LESS THAN $1000	101	25.9	96%	82%	88%	94%	101%	113%
PMPM	$1000 to $1150	77	67.2	90%	84%	86%	91%	98%	104%
	$1150 to $1300	80	103.0	87%	82%	86%	89%	95%	104%
	MORE THAN $1300	173	187.8	86%	75%	81%	85%	89%	96%
BUSINESS	MEDICARE FOCUSED	261	284.4	86%	79%	83%	87%	95%	104%
FOCUS	ALL OTHERS	170	99.6	91%	81%	85%	89%	96%	103%
GAIN/(LOSS)	REPORTED A GAIN	172	241.2	85%	74%	79%	83%	86%	88%
POSITION	REPORTED A LOSS	259	142.8	92%	86%	89%	94%	100%	111%
PSHPs	PSHPs	79	28.2	90%	80%	85%	90%	99%	105%
	ALL OTHER MAOs	352	355.8	87%	79%	84%	88%	95%	103%

FIGURE 9: UNDERWRITING RATIO: CY 2023 RESULTS

GROUPING	CATEGORY	N	REVENUE (IN $ BILLIONS)	PERCENTILE MEAN	10TH	25TH	50TH	75TH	90TH
COMPOSITE	COMPOSITE	431	384.01	1%	-23%	-10%	-2%	2%	6%
ANNUAL	$0 MILLION TO $100 MILLION	178	7.12	-10%	-33%	-16%	-4%	3%	7%
REVENUE	$100 MILLION TO $500 MILLION	127	31.19	-5%	-20%	-11%	-3%	1%	4%
	$500 MILLION TO $1 BILLION	59	41.58	-1%	-11%	-5%	0%	2%	5%
	MORE THAN $1 BILLION	67	304.13	2%	-8%	-3%	1%	4%	7%
REVENUE	LESS THAN $1000	101	25.95	-9%	-38%	-22%	-10%	-1%	1%
PMPM	$1000 to $1150	77	67.21	-3%	-24%	-12%	-4%	1%	3%
	$1150 to $1300	80	103.02	1%	-19%	-9%	-2%	2%	4%
	MORE THAN $1300	173	187.84	4%	-12%	-3%	1%	5%	8%
BUSINESS	MEDICARE FOCUSED	261	284.4	2%	-26%	-10%	-1%	3%	6%
FOCUS	ALL OTHERS	170	99.6	-2%	-20%	-10%	-3%	2%	6%
GAIN/(LOSS)	REPORTED A GAIN	172	241.2	5%	1%	1%	3%	6%	9%
POSITION	REPORTED A LOSS	259	142.8	-5%	-30%	-16%	-9%	-3%	-1%
PSHPs	PSHPs	79	28.2	-2%	-28%	-13%	-3%	1%	5%
	ALL OTHER MAOs	352	355.8	1%	-21%	-9%	-1%	3%	6%

FIGURE 10: RISK-BASED CAPITAL RATIO: CY 2023 RESULTS

GROUPING	CATEGORY	N	REVENUE (IN $ BILLIONS)	PERCENTILE MEAN	10TH	25TH	50TH	75TH	90TH
COMPOSITE	COMPOSITE	431	384.01	601%	318%	365%	471%	650%	956%
ANNUAL	$0 MILLION TO $100 MILLION	178	7.12	582%	326%	377%	494%	723%	1203%
REVENUE	$100 MILLION TO $500 MILLION	127	31.19	619%	305%	367%	438%	587%	848%
	$500 MILLION TO $1 BILLION	59	41.58	557%	314%	357%	433%	612%	930%
	MORE THAN $1 BILLION	67	304.13	609%	304%	356%	477%	597%	909%
REVENUE	LESS THAN $1000	101	25.95	828%	327%	387%	541%	849%	1418%
PMPM	$1000 to $1150	77	67.21	587%	325%	378%	482%	652%	949%
	$1150 to $1300	80	103.02	518%	322%	369%	474%	595%	860%
	MORE THAN $1300	173	187.84	558%	302%	352%	435%	588%	801%
BUSINESS	MEDICARE FOCUSED	261	284.4	430%	312%	349%	448%	635%	864%
FOCUS	ALL OTHERS	170	99.6	681%	326%	390%	491%	739%	1181%
GAIN/(LOSS)	REPORTED A GAIN	172	241.2	496%	338%	393%	495%	658%	999%
POSITION	REPORTED A LOSS	259	142.8	667%	308%	349%	443%	640%	918%
PSHPs	PSHPs	79	28.2	495%	318%	348%	441%	589%	735%
	ALL OTHER MAOs	352	355.8	613%	318%	371%	473%	681%	999%

FIGURE 11: ADMINISTRATIVE LOSS RATIO: CY 2023 RESULTS

GROUPING	CATEGORY	N	REVENUE (IN $ BILLIONS)	PERCENTILE MEAN	10TH	25TH	50TH	75TH	90TH
COMPOSITE	COMPOSITE	431	384.01	11%	9%	12%	14%	16%	22%
ANNUAL	$0 MILLION TO $100 MILLION	178	7.12	19%	10%	13%	16%	20%	29%
REVENUE	$100 MILLION TO $500 MILLION	127	31.19	14%	10%	13%	14%	16%	20%
	$500 MILLION TO $1 BILLION	59	41.58	12%	7%	10%	12%	14%	15%
	MORE THAN $1 BILLION	67	304.13	11%	7%	10%	12%	14%	15%
REVENUE	LESS THAN $1000	101	25.95	14%	11%	13%	15%	21%	28%
PMPM	$1000 to $1150	77	67.21	12%	10%	11%	14%	15%	21%
	$1150 to $1300	80	103.02	11%	10%	12%	14%	16%	18%
	MORE THAN $1300	173	187.84	11%	9%	11%	14%	16%	20%
BUSINESS	MEDICARE FOCUSED	261	284.4	11%	10%	12%	15%	17%	23%
FOCUS	ALL OTHERS	170	99.6	12%	8%	11%	13%	16%	21%
GAIN/(LOSS)	REPORTED A GAIN	172	241.2	10%	8%	10%	13%	15%	17%
POSITION	REPORTED A LOSS	259	142.8	13%	10%	13%	15%	18%	24%
PSHPs	PSHPs	79	28.2	12%	9%	11%	13%	16%	23%
	ALL OTHER MAOs	352	355.8	11%	9%	12%	14%	16%	22%

Appendix 2: Definition of financial metrics

The financial metrics calculated for the 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 measures 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. 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 the 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 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)

ADMINISTRATIVE EXPENSE CATEGORIES

The administrative expenses reported on the Underwriting and Investment Exhibit Part 3 Analysis of Expenses page are categorized into 25 specific line items. We grouped these line items 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. We assigned payroll taxes to the human capital category. We assigned real estate taxes to the operating expenses category.
- Other expenses: Administrative costs for aggregate write-ins.

FIGURE 12: 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 ACCREDITATION 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

ADMINISTRATIVE EXPENSE BREAKDOWN		U&I EXHIBIT PART 3 EXPENSES (COLUMNS 3-4)
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

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