

MILLIMAN RESEARCH REPORT

Commercial health insurance: Detailed 2017 financial results and emerging 2018 trends

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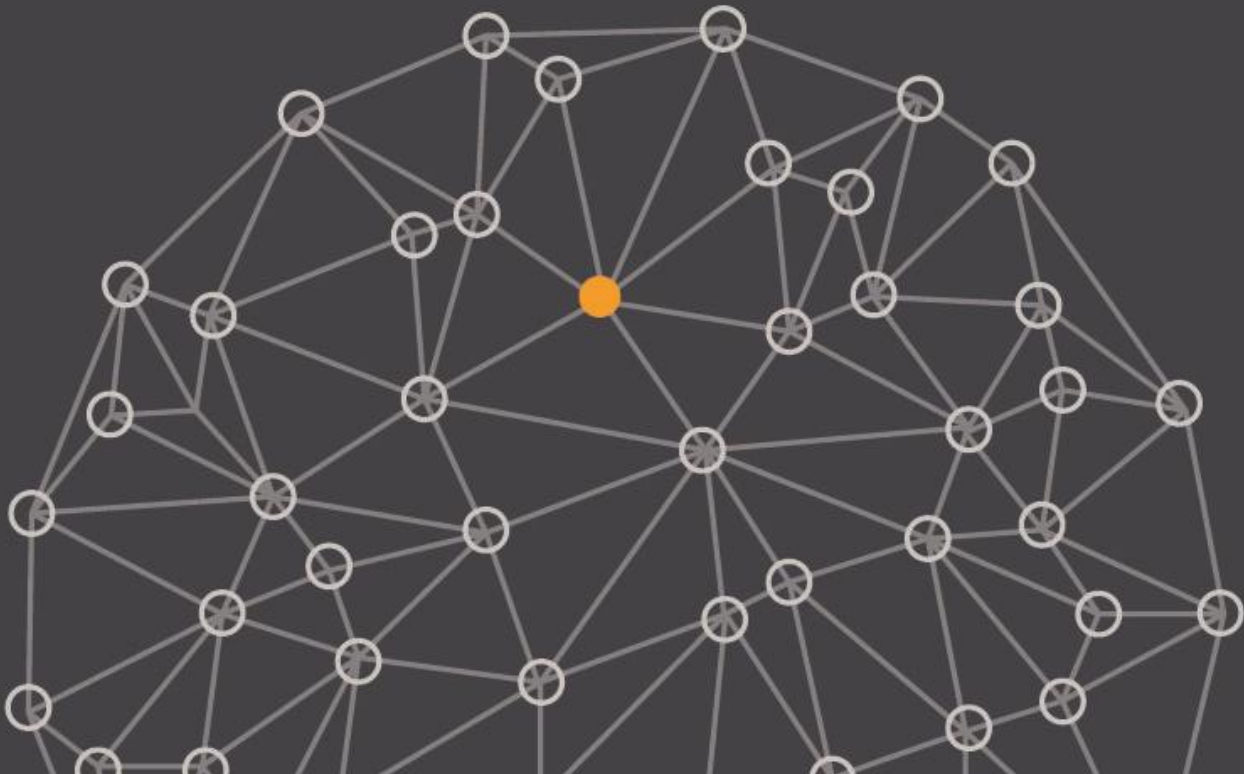


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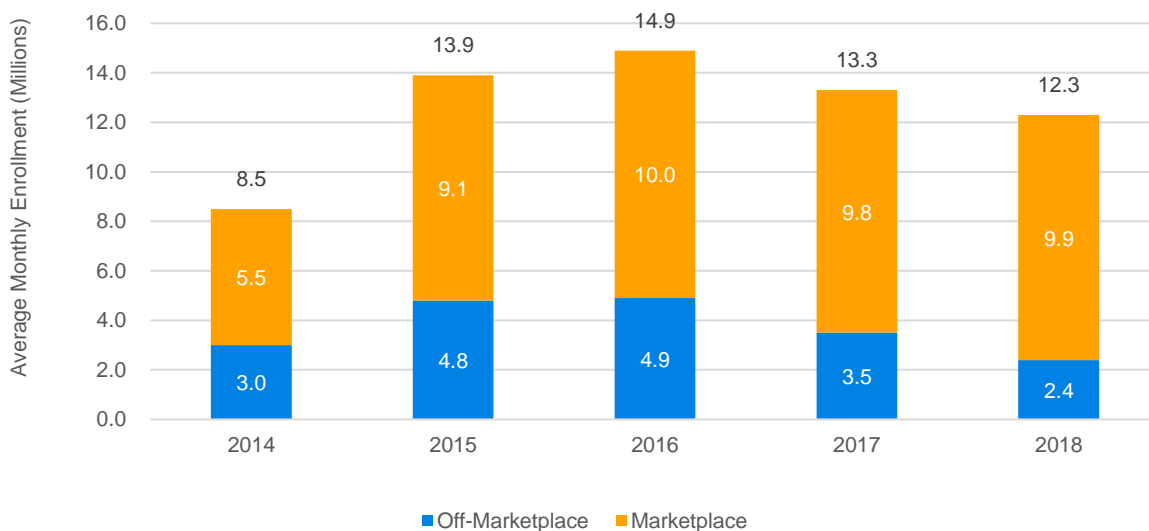
Executive Summary

Medical loss ratio (MLR) data published by the Centers for Medicare and Medicaid Services (CMS) provides a detailed picture of insurer financial results from the fourth full year of Patient Protection and Affordable Care Act (ACA) implementation. This data, supplemented with CMS marketplace and statutory financial data through calendar year 2018, illustrates continued stability in the group insurance markets in terms of both enrollment and insurer financial results. However, the individual market is experiencing declining enrollment outside the insurance marketplaces, and yet significantly improved financial results for the insurers relative to 2014 through 2016.

Individual market enrollment declines prompted several state-based initiatives to improve affordability for nonsubsidized consumers.

- As of April 2018, seven (7) states have received approval from CMS for a Section 1332 State Innovation Waiver (1332 Waiver) for implementing a state-based reinsurance program to improve premium affordability, particularly for consumers not qualifying for Advanced Premium Tax Credits (APTCs).
 - Efforts to get similar programs approved are underway in many other states.¹
- The decline in enrollment driving these state-based initiatives is supported by national enrollment trends observed in Figure 1.
 - While we estimate individual marketplace enrollment remained relatively stable between 2016 and 2018 (at approximately 10 million), national off-marketplace enrollment declined from 4.9 million in 2016 to 2.4 million in 2018.
 - It is possible that a portion of previous off-marketplace enrollees began purchasing coverage through the marketplaces to access increasingly valuable APTCs.
 - An improving economy and low unemployment rates may have also contributed to individual market enrollment declines as more individuals gain access to employer-sponsored insurance (ESI).

FIGURE 1: INDIVIDUAL MARKET ACA-COMPLIANT AVERAGE MONTHLY ENROLLMENT



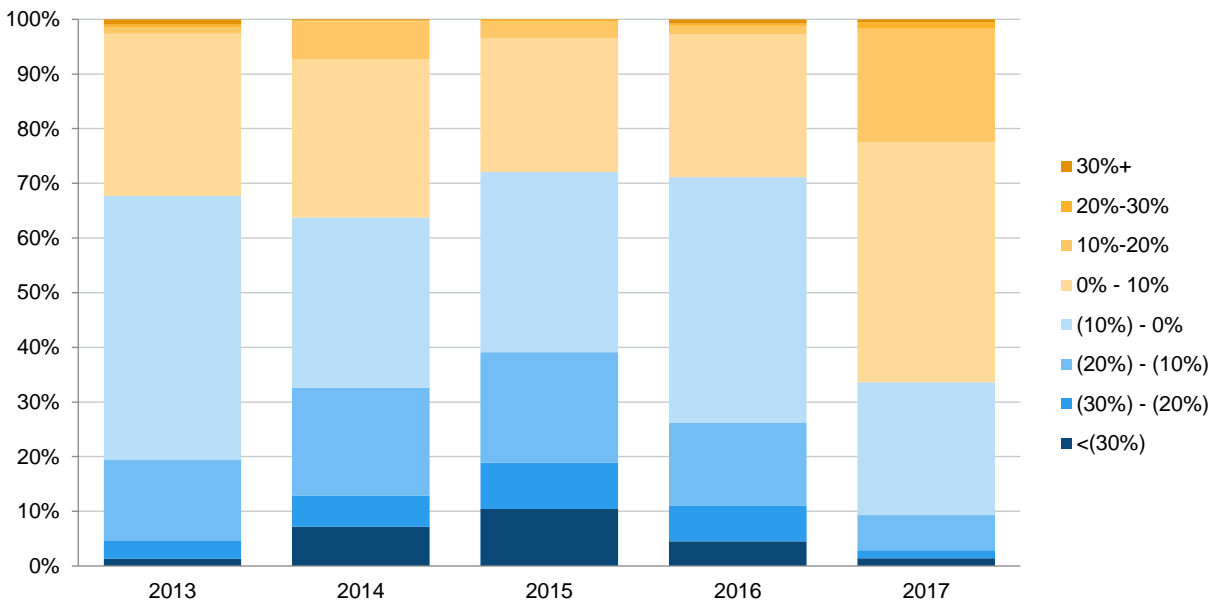
¹ Cauchi, D. & Becker, C. (December 14, 2018). Innovation Waivers: State Options and Legislation Related to the ACA Law. National Conference of State Legislatures. Retrieved May 1, 2019, from <http://www.ncsl.org/research/health/state-roles-using-1332-health-waivers.aspx>.

- While uncertainty remains surrounding the effect of eliminating the individual mandate penalty² in 2019, national marketplace open enrollment selections only decreased from 11.8 million to 11.4 million.³
 - Virginia’s Medicaid expansion accounted for a portion of the observed decline in selections.⁴
 - This early evidence suggests that consumers’ perceived value of marketplace coverage is high enough to maintain enrollment levels from prior years.⁵
 - For off-marketplace coverage, affordability concerns will likely persist in 2019, limiting the potential for enrollment growth.

Significant underwriting losses in the individual market for many insurers from 2014 through 2016 were replaced by material gains in 2017.

- Figure 2 illustrates the distribution of individual market underwriting results (based on insured members) from 2013 through 2017.
 - 60% to 70% of the individual market operated at an underwriting loss from 2013 through 2016, relative to just 30% in 2017.
 - More than 20% of the individual market experienced underwriting gains greater than 10% in 2017.

FIGURE 2: COMMERCIAL HEALTH INSURANCE: INDIVIDUAL MARKET UNDERWRITING MARGIN DISTRIBUTIONS, 2013 TO 2017



- Several factors likely contributed to favorable 2017 individual market insurer financial results, including:
 - Calendar year 2017 was the first year in which financial experience for ACA enrollees, including risk adjustment transfers, was available for use in the development of premium rates, reducing the uncertainty of future insured costs relative to prior premium rate development periods.

² The mandate was not technically repealed, but rather the penalty was set to \$0 for 2019 and future years.

³ CMS (March 25, 2019). Health Insurance Exchanges 2019 Open Enrollment Report. Retrieved May 1, 2019, from <https://www.cms.gov/newsroom/fact-sheets/health-insurance-exchanges-2019-open-enrollment-report>.

⁴ CMS, *ibid*.

⁵ See <http://www.milliman.com/insight/2018/The-individual-mandate-repeal-Will-it-matter/> for further discussion.

- A decline in insurer competition in many states as a result of issuers exiting the market.⁶ The decrease in competition enabled insurers to maintain enrollment levels while increasing premiums, whereas robust competition in prior years resulted in significant market share shifts among insurers.
- Some insurers may have developed premiums assuming that the payment of cost-sharing reduction (CSR) payments from the federal government would be terminated (which came to fruition in October 2017).

Outlook for 2018 financials and beyond

While individual market enrollment continued to decline in 2018, underwriting margins reported in year-end financial statements indicate the health insurance industry's margins improved. The individual market experienced a nearly 10% underwriting loss in 2015, compared to underwriting gains likely approaching 10% in 2018. Despite the removal of the individual mandate penalty, many states experienced flat or negative premium rate changes for 2019 marketplace coverage.⁷ This suggests a market rating adjustment may have already occurred to account for conservatism in 2018 premium rates.

⁶ Fehr, R., Cox C., & Levitt, L. (November 14, 2018). Insurer Participation on ACA Marketplaces, 2014-2019. Kaiser Family Foundation. Retrieved May 1, 2019, from <https://www.kff.org/health-reform/issue-brief/insurer-participation-on-aca-marketplaces-2014-2019/>.

⁷ Kamal, R. et al. (October 11, 2018). 2019 Premium Changes on ACA Exchanges. Kaiser Family Foundation. Retrieved May 1, 2019, from <https://www.kff.org/health-costs/issue-brief/tracking-2019-premium-changes-on-aca-exchanges/>.

Introduction

This report provides a detailed review of the commercial health insurance industry's financial results in 2017 and evaluates changes in the market's expense structure and enrollment relative to prior years. Additionally, based on 2018 statutory financial statements, the report discusses emerging financial trends for the commercial health insurance markets. The analytics in this report were developed based on a combination of medical loss ratio (MLR) data submitted to CMS, insurance marketplace enrollment reports, and 2018 year-end statutory financial information. The following topics are covered in this report:

- Summary of 2017 insurer financial results based on summarized medical loss ratio data
- Commercial health insurance enrollment changes from 2011 through 2017
- Distribution of underwriting margins for the individual, small group, and large group markets
- Breakdown of individual market enrollment changes from 2014 through 2018 by key market segments
- Emerging 2018 financial results and future market outlook

2017 markets and financial results overview

Figure 3 illustrates the 2017 aggregate insured lives and composite reported premium and expenses in the individual, small group, and large group commercial health insurance markets on a per member per month (PMPM) basis and as a percentage of earned premium. Figure 4 provides the same measures, but illustrates changes in enrollment and financial metrics from 2016 to 2017. See Appendix 1 for further descriptions of each measure contained in Figure 3. Additionally, the appendix of this report provides more detail on insurer financial results from 2010 through 2017.

FIGURE 3: AGGREGATE REPORTED 2017 COMPREHENSIVE EXPERIENCE

MEASURE	INDIVIDUAL	SMALL GROUP	LARGE GROUP
COVERED LIVES	15,200,000	13,500,000	42,800,000
EARNED PREMIUM PMPM	\$442.06	\$456.67	\$437.03
CLAIMS EXPENSES PMPM	\$359.34	\$364.66	\$378.87
FEES AND TAXES PMPM	\$22.89	\$16.96	\$10.41
MLR REBATES PMPM	\$0.71	\$1.91	\$0.51
TOTAL ADMINISTRATIVE EXPENSES PMPM	\$48.96	\$56.46	\$34.85
UNDERWRITING GAIN (LOSS) PMPM	\$14.90	\$15.34	\$6.49
PRELIMINARY MEDICAL LOSS RATIO ⁴	86.6%	83.8%	89.5%
MLR REBATE EXPENSE RATIO	0.2%	0.4%	0.1%
UNDERWRITING MARGIN	3.4%	3.4%	1.5%
ADMINISTRATIVE EXPENSE RATIO	11.1%	12.4%	8.0%

Notes (applicable to Figure 3 and Figure 4):

1. Values have been rounded.
2. Dollar values are illustrated on a PMPM basis.
3. Covered lives equals reported member months divided by 12.
4. Preliminary medical loss ratio is based on statutory guidelines in the Supplemental Health Care Exhibit. The sum of the preliminary medical loss ratio, underwriting margin, and administrative expense ratio will not equal 100%.
5. The 2016 and 2017 individual market values reflect Arkansas's private option Medicaid expansion population (approximately 250,000 average monthly covered individuals in calendar year 2016⁸ and 260,000 average monthly covered individuals in calendar year 2017⁹), as well as New Hampshire's private option Medicaid expansion population for calendar year 2016 (50,000)¹⁰ and 2017 (52,000).¹¹
6. Underwriting results are impacted by additional items not shown above such as reinsurance premiums and recoveries.

⁸ Arkansas Department of Human Services (October-December 2016). Arkansas Private Option 1115 Demonstration Waiver: Quarterly Report, October 1, 2016-December 31, 2016. Retrieved March 28, 2018, from <https://www.medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/Waivers/1115/downloads/ar/Health-Care-Independence-Program-Private-Option/ar-works-qtrly-rpt-oct-dec-2016.pdf>. Note that prior quarterly reports were also reviewed.

⁹ Arkansas Department of Human Services (October-December 2017). Arkansas Works Section 1115 Demonstration Waiver, Final Report, January 1, 2017-December 31, 2017. Retrieved May 1, 2019, from <https://www.medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/Waivers/1115/downloads/ar/Health-Care-Independence-Program-Private-Option/ar-works-qtrly-rpt-jan-dec-2017.pdf>.

¹⁰ New Hampshire Department of Health and Human Services (August 2, 2016). NH Health Protection Program Demographic Profile. Retrieved May 10, 2018, from <https://www.dhhs.nh.gov/ombp/pap/documents/nhhpp-enroll-demo-080116.pdf>.

¹¹ New Hampshire Department of Health and Human Services (August 1, 2017). NH Health Protection Program Demographic Profile. Retrieved May 1, 2019, from <https://www.dhhs.nh.gov/ombp/pap/documents/nhhpp-enroll-demo-080117.pdf>.

FIGURE 4: AGGREGATE CHANGES 2016 TO 2017 COMPREHENSIVE EXPERIENCE

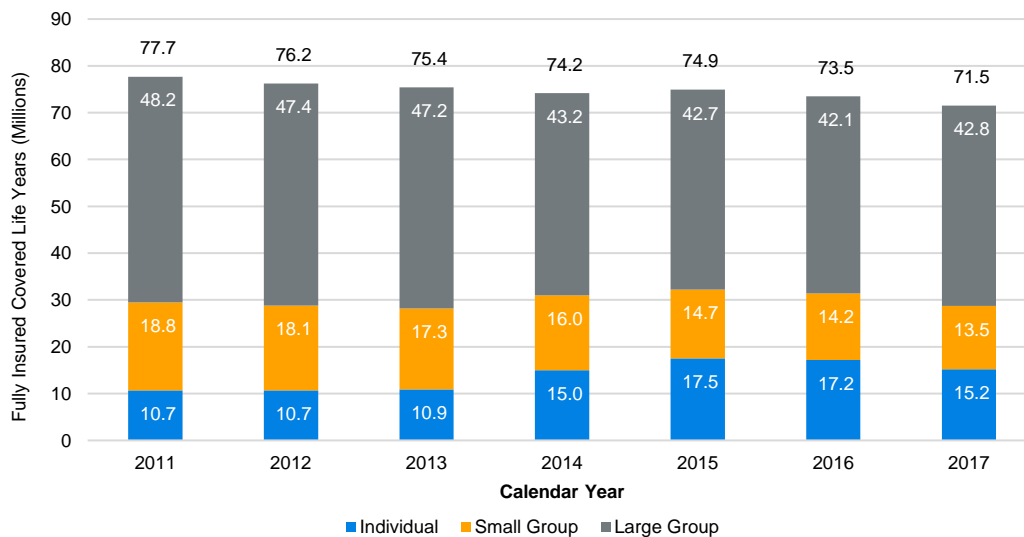
MEASURE	INDIVIDUAL	SMALL GROUP	LARGE GROUP
COVERED LIVES	(2,000,000)	(700,000)	700,000
EARNED PREMIUM PMPM	\$70.86	\$23.15	\$9.89
CLAIMS EXPENSES PMPM	\$24.04	\$16.71	\$12.63
FEES AND TAXES PMPM	\$9.88	(\$7.14)	(\$8.34)
MLR REBATES PMPM	\$0.22	\$1.01	\$0.14
TOTAL ADMINISTRATIVE EXPENSES PMPM	\$0.23	\$2.70	\$0.68
UNDERWRITING GAIN (LOSS) PMPM	\$37.43	\$8.67	\$0.16
PRELIMINARY MEDICAL LOSS RATIO ⁴	(8.0%)	(2.0%)	(0.9%)
MLR REBATE EXPENSE RATIO	0.0%	0.2%	0.0%
UNDERWRITING MARGIN	9.4%	1.8%	0.0%
ADMINISTRATIVE EXPENSE RATIO	(2.1%)	(0.0%)	(0.0%)

Notes:

- All notes for Figure 3 above applicable to Figure 4.
- The 2016 financial results reflect applicable insurers receiving 0% of risk corridor receivables in the individual and small group markets, which is included in claims expenses.

COVERED LIVES

In 2017, 71.5 million individuals were insured across the three commercial health insurance markets, a decrease of approximately 2.0 million insured lives relative to 2016. This enrollment decrease was solely attributable to changes in the individual market, as the aggregate group market enrollment remained flat between 2016 and 2017. During this time period, the average monthly premium in the individual market increased by nearly \$71 PMPM, or approximately 19%. While individuals eligible for federal premium assistance were largely insulated from these premium rate increases, the increases likely were the primary driver of the enrollment decline observed outside the insurance marketplace. Additional detail regarding individual market enrollment changes is provided later in this report.

FIGURE 5: NATIONAL COMPREHENSIVE HEALTH INSURANCE ENROLLMENT, 2011 TO 2017

Notes:

- Covered lives defined as reported member months divided by 12.
- Values have been rounded to the nearest 100,000.

EARNED PREMIUM, CLAIMS EXPENSES, FEES, AND TAXES

Earned premiums and claims expenses increased in each of the three markets from 2016 to 2017, with the individual market experiencing the largest changes. Individual market premiums on a PMPM basis increased by nearly 20% in 2017; however, PMPM claims expenses increased by only 7% (despite the sunsetting of the transitional reinsurance program in 2016¹²). With ACA-compliant market claims experience and risk adjustment transfer data available for 2014, many insurers likely had less uncertainty surrounding future insured benefit expenses while developing 2017 premium rates. Additionally, conservatism may have existed regarding federal payment of cost-sharing reduction (CSR) payments, which were terminated by the federal government in October 2017 due to a stated lack of “valid appropriation.”¹³ Finally, with reduced insurer competition in many geographic areas, insurer concerns related to market share reductions associated with rate increases may have lessened.¹⁴

Fees and taxes levied on insurers decreased from 2016 to 2017 for the commercial group insurance markets. This is attributable to the elimination of the transitional reinsurance fee (\$27 per covered life in 2016) and the moratorium on the health insurer fee in 2017.¹⁵ Within the individual market, favorable underwriting margins increased reported federal income taxes relative to prior years.

PRELIMINARY MLR AND MLR REBATES

The individual market preliminary medical loss ratio (MLR) decreased from 94.6% to 86.6% from 2016 to 2017. This significant decrease was attributable to premium revenue growth being much greater than claims expenses. Additionally, administrative expenses in the individual market were nearly flat (as a percentage of premium) from 2016 to 2017. Because commercial medical loss ratios are calculated based on a three-year average, market losses in 2015 and 2016 minimized medical loss ratio rebates in 2017. As discussed later in this report, medical loss ratio rebates for the individual market are anticipated to be larger in 2018 and 2019 due to improved insurer financial performance.

Within the small group and large group markets, the preliminary MLR decreased from 2016 to 2017. In the small group market, the preliminary MLR of 83.8% represents a decrease of two percentage points from 2016, and the lowest reported preliminary MLR for the market since 2011. The preliminary MLR for the large group market decreased by nearly 1% from 2016 to 2017, with the 89.5% market composite representing the lowest preliminary MLR since 2010. From 2016 to 2017, MLR rebates in the small group market increased by approximately \$1.00 PMPM, from \$0.90 to \$1.91 PMPM. The increase in MLR rebates in the large group market from 2016 to 2017 was only \$0.14 PMPM, from \$0.37 to \$0.51 PMPM.

ADMINISTRATIVE EXPENSES

On a PMPM basis, administrative expenses in the individual market increased slightly from 2016 to 2017. However, 2017 administrative expenses represent a decrease of approximately 2.0% as a percentage of earned premium (11.1% in 2017 relative to 13.1% in 2016). The small group and large group markets reported a 5.0% and 2.0% increase, respectively, in administrative expenses on a PMPM basis relative to 2016. In both the small group and large group markets, administrative expenses as a percentage of premium have been stable for several years. This indicates that administrative expenses have been growing at the same rate as market premiums.

UNDERWRITING RESULTS

The individual market composite underwriting gain was 3.4% in 2017. This represents the highest composite underwriting gain for the individual market since 2010 (the first year of collected financial results for our analysis) by a margin of nearly four percentage points, and a nearly 10% increase in underwriting margin relative to 2016. Calendar year 2017 also manifested the largest underwriting gain since 2010 for the small group market (3.4% versus the previous high of 3.2% in 2010). The large group market underwriting margin of 1.5% was consistent with results from the last several years.

¹² The transitional reinsurance program provided \$4 billion in payments to insurers in 2016.

¹³ CMS (March 29, 2018). Manual for Reconciliation of the Cost-Sharing Reduction Component of Advance Payments for Benefit Year 2017. Retrieved May 1, 2019, from <https://www.cms.gov/CCIIO/Resources/Forms-Reports-and-Other-Resources/Downloads/Final-CSR-Reconciliation-Guidance-BY2017.pdf>.

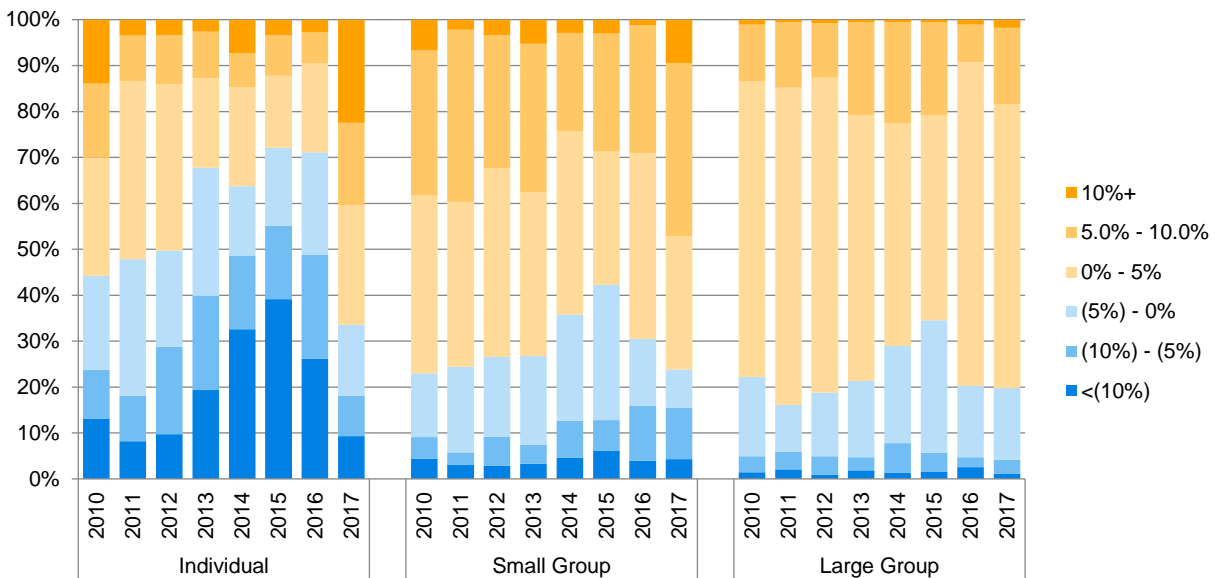
¹⁴ KFF (October 26, 2016). Insurer Participation in the 2017 Individual Marketplace. Retrieved May 1, 2019, from <https://www.kff.org/slideshow/insurer-participation-in-the-2017-individual-marketplace/>.

¹⁵ IRS (February 11, 2019). Affordable Care Act Provision 9010 - Health Insurance Providers Fee. Retrieved May 1, 2019, from <https://www.irs.gov/businesses/corporations/affordable-care-act-provision-9010>.

DISTRIBUTION OF UNDERWRITING RESULTS 2010 THROUGH 2017

When considering aggregate market underwriting results from 2010 through 2017, it is important to understand the degree to which underwriting results vary among insurers within a market. This provides insight into whether a small portion of market share with highly favorable (unfavorable) experience is driving underwriting gains (losses), or whether the financial results are more evenly distributed across the insurance industry. Figure 6 examines the distribution of underwriting results, weighted by member months, in these markets separately for each calendar year.

FIGURE 6: COMMERCIAL HEALTH INSURANCE: UNDERWRITING MARGIN DISTRIBUTIONS, 2010 TO 2017



Notes:

1. Distributions weighted by reported member months in each calendar year. Results reflect all insurers that reported data in the given year.
2. Results for 2014, 2015, and 2016 reflect 16.9%, 0.0%, and 0.0% of requested risk corridor amounts received, respectively.

While the distribution of underwriting margins has remained remarkably stable in the group insurance markets, the individual market has shown significantly greater volatility, particularly beginning in 2013 and continuing through 2017. Insurers with underwriting losses of greater than 10% of earned premium represented more than 25% of the market from 2014 through 2016, yet less than 10% of market share in 2017. Of individual market member months in 2017, 22.5% were covered by insurers realizing an underwriting gain in excess of 10% (for comparison, this value was approximately 3% in 2015 and 2016). For a given individual market enrollee, the likelihood of the member’s insurer operating with an underwriting gain in excess of 10% was more than seven times greater in 2017 relative to the prior two years.

Emerging 2018 individual market enrollment and financial experience

Publicly available reports released by the federal government focus largely on the insurance marketplace.¹⁶ To understand the overall enrollment and stability of the individual market, insurance marketplace enrollment, as well as the number of individuals receiving federal health insurance subsidies, must be understood in the context of the aggregate market. Federal subsidies, through APTCs and CSRs, have made health insurance premiums and cost sharing more affordable for millions of Americans. Figure 7 illustrates covered lives in the individual market from 2014 through 2018 (estimated values for 2018), along with the following effectuated¹⁷ enrollment statistics:

- Marketplace All Enrollees: Estimated total number of effectuated marketplace member months, divided by 12.
- Marketplace APTC: Estimated number of effectuated marketplace member months receiving an APTC, divided by 12.
- Marketplace CSR: Estimated number of effectuated marketplace member months receiving a CSR subsidy, divided by 12.

FIGURE 7: INDIVIDUAL HEALTH INSURANCE MARKET ESTIMATED ENROLLMENT BY MARKET SEGMENT, 2014 TO 2018 (MILLIONS)

COVERED LIFE YEARS	2014	2015	2016	2017	2018
ACA COMPLIANT					
MARKETPLACE	5.5	9.1	10.0	9.8	9.9
OFF-MARKETPLACE	3.0	4.8	4.9	3.5	2.4
<i>TOTAL ACA COMPLIANT</i>	<i>8.5</i>	<i>13.9</i>	<i>14.9</i>	<i>13.3</i>	<i>12.3</i>
NON-ACA COMPLIANT					
<i>TOTAL NON-ACA COMPLIANT</i>	<i>6.5</i>	<i>3.6</i>	<i>2.3</i>	<i>1.9</i>	<i>1.5</i>
TOTAL INDIVIDUAL MARKET	15.0	17.5	17.2	15.2	13.8
FEDERAL SUBSIDY POPULATION					
MARKETPLACE APTC	4.7	7.7	8.4	8.2	8.6
MARKETPLACE CSR	3.1	5.2	5.6	5.6	5.2
COVERED LIFE YEARS AS PERCENTAGE OF TOTAL INDIVIDUAL MARKET					
ACA COMPLIANT					
MARKETPLACE	37%	52%	58%	64%	72%
OFF-MARKETPLACE	20%	27%	28%	23%	17%
<i>TOTAL ACA COMPLIANT</i>	<i>57%</i>	<i>79%</i>	<i>87%</i>	<i>88%</i>	<i>89%</i>
NON-ACA COMPLIANT					
<i>TOTAL NON-ACA COMPLIANT</i>	<i>43%</i>	<i>21%</i>	<i>13%</i>	<i>12%</i>	<i>11%</i>
TOTAL INDIVIDUAL MARKET	100%	100%	100%	100%	100%
FEDERAL SUBSIDY POPULATION					
MARKETPLACE APTC	31%	44%	49%	54%	62%
MARKETPLACE CSR	21%	30%	33%	37%	38%

Notes:

1. Values have been rounded and adjusted to sum to 100% for each calendar year.
2. Covered life years reflect average monthly enrollment.
3. Marketplace enrollment reflects effectuated member months (defined as policies that have been activated by the payment of premium) divided by 12.
4. Total ACA-compliant enrollment from 2014 through 2018 estimated based on risk adjustment transfer reports. A 1% adjustment has been applied to billable member months to reflect households with more than three children.
5. Marketplace-effectuated enrollment estimated from U.S. Department of Health and Human Services (HHS) enrollment reports. Please see the Methodology section of this paper for more information.
6. The 2018 values have been estimated based on a combination of publicly available federal government data and reports, as well as 2018 health industry financials accessed through S&P Global Market Intelligence.
7. Actual average monthly enrollment values are certain to vary from the estimates provided in the above figure.
8. ACA-compliant enrollment includes private Medicaid expansion enrollees in Arkansas and New Hampshire. Effectuated APTC and CSR enrollment estimates exclude private Medicaid expansion enrollees.

¹⁶ CMS (March 25, 2019). 2019 Marketplace Open Enrollment Period Public Use Files. Retrieved May 1, 2019, from https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/Marketplace-Products/2019_Open_Enrollment.html.

¹⁷ Insurance policies that have been activated by the payment of premium.

As illustrated in Figure 7, while marketplace enrollment is estimated to have remained relatively stable between 2016 and 2018, we estimate off-marketplace ACA-compliant coverage has decreased by more than 50% (from 4.9 million to 2.4 million). ACA-compliant premium rates increased by approximately 20% on a national basis from 2016 to 2017, with double-digit premium rate increases occurring in many states for 2018.¹⁸ The Kaiser Family Foundation (KFF) reported average 2018 marketplace rate increases for the lowest-cost bronze and gold plans of 17% and 18%, respectively, with the lowest-cost silver plan increasing by 32% on average.¹⁹ Note that the higher premium rate increases for silver coverage was primarily attributable to the termination of federal CSR payments and corresponding "silver loading" that occurred in many states.²⁰ For some non-APTC-eligible consumers, the premium rate increases may have resulted in available coverage being viewed as unaffordable. Additionally, low unemployment (with corresponding greater access to employer-sponsored insurance) may have resulted in fewer consumers seeking to purchase health insurance coverage in the individual market. The enrollment declines in the non-ACA-compliant market are attributable to enrollment churn and state policies related to the continuation of transitional coverage. Members new to the individual market cannot purchase a transitional or grandfathered insurance plan, so as existing members in these plans become eligible for other health insurance coverage (Medicare, Medicaid, or employer) there is a natural attrition of market enrollment.²¹

Since 2014, enrollment within the marketplace has taken on a significantly larger proportion of individual market enrollment as non-ACA-compliant and off-marketplace coverage has declined.

- The estimated percentage of individual market covered lives in the insurance marketplace has increased from 37% in 2014 to 72% in 2018.
- Likewise, the percentage of the individual market covered lives receiving an APTC is estimated to have increased from 31% in 2014 to 62% in 2018.
- In 2018, approximately 60% of APTC enrollees are estimated to be enrolled in a plan with CSRs. This is a decrease from prior years, likely attributable to the greater availability of no-cost bronze coverage for many subsidy-eligible enrollees as a result of "silver loading" following the termination of direct federal CSR payments.²²

¹⁸ KFF (2014-2019). Marketplace Average Benchmark Premiums. State Health Facts. Retrieved May 1, 2019, from <https://www.kff.org/health-reform/state-indicator/marketplace-average-benchmark-premiums/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D>.

¹⁹ Semanskee, A., Claxton, G., & Levitt, L. (November 29, 2017). How Premiums Are Changing in 2018, Table 1. Kaiser Family Foundation. Retrieved May 1, 2019, from <https://www.kff.org/health-costs/issue-brief/how-premiums-are-changing-in-2018/>.

²⁰ See <https://www.balloon-juice.com/2017/10/11/state-approaches-to-handling-csr-uncertainty-for-2018-premiums/> for background information on silver loading.

²¹ See <https://www.cms.gov/CCIIO/Resources/Regulations-and-Guidance/Downloads/Limited-Non-Enforcement-Policy-Extension-Through-CY2020.pdf> for additional background on transitional coverage.

²² KFF (December 11, 2018). 4.2 million uninsured people could get a bronze plan in the ACA marketplace with \$0 premiums after tax credits. Newsroom. Retrieved May 1, 2019, from <https://www.kff.org/health-reform/press-release/4-2-million-uninsured-people-could-get-a-bronze-plan-in-the-aca-marketplace-with-0-premiums-after-tax-credits/>.

While individual market enrollment has declined materially since its peak of 17.5 million in 2015, to less than 14 million in 2018, insurer financial performance in the individual market has improved significantly during the same time period. Based on 2018 Supplemental Health Care Exhibit data,²³ margins are improving further in the individual market while remaining stable in the small group and large group markets. Note that the illustrated preliminary MLR values in Figure 8 are not directly comparable to the preliminary MLR values illustrated elsewhere in the report, as this figure excludes values reported for California and New York (see figure notes for further details).

FIGURE 8: 2017 AND 2018 PRELIMINARY MEDICAL LOSS RATIO BY MARKET SEGMENT (NATIONAL COMPOSITES EXCLUDING NEW YORK AND CALIFORNIA EXPERIENCE)

MARKET	2017	2018
Individual	85.2%	76.2%
Small Group	82.9%	83.2%
Large Group	89.3%	89.8%

Notes:

1. Values exclude reported information for the states of California and New York. A subset of insurers in these states are not required to file with the NAIC, and as a result 2018 financial results summarized using Supplemental Health Care Exhibit data are incomplete for these states. Data for both 2017 and 2018 in this figure has been summarized excluding these states for consistency and direct comparability.
2. 2017 Source: 2017 Annual Medical Loss Ratio Reporting Data.
3. 2018 Source: 2018 Supplemental Health Care Exhibit, downloaded via S&P Global Market Intelligence.
4. Medical loss ratio values reflect preliminary MLR estimates, defined as the sum of incurred claims, deductible fraud and abuse detection expenses, and defined expenses incurred for improving healthcare quality, divided by adjusted earned premiums.

The minimum MLR for individual market insurers is 80%, based on a three-year average. Given more of the favorable financial experience in the individual market in 2017 and 2018 for many insurers, the potential for insurers issuing MLR rebates will also increase for both the 2018 and 2019 coverage years. As discussed by a recently published Milliman white paper, there are many considerations for insurers when facing potential MLR rebate payments resulting from improved financial performance.²⁴ For consumers purchasing individual market coverage with federal premium assistance, the full amount of the rebate is paid to the consumer.²⁵ Therefore, it is possible that even for consumers with a \$0 out-of-pocket premium, MLR rebates will be received from an insurer.

While the first three years of the reformed individual market were marked by significant insurer financial losses, 2017 and 2018 financial experience indicates material financial gains. While this is a positive sign for market stability in terms of health insurers' fiscal health, it must also be weighed against steep enrollment declines among consumers not qualifying for federal premium assistance. As of May 2019, seven states have implemented state-based reinsurance programs under a Section 1332 Waiver in an attempt to address premium affordability for the nonsubsidized population.²⁶

²³ Downloaded via S&P Global Market Intelligence.

²⁴ Blount, E., Klein, M., & Fasching, A. (February 2019). Could 2019 Be the Year of MLR Rebates for ACA Issuers in the Individual Market. Milliman White Paper. Retrieved May 1, 2019, from <http://www.milliman.com/uploadedFiles/insight/2019/2019-mlr-rebates.pdf>.

²⁵ CMS (May 27, 2015). CCIIO Technical Guidance (CCIIO 2015—0001): Questions and Answers Regarding the Medical Loss Ratio (MLR) Reporting and Rebate Requirements. Retrieved May 1, 2019, from <https://www.cms.gov/CCIIO/Resources/Regulations-and-Guidance/Downloads/MLR-Guidance-Earned-Premium-and-APTC-Rebates-20150527.pdf>.

²⁶ Cauchi, D. & Becker, C. (December 14, 2018), op cit.

Limitations

The analyses presented in this research paper have relied on data and other information from the National Association of Insurance Commissioners (NAIC) MLR forms and Supplemental Health Care Exhibit (SHCE) data submitted by health insurers. MLR form data was obtained from the CMS Center for Consumer Information and Insurance Oversight (CCIIO)²⁷ in December 2018. The 2010 SHCE data was obtained from S&P Global Market Intelligence. Data related to insurance marketplace effectuated enrollment, and subsidies data, were obtained from publicly available federal government data. The data and other information have not been audited or verified, but a limited review was performed for reasonableness and consistency. If the underlying data or information is inaccurate or incomplete, the results of this analysis may likewise be inaccurate or incomplete. Published values subsequent to December 1, 2018, are not included in this report.

The views expressed in this report are made by the authors of this report and do not represent the collective opinions of Milliman. Other Milliman consultants may hold different views and reach different conclusions.

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Qualifications

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

²⁷ CMS. Medical Loss Ratio Data and System Resources. CCIIO. Retrieved May 1, 2019, from <http://www.cms.gov/CCIIO/Resources/Data-Resources/mlr.html>.

Appendix 1: Aggregate health insurer financial results, 2010-2017

SUMMARY OF COMMERCIAL HEALTH INSURER FINANCIAL RESULTS

CALENDAR YEARS 2010-2017: PER MEMBER PER MONTH PREMIUM AND EXPENSES

INDIVIDUAL MARKET - ALL REPORTED COMPANIES

YEAR	COVERED LIVES	EARNED PREMIUM	FEES & TAXES	CLAIMS EXPENSES	MLR REBATES	TOTAL ADMIN EXPENSES	UNDERWRITING GAIN (LOSS)	PRELIMINARY MEDICAL LOSS RATIO	MLR REBATES AS % OF EARNED PREMIUM	UNDERWRITING MARGIN	ADMIN EXPENSE RATIO
2017	15,200,000	\$442.06	\$22.89	\$359.34	\$0.71	\$48.96	\$14.90	86.6%	0.2%	3.4%	11.1%
2016	17,200,000	\$371.20	\$13.01	\$335.29	\$0.49	\$48.73	(\$22.53)	94.6%	0.1%	(6.1%)	13.1%
2015	17,500,000	\$337.64	\$13.86	\$305.43	\$0.51	\$48.19	(\$32.55)	95.3%	0.1%	(9.6%)	14.3%
2014	15,000,000	\$302.96	\$15.99	\$251.50	\$1.31	\$48.55	(\$17.94)	88.7%	0.4%	(5.9%)	16.0%
2013	10,900,000	\$247.41	\$2.55	\$209.62	\$0.96	\$43.09	(\$9.68)	86.7%	0.4%	(3.9%)	17.4%
2012	10,700,000	\$240.10	\$5.01	\$199.47	\$1.54	\$38.30	(\$4.78)	86.0%	0.6%	(2.0%)	16.0%
2011	10,700,000	\$234.17	\$5.80	\$188.47	\$3.06	\$38.47	(\$2.55)	83.5%	1.3%	(1.1%)	16.4%
2010	10,100,000	\$214.11	\$6.24	\$166.14	\$0.26	\$40.86	(\$0.67)	80.8%	0.1%	(0.3%)	19.1%

SMALL GROUP MARKET - ALL REPORTED COMPANIES

YEAR	COVERED LIVES	EARNED PREMIUM	FEES & TAXES	CLAIMS EXPENSES	MLR REBATES	TOTAL ADMIN EXPENSES	UNDERWRITING GAIN (LOSS)	PRELIMINARY MEDICAL LOSS RATIO	MLR REBATES AS % OF EARNED PREMIUM	UNDERWRITING MARGIN	ADMIN EXPENSE RATIO
2017	13,500,000	\$456.67	\$16.96	\$364.66	\$1.91	\$56.46	\$15.34	83.8%	0.4%	3.4%	12.4%
2016	14,200,000	\$433.52	\$24.09	\$347.95	\$0.90	\$53.77	\$6.67	85.8%	0.2%	1.5%	12.4%
2015	14,700,000	\$410.95	\$24.81	\$327.92	\$0.87	\$51.94	\$4.64	85.8%	0.2%	1.1%	12.6%
2014	16,000,000	\$388.99	\$23.07	\$310.88	\$0.73	\$48.49	\$5.16	85.9%	0.2%	1.3%	12.5%
2013	17,300,000	\$376.19	\$12.99	\$303.16	\$0.57	\$46.37	\$10.68	84.5%	0.2%	2.8%	12.3%
2012	18,100,000	\$361.59	\$12.23	\$291.54	\$0.93	\$44.38	\$9.81	84.5%	0.3%	2.7%	12.3%
2011	18,800,000	\$352.88	\$13.41	\$280.86	\$1.28	\$45.68	\$10.54	83.7%	0.4%	3.0%	12.9%
2010	17,600,000	\$343.26	\$11.84	\$274.66	\$0.07	\$45.05	\$10.93	83.7%	0.0%	3.2%	13.1%

SUMMARY OF COMMERCIAL HEALTH INSURER FINANCIAL RESULTS (CONTINUED)

LARGE GROUP MARKET - ALL REPORTED COMPANIES

YEAR	COVERED LIVES	EARNED PREMIUM	FEES & TAXES	CLAIMS EXPENSES	MLR REBATES	TOTAL ADMIN EXPENSES	UNDERWRITING GAIN (LOSS)	PRELIMINARY MEDICAL LOSS RATIO	MLR REBATES AS % OF EARNED PREMIUM	UNDERWRITING MARGIN	ADMIN EXPENSE RATIO
2017	42,800,000	\$437.03	\$10.41	\$378.87	\$0.51	\$34.85	\$6.49	89.5%	0.1%	1.5%	8.0%
2016	42,100,000	\$427.14	\$18.76	\$366.24	\$0.37	\$34.17	\$6.34	90.4%	0.1%	1.5%	8.0%
2015	42,700,000	\$410.68	\$20.35	\$349.30	\$0.26	\$32.80	\$6.61	90.3%	0.1%	1.6%	8.0%
2014	43,200,000	\$404.79	\$20.10	\$342.88	\$0.17	\$32.66	\$7.01	89.9%	0.0%	1.7%	8.1%
2013	47,200,000	\$368.68	\$8.59	\$320.40	\$0.14	\$29.90	\$7.36	89.9%	0.0%	2.0%	8.1%
2012	47,400,000	\$367.11	\$8.36	\$319.45	\$0.19	\$29.04	\$7.91	90.0%	0.1%	2.2%	7.9%
2011	48,200,000	\$359.20	\$9.49	\$310.49	\$0.66	\$28.98	\$8.27	89.6%	0.2%	2.3%	8.1%
2010	39,200,000	\$339.47	\$7.70	\$293.55	\$0.00	\$31.64	\$5.74	89.3%	0.0%	1.7%	9.3%

Notes:

1. Values have been rounded.
2. Covered Lives equals reported member months divided by 12.
3. The 2011 through 2017 reported premium and expenses are based on MLR form reported values as of March 31 of the following year.
4. MLR form reported values have been transposed into the same format as the NAIC SHCE form.
5. Earned Premium equals Part 1, Line 1.1 of the SHCE.†
6. Fees & Taxes equals Part 1, Line 1.5, 1.6, and 1.7 of the SHCE.
7. Claims Expenses equals Part 1, Line 5.0 of the SHCE.†
8. Total Admin Expenses equals the sum of Part 1, Lines 6.6, 8.3, and 10.5 of the SHCE.
9. Underwriting Gain (Loss) equals Part 1, Line 11 of the SHCE.
10. Preliminary Medical Loss Ratio equals sum of Part 1, Line 4 + Line 5.0 + Line 6.6 ÷ Line 1.8 of the SHCE.
11. The 2012-2017 MLR Rebates as % of Earned Premium equal reported rebates on Part 4, Line 5.4 (Total Column) of 2012-2017 MLR form ÷ Earned Premium.
12. The 2011 MLR Rebates as % of Earned Premium equal reported rebates on Part 5, Line 5.4 (Total Column) of 2011 MLR form ÷ Earned Premium.
13. Underwriting Margin equals Underwriting Gain (Loss) ÷ Earned Premium.
14. Admin Expense Ratio equals Total Admin Expenses ÷ Earned Premium.

† 2014, 2015, and 2016 values were adjusted by 3R impact..

Appendix 2: Methodology

MEDICAL LOSS RATIO DATA OVERVIEW

Section 2718 of the ACA instituted minimum medical loss ratio requirements for health insurers in the individual, small group, and large group markets. The Center for Consumer Information and Insurance Oversight (CCIIO) within CMS has publicly released the annual Medical Loss Ratio Reporting Data (MLR Data) that was used to fulfill and measure the minimum medical loss ratio requirements under the ACA. We have summarized and analyzed the MLR Data made available through CCIIO's website²⁸ as of December 1, 2018. The MLR Data for 2014 through 2016 is unique because it provides a final accounting of ACA risk corridors, reinsurance, and risk adjustment (3R) results for insurers, rather than the estimated revenue or charges that were included in statutory annual statements, including the SHCE.

The MLR Data contains experience reported by health insurance issuers at the state and market level. Business under the medical loss ratio requirements is split between comprehensive (annual limit greater than \$250,000), "mini-med" (annual limit at or less than \$250,000), and expatriate. Data for comprehensive and mini-med business is split separately between the individual, small group, and large group markets. Individual market values exclude limited benefit plans, dread-disease policies, accident-only coverage, and other policies that are not considered comprehensive health insurance. The small group and large group categories exclude self-funded employers, many of which purchase stop-loss insurance. Business written through an association is included in the MLR Data based on the insured entity's individual, small group, or large group status. Additionally, for 2013 through 2017, student health insurance was separately reported. For the purpose of this report, only comprehensive business has been analyzed.

The information contained in the MLR Data tracks closely with the SHCE form that is submitted with the insurer's year-end annual statement. The SHCE, developed by the National Association of Insurance Commissioners (NAIC), was first required in 2010. By comparing the 2010 Exhibit and 2011 through 2017 MLR Data, health insurance industry trends can be evaluated over the seven-year period. A limitation in these comparisons is that several California-based health insurers file with the state's Department of Managed Care, rather than the NAIC, and therefore do not complete the Exhibit form. However, these companies are required to report data for the medical loss ratio calculation and that data is contained in the 2011 through 2017 MLR Data sets. The 2010 SHCE data, along with 2018 statutory statement data, was summarized using S&P Global Market Intelligence.

The analyses presented in this report were based upon values from the 2011 through 2017 MLR Data and the 2010 SHCE data meeting the following criteria:

- Health insurance coverage lines of business.
- Business in the 50 states and the District of Columbia.
- Identified as comprehensive health insurance coverage based upon a review of the reported values by the authors of this report. For example, companies providing solely behavioral health services were flagged as non-comprehensive (offering a limited scope of insured benefits) as well as companies with per member per month premium rates below \$100.

Values for certain affiliate companies were combined for analyses presented in this report as a way to avoid double-counting of enrollment values.

²⁸ The Center for Consumer Information and Insurance Oversight website is found at <http://www.cms.gov/CCIIO/Resources/Data-Resources/mlr.html>.

FIGURE 9: 2017 COMPREHENSIVE HEALTH INSURANCE VALUES REPORTED IN MLR FORM

MARKET	GROUPS (PARENT COMPANIES)	COMPANIES	LIVES ¹	PREMIUM (\$ MILLIONS)	% NON- COMPREHENSIVE
INDIVIDUAL	149	354	15,200,000	\$80,767	0.03%
SMALL GROUP	140	325	13,500,000	\$73,832	0.00%
LARGE GROUP	153	361	42,800,000	\$224,519	0.03%
TOTAL COMPREHENSIVE	188	462	71,500,000	\$379,118	0.03%

Notes:

1. Lives represent reported member months divided by 12.
2. Certain values have been rounded.

Figure 9 provides a summary of the number of companies, covered lives, and aggregate premium amounts reported for calendar year 2017 on a national basis (50 U.S. states and the District of Columbia) for the comprehensive health insurance business under the ACA's medical loss ratio requirements that is included in this report. Additionally, the percentage of total premium (based on reported experience in the 50 states and Washington, D.C.) identified as non-comprehensive is illustrated. Data was reviewed for reasonableness and consistency. However, individual company results have not been audited. To the extent that individual company data was not correctly reported, the values presented in this report will not be representative of actual financial results.

While a majority of the fields in the MLR Data were simply reassigned to the appropriate SHCE report line item, significant adjustments were made to the earned premiums and incurred claims fields to appropriately account for the 3R impact in applicable markets during 2014, 2015, and 2016 and for risk adjustment in 2017. In particular, adjustments related to the reporting of transitional reinsurance recoveries were based on a review of insurers' 2014, 2015, and 2016 annual statement filings, as well as actuarial judgment. Because risk corridor amounts reported in the MLR Data are based on a calculation that is different from amounts paid to issuers by CCIIO, we replaced all MLR Data risk corridor values with those published by CCIIO.²⁹ Reported risk adjustment transfers in the MLR Data were also replaced by actual amounts for each insurer published by CCIIO, with the exception of business in Massachusetts (which has a state-operated risk adjustment program). Other adjustments were made to the data for observed reporting anomalies. Through this process, we identified a small number of companies that exited the commercial health insurance market after 2017 and did not complete a medical loss ratio filing (based on available data). If you would like further information on data and analytics that can be produced from the Medical Loss Ratio Reporting Form data, please contact the authors of this report.

MARKETPLACE EFFECTUATED ENROLLMENT DATA

CMS has released quarterly effectuated enrollment snapshots for the insurance marketplace on a national and state level for December 2014 through March 2016.³⁰ Effectuated marketplace enrollment at the end of each quarter is provided separately for total marketplace enrollment, CSR enrollment, and APTC enrollment. The effectuated marketplace enrollment also includes the average APTC on a national and state level for each quarter.

For 2014, the Internal Revenue Service (IRS) announced \$15.5 billion in APTC for insurance marketplace coverage.³¹ By dividing the \$15.5 billion amount by the December 2014 national average APTC (\$276), estimated monthly APTC effectuated enrollment for 2014 was calculated at 4.7 million. For 2015, the IRS announced \$25 billion in APTC for insurance marketplace coverage.³² By dividing the \$25 billion amount by the average quarterly national

²⁹ Center for Consumer Information and Insurance Oversight (November 19, 2015). Risk Corridors Payment and Charge Amounts for Benefit Year 2014. Retrieved May 1, 2019, from <https://www.cms.gov/CCIIO/Programs-and-Initiatives/Premium-Stabilization-Programs/Downloads/RC-Issuer-level-Report.pdf>.

³⁰ CMS.gov (July 1, 2016). Quarterly Marketplace Effectuated Enrollment Snapshots by State. Retrieved May 1, 2019, from https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/Marketplace-Products/Effectuated_Quarterly_Snapshots.html.

³¹ IRS (July 17, 2016). IRS Commissioner John Koskinen Letter to Congress. Retrieved May 1, 2019, from <https://www.irs.gov/pub/irs-utl/CommissionerLetterwithcharts.pdf>.

³² IRS (January 9, 2017). IRS Commissioner John Koskinen Letter to Congress. Retrieved May 1, 2019, from <https://www.irs.gov/pub/newsroom/commissionerletteracafilingseason.pdf>.

APTC (\$271), estimated monthly APTC effectuated enrollment for 2015 was calculated at 7.7 million. Note that quarterly national APTC amounts varied from \$270 to \$272. Based on the ratios between APTC, CSR, and total marketplace effectuated quarterly enrollment snapshots from CMS, we estimated the average monthly effectuated enrollment for CSR and total marketplace enrollees in 2014 and 2015. While we believe our methodology for estimating average monthly effectuated enrollment is sound, actual values are certain to vary from our estimates to an unknown degree. For calendar years 2016 and 2017 and the first half of calendar year 2018, CMS has released state-level data on effectuated enrollment (including APTC and CSR enrollment) and APTC per capita values, which serve as the basis for 2016 through 2018 estimated values.³³ Enrollment estimates outside of the marketplace are estimated based on available statutory data.

³³ CMS.gov (November 28, 2018). Effectuated Enrollment for the First Half of 2018. Retrieved May 1, 2019, from <https://www.cms.gov/newsroom/fact-sheets/effectuated-enrollment-first-half-2018>.



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