2013 Commercial health insurance: Overview of financial results

Paul R. Houchens, FSA, MAAA
Jason A. Clarkson, FSA, MAAA
Colin R. Gray, ASA, MAAA

INTRODUCTION

With the Patient Protection and Affordable Care Act (ACA) enactment in March 2010, health insurers have had to comply with minimum loss ratio requirements, more stringent rate reviews, removal of annual benefit limits, first-dollar coverage of preventive care, and other requirements. The insurer experience in 2013 reflects the third year insurers have been required to comply with federal minimum loss ratio requirements. Additionally, 2013 marks the final year that medical underwriting was not prohibited for new business in the individual and small group comprehensive health insurance markets in many states. Therefore, 2013 commercial health insurance experience can be used to both evaluate the impact of the ACA reforms that were implemented prior to 2014, as well as serve as a benchmark to evaluate insurer financial results moving forward.

This report uses data reported by health insurers in their Medical Loss Ratio Annual Reporting Forms (MLR forms) submitted to the Center for Consumer Information and Insurance Oversight (CCIIO) in 2011 through 2013, along with 2010 Supplemental Health Exhibit (SHE) data, to summarize financial results in the commercial health insurance markets. This report provides an overview of health insurer financial results in 2013 and evaluates changes in the health insurance industry's expense structure and profitability from 2010 to 2013, including changes in the medical loss ratio percentage.

2013 MARKETS AND FINANCIAL RESULTS OVERVIEW

Figure 1 illustrates the aggregate insured lives and composite reported premium and expenses in the individual, small group, and large group health insurance markets on a per member per month (PMPM) basis and as a percentage of premium for key financial measures.

As shown in Figure 1, premium and medical expenses are approximately 33% lower in the individual market than they are in the group health insurance markets. This is primarily attributable to the 2013 individual market generally having leaner covered benefits than the small and large group markets, and potentially lower population morbidity levels. In 2013, individual policies generally did not cover maternity costs and may have had deductible levels that are substantially higher than the average employer plan. Many states also allowed medical underwriting in the individual market. This may have prohibited individuals with preexisting conditions or chronic illnesses from entering the individual health insurance market, or may have resulted in these individuals being directed to a state's high-risk pool. The absence of a high-risk population may have helped make the underlying morbidity of the individual risk pool lower than it would otherwise be in such states. Adjusted community rating and essential health benefit requirements became effective in the individual market beginning on January 1, 2014, for newly underwritten policies. This expansion of insured benefits and change in the market's health status may result in premiums and claims costs more comparable to the group markets over time.

**FIGURE 1:
AGGREGATE REPORTED 2013 COMPREHENSIVE EXPERIENCE**

Measure	Individual (Direct)	Small Group	Large Group
Covered Lives	10,900,000	17,300,000	47,200,000
Earned Premium PMPM	$247.41	$376.19	$368.68
Claims Expenses PMPM	$209.62	$303.16	$320.40
MLR Rebates PMPM	$0.96	$0.57	$0.14
Total Administrative Expenses PMPM	$43.09	$46.37	$29.90
Underwriting Gain (Loss) PMPM	($9.68)	$10.68	$7.36
Preliminary Medical Loss Ratio	86.7%	84.5%	89.9%
MLR Rebate Expense Ratio	0.4%	0.2%	0.0%[2]
Underwriting Margin	(3.9%)	2.8%	2.0%
Administrative Expense Ratio	17.4%	12.3%	8.1%

Notes:
1. Dollar values are illustrated on a PMPM basis.
2. The MLR rebate expense ratio in the large group market was 0.04%.
3. Covered lives equals reported member months divided by 12.
4. Certain values have been rounded.
5. Preliminary medical loss ratio based on statutory guidelines.

1 Please see appendix for more information on these data sources.
2 Rebate percentage for the large group market was 0.04%.

Administrative expenses on a PMPM basis are higher in the individual and small group markets relative to the large group market. The difference in administrative expenses is primarily driven by differences in distribution costs (direct sales salaries and benefits, agents and broker fees, and commissions) among the three markets, ranging from about $8 PMPM in the large group market to roughly $20 PMPM in the small group market. Agents and broker fees in the individual market are more than 40% less than the small group market on a PMPM basis. With the introduction of the public exchanges in 2014, distribution costs in the individual and small group markets may undergo structural changes.

While medical loss ratio (MLR) rebate requirements under the ACA receive significant attention on an annual basis, MLR rebates represent well below 1% of earned premium in each market. Medical loss ratio rebates were 0.39% of earned premium in the individual market and were only 0.15% and 0.04% of earned premium for the small group and large group markets, respectively. In each of the three markets, the MLR rebate expense ratio has decreased relative to 2012 percentages.

The small and large group insurance markets in aggregate both experienced underwriting gains in 2013 similar to 2012 levels. However, the aggregate results in the individual insurance market indicated an underwriting loss of nearly $10 PMPM, reflecting a further deterioration of underwriting results from the $5 PMPM loss in 2012. Aggregate administrative expenses in the individual market increased from $38 to $43, which may have driven a portion of the additional underwriting losses. The administrative expense increase may have been attributable to insurers preparing to sell individual health policies in the public exchanges and the development of new products, as well as the information technology investments used to operate effectively in the reformed individual market.

How have financial results changed since 2010?

With four years of insurer financials available, assessments of the ACA's impact on insurer expense structure and profitability prior to the 2014 rating reforms can be made. Figure 2 provides the incremental change in costs from 2010 to 2013 for insurers reporting financial results during all years between 2010 and 2013. For example, in the individual market, earned premium PMPM has increased approximately $27 from 2010 to 2013.

Figure 2 indicates that premium increases in the group insurance markets tracked very closely with claims expense increases. However, in the individual health insurance market, growth in claims expenses outpaced premium growth by nearly $10 PMPM. This is the primary reason why the medical loss ratio percentage increased by 5.5% in the individual insurance market from 2010 to 2013, despite an increase in administrative expenses on a PMPM basis.

FIGURE 2: CHANGE IN INSURER REPORTED EXPENSES: 2010 TO 2013
INSURERS REPORTING EXPENSES IN 2010 THROUGH 2013

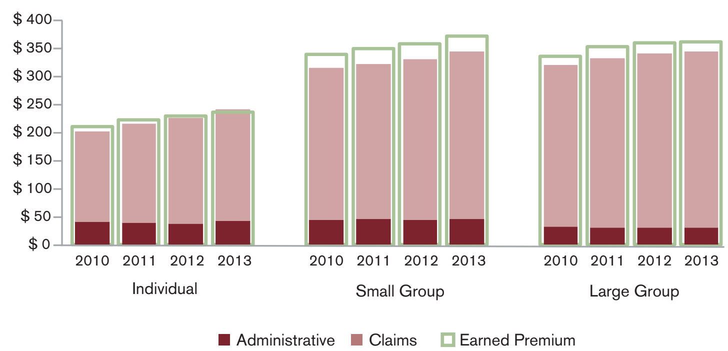
Measure	Individual	Small Group	Large Group
Earned Premium PMPM	$26.98 ↑	$33.50 ↑	$26.66 ↑
Claims Expenses PMPM	$36.82 ↑	$27.06 ↑	$23.74 ↑
Total Administrative Expenses PMPM	$2.40 ↑	$1.64 ↑	($0.30) ↓
Underwriting Gain (Loss) PMPM	($8.89) ↓	$0.45 ↑	($0.27) ↓
Preliminary Medical Loss Ratio	5.5% ↑	0.4% ↑	0.5% ↑

Notes:

1. Dollar values are illustrated on a PMPM basis.
2. Certain values have been rounded.

Figure 3 provides a visual representation of changes in each market's financial structure from 2010 through 2013. Total administrative and claims expense are represented by the red-shaded bars, while carrier earned premium is represented by the green outline surrounding the bars. As illustrated by this figure, the gap between earned premium and the sum of administrative and claims expenses has remained consistent in the group markets from 2010 through 2013, yet has been eliminated over the four-year period in the individual market.

FIGURE 3: CHANGE IN INSURER REPORTED EXPENSES AND PREMIUM REVENUE: 2010 TO 2013 -
INSURERS REPORTING EXPENSES IN 2010 THROUGH 2013
VALUES ILLUSTRATED ON A PMPM BASIS

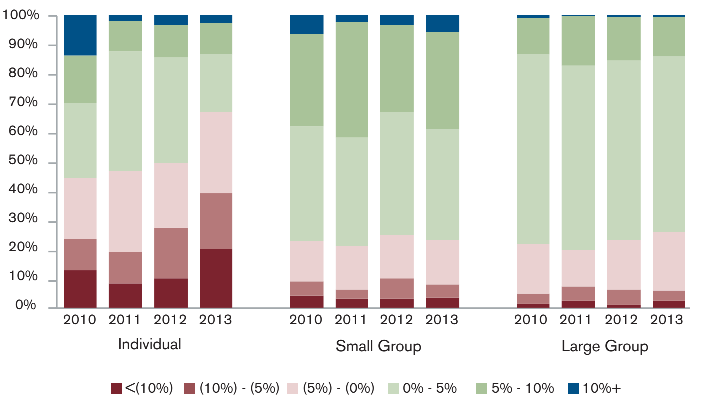


Appendix 1 on page 5 of this report provides additional detail on aggregate financial results for insurers from 2010 through 2013.

Distribution of underwriting results 2010 through 2013

While we evaluated aggregate market underwriting results from 2010 through 2013, it is also important to understand the degree to which underwriting results vary between companies within a market. Figure 4 examines the distribution of underwriting results in these markets separately for each calendar year. Only companies reporting experience in each of the four years are included in Figure 4.

FIGURE 4: COMMERCIAL HEALTH INSURANCE: UNDERWRITING MARGIN DISTRIBUTIONS 2010-2013 COMPANIES REPORTING EXPERIENCE IN 2010 THROUGH 2013



Note:
Distributions weighted by reported member months in each calendar year.

As was discussed in our 2012 financial results paper, the portion of the individual market experiencing underwriting gains of more than 5% has decreased from 30% in 2010 to less than 15% of the market. While it cannot be ruled out that 2010 was abnormal relative to the years prior to the enactment of the ACA, the decrease in underwriting gains above 5% in 2011 through 2013 suggests that minimum MLR requirements have limited exceptionally favorable underwriting results.

The portion of the individual market experiencing underwriting losses remained below 50% from 2010 through 2012. However, 2013 financial results indicate that nearly 70% of the market experienced underwriting losses, an increase of approximately 20 percentage points from 2012. As previously discussed, additional underwriting losses may be attributable to administrative expense increases driven by the ACA's overhaul of the individual market in 2014. Given these changes, volatility in underwriting results may occur again in 2014 financial results. Additionally, the application of transitional reinsurance, risk adjustment, and risk corridor programs on a large portion of individual market business in 2014 may significantly influence financial results among carriers.

As observed in our 2012 financial results paper and affirmed with 2013 financial experience, underwriting margins have been more stable in the group insurance markets. In each year, a significantly higher proportion of market share in the small group market experienced underwriting gains of more than 5% relative to the large group market (in 2013, 39% vs. 14%). In 2014, the small group market underwent significant changes to rating rules, and many states experienced a bifurcation of the market between ACA-compliant policies and transitional/grandfathered policies.[3] The possibility exists that significant changes will occur to small group financial results in 2014.

CONCLUSION

Insurer financial experience from the MLR forms provides a transparent view into the U.S. health insurance market. An evaluation of insurer financial results from 2010 through 2013 suggests that the ACA has not impacted underwriting margins materially at the industry level in the group insurance markets. However, in the individual health insurance market, we have observed:

- A 3.9% underwriting loss for the individual market on an industry-wide basis, reflecting further deterioration in underwriting margins from prior years
- A substantial decrease in underwriting margins above 5% beginning in 2011
- A substantially higher proportion of the market experiencing underwriting losses beginning in 2013

Additionally, in 2014, new insurers entered the individual health insurance market through the federal or state insurance exchanges.[4] New market entrants include Medicaid managed care health plans and Consumer Operated and Oriented Plans (CO-OPs), which may result in changes to existing insurers' market shares and financial results. Regardless of the outcome of these market changes, financial data from the MLR forms will provide insurers and policymakers with critical information on how the ACA is impacting market enrollment, premium, claims, administrative expenses, and insurer profitability.

3 For more information regarding transitional plans, see Leida, H. (March 2014), "Canceled plans, part III: An extension, an expansion, and more changes to 2014 rules," Milliman healthcare reform briefing paper, available at: http://us.milliman.com/uploadedFiles/insight/2014/canceled-plans-part-III.pdf.

4 See Houchens, P., Clarkson, J., & Sturm, M. (November 2013), "2014 federal insurance exchange: Evaluation of insurer participation and consumer choice," Milliman healthcare reform briefing paper, available at: http://www.milliman.com/uploadedFiles/insight/2013/2014-federal-insurance-exchange-insurer-participation.pdf.

LIMITATIONS

The analyses presented in this research paper have relied on data and other information from the MLR forms and Supplemental Health Exhibits of health insurers. MLR form data was obtained from the CCIIO of the Centers for Medicare and Medicaid Services (CMS) at http://www.cms.gov/CCIIO/Resources/Data-Resources/mlr.html in August 2014. 2010 Supplemental Health Exhibit data was obtained using SNL Financial. The data and other information has 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 August 1, 2014, are not included in this report.

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

ACKNOWLEDGEMENTS

David Hayes, FSA, MAAA, peer reviewed this report. The authors appreciate his assistance.

QUALIFICATIONS

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

Paul R. Houchens, FSA, MAAA, is a principal and consulting actuary with the Indianapolis office of Milliman. Contact him at paul.houchens@milliman.com or follow him on Twitter at www.twitter.com/paulhouchens.

Jason A. Clarkson, FSA, MAAA, is an actuary with the Indianapolis office of Milliman. Contact him at jason.clarkson@milliman.com.

Colin R. Gray, ASA, MAAA, is an associate actuary with the Indianapolis office of Milliman. Contact him at colin.gray@milliman.com.

APPENDIX 1
AGGREGATE HEALTH INSURER FINANCIAL RESULTS 2010–2013

FIGURE 5: SUMMARY OF COMMERCIAL HEALTH INSURER FINANCIAL RESULTS - CALENDAR YEARS 2010-2013 PER MEMBER PER MONTH PREMIUM AND EXPENSES

INDIVIDUAL MARKET-ALL REPORTED COMPANIES

Year	Covered Lives	Earned Premium	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
2013	10,900,000	$247.41	$209.62	$0.96	$43.09	($9.68)	86.7%	0.4%	(3.9%)	17.4%
2012	10,700,000	$240.10	$199.47	$1.54	$38.30	($4.78)	86.0%	0.6%	(2.0%)	16.0%
2011	10,700,000	$234.17	$188.47	$3.06	$38.47	($2.55)	83.5%	1.3%	(1.1%)	16.4%
2010	10,100,000	$214.11	$166.14	$0.26	$40.86	($0.67)	80.8%	0.1%	(0.3%)	19.1%

INDIVIDUAL MARKET-COMPANIES REPORTING IN 2010-2013

Year	Covered Lives	Earned Premium	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
2013	10,200,000	$239.63	$201.37	$0.97	$42.71	($9.01)	86.2%	0.4%	(3.8%)	17.8%
2012	10,100,000	$231.63	$190.95	$1.57	$38.28	($4.57)	85.4%	0.7%	(2.0%)	16.5%
2011	10,100,000	$225.83	$179.86	$3.23	$38.44	($2.66)	82.7%	1.4%	(1.2%)	17.0%
2010	9,900,000	$212.65	$164.55	$0.26	$40.32	($0.12)	80.6%	0.1%	(0.1%)	19.0%

SMALL GROUP MARKET-ALL REPORTED COMPANIES

Year	Covered Lives	Earned Premium	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
2013	17,300,000	$376.19	$303.16	$0.57	$46.37	$10.68	84.5%	0.2%	2.8%	12.3%
2012	18,100,000	$361.59	$291.54	$0.93	$44.38	$9.81	84.5%	0.3%	2.7%	12.3%
2011	18,800,000	$352.88	$280.86	$1.28	$45.68	$10.54	83.7%	0.4%	3.0%	12.9%
2010	17,600,000	$343.26	$274.66	$0.07	$45.05	$10.93	83.7%	0.0%	3.2%	13.1%

SMALL GROUP MARKET-COMPANIES REPORTING IN 2010-2013

Year	Covered Lives	Earned Premium	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
2013	15,400,000	$376.45	$302.14	$0.60	$46.25	$11.09	84.3%	0.2%	2.9%	12.3%
2012	16,200,000	$361.92	$291.18	$0.81	$44.59	$10.10	84.4%	0.2%	2.8%	12.3%
2011	16,700,000	$354.28	$280.75	$1.20	$46.02	$11.42	83.5%	0.3%	3.2%	13.0%
2010	17,200,000	$342.95	$275.08	$0.07	$44.61	$10.64	84.0%	0.0%	3.1%	13.0%

LARGE GROUP MARKET-ALL REPORTED COMPANIES

Year	Covered Lives	Earned Premium	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
2013	47,200,000	$368.68	$320.40	$0.14	$29.90	$7.36	89.9%	0.0%	2.0%	8.1%
2012	47,400,000	$367.11	$319.45	$0.19	$29.04	$7.91	90.0%	0.1%	2.2%	7.9%
2011	48,200,000	$359.20	$310.49	$0.66	$28.98	$8.27	89.6%	0.2%	2.3%	8.1%
2010	39,200,000	$339.47	$293.55	$0.00	$31.64	$5.74	89.3%	0.0%	1.7%	9.3%

LARGE GROUP MARKET-COMPANIES REPORTING IN 2010-2013

Year	Covered Lives	Earned Premium	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
2013	36,200,000	$366.37	$317.62	$0.17	$31.13	$5.50	89.9%	0.0%	1.5%	8.5%
2012	37,500,000	$363.96	$315.37	$0.23	$30.39	$6.16	89.8%	0.1%	1.7%	8.4%
2011	38,400,000	$357.08	$306.00	$0.80	$30.53	$7.42	89.1%	0.2%	2.1%	8.5%
2010	38,700,000	$339.71	$293.87	$0.00	$31.44	$5.77	89.4%	0.0%	1.7%	9.3%

Notes:

1. Covered Lives equals reported member months divided by 12.
2. 2011 through 2013 reported premium and expenses based on MLR form reported values as of March 31st of the following year.
3. MLR form reported values transposed into the same format as the NAIC Supplemental Health Exhibit form.
4. Earned Premium equals Part 1, Line 1.1 of the Supplemental Health Exhibit.
5. Claims Expenses equals Part 1, Line 5.0 of the Supplemental Health Exhibit.
6. Total Admin Expenses equals the sum of Part 1, Lines 6.6, 8.3, and 10.5 of the Supplemental Health Exhibit.
7. Underwriting Gain (Loss) equals Part 1, Line 11 of the Supplemental Health Exhibit.
8. Preleminary Medical Loss Ratio equals sum of Part 1, Line 4 + Line 5.0 + Line 6.6 ÷ Line 1.8 of the Supplemental Health Exhibit.
9. 2012/13 MLR Rebates as a % Earned Premium equals reported rebates on Part 4, Line 5.4 (Total Column) of 2012/13 MLR form ÷ Earned Premium.
10. 2011 MLR Rebates as a % Earned Premium equals reported rebates on Part 5, Line 5.4 (Total Column) of 2011 MLR form ÷ Earned Premium.
11. Underwriting Margin equals Underwriting Gain (Loss) ÷ Earned Premium.
12. Admin Expense Ratio equals Total Admin Expenses ÷ Earned Premium.

APPENDIX 2
METHODOLOGY

MEDICAL LOSS RATIO DATA OVERVIEW

Section 2718 of the ACA institutes minimum medical loss ratio requirements for health insurers in the individual, small group, and large group markets. The 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 website (http://www.cms.gov/CCIIO/Resources/Data-Resources/mlr.html) as of August 1, 2014.

The MLR Data contains experience reported by health insurance issuers at the state and market levels. 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, student health insurance was separately reported. For the purposes of this report, only comprehensive business has been summarized.

The information contained in the MLR Data tracks closely with the Supplemental Health Exhibit (Exhibit) form that is submitted with the insurer's year-end annual statement. The Exhibit, developed by the National Association of Insurance Commissioners (NAIC), was first required in 2010. By comparing the 2010 Exhibit and MLR Data, health insurance industry trends can be evaluated over the four-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, which therefore are contained in the 2011 through 2013 MLR data sets. 2010 Exhibit data was summarized using SNL Financial.

The analyses presented in this report were based upon values from the 2011 through 2013 Medical Loss Ratio Annual Reporting Forms and 2010 Supplemental Health Exhibit 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 author of this report. For example, companies providing solely behavioral health services were flagged as non-comprehensive.

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

Figure 6 provides a summary of the number of companies, covered lives, and aggregate premium amounts reported for calendar year 2013 on a national basis (50 U.S. states and Washington, D.C.) 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.

FIGURE 6:
2013 COMPREHENSIVE HEALTH INSURANCE REPORTED IN MLR FORM

Market	Groups (Parent Companies)	Companies	Lives	Premium ($Millions)	% Non-Comprehensive
Individual	143	345	10,900,000	$32,220	0.18%
Small Group	161	372	17,300,000	$78,164	0.00%
Large Group	157	371	47,200,000	$208,800	0.09%
Total Comprehensive	195	437	75,400,000	$319,184	0.08%

Notes:

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

If you would like further information on data and information that can be produced from the Medical Loss Ratio Annual Reporting Form data, please contact the authors of this report.