

## 2012 Commercial health insurance: Overview of financial results



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### 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 review, removal of annual benefit limits, first-dollar coverage of preventive care, and other requirements. While the largest reforms enacted by the ACA do not begin until January 1, 2014, for the individual and small group health insurance markets, there are now multiple years of insurer financial experience to evaluate how the ACA is impacting insurer's profitability and expense structure.

This report uses data reported by health insurers in their Medical Loss Ratio Reporting Forms (MLR forms) submitted to the Center for Consumer Information and Insurance Oversight (CCIIO) in 2011 and 2012, along with 2010 Supplemental Health Exhibit (SHE) data, to summarize financial results in the commercial health insurance markets.<sup>1</sup> This report provides an overview of health insurer financial results in 2012 and evaluates changes in the health insurance industry's expense structure and profitability from 2010 to 2012, including changes in the medical loss ratio percentage.

### 2012 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 2012 individual market generally having leaner covered benefits than the small and large group markets, and potentially lower population morbidity levels. In 2012, individual policies generally do not cover maternity costs and may have deductible levels that are substantially higher than the average employer plan. Many states also allow medical underwriting in the individual market. This may have prohibited individuals with preexisting conditions or chronic illness from entering the individual health insurance market or result in these individuals being directed to a state's high-risk pool. The absence

of a high-risk population helps make the underlying morbidity of the individual risk pool lower than it would otherwise be in such states. As adjusted community rating and essential health benefit requirements become effective in the individual market beginning on January 1, 2014, the expansion of insured benefits and change in the market's health status may result in premium and claim costs more comparable to the group markets over time.

**FIGURE 1: AGGREGATE REPORTED 2012 COMPREHENSIVE EXPERIENCE**

Measure	Individual (Direct)	Small Group	Large Group
Covered Lives	10,700,000	18,100,000	47,400,000
Earned Premium PMPM	\$240.10	\$361.59	\$367.11
Claims Expenses PMPM	\$199.47	\$291.54	\$319.45
MLR Rebates PMPM	\$1.54	\$0.93	\$0.19
Total Administrative Expenses PMPM	\$38.30	\$44.38	\$29.04
Underwriting Gain (Loss) PMPM	(\$4.78)	\$9.81	\$7.91
Preliminary Medical Loss Ratio	86.0%	84.5%	90.0%
MLR Rebate Expense Ratio	0.6%	0.3%	0.1%
Underwriting Margin	(2.0%)	2.7%	2.2%
Administrative Expense Ratio	16.0%	12.3%	7.9%

Notes:

1. Dollar values are illustrated on a per member per month basis.
2. Covered lives equals reported member months divided by 12.
3. Certain values have been rounded.
4. Preliminary medical loss ratio based on statutory guidelines.

<sup>1</sup> Please see appendix for more information on these data sources.

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) between the three markets, ranging from \$8 PMPM in the large group market to \$20 in the small group market.<sup>2</sup> 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 0.6% of earned premium in the individual market and were only 0.3% and 0.1% of earned premium for the small group and large group markets, respectively.

The small and large group insurance markets in aggregate both experienced underwriting gains in 2012. However, the aggregate results in the individual insurance market indicated an underwriting loss of nearly \$5 PMPM.

**How have financial results changed since 2010?**

With three years of insurer financial results available, initial assessments of the ACA's impact on insurer expense structure and profitability can be made. Figure 2 provides the incremental change in costs from 2010 to 2012 for insurers reporting financial results in 2010 through 2012. For example, in the individual market, earned premium PMPM has increased nearly \$19 from 2010 to 2012.

**FIGURE 2: CHANGE IN INSURER REPORTED EXPENSES: 2010 TO 2012  
INSURERS REPORTING EXPENSES IN 2010 THROUGH 2012**

Measure	Individual	Small Group	Large Group
Earned Premium PMPM	\$18.83 ↑	\$18.71 ↑	\$23.99 ↑
Claims Expenses PMPM	\$26.32 ↑	\$16.02 ↑	\$21.41 ↑
Total Administrative Expenses PMPM	(\$2.11) ↓	(\$0.10) ↓	(\$1.13) ↓
Underwriting Gain (Loss) PMPM	(\$4.42) ↓	(\$0.68) ↓	\$0.26 ↑
Preliminary Medical Loss Ratio	4.8% ↑	0.5% ↑	0.5% ↑

**Notes:**

- 1. Dollar values are illustrated on a per member per month basis.
- 2. Certain values have been rounded.

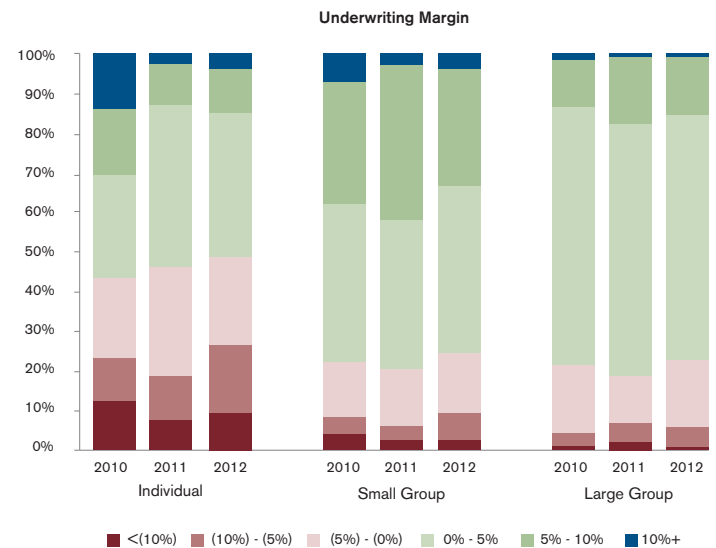
Figure 2 indicates that premium increases in the group insurance markets tracked very closely with claims expense increases. However, in the individual health insurance market, growth in claims expenses outpaced premium growth by nearly \$7.50 PMPM. This is the primary reason why the medical loss ratio percentage increased by nearly 5% in the individual insurance market from 2010 to 2012, relative to only 0.5% in the group insurance markets. While administrative expenses have decreased in each of the three markets, the decrease in the individual market was significantly larger than the group insurance markets (but still small relative to the growth in claims expenses). The decrease in administrative expenses in the individual market was primarily the result of lower expenses for agents and broker commissions.

Appendix 1 of this report provides additional detail on aggregate financial results for insurers from 2010 through 2012.

**Distribution of underwriting results 2010 through 2012**

Figure 2 indicates that underwriting results have deteriorated in the individual market from 2010 to 2012 and remained relatively stable in the group markets. However, it is also important to understand the degree to which underwriting results vary among companies within a market. Figure 3 examines the distribution of underwriting results in these markets, separately for each calendar year. Only companies reporting experience in each of the three years are included in Figure 3.

**FIGURE 3: COMMERCIAL HEALTH INSURANCE - UNDERWRITING MARGIN DISTRIBUTIONS 2010-2012  
COMPANIES REPORTING EXPERIENCE IN 2010 THROUGH 2012**



**Note:**

Distributions weighted by reported member months in each calendar year.

<sup>2</sup> Administrative expenses will be discussed in greater detail in a separate future research report.

In the individual market, the portion of the market experiencing underwriting gains of more than 5% decreased from 30% in 2010 to only 12% in 2011 and 14% in 2012. 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 and 2012 suggests that minimum MLR requirements have limited exceptionally favorable underwriting results. Relative to the group insurance markets, the individual market also observed the largest proportion of market share experiencing underwriting losses, 44% in 2010 and increasing to 49% in 2012. The portion of the small and large group markets experiencing underwriting losses in each of the three years has never exceeded 25%.

As first suggested in Figure 2, underwriting results 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 2012, 34% versus 16%). To the extent that exchanges, whether public or private, can foster greater competition in the health insurance market, the greatest opportunity for new market entrants and compression of underwriting margins may be in the small group insurance market.

## CONCLUSION

Insurer financial experience from the MLR forms provides a transparent view into the United States' health insurance market. Emerging health insurer financial experience from this data suggests that the individual health insurance market has experienced more significant changes in terms of profitability, claims cost, and administrative expenses relative to the group insurance markets in the years following the enactment of the ACA. As the ACA's largest market reforms in individual and small group insurance markets will be implemented on January 1, 2014, financial data from the MLR forms provides insurers and policymakers with critical information on how the ACA is impacting market enrollment, premium, claims, administrative expenses, and insurer profitability.

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## LIMITATIONS

The analyses presented in this research paper have relied on data and other information from the MLR forms and Supplemental Health Exhibit of health insurers. MLR form data was obtained from the Center for Consumer Information and Insurance Oversight of the Center for Medicare and Medicaid Services at <http://www.cms.gov/CCIIO/Resources/Data-Resources/mlr.html> in August 2013. 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, 2013, 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

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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 author is a member of the American Academy of Actuaries and meets the qualification standards for performing the analyses in this report.

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**APPENDIX 1  
AGGREGATE HEALTH INSURER FINANCIAL RESULTS 2010 – 2012**

**SUMMARY OF COMMERCIAL HEALTH INSURER FINANCIAL RESULTS – CALENDAR YEAR 2010-2012  
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
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 2010-2012**

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
2012	10,100,000	\$231.61	\$190.86	\$1.57	\$38.32	(\$4.56)	85.4%	0.7%	(2.0%)	16.5%
2011	10,100,000	\$225.84	\$179.81	\$3.23	\$38.50	(\$2.67)	82.7%	1.4%	(1.2%)	17.0%
2010	9,900,000	\$212.78	\$164.54	\$0.26	\$40.43	(\$0.14)	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
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 2010-2012**

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
2012	16,200,000	\$361.95	\$291.16	\$0.82	\$44.65	\$10.10	84.4%	0.2%	2.8%	12.3%
2011	16,700,000	\$354.65	\$280.94	\$1.22	\$46.14	\$11.37	83.4%	0.3%	3.2%	13.0%
2010	17,200,000	\$343.24	\$275.14	\$0.07	\$44.75	\$10.78	83.9%	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
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 2010-2012**

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
2012	37,400,000	\$363.97	\$315.34	\$0.23	\$30.40	\$6.15	89.8%	0.1%	1.7%	8.4%
2011	38,400,000	\$357.29	\$306.09	\$0.81	\$30.63	\$7.40	89.1%	0.2%	2.1%	8.6%
2010	38,700,000	\$339.98	\$293.94	\$0.00	\$31.57	\$5.89	89.3%	0.0%	1.7%	9.3%

- Notes:**
- Covered Lives equals reported member months divided by 12.
  - 2011 and 2012 reported premium and expenses based on MLR form reported values as of March 31st of the following year.
  - MLR form reported values transposed into the same format as the NAIC Supplemental Health Exhibit form.
  - Earned Premium equals Part 1, Line 1.1 of the Supplemental Health Exhibit.
  - Claims Expenses equals Part 1, Line 5.0 of the Supplemental Health Exhibit.
  - Total Admin Expenses equals the sum of Part 1, Lines 6.6, 8.3, and 10.5 of the Supplemental Health Exhibit.
  - Underwriting Gain (Loss) equals Part 1, Line 11 of the Supplemental Health Exhibit.
  - Preliminary Medical Loss Ratio equals sum of Part 1, Line 4 + Line 5.0 + Line 6.6 ÷ Line 1.8 of the Supplemental Health Exhibit.
  - 2012 MLR Rebates as a % Earned Premium equals reported rebates on Part 4, Line 5.4 (Total Column) of 2012 MLR form ÷ Earned Premium.
  - 2011 MLR Rebates as a % Earned Premium equals reported rebates on Part 5, Line 5.4 (Total Column) of 2011 MLR form ÷ Earned Premium.
  - Underwriting Margin equals Underwriting Gain (Loss) ÷ Earned Premium.
  - 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 the Centers for Medicare and Medicaid Services (CMS) has publicly released the 2011 and 2012 Medical Loss Ratio Reporting Data (MLR Data) that was used to fulfill and measure the minimum medical loss ratio requirements under PPACA. We have summarized and analyzed the MLR Data made available through CCIIO's website ([www.cms.gov/CCIIO/Resources/Data-Resources/mlr.html](http://www.cms.gov/CCIIO/Resources/Data-Resources/mlr.html)) as of August 1, 2013.

The MLR Data contains health insurance issuer reported experience 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. 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 between the three years. 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 therefore, are contained in the 2011 and 2012 MLR data set. 2010 Exhibit data was summarized using SNL Financial.

The analyses presented in this report were based upon values from the 2011 and 2012 Medical Loss Ratio 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 4 provides a summary of the number of companies, covered lives, and aggregate premium amounts reported for calendar year 2012 on a national basis (50 U.S. states and Washington, D.C.) for 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 4: 2012 COMPREHENSIVE HEALTH INSURANCE REPORTED IN MLR FORM**

Market	Groups (Parent Companies)	Companies	Lives	Premium (\$Millions)	% Non-Comprehensive
Individual	142	345	10,700,000	\$30,951.5	0.24%
Small Group	169	378	18,100,000	\$78,475.2	0.00%
Large Group	162	377	47,400,000	\$208,709.1	0.14%
Total Comprehensive	201	450	76,200,000	\$318,135.8	0.12%

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 Reporting Form data, please contact the author of this report.