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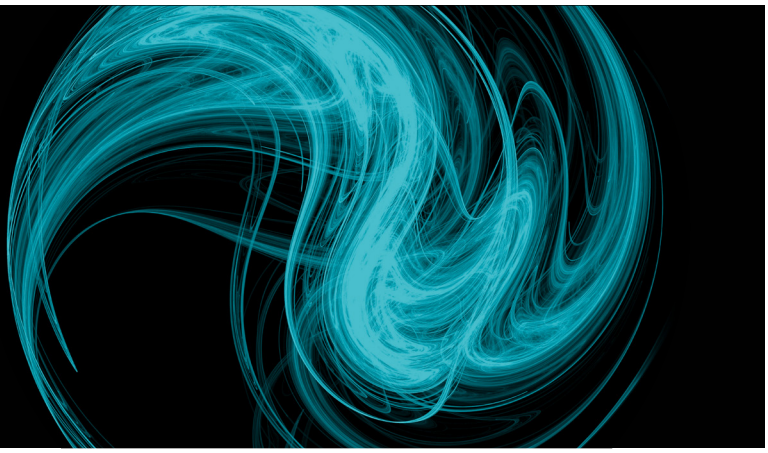
Health plan financial trends, 2011–2016

How have fully insured health plans fared in the wake of policy and market turbulence?



Executive summary

This report is the first installment in a Deloitte Center for Health Solutions series on financial performance trends in the US fully insured health plans market. It provides summary observations on overarching developments in a critical segment of the health insurance market during a turbulent six-year period.

As used in this report, "fully insured" refers to comprehensive medical coverage provided by state-licensed insurance companies that assumes financial risk for covered health benefits in exchange for premiums paid by employers, governments, consumers, and other sponsors. Fully insured plans also can be defined by what they are not: self-insured plans or plans under administrative services only (ASO) contracts. We segment the fully insured market into four primary lines of business: commercial group, commercial individual, Medicare Advantage, and Medicaid managed care. In 2016, fully insured health plans covered 57 percent of the US population, or 63 percent of all Americans with health insurance coverage.[1]

This paper focuses on overall market trends and observations, and presents five primary findings. Subsequent installments will analyze trends in the government programs segment (including Medicare Advantage and Medicaid managed care) and the commercial segments (including group and individual lines of business).

1. **At the industry level, the top line prospered while the bottom line deteriorated.** Fully insured health plan revenue increased 55 percent between 2011 and 2016, but underwriting gains in 2016 were 29 percent below 2011 results.

2. **At the company level, there was a significant increase in the number of plans with annual losses, a steep decline in average margins, and widening performance variation among plans.** These unfavorable trends across a universe of 238 health plans under study became manifest in 2014, the initial year of major coverage expansions under the Affordable Care Act (ACA).

3. **The largest health plans captured a disproportionate and growing share of industry underwriting gains.** In 2016, the top three US health plans by fully insured revenue generated 84 percent of total US underwriting gains, and the top ten plans accounted for 92 percent.

4. **For-profit health plans grew faster and posted significantly higher margins than not-for-profit health plans.** In 2016, for-profit plans accounted for 76 percent of underwriting gains, compared to their 66 percent share in 2011.

5. **State insurance markets exhibit increased volatility.** State-level results illustrate a substantial increase in the number of states with unfavorable swings in their insurance markets' financial performance.

Methodology

This report presents results from our analysis of annual statutory financial reports from 2011-2016 filed with state insurance departments by insurance companies operating within each state. For states other than California, we analyzed data obtained from National Association of Insurance Commissioners (NAIC) databases. Due to California's unique reporting requirements, we sourced data from the Department of Managed Health Care (DMHC) for California-domiciled health plans. (The appendix includes a more detailed description of data sources and methodology.)

The study's scope focuses on the fully insured books of business of US health plans. It excludes ASO business and a range of other insurance and non-insurance products and services offered by companies participating in the US health insurance market. In addition, the study uses financial data reported by insurers to states according to statutory accounting principles, rather than the generally accepted accounting principles (GAAP) reflected in public companies' financial statements. There will, therefore, be differences in the results of this statutory data analysis compared to the financial reports of publicly traded health plans and other plans that provide public information based on GAAP.

As used in this paper:

- **Revenue** is derived from the "total revenue" fields in NAIC/DMHC filings.
- **Underwriting gains** are derived from the "net underwriting gains" fields in NAIC/DMHC filings.
- **Underwriting margins** are calculated as underwriting gains as a percentage of revenue.

Key findings

Key finding 1: At the industry level, the top line prospered while the bottom line deteriorated.

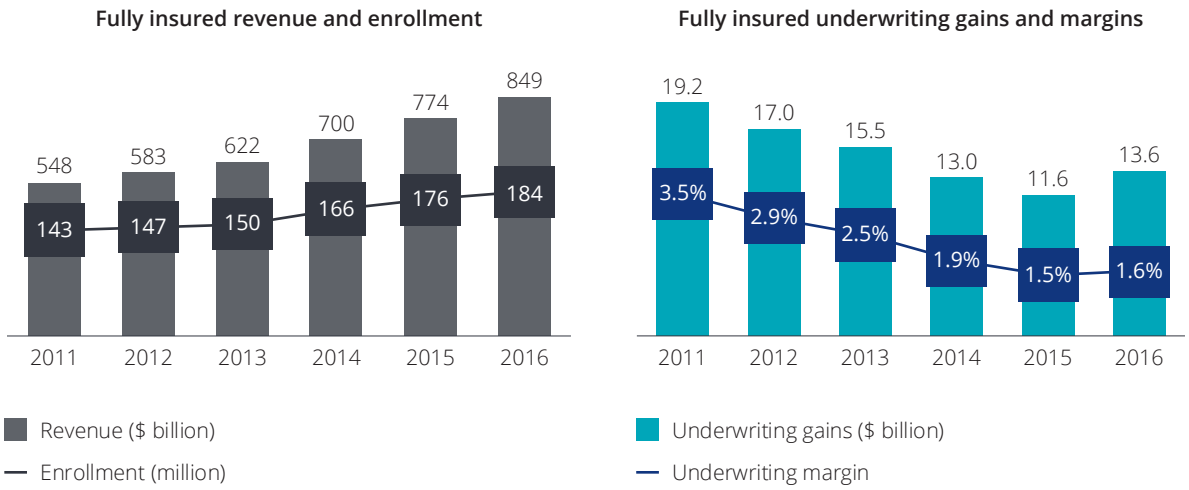
As depicted in Figure 1 on the following page, the US market for fully insured health insurance products grew substantially between 2011 and 2016. Revenue increased 55 percent, from $548 billion in 2011 to $849 billion in 2016. Enrollment in fully insured plans increased by 29 percent during this period, from 143 million to 184 million members.

However, while revenue and enrollment grew during this period, underwriting gains and margins declined. In 2011, US fully insured health plans posted aggregate underwriting gains of $19.2 billion. In 2016, underwriting gains were $13.6 billion, a decline of 29 percent from 2011 levels. The sector's overall 2016 underwriting margin of 1.6 percent was 52 percent below the industry's aggregate 3.5 percent margin in 2011.

Key finding 2: At the company level, there was a significant increase in the number of plans with annual losses, a steep decline in average margins, and widening variation in performance among plans.

We analyzed the annual performance of 238 health plans participating in the US fully insured market in any year between 2011 and 2016. As seen in Figure 2 on the following page, the number and proportion of health plans reporting losses in their fully insured lines of business increased markedly beginning in 2014. In 2014 and 2015, nearly half of fully insured health plans reported underwriting losses. While the number of health plans with losses moderated somewhat in 2016, the number and proportion of those with losses remains higher than pre-2014 levels.

Figure 1. Total revenue, enrollment, and underwriting gains and margins in the US fully insured health plan market, 2011-2016



Source: Deloitte analyses based on data from health plans' annual NAIC and DMHC filings

Figure 2. Fully insured US health plans with underwriting gains versus losses, 2011-2016

	2011	2012	2013	2014	2015	2016
Total number of plans	184	192	195	211	205	208
Plans reporting underwriting gains	145	127	124	108	104	116
Plans reporting underwriting losses	39	65	71	103	101	92
% of plans reporting underwriting losses	**21%**	**34%**	**36%**	**49%**	**49%**	**44%**

Source: Deloitte analyses based on data from health plans' annual NAIC and DMHC filings

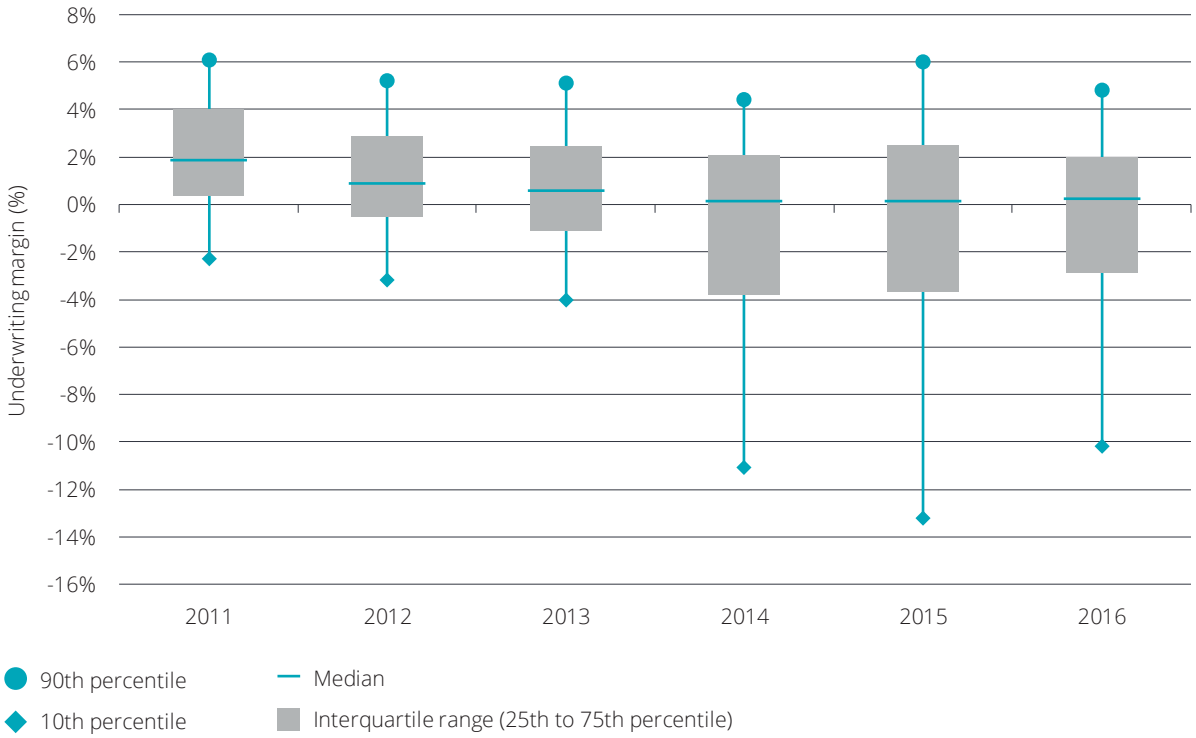
Beginning in 2014, the average underwriting results of US health plans in the fully insured market have been only slightly above break-even levels. The median margin of all fully insured plans declined from 1.9 percent in 2011 to 0.2 percent in 2016 (Figure 3). The variation in health plan performance also increased significantly beginning in 2014. The difference in margins between health plans in the 90th percentile of performance and those in the 10th percentile widened, as did the interquartile range (the range in performance for the middle 50 percent).

Overall, we see a substantial widening of the performance spread between higher-performing health plans and lower performers beginning in 2014. While this spread contracted in 2016, performance variation in the fully insured market remains significantly greater compared to the pre-2014 period. In particular, the prevalence of health plans with highly negative margins (over negative 10 percent) remains much higher than in 2011, 2012, and 2013.

Key finding 3: The largest health plans captured a disproportionate, and growing, share of industry-wide underwriting gains.

We analyzed the performance of the largest fully insured health plans compared to other market participants and found that they significantly increased their share of industry-wide underwriting gains. This analysis looked at two cohorts: the three largest US fully insured health plans by national revenue ("Top 3") and the ten largest health plans by national revenue ("Top 10").

Figure 3. Distribution of underwriting margins among fully insured health plans, 2011-2016



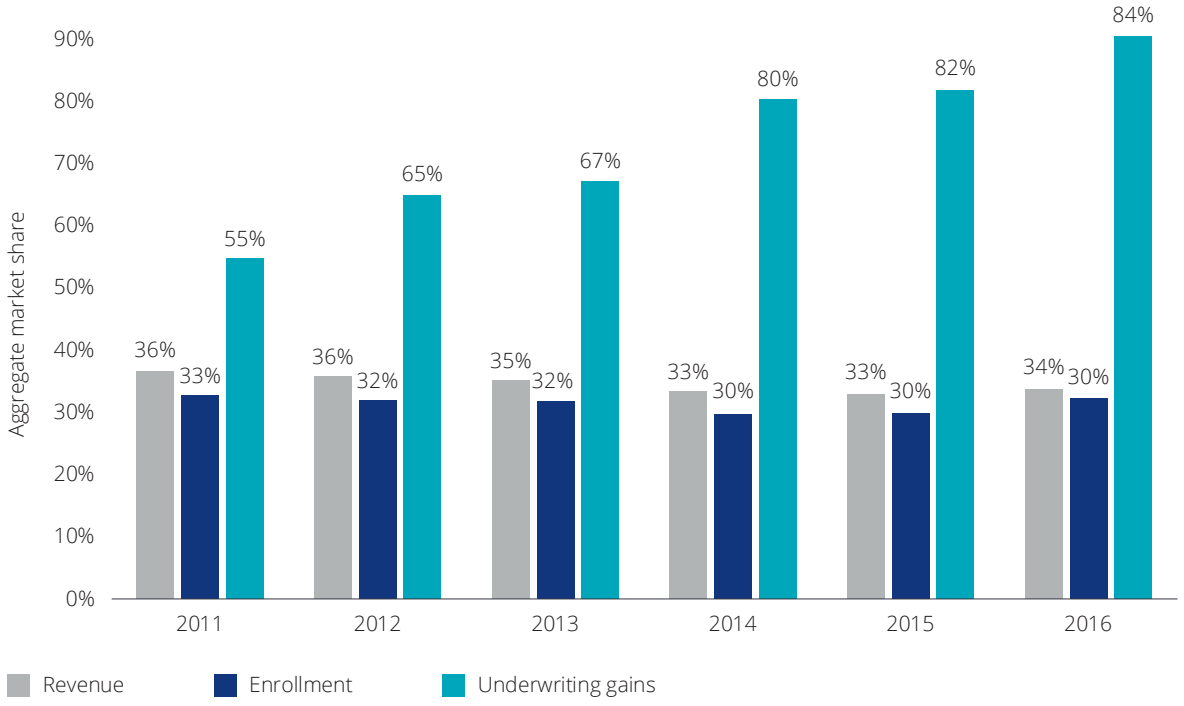
Source: Deloitte analyses based on data from health plans' annual NAIC and DMHC filings

Note: Each box represents the distribution of underwriting margins of all included health plans for each year, ordered by percentile. To minimize the influence of outliers, and facilitate comparisons across years, the top and bottom 10 percentiles of each distribution are not displayed.

The three largest US fully insured health plans by revenue in every year from 2011 through 2016 were UnitedHealth Group, Kaiser Foundation Health Plan, and Anthem. The Top 10 plans by revenue varied somewhat from year to year between 2011 and 2016. Beyond the Top 3, the following five health plans remained in the Top 10 cohort in each of the six years of our analysis: Aetna, Centene, Cigna, Health Care Service Corporation, and Humana.

As Figure 4 illustrates, the Top 3's share of all US fully insured underwriting gains rose significantly, even as their share of enrollment and revenue moderated over the six years of our analysis. In 2016, the Top 3 generated 84 percent of all underwriting gains in the fully insured market, compared to 55 percent in 2011. The Top 3 share of US enrollment declined to 30 percent in 2016 from 33 percent in 2011. The Top 3 revenue share also declined, to 34 percent in 2016 compared to 36 percent in 2011.

Figure 4. Share of aggregate enrollment, revenue, and underwriting gains for Top 3 health plans by revenue; US fully insured market, 2011-2016



Source: Deloitte analyses based on data from health plans' annual NAIC and DMHC filings

Note: Top 3 refers to the three largest US fully insured health plans by national revenue in our data in every year from 2011 to 2016.

In 2016, the Top 3 generated 84 percent of all underwriting gains in the fully insured market, compared to 55 percent in 2011.

This post-2014 increase in the Top 3's share of industry-wide underwriting gains is attributable in part to the number and magnitude of the losses suffered by many other health plans, particularly in ACA commercial individual products. (We will present our analysis of commercial individual product trends in a forthcoming report).

As seen in Figure 5, 92 health plans in the 2016 fully insured market posted underwriting losses, totaling -$4.7 billion. These large losses weigh down the performance of the other health plans in the table below, and magnify the Top 3's share of overall underwriting gains.

Figure 5. Performance of Top 3 health plans versus all other plans, 2016

	Enrollment		Revenue		Underwriting gains/(losses)		Total plan count
	In Millions	% of total	In billions	% of total	In billions	% of total	
Top 3 health plans	**55.2**	**30%**	**$286.3**	**34%**	**$11.5**	**84%**	**3**
All other health plans	**129.3**	**70%**	**$562.8**	**66%**	**$2.2**	**16%**	**205**
Plans with gains	*90.2*	*49%*	*$394.5*	*46%*	*$6.9*	*51%*	*113*
Plans with losses	*39.0*	*21%*	*$168.2*	*20%*	*$(4.7)*	*-35%*	*92*
Total	**184.4**	**100%**	**$849.1**	**100%**	**$13.7**	**100%**	**208**

Source: Deloitte analyses based on data from health plans' annual NAIC and DMHC filings

Note: Top 3 refers to the three largest US fully insured health plans by national revenue.

We see a similar story when analyzing the Top 10 fully insured health plans by revenue. The 10 largest health plans by fully insured national revenue accounted for 58 percent of enrollment, 61 percent of revenue, and 92 percent of underwriting gains (Figure 6). The large losses reported by 90 plans (totaling -$4.3 billion) offset almost all of the $5.4 billion in gains posted by the other 108 plans outside of the Top 10. As a result, the combined 2016 underwriting results of the 198 plans outside the Top 10 totaled $1.1 billion—or only 8 percent of the $13.7 billion in industry-wide underwriting gains.

Figure 6. Performance of Top 10 health plans versus all other plans, 2016

	Enrollment		Revenue		Underwriting gains/(losses)		Total plan count
	In millions	% of total	In billions	% of total	In billions	% of total	
Top 10 health plans	**107.7**	**58%**	**$517.4**	**61%**	**$12.6**	**92%**	**10**
All other health plans	**76.6**	**42%**	**$331.8**	**39%**	**$1.1**	**8%**	**198**
Plans with gains	*50.5*	*27%*	*$211.4*	*25%*	*$5.4*	*39%*	*108*
Plans with losses	*26.1*	*14%*	*$120.3*	*14%*	*$(4.3)*	*-31%*	*90*
Total	**184.4**	**100%**	**$849.1**	**100%**	**$13.7**	**100%**	**208**

Source: Deloitte analyses based on data from health plans' annual NAIC and DMHC filings

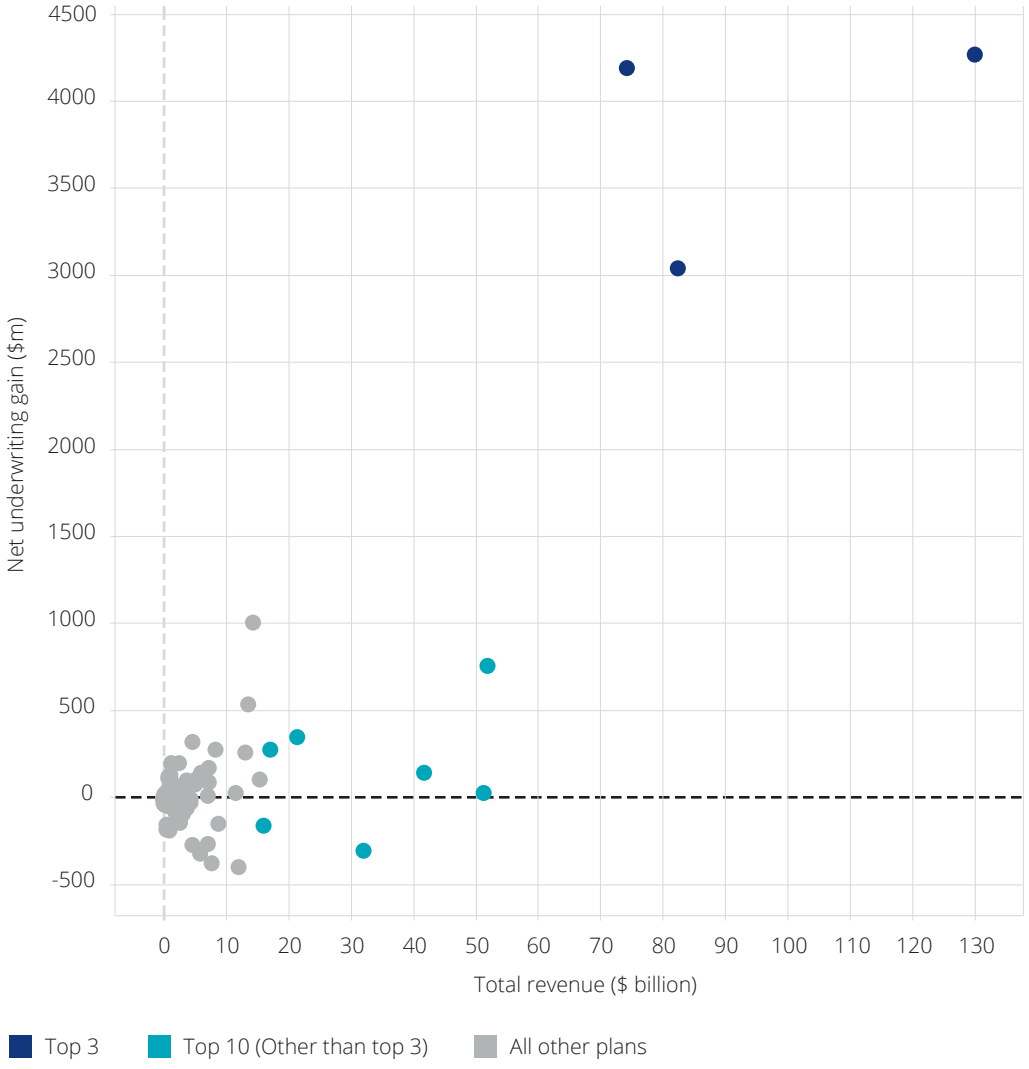
Note: Top 3/Top 10 refer to the three/ten largest US fully insured health plans by national revenue.

The 10 largest health plans by fully insured national revenue accounted for 58 percent of enrollment, 61 percent of revenue, and 92 percent of underwriting gains.

The scatterplot in Figure 7 illustrates several observations of the US fully insured market in 2016:

- The vast majority of health plans in the US fully insured market are relatively small, with more than 70 percent posting annual revenue of less than $2 billion.
- The financial performance of most of these smaller health plans is close to break-even.
- The Top 3 health plans by national revenue exhibit performance that is dramatically differentiated from that of other market participants, including that of other health plans in the Top 10.

Figure 7. Underwriting gains/losses for US fully insured health plans, by total plan revenue, 2016



Source: Deloitte analyses based on data from health plans' annual NAIC and DMHC filings

Note: Top 3/Top 10 refer to the three/ten largest US fully insured health plans by national revenue.

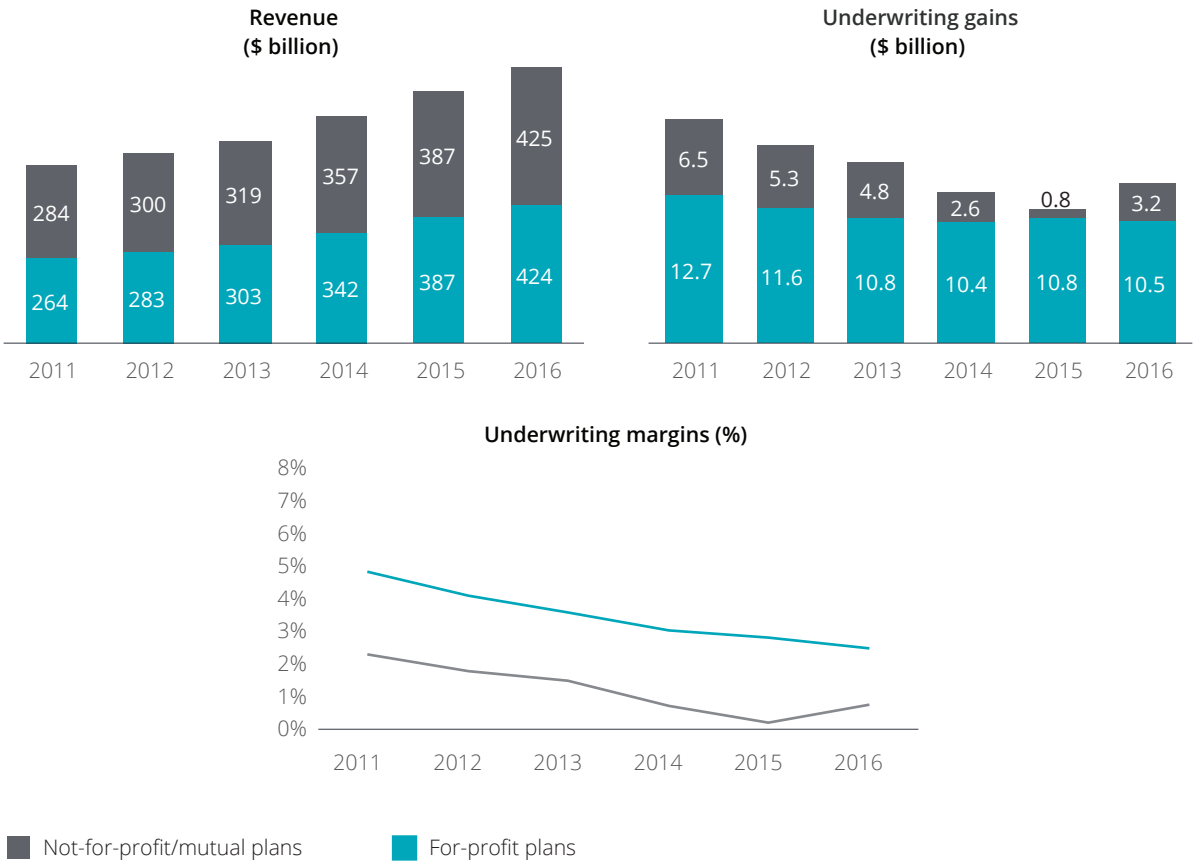
Key finding 4: For-profit health plans grew somewhat faster and posted significantly higher margins than not-for-profit health plans.

The US fully insured health plan market continues to demonstrate robust competition between for-profit and not-for-profit insurance companies. In 2016, for-profit health plans accounted for 50 percent of all revenue, a moderate increase from their 48 percent market share in 2011.

As discussed previously, the fully insured market as a whole experienced underwriting margin compression over the six years of our study. The for-profit cohort saw margins fall from 4.8 percent in 2011 to 2.5 percent in 2016. Underwriting margins for not-for-profit health plans (including companies organized as mutual insurers) declined from 2.3 percent in 2011 to 0.8 percent in 2016.

Comparable revenue combined with higher margins resulted in for-profit health plans garnering an increasingly greater share of industry-wide underwriting gains. In 2016, for-profit health plans accounted for 76 percent of US fully insured underwriting gains, compared to their 66 percent share in 2011.

Figure 8. Comparison of fully insured revenue, underwriting gains, and underwriting margins between not-for-profit and for-profit health plans, 2011-2016

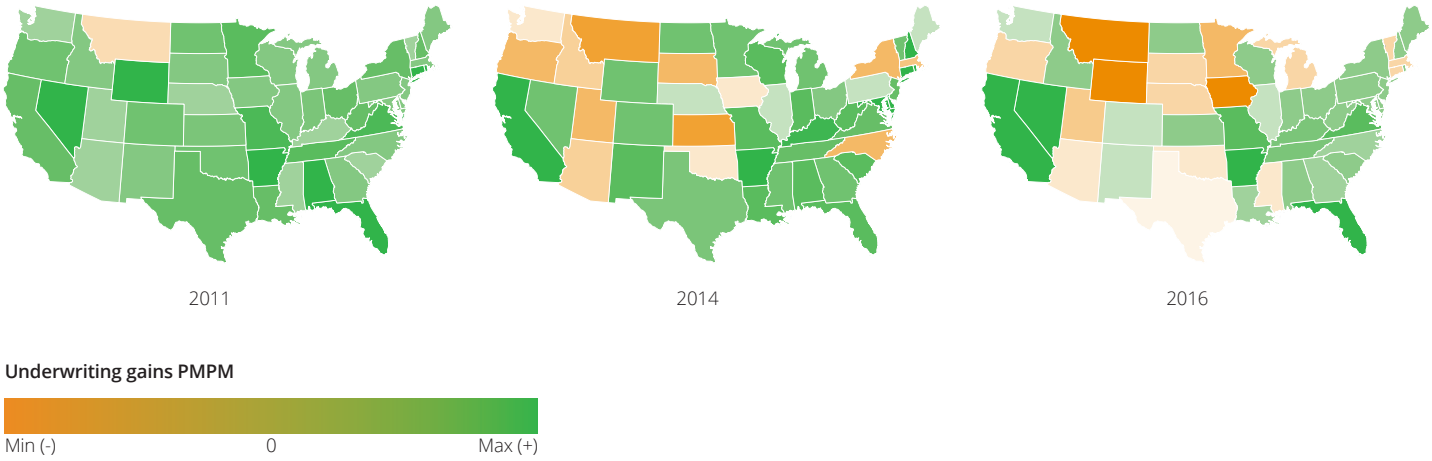


Source: Deloitte analyses based on data from health plans' annual NAIC and DMHC filings

Key finding 5: State-level results demonstrate an increase in the number and variety of states with health insurance market turbulence and unfavorable health plan financial performance.

State-level analyses reveal that the financial performance of health insurance markets in many states deteriorated during the six years of our study. The three maps in Figure 9, which show the geographical distribution of underwriting gain performance in different years, illustrate these changes. To address states' market size differences and to facilitate meaningful state-to-state comparisons, this analysis uses underwriting gains per member per month (PMPM) as a measure of state-level financial performance. In the maps in Figure 9, states shaded orange had negative underwriting gains PMPM in their fully insured markets, with darker orange indicating larger losses. Green shading indicates positive gains, with darker green representing more favorable results. The 2011 map shows only one state with negative (orange-shaded) gains PMPM. In 2014, we see broader swaths of orange, including states with widely different insurance market characteristics. The 2016 map shows improving performance in some states compared to 2014, but significantly worse performance in numerous other states.

Figure 9. Underwriting gains PMPM, by state: 2011, 2014, and 2016



Source: Deloitte analyses based on data from health plans' annual NAIC and DMHC filings

Note: Orange shading indicates negative underwriting gains PMPM, with darker orange indicating larger losses. Green shading indicates positive gains, with darker green representing more favorable results.

Perspectives

Findings in context. This analysis focuses only on the fully insured health plan market; it doesn't include employer group and other self-insured plans that cover approximately 30 percent of insured Americans.[2] Although this study is not a characterization of the larger US health insurance market, it probes the segments that have been most impacted by public policy shifts and remain the subject of continued scrutiny, debate, and uncertainty.

Policy as driver. The results of our analysis demonstrate the preeminence of public policy as a driver of health insurance marketplace change. The fully insured health plan market was buffeted by ACA regulations, policies, and programs. Many of the findings discussed in this paper can be categorized into pre- and post-2014 results that reflect the direct and indirect impacts of ACA on the private health insurance market.

Mixed performance. Our study shines a brighter light on the many US health plans that have struggled financially, particularly since 2014, in a disrupted and highly competitive market. Many (but not all) of the health plans posting underwriting losses are smaller-scale companies, often nonprofits, which lack the financial resources to withstand many more "bad years." Many of these health plans play critical roles in their local communities and health care ecosystems; their financial prospects warrant continued attention.

Scale matters. In health care circles, we have long appropriated the famous Tip O'Neill line that "all politics is local," translated for our purposes as "all health care is local." In our work with clients, we often focus on the need to build and leverage local market scale. The results of this study also demonstrate the financial performance benefits associated with national scale.

Looking ahead

We are currently developing upcoming installments in our Health Plan Financial Trends series. *Next up:* a deeper dive into government-sponsored health insurance market trends, particularly Medicare Advantage and Medicaid managed care. That report will be followed by a more detailed analysis of 2011-2016 trends in the commercial group and commercial individual segments.

Appendix

Data and methodology

For this study, we used health plans' state filings for 2011-2016 with the National Association of Insurance Commissioners (NAIC) for non-California-domiciled health plans, and with the California Department of Managed Health Care (DMHC) for health plans domiciled in California. The data was extracted from *SNL Insurance, an offering of S&P Global Market Intelligence*. For organizations whose state of domicile (registration) for NAIC filing was separate from the state of business, we extracted the data from the state pages of NAIC Supplemental Health Care Exhibits. For the state-level analysis, the unit of analysis is the health plan business in a particular state. For instance, UnitedHealth in Florida and UnitedHealth in California are two separate health plans for the purpose of our state-level analyses. For national and individual health plan-level analyses, the unit of analysis is a health plan's consolidated business from all the states. Consistent with other studies, to minimize the influence of outliers, we excluded health plans that had fewer than 1,000 members in a particular state.

Health plan overall business in the analyses refers to "Total/all lines of business" (Column 1 in the "Analysis of operations by lines of business" in NAIC filings and column Total Revenue in the DMHC filings). For states other than California, total revenue refers to line item 7 in the "Analysis of operations by lines of business" page of NAIC filings, and includes net premium income, change in unearned premium reserves, fee-for-service, risk revenue, aggregate write-ins for other health care-related revenue, and aggregate write-ins for other non-health-care-related revenue. In DMHC filings, total revenue as defined under line item 11 in the "2-Income" page includes premium (Commercial), capitation, co-payments/COB/subrogation, Title XVIII–Medicare, Medicaid/Health families/Other government sponsored programs, fee-for-service, point of service, interest, risk pool revenue, and aggregate write-ins for other revenues.

Health plans included in the analyses are those with a business focus on comprehensive medical coverage provided by state-licensed insurance companies that assume financial risk for covered health benefits in exchange for premiums paid by employers, governments, consumers, and other sponsors. Health plans with a Medicare supplement, Federal Employees Health Benefit Plan (FEHBP), non-health, or health ancillary (Dental, Vision etc.) business focus, as defined by the respective column in the SNL database, were excluded from the analyses. The data is, therefore, preponderantly for health plans' full-risk business. However, NAIC overall data may include some health benefit plans that are not fully insured as NAIC accounting rules allow certain types of administrative business to be reported on the state page of the annual statement. Medicare supplemental business and FEHBP account for a very small share of all plans' overall business. In 2016, they accounted for 1.5 percent and 6.3 percent, respectively, of overall business (excluding California, for which this data breakdown was not available). Administrative Services Only (ASO) business results are not reported and, thus, not included.

Endnotes

1. Deloitte analysis of US Census Bureau, NAIC filings and DMHC filings
2. Managed Market Surveyor, 2016, Decision Resource Group

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