National Association of Insurance Commissioners & The Center for Insurance Policy and Research

2017 Mid-Year

Health Insurance Industry Analysis Report

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Contributors

NAIC Financial Regulatory Services

Bruce Jenson, Senior Manager II

Jane Koenigsman, Senior Manager I

Bill Rivers, Health Financial Analysis Program Manager

Disclaimer The NAIC 2017 Mid-Year Health Insurance Industry Analysis Report is a limited scope analysis based on the aggregated information filed to the NAIC's Financial Data Repository as of June 30, 2017, and written by the Financial Regulatory Services Department staff. This report does not constitute the official opinion or views of the NAIC membership or any particular state insurance department.

Health Industry Disclosure: In some states the health industry is regulated by a Department other than the Department of Insurance. Therefore, not all health insurers may be required to file financial statements with the NAIC.

National Association of Insurance Commissioners

The Center for Insurance Policy and Research

Health 2017 Mid-Year Insurance Industry Analysis Report

Table 1 below provides a 5-year quarterly snapshot of the U.S. health insurance industry's aggregate financial results for health entities who file with the NAIC on the health quarterly statement blank. The health insurance industry reported a significant improvement in underwriting results to $12.6 billion from $3.5 billion for the same period in the prior year. Net earnings also increased considerably to $10.2 billion for the first six months of 2017 compared to net income of $1.3 million in the prior year period. The increase in net earnings is due to the increase in underwriting gains partially offset by a 3.1% ($132.1 million) increase in federal income taxes incurred. In addition to the increase in profitability, health entities reported a 13.0% increase in net investment income earned to nearly $2.0 billion. The industry's profit margin increased to 3.0% from 0.4%, while the combined ratio improved to 96.2% from 98.9%. **Figure 1** on the following page illustrates the large jump in net earnings and the industry's recovery in profit margin over the last five years. Notable items as compared to second quarter 2016 include the following:

- Net earned premium increased 6.0% ($19.0 billion).
- Administrative expenses decreased 14.0% ($6.2 billion).
- Total hospital and medical expenses increased 5.7% ($15.4 billion).
- Enrollment increased 1.3%.
- Cash flow from operations of $21.1 billion.
- Capital and surplus increased 7.6% to $121.1 billion.

Table 1

Financial Summary: June 30, 2017-2013

(In Millions)	Chg	2Q 2017	2Q 2016	2Q 2015	2Q 2014	2Q 2013
Direct Written Premium	6.0%	$336,676	$317,678	$295,610	$260,814	$228,458
Net Earned Premium	6.0%	$333,524	$314,520	$292,849	$257,739	$224,457
Net Investment Income Earned	13.0%	$1,984	$1,756	$1,664	$1,869	$1,631
Underwriting Gain/Loss	255.2%	$12,550	$3,534	$3,048	$2,919	$6,684
Net Income/Loss	703.7%	$10,238	$1,274	$1,274	$2,421	$6,576
Total Hospital & Medical Exp.	5.7%	$283,434	$268,032	$248,722	$219,131	$192,382
Loss Ratio	(0.1) pts	84.8%	84.9%	84.4%	84.6%	85.4%
Administrative Expenses	(14.0)%	$38,147	$44,358	$42,746	$37,057	$26,329
Administrative Expense Ratio	(2.6) pts	11.4%	14.0%	14.5%	14.3%	11.7%
Combined Ratio	(2.7) pts	96.2%	98.9%	99.0%	98.9%	97.0%
Profit Margin	2.6 pts	3.0%	0.4%	0.4%	0.9%	2.9%
Enrollment	1.3%	221	218	213	200	178
Premium PMPM	4.2%	$252	$242	$231	$219	$211
Claims PMPM	4.2%	$215	$206	$196	$187	$181
Cash Flow from Operations	2,501.1%	$21,124	($880)	($2,238)	$4,339	$1,177
# of Companies Filed	16	978	962	957	936	921
	6-mo. Chg.					
Capital & Surplus	7.6%	$121,104	$106,306	$102,746	$103,065	$96,414

***All figures only include health entities that file financial statements with the NAIC.**

Note: Adjustments to exclude affiliated amounts were made where appropriate.

Underwriting Results

The significant increase in the industry's underwriting results can be attributed primarily to a 6.0% ($19.0 billion) increase in net earned premium to $333.5 billion, and a 14.0% ($6.2 billion) decrease in general administrative expenses. However, the industry partially offset these items with a 5.7% ($15.4 billion) increase in total hospital and medical expenses to $283.4 billion. **Figure 1** below illustrates the considerable jump in profitability from net income of $1.3 billion and profit margin of 0.4% through the second quarter of 2016 to net income of $10.2 billion and profit margin of 3.0% for the first six months of 2017.

Figure 2 below illustrates the increase in total hospital and medical benefits and the 0.1 percentage point decrease in the loss ratio to 84.8% for the first six months of 2017 and a decrease from 85.4% in 2013. While the loss ratio has fluctuated modestly over the last five years, historically, from year to year, the industry has reported significant increases in hospital and medical benefits. However, as indicated on **Table 1**, the industry reported a 14.0% ($6.2 billion) decrease in administrative expenses and a 2.6 percentage point decrease in the administrative expense ratio to 11.4% from 14.0% in the prior year period. **Figure 3** illustrates the significant decrease in administrative expenses to $38.1 billion from $26.3 billion in 2013 and the moderate decrease in the expense ratio over the last five year quarters to 11.4% from 11.7%.

Although not associated with underwriting, the industry recorded realized capital gains of $311.4 million through the first six months of 2017 compared to realized capital gains of $414.6 million in the prior year.

Enrollment

As shown in **Figure 4**, the industry has experienced an incremental increase in total enrollment of 24.2% (43.2 million) over the last five years. The increase is due primarily to a 57.1% (14.4 million) increase in Medicaid, a 45.6% (10.4 million) increase in policies that provide Medicare Part D Drug coverage, a 27.2% (9.2 million) increase in dental coverage, a 30.7% (7.7 million) increase in vision coverage, a 59.0% (5.7 million) increase in Medicare, and a 49.6% (4.7 million) increase in individual comprehensive medical coverage. However, these items were partially offset by a 23.3% (9.6 million) decrease in the group comprehensive line of business from the first six months of 2013.

Figure 1
Net Income & Profit Margin (ROR)

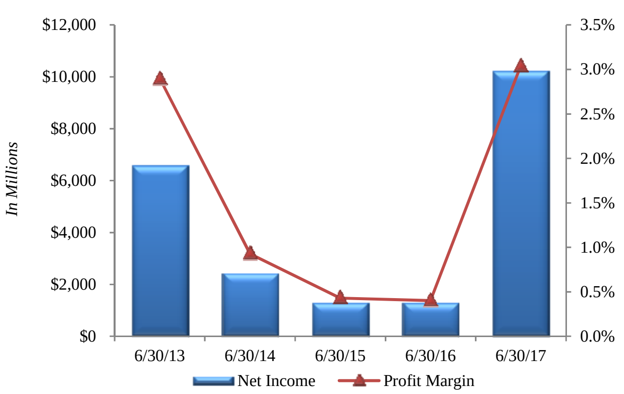


Figure 3
Admin Expenses & Admin Expense Ratio

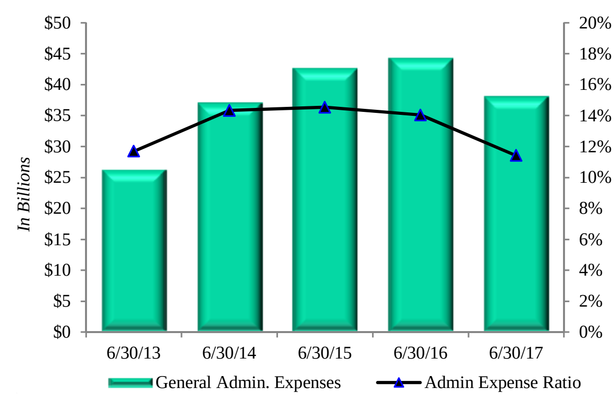


Figure 2
Total Hospital & Medical + Loss Ratio

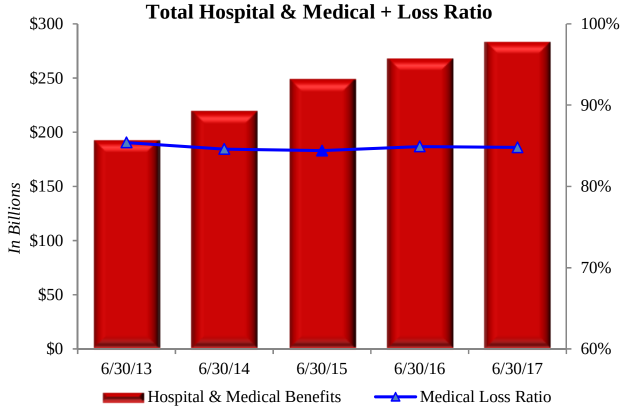
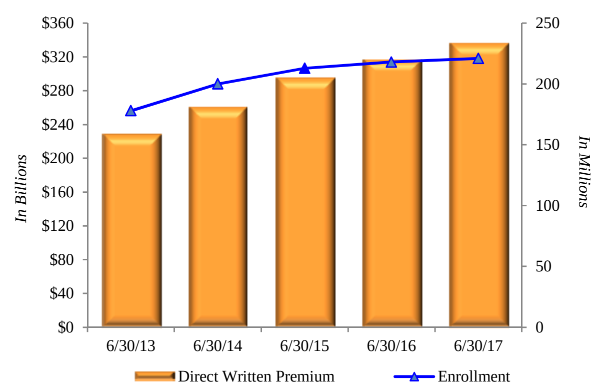


Figure 4
Enrollment & Direct Written Premium



As depicted in **Figure 5**, health entities premium per member per month (PMPM) increased 19.6% to $252.0 from $210.7 for the first six months of 2013, while claims PMPM increased 18.8% to $214.7 from $180.7.

Premium Revenues

Figure 4 also illustrates the growth in direct written premium. In comparison to the first six months of 2013, the industry reported a 47.4% ($108.2 billion) increase in direct written premium to $336.2 billion from $228.1 billion. The increase is most evident on the Medicaid, Medicare, and comprehensive medical lines of business.

Figure 6 illustrates the mix of direct written premium for the first six months of 2017. As insureds have become eligible for either Medicare and/or Medicaid as evidenced by increases in enrollment in these lines, there has been a gradual shift in the allocation of premium between the lines of business over the last five years. In comparison to the first half of 2016, as shown in **Figure 7**, direct comprehensive medical decreased to 41.1% of total written premium from 42.9%, while Medicaid increased to 27.2% from 26.1%, Medicare increased to 25.9% from 25.3% and FEHBP increased to 5.8% from 5.7%. In further comparison to the first half of 2013, direct comprehensive medical decreased from 50.8% while Medicare increased from 23.0% and Medicaid increased from 18.9%.

Table 2 below provides a break out of direct written premium by line of business. The largest dollar increase in written premium from the first six months of 2016 was an $8.7 billion (10.6%) increase in the Medicaid, a $6.5 billion (8.1%) increase in the Medicare, and a $2.3 billion (6.9%) increase in the individual comprehensive line of business.

Figure 5
Premium PMPM vs Claims PMPM

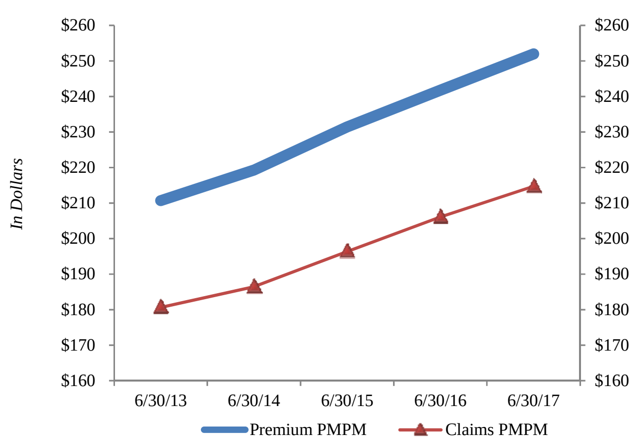


Figure 6
2nd Qtr 2017 Direct Health Premium Written by Line

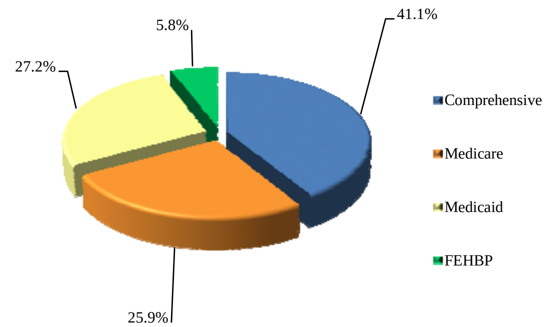


Figure 7
2nd Qtr 2016 Direct Health Premium Written by Line

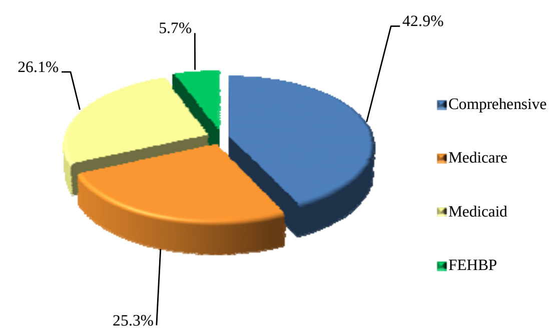


Table 2
Direct Written Premium by Lines of Business

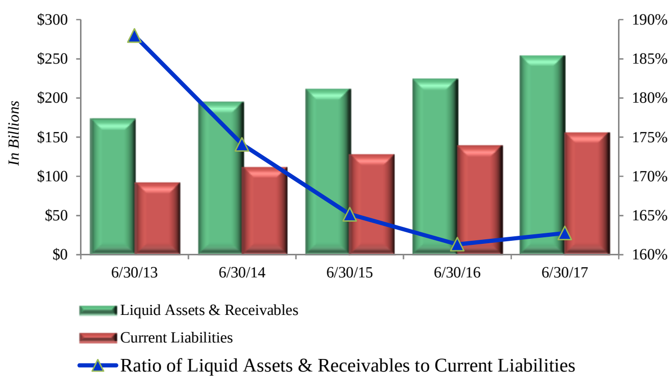
(In Millions)	Chg.	2Q 2016	2Q 2015	2Q 2014	2Q 2013	2Q 2012
Individual Comprehensive	12.1%	$33,125	$29,544	$20,581	$12,224	$11,602
Group Comprehensive	(1.0)%	$80,783	$81,559	$84,678	$86,133	$87,660
Medicare Supplement	4.3%	$5,051	$4,844	$4,669	$4,311	$4,285
Vision	12.3%	$1,201	$1,070	$965	$836	$789
Dental	1.3%	$6,568	$6,483	$5,458	$5,122	$5,215
FEHBP	3.4%	$18,010	$17,424	$17,126	$16,130	$15,836
Medicare	9.6%	$80,355	$73,322	$65,372	$52,623	$49,860
Medicaid	13.2%	$82,703	$73,060	$53,901	$43,273	$37,034
Other Health	5.2%	$9,434	$8,972	$8,783	$7,408	$7,199

Liquidity

The health insurance industry showed significant improvement in operating cash flow to $21.1 million in the first half of 2017 as compared to operating cash outflow of $844 thousand in the first half of 2016. The considerable increase in positive cash flow is due primarily to an 11.8% ($35.5 billion) increase in premiums collected partially offset by a 6.5% ($17.2 billion) increase in benefits and loss-related payments.

As illustrated in **Figure 8**, liquid assets and receivables increased 13.5% ($30.3 billion) to $254.1 billion in the first six months of 2017 from $223.8 billion in the prior year period. This was partially offset by a 12.5% ($17.4 billion) increase in current liabilities. This resulted in a favorable increase in the ratio of liquid assets and receivables to current liabilities to 162.8% from 161.3%.

Figure 8
Ratio of Liquid Assets & Receivables to Current Liabilities



Capital and Surplus

Health entities reported a 7.6% ($8.6 billion) increase in capital and surplus to $121.1 billion from $112.5 billion at Dec. 31, 2016 as illustrated in **Figure 9**. The increase is due primarily to net income of $10.2 billion, unrealized capital gains of $1.7 billion, and paid-in surplus of $1.0 billion. These items were partially offset by dividends of $3.3 billion paid to stockholders, and a $553.6 million increase in non-admitted assets during the first six months of 2017.

Figure 9
Capital & Surplus