U.S. Health Insurance Industry

Health Industry Overview

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 moderate decrease in underwriting results to $10.5 billion from $12.5 billion for the same period in the prior year. While net earnings increased to $11 billion for the first six months of 2018 compared to net income of $10 million in the prior year period. The industry's profit margin increased to just above 3%, while the combined ratio increased to 97% from 96%. Notable items as compared to second quarter 2017 include the following:

- Administrative expenses increased 31% ($12 billion).
- Hospital & medical expenses increased 4% ($12 billion).
- Net earned premium increased 6% ($21 billion).
- Enrollment increased 2%.
- Cash flow from operations of $33 billion.
- Capital and surplus increased 6% to $135 billion.

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Table 1

Financial Summary: June 30, 2018-2014

(In Millions)	Chg	2Q 2018	2Q 2017	2Q 2016	2Q 2015	2Q 2014
Direct Written Premium	6.5%	$358,751	$336,750	$317,678	$295,610	$260,814
Net Earned Premium	6.3%	$354,628	$333,589	$314,520	$292,849	$257,739
Net Investment Income Earned	29.5%	$2,570	$1,985	$1,756	$1,664	$1,869
Underwriting Gain/Loss	(16.4)%	$10,476	$12,530	$3,534	$3,048	$2,919
Net Income/Loss	12.1%	$11,457	$10,217	$1,274	$1,274	$2,421
Total Hospital & Medical Exp.	4.4%	$295,931	$283,501	$268,032	$248,722	$219,131
Loss Ratio	(1.7) pts	83.1%	84.8%	84.9%	84.4%	84.6%
Administrative Expenses	30.7%	$49,878	$38,166	$44,358	$42,746	$37,057
Administrative Expense Ratio	2.6 pts	14.0%	11.4%	14.0%	14.5%	14.3%
Combined Ratio	0.9 pts	97.1%	96.2%	98.9%	99.0%	98.9%
Profit Margin	0.2 pts	3.2%	3.0%	0.4%	0.4%	0.9%
Enrollment	1.8%	225	221	218	213	200
Premium PMPM	4.7%	$262	$250	$242	$231	$219
Claims PMPM	2.6%	$218	$213	$206	$196	$187
Cash Flow from Operations	58.1%	$33,403	$21,123	($880)	($2,238)	$4,339
# of Companies Filed	17	998	981	962	957	936
	6-mo. Chg.					
Capital & Surplus	5.6%	$135,113	$127,921	$112,547	$114,979	$111,140

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

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

Net Earnings

Net earnings increased to $11 billion for the first six months of 2018 from $10 billion in the prior year period. The increase in net earnings is due primarily to a 55% ($2 billion) decrease in federal income taxes incurred, and a 42% ($959 million) increase in net investment gains partially offset by the decrease in underwriting gains. In addition to the increase in profitability, the industry reported a 30% increase in net investment income earned to nearly $3 billion through the first six months of 2018 from just under $2 billion in the prior year quarter. **Figure 1** below illustrates the slight increase in profitability from net income of $10 billion and profit margin of 3% through the second quarter of 2017 to net income of $11 billion and profit margin of 3.2% for the first six months of 2018.

Underwriting Results

The decrease in the industry's underwriting results can be attributed primarily to a 4% ($12 billion) increase in total hospital and medical expenses to $296 billion and a 31% ($12 billion) increase in administrative expenses. However, the industry partially offset these items with a 6% ($21 billion) increase in net earned premium to $355 billion.

Figure 2 illustrates the increase in total hospital and medical benefits and the 1.7 percentage point decrease in the loss ratio to 83.1% for the first six months of 2018 from 84.8% in the prior year quarter. 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 31% ($12 billion) increase in administrative expenses and a 2.6 percentage point increase in the administrative expense ratio to 14% from 11% in the prior year period. **Figure 3** illustrates the significant increase in administrative expenses to $50 billion from $37 billion in 2014 while the expense ratio has been at, or near, 14% over the last five year quarters.

Enrollment

As shown in **Figure** 4, the industry has experienced an incremental increase in total enrollment of 13% (25

Figure 1
Net Income & Profit Margin (ROR)

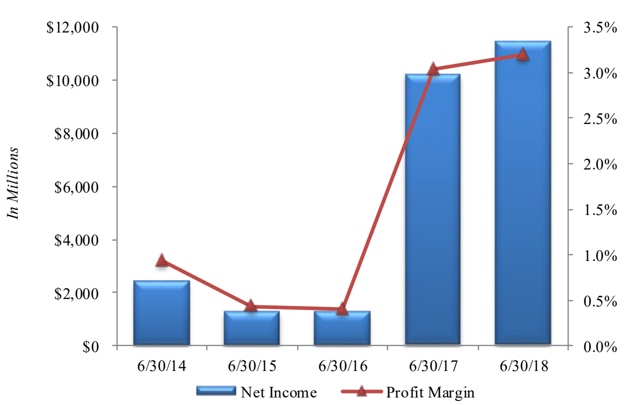


Figure 3
Admin Expenses & Admin Expense Ratio

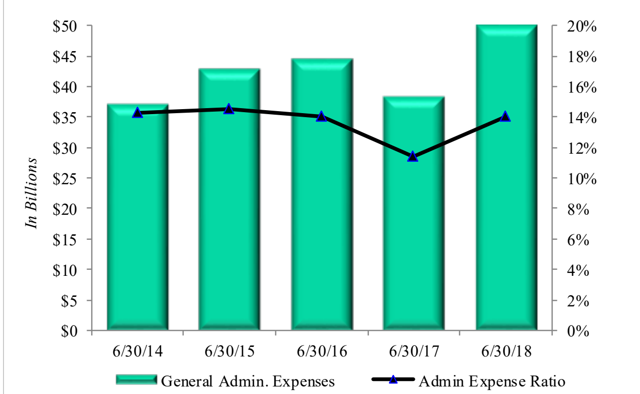


Figure 2
Total Hospital & Medical + Loss Ratio

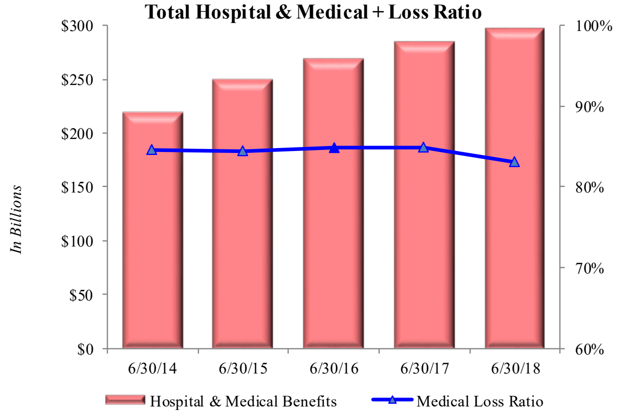
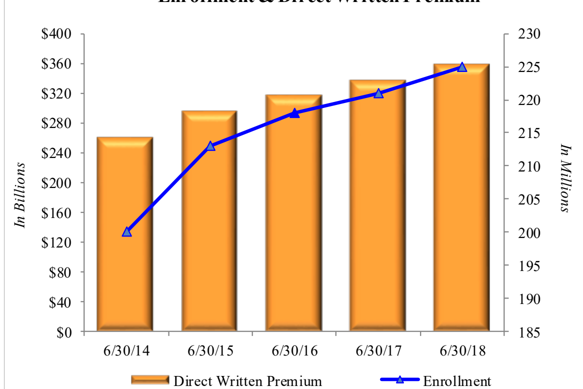


Figure 4
Enrollment & Direct Written Premium



million) over the last five years. The increase is due primarily to a 36% (12 million) increase in Medicaid, a 16% (6 million) increase in dental coverage, a 19% (5 million) increase in policies that provide Medicare Part D Drug coverage, an 18% (5 million) increase in vision coverage, and a 35% (4 million) increase in Medicare. However, these items were partially offset by a 17% (7 million) decrease in the group comprehensive line of business and an 11% ($2 million) decrease in the individual comprehensive line of business from the first six months of 2014.

As depicted in **Figure 5**, health entities' premium per member per month (PMPM) increased 19% to $262 from $219 for the first six months of 2014, while claims PMPM increased 17% to $218 from $187.

Premium Revenues

Figure 4 also illustrates the growth in direct written premium. The increase is primarily 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 2018. 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 2017, direct comprehensive medical remained mostly unchanged at 41% of total written premium, while Medicare increased to 27% from 26%, Medicaid decreased to 26% from 27% and FEHBP decreased modestly to 5.5% from just under 6%.

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 2017 was a $10 billion (11%) increase in Medicare, a $4 billion (5%) increase in Medicaid, a $4 billion (11%) increase in individual comprehensive line of business, and a $2 billion (2%) increase in the group comprehensive line of business.

Figure 5
Premium PMPM vs Claims PMPM

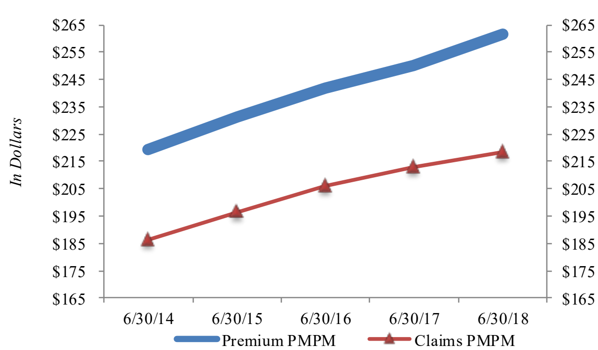


Figure 6
2nd Qtr 2018 Direct Health Premium Written by Line

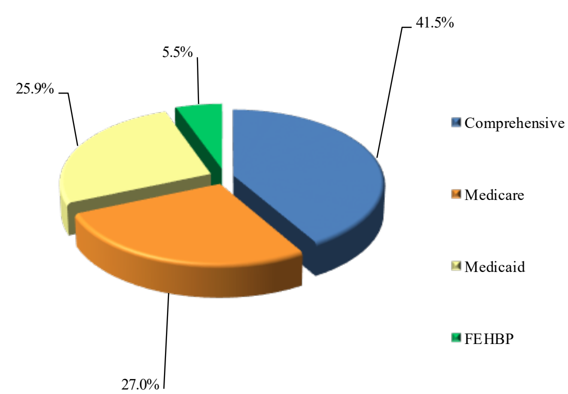


Table 2
Direct Written Premium by Lines of Business

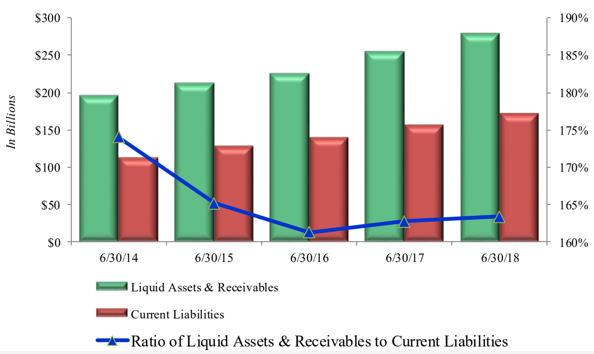
(In Millions)	Chg.	$ Chg.	2Q 2018	2Q 2017	2Q 2016	2Q 2015	2Q 2014
Individual Comprehensive	10.5%	$3,739	$39,262	$35,523	$33,181	$29,544	$20,581
Group Comprehensive	1.8%	$1,476	$82,854	$81,379	$80,789	$81,559	$84,678
Medicare Supplement	1.7%	$93	$5,451	$5,358	$5,051	$4,844	$4,669
Vision	7.4%	$90	$1,311	$1,220	$1,207	$1,070	$965
Dental	8.0%	$513	$6,956	$6,443	$6,563	$6,483	$5,458
FEHBP	3.9%	$731	$19,617	$18,886	$18,010	$17,424	$17,126
Medicare	11.2%	$9,742	$96,573	$86,832	$80,355	$73,322	$65,372
Medicaid	4.7%	$4,270	$95,709	$91,438	$82,703	$73,060	$53,901
Other Health	3.3%	$300	$9,516	$9,216	$9,434	$8,972	$8,783

Liquidity

The health insurance industry showed significant improvement in operating cash flow to $33 billion in the first half of 2018 as compared to operating cash flow of $21 billion in the first half of 2017. The considerable increase in positive cash flow is due primarily to an 8% ($26 billion) increase in premiums collected partially offset by a 4% ($12 billion) increase in benefits and loss-related payments.

As illustrated in **Figure 7**, liquid assets and receivables increased 10% ($25 billion) to $279 billion in the first six months of 2018 from $254 billion in the prior year period. This was partially offset by a 9% ($14 billion) increase in current liabilities. This resulted in a favorable modest increase in the ratio of liquid assets and receivables to current liabilities to over 163% from just below 163%.

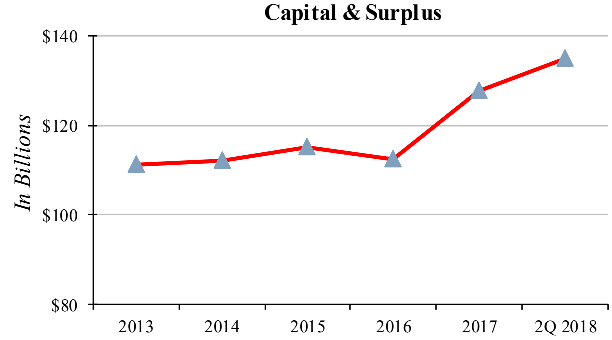
Figure 7
Ratio of Liquid Assets & Receivables to Current Liabilities



Capital and Surplus

Health entities reported a 6% ($7 billion) increase in capital and surplus to $135 billion from $128 billion at Dec. 31, 2017 as illustrated in **Figure 8**. The increase is due primarily to net income of $11 billion and paid-in surplus of $590 million. These items were partially offset by dividends of $4 billion paid to stockholders, a $1 billion decrease in net deferred income tax asset, and a $434 million unrealized capital loss.

Figure 8
Capital & Surplus



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

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.