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July 2017 | Issue Brief

Individual Insurance Market Performance in Early 2017

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Concerns about the stability of the individual insurance market under the Affordable Care Act (ACA) have been raised in the past year following exits of several insurers from the exchange markets, and again with renewed intensity in recent months as debate over repeal of the health law has picked up. Our earlier analysis of premium and claims data from 2011 – 2016 found that insurer financial performance indeed worsened in 2014 and 2015 with the opening of the exchange markets, but showed signs of improving in 2016. A similar analysis by S&P looking at a subset of Blue Cross Blue Shield plans found a comparable pattern.

In this brief, we look at recently-released first quarter financial data from 2017 to examine whether recent premium increases were sufficient to bring insurer performance back to pre-ACA levels. These new data offer more evidence that the individual market has been stabilizing and insurers are regaining profitability.

We use financial data reported by insurance companies to the National Association of Insurance Commissioners and compiled by Mark Farrah Associates to look at the average premiums, claims, medical loss ratios, gross margins, and enrollee utilization from first quarter 2011 through first quarter 2017 in the individual insurance market.[1] These figures include coverage purchased through the ACA's exchange marketplaces and ACA-compliant plans purchased directly from insurers outside the marketplaces (which are part of the same risk pool), as well as individual plans originally purchased before the ACA went into effect.

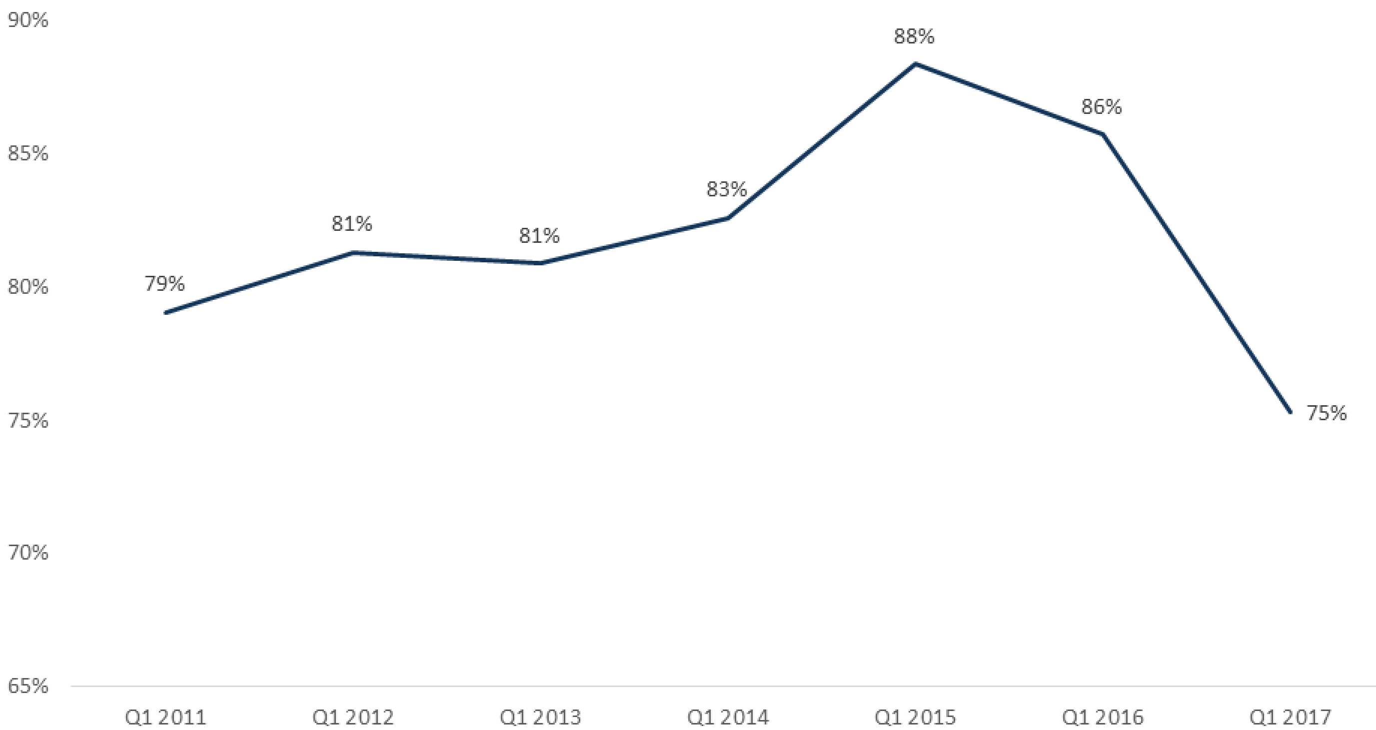
Medical Loss Ratios

As we found in our previous analysis, insurer financial performance as measured by loss ratios (the share of health premiums paid out as claims) worsened in the earliest years of the Affordable Care Act, but began in improve more recently. This is to be expected, as the market had just undergone significant regulatory changes in 2014 and insurers had very little information to work with in setting their premiums, even going into the second year of the exchange markets.

Loss ratios began to decline in 2016, suggesting improved financial performance. In 2017, following relatively large premium increases, individual market insurers saw significant improvement in loss ratios, averaging 75% in the first quarter. First quarter loss ratios tend to follow the same pattern as annual loss ratios, but in recent years have been 10 to 15 percentage points lower than annual loss ratios.[2] Though 2017 annual loss ratios are therefore likely to end up higher than 75%, this is nevertheless a sign that individual market insurers on average are on a path toward regaining profitability in 2017.

Figure 1

Average First Quarter Individual Market Medical Loss Ratios, 2011 - 2017



Source: Kaiser Family Foundation analysis of data from Mark Farrah Associates Health Coverage Portal TM. Note: Figures above represent simple loss ratios and differ from the definition of MLR in the Affordable Care Act

Margins

Another way to look at individual market financial performance is to examine average gross margins per member per month, or the average amount by which premium income exceeds claims costs per enrollee in a given month. Gross margins are an indicator of performance, but positive margins do not necessarily translate into profitability since they do not account for administrative expenses. As with medical loss ratios, first quarter margins tend to follow a similar pattern to annual margins, but generally look more favorable as enrollees are still paying toward their deductibles in the early part of the year, lowering claims costs for insurers.

Figure 2

Source: Kaiser Family Foundation analysis of data from Mark Farrah Associates Health Coverage Portal TM

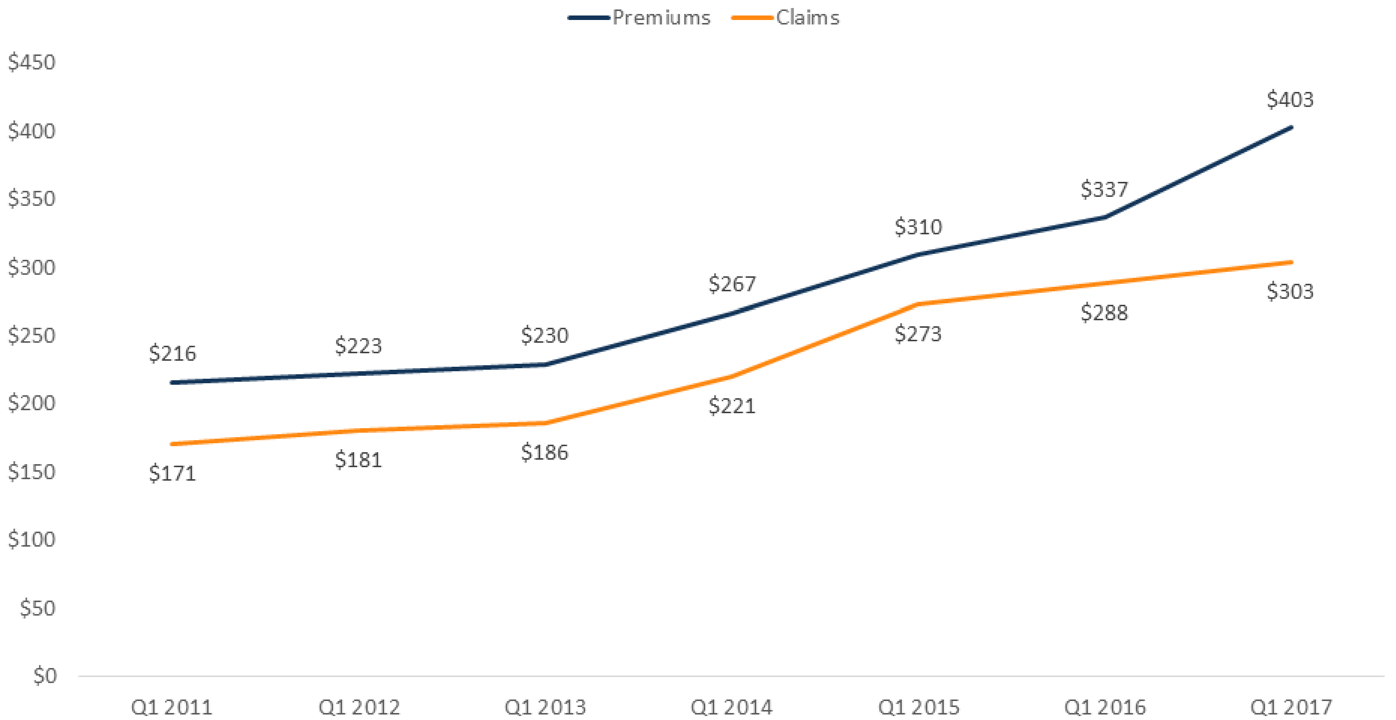
Looking at gross margins, we see a similar pattern as we did looking at loss ratios, where insurer financial performance improved dramatically in the first quarter of 2017 (increasing to $99 per enrollee, from a recent first quarter low of $36 in 2015). Again, first quarter data tend to indicate the general direction of the annual trend, and while annual 2017 margins are unlikely to end as high as they are in the first quarter, these data suggest that insurers in this market are on track to reach pre-ACA individual market performance levels.

Underlying Trends

Driving recent improvements in individual market insurer financial performance are the premium increases in 2017 and simultaneous slow growth in claims for medical expenses. On average, premiums per enrollee grew 20% from first quarter 2016 to first quarter 2017, while per person claims grew only 5%.

Figure 3

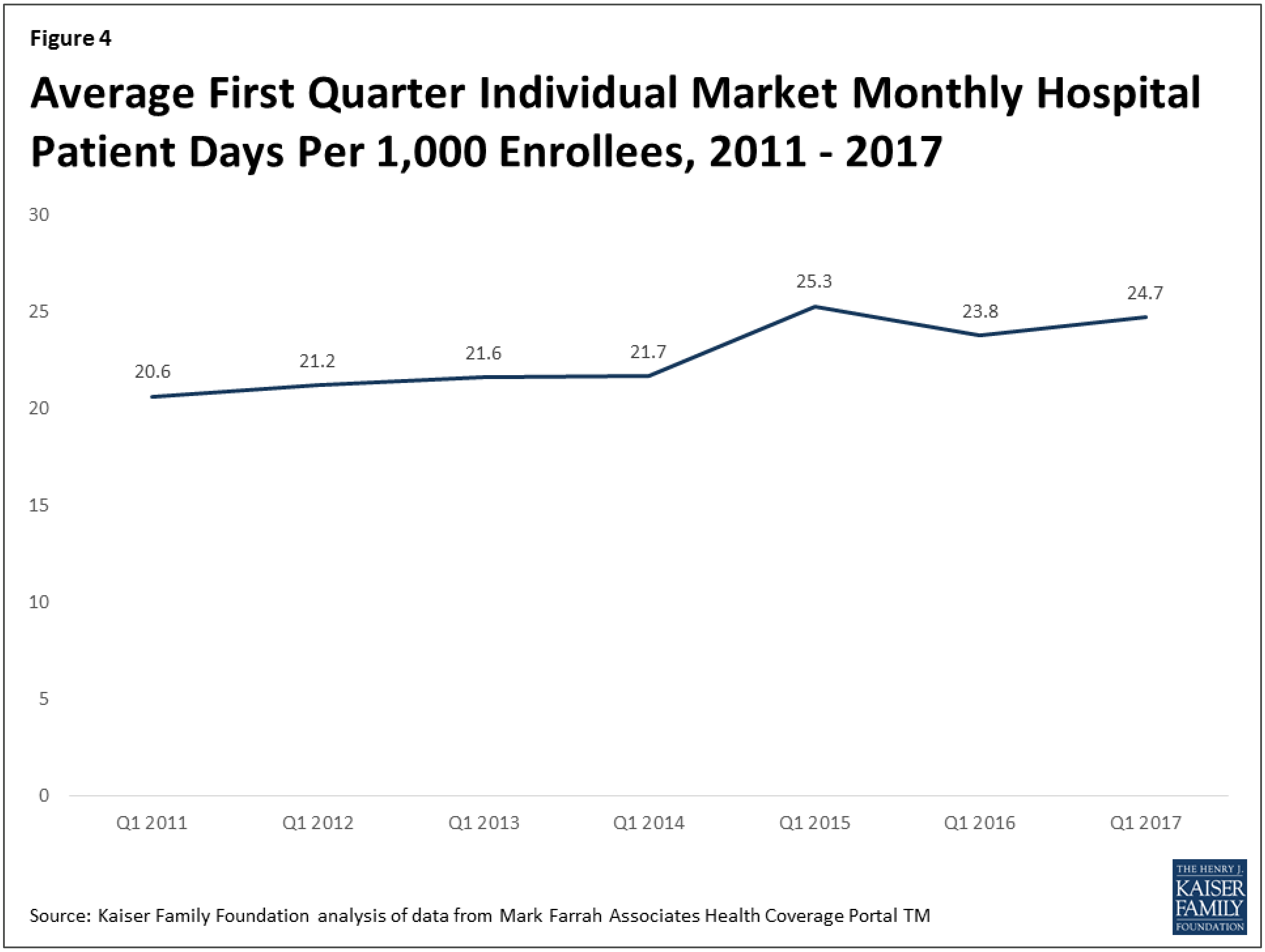
Average First Quarter Individual Market Monthly Premiums and Claims Per Person, 2011 - 2017



Source: Kaiser Family Foundation analysis of data from Mark Farrah Associates Health Coverage Portal TM

One concern about rising premiums in the individual market was whether healthy enrollees would drop out of the market in large numbers rather than pay higher rates. While the vast majority of exchange enrollees are subsidized and sheltered from paying premium increases, those enrolling off-exchange would have to pay the full increase. As average claims costs grew very slowly in the first quarter of 2017, it does not appear that the enrollees today are noticeably sicker than it was last year.

On average, the number of days individual market enrollees spent in a hospital in first quarter of 2017 was similar to first quarter inpatient days in the previous two years. (The first quarter of 2014 is not necessarily representative of the full year because open enrollment was longer that year and a number of exchange enrollees did not begin their coverage until mid-year 2014).



Taken together, these data on claims and utilization suggest that the individual market risk pool is relatively stable, though sicker on average than the pre-ACA market, which is to be expected since people with pre-existing conditions have guaranteed access to coverage under the ACA.

Discussion

Early results from 2017 suggest the individual market is stabilizing and insurers in this market are regaining profitability. Insurer financial results show no sign of a market collapse. First quarter premium and claims data from 2017 support the notion that 2017 premium increases were necessary as a one-time market correction to adjust for a sicker-than-expected risk pool. Although individual market enrollees appear on average to be sicker than the market pre-ACA, data on hospitalizations in this market suggest that the risk pool is stable on average and not getting progressively sicker as of early 2017. Some insurers have exited the market in recent years, but others have been successful and expanded their footprints, as would be expected in a competitive marketplace.

While the market on average is stabilizing, there remain some areas of the country that are more fragile. In addition, policy uncertainty has the potential to destabilize the individual market generally. Mixed signals from the Administration and Congress as to whether cost sharing subsidy payments will continue or whether the individual mandate will be enforced have led to some insurers to leave the market or request larger premium increases than they would otherwise. A few parts of the country may now be at risk of having no insurer on exchange, though new entrants or expanding insurers have moved in to cover most areas previously thought to be at risk of being bare.

Methods

We analyzed insurer-reported financial data from Health Coverage Portal TM, a market database maintained by Mark Farrah Associates, which includes information from the National Association of Insurance Commissioners. The dataset analyzed in this report does not include NAIC plans licensed as life insurance or California HMOs regulated by California's Department of Managed Health Care; in total, the plans in this dataset represent at least 75% of the individual market. All figures in this data note are for the individual health insurance market as a whole, which includes major medical insurance plans sold both on and off exchange. We excluded some UnitedHealth plans that filed negative enrollment in 2017 and corrected for a Centene plan that did not file "member months" in first quarter 2016 but did file first quarter membership.

To calculate the weighted average loss ratio across the individual market, we divided the market-wide sum of total incurred claims by the sum of all health premiums earned. Medical loss ratios in this analysis are simple loss ratios and do not adjust for quality improvement expenses, taxes, or risk program payments. Gross margins were calculated by subtracting the sum of total incurred claims from the sum of health premiums earned and dividing by the total number of member months (average monthly enrollment) in the individual insurance market.

Endnotes

[1] The loss ratios shown in this data note differ from the definition of MLR in the ACA, which makes some adjustments for quality improvement and taxes, and do not account for reinsurance, risk corridors, or risk adjustment payments. Reinsurance payments, in particular, helped offset some losses insurers would have otherwise experienced. However, the ACA's reinsurance program was temporary, ending in 2016, so loss ratio calculations excluding reinsurance payments are a good indicator of financial stability going forward.

[2] Although first quarter loss ratios and margins generally follow a similar pattern as annual data, starting in 2014 with the move to an annual open enrollment that corresponds to the calendar year, first quarter MLRs have been 10 – 15 percentage points lower than annual loss ratios in the same year. This is because renewing existing customers, as well as new enrollees, are starting to pay toward their deductibles in January, whereas pre-ACA, renewals would occur throughout the calendar year.