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Individual Insurance Market Performance in Late 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 during the debate over repeal of the health law. Our [earlier analysis](#) of first quarter financial data from 2011-2017 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 and stabilizing in 2017 as insurers began to regain profitability.

In this brief, we look at recently-released third 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 from the first nine months of 2017 offer further evidence that the individual market has been stabilizing and insurers are regaining profitability, even as political and policy [uncertainty](#) and the repeal of the [individual mandate](#) penalty as part of tax reform legislation cloud expectations for 2018 and beyond.

Third quarter financial data reflects insurer performance in 2017 through September, before the Administration [ceased payments](#) for cost-sharing subsidies effective October 12, 2017. The loss of these payments during the fourth quarter of 2017 will diminish insurer profits, but nonetheless, insurers are likely to see better financial results in 2017 than they did in earlier years of the ACA Marketplaces.

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 third quarter 2011 through third quarter 2017 in the individual insurance market.¹ Third quarter data is year-to-date from January 1 – September 30. 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.

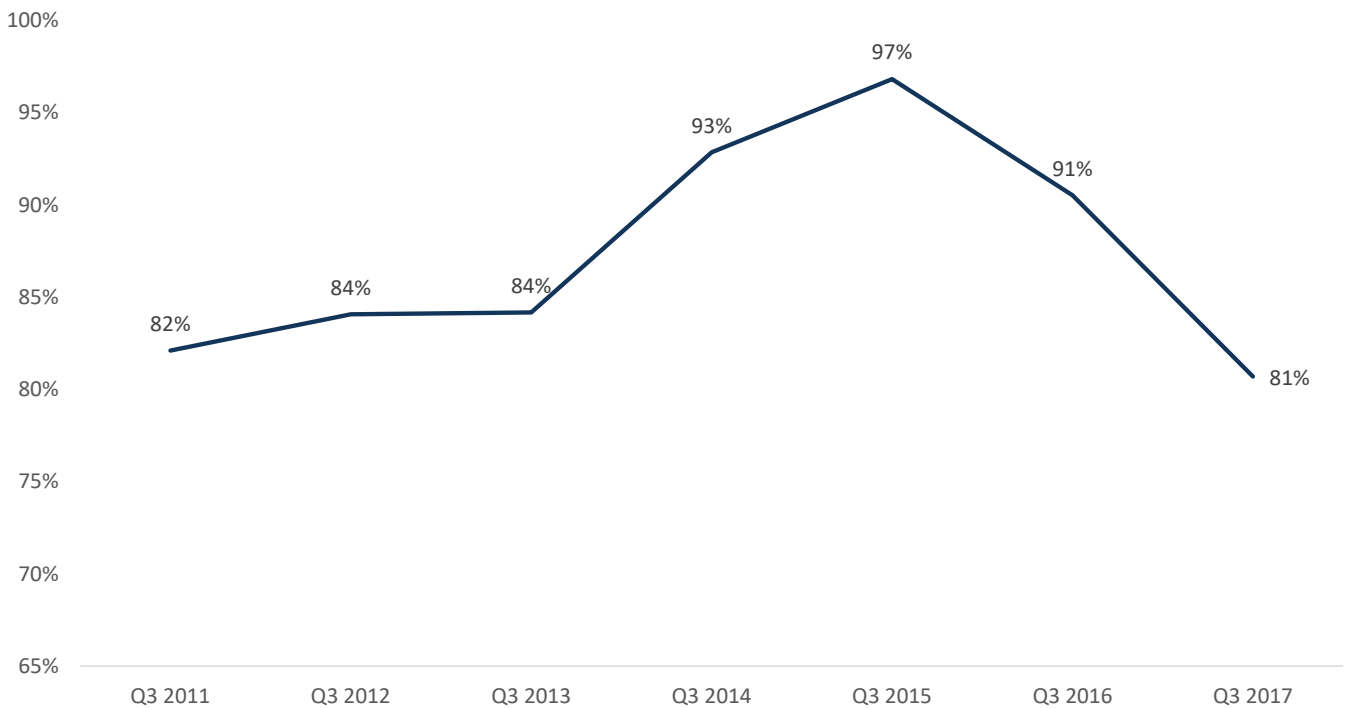
Medical Loss Ratios

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 Marketplaces, but began to 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 81% through the third quarter. Third quarter loss ratios tend to follow the same pattern as annual loss ratios, but in recent years have been lower than annual loss ratios.² Though 2017 annual loss ratios are likely to be impacted by the loss of cost-sharing subsidy payments during the last three months of the year, this is nevertheless a sign that individual market insurers on average were beginning to stabilize in 2017.

Figure 1

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



Note: Q3 data is year-to-date from January 1 – September 30

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

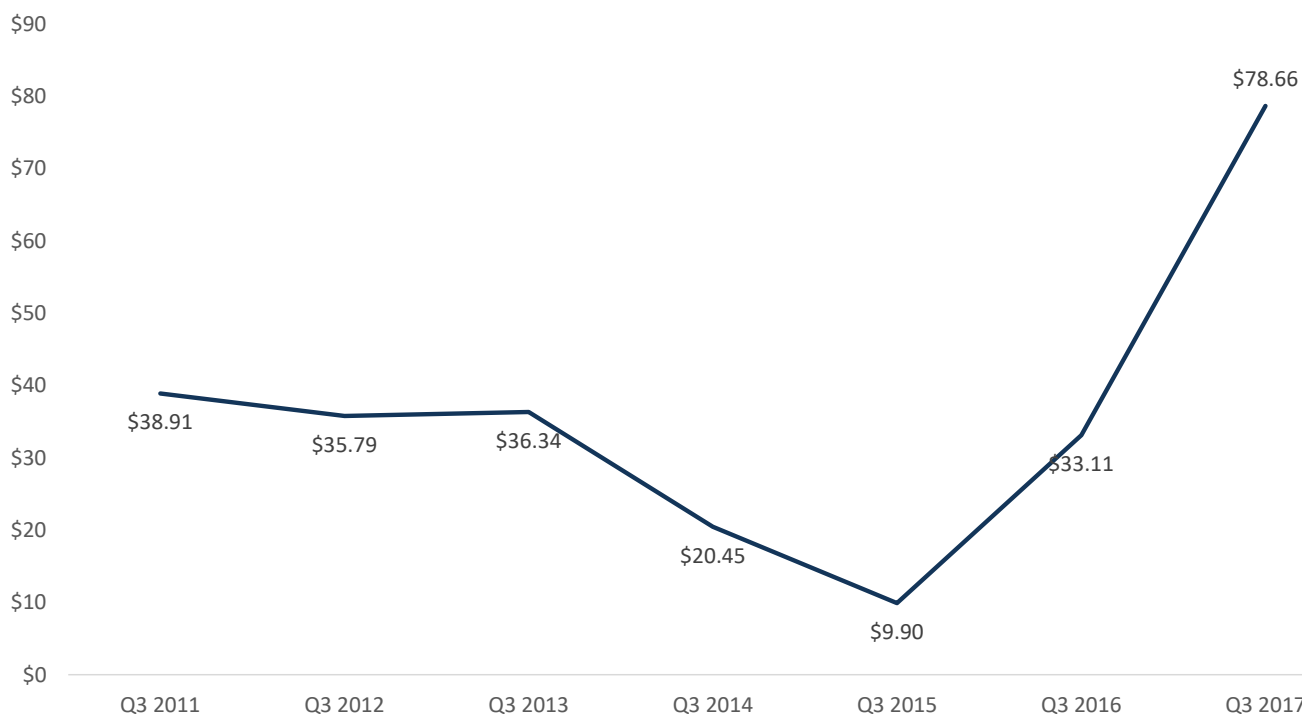


Margins

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, third 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

Average Third Quarter Individual Market Gross Margins Per Member Per Month, 2011 - 2017



Note: Q3 data is year-to-date from January 1 – September 30

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



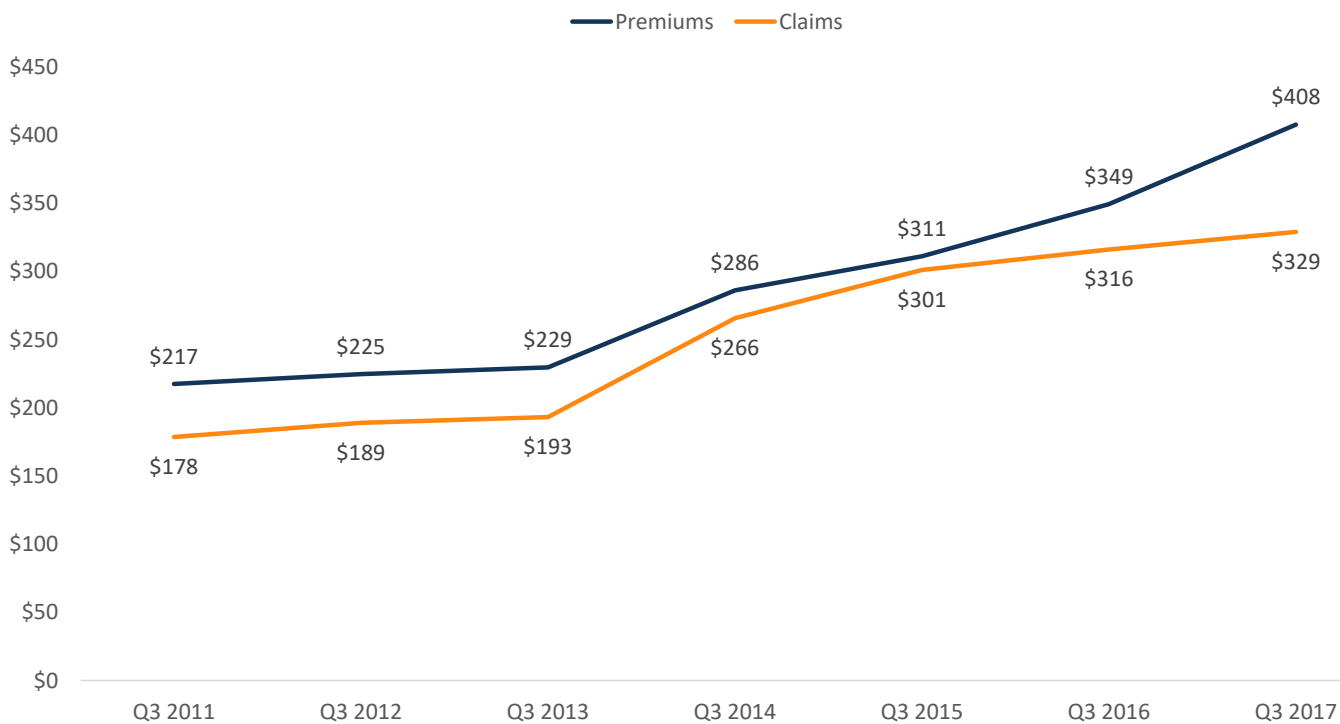
Looking at gross margins, we see a similar pattern as we did looking at loss ratios, where insurer financial performance improved dramatically through the third quarter of 2017 (increasing to \$79 per enrollee, from a recent third quarter low of \$10 in 2015). Again, third quarter data tend to indicate the general direction of the annual trend, and while annual 2017 margins are unlikely to end as high as they are in the third 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 17% from third quarter 2016 to third quarter 2017, while per person claims grew only 4%.

Figure 3

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



Note: Q3 data is year-to-date from January 1 – September 30

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

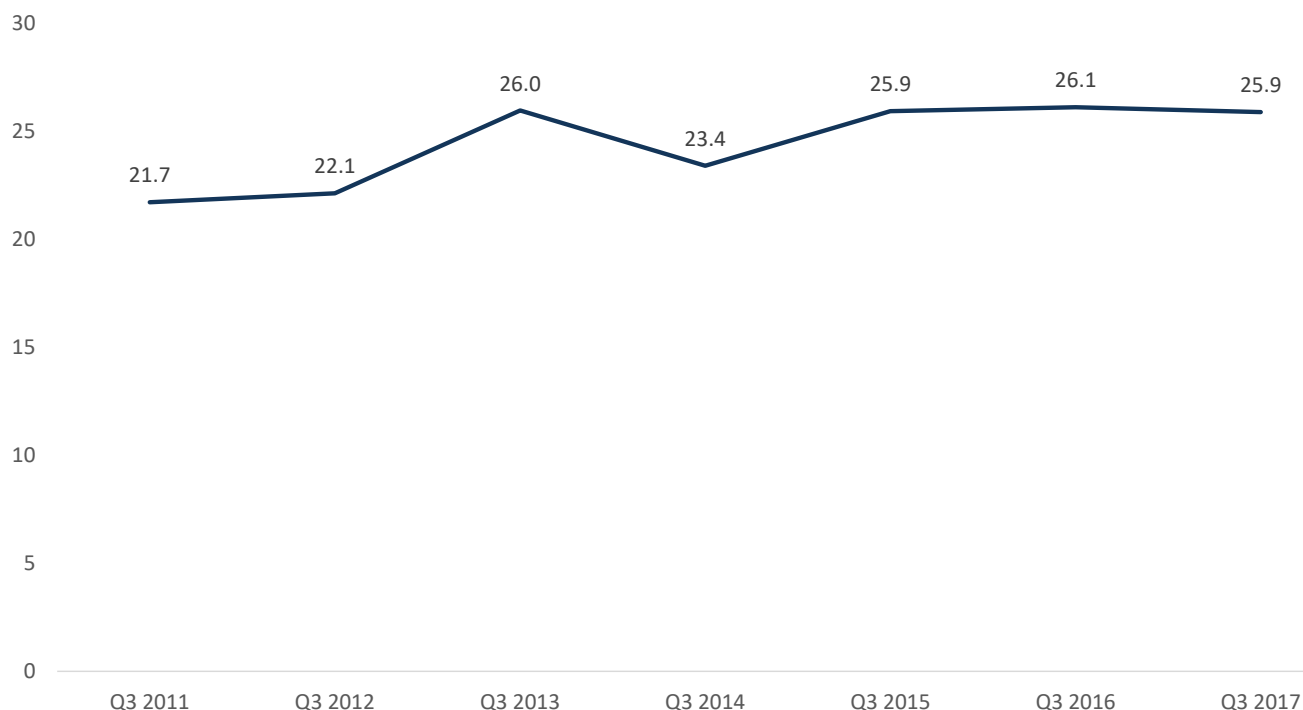


One concern about rising premiums in the individual market was whether healthy enrollees would drop out of the market in large numbers rather than pay higher rates. While the vast majority of exchange enrollees are subsidized and sheltered from paying premium increases, those enrolling off-exchange would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

On average, the number of days individual market enrollees spent in a hospital through the third quarter of 2017 was similar to third quarter inpatient days in the previous two years. (The third 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).

Figure 4

Average Third Quarter Individual Market Monthly Hospital Patient Days Per 1,000 Enrollees, 2011 - 2017



Note: Q3 data is year-to-date from January 1 – September 30

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



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

Third quarter results from 2017 suggest the individual market was stabilizing and insurers in this market were regaining profitability. Insurer financial results as of the third quarter 2017 – before the Administration’s decision to stop making cost-sharing subsidy payments and before the repeal of the individual mandate penalty in the tax overhaul – showed no sign of a market collapse. Third 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 late 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. The decision by the

Administration to cease [cost-sharing subsidy payments](#) led some insurers to leave the market or request larger [premium increases](#) than they would otherwise. A few parts of the country were thought to be at [risk of having no insurer](#) on exchange, though new entrants or expanding insurers have since moved in to cover all areas previously at risk of being bare. Signups through the federal marketplace during the recently completed open enrollment period were higher than many expected, which could help to keep the market stable. However, continued policy uncertainty and the repeal of the individual mandate as part of tax reform legislation complicate the outlook for 2018 and beyond.

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 80% 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 plans that filed negative enrollment, premiums, or claims and corrected for plans that did not file "member months" in the third quarter but did file third 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 third 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, third quarter MLRs have been 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.