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State of the Florida Health Insurance Market

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State of the Florida Insurance Market

1. Hurricane Risk
2. ACA
   1. Forces Driving Premium Change
   2. 3Rs
   3. Narrow Networks
      1. Pricing vs. Reality
      2. Excessive Growth
   4. Market Competition

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Number of Recorded Storms Affecting Florida

60
50
40
30
20
10
0

1910s 1920s 1930s 1940s 1950s 1960s 1970s 1980s 1990s 2000s 2010s

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Affordable Care Act

- The ACA has altered comprehensive health pricing methodologies
  - Age and gender rating is no longer allowed
  - True catastrophic coverage is no longer available due to annual and lifetime limits on cost-sharing
  - Policies must be designed with a certain actuarial value (AV)
    - Geographic differences result may result in large variations between the pricing AV and the metal AV

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Forces Driving Premium Change

- Premium changes are driven by the cost of care, the utilization rate and leveraging of consumer cost-sharing
- Cost of care:
  - Hospital and provider contracts
  - Drug costs
  - New technology can lead to increases in the cost of care
- Utilization Rate:
  - Frequency of healthcare visits
  - Number of tests/services/prescriptions provided per visit
  - New technology can also lead to higher utilization rates
- Cost-sharing leverage
  - Fixed dollar deductibles and co-pays cover a smaller percentage of claims each year due to price inflation

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Breakdown of Health Insurance Claims

- Total health insurance claims are the product of the cost of care and the utilization rate.
- Claims can be subdivided into six main categories

Benefit Category	Percentage of Total Claims
Outpatient Hospital	26.7%
Professional	25.6%
Inpatient Hospital	25.5%
Prescription Drug	15.9%
Other Medical	4.9%
Capitation	1.5%

Percentages do not add to 100% due to rounding
Source: 2016 plan year Individual and Small Group rate filings

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Medical Loss Ratio Standards

- Florida commercial health insurers have been governed by minimum medical loss ratios (MLR[1]) for several decades.
  - MLR = percentage of premiums used to pay for healthcare
  - Regulatory minimums range from 65%-70%
  - Florida MLRs for the commercial health industry[2]:
    - 2012 – 82%
    - 2013 – 82%
    - 2014 – 87%
- CMS has introduced rebates/penalties for Federal programs if the MLR is below:
  - 80% in the individual and small group markets
  - 85% in the large group and Medicare Advantage markets
- Agency for Healthcare Administration uses an alternative methodology called an Achieved Savings Rebate (ASR)
  - Companies return 50% of profits above a 5% margin, 100% of profits above 10%

[1]Federal and Florida law use slightly different definitions of medical loss ratio
[2]Source: NAIC Health annual statements. MLRs are for Florida only experience.

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Premium Stabilization Programs (3Rs)

- The ACA introduced the 3Rs
  - Risk Adjustment (Permanent)
  - Risk Corridors (2014-2016)
  - Reinsurance (2014-2016)
- Expected to bring stability to the market while companies worked through pricing difficulties
- The actual impacts have been a combination of stabilizing and destabilizing

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Risk Adjustment

- Guarantee issue market creates significant anti-selection risk
- Risk Adjustment attempts to manage this risk
  - Shifts premium dollars from companies with lower than average risk pools to those with higher than average risk pools
  - Discourages companies from indirectly underwriting through marketing, plan design, service area, etc.
  - Formula uses diagnosis codes actually experienced
  - Risk factors are determined using nationwide morbidity
    - Potential for inaccuracy due to geographic differences. Regional plans are at the highest risk.

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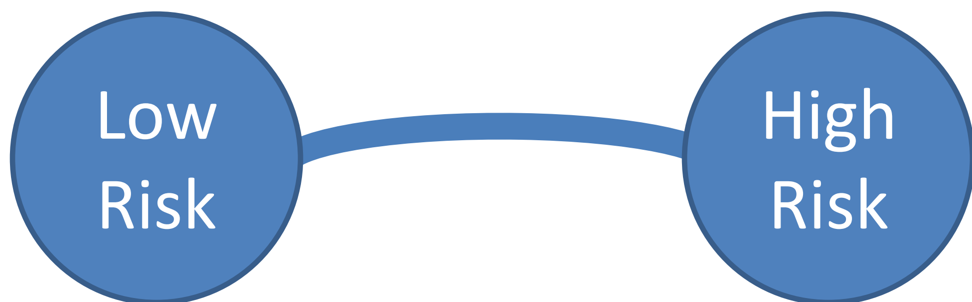
Risk Adjustment continued

- The Florida market experienced a dumbbell effect with Risk Adjustment.
- Driven by consumer behavior.
  - Healthier population was far more likely to price shop
  - Riskier population gravitated to higher quality



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Risk Corridors

- The ACA introduced:
  - Guarantee issue and a coverage mandate
  - Gender neutral rating
  - Maximum age differential of 3:1
  - Defined and required Essential Health Benefits
- Significantly shifted the pool of risk in the individual market
  - Uncertainty regarding the morbidity of the uninsured population
    - Pent up demand in early years
    - How healthy are the “young and invincible”?

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Risk Corridors continued

- Risk Corridors attempts to manage this pricing risk
  - Shifts profit dollars from companies who priced accurately to those who priced poorly
  - Unintended consequence of rewarding inefficiency
  - Program was assumed to be revenue neutral but early analysis indicates this may not be the case
    - Significantly reduces the effectiveness of the program
  - Final 2014 information will be available this month

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Federal Reinsurance

- Benefit requirements of the ACA were significantly higher than what was typically purchased pre-ACA
- Guarantee issue requirement increased the level of risk within the individual market
- Coverage mandate should decrease the level of risk in the individual market
- Studies indicated that the increases in risk and benefits would outweigh decreases driving medical costs and premiums higher
  - Actual experience appears to be consistent with this assumption

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Federal Reinsurance continued

- The Federal Reinsurance program spreads this impact over 3 years
- This is accomplished by subsidizing the individual market with reinsurance that is funded by the rest of the comprehensive health insurance market
- Full premium impact of ACA requirements will not be realized until 2017

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Market Competition

- Mergers and Acquisitions
  - Aetna & Humana
    - Combined 27% of Florida comprehensive health market
  - Anthem & Cigna
    - Combined 6% of Florida comprehensive health market
  - Potential for extreme growth limits the ability of new players to enter the market
    - Significantly more capital is required

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Narrow Networks

- In an effort to offset the forces driving premium higher companies have narrowed provider networks
  - Medicaid companies started with narrower networks
  - HMOs shifting back towards a Primary Care Physician gatekeeper model
  - Better contracts and more management should control both the frequency and severity of claims

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Narrow Networks continued

- Lower cost networks leads to lower premiums
  - The newly insured market is extremely price sensitive
  - Price shopping has led to significant (even excessive) growth in enrollment
  - Excessive growth has been experienced by the companies with the lowest premium
  - Growth coupled with network adequacy requirements may strain financial performance

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Questions?

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