**2013 Health Insurance Industry Analysis Report**



**Health Industry at a Glance**

**Table 1** below provides a snapshot of the U.S. health insurance industry’s aggregate financial results for health enti- ties who file with the NAIC on the health annual statement blank which represents over 70% of the total A&H busi- ness filed with the NAIC. For the second consecutive year, the health insurance industry experienced a decrease in net earnings (12.7% to $10.3 billion from $11.7 billion) and a decrease in the profit margin (to 2.3% from 2.7%). The combined ratio increased moderately to 97.8% from 97.3%. Despite the decrease in net earnings, health entities reported a 4.4% increase in net investment income earned to $3.3 billion although the yield remained unchanged at 2.1%.

Health entities reported a 7.5% increase in capital and surplus to $110.8 billion due to net income of $10.3 billion and unrealized capital gains of $1.8 billion partially offset by $6.5 billion in dividends paid to stockholders in 2013.

Notable items include the following:

* Total hospital and medical expenses increased 3.7% ($13.6 billion).
* Claims adjustment expenses and administrative expenses increased 5.8% ($3.0 billion).
* Net earned premium increased 3.1% ($13.5 billion).
* Moderate increase in loss ratio to 85.8%.
* A&H direct earned premium increased 3.0% ($18.9 billion) including all business types.
* Long-term care direct earned premium increased 2.5% ($282.0 million)

**Table 1**

|  |  |
| --- | --- |
| **Inside this issue:**  Underwriting Results | **2** |
| Premium Revenues | **3** |
| Accident and Health | **4** |
| Long-term Care | **5** |
| **Note:** References to Loss Ratio is not related to HHS definition of Medical  Loss Ratio. | |
|  | |

***Health Entities as of December 31, 2013***

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| *(In Millions, Except PMPM)*  **Operations** | **Chg.** | **2013** | **2012** | **2011** | **2010** | **2009** |
| Direct Written Premium | 2.6% | $455,171 | $443,537 | $418,482 | $394,700 | $382,376 |
| Net Earned Premium | 3.1% | $446,671 | $433,211 | $409,291 | $385,832 | $373,197 |
| Net Investment Income Earned | 4.4% | $3,292 | $3,154 | $3,245 | $3,421 | $4,061 |
| Underwriting Gain/(Loss) | (16.8)% | $9,708 | $11,675 | $14,763 | $12,714 | $5,978 |
| Net Income/Loss | (12.7)% | $10,257 | $11,744 | $13,909 | $12,935 | $9,292 |
| Total Hospital & Medical Exp | 3.7% | $385,588 | $371,947 | $346,059 | $326,997 | $323,405 |
| Loss Ratio | 0.1 Pts. | 85.8% | 85.7% | 84.5% | 84.8% | 86.7% |
| Admin Expense Ratio | 0.3 Pts. | 12.1% | 11.8% | 11.9% | 11.9% | 11.7% |
| Combined Ratio | 0.5 Pts. | 97.8% | 97.3% | 96.4% | 96.7% | 98.4% |
| Profit Margin | (0.4) Pts. | 2.3% | 2.7% | 3.4% | 3.3% | 2.5% |
| Net Premium PMPM | 2.6% | $211 | $205 | $204 | $195 | $189 |
| Claims PMPM | 2.9% | $182 | $177 | $173 | $166 | $165 |
| Cash Flow from Operations | (39.4)% | $7,997 | $13,203 | $15,399 | $12,201 | $8,619 |
| Enrollment | 0.0% | 178 | 177 | 168 | 164 | 166 |
| **Capital and Surplus** |  |  |  |  |  |  |
| Capital & Surplus | 7.5% | $110,813 | $103,041 | $94,642 | $88,521 | $77,147 |
| **Assets**  Net Invested Assets | 4.7% | $162,618 | $155,331 | $145,706 | $135,589 | $122,475 |
| Net Admitted Assets | 5.7% | $213,275 | $201,801 | $188,664 | $174,217 | $158,506 |
| Net Inv Inc & Realized Gain/(Loss) | 6.0% | $4,683 | $4,417 | $4,249 | $4,814 | $6,260 |
| Investment Yield | 0 Pts. | 2.1% | 2.1% | 2.3% | 2.7% | 3.4% |
| Number of Companies Filed |  | 904 | 880 | 857 | 839 | 864 |

**Note: Aggregate results include only health entities who file annual statements with the NAIC. As of April 4, 2014, approximately 99% of expected health entities reported.**

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**Underwriting Results**

**Figure 1** below illustrates the decrease in both net earn- ings and profit margin. The decrease in the industry’s underwriting results can be attributed to a 3.7% ($13.6 billion) increase in total hospital and medical expenses to $385.6 billion and a 5.8% ($3.0 billion) increase in claims adjustment expenses and administrative expens- es. However, the industry partially offset these items with a 3.1% ($13.5 billion) increase in net earned premi- um to $446.7 billion. The industry also recorded realized capital gains of $1.4 billion in 2013.

**Table 2** below provides an analysis of operations by line of business for 2013. The comprehensive hospital & medical ($4.1 billion), Medicare ($2.3 billion) and the

Medicaid ($1.2 billion) lines of business were the most profitable.

**Figure 2** below illustrates the increase in total hospital and medical benefits and the modest increase in the loss ratio to 85.8% in 2013. Historically, from year to year, the industry has reported significant increases in hospital and medical benefits. But during 2013, net earned premi- um increased at near the same rate as total hospital and medical benefits, thus the loss ratio experienced a modest increase. In addition, as indicated on **Table 1**, the indus- try reported a marginal increase in the administrative ex- pense ratio to 12.1%.



*In Billions*

*In Billions*

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Table 2**  ***Analysis of Operations by Lines of Business*** | | | | | | | | |
| *(In Millions, Except PMPM)* | **Comp**  **Hospital & Medical** | **Medicare Suppl** | **Dental** | **Vision** | **FEHBP** | **Medicare** | **Medicaid** | **Other Health** |
| Net Earned Premium | $191,487 | $8,088 | $10,455 | $1,693 | $31,960 | $103,081 | $87,700 | $12,031 |
| Total Hospital & Medical Exp | $162,850 | $6,393 | $8,047 | $1,363 | $30,142 | $89,561 | $77,102 | $10,130 |
| Claims Adj. Expenses | $7,134 | $392 | $384 | $32 | $781 | $3,165 | $2,951 | $785 |
| General Admin. Expenses | $18,783 | $939 | $1,281 | $234 | $1,113 | $8,081 | $7,137 | $876 |
| Total Underwriting Deductions | $188,733 | $7,768 | $9,709 | $1,628 | $32,040 | $100,901 | $87,127 | $11,795 |
| Net Underwriting Gain/(Loss) | $4,066 | $309 | $858 | $181 | $241 | $2,276 | $1,166 | $662 |
| Loss Ratio | 84.4% | 79.7% | 76.1% | 75.3% | 93.4% | 86.9% | 87.3% | 81.4% |
| Admin Expense Ratio | 13.4% | 16.5% | 15.8% | 14.7% | 5.9% | 10.9% | 11.4% | 13.3% |
| Combined Ratio | 97.9% | 96.2% | 91.9% | 90.0% | 99.3% | 97.8% | 98.7% | 94.7% |
| Net Premium PMPM | $318 | $183 | $26 | $6 | $369 | $912 | $292 | $44 |
| Claims PMPM | $270 | $146 | $20 | $5 | $345 | $793 | $256 | $38 |
| Enrollment | 50 | 4 | 34 | 25 | 7 | 10 | 25 | 23 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Figure 1** |  | $400  $300  $200  $100  $0 |  | **Figure 2**  **Total Benefits & Loss Ratio**  85.7%  84.8% 84.5%  $371.9  $327.0 $346.1  2010 2011 2012  Hospital & Medical Benefits |  |  |
| $16  $12 | **Net Income & Profit Margin (ROR)**  3.3% 3.4%  2.7%  2.3%  2.5% | 6%  5%  4% | 86.7% | 85.8%  $385.6 | 100%  80%  60% |
| $8 |  | 3% | $323.4 |  |  |
| $4 | $9.3 $12.9 $13.9 $11.7  $10.3 | 2%  1% |  |  | 40%  20% |
| $0 | 2009 2010 2011 2012 2013 | 0% | 2009 | 2013 | 0% |
|  | Net Income Profit Margin |  |  | Loss Ratio |  |

**Page 3**

# Premium Revenues

Enrollment increased modestly to 178.0 million due primarily to a 6.4% (580 thousand) increase in Medi- care, a 1.2% (411 thousand) increase in dental insur- ance, a 1.4% (350 thousand) increase in vision cover- age, a 1.3% (331 thousand) increase in Medicaid, and a 1.0% (234 thousand) increase in Medicare Part D. These items were partially offset by a 4.0% (1.7 mil- lion) decrease in the group comprehensive line of busi- ness.

Medicare Supplement Medicare

Other

Comprehensive FEHBP

Medicaid

1.9%

7.0%

22.8%

43.2%

**Figure 3**

**2013 Direct Health Premium Written**

5.7%

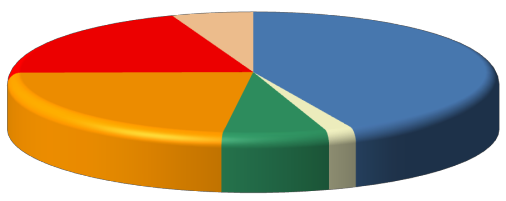
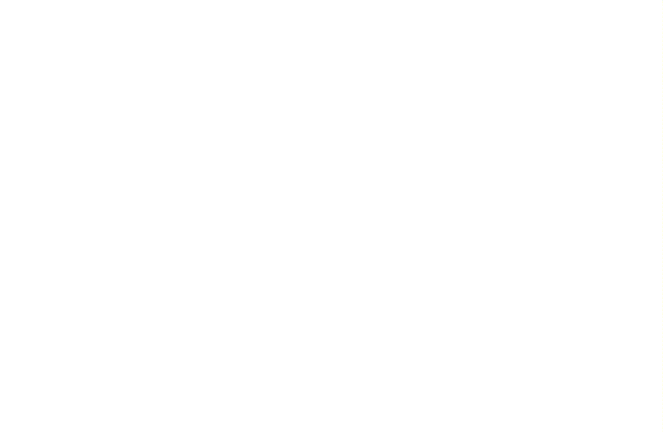
19.5%

Health entities reported premium per member per month (PMPM) of $211 and claims PMPM of $182. Direct written premium increased 2.6% ($11.6 billion) to

$455.2 billion. **Figure 3** illustrates the mix of direct written premium for 2013. During the last several years, there has been a gradual shift in the allocation of premi- um between the lines of business. In comparison to 2012, direct comprehensive medical decreased to 43.2% of total premium from 45.0%, while Medicare increased to 22.8% from 22.6% and Medicaid increased to 19.5% from 17.5%. It appears that the shift in business concen- tration is due to an increase in the number of insureds

becoming eligible for either Medicare and/or Medicaid as evidenced by increases in enrollment in these lines.

**Table 3** below provides a break out of direct written premium by line of business. The largest dollar in- crease in written premium was a 12.7% increase in the Medicaid line of business.



|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Table 3**  ***Direct Written Premium by Lines of Business*** | | | | | | |  |
|  | *(In Millions)* | **Chg.** | **2013** | **2012** | **2011** | **2010** | **2009** |
|  | Individual Comprehensive | 5.0% | $24,558 | $23,389 | $22,624 | $20,690 | $19,372 |
|  | Group Comprehensive | (1.9)% | $171,552 | $174,959 | $175,843 | $174,692 | $176,070 |
|  | Medicare Supplement | 0.2% | $8,456 | $8,439 | $8,138 | $8,077 | $7,825 |
|  | Vision | 5.5% | $1,636 | $1,550 | $1,448 | $1,344 | $1,354 |
|  | Dental | (0.5)% | $10,067 | $10,113 | $9,587 | $9,100 | $8,733 |
|  | FEHBP | 0.9% | $31,962 | $31,669 | $31,209 | $29,378 | $27,784 |
|  | Medicare | 3.6% | $103,565 | $99,981 | $91,519 | $81,101 | $79,180 |
|  | Medicaid | 12.7% | $88,511 | $78,535 | $65,994 | $58,281 | $51,208 |
|  | Other Health | (1.3)% | $14,005 | $14,194 | $11,373 | $10,278 | $10,094 |

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# Accident & Health

**Table 4** below provides the insurance industry’s ag- gregate direct A&H insurance experience for insurers filing the A&H Policy Experience Exhibit on the life and A&H, health, fraternal or property/casualty fi- nancial statements.

28.7%

1.0%

70.2%

**Figure 4**

**% of A&H Premium by Statement Type**

The insurance industry reported a 3.0% ($18.9 bil- lion) increase in direct earned premium to $639.4 billion and a 3.6% ($18.1 billion) increase in incurred claims in 2013. These increases are most evident on the Medicare and Medicaid lines of business which, in total, represents 33.6% of total earned premium.

The number of covered lives decreased 8.6% (62.9 million) to 791.4 million as reflected in a 13.0% (48.0 million) increase on the other A&H line of business.

Health Life P&C Fraternal

0.1%

**Figure 4** above illustrates the percentage of A&H business written by those insurers who file the health annual statement blank and represents over 70% of the total A&H business filed with the NAIC.

**Table 4**

***A&H Policy Experience Exhibit as of December 31, 2013***

*($ In Millions)*

**Line of Business**

**% of Total % Chg.**

**2013**

**Premium Earned**

**2012**

**Premium**

**Earned % Chg.**

**2013**

**Claims**

**2012**

**Claims % Chg.**

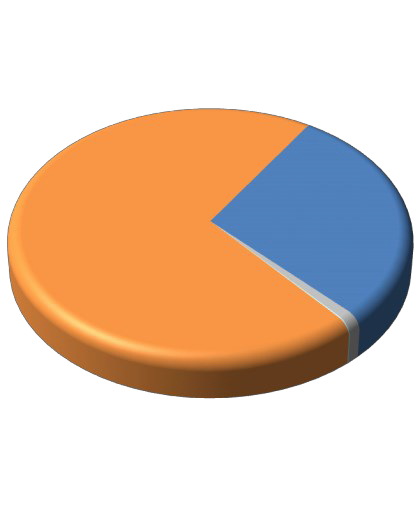
**2013**

**Covered Lives**

**2012**

**Covered Lives**

$26,137 $25,086



6.8%

(2.3)%

10.8%

10.2%

1.9%

2.5%

2.2%

2.2%

1.3%

3.6%

21.1%

(21.7)%

6.3%

4.2%

(1.8)%

9.4%

11.7%

2.2%

5.4%

1.5%

3.1%

(0.5)%

(1.6)%

21.3%

(28.6)%

5.2%

4.1%

33.1%

20.4%

13.2%

5.1%

3.5%

3.5%

3.7%

3.2%

0.9%

1.7%

1.8%

5.9%

Comp - Individual Comp - Group Medicare Medicaid

FEHBP

Disability Income Dental

Medicare Supplement Medicare Part D Other Group Care Stop Loss

Non-U.S. Policy Forms Other Business

**Total A&H Business**

$211,467 $215,446

$130,233 $119,071

$84,657 $75,785

$32,585 $31,895

$22,199 $21,055

$22,235 $21,913

$23,349 $22,646

$20,713 $20,815

$5,957 $6,055

$10,684 $8,805

$11,472 $16,060

$37,671 $35,810

**3.6%**

**3.0%**

**100.0%**

**$639,360 $620,442**

**Note: Includes statement types Life, Fraternal, Health and Property & Casualty**

$22,393 $20,966

$175,284 $179,480

(1.1)%

(2.4)%

8.7%

(6.4)%

0.5%

10.8%

4.7%

2.7%

6.8%

(11.3)%

27.8%

(0.6)%

13.0%

$111,931 $101,059

$73,702 $66,902

$30,380 $29,811

$17,945 $17,504

$16,885 $16,515

$17,989 $17,598

$16,866 $16,645

$4,335 $4,186

$7,845 $6,476

$6,228 $7,953

$24,421 $22,969

**$526,203 $508,064**

9,146,616 9,252,119

51,915,068 53,207,115

12,024,150 11,064,493

21,817,999 23,310,782

7,936,184 7,896,882

70,426,576 63,576,857

61,571,476 58,833,954

11,024,682 10,733,125

19,592,351 18,336,653

27,150,297 30,593,939

42,865,037 33,550,646

40,005,633 40,228,019

415,961,315 367,968,256

**8.6%**

**791,437,384 728,552,840**

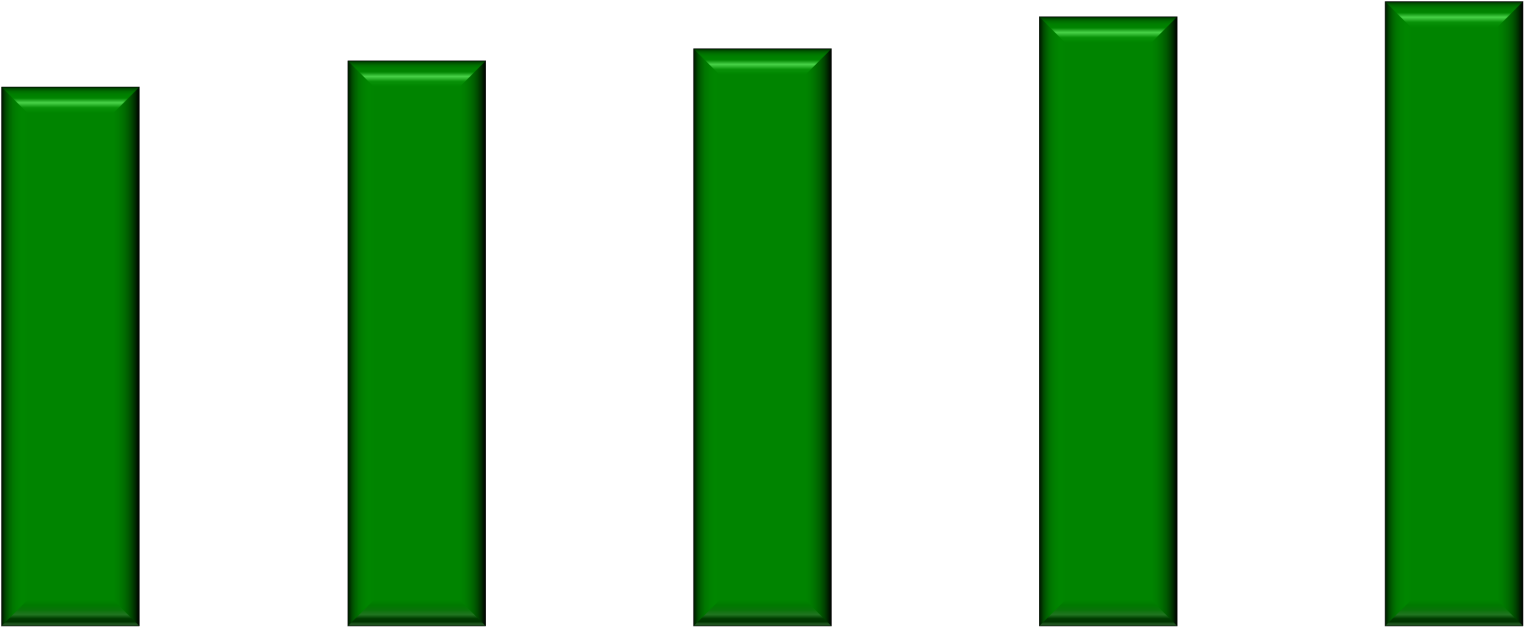
**Page 5**

# Long-term Care

**Figure 5** below illustrates, on a calendar year basis, the insurance industry’s aggregate long-term care ex- perience for insurers filing the Long-term Care Experi- ence Reporting Form on the life and A&H, health, fra- ternal and property and casualty financial statements.

The insurance industry has maintained consistent growth of long-term care insurance as evidenced by increases in the growth of earned premiums as well as the number of covered lives in 2013. Direct earned premium increased 2.5% ($282.0 million) to $11.5 billion. Claims increased modestly by 1.0% ($38.8 million) in 2013, which is a lower increase than premi- um revenues.

As shown in **Table 5** on the next page, the top 10 states accounted for 50.9% of total direct LTC premi- ums led by California with $1.0 billion. Minnesota experienced the most significant increase in premiums in 2013, up 10.8% followed by Virginia with a 5.7% increase. Minnesota also experienced the highest dollar change, up $30.5 million, accounting for 2.8% of total LTC premium revenue in 2013. Texas experienced the next highest dollar change, up $28.4 million and repre- senting 5.8% of LTC premium.



**2013**

**2012**

Claims ($Millions)

Earned Premium ($Millions)

$ 6,000

$ 4,000

$ 2,000

$ 0

**$ 6,912**

**$ 6,658**

**$ 5,963**

**$ 10,445**

**$ 9,965**

*In Millions*

**Figure 5 Long-Term Care**

**Direct Earned LTC Premiums and Claims**

**From LTC Exhibit Form 2C Summary (2009-2013) and Form A- Part 2 (prior years)**

$ 14,000

$ 12,000

**$ 10,673**

**$ 11,260**

**$ 11,542**

$ 10,000

$ 8,000

**$ 7,802**

**$ 7,841**

**2009**

**2010**

**2011**

**Page 6**

**Market**

**Table 5**

**Top 10 Long-term Care by State**

**State**

**Share % Chg $ Chg 2013 2012 2011 2010**

**2009**

1,018,160,880 990,785,246 926,449,412 947,047,485 1,800,827,014

2.8%

-2.1%

2.7%

4.6%

5.4%

3.5%

5.4%

5.7%

3.0%

2.5%

9.1%

7.6%

6.1%

5.8%

4.4%

4.2%

3.7%

3.5%

3.2%

3.1%

CA NY FL TX IL PA NJ VA OH NC

**Total Top 10**

**% of Total**

27,375,634

(18,362,285)

17,696,088

28,410,013

25,300,094

15,725,508

20,951,585

21,257,695

10,576,988

8,505,103

**$157,436,423**

844,386,699 862,748,984 719,041,969 712,861,649 1,346,103,652

683,170,998 665,474,910 663,242,599 684,752,547 1,336,225,918

649,204,346 620,794,333 598,009,568 605,950,855 1,153,834,830

494,696,433 469,396,339 467,017,361 486,718,992 902,708,686

467,340,115 451,614,607 436,270,988 463,197,390 848,670,418

407,742,819 386,791,234 360,380,925 369,350,674 711,113,448

394,914,757 373,657,062 350,419,412 338,879,670 668,821,840

360,151,171 349,574,183 353,893,204 365,728,847 682,470,120

346,078,739 337,573,636 316,288,374 324,123,545 617,420,332

**$5,665,846,957 $5,508,410,534 $5,191,013,812 $5,298,611,654 $10,068,196,258 50.9% 51.2% 50.8% 50.0% 50.7%**

**50.9%**

**Total Written in All States $367,823,792 $11,132,467,238 $10,764,643,446 $10,224,431,843 $10,586,998,240 $19,855,999,624**

**Health Industry Disclosure:** In the health industry is regulated b ment other than the Departmen ance. Therefore, not all health in be required to file financial state the NAIC.

**Contributors**

some states y a Depart- t of Insur- surers may ments with

**NAIC Financial Regulatory Services**

**Disclaimer** The NAIC 2013 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 Dec. 31, 2013, 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.

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