

# 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 entities who file with the NAIC on the health annual statement blank which represents over 70% of the total A&H business 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**

### Health Entities as of December 31, 2013

			Chg.	2013	2012	2011	2010	2009
		<i>(In Millions, Except PMPM)</i>						
		<b>Operations</b>						
Underwriting Results	2	Direct Written Premium	2.6%	\$455,171	\$443,537	\$418,482	\$394,700	\$382,376
Premium Revenues	3	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
Accident and Health	4	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
Long-term Care	5	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
		<b>Capital and Surplus</b>						
		Capital & Surplus	7.5%	\$110,813	\$103,041	\$94,642	\$88,521	\$77,147
		<b>Assets</b>						
		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:** References to Loss Ratio is not related to HHS definition of Medical Loss Ratio.

**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.

## Underwriting Results

**Figure 1** below illustrates the decrease in both net earnings 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 expenses. However, the industry partially offset these items with a 3.1% (\$13.5 billion) increase in net earned premium 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 premium 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 industry reported a marginal increase in the administrative expense ratio to 12.1%.

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

### Net Income & Profit Margin (ROR)

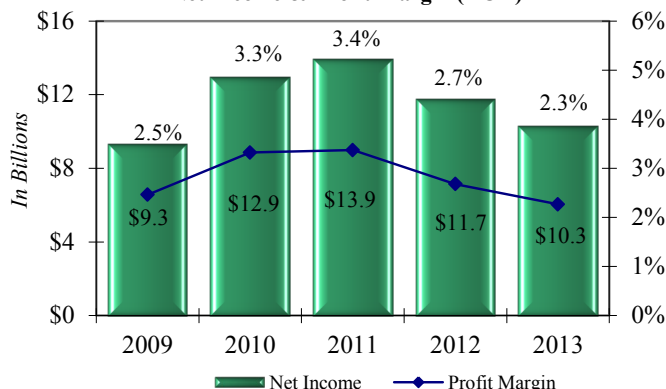
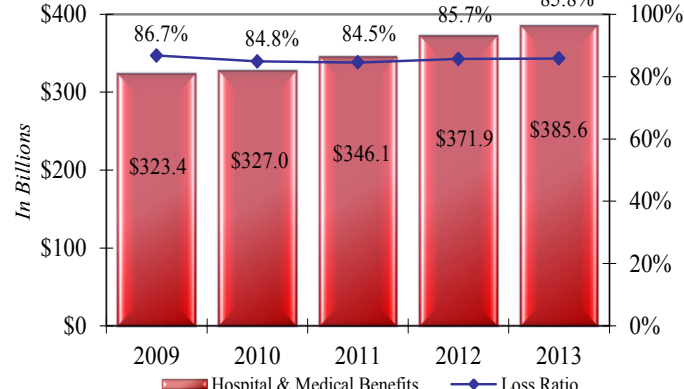


Figure 2

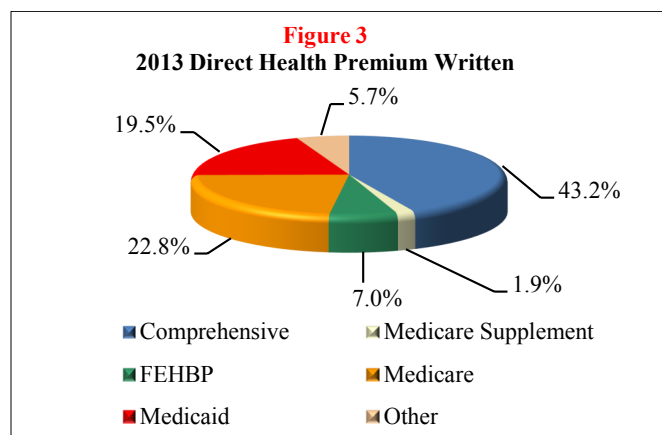
### Total Benefits & Loss Ratio



## Premium Revenues

Enrollment increased modestly to 178.0 million due primarily to a 6.4% (580 thousand) increase in Medicare, a 1.2% (411 thousand) increase in dental insurance, a 1.4% (350 thousand) increase in vision coverage, 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 million) decrease in the group comprehensive line of business.

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 premium 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 concentration 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 increase in written premium was a 12.7% increase in the Medicaid line of business.

**Table 3**

### *Direct Written Premium by Lines of Business*

<i>(In Millions)</i>	<b>Chg.</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
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

## Accident & Health

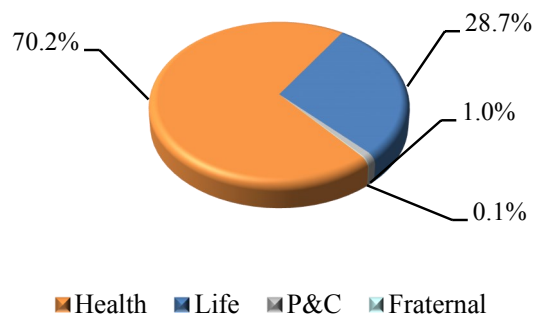
**Table 4** below provides the insurance industry's aggregate direct A&H insurance experience for insurers filing the A&H Policy Experience Exhibit on the life and A&H, health, fraternal or property/casualty financial statements.

The insurance industry reported a 3.0% (\$18.9 billion) 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.

**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.

**Figure 4**  
% of A&H Premium by Statement Type



**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
Comp - Individual		4.1%	4.2%	\$26,137	\$25,086	6.8%	\$22,393	\$20,966	(1.1)%	9,146,616	9,252,119
Comp - Group		33.1%	(1.8)%	\$211,467	\$215,446	(2.3)%	\$175,284	\$179,480	(2.4)%	51,915,068	53,207,115
Medicare		20.4%	9.4%	\$130,233	\$119,071	10.8%	\$111,931	\$101,059	8.7%	12,024,150	11,064,493
Medicaid		13.2%	11.7%	\$84,657	\$75,785	10.2%	\$73,702	\$66,902	(6.4)%	21,817,999	23,310,782
FEHBP		5.1%	2.2%	\$32,585	\$31,895	1.9%	\$30,380	\$29,811	0.5%	7,936,184	7,896,882
Disability Income		3.5%	5.4%	\$22,199	\$21,055	2.5%	\$17,945	\$17,504	10.8%	70,426,576	63,576,857
Dental		3.5%	1.5%	\$22,235	\$21,913	2.2%	\$16,885	\$16,515	4.7%	61,571,476	58,833,954
Medicare Supplement		3.7%	3.1%	\$23,349	\$22,646	2.2%	\$17,989	\$17,598	2.7%	11,024,682	10,733,125
Medicare Part D		3.2%	(0.5)%	\$20,713	\$20,815	1.3%	\$16,866	\$16,645	6.8%	19,592,351	18,336,653
Other Group Care		0.9%	(1.6)%	\$5,957	\$6,055	3.6%	\$4,335	\$4,186	(11.3)%	27,150,297	30,593,939
Stop Loss		1.7%	21.3%	\$10,684	\$8,805	21.1%	\$7,845	\$6,476	27.8%	42,865,037	33,550,646
Non-U.S. Policy Forms		1.8%	(28.6)%	\$11,472	\$16,060	(21.7)%	\$6,228	\$7,953	(0.6)%	40,005,633	40,228,019
Other Business		5.9%	5.2%	\$37,671	\$35,810	6.3%	\$24,421	\$22,969	13.0%	415,961,315	367,968,256
<b>Total A&amp;H Business</b>		<b>100.0%</b>	<b>3.0%</b>	<b>\$639,360</b>	<b>\$620,442</b>	<b>3.6%</b>	<b>\$526,203</b>	<b>\$508,064</b>	<b>8.6%</b>	<b>791,437,384</b>	<b>728,552,840</b>

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

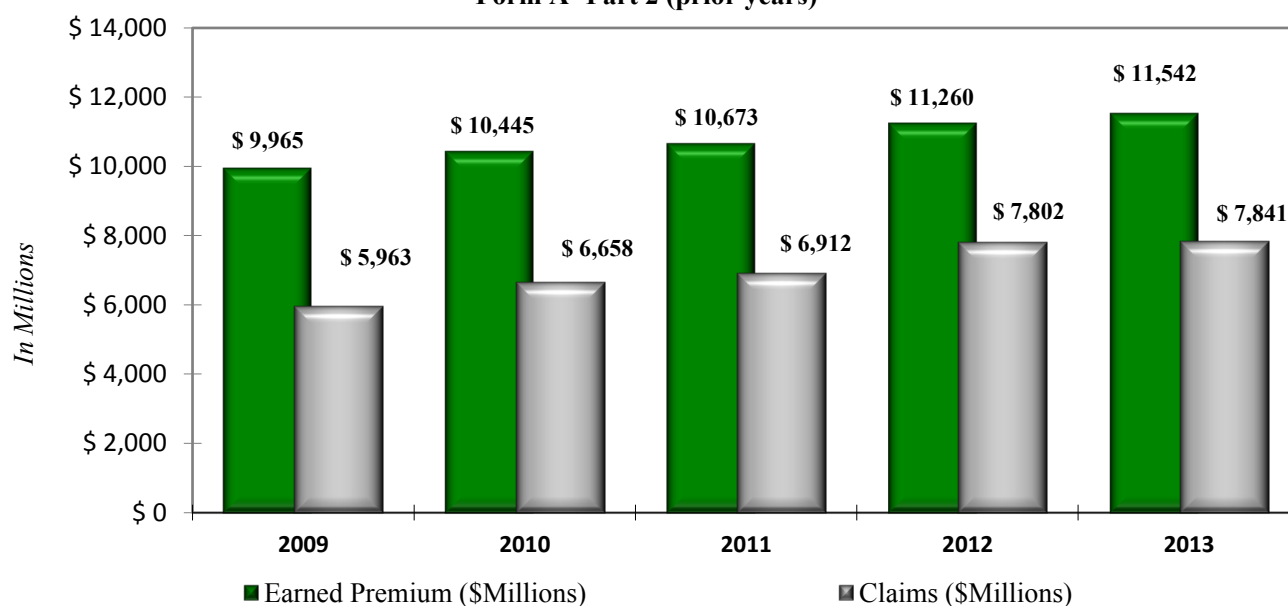
## Long-term Care

**Figure 5** below illustrates, on a calendar year basis, the insurance industry's aggregate long-term care experience for insurers filing the Long-term Care Experience Reporting Form on the life and A&H, health, fraternal 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 premium revenues.

As shown in **Table 5** on the next page, the top 10 states accounted for 50.9% of total direct LTC premiums 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 representing 5.8% of LTC premium.

**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)**



**Table 5**  
**Top 10 Long-term Care by State**

State	Market Share	% Chg	\$ Chg	2013	2012	2011	2010	2009
CA	9.1%	2.8%	27,375,634	1,018,160,880	990,785,246	926,449,412	947,047,485	1,800,827,014
NY	7.6%	-2.1%	(18,362,285)	844,386,699	862,748,984	719,041,969	712,861,649	1,346,103,652
FL	6.1%	2.7%	17,696,088	683,170,998	665,474,910	663,242,599	684,752,547	1,336,225,918
TX	5.8%	4.6%	28,410,013	649,204,346	620,794,333	598,009,568	605,950,855	1,153,834,830
IL	4.4%	5.4%	25,300,094	494,696,433	469,396,339	467,017,361	486,718,992	902,708,686
PA	4.2%	3.5%	15,725,508	467,340,115	451,614,607	436,270,988	463,197,390	848,670,418
NJ	3.7%	5.4%	20,951,585	407,742,819	386,791,234	360,380,925	369,350,674	711,113,448
VA	3.5%	5.7%	21,257,695	394,914,757	373,657,062	350,419,412	338,879,670	668,821,840
OH	3.2%	3.0%	10,576,988	360,151,171	349,574,183	353,893,204	365,728,847	682,470,120
NC	3.1%	2.5%	8,505,103	346,078,739	337,573,636	316,288,374	324,123,545	617,420,332
<b>Total Top 10</b>			<b>\$157,436,423</b>	<b>\$5,665,846,957</b>	<b>\$5,508,410,534</b>	<b>\$5,191,013,812</b>	<b>\$5,298,611,654</b>	<b>\$10,068,196,258</b>
<b>% of Total</b>	<b>50.9%</b>			<b>50.9%</b>	<b>51.2%</b>	<b>50.8%</b>	<b>50.0%</b>	<b>50.7%</b>
<b>Total Written in All States</b>				<b>\$367,823,792</b>	<b>\$11,132,467,238</b>	<b>\$10,764,643,446</b>	<b>\$10,224,431,843</b>	<b>\$10,586,998,240</b>
							<b>\$19,855,999,624</b>	

**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.

#### Contributors

**NAIC Financial Regulatory Services**  
 Dan Daveline, Assistant Director  
 Jane Koenigsman, Life/Health Financial  
 Analysis Manager  
 Bill Rivers, Health Financial Analysis  
 Program Manager

**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.