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2016 individual market losses are in the high single digits—a slight improvement from 2015

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A new McKinsey analysis suggests that overall carrier losses in the individual market¹ were probably smaller in 2016 than in 2015. Losses in the 2016 market appear to have been the equivalent of 7% to 9% of premiums, whereas they were 10.1% of premiums in 2015 (Exhibit 1). Thus, carriers in the 2016 individual market did not experience the kind of steep margin deterioration that occurred between 2014 and 2015. Because enrollment in the 2016 market increased by about 3% and revenues were somewhat higher, absolute losses appear to be slightly lower than they were in 2015.

To investigate financial performance in the individual market, we analyzed the 2016 results reported to date; the carriers that released results cover about 78% of the individual market.² We found that in 2016, a 1% to 2.5% decrease in expenses and fees was the primary cause of the margin improvement. Aggregate premium increases of 9% to 10% outpaced a 2% to 4% increase in claims cost, which led to an overall medical loss ratio (MLR) improvement of 6%. However, this improvement was offset by reinsurance wear-off of approximately 6%. In the aggregate, post-tax losses appear to have amounted to between \$5.5 billion and \$7.5 billion in 2016, compared with \$7.2 billion in 2015.

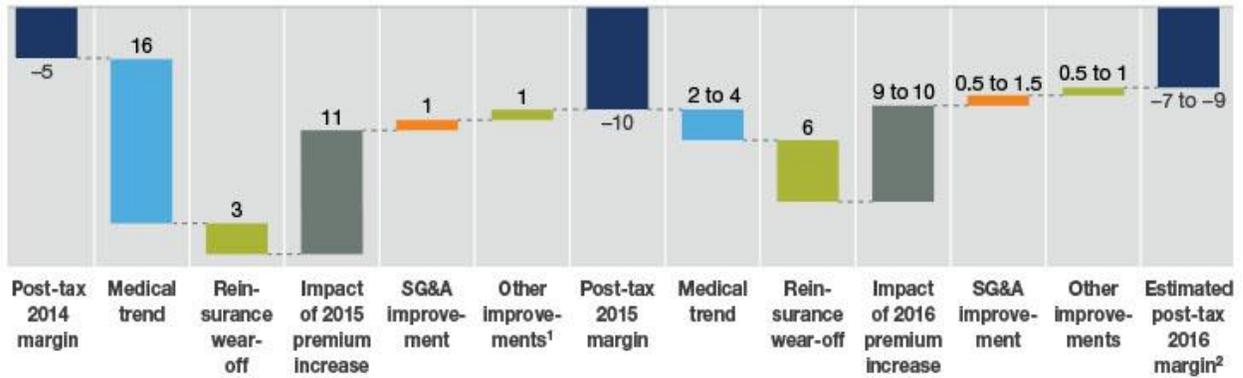
¹ Throughout this post, “individual market” refers to the entire individual market, both on and off the exchanges.

² Estimates are based on publicly available data (published in the NAIC’s SHCE) for individual market business booked through yearend 2016; the estimate of 78% of carriers is weighted by enrollment. More than half of remaining carriers for which data is not yet available are concentrated in California.

Potential impact of individual market reforms

Individual market financial performance, 2014–16

Industry-wide aggregate post-tax margin, %



¹Other improvement includes lower risk corridor, reinsurer fees, and rebates as % of premium.

²Does not include California Department of Managed Health Care entities. Calculated for 78% of the market weighted by 2015 covered lives.

McKinsey&Company | Source: McKinsey Payor Financial Database; data as of May 3, 2017

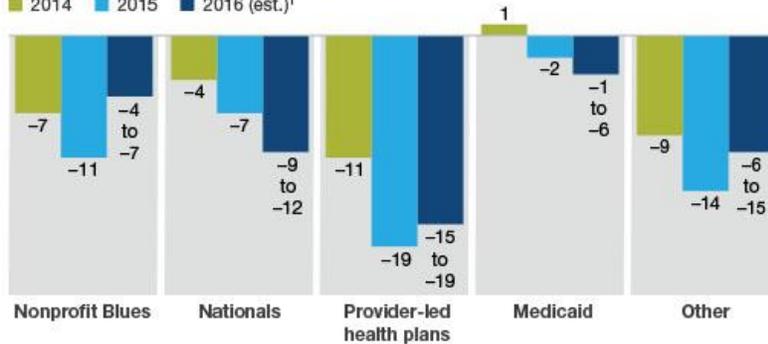
Performance by carrier type

While the overall individual-market margin improved between 2015 and 2016, there was considerable variability in performance across and within carrier types (Exhibit 2).³

Individual market financial performance by carrier type, 2014–16

Post-tax margin, by carrier type,¹ %

■ 2014 ■ 2015 ■ 2016 (est.)¹



¹Does not include California Department of Managed Health Care entities. Calculated for 78% of the market, weighted by 2015 covered lives.

McKinsey&Company | Source: McKinsey Payor Financial Database; data as of May 3, 2017

³ Carrier types were defined as follows:

- Nonprofit Blues: a Blue Cross Blue Shield carrier (e.g., HCSC, Regence)
- National: a carrier with a presence in more than four states (e.g., Aetna, Anthem, UnitedHealthcare, Humana)
- Medicaid: a carrier that also offers Medicaid managed care plans (e.g., Molina, Centene)
- Provider-led: a carrier that also operates as a health system
- Regional/local: a carrier with a presence in four or fewer states (most often, just one state)

Post-tax margins for nonprofit Blues improved from –11% in 2015 to between –4% and –7% in 2016.⁴ In 2014, Blues plans had been market leaders in both price and volume; since then, their premium increases have enabled them to bring revenues closer to claims costs.⁵

Among the national carriers,⁶ post-tax margins deteriorated between 2015 and 2016 (from –7% to between –9% and –12%). This deterioration may have been part of the reason that many of the national carriers retreated from exchange participation in 2017.^{7,8}

Membership in provider-led health plans grew by more than 60% in 2016, but the financial performance of these plans continued to deteriorate (2016 post-tax margins were between –15% and –19%). In at least some cases, these losses may have been offset by revenues gained from care delivery to exchange enrollees. However, these losses may be one explanation for why some provider-led plans have also retreated from exchange participation—15 provider-led exchange carriers left the market in 2017.^{9,10,11}

Medicaid carriers saw enrollment increase by over 200% in 2016, but their margins moved into negative territory. Nevertheless, the Medicaid carriers' 2016 margins (–1% to –6%) appear to have beaten the market average.

Other carriers (most of which are regional players) also saw some deterioration in 2016 financial performance. In addition to regional players, this category also included CO-OPs and other local carriers. It is not yet clear whether this category's performance improved or worsened in 2016. Their post-tax margins were –14% in 2015; our calculations suggest that their 2016 losses could have been as low as –6% or as high as –15%.

⁴ Because 2016 financial results are estimated based on publicly available data for 75% of the individual market, a range is provided. However, 2015 data reflects year-end results for all carriers in the individual market, which allowed us to calculate results more precisely.

⁵ Cited Blues' premium increases are based on publicly reported premiums year-over-year per the NAIC's SHCE.

⁶ All national carriers for which data is reported in a given year are included. If a carrier exited the individual market in a given year, their margins are included in the year prior only, not the year they exited the market.

⁷ Kaiser Health News. UnitedHealthcare to exit all but a 'handful' of Obamacare markets in 2017. April 19, 2016.

⁸ CNN Money. Aetna to pull out of most Obamacare exchanges. August 16, 2016.

⁹ WKYT. Baptist Health Plan announces plan to withdraw from state insurance market. October 3, 2016.

¹⁰ Modern Healthcare. IU health plans leaving Indiana's ACA exchange. September 26, 2016.

¹¹ Oregon Department of Consumer and Business Services. Zoom health plan withdrawing from insurance market. April 6, 2017.



Understanding carrier-level dynamics may be critical to determining long-term market sustainability. As additional 2016 financial data is made publicly available, we plan to refine the above analyses.

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Methodology

We analyzed financial performance in the 2016 individual market at both the industry level and the carrier-type level using these data sources:

2015 post-tax margins were calculated based on data from the MLR reports and other documents released by the Centers for Medicare and Medicaid Services (CMS) using this formula:

Premiums – (claims + 3R¹² adjustments + SG&A expenses + state and federal taxes, licenses, and fees, as well as federal ACA assessments)

To calculate the 2016 post-tax margin, we used the 2016 year-end supplemental health care exhibit (SHCE) from the National Association of Insurance Commissioners (NAIC), which includes information from carriers that cover 78% of those in the individual market (based on 2015 covered lives). This calculation excludes any California carriers filing with the California Department of Managed Health Care, as well as carriers that had not yet submitted 2016 data at the time of NAIC's report. We assumed that these non-reporting carriers' overall performance was similar to that of the carriers that did report in the 2016 NAIC exhibit. The carriers that did report in time had a 2015 post-tax margin of –10.1% (identical to the margin for the total individual market in 2015, which indicated to us that these carriers are fairly representative of the entire market).

To determine 2016 reinsurance wear-off, we compared actual 2015 reinsurance data from the CMS report to the booked reinsurance figures reported by carriers for 2016 in the NAIC's SHCE. To create the overall industry waterfall, we assumed that reinsurance wear-off was 6%, which is slightly below the 6.6% the data seem to indicate. (We assumed that the carriers may have under-booked the reinsurance wear-off in 2016 as they had in 2015.) The carriers that had reported to the NAIC in time for the 2016 exhibits had booked reinsurance wear-off as 10.7% of premium in 2015, but they had ended up receiving 11.3%.

We expect that our 2016 estimates will evolve as more information is released, including final 3R results and rebates, as well as 2016 claims run-out.

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¹² Reinsurance, risk corridors, and risk adjustment.