

U.S. Health Insurance Industry

Health Industry Overview

Table 1 below provides a 5-year quarterly snapshot of the U.S. health insurance industry’s aggregate financial results for health entities who file with the NAIC on the health quarterly statement blank. The health insurance industry reported a considerable increase in underwriting results to \$24 billion from \$15 billion for the same period in the prior year. Net earnings increased to \$22 billion for the first six months of 2020 compared to net income of \$17 billion in the prior year period. The industry’s profit margin increased to 5.3% from 4.5%, while the combined ratio decreased to 94% from 96%. Notable items as compared to second quarter 2019 include the following:

- Net earned premium increased 9% (\$33 billion).
- Administrative expenses decreased 36% (\$15 billion).
- Hospital & medical expenses increased 2% (\$8 billion).
- Enrollment increased 2%.
- Cash flow from operations was \$38 billion.

Capital and surplus increased 5% to \$173 billion from \$164 billion at December 31, 2019.

<u>Inside the Report</u>	<u>Page No.</u>
Net Earnings	2
Underwriting Results	2
Enrollment	2
Premium Revenues.....	3
Liquidity	4
Capital & Surplus	4
Potential Impact of the COVID-19	5
Pandemic on the Health Insurance Industry	

Table 1

Financial Summary: June 30, 2020-2016

<i>(In Millions)</i>	<u>Chg.</u>	<u>2Q 2020</u>	<u>2Q 2019</u>	<u>2Q 2018</u>	<u>2Q 2017</u>	<u>2Q 2016</u>
Direct Written Premium	7.8%	\$409,688	\$379,925	\$358,749	\$336,750	\$317,678
Net Earned Premium	8.7%	\$406,706	\$374,079	\$354,626	\$333,589	\$314,520
Net Investment Income Earned	(13.8)%	\$2,712	\$3,145	\$2,571	\$1,985	\$1,756
Underwriting Gain/Loss	55.6%	\$23,716	\$15,237	\$10,476	\$12,530	\$3,534
Net Income/Loss	27.6%	\$21,542	\$16,876	\$11,411	\$10,217	\$1,274
Total Hospital & Medical Exp.	2.4%	\$326,101	\$318,456	\$295,931	\$283,501	\$268,032
Loss Ratio	(4.6) pts	80.2%	84.7%	83.1%	84.8%	84.9%
Administrative Expenses	35.7%	\$57,559	\$42,431	\$49,877	\$38,166	\$44,358
Administrative Expense Ratio	2.9 pts	14.1%	11.3%	14.0%	11.4%	14.0%
Combined Ratio	(1.8) pts	94.2%	95.9%	97.1%	96.2%	98.9%
Profit Margin	0.8 pts	5.3%	4.5%	3.2%	3.0%	0.4%
Enrollment	2.4%	238	233	225	221	218
Premium PMPM	3.7%	\$283	\$273	\$262	\$250	\$242
Claims PMPM	(1.7)%	\$229	\$233	\$218	\$213	\$206
Cash Flow from Operations	103.8%	\$38,339	\$18,808	\$33,404	\$21,123	(\$880)
	6-mo. Chg.	2Q 2020	2019	2018	2017	2016
Capital & Surplus	5.4%	\$172,623	\$163,783	\$151,793	\$137,686	\$122,392

*All figures only include health entities that file financial statements with the NAIC.

Note: Adjustments to exclude affiliated amounts were made where appropriate.

Net Earnings

Net earnings increased to nearly \$22 billion for the first six months of 2020 from nearly \$17 billion in the prior year period. The increase in net earnings is due primarily to a 56% (\$9 billion) increase in underwriting gains partially offset by a 156% (\$3 billion) increase in federal income taxes incurred. Despite the increase in profitability, the industry reported a 14% decrease in net investment income earned to just under \$3 billion through the first six months of 2020 from just over \$3 billion in the prior year period. **Figure 1** below illustrates the significant increase in profitability and profit margin for the first six months of 2020.

Underwriting Results

As indicated on **Table 1**, the significant increase in the industry’s underwriting results can be attributed primarily to a 9% (\$33 billion) increase in net earned premium to \$407 billion.

The industry partially offset these items with:

- A 36% (\$15 billion) increase in claims adjustment and administrative expenses to \$57 billion from

\$42 billion in the prior year period, resulting in a 2.9 percentage point increase in the expense ratio to 14% from 11%; and,

- a 2% (\$8 billion) increase in total hospital and medical expenses to \$326 billion from \$318 billion, resulting in a 4.6 percentage point decrease in the loss ratio to 80% from 85%.

Figure 2 illustrates a modest increase in total hospital and medical benefits for the first six months of 2020 as compared to the prior year periods. While the loss ratio has fluctuated modestly over the last five years, historically, the industry has reported significant year-over-year increases in hospital and medical benefits.

Figure 3 illustrates the comparison in claims adjustment and administrative expenses through the second quarter of both 2020 and the four prior years.

Enrollment

As shown in **Figure 4**, the industry has experienced an incremental increase in total enrollment of 9% (20 million) over the last five years.

Figure 1
Net Income & Profit Margin (ROR)

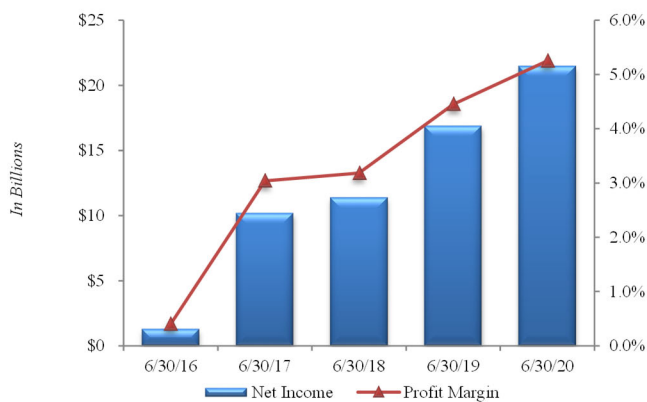


Figure 3
Admin Expenses & Admin Expense Ratio

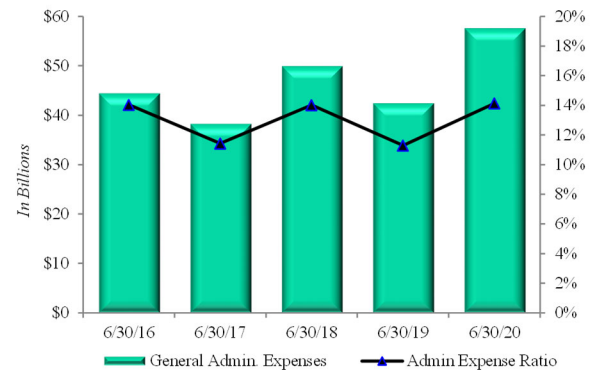


Figure 2
Total Hospital & Medical + Loss Ratio

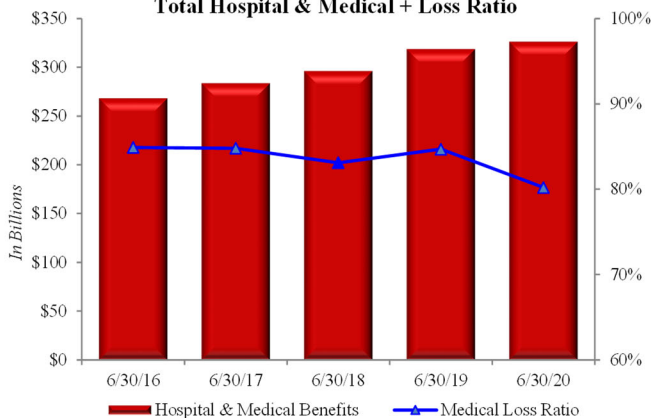
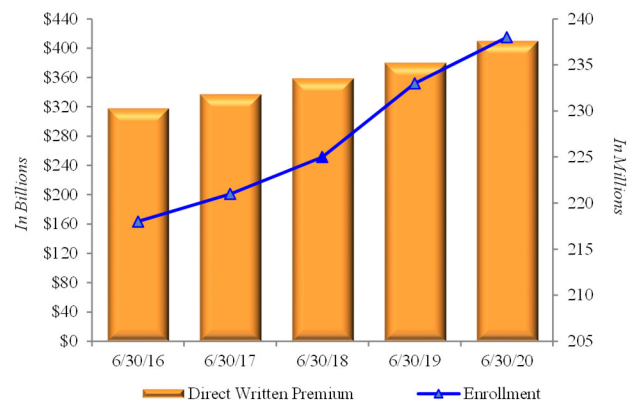


Figure 4
Enrollment & Direct Written Premium



The increase is due primarily to:

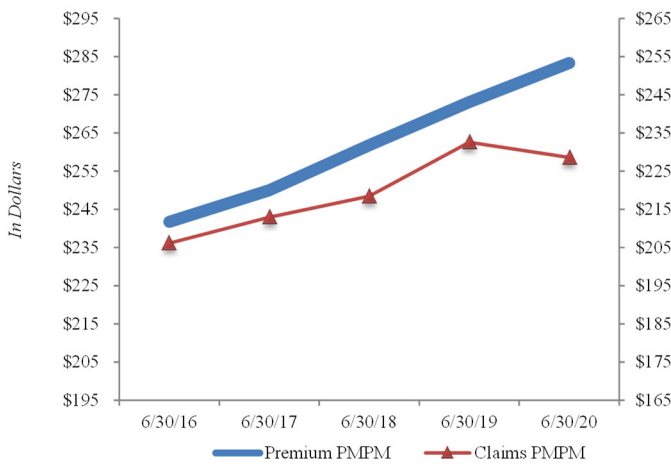
- a 21% (8 million) increase in Medicaid,
- a 20% (6 million) increase in vision coverage,
- a 19% (6 million) increase in policies that provide Medicare Part D drug coverage,
- a 34% (5 million) increase in Medicare, and
- a 17% (1 million) increase in Federal Employee Health Benefit Plans.

However, these items were partially offset by:

- a 13% (4 million) decrease in the group comprehensive line of business, and
- a 25% (4 million) decrease in the individual comprehensive line of business from the first six months of 2016.

As depicted in **Figure 5**, health entities' premium per member per month (PMPM) increased 17% to \$283 from \$242 for the first six months of 2016, while claims PMPM increased 11% to \$229 from \$206.

Figure 5
Premium PMPM vs Claims PMPM



Premium Revenues

Figure 4 also illustrates the growth in direct written premium. The increase is primarily on the Medicare, and Medicaid lines of business.

Figure 6 illustrates the mix of direct written premium for the first six months of 2020. As insureds have become eligible for either Medicare and/or Medicaid as evidenced by increases in enrollment in these lines, there has been a gradual shift in the allocation of premium between the lines of business over the last five years. In comparison to the first half of 2019, direct comprehensive medical decreased to 36% from 39% of total written premium, while Medicare increased to 31% from 29%, Medicaid increased to 28% from 27%, and FEHBP decreased modestly to just below 5% from just over 5%.

Table 2 below provides a break out of direct written premium by line of business. The largest dollar increases in written premium from the first six months of 2019 was a 15% (\$16.7 billion) increase in Medicare, and a 16% (\$16 billion) increase in Medicaid.

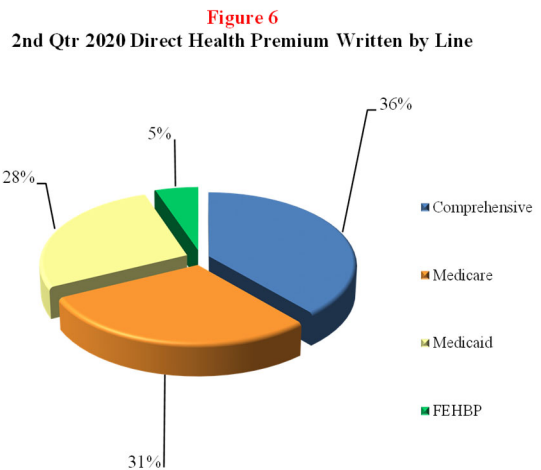


Table 2

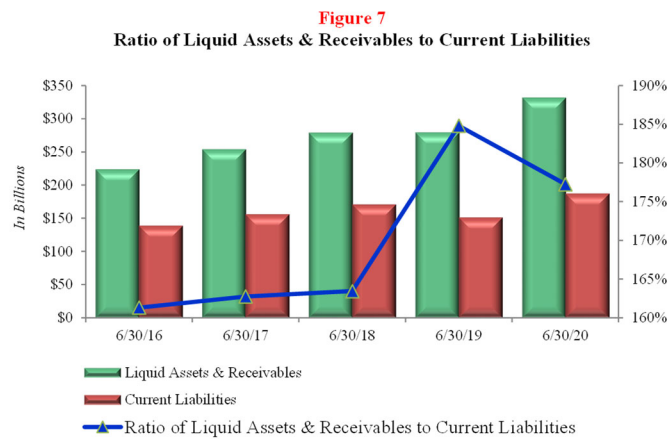
Direct Written Premium by Lines of Business

(In Millions)	Chg.	\$ Chg.	2Q 2020	2Q 2019	2Q 2018	2Q 2017	2Q 2016
Individual Comprehensive	(1.4)%	(\$557)	\$38,978	\$39,535	\$39,262	\$35,523	\$33,181
Group Comprehensive	(0.5)%	(\$460)	\$83,226	\$83,686	\$82,854	\$81,379	\$80,789
Medicare Supplement	5.9%	\$340	\$6,122	\$5,782	\$5,451	\$5,358	\$5,051
Vision	(0.2)%	(\$)	\$5	\$5	\$1,311	\$1,220	\$1,207
Dental	(4.1)%	(\$288)	\$6,719	\$7,008	\$6,955	\$6,443	\$6,563
FEHBP	0.9%	\$187	\$20,059	\$19,872	\$19,617	\$18,886	\$18,010
Medicare	15.2%	\$16,720	\$126,752	\$110,031	\$96,558	\$86,832	\$80,355
Medicaid	15.7%	\$16,108	\$118,435	\$102,326	\$95,724	\$91,438	\$82,703
Other Health	5.6%	\$578	\$10,861	\$10,283	\$9,516	\$9,216	\$9,434

Liquidity

The health insurance industry reported a significant jump in operating cash flow to \$38 billion in the first half of 2020 as compared to operating cash flow of \$19 billion in the first half of 2019. The considerable increase in positive cash flow is due primarily to an 8% (\$31 billion) increase in premiums collected partially offset by a 3% (\$10 billion) increase in benefits and loss-related payments.

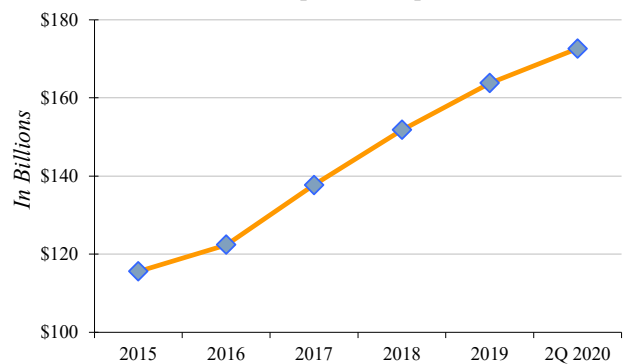
As illustrated in **Figure 7**, liquid assets and receivables increased 19% (\$53 billion) to \$332 billion in the first six months of 2020 as compared to the prior year period while current liabilities increased 24% (\$36 billion). This resulted in an unfavorable decrease in the ratio of liquid assets and receivables to current liabilities to 177% from nearly 185%.



Capital and Surplus

Health entities reported a 5% (\$9 billion) increase in capital and surplus to \$173 billion from \$164 billion at Dec. 31, 2019 as illustrated in **Figure 8**. The increase is due primarily to net income of \$22 billion and paid-in surplus of \$2 billion. These items were partially offset by dividends of \$3 billion paid to stockholders, a \$2 billion increase in non-admitted assets, and a \$1 billion decrease in net deferred income tax asset during the first six months of 2020.

Figure 8
Capital & Surplus



Potential Impact of the COVID-19 Pandemic on the Health Insurance Industry

The COVID-19 pandemic could have potential prospective impacts on health insurers by significantly increasing COVID-19 related claims volume, loss costs (i.e., hospitalizations), which could lead to future liquidity demands, and reduced overall surplus of U.S. health insurers. It is important to note however, that offsetting factors may reduce the overall financial impact to insurers, such as reduced costs related to cancelled or delayed non-emergency medical benefits. As noted above, aggregate results showed only a 2% increase in benefits, reflecting the impact of these offsetting factors.

The results of COVID-19 cases and deaths indicate that those most susceptible to the virus include the elderly population, those with auto-immune issues, as well as those with other pre-existing health conditions. In addition, results show a trend of long hospitalizations for those with serious cases, which can result in larger medical claims. As a result, there is the potential that Medicare/Medicare Advantage writers as well as comprehensive writers serving older and higher risk populations could be adversely affected. The uncertainty regarding the timeline to contain COVID-19 could result in increased costs to potentially continue into the Fall and Winter.

The following table indicates the states of greater transmission of the COVID-19 virus by number of cases in heavily populated “hotspots” reported by U.S. states, the District of Columbia, and other U.S.-affiliated jurisdictions as of October 15, 2020 (cdc.gov). This could potentially adversely affect insurers with a high concentration of insurance coverage in those areas. **Table 3** below includes direct written premium through the second quarter in "High Case Count" states defined as states with more than 100,000 reported Covid19 cases as of 10/15/20. Total cases and total deaths are per the cdc.gov.

Table 3 - "High Case Count" States Exposure by Direct Written Premium as of October 15, 2020

State	Comprehensive Medical	Medicare	Medicaid	Total Cases	Total Deaths
500,001 or more cases					
California	1,448,874,576	2,209,476,018	708,080,163	864,455	16,899
Texas	10,609,744,027	12,481,509,547	11,850,732,600	820,563	16,984
Florida	13,026,469,223	13,960,735,449	8,026,352,728	743,018	15,917
250,001 to 500,000 cases					
New York	11,264,097,182	8,744,588,305	4,510,016,424	498,339	33,111
Illinois	8,412,949,441	4,296,165,346	5,749,952,978	343,390	9,452
Georgia	4,325,837,512	3,135,463,400	2,234,119,893	339,384	7,607
100,001 to 250,000 cases					
North Carolina	4,118,207,766	4,530,387,317	0	243,725	3,929
Arizona	1,597,293,884	2,772,624,862	80,898,239	230,407	5,824
Tennessee	2,268,141,242	3,887,985,030	3,258,382,268	226,139	2,903
New Jersey	4,671,848,898	2,435,550,873	5,196,750,508	218,738	16,204
Pennsylvania	6,980,526,013	7,523,736,548	12,715,007,671	180,943	8,466
Ohio	4,432,852,754	5,911,508,338	9,590,631,880	180,225	5,067
Louisiana	1,986,340,225	2,326,551,648	4,563,196,515	177,726	5,727
Wisconsin	3,738,949,159	2,962,002,725	1,109,772,893	175,227	1,588
Alabama	2,587,030,241	3,077,197,711	12,798,000	171,662	2,788
Virginia	3,530,551,329	2,241,415,862	4,343,619,082	166,138	3,433
South Carolina	1,988,410,833	1,247,845,563	1,585,749,356	163,214	3,637

Table 3 (Cont.) - "High Case Count" States Exposure by Direct Written Premium as of October 15, 2020

State	Comprehensive Medical	Medicare	Medicaid	Total Cases	Total Deaths
100,001 to 250,000 cases (cont.)					
Michigan	6,515,787,481	5,432,812,081	3,223,488,948	159,119	7,317
Missouri	2,096,918,265	2,976,296,382	1,043,741,759	156,696	2,582
Massachusetts	6,698,574,378	1,564,373,837	2,335,856,080	149,799	9,711
Indiana	1,822,816,803	2,034,428,148	3,199,363,999	145,977	3,918
Maryland	2,550,297,010	909,975,605	1,436,791,197	135,657	4,037
Minnesota	3,262,559,217	2,187,461,092	3,514,834,067	121,090	2,217
Oklahoma	1,892,921,804	1,142,692,712	0	111,624	1,161
Mississippi	1,087,083,219	845,286,416	1,211,241,634	110,240	3,171
Iowa	1,885,983,008	902,462,911	2,705,925,368	106,263	1,527

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Disclaimer The NAIC 2020 Mid-Year 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 June 30, 2020, 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.

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.