

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 significant increase in underwriting results to \$15 billion from \$10 billion for the same period in the prior year. Net earnings increased to \$17 billion for the first six months of 2019 compared to net income of \$11 million in the prior year period. The industry’s profit margin increased to 4.5%, while the combined ratio decreased to 96% from 97%. Notable items as compared to second quarter 2018 include the following:

- Net earned premium increased 5% (\$19 billion).
- Administrative expenses decreased 15% (\$8 billion).
- Hospital & medical expenses increased 8% (\$22 billion).
- Enrollment increased 3%.
- Cash flow from operations was \$19 billion.
- Capital and surplus increased 3% to \$157 billion.

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Table 1

Financial Summary: June 30, 2019-2015

<i>(In Millions)</i>	Chg.	2Q 2019	2Q 2018	2Q 2017	2Q 2016	2Q 2015
Direct Written Premium	5.8%	\$379,589	\$358,749	\$336,750	\$317,678	\$295,610
Net Earned Premium	5.4%	\$373,723	\$354,626	\$333,589	\$314,520	\$292,849
Net Investment Income Earned	22.2%	\$3,143	\$2,571	\$1,985	\$1,756	\$1,664
Underwriting Gain/Loss	45.5%	\$15,246	\$10,476	\$12,530	\$3,534	\$3,048
Net Income/Loss	47.9%	\$16,882	\$11,411	\$10,217	\$1,274	\$1,274
Total Hospital & Medical Exp.	7.5%	\$318,168	\$295,931	\$283,501	\$268,032	\$248,722
Loss Ratio	1.6 pts	84.7%	83.1%	84.8%	84.9%	84.4%
Administrative Expenses	(15.1)%	\$42,364	\$49,877	\$38,166	\$44,358	\$42,746
Administrative Expense Ratio	(2.7) pts	11.3%	14.0%	11.4%	14.0%	14.5%
Combined Ratio	(1.2) pts	95.9%	97.1%	96.2%	98.9%	99.0%
Profit Margin	1.3 pts	4.5%	3.2%	3.0%	0.4%	0.4%
Enrollment	3.4%	233	225	221	218	213
Premium PMPM	4.3%	\$273	\$262	\$250	\$242	\$231
Claims PMPM	6.4%	\$232	\$218	\$213	\$206	\$196
Cash Flow from Operations	(43.6)%	\$18,839	\$33,404	\$21,123	(\$880)	(\$2,238)
# of Companies Filed	16	1,015	999	981	962	957
	6-mo. Chg.					
Capital & Surplus	3.4%	\$156,778	\$151,600	\$137,682	\$122,393	\$115,561

*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 \$17 billion for the first six months of 2019 from \$11 billion in the prior year period. The increase in net earnings is due primarily to a 46% (\$5 billion) increase in underwriting gains, and an 18% (\$574 million) increase in net investment gains partially offset by a 6% (\$115 million) decrease in federal income taxes incurred. In addition to the increase in profitability, the industry reported a 22% increase in net investment income earned to over \$3 billion through the first six months of 2019 from just under \$3 billion in the prior year period. **Figure 1** below illustrates the significant increase in profitability for the first six months of 2019.

Underwriting Results

As indicated on **Table 1**, the significant increase in the industry’s underwriting results can be attributed primarily to:

- A 5% (\$19 billion) increase in net earned premium to \$374 billion, and
- a 15% (\$8 billion) decrease in claims adjustment and administrative expenses to \$42 billion from

\$50 billion in the prior year period,

- Resulting in a 2.7 percentage point decrease in the expense ratio to 11% from 14%.

The Industry partially offset these items with:

- An 8% (\$22 billion) increase in total hospital and medical expenses to \$318 billion from \$296 billion,
- Resulting in a 1.6 percentage point increase in the loss ratio to 84.7% from 83.1%.

Figure 2 illustrates the increase in total hospital and medical benefits for the first six months of 2019 as compared to the prior year period. While the loss ratio has fluctuated modestly over the last five years, historically, from year to year, the industry has reported significant increases in hospital and medical benefits.

Figure 3 illustrates the comparison in claims adjustment and administrative expenses through the second quarter of both 2019 and 2015.

Enrollment

As shown in **Figure 4**, the industry has experienced an incremental increase in total enrollment of 9% (20 mil-

Figure 1
Net Income & Profit Margin (ROR)

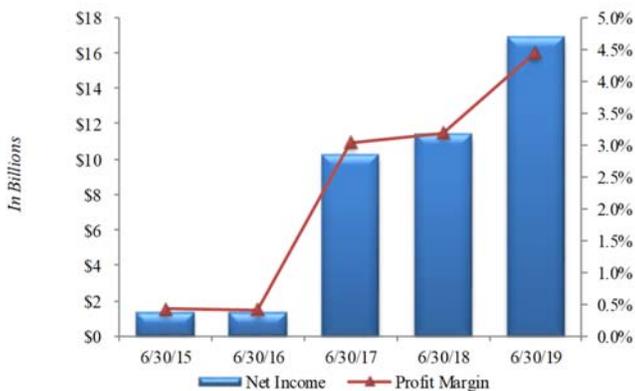


Figure 3
Admin Expenses & Admin Expense Ratio

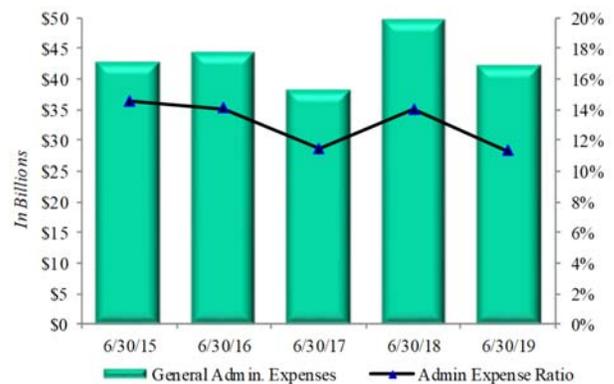


Figure 2
Total Hospital & Medical + Loss Ratio

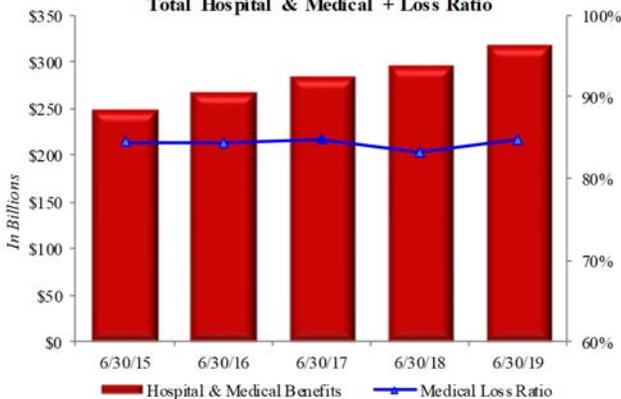
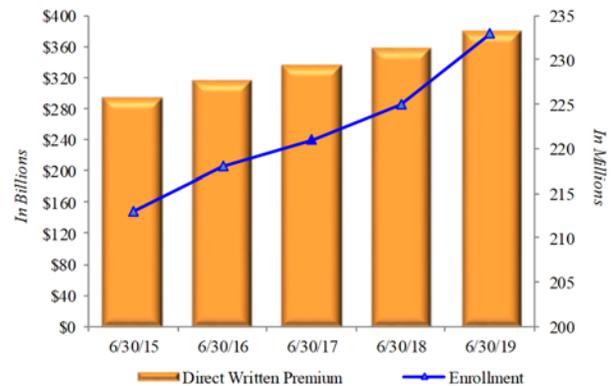


Figure 4
Enrollment & Direct Written Premium



lion) over the last five years. The increase is due primarily to:

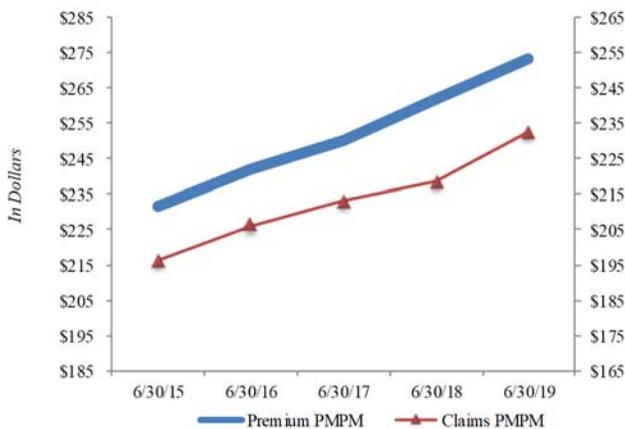
- A 33% (19 million) increase in policies that provide Medicare Part D Drug coverage,
- A 19% (7 million) increase in Medicaid,
- A 16% (5 million) increase in vision coverage,
- A 31% (4 million) increase in Medicare, and
- A 22% (2 million) increase in Federal Employee Health Benefit Plans.

However, these items were partially offset by:

- A 25% (4 million) decrease in the individual comprehensive line of business, and
- An 11% (4 million) decrease in the group comprehensive line of business from the first six months of 2015.

As depicted in **Figure 5**, health entities' premium per member per month (PMPM) increased 18% to \$273 from \$231 for the first six months of 2015, while claims PMPM increased 18% to \$233 from \$196.

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, Medicaid, and comprehensive medical lines of business.

Figure 6 illustrates the mix of direct written premium for the first six months of 2019. 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 2018, direct comprehensive medical decreased to 39% from 41% of total written premium, while Medicare increased to 29% from 27%, Medicaid increased to 27% from 26% and FEHBP decreased modestly to 5.2% from 5.5%.

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 2018 was a \$13 billion (14%) increase in Medicare, and a \$6 billion (7%) increase in Medicaid.

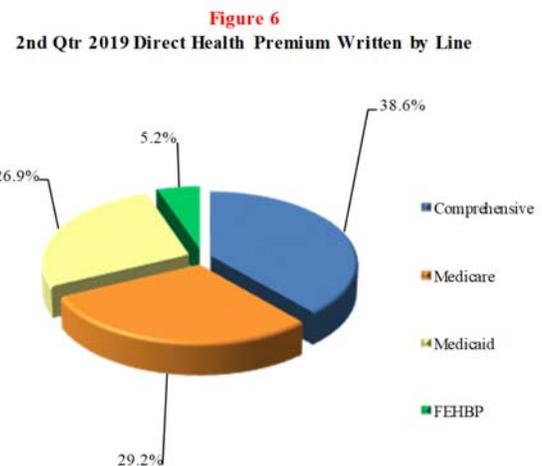


Table 2

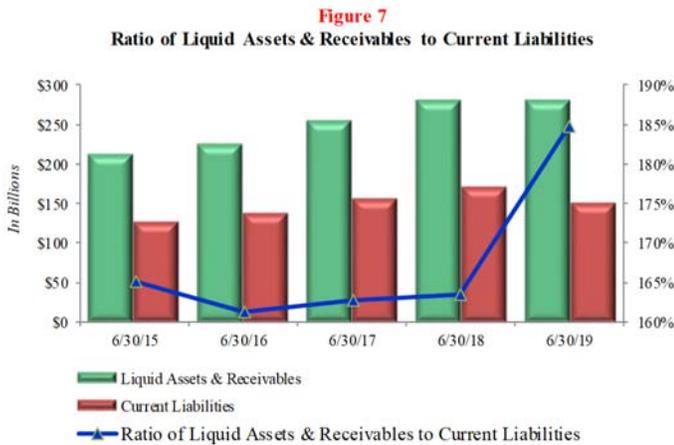
Direct Written Premium by Lines of Business

(In Millions)	Chg.	\$ Chg.	2Q 2019	2Q 2018	2Q 2017	2Q 2016	2Q 2015
Individual Comprehensive	0.3%	\$128	\$39,390	\$39,262	\$35,523	\$33,181	\$29,544
Group Comprehensive	1.0%	\$804	\$83,659	\$82,854	\$81,379	\$80,789	\$81,559
Medicare Supplement	6.1%	\$332	\$5,782	\$5,451	\$5,358	\$5,051	\$4,844
Vision	10.0%	\$	\$5	\$5	\$1,220	\$1,207	\$1,070
Dental	0.8%	\$53	\$7,008	\$6,955	\$6,443	\$6,563	\$6,483
FEHBP	1.3%	\$255	\$19,872	\$19,617	\$18,886	\$18,010	\$17,424
Medicare	13.9%	\$13,435	\$109,993	\$96,558	\$86,832	\$80,355	\$73,322
Medicaid	6.8%	\$6,480	\$102,204	\$95,724	\$91,438	\$82,703	\$73,060
Other Health	8.0%	\$765	\$10,281	\$9,516	\$9,216	\$9,434	\$8,972

Liquidity

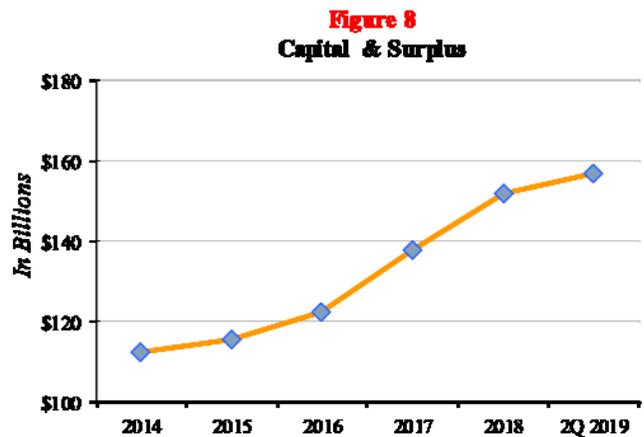
The health insurance industry showed a significant drop in operating cash flow to \$19 billion in the first half of 2019 as compared to operating cash flow of \$33 billion in the first half of 2018. The considerable decrease in positive cash flow is due primarily to an 8% (\$22 billion) increase in benefits and loss-related payments partially offset by a 2% (\$8 billion) increase in premiums collected.

As illustrated in **Figure 7**, liquid assets and receivables remained mostly unchanged at \$279 billion in the first six months of 2019 as compared to the prior year period while current liabilities decreased 12% (\$20 billion). This resulted in a favorable increase in the ratio of liquid assets and receivables to current liabilities to nearly 185% from just over 163%.



Capital and Surplus

Health entities reported a 3% (\$5 billion) increase in capital and surplus to \$157 billion from \$152 billion at Dec. 31, 2018 as illustrated in **Figure 8**. The increase is due primarily to net income of \$17 billion and paid-in surplus of \$557 million. These items were partially offset by dividends of \$4 billion paid to stockholders, a \$4 billion unrealized capital loss, a \$1 billion decrease in net deferred income tax asset, and a \$1 billion increase in non-admitted assets during the first six months of 2019..



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Disclaimer The NAIC 2019 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, 2019, 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.