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HEALTH ACTUARIES & CONSULTANTS

Large Group Update

November 16, 2017

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Overview

- Large Group Market Update
  - Move to Self-Insured
  - Dependent Coverage
  - Pharmacy Carve-Out
  - Impact of Recent Executive Orders
  - Pricing and Profit Considerations
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  - Importance of Risk Rating
  - Limitations of Rating Manuals
  - Rating Manual Adjustments
- Profit Considerations
  - Target Margins
  - Negotiation Tracking
- Questions and Answers

Large Group Market Update

- Move to Self-Insured
  - 60% of large Groups are self-insured, but growth in number of self-insured large groups has leveled-off (was 59% in 2010)
  - Fully-insured business is four to five times more profitable than self-insured business
  - Most health insurers are trying to hold onto large group fully-insured business since it is approximately four to five times more profitable than ASO on a per-member basis
- Dependent Coverage
  - ACA only mandates coverage for employees and child dependents up to age 26
  - Employers exclude or penalize spouses who have other available coverage
  - Not yet a big impact according to the Kaiser Family Foundation:
    - Close to 100% of large groups offer coverage to spouses and other dependents
    - The percent premiums paid by employee contributions has increased slightly more for family coverage (+2% for single, +3% for family)

Large Group Market Update

- Pharmacy Carve-Out
  - Groups obtain their RX coverage directly from a PBM instead of through an insurer
  - Carve-outs lead to better RX pricing and a larger amount of RX Rebate pass-throughs
  - Carve-ins lead to lower medical costs due to better care coordination
  - Percent of groups using pharmacy carve-outs is fairly flat according to recent surveys from the Pharmacy Benefit Management Institute (the vast majority of groups surveyed were large groups):
    - 2013: 46%
    - 2014: 49%
    - 2015: 45%

Large Group Market Update

- Impact of Recent Executive Orders
  - Elimination of CSR Subsidy Payments to Insurers
    - No direct impact on large groups
    - There is concern that insurers suffering losses in Individual ACA markets could cost-shift from Individual to Group business
  - Expansion of HRAs
    - EO directs the Departments of Treasury, Labor, and HHS to study ways to expand access to HRAs and the ability of employers to offer them to employees
    - The ACA bars employers with 50 or more employees from using HRAs to reimburse employees for purchasing health insurance on their own.
    - The ACA also sets limits on how smaller groups can use HRAs
    - No immediate impact to groups since rule-making takes time

Large Group Market Update

- Impact of Recent Executive Orders
  - Association Health Plans
    - EO directs regulators to expand rules for association health plans (i.e., AHPs) to allow more employers to band together to purchase health care plans
    - Potentially could allow self-employed individuals and smaller groups to join AHPs that function like large self-insured groups.
    - AHPs would be able to avoid state and ACA coverage mandates, premium taxes, risk charges, and purchase insurance across state lines.
    - Potentially, AHPs could contract directly with providers and TPAs, and avoid insurers altogether
    - Detractors think that AHPs would either be useless or cause increased instability in Individual ACA markets

Large Group Market Update

- Pricing and Profitability Considerations
  - Many insurers are increasing their focus on large group to help drive their overall profitability
  - Some insurers have treated large group pricing as principally an underwriting function
  - Recently some insurers have expanded the role of actuaries in their large group pricing functions with the goal of developing more accurate rates to improve profitability
  - The rest of this presentation will focus on large group pricing and profit considerations

Pricing Considerations

- Importance of Risk Rating
  - Large group health insurance pricing is on a spectrum: at one end is community rating and at the other is risk rating
  - Community rating is typically not a regulatory requirement in large group markets
  - Insurers that "community rate" to a larger degree than their competitors will, on the margins, write a larger number of higher risk groups at low or negative profit margins
    - The Insurer's rates for better than average risks will tend to be higher than competitors
    - Insurer's rates for worse than average risks will tend be lower than competitors and possibly insufficient to deliver a profit on average
  - Risk rating improvement is an ongoing process that requires:
    - The development and testing many different rating factors and rating adjustments
    - Consistent refinement of insurer's approach over time to keep improving results
    - Appropriate investment in talent, tools, and information to aid improvement
    - Learning from competitors

Pricing Considerations

- Limitations of Rating Manuals
  - Rating manuals necessarily tend toward the community rating side of the rating spectrum
  - Rating manuals typically reflect the insurer's data only, and rates generated might miss the mark for a specific group, especially new business
  - Manual rates, especially for new business quotes, need to be adjusted to more accurately reflect the true cost of the group
- Rating Manual Adjustments
  - Uniform/global discounts based on feedback from sales
  - Underwriting metrics
  - Consumer information
  - Health information to develop risk adjustment factors
  - Market modeling

Profit Considerations

- Target Margins
  - In theory, each group's rates should have the same level of expected profit (usually % of premium)
  - Target margins should be developed using insurer's claims and financial information
  - One approach: target margin based on two types of margins, risk and contribution to surplus/RBC
  - Risk margins based on percentile ranks of simulations of line of business expected average claims cost over pricing period.
  - Contribution to surplus/RBC developed using prudent man investment hurdle rate, expected return on company investments, and expected premium

Profit Considerations

- Negotiation Tracking
  - In reality, many groups negotiate rates lower than calculated rates
  - Since target margins are baked into calculated rates, rate discounts impact the insurer’s profitability
  - Insurers should develop a negotiation budget (i.e., the maximum amount of expected profit they are willing to negotiation away) and negotiation tracking tool to ensure discount/profit strategy adherence

Questions and Answers