

Individual Major Medical

Changing Landscape—A Coming Tsunami?

Southeastern Actuaries Conference

Spring Meeting
June 15, 2006

Concurrent Session: Health Insurance

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Landscape THE PLAYERS

Then (1970s)

- Blues
- Prudential
- State Farm
- Allstate
- Nationwide
- Bankers (Principal)
- Mutual of Omaha
- Time (Fortis)
- Golden Rule
- Pacific Care
- Trustmark
- Washington National

Now (2000s)

- Blues (Some Consolidation)
- MEGA (UICI)
- Humana
- United Health Group
- Aetna
- Celtic
- Assurant (Fortis)



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Transition

•MEGA

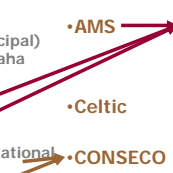
•AMS

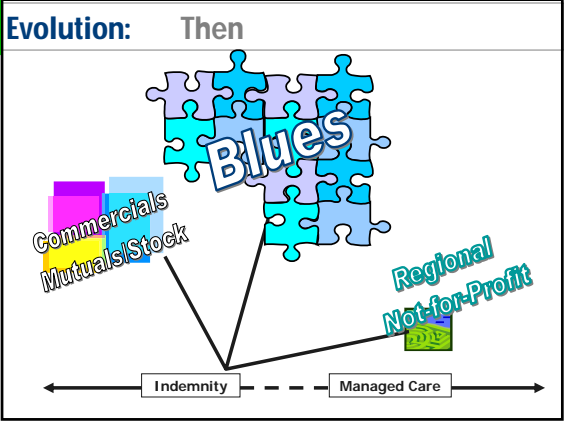
•Celtic

•CONSECO

Now (2000s)

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- Characteristics Then**
- Strategic Positioning
 - Accommodation/Ancillary Line
 - Niche
 - Complementary
 - Market Pricing
 - LOCAL (Carrier or Agent)
 - Brokerage Driven Churning
- ➔ Infancy:
- Durational Pricing
 - Closed Block Problem
 - Death Spiral

- Strategic Positioning Then**
- Accommodation/Ancillary Line
 - Blues, Prudential, etc.
 - Coat-tail
 - Mutual or Not-for-Profit

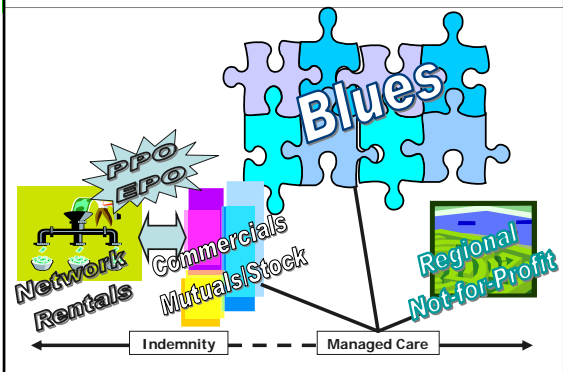
Strategic Positioning Then

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 - Blues, Prudential, etc.
 - Coat-tail
 - Mutual or Not-for-Profit
- Niche
 - Bankers(Principal), Mutual of Omaha, Time Ins (Assurant), Golden Rule, etc..
 - Opportunists—Classic Business
 - Stock

Strategic Positioning Then

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 - Opportunists—Classic Business
 - Stock
- Complementary
 - State Farm, Nationwide, All State
 - Personal Lines’ Focus
 - Mutual

Evolution: Transition



Characteristics **Transition**

Environmental Forces

- Age of Managed Care Acceptance
- METs & Runaway Small Group Pricing ➡ Sm. Gp. Reform
- HMO explosion ➡ Need for Capital

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- **Strategic Positioning**
 - Accommodation/Ancillary Line
 - Shrinking nos., less local
 - PPO as reaction
 - Niche
 - Failures to real competition
 - PPO is Desperation response – rental networks & renewal pricing
 - Chaos ➡ Opportunity, i.e., new entities and consolidation
 - Complementary
 - Not a Core Business ➡ Cancel or Affiliate

Characteristics **Transition**

Environmental Forces

- Age of Managed Care Acceptance
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- **Internet**
- **PBM**

Characteristics Transition

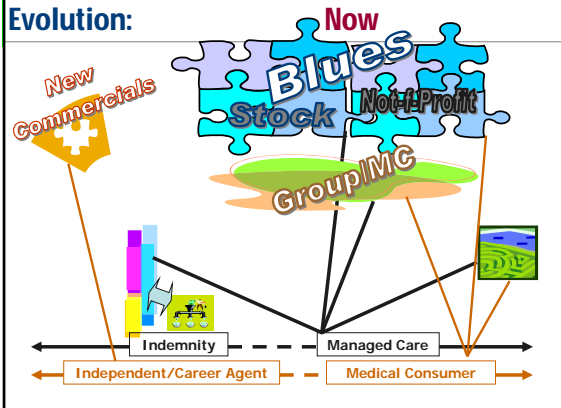
Environmental Forces

- Age of Managed Care Acceptance
- METs & Runaway Small Group Pricing → Sm. Gp. Reform
- HMO explosion → Need for Capital
- Internet
- PBM

Market Pricing

- Less LOCAL
 - Consolidation & Interstate Agency
 - Experimenting with Internet Agencies
- Super-regional Provider Rental Networks
- Renewal Rating: Under Radar Screen
 - Peaking:
 - Durational Pricing
 - Closed Block Problem
 - Death Spiral

Evolution:



Characteristics Now

Environmental Forces

- Exhausted HMO value
- Back to Triple Trend Days
 - Shrinking Small Employer Mkt.
 - Acceleration of Uninsured numbers
- Internet is Among PRIMARY tools for Consumer Price Comparison
- Advent of HSA → Legitimized Lge. Deductible Plans of Old
- Acceleration of Capital Consolidation

Characteristics

Now

- Strategic Positioning
 - Contributing Line
 - Defensive and Offensive
 - New National-type Players
 - Accommodation/Ancillary Line
 - Shrinking nos., Regional
 - Still dominant, but Consolidation isn't over
 - Niche
 - Old Players Disappearing
 - Complementary
 - On Hold
 - New Commercials

Characteristics

Now

- Strategic Positioning -- Continued
 - Contributing Line
 - Stock Companies, even if De-mutualized or Converted
 - Expected Growth
 - No Longer a Mature Market
 - Return on Capital
 - Economies of Scale: Advertising, Distribution and Processing
 - New National-type Players
 - Bottom Line Stability

Characteristics

Now

- Strategic Positioning -- Continued
 - Niche
 - Chaos replacing with New Niche
 - Agent is Customer
 - HSA:
 - » "We can do it better"
 - » then get sold
 - » Strictly business
 - Non-Medical Expense, i.e. Supplemental, Indemnity, LTC
 - Rental Networks – outlived their usefulness
 - Old Players Disappearing

Characteristics

Now

- Strategic Positioning -- Continued
 - Complementary
 - On Hold
 - Primary Focus is Unchanged
 - Full portfolio for Career Agent and Loyal Customer
 - Protect Integrity of Primary Personal Lines
 - No growth or focus need
 - Alignment Agreements Expire..Then What?

Characteristics

Now

- Strategic Positioning -- Continued
 - New Commercials
 - Refocus to Advantage
 - Distribution that can SELL
 - Not in business of Medicine
 - Opportunist
 - Distribution needs Feeding
 - Focus to the Under Cover Customer
 - Are these Sustainable?

Characteristics

Now

- Market Pricing
 - Price Comparison on INTERNET
 - Consumer perception like Auto Ins. Quote
 - Only on Initial premium
 - Local Agent (unless Personal Lines Carrier) less likely Price Broker
 - Brand Recognition replacing Agent
 - HSA: Fly in the Ointment
 - ➔ Matured:
 - Durational Pricing
 - Closed Block Problem
 - Death Spiral

Signs of Change -- Internet

Plan Summary

• Miami Beach Zip
• M, Age 53

Choose Your Plan then compare or apply
To view your personal information... >> [click here](#)

Sort the plans by: [Company](#) [Popularity](#) [Plan Type](#) [Premium](#)

	Ded.	Coin.	Office Visit	Plan	Prem.
Celtic	5000	20%	\$30	PPO	\$251.43 APPLY NOW
Humana	5000	20%	Subject to Ded'ble	PPO	\$256.81 APPLY NOW
United Health	5000	20%	Not covered	PPO	\$261.36 APPLY NOW

Signs of Change -- Internet

COMPARE click

A.M. Best Rating	CELTIC A-	HUMANA A-	UH Care A
Plan	{Links directly to company's Web Site for Plan Summary and Limitations' Brochures}		
Physician	{Links directly to company's Web Site for physician and hospital Directories}		
Office visits	\$30 primary Limit 2 visits	20% after deductible	Not covered
Chiropractor	Not covered	20%, 20 visits per yr. limit	Not covered
Policy Max	\$5 million	\$5 million	\$5 million
Drug Coverg	Not covered	\$10/20/30 copays a ded.	Optional, extra premium

Signs of Change -- AHP Study

August 29, 2005, Assessing the Individual Health Insurance Market

Underwriting Concern?

	Applica- tions	%	HUSG %
Received & complete	907,262	100%	100%
Denied	172,700	16%	12-20%
Withdrawn/closed			6-20%
Not taken			2-7%
Net issued		?	69-79%

Signs of Change -- NAIC Efforts for Revised Model on Individual Rate Filing Guidelines

2005, AAA' Rate Filing Task Force Report to the NAIC A&H Working Group

- Purpose: Replace 1980 Model
 - Why? "Relative Large Rate Increases to Trend"
 - Major Goal: Rate Stability
- What's taking so Long?
 - AAA study: Spring 2000 to Late 2004
 - NAIC debate: Late 2004 to present
- Three Solutions by AAA, + NAIC's

Signs of Change -- NAIC Efforts for Revised Model on Individual Rate Filing Guidelines

Major Goal: Rate Stability

- Carrier Solvency not be jeopardized
- Reduce Chance of Rate Spirals
- Rate Increases (over the long term) should be $<$ or $=$ Trend in Health Care Costs

Signs of Change -- NAIC Efforts for Revised Model on Individual Rate Filing Guidelines

3 Solutions by AAA and the NAIC's

- Individual Medical Pooling
- Prefunding
- Interblock Subsidy

Notes:

- Approaches, Solutions to come upon NAIC guidance
- Bugged down in GEO-Macro Economic Modeling

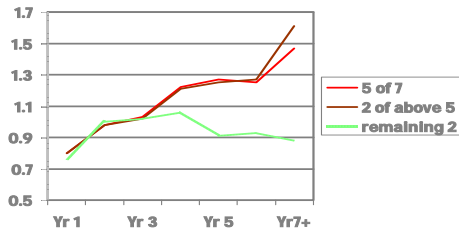
NAIC Rates must be within Corridor Simplify? of New Business Rates.

Signs of Change -- Legal Form/Jurisdiction

- Trust vs. Association vs. Policy to Insured
- Renewal Pricing / Renewal Underwriting

Signs of Change -- SOA Durational Study

June 2006, SOA, "Variation by Duration in Individual Health Medical Insurance Claims", Leigh Wachenheim, FSA



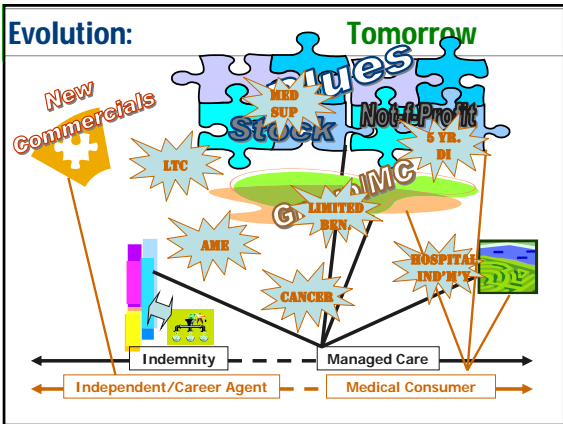
Signs of Change -- Enzi Bill: S. 1955

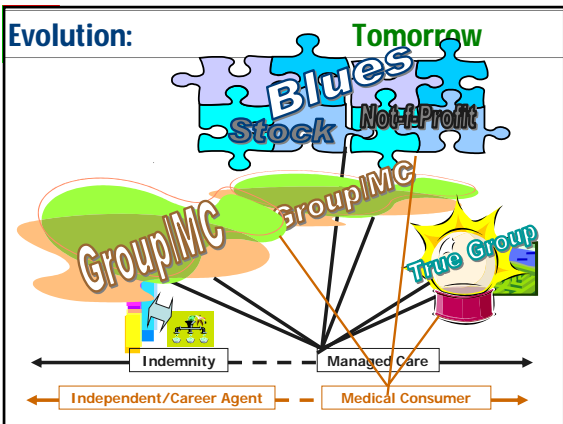
- Defeated, May 12, 2006 on Senate Floor
- Benefits outside of State Minimums Title II, Section 2922
- Rates and Benefits "Harmonized" Title III, Section 2932
 - National Rating formula
 - Board of actuaries, NAIC, State, Brokers, Agents
 - 18 mo. Recommendation followed by 18 mo as law

Signs of Change -- Uninsured

- 41% earning \$20-\$40K in 2004 Census Data vs. 28% in merely 2001 Census Data
 - 53% earning < \$20K
 - 34% ages 19-64 problems paying medical bills
 - 62% of above were insured
- Collins, etc., Commonwealth Fund, "GAPS in Health Insurance..Problem, April 2006

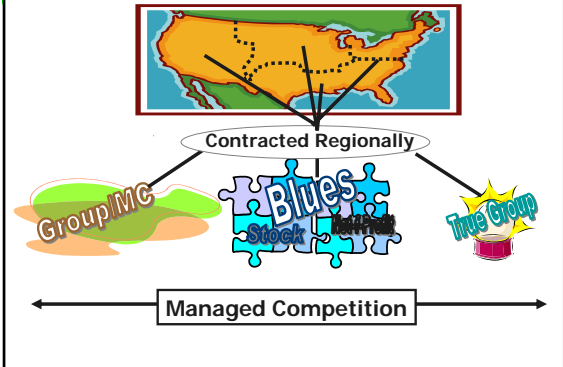
- **Accelerating! Will get attention and Individual is First Recourse Perceived**
- **Turning into an UNDER-insured Issue**





Evolution:

2020



Evolution:

2020

- Growth Market Fades to Mature Market
- Closed System
 - »Price inequities
 - »Compete on Service & Quality
lesser on price

Evolution:

2020

What Do You Think?
What Should Your Strategy Be?
