

2013 FLORIDA HEALTH INSURANCE MARKET REPORT

BY THE

FLORIDA HEALTH INSURANCE ADVISORY BOARD

Adopted December 5, 2013

Introduction

The Florida Health Insurance Advisory Board (FHIAB) is charged with advising the Office of Insurance Regulation (Office), the Agency for Health Care Administration (AHCA), the Department of Financial Services (DFS), other executive departments and the Legislature on health insurance issues [see Section 627.6699(11)(o), Florida Statute]. As a part of this responsibility, the Board is required to issue an annual report on the state of the health insurance market in Florida.

The reports issued by the Board rely upon data collected by the Office under the authority of Section 627.9175, Florida Statutes. This data, reported to the Office by licensed carriers describing their operations in Florida for that calendar year, was finalized for use in November. The 2013 report incorporates carrier data submitted to the Office for the year ended December 31, 2012. Previous reports are available on the FHIAB section on the Office's website at: <http://www.floir.com/Sections/LandH/FHIAB.aspx>.

Background

The FHIAB evolved from small group health insurance reform in Florida. Originally established in 1992 as the Florida Small Employer Health Reinsurance Program, it was expanded in 1997 to include the Florida Individual Health Reinsurance Program. Both Programs were governed by the same Board of Directors and operated as the Florida Health Reinsurance Program. In 2005, Florida statutes were amended to require the Program to advise the Office, AHCA, DFS, other executive departments and the Legislature on health insurance issues. Due to these developments, the Board voted to change its name to the Florida Health Insurance Advisory Board to better reflect its current responsibilities.

The composition of the board of directors was also changed to decrease the number of insurance company representatives and to add representatives of the business community and other stakeholders – there are 14 members of the Board as prescribed by Statute. A listing of current FHIAB board members is attached.

Florida's Commercial Health Insurance Markets Detailed

The following figures present enrollment and premium summaries in Florida's commercial (non-governmental) major medical health insurance markets as reported and compiled from data filed with the Office by each Accident and/or Health Coverage Provider.

Enrollment

As shown in Table 1, total enrollment in Florida's commercial health insurance markets has steadily declined over the last five years. Continuing the trend from last year, enrollment declined 8.5% from 3.6 in 2011 to 3.3 million covered lives by the end of 2012.

In-state guarantee issue enrollment showed an increase this year from 34,485 in 2011 to 44,566 covered lives. In-state individual underwritten enrollment, however, showed a decrease of 7.7% from 2011 to 2012. In-state 1-50 member groups' enrollment numbers have been steadily decreasing since

the spike in 2007. In 2012 overall enrollment declined 7.9% from 843,165 in 2011 to 776,663 covered lives in 2012 with in-state groups of one increasing by 29% to 21,434.

The total out-of-state 1-50 member groups' covered lives increased slightly from 1,451 in 2011 to 2,511 in 2012 following the 79% decrease between 2010 to 2011.

Table 1
Commercial Insurance Enrollment 2008 - 2012

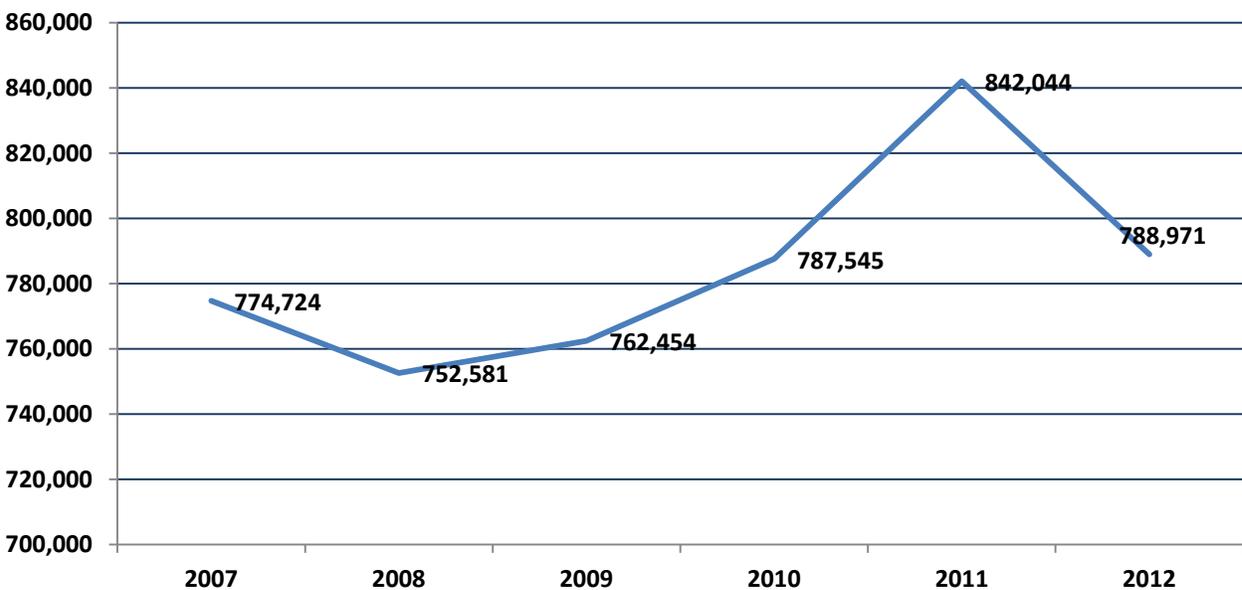
Market Segments	2008	2009	2010	2011	2012
In-state Guarantee Issue (HIPAA)	47,998	76,203	98,823	34,485	44,566
In-state Individual Underwritten	500,999	503,582	510,591	670,536	619,226
Total In-state Individual	548,997	579,785	609,414	705,021	663,792
Conversion	45,462	52,047	55,856	32,177	29,124
In-state Groups of One	24,690	18,319	19,612	16,653	21,434
In-state 2-50 Member Groups	1,063,644	1,045,923	845,101	826,512	755,229
Total In-state 1-50 Member Groups	1,088,334	1,064,242	864,723	843,165	776,663
In-state 51+ Member Groups	2,174,190	1,904,722	1,905,156	1,815,634	1,603,984
Out-of-State Group Guarantee Issue (HIPAA)	1,729	1,832	1,967	1,947	1,883
Out-of-State Group Individual Underwritten	201,855	180,837	175,042	171,506	169,745
Total Out-of-State Individual	203,584	182,669	177,009	173,453	171,628
Out-of-State Groups of One	301	162	134	378	377
Out-of-State 2-50 Member Groups	4,372	4,706	6,892	1,073	2,134
Total Out-of-State 1-50 Member Groups	4,673	4,868	7,026	1,451	2,511
Out-of-State 51+ Member Groups	215,065	81,224	82,217	72,833	86,271
Total	4,280,305	3,869,557	3,701,407	3,643,734	3,333,973

Individual Market

The individual health insurance market represents an important transitional and gap provider of coverage, by fulfilling the health coverage needs of persons without access to employer group coverage. As a result, this market is viewed as an important component of a state's commercial health insurance market, as well as something of an indicator of overall economic conditions.

Because of the natural link between small business coverage and individual coverage, enrollment gains in the individual market can be reflective of a somewhat weakening small group market as smaller employers drop coverage. In comparing the total 2012 enrollment with 2011, it appears there was a significant decrease in the market due to the dramatic increase in 2011. However, upon further analysis, the 2012 enrollment when compared to 2008-2010 shows a consistent moderate pattern of increases supporting the conclusion that the market was viable through 2012.

Enrollment for the Individual Health Market in Florida 2007-2012



The Health Insurance Portability and Accountability Act (HIPAA)

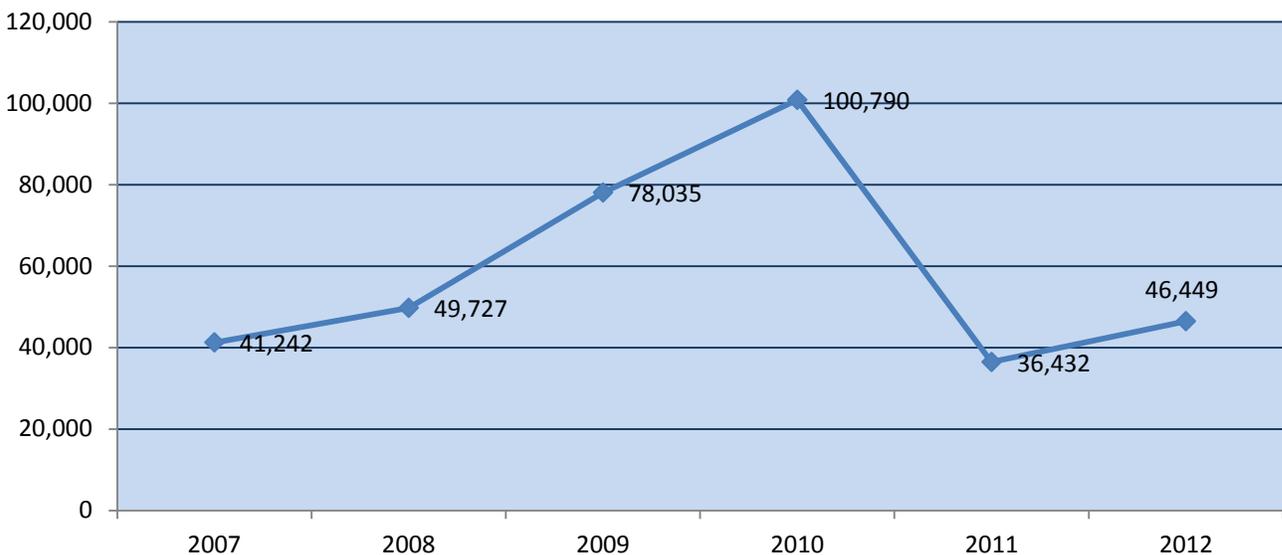
Most individual health care coverage in Florida is issued upon evidence of insurability, meaning applicants must undergo medical underwriting to determine suitability of coverage. Therefore, relatively good health is virtually always essential to obtain this form of coverage. For the most part this market is not a "safety net" but rather coverage potentially available to individuals who do not have other health care options.

However, under certain circumstances dictated under federal and state law as a result of HIPAA, companies providing individual coverage in Florida are required to issue coverage to applicants on a guarantee issue (e.g., non-medically underwritten) basis. Such applicants usually automatically

qualify for coverage because they lost previous coverage through no fault of their own. Normally, such “HIPAA-eligibles” represent a small portion of the overall base of covered individuals in the individual market, which is important since HIPAA-issued policies carry with them higher potential claim costs since such coverage was not issued on the basis of insurability.

This year's data showed an increase in HIPAA-issued coverage following last year's dramatic decline and further showed decreases in medically-underwritten coverage. The only increase in enrollment for 2012, other than HIPAA, occurred in the in-state groups of one market. This trend may be a result of the changing economic climate and the uncertainty surrounding the implementation of the Patient Protection and Affordable Care Act (PPACA).

Enrollment for HIPAA Policies in Florida 2007-2012



Commercial Premiums

The overall large group market showed decreases in both enrollment and premium between 2011 and 2012, indicative of the overall impact of the economy and the resultant changes in the employment base. Three areas of growth were in-state HIPAA, in-state groups of one and out-of-state 2-50 member groups. Premiums declined slightly consistent with the decreases in enrollment.

Table 2
Commercial Insurance Premium 2008-2012

Market Segments	2008	2009	2010	2011	2012
In-State Guarantee Issue (HIPAA)	\$122,948,507	\$184,476,385	\$251,229,825	\$90,461,795	\$318,820,820
In-State Individual Underwritten	\$1,144,988,517	\$1,139,104,837	\$1,178,297,500	\$1,555,152,018	\$1,587,893,482
Total In-State Individual	\$1,267,937,024	\$1,323,581,222	\$1,429,527,325	\$1,645,613,813	\$1,906,714,302
Conversion	\$182,703,276	\$189,722,540	\$186,809,163	\$127,679,623	\$120,126,913
In-State Groups of One	\$135,940,306	\$133,628,189	\$142,982,457	\$144,946,593	\$186,267,181
In-State 2-50 Member Groups	\$3,932,607,892	\$3,930,428,639	\$3,427,152,712	\$3,363,977,844	\$3,347,248,700
Total In-State 1-50 Member Groups	\$4,068,548,198	\$4,064,056,828	\$3,570,135,169	\$3,508,924,437	\$3,533,515,881
In-State 51+ Member Groups	\$7,716,104,070	\$7,998,029,911	\$7,818,144,860	\$7,732,637,795	\$6,554,272,781
Out-of-State Group Guarantee Issue (HIPAA)	\$14,830,938	\$15,934,109	\$17,727,569	\$18,785,163	\$18,023,068
Out-of-State Group Individual Underwritten	\$507,972,426	\$480,354,818	\$470,538,036	\$449,018,169	\$433,335,899
Total Out-of-State Individual	\$522,803,364	\$496,288,927	\$488,265,605	\$467,803,332	\$451,358,967
Out-of-State Groups of One	\$1,810,673	\$434,309	\$523,454	\$330,837	\$626,020
Out-of-State 2-50 Member Groups	\$16,938,685	\$20,456,961	\$20,999,718	\$6,740,341	\$12,621,773
Total Out-of-State 1-50 Groups	\$18,749,358	\$20,891,270	\$21,523,172	7,071,178	\$13,247,793
Out-of-State 51+ Member Groups	\$791,562,820	\$234,000,776	\$225,207,074	\$238,503,217	\$280,947,635
Total	\$14,568,408,110	\$14,326,571,474	\$13,739,612,368	\$13,728,233,395	\$12,860,184,272

Premium Dollars and Direct Losses

Comparing premiums collected in various markets with the losses associated with those markets yields the direct incurred loss ratio for that market segment. As expected, each market demonstrates a different loss ratio profile.

In-state large group experienced a loss ratio of 83.2% in 2012. This is a higher volume and lower administrative cost business environment; consequently, higher loss ratios are expected in this market relative to other markets. This loss ratio is down from the 2011 loss ratio of 83.3%.

Small group loss ratios increased from 74.3% in 2011 to 76.6% in 2012. This market realized a significant decline in enrollment for this same period.

Individually underwritten market loss ratios increased slightly from 74.7% in 2011 to 76.6% in 2012. As noted earlier in this report, there was a large increase in enrollment and premiums in this market for 2011 which appears to have leveled out consistent with the prior five year data. In-state HIPAA-issued policies experienced an 86.4% loss ratio for 2012, down from 89.8% in 2011; HIPAA-issued certificates issued through out-of-state associations reported a higher loss ratio for such coverage, 134.1%, up from 130.1% in 2011.

It should also be noted that group conversion policies represent an important safety net for individuals and families losing group coverage, and also play an important role in Florida's HIPAA mechanism. These are hybrid policies, issued as pseudo-individual coverage by virtue of the policyholder's prior relationship to the group. Again, anyone opting for such coverage likely would not be able to qualify for such a policy on a medically-underwritten basis, which is why loss ratios in the conversion market are also high, coming in at 149.2% for 2012, up from 137.4% in 2011. Group conversion policies have higher associated rates to compensate for anticipated losses, as do many HIPAA-related policies issued in the regular individual market. Group conversion enrollment declined significantly between 2011 and 2012, showing 29,124 enrollees in the most recent data, the lowest level in more than five years.

Table 3
Direct Premiums/Losses & Loss Ratios
2011-2012

Market Segments	2011			2012		
	Direct Premium	Direct Losses	Loss Ratio	Direct Premium	Direct Losses	Loss Ratio
In-state Guarantee Issue (HIPAA)	\$90,461,795	\$81,259,746	89.8%	\$ 318,820,820	\$275,611,276	86.4%
In-state Individual Underwritten	\$1,555,152,018	\$1,162,150,570	74.7%	\$1,587,893,482	\$1,216,458,737	76.6%
	\$1,645,613,813	\$1,243,410,316	75.6%	\$ 1,906,714,302	\$1,492,070,013	78.3%
Conversion	\$127,679,623	\$175,388,754	137.4%	\$120,198,165	\$179,395,519	149.2%
In-state Self-Employed or Sole Proprietor	\$144,946,593	\$138,253,335	95.4%	\$186,267,181	\$172,602,529	92.7%
In-state 2-50 Member Groups	\$3,363,977,844	\$2,470,176,147	73.4%	\$3,347,248,700	\$2,532,487,631	75.7%
Total In-state 1-50 Member Groups	\$3,508,924,437	\$2,608,429,482	74.3%	\$3,533,515,881	\$2,705,090,160	76.6%
In-State 51+ Member Groups	\$7,732,637,795	\$6,443,822,943	83.3%	\$6,554,272,781	\$5,451,689,120	83.2%
Out-of-State Group Guarantee Issue (HIPAA)	\$18,785,163	\$24,432,201	130.1%	\$18,023,068	\$24,172,762	134.1%
Out-of-State Group Individual Underwritten	\$449,018,169	\$287,074,696	63.9%	\$433,335,899	\$291,707,139	67.3%
Total Out-of-State Individual	\$467,803,332	\$311,506,897	66.6%	\$451,358,967	\$315,879,901	70.0%
Out-of-State Self-Employed or Sole Proprietor	\$330,837	\$319,042	96.4%	\$626,020	\$838,903	134.0%
Out-of-State 2-50 Member Groups	\$6,740,341	\$4,435,681	65.8%	\$12,621,773	\$10,451,951	82.8%
Total Out-of-State 1-50 Member Groups	\$7,071,178	\$4,754,723	67.2%	\$13,247,793	\$11,290,854	85.2%
Out-of-State 51+ Member Groups	\$238,503,217	\$208,994,682	87.6%	\$280,947,635	\$240,349,799	85.5%
Total	\$13,728,233,395	\$10,996,307,797	80.1%	\$12,860,255,524	\$10,395,765,366	80.8%

Conclusion

The FHIAB concludes that the market data for 2012 continues to follow the trends of prior years with gradual declines in most markets. In-state HIPAA, in-state groups of one and out-of state 2-50 member groups showed slight increases but the aggregate data resulted in an overall decline. Loss ratios continued to increase with the greatest increase in the conversion and out-of-state self-employed market segments. As this data is from year end 2012, the impact of the implementation of the PPACA

is only beginning to be reflected in the data, and is likely to have marketplace implications for the 2014 report based on 2013 year-end data.

The FHIAB continues to assist the Office with the emerging issues of federal and state health insurance regulatory reform and remains a valuable forum for the debate of reasonable responses to a changing health insurance marketplace. The Board provided input for PPACA conforming regulatory legislative recommendations to the Office following the summer meeting of the Board. As always, the Board is prepared to participate in hearings and conduct meetings that will discuss matters affecting Florida's major medical insurance marketplace.

**FLORIDA HEALTH INSURANCE ADVISORY BOARD
BOARD OF DIRECTORS**

Kevin M. McCarty, Chair
Commissioner
Office of Insurance Regulation
200 East Gaines Street
Tallahassee, FL 32399

W. Adam Clatsoff, Vice Chair
President/CEO
Adcahb Medical Coverages, Inc.
3000 N.W. 101 Lane
Coral Springs, FL 33065
Term Ending: 12/31/2016

Carol Barr Platt, LCSW
Acting Chief
Bureau of Managed Health Care
Florida Agency for Health Care Administration
2727 Mahan Drive
Tallahassee, FL 32308

Leah Barber-Heinz
Chief Executive Officer
Florida CHAIN
P.O. Box 7823
St. Petersburg, FL 33734
Term Ending: 12/31/2015

Joan L. Galletta
Employee Benefits Consultant
J.P. Perry Insurance
3342 Kori Road
Jacksonville, FL 32257
Term Ending: 12/31/2014

Dale Hedrick
President
Hedrick Brothers Construction
2200 Centrepark West Drive, Suite 100
West Palm Beach, FL 33409
Term Ending: 12/31/2013

William "Bill" Herrle
Executive Director
NFIB
110 East Jefferson Street
Tallahassee, FL 32301
Term Ending: 12/31/2014

Steve Birtman
Regional Director, Public Affairs
Humana, Inc.
106 East College Avenue, 6th Floor
Tallahassee, FL 32301
Term Ending: 12/31/2014

Mark LaBorde
President, Florida
Aetna Inc.
841 Prudential Drive, F390
Jacksonville, FL 32207
Term Ending: 12/31/2016

John J. Matthews
Regional General Counsel, Southeast
UnitedHealthcare
4560 Grove Park Drive
Tallahassee, FL 32311
Term Ending: 12/31/2014

Mark S. McGowan
Asst. General Counsel, Legal Affairs Div
Florida Blue
P.O. Box 60729
Jacksonville, FL 32236-0729
Term Ending: 12/31/2014

Tamara Meyerson
President/CEO
Preferred Medical Plan, Inc.
4950 SW 8th Street, Suite 403
Coral Gables, FL 33134
Term Ending: 12/31/2014

Rick Wallace
President/CEO
FAB and FAMOS, LLC
P.O. Box 10437
Tallahassee, FL 32302
Term Ending: 12/31/2016

Maria S. Wells, ABR, CRB, SFR, SRES
Owner/Broker
LifeStyle Realty Group
955 SE Federal Highway, Suite 102
Stuart, Florida 34994
Term Ending: 12/31/2016