

2011 FLORIDA HEALTH INSURANCE MARKET REPORT

BY THE

FLORIDA HEALTH INSURANCE ADVISORY BOARD

October 1, 2011

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), F.S.]. As a part of this responsibility, the Board is required to issue an annual report by September 1 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. Essentially, this is data reported to the Office by licensed carriers describing their operations in Florida for that calendar year. This 2011 report is based upon data submitted to the Office by carriers for the year 2010. Previous reports are available on the FHIAB tab 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 official members of the Board as of August 1, 2011. A listing of 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 steadily declined over the last five years. Perhaps in part reflecting persistent economic woes, enrollment declined 4.3% from 2009 to 3.7 million covered lives by the end of 2010.

In-state guarantee issue enrollment showed the largest increase in 2010, up nearly 30% from 2009 and up 58% from 2008 to 98,823 covered lives. In-state individual underwritten enrollment; however, has remained fairly flat over the past five years. In-state 1 to 50 member groups' enrollment numbers have

been steadily decreasing since the spike in 2007. In 2010 enrollment declined 19% from 2009 to 864,723 covered lives.

Conversely, the total out-of-state 1 to 50 member groups' covered lives have sharply increased in 2010 compared to 2009 and 2008. The enrollment numbers rose 44.3% to 7,026 covered lives.

Table 1
Commercial Insurance Enrollment 2006-2010

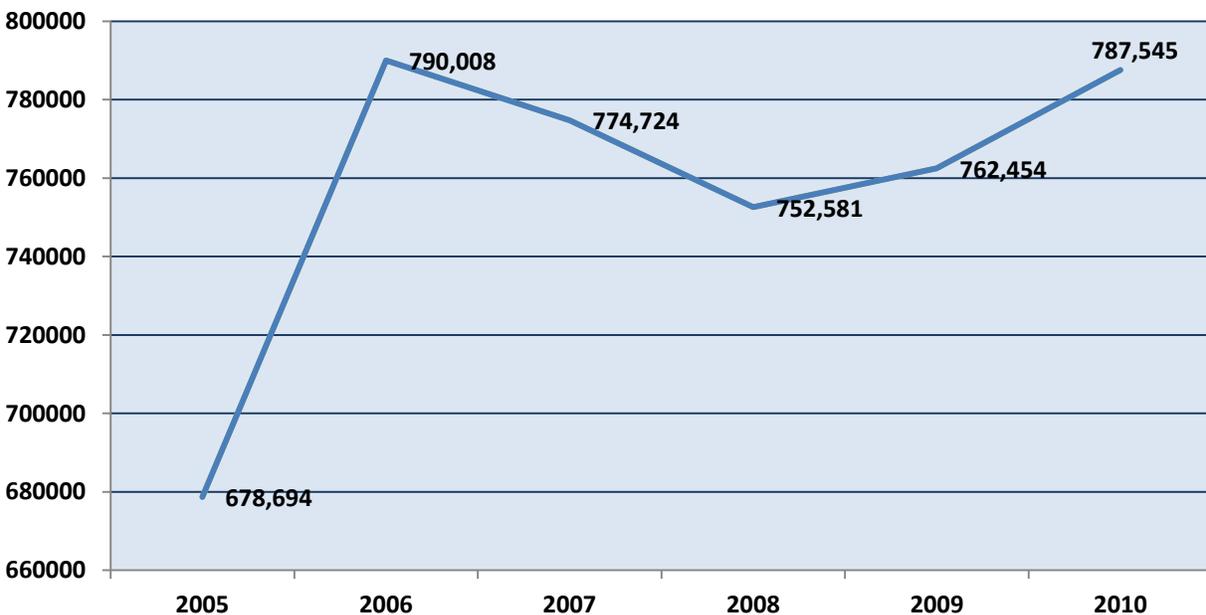
Market Segments	2006	2007	2008	2009	2010
In-state Guarantee Issue (HIPAA)	67,691	39,734	47,998	76,203	98,823
In-state Individual Underwritten	479,550	509,063	500,999	503,582	510,591
Total In-state Individual	547,241	548,797	548,997	579,785	609,414
Conversion	45,713	45,547	45,462	52,047	55,862
In-state Groups of One	32,330	32,969	24,690	18,319	19,614
In-state 2-50 Member Groups	1,092,579	1,223,531	1,063,644	1,045,923	845,109
Total In-state 1-50 Member Groups	1,124,909	1,256,500	1,088,334	1,064,242	864,723
In-state 51+ Member Groups	2,315,912	2,023,955	2,174,190	1,904,722	1,905,156
Out-of-State Group Guarantee Issue (HIPAA)	1,508	1,508	1,729	1,832	1,967
Out-of-State Group Individual Underwritten	241,259	224,419	201,855	180,837	175,042
Total Out-of-State Individual	242,767	225,927	203,584	182,669	177,009
Out-of-State Groups of One	0	281	301	162	134
Out-of-State 2-50 Member Groups	5,319	4,848	4,372	4,706	6,892
Total Out-of-State 1-50 Member Groups	5,319	5,129	4,673	4,868	7,026
Out-of-State 51+ Member Groups	221,624	239,078	215,065	81,224	82,217
Total	4,503,485	4,344,933	4,280,305	3,869,557	3,701,407

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. With such conditions in evidence, it is even more essential that a competitive individual market represent an option for individuals requiring health care coverage options. And indeed this market remains viable; while enrollment in the individual market peaked in 2006, it has increased annually since, rising to 787,545 lives in 2010, an increase of 3.0% from 2009, but down only 0.4% from the 2006 high.

Enrollment for the Individual Health Market in Florida 2005-2010



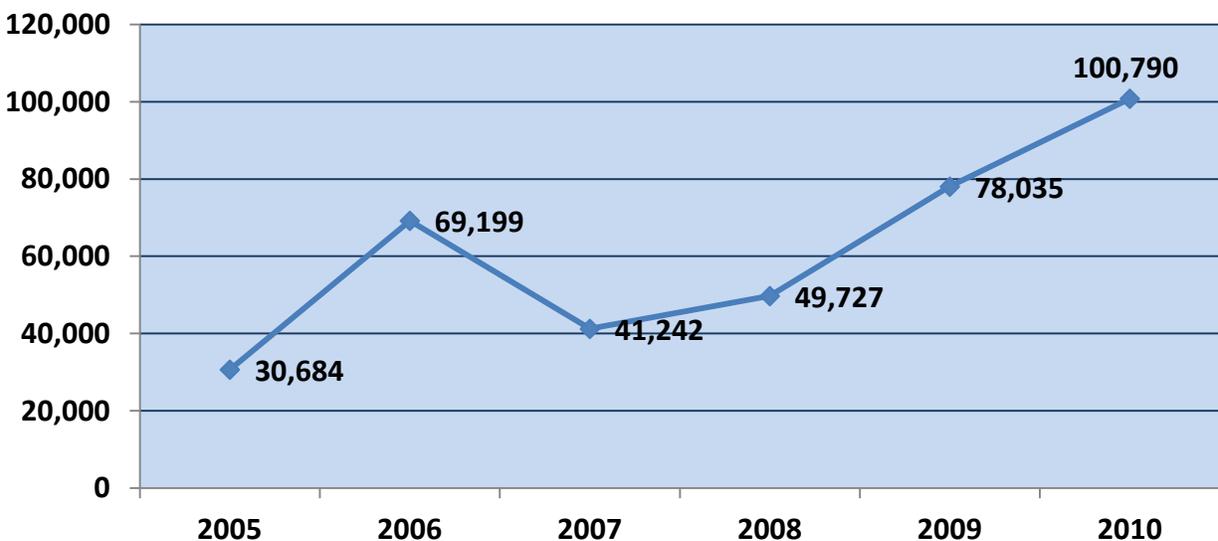
The Health Insurance Portability and Accountability Act (HIPAA)

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 (i.e., 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 fact makes the latest data on individual market enrollment somewhat troubling. While on the surface there is reason to be heartened by the increase in overall enrollment, the data indicates the entire increase in coverage is due to a dramatic rise in HIPAA-issued coverage. Although there was a slight increase of 13% in medically-underwritten individual coverage in 2010, there was an increase in HIPAA-issued coverage of 30%.

Enrollment for HIPAA Policies in Florida 2005-2010



Commercial Premiums

In the large group market, which showed an increase in enrollment (up nearly 7.1%) in 2010, overall premium collections decreased by 23% over the same period. The Office is investigating this anomaly. In the small group market, where enrollment declined 19%, premiums collected in this market mirrored the loss by declining 13%. Enrollment increased 1.3% in the individual market from 2009, and premium collections followed that gain by rising 5.3%.

Table 2
Commercial Insurance Premium 2006-2010

Market Segments	2006	2007	2008	2009	2010
In-state Guarantee Issue (HIPAA)	\$113,512,136	\$114,398,611	\$122,948,507	\$184,476,385	\$251,229,825
Instate Individual Underwritten	\$971,267,393	\$1,092,940,124	\$1,144,988,517	\$1,139,104,837	\$1,178,297,500
Total In-state Individual	\$1,084,779,529	\$1,207,338,735	\$1,267,937,024	\$1,323,581,222	\$1,429,527,325
Conversion	\$179,510,321	\$186,495,932	\$182,703,276	\$189,722,540	\$186,809,163
Instate Groups of One	\$168,488,242	\$182,123,409	\$135,940,306	\$133,628,189	\$142,982,457
Instate 2-50 Member Groups	\$3,718,862,653	\$3,976,802,834	\$3,932,607,892	\$3,930,428,639	\$3,427,152,712
Total Instate 1-50 Member Groups	\$3,887,350,895	\$4,158,926,243	\$4,068,548,198	\$4,064,056,828	\$3,570,135,169
In-State 51+ Member Groups	\$7,746,351,263	\$7,898,894,769	\$7,716,104,070	\$7,998,029,911	\$7,818,144,860
Out-of-State Group Guarantee Issue (HIPAA)	\$13,030,832	\$13,576,389	\$14,830,938	\$15,934,109	\$17,727,569
Out-of-State Group Individual Underwritten	\$522,084,284	\$533,838,570	\$507,972,426	\$480,354,818	\$470,538,036
Total Out-of-State Individual	\$535,115,116	\$547,414,959	\$522,803,364	\$496,288,927	\$488,265,605
Out-of-State Groups of One	\$422,618	\$2,499,364	\$1,810,673	\$434,309	\$523,454
Out-of-State 2-50 Member Groups	\$26,668,601	\$17,796,331	\$16,938,685	\$20,456,961	\$20,999,718
Total Out-of-State 1-50 Member Groups	\$27,091,219	\$20,295,695	\$18,749,358	\$20,891,270	\$21,523,172
Out-of-State 51+ Member Groups	\$764,197,745	\$753,833,723	\$791,562,820	\$234,000,776	\$225,207,074
Total	\$14,224,396,088	\$14,773,200,056	\$14,568,408,110	\$14,326,571,474	\$13,739,612,368

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 84.1% in 2010, but this is a higher volume, lower administrative cost business environment, and higher loss ratios can be better tolerated in this market compared to others. Still, the loss ratio in 2009 was 89.2%, so 2010 represented a significant decrease.

Small group loss ratios dropped more significantly, from 81.9% in 2009 to 71.9% in 2010. It has been speculated in professional and press reports that utilization has dropped significantly since the economy turned sour, which could explain the decrease.

Individual market loss ratios remained relatively stable on the medically underwritten side, coming in at 59.7% for 2010, pretty close to 62.7% in 2009. In-state HIPAA-issued policies experienced an 88.9% loss ratio for 2010, down from 97.8% in 2009; HIPAA-issued certificates issued through out-of-state associations reported a lower loss ratio for such coverage, 117.5%, down from 125.7% in 2009.

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 130.8% for 2010, up from 129.9% in 2009. 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 has remained relatively stable over the years, coming in at 55,862 in 2010, up 13.8% since 2006.

Table 3
Direct Premiums/Losses & Loss Ratios
2009-2010

Market Segments	2009			2010		
	Direct Premium	Direct Losses	Loss Ratio	Direct Premium	Direct Losses	Loss Ratio
In-state Guarantee Issue (HIPAA)	\$184,476,385	\$180,482,512	97.8%	\$251,229,825	\$223,451,190	88.9%
In-state Individual Underwritten	\$1,139,104,837	\$716,180,059	62.9%	\$1,178,297,500	\$703,685,470	59.7%
Total In-state Individual	\$1,323,581,222	\$896,662,571	67.7%	\$1,429,527,325	\$927,136,660	64.8%
Conversion	\$189,722,540	\$243,610,258	128.4%	\$186,809,163	\$244,471,880	130.8%
In-state Groups of One	\$133,628,189	\$141,617,015	106.0%	\$142,982,457	\$134,153,792	93.8%
In-state 2-50 Member Groups	\$3,930,428,639	\$3,188,030,708	81.1%	\$3,427,152,712	\$2,435,702,396	71.0%
Total In-state 1-50 Member Groups	\$4,064,056,828	\$3,329,647,723	81.9%	\$3,570,135,169	\$2,569,856,188	71.9%
In-State 51+ Member Groups	\$7,998,029,911	\$7,136,100,646	89.2%	\$7,818,144,860	\$6,582,417,652	84.1%
Out-of-State Group Guarantee Issue (HIPAA)	\$15,934,109	\$20,028,576	125.7%	\$17,727,569	\$20,840,075	117.5%
Out-of-State Group Individual Underwritten	\$480,354,818	\$302,041,212	62.9%	\$470,538,036	\$272,315,304	57.8%
Total Out-of-State Individual	\$496,288,927	\$322,069,788	64.9%	\$470,538,036	\$293,155,379	62.3%
Out-of-State Groups of One	\$434,309	\$286,550	66.0%	\$523,454	\$451,282	86.2%
Out-of-State 2-50 Member Groups	\$20,456,961	\$11,587,902	56.6%	\$20,999,718	\$27,142,700	129.2%
Total Out-of-State 1-50 Member Groups	\$20,891,270	\$11,874,452	56.8%	\$21,523,172	\$27,593,982	128.2%
Out-of-State 51+ Member Groups	\$234,000,776	\$182,417,619	78.0%	\$225,207,074	\$194,057,659	86.1%
Total	\$14,326,571,474	\$12,122,383,057	84.6%	\$13,739,612,368	\$10,838,689,400	78.8%

Conclusion

In FHIAB's estimation, the data provided indicates a market in 2010 that does not markedly differ from the way the market finished 2009, considering the gradual decline in market-wide direct written premium since its peak in 2007. Enrollment steadily increased since the end of 2009, with the exception of in-state small groups plunging from a high of 1,045,923 in 2009 to 864,723 in 2010 and total out-of-state individual policies dropping to 177,009 in 2010 from 182,669 in 2009.

The FHIAB continues to assist the Office with the emerging issues of federal and state health insurance regulatory reform. As the health insurance industry and its policyholders adjust to the evolution of quality of care assessments, changing service delivery models, and the fundamentals of health care financing, the FAIHB remains a valuable forum for the debate of reasonable responses to a changing health insurance marketplace. 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
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Kevin M. McCarty, Chair
Commissioner
Office of Insurance Regulation
200 East Gaines Street
Tallahassee, FL 32399

Sue Conte
Bureau Chief, Bureau of Managed Health Care
Florida Agency for Health Care Administration
2727 Mahan Drive, Mail Stop 26
Tallahassee, FL 32308

Harry Spring, Vice Chair
Regional Legislative Director
Humana, Inc.
106 East College Ave., Suite 650
Tallahassee, FL 32301
Term Ending: 12/31/2014

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President/CEO
Adcahb Medical Coverages, Inc.
3000 N.W. 101 Lane
Coral Springs, FL 33065
Term Ending: 12/31/2012

Laura Goodhue
Executive Director, Florida CHAIN
16887 96th Terrace N
Jupiter, Fl. 33478
Term Ending: 12/31/2011

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

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

Mark McGowan
Blue Cross Blue Shield of Florida
P.O. Box 60729
Jacksonville, FL 32236-0729
Term Ending: 12/31/2014

Mark LaBorde
President, Southeast Region
Aetna Small and Middle Market Business
Aetna INC.
3604 Silvery Lane
Jacksonville, FL 32217
Term Ending: 12/31/2012

John Matthews
Regional General Counsel, Southeast
UnitedHealthcare
4560 Grove Park Drive
Tallahassee, FL 32311
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
Executive Director
FAB Professionals
310 Blount Street, Suite 114
Tallahassee, FL 32301
Term Ending: 12/31/2012

Maria G. Wells, ABR, CRB, SRES
Broker/Owner
LifeStyle Realty Group
955 SE Federal Highway, Suite 102
Stuart, Florida 34994
Term Ending: 12/31/2012

Dale Hedrick
President,
Hedrick Brother's Construction
2200 Centrepark West Drive, Suite 100
West Palm Beach, Fl. 33409
Term Ending: 12/31/2012