

2012 FLORIDA HEALTH INSURANCE MARKET REPORT

BY THE

FLORIDA HEALTH INSURANCE ADVISORY BOARD

Adopted December 14, 2012

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. This data, reported to the Office by licensed carriers describing their operations in Florida for that calendar year, became available for use in November of this year, which explains the timing of the issuance of this report. The 2012 report incorporates data submitted to the Office by carriers for the year ended December 31, 2011. 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, 2012. 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 has steadily declined over the last five years. Continuing the trend from last year, attributable in part to economic conditions, enrollment declined 2.0% from 2010 to 3.6 million covered lives by the end of 2011.

In-state guarantee issue enrollment declined dramatically from 2010 to 2011, down by 65% from the 2010 high of 98,823 to 34,485 covered lives. In-state individual underwritten enrollment, however, showed a significant increase of 31.3% from 2010 to 2011. In-state 1 to 50 member groups'

enrollment numbers have been steadily decreasing since the spike in 2007. In 2011 enrollment declined 2.4% from 2010 to 843,165 covered lives.

Following many years of growth, the total out-of-state 1 to 50 member groups' covered lives decreased sharply even with a large percentage increase in out-of-state groups of one. The enrollment numbers declined from the 2010 high of 7,026 to 1,451 in 2011.

Table 1
Commercial Insurance Enrollment 2007-2011

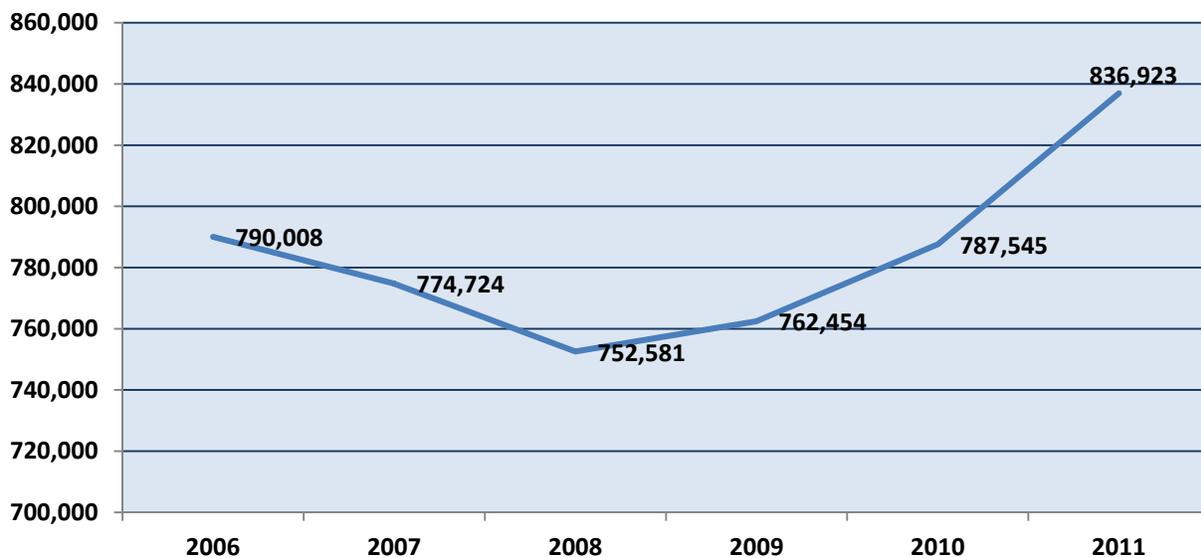
Market Segments	2007	2008	2009	2010	2011
In-state Guarantee Issue (HIPAA)	39,734	47,998	76,203	98,823	34,485
In-state Individual Underwritten	509,063	500,999	503,582	510,591	670,536
Total In-state Individual	548,797	548,997	579,785	609,414	705,021
Conversion	45,547	45,462	52,047	55,862	22,177
In-state Groups of One	32,969	24,690	18,319	19,614	16,653
In-state 2-50 Member Groups	1,223,531	1,063,644	1,045,923	845,109	826,512
Total In-state 1-50 Member Groups	1,256,500	1,088,334	1,064,242	864,723	843,165
In-state 51+ Member Groups	2,023,955	2,174,190	1,904,722	1,905,156	1,815,634
Out-of-State Group Guarantee Issue (HIPAA)	1,508	1,729	1,832	1,967	1,947
Out-of-State Group Individual Underwritten	224,419	201,855	180,837	175,042	166,387
Total Out-of-State Individual	225,927	203,584	182,669	177,009	168,334
Out-of-State Groups of One	281	301	162	134	378
Out-of-State 2-50 Member Groups	4,848	4,372	4,706	6,892	1,073
Total Out-of-State 1-50 Member Groups	5,129	4,673	4,868	7,026	1,451
Out-of-State 51+ Member Groups	239,078	215,065	81,224	82,217	72,833
Total	4,344,933	4,280,305	3,869,557	3,701,407	3,628,615

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; 2011 enrollment is at an all time high of 836,923 where the previous peak was 790,008 in 2006.

Enrollment for the Individual Health Market in Florida 2006-2011



The Health Insurance Portability and Accountability Act (HIPAA)

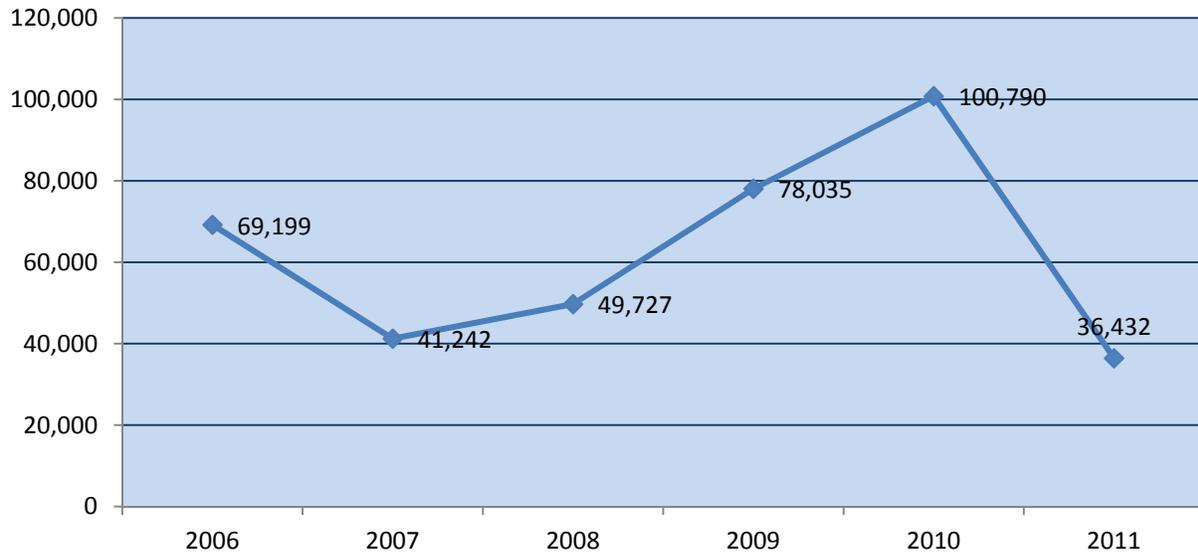
Most individual health care coverage in Florida is issued upon evidence of insurability, meaning applicants must undergo medical underwriting to determine suitability of coverage. Therefore, relatively good health is virtually always essential to obtain this form of coverage. For the most part this market 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 reverses prior year trends that showed increases in the HIPAA-issued coverage and decreases in the medically-underwritten coverage. The largest increase in enrollment for 2011 occurred in medically-underwritten individual coverage and a large decrease was noted in HIPAA-issued coverage. This trend may be a result of the changing economic climate, insurer efforts to adjust underwriting criteria or identifies a need for refinement of the reporting mechanism.

Enrollment for HIPAA Policies in Florida 2006-2011



Commercial Premiums

The large group market showed decreases in both enrollment and premium between 2010 and 2011, indicative of the overall impact of the economy and the resultant decreases in employment. In the small group market, where enrollment declined 7.5%, premiums collected in this market increased slightly year over year.

Table 2
Commercial Insurance Premium 2007-2011

Market Segments	2007	2008	2009	2010	2011
In-State Guarantee Issue (HIPAA)	\$114,398,611	\$122,948,507	\$184,476,385	\$251,229,825	\$90,461,795
In-State Individual Underwritten	\$1,092,940,124	\$1,144,988,517	\$1,139,104,837	\$1,178,297,500	\$1,555,152,018
Total In-State Individual	\$1,207,338,735	\$1,267,937,024	\$1,323,581,122	\$1,429,527,325	\$1,645,613,813
Conversion	\$186,495,932	\$182,703,276	\$189,722,540	\$186,809,163	\$127,679,623
In-State Groups of One	\$182,123,409	\$135,940,306	\$133,628,189	\$142,982,457	\$144,946,593
In-State 2-50 Member Groups	\$3,976,802,834	\$3,932,607,892	\$3,930,428,639	\$3,427,152,712	\$3,363,977,844
Total In-State 1-50 Member Groups	\$4,158,926,243	\$4,068,548,198	\$4,064,056,828	\$3,570,135,169	\$3,508,924,437
In-State 51+ Member Groups	\$7,898,894,769	\$7,716,104,070	\$7,998,029,911	\$7,818,144,860	\$7,732,637,795
Out-of-State Group Guarantee Issue (HIPAA)	\$13,576,389	\$14,830,938	\$15,934,109	\$17,727,569	\$18,785,163
Out-of-State Group Individual Underwritten	\$533,838,570	\$507,972,426	\$480,354,818	\$470,538,036	\$449,018,169
Total Out-of-State Individual	\$547,414,959	\$522,803,364	\$496,288,927	\$488,265,605	\$467,803,332
Out-of-State Groups of One	\$2,499,364	\$1,810,673	\$434,309	\$523,454	\$330,837
Out-of-State 2-50 Member Groups	\$17,796,331	\$16,938,685	\$20,456,961	\$20,999,718	\$6,740,341
Total Out-of-State 1-50 Groups	\$20,295,695	\$18,749,358	\$20,891,270	\$21,523,172	\$7,071,178
Out-of-State 51+ Member Groups	\$753,833,723	\$791,562,820	\$234,000,776	\$225,207,074	\$238,503,217
Total	\$14,773,200,056	\$14,568,408,110	\$14,326,571,474	\$13,739,612,368	\$13,728,233,395

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 83.3% in 2011, but 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 slightly from the 2010 loss ratio of 84.1%.

Small group loss ratios increased from 71.9% in 2010 to 74.3% in 2011.

Individual market loss ratios changed significantly to 74.7% in 2011, which was up from 59.7% in 2010. As noted earlier in the report, both enrollment and premium increased greatly in this market segment. In-state HIPAA-issued policies experienced an 89.8% loss ratio for 2011, up from 88.9% in 2010; HIPAA-issued certificates issued through out-of-state associations reported a higher loss ratio for such coverage, 130.1%, up from 117.5% in 2010.

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 137.4% for 2011, up from 130.8% in 2010. 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 2010 and 2011, showing 34,485 enrollees in the most recent data, the lowest level in more than five years.

Table 3
Direct Premiums/Losses & Loss Ratios
2010-2011

Market Segments	2010			2011		
	Direct Premium	Direct Losses	Loss Ratio	Direct Premium	Direct Losses	Loss Ratio
In-state Guarantee Issue (HIPAA)	\$251,229,825	\$223,451,190	88.9%	\$90,461,795	\$81,259,746	89.8%
In-state Individual Underwritten	\$1,178,297,500	\$703,685,470	59.7%	\$1,555,152,018	\$1,162,150,570	74.7%
	\$1,429,527,325	\$927,136,660	64.8%	\$ 1,645,613,813	\$1,243,410,316	75.6%
Conversion	\$186,809,163	\$244,471,880	130.8%	\$ 127,679,623	\$175,388,754	137.4%
In-state Groups of One	\$142,982,457	\$134,153,792	93.8%	\$144,946,593	\$138,253,335	95.4%
In-state 2-50 Member Groups	\$3,427,152,712	\$2,435,702,396	71.0%	\$ 3,363,977,844	\$2,470,176,147	73.4%
Total In-state 1-50 Member Groups	\$3,570,135,169	\$2,569,856,188	71.9%	\$3,508,924,437	\$2,608,429,482	74.3%
In-State 51+ Member Groups	\$7,818,144,860	\$6,582,417,652	84.1%	\$7,732,637,795	\$6,443,822,943	83.3%
Out-of-State Group Guarantee Issue (HIPAA)	\$17,727,569	\$20,840,075	117.5%	\$18,785,163	\$24,432,201	130.1%
Out-of-State Group Individual Underwritten	\$470,538,036	\$272,315,304	57.8%	\$449,018,169	\$287,074,696	63.9%
Total Out-of-State Individual	\$488,265,605	\$293,155,379	62.3%	\$467,803,332	\$311,506,897	66.6%
Out-of-State Groups of One	\$523,454	\$451,282	86.2%	\$330,837	\$319,042	96.4%
Out-of-State 2-50 Member Groups	\$20,999,718	\$27,142,700	129.2%	\$6,740,341	\$4,435,681	65.8%
Total Out-of-State 1-50 Member Groups	\$21,523,172	\$27,583,982	128.2%	\$7,071,178	\$4,754,723	67.2%
Out-of-State 51+ Member Groups	\$225,207,074	\$194,057,659	86.1%	\$238,503,217	\$208,994,682	87.6%
Total	\$13,739,612,368	\$10,838,689,400	78.8%	\$13,728,233,395	\$10,996,307,797	80.1%

Conclusion

The FHIAB concludes that the market data for 2011 continues to follow the trends of prior years with gradual declines in most markets with the exception of the in-state individual medically underwritten market segment. Loss ratios continued to increase with the greatest increase in the in-state medically underwritten segment. As this data is from year end 2011, the impact of the election cycles in 2010 and 2012 and the impending implementation of the Patient Protection and Affordable Care Act (PPACA) are only beginning to be reflected in the data, and are likely to have some marketplace implications for the 2013 report based on 2012 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. As always, the Board is prepared to participate in hearings and conduct meetings that will discuss matters affecting Florida's major medical insurance marketplace.

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