

2009 FLORIDA HEALTH INSURANCE MARKET REPORT

BY THE

FLORIDA HEALTH INSURANCE ADVISORY BOARD

June 30, 2010

Introduction

The Florida Health Insurance Advisory Board (FHIAB) is charged with advising the Office of Insurance Regulation, the Agency for Health Care Administration, the Department of Financial Services, 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 delivery of the 2009 report has been delayed to confirm that the market data upon which the report relies was deemed reliable. The report relies on data collected by the Florida Office of Insurance Regulation (Office) under the authority of Section 627.9175, Florida Statutes. The Office's Market Investigation Unit was in the process of having the data audited during the time the FHIAB is normally prepared. The audit included a thorough review of the market information provided by the state's largest health insurers as well as a randomly selected number of smaller insurers active in Florida.

Although the vast majority of data was determined to be accurate, the contracted auditor, AGI Services of Atlanta, did find three problem areas in the reporting of data that required attention:

- 1.) Premium derived from "Medicare, Medicare+Choice, Medicare HCPP, Medicaid, SCHIP, FEHBP, Florida Healthy Kids, Florida Health Flex Plans, Self-Insured Business, Credit (group and individual), and Credit Accident & Health was inappropriately included in other categories;
- 2.) Certain data was not correctly reported in the "Comprehensive Hospital and Medical" category; and
- 3.) Confusion in the definition of Administrative Services Only (ASO) led to incorrect reporting in this category.

The Florida Office of Insurance Regulation, with the cooperation of AGI Services, conducted a workshop in Tallahassee on January 26, 2010 to review these data elements with the industry to ensure accurate data reporting in revisions and subsequent reports. In addition, the joint Office/AGI team encouraged companies to develop best practices that included maintaining snapshots of data used to compile data submissions, to utilize all company departments to obtain accurate information, and to always utilize current year data – not estimates. Revisions were subsequently made to the original data submission, which were utilized for the data contained in this report.

Background

The Florida Health Insurance Advisory Board 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 of Insurance Regulation, the Agency for Health Care Administration, the Department of Financial Services, 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 (FHIAB) to reflect its new 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 November 30, 2009, not including the executive director. A listing of FHIAB board members is attached.

The FHIAB appointed a new executive director, Torre Grissom, on October 12, 2010 who replaced interim director Carol Ostapchuk in this position. The following report on Florida's health insurance markets represents the fourth report issued by FHIAB and presents data reported through 2008 to the Florida Office of Insurance Regulation. All previous reports are available on the FHIAB tab on the Office's website at: <http://www.flair.com/FHIAB/index.aspx>.

Executive Summary

This is the fourth report on Florida's health insurance markets issued by the Florida Health Insurance Advisory Board. This report may be considered a benchmark; it will be the last report issued that pre-dates the passage of the federal health care reforms, including the Patient Protection and Affordable Care Act (PPACA) on March 23, 2010, and the subsequent Health Care and Education Reconciliation Act passed on March 30, 2010.

Relative to the 2007 health care insurance data, data submitted by insurers for 2008 reveals a rather stable market. Covered lives in in-state small group (1-50 members) declined 13.4% to 1,088,334 covered lives, while large group coverage experienced a 7.4% gain, up to 2,174,190 lives. ("In-state" coverage means plans governed primarily by Florida law, and represents the dominant form of insurance plans provided in the state. In contrast to "in-state" coverage, "out-of-state" coverage is group coverage that is primarily governed by the laws of another state.)

There appears to be minor shift away from out-of-state coverage in Florida. In terms of covered lives, 2008 featured a decline in number of Florida consumers utilizing out-of-state individual health coverage (down 9.9%), out-of-state small group coverage (down 9.8%), and out-of-state large group coverage (10.1% decline).

Although some of these declines appear worrisome in percentage terms, in nominal terms the decline in coverage is relatively minor. According to data reported to the Florida Office of Insurance Regulation – commercial health insurance covered 4,279,395 covered lives in 2008, a decline of 1.4 % from the 2007 total of 4,340,499 lives.

There are several possible explanations for this relative stabilization in coverage. Perhaps most significantly, the pool of eligible covered lives stopped growing and business enterprise in the state began to slow. Stable to slightly declining covered lives at a time of rapid population growth would be disconcerting, but at a time of population stagnation and a weakening economy—which Florida was experiencing—a stable market may be viewed as a better than expected result.

In addition, the prospect of federal reform may have had a somewhat dampening effect on the rollout of new marketing plans and employers' desire to explore health care options. The shadow cast by possible federal action also caused Florida policymakers to refrain from major new initiatives designed to increase coverage.

However, despite stabilization in the commercial market, Florida maintained its unfortunate ranking as one of the states with the highest percentage of uninsured individuals. According to Kaiser Family Foundation's 2008 figures, Florida's 3.6 million uninsured represented 20.2% of Florida's population, putting Florida third behind only Texas (25.2% of population uninsured) and New Mexico (23.2%).

Florida's Commercial Health Insurance Markets Detailed

The following figures present enrollment and premium summaries in Florida's commercial (non-governmental) health insurance markets for CY 2004 through 2008 as reported and compiled from data filed with the Florida Office of Insurance Regulation (OIR) by each Accident and/or Health Coverage Provider.

Enrollment

During the period 2004 through 2008, total enrollment in Florida's commercial health insurance markets decreased marginally from 4.34 million covered lives to 4.28 million covered lives, a decrease of 1.4 percent as shown in Table 1.

Table 1
Commercial Insurance Enrollment 2004-2008

| Market Segments | 2004 | 2005 | 2006 | 2007 | 2008 |
|--|------------------|------------------|------------------|------------------|------------------|
| Instate Guarantee Issue (HIPAA) | 10,310 | 29,202 | 67,691 | 39,684 | 47,988 |
| Instate Individual Underwritten | 482,618 | 424,774 | 479,550 | 504,382 | 500,999 |
| Total Instate Individual | 492,928 | 453,976 | 547,241 | 544,066 | 548,987 |
| Conversion | 28,150 | 28,104 | 45,713 | 45,556 | 45,462 |
| Instate Groups of One | 39,119 | 31,613 | 32,330 | 32,969 | 24,690 |
| Instate 2-50 Member Groups | 994,547 | 1,028,949 | 1,092,579 | 1,223,531 | 1,063,644 |
| Total Instate 1-50 Member Groups | 1,033,666 | 1,060,562 | 1,124,909 | 1,256,500 | 1,088,334 |
| Instate 51+ Member Groups | 2,426,634 | 2,233,435 | 2,315,912 | 2,023,993 | 2,174,190 |
| Out-of-State Group Guarantee Issue (HIPAA) | 1,236 | 1,482 | 1,508 | 1,504 | 1,729 |
| Out-of-State Group Individual Underwritten | 195,938 | 223,236 | 241,259 | 224,419 | 201,855 |
| Total Out-of-State Individual | 197,714 | 224,718 | 242,767 | 225,923 | 203,584 |
| Out-of-State Groups of One | 1,648 | 1,155 | 0 | 283 | 301 |
| Out-of-State 2-50 Member Groups | 14,451 | 10,966 | 5,319 | 4,900 | 4,372 |
| Total Out-of-State 1-50 Member Groups | 16,099 | 12,121 | 5,319 | 5,183 | 4,673 |
| Out-of-State 51+ Member Groups | 215,703 | 234,621 | 221,624 | 239,278 | 215,065 |
| Total | 4,410,354 | 4,245,537 | 4,503,485 | 4,340,499 | 4,280,295 |

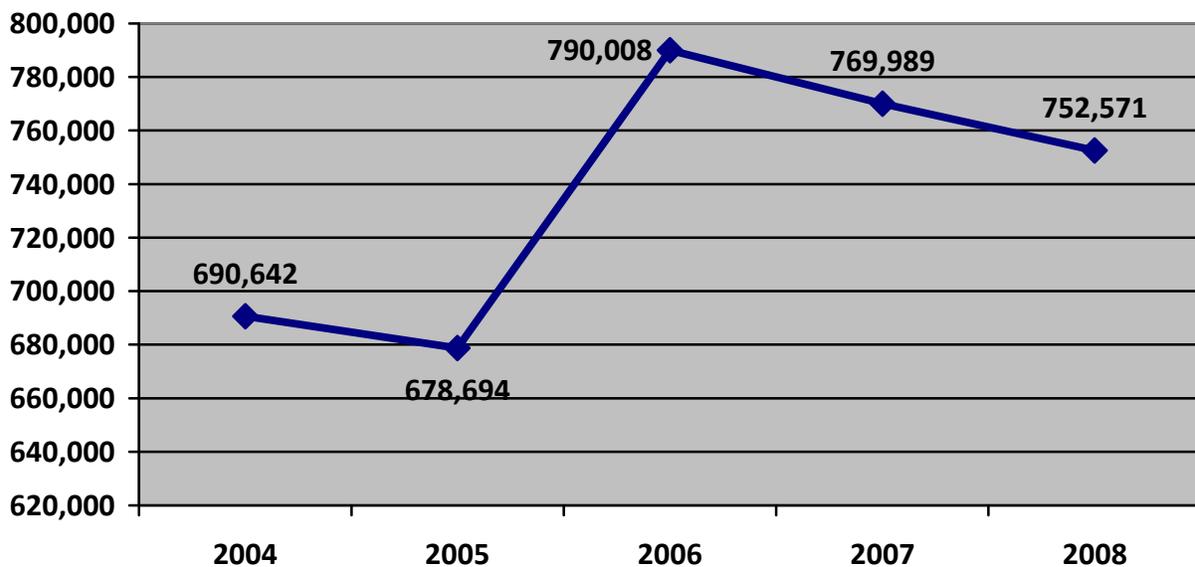
Enrollment in 2008 declined in a majority of market segments including in-state small group, out-of-state individual, out-of-state small group, and out-of-state large group insurance. This was mostly offset by gains in the in-state individual and in-state large group markets.

Individual Market

Because it represents an important transitional and gap provider of coverage, fulfilling the needs of persons without access to employer group coverage, the individual market is viewed as an important component of a state's commercial health insurance market.

But because of the natural link between small business coverage and individual coverage, enrollment gains in the individual market can be reflective of a weakening small group market as smaller employers drop coverage. But while a prospering individual market may be reflective of market problems elsewhere, it is inescapable that a diverse, competitive individual market is an important option for individuals when needed, and insurers in this market continue to play an important role in providing such coverage. Despite small declines in 2007 and 2008, the market still covered significantly more Floridians than it did in 2004-2005.

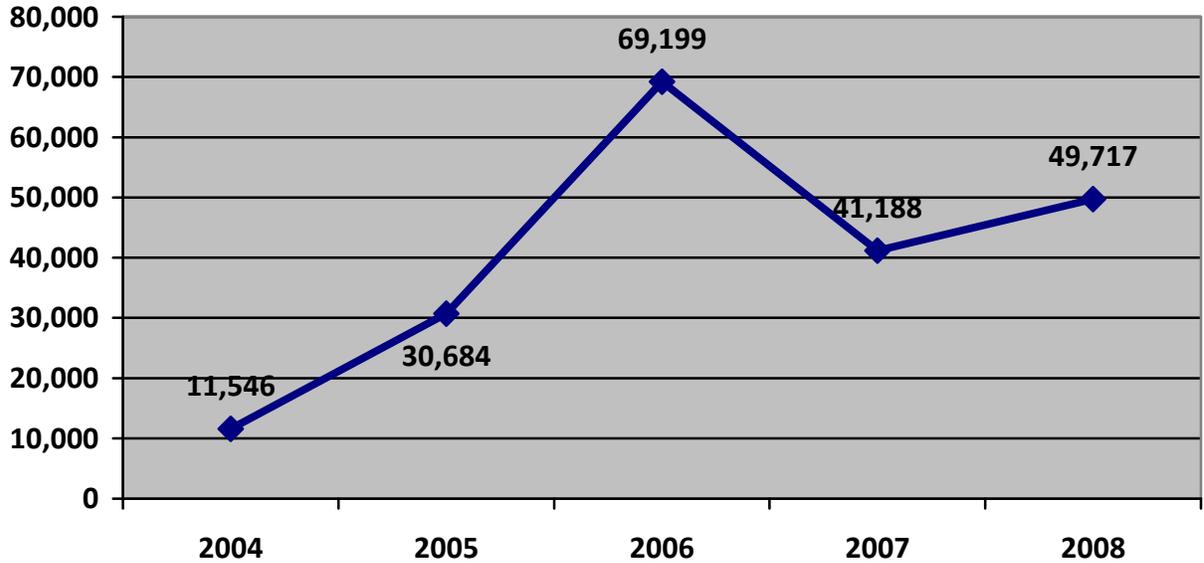
Enrollment for the Individual Health Market in Florida 2004-2008



Health Insurance Portability and Accountability Act (HIPAA)

Companies writing individual coverage in Florida are required to provide individual coverage to certain persons who have guarantee issue coverage rights under the federal Health Insurance Portability and Accountability Act (HIPAA). For HIPAA purposes, Florida Statutes require insurers issuing Out-of-State Group policies to individuals to issue this guarantee issue individual coverage to these eligible individuals when applications are made for such coverage.

Enrollment for HIPAA Policies in Florida 2004-2008



Because these guarantee issue policies normally cover persons who are not able to obtain coverage through their employers or other alternatives, these persons are generally expected to have higher claims costs. This expectation is confirmed by the premium data, which indicates a significantly higher direct incurred loss ratio for guarantee issue policies as compared to medically underwritten policies. Reported HIPAA-issued policies peaked in 2006, dropped sharply in 2007, and now appear to be increasing once again. No explanation can be offered for the anomaly in reporting for 2006, but the trend from 2005 through 2008 overall indicates steady growth in this important safety net coverage.

Table 2
Commercial Insurance Premium 2004-2008

Florida's commercial health insurance markets reported premiums for 2003 through 2008 as shown in Table 2:

| Market Segments | 2004 | 2005 | 2006 | 2007 | 2008 |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Instate Guarantee Issue (HIPAA) | \$48,445,137 | \$81,286,431 | \$113,512,136 | \$114,398,691 | \$122,948,507 |
| Instate Individual Underwritten | \$828,279,051 | \$962,816,696 | \$971,267,393 | \$1,060,991,282 | \$1,144,988,517 |
| Total Instate Individual | \$876,724,188 | \$1,044,103,127 | \$1,084,779,529 | \$1,175,389,973 | \$1,267,937,024 |
| Conversion | \$115,961,444 | \$130,609,710 | \$179,510,321 | \$186,535,721 | \$182,703,276 |
| Instate Groups of One | \$167,245,168 | \$163,826,093 | \$168,488,242 | \$182,123,409 | \$135,940,306 |
| Instate 2-50 Member Groups | \$3,148,232,145 | \$3,562,528,350 | \$3,718,862,653 | \$3,976,802,834 | \$3,932,607,892 |
| Total Instate 1-50 Member Groups | \$3,315,477,313 | \$3,726,354,443 | \$3,887,350,895 | \$4,158,926,243 | \$4,068,548,198 |
| InState 51+ Member Groups | \$8,161,459,254 | \$8,482,142,528 | \$7,746,351,263 | \$7,898,894,769 | \$7,716,104,070 |
| Out-of-State Group Guarantee Issue (HIPAA) | \$10,136,853 | \$12,295,544 | \$13,030,832 | \$13,576,389 | \$14,830,938 |
| Out-of-State Group Individual Underwritten | \$428,042,783 | \$481,718,925 | \$522,084,284 | \$33,838,570 | \$507,972,426 |
| Total Out-of-State Individual | \$438,179,636 | \$494,014,469 | \$535,115,116 | \$547,414,959 | \$522,803,364 |
| Out-of-State Groups of One | \$7,508,735 | \$5,820,464 | \$422,618 | \$2,499,364 | \$1,810,673 |
| Out-of-State 2-50 Member Groups | \$81,533,772 | \$49,823,238 | \$26,668,601 | \$17,796,331 | \$16,938,685 |
| Total Out-of-State 1-50 Member Groups | \$89,042,507 | \$55,643,702 | \$27,091,219 | \$20,295,695 | \$18,749,358 |
| Out-of-State 51+ Member Groups | \$609,153,631 | \$737,092,634 | \$764,197,745 | \$753,833,723 | \$791,562,820 |
| Total | \$13,605,997,973 | \$14,669,960,613 | \$14,224,396,088 | \$14,741,291,083 | \$14,568,408,110 |

As would be expected, total premium data seem to mirror the data for covered lives. Between 2007 and 2008, the total premium collected in Florida for commercial health insurance declined from \$14.74 billion to \$14.57 billion or 1.2%; which mirrors the 1.4% decline in covered lives.

Premium Dollars and Direct Losses

The 2006 Gross Annual Premium reports also provide information on premium dollars compared to direct incurred losses for health care services provided to policyholders during the reporting period. A direct incurred loss ratio is also calculated for each market for each year as shown in Table 3.

Table 3
Direct Premiums/Losses & Loss Ratios
2004-2008

| Market Segments | 2007 | | | 2008 | | |
|--|-------------------------|-------------------------|---------------|-------------------------|-------------------------|---------------|
| | Direct Premium | Direct Losses | Loss Ratio | Direct Premium | Direct Losses | Loss Ratio |
| Instate Guarantee Issue (HIPAA) | \$114,398,611 | \$83,496,853 | 73.0% | \$122,948,507 | \$115,272,521 | 93.8% |
| Instate Individual Underwritten | \$1,060,991,282 | \$721,951,903 | 68.0% | \$1,144,988,517 | \$737,343,474 | 64.4% |
| Total Instate Individual | \$1,175,389,893 | \$805,448,756 | 68.5% | \$1,267,937,024 | \$852,615,995 | 67.2% |
| Conversion | \$186,535,721 | \$224,721,182 | 120.5% | \$182,703,276 | \$230,206,708 | 126.0% |
| Instate Groups of One | \$182,123,409 | \$161,024,408 | 88.4% | \$135,940,306 | \$127,969,748 | 94.1% |
| Instate 2-50 Member Groups | \$3,976,802,834 | \$2,990,371,468 | 75.2% | \$3,932,607,892 | \$2,960,112,810 | 75.3% |
| Total Instate 1-50 Member Groups | \$4,158,926,243 | \$3,151,395,876 | 75.8% | \$4,068,548,198 | \$3,088,082,558 | 75.9% |
| InState 51+ Member Groups | \$7,898,894,769 | \$6,324,100,181 | 80.1% | \$7,716,104,070 | \$6,651,072,237 | 86.2% |
| Out-of-State Group Guarantee Issue (HIPAA) | \$13,576,389 | \$14,820,581 | 109.2% | \$14,830,938 | \$17,541,615 | 118.3% |
| Out-of-State Group Individual Underwritten | \$33,838,570 | \$304,473,098 | 57.0% | \$507,972,426 | \$309,122,144 | 60.9% |
| Total Out-of-State Individual | \$547,414,959 | \$319,293,679 | 58.3% | \$522,803,364 | \$326,663,759 | 62.5% |
| Out-of-State Groups of One | \$2,499,364 | \$1,946,638 | 77.9% | \$1,810,673 | \$142,017 | 7.8% |
| Out-of-State 2-50 Member Groups | \$17,796,331 | \$15,248,866 | 85.7% | \$16,938,685 | \$14,134,294 | 83.4% |
| Total Out-of-State 1-50 Member Grps | \$20,295,695 | \$17,195,504 | 84.7% | \$18,749,358 | \$14,276,311 | 76.1% |
| Out-of-State 51+ Member Groups | \$753,833,723 | \$630,737,222 | 83.7% | \$791,562,820 | \$677,352,624 | 85.6% |
| Total | \$14,741,291,003 | \$11,472,892,400 | 77.8% | \$14,568,408,110 | \$11,840,270,192 | 81.3% |

The direct incurred loss ratio (direct incurred losses as a percent of direct earned premium) for the various market segments generally increased from 2007 to 2008, with the percentage for all insurers increasing from 77.8 percent to 81.3 percent. There were only two market segments that had a decrease in the direct incurred loss ratio: in-state individual health insurance (decreased from 68.5% to 67.2%), and out-of-state small group (decreased from 84.7% to 76.1%).

As expected, the market segments with the highest ratios were conversion policies (126.0%), out-of-state group guarantee issue (118.3%), in-state groups of one (94.1%), and in-state guarantee issue (93.8%).

Conclusion

In the estimation of the FHIAB, the data provided indicates a marketplace in 2008 that does not differ in any significant way from the market as it operated in 2007. The same problems exist (persistently high uninsured, further weakening in coverage by small employers) but total coverage held fairly steady overall for the reporting period.

During the past year, FHIAB assisted the Office of Insurance Regulation in preparing recommendations to address matters affecting Florida's health insurance market for presentation to other executive agencies and the Legislature. Most of these proposals were held in abeyance pending the outcome of federal healthcare reform.

FHIAB looks forward to working with these groups and others to improve Florida's commercial health insurance market and seeking measures that will increase the number of Floridians with health insurance coverage.

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