

# **2010 FLORIDA HEALTH INSURANCE MARKET REPORT**

**BY THE**

**FLORIDA HEALTH INSURANCE ADVISORY BOARD**

September 1, 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 reports issued by the Board rely upon data collected by the Florida Office of Insurance Regulation (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 2010 report is based upon data submitted to the Office by carriers for the year 2009. Previous reports are available on the FHIAB tab on the Office's website at: <http://www.flair.com/FHIAB/index.aspx>.

## 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 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, 2010, not including the executive director. 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 Florida Office of Insurance Regulation (OIR) by each Accident and/or Health Coverage Provider.

### Enrollment

As shown in Table 1, total enrollment in Florida's commercial health insurance markets remained fairly flat over the last five years, peaking at 4.5 million lives in 2006, but settling around 4.3 million until 2009. Perhaps in part reflecting persistent economic woes, enrollment dove under 4 million, declining 9.6% to 3.87 million covered lives at the end of 2009.

Large groups (51+ members) showed the steepest decline in 2009, down 12.4% from 2008 and 17.8% from 2006, falling below 2 million lives for the first time in many years. It is somewhat difficult to get a read on this rather sharp drop, however, as large groups have options others do not, such as turning toward self-insurance for member benefits. The decline in the large group market is probably more an indicator of the gap (perceived or otherwise) in coverage cost between self-insurance and laying off risk via commercial contracts, rather than the abandonment of coverage altogether.

For additional evidence in this regard, small group coverage—normally very sensitive to economic cycles—did not mirror the decline in large group coverage, holding fast to 1.07 million covered lives. While this represents a decrease from the 2007 peak of 13%, the number of covered lives in the small group market has remained essentially flat since 2005 regardless of ups and downs in the economy.

**Table 1**  
**Commercial Insurance Enrollment 2005-2009**

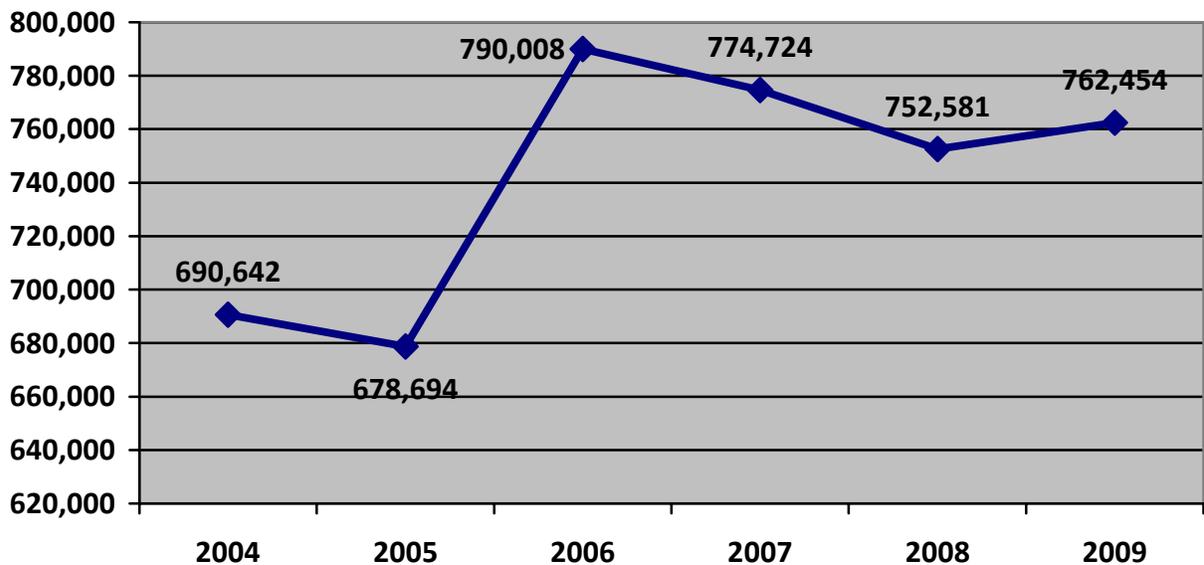
<b>Market Segments</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Instate Guarantee Issue (HIPAA)	29,202	67,691	39,734	47,998	76,203
Instate Individual Underwritten	424,774	479,550	509,063	500,999	503,582
<b>Total Instate Individual</b>	<b>453,976</b>	<b>547,241</b>	<b>548,797</b>	<b>548,997</b>	<b>579,785</b>
<b>Conversion</b>	<b>26,104</b>	<b>45,713</b>	<b>45,547</b>	<b>45,462</b>	<b>52,047</b>
Instate Groups of One	31,613	32,330	32,969	24,690	18,319
Instate 2-50 Member Groups	1,028,949	1,092,579	1,223,531	1,063,644	1,045,923
<b>Total Instate 1-50 Member Groups</b>	<b>1,060,562</b>	<b>1,124,909</b>	<b>1,256,500</b>	<b>1,088,334</b>	<b>1,064,242</b>
<b>Instate 51+ Member Groups</b>	<b>2,233,435</b>	<b>2,315,912</b>	<b>2,023,955</b>	<b>2,174,190</b>	<b>1,904,722</b>
Out-of-State Group Guarantee Issue (HIPAA)	1,482	1,508	1,508	1,729	1,832
579785Out-of-State Group Individual Underwritten	223,236	241,259	224,419	201,855	180,837
<b>Total Out-of-State Individual</b>	<b>224,718</b>	<b>242,767</b>	<b>225,927</b>	<b>203,584</b>	<b>182,669</b>
Out-of-State Groups of One	1,155	0	281	301	162
Out-of-State 2-50 Member Groups	10,966	5,319	4,848	4,372	4,706
<b>Total Out-of-State 1-50 Member Groups</b>	<b>12,121</b>	<b>5,319</b>	<b>5,129</b>	<b>4,673</b>	<b>4,868</b>
<b>Out-of-State 51+ Member Groups</b>	<b>234,621</b>	<b>221,624</b>	<b>239,078</b>	<b>215,065</b>	<b>81,224</b>
<b>Total</b>	<b>4,245,537</b>	<b>4,503,485</b>	<b>4,344,933</b>	<b>4,280,305</b>	<b>3,869,557</b>

## 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 remained fairly stable since, rising to 762,454 lives in 2009, an increase of 1.3% from 2008, and up 10.4% from 2004, but down 3.5 % from the 2006 high.

### **Enrollment for the Individual Health Market in Florida 2004-2009**



## Health Insurance Portability and Accountability Act (HIPAA)

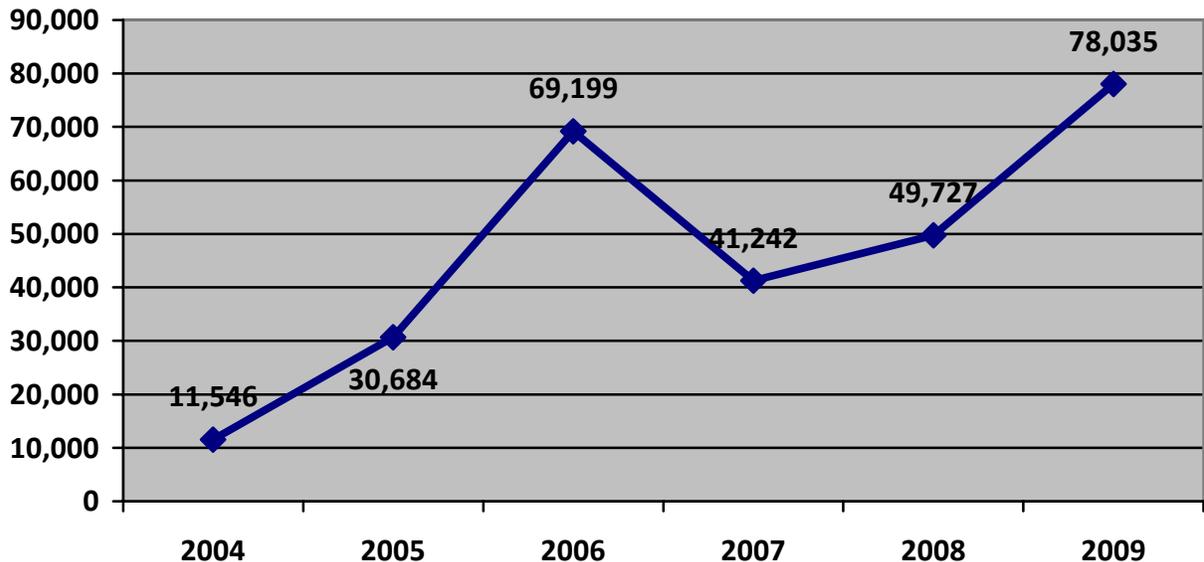
Most individual health care coverage in Florida is issued upon evidence of insurability, meaning applicants most undergo medical underwriting to determine suitability of coverage. Therefore, relatively good health is virtually always essential to obtain this form of coverage. For the most part,

then, 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 the Health Insurance Portability and Accountability Act (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. In fact, there was a *decrease* in medically-underwritten individual coverage by 2.6% and an *increase* of HIPAA-issued coverage of 57%. According to data provided by carriers, HIPAA-issued policies as a proportion of all individual coverage issued rose from 6.6% of policies in force to 10.2% of policies in force, a disturbing trend for this market given the loss ratios generated by HIPAA-issued coverage.

### **Enrollment for HIPAA Policies in Florida 2004-2009**



## Commercial Premiums

Another way of looking at the marketplace is to examine the total premiums paid in various markets. If enrollment is flat but premium collections increase significantly, it can indicate rising costs which might help to explain why coverage remains stagnant. In the large group market, which showed a sharp decline in enrollment (down nearly 17%) overall premium collections nonetheless rose 3.2% over the same period, indicating that rising costs in the insured market may indeed have driven more of these groups into self-insured arrangements.

In the small group market, where enrollment declined year over year by 2.2%, premiums collected in this market actually rose a fraction. Clearly, cost increases in this market were not as well tolerated.

In the individual market, where enrollment increased 1.3% from 2008, premium collections mirrored the gain, rising 1.6%.

**Table 2**  
**Commercial Insurance Premium 2005-2009**

<b>Market Segments</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Instate Guarantee Issue (HIPAA)	\$81,286,431	\$113,512,136	\$114,398,611	\$122,948,507	\$184,476,385
Instate Individual Underwritten	\$962,816,696	\$971,267,393	\$1,092,940,124	\$1,144,988,517	\$1,139,104,837
<b>Total Instate Individual</b>	<b>\$1,044,103,127</b>	<b>\$1,084,779,529</b>	<b>\$1,207,338,735</b>	<b>\$1,267,937,024</b>	<b>\$1,323,581,222</b>
<b>Conversion</b>	<b>\$130,609,710</b>	<b>\$179,510,321</b>	<b>\$186,495,932</b>	<b>\$182,703,276</b>	<b>\$189,722,540</b>
Instate Groups of One	\$163,826,093	\$168,488,242	\$182,123,409	\$135,940,306	\$133,628,189
Instate 2-50 Member Groups	\$3,562,528,350	\$3,718,862,653	\$3,976,802,834	\$3,932,607,892	\$3,930,428,639
<b>Total Instate 1-50 Member Groups</b>	<b>\$3,726,354,443</b>	<b>\$3,887,350,895</b>	<b>\$4,158,926,243</b>	<b>\$4,068,548,198</b>	<b>\$4,064,056,828</b>
<b>InState 51+ Member Groups</b>	<b>\$8,482,142,528</b>	<b>\$7,746,351,263</b>	<b>\$7,898,894,769</b>	<b>\$7,716,104,070</b>	<b>\$7,998,029,911</b>
Out-of-State Group Guarantee Issue (HIPAA)	\$12,295,544	\$13,030,832	\$13,576,389	\$14,830,938	\$15,934,109
Out-of-State Group Individual Underwritten	\$481,718,925	\$522,084,284	\$533,838,570	\$507,972,426	\$480,354,818
<b>Total Out-of-State Individual</b>	<b>\$494,014,469</b>	<b>\$535,115,116</b>	<b>\$547,414,959</b>	<b>\$522,803,364</b>	<b>\$496,288,927</b>
Out-of-State Groups of One	\$5,820,464	\$422,618	\$2,499,364	\$1,810,673	\$434,309

Out-of-State 2-50 Member Groups	\$49,823,238	\$26,668,601	\$17,796,331	\$16,938,685	\$20,456,961
<b>Total Out-of-State 1-50 Member Groups</b>	<b>\$55,643,702</b>	<b>\$27,091,219</b>	<b>\$20,295,695</b>	<b>\$18,749,358</b>	<b>\$20,891,270</b>
Out-of-State 51+ Member Groups	\$737,092,634	\$764,197,745	\$753,833,723	\$791,562,820	\$234,000,776
<b>Total</b>	<b>\$14,669,960,613</b>	<b>\$14,224,396,088</b>	<b>\$14,773,200,056</b>	<b>\$14,568,408,110</b>	<b>\$14,326,571,474</b>

### Premium Dollars and Direct Losses

Comparing premiums collected in various markets along 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 (which represents 97% of the large group market) experienced a loss ratio of 89% in 2009, but this is a high 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 2008 was 86%, so 2009 represented a significant increase that carriers likely made efforts to moderate in 2010.

Small group loss ratios also rose significantly in 2009, to 81.9% from 75.9% in 2008, again indicating medical cost pressures that will likely be reflected in premiums going forward.

Individual market loss ratios remained relatively stable on the medically underwritten side, coming in at 63% for 2009, pretty much flat year over year. In-state HIPAA-issued policies experienced a 97.8% loss ratio for 2009, up from 93.8% in 2008; HIPAA-issued certificates issued through out-of-state associations reported a higher loss ratio for such coverage, 125.7%, up from 118.3% in 2008.

However, it must be noted that the ratio of HIPAA-issued policies to medically-underwritten policies for in-state carriers is 1:11 while the ratio of HIPAA-issued certificates to medically-underwritten certificates for out-of-state association groups is 1:99, indicating significant cost-avoidance despite what the loss ratios indicate.

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 129.9% for 2009, up from 126% in 2008. 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 50,296 in 2009, up 10% since 2006.

**Table 3**  
**Direct Premiums/Losses & Loss Ratios**  
**2005-2009**

Market Segments	2008			2009		
	Direct Premium	Direct Losses	Loss Ratio	Direct Premium	Direct Losses	Loss Ratio
Instate Guarantee Issue (HIPAA)	\$122,948,507	\$115,272,521	93.8%	\$184,476,385	\$180,482,512	97.8%
Instate Individual Underwritten	\$1,144,988,517	\$737,343,474	64.4%	\$1,139,104,837	\$716,180,059	62.9%
<b>Total Instate Individual</b>	<b>\$1,267,937,024</b>	<b>\$852,615,995</b>	<b>67.2%</b>	<b>\$1,323,581,222</b>	<b>\$896,662,571</b>	<b>67.7%</b>
<b>Conversion</b>	<b>\$182,703,276</b>	<b>\$230,206,708</b>	<b>126.0%</b>	<b>\$189,722,540</b>	<b>\$243,610,258</b>	<b>128.4%</b>
Instate Groups of One	\$135,940,306	\$127,969,748	94.1%	\$133,628,189	\$141,617,015	106.0%
Instate 2-50 Member Groups	\$3,932,607,892	\$2,960,112,810	75.3%	\$3,930,428,639	\$3,188,030,708	81.1%
<b>Total Instate 1-50 Member Groups</b>	<b>\$4,068,548,198</b>	<b>\$3,088,082,558</b>	<b>75.9%</b>	<b>\$4,064,056,828</b>	<b>\$3,329,647,723</b>	<b>81.9%</b>
<b>InState 51+ Member Groups</b>	<b>\$7,716,104,070</b>	<b>\$6,651,072,237</b>	<b>86.2%</b>	<b>\$7,998,029,911</b>	<b>\$7,136,100,646</b>	<b>89.2%</b>
Out-of-State Group Guarantee Issue (HIPAA)	\$14,830,938	\$17,541,615	118.3%	\$15,934,109	\$20,028,576	125.7%
Out-of-State Group Individual Underwritten	\$507,972,426	\$309,122,144	60.9%	\$480,354,818	\$302,041,212	62.9%
<b>Total Out-of-State Individual</b>	<b>\$522,803,364</b>	<b>\$326,663,759</b>	<b>62.5%</b>	<b>\$496,288,927</b>	<b>\$322,069,788</b>	<b>64.9%</b>
Out-of-State Groups of One	\$1,810,673	\$142,017	7.8%	\$434,309	\$286,550	66.0%
Out-of-State 2-50 Member Groups	\$16,938,685	\$14,134,294	83.4%	\$20,456,961	\$11,587,902	56.6%
<b>Total Out-of-State 1-50 Member Grps</b>	<b>\$18,749,358</b>	<b>\$14,276,311</b>	<b>76.1%</b>	<b>\$20,891,270</b>	<b>\$11,874,452</b>	<b>56.8%</b>
<b>Out-of-State 51+ Member Groups</b>	<b>\$791,562,820</b>	<b>\$677,352,624</b>	<b>85.6%</b>	<b>\$234,000,776</b>	<b>\$182,417,619</b>	<b>78.0%</b>
<b>Total</b>	<b>\$14,568,408,110</b>	<b>\$11,840,270,192</b>	<b>81.3%</b>	<b>\$14,326,571,474</b>	<b>\$12,122,383,057</b>	<b>84.6%</b>

## **Conclusion**

In the estimation of the FHIAB, the data provided indicates a market in 2009 that does not markedly differ from the way the market finished 2008, if one accepts that the large group market likely restructured coverage rather than dropping it altogether. Enrollment otherwise remained basically steady, which was encouraging at a time of deepening economic difficulty. However, the continuing malaise in the small group market and the inability of the individual market to grow beyond HIPAA-eligibles are troubling signs and bear watching in 2010.

The drop in enrollment overall is in itself is not surprising against the overall economic backdrop, but it remains discouraging given the opportunity: according to recent Census Bureau data associated with its annual American Community Survey, Florida's uninsured population (20.8%) is the fourth highest in the nation, trailing only Texas, New Mexico, and Nevada, all states which top 21%. Reversing this circumstance would make a significant contribution not only to the health of the Florida's population, but to the health of the marketplace as well.

During the past year, FHIAB assisted the Office of Insurance Regulation in examining and debating federal healthcare reform proposals as they made their way forward in Washington. 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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