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NEW COMMONWEALTH FUND REPORT: HEALTH INSURERS' FINANCIAL PERFORMANCE VARIED IN ACA'S FIRST YEAR; PAYMENTS TO REIMBURSE INSURERS FOR HIGH-COST PATIENTS WERE SUCCESSFUL

New York, NY, July 20, 2016—Health insurers' profits on policies sold to individuals varied in 2014, the first year they participated in the Affordable Care Act's (ACA) marketplaces, according to a new Commonwealth Fund report. One-third remained or became profitable, while two-thirds were unprofitable. However, the majority of insurers that lost money in the individual market also did not turn a profit the previous year, before the ACA was implemented.

In the report, *How Has the Affordable Care Act Affected Health Insurers' Financial Performance?,* Mark A. Hall and Michael J. McCue analyze insurers' financial performance, some of which was made available for the first time as a requirement of the ACA. The researchers note that the first year of ACA marketplaces presented substantial challenges for insurers, because they had to make assumptions about how much they would spend on enrollees' medical costs and decide how high to set premium prices to ensure that medical costs and overhead expenses would be covered.

When comparing what insurers estimated they would spend on enrollees' medical care to what they actually spent, the report found that medical costs were only 2 percent higher than insurers expected in the individual market. According to the report, the ACA's reinsurance provision was largely responsible for keeping estimated and actual medical costs fairly closely in line. The reinsurance program, which is paid for through an earmarked fee on all health insurance plans, reimbursed insurers for spending on high-cost enrollees, and those payments helped to make up for lost dollars when insurers' medical cost estimates were too low.

"One insurer can have a very different experience than another, so to draw accurate conclusions about how insurance companies are faring in the ACA marketplaces it's important to look at their experiences comprehensively," said Hall, the study's lead author and Fred D. and Elizabeth L. Turnage Professor at the Wake Forest University School of Law. "When we do that it is clear that estimating exactly how much these new enrollees would cost them was a challenge but the reinsurance program protected them from large losses on enrollees with high medical costs."

The researchers analyzed data from the Centers for Medicare and Medicaid Services on insurers' profits from selling insurance; insurers also profit from investments, but those profits were excluded from this report. The study included all 144 insurers with at least 1,000 individual-market enrollees that were active in 2013 and that sold primarily ACA-compliant policies in 2014.

Additional key findings include:

- **Insurers' overall premium revenue from individual market plans increased 97 percent,** from $30.3 billion in 2012 to $59.7 billion in 2014 due to the large number of new enrollees in the ACA marketplaces.
- **Administrative costs represented a smaller percentage of premiums in the individual market in 2014 than in previous years.** Premiums pay for two things: enrollees' medical costs and insurers' administrative and sales costs. In the ACA's first year, individual market insurers were able to keep administrative and sales costs to 13.7 percent of premiums compared to 2012, when overhead expenses represented 15.5 percent of premiums.
- **The best performing quartile of insurers in the individual market had an average 8.5 percent profit margin, compared with an average 21.8 percent loss by the worst performing quartile.** Medical costs were the main driver of these differences. Medical costs net of reinsurance payments exceeded premiums by 5 percent for carriers in the bottom quartile. In contrast, insurers in the top-performing quartile had net medical costs that averaged 20 percent less than premiums.
- **Among profitable insurers in 2014, about half were profitable both in 2013, prior to the launch of the marketplaces, and in 2014, whereas half turned from loss to profit.** Among unprofitable insurers, about three-quarters incurred losses in both 2013 and 2014 and a quarter turned from profit to loss.

"The ACA marketplaces are functioning like other competitive markets, with some insurers doing better than others," said Commonwealth Fund President David Blumenthal, M.D. "In order for the ACA marketplaces to continue to provide a range of options for consumers, insurers must be able to sell plans at premiums that cover their costs. Marketplace performance should be monitored on an ongoing basis to ensure that they remain stable and competitive."

Moving Forward

The Affordable Care Act's major health insurance reforms—providing subsidies for low-income families, establishing the marketplaces, and making health insurance available to people with preexisting conditions—changed the individual insurance market in ways that insurers were expected to have difficulty predicting initially. This is why the law included programs like reinsurance in the first few years of the reforms.

To give insurers more time to adjust, the authors recommend that policymakers consider extending the ACA's reinsurance provision, which phases out in 2017. They note that reinsurance was successful in helping insurers navigate a new and untested market in 2014. And while it is anticipated that insurers will improve their performance as they gain a better understanding of their enrollees and their medical needs, they may need more time to adjust.

When the embargo lifts, the study will be available at http://www.commonwealthfund.org/Publications/Issue-Briefs/2016/Jul/The-Affordable-Care-Act-and-Health-Insurers-Financial-Performance.