IN THE LITERATURE

Financial Performance of Health Insurers: State-Run Versus Federal-Run Exchanges

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Authors Mark A. Hall, Michael J. McCue, and Jennifer R. Palazzolo

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Contact Mary Mahon, Vice President, Public Information, The Commonwealth Fund, mm@cmwf.org

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SYNOPSIS

Researchers compared health insurers' profitability in 2013 and 2014, the years before and after the introduction of the Affordable Care Act's (ACA) insurance marketplaces. The median loss for insurers overall in both years was 4 percent. Insurers performed better in states that operated their own health insurance marketplaces than in states that used the federal marketplace, with the difference largely driven by medical loss ratios.

THE ISSUE

The ACA changed the dynamics of the individual health insurance market with rules intended to expand coverage and reforms to how individual insurance is priced and sold. In the years since the law went into effect, there have been concerns over insurers' profitability, as some companies have sustained losses or left the market entirely. A Commonwealth Fund–supported study published in *Medical Care Research and Review* examined insurers' key financial measures over two years (2013 and 2014) to assess profitability, identify factors driving financial performance, and compare performance in states that ran their own health insurance marketplace and those that used the federal marketplace.

KEY FINDINGS

- For established insurers with significant enrollment, profit/loss levels remained statistically the same, with median losses of about 4 percent in both 2013 and 2014.
- Insurers did better in states that operated their own marketplaces. In states with state-run marketplaces, 24 insurers went from a negative profit margin to a positive one in 2014, while 10 were positive in both 2013 and 2014. In total, 34 out of 76 insurers (45%) had positive profit margins in the state-run marketplaces in 2014.
- In the federal marketplace, only four insurers went from a negative to a positive margin in 2014; 15 insurers were positive in both 2013 and 2014. Nineteen of 68 insurers (28%) had positive profit margins in the federal marketplace.
- In states that used the federal marketplace, insurers' median medical loss ratio—the percentage of insurance premium dollars spent on medical expenses and quality improvement—increased by 10 percentage points, while their median administrative cost ratio dropped by five percentage points. In states with their own marketplaces, there was no significant change in insurers' medical loss ratio, but the administrative cost ratio dropped three percentage points.

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THE BIG PICTURE

The authors conclude that the ACA's implementation in 2014 "did not substantially disrupt the individual market among existing insurers of credible size." However, they noted differences, largely driven by medical loss ratios, between states that operated their own marketplaces and those using the federal marketplace. Factors that likely contributed to higher profitability include:

- greater efforts by some states to publicize their exchange and generate more enrollment, which may have resulted in a more balanced risk pool;
- political cultures that were more supportive of the ACA in general;
- greater accuracy in actuarial projections; and
- a higher likelihood of expanding Medicaid, which takes higher-risk people out of the marketplace pool.

By focusing on the more manageable of these factors, like expanding outreach and enrollment efforts or improving actuarial projections, states might be able to improve the financial outlook for insurers participating in the marketplaces, the authors say.

Millions of newly covered beneficiaries presented insurers a golden business opportunity, but the new restrictions on medical underwriting meant that insurers faced uncertain actuarial risk in pricing their products.

ABOUT THE STUDY

The authors used two data sets maintained by the Center for Consumer Information and Insurance Oversight, based on mandatory reporting by all regulated health insurers. The final sample included 144 insurers with a total of 7.8 million members. The authors looked at medical loss ratios, administrative costs, and operating profit.

THE BOTTOM LINE

The median insurer reported losses of 4 percent in the individual market in both 2013 and 2014, suggesting that the ACA did not substantially disrupt the individual market among established insurers.

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This summary was prepared by Matthew Hall.