

Note: This session has live audience polling

Review & Preview

AM Best's 31st Annual *Review & Preview* Conference
March 18-20, 2024 • San Antonio, Texas



Health Review & Preview

Bridget Maehr – Director, AM Best
Doniella Pliss – Director, AM Best

Please download the conference app for access to polling questions, Q&A and conference details



Apple Store

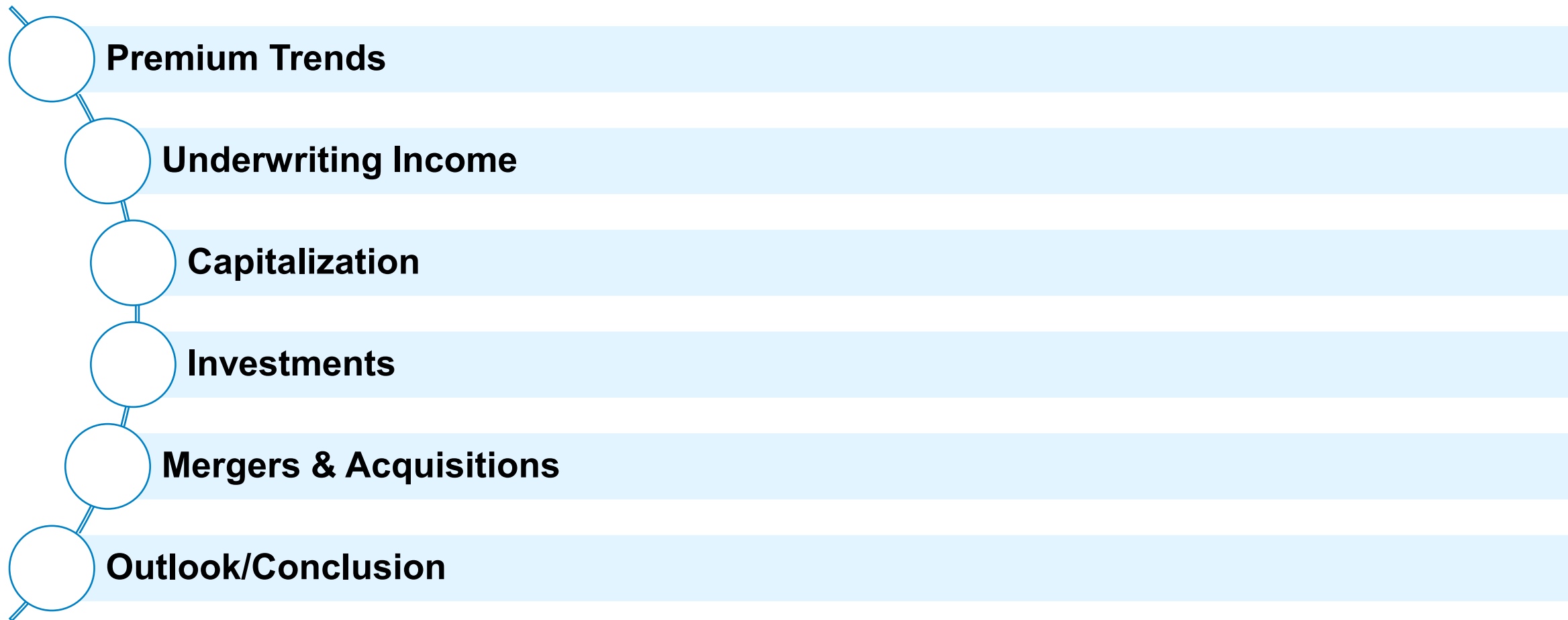


Google Store

This session has live Q&A – please submit questions via the “Ask A Question” icon in the session navigation bar



Agenda



Health Insurers Navigating a Balancing Act

Polling Question #1

Which line of business is driving revenues for your organization?

- a) Commercial (individual/employer major medical)
- b) Medicare Advantage
- c) Medicaid Managed Care
- d) Other coverages (supplemental health, disability, etc.)



Polling Question #2

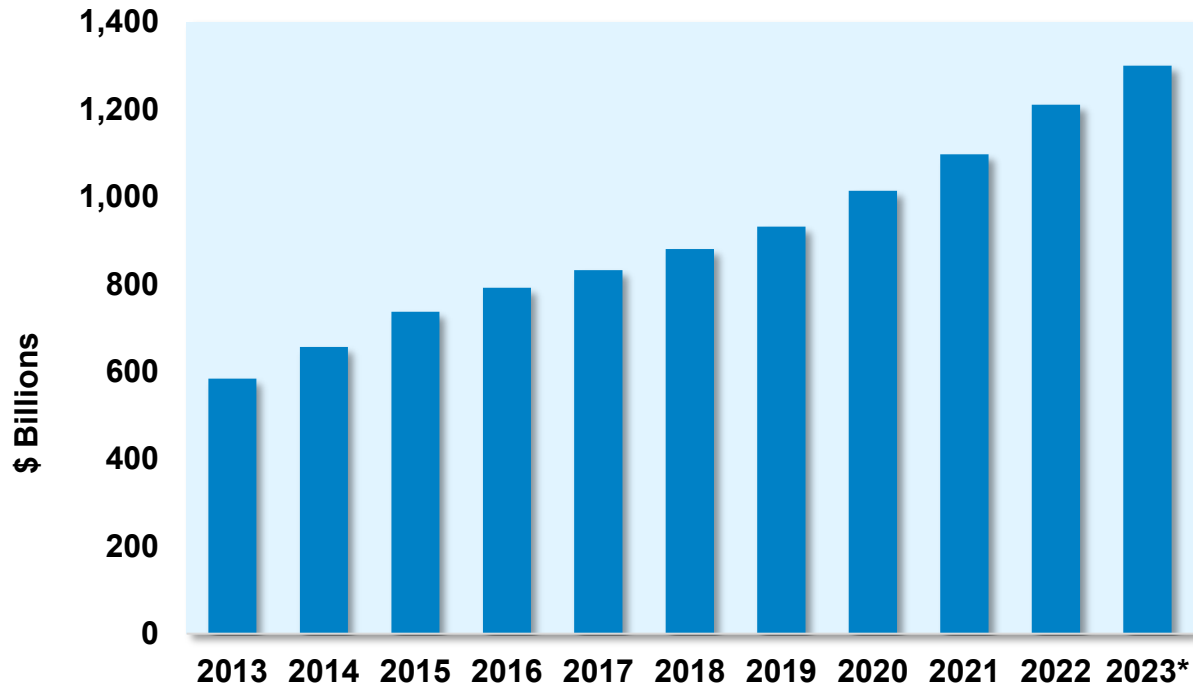
Which line of business is driving earnings for your organization?

- a) Commercial (individual/employer major medical)
- b) Medicare Advantage
- c) Medicaid Managed Care
- d) Other coverages (supplemental health, disability, etc.)
- e) None of the above (investment income is the driver)

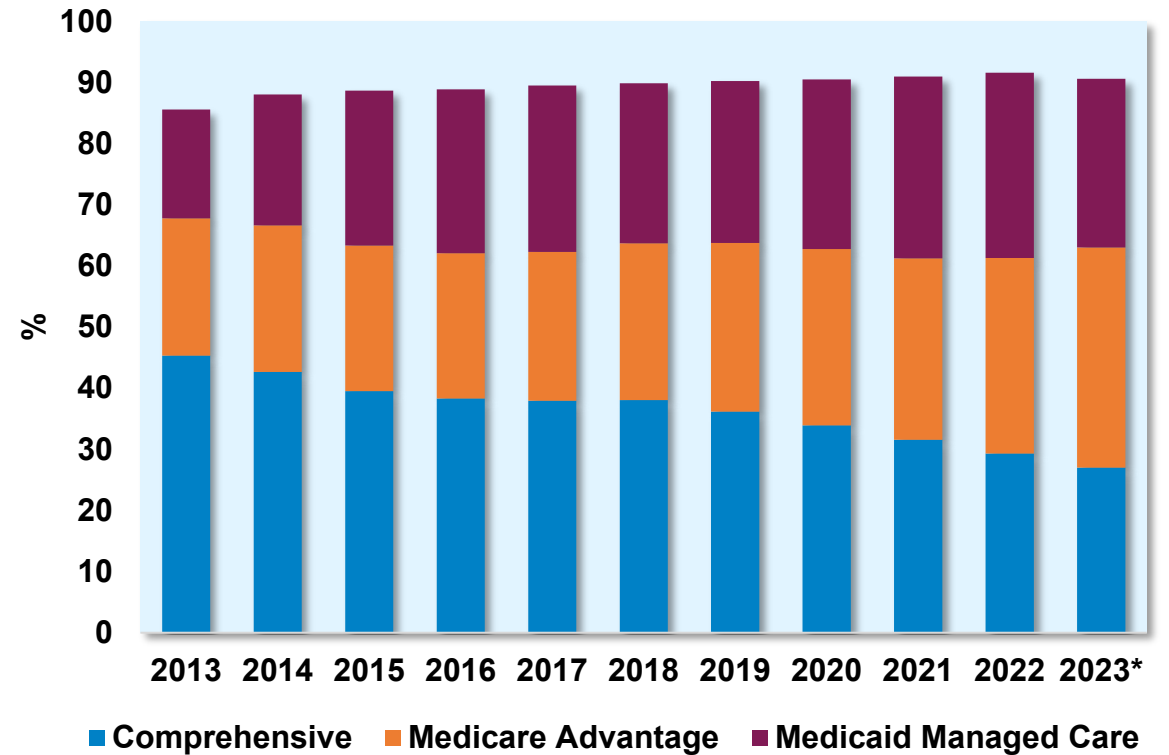


Health Industry Net Premiums Written

Total Net Premiums Written

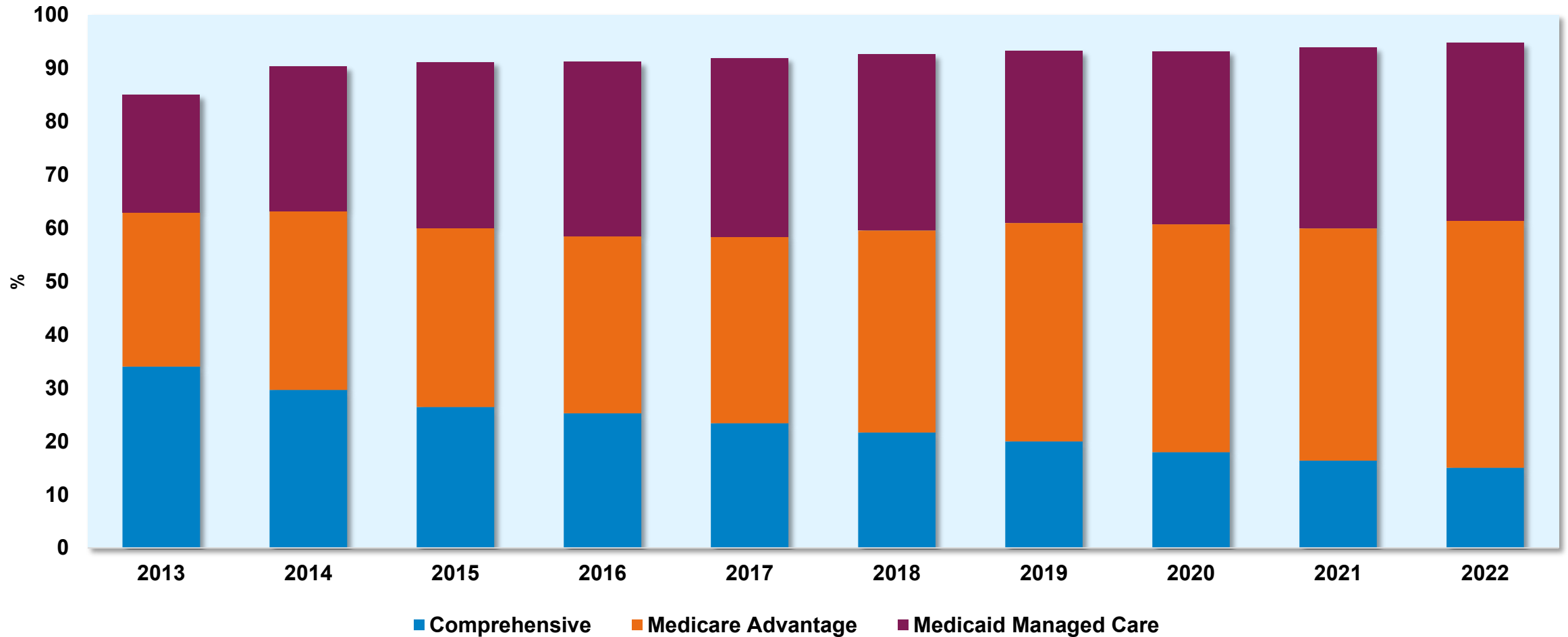


Net Premiums Written by Source



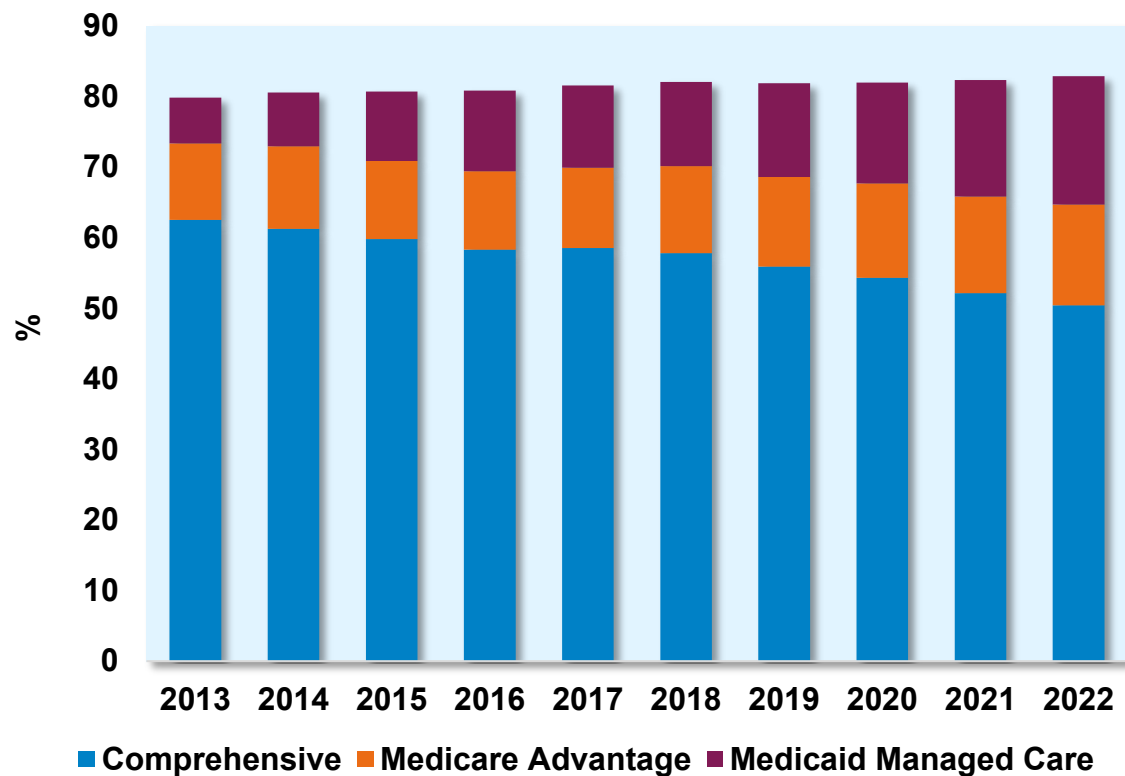
*Projection for 2023

Sources of Net Premiums Written – Publicly Traded Health Insurers

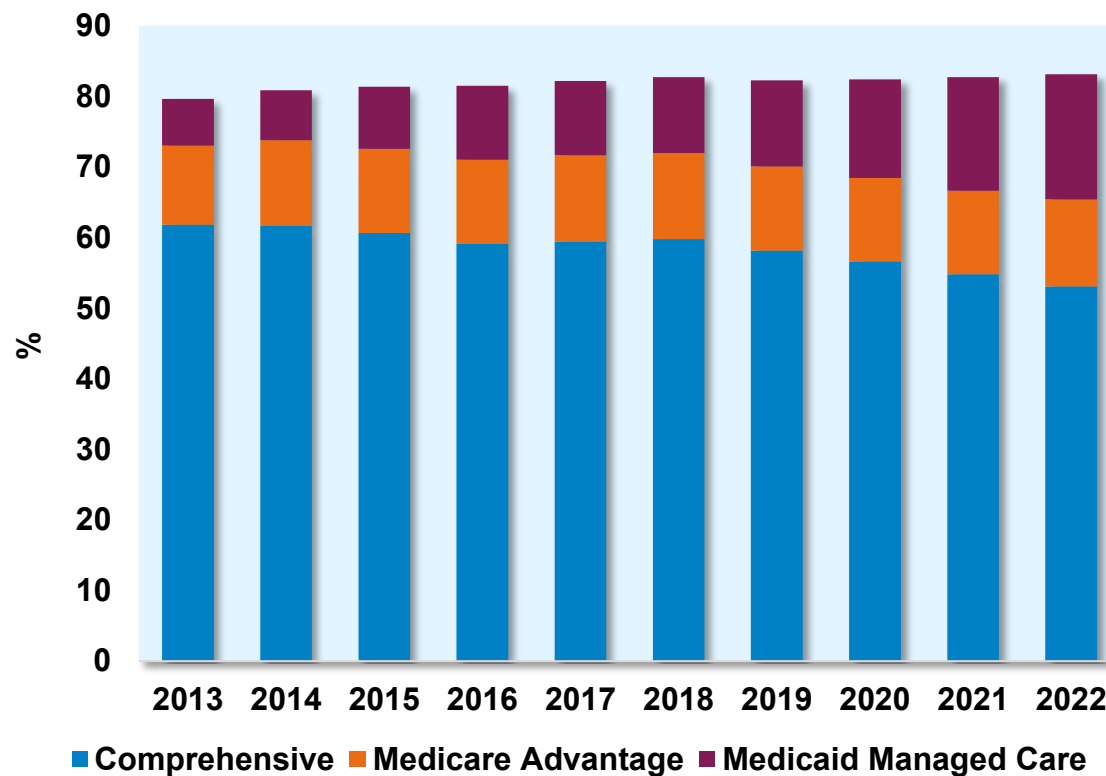


Sources of Net Premiums Written – BCBS

BCBS Companies

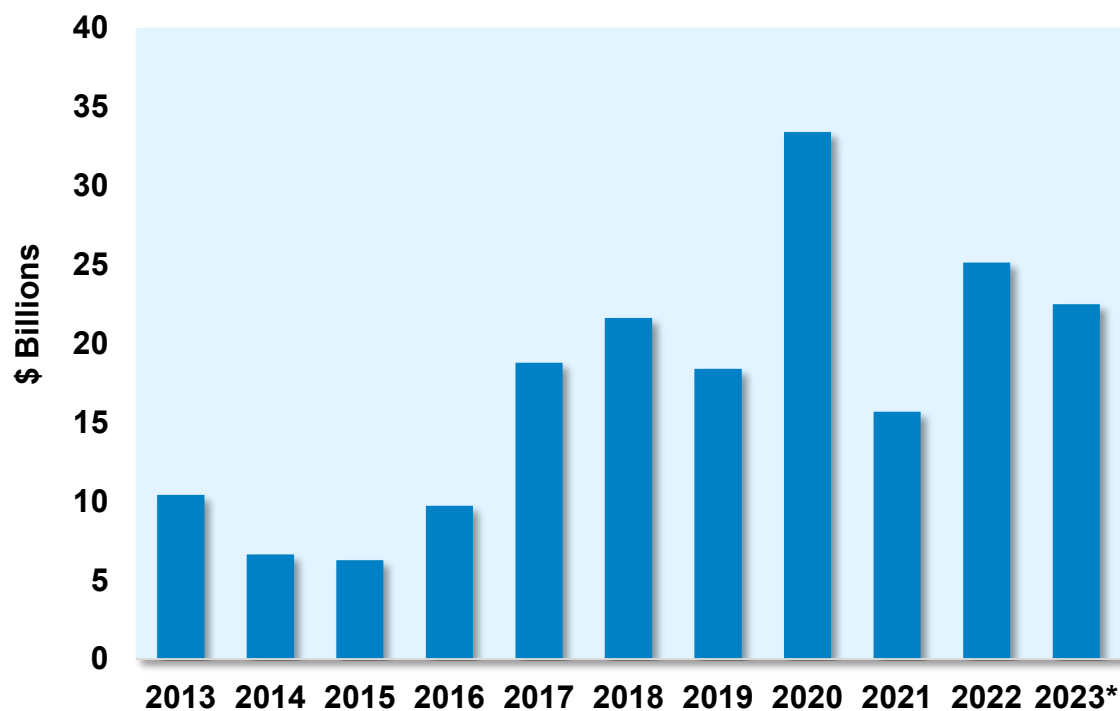


BCBS Companies Excluding Elevance

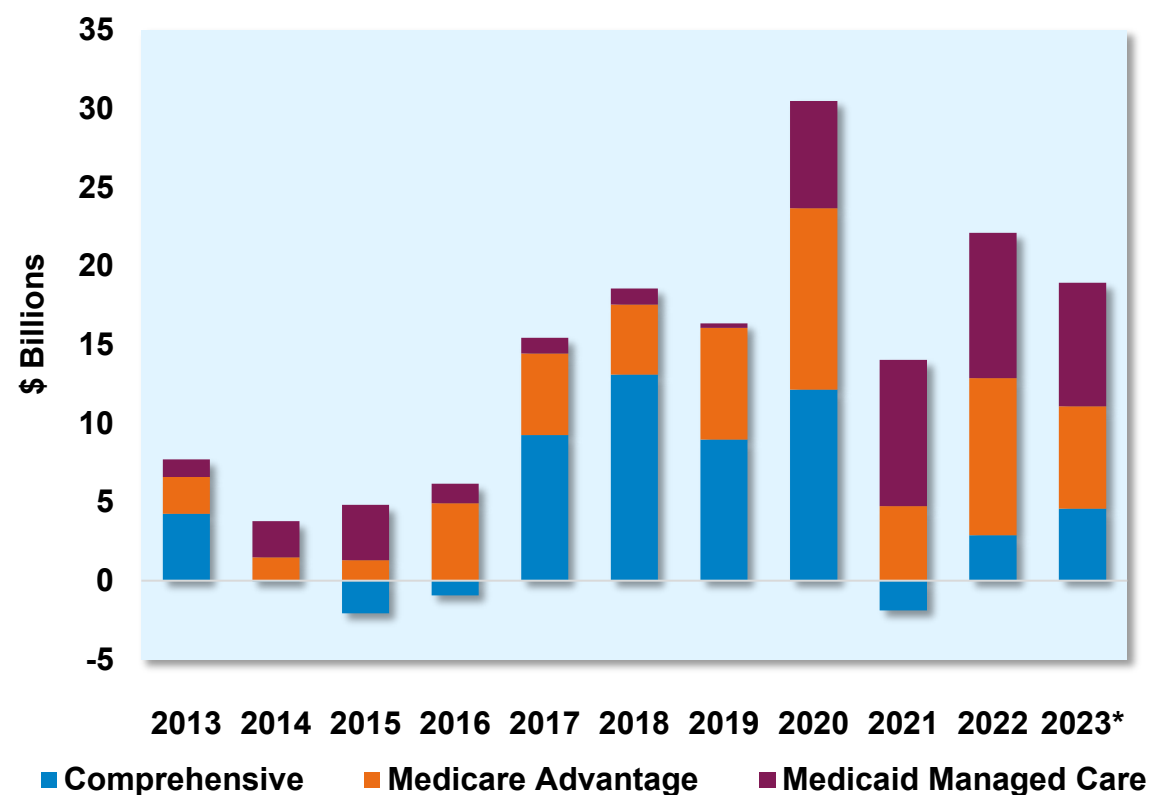


Health Industry Underwriting Income

Total Underwriting Income

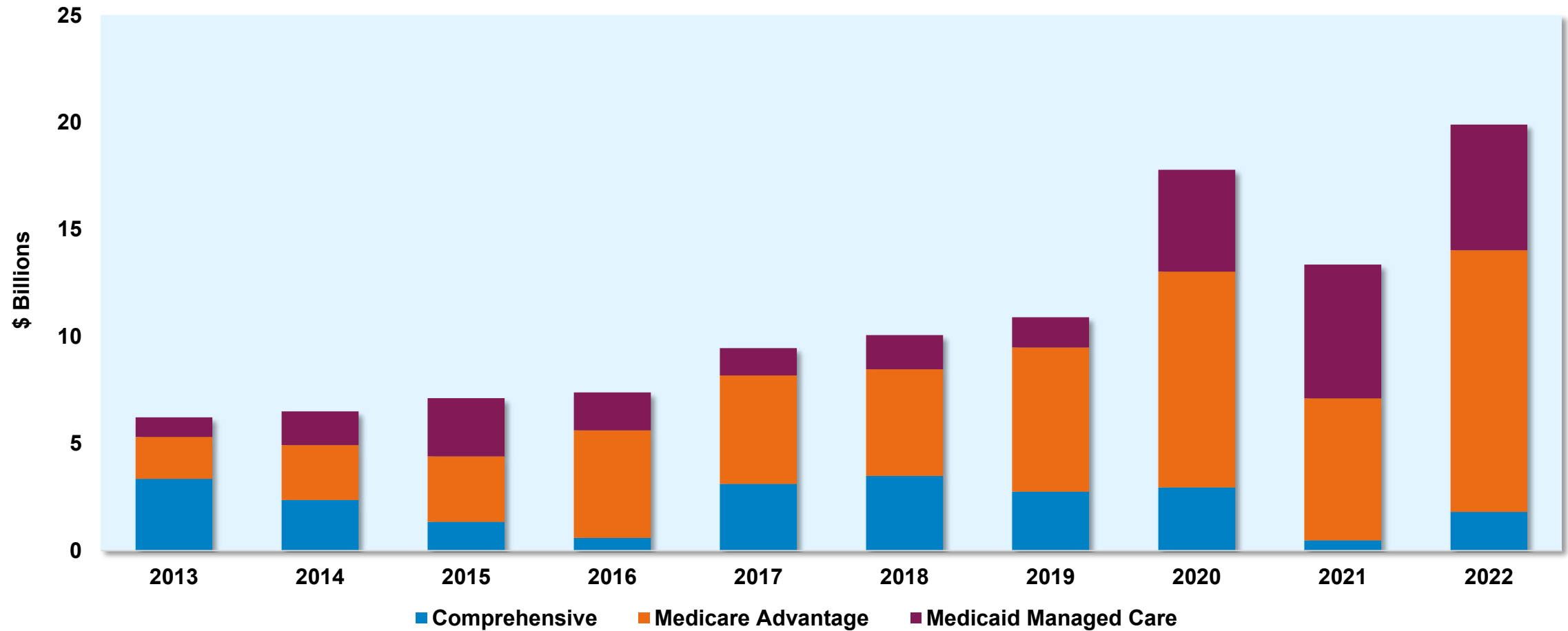


Underwriting Income by Source



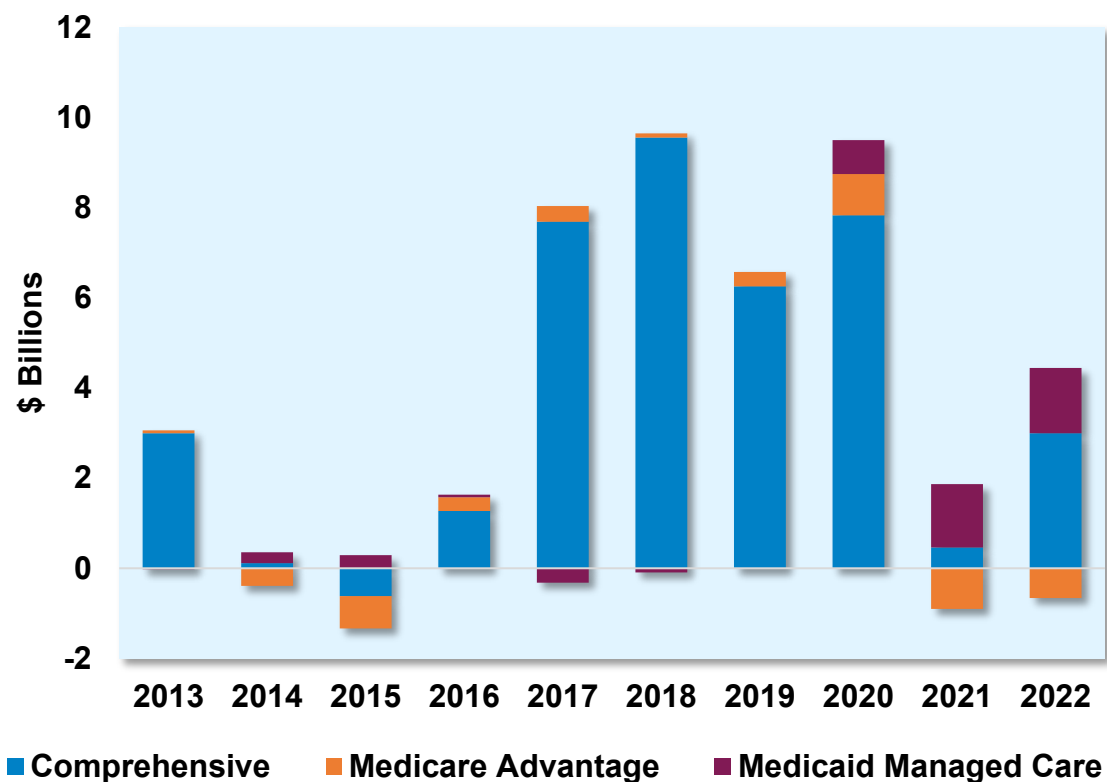
*Projection for 2023

Sources of Underwriting Income – Publicly Traded Health Insurers

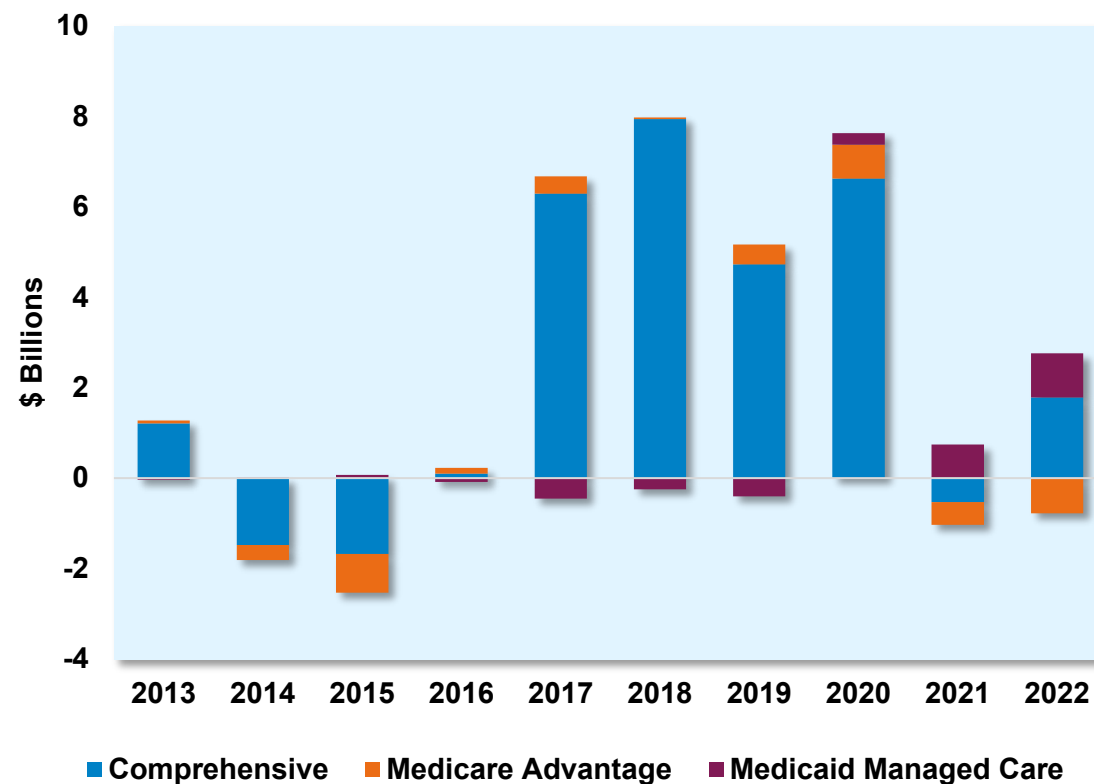


Sources of Underwriting Income – BCBS

BCBS Companies



BCBS Companies Excluding Elevance



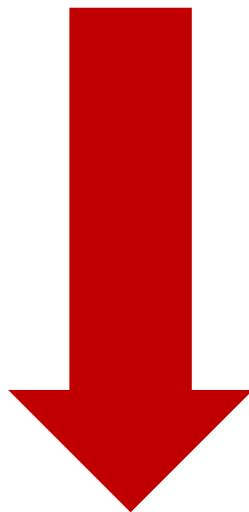
AM Best Predictions

Line of Business	Revenues	Earnings
Commercial (individual/employer)	↑	↑
Medicare Advantage	↑	↓
Medicaid Managed Care	↓	↓

2024 – Commercial Segment

Employer Group Lack of Fully Insured Growth

- Little inorganic growth
- Continued shift to lower margin ASO
- Provider pricing pressures



Enrollment Gains from Individual ACA

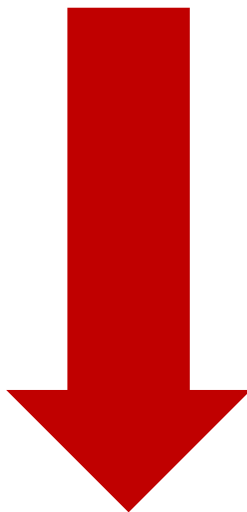
- Increased subsidies
- Individuals shifting from Medicaid to ACA product
- Two years of higher rate increases to offset industry pressures
- Strong growth in stop-loss
- Overall segment to remain **profitable**



2024 – Medicare Advantage

Increased Utilization

- Out-patient services, especially orthopedic & cardiac
- Supplemental benefits (dental/vision)
- In-patient services
- Vaccines
- Preventive care visits
- Home health services
- High-cost drugs
- Insurers with small and medium-sized blocks may struggle with profitability



Growing Revenues/Membership

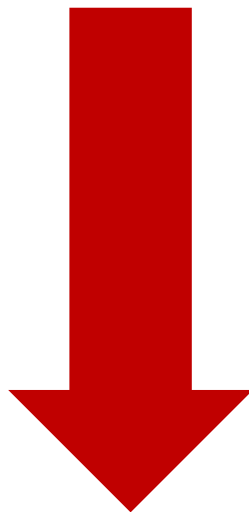
- Peak # of baby boomers turn 65 from 2024-2027
- 50%+ of those eligible for Medicare, select Medicare Advantage
- Ability to implement medical management
- Larger insurers with scale better able to absorb higher claims
- Overall segment to remain **profitable**



2024 – Medicaid Managed Care

Impact of Redeterminations

- Continued enrollment decline in 1Q24
- Deterioration of risk pool



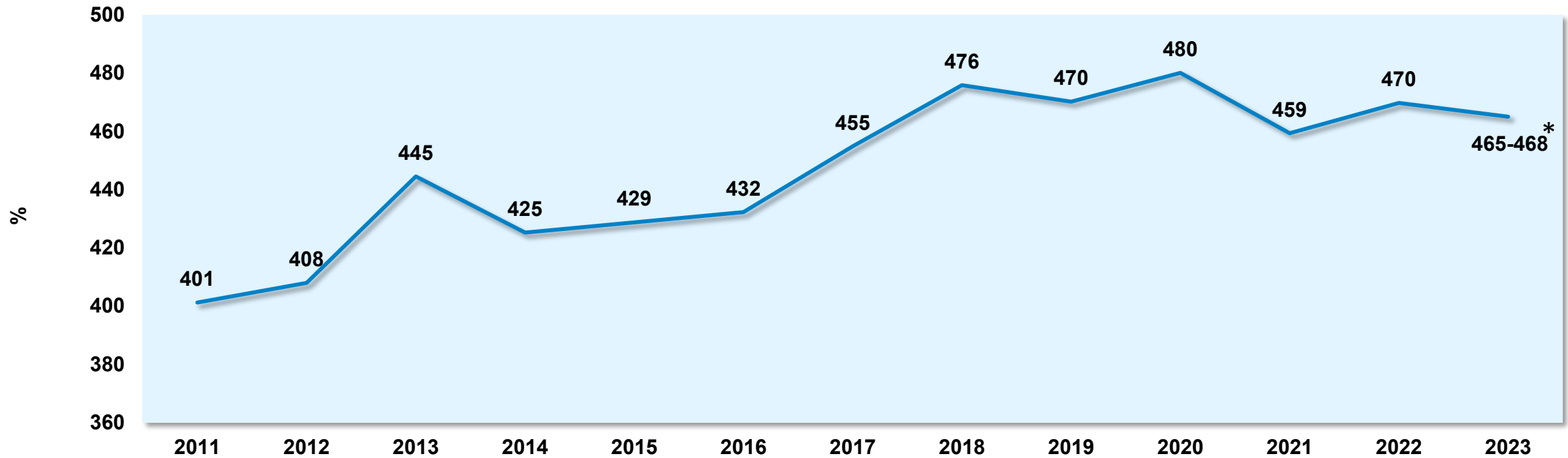
States Adding Higher Acuity Members to Managed Medicaid Programs (LTSS, Duals, SNP)

- These programs have higher premium per member
- Gain membership from RFP awards
- Overall segment to remain **profitable**



Risk-Adjusted Capitalization

Average Risk-Based Capital (% over CAL)
Includes Orange Book Filers Only



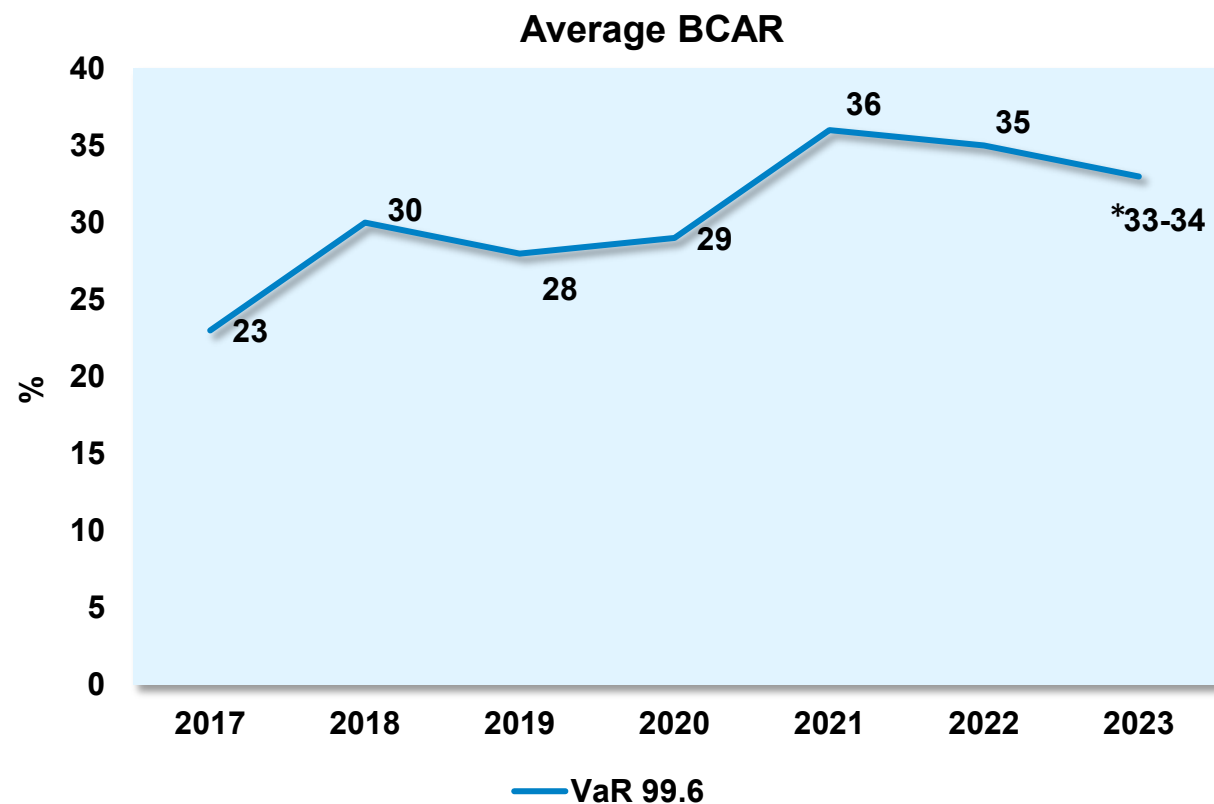
*Projection for 2023

Best Capital Adequacy Ratio (BCAR)

$$\text{BCAR} = \frac{(\text{Available Capital} - \text{Net Required Capital})}{\text{Available Capital}} \times 100$$

VaR Level (%)	BCAR	BCAR Assessment
99.6	> 25 at 99.6	Strongest
99.6	> 10 at 99.6 & ≤ 25 at 99.6	Very Strong
99.5	> 0 at 99.5 & ≤ 10 at 99.6	Strong
99	> 0 at 99 & ≤ 0 at 99.5	Adequate
95	> 0 at 95 & ≤ 0 at 99	Weak
95	≤ 0 at 95	Very Weak

Average BCAR Score – US Health

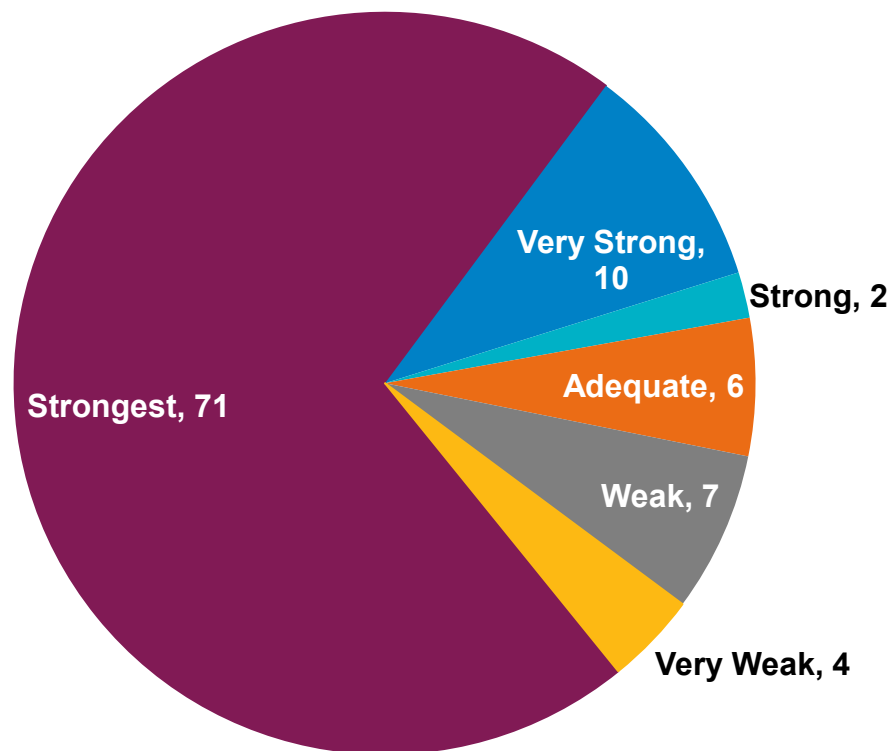


- Average BCAR score has been Strongest since 2018
- Scores tend to be higher for BCBS organizations and lower for publicly traded MCOs
- Pressure from profitability decline and realized/unrealized losses in 2022
- Decline in Medicaid Managed Care premium will have positive impact on BCAR scores

*Projection for 2023

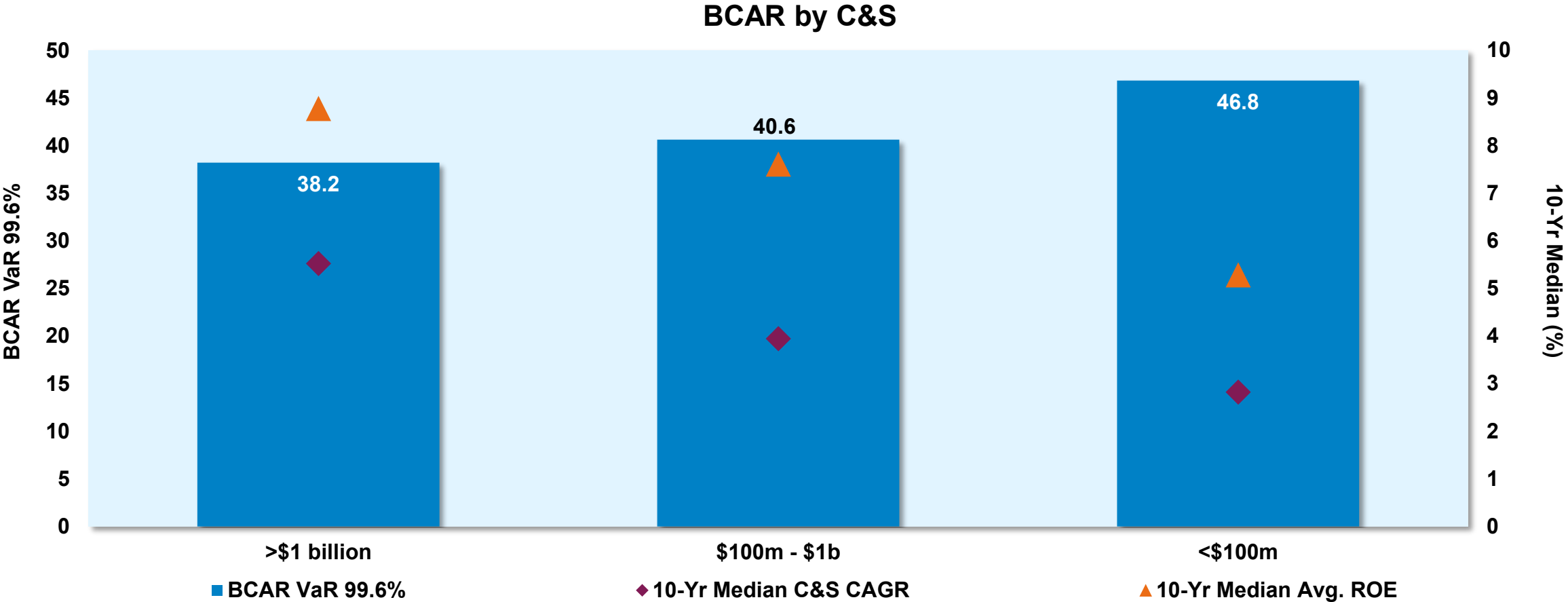
BCAR Distribution

BCAR Assessment



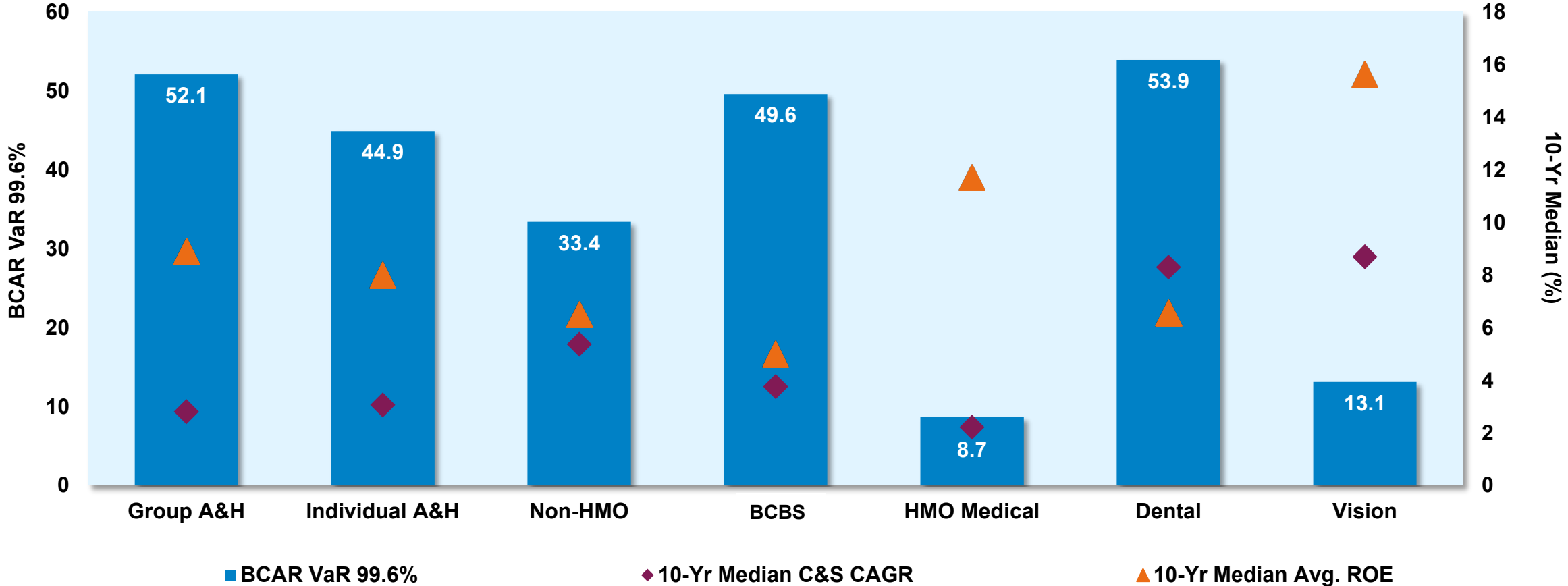
- Majority of health companies have Strongest BCAR
- BCAR volatility is generally low
- BCAR scores for large organizations benefit from growing scale
- Similarly to RBC, underwriting risk is the major factor
- Weak and Very Weak usually result from ongoing financial losses

Risk-Adjusted Capitalization



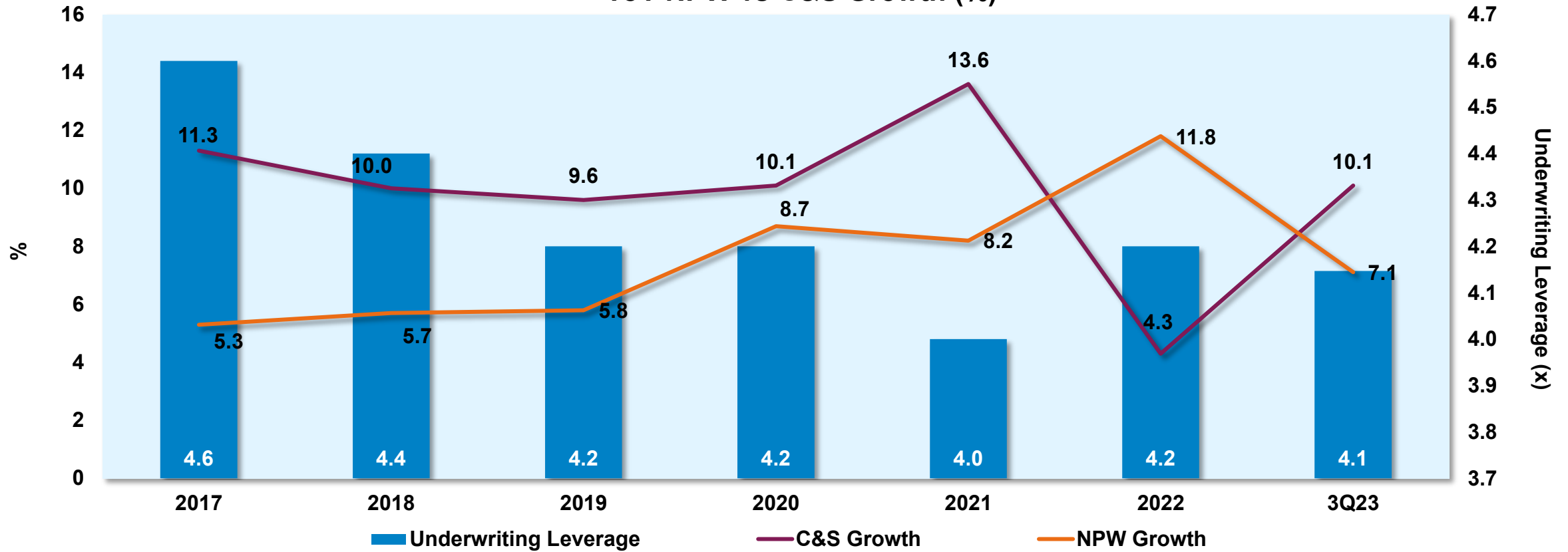
Risk-Adjusted Capitalization

BCAR by Industry Composite

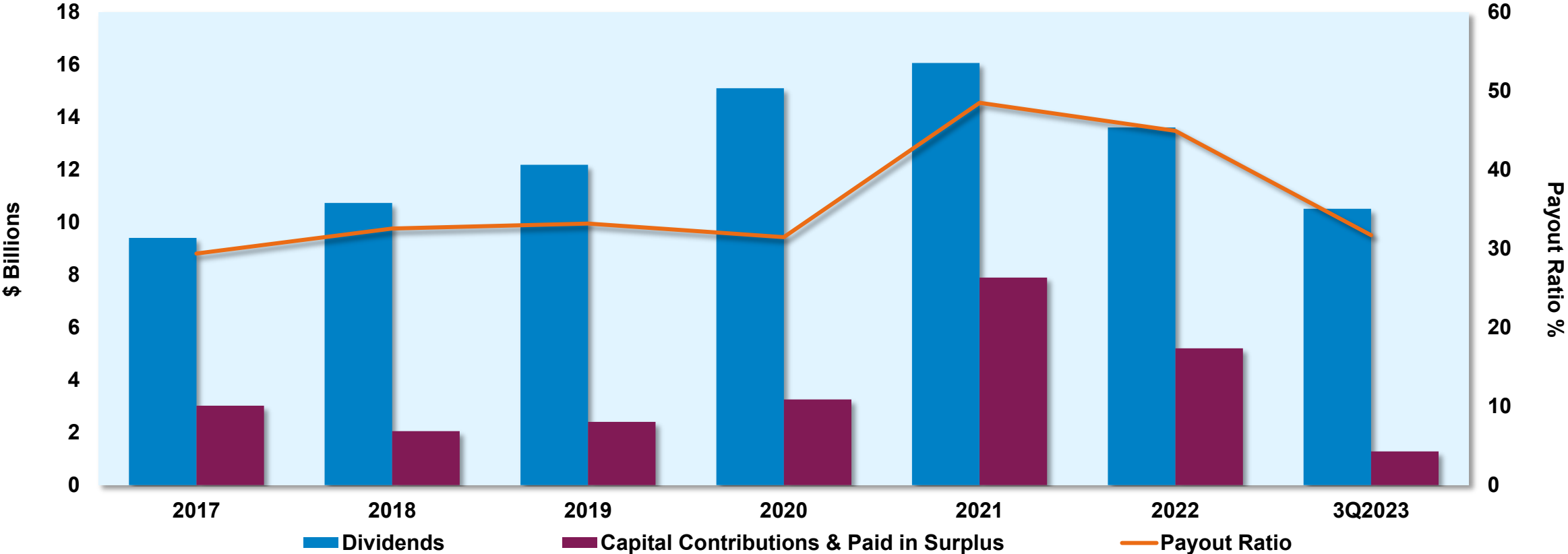


C&S vs NPW Growth

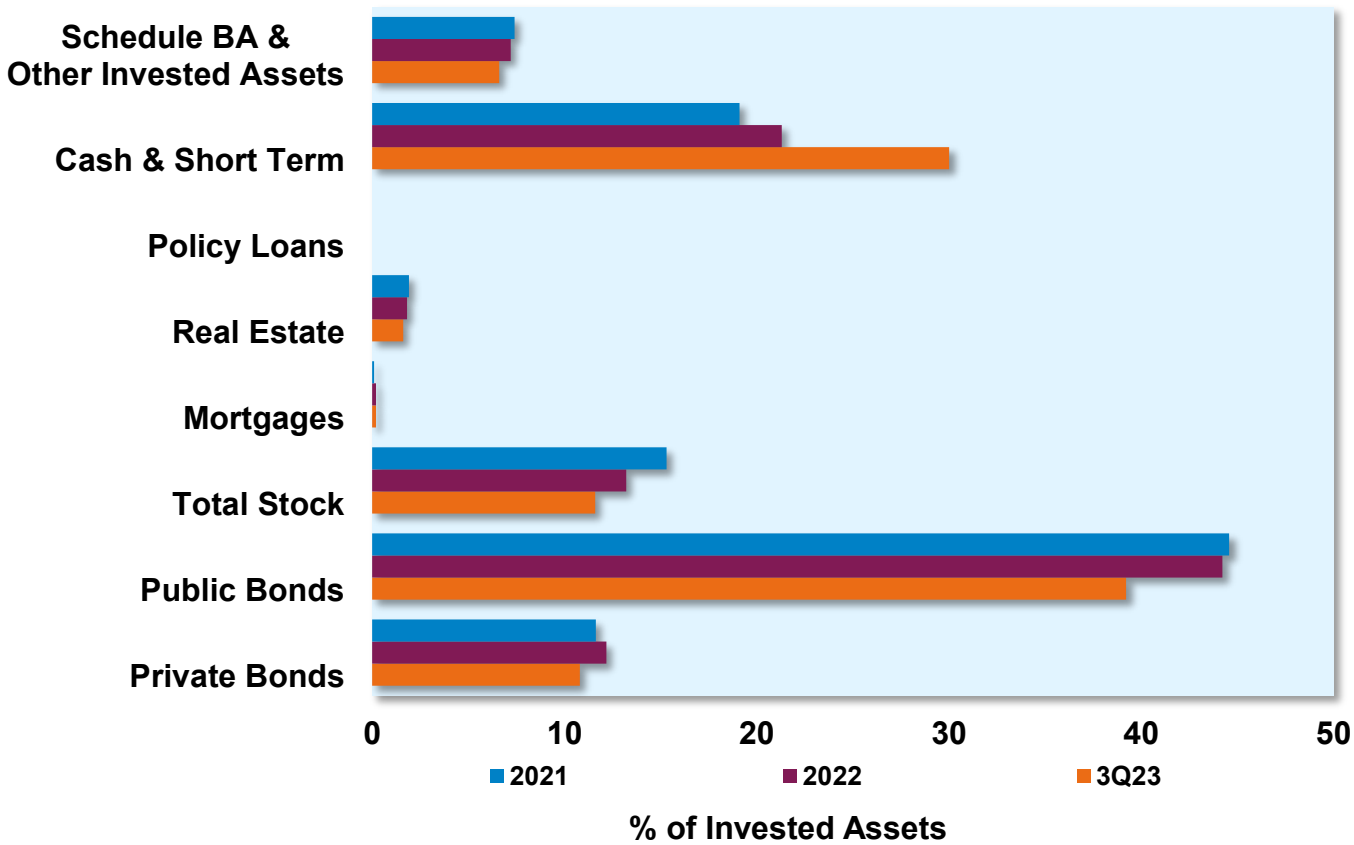
YoY NPW vs C&S Growth (%)



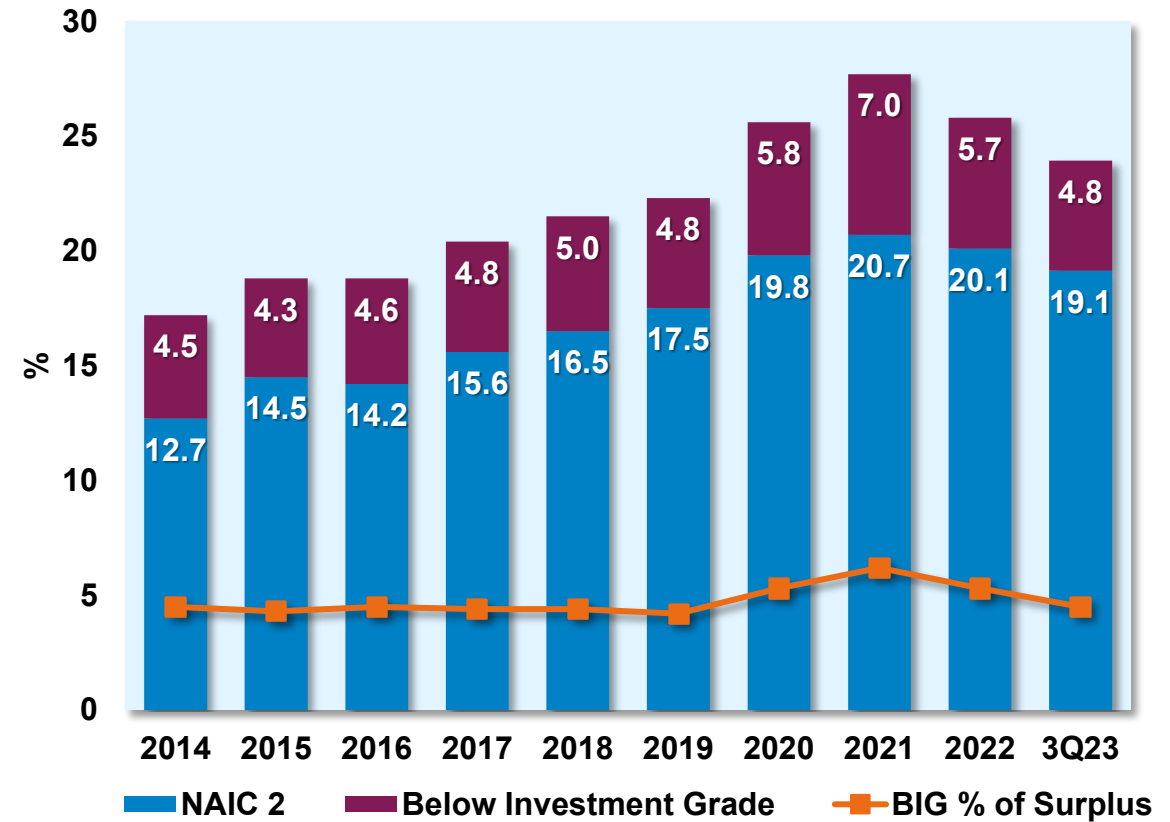
Dividends and Capital Contributions



Invested Assets

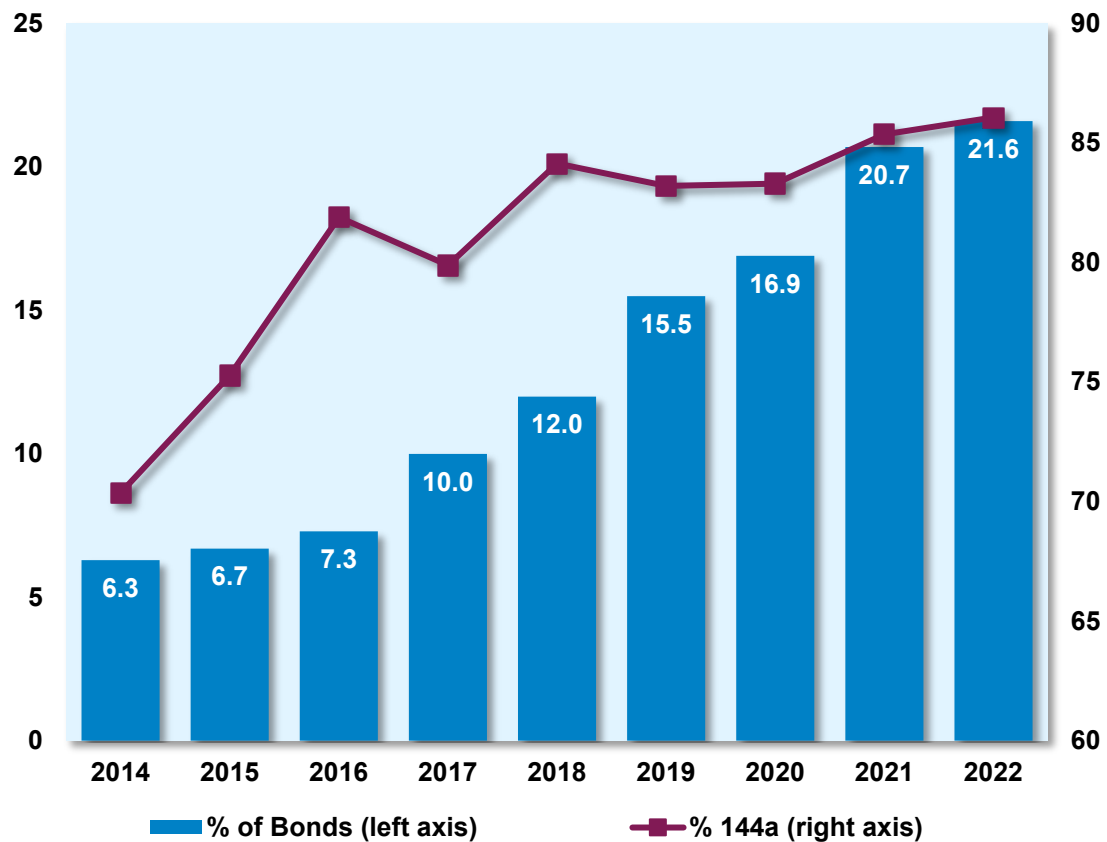


Bond Portfolio Quality

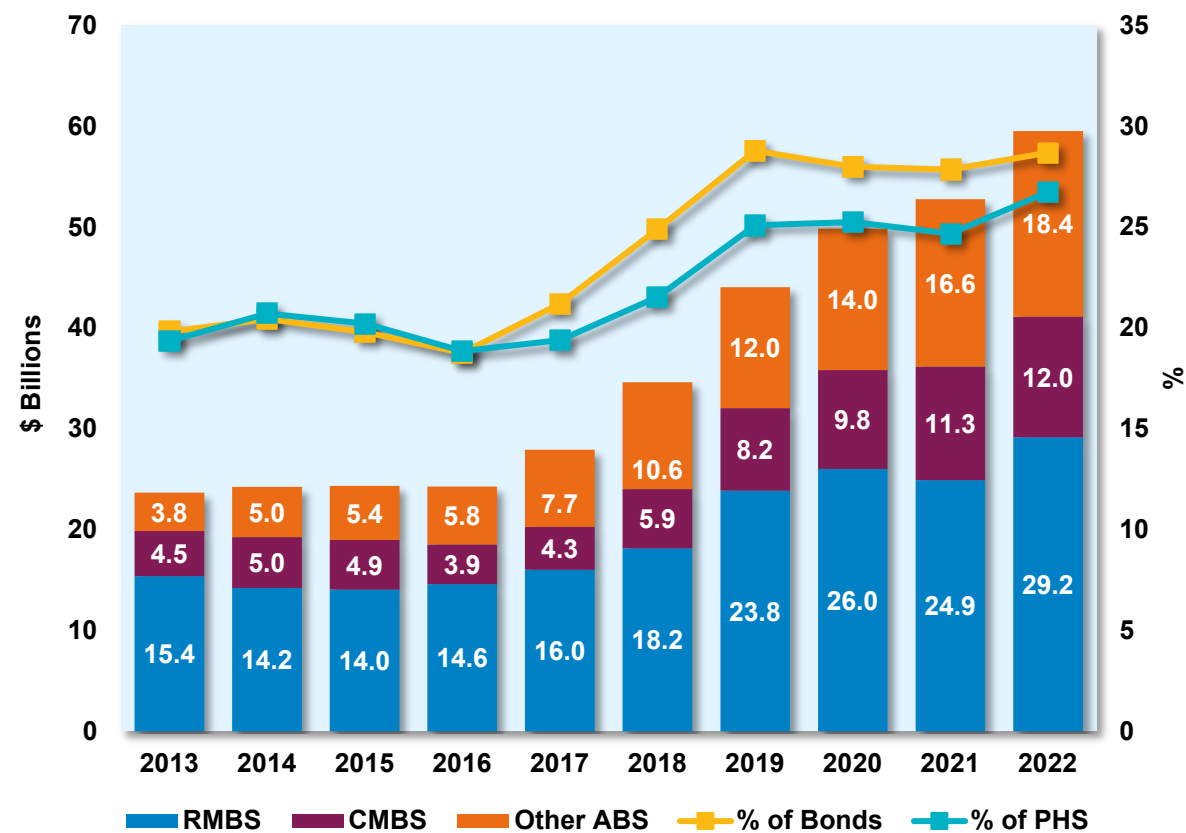


Invested Assets

Private Placement Trends



Structured Securities Trends



Mergers & Acquisitions/Affiliations

Vertical Strategies

- Elevance Health: Added specialty pharmacy services; infusion services (pending)
- UnitedHealth Group: Expanded its home health services (including one transaction still pending)
- CVSHealth (parent of Aetna): Grew its provider services operations

Mergers/Affiliations

- Health Care Service Corp.: Expanding its Medicare business (still pending)
- Molina Healthcare: Acquired Bright Healthcare's California Medicare business
- Elevance Health: To acquire BCBS of Louisiana (paused)
- BCBS of Vermont: Joined with BCBS Michigan via an affiliation agreement

Focus On The Core

- Aetna: Divested international business
- Cigna: Divesting Medicare business (pending), international business, employee benefits
- Humana: Exiting employer group commercial medical
- UnitedHealth: Divesting its Brazil operations (pending)

Market Segment Outlook

Tailwinds

- Continued favorable earnings
- Positive impact of investments and interest rates
- Favorable liquidity
- Growth in Medicare Advantage business
- Strong risk-adjusted capitalization

Headwinds

- Inflationary pressures
- Narrower margins on government business

AM Best is maintaining a Stable outlook on the US health segment

Q&A



© AM Best Company, Inc. (AMB) and/or its licensors and affiliates. All rights reserved. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT AMB's PRIOR WRITTEN CONSENT. All information contained herein is obtained by AMB from sources believed by it to be accurate and reliable. AMB does not audit or otherwise independently verify the accuracy or reliability of information received or otherwise used and therefore all information contained herein is provided "AS IS" without warranty of any kind. Under no circumstances shall AMB have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of AMB or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if AMB is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser. Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. Credit ratings do not address any other risk, including but not limited to, liquidity risk, market value risk or price volatility of rated securities. AMB is not an investment advisor and does not offer consulting or advisory services, nor does the company or its rating analysts offer any form of structuring or financial advice. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY AMB IN ANY FORM OR MANNER WHATSOEVER. Each credit rating or other opinion must be weighed solely as one factor in any investment or purchasing decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security or other financial obligation and of each issuer and guarantor of, and each provider of credit support for, each security or other financial obligation that it may consider purchasing, holding or selling.