AM BEST SINCE 1899

BEST'S MARKET SEGMENT REPORT

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Review & Preview
February 29, 2024

US Health Insurers Expected to Remain Resilient amid Challenges in 2024

The US health segment is likely to thrive in 2024, despite a number of headwinds

Principal Takeaways

- The US health insurance segment's capitalization will continue to grow, albeit more slowly, in 2024.
- The industry has been balancing lower earnings in the commercial segment with greater profitability in government programs over the last few years.
- Margins are expected to narrow as the earnings from government programs (Medicaid managed care and Medicare Advantage) return to more normal levels.
- Carriers are focusing on initiatives to address the ongoing rise in medical cost inflation and rising pharmaceutical costs.

AM Best's outlook on the US health insurance industry remains at Stable, as the segment is well positioned to continue to thrive in 2024 despite some challenges. Margins are expected to narrow as profitability from government programs (Medicaid managed care and Medicare Advantage) returns to normal levels. Earnings in both government lines of business have been above normal for the past few years, driving profitability for some insurers and for the industry.

Additionally, as medical and pharmaceutical costs continue to rise, health insurers continue to face inflationary challenges and have considered initiatives to lower overall healthcare spend, while still focused on improving patient health outcomes. These initiatives include acquiring related capabilities through vertical integration M&A, the implementation of value-based care models, which pay providers based on patient outcomes and quality, and the use of advanced data analytics to better reach members and help with population health and disease care management. Price increases in health insurance, which for a long time led the way in annual increases compared to the rest of the economy, had moderated over the past few years. However, we have started to see this trend reverse.

Medical costs continue to rise across the country, driven by rising utilization and costs. When inflation started its precipitous rise in 2022, health insurance costs were rising only modestly due to longer contracts and declines in COVID-related utilization. Some of the main challenges healthcare providers are facing include staffing shortages, salary pressures, and supply cost hikes. Staffing challenges can limit the number of beds available for in-patient needs or require hospitals to pay overtime or incentivize nurses to take extra shifts or hire more expensive traveling nurses. Although health insurance provider (hospital, physician, other provider) contracts are multi-year, many are facing higher pricing and longer negotiations at contract renewals.

Overall, the industry has been balancing lower earnings in the commercial segment with greater profitability in government programs over the last few years. However, this past year, carriers responded to higher medical cost trends with sizable rate increases, especially in the commercial segment, a trend that will likely continue into 2024. In some geographies, combined rate increases

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for 2023 and 2024 are exceeding 20%. However, increased publicity on rate increases could lead to greater scrutiny by state regulators. Additionally, pressures from employer groups and individuals, as well as media reports of rate increases, are coming at a time when individuals and employers are seeing the impact of inflationary pressures on their own financial conditions/results. AM Best will continue to monitor the impact of economic pressures and changes in the health industry as we move through 2024.

Industry Continues to Report Strong Operating Metrics

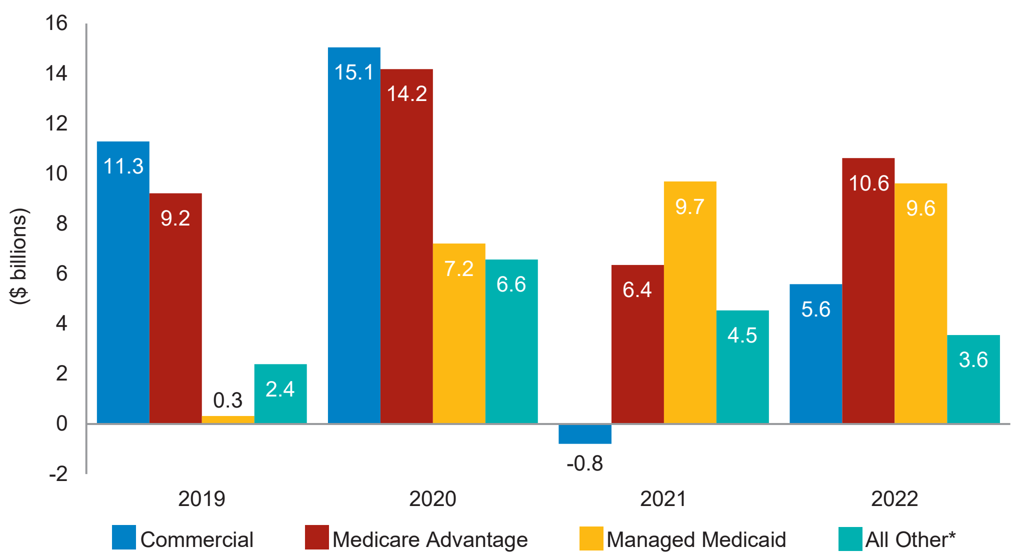
The US health insurance industry reported overall favorable operating performance through year-end 2022, continuing through the third quarter of 2023 (**Exhibit 1**). Growth in net premiums written was roughly 10% in 2022 but dropped to 7.6% in the third quarter of 2023. Underwriting income also rose in 2022, with much of the improvement led by a turnaround in the commercial line (group and individual) segments. However, underwriting income was flat throughout the first nine months of 2023. These results have varied widely in recent years, with government programs, Medicare Advantage (MA) and Medicaid managed care, being the strongest drivers of both earnings and revenue expansion. The reversal in the commercial segment was driven primarily by rate increases and lower COVID costs as the year progressed (**Exhibit 2**).

Exhibit 1
US Health: Earnings
Includes Orange Book and DMHC Filers
($ billions)

Annual	2018	2019	2020	2021	2022
Net Premium Written	880.8	931.7	1,013.8	1,097.1	1,210.6
Underwriting Gain/Loss	27.2	25.5	39.3	20.2	26.2
Net Investment Income	6.4	12.2	10.2	13.6	4.7
Pretax NOG	33.0	36.7	48.0	33.1	30.3
Net Income	28.6	34.6	41.4	30.5	22.0
Capital & Surplus	200.4	219.6	241.8	274.8	291.2
Through the Third Quarter	**3Q19**	**3Q20**	**3Q21**	**3Q22**	**3Q23**
Net Premium Written	684.7	745.1	799.9	887.3	954.5
Underwriting Gain/Loss	27.4	41.0	24.2	28.6	28.9
Net Investment Income	8.2	5.7	9.4	1.2	12.2
Pretax NOG	35.2	46.1	33.1	29.4	40.7
Net Income	32.2	39.0	29.9	22.4	33.2
Capital & Surplus	222.1	246.1	262.0	277.4	306.2

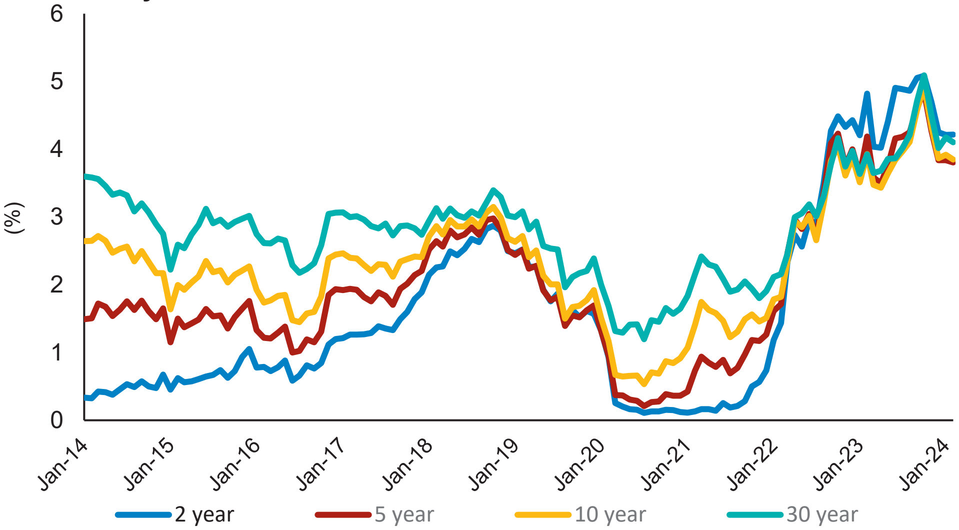
Source: BESTLINK

Exhibit 2
US Health: Underwriting Gains by Market



Includes Orange Book and Blue Book filing companies.
* All Other includes Medicare Supplement, Vision, Dental, FEHBP.
Source: BESTLINK

Exhibit 3
US Treasury Rates



Source: Federal Reserve Bank of St. Louis

Net income declined in 2022 due to lower net investment income but increased notably through late 2023 owing to growth in investment income, driven largely by the more favorable interest rate environment and market conditions (**Exhibit 3**). Allocations of investment grade (particularly Class 1) fixed-income securities have increased modestly, as has cash, while allocations of higher risk investment classes are down slightly. We expect this trend to continue throughout 2024.

Regardless of the flight to quality, health insurers have used their investments to bolster underwriting results, as well as managing capitalization levels. AM Best expects a more favorable contribution from investment results to overall net income for year-end 2023 and into 2024. Health insurers generate strong cash flows from operations, another trend we expect will continue. Additionally, many insurers have access to Federal Home Loan Bank borrowings or lines of credit for contingent liquidity needs.

Capitalization Likely to Moderate

The strong earnings reported over the past few years have contributed to the industry's capital strength, with capital and surplus growing approximately 10% through the third quarter in 2023. Capitalization should remain strong, with another favorable year of capital expansion expected. In AM Best's view, the health insurance segment's capitalization will continue to grow, albeit more slowly, in 2024.

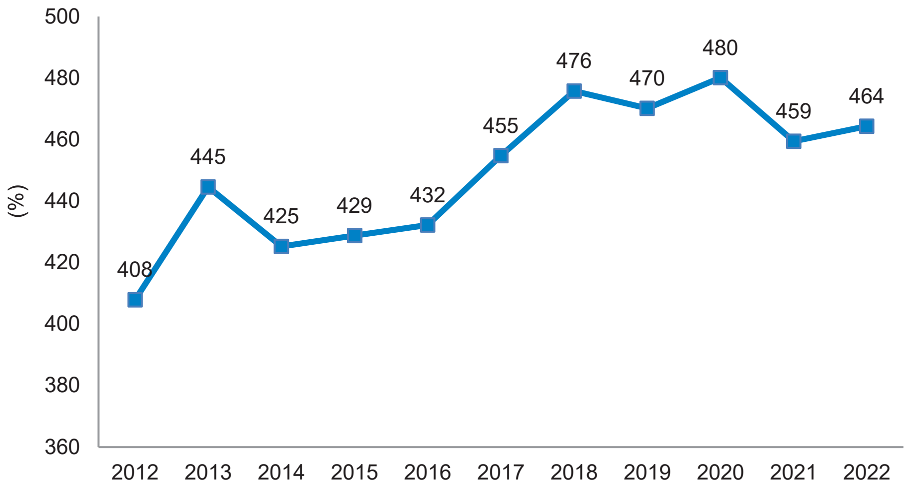
Health insurance companies overall remain well capitalized. Several years of strong earnings have allowed C&S to grow, which has led to a five-year combined average growth rate exceeding that of net premiums written. This has resulted in the health segment's risk-based capital (RBC) as a percentage of company action level (CAL) reaching a ten-year high in 2020 (**Exhibit 4**). The average level of RBC CAL improved slightly in 2022 after declining in 2021 but was still higher than in the years preceding 2018. The decline in RBC since the high in 2020 was driven by years of double-digit premium growth in government programs, as well as a greater percentage of dividend payments relative to net income.

MA has seen consistent double digit premium growth driven by the aging population and a greater portion of individuals selecting an MA plan in place of traditional fee for service Medicare. However, Medicaid managed care premium and enrollment growth accelerated in 2020, driven by the lack of redeterminations. Both MA and Medicaid managed care are more capital-intensive products, which have higher charges in risk-adjusted capital models, contributing to the modest decline.

Exhibit 4

US Health: Average Risk-Based Capital (% over CAL)

Includes Orange Book filers only



Source: AM Best data and research

Through third quarter 2023, the growth in net premiums written (NPW) outpaced the growth in C&S. However, the growth in NPW was expected to slow and reported results could moderate, driven by the Medicaid segment. In the third quarter 2023, Medicaid managed care enrollment experienced its first sizable decline in several years, driven by the redetermination process. Medicaid enrollment is expected to decline further in the fourth quarter and into early 2024 as the process of performing eligibility verification concludes. As a result, overall capitalization is expected to remain at a stable level as a percentage of risk-based capital for 2023.

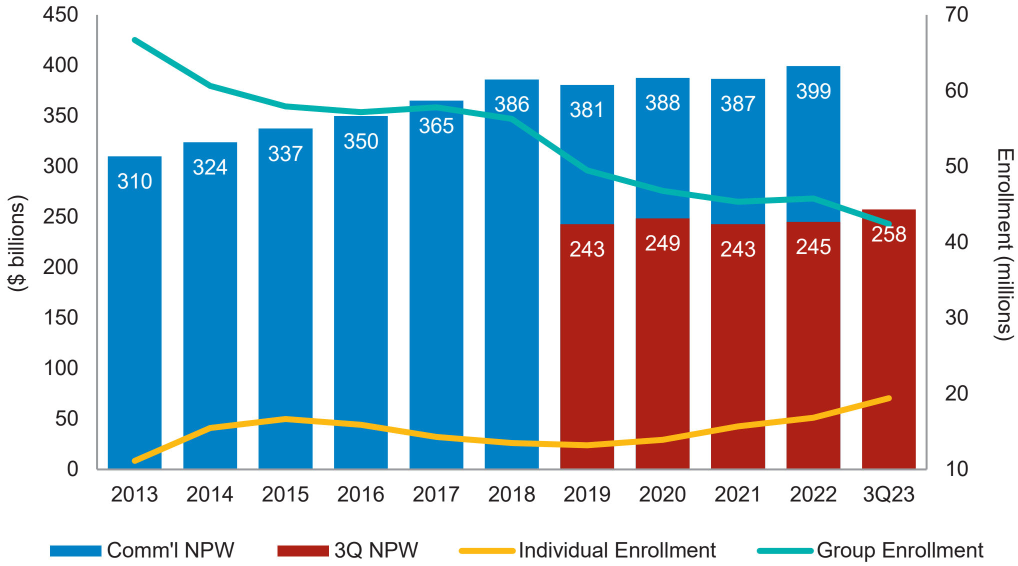
For 2024, the levels of risk-based capital may decline slightly, even with lower full-year Medicaid managed care premium. AM Best expects health insurers to pay dividends from entities that have experienced large Medicaid disenrollments and premium declines, as less capital is needed to support these businesses. The health insurance industry overall should remain well capitalized in 2024 despite some outliers.

Government Programs Driving Revenue and Earnings

The commercial segment remains challenged on numerous fronts, as competition, market saturation, and rising costs make it difficult to grow and to do so profitably. Overall, the industry has been balancing the lower revenue growth and earnings in the commercial segment with steady profitability in government programs the last few years, including 2023. However, with costs on the rise at this critical point, insurers have been raising rates and are likely to continue doing so in 2024, to maintain favorable earnings (**Exhibit 5**).

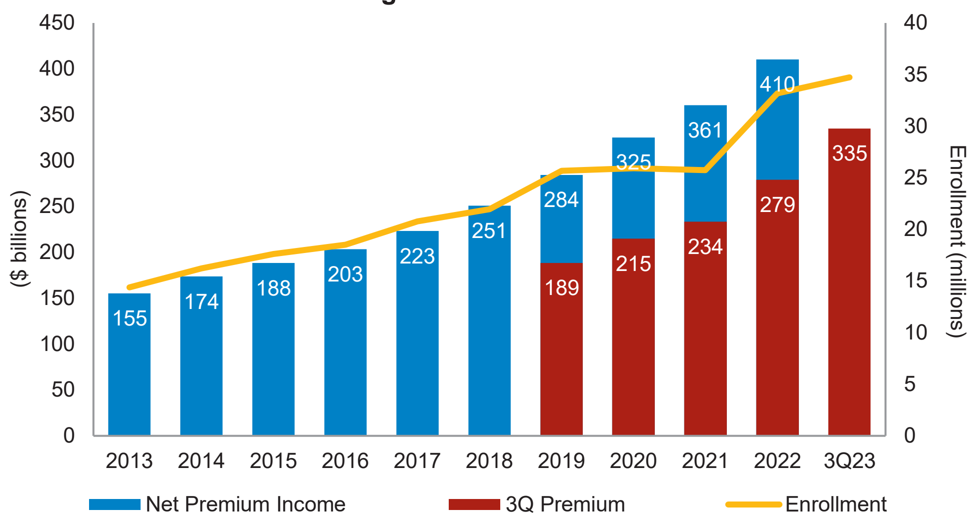
Both MA and Medicaid managed care are considered lower-margin businesses, which has been offset by the growth in volume in recent years. Both earnings and margins were well above historical levels through 2023, a trend AM Best does not expect will continue in 2024 or beyond. The higher earnings were driven partly by COVID-related issues, including the public health emergency (PHE) that ended during 2023. The PHE had a significant impact on Medicaid enrollment, revenue, and earnings. The operating performance metrics of both products are expected to remain profitable, although lower, as underwriting income returns to historical levels.

Exhibit 5
US Health: Commercial Premium & Enrollment Trends*



* Annual data includes Orange Book, Blue Book, and DMHC filings. Quarterly premium data excludes Blue Books filers but enrollment was estimated.
Source: BESTLINK

Exhibit 6
US Health: Medicare Advantage Premium & Enrollment Trends*



* Annual data includes Orange Book, Blue Book and DMHC filing companies. Quarterly premium data excludes Blue Book filers, but enrollment was estimated.
Source: BESTLINK

MA growth in recent years can be partially attributed to new age-ins—individuals converting from traditional Medicare with and without Medicare supplements. Furthermore, there has been geographic and product expansion in the MA segment (**Exhibit 6**). Given the aging US population and increasing number of individuals turning age 65, combined with lower premiums and rising acceptance of MA plans, AM Best expects the enrollment trend and carrier interest in this product to continue. Strong earnings were achieved partly through the MA market, which has generated robust underwriting results the past few years, as many seniors delayed care during the pandemic. With claims experience in 2023 tracking more closely to pre-COVID volume, several carriers have reported an increase in the incidence and severity of medical conditions. And, as in prior years, companies with higher star ratings and more appropriate risk-adjustment revenue payments will be better able to absorb a lower level of profitability. Even with the pressure on the MA segment for 2024, earnings from the segment are expected to remain profitable albeit lower than in recent years.

The Medicaid managed care market has been more insulated from rising costs than the commercial segment. The unique circumstances brought on by COVID and the PHE led to much lower utilization and a rise in revenue in the Medicaid managed care line of business through mid-2023. States were authorized to begin Medicaid redeterminations starting in April 2023, with a reduction in the additional Federal Medical Assistance Percentage (FMAP) phasing out by the end of 2023. Given the amount of work involved, states were given slightly more than a year to complete the Medicaid redeterminations.

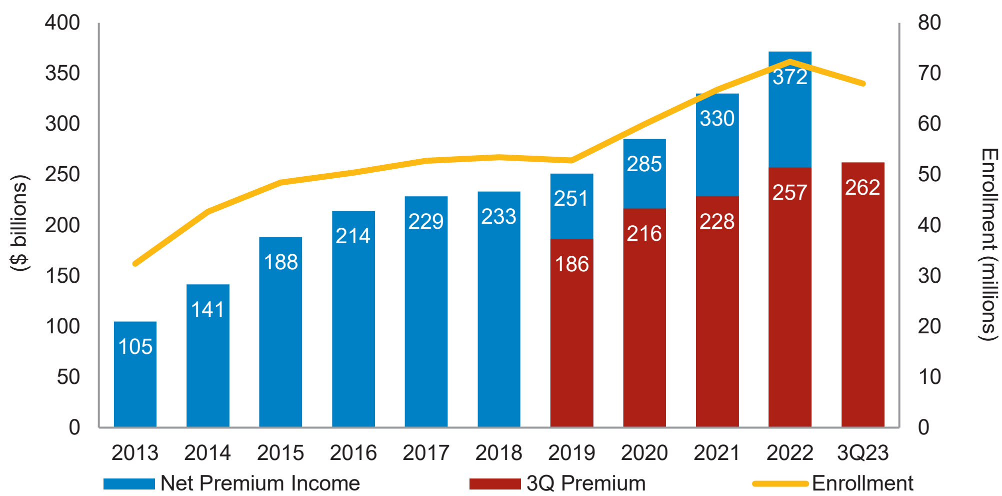
As such, Medicaid rolls declined in the latter part of 2023 and will continue to do so in 2024. Most of the redeterminations will likely be completed during the first half of 2024, which could lead to a substantial decline in membership and revenues for health insurers with large blocks of Medicaid business. Medicaid managed care revenue streams began to decline for many insurers in the third quarter 2023 and could fall more precipitously in 2024, although the timing will vary by state (**Exhibit 7**). Carriers with larger blocks of Medicaid managed care business will likely see lower revenue and earnings from this line of business in mid- to late 2024. We will continue to monitor the overall impact on financial results.

Pharmaceutical Trends Pressure Increases

Rising costs of pharmaceutical drugs continue to pressure the industry. The Assistant Secretary for Planning and Evaluation (ASPE), Office of Health Policy, at the US Department of Health & Human Services, released a brief in October 2023 titled “Changes in the List Prices of Prescription Drugs, 2017-2023,” which looks at the year-over-year change in the average list price of prescription drugs during the period. The average annual list price increase exceeded 10% each year and ranged from 11.5% (2021-2022) to 26.0% (2019-2020) and was 15.2% in 2022-2023. The average price increase in the ASPE brief is based on wholesale acquisition costs and does not reflect the impact of rebates.

Exhibit 7

US Health: Managed Medicaid Premium & Enrollment Trends*



* Annual data includes Orange Book, Blue Book and DMHC filing companies. Quarterly premium data excludes Blue Book filers but enrollment was estimated.

Source: BESTLINK

Health insurers' pharmacy spend, net of rebates, has been hovering around 13% (± 50 bps) since 2018, while the amount of pharmacy rebates rose from 26.8% to 34.6%, which has helped keep the percentage of pharmacy spend relatively stable. The YoY change in pharmacy costs has varied and was steadily rising from 2019 through 2021, but the rate of increase was lower in 2022.

Some of the biggest cost pressures are coming from gene therapies and specialty drugs. Gene therapies can exceed $1 million per year and are for very specific, sometimes rare, medical conditions that may require lifelong treatment. However, these treatments only affect a small percentage of the population.

Insurers are focusing more on higher cost specialty drugs, which have a higher utilization rate given the prevalence of these drugs for an increasing number of common medical conditions. As lower-cost, biosimilar drugs become available for higher-cost, brand-name specialty drugs, many formularies are being shifted for lower-cost alternatives. For example, Humira is used to treat numerous medical conditions; beginning in 2024, several insurance companies are removing Humira from the formulary list and replacing it with a biosimilar. CVS Caremark, one of the largest pharmaceutical benefit managers (PBM), announced in January 2024 that, beginning April 1, it would remove Humira from its major commercial formularies and replace it with Humira biosimilars. Several other PBMs have expanded the number of Humira biosimilars included in formularies.

Pharmaceutical spend will remain a major focus for the health industry, especially as the pipeline is expected to grow in the coming year. As more biosimilar drugs are introduced and gain acceptance, there may be some cost reprieve. Still, many of the drugs being developed and approved are high-priced gene therapies and specialty drugs, which will likely continue to pressure costs over the near to medium term.

Renewed Interest in Value-Based Care (VBC) Arrangements

The industry continues to look for ways to navigate its challenges, including medical cost inflation and the expected decline in profitability going into 2024. As such, leveraging value-based care arrangements and cooperating with providers will comprise an important strategic imperative. With the continuing rise in the healthcare cost curve—more specifically National Health Expenditures, which are projected to continue to rise in coming years (**Exhibit 8**), according to the Centers for Medicare and Medicaid Services (CMS)—VBC continues to gain further momentum.

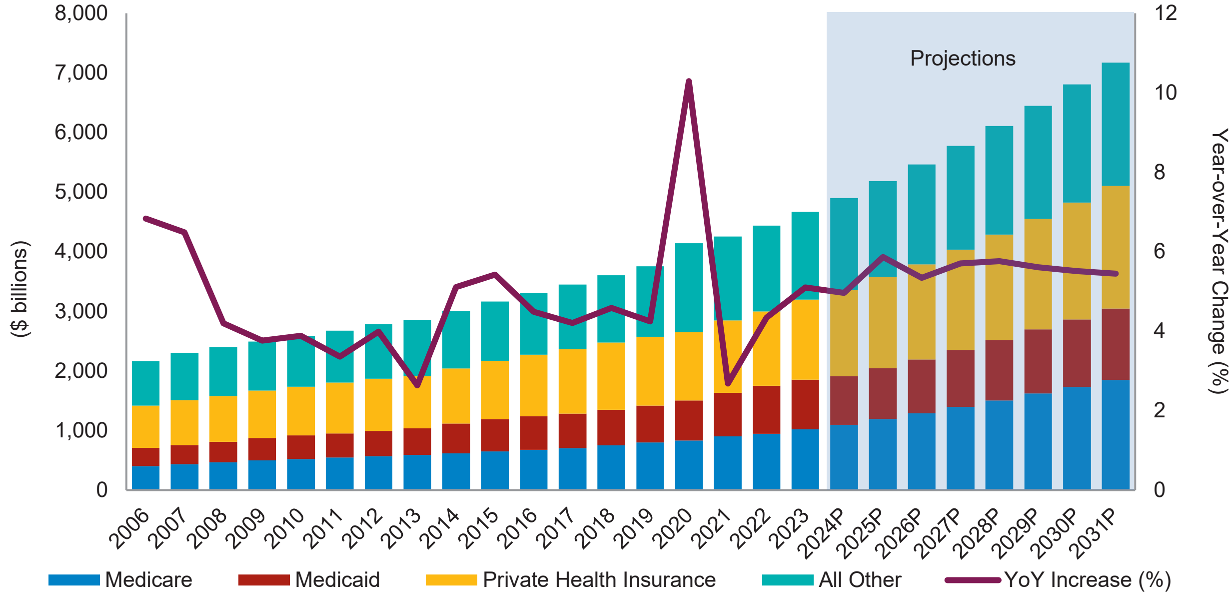
Some of the largest carriers in the industry are revamping initiatives to improve quality, costs, and accountability of member/patient care. Although the focus of these initiatives was historically on managing Medicare populations, a number of interesting new approaches aimed at commercial group, individual, and Medicaid members have emerged, among them: VBC arrangements specifically "focused" on managing areas such as home health services, specialty drug administration, or post-surgery related physical/occupational therapy care.

This has also been achieved using various structures such as accountable care organizations (ACOs), narrow networks, and the development of centers of excellence (focusing on cancer treatments, for example), as well as joint venture arrangements. There are also numerous contracting initiatives between health plans, providers, and other payors using mechanisms such as withholds, capitation arrangements, upside/downside risk, and pooling arrangements, whereby shared risk is becoming widely used and accepted.

Expansion Through Vertical Integration Continues

As health insurers continue to look for initiatives to bend the cost curve, they have been acquiring related capabilities, by investing in, acquiring, and expanding vertical integration on numerous fronts.

Exhibit 8
US Health: National Health Expenditures



P=Projected.
Source: Centers for Medicare and Medicaid Services

Vertical integration has allowed health insurers to directly own specific assets with a focus on services, including home healthcare, pharmacy benefit management and specialty pharmaceutical services, behavioral health, telehealth, and providers, including facilities.

The expansion of health insurers vertically into service businesses provides diversification and non-regulated earnings and cash flows, as well as the ability to better manage medical expenses. Publicly traded health insurers have been active in the acquisition of non-insurance operations, with a number of transactions in recent years, both large and small, such as the following:

- Elevance Health Inc. established Carelon to provide a variety of healthcare services. In 2023, Elevance Health added specialty pharmacy services with the acquisition of BioPlus. In early 2024, it also announced a definitive agreement to acquire Paragon Healthcare, which provides infusion services through a variety of channels, including in the home.
- Humana Inc. acquired Kindred at Home, which provides home health services.
- UnitedHealth Group Inc.'s Optum business provides a variety of services. Recent announcements include pending acquisitions of Amedisys, a home health, hospice, and high acuity care provider, as well as the completed acquisition of LHC Group, an in-home healthcare services provider.

Vertical integration is not unique to the publicly traded companies, as other health insurance companies have expanded over the years. Some of the non-public insurers with non-insurance assets include:

- GuideWell Mutual Holding Company, parent of Florida Blue, which has expanded through various care delivery services and population management
- Highmark Inc., whose parent organization owns a large hospital system and affiliated providers in Western Pennsylvania
- Vision Service Plan, which owns eye wear companies (both frame and lens capabilities), as well as retail vision stores

Many insurers have acquired or built service operations that are not sizable but can play a key role, while others are participating in joint ventures for service businesses. Joint ventures allow insurers to invest in capabilities without full ownership. Additionally, some insurers own a piece of a services company that plays a strategic role. For example, Prime Therapeutics, a pharmacy benefit manager, is owned by a consortium of Blue Cross Blue Shield (BCBS) companies.

Vertical integration strategies will continue to evolve. Insurers will remain active in M&A, especially the larger insurers. Activities are likely to focus on care delivery, including services performed in the home as well as outpatient, with insurers looking for transactions that will create greater efficiencies and lower the overall cost of healthcare. However, vertical integration is not unique to the health insurance industry. Companies in other industries, such as Walgreens and Amazon, have made acquisitions in healthcare delivery, which can result in health insurance companies competing with other industries for the same assets and potentially escalating prices for those assets due to heightened competition.

BCBS Plans Perform Favorably

Consolidated results reported by Blue Cross and Blue Shield (BCBS) plans show premium growth the past four years through the first nine months of 2023 (**Exhibit 9**) in both public and non-public plans. The non-public plans account for over three quarters of total BCBS net premiums but a smaller proportion of total net income.

Despite favorable results, underwriting margins have been narrowing since COVID, through 2022. The narrower margins were driven by the non-public companies pricing to reduced margins, combined with challenges in the commercial segment due to COVID and a decline in business in government programs. We do note that underwriting and net income at the non-public BCBS companies were higher through third-quarter 2023. This was driven by an improvement in underwriting results at several plans due to management initiatives to improve results. Although most health plan earnings have benefited from robust earnings from government programs lines of business, MA and Medicaid managed care, over the past few years, many non-public BCBS plans did not benefit from participating in or having a large share of these businesses.

Consolidated earnings remained favorable but have declined from the high levels reported in 2020, which was driven by the significant decline in medical utilization due to the deferral of non-essential care during the COVID pandemic. With

Exhibit 9

US Health: Selected Data for Blue Cross Blue Shield Companies, 2019-2022, 3Q22-3Q23

($ billions)

		Public Companies*	Non-Public Companies	All BCBS
Net Premiums Written ($)	9/30/2023	60.9	207.5	268.4
	9/30/2022	58.1	193.0	251.0
	2022	77.6	271.0	348.6
	2021	73.7	249.2	322.9
	2020	66.1	238.4	304.5
	2019	65.2	226.5	291.7
Underwriting Margin (%)	9/30/2023	6.6	2.1	3.2
	9/30/2022	7.0	1.2	2.6
	2022	5.2	0.1	1.2
	2021	4.9	0.3	1.4
	2020	5.5	3.6	4.0
	2019	6.3	2.1	3.0
Underwriting Income ($)	9/30/2023	4.0	4.5	8.5
	9/30/2022	4.1	2.4	6.5
	2022	4.1	0.2	4.3
	2021	3.6	0.8	4.5
	2020	3.7	8.7	12.3
	2019	4.1	4.8	8.9
Net Income ($)	9/30/2023	3.8	6.2	10.0
	9/30/2022	3.8	3.9	7.6
	2022	4.1	2.4	6.5
	2021	3.5	4.8	8.3
	2020	3.2	10.9	14.1
	2019	4.1	9.0	13.1
Capital & Surplus ($)	9/30/2023	16.7	105.7	122.4
	9/30/2022	16.1	96.4	112.5
	2022	15.7	100.8	116.5
	2021	15.2	102.3	117.5
	2020	13.7	96.7	110.4
	2019	13.6	88.5	102.1

* Public companies include Anthem BCBS and Triple-S until 3Q22. Triple-S was sold to Guidewell Mutual Feb. 2022 and was no longer public in 3Q22.

Source: BESTLINK

the return to more normal levels of medical utilization and modest rate actions through 2022, margins have narrowed. Commercial group business, typically a strong contributor to the BCBS plans' operating results, has been challenged in recent years by economic pressure on employer groups and the continued shift to self-funded/administrative services plans. Earnings results for the non-public BCBS plans have been considerably volatile, while results for the public BCBS plans have been more consistent. The effect of inflation on medical claims and administrative expenses negatively impacts companies that price to narrower margins. However, the BCBS plans' positive performance has driven organic capital expansion and strong risk-adjusted capital measures. Additionally, companies benefit from the positive impact of higher interest rates on newly invested assets and investment income.

AM Best expects that the operating performance of the BCBS plans will remain profitable and that risk-adjusted capital will remain strong. However, margins could contract further because of pressure on providers' reimbursement rates, higher utilization trends, and declining MA rates from CMS.

Over the past few years there has been in an increase in the number of acquisitions among the Blues, which include the following:

- Elevance Health announced in 2023 that it had agreed to acquire Blue Cross and Blue Shield of Louisiana, which would expand Elevance's Anthem BCBS plan to 15 states. As part of the transaction, Blue Cross and Blue Shield of Louisiana will convert to a for-profit company. On February 14, 2024, Blue Cross and Blue Shield of Louisiana announced that they were pausing the proposed transaction and withdrew their filing with the Louisiana Department of Insurance.
- GuideWell Mutual Holding Corporation, parent of Blue Cross and Blue Shield of Florida, acquired Triple-S Management Corporation, the Blue Cross Blue Shield plan in Puerto Rico, in 2022.

There has also been an increase in affiliations that can provide resources, tools, and operational capabilities that a smaller plan may not be able to achieve on its own due to a lack of scale. These capabilities may result in lower administrative expenses over the medium to longer term. Recent affiliations include the following:

- In 2023, Blue Cross Blue Shield of Vermont completed an affiliation with Blue Cross Blue Shield of Michigan.
- Health Now New York and Highmark Inc. completed an affiliation in 2020.

AM Best expects more affiliations between BCBS plans to take place, especially among smaller single-state plans that lack scale. Affiliations can help a smaller insurance company gain capabilities that it may not be able to achieve on its own due to size. Furthermore, with the growing senior population and an increasing number of states offering Medicaid managed care, additional joint ventures and partnerships are likely, as these ventures provide plans the expertise to expand into new markets.

Publicly Traded Health Insurers Leading Industry Growth and Profitability

The majority of the large publicly traded health insurers have reported favorable earnings the past two years, with strong premium revenue growth offsetting narrowing margins while driving increased operating and net earnings (**Exhibit 10**).

Bright Health Group, Inc. (now known as NeueHealth), Clover Health Investments Corp., and Oscar Health, Inc., remain outliers with reported losses in each of the last two years. These three organizations are considerably smaller and relatively young companies in comparison with other major publicly traded health insurers.

Exhibit 10

US Publicly Traded Health GAAP: Key Financial Indicators Through September 2023

Period	Company	($ millions)				(%)		
		Total Revenue	Premium Revenue	Operating Income	Net Income	Operating Margin	Profit Margin	Debt/ Capital
Through September 2023	Bright Health Group, Inc.	868	1,319	-568	-922	-65.4	-106.2	64.5
	Centene Corporation	115,531	111,186	3,574	2,657	3.1	2.3	41.5
	Clover Health Inv Corp.	1,523	933	-143	-143	-9.4	-9.4	0.0
	Elevance Health, Inc.	128,693	107,716	6,714	5,131	5.2	4.0	39.2
	Humana Inc.	79,912	76,144	3,935	3,030	4.9	3.8	40.8
	Molina Healthcare, Inc.	25,024	24,684	1,175	875	4.7	3.5	36.0
	Oscar Health, Inc.	4,431	4,296	-117	-121	-2.6	-2.7	24.5
	The Cigna Group	144,107	33,062	5,325	4,135	3.7	2.9	40.5
	UnitedHealth Group Inc.	277,195	217,599	22,253	16,926	8.0	6.1	40.3
	Total	**777,285**	**576,939**	**42,149**	**31,569**	**5.4**	**4.1**	**36.4**
Through September 2022	Bright Health Group, Inc.	5,045	4,326	-683	-776	-13.5	-15.4	18.6
	Centene Corporation	109,798	102,307	1,921	1,415	1.7	1.3	41.7
	Clover Health Inv Corp.	2,588	815	-255	-255	-9.8	-9.8	4.9
	Elevance Health, Inc.	116,666	99,583	6,615	5,076	5.7	4.4	39.7
	Humana Inc.	70,687	66,437	3,640	2,821	5.1	4.0	39.4
	Molina Healthcare, Inc.	23,751	23,612	985	736	4.1	3.1	41.7
	Oscar Health, Inc.	3,089	2,904	-383	-380	-12.4	-12.3	21.5
	The Cigna Group	136,005	30,368	7,025	5,499	5.2	4.0	41.2
	UnitedHealth Group Inc.	241,375	192,457	20,128	15,359	8.3	6.4	37.0
	Total	**709,004**	**522,808**	**38,993**	**29,495**	**5.5**	**4.2**	**31.7**

Source: BESTLINK

Additionally, Bright Health, Clover Health, and Oscar entered the health insurance markets with a focus on technology solutions. Bright Health has seen a drastic decline in premium revenue the past year as it ceased offering ACA (Patient Protection and Affordable Care Act) products in nine states, as well as MA products outside the California market as of 2023. Effective January 1, 2024, it sold its California MA business to Molina. As a result, the company no longer has insurance operations and will focus on value-based care models through its owned or affiliated clinics.

Clover Health offers mainly MA products with a little over 80,000 members in five states, while Oscar is focused on individual and small group plans with about one million members in 20 states. Clover Health and Oscar both reported premium revenue growth over the past year but are still incurring underwriting losses and have been working to become profitable, with operating results at both organizations improving significantly through third quarter 2023.

Operating trends for the public health insurers are expected to remain favorable with sustained overall premium revenue growth, but certain lines of business will experience pressure. For the plans operating in all business segments, commercial business margins will become a greater focus, as earnings in MA and Medicaid managed care are expected to decline. MA earnings are being pressured by the decline in reimbursement rates from CMS and an increase in medical claims/utilization, while Medicaid managed care business has already begun to see a drastic decline in enrollment, which could be accompanied by a worsening of the risk pool, as eligibility redeterminations are completed. However, some states have already granted price adjustments to account for the deterioration in the risk pool. For plans operating solely in government programs, overall earnings could be challenged but are expected to remain profitable. Medical management of those with chronic conditions, as well as quality programs and related bonus payments, will be extremely important for these health plans to sustain earnings.

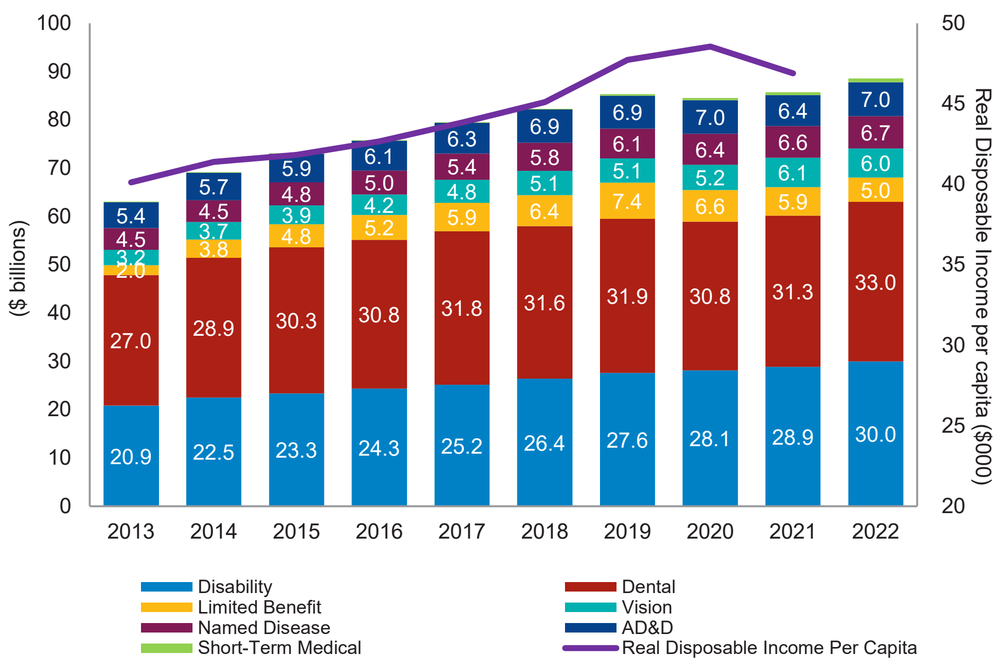
Average financial leverage as measured by AM Best increased through September 30, 2023, to 36.4% from 31.7% a year earlier. However, the increase was driven by a few companies, including Bright Health, which took on more debt to support capitalization and offset losses. In early 2024, Bright Health used the proceeds of the sale of its MA business to pay down all of its secured debt. Excluding Bright Health from both periods, average financial leverage declined slightly from 33.4% to 32.8%. Financial leverage is expected to remain stable through year-end 2023. One debt issuance took place during the fourth quarter—Humana Inc. issued a total of $1.35 billion senior unsecured notes, with proceeds of the issues used primarily to pay down outstanding commercial paper. The financial leverage metrics of most of the publicly traded health insurers have increased in recent years owing to numerous strategic acquisitions, although they maintain their financial leverage at around 40%. Companies have expressed a tolerance to exceed this target for the purpose of value-added acquisitions so long as there is a solid plan to de-leverage to around the 40% targeted levels over a specified period. Additionally, most public health insurers have strong interest coverage, and several have built significant non-regulated operations and related cash flows, which provide solid earnings to service debt.

Dental Segment Performs Well, as Industry Adapts and Many Look to Pivot

Claims experience for US dental carriers continued to normalize to pre-pandemic levels during 2023. The pandemic led to significant deferrals of elective dental care, which resulted in pent-up demand and led to a period of adverse trends. Although underwriting performance has been favorable, benefit utilization did rise in 2023. However, the impact of increased claims activity, which affected underwriting income, was partially offset by a rise in investment income due to the higher interest rate environment.

Revenue has grown in recent years, driven by steady expansion in the commercial group segment and a marked increase in individual ACA policies (**Exhibit 11**). Many companies are offering dental coverage through the ACA marketplace, which has accelerated the expansion of individual products in the dental segment. The individual ACA marketplace offers an efficient and effective

Exhibit 11
Supplemental Health Products – Direct Premiums Earned
All filing types



Source: BESTLINK

way to broaden the customer base for carriers. This is particularly important for smaller carriers, as the exchanges provide the ability to reach more individuals at a lower cost than other distribution channels. Revenue should continue to grow in 2024. Moreover, the rising probability of an economic soft landing means that overall group size reductions are becoming less likely. Although modest revenue growth and profitability are expected to continue into 2024, there are a few potential headwinds that could impact the segment.

On the regulatory front, a minimum loss ratio requirement of 83% for dental carriers was passed via a ballot initiative in Massachusetts in November 2022, and several states have adopted or proposed similar dental loss ratio regulations. In early 2024, the National Council of Insurance Legislators (NCOIL) finalized the Medical Loss Ratios for Dental Health Care Services Plans Model Act, which will require that carriers file a dental loss ratio annual report with commissioners. Commissioners may take remediation or enforcement actions for insurance companies with a dental loss ratio considered an outlier—one standard deviation from the mathematical average. The act is subject to final ratification at NCOIL's spring meeting in April 2024.

If minimum loss ratio requirements continue to gain traction, they could have material implications for dental insurers, especially smaller carriers who have a smaller membership base to allocate costs. Ultimately, more carriers may also need to adjust their cost structures in the form of greater benefits and provider reimbursements to comply with the changing requirements. AM Best will continue to monitor changes on the regulatory and product enhancement fronts and the potential impact to dental insurers.

Mixed Premium Revenue Growth in Other Supplemental Health Lines

AM Best's outlook for the supplemental health segment remains at Stable. Limited-benefit medical insurance direct premiums declined by 15% in 2022, continuing a slide that started in 2020, driven by several factors:

- The increased regulatory restrictions of the current administration related to this coverage
- The passage of the American Rescue Plan Act (ARPA) in 2021, making health insurance coverage more affordable by expanding subsidies for ACA-compliant plans
- The COVID pandemic, which emphasized the importance of having adequate health insurance
- The availability and affordability of short-term medical health insurance, as this coverage, which, despite not providing essential benefits and not ACA-compliant, attracts people seeking lower premiums and more flexibility

Based on the above, AM Best expects limited-benefit medical insurance premium to contract further in 2024.

After growing by 17% in 2021, vision insurance direct premium was relatively flat in 2022, owing primarily to heightened competition and the availability of lower-priced vision benefit options bundled with coverages such as dental or health from certain insurers. Additionally, some national vision carriers offer vision discount programs, which are not insurance but rather membership programs that furnish discounts on eye care services and products. These programs appeal to those who do not have recurring or expensive eye care needs and who prefer to pay lower monthly fees and higher out-of-pocket costs.

Finally, direct premiums for "specific/named" disease (such as cancer, heart, stroke) grew slightly in 2022, although at a slower pace than prior years. Various health factors have driven an uptick in severe illnesses that, combined with the rising cost of medical care, have highlighted the importance of these products, which provide lump sum type benefits that can be used to cover out-of-pocket costs. Also contributing to the higher premium are increases in premium rates by critical illness carriers for insureds with higher risk profiles and pre-existing conditions. AM Best will continue to monitor developments across the supplemental accident & health suite of products.

Positive Labor Market Trends Drive Improvements in Disability Insurance (DI) Segment

AM Best's outlook for the DI segment remains at Stable. Economic conditions in recent years have driven premium revenue growth for the segment. Earnings had been negatively impacted due to the pandemic, which increased the number of short-term disability claims and depressed new sales during 2020 and 2021. Additionally, administrative expenses grew due to higher claims volume and associated leave management costs. These trends moderated as the prevalence of COVID declined and the Centers for Disease Control and Protection (CDC) shortened the recommended self-quarantine period in 2022.

In 2023, trends for the DI segment were favorable, with good retention reported and favorable new sales, sustaining premium revenue growth and accompanied by stable to improving loss ratios. AM Best expects the positive trends (including low unemployment rates) for the DI segment's operating performance to continue, with more people becoming interested in financial protection products.

The DI market segment remains very concentrated, with the top ten disability writers collectively accounting for 72.7% of total net premiums earned (NPE), and the top fifteen accounting for 87.5%. Market share based on NPE ranges from 1.7% for Massachusetts Mutual Life to 12.0% for Unum Group among the top 15 writers (**Exhibit 12**).

The DI segment is largely payroll-driven. Unemployment remained low, at 3.7% in December 2023, despite economic pressures, which have not impacted employers' payrolls or carrier's premium levels. Additionally, labor market conditions saw ongoing improvement in 2022 following the impact of the pandemic in 2020 and 2021. According to the US Bureau of Labor Statistics, the number of people who were unemployed at some point during 2022 declined significantly to 13.0 million, versus 16.1 million in 2021 and 26.4 million in 2020. Furthermore, the cost of employee compensation increased by 4.3% in both private and public sectors for the 12-month period ending September 2023.

The DI segment has also benefited from the expansion of Paid Family Medical Leave (FMLA) in certain states, which has bolstered premium growth. With long-term disability, the higher interest rate environment is favorable for reserves as well as pricing. Additionally, for all DI writers, the rise in interest rates can improve investment income. Nevertheless, potential economic pressures on payroll and employment levels may affect operating trends, but favorable earnings trends are expected to persist for the DI segment over the near term and any pressures are expected to be manageable.

Exhibit 12

Top Disability Writers – Net Premiums Earned, 2022

Company Name	NPE ($ millions)	2022 Market Share (%)
Unum Insurance Group	3,815	12.0
MetLife Life Insurance Companies	3,398	10.7
Hartford Life and Accident Insurance Co	3,120	9.8
Lincoln Financial Group	2,763	8.7
New York Life Group	2,459	7.7
Guardian Life Group	1,911	6.0
Standard Insurance Group	1,803	5.7
Northwestern Mutual Group	1,470	4.6
Prudential of America Group	1,232	3.9
Aflac U.S. Group	1,166	3.7
Principal Financial Group Inc.	1,065	3.3
Sun Life Financial Group	1,052	3.3
Reliance Standard Life Group	1,038	3.3
Mutual of Omaha Group	1,029	3.2
Massachusetts Mutual Life Group	538	1.7
Top 10	**23,137**	**72.7**
Top 15	**27,858**	**87.5**

Source: BESTLINK

Long-Term Care Claims Continue To Climb

AM Best's outlook for the long-term care (LTC) segment remains at Negative. Although the segment performed well during the pandemic, with claims and loss ratios declining, claims activity has spiked. Developments that benefited the segment at the onset of the pandemic, such as the increased mortality of patients in LTC facilities and families' reluctance to expose loved ones to the virus in LTC facilities or with home care workers, have reversed since 2021, to the extent that LTC benefits paid have exceeded pre-pandemic levels.

LTC insurers rely substantially on investment income to support their long-duration liabilities, and investment returns had fallen short of original pricing assumptions during the prolonged period of low interest rates. The low interest rate environment contributed to significant reserve charges, which has eroded capital the past two decades. Frequent material premium increases remain necessary due to rising medical care costs, declining mortality rates, and voluntary termination rates, all of which fell short of pricing assumptions. Insurers have benefited from the higher interest rate environment, which helps them mitigate current inflationary pressures, especially for medical care.

Most LTC insurers have been actively managing their blocks of business by offering fewer benefits for newer blocks, implementing proactive loss prevention programs aimed at minimizing claims severity and frequency, and leveraging the NAIC's Long-Term Care Insurance Task Force guidelines regarding obtaining actuarially appropriate rate increases. Consequently, LTC insurers are not expected to make any significant changes to their LTC assumptions over the near term. However, this may not be the case over the long term as newer blocks of business age.

The number of companies offering standard LTC insurance policies continues to decline, and existing LTC insurers continue to reprice products such as inflation protection and lifetime benefits to reduce/eliminate benefits. Additionally, more life insurance carriers have been introducing life/annuity products with LTC riders that provide benefits through an acceleration of death benefits, without a terminal illness. AM Best expects this trend to continue, as insurers have gotten somewhat more comfortable with pricing the product, which has fewer benefit assumptions than standard legacy LTC insurance.

There have been a couple of noteworthy updates in the industry:

- The Washington Cares Act: The state of Washington became the first state to mandate a long-term care insurance program, in an attempt to make LTC affordable to its workforce. The program imposes a mandatory payroll tax on all employees in the state, exempting individuals who had a private LTC policy prior to enactment of the law. Consequently, the number of new lives covered by standalone programs spiked in 2021. The law passed in 2019 but did not take effect until July 1, 2023, when workers began contributing via a payroll tax. Other states are considering similar programs.
- The SECURE Act 2.0: Congress passed the act in December 2022, which will go into effect in 2025. The law includes provisions that retirement plans make yearly distributions exempt from early distribution penalties to be used to pay premiums for certain specified LTC contracts. AM Best will continue to monitor these regulatory developments as they progress.

The continued lack of LTC insurance block transactions over the past several years indicates that investors have not been comfortable acquiring legacy LTC blocks of business. In December 2023, however, Manulife and Global Atlantic announced a reinsurance agreement for a seasoned block of LTC business—the largest LTC transaction to date.

AM Best still views LTC insurance as a high-risk product. The numerous benefit assumptions required to price and reserve for the product, the required rate increase process, coupled with the lengthy duration of liabilities and the need for sophisticated asset liability management, remain significant risks, and we do not expect the favorable experience during the pandemic to continue.

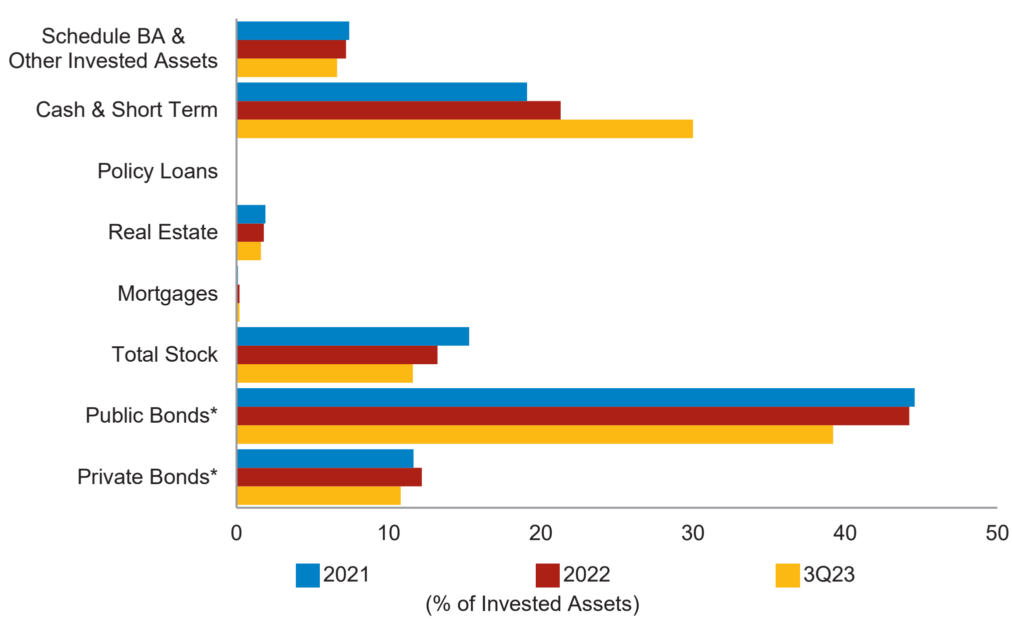
Strong Growth Drives Up Total Invested Assets

Through the third quarter of 2023, invested assets at the health NAIC statement filers (excluding the California Department of Managed Healthcare [DMHC]) increased 14.0% over year-end 2022. The growth in invested assets was due to a combination of strong overall earnings, gains in government programs membership, and the timing of CMS premium payments to insurance companies (**Exhibit 13**).

In aggregate, the segment's cash balance grew to $116.3 billion during the third quarter of 2023, up 47.3% from $72.3 billion at year-end 2022. As a result, the segment's cash allocation rose to 30.0% from 21.3% at year-end 2022. Depending on how the days of the month fall on the calendar, the timing of the CMS premium can lead to an extra payment on the last day of the month. When this occurs, it results in elevated cash and short-term balances at the end of the quarter, which happened at the end of the first and third quarters of 2023. The increase in cash and short-term is temporary, as the premium payment is reallocated or used to pay claims during the next quarter.

Overall asset quality remains high, as a majority of invested assets are held in investment-grade fixed income and cash or short-term investments. At year-end 2022, fixed-income balances were overstated on statutory statements, as the reported market value of these holdings was only about 92% of the book value reported on the statement. (Fixed income is not marked to market for statutory reporting.) The market/book value ratio for fixed-income securities is expected to improve materially at year-end 2023, as roughly 17% of the portfolio will have matured and been reinvested; also, roughly flat effective yields on corporate bonds suggest no additional unrealized losses in 2023 on legacy assets. Assets held in cash as of third-quarter 2023 are also likely to be reinvested into fixed-income securities at market value.

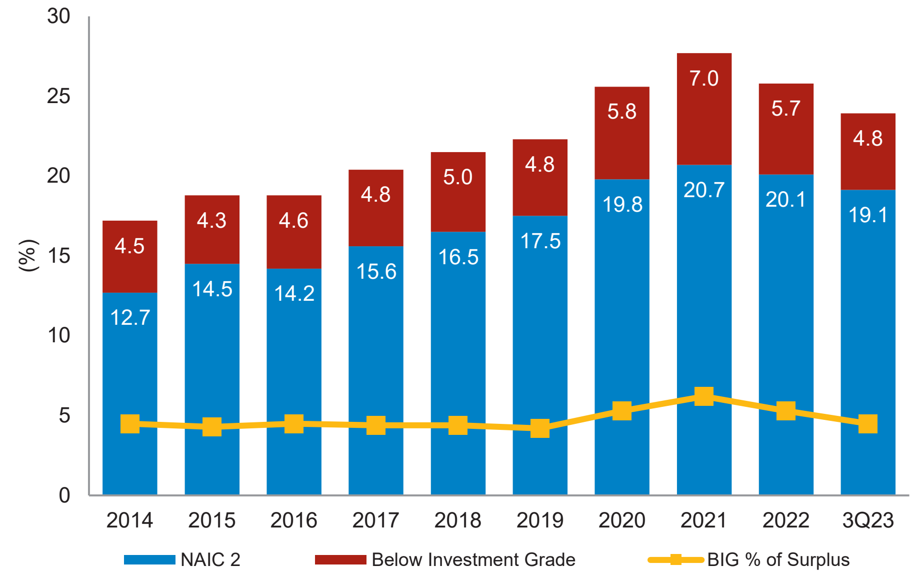
Exhibit 13
US Health: Invested Assets



* Estimate used for 3Q23
Source: AM Best data and research

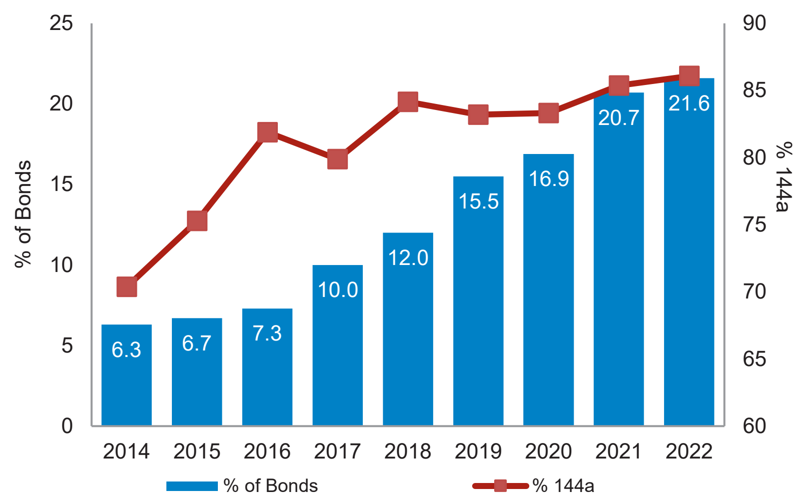
Also improving the quality of the fixed-income portfolio is a decline in the proportion of bonds that are below investment grade, to 4.8% in the third quarter of 2023 from 5.7% at year-end 2022 (**Exhibit 14**). Bond liquidity fell very modestly, as the proportion of private placements continued to rise, to 21.6% of fixed-income securities in 2022, from only 6.3% in 2014. However, the vast majority (86%) are Rule 144a securities, for which the secondary market is more active than for other private placements (**Exhibit 15**). Allocations to structured securities rose modestly but were largely in line with year-end 2022. Allocations to residential mortgage-backed securities (RMBS) increased the most, and other instruments also are seeing modest increases at year-end 2022.

Exhibit 14
US Health Industry – Bond Portfolio Quality
Orange book filers only



Source: BESTLINK

Exhibit 15
US Health Industry – Private Placement Holdings
Orange book filers only



Source: BESTLINK

Allocations to equities, real estate, and other invested assets are in line with those in prior periods, albeit down slightly through third-quarter 2023, indicating no material increase in risk in most portfolios during the year. Furthermore, BCBS companies typically retain higher equity allocations as a capital management tool, as well as other invested assets (including Schedule BA), mostly affiliated investments and investments in health-related businesses.

What Lies Ahead for the Health Segment?

After several years of record operating performance and balance sheet metrics, driven largely by growth and profitability in the government program businesses, supplemented by a recent turnaround in commercial results, what can we expect from health insurers in 2024 and beyond?

The health industry has demonstrated its ability to face challenges as it navigated through the numerous changes presented by the ACA, followed by the pandemic. Despite the operating environment, the segment has managed to meet the headwinds it has faced. AM Best expects this to be the case in 2024 as well, as we expect insurers to face several challenges with favorable strategic and financial countermeasures.

The end of the PHE and Medicaid redeterminations have already led to a significant reduction in related Medicaid managed care enrollment and revenue. AM Best expects that carriers with larger Medicaid blocks will see membership stabilize mid-2024. Additionally, some of the individuals who have been covered by Medicaid had other coverage and therefore were not utilizing their Medicaid benefits, resulting in higher profitability for this line of business. However, as these non-utilizing members are disenrolled, the risk pool will contain a larger number of members using their benefits, resulting in deterioration of the risk pool and lower profitability.

Some of these lives have been picked up by carriers, either on or off exchange through ACA individual health coverage. Additionally, since Medicaid rates are determined using claims experience and trends, it may take some time for states to adjust pricing, but rates, which are set by the states, will eventually be raised. Moreover, health insurers have been expecting Medicaid enrollment to decline for the past two years, but the PHE lasted longer than expected. As such, health insurers are prepared to absorb the impact and return to a more normalized historical level of profitability from this line of business in 2024 and beyond.

For MA, how long the pent-up demand and increase in utilization in the senior segment seen in 2023 will persist into 2024 remains uncertain. The assumptions insurers used for the resumption of care/pent-up demand in the MA pricing for 2024, which were filed in June 2023, are also unclear. If the assumptions were off, the segment's underwriting income and margins could be pressured. Although carriers work continuously to improve their star ratings for the next year, many have opted to absorb the price adjustment in the interim rather than increase rates and potentially lose members. For these carriers, a miss in expected utilization patterns or trends could have a substantially greater impact. Even with the potential pressure on the MA segment for 2024, the segment is expected to remain profitable, albeit with lower earnings when compared with recent years.

AM Best expects renewed focus on the commercial segment, given the challenges with government programs. The focus includes an emphasis on growth and profitability, with rate increases keeping pace with rising medical costs. Overall membership expansion in the employer group market is difficult, as most insurers' new business gains are driven by taking an employer account from another carrier. Membership gains are occurring in the individual market because the increase in ACA subsidies (related to the Inflation Reduction Act) has made coverage more affordable for many. CMS announced 2024 open enrollment in late January 2024, with more than five million new individuals signing up for an ACA plan, bringing the total number of individuals covered to more than 21 million.

Although health insurers are expected to face hurdles in 2024, the overall industry is well capitalized, with earnings expected to remain profitable, just at lower levels than in recent years. However, AM Best remains concerned about smaller, less diversified health insurers, as some of these companies are not as well capitalized and have not experienced the favorable results that other health insurers have reported. The industry has seen several financially impaired or struggling companies go out of business or exit markets due to pressure on operations and poor financial results. Many of these companies experienced issues such as rapid growth, lack of underwriting discipline, pricing problems, and higher loss ratios than expected or compared with the industry.

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