Our Focus

- Drive profits back to **10%** by end of 2017
- Gain experience in **new markets**
- Bolster **membership**
“Offer Too Good to Refuse”

2015 Premium PMPM: $260
2016 PMPM for 51-100 Renewals: $263
2016 PMPM for 51-100 Non-Renewals: $271

 premiums increased by 1% for renewals and 4.1% for non-renewals.
Effects on Revenue

- $1.2B
- $42M

51-100
100+

Actual
Hypothetical
Financial Considerations

Under current strategy
Projected 6.59% profit in 2016

Under hypothetical strategy
-1.27B decrease in yearly revenue (decreased premiums, concentrated lapses)

6.51% profit
Individual Insurance – Priced at Market

Profit Graph

- **280,000** new Individual members by 2017
- Additional **1.37B** generated in Revenue
- Additional **1.17B** incurred in Expenses
Small Group – Priced at Market

Profit Graph

- **816,000** new Small Group members by 2017
- Additional **4.1B** generated in Revenue
- Additional **3.67B** incurred in Expenses
Choosing Course of Action

Membership Potential

- 2016
  - Individual: 100K
  - Small Group: 200K

- 2017
  - Individual: 400K
  - Small Group: 700K

Lapse Distribution

- Individual Lapse
- Small Group Lapse
Similar Patterns

Comparing Age Distributions

- Greater membership potential in the small-group market
- Higher predictably as a result of uniform lapse assumptions
Maximizing Aggregate Profit Percentage

**Input**
- Premium Price

**Adjustment**
- Market Price Ratio
- Membership
- Excess Costs
- Investment Revenue
- Yearly Lapse

**Output**
- Aggregate Profit Percentage

**Constraint**

\[ 0.9 \times \text{Market price} < \text{Premium} < 1.1 \times \text{Market price} \]
Describing Revenue

\[
\text{Revenue} = (1.0001)(1+\left(\frac{\text{Premium}}{\text{Market price}} - 1\right)(-1.2))(\Omega)(\text{Population})(\text{Premium})
\]

\[\Omega = \text{Projected market share with premiums set at market price}\]
Describing Expenses

Price/Membership Sensitivity

\[
\text{Expenses} = [(1 + (\frac{\text{Premium}}{\text{Market price}} - 1)(-1.2))(\Omega)(\text{Population})] \times ((1 + (\frac{\text{Premium}}{\text{Market price}} - 1)(.45))(\text{medical expenses}) + \text{overhead})
\]

Price/Expense Cost Sensitivity

\[\Omega = \text{Projected market share with premiums set at market price}\]
Strategy

- Price premiums 10% higher than market in the small group AND individual sectors in order to avoid 3% scaling cost in 2016 and 2017.
- Member maximization strategy loses out.
- Stay conservative in large group markets until signs of potential or cause for concern emerge.
- Take advantage of legislation pressuring small-large groups to lapse into the individual and small group markets, in 2017.
**Assumptions**

- Assumed 95% persistency
- 1.5% scaling costs added on all lines of business
Assuming No Legislation Interference

Profit Graph

- Legislation Absent

Year:
- 2015
- 2016
- 2017
Adjusting for Lapse Benefits

Profit Graph

Legislation Absent
Legislation Present
Medical Loss Ratios:
Small Group: Decrease from 71% to 68%
Individual: Decrease from 74% to 72%

Premium to Medical Cost Ratio Increases
Considering Scaling Costs

Profit Graph

Legislation Absent
Legislation Enacted
Scaling Costs Adj.

10.1 %
Effects by Line of Business

2016 Financial Outlook

- **Individual**: Minimal revenue, minimal expenses
- **Small Group**: Minimal revenue, minimal expenses
- **Large-Small**: Moderate revenue, minimal expenses
- **Large**: Significant revenue, significant expenses

**Note**: The chart shows the revenue and expenses for each line of business, with the large line showing a significantly higher value for both revenue and expenses compared to the other categories.
2017 Financial Outlook

Greater profit margins compared to that of large-small groups

Revenue

Expenses

Individual Group

Small Group

Large Group

$25.0B

$20.0B

$15.0B

$10.0B

$5.0B

$0.0B
Recap of Goals

- Gain experience in new markets
  - Entry into Individual and Small Group Insurance

- Drive profits back to 10% by end of 2017
  - Projected 10.1% profit return by end of year 2017

- Bolster membership
  - 750K members in Individual Market by 2017
  - 1.2M members in Small Group by 2017
  - Total enrollment at 6.3M by 2017
THANK YOU!