University of California Health Insurance Company

Executive Summary

Actuarial Team 2

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A proposal for University of California Health Insurance Company's (UC's) business strategy in response to legislation that shifts large groups with 51-100 members (termed small-large groups) into the small group market is submitted for your review. With UC's historically decreasing profits in mind, we have decided that the best option is to enter both the small group and individual market in 2016. We also recommend extending an offer that is "too good to refuse" not only to the 59% of small-large groups who initially accepted it, but also to the rest of the small-large groups in 2016. Extending our services outside the large group market will enable us to increase our profits and customer range in the changing market situation. We will also be able to gain experience in these new areas before the mandatory small-large group transition in 2017.

Scenarios We Considered

In addition to extending the "good" offer to only 59% of the small large groups:

- Add small group line in 2016.
- Add individual line in 2016.
- Add small group line in 2017.
- Add both lines in 2016.

In addition to extending the "good" offer to all of the small large groups:

- Add small group line in 2016.
- Add individual line in 2016.
- Add small group line in 2017.
- **Our Recommendation: Add both lines in 2016.***

***extend the "good" offer to all small large groups and enter both the small group and individual market in 2016.*

Methodology

In each potential scenario, we set different premium values for each age group within different lines of business and calculated the overall resulting membership and profit. We also took lapse rates, market shares, and medical loss ratio regulations into consideration while making these calculations. The most ideal groupings are the ones that were determined to have a relatively high rate of member increase and net profit.

Impacts of Business Expansion

Other considerations for evaluating each scenario include the prospect of more members as a result of the significant increase in our pool of customers. Expanding past a certain membership threshold too quickly would lead to extra costs from hiring/training new staff, advertising for our new lines of business, etc. Our recommended scenario, however, is able to avoid these costs because the rate of membership increase is not high enough to cause our membership to exceed the threshold, so it will not drag our profits down. Instead, the expansion rate and net profit in our recommended scenario balance each other out while still remaining ideal.