Team 14 Executive Summary

The *University of California Health Insurance Company*, *"UC,"* has been a major large-group health insurer domiciled in Westwood, California. However, with recent legislative pressures, *UC* has taken action to contemplate strategies to enter new markets. Specifically, a branch of ACA legislation has imposed a redefinition of small-group employers; starting in 2017, small group employers will be defined as groups of at most 100 employees, a sizable portion of *UC's* current client pool. *UC* has recently experienced downward pressure with the enactment of this legislation looming and is considering two primary markets to enter: Small Business Health Options Exchange ("SHOP") and Individual Insurance through Covered California. As a first measure against this redefinition of small-groups, *UC* offered a deal "too good to refuse" to approximately half of its clients in its 51-100 block, keeping these clients as a large group for an additional year. We will therefore analyze the effect of this deal and its future implications in 2016 and 2017. Here, we will outline three primary goals: driving profits up to 10% by end of year 2017, extending into new markets, and bolstering membership.

First, we analyze what exactly the deal "too good to refuse" is. Specifically, groups who obtained this deal, renewing in December 2015, will see only a one percent increase in monthly premium per member in year 2016. Small-large groups (51-100 groups) who did not obtain this deal will be subject to the 4.1% and 3.9% increase in premiums in subsequent years. We analyzed the financial impact of hypothetically extending this deal to all 51-100 groups, as opposed to only half. Doing so, we realized that the loss in revenue within the 51-100 groups only totaled to approximately 42 million dollars. We reasoned, however, that such a deal would incentivize large groups of over 100 members to lapse, effectively dropping out of *UC* insurance. At an assumed 5% lapse rate, we calculated the financial impact on revenue to be approximately a decrease of 1.2 billion dollars.

Next, we wished to analyze the viability of entering into the individual market or small group market or both. We began with an "ordinary" model, in which we set premiums at the prevailing market price. We knew that in doing so, we would obtain approximately 10% of the individual market and 20% of the small group market by 2017. After applying the extra revenue and expense costs generated through extending into these new markets, we calculated a net increase in profit of approximately 1.1% from 7.1% to 8.2%, still short of our 10% target. After analyzing lapse distributions and membership potential of the individual and small groups, we sought to be fairly aggressive in the small group market. However, we wished to understand exactly *how* aggressive. We invoked a formula which we optimized. Final results indicated that raising premiums in both markets by 10% above market conditions would prove most beneficial.

We then applied these revised premiums while also considering the effects of these increased premiums on membership and expense costs. Disregarding lapse benefits and scaling costs, we calculated that setting prices at the aforementioned rates would lead to approximately an 8.8% profit return. However, after considering the benefits of lapse facilitated through legislation – that is, the reduced medical costs and medical-loss ratios derived from large groups lapsing into the individual and small group markets – we obtained a revised profit gain of 11.8%. We then needed to observe the scaling costs that accompanied increased membership. Specifically, at a membership count of approximately 6.3 million in 2017, we expected to incur a scaling cost of 1.5% on all lines of business. After applying this additional cost, we observed slight downward pressure on our previous calculation, bringing our final return to 10.1%.

In conclusion, we have achieved our three goals outlined at the outset – that is, we have achieved our 10% profit target, extended into new markets (Individual Insurance and "SHOP"), and increased membership to approximately 6.3 million members by end of year 2017.