

# 2016 - 2017 Renewal Strategies for The University of California Health Insurance Company

James Han, Karen Kan, Wendy Tan, Alex Xiao

## **Executive Summary**

In response to the passage of the new California legislation redefining the threshold of “small employers” to be below one hundred employees and requiring all small employers to purchase insurance through an exchange, the actuarial team of UCHIC has put together a proposal for entering the market in small group and individual insurance as well as renewal premiums for the large group insurance line of business (LOB). The new legislation, to be in effect starting in 2017, mandates that our large group insurance LOB can no longer provide insurance for employers with 51 to 100 employees, resulting in a 20% drop in membership in 2017. We suggest that UCHIC expand its business to provide insurance for small group employers and individuals, thus mitigating the effects of the new legislation and reducing our risk through diversification.

## **Renewals for the Large Group LOB**

At the time of this proposal, UCHIC has already offered binding quotes for the 2016 renewal rates of 55% of the groups in the large group LOB that will be affected by the new legislation (small-large groups). They were offered a rate that was “too good to refuse”, namely a meager 1% increase in premiums from 2015, despite the fact that medical cost is expected to increase by 4.5% and overhead cost by 2%. To balance the financial impact of these renewals on the large group LOB, we suggest a 4% markup from the trended premium rate in both 2016 and 2017 (see the table below for all of the proposed rates). The tradeoff in this rate increase is very favorable: with a less than 3% drop in enrollment, we will be able to increase our profits in the large group LOB by 16% and 18% in 2016 and 2017 respectively. The additional revenue will provide the financial capital necessary to help us remain strong while expanding into unknown territory.

## **New Lines of Business: Small Group Insurance and Individual Insurance**

Market analysis done by West Coast consulting indicates that more than six million new members per year will join the small group insurance and individual insurance markets in 2016 and 2017. Given the competitive landscape, West Coast claims that under the rates they have proposed, we will be able to reap 5% of the market in both LOBs in 2016, and our market share will grow to 10% for individuals and 20% for small groups in 2017. There is no question that UCHIC should enter these new markets, but we suggest doing so at a lower rate than

what's proposed by West Coast in order to attract more members and expand firmly into the new markets. If we lower our premiums for small group insurance by 15% from West Coast's suggestions, we can gain 20% more members each year with the cost of only a 6.4% drop in profits in 2016 and a 3.5% drop in 2017. We would propose the same markdown for individual insurance for both years, except that the abrupt surge in total membership would have increased our cost by an extra 1.5% due to capacity constraints. However, if we mark down the 2017 premiums of individual insurance by 10% (while maintaining the 15% markdown in 2016), we would be able to mitigate the extra cost of scaling up, granting us 14% higher total profits and only losing less than half a percent of our members.

### Final Rates and the Financial Impact of Our Proposal

The table below contains the rates that we are proposing for all lines of business in 2016 and 2017. Our rates for the small group and individual insurance LOBs are comparable with the average rates on the SHOP and Covered California exchanges. We should refrain from decreasing the premiums further to avoid the extra cost of scaling up and the extra risk from markets that we are not very familiar with. Under these rates, our projections show that our small group insurance LOB will have a sharp increase in 2017, due to both the new legislation and our increasing market share. Our individual insurance LOB will also see moderate growth, while our large group LOB will decrease due to the legislation as well as our markup on the premium. We suggest that in the future years (after 2017), UCHIC should continue to expand into the new markets, but at a more moderate rate, and maintain our existing business in the large group LOB. This can be achieved by reducing both the markups on the large group premiums and the markdowns on small group and individual premiums, thus regressing toward the market rates.

Proposed PMPM Premiums for 2016 - 2017			
Large Groups	Size of Group	2016	2017
	100+	\$ 405.99	\$ 421.82
	51-100 (Non-Renewed)	\$ 271.07	NA
	51-100 ("Too Good to Refuse")	\$ 262.99	NA
Small Groups	Age	2016	2017
	25 Year Olds	\$ 186.05	\$ 193.20
	35 Year Olds	\$ 266.13	\$ 276.64
	45 Year Olds	\$ 397.51	\$ 413.50
	55 Year Olds	\$ 501.67	\$ 522.01
Individuals	Age	2016	2017
	25 Year Olds	\$ 182.01	\$ 183.60
	35 Year Olds	\$ 258.90	\$ 260.99
	45 Year Olds	\$ 397.30	\$ 400.31
	55 Year Olds	\$ 489.58	\$ 493.20