

# 2016-2017 Renewal Strategies

The University of California Health Insurance Company

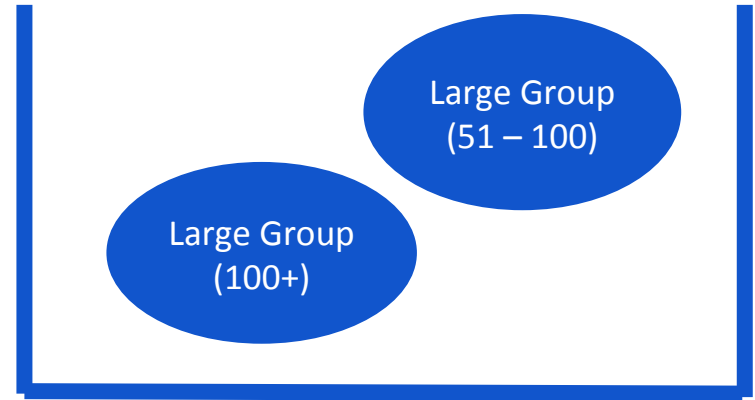
James Han  
Karen Kan  
Wendy Tan  
Alex Xiao



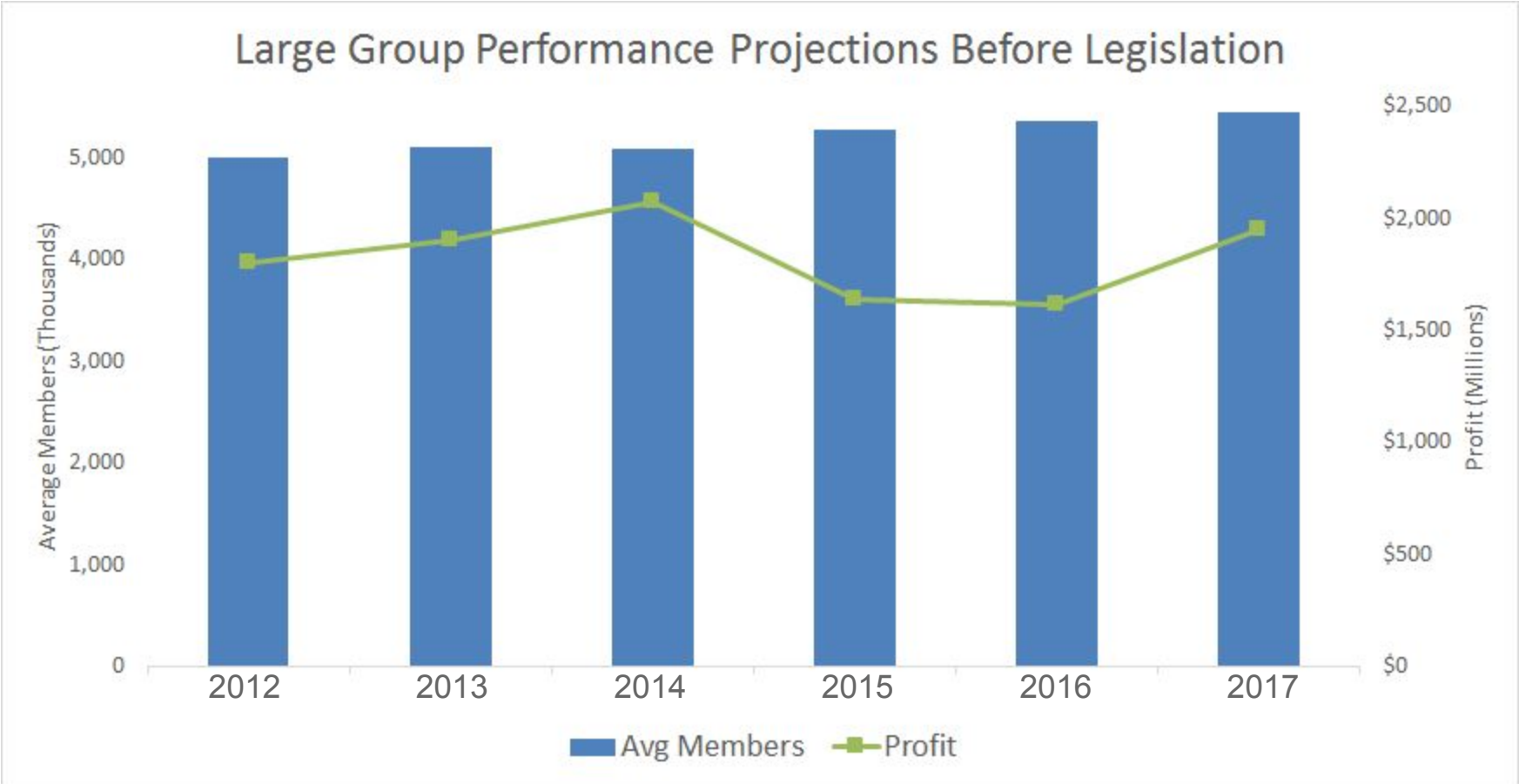
# Effects of the Affordable Care Act

## Expanded Definition of Small Group Employers

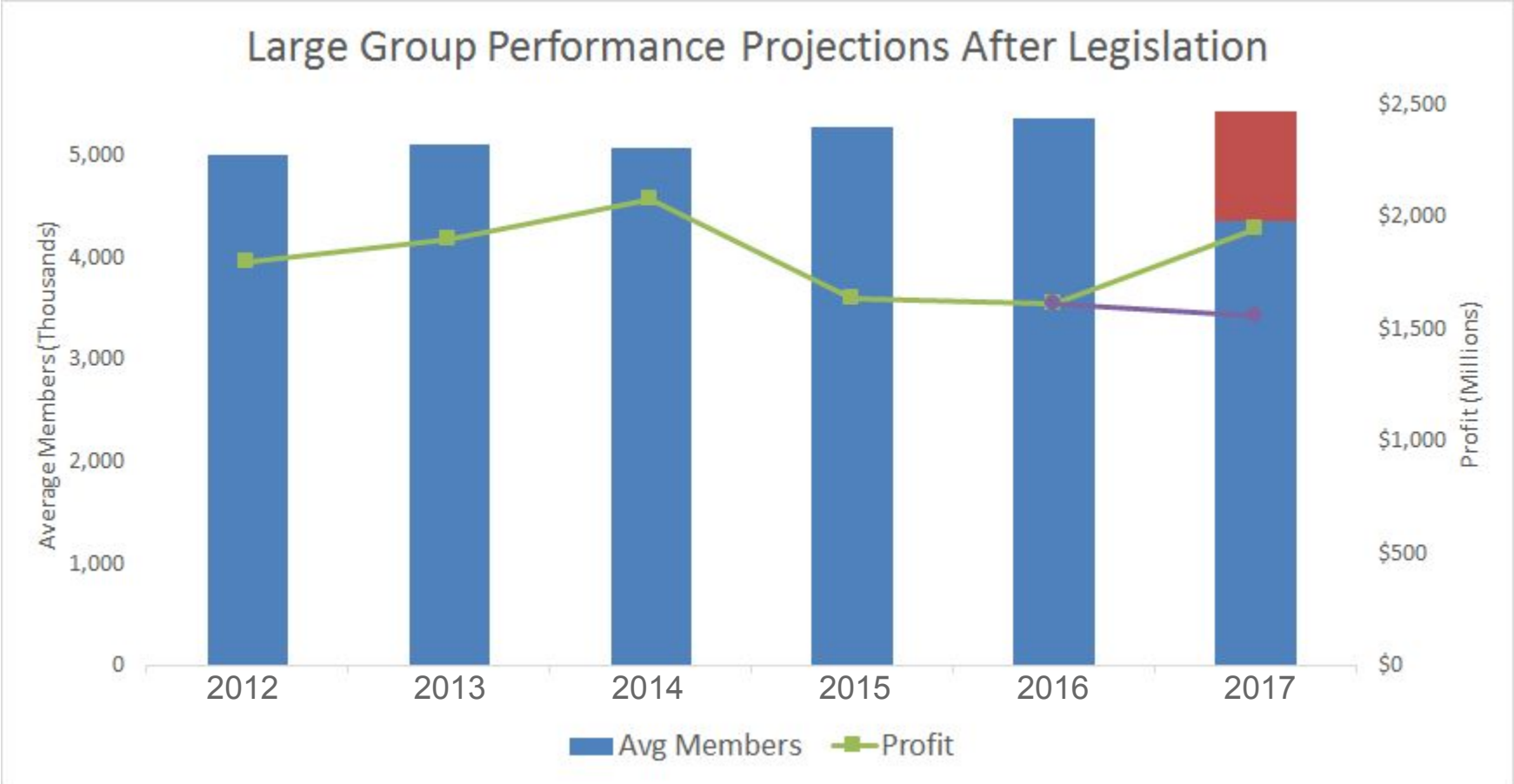
- Lost membership
- Decreased total profits
- Increased risk



# Effects of the Affordable Care Act



# Effects of the Affordable Care Act: 20% Drop

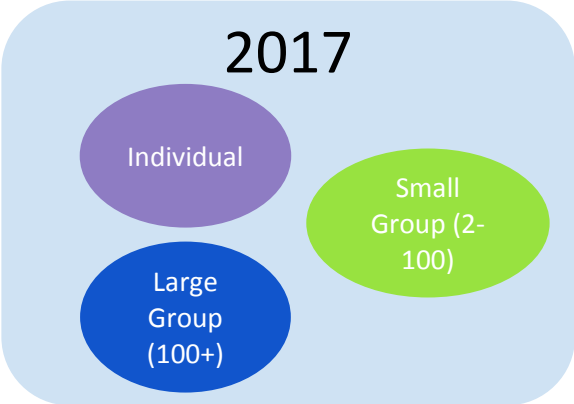
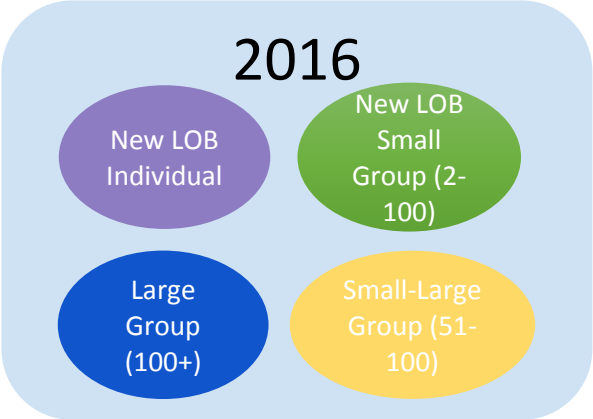
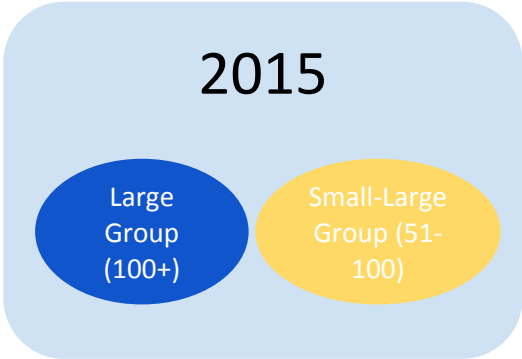


# Potential New Business

## Small Group Insurance and Individual Insurance

- More than 13 million potential new members in 2016 and 2017
- Provides diversification for our portfolio
- Lower cost than our large group members as projected by West Coast
- Higher profit margins and lower loss ratios than our current block of business

# 2016 - 2017: Transition and New LOB



# Financial Projections: 2016 – 2017



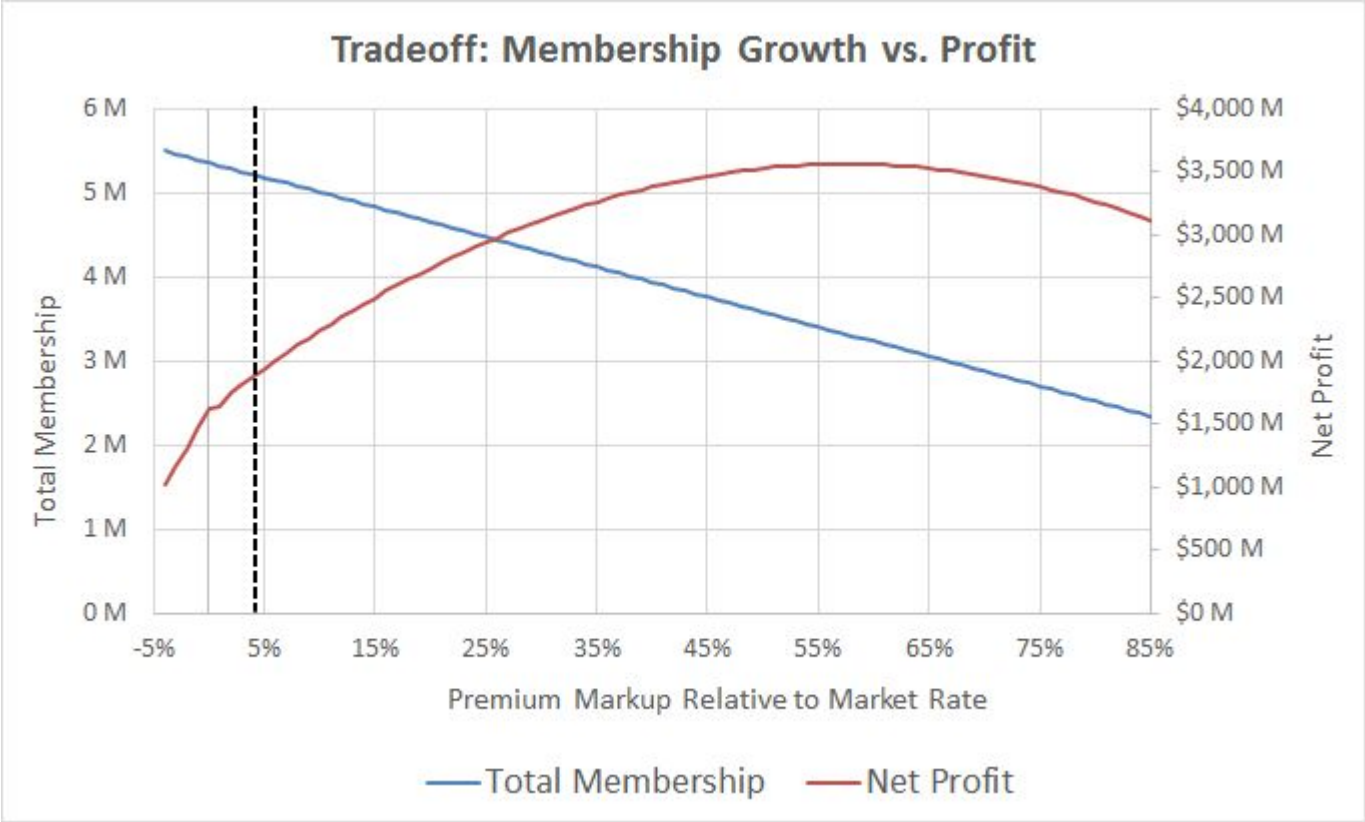
# Large Group Renewals for 2016

2016 Financial Projections at the Market Rate				
Line of Business	Membership	PMPM Premium	PMPM Med Exp	PMPM Overhead
100+ Groups	4,285,314	\$405.99	\$354.57	\$27.06
51-100 (Non-Renewed)	442,840	\$271.07	\$210.71	\$27.06
51-100 (Renewed)	628,488	\$262.99	\$210.71	\$27.06

Financial Impact of the Renewal of the Remaining Small-Large Groups			
	Renew as Normal	Renew at Lower Rate	Financial Impact
Total Revenue	\$24,304 M	\$24,261 M	-\$43 M
Total Expenses	\$22,682 M	\$22,682 M	\$0 M
Net Profit	\$1,622 M	\$1,579 M	-\$43 M
Profit %	6.68%	6.51%	-2.64%



# Large Group Renewals for 2016



**Recommended Premium Markup: 4%**

**Membership Change Due to Premium Markup: -142K (-2.65%)**

**Profit Gain From Premium Markup: \$260M (+16.02%)**

# Large Group Renewals for 2017

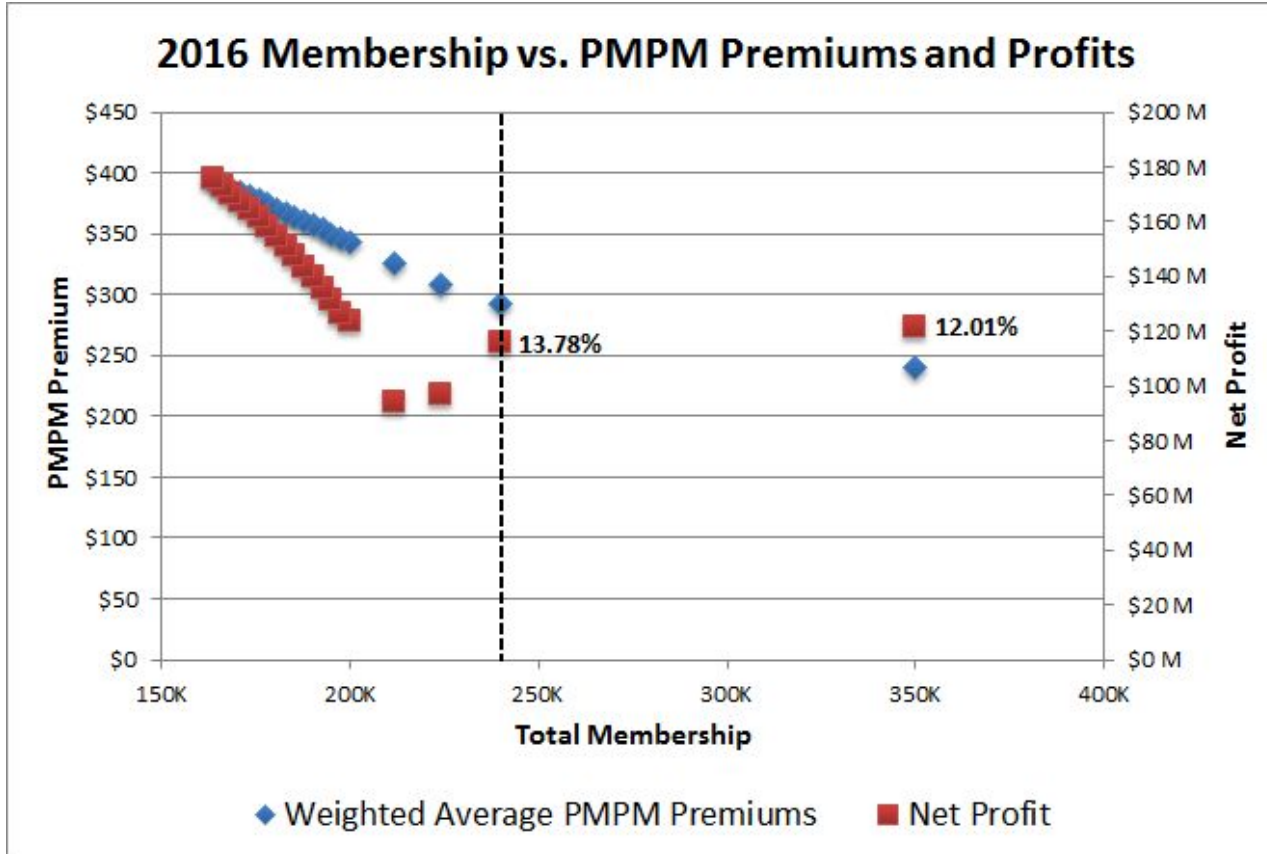


**Recommended Premium Markup: 4%**

**Membership Change Due to Premium Markup: -127K (-3%)**

**Profit Gain From Premium Markup: \$247M (+17.85%)**

# New Line of Business: Small Groups (2016)

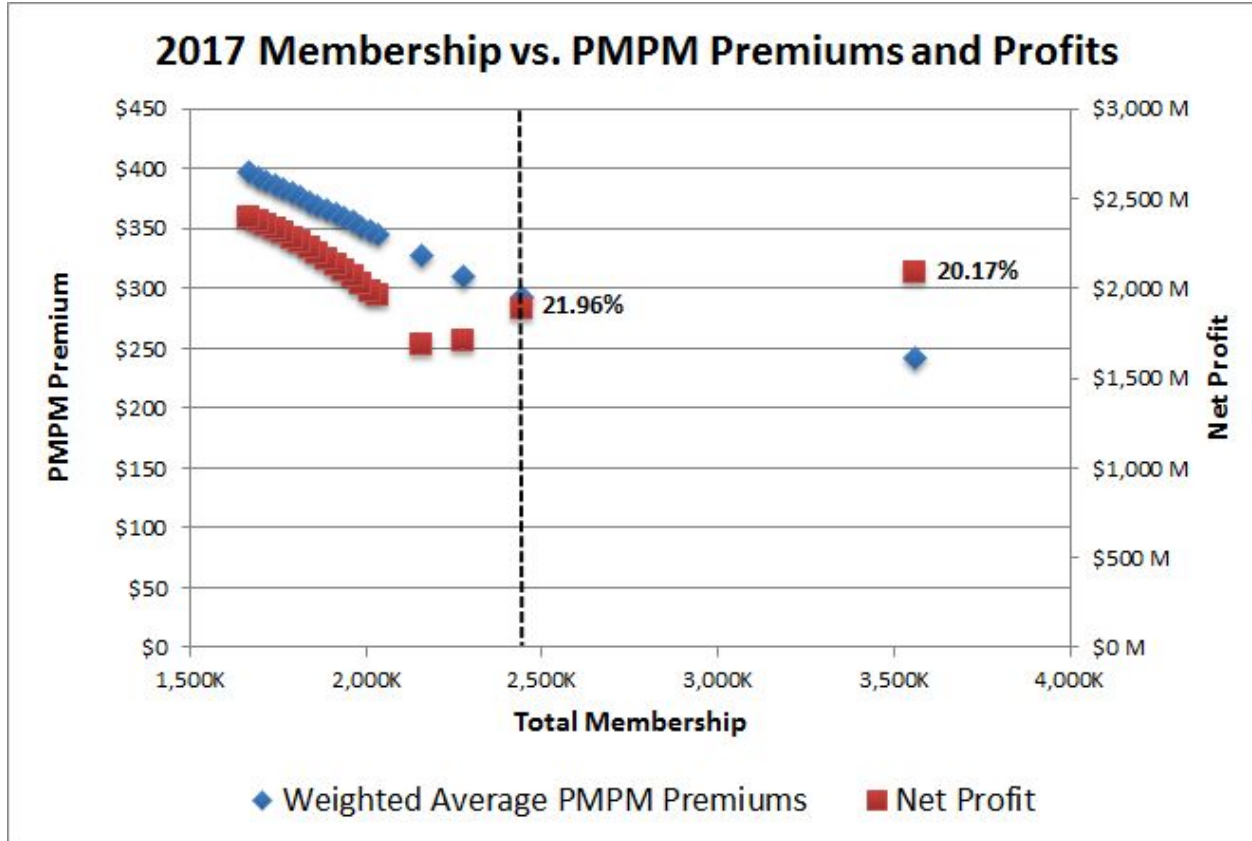


**Recommended Premium  
Markdown: 15%**

**Membership Change Due  
to Markdown: +40K  
(+20%)**

**Profit Change Due to  
Markdown: -\$7.9M  
(-6.4%)**

# Addition of Small-Large Groups (2017)



**Recommended Premium  
Markdown: 15%**

**Membership Change Due  
to Markdown: +407K  
(+20%)**

**Profit Change Due to  
Markdown: -\$68.4M  
(-3.5%)**

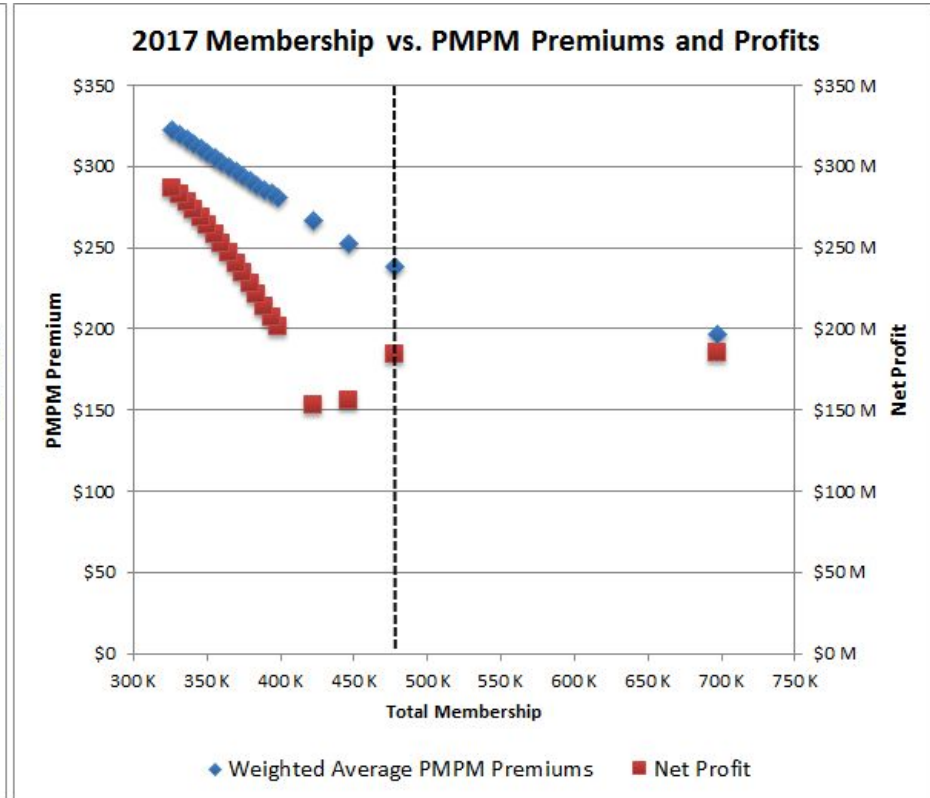
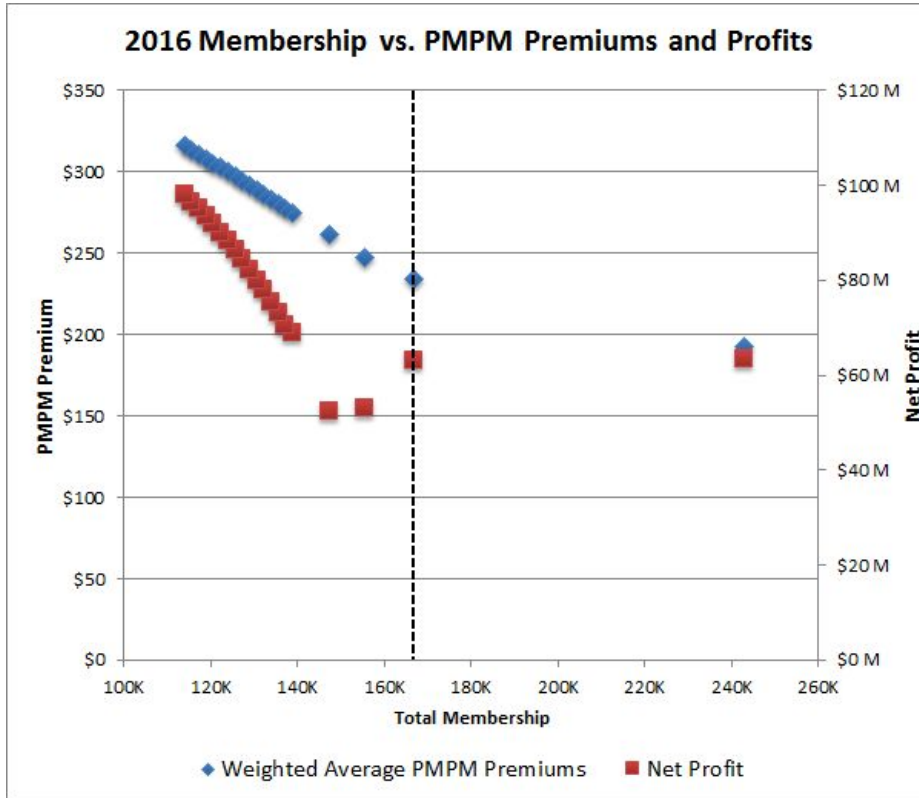
# Effects of the Small-Large Groups

Financial Impact of Adding the Small-Large Groups				
	2016	2017	2017	
		(w/o Small-Large Groups)	(w/ Small-Large Groups)	Financial Impact
<b>Total Membership</b>	240,000	1,238,400	2,441,665	1,203,265
<b>Total Revenue</b>	\$840 M	\$4,509 M	\$8,604 M	\$4,095 M
<b>Total Expenses</b>	\$725 M	\$3,887 M	\$6,715 M	\$2,828 M
<b>Net Profit</b>	\$116 M	\$622 M	\$1,889 M	\$1,267 M
<b>Profit %</b>	13.77%	13.80%	21.96%	8.16%

With the transition of the small-large groups:

- Total Membership is DOUBLED
- Net Profit is TRIPLED

# New Line of Business: Individuals



**Recommended Premium Markdowns: 15%**

# Preliminary Proposal

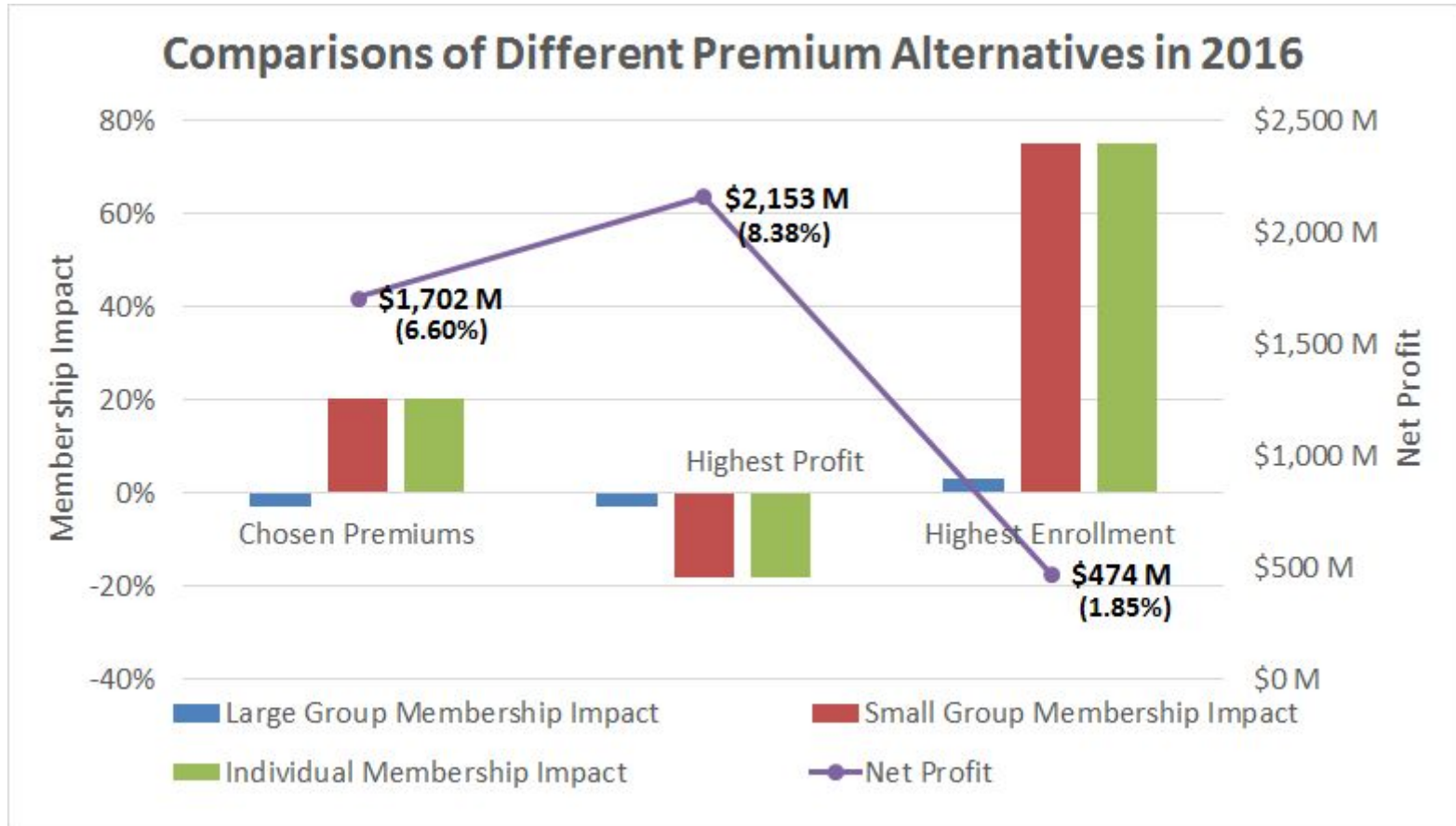
- Rate large groups with a 4% markup in premiums (in both 2016 and 2017)
  - This rate maximizes the profits with a much smaller tradeoff in enrollment
  - Any rates higher than this cannot be justified with available data on membership impact
  
- Rate small groups and individuals with a 15% markdown in premiums (in both 2016 and 2017)
  - The lower rate will attract more members and gain market share in the new lines of business
  - Rates lower than this (30% markdown, for example) will cause total expenses to increase due to capacity constraints in membership

# Combined Financial Effects and Final Proposal

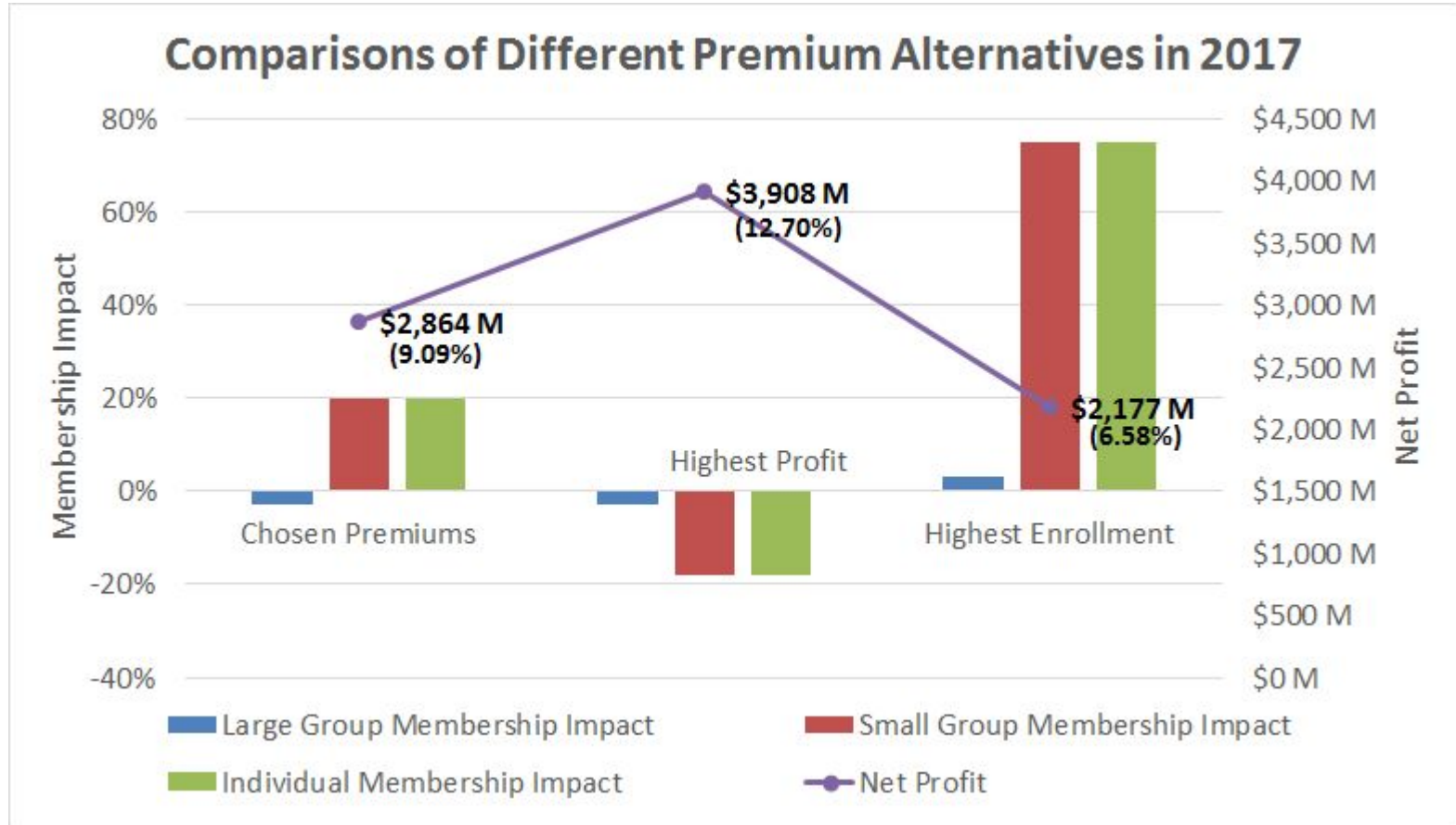




# The Profit-Enrollment Tradeoff



# The Profit-Enrollment Tradeoff



# Premium Adjustment for 2017

Proposal: Change the premium markdown of individual insurance to 10% rather than 15%  
(Effective increase in premiums: 5.88%)

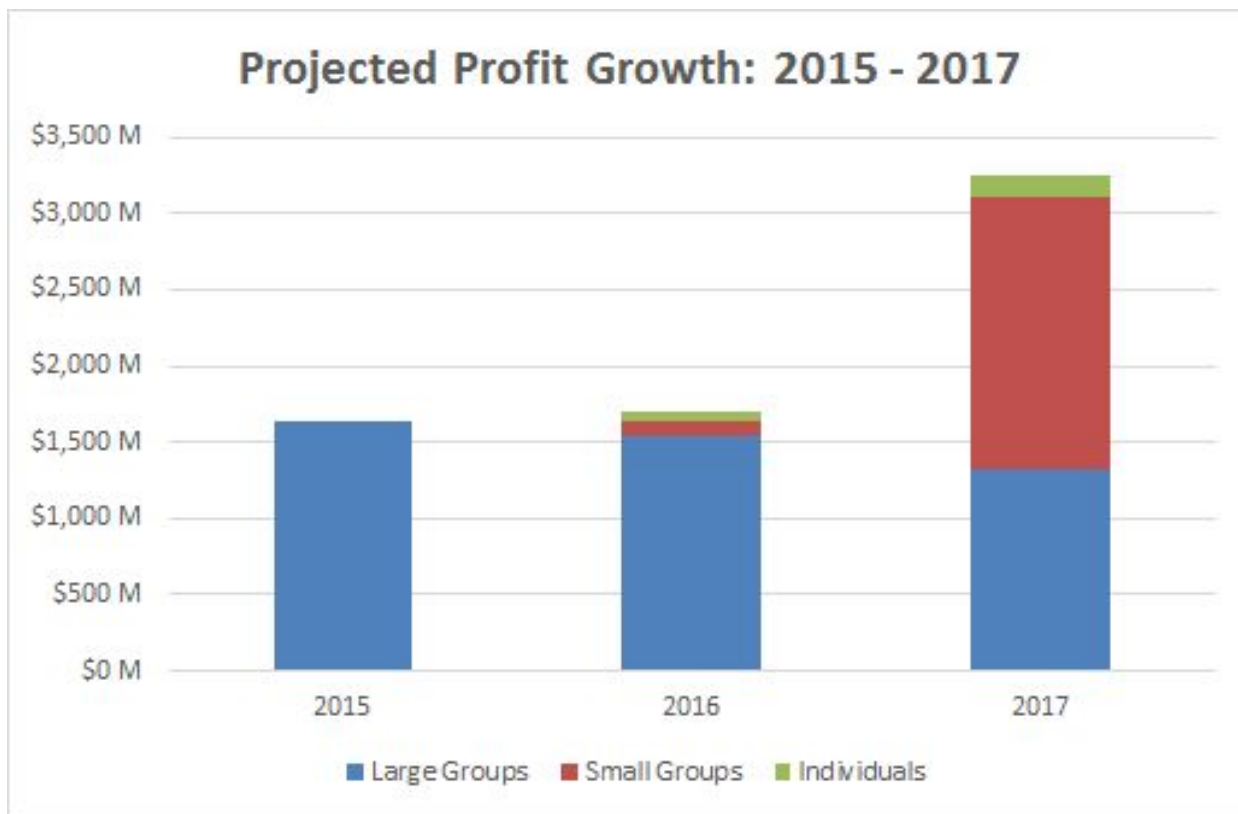
Justification: Puts the total enrollment right below the 7 million threshold which entails extra costs due to capacity constraints

Impact of Premium Adjustment						
	Individual PMPM Premium (Avg)	Total Members	Total Revenue	Total Expenses	Total Net Profit	Profit Ratio
Old Rates	\$238	7,012,364	\$31,516 M	\$28,652 M	\$2,864 M	9.09%
New Rates	\$252	6,980,486	\$31,500 M	\$28,248 M	\$3,252 M	10.32%
Change	\$14	-31,878	-\$16 M	-\$404 M	\$388 M	1.24%
% Change	5.88%	-0.45%	-0.05%	-1.41%	13.56%	13.62%

# Final Rate Proposals for 2016 - 2017

<b>Proposed PMPM Premiums for 2016 - 2017</b>			
<b>Large Groups</b>	<b>Size of Group</b>	<b>2016</b>	<b>2017</b>
	100+	\$ 405.99	\$ 421.82
	51-100 (Non-Renewed)	\$ 271.07	NA
	51-100 ("Too Good to Refuse")	\$ 262.99	NA
<b>Small Groups</b>	<b>Age</b>	<b>2016</b>	<b>2017</b>
	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
<b>Individuals</b>	<b>Age</b>	<b>2016</b>	<b>2017</b>
	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

# Projected Combined Financial Impacts for All LOBs



Projected Combined Financial Impacts for All LOBs	
<b>2016</b>	
Enrollment	5,621,464
Total Revenue	\$25,806 M
Total Expenses	\$24,103 M
Net Profit	\$1,702 M
Profit Ratio	6.60%
Loss Ratio	85.01%
<b>2017</b>	
Enrollment	6,980,486
Total Revenue	\$31,500 M
Total Expenses	\$28,248 M
Net Profit	\$3,252 M
Profit Ratio	10.32%
Loss Ratio	88.85%

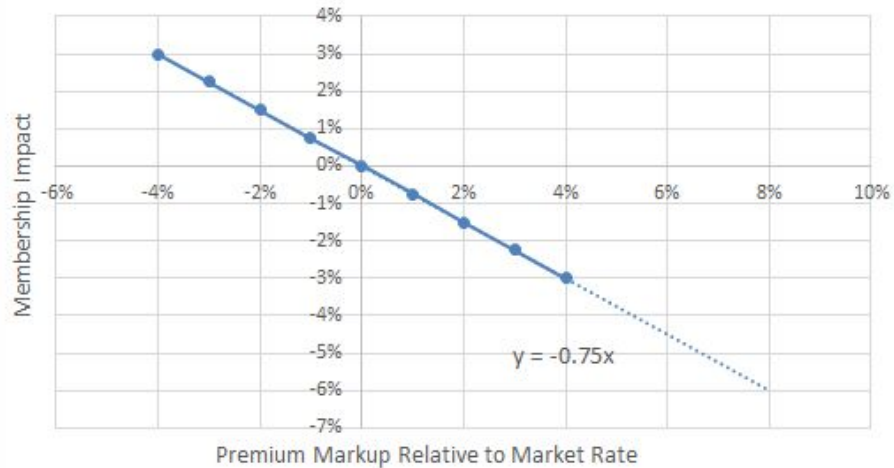
# Key Considerations

- The large group line of business is still our core business and needs to be strengthened
- The expansion into the small group and individual markets poses both new opportunities and drawbacks
  - **Pros:** Potentially higher profits and lower loss ratios; Diversifies risk
  - **Cons:** Lack of experience and data; Anti-selection in the individual markets; Increased administrative cost due to capacity constraints
  - **Suggestions:** Gradually expand into the new markets in the first two years while ensuring profitability and maintaining member loyalty. Depending on the market environment in 2017, adapt new strategies in the future

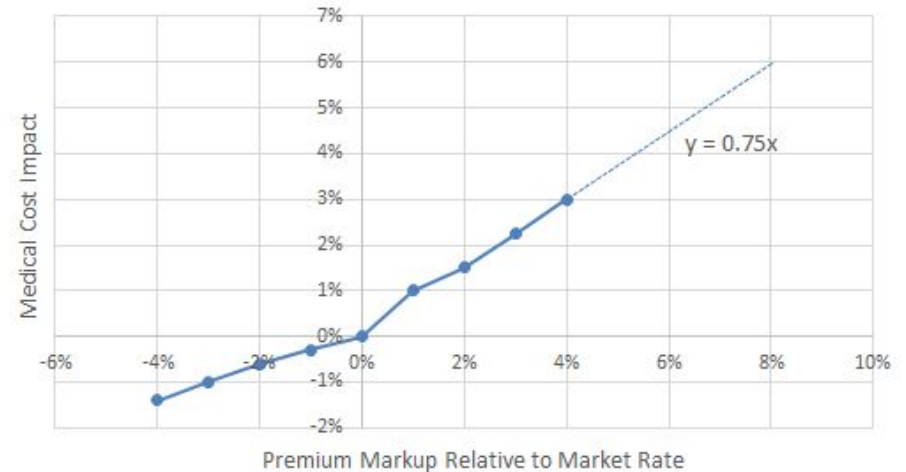
Thank You!

# Appendix I: Estimation of Elasticities

## Membership to Premium Elasticity Estimation



## Medical Cost to Premium Elasticity Estimation

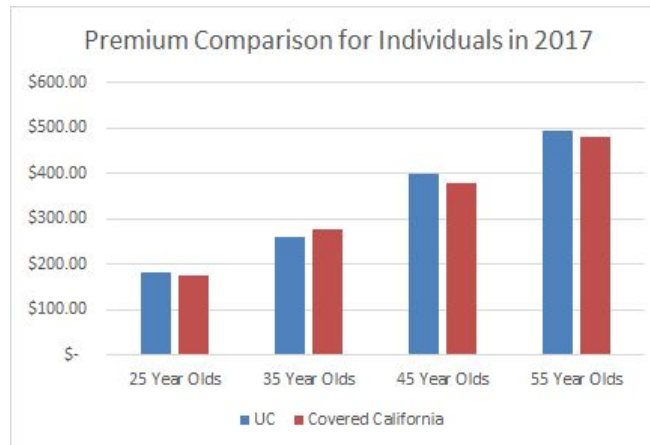
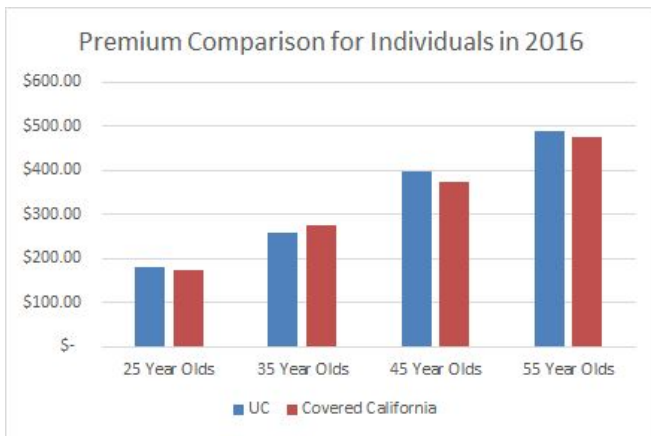
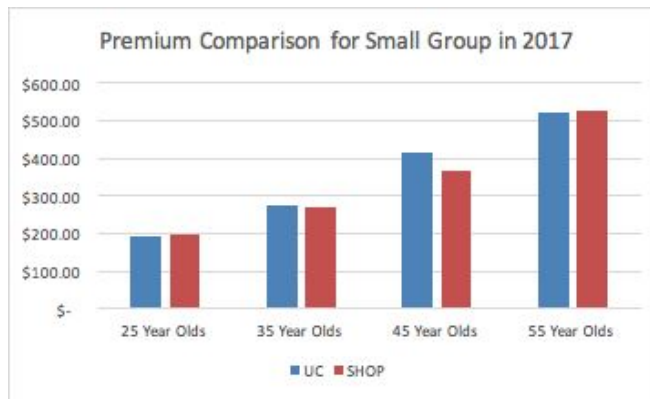
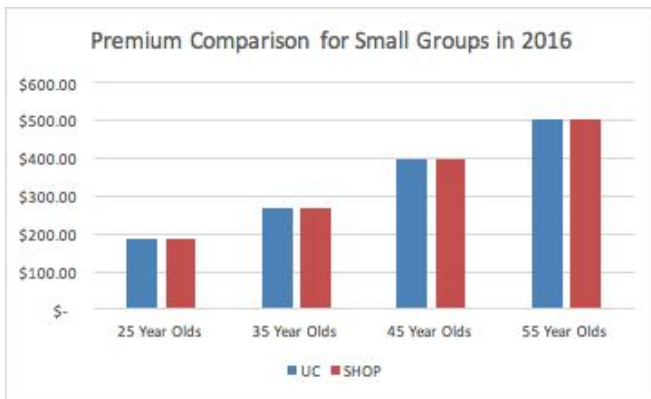


**Membership to Premium Elasticity: -0.75**

**Medical Cost to Premium Elasticity: 0.75**



# Appendix II: Competitive Analysis



## Appendix III: Loss Ratios for All LOBs

<b>Loss Ratio</b>	<b>2016</b>	<b>2017</b>
Individual	76.27%	76.27%
Small Overall	78.01%	69.71%
Small-Large Groups (Non-Renewed)	77.73%	-
Small-Large Groups ("Too Good to Refuse")	80.12%	-
Large	88.33%	87.00%