

BAS 4th Case Competition

UC Insurance Company Considerations for 2016-2017 New Market Entry

January 14, 2016 UCLA

UC Insurance Company

Prior to 12/31/2015 UC covered large group health insurance (51+ lives).

Definition of small group changed 10/2015:

51-100 will be small group.

Eligible for SHOP market in 2016.

UC offered early renewal to 55% of small groups for 1/1/2016.

UC Business Considerations

1. Whether to provide early renewal rates to every small-large group (51-100) for 2016.
1. Whether to enter SHOP exchange (Small group insurance) for 2016.
1. Whether to enter the individual insurance market.
 - If entered: UC rates or covered California rates.

Actual P&L 2013-2015 Statements

	10+2 Forecast	
2013	2014	2015
5,100,000	5,074,500	5,277,480
\$19,645,200,000	\$20,915,262,180	\$23,056,985,027
\$1,964,520	\$2,091,526	\$2,305,699
\$19,647,164,520	\$20,917,353,706	
\$7,004,340,000	\$7,666,250,130	\$8,770,190,149
\$6,548,400,000	\$6,776,284,320	\$7,752,069,262
\$1,285,200,000	\$1,342,712,700	\$1,536,063,329
\$1,346,400,000	\$1,473,634,800	\$1,685,838,211
\$1,560,600,000	\$1,583,852,940	\$1,680,151,199
\$17,744,940,000	\$18,842,734,890	\$21,424,312,150
\$1,902,224,520	\$2,074,618,816	\$1,634,978,576
9.7%	9.9%	7.1%

Note:
Small increase in
membership.
Overall declining
profit.

Assumptions

EARLY RENEWAL offers are at small-group in-force premium rate with 1% increase.

Once EARLY RENEWAL has been completed, group cannot back out of the rate for 2016.

Other companies will offer SHOP and Individual Coverage through the market exchange as an option for 2016.

Claims from current small-large groups will be used to determine risk for 2016 and 2017.

Recommended Scenario

- Provide early renewal rates to every small-large group for 2016.
- Enter SHOP exchange (Small group insurance) for 2016.
- Enter individual insurance market with UC rates for 2016.

	Projected	
	2016	2017
Average Membership	5,223,535	5,656,248
Annual Revenue		
Premium	\$21,951,740,714	\$23,742,985,280
Invested Income	\$2,195,174	\$2,374,299
Total Revenue	\$21,953,935,888	\$23,745,359,579
Expenses		
Medical Expenses	\$18,590,260,976	\$19,749,057,982
Overhead	\$1,648,004,011	\$1,778,331,967
Total Expenses	\$20,238,264,987	\$21,527,389,949
Net Profit	\$1,715,670,901	\$2,217,969,630
Profit %	7.81%	9.34%

Impact of early renewal rate and SHOP exchange

UC doesn't enter SHOP exchange for 2016

Give early renewal rate only to early renewal

Give early renewal rate to every small-large group

	10+2 Forecast 2015	Projected 2016		Projected 2017	
Average Membership	5,277,480	4,498,853	4,807,473	4,913,334	5,161,855
Annual Revenue					
Premiums	\$23,056,985,027	\$19,639,469,988	\$20,901,758,117	\$20,945,495,213	\$22,072,835,400
Investment Income	\$2,305,699	\$1,963,947	\$2,090,176	\$2,094,550	\$2,207,284
Total Revenue	\$23,059,290,726	\$19,641,433,935	\$20,903,848,293	\$20,947,589,762	\$22,075,042,683
Expenses					
Medical Expenses	\$19,744,160,951	\$16,776,318,338	\$17,547,300,848	\$17,824,315,518	\$18,474,699,753
Overhead	\$1,680,151,199	\$1,460,899,834	\$1,563,299,295	\$1,595,493,154	\$1,680,678,129
Total Expenses	\$21,424,312,150	\$18,237,218,172	\$19,110,600,143	\$19,419,808,671	\$20,155,377,882
Net Profit	\$1,634,978,576	\$1,404,215,763	\$1,793,248,150	\$1,527,781,091	\$1,919,664,801
Profit %	7.09%	7.15%	8.58%	7.29%	8.70%

Impact of early renewal rate and SHOP exchange

UC enters SHOP exchange for 2016

Give early renewal rate only to early renewal

Give early renewal rate to every small-large group

	10+2 Forecast 2015	Projected 2016		Projected 2017	
Average Membership	5,277,480	5,082,610	5,306,585	5,103,334	5,324,305
Annual Revenue					
Premiums	\$23,056,985,027	\$21,495,469,674	\$22,551,232,186	\$21,549,671,380	\$22,609,790,173
Investment Income	\$2,305,699	\$2,149,547	\$2,255,123	\$2,154,967	\$2,260,979
Total Revenue	\$23,059,290,726	\$21,497,619,221	\$22,553,487,309	\$21,551,826,348	\$22,612,051,152
Expenses					
Medical Expenses	\$19,744,160,951	\$18,230,717,897	\$18,836,981,981	\$18,283,120,042	\$18,883,353,949
Overhead	\$1,680,151,199	\$1,607,417,482	\$1,691,077,336	\$1,613,386,011	\$1,696,282,490
Total Expenses	21424312150	\$19,838,135,379	\$20,528,059,317	\$19,896,506,053	\$20,579,636,439
Net Profit	\$1,634,978,576	\$1,659,483,842	\$2,025,427,992	\$1,655,320,294	\$2,032,414,712
Profit %	7.09%	7.72%	8.98%	7.68%	8.99%

Impact of Individual Insurance Market

Covered California Rates

UC Rates

	Projected		Projected	
	2016	2017	2016	2017
Average Membership	118,576	330,796	120,201	331,944
Annual Revenue				
Premiums	\$390,599,646	\$1,105,533,320	\$402,069,334	\$1,133,195,108
Investment Income	\$39,060	\$110,553	\$40,207	\$113,320
Total Revenue	\$390,638,706	\$1,105,643,873	\$402,109,541	\$1,133,308,427
Expenses				
Medical Expenses	\$307,693,250	\$872,213,448	\$307,140,934	\$865,704,033
Overhead	\$34,150,000	\$84,091,192	\$34,618,000	\$82,049,476
Total Expenses	\$341,843,250	\$956,304,639	\$341,758,934	\$947,753,509
Net Profit	\$48,795,456	\$149,339,234	\$60,350,607	\$185,554,918
Profit %	12.49%	13.51%	15.01%	16.37%

Further considerations in expanding business lines

- Political risks
 - Small group insurance and individual insurance are highly regulated by the government.
- Stability
 - Lapse rates are much higher for individual insurance.
- Risk-based capital requirement
 - Profit margin has to support capital requirement.

Recommendation to the “Decision Makers”

- Emphasize large group insurance
 - Lower lapse rates, higher client retention.
 - Less regulation by the government.
- Individual insurance seems to be more profitable for 2016 and 2017, but....
 - Much higher lapse rates.
 - Regulation risk.
- If we were to enter, start with no more than 5% increase in expected membership to test market, distribution, and profitability.

THANK YOU