

THE NEW JERSEY COMMERCIAL HEALTH MARKET 2010

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The New Jersey Commercial Health Market

The commercial health market, as described in this report, consists of comprehensive (medical and hospital) coverage that is issued by a regulated carrier (insurer, health service corporation, or HMO) in New Jersey and subject to New Jersey DOBI regulation*. The commercial health market does not include self-funded coverage provided by larger corporations, labor unions, or governments, for example, the State Health Benefits Plan. It also does not include government programs such as Medicare, Medicaid, or coverage for military or civilian Federal employees, or private coverage such as Medicare Supplement and Medicare Advantage which supplements or is an alternative to traditional Medicare. It does not include student coverage provided at colleges, universities, and other schools. It also does not include coverage's such as dental, disability income, or long term care. As a consequence, only about a quarter of New Jersey's population received coverage from this regulated commercial market.

The regulated commercial market (large group, small group, and individual) covered approximately 1, 956, 000 people in 2010, with total premium of \$9 billion, decreased slightly from \$9.2 billion in 2009. The number of people covered in this market decreased by about 138,000 from 2009. (These people did not necessarily lose coverage; they may have moved to private self-funded or government programs.)

The average premium per covered person increased by about 4.1%, from \$367 a month in 2009 to \$382 a month in 2010. Total claims were \$7.5 billion, for a medical loss ratio (MLR) of 83.9% (lower than the 89.5% in 2009 and higher than 85.5% of 2008).

2010 Combined Commercial Market Share

| Health Plans | Comprehensive Premiums | Comprehensive Enrollment | MS Premiums | MS Enrollment 2010 | MS Enrollment 2009 | MS Enrollment Change 2010-2009 |
|------------------------------|------------------------|--------------------------|---------------|--------------------|--------------------|--------------------------------|
| Horizon Combined | \$4,963,847,976 | 1,044,321 | 55.4% | 53.4% | 53.7% | -0.3% |
| Aetna Combined | \$1,303,691,353 | 331,729 | 14.5% | 17.0% | 18.4% | -1.4% |
| United/Oxford Combined | \$1,372,978,708 | 267,377 | 15.3% | 13.7% | 12.4% | 1.3% |
| AmeriHealth Combined | \$626,108,928 | 130,703 | 7.0% | 6.7% | 6.0% | 0.7% |
| CIGNA Combined | \$382,944,594 | 110,791 | 4.3% | 5.7% | 5.1% | 0.6% |
| Health Net Combined | \$272,600,572 | 59,029 | 3.0% | 3.0% | 3.7% | -0.7% |
| Guardian Life Ins Co of Amer | \$31,233,592 | 9,231 | 0.3% | 0.5% | 0.5% | 0.0% |
| Nippon Life | \$5,739,074 | 1,802 | 0.1% | 0.1% | 0.1% | 0.0% |
| Wellpoint (Uicare) | \$1,669,882 | 774 | 0.0% | 0.0% | 0.1% | -0.1% |
| TOTAL | \$8,960,814,679 | 1,955,758 | 100.0% | 100.00% | 100.0% | |

MS – Market Share

The three largest carriers (with market share measured by enrollment) were Horizon (53.4%, slightly lower than 53.7% in 2009 and higher than 52.8% in 2008), Aetna (17% down from 18.4% in 2009 and 19.4% in 2008) and United/Oxford (13.7% slightly higher from 12.4% in 2009 and 13.1% in 2008). AmeriHealth (6.7%), CIGNA (5.7%) and Health

* Most people covered by the New Jersey commercial market are also NJ residents. However, some non-NJ residents who work in NJ are covered by NJ contracts issued to their employers. Conversely, some NJ residents who work in other states are covered by non-NJ contracts.

Net (3.0%) are the other carriers with market share of at least one percent. Market share varies by market segment (large group, small group, individual) and location.

Underwriting Gains and Losses

The Department estimates that, in 2010, the 3 largest carriers (Horizon, Aetna, and United/Oxford) had combined underwriting **losses** in the commercial market of \$18.5 mm or 0.25% of premium, effectively breakeven. This was a major improvement from the recession year of 2009 when these carriers lost \$145.7 million or 1.95% of their premium. The commercial underwriting gain as a percentage of premiums declined each year for 2005 to 2009, from 4.2% in 2005 to 2.4% in 2006 to 1.85% in 2007 to 0.1% in 2008.

In 2010 Horizon (including its HMO subsidiary) had an underwriting loss \$59.5 mm or 1.2% of premium. Aetna Health gained \$ 5.0 mm or 0.4% of premium. (Aetna's results do not include Aetna Life Insurance Co.) Oxford had gains of \$36.1 mm or 3.1% of premium. (Oxford's results do not include UnitedHealthCare Insurance Co.)

These underwriting gains and profit margins involve some estimation. New Jersey gains are not directly reported in some cases. These estimated profits and profit margins do not include the impact of investment gains or federal income tax, nor do they include gains or losses on other lines of business such as Medicaid, Medicare Supplement or Medicare Advantage.

Source of Coverage as of 12/31/2009

[Note: NJDOBI did not estimate source of coverage for 2010. However, source of coverage estimates are relatively stable from year to year]

According to the Current Population Survey (CPS) of the US Census Bureau, 5.7 million (or 65%) of the 8.7 million residents of New Jersey received coverage in 2009 through employment; either as an active or retired employee or a dependent. (The 5.7 million includes about 460,000 people over 65 who also are eligible for Medicare. For some of these people, Medicare is the primary source of coverage.) Other major sources of coverage are Medicare with 1.2 million or 14%, Medicaid and Family Care, 1.1 million or 13%, and the State Health Benefits Plan (State employees and some local and education employees) 780,000 or 9%. Some people have coverage from two or more programs, for example, covered by an employer and Medicaid or on Medicaid and Medicare.

Of the 5.7 million people with employer provided coverage, about 1.95 million are covered by programs regulated by DOBI: 790,000 in the small employer program for (2 to 50 employees) , and the remainder (about 1,160, 000) in insured coverage provided by large employers (more than 50 employees).

The remaining 3.75 million with employer coverage are covered by self-funded programs, such as state health benefits (about 780,000), programs for civilian federal employees (150,000) and private self-funded coverage (2, 820, 000). In addition to single employer self-funded plans, there are multiemployer plans such as union plans,

multi-employer welfare arrangements (MEWA), and local government joint insurance funds (JIFs)

Other programs have a much smaller impact, including individual coverage through the IHC program (about 110,000), military coverage (about 140,000) and student coverage (about 80,000).

Finally, 1.37 million people, or 15.8% of the population, do not have coverage. This varies considerably by age. The rate is 9.2% for children under 18, 21.3% for adults 19-64, and 2.5% for adults 65 and over.

The enrollment and the uninsured totals more than 8.7 million and percentages add to more than 100%, due to multiple sources of coverage and rounding.

The Source of Coverage is a rough approximation rather than a precise count. It is prepared from many sources, including a survey subject to statistical error. It is also subject to misreporting of status, inconsistent treatment of out-of-state residents or contracts, and double-counting from multiple sources of coverage.

Market Share

Market share can be measured as a percentage of enrollments or a percentage of premiums, but we will generally use percentage of enrollment in summarizing the results. Because the three market segments (large group, small group, and individual) have distinctive characteristics, market share by segment is more meaningful than overall market share. Market share is shown on an affiliated basis; affiliated companies generally offer complementary products rather than competing. This report ignores the smallest carriers in the market, as well as carriers covering only college and other students.

As noted above, the overall commercial market covered approximately 2 million people with premiums of \$9 billion in 2010. The three largest carriers (with market share by enrollment) were Horizon (53.4%) Aetna (17%) and United/Oxford (13.7%). The next three largest carriers AmeriHealth, CIGNA, and Health Net, all had market share between 3% and 6%. The remaining carriers all have market share less than 1%.

2010 Large Group Market Share

| Health Plans | Large Group Premiums | Large Group Enrollment | Large Group MS Premiums | Large Group MS Enrollment 2010 | Large Group MS Enrollment 2009 | Large Group MS Enrollment Change 2010-2009 |
|------------------------------|------------------------|------------------------|-------------------------|--------------------------------|--------------------------------|--------------------------------------------|
| Horizon Combined | \$2,818,672,861 | 538,820 | 55.2% | 51.0% | 53.3% | -2.3% |
| Aetna Combined | \$681,884,041 | 184,089 | 13.4% | 17.4% | 18.7% | -1.3% |
| United/Oxford Combined | \$736,675,692 | 133,462 | 14.4% | 12.6% | 10.2% | 2.4% |
| AmeriHealth Combined | \$414,429,164 | 71,312 | 8.1% | 6.7% | 6.5% | 0.2% |
| CIGNA Combined | \$358,328,878 | 107,305 | 7.0% | 10.2% | 8.6% | 1.6% |
| Health Net Combined | \$54,945,234 | 10,257 | 1.1% | 1.0% | 1.5% | -0.5% |
| Guardian Life Ins Co of Amer | \$31,233,592 | 9,231 | 0.6% | 0.9% | 0.9% | 0.0% |
| Nippon Life | \$5,739,074 | 1,802 | 0.1% | 0.2% | 0.2% | 0.0% |
| Wellpoint (Uicare) | \$1,669,882 | 774 | 0.0% | 0.1% | 0.2% | -0.1% |
| TOTAL | \$5,103,578,418 | \$1,057,051 | 100.0% | 100.0% | 100.0% | |

MS – Market Share

Horizon is the largest carrier in the large group segment with 51.0% (53.3% in 2009), followed by Aetna with 17.4% (18.7% in 2009) and Oxford/United with 12.6% (10.2% in 2009). CIGNA has 10.2% and AmeriHealth 6.7%. Many groups in this market are partially or fully experience-rated; their rates depend on the group's actual claims experience. Such groups, especially the larger ones, may have the option of self-funding and removing themselves from the regulated commercial market.

2010 Small Group Market Share

| Health Plans | Small Group Premiums | Small Group Enrollment | Small Group MS Premiums | Small Group MS Enrollment 2010 | Small Group MS Enrollment 2009 | Small Group MS Enrollment Change 2010-2009 |
|------------------------------|------------------------|------------------------|-------------------------|--------------------------------|--------------------------------|--------------------------------------------|
| Horizon Combined | \$1,774,985,706 | 416,248 | 53.4% | 53.6% | 52.1% | 1.5% |
| Aetna Combined | \$606,853,445 | 146,003 | 18.3% | 18.8% | 20.1% | -1.3% |
| United/Oxford Combined | \$517,819,936 | 109,206 | 15.6% | 14.1% | 14.4% | -0.3% |
| AmeriHealth Combined | \$182,707,646 | 53,269 | 5.5% | 6.9% | 5.3% | 1.6% |
| CIGNA Combined | \$23,875,501 | 3,443 | 0.7% | 0.4% | 0.7% | -0.3% |
| Health Net Combined | \$216,418,851 | 48,647 | 6.5% | 6.3% | 7.2% | -0.9% |
| Guardian Life Ins Co of Amer | \$1,020,980 | 16 | 0.0% | 0.0% | 0.0% | 0.0% |
| Nippon Life | \$86,265 | 17 | 0.0% | 0.0% | 0.0% | 0.0% |
| TOTAL | \$3,323,768,330 | \$776,848 | 100.0% | 100.0% | 100.0% | |

MS – Market Share

In the small group segment, Horizon with 53.6% (52.1% in 2009) Aetna with 18.8% (20.1% in 2009), and United/Oxford with 14.1% (14.4 in 2009) are the three largest carriers. AmeriHealth has 6.9%, Health Net has 6.3%, and CIGNA has around 1% market share.

2010 Individual Market Share

| Health Plans | Individual Premiums | Individual Enrollment | Individual MS Premiums | Individual MS Enrollment 2010 | Individual MS Enrollment 2009 | Individual MS Enrollment Change 2010-2009 |
|------------------------|----------------------|-----------------------|------------------------|-------------------------------|-------------------------------|-------------------------------------------|
| Horizon Combined | \$370,189,409 | 89,254 | 69.2% | 73.2% | 70.5% | 2.7% |
| Aetna Combined | \$14,953,867 | 1,637 | 2.8% | 1.3% | 1.7% | -0.4% |
| United/Oxford Combined | \$118,483,080 | 24,709 | 22.2% | 20.3% | 22.3% | -2.0% |
| AmeriHealth Combined | \$28,972,118 | 6,122 | 5.4% | 5.0% | 5.3% | -0.3% |
| CIGNA Combined | \$740,215 | 44 | 0.1% | 0.0% | 0.1% | -0.1% |
| Health Net Combined | \$1,236,487 | 125 | 0.2% | 0.1% | 0.2% | -0.1% |
| TOTAL | \$534,575,176 | 121,891 | 100.0% | 100.0% | 100.0% | |

MS – Market Share

The four largest carriers in the individual (IHC) segment are Horizon at 73.2% (70.5% in 2009), United/Oxford at 20.3% (22.3% in 2009), AmeriHealth at 5.0% (5.3% in 2009), and Aetna at 1.3% (1.7% in 2009). The IHC market includes Indemnity Plans, Managed Care (HMO and PPO) and Basic and Essential (B&E) plans. The structure of the IHC market has changed since 2004 due to the introduction of B&E plans with riders, leading to increasing enrollment in the B&E segment.

Loss Ratio

The (Medical) Loss Ratio is the ratio of claims (medical benefits) incurred to premiums earned. Provider claims do not include claims administration expenses or expenses associated with loss control (such as utilization management). However, they may include administrative costs incurred by providers or vendor intermediaries, such as Organized Delivery Systems (ODS's). The complement (the loss ratio subtracted from 1) of the loss ratio is the percentage of premiums required to administer the system, including claim processing, producer commissions, taxes, and profits.

2010 Commercial Loss Ratio

| Health Plans | Total Premiums | Total Claims | Total Loss Ratio 2010 | Total Loss Ratio 2009 |
|--------------------------------|------------------------|------------------------|-----------------------|-----------------------|
| Horizon Healthcare Svcs (BCBS) | \$3,997,181,146 | \$3,421,678,440 | 85.6% | 91.0% |
| Aetna Health (NJ) | \$1,173,353,531 | \$988,993,101 | 84.3% | 89.5% |
| Oxford Health Ins | \$696,044,201 | \$596,279,761 | 85.7% | 85.3% |
| Horizon Healthcare of NJ (HMO) | \$966,666,830 | \$759,499,490 | 78.6% | 84.4% |
| Oxford Health Plan of NJ | \$467,590,001 | \$389,406,308 | 83.3% | 83.8% |
| Health Net of NJ | \$264,605,553 | \$218,443,733 | 82.6% | 86.4% |
| Amerihealth HMO | \$268,570,664 | \$223,009,461 | 83.0% | 88.2% |
| Conn Gen Life Ins Co | \$375,216,562 | \$328,987,617 | 87.7% | 102.6% |
| Amerihealth Ins Co of NJ | \$357,538,264 | \$314,339,287 | 87.9% | 92.5% |
| United HealthCare Ins Co | \$209,344,506 | \$173,567,281 | 82.9% | 90.6% |
| CIGNA Health Care of NJ | \$7,728,032 | \$4,539,572 | 58.7% | 99.2% |
| Aetna Life Ins. Co | \$130,337,822 | \$51,118,532 | 39.2% | 63.3% |
| Guardian Life Ins Co of Amer | \$31,233,592 | \$31,195,628 | 99.9% | 85.6% |
| Unicare | \$1,669,882 | \$1,593,974 | 95.5% | 97.7% |
| Nippon Life | \$5,739,074 | \$4,889,594 | 85.2% | 82.3% |
| Health Net Life Ins. Co. | \$7,995,019 | \$7,463,636 | 93.4% | 100.7% |
| TOTAL | \$8,960,814,679 | \$7,515,005,415 | 83.9% | 89.5% |

Overtime, the average loss ratio for the commercial market is around 80%. In recent years, it has gradually increased from just below 80% to above 80%. The 83.9% loss ratio in 2010 was lower than the 89.5% loss ratio in 2009 and 85.5% loss ratio in 2008.

2010 Large Group Loss Ratio

| Health Plans | Large Group Premiums | Large Group Claims | Large Group Loss Ratio 2010 | Large Group Loss Ratio 2009 |
|--------------------------------|------------------------|------------------------|-----------------------------|-----------------------------|
| Horizon Healthcare Svcs (BCBS) | \$2,749,441,618 | \$2,370,547,716 | 86.2% | 91.9% |
| Aetna Health (NJ) | \$562,846,767 | \$439,842,644 | 78.1% | 86.0% |
| Oxford Health Ins | \$403,317,448 | \$346,633,991 | 85.9% | 87.6% |
| Horizon Healthcare of NJ (HMO) | \$69,231,243 | \$52,749,856 | 76.2% | 90.4% |
| Oxford Health Plan of NJ | \$124,013,738 | \$101,499,880 | 81.8% | 82.6% |
| Health Net of NJ | \$51,015,294 | \$36,531,725 | 71.6% | 90.4% |
| Amerihealth HMO | \$153,792,306 | \$128,591,855 | 83.6% | 85.4% |
| Conn Gen Life Ins Co | \$351,937,618 | \$306,291,900 | 87.0% | 102.9% |
| Amerihealth Ins Co of NJ | \$260,636,858 | \$234,841,449 | 90.1% | 94.5% |
| United HealthCare Ins Co | \$209,344,506 | \$173,567,281 | 82.9% | 90.6% |
| CIGNA Health Care of NJ | \$6,391,260 | \$3,688,023 | 57.7% | 94.3% |
| Aetna Life Ins. Co | \$119,037,274 | \$43,388,250 | 36.4% | 60.7% |
| Guardian Life Ins Co of Amer | \$30,212,612 | \$29,992,872 | 99.3% | 85.6% |
| Unicare | \$1,669,882 | \$1,593,974 | 95.5% | 97.7% |
| Nippon Life | \$5,652,810 | \$4,868,991 | 86.1% | 81.2% |
| Health Net Life Ins. Co. | \$3,929,940 | \$3,189,564 | 81.2% | 102.6% |
| TOTAL | \$5,102,471,174 | \$4,277,819,971 | 83.8% | 90.8% |

The 2009 average loss ratio in the large group segment was 90.8%. Among carriers with premium volume of \$100 mm or more in the large group market, the loss ratio ranged from a low of 67.3% to a high of 102.9%. This is a significant variation. This variation is based largely on two things – variation among companies in target loss ratio (the loss ratio they hope to achieve, considering administrative costs and intended profit) and variation among companies in actual experience.

2010 Small Group Loss Ratio

| Health Plans | Small Group Premiums | Small Group Claims (wo/dvd) | Small Group Loss Ratio 2010 | Small Group Loss Ratio 2009 |
|--------------------------------|------------------------|-----------------------------|-----------------------------|-----------------------------|
| Horizon Healthcare Svcs (BCBS) | \$997,152,595 | \$850,791,657 | 85.3% | 90.5% |
| Aetna Health (NJ) | \$597,954,900 | \$528,494,137 | 88.4% | 92.4% |
| Oxford Health Ins | \$200,495,043 | \$163,316,150 | 81.5% | 83.6% |
| Horizon Healthcare of NJ (HMO) | \$777,833,111 | \$603,226,419 | 77.6% | 82.8% |
| Oxford Health Plan of NJ | \$317,324,893 | \$257,948,940 | 81.3% | 82.5% |
| Health Net of NJ | \$212,353,772 | \$180,920,185 | 85.2% | 85.5% |
| Amerihealth HMO | \$91,353,823 | \$74,893,745 | 82.0% | 90.2% |
| Conn Gen Life Ins Co | \$23,278,944 | \$22,695,717 | 97.5% | 99.0% |
| Amerihealth Ins Co of NJ | \$91,353,823 | \$74,893,745 | 82.0% | 86.3% |
| CIGNA Health Care of NJ | \$596,557 | \$475,144 | 79.6% | 90.4% |
| Aetna Life Ins. Co | \$8,898,545 | \$5,913,578 | 66.5% | 79.9% |
| Guardian Life Ins Co of Amer | \$1,020,980 | \$1,202,756 | 117.8% | 85.0% |
| Nippon Life | \$86,265 | \$20,602 | 23.9% | 94.8% |
| Health Net Life Ins. Co. | \$4,065,079 | \$4,274,072 | 105.1% | 97.6% |
| TOTAL | \$3,323,768,330 | \$2,769,066,849 | 83.3% | 87.8% |

The average loss ratio in the small group market was 83.3%. Among carriers with premium of \$100 mm or more, loss ratios ranged from a low of 81.5% to a high of 97.5%.

2010 Individual Loss Ratio

| Health Plans | Individual Premiums | Individual Claims | Individual Loss Ratio 2010 | Individual Loss Ratio 2009 |
|--------------------------------|----------------------|----------------------|----------------------------|----------------------------|
| Horizon Healthcare Svcs (BCBS) | \$250,586,933 | \$200,339,067 | 79.9% | 79.2% |
| Aetna Health (NJ) | \$12,551,864 | \$20,656,320 | 164.6% | 138.6% |
| Oxford Health Ins | \$92,231,710 | \$86,329,620 | 93.6% | 81.0% |
| Horizon Healthcare of NJ (HMO) | \$119,602,476 | \$103,523,215 | 86.6% | 86.9% |
| Oxford Health Plan of NJ | \$26,251,370 | \$29,957,488 | 114.1% | 100.5% |
| Health Net of NJ | \$1,236,487 | \$991,823 | 80.2% | 45.5% |
| Amerihealth HMO | \$23,424,535 | \$19,523,861 | 83.3% | 90.6% |
| Amerihealth Ins Co of NJ | \$5,547,583 | \$4,604,093 | 83.0% | 114.2% |
| CIGNA Health Care of NJ | \$740,215 | \$376,405 | 50.9% | 152.2% |
| Aetna Life Ins. Co | \$2,402,003 | \$1,816,704 | 75.6% | 159.7% |
| TOTAL | \$534,575,176 | \$468,118,596 | 87.6% | 86.0% |

The average loss ratio in the individual market was 87.6% up from 86.0% in 2009. Loss ratios for the 4 major carriers ranged from a low of 79.9% to a high of 164.6%. The loss ratios in the Individual Market show the growth of the Basic and Essential products, which now account for approximately a third of the IHC market enrollment.

Average Premiums

The average premium per covered person in the commercial market was \$4,582 per year or \$382 per month. This does not reflect the entire cost of covered medical care, because, in addition to the premium, the covered person is responsible for cost sharing such as deductibles, coinsurance, copayments and limits. Also, dependent children are included in this average.

The average annual premium was \$4,828 (\$402 a month) in the large group market and \$4279 (\$357 a month) in the small group market. This does not imply that the small groups are cheaper to insure than large groups. Small groups tend to choose less expensive coverage options. For example, small groups are more likely to choose closed panel HMO coverage, which tends to be less expensive than coverage providing for out-of-network benefits. Small groups may also have higher cost sharing or deductibles.

The average large group premium increased by 5%; from \$383 in 2009 a month to \$402 a month in 2010.

The average small group premium increased by 3.7% from \$343 to \$356 a month. Because small group and large group are subjected to most of the same medical trends, we think this represents a continuing shift to higher cost sharing and a greater degree of care management in the small group market. It could also represent the increasing market share of Horizon, which is generally less expensive than other carriers.

The average premium in the individual market was \$4,386 (\$365 a month). This represented a decrease of about 1% from \$370 a month in 2009. This largely represents the increase in B&E enrollment, as well as a shift in standard plan enrollment from indemnity plans to less expensive HMO and PPO plans.

Conclusion

The Department monitors source of coverage, market share, loss ratios, and average premiums in the commercial market. Somewhat less formally, we monitor underwriting profits. Along with total enrollment, average premium, and premium increases, these are measures of the performance of the commercial insurance system.