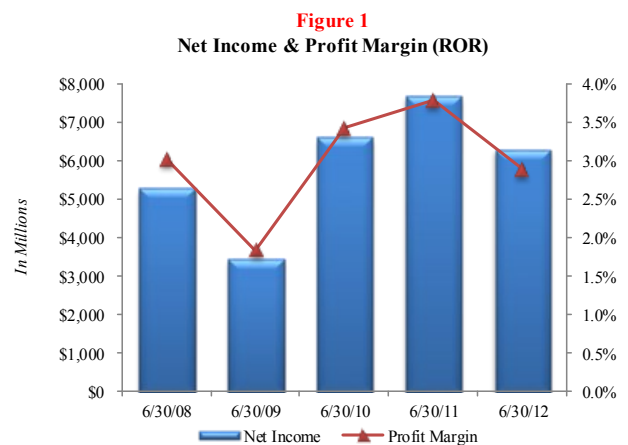


Health Industry at a Glance

Table 1 below illustrates the U.S. health insurance industry's aggregate financial results for health entities who file with the NAIC on the health quarterly statement blank. The health insurance industry reported an 18.1% decline in net earnings to \$6.3 billion for the first six months of 2012 compared to net income of \$7.7 billion for the same period in the prior year. The industry's profit margin decreased 90 basis points to 2.9% from 3.8%.

The combined ratio increased to 97.0% from 96.0%. Despite the decrease in net earnings, health entities reported a 3.0% increase in net investment income to \$1.8 billion for the first six months of 2012. **Figure 1** illustrates the decrease in both net earnings and profit margin. Notable items include the following:

- Total hospital and medical expenses increased 8.7%.
- Net earned premium increased 6.7%.
- Loss ratio increased 1.2 percentage points to 85.7%.
- Enrollment increased 5.9%.
- Significant increase in cash flow to \$14.1 billion.
- Capital and surplus increased 3.2% to \$90.0 billion.



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Note: References to Loss Ratio are not related to HHS definition of Medical Loss Ratio.

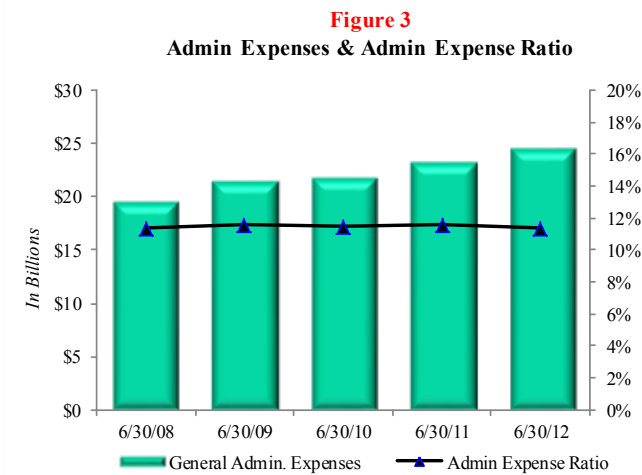
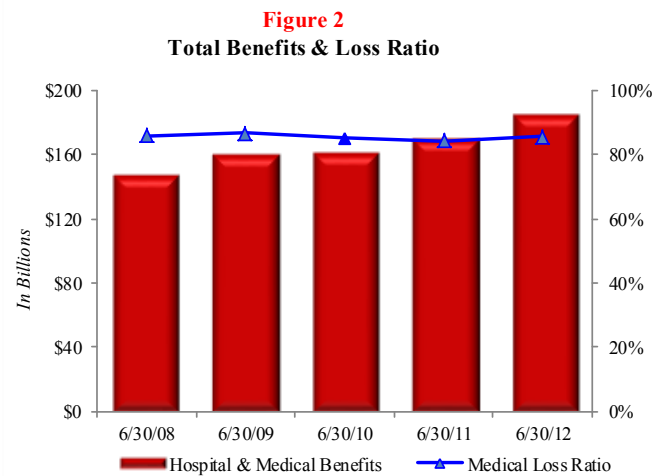
Table 1
Financial Synopsis: June 30, 2012-2008

Health Entities						
(In Millions)	Chg	2Q 2012	2Q 2011	2Q 2010	2Q 2009	2Q 2008
Direct Written Premium	6.9%	\$219,657	\$205,478	\$193,935	\$188,762	\$175,072
Net Earned Premium	6.7%	\$214,501	\$201,067	\$189,519	\$184,313	\$170,648
Net Investment Income Earned	3.0%	\$1,800	\$1,747	\$1,927	\$1,956	\$2,306
Underwriting Gain/Loss	(20.2)%	\$6,375	\$7,990	\$6,548	\$3,504	\$4,824
Net Income/Loss	(18.1)%	\$6,283	\$7,671	\$6,573	\$3,424	\$5,261
Total Hospital & Medical Exp.	8.7%	\$184,556	\$169,719	\$161,453	\$160,191	\$147,441
Loss Ratio	1.2 pts	85.7%	84.5%	85.1%	86.8%	86.0%
Administrative Expense Ratio	(0.1) pts	11.4%	11.5%	11.5%	11.6%	11.3%
Combined Ratio	1.0 pts	97.0%	96.0%	96.6%	98.1%	97.2%
Profit Margin	(0.9) pts	2.9%	3.8%	3.4%	1.8%	3.0%
Enrollment	5.9%	174	164	165	161	153
Premium PMPM	0.0%	\$206	\$206	\$194	\$191	\$185
Claims PMPM	1.6%	\$177	\$174	\$166	\$166	\$159
Cash Flow from Operations	72.7%	\$14,133	\$8,185	\$2,017	\$2,076	\$3,605
# of Companies Filed		20	879	859	856	870
	6-mo. Chg.					
Capital & Surplus	3.2%	\$90,000	\$84,523	\$73,209	\$65,366	\$69,677

*All figures only include health entities that file financial statements with the NAIC.
Note: Adjustments to exclude affiliated amounts were made where appropriate.

Underwriting Results

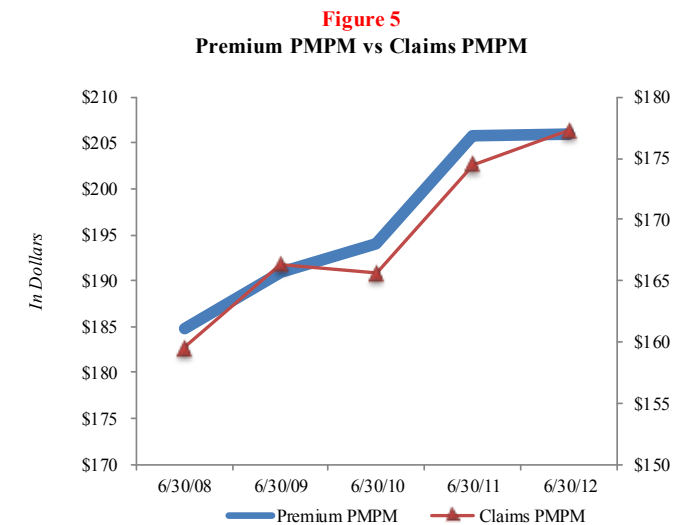
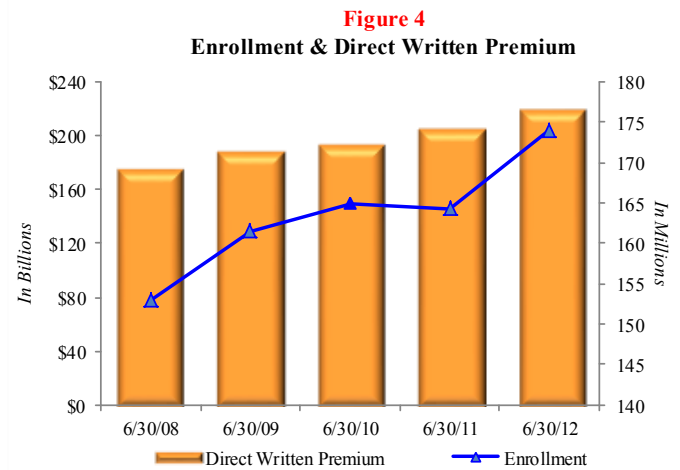
The decrease in the industry's underwriting results can be attributed to an 8.7% (\$14.8 billion) increase in total hospital and medical expenses to \$184.6 billion partially offset by a 6.7% (\$13.4 billion) increase in net earned premium to \$214.5 billion. Although not associated with underwriting, the industry also recorded realized capital gains of \$772.5 million through the first six months of 2012 compared to realized capital gains of \$726.6 million for the first six months of 2011. **Figure 2** illustrates the increase in hospital and medical benefits and the 1.2 percentage point increase in the loss ratio to 85.7% for the first six months of 2012. While the loss ratio fluctuated over the last five years, the industry has consistently reported incremental increases in hospital and medical benefits. In addition, as shown on **Table 1**, the industry reported a marginal decrease in the administrative expense ratio to 11.4%. **Figure 3** illustrates the consistency of this ratio.



Enrollment

As shown in **Figure 4**, enrollment increased 5.9% to 174.1 million. The increase is due primarily to a 23.2% (4.1 million) increase in Medicare Part D, a 14.3% (3.0 million) increase in Medicaid, a 10.1% (2.2 million) increase in vision insurance and a 9.1% (719 thousand) increase in Medicare. These items were partially offset by a 2.7% (1.2 million) decrease in the group comprehensive line of business.

As depicted in **Figure 5**, premium per member per month (PMPM) remained unchanged at \$205.9 while claims PMPM increased by 1.6% to \$177.3.



Premium Revenues

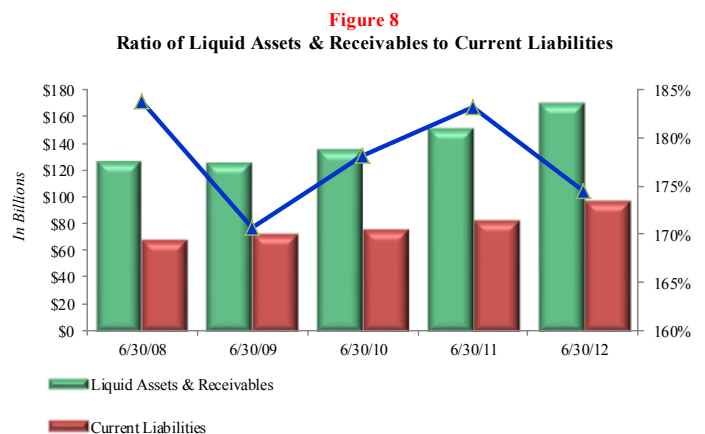
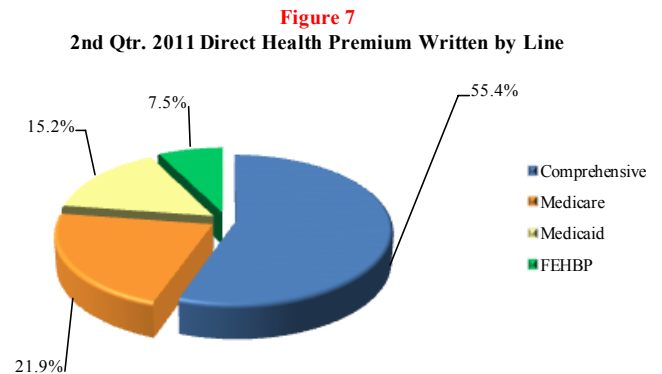
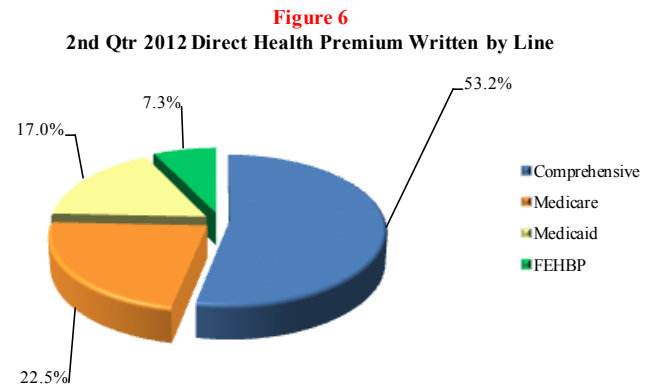
Figure 4 also shows the incremental increase in direct written premium. For the first six months of 2012, the industry reported a 6.9% (\$14.2 billion) increase in direct written premium to \$219.7 billion from \$205.5 billion for the same period in 2011. The increase is most evident on the Medicaid 20.0% (\$6.2 billion), Medicare 10.0% (\$4.5 billion) and Comprehensive major medical 2.5% (\$2.8 billion) lines of business.

Figure 6 illustrates the mix of direct written premium for the first six months of 2012. During the last five years, there has been a gradual shift in the allocation of premium between the lines of business. In comparison to the first half of 2011, as shown in **Figure 7**, direct comprehensive medical decreased to 53.2% of total premium from 55.4%, while Medicare increased to 22.5% from 21.9% and Medicaid increased to 17.0% from 15.2%. In further comparison to the first half of 2008, direct comprehensive medical decreased from 62.6% while Medicare increased from 18.6% and Medicaid increased from 11.3%. It appears that the shift in business concentration is due to an increase in the number of insureds becoming eligible for either Medicare and/or Medicaid as evidenced by increases in enrollment in these lines.

Liquidity

The health insurance industry reported a significant increase in operating cash flow to \$14.1 billion in the first half of 2012 as compared to \$8.2 billion in the first half of 2011. The improvement in cash flow is due primarily to a 10.8% (\$21.4 billion) increase in premiums collected partially offset by a 9.1% (\$15.2 billion) increase in benefits and loss related payments.

As illustrated in **Figure 8**, liquid assets and receivables increased 12.0% (\$18.1 billion) to approximately \$170.0 billion in the first six months of 2012 from \$151.9 billion in the prior year period. This was partially offset by a 17.5% (\$14.5 billion) increase in current liabilities. This resulted in a decline in the ratio of liquid assets and receivables to current liabilities to 174.5% from 183.2%

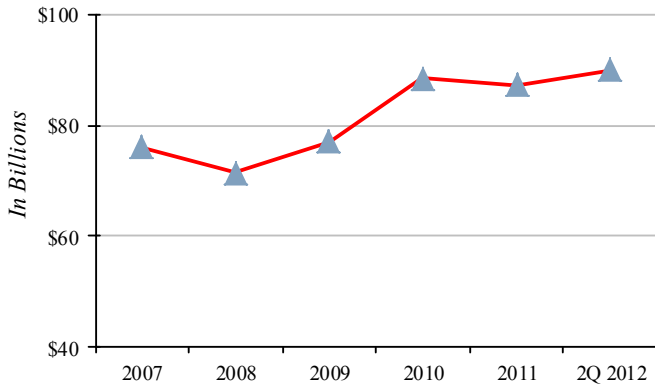


Health Industry Disclosure: In some states the health industry is regulated by a Department other than the Department of Insurance. Therefore, not all health insurers may be required to file financial statements with the NAIC.

Capital and Surplus

Health entities reported a 3.2% (\$2.8 billion) increase in capital and surplus to \$90.0 billion as illustrated in **Figure 9**. The increase is due primarily to net income of \$6.3 billion and unrealized capital gains of \$1.1 billion, partially offset by dividends of \$2.6 billion paid to stockholders during the first six months of 2012.

Figure 9
Capital & Surplus



DISCLAIMER

The NAIC 2012 Health Insurance Industry Mid-Year Analysis Report is a limited scope analysis based on the aggregated insurer information filed to the NAIC's Financial Data Repository as of June 30, 2012 and written by the Financial Regulatory Services Department staff. This report does not constitute the official opinion or views of the NAIC membership or any particular state insurance department.