

MAPPING STATE HEALTH INSURANCE MARKETS:

STRUCTURE AND CHANGE
IN THE STATES' GROUP
AND INDIVIDUAL HEALTH
INSURANCE MARKETS,
1995-1997

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Produced for The Robert Wood Johnson Foundation's *State Coverage Initiatives* (SCI) program. The views expressed in this report are those of the authors and do not necessarily reflect the opinions of The Robert Wood Johnson Foundation, the Health Insurance Association of America, or the Academy for Health Services Research and Health Policy, which serves as the national program office for the SCI program. The database that supports this report was compiled with separate grant funding from The Robert Wood Johnson Foundation.

Executive Summary

As access to health insurance continues to occupy the policy agendas of state and national government, the need to understand health insurance markets has grown. This monograph is intended to address some of the gaps in available information about the states' health insurance markets. It describes the structure of group and individual health insurance markets in 49 states (excluding Hawaii) and in the District of Columbia in 1995, 1996, and 1997.¹

Measured as earned premiums and aggregated across all states, the group health insurance market is 18 times the size of the individual market in 1997, but it included just three times the number of insurers (counting insurers doing business in more than one state as multiple insurers). Consistent with fewer insurers relative to market size, average premium volume per insurer in the group market is much greater than in the individual market, regardless of insurer type.

Nationwide, (non-Blue Cross and Blue Shield) health maintenance organizations (HMOs) are the largest type of insurer in the group market, but Blue Cross and Blue Shield plans (including Blue Cross and Blue Shield HMOs) continue to dominate the individual market. Commercial insurers hold the smallest share of either health insurance market in most states, and also the smallest share nationally. Average premium volume among commercial insurers is strikingly low relative to average premium volume among Blue Cross and Blue Shield plans and HMOs; in most states, there is a cluster of many commercial insurers that collectively write a very small amount of business.

While both the group and individual health insurance markets grew between 1995 and 1997, the group market grew much faster as the number of workers and their families reporting employer coverage also grew slightly. Premium volume in the individual market grew very little, and in some states actually declined.

In both markets, the relative market shares of different types of insurers also changed between 1995 and 1997. HMO market share grew especially fast in the individual market, where BCBS plans (and to a lesser extent, commercial insurers) lost market share.

The states differ in the basic features of their health insurance markets. Some states have many insurers, while others have only a few in either or both their group and individual markets. The average state group health insurance market in 1997 had 49 insurers, and the average individual market had fewer than 14 insurers. Large-population states characteristically have more insurers than small-population states, but have fewer insurers per capita and higher average premium volume per insurer. These differences are sometimes dramatic.

In most states, both the group health insurance market and the individual insurance market are highly concentrated; a few dominant insurers hold most of the market. Typically, the majority of insurers in each state hold collectively only a few percentage points of market share.

Lessons for Policymakers

The structure of health insurance markets in all states and the recent changes in those markets suggest some lessons for policymakers. First, in every state, competition in insurance markets is imperfect. Where just a few insurers control nearly all of the market, there is no reason to expect that competition guides the market efficiently.

Second, recent years have seen remarkable changes in the states' health insurance markets. Because the individual market's premium base is small, the impact of group market changes on the individual market can be profound. These impacts may merit better monitoring for purposes of both regulatory enforcement and policy development.

Finally, the lower average premium volume per insurer in the individual market and in states with many insurers per capita may foretell further change in the states' health insurance markets. Health insurance markets recently have seen a flood of mergers and acquisitions as insurers have sought to gain premium volume and market share, and potentially also economies of scale. These changes have been very disruptive in some small-population states.

The economic incentive for insurers to become larger (and fewer) in every state is likely only to grow as public concern about health insurance costs and coverage escalates. States that are concerned about insurers exiting their markets should be aware that their population size may support only a few insurers if each is to operate at efficient scale. These states face a growing challenge to develop new strategies to promote economic efficiency in their health insurance markets and at the same time maintain the market stability that consumers value.

Acknowledgments

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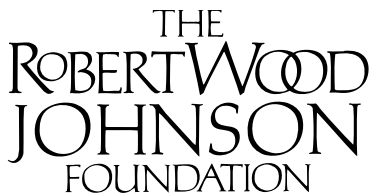
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About the SCI Program



This special report was produced for The Robert Wood Johnson Foundation's *State Coverage Initiatives* program (www.statecoverage.net). The *State Coverage Initiatives* program helps states improve the availability and affordability of health insurance coverage, particularly for working families. Through providing states with grants, technical assistance, workshops, and information on best practices, the program is designed to build the policy making and technical capacity of states to address their own unique health care coverage issues.



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I. Introduction

As access to health insurance continues to occupy the policy agendas of state and national government, the need to understand health insurance markets has grown. Nevertheless, factual information about these markets is scarce, and public policy has developed based largely on presumptions about how markets are changing and how they respond to regulation. Because only a few states have clear information about their own health insurance market, no state has been able to place its experience in the broader context of how other states' markets are structured and changing. Thus, each state is inclined to believe that all market changes are meaningful and that their own experience is unique.

This monograph is intended to address some of the gaps in available information about the states' health insurance markets. It describes the structure of group and individual health insurance markets in 49 states (excluding Hawaii)² and in the District of Columbia in 1995, 1996, and 1997. The information presented here is drawn from the annual financial reports that every Blue Cross and Blue Shield (BCBS) organization, health maintenance organization (HMO), and commercial insurance company files in each state where they do business. With funding from The Robert Wood Johnson Foundation, we conducted a census of all commercial health insurers to identify in each state the proportion of their total business that was major medical coverage (and also the proportion that was primary coverage versus stop-loss). These data offer a snapshot of coverage in recent years. They also offer a view of the significant changes that have occurred in virtually every state's health insurance market.³

II. Overview: The Group and Individual Health Insurance Markets

The group health insurance market in the United States is sizeable. In 1997, group insurers earned an estimated \$145 billion in premiums for primary major medical coverage (that is, major medical coverage net of stop-loss coverage and exclusive of self-insured group health plans). In contrast, insurers in the individual market reported just \$8.2 billion in earned premiums for major medical coverage in 1997.

While the difference in premium volume between the group and individual markets is substantial, the difference in the number of insurers writing coverage is much less. Group insurers earned approximately 18 times the premium volume of insurers in the individual market in 1997, but the group market had just three times the number of insurers (see Figure 1).

Consistent with fewer insurers relative to market size, average premium volume per insurer in the group market is much greater than in the individual market, regardless of insurer type. In 1997, group health insurers averaged more than five times the premium volume per insurer compared to insurers in the individual market (see Table 1). While all types of insurers reported relatively low average premium volume in the individual market, the very low average premium volume reported by commercial insurers — just over \$4 million per insurer — is striking. In most states, it reflects a clustering of many commercial insurers that collectively write only a very small amount of business in the individual market. In theory, very low premium volume per insurer may indicate both diseconomies of small scale in the health insurance industry and a failure of competition in health insurance markets.⁴ Low premium volume also may drive insurers to underwrite more aggressively (Chollet, 2000).

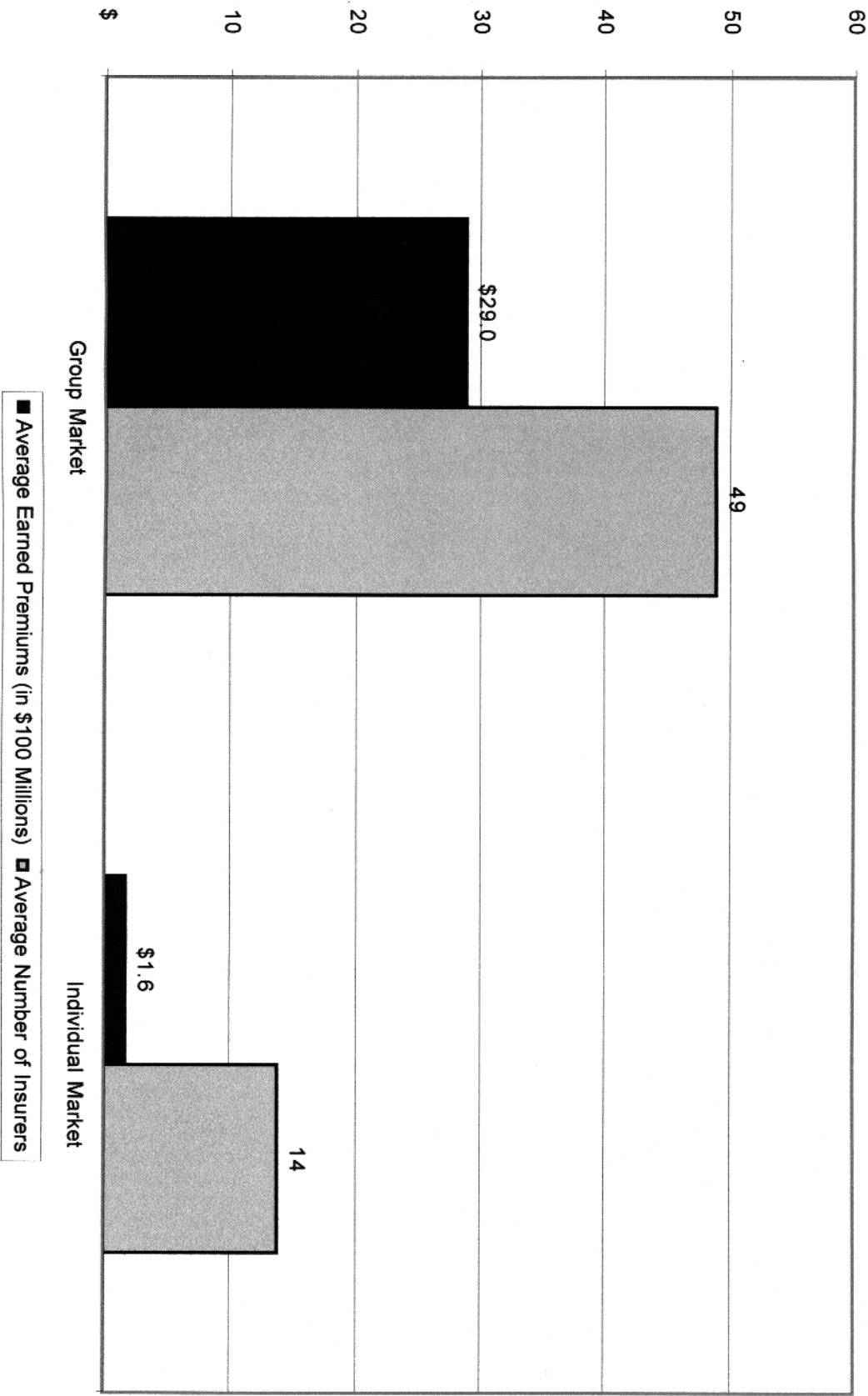
Nationwide, HMOs are the largest type of insurer in the group market, but Blue Cross and Blue Shield plans (including BCBS HMOs) continue to dominate the individual market (see Figure 2). In 1997, HMOs held nearly 45 percent of the group market, but just 26 percent of the individual market. BCBS plans held fully half of the individual insurance market in 1997, but only about one-third (36 percent) of the group market. Commercial insurers hold the smallest share of either health insurance market in most states, and also the smallest share nationally. In 1997, commercial insurers held just 19 percent of the group market nationwide and 24 percent of the individual market.

In the group market especially, HMOs are unlikely to achieve high penetration in states where BCBS is dominant. HMOs' difficulty in penetrating BCBS-dominated markets may reflect the rural nature of BCBS-dominated states, and also the difficulty of entering markets and surviving where the prevailing provider and consumer culture is BCBS fee-for-service. A negative correlation between BCBS market share and HMO market share is not as apparent in the individual market, where BCBS is more heavily dominant and HMOs have in general been more reluctant to write coverage.⁵

Group insurers earned approximately 18 times the premium volume of insurers in the individual market in 1997, but the group market had just three times the number of insurers.

Nationwide, HMOs are the largest type of insurer in the group market, but Blue Cross and Blue Shield plans (including BCBS HMOs) continue to dominate the individual market.

Figure 1
Average Earned Premiums and Number of Insurers: Group and Individual Market, 1997



SOURCE: Academy for Health Services Research and Health Policy, Health Insurer Database.

TABLE 1
NUMBER OF INSURERS AND PREMIUMS EARNED BY INSURER TYPE:
GROUP AND INDIVIDUAL MARKET (TOTAL U.S.), 1997

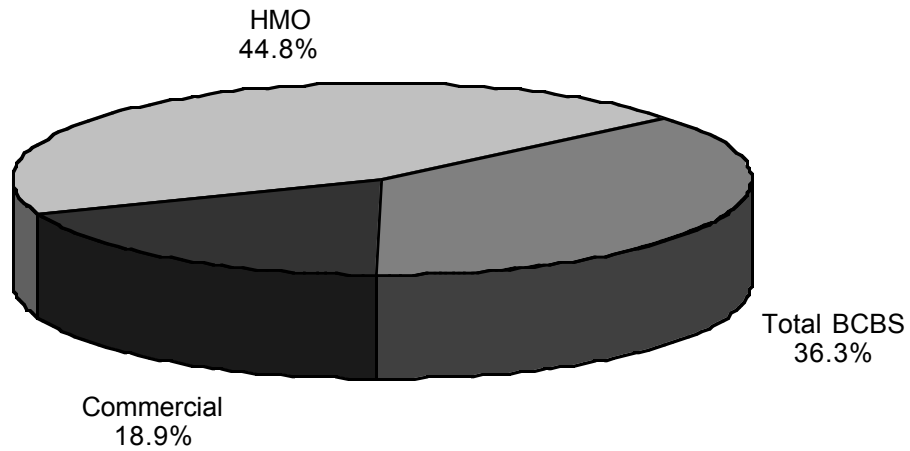
Insurer Type	Total Earned Premium (in billions)	Number of Insurers	Premium per Insurer (in millions)
<i>Group Market:</i>			
BCBS ^a	\$ 52.6	142	\$370.3
Commercial Insurers	\$ 27.4	1,721	\$ 16.0
HMO	\$ 65.0	587	\$110.7
Total	\$145.0	2,450	\$ 59.2
<i>Individual Market:</i>			
BCBS ^a	\$ 4.1	94	\$43.6
Commercial Insurers	\$ 2.0	448	\$ 4.4
HMO	\$ 2.1	148	\$14.4
Total	\$ 8.2	690	\$11.9

SOURCE: Academy for Health Services Research and Health Policy, Health Insurer Database.

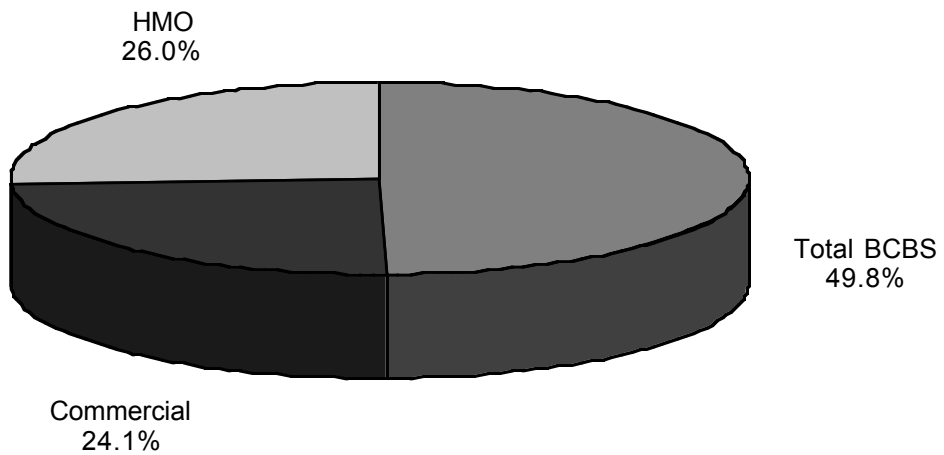
NOTE: Columns may not add to totals due to rounding.

^a Includes BCBS HMOs.

Figure 2
Market Share by Insurer Type: Group Market (Total U.S.), 1997



Market Share by Insurer Type: Individual Market (Total U.S.), 1997



SOURCE: Academy for Health Services Research and Health Policy, Health Insurer Database.

III. Aggregate Market Changes

Measured nationally as aggregate premiums earned, both the group and individual health insurance markets grew between 1995 and 1997. The group market, however, grew much faster, by 19 percent. During that period, the number of workers and their families reporting employer coverage grew by 4.6 percent (see Table 2).⁶ Premium volume in the individual market climbed just 6 percent between 1995 and 1997 as the number of people under age 65 reporting individual private insurance declined by 10 percent. In some states, premium volume in the individual market actually declined as expanding employer-based coverage apparently drained premium volume from the already small individual insurance market.

The relative market shares of different types of insurers also changed between 1995 and 1997, in both the group and individual markets. While HMO market share grew in both markets, it grew especially fast in the individual market, where some states now require HMOs that sell group coverage also to sell individual coverage.⁷ Between 1995 and 1997, HMO premium volume jumped 27 percent in the group market and 75 percent in the individual market (see Table 3), and HMO market share climbed nearly three points and 10 points, respectively. At the same time, BCBS plans lost market share in both the group and individual markets, but especially in the individual market where they have historically been — and in the aggregate remain — the dominant insurer type.

Unlike BCBS plans, commercial insurers managed to hold their group market share between 1995 and 1997. Like BCBS plans, however, commercial insurers lost significant market share in the individual market, where they also lost premium volume. Commercial insurers lost more than six points of individual market share between 1995 and 1997, and their premium volume in the individual market dropped nearly 16 percent.

Between 1995 and 1997, HMO premium volume jumped 27 percent in the group market and 75 percent in the individual market, and HMO market share climbed nearly three points and 10 points, respectively.

TABLE 2
GROUP AND INDIVIDUAL HEALTH INSURANCE MARKET SIZE AND POPULATION:
(TOTAL U.S.), 1995-1997

Insurer Type	1995	1996	1997	Percent Change, 1995-1997
<i>(Dollars in Billions)</i>				
Premiums				
Group	\$121.90	\$131.3	\$145.0	18.9%
Individual	\$ 7.70	\$ 7.8	\$ 8.2	6.8%
<i>(Persons in Millions)</i>				
Coverage				
Group	149.6	151.4	156.5	4.6%
Individual	17.4	16.2	15.6	-10.3%

SOURCE: Academy for Health Services Research and Health Policy, Health Insurer Database; and Academy for Health Services Research and Health Policy tabulations of the March 1996-1998 Current Population Survey (Bureau of the Census, U.S. Department of Commerce).

TABLE 3
GROUP AND INDIVIDUAL EARNED PREMIUM AND MARKET SHARE BY INSURER TYPE (TOTAL U.S.), 1995-1997

Insurer Type	Earned Premiums (in Billions)				Market Share			
	1995	1996	1997	Percent Change, 1995-1997	1995	1996	1997	Percentage Point Change, 1995-1997
<i>Group Market:</i>								
BCBS	\$ 47.2	\$48.1	\$ 52.6	11.4%	38.7%	36.5%	36.3%	-2.5%
Commercial Insurers	\$ 23.6	\$ 23.9	\$ 27.4	16.4%	19.3%	18.1%	18.9%	0.0%
HMOs	\$ 51.1	\$ 59.5	\$ 65.0	27.1%	41.9%	45.3%	44.8%	2.9%
Total	\$121.9	\$131.5	\$145.0	18.9%	100.0%	100.0%	100.0%	--
<i>Individual Market:</i>								
BCBS ^a	\$4.1	\$3.9	\$4.1	-0.6%	53.5%	49.8%	49.8%	-3.7%
Commercial Insurers	\$2.4	\$2.1	\$2.0	-15.6%	30.6%	26.4%	24.1%	-6.4%
HMOs	\$1.2	\$1.8	\$2.1	74.9%	15.9%	23.8%	26.0%	10.1%
Total	\$7.7	\$7.8	\$8.2	6.8%	100.0%	100.0%	100.0%	--

SOURCE: Academy for Health Services Research and Health Policy, Health Insurer Database.

NOTE: Columns may not add to totals due to rounding.

^a Includes BCBS HMOs.

IV. Differences Among the States

States differ in the basic features of their health insurance markets. The average state group health insurance market in 1997 had 49 insurers, and the average individual market had fewer than 14 insurers. In both markets the variance across states was large (with some states having many insurers and others having only a few in either or both markets), but in general small-population states had more insurers per capita than large-population states. In most states (and especially in states dominated by one or two large BCBS plans), health insurance markets were highly concentrated; a few dominant insurers held most of the market. Typically, the majority of insurers in each state held collectively only a few percentage points of market share. These differences among the states' group and individual health insurance markets are summarized below.

A. Group Health Insurance Markets

Number of Insurers. In 1997, the number of insurers writing group coverage ranged from 94 in Texas, to just 14 in Alaska (see Figure 3). The 10 states with the largest number of group insurers in 1997 each had more than 65 insurers in the market; the 10 states with the fewest insurers each had fewer than 30.

While large-population states generally have many more group insurers than small-population states, they typically have fewer insurers per capita. For example, Texas had just five major medical insurers per million population under age 65 in 1997; the largest-population states — California and New York — each had about three insurers per million population under age 65. Conversely, small-population states with relatively few insurers typically have many insurers per capita. Wyoming, with 21 insurers and a non-elderly population of less than a million people, had the largest number of insurers per capita in the nation (excluding the District of Columbia) with 49 insurers per million population. Maine, with 26 insurers and about a million people under age 65, had about as many group insurers per capita as Texas, New York, California, Florida, and Illinois combined.

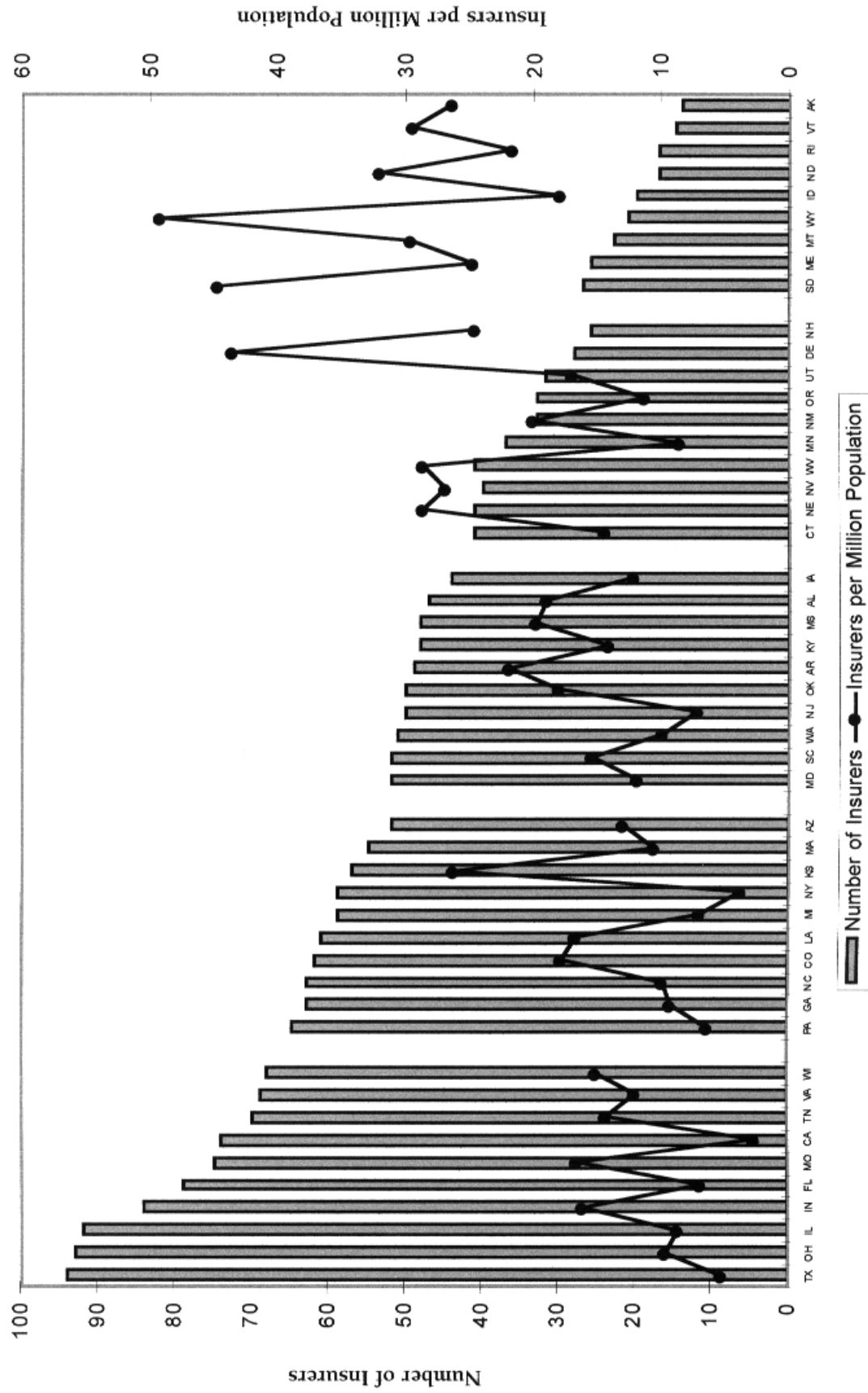
Market Concentration. In nearly every state, a few large insurers dominate the group market. In 1997, the largest three insurers held at least half of the group market in 33 states, and in no state did they hold less than 23 percent. Conversely, the smallest insurers typically hold very small market share. In every state, the smallest 50 percent of insurers held less than 9 percent of the market in 1997. Group market concentrations in all states are reported in Table 4.

Alabama, Idaho, and North Dakota had the most concentrated group markets in 1997. Of the 47 insurers writing group coverage in Alabama in 1997, the largest three insurers held 93 percent of the market, and the smallest 24 insurers collectively held just 1 percent. In Idaho and North Dakota (with 20 and 17 group insurers respectively), the largest three insurers in each state held 92 percent of the market. While Wisconsin, Illinois, and Texas had the least concentrated markets (BCBS held less than one-third of the market in each state), even in those states the largest three group insurers held 23 percent (in Wisconsin) to 37 percent (in Texas) of the market.

While large-population states generally have many more group insurers than small-population states, they typically have fewer insurers *per capita*.

In nearly every state, a few large insurers dominate the group market. In 1997, the largest three insurers held at least half of the group market in 33 states.

Figure 3
Number of Insurers and Insurers per Million Population: Group Market (Total U.S.), 1997



SOURCE: Academy for Health Services Research and Health Policy, Health Insurer Database.
NOTE: The District of Columbia has been omitted from this figure. The District has 33 insurers and 74 insurers per million population.

TABLE 4
MEASURES OF MARKET CONCENTRATION BY STATE: GROUP MARKET, 1997
(STATES RANKED BY PERCENT OF MARKET HELD BY LARGEST THREE INSURERS)

State	Number of Insurers	Largest Insurer	Percent of Market Held By:	
			Largest Three Insurers	Smallest 50 Percent of Insurers
Alabama	47	84%	92%	1%
Idaho	20	48%	91%	2%
North Dakota	17	83%	91%	3%
Rhode Island	17	63%	91%	1%
Vermont	15	56%	90%	2%
Alaska	14	54%	86%	3%
Maine	26	49%	82%	2%
Minnesota	37	33%	78%	2%
Montana	23	61%	78%	4%
District of Columbia	33	37%	72%	2%
South Dakota	27	49%	72%	8%
Iowa	44	51%	70%	3%
Wyoming	21	53%	69%	8%
Mississippi	48	53%	67%	6%
Utah	32	24%	67%	1%
Michigan	59	47%	64%	1%
New Mexico	33	25%	63%	3%
South Carolina	52	34%	62%	5%
Delaware	28	34%	60%	4%
Nebraska	41	42%	60%	4%
California	74	29%	58%	1%
Kentucky	48	29%	58%	2%
Maryland	52	39%	58%	3%
Arizona	52	22%	57%	3%
Massachusetts	55	22%	55%	1%
Pennsylvania	65	32%	55%	1%
Washington	51	26%	55%	3%
West Virginia	41	31%	55%	8%
Arkansas	49	29%	54%	6%
Kansas	57	36%	53%	5%
Oregon	33	23%	53%	1%
Louisiana	61	24%	49%	5%
North Carolina	63	28%	49%	4%
New Hampshire	26	29%	49%	3%
New Jersey	50	21%	49%	3%
Nevada	40	28%	47%	5%
Oklahoma	50	25%	47%	5%
Virginia	69	35%	47%	4%
Colorado	62	20%	46%	4%

TABLE 4 (CON'T)
MEASURES OF MARKET CONCENTRATION BY STATE: GROUP MARKET, 1997
(STATES RANKED BY PERCENT OF MARKET HELD BY LARGEST THREE INSURERS)

State	Number of Insurers	Largest Insurer	Percent of Market Held By:	
			Largest Three Insurers	Smallest 50 Percent of Insurers
Connecticut	41	16%	46%	2%
Georgia	63	21%	46%	5%
Ohio	93	25%	45%	3%
Missouri	75	20%	42%	3%
Florida	79	17%	40%	3%
New York	59	19%	39%	4%
Indiana	84	23%	38%	5%
Tennessee	70	20%	38%	6%
Texas	94	22%	37%	5%
Illinois	92	21%	36%	4%
Wisconsin	68	8%	23%	4%

SOURCE: Academy for Health Services Research and Health Policy, Health Insurer Database.

Market Share by Type of Insurer. Despite the fact that HMOs hold the largest segment of the group market nationwide, they dominate the market in relatively few states. In only 12 states and in the District of Columbia did (non-BCBS) HMOs hold at least half of the group market in 1997, and in only two states — Connecticut and California — did they hold at least two-thirds of the market (see Table 5). In states where HMOs dominate the health insurance market, the market is less concentrated than in states where BCBS dominates. Where HMOs held half of the market or more in 1997, five (New Mexico) to 28 (Florida) HMOs wrote coverage in the state — although they may not all have operated in every area of the state.

In a random selection of states, one is more likely to find dominant BCBS plans than a dominant HMO sector. In 1997, BCBS plans (including BCBS HMOs) held at least half of the group market in 16 states, and in six states — Idaho, Alabama, North Dakota, Montana, Pennsylvania, and Maine — they held more than two-thirds of the market. Typically only one or two large BCBS plans operate within a state, and they are the principal reason that health insurance markets in some states (especially in Alabama, Idaho, and North Dakota) are concentrated among only a few large sellers.⁸

While commercial insurers held less than half of the group health market in every state, they held more than 40 percent of the market in two states — Alaska and Illinois — and at least one-third of the market in five others: Wyoming, Oklahoma, Nevada, Indiana, and Nebraska. In all these states, their market share was highly diffuse: between 13 (Alaska) and 63 (Illinois) insurers were writing coverage in the state.

TABLE 5
COMMERCIAL, HMO, AND BCBS MARKET SHARE BY STATE: GROUP MARKET, 1997
(STATES RANKED BY COMMERCIAL, HMO, AND BCBS MARKET SHARE)

Commercial			HMO			BCBS ^a		
State	Number of Insurers	Market Share	State	Number of Insurers	Market Share	State	Number of Insurers	Market Share
AK	13	46%	CT	14	70%	ID	2	90%
IL	63	41%	CA	26	66%	AL	2	84%
WY	17	36%	MA	17	63%	ND	1	83%
OK	40	34%	MN	9	63%	MT	2	72%
NV	29	34%	AZ	8	62%	PA	9	71%
IN	60	33%	FL	28	61%	ME	2	68%
NE	33	33%	NM	5	60%	RI	2	66%
SD	23	32%	UT	8	60%	MI	5	61%
NY	27	31%	NV	9	55%	IA	2	56%
AR	42	31%	CO	14	54%	VT	1	56%
TN	51	30%	LA	14	54%	NH	3	55%
MS	41	29%	DC	11	54%	AK	1	54%
TX	57	28%	NJ	15	51%	MS	1	54%
WV	33	28%	TX	35	48%	WY	1	54%
GA	47	27%	WI	19	48%	WA	5	51%
WA	36	27%	MO	17	48%	SD	2	50%
CO	44	25%	DE	6	48%	VA	7	49%
OH	62	25%	MD	14	45%	NE	3	47%
KS	41	24%	OR	6	44%	SC	3	46%
MT	20	24%	NY	26	43%	KS	4	46%
NJ	33	24%	IN	22	42%	MD	6	45%
SC	42	24%	NC	16	41%	OR	3	41%
WI	42	23%	KY	14	41%	KY	3	41%
IA	32	22%	OH	27	41%	DC	2	40%
LA	45	22%	WV	6	40%	NC	3	39%
FL	49	21%	AR	6	40%	GA	2	36%
NC	44	20%	TN	15	38%	OH	4	35%
MO	51	19%	IL	28	38%	DE	1	34%
DE	21	18%	GA	14	37%	MO	7	34%
KY	31	18%	NH	4	35%	WV	2	32%
NM	26	18%	VT	2	34%	OK	2	32%
VA	45	17%	VA	17	34%	TN	4	32%
AZ	43	16%	OK	8	34%	AR	1	30%
OR	24	15%	RI	4	31%	MA	2	29%
UT	22	14%	MI	11	30%	WI	7	29%
CT	26	14%	SC	7	30%	MN	4	28%
ND	13	11%	KS	12	30%	NY	6	27%

TABLE 5 (CON'T)
COMMERCIAL, HMO, AND BCBS MARKET SHARE BY STATE: GROUP MARKET, 1997
(STATES RANKED BY COMMERCIAL, HMO, AND BCBS MARKET SHARE)

Commercial			HMO			BCBS ^a		
State	Number of Insurers	Market Share	State	Number of Insurers	Market Share	State	Number of Insurers	Market Share
MD	32	10%	PA	13	24%	UT	2	26%
ME	19	10%	WA	10	22%	NJ	2	26%
NH	19	10%	ME	5	22%	CA	2	26%
VT	12	10%	IA	10	21%	IN	2	25%
MN	24	9%	NE	5	21%	LA	2	24%
MI	43	8%	SD	2	18%	TX	2	23%
CA	46	8%	MS	6	17%	NM	2	22%
MA	36	8%	AL	12	11%	AZ	1	22%
DC	20	7%	WY	3	11%	IL	1	21%
ID	15	6%	ND	3	5%	CO	4	20%
PA	43	5%	ID	3	4%	FL	2	18%
AL	33	4%	MT	1	3%	CT	1	16%
RI	11	4%	AK	0	0%	NV	2	12%

SOURCE: Academy for Health Services Research and Health Policy, Health Insurer Database.

^a Includes BCBS HMOs.

Average Insurer Size. In general, larger numbers of insurers per capita and larger commercial market share both portend low premium volume per insurer. In small-population states, these market characteristics frequently converge, and average premium volume per insurer is generally quite low (see Table 6). Among the 10 states with the largest number of insurers per capita (excluding the District of Columbia), group premium volume per insurer averaged \$14.6 million. Among the 10 states with the fewest insurers per capita, however, group premium volume averaged nearly \$2 billion per insurer. The higher average cost of health care in more populous states may explain some of insurers' higher average premium volume in these states, but it cannot explain all of the difference. In states with fewer insurers per capita, the average insurer clearly does a much larger volume of business, and all else being equal, may achieve greater economies of scale.

TABLE 6
AVERAGE PREMIUM VOLUME BY STATE: GROUP MARKET, 1997
(STATES RANKED BY NUMBER OF INSURERS PER MILLION POPULATION)

State	Number of Insurers	Number of Insurers per Million Population	Average Premium Volume per Insurer (in millions)
District of Columbia	33	74.3	\$ 25.7
Wyoming	21	49.3	\$ 2.1
South Dakota	27	44.8	\$ 4.5
Delaware	28	43.6	\$ 8.1
North Dakota	17	32.1	\$ 10.3
Montana	23	29.6	\$ 9.1
Vermont	15	29.5	\$ 12.8
Nebraska	41	28.7	\$ 28.5
West Virginia	41	28.6	\$ 17.1
Nevada	40	26.8	\$ 23.0
Alaska	14	26.5	\$ 9.3
Kansas	57	26.3	\$ 37.3
Maine	26	24.8	\$ 32.8
New Hampshire	26	24.7	\$ 31.9
Arkansas	49	21.9	\$ 28.0
Rhode Island	17	21.7	\$ 50.5
New Mexico	33	20.2	\$ 27.0
Mississippi	48	19.9	\$ 28.6
Idaho	20	18.0	\$ 32.1
Oklahoma	50	18.0	\$ 59.2
Colorado	62	17.8	\$114.0
Iowa	44	17.8	\$ 78.8
Utah	32	17.1	\$ 62.6
Louisiana	61	16.7	\$ 81.5
Missouri	75	16.5	\$161.9
Indiana	84	16.1	\$152.2
South Carolina	52	15.4	\$ 70.3
Wisconsin	68	15.1	\$212.5
Connecticut	41	14.4	\$132.9
Tennessee	70	14.3	\$130.1
Kentucky	48	14.0	\$124.3
Alabama	47	12.9	\$278.7
Arizona	52	12.9	\$142.9
Virginia	69	12.0	\$243.3
Maryland	52	11.8	\$272.0
Oregon	33	11.3	\$199.8
Massachusetts	55	10.6	\$490.2
North Carolina	63	10.0	\$311.1
Washington	51	9.9	\$359.6
Ohio	93	9.6	\$542.4
Georgia	63	9.2	\$311.5

TABLE 6 (CON'T)
 AVERAGE PREMIUM VOLUME BY STATE: GROUP MARKET, 1997
 (STATES RANKED BY NUMBER OF INSURERS PER MILLION POPULATION)

State	Number of Insurers	Number of Insurers per Million Population	Average Premium Volume per Insurer (in millions)
Illinois	92	8.6	\$ 544.7
Minnesota	37	8.6	\$ 250.1
New Jersey	50	7.1	\$ 664.7
Michigan	59	6.9	\$ 885.6
Florida	79	6.8	\$ 985.3
Pennsylvania	65	6.4	\$1,447.1
Texas	94	5.2	\$1,397.6
New York	59	3.8	\$4,565.9
California	74	2.5	\$7,786.0

SOURCE: Academy for Health Services Research and Health Policy, Health Insurer Database.

B. Individual Health Insurance Markets

Number of insurers. In 1997, the number of insurers writing coverage in the individual market ranged from more than 40 (in New York and Texas) to just fewer than five (in Delaware, Idaho, and Alaska) (see Figure 4). Twenty percent of the states had at least 20 insurers in their individual insurance markets but 16 states (and also the District of Columbia) had fewer than 10 insurers in their individual markets. Our data do not identify the number of insurers that were actively selling coverage, as opposed to carrying or renewing a closed book of business.

As in the group market, small-population states generally have more insurers per capita in the individual market than do large-population states. States such as Wyoming, South Dakota, and North Dakota have many more insurers per million population than do states such as California, Ohio, and New Jersey. California had the fewest insurers in the individual insurance market per capita in 1997: just one per million population statewide.

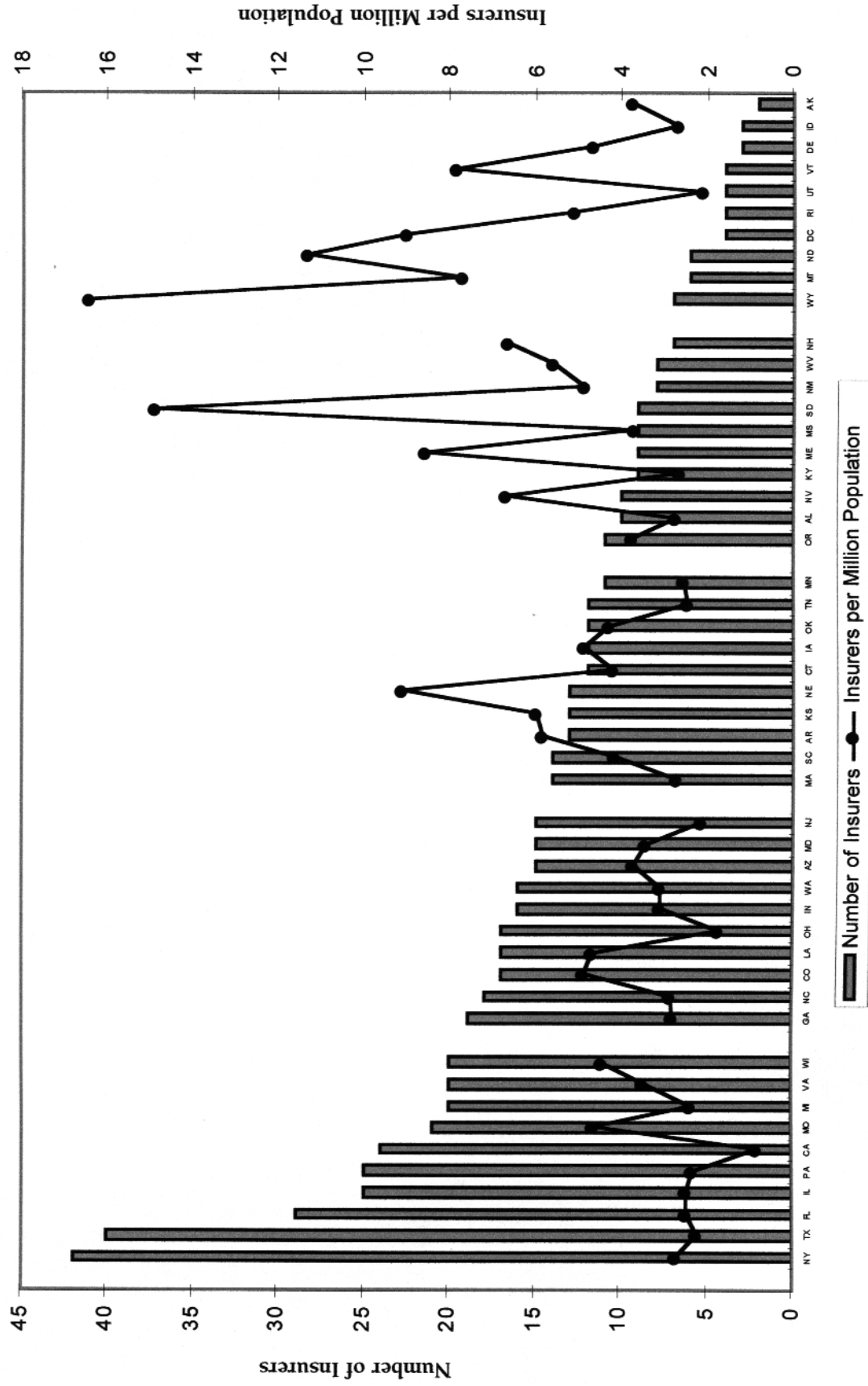
In all states, fewer insurers write coverage in the individual market than in the group market, although in nearly all states there are more insurers in the individual market relative to premium volume. While the average number of insurers per state in the individual market was nearly 14, 16 states (and the District of Columbia) had fewer than ten insurers in their individual market, and three states — Alaska, Delaware, and Idaho — had only two or three (see Figure 5). New York is exceptional in that nearly as many insurers (71 percent) wrote coverage in the individual market as in the group market, apparently due to a convergence of circumstances; HMOs account for nearly half of the insurers in New York's group market, and New York requires HMOs to write individual coverage.⁹

Market Concentration. Dominated by BCBS plans, the individual insurance market is more typically concentrated among a few large insurers than is the group market. In 1997, just three insurers held at least 50 percent of the individual market in every state; and in 32 states, just three insurers held more than 70 percent of the market (see Table 7). Among states with at least four insurers in the individual market, all but three states (Kentucky, North Dakota, and Montana) had the most concentrated individual insurance markets — with the largest three insurers holding from 92 percent of the market (in Montana) to 97 percent (in Kentucky). States with the least concentrated markets included South Dakota (the largest three insurers held 50 percent of the market), West Virginia, (51 percent), Alabama, and New York (54 percent each).

As in the group market, the smallest 50 percent of insurers in the individual market typically hold very little market share. In states with four or more insurers in the individual market in 1997, the smallest half of insurers collectively held as little as 1 percent of the market in seven states (California, Alaska, Delaware, Rhode Island, Idaho, Utah, and Vermont) and the District of Columbia. In only five states (South Dakota, West Virginia, Alabama, New Mexico, and New Hampshire) did the smallest half of insurers hold more than 20 percent of the market.

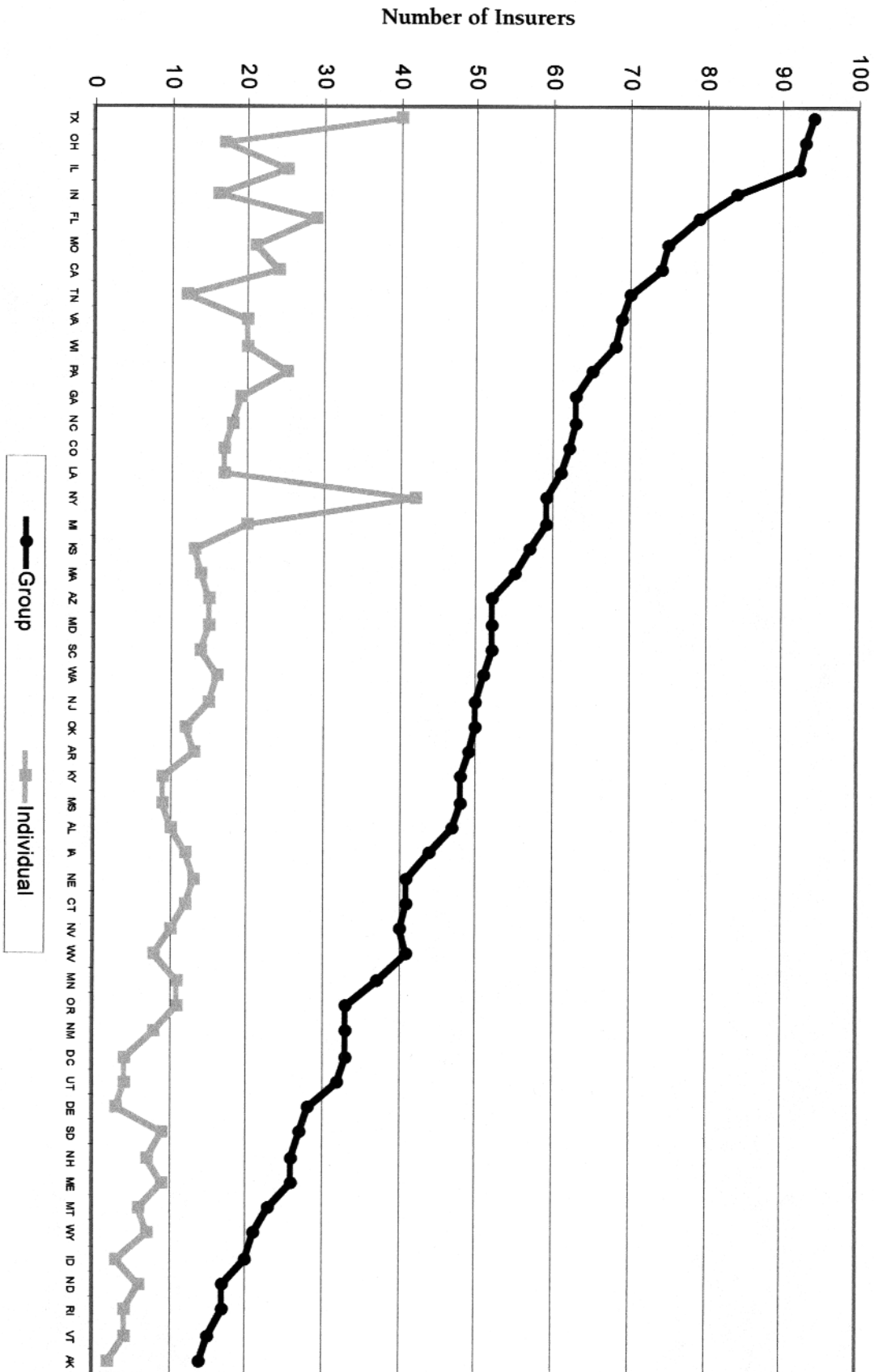
Dominated by BCBS plans, the individual insurance market is more typically concentrated among a few large insurers than is the group market. In 1997, just three insurers held at least 50 percent of the individual market in every state.

Figure 4
Number of Insurers and Insurers per Million Population: Individual Market, 1997



SOURCE: Academy for Health Services Research and Health Policy, Health Insurer Database.

Figure 5
Number of Insurers in the Group and Individual Market by State, 1997



SOURCE: Academy for Health Services Research and Health Policy, Health Insurer Database.

TABLE 7
MEASURES OF MARKET CONCENTRATION BY STATE: INDIVIDUAL MARKET, 1997
(STATES RANKED BY PERCENT OF MARKET HELD BY LARGEST THREE INSURERS)

State	Number of Insurers	Percent of Market Held By:		
		Largest Insurer	Largest Three Insurers	Smallest 50 Percent of Insurers
Alaska	2	98%	--	0%
Idaho	3	66%	100%	34%
Delaware	3	94%	100%	6%
District of Columbia	4	56%	99%	5%
Utah	4	57%	99%	8%
Rhode Island	4	79%	97%	10%
Kentucky	9	68%	95%	3%
Montana	6	56%	92%	7%
North Dakota	6	80%	92%	8%
Vermont	4	53%	92%	16%
New Jersey	15	61%	88%	4%
Wyoming	7	69%	88%	11%
California	24	54%	87%	1%
Maine	9	73%	87%	8%
Massachusetts	14	52%	85%	5%
Georgia	19	60%	84%	4%
Kansas	13	70%	83%	6%
Michigan	20	53%	82%	4%
Washington	16	46%	82%	5%
Ohio	17	57%	81%	3%
Arkansas	13	63%	79%	10%
Iowa	12	63%	79%	7%
Mississippi	9	59%	79%	11%
Oregon	11	56%	79%	9%
Virginia	20	70%	79%	6%
Louisiana	17	59%	78%	6%
Arizona	15	50%	77%	8%
Maryland	15	58%	76%	7%
Minnesota	11	56%	76%	9%
Oklahoma	12	56%	74%	12%
Indiana	16	34%	73%	8%
Florida	29	50%	72%	4%
North Carolina	18	52%	69%	7%
Tennessee	12	31%	69%	10%
Illinois	25	49%	68%	4%
Connecticut	12	44%	66%	14%
Missouri	21	36%	66%	8%
New Hampshire	7	25%	65%	27%
Nevada	10	34%	65%	14%

TABLE 7
MEASURES OF MARKET CONCENTRATION BY STATE: INDIVIDUAL MARKET, 1997
(STATES RANKED BY PERCENT OF MARKET HELD BY LARGEST THREE INSURERS)

State	Number of Insurers	Percent of Market Held By:		
		Largest Insurer	Largest Three Insurers	Smallest 50 Percent of Insurers
South Carolina	14	44%	65%	15%
New Mexico	8	29%	64%	22%
Nebraska	13	34%	61%	13%
Texas	40	43%	60%	6%
Colorado	17	24%	58%	8%
Wisconsin	20	27%	57%	11%
Pennsylvania	25	30%	55%	6%
Alabama	10	24%	54%	27%
New York	42	34%	54%	6%
West Virginia	8	22%	51%	34%
South Dakota	9	18%	50%	34%

SOURCE: Academy for Health Services Research and Health Policy, Health Insurer Database.

Market Share by Type of Insurer. BCBS plans hold the largest proportion of the individual health insurance nationwide, and they dominate the market heavily in many states. In 1997, BCBS plans held more than half of the individual market in 32 states and in the District of Columbia (see Table 8). In four states — Idaho, Alaska, Kentucky, and Delaware — one or two BCBS plans held more than 90 percent of the individual market.

While not the dominant insurer type in most states, commercial insurers are much more likely to dominate in the individual market than in the group market. In 1997, commercial insurers held more than half of the individual market in 10 states, and more than two-thirds of the individual market in five states — South Dakota, Connecticut, West Virginia, Tennessee, and New Hampshire.

Despite their fast rate of growth, HMOs hold only a small share of the individual market in most states. In 1997, HMOs collectively held less than 20 percent of the individual market in 33 states and less than one-third of the market in 45 states. In only two states — California and New York — did HMOs hold more than half of the individual market.

Average Insurer Size. As in the group market, average premium volume per insurer in the individual market is generally less in small-population states than in large-population states (although the absolute difference is not as great in the individual market as it is in the group market). In 1997, earned premium volume averaged just \$6 million per insurer in states with the largest number of insurers per capita (Wyoming, South Dakota, North Dakota, Nebraska, and Maine), but \$15 million in states with the fewest insurers per capita (California, Ohio, New Jersey, Utah, and Texas) (see Table 9). Only in one state — California, with just one insurer in the individual market per million population and heavily dominated by HMOs — did insurers average much larger premium volume per insurer (\$52 million) than in all other states.

Despite their fast rate of growth, HMOs hold only a small share of the individual market in most states.

TABLE 8
COMMERCIAL, HMO, AND BCBS MARKET SHARE BY STATE: INDIVIDUAL MARKET, 1997
(STATES RANKED BY COMMERCIAL, HMO, AND BCBS MARKET SHARE)

Commercial			HMO			BCBS ^a		
State	Number of Insurers	Market Share	State	Number of Insurers	Market Share	State	Number of Insurers	Market Share
SD	8	82%	CA	10	64%	ID	2	98%
CT	9	75%	NY	19	51%	AK	1	97%
WV	6	72%	DC	2	43%	KY	2	93%
TN	11	69%	UT	2	42%	DE	1	93%
NH	4	67%	FL	10	34%	ME	2	81%
NE	10	63%	MA	6	32%	ND	1	79%
IN	13	63%	CO	5	28%	RI	1	79%
WI	9	57%	NY	4	26%	VA	5	79%
AL	7	55%	OR	3	26%	KS	2	73%
SC	12	53%	LA	5	25%	WA	2	69%
IL	20	49%	MN	3	25%	WY	1	69%
NM	5	48%	MD	4	23%	MD	5	67%
NC	17	47%	PA	4	23%	PA	7	64%
MT	5	44%	AZ	4	23%	AR	1	63%
OK	10	43%	NJ	2	22%	IA	1	62%
TX	28	42%	NM	2	22%	MO	5	62%
MS	8	40%	AL	2	20%	NJ	1	60%
NV	5	39%	GA	2	18%	MS	1	59%
VT	2	38%	RI	2	17%	GA	1	59%
CO	10	37%	WA	5	15%	LA	1	58%
IA	11	37%	TX	11	14%	OH	2	57%
AR	12	36%	OH	5	13%	OR	2	57%
MI	9	33%	WV	1	12%	UT	1	56%
WY	6	30%	WI	6	12%	MN	2	56%
MO	13	29%	CT	2	10%	MT	1	55%
OH	10	29%	MI	6	10%	OK	1	55%
AZ	10	27%	VT	1	8%	DC	1	55%
KS	10	25%	MO	3	7%	MI	5	55%
NY	17	24%	VA	4	7%	VT	1	53%
GA	16	22%	NH	1	4%	NC	1	52%
ND	5	20%	IN	2	2%	MA	1	52%
MN	6	18%	IL	4	1%	FL	1	50%
NJ	12	16%	NE	1	1%	AZ	1	50%
ME	6	16%	ME	1	1%	IL	1	48%
OR	6	16%	OK	1	1%	SC	2	46%
LA	11	16%	KY	1	1%	TX	1	43%
MA	7	15%	KS	1	1%	NE	2	34%

TABLE 8 (CON'T)
 COMMERCIAL, HMO, AND BCBS MARKET SHARE BY STATE: INDIVIDUAL MARKET, 1997
 (STATES RANKED BY COMMERCIAL, HMO, AND BCBS MARKET SHARE)

Commercial			HMO			BCBS ^a		
State	Number of Insurers	Market Share	State	Number of Insurers	Market Share	State	Number of Insurers	Market Share
FL	18	14%	ID	1	1%	IN	1	34%
WA	9	14%	ND	0	0%	CO	2	34%
VA	11	13%	NC	0	0%	NV	1	33%
PA	14	12%	SC	0	0%	CA	2	33%
MD	6	9%	DE	0	0%	TN	1	30%
DE	2	6%	MS	0	0%	WI	5	30%
KY	6	4%	AR	0	0%	NM	1	29%
RI	1	3%	AK	0	0%	NH	2	28%
AK	1	2%	IA	0	0%	NY	6	24%
CA	12	2%	TN	0	0%	AL	1	23%
DC	1	1%	MT	0	0%	SD	1	17%
UT	1	0%	WY	0	0%	WV	1	14%
ID	0	0%	SD	0	0%	CT	1	13%

SOURCE: Academy for Health Services Research and Health Policy, Health Insurer Database.

^a Includes BCBS HMOs.

TABLE 9
AVERAGE PREMIUM VOLUME BY STATE: INDIVIDUAL MARKET, 1997
(STATES RANKED BY NUMBER OF INSURERS PER MILLION POPULATION)

State	Number of Insurers	Number of Insurers per Million Population	Average Premium Volume per Insurer (in millions)
Wyoming	7	16.4	\$ 2.6
South Dakota	9	14.9	\$ 5.0
North Dakota	6	11.3	\$12.3
Nebraska	13	9.1	\$ 5.2
District of Columbia	4	9.0	\$13.6
Maine	9	8.6	\$ 5.5
Vermont	4	7.9	\$ 6.2
Montana	6	7.7	\$ 8.8
Nevada	10	6.7	\$ 2.8
New Hampshire	7	6.7	\$ 3.1
Kansas	13	6.0	\$ 9.2
Arkansas	13	5.8	\$ 6.0
West Virginia	8	5.6	\$ 1.6
Rhode Island	4	5.1	\$ 6.0
Colorado	17	4.9	\$10.3
New Mexico	8	4.9	\$ 2.4
Iowa	12	4.9	\$ 8.2
Delaware	3	4.7	\$11.8
Louisiana	17	4.7	\$ 9.2
Missouri	21	4.6	\$10.0
Wisconsin	20	4.4	\$ 5.4
Oklahoma	12	4.3	\$ 4.6
Connecticut	12	4.2	\$ 6.7
South Carolina	14	4.1	\$ 6.3
Alaska	2	3.8	\$14.3
Oregon	11	3.8	\$12.4
Arizona	15	3.7	\$13.1
Mississippi	9	3.7	\$ 3.4
Virginia	20	3.5	\$ 9.6
Maryland	15	3.4	\$ 8.9
Washington	16	3.1	\$19.8
Indiana	16	3.1	\$ 7.8
North Carolina	18	2.8	\$ 9.2
Georgia	19	2.8	\$ 8.6
Alabama	10	2.8	\$ 1.8
Idaho	3	2.7	\$20.5
Massachusetts	14	2.7	\$11.2
New York	42	2.7	\$14.9
Kentucky	9	2.6	\$11.0
Minnesota	11	2.6	\$17.5
Florida	29	2.5	\$22.8

TABLE 9 (CON'T)
 AVERAGE PREMIUM VOLUME BY STATE: INDIVIDUAL MARKET, 1997
 (STATES RANKED BY NUMBER OF INSURERS PER MILLION POPULATION)

State	Number of Insurers	Number of Insurers per Million Population	Average Premium Volume per Insurer (in millions)
Tennessee	12	2.4	\$ 4.6
Pennsylvania	25	2.4	\$11.9
Michigan	20	2.3	\$ 8.9
Illinois	25	2.3	\$15.6
Texas	40	2.2	\$10.1
Utah	4	2.1	\$15.9
New Jersey	15	2.1	\$20.5
Ohio	17	1.7	\$16.9
California	24	0.8	\$52.1

SOURCE: Academy for Health Services Research and Health Policy, Health Insurer Database.

V. Summary and Conclusions

The importance of health insurance on the national and state policy agendas argues for understanding these markets in much more detail than we have to date. Policymakers have understood some fundamental aspects of these markets — for example, that the individual market is much smaller than the group market, and therefore more volatile. But they have been unfamiliar with other aspects that are essential to understanding how health insurance markets may change in response to cost pressures or to regulation.

Several aspects of these markets are arguably of most significance to policymakers. First, both the group health insurance market and the individual insurance markets are highly concentrated. In every state, competition in insurance markets is imperfect; in many states, where just a few insurers control nearly all of the market, there is no reason to expect that competition guides the market efficiently.

Second, recent years have seen remarkable changes in the states' health insurance markets. Employer coverage edged upward as labor markets tightened with full employment, and premium volume in the group market grew rapidly between 1995 and 1997. At least some of that growth apparently occurred at the expense of individual health insurance markets, where premium volume nationally remained nearly level and in some states actually declined. Changes in the group market — growth or decline — appear to affect the size and structure of the individual market. Due to the individual market's relatively small premium base, the impact can be profound, and it merits better monitoring than has been done for purposes of both regulatory enforcement and policy development.

Finally, it is notable that the average premium volume per insurer in the individual market is so much lower than in the group market, and in both markets, much lower in states with many insurers per capita — typically, the small-population states. These differences may foretell further change in the states' health insurance markets, especially as public regulators and private capital markets press insurers to constrain prices. Over the last decade, health insurance markets saw a flood of mergers and acquisitions as insurers sought to gain premium volume and market share, and potentially gaining economies of scale. In many states, large national firms acquired smaller domestic insurers, sometimes including the state's dominant BCBS plan. These changes have been very disruptive in some small-population states that have few insurers in either the group or individual market. In all states, however, the economic incentive for insurers to become larger (and fewer) is likely to grow as public concern about health insurance costs and coverage escalates.

States that are concerned about insurers exiting their markets should be aware that their population size may support only a few insurers if each is to operate at efficient scale. In many states, the loss of insurers may erode an already thin argument that health insurance markets are competitive and therefore operate efficiently with little regulatory oversight. These states face a growing challenge to develop new strategies to promote economic efficiency in their health insurance markets and at the same time maintain the market stability that consumers value.

Both the group health insurance market and the individual insurance markets are highly concentrated. In every state, competition in insurance markets is imperfect; in many states, where just a few insurers control nearly all of the market, there is no reason to expect that competition guides the market efficiently.

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APPENDIX 1:

The Health Insurer Database

The Health Insurer Database, compiled by Alpha Center with grant funding from The Robert Wood Johnson Foundation, contains information about every health insurer in the United States that wrote at least \$500,000 of major medical insurance coverage in any state in 1995, 1996, or 1997. Much of the database was compiled from publicly available data reported to state departments of insurance, departments of health, or (in California) the department of corporations. Because much of the database's information about commercial insurers was obtained from confidential responses to a survey conducted by Alpha Center, however, the final database is proprietary.

The Health Insurer Database was compiled in three segments, reflecting differences in the states' reporting requirements and regimes for each of the major types of insurers — commercial insurers, Blue Cross and Blue Shield organizations, and HMOs.

Commercial Insurers

The NAIC data. Our basic source of information about commercial insurers is the annual financial reports that each admitted insurer files in each state, compiled by the National Association of Insurance Commissioners (NAIC). In all states, each commercial insurer files an extensive set of forms with the state, submitting information on premiums (written and earned), medical losses, administrative costs, surpluses, and reserves. These data are public use.

Alpha Center Survey of Commercial Insurers. In August and September 1998, Alpha Center fielded a mail survey of all commercial insurers that reported writing at least \$500,000 in any line of health insurance in any state. Lines of health insurance that insurers report as an aggregate include major medical, hospital or hospital surgical, accident, disability, dread disease, dental, vision, or any other specialty health insurance product. The survey consisted of individualized forms mailed to each insurer (679 companies). Separate surveys were sent for group and individual lines of business; an insurer writing both lines received two survey forms. In all, 885 line-of-business surveys were mailed. Respondents were asked to identify how much of their business in each state and year (1995, 1996, and 1997) was major medical, how many lives were covered, and whether they were actively marketing in the state in that year. We requested and obtained from the Health Insurance Association of America (HIAA) a personally signed letter endorsing the survey and asking that the insurer respond.

Survey response. In October, Alpha Center staff began follow-up phone calls to each insurer that had not responded to the survey, and repeated phone calls to the largest insurers in the survey. The largest insurers were called not fewer than five times, and other avenues (e.g., having HIAA also place a call to the insurer) also were pursued to obtain a response. At the conclusion of this effort, 334 companies had responded, providing information on 446 lines of business. The overall company response rate was 49.2 percent; the line-of-business response rate was 50.4 percent. Survey response rates by line of business are reported in Table 1.

TABLE 1
NUMBER AND RATE OF RESPONSE
TO THE ALPHA CENTER HEALTH INSURER SURVEY BY MARKET

	Total	Group Surveys	Individual Surveys
Surveys Mailed	885	526	359
Surveys Received	446	247	199
Response Rate (%)	50.4	47.6	55.4

Supplemental sources of information. To gain information about insurers that did not respond to the survey, we went to other public sources of information. None of these sources provides complete information about a reporting commercial insurer's group and individual business, but each was valuable in providing some key information about at least part of the insurer's business.

- *The NAIC Accident and Health Policy Exhibit.* The Accident and Health Policy Exhibit provides valuable detail about companies' individual health insurance business. Not all companies file this exhibit, however, and the NAIC sells it only in photocopy form. Of the insurers that did not respond to our survey, 60 companies did file this exhibit. We obtained this exhibit for these non-responding companies, as well as for a number of responding companies in order to ascertain the comparability and integrity of this source.
- *Schedule H Accident and Health Exhibit.* In 1997, the NAIC added a new section to this exhibit, requiring companies to report their claims by type of claim (i.e., medical, dental, and other). We assumed that companies that reported no medical claims for the year wrote no medical coverage that year. Using this information, we ascertained that 55 non-respondents in the individual market and 54 non-respondents in the group market wrote no major medical coverage.

Using these three sources of information – the Alpha Center survey, the NAIC Accident and Health Policy Exhibit, and the NAIC Schedule H Accident and Health Exhibit – we obtained observations for 314 of 359 commercial insurers in the individual market (87.5 percent) and 301 of 526 companies in the group market (57.2 percent). To improve our information about the group market, we systematically explored additional avenues of information about non-responding companies (specifically, their SEC filings, the states' Department of Insurance Web pages, and conversations with various Department of Insurance officials). Our estimates of the proportion of the group and individual markets "known" in each state include information obtained by these other means for 13 group insurers and two individual insurers.

Blue Cross and Blue Shield Plans

Alpha Center obtained copies of the annual statement of all companies filing as a Hospital, Medical, Dental, or Indemnity (HMDI) carrier in 1995, 1996, or 1997. For some states, these were obtainable from NAIC; we contacted other states directly to obtain statements. These statements provide information about every Blue Cross and Blue Shield (BCBS) organization admitted in any state.

Health Maintenance Organizations

Alpha Center obtained photocopies of every HMO filing in 1995, and coded and entered selected fields from these filings into an electronic database. To obtain 1996 and 1997 information, we purchased from InterStudy its standard HMO financial database for 1996 and 1997, enhanced with selected additional premium and medical loss figures by line of business. Due to the enhancement of the standard database, these data are proprietary to Alpha Center. From these data, we identified 638 HMOs operating in 1996 and 671 HMOs operating in 1997.

Market Knowledge by State

The proportion of the group and individual markets in each state that is “known” after compiling data from each of the sources of information described above is listed in Table 2. The proportion of the market that is known is measured as the major medical premiums earned in the state by all of the health insurers about which we have information, divided by the total premium volume of all health insurers in the state with at least \$500,000 in earned premiums. Because Hawaii does not require HMOs to file financial reports, we have omitted Hawaii from the database; the database does include, however, the District of Columbia, bringing our total count of state-level markets to 50. Because the denominator for this measure includes all health premiums earned by insurers for which we do not have information (and, therefore, may include health lines other than major medical), these estimates are conservative.

Using earned premiums as a measure, we know at least 89 percent of the group market in all states and at least 95 percent of the group markets in 25 states. In the individual market, we know at least 90 percent of the market in all states except Texas (87 percent); in 29 states, we know at least 95 percent of the market.

TABLE 2

PERCENT OF GROUP AND INDIVIDUAL MAJOR MEDICAL MARKETS
KNOWN FROM THE ALPHA CENTER SURVEY AND STANDARD FILINGS

(*Information about 100 percent of markets was obtained from other state reports.)

<u>Group Markets</u>		<u>Individual Markets</u>	
AK	96.59%	AK	100.00%
AL	98.69%	AL	96.84%
AR	93.12%	AR	95.05%
AZ	94.67%	AZ	97.87%
CA	97.23%	CA	98.20%
CO	92.01%	CO	90.61%
CT	96.74%	CT	95.80%
DC	91.02%	DC	98.31%
DE	95.14%	DE	97.21%
FL	89.13%	FL	91.96%
GA	94.95%	GA	93.09%
IA	97.20%	IA	94.59%
ID	97.92%	ID	100.00%
IL	89.79%	IL	94.01%
IN	94.25%	IN	95.57%
KS	95.32%	KS	95.37%
KY	98.07%	KY	96.72%
LA	91.23%	LA	96.61%
MA	96.48%	MA	93.48%
MD	98.48%	MD	97.98%
ME	97.34%	ME	94.97%
MI	96.59%	MI	95.46%
MN	94.35%	MN	91.03%
MO*	93.40%	MO*	96.21%
MS	90.41%	MS	95.69%
MT	94.21%	MT	95.65%
NC	96.44%	NC	91.29%
ND	98.47%	ND	94.20%
NE	94.58%	NE	93.41%
NH	96.72%	NH	95.10%
NJ	93.12%	NJ	96.93%
NM	96.92%	NM	93.30%
NV	94.76%	NV	95.39%
NY	93.88%	NY	98.48%
OH	89.62%	OH	97.23%
OK	91.58%	OK	92.53%
OR	98.74%	OR	95.58%
PA	88.57%	PA	92.87%
RI	97.63%	RI	100.00%
SC	94.47%	SC	94.14%
SD	92.77%	SD	92.37%
TN	92.36%	TN	91.62%
TX	93.11%	TX	86.71%
UT	93.40%	UT	99.23%
VA	97.41%	VA	96.88%
VT*	97.05%	VT*	78.23%
WA	97.75%	WA	98.62%
WI	93.25%	WI	89.93%
WV	92.09%	WV	94.30%
WY	93.22%	WY	97.77%

Endnotes

¹ We define the group market as it is defined by the states. In most states, this includes groups of two or more, but several states recognize groups of one. The data exclude group stop-loss or reinsurance and also the medical and administrative costs of self-insured employer plans.

² Hawaii does not require HMOs to report financial data or covered lives and is excluded from the analysis. We define the group market as it is defined by the states. In most states, this includes groups of two or more, but several states recognize groups of one. The data exclude group stop-loss or reinsurance premiums, and also the medical and administrative costs of self-insured employer plans.

³ The database excludes any insurer that reported less than \$500,000 in major medical premiums during the year, and reflects reported or estimated major medical premiums only, exclusive of stop-loss coverage or other health lines. It includes insurers' closed-book business, as well as business that insurers were actively selling. The data are described in greater detail in Appendix 1.

⁴ At least one study (Grace and Timme, 1992) suggests that most accident and health insurers (including major medical insurers as well as other accident and health insurers) experience increasing economies of scale, and the very largest insurers experience only constant returns to scale. Similarly, other studies (Blair and Vogel, 1978; Clement, 1995; and Feldman, Wholey, and Christianson, 1996) suggest increasing economies of scale among small HMOs. Wholey et al. (1995) estimated that HMOs experience increasing economies of scale until they enroll about 100,000 lives (approximately \$150-200 million in earned premiums), beyond which additional economies of scale are insignificant.

⁵ The Pearson correlation between Blue Cross and Blue Shield group market share and HMO group market share in 1997 was -0.84 and highly significant. The correlation between commercial market share and HMO market share (in the group market) was smaller and statistically insignificant.

⁶ The slower growth in covered lives reported in the 1996-1998 Current Population Surveys reflects not only the usual differences that arise from population survey data versus administrative data, but also the much larger base over which the CPS population numbers are calculated. Employer coverage in the CPS includes coverage from either insured employer plans (which are included in our earned premium data) or self-insured employer plans (which are excluded).

⁷ At present, Maine, Massachusetts, New Jersey, and New York require HMOs to write coverage in the individual market if they are actively selling coverage in the group market. Both Massachusetts and New Jersey extend this requirement to all group insurers, not only to HMOs. New Jersey alternatively allows group insurers to "pay" to support the losses of insurers in the individual market if they decline to "play" in the individual market.

⁸ Some states have a larger number of BCBS plans (Maryland, Pennsylvania, Missouri, Michigan, Wisconsin, and New York each have five or more BCBS plans) which collectively hold large market share. Typically, these plans do not compete with one another within product categories.

⁹ Since 1993, New Jersey has had a “play or pay” rule in the individual market to encourage more group insurers to write individual coverage. But New Jersey’s two BCBS plans held 60 percent of the individual market in 1997, and relatively few other group insurers “played” significantly in its individual market. Massachusetts has required group insurers also to sell individual coverage since 1998.

