



## Market Improvement Evident For Top Health Plans

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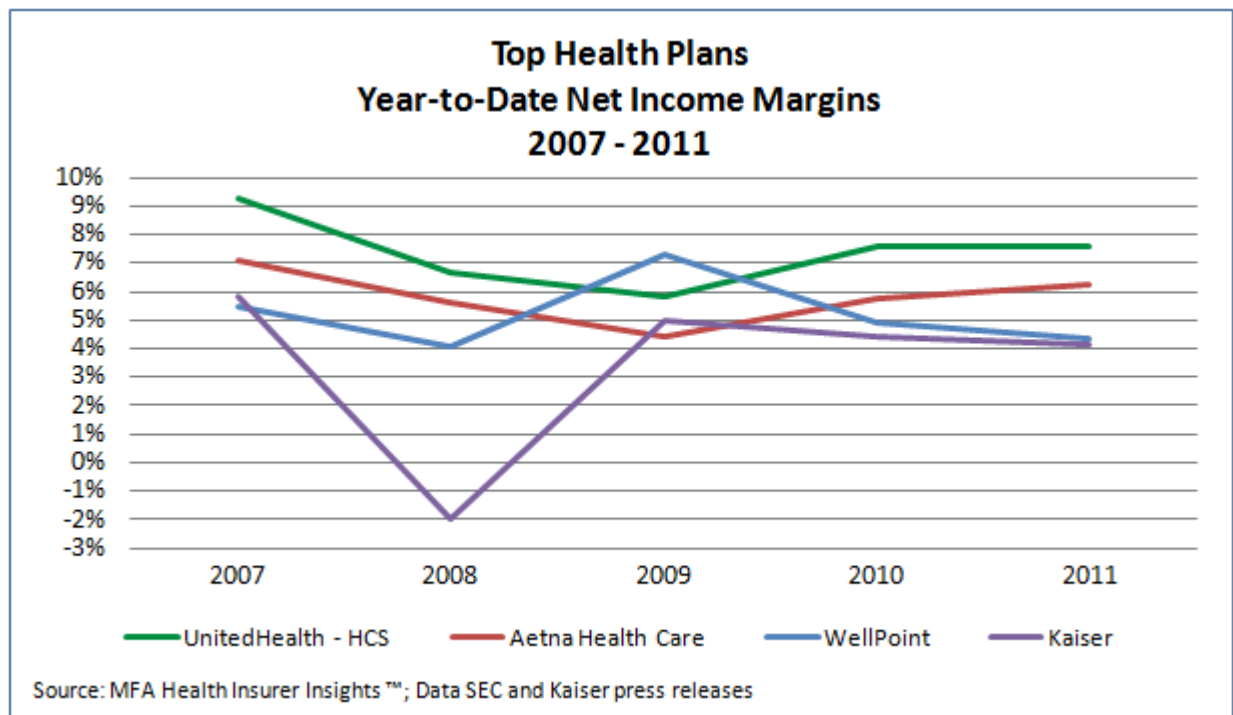
by Debra A. Donahue

Most of the leading U.S. health insurance plans saw income margins holding from 2010 to 2011 and membership gains across most market segments year-over-year. While overall revenues increased 5.1% for the nation's top plans, from \$293 billion in 2010 to \$308 billion in 2011, profit margins increased from a combined average of 5.63% at year-end 2010 to 5.66% at year-end 2012. Total membership increased 2.9% with gains across the commercial, Medicare and Medicaid segments from 2010 to 2011. These seven health insurance carriers cover roughly 51% of the total insured population in the nation, and their financial well-being is a key indicator of the industry's stability.

This brief presents key findings from Mark Farrah Associates' (MFA) assessment of financial and enrollment trends among seven top health insurers: Aetna, CIGNA, Health Care Service Corporation (HCSC), Humana, Kaiser Permanente, UnitedHealth Group and WellPoint. Financial statistics, membership data and observations were gleaned from the April 2012 Health Insurer Insights™ series.

### Profitability Holding

The majority of leading health plans saw a modest upturn in year-over-year profitability for 2011, when compared to 2010. While overall revenues increased 5.1% for the nation's top plans, from \$293 billion in 2010 to \$308 billion in 2011, profit margins\* increased from a combined average of 5.63% at year-end 2010 to 5.66% at year-end 2012. Aetna, CIGNA, Humana and HCSC saw profit margin gains between 2011 and 2010. Aetna's Health Care sector's year-end profit margin was 6.2% for 2011, up from 5.7% as of 2010.



\* Net Income (profit) margin is net income (loss) divided by total revenues.

The primary source of Aetna's, CIGNA's and HCSC's enrollment is administrative services only (fee-based) funding arrangements, 69%, 83% and 62% respectively. As mentioned in a previous Healthcare Business Strategy™ report, fee-based business is not impacted by the Patient Protection and Affordable Care Act of 2010 (ACA) premium rebate regulations. Humana's enrollment is primarily through government programs, such as Medicare and TRICARE which are not impacted by the rebate regulations either. The reduced impact of rebate liability may explain why these plans saw modest increases while other leading plans' income margins remained the same as 2010 or saw minor declines.

UnitedHealth Group's Health Care Service (HCS) business unit reported a 7.6% earnings from operations margin for the year-ended December 30, 2011, roughly the same as 2010. WellPoint reported a profit margin of 4.4% through 2011, down from 4.9% for 2010. Kaiser Foundation Hospitals, Kaiser Foundation Health Plan, Inc., and respective subsidiaries (Kaiser) combined reported net income of approximately \$2.0 billion on revenues of \$47.9 billion, yielding a net income margin of 4.2% for 2011. This was down from a net income margin of 4.4%, for 2010.

## Membership Gains

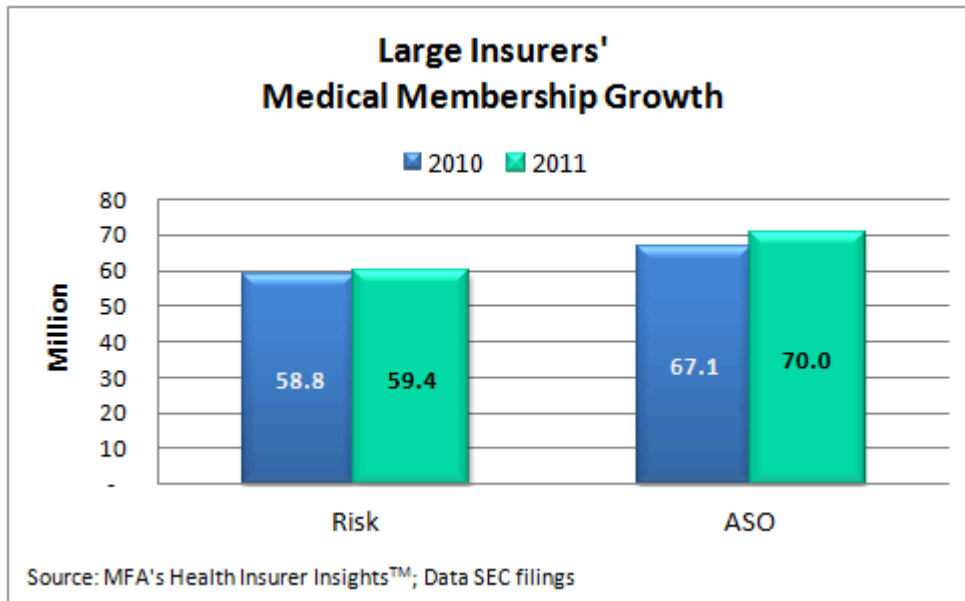
Year-over-year, total membership for the seven leading plans increased by 3.6 million or 2.9% from 125.8 million in 2010 to 129.4 million in 2011. Commercial, Senior and Medicaid segments all saw enrollment growth year-over-year. Commercial business increased by 2.1% from 2010 to 2011. Senior (also referred to as Medicare) and Medicaid enrollment increased 8.1% and 6.6% respectively during the same period. Three of the top companies cited enrollment gains across all three major business lines.

Large Insurers' Medical Membership Growth			
Segment	2010	2011	Change
Senior <sup>1</sup>	9,920,286	10,725,465	805,179
Medicaid <sup>2</sup>	7,222,661	7,696,677	474,016
Commercial <sup>3</sup>	108,676,708	111,018,325	2,341,617
Total	125,819,655	129,440,467	3,620,812

(1) May include both Med Supp and Medicare Advantage but not PDP  
(2) Includes ASO and Risk-based arrangements  
(3) Includes TRICARE and FEHBP enrollment, and ASO and Risk-based arrangement  
Source: MFA's Health Insurer Insights™; Data SEC filings

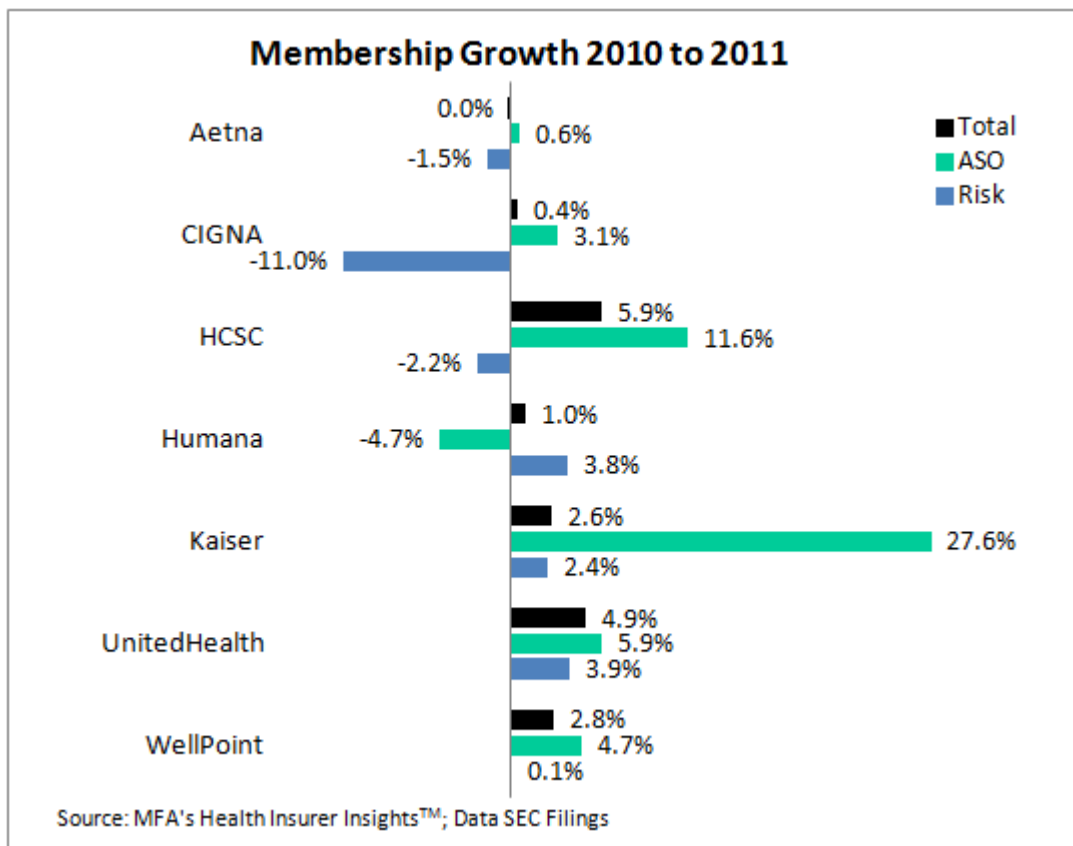
Six of the seven top plans saw gains in Medicaid; CIGNA does not currently participate in the Medicaid market. Many of the leading plans' growth strategies call for pursuing more business in the Senior and Medicaid segments for 2012 and 2013. Most of the top plans indicated interest in The Centers for Medicare & Medicaid Services (CMS) dual eligible integration pilot projects slated for 2013. Those that did not specifically mention the CMS pilot in their fourth quarter financial reports currently participate in both the Medicare and Medicaid managed care markets, so they may take part as well.

Commercial enrollment gains by five of the leading plans were significant enough to offset commercial losses experienced by Aetna and Humana. Most of the commercial gains are occurring in the administrative services only (ASO) segment. Total ASO enrollment grew year-over-year by nearly 2.9 million (4.4%) with membership increasing from 67.1 million in 2010 to nearly 70.0 million as of 2011. Fully-insured business (risk enrollment) increased year-over-year by 681,966 members from 58.8 million in 2010 to 59.4 million in 2011.



### Health Plan Observations

With the exception of Aetna, all the leading health plans saw total enrollment growth year-over-year. Aetna's enrollment remained at 18.5 million for both 2010 and 2011. Between December 2010 and December 2011, Aetna, CIGNA and HCSC experienced declines in risk enrollment. Of the top plans, Humana was the only plan to report a decrease in ASO covered lives.



HCSC experienced the largest growth rate over the year, increasing total enrollment by 5.9%. However, UnitedHealth gained the most new members with an increase of 1.6 million enrollees between 4Q10 and 4Q11. Kaiser, a late entrant into the administrative services only (ASO) business, added nearly 25,000 ASO members between 2010 and 2011; Kaiser reported a total of 113,184 self-funded members as of December 31, 2011.

The top plans mentioned in this report insure or administer coverage for approximately 51% of the estimated 256.2 million people with health insurance in the United States and its territories. As the financial markets begin to stabilize and employers begin hiring again, the health insurance industry is also showing signs of recovery. Year-end results for these seven plans show promise. However, with the Supreme Court decision on health care reform looming and an upcoming presidential election, what comes next is still uncertain. This highly competitive and adaptable industry is in the midst of transforming from a business-to-business sales paradigm to a much more consumer-driven and retail-based business model. As the health insurance industry changes, staying current on the latest business strategies and financial health of the competition is critically important. Mark Farrah Associates' many products can help simplify your analysis of health insurance business.

## Health Insurer Insights™

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