Healthcare BUSINESS STRATEGY™

Top Health Plans Gain Members

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Medical membership for the leading U.S. health insurance plans increased 0.3% from September 2009 to September 2010; the first year-over-year increases since April 2009. Year-over-year, total membership for the seven leading plans increased from 125.3 million in 3Q09 to 125.7 million for 3Q10. An interesting twist occurred this quarter with leading health plans reporting an increase in fully-insured business and a slight decline in the administrative services only (ASO) segment. Along with aggregate membership gains, top plans continued to see year-over-year profitability improvements three quarters of the way through 2010.

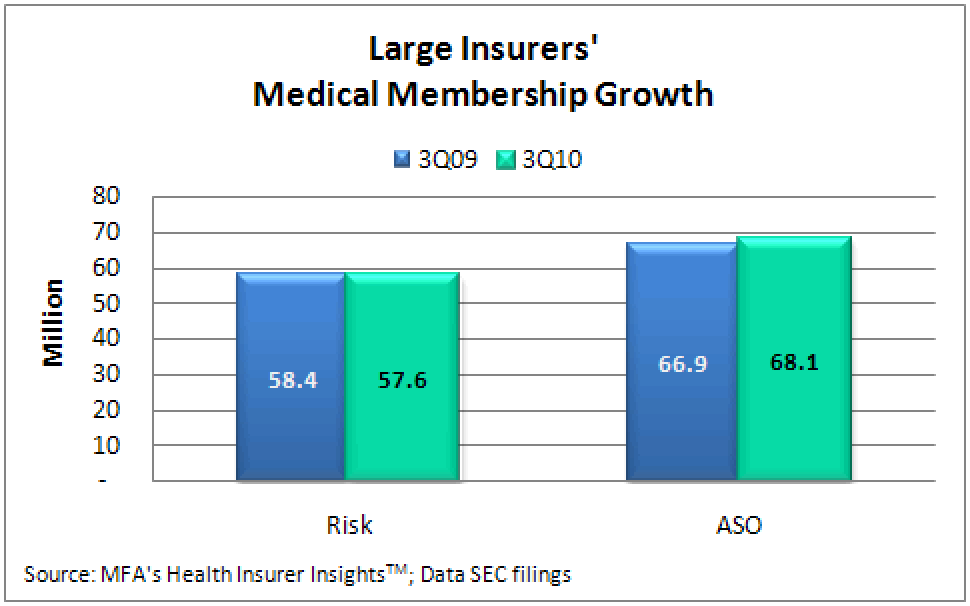
This brief presents key findings from MFA's review of enrollment and financial trends among seven top health insurers: Aetna, CIGNA, Health Care Service Corporation (HCSC), Humana, Kaiser Permanente, UnitedHealth Group and WellPoint. It looks at results from third quarter 2009 to third quarter 2010. Financial and membership data and observations were gleaned from the January 2011 Health Insurer Insights™ series. These seven health plans cover approximately 40% of the total population in the United States and its territories.

Membership Gains

Year-over-year, total membership for the seven leading plans increased by 317,870 or 0.3%, from 125.3 million in 3Q09 to 125.7 million for 3Q10. Commercial business continued to decline for top plans, falling -1.1% from September 2009 to September 2010. Commercial enrollment declines were offset by growth in Medicare and Medicaid business lines, which increased 9.1% and 10.8% respectively.

From September 2009 to September 2010, the administrative services only (ASO) segment gained close to 1.2 million members, ending the third quarter of 2010 with 68.1 million members. Fully-insured (risk) enrollment declined 844,000 members in the same period. Aggregate risk enrollment for the top plans totaled 57.6 million at September 2010.

An interesting shift occurred between second and third quarters of 2010. With top plans reporting an increase of 53,826 fully-insured members between June 2010 and September 2010, compared to a decline of 2,600 ASO members for the same period. This may be a function of the growth in Medicare business, which is primarily fully-insured. A decline in ASO enrollment may be indicative of self-insured plan sponsors re-considering fully-insured options. New legislation, increased regulatory oversight, rising reinsurance rates and higher medical costs over the last two years impacted both funding types. We will need to wait for first quarter 2011 enrollment data to determine if this may be the start of a trend.

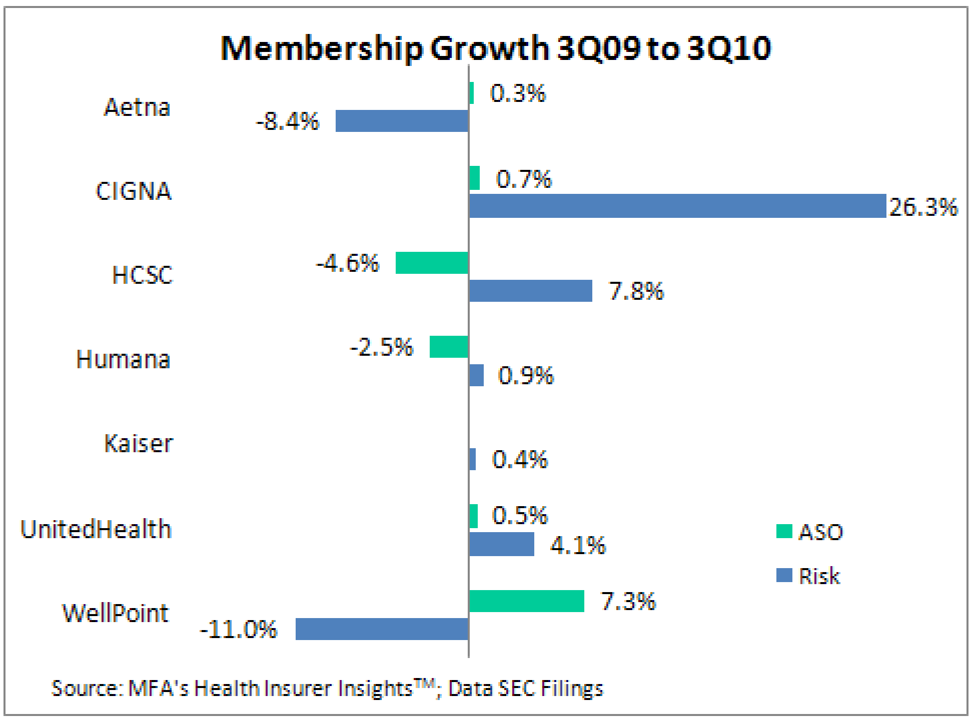

Large Insurers'
Medical Membership Growth
3Q09
3Q10
Million
80
70
60
50
40
30
20
10
-
58.4
57.6
66.9
68.1
Risk
ASO
Source: MFA's Health Insurer Insights™; Data SEC filings

Health Plans' See Improvement

UnitedHealth, one of the largest plans in the United States, reported total enrollment gains year-over-year, adding 765,000 new members. From 3Q09 to 3Q10 UnitedHealth added 440,000 Medicaid members; close to 10% of UnitedHealth's health benefit enrollment is from state-sponsored business. During the same period UnitedHealth gained 380,000 Medicare members.

CIGNA also reported growth year-over-year. It gained 339,000 new members, including 97,000 Medicare Advantage private-fee-for-service members added in the first quarter 2010. Only 11% of CIGNA's enrollment is exclusively from risk-based products, but it saw a 26% gain in this segment between 3Q09 and 3Q10.

Kaiser and HCSC also saw total enrollment gains year-over-year, adding 108,000 and 8,000 members respectively. Aetna, WellPoint and Humana all saw membership declines from September 2009 to September 2010. Aetna's total enrollment declined 499,000 (-2.6%) and WellPoint's total membership fell -1.1% from 33.9 million as of third quarter 2009 to 33.5 million as of third quarter 2010. WellPoint is in the process of consolidating its multiple systems; typically during this process membership growth is strategically minimized. However, as WellPoint's membership declines, its position as the leading health plan in terms of membership is jeopardized. UnitedHealth's total medical enrollment is now only 728,000 members shy of top ranking WellPoint.

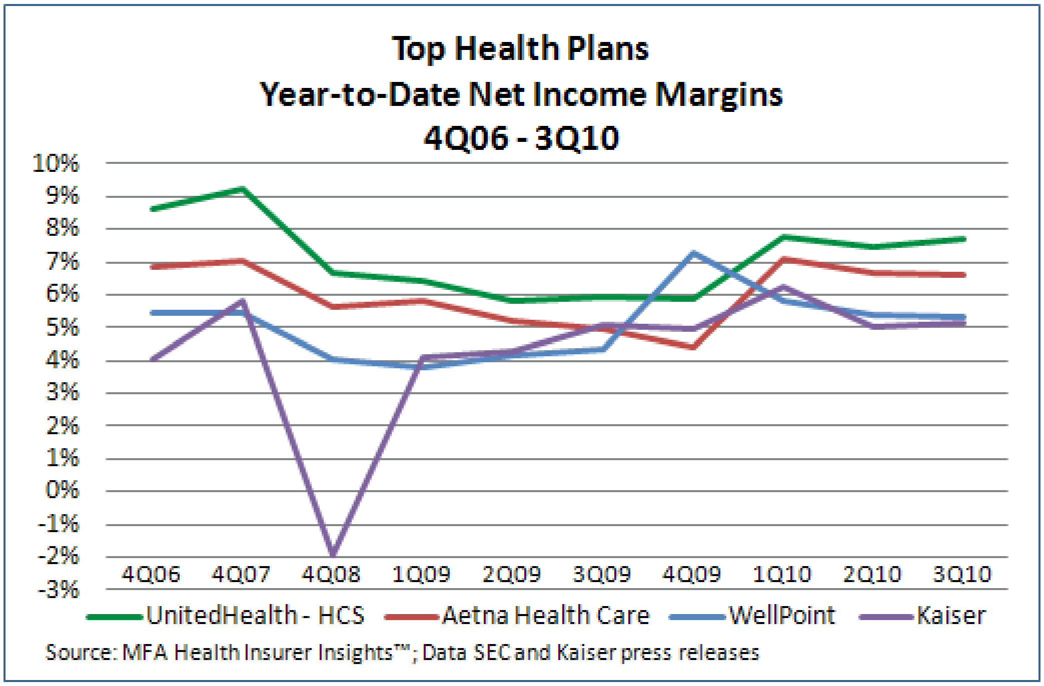


Profitability Improvements

All of the top health plans saw improved profitability when comparing results for the nine months ended September 30, 2010 to the comparable period in 2009. Lower medical cost trends were cited as the reason for improvements and many of the plans reported positive prior period adjustments. Expiration of COBRA benefits, higher deductible and copayment products and a movement toward more limited-network options are all contributing to the drop in health care utilization resulting in lower medical cost trends.

UnitedHealth, Kaiser, Humana, and CIGNA, all saw profit margin improvements between 2Q10 and 3Q10. However, Aetna, HCSC and WellPoint saw modest declines during the same period.

UnitedHealth, Aetna, WellPoint and Kaiser all have used diverse strategies and business models to grow their businesses and meet the health benefit needs of their membership. It is interesting to note that their net income/profit margins* are all converging on a narrow range of 5.0% to 7.7%. UnitedHealth Group's Health Care Service (HCS) business unit reported a 7.7% profit margin for the nine months ended September 30, 2010. Aetna's Health Care sector margin* was 6.6% for the same period. WellPoint's profit margin fell from 5.4% for the first nine months of 2010 to 5.3% for the nine months ended September 30, 2010. Kaiser reported a net income margin of 5.1% through third quarter 2010.



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

Financial performance improvements and enrollment gains have put many of the leading health plans in a better fiscal position than they were a year ago.

It is certainly an exciting time to be in the health insurance industry. With so many socio-economic and technological developments -- from the baby boom generation aging into Medicare, the potential for a double-dip recession, to the social-media explosion -- it is interesting to watch how health plans adapt. Insurers need to change to better serve their members while becoming compliant with tighter insurance regulations and public scrutiny. As the health insurance industry evolves, 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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