



Blue Cross Blue Shield Plans Saw Enrollment Gains in 2012

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by Debra A. Donahue

Blue Cross and/or Blue Shield (BCBS) organizations along with their affiliates enrolled 96 million people as of September 30, 2012, more than 30% of the population in the United States and nearly 46% of those commercially insured. Linked together through the Blue Cross and Blue Shield Association (BCBSA), the Blues are a national federation of 37 local Blue Cross and Blue Shield entities. Most Blues organizations operate individually and in a single local market. However, that may shift as plans come to terms with changes brought about by health care reform. In this report Mark Farrah Associates examines membership changes that occurred at BCBS organizations from September 2011 to September 2012 and looks at financial data as of December 2011.

Blues Affiliations

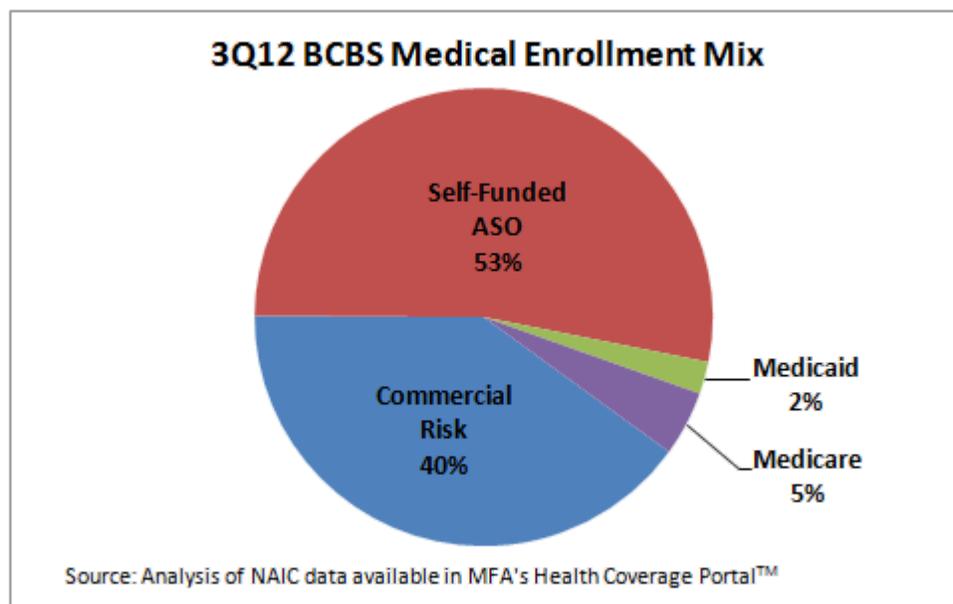
The Blue Cross and Blue Shield (BCBS or Blues) organizations are the nation's oldest and largest family of health benefits companies and possibly the most recognized brands in the health insurance industry. Linked together through the Blue Cross and Blue Shield Association (BCBSA), the Blues are a national federation of 37 local Blue Cross and Blue Shield companies located in all 50 states, the District of Columbia and Puerto Rico. BCBS entities in the United States along with their affiliates enrolled 96 million people as of September 30, 2012, more than 30% of the population. Most Blues organizations operate individually and in a single local market. However, that could shift as plans come to terms with changes brought about by health care reform.

Consolidation among Blues continues as plans position to compete more effectively against publicly-traded rivals such as Aetna, Cigna, Humana and UnitedHealth. Seven Blues organizations conduct business in multiple states. WellPoint, a Blues organization and the second largest health insurance carrier in America offers Blues plans in 14 states throughout the country. In December 2011, Highmark (which operated Blues plans in Pennsylvania and West Virginia) and BCBS of Delaware received approval to affiliate. In 2012, Blue Cross Blue Shield of Montana and Health Care Service Corporation (which operates Blues plans in Illinois, Texas, Oklahoma and New Mexico) announced plans to affiliate. Montana regulators have scheduled a public hearing in February 2013 on the proposed merger.

Currently, forty-five states have only one licensed Blues plan, while Pennsylvania and New York are homes to the most individual Blues plans per state. Six state-wide Blues plans have less than 500,000 members. These smaller plans may be targeted by larger plans interested in expanding. Local Blues plans are operated by thirty-six companies in the United States. There are also Blues plans operating in Panama, Uruguay and Puerto Rico; however, enrollment located outside of the 50 states and the District of Columbia is not included in this paper. Many of the licensed Blues plans either have non-Blues subsidiaries or they themselves are affiliates of a much larger organization. When Blues or BCBS entities are mentioned in this paper data includes the licensed Blues plan combined with affiliates and subsidiaries that also offer medical insurance. Non-Blues or Other companies are used interchangeably to refer to all other health insurance organizations not affiliated with a licensed Blues plan.

Blues Membership Trends

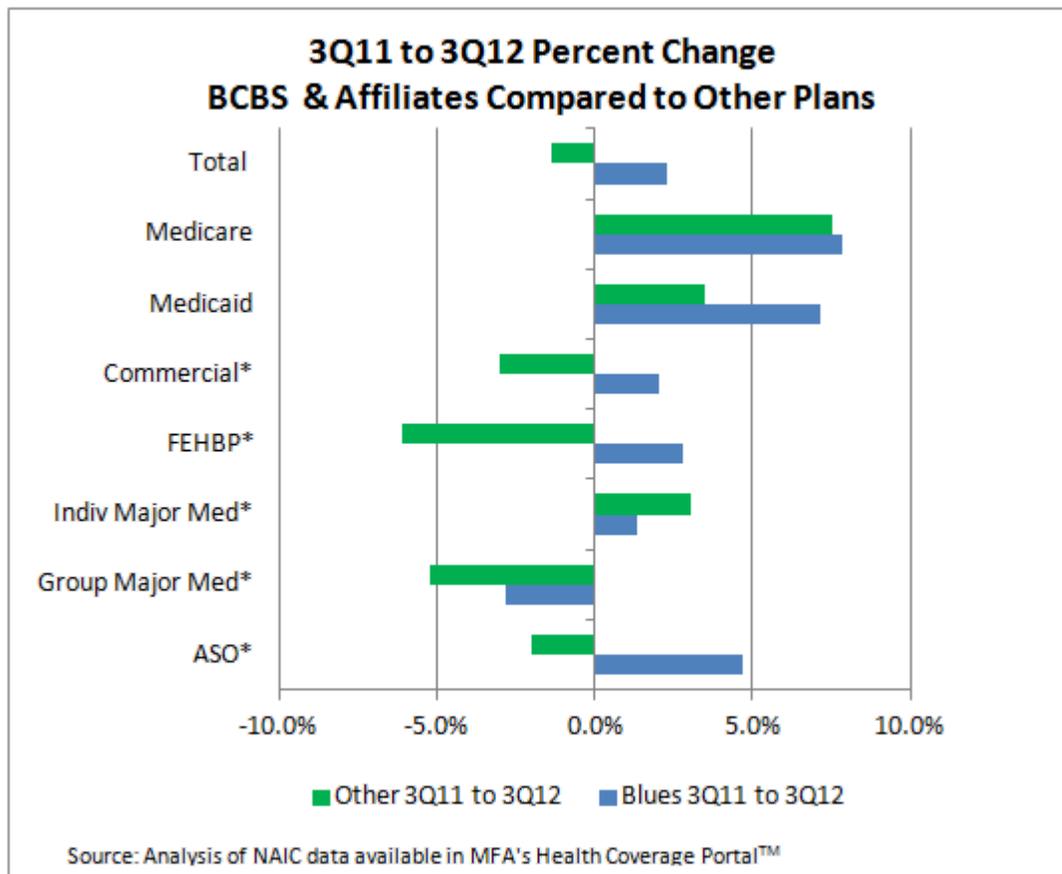
As of September 2012, Blues entities provided insurance or administered benefits for 96 million people through major medical plans, up 2.3% from the same period one year ago. Blues companies continued to do better than non-Blues plans during the struggling economy. Non-Blues entities saw total health enrollment fall from 141.6 million as of September 2011 to 140.1 million as of September 2012, a -1.1% decline. More than half of the Blues aggregate membership is through self-funded or administrative services only (ASO) products or arrangements.



Approximately 93% of BCBS enrollment is from Commercial sources. BCBS and affiliated organizations, which cover nearly 46% of the commercially insured population in the U.S., did better than their counterparts in terms of commercial (individual major medical, group major medical, FEHBP and ASO business combined) enrollment. From third quarter 2011 to third quarter 2012, Non-Blues entities saw a -3% decline in total commercial enrollment and BCBS entities saw a 2% increase.

In many states BCBS organizations have historically been the only carrier to sell non-group products. Often, in exchange for special regulatory considerations, they are the carrier of last resort. Being the carrier of last resort means the carrier must issue insurance to all residents regardless of their health conditions. As more insurance entities add products to serve the Individual segment (also known as non-group or direct purchase business), BCBS entities are seeing market share erosion in this line of business. From 3Q11 to 3Q12 BCBS entities gained more than 89,000 (1.4%) Individual Major Medical members, while Non-Blues affiliated carriers gained nearly 116,000 (3.1%) people.

Another important single source of enrollment for Blues plans is the Blue Cross and Blue Shield Government-wide Service Benefit Plan. BCBS has been part of the Federal Employees Health Benefits Program (FEHBP) since its inception in 1960. The Blue Cross and Blue Shield Government-wide Service Benefit Plan and FEHBP products sold by Blues plan affiliates covered 5.6 million federal employees, retirees and their families (about 66% of those enrolled in the FEHBP program) out of the 8.5 million people (contract holders as well as their dependents) as of September 2012. BCBSA works with the Office of Personnel Management to administer the Service Benefit Plan on behalf of the 37 independent Blue Cross and Blue Shield companies. BCBS entities saw market share gains in this category. Non-Blues affiliated organizations lost more than 185,000 FEHBP members from Sept 2011 to Sept 2012. BCBS entities gained slightly more than 153,000 net new FEHBP members during the same time frame.



Group Major Medical business declined for both Blues and Non-Blues entities at -4.2% from September 2011 to September 2012. Self-funded or ASO business grew at roughly 0.9% year-over-year in aggregate for all carriers.

Many BCBS entities were slow to enter the managed Medicare (Medicare Advantage) segment but as the number of Medicare recipients grows, more Blues entities are entering the market. Between 3Q11 and 3Q12 managed Medicare enrollment increased 7.9% for Blues entities, approximately 160,000 new members) to nearly 2.2 million. Non-Blues entities increased managed Medicare enrollment by 7.5% (nearly 578,000 new members) during the same time frame.

Managed Medicaid business appears to be another business line that Non-Blues carriers are aggressively pursuing much to the detriment of Blues entities. From September 2011 to September 2012, Non-Blues entities added nearly 811,000 (4.1%) managed Medicaid members, while Blues entities gained only 293,000 members (7.2%) from this business line.

Most BCBS organizations offer a wide portfolio of products and services including stand-alone dental products, and supplemental products such as Medicare Part D Prescription Drug Plans, Medigap, limited benefits, specified or named disease coverage, and short-term options. They also offer coverage to associations and trusts, students and TriCare that may or may not be captured in the above analysis. Enrollment in these products is reported separately in annual NAIC (National Association of Insurance Commissioners) filings as presented in MFA's Health Coverage Portal. Blues organizations in Alabama, Florida, South Carolina and Arkansas, along with Highmark, WellPoint and Noridian, process almost all of the traditional Medicare claims in the country. Enrollment in traditional (fee-for-service) Medicare is excluded from NAIC reporting and not included in the above analysis. Without a doubt, the magnitude and influence the Blues federation has over the entire U.S. Healthcare system is highly significant.

Financials Conforming to Health Reform

Blues entities reported receiving more than \$179 billion in health insurance premiums and incurred \$155 billion in medical claims costs in 2011 according to data released by the NAIC. While individual plan medical loss ratios (MLRs) varied significantly, Blues entities combined reported a preliminary MLR, using the Patient Protection and Affordable Care Act of 2010 (ACA) MLR formula, of 89.9% for large group business, 83.5% for small group and 83.9% for the individual, non-group segment.

2011 BCBS & Affiliated Entities Select Financial Information			
	Individual	Small Group	Large Group
Adjusted Premiums Earned	\$16,967,254,893	\$36,349,244,969	\$85,327,584,919
Expenses:			
Ded. Fraud & Abuse Detection Recovery Exp	\$3,157,637	\$6,108,417	\$13,527,363
Total Incurred Claims	\$14,084,074,848	\$30,099,660,508	\$76,143,597,532
Defined Exp Incurred For Improving Health	\$148,027,430	\$257,448,385	\$592,563,301
Subtotal Expenses	\$14,235,259,915	\$30,363,217,310	\$76,749,688,196
Preliminary Medical Loss Ratio: MLR	83.9%	83.5%	89.9%
Source: MFA aggregated information on Blue Cross and/or Blue Shield plans and their affiliates nationwide from the Supplemental Health Care Exhibit included in the Annual Statutory Filings carriers submit to the NAIC.			

In its 84 year history - the Blues consortium has survived numerous challenges and has emerged stronger each time. Currently a Blues entity is the top plan in 44 states and they are the second largest plan in the remainder of the states. However, they are facing some stiff competition. Access to a nationwide network of providers, favorable brand recognition and advanced technology resources - strengths enjoyed by all Blues plans as part of the BCBSA - are being matched by UnitedHealth, CIGNA and Aetna. Furthermore, other national companies such as Humana, and many local plans such as Harvard Pilgrim Health Care, continue to remain noteworthy competitors to the independent Blues. The Blues are strong but not invincible. It will be interesting to watch how the Blues fare as the industry transforms over the next few years.

About the Data and Health Coverage Portal™

Health plans file statutory data on a quarterly and annual basis with state insurance regulators. Financial statements are prepared using statutory accounting rules as defined by the National Association of Insurance Commissioners (NAIC) or the California Department of Managed Health Care (CADMHC). For companies seeking comprehensive market data, MFA offers the [Health Coverage Portal™](/products/health-coverage-portal.aspx) (</products/health-coverage-portal.aspx>), a unique online application that integrates NAIC and CADMHC statutory filings and MFA self-insured datasets. Annual 2012 data will be available in March 2013. The Health Coverage Portal™ provides easy access to financials, PMPM comparisons, ratios, membership and market share. Enrollment in Blues entities is reported through 178 individual NAIC company codes aggregated for this analysis. Performance of specialty companies is also available but excluded from the above analysis. Call MFA at 207.985.8484 to schedule an online demo of the Health Coverage Portal™.

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