Healthcare BUSINESS STRATEGY™

Membership Continues to Fall for Top Health Plans

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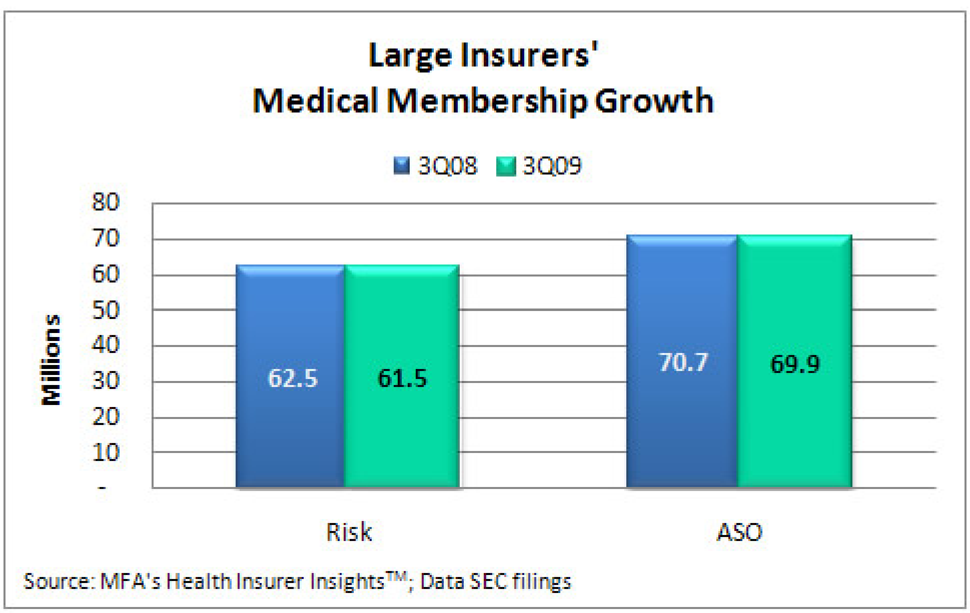
by Debra A. Donahue

The nation's leading health insurers continued to see membership declines through the third quarter of 2009. Between September 2008 and September 2009 top plans saw an aggregate decline of 1.7 million members. Losses continue to be experienced in both the fully-insured and Administrative Services Only (ASO) segments. The difficult economy continues to take a toll in terms of rising medical expenses and declining membership for most plans. However, some of the top plans have experienced minor seasonal improvements in profitability.

This brief presents key findings from MFA's review of enrollment and financial trends among eight top health insurers: Aetna, CIGNA, Health Care Service Corporation (HCSC), Health Net, Humana, Kaiser Permanente, UnitedHealth Group and WellPoint. It looks at results from third quarter 2009. Financial and membership data and observations were gleaned from the January 2010 Health Insurer Insights™ series. These eight health plans cover nearly 60% of the total insured population in the nation, up 0.1% from third quarter 2008.

Membership Declines

The health insurance industry continued to see deterioration in membership through September 30, 2009 with most of the leading health plans experiencing membership losses. Year-over-year, total membership for the eight leading plans decreased by over 1.7 million members, or -1.3%, from 133.2 million in 3Q08 to 131.5 million for 3Q09.



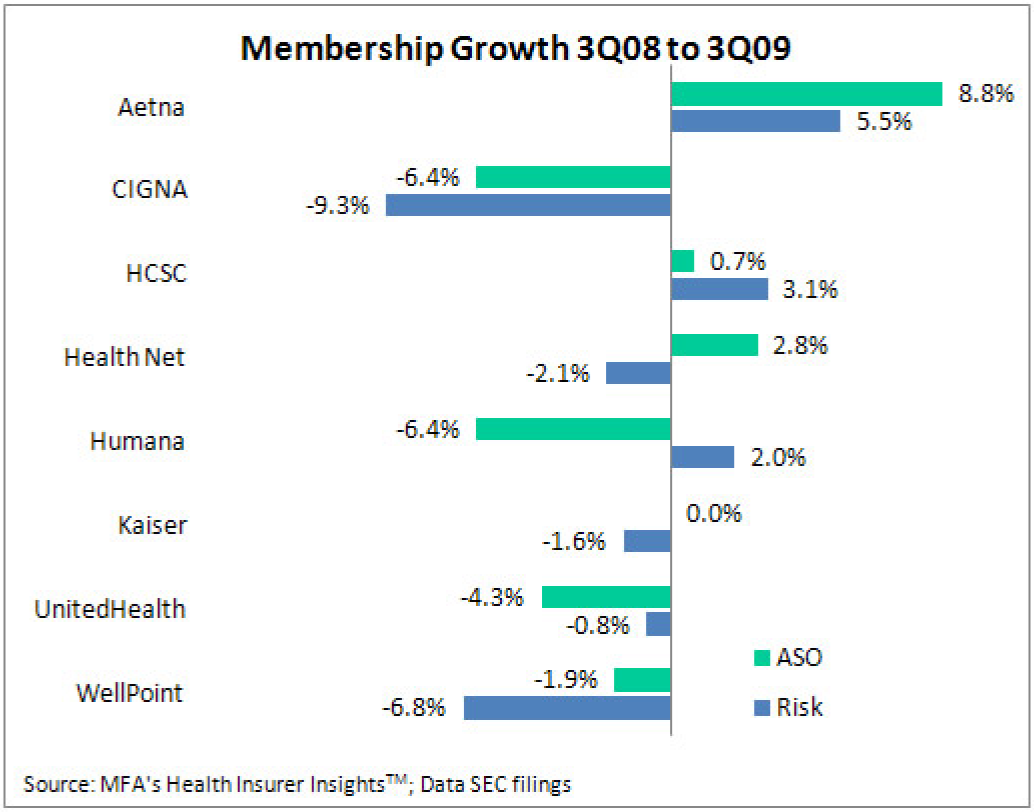
Almost all of the membership loss year-over-year has occurred during 2009. ASO enrollment decreased -1.1% and risk enrollment declined -1.6% for these plans between 3Q08 and 3Q09.

Health Plans' Mixed Results

WellPoint and UnitedHealth, the two largest plans in the United States, saw total enrollment declines of 1.482 million and 820,000 respectively, between 3Q08 and 3Q09. The economy and maintaining strict pricing and underwriting discipline were cited as reasons for the declines. Aetna, the third largest health insurance organization in the country, added 1.359 million total members during the same period, however all of the gain occurred during the first quarter. Aetna saw a -25,000 member loss between 2Q09 and 3Q09.

The eight leading companies reported a combined loss of 860,000 members, between 2Q09 and 3Q09. Between second and third quarter 2009, ASO enrollment declined -0.4% and risk enrollment declined -0.9%.

Health Care Services Corporation with a net gain of 109,675 members between second and third quarter 2009 saw the largest enrollment increase among top plans. HCSC reported a gain of 52,675 risk-based members and saw an estimated gain of 57,000 ASO members for the quarter. Humana also saw a gain for the quarter, with an increase of 11,600 fully insured members but experienced a decline of 4,000 ASO covered lives. Other than HCSC, Health Net was the only plan to report a gain in ASO enrollment for the quarter, but Health Net's gain of 2,000 ASO enrollees was offset by a decline of 31,000 risk members. The other five companies lost membership in both funding types for the quarter.

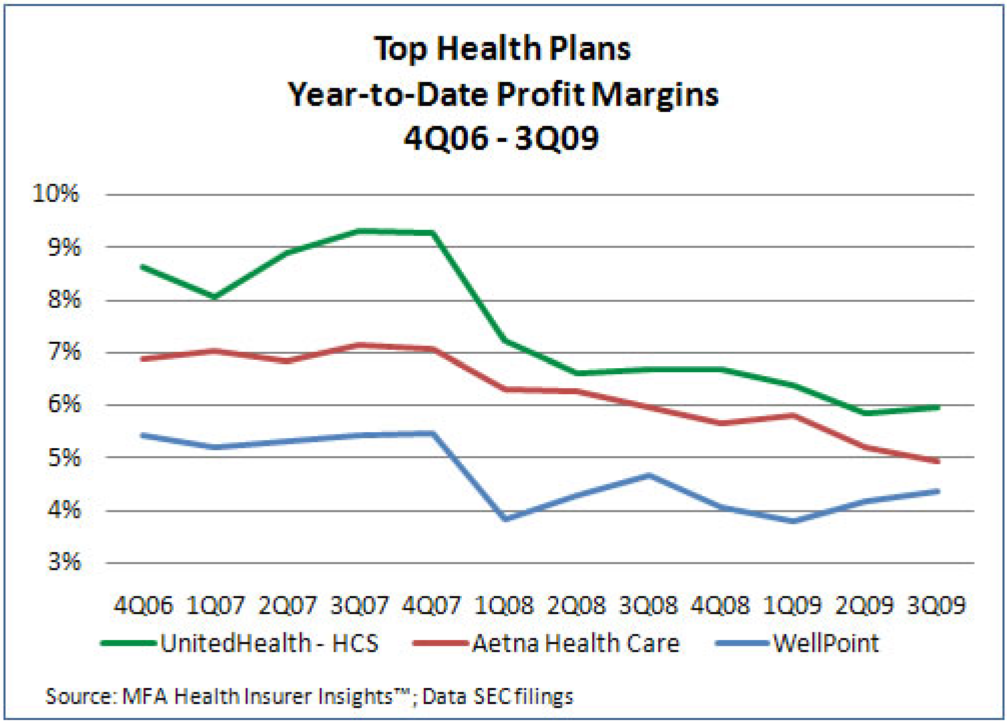


Most of the leading health plans are projecting year-end and 2010 membership declines. Aetna, for example, projected in its third quarter earnings call a "300,000 to 350,000 net decrease in total national account membership during first quarter 2010." UnitedHealth, in its 3Q09 earnings call, mentions the company projects its "commercial membership decline to slow meaningfully" for 2010 as compared to 2009. UnitedHealth's 2010 membership is expected to decrease, just at a slower rate than this year.

Some Signs of Profitability Improvement

Top health plans achieved mixed results in terms of profitability year-over-year and between year-end 2008 and third quarter 2009 but most saw modest gains between 2Q09 and 3Q09. UnitedHealth, Aetna and Health Net experienced declines both year-over-year and between year-end 2008 and third quarter. Cigna and Humana experienced modest increases for both periods with other plans showing mixed results. Historically, most plans have shown a modest increase in profitability between second and third quarters, most likely due to seasonal factors, and 2009 is no exception.

UnitedHealth Group's Health Care Service (HCS) business unit saw a slight improvement during third quarter 2009. It reported a 6.0% profit margin* year-to-date for the period ended September 30, 2009 compared to 5.9% at June 30, 2009; this is still lower than the 6.6% UnitedHealth reported for September 30, 2008. Aetna's Health Care sector's net income of 4.9% through September 30, 2009 was also down compared to the 6.0% net income reported for the nine months ended September 30, 2008 and 5.2% reported as of June 30, 2009. WellPoint's 4.4% profit margin through third quarter 2009 was slightly below its 4.7% third quarter 2008 results but better than the 4.1% profit margin it showed for year-end 2008 and 4.2% for second quarter 2009.



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

Cigna, Kaiser, and Humana all experienced improvements in third quarter year-to-date net income compared with year-end 2008 and year-over-year results. HCSC and Health Net saw operating margin declines in both year-over-year and year-end 2008 results.

As the recession continues and health plans await news from Washington D.C., top health plans are concentrating on medical management initiatives to lower health care costs. These plans are also focused on reducing administrative overhead to offset declining enrollment numbers while realigning resources to manage enrollment mix shifts, from commercial membership to Medicare and/or Medicaid. Many are developing new strategic plans to follow under various scenarios. Some, like CIGNA, are looking at international health care markets; others are positioned to expand in various segments while exiting others. It is an exciting and challenging time for the industry, where keeping up with changes is essential.

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