Healthcare BUSINESS STRATEGY™

Mixed Results for Leading Health Plans in First Quarter 2013

8/7/2013
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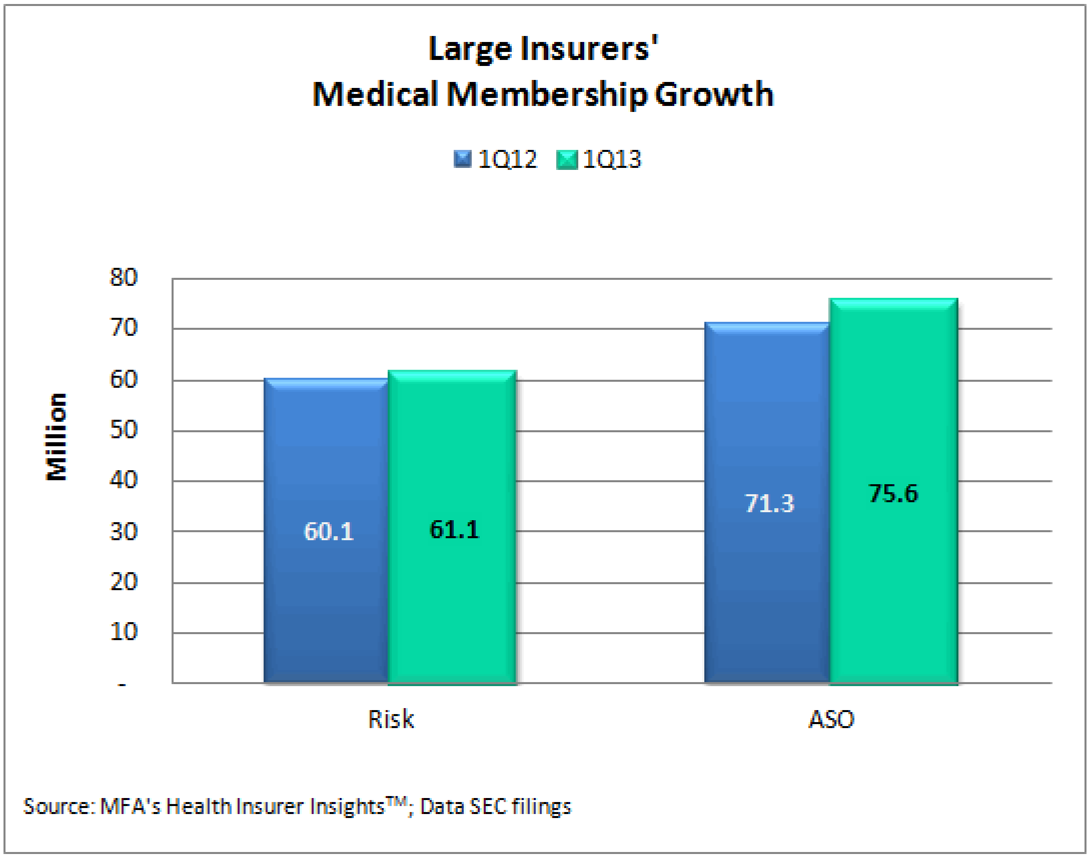
Most of the nation's leading health plans saw enrollment gains in the first quarter of 2013 but five of the seven major health insurance carriers reported a slight downturn in profitability year-over-year. Between December 2012 and March 2013 top plans saw an aggregate increase of nearly 1.1 million members, however this is down from the nearly 1.4 million gained from December 2011 to March 2012. The primary 2013 open enrollment season resulted in gains for both aggregated fully-insured (risk) business and the administrative services only (ASO) segment. Gains in managed Medicare and Medicaid enrollment are driving risk enrollment up. As the overall customer mix shifts from Commercial towards Government programs, gains in lower margin segments such as Medicare and Medicaid may be impacting profitability.

This brief presents key findings from Mark Farrah Associates' (MFA) 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 primarily looks at results from first quarter 2012 (ended March 31, 2012) to first quarter 2013 (ended March 31, 2013). Financial and membership data and observations were gleaned from the July 2013 Health Insurer Insights™ series. These seven health plans cover approximately 43% of the total population in the nation.

Overall Membership Gains

Year-over-year, total membership for the seven leading plans increased by nearly 5.4 million (4.1%), from 131.3 million as of March 2012 to 136.7 million as of March 2013.

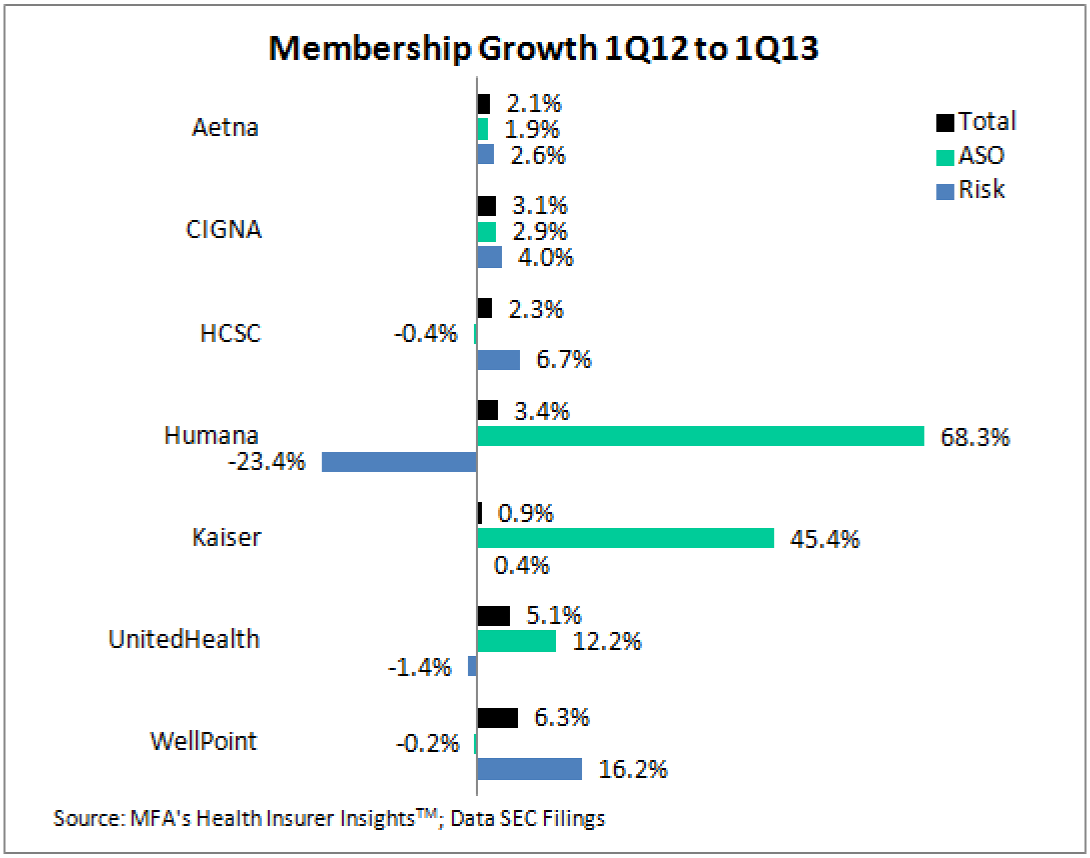


From March 2012 to March 2013, the administrative services only (ASO, also known as self-insured) segment gained nearly 4.4 million covered lives, ending 1Q13 with approximately 75.6 million members. Fully-insured (risk) enrollment increased by 1 million members in the same period. Aggregate risk enrollment for the top plans totaled 61.1 million at March 2013. Gains in managed Medicare and Medicaid enrollment are driving risk enrollment up. Commercial risk enrollment decreased by nearly 1.5 million members (-3.7%) from March 2012 to March 2013. The decrease in Commercial risk enrollment from 1Q12 to 1Q13 was double the 770,000 (-1.8%) enrollee decline for the equivalent period one year ago.

Six of the nation's seven leading health plans saw enrollment gains in the primary open enrollment period from December 2012 to March 2013. During that period, top plans saw an aggregate increase of nearly 1.1 million (0.8%) members. These same seven companies gained 1.4 million (1.1%) between December 2011 and March 2012. WellPoint, with a decline of 321,000 members, was the only one of the major health plans to see enrollment decline during the 2013 open enrollment period.

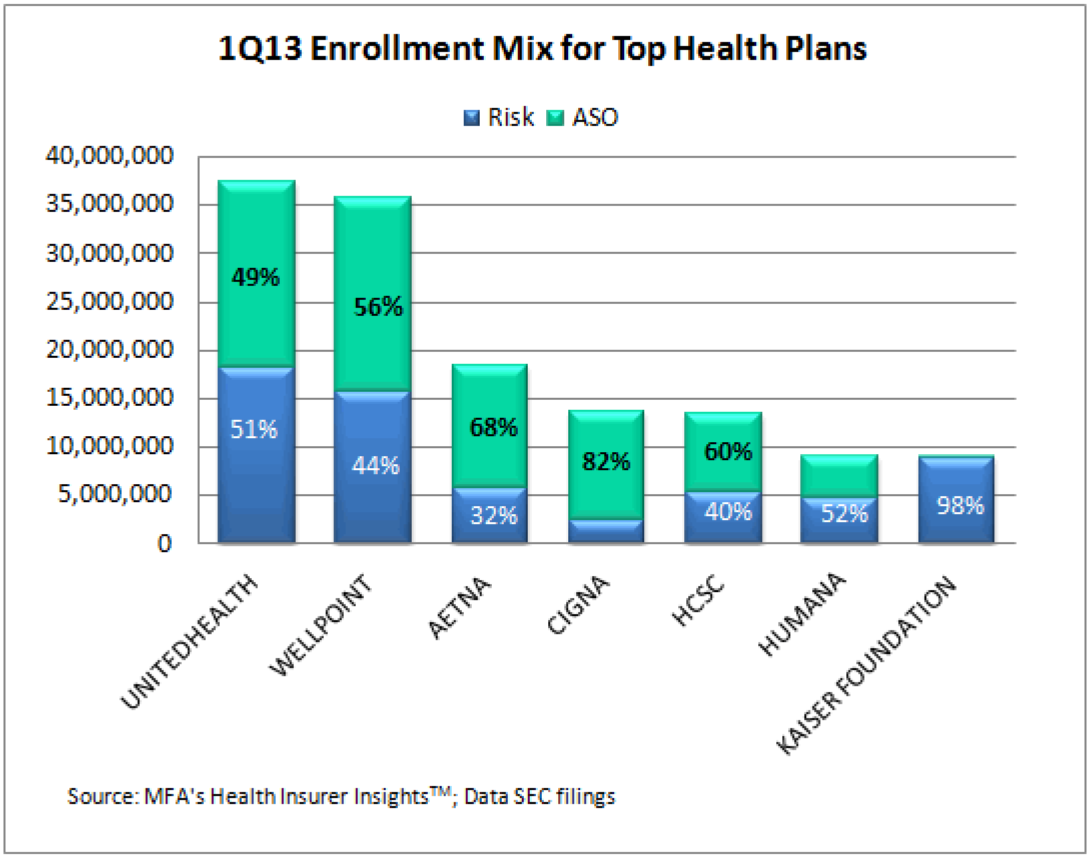
Health Plan Observations

All of the leading health plans saw total enrollment growth year-over-year. WellPoint's enrollment increased from 33.7 million as of March 2012 to 35.8 million as of March 2013, primarily due to its acquisition of Amerigroup in December 2012.



Between March 2012 and March 2013, Humana and UnitedHealthcare experienced declines in risk enrollment. In April 2012, Humana began delivering a new TRICARE South Region ASO contract resulting in a significant shift of members from Risk to ASO. UnitedHealthcare reported converting a large commercial client, with over 1 million members, from Risk to ASO in first quarter 2013. WellPoint and HCSC both reported slight decreases in ASO covered lives year-over-year.

UnitedHealthcare gained 1.8 million total enrollees between 1Q12 and 1Q13. UnitedHealth increased ASO enrollment by 12.2% and risk enrollment declined by -1.4% year-over-year. Unlike most of its competitors, UnitedHealthcare, the leading health plan in the nation based on enrollment as of 1Q13, maintains a relatively balanced mix of ASO and risk enrollment. This may change a bit next quarter when UnitedHealthcare begins reporting enrollment for its TRICARE West Region contract.

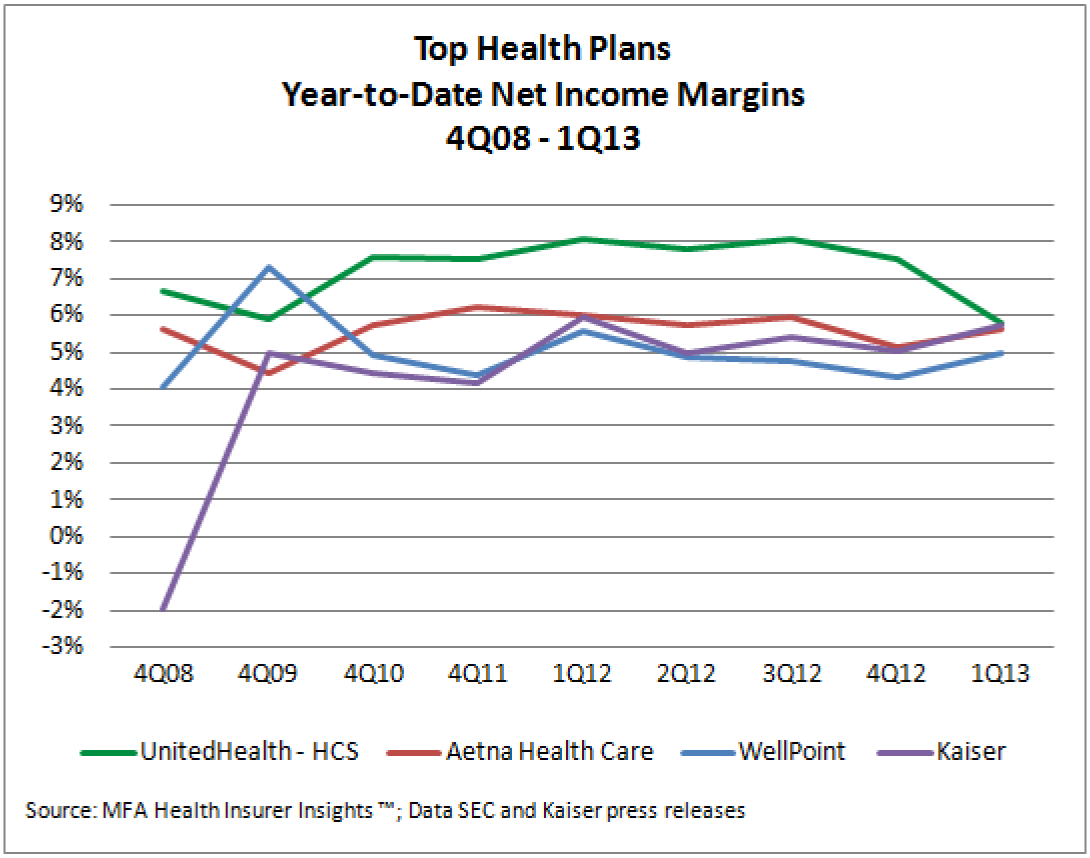


It is interesting to note that Cigna's total enrollment, which includes international ASO business but not international risk membership, inched ahead of HCSC in first quarter 2013. Humana, with its large TRICARE and Medicare Advantage membership base, and Kaiser Foundation Health Plan, with primarily all risk-based enrollment, both reported nearly 9.1 million enrollees as of March 2013.

The administrative services versus risk enrollment mix can influence health plan profitability. Administrative services' revenues generally involve annual rates for processing claims and fees for rental of a provider network that are relatively stable throughout the year. Both ASO and risk-based health insurance businesses have relatively low profit margins, but one would expect to see more volatility in companies with higher percentages of risk enrollment, due to the uncertainty of medical expenses. Seasonality would also be more of an issue with companies covering a higher percentage of risk enrollment. Health plans that have a higher percentage of ASO enrollment may see larger changes from year-end to current period and year-over-year but more stability from quarter-to-quarter.

Profitability Impacts

The majority of leading health plans saw modest downturns in year-over-year profitability for 1Q13, when compared to 1Q12. Profit margins* decreased from a combined average of 5.79% for first quarter 2012 to 5.62% for first quarter 2013. UnitedHealthcare reported the largest percent decline year-over-year among the seven leading plans. UnitedHealthcare generated $28.3 billion in revenue and reported earnings from operations of $1.6 billion (5.8%) through March 31, 2013. This compares to revenue of $25.5 billion and reported earnings from operations of $2.1 billion (8.1%) through March 2012. First quarter 2013 profit margins for the top plans ranged from Humana's low of 4.51% to HCSC's of 5.97%. Humana and Cigna were the only two plans out of the seven leading companies to see profit margins* increase between March 2012 and March 2013.



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

The shift from Commercial to Government (Medicare, Medicaid and State-subsidized marketplace or exchange) business also impacts profitability. Government business tends to have higher premiums due to the serious health issues for many enrollees; however the profitability margins tend to be much smaller. Addressing the health needs of previously uninsured or underinsured non-group populations also has atypical start-up and educational costs. These populations can drive up health plan administrative costs and medical expenses, once enrollees begin receiving coverage, leading to lower profitability as health plans expand into these new segments. Margins may worsen as the health insurance exchanges ramp up over the coming year and health plans try to maintain Medicare Advantage enrollment despite cuts to Medicare premium rates for 2013 and 2014. On the other hand, it may be hard to tell what the true impacts of membership mix shifts will be as most of the leading plans are mitigating or sharing the insurance risk through provider contracting and accountable care initiatives.

Membership Mix Shifts

Commercial, Senior and Medicaid segments all saw enrollment growth year-over-year, with four of the top companies citing enrollment gains across all three major business lines. WellPoint was the only plan to report declines in the Commercial and Senior sectors year-over-year.

Large Insurers' Medical Membership Growth			
Segment	**1Q12**	**1Q13**	**Change**
Senior[1]	11,882,194	13,084,208	1,202,014
Medicaid[2]	7,657,733	10,615,794	2,958,061
Commercial[3]	111,792,036	113,055,294	1,263,258
Total	131,331,963	136,755,296	5,423,333

(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

Aggregate total Commercial enrollment for the leading plans increased by 1.1% from 1Q12 to 1Q13, all commercial growth came from the ASO segment. Senior (also referred to as Medicare) and Medicaid enrollment increased 10.1% and 38.6%, respectively during the same period. WellPoint's acquisition of Amerigroup drove most of the growth in Medicaid. Aetna's acquisition of Coventry Health Care, which closed in May 2013, is not reflected in the enrollment numbers for first quarter 2013.

The top plans mentioned in this report insure or administer coverage for approximately 43% of people in the United States and its territories. While the majority of enrollment is currently under ASO arrangements, this is shifting as more of the leading plans explore opportunities in the Medicaid, Medicare and non-group markets. Five of the seven top plans saw gains in Medicaid; Aetna and Kaiser reported small declines in Medicaid enrollment from March 2012 to March 2013. Most of the top plans have expressed interest and some will be participating in The Centers for Medicare & Medicaid Services (CMS) dual eligible integration pilot projects in the coming year. Four of the seven plans, HCSC, Humana, Kaiser and WellPoint also expect to play a large role in the state-based and federal health insurance marketplaces or exchanges in 2014. Aetna, Cigna and UnitedHealth have all taken a more watchful or selective approach to where and when they are likely to participate in the exchanges.

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. The role of government in health insurance business and health care providers' exposure to risk sharing are two important factors that will shape the future of this industry. 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.

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