Healthcare BUSINESS STRATEGY™

Senior and Medicaid Markets Driving Health Enrollment Gains

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For the first half of 2010 top health plans saw a combined net increase of over 363,000 members from December 2009. While aggregated fully-insured business continued to experience losses, the administrative services only (ASO) segment gained over 1.4 million members during the period from December 2009 to June 2010. Losses in the commercial sector continue; however, gains in the Senior and Medicaid segments are enough to offset the difference. All of the leading health plans have seen year-over-year profitability improvement.

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 second quarter 2009 to second quarter 2010. Financial and membership data and observations were gleaned from the October 2010 Health Insurer Insights™ series. These seven health plans cover approximately 40% of the total population in the United States and its territories.

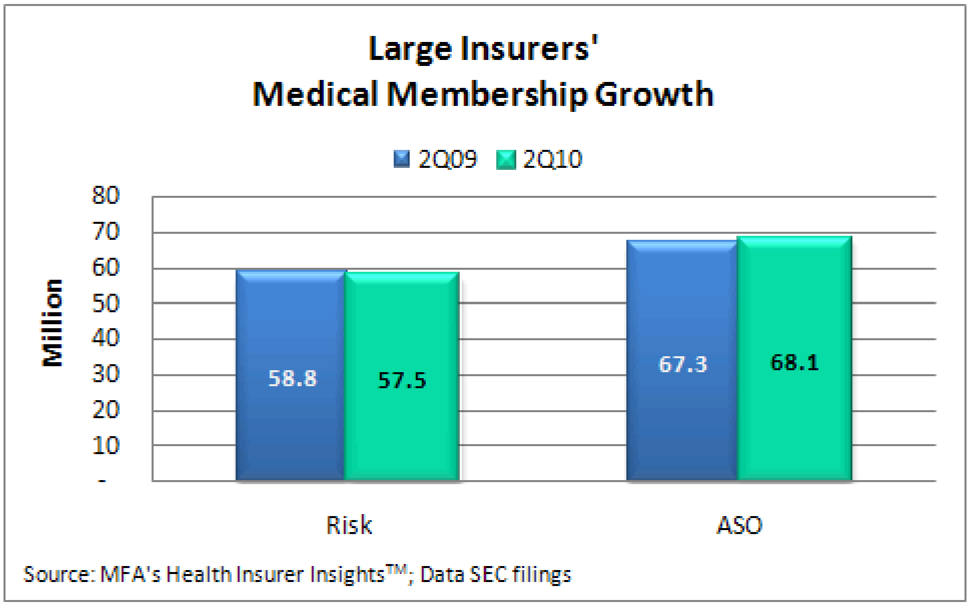
Membership Changes

The top seven U.S. health plans, based on medical membership, reported enrollment totaling 125.6 million as of June 30, 2010, up 363,229 people from 125.2 million at year end 2009. While many companies cited improvements in some sectors of commercial business, overall losses in this segment continued to be offset by gains in the Senior and Medicaid segments.

Large Insurers' Medical Membership Growth			
Segment	4Q09	2Q10	Change
Senior[1]	9,097,464	9,821,733	724,269
Medicaid[2]	6,411,948	6,816,707	404,759
Commercial[3]	109,736,087	108,970,288	(765,799)
Total	125,245,499	125,608,728	363,229

(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 Analysis of CMS Monthly MA Enrollment Data

Most of the commercial losses are occurring in fully-insured business (risk enrollment) which declined 1.0 million (-1.8%) from 58.6 million as of December 2009 to 57.5 million for June 2010. In comparison, year-over-year risk enrollment declined nearly 1.3 million or -1.8%, with membership falling from 58.8 million in June 2009 to 57.5 million as of June 2010. Most of the recent decline in risk enrollment appears to be fully insured business converting to ASO since passage of the health reform legislation.



Year-over-year, the administrative services only (ASO) segment gained close to 790,000 members, ending the second quarter of 2010 with 68.1 million members. On a brighter note, the ASO sector saw growth of 1.4 million from December 2009 to June 2010, offsetting losses from the latter half of 2009.

Year-over-year, total membership for the eight leading plans decreased by 459,292 or -0.4%, from 126.1 million in 2Q09 to 125.6 million for 2Q10.

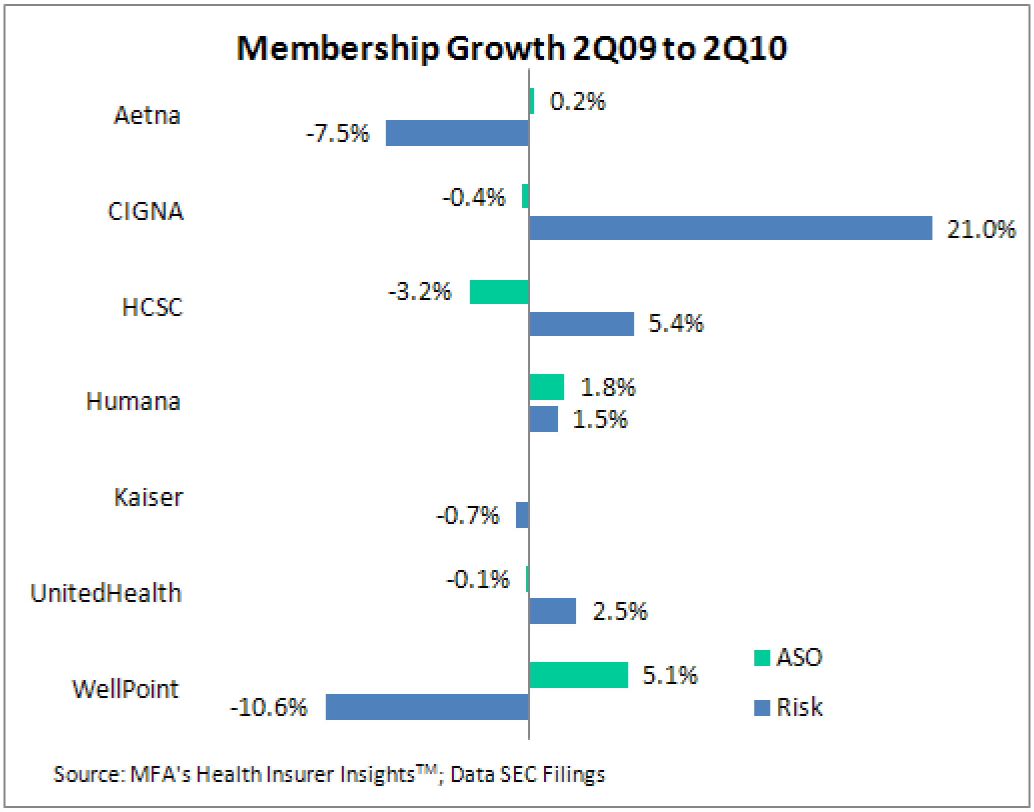
Health Plans See Improvement

UnitedHealth, one of the largest plans in the United States, reported total enrollment gains year-over-year, from 1Q10 to 2Q10, and from December 2009 to June 2010, when it picked up 545,000 new enrollees. Much of UnitedHealth's gains can be attributed to enrollment transfers from Health Net's northeast business and some organic growth. From 2Q09 to 2Q10 UnitedHealth added 435,000 Medicaid members; close to 10% of UnitedHealth's health benefit enrollment is from state-sponsored business.

CIGNA also reported growth year-over-year, from 1Q10 to 2Q10, and from December 2009 to June 2010. From year-end 2009 to June 2010, CIGNA gained 325,000 new member, including 98,000 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 21% gain in this segment between 2Q09 and 2Q10.

HCSC, Humana and Kaiser saw total enrollment gains year-over-year but all three experienced membership declines between 1Q10 and 2Q10. Aetna and WellPoint both saw membership declines year-over-year, between first and second quarter 2010 and from December 2009 to June 2010. In fact, WellPoint's total membership fell -2.1% from 34.2 million as of June 2009 to 33.5 million as of June 2010.

Combined, the eight leading companies reported a loss of 459,292 members, between 2Q09 and 2Q10. Aggregated ASO enrollment grew 1.2% and risk enrollment declined -2.1%, year-to-date for these organizations.

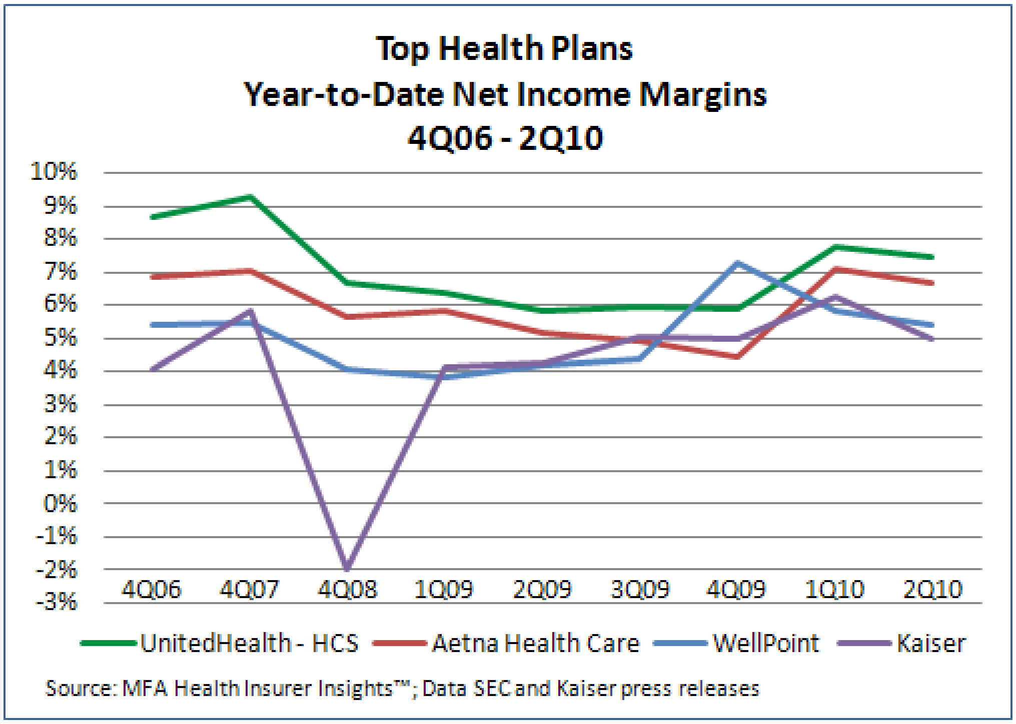


Profitability Improvements

All of the top health plans saw improved profitability when comparing results for the first six months of 2009 to the first six months of 2010. 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 utilization of medical coverage underlying lower medical cost trends.

Humana, CIGNA and HCSC, all saw profit margin improvements between 1Q10 and 2Q10. However, UnitedHealth, Aetna, WellPoint saw modest declines during the same period. Kaiser Foundation Hospitals, Kaiser Foundation Health Plan, Inc., and their respective subsidiaries (Kaiser) combined reported, for the six months ending June 30, 2010, net income of approximately $1.1 billion on revenues of $22.0 billion, yielding a net income margin* of 5.0%. This was down from a net income margin of 6.3%, based on the net income of $706 million on revenues of $11.0 billion, the company reported for the three months ending March 31, 2010. Net income margin for a not-for-profit company roughly equates to a profit margin for a private or publicly traded company.

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 7.5%. UnitedHealth Group's Health Care Service (HCS) business unit reported a 7.5% profit margin for the six months ended June 30, 2010. Aetna's Health Care sector's margin* was 6.7% for the same period. WellPoint's profit margin fell from a high point of 7.3% at year-end 2009 to 5.4% for the first half of 2010. WellPoint's year-end 2009 profit margin benefited from one-time gains including the sale of its pharmacy benefit management business. Kaiser's results have fluctuated significantly since 4Q06.



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

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

The industry is entering a new era. Health plans are adapting to better serve their members while becoming compliant with new insurance regulations. Leading plans are building creative alliances to reach more people with individual (non-group) products. For example, UnitedHealth recently partnered with the National Restaurant Association. Many plans are enhancing wellness initiatives; Humana acquired a personal coaching services company. Payers throughout the industry are seeking ways to reduce costs and enrich relationships with health care providers. Many have established accountable care organizations and/or patient-centered medical home pilots. Payers are also launching partnerships to develop limited-network product options. Technological enhancements, such as Kaiser's electronic medical records system and UnitedHealth's telemedicine network, are strengthening provider relations. Executive management changes are in the works for many plans as well. As the health insurance industry transforms, 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 the health insurance business.

Health Insurer Insights™

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