



Blue Cross Blue Shield Entities Confronting Strong Competition

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by Debra A. Donahue

Blue Cross and/or Blue Shield (BCBS) organizations along with their affiliates enrolled 94.4 million people as of September 30, 2011, more than 30% of the population in the United States and more than 50% of those commercially insured. Linked together through the Blue Cross and Blue Shield Association (BCBSA), the Blues are a national federation of 38 independent Blue Cross and Blue Shield companies. 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 entities from September 2010 to September 2011 and looks at financial data as of December 2010.

Affiliations

The Blue Cross and Blue Shield (BCBS) organizations are the nation's oldest and largest family of health benefits companies and undeniably 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 38 independent Blue Cross and Blue Shield companies. BCBS entities along with their affiliates enrolled 94.4 million people as of September 30, 2011, more than 30% of the population in the United States. Roughly 60% of 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.

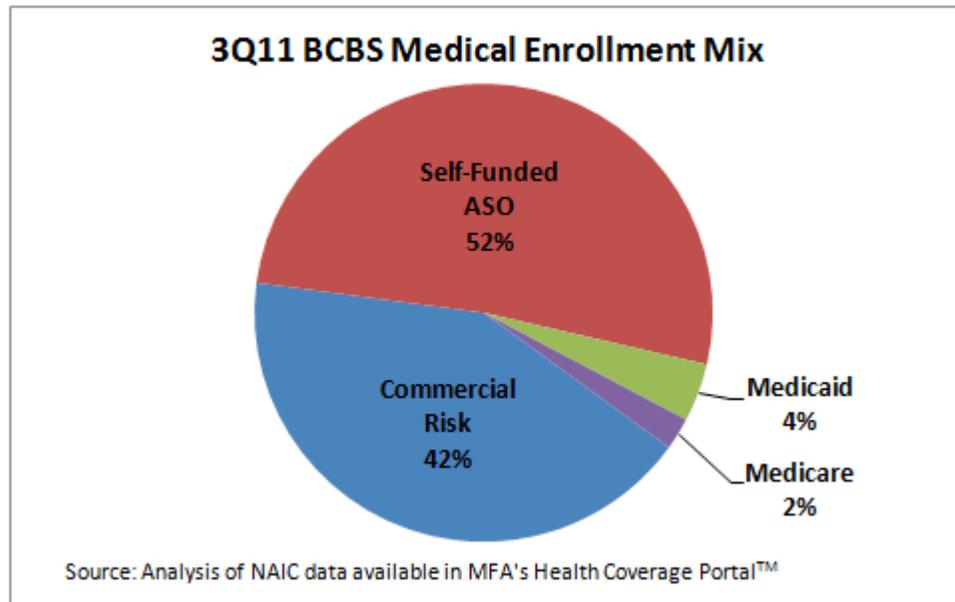
Consolidation among Blues entities is not news. WellPoint, a Blues organization and the second largest health insurance carrier in America offers Blues plans in 14 states throughout the country. Six other Blues organizations also conduct business in multiple states and consolidation continues. Highmark, which currently operates Blues plans in Pennsylvania and West Virginia, announced it received approval to affiliate with BlueCross BlueShield of Delaware (BCBSD) on December 30, 2011. Forty-five states and territories 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, including BCBSD. These smaller plans may be targeted by larger plans interested in expanding.

The Blues federation today includes 38 licensed plans in 50 states, DC and Puerto Rico. There are two BCBS organizations outside the United States in Panama and Uruguay, which are 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 2011, Blues entities provided insurance or administered benefits for 94.4 million people through major medical plans, down -1.6% from the same period one year ago. Blues companies have weathered declines during the economic downturn better than Non-Blues health companies. Non-Blues entities saw total

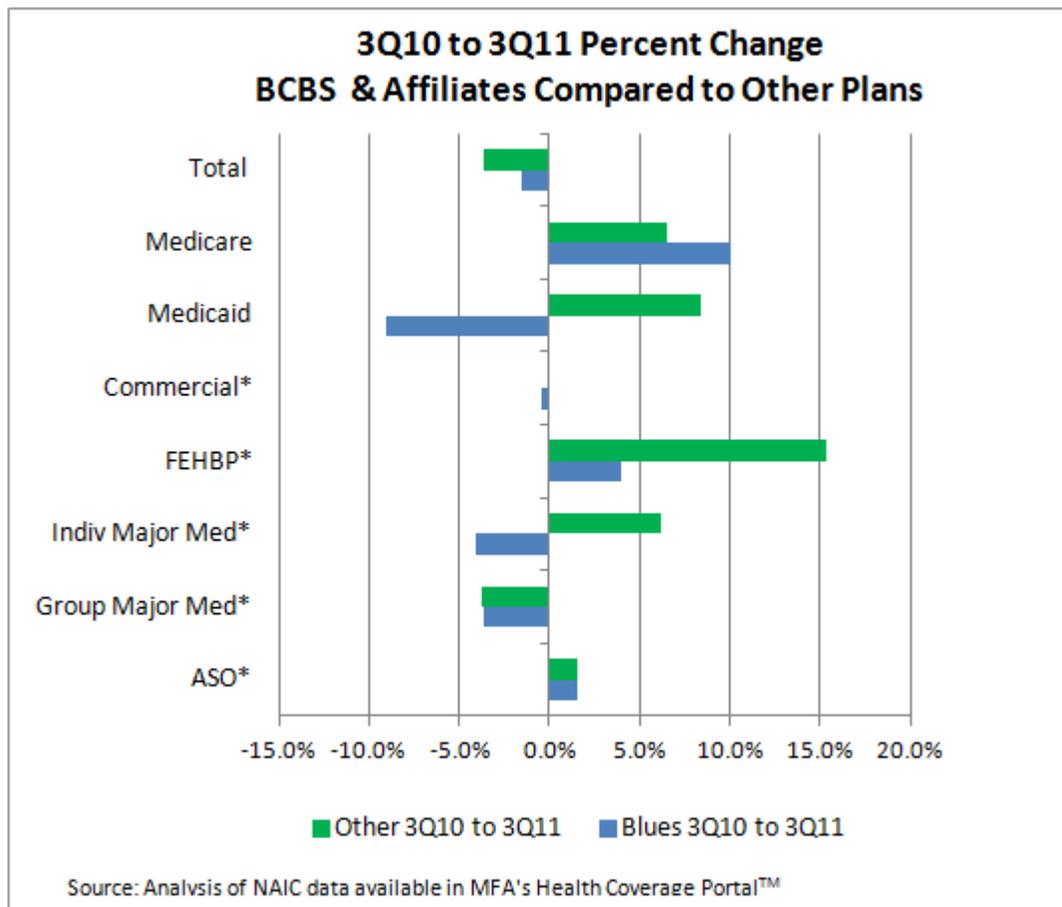
health enrollment fall from 124.9 million as of September 2010 to 120.3 million as of September 2011, a -3.7% decline. More than half of the Blues aggregate membership is through self-funded or administrative services only (ASO) products or arrangements.



Approximately 94% of BCBS enrollment is from Commercial sources. BCBS and affiliated organizations, which still cover more than 50% of the commercially insured population in the U.S., did slightly worse than their counterparts in terms of commercial* (* individual major medical, group major medical, FEHBP and ASO business combined) enrollment. From third quarter 2010 to third quarter 2011, Non-Blues entities saw a -0.12% decline in total commercial enrollment and BCBS entities saw a -0.41% dip.

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 3Q10 to 3Q11 BCBS entities lost more than 281,000 (-4.11%) Individual Major Medical members, while Non-Blues affiliated carriers gained over 219,000 (6.24%) 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 other Blues plan affiliates cover nearly 5.5 million federal employees, retirees and their families out of the 8.5 million people (contract holders as well as their dependents), or 64% of those receiving their benefits through FEHBP as of September 2011. BCBSA works with the Office of Personnel Management to administer the Service Benefit Plan on behalf of the 38 independent Blue Cross and Blue Shield companies. BCBS entities saw market share decline in this category as well. Non-Blues affiliated organizations gained more than 405,000 FEHBP members from Sept 2010 to Sept 2011. BCBS entities gained slightly more than 212,000 net new FEHBP members during the same time frame.



Group Major Medical business declined for both Blues and Non-Blues entities at -3.7% from September 2010 to September 2011. Self-funded or ASO business grew at roughly 1.5% year-over-year in aggregate for all carriers.

Many BCBS entities were slow to enter the managed Medicare (Medicare Advantage) business but as the number of Medicare recipients grow more Blues entities are entering the market. Between 3Q10 and 3Q11 managed Medicare enrollment increased 10% for Blues entities (190,470 new members) to 2.084 million. Non-Blues entities increased managed Medicare enrollment by 6.5% (462,803 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 2010 to September 2011, Non-Blues entities added nearly 1.8 million (8.4%) managed Medicaid members, while Blues entities lost 388,719 members (-9.1%) 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. The magnitude and influence the Blues federation has over the entire U.S. Healthcare system is astonishing.

Financials Conforming to Health Reform

Blues entities reported receiving nearly \$177 billion in health insurance premiums and incurred \$149 billion in medical claims costs in 2010 according to data released by the NAIC. Roughly half of the Blues entities meet or exceed the Patient Protection and Affordable Care Act of 2010 (ACA) medical loss ratio (MLR) requirement. The legislation calls for insurers to provide a rebate to consumers if the ACA MLR is less than 85% in the large group market and 80% in the small and individual markets. While individual plan MLRs varied significantly, combined the Blues entities reported a preliminary MLR, using the ACA MLR formula, of 89.8% for large group business, 83.9% for small group and 83.5% for Individuals.

2010 BCBS & Affiliated Entities Select Financial Information			
	Individual	Small Group	Large Group
Adjusted Premiums Earned	\$15,353,076,238	\$34,855,647,737	\$83,633,960,358
Expenses:			
Ded. Fraud & Abuse Detection Recovery Exp	\$2,583,041	\$4,700,010	\$11,667,324
Total Incurred Claims	\$12,684,753,825	\$28,990,515,864	\$74,553,036,400
Defined Exp Incurred For Improving Health	\$128,283,270	\$246,921,858	\$545,708,697
Subtotal Expenses	\$12,815,620,136	\$29,242,137,731	\$75,110,412,421
Preliminary Medical Loss Ratio: MLR	83.5%	83.9%	89.8%
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 83 year history — the Blues consortium has survived numerous challenges and has emerged stronger each time. Currently a Blues entity is the top plan in 43 states and they are the second largest plan in the remainder of the states. However, they are facing some stiff competition. In 3Q11, WellPoint lost its status as the top health insurance carrier in the U.S. in terms of enrollment to UnitedHealth Group. 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](#)), a unique online application that integrates NAIC and CADMHC statutory filings and MFA self-insured datasets. Annual 2011 data will be available in March 2012. 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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