



Blue Cross Blue Shield Plan Consolidation Continues

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by Debra A. Donahue

Blue Cross and/or Blue Shield (BCBS) organizations along with their affiliates enrolled 98.7 million people as of September 30, 2013, more than 31% of the population in the United States and 40% of those commercially insured. Linked together through the Blue Cross and Blue Shield Association (BCBSA), the Blues are a national federation of 36 local Blue Cross and Blue Shield entities. Most Blues organizations operate individually and in a single local market. However, that is shifting and in several states Blues plans are competing with each other for certain market segments. In this report Mark Farrah Associates (MFA) examines membership changes that occurred at BCBS organizations from September 2012 to September 2013 and looks at financial data as of December 2012.

Blues Affiliations

The Blue Cross and Blue Shield (BCBS or Blues) organizations are the nation's oldest and largest family of health benefits. Linked together through the Blue Cross and Blue Shield Association (BCBSA), the Blues are a national federation of 36 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 98.7 million people as of September 30, 2013, more than 31% of the population. Historically, Blues organizations operated individually and in single local markets but that strategy has shifted over time.

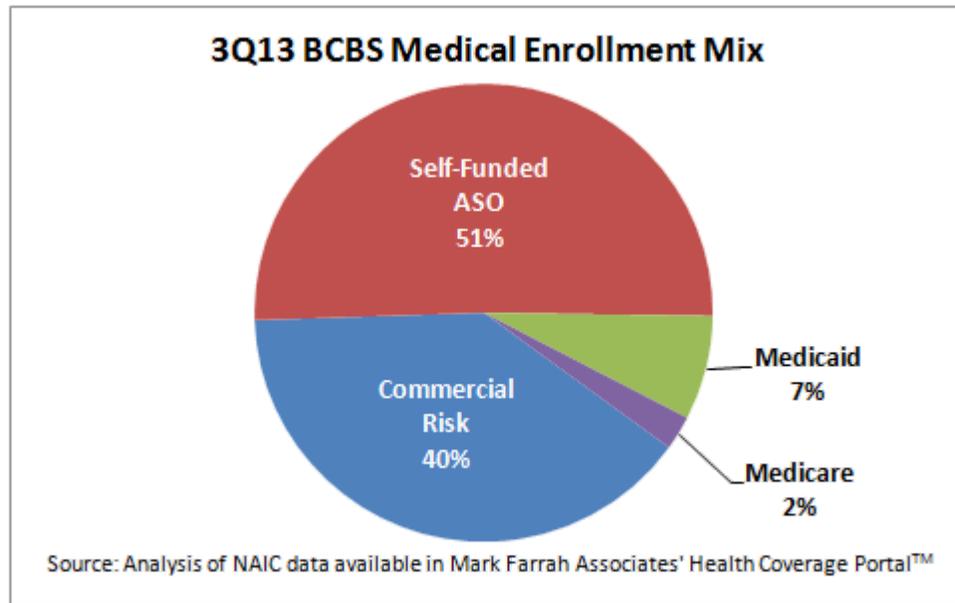
Local Blues plans are operated by thirty-six companies in the United States and Puerto Rico. There are also Blues plans operating in Panama and Uruguay; however, enrollment located outside of the 50 states, the District of Columbia and Puerto Rico is not included in this paper.

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 publicly-traded Blues organization and the second largest health insurance carrier in America, offers Blues plans in 14 states. In December 2012, WellPoint acquired Amerigroup Corporation, a large health insurer that provided services primarily in the Medicaid and Medicare markets in 12 states. Nine of the 12 states were new service areas for WellPoint, including Washington State. WellPoint now has a significant market presence in about half of the states in the U.S. and it serves customers throughout the country as UniCare, a non-BCBS licensed subsidiary. States where WellPoint has a significant market presence are indicated on the map below with a vertical line pattern. Areas where WellPoint is the sole Blues organization in the state are shaded in red on the map.

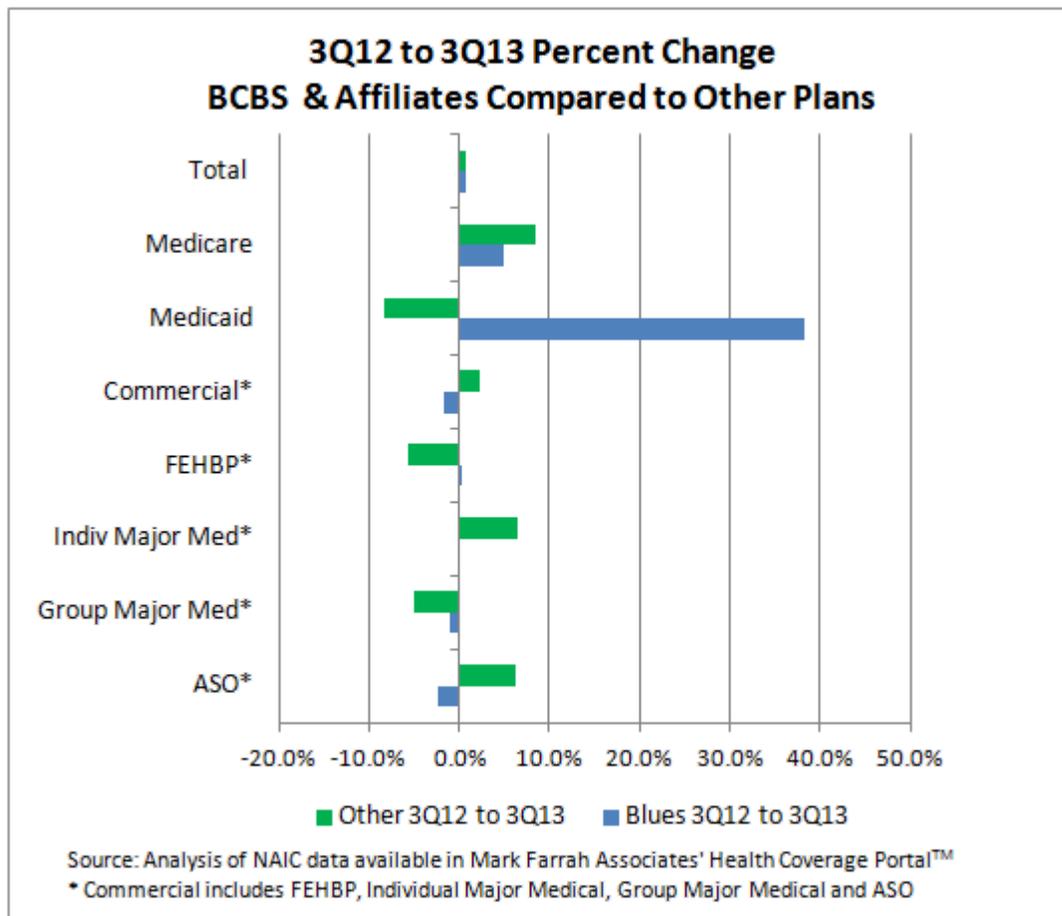
Many of the licensed Blues plans either have non-BCBS licensed subsidiaries or they themselves are affiliates of a much larger organization. When Blues or BCBS entities are mentioned in this paper, data includes the licensed Blues plan combined with affiliates and subsidiaries that also offer medical 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 2013, Blues entities provided insurance or administered benefits for 98.7 million people through major medical plans, up 0.7% from the same period one year ago. Non-Blues companies did slightly better than Blues plans from September 2012 to September 2013; Non-Blues plans gained 1.003 million members during the period, while Blues plans added 654,000 new members. More than half of the Blues aggregate membership is through self-funded or administrative services only (ASO) products or arrangements.



Approximately 90% of BCBS enrollment is from Commercial sources. BCBS and affiliated organizations, which cover nearly 40% of the commercially insured population in the U.S., did worse than their counterparts in terms of commercial (individual major medical, group major medical, FEHBP and ASO business combined) enrollment. From third quarter 2012 to third quarter 2013, Non-Blues entities saw a 2.2% increase in total commercial enrollment and BCBS entities saw a -1.2% decline.



Blues organizations saw declines in Group, Individual and ASO lines of business between 3Q12 and 3Q13. Group Major Medical risk business declined for both Blues and Non-Blues entities, at -1.1% and -5% respectively, from September 2012 to September 2013. Self-funded or ASO business grew at roughly 2.5% year-over-year in aggregate for all carriers. Enrollment in Blues Individual Major Medical products continued to decline through 3Q13 but this trajectory is expected to change when enrollment in the Health Insurance Marketplaces is reported. Blues organizations throughout the country are participating in the health reform exchanges and this is expected to be a significant source of membership growth in the coming years.

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 3Q12 and 3Q13 managed Medicare enrollment increased nearly 4.9% for Blues entities, approximately 111,000 new members, to nearly 2.4 million. Non-Blues entities increased managed Medicare enrollment by 8.4% (over 723,000 new members) during the same time frame.

WellPoint's acquisition of Amerigroup resulted in a significant increase in Managed Medicaid business, with over 2 million members shifting from Non-Blues to Blues, from September 2012 to September 2013. Managed Medicaid enrollment was 7.3 million in Blues plans as of September 2013, compared to 24.2 million for Non-Blues plans for the same time frame.

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 (also known as Medicare Supplement), 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, as well as WellPoint and Noridian, are responsible for processing 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.

Medical Loss Ratios Conforming to Health Reform

Blues entities reported receiving more than \$186.3 billion in health insurance premiums and incurred \$159.2 billion in medical claims costs in 2012 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 90.5% for large group business, 84.5% for small group and 85.6% for the individual, non-group segment.

2012 BCBS & Affiliated Entities Select Financial Information			
	Individual	Small Group	Large Group
Adjusted Premiums Earned	\$17,589,314,732	\$35,850,093,548	\$85,955,871,590
Expenses:			
Ded. Fraud & Abuse Detection Recovery Exp	\$3,065,199	\$5,747,955	\$15,223,0373
Total Incurred Claims	\$14,878,372,698	\$30,018,781,692	\$77,092,945,315
Defined Exp Incurred For Improving Health	\$167,522,118	\$274,964,344	\$639,271,767
Subtotal Expenses	\$15,048,960,016	\$30,299,493,991	\$77,747,440,120
Preliminary Medical Loss Ratio: MLR	85.6%	84.5%	90.5%
Source: Mark Farrah Associates 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 aggregate, net income as a percentage of health insurance premiums for Blues entities was 3.7% in 2012, down from 4.1% in 2011. This downward trend may continue if the Blues gain a significant amount of high cost new members from the insurance exchanges and the Risk Adjustment Program provisions of the ACA do not adequately cover potential losses. The Blues organizations participating in the Health Insurance Marketplaces are gambling that the Risk Adjustment Program will work and other insurance carriers will balance any increased costs they may receive in the event of adverse selection. With Congress discussing a potential repeal to these provisions it will be a tense year for Blues entities.

In its 85 year history – the Blues consortium has survived numerous challenges and has emerged stronger each time. Currently a Blues entity is the top plan in 45 states and they are the second largest plan in the remainder of the states. However, they are facing some stiff competition and market share leads are eroding. 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 2013 data will be available in March 2014. The Health Coverage Portal™ provides easy access to financials, PMPM comparisons, ratios, membership and market share. Enrollment in Blues entities is reported through 161 individual NAIC and CA DMHC 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™.

About Mark Farrah Associates (MFA)

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