



## Blue Cross Blue Shield Plans' Strong Competitive Edge

12/20/2010

by Debra A. Donahue

The Blue Cross and Blue Shield (BCBS) entities 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 39 independent Blue Cross and Blue Shield companies. Together, along with their subsidiaries, Blues organizations cover more than half of all commercially insured persons in the U.S., and its territories. 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 and other changes that occurred at BCBS organizations from September 2009 to September 2010.

### Affiliations

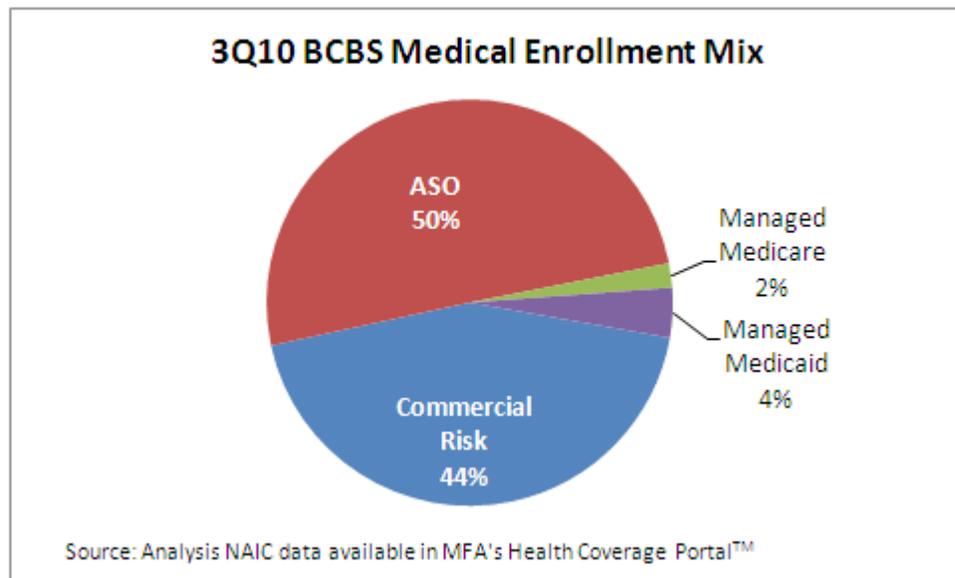
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Consolidation among Blues plans is not news. WellPoint, a Blues organization and the largest health plan in America offers Blues plans in 14 states throughout the country. Six other Blues organizations also conduct business in multiple states and consolidation continues. Highmark, which currently operates Blues plans in Pennsylvania and West Virginia, recently announced its intent to affiliate with Blue Cross Blue Shield of Delaware (BCBSD). 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.

### Blues Membership Trends

The Blues federation today includes 39 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.

As of September 2010, Blues plans and their medical affiliates provided insurance or administered benefits for 96.3 million people through major medical plans, down -1.1% from the same period one year ago. Blues companies have weathered declines during the economic downturn better than non-blues health companies. Non-blues saw total health enrollment fall from 127.7 million as of September 2009 to 124.9 million as of September 2010, a -2.2% decline. Nearly 38% of Americans with health insurance are covered by a plan offered or administered by a Blues company or affiliate. Half of the Blues aggregate membership is through self-funded or administrative services only (ASO) plans.

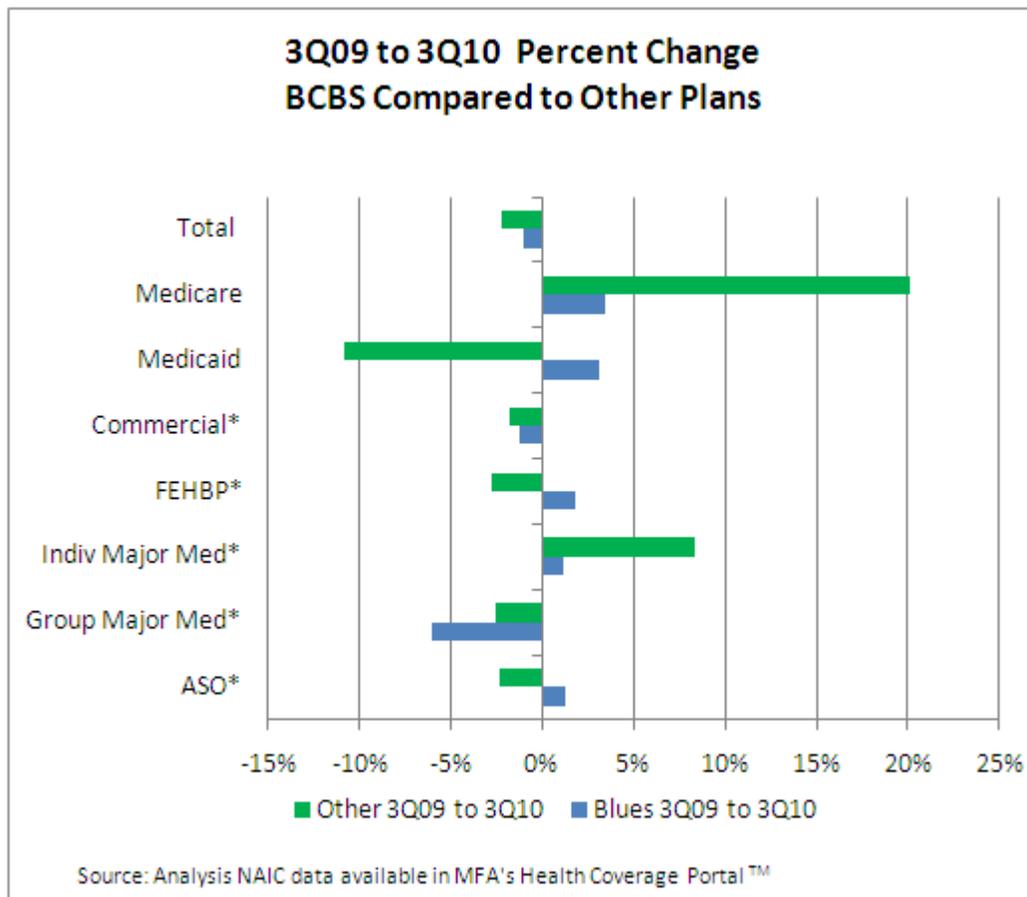


Many of the largest employers in the country use Blues plans to administer benefits for their employees. For example, Blue Cross Blue Shield of Arkansas administers the health benefits for Wal-Mart Stores, Inc., nationwide (except Hawaii). Wal-Mart is believed to be the largest non-government employer in the United States. Also, administration of ASO contracts occasionally shifts between Blues entities. For example, in January 2011, administration of the health benefits for Chicago-based Boeing Company's associates will shift from Regence BlueShield of Washington to Health Care Service Corporation's Blue Cross Blue Shield of Illinois subsidiary. Boeing employs more than 158,000 people across the United States and in 70 countries. Originally incorporated in Seattle, Washington; Boeing's corporate headquarters have been in Chicago since 2001.

Another important single source of enrollment for Blues plans is the Blue Cross and Blue Shield Government-wide Service Benefit Plan, also known as the Federal Employee Program (FEP). BCBS has been part of the Federal Employees Health Benefits Program (FEHBP) since its inception in 1960. FEP and other Blues plan affiliates cover nearly 5.3 million federal employees, retirees and their families out of the 7.9 million people (contract holders as well as their dependents), or about 67% of those receiving their benefits through FEHBP as of September 2010. BCBSA works with the Office of Personnel Management to administer the Service Benefit Plan on behalf of the 39 independent Blue Cross and Blue Shield companies.

Blues plans both compete and collaborate with their fellow Blues plans from other states. One form of collaboration is through the BlueCard system, which allows members of one plan to use the services of another. Externally tracking enrollment in the BlueCard system presents an ongoing challenge. Some plans report enrollment for members enrolled through national contracts in their state as well as membership covered by other plans, resulting in a double count. When identified through the reporting stream, MFA adjusts BlueCard enrollment to avoid duplicating membership numbers. Additionally, some Blues plans have non-Blues branded subsidiaries that operate outside the local market and against their fellow Blues organizations. WellPoint's, UniCare subsidiary is one example.

BCBS organizations have done slightly better than the rest of the health plans in the country during the recession. Total aggregated BCBS enrollment declined -1.1% from 3Q09 to 3Q10, compared to a decline of -2.2% for all other plans. BCBS organizations did better than their counterparts in terms of commercial\* enrollment (\* individual major medical, group major medical, FEHBP and ASO business combined). While all other plans saw a -2% decline in commercial enrollment, BCBS entities saw a -1% drop.



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 filings and available in MFA's Health Coverage Portal. Blues organizations in Alabama, Florida, South Carolina and Arkansas, and Highmark, WellPoint and Noridian, also 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.

### Changing of the Guard at the Blues

The passage of health reform appears to have signaled a "changing of the guard" at the Blues, as well as other health plans, throughout America. Blues plans in fourteen states announced the resignation or retirement of their chief executive officers (CEO) during 2010. Blue Cross and Blue Shield of Alabama's board of directors began the transition with the first quarter 2010 announcement that Phillip Pope, President and CEO of BCBSAL would retire effective June 30, 2010. Terry Kellogg was named chief executive officer in June 2010. BCBSAL's announcement was followed by word of an executive leadership change at WellPoint, Inc.; Larry C. Glasscock was retiring as chairman of the board of directors and as a member of the board of directors effective March 1, 2010. WellPoint's board of directors named Angela F. Braly, WellPoint's president and chief executive officer, as chair of the board, also effective March 1, 2010. Later in 2010, WellPoint announced the appointment of new presidents at Blue Cross and Blue Shield of Georgia, Anthem Blue Cross and Blue Shield in New Hampshire, and Anthem Blue Cross of CA. In November 2010, Horizon Blue Cross Blue Shield of New Jersey announced that William J. Marino, currently the longest serving CEO of a Blue Cross Blue Shield company, would retire as chairman and CEO effective March 1, 2011. In total, 14 Blue Cross and/or Blue Shield entities will have new executive leaders in 2011, including: AL, MA, MT, NC, SC, TN, Capital Blue Cross, Independence Blue Cross and Regence Blue Cross of UT. This changing of the guard is not unique to the Blues, as health plans enter a post reform era, the previous leadership is retiring and the next generation is taking the helm.

In its 80 year history — the Blues consortium has survived numerous challenges and has emerged stronger each time. Currently a Blues entity is the top plan in 42 states and they are the second largest plan in the remainder of the states. The Blues, along with key competitors UnitedHealthcare, CIGNA and Aetna are often referred to using the acronym BUCA. While it often appears the Blues plans operate as a single entity when compared to the national plans, they are for the most part independently operated. The Blues along with UnitedHealthcare, CIGNA and Aetna are among the top five plans in 15 states. However, 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.

## 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). For companies seeking comprehensive market data, MFA offers the Health Coverage Portal™ (</products/health-coverage-portal.aspx>), a unique online application that integrates NAIC statutory and MFA self-insured datasets. The Health Coverage Portal™ provides easy access to financials, PMPM comparisons, ratios, membership and market share. Enrollment in Blues plans is reported through 415 individual NAIC company codes aggregated for this analysis. Performance of specialty companies is also available. Call MFA at 207.985.8484 to schedule an online demo of the Health Coverage Portal™.

The MFA data partner for this product is the National Association of Insurance Commissioners (NAIC); other sources include the California Department of Managed Health Care (DMHC), the Centers for Medicare & Medicaid Services (CMS) and the U.S. Census Bureau.

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