



Blue Cross Blue Shield Plans Strong Competitive Edge

12/10/2009

by Debra A. Donahue

The Blue Cross and Blue Shield Association (BCBSA) is a national federation of 39 independent Blue Cross and Blue Shield companies, that collectively provide healthcare coverage for over 100 million Americans. Blues organizations and their affiliates cover one of every three Americans including nearly 20 million unionized workers, families and retirees and roughly 5.2 million federal employees, retirees and their families. Furthermore, 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, 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. Forty-five states and territories have only one Blues plan licensed to do business there, with Pennsylvania and New York home to the most individual Blues plans per state. There is not a health plan in the country that does not compete with the Blues brand and for that reason, Mark Farrah Associates (MFA) decided to take a closer look at the federation in aggregate.

The Blues Advantage

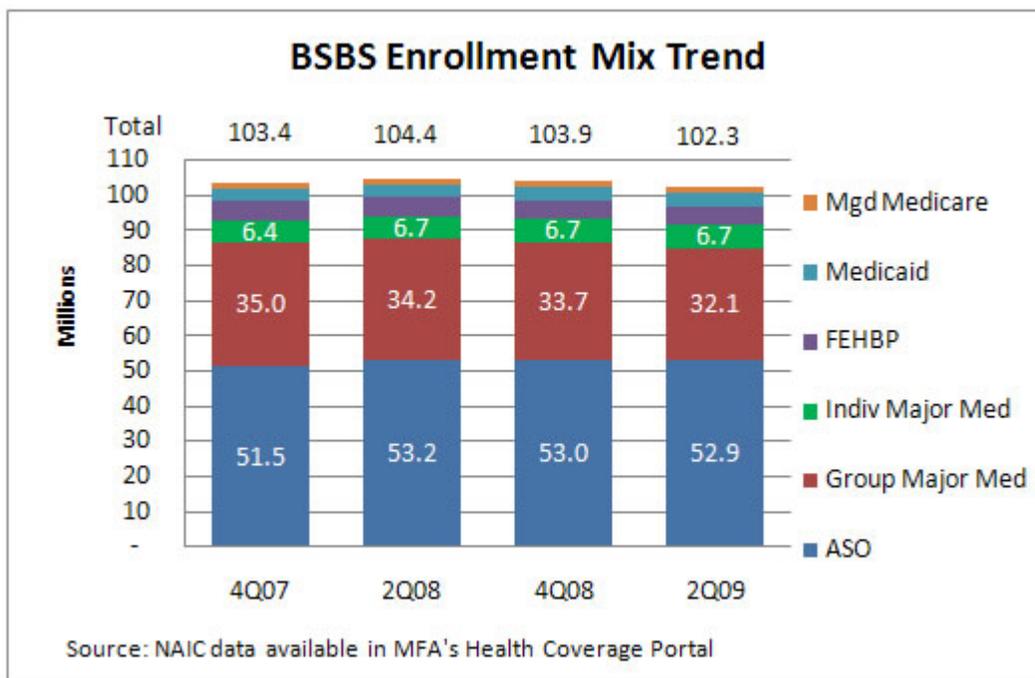
The Blue Cross and Blue Shield (BCBS) brands are the nation's oldest and largest family of health benefits companies and undeniably the most recognized brands in the health insurance industry. Founded in 1929, the prototype prepaid hospital plan upon which Blue Cross plans were later based was created at Baylor University in Dallas, Texas and established by Justin Ford Kimball. Initially begun as two separate options, Blue Cross focusing on hospital services and Blue Shield covering physician care, the two separate associations merged in 1982, as did most of the individual state plans.

As early as the 1950s the coordination among individual plans was established to facilitate nationwide coverage for large national accounts. This led to the launch of the BlueCard system in 1994 which enables members who are traveling or living in another plan's service area to receive the same healthcare service benefits available in their home plan, a key competitive advantage. The BlueCard program provides a single electronic network for claims processing and reimbursement among plans.

In 1985, the BCBSA founded the Technology Evaluation Center offering smaller Blues plans shared resources for assessing medical technologies. In 2004, the Association began offering the BlueWorldwide Expat program for expatriate workers in U.S. companies doing business abroad. These shared services offer local Blue Cross and/or Blue Shield organizations the opportunity to compete with large national plans. Over the past 80 years, the organization grew to be the largest combined health benefits provider in America, serving people in all regions of the country. In comparison the next nearest competitor to the entire Blues organization is UnitedHealth Group, serving 50.9 million people in the U.S.

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.



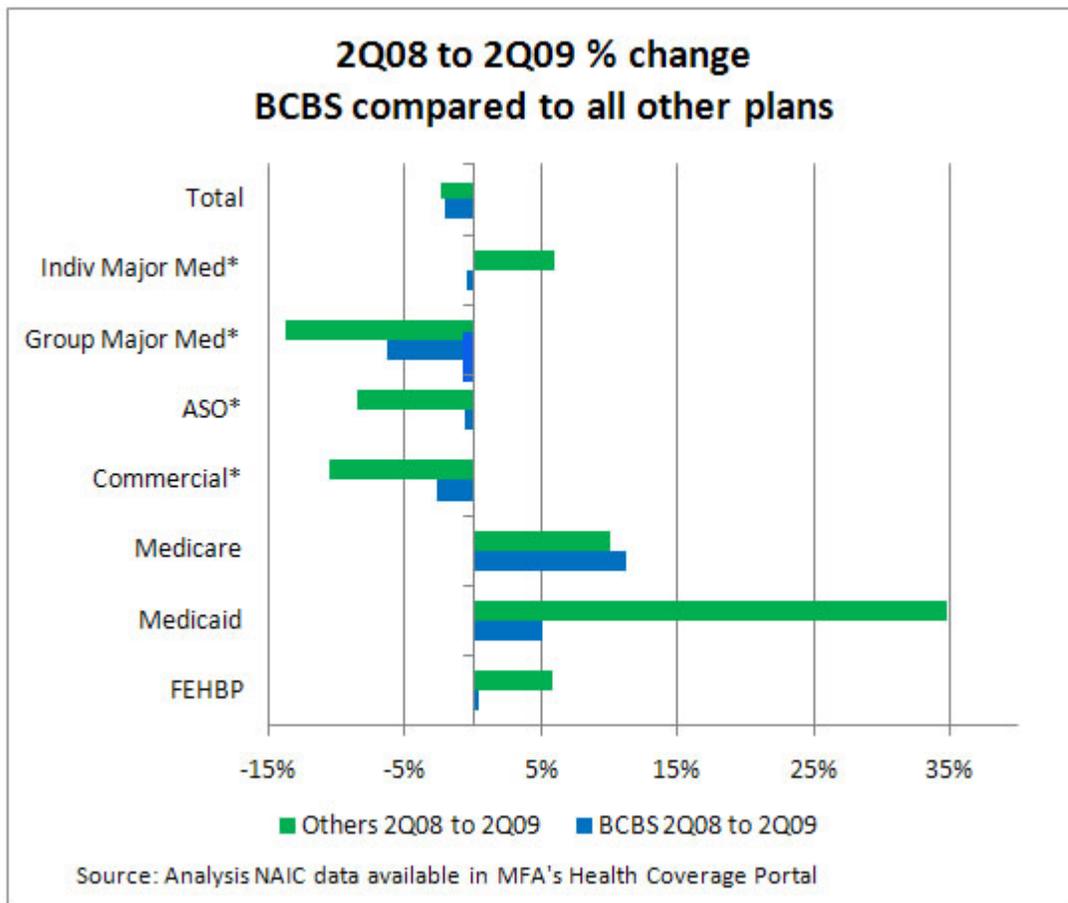
As of June 30, 2009 Blues plan and their affiliates insured 102.3 million people through major medical plans, down -2% from the same period one year ago. More than half of the Blues aggregate membership is through self-funded or administrative services only (ASO) plans. The bulk of ASO enrollment is through union contracts.

These Blue companies provide health benefits for more union workers, retirees, and their families than any other national carrier. Collectively bargained contracts account for approximately 20 million Blue company members - more than one-fifth of the Blue System's national enrollment. BCBSA established the National Labor Office (NLO) in 1965 to demonstrate its commitment to building partnerships with organized labor. Working with labor is still an important priority for the Blues.

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 roughly 5.2 million federal employees, retirees and their families out of the nearly 8 million people (contract holders as well as their dependents), or about 67% of those receiving their benefits through FEHBP as of June 2009. 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.

Tracking enrollment in the BlueCard system presents an ongoing challenge. Some plans may report enrollment for members enrolled through national contracts in their state and the membership received from other plans, resulting in a double count. When identified through the reporting stream, MFA adjusts BlueCard enrollment to avoid duplicating membership numbers.

BCBS organizations have done slightly better than the rest of the health plans in the country during the recession. Total aggregated BCBS enrollment declined -2.0% from 2Q08 to 2Q09, compared to a decline of -2.4% for all other plans. BCBS organizations did significantly better than their counterparts in terms of commercial* enrollment (* individual major medical, group major medical and ASO business combined). While all other plans saw a -10.6% decline in commercial enrollment, BCBS entities saw just a -2.6% drop.



Blue Cross and Blue Shield companies insure or administer services for 52.2% of all commercially covered people in the U.S., up from 50.1% at the end of 2Q08. Contrary to BCBS success in the commercial sector, these plans cover just 3.7 million or 13.2% of those enrolled in managed Medicaid plans, down from 16.3% in 2Q08. Medicaid has been a growth market for many non-BCBS plans.

BCBS aggregate coverage in managed Medicare grew 11.2% to 1.8 million or 20.9% of the total NAIC (National Association of Insurance Commissioners) reported, managed Medicare population. BCBS' managed Medicare growth was better than the 10.1% the rest of the industry experienced. As of January 1, 2009, Medicare Advantage (managed Medicare) plans were offered by BCBS plans in: AK, AZ, DE, KS, LA, MS and VT. Four regional Medicare Advantage PPO Plans are offered by BCBS plans in the following CMS regions:

- California (Region 32): Blue Cross of California (WellPoint, Inc.)
- Indiana and Kentucky (Region 15): Anthem Blue Cross and Blue Shield (Wellpoint, Inc.)
- Ohio (Region 14): Anthem Blue Cross and Blue Shield (WellPoint, Inc.)
- Upper Midwest and Northern Plains (Region 19): a joint offering by

- Wellmark Blue Cross and Blue Shield of Iowa/Wellmark Blue Cross and Blue Shield of South Dakota
- Blue Cross and Blue Shield of Minnesota (Aware Integrated, Inc.)
- Blue Cross and Blue Shield of Montana
- Blue Cross and Blue Shield of Nebraska
- BlueCross BlueShield of North Dakota
- Blue Cross Blue Shield of Wyoming

In 2009, Part D Prescription Drug Plans were also offered by all Blues plans except AK, AZ, MS, OR and WA.

Most BCBS organizations offer a wide portfolio of products and services including stand-alone dental products, and supplemental products such as 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.

BCBS Enrollment in Additional Products at December 2008	
Dental	8,417,571
Medicare Supplement	3,769,575
Assn, Trusts & Other Business	2,986,706
TriCare	1,974,208
Limited Benefits	968,782
Named Disease	113,823
Students	72,875
Short Term	24,780
Source: Analysis NAIC data available through MFA Health Coverage Portal	

BCBS and Health Care Reform

Scott Serota, President and Chief Executive Officer of the Blue Cross and Blue Shield Association (BCBSA), has been a key participant in health care reform discussions and a strong voice along with America's Health Insurance Plans (AHIP) in opposition to the bills currently before Congress. Many proposed reforms would challenge Blues organizations, particularly transparency rules that may require full financial disclosure and premium taxes. Many Blues plans operate as mutual benefit or non-profit companies and only file financial data through statutory state filings. Many of these plans, while providing benefits to their membership and communities they serve, do not pay taxes. As traditional insurers many BCBS entities and others engage in some of the insurance practices currently targeted in the legislation, such as excluding certain pre-existing conditions from coverage for a period of time. These practices inherently keep health insurance costs affordable; removing them may create a more dynamic environment that could be detrimental to plans that have historically used these techniques.

In its 80 year history — the Blues consortium has survived numerous challenges and has emerged stronger each time. They are among the top plans in every state in the country and are formidable competitors. As the current economic situation improves and health plans learn the result of the current debates in Congress, it is prudent to remain aware of the major industry participants, among which BCBS organizations are at the top.

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 787 individual NAIC company codes aggregated for this analysis. Call MFA at 207.985.8484 to schedule an online demo of the Health Coverage Portal™.

About Mark Farrah Associates (MFA)

Mark Farrah Associates (MFA) is a leading data aggregator and publisher providing health plan market data and analysis tools for the healthcare industry. We are a licensed redistributor of NAIC data. MFA's Health Coverage Portal™ includes both risk-based and administrative services only membership and financial data by plan,

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