Diversification Key Strategy for Leading Health Plans

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Leading U.S. health plans, that no longer see commercial medical membership as an option for substantial growth, are diversifying into health services businesses, looking for opportunities outside of the U.S. and pursuing other avenues beyond health insurance for the long term. Total membership for the for the seven leading U.S. health insurance carriers increased from 125.0 million in 2009 to 125.9 million for 2010. The net membership gain of 0.7% from 2009 to 2010 compares to an increase of 0.3% from 2008 to 2009. While leading health plans saw overall gains, Commercial medical enrollment continued to decline for these carriers, falling -0.7% from 2009 to 2010. Although membership growth has been slow, several top plans saw year-over-year profitability improvements in 2010.

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 full-year results from 2009 to 2010. Financial and membership data and observations were gleaned from the April 2011 Health Insurer Insights™ series. These seven health plans cover approximately 40% of the total population in the United States and its territories.

Overall Membership Gains

Year-over-year, total membership for the seven leading plans increased by 861,515 or 0.7%, from 125.0 million in 2009 to 125.9 million for 2010. Commercial business continued to decline for top plans, falling -0.7% from 2009 to 2010.

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<th>Large Insurers' Medical Membership Growth</th>
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<tr>
<td>Segment</td>
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<tr>
<td>Senior&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>Medicaid&lt;sup&gt;2&lt;/sup&gt;</td>
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<tr>
<td>Commercial&lt;sup&gt;3&lt;/sup&gt;</td>
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<tr>
<td>Total</td>
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(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's Health Insurer Insights™; Data SEC filings

Commercial enrollment declines were offset by growth in Medicare and Medicaid business lines, which increased 9.1% and 12.6% respectively.
From December 2009 to December 2010, the administrative services only (ASO) segment gained more than 1.4 million members, ending 2010 with 67.1 million members. Fully-insured (risk) enrollment declined 581,000 members in the same period. Aggregate risk enrollment for the top plans totaled 58.8 million at December 2010.

New legislation, increased regulatory oversight, rising reinsurance rates and higher medical costs over the last two years impacted both funding types. We will need to wait for first quarter 2011 enrollment data to determine the impact federal legislation will have on medical membership. However, many of the top plans have already revealed low expectations for commercial membership growth in general and announced they are diversifying into health services businesses, looking for opportunities outside of the U.S. and pursuing other avenues beyond health insurance for the long term.

**Health Plans Shift Strategies**

UnitedHealth, one of the largest plans in the United States, reported total enrollment gains year-over-year, adding 975,000 new members. From 2009 to 2010 UnitedHealth added 420,000 Medicaid; 370,000 Medicare and 185,000 Commercial members, with growth rates of 14.5%, 8.3% and 0.7%, respectively. UnitedHealth has a venerable business model with a sustained focused on two business platforms, benefits and services. In UnitedHealth Group's 2010 Earnings Call the company announced organizational changes to allow more time for chief executive officer Stephen Hemsley to focus on strategy and further diversification of its enterprise.

WellPoint's Commercial membership fell -1.3% from 30.7 million in 2009 to 30.3 million as of 2010. At WellPoint's investor conference held in February 2011, management discussed ways to capitalize on new growth opportunities including exporting capabilities and assets into international markets, among other strategies for growth.

Aetna and CIGNA also espoused strategies to grow beyond being leading U.S. health plans to becoming global leaders in healthcare. Aetna's Commercial enrollment fell by 611,000 members from 2009 to 2010, most notably in the fully-insured sector. CIGNA, on the other hand, adopted a more global strategy earlier in 2010 and reported an increase of 304,000 Commercial members during the same time period.

Humana's diversification strategy has primarily focused on the military and senior markets with less emphasis on the commercial sector. During 2010 Humana's commercial enrollment fell from 3.3 million to 3.1 million. However, overall enrollment grew 1.2%. With the acquisition of Concentra, and its medical centers and workplace clinics, Humana appears to be returning to its roots as a provider of health services as well as a specialized insurer.
In aggregate, administrative services enrollment increased 2.2%, while risk enrollment fell -1.0% from 2009 to 2010. CIGNA saw the greatest increase in risk enrollment; however, this was driven by Medicare growth in a private-fee-for-service plan that was primarily discontinued in 2011. Kaiser's new ASO business, launched in 2009, saw enrollment growth from 73,000 to 78,600 during 2010.

Profitability Improvements

Four of the top seven health plans saw improved profitability when comparing year-over-year results from 2009 to 2010. Lower medical cost trends were cited as the reason for improvements and many of the plans reported positive prior period adjustments. UnitedHealth, Aetna, CIGNA and HCSC all saw profit margin improvements between 2009 and 2010. However, WellPoint, Kaiser and Humana saw declines during the same period.

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. UnitedHealth Group's Health Care Service (HCS) business unit reported a 7.6% profit margin* for 2010, up from 5.9% in 2009. Aetna's Health Care sector margin was 5.7% for the year ended December 2010, up from 4.4% for the corresponding period in 2009. WellPoint's profit margin fell from 7.3% in 2009 to 4.9% in 2010. WellPoint's 2009 results included net income from the sale of its pharmacy business at the end of the year. Kaiser reported a net income margin of 4.4% through 2010, down from 5.0% for 2009. With the exception of UnitedHealth's 7.5% and Humana's 3.25% profit margins, the remaining leading plans net income margins are in the 4.4% to 5.7% range.
Financial performance improvements and enrollment gains have put many of the leading health plans in a better fiscal position than they were a year ago. However, with growth in Medicare enrollment, cuts to Medicaid and lackluster changes to the commercial sector on the horizon stay tuned for more market transformations. As the health insurance industry evolves, 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 health insurance business.

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