



## Enrollment Declines Impact Top Health Plans in 2009

5/25/2010

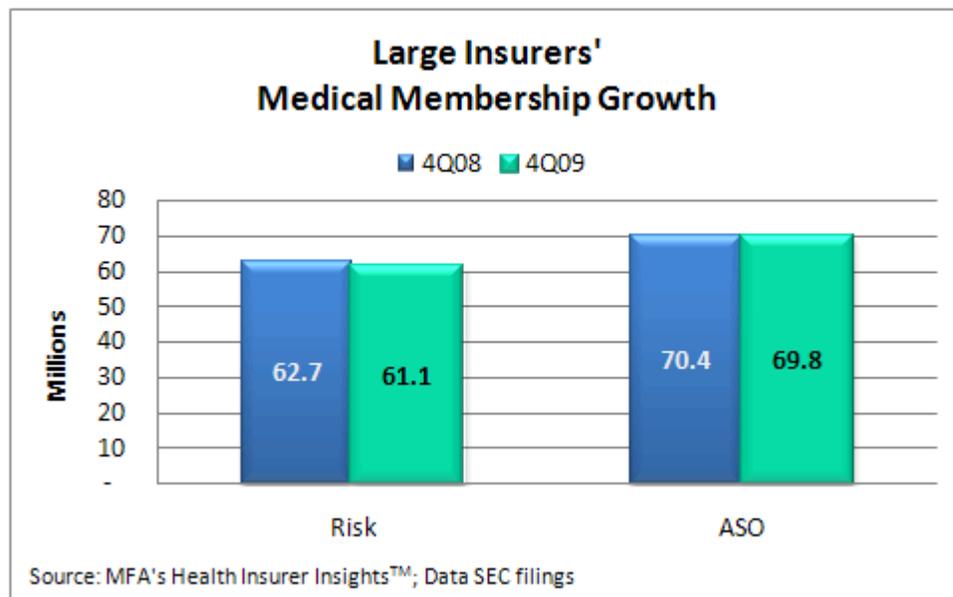
by Debra A. Donahue

Enrollment declines continued for most of the nation's leading health insurers through 2009. Between December 2008 and December 2009 top plans saw an aggregate decline of 2.2 million members. Losses continue to be experienced in both the fully-insured and administrative services only (ASO) segments. The difficult economy continues to take a toll in terms of rising medical expenses and declining membership for most plans.

This brief presents key findings from MFA's review of enrollment and financial trends among eight top health insurers: Aetna, CIGNA, Health Care Service Corporation (HCSC), Health Net, Humana, Kaiser Permanente, UnitedHealth Group and WellPoint. It looks at year-to-date results from fourth quarter 2009. Financial and membership data and observations were gleaned from the April 2010 Health Insurer Insights™ series. These eight health plans cover approximately 42% of the total population in the nation, down 1% from December 2008.

### Membership Declines

The health insurance industry continued to see deterioration in membership throughout 2009 with most of the leading health plans experiencing membership losses. Year-over-year, total membership for the eight leading plans decreased by over 2.2 million members, or -1.7%, from 133.1 million in 4Q08 to 130.9 million for 4Q09.

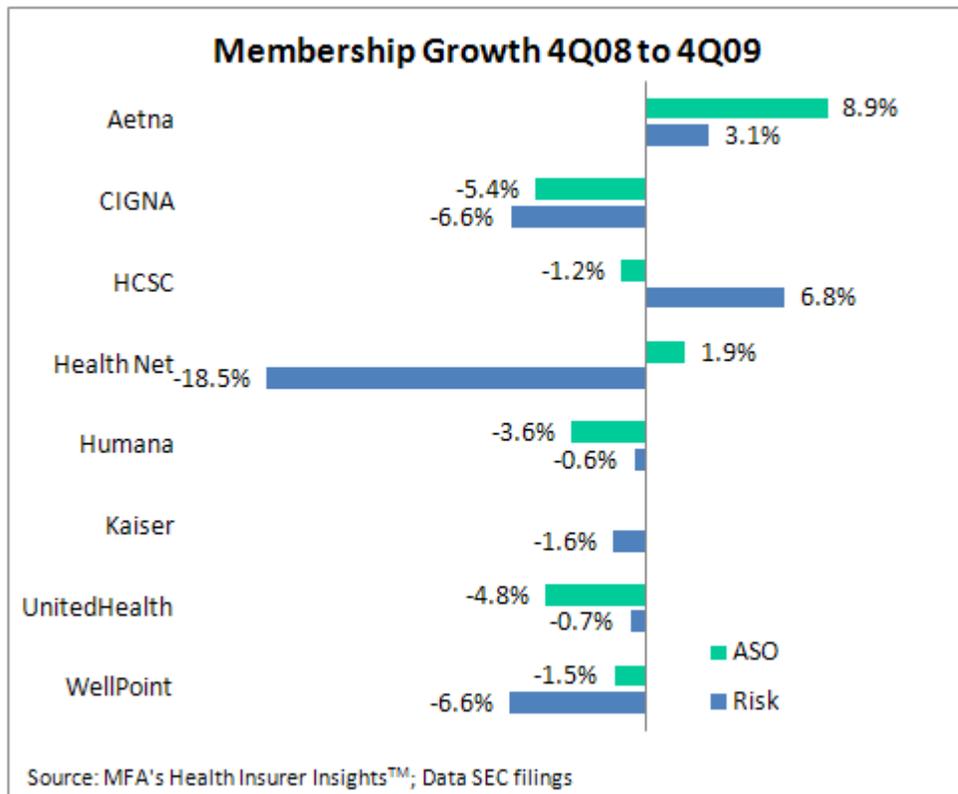


ASO enrollment decreased -0.9% and risk enrollment declined -2.5% for these plans between December 2008 and December 2009.

### Health Plans' Mixed Results

WellPoint and UnitedHealth, the two largest plans in the United States, saw total enrollment declines of 1.329 million and 900,000 respectively, between 4Q08 and 4Q09. The economy and maintaining strict pricing and underwriting discipline were cited as reasons for the declines. Aetna, the third largest health insurance organization in the country, added 1.213 million total members during the same period, however all of the gain occurred during the first quarter. Aetna saw a -113,000 member loss between 3Q09 and 4Q09.

Combined the eight leading companies reported a loss of 586,000 members, between 3Q09 and 4Q09. Between third and fourth quarter 2009, ASO enrollment declined -0.3% and risk enrollment declined -0.6%.



Health Net's sale of its Northeast operations to UnitedHealth closed in December 2009 and was the primary driver of the company's loss of 514,000 members between 3Q09 and 4Q09. UnitedHealth posted a gain of 100,000 risk members for the period which was offset by a loss of 85,000 ASO members for the quarter.

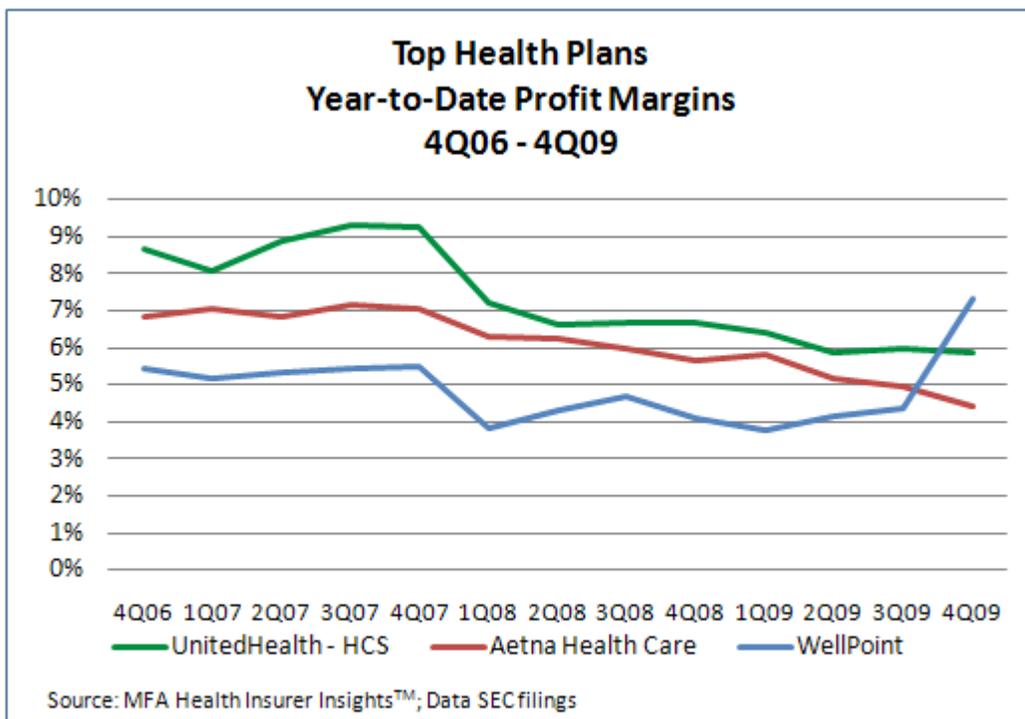
Health Care Services Corporation with a net gain of 211,679 members between third and fourth quarter 2009 saw the largest enrollment increase among top plans. HCSC entered into a member transition agreement with WellPoint. HCSC will offer guaranteed replacement coverage to WellPoint's UniCare commercial group and individual members in Texas and Illinois. The transition was announced in October 2009.

Kaiser also saw a gain for the quarter, posting 73,000 ASO covered lives; ASO was a new line of business for Kaiser in 2009. Health Net, Humana and Kaiser all reported ASO enrollment gains for the quarter. However, Health Net's and Humana's gains were offset by declines in risk members. Kaiser lost roughly 9,000 risk members between 3Q09 and 4Q09.

### Profitability Improvement Challenging

Half of the top health plans saw improved profitability year-over-year between 2008 and 2009. WellPoint saw significant improvement in net income driven by a gain on the sale of its prescription benefit management (PBM) business during the fourth quarter. CIGNA experienced a modest increase both year-over-year and between 3Q09 and 4Q09. UnitedHealth, Aetna, HCSC and Health Net experienced declines both year-over-year and between third and fourth quarter. Kaiser and Humana both saw improvement over 2008 results but saw declines in profit margins between 3Q09 and 4Q09.

The top three companies displayed mixed results for the year. UnitedHealth Group's Health Care Service (HCS) business unit reported a 5.9% profit margin\* for the year ended December 31, 2009 compared to the 6.7% UnitedHealth reported for 2008 and remained essentially flat for much of 2009. Aetna's Health Care sector's net income of 4.4% through December 31, 2009 was also down compared to the 5.6% net income reported for the year ended December 31, 2008. Aetna's profitability has been declining since 1Q09. The sale of WellPoint's PBM helped drive the company's 7.3% profit margin for 2009, a significant improvement over its 4.1% profit margin for year-end 2008, but still below the results of its peers in 2007.



\* Profit margin is net income (loss) divided by total revenues.

It is without doubt a challenging time to be in the health insurance business. Two of the top eight companies have executive leadership changes. Larry C. Glasscock retired as chairman of the board of directors and as a member of the board of directors of WellPoint effective March 1, 2010. CIGNA's chairman and chief executive H. Edward Hanway retired at the end of 2009. Many of the leading health insurers are being vilified by regulators and in the press no matter which direction they move. Several of the major companies are expanding internationally and passage of health care reform in the U.S. will present new market opportunities for some and arduous administrative demands for others. 2010 should prove riveting.

### Health Insurer Insights™

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