



Enrollment Gains and Profit Declines for Top Health Plans

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by Mark Farrah Associates

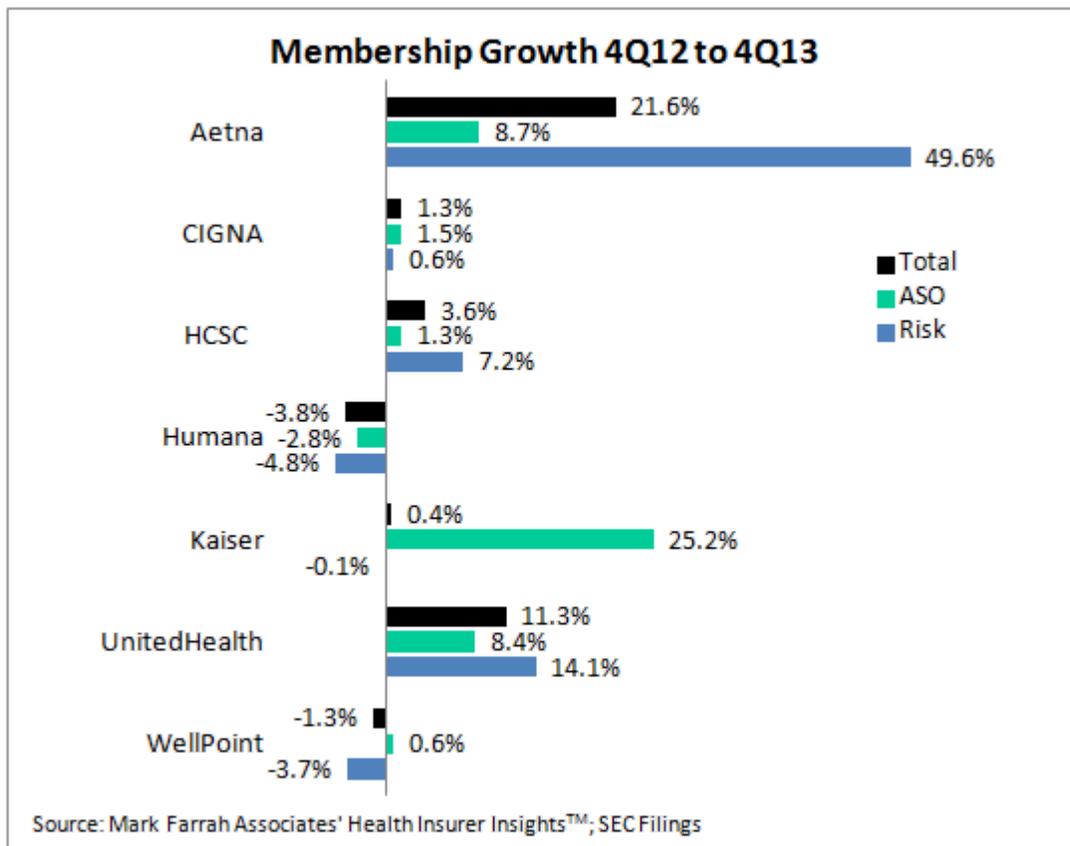
Despite the uncertainty and volatility of health reform, leaders in the health insurance sector have good reason to remain optimistic. Though year-over-year profit margins declined for companies included in this assessment, most of these top health plans experienced enrollment gains last year and this is an encouraging sign.

Mark Farrah Associates assessed enrollment changes and profitability for seven leaders in the health insurance industry: Aetna, Cigna, HCSC (Health Care Service Corporation), Humana, Kaiser, UnitedHealth and WellPoint. These companies collectively insure or administer health coverage for approximately 55% of the insured population in the United States and its territories. The innovations and capabilities they are building to sustain and grow business for the long term provide important guidance for the industry overall.

This brief presents key findings from an analysis of year-end 2013 performance of top health plans as gleaned from the April 2014 Health Insurer Insights™, a Mark Farrah Associates' report series.

2012 to 2013 Top Health Plan Enrollment Changes

Five of the seven leading health insurers in the nation realized net membership gains from year-end 2012 to year-end 2013. As of December 2013, these companies collectively covered 143.6 million members in Commercial, Medicare and Medicaid plans, up from an aggregate of 135.6 million in December 2012. These industry leaders collectively enroll about 55% of all total covered lives in the U.S. health insurance market. Aetna and UnitedHealth reported the most substantial gains year-over-year while Humana and WellPoint lost membership.



Membership changes resulted mainly from mergers and acquisitions but top plans also reported organic growth in select segments. WellPoint and Humana lost risk-based membership. Humana also experienced a loss in ASO enrollment and was the only company reporting declines in self-funded membership.

UnitedHealth remains the largest health plan in the United States based on total membership. As of December 2013, the company enrolled 40.6 million medical members, an 11.3% year-over-year gain. The 2013 increase was largely attributed to a new TRICARE contract, which added 2.9 million to their membership roster.

WellPoint, the second largest health plan in the nation, reported total membership of 35.6 million at year-end 2013, a 1.3% decline since year-end 2012. The company indicated the decrease was due primarily to declines in National Accounts, Medicaid, Medicare and Individual business.

Following the Coventry Health Care acquisition, Aetna strengthened its position as the third ranking health plan in the country. As of December 2013, Aetna enrolled a total of 22.2 million medical members, up 22% over year-end 2012. Coventry added approximately 3.9 million members to Aetna's book of business last year.

Total membership increased by about 4% for Health Care Service Corporation (HCSC) in 2013. The company covered 13.8 million people as of December 2013. The majority of HCSC's enrollment base is commercial including a significant book of ASO business.

Cigna realized an increase of 1.3% in total medical membership from year-end 2012 to year-end 2013. Kaiser's enrollment base increased, but growth was less than 1%. Humana experienced about a 4% decline in total membership.

2012 to 2013 Profit Declines for Top Health Plans

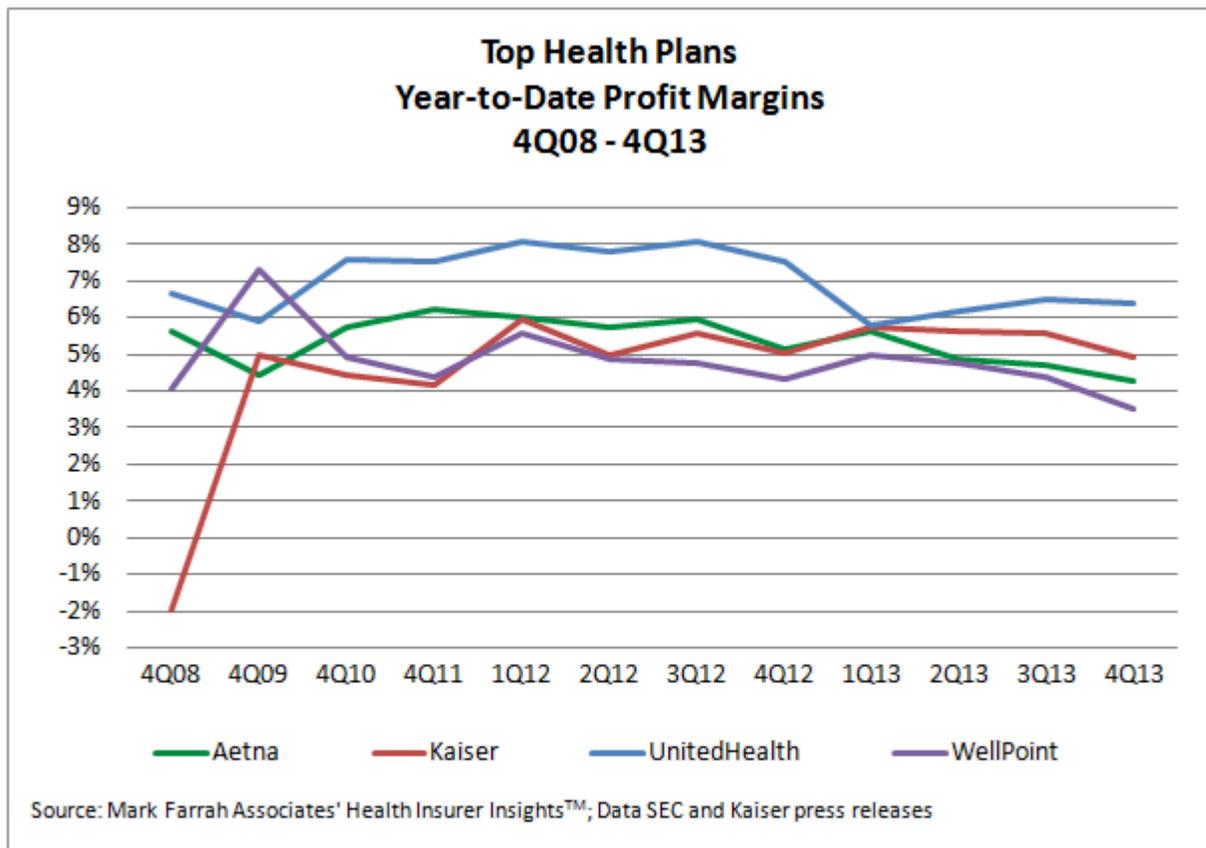
Health insurers continue to strive for cost containment while investing in reform-driven expansion initiatives, technology and partnerships to sustain and grow business for the long term. Each of the seven industry leaders experienced slight downturns in year-over-year profitability but margins for these companies were still in the favorable range.

For 2013, Aetna reported net income of \$1.9 billion on revenues of \$44.4 billion with a profit margin of 4.3%, down from 5.13% the prior year. 2013 performance includes the integration of Coventry Health Care's business.

Kaiser Permanente reported a net income of \$2.7 billion on revenues of \$54.2 billion for 2013, compared to a net income of \$2.6 billion on revenues of \$51.7 billion in 2012. Kaiser's margins were relatively flat year-over-year.

UnitedHealth reported a net income of \$7.3 billion on total revenues of \$113.8 billion for 2013. The company's profit margin declined from 7.5% in 2012 to 6.4% in 2013 and reasons cited included decreased revenues stemming from pressure from funding reductions and decreased levels of favorable reserve development.

WellPoint reported net income of nearly \$2.5 billion on total revenues of \$71 billion for 2013, a 3.5% profit margin, down from a 4.3% margin a year ago. The company cited health reform costs and lower operating results as reasons for the decline in profitability.



**Profit margins were calculated as net income divided by total revenues.*

Updates about Public Exchange Participation

As posted on the healthcare.gov website, open enrollment for the Marketplace (also known as the Public Exchange) ended March 31, 2014. Now the industry is anxiously awaiting critical details about the reported 8 million people that signed up. Exchange demographics will provide a framework for health plans to refine sales and marketing strategies for the next open enrollment period which starts November 15, 2014. Companies throughout the industry will also be analyzing Marketplace plans and business in light of the greater uninsured market opportunity.

Industry leaders largely recognize the Marketplace as a long term opportunity that cannot be overlooked. Based on company accounts, HCSC, Humana and WellPoint had significant stakes in the 2014 Marketplace. The other leaders have taken a more cautious approach to Public Exchange participation. The following summary recaps updates, primarily from the companies themselves, about participation in the Marketplace – Public Exchange.

Participation in the Marketplace – Public Exchange	
Aetna	Approximately 135,000 paid members through January 2014
Cigna	Enrolled between 75,000 and 100,000
HCSC	Participating in 5 Exchanges in its 5 core state markets
Humana	Received 202,000 applications as of February 2014
Kaiser	Over 300,000 Exchange customers in CO and CA
UnitedHealth	Participating in 4 individual and 9 SHOP
WellPoint	Received 500,000 applications for individual coverage as of March 2014
Source: Mark Farrah Associates' Health Insurer Insights™	

Health Insurer Insights™

Health insurance business is undergoing an unprecedented transformation and carriers are strategically planning to solidify their position in the industry. Market and competitive information is a critical component of this planning process.

Mark Farrah Associates provides an array of products to simplify analysis of health insurance business. For consistent updates about financial and membership changes as well as business strategies being implemented by industry leaders, subscribe to Health Insurer Insights™. Visit our website ([www.markfarrah.com](http://www.markfarrah.com/default.aspx/) (/default.aspx/)) or call us at 207.985.8484 for more information.

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Mark Farrah Associates
 Phone: 724.338.4100
 Web: www.markfarrah.com

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