



## Health Plan Enrollment Shifting Toward Government-Sponsored Programs

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Medical membership for the leading U.S. health insurance plans increased 2.6% from 128.3 million as of September 2011 to 131.7 million as of September 2012. Enrollment in administrative services only (ASO) funding arrangements grew year-over-year and enrollment in fully-insured (Risk) business declined during the period. Commercial, Senior and Medicaid segments all had aggregated enrollment growth from third quarter 2011 to third quarter 2012. However, for every Commercial member gained, the top plans added nearly five in government-sponsored programs since December 2011. Profitability saw a slight downturn for the majority of leading health plans for the first nine months of 2012 when compared to the first nine months of 2011. Top health plan profitability was impacted by several factors from shifts to lower margin ASO and government-sponsored businesses, to increased administrative costs due to acquisitions, to implementation of health reform regulations.

This brief presents key findings from Mark Farrah Associates' (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 primarily looks at results from third quarter 2011 to third quarter 2012. Financial and membership data and observations were gleaned from MFA's January 2013 Health Insurer Insights™ series. These seven organizations insure or administer coverage for approximately 51% of the population with health insurance in the United States and its territories.

### Membership Gains

Year-over-year, total membership for the seven leading plans increased by nearly 3.4 million, or 2.6%, from 128.3 million in 3Q11 to 131.7 million in 3Q12. Commercial, Senior and Medicaid segments all saw enrollment growth year-over-year. Commercial business increased by 1.0% from September 2011 to September 2012. Medicare and Medicaid enrollment increased 17.2% and 6.2% respectively during the same period. Three of the top companies cited enrollment gains across all three major business lines. Six of the seven top plans saw gains in Medicaid; Aetna reported a slight decline in Medicaid enrollment from 3Q11 to 3Q12.

Many of the leading plans' growth strategies call for pursuing more business in the Senior and Medicaid segments for 2012 and 2013. As more States convert previous fee-for-service Medicaid populations to managed care – programs such as the aged, blind and disabled (ABD) or seniors and persons with disabilities (SPD) – the potential size of this business has most of the leading plans competing state-by-state with Medicaid specialty insurers. Medicare Advantage and Medicare Supplement business lines are battlegrounds during the Medicare Annual Election Period (AEP), again due to the significant size of this market. Most of the top plans have also expressed interest in The Centers for Medicare & Medicaid Services (CMS) Dual Eligible pilot programs.

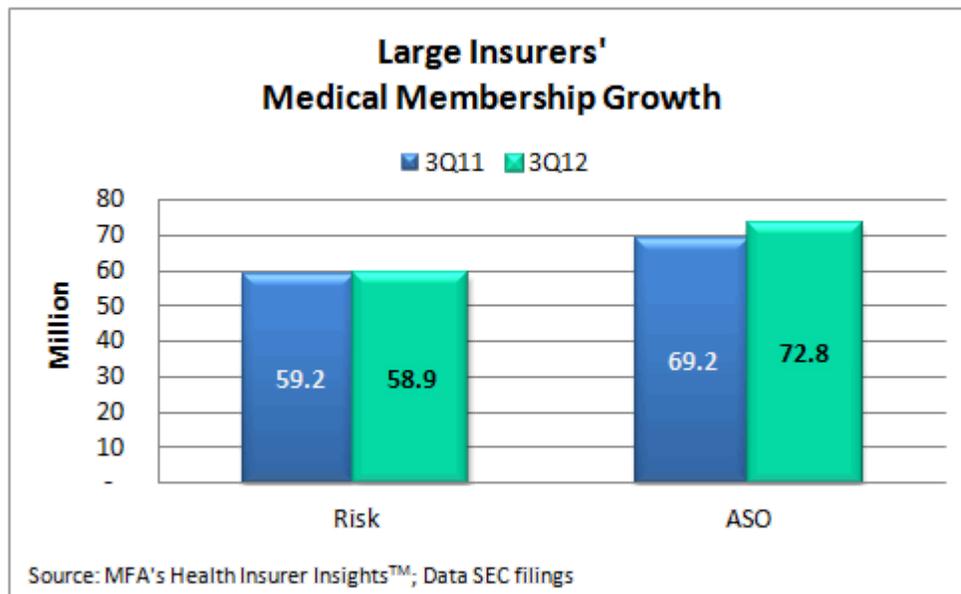
Mergers, acquisitions and/or expansion efforts are prevalent for all of the leading plans particularly to gain expertise and membership in government-sponsored businesses. Cigna, Humana and UnitedHealth completed acquisitions in the first half of 2012. UnitedHealth recently acquired two small plans in Florida and XL Health. WellPoint completed its acquisition of CareMore in 2011 and acquired Amerigroup, the largest publicly traded company focused exclusively on the health care needs of Medicaid recipients, in December 2012. Aetna acquired Genworth Financials' Medicare Supplement business in 2011 and announced plans to acquire Coventry Health Care in August 2012.

As growth in the Commercial segment staggers, with a poor prognosis for recovery in the near future, leading plans have turned to government-sponsored Medicare and Medicaid programs to bolster membership. Gains in government-sponsored business have out-paced gains in Commercial business. In fact, for every Commercial member gained, the top plans added nearly five people in government-sponsored programs since December 2011.

Large Insurers' Medical Membership Growth			
Segment	4Q11	3Q12	Change
Senior <sup>1</sup>	10,725,465	12,239,197	1,513,732
Medicaid <sup>2</sup>	7,696,677	8,057,832	361,155
Commercial <sup>3</sup>	111,018,325	111,425,628	407,303
Total	129,440,467	131,722,657	2,282,190

(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 gains by four of the leading plans were significant enough to offset Commercial losses experienced by WellPoint, Aetna and Kaiser. Most of the commercial gains are occurring in the administrative services only (ASO) segment. Total ASO enrollment grew year-over-year by 3.6 million (5.2%) with membership increasing from 69.2 million in September 2011 to 72.8 million as of September 2012. Fully-insured business (Risk enrollment) decreased year-over-year by 228,585 members from 59.2 million in September 2011 to 58.9 million as of September 2012.



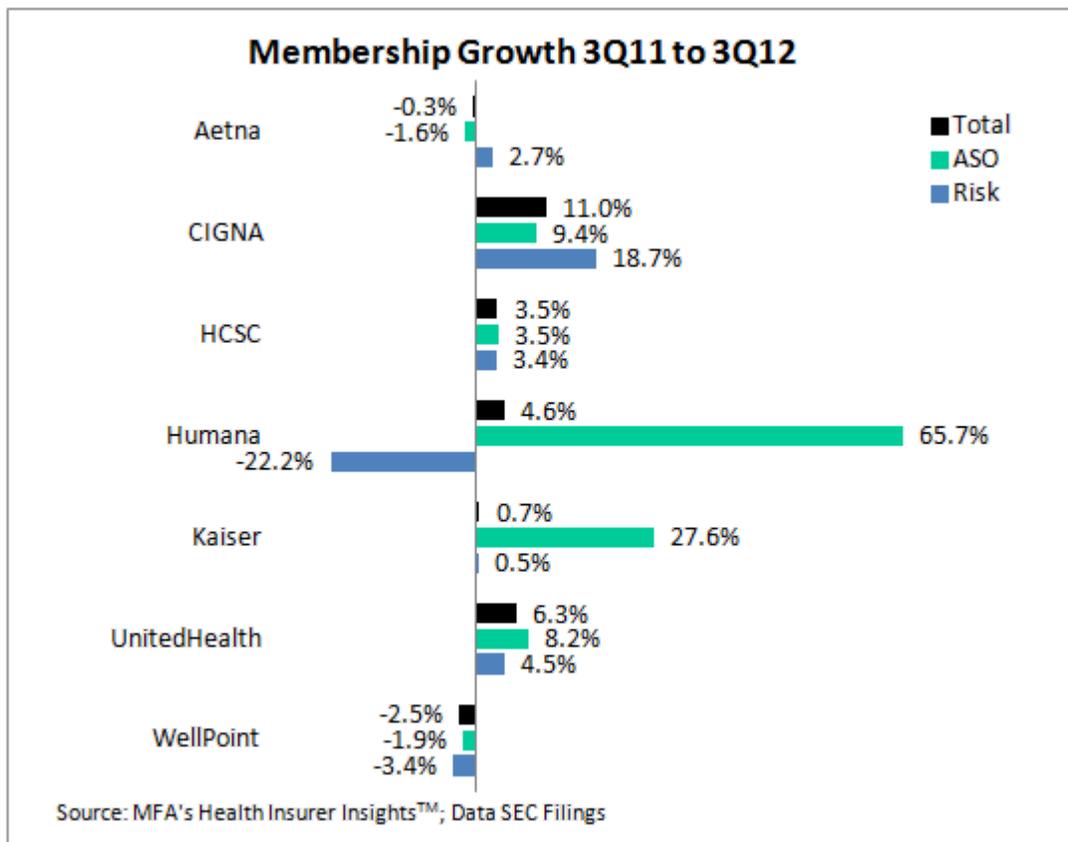
## Most Health Plans' See Enrollment Gains

UnitedHealth, the largest plan based on membership in the United States, reported total enrollment gains year-over-year of 2.15 million new enrollees. UnitedHealthcare, with growth in Commercial, Medicare and Medicaid, reported 36.545 million medical enrollees as of September 2012 in its 10Q filing with the Securities Exchange Commission (SEC). UnitedHealth's gains this quarter continued to outpace its nearest rival, WellPoint.

WellPoint experienced an enrollment decline of 862,000 (-2.5%) total enrollees, including a decline of 1 million commercial members, from September 2011 to September 2012. The company reported total medical enrollment of 33.493 million for the same period in its 10Q filed with the SEC. WellPoint's third quarter 2012 results did not include its acquisition of Amerigroup Inc., which was completed on December 24, 2012. The Amerigroup acquisition should add more than 2.7 million Medicaid members to WellPoint in 2012.

Aetna, which ranks a distant third in terms of medical enrollment behind UnitedHealth and WellPoint, experienced declines across the Commercial and Medicaid segments year-over-year. It did pick up 236,000 Medicare members from September 2011 to September 2012, however. Most of Aetna's year-over-year Medicare enrollment gains were from its acquisition of Genworth's Medicare Supplement business in 2011. Aetna experienced a total membership decline of -0.3% from September 2011 to September 2012. Aetna and WellPoint were the only leading plans to report an overall decline in medical enrollment during the period.

Cigna, HCSC and Kaiser saw increases in both Risk and ASO business between 3Q11 and 3Q12. In April 2012, Humana began delivering a new TRICARE South Region ASO contract resulting in a significant shift of members from Risk to ASO. Humana also completed the acquisitions of MD Care in January 2012 and Arcadian Management Services in April 2012, offsetting some of its decline in Risk enrollment.

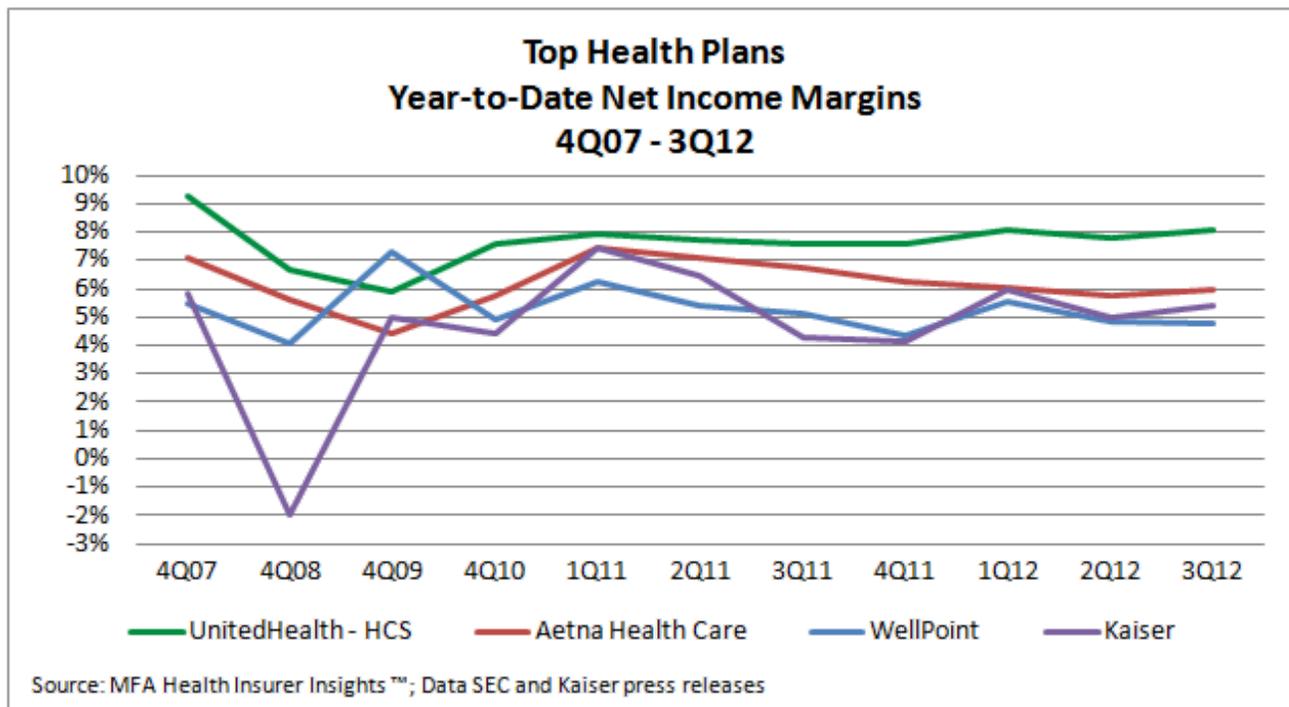


### Profitability Impacted by Enrollment Shifts and Acquisitions

The majority of leading health plans saw a slight downturn in year-over-year profitability for the nine months ended September 30, 2012, primarily due to decreases in commercial enrollment and increases in Medicare and Medicaid medical loss ratios (segment premiums divided by segment medical expenses) and acquisition costs. Implementation of health reform regulations were also cited as reasons for decreases in profitability by some plans. UnitedHealth and Kaiser were the only top plans to report slight upticks in profitability year-over-year.

UnitedHealth Group's UnitedHealthcare (UnitedHealth - HCS) business unit reported an 8.1% earnings from operations margin for the nine months ended September 30, 2012, up from 7.6% for the similar period in 2011. Kaiser Foundation Hospitals, Kaiser Foundation Health Plan, Inc., and respective subsidiaries (Kaiser)

combined reported net income of approximately \$2.1 billion on revenues of \$38.0 billion, yielding a net income margin\* of 5.4% for the nine months ended September 30, 2012. This was up from a net income margin of 4.3%, for the nine months ended September 30, 2011.



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

The top plans mentioned in this report insure or administer coverage for approximately 51% of the estimated 256.2 million people with health insurance in the United States and its territories. This highly competitive industry is consolidating. While the majority of enrollment is currently under ASO arrangements, this is shifting as more of the leading plans explore opportunities in the Medicaid, Medicare and non-group markets. As the health insurance industry changes, 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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