



## Marginal 3Q15 Enrollment Increase of 3.3 Million Members for Top Health Plans

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by Mark Farrah Associates

The Affordable Care Act (ACA) has significantly impacted health plan performance since it was enacted in 2010 and top leaders continue to explore growth through expansion and diversification. The larger health plans are pursuing growth through mergers and acquisitions, expanding Medicaid programs, converting providers to value-based reimbursement contracts, and implementing technological advancements to better serve consumers. The innovations and capabilities they are building to sustain and grow business for the long term provide important guidance for the industry overall.

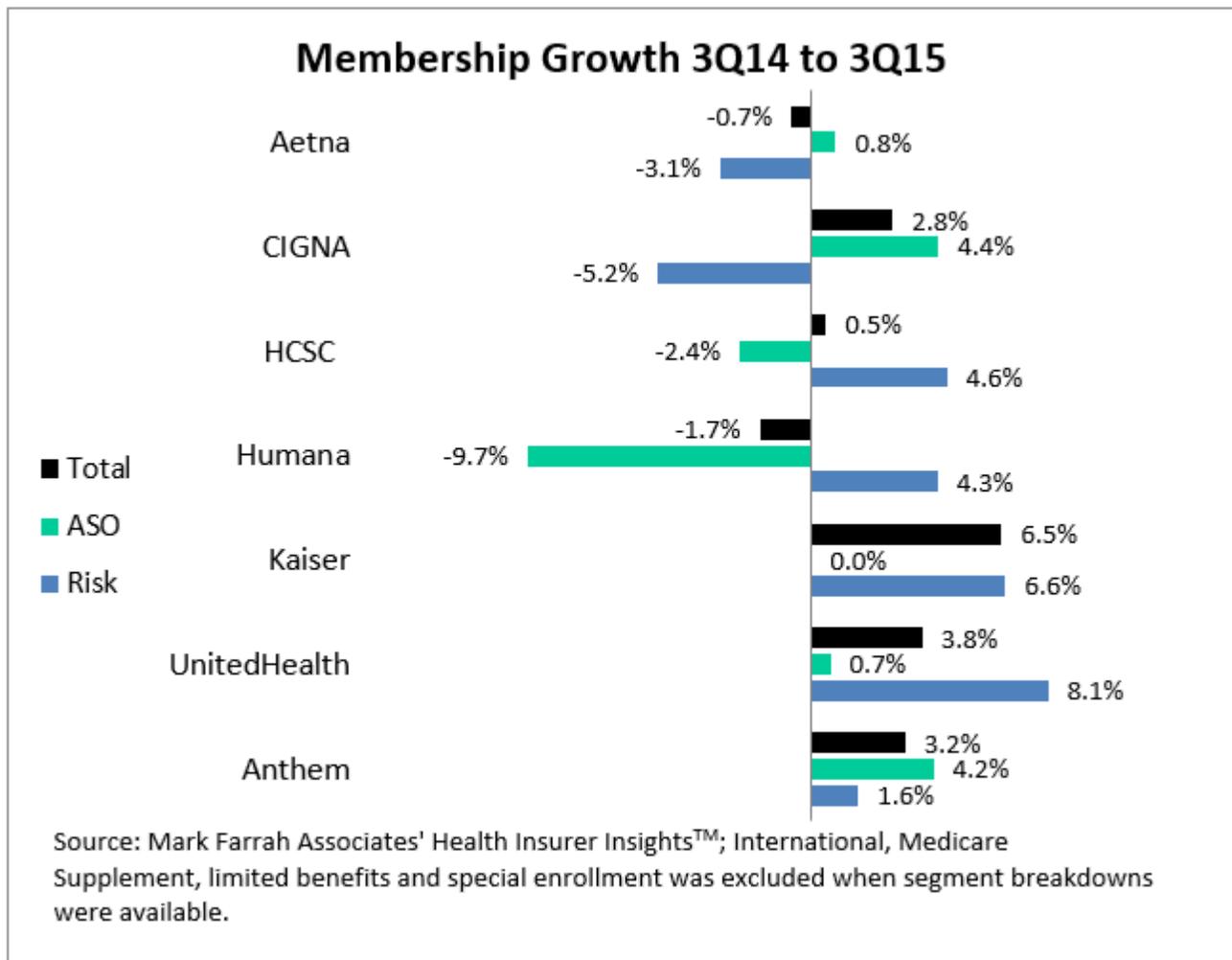
This brief presents key findings from Mark Farrah Associates' (MFA's) review of enrollment and financial trends among seven top health insurers: Aetna, Cigna, Health Care Service Corporation (HCSC), Humana, Kaiser Permanente, UnitedHealth Group and Anthem. Strategic insights, financial and membership data and observations between third quarter 2014 and third quarter 2015 were gleaned from MFA's January 2016 Health Insurer Insights™ series. These seven organizations insure or administer coverage for over 56% of the population with health insurance in the United States and its territories.

Year-over-year, most of the seven leaders realized net gains in the total number enrolled in Commercial, Medicare and Medicaid plans. Combined 3rd quarter 2015 results indicated enrollment growth of nearly 3.3 million and plans reported generally favorable results for year-over-year profitability.

### Year-Over-Year Enrollment Performance

As of September 30, 2015, aggregate enrollment figures reflected varying degrees of both growth and decline in risk-based and self-funded medical membership. Collectively, total membership for the top health plans marginally increased by approximately 3.3 million, or just 2.3%, from 143.4 million in 3Q14 to 146.7 million in 3Q15. Note for the purpose of this analysis, Mark Farrah Associates assessed total comprehensive medical membership. Therefore, Medicare Supplement enrollment was excluded when MFA found it was integrated with other medical membership figures.

UnitedHealth continues to be positioned as the leading health plan among the seven top plans. As of September 30, 2015, UnitedHealth reported 38.06 million members, a 1.39 million increase from 36.67 million in third quarter 2014. United's risk-based enrollment increased by 8.1%, with 16.7 million members, as compared to 15.4 million during the third quarter of 2014. The company attributed the increase to participation in individual public exchange products and favorable annual renewal activity as well as new business wins in the employer group segment. Though exchange participation contributed to membership growth, UnitedHealth cited financial losses from exchange business and announced it may drop out in 2017.



Anthem experienced the second largest gain for 3Q15 with an increase of approximately 1.17 million medical members. As of September 30, 2015, Anthem reported over 37.8 million medical members, an increase of 3.2%, from 36.7 million in 3Q14. Anthem reports Medicare Supplement membership within its Medicare segment, combined with Medicare Advantage. For this assessment, MFA excluded an estimated 851,000 Medicare Supplement lives from Anthem's medical membership. The company attributed much of its third quarter growth to increases in its Medicaid, Blue Card and national accounts membership, partially offset by decreases in its individual business. Anthem included approximately 5.5 million BlueCard members in enrollment reporting and due to the sharing of these national accounts across Blues plans, double counting may occur. Anthem's proposal to acquire Cigna was approved by shareholders in December of 2015 and the company projects an increase of 750,000 to 950,000 additional members by year-end 2016.

HCSC saw a slight increase of 74,065 total medical members, year-over-year. The company covered over 14.5 million people as of September 30, 2015. HCSC's risk-based membership grew by 4.6% between 3Q14 and 3Q15 while its ASO business decreased 2.4% during the same time period. As a result of its strong participation in Medicaid programs in New Mexico and Texas, HCSC gained more than 200,000 new Medicaid enrollees as the company continues to focus on expanding its government-funded business.

As of September 30, 2015, Humana's overall medical membership decreased from 9.68 million members in 3Q14 to 9.51 million in 3Q15. MFA excluded an estimated 156,000 Medicare Supplement lives from Humana's individual membership. While the company experienced a 4.3% increase in total risk-based membership year-over-year, its ASO enrollment declined primarily due to the loss of a large group ASO account. Humana's third quarter 2015 Individual Medicare Advantage membership increased 11.5 percent from third quarter 2014 due to net membership additions associated with its 2015 HMO plan offerings. In addition to the company's third quarter results, Humana stockholders approved the adoption of the Aetna merger agreement in October of 2015. This acquisition is scheduled to close in the second half of 2016.

Aetna, the third largest health plan in the nation, also reported a slight decrease in total medical membership of 154,000 members as of September 30, 2015, reflecting declines in its Commercial Insured products. For third quarter 2015, Aetna's membership was 22.9 million as compared to 23.1 million in 3Q14. The company continues to be diligent with the acquisition of Humana which will position Aetna for increased Medicare Advantage and PDP growth as well as high growth services business.

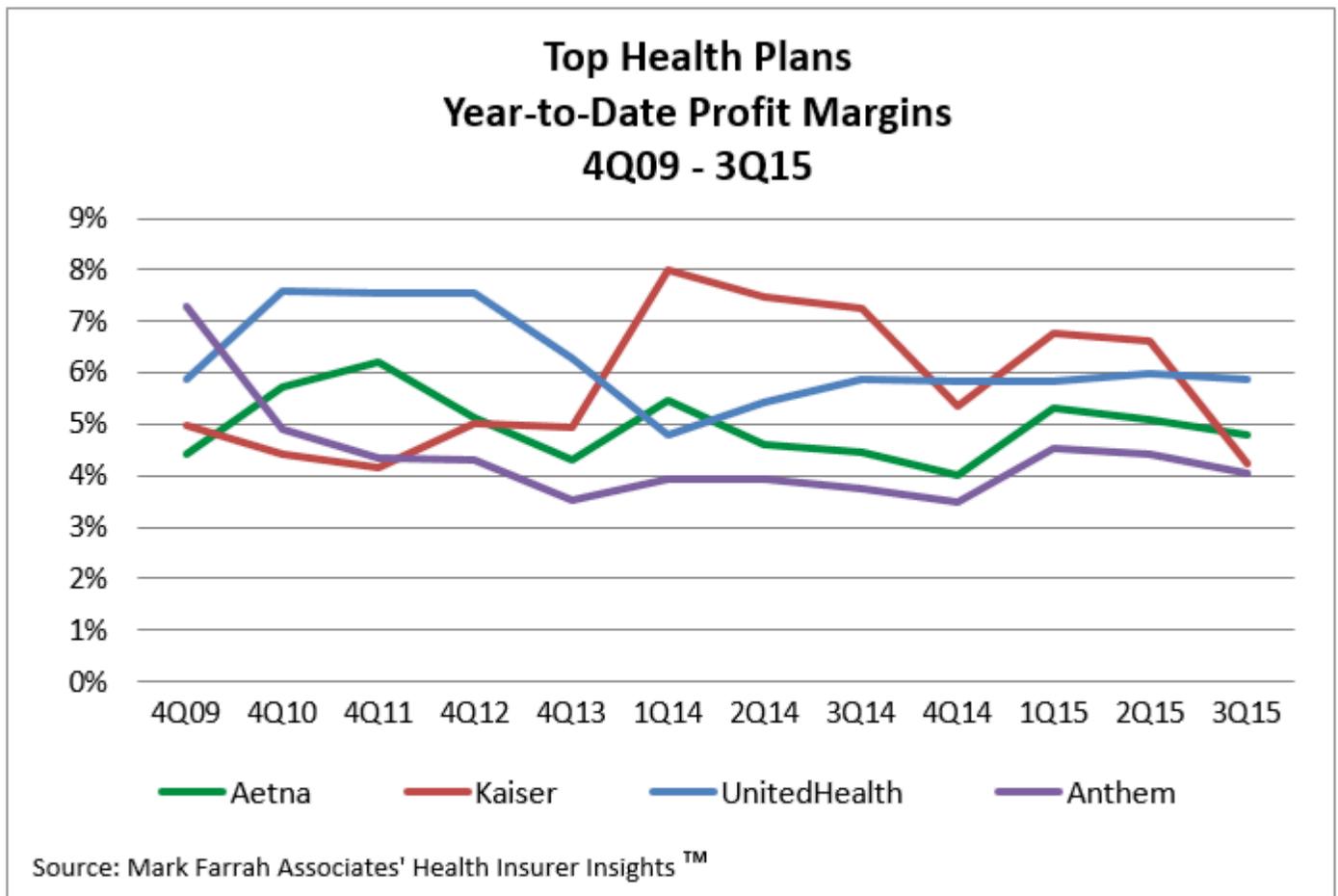
Cigna reported 13.8 million medical members, a 2.8% increase for third quarter 2015, slightly up from 13.5 million in 3Q14. Cigna attributes its enrollment increase to strong overall retention and sales as well as to the acquisition of Qualcare Alliance Networks Inc. in February 2015. Kaiser's enrollment growth was 6.5% from 9.2 million in 3Q14 to 9.8 million in 3Q15, as the company experienced a significant increase in its risk-based membership.

### **Profitability for Third Quarter 2015**

Top health plans reported generally favorable results in terms of profitability for third quarter 2015. For the purpose of this brief, MFA assessed segment reported revenue and net income for the calculation of profit margins for four of the seven health plans; Aetna, Kaiser, UnitedHealth and Anthem. As indicated in the chart below, only two of these companies saw improved margins for the nine months ended September 30, 2015.

Aetna generated over \$43 billion in revenue and reported a net income of \$2.1 billion through the nine months ended September 30, 2015. Aetna's profit margin was 4.8%, an increase from 4.4% in third quarter 2014. UnitedHealthcare earned \$5.8 billion on revenues of \$98.5 billion for the nine months ended September 30, 2015. The company's operating margin remained consistent at 5.89% year-over-year.

Kaiser Permanente's third quarter 2015 operating margin was 4.22%, down from 7.26% in the third quarter of 2014. Kaiser attributed this to volatility in the 2015 financial markets. Anthem reported net income of nearly \$2.4 billion on total revenues of \$59 billion for 3Q15, with a profit margin of 4.03%, up from 3.76% in 3Q14. The increase was primarily attributed to improved operating results in its Commercial, Specialty Business and Government Business segments.



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

## Industry Changes and the Competition

Competition, consolidation, and innovation remain common themes among the leading health plans. Companies are solidifying strategic initiatives to improve competitive performance and pursue new growth opportunities. Whether a company's growth strategy involves M&A's, creating value-based contracts with physicians, expanding its government business or providing consumers with technological assistance and wellness tools, all such developments will ultimately influence the future of the U.S. healthcare industry. As the industry evolves, Mark Farrah Associates continues to monitor and report on health plan performance and competitive shifts across all segments.

## Health Insurer Insights™

The data used in this analysis brief was obtained from Mark Farrah Associates' Health Insurer Insights™ report series and Health Coverage Portal™ database. Each quarter, MFA profiles the latest strategies and market positions for 10 of the top health insurers in the industry using GAAP and statutory financial performance metrics. MFA maintains financial data as well as enrollment and market share for the health insurance industry in the subscription-based Health Coverage Portal™.

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## About Mark Farrah Associates (MFA)

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