



## Market Turmoil Takes Toll on Top Health Plans

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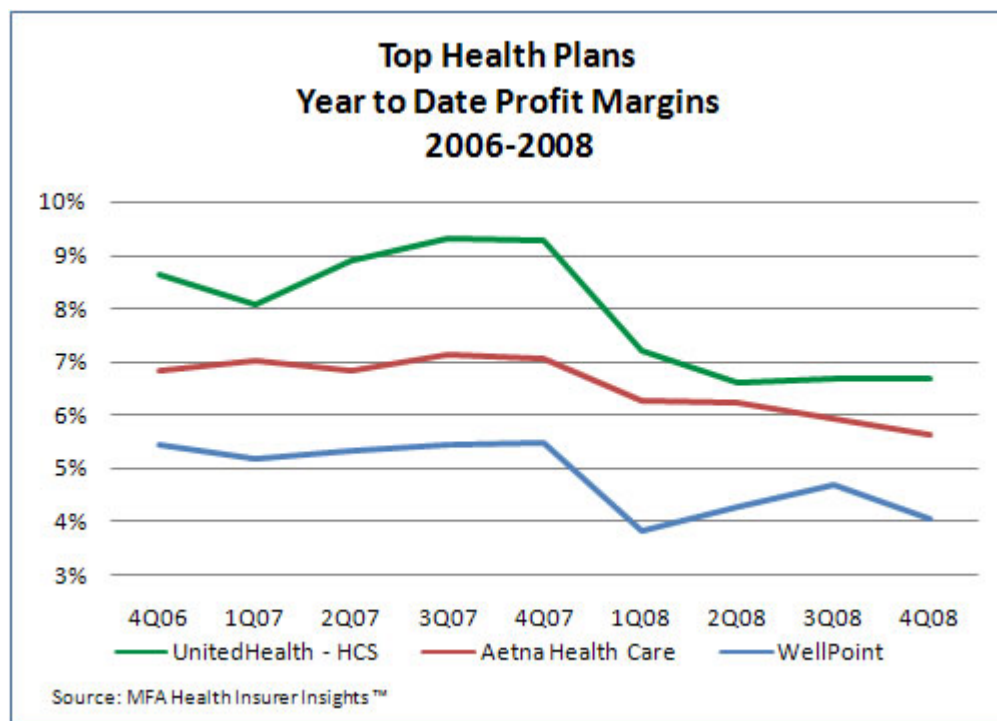
by Debra A. Donahue

The recession and market turmoil have taken a toll on leading U.S. health insurance plans which saw net income plummet by -36% during 2008. While overall revenues increased 6.2% for the nation's top plans, from \$270 billion in 2007 to \$287 billion in 2008, profit margins fell from a combined average of 6.2% at year-end 2007 to 3.7% at year-end 2008. Total membership growth also continued to slow in the fourth quarter for most of the top health plans. These eight health plans cover 59% of the total insured population in the nation, and their financial well-being is a key indicator of the industry's stability.

This brief presents key findings from MFA's assessment of financial and enrollment trends among eight top health insurers: Aetna, CIGNA, Health Care Service Corporation (HCSC), Health Net, Humana, Kaiser Permanente, UnitedHealth Group and WellPoint. Financial statistics, membership data and observations were gleaned from the April 2009 Health Insurer Insight™ series.

### Profitability Declining

After a tough economic year, profitability for most leading U.S. health insurance plans declined throughout 2008.



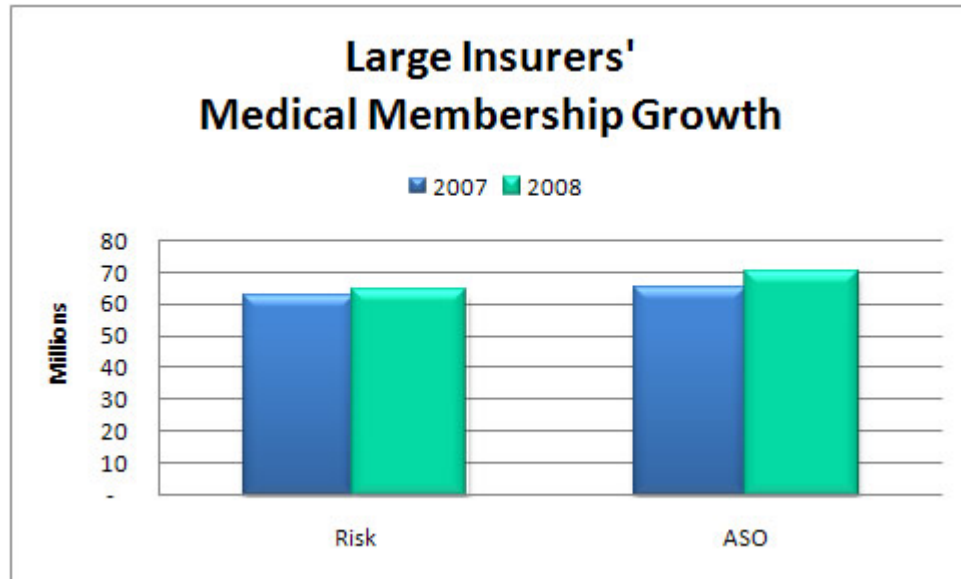
UnitedHealth Group's Health Care Service (HCS) business unit ended 2008 with a 6.7% profit margin\* after experiencing a drop from a high of 9.3% for the nine months ended September 30, 2007 to a low of 6.6% as of June 30, 2008. Aetna's Health Care sector's net income continued its slow descent through the fourth quarter to a

year-end profit margin of 5.6%. WellPoint, who had witnessed improvements in the second and third quarters of 2008 - after an ominous first quarter, ended the year with a 4.1% profit margin.

Kaiser Foundation Health Plan, Inc., Kaiser Foundation Hospitals and their subsidiaries reported a net loss of -\$794 million through 2008. Kaiser attributed the drop, from a net income of \$2.2 billion the previous year, to declines impacting its investment portfolio. Cigna, HCSC, Health Net and Humana also reported declining net incomes for the year ended December 31, 2008.

## Membership Growth Slows

Aggregate total enrollment for all plans throughout the country increased to 227.5 million with annual ASO enrollment up 3.5% and risk membership down -0.8%. Total membership for these eight plans increased collectively by nearly 5.3 million from 127.9 million in 2007 to 133.2 million for 2008. Administrative services only (ASO) enrollment increased 7.0% and fully-insured (risk) enrollment grew 1.2% year-over-year for these plans.



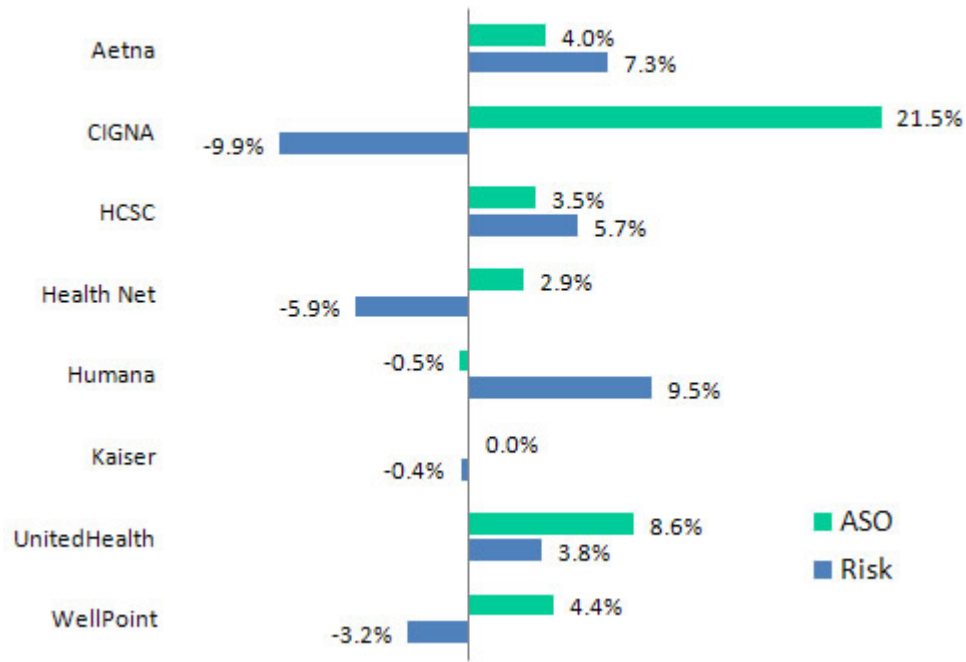
**Source:** Health Insurer Insights™ reports

Top plans' ASO membership growth slowed from 8.7% in the third quarter 2008 to 7% in the fourth quarter 2008. Interestingly, risk enrollment growth for these same plans saw a slight increase from 1% as of September 30, 2008 to 1.2% as of December 31, 2008. Traditionally renewals of smaller employers, who would not be self-insured, happen in the fourth quarter. The increase in risk enrollment may be a reflection of the larger plans showing more interest in the small group market segment.

## Health Plan Observations

Cigna, HCSC, Kaiser and WellPoint all saw declines in total membership between the third and fourth quarters of 2008. However, Health Net and Kaiser were the only plans among top competitors that saw declines in membership year-over-year. Between December 31, 2007 and December 31, 2008, Aetna, HCSC, Humana and UnitedHealth increased risk enrollment. Of the top plans, Humana was the only plan to report a decrease in ASO covered lives.

### Membership Growth 2007 to 2008



Source: Health Insurer Insights™ reports

CIGNA experienced the largest growth rate over the year, increasing total enrollment by 14.8%. CIGNA gained nearly 1.5 million new members between 4Q07 and 4Q08. However, UnitedHealth which added nearly 1.9 million members for the year gained the most when compared to the other eight plans. Humana saw risk enrollment jump 9.5% from 2007 to 2008, while CIGNA saw risk enrollment fall -9.9%.

Financial market turmoil and the recession are taking a toll on the health insurance industry with plans battling on multiple fronts. Year-end results for these eight plans saw many commonalities including substantial write-offs and write-downs of investment portfolios, reductions in investment income, membership growth targets missed, increased employee severance charges (to offset climbing administrative expenses), and escalating medical loss ratios (as medical expense rate climbed faster than premium increases). As employers cope with their own losses, more are shifting costs to their employees and down-sizing their health benefit packages. Leading plans are all developing products to suit the needs of their business customers and scrambling to create products that are affordable for the individual segment. It is possible that 2008/2009 will be remembered as a turning point or watershed year for the health insurance industry. With health care reform looming and rocky financial situations across the board, it is bound to be an interesting year.

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

## Health Insurer Insights™

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