Healthcare BUSINESS STRATEGY™

Performance of Top Health Plans as of 1st Quarter 2014

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by Mark Farrah Associates

Health plans are continuing to implement health reform expansions and execute growth strategies as they begin to deal with newly effective ACA taxes and regulatory provisions this year. First quarter 2014 results for seven of the leading health plans in the industry generally reflect enrollment gains coupled with favorable financial results.

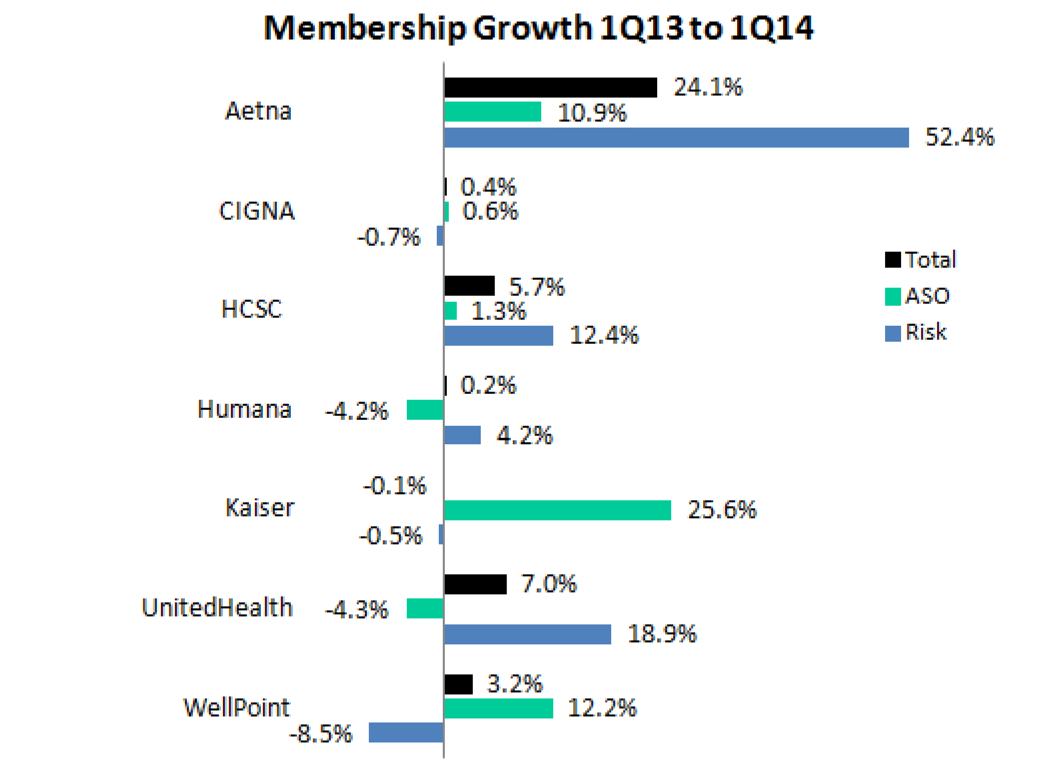
Mark Farrah Associates assessed enrollment changes and profitability for seven leaders in the health insurance industry: Aetna, Cigna, HCSC (Health Care Service Corporation), Humana, Kaiser, UnitedHealth and WellPoint. These companies collectively insure or administer health coverage for approximately 56% 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 first quarter 2014 results of top health plans as gleaned from the July 2014 Health Insurer Insights™, a Mark Farrah Associates' report series.

First Quarter 2014 Top Health Plan Enrollment Changes

From 1st quarter 2013 to 1st quarter 2014, six of the seven leading health plans in the United States realized net gains in the total number enrolled in Commercial, Medicare and Medicaid plans. Aetna, Cigna, Health Care Service Corporation (HCSC), Humana, UnitedHealth and WellPoint all reported aggregate membership gains on their total books of business. Kaiser Permanente was the only leader to experience a year-over-year membership loss but the decrease was minimal at less than one percent. All in all, these industry leaders have demonstrated strong performance in the early stages of health reform implementation.

As of March 2014, the leaders collectively covered more than 145 million members in risk and self-funded, ASO (administrative services only) commercial and government plans. These top plans provide coverage for about 56% of Americans with health insurance coverage. Aetna and UnitedHealth reported the most substantial year-over-year gains. Aetna increased its market share considerably following the Coventry Health Care acquisition in May 2013. UnitedHealth's enrollment gain in the past year was driven mainly by increases in TriCare business, the government program that serves the nation's active and retired military and their families.



Source: Mark Farrah Associates' Health Insurer Insights™; international enrollment was excluded from this assessment.

In general, membership trends of the leading health plans continue to reflect increases in both risk and ASO enrollment. In line with other industry accounts, the uptick in ASO suggests more employers are opting for self-funded commercial plans to skirt some provisions of the ACA (Affordable Care Act). Increases in risk enrollment are mainly a result of continued growth in the Medicare and Medicaid segments.

UnitedHealth remains the largest health plan in the United States based on total membership. As of March 2014, the company enrolled more than 40 million medical members (excluding international business), a 7% year-over-year gain. The 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 37 million as of 1st quarter 2014, a 3% increase year-over-year. UnitedHealth saw a decline in total ASO membership while WellPoint experienced a decline in total risk enrollment.

Following the Coventry Health Care acquisition, Aetna strengthened its position as the third ranking health plan in the country. Aetna enrolled almost 23 million in medical plans as of March 2014, an increase of 24% when compared with same period one year ago. Coventry added approximately 3.9 million members to Aetna's book of business last year.

Year-over-year, Kaiser realized a slight decline in risk enrollment (down 49,000) but increased ASO membership by 42,000. The ASO percentage increase was 26% because Kaiser's ASO book is relatively small. Although the industry at large moved away from traditional managed care models several years ago, Kaiser has successfully preserved its integrated healthcare delivery model. As a result, the majority of Kaiser's enrollment remains risk-based.

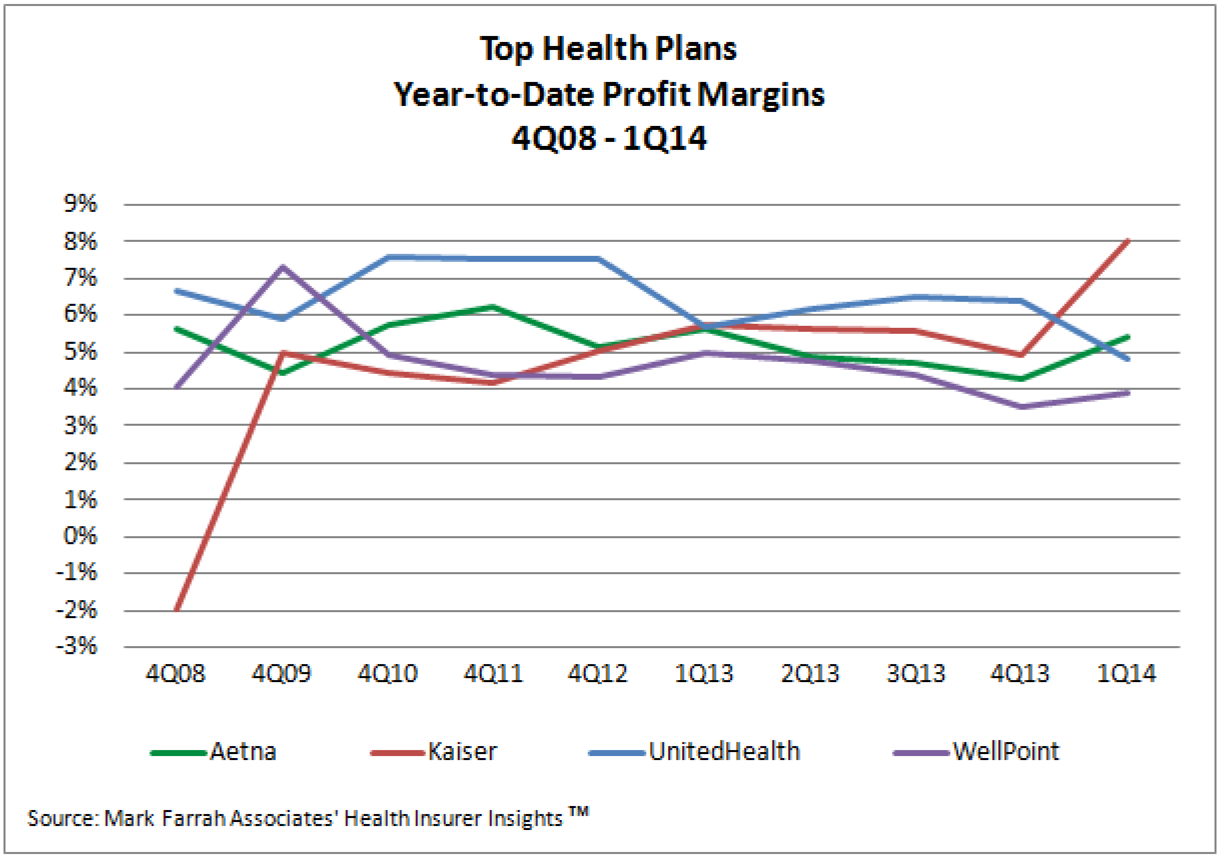
First Quarter 2014 Profit Declines for Top Health Plans

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. Profit margins, calculated as net income divided by total revenues, were positive for six of the seven leading companies in early 2014.

Although Health Care Service Corporation experienced an underwriting gain of $109 million, it was the only leader with a negative profit margin (-0.9%) in the 1st quarter of 2014. The company netted a loss after paying $205 million in federal taxes. Health plans industrywide are increasingly citing the impact of new taxes and fees under health reform on overall bottom line performance.

A closer look at four of the top seven plans per the chart below shows that Kaiser's 1Q14 profit margin was 8% as the company reported a significant uptick in operating income while containing costs. In a press release about 1st quarter performance, Kaiser indicated first quarter results are typically higher than subsequent quarters due to timing of revenue and expense trends.

Aetna's 1Q14 profit margin was 5.4%, UnitedHealth's results show 4.8% and WellPoint's margin was 3.9%.



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

Marketplace - Public Exchange Preliminary Indications

Following the close of the initial open enrollment period for the Marketplace (also known as the Public Exchange) the Assistant Secretary for Planning and Evaluation (ASPE) released a summary report in May 2014, presenting state-by-state statistics of the 8 million people that signed up. The federal government has not released a more detailed assessment that includes health plan-specific enrollment.

Industry leaders largely recognize the Marketplace as a long term opportunity that they must consider for future business planning. Health insurance companies are looking for any and all indications of initial Exchange results as they prepare for the next open enrollment period which starts November 15, 2014.

The following table provides some preliminary insights about Marketplace enrollment as reported by the top health plans.

Marketplace – Public Exchange Preliminary Indications

Aetna	Approximately 570,000 paid members as of May 2014
Cigna	Expects to enroll up to 60,000 for 2014
HCSC	550,000 Texans enrolled with BCBS TX in the first year
Humana	Received 202,000 applications as of February 2014
Kaiser	Over 300,000 Exchange customers in CO and CA
UnitedHealth	Plans to participate in 10 – 25 exchanges starting in 2015
WellPoint	Estimates initial Marketplace enrollment will total 600,000
Source: Mark Farrah Associates' Health Insurer Insights™	

Health Insurer Insights™

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Mark Farrah Associates (MFA)

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