Similar Growth Strategies Among Top Health Plans

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by Debra A. Donahue

As U.S. health insurers deal with the transformation of the industry, they find themselves in uncharted waters with a challenging future course. Mark Farrah Associates (MFA) noted several common strategies that leading health plans are implementing to support growth and cost management such as: entering international markets, competing in the managed Medicaid marketplace, developing private exchanges, converting providers to value-based reimbursement contracts, and focusing on technological applications that will appeal to the consumer. Medical membership for the leading U.S. health insurance plans increased 8.7% from 132.2 million as of September 2012 to 143.7 million as of September 2013. However, most of the increase came from acquisitions and UnitedHealthcare's new TRICARE contract. Leading health plans' enrollment increased by only two percent without these onetime gains. Profitability saw a slight downturn for the majority of leading health plans for the first nine months of 2013, when compared to the first nine months of 2012.

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 2012 to third quarter 2013. Strategic insights, financial and membership data and observations were gleaned from MFA's January 2014 Health Insurer Insights™ series. These seven organizations insure or administer coverage for approximately 55% of the population with health insurance in the United States and its territories.

Common Strategies Emerge

Year-over-year, total membership for the seven leading plans increased by nearly 11.5 million, or 8.7%, from 132.2 million in 3Q12 to 143.7 million in 3Q13. Much of this growth came from UnitedHealthcare's new TRICARE contract, which added 2.9 million members and acquisitions by leading plans to enhance their managed Medicaid capabilities. Growth during the period from major acquisitions includes: 3.8 million from Aetna's acquisition of Coventry and 2 million from WellPoint's acquisition of Amerigroup. Leading health plans' enrollment increased only two percent without these onetime gains.

As U.S. health insurers deal with the transformation of the industry, they find themselves in uncharted waters with a challenging future course. Mark Farrah Associates noted several common strategies being used by the leading health plans to continue to grow and manage costs. These strategies include: entering international markets; competing in the managed Medicaid marketplace, developing private exchanges, converting providers to value-based reimbursement contracts and/or setting up accountable care organizations and patient centered medical homes; and focusing on technological applications that will appeal to the consumer.

Expansion into international markets has been an ongoing strategy for Cigna. At Cigna's Investor Day event in November 2009, the company announced Cigna Inc.'s long term strategy was to move from a U.S. company with an international component to a truly global enterprise. UnitedHealth Group primarily entered this arena following its acquisition of Brazil's largest health insurer Amil Participações SA, which was completed during the second quarter of 2013. In the third quarter of 2013, Aetna announced an agreement to acquire United Kingdom-based InterGlobal and expanded its partnership with Swiss Life, to offer health care benefits to Swiss Life's customers in Southeast Asia. In January 2014, a group of U.S. Blue Cross insurers, including WellPoint,
announced a collaboration with Bupa, the United Kingdom's largest private medical insurer, to create the world's biggest provider network for international health insurance customers. As U.S. commercial group business dwindles, health plans are looking overseas to continue to grow in this segment.

The U.S. managed Medicaid market is seen as an area of high growth potential. As more states move Medicaid beneficiaries into proven managed Medicaid plans, the leading health plans are purchasing the capabilities to serve this growing population. Aetna's acquisition of Coventry and WellPoint's acquisition of Amerigroup are two examples. Cigna's acquisition of HealthSpring in January 2012 prepared it for this growth market, ahead of the curve. UnitedHealthcare has long participated in the Medicaid market through its AmeriChoice subsidiary. Humana, which hasn't acquired significant Medicaid membership, is instead, using acquisitions to build out capabilities around Medicaid and its dual-eligible expansion strategy. Most of the top plans expect to participate in the Centers for Medicare and Medicaid Services' (CMS's) dual eligible integration pilots when these kick off in 2014.

Exchange business is perceived as another long term opportunity by most of the leading plans. While WellPoint, HCSC and Humana jumped into the deep end of the public exchanges, the remaining top plans are just dabbling in select, trial marketplaces. Through acquisitions, all the top plans may enter the public exchange markets once the situation stabilizes. Most of the leading companies see more opportunity in private exchanges. Most, if not all, are participating in third-party run exchanges, such as: AonHewitt, Liazon, HealthPass, and Extend. Several of the top plans have also announced they are either expanding, introducing or considering their own private exchanges for 2014.

Value-based reimbursement contracts with providers, setting up accountable care organizations and patient centered medical homes, are being pursued by most of the top plans that do not have an integrated delivery system. These arrangements serve two purposes. First, they help to share costs and risk between the plan and the providers. As plans lose the ability to share risk with plan sponsors through administrative services arrangements, they are looking to share risk with providers. Second, as plans contemplate potential physician and other provider shortages in the near future, medical homes and capitated physician contracts may ensure plan members get access to health care coverage. Many of the leading health plans are locking in multi-year contracts with providers and offering narrow network contracts that exclude high priced provider groups to hedge future medical cost increases. One example is Molina Health Care - - to ensure its members will have coverage in a future of medical care shortages, Molina, entered into a 10-year agreement in October 2013 with College Health Enterprises (CHE), to perform medical and management services for CHE's hospital in Long Beach, California.

As the health insurance industry transforms to a more cost-sensitive, consumer-focused marketplace, many of the leading health plans are broadening relationships with consumer-focused groups like UnitedHealth's long-standing relationship with AARP and Aetna's new relationship with the American Grandparents Association. They are also focusing on technological applications that will appeal to the consumer. Cigna recently signed a multi-year agreement with Samsung Electronics to co-develop health and wellness related features on Samsung's major smart mobile devices. HCSC announced it will use SoloHealth's network of health and wellness consumer kiosks to conduct brand advertising and targeted new-member acquisition campaigns. From telehealth initiatives, to online prevention programs, to smart phone applications that tell where the nearest providers are located, along with the cost of the services and what the individual's insurance coverage is, health insurers are entering a brave new world of consumer sensitivity.

**Most Health Plans' See Enrollment Gains**

UnitedHealthcare, the largest plan based on membership in the United States, reported total enrollment gains year-over-year of 3.9 million new enrollees. UnitedHealthcare, with growth in Commercial, Medicare and Medicaid, reported 40.5 million medical enrollees as of September 2013 in its 10Q filing with the Securities Exchange Commission (SEC). UnitedHealthcare's commercial risk enrollment continued to decline. As mentioned earlier, most of United Healthcare's growth came from its new TRICARE contract, which included 2.930 million members as of September 2013. UnitedHealthcare's gains this quarter continued to outpace its nearest rival, WellPoint.
WellPoint experienced an enrollment increase of 2.0 million members from September 2012 to September 2013. All of WellPoint's membership growth was the result of its Amerigroup acquisition. The company continued to report declines in Local Group, National Accounts, Individual and Medicare lines of business. WellPoint ended the third quarter of 2013 with 35.5 million members.

Aetna, which ranks a distant third in terms of medical enrollment behind UnitedHealthcare and WellPoint, reported gains across all segments except Medicaid administrative services only contracts. It gained 3,974,000 new members, with roughly 3.8 million coming from its acquisition of Coventry Health Care. Coventry's enrollment crossed all major business lines.

Cigna, HCSC and Kaiser saw increases in both Risk and ASO business between 3Q12 and 3Q13. Kaiser's ASO membership represents less than 2% of its total enrollment. Humana continues to experience growth in Individual, Medicaid and Medicare business lines-- all are risk-based contracts.

### Membership Growth 3Q12 to 3Q13

<table>
<thead>
<tr>
<th>Plan</th>
<th>Total</th>
<th>ASC</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aetna</td>
<td>21.9%</td>
<td>9.5%</td>
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<td>CIGNA</td>
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<td>2%</td>
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<tr>
<td>HCSC</td>
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<td>6.1%</td>
<td>7.9%</td>
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<td>Humana</td>
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<td>3.2%</td>
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<td>Kaiser</td>
<td>1.7%</td>
<td>1.1%</td>
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<tr>
<td>UnitedHealth</td>
<td>-2.6%</td>
<td>10.7%</td>
<td>25.0%</td>
</tr>
<tr>
<td>WellPoint</td>
<td>-0.2%</td>
<td>6.0%</td>
<td>15.4%</td>
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</tbody>
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Source: Mark Farrah Associates' HealthInsurer Insights™; Data SEC Filings

### 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, 2013, primarily due to decreases in commercial enrollment, acquisition costs, and increases in Medicare and Medicaid medical loss ratios (segment premiums divided by segment medical expenses). Implementation of health reform regulations was also cited as reason for decreases in profitability by some plans. Cigna and Humana were the only top plans to report slight upticks in profitability year-over-year.

Cigna's Global Health Care segment reported a net gain of $1.2 billion through the third quarter of 2013 on total revenues of $18.9 billion, a roughly 6.5% earnings margin. For the similar period in 2012, the company reported segment earnings of $1.0 billion (6.0%) on revenues of $17.1 billion. Humana reported a net income of $1.3 billion on revenues of $31.1 billion for the nine months ended September 2013, a margin of 4.1%, up from 3.5% for the similar period in 2012.
UnitedHealth Group's UnitedHealthcare (UnitedHealth - HCS) business unit reported a 6.5% earnings from operations margin for the nine months ended September 30, 2013, down from 8.1% for the similar period in 2012. Kaiser Foundation Hospitals, Kaiser Foundation Health Plan, Inc., and respective subsidiaries (Kaiser) combined reported net income of approximately $2.2 billion on revenues of $39.6 billion, yielding a net income margin* of 5.6% for the nine months ended September 30, 2013. This was comparable to a net income of $2.1 billion on revenues of $37.6 billion (5.6% margin) for the nine months ended September 30, 2012.

*Net Income (profit) margin is net income (loss) divided by total revenues.

The top plans mentioned in this report insure or administer coverage for approximately 55% of the estimated 260.2 million people with health insurance in the United States and its territories. This highly competitive industry is in the midst of an unprecedented transformation and carriers are cautiously plotting courses to ensure success in the future. As the health insurance industry changes, staying current on the latest business strategies, market share shifts and the 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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