



## Top Health Plans Expanding

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by Debra A. Donahue

Total membership for the seven leading U.S. health insurance carriers increased to 131.1 million as of June 30, 2012, up from 129.4 million at year-end 2011. For the first half of 2012 top health plans saw a combined net increase of nearly 1.7 million members from December 2011. While aggregated fully-insured business continued to experience losses, the administrative services only (ASO) segment gained over 2.4 million members during the period from December 2011 to June 2012. Commercial, Senior and Medicaid segments all saw enrollment growth during the first six months of 2012. Mergers, acquisitions and/or expansion efforts are prevalent for all of the leading plans and may be the cause of profitability declines for six of the seven leading plans year-over-year through the second quarter of 2012.

This brief presents key findings from 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 looks at results from second quarter 2011 to second quarter 2012. Financial and membership data and observations were gleaned from the October 2012 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.

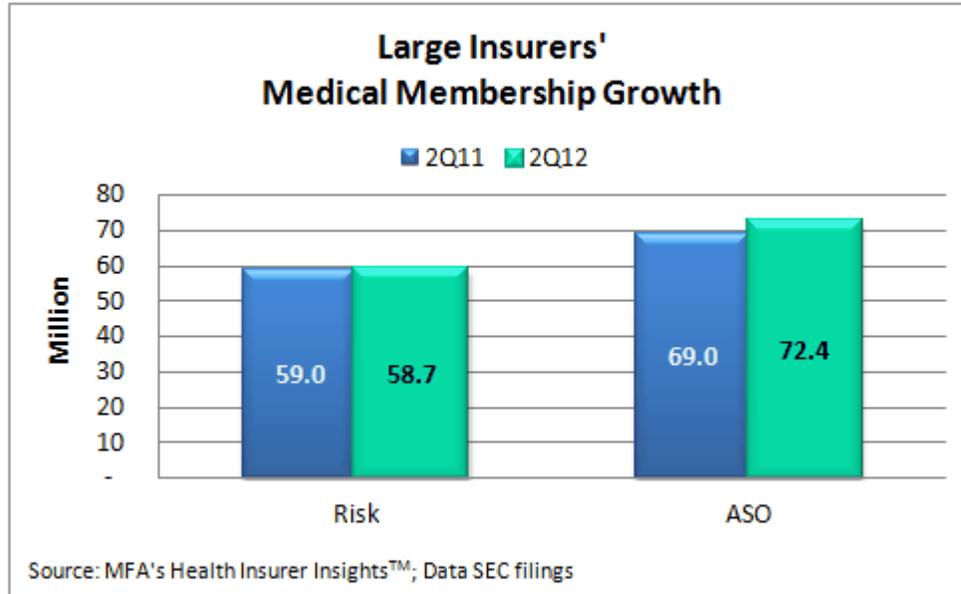
### Membership Changes

The top seven U.S. health plans, based on medical membership, reported enrollment totaling 131.1 million as of June 30, 2012, up 1,692,684 people from 129.4 million at year end 2011. Three of the top companies cited enrollment gains across all three major business lines: Commercial, Senior and Medicaid. Enrollment gains by Cigna, HCSC and UnitedHealthcare, in the Commercial sector were significant enough to offset losses in this segment by the other plans.

Large Insurers' Medical Membership Growth			
Segment	4Q11	2Q12	Change
Senior <sup>1</sup>	10,725,465	12,049,815	1,324,350
Medicaid <sup>2</sup>	7,696,677	7,928,687	232,010
Commercial <sup>3</sup>	111,018,325	111,154,649	136,324
<b>Total</b>	<b>129,440,467</b>	<b>131,133,151</b>	<b>1,692,684</b>
(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			

Most of the commercial gains are occurring in the administrative services only (ASO) segment. Total ASO enrollment grew by 2.449 million people, or 3.5%, from 69.992 million as of December 2011 to 72.440 million for June 2012. In comparison, year-over-year ASO enrollment increased by nearly 3.5 million or 5.0% with membership increasing from 69.0 million in June 2011 to 72.4 million as of June 2012.

Fully-insured business (risk enrollment) declined 756,016 (-1.3%) from 59.4 million as of December 2011 to 58.7 million for June 2012. Year-over-year risk enrollment declined 270,567 members from 59.0 million in June 2011 to 58.7 million as of June 2012.

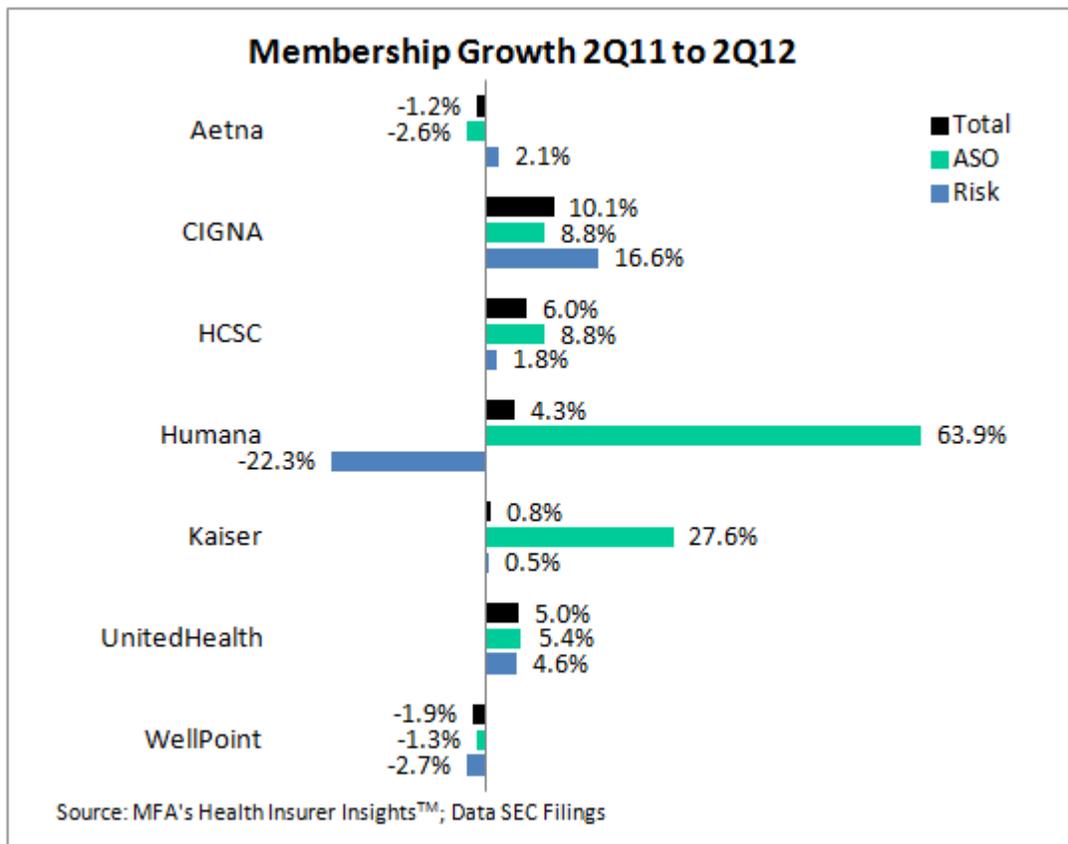


Year-over-year, total membership for the seven leading plans increased by 3,191,479 or 2.5%, from 127.9 million in 2Q11 to 131.1 million for 2Q12.

### Most Health Plans' See Enrollment Gains

The leading health plan in the nation in terms of enrollment is UnitedHealthcare. UnitedHealth reported it gained 1.7 million new enrollees year-over-year and from December 2011 to June 2012 the company gained 1.3 million. UnitedHealth gained 550,000 commercial enrollees from 4Q11 to 2Q12 with most of the commercial gains from fee-based (ASO) business. UnitedHealth added 480,000 Medicare members; more than 25% of UnitedHealth's medical membership is from government business.

From year-end 2011 to June 2012, Cigna gained 1.136 million new members, primarily from its acquisition of HealthSpring and ASO growth. Aetna and WellPoint both reported membership losses year-over-year and from December 2011 to June 2012. For the first six months of 2012, WellPoint and Aetna lost 704,000 and 430,000 members respectively. 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.

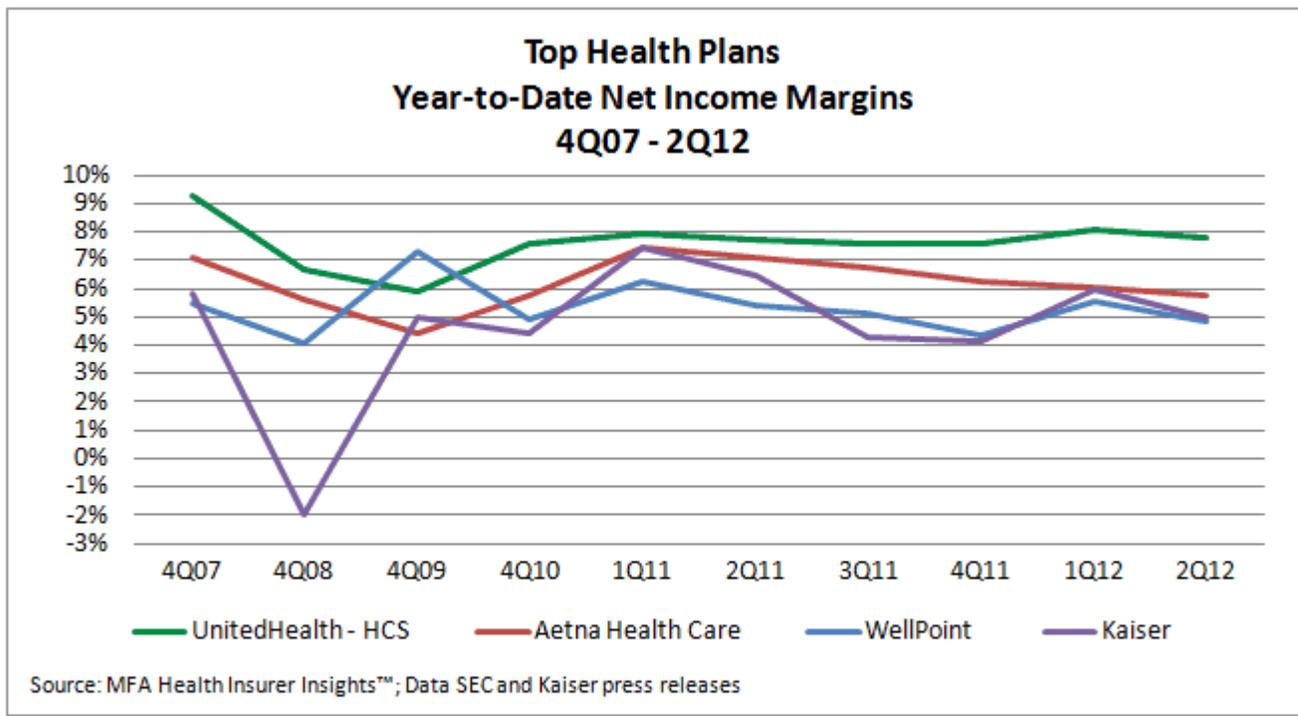


## Mergers, Acquisitions and Expansion

Mergers, acquisitions and/or expansion efforts are prevalent for all of the leading plans and may be the cause of profitability declines for six of the seven leading plans year-over-year through the second quarter of 2012. 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 announced plans to acquire AmeriGroup in July 2012. Aetna acquired Genworth Financials' Medicare Supplement business in 2011 and announced plans to acquire Coventry Health Care in August 2012. HCSC and Blue Cross Blue Shield of Montana announced an alliance which will enable BCBS Montana to become part of HCSC in September 2012.

Kaiser, which has not announced any acquisitions, is in the process of building new facilities which will expand its footprint in many of the markets it currently serves. Kaiser opened five new medical offices in Northern Ohio in 2011 and announced plans to expand health care services in Northern Colorado by late 2012. Also in 2011, Kaiser Permanente of Georgia announced a \$52 million expansion of its Duluth, Georgia medical offices and Kaiser Permanente Northwest purchased land for its new Gateway Medical Office in Oregon. During 2012, Kaiser has a large scale expansion underway in Maryland, Virginia and Washington D.C.

Six of the leading health plans saw modest downturns in year-over-year profitability for 2Q12, when compared to 2Q11. Many of the plans noted special costs associated with acquisitions as a reason behind the declines. Profit margins\* decreased from a combined average of 6.41% for second quarter 2011 to 5.37% for second quarter 2012. UnitedHealthcare was the only one of the seven leading health plans to report a year-over-year increase and that increase was minimal. UnitedHealthcare generated \$51.0 billion in revenue and reported earnings from operations of nearly \$4.0 billion (7.8%) through June 30, 2012. This compares to revenue of \$47.5 billion and reported earnings from operations of nearly \$3.7 billion (7.7%) through June 2011. For the top plans, second quarter 2012 profit margins ranged from Humana's low of 3.03% to UnitedHealthcare's of 7.78%.



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

These seven organizations 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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Debra A. Donahue is Vice President of Market Analytics & Online Products with MFA.



Mark Farrah Associates

Phone: 724.338.4100

Web: [www.markfarrah.com](http://www.markfarrah.com)

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