



## Top Plans' Medical Expenses Rising, Membership Falling

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The nation's leading health insurers saw an aggregate decline of 836,000 members for the first six months of 2009. Declining commercial enrollment was offset primarily by gains in products offered to seniors and growth in Medicaid business. Administrative Services Only (ASO) enrollment experienced its first quarterly decline since June 2007. The difficult economy is still taking a toll in terms of rising medical expenses and declining membership for most plans however profitability is showing signs of improvement for some of the top plans in the country.

This brief presents key findings from MFA's review of enrollment and financial trends among eight top health insurers: Aetna, CIGNA, Health Care Service Corporation (HCSC), Health Net, Humana, Kaiser Permanente, UnitedHealth Group and WellPoint. It looks at results from second quarter 2009. Financial and membership data and observations were gleaned from the October 2009 Health Insurer Insight™ series. These eight health plans cover 59% of the total insured population in the nation, up 2.3% from second quarter 2008.

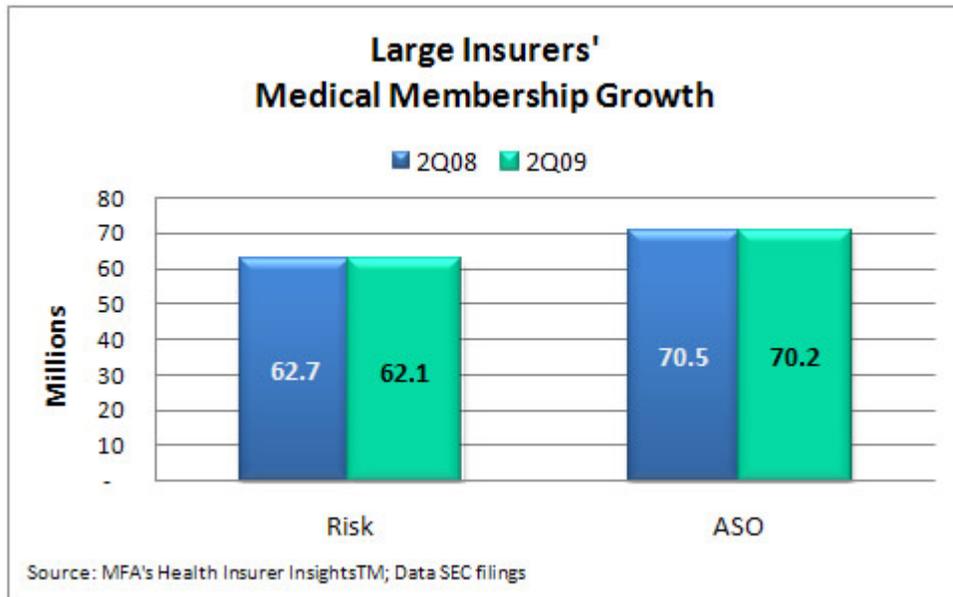
### Membership Declines

The health insurance industry continued to see deterioration in membership through the first half of 2009 with most of the leading health plans experiencing membership losses. The eight leading companies reported a combined loss of 836,000 members, during the first half of 2009, bringing aggregate membership down to 132.4 million members from 133.2 million members at year-end 2008. Combined Medicare Supplement and Medicare Advantage (Senior) enrollment increased by 405,000 members between 4Q08 and 2Q09 offsetting some of the 1.452 million membership decline experienced in the Commercial sector.

<b>Large Insurers' Medical Membership Growth</b>			
<b>Segment</b>	<b>4Q08</b>	<b>2Q09</b>	<b>Change</b>
Senior*	8,872,000	9,277,000	405,000
Medicaid**	6,896,000	7,107,000	211,000
Commercial**	117,418,000	115,966,000	(1,452,000)
<b>Total</b>	<b>133,186,000</b>	<b>132,350,000</b>	<b>(836,000)</b>

\* May include both Med Supp and Medicare Advantage but not PDP  
 \*\* Includes ASO and Risk-based arrangements  
 Source: MFA's Health Insurer Insights™; Data SEC filings

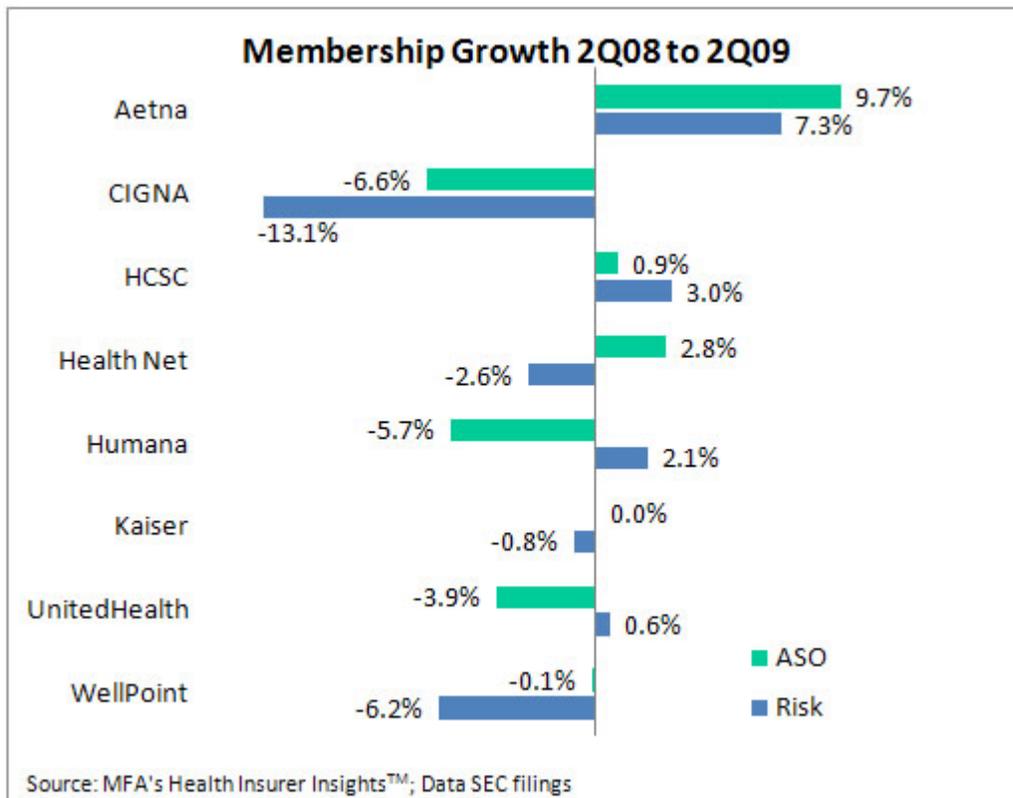
WellPoint and UnitedHealth, the two largest plans in the United States, saw total enrollment declines of 828,000 and 750,000 respectively for the first half of 2009. The economy and maintaining strict pricing and underwriting discipline were cited as reasons for the declines. Aetna, the third largest health insurance organization in the country, added 1.4 million total members during the same period, however all of the gain occurred during the first quarter. Aetna saw a 14,000 member loss between 1Q09 and 2Q09.



Year-over-year, total membership for the eight leading plans decreased by almost 840,000 from 133.2 million in 2Q08 to 132.4 million for 2Q09. Almost all of the membership loss year-over-year has occurred during 2009. ASO enrollment decreased -0.9% and risk enrollment declined -0.2% for these plans between 2Q08 and 2Q09. Between first and second quarter 2009 ASO enrollment declined -4.6%, the first quarterly decline since June 30, 2007.

#### Health Plans' Mixed Results

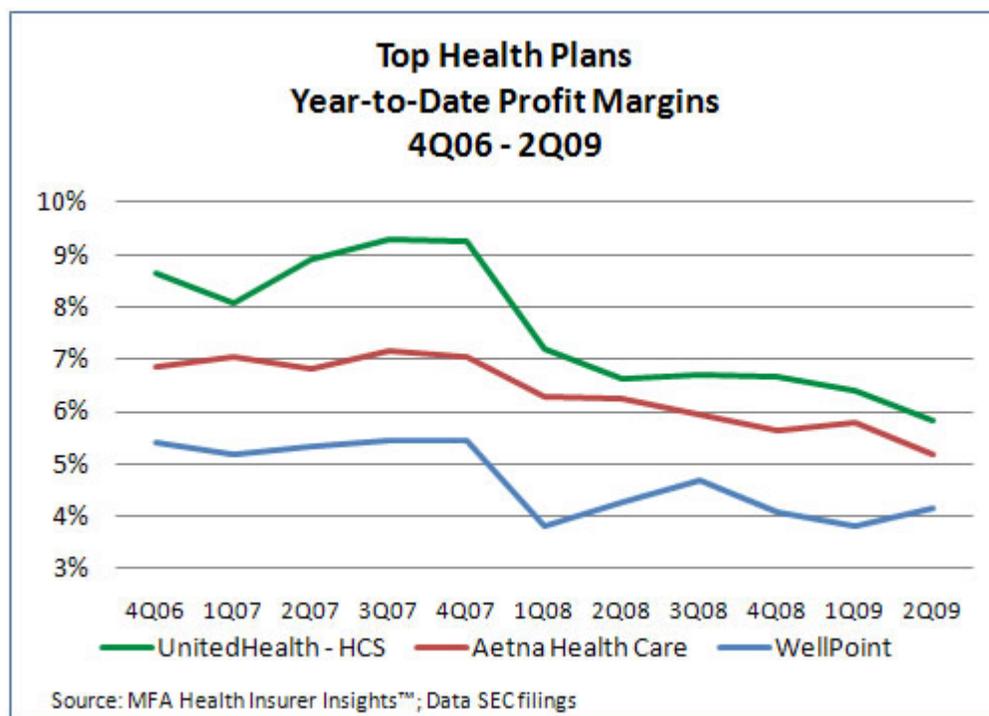
Health Net with a net gain of 69,000 members between first and second quarter 2009 saw the largest enrollment increase among top plans. Health Net realized a 1% gain in both ASO and fully-insured membership. Humana and HCSC also saw small increases in membership between 1Q09 and 2Q09, growing 0.4% and 0.2% respectively. The other five companies lost membership during this period. Aetna and HCSC were the only organizations among top competitors that saw increases in total membership year-over-year.



Between June 30, 2008 and June 30, 2009, Aetna, HCSC, Humana and UnitedHealth increased risk enrollment. Of the top plans, all but Aetna, HCSC and Health Net reported decreases in ASO covered lives. CIGNA experienced the largest decline in membership, decreasing total enrollment by -7.3%.

## Some Signs of Profitability Improvement

Top health plans achieved mixed results in terms of profitability year-over-year and between year-end 2008 and second quarter 2009. UnitedHealth, Aetna and HCSC are still experiencing declines; however, the other five top plans saw more favorable results.



UnitedHealth Group's Health Care Service (HCS) business unit continued to see eroding profitability during second quarter 2009. It reported a 5.8% profit margin\* year-to-date for the period ended June 30, 2009 compared to 6.6% at June 30, 2008 and a 6.7% profit margin for the twelve months ended December 31, 2008. Aetna's Health Care sector's net income of 5.2% through June 30, 2009 was also down compared to the 5.6% net income reported for the year ended December 31, 2008 and 5.9% for the six months ended June 30, 2008. WellPoint's 4.2% profit margin through second quarter 2009 was slightly below its 4.3% second quarter 2008 results but better than the 4.1% profit margin it showed for year-end 2008.

Cigna, Kaiser, Health Net and Humana all experienced improvements in second quarter net income compared with year-end 2008 and year-over-year results. HCSC saw operating margin declines in both year-over-year and year-end 2008 results.

The difficult economy is taking a toll in terms of rising medical expenses and declining membership for most plans. Excluding the impact of both favorable and unfavorable prior period adjustments, many plans are experiencing increases in medical expenses as a percentage of total revenues (often expressed as the medical expense ratio). Explanations for this increase are varied according to management comments in second quarter earnings calls, 10K reports and press releases. Common themes reported include business mix changes and utilization patterns shifting as a result of higher COBRA and unemployment numbers. Aetna is reporting higher costs per encounter with medical services taking place in higher cost settings along with an increase in higher cost services being performed by physicians. Aetna's number of large claims also increased beyond expectations. UnitedHealthcare saw its medical expense ratio increase to 84.2%, up 0.4%, largely due to elevated medical costs related to the H1N1 virus. WellPoint explained higher medical expenses are due to a change in business mix along with lower utilizing employees disproportionately losing or dropping coverage, leaving a higher percentage of more expensive employees enrolled in WellPoint's products.

With half of 2009 gone, top health plans are concentrating on medical management initiatives to control costs where possible and establishing medical trends and pricing that will impact the 2010 open-enrollment season currently underway. Health plans are mending their financial positions, creating products to meet employer demands for premium reductions and keeping their sights on health care reform initiatives coming out of Washington D.C. As the triple play of high unemployment, an early and possibly more severe flu season, and depleted reserve and profitability levels continue, the outlook for the remainder of 2009 and 2010 should prove challenging.

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

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