



## UnitedHealthcare Takes Lead from WellPoint

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by Debra A. Donahue

Medical membership for the leading U.S. health insurance plans increased 2.1% from 125.6 million as of September 2010 to 128.3 million as of September 2011. Enrollment in both fully-insured and administrative services only (ASO) funding arrangements grew year-over-year. Commercial, Senior and Medicaid segments all had enrollment growth from third quarter 2010 to third quarter 2011. Profitability saw a slight downturn for the majority of leading health plans for the first nine months of 2011 when compared to the first nine months of 2010. Top health plan profitability was impacted as several plans began accruing premium rebate obligations. Mark Farrah Associates also found that UnitedHealthcare took the lead from WellPoint as the top health insurance carrier in the nation in terms of medical membership as of September 30, 2011.

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 third quarter 2010 to third quarter 2011. Financial and membership data and observations were gleaned from the January 2012 Health Insurer Insights™ series. These seven organizations insure or administer coverage for approximately 50% of the population with health insurance in the United States and its territories.

### Membership Gains

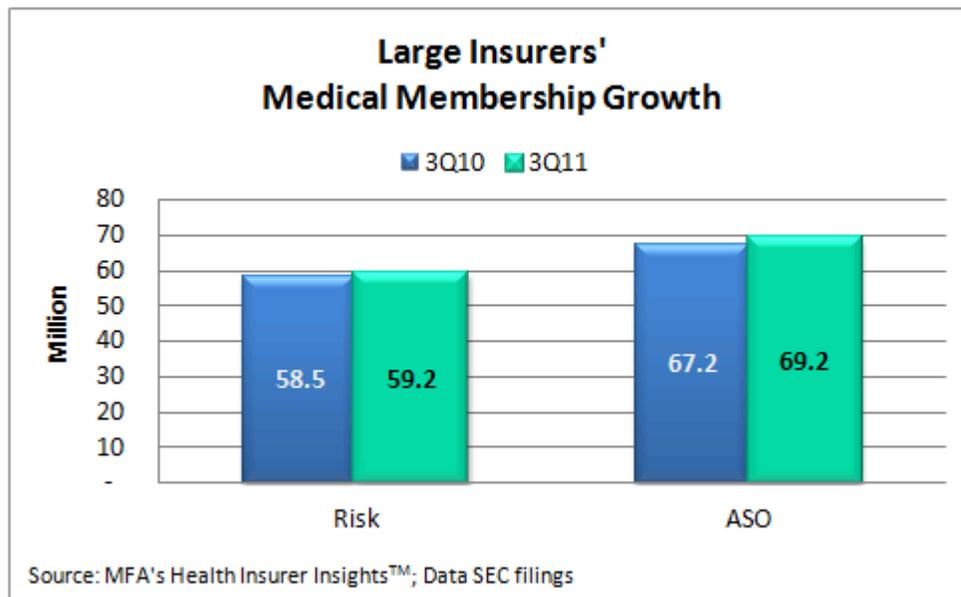
Year-over-year, total membership for the seven leading plans increased by 2,692,041 or 2.1% from 125.6 million in 3Q10 to 128.3 million in 3Q11. Commercial, Senior and Medicaid segments all saw enrollment growth year-over-year. Commercial business increased by 1.4% from September 2010 to September 2011. Medicare and Medicaid enrollment increased 5.6% and 9.4% respectively during the same period. Three of the top companies cited enrollment gains across all three major business lines.

Large Insurers' Medical Membership Growth			
Segment	3Q10	3Q11	Change
Senior <sup>1</sup>	9,886,476	10,441,983	555,507
Medicaid <sup>2</sup>	6,934,185	7,589,287	655,102
Commercial <sup>3</sup>	108,821,474	110,302,906	1,481,432
Total	125,642,135	128,334,176	2,692,041

(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

Six of the seven top plans saw gains in Medicaid; CIGNA does not participate in the Medicaid market. Many of the leading plans' growth strategies call for pursuing more business in the Senior and Medicaid segments for 2012 and 2013. As more States convert previous fee-for-service Medicaid populations to managed care — programs such as the aged, blind and disabled (ABD) or seniors and persons with disabilities (SPD) — the potential size of this business has most of the leading plans competing state-by-state with Medicaid specialty insurers. Medicare Advantage and Medicare Supplement business lines are also battlegrounds during the annual enrollment period.

Commercial enrollment gains by five of the leading plans were significant enough to offset Commercial losses experienced by Aetna and Humana. Most of the commercial gains are occurring in the administrative services only (ASO) segment. Total ASO enrollment grew year-over-year by nearly 2.0 million (3.0%) with membership increasing from 67.2 million in September 2010 to 69.2 million as of September 2011. Fully-insured business (risk enrollment) increased year-over-year by 711,058 members from 58.5 million in September 2010 to 59.2 million as of September 2011.



## UnitedHealth Unseats WellPoint

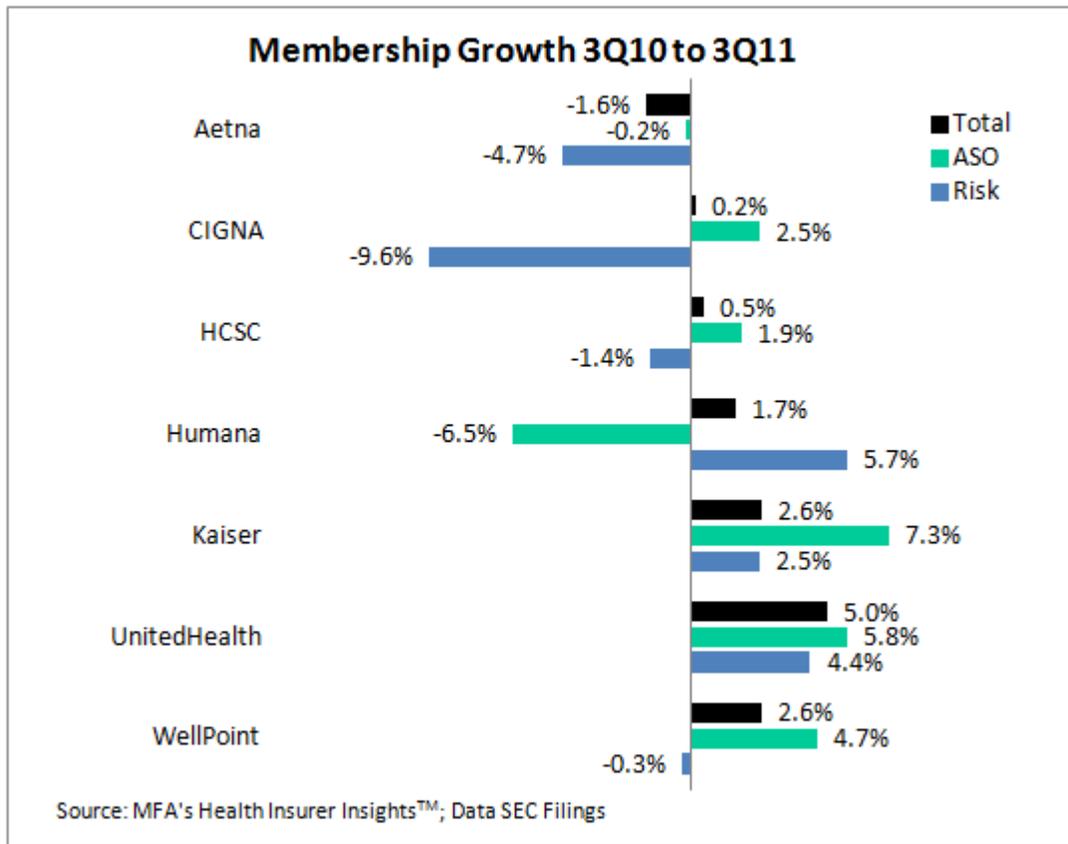
UnitedHealth, now the largest health insurance carrier based on medical membership in the United States, reported total enrollment gains year-over-year of 1.650 million new enrollees. UnitedHealthcare, with growth in Commercial, Medicare and Medicaid, reported 34.395 million medical enrollees as of September 2011 in its 10Q filing with the Securities Exchange Commission (SEC). UnitedHealth's gains this quarter were enough to unseat WellPoint as the largest health plan in the United States by roughly 40,000 members.

WellPoint gained 920,000 new enrollees, also across all three segments, from September 2010 to September 2011 and reported total medical enrollment of 34.355 million for the same period in its 10Q filed with the SEC. WellPoint's third quarter 2011 enrollment includes the CareMore acquisition which closed in August 2011, increasing 3Q11 enrollment by 57,000 members. While UnitedHealth saw gains across both risk-based and ASO funding arrangements, WellPoint saw a modest 0.3% decline in risk-based business for the period.

Aetna, which ranks a distant third in terms of medical enrollment behind UnitedHealth and WellPoint, experienced declines across the Commercial and Medicare segments year-over-year. It did pick up 90,000 Medicaid members from September 2010 to September 2011, however. Aetna experienced declines in both risk-based and ASO funding arrangements for a total membership decline of -1.6% from September 2010 to September 2011. Aetna was the only leading plan to report an overall decline in medical enrollment during the period.

CIGNA, HCSC and Humana saw mixed results. While CIGNA saw a decline in risk-based enrollment, this was primarily due to its exit of the individual private-fee-for-service Medicare business. CIGNA's pending acquisition of HealthSpring Corporation should strengthen CIGNA's Medicare business line.

Kaiser saw enrollment growth year-over-year across all segments and funding arrangement from September 2010 to September 2011.



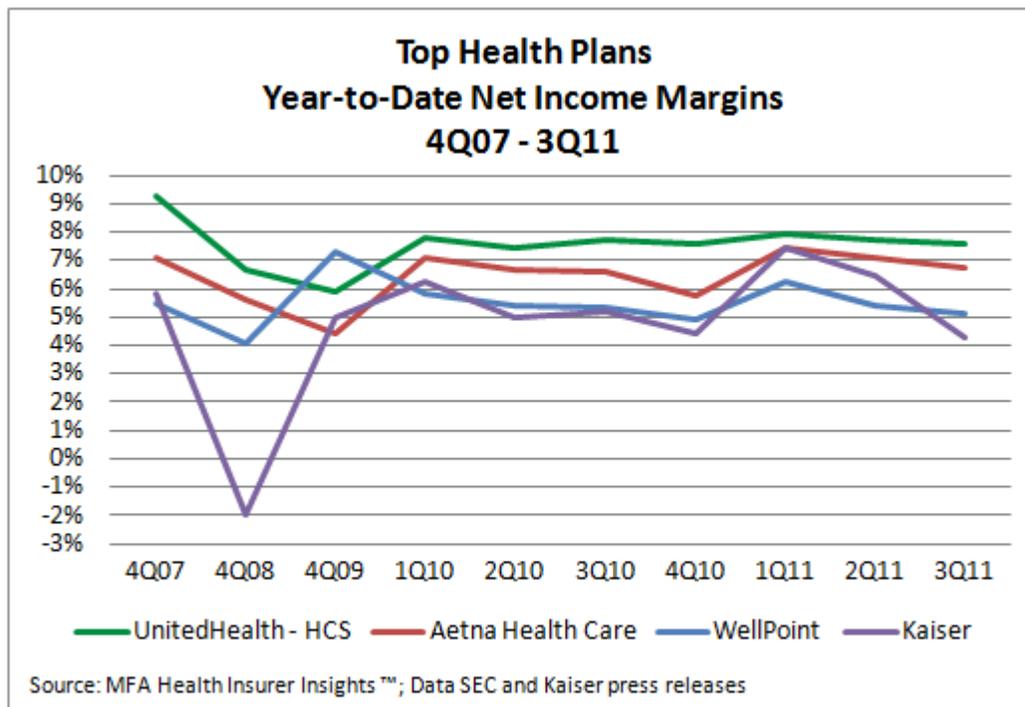
## Profitability Impacted by Premium Rebate Accruals

The majority of leading health plans saw a slight downturn in year-over-year profitability for the nine months ended September 30, 2011, primarily because several of these plans began to accrue funds to cover premium rebate obligations. A provision in the Patient Protection and Affordable Care Act of 2010 (ACA) requires insurers to provide a rebate to consumers if the percentage of premiums for clinical services and activities that improve health care quality is less than 85% in the large group market and 80% in the small and individual markets. Lower utilization of medical expenses in 2011 and the fact most 2011 premium rates had already been implemented before the ACA regulations were finalized, resulted in the need for the 2011 rebate accruals.

Aetna, CIGNA and Humana saw modest profit margin gains between results for the nine months ended September 2011 and the nine months ended September 2010. The primary source of Aetna's and CIGNA's enrollment is administrative services only (fee-based) funding arrangements, 69% and 83% respectively. Fee-based business is not impacted by the ACA premium rebate regulations. Humana's enrollment is primarily through government programs, such as Medicare and TRICARE which are not impacted by the regulations either.

UnitedHealth Group's Health Care Service (HCS) business unit reported a 7.6% earnings from operations margin for the nine months ended September 30, 2011, down from 7.7% for the similar period in 2010. WellPoint reported a profit margin of 5.1% through September 30, 2011, down from 5.3% for the first nine months of 2010. Kaiser Foundation Hospitals, Kaiser Foundation Health Plan, Inc., and respective subsidiaries

(Kaiser) combined reported net income of approximately \$1.5 billion on revenues of \$35.8 billion, yielding a net income margin\* of 4.3% for the nine months ended September 30, 2011. This was down from a net income margin of 5.2%, for the nine months ended September 30, 2010.



\* 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 50% of the estimated 256.2 million people with health insurance in the United States and its territories. This highly competitive industry is in the midst of transforming from a business-to-business sales paradigm to a much more consumer-driven and retail-based business. Competition amongst plans is also growing; only 40,000 members separate UnitedHealth, the leading plan in the nation in terms of membership, and number two ranked WellPoint as of September 30, 2011. 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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