



First Quarter 2016 Profits Plummet for Leading Health Plans while Enrollment Results Remain Mixed

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by Mark Farrah Associates

Year-over-year medical membership for the leading U.S. health insurance plans increased 1.3% between 1Q15 and 1Q16. Aggregate enrollment in administrative services only (ASO) funding arrangements increased 1.4% and fully-insured (Risk) business increased 1.2%, however, profitability saw a downturn for the majority of leading health plans in first quarter 2016 when compared to first quarter 2015. Top health plan profitability was impacted by several factors including volatility in financial markets, increased losses from investment activities, costs incurred associated with pending acquisitions, and implications from health reform regulations.

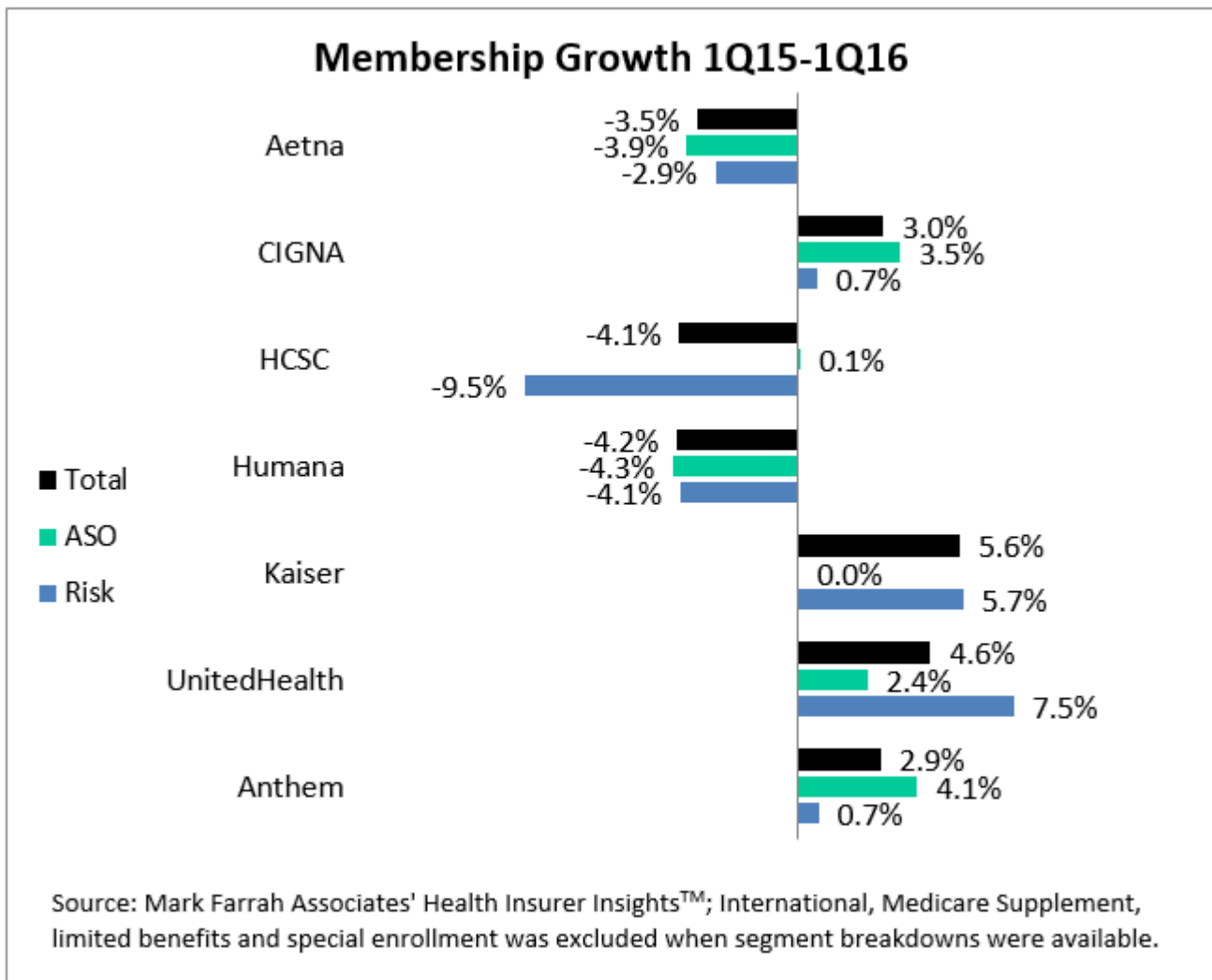
This brief presents key findings from Mark Farrah Associates' (MFAs) review of enrollment and financial trends among seven top health insurers: Aetna, Cigna, Health Care Service Corporation (HCSC), Humana, Kaiser Permanente, UnitedHealth Group and Anthem. Strategic insights, financial and membership data and observations between 1Q15 and 1Q16 were gleaned from MFA's April 2016 Health Insurer Insights™ series. These seven organizations insure or administer coverage for nearly 56% of the population with health insurance in the United States and its territories.

For first quarter 2016, four of the seven leaders realized net gains in the total number enrolled in fully-insured (risk) business, administrative services only (ASO), government segments and Commercial markets. Combined first quarter results indicated a marginal enrollment increase of 1.97 million, where several top health plans experienced membership losses and less than favorable year-over-year profit margins.

Enrollment Performance

As of March 31, 2016, aggregate enrollment figures reflected mixed results in risk-based and self-funded medical membership, year-over-year. Collectively, total membership for the top health plans increased 1.3%, from 147.1 million at the end of first quarter 2015 to 149.1 million in first quarter 2016. Note for the purpose of this analysis, Mark Farrah Associates assessed total comprehensive medical membership. Therefore, Medicare Supplement enrollment was excluded when MFA found it was integrated with other medical membership figures.

For first quarter 2016, UnitedHealth maintained its leading position with a reported 39.4 million members, a 1.73 million increase from 37.7 million in first quarter 2015. United's risk-based enrollment increased 7.5% to 17.6 million members, as compared to 16.4 million in first quarter prior year. The company primarily attributed its enrollment increases to growth in services to mid-sized employers, small groups and individuals. Though exchange participation contributed to membership growth for UnitedHealth in 1Q16, the company reported financial losses from exchange business and announced that it will pull back on its marketing efforts for individual exchange products and exit nearly all exchanges in 2017.



Anthem, the second largest U.S. health insurer, reported the second largest gains in enrollment for 1Q16 with an increase of approximately 1.07 million medical members. As of March 31, 2016, Anthem's medical membership reached nearly 38.8 million, an increase of 3%, from 37.7 million in first quarter 2015. Anthem reports Medicare Supplement membership within its Medicare segment. For this assessment, MFA excluded approximately 848,000 Medicare Supplement lives from Anthem's total medical membership. Much of Anthem's membership growth was due to increases in its Medicaid, Blue Card and National Accounts businesses. Anthem included approximately 5.6 million BlueCard members in enrollment reporting and due to the sharing of these national accounts across Blues plans, double counting may occur.

Cigna reported over 14.9 million medical members in first quarter 2016, a 3% increase year-over-year. Cigna includes Medicare Supplement membership in its Commercial Risk segment, therefore, for the purpose of this assessment, MFA excluded approximately 186,000 Med Supp members from its total medical membership. Cigna attributed its enrollment increase to strong sales in its middle market, Select segments and government business.

Kaiser experienced 5.6% enrollment growth in 1Q16 from over 9.7 million in 2015 to 10.3 million in 2016, reflecting a 5.7% increase in risk-based membership. The company attributes much of its first quarter enrollment increase to growth in its individual, group and government segments. Kaiser continues to remain focused on acquisitions and key business investments to sustain customer retention and grow membership.

As of March 31, 2016, Humana, Aetna and HCSC saw membership declines year-over-year. Humana's overall medical membership decreased from 9.61 million members in 1Q15 to 9.2 million in 1Q16. Note, MFA excluded 208,475 Medicare Supplement lives from Humana's individual membership. The company experienced a 4.1% decrease in total risk-based membership year-over-year and 4.3% decline in ASO enrollment. This was

due in part to the loss of individual commercial members, reflecting lower membership in non-ACA compliant business and the loss of membership associated with discontinued ACA-compliant plans as well as the continuing impact of the loss of certain large group ASO accounts.

Aetna's first quarter 2016 medical membership was approximately 22.4 million, reflecting a decrease of 805,000 members from the prior year. The company attributed its membership losses to declines in its commercial insured products that were partially offset by growth in government business.

As indicated in the chart above, HCSC experienced a significant decline of 9.5% in risk-based membership, year-over-year. This was a result of a loss of nearly 507,000 Individual members partly due to HCSC's withdrawal from the New Mexico exchange in 2016, as well as, the impact of discontinuing its PPO plans in Illinois and Texas. Despite losses in its ACA-business, HCSC does not seem to have immediate intentions of completely leaving the exchanges.

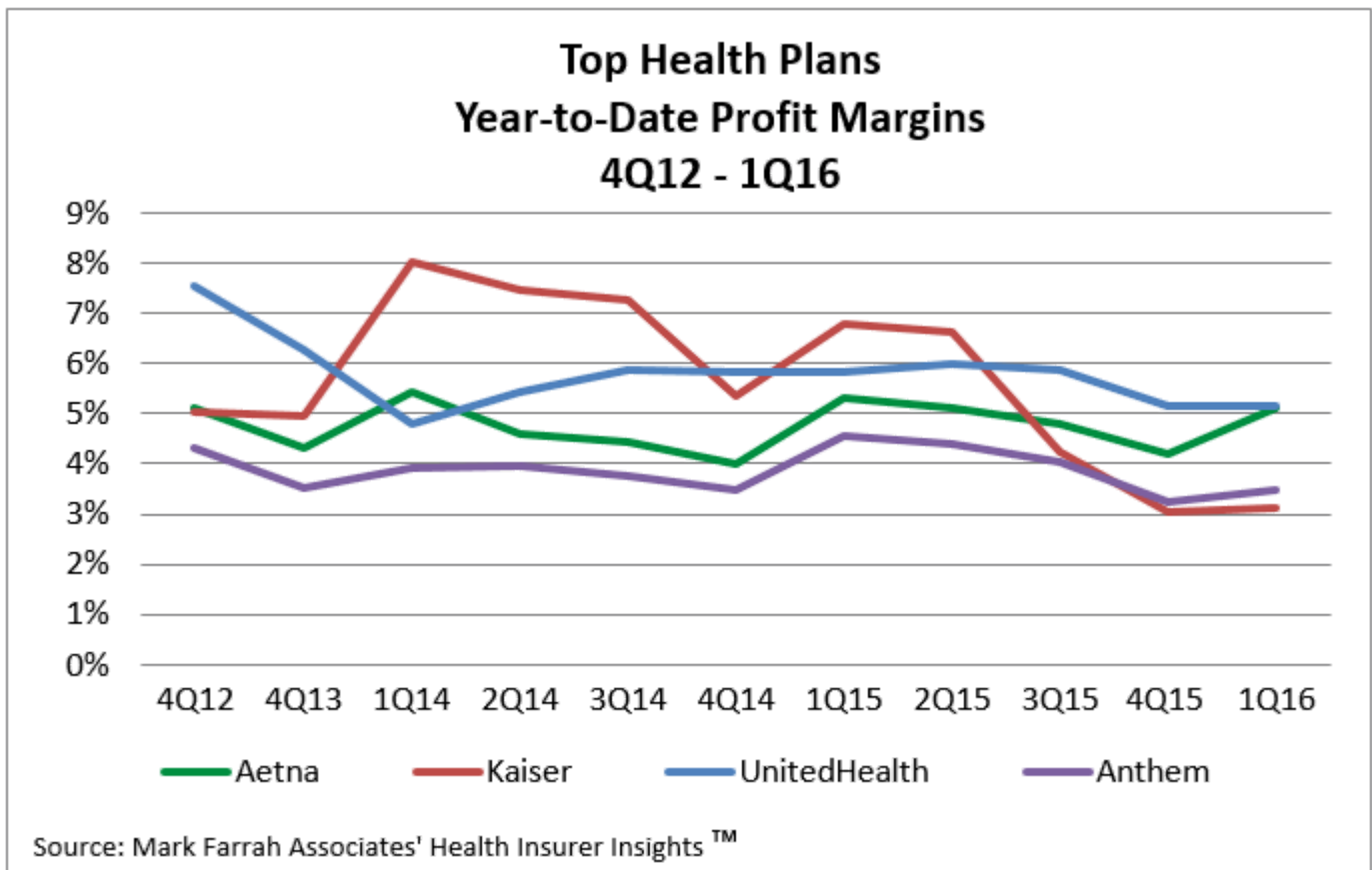
Profit Declines for Leading Health Plans in First Quarter 2016

Today's ever evolving healthcare landscape continues to impose varying levels of challenges and opportunities that impact plan performance year-over-year. Increasing health care costs, complex regulatory requirements, and competitive pressures are some contributing factors that impact a health plan's profitability. For the purpose of this brief, MFA assessed segment reported revenue and net income for the calculation of profit margins for four of the seven health plans; Aetna, Kaiser, UnitedHealth and Anthem. As indicated in the chart below, all of these companies saw declines in profits between March 31, 2015 and March 31, 2016.

While Kaiser Permanente's revenues increased by over 5% between 1Q15 and 1Q16, the company experienced the most significant decrease in profit among the four health plans. Operating margin declined to 3.12%, from 6.78% in 1Q15. Kaiser experienced a 52% decrease in year-over-year net income partly due to volatility in financial markets and investment losses. Nonetheless, the company remains confident as operating revenues and enrollment continues to grow.

Anthem reported net income of \$703 million on total revenues of nearly \$20.3 billion in 1Q16, a 3.5% profit margin, down from 4.5% a year ago. The company cited this decrease was primarily due to increased losses from investment activities, costs incurred associated with the pending acquisition of Cigna and higher interest expense.

At the three months ended March 31, 2016, UnitedHealth earned \$1.8 billion on total revenues of \$35.9 billion. The company's profit margin declined by 11% year-over-year. A reason for the decline was largely a result of public exchange performance. And lastly, Aetna experienced a 4.3% decline in profit margin, from 5.3% in first quarter 2015 to 5.1% in 1Q16, also partially attributed to pressure on its exchange business.



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

1Q16 Marketplace Exchange Update

As mentioned above in this analysis, the impact of the ACA has posed both highs and lows for healthcare industry leaders. On one hand, health plans experienced enrollment gains in their exchange business and yet on the other hand, they reported financial losses associated with the ACA. Since the implementation of the Marketplaces in 2014, many industry leaders were cautious yet optimistic and saw the Marketplace as a potentially long term opportunity.

It appeared that the program was working well in terms of the number of new enrollees however, after full review of individual exchange performance after the first full year of Obamacare, health plans began to question the viability of the ACA-reformed markets. Sicker and costlier enrollees and an "inadequate" risk-pool program are just a few contributing factors as to why many health plans are withdrawing from the exchanges. UnitedHealth, Aetna, Humana, Anthem and Cigna have all recently announced they will be significantly pulling back exchange business from states in which they currently serve under Obamacare, for 2017.

With the upcoming presidential election and the 2017 enrollment period for ACA exchanges starting on Nov. 1, 2016, it will be interesting to see how this all unfolds as insurers will closely evaluate enrollment mix and premium levels to further determine the sustainability of their existing exchange business. As the industry evolves, Mark Farrah Associates continues to monitor and report on health plan performance and competitive shifts across all segments.

First Quarter 2016 Public Exchange Enrollment	
Aetna	Reported approximately 911,000 on-exchange marketplace members. (Wall Street Journal)

Cigna	Reported approximately 193,000 individual customers, including policies not sold through the exchanges. (Cigna's Quarterly Financial Supplement March 31, 2016)
Humana	Reported 554,300 on-exchange ACA members. (Modern HealthCare)
UnitedHealth	Reported 795,000 individual exchange members. (Market Realist)
Anthem	Reported 975,000 exchange members. (NASDAQ)
Source: Mark Farrah Associates' Health Insurer Insights™	

Health Insurer Insights™

The data used in this analysis brief was obtained from Mark Farrah Associates' Health Insurer Insights™ report series and Health Coverage Portal™ database. Each quarter, MFA profiles the latest strategies and market positions for 10 of the top health insurers in the industry using GAAP and statutory financial performance metrics. MFA maintains financial data as well as enrollment and market share for the health insurance industry in the subscription-based Health Coverage Portal™.

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