

Washington State Health Plans end 2012 with Mixed Financial Results

By David Peel
Publisher and Editor
Washington Healthcare News



Fifteen of the largest domestic health plans in Washington State recently filed 2012 financial reports and the results were mixed with 8 plans reporting lower net income and 7 plans reporting higher net income when compared to 2011 levels.

One plan, SoundPath Health, reported a capital level just \$400 thousand over state required minimums. In October 2012, Soundpath announced a new partnership with

Catholic Health Initiatives (CHI) where CHI would make a commitment to invest in excess of \$24 million in exchange for a majority interest. According to Bob Peters, Interim CFO, the OIC approved the partnership and funding to capitalize the company on March 1st and the transaction closed in early March 2013. Some of the money went to purchase a control position from existing shareholders and the balance went to bolster SoundPath Health capital levels. The new capital will be reflected in their first quarter 2013 filing.

Our report on page 4 highlights financial results and shows member months (the combined total of month ending membership for each 12 month period), total revenues, net underwriting gain (loss), investment gain (loss), net income (loss) and statutory capital.

Our report on page 5 presents key financial statistics. When the financial figures on page 4 are divided by member months, a monthly average is obtained that is valuable in comparing one plan to another. These “per member per month” averages

are presented in the middle section of the page.

Finally, we present statutory capital per average member in the right hand section of page 5. This is essentially the amount of “cushion” on a per member basis a company has available to cover insufficient estimates of costs. Alternatively, this is the liquidating value of the company per average member.

There are significant differences in the type of membership each plan serves. Keep this in mind as you analyze the numbers.

All information in this report was obtained through publicly available reports filed with the Washington State Office of Insurance Commissioner (OIC). Information not required to be filed with the OIC (self-insured and some insured business from smaller, non-domestic carriers) is not included in this report nor is it referenced in this article.

Comments from Industry Representatives

We asked representatives of the

plans to provide insight into their financial results. We also asked them to comment on the Washington State Office of Insurance Commissioner initiated HB 1349. This bill would allow the Insurance Commissioner to take into account a non-profit insurance company's statutory capital level when approving their premium rate increase filing. Companies that operate their own healthcare facilities (i.e. Group Health Cooperative) would be exempt from this bill.

Some plans chose not to reply to our request. However, others provided valuable comments and these follow, sorted by plan size in descending order.

Premera (Premera Blue Cross and Lifewise Health Plan of Washington)

Strong financial results continued for Premera Blue Cross although there were decreases in net underwriting gain, investment gain and net income. Premera Spokesperson Eric Earling said, "Premera's financial results in 2012 were influenced by two key factors: one, an increase in utilization of medical services, up from atypically low levels of utilization in 2010 and 2011. Second, we increased investments in strategic initiatives as we prepare for the new market conditions created by federal healthcare reform. These strong results leave us well positioned to implement federal healthcare reform as smoothly as possible for our customers."

Earling also stated Premera's position on HB 1349, "Premera opposes legislation proposed by the OIC that would drain reserves by artificially suppressing rates. It's important to remember that while debates about

reserves have focused on Premera Blue Cross's reserves that support our membership in the employer market, all health plans serving the individual market in Washington have been losing money in 2011 and 2012. Our primary individual brand, LifeWise Health Plan of Washington, lost over \$20 million in 2011 and 2012.¹ While LifeWise remains well-capitalized, its reserves at the end of 2012 were approximately \$46.2 million. Suppressing individual rates to further drain those reserves as the OIC's proposal describes would not be prudent, especially in advance of the significant expansion of the individual market under federal healthcare reform and the risks that go with it. The unknowns of implementing federal healthcare reform are an important reminder of the value of prudent reserves to ensure the health plan can pay claims in all manner of circumstances, including disrupted market conditions, as well as make investments in new and additional services for our customers."

Regence

Regence ended 2012 with much better results than 2011 including net income of \$30 million.

With regard to HB 1349, Spokesperson Rachele Cunningham said, "We believe that leveraging capital reserves to suppress rates is not a sustainable strategy. Risking long-term insurer solvency for a temporary illusion of affordability threatens the health security of millions of Washingtonians."

She continued, "Capital reserves are critical in the next few years as numerous provisions under the Affordable Care Act become effective.

In 2014 major benefit and coverage expansions begin. Pent-up demand is anticipated for prescription drugs and physician and clinical services. All insurers including Medicaid, the Washington State Health Insurance Pool and Washington Basic Health need to be prepared to pay those claims."

Cunningham concluded, "Additional state regulation is unnecessary because health insurers must hold a minimum amount in reserves; and one of the most important consumer protections in the Affordable Care Act is the regulation of insurers' medical loss ratios. The law requires that health insurers pay out at least 80 percent of premiums for medical claims. Insurers that pay out less must rebate the difference to members."

Group Health (Includes Group Health Cooperative and Group Health Options)

Group Health Cooperative ended 2012 with \$4.4 million in net income, \$18 million better than 2011's net loss of \$13.6 million. Interim Chief Financial Officer Scott Boyd said, "Group Health has been implementing a large scale cost reduction program to improve results. We began to see the benefits of this improvement in 2012 and will see it continuing into 2013."

Group Health statutory capital decreased \$51 million in 2012. Boyd said, "This is due to our pension plan costs. Like all pension plan providers, we are seeing the continued impacts of the low interest rate environment. It is causing the pension liability to increase and this is seen on the balance sheet as versus the income statement, so capital de-

clines despite a small positive net income.”

Group Health Options (GHO) reported a loss of \$8.2 million for 2012 on revenues of over \$1 billion. Boyd explained, “GHO has gone from a small gain to a small loss between the two years. This is within the range of performance volatility. Claims experience has been higher than anticipated. Cost improvement efforts in the organization will impact GHO as well, but have been slower to be realized in GHO than they have in Group Health.”

Molina Healthcare of Washington

Molina Healthcare of Washington experienced rapid growth in 2012 with member months increasing from 4.2 million to 4.6 million.

Molina Healthcare of Washington President Bela Biro said, “Molina Healthcare has been serving beneficiaries in the state of Washington for over 10 years, and our track record of providing quality care through our network of provider partners has helped us grow steadily. Molina Healthcare is also very active in the community – supporting and working closely with community partners that serve the same population.”

Concluding Comments

Healthcare reform is in full swing and the results are showing up in financial reports. We’ll continue to see large variances the next couple of years as significant numbers of new people come into the insurance system and costs remain dif-

ficult to predict.

Look for insurance companies to continue to butt heads with the Insurance department on rate increases.

Of significant concern to the larger plans that don’t operate health care facilities is the OIC’s belief, demonstrated by HB 1349, that accumulated reserves on non-profit insurance company books should factor into rate increase approval decisions. If this bill is passed expect to see significant losses for plans until reserves are burned down to levels compliant with any new legislation.

¹Individual results aren’t reported separately in our reports on pages 4 and 5.

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Washington State Health Insurance Company Financial Results¹

For the Twelve Months Ended 12/31/12 compared to the Twelve Months Ended 12/31/11

Full Service Medical Plans Only - Sorted by Total Revenues - 000's Omitted²
wahcnews.com

Health Plan Name	Member Months ³			Total Revenues			Net Underwriting Gain (Loss) ⁴			Investment Gain (Loss) & Miscellaneous			Net Income			Statutory Capital ⁵		
	12/12	12/11	Change	12/12	12/11	Change	12/12	12/11	Change	12/12	12/11	Change	12/12	12/11	Change	12/12	12/11	Change
Premiera Blue Cross	7,970	8,017	-47	2,574,502	2,501,043	73,459	57,941	96,294	-38,353	44,393	45,308	-915	93,096	119,164	-26,068	1,160,691	973,090	187,601
Regence BlueShield	6,828	7,412	-584	2,157,825	2,209,782	-51,957	-24,820	-53,975	29,155	64,263	54,629	9,634	29,958	-10,200	40,158	1,081,609	995,938	85,671
Group Health Cooperative	4,174	4,259	-85	2,121,980	1,973,238	148,742	-21,319	-85,896	64,577	25,733	72,344	-46,611	4,414	-13,551	17,965	431,260	482,475	-51,215
Group Health Options	2,559	2,789	-230	1,010,883	1,015,869	-4,986	-16,054	6,399	-22,453	4,842	4,817	25	-8,223	7,871	-16,094	109,894	117,545	-7,651
Molina Healthcare of WA	4,600	4,170	430	1,050,142	834,782	215,360	38,041	39,188	-1,147	1,142	1,142	0	19,277	25,911	-6,634	113,774	99,544	14,230
Community HP of WA	3,610	3,363	247	876,213	706,398	169,815	-46	6,121	-6,167	10,666	3,853	6,813	8,824	11,416	-2,592	126,092	116,913	9,179
UnitedHealthcare of WA	846	657	189	567,753	510,567	57,186	24,366	36,625	-12,259	3,883	2,546	1,337	17,257	25,549	-8,292	88,681	88,983	-302
Arcadian Health Plan	511	501	10	399,767	406,023	-6,256	-3,009	-8,237	5,228	1,594	4,256	-2,662	343	-2,337	2,680	73,657	38,458	35,199
LifeWise HP of WA	1,351	1,233	118	325,982	287,031	38,951	-8,852	-11,760	2,908	4,493	5,190	-697	-1,364	-4,645	3,281	46,157	46,258	-101
Asuris NW Health	797	922	-125	240,848	259,657	-18,809	7,374	1,604	5,770	2,206	2,582	-376	11,937	2,762	9,175	66,247	53,467	12,780
SoundPath Health	201	137	64	128,030	50,118	77,912	-618	-1,455	837	370	240	130	-424	-1,330	906	3,875	4,072	-197
Columbia United Providers	624	722	-98	108,711	135,848	-27,137	3,424	6,087	-2,663	78	124	-46	2,275	4,137	-1,862	24,553	22,791	1,762
KPS Health Plans	292	352	-60	123,221	126,571	-3,350	509	2,497	-1,988	2,865	117	2,748	3,430	2,372	1,058	14,597	11,034	3,563
Timber Prod. Mfg. Trust	135	140	-5	29,771	25,201	4,570	1,424	2,127	-703	60	123	-63	1,375	2,250	-875	6,389	5,014	1,375
Amerigroup Washington ⁶	117	0	117	45,514	0	45,514	-4,901	-3	-4,898	18	0	18	-4,883	-3	-4,880	30,197	3,051	27,146

Notes:

- All information from the Washington State Office of Insurance Commissioner web site.
- 000's omitted means the last three digits of each figure is removed. For example, the number 1,000 becomes 1.
- Member Months is the combined total of each month's ending membership. For example, to get Member Months through December is added together to get a combined total.
- Net Underwriting Gain (Loss) is Net Income prior to Income taxes, Investment Gains and Losses and Miscellaneous revenues and expenses. It is a thought to be an accurate measure of the adequacy of premium revenue and can be a good predictor of future premium increases or decreases.
- Statutory Capital is an insurance company's retained earnings as defined by Washington State statute. It approximates the cash value of a company if liquidated in a short period of time.
- Amerigroup Washington is a new Medicaid plan with enrollment effective July 1, 2012.

Washington State Health Insurance Company Key Financial Statistics¹

For the Twelve Months Ended 12/31/12 compared to the Twelve Months Ended 12/31/11

Full Service Medical Plans Only - Sorted by Total Revenues

wahcnews.com

Health Plan Name	Member Months ^{2,3}			Per Member Per Month ⁴												Statutory Capital Per Average Member ⁶		
				Total Revenues			Net Underwriting Gain (Loss) ⁵			Investment Gain (Loss) & Miscellaneous			Net Income					
	12/12	12/11	Change	12/12	12/11	Change	12/12	12/11	Change	12/12	12/11	Change	12/12	12/11	Change	12/12	12/11	Change
Premiera Blue Cross	7,970	8,017	-47	323	312	11	7	12	-5	6	6	0	12	15	-3	1,748	1,457	291
Regence BlueShield	6,828	7,412	-584	316	298	18	-4	-7	4	7	2	4	4	-1	6	1,901	1,612	288
Group Health Cooperative	4,174	4,259	-85	508	463	45	-5	-20	15	17	-11	1	1	-3	4	1,240	1,359	-120
Group Health Options	2,559	2,789	-230	395	364	31	-6	2	-9	2	0	0	-3	3	4	515	506	10
Molina Healthcare of WA	4,600	4,170	430	228	200	28	8	9	-1	0	0	0	4	6	-2	297	286	10
Community HP of WA	3,610	3,363	247	243	210	33	0	2	-2	3	1	2	2	3	-1	419	417	2
UnitedHealthcare of WA	846	657	189	671	777	-106	29	56	-27	5	4	1	20	39	-18	1,258	1,625	-367
Arcadian Health Plan	511	501	10	762	810	-28	-6	-16	11	3	8	-5	1	-5	5	1,730	921	809
LifeWise HP of WA	1,351	1,233	118	241	233	8	-7	-10	3	3	4	-1	-1	-4	3	410	450	-40
Asuris NW Health	797	922	-125	302	282	21	9	2	8	3	3	0	15	3	12	997	696	302
SoundPath Health	201	137	64	637	366	271	-3	-11	8	2	2	0	-2	-10	8	231	357	-125
Columbia United Providers	624	722	-98	174	188	-14	5	8	-3	0	0	0	4	6	-2	472	379	93
KPS Health Plans	292	352	-60	422	360	62	2	7	-5	10	0	9	12	7	5	600	376	224
Timber Prod. Mfg. Trust	135	140	-5	221	180	41	11	15	-5	0	1	0	10	16	-6	568	430	138
Amerigroup Washington	117	0	117	389	0	389	-42	0	-42	0	0	0	-42	0	-42	1,549	0	1,549

Notes:

- All information from the Washington State Office of Insurance Commissioner web site.
- 000's omitted. This means the last three digits of each figure is removed. For example, the number 1,000 becomes 1.
- Member Months is the combined total of each month's ending membership. For example, to get Member Months through December is added together to get a combined total.
- Per Member Per Month is any of the financial figures divided by Member Months for the particular plan.
- Net Underwriting Gain (Loss) is Net Income prior to Income taxes, Investment Gains and Losses and Miscellaneous revenues and expenses. It is a thought to be an accurate measure of the adequacy of premium revenue and can be a good predictor of future premium increases or decreases.
- Statutory Capital Per Average Member is Statutory Capital divided by Member Month months divided by the number of months in the reporting period. However, the calculation for Amerigroup Washington used seven months rather than the twelve in this period because they began operations on July 1, 2012.