

Washington Health Plans Report Mixed 2010 Financials

Investment Income Rebound Helps Premera Blue Cross and Regence Blue Shield Increase Profitability

By David Peel

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Washington domestic health plans recently reported third quarter financial results and four of the largest five plans posted higher net income compared to the same period in 2009. However, the other, smaller plans reported mixed results and two plans, KPS Health Plans and Timber Products Manufacturing Trust, reported losses.

Our report, shown on page three, shows total revenues, investment income (loss) and net income (loss) for the 14 domestic health plans operating in Washington for the periods ending September 30, 2010 and September 30, 2009. We also pres-

ent member months which is the total of month ending membership for each nine month period. When the financial figures are divided by member months, a monthly average over the period is obtained that is valuable in comparing one plan to another. Financial statement users can then make apples to apples comparisons of health plans.

Comments from Industry

We asked representatives of the plans to give us insight into their financial results.

Premera Blue Cross spokesperson Eric Earling said, “At Premera, changes in member months and total revenue were largely due to the effects of a challenging economy and higher unemployment. Changes in investment income were due to continued recovery in market conditions affecting the conservative investment portfolio utilized for our reserves. Changes in net income were due to both improved market conditions for investment income as well as lower than expected utilization of medical services. While utilization itself continues to rise and the cost of medical care continues to be a challenge, utilization of medical services has been increasing at a more moderate rate than expected – including be-

cause of a less severe flu season.”

Earling also noted that Premera administers benefits for an additional 800+ thousand members not reflected in the reports. These members are covered under ERISA plans, regulated by the Federal Government, and the same level of public reporting isn’t required.

According to Earling, “Premera Blue Cross has nearly 822,000 members in self-funded plans in Washington as of our October enrollment data, including companies such as Microsoft, Starbucks, Weyerhaeuser, PACCAR, and the Alaska Air Group.”

Earling also commented on the financial results of *LifeWise of Washington*, a domestic plan owned by Premera, “Changes in member months and total revenue were due to increased membership, based on growing sales in a popular portfolio of individual products. LifeWise started the year with just under 77,000 members and has grown to nearly 85,500 through September – and we have seen even stronger growth in membership since then.”

Regence Blue Shield of Washington reported decreased revenues of \$55 million but increased net income of \$56 million during the two time periods. According to Samantha

Meese, spokesperson for Regence, "Our net income can be attributed to several factors: overall decline in membership and premium, a favorable claims experience as members switched to higher deductible plans and a reduction in our total operating expenses, all of which yielded improved underwriting gains. This combined with the investment income, and slightly offset by an increase in taxes, accounts for the total change in net income."

The Group Health organization consists of *Group Health Cooperative*, *Group Health Options* and *KPS Health Plans*.

Mike Foley, spokesperson for Group Health Cooperative and Group Health Options said, "The Group Health Cooperative financial and enrollment results were according to plan. Our enrollment was stable and our net income was just above break-even."

He continued, "We were pleased with how Group Health Options performed. We planned to increase enrollment in our individual line of business and we achieved that. We also increased net income, certainly within industry standards, as the result of the increased enrollment growth."

Jim Page, Chief Financial Officer of KPS Health Plans told us, "Our membership was lower because we decided to not make as many price concessions as in the past and consequently lost business because of it. Also, we are exiting the small group market and are losing that enrollment as those groups come up on end of their contract years."

Page continued with this comment on the KPS decline in net income, "While our net income shows a decline between the years, after adjusting for actual claims runout, 2010 is much better than 2009 through the first three quarters."

Zachary Smulski, Chief Financial Officer of Puget Sound Health Partners, offered this insight into his company's financial situation, "Our overall enrollment increased from approximately 4,400 to 7,200 members in the last 12 months and this contributed to our growth in net income."

Per Member Per Month Analysis

One of the more interesting ways to analyze health plan financial results is by reviewing per member per month statistics. As mentioned previously, this allows apples to apples comparisons of plan financial information. For example, one

of the more revealing pieces of information is to find out how much money a health plan makes on each person it insures. If an employer pays \$600 a month to provide insurance for their employees then how much profit does the insurance company make on each employee?

In United Healthcare's (formerly PacificCare of Washington) case, it's quite a bit. United Healthcare's domestic health plan focuses on senior health insurance through its Secure Horizon Medicare Advantage products. They reported a profit of \$46 per member per month through September 30, 2010, down from \$87 during the same time period in 2009. That can be contrasted with Regence Blue Shield of Washington's \$9 per member per month profit through September 20, 2010.

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Washington State Domestic Health Plan Financial Results¹ For the Nine Months Ended 09/30/10 compared to the Nine Months Ended 09/30/09

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

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Health Plan Name	Member Months ³		Total Revenues		Investment Income (Loss)		Net Income (Loss)					
	09/10	09/09	Change	09/10	09/09	Change	09/10	09/09	Change			
Dollars												
Premiera Blue Cross	5,109	5,551	(442)	1,780,529	1,843,051	(62,522)	43,259	(20,501)	63,760	76,137	1,743	74,394
Regence BlueShield	6,285	6,850	(565)	1,746,148	1,800,992	(54,844)	50,966	32,053	18,913	57,303	1,131	56,172
Group Health Cooperative	3,232	3,242	(10)	1,413,511	1,460,711	(47,200)	17,362	45,431	(28,069)	1,158	311	847
Group Health Options	1,918	1,474	444	627,665	470,806	156,859	2,041	243	1,798	4,914	753	4,161
Molina Healthcare of WA	3,080	2,850	230	561,760	545,649	16,111	873	1,873	(1,000)	18,759	20,977	(2,218)
Community HP of WA	2,414	2,201	213	455,468	419,515	35,953	4,176	(890)	5,066	14,939	635	13,758
PacificCare of WA (United Healthcare)	411	384	27	333,304	319,264	14,040	1,630	6,169	(4,539)	18,736	33,438	(14,702)
Arcadian Health Plan	356	253	103	282,255	202,345	79,910	1,968	1,922	46	4,940	10,410	(5,470)
Asuris NW Health	742	695	47	183,794	162,880	20,914	1,512	1,187	325	5,716	(6,920)	12,636
LifeWise HP of WA	736	718	18	161,629	159,524	2,105	3,474	3,382	92	6,138	7,478	(1,340)
KPS Health Plans	317	354	(37)	112,598	114,138	(1,540)	756	(121)	877	(2,269)	(902)	(3,171)
Columbia United Providers	409	370	39	77,001	72,839	4,162	177	21	156	2,642	3,411	(769)
Puget Sound Health Partners	63	40	23	44,164	40,804	3,360	118	92	26	757	520	237
Timber Products Mfg. Trust	127	158	(31)	19,993	21,630	(1,637)	222	361	(139)	(30)	(1,911)	1,881
Per Member Per Month⁴												
Premiera Blue Cross	5,109	5,551	(442)	349	332	16	8	(4)	12	15	0	15
Regence BlueShield	6,285	6,850	(565)	278	263	15	8	5	3	9	0	9
Group Health Cooperative	3,232	3,242	(10)	437	451	(13)	5	14	(9)	0	0	0
Group Health Options	1,918	1,474	444	327	319	8	1	0	1	3	1	2
Molina Healthcare of WA	3,080	2,850	230	182	191	(9)	0	1	0	6	7	(1)
Community HP of WA	2,414	2,201	213	189	191	(2)	2	0	2	6	0	6
PacificCare of WA (United Healthcare)	411	384	27	811	831	(20)	4	16	(12)	46	87	(41)
Arcadian Health Plan	356	253	103	793	800	(7)	6	8	(2)	14	41	(27)
Asuris NW Health	742	695	47	248	234	13	2	2	0	8	(10)	18
LifeWise HP of WA	736	718	18	220	222	(3)	5	5	0	8	10	(2)
KPS Health Plans	317	354	(37)	355	322	33	2	0	2	(7)	(3)	(4)
Columbia United Providers	409	370	39	188	197	(9)	0	0	0	6	9	(3)
Puget Sound Health Partners	63	40	23	701	1,020	(319)	2	2	0	12	13	(1)
Timber Products Mfg. Trust	127	158	(31)	157	137	21	2	2	(1)	0	(12)	12

Notes:

1. All information from the State of Washington, Office of Insurance Commissioner web site.
2. 000's omitted means the last three digits of each figure is removed. For example, the number 1,000 becomes 1.
3. Member Months is the combined total of each month's ending membership. For example, to get Member Months through 09/10, monthly membership for January, February, March, etc. is added together to get a combined total.
4. Per Member Per Month is any of the financial figures divided by Member Months for the particular plan. For example, Premiera Blue Cross Total Revenues at 09/10 of 1,780,529 divided by Member Months of 5,109 equals a Per Member Per Month Total Revenue figure of 349.