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Northwest Health Insurance Industry Capital Drops \$595 Million in 2008

Drop is temporary if stock markets rebound in 2009

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It wasn't long ago that many regulators, legislators, providers and other interested parties viewed the statutory capital held by some of the larger health insurance companies as excessive. In some companies these capital balances were more than three times that required by law.

State insurance departments have been under pressure to moderate rate increases so asking the health insurance companies to offset premium increases through capital reductions seemed like a good idea.

For example, in an agreement with Colorado Insurance Commissioner Marcy Morrison in 2008, Kaiser Permanente Colorado reduced its nearly \$500 million in statutory

capital by giving subscribers premium credits and making investments in new facilities.

Times have changed. The collapse of the stock markets in 2008 provided a good example of how quickly *excessive* capital can become *required* capital.

Insurance companies are required to file an annual financial statement on March 1st of each year for the preceding year. We summarized key information from the 2008 filings for Washington, Oregon, Idaho and Montana health insurance companies with the goal of looking at the picture regionally rather than by individual state. Our report is presented on page 2. Most of the \$595 million drop in capital came from unrealized losses associated with the collapse of the stock markets. Health insurance companies own large stock portfolios and they, like other investors, saw them deteriorate. If

the stock markets don't bounce back quickly then realized losses will need to be recorded and 2009 net income levels will be negatively impacted.

Changes to enrollment and net income also provided interesting information.

Enrollment was relatively stable with the exception of the 329 thousand drop in enrollment reported by Regence BCBS of Oregon. According to a Regence representative, this was driven by their loss of the Oregon Educators Benefit Board (OEBB) account.

Northwest industry-wide net income dropped \$388 million from 2007 to 2008. Health insurance companies tend to incur profits (or losses) in three to five year incremental periods called underwriting cycles. The industry was profitable in 2008 but a drop in net income of this magnitude could indicate slip-slide into a down cycle.



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Health Insurance Company Financial Results

ID, MT, OR and WA Domestic Carriers (000's omitted)

Calendar Year Ended 2008 versus 2007

Insurance Company	State	Enrollment			Total Revenues			Net Income			Y/E Statutory Capital		
		2008	2007	Change	2008	2007	Change	2008	2007	Change	2008	2007	Change
Regence BCBS of OR	OR	777	1,106	-329	\$2,595,654	\$2,282,452	\$313,202	\$25,094	\$20,852	\$4,242	\$486,293	\$554,381	-\$68,088
Premiera Blue Cross	WA	664	730	-66	\$2,552,089	\$2,489,848	\$62,241	\$34,930	\$105,876	-\$70,946	\$672,236	\$784,031	-\$111,795
Kaiser Foundation HP of the NW	OR	468	473	-5	\$2,320,950	\$2,208,390	\$112,560	\$32,592	\$59,041	-\$26,449	\$480,100	\$494,196	-\$14,096
Regence BluesShield	WA	782	884	-102	\$2,281,263	\$2,214,887	\$66,376	-\$16,312	\$66,598	-\$82,910	\$797,173	\$925,463	-\$128,290
Group Health Cooperative	WA	388	402	-14	\$1,939,292	\$2,242,125	-\$302,833	-\$24,350	\$64,175	-\$88,525	\$550,235	\$737,754	-\$187,519
Blue Cross of ID Health Service	ID	449	432	17	\$999,804	\$969,018	\$30,786	\$17,274	\$33,794	-\$16,520	\$259,548	\$260,890	-\$1,342
Providence Health Plan	OR	206	181	25	\$894,251	\$809,441	\$84,810	-\$2,142	\$58,468	-\$60,610	\$343,050	\$340,520	\$2,530
Molina Healthcare of WA	WA	299	283	16	\$709,310	\$652,790	\$56,520	\$40,397	\$45,477	-\$5,080	\$94,621	\$113,622	-\$19,001
Community Health Plan of WA	WA	247	232	15	\$533,495	\$521,334	\$12,161	-\$4,260	\$5,548	-\$9,808	\$63,431	\$77,583	-\$14,152
Blue Cross Blue Shield of MT	MT	226	236	-10	\$516,240	\$508,999	\$7,241	\$17,687	\$21,220	-\$3,533	\$118,010	\$144,987	-\$26,977
Regence BluesShield of ID	ID	205	203	2	\$508,110	\$423,866	\$84,244	-\$10,620	-\$902	-\$9,718	\$108,358	\$125,571	-\$17,213
Group Health Options	WA	139	106	33	\$481,404	\$386,853	\$94,551	-\$1,236	\$143	-\$1,379	\$29,968	\$31,707	-\$1,739
PacificSource Health Plans	OR	136	149	-13	\$479,829	\$470,039	\$9,790	-\$3,601	\$9,901	-\$13,502	\$93,239	\$124,500	-\$31,261
PacificCare of WA	WA	45	51	-6	\$429,210	\$470,824	-\$41,614	\$45,816	\$54,016	-\$8,200	\$249,555	\$228,602	\$20,953
Health Net Health Plan of OR	OR	123	125	-2	\$421,387	\$386,681	\$34,706	\$3,838	\$12,098	-\$8,260	\$57,423	\$67,436	-\$10,013
PacificCare of OR	OR	29	38	-9	\$273,933	\$305,944	-\$32,011	\$29,245	\$21,376	\$7,869	\$44,885	\$46,677	-\$1,792
LifeWise Health Plan of OR	OR	82	116	-34	\$267,715	\$320,178	-\$52,463	-\$9,953	-\$5,274	-\$4,679	\$58,819	\$69,922	-\$11,103
Arcadian Health Plan	WA	25	19	6	\$230,338	\$158,279	\$72,059	\$3,976	\$4,598	-\$622	\$30,667	\$21,319	\$9,348
LifeWise Health Plan of WA	WA	87	91	-4	\$206,941	\$177,676	\$29,265	\$5,692	\$1,149	\$4,543	\$37,283	\$31,403	\$5,880
Asuris Northwest Health	WA	79	91	-12	\$195,235	\$170,369	\$24,866	-\$2,119	\$5,787	-\$7,906	\$32,796	\$34,190	-\$1,394
ODS Health Plan	OR	60	47	13	\$182,592	\$149,570	\$33,022	\$1,329	\$3,538	-\$2,209	\$39,846	\$38,281	\$1,565
KPS Health Plans	WA	43	45	-2	\$154,014	\$150,899	\$3,115	-\$3,488	-\$2,557	-\$931	\$17,327	\$21,667	-\$4,340
Columbia United Providers	WA	38	36	2	\$84,545	\$74,223	\$10,322	\$3,501	-\$2,281	\$5,782	\$11,098	\$7,595	\$3,503
CareOregon	OR	5	5	0	\$67,352	\$65,810	\$1,542	\$10,250	\$1,505	\$8,745	\$29,105	\$20,347	\$8,758
Samaritan Health Plans	OR	5	3	2	\$46,691	\$32,437	\$14,254	\$834	\$56	\$778	\$6,490	\$4,313	\$2,177
Puget Sound Health Partners	WA	4	0	4	\$43,482	\$0	\$43,482	-\$647	-\$3,620	\$2,973	\$3,405	\$3,839	-\$434
Primary Health Network, Inc.	ID	15	12	3	\$32,512	\$31,416	\$1,096	-\$31	\$1	-\$32	\$2,959	\$2,985	-\$26
Trillium Health Plan	OR	2	2	0	\$29,681	\$26,235	\$3,446	\$33	\$586	-\$553	\$4,712	\$4,122	\$590
FamilyCare Health Plans	OR	2	2	0	\$20,408	\$14,076	\$6,332	-\$235	\$731	-\$966	\$4,318	\$4,209	\$109

Total All Insurance Companies		5,630	6,100	-470	\$19,497,727	\$18,714,659	\$783,068	\$193,494	\$581,900	-\$388,406	\$4,726,950	\$5,322,112	-\$595,162
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Source: Five-year Historical Data page of the 2008 NAIC Annual Statement compiled by the Washington Healthcare News - wahcnews.com.