

Northwest Health Insurers Report Profits in 2009

Investment Gains Offset Lower Underwriting Margins, Membership Losses Continue

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Northwest health insurance companies continued their profitable ways in 2009 despite the region's difficult economic conditions. Year-end membership for the six largest companies decreased, and underwriting gains, the profit an insurance company makes on business aside from investments, income taxes and other non-operations related revenues and expenses, were lower at 19 of the 24 companies reviewed. Net income increased as investment gains offset the reduction in underwriting gains. Total adjusted capital, or

net worth with adjustments for insurance industry accounting rules, increased considerably due mainly to investment gains. All figures reflected in this article are from reports filed with various insurance regulators and don't reflect self-insured membership.

Membership Gains and Losses

For 14 of the 24 companies reviewed, year-end membership decreased from 2008. The total membership decline for all companies was 157,000. (See table on page 3).

Eric Earling, Senior Communications Manager at Premera Blue Cross, attributed their membership decrease to "the effects of the challenging economy and higher unemployment."

However, Community Health Plan and Molina Healthcare of Washington, companies that cover low income and destitute people, saw significant gains in enrollment.

David Kinard, Director of Marketing/Corporate Communications for Community Health Plan said, "This (increase) is primarily two-fold. Not only did Community Health Plan gain significant enrollment due to the increases in the state's Healthy Options (Medicaid)

program, but we also gained approximately 10,000 new members between October and December 2009 due to our work in redesigning the statewide GA-U managed care program which also integrated a new behavioral health component for members." GA-U (General Assistance Unemployable) is a managed care program designed to provide benefits for those who are physically and/or mentally incapacitated and unemployable for 90 days from the date of application.

Also bucking the trend was the Group Health organization, which reported an overall increase in membership of 14,000. This includes the Group Health Cooperative HMO, Group Health Options and KPS Health Plans. Total membership at the end of 2009 was 584,000 versus 570,000 at the end of 2008.

Ric Magnuson, Senior Vice President and Chief Financial Officer of Group Health, explained the increase in membership, "We made the decision to grow membership by focusing on our plans with enhanced provider choices for our members. We saw most of our growth on the Group Health Options plans as our individual and family products became popular

with those that found themselves without coverage as the result of the recession. In addition, we maintained and slightly grew our large group business, despite enrollment losses due to the recession."

Total Revenues

Despite the reduction in total membership of about 3%, the 24 companies increased total revenues by \$298 million or about 2%. However, the effective increase in premiums was not 5% because employers continue to switch to higher deductible plans that cost less but provide fewer benefits.

Underwriting Gains and Losses

The total underwriting gain for the 24 companies in 2009 was \$24 million, much lower than 2008's \$234 million. Recessions are tough on health insurance companies because people tend to use their benefits if they know they are going to lose their insurance. They also use their benefits when they are coming back to work as many have "pent-up demand" for healthcare services from the time they were without coverage.

Magnuson commented on Group Health Cooperative's reduction in underwriting margin, "Group Health saw a significant degradation in underwriting margin in the first and second quarter of 2009. This was consistent with what was happening in the rest of the U.S. and was primarily the result of employees using medical ben-

efits in anticipation of losing their jobs. Our third and fourth quarter 2009 numbers were much better and were more consistent with what we usually see. We continue to work hard on bending the cost curve through our utilization and administrative cost reduction efforts and anticipate continued success going forward."

Earling noted, "(Premera's) lower underwriting gain resulted primarily from two factors: lower revenues related to the economy from higher unemployment and a continued increase in medical cost trends. Medical costs accounted for 87% of revenues in 2009, up from 86% in 2008. That 1% increase in medical expense ratio alone reduced 2009 operating gain by over \$24 million. These lower underwriting gains are consistent with the industry as well."

Net Income

Total net income of \$206 million was 36%, or \$57 million, higher than 2008. Investment gains occurred as values rebounded from the troughs of 2008 and the companies cashed in on the change. Large investment gains are unlikely to repeat in 2010 since the baseline has now been reset to historical norms.

Total Adjusted Capital

Like net income, the change in total adjusted capital was significant. The increase from 2008 was \$335 million or about 8%. This was

caused almost exclusively by investment valuation increases from 2008. Insurance companies must record stock-type investments at current market value, with some exceptions, but the changes only impact their balance sheet and not their income statement, unless these investments are actually sold. This explains how total adjusted capital can increase so much without a related change to net income.

Earling agreed, "(Increased total adjusted capital) reflected the improved value of our investment portfolio following the severe market downturn in 2008."

Outlook for 2010

It's hard to imagine 2010 will be more eventful than 2008 and 2009. Healthcare reform is still alive but if enacted, will likely roll-out in *conjunction* with the health insurance companies rather than *on top* of them.

Magnuson summarized it well when he said, "We expect 2010 to be more of a stable year."

I'm sure the rest of the industry hopes it will be too.

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Health Insurance Company Financial Results

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

Calendar Year Ended 2009 versus 2008

Insurance Company ¹	State	Year End Membership			Total Revenues			Net Underwriting Gain (Loss) ²			Net Income or (Loss)			Total Adjusted Capital ³		
		2009	2008	Change	2009	2008	Change	2009	2008	Change	2009	2008	Change	2009	2008	Change
Regence BCBS of OR	OR	719	777	(58)	\$2,440,405	\$2,595,654	(\$155,249)	(\$2,051)	(\$29,300)	\$27,249	\$21,885	\$25,094	(\$3,209)	\$565,468	\$486,293	\$79,175
Premiera Blue Cross	WA	595	664	(69)	\$2,439,686	\$2,552,089	(\$112,403)	\$17,775	\$56,816	(\$39,041)	\$21,049	\$34,930	(\$13,881)	\$790,356	\$672,236	\$118,120
Kaiser Found. HP of the NW	OR	467	468	(1)	\$2,430,953	\$2,320,950	\$110,003	\$13,416	\$18,123	(\$4,707)	\$36,292	\$32,592	\$3,700	\$494,918	\$480,100	\$14,818
Regence BlueShield	WA	723	782	(59)	\$2,394,442	\$2,281,263	\$113,179	(\$32,381)	(\$22,861)	(\$9,520)	\$10,463	(\$16,312)	\$26,775	\$894,640	\$797,173	\$97,467
Group Health Cooperative	WA	352	388	(36)	\$1,925,761	\$1,939,292	(\$13,531)	(\$53,324)	\$29,870	(\$83,194)	\$16,214	(\$24,350)	\$40,564	\$593,198	\$550,235	\$42,963
Providence Health Plan	OR	184	206	(22)	\$967,530	\$894,251	\$73,279	\$16,823	\$26,345	(\$9,522)	\$28,801	(\$2,142)	\$30,943	\$373,505	\$343,050	\$30,455
Molina Healthcare of WA	WA	334	299	35	\$725,042	\$709,310	\$15,732	\$31,101	\$55,486	(\$24,385)	\$22,416	\$40,397	(\$17,981)	\$80,991	\$94,621	(\$13,630)
Group Health Options	WA	193	139	54	\$651,597	\$481,404	\$170,193	(\$5,107)	(\$1,596)	(\$3,511)	(\$4,623)	(\$1,236)	(\$3,387)	\$69,648	\$29,968	\$39,680
Community Health Plan of WA	WA	264	247	17	\$558,581	\$533,495	\$25,086	\$3,335	(\$335)	\$3,670	\$4,149	(\$4,260)	\$8,409	\$69,451	\$63,431	\$6,020
PacificSource Health Plans	OR	183	151	32	\$520,645	\$512,341	\$8,304	\$4,545	\$1,092	\$3,453	\$4,290	(\$3,633)	\$7,923	\$110,482	\$96,198	\$14,284
Regence BlueShield of ID	ID	185	205	(20)	\$512,428	\$508,110	\$4,318	(\$14,330)	(\$6,383)	(\$7,947)	(\$5,094)	(\$10,620)	\$5,526	\$116,708	\$108,358	\$8,350
Health Net Health Plan of OR	OR	111	123	(12)	\$434,200	\$421,387	\$12,813	(\$6,537)	\$6,171	(\$12,708)	(\$3,231)	\$3,838	(\$7,069)	\$73,677	\$57,423	\$16,254
PacificCare of WA	WA	43	45	(2)	\$417,577	\$429,210	(\$11,633)	\$39,879	\$57,376	(\$17,497)	\$32,020	\$45,816	(\$13,796)	\$81,114	\$249,555	(\$168,441)
Arcadian Health Plan	WA	29	25	4	\$272,763	\$230,338	\$42,425	\$18,080	\$2,462	\$15,618	\$14,291	\$3,976	\$10,315	\$45,183	\$30,667	\$14,516
PacificCare of OR	OR	25	29	(4)	\$253,422	\$273,933	(\$20,511)	\$17,851	\$41,060	(\$23,209)	\$12,851	\$29,245	(\$16,594)	\$28,374	\$44,885	(\$16,511)
Asuris Northwest Health	WA	78	79	(1)	\$219,353	\$195,235	\$24,118	(\$15,527)	(\$4,835)	(\$10,692)	(\$9,392)	(\$2,119)	(\$7,273)	\$43,808	\$32,796	\$11,012
LifeWise Health Plan of OR	OR	65	82	(17)	\$217,902	\$267,715	(\$49,813)	(\$5,387)	(\$17,271)	\$11,884	\$767	(\$9,953)	\$10,720	\$58,464	\$58,819	(\$355)
ODS Health Plan	OR	68	60	8	\$216,864	\$182,592	\$34,272	(\$20,223)	(\$1,027)	(\$19,196)	(\$9,979)	\$1,329	(\$11,308)	\$71,413	\$39,846	\$31,567
LifeWise Health Plan of WA	WA	78	87	(9)	\$210,246	\$206,941	\$3,305	\$10,557	\$9,127	\$1,430	\$7,079	\$5,692	\$1,387	\$46,867	\$37,283	\$9,584
KPS Health Plans	WA	39	43	(4)	\$146,063	\$154,014	(\$7,951)	(\$4,562)	(\$2,051)	(\$2,511)	(\$1,930)	(\$3,488)	\$1,558	\$13,719	\$17,327	(\$3,608)
Columbia United Providers	WA	44	38	6	\$97,101	\$84,545	\$12,556	\$4,950	\$3,670	\$1,280	\$3,257	\$3,500	(\$243)	\$14,476	\$11,098	\$3,378
CareOregon ⁴	OR	6	5	1	\$70,638	\$67,352	\$3,286	\$4,249	\$12,261	(\$8,012)	\$3,739	\$10,250	\$3,501	\$27,019	\$29,105	(\$2,086)
Samaritan Health Plans	OR	5	5	0	\$53,586	\$46,691	\$6,895	\$412	\$933	(\$521)	\$270	\$834	(\$564)	\$6,275	\$6,490	(\$215)
Puget Sound Health Partners	WA	4	4	0	\$53,351	\$43,482	\$9,869	\$487	(\$751)	\$1,238	\$633	(\$647)	\$1,280	\$5,636	\$3,405	\$2,231
Total All Insurance Companies		4,794	4,951	(157)	\$18,230,136	\$17,931,594	\$298,542	\$24,031	\$234,382	(\$210,351)	\$206,017	\$158,733	\$57,296	\$4,675,390	\$4,340,362	\$335,028

Notes: Source of information: State of Washington, Office of Insurance Commissioner web site and the National Association of Insurance Commissioners. ¹ Blue Cross of Idaho Health Service is among the largest carriers but had not filed their annual statement at press time. ²Net Underwriting Gain (Loss) is the profit or loss an insurance carrier makes on business without considering investment gains or losses, income taxes and other non-operations related revenues and expenses. ³Total Adjusted Capital is the carrier's net worth after adjustments are made for insurance industry specific accounting rules. ⁴Does not include information for the Oregon Health Plan, the program for low income Oregonians.