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Oregon Health Plans Report Higher Profits in 2011 When Compared to 2010

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Fourteen of the largest health insurance companies recently reported 2011 annual financial results and all but three were profitable. In fact, ten plans either reported a higher profit or a lower loss than the same period in 2010. The results are somewhat surprising given the uncertainties associated with the early years of healthcare reform.

Our report, shown on page four, shows total revenues, net underwriting gain (loss), investment gain (loss), other income and net income

(loss) for thirteen domestic health plans and one national health insurance company operating in Oregon for the periods ending December 31, 2011 and December 31, 2010. We also present member months, the combined total of month ending membership for each twelve 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.

All information in this report was obtained through publicly available reports filed with the National Association of Insurance Commissioners (NAIC). Information not required to be filed with the NAIC (self-insured and some Oregon 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 confirm figures in the re-

port and to provide insight into their financial results. Some plans chose not to reply to our request. However, others provided valuable comments and these follow, sorted by plan size in descending order.

Kaiser Foundation Health Plan of the Northwest

Kaiser reported healthy increases in member months and total revenues. However, investment gains and net income were significantly lower in 2011 when compared to 2010.

Chief Financial Officer Karen Schartman noted, "Our story is very simple - we are improving affordability as our revenues per member decline, and we are responding with efficiencies while delivering market leading quality. Our quality scores are the highest of all Oregon commercial and Medicare health plans, according to the National Center for Quality Assurance. Our Medicare plan ranks fourth among national plans on NCQA scores, and Kaiser Permanente earned a 5 Star designation from CMS, the only Medicare plan in Oregon to earn this ranking."

Like many companies, our net earn-

ings were negatively impacted by declining investment returns - this explains our year over year drop in net earnings.”

Regence BlueCross BlueShield of Oregon

Regence had a difficult 2011 with decreases from 2010 in every category of our report. Spokesperson Scott Burton told us, “The enrollment change is specific to how we previously reported members covered by vision plans to the NAIC. Prior reporting numbers did not include those members covered by a vision plan, but the 2011 report does include vision plan members as requested by the NAIC. Overall, we saw a slight decline in enrollment primarily in the individual and small group markets. Our financial decrease was the result of decreasing premium revenue coupled with rising claims costs in early 2011.”

Providence Health Plans

Providence Health Plans reported significant increases in every category of our report except other income, where there was a \$137 thousand decrease from 2010.

Michael White, Chief Operating Officer for Providence Health Plans explained, “2011 was a very successful year for Providence Health Plans. We have been recognized as one of the ‘Most Admired’ companies in Oregon. We earned a 4.5 star rating (out of a possible 5) for our Medicare products – putting us among the leaders in the nation. We also are nationally recognized for our case and disease management programs, which help keep our

members healthier. These achievements helped us remain financially solid during an uncertain environment for health care organizations.”

White continued, “Our membership increased by 3 percent from 2010 to 2011. That growth came in all three major lines of business: commercial, Medicare, and Oregon Health Plan (Medicaid). The increase in premium revenue on a PMPM basis is primarily due to a change in the mix of membership. We have been able to minimize price increases in our key commercial markets. Providence Health Plans has developed a very competitive medical claims expense trend percentage rate which is the centerpiece for premium pricing.”

White concluded, “We experienced better-than-expected financial performance due to our membership gains and better than expected claim expenses, especially in our Medicare line of business. We also have a consistent track record of keeping our administrative costs low. One major reason for the NOI increase between 2010 and 2011 was claims expenses. Investment gains were similar between the two years.”

PacificSource Health Plans and PacificSource Community Health Plans

Peter Davidson, Executive Vice President and Chief Financial Officer of PacificSource Health Plans and PacificSource Community Health Plans (formerly Clear Choice Health Plans) said, “There are a number of reasons for the increase in commercial business in PacificSource. These include: the transfer of commercial business from PacificSource Community Health Plans

(PCHP) to PacificSource Health Plans and the growth in our Idaho business.”

Davidson said the following about PacificSource Community Health Plans, “In 2011, we transferred the commercial business in PCHP to PacificSource in order for PCHP to focus on government lines of business. The reason for the decrease in membership is related to the transfer of the commercial business. This focus has led to Medicare membership growth in 2011 and 2012 of 12% and 50%, respectively.”

Health Net Health Plan of Oregon

Health Net Health Plan of Oregon reported lower member months and total revenues but higher net underwriting gains and net income. Amy L. Sheyer, Director of Corporate Communications for Health Net Health Plan of Oregon explained, “It is a combination of a decrease in the overall Oregon commercial market and a highly competitive environment. This has resulted in lower overall commercial membership at Health Net of Oregon in 2011. At the same time we've seen lower utilization of health care benefits than expected in 2011.”

ODS Health Plan

Dave Evans, Chief Financial Officer of ODS Health Plan, explained his company's improvement in net underwriting gain and net income, “On a year over year basis, the improvement in underwriting is the result of our ongoing focus on medical management and evidence-based healthcare. In addition, we continue to see an overall moderation in healthcare utilization.”

LifeWise Health Plan of Oregon

Despite a significant decline in total revenues, LifeWise Health Plan of Oregon went from a \$4.2 loss in 2010 to a \$4.3 million profit in 2011, a turnaround of \$8.4 million. Deana Strunk, Communications Manager of LifeWise Health Plan of Oregon said, “Despite anticipated membership levels, net income increased due to lower than expected claims costs and reductions in our per member administrative expense.”

Samaritan Health Plans

The loss at Samaritan Health Plans

went from \$767 thousand in 2010 to \$414 thousand in 2011, a \$353 thousand turnaround. Kelly C. Kaiser, MPH, Chief Executive Officer of Samaritan Health Plans, summarized the favorable change by noting, “Our utilization in 2011 was a bit better which made our loss less.”

Concluding Comments

Several of the plans noted lower than expected claims costs and their impact on financial results. In several cases, improved utilization management processes were certainly a contributing factor. However, since most plans reported much higher

net income in 2011 than 2010, it's reasonable to conclude that 2011 premium increases were higher than needed to cover expected costs and a reasonable profit. It's likely that plan actuaries were cautious when calculating 2011 premium rates given the uncertainties associated with healthcare reform. Since there is no experience to base the costs of healthcare reform, plan actuaries end up making conservative estimates. Look for plan actuaries to continue this practice until it's absolutely clear the costs of healthcare reform are known and that will require years of predictable claims history.

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Oregon Health Plan Financial Results¹

For the Twelve Months Ended 12/31/11 compared to the Twelve Months Ended 12/31/10

Full Service Medical Plans Only - Sorted by Total Revenues - 000's Omitted²
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| Health Plan Name | Member Months ³ | | | Total Revenues | | | Net Underwriting Gain (Loss) ⁴ | | | Investment Gain (Loss) | | | Other Income ⁵ | | | Net Income (Loss) | | |
|---|----------------------------|-------|--------|----------------|-----------|---------|---|---------|---------|------------------------|--------|---------|---------------------------|--------|--------|-------------------|--------|---------|
| | 12/11 | 12/10 | Change | 12/11 | 12/10 | Change | 12/11 | 12/10 | Change | 12/11 | 12/10 | Change | 12/11 | 12/10 | Change | 12/11 | 12/10 | Change |
| Dollars | | | | | | | | | | | | | | | | | | |
| Kaiser Found HP of the NW ⁹ | 5,681 | 5,516 | 165 | 2,698,751 | 2,528,787 | 169,964 | 11,313 | 16,224 | -4,911 | 18,575 | 25,786 | -7,211 | 3117 | -2523 | 5,640 | 33,004 | 39,487 | -6,483 |
| Regence BCBS of OR ⁹ | 5,695 | 6,687 | -992 | 1,865,875 | 1,892,922 | -27,047 | -17,312 | 36,115 | -53,427 | 36,310 | 56,378 | -20,068 | -5375 | -4,438 | -937 | 6,932 | 75,159 | -68,227 |
| Providence Health Plans ⁹ | 2,264 | 2,198 | 66 | 1,035,640 | 980,489 | 55,151 | 42,217 | 29,084 | 13,133 | 26,592 | 25,289 | 1,303 | 148 | 285 | -137 | 68,956 | 54,659 | 14,297 |
| PacificSource Health Plans ⁹ | 2,326 | 2,199 | 127 | 644,237 | 582,966 | 61,271 | 9,308 | 4,888 | 4,420 | 5,431 | 5,966 | -535 | -1,129 | -2334 | 1,205 | 10,920 | 8,135 | 2,785 |
| UnitedHealthcare Ins. Co. ⁶ | 1,715 | 1,421 | 294 | 365,775 | 327,603 | 38,172 | 17,777 | 16,907 | 870 | 3,549 | 1,797 | 1,752 | 0 | 0 | 0 | 20,402 | 17,747 | 2,655 |
| Health Net HP of OR ⁹ | 1025 | 1113 | -88 | 354,471 | 363,731 | -9,260 | 27,376 | 21,764 | 5,612 | 4,282 | 3,213 | 1,069 | -5 | -4 | -1 | 21,486 | 16,607 | 4,879 |
| ODS Health Plan ⁹ | 745 | 760 | -15 | 217,441 | 216,413 | 1,028 | 2,130 | 65 | 2,065 | 5,880 | 4,819 | 1,061 | -86 | -75 | -11 | 5,862 | 3,580 | 2,282 |
| UnitedHealthcare of OR | 227 | 247 | -20 | 207,054 | 221,860 | -14,806 | 23,288 | 19,642 | 3,646 | 1011 | 1042 | -31 | -10 | -6 | -4 | 15,870 | 13,776 | 2,094 |
| LifeWise HP of OR ⁹ | 694 | 718 | -24 | 171,244 | 190,280 | -19,036 | 1920 | -11,290 | 13,210 | 4,338 | 5,073 | -735 | 37 | -175 | 212 | 4,262 | -4,185 | 8,447 |
| PacificSource Comm HP ^{9,9} | 153 | 220 | -67 | 121,838 | 134,272 | -12,434 | -2,665 | -3,719 | 1,054 | 519 | 1,678 | -1,159 | 0 | 0 | 0 | -1,453 | -1,285 | -168 |
| Health Plan of Care Oregon | 87 | 76 | 11 | 95,219 | 78,655 | 16,564 | 8,365 | 1,377 | 6,988 | 1,254 | 1,515 | -261 | 0 | 0 | 0 | 6,412 | 2,267 | 4,145 |
| Samantian Health Plans ⁹ | 65 | 65 | 0 | 57,077 | 56,305 | 772 | -875 | -1303 | 428 | 182 | 125 | 57 | 0 | 0 | 0 | -414 | -767 | 353 |
| Trillium Community HP | 40 | 38 | 2 | 43,401 | 42,495 | 906 | -494 | 160 | -654 | 28 | 90 | -62 | -1 | -5 | 4 | -227 | -122 | -105 |
| FamilyCare Health Plans | 36 | 34 | 2 | 31,786 | 30,940 | 846 | 132 | -3015 | 3,147 | 140 | -22 | 162 | -87 | 0 | -87 | 185 | -3,036 | 3,221 |
| Per Member Per Month⁷ | | | | | | | | | | | | | | | | | | |
| Kaiser Found HP of the NW ⁹ | 5,681 | 5,516 | 165 | 475 | 458 | 17 | 2 | 3 | -1 | 3 | 5 | -1 | 1 | 0 | 1 | 6 | 7 | -1 |
| Regence BCBS of OR ⁹ | 5,695 | 6,687 | -992 | 328 | 283 | 45 | -3 | 5 | -8 | 6 | 8 | -2 | -1 | -1 | 0 | 1 | 11 | -10 |
| Providence Health Plans ⁹ | 2,264 | 2,198 | 66 | 457 | 446 | 11 | 19 | 13 | 5 | 12 | 12 | 0 | 0 | 0 | 0 | 30 | 25 | 6 |
| PacificSource Health Plans ⁹ | 2,326 | 2,199 | 127 | 277 | 265 | 12 | 4 | 2 | 2 | 2 | 3 | 0 | 0 | -1 | 1 | 5 | 4 | 1 |
| UnitedHealthcare Ins. Co. ⁶ | 1,715 | 1,421 | 294 | 213 | 231 | -17 | 10 | 12 | -2 | 2 | 1 | 1 | 0 | 0 | 0 | 12 | 12 | -1 |
| Health Net HP of OR ⁹ | 1,025 | 1,113 | -88 | 346 | 327 | 19 | 27 | 20 | 7 | 4 | 3 | 1 | 0 | 0 | 0 | 21 | 15 | 6 |
| ODS Health Plan ⁹ | 745 | 760 | -15 | 292 | 285 | 7 | 3 | 0 | 3 | 8 | 6 | 2 | 0 | 0 | 0 | 8 | 5 | 3 |
| UnitedHealthcare of OR | 227 | 247 | -20 | 912 | 898 | 14 | 103 | 80 | 23 | 4 | 4 | 0 | 0 | 0 | 0 | 70 | 56 | 14 |
| LifeWise HP of OR ⁹ | 694 | 718 | -24 | 247 | 265 | -18 | 3 | -16 | 18 | 6 | 7 | -1 | 0 | 0 | 0 | 6 | -6 | 12 |
| PacificSource Comm HP ^{9,9} | 153 | 220 | -67 | 796 | 610 | 186 | -17 | -17 | -1 | 3 | 8 | -4 | 0 | 0 | 0 | -9 | -6 | -4 |
| Health Plan of Care Oregon | 87 | 76 | 11 | 1,094 | 1,035 | 60 | 96 | 18 | 78 | 14 | 20 | -6 | 0 | 0 | 0 | 74 | 30 | 44 |
| Samantian Health Plans ⁹ | 65 | 65 | 0 | 878 | 866 | 12 | -13 | -20 | 7 | 3 | 2 | 1 | 0 | 0 | 0 | -6 | -12 | 5 |
| Trillium Community HP | 40 | 38 | 2 | 1,085 | 1,118 | -33 | -12 | 4 | -17 | 1 | 2 | -2 | 0 | 0 | 0 | -6 | -3 | -2 |
| FamilyCare Health Plans | 36 | 34 | 2 | 883 | 910 | -27 | 4 | -89 | 92 | 4 | -1 | 5 | -2 | 0 | -2 | 5 | -89 | 94 |

- Notes:**
- All information from the National Association of Insurance Commissioners 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 12/11, monthly membership for January 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.
 - A negative Other Income number means it was an expense.
 - Figures from the Supplemental Health Care Exhibit - Part 1 of the carrier's annual statement.
 - Per Member Per Month is any of the financial figures divided by Member Months for the particular plan.
 - Formerly Clear One Health Plans. This company was acquired in May 2010 by PacificSource Health Plans.
 - Figures confirmed by healthplan management.