

California Health Plans Report Solid Profits Through September 30, 2011

However, Most Plans Show Lower Net Income than the Same Period in 2010

By David Peel
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California domestic health plans recently reported third quarter 2011 financial results and thirty of the largest thirty-five plans recorded a profit. However, twenty-one of the plans reported lower net income than the same time period in 2010, suggesting premiums may rise more than usual in 2012.

We present two reports, attached as Tables 1 and 2, that show financial and per member per month figures for the largest thirty-five domestic

health plans operating in California for the periods ending September 30, 2011 and September 30, 2010. When the financial figures are divided by member months (the combined total of month ending membership for each nine month period), a monthly average is obtained that is valuable when comparing financial and membership results. Unfortunately, given healthcare reform and the current volatility associated with state and federal health benefit programs, comparisons could be inconclusive and require additional analysis beyond the scope of this article.

All information in this report was obtained through publicly available reports on the California Department of Managed Health Care (DMHC) web site. Information not required to be filed with the DMHC (self-insured and parts of California insured business from 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 the figures in the two tables and to give us insight into their financial results. Some plans chose not to reply to our request while others replied with confirmation of the financial information but didn't comment on their financial results. However, others provided valuable comments and these replies are sorted in descending order by organization size.

Kaiser Permanente Finance Communications Director, Bob Garcia, explained his organization's reduction in net income, "Due to market volatility and fluctuations, as well as the timing of our quarter close (September 30, 2011), we experienced a net loss in non operating income, which accounts for the net income decrease. We do not anticipate this issue next quarter."

Health Net of California representative Brad Kieffer told us, "Membership in Health Net's tailored network products grew by approximately 45.0% from September 30, 2010 to September 30, 2011. These products accounted for 31.2% of the company's Western Region commercial enrollment as of September

30, 2011 compared with 21.5% as of September 30, 2010. Tailored networks are networks of health care providers that are smaller and more cost-effective than our full statewide network. Some health plans call these 'narrow networks'."

Kieffer continued, "Another factor is our Medicaid enrollment in California at September 30, 2011 was 988,000 members, an increase of 92,000 members, or 10.3%, from September 30, 2010."

Aetna of California's Anjie Coplin, Director of Communications, explained her organization's strong financial performance, "Our commercial underwriting performance continued to benefit from lower-than-projected utilization, our pricing discipline and our medical cost management strategies."

Scan HealthPlan representative Ross Goldberg said, "Scan Health Plan's membership decreases are the result of two contributing factors: a Medicare requirement to discontinue some in-home services that SCAN previously provided and decisions to terminate some medical groups in the SCAN network. The change in net income is a reflection of decreased membership."

Central California Alliance for Health Chief Financial Officer, Patti McFarland, said, "The reason our income declined is because we were accruing for the 10% Medi-Cal provider cuts that the state legislature passed effective 6/1/11. We recently received the actual rates associated with the cuts and are evaluating them. I expect that our net income will go up but it is premature to say by how much."

Los Angeles County, Department of Health Services Chief Financial Officer, Office of Managed Care/Community Health Plan, Rogers Moody, told us, "Our net income decreased because of 1) Risk adjusted rates received in the Medi-Cal line of business, and 2) Capitation rate increases granted to our provider groups."

Alameda Alliance for Health's Amanda Flores-Witte, Senior Director, Communications & Marketing, told us, "The Alameda Alliance for Health's increase in member months and net income decrease is primarily due to the recent transition of Seniors & People with Disabilities (SPDs) into Medi-Cal managed care. This population has a higher than average rate of utilization for medical care and pharmacy, and they require high touch customer service. Since the transition of SPDs into managed care, the Alliance has seen a 13% increase in call volume for the period of July-November 2011 in comparison to the prior six month period (January-June 2011). We have also seen an increase of 8.5% in the average duration of calls because of the complexity of the SPD population. In addition, the Alliance has had to do outreach and education to providers, pharmacists and others who were serving this population in Medi-Cal fee-for-service."

Flores-Witte continued, "At this point, we are unsure if the State reimbursement will cover the cost of this population because: 1) the transition of SPDs is still underway, so we do not know if the higher than anticipated utilization is disproportionate to what we will experience when the entire member pool is enrolled, 2) as these members are introduced

to better coordinated care, the medically necessary services may actually increase, and 3) the reduction in reimbursement as a result of the State budget will have an impact."

Scripps Health Plan Services, Inc.'s Steve Bell, Director of Finance, said, "Scripps Health Plan Services, Inc. (SHPS) had a slight decline in Medicare Advantage (HMO) enrollment from 2010 to 2011. During this same time SHPS net income declined due to reduced pricing for administrative services (MSO) fees."

Kern Health Systems Chief Financial Officer, Keith Quinlivan, described his organization's membership and net income growth by saying, "Kern Health Systems is a Medi-Cal plan. The high unemployment figures in Kern County and the mandatory enrollment of SPD members into managed care plans has enhanced both the revenue and enrollment of the plan."

San Francisco Health Plan's Robert Menezes, Director of Communications, said, "San Francisco Health Plan's increase in member months and the net income decrease are predominantly attributed to the recent State mandate of Seniors & People with Disabilities (SPDs) into managed care. This population by nature has higher than average utilization rates for medical care and pharmacy services. In addition, more substantive operational devices such as customer service and case management resources are required. Through September 2011 we've added approximately 4,600 SPDs to our member population, and by June 2012 we anticipate that up to 17,000 SPDs may join SFHP as a result of the mandate. The cost of

care for Seniors & People with Disabilities is substantially higher, and in this early stage the State reimbursement rates for this population do not meet the costs. Regardless, our commitment to their care will not be compromised. Our members are our highest priority.”

Per Member Per Month Analysis

Revenues

As mentioned previously, when the financial figures are divided by member months (the combined total of month ending membership for each nine month period), a monthly average is obtained that is valuable when comparing financial and membership results.

Calendar Year-to-Date Revenue per member per month comparisons reveal the extent to which a plan has negotiated higher per capita premiums with its customers. It can also help explain changes to a plan’s

demographic mix. For example, several plans referenced the State of California’s decision to mandate Seniors & People with Disabilities into managed care. An influx of this higher cost population results in higher per member per month revenue even if the plan didn’t raise premiums on other members.

Administrative Expenses

Health plan administrative costs are usually under the microscope. Critics examine administrative costs for high salaries, marketing costs, and travel and entertainment expenses. However, it’s important to note that administrative costs for the large plans make up only 10% or so of total revenues. Using 10% as an average, even a 20% reduction in administrative costs would lower premiums by just 2%. The ability of the typical plan to lower administrative costs by even 10% is difficult without impacting the plan’s ability to function efficiently.

Net Income

A change in per member per month net income is a key indicator of the decisions a plan will make in the future. If the reduction is significant, plans will either raise rates or change their product mix. If a plan can’t raise rates, because they offer governmental products and the rate is “take it or leave it,” they could decide to exit the product line altogether. With the majority of the plans showing lower per member per month net income than the prior year, conventional wisdom suggests premiums will rise more than usual and plans could exit product lines in 2012.

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Table 1. California Health Plan Financial Results (000's omitted) - Figures Presented in Dollars¹
Largest Thirty-Five Plans Sorted by 2011 Revenues
 Calendar Year-to-Date September 30, 2011 compared to Calendar Year-to-Date September 30, 2010
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Health Plan Name	Calendar Year-to-Date Member Months Through ²			Calendar Year-to-Date Revenues Through			Calendar Year-to-Date Administrative Expenses			Calendar Year-to-Date Net Income Through		
	09/11	09/10	Change	09/11	09/10	Change	09/11	09/10	Change	09/11	09/10	Change
Kaiser Foundation Health Plan, Inc.	62,112	60,466	1,646	36,038,182	33,771,302	2,266,880	1,513,219	1,385,069	128,150	1,538,521	1,743,973	-205,452
Blue Cross of California	27,887	29,465	-1,578	8,291,389	8,369,576	-78,187	741,778	813,753	-71,975	389,096	280,599	108,497
Health Net of California, Inc.	20,336	19,499	837	7,090,972	6,783,309	307,663	736,609	696,814	39,795	123,746	93,408	30,338
Blue Shield of California	16,411	17,731	-1,321	6,276,129	6,557,736	-281,607	726,919	672,389	54,530	124,969	203,351	-78,382
UnitedHealthcare of California	7,843	8,188	-345	4,858,823	4,786,668	72,155	340,699	312,280	28,419	221,529	261,807	-40,278
Aetna Health of California, Inc.	3,520	3,787	-267	1,350,241	1,386,513	-36,272	132,895	136,776	-3,881	67,373	42,365	25,008
Scan Health Plan	1,037	1,057	-20	1,238,390	1,260,947	-22,557	80,824	81,626	-802	800	39,467	-38,667
Heritage Provider Network, Inc.	4,107	4,041	66	1,236,782	1,144,763	92,019	98,336	89,218	9,118	3,099	783	2,316
L.A. Care Health Plan	8,232	7,674	558	1,053,404	897,358	156,046	48,456	42,368	6,088	3,184	17,314	-14,130
CalOptima	3,863	3,661	202	1,034,615	945,958	88,657	50,181	55,316	-5,135	-2,870	20,178	-23,048
Cigna HealthCare of California, Inc.	2,075	2,172	-97	704,721	678,979	25,742	30,136	33,983	-3,847	95	-1,333	1,428
Inland Empire Health Plan	4,469	4,052	417	608,672	539,184	69,488	32,960	28,485	4,475	16,506	10,150	6,356
Care 1st Health Plan	3,048	2,827	221	569,374	504,274	65,100	54,921	48,429	6,492	9,225	10,156	-931
Partnership HealthPlan of California ³	1,618	1,453	165	564,324	501,225	63,099	27,655	20,741	6,914	27,469	22,439	5,030
CareMore Health Plan	399	342	57	538,912	440,218	98,694	56,875	50,336	6,539	24,854	34,969	-10,115
Central California Alliance for Health ⁴	1,854	1,786	68	503,790	402,516	101,274	20,967	17,275	3,692	1,638	10,887	-9,249
Molina Healthcare of California	3,133	3,157	-24	414,566	372,003	42,563	38,137	34,138	3,999	6,103	10,977	-4,874
PRIMECARE Medical Network, Inc.	1,731	1,580	151	387,221	323,643	63,578	47,606	48,907	-1,301	20,097	11,210	8,887
San Mateo Health Commission	718	695	23	330,192	328,967	1,225	24,691	22,857	1,834	-12,915	-1,207	-11,708
Arcadian Health Plan, Inc.	378	356	22	310,058	288,151	21,907	53,207	49,775	3,432	-3,947	7,979	-11,926
Western Health Advantage	790	668	122	280,048	225,187	54,861	21,007	18,664	2,343	1,748	885	863
GenCal Health	948	909	39	259,821	224,762	35,059	12,343	15,863	-3,520	7,886	-5,730	13,616
AIDS Healthcare Foundation	14	13	1	239,299	189,004	50,295	35,048	28,702	6,346	35,485	15,814	19,671
County of LA-Dept of Health Svcs.	1,876	1,759	117	235,210	218,911	16,299	18,719	18,711	8	11,504	12,801	-1,297
Alameda Alliance for Health	1,147	1,006	141	227,737	176,342	51,395	18,873	14,184	4,689	-176	6,974	-7,150
Santa Clara Family Health Plan	1,171	1,094	77	209,287	153,179	56,108	54,813	18,245	36,568	4,403	11,039	-6,636
Contra Costa Health Plan	879	774	105	201,698	161,026	40,672	6,013	6,996	-983	569	1,294	-725
Scripps Health Plan Services, Inc.	244	250	-6	182,806	180,929	1,877	7,167	7,216	-49	298	446	-148
Sharp Health Plan	484	437	47	175,061	149,736	25,325	14,513	13,048	1,465	2,357	3,096	-739
Community Health Group	1,195	1,080	115	171,558	153,490	18,068	10,520	9,212	1,308	5,310	18,300	-12,990
Kern Health Systems	1,005	933	72	162,727	129,991	32,736	10,849	10,106	743	7,882	4,422	3,460
Inter Valley Health Plan	149	129	20	147,282	121,792	25,490	13,240	13,213	27	1,520	812	708
MD Care	131	114	17	135,361	110,601	24,760	15,826	13,906	1,920	1,998	5,170	-3,172
Citizens Choice HP	115	89	26	117,105	91,934	25,171	9,752	8,695	1,057	5,130	2,147	2,983
San Francisco Health Plan	580	538	42	114,325	101,157	13,168	17,400	13,972	3,428	-3,776	-1,702	-2,074

Notes:
 1. Source: California Department of Managed Health Care (DMHC). Although among the largest thirty-five health plans, Health Plan of San Joaquin and CalViva Health are not presented due to incomplete comparative information on the DMHC web site. 000's omitted means the last three digits of each figure is removed. For example, the number 1,000 becomes 1.
 2. Member Months is the combined total of each month's ending membership. For example, to get Member Months through 09/11, monthly membership for January through September is added together to get a combined total.
 3. The Partnership HealthPlan of California fiscal year is from July 1 to June 30. The numbers in this comparison are based on calendar year through the period ending September 30. In the period ending June 30, 2011 the Partnership posted a \$78.9 million reclass to offset an entry originally posted in the period ending December 31, 2010. In order to present more comparable data in the charts above, the \$78.9 million entry was excluded both from revenue and administrative expenses in 09/11.
 4. According to Pattie McFarland, Central California Alliance for Health Chief Financial Officer, included in 2011 revenue is a one-time transfer of approximately \$80,000 that was approved by the California State legislature.

Table 2. California Health Plan Financial Results (000's omitted) - Figures Presented on a PMPM Basis¹

Largest Thirty-Five Plans Sorted by 2011 Revenues

Calendar Year-to-Date September 30, 2011 compared to Calendar Year-to-Date September 30, 2010

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Health Plan Name	Calendar Year-to-Date Member Months Through ²			Calendar Year-to-Date Revenues Through			Calendar Year-to-Date Administrative Expenses			Calendar Year-to-Date Net Income Through		
	09/11	09/10	Change	09/11	09/10	Change	09/11	09/10	Change	09/11	09/10	Change
Kaiser Foundation Health Plan, Inc.	62,112	60,466	1,646	580	559	22	24	23	1	25	29	-4
Blue Cross of California	27,887	29,465	-1,578	297	284	13	27	28	-1	14	10	4
Health Net of California, Inc.	20,336	19,499	837	349	348	1	36	36	0	6	5	1
Blue Shield of California	16,411	17,731	-1,321	382	370	13	44	38	6	8	11	-4
UnitedHealthcare of California	7,843	8,188	-345	620	585	35	43	38	5	28	32	-4
Aetna Health of California, Inc.	3,520	3,787	-267	384	366	17	38	36	2	19	11	8
Scan Health Plan	1,037	1,057	-20	1,194	1,193	1	78	77	1	1	37	-37
Heritage Provider Network, Inc.	4,107	4,041	66	301	283	18	24	22	2	1	0	1
L.A. Care Health Plan	8,232	7,674	558	128	117	11	6	6	0	0	2	-2
CalOptima	3,863	3,661	202	268	258	9	13	15	-2	-1	6	-6
Cigna HealthCare of California, Inc.	2,075	2,172	-97	340	313	27	15	16	-1	0	-1	1
Inland Empire Health Plan	4,469	4,052	417	136	133	3	7	7	0	4	3	1
Care 1st Health Plan	3,048	2,827	221	187	178	8	18	17	1	3	4	-1
Partnership HealthPlan of California ³	1,618	1,453	165	349	345	4	17	14	3	17	15	2
CareMore Health Plan	399	342	57	1,351	1,287	63	143	147	-5	62	102	-40
Central California Alliance for Health	1,854	1,786	68	272	225	46	11	10	2	1	6	-5
Molina Healthcare of California	3,133	3,157	-24	132	118	14	12	11	1	2	3	-2
PRIMECARE Medical Network, Inc.	1,731	1,580	151	224	205	19	28	31	-3	12	7	5
San Mateo Health Commission	718	695	23	460	473	-13	34	33	2	-18	-2	-16
Arcadian Health Plan, Inc.	378	356	22	820	809	11	141	140	1	-10	22	-33
Western Health Advantage	790	668	122	354	337	17	27	28	-1	2	1	1
GenCal Health	948	909	39	274	247	27	13	17	-4	8	-6	15
AIDS Healthcare Foundation	14	13	1	17,093	14,539	2,554	2,503	2,208	296	2,535	1,216	1,318
County of LA-Dept of Health Svcs.	1,876	1,759	117	125	124	1	10	11	-1	6	7	-1
Alameda Alliance for Health	1,147	1,006	141	199	175	23	16	14	2	0	7	-7
Santa Clara Family Health Plan	1,171	1,094	77	179	140	39	47	17	30	4	10	-6
Contra Costa Health Plan	879	774	105	229	208	21	7	9	-2	1	2	-1
Scripps Health Plan Services, Inc.	244	250	-6	749	724	25	29	29	1	1	2	-1
Sharp Health Plan	484	437	47	362	343	19	30	30	0	5	7	-2
Community Health Group	1,195	1,080	115	144	142	1	9	9	0	4	17	-13
Kern Health Systems	1,005	933	72	162	139	23	11	11	0	8	5	3
Inter Valley Health Plan	149	129	20	988	944	44	89	102	-14	10	6	4
MD Care	131	114	17	1,033	970	63	121	122	-1	15	45	-30
Citizens Choice HP	115	89	26	1,018	1,033	-15	85	98	-13	45	24	20
San Francisco Health Plan	580	538	42	197	188	9	30	26	4	-7	-3	-3

Notes:
 1. Source: California Department of Managed Health Care (DMHC). Although among the largest thirty-five health plans, Health Plan of San Joaquin and CalViva Health are not presented due to incomplete comparative information on the DMHC web site. 000's omitted means the last three digits of each figure is removed. For example, the number 1,000 becomes 1. This table shows figures presented on a Per Member Per Month (PMPM) basis. This means the financial figures in table one are divided by the Member Month figures. This is done to make comparisons, on a per capita basis, to prior periods and to other health plans.
 2. Member Months is the combined total of each month's ending membership. For example, to get Member Months through 09/11, monthly membership for January through September is added together to get a combined total.
 3. The Partnership HealthPlan of California fiscal year is from July 1 to June 30. The numbers in this comparison are based on calendar year through the period ending September 30, in the period ending June 30, 2011 the Partnership posted a \$78.9 million reclass to offset an entry originally posted in the period ending December 31, 2010. In order to present more comparable data in the charts above, the \$78.9 million entry was excluded both from revenue and administrative expenses in 09/11.
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