

California Health Plans Report Lower Year-Over-Year Net Income

Notable Exceptions include Kaiser, Scan Health Plan and Blue Shield of California

By David Peel
Publisher and Editor
California Healthcare News



California health plans were mostly profitable in 2012 although the majority reported lower net income than 2011. Of the 49 plans that reported two full years of financial information to the California Department of Managed Health Care (DMHC), 29 reported lower net income. In fact, 17 reported a net loss in 2012 compared to only 10 in 2011.

Despite the trend of lower net

income, Tangible Net Equity (TNE) for the plans was generally greater in 2012. TNE is defined by state statute and measures a plan's solvency. It approximates net worth assuming intangible assets are removed and subordinated debt is added. TNE was higher for 34 of the 49 plans at the end of 2012 which meant increased balance sheet assets (stock investments, etc.) offset lower net income.

Our report on pages 4 and 5 shows Revenues, Medical Costs, Administrative Expenses, Net Income and TNE for all 49 health plans that reported 2012 and 2011 full year financial data to the DMHC.

All information in this report was obtained from publicly available data on the DMHC web site. However, the DMHC web site doesn't always incorporate post-close adjustments or audit adjustments. Accordingly, we asked representatives of all 49 health plans to review the DMHC figures and confirm they were correct. We made changes to our report if a plan provided corrected numbers.

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.

We prepared this report so a user could quickly determine the financial state of the health plan industry. Significant in-depth analysis of the numbers is beyond the scope of this article.

We asked plan representatives to comment on the figures and here is their feedback in alphabetical order by plan name.

Blue Shield of California

Another strong year fortified Blue Shield of California's TNE with increases in all categories except medical expenses.

Stephen Shivinsky, VP, Corporate Communications explained the lower medical expenses, "The year-over-year decline in expense reflects a change in the mix between the Company and its DOI subsidiary."

Shivinsky described a program to moderate company retained net income, “In 2011 Blue Shield implemented our 2% Pledge, a commitment to limit net income to 2% of revenue and to return any amount above the 2% to the company’s customers in the form of a credit and to the community. 2011’s net income was reduced for two years (2010 and 2011) and 2012 reflected credits solely for that one year. Pledge-related givebacks total \$520 million to date.”

Citizen’s Choice Health Plan

This plan was one of only five that reported lower 2012 revenues. Dora Pinones, Senior Finance Manager, explained “Total revenues decreased in 2012 due to a loss of membership from an IPA termination that held a high percentage of membership.”

Contra Costa Health Plan

Kate Fowlie, Communications Officer for Contra Costa Health Services, said significant increases in revenues and expenses at Contra Costa Health Plan were due to growth in Medi-Cal membership.

GEMCare Health Plan

Michael R. Myers, President & CEO of GEMCare Health Plan, explained why his company’s 2012 financial results were better than 2011, “The differences in the two reporting periods are related to growth in both our Medicare and Commercial lines of business. We experienced a 15.3% increase in Medicare Membership and a 31.1% increase in Commercial membership, as a result our top line revenue grew 21.2%, related medical costs increased 20.7% primarily as a

function of percent of premium provider reimbursement arrangements. Administrative expenses increased 29.7%, due to some increases in staff and ‘growth related’ sales and marketing expenses.”

Health Plan of San Mateo

This plan reported similar financial results in each year of the two year period. Chief Financial Officer Ron Robinson said, “Our revenues increased by 5.72% from 2011 to 2012 and expenses increased by 4.04%, neither are really significant. For 2012 our membership remained relatively flat, while medical expenses increased 4.04%.”

Robinson continued, “Revenues would have been on a decline rather than the reported 5.7% gain had it not been for the release of prior year deferred revenues related to the Assembly Bill (“AB”) 97 provider cuts, which will not be applied retroactively for Managed Care Plans.”

Partnership Health Plan of CA

Marisa Dominguez, Director of Accounting, said the increased growth in all categories “was due to expanding operations in Mendocino and Marin Counties on July 1, 2011.”

San Francisco Health Plan

John F. Grgurina, Jr., CEO of San Francisco Health Plan explained changes to his organization’s financials, “In 2011, Medi-Cal expanded to the Seniors and Persons with Disabilities (SPDs). Our initial rates from the State in 2011 were inadequate and led to significant losses. In 2012,

SFHP received a slight increase for the SPDs, reducing the losses. In addition, SFHP was a party in a case against McKesson that resulted in a \$1.75 million one-time settlement.”

Grgurina continued, “Also due to the expansion to SPDs, SFHP experienced significant increases in medical expenses in 2012. Administrative expenses also increased due to investments in systems to prepare for Medi-Cal expansion in 2014.”

Sharp Health Plan

This plan reported increased revenues, medical expenses, and administrative expenses while incurring a slight drop in net income. John Cihomsky, Vice President, Public Relations & Communications said, “The significant change year over year is due to an increase in membership of 12,269 members or 22.3%.”

Valley Health Plan

Joy Alexiou, spokesperson for Santa Clara Valley Health & Hospital System, said Valley Health Plan experienced increases in revenues and expenses because of a significant increase in plan enrollment.

Industry Summary

The Good

TNE levels have likely risen due to increases in balance sheet assets like investments. The plans, in general, appear to be sufficiently capitalized and, in many cases, well capitalized.

Revenues are higher at all but five plans as more people moved into

the health insurance system and premium increases held ground.

The Bad

Net income has trended downward. 17 of 49, or 35%, of plans reported a net loss and 29 of the 49 plans reported lower net income or a greater loss.

Medical costs were higher at all but 7 plans and administrative expenses were higher at all but 8 plans. Certainly, not all of these increases were due to enrollment growth.

The Unknown

Is net income decreasing because of the costs, explicit and implicit,

of healthcare reform or because reimbursement isn't keeping up with medical costs? When will net income levels increase again? If a significant drop in invested assets occurs, will it impact the solvency of the smaller plans? Will the smaller plans be able to meet TNE requirements once they add significant new enrollment associated with healthcare reform?

We'll continue to report financials on a quarterly basis as numbers become publicly available. For those interested in doing additional analysis with the figures on pages 4 and 5, we offer a spreadsheet on our web site. You can view this spreadsheet by clicking on this link or visiting www.cahcnews.com/1213planfinancials.xlsx

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David Peel is the Publisher of the California Healthcare News, a trade journal and web site of interest to California hospital, clinic, provider organization and health insurance professionals. He has served as the Chief Financial Officer of three west coast health insurance companies. He can be reached at 425-577-1334 or dpeel@healthcarenewssite.com.

California Health Plan Financial Results (Unaudited) - Page 1 of 2¹

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

Full Service Medical Plans Only - Sorted Alphabetically by Health Plan Name - 000's Omitted²
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Health Plan Name	Revenues			Medical Costs			Administrative Expenses			Net Income			Tangible Net Equity ³		
	12/12	12/11	Change	12/12	12/11	Change	12/12	12/11	Change	12/12	12/11	Change	12/12	12/11	Change
Aetna Health of CA ⁴	1,916,461	1,800,936	115,525	1,590,247	1,471,391	118,856	204,148	176,780	27,368	80,282	101,207	-20,925	175,697	194,099	-18,402
Aids Healthcare Foundation	513,543	328,763	184,780	388,868	236,547	152,321	77,897	51,632	26,265	46,778	40,585	6,193	121,266	94,436	26,830
Alameda Alliance for Health	409,661	315,470	94,191	389,163	289,608	99,555	26,872	26,159	713	-6,373	-298	-6,075	20,395	26,768	-6,373
Arcadian HP	406,115	408,633	-2,518	328,885	342,789	-13,904	110,833	73,031	37,802	-33,145	-5,344	-27,801	84,154	41,629	42,525
Blue Cross of CA ⁴	11,354,601	11,118,910	235,691	9,672,397	9,266,365	406,032	1,009,594	1,004,790	4,804	407,447	507,662	-100,215	1,172,718	1,188,891	-16,173
Blue Shield of CA ⁴	8,463,505	8,334,760	128,745	7,088,110	7,167,311	-79,201	1,060,599	1,039,702	20,897	204,191	78,040	126,151	3,857,631	3,579,597	278,034
Brand New Day HMO	44,024	40,272	3,752	39,568	32,748	6,820	4,174	6,678	-2,504	-1,763	-951	-812	2,131	1,675	456
CalViva ^{4,5}	388,286	266,330	121,956	350,437	236,421	114,016	27,714	20,734	6,980	5,382	2,917	2,465	10,871	5,548	5,323
Care 1st HP	936,738	763,902	172,836	843,071	666,552	176,519	93,992	76,551	17,441	-2,129	12,295	-14,424	98,103	97,129	974
CareMore HP	816,159	720,737	95,422	627,125	581,884	45,241	86,289	79,086	7,203	61,204	35,339	25,865	85,711	64,011	21,700
CenCal Health ⁴	323,884	342,999	-19,115	306,822	309,241	-2,419	15,464	16,184	-720	-1,958	9,511	-11,469	21,129	23,087	-1,958
Central CA All for Health	593,384	582,681	10,703	541,012	522,089	18,923	33,525	29,295	4,230	18,322	31,296	-12,974	177,912	159,590	18,322
Central HP of CA	127,075	104,381	22,694	107,868	86,984	20,884	13,594	13,334	260	3,782	3,997	-215	6,994	4,212	2,782
Chinese Community HP ⁴	119,371	114,718	4,653	97,986	95,437	2,549	15,518	14,612	906	3,354	2,630	524	21,942	18,613	3,329
Choice Physicians Network	43,429	41,216	2,213	41,953	38,769	3,184	1,227	1,667	-440	146	471	-325	2,307	2,401	-94
Cigna Healthcare of CA	933,332	944,467	-11,135	900,171	903,949	-3,778	39,464	42,018	-2,554	-3,708	-443	-3,265	45,079	41,807	3,272
Citizen's Choice HP ⁴	146,179	159,378	-13,199	126,412	139,770	-13,358	17,618	14,744	2,874	2,102	4,797	-2,695	7,034	5,819	1,215
Community Health Group	312,395	237,550	74,845	299,964	216,886	83,078	15,081	14,245	836	-2,649	6,420	-9,069	50,025	52,492	-2,467
Contra Costa HP ⁴	324,935	273,767	51,168	312,193	262,656	49,537	10,396	8,442	1,954	2,346	2,669	-323	12,558	10,187	2,371
Easy Choice HP	353,173	146,744	206,429	318,011	127,173	190,838	38,871	16,479	22,392	-4,302	3,021	-7,323	16,279	8,337	7,942
EPIC HP	20,980	11,414	9,566	20,698	11,222	9,476	283	199	84	0	-7	7	2,904	2,904	0
GEMCare HP ⁴	133,156	109,829	23,327	119,466	99,002	20,464	12,632	9,735	2,897	623	856	-233	5,876	5,253	623
Health Net of CA ⁴	7,784,026	7,719,112	64,914	6,896,818	6,680,639	216,179	833,552	830,002	3,550	113,927	138,778	-24,851	1,008,174	997,237	10,937
Heritage Provider Network	1,786,084	1,639,024	147,060	1,629,518	1,505,147	124,371	152,850	129,209	23,641	2,783	2,178	605	66,608	53,203	13,405

Notes:

- All information from the California Department of Managed Health Care (DMHC) web site.
- 000's omitted means the last three digits of each figure is removed. For example, the number 1,000 becomes 1.
- Tangible Net Equity or TNE is the statutorily defined amount of company equity. It is used to determine solvency and is frequently different than a company's net worth.
- Company confirmed the accuracy of the figures.
- Actual 2011 period was March 1, 2011 through December 31, 2011.

California Health Plan Financial Results (Unaudited) - Page 2 of 2¹

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Health Plan Name	Revenues			Medical Costs			Administrative Expenses			Net Income			Tangible Net Equity ³		
	12/12	12/11	Change	12/12	12/11	Change	12/12	12/11	Change	12/12	12/11	Change	12/12	12/11	Change
HP of San Joaquin	229,656	186,071	43,585	213,883	161,147	52,736	18,407	13,687	4,720	-6,562	6,773	-13,335	46,162	52,725	-6,563
HP of San Mateo ⁴	482,978	457,083	25,895	436,062	419,124	16,938	34,971	33,953	1,018	11,945	4,006	7,939	87,750	75,806	11,944
Humana HP of CA	125,326	45,913	79,413	117,557	39,902	77,655	22,877	8,903	13,974	-10,328	-1,834	-8,494	17,612	2,500	15,112
Inland Empire HP	1,093,158	860,362	232,796	1,030,273	753,469	276,804	58,753	45,316	13,437	-7,222	43,164	-50,386	93,576	100,798	-7,222
Inter Valley HP ⁴	219,974	195,199	24,775	197,623	175,064	22,559	19,913	18,378	1,535	2,438	1,757	681	22,658	20,195	2,463
Kaiser Foundation HP	51,690,386	48,404,569	3,285,817	46,835,522	44,291,210	2,544,312	2,259,218	2,100,209	159,009	2,595,646	2,013,150	582,496	14,227,814	12,444,619	1,783,195
Kern Family Health Care	234,435	219,692	14,743	221,128	188,802	32,326	40,324	15,220	25,104	-29,832	10,665	-40,497	68,602	97,920	-29,318
LA Care HP	2,085,900	1,469,406	616,494	1,980,684	1,367,689	612,995	98,599	66,974	31,625	-27,267	1,687	-28,954	129,771	149,218	-19,447
MD Care	128,263	176,992	-48,729	109,116	179,234	-70,118	59,834	21,535	38,299	-37,672	-23,813	-13,859	41,917	13,028	28,889
Molina Healthcare of CA	666,129	568,256	97,873	617,050	502,341	114,709	55,849	51,439	4,410	-4,016	8,811	-12,827	31,798	31,767	31
Monarch HP	118,194	107,148	11,046	112,904	99,055	13,849	2,614	3,081	-467	1,605	3,344	-1,739	6,387	7,230	-843
On Lok Senior Health	106,446	91,564	14,882	88,879	83,009	5,870	8,353	8,341	12	9,214	214	9,000	86,932	79,556	7,376
Partnership HP of CA ⁴	884,059	724,233	159,826	783,746	705,497	78,249	42,236	-42,066	84,302	47,995	40,408	7,587	190,530	142,535	47,995
Premier HP ⁵	17,977	12,764	5,213	14,685	11,022	3,663	2,192	1,318	874	621	239	382	2,335	1,707	628
PRIMCARE Medical Ntwrk	565,863	514,315	51,548	456,523	409,767	46,756	67,218	62,496	4,722	24,957	24,914	43	21,056	19,668	1,388
Santa Clara Family HP ⁴	263,378	230,447	32,931	244,267	204,034	40,233	19,137	18,056	1,081	-1,026	8,357	-9,383	23,778	24,208	-430
Scan HP	1,734,540	1,615,847	118,693	1,533,757	1,468,360	65,397	138,020	325,551	-187,531	62,763	-178,064	240,827	461,233	434,996	26,237
Scripps HP	241,541	240,801	740	230,273	230,629	-356	10,880	97,450	-86,570	274	335	-61	8,129	8,854	-725
SF HP ⁴	231,926	162,198	69,728	206,425	142,347	64,078	25,993	23,494	2,499	-492	-3,643	3,151	26,670	27,976	-1,306
Sharp Health Plan ⁴	294,958	236,834	58,124	267,325	212,654	54,671	23,000	19,290	3,710	4,633	4,890	-257	41,354	36,709	4,645
UnitedHealthcare of CA ⁴	6,493,760	6,419,720	74,040	5,512,682	5,491,440	21,242	442,057	480,628	-38,571	326,666	269,386	57,280	350,370	565,263	-214,893
Valley HP ⁴	200,706	165,992	34,714	178,547	150,498	28,049	11,202	8,940	2,262	10,956	6,553	4,403	25,670	15,065	10,605
Ventura County HP	56,583	50,825	5,758	50,705	47,756	2,949	3,836	3,140	696	2,041	-71	2,112	10,181	8,139	2,042
Western Health Advantage	421,203	375,797	45,406	388,265	344,436	43,829	30,840	27,963	2,877	1,073	2,134	-1,061	18,755	17,608	1,147

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