

HEALTH PLAN WEEK

Timely Business, Financial and Regulatory News of the Health Insurance Industry

Contents

- 3** *Table: Managed Medicaid Firms Likely to See More Enrollment*
- 3** *Profits Are Likely Unsustainable for Plans, But Opportunities Remain*
- 4** *Chart: Medical Cost Ratio Trends, 2005 to 2009*
- 4** *MA Plans Can Expect a Shorter, Tougher Marketing Season This Fall*
- 7** *Health Plan Briefs*

Follow us on Twitter:
<http://twitter.com/HealthPlanWeek>

Managing Editor

Steve Davis
 sdavis@aispub.com

Contributing Editors

Eve Collins
 Renée Frojo
 Angela Maas

Associate Editor

BJ Taylor

Executive Editor

Jill Brown

New 'Meaningful Use' EHR Rules Should Help Insurers Boost Provider Compliance

HHS on July 12 made it easier for hospitals and physicians to qualify for billions of dollars in incentives for implementing and using electronic health records (EHRs). While the incentives are tied to the Medicare and Medicaid programs, commercial carriers could see improved efficiencies if the incentives boost adoption rates among network providers.

"We support anything the government does to encourage the use of EHRs because it will have a positive effect on our members," says Joel Slackman, a managing director at the Blue Cross and Blue Shield Association. Once a physician has an EHR, even if it was purchased solely for the Medicare program, the physician isn't going to "limit its use to just Medicare patients....It will be used for all of their patients," he tells *HPW*.

The final version of the so-called "meaningful use" rules are less stringent than the regs proposed in January. That version, which prompted about 2,000 comments, called for physicians to meet 25 objectives and hospitals to meet 23. Noncompliance with just one objective might have been enough to negate the incentive. Physician groups, hospitals and health insurers worried that the earlier version would discourage adoption of EHRs.

The 846-page final version splits goals into two sets. Providers must meet a core set of 15 objectives, and can choose five additional items from a menu of 10 objectives. The regulation, which goes into effect on Jan. 1, 2011, covers the first phase of a three-phase incentive program.

For health insurers, the improved flexibility is likely to translate to an increase in the number of network providers who use EHRs and e-prescribing. But physicians who have a small percentage of Medicaid aren't eligible to participate, and those with a small percentage of Medicare might decide the incentives aren't worth the effort. Providers need 30% of their encounters to be Medicaid, for example. "Well, that leaves a lot of [network] doctors out," says Bruce Taffel, M.D., chief medical officer at Shared-Health, an electronic health information technology subsidiary launched by BlueCross BlueShield of Tennessee in 2005.

continued on p. 5

Medicaid Boom, Reliance on Private Plans Likely to Drive Member Growth, Acquisitions

California-based Molina Healthcare, Inc. on July 12 announced its intention to purchase Abri Health Plan — a Wisconsin-based managed Medicaid company — for \$16 million. That deal could be the beginning of a wave of similar purchases fueled by anticipated enrollment growth in Medicaid and an increased reliance on managed care plans. While some managed Medicaid firms will use such deals to expand their footprint, other commercial carriers could turn to acquisitions as a way to enter the market.

"I think there is going to be a lot of consolidation among Medicaid plans given how rosy an outlook they have post health reform," says health care consultant John Gorman, CEO of Washington, D.C.-based Gorman Health Group, LLC. "It can be enormously profitable if managed correctly, and it's typically not as risky as Medicare."

continued

Mothers and children, for example, tend to mirror the commercial market from an actuarial standpoint, although the population does tend to include occasional high-risk pregnancies and more mental health expenses than the commercial sector, he adds.

About 23.4 million people were covered by Medicaid in June 2009 — up by nearly 2.4 million members from the same month a year earlier, according to data released this month by CMS. Once the Medicaid expansion provision of the reform law goes into effect in 2014, enrollment is expected to increase by as much as 30%.

With millions of new Medicaid beneficiaries up for grabs nationwide once health reform initiatives take effect, it would not be surprising to see other managed care plans enter into deals like this one, says Vernon Smith, principal at Michigan-based consulting firm Health Management Associates. “Health reform has focused attention on the Medicaid population and future expansion, and it has focused attention on the health plans that serve [beneficiaries],” Smith tells *HPW*.

Come 2014 and 2015, “Medicaid will play an expanded role in the system, so serving those patients is more attractive....I’m sure there will be additional acquisitions over time,” Smith says. “This provides an

attractive opportunity for growth in the number of persons enrolled in health plans [because] the vast majority of persons enrolled will receive their health care through health plans,” he says.

More States Turn to Private Plans

And with many state budgets in shambles, a growing number of states are turning to private health insurers to manage benefits under their Medicaid programs. More than 70% of Medicaid enrollees are covered by some form of managed care, according to the trade association Medicaid Health Plans of America (MHPA). Ten years ago, that percentage was just 55%.

“I think there is a desire [among state governments] to have more cost certainty in Medicaid and to provide some measurement of the investment into Medicaid,” says MHPA president and CEO Thomas Johnson. States are generally unable to measure quality under fee-for-service Medicaid, he explains.

Medicaid stock prices are likely to improve “because it is one of the few areas of managed care with significant top-line growth potential over the next few years,” Carl McDonald, an equities analyst at Citigroup Investment Research, said in a note to investors. “In addition, the Medicaid plans have a significant amount of net cash — measured as tangible book value — relative to their current market cap.”

There has been an ebb and flow to managed care firms working with Medicaid over the years, and the government seems to be fueling access to that market now by “driving lives into Medicaid,” says JP Wieske, director of state affairs at the industry-backed Council for Affordable Health Insurance. Deals similar to the one announced by Molina are on the horizon, he tells *HPW*.

An increase in federal matching funds, which was called for in the 2009 economic stimulus package and continued under the reform law, will ultimately make states more dependent on private carriers as the match diminishes over the next several years, Gorman predicts. “If states remain in the fiscal crisis they are in...as the federal match declines they will become more dependent on private carriers.” Moreover, an increasing number of states are implementing or at least considering risk adjustment for their Medicaid programs. And that is good news for private plans.

Molina Deal Would Add 30,000

Molina’s proposed acquisition of Abri Health could translate to about 30,000 new members this fall. The closing of the transaction should occur by Aug. 31, but is subject to regulatory approvals, Molina says. Abri serves beneficiaries of BadgerCare Plus and Medicaid Supplemental Security Income in 23 Wisconsin coun-

Health Plan Week (ISSN: 1937-6650) is published 45 times a year by Atlantic Information Services, Inc., 1100 17th Street, NW, Suite 300, Washington, D.C. 20036, 202-775-9008, www.AISHealth.com.

Copyright © 2010 by Atlantic Information Services, Inc. All rights reserved. No part of this publication may be reproduced or transmitted by any means, electronic or mechanical, including photocopy, FAX or electronic delivery without the prior written permission of the publisher.

Health Plan Week is published with the understanding that the publisher is not engaged in rendering legal, accounting or other professional services. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.

Managing Editor, Steve Davis; Contributing Editors, Eve Collins, Renée Frojo, Angela Maas; Associate Editor, BJ Taylor; Executive Editor, Jill Brown; Publisher, Richard Biehl; Marketing Director, Donna Lawton; Fulfillment Manager, Gwen Arnold; Production Director, Andrea Gudeon

Call Steve Davis at 800-521-4323 with story ideas for future issues.

Subscriptions to *HPW* include free e-mail delivery in addition to the print copy. To sign up, call AIS at 800-521-4323. E-mail recipients should whitelist aisalert@aispub.com to ensure delivery.

To order **Health Plan Week**:

- (1) Call 800-521-4323 (major credit cards accepted),
- (2) Order online at www.AISHealth.com, or
- (3) Staple your business card to this form and mail it to:
AIS, 1100 17th St., NW, Suite 300, Wash., DC 20036.

Introductory Discount Price:

Payment Enclosed* \$497
Bill Me \$527

*Make checks payable to Atlantic Information Services, Inc.
D.C. residents add 6% sales tax.

ties, including a new contract awarded to it by the state in April to provide services in the state's southeast region. Abri has more than 18,000 enrollees, but could nearly double that number once the new contract takes effect this fall, according to a research note by Tom Carroll, an equities analyst with Stifel Nicolaus.

Molina "is staying true to its word of seeking acquisitions that add revenue, earnings, and further diversification for shareholders," Carroll said in the note. "This acquisition seems favorable for [Molina], and if current performance continues, this acquisition may add [about 5 cents to 10 cents] a share in 2011.... This may be a market where [Molina] can continue to grow," he adds.

But Carroll also calls the contract with the state "challenging to operate," noting that health plans will be subject to financial penalties of up to 3.25% of their rates if they do not comply with performance benchmarks. In addition, one component of pay under the contract in the southeast region is performance on quality measures, but he notes that Molina has strength in this area with its HEDIS-accredited health plans.

This is Molina's first venture into Wisconsin. The health insurer serves about 1.5 million members in California, Florida, Michigan, Missouri, New Mexico, Ohio, Texas, Utah and Washington state.

Contact Smith at vsmith@healthmanagement.com, Johnson at tjohnson@mhpa.org, Wieske at jpwieske@cahi.org, McDonald at carl.mcdonald@citi.com and Carroll at tacarroll@stifel.com. ✧

Managed Medicaid Firms Likely to See More Enrollment

According to CMS, there are 318 Medicaid health plans. But this counts individual plans in each state that might be owned by one company. AmeriChoice, for example, has contracts in 18 states and is counted as 18 separate companies in the CMS report, according to the trade group Medicaid Health Plans of America.

Top 10 Largest Managed Medicaid Firms by Enrollment

UnitedHealth Group	2.9 million
WellPoint, Inc.	2.0 million
AMERIGROUP Corp.	1.8 million
Molina Healthcare, Inc.	1.5 million
Centene Corp.	1.5 million
WellCare Health Plans, Inc.	1.3 million
AmeriHealth Mercy Family of Companies	900,000
Health Net, Inc.	800,000
LA Care	800,000
Aetna Inc.	700,000

SOURCE: Medicaid Health Plans of America, based on 2009 data. July 2010

Profits Are Likely Unsustainable For Plans, but Opportunities Remain

While the nation's largest health insurers — WellPoint, Inc., UnitedHealth Group, CIGNA Corp., Humana Inc., Kaiser Permanente and Aetna Inc. — collectively lost 2.7 million members in 2009, they managed to reap combined profits of more than \$14 billion, up 56% from the previous year. But such profits are likely unsustainable for those companies, according to a report released recently by KPMG LLP.

The report predicts that high unemployment will lead to further membership losses that will cut into the profitable full-risk commercial segment, in which enrollment fell 2.3% among public health plans in 2009. Moreover, pressure to maintain profitability while complying with components of the health reform law will likely cause health insurers to boost rates, cut jobs, increase merger and acquisition (M&A) activity and reduce administrative costs, the report concludes. *Case in point:* In a memo to Blue Cross and Blue Shield of North Carolina employees, CEO Brad Wilson warned that layoffs might be needed to trim the company's annual \$1 billion budget by \$200 million, the *Raleigh News & Observer* reported July 13.

Overhead Cuts Are Likely

Cutting overhead expenses will be a focus for many health plans as profit margins are squeezed by requirements under the reform law, says Maureen Fahey, a coauthor of the report and an advisory principal in KPMG's health care practice. The sputtering economy, combined with the unknown shape that health reform would take, meant there was little M&A activity in 2009 or in the first half of 2010. But Fahey says that is likely to change in 2011 due to a better understanding of health reform and an improving economy.

The report examines nine health plans including Kaiser, WellPoint, UnitedHealth, Aetna, AMERIGROUP and HealthSpring, Inc. Over the past five years, the companies studied had "relatively volatile" medical loss ratios (MLRs), according to the report. And in 2009, most companies increased their MLRs from 2008 levels (see chart, p. 4).

Health plans that are unable to comply with new reform rules, such as the required MLR floors, could become prime acquisition targets. "We will see an era of relationship building followed by more M&A activity," she tells *HPW*.

Fahey also expects that some health plans will expand their international operations through foreign acquisitions. The U.S. now represents 80% of the global private health insurance market, according to a report