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Healthcare *B.S.*

Business Strategy

January 23, 2008

Timing is Everything for Medicare Advantage Membership

As expected, competition during open enrollment** for 2008 Medicare Advantage (MA) products was intense. January 1, 2008 data recently released by The Centers for Medicare and Medicaid Services (CMS) reflect transactions posted by plans through December 7, 2007. This brief provides a preliminary look at how companies fared by comparing October 1, 2007 and January 1, 2008 reports for all MA products. Though the full results of the Medicare open market period will not be evident until February 1, 2008 data is in, preliminary results provide some interesting insights. In addition, beneficiaries who were already enrolled in Medicare Advantage (MA) plans can make changes through March 31, 2008.

Market Overview

Total MA plan enrollment increased 303,064 members, up 3% from October 2007, reaching an all time high of 9,138,727. Aetna joined the ranks of MA organizations with greater than 250,000 members. The number of organizations with enrollment greater than 100,000 remains unchanged since October. These sixteen parent organizations represent 67.6% of MA market share up from 67.3% in October 2007.

One caveat to consider is that most plans typically process additions prior to terminations to ensure continuity of coverage for participants; this may result in some plans' membership appearing higher now than it will in February.

January 2008* Top MA Organizations with Greater than 250,000 Members							
Parent	10-2007 Total	01-2008 Total*	Qtr Diff	% Diff	Rank Jan	Rank Oct	MA Total Market Share
UnitedHealth Group, Inc.	1,394,515	1,387,448	-7,067	-1%	1	1	15%
Humana Inc.	1,139,373	1,179,988	40,615	4%	2	2	13%
Kaiser Foundation HP, Inc.	882,447	886,009	3,562	0%	3	3	10%
Wellpoint, Inc.	366,201	387,163	20,962	6%	4	4	4%
Aetna Inc.	189,666	304,593	114,927	61%	5	9	3%
Coventry Health Care Inc.	284,443	271,425	-13,018	-5%	6	5	3%
Total	4,256,645	4,416,626	159,981	4%			48.3%

Source: Analysis by Mark Farrah Associates (MFA) with data from CMS available in Medicare Business Online

Forty-four plans reported gains greater than 1,000 members, adding a total of 359,707. Aetna, Preferred Care and Blue Cross Blue Shield (BCBS) of Michigan had the largest percentage growth rates at 61%, 30% and 23% respectively. Both Aetna and BCBS of Michigan added large government retiree groups to Medicare Advantage products automatically enrolling all members. Members who did not want the product were required to complete an opt-out form. Preferred Care signed a sole source agreement with a large employer group for January 2008, offering its retirees their MA products. (Please see Competitor Insights below for a more detailed explanation.)

MA Organizations with the Largest Gains for January 2008*				
Parent	10-2007 Total	01-2008 Total*	Qtr Diff	% Diff
Aetna Inc.	189,666	304,593	114,927	61%
BCBS of Michigan	186,121	229,003	42,882	23%
Humana Inc.	1,139,373	1,179,988	40,615	4%
Wellpoint, Inc.	366,201	387,163	20,962	6%
Preferred Care, Inc.	63,540	82,874	19,334	30%
XLHealth Corporation	67,951	80,122	12,171	18%
WellCare Health Plans, Inc.	158,586	169,304	10,718	7%
Highmark Inc.	232,395	241,636	9,241	4%
Total	2,403,833	2,674,683	270,850	11%

Source: Analysis by Mark Farrah Associates (MFA) with data from CMS available in Medicare Business Online

Thirteen Plans lost more than 1,000 members dropping 78,550 members between October and January. The Regence Group's drop is most significant in their BCBS Oregon plans and appears to be the result of increased competition from lower priced plans. The following parent companies had the most significant total MA losses:

MA Organizations with the Greatest Losses for January 2008*				
Parent	10-2007 Total	01-2008 Total*	Qtr Diff	% Diff
The Regence Group	83,300	68,927	-14,373	-17%
Coventry Health Care Inc.	284,443	271,425	-13,018	-5%
Universal Health Care Inc.	94,564	83,759	-10,805	-11%
UnitedHealth Group, Inc.	1,394,515	1,387,448	-7,067	-1%

Source: Analysis by Mark Farrah Associates (MFA) with data from CMS available in Medicare Business Online

Competitor Insights

The majority of Aetna growth came from the Aetna Life Insurance Company Plan H5736 in two states Ohio (91,117 Oct - Jan) and Florida (4,772 Oct - Jan). This can be attributed to the introduction of a new Medicare Advantage product to the Ohio Public Employees Retirement System (OPERS) for the 2008 benefit year. All members currently enrolled in the Aetna Enhanced Plan, a Medicare Supplement plan, were automatically switched to the Aetna Medicare Open Plan (a MA Plan). Monthly premiums decreased 13% as a result of the switch to MA plans for OPERS retirees. Retirees eligible for Medicare Part A and B or Part B only and enrolled in the Medical Mutual Plan, or an alternate plan (Kaiser or Aultcare) were strongly encouraged to look into the benefits of the Aetna Medicare Open Plan. According to OPERS 2006 Annual Financial Report 200,494 participants were covered by Post Employment Health Care with 140,807 living in Ohio and 5,317 living in the next largest state, Florida.

Preferred Care's 30% growth can be attributed to the addition of a new plan in January 2008 called USACare (H6806). USA Care is a Medicare Advantage Private Fee-for-Service (PFFS) plan offered by Preferred Care. Preferred Care won a sole source contract with Eastman Kodak with its 45,000 nationwide employees and retirees. Those retirees were offered the MA plan for the first time for January 2008.

BCBS Michigan announced in August 2007 that for the first time in 8 years it was increasing its monthly premiums for individual Medigap coverage. BCBSMI Medigap rates for BCBSM Plan A will be \$35.24 monthly and Plan C will be \$107.09 monthly. It appears many members switched to more attractively priced Medicare Advantage products. As of January 1, 2008 BCBSMI also began administering both the Medicare and State Health Plan PPO as a single MA plan for State of Michigan Medicare retirees. Members who decided to opt-out of the Medicare Advantage plan would lose coverage through the State of Michigan's State Health Plan for themselves and any dependents.

Nineteen new plans entering the MA Market this month gained 6,439 total MA members. Puget Sound Health Partners became the largest new entrant with 1,722 members and Asociacion De Maestros De Puerto Rico added 951 members.

Six plans with membership in December did not report membership in the Medicare market for the January 2008 reporting period -- dropping 8,424 members. UHP Healthcare, of Inglewood, CA a division of WATTS Health Foundation, Inc., dropped the greatest number of members (7,027). The WATTS Health Foundation plans to sell its UHP Healthcare HMO for \$30 million to Alhambra CA-based Care 1st to resolve bankruptcy debt, estimated at \$40 million. Care1st Health Plan is showing a corresponding gain with 7,002 members added.

To keep abreast of the Medicare market consider a subscription to Medicare Business Online™. This dynamic tool is designed for Medicare Advantage plans, Prescription Drug Plans, Medigap carriers and industry consultants who need direct access to reliable, up-to-date Medicare enrollment data.

(*) January 1, 2008 data recently released by The Centers for Medicare and Medicaid Services (CMS), reflecting transactions posted by plans through December 7, 2007

(**) Open enrollment November 15 – December 31, 2007

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 Mark Farrah Associates - (207) 985-8484
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