

## **Financial Analysis of Aetna/Coventry**

By David Belk MD

### **Overview**

For the purpose of these analyses, the types of health insurance discussed will fall into two broad categories: commercial and non commercial. The non commercial policies cover Medicare and Medicaid beneficiaries and are of four basic types:

- 1) Medicare Advantage- where a Medicare beneficiary signs over their Medicare benefits to a private insurance company to be managed by them.
- 2) Medicare Part D- which is a prescription drug program for Medicare beneficiaries mediated by the private insurance companies but paid for, in part, by the Federal Government
- 3) Medicare Supplemental policies which are private policies purchased by traditional Medicare recipients to cover their Medicare deductibles and co-insurance payments.
- 4) Medicaid Managed Care policies- in which a Medicaid recipient has their benefits managed by a private insurance company.

Commercial policies are for people not eligible for Medicare or Medicaid and fall into two basic categories:

- 1) Administrative Service Contracts (ASCs)- where employers self insure by paying for all of the the medical benefits for their employees. The insurance company handles the paperwork, determines payments and provides networks for the contracted employers.
- 2) Insured- where the Health insurance company pays for the benefits.

Health insurance policies are also divided by the different ways in which they cover benefits such as HMOs, PPOs, EPOs, etc... However, these subdivisions aren't addressed much by the financial statement provided by most of the insurance companies, so they won't be discussed here.

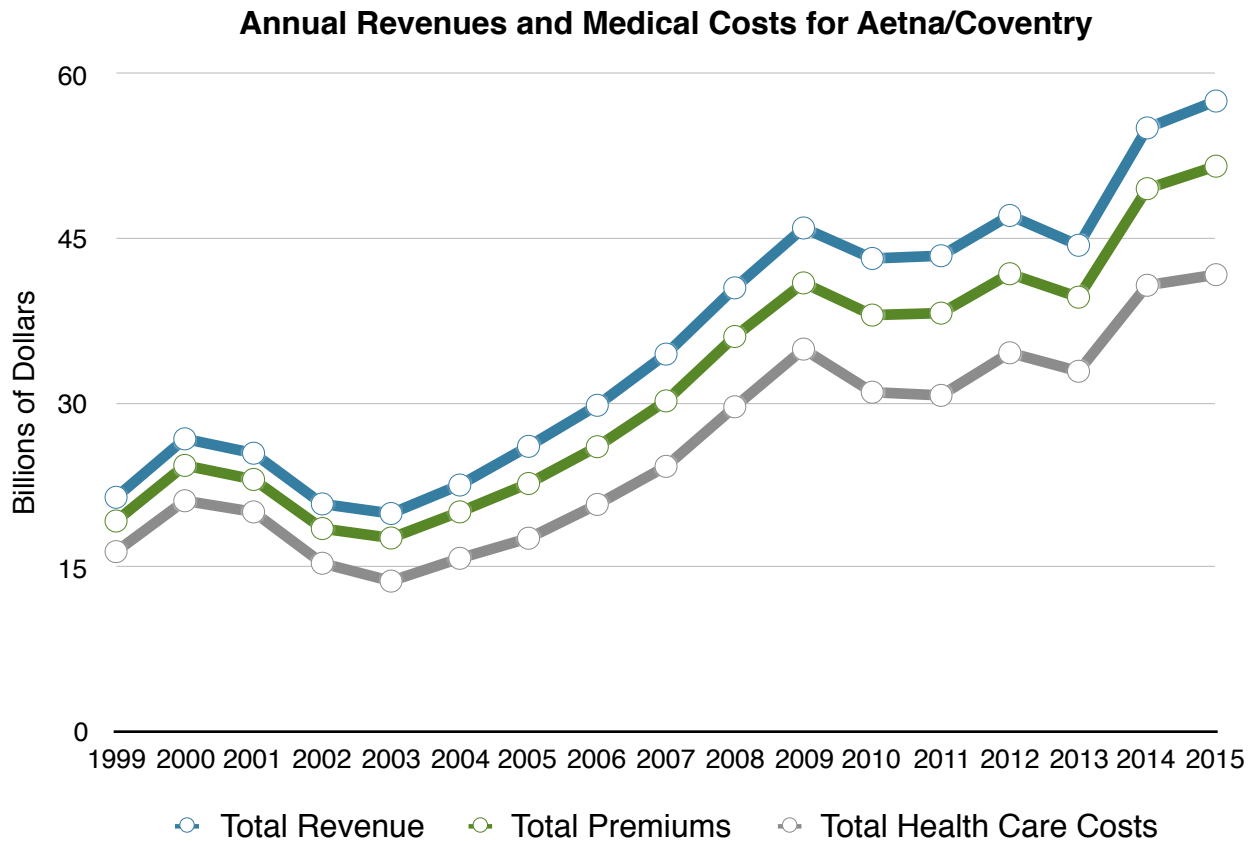
### **Aetna/Coventry**

Aetna merged with Coventry in 2012. For the purposes of this analysis, Aetna's and Coventry's finances are combined as though they were one company the whole time.

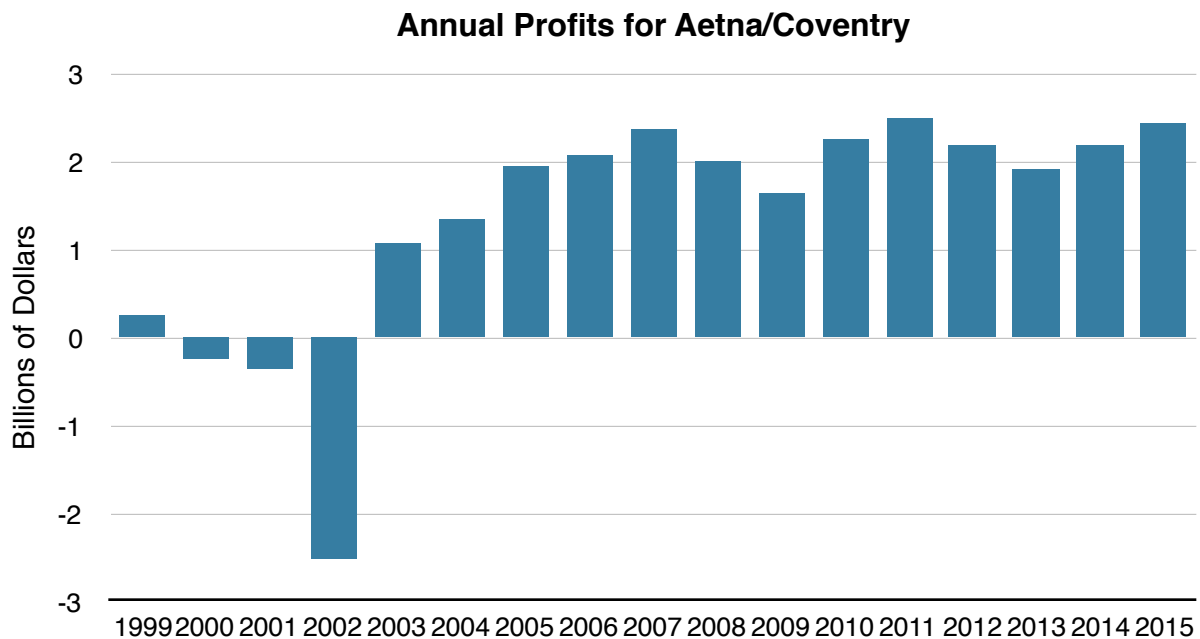
The finances of Aetna and Coventry are similar to those of other large health insurance companies. In the last decade, their business moved from an emphasis on commercial health insurance to the non commercial (medicare and Medicaid) members. They've also increased the proportion of ASC policies in their commercial business while their number of fully insured members has steadily declined.

Total Executive pay for UHG was \$35.87 million in 2014 with \$15.07 million going to their CEO Mark T. Bertolini.

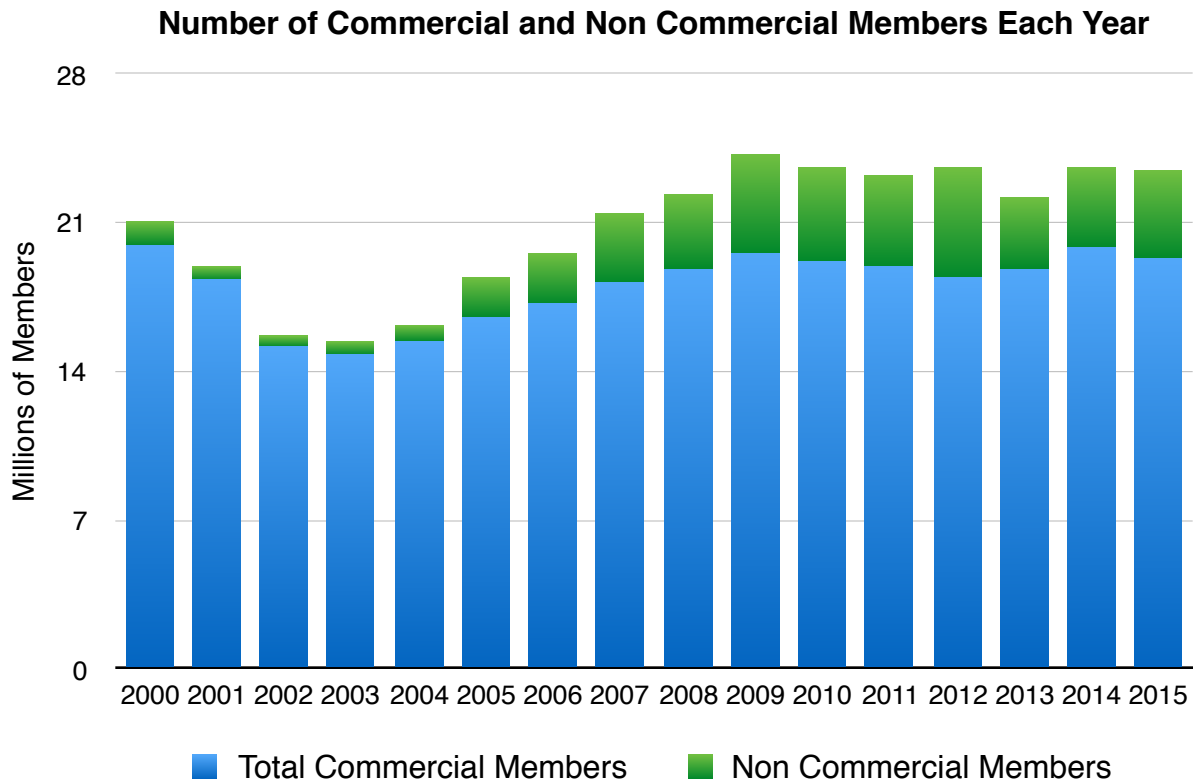
<http://insiders.morningstar.com/trading/executive-compensation.action?t=AET>  
<http://truecostofhealthcare.net/health-insurance-financial-index/>



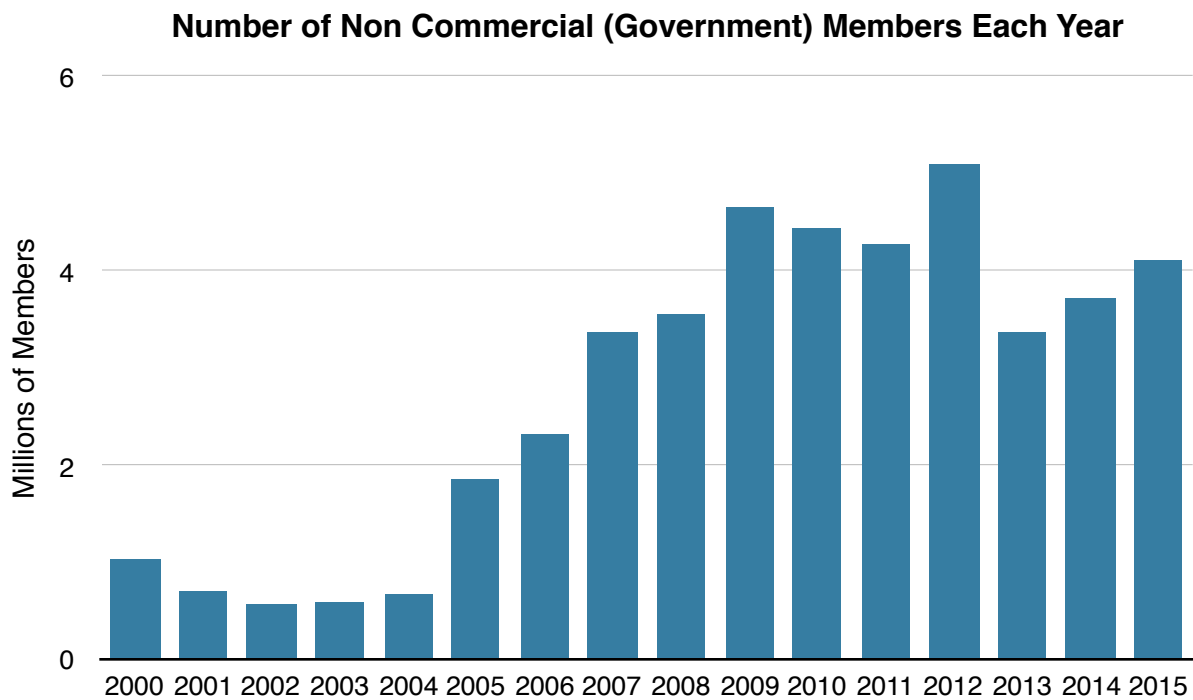
**Figure 1:** The combined revenue for Aetna and Coventry has risen dramatically, especially since 2003.



**Figure 2:** Prior to 2003 Aetna was having some trouble making a profit. They've done quite well since then, though.

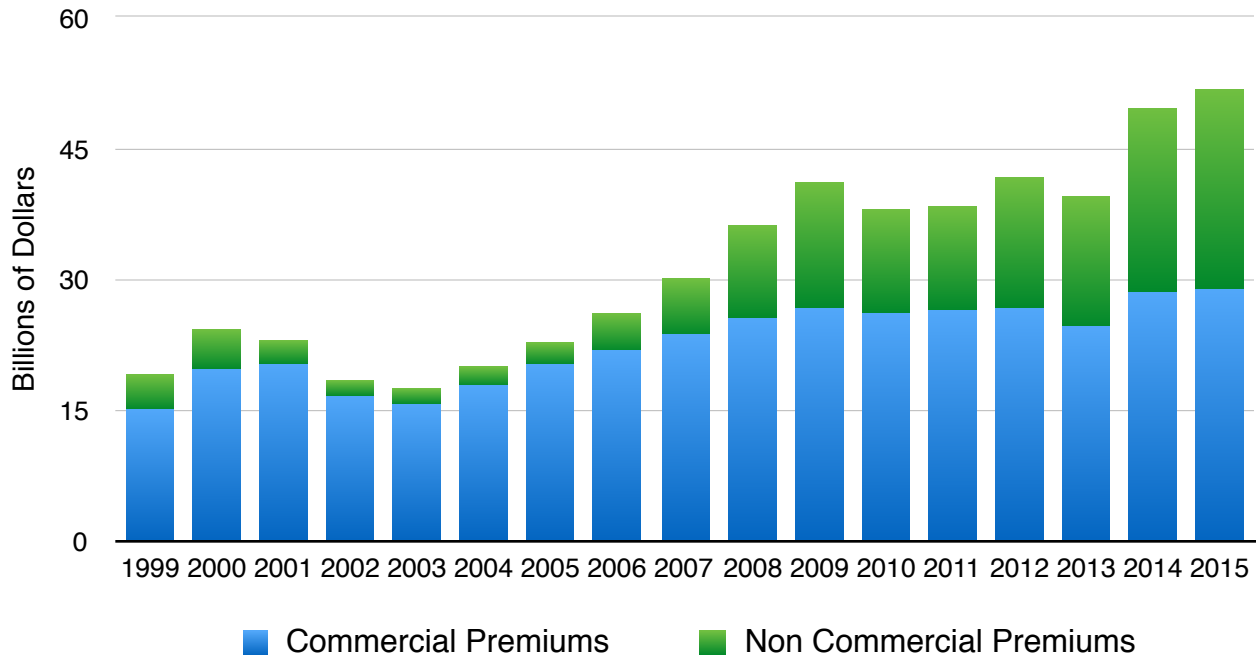


**Figures 3&4:** The majority of Aetna and Coventry’s membership is commercial though their proportion of non commercial members has grown considerably in the last decade (as Figure 4 shows).



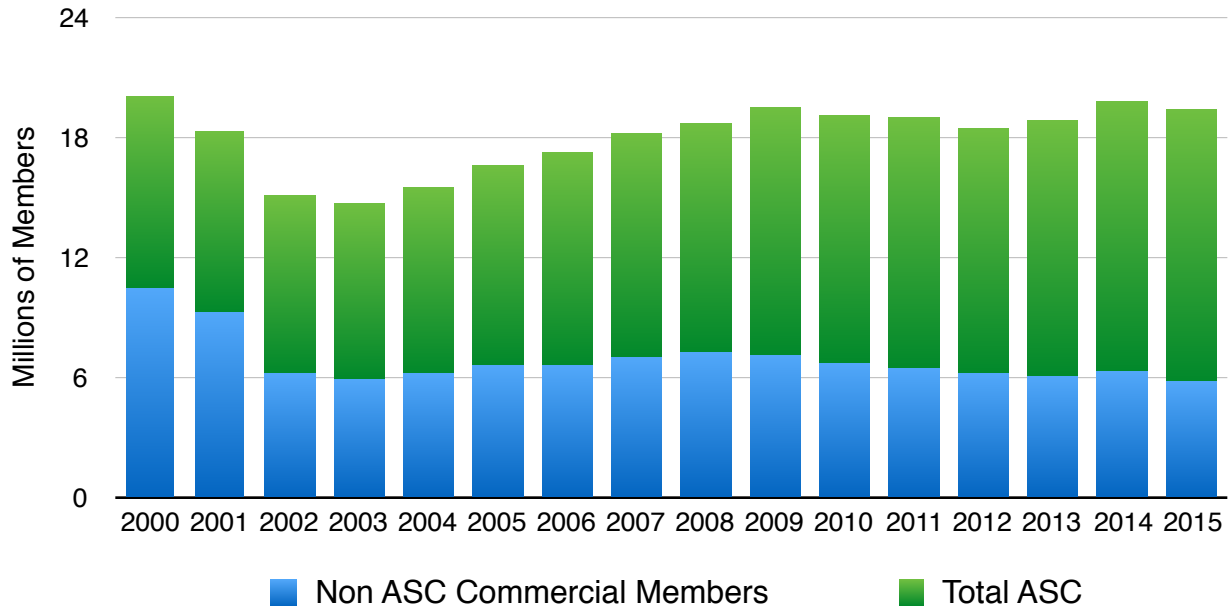
**Figure 4:** Non Commercial (Medicare and Medicaid) Membership for Aetna and Coventry.

### Commercial and Non Commercial Premium Revenue Each Year



**Figure 5:** Even though non commercial members aren't a big proportion of Aetna's total membership, non commercial premiums accounted for 44% of Aetna's total premium revenue in 2014. This is because a majority of Aetna's commercial members are ASC members. ASC members only pay service fees and not premiums.

### Annual Insured Commercial Members vs. ASC Members



**Figure 6:** As with most of the large health insurance companies, the majority of Aetna and Coventry's commercial membership have administrative contracts so Aetna isn't financially responsible for their health care benefits.