Financial Analysis of Centene

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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.

Centene

Centene, unlike the other insurance companies profiled in this analysis, provides only one type of health insurance; Medicaid managed care. In spite of being rather focused in their health insurance membership, Centene has done quite well and has enjoyed spectacular growth in their revenue. In 1998 Centene's total revenue was roughly $150 million. By 2015 their revenue had grown by more than 150 times to more than $22 billion. Clearly, there's a lot of money in managing the medical benefits of poor people.

Centene is also rather exceptional in how well they pay their executives. Centene is only the sixth largest for-profit health insurance company (in total revenue) and earned only a small fraction of the revenue companies like United Health Care or Anthem made. Still, their CEO was either the highest or second highest paid CEO in the health insurance business (depending on whether you include stock options). Again, there is definitely a lot of money in managing health care benefits for poor people.

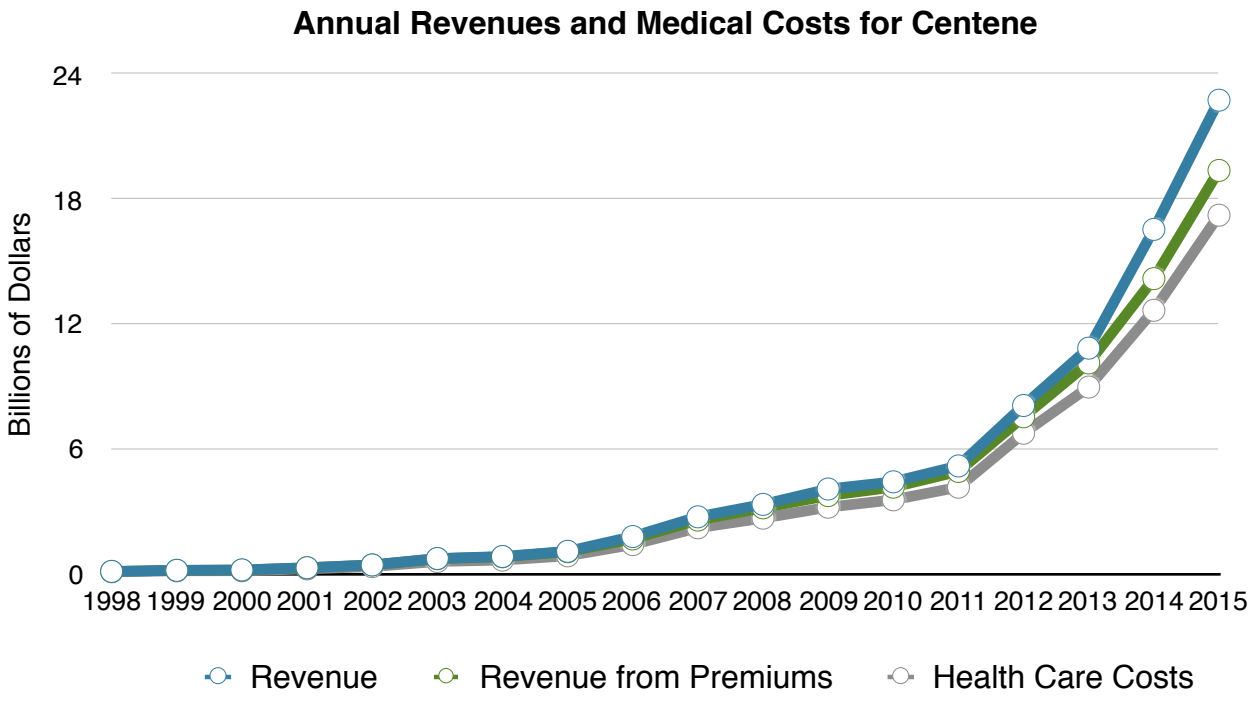

Figure 1: Centene's revenue growth has been nothing short of spectacular. Centene's revenue in 2015 was more than 150 times what it was in 1998. Some of this growth is the result of mergers with other insurance companies but, clearly, the market for medicaid managed care has exploded in the past few years. Their average loss ratio was 85.5% so Centene's medical costs kept a very close pace with their revenue.

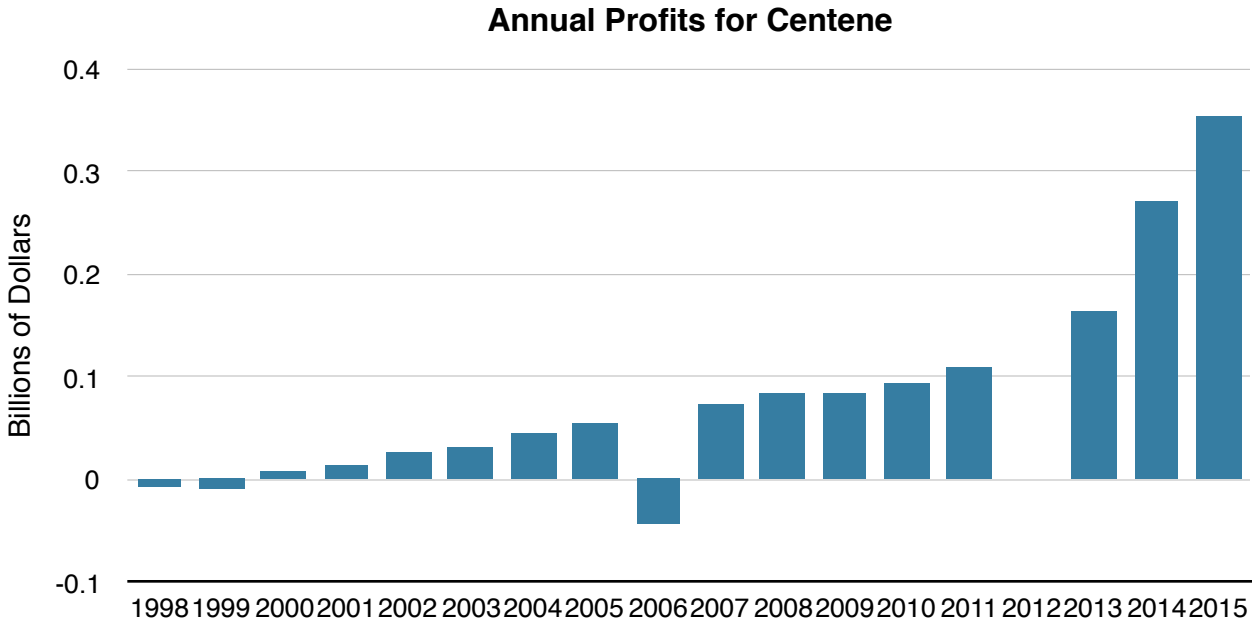

Figure 2: Centene's profit margin has remained between 2-5% most years which is healthy enough given their rate of growth.

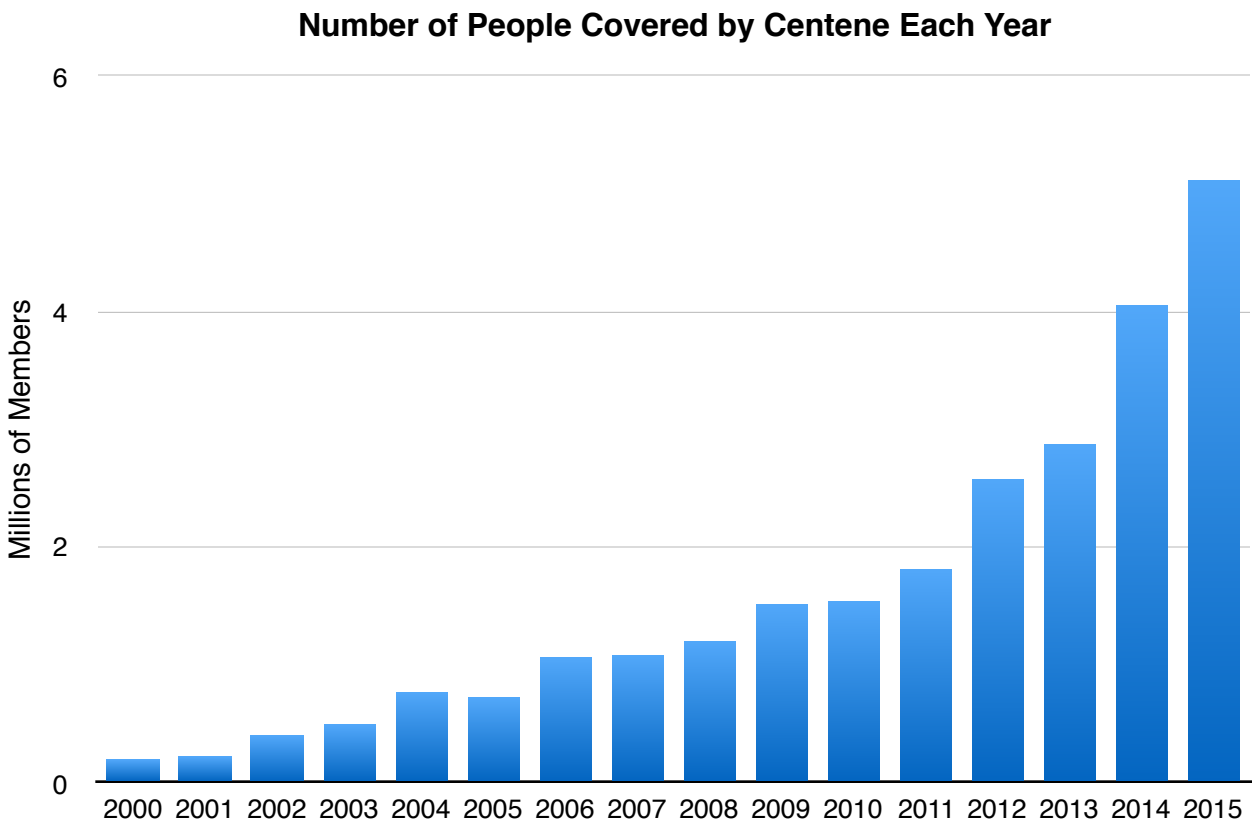

Figure 3: Centene's increases in revenues each year are obviously driven by an increase in their membership. This further illustrates the fact that there is no shortage of demand for Medicaid managed care plans.

Medicaid and Managed care

Roughly 69 million Americans receive Medicaid. In 2011, about 74% of those Medicaid recipients were in a managed care program, up from 58% who were in a managed care program in 2001. Based on that trend, it's safe to assume that more than 80% of Medicaid recipients are enrolled in a managed care program now.

It's clear from the above graphs that Medicaid managed care is good money for those who manage it. The real question is, how does managing this care really save money? Does it save money?

A common misconception about health care is that if we restrict people's access to care, we can save a lot of money by not allowing people to abuse the system. This idea is rooted on the notion that health care is expensive in the US because too many people want unnecessary medical services and it's those unnecessary services that drive up our health care costs.

Now the fact is, there has never been any substantial evidence that over utilization of health care resources is a problem in the US. Putting that aside, though, we should ask: is it possible that managed care might be part of what's really driving up the cost of health care in this Country?

In reality, most people in the US (and anywhere else) don't enjoy going to the doctor, getting medical tests and procedures or taking medications. It's also true that, the real purpose of these medical tests, procedures and medications is to actually save money in the long run by detecting and treating diseases early or even preventing them all together. With that in mind, we should ask: how does restricting access to medical care save money any more than restricting access to an oil change would save you money on your car repairs?

This is especially valid when discussing Medicaid programs. Medicaid in particular is usually the most restrictive of all the health plans doctors have to deal with. It's often very difficult for patients with medicaid to find primary care doctors because so few primary care services are covered and Medicaid's formularies are highly restrictive, even going so far as to deny coverage of many inexpensive generic medications.

What's the end result of all of these restrictions? Often medicaid patients end up being treated in Emergency Rooms and being hospitalized for medical conditions that could have been treated for far less money or prevented completely if treated earlier in a primary care setting.

So I'll ask again, is managed care really a strategy designed to save money, or is it just a clever way to drive up the cost of Medicaid which, in turn, drives up the revenue of privately run medicaid managed care services?

Total executive pay for Centene was $40.59 million in 2015 with $20.76 million going to their CEO Michael Neirdoff.

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