

Financial Analysis of Health Net

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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.

Health Net

Health Net is the smallest company in this survey to offer commercial insurance policies. In fact, Health Net's commercial membership and revenues have been dropping steadily over the past decade. In 2003 Health Net had nearly 3 million commercial members and earned about \$6.5 million in commercial premium revenue. By 2015, Health Net's commercial membership had dropped to just over 1 million members who payed only about \$5.5 million in premiums.

Health Net has made up for some of their commercial losses by increasing their non commercial membership. Still, their overall revenue has been mostly declining since 2009, with the exception of 2014 and 2015 when their business picked up from California's expansion of Medicaid.

An interesting note about Health Net's commercial policies is that they appear to be the only major publicly traded health insurance company that offers commercial plans but that doesn't offer Administrative Service Contracts.

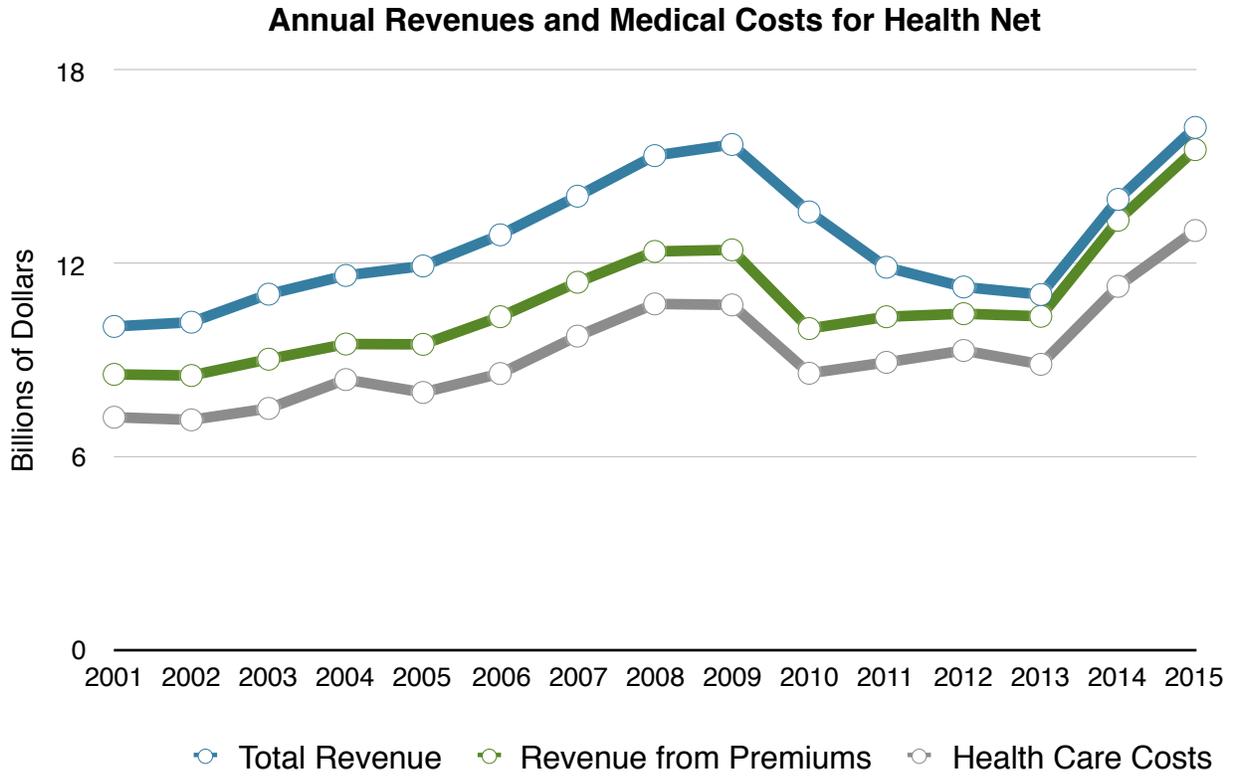


Figure 1: Health Net’s revenue has been mostly declining since 2009 with the exception of 2014 and 2015 when their business benefited from California’s expansion of MediCal.

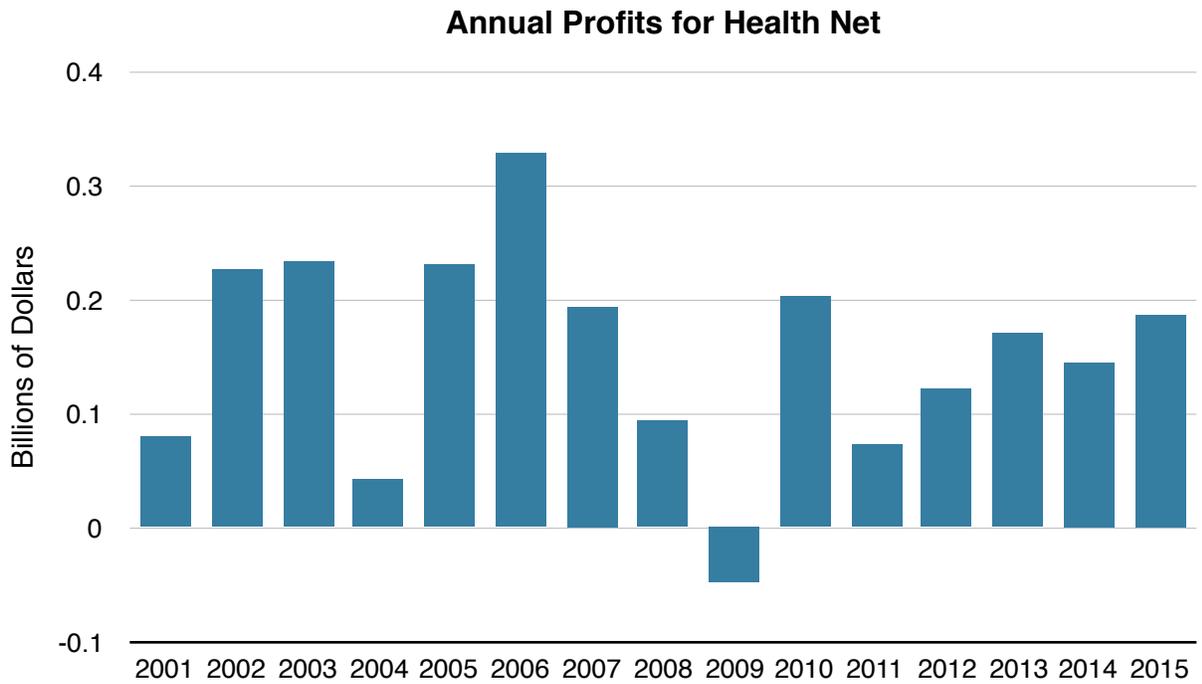


Figure 2: Even though Health Net’s overall business has been far from spectacular, they’ve managed to eke out a reasonable profit most years since 2001.

Number of Commercial and Non Commercial Members for Health Net Each Year

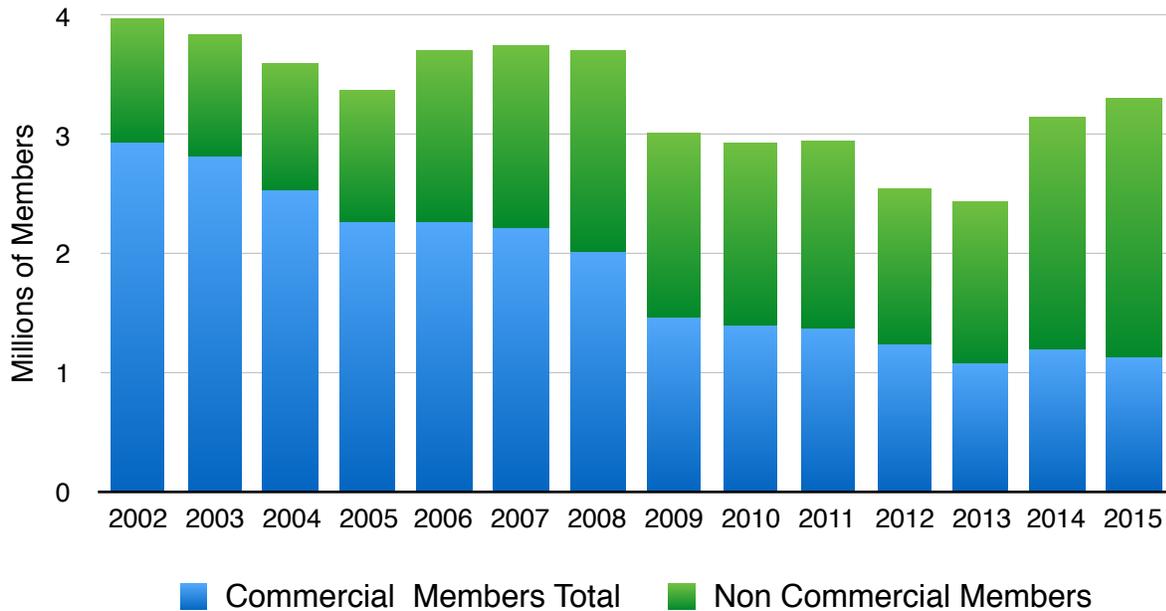


Figure 3: Health Net has had a steep decline in their commercial membership that’s been partially made up for by increasing their non commercial membership. Also, Health Net is the only insurance company in this survey that offers commercial plans but doesn’t appear to have any ASC members.

Health Net’s Revenue from Commercial and Non Commercial Premiums

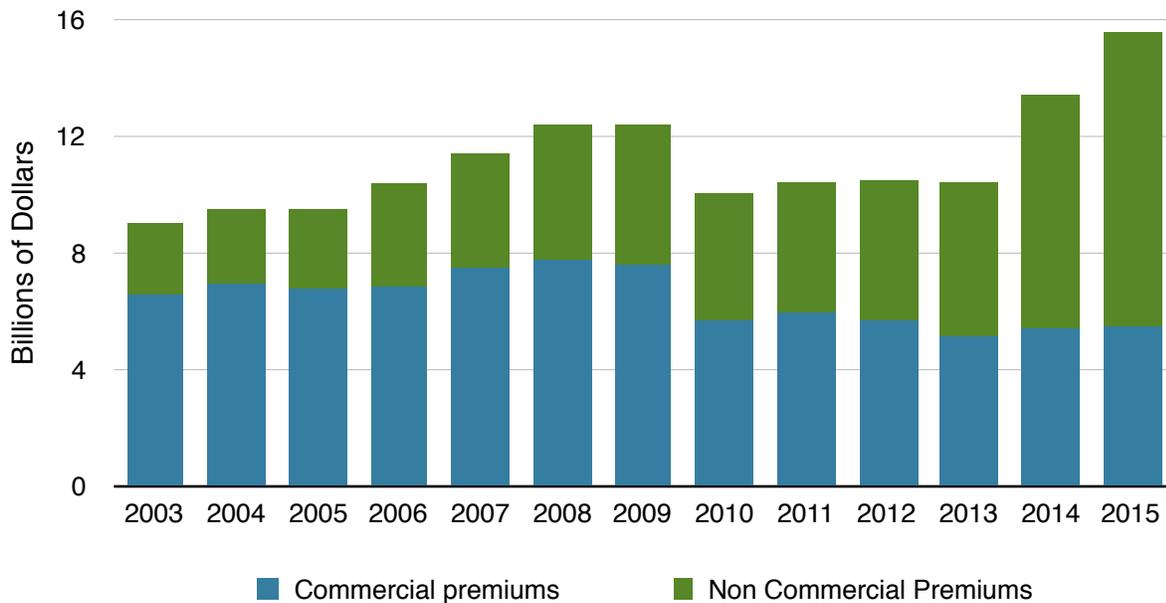


Figure 4: Health Net’s premium revenue reflects their membership trend in that the majority of their revenue now comes from their non commercial members.

Total executive compensation for Health Net was \$27.08 million in 2014 with \$12.48 million going to their CEO Jay M. Gellert.

<http://insiders.morningstar.com/trading/executive-compensation.action?t=HNT>

<http://truecostofhealthcare.net/health-insurance-financial-index/>