

## Financial Analysis of Humana

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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.

### Humana

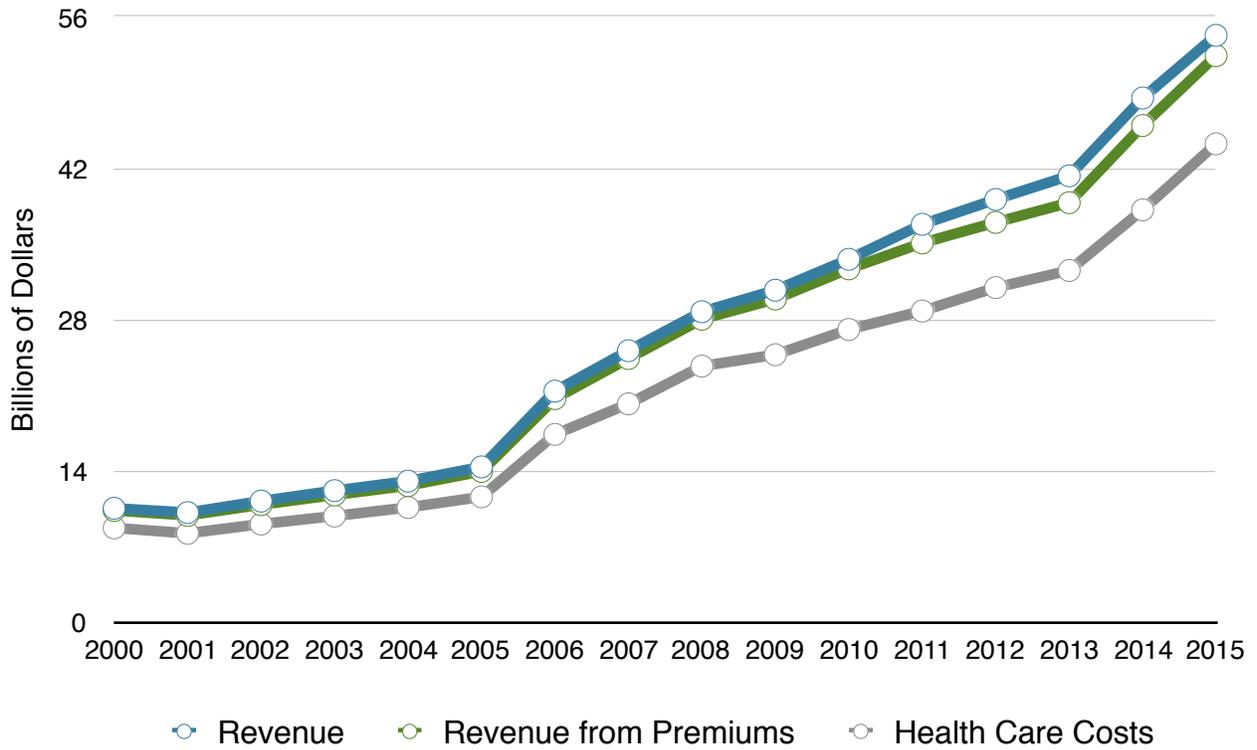
In 2000 roughly 60% of Humana's members were Commercial and 40% were non commercial (Medicare and Medicaid recipients). In 2015 only 21% of Humana's members had commercial policies. This isn't surprising since non commercial health insurance policies have been very popular with all of the insurance companies in recent years.

In 2003 the eight insurance companies profiled in this survey had a combined total of about 8.5 million non commercial members and 56 million commercial members. In 2015 the number of non commercial members for all eight health insurance companies had risen more than six times to over 53 million while the number of commercial members had gone up only about 71%.

Total executive pay for Humana was \$20.62 million in 2015 with \$10.34 million going to their CEO Bruce D. Broussard.

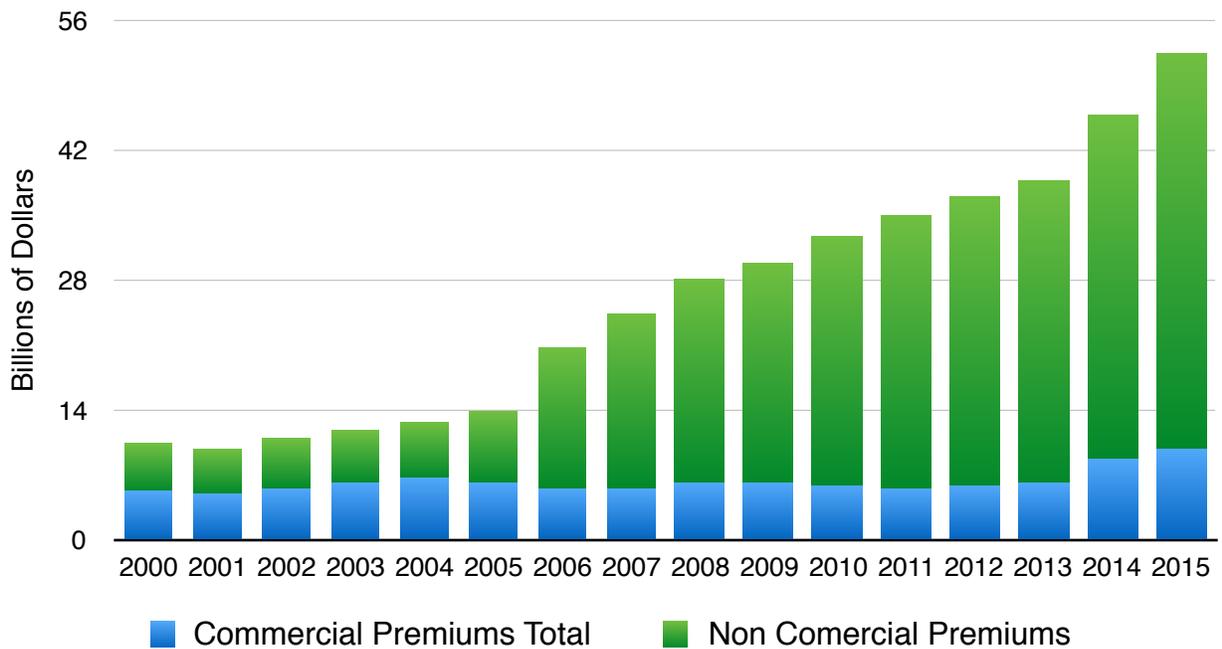
<http://insiders.morningstar.com/trading/executive-compensation.action?t=HUM>  
<http://truecostofhealthcare.net/health-insurance-financial-index/>

### Annual Revenues and Medical Costs for Humana

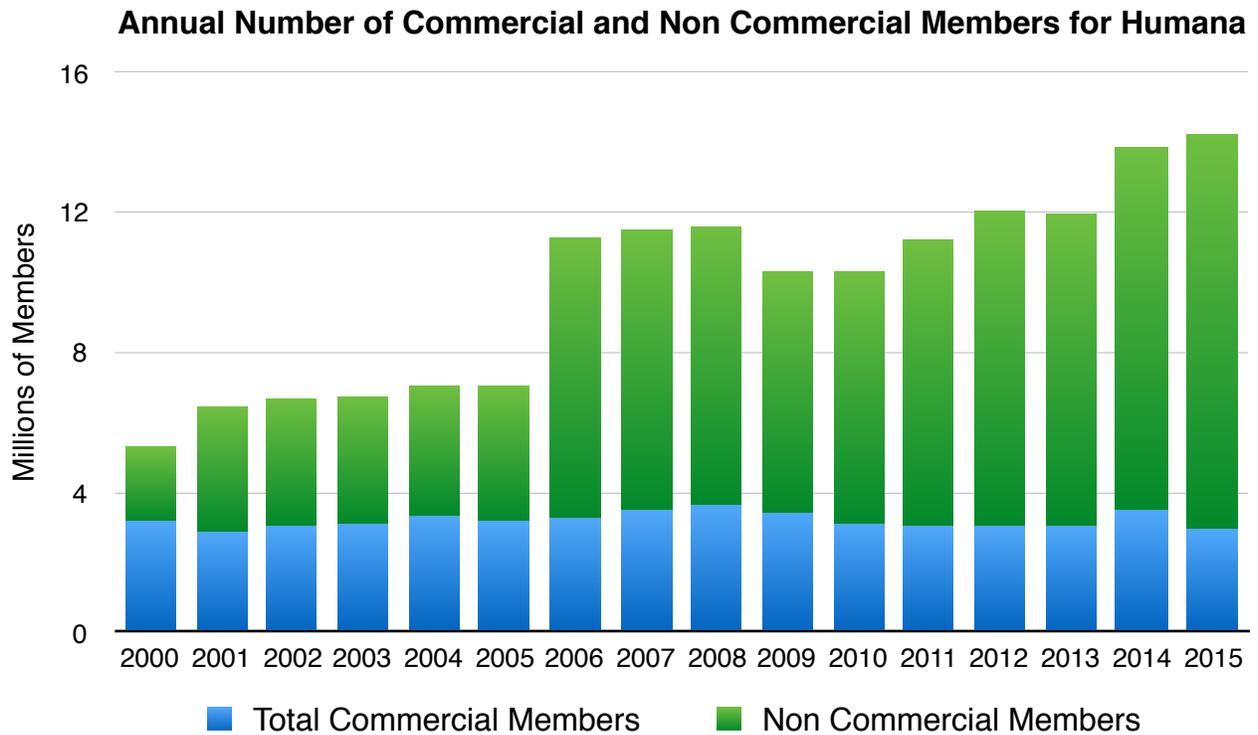


**Figure 1:** Humana’s revenue has risen dramatically, especially since 2005. Since 2005 Humana’s total revenue has nearly quadrupled.

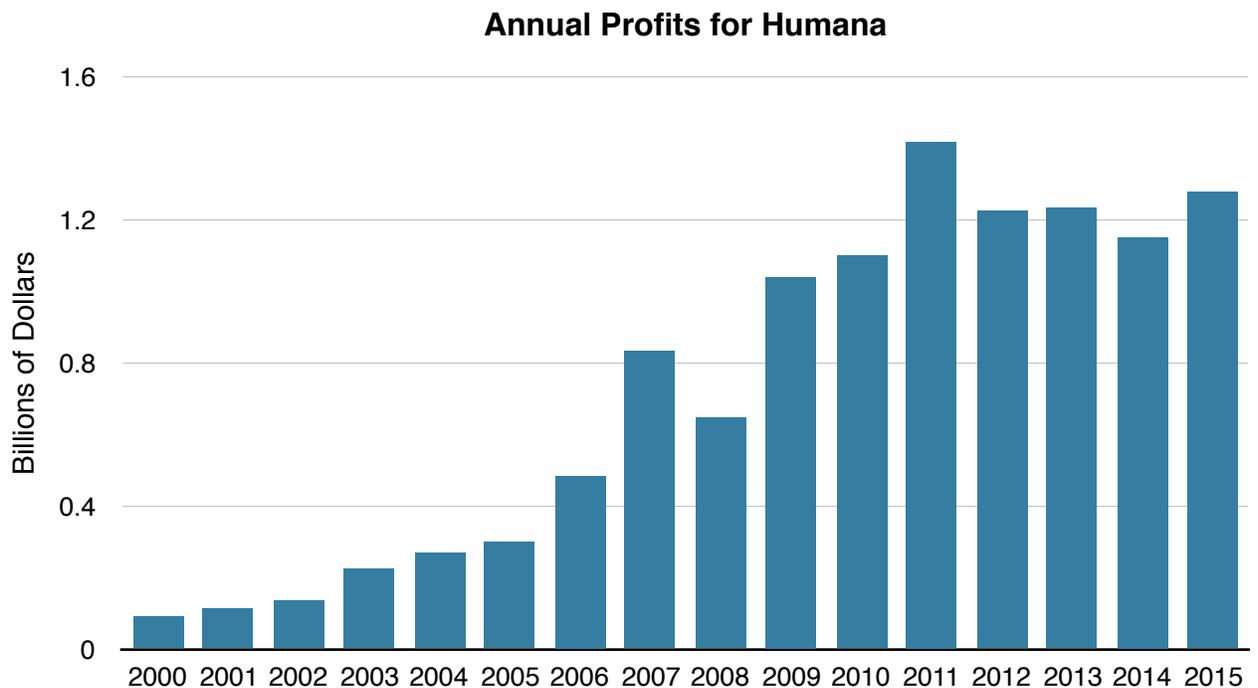
### Humana’s Revenue from Commercial and Non Commercial Premiums



**Figure 2:** Nearly all of Humana’s revenue growth has come from non commercial premiums.

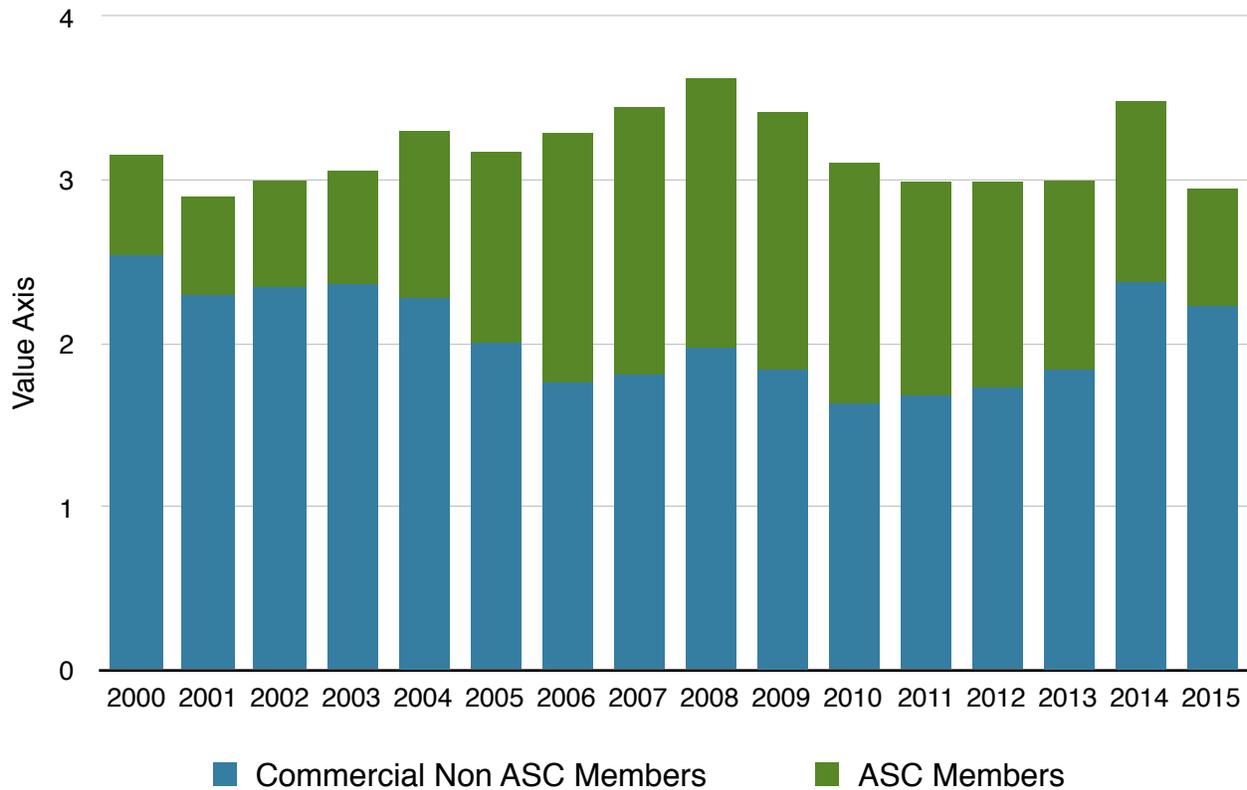


**Figure 3:** Humana’s rise in their non commercial membership has obviously been the source of their premium growth while their commercial membership has been mostly flat.



**Figure 4:** Humana’s profits have grown in proportion to their revenue which shows that the non commercial health insurance pays well enough.

### Annual Insured Commercial Members vs. ASC Members



**Figure 5:** Humana’s ASC membership has grown as a proportion of their total commercial membership since 2000, but not by nearly as much as it has in other health insurance companies. In fact, Humana’s ASC membership has declined since 2008 and dropped dramatically last year.

This increase in the popularity of non commercial policies for health insurance companies is mostly due to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. This bill increased the amount the Federal Government reimbursed private health insurance companies to manage Medicare plans and also provided federal assistance for prescription drug plans that private insurance companies could sell to Medicare recipients.

The passage of that act resulted in private insurance companies shifting their emphasis from the commercial health insurance market to the non commercial market. Now, most commercial health insurance plans are self funded by employers who pay service fees, but not premiums, while the health insurance companies “insure” mostly Medicare and Medicaid recipients.

<http://royce.house.gov/uploadedfiles/overview%20of%20medicare.pdf>