Financial Analysis of Humana

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Overview

Health insurance finances are very complicated to say the least. Companies that provide most types of insurance have a rather simple business model: Collect premiums from policy holders and payout benefits only when bad things happen to a policy holder, like a house fire or a car accident. But health insurance finances are far more complicated for a number of reasons. Among these reasons are:

1) Health insurance companies don’t just get their money from policy holders. A good portion of the premium revenue paid to health insurance companies comes from the Federal and State governments to cover Medicare and Medicaid patients.
2) People with standard Medicare policies might also have additional private policies to cover medications or extra medical costs.
3) Insurance companies don’t often cover their commercial (non Medicare or Medicaid) policies financially. Instead, they often sell employers Administrative Service contracts (ASCs). With ASCs, the policy holder’s employer covers most or all of their health care costs and the insurance company merely negotiates the price of each health care service.
4) The rates and methods of payment from the different policies vary extensively for each health care service and, sometimes even for the same service by the same provider.
5) Health insurance companies offer several different types of private insurance (PPOs, HMOs, HSAs, EPOs, etc…) yet their financial statements provide no indication of how much each health insurance company allocates in payments to each of these different divisions when paying benefits.
6) None of the health insurance financial reports give any indication of what proportion of the benefits paid went to hospitals, doctor’s offices, medical testing, etc… Instead, almost all payments are simply lumped together as “health care costs.”
7) Since the cost of every service in health care is mediated by the health insurance companies, very few people have any idea what each individual service should cost. This makes it very difficult to determine what a fair payment would be for any medical service.
8) Many of the health insurance companies, including Kaiser, are non-profit, so they don’t have to submit extensive financial statements to the SEC or anyone else.

In spite of all of these limitations, I was able to gather quite a bit of information from the financial statements for the eight largest publicly traded health insurance companies: Aetna, Anthem, Centene, Cigna, Health Net, Humana, United Health Care and WellCare. Together, these eight companies held roughly 145 million health insurance policies and earned nearly $380 billion in total revenue in 2014.

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 discussed extensively here: [http://truecostofhealthcare.net/medicare-supplemental-insurance/](http://truecostofhealthcare.net/medicare-supplemental-insurance/)

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- where the policy holder and their employer pay for all or most of their medical benefits and

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… but, since these subdivisions aren't addressed much by the financial statement provided by most of the insurance companies, they won't be discussed much here.

**Humana**

In 2000 roughly 60% of Humana's members were Commercial and 40% were non commercial (Medicare and Medicaid recipients). In 2014 only 25% 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 2014 the number of non commercial members for all eight health insurance companies had risen about six times to almost 50 million while the number of commercial members had gone up only about 71%.

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](http://royce.house.gov/uploadedfiles/overview%20of%20medicare.pdf)

Total executive pay for Humana was $27.65 million in 2014 with $10.16 million going to their CEO Bruce D. Broussard.


[http://truecostofhealthcare.net/health-insurance-financial-index/](http://truecostofhealthcare.net/health-insurance-financial-index/)
**Figure 1:** Humana’s revenue has risen dramatically, especially since 2005. In the last Decade Humana’s total revenue has more than tripled.

**Figure 2:** Virtually 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.
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 somewhat since 2008.