

Financial Analysis of United Health Group

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.

United Health Group

United Health Group is, by far, the largest health insurance company in the United States. UHG's total revenue in 2015 was just over \$157 billion which is roughly twice that of the second largest health insurance company (Anthem) or the largest pharmaceutical company (Johnson and Johnson). UHG had four times the total revenue of the largest for profit hospital corporation (Hospital Corporation of America) they also made more money than the combined total revenue for all California hospitals (see Figure 1) and made almost as much as the total budget for Australia's national health care system. United Health Group is big!

United Health Group has several subsidiaries including United Health Care, Pacific Care and AARP. They also manage Tricare policies in certain regions. UHG acquired Unison Health Plans and Sierra Health Services in 2008, Pacific care in 2005, and Oxford Health Plans and Mid-Atlantic Medical Services in 2004.

Total Executive pay for UHG was \$47.96 million in 2015 with \$14.52 million going to their CEO Stephen Hemsley.

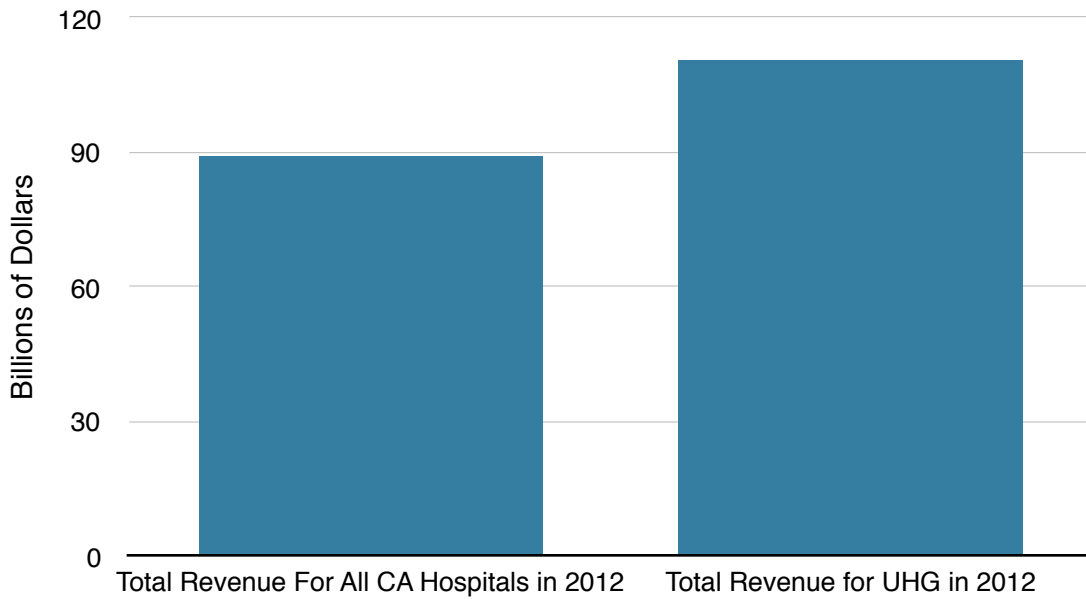


Figure 1: Total Revenue for United Health Group in 2012 compared to the combined total revenue of all California hospitals in 2012 (source: Medicare Cost Report data).

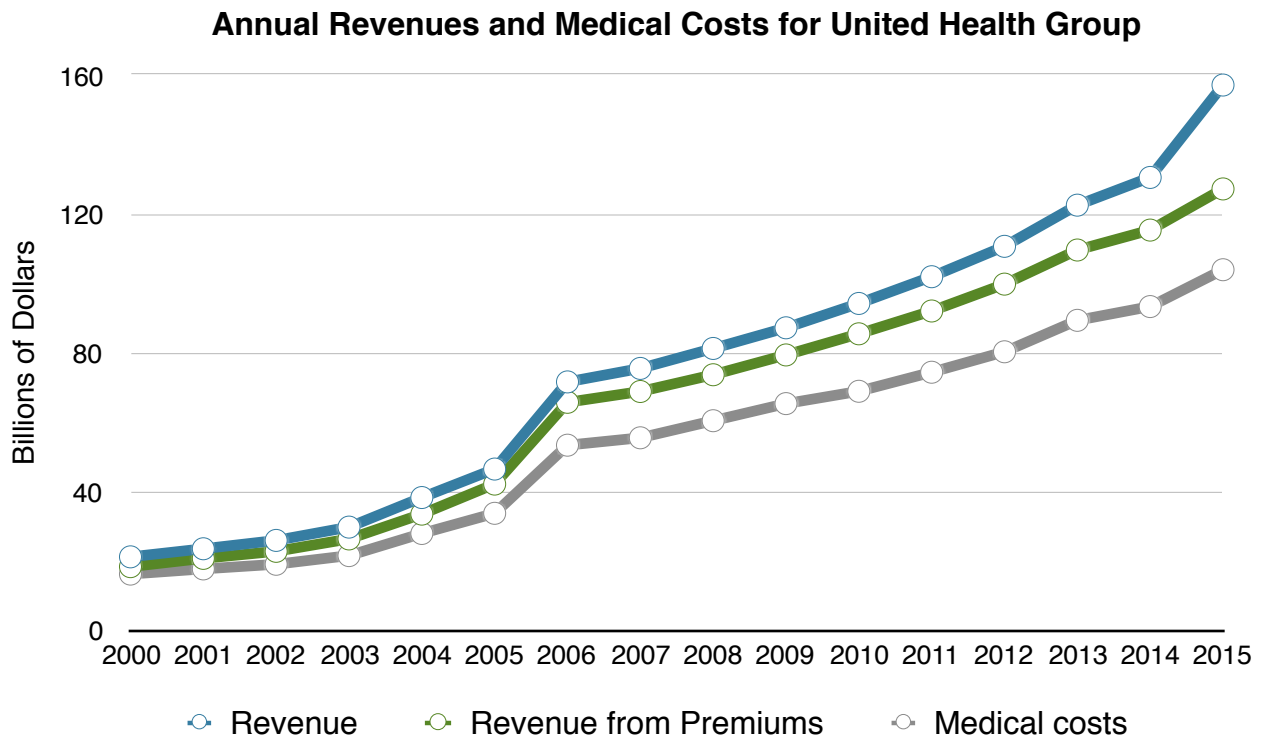


Figure 2: Revenue for United Health Group has risen dramatically since 2000. Total revenue for UHG was about \$21 billion in 2000 and rose to more than seven times that amount by 2015. Medical costs have risen proportionately to revenues so UHG has maintained an average medical loss ratio of 82%. Other revenues, including service charges for ASC fees, have been about 10-12% of UHG’s total revenue.

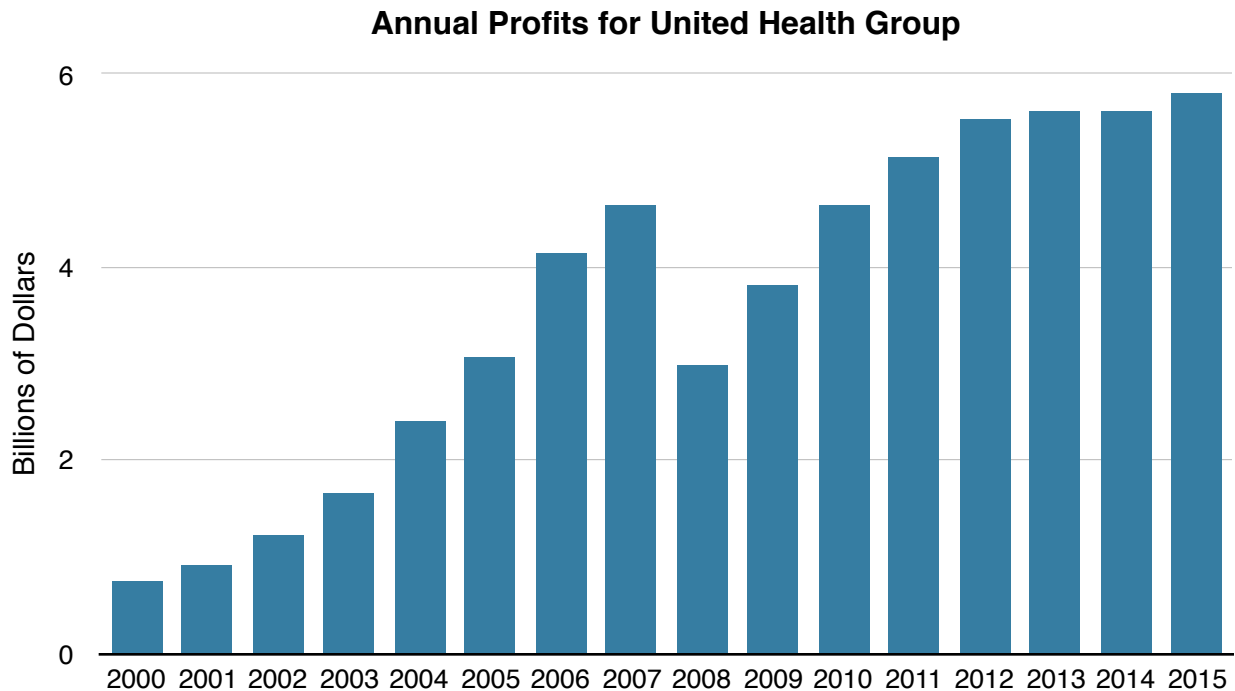


Figure 3: Along with their remarkable growth in revenue, UHG has managed to maintain a rather healthy profit margin of 4-6% most years.

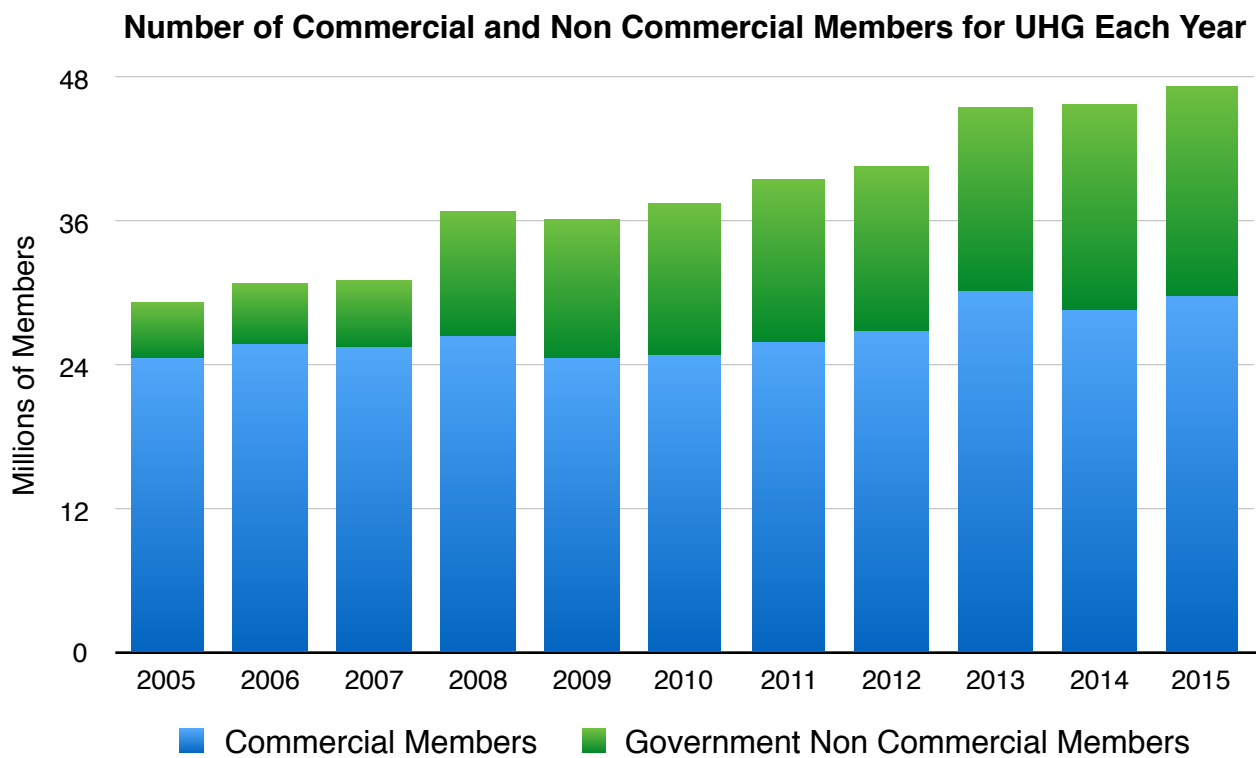


Figure 4: The growth in UHG’s membership since 2005 has clearly favored the non commercial members. While commercial membership has been mostly flat over the last decade, non commercial membership for UHG has increased by about 250%.

Number of Non Commercial (Government) Members Each Year

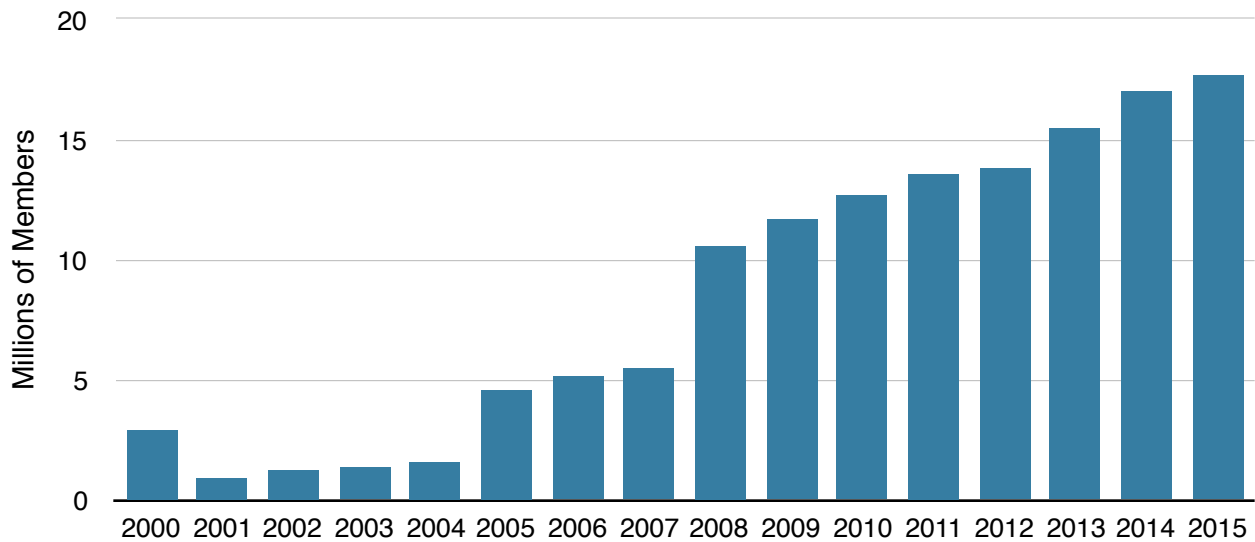


Figure 5: The number of non commercial members for United Health Group has really taken off in the last decade.

Annual Insured Commercial Members vs. ASC Members

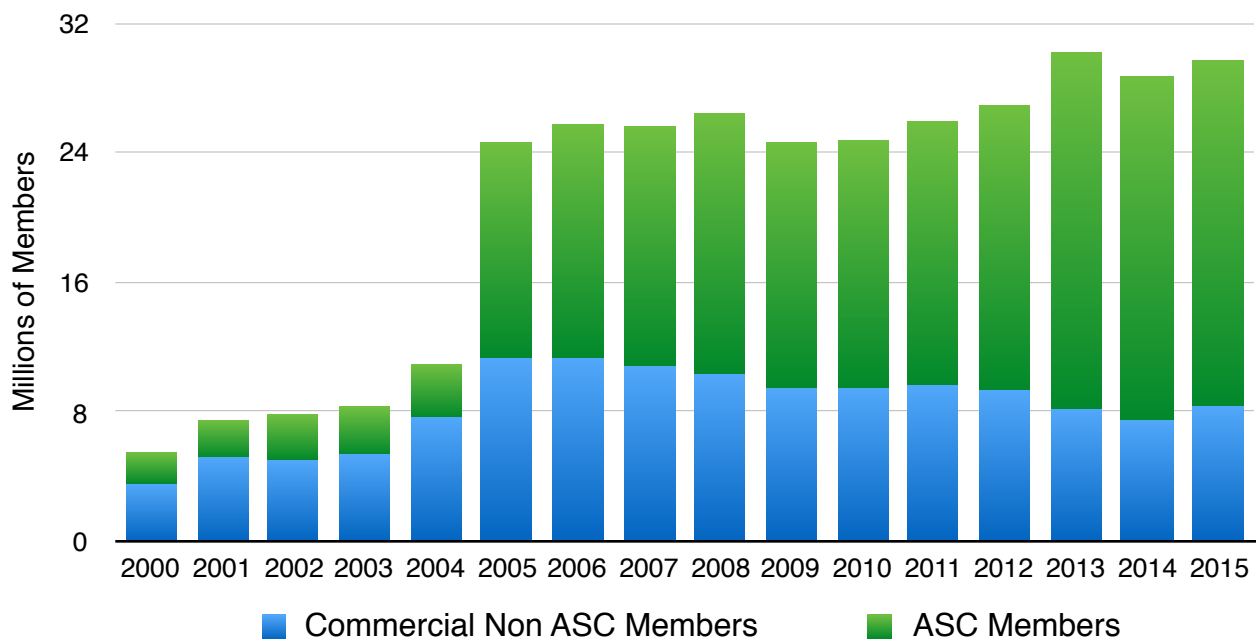


Figure 6: The number of ASC members for UHG has increased significantly while their non ASC (insured) commercial membership has declined somewhat. This is in line with the commercial memberships for most health insurance companies over the last decade.

Sources: <http://insiders.morningstar.com/trading/executive-compensation.action?t=UNH>
<http://www.courant.com/business/connecticut-insurance/hc-united-health-group-ceo-pay-20150407-story.html>
<http://truecostofhealthcare.net/health-insurance-financial-index/>