

## **Financial Analysis of Anthem/WellPoint**

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.

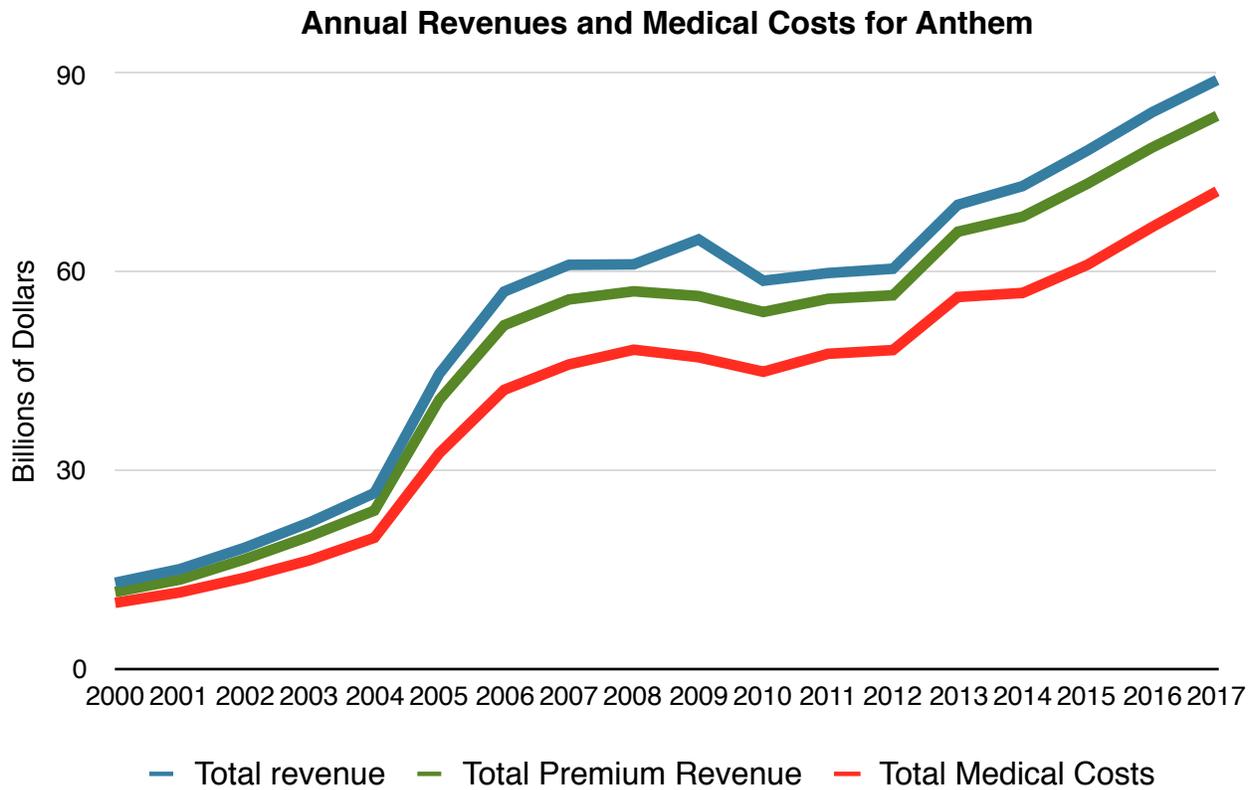
Health insurance policies are also divided by the different ways in which they cover benefits such as HMOs, PPOs, EPOs, etc... However, these subdivisions aren't addressed much by the financial statements provided by most of these insurance companies, so they won't be discussed here.

### **Anthem/WellPoint**

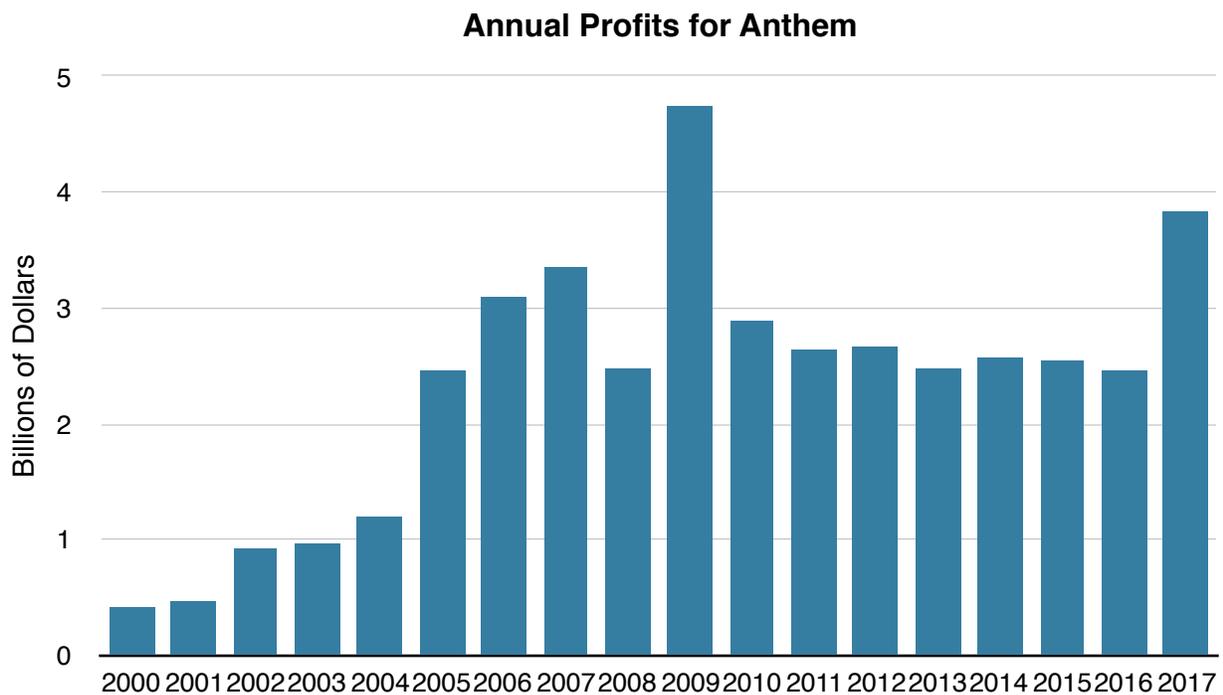
Anthem (formerly WellPoint) is the second largest health insurance provider in the U.S. The majority of their members have either Blue Cross or Blue Shield policies. Anthem and WellPoint merged in 2004 after acquiring Lumenos earlier that year. In 2005 Anthem/WellPoint merged with WellChoice. For the purposes of this analysis, the finances of WellPoint and WellChoice have been combined as though they were one company since 2000

Anthem's business emphasis is very similar to that of the other large health insurance providers. In the last decade, their business moved from an emphasis on commercial health insurance to the non commercial (Medicare and Medicaid) members. They've also increased the proportion of ASC policies in their commercial business while their number of fully insured members has steadily declined..

Total executive pay for Anthem was \$36.82 million in 2016 with \$16.46 million going to their CEO Joseph R. Swedish.

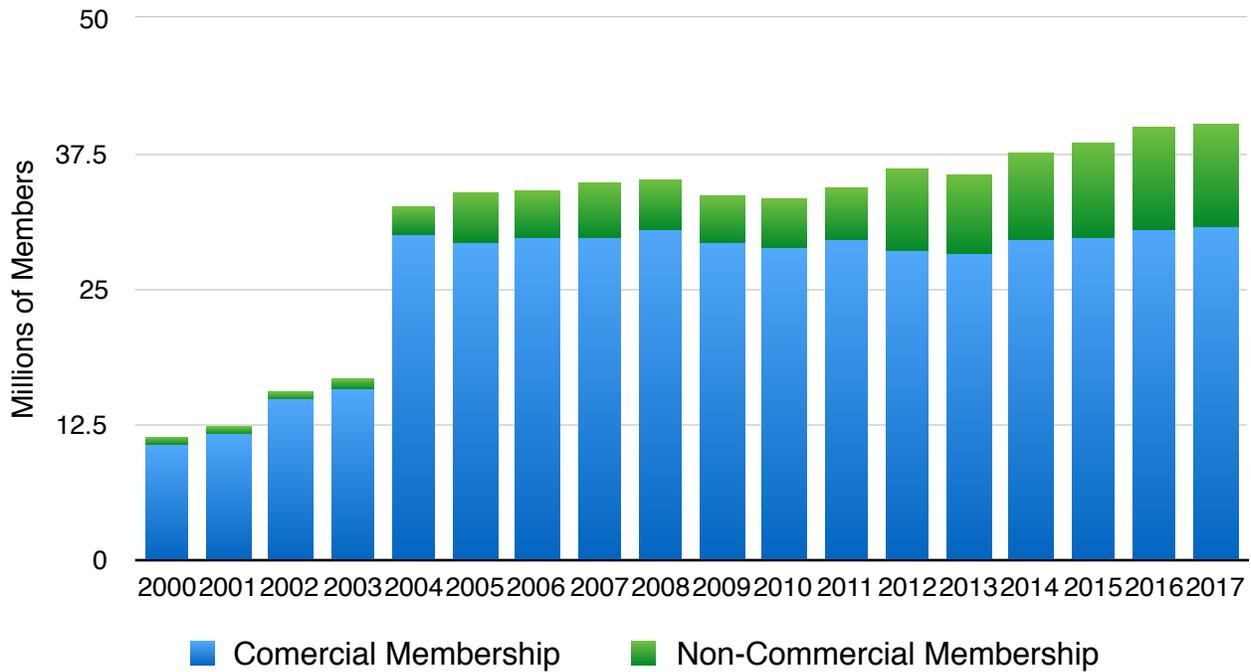


**Figure 1:** Anthem’s revenue has grown significantly in recent years, partly due to mergers in 2004 and 2005, but also due to their growth in their non-commercial health insurance membership.



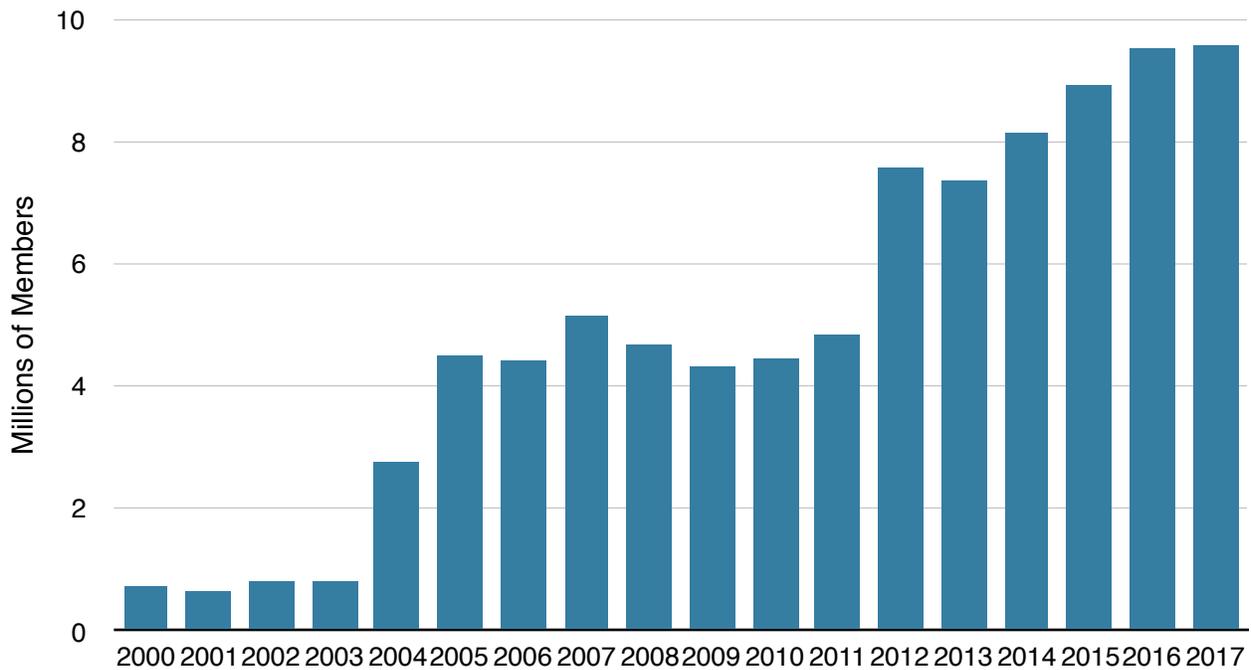
**Figure 2:** Anthem’s profits have remained a healthy 4-6% of their total revenue most years.

### Annual Number of Commercial and Non-Commercial Members for Anthem



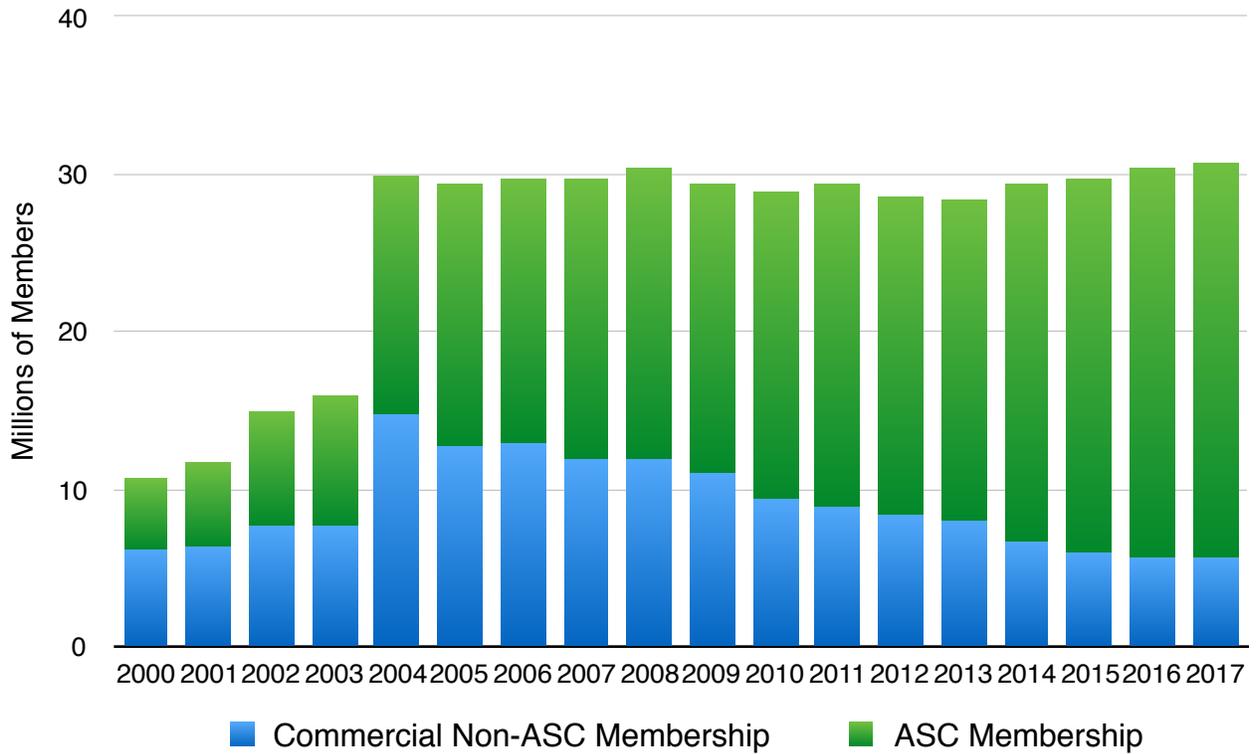
**Figures 3&4:** While Anthem’s commercial membership has plateaued, or even declined somewhat, their non-commercial membership has grown considerably in the last decade.

### Number of Non-Commercial (Government) Members Each Year



**Figure 4:** Anthem’s non-commercial membership.

## Annual Insured Commercial Members vs. ASC Members



**Figure 5:** As with most of the large health insurance companies, the majority of Anthem’s commercial membership has administrative contracts, so Anthem isn’t financially responsible for their health care benefits.

**Sources:** [http://insiders.morningstar.com/trading/executive-compensation.action?t=ANTM&region=USA&culture=en\\_US](http://insiders.morningstar.com/trading/executive-compensation.action?t=ANTM&region=USA&culture=en_US)

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