

## **Financial Analysis of Centene**

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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 statements provided by most of these insurance companies, so they won't be discussed here.

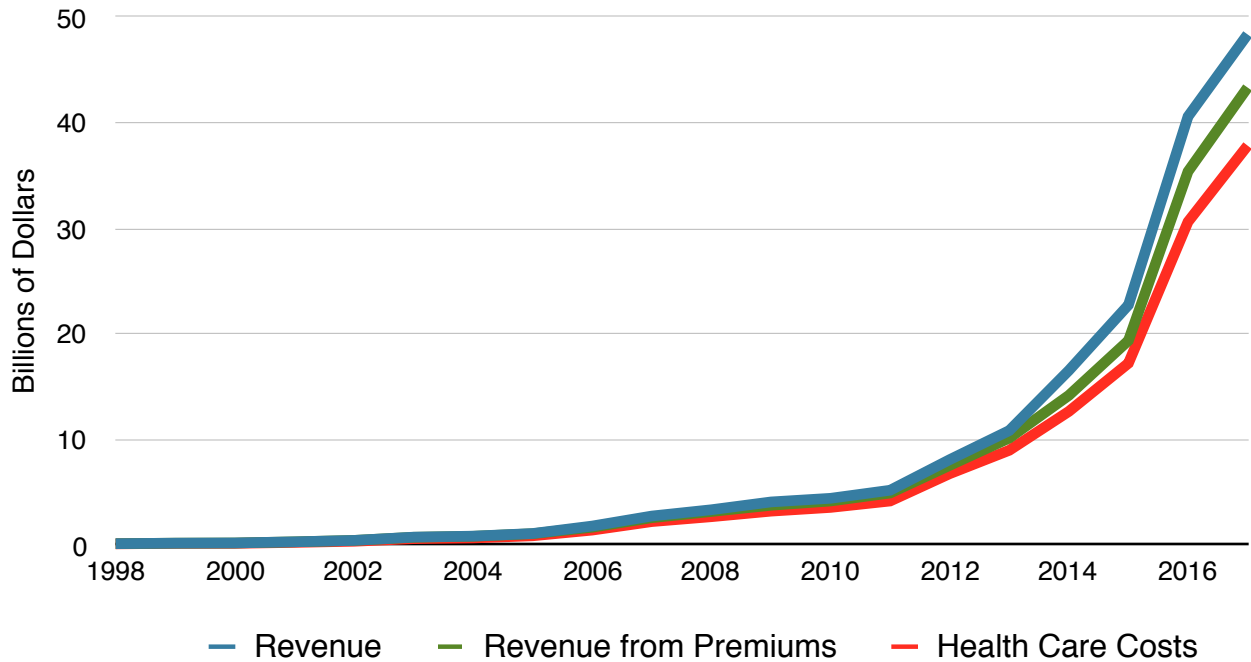
### **Centene**

Prior to 2016 Centene provided only one type of health insurance; Medicaid managed care. In spite of being rather focused in their health insurance membership, Centene did quite well and enjoyed spectacular growth in their revenue. In 1998 Centene's total revenue was roughly \$150 million. By 2015 their revenue had grown by more than 150 times to more than \$22 billion. Clearly, there's a lot of money in managing the medical benefits of poor people.

In 2016, Centene merged with Health Net and, with that merger, they inherited nearly two million more Medicaid members, mostly in California, just over a million commercial members and about 330 thousand Medicare members. They also took over the benefits for nearly three million Tri-Care members (which provides health insurance to military families).

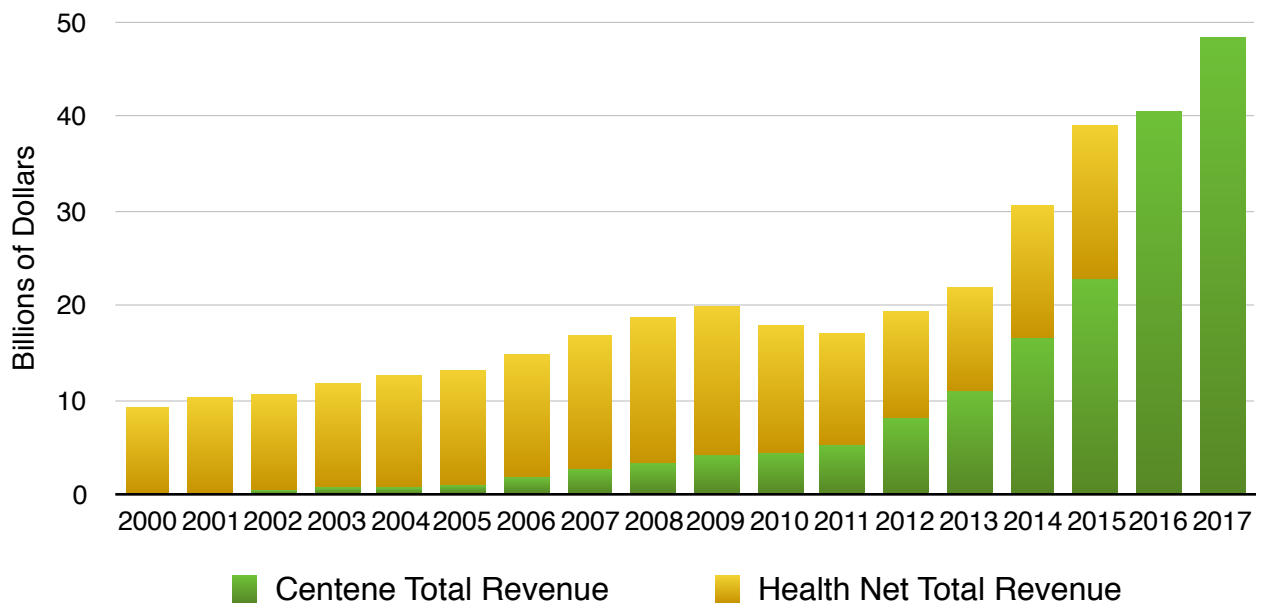
Even though Centene was rather small when compared to the other major Health insurance companies, their CEO, Micheal Neirdoff, was the highest paid health insurance CEO from 2014-2016. Again, there definitely appears to be a lot of money in managing health care benefits for poor people.

### Annual Revenues and Medical Costs for Centene Alone

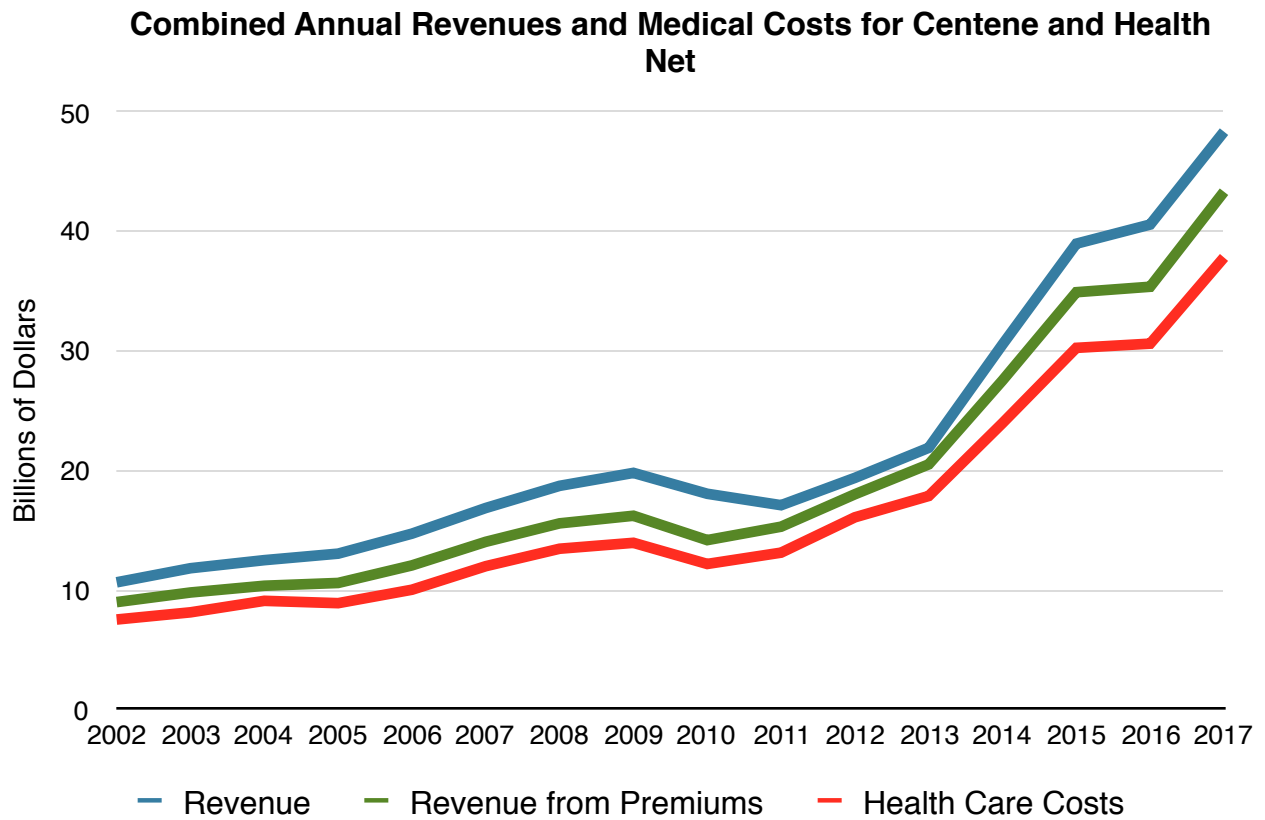


**Figure 1:** Centene’s revenue growth has been nothing short of spectacular. Centene’s revenue in 2016 was more than 300 times what it was in 1998. Some of this growth is the result of mergers, including its recent merger with Health Net, but, clearly, the market for medicaid managed care has exploded in the past few years. Their average loss ratio was 85.5% so Centene’s medical costs kept a very close pace with their revenue.

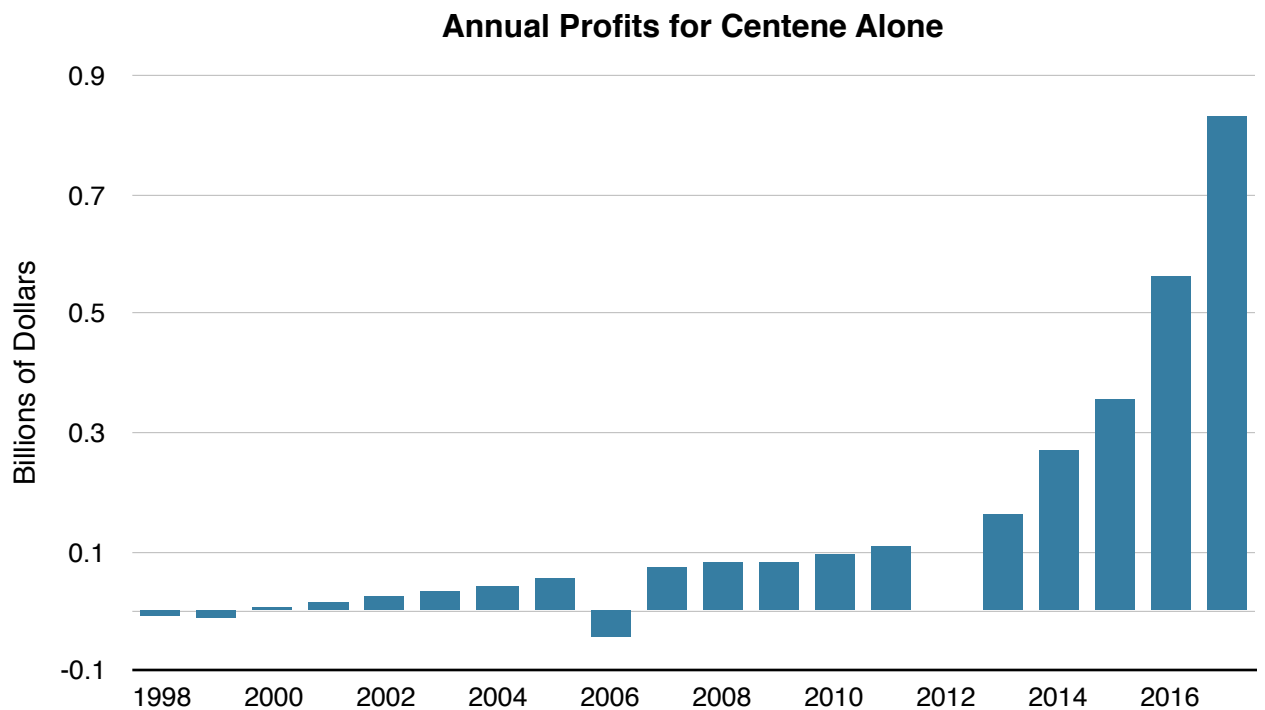
### Annual Revenues for Centene and Health Net Combined



**Figure 2:** Adding Health Net’s revenue to Centene’s shows that, While Centene was enjoying a meteoric rise in their revenue each year, Health Net was largely stagnating.

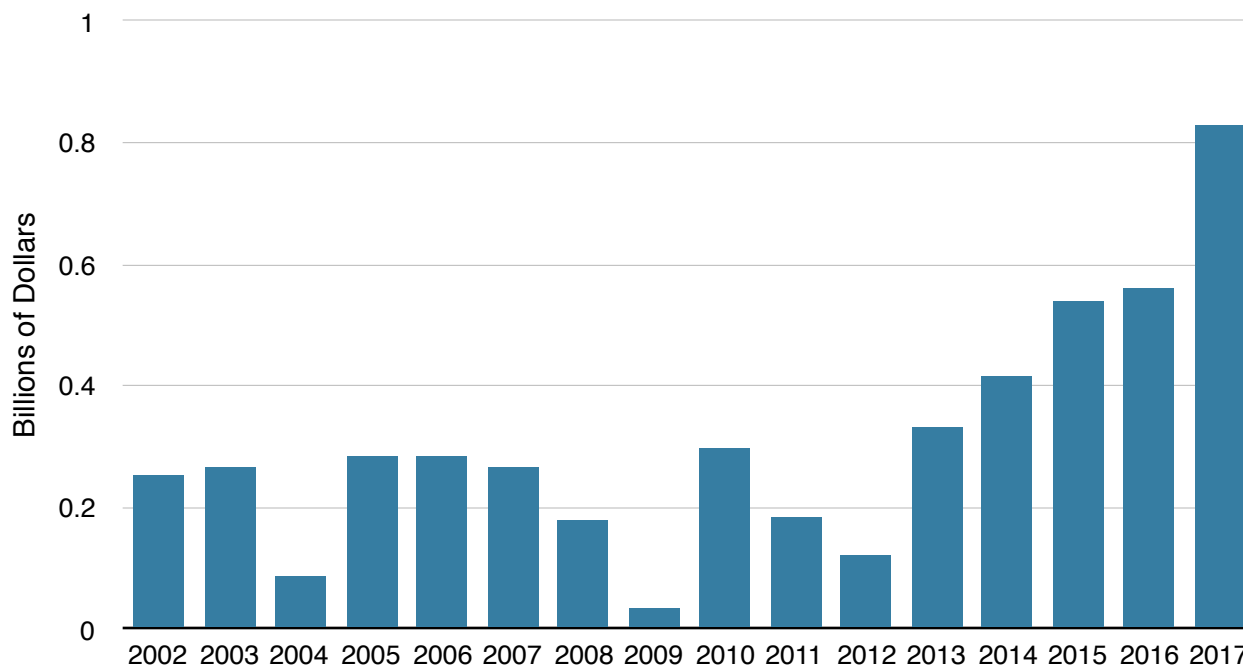


**Figure 3:** This shows that Health Net’s medical costs have followed their revenues, but not quite as close as for Centene alone (figure 1).



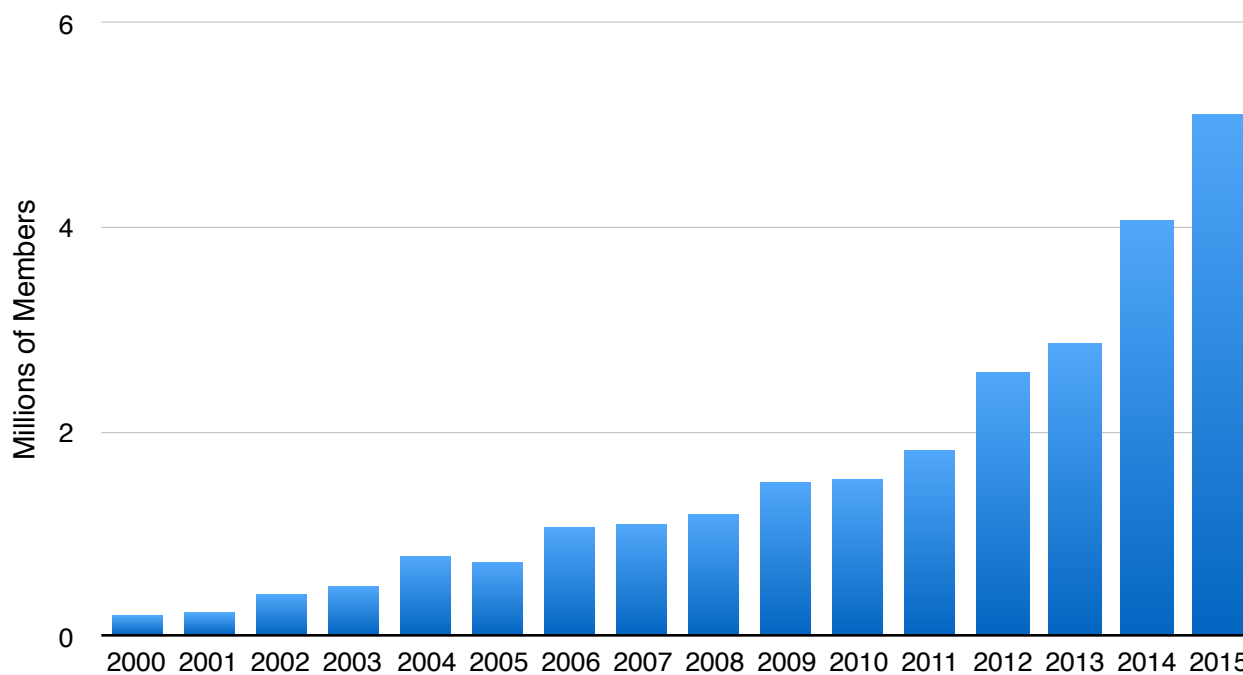
**Figure 4:** Centene’s profit margin has remained between 2-5% most years which is healthy enough given their rate of growth.

### Combined Annual Profits for Centene and Health Net



**Figure 5:** Centene and Health Net’s combined annual profits since 2002 are only slightly better than Centene’s profits alone were.

### Number of People Covered by Centene Each Year



**Figure 6:** Prior to their 2016 merger with Health Net, Centene only covered Medicaid managed care recipients. This further illustrates the fact that there is no shortage of demand for Medicaid managed care plans in the health insurance industry.

### Centene/Health Net's Annual Membership by Source

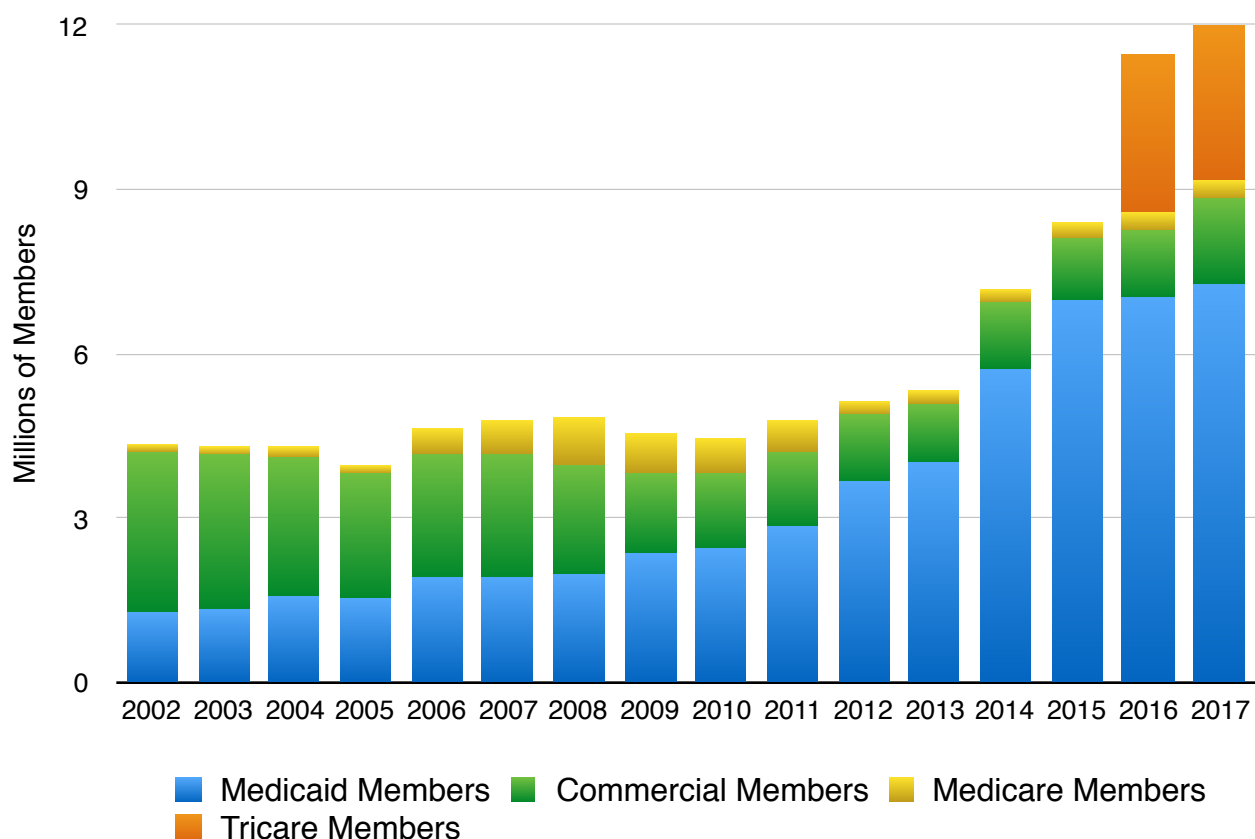


Figure 7: After acquiring Health Net, Centene picked up roughly 1.2 million commercial members and 334 thousand Medicare recipients. They also acquired nearly three million tracer recipients. Still, over half their total membership is Medicaid managed care.

Total executive pay for Centene was \$39.36 million in 2016 with \$21.97 million going to their CEO Michael Neirdoff.

**Sources: 6**

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