

Financial Analysis of United Health Group

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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.

United Health Group

United Health Group is, by far, the largest health insurance company in the United States. UHG's total revenue in 2017 was over \$200 billion which is more than twice that of the second largest health insurance company (Anthem) or the largest pharmaceutical company (Johnson and Johnson). UHG had more than four times the total revenue of the largest for profit hospital corporation (Hospital Corporation of America) nearly twice as much as all California hospitals combined and more in 2016 the total budget for Australia's entire national health care system. United Health Group is big!

United Health Group has several subsidiaries including United Health Care, Pacific Care, Optum and a partnership with 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 \$55.39 million in 2016 with \$17.77 million going to their CEO Stephen Hemsley.

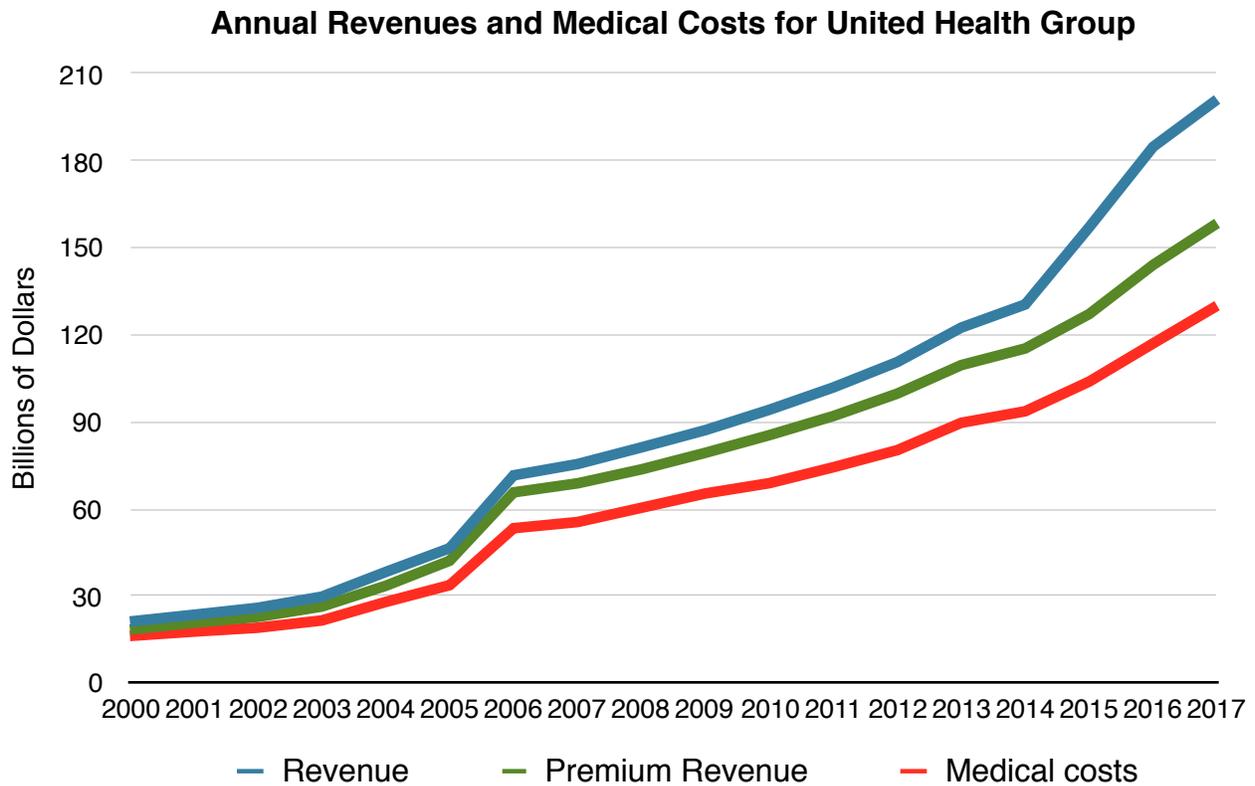


Figure 1: Revenue for United Health Group has risen dramatically. Total revenue for UHG was about \$21 billion in 2000 and rose to nearly ten times that amount by 2017. Medical costs have risen proportionately to revenues so UHG has maintained an average medical loss ratio of 82%. Other revenues, including Optum and service charges for ASC fees, have been about 10-12% of UHG’s total revenue in the past, but have risen to more than 20% of their revenue by 2016.

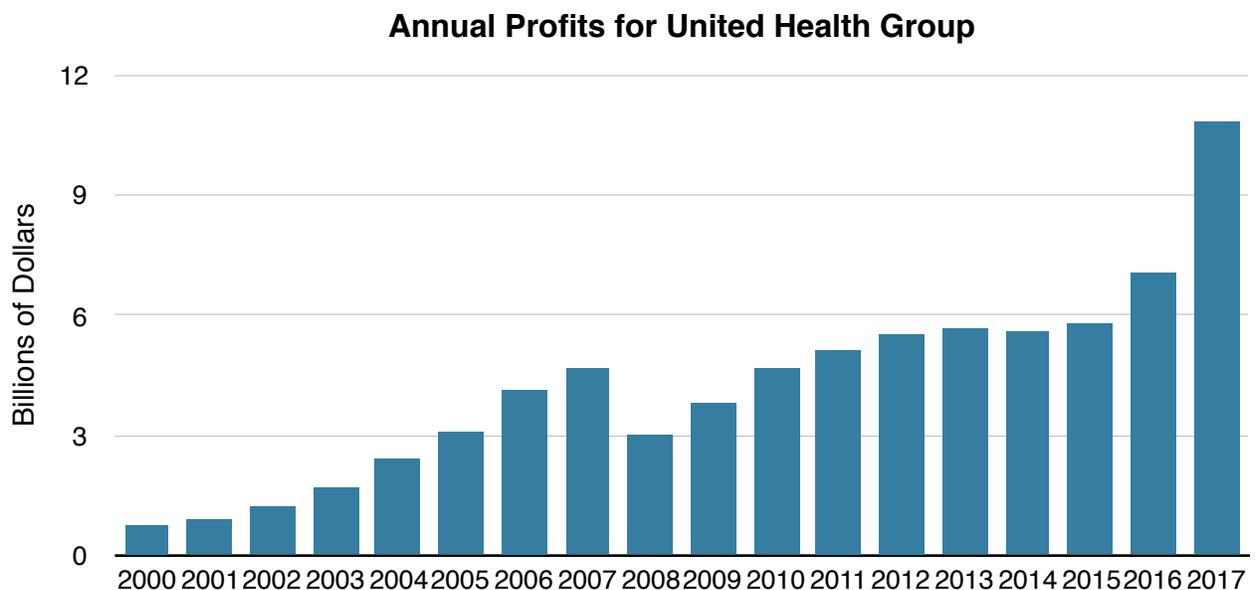


Figure 2: Along with their remarkable growth in revenue, UHG has managed to maintain a rather healthy profit margin of 4-6% most years.

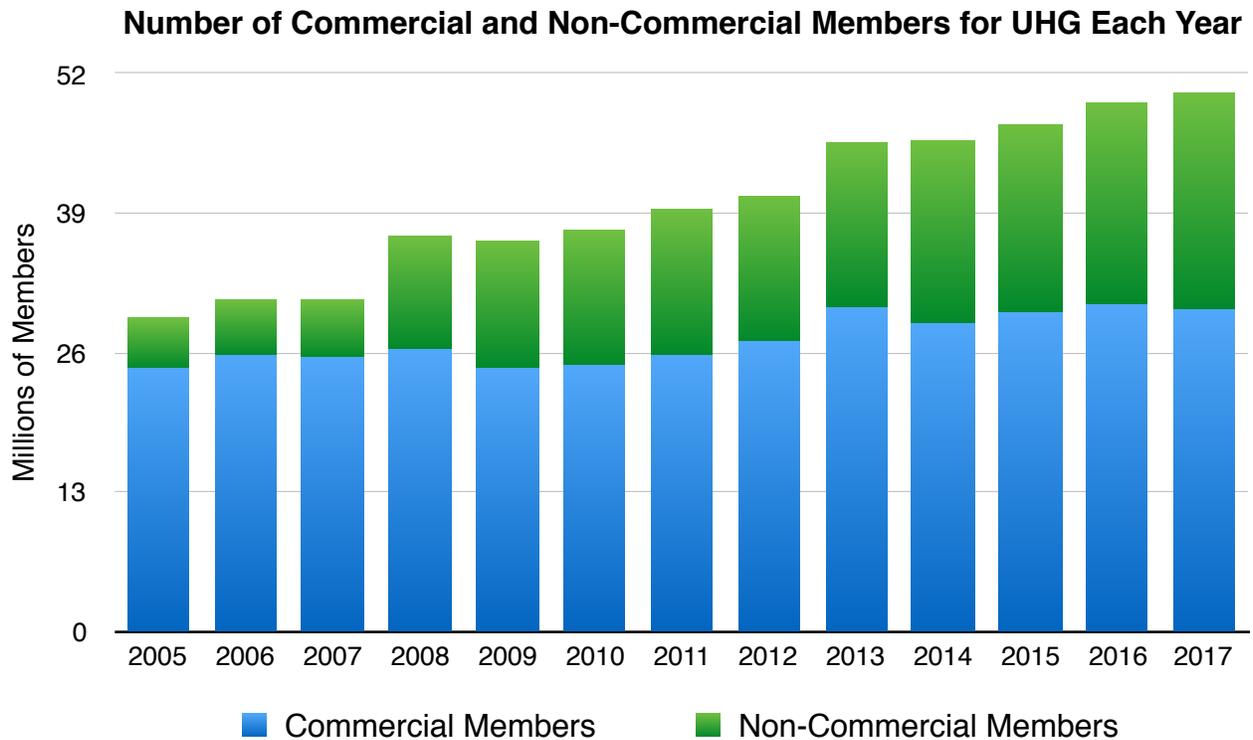


Figure 3: The growth in UHG’s membership since 2005 has clearly favored the non-commercial members. While commercial membership has been mostly flat over the last decade, non-commercial membership for UHG has increased by more than 300%.

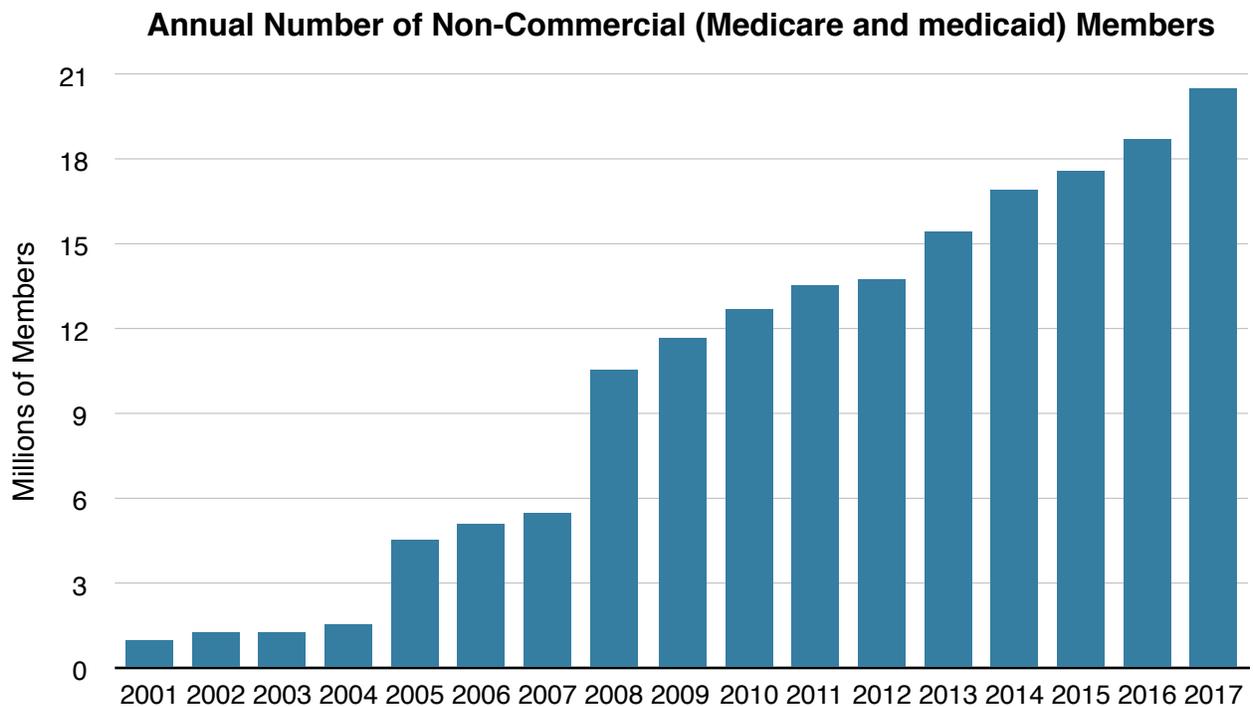


Figure 4: The number of non-commercial members for United Health Group has really taken off in the last decade.

Annual Insured Commercial Members vs. ASC Members

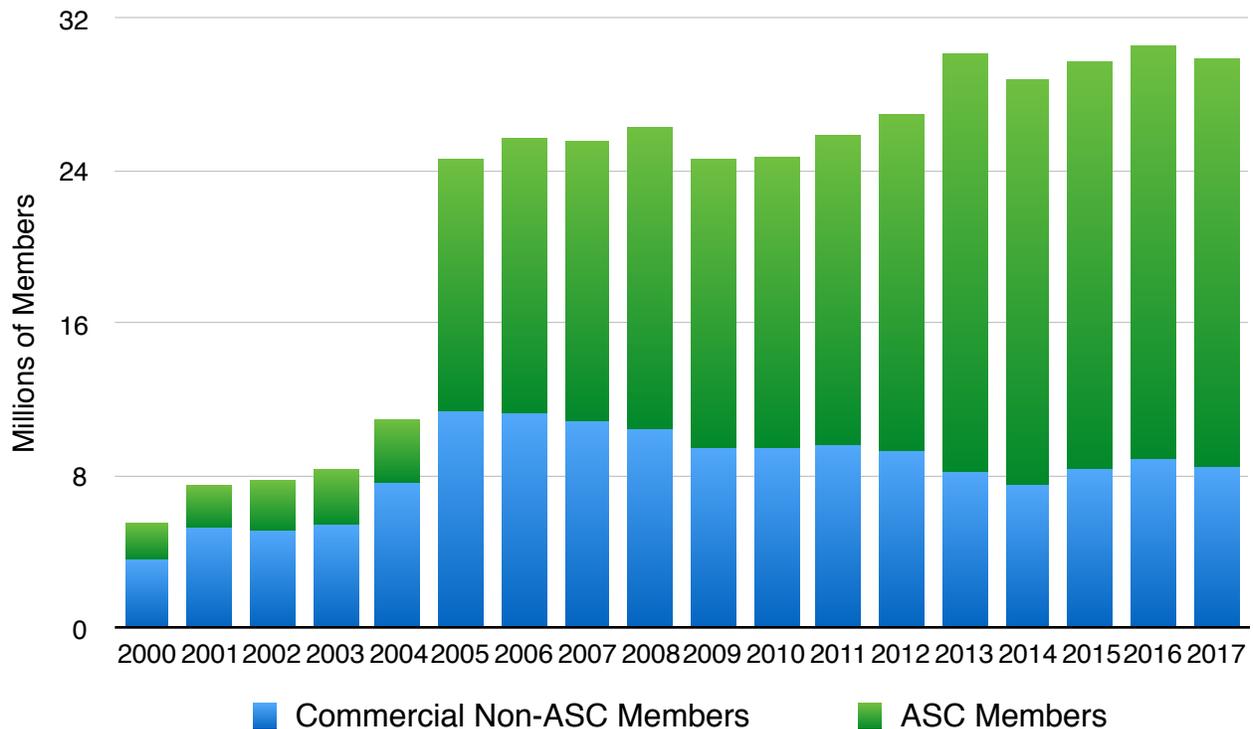


Figure 5: The number of ASC members for UHG has increased significantly while their non ASC (insured) commercial membership has declined somewhat. This is in line with the commercial memberships for most health insurance companies over the last decade.

Sources: <http://insiders.morningstar.com/trading/executive-compensation.action?t=UNH>

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