

## **Financial Analysis of Aetna/Coventry**

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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.

### **Aetna/Coventry**

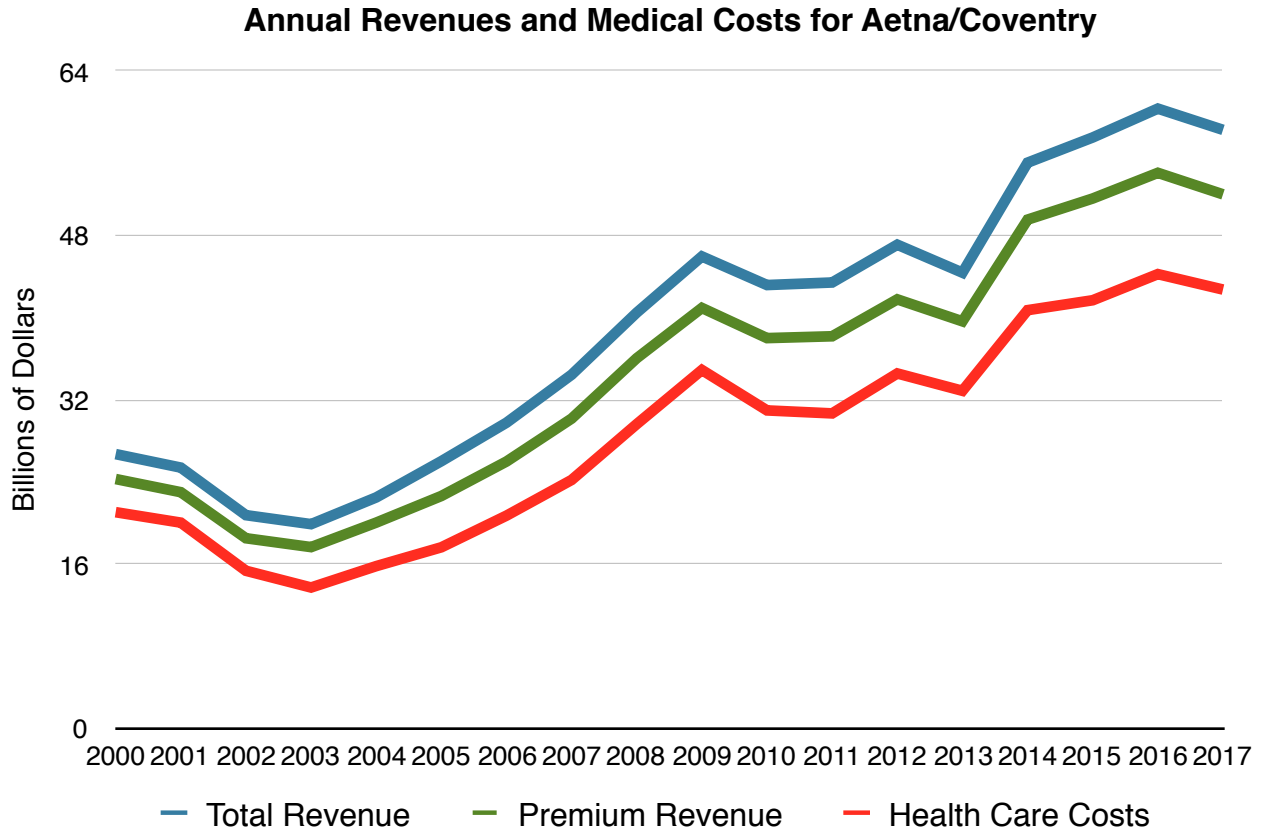
Aetna merged with Coventry in 2012. For the purposes of this analysis, Aetna's and Coventry's finances are combined as though they were one company the whole time.

The finances of Aetna and Coventry are similar to those of other large health insurance companies. 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. Apparently, Aetna will soon merge with CVS Caremark and, when that occurs the combination will form the single biggest corporation in healthcare.

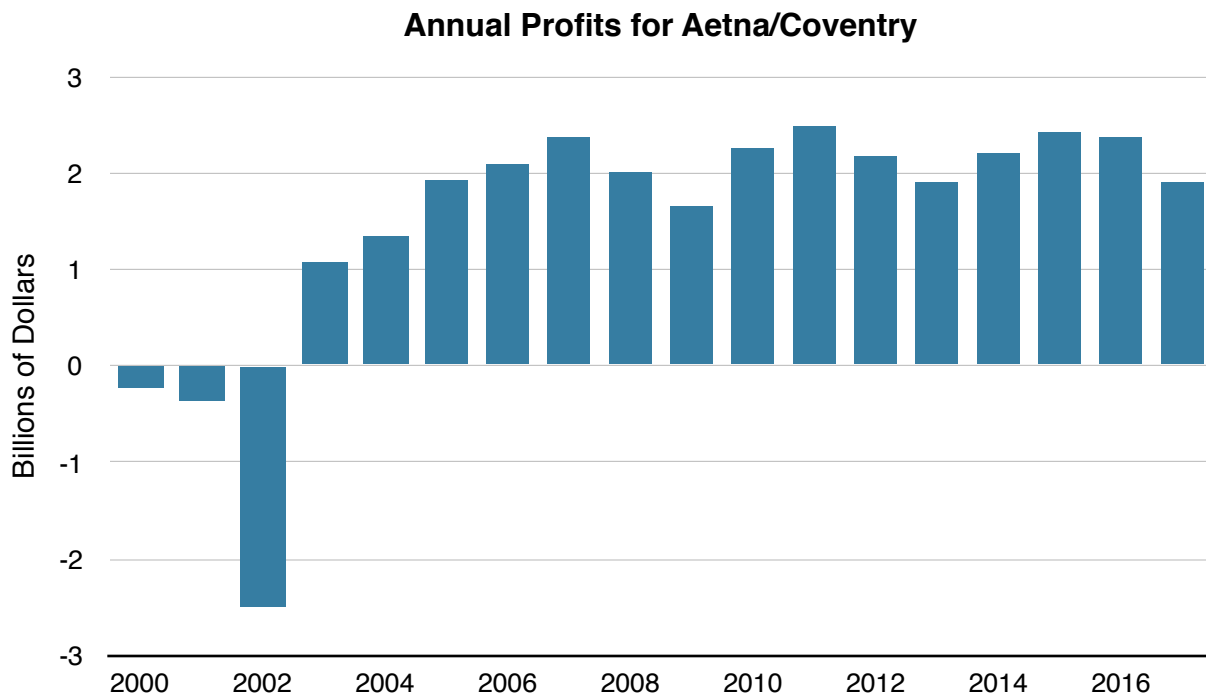
Total Executive pay for Aetna was \$49.27 million in 2016 with \$18.66 million going to their CEO Mark T. Bertolini.

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

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

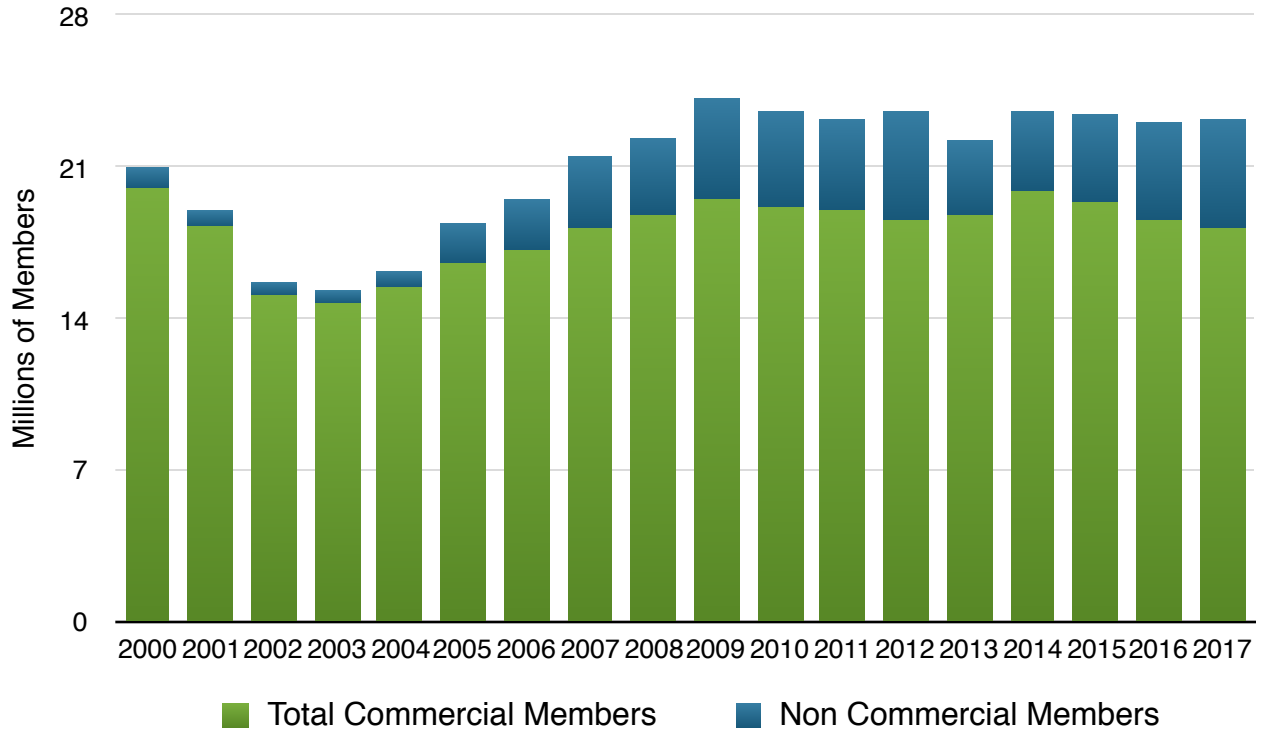


**Figure 1:** The combined revenue for Aetna and Coventry has risen dramatically since 2003.



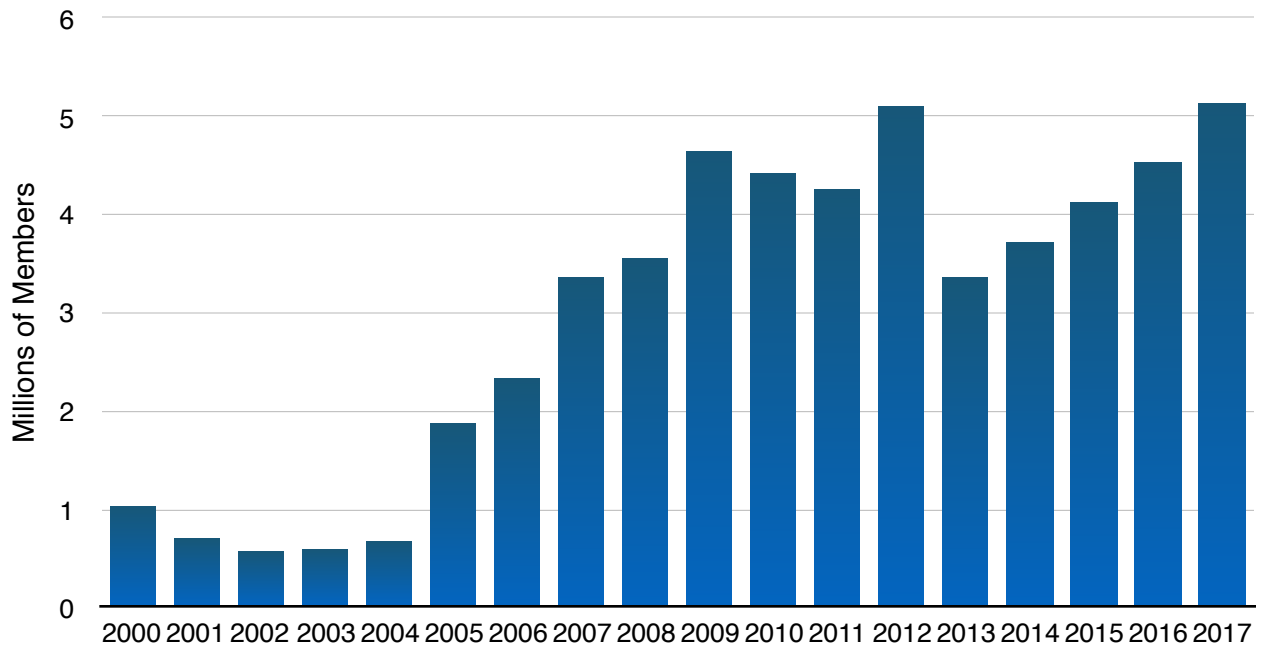
**Figure 2:** Prior to 2003 Aetna was having some trouble making a profit. They've done well enough since then, though.

### Number of Commercial and Non Commercial Members Each Year



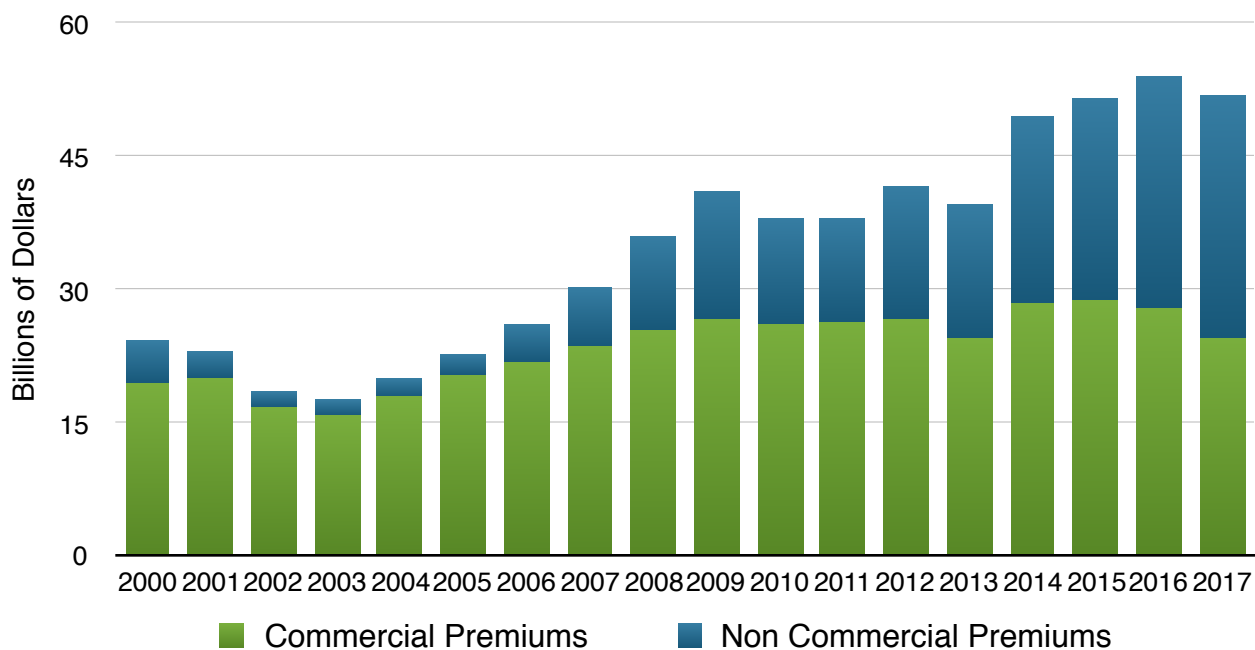
**Figures 3&4:** The majority of Aetna and Coventry’s membership is commercial though their proportion of non-commercial members has grown considerably in the last decade (as Figure 4 shows).

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



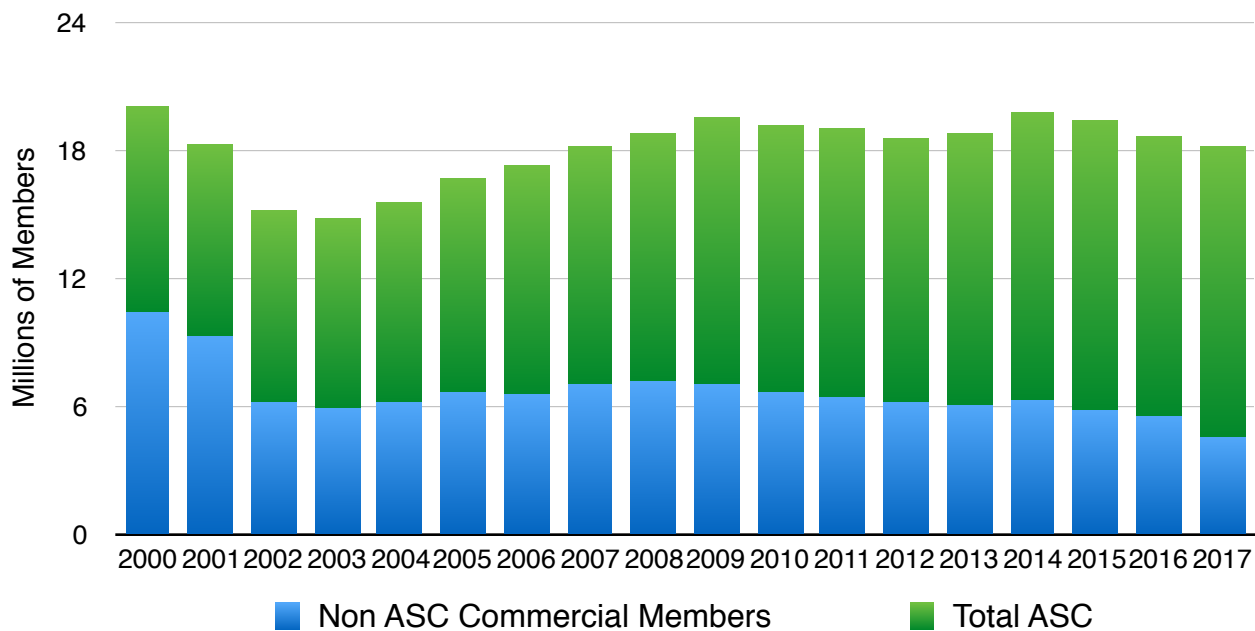
**Figure 4:** Non-Commercial (Medicare and Medicaid) Membership for Aetna and Coventry.

### Commercial and Non Commercial Premium Revenue Each Year



**Figure 5:** Even though non-commercial members aren't a big proportion of Aetna's total membership, non-commercial premiums accounted for more than 50% of Aetna's total premium revenue in 2017. This is because a majority of Aetna's commercial members are ASC members. ASC members only pay service fees and not premiums.

### Annual Insured Commercial Members vs. ASC Members



**Figure 6:** As with most of the large health insurance companies, the majority of Aetna and Coventry's commercial membership have administrative contracts so Aetna isn't financially responsible for their health care benefits.