

Financial Analysis of Humana

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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.

Humana

In 2000 roughly 60% of Humana's members were commercial and 40% were non-commercial (Medicare and Medicaid recipients). In 2017 only 13% of Humana's members had commercial policies. This isn't surprising since non-commercial health insurance policies have been very popular with all of the insurance companies in recent years.

In 2003 the eight insurance companies profiled in this survey had a combined total of about 8.5 million non-commercial members and 56 million commercial members. In 2016 the number of non-commercial members for these health insurance companies had risen more than seven times to nearly 60 million while the number of commercial members had gone up only about 71%.

Total executive pay for Humana was \$39.89 million in 2016 with \$19.72 million going to their CEO Bruce D. Broussard.

<http://insiders.morningstar.com/trading/executive-compensation.action?t=HUM>
<http://truecostofhealthcare.net/health-insurance-financial-index/>

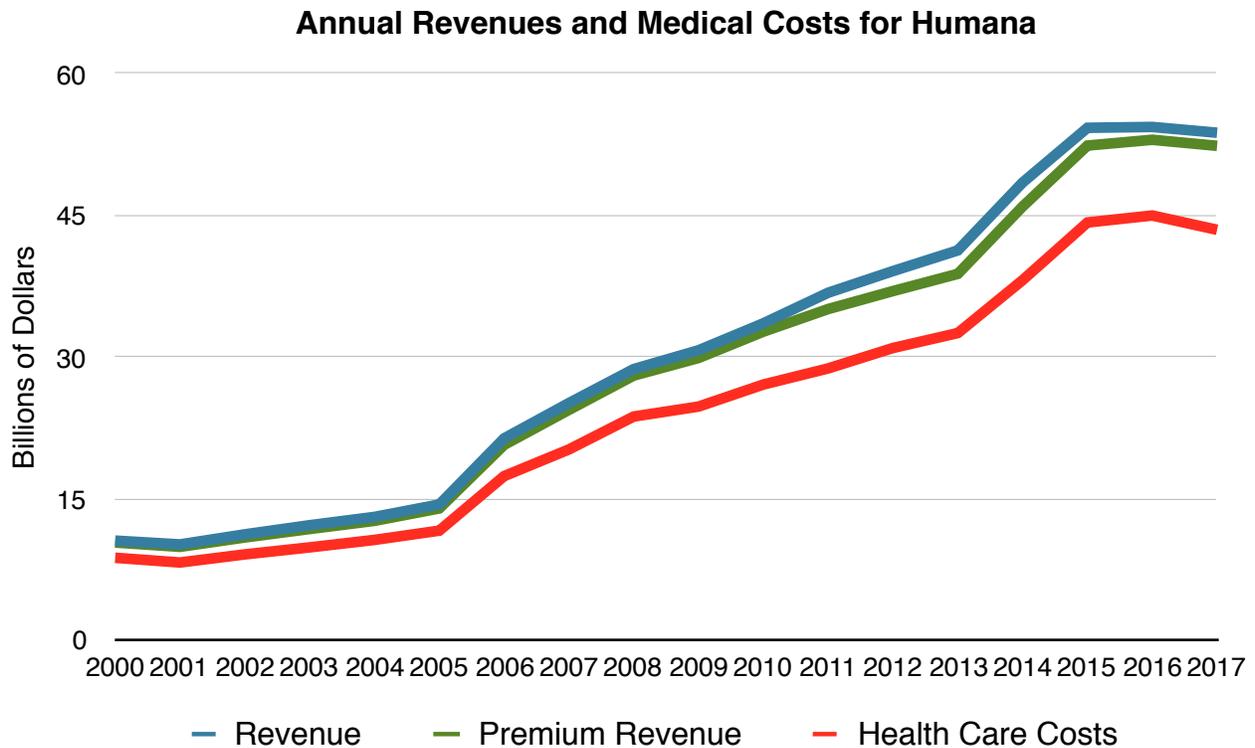


Figure 1: Humana’s revenue rose dramatically between 2005 and 2015. Since 2015 Humana’s revenue has stagnated somewhat, largely due to a substantial drop in their commercial membership.

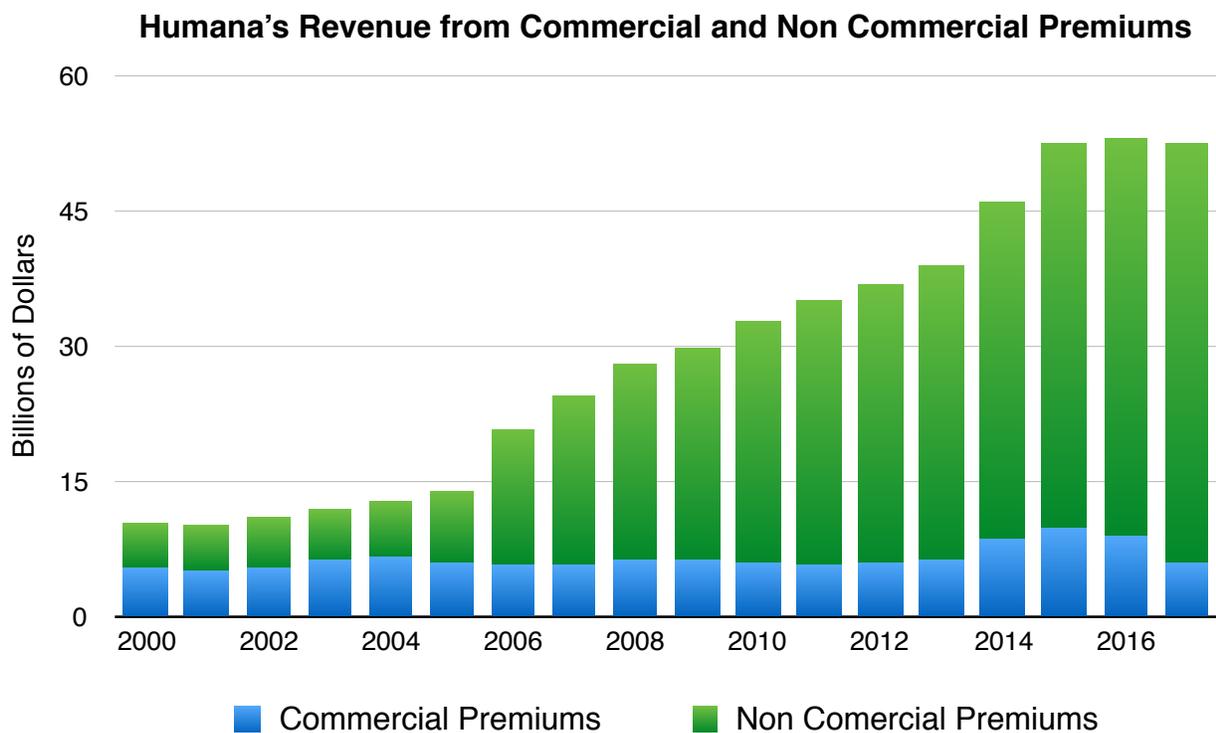


Figure 2: Nearly all of Humana’s revenue growth has come from non-commercial premiums.

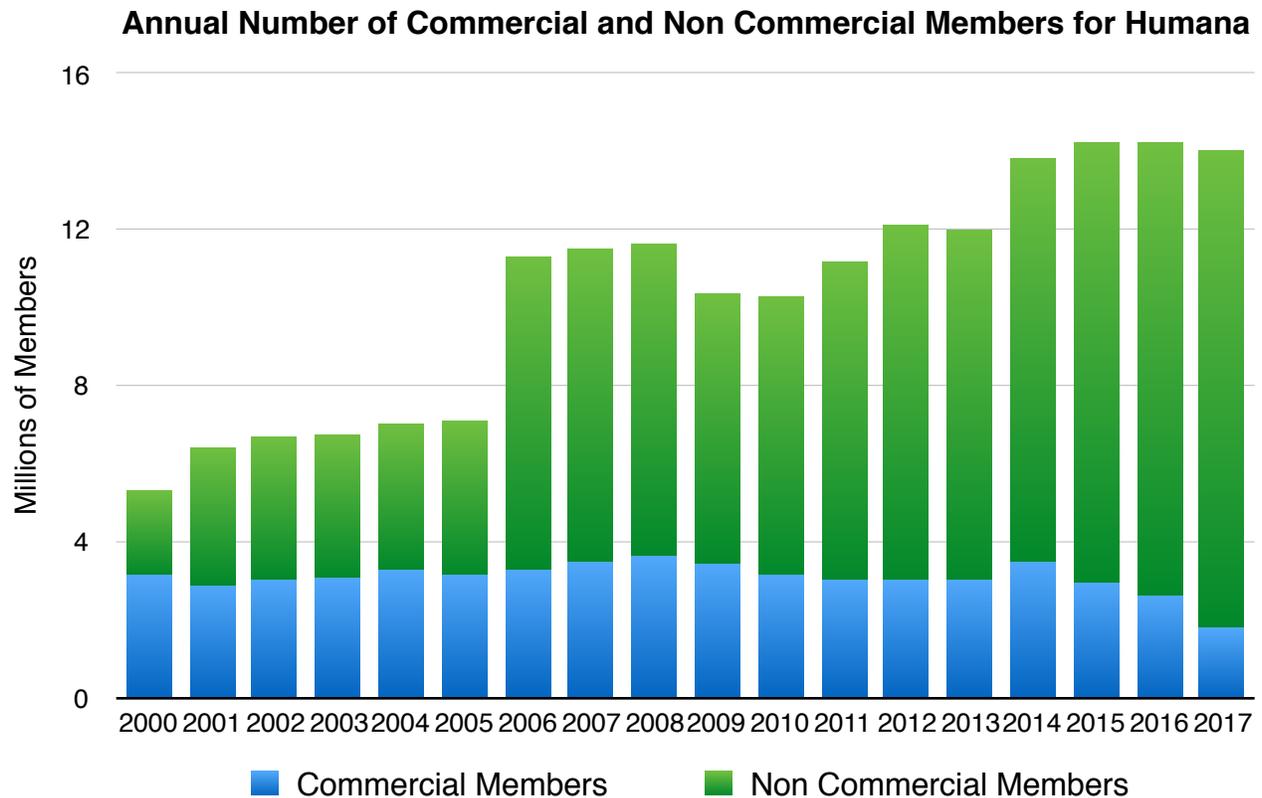


Figure 3: Humana’s rise in their non-commercial (Medicare and Medicaid) membership has been the source of their revenue growth while their commercial membership has been dropping.

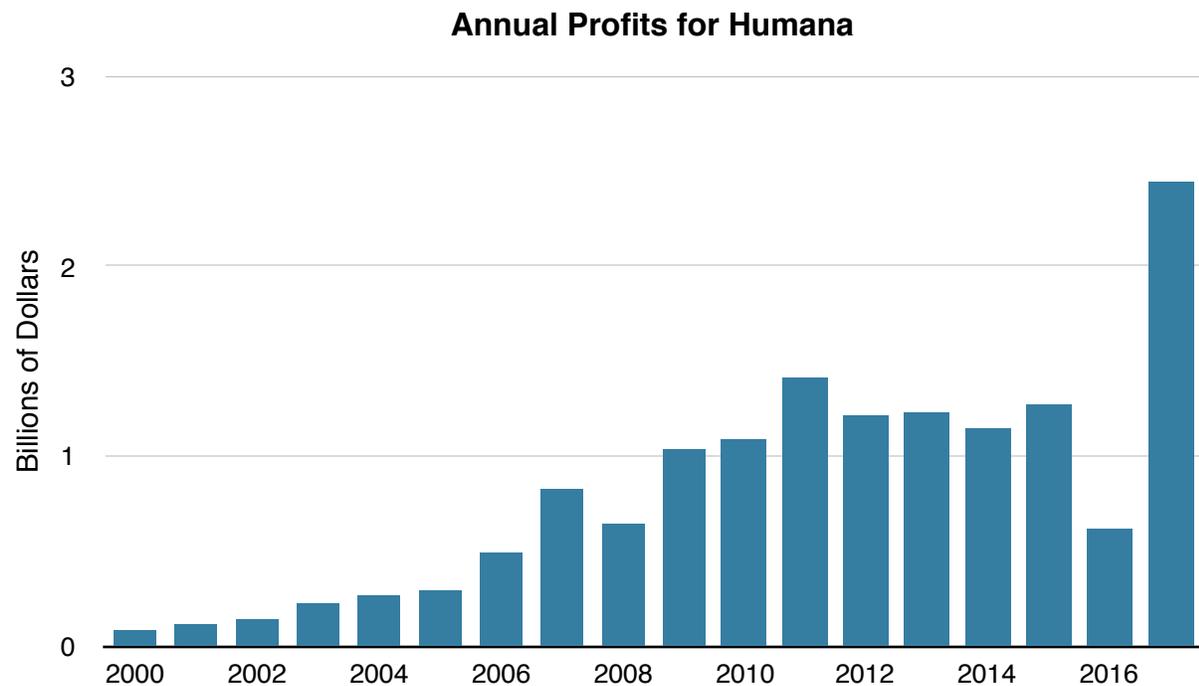


Figure 4: Humana’s profits haven’t been hurt by the drop in their commercial membership. In fact, 2017 was their most profitable year ever.

Annual Insured Commercial Members vs. ASC Members

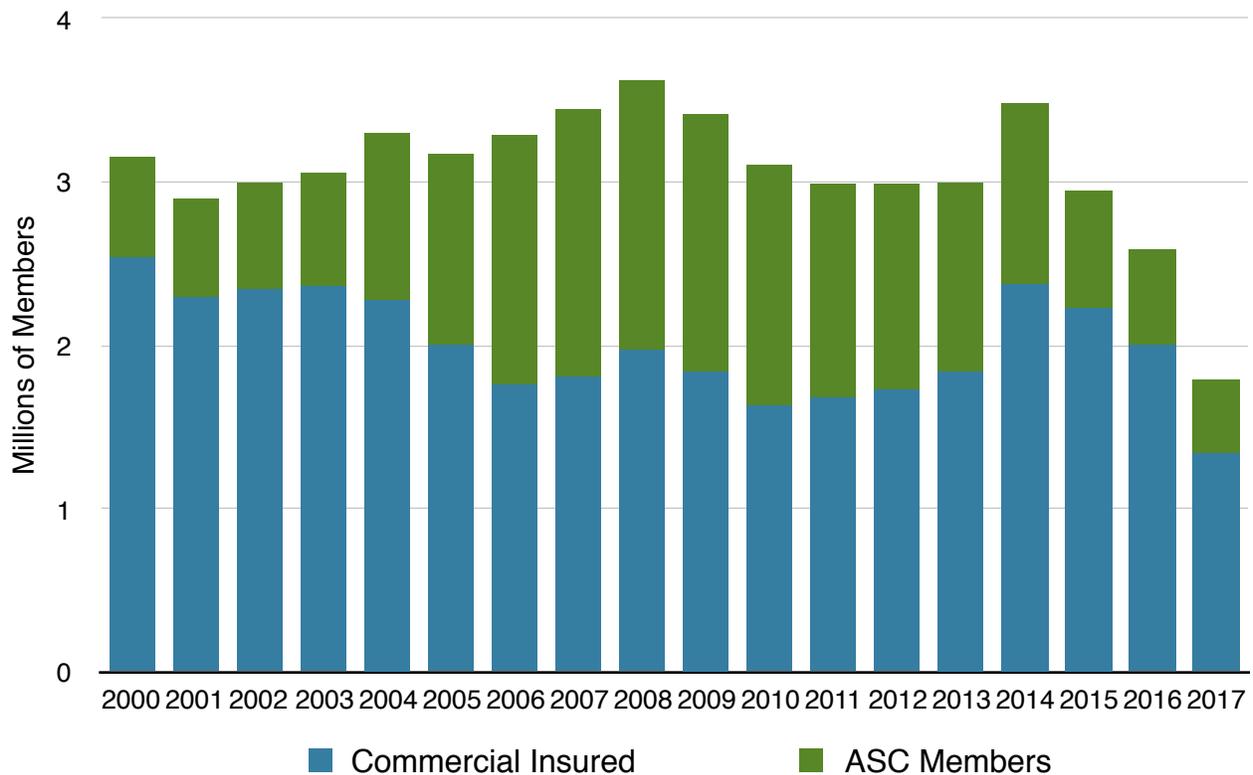


Figure 5: Humana’s ASC membership and their total commercial membership have declined substantially in recent years. In fact, it’s quite possible that Humana will discontinue all commercial health insurance coverage in the next few years if recent trends are any indication.

This increase in the popularity of non-commercial policies for health insurance companies is mostly due to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. This bill increased the amount the Federal Government reimbursed private health insurance companies to manage Medicare plans and also provided federal assistance for prescription drug plans that private insurance companies could sell to Medicare recipients.

The passage of that act resulted in private insurance companies shifting their emphasis from the commercial health insurance market to the non-commercial market. Now, most commercial health insurance plans are self funded by employers who pay service fees, but not premiums, while the health insurance companies “insure” mostly Medicare and Medicaid recipients.

<http://royce.house.gov/uploadedfiles/overview%20of%20medicare.pdf>