

Financial Analysis of Cigna

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.

Cigna

Most of the health insurance companies deal almost exclusively with health insurance. Cigna is different in that more than 20% of their revenue is from other types of insurance such as life and disability insurance. This analysis will address only Cigna's health insurance finances.

Almost all of Cigna's Health insurance membership is commercial. In 2017 Cigna had about 15.4 million commercial health insurance members and only about 490 thousand Medicare or Medicaid members. Even so, about 32% of Cigna's premium revenue came from their non-commercial member's. Why? Because the vast majority of Cigna's commercial membership have Administrative Service Contracts instead of standard insurance policies, so they don't pay any premiums to Cigna.

In fact, only about 75% of Cigna's health insurance revenue comes premiums. Roughly 25% of that revenue comes from other sources like fees for Administrative Service Contracts. Also, roughly 80% of Cigna's commercial health insurance business since 2008 wasn't actually health insurance, but rather managing insurance contracts for which they pay no benefits.

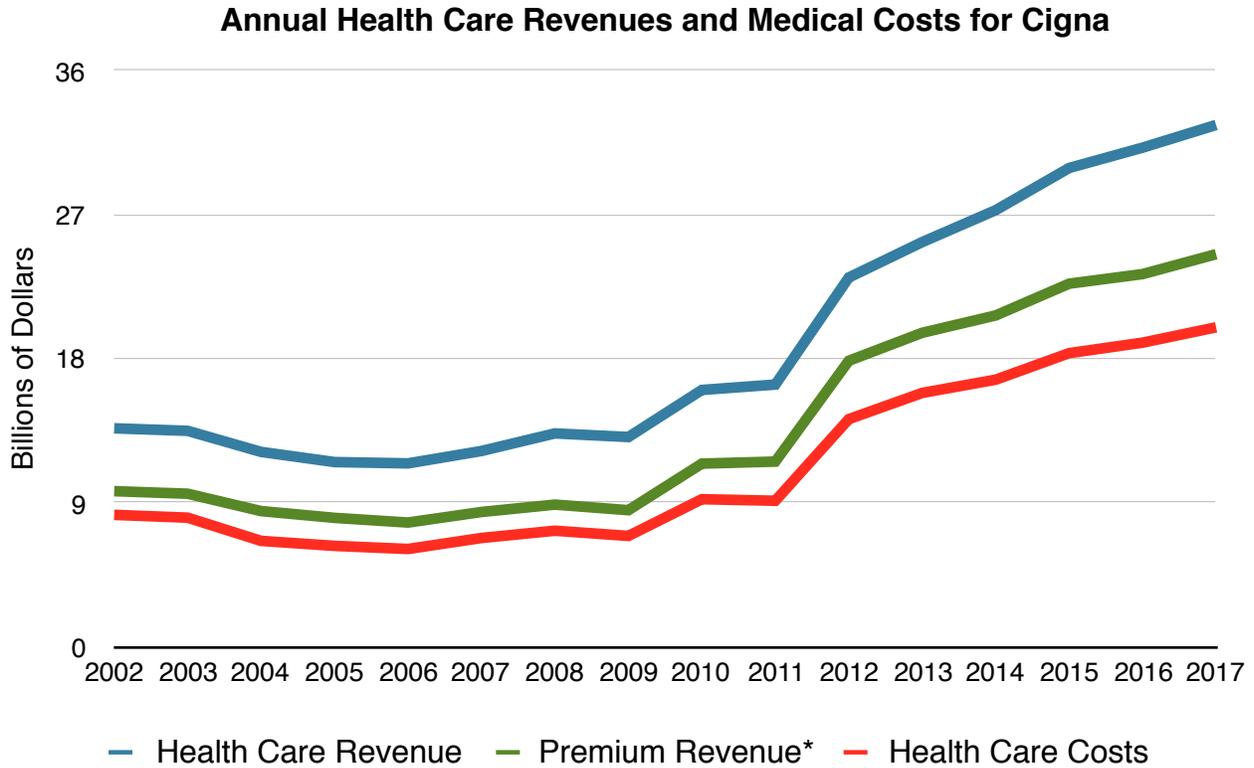


Figure 1: Prior to 2009 Cigna’s revenue growth was far from spectacular, especially when compared to that of some of the other health insurance companies. Their revenue has increased dramatically in recent years, though, due to the increase in their non-commercial membership. Of note, a much higher proportion of Cigna’s revenue comes from non-premium sources than is the case with other health insurance companies.

* International healthcare revenue is not included as part of premium revenue for Cigna.

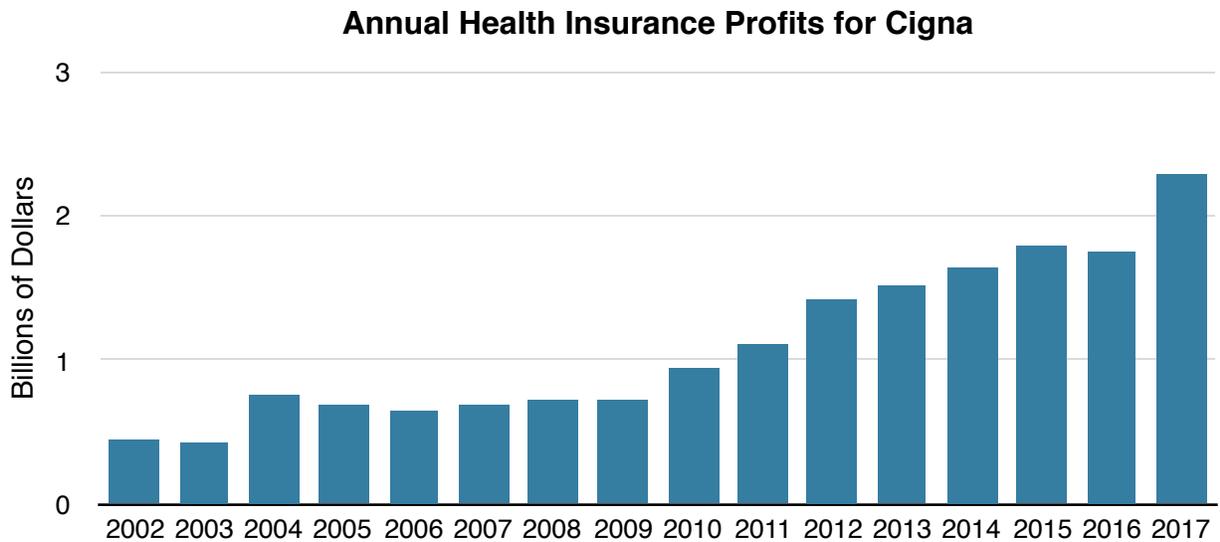
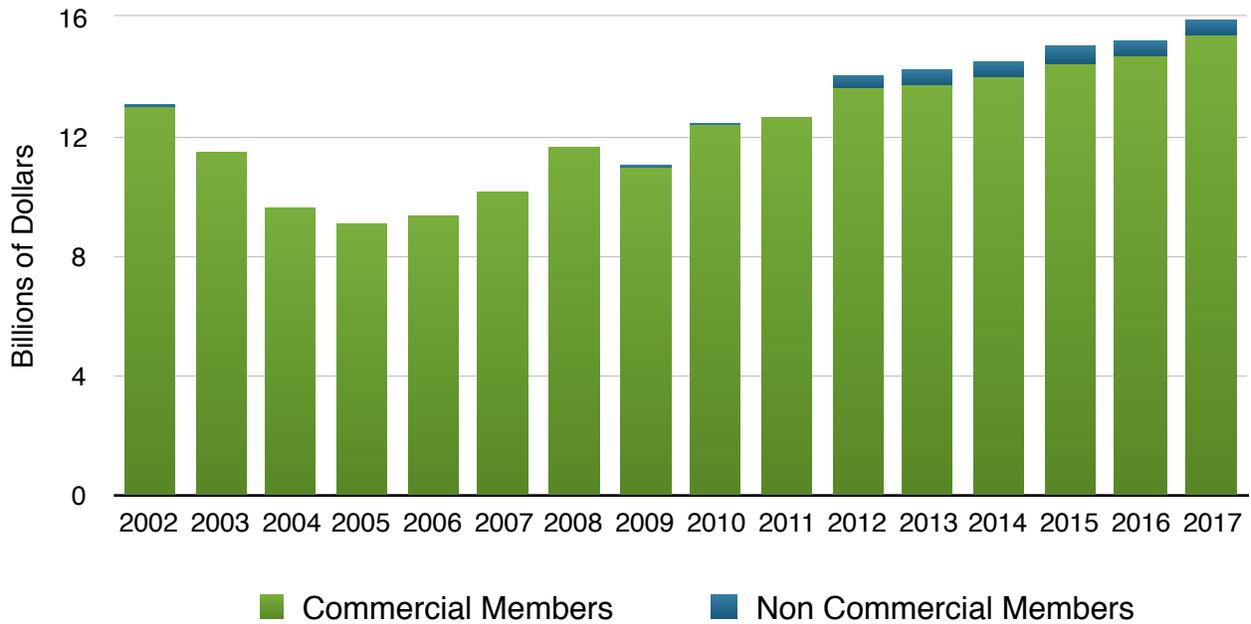


Figure 2: Even though Cigna’s revenue growth has been lackluster, their profits have remained quite healthy for a health insurance company. Profit margins for Cigna have averaged about 3-6% annually.

Number of Commercial and Non Commercial Members Each Year



Figures 3: The vast majority of Cigna’s members are commercial though their non-commercial membership has increased somewhat in recent years. In spite of having very few non commercial members, they account for about 42% of Cigna’s premium revenue (Figure 4). This is because the vast majority of Cigna’s commercial members pay service fees for administrative contracts and not premiums.

Annual Commercial and Non Commercial Premium Revenue

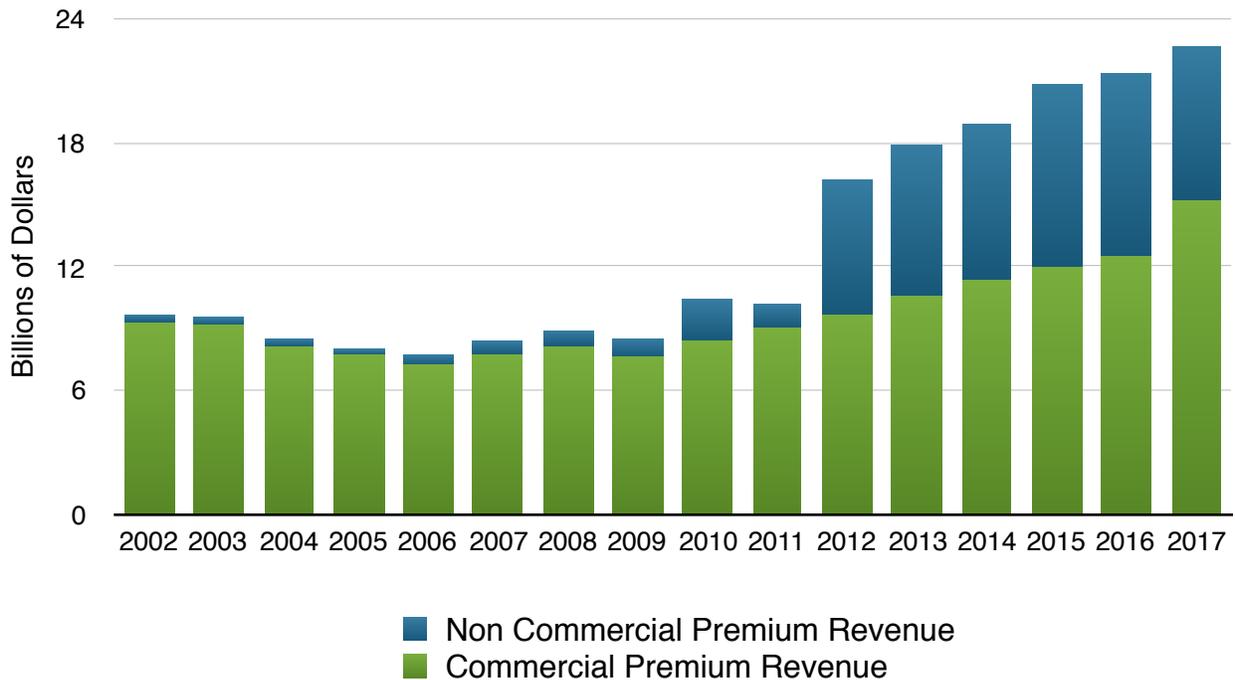


Figure 4: Commercial vs. non-commercial premium revenue for Cigna.

Annual Insured Commercial Members vs. ASC Members

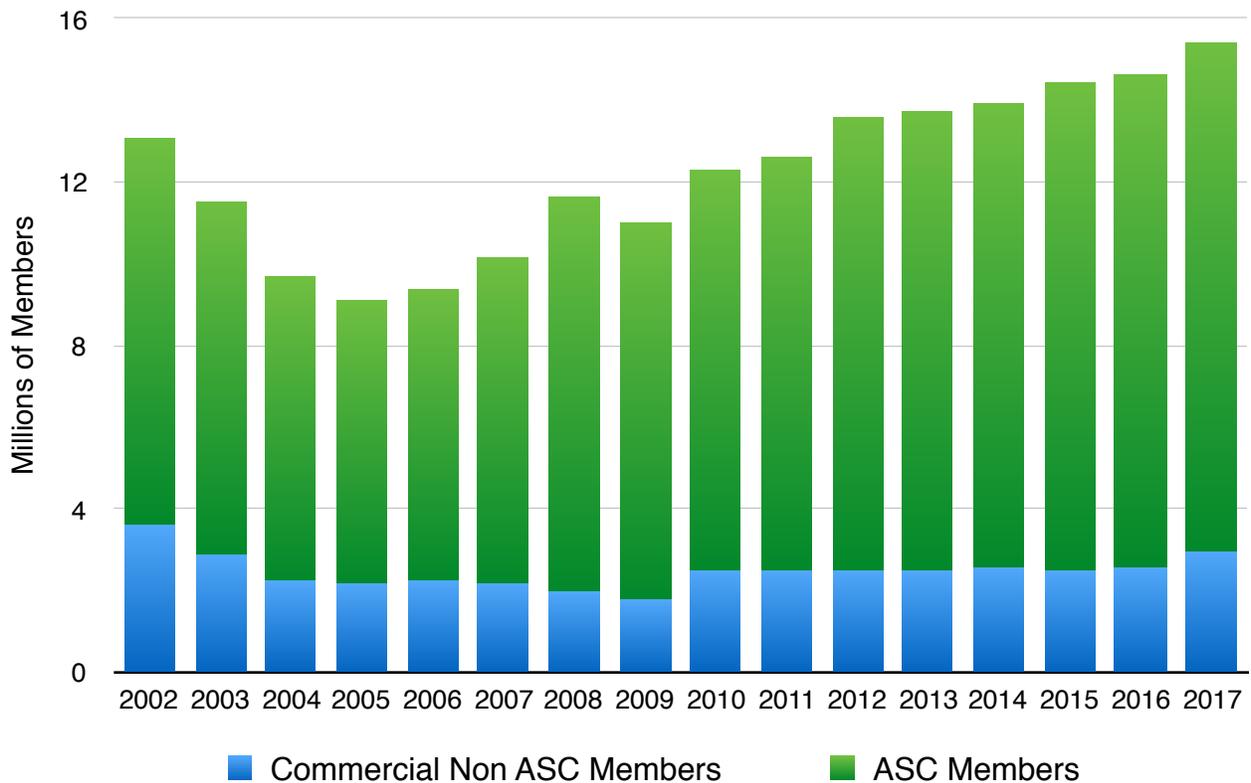


Figure 5: This figure shows that the vast majority of Cigna’s commercial membership has been Administrative Service Contracts since at least 2003.

Administrative Service Contracts (ASCs) are, effectively, insurance without risk. With ASCs, the insurance company gets a service fee to negotiate medical bills, but doesn’t actually pay any of those bills. These contracts, along with non-commercial policies, have exploded in their popularity over the last decade while insured commercial policies have stagnated or declined in number. Clearly, this trend implies that health insurance companies have lost their enthusiasm for the private (non Medicare or Medicaid) insurance business.

Total Executive pay for Cigna was \$38.62 million in 2017 with \$17.6 million going to their CEO David M. Cordani.

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

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