Financial Performance: California Health Plans, Hospitals and Physician Groups

Based on Latest Information from
California Healthcare Foundation (CHCF)
Office of Statewide Planning and Development (OSHPD)
Department of Managed Health Care (DMHC)

CalPERS

Health Benefits Committee
December 13, 2011

Financial Performance: California Health Plans, Hospitals and Physician Groups

- In 2010:
  - CA Health Plans and Insurers received $105B in health insurance revenues.
  - CA Hospitals received $85B in net patient revenue.
  - CA Physicians received approximately 30% of all healthcare expenditures.

- What does publicly available information say about the financial performance of these major health care entities – health plans, hospitals and physicians/physician groups?

- The California HealthCare Foundation (CHCF) and the CA Office of Statewide Health Planning and Development (OSHPD) released reports covering the topic:
  - *Health Care Almanac Health Plans* Nov. 2011 CHCF
  - *Hospital Financial Performance* Nov 2011 OSHPD
  - *Health Care Almanac Physicians* July 2010 CHCF
  - *How Much is Too Much?* Nov 2008 CHCF

- For this presentation – *Net Income (profit)* is the difference between revenues (income) and expenses. Net Income expressed as a percentage of revenue is "margin".

Highlights:

- Health Plan margins (net income as a percentage of revenue) ranged from 1.6% to 4.9% in the six largest health plans regulated by the Department of Managed Healthcare in 2010.

- Hospitals collectively reported margins of 3.6% from patient care operations and 7.6% including all income sources in the four quarters ending Q2'2011. CalPERS' top utilized hospitals averaged 8.0% and 11.0% respectively.

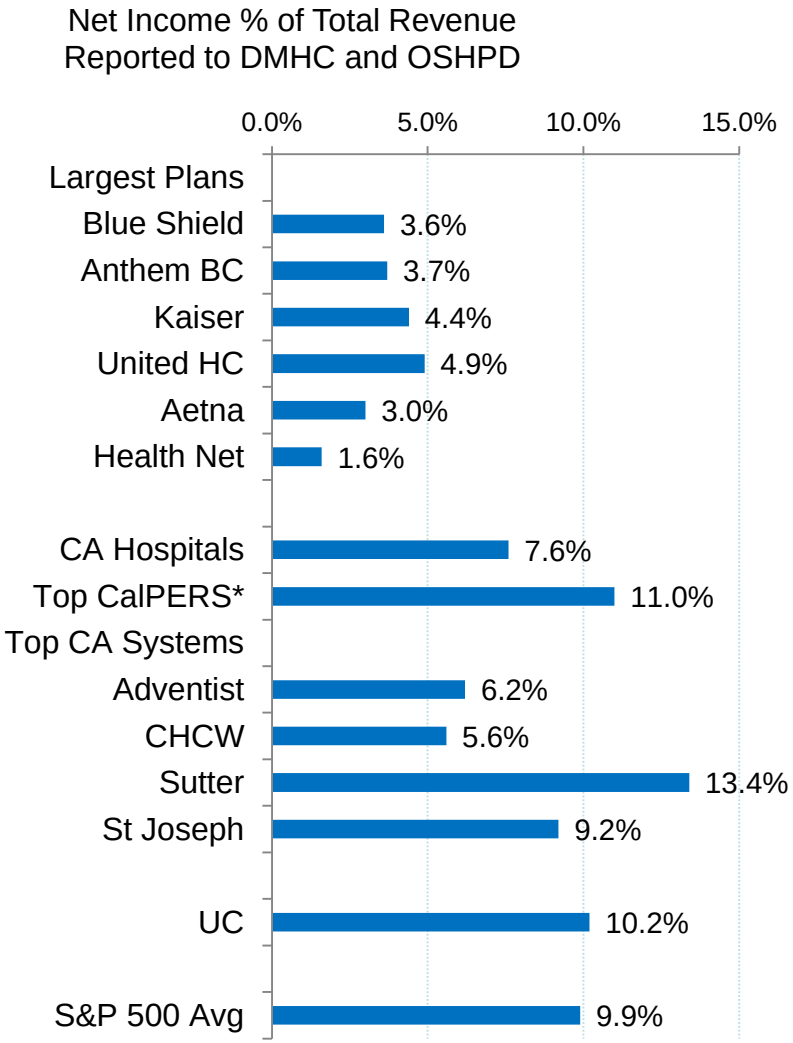
- By comparison, S&P 500 companies averaged a margin of 9.9% in 2011 Q1.

- Physician Groups typically do not show a profit or net income since most of income is paid out to member physicians and management.

  One measure of "profitability" is physician salaries. CHCF reported 2008 CA employed physician salaries and trends between 2004-08 with GPs averaging $140k, OB/GYN $181k and Surgeons $203k in 2008, increases from 2004 of 19%, zero, and 19% respectively.

- This report contains key excerpts from the publicly released documents.

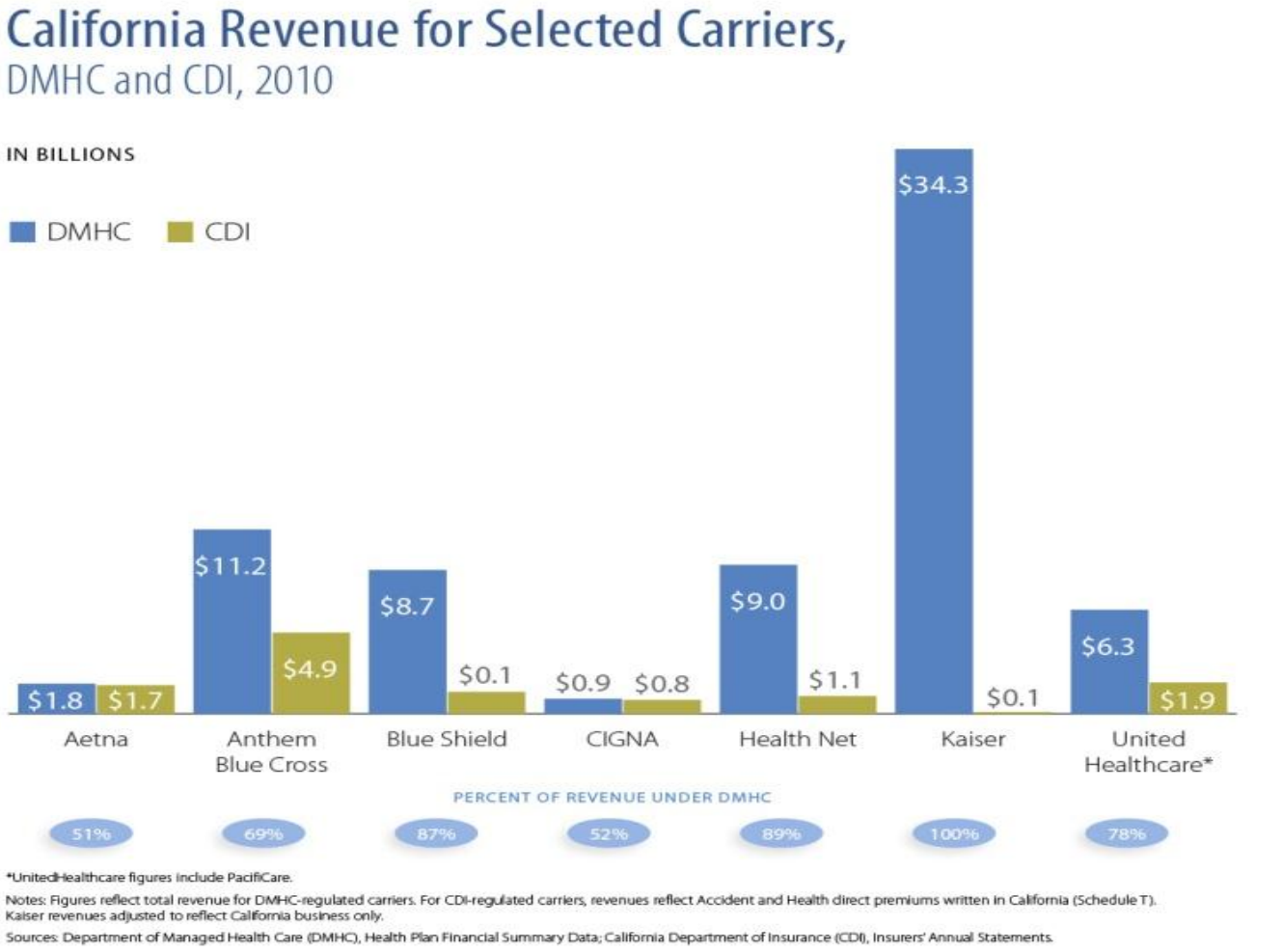
Net Income as a Percentage of Total Revenue: California Health Plans, Hospitals and S&P 500 Average



- CA health plans and hospitals reported positive margins that were within the S&P 500 average, based on the latest public reporting.
- The largest health plans' results are from DHMC filings for 2010.
- The CA hospital statistics are from OSHPD latest quarterly reporting, capturing the four quarters ending Q2'2011. * The top CalPERS hospitals are identified by CalPERS Basic member utilization in 2011 (through June).
- S&P 500 is Standard and Poor stats as reported by Bloomberg – for Q1-2011.

Largest Health Plans

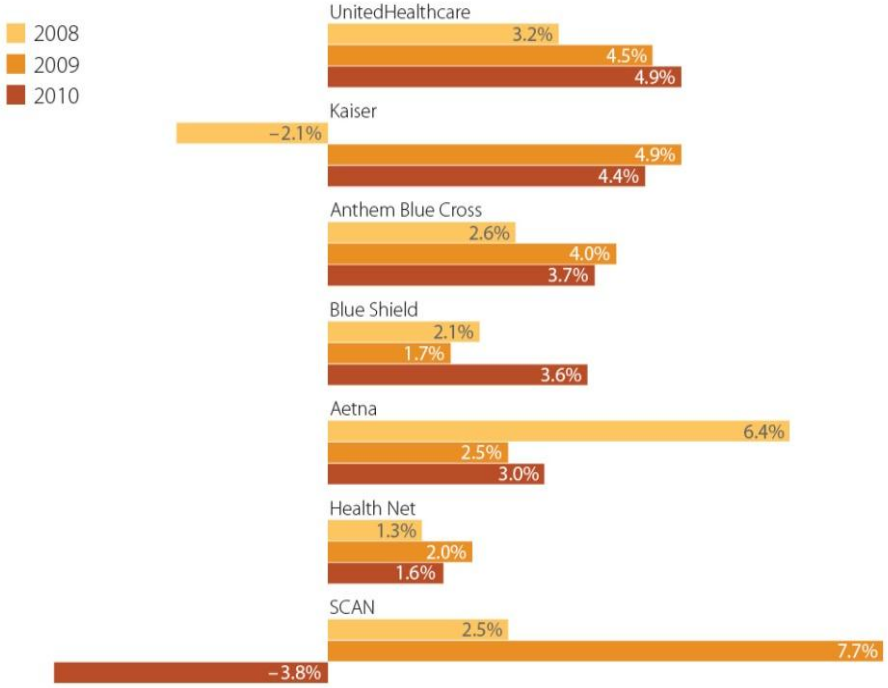
The November 2011 CHCF Health Plan Almanac examined financial performance for the state's health plans and insurers using information reported to DMHC (principally HMOs) and DOI (principally traditional fee for service and PPO plans). Revenue for selected carriers is shown in the figure below.



Largest Health Plans

The largest HMO plans regulated by DMHC reported 2010 “profit” (net income) as a percentage of revenue ranging from 1.6% to 4.9% (below left). Traditional Fee for Service and PPO plans regulated by CDI reported 2010 profit margins ranging from 0.5% to 8.0% (below right). A 2008 CHCF publication compared health plan profits to S&P 500 companies from 2002-2006, finding that CA health plan profits as a percentage of revenue were in the range of S&P 500 averages depending on the year. The CA health plan 2010 profit margins were in the range of those reported in 2006. 2010 S&P 500 average margins were in the 10% range.

Net Income/Loss as a Percent of Total Revenue,
Largest DMHC Plans, 2008 to 2010



Notes: Net income is an after-tax figure. Kaiser financial data reflect multi-state business. All figures reflect fiscal year end results. Largest plans were selected on the basis of revenues for fiscal year 2010.

Source: Department of Managed Health Care (DMHC) Health Plan Financial Summary Data, http://wpso.dmhc.ca.gov/flash/.

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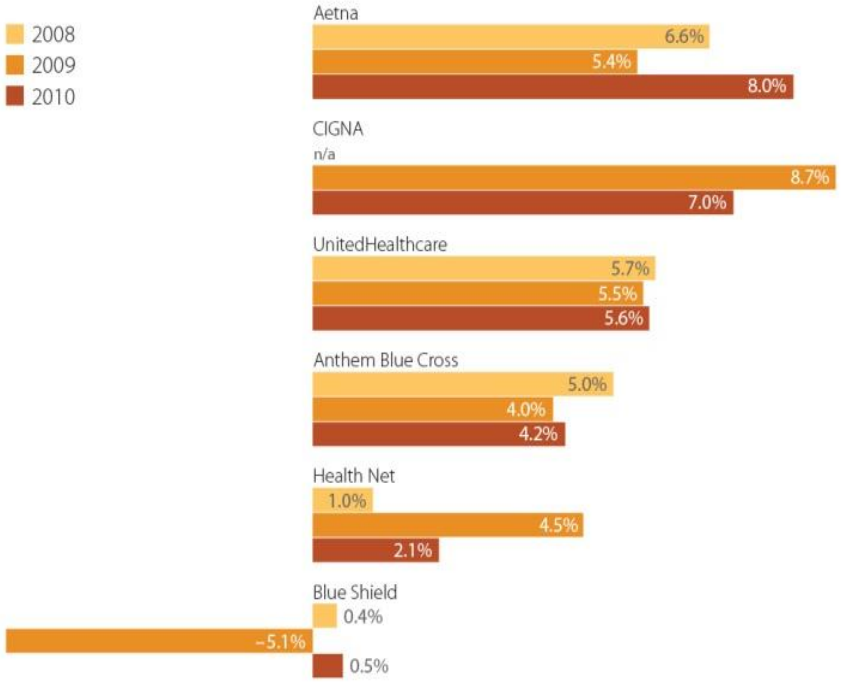
Net Income/Loss as a Percent of Total Revenue,
Selected CDI Insurers, 2008 to 2010



Notes: Net income is an after-tax figure; margin computed as line 35/line 9, Summary of Operations. For Anthem, which submits the "health" version of the annual filings, margin is computed as line 32/line 8 from the Statement of Revenue and Expenses. Blue Cross and Blue Shield figures represent California business only; results for other insurers include business in multiple states. Figures shown exclude PacifiCare.

Source: California Department of Insurance (CDI), Insurers' Annual Statements, 2008 – 2010.

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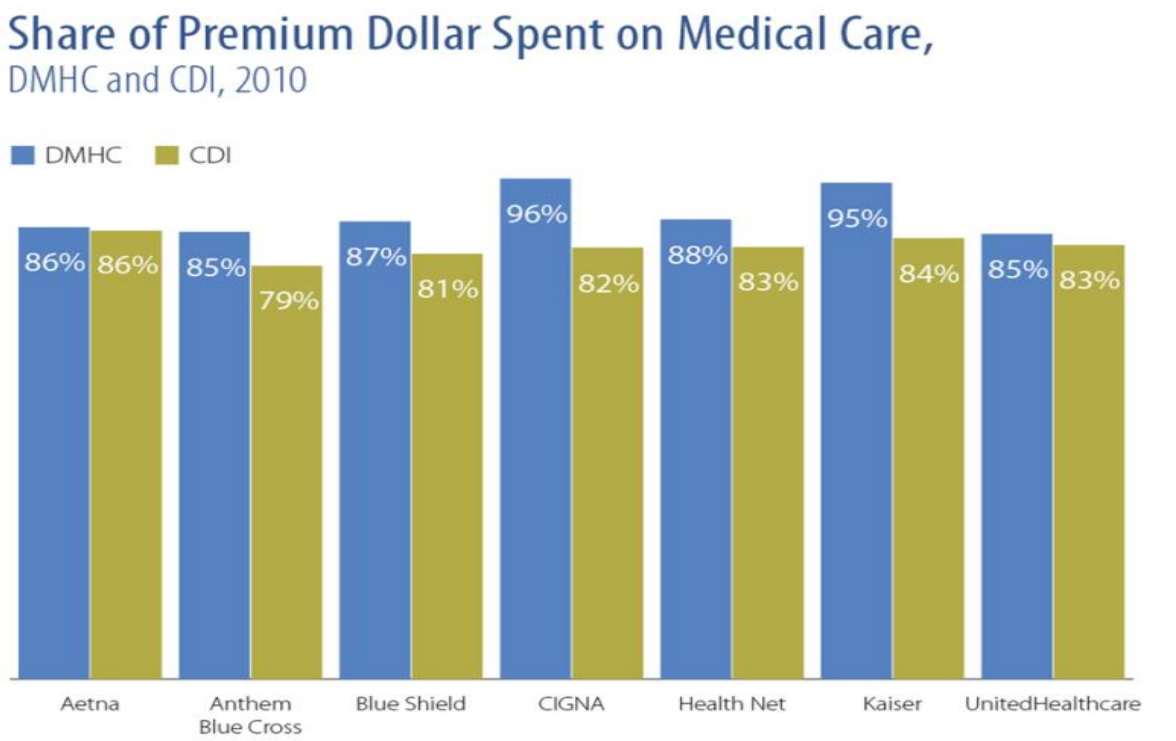
CA Health Plans

The November 2011 CHFC Health Plan Almanac also looked at other financial performance measures including the share of premium dollar spent on medical care, the portion of expenses associated with administration (administrative ratios) and dividends to stockholders (for for-profit plans).

The figure below shows that share of premium spent on medical care varied from 79% to 96% of premium, depending on line of business – CHCF notes that these “loss ratios” are influenced by factors such as risk levels, health plan profitability, tax status, admin efficiency, and medical practice patterns.



Notes: CIGNA HealthCare of California, the DMHC-regulated CIGNA carrier, posted negative net earnings in 2010. Medical care costs as a share of premium revenues are referred to as "loss ratios." The loss ratio for accident and health business, as computed in CDI annual statements: incurred claims and cost containment expenses plus increase in contract reserves divided by premiums earned (Schedule H, line (5+6)/line 2), see also Five-Year Historical Data; Anthem and Kaiser figures from Accident and Health Policy Experience Exhibit. "Medical loss ratio" as computed under DMHC: total medical and hospital expenses divided by operating revenues; line 24 divided by the sum of lines 1 to 7 from Report #2 of DMHC financial reporting form. Loss ratios for Kaiser and for three CDI-regulated insurers (Health Net, UnitedHealthCare, and Aetna) reflect multi-state activity. See Appendix F for loss ratios from 2003 to 2010. Figures aggregate across lines of business, such as group and individual.

Sources: Department of Managed Health Care (DMHC), Health Plan Financial Summary Data; California Department of Insurance (CDI), Insurers' Annual Statements.

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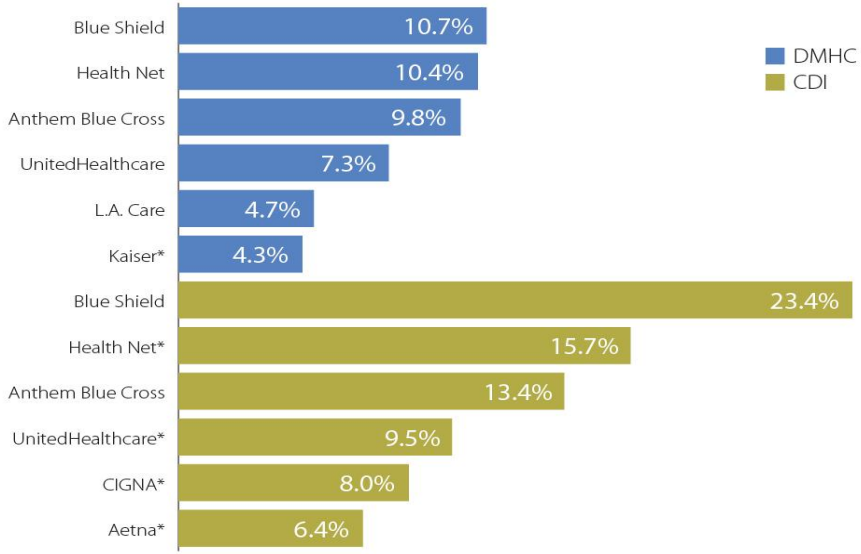
CA Health Plans

Similarly administrative ratios varied by plan and line of business (lower left) – the share of revenues spent on activities such as contracting with providers, processing claims, marketing, and commissions. Higher ratios may reflect many factors including higher operating costs or a smaller premium base over which to spread them.

CHCF reports that in 2010 only four major carriers reported paying dividends to stockholders. Dividends ranged from zero to 12.6% of revenues. Anthem Blue Cross paid no dividends, and United Healthcare's DMHC-regulated plan paid less than a hundredth of a percent of its revenues as dividends.

Administrative Ratios,
DMHC and CDI, 2010



*Figures reflect multi-state business.

Notes: Administrative percentages reflect the share of revenues spent on administrative expenses. "Administrative ratio" as reported by DMHC: total administration expenses / total revenue. "A&H expense percent" as reported on CDI filing: Five-Year Historical Data (line 66 for all carriers shown except Anthem); line 8/line 5 on Anthem's "Health" version of Five-Year Historical Data. Administrative expenses exclude taxes and profits.

Sources: Department of Managed Health Care (DMHC), Health Plan Financial Summary Data; California Department of Insurance (CDI), Insurers' Annual Statements.

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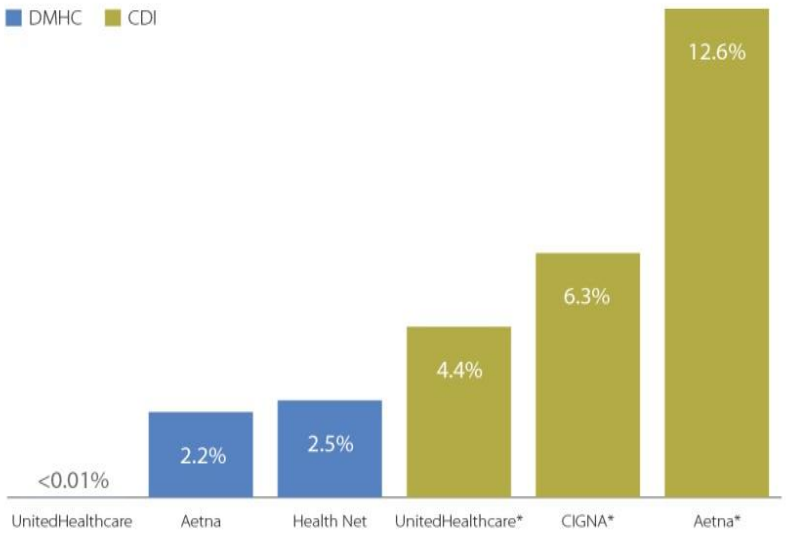
Dividends to Stockholders as a Percent of Revenue,
Major Carriers, 2010



*Figures reflect multi-state business.

Notes: Carriers paying no dividends, and not shown, include: DMHC-regulated plans: Anthem Blue Cross, Blue Shield, and Kaiser; CDI-regulated insurers: Blue Shield, Anthem Blue Cross, and Health Net.

Source: Department of Managed Health Care (DMHC), Health Plan Financial Reporting Forms; California Department of Insurance (CDI), Insurers' Annual Statements.

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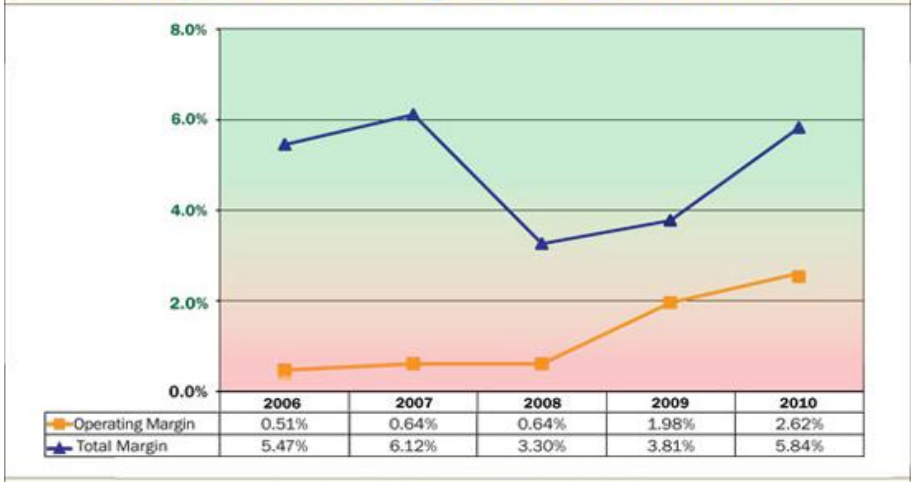
CA Hospitals

California hospitals report quarterly financial results to the Office of Statewide Health Planning and Development (OSHPD). The latest release covers experience through Q2'2011.

It shows financial margins rising, including both operating (patient care) and total (including investments and other non operating components) (upper left figure). The most recent four quarters were all above the past 12 quarter averages (figure lower right).

Total net income was $4.1 billion in 2010 (lower left), the highest reported in the past five years.

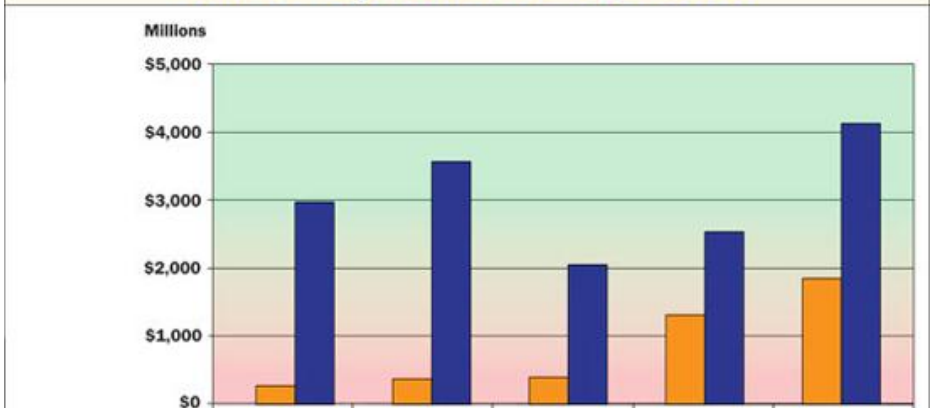
Hospital Financial Margins for the Last Five Years



	2006	2007	2008	2009	2010
Operating Margin	0.51%	0.64%	0.64%	1.98%	2.62%
Total Margin	5.47%	6.12%	3.30%	3.81%	5.84%

Source: OSHPD Annual Financial Disclosure Reports

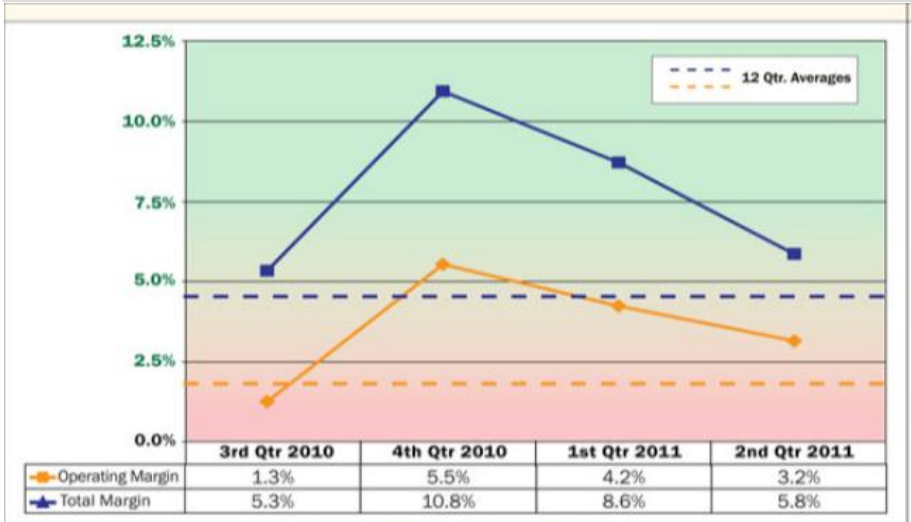
Net from Operations vs. Net Income



	2006	2007	2008	2009	2010
Net from Operations	$275,214,853	$375,011,665	$398,706,853	$1,317,411,499	$1,856,220,326
Net Income	$2,977,970,864	$3,572,386,355	$2,053,933,685	$2,539,914,251	$4,135,305,165

Source: OSHPD Annual Financial Disclosure Reports

Hospital Financial Margins Last Four Quarters



	3rd Qtr 2010	4th Qtr 2010	1st Qtr 2011	2nd Qtr 2011
Operating Margin	1.3%	5.5%	4.2%	3.2%
Total Margin	5.3%	10.8%	8.6%	5.8%

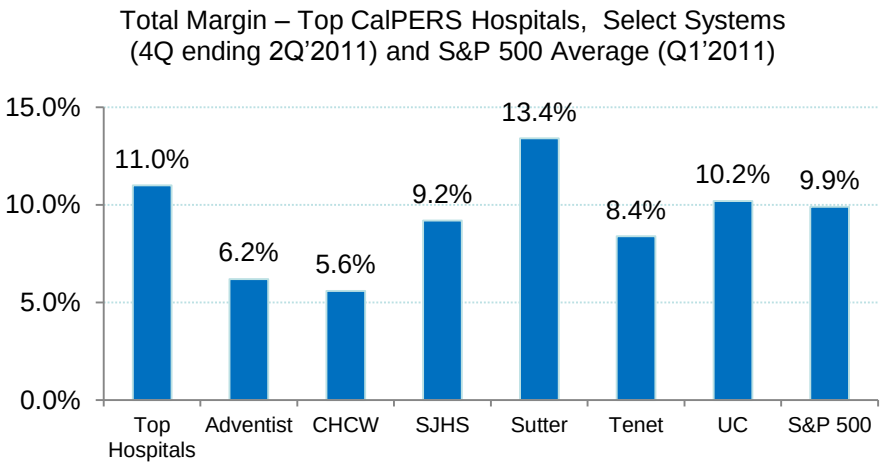
Source: OSHPD Quarterly Financial Reports

CA Hospitals

The top hospitals utilized by CalPERS Basic members reported a total margin of 11.0% based on the four quarters ending Q2'2011, as reported to OSHPD. The total margin includes both patient care and other revenues (Table below shows individual hospitals).

The results for major California hospital systems and the UCs ranged from 5.6% to 13.4%.

S&P 500 average profit margin in Q1'2011 was 9.9%.



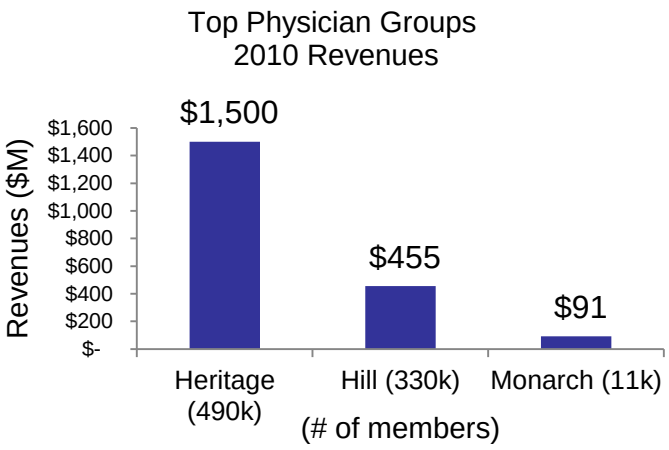
Top CalPERS Hospitals (based on admits): Reported Margins (4Q ending 2Q2011)

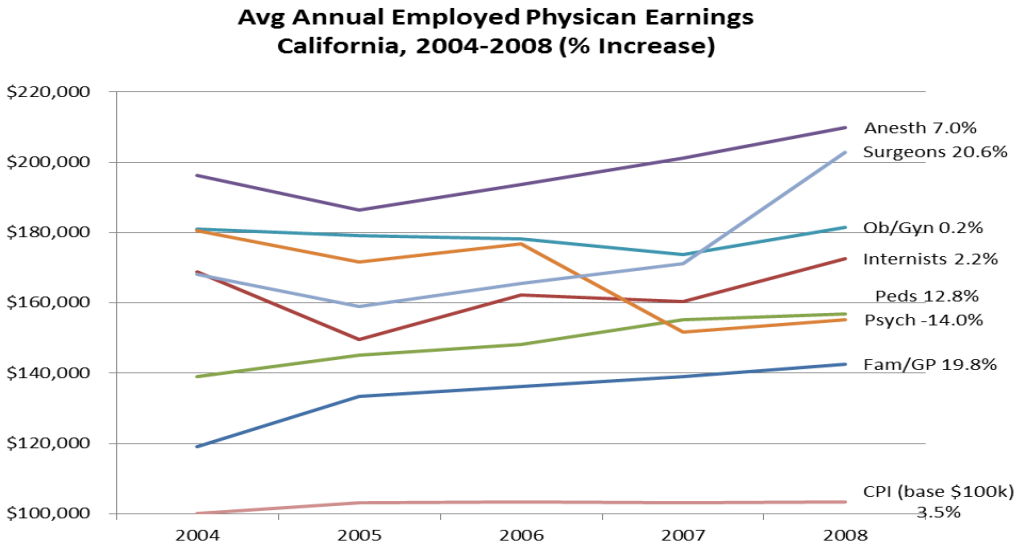
	OSHPD Financial Reporting (rolling 4Q through Q2/2011)				
Hospitals (CalPERS Basic 2011 YTD)	Total Margin	Op Margin	Tot Op Rev	Pretax Income	Net from Ops
Alta Bates Summit Medical Center	16.0%	13.2%	$ 672.3	$ 107.7	$ 88.8
Cedars Sinai Medical Center	13.0%	9.9%	$ 2,400.4	$ 311.9	$ 237.6
Community Hospital of the Monterey Peninsula	8.7%	8.9%	$ 423.9	$ 36.9	$ 37.7
Community Medical Center -- Fresno	10.6%	9.4%	$ 831.2	$ 88.3	$ 78.0
Dominican Hospital - Santa Cruz Soquel	14.5%	6.0%	$ 333.1	$ 48.4	$ 20.1
John Muir Medical Center-Walnut Creek Campus	5.7%	4.1%	$ 762.1	$ 43.7	$ 31.5
Loma Linda University Medical Center - East Campus	9.8%	10.9%	$ 1,238.9	$ 121.5	$ 135.5
Mercy San Juan Hospital	6.4%	3.1%	$ 483.2	$ 30.7	$ 14.8
Salinas Valley Memorial Hospital	-0.5%	-2.6%	$ 338.8	$ (1.6)	$ (8.8)
Scripps Mercy Hospital-San Diego	7.4%	7.4%	$ 634.2	$ 47.1	$ 47.1
Stanford Hospital	14.9%	7.3%	$ 2,063.0	$ 307.7	$ 151.0
Sutter Medical Center, Sacramento	10.6%	10.1%	$ 828.1	$ 87.9	$ 83.6
Univ of California San Francisco Medical Center	11.0%	8.0%	$ 1,900.2	$ 209.0	$ 152.2
University of California Davis Medical Center	9.0%	5.6%	$ 1,274.9	$ 114.4	$ 70.9
Total	11.0%	8.0%	$ 14,184.2	$1,553.6	$1,140.2

CA Physician Groups

- **Physician Groups** receive income from patient care and other operations and non-operating items. Typically physician groups expenses are almost entirely salaries for member physicians and management. Therefore physician groups often do not show a profit. Hill Physicians Medical Group, Heritage Group, and Monarch are three large groups serving CalPERS. Their reporting revenues for 2010 are shown to the right with total member enrollment in (). (DMHC) These physician groups show very little net income.

- One measure of physician financial performance is salaries. A CHCF report showed family and general practitioners' salaries lagging other specialties, despite a large increase between 2004 and 2008. During the same time, psychiatrists saw a decline in income while salaries for surgeons, pediatricians, and anesthesiologists rose more than the CPI. (figure below)





CHCF Physicians Almanac - Notes: Includes only practicing physicians. Does not include self-employed or government-employed physicians. In 2008, salary data for all physicians was based on 53,450 physicians practicing in California.
It does not include ancillary income from sources such as directorships, call coverage, etc.
Source: Bureau of Labor Statistics (BLS), Occupational Employment Statistics Surveys, May 2000 – 2008; BLS All Urban Consumers, All Items, Western U.S. CPI – annual (series CUUS0400SA0), www.bls.gov.

Definitions

- *Net income or Profit* is the difference between revenues (income) and expenses. Net income or Profits expressed as a percentage of revenue is “margin”. See below for details.

- **Health insurance carriers** receive income from premiums paid by employers and individuals, and from other sources, such as investment income. The carriers use this income to pay both direct medical expenses (claims paid to doctors, hospitals, and other health care providers) and administrative costs (including marketing, enrollment, customer service, and billing). The residual that is leftover is called *profit* in for-profit health insurance carriers, and can be paid to stockholders, used to finance capital investments, or transferred to reserves. Nonprofit health insurance carriers have no stockholders; the residual is known as *net income* and may fund capital investments and reserves.

- **Hospitals** receive income from patient care and other operations, and non-operating items. Net patient revenue comes from third-party payers (insurers) and patients for hospital services provided and includes the payments received for routine nursing care, emergency services, surgery services, lab tests, etc. Other operating revenue is the amount received from non-patients for services related to hospital operations. This includes items such as cafeteria sales, refunds on purchases, vending machine commissions, parking lot revenue, etc. Finally non-operating revenue include investment income, unrestricted contributions, medical office building revenue, gift shop revenue, and governmental appropriations (public hospitals only). Operating Margin is based on operating revenues, expenses and profit. Total Margin includes all other sources of revenue and expenses that are not related to operations.

- **Physician Groups** receive income from patient care and other operations and non-operating items. Typically physician groups expenses are almost entirely salaries for member physicians and management. Therefor physician groups often do not show a net income or profit margin.

Sources

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  - http://blog.yardeni.com/2011/07/s-500-revenues-profit-margin.html

Footnotes for Select Charts

- Page 4 - *UnitedHealthcare include PacifiCare. Notes: Figures reflect total revenue for DMHC-regulated carriers. For CDI-regulated carriers, revenues reflect Accident and Health direct premiums written in California (Schedule T). Kaiser revenues adjusted to reflect California business only. Sources: Department of Managed Health Care (DMHC), Health Plan Financial Summary Data; California Department of Insurance (CDI), Insurers' Annual Statements.
- Page 5, Lower Left Chart - Notes: Net income is an after-tax figure. Kaiser financial data reflect multi-state business. All figures reflect fiscal year end results. Largest plans were selected on the basis of revenues for fiscal year 2010. Source: Department of Managed Health Care (DMHC) Health Plan Financial Summary Data, http://wpso.dmhc.ca.gov/flash/.
- Page 5, Lower Right Chart - Notes: Net income is an after-tax figure; margin computed as line 35/line 9, Summary of Operations. For Anthem, which submits the "health" version of the annual filings, margin is computed as line 32/line 8 from the Statement of Revenue and Expenses. Blue Cross and Blue Shield figures represent California business only; results for other insurers include business in multiple states. Figures shown exclude PacifiCare. Source: California Department of Insurance (CDI), Insurers' Annual Statements, 2008 – 2010.
- Page 6, Upper Right - Notes: CIGNA HealthCare of California, the DMHC-regulated CIGNA carrier, posted negative net earnings in 2010. Medical care costs as a share of premium revenues are referred to as "loss ratios." The loss ratio for accident and health business, as computed in CDI annual statements: incurred claims and cost containment expenses plus increase in contract reserves divided by premiums earned (Schedule H, line (5+6)/line 2), see also Five-Year Historical Data; Anthem and Kaiser figures from Accident and Health Policy Experience Exhibit. "Medical loss ratio" as computed under DMHC: total medical and hospital expenses divided by operating revenues; line 24 divided by the sum of lines 1 to 7 from Report #2 of DMHC financial reporting form. Loss ratios for Kaiser and for three CDI-regulated insurers (Health Net, UnitedHealthCare, and Aetna) reflect multi-state activity. See Appendix F for loss ratios from 2003 to 2010. Figures aggregate across lines of business, such as group and individual. Sources: Department of Managed Health Care (DMHC), Health Plan Financial Summary Data; California Department of Insurance (CDI), Insurers' Annual Statements.

Footnotes

- Page 7 Lower Left - *Figures reflect multi-state business. Notes: Administrative percentages reflect the share of revenues spent on administrative expenses. “Administrative ratio” as reported by DMHC: total administration expenses / total revenue. “A&H expense percent” as reported on CDI filing: Five-Year Historical Data (line 66 for all carriers shown except Anthem); line 8/line 5 on Anthem’s “Health” version of Five-Year Historical Data. Administrative expenses exclude taxes and profits. Sources: Department of Managed Health Care (DMHC), Health Plan Financial Summary Data; California Department of Insurance (CDI), Insurers’ Annual Statements.
- Page 7 Lower Right - *Figures reflect multi-state business. Notes: Carriers paying no dividends, and not shown, include: DMHC-regulated plans Anthem Blue Cross, Blue Shield, and Kaiser; CDI-regulated insurers: Blue Shield, Anthem Blue Cross, and Health Net. Source: Department of Managed Health Care (DMHC), Health Plan Financial Reporting Forms; California Department of Insurance (CDI), Insurers’ Annual Statements.
- Page 10 Lower - Notes: Includes only practicing physicians. Does not include self-employed or government-employed physicians. In 2008, salary data for all physicians was based on 53,450 physicians practicing in California. It does not include ancillary income from sources such as directorships, call coverage, etc. Source: Bureau of Labor Statistics (BLS), Occupational Employment Statistics Surveys, May 2000 – 2008; BLS All Urban Consumers, All Items, Western U.S. CPI – annual (series CUUS0400SA0), www.bls.gov.