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S.C. Blue Plan Prospers Despite Shrinking Market, Downturn

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South Carolina's largest insurer makes weathering the recession look easy, in part because it is much more than a small-state Blue plan. The state's Blue Cross Blue Shield affiliate is one of only two nonprofit Blue plans in the country to have improved its capital position last year, and its competitive edge in the state shows no sign of faltering.

Brokers in the state say the insurer is extremely competitive as a health plan due to its extensive network and deep physician discounts. But there's much more to BlueCross BlueShield of South Carolina than a list of health plan products.

The non-profit Blue plan has built an empire of for-profit subsidiaries that provide Medicare administrative services nationwide, offer discounted medical services internationally and sell a wide range of insurance, reinsurance and insurance-related products. The South Carolina Blue plan was among the first to expand its reach into profitable sidelines offering "back-office" operations to other insurers, self-insurers and public plans. The Blue Plan and its subsidiaries employ more than 11,000 people nationwide.

While other Blue plans saw their investment incomes battered by the economy, BC/BS of South Carolina saw its financials improve, largely because the company has put so much into its own array of affiliate companies.

Bigger, Better, Stronger.

The South Carolina Blue Plan does not share any of its information with HealthLeaders-InterStudy, so its quarterly and annual filings contain the best glimpse into the portion of the company's operations that is governed by insurance regulation. While the filings only hint at the extent of the Blue plan's self-insured enrollment, other than the general assertion that the company has 1.8 million South Carolinians covered in all. Combined, its fully-insured health plans reported \$1.97 billion in revenues in 2008, and purchased \$305.7 million in prescription drugs.

The company's publicized 1.8 million census includes self-insured members, Blue Card members enrolled through out-of-state Blue plans, and those enrolled in vision-only and dental-only plans. But in a state with a population of 4.4 million in which 1.3 million are either Medicaid or uninsured, the South Carolina Blue plan is the unchallenged kingpin in the market.

The Blue plan's fully-insured non-HMO enrollment as reported on its 2008 annual statement was 949,954 in December 2008, down from 1,004,415 in 2006, with that number including all fully-insured network-based products including dental, vision, Federal Employee Health Plan, Medicare Advantage, and shared-risk products. Its HMO, called BlueChoice Health Plan of South Carolina, reported 114,000 PPO and HMO members on its 2008 annual report.

The Blue plan has a substantial business in administering self-insured plans, including the state's huge PPO plan for public employees, which has 366,000 lives in the self-insured PPO.

Thomas Peacock, partner at Palmetto Insurance Group in Columbia, S.C., said the S.C. Blue network is considered the "gold standard" for employee groups in the state. Even so, other insurers have made them-

selves competitive in the state's largest markets, where a large number of available providers makes network-building possible and lower pricing more attractive.

But its extensive network and familiarity in the market is hard to top. "It depends on the case, the industry and the geographical area," Peacock said, "but if you quote one case, Blue Cross will be in the hunt, but probably not the cheapest."

Table 1-1: Blue Cross Blue Shield of South Carolina Fully-Insured Enrollment, Dec. 31, 2008

BlueChoice Healthplan	114,012	Dental Only	204,328
BCBS Comprehensive Group	290,233	FEHBP	78,529
BCBS Comprehensive Individual	62,916	Medicare Supplement	54,441
Vision Only	43,584		

Source: 2008 Annual Statements

David Slade, vice president of employee benefits with Rosenfeld Einstein, a brokerage and consulting firm in Greenville, S.C., said the insurer is a powerful force in the state, but national and regional competitors are not ceding the Palmetto State.

"There's a lot of competition out there. UnitedHealthcare has been very competitive, especially in the large group market," he said. CIGNA and Carolina Care Plan also are making waves in the state; and to a lesser degree, Humana has been growing in recent years. HealthLeaders-InterStudy data shows United has expanded its presence in South Carolina to 207,782 total commercial lives, mostly in self-insured PPO.

The company's market strength is largely built on its ability to offer statewide access to clients in other states. For the largest employer groups, it is the carrier of choice. "The Blues traditionally have had very deep discounts with physicians," Peacock said. "They get into very big groups and when a company is paying their own claims that really does help. If an average hospital claim is around \$35,000, a discount of another 10 percent can save an employer a lot of money."

As pricing becomes the main way insurers attract employers and individuals, the S.C. Blue plan is taking more steps to keep its coveted top position. It introduced a line of more affordable individual and small group products in May and opened a retail store in the greater Charleston area in January. While other Blue plans have opened retail spaces in their respective states; the S.C. Blue plan's foray brings the household name to a new environment. In addition to Blue plan employees, independent insurance agents will have hours at the store.

The retail concept gives the insurer another way to distribute its products to individual purchasers and small businesses, and that could be important as healthcare reform efforts make their way through Congress. Insurers have said they will work with the federal government to create individual health plans that would be compatible with reform efforts.

Subsidiaries Keep S.C. Blue Strong

The South Carolina Blue plan's 26 subsidiaries are varied and have a wide reach. It is the sole owner of Trailblazer Health Enterprises, a Medicare administrator that operates in 45 states and the District of Columbia. Based in Texas, Trailblazer employs 1,800 people, according to its Website, and had revenues of \$698.7 million last year.

The Blue plan's HMO, BlueChoice Health Plan of South Carolina, includes substantial business administering self-insured and shared-risk plans, according to the HMO's annual statement. The company reported \$21.8 million in administrative fees accrued in 2008 for plans operated through an administrative services contract. The HMO reported an underwriting gain of \$11.6 million in 2008.

Palmetto GBA is another Medicare administration subsidiary that also offers technology, transaction management, training and contact center services that operate nationwide.

Among the subsidiaries are several insurance companies under the “Companion” name, including Companion Global, which offers medical travel services, Companion Life, which offers group and voluntary group coverage for dental, vision, disability, and term life insurance, and Companion Property and Casualty Insurance Company. Other large subsidiaries include BlueChoice HealthPlan of South Carolina, which is one of the state’s largest HMOs, and InStil Health Insurance Company, which offers Medicare Advantage plans in South Carolina and Georgia.

Its Companion Capital Management Inc. subsidiary is the strategic investment arm of the enterprise, investing in the healthcare, insurance and technology industries through mergers, acquisitions and equity investments.

The subsidiaries’ financials are not covered by insurance regulatory filings, but what is made public through regulation shows that the Blue plan’s insurance operations are very sound, and dovetail well with the other businesses working on a national scale.

Table 1-2: South Carolina Blue Plan Subsidiaries Cover Many Medical Territories

Subsidiary	Business Line	States Covered	Since	Headquarters
BlueChoice HealthPlan of South Carolina	HMO	South Carolina	1984	Columbia, SC
Companion Property and Casualty Insurance Company	Worker’s compensation insurance	Alabama, Arkansas, District of Columbia, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Mississippi, North Carolina, Oregon, South Carolina, Tennessee, Virginia, Wisconsin.	1984	Columbia, SC
Companion Life Insurance Company	Group Term Life, Dental Insurance, Vision Insurance, Long and Short Term Disability Income Protection, Medical Excess Loss Coverage	45 states and Washington D.C.	1971	Columbia, SC
Companion Global	Medical tourism	National	2007	Columbia, SC
Preferred Health Technology	Electronic payment and transaction processing			Dallas, TX
Planned Administrators, Inc.	Third Party Administrator	South Carolina	1981	Columbia, SC
Palmetto Government Benefits Administrators	Medicare contractor—offers transaction processing, customer service call centers, clinical decision management	45 states, two U.S. territories and Washington DC.	1966	Columbia, SC
Trailblazer Health Enterprises	Medicare Administrative Contractor, Part A intermediary and Part B carrier	National	1966	Dallas, TX
CIMR, Inc.	Claims processing and back office systems	National		Columbia, SC
PGBA	High-volume claims processing, call center operations and fiscal administration—has administered Medicare Advantage PFFS plans since 2002	National	1982	Columbia, SC

Source: Blue Cross and Blue Shield of South Carolina

Table 1-3: South Carolina Blue Plan Subsidiaries Cover Many Medical Territories (Continued)

Subsidiary	Business Line	States Covered	Since	Headquarters
Companion Benefit Alternatives	Substance abuse and mental health treatment	National	1992	Columbia, SC
Companion Data Services	Health insurance data center supports Medicare, Medicaid, TRICARE, Federal Employee Health Benefits Program	National		Columbia, SC
InStil Health Insurance Company	Medicare Part C and D Plans	South Carolina and Georgia	2004	Columbia, SC
Q2 Administrators	CMS Qualified Independent Contractor handling appeals for Medicare claim denials	National		Columbia, SC
Companion Captive Insurance Company	A part of Companion Life Insurance; offers captive insurance			Columbia, SC
Thomas H. Cooper and Company	Third-party benefits administrator	South Carolina	Bought 2003	Charleston, SC
International Specialty Underwriters	Full-service managing general underwriter; stop loss products	National	1991	Jacksonville, FL
Alpine Agency	Health, life, accident, disability, cancer, long term care, property & casualty, liability, and workers compensation insurance.	South Carolina		Offices in Camden, Lancaster, Spartanburg, Greenwood
Montgomery Management Corporation	Underwriter of employer stop-loss coverage	National	1989	Blue Bell, PA; Grand Rapids, MI; Charlotte, NC; and Columbia, SC.

Source: Blue Cross and Blue Shield of South Carolina

The insurer's net income—for that part of the business that is required to file statements to insurance regulators—for 2008 fell 19 percent compared to 2007, but revenues still continued their upward track. The insurer posted net income of \$119.6 million on net premium income of \$1.6 billion in 2008, with \$64.3 million of that total being underwriting income. That compares to net income of \$148.1 million on total net premium income of \$1.5 billion in 2007.

The weakest area for the Blue plan last year was its Medicare business. Medicare issues contributed to about half the healthcare industry's earnings decline for 2008. BC/BS posted a net underwriting loss of \$3.9 million on its Medicare business last year, while all other lines posted underwriting gains.

The South Carolina Blue plan's ability to march on despite falling investment income makes it rare right now among Blue plans nationwide. Carl McDonald, an analyst with Oppenheimer & Co., said many non-profit Blue Cross plans are constrained when it comes to raising capital because they have limited access to debt markets. The main way for them to increase capital is through operations. BC/BS of South Carolina's long-term strategy to expand into a variety of healthcare-related businesses makes it especially well-positioned during the current economic challenges.

Among the non-profit Blue plans nationwide, there were only two plans that were able to improve their capital position in 2008—Blue Cross of Kansas and Blue Cross of South Carolina. The improvement in Kansas

was significant, as the RBC ratio grew from 897% to 980%, while the South Carolina RBC ratio increased from 867% to 891%. Those levels of capital compare to an average RBC level among nonprofit Blue plans of 700 at year-end 2008.

Table 1-4: BC/BS Of South Carolina Income Grows

	2006	2007	2008
Total revenues	\$1.55B	1.54B	\$1.64B
Net underwriting gain	\$85.47M	\$52.77M	\$65.26M
Net income	\$99.08M	\$148.14M	\$119.56M

Source: Blue Cross and Blue Shield of South Carolina Annual Statement, 2008

The RBC is a measure developed by the National Association of Insurance Commissioners; it helps state governments and others determine if an insurer has an adequate surplus level to cover claims in case of an emergency or a mistake in pricing. Many states have a minimum threshold somewhere around 375 percent, but Blue plans across the country have long defended their much-higher RBCs as necessary cushions against loss, especially since they are insurers of last resort in many states.

In the early 2000s, high Blue plan RBC's were questioned as consumer advocates and state governments saw them as evidence the plans were making too much money and should lower premiums. Now RBCs are falling for many Blue plans due to lower investment earnings, lower margins, and other pressures.

McDonald's analysis of 35 non-profit Blue plan financial statements found the average level of risk-based capital fell from 784 percent at the end of 2007 to 700 percent at the end of 2008 as insurers lost investment income. The capital loss, and the uncertainties of underwriting as markets shrink and price-competition is sharper, has pushed many Blue plans to increase premiums. With its higher cushion of earnings from its affiliates, the S.C. Blue plan is in the enviable position of being able to ride out the current economic storm.

Outlook

The S.C. Blue plan is in no danger of losing market dominance, and will ride out the recession better than most thanks to its ability to pull capital in from many profitable subsidiaries. Its ability to offer the deepest discounts in the market will ensure the largest companies stay with the insurer and benefit from its growing forays into medical homes and disease-management programs. ■