

**The *Big Picture*
Snapshot Series**

Since 2009, UHF's Health Insurance Project has been publishing *The Big Picture*, a series analyzing health plan enrollment and financial results in New York's private and public health insurance markets. The rollout of the Affordable Care Act (ACA) made 2014 a watershed year for New York's marketplace; we are marking that event with a series of snapshots highlighting specific issues related to the ACA, as a complement to the forthcoming *Big Picture* chartbook on health plan operations.

Together, these briefs will provide a fuller picture of issues and trends affecting the health insurance market since implementation of the ACA.

March 2016

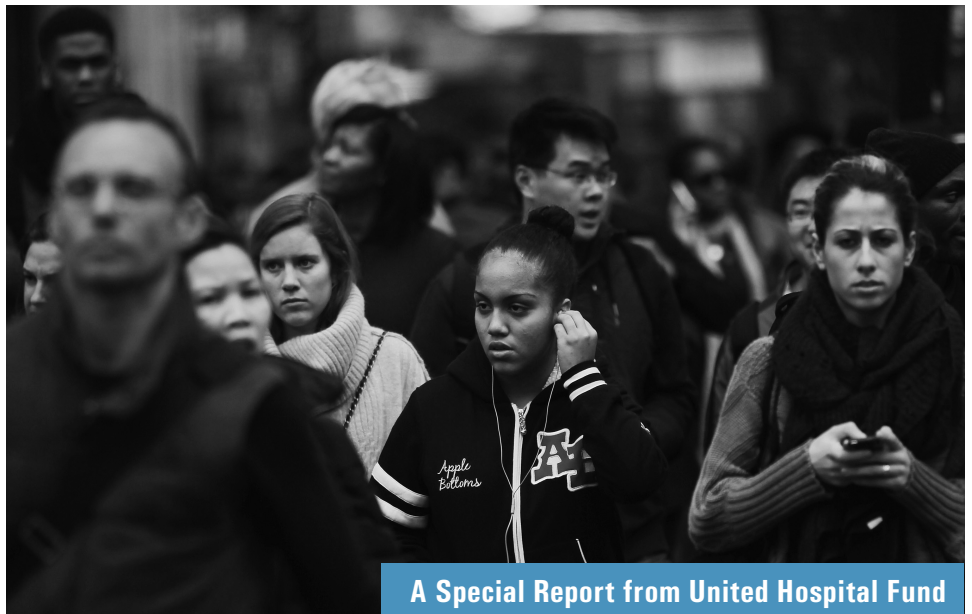
The Next Wave: The Impact of Two New Proposed Mergers on New York's Health Insurance Market

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Introduction

The number of health plans in New York's insurance marketplace has been shrinking for decades. Many BlueCross and BlueShield plans have combined, major life insurers sold off their health insurance business, for-profit health maintenance organizations like Oxford Health Plans and U.S. Healthcare proved to be attractive takeover targets, and, more recently, larger Prepaid Health Services Plans serving public program members¹ have snapped up smaller ones. Recently, a new wave of two proposed mergers involving four of the nation's five largest health insurers—Anthem and Cigna, and Aetna and Humana—has caught the attention of lawmakers, regulators, provider associations, and consumers. Two Congressional hearings in 2015² examined the insurance mergers and the competitiveness of insurance markets generally; academics reviewed research on how insurance company mergers affect reimbursement for providers, quality of care, and premiums for both individuals and employer groups;³ hospital and physician groups urged federal regulators to intervene to protect providers and consumers from the fallout from lessened competition;^{4,5} and health plan CEOs touted the benefits of the proposed mergers.⁶ In this *Big Picture* snapshot, we examine the two merger plans based on the New York footprints of the four insurers, in the context of the review

process by federal and state officials that is currently unfolding, and a health care landscape that is changing due to market dynamics and new policy initiatives.

Federal and New York Review of the Mergers

Officials at the Federal Trade Commission and U.S. Department of Justice enforce antitrust statutes through civil and criminal actions, with the DOJ taking the lead on insurance mergers and the FTC on provider acquisitions. The agencies have a number of remedies for health insurance mergers that do not pass muster, such as rejecting the mergers outright, or requiring companies to divest themselves of certain lines of business in a region where there is significant overlap in market share.⁷ When Humana purchased Medicare plan Arcadian Management Services in 2012, for example, it was required to divest Medicare Advantage business in five states. Federal officials took the action, they said, because the original proposal would “likely have resulted in higher prices, fewer choices, and lower quality” Medicare Advantage plans for seniors.⁸ Cigna, which had recently acquired the HealthSpring Medicare plan at the time, was one of the purchasers of the Humana–Arcadian business.⁹

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New York State agencies can weigh in as well, with added authority from their regulatory role in insurance markets. The New York Attorney General's Antitrust Bureau has the authority to enforce both federal antitrust laws and a corresponding state statute known as the Donnelly Act.¹⁰ Health Department regulations grant the Commissioner of Health prior approval over acquisitions of control involving HMO licensees.¹¹ New York's Insurance Company Holding Act and a related statute¹² require the Superintendent of Financial Services to disapprove applications for acquisition of a controlling interest in domestic insurers if necessary to "protect the interests of the people of the state"—examining a number of factors, including the financial conditions of companies, and whether the transaction lessens competition or presents a hazard to existing policyholders or shareholders.¹³ Both federal and State laws also permit private parties to challenge mergers on antitrust grounds, and to seek monetary damages and injunctive relief.

Once the companies proposing the mergers had shareholder approval in hand, the regulatory reviews of the proposals began in earnest. Federal antitrust regulators at the DOJ are analyzing detailed filings submitted by the companies,¹⁴ state attorneys general in 15 states are reportedly joining the review,¹⁵ and Connecticut insurance regulators are leading a 26-state insurance department review of the Anthem–Cigna merger¹⁶ and have made a sizeable batch of merger-related documents available for public inspection.¹⁷ So far, Aetna reports receiving 10 of the 20 state approvals it needs to move forward;¹⁸ four states have approved the Anthem–Cigna transaction, with 22 states yet to weigh in.¹⁹ New York insurance regulators are currently reviewing the filings, known as "Form A," for the acquisitions that involve the licensees it supervises.

For the regulators, analysis of market share data using a federal formula will provide the cornerstone for the reviews. Under the DOJ's Horizontal Merger Guidelines,²⁰ each insurer's market share in a particular Metropolitan Statistical Area (MSA) is assigned a value, derived from its portion of business compared to competitors' totals in those areas, to create an index measuring market concentration from 0 to 10,000. Markets with index values above 2,500 are highly concentrated, those between 1,500 and 2,500 are moderately concentrated, and MSAs with scores below 1,500 are considered unconcentrated; mergers resulting in highly concentrated markets are likely to raise concerns for regulators. While data on health plan operations organized by MSAs is not publicly available, following is a description of the merging companies' New York footprints, focused on areas where they overlap.

Anthem and Cigna

Indiana-based Anthem, which owns BlueCross BlueShield plans in 14 states, including neighboring Connecticut, entered the New York market through its purchase of Empire BlueCross BlueShield (WellChoice) in 2005. The company operates through its HMO and Article 42 life, accident, and health insurance licensees in New York, a small life insurance company, UniCare, and a recent acquisition, Amerigroup, rebranded in 2015 as Empire BlueCross BlueShield HealthPlus. Amerigroup, an example of consolidation among PHSPs, specially licensed HMOs that focus on public programs, expanded its presence in New York through the acquisition of CarePlus PHSP in 2005 and HealthPlus in 2012, adding more than 400,000 members.²¹

Cigna, headquartered in Connecticut, surrendered its New York HMO license several

years ago and does business through three Article 42 licensees in New York and a Texas-licensed Medicare plan, HealthSpring, which was required by federal regulators to cease new enrollment in 2016 due to deficiencies federal regulators identified that limited enrollees' access to services.²²

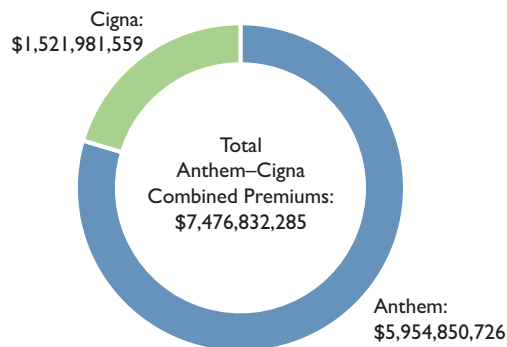
As shown in Figure 1, Anthem and Cigna companies reported a total of over \$7.4 billion in New York health insurance premiums in 2014.²³ Total premiums reported by Cigna's and Anthem's New York companies would place them second in market share by premium in 2014, well behind UnitedHealthcare companies (\$11 billion) and just ahead of EmblemHealth (\$7 billion), Excellus BCBS (\$6.2 billion), and HealthFirst (\$5.9 billion).²⁴

Anthem companies accounted for over 80 percent of the total combined premiums of the proposed merged entity, and the two companies mostly rely on mostly different business segments for revenues. Unlike Empire BCBS, Cigna does not participate in state public programs like Medicaid (which brought in over

\$2 billion in revenue for Anthem in 2014), the Exchange, or the individual market. Although neither company has much of a presence in the small group market, both are active players in the employer-sponsored insurance (ESI), large group market, the one area where the two companies' operations significantly overlap.

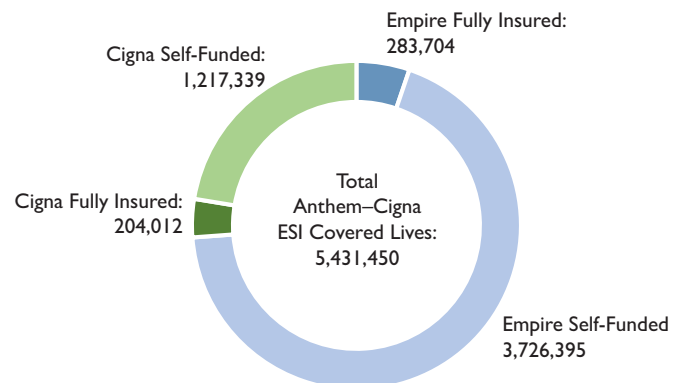
As Figure 2 shows, the companies reported a total of over 5 million covered lives in the fully insured and self-funded ESI markets. But because of the way health plans report group enrollment, this total includes employees of companies located in other states that are part of a parent company headquartered in New York that took out the policy. The combined fully insured, employer-sponsored coverage reported by the two companies, about 487,000 covered lives in New York, would place them fourth, behind EmblemHealth, Excellus BCBS, and UnitedHealthcare—all three either near or beyond 1 million covered lives, and ahead of HealthNow BCBS, which reported about 322,000 covered lives in the employer-sponsored insurance market.²⁵

Figure 1. Anthem (Empire)–Cigna Combined Premiums, 2014



Source: Analysis of 2014 NAIC Annual Statements, NAIC Supplemental Health Care Exhibits, and Medicaid Managed Care Operating Reports by UHF and Allan Baumgarten.

Figure 2. Anthem (Empire)–Cigna ESI Enrollment, 2014



Source: Analysis of 2014 New York Supplements and NAIC Supplemental Health Care Exhibits by UHF and Allan Baumgarten.

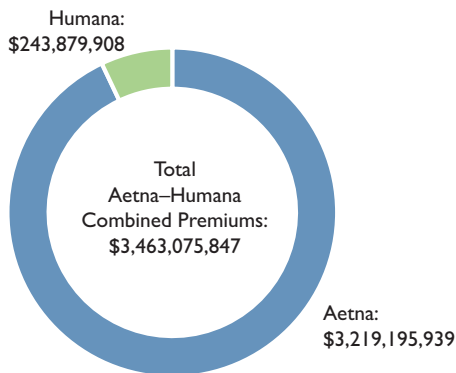
Certainly, Anthem and Cigna are head-to-head competitors in the employer-sponsored market, but it is difficult to measure how they overlap because most of Cigna’s business is from licenses to which less detailed geographic reporting applies. An annual analysis conducted by the American Medical Association placed New York in a second tier of four states where the Anthem–Cigna market concentration “raises significant competitive concerns and often warrants scrutiny,” citing two MSAs in the Hudson Valley and Northern New Jersey, but New York was not among the first tier of ten states in which the merger would be “presumed likely to enhance market concentration,” though one Long Island MSA was cited as meeting that standard.²⁶ There are also unique features to this business worth noting. Empire BCBS’s self-funded enrollment includes covered lives in both the New York State and New York City programs for public employees, for which it provides mainly hospital coverage, rather than the full range of comprehensive benefits.²⁷ As a BlueCross BlueShield plan, Empire operates within its 28-county service area in Eastern New York, and may only compete elsewhere against other BCBS plans on an “unbranded” basis—without the BlueCross or BlueShield name or trademarks. One of the unknowns about the Anthem–Cigna merger is how the combined

company will organize its business in order to stay in compliance with other BCBS Association rules. One such rule requires the company to derive at least two-thirds of its revenues nationally from BlueCross plans, and a second requires it to derive 80 percent of its revenue from an individual state from the BlueCross licensee.²⁸

Aetna and Humana

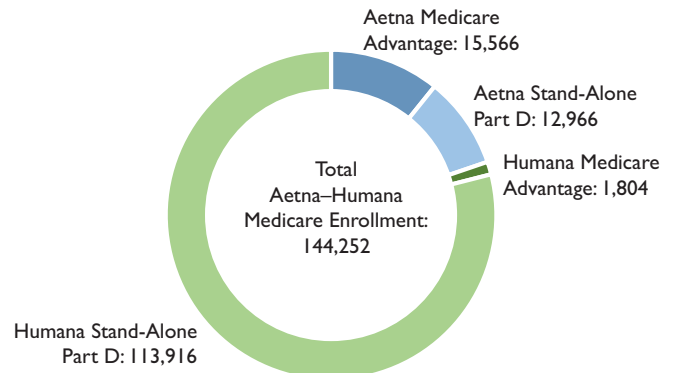
Headquartered in Connecticut, Aetna operates in New York through its HMO, a small managed long-term care plan (Aetna Better Health) and three Article 42 licensees, though the company is currently withdrawing its HMO license from the commercial market. Aetna increased its New York presence in the 1990s through mergers with U.S. Healthcare HMO and the acquisition of HMOs owned by Prudential Life and New York Life. Humana is headquartered in Kentucky, and it operates an Article 42 insurer and an HMO in New York. Although Humana reported \$54 billion in revenues nationally in 2014,²⁹ very little of that came from New York. As Figure 3 shows, the two groups of companies reported about \$3.4 billion in health premiums in New York in 2014, with Aetna accounting for over 90 percent of the total.

Figure 3. Aetna–Humana Combined Premiums, 2014



Source: Analysis of 2014 NAIC Annual Statements, NAIC Supplemental Health Exhibits, and Medicaid Managed Care Operating Report for Managed Long-Term Care Plans by UHF and Allan Baumgarten.

Figure 4. Aetna–Humana Medicare Enrollment, 2014



Source: Analysis of 2014 New York Supplements and NAIC Supplemental Health Care Exhibits by UHF and Allan Baumgarten.

While Aetna is active in all commercial lines, reporting a total of over 2 million covered lives in the fully insured and self-funded markets in New York, Humana companies operate primarily through the Medicare program, along with some stand-alone vision and dental coverage. As Figure 4 shows, the Medicare market is the only New York market in which the two companies overlap significantly. The Humana acquisition would increase Aetna's Medicare presence in New York, mainly through adding Humana's 113,000 stand-alone Medicare Part D members; this enrollment would be about 10 percent of the overall Medicare Part D market in New York.^{30,31} The two companies compete head-to-head in a handful of New York counties for Medicare Advantage business, but the numbers of enrollees are small: Humana's statewide Medicare Advantage enrollment is just over 1,800 members, and Aetna's is about 15,500.³²

Consolidation in a Changed Health Care Landscape

While our focus is the mergers of these two groups of insurers, both the product of earlier consolidation, the broader health care market around them is consolidating as well. Analysts have been using terms like “fever” and “frenzy” to characterize the flurry of health-related takeover deals.³³ The possible merger of drug makers Pfizer and Allergan is valued at over \$150 billion,³⁴ dwarfing the proposed insurance mergers, and Walgreen's proposed \$17.2 billion purchase of rival Rite Aid³⁵ would combine the nation's first and third largest drugstore chains. Over 70 hospital deals were announced nationally in the first nine months of 2015,³⁶ and federal regulators have recently moved to block several hospital mergers.³⁷ In New York, one account³⁸ reported more than a dozen hospitals

joining larger systems since 2011, as a prominent health system executive quipped, “The most dangerous place to be these days is a stand-alone hospital.” Health systems have also been busy acquiring physician practices,³⁹ and health care providers are obtaining insurance licenses to compete directly against traditional insurers. HealthFirst, owned by member hospitals and one of the state's early provider-sponsored plans, has grown steadily and reported over \$5 billion in premiums in 2014—fifth largest among all insurers. Within the past two years, new health plans have been launched by the Northwell (North Shore-LIJ) and Montefiore health care systems, and by Crystal Run, a Hudson Valley multispecialty group.

To be sure, hospitals and health plans merge for some of the same reasons—to gain support from a financially stronger partner, to realize operating efficiencies, and to negotiate more advantageous financial arrangements from a stronger bargaining position. Antitrust regulators are wary of mergers between direct competitors that could lessen competition, and with reason; research shows that hospital consolidation can increase the cost of coverage,⁴⁰ and that insurance consolidation can lower the payments that providers receive without passing along savings to consumers, though larger employers appear to have a better chance of realizing savings.⁴¹ State and federal minimum loss ratio requirements and New York's prior approval authority over health plan premiums, however, can restrain premium increases in fully insured markets when companies increase their market power, particularly for individuals and small groups. New health delivery system reform initiatives are adding another layer of complexity to traditional antitrust evaluations for both providers and insurers.

Consolidation and Delivery System Reform Goals

Efforts to reshape the health care delivery system in New York and the U.S. may also require regulators and policymakers to rethink traditional views of market concentration. New York's Commission on Health Care Facilities in the 21st Century, for example, sought to reconfigure the supply of hospital and nursing home facilities to promote efficiencies that help meet community needs and create a stronger infrastructure.⁴² Legislation creating the Certificate of Public Advantage in New York,⁴³ which drew interest from the Federal Trade Commission,⁴⁴ established the state policy of "encouraging appropriate collaborative arrangements among health care providers who might otherwise be competitors." Similarly, the Performing Provider Systems (usually headed by hospitals) created under New York's Delivery System Reform Incentive Payment Program are required to form partnerships and collaborations with other health care providers to better integrate care, improve quality, and drive down costs through reduced hospitalizations and other means.⁴⁵

Other state and federal policy efforts⁴⁶ promote value-based payments involving risk-transfer agreements between health plans and providers, a task that larger, more sophisticated systems or provider groups are better positioned to manage; they also encourage multipayer approaches and alignment across public programs and commercial coverage, goals whose degree of difficulty probably increases with the number of health plans and providers involved.

In its application to Connecticut regulators, Anthem noted that "the health care market is evolving quickly, and health care costs remain a

fundamental challenge to affordability. Together the combined company will have enhanced capabilities to collaborate with providers, in order to facilitate the transition toward a more value-based delivery system[...]."⁴⁷

Conclusion: Assessing the Next Wave

Within this context of a rapidly evolving delivery system, New York regulators will have many decisions to make regarding the two mergers, though the decision by federal regulators will ultimately be dispositive. Although the market concentration issues are perhaps less critical in New York than in other states because of the size of the companies involved and their respective lines of business here, there are many other issues to consider as well, starting with whether to hold a public hearing, as California and Connecticut insurance regulators plan to do,⁴⁸ to solicit public comment in some other fashion, or to make a decision based on the detailed filings the companies submitted. New York's statute does not require a public hearing; regulators can consider whether to reject the applications outright, approve them, or approve them with conditions attached.

For example, the 2006 affiliation between HIP and GHI, which created EmblemHealth, included provisos regarding future rate increases for certain populations, and payments to network providers, always a contentious issue after a merger.⁴⁹ Florida regulators recently announced their approval of the Aetna–Humana merger on condition of Aetna's expansion in that state's individual Exchange, and fair treatment of HIV-positive enrollees.⁵⁰ A coalition of labor and consumer groups challenging the mergers in many states submitted comments to DFS

suggesting other potential remedies for regulators to consider.⁵¹ Private parties may also be making decisions about whether to challenge these merger proposals in court; the City of New York, for example, unsuccessfully challenged the HIP–GHI affiliation on antitrust grounds. For state policymakers, these deliberations may represent an opportunity to refine the regulatory message being sent to providers and health plans, and to develop strategies to preserve competition’s benefits to consumers while meeting the larger goals of delivery system reform.

Acknowledgments

Support for the United Hospital Fund’s Health Insurance Project is provided by the New York Community Trust. Allan Baumgarten, co-author of the Fund’s *Big Picture* series of reports, provided data analysis and useful comments for this report.

Sources and Methodology

We reviewed financial and enrollment data from regulatory filings for companies licensed or admitted in New York State which were part of the merging entities. For Anthem, Inc., this included: Empire HealthChoice Assurance HMO, Inc.; Empire HealthChoice Assurance, Inc.; UniCare Life and Health Insurance Company; and Empire BlueCross BlueShield HealthPlus (formerly known as Amerigroup CarePlus). For Cigna, the companies included: Cigna Health and Life Insurance Company; Cigna Life Insurance Company of New York; Connecticut General Life Insurance Company; and HealthSpring Life and Health Insurance Company, Inc. For Aetna, Inc., the companies included Aetna Health, Inc.; Aetna Health Insurance Company of New York; Aetna Life Insurance Company; Aetna Health and Life Insurance Company; and Aetna Better Health MLTC. For Humana, these included Humana Insurance Company of New York; and Humana Health Company, Inc. Premium data was based on the NAIC Annual Statements, Statement of Revenue and Expenses (net premium income), or Medicaid Managed Care or Managed Care Long-Term Care Operating Reports, except for Article 42 life insurers. For these insurers, the NAIC Supplemental Health Care Exhibit (adjusted premiums earned) was a better source of data on health insurance business and more compatible with the NAIC Statement of Revenue and Expenses, than other sources. Enrollment data was based on New York Supplements to the NAIC Annual Statements, except for the life insurance companies, for which we also relied on the Supplemental Health Care Exhibits.

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