

# Humana 3Q profit jumps on government programs

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FILE - In this April 30, 2006 file photo, the Main Street entrance of health benefits provider Humana Inc., is seen at their headquarters in Louisville, Ky. Health insurer Humana Inc. rode its strong government business in posting a 65 percent jump in third-quarter profit Monday, Nov. 2, 2009, as bulging membership and premiums from Medicare Advantage overcame a lackluster commercial segment hampered by the weak economy. (AP Photo/Brian Bohannon, file)

(AP) -- Health insurer Humana Inc. rode its strong government business in posting a 65 percent jump in third-quarter profit Monday, as bulging membership and premiums from Medicare Advantage overcame a

lackluster commercial segment hampered by the weak economy.

Louisville-based Humana said its quarterly revenue rose 8 percent as enrollment in its Medicare Advantage offerings grew 11 percent from a year ago.

But the company saw enrollment in its plans sold to employers fall by 7.6 percent from a year ago, contributing to a pretax loss in its commercial segment.

Still, that pretax loss on the commercial side was "better than we modeled," Goldman Sachs analyst Matthew Borsch wrote in a note to investors.

Slumping enrollment in employer-sponsored [health coverage](#) plans has been a problem for several insurers as companies slash jobs and reduce the number of covered workers.

"Our results this quarter reflect continued solid performance in our government business, offsetting continuing challenges in our commercial segment," Humana President and [CEO](#) Michael B. McCallister said in a statement.

Humana also said its third-quarter consolidated benefit ratio improved from a year ago. The medical care ratio is the percentage of premiums paid to cover medical claims.

The company said it earned \$301.6 million, or \$1.78 per share, in the three months ended Sept. 30, up from profit of \$183 million, or \$1.09 per share, a year prior. Revenue jumped 8 percent to \$7.72 billion.

Analysts polled by Thomson Reuters expected profit of \$1.77 per share on \$7.82 billion in revenue.

Humana said it still expects full-year profit of about \$6.15 per share on revenue of about \$31 billion, while analysts forecast \$6.14 per share in profit on \$31.24 billion in [revenue](#).

The company's Medicare Advantage membership surpassed 1.5 million as of Sept. 30, up 11 percent from a year ago and 5 percent higher than enrollment at the end of 2008. Medicare Advantage plans are government-sponsored, privately run programs for seniors that offer comprehensive health coverage.

Medicare Advantage premiums of \$4.14 billion in the third quarter gained 18 percent from a year ago.

Overall, Humana posted pretax income of \$474.5 million in its vast government segment, up sharply from \$271.7 million in the year-ago quarter. The increase was driven mainly by lower claims expenses for its stand-alone Medicare prescription drug plans, the boost in Medicare Advantage membership and the start of member premiums for most of the company's Medicare Advantage plans.

Membership in Humana's stand-alone Medicare prescription drug plans totaled 1.96 million as of Sept. 30, down from nearly 3.1 million a year ago. Humana previously realigned its premiums and benefits for those prescription plans to correspond with past claims experience.

Last year, higher-than-expected expenses in its Medicare drug plans sapped earnings. Humana said Monday that the membership decline in the stand-alone drug plans was due mainly to low-income seniors joining rival plans with lower or no member premiums and some seniors choosing Medicare Advantage plans.

Humana said premiums in those Medicare drug plans totaled \$578.1 million in the quarter, down 26 percent from a year ago.

Meanwhile, Humana posted a pretax loss of \$5.2 million in its commercial segment, compared with pretax income of \$11.2 million a year ago.

Commercial segment medical membership slipped to 3.4 million as of Sept. 30, down 4 percent from a year ago.

Premiums and service fees for the commercial segment fell 1 percent to \$1.87 billion in the quarter.

For the first nine months of the year, Humana reported net income of \$789 million, or \$4.67 per share, up 67 percent from nearly \$473.1 million, or \$2.79 per share, in the year-ago period.

Looking ahead to 2010, Humana on Monday projected profit in the range of \$5.05 to \$5.25 per share, excluding any potential impact from a possible overhaul of the nation's health care system.

McCallister predicted "substantial net-new Medicare Advantage membership growth" next year, with an overall Medicare pretax operating margin of about 5 percent.

Borsch said Humana's strategy "is clearly to sacrifice Medicare profit margin for member retention and growth." He called it "probably the best trade-off, given that Medicare margins likely will not be sustainable."

Borsch added that Humana faces "a very, very tough outlook beyond 2010" if proposed Medicare Advantage cuts become law as part of the possible health care overhaul being considered by Congress.

In early trading, shares of Humana fell 57 cents to \$37.01.

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