

# Health care overhaul doubts ease for insurers

October 29 2014, by Tom Murphy

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In This Tuesday, July 17, 2012 file photo shows the corporate headquarters of Wellpoint in Indianapolis. Wellpoint reports quarterly financial results Wednesday, Oct. 29, 2014. (AP Photo/Michael Conroy, File)

What a difference a year makes. The nation's biggest health insurers entered last fall cautious about a major coverage expansion initiated by the health care overhaul, the federal law that aims to cover millions of uninsured people.

Investors and company executives were worried because they didn't know how expensive new customers from the overhaul would be for insurers. They also were concerned about added costs from the law and

funding cuts to government-sponsored Medicare Advantage plans, a key growth area.

But a year later, these challenges are starting to appear manageable, and investors see much less uncertainty ahead for the sector. Insurers have cut costs and raised prices to help mitigate added expenses from the law. They've also added new business.

As a result, Aetna Inc., UnitedHealth Group Inc. and the Blue Cross-Blue Shield insurer WellPoint Inc. all posted third quarter results that trumped Wall Street estimates and raised their forecasts for 2014. Shares of those companies—the nation's three largest health insurers—have all repeatedly hit all-time highs this year, their growth easily outpacing broader trading indexes.

"People are starting to understand that the 2015 landscape is a little less harrowing than 2014," said Jennifer Lynch, an analyst who covers the industry for BMO Capital Markets.

The optimism represents a stark contrast to a year ago. Late last year, the overhaul's state-based public health insurance exchanges debuted with the promise to give insurers new customers by making it easier for people to buy coverage, sometimes with help from income-based tax credits.

That new business represents a small slice of total enrollment for most insurers, but it generated an outsized dose of anxiety. Many of those new customers had gone years with no insurance coverage or regular [health care](#), and a glitch-plagued debut of the exchanges created more ambiguity over how expensive the customer base would be.

Plus, the overhaul also heaps additional costs onto the balance sheets of insurers, including an industry-wide tax that is non-deductible. And the

law changed how they provide coverage by preventing them from excluding customers with expensive medical conditions.

But the companies seem to be positioned to weather the challenges.

WellPoint said Wednesday that it has added 751,000 customers from the overhaul's public exchanges, and they have turned out to be less expensive than initially anticipated. The insurer also has added about 700,000 Medicaid customers so far this year, in part by growing its own business and also by benefiting from the overhaul's expansion of the state-federal program for the poor and the elderly.

Aetna said Tuesday its new exchange business appears to be marginally profitable so far, and UnitedHealth announced in July that it plans to participate in as many as 24 of the law's individual health insurance exchanges in 2015, up from only four this year.

To be sure, insurers haven't erased all concerns about the overhaul. They are still learning about their public exchange customers.

Insurers also are being helped now by extra funding from the overhaul that aims to give them some financial cushion if their new customers from the law's expansions wind up being more expensive than anticipated. Some of that funding will go away over the next couple years.

Even so, UnitedHealth CEO Stephen Hemsley felt comfortable enough about his company's prospects to say earlier this month that he thinks all of UnitedHealth's businesses are better positioned than they were entering 2014. He added that he expects growth across the board next year, a relatively bold statement coming from the nation's largest [health insurer](#).

WellPoint CEO Joseph Swedish also said Wednesday that his company expects 2015 earnings per share to surpass its forecast for this year, and the company may consider raising the quarterly dividend it pays shareholders.

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