Medical Xpress

Aetna to buy Humana as health insurer landscape shifts

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In this Tuesday, Aug. 19, 2014, file photo, a sign for Aetna Inc., sits atop a building at the company headquarters in in Hartford, Conn. Health insurer Aetna Inc. has made a deal to buy competitor Humana Inc. in a $37 billion deal the companies say would create the second-largest managed care company, it was announced Friday, July 3, 2014. (AP Photo/Jessica Hill, File)

Aetna aims to spend about $35 billion to buy rival Humana and become the latest health insurer bulking up on government business as the industry adjusts to the federal health care overhaul.

The proposed cash-and-stock deal, announced early Friday, would make Aetna a sizeable player in the rapidly growing Medicare Advantage business, which offers privately run versions of the federally funded health care program for the elderly and some people with disabilities.

The combination also would bolster Aetna's presence in the state- and federally funded Medicaid program and Tricare coverage for military personnel and their families.

Health insurers are eager to do more business with government payers due in part to a Medicaid expansion fostered by the health care overhaul and Medicare Advantage's surging enrollment. The overhaul is expanding Medicaid coverage in several states as it seeks to provide health coverage for millions of uninsured people.

Meanwhile, total enrollment in Medicare Advantage plans has tripled over the past decade to about 16.8 million people and is expected to keep growing as more baby boomers become eligible for the plans. Aetna's acquisition of Humana would make it the largest provider of Medicare Advantage coverage, with 4.4 million members, a figure that could change depending on regulatory review.

"Government markets are the most rapidly growing aspect of the system," said Dan Mendelson, CEO of the market research firm Avalere Health.

Hartford, Conn.-based Aetna announced its deal a day after the Medicaid coverage provider Centene Corp. said it would spend $6.3 billion to buy fellow insurer Health Net. That deal would help Centene expand in the nation's biggest Medicaid market, California, and give it a Medicare presence in several western states.

In addition to these deals, the Blue Cross-Blue Shield carrier Anthem went public late last month with an offer of more than $47 billion for another insurer, Cigna.

This Aug. 8, 2011 file photo shows the entrance to the Humana building in Louisville, Ky. Health insurer Aetna Inc. has made a deal to buy competitor Humana Inc. in a $37 billion deal the companies say would create the second-largest managed care company, it was announced Friday, July 3, 2014. (AP Photo/Ed Reinke, File)

Health insurers see more advantages to these big combinations than a chance to build their government portfolios.

Major acquisitions can offer an infusion of new business at time when growth has slowed in the biggest part of their business, employer-sponsored health coverage. Plus more employers are opting to pay their own insurance claims and hire insurers to administer the coverage. That's a less lucrative line of work for managed care companies.

Big deals also allow companies to quickly diversify their products and cover more territory. They also can yield savings when the companies combine back-office functions and cut overlapping jobs.

Both Aetna and Anthem also have cited the potential to improve their technology as a major reason behind their deals. Insurers are working to develop more apps and other tools that customers can use to shop for health care, since plans are exposing those customers to bigger medical bills through high deductibles and other insurance expenses.

They also are using technology more to help monitor and improve patient care. The overhaul is accelerating a push in the industry to reimburse doctors and hospitals more based on the quality of care they provide instead of just shelling out a certain amount for each procedure performed.

"Any time an industry is changing ... it requires investments to sort of successfully make that change," said Shawn Guertin, Aetna's chief financial officer.

The impact these big acquisitions have on consumers can be murky and likely won't be felt for at least a year, because insurers have already finalized most of their plans for coverage that starts in January. A combination may lead to fewer choices and some price changes for consumers, depending on where they live and who already is in their market.

Aetna's purchase price for Humana includes a combination of $125 in cash and $105.11 in Aetna shares for each Humana share. The total of about $230 per share, which is based on the closing price of Aetna's stock Thursday, represents a premium of 29 percent to Humana's trading price in late May, before The Wall Street Journal reported that it was an acquisition target.

The deal's total value amounts to about $37 billion counting debt.

The combined company would be based in Hartford, Conn., led by Aetna Chairman and CEO Mark Bertolini and cover more than 33 million people. Only UnitedHealth Group Inc. and the Blue Cross-Blue Shield carrier Anthem Inc. cover more. A combined Aetna-Humana would be the second-largest insurer by revenue.

The deal is expected to close in the second half of next year.

Shares of Aetna and Humana closed at $125.51 and $187.50, respectively on Thursday. Markets were closed Friday for the July 4th holiday.

The shares of both companies, like several other insurers, have soared to all-time-high prices this year.