

## Healthcare Services - Managed Care

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### CMS Releases MA Star Ratings: HUM Sees a Decline and United a Boost to Expected 2016 and 2017 Payments

- **CMS released 2016 star ratings which impact 2017 revenue: five insurers improved bonus eligibility while Humana saw a decline.** United has made significant progress bringing their bonus eligible book from 22% in rating year 2014 (2015 revenue) to 64% in the release today.
- **Insurers have the ability to improve bonus payments by shifting members to higher rated plans, we estimate United's membership shift will add up to \$449M in 2016 bonus payments previously not expected bringing the 16 vs 15 increase to \$793M and another \$132M in 2017.** Through shifting members to higher rated plans United moved from 36% bonus eligible to 56% in star rating year 2015 which impacts 2016 revenue.
- **However we believe it is unlikely Humana will be able to offset their 2017 bonus headwind by shifting members as they do not have another bonus eligible regional PPO, we see the drop from 90% to 78% bonus eligible as creating up to a \$244M headwind.** Humana saw 3 plan IDs decline 0.5 stars to 3.5, just missing the cut off for bonus eligibility. Specifically a Regional PPO (R5826) in 21 states with 502K members, a Georgia HMO (H4141) with 37.5K members, and a 13 state PFFS plan (H2944) with 18.8K members.

Figure 1: Estimated Change in Star Bonus Payments in 2017 vs. 2016

	AET	CI	HUM	UNH*	UAM	ANTM
Y/Y Change in Bonus (\$M)	48	47	(244)	132	7	46
% 2017 MA Premiums	0.3%	0.5%	(0.5%)	0.2%	0.4%	0.4%

Source: CMS data, Wedbush estimates. \*UNH reflects adjusted 2016 star rating

- **Cigna and Universal American saw the largest improvements in star ratings, we are incrementally more positive on UAM.** We view the improvement in UAM as notable, the company now has the best star rating bonus mix, one of the heaviest ACO overlaps which aids in cost control, and we believe is poised for fixed cost leverage and margin expansion in 2016 as they begin to grow enrollment as well as potentially a special dividend in 2H15.

Figure 2: Percent of Membership by Star Rating

	2016								Adj. $\geq 4$	2017								Y/Y
	Not Rated	2.5	3	3.5	4	4.5	5	$\geq 4$		Not Rated	2.5	3	3.5	4	4.5	5	$\geq 4$	
Kaiser	0%	0%	0%	0%	0%	2%	98%	100%	Kaiser	0%	0%	0%	0%	0%	2%	98%	100%	(0%)
UAM	0%	0%	4%	10%	86%	0%	0%	86%	UAM	0%	0%	4%	0%	96%	0%	0%	96%	11%
AET	3%	0%	0%	14%	59%	21%	0%	80%	AET	2%	0%	2%	12%	23%	61%	0%	84%	4%
HNT	8%	0%	0%	12%	72%	0%	0%	72%	HNT	8%	0%	0%	13%	70%	8%	0%	78%	6%
HUM	1%	0%	2%	6%	46%	40%	3%	90%	HUM	1%	0%	0%	21%	65%	13%	0%	78%	(12%)
BCBS	12%	0%	2%	19%	31%	25%	0%	56%	BCBS	14%	0%	1%	12%	43%	31%	0%	73%	18%
CI	9%	0%	6%	26%	33%	17%	0%	50%	CI	8%	0%	12%	12%	30%	28%	9%	67%	18%
UNH	1%	4%	20%	37%	34%	3%	0%	36%	UNH	1%	0%	12%	26%	23%	39%	0%	64%	8%
ANTM	7%	0%	26%	49%	1%	8%	0%	9%	ANTM	8%	0%	25%	45%	20%	1%	0%	21%	12%
WCG	0%	5%	55%	40%	0%	0%	0%	0%	WCG	0%	26%	34%	40%	0%	0%	0%	0%	0%
MOH	38%	0%	16%	7%	0%	0%	0%	0%	MOH	60%	0%	6%	34%	0%	0%	0%	0%	0%
CNC	47%	4%	0%	3%	0%	0%	0%	0%	CNC	87%	0%	5%	7%	0%	0%	0%	0%	0%

Source: CMS data

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Investments in STAR bonuses have been a multi-year drag on SG&A that have begun to taper off at the same time plans are beginning to see improved ratings. The evaluation period looks back making 2016 the first year plans knew they were being graded. We believe companies with increased bonus payments will use the incremental revenue to offset rate pressures and increase the product attractiveness to gain share.

**Figure 3: Enrollment by Star Rating and Resulting Bonus Payment**

Star Rating	2016					Total Bonus Payments (\$M)	Star Rating	2017					Total Bonus Payments (\$M)	Change in Bonus Payments (\$M)
	3	3.5	4	4.5	5			3	3.5	4	4.5	5		
<b>Bonus</b>			5%	5%	5%		<b>Bonus</b>			5%	5%	5%		
AET	2,408	183,586	776,491	270,979		602	AET	30,299	162,687	305,982	825,541		650	48.3
CI	35,406	141,282	179,143	94,795		205	CI	61,023	61,650	151,215	141,646	43,834	252	46.9
CNC		1,489					CNC	1,883	2,511					
HNT	1,243	38,528	231,101			126	HNT		39,771	206,427	24,674		126	
HUM	64,848	207,580	1,509,490	1,307,556	111,537	1,778	HUM	4,763	693,203	2,100,432	425,665		1,533	(244.3)
MOH	25,689	10,875					MOH	5,913	32,591					
UAM	3,828	11,229	91,673			55	UAM	3,828		102,902			62	6.8
UNH	720,408	1,317,196	1,181,913	101,512		836	UNH	391,050	878,037	779,301	1,317,120	4,527	1,369	532.6
WCG	194,894	140,289					WCG	120,923	140,289					
ANTM	169,596	320,565	8,335	52,512		40	ANTM	158,953	282,726	127,274	4,212		86	46.2

Source: CMS data, Wedbush estimates. Note: UNH 2016 is unadjusted in this chart as adjustments are not yet available at this level of detail

**Figure 4: Enrollment Weighted Star Ratings**

	2013	2014	2015	2016	2017
AET	3.4	3.6	4.1	4.0	4.2
BCBS			3.8	4.0	4.1
CI	3.4	3.4	3.8	3.9	4.0
CNC			2.7	2.9	3.3
HNT	3.6	3.7	3.9	3.9	4.0
HUM	3.2	3.8	4.0	4.2	4.0
Kaiser			5.0	5.0	5.0
MOH			3.3	3.1	3.4
UAM	2.8	3.1	3.7	3.9	4.0
UNH	3.3	3.3	3.5	3.6	4.0
WCG	3	2.8	3.1	3.2	3.1
ANTM	3.3	3.3	3.2	3.4	3.5
<b>Avg</b>	<b>3.3</b>	<b>3.4</b>	<b>3.7</b>	<b>3.8</b>	<b>3.9</b>

Source: CMS data; weighted average based on only the plans eligible for ratings. Note: UNH 2016 is unadjusted in this chart as adjustments are not yet available at this level of detail

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Cigna Corp.	CI	\$136.63	N	\$186
Health Net Inc.	HNT	\$60.60	N	\$72
Humana	HUM	\$180.92	N	\$230
Molina Healthcare Inc.	MOH	\$64.00	OP	\$98
Unitedhealth Group Inc.	UNH	\$116.43	OP	\$143
Universal American Corp.	UAM	\$7.17	N	\$12
WellCare Health Plans Inc.	WCG	\$84.00	N	\$98
Anthem Inc.	ANTM	\$139.41	N	\$186

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