

BN WellPoint, Humana 4th-Qtr Profit Falls as Costs Rise (Update1)
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(Adds Humana's membership in 17th paragraph.)

By Kristin Reed

Feb. 7 (Bloomberg) -- WellPoint Inc., which became the largest U.S. health insurer through an acquisition, and rival Humana Inc. posted declines in fourth-quarter earnings and said medical costs as a percentage of premiums rose.

Net income at Indianapolis-based WellPoint fell 12 percent to \$184.5 million, partly on expenses from Anthem Inc.'s \$20 billion purchase of WellPoint Health Networks Inc. in November. Humana's profit slid 29 percent to \$47.1 million because of the timing of payments from a new U.S. military contract.

WellPoint used 81.5 percent of its premium revenue to pay for members' medical care in the quarter and Humana used 83.9 percent. Insurers who benefited last year as unemployment and higher deductibles and copays discouraged workers from seeking unnecessary medical care may need new strategies for controlling costs this year, investors said.

``After several quarters of successful medical-cost control, a further reduction in medical-cost growth is going to be difficult to achieve for many of the HMOs,'' said Michael Obuchowski, who helps manage \$35 million for Altanes Investments LLC in New York, including shares of WellPoint and UnitedHealth Group Inc. ``The leaders in the field are going to separate further from the rest of the pack, with other companies having to heavily invest in technology and new health-care products to continue membership growth.''

Shares of WellPoint fell \$3.39, or 2.7 percent, to \$121.50 at 2:16 p.m. in New York Stock Exchange composite trading. They gained 53 percent last year. Humana, based in Louisville, Kentucky, dropped 25 cents to \$34.40. They climbed 30 percent last year.

Controlling Costs

WellPoint Chief Executive Officer Larry Glasscock plans to eliminate duplicate operations at WellPoint and crack down on procedures such as the expensive imaging scans that are used to screen for disease even when cheaper methods are available.

Humana is turning to computer technology to pare administrative spending, including health plans that cap rates if employers use certain online options.

``Companies are continuing to shift costs onto their workers - an unsustainable fix,'' Humana Chief Executive Officer Michael McCallister told analysts and investors on a conference call today. ``We believe our approach to controlling costs will gain

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traction'' in 2005, he said.

The S&P Managed Health Index surged 53 percent last year as health insurers benefited from a slowdown in medical-cost inflation. Premiums for 2004 rose about 11 percent, more than the 8 percent increase in medical costs for the year, the Henry J. Kaiser Family Foundation said in September.

WellPoint

WellPoint's net income dropped to 92 cents a share from \$208.8 million, or \$1.47, a year earlier. Revenue rose 59 percent to \$6.83 billion, driven by the acquisition.

The company ended the year with more than 27.7 million members, an increase of about 15.8 million from a year earlier, mainly because of the purchase. On a comparable basis, WellPoint added 1.7 million members, a 6.4 percent gain.

Excluding debt-buyback costs of 47 cents a share and 31 cents-a-share in expenses associated with concessions Anthem and WellPoint had to make to win approval for their combination, profit was \$1.70 a share, WellPoint said. The average estimate of 17 analysts surveyed by Thomson Financial was \$1.68.

Glasscock forecast a 4 percent increase in medical enrollment to 28.7 million and a rise in profit to \$7.75 a share this year, which fell short of the \$7.79 average estimate of analysts surveyed by Thomson. In 2004, WellPoint earned \$6.10 a share.

Humana

Humana, the biggest manager of health plans for the U.S. military, said fourth-quarter net income declined to 29 cents a share, from \$66.3 million, or 41 cents, a year earlier.

Revenue rose 1.8 percent to \$3.21 billion, and Humana's membership climbed 4 percent to 7.03 million.

Tricare contracts for military health benefits account for a third of Humana's membership, and the company's transition to a new contract with a different payment structure skewed the quarter's results. The new contract, for one of three regions offered by the government, will result in more predictable earnings, Humana said.

Humana was expected to have fourth-quarter earnings of 27 cents a share, the average estimate of 13 analysts surveyed by Thomson Financial.

The company boosted its earnings forecast for this year to \$2.05 a share from \$1.95 because of an anticipated tax benefit. Humana earned \$1.72 in 2004.

``You are going to see market share gains by the large

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national players in reaction to employers' demands to better control employee health-care spending," said Patrick Hojlo, an analyst at New York-based Credit Suisse First Boston, said in a telephone interview today. "Health savings accounts, high deductibles, and disease management programs are all offerings that many small players have a hard time providing." Hojlo has an "outperform" rating on WellPoint and doesn't rate Humana.

--With reporting by Keith Snider in Washington. Editor: Schauder

Story illustration: For an automated tour of Bloomberg functions on WellPoint, see {WLP US <Equity> CNP00094090108 <GO>}. For a tour of Bloomberg functions on Humana, See {HUM US <Equity> CNP00094090108 <GO>}.

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