

The Likely Effects on Competition Resulting from Aetna, Inc.'s Acquisition of Humana, Inc.

Aetna, Inc., an American managed health care insurance company prominent in the Commonwealth, proposes the acquisition of Humana, Inc., another American health care insurance company in Virginia. The State Corporation Commission's Bureau of Insurance (BOI) division investigated whether this merger would lessen competition among insurance companies and be detrimental to policyholders or the general public (§38.2-1323 of the Virginia Code).

In order to conduct the study, the BOI divided health insurance into seven categories: Individual Comprehensive Medical, Small Group Comprehensive Medical, Large Group Comprehensive Medical, Dental Only, Medicare, Medicare Supplement, and Medicaid. Taking into account the different geographical markets in the Commonwealth, the BOI also separated data into 28 regions of 3-digit zip code areas.

The BOI also followed the rules set forth in the National Association of Insurance Commissioners (NAIC) and the Herfindahl Hirschman Indices (HHI) to analyze market structure and competition. The NAIC is a national organization that protects the interests of insurance consumers by promoting insurance competition, improving insurance regulations, and ensuring fair treatment of consumers. The HHI measures market concentration, with higher concentrations (and subsequently lower competition) being closer to a monopoly. Additionally, the BOI utilized the Model Act (standards for mergers depending on the high concentration or low concentration of a market).

Despite Aetna filing a Form E (a document that states proposed intention of an acquisition) and claiming their merger would not impact competition, the BOI required further data to support Aetna's claim.

Criteria for which insurance companies to examine the overall market structure (the number of companies selling the same product – in this case, health insurance) of insurance for the Commonwealth fell into two categories: examine the top 95% of all Accident and Health written premiums (what the policyholder must pay monthly in order to receive a health insurance plan) and then slim down the examined insurance companies to the top 25 within the 95% according to NAIC criteria.

Since several of the top 25 insurance companies were owned by the same larger parent company and therefore do not compete against each other, the BOI grouped these affiliated companies together.

The Individual Comprehensive Medical (complete health insurance for an individual; doesn't include Medicare, Medicaid, or Dental Only) category found Humana's market share to be too small to raise significant competitive concerns.

The Small Group Comprehensive Medical (health insurance issued to a business with less than 50 employees) division found that Humana did not participate in this category, so there would be no impact on competition or market shares for this group.

The Large Group Comprehensive Medical (health insurance issued to a business with more than 50 employees) category found that Humana did not participate in this category, so no further examination was required.

The Dental Only category includes policies that only cover dental-related risks. The BOI found Aetna's market share for Dental Only to be too small to have an adverse effect on competition.

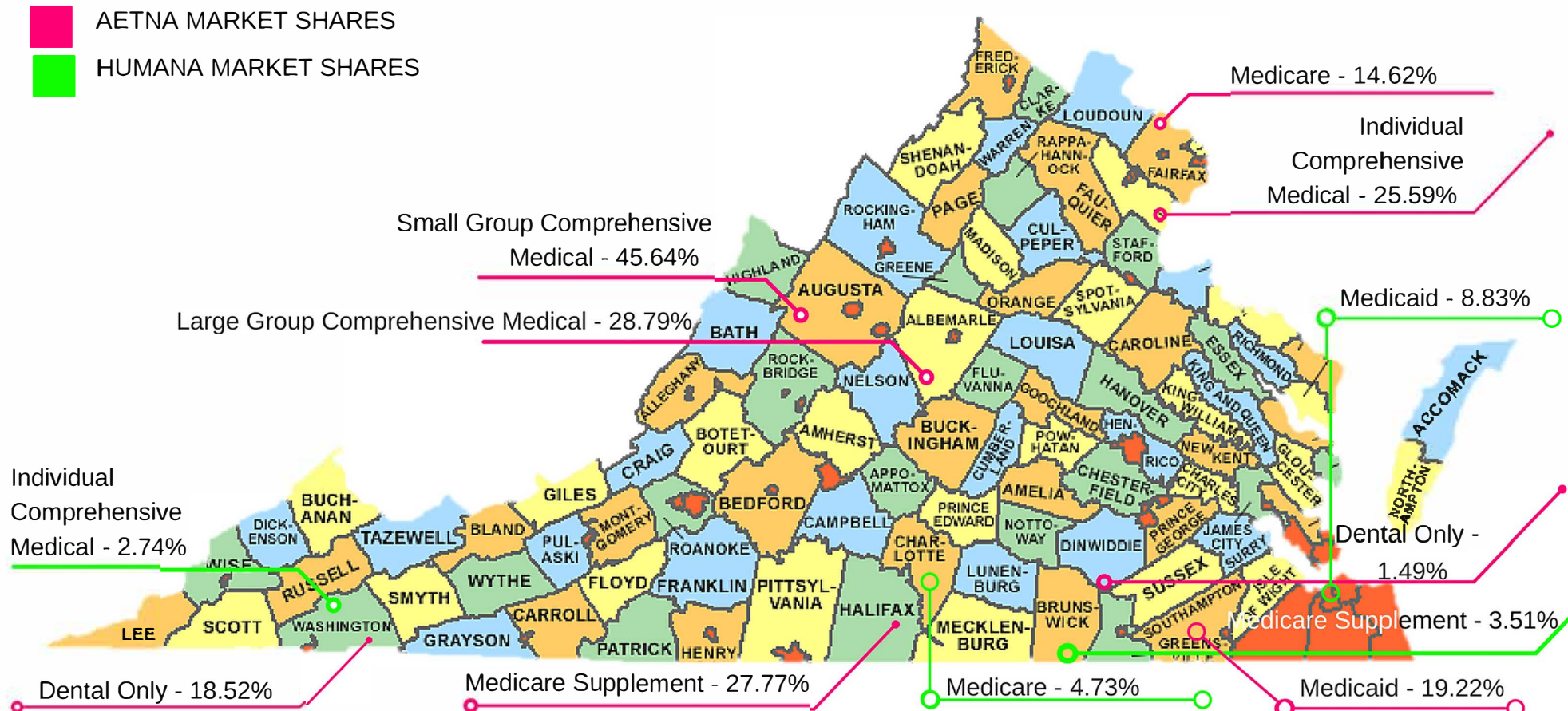
The Medicare division (a federally-funded insurance program for people ages 65 and up) is more complicated. Price ceilings and minimum benefit standards established by the government regulate Part A, B, and D of Medicare. However, Part C (also known as Medicare Advantage) is administered by commercial insurers. Aetna and Humana make up two of the three largest providers of health insurance for this category. Competition was found to be affected for Medicare. The BOI then examined if this decrease in competition would affect the policyholders or the general public. Only 20% of Medicare recipients subscribe to Medicare Advantage, so there would be no ill effects for policyholders or the general public.

Medicare Supplement, also known as Medigap (extra health insurance an individual can buy for areas not covered by traditional Medicare) is only available to Medicare participants insured by Parts A and B. This classification of business was found to be highly concentrated, and 11 of the 28 zip codes were found to fail the Model Act. This caused concern that this proposed merger would lessen the level of competition for Medicare Supplement in Virginia. However, the BOI doubted the policyholders or general public would be affected due to the fact that neither Aetna nor Humana is a market leader in any particular area in Virginia.

The final category, Medicaid (a federally funded health insurance program for low income individuals) proved complicated. The Virginia Department of Medical Assistance (DMAS) administers and operates Medicaid in Virginia. DMAS initiated 2 programs: the Medallion Program and the Commonwealth Coordinated Care program. The Medallion Program contracts with commercial insurers to operate Medicaid as a managed care program. Aetna is one of the companies under contract with the Medallion Program. The Commonwealth Coordinated Care Program contracts with commercial insurers to coordinate benefits and acts as serving carriers for people participating in both Medicare and Medicaid. Humana is under contract with the Commonwealth Coordinated Care Program. Since Humana and Aetna are not under contract with the same program, they are not competing with each other for Medicaid insurance in Virginia. DMAS controls this market, so neither competition, nor policyholders and general public will be negatively affected.

Although Aetna's proposed acquisition of Humana was found to decrease competition in Medicare, Medicare Supplement, and Medicaid categories, the BOI does not believe this to be detrimental to policyholders or the general public. The Individual Comprehensive Medical, Small Group Comprehensive Medical, Large Group Comprehensive Medical, and Dental Only categories were found to not lessen market competition for health insurance. The BOI gives the green light for Aetna to merge with Humana.

Highest Market Shares for Aetna and Humana in Virginia



Source: An Economic Analysis of the Market Structure and Likely Effect on Competition in the Commonwealth of Virginia as a Result of the Acquisition of Humana, Inc. by Aetna, Inc.