

Analyst: 2012 price hikes may affect insurers

The Associated Press

The cost of health insurance could grow at a slower pace next year, and that may squeeze profit margins for smaller insurers that focus on commercial coverage, according to a Wedbush analyst.

Analyst Sarah James said in a Monday morning research note that surveys of employers and insurers point toward slower price increases compared to 2011, when some elements of the health care overhaul, which aims to eventually provide coverage for millions of uninsured people, caused a one-time bump in rates.

James also noted that health care use has grown at a slower pace this year, and that will affect pricing negotiations for next year's commercial business, which includes individual health insurance and employer-sponsored group coverage. The analyst estimates that the cost of insurance will rise in the 7-percent range next year, compared to increases of about 8 percent this year.

James drilled down on how pricing trends will impact different managed care companies:

—Coventry Health Care Inc.'s profit margins may be squeezed more because of its exposure to the commercial market and to states putting in place new rate regulations.

—Margins will be steadier for insurers with a relatively large Medicare business, such as Humana Inc.

—Big insurers with higher market share, such as UnitedHealth Group Inc., will also more easily be able to renegotiate contracts with care providers to accommodate for the slower price increases and help preserve margins.

Shares of health insurers rose in Monday morning trading as the Dow Jones industrial average jumped more than 2 percent.

Coventry rose 89 cents, or 3.2 percent, or to \$28.97; Humana rose \$1.75, or 2.5 percent, to \$71.86; UnitedHealth was up \$1.08, or 2.4 percent, to \$45.97; while WellPoint Inc., another big insurer, climbed \$1.57, or 2.4 percent, to \$67.36.

UnitedHealth kicks off third-quarter earnings reports for big health insurers on Oct. 18.

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