Humana's 4th-qtr profit rises, lifts forecast

BRUCE SCHREINER - Associated Press - Associated Press

Humana Inc. said Monday its fourth-quarter profit surged 86 percent on the strength of higher-than-expected Medicare Advantage enrollment and continued low use of its health care services.

The health insurer also raised its earnings expectations for 2012 to a range of $7.50 to $7.70 per share, up from its prior forecast of between $7.40 and $7.60 per share. That's still below the forecast of analysts polled by FactSet, of $8.03 per share. The Louisville-based company typically starts with conservative earnings forecasts.

Shares fell $2.62, or 2.9 percent, to $87.50 in premarket trading Monday.

Humana has benefited from rising membership in its crucial Medicare businesses. The insurer expects more growth opportunities from Medicare in 2012, said Humana's CEO Michael McCallister in a statement.

Humana ranks as one of the largest providers of Medicare Advantage plans, privately run programs offering comprehensive health coverage for seniors. Subsidized by the government, the plans offer basic Medicare coverage topped with extras like vision or dental coverage. Medicare Advantage businesses are growing at a faster rate than commercial insurance as baby boomers become eligible for them, and Medicare accounts for well over half of Humana's revenue.

Individual Medicare Advantage membership stood at 1.64 million at the end of 2011, up 12 percent from a year ago. By January of this year, enrollment had risen to about 1.81 million, more than the company expected.

For the three months ended Dec. 31, Humana earned $199 million, or $1.20 per share, matching analyst expectations and up from $107 million, or 63 cents per share, in the fourth quarter of 2010.

Revenue rose 9 percent to nearly $9.1 billion, short of analysts' estimate of $9.26 billion.

For the full year, Humana's net income rose 29 percent from 2010, while revenue increased 10 percent.

Membership in Humana's individual stand-alone Medicare prescription drug plans stood at 2.54 million at year's end, up 52 percent from a year ago, and surpassed 2.8 million in January. The company has benefited from teaming with retail giant Wal-Mart Stores Inc. to offer a Medicare prescription drug plan.

The Medicare enrollment gains, and lower use of health care, increased pretax income in Humana's retail division 30 percent to $326 million in the fourth quarter.

The retail segment consists of insurance purchased by individuals.

The company's growth was driven mostly by medical cost trends, said Goldman Sachs analyst Matthew Borsch in a research note. The slowdown in the use of health care services by consumers is a carry-over from the economic downturn. Analysts say consumers tend to cut back their use of health care after a recession by delaying elective procedures or skipping doctor visits.

Borsch also said that an upswing in Humana's operating spending should benefit earnings this year. Humana spent more on marketing for the fall Medicare Advantage enrollment period, which paid off with higher membership sign ups.

Meanwhile, Humana reported a $51 million pretax loss in its employer group segment for the quarter, compared with pretax income of $29 million a year ago. The decline was due mainly to higher operation costs and health care use.

Group Medicare Advantage membership reached 318,200 at year's end, up 6 percent from a year ago.

The company said its group commercial membership declined 6 percent to 1.2 million at the end of 2011. Membership rose in its small business division. The struggling economy has hurt employer-sponsored insurance enrollment.

The company's health and well-being services segment's pretax income rose 93 percent to $85 million, reflecting Humana's expansion into the health care delivery business. In late 2010, Humana acquired Concentra Inc., which provides occupational medicine, urgent care, physical therapy and wellness services at several hundred medical centers.

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