

Anthem to buy Cigna for \$54 billion, creating nation's largest insurer

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Industry giant Anthem Inc. reached a \$54-billion deal to buy rival Cigna Corp., creating the country's biggest health insurer and triggering concerns about the immense power it could wield with employers and medical providers.

The merger announced Friday capped weeks of frenzied deal-making that could result in Anthem, along with just two other major companies, dominating the U.S. health insurance business.

Anthem's move and a recent deal by Aetna Inc. are sure to face intense scrutiny from government regulators worried that this consolidation could drive up premiums for businesses and consumers.

“These mergers must be seriously scrutinized to ensure that consumers and healthcare providers are protected from mega-insurer market power abuse,” said Sen. Richard Blumenthal (D-Conn.).

The melding of Anthem and Cigna would create a company with \$115 billion in annual revenue and 53 million members — nearly 1 in 5 Americans.

That would make it the largest U.S. health insurer in terms of membership, ahead of industry leader UnitedHealth Group Inc., which has 46 million members.

Aetna announced this month it's buying rival Humana Inc. for \$37 billion, and together they would have about 33 million members.

The Affordable Care Act has spurred much of the merger activity.

Health insurers want to bulk up to better take advantage of rising revenues from the health law and growing enrollment of Medicare and Medicaid patients.

The companies see consolidation as a way to lower costs and cope with limits on their profits under Obamacare.

Anthem Chief Executive Joseph Swedish touted the Cigna acquisition as a way to eliminate unnecessary costs and offer more affordable benefits. Anthem has projected at least \$2 billion in potential savings from cutting duplication in sales and administration, among other areas.

Anthem may also use its increased clout to exact lower prices from hospitals, doctors and drug

makers. Those healthcare players have been undergoing a similar consolidation wave on their side of the ledger.

Anthem said it's confident it can overcome its critics and win the necessary regulatory approvals to close the purchase in the second half of 2016.

“We believe we have got the right commitment to deliver an affordable healthcare coverage model,” Swedish said in a conference call Friday with analysts.

“We will create a company that will transform healthcare and benefits for consumers.”

But health-policy experts warn that there's no guarantee that savings will get passed along to consumers.

The biggest concentration of market power among Anthem and Cigna is with employers, which remain the primary source of coverage for most Americans despite changes under Obamacare. The combined companies would hold more than 50% of the commercial insurance market in some areas of the country, analysts say.

In a recent survey, 46% of employers saw a downside from consolidation, saying it would result in fewer health plan options for them and their employees, according to the Aon Hewitt consulting firm.

“Anthem already dominates the employer-based insurance markets in 10 of the 14 states where it owns Blue Cross Blue Shield plans, and the addition of Cigna leaves employers in those states with even less choice than they have now,” said Paula Wade, an analyst at Decision Resources Group in Burlington, Mass.

Paul Ginsburg, a professor at USC's Schaeffer Center for Health Policy and Economics, said that heavy concentration in serving employers could be troubling to antitrust officials in Washington.

“That's where the Justice Department will look and there is not an obvious solution” to mollify regulators, he said.

Consumer advocates and physician groups argued that Anthem deserved tougher scrutiny because of its record of hefty rate hikes, shoddy service and inaccurate provider lists.

“Anthem should not be allowed to get bigger without getting better,” said Tam Ma, policy counsel with Health Access, a consumer advocacy group.

Swedish has acknowledged the company's poor reputation and has vowed to make Anthem more attentive to customer needs.

But some healthcare buyers suggest the outrage against Anthem and other giant insurers might be misdirected when it comes to spiraling medical costs.

Peter Lee, executive director of the Covered California exchange, negotiates with Anthem and other health plans on behalf of 1.4 million consumers annually. He said he's far more concerned about consolidation among hospitals and physician groups and six-figure prices for specialty drugs.

“These mergers under discussion will have very little impact on the California market because of the range of plans here,” Lee said.

HMO giant Kaiser Permanente leads the California health insurance market with more than 7.3 million members.

Anthem is second in the state with about 6.1 million members, according to state data for 2013, the latest available.

Cigna had about 2.1 million California customers, many of them in employer self-insured plans that the company runs. Together, the two companies would surpass Kaiser.

Anthem, which sells Blue Cross policies in California and 13 other states, had been in pursuit of Cigna for nearly a year.

It ended up paying \$188 a share, up from the company's offer of \$184 that Cigna rejected last month.

The cash-and-stock deal represents a 38% premium to Cigna's closing price on May 28, when deal rumors sent many health insurance stocks soaring. The transaction's total value of \$54.2 billion includes debt.

Swedish will serve as chairman and chief executive of the combined company. Cigna Chief Executive David Cordani will be his No. 2 as president and chief operating officer.

Shares of both insurers slipped after the deal was announced. Cigna shares fell \$8.64, or 6%, to \$145.72 in Friday trading. Anthem's stock slumped 3% to \$150.86.

Some analysts attributed the sell-off, in part, to investor concerns about the antitrust scrutiny ahead.

“The Justice Department has been tough on some industries,” said Carl Tobias, a law professor at the University of Richmond, “but it's difficult to tell if these health insurance issues will be deal breakers.”

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UPDATED

5:37 p.m.: Updates with additional details and background

8:06 a.m.: This article has been updated with comment from Sen. Richard Blumenthal.

7:30 a.m.: Stock prices were updated in this article.

6:50 a.m.: This article has been updated with information about potential opposition from other plans.

6:39 a.m.: This article has been updated with stock prices of Anthem and Cigna.

6:33 a.m.: Further details were added from the companies' conference call.

3:54 a.m.: This story was updated with additional details on the deal and reaction.