

## Healthcare Services - Managed Care

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### Detailed Look At FL Medicaid Payment Catch Up; Larger Than Expected Benefit for WCG, HUM, ANTM

- Letters from the state to plans indicates the amount and timing of payments, Humana and Anthem to receive the highest dollar amounts but largest EPS impact will be WellCare in our opinion. Based on state data we believe Humana could receive up to \$75M (\$0.26 EPS), Anthem \$68M (\$0.14 EPS), and WellCare \$60M (\$0.58 EPS). In figure 1 we break down the amount owed to the 8 public insurers by year, only the most recent year is covered by the current budget making prior years potentially uncollectable. Plans were initially informed of the impending retroactive payments at a 4/27 meeting, after UNH, CNC, and ANTM had reported. The official 6/7 letters to plans indicated <1% of the Medicaid population was miss-categorized and paid out at TANF rates when the Meds-Ads over 55 should have been paid at the SSI rate.

Figure 1: Florida Retroactive Premiums Owed to Insurers by Fiscal Year

	WCG	HUM	MOH	ANTM	CNC	UNH	AET	MGLN
FY 13/14: 5/14-6/14	2,198	207		757	1,062	916		
FY 14/15: 7/14-6/15	28,551	35,774	8,651	33,380	20,991	20,159	3,672	6,295
FY 15/16: 7/15-4/16	28,814	39,426	17,187	33,573	23,236	20,532	3,806	5,150
<b>Total</b>	<b>59,563</b>	<b>75,406</b>	<b>25,838</b>	<b>67,710</b>	<b>45,288</b>	<b>41,607</b>	<b>7,478</b>	<b>11,445</b>
EPS	0.58	0.26	0.17	0.14	0.13	0.03	0.01	
FY15/16 Portion*	0.28	0.13	0.12	0.07	0.07	0.01	0.01	

Source: FL AHCA, Company data, Wedbush Securities, Inc.\* Portion owed to the company prior to any pay out or share with providers

- Molina already accounted for \$18M in retroactive premiums in their 1Q16 numbers. This is unusual in our opinion as the company typically is on the trailing end of recognition given their in our opinion outlier auditor policies. The retroactive premiums was disclosed in the 10Q but not addressed on the call.
- We believe the other insurers have not yet taken the FY 15/16 retroactive premium benefit into earnings and estimate it could come partially in 2Q and 3Q16. The state laid out a deadline to pay plans the FY15/16 portion by August 5, as much as their current budget allows. We believe WellCare and Humana, both of which reported after the initial communication from the state, did not account for the payment in 1Q16. We believe Humana is accruing some benefit for 2Q16 based on their view of funds available in the state's budget to fulfill the FY15/16 obligation.
- There are three levers lowering the earnings benefit of the retroactive payments. We believe the earnings impact could be lower than the total owed to plans due to 1) under capitated contracts and value based contracts portions of these retroactive premiums would be owed to providers, we estimate this to be less than 50% under those types of contracts, 2) we see insurers as likely to not recognize the amounts owed prior to FY15/16 until a budget is passed, and 3) we see insurers as likely to split recognition of the benefit between 2Q and 3Q depending on their view of the budget and payment date as all have announced 2Q16 reporting dates prior to the self-imposed 8/5 payment deadline.
- The payout for the FY 13/14 and FY14/15 is not certain in our opinion. AHCA, the Agency for Health Care Administration, intends to put in a budget request to pay the remaining years but we see this process as likely to be drawn out and potentially not passed.

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Humana	HUM	\$177.21	N	\$212
Molina Healthcare Inc.	MOH	\$48.24	OP	\$88
Unitedhealth Group Inc.	UNH	\$141.58	OP	\$152
WellCare Health Plans Inc.	WCG	\$105.52	N	\$108
Anthem Inc.	ANTM	\$130.84	N	\$159

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Company	Disclosure
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Anthem	1
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Molina Healthcare	1
WellCare Health Plans	1
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