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Health care mergers and acquisitions can mean expanded actuarial roles

by Robert H. Dobson

Those who follow the business press know that the health care industry is experiencing a severe case of merger mania. Providers of all types — insurers, HMOs, and other managed care companies — are all affected.

The phenomenon is so widespread that it has even touched Blue Cross and Blue Shield plans. Some might argue that the Blues have been in the merger game for a long time, because formerly separate Blue Cross companies have been merging with Blue Shield companies for many years. Multiple plans within states have also merged. In fact, even the national associations were once separate. (The Blue Cross and Blue Shield Association does not manage the plans, but it controls the license that plans use to identify themselves as an official Blue.)

The Blue Cross and Blue Shield Association recently approved plans' ability to convert to for-profit status, which has increased the stakes considerably. Current mergers and acquisitions have resulted in multi-state conglomerates with subsidiaries as diverse as brokerage firms, software companies, and other for-profit entities such as HMOs and medical service organizations.

Actuaries have a role in these activities, but I believe that role could and should be larger. I've been involved in several health care mergers, but my company's most recent involvement — the $299.5 million transaction between HCA/Columbia Healthcare Corporation and Blue Cross and Blue Shield of Ohio — has been especially interesting. It has attracted much attention, because it is the first time that an entity outside the Blue system would, in some ways, own the assets and membership of a Blue plan. It was a very interesting transaction, but of course, confidentiality considerations preclude my writing about any specifics. I can, however, suggest areas that are possibilities for further actuarial involvement in future transactions.

Preparing the appraisal

Perhaps the most common actuarial role in mergers and acquisitions is preparing an actuarial appraisal. The results of such appraisals do not necessarily produce a market value, any more than an appraisal of your home means you can actually sell the house for its appraised price. This is where investment bankers come into the picture. These firms form opinions on the fairness of a transaction, taking into account many elements not recognized in an actuarial appraisal, including prices paid in similar transactions.

Some life actuaries have been employed by investment banking firms. Actuaries with health care experience should consider investment banking a natural growth area. Actuaries have honed their skills in the insurance industry in evaluating the financial implications of business risks. These skills mesh well with merger situations. We need to make the health business community more aware of these skills.

Impact on policyholders becomes news item

Because Blue Cross and Blue Shield of Ohio is a mutual insurance company, my firm also provided an opinion on the possible impact of demutualizaton on policyholders. We also commented on certain elements of a reinsurance arrangement that was proposed as part of the transactions.

Any merger that affects coverage of large numbers of policyholders leads to media attention, and my firm found itself involved with the press. The BCBSO-Columbia/HCA merger affected 65,000 policyholders and received national news coverage.

Policyholders were sent detailed information and a special proxy card to vote on the transaction, which had to be postmarked by August 19. BCBSO produced a half-hour television program that aired a few days before that date in Cleveland, Columbus, and Toledo. I was asked to be on the show to talk about our firm's analysis used in valuing the company. Former newscasters interviewed me, spokespersons from the companies involved, and other experts, who gave their views on the reason for the merger and its impact on health care in Ohio.

Get involved early

Even better than coming into a merger transaction at a certain point, an actuary adds value by being involved at the beginning. Actuaries can participate in the original structuring of the transaction and evaluate and compare multiple proposals. Later in the process, they can testify at public hearings. The modeling tools actuaries have developed to allow detailed analyses of the options and the risks associated with them are a natural fit.

Actuarial involvement in health care mergers is important and could be even more so. It will be interesting to watch the long-term results of some of the transactions that have had little or no actuarial involvement. If the underwriting cycle is indeed worsening, as many health actuaries believe, will all of these deals still look good five years from now?

Actuaries are already well prepared to handle some aspects of mergers and acquisitions; other aspects may require some specialized experience or training. I encourage more actuaries to prepare themselves, and then seek out these opportunities.

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