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Aetna, Inc. Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

Your first question comes from the line of Josh Raskin - Barclays Capital.

Josh Raskin - Barclays Capital

I am just wondering if we could dig in to a little bit more commercial cost trend pressures. Maybe it will be helpful if you could just walk us through how exactly COBRA is impacting your MLRs. I am just curious how this was sort of filtering through so quickly and then maybe just a little bit more information on what exactly intensity is related to the facility side and maybe the details of what that means.

Ronald A. Williams

Well, good morning Josh. Let me start out and ask Joe to pick up the second part of your question. I think when we think about COBRA, we have to think about several components to it. I think the first component is to think about the whole question of the recession and the broad economy and individuals who are in companies that are in a layoff or reduction in workforce mode, and so we believe that there is some impact from individuals who are watching the reductions and may conceitedly be accelerating services in regard to that.

The second element is really individuals who may have been laid off or they may actually be in a severance or continuation of benefits period pre COBRA but may also accelerates services depending upon what they envision actually taking COBRA or not.

And then the third element is really the COBRA component itself where as you know the COBRA cohort has a significantly greater medical benefit expense ratio. There is really a fourth element which is in so much COBRA related but it is related to what we are seeing in the benefit buy-down category which is a somewhat relative increase where we are seeing benefit buy-downs essentially in the 200 to 250 basis point range where people knowing they are going to have less which benefits in the coming year accelerates in services.

So, those are the kinds of the broad framings and I will have Joe, he will take you through the rest.

Joseph Zubretsky

Josh, as we progressed through the fourth quarter and into the first quarter, we believe that on balance the COBRA election rates and our membership population are about the industry average of about 15%, which means that at any point in time about 2% of our membership is directly on COBRA.

We believe that percentage has increased in the fourth quarter and on into the first which is putting upward pressure on our medical benefit ratio and with the legislated subsidy we have every reason to believe that it will continue throughout the balance of 2009.

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