A Report from Families USA
April 1998

Premium Pay:
Corporate Compensation in America's HMOs

INTRODUCTION

Consumers across the country are worried that managed care plans will not provide them with the health care they need when they are sick. According to a recent survey by The Henry J. Kaiser Family Foundation and the Harvard School of Public Health,1 almost three out of five Americans say that managed care plans make it harder for sick people to see medical specialists. Over half say managed care has decreased the quality of care for people who are sick. More than three out of five say managed care has reduced the amount of time doctors spend with patients. And 55 percent say they are at least "somewhat worried" that if they are sick their "health plan would be more concerned about saving money than about what is the best medical treatment."

Due to these concerns as well as a nationwide backlash against managed care, numerous states have adopted legislation designed to establish rights for health care consumers. The President's Advisory Commission on Consumer Protection and Quality in the Health Care Industry has proposed a series of consumer rights for all Americans.2 Similarly, Kaiser Permanente, HIP Insurance Plans, and Group Health Cooperative of Puget Sound joined AARP and Families USA in calling for "legally enforceable standards" applicable to HMOs.3 Congress may soon consider legislation embodying some or all of these proposals.

As Congress moves closer to considering such proposals, the insurance industry--particularly the managed care industry--is undertaking an expensive campaign to defeat consumer protection legislation.4The industry argues that consumer protection legislation will be costly to America's consumers and will make health insurance less affordable. Opponents and proponents of consumer protection bills are disseminating widely varying estimates of the costs associated with pending managed care bills,5 while the Congressional Budget Office estimates that the Consumer Bill of Rights proposed by the President's Advisory Commission will add only 0.3 percent to existing premiums.6

In keeping with the industry's accentuated focus on costs, this report analyzes a very different facet of managed care costs--namely, the costs associated with compensation for high-level HMO executives. The report examines 1996 executive compensation for the 20 for-profit, publicly traded companies that owned HMOs with enrollments over 100,000.7 These 20 companies owned 64 of the nation's largest HMOs in 1996. Only publicly traded companies are required to submit compensation data to the Securities and Exchange Commission (SEC); nonprofit and private companies are not required to report compensation to the SEC and therefore could not be included in this analysis.

This report is based entirely on each company's public filings with the SEC concerning executive compensation for their five highest-paid executives.8The information collected from the SEC for this report includes two categories of executive remuneration, namely: (1) total annual compensation in 1996 exclusive of unexercised stock options, and (2) the value of unexercised stock options. These two forms of remuneration are clearly differentiated in the analysis.

Total annual compensation in 1996 exclusive of unexercised stock options: This first category of self-reported remuneration includes executives' salaries, bonuses, other compensation (including retirement plans, automobile and travel allowances, relocation expenses, value of life insurance), restricted stock awards (the value of stock awards given to executives in 1996), Long Term Incentive Payouts, or LTIPs (payments received in cash or stock for reaching specified performance goals), and exercised stock options (stock options that executives cashed in during 1996).

The value of unexercised stock options: This second category of self-reported remuneration involves stock options awarded in 1996 or earlier that have not yet been exercised. The value of these stock options is self-reported by each company based on SEC-approved methodologies. As described more fully in the methodology section, the value reported by companies is designed to indicate the potential value of stock options awarded in 1996 and the current market value of the unexercised options awarded in previous years.

KEY FINDINGS

The 25 highest paid executives in the 20 companies studied made $153.8 million in annual compensation, excluding unexercised stock options, in 1996. The average compensation for these 25 executives was over $6.2 million per executive. The median compensation for these 25 executives was over $4.8 million.

The 25 Highest Paid HMO Executives
1996 Annual Compensation Exclusive of Unexercised Stock Options

1. Stephen Wiggins, CEO, Oxford Health Plans, Inc. --$29,061,599

2. Wilson Taylor, Chairman and CEO, CIGNA Corporation-- 11,568,410

3. David Snow, Executive Vice President, Oxford Health Plans, Inc. --10,403,451

4. Robert Smoler, Executive Vice President, Oxford Health Plans, Inc. --10,085,972

5. William Sullivan, President, Oxford Health Plans, Inc.-- 7,823,076

6. Joseph Sebastianelli, President, Aetna, Inc. --7,394,506

7. Michael Cardillo, Executive Vice President, Aetna, Inc.-- 7,069,969

8. Leonard Schaeffer, Chairman and CEO, WellPoint Health Networks, Inc.-- 7,010,698

9. George Jochum, President and CEO, Mid-Atlantic Medical Services, Inc. --6,526,065

10. Ronald Compton, Chairman and CEO, Aetna, Inc.-- 5,813,287

11. Wayne Smith, Former President, Humana, Inc.-- 5,166,575

12. James Stewart, Executive Vice President, CIGNA Corporation--4,832,799

13. Richard Huber, Vice Chairman, Aetna, Inc.-- 4,801,841

14. Roger Taylor, Executive Vice President, PacifiCare Health Systems, Inc. -- 4,103,864

15. Daniel Crowley, CEO and President, Foundation Health Corporation-- 3,849,023

16. Gerald Isom, President, Property and Casualty, CIGNA Corporation --3,778,293

17. Alan Hoops, President and CEO, PacifiCare Health Systems, Inc.-- 3,221,602

18. Daniel Kearney, Executive Vice President, Aetna, Inc --3,189,272

19. D. Mark Weinberg, Executive Vice President, WellPoint Health Networks, Inc. -- 3,009,944

20. Donald Levinson, Executive Vice President, CIGNA Corporation -- 2,985,017

21. Ronald Williams, Executive Vice President, WellPoint Health Networks, Inc. -- 2,827,381

22. Allen Wise, Executive Vice President, United HealthCare Corporation --2,697,751

23. Jeffrey Elder, Senior Vice President, Foundation Health Corporation-- 2,235,783

24. H. Edward Hanway, President CIGNA HealthCare, CIGNA Corporation--2,217,711

25. Kirk Benson, President and COO, Foundation Health Corporation-- 2,104,414

The 25 executives with the largest unexercised stock option packages in 1996 had stock options valued at$337.4 million. The average value of unexercised stock options for these 25 executives was $13.5 million. The median unexercised stock option package for these executives was over $7.2 million.

The 25 Executives with the Largest Unexercised Stock Option Packages in 1996

1. Stephen Wiggins, CEO, Oxford Health Plans, Inc.-- $82,799,000

2. William McGuire, CEO, United HealthCare Corporation --50,042,237

3. David Snow, Executive Vice President, Oxford Health Plans, Inc. --23,888,000

4. William Sullivan, President, Oxford Health Plans, Inc.-- 20,408,000

5. Alan Hoops, President and CEO, PacifiCare Health Systems, Inc. --15,338,120

6. Robert Smoler, Executive Vice President, Oxford Health Plans, Inc.-- 14,015,000

7. Wilson Taylor, Chairman and CEO, CIGNA Corporation-- 12,057,758

8. Samuel Miller, Executive Vice President, United Wisconsin Services, Inc.-- 9,340,174

9. Wayne Smith, Former President, Humana, Inc. --9,170,060

10. Ronald Compton, Chairman and CEO, Aetna, Inc. --8,466,861

11. Peter Ratican, CEO and President, Maxicare Health Plans, Inc. --7,675,726

12. Eugene Froelich, Executive Vice President, Maxicare Health Plans, Inc.-- 7,675,726

13. Jeffrey Folick, Executive Vice President, PacifiCare Health Systems, Inc. --7,175,127

14. Leonard Schaeffer, Chairman and CEO, WellPoint Health Networks, Inc. --7,173,773

15. James Stewart, Executive Vice President, CIGNA Corporation-- 7,073,436

16. Travers Wills, COO, United HealthCare Corporation --6,963,427

17. Gerald Isom, President, Property and Casualty, CIGNA Corporation-- 6,394,629

18. Jeffrey Boyd, Executive Vice President, Oxford Health Plans, Inc.-- 6,323,000

19. Malik Hasan, CEO, Health Systems International, Inc. --5,998,062

20. Richard Huber, Vice Chairman, Aetna, Inc. --5,289,951

21. Daniel Kearney, Executive Vice President, Aetna, Inc.-- 5,006,625

22. George Jochum, President and CEO, Mid-Atlantic Medical Services, Inc. -- 4,941,189

23. Wayne Lowell, Executive Vice President, PacifiCare Health Systems, Inc. --4,775,598

24. H. Edward Hanway, President CIGNA HealthCare, CIGNA Corporation-- 4,743,391

25. Daniel Crowley, CEO and President, Foundation Health Corporation-- 4,621,590

The highest paid executive in each of the 20 companies received average compensation, exclusive of unexercised stock options, of $4.4 million in 1996. The median compensation for these 20 executives was $2.0 million. Taken together, these executives received a total of < $87.3 million in compensation in 1996.

The executive with the largest valued unexercised stock options in each of the 20 companies had stock options worth, on average, $11.4 million in 1996. The median value of unexercised stock options was $5.5 million. Taken together, these executives held total stock options valued at over $227 million.

Company	Highest 1996 Compensation By Company (Exclusive of Unexercised Stock Options)	Largest Valued Unexercised Stock Option Packages By Company
	Name/Title Compensation	Name/Title Value of Unexercised Stock Options
Aetna, Inc.	Joseph Sebastianelli, President -$ 7,394,506	Ronald E. Compton, Chairman and CEO- $ 8,466,861
ChoiceCare Corporation	Daniel Gregorie, President and CEO- 940,800	Daniel Gregorie, President and CEO- 2,009,000
CIGNA Corporation	Wilson Taylor, Chairman and CEO- 11,568,410	Wilson Taylor, Chairman and CEO- 12,057,758
Coventry Corporation	Lawrence Kugelman, Director, Former President and CEO9- 253,762	Richard Jones, Senior Vice president- 846,471
FHP International, Inc.	Jeffrey Margolis, Senior Vice President - 1,128,183	Westcott Price III, CEO- 2,513,580
Foundation Health Corporation	Daniel Crowley, CEO and President- 3,849,023	Daniel Crowley, CEO and President-4,621,590
Health Systems International, Inc.	Malik Hasan, CEO- 2,002,760	Malik Hasan, CEO- 5,998,062
Healthsource, Inc.	Charles Schneider, Executive Vice President and COO- 630,195	Norman Payson, CEO and President- 1,682,800
Humana, Inc.	Wayne Smith, Former President-10 5,166,575	Wayne Smith, Former President-10 9,170,060
Maxicare Health Plans, Inc.	Peter Ratican, Chairman, President, and- CEO 632,622	Peter Ratican, Chairman, President, and CEO- 7,675,726 Eugene Froelich, Executive Vice

		President11
Mid-Atlantic Medical Services, Inc.	George Jochum, President and CEO- 6,526,065	George Jochum, President and CEO- 4,941,189
Oxford Health Plans, Inc.	Stephen Wiggins, CEO 29,061,599	Stephen Wiggins, CEO-82,799,000
PacifiCare Health Systems, Inc.	Roger Taylor, Executive Vice President12- 4,103,864	Alan Hoops, President and CEO-15,338,120
Physician Corporation of America	Clifford Donnelly, Senior Vice President -679,966	Donald Gessler, President and CEO, PCA Texas- 587,449
Physicians Health Services, Inc.	Robert Natt, President and Co-CEO- 528,867	Robert Natt, President and Co-CEO- 1,340,910
RightCHOICE Managed Care, Inc.	Roy Heimburger, CEO- 426,630	Roy Heimburger, CEO-361,846
Sierra Health Services, Inc.	Erin MacDonald, President -585,748	Anthony Marlon, CEO- 497,801
United HealthCare Corporation	Allen Wise, Executive Vice President13- 2,697,751	William McGuire, CEO-50,042,237
United Wisconsin Services, Inc.	Samuel Miller, Executive Vice President14 -2,089,173	Samuel Miller, Executive Vice President14 -9,340,174
WellPoint Health Networks, Inc.	Leonard Schaeffer, Chairman and CEO- 7,010,698	Leonard Schaeffer, Chairman and CEO -7,173,773

The 103 executives from the 20 publicly traded for-profit companies received, exclusive of unexercised stock options, $202.3 million for 1996, an average compensation of $2.0 million per executive.

$432 million and averaged $4.2 million per executive.

The average annual compensation for the five15 highest paid executives, exclusive of unexercised stock options, in each company in 1996 was:

Company Name- Average Compensation for Highest Paid Executives (1996)

Oxford Health Plans, Inc.-- $11,691,132

Aetna, Inc.-- 5,653,775

CIGNA Corporation-- 5,076,446

WellPoint Health Networks, Inc.-- 3,279,247

Foundation Health Corporation-- 2,262,560

PacifiCare Health Systems, Inc.-- 1,974,315

Mid-Atlantic Medical Services, Inc.-- 1,853,639

Humana, Inc. --1,466,361

United HealthCare Corporation --921,914

FHP International, Inc. --894,568

United Wisconsin Services, Inc.-- 690,808

Health Systems International, Inc.-- 660,852

ChoiceCare Corporation --483,654

Healthsource, Inc.-- 476,883

Maxicare Health Plans, Inc.-- 473,181

Physician Corporation of America --462,385

Sierra Health Services, Inc.-- 372,715

Physicians Health Services, Inc. --371,697

RightCHOICE Managed Care, Inc.-- 290,392

Coventry Corporation --239,675

The average value of unexercised stock options packages for the five15 highest paid executives in each company in 1996 was:

Company Name Average Value of Stock Options for Highest Paid Executives (1996)

Oxford Health Plans, Inc. -- $29,486,600

United HealthCare Corporation --11,211,841

CIGNA Corporation -- 6,943,679

PacifiCare Health Systems, Inc. -- 5,464,329

Aetna, Inc. --4,766,338

WellPoint Health Networks, Inc. -- 3,833,345

Humana, Inc. -- 3,810,284

Maxicare Health Plans, Inc. --3,396,187

United Wisconsin Services, Inc. -- 2,316,469

Foundation Health Corporation -- 2,054,060

Health Systems International, Inc. -- 2,019,132

Mid-Atlantic Medical Services, Inc. --1,512,058

FHP International, Inc. --1,303,299

Healthsource, Inc. --1,122,770

Physicians Health Services, Inc. --852,018

ChoiceCare Corporation -- 842,960

Coventry Corporation --444,009

Sierra Health Services, -- Inc. 332,842

Physician Corporation of America --262,840

RightCHOICE Managed Care, Inc. -- 245,261

CONCLUSION

Publicly traded for-profit managed care and insurance companies are considerably more cost conscious when they oppose the establishment of consumer rights than when they approve compensation for their top executives. For publicly traded managed care companies, remuneration in annual compensation and unexercised stock options for top executives routinely reaches millions of dollars. Indeed, for some companies, such remuneration reaches tens of millions of dollars.

The managed care and insurance industry's protestations about costs appear to be highly selective. While they argue that they will need to raise premiums to be able to provide basic protections for managed care consumers, their top executives make millions of dollars each year.

ENDNOTES

1 Kaiser/Harvard/Princeton Survey Research Associates, National Survey of Americans' Views on Managed Care, 1997.

2 Consumer Bill of Rights and Responsibilities, Report to the President of the United States, President's Advisory Commission on Consumer Protection and Quality in the Health Care Industry, November 1997.

3 Principles for Consumer Protection, Summary of Preliminary Statement of Principles for Consumer Protection; AARP, Group Health Cooperative of Puget Sound, Kaiser Permanente, HIP Health Plans, and Families USA.

4 Health Benefits Coalition news release, January 21, 1998.

5 See Millman, The Health Premium Impact of H.R. 1415/S. 644, the Patient Access to Responsible Care Act (PARCA), Muse and Associates, January 29, 1998.

6 "Consumer Bill of Rights Would Raise Costs by 0.3 Percent for Employers, CBO Projects," BNA's Health Care Policy Report (Washington, DC: Bureau of National Affairs, March 16, 1998).

7 Although HMO enrollment in one John Deere Health Care product was over 100,000, the report does not include John Deere Healthcare because neither healthcare nor insurance is its primary.

8 Because of job changes within the companies, three companies in the study reported compensation for six executives. Those companies are Humana, Inc., PacifiCare Health Systems, Inc., and United HealthCare Corporation.

9 Lawrence Kugelman served as interim President and CEO from December 14, 1995 to October 6, 1996.

10 Resigned July 10, 1996.

11 Both Mr. Ratican and Mr. Froelich had stock option packages valued at $7,675,726. This number was only counted once in the total.

12 Dr. Roger Taylor resigned as an Executive Vice President and Chief Medical Officer of the Company effective June 28, 1996.

13 Mr. Wise was employed by the Company from October 1995 to October 1996 as an Executive Vice President.

14 Mr. Miller became an employee of United Wisconsin Services in November 1995, and

compensation information reflects amounts earned since that time.

15 Because of job changes within the companies, three companies in the study reported compensation for six executives. Those companies are Humana, Inc., PacifiCare Health Systems, Inc., and United HealthCare Corporation.

METHODOLOGY & DEFINITIONS

For this report, Families USA analyzed 1996 compensation for the top executives at the 20 publicly traded companies that own 64 of the country's largest for-profit HMOs. Each of the HMOs included in the study was owned by a publicly traded health care company in 19961. While it would have been useful to track the salaries of nonprofit HMO executives and executives in private companies, these companies are not required to file executive compensation reports with the Securities and Exchange Commission (SEC). Only the publicly traded parent companies of for-profit HMOs with enrollments over 100,000 at the end of 1996 were included in the study.

The data used in this study were taken from the Electronic Data Gathering Analysis and Retrieval (EDGAR) Database. EDGAR is available online at the SEC's website and includes all public companies' filings to the SEC. These companies are required to submit proxy statements reporting the compensation--including salaries, bonuses, stock options and other compensation--of their top five executive positions. If more than one person held the same position during the course of the year, both were included in the report.2

Families USA downloaded the 1996 SEC filings pertaining to executive compensation and computed two values for remuneration: (1) total annual compensation exclusive of unexercised stock options, and (2) the value of unexercised stock options.

How Remuneration Was Computed

Total Annual Compensation Exclusive of Unexercised Stock Options

This amount was computed for each executive by adding together the following information from the SEC filings:

Salary: annual wages paid to the executive for the fiscal year.

Bonus: bonuses paid to the executive for the fiscal year.

Other Annual Compensation and All Other Annual Compensation: additional compensation given to the executive, which could include the company's contributions to a savings plan, tax reimbursements, transportation, relocation fees, a signing bonus, life insurance plans, and retirement plans.

< Restricted Stock Awards: the value of shares given to the executive by the company

during the year 1996. These shares are usually subject to restrictions; for example, the executive may not be able to sell them for a specified period of time. The dollar value is as reported in the proxy statements for the fiscal year and is not adjusted to reflect any of the stock restrictions.

Long Term Incentive Payouts: taxable payments in cash or stock to the executive for reaching a specified performance goal over a period longer than a year.

Value of Shares Acquired on Exercise: the value of stock options the executive exercised during 1996. The company computes this value by multiplying the number of shares acquired by the difference between the market price and the "exercise price" (see below).

The Value of Unexercised Stock Options

This amount was computed by adding together information from the SEC filings regarding stock option grants awarded to each executive. Stock option grants give these executives the right--but not the obligation--to buy or sell a specific amount of the company's stock at a specified price (the "strike price" or "exercise price") during some specified time period in the future. The IRS allows companies to deduct the transaction from taxable income.

Stock options are only valuable when the market price of the company's stock exceeds the "exercise price" of the option. For example, if an executive is awarded 100 stock options at an exercise price of $10 a share, and the market price is $30 a share, then the executive could buy 100 shares at $10 a share, reaping the $20 difference between the exercise price and market price for each share--or a total of $2,000. However, if the market price of the share is less than the exercise price, the stock options have no value. The value of unexercised stock options was computed for each executive by adding together the following:

Grant Date Present Value/Potential Realizable Value: the company's estimate of the potential value of the stock options awarded to executives in 1996. Companies are permitted by the SEC to choose between two methods for reporting grant date present value for stock option grants awarded during the year. The company can report the stock option grants by either the Black-Scholes option pricing model or the potential realizable value method.

- Black-Scholes option pricing model: a model used by market professionals to calculate the value of an option. It includes such variables as the stock price, the exercise price, and the expiration date.
- Potential Realizable Value: the potential value of the stock option grants, calculated at hypothetical annual growth rates of 5 percent and 10 percent for the stock price over the term of the option--usually five or ten years. The company reports potential realizable value at both 5 percent and 10 percent in its proxy statements. For purposes of this study, the more conservative value of 5 percent was reported.

Other Compensation from Stock Options: the current market value of stock options that were awarded to the executives prior to 1996. This includes:

- Value of Unexercised In-The-Money Options/SARS (Exercisable): value of the "in-the-money" stock option grants the executive has been awarded in the past that are fully vested and thus can be exercised at the time of the report. This value is the difference between the current market price and the exercise price.
- Value of Unexercised In-The-Money Options/SARS (Unexercisable): >the value of the "in-the-mon ey" stock option grants that are not yet vested and that the executive can choose to exercise in the future. This value is the difference between the current market price and the "exercise" price for stock options that have not yet vested. For example, this would include options that a CEO has held for two years but whose terms require three years to pass before the options are available.

Endnotes

1 Although HMO enrollment in one John Deere Health Care product was over 100,000 we did not include John Deere Healthcare in this study because its primary business is neither health care nor insurance.

2 Because of job changes within the companies, three companies in the study reported compensation for six executives. Those companies are Humana, Inc., PacifiCare Health Systems, Inc., and United HealthCare Corporation.

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