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WellPoint to Be Acquired by Anthem
* A union of the top providers of Blue Cross and Blue Shield managed-care plans could curb premiums.

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In a deal that would create the nation's largest for-profit health insurer, Thousand Oaks-based WellPoint Health Networks Inc. agreed Monday to be acquired by Anthem Inc. of Indianapolis for $14.3 billion in cash and stock.

The two companies are the leading providers of Blue Cross and Blue Shield managed-care plans. WellPoint, which owns Blue Cross of California, is the largest health insurer in the state, with 6.7 million members.

The marriage would help generate efficiencies that could keep a lid on insurance premiums, which have risen sharply in recent years. For instance, analysts say, a company with 26 million members in 13 states would have considerable clout with the pharmaceutical industry and might be able to curb high prescription drug prices.

At the same time, there would be limits to the consumer benefits of the merger. Anthem and WellPoint for the most part operate in different states, and the rates that health insurers negotiate with doctors and hospitals depend largely on the insurers' market shares in each state, not their overall size.

For that reason, "I don't see it making much difference to consumers in California," said Alain Enthoven, a Stanford University professor who is widely credited as a pioneer of managed-care practices. "It's not like consolidating two local companies, like PacifiCare and Health Net."

In recent years, Anthem and WellPoint have been gobbling up regional managed-care providers, especially underperforming Blue Cross and Blue Shield plans, around the country.

Anthem would pay $23.80 in cash and one share of its stock for each WellPoint share. Anthem shares fell $6.21 to $71.05 on Monday, valuing the deal at $94.85 per WellPoint share. WellPoint's stock jumped $7.16 to $91.09, amounting to a 9% premium over Friday's closing price. Both trade on the New York Stock Exchange.

The combined company would have annual revenue of $36 billion and 40,000 employees. It would be based in Indianapolis and keep the WellPoint name.

By combining, "they won't be driving up the cost of the remaining 'Blues' by competing to buy them," said Gary Claxton, director of the health-care marketplace project at the Kaiser Family Foundation, a health-care philanthropy independent of the Kaiser Permanente HMO.

Besides seeking economies of scale to boost profits, managed-care companies are under pressure to merge because of the weak economy and widespread job losses, which are eroding the pool of insured customers, analysts said. WellPoint's California membership as of Sept. 30 was up only 3.3% from a year earlier.

Streamlining the companies' overhead might mean some losses among the 250 jobs at WellPoint's headquarters, said Leonard Schaeffer, WellPoint's chairman and chief executive. But few if any job cuts are expected at its Blue Cross of California division, which has about 2,850 employees at its home in Woodland Hills, he added.

"There will be very little impact," he said in an interview. WellPoint employs about 7,000 in California.

If the acquisition is completed, it's unclear how long Schaeffer might stay with WellPoint. Some analysts speculated that after being at the forefront of the managed-care revolution and the conversion of Blue Cross and Blue Shield plans to for-profit status, Schaeffer, 58, might have other long-term plans. That could be one reason the slightly smaller Anthem is buying WellPoint, instead of vice versa, and Anthem Chairman Larry Glasscock would be its chief executive.

But Schaeffer said he was focused on the sale and afterward would be busy charting the new company's strategy. He added, "I expect to be very active at the company."

The Anthem-WellPoint deal could spark additional mergers in the industry, analysts said. Indeed, the current largest managed-care provider, UnitedHealth Group Inc. of Minnetonka, Minn., said Monday that it agreed to buy Mid Atlantic Medical Services Inc. in a deal valued at nearly $3 billion. UnitedHealth has annual sales of about $25 billion.

"Industry consolidation has been going on, and I think we'll see more in the future," said James Morris, an analyst at Utendahl Capital Partners in New York.

WellPoint, which Schaeffer has headed since 1986, when it was just Blue Cross of California, is considered one of the better-run health-care insurers in the country. It has had contentious relations with doctors and hospitals over its effort to get the lowest rates, but some say that has benefited its California members by keeping their premiums relatively low compared with many other states.

Glenn Melnick, a senior researcher at Rand Corp., said much of WellPoint's success reflected its skills at analyzing health and benefit trends. "One question is, do they keep that focus" after the Anthem buyout? he said.

Some physician and consumer groups reserved judgment on the deal's effect. Dr. Marcy Zwelling-Aamot, who has a practice in Long Beach and Los Alamitos and is the president of the Los Angeles County Medical Assn., said she was concerned that the buyout might further limit her patients' health-care choices.

"The market is already an oligopoly," she said.

There's also the potential for bottlenecks if WellPoint and Anthem decide to merge their patient-claim forms and provider-payment procedures, with "the confusion and disruption that can create," said Kirby Bosley, head of the health-care practice for Mercer Human Resource Consulting in Los Angeles.

Anthem and WellPoint apparently put the deal together quickly. Executives began talking seriously about a merger only a month ago, after WellPoint completed its purchase of Cobalt Corp., the parent of Blue Cross and Blue Shield United of Wisconsin.

"There has always been the idea that these two companies could come together and make an even stronger one," Schaeffer told analysts. "And after the Cobalt deal, Larry and I had a chance to discuss that, and it turned out that we both believed this was by far the best future option for both of our companies."

First, though, the proposed deal must be approved by both companies' stockholders, federal antitrust officials and state insurance regulators.

"There will be very minimal overlap," Glasscock said, adding that he "would be surprised if there are any antitrust concerns." The companies said the deal could close by mid-2004.

Schaeffer and Glasscock also vowed that their service would not suffer. The merged company would provide "unprecedented levels of care management for our members," Glasscock told analysts in a conference call.

Ron Pollack, executive director of consumer group Families USA in Washington, said Anthem's buyout of WellPoint also meant more responsibility for both companies. It's "all the more important" that the companies "try to help in taking on some of the current issues of the high costs of health care."

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Joining forces

WellPoint and Anthem are two of the major providers of Blue Cross and Blue Shield managed-care plans. Here are their profiles:

	Wellpoint Health Networks Inc.	Anthem Inc.
Headquarters	Thousand Oaks	Indianapolis
Assets	$13.9 billion	$13.2 billion
Revenue	$19.4 billion*	$16.5 billion*
Net income	$843.7 million*	$737.4 million*
Members	14 million	12 million
Employees	20,000	20,000

*12 months ended Sept. 30.

Wellpoint data do not include estimated income adjustments for the Sept. 24 acquisition of Cobalt.

Source: Company news releases

Descriptors: WELLPOINT HEALTH NETWORKS INC; ANTHEM INC; ACQUISITIONS

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Information on missing images.

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