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Medical Mutual's S.C. Plan Buy Helps Fuel Southern Expansion

Medical Mutual of Ohio said on May 8 that it is expanding into South Carolina with the proposed purchase of Columbia, S.C.-based Carolina Care Plan Inc. While Carolina Care mostly caters to small groups, the Cleveland-based insurer says it will begin targeting larger employers and add new products such as PPO-based plans. One broker says he hopes the deal will bring a turnaround for the financially troubled insurer.

Carolina Care shareholders, who are primarily physicians, are scheduled to vote on the proposed transaction on May 14. The 67,000-member insurer would maintain its brand identity.

Neal Brown, CEO of Carolina Care, said in a press release that the insurer's recent financial-rating downgrade made a cash infusion necessary to restore stability and protect plan members. Ratings company A.M. Best Co. on March 23 reduced the insurer's financial strength rating to C (Weak) from C++ (Marginal), citing deterioration in its financial condition, including a net loss of \$14.5 million for 2006, as well as limited access to capital.

Brokers in South Carolina told MCW that the plan had struggled with enrollment over the past few years.

Medical Mutual has 1.6 million members in eight states, with most of them in Ohio and contiguous states, including Michigan, Indiana, Pennsylvania, and West Virginia. The insurer also expanded to Georgia last year via the purchase of a majority stake in 1st Medical Network, LLC (*MCW 4/17/06, p. 3*).

Carolina Care's reputation made it attractive, says Michael Taddeo, Medical Mutual's vice president of national network development. "What we heard from the community was that they provide good service and are priced competitively, but they're financially weak," he says. "The brokers and the rating agents in Charleston, Greenville and Columbia embraced them. They wanted Carolina Care Plan to survive."

He adds that both Medical Mutual and Carolina Care focus on small groups. Carolina Care now offers HMO and POS products for individuals and small

groups on a fully insured basis, Taddeo says. According to its Web site, Carolina Care also offers high-deductible health plans, as well as a Medicare Advantage product and a stand-alone Medicare Prescription Drug Plan.

Medical Mutual plans to use its claims-processing capabilities and Carolina Care's network to appeal to larger employers in South Carolina, Taddeo says. During the next two years, Medical Mutual also will add a PPO-based plan and a self-insured product with stop-loss insurance to Carolina Care's suite of offerings.

Blue Cross and Blue Shield of South Carolina's small-group HMO and PPO products will pose competition for Medical Mutual, Taddeo says. In the Charleston and Greenville/Spartanburg areas, Medical Mutual also will have Aetna, Inc. and CIGNA Corp. as rivals, and will go head-to-head against UnitedHealth Group in the Columbia area, he says.

Agents in South Carolina tell MCW that they are pleased to see a company with strong financial backing like Medical Mutual invest in Carolina Care. "Carolina Care Plan has an excellent network of hospitals and doctors, and they're very competitive, but some of the service we were getting from general agents wasn't up to par," says David Gilston, owner of David M. Gilston Insurance Agency in Charleston. Carolina Care grew at a rapid pace up until about five years ago, when the firm encountered financial and marketing difficulties, he says. Gilston adds that the small-group market in South Carolina is very strong, especially on the coast where there is a large number of small businesses.

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