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## Health Insurance Chiefs, Unloved, Not Overpaid: Graef Crystal

May 18 (Bloomberg) -- Here's a challenge: Name two industries more reviled in the public eye these days than oil producers and health insurers.

Their profits are obscene, they wield their market power with disdain and arrogance, their executives are smug and unjustly rewarded.

There's just one problem with this picture. By my reckoning the health insurance chiefs aren't overpaid.

Here, in descending order by total pay, are the chief executive officers of the four major U.S. health insurers:

| Company            | CEO                 | Total Pay (millions) |
|--------------------|---------------------|----------------------|
| UnitedHealth Group | William McGuire     | \$37.7               |
| Aetna Inc.         | John Rowe *         | \$19.6               |
| WellPoint Inc.     | Larry Glasscock     | \$18.3               |
| Humana Inc.        | Michael McCallister | \$5.4                |
|                    | MEDIAN              | \$19.0               |

Former CEO \*

(Total pay is the sum of: base salary; annual bonus; my estimate for the present value of stock options granted in 2005 and measured using the Black-Scholes model; the value at grant of free share awards made in 2005; payouts in 2005 under other long-term incentive compensation plans; and miscellaneous compensation. Pay data were furnished by Equilar Inc., an independent provider of executive compensation information.)

So is McGuire overpaid? Is McCallister underpaid?

For an answer, I turned to my study of the total pay in 2005 of 492 CEOs in companies with market caps of \$3 billion or more. I found that there were three factors that were statistically significant in determining why one CEO makes more than another. They were: the net sales of the company; its total return in its 2005 fiscal year; and the degree of risk in the pay package, measured by the ratio of stock-option grants (the most risky form of pay) to total pay.

After calibrating for these factors, here's how the four health insurance CEOs fared versus their peers in other industries:

| Company            | CEO                 | Above/Below Competitive pay |
|--------------------|---------------------|-----------------------------|
| UnitedHealth Group | William McGuire     | 44%                         |
| Aetna Inc.         | John Rowe *         | 3%                          |
| WellPoint Inc.     | Larry Glasscock     | -20%                        |
| Humana Inc.        | Michael McCallister | -68%                        |

MEDIAN

-9%

Former CEO \*

This table tells me there is no evidence of overpayment, except for McGuire. And even a 44 percent positive deviation is not wildly significant, considering that I found 44 CEOs being paid more than 100 percent above their competitive levels.

On top of that, UnitedHealth Group Inc. just announced that McGuire would no longer be receiving any new equity grants, which I take to mean both stock-option grants and awards of free shares. The company didn't say whether McGuire would receive a full or partial makeup in the form of tons of extra cash.

Although there is no evidence of overpayment in 2005, there are sins in the past, which are now exposed in a most vivid manner. That lies in the stock-option gains that the four CEOs took out in 2005, as well as the change in their yearend paper profits on unexercised options between 2004 and 2005.

Here are the stats:

| Company            | CEO                 | Option Gains<br>Plus Change<br>in Option<br>Profits<br>(millions) |
|--------------------|---------------------|---|
| UnitedHealth Group | William McGuire     | \$634   |
| Aetna Inc.         | John Rowe *         | \$128   |
| Humana Inc.        | Michael McCallister | \$38  |
| Wellpoint Inc.     | Larry Glasscock     | \$33  |
|                    | MEDIAN              | \$83  |

These awesome numbers -- even for McCallister, who based on an earlier table would seem in need of a benefit concert -- are the fruits of two factors. First, shareholder returns in 2005 were excellent, with the median total return of the four companies checking in at 46 percent, more than nine times greater than the 4.9 percent return on the Standard & Poor's 500 Index.

But second and just as important -- or maybe more important -- are the massive grants made in past years. The biggest beneficiary of this largess is McGuire, who had by far the largest combination of option gains and change in paper profits. He also delivered the second-lowest total return in 2005 of the four companies -- 41 percent.

So there's been excess in the past, though there doesn't appear to be any significant compensation blubber today. That's good news not only for the shareholders of the four health insurers, but for their policyholders as well.

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