Insurance companies spent millions of dollars trying to defeat the U.S. health-care overhaul, saying it would raise costs and disrupt coverage. Instead, profit margins at the companies widened to levels not seen since before the recession, a Bloomberg Government study shows.

Insurers led by WellPoint Inc. (WLP), the biggest by membership, recorded their highest combined quarterly net income of the past decade after the law was signed in 2010, said Peter Gosselin, the study author and senior health-care analyst for Bloomberg Government. The Standard & Poor's 500 Managed Health-Care Index rose 36 percent in the period, four times more than the S&P 500.

“The industry that was the loudest, most persistent critic of this law, the industry whose analysts and executives predicted it would suffer immensely because of the law, has thrived,” Gosselin said. “There is a shift to government work under way that is going to represent a fundamental change in their business model.”

Health insurers contributed $86.2 million to the U.S. Chamber of Commerce to oppose the law after Obama administration officials criticized the plans for enriching themselves by raising customer premiums.

“We remain very concerned that major health-care reform provisions that go into effect on Jan. 1, 2014 will raise costs and disrupt coverage for individuals, families, seniors and small businesses,” Robert Zirkelbach, a spokesman for America’s Health Insurance Plans, the industry’s Washington lobbyist, said after reading the study.

**Profit Margins**

Still, the companies saw their average operating profit margins expand to 8.24 percent in the six quarters since the overhaul became law, compared with 6.88 percent for the 18 months before it was passed.

Quarterly earnings per share from continuing operations between the third quarters of 2008 and 2011 jumped 29 percent, and the results have on average beaten analyst estimates since the first quarter of 2009. WellPoint, based in Indianapolis, raised its 2011 earnings forecast in October after third-quarter earnings of $1.77 a share beat by 10 cents, the average estimate of 20 analysts surveyed by Bloomberg.
At the same time, companies are changing their business focus to gain from provisions in the law that will expand the size of Medicaid, the $401 billion government health plan for the poor. “Only by substantially reshaping their businesses can they profit,” the study says.

**Health-Care Overhaul**

The report compares the 18 months before and after the overhaul became law, Gosselin said. The companies studied are WellPoint; UnitedHealth Group Inc. (UNH), of Minnetonka, Minnesota; Aetna Inc. (AET), of Hartford, Connecticut; Humana Inc. (HUM), in Louisville, Kentucky; and Philadelphia-based Cigna Corp. (CI)

The managed care index (S5MANH), which includes all of the companies studied plus Coventry Health Care, rose less than 1 percent at the close in New York. WellPoint also increased less than 1 percent to $68.51.

Cynthia Michener of Aetna wouldn’t comment before reading the complete study. Declining to comment were Tyler Mason, a UnitedHealth spokesman and Phil Mann from Cigna, while WellPoint’s Jill Becher referred questions to AHIP. Humana’s Jim Turner said he wouldn’t speculate on the law’s effects ahead of a Feb. 6 earnings call.

Commercial business now accounts for less than half of the companies’ combined revenue for the first time in at least two decades, according to the study. That’s partly a result of the companies’ growing investments in plans that provide services to Medicare and Medicaid patients, the report said.

**Medicare Revenue**

At the same time, quarterly revenue from Medicare, the $525 billion federal health program for the elderly and disabled, increased by one third, to $16.39 billion, for the four insurers that reported figures, the study shows. Medicaid revenue more than doubled to $4.11 billion.

The companies run managed-care plans for Medicare that may see revenue rise by $10 billion by 2015 as more baby boomers retire, industry analysts have said. The insurers also administer benefits for Medicaid, which is being expanded under the health-care law starting in 2014 to cover more uninsured people. States have turned to private plans to manage Medicaid caseloads and help control health spending.

Health plans will be able to bid on an estimated $40 billion in state Medicaid contracts from now to 2014, the study found.

The top five insurers have completed at least 10 deals to add Medicare HMO’s or programs dealing with the chronically ill, which usually involve Medicare or Medicaid enrollees. The deals include UnitedHealth’s $2 billion purchase of XL Health Corp. and Cigna’s $3.8 billion for HealthSpring Inc.
The push toward government programs may prove to be a risky wager, Gosselin said in an interview.

The Supreme Court will rule on the law’s constitutionality this year and opponents of the law in Congress may target individual provisions in the overhaul for budget cuts, he said. Additionally, states may devise onerous rules for the way coverage is sold to uninsured Americans, he said.

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