



After Humana sale, could Louisville win Aetna?

Jul 12, 2015 By Chris Otts



Louisville Mayor Greg Fischer, Kentucky Gov. Steve Beshear, Humana CEO Bruce Broussard and Aetna CEO Mark Bertolini at Fischer's office on July 7 (courtesy of mayor's office)

LOUISVILLE, Ky. (WDRB) – Earlier this year, Georgia pulled off a coup in convincing Mercedes-Benz to move its U.S. headquarters and about 1,000 jobs from Montvale, N.J. – its home since 1972 – to suburban Atlanta, where the company is expected to have lower operating costs and taxes.

Some say Louisville has a similar opportunity with Hartford, Conn.-based Aetna, which announced July 3 that it plans to buy Louisville's Humana Inc. for \$37 billion.

Aetna has been one of a handful of major employers openly complaining about Connecticut's business tax climate in recent months, and the company has already made what Louisville officials describe as a "major commitment" to maintain a "significant corporate presence" in Louisville, where Humana has about 12,500 employees, following the acquisition.

"This is the ideal situation for us," said local businessman Bill Stone, owner of Louisville Plate Glass and a longtime civic leader. "We ought to be aggressive. This is an opportunity to land a global giant."

Aetna officials confirmed the basic plan for the future company's operations on a conference call last week: The commercial insurance business would shift to Hartford while its government segment – Medicare, Medicaid and military insurance TRICARE – would go to Louisville, where Medicare has been Humana's bread and butter.



But Aetna has been clear that the company's headquarters will remain in Hartford – where its roots date to the 1800s and it employs about 6,100. Aetna CEO Mark Bertolini will stay at the helm, while it's unclear whether Humana's senior leaders will remain with the company.

Nothing will change for at least a year. Aetna and Humana say the sale won't close until the second half of 2016, and the deal is far from guaranteed. (Humana's stock price hasn't moved since the deal was announced – despite the premium Aetna intends to pay – indicating investors have doubts the sale will materialize, according to the Wall Street Journal and Hartford Courant.)

After meeting with Bertolini in Louisville last week, Mayor Greg Fischer said the city is "well positioned" in the future company's "real growth business" -- the government insurance segment led by aging Baby Boomers entering Medicare.

"You could say the government headquarters is here, the commercial headquarters is in Hartford. And I think they are trying to figure out now what to do next with the corporate headquarters, if you will," Fischer said. "Believe me -- if that's an opportunity -- we'll be right in the middle of it."

But Fischer said it's premature to talk about landing more jobs in Louisville than what Aetna has already promised.

"The first step is just kind of figure out what the integration plans are," he said.

An Aetna spokeswoman said the company does not comment on speculation.

Two consultants who help companies choose locations said it's not out of the question that Louisville could compete for Aetna's headquarters, or at least for a shift in corporate jobs over time.

"Corporate headquarters themselves are more mobile than ever before," said John Boyd of the Boyd Co., a site selection firm in Princeton, N.J. "Now everything is on the table, including the head office, because companies just have to examine every function of the corporate structure to be as lean and mean as possible. So, the notion of Louisville making a successful case? You're in play."

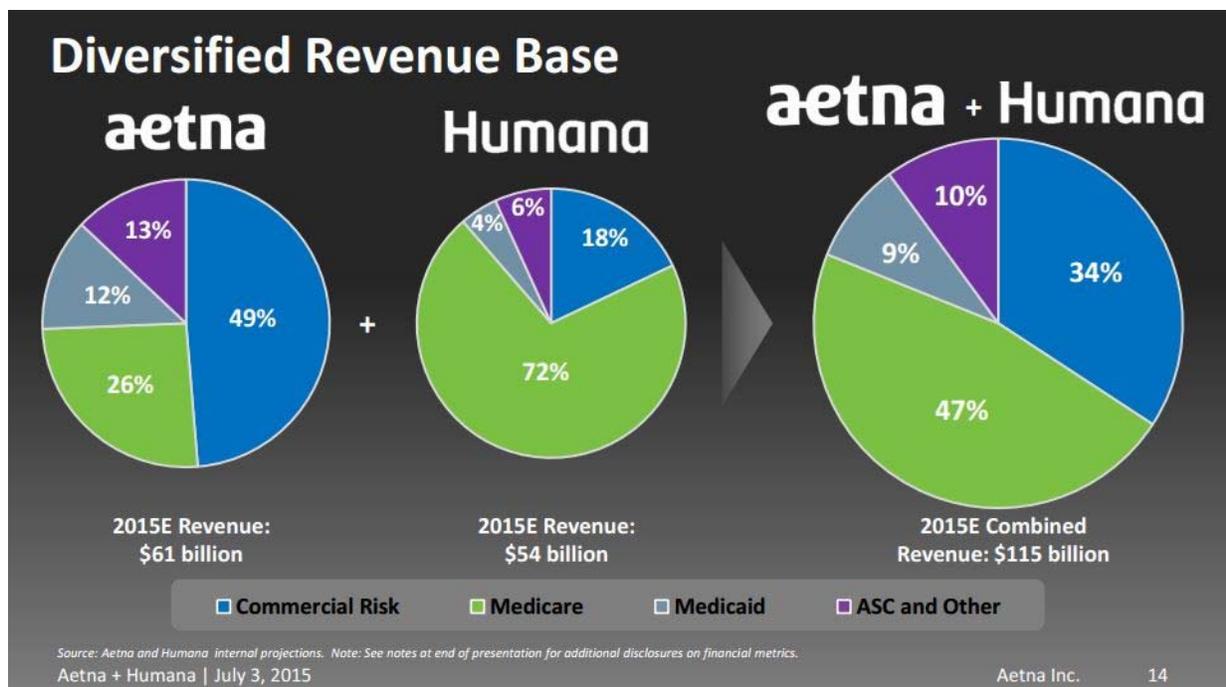
Brett Bayduss, a New York-based principal of the Site Selection Group, said while companies rarely pick up and completely move their headquarters, many are willing to move jobs to "regional campuses or regional headquarters" for tax and other cost reasons.

"There is definitely a lot more, 'Are we in the right location? Can we satisfy our IT demands? Can we satisfy our back-office functions, and can we be doing it in lower-cost locations?" he said. "I think a lot of companies are really re-evaluating that, especially if they are in some of these higher-cost places like the Northeast and California."

'A big deal'

Aetna's plans to make Louisville a divisional home for its Medicare and Medicaid business is a "big deal," because it provides certainty at the outset of the acquisition, said Kent Oyler, CEO of Greater Louisville Inc.

Fischer noted that the Medicare-Medicaid business centered in Louisville will bring in about \$64 billion a year – a little more than half of the combined company's projected total revenue and more than Humana's total \$54 billion in projected revenue in 2015, according to Aetna's statistics.



“Louisville will be an important site for us and we anticipate, given the size of the revenue that will be in that location, that we’ll at least maintain employment, if not increase it,” Aetna’s Bertolini told analysts on a call last week.

He also praised the “very capable” managers of those businesses at Humana in Louisville and said Aetna wants to keep the “best of breed” employees from each company.

But despite the assurances, Aetna’s current plan would still relegate Louisville to a divisional operation answering to executives whose roots – and loyalties – are elsewhere. That hasn’t always worked out well for the city.

In 1997, Providian Corp. was a Louisville-based Fortune 500 company with 1,300 workers when it sold its insurance units to Netherlands-based Aegon.

Aegon then slowly shed jobs from Louisville until its name was finally taken off the office tower Aegon Center – now called 400 W. Market Street -- in 2013.

In 2004, R.J. Reynolds Tobacco’s purchase of Louisville’s Brown & Williamson resulted in the loss of 450 jobs at B&W.

Aetna executives told investors last week that the company hopes to save \$1 billion in annual operating costs by 2018, once it fully blends in Humana.

Tom Carroll, a Baltimore-based analyst with Stifel Financial Corp., said Aetna’s commitment to keep jobs in Louisville is “fully incorporated” within the \$1 billion projected savings and there is no “secret plan” to gut the Louisville workforce.

Still, Carroll asked Aetna executives on last week's conference call when they might merge "the Louisville infrastructure into the rest of Aetna" as there would be "decent synergies there to be gained in future years."

In an email to WDRB News, Carroll said Aetna's commitment to maintain employment in Louisville is solid for the near future, but things might change down the road.

"Over time, there is likely a push to consolidate things in one place," he said. "That said, it probably doesn't happen for a long time....i.e., end of decade."

Connecticut concerns

In early June, Aetna was one of three prominent Connecticut-based companies to publicly denounce a recent plan by the state to increase corporate taxes to balance its budget – an "unprecedented" move that "stunned" state officials, according to the Hartford Courant.

Aetna said the moves would lead it to "reconsider" its operations in the state.

The final version of the Connecticut budget rolled back \$178 million of \$1.5 billion in tax increases including "several controversial business taxes," according to the newspaper.

Those changes were "a step in the right direction," Aetna spokeswoman Kristine Grow told WDRB News in an email. But she said "the Connecticut business climate continues to be very challenging."

"We hope the legislature and governor take more aggressive efforts to make our state an affordable place to live and work," Grow said.

Boyd, the New Jersey location consultant, said his company has Connecticut clients and the warnings from companies like General Electric and Aetna are not empty threats.

"It is a legitimate and serious tax problem that the corporate community is facing in Connecticut," he said.

Stone, the Louisville businessman, said Fischer and Gov. Steve Beshear ought to seize the opportunity to win jobs from Connecticut. Housing costs and property taxes are about half as much in Louisville as in Hartford, according to Census data.

"We're a better place to live; we have much more to offer," said Stone, a former chamber of commerce director and past chairman of the Jefferson County Republican party. "We've got to take the attitude that we're going to win this thing – not just holding on so we don't lose so much."

But it's one thing for companies to complain about high taxes in their state, and another for highly paid executives to choose to pick up and move.

“(R)emember that the people who run corporations tend to live nearby. Most executives would not be eager to leave their posh neighborhoods, tony schools, and country clubs,” David Brunori, an expert in state tax law at George Washington University, wrote in an op-ed for Forbes last month regarding the “revolt” of corporations in Connecticut.

Bruce Traughber, who ran economic development efforts for former Louisville Mayor Jerry Abramson, said playing the long game with Aetna might be the best approach for Louisville.

“That could be the strategy: We’re not going to go after you in the first six years. We’re going to work on building a relationship and become friends – and you’re going to want to make the decision on your own,” Traughber said. “We’re going to do everything right for the part of your company that’s here.”