

Presentation to:

Lehman Brothers Presentation to:

Western Health Care Leadership Conference

Health Plans in the new Millennium: Challenges to Inertia

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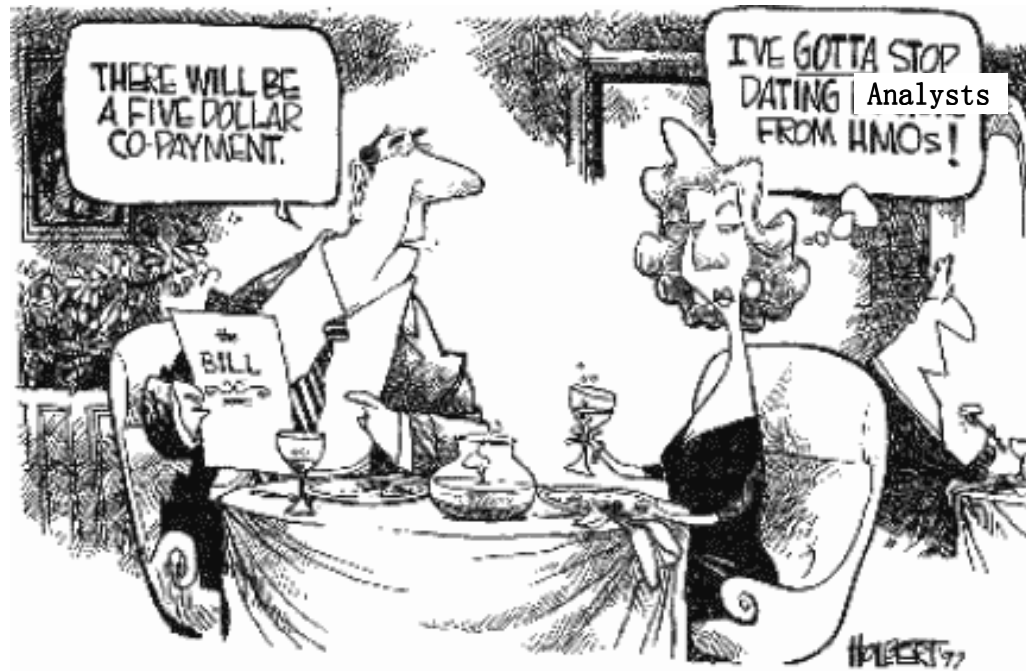
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PLEASE SEE ANALYST(S) CERTIFICATION AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 44

October 16, 2007

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A Little About Me



Presentation Goals

What will we talk about?



Introduction and Purpose



Issues Facing the Current Healthcare System



Why Health Plans are the Answer?



Q&A

Recent Stock Price Performance History

There have been three distinct periods over the past 15 years

	1992	1993	1994
S&P 500	4.5%	7.1%	-1.5%
Managed Care	69.7%	31.5%	31.5%
Relative	65.3%	24.5%	33.0%

- Significant Earnings Growth
- Consolidation

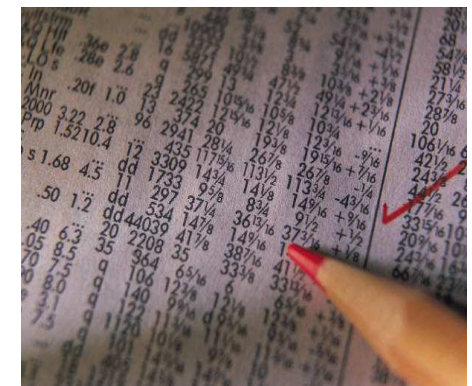
	1995	1996	1997	1998	1999
S&P 500	34.1%	20.3%	31.0%	26.7%	19.5%
Managed Care	20.1%	-9.5%	5.8%	10.0%	-19.9%
Relative	-14.0%	-29.7%	-25.2%	-16.7%	-39.5%

Long Periods of Consistent Performance

- Pricing Below Costs
- Failed Acquisitions
- Medicare Cuts
- MDL Litigation

	2000	2001	2002	2003	2004	2005
S&P 500	-10.1%	-13.0%	-23.4%	26.4%	9.0%	3.0%
Managed Care	94.8%	49.4%	17.1%	68.7%	57.1%	30.4%
Relative	104.9%	62.4%	40.5%	42.3%	48.1%	27.4%

- Accelerating Premiums
- Reorganizations/Cost Savings
- Government Givebacks



Source: Reuters, FactSet and Lehman Brothers

Recent Stock Price Performance History

Which brings us to the current period...

	2006	2007YTD
S&P 500	13.6%	10.2%
Managed Care	10.7%	10.0%
Relative	-2.9%	-0.2%

We believe that the market is undecided about the short term prospects for the managed care industry



Source: Reuters, FactSet and Lehman Brothers

Issues Facing the Current Healthcare System

Perhaps the Opinion of an “Expert”

Paraphrasing from “*Who Killed Healthcare?*”



Health Insurers killed healthcare

General Hospitals killed healthcare

Employer Groups killed healthcare

U.S. Congress killed healthcare

Academics killed healthcare



- ◆ We need to completely over-haul the healthcare system to move toward a consumer driven market
- ◆ Other than that, we are in good hands

Source: Who Killed Healthcare by Regina Herzlinger

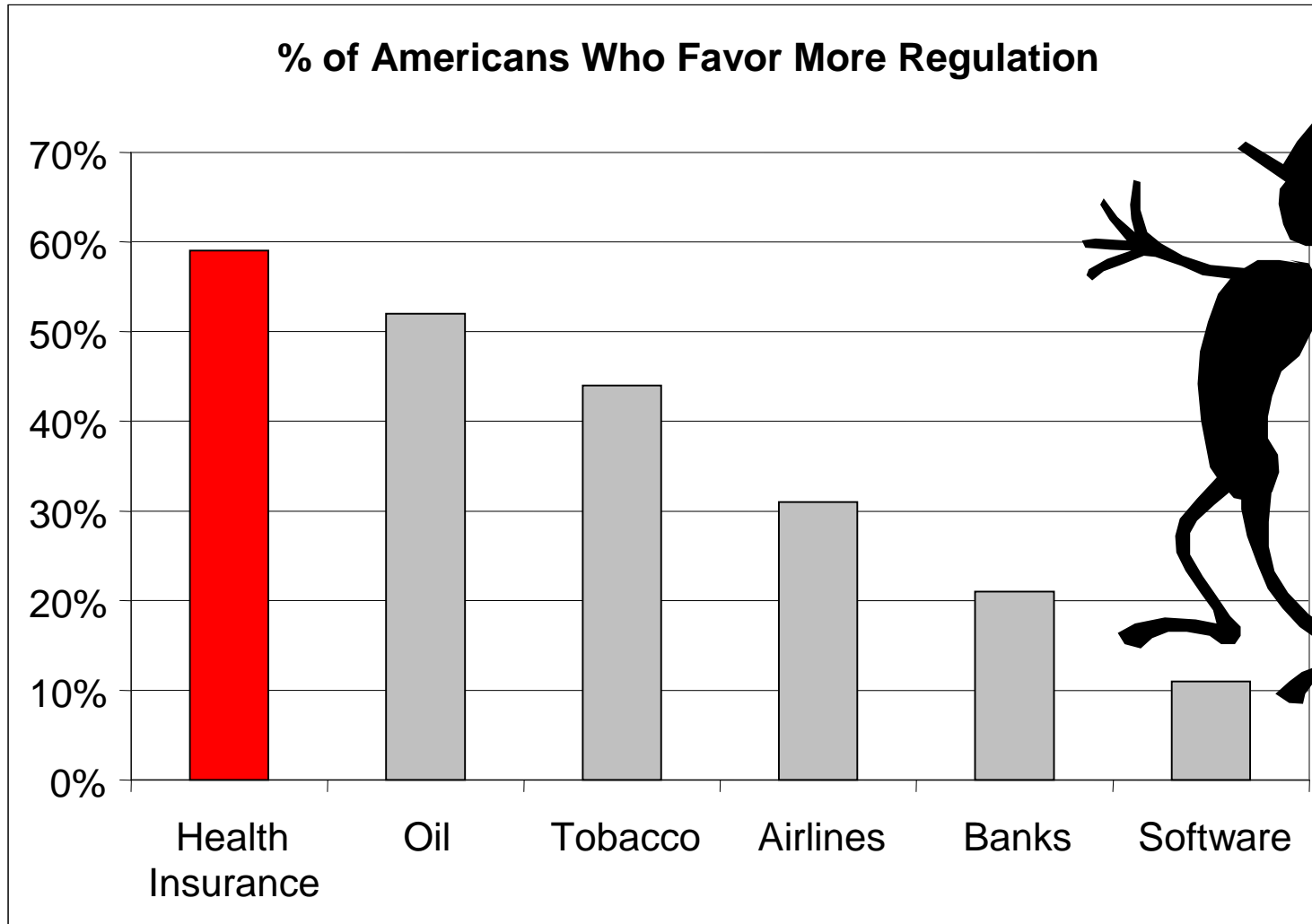
Current Issues:

There are several major issues that we must deal with in the current healthcare system

- ◆ Public Opinion
- ◆ Medical Cost Inflation
- ◆ Turnover in membership
- ◆ An Environment not yet ready for full consumerism
- ◆ Technology or the lack thereof
- ◆ Caring for the Uninsured
- ◆ Controlling Government Programs



Issue #1: Public Opinion



Source: Harris Interactive

Issue #1: Public Opinion

Thinking about the campaign for the presidential election in 2008, what two issues would most like to hear the presidential candidate talk about?

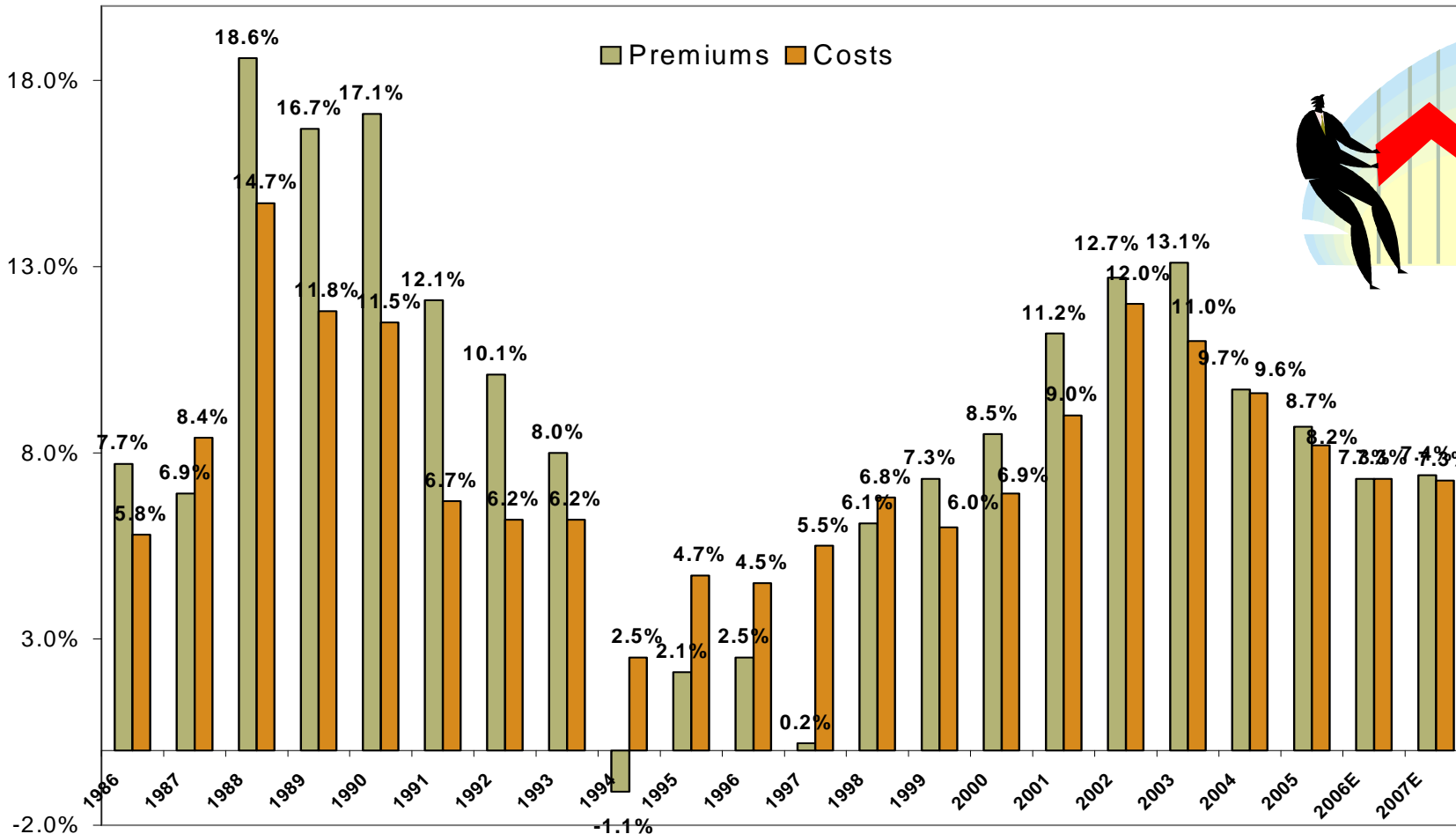
Issue Rank	Total	Republicans	Democrats	Independents
1	Iraq 38%	Iraq 32%	Iraq 42%	Iraq 43%
2	Health Care 30%	Health Care 21%	Health Care 42%	Health Care 25%
3	Economy 13%	Terrorism 16%	Economy 12%	Immigration 16%
4	Immigration 12%	Immigration 15%	Education 9%	Economy 14%
5	Terrorism 7%	Economy 15%	Immigration 7%	Education 8%
6	Taxes 7%	Taxes 10%	Taxes 6%	Terrorism 7%
7	Education 7%	Gas Prices 8%	Terrorism 3%	Taxes 6%
8	Gas Prices 4%	Education 2%	Gas Prices 2%	Gas Prices 3%

Source: Kaiser Health Tracking Poll, August 2007

Issue #2: Medical Cost Inflation

7%-8% Trends are better but only relative to double digit trends

Premium and Cost Trends: 1986 – 2007E



We project 2007 premium yields to come in slightly above costs:
Premiums = 7.4%
Costs = 7.3%

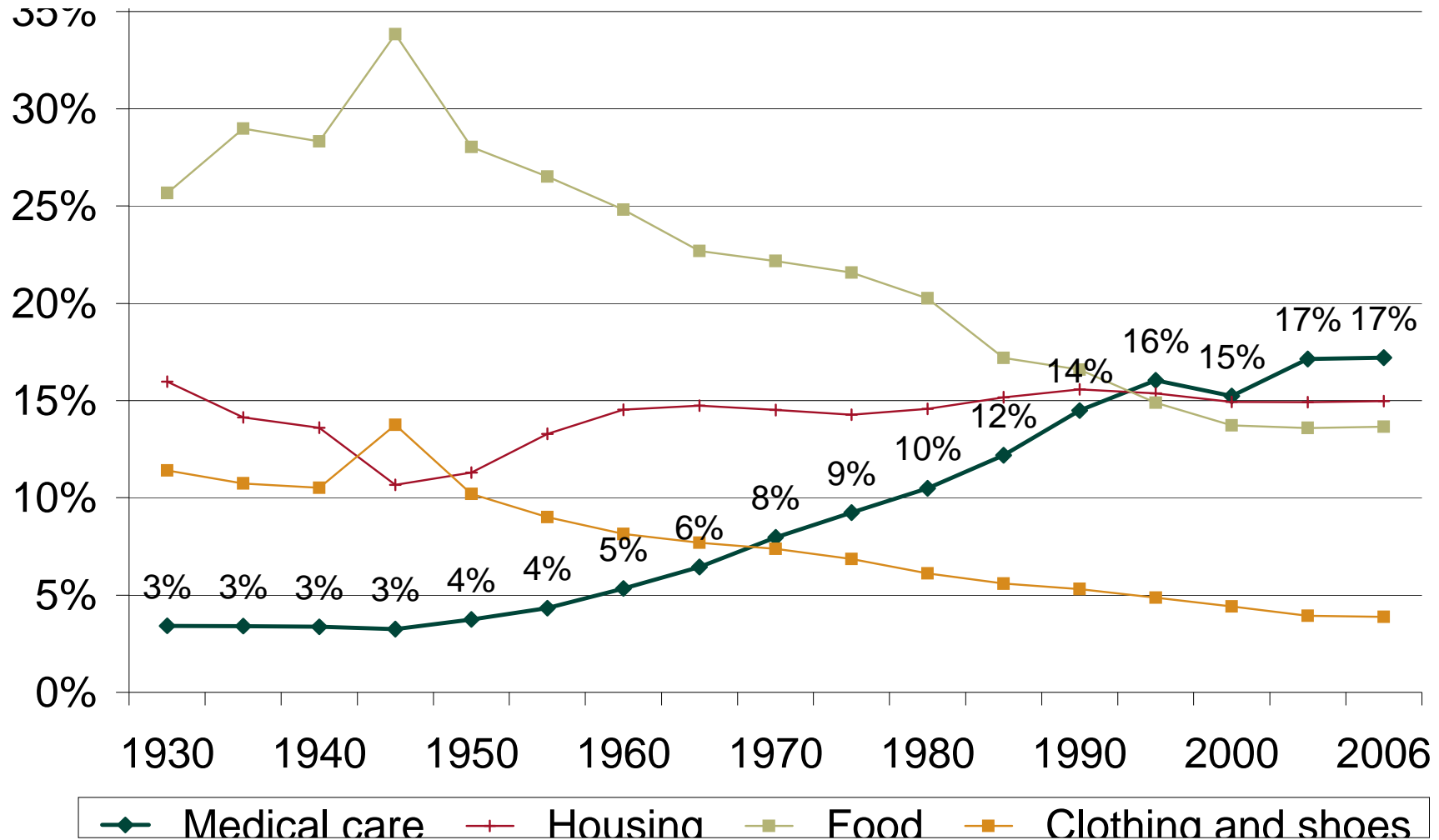
Source: Milliman, CMS, Company Documents and Lehman Estimates

Issue #2: Medical Cost Inflation



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Medical care at 17% of GDP now outranks the homes we live in, the food we eat and the clothing we wear.



Source: Company Documents and Lehman Brothers Estimates

Issue #2: Medical Cost Inflation



Does Pricing Matter to the Insurers?

Inflationary period Pricing/Cost Trends at 10%

	Year 1	Year 2	Year 3	Year 4	Year 5
Membership @ 5%	1,000	1,050	1,103	1,158	1,216
Price PMPM	\$100	\$110	\$121	\$133	\$146
YOY Growth		10.0%	10.0%	10.0%	10.0%
Revenues	\$100,000	\$115,500	\$133,403	\$154,080	\$177,962
YOY Growth		15.5%	15.5%	15.5%	15.5%
Med Costs PMPM	\$83	\$91	\$100	\$110	\$122
YOY Growth		10.0%	10.0%	10.0%	10.0%
Medical Costs	\$83,000	\$95,865	\$110,724	\$127,886	\$147,709
YOY Growth		15.5%	15.5%	15.5%	15.5%
MLR	83%	83%	83%	83%	83%
Gross Margin	17.0%	17.0%	17.0%	17.0%	17.0%
Gross Profit	\$17,000	\$19,635	\$22,678	\$26,194	\$30,254
YOY Growth		15.5%	15.5%	15.5%	15.5%
SG&A PMPM	\$12	\$12	\$13	\$13	\$14
YOY Growth		3.0%	3.0%	3.0%	3.0%
Admin Costs	\$12,000	\$12,978	\$14,036	\$15,180	\$16,417
YOY Growth		8.1%	8.2%	8.1%	8.2%
Pre Tax Margin	5.0%	5.8%	6.5%	7.1%	7.8%
Pre Tax Dollars	\$5,000	\$6,657	\$8,643	\$11,014	\$13,837
YOY Growth		33.1%	29.8%	27.4%	25.6%

Non-Inflationary period Pricing/Cost Trends at 0%

	Year 1	Year 2	Year 3	Year 4	Year 5
Membership @ 5%	1,000	1,050	1,103	1,158	1,216
Price PMPM	\$100	\$100	\$100	\$100	\$100
YOY Growth		0.0%	0.0%	0.0%	0.0%
Revenues	\$100,000	\$105,000	\$110,250	\$115,763	\$121,551
YOY Growth		5.0%	5.0%	5.0%	5.0%
Med Costs PMPM	\$83	\$83	\$83	\$83	\$83
YOY Growth		0.0%	0.0%	0.0%	0.0%
Medical Costs	\$83,000	\$87,150	\$91,508	\$96,083	\$100,887
YOY Growth		5.0%	5.0%	5.0%	5.0%
MLR	83%	83%	83%	83%	83%
Gross Margin	17.0%	17.0%	17.0%	17.0%	17.0%
Gross Profit	\$17,000	\$17,850	\$18,743	\$19,680	\$20,664
YOY Growth		5.0%	5.0%	5.0%	5.0%
SG&A PMPM	\$12	\$12	\$13	\$13	\$14
YOY Growth		3.0%	3.0%	3.0%	3.0%
Admin Costs	\$12,000	\$12,978	\$14,036	\$15,180	\$16,417
YOY Growth		8.1%	8.2%	8.1%	8.2%
Pre Tax Margin	5.0%	4.6%	4.3%	3.9%	3.5%
Pre Tax Dollars	\$5,000	\$4,872	\$4,707	\$4,500	\$4,247
YOY Growth		-2.6%	-3.4%	-4.4%	-5.6%

This is not a good incentive

Source: Lehman Brothers



Issue #2: Medical Cost Inflation

While healthcare trends continue to outpace the economy, commercial MLRs have fallen dramatically

	1999	2000	2001	2002	2003	2004	2005	2006	2Q06	1Q07	2Q07	YOY
Aetna	83.3%	86.3%	90.3%	83.2%	77.7%	78.3%	78.4%	79.4%	81.4%	79.6%	80.5%	-94 bp
Coventry			85.9%	82.8%	79.9%	79.1%	78.5%	77.7%	77.2%	78.3%	77.5%	30 bp
CIGNA	84.3%	84.2%	85.6%	84.9%	86.9%	82.2%	78.3%	78.7%	78.3%	81.7%	80.8%	254 bp
Health Net						83.9%	83.2%	83.0%	84.0%	83.2%	84.5%	51 bp
Humana					82.9%	83.9%	83.3%	81.7%	82.9%	79.4%	80.7%	-220 bp
UnitedHealth	84.6%	84.1%	84.0%	81.9%	80.0%	79.0%	78.2%	79.8%	79.9%	81.2%	81.8%	190 bp
WellPoint		84.7%	84.5%	82.4%	81.0%	82.0%	80.5%	81.2%	81.2%	83.1%	81.8%	64 bp
Commercial	84.1%	84.8%	86.1%	83.0%	81.4%	81.2%	80.1%	80.2%	80.7%	80.9%	81.1%	
YOY Change		76 bp	124 bp	-302 bp	-164 bp	-19 bp	-115 bp	17 bp		83 bp	39 bp	

- **After a peak in 2001, there was steady progress through 2005/2006.**
- **We are probably swinging back to normal levels**
- **Six of Eight companies saw increases in the second quarter of 2007.**

Source: Company Documents and Lehman Brothers Estimates

Issue #3: Membership Turnover

Structural impediments make it difficult for Health Plans to maintain the SAME PATIENT over time.

We Estimate that:

- ◆ Employer groups change health plan options on average every **four** years
- ◆ Employees select a new option on average every **five** years
- ◆ Employees change jobs on average every **five** years

On top of that:

- ◆ Plan mergers, consolidations, market exits

All of this counteracts the impact of care coordination efforts

Source: Lehman Brothers



Issue #3: Membership Turnover

As employers reduce the number of offerings national plans will likely see **continued growth** Western Health Presentation

4Q03-2Q07 Membership Growth National vs Regional

	Commercial Enrollment		+/-	% Change
	4Q03A	2Q07A		
National				
Aetna	12,783	15,396	2,613.0	20.4%
CIGNA	11,493	9,768	(1,725.0)	-15.0%
UnitedHealth (inc PHS)	17,355	25,690	8,335.0	48.0%
WellPoint (inc ATH, WC)	23,900	31,407	7,506.9	31.4%
Total	65,531.1	82,261.0	16,729.9	25.5%
Total Ex CIGNA	54,038.1	72,493.0	18,454.9	34.2%
Regional				
Coventry	1,994	2,772	778.0	39.0%
Health Net	2,822	2,294	(528.0)	-18.7%
Humana	3,065	3,278	212.8	6.9%
Sierra	420	535	115.0	27.4%
Total	8,301.2	8,879.0	577.8	7.0%

Effect of carrier consolidation has been pronounced

Source: Company Documents and Lehman Brothers



Issue #3: Membership Turnover

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Does market share truly insure a preferential cost structure?

Gross Margins	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007E
Health Net	18.76%	19.60%	19.32%	16.68%	13.62%	13.72%	11.66%	12.52%	14.29%	13.59%
WellPoint	22.29%	21.69%	20.58%	20.03%	19.64%	20.25%	25.92%	26.49%	25.87%	25.22%
<i>Difference</i>	3.53%	2.09%	1.26%	3.35%	6.02%	6.53%	14.26%	13.98%	11.58%	11.62%

SG&A Ratio	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007E
Health Net	17.86%	16.35%	15.45%	13.43%	11.05%	10.87%	10.01%	10.15%	11.26%	10.77%
WellPoint	19.86%	18.76%	17.98%	17.45%	16.48%	16.14%	17.04%	16.49%	16.00%	15.06%
<i>Difference</i>	2.00%	2.41%	2.53%	4.02%	5.43%	5.27%	7.02%	6.34%	4.75%	4.29%

EBIT Margin	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007E
Health Net	0.90%	3.93%	3.88%	3.72%	4.53%	4.96%	3.71%	4.22%	4.94%	5.02%
WellPoint	7.49%	7.32%	6.87%	6.62%	7.10%	8.08%	8.43%	9.37%	9.34%	9.47%
<i>Difference</i>	6.59%	3.39%	2.99%	2.90%	2.57%	3.12%	4.72%	5.15%	4.40%	4.45%

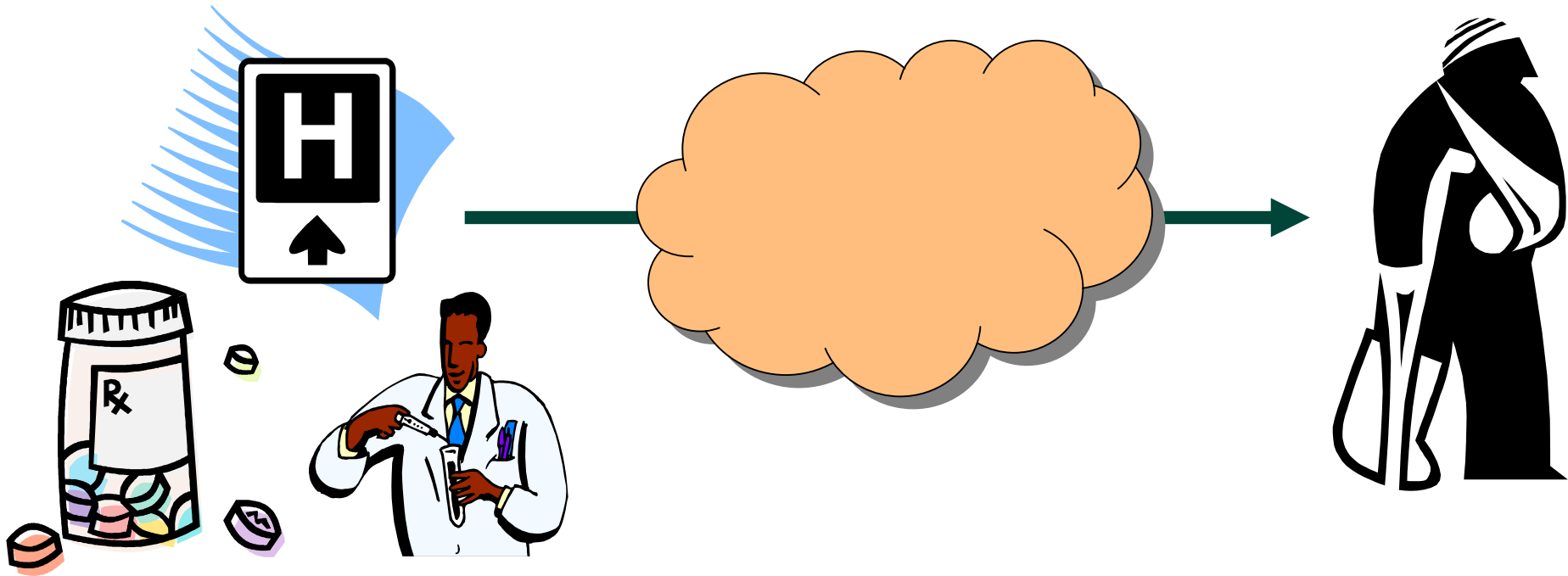
10 Years of Data shows that market share matters:

- **WellPoint gross margins average 742bps higher than Health Net with difference increasing**
- **Health Net runs administrative costs that are an average of 441 bps lower as well.**

Source: Company Documents and Lehman Brothers

Issue #4: Consumerism

What is it?



- ◆ The current “cloud” that comes between healthcare services and the patient is removed
- ◆ The patient becomes a consumer
- ◆ A need for quality data and cost transparency arrives

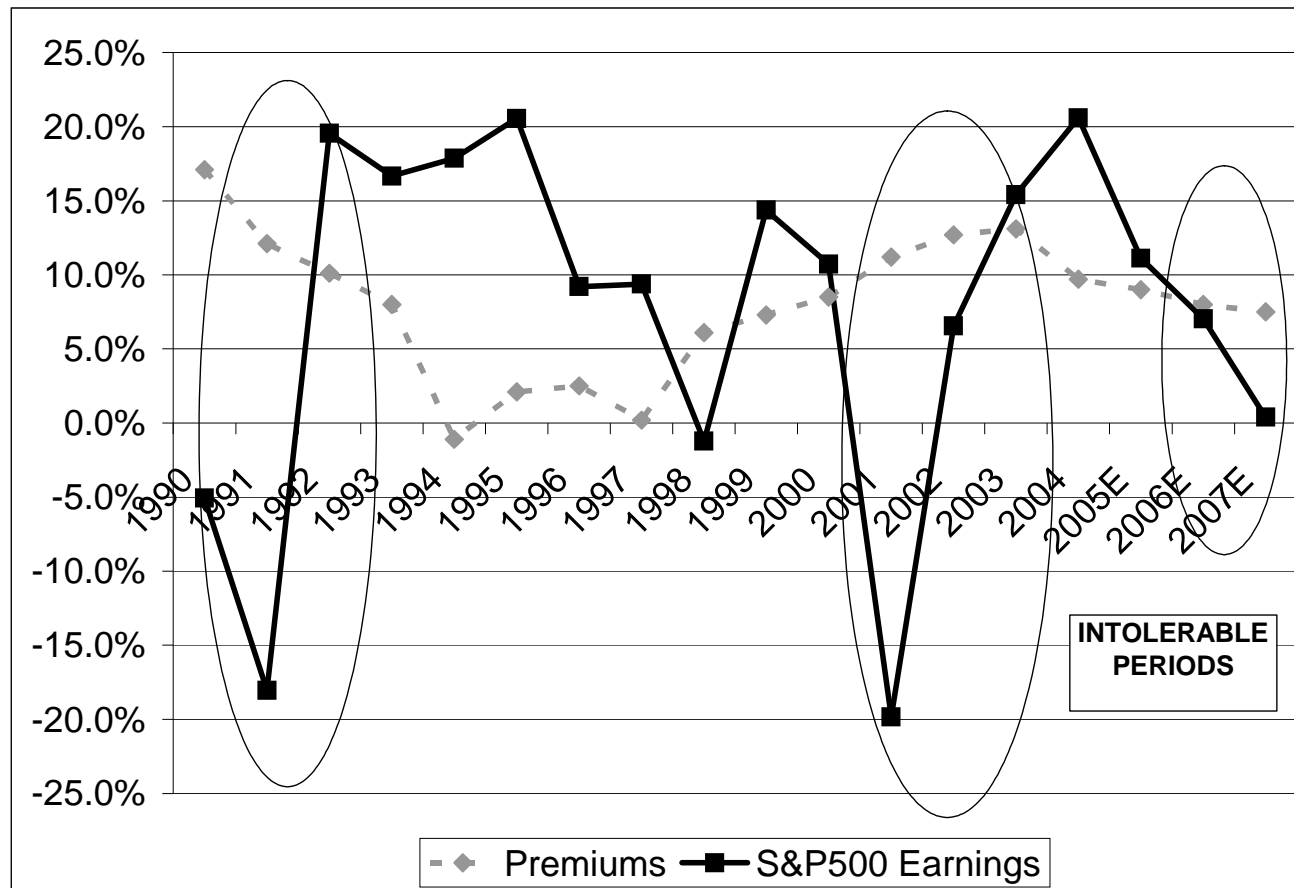


Issue #4: Consumerism

Why Now?

- ◆ Premium Yield Growth
- ◆ Consumer Demand

- ◆ Quality Information Aggregation
- ◆ Regulatory Persuasion
- ◆ Financially Attractive

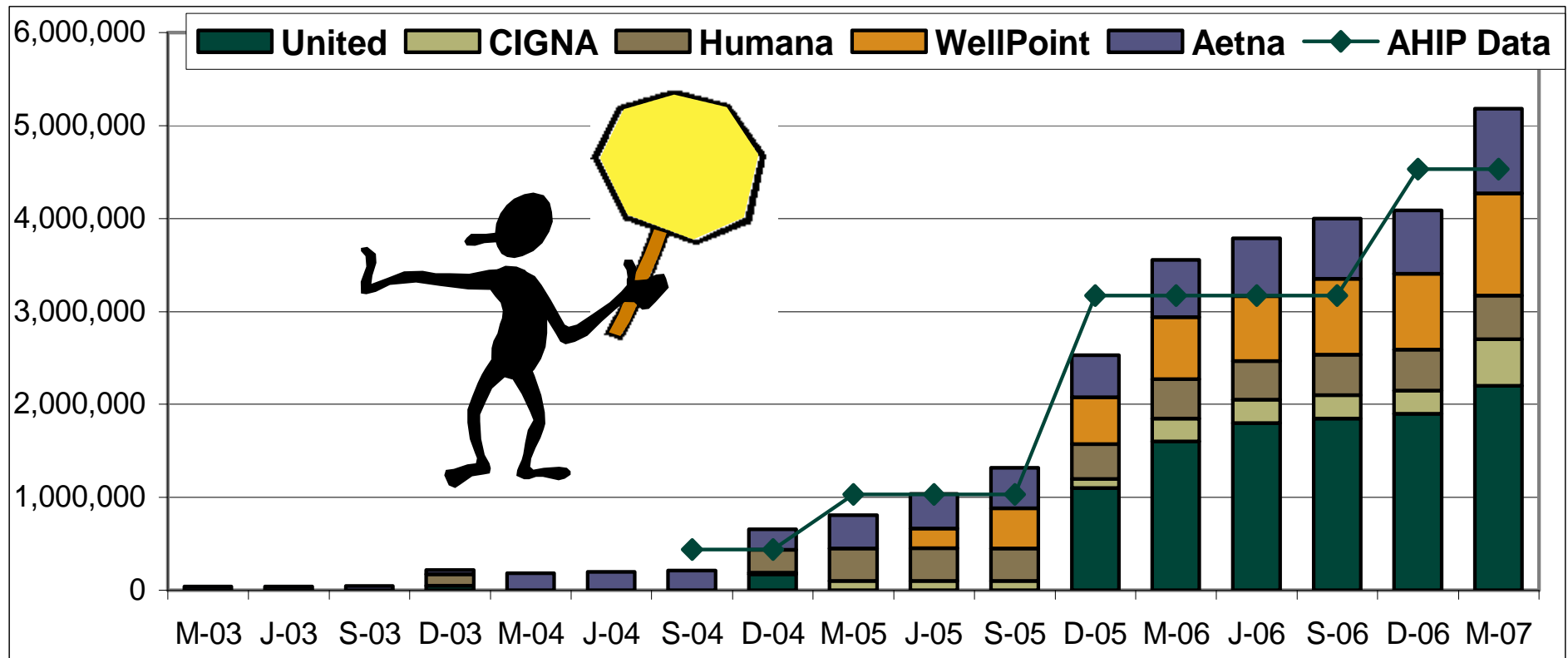


Source: Hewitt, Lehman Brothers



Issue #4: Consumerism

Industry data suggests a slowdown in adoption most recently



Source: AHIP



Issue #4: Consumerism

Health Plan Positives

- ◆ Expand the insured population
- ◆ Increased market share to true managed care plans
- ◆ Contracting leverage
- ◆ The acceleration of consolidation
- ◆ Potential for perception improvement
- ◆ Help assuage political attacks on basis of cost
- ◆ Significant tax advantages



Health Plan Risks

- ◆ Deceleration of top line
- ◆ Expensive technology investments
- ◆ Potential long term political backlash
- ◆ Lack of social consensus
- ◆ **Rudimentary quality and cost information**
- ◆ No long term studies of effect





Issue #4: Consumerism

Wait – What about the consumer????

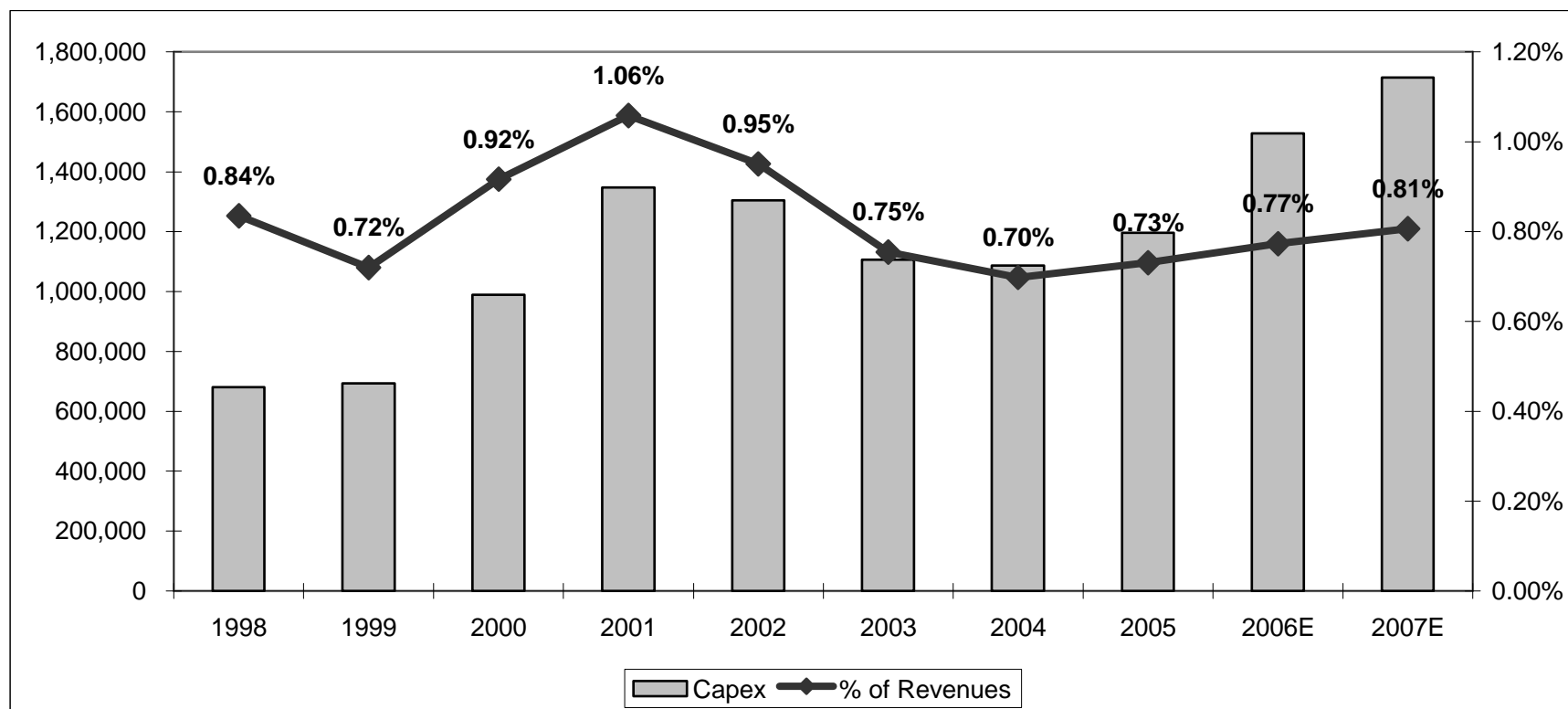




Issue #5: Inadequate Technology

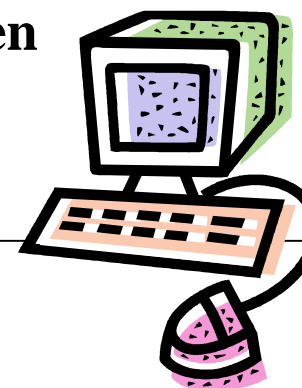
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Capex Spending as a Percentage of Revenues



We have seen large investments, some \$12B in ten years from just seven companies...

Source: Company Documents and Lehman Brothers Estimates





Issue #5: Inadequate Technology

Recent examples of technology investments:

- **CIGNA** Launches Redesigned, Enhanced www.CIGNA.com- January 1, 2007
- **CIGNA** launches newly Enhanced myCIGNA.com Launched- Personal CIGNA HealthCare Member Website Adds Features, Resources- February 19, 2007
- **Aetna**, WorkingRx Share Information To Help Employers Reduce Workers' Comp Pharmacy Costs - March 8, 2007
- **WellPoint** Launches Access to Online Health Communities- March 15, 2007
- **Aetna** Outlines Efforts To Improve Health Care Transparency And Quality - May 9, 2007
- **Aetna** To Enable Faster Payments Between Members And Health Care Providers- May 16, 2007
- **WellPoint** Launches New Innovative Web Tools for Members and Health Care Professionals- June 6, 2007
- **Health Net** to Enable Connecticut Physicians to Automate Prescription Writing and e- Prescriptions Will Improve Safety by Reducing Pharmacy Errors September 2, 2007
- **UnitedHealthcare's** New Online Claim Estimator Provides Coverage, Cost And Payment Information In Seconds - September 18, 2007



Issue #5: Inadequate Technology

...and what have we got to show for it:

“We [Healthcare] are roughly 10-12 years behind the overall economy in terms of technological capabilities”

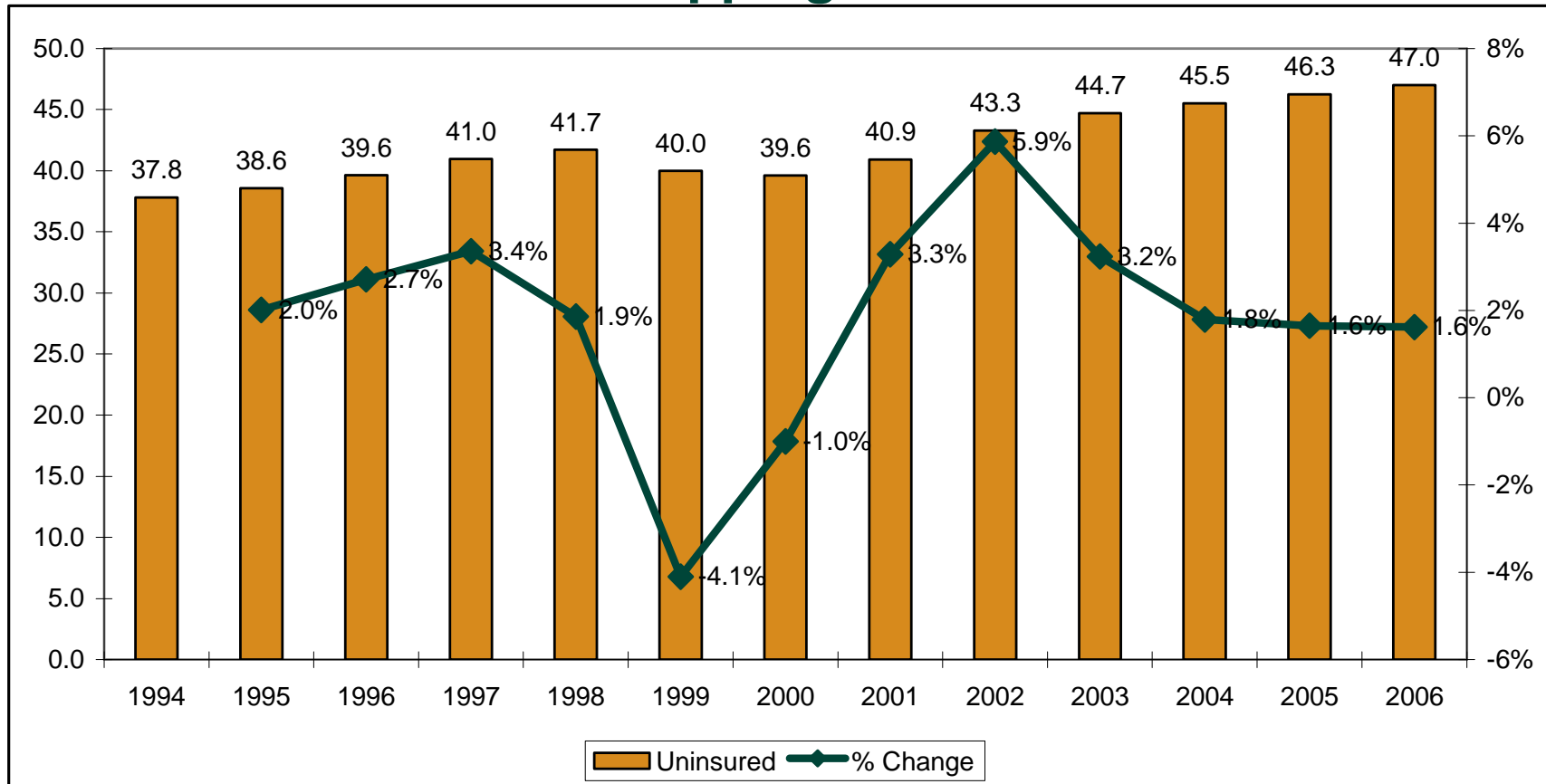
- Health Plan CIO in December 2006



Issue #6: Caring for the Uninsured

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The Tipping Point?



Leads to “The Oprah Impact”

Source: Company Documents and Lehman Brothers Estimates



Issue #6: Caring for the Uninsured

Western Health Presentation

We expect a larger focus on the uninsured in 2007, which should help assuage political attacks as well as providing new opportunities for growth.

Companies Making Efforts

◆ Aetna	→	◆ Strategic Resources Group
◆ CIGNA	→	◆ Star HRG
◆ UnitedHealth	→	◆ Belay/Golden Rule
◆ WellPoint	→	◆ TonikHealth

Potential Political Gains

Cover the Uninsured!



Reform Medicare!

Source: Company Documents and Lehman Brothers Estimates



Issue #6: Caring for the Uninsured

We question the impact of mandated health insurance

Hurdles to Mandated Coverage

- ◆ Benefit minimums tends to create impossibility (i.e. Massachusetts)
- ◆ Federal action seems politically impossible
- ◆ Auto insurance hasn't exactly solved the problem

	Auto	Health		Auto	Health		Auto	Health
Mississippi	26%	17%	Oklahoma	15%	20%	Louisiana	10%	17%
Alabama	25%	14%	Arkansas	14%	16%	South Carolina	10%	15%
California	25%	19%	Rhode Island	14%	11%	Virginia	10%	14%
New Mexico	24%	21%	Wisconsin	14%	10%	West Virginia	10%	16%
Arizona	22%	17%	Hawaii	13%	10%	New Jersey	9%	15%
DC	21%	13%	Kansas	13%	11%	North Dakota	9%	11%
Tennessee	21%	14%	Kentucky	12%	14%	Utah	9%	14%
Florida	19%	20%	Connecticut	12%	12%	Idaho	9%	15%
Average	23%	17%	Delaware	12%	15%	New Hampshire	9%	12%
Washington	18%	13%	Iowa	12%	10%	South Dakota	9%	12%
Michigan	17%	12%	Maryland	12%	15%	Nebraska	8%	11%
Nevada	17%	19%	Missouri	12%	13%	North Carolina	8%	16%
Illinois	16%	14%	Montana	12%	19%	New York	7%	14%
Indiana	16%	14%	Oregon	12%	17%	Massachusetts	6%	12%
Texas	16%	25%	Wyoming	11%	14%	Vermont	6%	11%
Alaska	15%	17%	Minnesota	10%	9%	Maine	4%	10%
Colorado	15%	17%	Pennsylvania	10%	12%			
Ohio	15%	11%	Georgia	10%	17%	Average	14.6%	15.7%

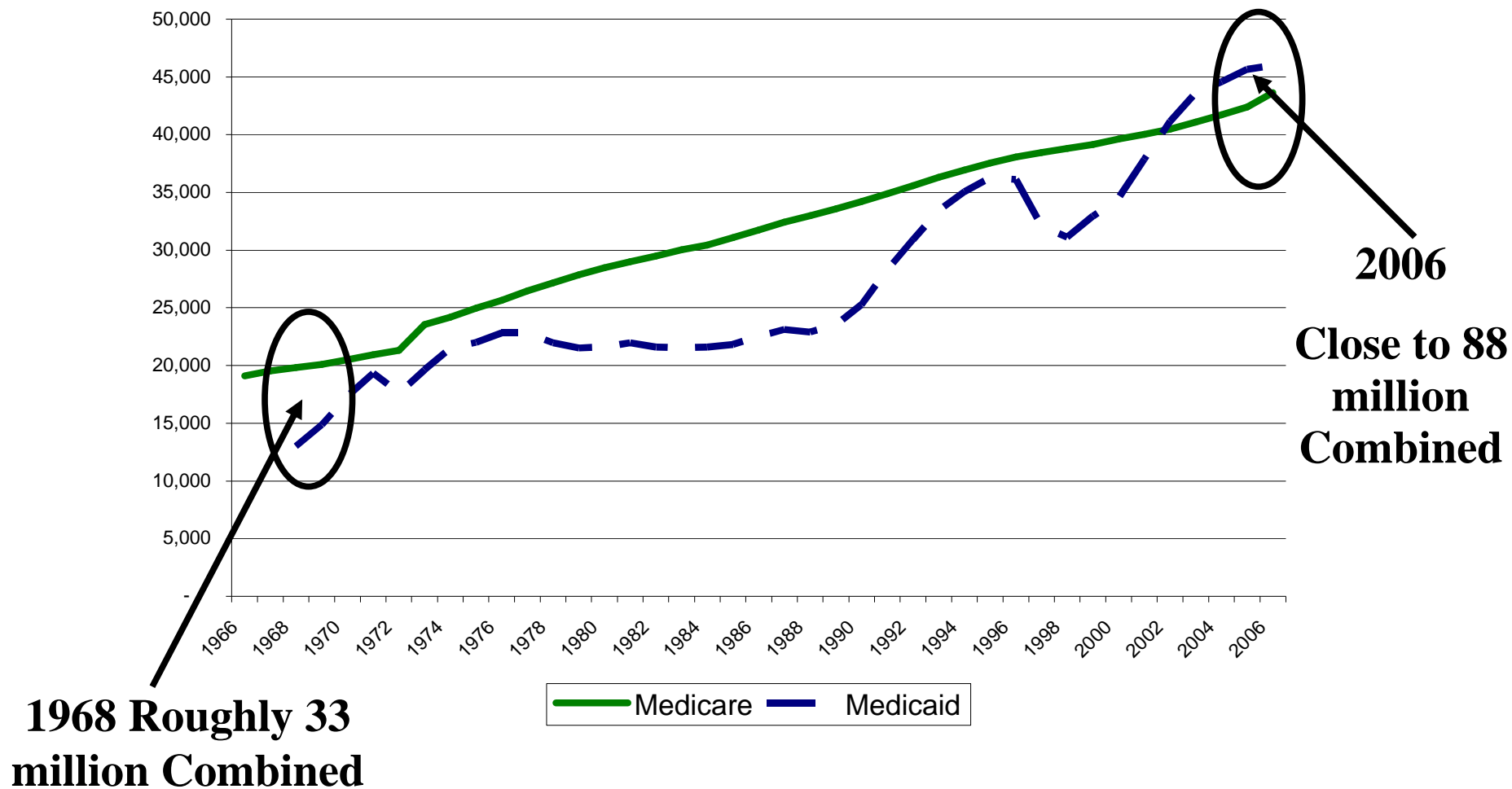
Source: Company Documents, Insurance Research Council, and Lehman Brothers Estimates



Issue #7: Controlling Government Programs

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Growth in Medicare and Medicaid Eligibles Continues to Grow



Source: CMS and Lehman Brothers Estimates



Issue #7: Controlling Government Programs

Uwe's Hypothesis:

“Medicare can make anyone a fraud”

- Dr. Uwe Reinhardt, Professor of Political Economy Princeton University



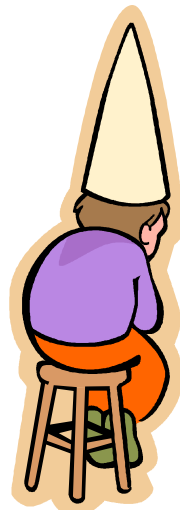


Issue #7: Controlling Government Programs

Raskin's Corollary:

*“Covering the managed care sector can
humble any analyst”*

- Joshua Raskin, Every year in the second quarter





Issue #7: Controlling Government Programs

More Money for Anyone (MMA) is the Enabler

Medicare HMOs are in their third iteration currently

STAGE 1: Cost Plus

Pre 1997

- Medicare HMOs receive payments equal to medical + plus administrative coverage
- Leads to abuse of cost allocations and overpayment by the Government

STAGE 2: Capped Monthly Payments

1997-2003

- Medicare HMOs receive fixed PMPM, with efficiency dictating profits
- Inadequate annual increases (set at 2% per annum) lead to sizeable HMO exits

STAGE 3: Capped w/ FFS based escalators

2004-2007? 2008?

- Keeps PMPM reimbursement, but ties annual escalators to trends in FFS Medicare
- Budget neutrality subsidies are slowly being unwound.
- Current situation leading to excess payments over traditional program

Source: Company Documents.



Issue #7: Controlling Government Programs

We believe the market is underestimating the potential 2007 changes Western Health Presentation

There is little doubt about the long term growth in the senior market...

Year	Medicare Enrollment	CAGR	% of US Population
1970	20,398		10.0%
1975	24,864	4.0%	11.5%
1980	28,433	2.7%	12.5%
1985	31,081	1.8%	13.1%
1990	34,251	2.0%	13.7%
1995	37,594	1.9%	14.1%
2000	39,688	1.1%	14.1%
2005	42,301	1.3%	14.2%
2010	46,328	1.8%	14.9%
2015	53,092	2.8%	16.2%
2020	61,339	2.9%	17.9%
2025	70,512	2.8%	19.6%

Source: CMS, BEA and
Lehman Brothers

...But There are Questions.

- 1) Should the Medicare program be privatized?
- **Simple Answer: We think so.**
- 2) If so, the second question becomes whether that privatization should include a subsidization to ensure acceptance and growth?
- **Simple Answer: It is very hard to argue the plans deserve more.**

(Congress had legislated the benefit package)



Issue #7: Controlling Government Programs

We believe the market is underestimating the potential 2007 changes Western Health Presentation

Medicare Advantage Costs More than Traditional Fee For Service

- ◆ Estimates range from 5% to as much as 40%
- ◆ No one arguing that there is no premium
- ◆ Commonwealth Fund report estimates 12%+ differential

Indefensible

PFFS receiving the most attention

		2004	2005	2006	YOY	9/2007	YOY	
Aetna	PFFS				0	50,225	50,225	
Coventry	PFFS				0	170,324	170,324	
Health Net	PFFS				0	13,468	13,468	
Humana	PFFS	14,812	101,785	476,370	374,585	616,519	140,149	29.4%
Sierra	PFFS				0	871	871	
UnitedHealth	PFFS	267	14,096	189,528	175,432	96,773	(92,755)	-48.9%
Universal American	PFFS	1,405	5,078	18,183	13,105	188,495	170,312	936.7%
WellCare	PFFS				0	52,230	52,230	
WellPoint	PFFS	12,961	46,888	78,935	32,047	138,188	59,253	75.1%
National	PFFS		208,990	864,093	655,103	1,581,389	717,296	83.0%
Aetna	Total MA	97,134	101,149	121,588	20,439	188,569	66,981	55.1%
CIGNA	Total MA	33,063	31,982	31,595	(387)	31,588	(7)	0.0%
Coventry	Total MA	71,983	74,242	79,435	5,193	258,076	178,641	224.9%
Health Net	Total MA	170,917	171,468	189,862	18,394	234,241	44,379	23.4%
HealthSpring	Total MA	62,780	99,200	113,331	14,131	126,297	12,966	11.4%
Humana	Total MA	375,396	539,167	1,007,362	468,195	1,140,569	133,207	13.2%
Sierra	Total MA	53,198	55,487	57,015	1,528	59,329	2,314	4.1%
UnitedHealth	Total MA	340,946	1,162,940	1,473,581	310,641	1,395,329	(78,252)	-5.3%
PacifiCare	Total MA	702,223						
Universal American	Total MA	20,277	30,010	53,573	23,563	235,615	182,042	339.8%
WellCare	Total MA	44,062	65,674	89,221	23,547	159,187	69,966	78.4%
WellPoint	Total MA	138,575	223,360	262,794	39,434	364,050	101,256	38.5%
National	Total MA		5,292,205	6,877,376	1,585,171	8,554,446	1,677,070	24.4%
Totals								
Coverage Universe								
PFFS	PFFS	29,445	167,847	763,016	595,169	1,327,093	564,077	336.1%
<i>PFFS as % of total</i>		1.4%	6.6%	21.9%	64.4%	31.7%	79.1%	
Total MA Membership	Total MA	2,110,554	2,554,679	3,479,357	924,678	4,192,850	713,493	27.9%
National Market								
PFFS	PFFS		208,990	864,093	655,103	1,699,050	834,957	399.5%
<i>PFFS as % of total</i>			3.9%	12.6%	41.3%	19.3%	43.3%	
Total MA Membership	Total MA		5,292,205	6,877,376	1,585,171	8,805,631	1,928,255	36.4%

Source: CMS and Lehman Brothers Estimates



Issue #7: Controlling Government Programs

Western Health Presentation

What Could Happen in 2007?

We expect to see definitive steps taken to reduce the payments to the Medicare Advantage program

1) We would also look for the pressure to potentially start thorough investigations, hearings, inquiries and other formal reviews into MA reimbursement. Potentially exacerbated by risk adjustment process.

GAO Report April 1997: MEDICARE HMOs: HCFA Can Promptly Eliminate Hundreds of Millions in Excess Payments

GAO Report August 2000: MEDICARE+CHOICE: Payments Exceed Cost of Fee-for-Service Benefits, Adding Billions to Spending

2) We do NOT expect material margin pressure, but rather a slowdown in growth.

	1998	1999	2000	2001	2002	2003	2004	2005	2006E	2007E	
Aetna	535	703	549	255	117	105	97	101	125	150	
CIGNA	147	188	122	50	43	42	33	32	32	32	◆ Fewer Selling Days
Coventry	65	69	72	54	82	65	69	75	79	143	
Health Net	326	265	271	216	177	169	171	172	196	219	◆ Lower Membership
Humana	502	489	494	394	344	329	377	558	999	1,208	
Sierra	37	42	42	45	48	51	53	56	59	61	◆ 90%+ PDP Penetration
UnitedHealth*	1,456	1,453	1,463	1,294	986	912	1,035	1,134	1,422	1,586	
Universal American							19	25	52	68	
WellCare					40	42	46	69	88	115	◆ 1-2% MA Rates
WellPoint *	149	136	142	194	217	196	194	223	241	258	
Total	3,217	3,344	3,155	2,501	2,053	1,959	2,152	2,530	3,402	3,968	◆ PDP Rate Reductions
YOY Growth		3.9%	-5.7%	-20.7%	-17.9%	-4.6%	9.8%	17.6%	34.5%	16.6%	

Source: Lehman Estimates.

3) Beware of the Unintended Consequences.

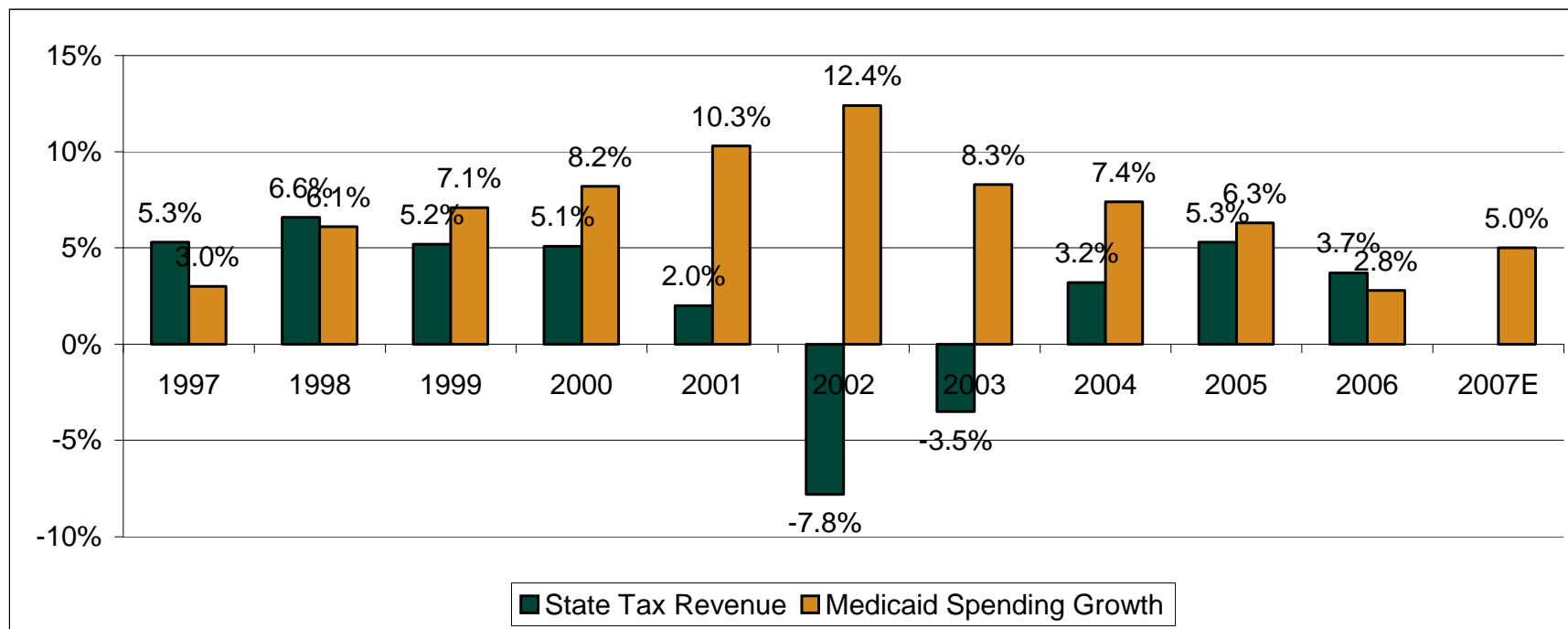


Issue #7: Controlling Government Programs

Western Health Presentation

Medicaid spending growth continues to outstrip growth in tax revenue

Medicaid Spending Growth vs. Growth in State Tax Revenue: 1997-2007E



Source: Kaiser Commission on Medicaid and the Uninsured, CMS

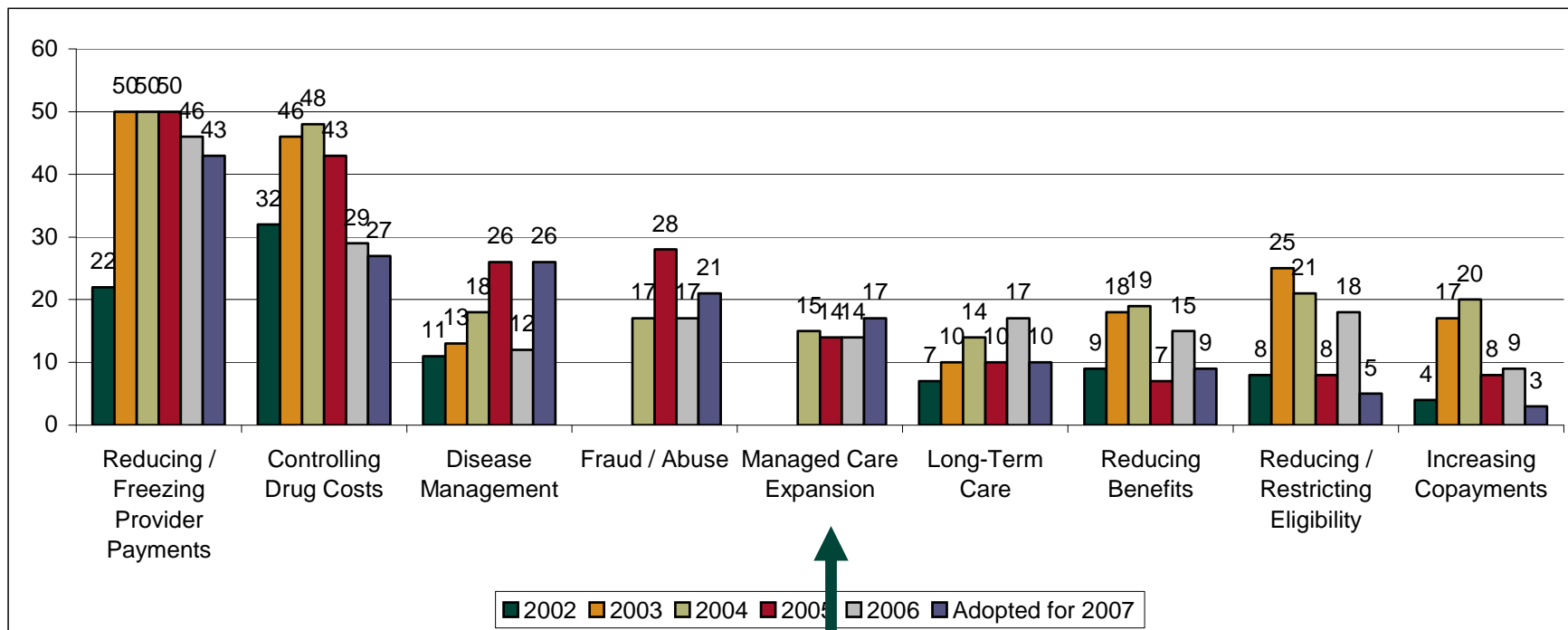


Issue #7: Controlling Government Programs

Western Health Presentation

Cutting provider payments not a sustainable strategy

Medicaid Cost Containment Strategies FY 2002-2007E



Interesting Idea

Source: Urban Institute, Kaiser Commission on Medicaid and the Uninsured, CMS

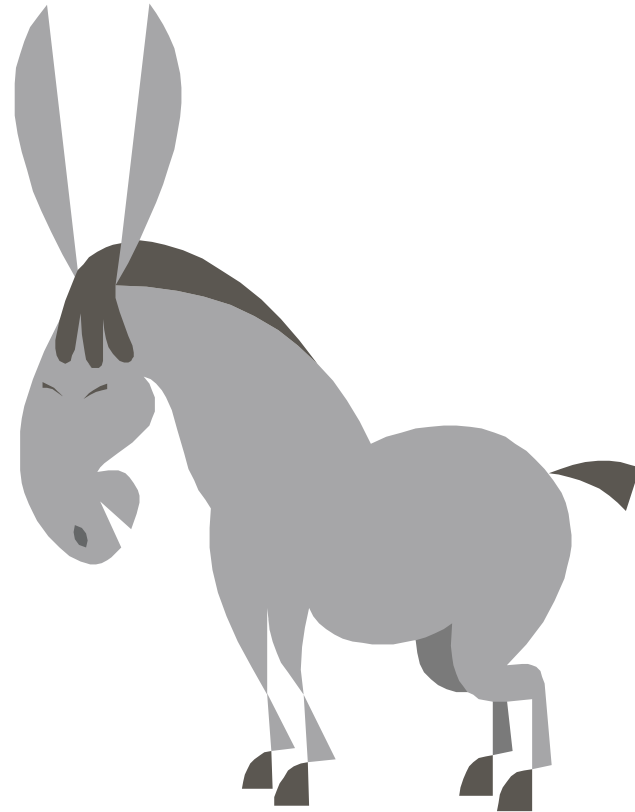


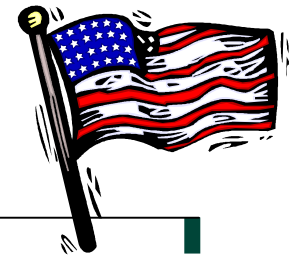
Proposals From Presidential Candidates

It is better to offer no excuse than a bad one.

- George Washington

The Democrats





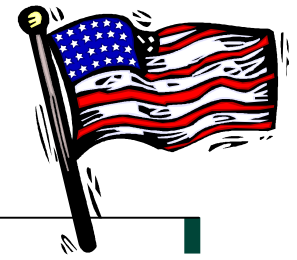
Clinton: '92 déjà vu?

- ◆ If you like your plan keep it, otherwise, plenty of choice
- ◆ Eliminate insurance discrimination; Reduce costs
- ◆ Fully cover preventative care
- ◆ Improve disease management
- ◆ Tax credits to businesses and working families
- ◆ Reduce overpayments to private insurers

And the Catch?

Still shared responsibility, so who is accountable?

Complexity: Health choices and tax credits



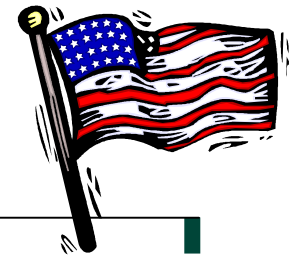
Obama: Simpler, but Greater Regulation

- ◆ Establish Public Health Insurance Program
- ◆ Create **National Health Insurance Exchange**
 - New Rules, Increase competition for insurance plans
- ◆ Require employers to contribute to health coverage
- ◆ All children covered
- ◆ Expand Eligibility for Medicaid and Medicare
- ◆ Disease Management and National Health Initiatives

And the Catch?

Increased regulation of private insurance

Lower Medicare Advantage subsidies

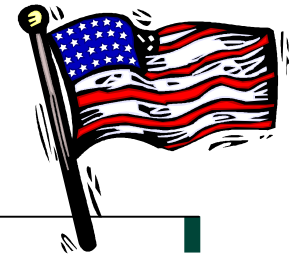


Edwards: Greatest Industry Control

- ◆ Create Regional Health Care Markets
 - Choice between private and public insurers
 - Negotiate low premiums
 - Tax credits to subsidize plans in this system
- ◆ Free preventative care; improved disease management
- ◆ Shift away from fee-for-service payment model
- ◆ Improve information technology

And the Catch?

Health Care Markets infringe on “capitalism” of industry
New payment models could lead to lower rates



Richardson: Straight to the Insurers

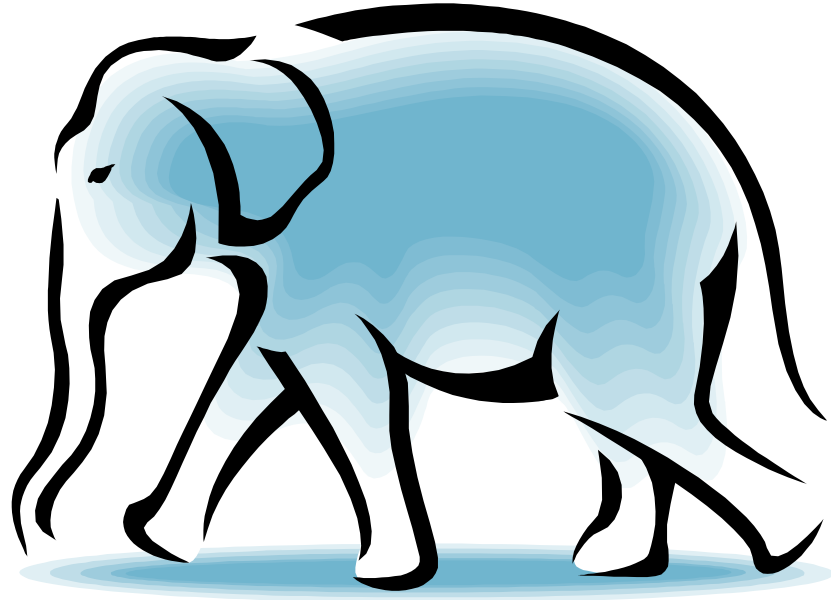
- ◆ Choice, similar to Clinton's in structure
- ◆ Cost controls on insurance companies
 - Minimum 85% MLR
- ◆ Limit overpayments for Medicare Advantage
- ◆ Sliding scale tax credit to help American afford coverage
- ◆ Improve information technology
- ◆ Require insurance companies to standardize forms

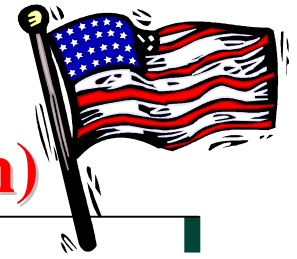
And the Catch?

Specific cost controls on insurers

Emphasis on regulating insurance companies' practices

The Republicans



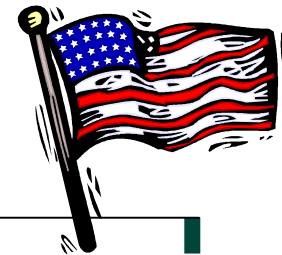


Giuliani: Free Market Solutions (...but no full plan)

- ◆ Free market solutions
- ◆ Consumer driven health care
- ◆ Expand low cost insurance options and HSAs
- ◆ End failed government mandates and administrative bureaucracies
- ◆ Provide tax credits to individuals to purchase private health insurance

And the Catch?

*Not much said, so not much likely to change
Less government intervention, but potentially lower subsidies*



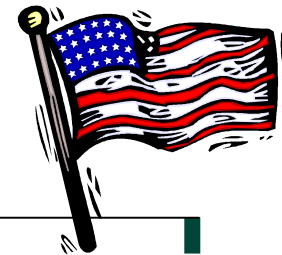
Thompson: More Free-Markets?

- ◆ No new mandates, no new taxes
- ◆ Provide more information, consumer-driven system
- ◆ Health plans should emphasize preventative care
- ◆ End failed government mandates and administrative bureaucracies
- ◆ Encourage use of best practices

And the Catch?

Vague proposals so far

Definitely free-market driven, maybe a good thing



Romney: Free Market and Federalism

- ◆ Reform state insurance markets
- ◆ Require middle income individuals to purchase insurance or pay for own medical expenses
 - Deduct out of pocket expenses from taxable income
- ◆ Help low-income individuals purchase private insurance
- ◆ Expand HSAs

And the Catch?

In our analysis, the plan favors private insurers

Because largely state regulated, could create some complications with varying state requirements

All Clip Art sourced from Microsoft Word.

Parting thoughts



Matching Consumer needs with...

...Actual excerpts from medical records (from Medi-Smart):

Improved outcomes

- By the time he was admitted, his rapid heart had stopped, and he was feeling better.

Real time data

- Patient has chest pain if she lies on her left side for over a year.

Continuity of Care

- The patient has been depressed ever since she began seeing me in 1983.

World class triage

- The patient is tearful and crying constantly. She also appears to be depressed.

Consumer Choice

- The patient refused an autopsy.

Care Coordination

- Between you and me, we ought to be able to this woman pregnant.



Clear and concise diagnostics

- Patient was alert and unresponsive.



Questions and Answers



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Mentioned Stocks

Aetna Inc (AET - USD53.13) 1-Overweight / Neutral

AMERIGROUP Corp (AGP - USD33.74) 2-Equal weight / Neutral

CIGNA Corp (CI - USD52.07) 3-Underweight / Neutral

Centene Corp. (CNC - USD21.74) 1-Overweight / Neutral

Coventry Health Care (CVH - USD59.01) 2-Equal weight / Neutral

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Health Net (HNT - USD51.35) 3-Underweight / Neutral

HealthSpring Inc. (HS - USD19.94) 2-Equal weight / Neutral

Humana Inc (HUM - USD71.22) 3-Underweight / Neutral

Healthways Inc. (HWAY - USD55.71) 2-Equal weight / Neutral

Matria Healthcare Inc. (MATR - USD25.90) 1-Overweight / Neutral

Magellan Health Services (MGLN - USD42.55) 1-Overweight / Neutral

Molina Healthcare (MOH - USD35.22) 3-Underweight / Neutral

Sierra Health Services (SIE - USD42.45) RS-Rating Suspended / Neutral

Universal American Financial Corp. (UHCO - USD24.18) 1-Overweight / Neutral

UnitedHealth Group (UNH - USD49.34) 1-Overweight / Neutral

WellCare Health Plans (WCG - USD111.92) 2-Equal weight / Neutral

WellPoint, Inc. (WLP - USD78.56) 1-Overweight / Neutral

Other Material Conflicts

UNH: Lehman Brothers is acting as financial advisor to Sierra Health Services, Inc. in the potential sale of the company to United Health Group.

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1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

2-Equal weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

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