Healthcare BUSINESS STRATEGY™

Top Health Plans Perform Well for First Half of 2011

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For the first half of 2011 top health plans saw a combined net increase of over 2 million members from December 2010. While aggregated fully-insured business continued to experience losses, the administrative services only (ASO) segment gained over 2.6 million members during the period from December 2010 to June 2011. Commercial, Senior and Medicaid segments all saw enrollment growth during the first six months of 2011. As employers, consumers and government entities bear more of the medical costs and financial risks associated with health care, the leading health plans continue to see year-over-year profitability improvement.

This brief presents key findings from MFA's review of enrollment and financial trends among seven top health insurers: Aetna, CIGNA, Health Care Service Corporation (HCSC), Humana, Kaiser Permanente, UnitedHealth Group and WellPoint. It looks at results from second quarter 2010 to second quarter 2011. Financial and membership data and observations were gleaned from the October 2011 Health Insurer Insights™ series. These seven organizations insure or administer coverage for approximately 50% of the population with health insurance in the United States and its territories.

Membership Changes

The top seven U.S. health plans, based on medical membership, reported enrollment totaling 127.9 million as of June 30, 2011, up 2,036,150 people from 125.9 million at year end 2010. Three of the top companies cited enrollment gains across all three major business lines: Commercial, Senior and Medicaid. Enrollment gains by UnitedHealthcare, WellPoint, Kaiser and CIGNA in the Commercial sector were significant enough to offset losses in this segment by the other plans.

Large Insurers' Medical Membership Growth

Segment	4Q10	2Q11	Change
Senior[1]	9,920,286	10,256,839	336,553
Medicaid[2]	7,222,661	7,494,614	271,953
Commercial[3]	108,762,162	110,189,806	1,427,644
Total	125,905,109	127,941,259	2,036,150

(1) May include both Med Supp and Medicare Advantage but not PDP

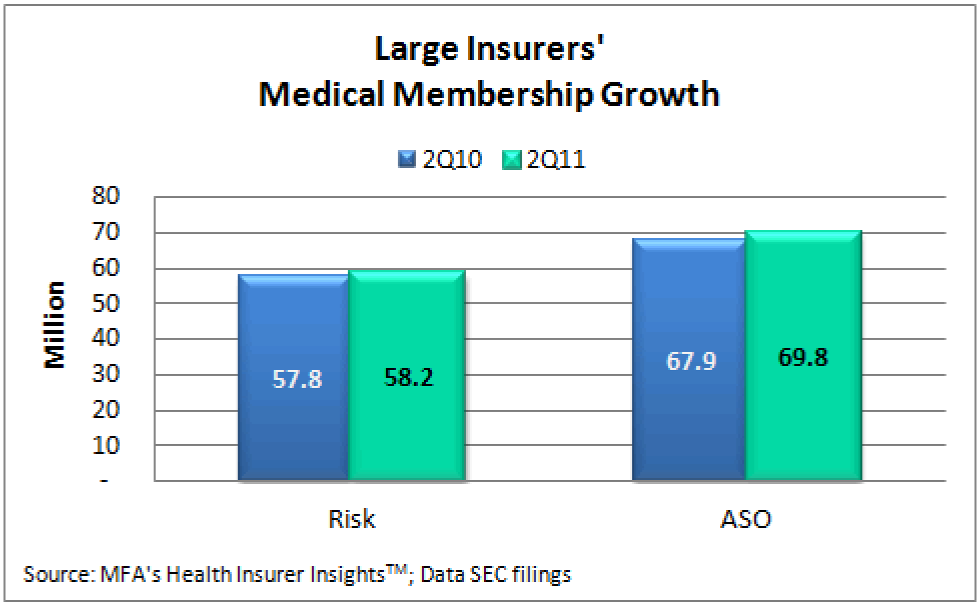
(2) Includes ASO and Risk-based arrangements

(3) Includes TRICARE and FEHBP enrollment, and ASO and Risk-based arrangement

Source: MFA's Health Insurer Insights™; Data SEC filings

Most of the commercial gains are occurring in the administrative services only (ASO) segment. Total ASO enrollment grew by 2.645 million people, or 3.9%, from 67.128 million as of December 2010 to 69.773 million for June 2011. In comparison, year-over-year ASO enrollment increased by more than 1.8 million or 2.7% with membership increasing from 67.9 million in June 2010 to 69.8 million as of June 2011.

Fully-insured business (risk enrollment) declined 609,252 (-1.0%) from 58.8 million as of December 2010 to 58.2 million for June 2011. However, year-over-year risk enrollment gained 415,931 members from 57.8 million in June 2010 to 58.2 million as of June 2011.

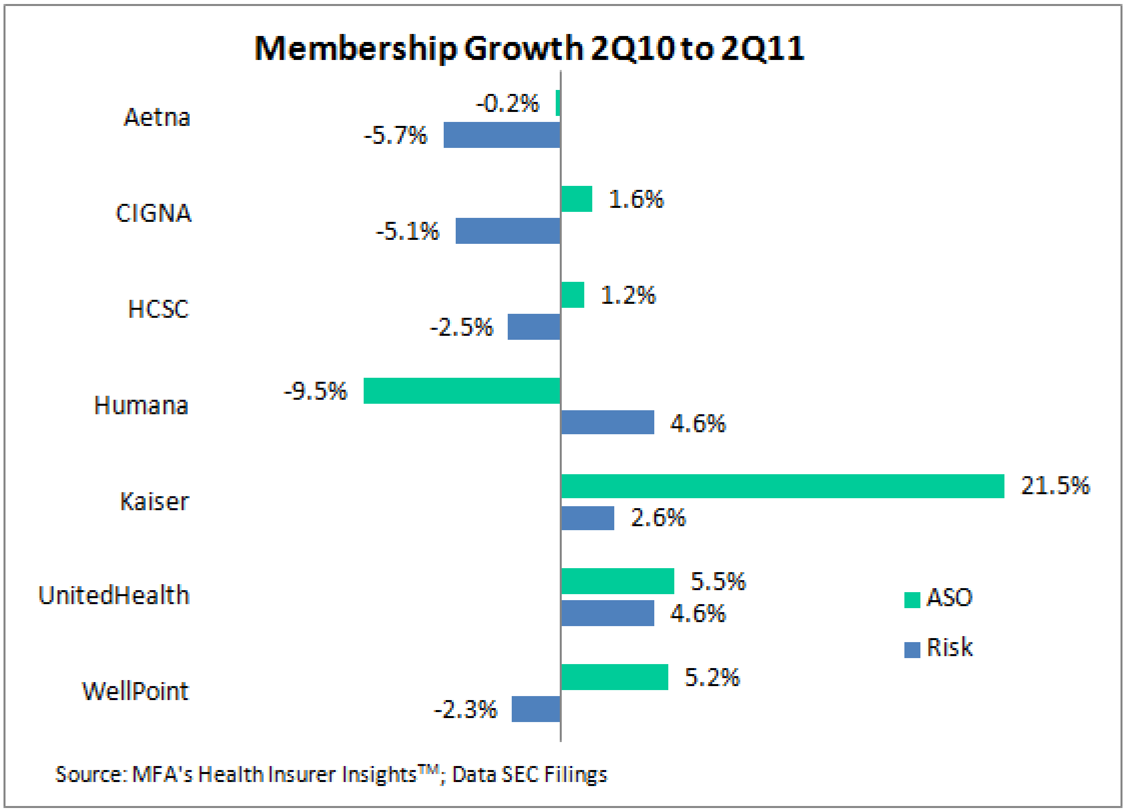


Year-over-year, total membership for the seven leading plans increased by 2,240,519 or 1.8%, from 125.7 million in 2Q10 to 127.9 million for 2Q11.

Some Health Plans' See Enrollment Gains

UnitedHealth, one of the largest plans in the United States, reported total enrollment gains year-over-year and from December 2010 to June 2011, when it picked up 1.2 million new enrollees. UnitedHealth gained 890,000 commercial enrollees from 4Q10 to 2Q11 with most of the commercial gains from fee-based (ASO) business. UnitedHealth added 110,000 Medicaid members; 10% of UnitedHealth's medical membership is from state-sponsored business.

WellPoint, Kaiser and CIGNA also reported growth year-over-year and from December 2010 to June 2011. For the first six months of 2011, WellPoint and Kaiser gained 863,000 and 192,519 members respectively. From year-end 2010 to June 2011, CIGNA gained 21,000 new members, including 122,000 new commercial enrollees much of which was offset by the loss of 101,000 Medicare Advantage members.



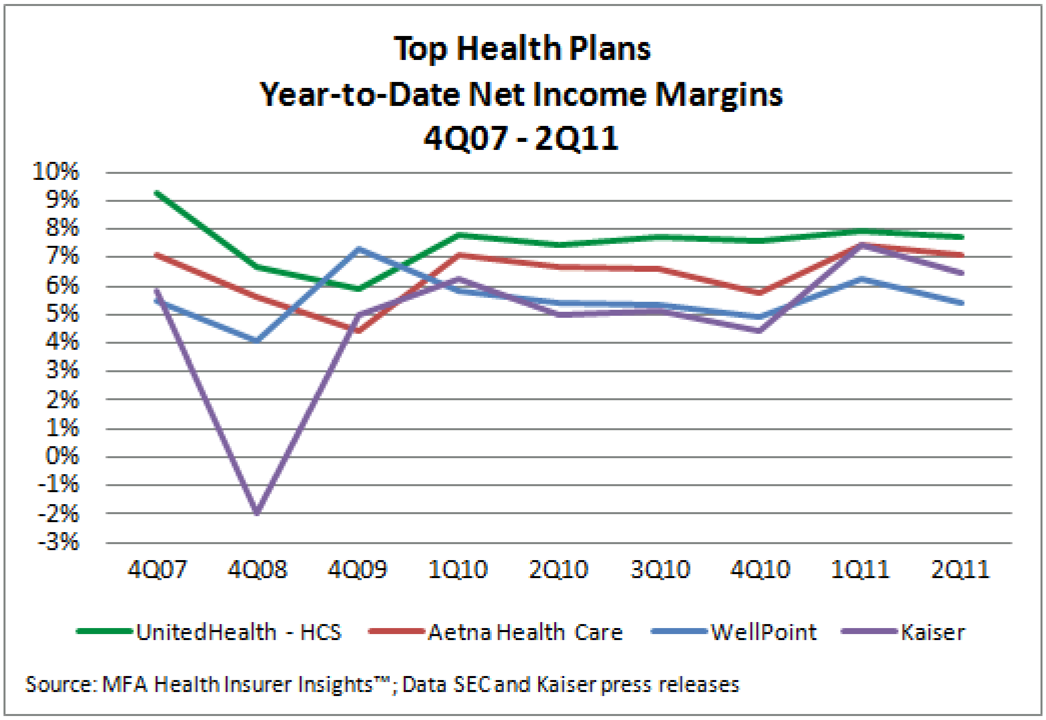
Profitability Improvements

As employers, consumers and government entities bear more of the medical costs and financial risks associated with health care, the top health plans saw improved profitability when comparing results for the first six months of 2010 to the first six months of 2011. UnitedHealth, Aetna and WellPoint saw modest gains during the period. Kaiser Foundation Hospitals, Kaiser Foundation Health Plan, Inc., and respective subsidiaries (Kaiser) combined reported net income of approximately $1.6 billion on revenues of $23.9 billion, yielding a net income margin* of 6.5% for the six months ending June 30, 2011. This was up from a net income margin of 5.0%, based on net income of $1.1 million on revenues of $22.0 billion as the company reported for the six months ending June 30, 2011. Net income margin for a not-for-profit company roughly equates to a profit margin for a private or publicly traded company.

Lower medical cost trends were primarily cited as the reason for profitability improvements. These trends are most likely down because higher deductible and copayment products have consumers bearing more medical costs. Overall medical cost trends may be down because healthcare providers, who converted to electronic billing systems, now must manually bill consumers for an increasing share of charges. Some hospitals and physician offices may choose to write off certain expenses rather than recreate a manual billing system. At the very least, there may be a timing gap before the full medical costs are identified for a specific period. The movement towards more limited-network options, accountable care organizations (ACOs), where providers bear some of the risk of coverage, may also be contributing to lower utilization. Without a doubt, the strained economy also contributes to a drop in utilization of medical coverage which underlies lower medical cost trends.

As more employers and state-sponsored Medicaid programs move toward self-funded options, they remove some of the financial burden (risk) health plans historically carried. Lower risk burdens mean carriers can reduce their reserves; this also contributes to improved profitability.

The seven top health plans all have different business strategies but it is interesting to note that their net income/profit margins* are all converging on a narrow range of 5.4% to 7.7%. UnitedHealth Group's Health Care Service (HCS) business unit reported a 7.7% profit margin for the six months ended June 30, 2011. Aetna's Health Care sector's margin* was 7.1% for the same period. WellPoint's profit margin of 5.43% for the first half of 2011 is similar to the 5.41% margin it reported for the first half of 2010.



* Profit margin is net income (loss) divided by total revenues.

These seven organizations insure or administer coverage for approximately 50% of the estimated 256.2 million people with health insurance in the United States and its territories. This highly competitive industry is in the midst of transforming from a business-to-business sales paradigm to a much more consumer-driven and retail-based business. Competition amongst plans is also growing; only 11,000 members separate WellPoint, the leading plan in the nation in terms of membership, and number two ranked UnitedHealthcare as of June 30, 2011. As the health insurance industry changes, staying current on the latest business strategies and financial health of the competition is critically important. Mark Farrah Associates' many products can help simplify your analysis of health insurance business.

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