Healthcare BUSINESS STRATEGY™

First Quarter 2012 Results Mixed for Leading Health Plans

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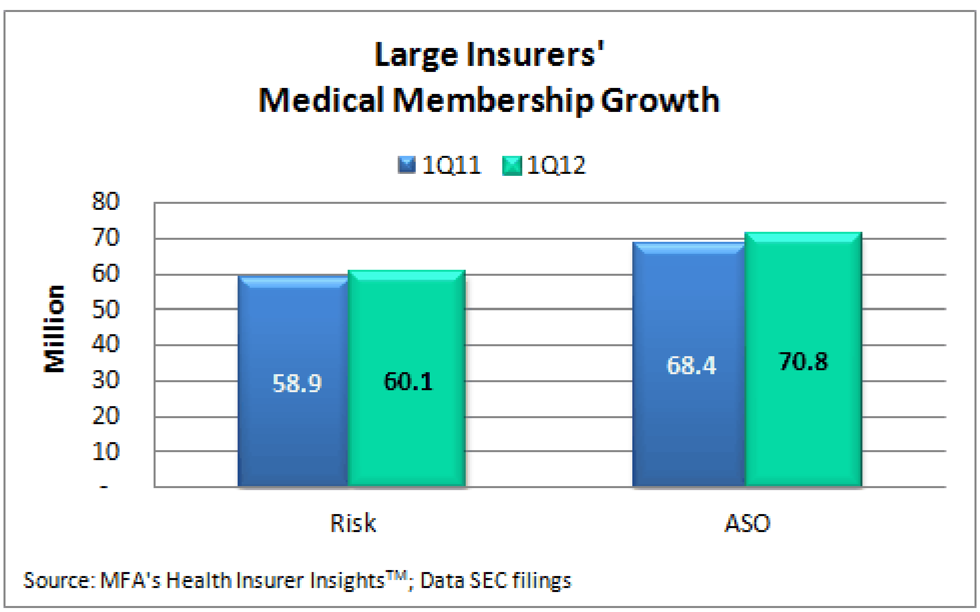
Most of the nation's leading health plans saw enrollment gains in the first quarter of 2012. There was however, a slight downturn in profitability results year-over-year. Between December 2011 and March 2012 top plans saw an aggregate increase of nearly 1.4 million members. The primary 2012 open enrollment season resulted in gains for both aggregated fully-insured business and the administrative services only (ASO) segment. As Commercial business continues to shift towards ASO more plans are seeking opportunities in Medicare and Medicaid which may be impacting profitability.

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 first quarter 2011 to first quarter 2012. Financial and membership data and observations were gleaned from the July 2012 Health Insurer Insights™ series. These seven health plans cover approximately 43% of the total population in the nation.

Overall Membership Gains

Year-over-year, total membership for the seven leading plans increased by 3.5 million (2.8%), from 127.3 million as of March 2011 to 130.8 million as of March 2012.



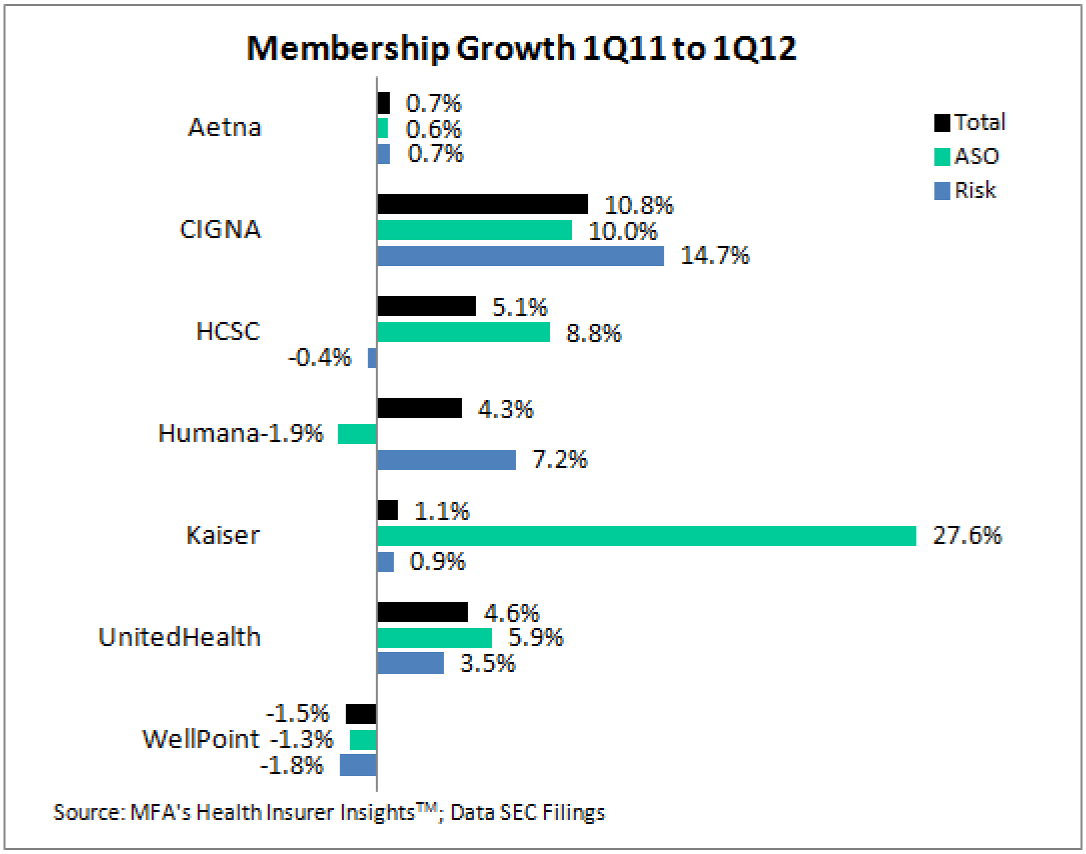
From March 2011 to March 2012, the administrative services only (ASO, also known as self-insured) segment gained more than 2.3 million covered lives, ending 1Q12 with approximately 70.8 million members. Fully-insured (risk) enrollment increased by 1.2 million members in the same period. Aggregate risk enrollment for the top plans totaled 60.1 million at March 2012. Gains in managed Medicare and Medicaid enrollment are driving risk enrollment up. Commercial risk-enrollment decreased by more than 770,000 members (- 1.8%) from March 2011 to March 2012.

Five of the nation's seven leading health plans saw enrollment gains in the first quarter of 2012. Between December 2011 and March 2012 top plans saw an aggregate increase of more than 1.4 million members (1.1%). These same seven companies gained 2.0 million (1.6%) between December 2010 and March 2011.

Health Plan Observations

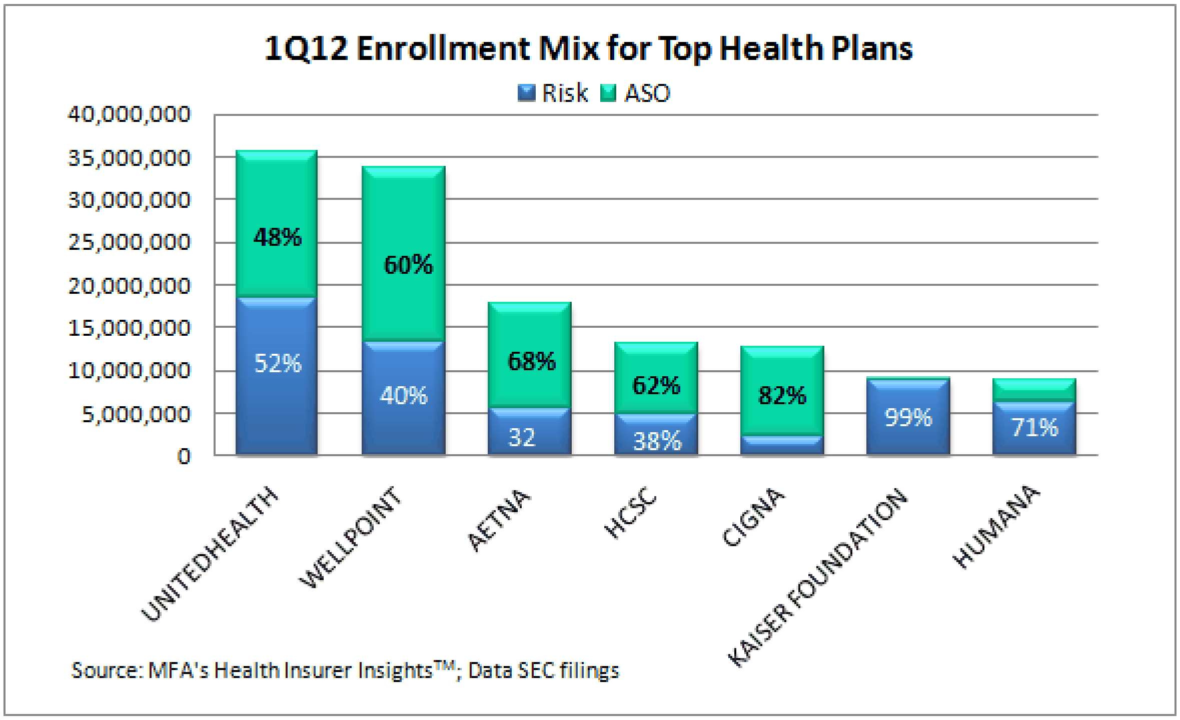
Both WellPoint and Aetna saw enrollment declines during the primary 2012 open enrollment period from December 2011 to March 2012. WellPoint lost 578,000 members and Aetna lost 544,000 members during the first quarter of 2012, when compared to year-end enrollment numbers.

With the exception of WellPoint, all the leading health plans saw total enrollment growth year-over-year. WellPoint's enrollment declined from 34.2 million as of March 2011 to 33.7 million as of March 2012.



Between March 2011 and March 2012, HCSC and WellPoint experienced declines in risk enrollment. Humana and WellPoint both reported decreases in ASO covered lives. CIGNA experienced the largest growth rate over the year, increasing total enrollment by 10.8%. CIGNA's nearly 15% increase in risk enrollment is due to its acquisition of HealthSpring, Inc., a leading Medicare Advantage participant.

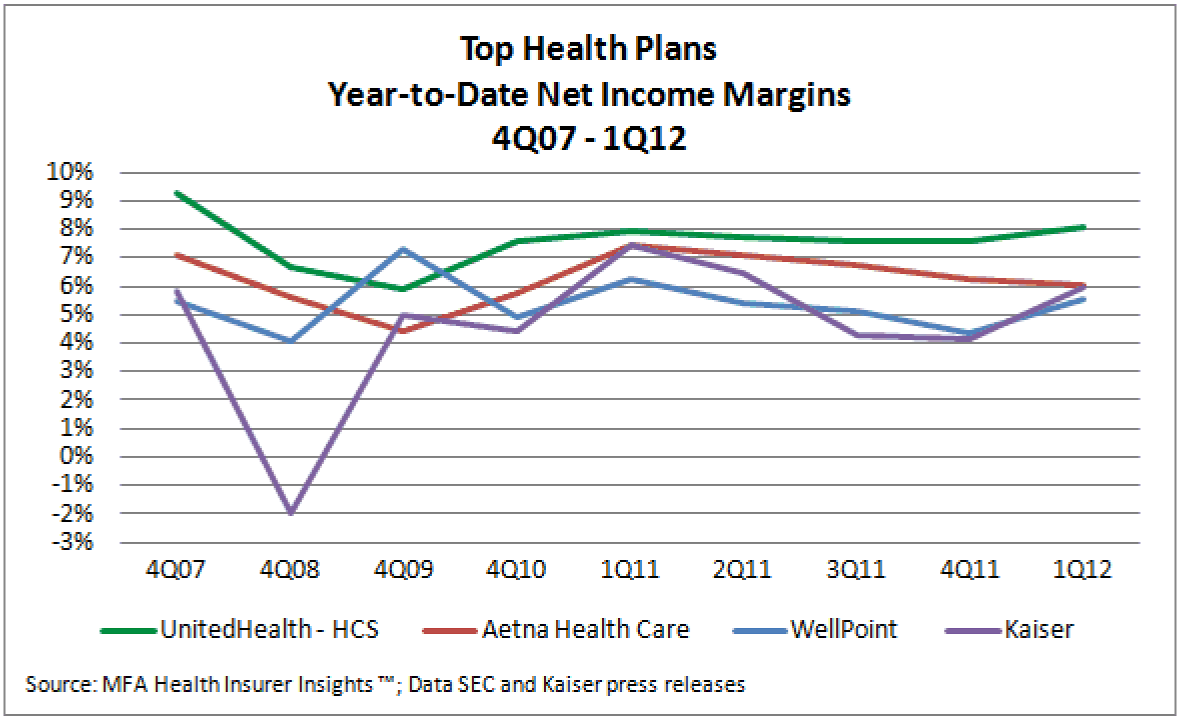
UnitedHealth gained the most new members with an increase of 1.6 million enrollees between 1Q11 and 1Q12. UnitedHealthcare increased ASO enrollment by 5.9% and risk enrollment by 3.5% year-over-year. Unlike the rest of its competitors, UnitedHealthcare, the leading health plan in the nation based on enrollment as of 1Q12, maintains a relatively balanced mix of ASO and risk enrollment. It is interesting to note that the majority of most health plan enrollment comes from administrative services type contracts rather than insurance products.



Profitability Impacts

The administrative services versus risk enrollment mix can influence health plan profitability. Administrative services' revenues generally involve an annual rate for processing claims and fees for rental of a provider network that are relatively stable throughout the year. Both ASO and risk-based health insurance businesses have relatively low profit margins, but one would expect to see more volatility in companies with higher percentages of risk enrollment, due to the uncertainty of medical expenses. Seasonality would also be more of an issue with companies covering a higher percentage of risk enrollment. Health plans that have a higher percentage of ASO enrollment may see larger increases from year-end to current period and year-over-year but more stability from quarter-to-quarter.

The majority of leading health plans saw modest downturns in year-over-year profitability for 1Q12, when compared to 1Q11. Profit margins* decreased from a combined average of 6.79% for first quarter 2011 to 5.79% for first quarter 2012. UnitedHealthcare was the only one of the seven leading health plans to report a year-over-year increase. UnitedHealthcare generated $25.5 billion in revenue and reported earnings from operations of $2.1 billion (8.1%) through March 31, 2012. This compares to revenue of $23.9 billion and reported earnings from operations of $1.9 billion (8.0%) through March 2011. First quarter 2012 profit margins for the top plans ranged from Humana's low of 2.43% to UnitedHealthcare's of 8.1%. Kaiser and Humana continue to see the most volatility in their profit margins.



**Net Income (profit) margin is net income (loss) divided by total revenues.*

Commercial, Senior and Medicaid segments all saw enrollment growth year-over-year.

Large Insurers' Medical Membership Growth

Segment	1Q11	1Q12	Change
Senior[1]	10,178,914	11,863,765	1,684,851
Medicaid[2]	7,388,010	7,668,529	280,519
Commercial[3]	109,744,139	111,296,860	1,552,721
Total	127,311,063	130,829,154	3,518,091

(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 InsightsTM; Data SEC filings

Commercial business increased by 1.4% from 1Q11 to 1Q12, all commercial growth came from the ASO segment. Senior (also referred to as Medicare) and Medicaid enrollment increased 16.6% and 3.8% respectively during the same period. Three of the top companies cited enrollment gains across all three major business lines.

Six of the seven top plans saw gains in Medicaid; Aetna was the only leading plan to report a decline in Medicaid enrollment from March 2011 to March 2012. Many of the leading plans' growth strategies call for pursuing more business in the Senior and Medicaid segments for 2012 and 2013. Most of the top plans indicated interest in The Centers for Medicare & Medicaid Services (CMS) dual eligible integration pilot projects slated for 2013 and many are acquiring health plans specializing in these markets. Examples of some of these transactions include:

- CIGNA's acquisition of HealthSpring
- Humana recently acquired Arcadian, a Medicare Advantage HMO serving members in 15 states
- UnitedHealth acquired XL Health and announced plans to acquire two Medicare plans in the Florida market
- WellPoint announced plans to acquire Amerigroup in July 2012 and recently acquired CareMore

The top plans mentioned in this report insure or administer coverage for approximately 42% of people in the United States and its territories. While the majority of enrollment is currently under ASO arrangements this is shifting as more of the leading plans explore opportunities in the Medicaid, Medicare and non-group markets. This highly competitive and adaptable industry is in the midst of transforming from a business-to-business sales paradigm to a much more consumer-driven and retail-based business model. 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.

Health Insurer Insights™

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