

Equities

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Managed Care Weekend Update

Week Ending September 10, 2011

■ Industry Overview

- **Highlights** — North Carolina and Oklahoma are the latest states to request minimum MLR waivers, with North Carolina asking for a 72% individual MLR that would reduce \$12 million in rebates to about \$4 million. We also run through the second quarter statutory filings from Centene and WellCare. Centene's Medicaid results were aided the most by Texas and Indiana in the quarter, while WellCare saw a big benefit from favorable prior year development in Florida, Georgia, and Hawaii.
- **Managed care stocks underperformed the market this week** — The managed care group was down 1.9% through Thursday's close, underperforming the S&P index, which fell 1.5%. The Medicare plans performed the best this week, as the group was down only 0.1%. Year to date, the Medicare group is up 37.2%.
- **Stocks of the week** — Universal American was the best performing stock through Thursday's close, rising 2.8%, while AMERIGROUP underperformed the most, declining 6.5% for the week. WellCare has done the best year to date, increasing 46.1%, while Triple-S has struggled the most, falling 15.4%.

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Weekend Update

Aetna (AET), AmeriHealth Mercy, Arkansas Blue Cross Blue Shield, Assurant, Blue Cross and Blue Shield of North Carolina, Blue Cross Blue Shield of Florida, Blue Cross Blue Shield of Kansas, Blue Cross Blue Shield of Massachusetts, Blue Cross Blue Shield of Michigan, Blue Cross Blue Shield of Minnesota, Blue Cross Blue Shield of Nebraska, Blue Shield of California, Centene (CNC), CIGNA (CI), Community Health Solutions, Coventry (CVH), Fallon Community Health Plan, Florida Health Care, Harvard Pilgrim Health Plan, Health Alliance, Health Care Service Corp, Healthplan Holdings, Inc, Healthplan Holdings, Inc, HealthSpring (HS), Humana (HUM), MedSolutions, Monarch HealthCare, Mutual of Omaha, Regence Blue Cross, UnitedHealth (UNH), WellCare (WCG), and WellPoint (WLP).

North Carolina's Minimum MLR Waiver Request

On September 6th, the state of North Carolina submitted a request to HHS asking for an individual minimum MLR adjustment to 72% in 2011, 74% in 2012, and 76% in 2013, instead of the federal requirement of 80%. Based on 2010 results, if the 80% minimum loss ratio had applied, the state estimates plans would have owed \$12.1 million in rebates, led by Coventry (\$3.7 million), UnitedHealth (\$3.1 million), and Assurant (\$2.6 million). If the 72% minimum MLR is granted, it will reduce rebates to \$4.2 million, depriving consumers of around \$8 million in rebates. Coventry would be the biggest beneficiary, as their rebate amount would drop \$3 million, while the rebate at Assurant would drop \$1.7 million. United would benefit as well, with their rebate dropping \$1.5 million.

Oklahoma has also requested a minimum MLR waiver, and they would like to see the minimum loss ratio at 65% in 2011, 70% in 2012, and 75% in 2013. The applications from both North Carolina and Oklahoma have yet to be posted to the HHS website, but we're able to do an analysis on North Carolina's request because they also made the application information available on their insurance department website.

Like many states, the individual market in North Carolina is dominated by the local Blue Cross plan, which has a market share of more than 80%, amounting to more than 337,500 lives. The remainder of the business is pretty fragmented. Coventry (WellPath) is the second largest plan, with a 4.5% share (18,600 lives), followed by UnitedHealth (Golden Rule), with a 2.9% market share (12,000 lives). Humana, Aetna, and Centene (Celtic) each have about 1% market share in North Carolina, with about 4,000-5,000 lives.

Looking at the reported medical loss ratio, every plan in the market reported a loss ratio below 80% with the exception of Blue Cross Blue Shield of North Carolina, where the loss ratio was 97.9%. It's worth noting that their loss ratio was negatively impacted by a \$156 million rebate to individual customers that North Carolina gave this year. Absent that, the loss ratio at the Blue would have been just under 80%. Of course, all plans are eligible for a number of adjustments to their loss ratio for the purpose of the minimum MLR calculation, including credibility, tax, and SG&A adjustments, and these adjustments are generally significant, particularly the credibility adjustments, since most plans don't enroll that many lives.

The insurance commissioner surveyed the plans, and not surprisingly, Blue Cross Blue Shield of North Carolina was the only one not in favor of the minimum MLR waiver. Although none of the plans in the market have chosen to exit, a few have stopped marketing new individual plans to members, while a couple smaller plans have indicated they would consider leaving the market if a waiver isn't granted.

From a broker perspective, the state reported that Coventry reduced its commissions on first year policies from 27% to 14% and from 7% to 4% on renewals, while CIGNA cut first year commissions from 20% to 12%. Centene cut commissions by 50%, and is reportedly considering additional commission cuts. Humana intends to reduce their commission payments 30% by 2012.

In 2010, on a reported basis, six of the fifteen individual plans with more than 1,000 lives reported an underwriting loss, including the \$118 million loss reported by Blue Cross because of their \$155.8 million rebate. Three of these six plans would still be subject to a rebate based on their 2010 MLR, despite losing money. Of the profitable plans, three would have turned the underwriting gain into a loss because of the rebate, including Assurant, Coventry, and Humana. The state estimates that with an 80% MLR, nine plans (excluding Blue Cross) would have reported an underwriting loss.

Figure 1. North Carolina Individual Insurance Market (2010)

Company	Members	Market Share	Premiums	Expenses	Reported MLR	Adjusted MLR	Rebate with 72% MLR	Rebate with 74% MLR	Rebate with 76% MLR	Rebate with 80% MLR
BCBS of NC	337,545	82.3%	\$844,918,312	\$827,480,540	97.9%	98.4%	\$0	\$0	\$0	\$0
WellPath Select (Coventry)	18,612	4.5%	\$38,954,674	\$24,811,256	63.7%	69.9%	\$777,548	\$1,518,069	\$2,258,591	\$3,739,634
Golden Rule (UnitedHealth)	12,164	3.0%	\$22,830,683	\$12,458,155	54.6%	64.7%	\$1,480,089	\$1,885,593	\$2,291,097	\$3,102,105
Time Ins Co (Assurant)	9,788	2.4%	\$22,679,728	\$13,611,069	60.0%	67.6%	\$932,893	\$1,356,936	\$1,780,978	\$2,629,063
Humana	5,348	1.3%	\$9,420,984	\$5,974,837	63.4%	71.6%	\$35,750	\$214,499	\$393,248	\$750,746
Aetna	5,216	1.3%	\$10,824,309	\$8,283,715	76.5%	87.2%	\$0	\$0	\$0	\$0
Celtic (Centene)	4,322	1.1%	\$8,737,239	\$5,926,830	67.8%	75.4%	\$0	\$0	\$51,031	\$391,238
Mega Life & Health	3,541	0.9%	\$13,537,488	\$8,069,664	59.6%	81.7%	\$0	\$0	\$0	\$0
Mid West National of TN	3,322	0.8%	\$8,115,514	\$4,577,625	56.4%	78.9%	\$0	\$0	\$0	\$70,288
World Insurance Co	2,172	0.5%	\$5,914,819	\$4,581,551	77.5%	87.6%	\$0	\$0	\$0	\$0
National Foundation Life Ins	1,946	0.5%	\$2,434,366	\$1,184,275	48.6%	58.9%	\$310,474	\$357,875	\$405,275	\$500,077
American Republic Ins Co	1,927	0.5%	\$6,274,902	\$4,655,439	74.2%	86.9%	\$0	\$0	\$0	\$0
CT General Life (CIGNA)	1,628	0.4%	\$1,910,750	\$1,267,296	66.3%	78.2%	\$0	\$0	\$0	\$33,746
John Alden Life Ins Co	1,397	0.3%	\$4,024,332	\$1,475,721	36.7%	52.7%	\$659,041	\$727,335	\$795,630	\$932,218
American Medical Security	1,331	0.3%	\$4,096,225	\$2,779,297	67.9%	81.9%	\$0	\$0	\$0	\$0
Other	4,958	1.2%								
Total	410,259	100.0%	\$1,004,674,325	\$927,137,270	92.3%	94.6%	\$4,195,795	\$6,060,307	\$7,975,850	\$12,149,115

Source: National Association of Insurance Commissioners (NAIC), North Carolina Department of Insurance, Citi Investment Research and Analysis

HHS has received a total of 17 minimum MLR waiver requests, and it has ruled on seven of them, fully approving 1 (Maine), partially approving four of them, and rejecting two requests (Guam and North Dakota). The next decisions from HHS are likely to be on Delaware and Georgia, while the Texas and Florida MLR waiver requests continue to be the most significant for the industry, although we don't think either has a high likelihood of success.

In our view, the North Carolina request isn't unreasonable, and it has a lot of similarities to the New Hampshire waiver request that HHS partially approved earlier this year, in which HHS granted New Hampshire a 72% MLR in 2011, but required 75% in 2012 and 80% in 2013. In New Hampshire's case, while their overall market size is a lot smaller, it was dominated by a single plan, WellPoint, with a 70% market share, and the state argued that an 80% MLR could be a detriment to the smaller plans in the state.

North Carolina's request can be found here:

http://www.ncdoi.com/lh/Documents/HealthCareReform/MLR_Adjustment_Report.pdf

Figure 2. Minimum MLR Waiver Summary Request Chart

State	Waiver Received	Request	Status	Notes	Rebates Avoided
Maine	12/16/2010	70% MLR, 2011-2013	Approved - 3/8/11	70% MLR, 2011-2013	\$1.9
New Hampshire	1/12/2011	70% MLR, 2011-2013	Partially approved - 5/13/11	72% - 2011, 75% - 2012, 80% - 2013	\$6.7
Nevada	2/9/2011	72% MLR in 2011	Partially approved - 5/13/11	75% in 2011	\$11.6
Kentucky	2/16/2011	65% - 2011, 70% - 2012, 75% - 2013	Partially approved - 7/22/11	75% in 2011, 80% in 2012	\$7.7
Florida	3/11/2011	68% in 2011, 72% in 2012, and 76% in 2013	Undergoing review for completeness		\$58.4
Georgia	3/17/2011	65% - 2011, 70% - 2012, 75% - 2013	Undergoing review for completeness		
North Dakota	3/18/2011	65% - 2011, 70% - 2012, 75% - 2013	Rejected - 7/22/11		--
Iowa	3/21/2011	60% - 2011, 65% - 2012, 70% - 2013	Partially approved - 7/22/11	67% in 2011, 75% in 2012	\$4.6
Louisiana	3/29/2011	70% - 2011, 75% - 2012	Undergoing review for completeness		
Guam	4/15/2011	65% MLR, 2011-2013	Rejected - 8/05/11		
Kansas	4/29/2011	70% - 2011, 73% - 2012, 76% - 2013	Undergoing review for completeness		
Delaware	5/12/2011	65% - 2011, 70% - 2012, 75% - 2013	Application complete - 7/11/11		
Indiana	5/13/2011	65% - 2011, 68.75% - 2012, 72.5% - 2013, 76.25% - 2014	Undergoing review for completeness		
Michigan	7/28/2011	65% - 2011, 70% - 2012, 75% - 2013	Undergoing review for completeness		\$32.9
Texas	7/29/2011	71% - 2011, 74% - 2012, 77% - 2013	Undergoing review for completeness		\$123.2
North Carolina	9/6/2011	72% - 2011, 74% - 2012, 76% - 2013	Not yet posted to HHS site		\$8.0
Oklahoma	9/6/2011	65% - 2011, 70% - 2012, 75% - 2013	Not yet posted to HHS site		

Source: HHS and Citi Investment Research and Analysis

Centene Stat Filing Review

The better than expected results Centene reported in the second quarter appear to be driven primarily by the company's largest market, Texas, and a big improvement in the Indiana loss ratio, based on our review of second quarter statutory filings. Overall, according to the Medicaid stats, the loss ratio improved 70 basis points sequentially and 80 basis points year over year to 84.4%.

In Texas, the loss ratio improved 200 basis points sequentially, to 84.2%, contributing an incremental \$7.5 million in gross profit relative to the first quarter. The improvement in Texas occurred despite Centene's February 1 expansion of the ABD program to Dallas. This caused Molina's loss ratio in the state to deteriorate by almost 400 basis points in the second quarter because of higher than expected medical costs, but Centene has a far bigger presence in Texas than Molina does, and the expansion doesn't appear to have had a negative effective on the company, which is a positive sign for the company, since Texas just expanded its Medicaid population into some contiguous counties on September 1. Rates are falling in

Texas on September 1, so we don't anticipate the loss ratio will get much better, although we also suspect that Centene's rate in Texas won't be down nearly as much as the 5.4% net reduction AMERIGROUP described, since it sounds as though more of Centene's contracts with ancillary providers are tied to the state fee schedule and will adjust automatically to the lower rates.

After Texas, Centene's second largest market is Georgia, and it continues to be a fairly predictable and stable market for the company. AMERIGROUP's loss ratio in Georgia deteriorated a bit in the second quarter because of some issues around retroactive membership eligibility, but in Centene's case, this issue wasn't a factor, as they've been accruing all along, and the Georgia loss ratio was 10 basis points better sequentially, at 83.0%.

Indiana is a lot smaller than either Texas or Georgia, but it stood out in the second quarter, as the loss ratio in the state improved 1,000 basis points sequentially, to 76.0%, adding \$7.6 million in gross profit relative to the second quarter, or just as much as Texas contributed. Florida was also a positive contributor relative to the first quarter, as the loss ratio improved 380 basis points sequentially, but at 93.8%, the loss ratio is still bad enough that Centene is losing money on an absolute basis, largely because of the company's much higher loss ratio in the state's Reform counties, where reimbursement is a lot lower than in the other counties across the state.

The biggest negative contributor to Centene's earnings versus the first quarter was Ohio, where the loss ratio deteriorated 370 basis points, but it's hard to make much of an issue here, since the loss ratio in Ohio was only 76.8%, so it remains a very profitable market for Centene, despite the state's extremely high premium tax rate. As reported, the loss ratio deteriorated in Wisconsin by 140 basis points sequentially, to 91.4%. As has been the case for the last couple years, reported Wisconsin results are skewed by a hospital pass-through, which amounted to \$14.1 million in the first quarter and \$9.9 million in the second. The adjusted loss ratio looks even worse for Centene, though, as the loss ratio deteriorated 300 basis points sequentially, to 89.1%. Gross profit from Wisconsin has fallen dramatically, both because of the higher loss ratio and the loss of the Milwaukee contract (almost 60,000 lives) last fall.

South Carolina remains a challenge for the company. There was some hope after the first quarter, since the loss ratio in South Carolina fell to under 84%, a big improvement relative to the nearly 90% loss ratio in 2010, but in the second quarter, the market reverted to form, with a loss ratio of 88.1%, a 420 sequential deterioration. Centene recently decided to exit from three counties (Spartanburg, Cherokee and Union), a decision that will cost them about 8,100 lives, although the sequential drop in membership may not be that big in the third quarter, since the state is still in the process of converting its remaining PCCM (primary care case management) lives to managed care plans.

Lastly, in Centene's newer markets, results were about as expected. Centene began enrolling members in Mississippi in the first quarter, but because of some technicalities, it didn't start reporting the enrollment, premiums, or medical expenses until the second quarter. In the stat filings, results are broken out by quarter, and it shows that Centene had a loss ratio of 87.6% in the first quarter, and 87.2% in the second quarter. The consistency of the loss ratio isn't surprising, considering that Centene probably hadn't received a lot of claims by the time it made the medical expense estimate, although the estimated loss ratio is a bit better than the 90% we'd been assuming. In Illinois, the loss ratio was 94.7% for the second quarter, but that included under \$1 million in premiums.

Figure 3. Centene Medicaid Statutory Results by State (\$ in millions)

		2Q10	1Q11	2Q11	Change Year/Year	Change Sequential
Texas	Enrollment	475.1	455.7	469.2	-1.2%	3.0%
	Premium	\$323.9	\$356.6	\$374.0	15.5%	4.9%
	Medical expenses	\$277.4	\$307.3	\$314.93	13.5%	2.5%
	MLR	85.6%	86.2%	84.2%	-144 bp	-198 bp
Georgia	Enrollment	295.6	303.3	303.1	2.5%	-0.1%
	Premium	\$180.0	\$198.1	\$190.0	5.6%	-4.1%
	Medical expenses	\$149.1	\$164.5	\$157.6	5.7%	-4.2%
	MLR	82.9%	83.1%	83.0%	10 bp	-10 bp
Indiana	Enrollment	212.7	209.4	206.7	-2.8%	-1.3%
	Premium	\$78.6	\$75.2	\$76.2	-3.0%	1.4%
	Medical expenses	\$63.9	\$64.7	\$58.0	-9.3%	-10.4%
	MLR	81.3%	86.0%	76.0%	-530 bp	-997 bp
Wisconsin	Enrollment	133.6	81.8	79.8	-40.3%	-2.4%
	Premium	\$71.5	\$53.5	\$47.7	-33.3%	-10.7%
	Medical expenses	\$59.8	\$48.1	\$43.6	-27.1%	-9.3%
	MLR	83.6%	90.0%	91.4%	780 bp	142 bp
Ohio	Enrollment	159.0	160.4	159.4	0.2%	-0.6%
	Premium	\$135.8	\$140.6	\$139.7	2.9%	-0.6%
	Medical expenses	\$104.2	\$102.7	\$107.3	2.9%	4.4%
	MLR	76.8%	73.1%	76.8%	2 bp	370 bp
South Carolina	Enrollment	92.6	84.9	82.8	-10.6%	-2.5%
	Premium	\$60.0	\$85.3	\$74.2	23.8%	-12.9%
	Medical expenses	\$54.4	\$71.6	\$65.4	20.3%	-8.5%
	MLR	90.7%	83.9%	88.1%	-252 bp	421 bp
Florida	Enrollment	113.1	188.8	190.6	68.5%	1.0%
	Premium	\$63.8	\$112.3	\$111.9	75.4%	-0.4%
	Medical expenses	\$68.7	\$109.6	\$104.9	52.7%	-4.3%
	MLR	107.7%	97.6%	93.8%	-1390 bp	-381 bp
Arizona	Enrollment	19.3	22.6	22.8	18.1%	0.9%
	Premium	\$23.4	\$28.2	\$28.5	21.9%	1.1%
	Medical expenses	\$20.6	\$24.7	\$24.7	19.9%	0.0%
	MLR	88.0%	87.5%	86.5%	-150 bp	-100 bp
Mississippi	Enrollment			30.8	NA	NA
	Premium			\$103.5	NA	NA
	Medical expenses			\$90.5	NA	NA
	MLR			87.4%	NA	NA
Illinois	Enrollment			0.7	NA	NA
	Premium			\$0.8	NA	NA
	Medical expenses			\$0.7	NA	NA
	MLR			94.7%	NA	NA
Total stat	Enrollment	1,501.0	1,506.9	1,545.9	3.0%	2.6%
	Premium	\$936.9	\$1,049.7	\$1,146.6	22.4%	9.2%
	Medical expenses	\$798.1	\$893.2	\$967.7	21.2%	8.3%
	MLR	85.2%	85.1%	84.4%	-79 bp	-70 bp
	Gross profit	\$138.8	\$156.5	\$178.9	28.9%	14.3%

Source: National Association of Insurance Commissioners and Citi Investment Research and Analysis

Centene's Medicare business is still quite small, with under \$6 million in quarterly revenue, but it had a pretty good second quarter, as the loss ratio improved 410 basis points, to 77.8%. Texas, which is also the company's largest Medicare market, drove part of the results, as the loss ratio improved 235 basis points to 77.6%, while in Ohio, the loss ratio fell by 1,270 basis points sequentially to 78.5%. A slight deterioration in the loss ratio in Wisconsin didn't have much of an impact on overall results, since there are only about 500 people enrolled.

Figure 4. Centene Medicare Statutory Results by State (\$ in millions)

		2Q10	1Q11	2Q11	Change Year/Year	Change Sequential
Texas Medicare	Enrollment	0.4	1.0	1.2	162.0%	12.0%
	Premium	\$1.4	\$4.3	\$4.7	225.7%	11.0%
	Medical expenses	\$1.3	\$3.4	\$3.7	184.6%	7.7%
	MLR	88.8%	79.9%	77.6%	-1120 bp	-235 bp
Wisconsin Medicare	Enrollment	0.0	0.0	0.0	-50.0%	0.0%
	Premium	\$0.0	\$0.0	\$0.0	0.0%	0.0%
	Medical expenses	\$0.1	\$0.0	\$0.0	0.0%	0.2%
	MLR	0.0%	89.8%	90.0%	9002 bp	24 bp
Ohio Medicare	Enrollment	0.3	0.5	0.5	86.8%	0.0%
	Premium	\$0.7	\$1.5	\$1.8	146.0%	25.3%
	Medical expenses	\$0.7	\$1.3	\$1.4	114.4%	7.9%
	MLR	90.0%	91.1%	78.5%	-1154 bp	-1268 bp
Total stat	Enrollment	0.7	1.5	1.7	132.8%	8.0%
	Premium	\$2.2	\$5.7	\$6.6	197.5%	14.6%
	Medical expenses	\$2.0	\$4.7	\$5.1	152.9%	7.7%
	MLR	91.5%	82.8%	77.8%	-1370 bp	-498 bp
	Gross profit	\$0.2	\$1.0	\$1.5	677.4%	47.8%

Source: National Association of Insurance Commissioners and Citi Investment Research and Analysis

WellCare Stat Filing Review

In the second quarter, WellCare's Medicaid loss ratio improved significantly, dropping from 82.2% to 76.8%, a 540 basis point improvement that was driven primarily by favorable prior year development, which amounted to \$67 million. Now that the statutory filings are out, we can identify the states where results turned out to be most favorable for the company, which happened to be Georgia and Florida in the second quarter.

Georgia, WellCare's largest Medicaid market, was the biggest driver of the sequential growth in the quarter, as the loss ratio improved 545 basis points sequentially, to 80.9%. Heading into the quarter there were fears that WellCare's loss ratio could be negatively impacted by a retroactive membership issue highlighted by AMERIGROUP, but WellCare indicated that they have been accruing for the membership issue all along.

Florida was also a big contributor, as WellCare's Medicaid loss ratio in Florida fell 730 basis points over the prior quarter, to 80.1%. Florida has been problematic for a number of plans, particularly those with a lot of exposure to five Reform counties, where reimbursement rates are lower, while an increase in provider unit costs that hasn't been reflected yet in plan reimbursement has also been a negative factor. In any event, it's encouraging to see the loss ratio doing so well at WellCare, even if the bulk of the improvement is coming from prior periods.

The better than anticipated results in Hawaii were also a surprise, as the loss ratio declined 595 basis points sequentially, to 80.4%. WellCare hasn't disclosed its rate changes in Hawaii, but the stat filings suggest it received a low double digit rate increase (we'd estimate 10-12%) on July 1, 2010, and that has been a major contributor to the better loss ratio. At the time, the company believed the rate increase would be large enough to return margins to targeted levels, and it looks like that has happened.

In Ohio, WellCare reported a 135 basis point deterioration in its loss ratio, but it was starting from a very low base, so the second quarter loss ratio in Ohio was only 73.3%. The situation is similar in Illinois, where the loss ratio deteriorated 540 basis points, but that only brought the loss ratio to 70.2%.

Given the magnitude of the favorable development WellCare experienced this quarter, it is almost certain that the Medicaid loss ratio will deteriorate sequentially in the third quarter. That said, medical trend remains muted, and WellCare has the highest level of days claims payable in the industry, so it certainly has the potential for additional development in the future, but probably not nearly as much as was reported in the second quarter.

In reviewing the results for New York, keep in mind that WellCare doesn't make a statutory filing in the state, so we use New York as the plug to keep the reported GAAP results consistent with the state by state statutory results.

Figure 5. WellCare Medicaid Statutory Results by State (\$ in millions)

		2Q10	1Q11	2Q11	Change Year/Year	Change Sequential
Florida	Enrollment	420.0	409.8	404.0	-3.8%	-1.4%
	Premium	\$222.4	\$218.9	\$219.1	-1.5%	0.1%
	Medical expenses	\$192.9	\$191.3	\$175.5	-9.0%	-8.2%
	MLR	86.7%	87.4%	80.1%	-662 bp	-730 bp
New York	Enrollment	84.6	79.7	77.9	-8.0%	-2.3%
	Premium	\$54.6	\$68.2	\$74.7	36.9%	9.6%
	Medical expenses	\$42.8	\$39.8	\$37.2	-12.9%	-6.5%
	MLR	78.3%	58.4%	49.8%	-2850 bp	-854 bp
Illinois	Enrollment	145.4	138.8	133.5	-8.2%	-3.8%
	Premium	\$45.0	\$42.2	\$41.4	-8.0%	-1.9%
	Medical expenses	\$36.5	\$27.4	\$29.1	-20.4%	6.3%
	MLR	81.0%	64.8%	70.2%	-1089 bp	538 bp
Georgia	Enrollment	537.4	558.9	559.0	4.0%	0.0%
	Premium	\$328.8	\$362.1	\$344.7	4.8%	-4.8%
	Medical expenses	\$283.5	\$312.6	\$278.8	-1.7%	-10.8%
	MLR	86.2%	86.3%	80.9%	-535 bp	-543 bp
Ohio	Enrollment	101.3	101.4	101.1	-0.2%	-0.3%
	Premium	\$57.4	\$60.7	\$59.2	3.2%	-2.5%
	Medical expenses	\$44.4	\$43.7	\$43.4	-2.4%	-0.7%
	MLR	77.5%	71.9%	73.3%	-418 bp	136 bp
Missouri	Enrollment	17.0	17.8	18.8	10.7%	5.6%
	Premium	\$10.7	\$10.3	\$10.8	1.2%	4.8%
	Medical expenses	\$9.0	\$8.4	\$8.6	-4.8%	2.2%
	MLR	84.4%	81.4%	79.4%	-501 bp	-200 bp
Hawaii	Enrollment	22.4	22.6	22.7	1.6%	0.3%
	Premium	\$81.8	\$93.4	\$93.3	14.1%	0.0%
	Medical expenses	\$79.1	\$80.6	\$75.0	-5.2%	-6.9%
	MLR	96.7%	86.3%	80.4%	-1633 bp	-593 bp
Total stat	Enrollment	1,328.0	1,329.0	1,317.0	-0.8%	-0.9%
	Premium	\$800.7	\$855.8	\$843.4	5.3%	-1.5%
	Medical expenses	\$688.3	\$703.7	\$647.7	-5.9%	-8.0%
	MLR	86.0%	82.2%	76.8%	-916 bp	-543 bp
	Gross profit	\$112.4	\$152.1	\$195.7	74.1%	28.7%

Source: National Association of Insurance Commissioners and Citi Investment Research and Analysis

WellCare's Medicare Advantage segment results weren't nearly as good. The medical loss ratio for WellCare's Medicare Advantage business deteriorated by 335 basis points sequentially, to 81.5%, with the sequential deterioration driven mainly by WellCare's largest Medicare Advantage market, Florida. During the quarter, the loss ratio in Florida increased 800 basis points, to 88.5%, reducing gross profits in

the market by \$14.6 million sequentially. The loss ratio in New York, Illinois, Georgia, New Jersey and Louisiana also deteriorated sequentially, although these markets are only about two thirds the size of Florida on a combined basis.

There were several markets that improved on a sequential basis, such as Connecticut (down 200 basis points sequentially), Texas (down 75 basis points), and Ohio (down 290 basis points). However, these markets are all much smaller than Florida, and had little impact on the overall loss ratio in the business.

In the past, the company's Medicare private fee for service business was important too, but WellCare made a mistake exiting that product too early, and it's unimportant now, except for some small incremental premiums and expenses that flow through each quarter. During the second quarter of 2011, the company's PFFS product had \$5.3 million in premiums, and reported medical expenses of negative \$1.0 million, implying favorable development, and a more than \$6 million contribution to earnings in the quarter.

The PDP product had a nice turn around during the quarter. The loss ratio came in at 86.4%, down 1,700 basis points sequentially, which drove a \$40 million improvement in gross profits over the prior quarter. Year over year, the PDP loss ratio is still up 160 basis points which is likely related to the strong enrollment growth that the company experienced this year. It isn't uncommon for PDP plans that have experienced a lot of growth to have worse PDP loss ratios initially. When low income PDP members switch plans, they are given a grace period during which they can continue to take all the drugs they had been utilizing, regardless of whether the drug is preferred on the formulary of the new plan. Once that transition period is up, however, members have to adhere to all the normal requirements. In the first quarter, WellCare's PDP membership grew by 167,000 members, many of which came from California.

Figure 6. WellCare Medicare Statutory Results by State (\$ in millions)

		2Q10	1Q11	2Q11	Change Year/Year	Change Sequential
Florida	Enrollment	61.3	59.7	60.8	-0.9%	1.8%
	Premium	\$184.4	\$187.6	\$191.0	3.6%	1.8%
	Medical expenses	\$149.4	\$150.9	\$168.9	13.0%	12.0%
	MLR	81.1%	80.4%	88.5%	740 bp	802 bp
New York	Enrollment	19.0	19.3	18.9	-0.6%	-2.1%
	Premium	\$51.4	\$53.5	\$54.8	6.6%	2.5%
	Medical expenses	\$54.7	\$36.1	\$39.2	-28.4%	8.5%
	MLR	106.4%	67.6%	71.5%	-3494 bp	392 bp
Connecticut	Enrollment	2.9	3.4	3.6	25.2%	6.8%
	Premium	\$8.2	\$9.9	\$10.6	29.9%	6.6%
	Medical expenses	\$7.7	\$8.1	\$8.5	9.4%	3.9%
	MLR	94.8%	81.9%	79.8%	-1495 bp	-206 bp
Illinois	Enrollment	12.5	11.9	12.0	-4.3%	0.7%
	Premium	\$31.7	\$33.7	\$32.8	3.4%	-2.8%
	Medical expenses	\$23.4	\$26.7	\$26.6	14.1%	-0.2%
	MLR	73.6%	79.1%	81.2%	759 bp	212 bp
Georgia	Enrollment	5.7	8.3	9.2	62.1%	10.9%
	Premium	\$14.6	\$20.7	\$22.9	57.4%	10.8%
	Medical expenses	\$12.3	\$16.1	\$18.3	48.1%	13.4%
	MLR	84.7%	77.9%	79.7%	-500 bp	178 bp
Louisiana	Enrollment	3.3	3.8	4.0	22.7%	7.5%
	Premium	\$10.0	\$11.9	\$12.2	22.4%	2.9%
	Medical expenses	\$9.2	\$9.6	\$10.8	17.2%	12.6%
	MLR	91.9%	80.4%	88.0%	-393 bp	758 bp
Texas	Enrollment	5.4	7.0	9.4	72.9%	33.7%
	Premium	\$16.9	\$22.0	\$23.9	41.0%	8.3%
	Medical expenses	\$12.4	\$16.8	\$18.0	45.3%	7.2%
	MLR	73.3%	76.4%	75.6%	225 bp	-76 bp
Ohio	Enrollment	2.7	2.9	2.9	6.7%	0.6%
	Premium	\$7.2	\$7.2	\$8.1	12.1%	12.8%
	Medical expenses	\$6.3	\$5.2	\$5.6	-10.2%	8.3%
	MLR	86.8%	72.4%	69.5%	-1726 bp	-288 bp
New Jersey	Enrollment	1.6	1.6	1.6	-2.0%	0.9%
	Premium	\$4.0	\$4.3	\$4.1	4.1%	-3.2%
	Medical expenses	\$3.3	\$3.2	\$3.1	-6.7%	-2.9%
	MLR	83.9%	75.0%	75.2%	-873 bp	25 bp
PFFS	Enrollment	0.6	1.2	1.7	184.0%	35.3%
	Premium	\$1.6	\$3.9	\$5.3	228.9%	36.9%
	Medical expenses	-\$20.0	\$4.2	-\$1.0	-94.8%	-124.5%
	MLR	-1227.3%	108.6%	-19.5%	120787 bp	-12807 bp
PDP	Enrollment	741.0	935.0	950.0	28.2%	1.6%
	Premium	\$207.3	\$261.9	\$276.2	33.2%	5.4%
	Medical expenses	\$175.7	\$264.3	\$238.5	35.8%	-9.7%
	MLR	84.7%	100.9%	86.4%	162 bp	-1453 bp
	Gross profit	\$31.6	-\$2.4	\$37.6	19.1%	-1697.0%
Total stat	Enrollment	115.0	119.0	124.0	7.8%	4.2%
	Premium	329.9	354.6	365.8	10.9%	3.1%
	Medical expenses	258.8	277.0	298.0	15.1%	7.6%
	MLR	78.4%	78.1%	81.5%	302 bp	337 bp
	Gross profit	\$71.1	\$77.7	\$67.8	-4.7%	-12.7%

Source: National Association of Insurance Commissioners and Citi Investment Research and Analysis

Et Cetera...

A judge in Louisiana issued a temporary restraining order, halting the implementation of the new Medicaid managed care plans in the state. The decision came at the request of **Aetna**, which is suing the state. Aetna was not one of the five plans selected, and its subsequent appeal was rejected by health secretary in the state. The decision prevents the state from continuing negotiations with the successful plans, which include risk contracts with **AMERIGROUP**, **AmeriHealth Mercy**, and **Centene**, while **Community Health Solutions** and **UnitedHealth** were selected to operate non-risk, or shared savings, plans. In response, the state has filed a request to have the restraining order dissolved and asked for a hearing date on the issue...

On September 20, 2011, the roughly 3,000 employees of **Blue Cross Blue Shield of Massachusetts** will skip work and provide 15,000 volunteer hours to nearly 30 schools, parks, and other community organizations, an average of about 5 hours per person. The event, which is being called Service Day powered by BlueCrew, is something the company hopes will become a new tradition. The company will remain open for business to support member needs...

UnitedHealth Group is acquiring **Monarch HealthCare**, an independent practice association (IPA) of approximately 2,300 physicians based in Irvine, California. This is the third California IPA United has acquired, following prior acquisitions of AppleCare Medical Group and Memorial HealthCare Independent Practice Association (MHIPA). An acquisition isn't technically the right term, as United officially entered a strategic relationship to handle the non-clinical operations of the physician group...

A hearing is scheduled for September 12 regarding the protest filed by **Coventry**, **Florida Health Care**, and **UnitedHealth** over the state's decision to reduce or eliminate their role serving as a health plan to state employees. The state chose just one HMO plan in each country, whereas they had previously offered two or three. Open enrollment for state employees has been pushed from late September until early November because of the legal wrangling...

Interesting article in the *LA Times* on September 6 that highlighted a practice in California that we weren't aware of. When large groups (defined as any employer with more than 50 employees) put their health insurance business out to bid, the plans and brokers interested in bidding require that the employer tell them how much their current insurer wants to raise their premium. It's not a legal requirement, but as the article portrayed, any employer that doesn't provide the information doesn't receive any competing bids. In the example in the article, a business with 135 employees had been paying around \$600,000 to **Blue Shield of California** for coverage. Several employees and their dependents had serious illnesses in the last year, however, and at renewal, Blue Shield wanted a 60% rate increase, to almost \$960,000. The owner subsequently put the business out to bid, and was surprised to find that everyone expected him to reveal how much of an increase Blue Shield was asking for. The owner ended up switching to **WellPoint**, but premium rates will still grow 25%...

The health insurance contract covering state employees in Washington is back in the news. Back in late 2009, the state selected **Aetna** to administer its ASO plan for approximately 180,000 state employees. However, that agreement was never implemented because of issues that were subsequently raised about the bidding process. The end result was that **Regence Blue Cross** ended up with the contract, which is called the Uniform Medical Plan, and the state budgeted \$33.4 million to

pay the ASO fees. The arrangement began on January 1, 2011. However, things have not been smooth, as there has been a chorus of doctors and hospitals complaining about not being paid for serving a subset of about 40,000 retired state employees who use the state insurance plan as a supplement to their Medicare coverage. As part of the change to the new vendor, there was a computer issue that resulted in Regence not receiving claims, and it resulted in a backlog of 300,000 claims. Regence hopes to clear the backlog within three months, as the company plans to add 80 employees to help process the claims. In the meantime, Regence is also considering making payments to providers now, and working out any overpayments at a later date...

While the Medicare Supplement issue is the biggest of the problems **Regence** is having, it isn't the only thing going on. According to the insurance commissioner in Washington, the "SurePay" computer system at Regence malfunctioned on August 5, causing more than 6,000 billing errors. Bank accounts were billed for money that wasn't owed, and in a couple hundred cases, the accounts debited didn't even belong to Regence customers. In addition, some of the incorrect bills that were sent contained customer names and identification numbers that shouldn't have been disclosed. According to the company, the issues stem from a system change at the beginning of the year, coupled with some of the changes related to the health care reform law. The insurance commissioners of Washington, Oregon, Idaho, and Utah met with the CEO of Regence on September 1 to discuss these and other problems that have been identified...

Quicken Loans, which employs around 4,000 workers, is dropping its ASO health plan with **CIGNA** in favor of a new plan through **Blue Cross Blue Shield of Michigan**, effective January 1, 2012. Both Quicken and the Michigan Blue are headquartered in Detroit. Blue Cross employees will now have access to the "Mortgage Insiders" incentive program at Quicken, which offers a \$500 incentive on any refinance or mortgage, while Quicken will also conduct webinars for Blue Cross employees...

LabCorp extended its agreement with **UnitedHealthcare** for an additional two years, which extends the contract through the end of 2018. The agreement began on January 1, 2007, and LabCorp will continue to be the national lab for UnitedHealthcare and Oxford Health Plans, and the exclusive lab for HMO plans offered by PacifiCare in Arizona and Colorado, along with Neighborhood Health Partnership in Florida and Mid Atlantic Medical Services...

Humana has expanded its distribution relationship with Bankers Life and Casualty Company (a subsidiary of CNO Financial Group, which was formerly Conseco) to include Medicare Part D products, on top of the Medicare Advantage and dental and vision plans Bankers agents already offers from Humana. Starting in October, Bankers agents will staff hundreds of Walmart stores for Humana. In the past, Bankers has worked with a number of health plans, including **Coventry**, so the company will have more than just Humana Medicare products to offer seniors...

The commissioners of Reno County, Kansas voted this week to switch their health plan from **Humana** to **Blue Cross Blue Shield of Kansas**. The change will take effect on October 1. The county is currently fully insured, but it is exploring the potential of moving to an ASO arrangement for the next contract...

A federal judge in Tampa agreed to delay the trial of five former **WellCare** executives until next year. The defendants asked for the delay primarily to get through the massive number of documents and emails pertaining to the case, which amounts to more than 1 million pages, as well as 650 hours of taped conversations

recorded by whistleblowers. The next status conference on the case will be held on February 2, 2012...

Not surprisingly, the FTC is requesting additional information from both Express Scripts and Medco over their proposed merger...

Back in February, the federal government notified health plans of some payment adjustments to providers treating seniors covered under Medicare Supplement policies. The adjustments, which were part of the health reform legislation, raised reimbursement amounts very modestly, and were retroactive for claims incurred back to January 1, 2010. Because the providers were receiving additional payments, even though in some cases the extra payment was as little as \$0.07, it triggered the mailing of explanation of benefit (EOB) forms to beneficiaries of two plans, **Blue Cross Blue Shield of Nebraska** and **Mutual of Omaha**. The result was that some customers began to receive a blizzard of paperwork from the insurers, including one family that received 40 notices, including 16 on a single day. Five of the EOB's were for less than \$1, so it was costing the insurers nearly as much to mail the EOB form as the additional payments. In total, Blue Cross sent out about 190,000 of the EOB letters, while Mutual of Omaha issued over 500,000 explanation of benefit notices that had an average payment of \$0.70. The systems have been adjusted so that beneficiaries are no longer receiving the notices...

Patrick Geraghty took over as CEO of **Blue Cross Blue Shield of Florida** on September 1. Geraghty, who was most recently CEO of **Blue Cross Blue Shield of Minnesota**, took over from Robert Lufrano, who had been the company's CEO since 2004. The Blue in Florida covers around 4 million people, representing around 30% of the market, and the company is a lot more interested these days in expanding its Medicare presence, and entering the Medicaid market...

Harvard Pilgrim Health Care is planning to open an office branch in Worcester, Massachusetts next month. Harvard Pilgrim is run by Eric Schultz, who joined the company from **Fallon Community Health Plan** (one of the dominant plans in western Massachusetts) about a year and a half ago. Schultz had a non-compete agreement with Fallon, but that expired this summer. Harvard Pilgrim is negotiating a lease for 6,000 square feet in a building next to City Hall in Worcester that is a few blocks from Fallon's headquarters. Earlier this spring, Harvard Pilgrim hired Kate McEvoy-Zdonczyk, who was Fallon's senior director of government and community relations, and Harvard Pilgrim has also been visible advertising and sponsoring events in the region. Harvard Pilgrim currently enrolls around 60,000 people in the region, a small part of the company's 1.2 million enrollment base, while Fallon has almost 210,000 members, most of which live in the central / west region...

The Texas Medical Association (TMA) is asking providers who have problems with **CIGNA's** new national imaging arrangement with **MedSolutions** to contact their payment advocacy department. MedSolutions has taking over certain regions from **Magellan** in the second half of this year. It isn't clear whether there were some issues raised that sparked the interest of the Texas Medical Association, or if they are just being proactive because of the change in vendors...

UnitedHealth Group unveiled plans to build a new \$200 million corporate campus. The project will take five years to finish, but when it is completed, the campus will cover 72 acres and include a 257,000 square foot facility with 6,700 employees and 1.5 million square feet of office space. It will be located in Eden Prairie, and will complement (rather than replace) United's existing 1.1 million square foot corporate headquarters building in Minnetonka. Today, United has around 11,000 employees

working out of 12 offices in the greater Minneapolis / St. Paul area, while its nationwide footprint includes 87,000 employees and 16 million square feet of office space...

In other real estate news, Life and Specialty Ventures (LSV) purchased an 8.5 acre property with 150,000 square feet of office space in Little Rock, Arkansas for \$17 million. LSV is a holding company that owns and operates USABLE Life and Florida Combined Life, offering individual and group ancillary products, including dental, life, and disability. The company generates more than \$460 million in annual premiums, and ownership of the company is shared by **Arkansas Blue Cross Blue Shield** and five other Blue Cross plans...

Kevin McNamara, the former CFO of **HealthSpring**, has joined the board of Emdeon. He replaces Philip Pead, the executive chairman of Allscripts, who is stepping down from the Emdeon board...

Healthplan Holdings, Inc., a third party administrator (TPA) for insurers, named Michael Hudson as its new CFO. Hudson held a variety of positions at Aetna, including serving as CFO of the specialty group (2005-2006), CFO of the small and middle markets (January 2006-April 2007), president of the Northeast Region (April 2007-January 2010), and head of care management operations (January 2010-April 2011). He also spent seven years at CIGNA in several roles, including some time serving as the chief operating officer of CIGNA's Medical Group. Healthplan Holdings recently acquired Zenith Administrators, an Illinois based company. Healthplan Holdings was founded in 2001, and it currently employs around 2,200 people. The company was acquired in 2008 by Water Street Healthcare Partners, and it is run by Jeff Bak...

Maine was flirting with the idea of introducing managed care to its Medicaid population, but it doesn't look like that is going to happen. In late August, the state decided to pursue what it is calling a "value-based purchasing strategy" that will focus on an emergency room collaborative care management, accountable care organizations (the state will build off its emergency room initiative and a current patient centered medical home pilot to enter risk based contracts with health systems, hospitals, and other provider groups), and leveraging its current initiatives, like the patient centered medical homes along with newly introduced concepts, like community care teams and health homes. That's a lot of buzzwords, but we'll keep an eye on the state's progress, and how quickly they are able to implement these programs and achieve savings...

Don Berwick, the administrator of CMS, turned 65 on Friday, making history in the process, as he will be the first head of CMS that is also a beneficiary at the same time. Of course, the first question many of us will have is whether he'll choose to enter the government fee for service program or choose a Medicare Advantage plan, but it doesn't really apply in his case. Since he is employed at CMS, he already has commercial health insurance coverage. As a result, it makes sense for him to join the government fee for service program, but only sign up for Medicare Part A (hospitals), since there is no associated premium, and Medicare could help cover some of the things his commercial insurance plan doesn't offer. However, it probably wouldn't make sense to buy Part B (physicians), since that would cost him around \$100 premiums each month for coverage that would be largely duplicative to what he already has...

The state of Florida will be holding public meetings on September 12 and 13 to give people an opportunity to comment on the state's proposed Medicaid managed care

expansion. The first of the three hour meetings will be held in Marathon, and the second in Coral Gables...

The bill in California that would have given the state's insurance commissioner much greater power to block rate increases is no more. The sponsor of the bill pulled it after it became clear that it wasn't going to pass the California Senate. Similar bills have also failed to make it through the legislative process in each of the last few years. The group Consumer Watchdog is in the process of obtaining enough signatures to put a question on the ballot in the 2012 election that would require the state to offer a public health insurance option, and for plans to reduce premiums by 20%...

The brouhaha over the insurance plan for state workers in Illinois continues. All of the existing plans were granted an extension of the current contract through the end of the current fiscal year, which runs through June 30, 2012. That means that **Health Alliance** will keep all of its current members, who would have been moved to a new plan offered by Blue Cross of Illinois, a subsidiary of **Health Care Service Corp.** that's the good news. The bad news is that the contract extension doesn't include a rate increase. So Health Alliance will be serving its book of business next year at the same rate it was paid this year. The issue is working its way through the court system, and the state is hopeful it will be resolved by the time the contract extension is up...

The end of August is when most of us kick back and go on vacation, but Molina CEO Mario Molina was a busy man. First he was at Boys and Girls Club of Long Beach to help launch a healthy lifestyle program. While there, he challenged the regional vice president of the Boys and Girls Club of America to an Xbox boxing match, part of a \$22,000 donation the company made to the club to help with the purchase of Xbox Kinect consoles. On August 31, he was a speaker at the Domenici Public Policy Conference...

An August 25th article in the Chicago Tribune noted that a number of doctors and hospitals have chosen not to join the managed care networks established by **Aetna** and **Centene** to serve the aged, blind, and disabled in five Illinois counties, which has forced a number of ABD patients to try and find new doctors, creating a lot of disruption. To help encourage providers to sign up, Centene is promising providers that they will be paid within 30 days, and is offering 90 or 120 day contracts as a trial run for providers, rather than the usual longer term contract...

Kentucky, of course, is planning on expanding Medicaid managed care on October 1, but as of August 23, only 15 of the state's 109 hospitals had contracted with one of the three managed care plans (**Centene**, **Coventry**, and **WellCare**) offered outside Louisville. The state is aiming for participation from around 90 hospitals. The state isn't too concerned about the rate of sign-up at this point, noting that plans typically focus on adding primary care doctors first, and then turn to contracting with hospitals, and the state believes it will still be ready to roll out the new program on October 1...

Starting this past Thursday, **Blue Shield of California** began mailing letters to individuals and groups to let them know of their eligibility for a premium credit as part of the company's announcement earlier in the year that it would cap profits at 2% of revenue. The 2010 premium credit will appear on October bills. As the company noted in June, its 2010 profit margin of 3.1% exceeded the 2% cap by \$180 million, which will be divided up among policyholders (\$167 million), physicians and hospitals partnering with Blue Shield on coordinated care models (\$10 million), and the company's foundation (\$3 million). The amount of the credit

each policyholder receives will be based on premiums from May 2011. Though the first six months of 2011, the Blue Shield business regulated by the Department of Managed Health Care reported a net margin of 4.5%, up from 3.7% for all of 2010, so it looks like customers are in line for an even bigger premium rebate next year...

Figure 7. Managed Care Weekly Calendar of Events

Display Date	Region	Company	Event Category	Event Sub-type	Comment
12 Sep 2011	Florida	CVH, UNH, Florida HC	Legal	Other	Protest hearing regarding FL state employee health plan contract awards
15 Sep 2011	New York	Molina	Conference	Investor Event	Molina Investor Day
16 Sep 2011	New York	AMERIGROUP	Conference	Investor Event	AMERIGROUP Investor Day
23 Sep 2011	Washington, DC	N/A	Legal	Other	D.C. Circuit Court of Appeals will hear oral arguments in another individual mandate case
01 Oct 2011	N/A	N/A	Regulatory	Regulatory Update	Medicare marketing activities begin
01 Oct 2011	Ohio	Many	Regulatory	Other	Ohio Medicaid pharmacy carve-in starts
01 Oct 2011	Arizona	N/A	Regulatory	Regulatory Update	Arizona LTC contract begins
06 Oct 2011	N/A	N/A	Regulatory	Other	Medicare Star ratings published
15 Oct 2011	N/A	N/A	Regulatory	Regulatory Update	Medicare open enrollment begins
17 Oct 2011	Washington	Many	Regulatory	Other	Washington Medicaid RFP due
25 Oct 2011	N/A	Centene	Earnings	Quarterly Results	Centene 3Q11 earnings release
31 Oct 2011	N/A	Humana	Earnings	Quarterly Results	HUM 3Q11 earnings release
29 Nov 2011	New York	UnitedHealth	Conference	Investor Event	United Investor Day in New York
07 Dec 2011	N/A	N/A	Regulatory	Regulatory Update	Medicare open enrollment ends
15 Dec 2011	New York	Aetna	Conference	Investor Event	Aetna Investor Day in New York
16 Dec 2011	New York	Centene	Conference	Investor Event	Centene Investor Day in New York
19 Dec 2011	Washington	Many	Regulatory	Other	Washington Medicaid RFP awarded
01 Jan 2012	Louisiana	N/A	Regulatory	Other	"Go live" date for Phase 1 of Louisiana Medicaid RFP
01 Jan 2012	Wisconsin	N/A	Regulatory	Other	Effective date of Wisconsin LTC RFP
12 Feb 2012	N/A	Centene	Earnings	Quarterly Results	Centene 4Q11 earnings release
01 Mar 2012	Texas	N/A	Regulatory	Other	Texas Medicaid RFP implementation date
01 Mar 2012	Louisiana	Many	Regulatory	Other	"Go live" date for Phase 2 of Louisiana Medicaid RFP
01 May 2012	Louisiana	Many	Regulatory	Other	"Go live" date for Phase 3 of Louisiana Medicaid RFP
01 Jul 2012	Washington	Many	Regulatory	Other	Washington Medicaid RFP start date
01 Jul 2012	Ohio	Many	Regulatory	Other	Ohio Medicaid RFP start date

Source: Citi Investment Research and Analysis, Company Data

Figure 8. Managed Care Weekly Performance

			Closing Price	Stock Gain	Stock Gain	Stock Gain	Stock Gain	Market Cap	2010	2011E	2012E	P/E Multiple			
			Rating	9/08/2011	Past Week	Past 30 days	2011 YTD	Past 52 Weeks	(\$ Mil)	\$ EPS	\$ EPS	\$ EPS	2010	2011E	2012E
Managed Care															
Aetna, Inc.	AET	1M	\$39.19	-1.7%	13.4%	29.4%	36.0%	\$14,614	\$3.68	\$4.80	\$5.05	10.7	8.2	7.8	
AMERIGROUP Corp	AGP	1H	\$45.94	-6.5%	14.6%	4.6%	19.7%	\$2,281	\$5.39	\$4.80	\$4.65	8.5	9.6	9.9	
Centene Corp	CNC	1H	\$31.10	-1.8%	18.2%	22.7%	47.2%	\$1,565	\$1.80	\$2.10	\$2.45	17.3	14.8	12.7	
CIGNA Corp	CI	1M	\$45.20	-2.1%	12.3%	23.4%	34.4%	\$12,213	\$5.11	\$5.35	\$5.95	8.8	8.4	7.6	
Coventry Health Care	CVH	1H	\$32.73	0.4%	21.5%	24.0%	57.4%	\$4,862	\$3.70	\$3.25	\$3.75	8.8	10.1	8.7	
Health Net, Inc.	HNT	1H	\$24.03	-1.8%	14.0%	-11.9%	-7.9%	\$2,141	\$2.60	\$3.10	\$3.35	9.2	7.7	7.2	
HealthSpring, Inc.	HS	1H	\$37.77	-1.1%	29.0%	42.4%	66.3%	\$2,169	\$3.39	\$4.05	\$4.45	11.2	9.3	8.5	
Humana, Inc.	HUM	1H	\$75.44	-1.2%	14.9%	38.3%	48.8%	\$12,586	\$7.03	\$7.20	\$7.00	10.7	10.5	10.8	
Molina Healthcare, Inc.	MOH	1H	\$17.73	-5.6%	7.4%	-4.5%	-1.6%	\$817	\$1.32	\$1.55	\$1.75	13.4	11.4	10.1	
Triple-S	GTS	1H	\$16.14	-4.3%	-1.4%	-15.4%	-1.5%	\$321	\$2.10	\$2.20	\$2.30	7.7	7.3	7.0	
UnitedHealth Group	UNH	1L	\$47.20	0.4%	13.0%	32.0%	41.5%	\$50,795	\$4.10	\$4.50	\$4.90	11.5	10.5	9.6	
Universal American	UAM	1H	\$10.93	2.8%	21.0%	21.9%	72.9%	\$828	\$2.37	-\$0.30	\$0.50	4.6	na	21.7	
WellCare Health Plans	WCG	1H	\$44.16	-1.1%	25.2%	46.1%	71.0%	\$1,887	\$2.67	\$3.80	\$3.60	16.5	11.6	12.3	
WellPoint, Inc.	WLP	1L	\$63.18	-0.1%	11.3%	12.4%	20.8%	\$22,786	\$6.71	\$7.75	\$8.10	9.4	8.1	7.8	
Managed Care average, ex-Medicaid (1)				-0.9%	14.9%	19.6%	36.9%					9.3	8.9	9.7	
Diversified average				-0.8%	14.2%	18.2%	30.4%					9.7	8.8	8.1	
Medicare Average (2)				-0.1%	22.5%	37.2%	64.8%					10.8	10.5	13.3	
Medicaid average (3)				-4.6%	13.4%	7.6%	21.7%					13.1	11.9	10.9	
Overall				-1.7%	15.3%	19.0%	36.1%					10.6	9.8	10.1	
HMO Index	HMO		2021.79	-1.9%	15.2%	19.5%	33.0%								
Other Companies															
Magellan Health Services	MGLN	1M	\$47.60	-1.2%	13.7%	0.7%	5.3%	\$1,466	\$4.02	\$3.65	\$4.05	11.8	13.0	11.7	
eHealth	EHTH	3H	\$12.39	-2.0%	3.5%	-12.7%	8.5%	\$302	\$0.73	\$0.40	\$0.35	16.9	31.0	35.1	
S&P 500 / Health Care	SP565		\$379.71	-0.7%	9.0%	4.1%	12.7%								
S&P 500	SPX		\$1,185.90	-1.5%	5.9%	-5.7%	7.9%								

Risk: L = Low, M = Medium, H = High

(1) Excludes AGP, CNC, MOH, WCG

(2) Includes HS, HUM, UAM, WCG

(3) Includes AGP, CNC, MOH

Source: Citi Investment Research & Analysis, company reports and FactSet

Note: The stock price performance presented above cannot and should not be viewed as an indicator of future performance.

Source: Citi Investment Research and Analysis, Company Data

Appendix A-1

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