

TMG Webinar: View From Wall Street – The Outlook For Medicaid & Medicare

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Growth Should Define The Next Few Years Of The Medicaid Industry

- **Both at the state level...**
 - Between now and 2014, there should be more than \$25 billion in Medicaid revenue awarded through state RFPs
 - That is on top of the nearly \$16 billion in Medicaid business already awarded this year

- **...and because of health reform nationally**
 - The estimated 16 million people that become Medicaid eligible when income limits rise in 2014 will likely generate an estimated \$43 billion in annual Medicaid revenue

- **Which means almost \$85 billion in Medicaid revenue is up for grabs over the next few years**
 - The Medicaid managed care industry today generates an estimated \$90 billion in annual revenue, so we see enormous opportunity

The State Medicaid Opportunities - Reprocurements

Reprocurement State	Timeframe	Notes	Lives	Revenue (in millions)	RFP Issued	RFP Proposals Due	RFP Awarded	Contract Start
Hawaii	2011	Re-bidding the existing TANF population, which is called the Quest program	220,000	\$540	8/9/11	10/7/11	11/14/11	4/1/12
Ohio	2011 / 2012	Re-bidding the existing Covered Families and Children (1.5 million) and ABD (125k) program	1,625,000	\$5,000	July / August 2011			July 2012
Washington	2012	Re-bidding the state's managed care contracts	660,000	\$1,300	9/15/11			7/1/12
Georgia	2012	Re-bidding existing TANF & CHIP contracts	1,123,000	\$2,950	Early 2012			
Missouri	2012	Missouri Medicaid contract	430,000	\$1,100				
New Mexico	2012	State has issued an RFP seeking a firm to help re-design its Medicaid program, at which point a managed care RFP will presumably be released						
Florida	2013	Florida will re-bid its existing Medicaid population as part of the expansion to eliminate the PCCM and FFS programs	1,100,000	\$2,670	7/1/13			10/1/13
Tennessee								
Reprocurement subtotal - 2011			220,000	\$540				
Reprocurement subtotal - 2012			3,838,000	\$10,350				
Reprocurement subtotal - 2013			1,100,000	\$2,670				
Reprocurement total - 2011/2012/2013			5,158,000	\$13,560				

Source: Company notes and Citi Investment Research and Analysis

The State Medicaid Opportunities – Expansions (Part 1)

Expansion State	Timeframe	Notes	Lives	Revenue (in millions)	RFP Issued	RFP Proposals Due	RFP Awarded	Contract Start
South Carolina	2011	Remainder of FFS converted to managed care, adding 95,000 lives	95,000	\$340	No RFP. Lives go to existing plans			March 2011
California	2011	Adding ABD to existing managed care contracts beginning in 2H11	380,000	\$1,414	No RFP. Lives go to existing plans			July 2011
New Jersey	2011	By August 1, most of the state's Medicaid population will be enrolled in managed care, with some populations enrolling in the fall. Pharmacy and home health, among other services, will be carved into the ABD non-dual population.	190,000	\$1,240	No RFP. Lives go to existing plans			8/1/11
Texas	2011	Expanding managed care to contiguous counties	140,000	\$435	No RFP. Lives go to existing plans			9/1/11
Ohio	2011	Carving pharmacy benefits back to plans		\$700	No RFP. Revenue to existing plans			10/1/11
Wisconsin	2011	Managed LTC in Kenosha & Racine	2,300	\$85	6/2/11	7/14/11	8/15/11	1/1/12
Virginia	2011-2012	Expanding into Roanoke & Alleghany areas on 1/1/2012; Plans expected to be selected by September 2011. Expansion to Southwest Virginia on July 1, 2012					September 2011	1/1/12
Washington	2012	Expanding to the aged, blind, and disabled population	100,000	\$720	9/15/11			7/1/12
Ohio	2012	Will expand to additional populations, like children with disabilities	37,000	\$350	August 2011			July 2012
Utah	2012	Both the Senate and House passed a bill expanding managed care, and the governor is expected to sign	325,000					
Georgia	2012	Likely adding ABD to its existing managed care contract	400,000	\$1,000	Early 2012			
Florida	2012	State has requested a CMS waiver to convert its long-term care program to managed care on a statewide basis	90,000	\$3,000	7/1/12			1/1/13
Missouri	2012	HMOs in three regions, but considering statewide						

The State Medicaid Opportunities – Expansions (Part 2)

Expansion State	Timeframe	Notes	Lives	Revenue (in millions)	RFP Issued	Proposals Due	RFP Awarded	Contract Start
Florida	2013	State has requested a CMS waiver to convert its PCCM program to managed care on a statewide basis	1,400,000	\$3,528	7/1/13			10/1/13
Illinois		State has recommended 50% of 2.0m Medicaid lives be enrolled in a care coordinated plan by 1/1/2015	700,000	\$874				
Maine		Maine was anticipating releasing a Medicaid managed care RFP in May 2011, but the Administration has asked for a more detailed review of other alternatives, so the RFP is on hold for now	285,000					
Montana		State plan to bring managed care to five counties is on hold						
New York		As of July 1, 2011, pharmacy and personal care has been carved in. The state is considering moving 120,000 people into a managed LTC program on January 1, 2012, and is also moving 130,000 special needs members into managed care between now and 2012				No RFP. Lives go to existing plans		
Nevada		Long-term care						
Kansas		Could expand into ABD						
New Hampshire		Has issued a request for information						
Alabama								
Expansion subtotal - 2011			807,300	\$4,213				
Expansion subtotal - 2012			952,000	\$5,070				
Expansion subtotal - 2013			2,100,000	\$4,402				
Expansion total - 2011/2012/2013			3,859,300	\$13,685				
Grand total, procurement and expansion			9,017,300	\$27,245				
Procurement awarded			2,496,200	\$6,780				
Expansion awarded			2,350,000	\$9,000				
Total awarded			4,846,200	\$15,780				

Source: Company notes and Citi Investment Research and Analysis

The State Medicaid Opportunities – What's Already Been Awarded

Expansion State	Timeframe	Notes	Lives	Revenue (in millions)	RFP Issued	Proposals Due	RFP Awarded	Contract Start
Arizona	2011	New long-term care contract will be effective on 10/1/2011, covering 27,000 lives	25,200	\$1,000	1/31/11	4/1/11	5/9/11	10/1/11
Kentucky	2011	Re-bidding the state's one managed care contract	171,000	\$780	4/7/11	5/25/11	June 2011	7/1/11
Kentucky	2011	Expanding managed care statewide	460,000	\$2,000	4/7/11	5/25/11	June 2011	7/1/11
Louisiana	2011-12	Planning to bring managed care to 3 regions with 825,000 eligibles with \$2 billion in revenue	890,000	\$2,000	4/11/11	6/24/11	7/25/11	1/1/12
Texas	2011	Re-bidding most of the state's existing managed care contracts	2,300,000	\$5,000	4/8/11	5/23/11	August 2011	3/1/12
Texas	2011-12	Adding the Rio Grande Valley, new STAR+PLUS regions, returning pharmacy management to plans, and returning inpatient mgmt to STAR+PLUS	1,000,000	\$5,000	4/8/2011	5/23/2011	August 2011	3/1/12

Source: Company notes and Citi Investment Research and Analysis

Sizing Medicaid Expansion Through Reform

- Using an estimate of 49 million Medicaid lives, the publicly traded plans have a nearly 35% market share
 - Holding that market share constant, they should enroll about 5.5 million of the new Medicaid eligibles in 2014.
 - At \$225 PMPM, that adds \$15 billion in revenue and \$450 million in EBITDA at a 3% pre-tax margin

Company	2013 Medicaid Enrollment	Market Share	Additional Medicaid lives	Assumed PMPM	New Revenue (in million)	Assumed Margin	New EBITDA	EPS Impact	% of 2011 Estimate
Molina	1,866	3.8%	609	\$225	\$1,645	3.0%	\$49.4	\$0.67	47.6%
Centene Corp	2,462	5.0%	804	\$225	\$2,170	3.0%	\$65.1	\$0.78	38.2%
AMERIGROUP	2,608	5.3%	852	\$225	\$2,300	3.0%	\$69.0	\$0.87	21.1%
WellCare	1,564	3.2%	511	\$225	\$1,378	3.0%	\$41.4	\$0.58	11.8%
Health Net	1,056	2.2%	345	\$225	\$931	3.0%	\$27.9	\$0.19	6.0%
Coventry	657	1.3%	215	\$225	\$579	3.0%	\$17.4	\$0.07	2.3%
UnitedHealth	3,660	7.5%	1,195	\$225	\$3,227	3.0%	\$96.8	\$0.06	1.3%
WellPoint	1,998	4.1%	652	\$225	\$1,762	3.0%	\$52.8	\$0.09	1.3%
Humana	619	1.3%	202	\$225	\$546	3.0%	\$16.4	\$0.06	0.8%
Aetna	463	0.9%	151	\$225	\$408	3.0%	\$12.2	\$0.02	0.4%
Triple-S	0	0.0%	0	\$225	\$0	3.0%	\$0.0	\$0.00	0.0%
CIGNA Corp.	0	0.0%	0	\$225	\$0	3.0%	\$0.0	\$0.00	0.0%
All Other	32,047	65.4%	10,464	\$225	\$28,254	3.0%	\$847.6		
Total	49,000	100.0%	16,000	\$225	\$43,200	3.0%	\$1,296		
Publicly traded	16,953	34.6%	5,536	\$225	\$14,946	3.0%	\$448		

The Bigger Medicaid Plans Are Going To More Than Double Revenue Between Now and 2014

- The RFPs to date have heavily favored the pure play plans
 - Including only contracts won to date, plus the anticipated 2014 expansion, our 2014 revenue projections for the pure play Medicaid plans are more than 100% higher than the revenue generated in 2010, led by Centene, with successes in Kentucky, Louisiana, and Texas

	2010	2011E	2012E	2013E	2014E	Total Growth
AMERIGROUP	\$5,783	\$6,285	\$7,849	\$8,525	\$11,253	95%
Centene	\$4,448	\$5,302	\$7,633	\$8,146	\$10,428	134%
Molina	\$4,080	\$4,668	\$5,515	\$5,819	\$7,649	87%
Total	\$14,311	\$16,255	\$20,997	\$22,490	\$29,330	105%

In millions, unless otherwise indicated.

Source: Company notes and Citi Investment Research and Analysis

Walking Through The Medicaid Revenue Growth

- **Let's look at AMERIGROUP**
 - In 2010, AMERIGROUP had \$5.8 billion in revenue
 - In 2011, through already awarded RFPs and organic growth, AMERIGROUP expects revenue to grow to \$6.3 billion
 - We'll assume 5% organic growth for 2012, 2013, and 2014, which adds about \$1 billion in revenue, while carve-ins in existing states add about \$800 million
 - As we just calculated, AMERIGROUP stands to gain \$2.3 billion in revenue through reform in 2014
 - If AMERIGROUP wins almost 5% of the upcoming \$27 billion in Medicaid RFPs, it would add \$1.25 billion in additional revenue
 - In total, this would make AMERIGROUP's 2014 revenue 115% higher than what it generated in 2010

What This Growth Would Mean For AMERIGROUP's Stock Price

- We estimate AMERIGROUP will generate a 3.5% margin in 2011, and its stock is currently valued at \$43
 - If revenue doubles and AMERIGROUP maintains the same 3.5% margin, it would earn \$8.50 per share, which would make the stock worth \$102 at a 12x multiple
 - Even if we assume margins contract to 2.5% (a 30% reduction), it would still give the stock a value of \$73 per share.

Revenue growth, from 2010 to 2014

2010 revenue	\$5,783
Organic / carve-in growth (2011-2014)	\$1,795
Louisiana RFP	\$375
Texas RFP	\$1,000
State expansions (2012-2014)	\$1,250
Health reform (2014)	\$2,300
2014 revenue	\$12,503

What that would mean for the stock price

After-tax margin scenario	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%
EPS	\$1.21	\$2.43	\$3.64	\$4.86	\$6.07	\$7.28	\$8.50	\$9.71
Stock price scenario - 12x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x	12.0x
Stock price	\$14.57	\$29.13	\$43.70	\$58.26	\$72.83	\$87.40	\$101.96	\$116.53

In millions, unless otherwise indicated

Source: Company notes and Citi Investment Research and Analysis

The Worry: Margin Pressure From Both State Budgets Cuts & Rising Medical Costs

- **Most cuts to managed care plans are just a pass through of lower provider rates**
 - There's no question this puts pressure on managed care margins and earnings, but the impact isn't as significant as the headlines suggest
 - Still, even after automatic passthroughs, AMERIGROUP's rate in Texas is still falling 5.4%
 - Just because cuts don't passthrough automatically doesn't mean they won't be passed through
 - The rebate system in Texas

- **AMERIGROUP cited higher outpatient costs on their second quarter call**
 - We're not clear what is driving this, since it is so different from what we're seeing in the rest of the environment

How Is The Medicaid Industry Doing Overall

- **Based on the 2010 statutory financials, the overall Medicaid loss ratio was 85.7% in 2010, 270 basis points better than 2009**
 - Lower utilization was a common theme across the industry last year, while 2009 loss ratios were inflated by the flu and new member utilization

	2006	2007	2008	2009	2010
Number of plans	156	171	182	188	178
Enrollment	12,957,328	13,758,559	14,987,500	18,027,788	19,487,602
Member months	141,149,189	162,242,934	170,791,473	204,310,216	227,021,625
PMPM	\$203.44	\$225.47	\$240.37	\$258.13	\$256.83
Premiums	\$28,716,072,813	\$36,581,345,198	\$41,052,367,221	\$52,737,962,753	\$58,305,868,711
Medical expenses	\$24,949,037,445	\$32,506,552,184	\$35,899,389,264	\$46,618,479,013	\$49,961,365,351
Med expense, PMPM	\$176.76	\$200.36	\$210.19	\$228.17	\$220.07
MLR	86.9%	88.9%	87.4%	88.4%	85.7%
Gross profit	\$3,767,035,368	\$4,074,793,014	\$5,152,977,957	\$6,119,483,740	\$8,344,503,360
Gross profit, PMPM	\$26.69	\$25.12	\$30.17	\$29.95	\$36.76
Bed days per thousand	404.3	449.7	453.7	512.4	540.5
Days per admission	4.0	3.7	3.9	3.4	4.8
Doctor visits / thousand	5,096	5,309	5,129	6,558	6,062

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

Publicly Traded Versus Private Plans In 2009

- The variation in MLR seems to be driven primarily by a much higher number of bed days and days per inpatient admission at the private plans

	Publicly Traded	Private	Variance
	2010	2010	2010
Number of plans	78	100	28.2%
Enrollment	9,955,999	9,531,603	-4.3%
Member months	118,874,832	108,146,793	-9.0%
PMPM	\$238.12	\$277.39	16.5%
Premiums	\$28,306,952,008	\$29,998,916,703	6.0%
Medical expenses	\$23,708,934,078	\$26,252,431,273	10.7%
Medical expense, PMPM	\$199.44	\$242.75	21.7%
MLR	83.8%	87.5%	380 bp
Gross profit	\$4,598,017,930	\$3,746,485,430	-18.5%
Gross profit, PMPM	\$38.68	\$34.64	-10.4%
Bed days per thousand	599.2	458.0	-23.6%
Days per admission	5.4	4.2	-21.5%
Physician visits per thousand	5,785	6,335	9.5%

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

Taking It One Step Further

- The publicly traded pure play Medicaid plans have superior MLR's relative to publicly traded diversified plans, although the difference narrowed quite a bit in 2009 and 2010

	Pure Play Publicly Traded			Diversified Publicly Traded		
	2008	2009	2010	2008	2009	2010
Number of plans	32	37	35	45	46	42
Enrollment	4,062,682	4,996,691	5,299,142	3,835,533	4,327,758	4,616,943
Member months	47,480,322	56,404,246	61,983,093	42,311,840	49,491,584	56,490,075
PMPM	\$229.48	\$243.08	\$236.37	\$209.39	\$235.16	\$238.63
Premiums	\$10,895,649,819	\$13,710,635,616	\$14,650,729,555	\$8,859,534,913	\$11,638,589,688	\$13,480,060,682
Medical expenses	\$9,102,712,772	\$11,809,731,879	\$12,298,540,463	\$7,736,132,638	\$10,174,801,908	\$11,355,769,760
Medical expense, PMPM	\$191.72	\$209.38	\$198.42	\$182.84	\$205.59	\$201.02
MLR	83.5%	86.1%	83.9%	87.3%	87.4%	84.2%
Gross profit	\$1,792,937,047	\$1,900,903,737	\$2,352,189,092	\$1,123,402,275	\$1,463,787,780	\$2,124,290,922
Gross profit, PMPM	\$37.76	\$33.70	\$37.95	\$26.55	\$29.58	\$37.60
Bed days per thousand	465.7	428.3	471.8	436.7	540.3	756.4
Days per admission	3.9	4.3	4.7	3.8	2.3	6.0
Doc visits per thousand	4,943	5,683	5,334	4,699	6,398	6,834

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

Why Are Publicly Traded MLRs Better?

- **SG&A differences may be part of it**
 - The 2010 stat filings suggest administrative cost ratios are 240 basis points higher at the publicly traded plans
 - We highlighted the differences in utilization earlier; provider payments may also be a factor
 - In 2010, while the overall Medicaid underwriting margin was 2.6%, the publicly traded plans reported a margin of 3.2%, versus 2.1% for the private plans

	Premiums	Medical Expenses	MLR	Operating Expenses	SG&A Ratio	Underwriting Profit	Underwriting Margin
Overall	\$58,555,485,887	\$50,040,914,752	85.5%	\$7,047,903,739	12.0%	\$1,546,950,483	2.6%
Public plans	\$28,525,831,368	\$23,852,296,201	83.6%	\$3,787,756,110	13.3%	\$919,078,490	3.2%
Private plans	\$30,029,654,519	\$26,188,618,551	87.2%	\$3,260,147,629	10.9%	\$627,871,993	2.1%

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

Medicaid Continues To Be A Good Source Of Growth

- Even with a stabilization in employment levels, the publicly traded plans added nearly 770,000 new lives in 2010, a growth rate of 6%, bringing total membership to almost 13.8 million lives
 - Commercial risk enrollment, by comparison, fell by 1.1 million lives in 2010

	2008	2009	2010	Change	% Change
UnitedHealth	2,515	2,900	3,320	420	14.5%
AMERIGROUP	1,570	1,773	1,912	139	7.8%
WellPoint	1,968	1,733	1,756	23	1.3%
Molina	1,257	1,455	1,613	158	10.9%
Centene	1,185	1,456	1,534	78	5.4%
WellCare	1,322	1,349	1,340	-9	-0.7%
Health Net	812	910	901	-9	-1.0%
Humana	385	402	572	171	42.5%
Coventry	371	402	468	66	16.4%
Aetna	207	310	381	71	22.9%
Triple-S	338	341	0	-341	-100.0%
Total	11,930	13,030	13,797	767	5.9%

Source: Company notes and Citi Investment Research and Analysis

We Think The Diversified Plans Need To Grow Through Acquisition

- **Aetna, as an example, could very well double its Medicaid business over the next few years**
 - If they are successful, it will take their Medicaid exposure from 2% of gross profits to 4% of gross profits
 - In other words, in the grand scheme of things, even if they double the Medicaid business, it still won't matter to Aetna from an overall perspective, nor will the market care
- **Plans without a lot of prior experience in Medicaid haven't done well in past RFPs**
 - The pure play Medicaid plans have been dominant in the recent RFP awards
- **At this point, though, the larger plans are content to grow organically and through RFPs**

Past Medicaid RFPs

	Indiana	Illinois ABD	Arizona LTC	Kentucky	Louisiana	Texas	Past 28 Penetration RFP's	Rate
Private plans	209,000				350,000	216,500	4,000,145	43.1%
United			10,250		175,000	107,000	1,637,455	17.7%
Centene	259,100	22,700	5,500	180,000	175,000	320,000	1,412,140	15.2%
WellPoint	209,000						715,203	7.7%
Molina						150,000	672,121	7.3%
Coventry				180,000			483,708	5.2%
AMERIGROUP					175,000	225,000	771,521	8.3%
WellCare				180,000			355,499	3.8%
Aetna		22,700	9,600				188,666	2.0%
HealthSpring						22,000	22,000	0.2%
United (formerly Sierra)							52,500	0.6%
Total Eligibles	677,100	45,400	25,350	540,000	875,000	1,040,500	9,270,458	-
Other publicly traded plans	209,000	-	19,850	180,000	175,000	129,000	3,099,532	
Pure play Medicaid	259,100	22,700	5,500	360,000	350,000	695,000	3,211,281	
Other publicly traded penetration	30.9%	0.0%	78.3%	33.3%	20.0%	12.4%	33.4%	
Pure play penetration	38.3%	50.0%	21.7%	66.7%	40.0%	66.8%	34.6%	
Contract Award Date	6/4/2010	9/9/2010	5/5/2011	7/7/2011	7/25/2011	8/1/2011		

Source: Company notes and Citi Investment Research and Analysis

Medicaid M&A Picked Up In 2010

- The average purchase price has been around \$550 per member, but the bigger deals have usually been for higher prices

Acquiror	Target	Date	Price (in millions)	Medical Membership	Price / Medical Membership
Independence / BCBS MI	AmeriHealth Mercy	8/9/2011	\$340	775	\$439
Centene	Citrus Health Care (Medicaid and LTC)	8/10/2010		54	
Molina	Abri Health Plan	7/12/2010	\$16	28	\$571
Centene	Carolina Crescent Health Plan	2/18/2010	\$15-20	40	\$438
Molina	Unisys Health Information Management	1/19/2010	\$135	N/A	N/A
AMERIGROUP	Centene University HP of New Jersey	11/20/2008	\$13	55	\$243
UnitedHealth Group	Unison	1/8/2008	\$930	320	\$2,906
CareSource	Community Choice Michigan	10/1/2007	N/A	N/A	N/A
Molina	Mercy CarePlus	9/6/2007	\$74	68	\$1,093
Centene	Access Health Solutions	7/20/2007	N/A	90	N/A
Aetna	Schaller Anderson	5/24/2007	\$535	1,300	\$412
Centene	PhyTrust of South Carolina	4/16/2007	N/A	30	N/A
WellPoint	QualChoice Select	4/26/2006	\$42	68	\$618
Molina	CAPE Health Plan	1/30/2006	\$44	87	\$506
Centene	AirLogix	7/21/2005	\$35	N/A	N/A
Centene	SummaCare	1/10/2005	\$31	39	\$795
Molina	Sharp Health Plan	11/22/2004	\$25	70	\$357
AMERIGROUP	CarePlus	10/26/2004	\$125	114	\$1,096
AMERIGROUP	The Wellness Plan	4/15/2004	\$38	103	\$369
UnitedHealth Group	Great Lakes	3/10/2004	\$27	96	\$281
WellCare	Harmony	3/8/2004	\$50	85	\$588
Molina	Premera (Medicaid)	3/1/2004	N/A	66	N/A
Molina	Cimarron (NM)	2/23/2004	\$74	108	\$685
AMERIGROUP	Physicians Health Plans	8/22/2002	\$121	184	\$658
UnitedHealth Group	AmeriChoice	6/18/2002	\$560	375	\$1,493
Average					\$558

Source: Company notes and Citi Investment Research and Analysis

There Has Been A Big Shift In Sentiment Towards Medicare

- **For years Medicare has been viewed as an industry that didn't have long to live**
 - However, even with the rate cuts implemented as part of health reform, CMS estimates plans will see rates rise 0.4% in 2012, and we think plans will see rates rise about 2% all in next year, after factoring in improved risk scores.

- **With rates up, benefits can be held flat, and enrollment should continue to grow**
 - The industry should add 675,000 lives this year, and we think enrollment can grow 750,000-1,000,000 lives in 2012

- **The better rate environment isn't an election year ploy**

2012 Rates Will Vary Depending on Geography & Star Rating

- We've used a plan with a 3 star rating in 2012

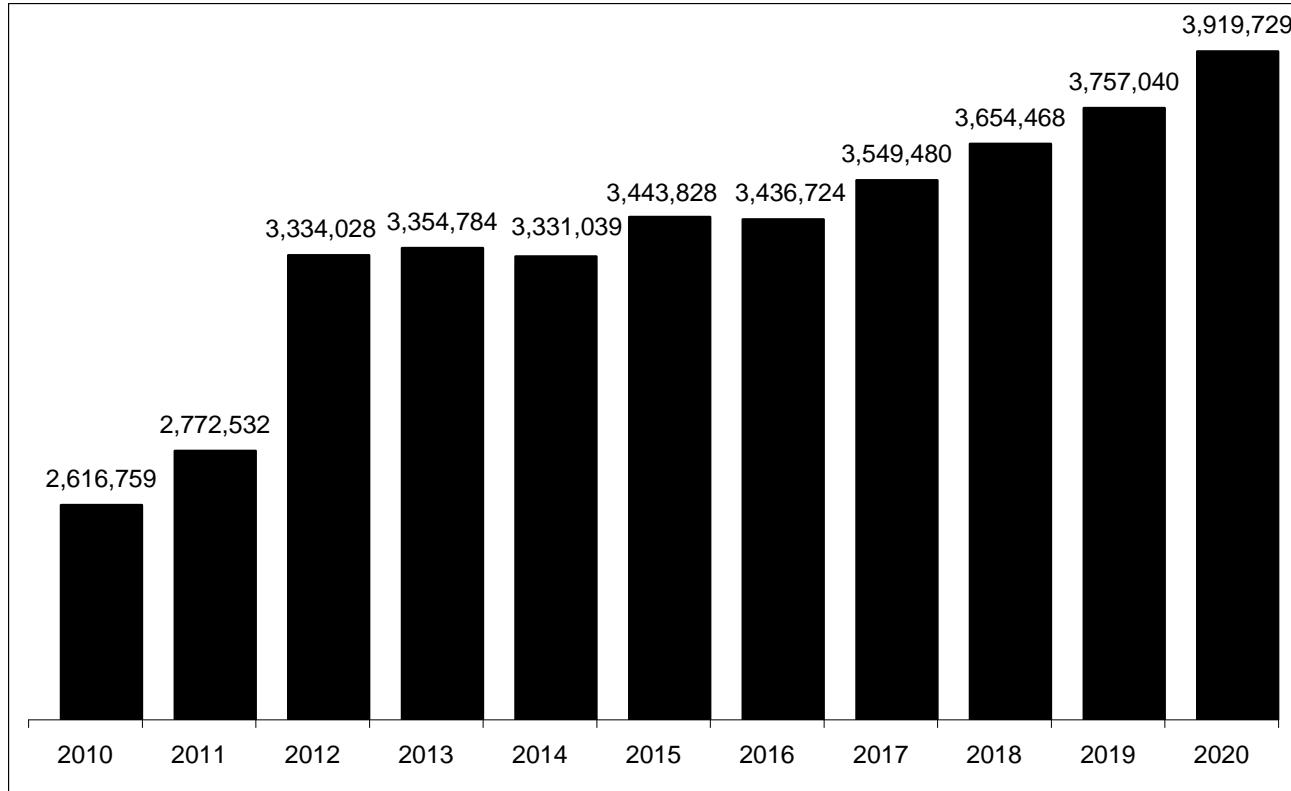
State Name	County Name	Enrolled	2011 Rate	2012 Rate	YoY Change
California	Los Angeles	454,269	\$966.03	\$950.65	-1.6%
Arizona	Maricopa	210,590	\$814.37	\$810.45	-0.5%
Florida	Miami-Dade	197,299	\$1,230.32	\$1,320.31	7.3%
California	Orange	164,323	\$814.89	\$806.94	-1.0%
California	San Diego	161,797	\$838.90	\$832.32	-0.8%
Pennsylvania	Allegheny	142,175	\$815.96	\$805.77	-1.2%
California	Riverside	135,189	\$900.17	\$892.61	-0.8%
Florida	Broward	120,275	\$953.23	\$950.71	-0.3%
Texas	Harris	111,197	\$1,093.70	\$1,075.98	-1.6%
New York	Queens	108,991	\$974.59	\$961.83	-1.3%
California	San Bernardino	106,392	\$891.82	\$885.68	-0.7%
New York	Kings	105,589	\$966.03	\$950.65	-1.6%
Pennsylvania	Philadelphia	96,811	\$974.93	\$954.02	-2.1%
New York	Erie	90,890	\$815.19	\$817.83	0.3%
Nevada	Clark	85,699	\$864.03	\$862.59	-0.2%

Source: CMS and Citi Investment Research and Analysis

There Are Several Growth Dynamics Working In The Industry's Favor

- There are a lot more people turning 65 in 2012
 - In addition, there won't be nearly as much PFFS disruption next year

Number of people turning 65 by year



Source: US Census and Citi Investment Research and Analysis

The 2012 Medicare Growth Outlook

- Age-ins and group employer conversions should drive incremental growth next year
 - Employers were a lot more focused on figuring out health reform last year, so there has been virtually no group contributions this year

Total 2009 growth	1,036,400
Total 2010 growth	582,000
YTD 2011 Growth	543,000
Rest of 2011, at 33k lives a month	132,000
Total 2011 growth	675,000
2012 - Base growth	600,000
2012 - 25% of Medicare age-ins	140,000
2012 - Employer conversions	100,000
Total 2012 growth	840,000

Medicare Lives Are Quite Profitable, Even Though The Margin Isn't High

The dollar profit on a Medicare product is almost 2x greater than what the commercial risk product earns

EBITDA By Product

	Commercial Risk	Commercial ASO	Medicare	Medicaid
Revenue	\$350	\$20	\$900	\$215
MLR	83%	--	86%	87%
SG&A	10%	80%	9%	10%
Margin	7%	20%	5%	3%
EBITDA per member	\$25	\$4	\$45	\$6

Source: Company notes and Citi Investment Research and Analysis

Star Ratings Will Provide An Unexpected Benefit In 2012

- Under the new demo, plans with at least 3 stars will receive a quality bonus payment
 - This is important, as 62% of all Medicare plans will qualify for the bonus, compared with the initial expectation that only plans with 4 stars or more would get the bonus, which included just 14% of plans

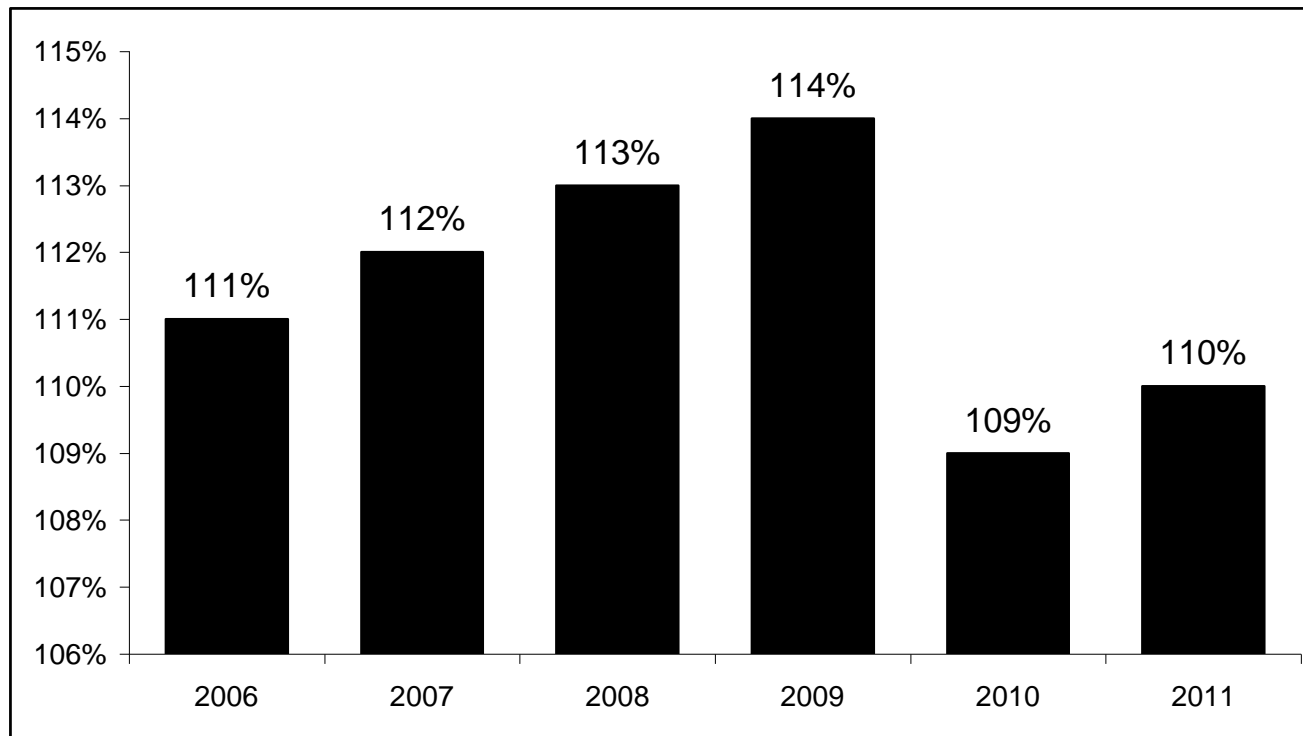
Category	Aetna	AMERIGROUP	Centene	Coventry	Health Net	Health Spring	Humana	Molina	Triple-S	Universal American	United	WellCare	WellPoint	Industry
5 Stars	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.5 Stars	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4 Stars	2,551	-	-	9,145	-	102,058	-	-	-	-	106,898	-	-	220,652
3.5 Stars	217,494	-	-	77,219	171,855	-	558,925	-	-	96,856	613,910	-	62,581	1,798,840
3 Stars	115,557	7,240	-	77,227	49,087	196,765	308,219	14,567	-	166,848	1,272,009	113,304	390,211	2,711,034
Below 3 Stars	838	7,764	-	1,949	-	-	433,938	4,440	54,622	-	72,011	1,947	15,766	593,275
Too new to be measured	522	-	-	-	-	2,861	438,280	520	-	-	-	-	-	442,183
Not enough data	6,042	3,725	2,961	3,114	746	97	18,945	3,684	-	26,959	18,893	717	6,958	92,841
Total	343,004	18,729	2,961	168,654	221,688	301,781	1,758,307	23,211	54,622	290,663	2,083,721	115,968	475,516	5,858,825
Total above 3 Stars	335,602	7,240	-	163,591	220,942	298,823	867,144	14,567	-	263,704	1,992,817	113,304	452,792	4,730,526
Average bonus %	3.3%	1.2%	0.0%	3.2%	3.4%	3.3%	2.4%	1.9%	0.0%	2.9%	3.1%	2.9%	2.9%	2.8%
Bonus payment (millions)	\$126.3	\$2.5	\$0.0	\$60.7	\$84.5	\$113.6	\$473.3	\$5.1	\$0.0	\$94.7	\$721.1	\$38.3	\$156.8	\$1,876.8

Source: Centers for Medicare and Medicaid Services (CMS) and Citi Investment Research and Analysis

Much Of The Medicare Advantage Overpayment Is Already Gone

- Because of the payment reduction phase-in, the rate cuts included in reform will be pretty modest
 - In 2010, rates dropped 4-5%, eliminating around a third of the payment disparity; rates were frozen in 2011, but MedPac is assuming low FFS growth in 2011, too

Medicare Plan Payments Versus FFS Costs



The Deficit Reduction Committee

- **There's a disconnect between how DC and Wall Street are viewing the deficit reduction committee**
 - The consensus in DC is that even if the super committee reaches agreement, it will have a difficult time passing Congress, because the divisions that were evident over the last month haven't been resolved
 - There's not a lot of hope the personalities on the committee will reach agreement
 - So the 2% trigger reduction seems like the most likely outcome

- **Wall Street, on the other hand, is discounting a much worse outcome**
 - If rates fall 2% across the board, Medicare Advantage plans will pass-through the cuts to providers
 - Anything that isn't passed through will be fixed through an adjustment to 2013 benefits
 - It's hard to see how the trigger could put major pressure on Medicare Advantage margins or cause enrollment to fall meaningfully short of expectations

Medicare M&A Will Pick Up In 2012

- **Both Aetna and WellPoint have indicated they want to be bigger in Medicare**
 - Both plans believe they will need to rely on acquisitions to achieve the necessary scale, suggesting Universal American, WellCare, and HealthSpring are targets
- **There are also a lot of sizeable private plans out there, too, even after the CareMore deal**
 - Plans include Aveta (184,000 lives), XL Health (96,000 lives), Arcadian (74,000 lives), Universal Health (56,000 lives), Spectrum Health (48,000 lives), among many others.
- **WellPoint, Aetna, UnitedHealth, Triple-S, HealthSpring, and Sterling (Munich Re) have all been active lately**

Highlighted Industry Reports

Industry Analyses

<i>You're Getting Old When You Enjoy Remembering Things More Than Doing Them -August Medicare Enrollment</i>	August 15, 2011
<i>Be Nice To People On Your Way Up, Because You'll Meet Them On Your Way Down: TBV Analysis</i>	August 8, 2011
<i>All That's Necessary for the Triumph of Evil Is for Good Men to Do Nothing: 1Q11 NonProfit Blue Cross Analysis</i>	June 29, 2011
<i>We Make A Living By What We Get, But We Make A Life By What We Give - 2010 Minimum MLR Rebates</i>	June 13, 2011
<i>Good Players Skate Where The Puck Is. Great Ones Play Where The Puck Will Be: NonProfit Blue Cross Pricing</i>	June 7, 2011
<i>Money, If It Doesn't Bring Happiness, Will At Least Help You Be Miserable In Comfort: 2010 Risk Based Capital</i>	May 17, 2011
<i>If One Has To Submit, It's Wasteful Not To Do So...: Upgrading Commercial Managed Care</i>	May 12, 2011

Company reports

<i>CVH: Success Usually Comes To Those Too Busy To Be Looking For It - 2Q11 EPS Analysis</i>	August 11, 2011
<i>HNT: Confusion Is Always The Most Honest Response - 2Q11 EPS Analysis</i>	August 8, 2011
<i>UAM: Money Isn't The Most Important Thing In The World. Love Is. Fortunately, I Love Money - 2Q11 Analysis</i>	August 2, 2011
<i>HUM: Get Your Facts Straight First, And Then You Can Distort Them As You Please - 2Q11 EPS Analysis</i>	August 2, 2011
<i>AGP: The Only Function of Financial Forecasting Is To Make Astrology Look Respectable - 2Q11 EPS Analysis</i>	August 1, 2011
<i>WLP: What Do You Think Of Your Team's Execution? Right Now, I'm In Favor Of It - 2Q11 EPS Analysis</i>	July 28, 2011
<i>AET: The Only Reason For Time Is So That Everything Doesn't Happen All At Once - 2Q11 EPS Analysis</i>	July 27, 2011
<i>EHTH: I May Be Bad But I'm Perfectly Good At It - 2Q11 EPS Analysis</i>	July 26, 2011
<i>CNC: The Only Thing We Learn From Experience Is That We Learn Nothing From Experience - 2Q11 Analysis</i>	July 26, 2011
<i>UNH: Do You Mind If I Dance With Your Date? - The United / Medco Break-Up</i>	July 22, 2011
<i>MOH: No One Trips Over Mountains. It's Always The Small Pebble - 2Q11 EPS Analysis</i>	July 22, 2011
<i>AGP: A Small Cap Becomes A Large Cap - Highlights From Management Meetings</i>	July 16, 2011
<i>WLP: If You Want To Feel Rich, Just Count The Things You Have That Money Can't Buy - Acquires CareMore</i>	June 8, 2011
<i>HS: Democracy Is Four Wolves & A Lamb Voting On What's For Lunch - Investor Day Highlights</i>	April 8, 2011
<i>CI: Sometimes A Man Can Meet His Destiny On The Road He Took To Avoid It - Investor Day Analysis</i>	March 14, 2011
<i>AET: The Farther Backward You Can Look, The Farther Forward You Are Likely To See - 2011 Investor Day</i>	March 7, 2011
<i>HUM: When Everyone Thinks Alike, Everyone Is Likely To Be Wrong - Highlights From Management Meetings</i>	February 28, 2011
<i>MGLN: The Two Most Powerful Warriors Are Patience And Time - Signs Blue Shield Of California Contract</i>	February 1, 2011
<i>GTS: Whoever Said Money Can't Buy Happiness... Acquires American Health</i>	January 26, 2011
<i>UAM: Be Ready At Any Moment To Give Up What You Are... Sells PDP Business to CVS</i>	January 3, 2011

Medicaid Updates

<i>Don't Insult The Alligator Until After You Cross The River: Texas Awards Medicaid RFP</i>	August 2, 2011
<i>If You Have An Important Point To Make, Don't Try To Be Subtle Or Clever: Louisiana Medicaid RFP Awarded</i>	July 25, 2011
<i>Managed Care: I've Never Let My Schooling Interfere With My Education: Kentucky Medicaid RFP Awarded</i>	July 8, 2011
<i>Managed Care: Well Done Is Better than Well Said: Highlights from The Louisiana Medicaid RFP</i>	June 30, 2011
<i>Courage Is Fear Holding On A Minute Longer: Kentucky Medicaid RFP Analysis</i>	May 30, 2011
<i>Who Are You Going To Believe, Me Or Your Own Eyes?: Texas Medicaid RFP Analysis</i>	May 16, 2011
<i>Many Foxes Grow Grey, But Few Grow Good: Arizona Long-Term Care RFP Awarded</i>	May 9, 2011
<i>Most Of Us Don't Look As Handsome To Others As We Do...: Arizona Medicaid Long-Term Care RFP Analysis</i>	April 11, 2011

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Sell

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36%

11%

10%

81%

10%

45%

41%

42%

50%

42%

44%

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