Threats to Our Industry – The Economy
“Where Do We Go from Here”

Jeff Alter
CEO UnitedHealthcare
Northeast Region

October 20, 2008

Agenda

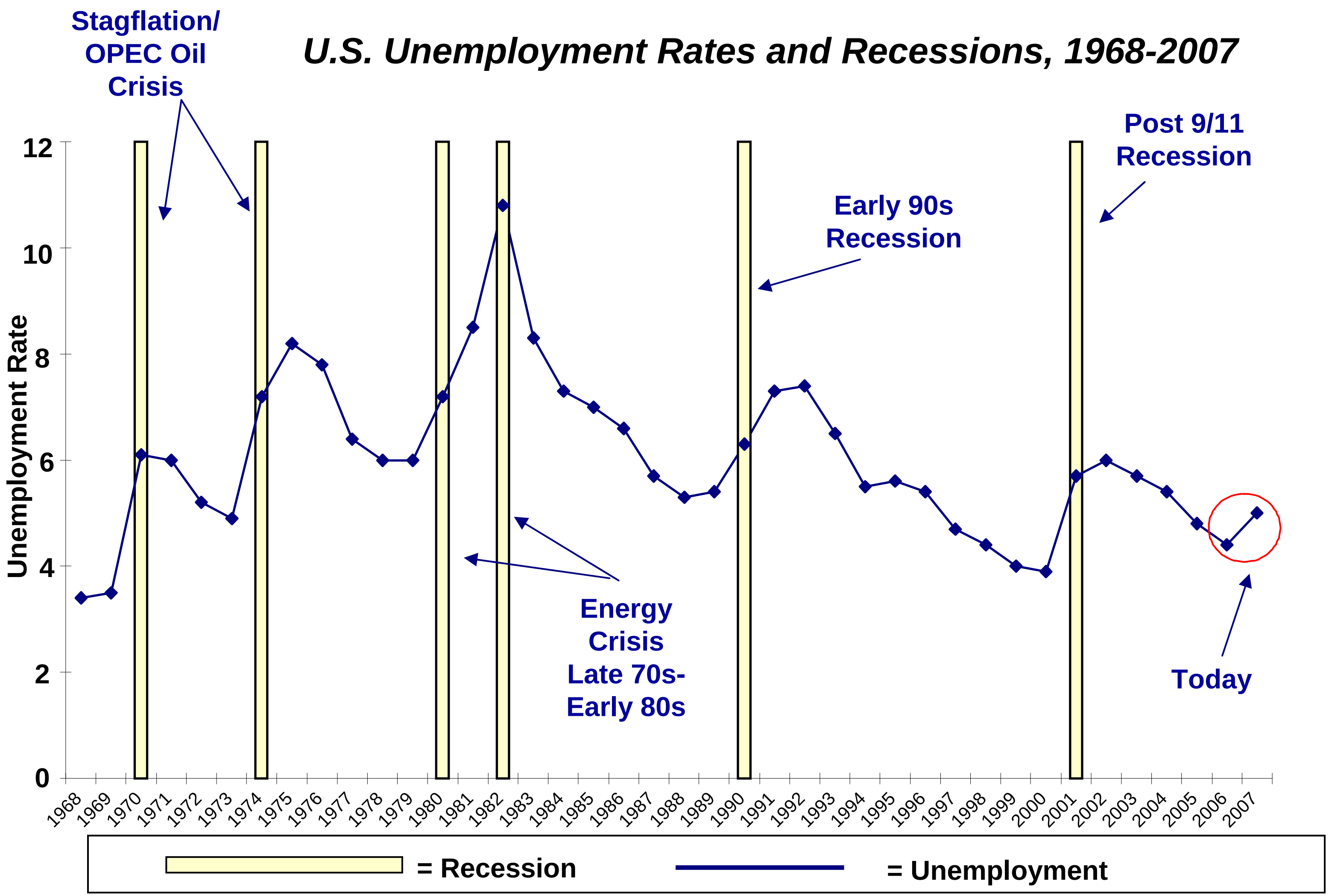
This presentation reviews the economic landscape and past, current and potential future impact for the health insurance industry.

- Economic Landscape
- Historical Guidance: A Look at Past Economic Downturns and their Effect on the Insurance Industry
- Implications for the Insurance Industry
- Conclusions

Economic Landscape: Unemployment

There is widespread belief that we are currently in a recession; unemployment will likely continue to rise for at least several more years.

U.S. Unemployment Rates and Recessions, 1968-2007

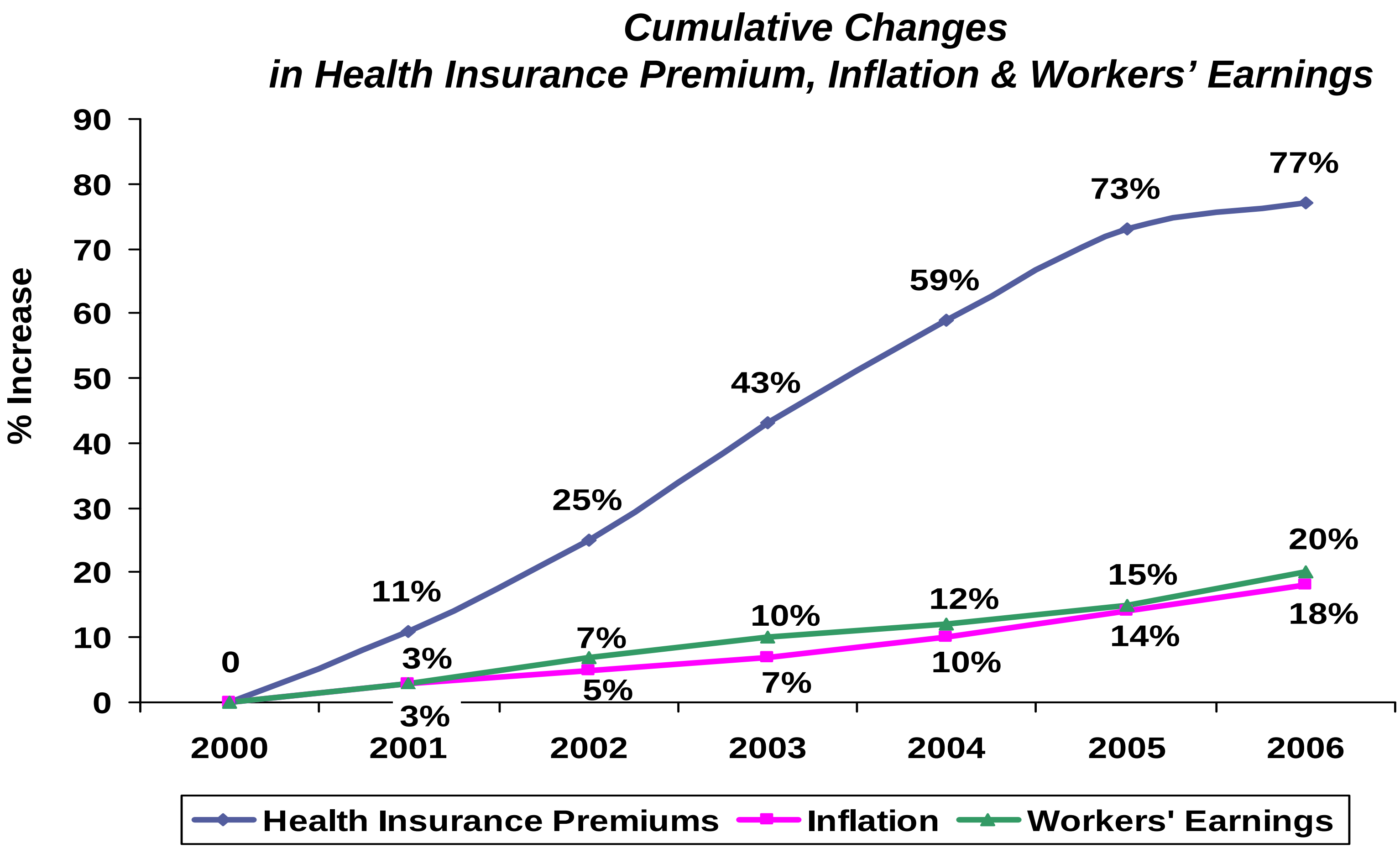


- Every recession during the past 40 years has been preceded by an increase in unemployment
- On average, unemployment rates remain high for two years following a recession

Source: Bureau of Labor Statistics and National Bureau of Economic Research; December Seasonally Adjusted Unemployment Rates

Economic Landscape: Rising Healthcare Costs

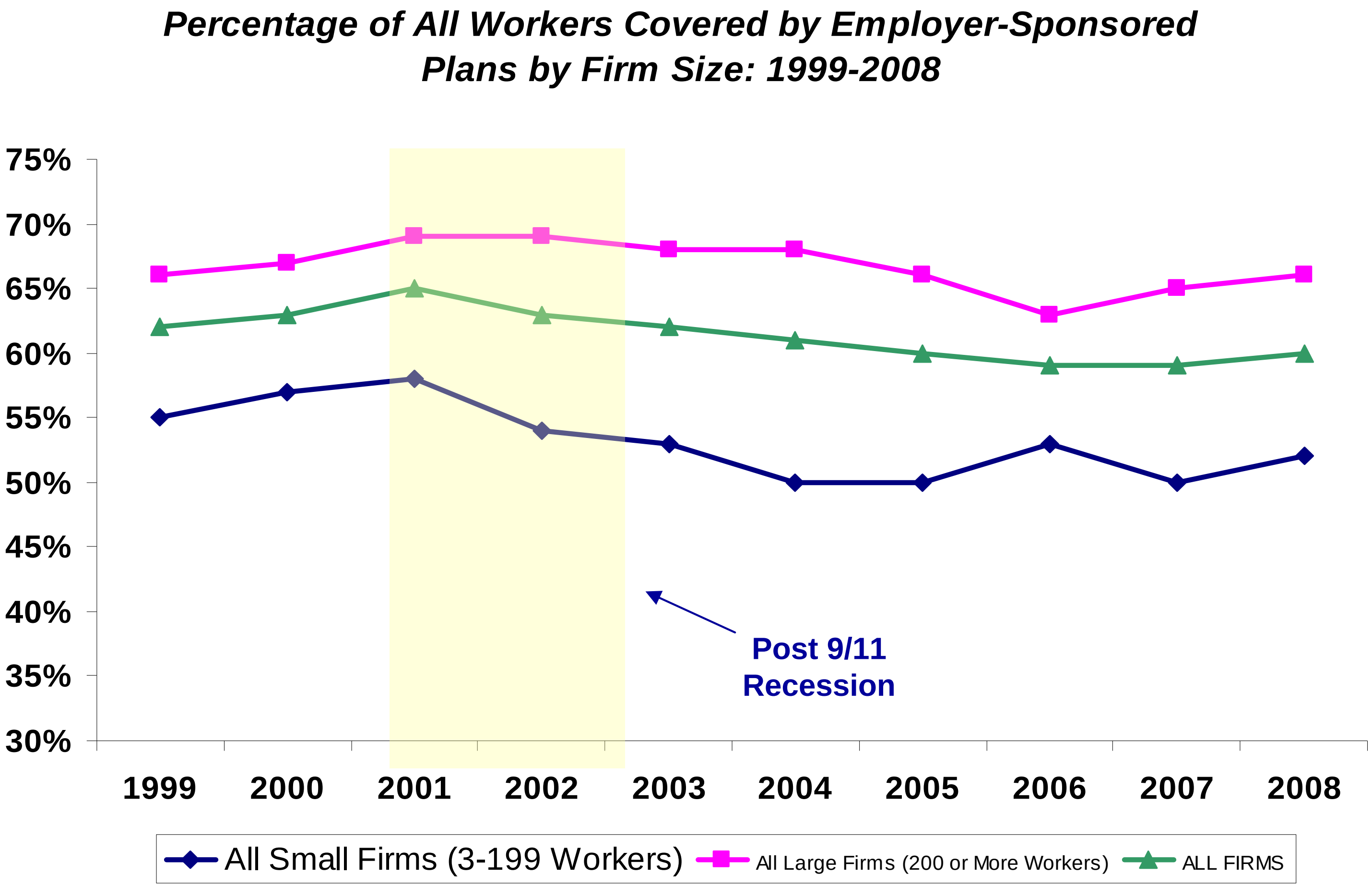
Healthcare costs have been on a steeper rise than inflation or income; this trend is expected to continue.



Source: KFF/HRET Survey of Employer Sponsored Health Benefits 2001 – 2006; Bureau of Labor Statistics
Note: Data on premium increases reflect the cost of health insurance premiums for a family of four

Economic Landscape: Small Company Impact

The percentage of small group employers offering coverage have never returned to the pre-9/11 levels, despite prosperity since that time.



- Today only about half of all employers with less than 200 employees offer health insurance benefits
- The last recession negatively impacted the ability of small firms their ability to offer health insurance

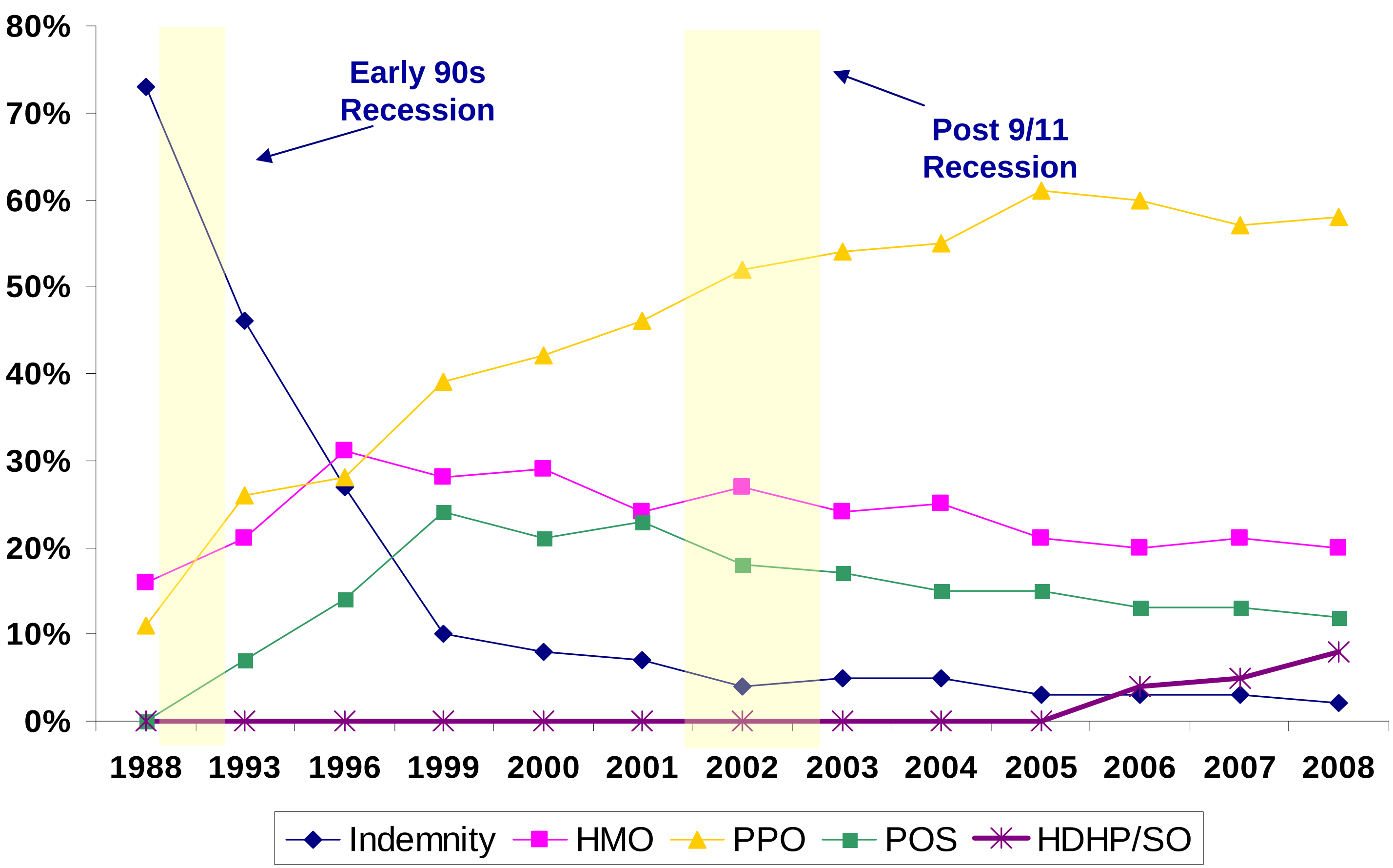
Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2008;

Economic Landscape: Healthcare Purchasing

UnitedHealthcare
Healing health care. Together.

In the past 20 years, economic downturns have spurred changes in the way companies buy health insurance.

Health Insurance Product Mix: 1988-2008



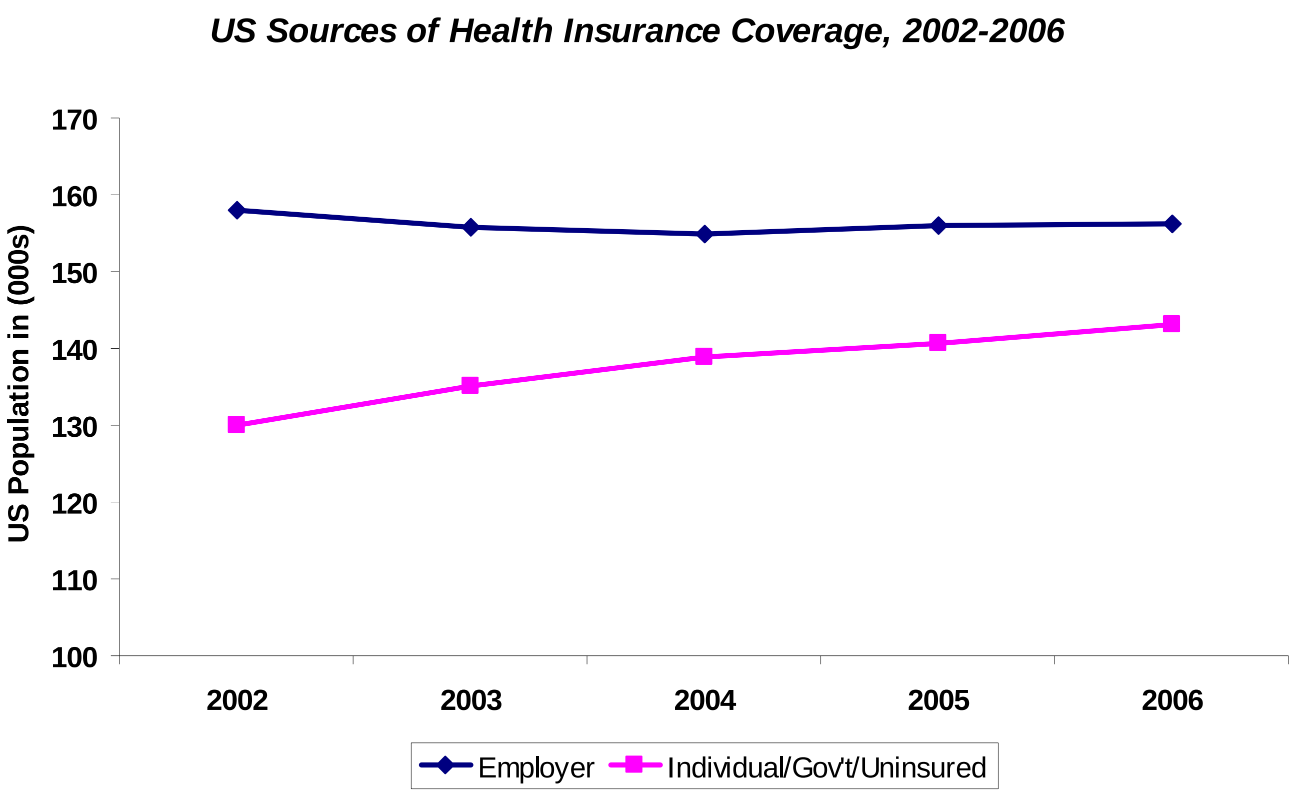
- The early 90s recession eliminated Indemnity Plans and ushered in the rise of managed care
- The Post 9/11 recession saw a leveling off of the decline in HMO products and the advent of CDHP

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2008; KPMG Survey of Employer-Sponsored Health Benefits, 1993, 1996; The Health Insurance Association of America (HIAA), 1988.

Economic Landscape: Uninsured

UnitedHealthcare
Healing health care. Together.

When employer-based insurance decreases, public programs, individual insurance and the uninsured tend to rise.



- Employer-based membership has declined over the past five years - loss of 1.7 million lives
- While enrollment has increased in:
  - Public programs (6.8 mil)
  - Individual market (1.1 mil)
  - Uninsured (5.1 mil)
- Roughly 60% of the uninsured work for small employers

Source: US Census CPS

Economic Landscape: Sept/October 2008

In the past month we have experienced a severe shock to the US economy with takeovers, government bailouts, bankruptcy filings, CEO ousters and interest rate cuts.

Timeline

August 2007
Fed sounds Alarm

Oct 2007
CEO Casualties Begin (Merrill Lynch, Citigroup, Wachovia)

March 2008
Bear Sterns Collapse

July 2008
IndyMac Failure

Sept 2008
- Fannie, Freddie Seized
- Lehman Collapse
- Merrill Lynch Bought by BofA
- AIG bailout

Oct 2008
- Morgan Stanley/ Mitsubishi Talks
- Extreme Market Volatility

- 15 bank failures in 2008 (e.g., Bears Sterns, Lehman Brothers, WAMU) – many with significant employee populations in NYC
- Subprime mortgage crisis
- Credit crunch
- Extreme market volatility
- $700B bailout
- Ballooning federal, state and municipal deficits
- Sharp rise in personal debt and bankruptcy filings

The New York City economy has been hit hard with the true impact yet to come.

Sources: FDIC; CNBC

Historical Guidance: Post 1987 Stock Crash

UnitedHealthcare
Healing health care. Together.

After the 1987 turmoil, managed care became heavily entrenched.

Macro Economic Trends

- 1987 Stock Market Crash
- Large Federal Deficits
- Housing bubble
- Jobs moving offshore
- Moving from a manufacturing to service economy
- Savings & Loan Collapse

Insurance: Before 1987		Insurance: Market Response After 1987
Indemnity heavily entrenched	→	Development of POS products with OON benefits
Resistance to managed care	→	Lower-priced managed care plans grow rapidly
Physicians not eager to join networks	→	Physicians more open joining networks
Brokers only dabbling in health insurance	→	Brokers more engaged in health insurance
Open regulatory environment	→	HMO laws/regulations developed in many states

Historical Guidance: Post 9/11 to 2003

After the early 2000s, choice became more prevalent but so did cost-control mechanisms.

Macro Economic Trends

- Dot com bubble bursts
- Stock Market instability
- Recent banking de-regulation
- Low inflation
- Y2K Hangover
- Sarbanes-Oxley – Enron Scandal

Insurance: 2001		Insurance: Market Response 2001 - 2003
Managed care firmly in place with gatekeepers the norm	→	Rise of PPOs/open access products
Inpatient costs under control	→	Costs start to rise – focus on managing chronic & sickest populations (DM, care mgmt)
Rx skyrockets	→	Tighter formularies
Fully-insured HMO/POS plans popular	→	Growth in self-funding
Employers favor rich benefits as recruitment/retention tool	→	New lower-priced product ideas (e.g., CDH) emerge

Historical Guidance & Implications: 2003 to Today

The economic crisis, as it has historically, will cause a shift in the insurance industry.

Macro Economic Trends

- High commodities prices
- Subprime mortgage crisis
- Credit crunch
- Extreme market volatility
- $700B bailout
- Ballooning federal, state and municipal deficits
- Sharp rise in personal debt and bankruptcy filings

Insurance: 2003 – 2008		Insurance: Market Response 2009 -
Managed care dominates but CDH gaining ground in some geographies	→	Tighter network products? Growth of CDH?
Employers buying down benefits, moving back to closed network plans, or dropping insurance	→	High deductible plans? More direct pay and uninsured solutions?
Double digit cost increases return	→	Compliance-based medicine and products?
Soaring inpatient trends	→	Tighter medical and bed day management?
Regulatory pressure increasing	→	Greater regulatory involvement?

Implications for Insurance Industry: Employers

UnitedHealthcare
Healing health care. Together.

Both small and large employers are and will continue to be impacted by the current economic crisis, affecting health insurers' membership base across the board.

Small Employers

- More likely to go out of business
- Less likely to start up a business
- Less likely to hire employees
- More likely to drop health insurance coverage altogether
  - Main reason small employers offer coverage is to attract skilled workers in a tight labor market
- If continue to offer coverage, will be shopping for cheaper coverage
- Looking for ways to cut health insurance costs by cutting benefits

Large Employers

- Mass layoffs more likely
- All types of employees will be laid off
- More likely to increase overtime or hire temporary or part-time workers instead of hiring full-time permanent employees
- Will be looking at reducing benefits and health insurance as a way to cut costs
- Employers will likely reduce eligibility for coverage, cut back benefits, or increase employee cost sharing
- Fully insured employers will be shopping for less expensive coverage

Implications for Insurance Industry: Summary

UnitedHealthcare
Healing health care. Together.

Our industry is at an inflection point and change is certain. We, as an industry, need to be actively involved in those discussions.

Growing Unemployment + Rising Healthcare Costs + Increasing Pressure on Small Businesses + Ballooning Uninsured Population

= **Required Action**

- Work with lobbying groups
- Have proactive outreach to legislators and policy makers
- Increase involvement with health foundations, medical societies, AMA
- Participate on panel discussions to share our industry's point of view
- Devise creative strategies (e.g., lower priced products, cost control solutions, consumer engagement tools) to address crises
- Collaborate with producers, customers and providers to understand their needs and address our practices to meet those needs

Conclusions

Change creates challenges but also opportunities.

- The economic environment will continue to shape the health insurance industry and result in change
- Lessons from past downturns demonstrate we need to continue to think of solutions and not be satisfied with the status quo
- The economic crisis will likely delay any meaningful comprehensive market reform
- There is a place for the industry to comfortably exist in either an Obama or McCain regime
- We, as key constituents in the healthcare industry, must work together to devise pertinent market solutions
- Our goal is, and will continue to be, to work with members, employers, and providers to deliver high quality, cost-effective care

Change is certain. It is how we address it that will determine our short and long-term positions