

UBS Investment Research

13th Semi-Annual UBS Benefit Consultant Survey

Americas

Healthcare Providers

Sector Comment

UnitedHealth Strength Continues into 2012

■ A final look at the 2012 national accounts landscape

We surveyed 53 national benefit consultants to gain further insight into the capabilities and potential winners / losers among health plans as the 2012 national accounts selling season winds down and MCOs head into Q3 earnings where we expect plans to provide incremental color around 2012 national account membership growth expectations as the selling season comes to a close.

■ UNH remains in the top spot in terms of market share gains

Consistent with our early look back in May, UNH appears poised for another year of robust enrollment growth for 2012 in the eyes of our consultants. In addition to survey-leading market share expectations for 2012, UNH continued to see gains in customer service, provider networks and is now appears to be making aggressive moves to carve in drug benefits given expiration of the Medco contract.

■ CI continues to improve while AET still trails the pack

CI slipped past WLP/Blues for the #2 market share expectation in our May survey, with updated results now solidifying their spot just slightly behind UNH & we now model Q1'12 Service enrollment up 300k (100k improved from our previous est).. AET shows some improvement, but lags peers, with our results confirming commentary of -500k membership decline for Q1'12. While service scores lead pack, sub-optimal discounts are primary reason AET continues to lose share.

■ Other focus areas include reform, cost shifting, & early read on 2013

Look for more detail around 2012 competitive landscape and employer strategies, as well as potential reform implications, on consultant conf call (dial-in below).

We will be hosting a conference call with several senior Hewitt consultants to review survey conclusions:

Date: Friday, October 14th at 11 am ET

Dial-in: (888) 391-0101, passcode 21542703

Replay: (800) 633-8284, passcode 21542703

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Focus Areas

UnitedHealth remains on top for 2012

Respondents to our 13th Semi-Annual UBS Benefit Consultant Survey indicate that the recent strength UnitedHealth has seen will continue into next year. We surveyed 53 employer benefit consultants representing several hundred national employers in order to gain insight into current plan capabilities, employer demands, and potential winners/losers among national health plans as the 2012 national accounts selling season draws to a close. We would sum up current consultant sentiment around plans as follows:

■ **Aetna** – Following several years of impressive national accounts enrollment growth and strong consultant/employer sentiment, Aetna began showing signs of market share regression in 2010, as highlighted in our October 2009 survey. Now, for the 5th consecutive semi-annual survey, consultants again expect Aetna to trail its peers in terms of 1/1 National Accounts growth. Aetna's most recent consultant market share score of 2.6 (on a scale of 0-5, with 5 representing significant gains) is ahead of the results from our May 2011 survey score of 2.4 and further ahead of the October 2010 results of 2.1. The company is seeing improvement here, but remains well off the market-leading pace from the 2007 – 2009 period. Recall that the company saw Q1 commercial ASO net losses of -456k in 2011, versus net gains of +157k in Q1'10 and +1,167k in Q1'09. We model ASO enrollment decline of -567k in Q1'12.

– Our early look at the 2012 selling season provided with the May survey foreshadowed Aetna's announcement on the Q2 call that their 2012 national account membership will likely decline by about 500k members. 60% of this membership loss can be attributed to two large contract losses. Consultants indicate that Aetna's deteriorating market share can be attributed to sub-optimal provider discounts and a lack of market acceptance for the company's total cost approach and medical management/integration. We note that while management has recognized that they must improve their discount position moving forward, this is not yet reflective in consultant responses.

– On a more positive note, Aetna saw gains in other areas and now enjoys the top spot on customer service metrics, after being tied with CIGNA back in May. Aetna received top scores for their account management teams, claims processing and customer service reputation. Aetna also enjoys a share of the lead on utilization management tools as well, specifically when it comes to eHealth initiatives. Importantly, the relative importance of eHealth to employers increased more than any other question on this survey.

■ **CIGNA** - Consultant expectations for CIGNA's growth continue to move in the right direction, with the company now securely holding the #2 spot for 2012 market share. We note that CIGNA just pushed past the Blues to #2 back in our May survey and is now clearly cemented in this role in the eyes of our consultants. CIGNA scored a 3.3, just 0.1 behind UnitedHealth and ahead of the 3.0 and 2.8 scored in the May 2011 and October 2010 surveys.

After gaining leading market share scores in '08-'09, Aetna now trails the pack for the 5th consecutive survey

Aetna saw top marks on customer service and utilization management

CIGNA now firmly holds the #2 spot in our survey

- It appears that CIGNA’s more aggressive fee structures are increasingly valued by employers, as the company continues to find its niche with customers who are willing to look past below average network discounts and focus upon the company’s leading ASO fees as well as an industry-leading willingness to put economics at risk. We note that consultants indicate that CIGNA is the most willing of its peers to make aggressive cost/trend guarantees. In regards to market share growth in 2012, we model Q1 Service enrollment of up 300k in conjunction with the results of this survey, improved from our previous estimate of 202k, and up still from the 143k reported in Q1’11.

CIGNA appears more willing to make aggressive cost/trend guarantees

- CIGNA took a small step backwards in terms of utilization management, after leading or being tied for the lead on previous surveys. However, we note that back in May, CIGNA shared the lead with both Aetna and UnitedHealth and while their scores remained the same at 3.6, CIGNA dropped slightly to 3.5. That being said, this category remains extremely close as CIGNA topped both Aetna and United in number of mentions when it came to being able to deliver on medical management. When it comes to utilization management tools compared to our last survey, CIGNA saw the most significant declines in consumer driven health plan design and condition/management program capabilities with a relatively large increase in eHealth initiatives.

Utilization management is clearly a tight category, and CIGNA regressed here slightly

- **UnitedHealth** –UnitedHealth retains strong business momentum in our latest survey with industry leading market share growth expectations for 2012. UnitedHealth held steady here scoring a 3.4, in line with our May and October surveys. While market share expectations have held flat, the company saw its biggest gain (and one of the biggest single survey moves we’ve ever seen) in “making aggressive moves to carve in prescription drug benefits.” This is not surprising given the July news that the Medco contract will not be renewed and United will be bringing this business in house. Consultants also indicated increased willingness to make aggressive cost/trend guarantees and aggressive marketing moves to carve in disease management and other benefits.

UnitedHealth’s top consultant sentiment continued in our latest survey

- After closing the gap on utilization management tools back in May, UnitedHealth has maintained this leading position. Interestingly, after a significant jump in “brand identity to employees” in our last survey (moving from 3.1 to 3.6), UnitedHealth regressed slightly to 3.4, but still holds the #2 spot here behind the Blues, likely assisted by the company’s “Health in Numbers” television campaign. We currently model Q1’12 commercial ASO enrollment growth of 633k, slightly below the Q1’11 growth of 725k mainly due to the lack of reform mandated membership additions next year vs. 2011 which benefited from significant number of 21-26 year olds gaining dependent coverage via reform.

Brand identity takes a small breather, but the company still remains in the number two spot here behind the blues

- **WellPoint/Blues** – Not much has changed for the Blues’ in terms of industry leading competitive advantages around provider discounts, network breadth and brand identity. Market share expectations improved to 3.0, up from 2.9 on our previous two surveys, good enough for the #3 spot on our October 2011 survey.

WellPoint remains on top for provider discounts, network breadth and brand identity

- Areas of consultant ire with the Blues remain unchanged as well, with focus on higher than average fee structures, unwillingness to put fees at risk and below average utilization cost management capabilities. The Blues saw their biggest improvement in eHealth initiatives, however, they still trail the pack here. Other areas of improvement included disease management and prescription drug benefits. Although the Blues still enjoy top scores in contractual relationships with key hospitals, this is where they saw their biggest decline here scoring a 3.9, down from 4.2 and 4.0 in May 2011 and October 2010 respectively.
- While we continue to expect membership gains for WellPoint come Q1 2012, we lower our expectations in conjunction with this survey to +200k, down from +520k. We also are lowering our estimates here given recent company commentary that they have been pushing back on non-economic large employer business and while our membership expectations decrease we expect WellPoint to remain just as profitable in this business given that they are targeting the high margin business for retention. Our 2012 expectations are down from Q1'11 reported of 727k which had benefit of nearly 200k adds from reform mandated addition of 21-26 year old dependents according to the company.

As illustrated below, our survey has been strongly correlated with reported business momentum and membership growth in the national accounts space for the four companies in our coverage universe. The Table below highlights historical plan-specific UBS Benefit Consultant Survey market share expectations relative to actual Q1 commercial ASO membership growth and our expectations for Q1 2012.

Results from our survey are generally in line with Q1 membership growth

Table 1: Managed Care – UBS Survey Scores vs. Q1 Comm'l ASO Enrollment 2008-2011, and Revised / Prior UBS Q1'12 Estimates

	Oct 2007	Q1'08	%	Oct 2008	Q1'09	%	Oct. 2009	Q1'10	%	Oct 2010	Q1'11	%	Oct 2011	Q1'12	%
UNH	2.2	(30)	-0.2%	2.5	(460)	-2.9%	2.7	170	1.1%	3.4	725	4.7%	3.4	633	3.9%
CI	2.6	266	3.3%	2.8	(239)	-2.5%	2.5	88	1.0%	2.8	143	1.5%	3.3	297	3.1%
WLP	3.0	517	4.7%	3.0	414	3.6%	3.2	536	4.6%	2.9	727	6.2%	3.0	203	1.7%
AET	3.1	448	4.3%	3.4	1,167	10.7%	2.0	157	1.3%	2.1	(456)	-3.9%	2.6	(567)	-4.8%

Source: Co reports and UBS est; plan growth adjusted to exclude growth from acquisitions and note that Q1'11 positively impacted by Age-26 HC reform provision; in 000's

2012 Market Share Expectations

UnitedHealth's business momentum leaves the plan set for another big year from a market share perspective in 2012. As outlined in Figure 1 below, we asked each surveyed consultant their opinion on the four national plans with regards to market share performance for 2012. Using a rating scale of zero to five, where zero equals "loses big," three equals "wins some," and five equals "wins big," respondents were asked to estimate market share gains relative to other national plans.

- **Aetna** showed some improvement, but still trails peer market share expectations in the eyes of consultants, with the plan receiving an average score of 2.6 in our October 2011 survey, which is up from the 2.4 in the May 2011 survey and the 2.1 in the October 2010 survey. Notably, Aetna's score here remains modest relative to the more constructive consultant expectations in past selling seasons (where the plan received market-leading scores back in May 2009), with the sharp decline in consultant expectations in our October 2009 survey foreshadowing the material slowdown in Aetna's business momentum in 2010 (commercial ASO fell 456k lives in Q1'11, while net adds were 157k in Q1'10, down from 1,167k in Q1'09 and 448k in Q1'08). We model Q1'12 commercial ASO to be down -567k. vs. company guidance of -500k members.
- **CIGNA** received an average score of 3.3, up from our May 2011 survey score of 3.0 and up further from the October 2010 survey of 2.8. After just inching by WellPoint/the Blues in our most recent survey, it is clear that CIGNA now firmly holds the number two spot behind UnitedHealth. The company's increased focus upon employers that care about "total cost savings" coupled with improving provider discounts leave Cigna in strong position to gain share next year. While CIGNA continues to lead the group in terms of willingness to offer aggressive cost/trend guarantees, both Aetna and United saw an increase here to close the gap. We model Q1'12 Service enrollment growth of 300k, up from the 143k reported in Q1'11.
- **UnitedHealth** took the top spot in our survey again with an average score of 3.4, in line with prior surveys (3.4 in May 2011 and 3.4 in October 2010) providing another positive data point that the company's commercial segment remains strong (Our October 2010 survey indicated that two thirds of consultants expect the company's business momentum to improve throughout 2011). Improved business prospects are also reflected in the company's recent commercial enrollment trends, with UnitedHealth adding 30k comm'l risk lives in Q2'11. For Q1'12, we model commercial ASO net adds of 633k, just behind 2011 Q1'11 growth of 725k.

Aetna trails the pack again on this latest survey with consultants indicating that the company remains disciplined on fees / guarantees

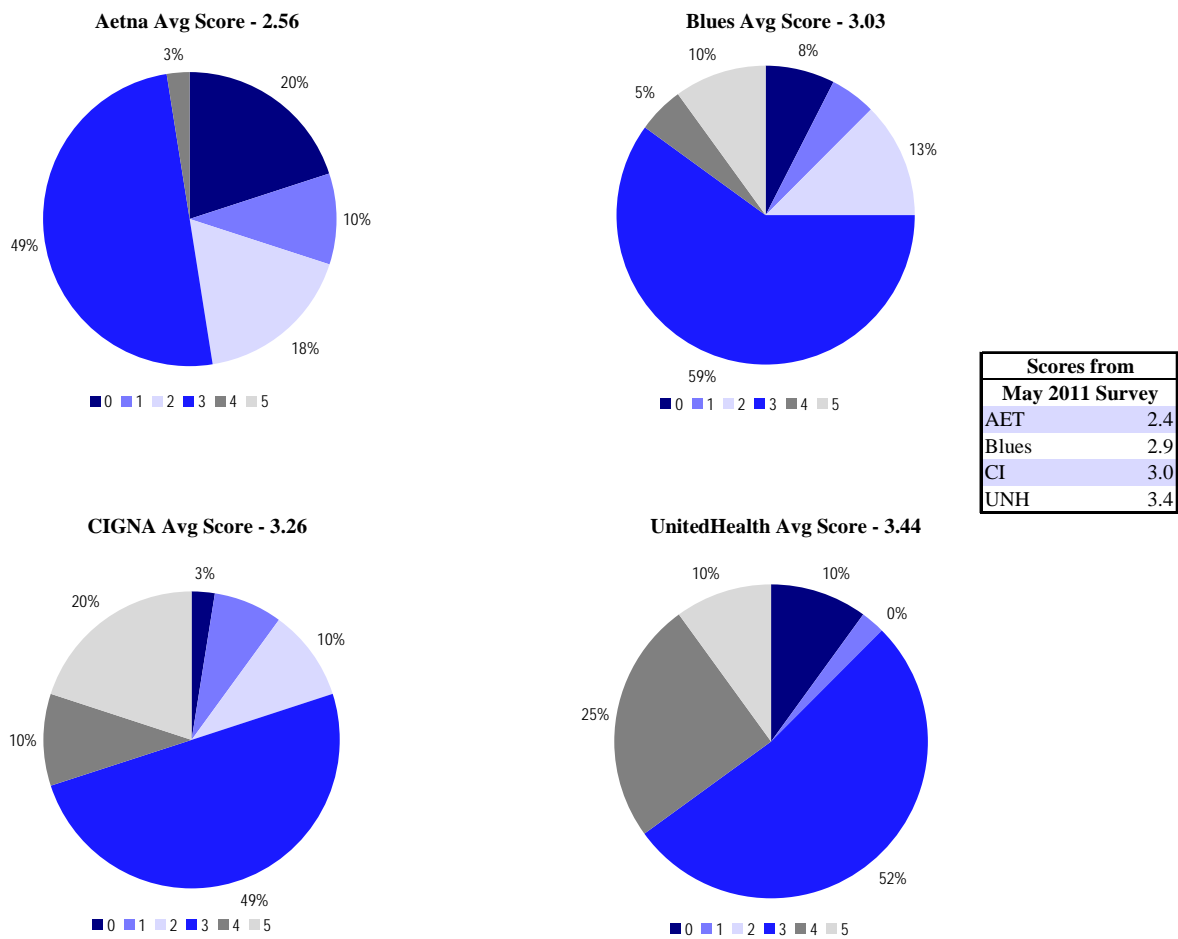
CIGNA now firmly holds the number two spot on our survey, ahead of the Blues and Aetna

UnitedHealth is again expected to gain the most market share relative to other plans

■ **WellPoint/the Blues** received an average score of 3.0, moving ahead by an amount in line with the remainder of the group over their May 2011 and October 2010 score of 2.9. As always, the Blues brand identity to employees remains well ahead of the competition, and even increased slightly in this survey, contributing to market share gains. Cost remains the key focus for employers particularly given the current macro economic backdrop, and our survey continues to indicate Blues benefit from industry leading discounts, partially offset by a lack of willingness to engage in ASO fee discounting or putting guarantees around cost trend. At present for WellPoint, we model Q1'12 National Account / BlueCard net adds of 200k, down from Q1'11 reported of 727k.

The Blues continue to benefit from industry-leading discounts and strong brand recognitions, although this is partially offset by a clear lack of willingness to engage in fee discounting/cost trend guarantees

Figure 1: How did each plan perform from a net market share perspective for 2012? (5 = Won big, 3 = won some, 0 = lost big)



Source: 13th Semi-Annual UBS Benefit Consultant Survey

Health Care Reform

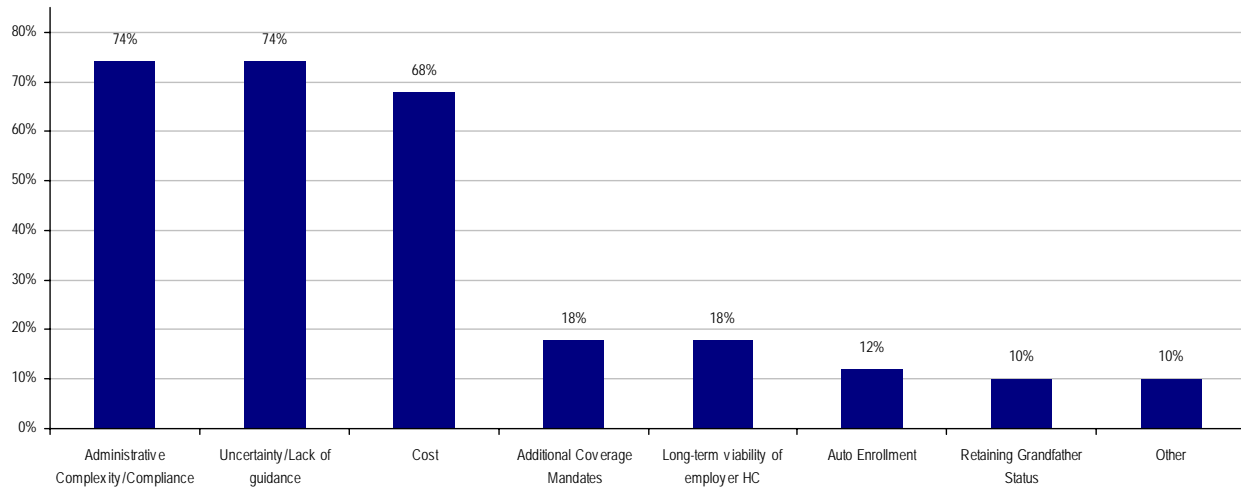
As we move closer to 2014, we again ask our consultants for their views on health care reform. Somewhat surprisingly, “cost” is no longer the top concern for employers in regards to reform, now a close third behind “administrative complexity” and “uncertainty/lack of guidance.” We note that the national accounts segment is the health insurance area that is likely to be the least impacted by the health care reform legislation, at least in the near-term. We asked consultants “what do you see as the primary concerns from an employer perspective following passage of health care bill?”

- The trend away from “cost” and towards “uncertainty/lack of guidance” and “administrative complexity” was first seen in October 2010, and is clearly continuing here. This makes sense as employers are constantly reading headlines about congressional and legal challenges to PPACA heightened by the ongoing Republican primary presidential debates focusing on “repeal and replace.”
- “Only” 68% of the consultants surveyed explicitly mentioned cost as one of their three top concerns continuing a trend seen in our previous two surveys (down from 78% in our May 2011 and 89% in October 2010). Administrative Complexity and Uncertainty/Lack of Guidance now claim the top spots each with 74% of consultants noting these concerns, up from 72% and 34% in our May 2011 Survey.
- Despite some additional clarity on the reform provisions in the past six months, “Uncertainty / Lack of Guidance” easily saw the biggest jump here as 2014 nears (74% in October 2011, up from 34% in May 2011 and 25% in October 2010).
- While “additional coverage mandates” remain relatively in line (18% of consultants cite this as a concern vs. 14% in May 2011), concerns over the long term viability of employer based health care has jumped to 18%, up from 6% in May.
- Finally, while 14% of consultants in May noted a top employer concern was the exchanges, this appears to have been somewhat alleviated as many states have passed exchange legislation in recent months as well as the federal exchange law coming out in July.

Cost takes a back seat to Uncertainty and Administrative Complexity as employers continue to worry about reform implementation

While about a third of respondents noted “uncertainty” as a primary reform concern for employers six months ago, nearly 80% noted this now

Chart 1: Percentage of Consultants Mentioning Subject as top three concern for “what do you see as the primary concerns from an Employer perspective following passage of health care bill?”



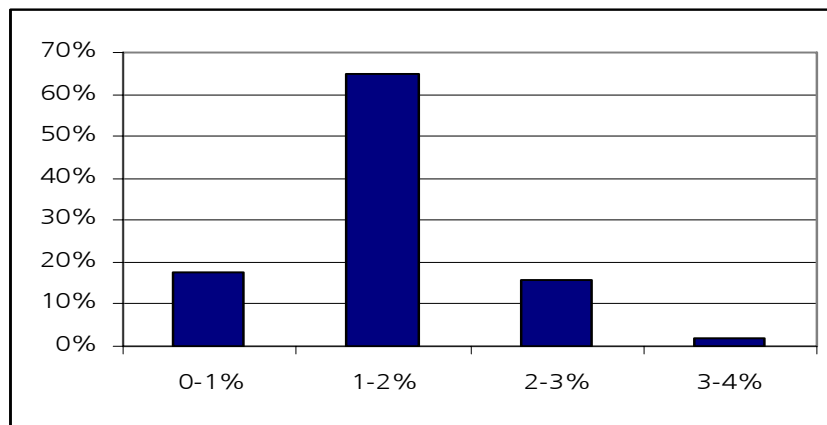
Source: 13th Semi-Annual UBS Benefit Consultant Survey

Unchanged from our May 2011 survey, most consultants believe the near term coverage requirements under PPACA had a 1-2% impact on trend. The top end of this range narrowed slightly from last year, when consultants expected a 1-3% impact. When asked to estimate impact on 2011 trend from near term PPACA coverage mandates (i.e. guaranteed issue to children, removal of annual / lifetime limits, etc), 65% of consultants expect provisions would add 1-2% to trend (down slightly from our May 2011 survey of 75%, but up from 51% in October 2010) with another 16% of respondents sizing impact in range of 2-3% (in line with 13% from May 2011).

It now is apparent that the near term coverage mandates written into PPACA added roughly 1-2% to trend

- We point out that our consultant survey is geared towards the large group employer market where impact from near-term provisions would be relatively muted compared to Individual/Small Group markets given inherent product characteristics (i.e. lower existing benefit levels).

Chart 2: Estimated Impact on 2011 Trend from Near Term PPACA Coverage Mandates



Source: 13th Semi-Annual UBS Benefit Consultant Survey

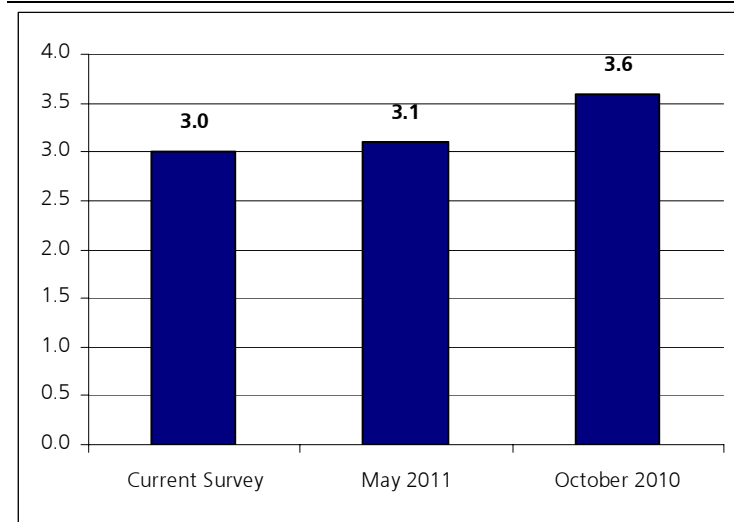
Additional information on the impact of health care reform can be found beginning on page 20.

Employer cost shifting efforts continue to moderate

Perceptions of cost-shifting appear to be moderating from the viewpoint of consultants relative to our prior surveys. We asked participating consultants to rate the current attitude of employers towards shifting costs onto employees for 2012 (5 = very aggressive, 3 = same as trend, 0 = very little). As illustrated in the Chart below, the average score of 3.0 represents a level equal to trend and a slight downtick from the score reported in our May 2011 survey (3.1) while our Oct 2010 survey was significantly higher at 3.6. In our most recent survey, 31% of respondents noted employer aggressiveness on cost-shifting was ahead of trend, roughly in line with the 29% seen in May 2011, but well down from the 57% in October 2010. 19% of respondents viewed the aggressiveness as below trend compared with only 12% in our previous survey and only 4% in October 2010.

As the economy improves, expect employers to shift less costs to employees

Chart 3: "How aggressive will employers be in their cost shift to employees for 2011?"



Source: 13th Semi-Annual UBS Benefit Consultant Survey Note: 5 = very aggressive, 3 = same as trend, 0 = very little

Aetna inches ahead to take top spot in customer service

After just narrowly missing the top spot in customer service metrics in our May 2011 survey, Aetna gains slightly more than CIGNA to take the top spot here. While all companies showed at least some improvement, Aetna and UnitedHealth gained the most in this category and customer service is less likely a differentiator among the large plans now with all receiving similar scores. Continuing a trend seen in our previous survey, UnitedHealth saw improvements in the “Employee customer service reputation” category as well as the “employee customer service related to claims processing and using the benefits” category. While now still in third place, it is clear that whatever relative customer service issues UnitedHealth had in the past are now a distant memory. CIGNA saw small gains throughout the customer service reputation category as well, and the Blues improved, but not across the board. Notably, the relative importance of customer service reputation remained steady in this survey after increasing in May 2011.

Aetna now claims the top customer service ranking in our survey, leading scores in account management, claims processing and reputation

Table 2: Plan Specific – Service

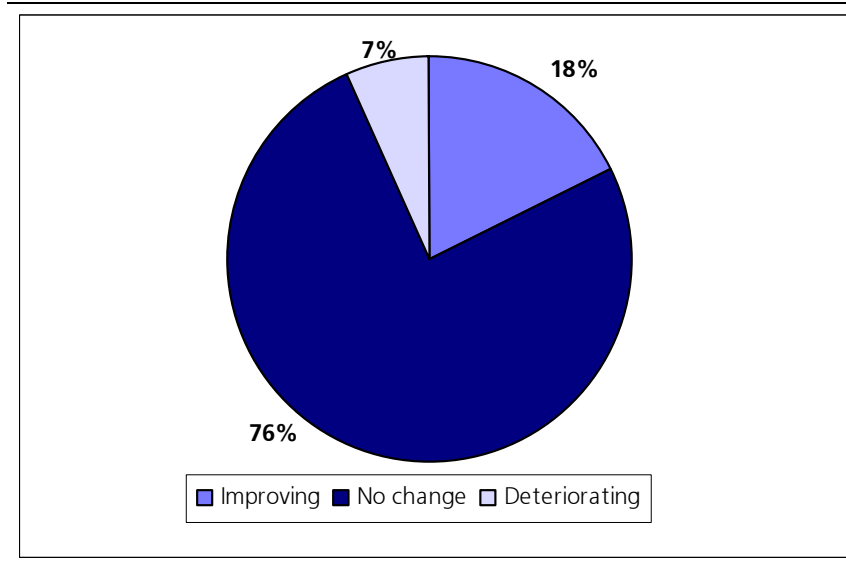
Category	Current Survey					Change vs. May 2011 Survey				
	Importance*	Aetna	Blues	Cigna	UNH	Importance	Aetna	Blues	Cigna	UNH
Service										
Employer customer service (account management team)	4.2	3.5	3.0	3.4	3.3	0.0	0.2	0.1	0.1	0.1
Employee customer service related to claims processing and using the benefits	4.3	3.7	3.3	3.6	3.5	0.1	0.2	0.0	0.1	0.3
Employee customer service reputation	3.9	3.5	3.4	3.5	3.3	0.0	0.1	0.1	0.1	0.3
Average	4.2	3.5	3.2	3.5	3.4	0.0	0.2	0.1	0.1	0.2
Weighted Average		3.6	3.2	3.5	3.4		0.2	0.1	0.1	0.2

Source: 13th Semi-Annual UBS Benefit Consultant Survey

About 76% of our consultants saw no changes in perception with respect to Aetna’s industry leading service capabilities. Most of those consultants who did see a change noted a positive one (18%), contributing to the company now taking claim to the top spot here on our survey. Consultant responses here noted that Aetna’s account management team does an excellent job on the blocking and tackling work and that they closely monitor customer satisfaction and implement changes where needed. Those consultants who noted a deterioration in service, mentioned that Aetna is being less flexible in general and poor performance from their clinical service team.

Most consultants saw little change in Aetna’s customer service perception, but most of those who did noted a positive one

Chart 4: "Have you seen any changes in perception around Aetna's service capabilities?"

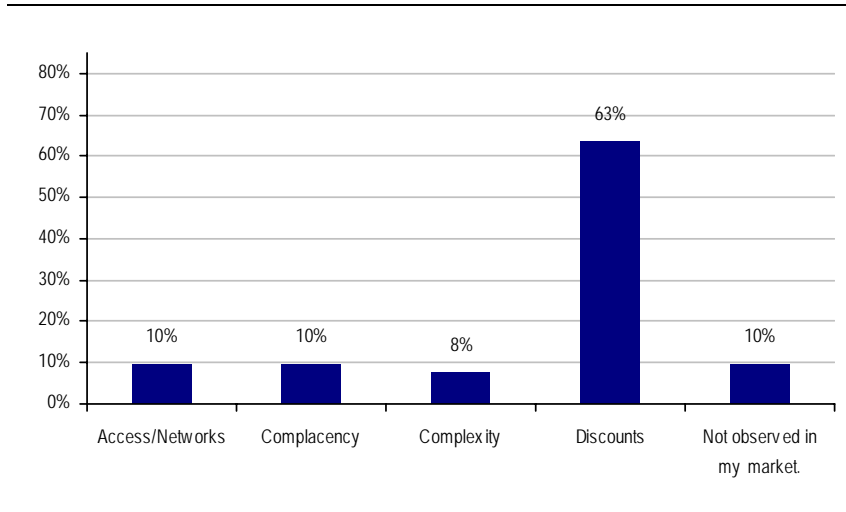


Source: 13th Semi-Annual UBS Benefit Consultant Survey

Outside of customer service praise, consultants note (and our survey confirms) that Aetna is losing market share in recent years, especially when compared to the growth seen in 2006-2009. We asked consultants what they felt were the key reasons for this decline and the most cited response (63% of all consultants) was related to discounts. We note that Aetna remains well behind peers when it comes to provider discounts, scoring a 3.1 in our latest survey (unchanged from May 2011 and October 2010) compared to an average of 4.1 for their peers. The chart below summarizes our respondents' perceptions of why Aetna is losing market share.

Employer consultants note that discounts are the primary reason Aetna continues to lose market share

Chart 5: "Aetna has been losing market share over the last two years after strong growth (2006-2009), what are the key reasons for this in your view?"



Source: 13th Semi-Annual UBS Benefit Consultant Survey

The table below highlights key consultant responses to the above question.

Table 3: Aetna has been losing market share over the last two years after strong growth (2006-2009), what are the key reasons for this in your view?

Consultant Responses	"Discount slippage. They're getting out-marketed by UHC."	"They stopped developing new solutions. Others have leapfrogged them."
	"They were a leader in offering trend guarantees, ROI due to clinical capabilities and when they failed to meet expectations and normal trend continued to occur, clients began to look elsewhere."	"Clinical management is not working, Aetna One is not delivering results, discounts are eroding, and there is less flexibility"
	"Rates are too high and they are unwilling to negotiate"	"Growth had previously been from aggressive deals on a few large cases."

Source: 13th Semi-Annual UBS Benefit Consultant Survey

Fees / Guarantees

Plans appear to be more willing to offer lower fees and/or provide other “sweeteners” to employers, but specifically cost trend guarantees continue to be less prevalent than 2008-2009 time-frame. 57% of responding consultants noted an increased willingness by plans to lower fee structures or put fees at risk behind discounts, service, and trend in their pursuit of 2012 business, while this is ahead of our last few surveys, it is below the 60%+ seen in 2008-2009.

Roughly a third of consultants note that plans appear more willing to lower fees or put guarantees behind discounts

- While the trend here appears to be increasing, (57% on this survey is up from 40% of consultants in our prior survey and 32% of consultants in our October 2010 survey), we note that consultants continue to indicate that plans are less aggressive than previous peak of 2008-2009 in terms of willingness to put significant fees at risk behind cost trend guarantees, especially in terms of tightness of guarantee structures (i.e. more caveats, wider trend ranges before payout, etc). One consultant noted that while plans are more willing here, there are “lots of caveats around the guarantees, and therefore, provide little value to the employer.”
- When asked which plans have been most aggressive thus far in terms of fee structures and guarantees for 2012, CIGNA led the pack with 58% of responding consultants, vs. 66% from our May 2011 survey. UnitedHealth remains in second here with 33% of consultants noting them. Aetna was mentioned 16% of the time and the Blues remained at the bottom with only 5%. These results were also confirmed with CIGNA’s leading score of 3.2 to the question, “How would you rate each health plan in terms of willingness to make aggressive cost/trend guarantees for 2012?” Notably, while the relative rankings of the plans did not change here, scores for all plans were up vs. May.

Table 4: "Have you seen more plans willing to lower fee structures or put guarantees behind discounts, service, and trend in order to win or retain business in 2012 vs. 2011? If Yes, please provide examples"

Consultant Responses	"Discount guarantees and implementation/transition credits appear more prevalent than in previous years."	"Willing to make fee adjustments if pushed"
	"I have seen most all major vendors now willing to put some sort of trend guarantee in place. They are becoming more comfortable with the concept and how to do it. I saw less pushback in the marketplace."	"This year I have observed that the carriers are more willing to offer aggressive ASO fees, discount and trend guarantees and put a larger percentage of their fees at risk for group under 5,000 lives relative to previous years"
	"ASO fees and rates of increase much more flexible"	"Lots of caveats around the guarantees, and therefore, provide little value to the employer"

Source: 13th Semi-Annual UBS Benefit Consultant Survey

- Despite plans becoming more aggressive with lower fees / discounts, actual payouts on guarantees remain very low. When asked what percentage of guarantees are typically paid out in any given year, most consultants indicated that this was generally between 0 and 5% with most of these payouts coming from implementation, or service related guarantees, and not cost trend guarantees. 84% of our consultants noted that they have not been involved in a contract that resulted in a payout attributable to a cost trend guarantee.

Payout on guarantees in general remain very low

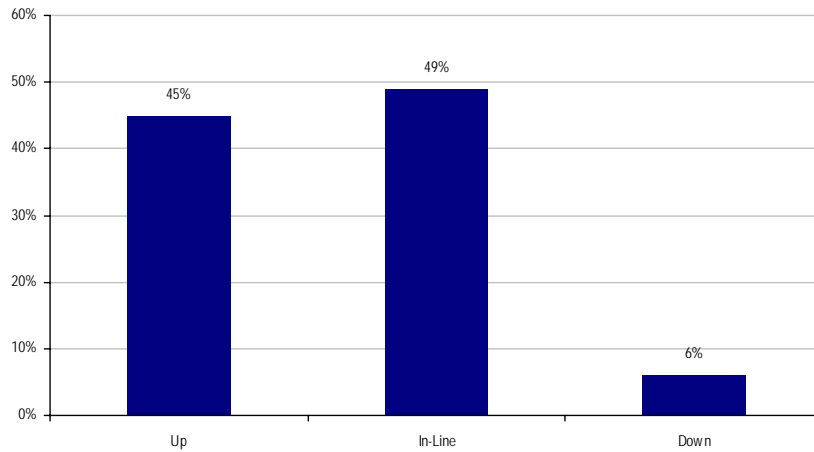
Additional information on the fees / guarantees can be found beginning on page 18.

Early Read on 2013

Looking ahead to 2013, 94% of surveyed consultants expect RFP activity to be the same to higher than 2011 levels, including 45% who expect to see an uptick. In comparison, 90% of surveyed consultants in our October 2010 survey expected 2012 RFP activity to be flat to up (including 51% projecting an uptick) while 82% of respondents to our October 2009 survey expected 2010 RFP activity to be either flat or up (including 45% expecting an uptick). We note that our survey results generally show expectations moderating as we get closer to the selling season.

94% of consultants expect 2013 RFP activity to be the same or higher than 2011 levels, including 45% projecting an uptick

Chart 6: "What is your early expectation for 2013 RFP activity (up, down, same)?"



Source: 13th Semi-Annual UBS Benefit Consultant Survey

Utilization Management

Overall importance of utilization management tools increased slightly in our current survey as employers continue to focus on medical management and other means for decreasing cost trend. Specifically consultants noted a significant uptick in “eHealth initiatives such as personal health records” while the relative importance of “condition and management program capabilities” declined. On a plan specific basis for utilization management tools we note that the Blues trail here by a significant margin, although they have worked to close the gap, while UNH and Aetna lead the pack, with CIGNA just slightly behind after leading in many previous surveys.

CIGNA and Aetna lead the group on scores relating to utilization management tools in our most recent survey

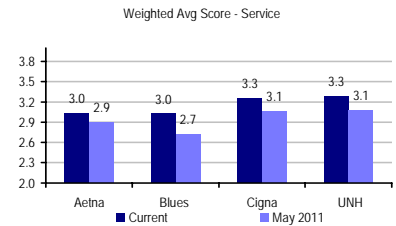
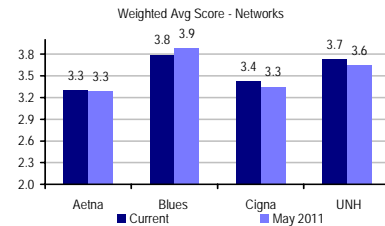
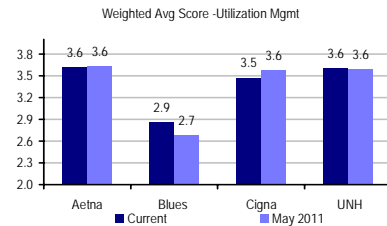
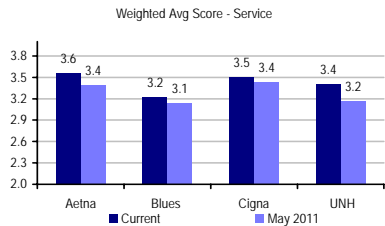
Table 5: Plan Specific Questions – Utilization Management Tools

Category	Current Survey					Change vs. May 2011 Survey				
	Importance*	Aetna	Blues	Cigna	UNH	Importance	Aetna	Blues	Cigna	UNH
Utilization Management Tools										
Prevention, wellness and risk management programs	4.1	3.6	2.8	3.6	3.6	-0.1	0.1	0.1	0.0	0.1
Consumer driven plan design flexibility and experience	3.7	3.7	2.7	3.3	3.8	0.1	-0.1	0.1	-0.3	0.0
Condition and management program capabilities	3.0	3.5	2.7	3.4	3.5	-0.9	0.0	0.1	-0.3	0.0
Consumer driven support services and employee tools	3.9	3.5	2.6	3.3	3.6	0.1	-0.3	0.0	-0.2	-0.2
Basic services such as precertification, concurrent review, discharge planning, and on-site nurse coordinators	3.6	3.6	2.9	3.7	3.6	-0.2	0.0	0.0	-0.1	0.0
eHealth initiatives such as personal health records	4.3	3.7	3.3	3.6	3.5	1.5	0.1	0.7	0.3	0.1
Average	3.8	3.6	2.9	3.5	3.6	0.1	0.0	0.2	-0.1	0.0
*Weighted Average		3.6	2.9	3.5	3.6	0.0	0.2	-0.1	0.0	0.0

Source: 13th Semi-Annual UBS Benefit Consultant Survey

Figure 2: UBS 13th Semi-Annual Benefit Consultant Survey – Company Report Card

Category	Current Survey					Change vs. May 2011 Survey				
	Importance*	Aetna	Blues	Cigna	UNH	Importance	Aetna	Blues	Cigna	UNH
Service										
Employer customer service (account management team)	4.2	3.5	3.0	3.4	3.3	0.0	0.2	0.1	0.1	0.1
Employee customer service related to claims processing and using the benefits	4.3	3.7	3.3	3.6	3.5	0.1	0.2	0.0	0.1	0.3
Employee customer service reputation	3.9	3.5	3.4	3.5	3.3	0.0	0.1	0.1	0.1	0.3
Average	4.2	3.5	3.2	3.5	3.4	0.0	0.2	0.1	0.1	0.2
*Weighted Average		3.6	3.2	3.5	3.4		0.2	0.1	0.1	0.2
Utilization Management Tools										
Prevention, wellness and risk management programs	4.1	3.6	2.8	3.6	3.6	-0.1	0.1	0.1	0.0	0.1
Consumer driven plan design flexibility and experience	3.7	3.7	2.7	3.3	3.8	0.1	-0.1	0.1	-0.3	0.0
Condition and management program capabilities	3.0	3.5	2.7	3.4	3.5	-0.9	0.0	0.1	-0.3	0.0
Consumer driven support services and employee tools	3.9	3.5	2.6	3.3	3.6	0.1	-0.3	0.0	-0.2	-0.2
Basic services such as precertification, concurrent review, discharge planning, and on-site nurse coordinators	3.6	3.6	2.9	3.7	3.6	-0.2	0.0	0.0	-0.1	0.0
eHealth initiatives such as personal health records	4.3	3.7	3.3	3.6	3.5	1.5	0.1	0.7	0.3	0.1
Average	3.8	3.6	2.9	3.5	3.6	0.1	0.0	0.2	-0.1	0.0
*Weighted Average		3.6	2.9	3.5	3.6		0.0	0.2	-0.1	0.0
Networks										
Provider Discounts	4.9	3.1	4.5	3.5	4.3	0.0	0.0	-0.1	0.1	0.2
Contractual relationship with key or specialty hospitals	3.4	3.6	3.9	3.7	3.7	-0.1	0.1	-0.3	0.2	0.2
Breadth of Network	4.4	3.5	4.7	3.8	4.0	0.1	0.0	0.0	0.0	0.0
Tiered or Concentric Networks	2.5	3.4	2.2	3.0	3.1	0.2	0.0	0.0	0.0	-0.1
Provider Pay for Performance (P4P) Programs	2.3	2.8	2.3	2.8	2.8	-0.2	0.0	-0.1	-0.1	-0.1
Average	3.5	3.3	3.5	3.3	3.6	0.0	0.0	-0.1	0.1	0.1
*Weighted Average		3.3	3.8	3.4	3.7	0.0	0.0	-0.1	0.1	0.1
Other										
How did each plan perform from a net market share perspective for 2012? (5 = Won big, 3 = won some, 0 = lost big)	-	2.6	3.0	3.3	3.4		0.2	0.2	0.2	0.1
How would you rate each health plan in terms of willingness to make aggressive cost/trend guarantees for 2012? (5 = very aggressive, 1 = not aggressive)	-	2.9	2.2	3.2	3.0		0.5	0.2	0.4	0.5
ASO Fees	3.3	3.2	2.7	3.5	3.2	-0.5	0.2	0.0	0.1	-0.2
Brand identity to employees	4.0	3.1	4.0	3.0	3.4	0.7	-0.2	0.1	0.0	-0.2
Are any of these plans making aggressive marketing moves to carve in disease management or other benefits?	3.0	3.4	2.8	3.7	3.6	0.2	0.3	0.4	0.4	0.5
Are any of these plans making aggressive moves to carve in prescription drug benefits?	2.8	2.5	2.5	2.8	2.9	0.2	0.2	0.7	0.5	1.0
Average	3.3	2.9	2.9	3.3	3.3	0.1	0.2	0.3	0.3	0.3
*Weighted Average		3.0	3.0	3.3	3.3		0.1	0.3	0.2	0.2



Source: 13th Semi-Annual UBS Benefit Consultant Survey; Note: 5 = very important, 1 = not very important; *Weighted average based on importance (as designated by the consultants) of plan offering/capability

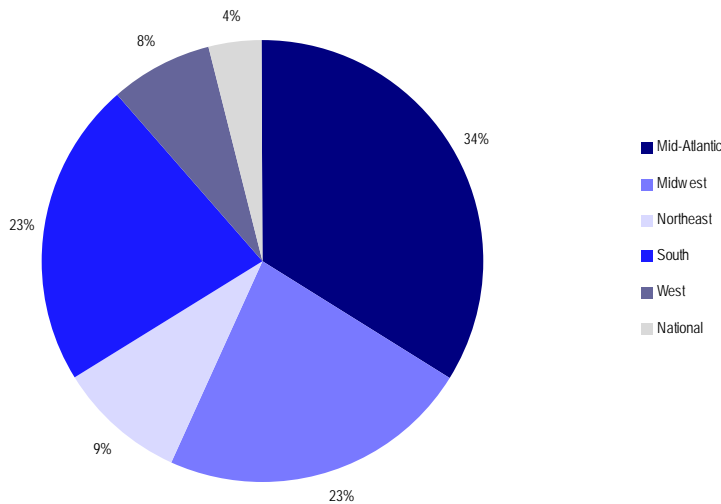
Survey Overview

Consultants Surveyed

We surveyed 53 employer benefit consultants to gain more clarity on the national account competitive landscape for the managed care organizations (“MCOs”) in our coverage universe at the conclusion of the 2012 selling season and to get an early look at potential 2013 RFP activity. The consultants represented in our survey are spread throughout the country, with a particularly strong presence in the Mid-Atlantic (34%) and Midwest (23%).

We surveyed 53 employer benefit consultants, most of which are located in the Mid-Atlantic and Midwest (combined 57%)

Chart 7: Regional Markets served by consultant respondents



Source: 13th Semi-Annual UBS Benefit Consultant Survey

Employer cost shifting efforts continue to moderate

We asked consultants to share their views on the level of cost-sharing/shifting by employers to employees for next year. Specifically, we asked consultants to rate how aggressively employers shifted costs on a five-point scale (0= very little, 3 = same as trends, 5 = very aggressive). The average score of 3.0 is slightly lower the 3.1 recorded in our May 2011 survey and significantly below the 3.6 in October '10 survey. Additionally, roughly 81% of respondents assigned a value of 3 (“Same as Trend”) or above for this question compared to 87% in May '11, and 96% in October 2010 indicating that employer cost shifting is likely to moderate versus our prior surveys.

19% of respondents assigned a cost-shifting value of below trend versus 12% in May '11 and 4% in Oct '10 surveys

Table 6: "How aggressive will employers be in their cost shift to employees for 2011?"

Answer Choice	Current Survey		May 2011 Survey	Oct 2010 Survey
	Responses	% of Total	% of Total	% of Total
1	7	13%	4%	4%
2	3	6%	8%	0%
3 (Same as Trend)	26	50%	59%	39%
4	14	27%	22%	47%
5 (Very Aggressively)	2	4%	6%	10%
Total	52	100%	100%	100%

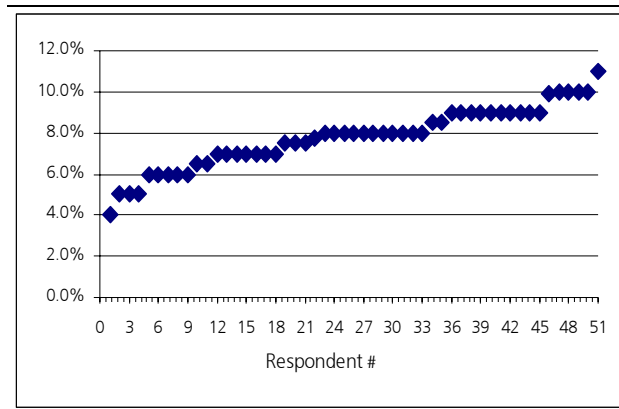
Source: 13th Semi-Annual UBS Benefit Consultant Survey

Medical Cost Trend Commentary Comes Down

When asked about the medical cost trends they are seeing for their self-insured employer clients, responding consultants estimate that, on average, medical costs (pre-design changes) were trending at 7.8% going into the 4th quarter of 2011, down ~20 bps versus our May '11 survey and down ~120 bps versus the 8.6% recorded at the same time last year. Looking ahead to 2012, the consultants expect on average a medical cost trend to increase, to an average of 8.3% (see the Charts below).

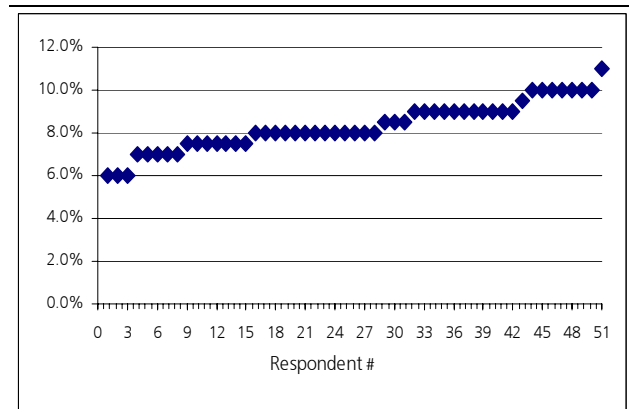
On average, respondents indicated medical costs were trending at 7.8%, down 20 bps vs. our May '11 survey

Chart 8: "What medical cost trends were observed for 2011?"



Source: 13th Semi-Annual UBS Benefit Consultant Survey

Chart 9: "What medical cost trend do you expect for 2012?"



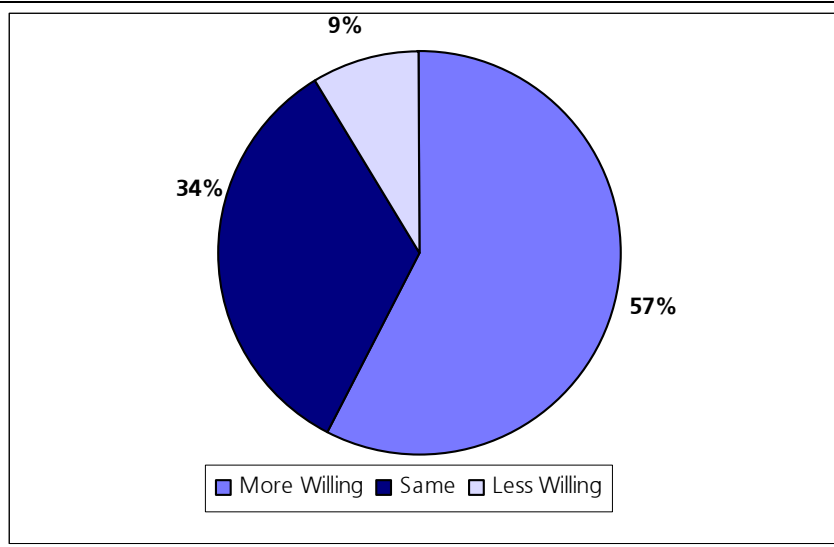
Source: 13th Semi-Annual UBS Benefit Consultant Survey

Aggressive fee structures and guarantees continue

When asked whether there was an increased willingness by plans to lower fee structures or put guarantees behind discounts, service, and trend in order to win or retain business in 2012 compared with 2011, 57% of responding consultants noted that plans were more willing, while 34% said the level would be the same as 2011. By comparison, 40% of consultants indicated this increased willingness in May 2011 and 32% of consultants indicated this in our October 2010 survey. CIGNA continues to be the most aggressive on a plan-specific basis, mentioned by 43% of respondents while UnitedHealth was mentioned by 23% of respondents. Aetna and the Blues were only mentioned by 16% and 5% of respondents, respectively.

CIGNA continues to be the most aggressive with fee structures and guarantees

Chart 10: "Have You Seen an Increased Willingness to Lower Fee Structures or Put Guarantees Behind Discounts?"



Source: 13th Semi-Annual UBS Benefit Consultant Survey

Table 7: Specific Comments for "Have you seen more plans willing to lower fee quotes or put guarantees behind discounts, service, and trend in order to win or retain business in 2012 versus 2011? If Yes, please give examples"

Consultant Responses	"Discount guarantees and implementation/transition credits appear more prevalent than in previous years."	"Willing to make fee adjustments if pushed"
	"I have seen most all major vendors now willing to put some sort of trend guarantee in place. They are becoming more comfortable with the concept and how to do it. I saw less pushback in the marketplace."	"This year I have observed that the carriers are more willing to offer aggressive ASO fees, discount and trend guarantees and put a larger percentage of their fees at risk for group under 5,000 lives relative to previous years"
	"ASO fees and rates of increase much more flexible"	"Lots of caveats around the guarantees, and therefore, provide little value to the employer"

Source: 13th Semi-Annual UBS Benefit Consultant Survey

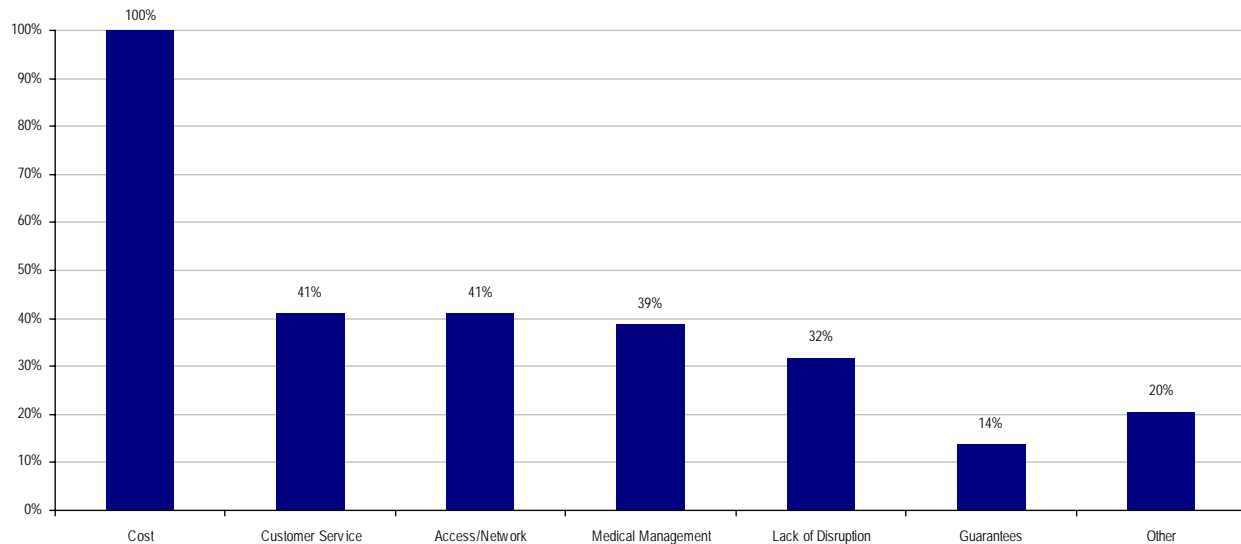
Not Surprisingly, Employers Most Focused on Cost

When asked “what are the three most important selection criteria for your clients as they focus on vendor selection for the 2012 contract year?”, 100% of responding consultants indicated “Cost” was one of the three primary focus areas for employers, up slightly from our May 2011 survey.

All of responding consultants listed “Cost” as one area of focus for employers

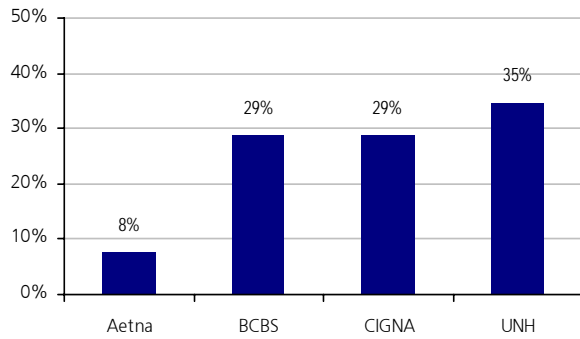
- Other key focus areas include Customer Service (41%, up from 33%), Access / Network (41%, relatively in line with our previous survey at 44%), Medical Management (mentioned by 39% of respondents, down from 69%), Lack of Disruption (32%, up from 18%), and Guarantees, coming in with 14% of consultant mentions.
- On a plan-specific basis, consultants favored UnitedHealth to deliver on both costs and customer service. Although Aetna was the group leader in its customer service scores, it was mentioned fewer times than peers by respondents who valued customer service as a top criteria, indicating that this remains a close category and that there is little differentiation among plans. CIGNA made large improvements as 24% reporting CIGNA as best suited to deliver on costs compared to 14% in May '11. Blue Cross / Blue Shield was favored as having the best network while CIGNA was able to best deliver medical management services, in line with previous surveys.

Chart 11: “What were the three most critical areas of importance to your clients for 2012 RFPs?”



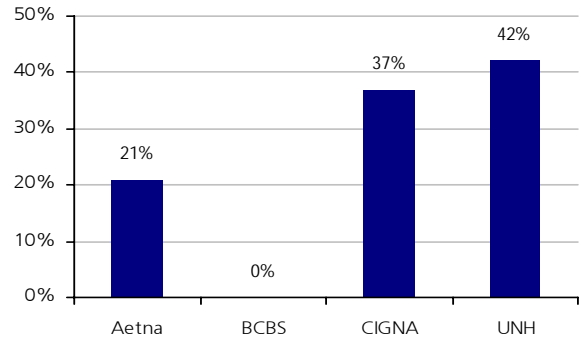
Source: 13th Semi-Annual UBS Benefit Consultant Survey

Chart 12: Plan best suited to deliver on *Cost* for 2012



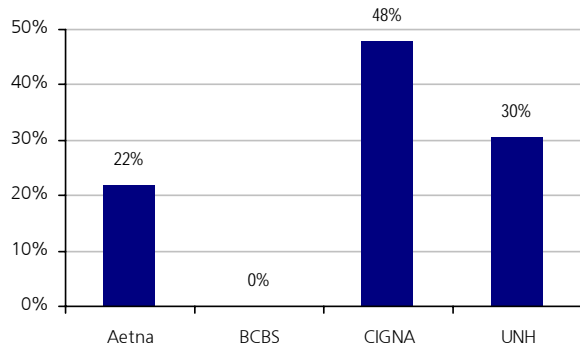
Source: 13th Semi-Annual UBS Benefit Consultant Survey

Chart 13: Plan best suited to deliver on *Service* for 2012



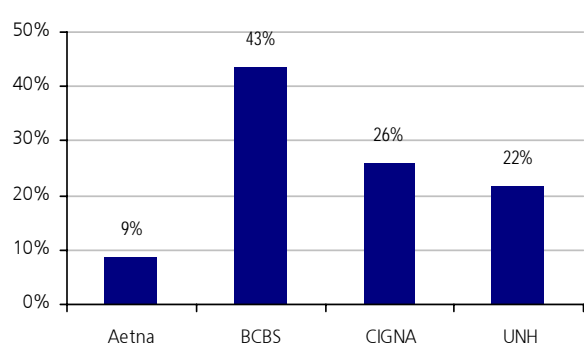
Source: 13th Semi-Annual UBS Benefit Consultant Survey

Chart 14: Best suited to deliver *Medical Management* for 2012



Source: 13th Semi-Annual UBS Benefit Consultant Survey

Chart 15: Best suited to deliver on *Network Access* for 2012



Source: 13th Semi-Annual UBS Benefit Consultant Survey

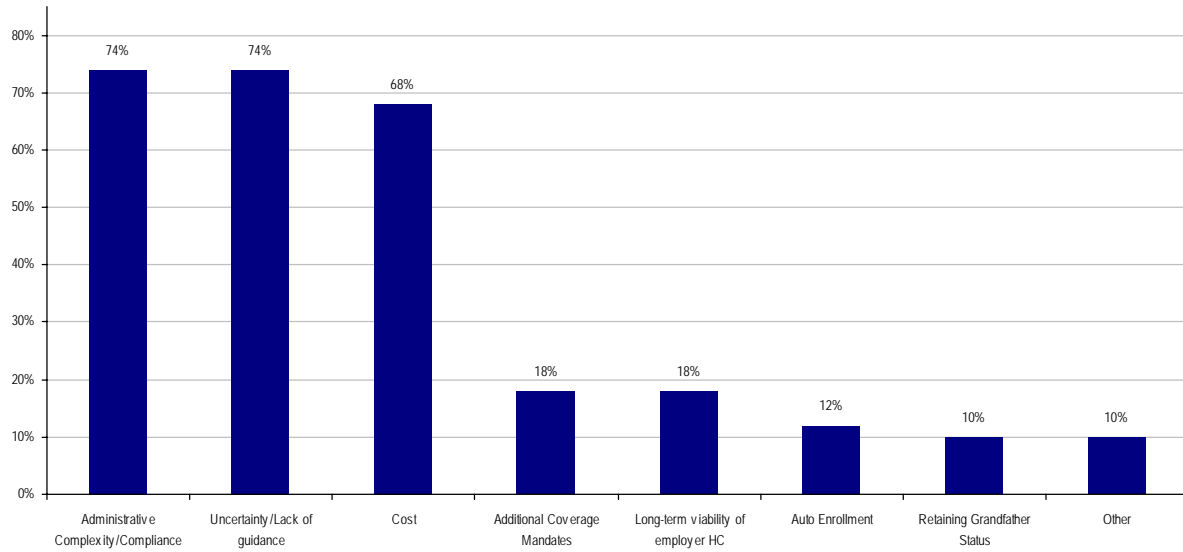
Impact of Health Care Reform

Administrative Complexity and Uncertainty top cost as primary concern

We asked the consultants “what do you see as the primary concerns from an employer perspective following passage of health care bill?” Administrative complexity and uncertainty/lack of guidance have become immediate concerns to employers as regulations surrounding the near term provisions of PPACA continue to be written. 74% of respondents explicitly mentioned both categories as a top concern, compared to 72% for Admin Complexity in May '11 and 34% for Uncertainty. This is likely representative of employers knowing that much still needs to be done, and there is even less time to do it. Additionally, cost remains a primary concern at 68%, down from 78% in May '11. Employers are also worried about the additional coverage mandates, the long term viability of employer sponsored coverage and retaining the grandfather status of their current plans.

Cost takes a back seat as 74% explicitly mention uncertainty/lack of guidance as their top concern related to the Health Care Reform bill—an abrupt rise from 34% in May '11

Chart 16: Percentage of Consultants Mentioning Subject as top three concern for “what do you see as the primary concerns from an Employer perspective following passage of health care bill?”



Source: 13th Semi-Annual UBS Benefit Consultant Survey

Employers with Low-Wage Employees may Face Impact of Affordability Provisions

Regarding the specific provisions of the Health Care Reform bill, we asked consultants whether “employers with low hourly wages (i.e. retail / restaurants), would be compliant with the affordability requirement (i.e. meet the 9.5% AGI threshold)?” 43% of responding consultants indicated they did not expect all of these employers would meet the affordability requirement for all of their employees, in line with the 48% in May ‘11.

43% of consultants indicate that they did not expect all of their employers would meet the affordability requirement

- Nearly all (95%) of the respondents reported that less than 10% of their employer clients currently offered sub standard benefit plans (i.e. those that don’t meet the actuarial equivalency requirements). For those employers that do offer these plans 57% of respondents indicated that the potential remedy was to offer a 60% AV plan.

Table 8: For those Employers with low hourly wages (i.e. retail / restaurants), will they be compliant with the affordability requirement (i.e. meet the 9.5% AGI threshold)? If not - what is the most likely remedy?

Consultant Responses	"Change a large portion of the employees to part-time or utilizing a private exchange."	"Offer 60% AV plan or consider corporate exchange strategic approach"
	"Considering getting out of employer sponsored health care in favor of exchanges (willing to pay penalty or possibly fund flexible spending accounts)."	"Enter exchanges or dropp coverage altogether - possibly using HDHP/H.S.A. plans to mitigate"
	"Pay the penalty (if it's still lower than current costs)"	"Change employees from full time to part time"

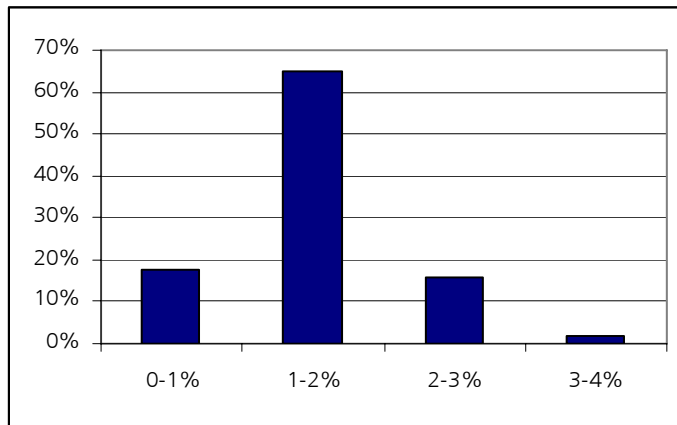
Source: 13th Semi-Annual UBS Benefit Consultant Survey

Unchanged from our May 2011 survey, most consultants believe the near term coverage requirements under PPACA had a 1-2% impact on trend. The top end of this range narrowed slightly from last year, when consultants expected a 1-3% impact. When asked to estimate impact on 2011 trend from near term PPACA coverage mandates (i.e. guaranteed issue to children, removal of annual / lifetime limits, etc), 65% of consultants expect provisions would add 1-2% to trend (down slightly from our May 2011 survey of 75%, but up from 51% in October 2010) with another 16% of respondents sizing impact in range of 2-3% (in line with 13% from May 2011).

It now is apparent that the near term coverage mandates written into PPACA added roughly 1-2% to trend

- We point out that our consultant survey is geared towards the large group employer market where impact from near-term provisions would be relatively muted compared to Individual/Small Group markets given inherent product characteristics (i.e. lower existing benefit levels).

Chart 17: Estimated Impact on 2011 Trend from Near Term PPACA Coverage Mandates



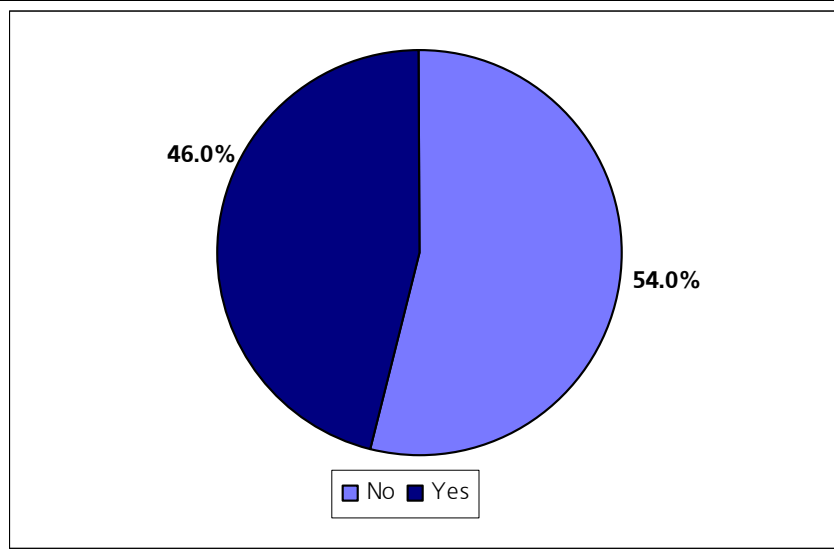
Source: 13th Semi-Annual UBS Benefit Consultant Survey

Economic Impact on Health Benefits

Given that there is still a risk that we will enter a double dip recession and many employers continue to fear that the rebound here is not occurring fast enough we wanted to gauge consultant views and the possible impact from a health benefit standpoint. With regard to strategy changes around benefit design/cost shifting, 46% of the consultants indicated some change as a result of overall macroeconomic pressure. Given the continuing improvement in the economy, this figure is below the 55% reported in our May '11 and well below our October '10 figure of 60%.

46% of consultants indicated they are seeing some change in employer behavior with regard to the economy

Chart 18: "Relative to this time last year, have you seen employers change strategy on benefit design/cost-shifting given the broader macroeconomic challenges (Yes / No / not applicable)?"



Source: 13th Semi-Annual UBS Benefit Consultant Survey

Table 9: "Have you seen employers change strategy on benefit design / cost-shifting as the economy has weakened?" - Examples

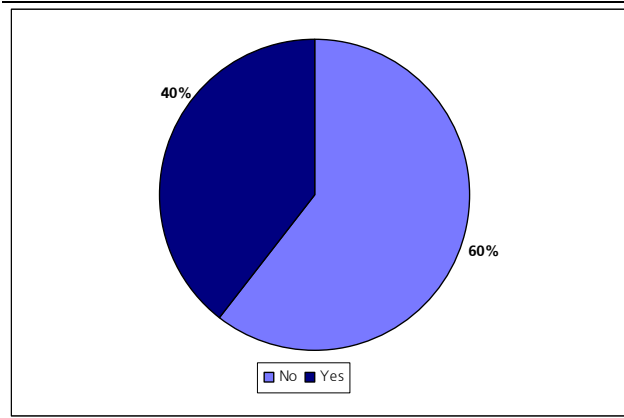
Consultant Responses	"Public Sector Clients now have really tight budgets and everything is 'on the table' that hasn't been in the past (ie cost share, copayment, wellness, care management etc)."	"Clients that have missed earnings or see slowing sales have reduced benefits or increased premium contributions more dramatically."
	"Increase interest in account based health plans."	"Shift to defined-contribution approach; additional plan choices, including HDHP"
	"Greater evaluation of pharmacy arrangements, moving towards better disease management solutions"	"More incentives to participate in health management programs."

Source: 13th Semi-Annual UBS Benefit Consultant Survey

Cost remains atop employer concerns and the percentage of consultants indicating that employers have shown an increased willingness to switch plans / go out for bid in order to obtain the best economics increased in the current survey to 60% compared with 34% in the May 2011 survey and 49% from October 2010. Consultant remarks varied with many indicating that cost has become an increased consideration for large public clients. However, these cost saving measures have increased employers' willingness to invest in disease management and wellness programs. 76% have reported that compared to prior years employers are more or equally willing to support health focused programs (with 47% indicating "more willing"), roughly in line with our May 2011 survey.

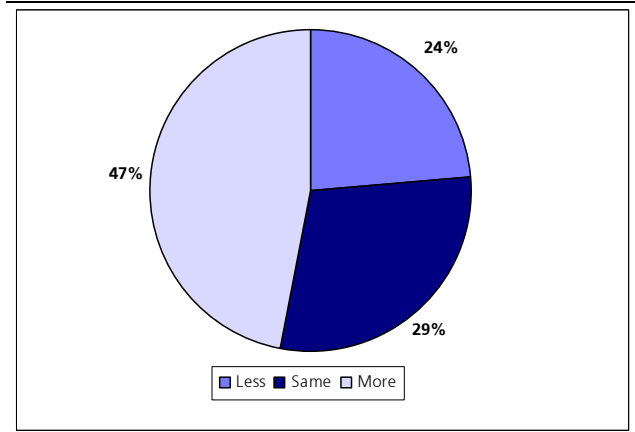
47% of consultants noted that employers are more willing to invest in wellness and disease management programs compared to the prior year.

Chart 19: "Have you seen employers more willing to switch plans in order to obtain the best economics versus in previous years?"



Source: 13th Semi-Annual UBS Benefit Consultant Survey

Chart 20: "Compared to prior years, have you seen employers more or less willing to invest in disease management/wellness programs due to the economy (More/Less/Same)?"

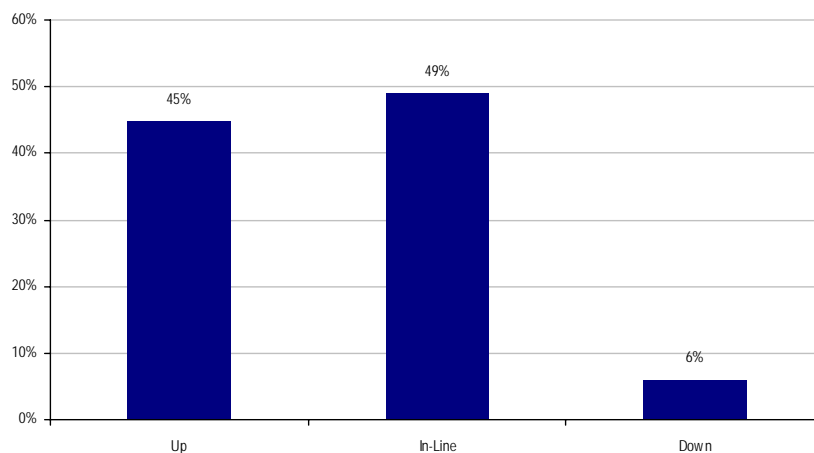


Source: 13th Semi-Annual UBS Benefit Consultant Survey

The Bidding Process – Early Look at 2013 RFP Season

We asked the health benefit professionals participating in our survey to provide initial expectations for the level of 2013 RFP activity in the self-insured account space versus the 2012 selling season. 94% of responding consultants stated that they expect the percentage of accounts to be out for bid for 2013 will be in-line to above 2012 RFP levels, including 45% who expect to see an uptick. This compares to October 2010 survey results where 90% expected 2012 RFP volumes to be flat or above 2011 levels (including 51% projecting an uptick) and October 2009 survey results where 82% expected 2011 to be in-line to above 2010 results (including 45% anticipating an uptick).

Chart 21: "What is your early expectation for 2013 RFP activity (up, down, in-line)?"

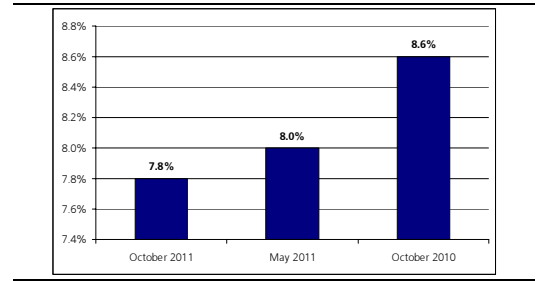


Source: 13th Semi-Annual UBS Benefit Consultant Survey

2011 In Review

Respondents saw cost trends reduced 20bps from May 2011 and 160 bps from this time last year. 82% of consultants reported that this trend is down or unchanged since the end of 2010. When asked if there were any surprises in medical cost trends thus far in the year, anecdotally there was a roughly equal number were surprised by low cost trends and trend upticks.

Chart 24: Consultant views of Medical Cost Trend



Source: 13th Semi-Annual UBS Benefit Consultant Survey

Table 12: "Any surprises with medical cost trend thus far in 2011?"

Consultant Responses	"Decrease in pharmacy trend."-Falls Church, VA	"Employer specific trends lower than expected (lower than past years)."-Norwalk, CT
	"Not really; which may be a surprise in itself given Health Care Reform mandates last year."-Atlanta, GA	"One client had a bad claims year for 2010, driven by higher incidence of large losses and uptick in medical plan utilization/costs driven by significant # of layoffs."-Tri-State Area
	"Continued high spike in specialty RX trends and outpatient care; ER use and per service trends also spiking high."-Lincolnshire, IL	"Up more than I would have expected due to impact of large claims."-Washington D.C.

Source: 13th Semi-Annual UBS Benefit Consultant Survey

■ **Statement of Risk**

Risks to the Managed Care sector include but are not limited to potentially adverse impact under recently passed healthcare reform legislation, changes to Medicare and Medicaid reimbursement policies, potential for acceleration in medical cost trends, and competitive pricing pressures.

■ **Analyst Certification**

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	59%	35%
Neutral	Hold/Neutral	35%	33%
Sell	Sell	6%	14%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	0%
Sell	Sell	less than 1%	20%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2011.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

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