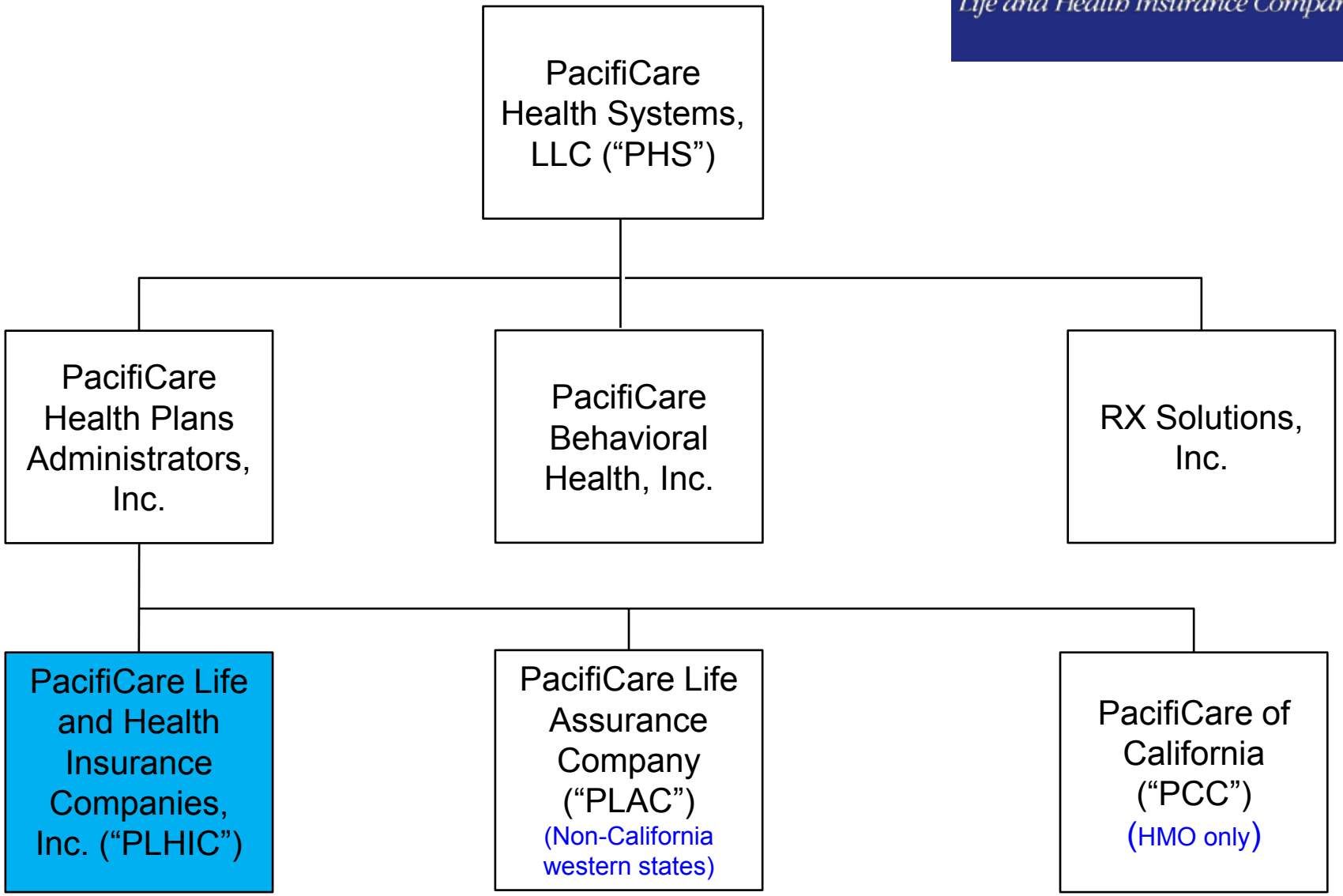
Legal Structure of PHS

PacifiCare®
Life and Health Insurance Company



Source: PAC0866905

CTN Transition – Filling Provider Gap

PacifiCare®
Life and Health Insurance Company

Provider Type	CTN as of 1/1/06	PacifiCare Overlap as of 1/1/06	PacifiCare Unique as of 1/1/06	Gap/ Added	Network as of 12/31/06
Hospitals	310	285	20	**21**	326
Total Physicians	46,000	38,000	3,200	**9,000**	50,200

- Disruption centered on providers needed to fill UHC customer gap from CTN.
- By definition, nominal impact on PLHIC.
- End Result: Substantially expanded network.

Source: PAC0550262-PAC0550294

Retroactive Provider Contracts – PLHIC Claims Impact

PacifiCare®
Life and Health Insurance Company

	Total Contract Loads	
	1/1/06 - 3/31/07 Primarily CTN	4/1/07 - 11/30/07 No CTN
Total physician contracts	9,461	5,076
Non-Retroloads	(2,991)	(5,000)
Retroloads	6,470	76
% of Physicians with Retroloads	68.4%	1.5%
Physician contracts with no claims during periods of retroactivity	5,864	70
Physician contracts with claims reworked	606	6
% Physician contracts with claims reworked	6.4%	0.1%
Claims reworked*	2,662	50
$ originally paid	$211,116	$2,969
$ adjustments paid	$89,191	$1,081

Source: PAC0866912

PAC0866929

* Does not include overpayments

PPO Claims Processing

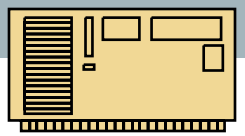
PacifiCare®
Life and Health Insurance Company

Mail Receipt

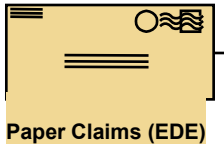
Paper Mail

Sorted

Correspondence


DocDNA

Mail / Document Processing


Paper Claims (EDE)

Electronic Claims (EDI)

Data Entry and Scanning

Claims sorted by PO Box and form type

Claims are grouped and sent to a vendor for data entry and scanning

Vendor receives batches, digitally images and data enters claims

Images and data returned to PHS (ADHOC Imaging only)

Claims Exchange Workflow and Routing

Claims Exchange Logic and Routing Rules

- Eligibility Matching Logic
- Provider Matching Logic
- Claim Code Validation
- Manual Fee Schedule Pricing
- QicLink Directory Routing
- General Claims Inquiry

Routing rules applied

Claims Exchange Workflow Queues

Production

Error Corrections

Manual Pricing

Other

Automated Pricing and Adjudication

System auto-pricing applies?

Yes

Claims Exchange Central Server
Claims are routed daily for vendor pricing
(**TAT** 95% within 24hr, 99% within 48hr)

- **HNS** Contracted facility provider pricing
- **ppoOne** Pricing using the UHC national discount network

No

Load to QicLink (RIMS)

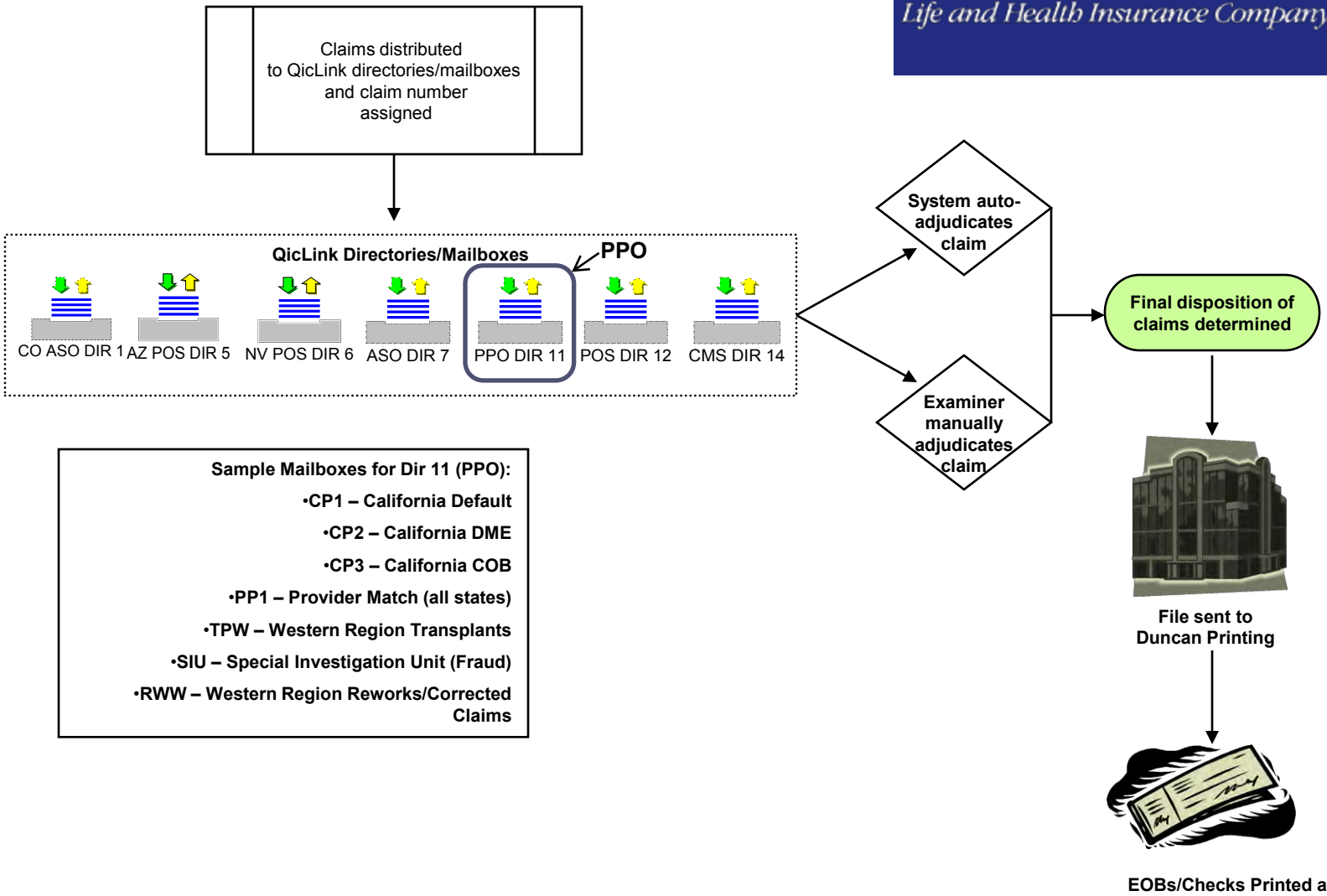
Continued on page 2

Source: PAC0866918-9

PPO Claims Processing

PacifiCare®
Life and Health Insurance Company

QicLink Routing and Processing



Sample Mailboxes for Dir 11 (PPO):

- **CP1 – California Default**
- **CP2 – California DME**
- **CP3 – California COB**
- **PP1 – Provider Match (all states)**
- **TPW – Western Region Transplants**
- **SIU – Special Investigation Unit (Fraud)**
- **RWW – Western Region Reworks/Corrected Claims**

Source: PAC0866918-9

PAC0866931

Incentive to Pay Claims Properly

PacifiCare®
Life and Health Insurance Company

10% interest greatly exceeds PacifiCare"s average of net investment income over invested assets.

PLHIC 2007-2009 Return on Invested Assets

Year	Return
2006	7.88%
2007	3.34%
2008	3.84%
2009	4.60%

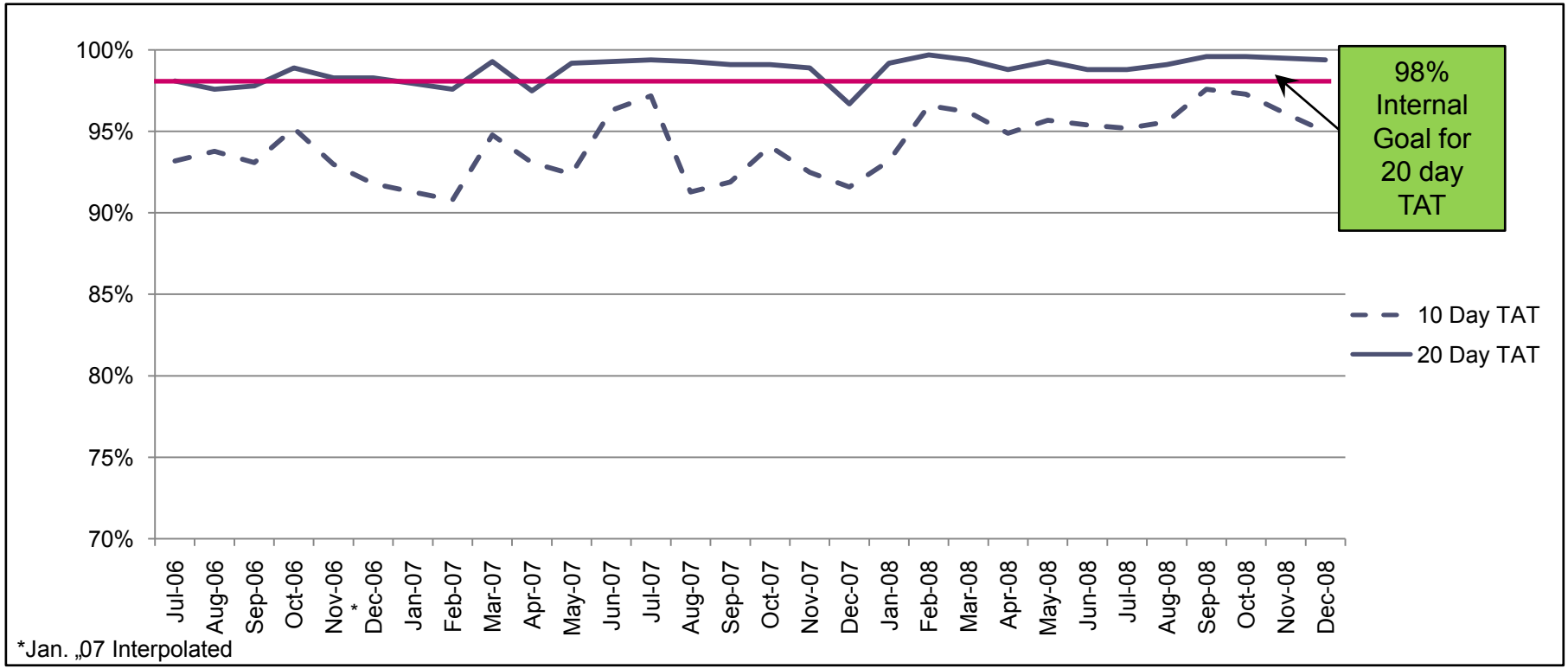
Source: PAC0866920

Internal Turnaround Time Statistics – July 2006 to December 2008 (All States)

PacifiCare®
Life and Health Insurance Company

Goals are 96.5% for 10 working day TAT and 98% for 20 working day TAT for new day claims.*

All States RIMS/PPO TAT



99.3% of PLHIC New Day claims during the 2007 MCE were paid in less than 43 calendar days.

*July 2006 to February 2008 includes Non-PPO commercial products.

Source: PAC0866902-0866903

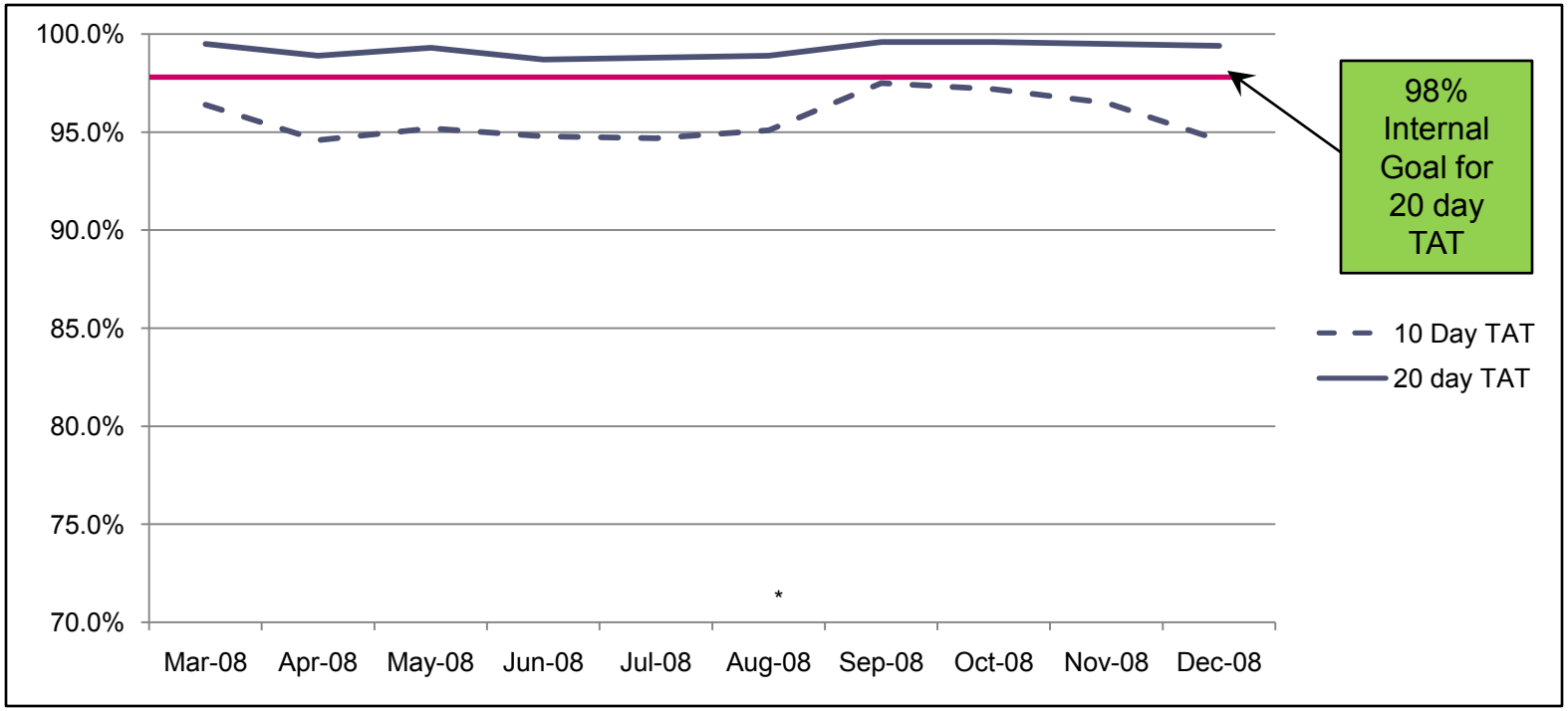
PAC0866933

Internal Turnaround Time Statistics – March 2008 to December 2008 (California PPO)

PacifiCare®
Life and Health Insurance Company

- 96.5% 10 Working Day TAT goal for New Day claims
- 98% 20 Working Day TAT goal for New Day claims

California PPO TAT



Stricter internal metrics provide a cushion of at least 10 working days in claims processing.

Did not measure California PPO separately prior to March 2008.

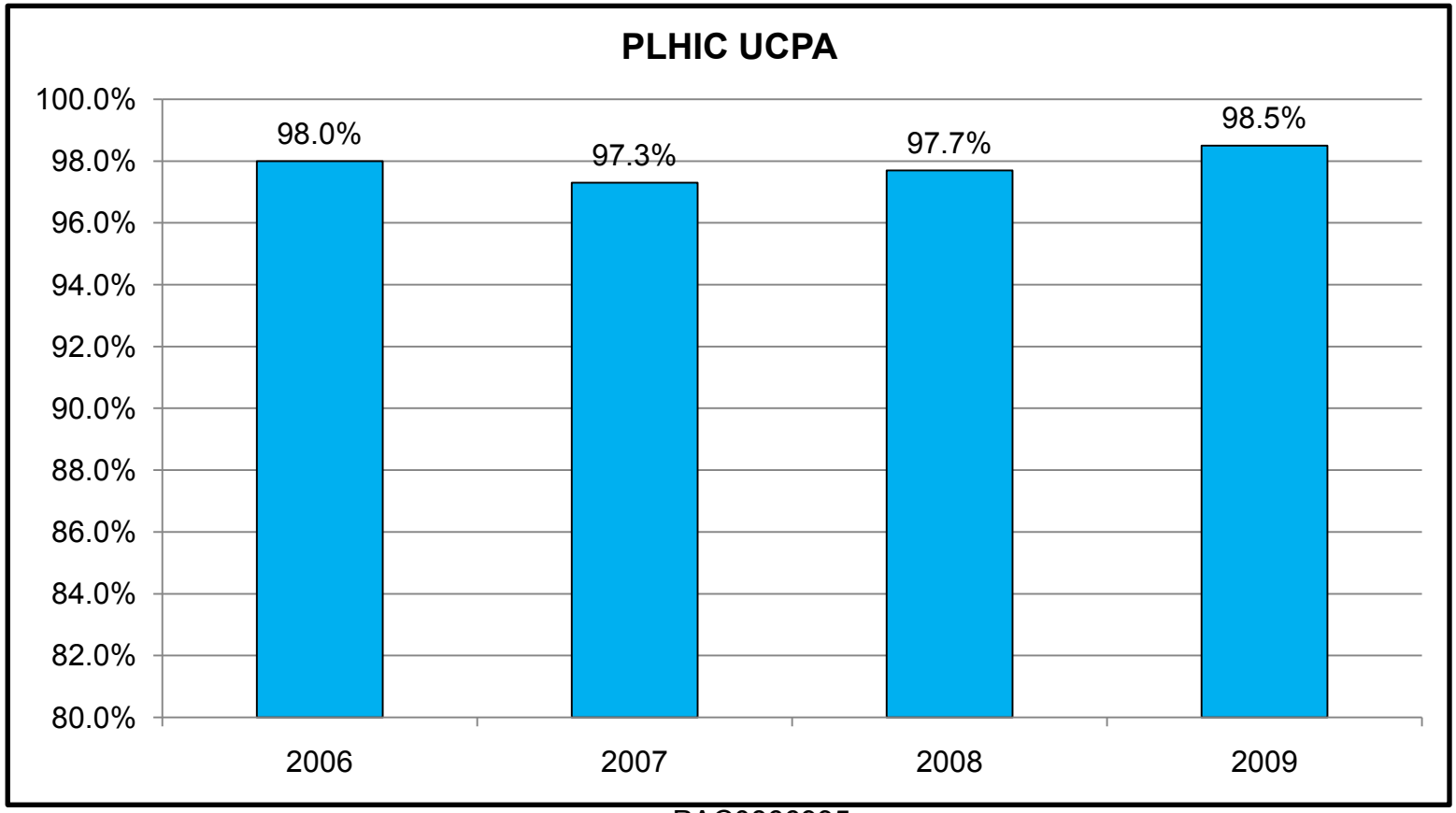
Source: PAC0866902-0866903

Underpayment Claims Payment Accuracy Audits

PacifiCare®
Life and Health Insurance Company

- Underpayment Claims Payment Accuracy ("UCPA") – Percentage of sampled claims without any underpayment error. Even an error of $.01 will result in the UCPA metric recording an error for that claim.

- PLHIC's UCPA has exceeded 97% since 2006.



Source: Exhibit 5225

CIC § 10123.13

California Insurance Code Section 10123.13 states:

"(a) Every insurer issuing group or individual policies of health insurance that covers hospital, medical, or surgical expenses, including those telemedicine services covered by the insurer as defined in subdivision (a) of Section 2290.5 of the Business and Professions Code, **shall reimburse claims** or any portion of any claim, whether in state or out of state, for those expenses as soon as practical, but no later than 30 **working days** after receipt of the claim by the insurer unless the claim or portion thereof is contested by the insurer, **in which case the claimant shall be notified, in writing, that the claim is contested or denied**, within 30 working days after receipt of the claim by the insurer. . .

(b) If an uncontested claim is not reimbursed by delivery to the claimant's address of record within 30 working days after receipt, **interest shall accrue and shall be payable at the rate of 10 percent per annum** beginning with the first calendar day after the 30-working day period."

Compliance with § CIC 10123.13(a)

PacifiCare®
Life and Health Insurance Company

CDI's Calculation of Claims Not Paid Within 30 Working Days	42,137
Less: Claims Erroneously Counted	13,032
Sub-Total	29,105
Less: Claims Where Interest Was Paid	23,658
Claims Where No Interest Was Paid At the Time of Adjudication	5,447*

CDI unexplained addition	3,570
No "Reimbursement" Owed	5,921
Overpayments	3,119
Contested	391
Other	31
Should not be counted	13,032

Percentage of Claims Compliant

$$\frac{(1{,}126{,}287 - 5{,}447)}{1{,}126{,}107} = 99.5\%$$

CIC § 10123.13 Compliance

Source: PAC0866923

* Interest was paid after adjudication on 4,634 claims. 813 claims are being reviewed for whether interest is owed

Magnitude of Interest Owed

PacifiCare®
Life and Health Insurance Company

Interest paid on 4,634 claims

$$\frac{\$138,053}{\$297,884,231} = 0.0463\%$$

Total Payments on ALL claims

Interest was paid on 4,634 Claims
by November 2, 2007

Source: PAC0866910

PAC0866938

Root Cause of Interest Payment Issues

PacifiCare®
Life and Health Insurance Company

Primary Root Cause: RIMS does not systematically calculate interest when a reprocessed claim is adjudicated. Claims examiners must manually calculate.

Interest Payment Corrective Action

PacifiCare®
Life and Health Insurance Company

Date	Comments
10/07	Interest calculator with specific information prompts created for manual calculations on October 3, 2007 for all states
11/07	4,634 PPO Claims were reprocessed with under $139,000 in interest paid.
1/08	Implementation of Weekly Interest Focused Audit Program
11/07-Present	Additional training conducted on numerous topics relating to interest payment guidelines ▪ Interest rates and timelines ▪ Special circumstances ▪ Review of policies and procedures specific to "received date"

Rule of Thumb: "Err on the Side of Overpayment"

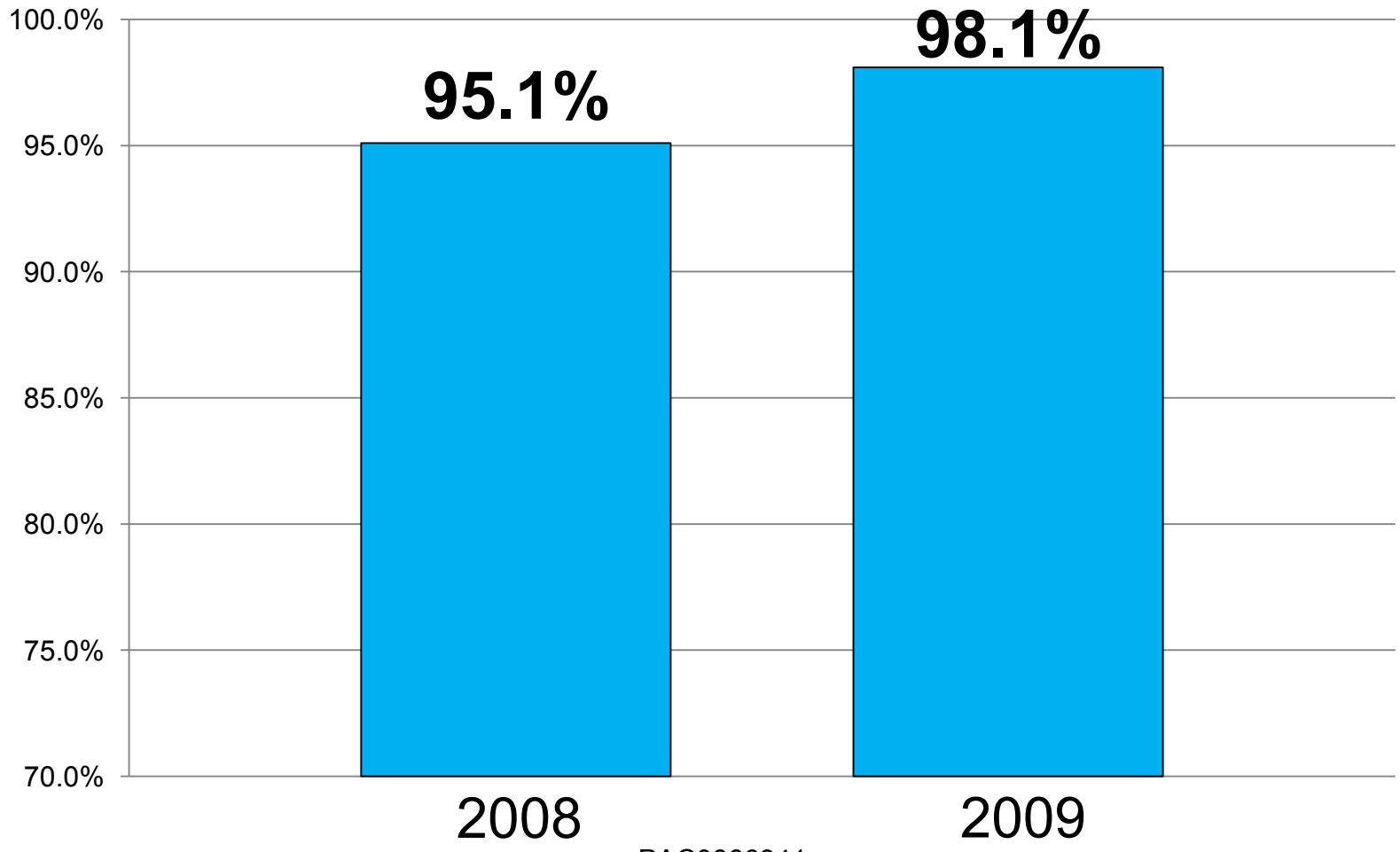
Source: PAC0866923

PAC0866940

Focused Interest Audit Results

PacifiCare®
Life and Health Insurance Company

- Application of focused interest underpayment accuracy audits:



Source: PAC0866904

PAC0866941

CDI's Theory Less Erroneous Additions

PacifiCare®
Life and Health Insurance Company

CDI Alleged Claims Not Paid Timely	42,137
Less: Should not be counted	13,032
Claims Paid After 30 Working Days	29,105*

CDI unexplained addition	3,570
No "Reimbursement" Owed	5,921
Overpayments	3,119
Contested	391
Other	31
Should not be counted	13,032

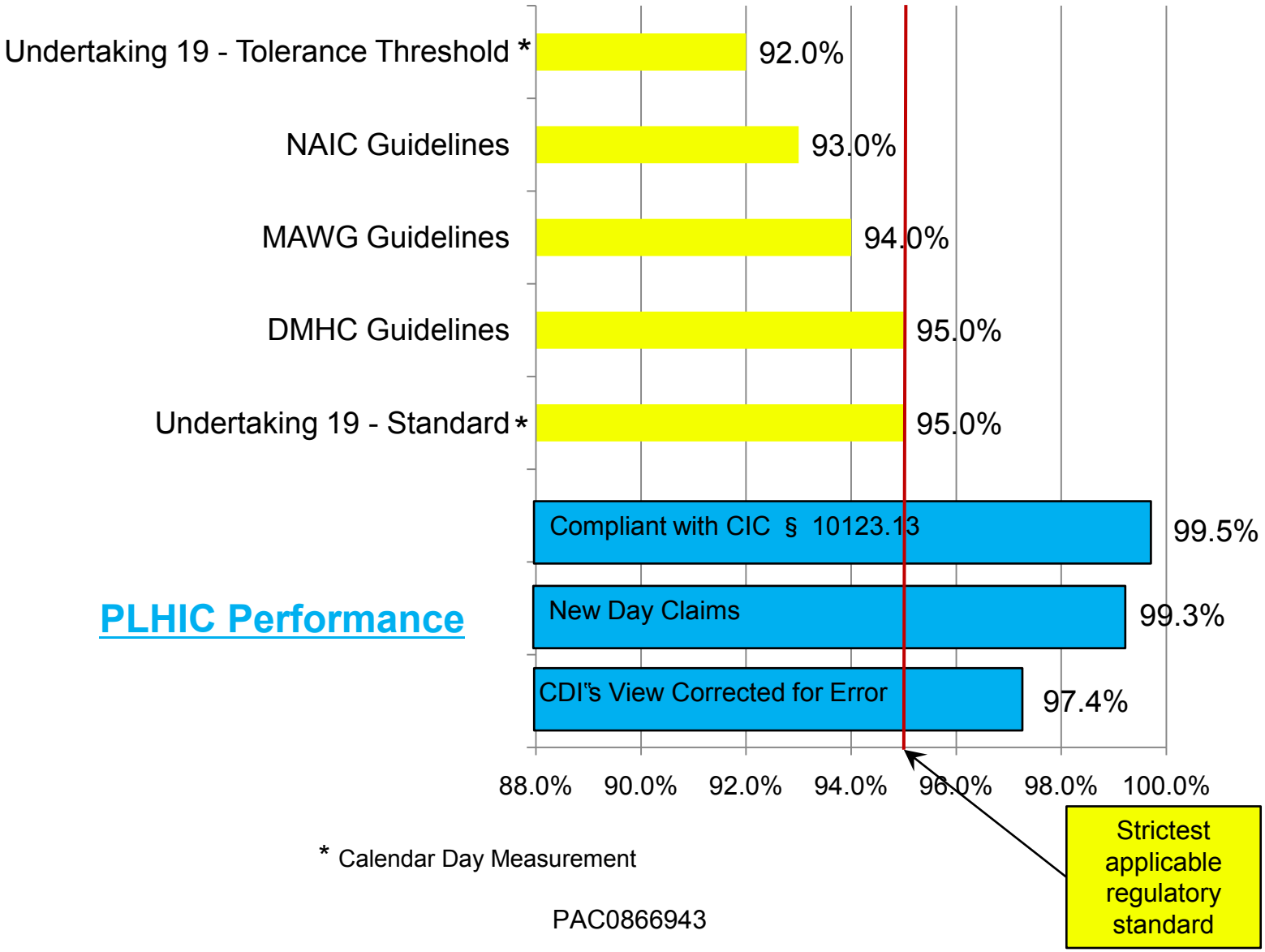
$$\frac{(1{,}126{,}287 - 29{,}105)}{1{,}126{,}107} = 97.4\%$$

* Paid interest on 23,658 of these claims

Source: PAC0866923

PLHIC's Performance Beats Every Metric

PacifiCare®
Life and Health Insurance Company

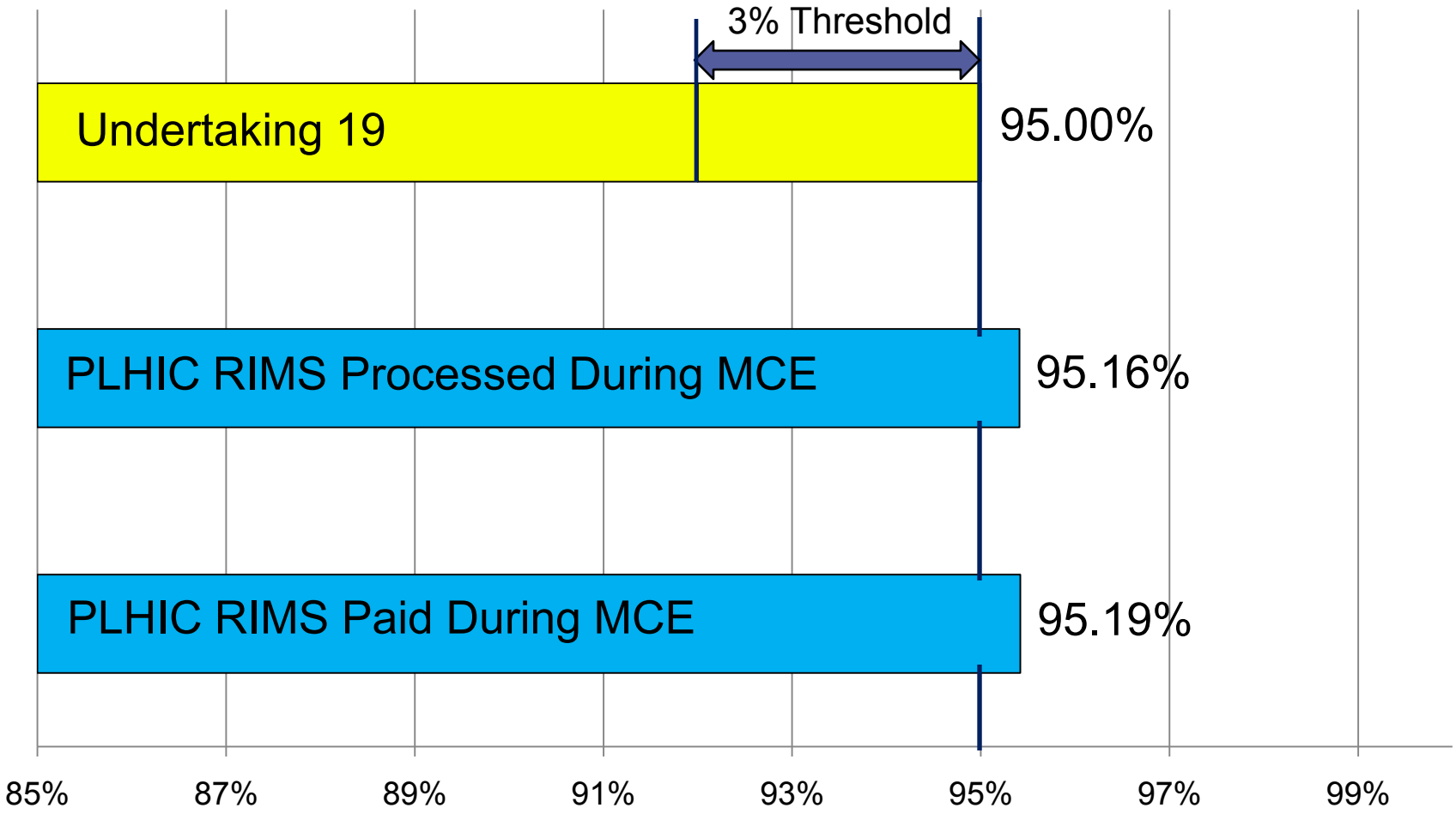


* Calendar Day Measurement

PAC0866943

Timeliness – PLHIC Beat the CDI Undertakings for Payments Within 30 Calendar Days

PacifiCare®
Life and Health Insurance Company



Source: PAC0866926

Acknowledgement Provisions

- **CDI Provision** (California Insurance Code ("CIC") Section 10133.66(c)):

  "*The receipt of each claim shall be identified and acknowledged**,** whether or not complete, and the recorded date of receipt shall be disclosed in the same manner as the claim was submitted **or provided through an electronic means, by telephone, Website, or another mutually agreeable accessible method of notification**, by which the provider may readily confirm the insurer's receipt of the claim and the recorded date of receipt within 15 **working** days of the date of receipt of the claim by the office designated to receive the claim. If a claimant submits a claim to a health insurer using a claims clearinghouse, its identification and acknowledgement to the clearinghouse within the timeframes set forth above shall constitute compliance with this section."*

- **DMHC Provision** (28 California Code of Regulations 1300.71(c)):

  *"The plan and the plan's capitated provider shall identify and acknowledge the receipt of each claim, whether or not complete, and disclose the recorded date of receipt as defined by section 1300. 71(a)(6) in the same manner as the claim was submitted **or provide an electronic means, by phone, website, or another mutually agreeable accessible method of notification**, by which the provider may readily confirm the plan's or the plan's capitated provider's receipt of the claim. . . ."*

PROVIDERS: Acknowledged via EDI

PacifiCare®
Life and Health Insurance Company

- What is EDI?
  - EDI stands for Electronic Data Interchange.
  - It is a tool for providers to submit claims electronically.
  - Recognized across a variety of industries.
- Increasingly used by providers as a mechanism to submit claims.
- Over 55% of PLHIC claims were received via EDI during the 2007 MCE period.
- Receipt of claims submitted via EDI are automatically acknowledged.

The EDI process existed prior to the effective date of the statute, January 1, 2006. It functioned throughout the exam period and through the present.

Source: PAC0866925

PROVIDERS AND MEMBERS: Acknowledgement Via Telephone

PacifiCare®
Life and Health Insurance Company

- The Company acknowledges receipt of claims via the Customer Service telephone line.
- Accessible to both providers and members with access to trained customer service representatives.
- Representatives can view claims status with members and providers (including when a claim was received) typically within 5 days after receipt of paper claim and immediately for a claim received via Electronic Data Interchange ("EDI").

The Customer Service telephone line has been available to providers since the creation of PLHIC and was functioning throughout the exam period and through the present.

Over 133,000 provider calls related to PPO claims inquiries during the 2007 MCE period (over 11,000 per month).

Source: Exhibit 5243

PROVIDERS: Acknowledgement via Portal

PacifiCare®
Life and Health Insurance Company

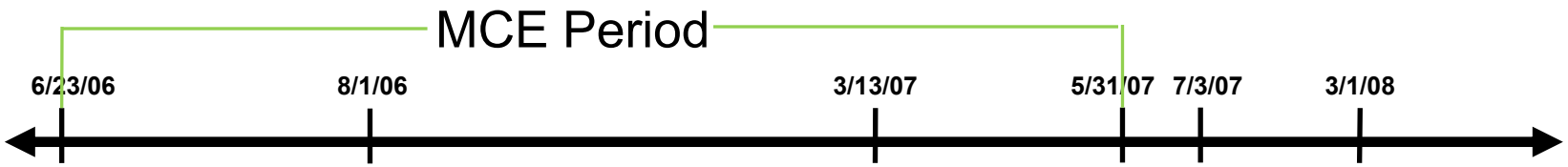
- The Company provides an added resource through its portal to acknowledge receipts of claims on RIMS at www.pacificare.com.
  - Dedicated portal for PacifiCare contracted providers (representing 80% of claims on average).
  - Providers may check the status of a claim that has been adjudicated to determine whether it has been adjudicated.
  - 90.8% of provider claims are adjudicated within the first 15 working days.

The provider portal has allowed providers to check claim status since 2004. It was functioning throughout the exam period and through the present.

Source: PAC0866922

Compliance During 2007 MCE Period -- Providers

PacifiCare®
Life and Health Insurance Company



EDI, Portal and Telephone Acknowledgement

100% Compliance with CIC
§ 10133.66(c)

PacifiCare®
Life and Health Insurance Company

Even if CDI's view of the law is right, PLHIC still complied.

Claims Paid to Providers within 15 Working Days	1,016,700
All Other EDI Paid Claims	47,417
Total	**1,064,117**

95.0%*

Exceeds NAIC Guideline by 2%

* Based on Total Claims Paid to providers: 1,119,599(member acknowledgements not at issue in this proceeding)

Source: PAC0866922

Corrective Action Plan – Acknowledgement Letters to Providers

PacifiCare®
Life and Health Insurance Company

- Proceeded with implementation of the process despite no feedback from CDI.
- Completed implementation on March 1, 2008.
- The system operates as follows:
  - A report tracks claims not yet processed.
  - Letters are mailed acknowledging claims not processed before 15 calendar days.
  - An image of the acknowledgement letter is maintained.

Acknowledgements – Dec. 7th Response

PacifiCare®
Life and Health Insurance Company

Total # of Claims	1,126,107
Less: Claims Paid within 15 Calendar Days	(982,789)
Less: Claims Paid After 15 Calendar Days (acknowledgement letters thought to have been sent 1/07 - 5/07)	(62,048)
Total	81,270

Source: PAC0866911

Acknowledgements – Impact on Member and Provider Claims

PacifiCare®
Life and Health Insurance Company

	Claims	
Impact on Provider Claims	0	
Impact on Member Claims	1,172	
Total Impact	1,172	99.9%*

* Based on Total Claims Paid: 1,126,107 (member acknowledgements not at issue in this proceeding)

Source: PAC0866905