

**Actuarial Review of Certain Undertakings Agreed to
by PacifiCare Life & Health Insurance Company and
UnitedHealth Group Incorporated
California Department of Insurance**

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Introduction & Summary of Findings

Introduction

In December 2005, UnitedHealth Group Incorporated (United) acquired PacifiCare Health Systems, Inc. (PacifiCare) for total cash and stock consideration of approximately \$8.8 billion. PacifiCare is the ultimate parent of PacifiCare Life and Health Insurance Company (PLHIC), and as part of the acquisition of PacifiCare by United, PLHIC became an indirect, wholly-owned subsidiary of United.

As a condition of the merger, the California Department of Insurance (CDI), PLHIC and United have consented to a series of actions and agreements (Undertakings) which took effect immediately upon the closing of the merger. The CDI has contracted with Mercer Oliver Wyman (MOW) to undertake a review of PLHIC's and United's compliance with these Undertakings during calendar year 2006. Subsequently, the CDI contracted with Marsh Actuarial Consulting, Inc. to conduct the review of the Undertakings in 2007.

We have prepared this report for the sole use of the CDI, and we do not authorize parties other than the CDI to use the information contained herein. Parties other than the CDI who choose to rely on information contained in this report do so at their own risk.

PLHIC considers the information contained in this report confidential and proprietary, the disclosure of which could be damaging and prejudicial to PLHIC and its affiliates. For this reason, we request that the CDI maintain the contents of the report strictly confidential to the fullest extent permitted by California law, as provided in Undertaking 20(l) of the Undertakings.

We relied on the accuracy and completeness of the material provided by PLHIC and UnitedHealth to complete this review. To the extent that the material is not complete or is inaccurate, the findings in this review may require alteration.

Summary of Findings

In our opinion UnitedHealth and PacifiCare have made a good faith effort to comply with the Undertakings. We have a few observations regarding our findings:

1. Undertaking 2 A (1) requires UnitedHealth and PLHIC to maintain CAHPS scores at the levels achieved at the time of the merger. Mercer Oliver Wyman made note of the fact that the claims paying score had deteriorated. It appeared as if PacifiCare and the CDI were well aware of this issue yet scores for 2007 were less than those for 2006. In addition to the claim processing issue, the scores were also down for smoking cessation and the general consumer attitude to the health plan.
2. Undertaking 9 requires UnitedHealth and PacifiCare maintain current level of efforts in offering and renewing individual and small group business.
 - a. Medicare: In last years report MOW noted that PLHIC discontinued marketing there Medicare Supplement in order to concentrate on the United/AARP product. We noted this in the report. What we would like to point out is that the membership in the Medicare Supplement has remained stable yet the premium is down and the block is in a loss position. In addition, the Senior Supplement (group Medicare Supplement) block has also lost a lot of members although it continues to have gains.

- b. Small Group: PLHIC withdrew the SDHP product in March of 2007. This withdrawal caused a substantial drop in membership for the SDHP product. We assume there is no problem with the Undertaking as the CDI approved the withdrawal.

Undertaking 1A, 1B (1), (2), (3), and (4)

Undertaking 1A requires that the premiums payable by PLHIC policyholders not increase as a result of "Merger Costs." The Chief Financial Officer will provide a certification to this effect.

PLHIC's Chief Financial Officer has provided the certification that the PLHIC is in compliance with these Undertakings.

In Undertaking 1B PLHIC and UnitedHealth agree not to change practices and methodologies in the development and rating of PPO, SDHP and Medicare Supplement products. There are essentially five sections to this:

1. Practices and methodologies for determining premium rates have not changed from pre-Merger practices and methodologies.
2. Practices and methodologies for determining Medical Products and benefit designs have not changed from pre-Merger.
3. Merger Costs have not been included in the rates.
4. No debt rating components arising from the Merger are included in the rates.
5. PLHIC's Administrative Expense Ratios as defined in Undertaking 14 have not exceeded benchmarks.

The first section below addresses the rating practices and methodologies for both small group and individual. The second section reviews the actual rating process and benefit design of the three product groups to be analyzed. The Administrative Expense Ratios are addressed in Undertaking 14.

PLHIC is allowed latitude in the design of benefit structures and pricing to the extent that they need to allow for market, economic or competitive matters in the normal course of business.

Practices and Methodologies for Pricing

The two PLHIC documents titled "Summary of California Individual and Small Group Pricing" from January 26, 2007 and January 1, 2008 were analyzed and a comparison was made noting the following differences:

- Individual Plan Pricing:
 - The calculation of trend rates in the 2007 document indicated that separate trends were used for medical and prescription drugs. The 2008 document did not have this distinction. Prescription drug trends have declined over the recent period. It is likely that there is not enough difference between the two trends to warrant separate consideration.
 - The area factors in 2007 were based on projected medical provider contracts in the counties and county specific medical utilization assumptions in those counties. Adjustments were then made based on experience data. The area factors in 2008 were based on experience. Experience was combined over counties to create nine rating areas. Adjustments were made based on experience and credibility. Anticipated changes in medical provider contracts may also result in further adjustments by area. PLHIC indicated previously that as experience developed on this block of business experience would weigh more into the development of the rates. This is sound actuarial practice.
 - Substandard rating in 2007 was two tier; 20% or 50% rate increases. The 2008 substandard rating process allows for substandard rating classes that are 10%, 20%, 30%, 40%, 50%, 60%, 70%, or 80% higher than the standard rate. As the company develops more underwriting experience and analyzes emerging experience it should be able to fine tune its ability to assess risk. This represents sound actuarial and underwriting practice.

- Small Group Pricing: The 2008 document indicated that PLHIC had included internal data sources as well as external actuaries in the development of the factors. This would be consistent with increased experience of the individuals performing the pricing as well as the availability of emerging experience on the block of business.

Development of Rates and Benefits

PLHIC provided pricing work papers along with the Medicare 2007 filing, three small group filings and the individual filing made in February of 2007.

Small Group

PLHIC requested and received approval from the CDI to withdraw three small group products in March of 2007; SDHP, HDHP, and Indemnity Plans. The company started transitioning affected small group customers off these products starting July 2007. The company agreed to provide quarterly reports to the CDI on the status of the groups affected. These reports were not reviewed by us. We assume that the CDI is satisfied with the current situation.

We reviewed the small group rating work papers, the experience on the small group products, the actual rate filings to the CDI and the publications with the plan design.

Table 1.1 illustrates the actual rate actions PLHIC has taken on its small group business. It also includes most of the pertinent rating parameters; medical loss ratio (MLR), trend, commission assumption, premium tax, projected or target loss ratios and the net gross margin.

Table 1.1

		PLHIC Small Group Rating Statistics								
		Feb-05	Jul-05	Oct-05	Feb-06	Jul-06	Oct-06	Mar-07	Jul-07	Oct-07
PPO	Mbrs	48,553	48,769	49,415	58,066	58,637	59,702	71,852	72,569	66,197
	MLR	79.60%	84.3%	86.1%	91.3%	n/a	90.0%	86.4%	85.0%	85.6%
	Target Loss Ratio	74.1%	74.8%	78.1%	84.1%	80.0%	77.0%	74.5%	73.1%	74.3%
	Net Gross Margin	15.0%	15.0%	11.7%	5.7%	9.8%	12.8%	15.9%	17.2%	16.0%
	Rate Increase	1.8%	9%	7%	0%	11%	7%	5%	3%	5%
	Renewal Increase	11.3%	18.6%	20.5%	18.6%	18.6%	18.6%	15.7%	16.3%	14.4%
SDHP	Mbrs	16,304	16,799	23,001	21,902	22,237	22,988	22,474		
	MLR	70.9%	75.5%	84.9%	89.8%		91.4%	103.7%		
	Target Loss Ratio	69.1%	74.0%	82.8%	83.1%	88.2%	85.8%	83.6%		
	Net Gross Margin	20.0%	15.8%	7.0%	6.7%	1.6%	4.0%	6.2%		
	Rate Increase	10.3%	5.2%	2.4%	10.4%	4.8%	2.5%	20.5%		
	Renewal Increase	17.4%	14.4%	19.0%	18.6%	18.6%	18.6%	29.8%		
IND	Mbrs	154	163	0	102	46	46	40	31	31
	MLR	94.8%	1.0%	1.1%	99.8%		117.3%	90.8%	78.0%	34.4%
	Target Loss Ratio	74.1%	74.5%	81.9%	73.8%	88.5%	98.8%	84.2%	73.5%	32.2%
	Net Gross Margin	15.0%	15.3%	7.9%	16.0%	1.3%	12.8%	6.2%	16.9%	58.2%
	Rate Increase	17.2%	3.1%	6.5%	5.4%	5.7%	6.5%	5.4%	2.9%	5.3%
	Renewal Increase	37.7%	33.9%	28.7%	15.7%	18.6%	18.6%	18.6%	15.5%	14.2%
	Commission	8.4%	7.7%	7.7%	7.7%	7.7%	7.7%	7.1%	7.1%	7.1%
	Premium Tax	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%

The rates are developed primarily from experience. The experience is trended, an assumed commission and premium tax are loaded. The rate action produces a projected premium. The projected premium less projected claims, commissions and premium taxes creates PLHIC's Net Gross Margin.

Target Loss Ratios and Net Gross Margins for the PPO block have remained relatively stable over the past three years. Rate increases have generally been modest in light of national trend rates in the cost of providing medical care. The Loss Ratios on the SDHP block have increased and Margins have declined.

We reviewed the 2008 Product Portfolio under the UnitedHealth label. All of the products with Health Savings Accounts are UnitedHealth products since the PacifiCare products were discontinued as mentioned above. There were no changes in plans or plan design for the PacifiCare PPO products. There was a rider filed that modified coverage for orthotic devices to comply with California Statutes.

Individual

PLHIC provided the February 13, 2007 filing for a new portfolio of Individual PPO plans replacing the old portfolio. Many of the benefits from the old plan series remained the same; for instance:

- Maximum: \$5 Million
- Coinsurance: 70%/50% In/Out of Network
- Inpatient & Hospital: Deductible & then Coinsurance
- Maternity: Not Covered
- Ambulance: Deductible & then Coinsurance

However, the new portfolio of products has a number of changes; for example:

- Family Deductible: Previously there was no family deductible but the new plan has a two (2) times family deductible
- Doctors Office Visits: Previously they were covered as any other benefit, that is, the deductible applied then the coinsurance applied. The new portfolio calls for a \$40 Copay.
- Prescription Drugs: Previously only a selected number of plans had prescription drug coverage and now all have this coverage.

Table 1.2 illustrates the old set of benefits, the new set and the benefit differential or adjustment to the rates required by the benefit changes.

Table 1.2

PLHIC Individual Plan Benefit Changes March 2007

Product	Current	Single 500 Proposed	Adjustment
Deductible	\$500	\$500/\$1000	0.99
Out of Pocket Inc Ded	\$3,000	\$5,500	0.97
Doctors Office Visit	70% Ded Waived	\$40 Copay	0.99
Professional X-Ray, Lab, Surgery, Anesthesia	70% Ded Waived 70% after Ded	Ded then 70%	0.97
Emergency Room	\$100 Copay then 70% after Ded	\$100 Copay then 70% after Ded	
Preventive Care Adult Mammogram PAP PSA	70% Ded Waived \$300 Max	70% Ded Waived \$200 Max	0.99
Well Child Care	70% Ded Waived To Age 18	70% Ded Waived To Age 18	
Prescription Drug Generic	\$15 Copay	\$15 Copay	
Brand Formulary	\$250 Ded then \$35 Copay	\$250 Ded then \$35 Copay	
Brand Non-Formulary	Not Covered	Not Covered	
		Total Adjustment	0.91

Table 1.2 (cont.)

PLHIC Individual Plan Benefit Changes March 2007

Product	Single 1000		Adjustment
	Current	Proposed	
Deductible	\$1,000	\$1000/\$2000	0.99
Out of Pocket Inc Ded	\$5,000	\$6,000	0.99
Doctors Office Visit	70% Ded Waived	\$40 Copay	0.99
Professional X-Ray, Lab, Surgery, Anesthesia	70% Ded Waived 70% after Ded	Ded then 70%	0.97
Emergency Room	\$100 Copay then 70% after Ded	\$100 Copay then 70% after Ded	
Preventive Care Adult Mammogram PAP PSA	70% Ded Waived \$300 Max 70% Ded Waived	70% Ded Waived \$200 Max 70% Ded Waived	0.99
Well Child Care	70% Ded Waived To Age 18	70% Ded Waived To Age 18	
Prescription Drug			
Generic	\$20 Copay	\$20 Copay	
Brand Formulary	\$250 Ded then \$35 Copay	\$250 Ded then \$35 Copay	
Brand Non-Formulary	Not Covered	Not Covered	
		Total Adjustment	0.93
Product	Single 2000		Adjustment
	Current	Proposed	
Deductible	\$2,000	\$2,000/\$4,000	0.98
Out of Pocket Inc Ded	\$6,000	\$5,000	0.99
Doctors Office Visit	Ded then 70%	\$40 Copay	1.10
Professional X-Ray, Lab, Surgery, Anesthesia	Ded then 70%	Ded then 70%	
Emergency Room	\$100 Copay then 70% after Ded	\$100 Copay then 70% after Ded	
Preventive Care Adult	Ded then 70% to \$300 Max	70% Ded Waived \$200 Max	1.03
Mammogram PAP PSA	Ded then 70%	70% Ded Waived	0.99
Well Child Care	Ded then 70% To Age 18	70% Ded Waived To Age 18	
Prescription Drug			
Generic	\$20 Copay	\$20 Copay	
Brand Formulary	\$250 Ded then \$35 Copay	\$250 Ded then \$35 Copay	
Brand Non-Formulary	Not Covered	Not Covered	
		Total Adjustment	1.09

Table 1.2 (cont.)

PLHIC Individual Plan Benefit Changes March 2007

Product	Single 3000		Adjustment
	Current	Proposed	
Deductible	\$3,000	\$3,000/\$6,000	0.98
Out of Pocket Inc Ded	\$7,000	\$8,000	0.99
Doctors Office Visit	Ded then 70%	\$40 Copay	1.14
Professional X-Ray, Lab, Surgery, Anesthesia	Ded then 70%	Ded then 70%	
Emergency Room	\$200 Copay then 70% after Ded	\$100 Copay then 70% after Ded	1.01
Preventive Care Adult Mammogram PAP PSA	Ded then 70% to \$300 Max Ded then 70%	Waived \$200 Max 70% Ded Waived	1.05
Well Child Care	Ded then 70% To Age 18	Waived To Age 18	1.03
Prescription Drug			1.14
Generic	Not Covered	\$20 Copay	
Brand Formulary	Not Covered	\$250 Ded then \$35 Copay	
Brand Non-Formulary	Not Covered	Not Covered	
		Total Adjustment	1.38
Product	Single 5000		Adjustment
	Current	Proposed	
Deductible	\$5,000	\$5,000/\$10,000	0.97
Out of Pocket Inc Ded	\$9,000	\$10,000	0.99
Doctors Office Visit	Ded then 70%	\$40 Copay	1.23
Professional X-Ray, Lab, Surgery, Anesthesia	Ded then 70%	Ded then 70%	
Emergency Room	\$200 Copay then 70% after Ded	\$100 Copay then 70% after Ded	1.01
Preventive Care Adult Mammogram PAP PSA	Ded then 70% to \$300 Max Ded then 70%	Waived \$200 Max 70% Ded Waived	1.08
Well Child Care	Ded then 70% To Age 18	Waived To Age 18	1.05
Prescription Drug			1.23
Generic	Not Covered	\$20 Copay	
Brand Formulary	Not Covered	\$250 Ded then \$35 Copay	
Brand Non-Formulary	Not Covered	Not Covered	
		Total Adjustment	1.66

We utilized a proprietary rating system to check the adjustment factors illustrated in this chart. In our opinion these are appropriate. The final March 2007 rates filed were equal to the rates filed in December 2006 multiplied by the factors illustrated above. We verified this by checking a sample of the rates filed. Table 1.3 illustrates the change in the target loss ratio, profit and expense ratio, average commissions, premium taxes and administrative expenses payable.

Table 1.3

PLHIC Individual PPO Target Rating Percentages

	Dec-06	Mar-07
Target Loss Ratio	65.6%	70.0%
Profit and Expense Load	34.4%	30.0%
Commissions	11.9%	11.9%
Premium Taxes	2.5%	2.5%
Administrative Expenses	20.0%	15.6%

The HDHP Plan 2 was evidently discontinued as rates for this plan were not included in the filing. The HDHP Plan 1 was reduced by 11.5%. No reason for this was given. We assume that favorable loss ratios, competition considerations, or both underlie this action.

Three new HDHP plans were added to the portfolio. We were not supplied with any details regarding the rating of this portfolio.

The previous filing explicitly mentioned the trend rate that would be used. The current rate development did not utilize trend nor was a trend factor mentioned in the Actuarial Memorandum.

The Target Loss Ratio has been increased and the load for Profit and Expenses has been decreased.

Medicare Supplement

We reviewed the 2006 and 2007 Medicare supplement rate filings. There were no unusual changes in the rates or the coverage or the benefits. An April 1, 2007 rate increase of 9% was approved for all plans (A, C, F, FH and G) for all areas. Table 1.2 illustrates the history of rate increases.

Table 1.2
 PLHIC Medicare Supplement History of Rate Increases

Approval Date	Plan				
	A	C	F	F+	G
12/10/2003	5.00%	5.00%	5.00%	Initial	-7.00%
1/13/2005	6.00%	6.00%	6.00%	6.00%	6.00%
3/20/2006	0.00%	8.00%	10.00%	-5.00%	8.00%
4/1/2007	9.00%	9.00%	9.00%	9.00%	9.00%

PLHIC has indicated that they have discontinued marketing the PacifiCare Medicare Supplement and instead are marketing the UnitedHealth/AARP product. Mercer Oliver Wyman noted in the 2006 Report that the UnitedHealth/AARP was a better product for the consumer as the product has a lower premium and a higher loss ratio than the PLHIC product. While the membership has remained relatively stable, there has been a decline in the premium volume and deterioration in the loss ratio. Nonetheless, the 9% rate increase is not abnormally high relative to current trends and the previous experience. This should be monitored. If the rate increases continue at high levels and the premiums being charged by PacifiCare increase to levels substantially higher than the market, action to migrate the remaining block to the UnitedHealth/AARP product might be encouraged.

Findings

Ms. Susan Berkel has certified to the fact that PLHIC has met the requirements of these Undertakings.

In our opinion, the changes in the rating methodology are appropriate and based on sound actuarial techniques. As the block grows and experience becomes credible the rating should be based on the actual experience.

Our analysis indicated that, in general, loss ratios have increased and net gross margins have decreased.

We have analyzed to the extent possible the rating action that has been taken. It is our opinion that the administrative expense components of the rates do not contain any specific provision for the recapture of costs associated with the merger.

In our opinion, PLHIC is in compliance with these Undertakings.

Undertaking 1C (1), (2), (3), (4), & (5)

Undertaking 1C requires PLHIC to provide the CDI supplemental information to include:

1. A consolidated income statement for each product offered by PLHIC.
2. Key statistics for each product.
3. A consolidated income statement for each of the lines of business:
 - a. Individual
 - b. Small Group (2 - 50 lives)
 - c. All other groups
4. A summary of benefit plans offered.
5. A summary of rating practices.

Analysis

Table 1C.1 and Table 1C.2 illustrates the member months, premium revenue (line 1 of the Summary of Operations), claims (line 13), expenses (lines 21 - 24), net gain (line 29), loss ratio (claims/premium revenue), and per member per month premium (premium/member months) for each of the product lines for 2006 and 2007 respectively.

The 2007 member months and net gain are almost twice the 2006 corresponding figures. Royalties declined by almost one-half, but Private Fee for Service business generated over one-half the gains. There are many lines of business that are in a loss position. The SDHP was discontinued March 2007. The PPO line is in a loss position primarily because of the "All Other" category which includes group business. The Individual Medicare Supplement line is in a loss position while its group counterpart is doing very well.

We have reviewed the benefit plan descriptions for consistency from prior years. We have also reviewed the paper outlining pricing methodologies. We utilize this information in our analysis of Undertakings 1A and B.

Findings

In our opinion, PLHIC has provided the information required under this Undertaking.

Table 1C.1

Abbreviated Summary of Operations by Line of Business 2006

	Member Months	Premium Revenue	Claims	Expenses	Net Gain (Loss)	Loss Ratio	Premium PMPM
PPO							
Individual	121,949	16,171,765	9,268,607	3,568,661	3,334,497	57.3%	132.61
Small Group	842,142	205,851,869	180,205,058	20,585,187	5,061,624	87.5%	244.44
All Other	546,308	224,774,324	207,932,215	23,031,169	(6,189,060)	92.5%	411.44
Subtotal	1,510,399	446,797,958	397,405,880	47,185,017	2,207,061	88.9%	295.81
SDHP							
Individual	30,034	3,282,216	2,435,404	318,375	528,437	74.2%	109.28
Small Group	266,475	46,383,999	48,007,824	3,059,563	(4,683,388)	103.5%	174.07
All Other	17,992	1,887,245	744,624	213,519	929,102	39.5%	104.89
Subtotal	314,501	51,553,460	51,187,852	3,591,457	(3,225,849)		163.92
Medicare Supp.							
SR Supp.	198,938	38,694,126	23,482,666	3,003,773	12,207,687	60.7%	194.50
Med Supp.	84,059	16,823,814	11,886,418	2,634,318	2,303,078	70.7%	200.14
Subtotal	282,997	55,517,940	35,369,084	5,638,091	14,510,765		196.18
Medicare D	n/a	905,610,965	788,169,695	87,844,264	29,597,006	87.0%	n/a
PFFS	1,738,250	1,221,062,840	1,160,804,504	118,055,249	(57,796,913)	95.1%	702.47
Speciality Products							
Vision	2,632,722	13,466,139	8,136,313	2,361,301	2,968,525	60.4%	5.11
Dental	1,263,127	32,040,171	22,565,382	3,131,234	6,343,555	70.4%	25.37
PBHI	2,397,021	19,031,289	15,447,352	1,846,035	1,737,902	81.2%	7.94
Subtotal	6,292,870	64,537,599	46,149,047	7,338,570	11,049,982	71.5%	10.26
Paclife	244,257	53,534,791	37,278,369	21,862,522	(5,606,100)	69.6%	219.17
All Others	167,009	8,039,692	22,364,188	674,418	(14,998,914)	278.2%	48.14
Royalties	n/a	294,673,314	-	-	294,673,314	n/a	n/a
Total	10,550,283	3,101,328,559	2,538,728,619	292,189,588	270,410,352		

Table 1C.2

Abbreviated Summary of Operations by Line of Business 2007

	Member Months	Premium Revenue	Claims	Expenses	Net Gain (Loss)	Loss Ratio	Premium PMPM
PPO							
Individual	166,561	23,649,937	16,071,101	5,082,150	2,496,686	68.0%	141.99
Small Group	781,881	196,491,970	162,794,384	25,650,799	8,046,787	82.9%	251.31
All Other	565,800	186,395,386	184,158,641	14,686,999	(12,450,254)	98.8%	329.44
Subtotal	1,514,242	406,537,293	363,024,126	45,419,948	(1,906,781)	89.3%	268.48
SDHP							
Individual	43,749	5,890,399	4,418,653	1,531,279	(59,533)	75.0%	134.64
Small Group	167,580	32,267,777	34,429,718	2,808,640	(4,970,581)	106.7%	192.55
All Other	16,732	4,614,561	4,660,707	420,290	(466,436)	101.0%	275.79
Subtotal	228,061	42,772,737	43,509,078	4,760,209	(5,496,550)		187.55
Medicare Supp.							
SR Supp.	334,714	71,590,411	42,558,506	7,905,289	21,126,616	59.4%	213.89
Med Supp.	87,022	13,239,854	10,855,880	7,724,805	(5,340,831)	82.0%	152.14
Subtotal	421,736	84,830,265	53,414,386	15,630,094	15,785,785		201.15
Medicare D	n/a	(56,065,165)	(66,103,078)	3,809,021	6,228,892	117.9%	n/a
PFFS	1,008,751	784,469,763	502,440,550	59,309,088	222,720,125	64.0%	777.66
Speciality Products							
Vision	1,698,774	10,209,935	5,654,400	3,712,588	842,947	55.4%	6.01
Dental	1,668,227	32,349,847	19,438,598	4,963,954	7,947,295	60.1%	19.39
PBHI	4,622,466	24,778,118	15,590,228	1,238,104	7,949,786	62.9%	5.36
Subtotal	7,989,467	67,337,900	40,683,226	9,914,646	16,740,028	60.4%	8.43
Paclife	662	524,450	-	-	524,450	0.0%	792.22
All Others	22,834	3,016,054	(1,383,355)	2,249,458	2,149,951	-45.9%	132.09
Royalties	n/a	149,860,622	-	-	149,860,622	n/a	n/a
Total	11,185,753	1,483,283,919	935,584,933	141,092,464	406,606,522		

Undertaking 2 A, B, C and D

Undertaking 2 addresses the reporting on and improving of certain measures of the quality of services delivered by PLHIC and UnitedHealth. It is divided into four sections. Section 2 A has 10 separate items requiring PLHIC or its affiliate, PacifiCare of California (PCC) to maintain its efforts to provide quality care and report on the results of its efforts. Undertaking 2 B requires PLHIC to maintain its pay-for-performance (P4P) programs further requires that PCC provide at least \$13.6 million in P4P payments over the four year period to eligible medical groups. Undertaking 2 C requires PLHIC to continue with its efforts to promote health information technology (HIT). Undertaking 2 D requires UnitedHealth to maintain currently capitated contracts that PLHIC has with physician groups.

Analysis

2A: Quality of Care

1. NCQA, HEDIS and CAHPS:
 - a. UnitedHealth shall maintain current PLHIC NCQA accreditations. PLHIC maintained an "Excellent" Accreditation rating for Commercial HMO/POS products. The next NCQA examination is scheduled for 1/25/2010.
 - b. A good faith effort must be made to keep HEDIS scores post-merger at levels at the time of the merger. A number of comparisons are not valid because of changes in the statistic, discontinuation of a statistic or a statistic has been "rotated" or carried forward. Of the statistics we reviewed six were at levels below those at the time of the merger.
 - i. Prenatal & postpartum (2): PLHIC states in Attachment C of the Annual Compliance Report that their belief is that this statistic is being unfavorably impacted by an increase in the number of Caesarian Sections.
 - ii. Diabetes Measures (2): PLHIC states that their analysis indicates that the decreases in these statistics were a result of "incomplete medical record retrieval."
 - iii. Antidepressant Medication (1) - Effective Continuation Phase treatment: PLHIC has little to say regarding the decrease in this statistic. The change is minor and in all likelihood within sampling error.
 - iv. Cervical Cancer Screening: PLHIC has no explanation for this. The change is slight.
 - c. A good faith effort must be made to keep CAHPS scores post-merger at levels at the time of the merger. We reviewed the CAHPS 4.0H report on PacifiCare of California. Table 2A.1 has a sample of the data from the report.
 - i. The statistics regarding smoking cessation exhibit the greatest decline.
 - ii. It appears as if there was improvement in claim handling between 2005 and 2006 but deterioration in 2007.
 - iii. Questions 12 and 42 deal with the perceived quality of the health care and health plan respectively and both of these statistics exhibit a decline in the 2005 to 2007 period of close to 5%. Nonetheless, they are both close to the NCQA average of all companies.

Table 2A.1

CAHPS 4.0H PacifiCare of California August 7, 2007

Question Number	Question						Change	
			2006 NCQA Average	2007	2006	2005	2006 to 2007	2005 to 2007
Q4	In the last 12 months, when you needed care right away, how often did you get care as soon as you thought you needed?	Usually/Always	88.58%	84.61%	83.51%	85.34%	1.3%	-0.9%
Q6	In the last 12 months, not counting the times you needed care right away, how often did you get an appointment for your health care at a doctor's office or clinic as soon as you thought you needed?	Usually/Always	85.16%	80.00%	77.67%	79.04%	3.0%	1.2%
Q15	In the last 12 months, how often did your personal doctor explain things in a way that was easy to understand?	Usually/Always	94.72%	92.55%	93.84%	92.16%	-1.4%	0.4%
Q16	In the last 12 months, how often did your personal doctor listen carefully to you?	Usually/always	92.64%	92.94%	92.02%	91.54%	1.0%	1.5%
Q17	In the last 12 months, how often did your personal doctor show respect for what you had to say?	Usually/Always	93.90%	91.13%	91.36%	93.05%	-0.3%	-2.1%
Q18	In the last 12 months, how often did your personal doctor spend enough time with you?	Usually/Always	88.23%	87.90%	87.27%	85.95%	0.7%	2.3%
Q40	In the last 12 months, how often did your health plan handle your claims quickly?	Usually/Always		80.96%	85.04%	82.24%	-4.8%	-1.6%
Q41	In the last 12 months, how often did your health plan handle your claims correctly?	Usually/Always		85.51%	85.46%	84.42%	0.1%	1.3%
Q46	In the last 12 months, on how many visits were you advised to quit smoking by a doctor or other health provider in your plan?	1 or more visits	71.18%	62.96%	71.43%	57.14%	-11.9%	10.2%
Q47	On how many visits was medication recommended or discussed to assist you with quitting smoking?	1 or more visits	39.40%	26.92%	38.60%	41.11%	-30.3%	-34.5%
Q48	On how many visits did your doctor or health provider recommend or discuss methods and strategies (other than medication) to assist you with quitting smoking?	1 or more visits	38.95%	19.23%	39.29%	39.56%	-51.1%	-51.4%
Q21	Using any number from 0 to 10, where 0 is the worst personal doctor possible and 10 is the best personal doctor possible, what number would you use to rate your personal doctor?	8 to 10	77.24%	81.14%	76.78%	76.14%	5.7%	6.6%
Q25	Using any number from 0 to 10, where 0 is the worst specialist possible and 10 is the best specialist possible, what number would you use to rate that specialist?	8 to 10	78.39%	78.15%	71.43%	76.25%	9.4%	2.5%
Q12	Using any number from 0 to 10, where 0 is the worst health care possible and 10 is the best health care possible, what number would you use to rate all your health care in the last 12 months?	8 to 10	78.25%	73.00%	71.88%	76.33%	1.6%	-4.4%
Q42	Using any number from 0 to 10, where 0 is the worst health plan possible and 10 is the best health plan possible, what number would you use to rate your health plan?	8 to 10	64.34%	66.03%	66.73%	69.55%	-1.0%	-5.1%

2. The second part of Undertaking 2A requires UnitedHealth to make a good faith effort to maintain historical trends in HEDIS and CAHPS scores from 2002 through 2005. Many of the HEDIS measurements have changed since 2002 making long range assessments difficult. We would recommend viewing the changes over the 2005 to 2007 period especially the changes from 2006 to 2007.
 - a. HEDIS: In addition to the items noted above there was deterioration from 2006 to 2007 in the retinal exam statistic, the Mental Health discharge follow up statistic and the colorectal cancer screening statistic.
 - b. CAHPS: We noted above the deterioration in the smoking cessation activity, the quick handling of claims and the evaluation of the health plan.
3. The third part of Undertaking 2A requires UnitedHealth to continue reporting information necessary for the Office of Patient Advocate to develop its "Quality of Care Report Card." PLHIC in the 2007 Annual Compliance Report states that they have fully cooperated with the Office of Patient Advocate (OPA) and we have verified that the information is current.
4. The fourth part requires UnitedHealth to continue the reporting, cooperation and support provided by PLHIC to the CCHRI. PLHIC states that they have complied with this requirement and have supplied us with the 2007 CCHRI Report Card.
5. The fifth part requires UnitedHealth to make a good-faith effort to improve PLHIC's performance on all CCHRI scores. The scores in the Report Card are those derived from the HEDIS and CAHPS reports. These have been addressed above.
6. The sixth part requires UnitedHealth to continue publishing the "Quality of Index Profiles" of physician groups and hospitals. PLHC has provided us with copies of the 2007 profiles.
7. The seventh part requires UnitedHealth to report quality of care measures using "episodes of care." In the Annual Compliance Report PLHIC maintains that they have made a good faith effort to comply with this Undertaking by participating in the CCHRI. An outcome of this initiative is to define an "episode of care." We were provided CCHRI Executive Committee Meeting Minutes from a July 24, 2006 meeting. The notes indicate that United/PacifiCare was participating in an Ambulatory Care Quality Alliance (AQA) pilot program. In addition, we were also supplied with a November 7, 2007 letter from David Hopkins of the Pacific Business Group on Health to Judy George of Delmarva Foundation. This letter demonstrates that the activity PLHIC is involved in is continuing. There is an additional Attachment 3 from CCHRI dated 12/29/05 which is an application to serve as AQA Pilot site and includes United/PacifiCare.
8. The eighth part requires UnitedHealth to continue to report PCC and PLHIC quality data separately from UnitedHealth data. In the Annual Compliance Report PLHIC confirms that "results continue to be reported in conformance with industry-accepted standards in the same manner they were prior to the acquisition."
9. The ninth part requires UnitedHealth to maintain a single, statewide California-specific advisory committee structure accountable to UnitedHealth for leadership and oversight of quality of care and its improvement in California. Membership is subject to review and comment by CDI and activity of this committee shall be described in annual reports. In the Annual Compliance Report PLHIC confirms that UnitedHealth has a California-based Quality Improvement Committee (QIC) that fulfills this requirement but that all documents are considered confidential and protected. PLHIC did provide the agendas and the attendance log of the QIC for the four meetings they had during 2007.
10. The tenth part requires UnitedHealth to maintain continuity of care for PLHIC members in PLHIC disease management programs.
 - a. In 2006, PLHIC members enrolled in the ESRD disease management program transferred to the United Resource Network's Kidney Resource Services program.

- b. Effective 1/1/2007 PLHIC members in neonatal intensive care units managed by ParadigmHealth transitioned to the United Resource Network's Neonatal Resource Services. The parents of the four babies enrolled in PLHIC continued to receive similar services. In addition, the program continued to monitor the babies for sixty days after discharge whereas the ParadigmHealth program did not monitor after discharge.
- c. Effective April 1, 2007, members receiving support and case management through Quality Oncology were transitioned to United Resource Network's Cancer Support Program.

2B: Pay for Performance:

1. This part of the Undertaking requires PLHIC to continue to participate in California's P4P program and to adopt the Integrated Healthcare Association (IHA) methodology. PCC maintains that it continues to participate in the program and has adopted the IHA methodology.
2. This part requires PLHIC to structure the program in a manner such that eligible medical groups receive an additional \$13.76 million over the four year period. PCC paid \$7.6 and \$7.7 million respectively in 2006 and 2007. These amounts were confirmed by Elizabeth Hays. We received and reviewed the Rand Transparency Report for 2007. This report illustrates the P4P for California Commercial HMO and POS plans as well as the compliance with the IHA methodology.
3. PCC and UnitedHealth are required to work with IHA and the Centers for Medicare and Medicaid Services (CMS) to evaluate and promote the use of IHA P4P programs to Medicare products. PLHIC in the Annual Compliance Report states that they are complying with this requirement.

2C: Health Information Technology (HIT):

1. United Health shall make good-faith efforts to implement its personal health record program in California conforming with CalRHIO standards. Based on the PLHIC's response in the 2007 Annual Compliance Report they are making significant progress with their HIT initiatives. Currently all members have "electronic swipe cards." They intend to migrate members to the Health Care Account Cards (HCAC) with full magnetic swipe capabilities over the next two years. Upon completion of this phase advanced capabilities will be available to providers.
2. UnitedHealth shall make good faith and reasonable efforts to support development of HIT infrastructure in California as envisioned by all payers under CalRHIO. The above explanation satisfies this requirement.

2D: Capitation Agreements:

1. UnitedHealth commits to PLHIC maintaining currently capitated PLHIC contracts with willing and capable physician groups. We reviewed PCC's Knox-Keene filing. During 2007 PCC paid \$4.215 million or 53.76% of all revenues as capitation. This compares with 63.7% in 2005 and 63.9% in 2006. While the percentage is down it represents a substantial amount of total revenues.

Findings

In our opinion PLHIC is in compliance with this Undertaking. We do have a few comments:

1. The CAHPS scores for smoking cessation are down quite dramatically. PLHIC has a smaller percentage of smokers than the NCQA average.
2. The CAPHS scores reflecting satisfaction with the health care and the health plan have deteriorated over the period since the merger. Nonetheless, they are very close to the NCQA average.
3. CAPHS scores seemed to indicate that satisfaction with the claim paying ability improved from 2005 to 2006 but then deteriorated from 2006 to 2007.

4. While some of the HEDIS scores were down they were down very slightly. In other instances the scores exhibited dramatic improvement. We expect that PLHIC is making a good-faith effort to improve these scores.

Undertakings 3(a), (c), and (d)

Undertakings 3(a), (c), and (d) together require that all executive compensation payable as a result of the merger be the sole responsibility of United, that no amounts payable as a result of the change in control of PLHIC will be the obligation of PLHIC, and that no amounts related directly or indirectly to the change in control of PLHIC will be charged to or made the responsibility of PLHIC.

Analysis

Ms. Susan Berkel, PLHIC's Chief Financial Officer, provided the initial certification that PLHIC is in compliance with these Undertakings. Attachment A of the 2007 Annual Compliance Report from PLHIC to the CDI has the Chief Financial Officer's certification of compliance with Undertaking 1 A which refers further to Undertaking 3.

In addition to this certification, PLHIC provided an updated (November 11, 2008) overview of the administrative services agreement through which PacifiCare Health Plan Administrators (PHPA), and now United HealthCare Services (UHS), provide administrative services to PLHIC. As was indicated in the prior report all employees are in PHPA or now UHS. PLHIC has no employees.

Direct expenses, e.g., broker commissions, are not covered under the administrative services agreement, but instead are the direct responsibility of PLHIC. PLHIC pays for allocated expenses, e.g., personnel, accounting, compliance, legal services, financial report, provider contracting and relations, actuarial and underwriting, marketing, and information technology, through payments to PHPA.

Table 3.1 illustrates the comparison of general insurance expenses from the PLHIC statutory annual statements to premiums. While PLHIC's premiums grew significantly up until 2006, there has been a substantial decrease in premiums during 2007. There were decreases in all of the lines of business but the greatest change occurred in the Medicare Part D premiums which changed from \$905.6 million in 2006 to (\$56.1) million in 2007. Total general expenses decreased in a similar manner but not as a percentage of premiums.

Table 3.1

PHLIC General Insurance Expenses as a Percentage of Premiums

Calendar Year	General Insurance Expenses	Premiums	General Insurance Expenses as a % of Premiums
2004	\$24,573,786	\$385,198,165	6%
2005	\$25,301,058	\$678,742,235	4%
2006	\$151,566,722	\$2,793,203,107	5%
2007	\$73,193,462	\$1,333,111,913	5%

In addition, PLHIC provides the Administrative Expense Ratios in Exhibit D of the quarterly Compliance Report that PLHIC files with CDI. Tables 14.1 and 14.2 in the section of this report

that addresses Undertaking 14 illustrate the “Historical Administrative Expense Ratio” and the “Administrative Expense Ratio.” In both instances the illustrated expense ratios are below the benchmark threshold illustrated in Undertaking 14.

Findings

We concur with the findings made by Oliver Wyman in the 2006 Report. That is, in our opinion, absent a forensic audit, which is beyond the scope of our work, it is not possible to prove that PLHIC has complied with these Undertakings. However, in our opinion, the circumstantial evidence shows that PLHIC has complied with these Undertakings. We base this opinion on the certification and other materials provided by PLHIC, and the fact that the sales, general, and administrative expense ratio has remained relatively stable as a percentage of premiums from 2006 to 2007.

Undertaking 7

Undertaking 7 is a reporting and auditing requirement. PLHIC is required with each Quarterly Financial Report filed with the CDI to include a schedule that reports the estimated range of the incurred-but-not-reported (IBNR) claim liability. The estimate for the end of the year should be audited by an independent firm.

It was Mercer Oliver Wyman's belief that the intent of the Undertaking "is to see that PLHIC is not adding to its medical loss ratio by increasing the conservatism in the reserves it holds." We assume that this is correct.

Analysis

Table 7.1 summarizes the reserves and ranges reported by PLHIC for the four quarters of 2007. As in the previous report we illustrate the percent that the actual reserve booked is of the average of the high and low estimates. For the first and fourth quarters the actual reserve booked was the average between the two estimates. For the second and third quarters the actual reserve booked was less than the average.

We utilized the paid claims triangle supplied by PLHIC and standard actuarial techniques to develop reserve estimates independently of PLHIC. Completion factors developed for the first few months following the valuation date are at times unstable. We used paid claims triangles from March 31, 2008 to recast the reserve estimate. Table 7.2 illustrates the reserves set by PLHIC, the reserves we developed from the 12/31/2007 data, the recast reserves as of 3/31/2007 and the ratio of the PLHIC reserves to both the 12/31/2007 MAC estimate and the 3/31/2008 MAC recast estimate. The reserves we have developed are before margins and other adjustments that PLHIC may have made.

Based on Table 7.2 we would estimate that there was a 10% margin as of 12/31/2007. However, the recasting as of 3/31/2007 indicates that the actual margin was only 2%.

Findings

The data we reviewed indicated that PLHIC is complying with the reporting requirements of this Undertaking. Furthermore, based on our analysis of the reserves themselves we do not see any evidence that PLHIC is manipulating its loss ratio by increasing the conservatism in the claims reserves nor do we believe that there reserves are excessive.

Table 7.1

PLHIC Reserves and Ranges by Quarter 2007
(000)

Estimate	Preferred Provider Organization	Self- Directed Health Plan	Senior Supplement	Medicare Supplement	Total
3/31/2007					
Low	\$70,674	\$12,863	\$5,389	\$1,269	\$90,195
High	77,531	14,142	5,937	1,394	99,004
Booked	74,102	13,503	5,663	1,332	94,600
Booked as % of Average	100.0%	100.0%	100.0%	100.0%	100.0%
6/30/2007					
Low	\$71,043	\$10,722	\$3,971	\$1,282	\$87,018
High	83,900	13,342	4,961	1,567	103,770
Booked	74,279	11,699	4,336	1,345	91,659
Booked as % of Average	95.9%	97.2%	97.1%	94.4%	96.1%
9/31/2007					
Low	\$71,889	\$8,524	\$8,122	\$783	\$89,318
High	84,786	10,947	10,243	857	106,833
Booked	75,296	9,735	8,931	820	94,782
Booked as % of Average	96.1%	100.0%	97.3%	100.0%	96.6%
12/31/2007					
Low	\$65,263	\$7,147	\$7,365	\$1,422	\$81,197
High	84,779	9,408	9,856	1,564	105,607
Booked	75,021	8,277	8,611	1,493	93,402
Booked as % of Average	100.0%	100.0%	100.0%	100.0%	100.0%

Source: 2007 Quarterly Compliance Reports - Exhibit C

Table 7.2

Comparison of PLHIC IBNR Estimates to MAC Estimates & Recast IBNR
as of 12/31/2007
(000)

Product	PLHIC	MAC 12/31/2007	Ratio PLHIC/MAC	MAC Recast 3/31/2008	Ratio PLHIC/Recast
Preferred Provider Organization (PPO)	75,021	65,267	1.15	75,723	0.99
Self-Directed Health Plan (SDHP)	8,277	7,602	1.09	4,946	1.67
Senior Supplemental (SS)	8,611	9,478	0.91	8,899	0.97
Medicare Supplemental (MS)	1,493	2,201	0.68	1,941	0.77
Sub-Total Medical Product Reserves	93,402	84,548	1.10	91,509	1.02

Source: Quarterly Compliance Reports - Exhibit C
Request 06_PLHIC Undertakings Audit 122007.xls (Paid and Incurred Claims Triangles)
Request 06_PLHIC Undertakings Audit 032008.xls (Paid and Incurred Claims Triangles)
MAC Proprietary Claim Reserve System

Undertaking 9

Undertaking 9 requires PLHIC to maintain its current level of efforts in offering and renewing individual and small group Medical Products following the Merger either through PLHIC or its affiliates, assuming the same market, economic, and other conditions that currently exist. To the extent that current year membership and premium dollars have not decreased by more than ten percent (10%) from the prior year this Undertaking is satisfied. If this is not the case and there is a decrease of more than ten percent for any of the individual or small group medical products, PLHIC shall provide a detailed discussion of the change in the Supplemental Information (as described in Undertaking 1.C).

Analysis

The data submitted by PLHIC included a spreadsheet with combined small group (2-50 lives) and individual product lines illustrating member months, premium and per member per month costs for each of the PPO, SDP and IND by county in California. Table 9.1 summarizes the data in that spreadsheet.

Table 9.1
PHLIC Undertaking 9 - Small Group and Individual

Product	Member Months		Premium		% Change 2007/2006	
	2006	2007	2006	2007	Member Months	Premium
Indemnity	550	197	\$327,619	\$149,616	-64%	-54%
PPO	965,011	988,826	\$208,802,948	\$223,016,407	2%	7%
SDHP	<u>287,922</u>	<u>166,231</u>	<u>\$47,131,268</u>	<u>\$32,381,926</u>	<u>-42%</u>	<u>-31%</u>
Total	1,253,483	1,155,254	\$256,261,835	\$255,547,949	-8%	0%

Data As of September 2008

Counties Located Only in California

Source: Request 17_PLHIC_SG_2006_2007.xls

Table 9.1 illustrates that overall PHLIC has seen a modest decline in member months and a small decrease in premium in California.

PLHIC sent a request to the CDI to withdraw the small group Indemnity, SDHP and HDHP plans. The request was approved by the CDI. This was effective March 2007. This is an explanation for the substantial decline in the SDHP block.

The report has detail county specific data. In general, counties with a substantial amount of business experienced very little change. Counties with less business at times had fairly large percentage swings but this would be expected as a few lapses or new sales could create a large percentage change. There were two counties that were exceptions. Orange County with 435,963 total member months and \$87,913,574 premium in 2006 had a 56% decrease to 194,165 member months and a 47% decrease to \$46,789,926 in 2007. Riverside had a decrease in member months of 12% from 76,922 in 2006 to 67,484 in 2007 with the premium remaining relatively unchanged. Santa Clara had a 15% decrease in member months from 18,427 in 2006 to 15,583 in 2007. This could possibly be a coding problem as the Not Found category increased substantially from 59,548 member months in 2006 to 209,713 member months in 2007 with a corresponding increase in premium.

The Medicare Supplement statistics are illustrated in Table 9.2.

Table 9.2

PHLIC Undertaking 9 - Medicare Supplement Business

	2006	2007	Percent Change
Member Months	84,059	87,022	4%
Premium	\$16,823,814	\$13,239,854	-21%
Loss Ratio	71%	82%	16%

Source: Request_08_PLHIC_IS_UNDERTAKINGS_Dec07 (prelim 2-01-08).xls

The previous report noted an 11% decline in the Medicare Supplement member months with a 7% increase in the premium. The 2007 data illustrates a small increase in the member months with a decline in the premium. The loss ratio declined as would be expected. The report from last year indicated that the company stopped marketing the Medicare Supplement because it competes with the United AARP product.

Based on the California rate filings illustrated in Table 9.3 average membership, annualized premium and claims over the period from the 18 month period 01-01-2004 to the 12 month period 06-30-2005 to 6-30-2005 increased substantially. The loss ratio improved slightly. The rate increases approved in the former period are similar to those approved in 2007.

Undertaking 14

Undertaking 14 requires PLHIC to maintain its Administrative Expense Ratio measured quarterly on a year-to-date basis at or below:

- a. The "Historical Expense Ratio" for the products sold by PLHIC on or before July 1, 2005. The "Historical Expense Ratio" to be used as the benchmark was established as 17.9%.
- b. The annual average projected "Administrative Expense Ratio" in PLHIC's financial projections filed with CDI for all products excluding Medicare Part D. The Administrative Expense Ratio excluding Medicare Part D business was agreed to by PLHIC and CDI as 12%.

The specifications for the development of the Administrative Expense Ratio are in the Undertakings included as Appendix A to this report.

Analysis

Table 14.1 illustrates the "Historical Expense Ratios" for the four quarters of 2007 and the final year end ratio as a check. The figures were taken from the quarterly reports filed by PLHIC. We did not attempt to verify the accuracy of the figures representing the new products added after July 1, 2005. The historical benchmark ratio is 17.9% and the quarterly ratios range from 12.1% to 12.9%.

Table 14.2 illustrates the "Administrative Expense Ratios" for the four quarters of 2007 and the final year end ratio as a check. The figures were taken from the quarterly reports filed by PLHIC. We did not attempt to verify the accuracy of the figures representing the new products added after July 1, 2005. The year end figures were taken from an exhibit illustrating the Summary of Operations by line of business and product. The administrative expense ratio benchmark is 12% and the quarterly ratios range from 7.9% to 9.9%.

Findings

The Historical Expense Ratios and the Administrative Expense Ratios (excluding Medicare Part D) are less than the benchmark ratios. PLHIC has complied with Undertaking 14.

Table 14.1

PLHIC Historical Administrative Expense Ratios 2007

	Page 4 - Summary of Operations, Column 1	1Q2007	2Q2007	3Q2007	4Q2007	2007
Premiums and annuity considerations for life and accident and health contracts	Line 1	\$ 348,266	\$ 764,878	\$ 1,070,467	\$ 1,333,112	\$ 1,333,112
Considerations for supplementary contracts with life contingencies	Line 2	-	-	-	-	-
Commissions and expense allowances on reinsurance ceded	Line 6	106	134	128	127	127
Total Net Premiums Written and Deposit-type Contracts	Lines 1+2+6	348,372	765,012	1,070,595	1,333,239	1,333,239
Less new products added after July 1, 2005	Line 1	187,744	447,471	604,353	728,405	728,405
Historical Net Premiums Written and Deposit-type Contracts		\$ 160,628	\$ 317,541	\$ 466,242	\$ 604,834	\$ 604,834
Commissions on premiums, annuity considerations, and deposit-type health contracts (direct business only)	Line 21	\$ 6,053	\$ 21,827	\$ 34,519	\$ 49,193	\$ 49,193
Commissions and expense allowances on reinsurance assumed	Line 22	252	303	292	290	290
General insurance expenses	Line 23	17,045	34,161	52,663	73,193	73,193
Insurance taxes, licenses and fees, excluding federal income taxes	Line 24	4,019	8,113	11,758	18,416	18,416
Total Commissions and Administrative Expenses:	Lines 21 +22 +23	27,369	64,404	99,232	141,092	141,092
Less new products added after July 1, 2005	Lines 21, 23 and 24	8,004	23,301	42,670	63,118	63,118
Adjusted Commissions and Administrative Expenses		\$ 19,365	\$ 41,103	\$ 56,562	\$ 77,974	\$ 77,974
Historical Expense Ratio		12.1%	12.9%	12.1%	12.9%	12.9%
Historical Expense Ratio Benchmark		17.9%	17.9%	17.9%	17.9%	17.9%

Source:

- 1 PLHIC Compliance Reports Pursuant to the Undertakings for the four (4) quarters of 2007
- 2 2007 Annual Statement
- 3 Request 08_PLHIC_IS_Undertakings_Dec07 (Prelim 02-01-08).xls

Table 14.2

PLHIC Administrative Expense Ratios 2007

		Page 4 - Summary of Operations, Column 1				
		1Q2007	2Q2007	3Q2007	4Q2007	2007
Premiums and annuity considerations for life and accident and health contracts	Line 1	\$ 348,266	\$ 764,878	\$ 1,070,467	\$ 1,333,112	\$ 1,333,112
Considerations for supplementary contracts with life contingencies	Line 2	-	-	-	-	-
Commissions and expense allowances on reinsurance ceded	Line 6	106	134	128	127	127
Total Net Premiums Written and Deposit-type Contracts	Lines 1+2+6	348,372	765,012	1,070,595	1,333,239	1,333,239
Less Medicare Part D	Line 1	(364)	10,773	(4,425)	(56,065)	(56,065)
Adjusted Net Premiums Written and Deposit-type Contracts		\$ 348,736	\$ 754,239	\$1,075,020	\$1,389,304	\$1,389,304
Commissions on premiums, annuity considerations, and deposit-type health contracts (direct business only)	Line 21	\$ 6,053	\$ 21,827	\$ 34,519	\$ 49,193	\$ 49,193
Commissions and expense allowances on reinsurance assumed	Line 22	252	303	292	290	290
General insurance expenses	Line 23	17,045	34,161	52,663	73,193	73,193
Insurance taxes, licenses and fees, excluding federal income taxes	Line 24	4,019	8,113	11,758	18,416	18,416
Total Commissions and Administrative Expenses:	Lines 21 +22 +23	27,369	64,404	99,232	141,092	141,092
Less Medicare Part D	Lines 21, 23 and 24	(140)	(140)	(140)	3,809	3,809
Adjusted Commissions and Administrative Expenses		\$ 27,509	\$ 64,544	\$ 99,372	\$ 137,283	\$ 137,283
Administrative Expense Ratio		7.9%	8.6%	9.2%	9.9%	9.9%
Administrative Expense Ratio Benchmark		12.0%	12.0%	12.0%	12.0%	12.0%

Source:

- 1 PLHIC Compliance Reports Pursuant to the Undertakings for the four (4) quarters if 2007
- 2 2007 Annual Statement
- 3 Request 08_PLHIC_IS_Undertakings_Dec07 (Prelim 02-01-08).xls

Appendix A Undertakings

Undertaking I

A. PLHIC and UnitedHealth undertake that premiums payable by PLHIC policyholders will not increase as a result of costs incurred in financing, analyzing and consummating the Merger, including attorneys' and investment bankers' fees, travel expenses and due diligence expenses ("Merger Costs"). In order to demonstrate and assure compliance with this Undertaking 1.A, which will remain in effect for the duration of these Undertakings, as defined in Undertaking 20(d), UnitedHealth's Chief Actuary, Chief Financial Officer or other senior financial officer will provide on behalf of PLHIC annual written certifications to CDI which represent that:

- (1) UnitedHealth has paid for all executive change in control severance payments and retention bonus payments payable by reason of the Merger, as provided in the first paragraph of Undertaking 3 below;
- (2) UnitedHealth will have on hand cash and committed borrowing facilities at the time of the closing of the Merger that are adequate to timely discharge all obligations relating to the Merger and payable to officers and directors of PacifiCare as required by the first paragraph of Undertaking 3 below; and
- (3) PLHIC's dividends comply with the requirements of Undertakings 4 and 5 below.

B. PLHIC and UnitedHealth undertake that practices and methodologies as described below for (i) full-service medical indemnity/PPO, (ii) full-service self-directed health plan ("SDHP") and (iii) Medicare Supplement (individual and group) products (collectively referred to as the "Medical Products") after the Merger have not varied from PLHIC's pre-merger practices and methodologies except for variances in response to market, economic or competitive matters in the normal course of business. In order to demonstrate and assure compliance with this Undertaking 1.B, which will remain in effect for the duration of these Undertakings, as defined in Undertaking 20(d), PLHIC's Chief Actuary, Chief Financial Officer or other senior financial officer will provide on behalf of PLHIC annual written certifications (the "PLHIC Written Certifications") to CDI which represent that:

- (1) PLHIC's practices and methodologies for determining premium rates for the Medical Products after the Merger have not varied from PLHIC's pre-merger practices and methodologies except for variances implemented in response to market, economic or competitive matters in the normal course of business and described in the PLHIC Written Certifications;
- (2) PLHIC's practices and methodologies for determining Medical Products and benefit designs after the Merger have not varied from PLHIC's pre-merger practices and methodologies except for variances implemented in response to market, economic or competitive matters in the normal course of business and described in the PLHIC Written Certifications;
- (3) No portion of the cost components of any rate charged related to the Merger costs have been included in premium rates for any product administered by PLHIC;

- (4) No debt rating factor relating to the indebtedness that UnitedHealth has incurred to finance UnitedHealth's cash requirements for the Merger has been included as part of such post-Merger practices and methodologies; and
 - (5) PLHIC's Administrative Expense Ratio, as defined in Undertaking 14 below, has not exceeded the levels referenced in Undertaking 14 without reporting to CDI, as provided in Undertaking 14 below.
- C. On an annual basis, delivered with the PLHIC Written Certifications, PLHIC will provide to CDI confidential supplemental information concerning products offered by PLHIC (the "Supplemental Information") which will include:
- (1) A consolidating income statement (in the same format as the annual statutory financial statements) for the following products:
 - i. Full-service medical indemnity/PPO and full-service medical SDHP
 - ii. Medicare Supplement (individual and group)
 - iii. Subtotal of all of the Medical Products
 - iv. Medicare Part D
 - v. Medicare private fee-for-service ("PFFS")
 - vi. Behavioral health, dental and vision specialty products
 - vii. All other PLHIC products combined (with each such product specifically identified, and except that any product that exceeds 10% of consolidated premiums will be reported separately)
 - viii. Total financial results as presented in the PLHIC Written Certification
 - (2) Key statistics for each of the Medical Products, consisting of:
 - i. Membership
 - ii. Member months
 - iii. Medical loss ratio
 - iv. Per member per month statistics for premium, health care costs, commissions and premium taxes and other general and administrative expenses
 - (3) A consolidating income statement (in the same format as the annual statutory financial statements) and key statistics for the Medical Products as follows:
 - i. Individual
 - ii. Small group (between two and 50 eligible employees)
 - iii. All other groups
 - (4) A summary of benefit plans offered for:
 - i. Full-service medical PPO and SDHP, individual
 - ii. Full-service medical PPO and SDHP, small group
 - (5) A summary of rating practices for:
 - i. Full-service medical PPO and SDHP, individual
 - ii. Full-service medical PPO and SDHP, small group

CDI recognizes that PLHIC has provided concurrently with the execution of these Undertakings a report identifying the information described in this Undertaking 1.C above for the nine month period ended September 30, 2005.

- C. CDI may audit or examine PLHIC and its books and records with respect to the certifications described in Undertaking 1.A and 1.B, to the extent deemed necessary or desirable at the discretion of the California Insurance Commissioner.

Undertaking 2

For the duration of these Undertakings, as set forth in Undertaking 20(d), UnitedHealth and PLHIC undertake to make good faith efforts to maintain, accomplish or achieve, as the case may be, the matters set forth in this Undertaking 2, subject to (i) substantially the same market, economic and competitive conditions that currently exist, and, (ii) for items dependent upon third party standards or methodologies (e.g., Part A.(3), (4), (5), Part B and Part C), such standards or methodologies being maintained in the same or substantially the same form, state or manner as they currently exist or, in a reasonably improved form, state or manner. References to “current” standards below refer to standards, trends, methodologies or practices current as of the execution date of these Undertakings.

A. Reporting

- (1) UnitedHealth shall maintain current PacifiCare National Committee for Quality Assurance (“NCQA”) accreditation in California and shall make good faith efforts to maintain PacifiCare of California’s Health Plan Employer Data and Information Set (“HEDIS”) and Consumer Assessment of Healthcare Providers and Systems (“CAHPS”) scores at the levels achieved in the most-recent reports prior to the Merger. PacifiCare shall report the results of NCQA accreditation, HEDIS and CAHPS scores on an annual basis to CDI.
- (2) UnitedHealth further shall make good-faith efforts to maintain the current trend of continual improvement in PacifiCare of California’s annual HEDIS and CAHPS scores, based upon the trend established over the period 2002-2005.
- (3) UnitedHealth shall commit to continue all reporting and cooperation currently provided by PacifiCare of California to the California Office of the Patient Advocate to publish its “Quality of Care Report Card.”
- (4) UnitedHealth shall commit to continue all reporting, cooperation, and material support now provided by PacifiCare of California to the California Cooperative Health Reporting Initiative (“CCHRI”) to ensure availability of information and public reporting and shall commit to no material decrease in reporting, cooperation, or material support.
- (5) UnitedHealth shall make good-faith efforts to improve PacifiCare of California’s performance on all CCHRI scores.
- (6) UnitedHealth shall maintain and publish “Quality Index® profiles” of physician groups and hospitals contracted with PacifiCare of California for the same purposes, from the same or comparable sources of data, in the same or similar format, and to the same recipients as published currently by PacifiCare of California. This undertaking 2.A(6) shall continue for the duration of these Undertakings, or until such earlier date as reporting is standardized among plans with not less than the scope of information in the current “Quality Index® profiles.”
- (7) UnitedHealth, in consultation with CDI and such others as CDI and UnitedHealth each may determine, shall make good-faith efforts to develop for PLHIC reporting of quality of care results, measured as “episodes of care.”
- (8) UnitedHealth shall collect and report quality data for its PacifiCare of California health care service plan products and PLHIC Medical Products in California separate from national UnitedHealth data and in conformance with applicable and industry-accepted California standards; provided, however, that UnitedHealth shall not be restricted from including quality data from PacifiCare of California and PLHIC in national UnitedHealth data, so long as such data can also be reported separately.

- (9) UnitedHealth shall maintain a single, statewide California-specific advisory committee structure accountable to UnitedHealth for leadership and oversight of quality of care and its improvement in California, including reduction of statewide documented variance in clinical practice unexplained by patient conditions. Membership of this committee shall be subject to review and comment by CDI. Activity of this committee shall be described in annual reports for the duration of these Undertakings and submitted to CDI.
- (10) UnitedHealth shall maintain continuity of care for PacifiCare members in California currently managed in PacifiCare disease management programs, subject to UnitedHealth evaluation reflecting UnitedHealth national criteria for disease management programs.

B. Incentives

- (1) UnitedHealth shall continue PacifiCare of California's participation in California's Pay for Performance ("P4P") program, including adoption of the current Integrated Healthcare Association ("IHA") methodology and the current level of support for IHA operations.
- (2) UnitedHealth shall structure the PacifiCare of California P4P program such that eligible medical groups will receive an additional \$13.76 million over four years for IHA-specific measures, based upon continued improvement in medical group performance, as described in Undertaking 18 of the DMHC Undertakings, as defined in Undertaking 15 below.
- (3) UnitedHealth shall work with IHA and the Centers for Medicare and Medicaid Services ("CMS") to evaluate and, if appropriate, promote use of the IHA P4P program to Medicare products.

C. Promotion of Health Information Technology ("HIT") Infrastructure

- (1) UnitedHealth shall make good-faith efforts to implement its personal health record program in California, making reasonable efforts to conform to CalRHIO standards as these may develop. CDI acknowledges that this Undertaking 2.C(1) is subject to technological, operational and systems integration developments, and the period during which this integration may occur is uncertain. UnitedHealth agrees that interoperability and consensus-based state-wide standards are desirable goals for personal health records as these are enunciated and elaborated by CalRHIO or other recognized industry coalitions for use by California health plans.
- (2) UnitedHealth shall make good-faith and reasonable efforts to support development of HIT infrastructure in California as envisioned by and expected of all payers under CalRHIO, subject to the promulgation of CalRHIO standards adopted by the CalRHIO governing body and general acceptance by the industry.

D. Contracting to Support Quality Improvement

- (1) UnitedHealth commits to PacifiCare of California maintaining currently capitated PacifiCare contracts with willing and capable physician groups, subject to mutual agreement on contract terms, including upon renewal.

Undertaking 3

PLHIC and UnitedHealth undertake the following:

- (a) That all of the executive compensation payable by reason of the Merger, including change in control payments and UnitedHealth signing bonuses (together, "CIC Plan") will be the sole responsibility of UnitedHealth;
- (b) UnitedHealth will have on hand cash and committed borrowing facilities at the time of the closing of the Merger which are adequate to timely discharge all cash obligations related to the Merger which may arise under the CIC Plan;
- (c) That no amounts relating, directly or indirectly, to the CIC Plan will be the obligation of PLHIC; and
- (d) That no amounts relating, directly or indirectly, to the CIC Plan, including the acceleration of equity incentives at the close of the Merger and UnitedHealth equity incentive grants, will be charged to or made the responsibility of PLHIC under any reimbursement or cost allocation arrangement.

Undertaking 4

PLHIC will not declare or pay dividends, make other distributions of cash or property, or in any other way upstream any funds or property to its corporate parents (hereinafter referred to as "Parent Company Distributions") if such actions would cause PLHIC's Total Adjusted Capital to be less than 300% of Authorized Control Level Risk-Based Capital, calculated pursuant to California Insurance Code Section 739(j)(3).

In addition, consistent with its historical practice during the period 2001 through 2004, PLHIC will make no Parent Company Distributions for the duration of these Undertakings based upon revenues from operations. This limitation does not restrict PLHIC from continuing its historical practice of declaring or paying dividends based upon royalty revenues received from affiliates for the use of intellectual property, including, without limitation, service marks and trademarks owned by PLHIC.

For purposes of Undertakings 4 and 5, "Parent Company Distributions" shall not be deemed to refer to payments made under the terms of any administrative services agreement, tax sharing agreement, or any other agreement which has been filed with and approved by CDI.

Undertaking 5

PLHIC will not make any Parent Company Distribution if such actions would result in PLHIC failing to maintain Liquid Assets (as defined) in an amount that equals or exceeds 150% of PLHIC's average monthly Total Expenses (as defined) for the last two consecutive quarters for which financial statements have been filed with CDI immediately prior to the date on which PLHIC makes the Parent Company Distribution. For purposes of this Undertaking, (1) "Liquid Assets" shall equal the total of cash and invested assets, defined as the sum of the amounts shown in PLHIC's statutory financial statement on Page 2 - Assets, column 3, lines 1, 2.1, 2.2, 5 and 8; and (2) "Total Expenses" shall be equal to the sum of the amounts shown in PLHIC's statutory financial statement, Page 5 - Cash Flow, column 1, lines 5, 6 and 7.

In each Quarterly Financial Report filed with CDI, PLHIC shall include a calculation showing the total Liquid Assets on hand at the end of the calendar quarter covered by such Quarterly Financial Report and 150% of the average monthly Total Expenses incurred as reported in such Quarterly Financial Report.

Undertaking 6

PLHIC will not take any of the following actions without CDI's prior written approval:

- (a) Co-sign or guarantee any portion of any current or future loans and/or credit facilities entered into by UnitedHealth or any of UnitedHealth's affiliates;
- (b) Permit any portion of loans obtained by UnitedHealth or any of its affiliates to be assumed by PLHIC; or
- (c) Allow a pledge or hypothecation of PLHIC's assets or capital stock in any way in connection with any current or future loans of UnitedHealth or any of its affiliates.

Undertaking 7

In connection with each Quarterly Financial Report filed with CDI by PLHIC, PLHIC shall file with CDI a schedule that reports the estimated range of incurred-but-not-reported claim liability at the end of each such quarter and the amount of incurred-but-not-reported claim liability as set forth in the Quarterly Financial Report filed with CDI by PLHIC for such calendar quarter.

The estimated range of incurred-but-not-reported claim liability at the end of each such quarter shall be prepared by PLHIC and certified by PLHIC's or UnitedHealth's Chief Actuary, Chief Financial Officer or other senior financial officer. With respect to PLHIC's year-end financial statements, such range shall be reviewed by PLHIC's independent public accounting firm as part of the firm's audit of PLHIC's year-end financial statements.

In the event PLHIC's independent public accounting firm does not agree to provide CDI with such review with respect to PLHIC's year-end financial statements, then PLHIC shall obtain, provide and include as part of its required financial filings an estimated range reviewed by an independent actuarial firm reasonably acceptable to CDI.

PLHIC shall file the quarterly reports described in this Undertaking 7 for the Medical Products as defined in Undertaking 1.B.

Undertaking 8

PLHIC will renew and not terminate any health benefit plan for any Commercial Medical Product, as defined in subparagraph (a) below, prior to expiration of its term, except as otherwise permitted under the California Insurance Code or Title 10 of the California Code of Regulations.

(a) If PLHIC withdraws any full-service medical, commercial indemnity PPO or full-service medical, commercial indemnity SDHP product (collectively referred to as the "Commercial Medical Products") from the market, PLHIC will provide advance notice to CDI and the policyholders covered by such Commercial Medical Product and will permit each such policyholder to select continued coverage from among PLHIC's or its affiliated CDI regulated entities' other Commercial Medical Products without regard to any health status related factor.

(b) If PLHIC ceases to write, issue, or administer new group or individual Commercial Medical Products in California, affected former policyholders of PLHIC will be provided the opportunity to elect continued coverage under the most nearly comparable health benefit plan offered by PacifiCare of California without regard to any health status related factor.

(c) Should PLHIC withdraw a Commercial Medical Product from the market or cease to write, issue, or administer new group or individual Commercial Medical

Products in California, and an insured then enrolled in the withdrawn Commercial Medical Product has a pre-existing condition and still has remaining time requirements for satisfying the pre-existing condition, PLHIC will waive the remaining time requirements for the pre-existing condition exclusion if the insured enrolls in another PLHIC Commercial Medical Product or PacifiCare of California or other PLHIC CDI-regulated affiliate Commercial Medical Products within the time requirements for eligibility for such products as required by applicable law.

Undertaking 9

PLHIC will maintain its current level of efforts in offering and renewing individual and small group Medical Products following the Merger either through PLHIC or its affiliates, assuming the same market, economic, and other conditions that currently exist. Recognizing and acknowledging that CDI shall review changes in PLHIC's business and Medical Products on the same basis and applying the same standards as are applied to all other insurers under the California Insurance Code and that this Undertaking 9 shall not be construed or applied in a manner that puts PLHIC at a disadvantage with respect to its competitors in the marketplace, PLHIC advises CDI that the conditions it considers relevant under this Undertaking 9 include, but are not limited to, the reimbursement and compensation PLHIC receives, the scope and nature of services it must provide, the nature and adequacy of its provider network in any relevant service area, the structure, composition and reimbursement payable to the health care providers supporting PLHIC's provision of Medical Products and services, and the overall terms and conditions, including the applicable legislative and regulatory framework, applicable to its operations. On an annual basis, PLHIC will provide Supplemental Information (as described in Undertaking 1.C). To the extent that both membership and premium dollars have decreased by more than ten percent (10%) from the prior year for any of the individual or small group Commercial Medical Products, PLHIC shall provide a detailed discussion of the change in the Supplemental Information.

Undertaking 10

PLHIC will pay for the costs of all reviews that CDI determines are necessary to confirm compliance with these Undertakings. CDI may retain consultants or other personnel as deemed necessary by CDI to conduct these reviews.

Undertaking 11

PLHIC agrees that it shall not remove, or require, permit, or cause the removal of PLHIC's books and records (as defined in the California Insurance Code), related to PLHIC's California business, from California before obtaining the written approval of CDI. This Undertaking 11 shall not restrict PLHIC from maintaining books and records in an electronic format as long as electronic books and records are contemporaneously available in California.

Undertaking 12

After the effective date of the Merger, if PLHIC decides to amend, change, terminate or replace its administrative services agreement(s) with PacifiCare, UnitedHealth or any of their affiliates, PLHIC will file the changes with CDI and will not implement such changes until after such changes have been approved by CDI.

Undertaking 13

After the effective date of the Merger, if PLHIC decides to amend, change, terminate or replace its tax sharing agreements, PLHIC will file any changes to those tax sharing agreements with CDI and will not implement such changes until after such changes have been approved by CDI.

Undertaking 14

PLHIC represents to CDI that PLHIC anticipates that, for the duration of these Undertakings, as defined in Undertaking 20(d), it will maintain its "Administrative Expense Ratio" (as defined below), measured on a year-to-date basis, at or below: (a) for the products sold by PLHIC on or before July 1, 2005 only, at the average rate of PLHIC's Administrative Expense Ratio for the historical period beginning January 1, 2002 and ending June 30, 2005 (the "Historical Expense Ratio"); and (b) for all PLHIC products, including new products added after July 1, 2005, but excluding Medicare Part D, at a rate which represents PLHIC's annual average projected Administrative Expense Ratio in PLHIC's financial projections filed with CDI.

In the event PLHIC's Administrative Expense Ratio, as defined below, exceeds either of these thresholds during this period, then PLHIC shall, within 45 days following the applicable calendar quarter-end, report in writing to CDI the following:

- (a) The amount of the excess;
- (b) The reasons for the increase in costs (for example, changes in law, taxes, new products, commission structure or the overall mix of PLHIC's business; costs of new distribution channels; or increased marketing expenses);
- (c) Whether the change is in any way, directly or indirectly, related to the implementation of the Merger; and
- (d) Demonstrate to CDI's satisfaction that PLHIC's administrative costs are not excessive, in compliance with all requirements of the California Insurance Code.

In the event PLHIC reasonably anticipates that its Administrative Expense Ratio will exceed the Historical Expense Ratio for any such period prior to completing its quarter-end reporting, PLHIC shall provide prompt notice of such event to CDI.

For purposes of this Undertaking 14, the "Administrative Expense Ratio" shall be calculated as Commissions and Administrative Expenses divided by Net Premiums Written and Deposit-type Contracts, whereby (i) Commissions and Administrative Expenses shall be defined as the sum of the amounts shown on PLHIC's statutory financial statement on Page 4- Summary of Operations, Column 1, lines 21, 22, 23 and 24, and (ii) Net Premiums Written and Deposit-type Contracts shall be defined as the sum of the amounts shown in PLHIC's statutory financial statement on Page 4 - Summary of Operations, column 1, lines 1, 2 and 6.

For purposes of calculating PLHIC's Administrative Expense Ratio pursuant to this Undertaking 14, any extraordinary costs, defined as costs that exceed \$1 million and are unique, one-time or non-recurring in nature will be excluded. Extraordinary costs include but are not limited to unique or non-recurring legal and other professional fees, legal settlements and member acquisition costs that are expensed as paid and not amortized over the full policy year's premium stream.

Undertaking 15

To demonstrate the commitment of UnitedHealth and PLHIC to the California community, UnitedHealth and PLHIC undertake the following (for purpose of clarification, the commitments set forth in this Undertaking 15 are the same as the commitments set forth in Undertaking 20 of PacifiCare of California's and UnitedHealth's undertaking to the California Department of Managed Healthcare ("DMHC"), dated December 19, 2005 (the "DMHC Undertakings") and not in addition thereto):

- (a) UnitedHealth and PLHIC and their affiliates, PacifiCare Behavioral Health of California, Inc. ("PBH"), PacifiCare Dental ("PCD") and PacifiCare of California (collectively, PLHIC, PBH, PCD and PacifiCare of California are referred to as the "PacifiCare Regulated Entities") agree

to invest \$200 million in California's health care infrastructure (the "Investment Commitment"). The purpose of the Investment Commitment is to provide capital to entities providing health services to currently underserved communities or populations throughout California that are in need of such capital and find access to such capital challenging for various reasons. Such investments could include investments that (i) expand and upgrade physical and technological infrastructure for safety net and low income providers throughout the State of California; (ii) strengthen access to health care resources for, and improve the health status of, low-income urban and rural underserved Californians; (iii) improve electronic health care technology; (iv) facilitate the use, application, and exchange of electronic health records; (v) support the coordinated care model; or (vi) contributions that leverage investment opportunities. The Investment Commitment may include marketable securities, provided they support California's health care infrastructure and are in compliance with the PacifiCare Regulated Entities' and UnitedHealth's investment policies and guidelines.

- (1) Investments made pursuant to this Undertaking 15(a) will be consistent with financial standards required by CDI, DMHC and the National Association of Insurance Commissioners, and subject to the sound and prudent investment management policies of the PacifiCare Regulated Entities and UnitedHealth. The determinations with respect to each investment will be made considering the risk profile and rate of return of such investment, and the overall strength and investment quality of the entire investment portfolio and will not be unduly restrictive with regard to each individual investment commitment. In addition, the collective impact of the investments made pursuant to this Undertaking 15(a) must be of sufficient creditworthiness and quality so as to not result in the placing of additional capital requirements on the PacifiCare Regulated Entities or UnitedHealth by various credit rating agencies (e.g., Moody's and Standard & Poor's).
- (2) In making the Investment Commitment, the PacifiCare Regulated Entities and UnitedHealth recognize that flexibility and creativity will be necessary to achieve the dual goals of prudent investment and increasing access to underserved communities, and they undertake to work closely with an advisory committee consisting of individuals with experience in community reinvestment and health care delivery for underserved communities, which committee may include representatives or designees of (i) clinics and other health care providers that serve low income or uninsured urban and rural Californians; (ii) charitable entities that support such clinics and other providers; and (iii) health information technology experts, including persons with expertise in the exchange of health information (the "Advisory Committee"). In addition, representatives of CDI, DMHC, UnitedHealth and/or the PacifiCare Regulated Entities will participate in Advisory Committee meetings and activities. The members of the Advisory Committee shall be designated from time to time by the PacifiCare Regulated Entities and UnitedHealth in consultation with the DMHC and CDI.
- (3) Within 30 days following closing of the Merger, the PacifiCare Regulated Entities and UnitedHealth will meet and consult with the California Business, Transportation, and Housing Agency, the DMHC, and the CDI to (i) discuss the appropriate type, scope and range of investments to be made in accordance with this Undertaking 15(a), including community health care services, health care infrastructure and health information technology investments; (ii) secure advice and feedback regarding the selection of independent investment advisors to the Advisory Committee which advisors are acceptable to the DMHC and CDI; (iii) discuss the composition the Advisory Committee; (iv) discuss the development of an exemption process if sufficient qualifying assets cannot be identified by the end of calendar year 2010; and (v) otherwise take actions and adopt policies, procedures and guidelines to implement the Investment Commitment.

- (4) Within six months after the closing of the Merger, the Advisory Committee will be established and, promptly thereafter, the Advisory Committee, UnitedHealth and the PacifiCare Regulated Entities shall, in consultation with the investment advisors, begin formulating a plan for carrying out the Advisory Committee's responsibilities and developing appropriate guidelines, policies and procedures, subject to approval by CDI and DMHC.
- (5) Expenses incurred in administering the Investment Commitment, including expenses of outside investment advisors, will be separate from the aggregate Investment Commitment amount.
- (6) In further recognition of the challenges inherent in developing sufficient qualifying investments for the entire Investment Commitment, CDI and DMHC agree to consider future charitable initiatives proffered by UnitedHealth or its affiliates (in addition to the Charitable Contributions described in Undertaking 15(b)) as an offset or substitute for a portion of the Investment Commitment, upon a showing that such initiatives are new commitments that would not otherwise have been agreed to by UnitedHealth or its affiliates in the regular course of operations. Such initiatives might include but are not limited to in-kind services provided in the technology area, contributions that leverage investment opportunities, or other contributions to benefit the health care safety net or to improve health care access to underserved populations. The amount of credit toward the Investment Commitment for in-kind contributions in the technology area shall not exceed five percent of the Investment Commitment, unless a greater amount is approved by CDI and the DMHC. In addition, UnitedHealth and the PacifiCare Regulated Entities shall receive credit toward the Investment Commitment described in this Undertaking 15(a) for the full amounts committed by UnitedHealth and PacifiCare of California pursuant to Undertakings 18(b), 18(d) and 19 of the DMHC Undertakings.
- (7) UnitedHealth and the PacifiCare Regulated Entities anticipate considering specific investments beginning by the fourth quarter of 2006, with the goal of having the Investment Commitment fully funded by the fifth anniversary of the closing of the Merger. The Investment Commitment shall expire 20 years after the date of full investment of the Investment Commitment.
- (8) UnitedHealth and the PacifiCare Regulated Entities will provide regular reports to the Advisory Committee and, in connection with each annual statement filed with the CDI and DMHC, will provide the DMHC and CDI with reports on progress made toward the Investment Commitment.

Undertaking 16

UnitedHealth reiterates its commitments set forth in DMHC Undertaking number 18.

Undertaking 17

PLHIC shall file annually during the duration of these Undertakings with CDI a report demonstrating compliance with each of the Undertakings set forth herein and, describing what it believes to be the benefits to Californians that have ensued from the Merger, including an explanation of expense savings related to PLHIC business that have resulted from the Merger. Such reports are in addition to, and do not supersede, any other reports CDI may require pursuant to the California Insurance Code.

Undertaking 18

UnitedHealth shall not, without CDI's prior written approval, enter into any new intercompany loan agreement with PLHIC whereby PLHIC will be required to fund the anticipated extinguishment of the existing \$1,052,560,000 PacifiCare indebtedness for borrowed money upon or after the closing of the Merger.

Undertaking 19

For the longer of (1) the duration of these Undertakings, as defined in Undertaking 20(d), or (2) two years after the transition to UnitedHealth's legacy systems of claims payment and customer service functions, PLHIC shall maintain, with respect to the Medical Products, compliance in all material respects with the metrics set forth below (the "Metrics") and shall report to CDI, on a quarterly basis, its performance against the Metrics. In the event PLHIC fails to meet any of the standards set forth below, as measured on an annual, calendar-year basis, and such failure is not the result of an event of force majeure and is outside of a 3% tolerance threshold (as set forth below), PLHIC will work in good faith with CDI to promptly develop and implement a corrective action plan intended to rectify such failure. PLHIC will report on its progress against any such corrective plan on a quarterly basis together with its reporting against the Metrics. In addition, if, after the first two quarters of 2006, PLHIC fails for any calendar year to meet the agreed-upon standard within the tolerance threshold for Justified Complaints, as defined in California Code of Regulations, Title 10, Section 2694, and such failure is not the result of an event of force majeure, PLHIC will agree to pay to CDI a penalty equal to \$315 per Justified Complaint that exceeds the tolerance threshold for the applicable year.

Member Related Metrics		
First call resolution rate	90%	87%
Net Claims adjustment volume	96%	93%
Provider Related Metrics		
First call resolution rate	90%	87%
Percent of appeals resolved within 15 calendar days of proper receipt	90%	87%
DOI Related Metrics		
Number of Justified Complaints received per 1,000 members	TBD[1]	TBD[1]
Claims Payment Related Metrics		
Percent of claims auto-adjudicated	50%	47%
Claims processed within 30 calendar days	95%	92%

[1] PLHIC does not have adequate experience in monitoring Justified Complaints per 1,000 members to determine an appropriate standard at the date of the execution of these Undertakings. Therefore, PLHIC and CDI will meet no later than July 30, 2006 to evaluate PLHIC's experience for the first six (6) months of 2006 and to establish by mutual agreement the standard for this category.

Undertaking 20

The Undertakings set forth herein shall be subject to the following terms and conditions:

- (a) **Binding Effect.** The Undertakings set forth herein shall be binding on PLHIC and its respective successors and permitted assigns. If PLHIC fails to fulfill its obligations to CDI as provided under the Undertakings set forth herein, PLHIC stipulates and agrees that CDI shall have the authority to enforce the provisions of these Undertakings in a California court of competent jurisdiction.
- (b) **Governing Law.** The Undertakings set forth herein and their validity, enforcement, and interpretation, shall for all purposes be governed by and construed in accordance with the laws of the State of California.
- (c) **Invalidity.** In the event any Undertaking or any portion of any Undertaking set forth herein shall be declared invalid or unenforceable for any reason by a court of competent jurisdiction, such Undertaking or any portion of any Undertaking, to the extent declared invalid or unenforceable, shall not affect the validity or enforceability of any other Undertakings and such other Undertakings shall remain in full force and effect and shall be enforceable to the maximum extent permitted by applicable law.
- (d) **Duration.** The Undertakings set forth herein shall become effective upon the effective date of the Merger, and except as to those provisions of Undertaking 19, shall remain in full force and effect for four (4) years, ending on the fourth anniversary of the closing date of the Merger, unless terminated sooner by UnitedHealth and PLHIC with the written consent of CDI. PLHIC will promptly notify CDI of the closing date of the Merger. In the event the Merger is not consummated, for any reason, these Undertakings shall have no force or effect.
- (e) **Third Party Rights.** Nothing in the Undertakings set forth herein is intended to provide any person other than UnitedHealth, PLHIC and CDI and their respective successors and permitted assigns with any legal or equitable right or remedy with respect to any provision of any undertaking set forth herein.
- (f) **Amendment.** The Undertakings set forth herein may be amended only by written agreement signed by UnitedHealth and PLHIC and approved or consented to in writing by CDI.
- (g) **Assignment.** No undertaking set forth herein may be assigned by UnitedHealth or PLHIC in whole or part, without the prior written consent of CDI.
- (h) **Entire Agreement.** These Undertakings embody the entire agreement and undertakings of the parties hereto in respect of the subject matter and supersede all prior agreements and undertakings, both written and oral, among UnitedHealth, PLHIC and CDI.
- (i) **Specific Performance.** In the event of any breach of these Undertakings, UnitedHealth and PLHIC acknowledge that the State of California would be irreparably harmed and could not be made whole by monetary damages. It is accordingly agreed that UnitedHealth and PLHIC shall waive the defense in any action for specific performance that a remedy at law would be adequate, and CDI should be entitled to seek an injunction or injunctions to prevent breaches of the provisions of these Undertakings and to seek to enforce specifically the terms and provisions herein.
- (j) **Effect.** UnitedHealth and PLHIC undertake to carry out the commitments and obligations set forth in these Undertakings in such a manner as will not affect

adversely any other regulated affiliate of UnitedHealth and PLHIC or the policyholders or members of any such affiliate.

- (k) Reports. The annual reports required by these Undertakings shall be submitted to CDI within 75 days following the end of the calendar year, with the first annual report due in 2007, based upon the 2006 calendar year. Quarterly reports shall be submitted within 60 days following the end of each calendar quarter, with the first quarterly report due 60 days following the end of the first quarter of 2006.
- (l) Confidentiality of Reports. CDI agrees and acknowledges that all reports, Supplemental Information and any other information provided to CDI pursuant to these Undertakings will be given confidential treatment by CDI to the fullest extent permitted by California law, including but limited to the California Public Records Act and Sections 735.5 and 12919 of the California Insurance Code, and that CDI will provide PLHIC with appropriate prior notice of any judicial or other effort to compel CDI to disclose any such reports or any nonpublic information contained therein.

Appendix B

Documents Reviewed in Support of Findings

Undertaking 1A; 1B(1), (2), (3), (4), and (5)

1. PacifiCare Life & Health Insurance Company (PLHIC) Summary of California Individual and Small Group Pricing, January 26, 2007
2. PacifiCare Life & Health Insurance Company (PLHIC) Summary of California Individual and Small Group Pricing, December 15, 2005
3. February 18, 2005 Individual PPO Risk Rate filing (Rev. 05/05), average rate decrease of 0.3%
4. August 24, 2005 Individual PPO Risk Rate filing (Rev. 11/05), average rate increase of 10.1%
5. August 8, 2006 Individual PPO Risk Rate filing (Rev. 11/06), average rate increase of 10.0%.
6. October 11, 2004 Small Employer Group Risk Rates (Rev. 2/05)
7. December 17, 2004 Small Employer Group Risk Rates (Rev. 4/05)
8. May 2, 2005 Small Employer Group Risk Rates (Rev. 7/05)
9. March 2, 2005 Small Employer Group Risk Rates (Rev. 7/05) with revisions to rating areas
10. June 30, 2005 Small Employer Group Risk Rates (Rev. 10/05)
11. November 4, 2005 Small Employer Group Risk Rates (Rev. 11/04)
12. March 17, 2006 Small employer Group Risk Rates (Rev. 7/06)
13. June 8, 2006 Small Employer Group Risk Rates (Rev. 10/06)
14. November 24, 2004 Medicare Supplement Actuarial Memorandum requesting a 6% rate increase effective in 2005 for all plans
15. February 22, 2006 Medicare Supplement Actuarial Memorandum requesting rate increases varying by rating area, and by plan, averaging 9% across all plans
16. California February 2005 Rate Action - Pricing Assumptions
17. Undertaking 1.A certification provided by Ms. Susan Berkel, Chief Financial Officer of PLHIC
18. Undertaking 1B and 1.C the "PLHIC Written Certification" and Supplemental Information
19. CA Small Group 2/2005 Rate Action Workpapers
20. CA Small Group 7/2005 Rate Action Workpapers
21. CA Small Group 10/2005 Rate Action Workpapers
22. CA Small Group 2/2006 Rate Action Workpapers
23. CA Small Group 7/2006 Rate Action Workpapers
24. CA Small Group 10/2006 Rate Action Workpapers
25. CA Med Sup 2005 Rate Action Workpapers
26. CA Med Sup 2006 Rate Action Workpapers
27. CA Individual 5/2005 Rate Action Workpapers
28. CA Individual 11/2005 Rate Action Workpapers
29. CA Individual 12/2006 Rate Action Workpapers
30. Attachment B UT-1C(4) Summary of benefit plan.pdf
31. Attachment B UT-1C(4) Summary of benefit plan SG.pdf
32. PacifiCare California Small Business Product Portfolio Effective March 1, 2007
33. March 18, 2008 letter from Susan Berkel to Kurt Giesa, "RE: Actuarial Review on Behalf of California Department of Insurance"
34. Request 03_GHC-SM-SOB-04-CA rev 7-07.pdf
35. Request 03_Sm Employer Risk Rtes rev 7-07.pdf
36. Request 03_Sm Grp Risk Rates rev 3-07.pdf
37. Request 03_Sm Grp Standard Employee Rsk Rates rev 10-07.pdf
38. Request 04_pricing assumptions rate actions)Small)PPO 2005-2007 Summ.xls
39. Request 05_PLHIC SGA 20070508 Van Jones presentation Revised.ppt
40. Request 06_PLHIC Undertakings Audit 200712.xls
41. Request 06_PLHIC Undertakings Audit 200712_1.pdf
42. Request 06_PLHIC Undertakings Audit 200803.xls
43. Request 06_PLHIC Undertakings Audit 200803_1.pdf
44. Request 7_PCC PacifiCare of California statutory financial statements 20071231.pdf

45. Request 7_PLHIC statutory financial statements 20071231.pdf

Undertakings 1C(1), (2), (3), (4), and (5)

1. Attachment B UT-1C(1)-1C(3).pdf
2. PLHIC 20051231 Statutory line of business summary.pdf
3. Attachment B UT-1C(4) Summary of benefit plan.pdf
4. Attachment B UT-1C(4) Summary of benefit plan SG.pdf
5. PacifiCare Life and Health Insurance Company (PHLIC) Summary of California Individual and Small Group Pricing December 15, 2005
6. PacifiCare Life and Health Insurance Company (PHLIC) Summary of California Individual and Small Group Pricing January 26, 2007
7. California Individual Summary Matrix Effective May 1, 2005
8. Request 08 - Undertaking 1.C.(4).pdf
9. Request 08 - Undertaking 1.C.(4.1.1).pdf
10. Request 08_PLHIC_IS_UNDEXTAKINGS_Dec07 (Prelim 02-01-08).xls
11. Request 08 -Undertaking 1.C.(4.1).pdf
12. Request 08 - Undertaking 1.C.(5).pdf
13. Request 08 - Undertaking 1.C.(5.1).pdf

Undertaking 2A, B, C, D

1. http://www.opa.ca.gov/report_card/hmorating.aspx
2. Attachment C - UT 2 HEDIS and CAHPS score.pdf
3. California Health Plan Report Card 2005
4. California Health Plan Report Card 2006
5. PacifiCare Quality Index Profile of Physician Groups
6. PacifiCare Quality Index Profile of Hospitals
7. Transparency Report on 2006 Health Plan Payouts
8. <http://www.ambulatoryqualityalliance.org/aqapilot.htm>
9. Attachment 2b PLHIC Kurt Giesa 20080316 AQA_CCHRI_Application_12-29-05 (2).pdf
10. 20080319 letter to Kurt Giesa Oliver Wyman.pdf
11. Attachment 1 PLHIC Kurt Giesa PPO QIC ATTENDANCE LOG (2006).pdf
12. Attachment 2a PLHIC Kurt Geisa 20080318 EC_mins_7_24_06hi.pdf
13. Request 9_CAHPS 2007 Report - PacifiCare of California -- Adult Commercial
14. Request 9_HEDIS PC CA 272 2149 Final
15. Request 9_HEDIS PC CA 272 2149 Final
16. Request 9a_CCHRI07_RateCardCommercial
17. Request 9b_QIX Profile MG-2007
18. Request 9e_Accreditation Summary Status-20070418
19. Request 9g_Attachment 1 EC_mins_7_24_06
20. Request 9g_Attachment 2 BQIPilotCoverLetter_11-07-06final
21. Request 9g_Attachment 3a AQA_CCHRI_Application_12-29-05
22. Request 09_UT 2 Attachment C HEDIS-CAHPS-Revised
23. Request 10_PPO-QIC Agenda _04 20 07
24. Request 10_PPO-QIC Agenda _06 27 07
25. Request 10_PPO-QIC Agenda _09 26 07
26. Request 10_PPO-QIC Agenda _12 12 07
27. Request 10_PPO-QIC Attendance Log _2007

Undertakings 3(a), (c), and (d)

1. PacifiCare Life and Health Insurance Company-UnitedHealth Merger Undertakings 2006 Annual Compliance Report
2. May 9, 2007 letter from Ms. Susan L. Berkel, Chief Financial Officer, to Van Jones of Oliver Wyman Actuarial Consulting, Inc.

3. PacifiCare Life and Health Insurance Company (PLHIC) Selling, General and Administrative Expenses, May 8, 2007
4. PLHIC statutory financial statements for 2004
5. PLHIC statutory financial statements for 2005
6. PLHIC statutory financial statements for 2006
7. 20080319 letter to Kurt Giesa Oliver Wyman.pdf
8. Request 12_P4P RAND 2007 Transparency Report final
9. Request 14_2007 PCCA Capitation Payments Summary
10. Request 15_20070509 Rep letter to Van Jones re change of control
11. Request 15_20080319 letter to Kurt Geisa Oliver Wyman

Undertaking 7

1. Quarterly Statement of Actuarial Opinion as of March 31, 2006
2. Reserves and Ranges as of March 31, 2006
3. Quarterly Statement of Actuarial Opinion as of June 30, 2006
4. Reserves and Ranges as of June 30, 2006
5. Quarterly Statement of Actuarial Opinion as of September 30, 2006
6. Reserves and Ranges as of September 30, 2006
7. Quarterly Statement of Actuarial Opinion as of December 31, 2006
8. Reserves and Ranges as of December 31, 2006
9. PacifiCare Life & Health Insurance Company-UnitedHealth Merger Undertakings 2006 Annual Compliance Report
10. PLHIC 20061231 IBNR models for Kurt Giesa Attachment 4.xls
11. Attachment 3 PLHIC undertaking 7 IBNR by product by quarter 20071231 and prior for Kurt Giesa 20080318.xls
12. Request 16_PLHIC Exhibit C_03-31-07
13. Request 16_PLHIC Exhibit C_06-30-07
14. Request 16_PLHIC Exhibit C_9-30-07
15. Request 16_Actuarial Opinion 2007

Undertaking 9

1. PLHIC CA Small and Individual 20051231 and 20061231 hc for DOI.pdf
2. November 24, 2004 Actuarial Memorandum and supporting exhibits for Medicare supplement products
3. February 22, 2006 Actuarial Memorandum and supporting exhibits for Medicare supplement products
4. CA Med Supp 2006 Rate Action Workpapers
5. CA Undertakings Audit - 2007 Responses to Questions asked on 8/15/07 by Van Allen Jones, FSA, MAAA of Oliver Wyman Actuarial Consulting, Inc.
6. Request 17_PHLIC_SG_2006_2007

Undertaking 14

1. March 29, 2007 letter from Ms. Susan Berkel of PacifiCare to Ms. Winnie Quan of the CDI regarding Supplemental Quarterly Financial Reports per Acquisition Undertaking 14B
2. Undertaking 14 Administrative Expense Ratio as of March 31, 2006
3. Undertaking 14 - Administrative Expense Ratio as of June 30, 2006
4. Undertaking 14 - Administrative Expense Ratio as of September 30, 2006
5. Undertaking 14 - Administrative Expense Ratio as of December 31, 2006
6. PLHIC statutory financial statements as of December 31, 2002
7. PLHIC statutory financial statements as of December 31, 2003
8. PLHIC statutory financial statements as of December 31, 2004
9. PLHIC statutory financial statements as of June 30, 2005
10. PLHIC statutory financial statements as of December 31, 2005
11. PLHIC statutory financial statements as of March 31, 2006

12. PLHIC statutory financial statements as of June 30, 2006
13. PLHIC statutory financial statements as of September 30, 2006
14. PLHIC statutory financial statements as of December 31, 2006
15. Email correspondence between Ms. Winnie Quan of the CDI and Ms. Susan Berkel of PacifiCare regarding PLHIC Undertaking 14B
16. Request 05_PLHIC SGA 20070508 Van Jones presentation Revised
17. Request 20_Medicare Supplement Loss Ratios_2007
18. Request 21_PLHIC MDA 2006
19. Request 22_PLHIC 2005 1 of 2
20. Request 22_PLHIC 2005 2 of 2
21. Request 22_PLHIC 2006
22. Request 22_PLHIC 2007 1 of 2
23. Request 22_PLHIC 2007 2 of 2