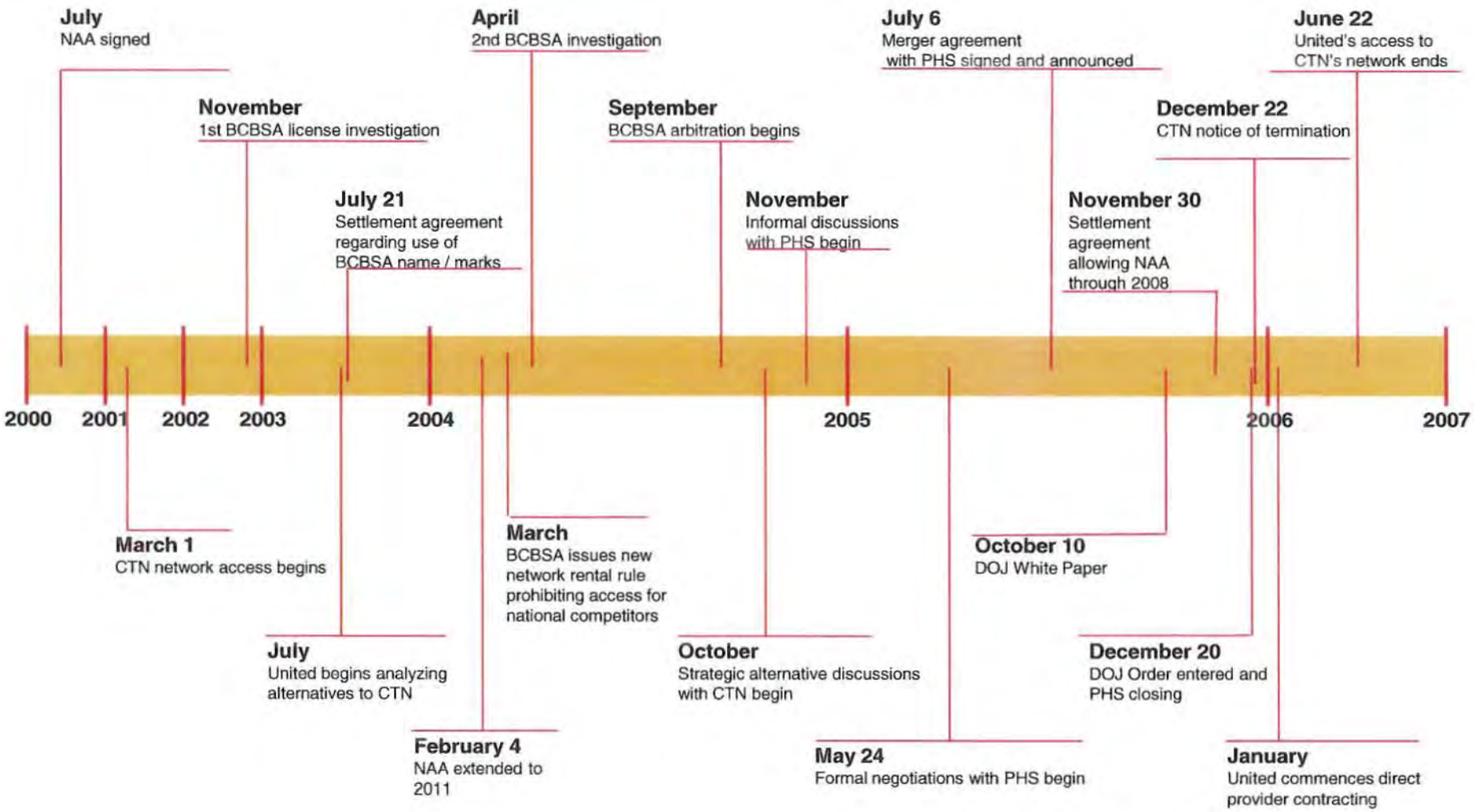
Timeline

PacifiCare®
Life and Health Insurance Company



Historic BSC/CTN Relationship

PacifiCare®
Life and Health Insurance Company

CTN, Blue Shield of California (BSC) and United enter into Network Access Agreement (NAA) for United's California PPO business (becomes effective March 1, 2001)

Relationship expands to include United ancillary product and service offerings to BSC and its customers

- Ancillary product relationship leads to app. $140 million annually for United

Blue Cross Blue Shield Association (BCBSA) expresses concerns (despite BSC gaining prior approval of NAA)

- In 2002, BCBSA commences formal inquiry as to whether BSC is breaching license agreement with BCBSA
- 2003 Settlement
  - BSC agrees to operate CTN separately from BSC insurance operations
  - BSC secures United's commitment to comply with certain BCBSA trademark use restrictions
  - BSC and United form oversight panel to monitor compliance with settlement
  - United undertakes significant internal training

BSC/CTN Relationship

PacifiCare®
Life and Health Insurance Company

Due to BCBSA issues, in 2003 United begins re-evaluating California network position/alternatives

- CTN remains integral part of CA network strategy

February 2004 -- United pays BSC $10 million to extend NAA until 2011 and agrees to cover half of any costs BSC or CTN incurs in future disputes with BCBSA

March 2004 -- BCBSA issues new rule prohibiting national competitor access to BCBSA licensed networks

- Any existing relationships required to terminate within 2 years (e.g., United – CTN NAA)

April 2004 -- BCBSA begins a formal inquiry alleging BSC non-compliance with 2003 Settlement

September 2004 – BSC commences arbitration with BCBSA

CTN Termination Unexpected

PacifiCare®
Life and Health Insurance Company

- Multi-dimensional relationship
  - BSC reliance on United-affiliated networks
- Both United and BSC/CTN committed to relationship despite numerous challenges from BCBSA
  - November 2005 settlement between BSC and BCBSA
  - Access to CTN secured through December 31, 2008
- United was CTN's largest and sole customer (outside of BSC itself)
- Discussions regarding possible expansion of relationship continued throughout PHS approval process
- United and BSC/CTN cooperated and coordinated in discussions with U.S.D.O.J.

CA Network Strategy

PacifiCare®
Life and Health Insurance Company

Post-Acquisition Network Migration – Key Considerations

- Direct network best for consumers and providers
- Alternative complete solution not available
- Leased network not a turnkey solution
- Extensive planning/resources for migration

Leased Networks Provider Overlap

PacifiCare®
Life and Health Insurance Company

Provider Overlap Detail (leased networks)

		Primary Care Physicians^			Specialists^			Hospitals+		
	PPO Network	Total # of Providers	Overlap #	Overlap %	Total # of Providers	Overlap #	Overlap %	Total # of Providers	Overlap #	Overlap %
Totals	CTN/United	14,224	7,235	51%	28,312	12,742	45%	341	280	82%
	BCE Emergis	15,076			22,959			301		
	CTN/United	14,224	8,260	58%	28,312	14,807	52%	341	267	78%
	Beech St	17,633			27,293			288		
	CTN/United	14,224	8,275	58%	28,312	14,444	51%	341	235	69%
	PHCS	16,679			24,207			252		
	CTN/United	14,224	--	--	28,312	--	--	341	288	84%
	First Health*	--		--	--		--	307		

^ Based on provider data available to United as of Sept. 2003

+ As of October 2004

* Detailed First Health physician and overlap data not available; as of September 2004, total # of First Health providers (hospitals, physicians, and specialists) was 49,870 compared to a total of 54,191 BSCA/United providers

CTN Notice Prompts Immediate Action

PacifiCare®
Life and Health Insurance Company

Leased network not a turnkey solution

- Extensive disruption to remediate
  - See leased network and PHS disruption analyses
- Requires prolonged negotiations regarding access fees, administrative matters (e.g., reimbursement policies), and network composition/control
- Many of the same operational issues present with direct contracting
  - Leased network arrangements still require loading new fee schedules, issuing new ID cards, provider/member communications, systems connectivity, etc.

CTN implementation evidences lengthy leased network process

- CTN project lasted approximately one year
- CTN implementation included many elements common to direct contract project plan

Interim leased network arrangement would add confusion

- Direct network was long-term goal
- Move from CTN to another leased network and then to direct network would have created twice the burden/confusion for providers, customers and members
- United's use of a new leased network alongside an owned network (PHS) would have resulted in additional provider confusion

Direct Contract Process Management

PacifiCare®
Life and Health Insurance Company

Migration plan was consumer and provider focused

- Consumer disruption central focus of strategy planning
- Providers with most United consumer spend contacted first in effort to minimize disruption
- Continual/rolling consumer disruption analyses guided contracting efforts throughout process

First Health engaged as primary network backstop through 12/31/07 for certain ASO customers to bridge network gaps

- First Health already engaged as Shared Savings partner for self-funded business
- First Health capacity not sufficient for all members (required manual process)

SIMPLIFIED PROVIDER CONTRACT FORMS vs. LEGACY PACIFICARE PPO CONTRACT FORMS

PacifiCare®
Life and Health Insurance Company

Simplified Physician Agreement (SPA) and Simplified Medical Group Agreement (SMGA) -- Advantages:

- Simplified, straightforward language explains both parties' rights and obligations
- Shorter length - 5 pages
- Transparent
- Consistent terms applied across the entire network
- Easier to administer

Legacy PacifiCare PPO contract -- Disadvantages:

- Longer documents with more complex language (at least 11-12 pages)
- Can be difficult to read and interpret
- Varying terms -- difficult to load and administer
- Can include "one-off" provisions

MARKET STANDARD VS. NON-STANDARD FEE SCHEDULES

PacifiCare®
Life and Health Insurance Company

Market Standard Fee Schedules -- Advantages:

- Rates and what is/is not included in rate structure based on an industry standard (e.g. - CMS)
- Consistent gap-filling methodology
- 99%+ of all codes have fixed pricing -- predictable results
- Efficient updating: Routine quarterly and annual maintenance -- virtually all automated
- Efficient loading
- More accurate claims payments

Non-Standard Fee Schedule -- Disadvantages:

- Frequently not based upon industry standards
- Requires manual intervention to build and load
- Complicated to update
- Not necessarily aligned with claims system logic -- may require additional manual intervention during claims adjudications

CTN/PACIFICARE NETWORK TRANSITION

PacifiCare®
Life and Health Insurance Company

PROJECTS INVOLVING EXISTING NETWORK

Existing Contracts

- Audit all existing PacifiCare provider contracts for obstacles to United PPO membership access (includes hospital, large medical groups, large ancillary providers, samples of individual and small physician group contracts)
- Develop bridge amendments for contracts with access obstacles and negotiate amendments with providers

Load Existing Network Contracts To NDB

- Individual and group providers: build and load all fee schedules in NDB
- Hospitals and other facilities
  - Easy loads (very few in number)
  - complex loads -- required contract language and bill coding interpretation, special manual processing instructions, inform providers of any process changes
- Conduct hospital claims tests and review results with facilities
- Confirm available provider services

CTN/PACIFICARE NETWORK TRANSITION

PacifiCare®
Life and Health Insurance Company

PROJECTS INVOLVING EXISTING NETWORK

Load Existing Provider Demographics To NDB

- Create electronic provider data file
  - Accomplish one-shot update to NDB
    - Load demographic information for PLHIC-only providers
    - Load supplemental demographic information for overlap providers
- Establish on-going daily maintenance procedures until 6/23/06 cut-over

Prepare and send communications to providers advising of transition

- Overlap providers
- Positive disruption providers

CTN/PACIFICARE NETWORK TRANSITION

PacifiCare®
Life and Health Insurance Company

PROJECTS INVOLVING GAP PROVIDERS

Provider Contracts

- File contract templates with California regulators
- Develop mail merge files
- Mail out contracts
- Develop and implement contract tracking and reporting tools

Build Contracting Team And Tools

- Used existing California and Pacific Region contracting staff and augmented with additional United resources
  - Develop Feet on the Street program
  - Approx. 20% of United contracting personnel assigned to CTN transition effort
- Training
  - UHC contract templates, payment appendices, reimbursement methodologies, and relevant supporting policies and procedures
  - diCarta/Emptoris
  - Develop contracting tool kit, reporting and support processes

PROJECTS INVOLVING GAP PROVIDERS

Improve Contract Entry Processes

- Develop/implement centralized contract entry team
- Build market standard fee schedules and load to NDB
- Confirm credentialing procedure

Load Gap Provider Contracts To RIMS and NDB

- Complex provider loads -- require contract language and bill coding interpretation, special manual processing instructions, inform providers of any process changes
- Conduct hospital claims tests and review results with facilities

Develop welcome packet

PLHIC Impact from CTN Transition

PacifiCare®
Life and Health Insurance Company

	Claims Impact	Root Cause	Resolution
Retro-Loaded Contracts		• Physicians didn't hold their claims despite agreement to do so • We didn't communicate Rules of the Road clearly • Parties mutually agreed to a retro contract and rework of claims • Unexpected volume of late-received contracts	• Impacted claims reworked • One-time event
Fee Schedules		• Inadequate maintenance • Crosswalk not maintained for a period of time	• Impacted claims reworked • Consolidated maintenance responsibility in one team supported by robust infrastructure • Fix crosswalk
Demographics		• Out-of-date physician demographics • Out-of-date medical group rosters • EPDE issues	• Impacted claims reworked • Remind physicians how to self-report updates • Provide electronic template and update process for willing delegated medical groups to self update data • Provider verification proactive outreach

United's CA membership

PacifiCare®
Life and Health Insurance Company

United's 2003 CA membership

Total: 1,179,488

Major concentrations of membership by county (58 of 58 counties)

Highest concentration of CA membership by county

- 297,384 members: Contra Costa, Alameda, Santa Clara (San Francisco Bay)
- 431,885 members: Los Angeles, Orange, and San Diego
- Above 6 counties represent 62% of CA-based membership
- UHC CA-based membership is represented in all 58 counties, with 14 counties having less than 1000 members each