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To Dirk C McMahon/MN/Unitedmail@Unitedmail
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Subject PHS- whoa Nellie!

Hi Dirk

Diane asked me to forward you some thoughts/ comments confidentially as it sounds like you will be diving into PHS...lots of good people working very hard on this project, but it continues to grow. It will be great to get leadership like yourself with fresh perspective engaged to do a reality check on the approach. Some of the basic stuff we have to do, no way around it...on others I am wondering if we can get a bit more creative to reduce the spend and interdependencies..you have a much better line of sight into the queues so some of my concerns/ may not be warranted...I am forwarding you the email I sent to Diane on Friday- apologize in advance for the length.

I am going to try to frame up some of the overarching concerns I have... At the highest level the current approach requires a huge amount of technology spend (with corresponding business support) in a very short timeframe. Additionally there is a ton of complexity and interdependency that makes the whole thing very risky ...

OVERALL TECHNOLOGY SCOPE, COST & TIMING
The current work flows requiring major technology development are significant. In addition to the UT development costs, we are also looking at significant business resource strain (from a UP perspective, we are down a BA for Branding and 3 for UPCT). We have limited subject matter expertise in these areas and resources are being pulled in multiple directions in general as well as within the project itself. Additionally, many of the resources with experience in these areas are dedicated to Alliance work so we are not able to leverage their expertise. At some point, simply adding resources is not sufficient as the business knowledge required to ensure all gaps are identified and resolved is unavailable.

There is a great team working as fast as possible but concerned that there are simply too many critical path items that are interdependent and hitting the same queues. In order to meet the April timeframe (with additional lead time for presale and operational activities), we are looking for much of this to be delivered in Q4 and the rest in Q1 07. I thought that the queues of the big 7 were at capacity with only key initiatives (Alliance and Med cost reduction) for the remainder of the year. Also, because of the many items on the critical path and the fact they hit some of the major queues, if any one is unable to be delivered, the entire program comes to a screeching halt.

Also, as you know, technology costs tend to increase during design and development as the detail is flushed out....we are trying to get the business requirements for ~$75M of technology done in less than 3 months, further increasing the risk that they will not contain sufficient detail to produce an accurate OOM estimate.

Below are a couple of the big ticket items to bring you up to speed...

Some of the key pieces of the project that hit the technology queues (and a comment about similar project size/scope):
PRODUCT
The regulatory undertakings for SB in CA state that we must continue to offer the PHS portfolio for 4 years from close. Product is taking a hard line on this and not considering any sort of evaluation of alternate options. As such, we are essentially going to be building the entire PHS product and plan portfolio to support a forced migration.

Not sure if there is flexibility here, but if we were able to use more creative sales and marketing strategies, we may have the opportunity to gain better penetration of UHC products and eliminate the need for some of the product build. This is the equivalent of re-introducing the Preferred Portfolio while adding in some of the

complexities of Gated HMO build.

Is there a way to have a more thoughtful approach (focus on specific products or markets)? Sure it may delay the sunsetting of the PHS systems a bit but if we can avoid some of the spend, may be well worth it. Also (you know this better than anyone), even when we start the forced migration, my gut tells me there will be the one-offs that for whatever reason can't be migrated for some time. The current assumption that we would be able to migrate ALL of the business over a one to two year period may not be realistic (key is that if 1 customer stays, we cant sunset the system) .

One example- Medical multi option on PRIME- Apparently in Pacific region, it is common in the market to offer a SB customer multiple plans (more than two). We can't do this on PRIME under a single policy. As such we are planning on spending a coupe of million dollars to build this capability. Do we really need to spend that kind of money so we can offer a 20 employee group 4 different plans? Same applies for Dental. We are building multi-option dental capabilities because that s current PHS sales strategy.

FRONT OFFICE
Complete new tool set and business processes to support a Medica- passport like scenario. Scope includes the building of structure interpreter interfaces between multiple platforms (this has never been done successfully- I think it is more complex than people think it is going to be), eligibility interfaces (similar to Definity integration), and financial integration (rerouting all claim/ financial data back into the 8 or so UHC systems- don't think this has been done either). It also requires more conversion tool functionality to be built as we have to split the group/ elig and accumulator components out into separate phases.

The spend for this is somewhere between $10-20M (OOMs coming back in t he next few weeks).
1) I think the concept is good assuming we can leverage the tool for future acquisitions...although for those we would still need to build out the mapping for the structure interpreter, eligibility, and financial feeds from the acquires company's systems...so there will be cost for future acqs as well. It will not be plug and play (but would make it easier..I hope).
2) Depending upon Streb's findings, does it make sense to redeploy the FOI resources to the HMO & cap builds? Once those are complete , we can do the full blown migration. If we have to move the entire migration start date back a couple of months (lets say 7/07) but are able to move all of the business, I think that is a win as a) we avoid FOI spend b) we eliminate operational costs (dual entry, maintenance of customers on PHS systems) c) enable earlier susnset of NICE & ILIAD 4) make the entire migration (training, communication, etc) less complex.

This would be a bit of a gamble as a delay in the delivery of the HMO or cap could get us in trouble.

UPCT
We now have 4 platforms in scope (NICE, RIMS, ILIAD & PDV) with potential for a fifth (ASI for SDHP). This is the equivalent of processing 4 migrations at one time. In additional, the systems themselves are more complex than anything we have seen. Reason being 1) customer hierarchy and system infrastructure are different for each system and 2) customer's eligibility could be split across 3 systems based upon their product elections (Medical on NICE, ILIAD, RIMS; Life on RIMS; Dental/Vision on PDV) and upon conversion a member's coverages need to be brought together as one record on UP.

The complexities that exist for UPCT may also be problematic for Front Office once they get into design & development.

CAPITATION
Building an entire new engine from scratch. Although this is stand alone, it is a huge undertaking (~$15M).

RX Solutions
Creating connectivity between UP and a PBM platform as well as building out all product capabilities and plan designs. Similar to the Medco integration. This took years for us to develop the appropriate interfaces and quality controls to effectively implement the business. Other concern is that the connectivity is being led by legacy PHS versus UHC (I don't believe UHPS is involved).

NETWORK
Integrating an entire network and having to remediate the contracts.

CARE MANAGEMENT
Current recommendation is to utilize PHS' care Management system (MedDecisions) for HMO and UHCs (CCS) for Insurance products. This decision was just made last Friday...too early to tell where new interfaces will need to be created and what information will need to be pulled into CCS. Depending upon t he outcome of some end state decisions being made in the next week or so, could be additional impact & cost to the UP Conversion tools (generic and PHS specific) if we need to bring over open auths/ referrals.