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HMOs: ENROLLMENT SLIDE AND PLAN CONSOLIDATION CONTINUES FOR A FOURTH YEAR

The ninth annual Cattaneo & Stroud, Inc. California HMO Survey reveals that HMO enrollment declined for the fourth consecutive year. Sponsored by the California Healthcare Foundation, the study found that HMO enrollment decreased by 0.9% while the overall state population grew at a rate of 1.5%. Despite the marked decline in total enrollment, the state's Healthy Families and Medicare product lines showed modest growth. The downward trend in 2005 was seen in commercial enrollment for the fourth consecutive year and in Medi-Cal HMO enrollment for the second year.

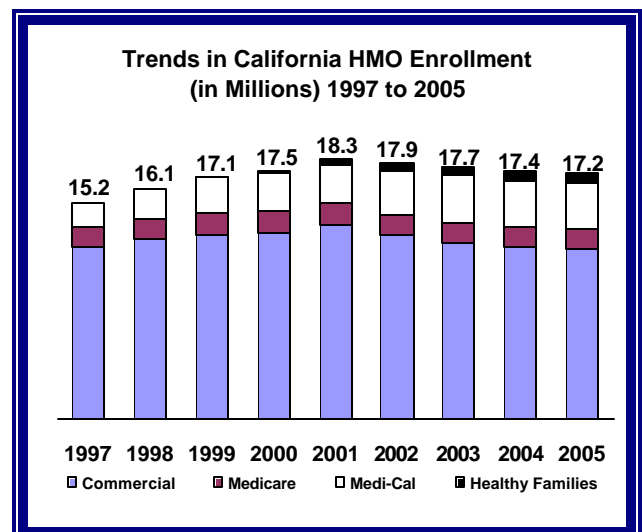
HIGHLIGHTS OF THE SURVEY

- Statewide enrollment in HMOs fell for the fourth consecutive year, declining 0.9% to 17.2 million members, a reduction of 164,214 lives.
- The percent of Californians enrolled in HMOs was 46.9%, the lowest percentage over the past five years.
- Forty-one HMOs were identified as operating in California in 2005, one less than in 2004.
- Commercial enrollment fell 1.6% (-187,902), and Medi-Cal decreased 0.2% (-6,668) from 2004 to 2005.
- Healthy Family enrollment increased 1.4% (+9,553) over the past year. There are now 716,822 children and teens in the program.
- Medicare enrollment grew by 1.6% (+20,803).
- The number of persons eligible for Medi-Cal decreased by 12,277, the first decline in seven years; one half of Medi-Cal eligibles are HMO enrollees.
- Cumulative enrollment in the five largest plans increased to 81% of all HMO members from an estimated 80% in 2004.
- Kaiser enrollment increased by 3.2%, with gains in the commercial, Medicare, Medi-Cal and Healthy Family product groups. Kaiser accounts for 36%

of all California HMO members, or 17% of all State residents.

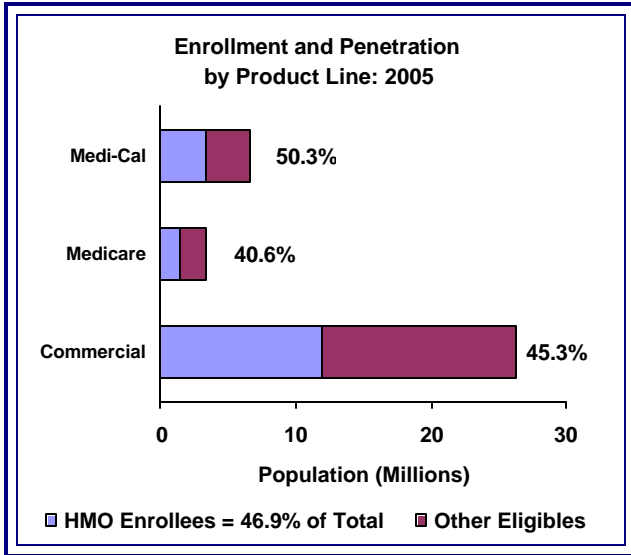
THE CATTANEO & STROUD SURVEY

For the past nine years, Cattaneo & Stroud, Inc. has surveyed HMOs active in California and has analyzed enrollment by county and product line (commercial, Medicare, Medi-Cal, and Healthy Families). Active plans include HMOs with a Knox-Keene license, Department of Health Services Medi-Cal plans, and CMS Medicare plans. In this year's survey, forty-one plans were included with enrollment data reported as of March 2005.

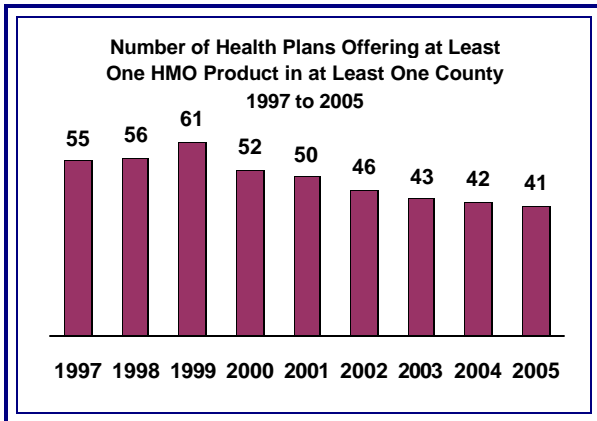


MAJOR SURVEY FINDINGS

Enrollment in California HMOs declined to 17.2 million residents in 2005, despite a statewide population increase of 539,267. Fewer than half of Californians are now enrolled in HMOs.



For the past six years, the number of HMOs in the state has declined. No new HMOs began operations in California over the past year.

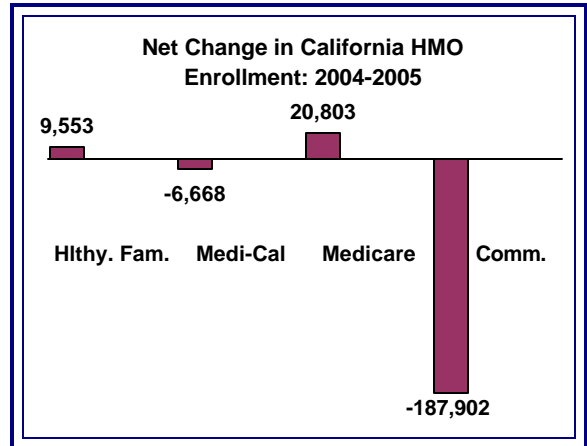


- Between March 2004 and March 2005, one health plan ceased operations (UC San Diego).

This year's survey again finds a decrease in the number of commercial enrollees over the past year. However, the top 3 plans gained membership over the past year.

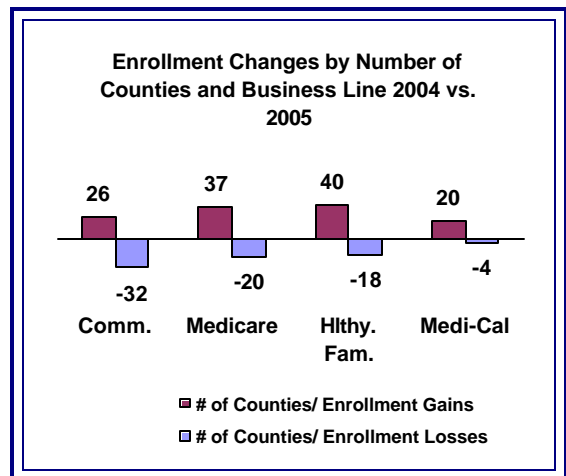
- Overall *commercial* HMO enrollment fell by 1.6% or 187,902 enrollees, while Kaiser grew 2.7%.

- 32 of the state's 58 counties experienced a decrease in commercial HMO enrollment. Blue Cross and Blue Shield had combined member growth of 238,536.
- PacifiCare and HealthNet lost a combined enrollment of 363,989.



Medicare membership increased, reversing a four year trend.

- 18 health plans offered a Medicare product in 2005, the same as in 2004.
- Medicare total enrollment increased by 20,803 enrollees between 2004 and 2005. Kaiser alone grew by 22,325 members, resulting in a small net loss of Medicare enrollees in non-Kaiser plans. 40.6% of the Medicare population is in a Medicare HMO plan.
- Kaiser and PacifiCare together control 76 percent of the Medicare HMO market. Kaiser's Medicare enrollment increased by 3.4%, whereas PacifiCare grew by 1.7% during the past year.



Medi-Cal enrollment fell slightly, but Healthy Families programs continued to grow, though at a slower pace than prior years.

- 30 Medi-Cal managed care plans operated in 2005, 1 fewer than in 2004. Overall enrollment declined 6,668; with a large enrollment loss in Los Angeles County (-55,759).
- 24 health plans participated in the Healthy Families Program, with 9,553 additional children added this year. 40 of the 58 counties added members. Total enrollment in this product is at its highest level, with 716,822 children now enrolled.

Each of the 9 counties with the highest HMO penetration gained enrollment over the past year.

**HMO MARKET PENETRATION:
9 COUNTIES WITH HIGHEST HMO PENETRATION LEVELS
(ENROLLMENT AS A % OF POPULATION)**

COUNTIES	2003	2004	2005
Solano	70.2%	68.4%	69.3%
Sacramento	69.1%	67.3%	68.6%
Yolo	64.1%	63.2%	65.2%
Contra Costa	62.2%	60.6%	60.5%
Alameda	59.6%	58.3%	58.1%
Placer	58.7%	55.4%	56.7%
San Bernardino	56.6%	55.0%	54.7%
San Mateo	55.8%	54.5%	54.3%
San Joaquin	55.4%	54.1%	53.9%

- Each of these counties gained members in 2005, with a combined gain of 93,934 members between 2004 and 2005.
- Four of the 9 counties with the *largest* absolute HMO enrollment lost members: Los Angeles (-151,206); San Diego (-49,851); Santa Clara (-34,529); and Orange (-34,499). The other five counties experienced membership growth; Sacramento (+33,599); San Bernardino (+21,161); Riverside (+21,032); Contra Costa (+6,403); and Alameda (+2,699). These nine counties account for 70% of the state's population and 76% of statewide HMO members.

Regionally, HMO enrollment increases were greatest in the Sacramento region, with slight losses in all other regions.

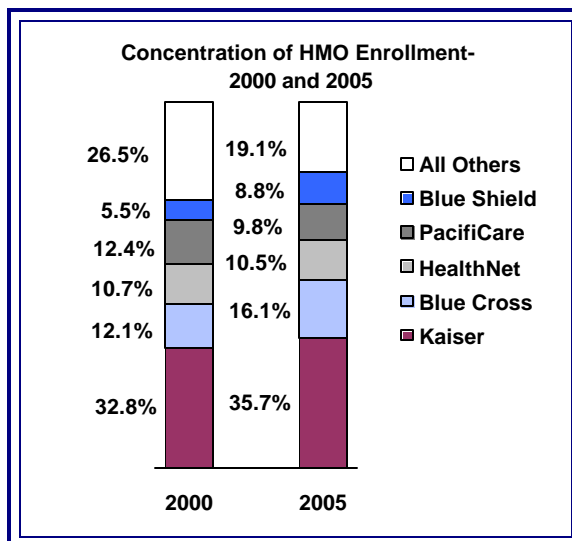
- All six counties in the Sacramento region experienced enrollment growth between 2004 and 2005.

- Within Southern California, enrollment trends were mixed. Membership growth was reported in 5 of the 10 regional counties: San Bernardino (+21,161); Riverside (+21,032); Imperial (+6,594); Kern (+2,832); and San Luis Obispo (+172).

HMO MEMBERSHIP GROWTH BY REGION			
REGION	2004	2005	% ?
Sacramento	1,267,743	1,318,084	+4.0%
Central Valley	1,155,857	1,182,989	2.3%
Bay Area	3,853,917	3,822,373	-0.8%
Central Coast	179,282	177,493	-1.0%
So Cal	10,842,346	10,634,897	-1.9%
Other	111,505	110,600	-0.8%
Statewide	17,410,650	17,246,436	-0.9%

HMO enrollment continues to become more concentrated in the 5 largest health plans.

- Overall, 5 plans account for 81% of California's HMO enrollment: Kaiser, Blue Cross/California Care, HealthNet/Foundation, PacifiCare/FHP, and Blue Shield/Care America.
- Since 2000, the percent of enrollment in the top 5 plans has increased from 74% to 81%. During this period, Kaiser's enrollment has grown 7% whereas total HMO membership has decreased 1.5%.
- Blue Cross and Blue Shield cover a larger share of enrollees, while HealthNet, PacifiCare, and most small plans have lost shares statewide.



OBSERVATIONS AND DISCUSSION

The C & S HMO Survey is useful for strategic planning, marketing, and managed care negotiations. We provide detailed and specific information that is critical to understanding each sector of the health care industry. The survey also raises some interesting questions about managed care in California.

- Will the new Medicare Advantage Program shift enrollment from the Medicare HMOs to PPOs and other products?
- Will the new prescription drug benefit entice seniors to enroll in Medicare HMOs?
- Will employers' increased interest in consumer driven health plans result in shifts from HMOs to high deductible PPOs and other products?

Cattaneo & Stroud, Inc. wishes to thank the California Healthcare Foundation for funding the 2005 HMO Survey. We also wish to acknowledge the assistance provided by California HMOs, California Department of Health Services, California Association of Health Plans, and the Major Risk Medical Insurance Board. Please visit our website for further information regarding the Cattaneo & Stroud, Inc. 2005 HMO Survey or contact us directly at 650-692-8884

Visit our website at www.cattaneostroud.com for additional results of the 2005 HMO survey.

To learn more about Cattaneo & Stroud, Inc., visit our web site: www.cattaneostroud.com

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