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HMOs: ENROLLMENT SLIDE CONTINUES FOR A THIRD YEAR

2004 marks the third consecutive year of total HMO enrollment declines in the eight-year history of the Cattaneo & Stroud, Inc. California HMO Survey, sponsored by the California Healthcare Foundation. While the state's Healthy Families product line grew modestly, Medi-Cal HMO enrollment fell for the first time, commercial enrollment fell for the third year, and Medicare enrollment declined for the fourth year. Overall population continued to grow at an annual rate of 1.4%.

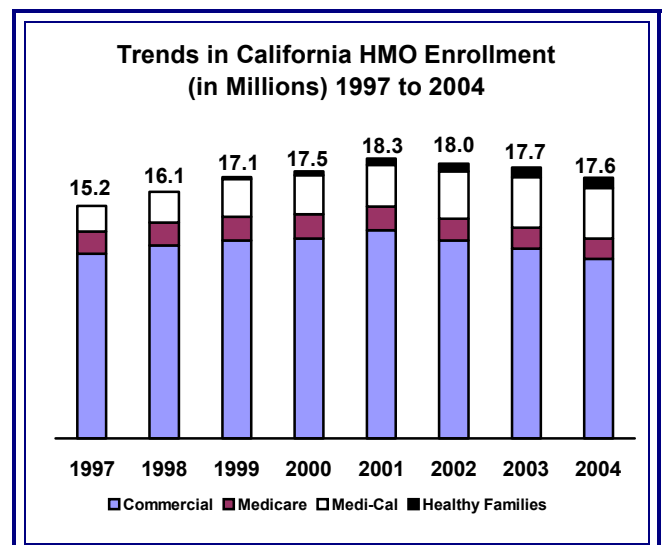
HIGHLIGHTS OF THE SURVEY

- Statewide enrollment in HMOs fell for the third consecutive year, declining 3.7% to just over 17 million members. Overall enrollment declined by 653,832 lives.
- For the first time since 1998, the percent of Californians in HMOs (47.2%) fell below 50%
- Current enrollment is 1.2 million members (6.7%) lower than in 2001, the high point of California HMO enrollment.
- Commercial enrollment fell 3.7% (-668,267), Medicare 2.5% (-21,343), and Medi-Cal 1.0% (-31,943) from 2003 to 2004.
- Healthy Family plans increased a combined 10.6% (+67,631) over the past year.
- Growth in the Medi-Cal *eligible* population far exceeded growth in the eligible population of either the Medicare or commercial population segments, continuing a trend seen in recent years.
- Kaiser commercial enrollment *declined* for the first time in 8 years, with a loss of almost 120,000 members (-2.4%).
- For the third consecutive year, enrollment in the four largest plans increased, rising to 74% of all members. Kaiser accounts for 35% of all California HMO members, 1 in 6 of California's 36 million residents.

- CIGNA commercial experienced the largest single decrease in a plan's enrollment, falling 487,100. Blue Cross also experienced its first enrollment loss, -4.1% (118,201 members).

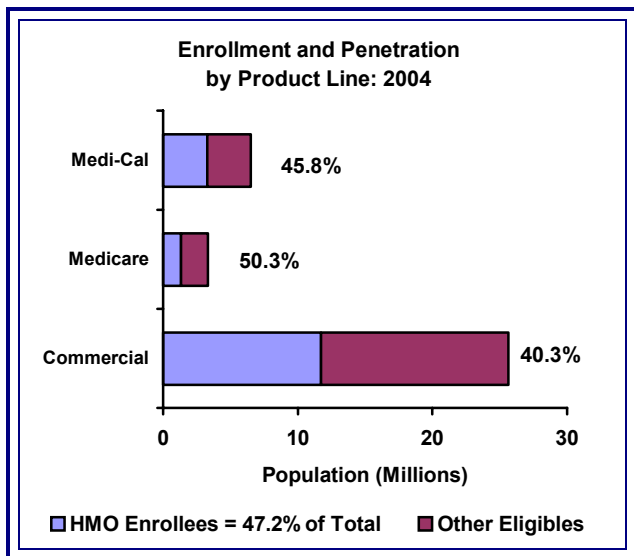
THE CATTANEO & STROUD SURVEY

For the last eight years, Cattaneo & Stroud, Inc. has surveyed HMOs active in California and analyzed enrollment by county and product line (commercial, Medicare, Healthy Families, and Medi-Cal). Active plans include HMOs with a Knox-Keene license, Department of Health Services Medi-Cal plans, and CMS Medicare plans. Forty-two plans were included in this year's survey, with enrollment data reported as of March 2004.

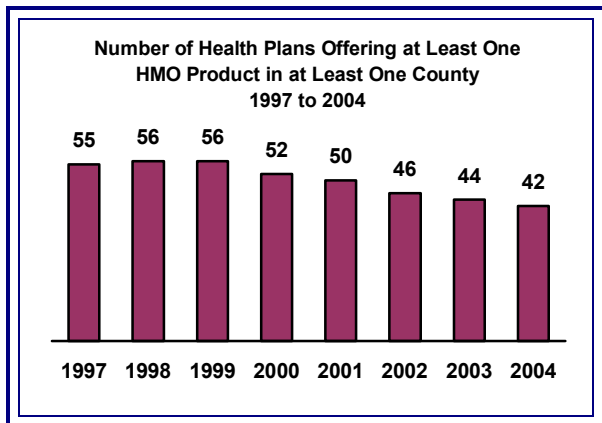


MAJOR SURVEY FINDINGS

Enrollment in California HMOs declined to 17.1 million residents in 2004, despite a statewide population increase of 532,000. Fewer than half of Californians are now enrolled in HMOs.



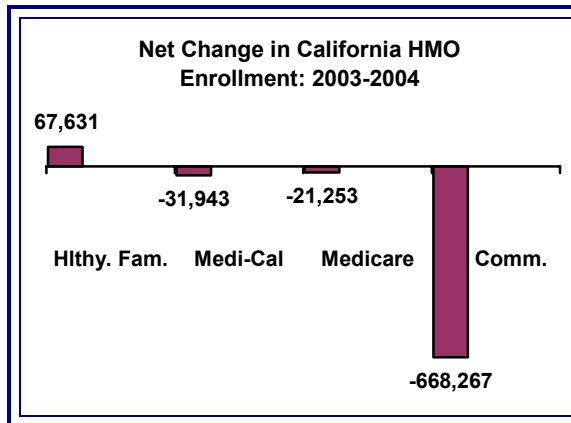
For the past five years, the number of HMOs in the state has declined. Only one new HMO began operating in California in 2004.



Between March 2003 and March 2004, two health plans closed (Placer County Network and Sonoma County Network). These plans had combined membership of 31,805 in 2003, and both served the Medi-Cal population.

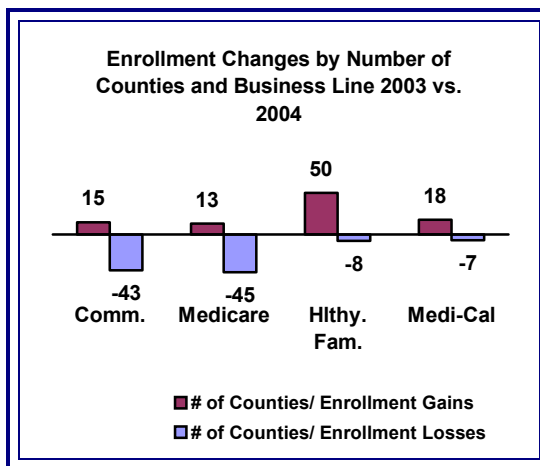
This year's survey again finds a decrease in the number of commercial enrollees over the past year, with losses concentrated in three plans.

- Overall *commercial* HMO enrollment fell by 5.4% or 668,267 enrollees.
 - ⇒ 44 of the 58 counties experienced decreased enrollment in commercial HMOs.
 - ⇒ Across the 5 largest commercial plans, Kaiser, Blue Shield and Blue Cross lost enrollment; PacifiCare and HealthNet gained, with HealthNet growing 9.5%.
- 3 plans – CIGNA, Kaiser and Blue Cross – lost a combined total of 779,281 enrollees.



Medicare membership declined, though at a slower pace than previous years.

- 18 health plans offered a Medicare product in 2004, the same as in 2003.
- Medicare losses moderated in 2004. Between 2003 and 2004 total enrollment fell 21,253 versus 73,579 in the 2002-2003 period.
- Kaiser and PacifiCare together control 75 percent of the Medicare HMO market. Kaiser enrollment increased slightly (0.7%), whereas PacifiCare lost slightly (0.9%).



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

- 31 Medi-Cal managed care plans operated in 2004, 2 fewer than in 2003. Overall enrollment declined 31,943; however, net of the two plans that ceased operations, the decline was only 138.
- 24 health plans participate in the Healthy Families Program, with 67,631 additional children added this year. All but one plan, Ventura County Health Care Plan, added members. 50 of 58 counties added members.

Each of the 9 counties with the highest HMO penetration have lost enrollment over the past 2 years.

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

| COUNTIES | 2002 | 2003 | 2004 |
|----------------|-------|-------|-------|
| Solano | 73.6% | 72.1% | 70.2% |
| Sacramento | 72.4% | 71.2% | 69.1% |
| Yolo | 54.1% | 65.6% | 64.1% |
| Contra Costa | 66.7% | 64.2% | 62.2% |
| Alameda | 65.9% | 62.4% | 59.6% |
| Placer | 64.4% | 61.0% | 58.7% |
| Napa | 61.9% | 56.4% | 55.6% |
| San Bernardino | 59.0% | 58.2% | 56.6% |
| San Joaquin | 58.5% | 57.3% | 55.4% |

- Each of these counties lost members in 2004, with a combined loss of 99,530 members between 2003 and 2004.
- Each of the 9 counties with the largest absolute enrollment (Los Angeles, Orange, San Diego, San Bernardino, Riverside, Sacramento, Santa Clara, Alameda, Contra Costa) lost members – a combined total of 491,230. These counties account for 70% of the state’s population and 77% of statewide HMO members.

Regionally, HMO enrollment declines were greatest in the non-urban areas, followed by the Bay Area and Southern California. However all regions of the state experienced membership declines between 2003 and 2004.

- Only 1 of the 9 highest HMO penetration counties is in Southern California. Los Angeles County, with 29% of the state’s HMO members, experienced 4.8% decline.

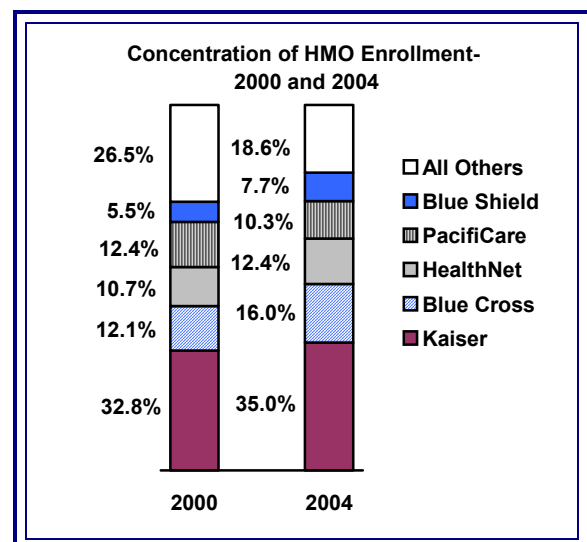
- Sonoma County experienced the highest percentage loss (11.1%) of counties with more than 200,000 population, following an 11% loss in 2003.

**HMO MEMBERSHIP GROWTH:
BY REGION**

| REGION | 2003 | 2004 | % Δ |
|----------------|------------|------------|--------|
| Bay Area | 3,920,049 | 3,767,441 | -3.9% |
| So Cal | 11,037,625 | 10,619,442 | -3.8% |
| Sacramento | 1,265,784 | 1,242,924 | -1.8% |
| Central Valley | 1,158,594 | 1,138,082 | -1.8% |
| Central Coast | 180,462 | 177,884 | -1.4% |
| Other | 147,553 | 110,462 | -25.1% |
| Statewide | 17,710,067 | 17,056,235 | -3.7% |

HMO enrollment became more concentrated in the 5 largest health plans.

- Overall, 5 plans account for 81% of California’s HMO enrollment: Kaiser, Blue Cross/California Care, PacifiCare/FHP, HealthNet/Foundation, and Blue Shield/Care America.
- Since 1997, the percent of enrollment in the top 5 plans increased from 73% to 81%.
- Kaiser membership fell for the first time in 2004.
- PacifiCare and HealthNet had combined enrollment losses of 419,816 members over the past year.



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.

- Has Kaiser reached its maximum market penetration, or is the small decline a function of the economy? Will new products that include member deductibles and co-pays prove attractive to businesses and individuals seeking less expensive insurance?
- Will changes in Medicare policy re-energize Medicare HMOs?
- Will there be an impact from CalPERS' decision to eliminate some hospitals from its network?
- Will the overall decline in membership continue? Is it due to a decline in hospitals and physicians willing to contract, loss of consumer interest, rise in premiums, or all of the above?

Visit our website at www.cattaneostroud.com for additional results of the 2004 HMO survey.

Cattaneo & Stroud, Inc. wishes to thank the California Healthcare Foundation for funding the Year 2004 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. Year 2004 HMO Survey.

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

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