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HMOs: Enrollment Slide Continues for a Second Year

For the second consecutive year in the seven-year history of the Cattaneo & Stroud, Inc. California HMO Survey, total enrollment in HMOs fell from the preceding year, despite population growth. Losses occurred for the second straight year in the commercial product line and for the third year in the Medicare product line. However, the number of Medi-Cal and Healthy Families eligibles enrolled in prepaid plans continues to grow. Overall, 80% of the counties across the state experienced a loss of HMO members between 2002 and 2003.

HIGHLIGHTS

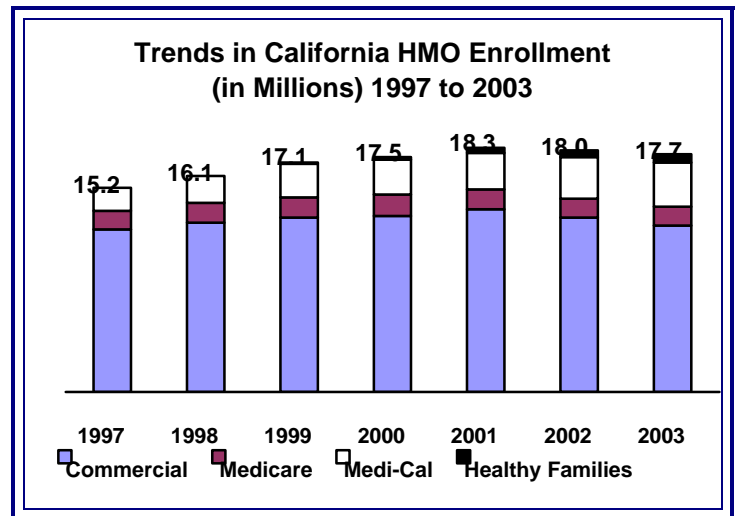
- For the second consecutive year, statewide enrollment levels fell from the previous year's figure.
- Commercial and Medicare plans experienced a combined enrollment loss of 4% from 2002 to 2003.
- Enrollment in Medi-Cal and Healthy Family plans increased a combined 10% over the past year.
- The rate of growth in the Medi-Cal eligible population far exceeded growth in either the Medicare or commercial population segments over the past year.
- One-half of Californians continue to be enrolled in HMO plans.
- During late 2002, non-profit and locally controlled Lifeguard and Health Plan of the Redwoods closed, affecting coverage for a combined 255,699 members.
- Over the past year, the State's largest health care purchaser, CalPers, reduced its HMO offerings to three HMOs, helping Blue Shield to post the largest enrollment increase statewide.
- HMO enrollment is becoming more concentrated within the largest health plans as the HMO closures continue.

THE CATTANEO & STROUD SURVEY

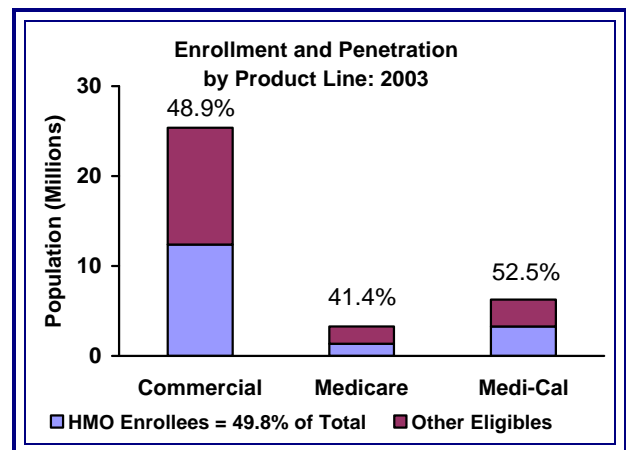
For the last seven years, Cattaneo & Stroud, Inc. has surveyed HMOs active in California and analyzed enrollment by county and product line (commercial, Medicare, Healthy Families, and Medi-Cal). Active plans include HMOs with a Knox-Keene license, Department of Health Services Medi-Cal plans, and CMS Medicare plans. Forty-three plans were included in this year's survey, with enrollment data from March 2003.

SURVEY FINDINGS

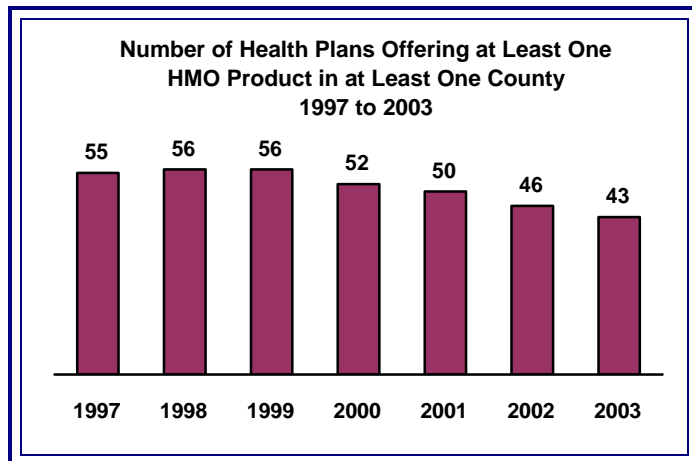
Californians' enrollment in HMOs declined to 17.7 million residents in the year 2003, while statewide population increased by nearly 600,000.



One-half of Californians are enrolled in HMOs.



For the past four years, the State has experienced a reduction in the number of HMOs.



- Between March 2002 and March 2003, three health plans closed (Lifeguard, Health Plan of the Redwoods and National Health Plan). These plans had combined membership of 258,753 in 2002.

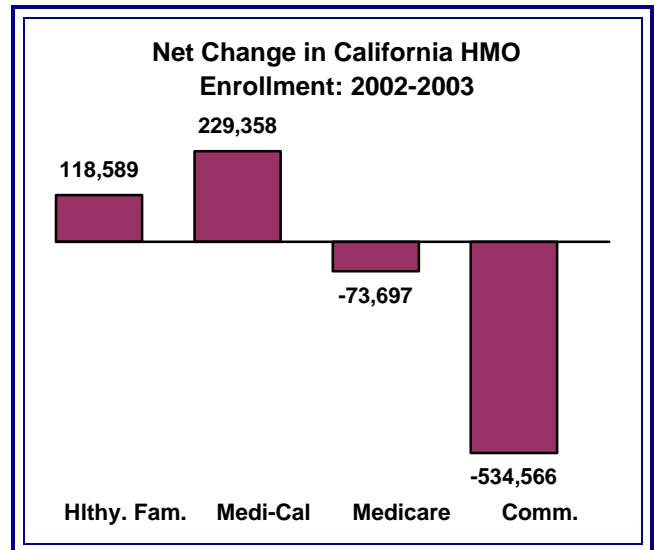
This year's survey again finds a decrease in the number of commercial enrollees over the past year reflecting widespread enrollment losses across the state.

- Overall *commercial* enrollment fell by 4.1% or 534,566 enrollees.
- 88% of the 58 counties experienced decreased enrollment in the commercial product segment.
- Across the five largest commercial plans, Kaiser, Blue Shield and Blue Cross had enrollment increases.
- PacifiCare and Health Net experienced commercial membership losses for the second consecutive year.

Medicare membership declined, reflecting plan closures and decisions by plans to exit counties or portions of counties.

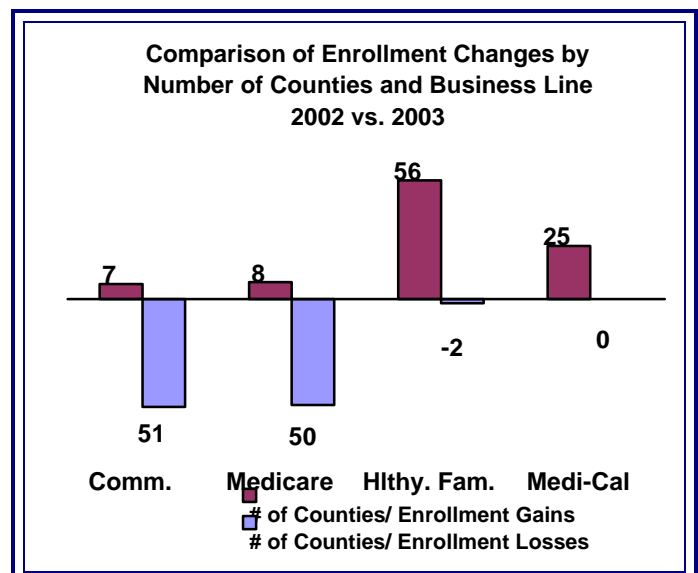
- 16 health plans offered a Medicare product in 2003.
- Medicare HMO coverage is now offered in 33 of California's 58 counties, 13 of which provide only one Medicare HMO plan option.
- Three large health plans (PacifiCare, Health Net, and Blue Shield) experienced a combined loss of 78,520 Medicare members.

- While overall Medicare enrollment levels decreased 5.1%, Kaiser increased by 14,979 members and now holds a 47% *market share* of Medicare enrollees statewide. Kaiser Advantage coverage is offered in 30 counties, including 11 in which it is the only Medicare HMO plan offered.



Growth in the Medi-Cal and Healthy Families programs has been relatively consistent across the state.

- The Medi-Cal managed care program, served by 33 plans, experienced enrollment growth in all 25 counties offering a Medi-Cal HMO plan.
- The Healthy Families Program, served by 24 health plans statewide, enrolled 118,589 additional children over the past year.



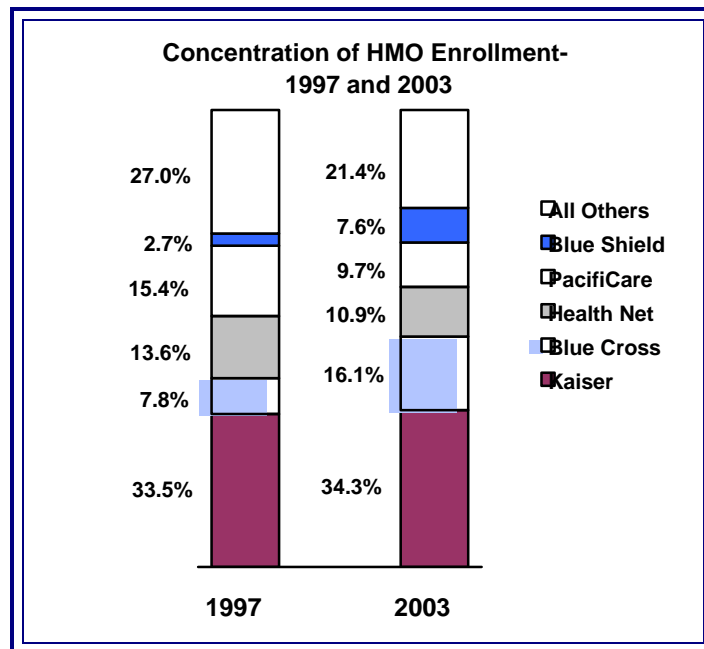
The nine counties with the largest HMO enrollment levels have all experienced lower HMO penetration over the past two years.

| HMO MARKET PENETRATION: NINE COUNTIES WITH LARGEST HMO ENROLLMENT LEVELS | | | |
|---|-------------|-------------|-------------|
| (HMO ENROLLMENT AS A % OF POPULATION) | | | |
| | <u>2001</u> | <u>2002</u> | <u>2003</u> |
| SACRAMENTO | 72% | 71% | 69% |
| CONTRA COSTA | 67% | 64% | 62% |
| ALAMEDA | 66% | 62% | 59% |
| SAN BERNARDINO | 59% | 58% | 57% |
| RIVERSIDE | 56% | 54% | 54% |
| SANTA CLARA | 61% | 55% | 52% |
| SAN DIEGO | 55% | 53% | 52% |
| ORANGE | 56% | 53% | 52% |
| LOS ANGELES | 54% | 53% | 52% |

- The nine counties with the largest HMO enrollment experienced a combined loss of 138,542 members between 2002 and 2003. These counties account for 70% of the State’s population and 76% of statewide HMO enrollment.
- Membership losses were greater in the remaining forty-nine counties. These counties account for 30% of the State’s population and experienced a combined HMO enrollment loss of 121,774 members (47% of statewide membership losses).

HMO enrollment became more concentrated in the five largest health plans over the past year.

- Overall, five plans account for 79% of California’s HMO enrollment: Kaiser, Blue Cross/California Care, PacifiCare/FHP, Health Net/Foundation, and Blue Shield/Care America.
- Since 1997, the percent of health plan lives held by the top five plans has increased from 73% to 79%.
- Of the five top HMO plans in 2002, Kaiser, Blue Shield and Blue Cross experienced enrollment growth between 2002 and 2003, with a combined increase of 592,935 members.
- Kaiser has experienced membership growth annually since 1997.
- Blue Cross is now ranked second largest in membership, surpassing Health Net.
- PacifiCare and Health Net had combined enrollment losses of 419,816 members over the past year.



Six large health plans experienced a higher rate of growth in their PPO products than in their HMO products: Blue Cross; Blue Shield; CIGNA, Health Net; PacifiCare; and United Healthcare.

OBSERVATIONS AND DISCUSSION

The C & S HMO Survey is used for planning, marketing, and managed care contracting. It provides a wide range of detailed and specific information that is fundamental to each sector of the health care industry.

The survey also raises some interesting questions about managed care in California.

- ❑ Does the loss of enrollment in the commercial products reflect changing interests on the part of consumers, purchasers, providers or changing benefit design that results in lower non-HMO premiums (with greater cost shifts to members)?
- ❑ Will the shift from HMOs result in increased use of physicians and hospitals?
- ❑ Is the aging and shrinking supply of physicians in select California markets hindering the ability of health plans to attract provider panels?

Visit our website at www.cattaneostroud.com for additional results of the 2003 HMO survey.

Cattaneo & Stroud, Inc. wishes to thank the California Healthcare Foundation for funding the Year 2003 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 2003 HMO Survey.

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

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