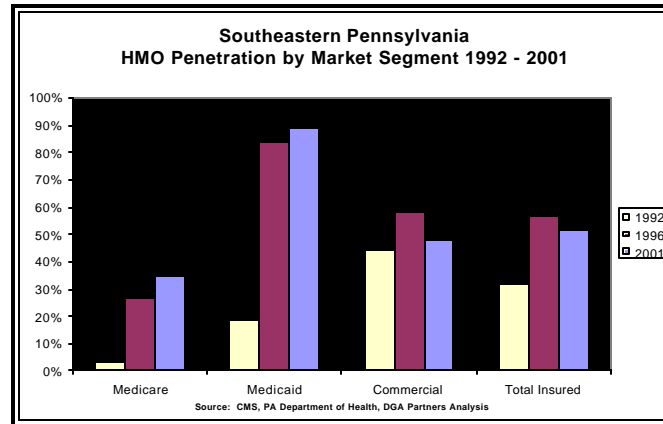


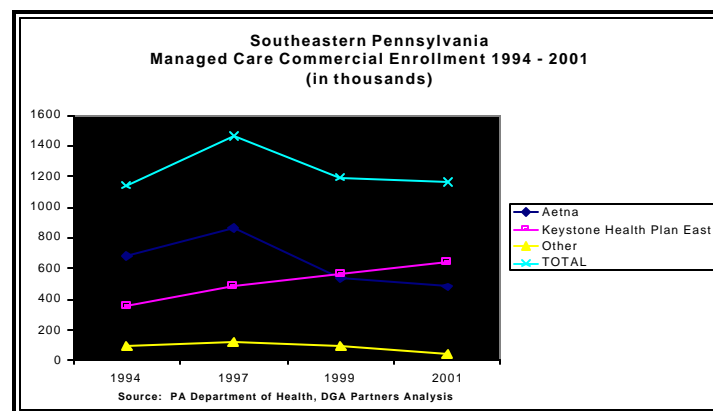
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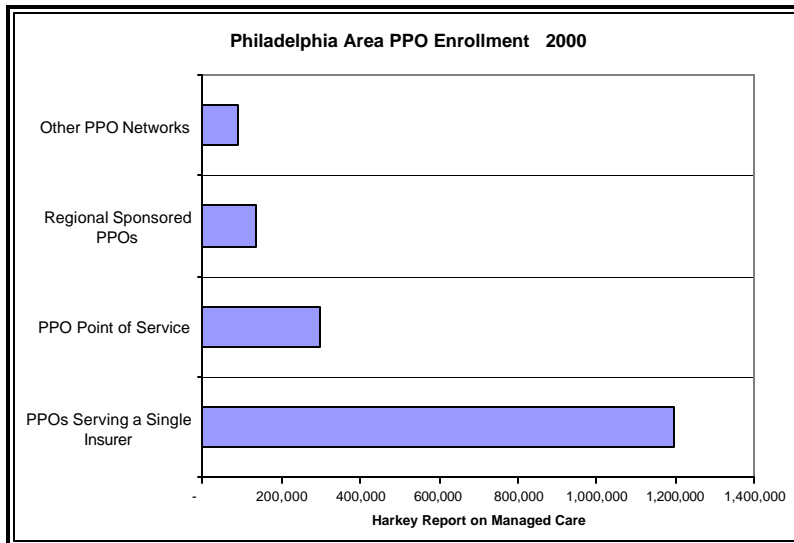
INDUSTRY TRENDS Southeastern Pennsylvania Managed Care Market



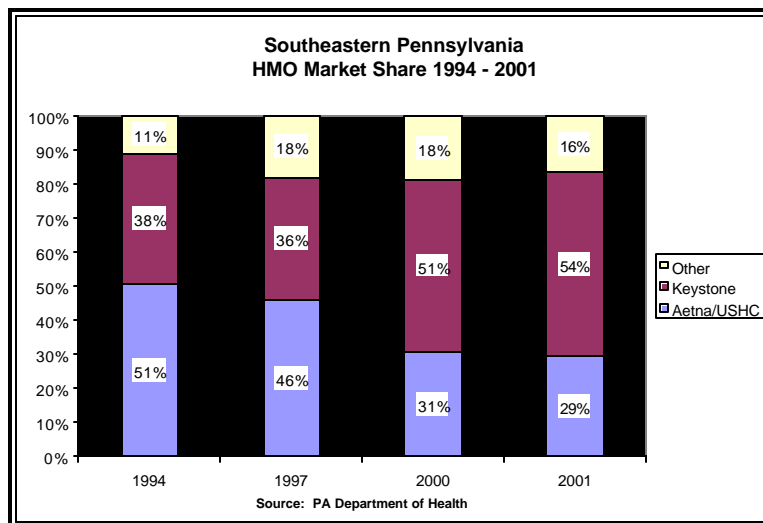
- { During the last ten years, HMO penetration reached a peak of 58% by 1996 in the commercial sector, and then began a decline to its current level of 48%
- { Consistent with national trends, PPO enrollment has grown substantially, resulting in the decline in the commercial HMO segment
- { HMO penetration increased dramatically in the government program sector
- { It has grown to almost 90% in the Medicaid sector due to state mandates
- { By 2001, it increased to a very significant 35% in the Medicare sector, despite wavering support for this program by many insurers
- { Importantly, managed care has not fulfilled its promise as, once again, health care insurance premiums and costs are spiraling upwards



- { At one point, in 1997, almost 1.5 million members were covered through a commercial HMO in this region. Since then, approximately 300,000 members have switched back to PPO type coverage
- { Keystone, the HMO product of Independence Blue Cross, has been on a steady rise in terms of enrollment, while AETNA (formerly US Healthcare) has experienced a substantial decline in local HMO enrollment from a high of 864,000 members to a low of 480,000 members in 2001



- { In 2000, over 1.7 million members were reported to be enrolled in a PPO type plan in the Philadelphia area; 2001 data indicates that total enrollment continued to grow dramatically
- { As suggested, much of this growth has resulted from members switching from HMO coverage
- { Clearly, Personal Choice, the PPO product of Independence Blue Cross, has been extremely well received by the market
- { Other insurers, namely Aetna, are beginning to offer plans and options that have similar features, as well as competitive pricing



- { In the post Aetna-US Healthcare merger era, Keystone increased its market share by one-third from a low of 36% in 1997 to a high of 54% in 2001
- { Aetna's HMO share was at an all time low of 29% by 2001
- { Still, the two major insurers on a combined basis represent 83% of the commercial HMO market, with new market entrants either having failed in their entry attempts, or being simply non-existent
- { Recent dramatic premium increases may result in heightened interest in new product alternatives, either by the existing players or potential new entrants