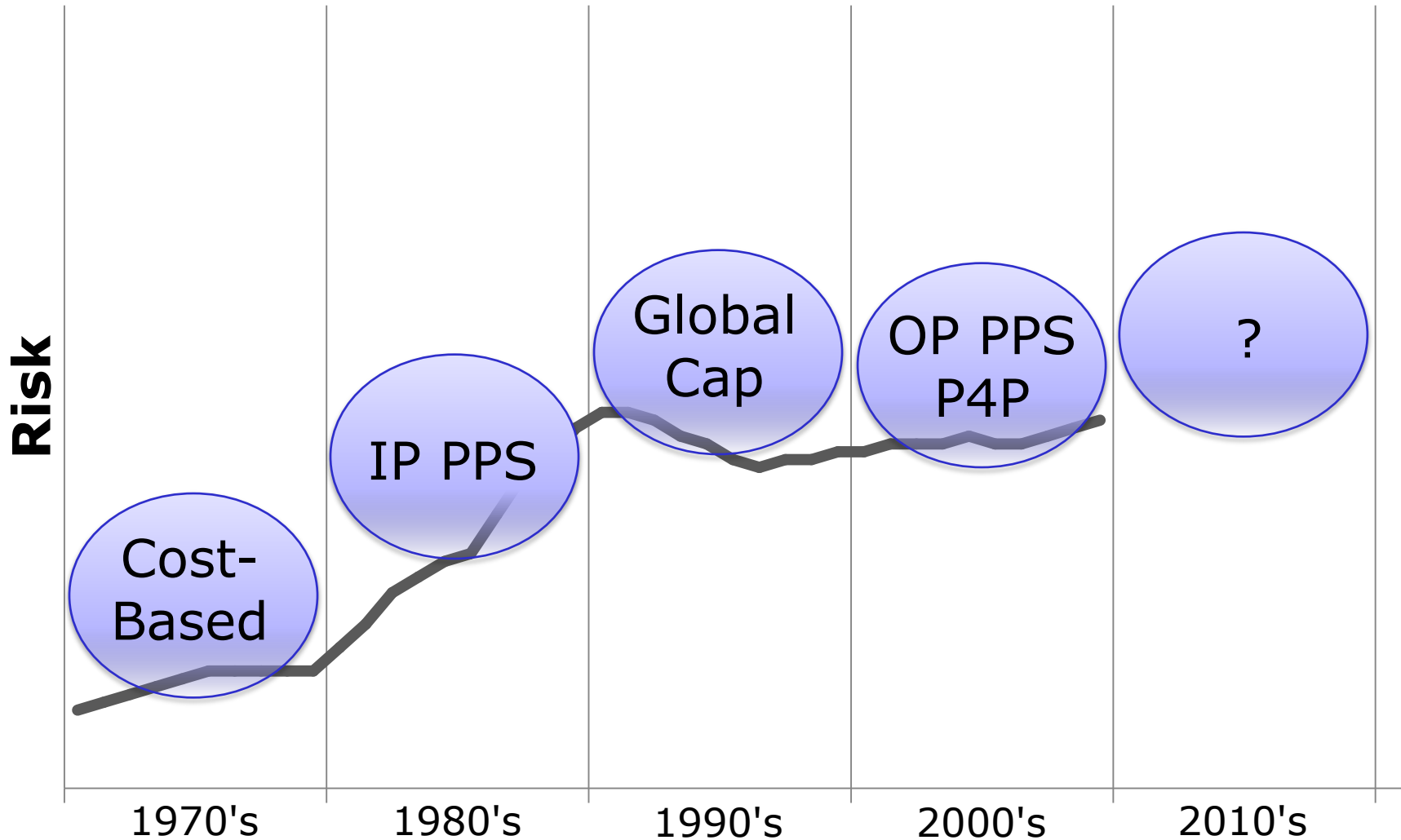


THE PAYER LANDSCAPE: PAST, PRESENT, AND FUTURE

CEO ANNUAL STRATEGY SESSION
Payer Strategies: The Landscape is Changing
VHA Pennsylvania
June 14, 2007

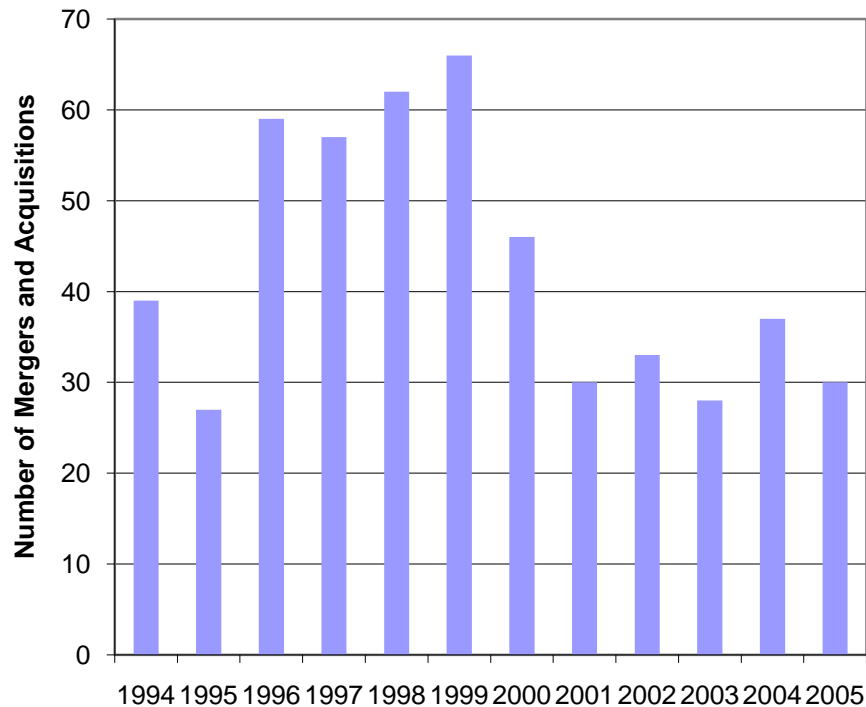
Daniel M. Grauman
President & CEO
DGA PARTNERS
dgrauman@dgapartners.com
610-667-8782

Revenue risk has been relatively stable

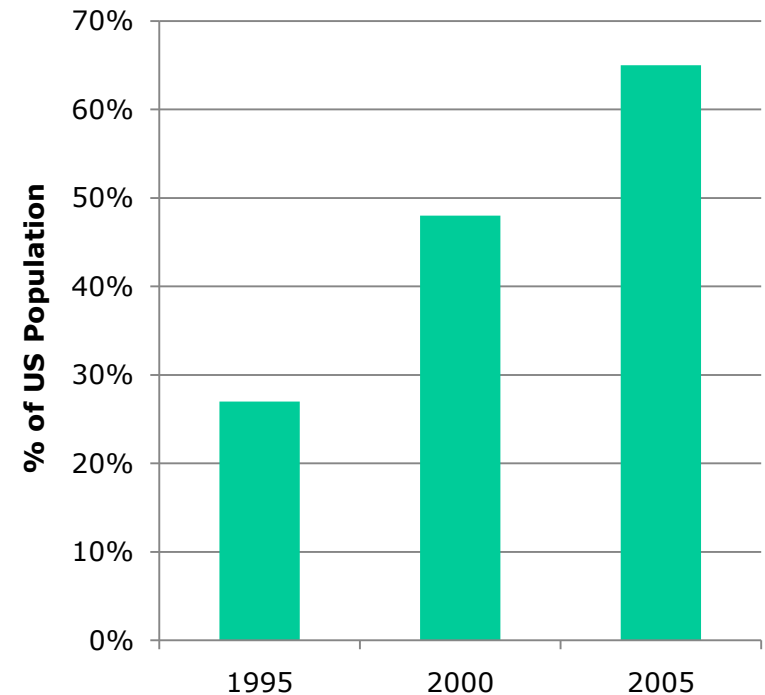


Payers are consolidating...

Managed Care* M&A



Enrollment in Top 10 Plans

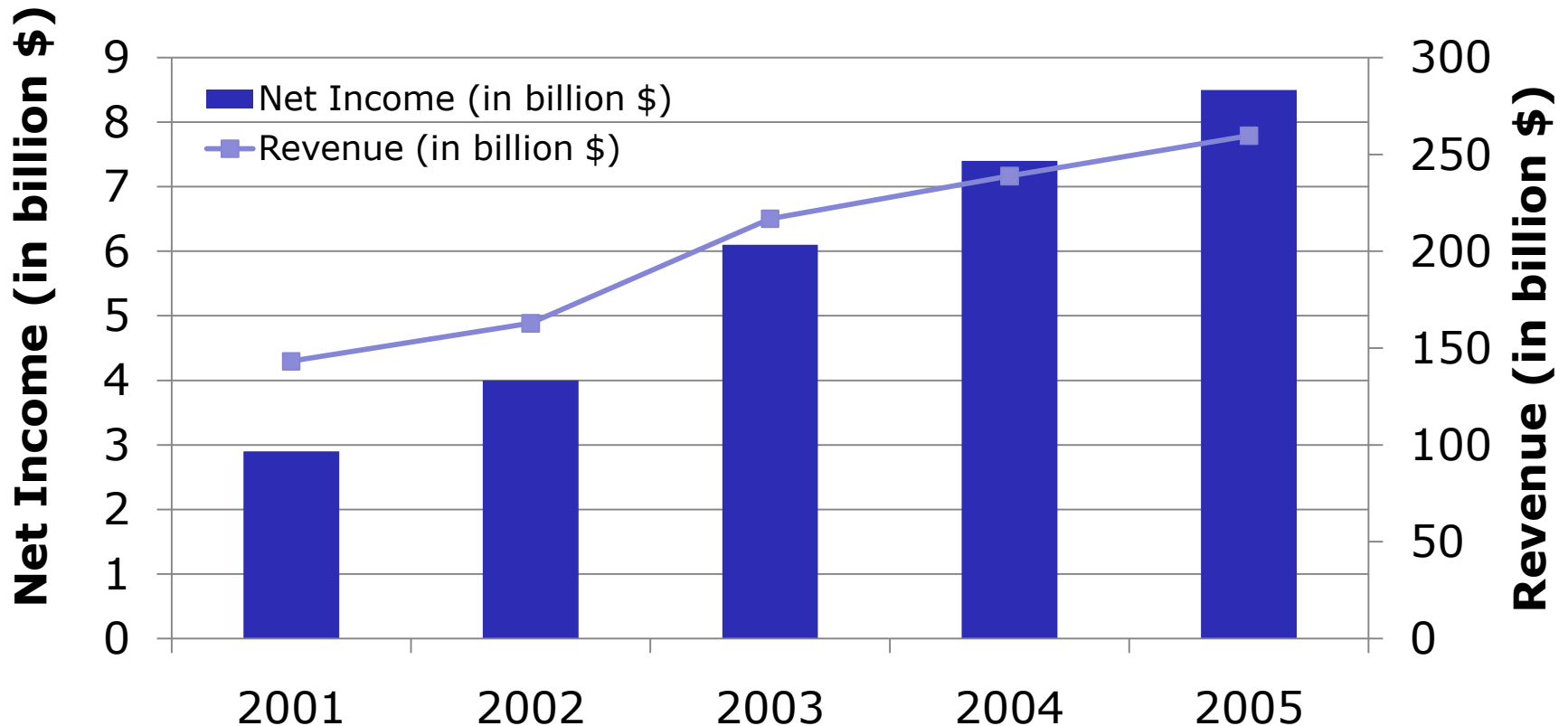


* Managed Care includes, for example, HMOs, PPOs, and dental and vision plans.
Source: Irving Levin Associates' Merger and Acquisitions Data Base in Kaiser Family Foundation's Trends and Indicators in the Changing Health Care Marketplace, 2006.

Source: Standard & Poor's Industry Surveys, Healthcare: Managed Care. September 14, 2006.

The Blues are consolidating and growing, too...

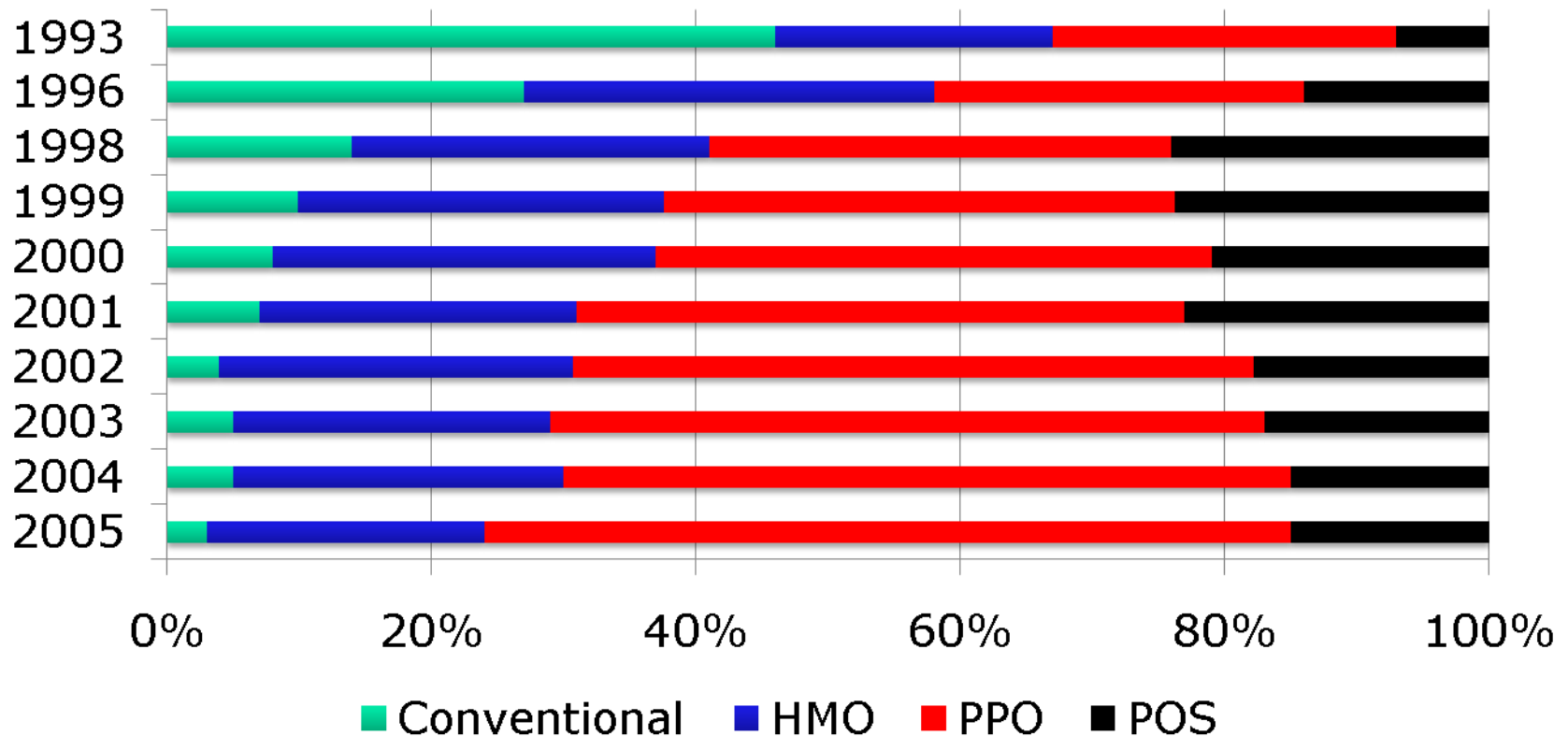
Blues Consolidated Profits and Revenues



Source: Modern Healthcare, "Transparency has its limits." August 7, 2006.

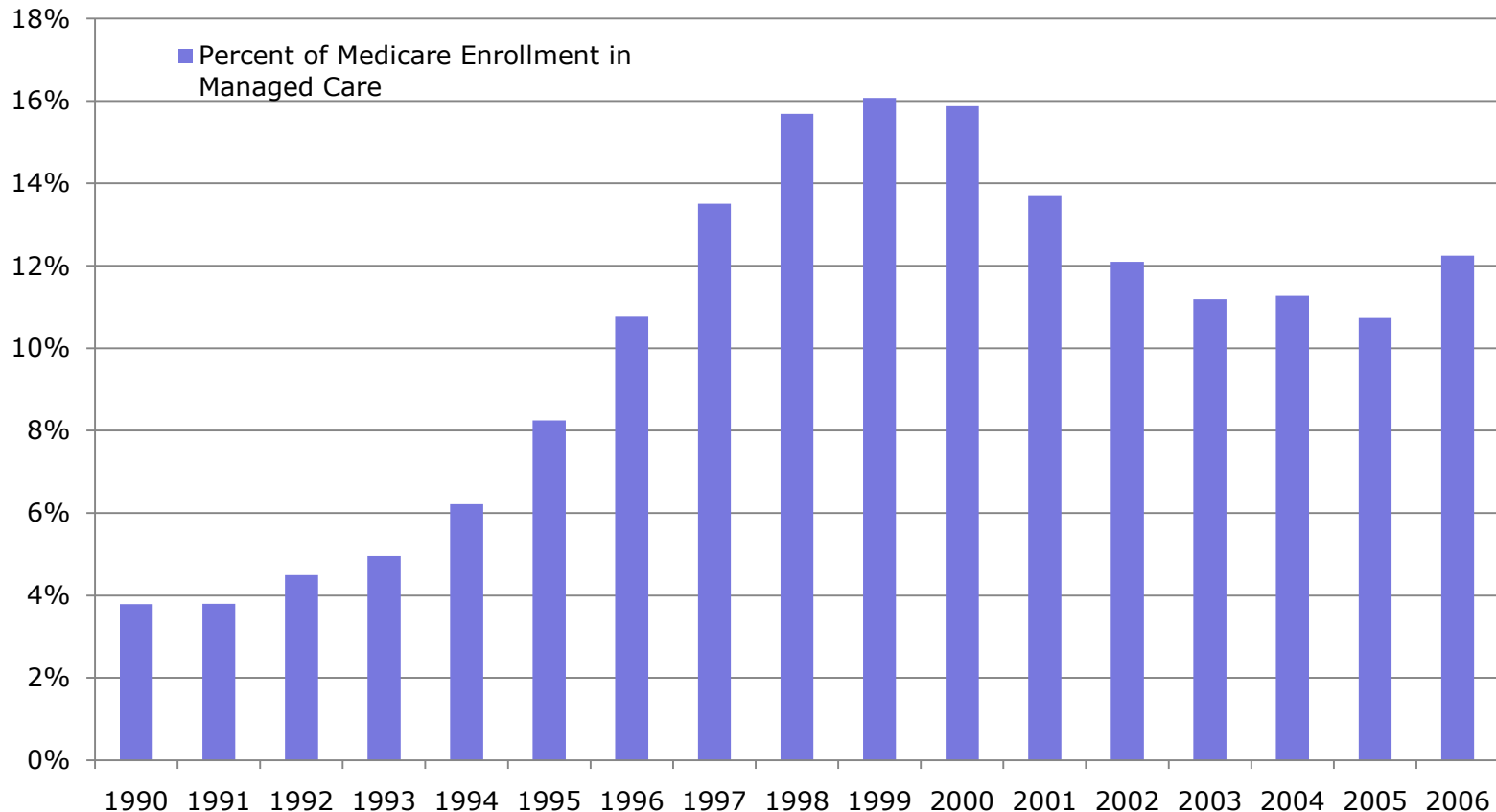
HMOs failed to fulfill their promise...

Enrollment for Covered Workers



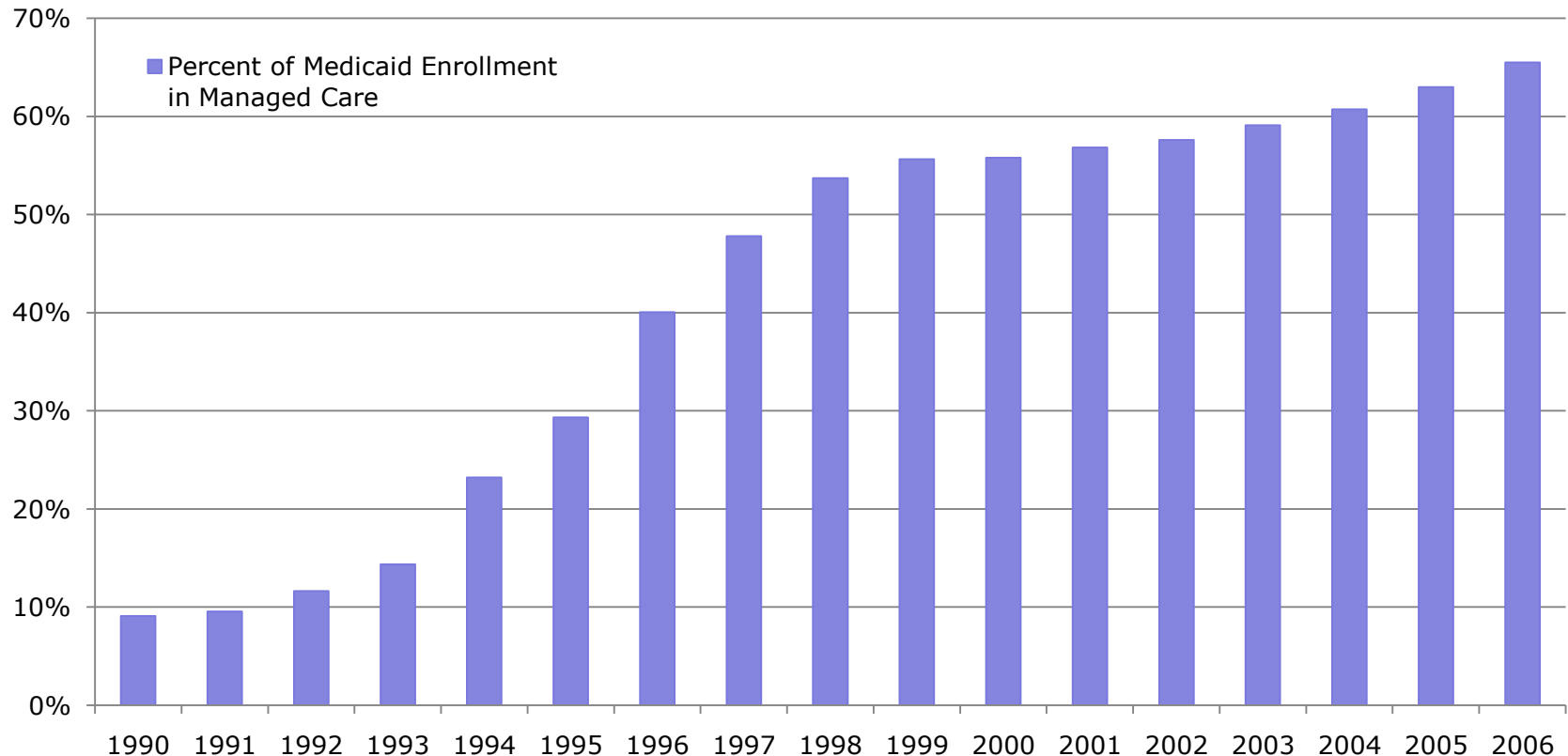
Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2005; KPMG Survey of Employer-Sponsored Health Benefits, 1993, 1996, 1988. (<http://www.kff.org/insurance/7031/print-sec2.cfm>)

Medicare managed care is on the rise...again



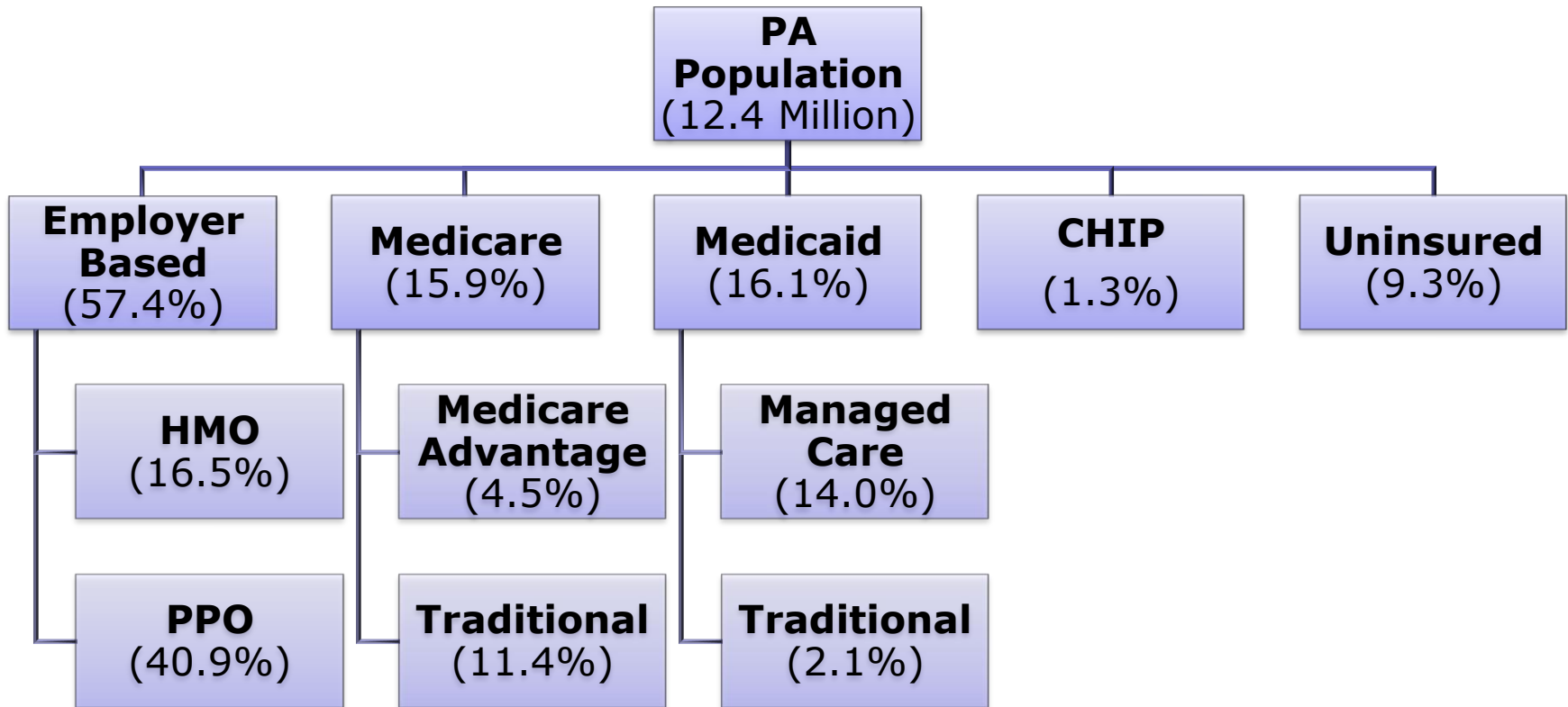
Source: Kaiser Family Foundation, Trends and Indicators in the Changing Health Care Marketplace: Exhibit 2.17, at <http://www.kff.org/insurance/7031/ti2004-2-17.cfm>, and DGA Partners analysis of CMS Medicare Managed Care Contract Plans Monthly Summary Reports for December 1 of 2005, at http://www.cms.hhs.gov/HealthPlanRepFileData/04_Monthly.asp (Medicare managed care enrollment), and total HI-SMI Medicare enrollment data from CMS, at <http://www.cms.hhs.gov/medicareenrpts/>.

Managed care is prevalent among Medicaid programs



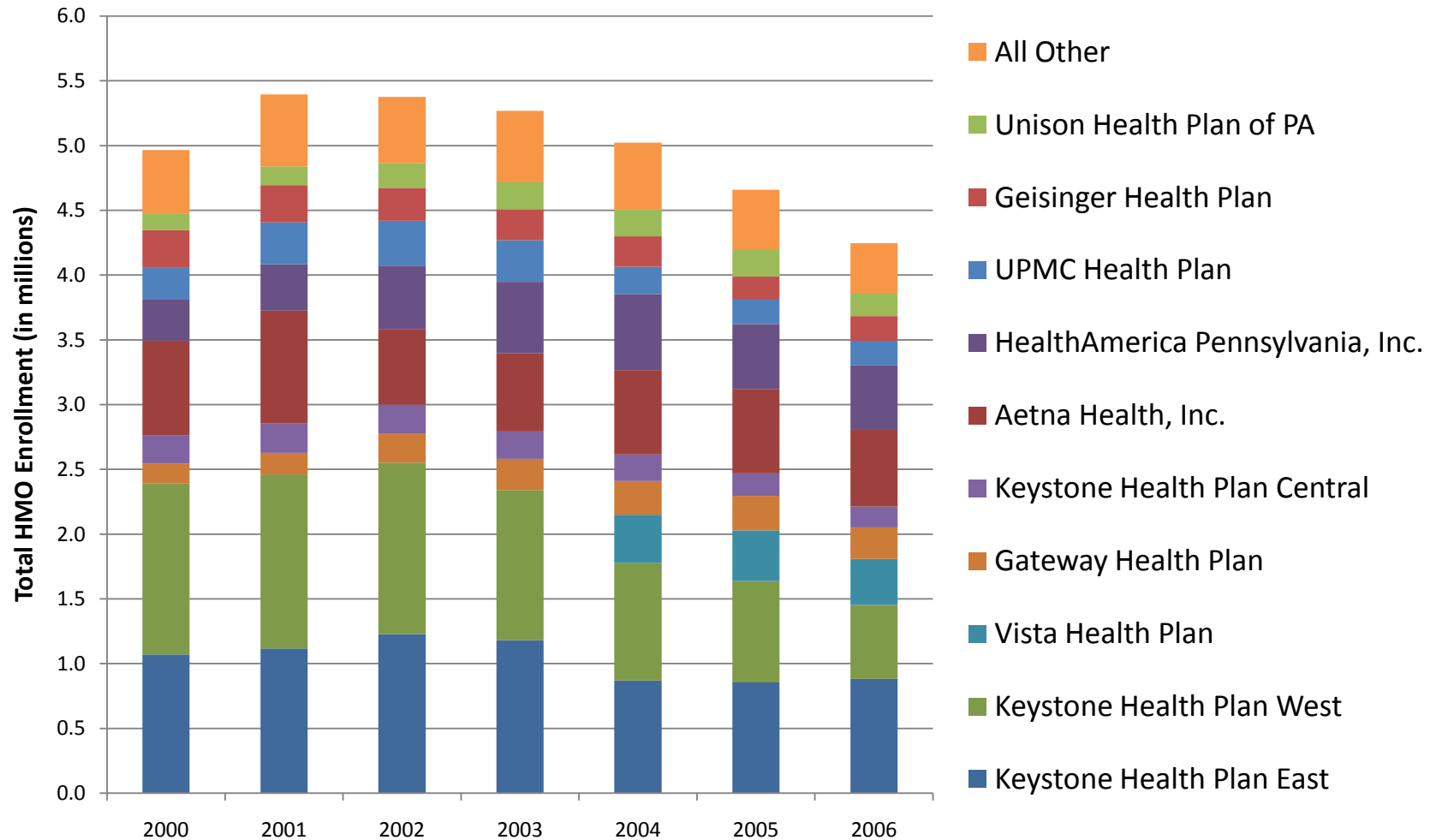
Source: Kaiser Family Foundation, Trends and Indicators in the Changing Health Care Marketplace: Exhibit 2.16, at <http://www.kff.org/insurance/7031/ti2004-2-16.cfm> and DGA Partners Analysis of CMS Data, at http://www.cms.hhs.gov/MedicaidDataSourcesGenInfo/04_MdManCrEnrllRep.asp. Figures represent point-in-time enrollment as of June 30 of each reporting year.

How the PA population breaks down



Source: Estimate by DGA based on multiple sources including PA DOH Vital Statistics 2005, PA DOH Enrollment Report 2006, HealthLeaders Network data, and PA CHIP data.

PA HMO enrollment is down, and the Blues have more than 1/2 of the business



Source: PA DOH HMO enrollment data, 2000 - 2006.

A look at the major players in PA

HMO

PPO

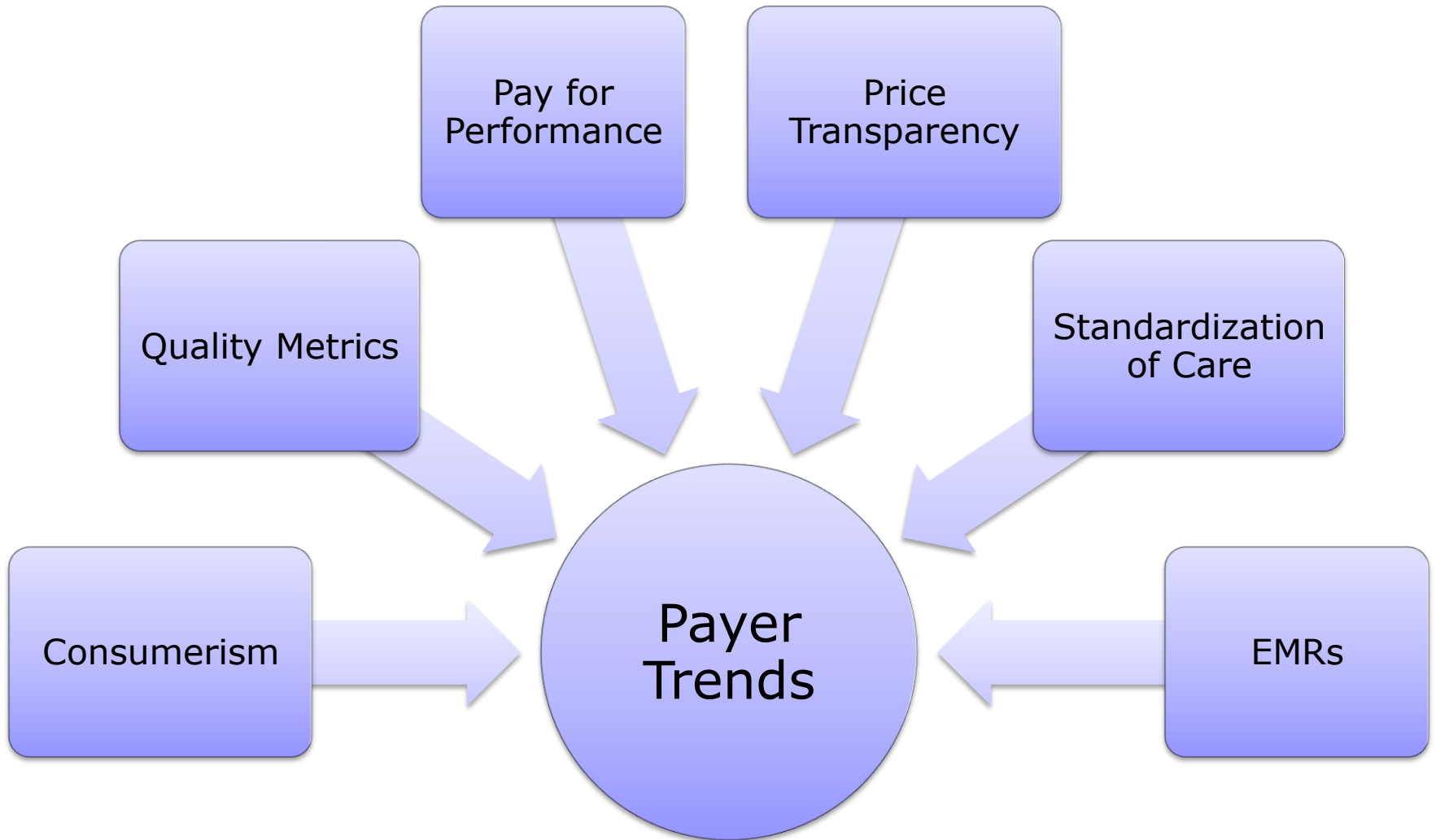
Keystone Health Plan East	IBC	Personal Choice
Keystone Health Plan West	HIGHMARK	Highmark PPO
HMO of NE PA	BC of NE PA	BC of NE PA
Keystone Health Plan Central	CAPITAL BC	Capital Blue Cross
Aetna HMO	AETNA	Aetna PPO
Geisinger HMO	GEISINGER	Geisinger PPO
UPMC Health Plan	UPMC	Enhanced Access PPO
Health America	COVENTRY	Health Assurance

Highmark/IBC Merger

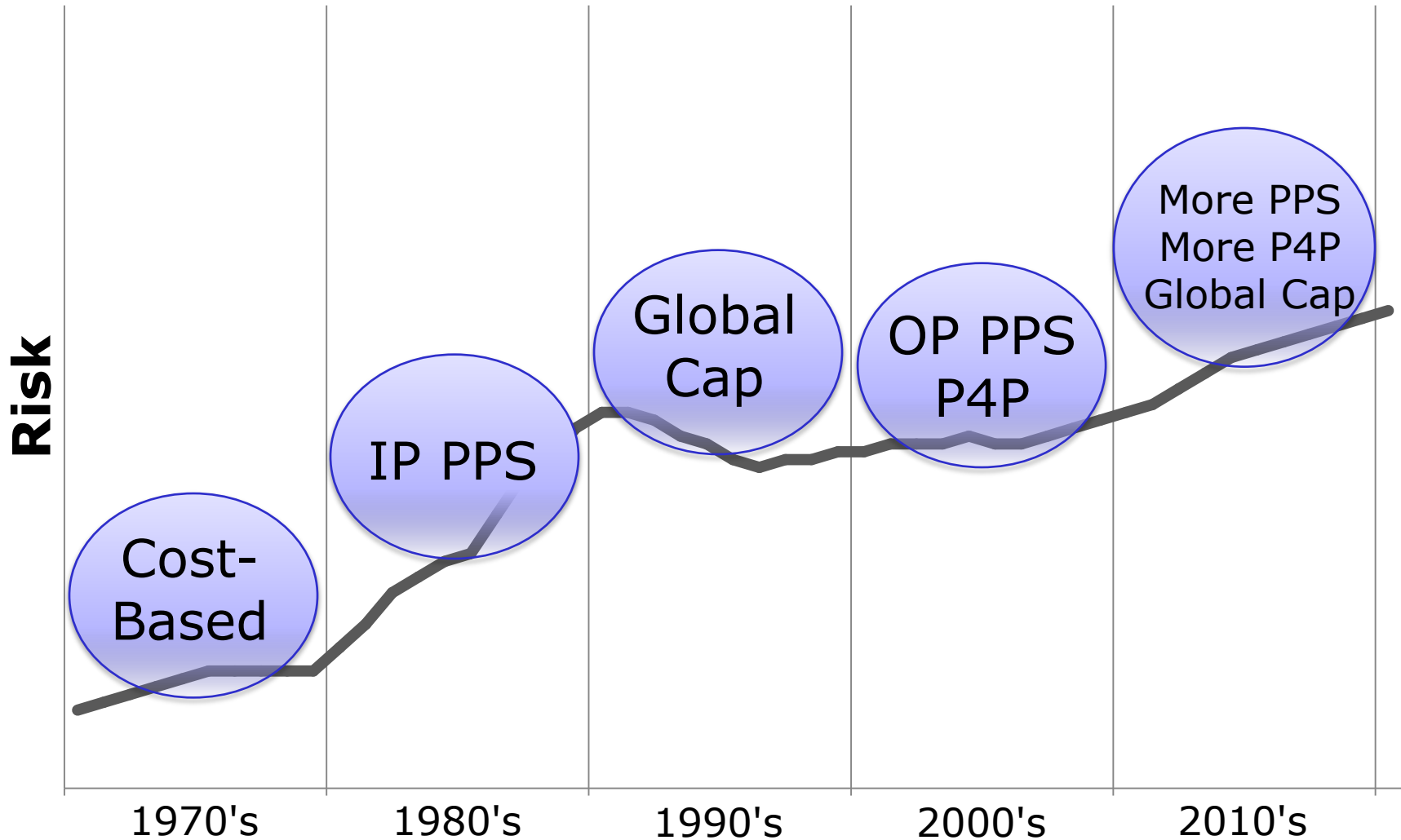
	Highmark	Independence Blue Cross
Headquarters	Pittsburgh	Philadelphia
Members	4.6 million	3.4 million
Employees	18,500	9,500
Revenue (2005)	\$9.8 billion	\$10.6 billion
Profit (2005)	\$341.6	\$143.6

- Will be ranked among top national payers including United Healthcare, WellPoint, Aetna, and Humana
- Control over ~53% of the PA market
- Conversion to for-profit status?

What will drive payers going forward?



Revenue risk will increase...



The future landscape in PA

One Blue Cross plan will be the market leader in PA, with a 60% market share

2-3 other payers will share the rest of the market

Insurance products will be increasingly customized

Consumers will use more disposable income for health care, continue to become more sophisticated in health care decision-making, and choose providers based on price and quality

Providers will need to...

Be price competitive

Continually focus on quality and outcomes and manage “by the number and metrics”

Lead the way with care standardization, evidence-based medicine and EMRs

Consolidate in certain markets