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Health Net Inc. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) And our first question comes from Charles Boorady with Citi.

Charles Boorady - Citi

Thanks. Good morning. Can you give us an update on when you expect a decision from TRICARE and what the impact would be to your TRICARE earnings if you kept the contract under the new terms versus if you lost the contract? While you do split out TRICARE earnings, I'm just curious what you might allocate in expenses to TRICARE that might not be able to be cut if you actually lost the TRICARE contract?

Jay Gellert

With regard to the timing, we have no new news. As we indicated earlier, if the government is going to be able to execute new contracts on April 1st, 2010, a decision has to be reached no later than May of 2009. We're presently beginning the process of negotiating extensions for the government and we have really nothing more that we can add in terms of the timing of the process. We've indicated before that we basically are assuming that the \$100 million of the savings that we have got in the ops strategy really will allow us to deal with the reduced size of the new TRICARE contract and cushions us in the unforeseen event that we don't regain it.

Charles Boorady - Citi

Got it and putting TRICARE aside, can you pull for us a key headwinds or tailwinds that you have going in to '09 versus what you are reporting with your new '08 guidance. In other words, things that are one time in nature that you wouldn't assume would recur positive or negative in 2009?

Jay Gellert

I never get this right. I think tailwinds are positive things and headwinds are negative things?

Charles Boorady - Citi

That's right.

Jay Gellert

Okay.

Charles Boorady - Citi

And never spit into the wind.

Jay Gellert

Yes, okay. So let me try not spitting into the wind in responding. In terms of tailwinds, I think that one of the key things that we wanted to be sure of in terms of revising our guidance was that the two main one-time events this year that would be alleviated, giving us tailwinds going forward. One is PPIA and the other is the diminished performance we're seeing in Medicare both on the PDP side and the MA side.

So a key goal of ours in terms of the guidance we're giving is to assure that we can alleviate those as issues and have them, for all intents and purposes, being tailwinds going into '09. We also think we'll begin to see the benefits of the ops strategy going into '09. Alternatively, the Medicaid adjustment that is the least in our guidance for the second half of the year, if it came to pass would be a full-year adjustment next year. So that would be a headwind going into next year. So I think if you look at it, those would be the main tail and headwind that we see going into next year.

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