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## Health Net, Inc. Q3 2008 Earnings Call Transcript

### Question-and-Answer Session

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#### Operator

Thank you. [Operator instructions]. And our first question from Charles Boorady at Citi.

#### Charles Boorady

Thanks, good morning. My question is around health care cost trends that you're reporting at much higher levels than what we're seeing for the industry overall. Can you give us more supporting detail behind what the factors are, unit price versus volume trends that you are seeing and also comment on whether you believe you're adversely selected against, so some of your trend due to a riskier pool considering the losses of enrollment? As part of explaining that, if you have data on the cost trends for the customers you lost versus kept, this year, considering the big drop in enrollment that would be helpful as well? Thanks.

#### Jim Woys

Thanks, Charles this is Jim. As we look at our increased cost trends, it's primarily around hospital and it's primarily around unit. When we looked at this and we looked at what we saw in the latter part of '07, and the of Q1 of '08, we thought we had a pattern with regards to trend in hospital based on more recent current results we now see it's probably per percent in lying trend there. We have seen an increase in the non-managed admits, specially admissions through ER to non-contract facilities. As well as increase in more intense cases. We built these underlying trends into Q4 and to '09, so it is around hospital, we do think that as some of the membership in the slide business we had and with regard to the economy is impacting the increase in those trends. But we've got to find a way to stem work on that issue about the hospital trends going forward. It's clearly that's where our biggest area of exposure has been and we've adjusted our guidance for that it's clearly hospital. And, primarily for advance that we are not really managing, so stuff that's going through the ER that's ending up in non-contracted facilities at much higher unit rates.

#### Charles Boorady

Do you have the components of cost trends, what's unit cost versus volumes for hospital, in patient, out patient and pharmacy and do you know the loss ratios roughly of the customers you lost versus the ones that you are retaining?

#### Jim Woys

We don't have that right in front, we will get back to you with that.

**Charles Boorady**

Okay, but in terms of addressing to fix the problem, helps to know what the real problem is and I guess considering how much higher your cost trends are than the competition I'm just wondering whether there is a really more of an underwriting and pricing issue than a cost issue per say, and can you really address the high unit cost through re-contracting or any other measures or is it going to require a change in your approach to pricing and underwriting?

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