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Humana, Inc., Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) The first question is from Joshua Raskin from Barclays Capital.

Joshua Raskin - Barclays Capital

My question relates to the migration of the private fee for service license to the PPO and some of them to the HMO networking; maybe Mike if you could help us understand the difference in cost structures in terms of your visibly run medical and admin costs, where did they line up or Humana currently versus the traditional fee for service sort of benchmarks?

James E. Murray

The way that I would think about it is that for the private fee for service, the cost structure is probably 5% to 10% below the regional PPO and the local PPO is probably another 5% or so percent different from that. The way I try to think about it is that the premiums on the regional PPOs will likely one day be about \$100 to \$150, the local PPO will be \$50 to \$100, and the HMO will be somewhere around 0 to \$50 some time in the future. That kind of gives you a sense for the different values that can be achieved. So, if I were a senior and I was looking at some of the different offerings of private fee for service, I'm probably saving \$20 to \$30 per member per month by moving from a private fee for service into a regional or local plan.

Joshua Raskin - Barclays Capital

So then it sounds like when you said eventually the local PPOs will still be something in the ball-park of \$50 pmpm were expensive than the HMO, is that a fair way to look at it?

James E. Murray

Yes.

Joshua Raskin - Barclays Capital

Okay, that's helpful.

Michael B. McCallister

Josh, there's another thing I think we should think about; now is the time to really move people into PPOs because the payments rates are such that it gives us more flexibility in terms of product

offerings and the level of benefits and all other things. The issues over time relative to that to get people to switch, one is the benefit, one is the premium, all that stuff is in place; I think it's smart to go now and really emphasize the PPOs, and that's what we've done. We've taken advantage of where we are from a payment perspective to begin that process now as opposed to waiting for 2011. I said many times in 2011 people will sit down and make a value judgment about what they want to have and I'm pretty comfortable they're going to make the right call and the rest of them, however, many are still left will probably move to a PPO, we expect them to, or an HMO, but I think the timing is now to be moving to PPO and that's what we've tried to do here.

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