

HMO WITHDRAWALS

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The Fall of Medicare HMOs Sprouts New

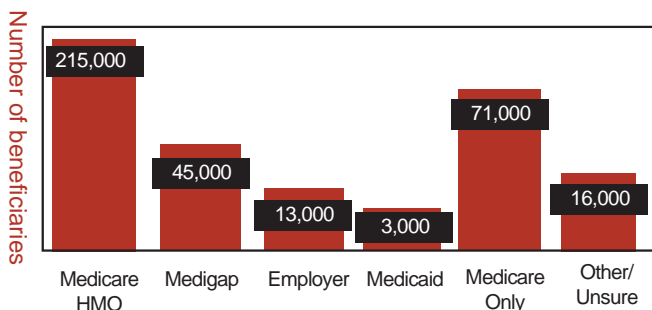
Of the estimated 327,000 Medicare HMO beneficiaries who were involuntarily disenrolled at the end of 1999, 71,000 returned to traditional Medicare and 45,000 purchased a Medigap policy (See Chart A), according to the Survey of Experiences with Medicare HMOs by the Henry J. Kaiser Family Foundation. When the same percent is applied to the new round of disenrollments, more than 140,000 disenrolled Medicare HMO beneficiaries will purchase Medigap policies before they lose their healthcare coverage on Dec. 31, 2000. However, several studies indicate the number of involuntarily disenrolled Medicare HMO beneficiaries who chose to purchase Medigap policies rather than enrolling with a new HMO could increase. After four consecutive years of mass Medicare HMO withdrawals, data compiled by several organizations indicates that Seniors are showing their displeasure with

their Medicare HMO plans by dropping the coverage for other forms of healthcare, including traditional Medicare in conjunction with a Medigap policy.

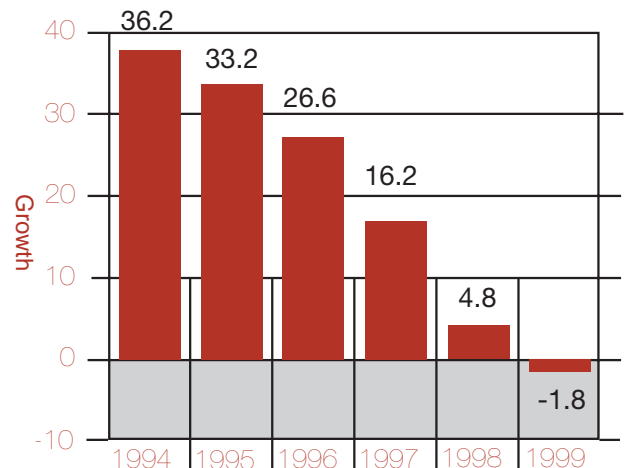
According to the Health Care Finance Administration (HCFA), 6.2 million Medicare beneficiaries were enrolled in Medicare HMO plans in April 2000. That number is down 1.8 percent from December 1999 when 6.3 million were enrolled in Medicare HMOs (See Chart B). The drop marks the first sustained decline in Medicare managed care enrollment in more than a decade and continues a trend of slowing enrollment growth. In 1998 enrollment grew 16.2 percent and in 1999 enrollment grew just 4.8 percent.

An InterStudy Publications report, which compares enrollment rates in July of each year from 1990 to 1999, shows a sharper decrease in enrollment growth.

New Coverage Arrangements for 1999 Disenrolled Medicare HMO Beneficiaries (Chart A)



Percentage Change in Medicare HMO enrollment by year (Chart B)



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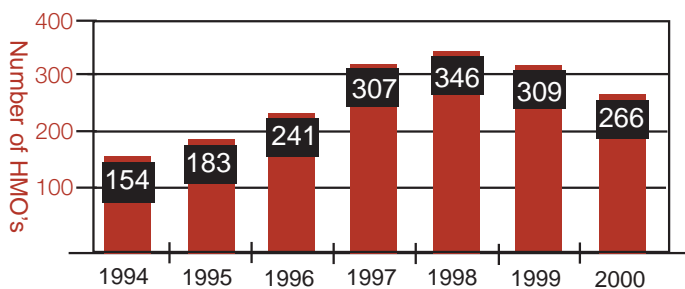
In the wake of the mass exodus of Medicare HMOs, HCFA and the American Association of Health Plans (AAHP) expect the trend to continue with a significant drop in enrollment in 2001. HCFA also reports that, as of April 2000, 262 Medicare HMOs offered plans throughout the U.S. That's a significant decrease from year-end 1999, when 309 health plans participated (See Chart C). With that trend expected to continue, beneficiaries will have fewer and fewer Medicare HMO options as the expected exodus from the market continues in years to come. HCFA has not yet released data on the number of Medicare HMOs that will remain after the next wave of pullouts. However, AAHP data reveals that the number of Medicare HMO contracts and service area expansions approved by HCFA has fallen substantially (See Chart D). In the first four months of 2000, HCFA approved only six

new Medicare HMO contracts and seven service area expansions.

In 1999, HCFA approved only 26 new contracts and 26 service area expansions. In 1998 HCFA approved 55 new Medicare HMO contracts and 46 service area expansions and in 1997, 53 new contracts and 38 service area expansions were approved.

The national decline in enrollment is evidenced at the state level, where 31 states and the District of Columbia had negative or zero enrollment growth. Of states having at least 10 percent of beneficiaries in Medicare HMO plans, Louisiana experienced the largest decline in percent of beneficiaries enrolled, down 15.9 percent. The proportion of Maryland's beneficiaries enrolled decreased 14.6 percent. Florida lost the largest number of beneficiaries – nearly 35,000 – and New York and Louisiana each lost about 17,000.

Number of HCFA Medicare HMOs contracted with HCFA (Chart C)



Number of HMO Medicare HMO contracts and senior aid expansions approved by HCFA by year (Chart D)

