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We are in an ever-changing business, in part because Medicare is an ever-evolving program – and always will be. The Medicare of today is different from the program of ten years ago and will not be the same ten years from now (see page 5 for a history of Medicare reform). As a writer of Medicare Supplements, we operate our business in this transient environment and accept change as part of our marketplace landscape. In order to be successful, we should anticipate change and adapt the way we conduct business accordingly. What's great for us is that UA has always been particularly successful at adaptation.

Another new change has taken place in our business as it relates to voluntary HMO disenrollments. In an effort to slow the rapid decline of Medicare Part C or Medicare+Choice or HMO organizations (pick a name), the government has passed what have been affectionately termed "lock-in" laws. These laws essentially set very defined periods during which an individual may "voluntarily" withdraw from an HMO (see pages 7-8 for details). The goal of these laws is to extend the period of time the average individual belongs to an HMO. With patients' rights and lack of choice issues, HMOs have experienced an exodus of policyholders who are returning to traditional Medicare. The intent of the lock-in laws is that if the average life span of an HMO customer might be elongated, poor Medicare HMO revenues might increase, and the flailing Medicare+Choice program might be stabilized.

The key word here is "might." There are several points to consider here as we think about our own business. First and foremost, "involuntary" disenrollments are completely unaffected, because the new lock-in laws only affect the "voluntary" disenrollments. Second, you would be hard-pressed to find anyone who does not admit Medicare HMOs are in trouble — big trouble. Even the people who work for HMOs admit it. Point in fact: many of the HMOs that have previously involuntarily disenrolled their Medicare HMO customers in past years have now returned to profitability in the underage market, while other managed care companies that have attempted to stay in the Medicare HMO market continue to have severe challenges. What this means to us is HMOs may continue to withdraw from the Medicare marketplace and involuntary disenrollments of HMO customers will continue. But the other HMO policyholders who want to voluntarily leave their HMO are now being forced into a lock-in with their HMO, preventing these seniors from disenrolling from July through October. I wonder when these Medicare HMOs might initiate their rate increases? Regardless, after the initial lock-in through October under the new rules, in November they will again be allowed to voluntarily disenroll, but will be again be locked in December. Certainly, dissatisfied lock-in seniors will literally jump at the opportunity to voluntarily re-join traditional Medicare and purchase a Med-Supp plan in November, creating a huge app-writing opportunity for UA agents. (*Continued on page 4*)

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As far as "involuntary" disenrollments are concerned, if you recall CMS delayed the date that HMOs had to announce their intentions to stay or leave certain Medicare HMO markets last year, until September 2001. This year, CMS has annouced that Medicare HMOs must publish their intentions within the marketplace by July 1. Assuming this date stands, starting July 1, there will most likely be a good number of folks looking for health care coverage as they are "involuntary" disenrolled from withdrawing HMOs. As in past years, starting July 1, UA Agents and managers will again be busy helping these folks forced out of their HMO understand Medicare and how UA can help. Keep in mind when considering the new "lock-in" laws that they affect only HMO "voluntary" replacement business. Our calendar will really be full for the rest of the year as we help seniors find the right supplement option: we will be busy writing the "involuntary" disenrollments announced in July through the end of the year, and writing the "locked-in" seniors in November when they are finally allowed freedom of choice for one month again. While the voluntary HMO replacements are a portion of UA's Med-Supp business, they are still only a small portion of our total business. The majority of our new business is generated through those turning 65 and those already on Medicare. Keep in mind the growing numbers of baby boomers who are beginning to enroll in Medicare and strive to target these individuals as prospects, as we always have.

Change is an inevitable fact of a far-from-perfect Medicare system. However, UA has been in business for more than 50 years, and time and time again we have been extremely successful in proving we take advantage of these types of changes. While other companies may choose to view changes as lemons, know that we will create lemonade and make positives for our company, as the ranks of competitors continue to shrink. Although these laws are new, change is something we deal with well, and something in which we've always found great advantages. Change is our friend at UA and something our financial soundness and creativity allows, because we have already proven we can profit when others can't – time and time again. As veterans review the many changes made to Medicare in the past seen on page 5, they'll recall many other companies and agents who did not adapt successfully as did UA. New sales opportunities were invariably created for UA from Medicare's past changes. In 1965 when the Medicare program was enacted, most companies thought the elderly would no longer buy health insurance, but for UA Medicare's creation created a new market and we jumped in with both feet. In 1972, when the disabled were included in Medicare, UA saw this as a sales opportunity. In 1983, the DRG concept was introduced and created greater senior concerns for the higher-quality products that UA had. As Medicare's reduction of approved charges declined, UA introduced excess charge coverage, and UA again grew. When the Catastrophic Act was introduced, other companies left the market but we stayed in it, and as anticipated the act was repealed one year later, so UA grew again in the late 1990s. After the new Medicare+ Choice plans were enacted many other companies left the market, but we profited as those Med-Supp companies left, as we again profited when managed care's gatekeeper system began to fail. The greatest thing about new changes is that at UA the same management exists today as was in place for nearly all prior changes. UA will continue to identify new sales opportunities that give all of us even greater success. In the first and second quarter of 2003 you will begin to see some other very positive changes in our market position, changes which you and I will take full advantage. Mark these words… the exodus will continue by competitors who manage by one word and one word alone: "CHEAP" – but UA will continue to always be there for you, and our customers. I look forward to a great second half of 2002!