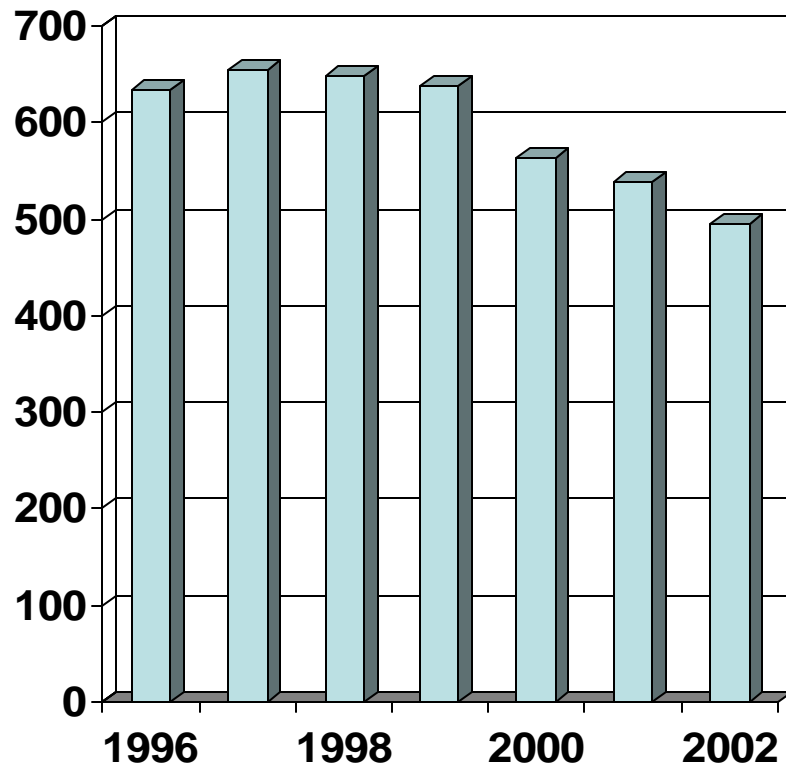


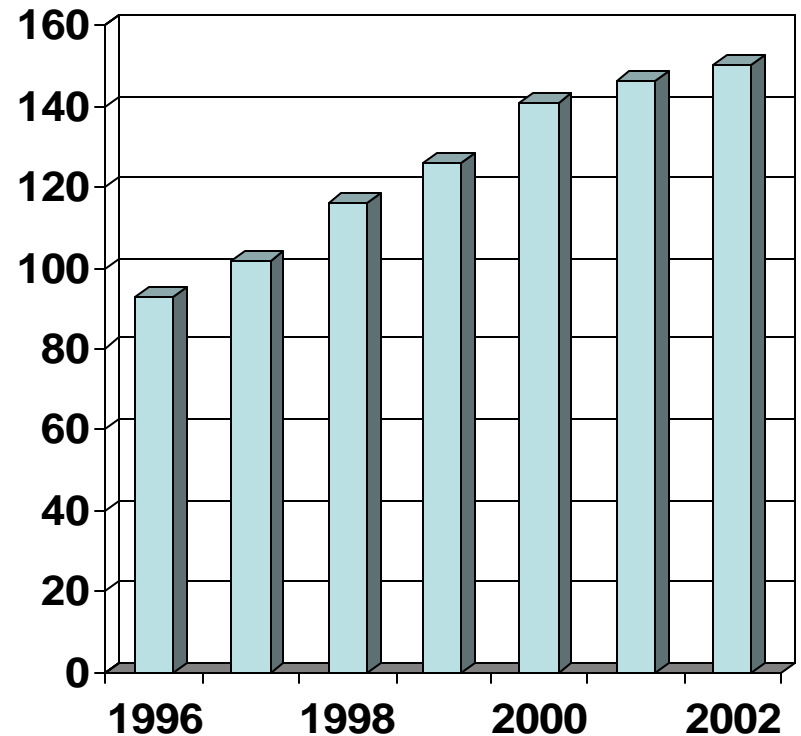
# National HMO Trends

## Number of HMOs



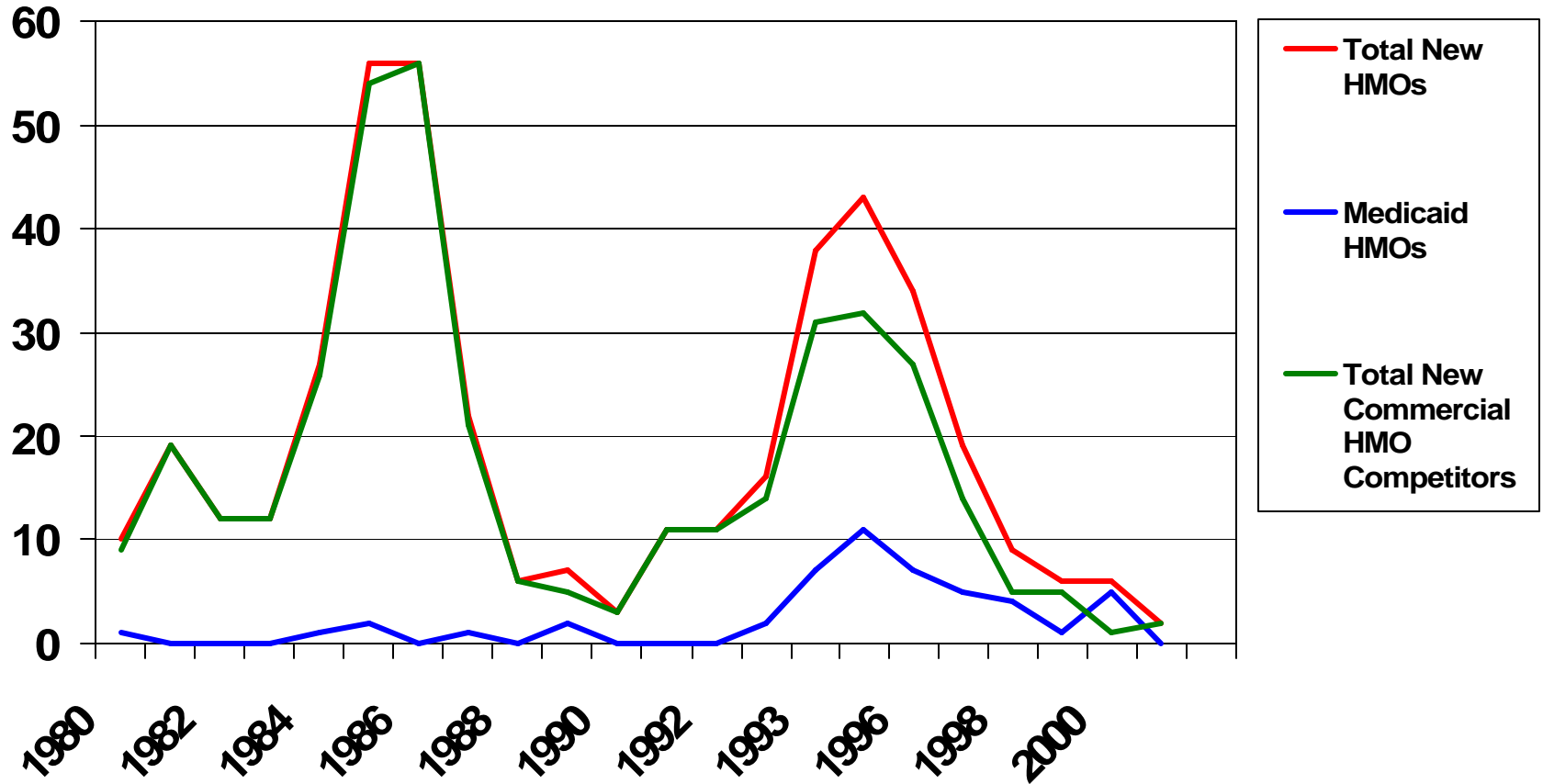
## Average Size

(1,000s of Members)



Source: InterStudy

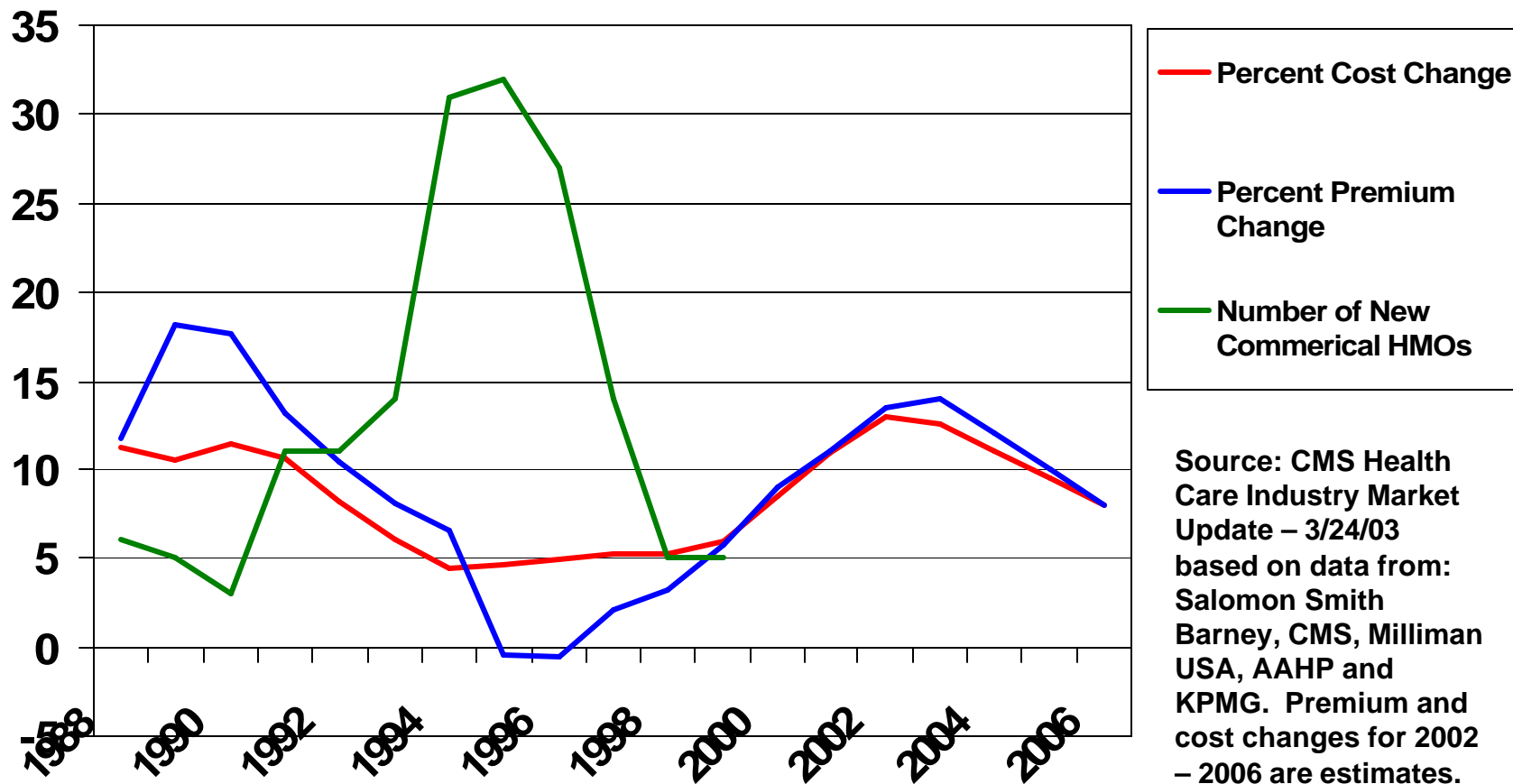
# New HMOs\*



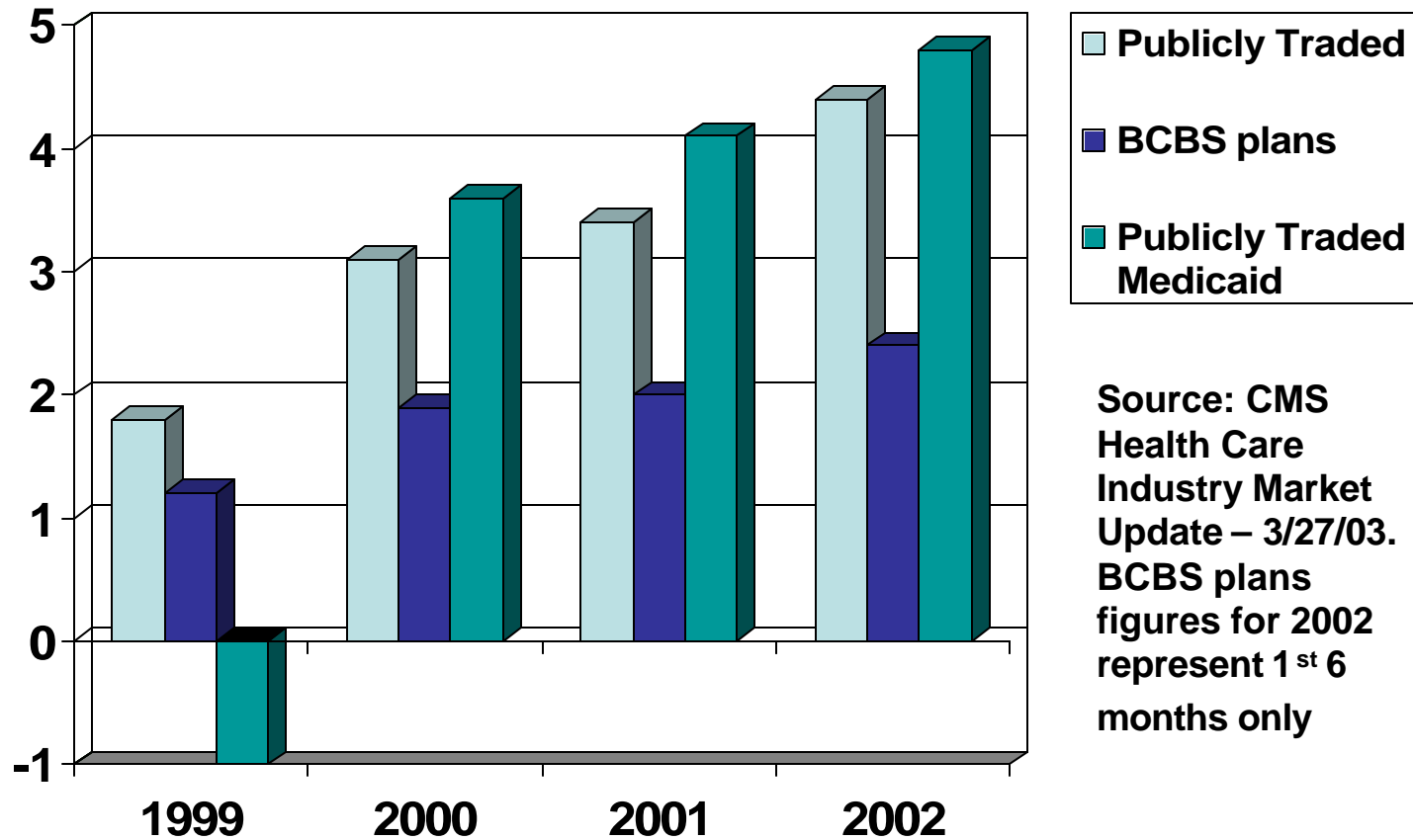
Source: InterStudy

\* Entry year determined by plan AGE response in 2002

# Premium & Cost Percentage Changes and New HMO Entrants

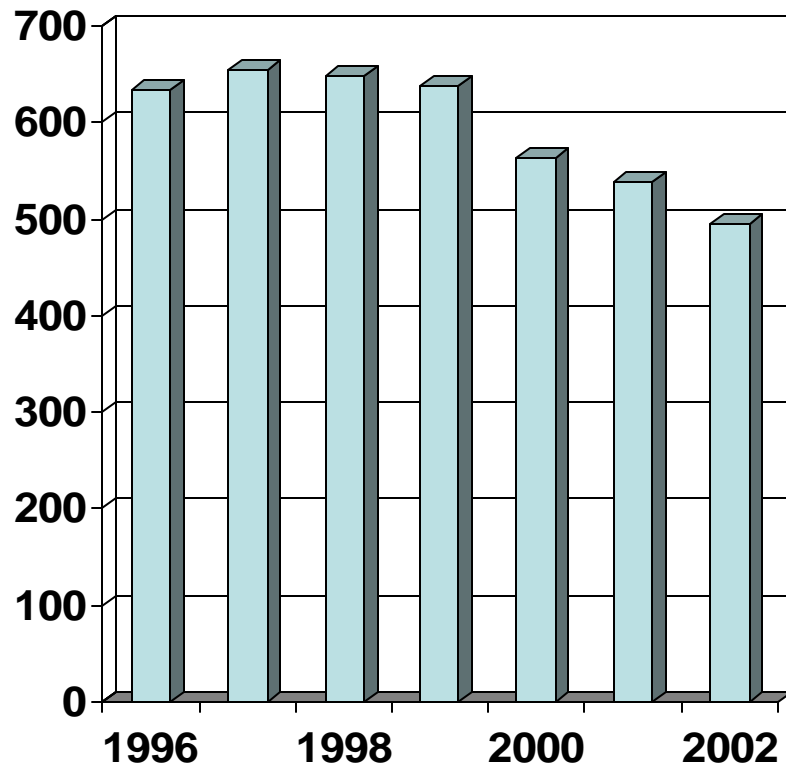


# HMO Net Income Trends



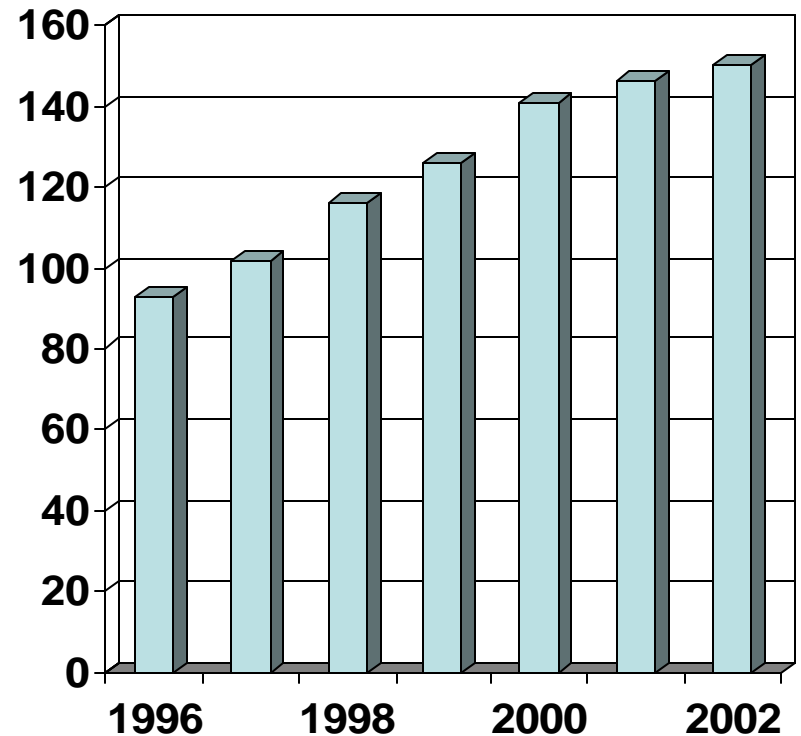
# National HMO Trends

## Number of HMOs



## Average Size

(1,000s of Members)



Source: InterStudy

# Possible Sources of HMO Economies of Scale

## SUPPLY SIDE

Scale Effects that Lower COSTS

## DEMAND SIDE

Scale Effects that Increase REVENUES

Local  
Market

Technological  
State regulation, RBC requirements  
Local administration  
Disease and Utilization Management

Pecuniary  
Bargaining with local providers -  
MD networks and hospitals

- Broader local provider networks
- More financially stable and better managed organizations (PBGH)
- Critical mass required for population health and disease management programs (CalPERS)

National  
Market

Technological  
National administrative systems,  
including IT systems for more effective underwriting

Pecuniary  
Bargaining with national suppliers,  
including the pharmaceutical companies, PBMs and other vendors

- National account services to beneficiaries that can have local effects
- Cross-selling of HMO, PPO, ASO & other non-health benefits products may reduce purchaser transaction costs
- Critical mass required for population health and disease management programs