

Americas: Managed Care

10 years of health reform

We have published a new 10-year industry model

As we near the final weeks for health reform efforts in Congress, we have published a new, interactive 10 year model to forecast potential impact.

We now forecast 2010-2019 EPS growth of 5% under health reform

Under our "base" case scenario, we forecast core managed care earnings growth would be cut by 50% over the next decade under implementation of the current Senate Finance Committee reform plan. Specifically, we see sector EPS growth at approximately 5% per year under health reform (2010-2019) as compared to 10% EPS growth with no health reform.

We also consider a "bear" case scenario for reform that would drive declining EPS for the sector in aggregate over the next decade. The reform measures that would most negatively impact earnings growth are funding cuts to Medicare Advantage and strict new regulations for the individual and small group business. These would be partly offset by the positive impact of expanded insurance coverage under reform.

Under reform, 8% EPS growth for CIGNA, -2% for Humana

Under our "base" case scenario for reform, our company-level forecasts for 10 year EPS range from a decline 2% per year for Humana (owing to its Medicare Advantage exposure) to growth of 8% per year for CIGNA and Aetna (owing to their concentration of earnings from larger employers).

Neutral on managed care; CIGNA remains our favorite

We remain Neutral on core managed care although our bias is increasingly for sector upside given the 20% fall in valuations over the past 5 weeks. CIGNA remains our favorite with by far the least downside risk exposure to health reform even as the stock trades at a valuation discount to the group. We also recommend UnitedHealth and Health Net (both Buy rated).

Risk-reward has become more favorable with lower valuations

Health reform outcomes: probability, earnings growth and implied return

	Probability	EPS growth 2010-19E	Expected valuation	Variance w/ current valuation
No reform	25%	10%	12.5x	59%
Reform: "bull" case	10%	10%	11.5x	47%
Reform: "base" case	55%	5%	7.5x	-4%
Reform: "bear" case	10%	-1%	5.0x	-36%
Probability-weighted		6%	8.9x	13%
Current sector valuation			7.8x	

Source: FactSet, Goldman Sachs Research estimates.

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EPS REVISIONS

New	2009E	2010E	2011E
Aetna	\$ 2.85	\$ 3.05	\$ 3.35
UnitedHealth	\$ 3.10	\$ 3.15	\$ 3.40
WellPoint	\$ 5.66	\$ 6.10	\$ 6.55

Prior	2009E	2010E	2011E
Aetna	\$ 2.85	\$ 3.00	\$ 3.25
UnitedHealth	\$ 3.10	\$ 3.15	\$ 3.60
WellPoint	\$ 5.66	\$ 6.10	\$ 6.45

Change	2009E	2010E	2011E
Aetna		\$ 0.05	\$ 0.10
UnitedHealth			\$ (0.20)
WellPoint			\$ 0.10

Source: Goldman Sachs Research estimates.

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Overview: 10 years of health reform

As we near the final weeks for health reform efforts in Congress, we have introduced a new, interactive 10 year model (2010-2019) to forecast the impact of legislation.

Under our “base” case scenario, we forecast sector earnings growth would be cut by 50% over the next decade as a result of health reform implementation.

However, while we are maintaining our Neutral coverage view, we now see a positive risk-reward for managed care stocks given the recent decline in valuations.

CIGNA remains our favorite given its very limited presence in the product areas (Medicare Advantage, individual and small group) most at risk under health reform.

With Senate Finance Committee approval of a compromise health reform plan, we are nearing the final weeks for health reform efforts in Congress. At this point, we assign a 75% probability to health reform becoming law under the current effort.

Health reform to lower EPS growth by 50% under our “base” case

Under our new 10-year industry model, we begin with a baseline forecast of 10% annual EPS growth over the next decade in the absence of major health reform legislation.

Against this baseline, we forecast EPS growth of approximately 5% per year under our “base” case for health reform implementation, which is modeled on the current Senate Finance Committee reform plan.

However, we see a positive risk-reward with now-lower valuations

While maintaining our Neutral coverage view, we see a positive risk-reward for the core managed care sector at this point, notwithstanding further volatility we expect as legislation is moved forward in Congress.

Over the past 5 weeks, valuations have moved to below 8x forward earnings from above 9x as the group has underperformed the S&P 500 by nearly 20% (see Exhibits 2 and 3 for a historical perspective on sector valuations). However, we believe final legislation is unlikely to get much worse for the industry than the current SFC reform plan and we do not believe a government-run public plan will be included in final legislation.

To be clear, we expect the stocks would go **down** if the current SFC reform plan is made law (see Exhibit 1), but we think that is mostly priced-in and the magnitude of further downside would be limited. By contrast, we see higher probability for scenarios that would lead to significant stock upside (i.e., no reform, or scaled-down reform under our “bull” case) than for the “bear” case scenario that would drive severe stock downside.

We think stocks will go down if the SFC plan becomes law. Nevertheless, we see a net positive risk-reward given the range of potential outcomes.

Exhibit 1: We see a positive risk-reward for core managed care

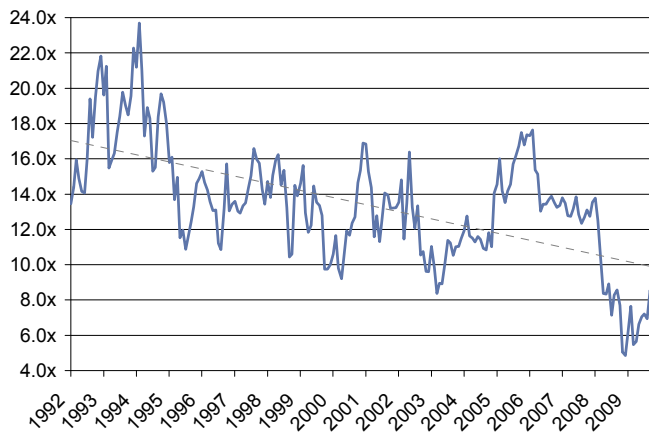
Probability-weighted EPS growth, valuation and sector stock return, core managed care

	Probability	EPS growth 2010-19E	Expected valuation	Variance w/ current valuation
No reform	25%	10%	12.5x	59%
Reform: "bull" case	10%	10%	11.5x	47%
Reform: "base" case	55%	5%	7.5x	-4%
Reform: "bear" case	10%	-1%	5.0x	-36%
Probability-weighted		6%	8.9x	13%
Current sector valuation			7.8x	

Source: FactSet, Goldman Sachs Research estimates.

Exhibit 2: Valuations reflect health reform and the cycle

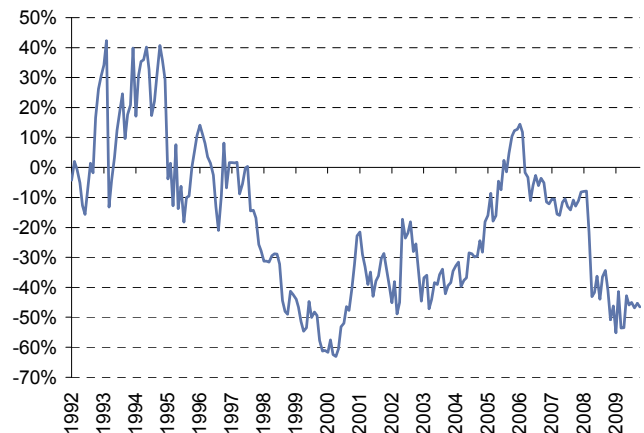
Core managed care forward PE on Street consensus EPS



Source: FactSet.

Exhibit 3: Valuations reflect health reform and the cycle

Core managed care relative valuation (vs. S&P 500 fwd. PE)



Source: FactSet.

Overall, we see the best-reward for investors in CIGNA given its very limited presence in the product areas most at risk under health reform (Medicare Advantage, individual and small group) and given our view of the likely reform scenarios (see Exhibit 4).

Exhibit 4: CIGNA offers the best risk-reward relative to potential health reform outcomes

Probability-weighted EPS growth, valuation and implied stock return, CIGNA

	Probability	EPS growth 2010-19E	Expected valuation	Variance w/ current valuation
No reform	25%	9%	10.5x	51%
Reform: "bull" case	10%	9%	9.5x	36%
Reform: "base" case	55%	8%	8.5x	22%
Reform: "bear" case	10%	7%	6.5x	-7%
Probability-weighted		8%	8.9x	28%
Current valuation			7.0x	

Source: FactSet, Goldman Sachs Research estimates.

Stock reaction reflects progress as well as the “devil in the details”

Managed care stocks have continued to trade down as the SFC plan moved from the Chairman’s mark in mid-September to approval on October 13, despite the fact that the SFC plan represents a more ‘centrist’ approach (e.g., no public plan) as compared to the other Congressional reform proposals (the Senate HELP committee plan and the more liberal plans in the House).

However, the negative market reaction appears to partly reflect that major health reform is now seen as more likely to become law than was the case in the late summer.

Stocks traded down again last week as Republican Senator Olympia Snowe (Maine) joined Democrats in approving the SFC plan, signaling to investors higher odds for 60 votes in favor of reform in the Senate. This view was bolstered by the statement of fellow Maine Republican Susan Collins that she might vote in favor of reform legislation as well.

While these two Republicans, along with centrist Democrats, are expected to push back against attempts to include a public option (Snowe backs a public option “trigger”, but Collins and some centrist Democrats oppose this idea), it remains unclear if a final legislative compromise could leave the industry vulnerable to a public plan in the not-too-distant future.

Equally important to driving negative investor sentiment over the past weeks has been investor discomfort with the other aspects of the SFC plan. While more investors had already assume the SFC plan would exclude a public option but include severe MA funding cuts, other aspects of the SFC plan have emerged more negatively than hoped. In particular, the provision to impose a \$6.7 billion annual industry “fee” starting as soon as next year, coupled with the weakening of mandates on individuals to maintain coverage.

The details of the SFC plan have emerged more negative for the industry than was hoped.

Next steps in the push for health reform legislation

As a next step following SFC approval, Senate Democratic leaders are converting the SFC plan into legislation while combining it with the more liberal Senate HELP committee plan (presumably sticking closer to the SFC provisions in order to maintain the support of centrist Democrats).

By mid-late October, we expect a cloture vote (60 votes) to bypass a potential filibuster followed by several weeks of debate over proposed amendments on the Senate floor (with a similar process under way in the House). If both the Senate and House are able to pass legislation (perhaps before the Thanksgiving recess), a House-Senate conference negotiation should produce combined legislation for final approval (perhaps by mid-December).

EPS revisions under our new industry model

In conjunction with publication of our new industry model, we have revised our EPS estimates for Aetna, UnitedHealth, and WellPoint as we refine our view of near-term growth (pre-health reform). Specifically, we have applied standardized growth projections for the commercial risk business reflecting a “soft landing” to the current industry underwriting cycle downturn in 2010-11. The EPS changes are as follows:

- Aetna: we raise our 2010 EPS by \$0.05 to \$3.05 and our 2011 EPS by \$0.10 to \$3.35.
- UnitedHealth: we lower our 2011 EPS by \$0.20 to \$3.40.
- WellPoint: we have raise our 2011 EPS by \$0.10 to \$6.55.

Exhibit 5 shows our published EPS (as revised) for the 5 core companies included in our 10-year industry model.

Exhibit 5: We forecast 3%-5% EPS growth near-term

Revised EPS estimates for Aetna, UnitedHealth and WellPoint

	2008A	2009E	2010E	2011E	EPS growth		
					'09E	'10E	'11E
AET	\$ 3.93	\$ 2.85	\$ 3.05	\$ 3.35	-27%	7%	10%
CI	\$ 3.42	\$ 3.85	\$ 4.15	\$ 4.60	13%	8%	11%
HUM	\$ 4.27	\$ 6.20	\$ 5.70	\$ 5.10	45%	-8%	-11%
UNH	\$ 2.95	\$ 3.10	\$ 3.15	\$ 3.40	5%	1%	8%
WLP	\$ 5.48	\$ 5.66	\$ 6.10	\$ 6.55	3%	8%	7%
Average					8%	3%	5%
Average excluding HUM					-2%	6%	9%

Source: Goldman Sachs Research estimates.

Modeling reform scenarios

Under our reform model, we find CIGNA best-positioned with Humana at greatest downside risk (owing to its Medicare Advantage exposure).

Our new industry model includes 11 years (2009-2019) of forecasted results for 5 of the 7 “core” managed care companies: Aetna, CIGNA, Humana, UnitedHealth, and WellPoint (we excluded the 2 smallest core companies, Coventry and Health Net, as both are in the midst of restructuring).

For each of the companies, we model enrollment, revenue per member, and pretax margin for the following coverage populations:

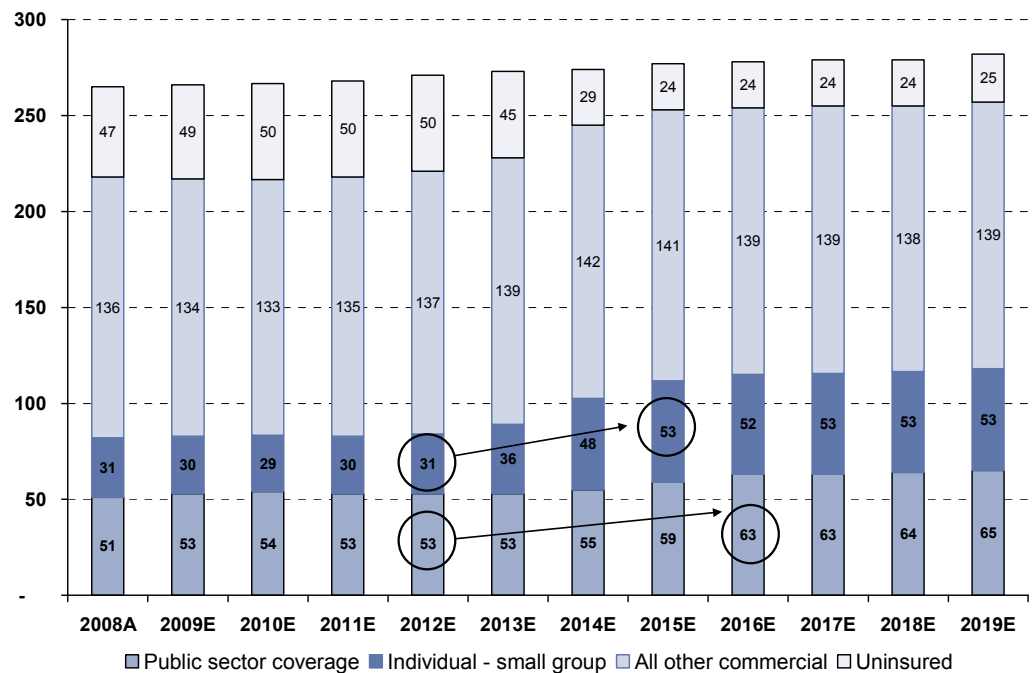
- Individual and small group (ISG), defined as employer groups with 50 or fewer employees), which is fully-insured (risk).
- Middle-market and large employer (MML) fully-insured (risk).
- Employer self-insured (ASO), which is mostly large employer.
- Medicare Advantage (MA).
- Medicaid HMO (including SCHIP and other state-sponsored coverage).
- Medicare drug plan only (PDP) members.

Our industry model uses a modified version of the CBO coverage projections.

For our coverage population forecast, we use a modified version of the October 7, 2009, Congressional Budget Office (CBO) analysis of the SFC plan for commercial and Medicaid coverage (see Exhibit 6), supplemented by our own projection for MA program enrollment.

Exhibit 6: Health coverage expansion driven by individual-small group and Medicaid

Health insurance coverage of the non-elderly population under health reform (a)

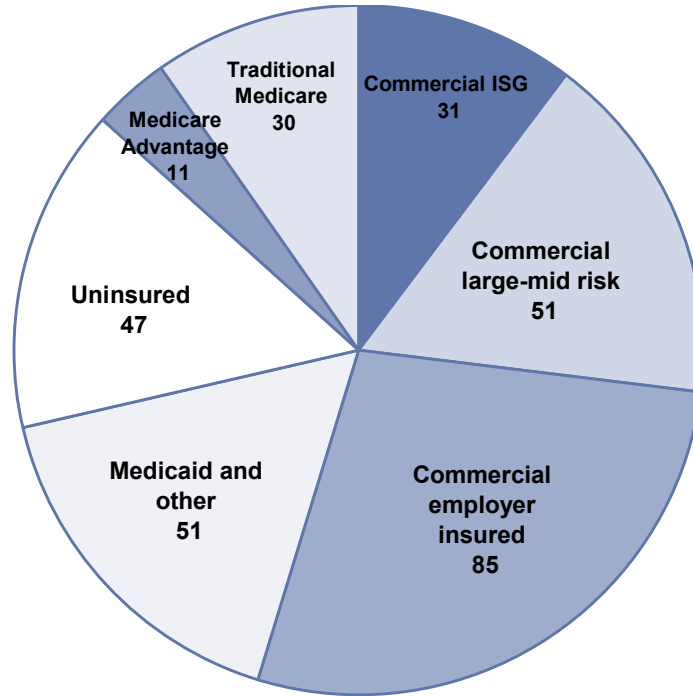


(a) Projected health coverage expansion based on the preliminary analysis of the Senate Finance Committee reform plan by the Congressional Budget Office (CBO), Oct. 7, 2009, including our estimates for individual - small group coverage.

Source: CBO, EBRI, Goldman Sachs Research estimates.

As a reference point, Exhibit 7 shows the current distribution of insurance coverage across the US population.

Exhibit 7: Breakdown of US population by source of health insurance coverage, 2009E
 Population categories in millions of lives (a)(b)(c)



(a) Commercial ISG = individual and small group coverage, which is predominantly fully-insured (risk).
 (b) Commercial large-mid risk is fully-insured coverage with large and mid-sized groups.
 (c) Medicaid and other includes SCHIP, TRICARE, and all other public-sector coverage.

Source: CBO, EBRI, CMS, Goldman Sachs Research estimates.

Scenario modeling

We consider 4 scenarios for health reform under our model:

- No major health reform (although we assume some MA funding cuts, but at a sharply scaled-back level from current proposals).
- A “base” case scenario for health reform, modeled on the current Senate Finance Committee (SFC) plan.
- A “bull” case scenario, where we model more optimistic assumptions for reform implementation, which might result from moderation of provisions in the current SFC plan or as a result of changes prior to the major implementation in 2013.
- A “bear” case scenario, where we introduce a government-run public plan that we assume would capture the majority of coverage expansion under reform as well as some of the industry’s current market-share in the MML segment.

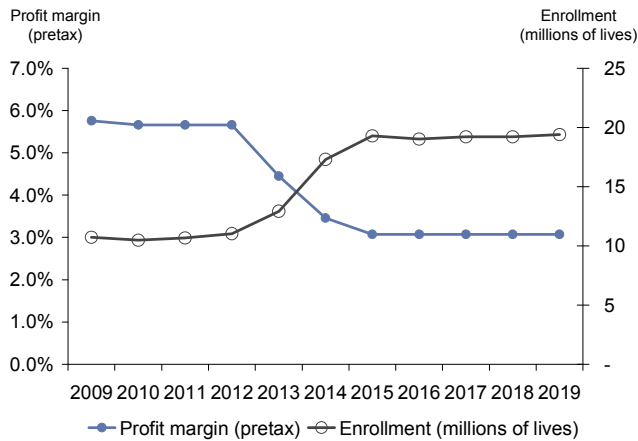
We model 10-year sector EPS growth ranging from 10% per year under our scenarios for no reform to an EPS decline of 1% per year under our “bear” case scenario for health reform.

Biggest impact from MA funding cuts and insurance regulations

Key reform measures that would negatively impact earnings growth are funding cuts to Medicare Advantage and strict new regulations for the individual and small group business (see Exhibits 8 and 9). These negative impacts would be partly offset by the positive impact of expanded insurance coverage under reform (see Exhibits 10 and 11).

Exhibit 8: ISG margin hit partly offset by growth

Core managed care ISG profit margin and enrollment (a)

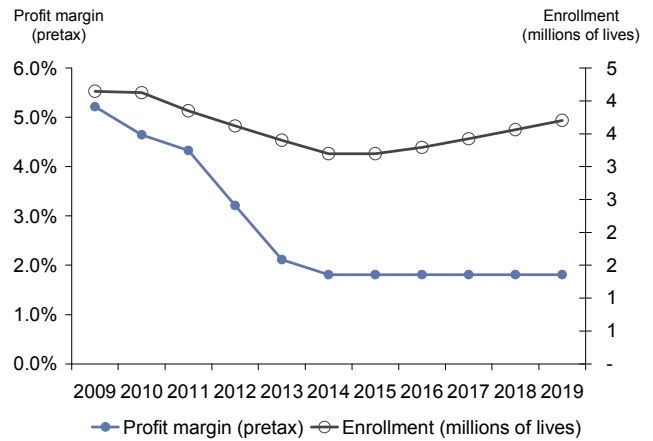


(a) Aggregated results for Aetna, CIGNA, Humana, UnitedHealth, and WellPoint.

Source: Goldman Sachs Research estimates.

Exhibit 9: MA facing both margin and enrollment decline

Core managed care MA profit margin and enrollment (a)



(a) Aggregated results for Aetna, CIGNA, Humana, UnitedHealth, and WellPoint.

Source: Goldman Sachs Research estimates.

Exhibit 10: Upside from reform: ISG revenue growth

ISG revenue growth under our "base" case scenario

\$ millions	2009E	2014E	2019E	10-year CAGR
Aetna	4,821	10,095	14,971	12%
CIGNA	206	454	674	13%
Humana	3,480	7,609	11,284	12%
UnitedHealth	11,488	26,081	38,678	13%
WellPoint	19,316	43,038	63,824	13%
Total	39,311	87,277	129,430	12.7%

Source: Goldman Sachs Research estimates.

Exhibit 11: Upside from reform: Medicaid revenue growth

Medicaid revenue growth under our "base" case scenario

\$ millions	2009E	2014E	2019E	10-year CAGR
Aetna	944	1,417	2,137	9%
CIGNA (a)	-	419	632	
Humana (b)	126	570	859	21%
UnitedHealth	8,262	12,060	18,190	8%
WellPoint	6,580	9,425	14,216	8%
Total	15,912	23,890	36,035	8.5%

(a) We assume CIGNA expands into the Medicaid managed care by 2013.

(b) Excludes Puerto Rico. We assume Humana expands its Medicaid managed care program by 2012.

Source: Goldman Sachs Research estimates.

Our model assumes health plans absorb 20% of the industry "fee"

Our "base" case scenario also assumes implementation of the SFC industry "fee" of \$6.7 billion per year (a tax on the fully-insured business as currently proposed, here again CIGNA has the least exposure).

However, we assume implementation of the tax is delayed to 2012 (rather than 2010, as currently proposed). We also assume that managed care companies absorb 20% of the fee, with 80% passed through to purchasers in the form of higher premium pricing.

Adverse selection implicit in our lower margins for ISG

In using the CBO coverage projections, we have adopted the implicit CBO assumption that individual and small group take-up of insurance will be fairly robust despite the weakening of the mandate for individual coverage under the final version of the SFC plan.

However, the downside risk, for both the industry and health reform implementation, is that healthy individuals may decline to purchase coverage given the relatively low penalty (\$1,500 per family phased-in to 2017 vs. \$3,800 by 2013 under the original SFC plan) and given that insurers will be required to offer coverage to all applicants at the same price.

An adverse selection “price spiral” could disrupt reform implementation.

In other words, healthy individuals may have an economic incentive to delay purchase of coverage since the penalty is fairly low and coverage will be readily available regardless of future health status. This could drive an adverse selection price spiral in the new insurance exchanges with all but the least healthy opting out. If this were to occur, it could lead to much lower uptake of coverage than the CBO projection assume.

While we have not factored this scenario into our coverage projections, we have implicitly assumed some adverse selection will occur as we forecast ISG segment margins about 50% under the new insurance exchanges.

EPS growth ranging from -2% to +8% under our “base” case

Under our “base” case scenario for reform, our company-level forecasts for 10 year EPS range from a decline 2% per year for Humana – owing to its Medicare Advantage exposure – to growth of 8% per year for CIGNA and Aetna – owing to their concentration of earnings from larger employers (see Exhibit 12).

Exhibit 12: Breakdown of 2009E earnings by major product line by company

Earnings breakdown relative to our view of health reform risk

	AET	CI	HUM	UNH	WLP	Aggregate
High risk under health reform						
Commercial risk - individual and small group (ISG)	12%	1%	11%	12%	37%	18%
Medicare Advantage	9%	1%	68%	21%	5%	18%
Subtotal	21%	2%	79%	33%	42%	35%
Moderate-low risk under health reform						
Commercial risk - mid/large group	26%	10%	4%	18%	28%	20%
Commercial fee-based (ASO)	32%	29%	3%	16%	11%	17%
Medicaid HMO	1%	0%	0%	5%	5%	3%
PDP	1%	1%	7%	6%	2%	4%
Other healthcare earnings	9%	24%	6%	22%	12%	16%
Non-healthcare earnings (AET, CI)	10%	34%	0%	0%	0%	5%
Subtotal	79%	98%	21%	67%	58%	65%

Source: Goldman Sachs Research estimates.

Our model illustrates what we view as a relatively stable outlook for CIGNA under most possible health reform scenarios, with EPS growth a healthy 6% per year even under the “bear” case scenario (see Exhibit 13).

However, we find Humana would have the strongest earnings outlook (11% EPS growth per year) in a “no reform” scenario even assuming some MA cuts.

Meanwhile, we model WellPoint with the strongest earnings outlook under our “bull” case scenario for health reform (13% per year), owing to the better ISG margins we assume under that scenario.

Exhibit 13: Summary results under 4 scenarios for health reform

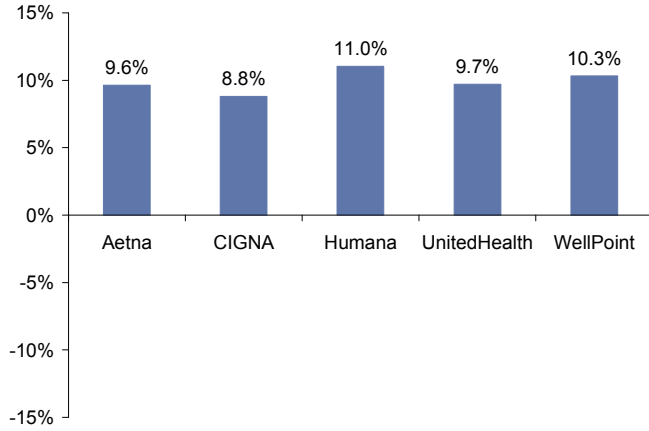
Revenue, EPS CAGR 2009-19E (shaded cells represents highest EPS growth under each scenario)

	No reform	"Base"	"Bear"	"Bull"	Range (basis points)
Revenue					
Aetna	6%	5%	1%	6%	(110)
CIGNA	5%	5%	3%	5%	(280)
Humana	7%	3%	0%	5%	-
UnitedHealth	6%	6%	3%	7%	(300)
WellPoint	6%	8%	3%	9%	(310)
Aggregate revenue growth	6.2%	5.9%	2.4%	6.9%	(240)
EPS					
Aetna	10%	7%	2%	10%	(210)
CIGNA	9%	8%	6%	9%	(640)
Humana	11%	-2%	-10%	7%	1,040
UnitedHealth	10%	6%	2%	9%	(160)
WellPoint	10%	7%	-4%	13%	440
Average EPS growth	9.9%	5.4%	-0.9%	9.5%	90

Source: Goldman Sachs Research estimates.

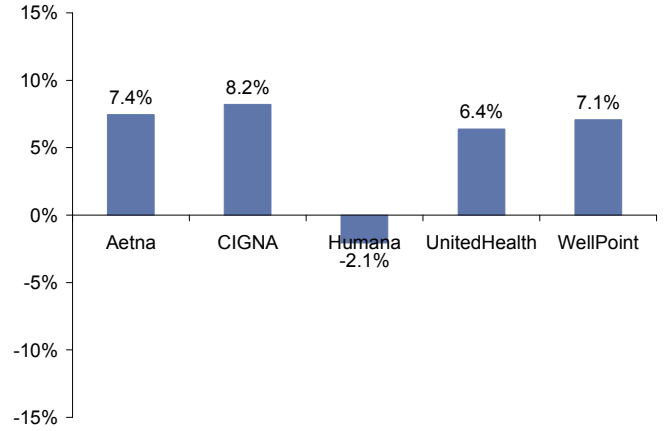
Exhibits 14-17 show the EPS growth by company under each scenario and Exhibit 18 provides a summary of our model results.

Exhibit 14: Under “no reform”, HUM highest, CI lowest
10-year EPS CAGR (2009E-2019E)



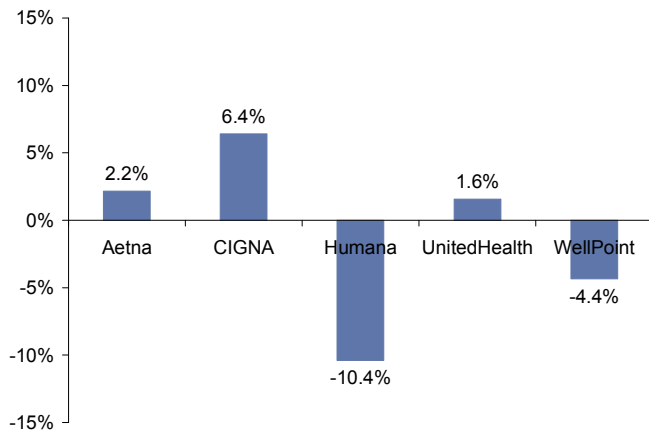
Source: Goldman Sachs Research estimates.

Exhibit 15: Under “base case”, CI highest, HUM lowest
10-year EPS CAGR (2009E-2019E)



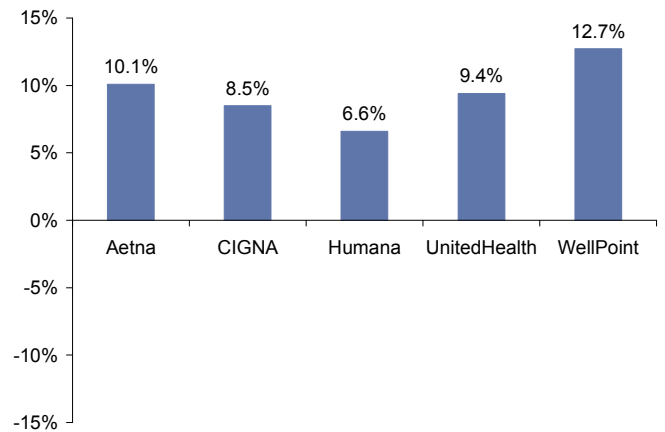
Source: Goldman Sachs Research estimates.

Exhibit 16: Under “bear case”, CI highest, HUM lowest
10-year EPS CAGR (2009E-2019E)



Source: Goldman Sachs Research estimates.

Exhibit 17: Under “bull case”, WLP highest, HUM lowest
10-year EPS CAGR (2009E-2019E)



Source: Goldman Sachs Research estimates.

Exhibit 18: Core managed care industry model, summary results under 4 scenarios for health reform
Revenue and EPS growth, 2009E-2019E

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2009-2019 CAGR	RANK
Scenario: No major reform legislation													
Aetna	10%	0%	6%	7%	7%	7%	8%	6%	6%	7%	6%	5.8%	4
CIGNA	-1%	4%	5%	5%	8%	6%	4%	3%	5%	4%	4%	4.8%	5
Humana	8%	-11%	5%	9%	9%	9%	10%	9%	9%	10%	9%	6.7%	1
UnitedHealth	7%	4%	6%	6%	7%	6%	8%	7%	6%	7%	6%	6.4%	2
WellPoint	-1%	1%	7%	7%	7%	6%	10%	7%	6%	7%	5%	6.1%	3
Aggregate revenue growth	5%	1%	6%	7%	7%	7%	8%	7%	6%	7%	6%	6.2%	
Aetna	-27%	7%	12%	10%	10%	10%	10%	9%	9%	9%	9%	9.6%	4
CIGNA	13%	8%	11%	9%	10%	9%	8%	8%	9%	8%	8%	8.8%	5
Humana	45%	-5%	6%	13%	13%	14%	15%	14%	14%	14%	14%	11.0%	1
UnitedHealth	5%	1%	12%	10%	11%	11%	11%	10%	10%	11%	10%	9.7%	3
WellPoint	3%	8%	8%	11%	11%	10%	14%	11%	10%	11%	9%	10.3%	2
Average EPS growth	8%	4%	10%	11%	11%	11%	12%	10%	10%	11%	10%	9.9%	
Scenario: Health reform: "base" case													
Aetna	10%	0%	3%	4%	7%	13%	8%	4%	5%	5%	5%	5.4%	3
CIGNA	-1%	4%	4%	5%	8%	6%	4%	3%	4%	4%	4%	4.7%	4
Humana	8%	-11%	-4%	0%	1%	8%	8%	6%	7%	7%	7%	2.6%	5
UnitedHealth	7%	4%	3%	4%	6%	12%	8%	5%	6%	5%	6%	5.9%	2
WellPoint	-1%	1%	6%	6%	11%	21%	11%	4%	6%	5%	6%	7.7%	1
Aggregate revenue growth	5%	1%	3%	4%	7%	14%	9%	5%	6%	5%	6%	5.9%	
Aetna	-27%	7%	10%	1%	7%	11%	8%	7%	9%	8%	8%	7.4%	2
CIGNA	13%	8%	11%	6%	9%	9%	8%	7%	8%	8%	8%	8.2%	1
Humana	45%	-8%	-11%	-21%	-21%	0%	8%	9%	10%	10%	10%	-2.1%	5
UnitedHealth	5%	1%	8%	-1%	4%	9%	8%	8%	9%	8%	9%	6.4%	4
WellPoint	3%	8%	7%	2%	2%	10%	8%	8%	9%	8%	9%	7.1%	3
Average EPS growth	8%	3%	5%	-3%	0%	8%	8%	8%	9%	8%	9%	5.4%	
Scenario: Health reform: "bear" case													
Aetna	10%	0%	3%	4%	4%	-7%	-5%	-4%	6%	5%	5%	1.1%	4
CIGNA	-1%	4%	4%	5%	7%	-2%	-2%	-1%	4%	4%	4%	2.8%	3
Humana	8%	-11%	-6%	-2%	-3%	-4%	2%	4%	7%	7%	7%	0.0%	5
UnitedHealth	7%	4%	3%	3%	3%	-2%	0%	1%	6%	6%	6%	3.0%	2
WellPoint	-1%	1%	6%	6%	5%	-2%	-1%	0%	6%	5%	6%	3.1%	1
Aggregate revenue growth	5%	1%	3%	4%	3%	-3%	-1%	0%	6%	5%	6%	2.4%	
Aetna	-27%	-15%	10%	7%	0%	-3%	0%	3%	8%	7%	8%	2.2%	2
CIGNA	13%	-1%	12%	8%	9%	6%	5%	6%	7%	7%	7%	6.4%	1
Humana	45%	-17%	-19%	-28%	-43%	-17%	2%	7%	10%	10%	10%	-10.4%	5
UnitedHealth	5%	-12%	7%	2%	-5%	-5%	2%	5%	8%	8%	8%	1.6%	3
WellPoint	3%	-18%	8%	10%	-27%	-23%	-8%	0%	9%	8%	9%	-4.4%	4
Average EPS growth	8%	-13%	4%	0%	-13%	-8%	0%	4%	8%	8%	8%	-0.9%	
Scenario: Health reform: "bull" case													
Aetna	10%	0%	4%	5%	8%	15%	9%	4%	6%	5%	6%	6.2%	3
CIGNA	-1%	4%	4%	5%	8%	7%	5%	3%	5%	4%	4%	4.9%	4
Humana	8%	-11%	-3%	1%	5%	14%	11%	8%	9%	8%	9%	4.7%	5
UnitedHealth	7%	4%	4%	4%	8%	14%	10%	6%	6%	6%	6%	6.8%	2
WellPoint	-1%	1%	6%	7%	14%	25%	13%	5%	6%	5%	6%	8.5%	1
Aggregate revenue growth	5%	1%	4%	5%	9%	17%	11%	5%	6%	6%	6%	6.9%	
Aetna	-27%	7%	10%	9%	12%	17%	12%	8%	9%	8%	9%	10.1%	2
CIGNA	13%	8%	11%	9%	9%	9%	8%	7%	8%	8%	8%	8.5%	4
Humana	45%	-8%	-9%	-4%	8%	18%	16%	12%	13%	12%	13%	6.6%	5
UnitedHealth	5%	1%	9%	7%	11%	17%	12%	9%	9%	9%	9%	9.4%	3
WellPoint	3%	8%	7%	11%	20%	32%	17%	8%	9%	8%	9%	12.7%	1
Average EPS growth	8%	3%	6%	6%	12%	19%	13%	9%	10%	9%	10%	9.5%	

Source: Company data, Goldman Sachs Research estimates.

Exhibit 19: Price targets and methodology

Ticker	Ratings	Price as of 10/16/2009	Price Target	Timeframe	Price target methodology	Risks
Managed Care - Borsch						
AET	Neutral	\$25.22	\$28.00	6 months	Sum-of-the-parts earnings weighted relative P/E analysis	- Easing of price competition - Underwriting risk - Political risk
CI	Buy	\$28.37	\$36.00	6 months	Sum-of-the-parts earnings weighted relative P/E analysis	- Easing of price competition - Underwriting risk - Political risk
CVH	Sell	\$18.30	\$20.00	6 months	Sum-of-the-parts earnings weighted relative P/E analysis	- Easing of price competition - Continued of market momentum - Underwriting risk
HNT	Buy	\$15.58	\$21.00	6 months	Sum-of-the-parts earnings weighted relative P/E analysis	- Easing of price competition - Underwriting risk - Political risk
HUM	Neutral	\$36.95	\$36.00	6 months	Sum-of-the-parts earnings weighted relative P/E analysis	- Medicare reimbursement cuts - Underwriting risk - Political risk
UNH	Buy	\$24.45	\$31.00	6 months	Sum-of-the-parts earnings weighted relative P/E analysis	- Easing of price competition - Underwriting risk - Political risk
WLP	Neutral	\$46.16	\$52.00	6 months	Blend between sum-of-the-parts earnings weighted relative P/E value and our M&A value	- Easing of price competition - Underwriting risk - Political risk

Source: Goldman Sachs Research estimates.

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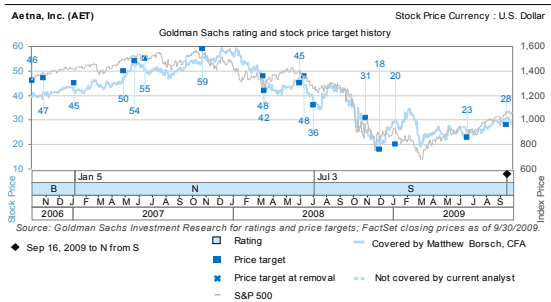
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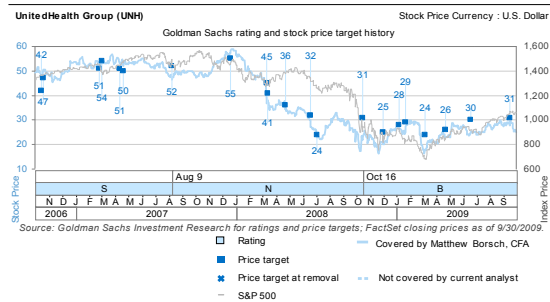
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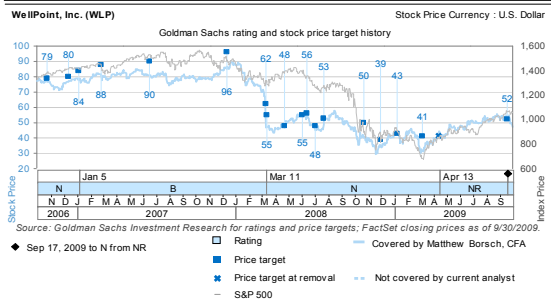
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