FINAL TRANSCRIPT

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WLP - Q2 2008 WellPoint, Inc. Earnings Conference Call

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PRESENTATION

Operator

Thank you for standing by. Welcome to the WellPoint quarterly results conference call. At this time all lines are in a listen-only mode. (Operator Instructions). As a reminder, this conference is being recorded. I would now like to hand the conference over to the Company's management.

Michael Kleinman - *WellPoint, Inc. - VP of IR*

Good morning and welcome to WellPoint's second quarter earnings conference call. I am Michael Kleinman, Vice President of Investor Relations. With me this morning our Angela Braly, our President and Chief Executive Officer, Wayne DeVeydt, Executive Vice President and Chief Financial Officer, Ken Goulet, Executive Vice President and President of our Commercial Business, and Brian Sassi, Executive Vice President and President of our Consumer Business.

Angela will begin this morning's call with an overview of our second quarter results, actions and accomplishments. Wayne will then offer a detailed review of our second quarter financial performance and current guidance, which will be followed by a question and answer session in which Ken and Brian will also participate.

We will be making some forward-looking statements on this call. Listeners are cautioned that these statements are subject to certain risk and uncertainties, many of which are difficult to predict and generally beyond the control of WellPoint. These risks and uncertainties can cause actual results to differ materially from our current expectations. We advise listeners to review the risk factors discussed in our press release this morning and other periodic filings we make with the SEC. I will now turn the call over to Angela.

Angela Braly - *WellPoint, Inc. - President and CEO*

Good morning, and thank you Michael. In the second quarter of 2008 we began to see a number of improvements as compared to the first quarter. Our GAAP net income was $1.44 per diluted share, and included $0.03 per share in net realized investment losses.

We had another quarter of record premiums and revenues. Both our benefit expense ratio and selling, general and administrative expense ratio declined sequentially, contributing to a 35% sequential increase in pretax income. We now expect full-year 2008 earnings per share to be in the range of $5.42 to $5.57, which includes $0.06 per share in net realized investment losses.

Based upon results through the first six months of the year, including membership mix changes, lower expected fully insured membership, and our settlement of certain California rescission issues, we have narrowed the EPS guidance range we provided last quarter. Wayne will update our second quarter financial results in detail later on this call, but first I would like to take a few minutes to discuss membership, competition and the actions we have taken and steps we're continuing to implement in order to improve our performance for the rest of 2008 and beyond.

At June 30, 2008, our medical enrollment totaled approximately 35.3 million members, an increase of more than 500,000 members, or 1.5% from 34.8 million at June 30, 2007. Enrollment in our national business increased by 626,000 including 319,000 new national account members and 307,000 Blue Card members. National accounts are among the most sophisticated groups in evaluating buying decisions, and these results show that they continue to appreciate the value proposition, products and services we provide. Local group membership in our Blue states increased by 222,000 members over the past twelve months while our non-Blue UniCare and HealthLink business declined by 261,000.

As of June 30, 2008, 52% of our medical enrollment was self-funded and 48% was fully insured. At June 30, 2007 our membership was almost equally split with self-funded and fully insured each comprising 50%. Our membership base is evolving as we continue to gain share in the self-funded marketplace, while fully insured enrollment is being impacted by economic conditions and competitive dynamics in certain geographies.

Membership declined sequentially by 99,000 members in the second quarter of 2008, which included our withdrawal from the Ohio Covered Families and Children Medicaid program, or Ohio CFC, that covered 142,000 members. In order to participate in state-sponsored business, we need to receive actuarially sound rates and unfortunately, in Ohio, we were not able to do so. Other states are also experiencing financial difficulty due to the current economic conditions that do affect state funding.

We recently announced that we intend to exit Nevada state-sponsored business at year-end. This will impact approximately 50,000 members. It is disappointing that we were unable to continue to participate in the Ohio and Nevada programs. Managed care can provide valuable benefits to state governments and their Medicaid and SCHIP beneficiaries. We will continue to work with our state partners to create environments in which we can provide these benefits in an actuarially sound manner.

We also saw a sequential membership decline in our individual and local group businesses. This follows rating actions in certain markets and we believe also reflects the general economic conditions of the country. Overall, we achieved our targeted price increases in the second quarter and gross margin on a per-member per-month basis expanded for the twelve months ended June 30, 2008.

However, our membership declined a little more than we had anticipated. To stimulate our sales, we're introducing new products in a number of states with varying price points and alternative benefit designs. As an example, in Georgia, our new product portfolio implementation for the SmartSense and Premier Plans is nearing completion. Marketing and communication plans are underway and broker registrations to learn about these new products have exceeded projections by 25%.

In the innovative Healthy Indiana plan that helps individuals who earn too much to qualify for Medicaid but not enough to afford coverage in the commercial market, the state has received more than 50,000 applications year-to-date and 19,000 have been approved so far. More than 70% of the members selected Anthem. We expect continued growth in this innovative program that, if it's successful, could serve as a model for the rest of the country.

In addition to rolling out new medical plans, we expect continued enhancement to our specialty product portfolio. During the second quarter we announced acquisition of DeCare Dental, one of the country's largest administrators of dental benefit plans. DeCare is a leader in administering dental benefits and DeCare's unique tools and services can improve our future revenue growth and create more opportunities to improve the health of our members, as there is a linkage between oral health and medical condition.

Upon completion of the acquisition, WellPoint will provide and administer dental benefits to approximately 9 million members and have one of the nation's largest dental PPO networks. We expect this transaction to close during the third quarter.

We are currently developing our business plan for 2009 and have an early look at the 2009 national accounts membership forecast. The selling season is in full swing and our service delivery, clinical integration and network discounts are keys to our continued success in this market. We have a number of new sales and in-group growth already booked for January 1, 2009, and there are additional notable prospects being actively worked. We're excited about our outlook for national accounts and expect good net membership growth in this segment next year.

In the senior market, as we noted earlier this year, we have experienced higher claims trends in our Medicare Advantage private fee-for-service program due to certain benefit designs that resulted in adverse selections. Last month we filed new pricing and adjusted benefit designs to help ensure that our 2009 Medicare Advantage plans are competitive and appropriate, and we expect better underwriting performance in this business next year.

We are also working to optimize the cost of care and implementing additional medical management initiatives for our seniors. To attract new senior members, we've completed detailed competitive assessments and are piloting an age-in program for individual members approaching their 65th birthday. The senior segment is an important part of our growth strategy.

With the baby boomer generation aging, seniors are a growing part of the population. We're in this business for the long-term, and we will make the necessary corrections to return this product segment to successful performance.

Overall we see competitive but generally rational pricing across our customer segments. We're seeing competitors offering rate caps, reducing or forgiving the first month's premium and guaranteeing medical savings to compete against our value proposition.

We are the market leader in almost all of our Blue states with the most recognizable brand name, the largest medical membership base nationwide, and unit cost advantages in most of our service areas.

As the leader, we price our products in a disciplined and actuarially sound manner. We also offer access to the broadest and most cost-effective provider network in the country. These advantages continue to win in the marketplace because they place us in a truly unique market position from which we can positively impact the cost and quality of health care in this country.

Medical cost trends drive premium increases. Through our contracting efforts, pay-for-performance initiatives, medical management, advanced care management, health improvement, wellness programs and data analytics, we have numerous tools that help constrain the rising cost of health care while improving health care quality. These programs require significant investments, many of which are reported as administrative expense and our financial statement.

This is one reason why regulatory efforts to limit health plan benefit expense ratios can actually have an unintended consequence of driving up health care costs. If minimum benefit expense ratios are imposed without an appropriate definition, valuable investments such as those I have just described that have been proven to lower cost and improve the care of people with chronic illness unfortunately may be forced to be curtailed.

We continue to do a good job of holding down our own administrative costs. In the second quarter of 2008 our general and administrative expenses are less in actual dollars than in the second quarter of 2007, while we served over 500,000 more medical members in the current year quarter. Over the past seven years we have reduced our selling, general and administrative expenses as a percentage of operating revenue by 690 basis points.

Now I would like to provide a brief update on other aspects of the performance improvement plan we put in place this year in response to our challenges. We continued to execute on our performance improvement plan during the quarter. It is designed to improve our ability to manage our business and compete effectively over the long-term, and we're already seeing positive results from these efforts.

Claims inventories for fully insured business are down 23% from December 31, 2007, and have returned to normal levels. Both the level and aging of our claims inventory continues to improve. Our claims processing fees have increased as evidenced by the increased percentage of claims being paid for recent incurred month. Increasing processing speed improves our customer service, provides greater visibility for actuarial reserving estimates, and enables us to price more accurately.

We're making significant strides in resolving issues impacting primarily self-funded claims in limited geographies that were caused by one of our system migrations. We reduced inventories on that system by more than 33% since February, know what the issues are and have taken steps to minimize provider impact relating to this issue. We expect to have these issues resolved by the end of the year.

We experienced both favorable prior year and favorable intra-year reserve development during the second quarter. On a year-to-date basis, prior year reserve development was favorable in the amount of $270 million, which was less than in 2007 but in line with the expectation we had as of last quarter's earnings call. Our benefit expense ratio declined by 180 basis points sequentially to 83.3% in the second quarter of 2008. The decline reflected positive impacts from our medical management initiatives, favorable reserve developments we experienced in the second quarter, and improvement in our senior benefit expense ratio.

The Medicare Part D benefit expense ratio improved due to seasonality, and while our Medicare Advantage benefit expense ratio also improved from the first quarter of 2008, it remains above our targeted range. We continue to expect our benefit expense ratio to be in the range of 83.3% to 83.6% for the full year of 2008.

One of our internal enhancements was the creation of the WellPoint Operations Council chaired by Ken Goulet, who leads our Commercial Business unit. The council is comprised of six executives who manage the areas that most directly drive our operating revenue and profit. The members include Brian Sassi, who leads our Consumer Business unit, Dijuana Lewis, President of Comprehensive Health Solutions, Cindy Miller, Executive Vice President and Chief Actuary, Lori Beer, Senior Vice President and Acting Chief Information Officer, and Gloria McCarthy, Senior Vice President of Operational Excellence.

This team has been charged with ensuring that our performance improvement plan is well executed, and the team is accountable for attaining our operating targets and maximizing profitable growth. The council will work closely with Wayne DeVeydt and Brad Fluegel, Executive Vice President Strategy and Public Affairs, to ensure that its operational planning is properly aligned with our short-term and long-term financial and strategic goals.

With the focus and leadership of this Operations Council and the support of the rest of my executive leadership team, I believe that we will continue to execute on our plans to improve performance and enhance customer and shareholder value. Our vision is to transform health care and become the most valued Company and our industry.

I'd like to also acknowledge a couple of key leaders have recently joined Brian Sassi's Consumer Business unit. Considerable progress has been made assessing, changing and upgrading the Consumer Business management team to position us for profitable growth. This month, Raj Bal joined WellPoint as Senior Vice President and President of our Individual business. Raj comes to us from Assurant Health, where he was Executive Vice President and Chief Operating Officer overseeing individual medical, small group, specialty and worksite businesses as well as sales, marketing, actuarial, operations and network management.

And as announced last quarter, Kevin Hayden is now leading our state-sponsored operations. Brian and his team have made significant progress in identifying the issues facing our individual, senior and state-sponsored businesses and are initiating actions to improve performance.

So as we begin the second half of 2008, we have a plan to improve performance, a structure to ensure that we do so effectively, and we have already begun executing on this plan. While we continue to face business challenges, including weak economic conditions and a competitive marketplace, we believe we have the right team and structure in place to provide even better service to our customers and enhance shareholder value.

Wayne will now discuss our second quarter financial statements, medical cost trend and provide additional guidance and detail.

Wayne DeVeydt - *WellPoint, Inc. - EVP and CFO*

Good morning. I also believe we are making good progress in our performance improvement plans and I think this is reflected in our 2Q '08 results. In the second quarter of 2008, premium revenue reached 14.3 billion, an increase of $409 million or 3% from the prior year. This increase was driven by rate increases across all medical lines of business and growth in our Medicare Advantage products, partially offset by the loss of the New York State prescription drug contract and lower fully insured commercial and state-sponsored membership.

As Angela noted, we achieved our targeted commercial price increases in the second quarter, although this contributed to a slightly higher level of membership attrition than we anticipated. We also continued to see benefit buydowns this year, including continued migration into higher deductible and consumer driven health plan offerings.

In fact, our CDHP membership has grown to 1.7 million as of June 30, 2008, an increase of 466,000 or 38% compared with this time last year. Our fully insured CDHP membership has grown by 340,000 or 54% over this period. Offering CDHP and other high deductible products as complements to our more traditional product designs allows us to target a variety of audiences in our efforts to grow and retain profitable fully insured membership.

Administrative fees totaled $966 million in 2Q of '08, an increase of $43 million or 5% from 2Q of '07. This was driven primarily by revenue for medical management programs offered by our Comprehensive Health Solutions business, and strong self-funded membership growth. We continue to be on marketshare taker in the ASO business due to our superior value proposition. In total our self-funded enrollment increased by 1.1 million or 6% from June 30, 2007.

The benefit expense ratio was 83.3% in the second quarter of 2008, an increase of 150 basis points from the same quarter of last year. Approximately 90 basis points related to higher costs and membership mix changes in our local group business. As we previously discussed, we believe our initial pricing for 2008 was approximately 90 basis points below medical cost trend, and we also experienced a lower level of favorable reserve development this year. We took actions to address these issues and now have a slightly more favorable outlook for our local group benefit expense ratio over the second half of this year than we had on our last earnings call.

Approximately 45 basis points of the quarter-over-quarter increase in our benefit expense ratio resulted from higher medical costs in our Medicare Advantage products. We are employing new medical management initiatives to address this high claims experience and have adjusted our plan designs and pricing for 2009. However, we now expect our Medicare Advantage business to deteriorate more during the second half of this year than we previously expected. This essentially offsets the expected improvement in local group, leading our full-year 2008 guidance for the consolidated benefit expense ratio unchanged at 83.3 to 83.6.

We are pricing our business so that our expected premium yield exceeds total cost trend where total cost trend includes medical cost and selling, general and administrative expenses. Based on results through the first six months we continue to expect full-year 2008 medical trend costs will be in the range of 8% plus or minus 50 basis points. For the twelve month period ended June 30, 2008, unit cost increases continue to be the primary drivers of medical cost trends.

Inpatient hospital trend is in the low double-digit range and is almost all related to unit cost increases. Inpatient utilization measures such as admissions per 1000, days of care per 1000, and average length of hospital stays, have been increasing slightly. We are addressing inpatient unit cost trends through contracting initiatives and reducing hospital stays through our clinical management efforts, such as neonatal intensive care programs and oncology care programs.

Outpatient trend is in the mid to upper single digit range, and is about 85% related to unit cost increases and approximately 15% utilization related. The primary drivers of outpatient trend continue to be outpatient surgery and emergency room cost. We have a number of initiatives under way to address outpatient costs, including contracting initiatives with labs, durable medical equipment, physical therapy and occupational therapy.

We are also seeing a positive impact from expanding AIM's radiology management programs across the country following our acquisition last year. We will have AIM's radiology clinical management programs in 12 of our 14 Blue states by year end.

Physician service trend is in the mid single digit range, and is approximately 55% unit cost driven and 45% utilization. Fee schedule changes are one of the drivers of these trends. We are collaborating with physicians to improve the quality of care through pay for performance programs.

Pharmacy trend is in the mid single digit range and is approximately 60% unit cost and 40% utilization driven. The increased use of specialty drugs is a primary driver of the higher cost trend, and we manage the distribution of these drugs through our PrecisionRx Specialty Solutions mail-order facility. We have also initiatives in place in our PBM to increase generic drug usage.

Our selling and general and administrative expense ratio was 14.3% in the quarter, a decline of 80 basis points from the second quarter of last year, primarily due to lower incentive based compensation in 2008. We continue to have effective expense control across the Company.

Net investment income in 2Q of '08 decreased by $36 million or 14% from 2Q '07 to $218 million, primarily due to reduced investments resulting from the use of cash for repurchase of our common stock. Interest expense increased $16 million or 16%

to 117 million in the second quarter of 2008, primarily due to the issuance of $2 billion of long-term debt during 2007 and an increased use of commercial paper this year.

Both investment income and interest expense are in line with our expectations. While both of these are subject to interest rate fluctuations, we have implemented investment strategies across our diverse portfolio to minimize the impact of short-term interest rate swings.

Net realized losses were $28 million in 2Q of '08 and were driven by other than temporary impairments related mostly to the deterioration in equity markets, and to a very lesser extent, other than temporary impairments of fixed maturity securities. These were partially offset by net realized gains from the sale of equity and fixed maturity securities.

At June 30, 2008, both our bond and equity portfolios were at a slight unrealized loss position. Nearly all of our investments are classified as available for sale, and as such, the unrealized gains or losses are recorded as a separate component of shareholders' equity on the balance sheet unless a decline in value is deemed to be other than temporary, and we do not have any intent and ability to hold these securities until its full cost can be recovered. In those cases, the securities are written down to fair value and the loss is recorded through the income statement. We consistently have been very conservative in our approach to recognizing impairments.

We continue to have a high-quality investment portfolio. Our mortgage-backed securities hold $4 billion at June 30, 2008, of which about $3.9 billion was in residential mortgage-backed securities and $140 million in commercial mortgage-backed securities. Of the $4 billion in mortgage-backed securities, approximately 72% are agency-backed. Of the remaining 28% nonagency backed, 25% are rated AAA and all but $1.7 million of the remaining 3% is currently rated investment grade.

Included in these numbers are $202 million of sub-prime mortgage exposure at quarter end. We will continue to manage our portfolio prudently. Note that while we have incurred approximately $0.09 per share of net realized investment losses through the first six months of this year, our full-year GAAP earnings per share guidance assumes only $0.06 per share of realized investment losses, as we have plans to sell and have sold in the first part of July certain securities during the second half of this year, and expect to realize gains on these transactions.

However, given our conservative impairment policy, particularly in our equity portfolio, we could have more unrealized losses move from the balance sheet through income during the balance of 2008.

I would now like to turn to our reportable segments. Operating revenue in our commercial segment decreased by $16 million to $9.5 billion in 2Q of '08, primarily due to the loss of the New York State prescription drug contract and the continued shift in our membership base towards self-funded products. These declines in revenue were partially offset by premium rate increases in all of our medical lines of business.

Operating gain in the commercial segment decreased by $108 million or 12% to $821 million, primarily due to higher medical costs and membership mix changes in the local group business, partially offset by lower general and administrative expenses.

In the consumer segment, operating revenue increased by $335 million or 9% to $4.1 billion in the second quarter of 2008, primarily due to premium rate increases in all lines of business and membership gains in our Medicare Advantage products. These increases were partially offset by the conversion of the Connecticut Medicaid business from fully insured to self-funded, our exit from the Ohio CFC program and reduced membership in the individual business.

Operating gain in the consumer segment increased by $12 million to $224 million from 2Q of '07, primarily due to an improvement in Medicare supplement and state-sponsored operating results. These increases in operating gain were offset by higher benefit expense within our Medicare Advantage business as previously discussed.

In the other segment, operating revenue increased by $145 million or 9% to $1.8 billion in 2Q of '08, primarily due to higher premium in the Federal Employee Plan business as well as revenue generated by our AIM radiology services that we acquired in August of 2007. Operating gain increased by $47 million or 50% to $140 million due to continued profitable growth in our PBM and behavioral health businesses.

Turning now to our claims reserves, medical claims payable were $6.3 billion at the end of the second quarter, an increase of $482 million or 8% from year end 2007, while fully insured membership declined 2%. Medical claims payable declined by $128 million from the first quarter of 2008, reflecting the sequential decline in fully insured enrollment and a reduction in claims inventories.

Days in claims payable as of June 30, 2008 was 47.7 days, a decrease of 0.4 days from 48.1 days as of March 31, 2008. This decrease is reflected as follows. We had a one day decrease due to claims cycle times, which is the length of time between the date of service and the actual claim payment. We had a 0.3 day decrease due to the timing of PBM claim payments, a 0.8 day increase due to prior period reserve adjustments, and then all other net to 0.1 day increase.

We have included in our press release a reconciliation and roll-forward of our medical claims payable reserves. This disclosure is comparable to the reconciliation provided in our fourth quarter 2007 press release.

We report prior year redundancies in order to demonstrate the adequacy and consistency of prior year reserves. For the six months ended June 30, 2008 we again had significant positive prior year reserve development of $270 million. This level of positive reserve development is lower than the $356 million we experienced for the six months ended June 30, 2007, primarily due to the medical cost trend visibility issues we experienced near the end of 2007 following certain system migrations.

However, year-to-date redundancy is in line with the expectations we had as of last quarter's earnings call, which validates the efforts we've made to regain and improve the visibility into our cost trends. We continue to establish reserves in a consistent and conservative manner and believe that our June 30th reserves are appropriately stated.

Operating cash flow was $1.1 billion for the first six months of 2008, or approximately 0.9 times net income. Operating cash flow in the second quarter was unusually low. Some of this is timing related and will reverse to our benefit later this year, such as the CMS risk score adjustment repayment that was received in July. We also made two estimated federal income tax payments in the quarter and continue to pay down our claims inventories in the quarter, evidenced by a 7% drop in our inventories during the quarter.

We have also experienced an increase in self-funded and other accounts receivables this year due to membership growth, claims inventory pay down and actions we have taken in response to our system migration issues, and we continue to work aggressively to manage our receivables.

Finally, our operating cash flow is also being impacted by the decline in fully insured enrollment. To address this, have numerous strategies in place to grow our fully insured enrollment in a disciplined manner. For the year, we have lowered our full-year outlook for operating cash flow to $3 billion or slightly higher than our projected net income.

We strive to utilize our cash flow in a manner that improves shareholder returns. During the quarter we repurchased 16.8 million shares of our common stock for $867 million. On a year-to-date basis through June 30, 2008, we have repurchased 46.5 million shares for $2.9 billion. At quarter end, our remaining board approved share repurchase authorization totaled $1.4 billion, and we expect to execute on most of this authorization by year end.

We had $933 million of cash and investments at the parent at June 30, 2008 and we expect our subsidiaries to dividend approximately $2.3 billion to the parent Company during the balance of this year.

Long-term debt was $9.8 billion at June 30, 2008, a $727 million increase from year end 2007, resulting primarily from an increase in long-term borrowings. Our debt to cap ratio was 31.5% at June 30, 2008, and in line with our targeted level.

I would now like to discuss our updated guidance for 2008. As Angela noted, our net income is expected to be in the range of $5.42 to $5.57 per share, including net realized investment losses of $0.06 per share. Medical enrollment is expected to be approximately 35.1 million at December 31, 2008, a decline of approximately 150,000 from June 30, 2008 as projected enrollment declines of 205,000 members in the Connecticut Medicaid program will be partially offset by additional growth in the commercial self-funded business.

At December 31, 2008, we expect to have 16.6 million fully insured members and 18.5 million self-funded members. Operating revenue is now expected to total approximately $61.9 billion. As I mentioned earlier, the benefit expense ratio is still expected to be in the range of 83.3% to 83.6%, and SG&A expense ratio is now expected to be approximately 14.5%. We are currently developing our three-year strategic business plan and while it is too early to provide any explicit guidance for 2009 or beyond, I do want to highlight some of the tailwinds and headwinds to earnings we see for next year.

We have swiftly executed on a number of initiatives this year to address the challenges facing us and this sector. Many of these action steps have been taken in an effort to improve our financial results, not only for this year but for the next year as well. Let me just take a few minutes to run through a few of these - what we see as some of the tailwinds:

First, we have significantly improved visibility into medical cost trends and collaboration among our business unit. An example of this is the Operations Council that Angela highlighted. We believe this process has enhanced our ability to reserve and price more accurately. We achieved our target rate increases in most geographies during the second quarter. We're rolling our new products in a number of markets in the coming months to target fully insured membership growth. We adjusted pricing and benefit designs in our Medicare Advantage products for 2009, and we exited certain state-sponsored programs for which we could not achieve actuarially sound reimbursements.

We also have some headwinds as we move into next year. We continue to be impacted by a challenging economic environment. This is likely to continued pressuring reimbursement levels in state-sponsored programs. A tough economy also impacts commercial revenue and enrollment levels, as certain members choose to buy down their benefits or potentially forgo health insurance altogether. While we have a number of programs in place to introduce more health benefit options and enhanced our fully insured enrollment, this is a competitive market and we will remain disciplined in our underwriting.

And finally, based on our expected performance in 2008, the criteria for most bonuses are most likely not to be met. As a performance-based Company we will need to add incentive compensation to our 2009 plan to maintain an appropriately motivated workforce. We will provide more details about our 2009 outlook in the future. I would now like to turn the conference call back over to Angela to lead the question-and-answer session.

Angela Braly - *WellPoint, Inc. - President and CEO*

Thank you. Operator, please open the queue for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Doug Simpson, Merrill Lynch.

Doug Simpson - *Merrill Lynch - Analyst*

Good morning. Wayne, could you update us on the systems migration process? I know you put some of that on hold. How are you thinking about that over the next couple of years as you're coming up with your budget? And how does that impact your confidence? What types of swing factors do you put in there for that dynamic?

Wayne DeVeydt - *WellPoint, Inc. - EVP and CFO*

Yes, and I'll have Angela expand on this. Right now our focus for this year obviously is resolving the previous migrations, of which again the host migration is the primarily open one that we are getting final closure on. We expect to have closure by the end of this year.

I think the one thing I would say is that prospectively, consolidation of systems will still be an imperative for us to become a more efficient Company. That being said, I think there were clearly some lessons learned over the last year and a half around those migrations and the approach we will take. I do think that standardizing some of the product portfolio that we're doing today, and simplifying some of our processes, will not only provide a more smooth transition, but in addition to that, I think we will bite off a number of migrations on a smaller basis as we move forward. Angela I don't know if you want to respond?

Angela Braly - *WellPoint, Inc. - President and CEO*

Let me add to that as well. Right now, almost 85% of our membership is on one of our top six platforms. And we do still expect to migrate claims systems. But as we talk about standardizing process, they are really opportunities for us to standardize certain functionality across the different systems. So it might be a customer facing part of this system. It might be all the claims editing is going to be consistent across the enterprise.

And then, as we do the migrations, there would be much less risk and it will not affect the customer from the customer-facing perspective as we roll out more consistent processes facing the customer. So we don't feel like we're skipping a beat here. We're looking at the way the migrations have been executing, as Wayne said, learning from those and making sure we have goals around that, because ultimately what we want to do is a reduce the lights-on cost, and reinvest those savings in projects that really address cost and quality of health care.

Doug Simpson - *Merrill Lynch - Analyst*

Maybe just one follow-up numbers question. The cash flow this year expected to be roughly equal to net income. Is that relationship sort of 1 to 1, is that reasonable to expect for the next couple of years?

Wayne DeVeydt - *WellPoint, Inc. - EVP and CFO*

I think the question on that is really going to be driven by how the fully insured membership continues to evolve. When you look at the 1 to 1 ratio this year, there are a number of unique drivers. But I would clearly expect, just from a pure quality of earnings perspective, we should be maintaining at least a 1 to 1 ratio relative to that.

As we can get our new membership programs out, our new products to drive new membership growth, you would begin to see that actually move upwards within the 1 to 1.2 range over time. Again, I think as we stabilize the membership base and we have a lot of initiatives going out, both the second half of this year and early next year. But at a minimum it should be a 1 to 1 ratio.

Operator

John Rex, JPMorgan.

John Rex - *JPMorgan - Analyst*

Good morning. Appreciate the commentary on the headwinds/tailwinds as you contemplate for '09. I was just wondering if we could take it -- understanding you don't guide until the end of the year, I'm not looking for an EPS guidance here. But as you have kind of taken into consideration the economy is it stands today, and making the assumption that it doesn't improve, it doesn't get any worse but it stays where it is, and you think about those headwinds/tailwinds, give me the broad side of the barn in terms of management sense. Operating earnings in '09 up, down or flat from the '08 level?

Wayne DeVeydt - *WellPoint, Inc. - EVP and CFO*

We literally will be presenting our three-year plan to the board in the next month, and then we will be finalizing our operating plan. I don't want to get ahead of my board on that. Clearly there are a number of tailwinds that would clearly allow individuals to see significant upside. At the same time we don't want to minimize some of those headwinds at this point in time.

So again, I'm not trying to be evasive here, I just want to be respectful of the process we have for our board and for others. But obviously we recognize that a number of things should not repeat next year and we should see improvement in our senior business. Our reserves appear to be strengthening appropriately our pricing improved as well and we continue to execute on our buyback program. But again, I want to be respectful of our board.

John Rex - *JPMorgan - Analyst*

Is it fair to say (multiple speakers) -- go ahead, sorry.

Angela Braly - *WellPoint, Inc. - President and CEO*

I was going to say, as you described the question initially you talked about expecting things not to really change. That's why I think we described some of the headwinds we're facing. We know in the state-sponsored business there are some headwinds around state government budgets. We know we have to have actuarially sound rates. We're assuming that situation continues.

We're being appropriately disciplined and focusing on actuarial principles around our pricing because we expect things to continue in terms of a tough economy and a competitive environment. The way we win in that environment is we develop new products; we have a very strong brand. We look at places where we can improve the network even more, even though it is market leading in most places. So we do agree in your original question that there are some headwinds we've been facing, and we're assuming those are going to continue to persist, and we're going to develop new and better ways to meet the customers' need in that environment.

John Rex - *JPMorgan - Analyst*

I guess as a team, though, would you be startled if operating earnings were down in '09, given kind of what you know today? Would that just be absolutely startling, or at this point do you say 50/50, or we don't know?

Wayne DeVeydt - *WellPoint, Inc. - EVP and CFO*

What I'll say again, I don't want to get ahead of my board. What I would say is this. We're going to take all the appropriate actions, including the pricing we're filing now for next year. We're making assumptions that trend is not being flat, we're assuming the trend is going to move up next year. And we're pricing accordingly. How competitors respond in that environment, I don't know. What impact that could have on us, I don't know. What I do know is we're going to remain disciplined.

If people respond in a fashion we expect them to respond, our outlook would change. But we will see how that all evolves. Again, I don't want to get ahead of the group. All I can tell you is we're doing a lot of things that should drive positive growth, but nonetheless these headwinds, some of these are out of our care and custody and we have to see how they evolve.

John Rex - *JPMorgan - Analyst*

Great, thank you.

Operator

Matthew Borsch, Goldman Sachs.

Matthew Borsch - *Goldman Sachs - Analyst*

Thank you. Just a question on the commercial fully insured business, and Angela in your remarks you commented on some things that you're seeing in terms of competitor actions, rate guarantees and you listed a couple others. Can you just give us a little more on that and juxtapose that with your efforts to grow fully insured enrollment, and where you're having success? Maybe what geographies did you think you'll be successful there, and where -- where you think it's going to be more of an uphill battle? And finally, just in that context, it looks like your outlook for the back half of the year is your commercial fully insured enrollment will be approximately stable. Just let me know if I've got that wrong.

Angela Braly - *WellPoint, Inc. - President and CEO*

I can do better than just answer that question; I can let Ken answer that question. He is here with me, as is Brian. I'm going to turn it over to Ken.

Ken Goulet - *WellPoint, Inc. - President & CEO, Commercial Business Unit*

I'd like to respond to a couple of things, the competitor side and our own areas of growth. On our own positioning, we feel we have really a good advantage overall because of the marketshare we have in each of our Blue states. I think you know the data, but four of our plans have over 40% marketshare, four over 30, and six over 20%.

We are -- we had to go through some pricing activity this year to make sure our pricings were accurate, and most of our decline in our fully insured business was in our non-Blue business where we do not have the same network advantages and where we were doing some price corrections to be able to firm up the business overall.

We do anticipate stable through year end, and we've gotten through most of our rate actions. Our rate actions did produce slightly higher losses in the West than we anticipated in our forecast. But even that -- we held discipline in our pricing, and our membership loss was only slightly greater than expected.

Our growth is more in the Northeast, with our Prism product which was newly rolled out, and the Prism product has been a good product. We feel that we are comfortable where we are. We have some fairly significant new benefits going out in California, with three new products rolling out in the third quarter. And in the Southeast, we have new products rolling through and have a much more disciplined and robust annual benefit change process going into place in all of our areas.

On the competitive front, I would say rational but aggressive. The rate caps and other areas are primarily from local competitors rather than from the national competitors. And they're doing that essentially to offset some of the advantages that we have, so when you see a premium holiday, I do not see that from any of the national competitors. But we do see it from some of the local competitors to try to offset our advantages and make a buyer look at a one year buying decision rather than a long-term buying decision.

We feel comfortable with the majority of our rate changes going forward. We're excited about the product enrollment enhancements we have. They are rolling out across different areas of the country, but feel pretty comfortable for year end.

Matthew Borsch - *Goldman Sachs - Analyst*

Thank you.

Angela Braly - *WellPoint, Inc. - President and CEO*

Let me add to that. In terms of fully insured membership we're seeing the decline more than we expected, slightly more than we expected and were projecting, more particularly in UniCare than we had originally projected.

But one thing that's really positive is we're looking at the active vs. canceled loss ratios for the book, for the fully insured book, and it's actually much more positive than we had expected before. So we're keeping good members and healthy lives that we had been concerned about in the past. But our active vs. canceled loss ratios were looking better than we had thought. I don't know if Brian wanted to add anything there as well.

Brian Sassi - *WellPoint, Inc. - EVP and and President of our Consumer Business*

That is true. In our individual book of business we're actually having the best sales year that we have had in our history. That is being partially mitigated by higher than anticipated lapses, which is really driven by two factors. One is the economy, and two is some of the competitive rating pressures. But we are -- essentially our outlook for the remainder of the year is stability in terms of membership in both individual and senior business.

Operator

Justin Lake, UBS.

Justin Lake - *UBS - Analyst*

Thanks, good morning. I guess the first question I wanted to throw out there was just a follow-up to John in regards to kind of thinking about pieces to '09. And I realize the economy is the big wild-card, and certainly don't want to ask you to make a projection there. But as I think about the margins of the business -- something I think is probably much closer to your control, and something that is certainly being debated throughout the industry - is just the whole underwriting cycle and what the margin trajectory of the business really is.

Given all you talked about with the repricing actions, given that you've actually had the experience now of putting through these big rate increases and how the market has accepted them in a tough economy, what you've actually been able to do in Medicare Advantage as far as changing your benefit designs for '09. While you're not -- I understand the economy being a wild-card, the plus/minus op income, can you at least talk to kind of what is under your control on the margin side, and do you think there's something you could talk to as far as the margins for next year, and whether you think there will be some improvement because when you think about the net headwinds, tailwinds, especially the underwriting margins?

Angela Braly - *WellPoint, Inc. - President and CEO*

I think what we're going to continue to focus on our three-year plan and our annual planning process, and be in a position later to give better guidance on that. You brought up a couple of actions around how we have repriced. We're seeing those go through. The rate actions are holding, and we did change the Medicare Advantage. Brian can speak to that briefly in terms of expectations in terms of 2009, the bids are in. We don't know where we stand relative to that. But Brian, do you want to add anything there?

Brian Sassi - *WellPoint, Inc. - EVP and and President of our Consumer Business*

I can't really talk to specifics on the bids. As Angela just said, the bids are in and we are expecting to hear back next month relative to that. But we are expecting improvement in operating margin as a result of plan changes, and some of the plans we're experiencing higher-than-expected losses on this year we did not refile in specific geographies. I think those two actions will result in underwriting improvement in our senior line of business.

Wayne DeVeydt - *WellPoint, Inc. - EVP and CFO*

I think as Angela had mentioned our active versus canceled loss ratios even after these recent rate increases are looking positive. So those are the indicators of clearly being able to continue that trend and get appropriate margin expansion. But as we said, we're pricing with discipline for next year. We hope others will maintain that same level of discipline, but if that isn't there obviously that will impact ultimate op gain if we have to suffer another year of membership attrition. And again we're not going to go chase this business; we're going to maintain our margins and continue to try to find ways to expand those margins through G&A efficiencies.

Justin Lake - *UBS - Analyst*

Just a quick follow-up, maybe for Ken, on the commercial -- the commercial pricing side. Is there anything more that you could give us? You talked about California for instance being a place where you put through some pretty big increases and we heard the Lumenos numbers. Is there anything you can talk about as far as -- what kind of attrition you normally see in a year versus what you're seeing now, and how that was versus your expectations? Maybe put some numbers around it so we can kind of think about that from a total book perspective.

Ken Goulet - *WellPoint, Inc. - President & CEO, Commercial Business Unit*

We had -- as you know, as we went into the year we had adjustments in pricing across the board and in different geographies. In California we did increase more in our consumer driven plan, and the losses were modestly more than what we forecasted when we did our March forecast and our restatement. It's pretty much trending like it does annually.

We have -- right before our focal renewals, we have activity first where we have our biggest month of increases, and then we have our lowest month of sales. That occurred as it annually does occur, but what happened was with the rate increases we had anticipated more attrition than normal. It is more than it was last year, but only modestly higher than we had projected. But that is the one area where there were more losses than what we had put into our recovery plan.

Justin Lake - *UBS - Analyst*

Could you put a number around that? The attrition is 20% previously, is it 30% now, or can you throw out those numbers? Give us an idea?

Ken Goulet - *WellPoint, Inc. - President & CEO, Commercial Business Unit*

We really don't provide on a state specific basis. It's difficult to say, but all I would say is -- based on size of book, it's very modest.

Justin Lake - *UBS - Analyst*

Less than 5%? Greater?

Ken Goulet - *WellPoint, Inc. - President & CEO, Commercial Business Unit*

It would be less than 5%, correct.

Justin Lake - *UBS - Analyst*

Great, thanks a lot.

Operator

Charles Boorady, Citigroup.

Charles Boorady - *Citigroup - Analyst*

Thanks, good morning. By how many points is the Medicare Advantage book now below your target? I recognize you don't provide loss ratios, which I hope we can get some day from you. But can you at least tell us the number of percentage points below your target you're at with MA? Sounds like it's deteriorating a bit more than expected.

And then how you'll achieve the tailwind from MA in 2009, you talked about the pricing benefit design decisions, but walk me through how that's going to manifest itself in '09 in terms of likely drop in enrollment that might result and likely improvement you think you can achieve in the overall profitability next year.

Wayne DeVeydt - *WellPoint, Inc. - EVP and CFO*

Let me take the first part of this and I'll ask Brian to respond as well. In terms of -- as you know, we don't obviously provide specific details by product. What I will say at this point do it is that the Med Advantage has deteriorated slightly more than we thought, partially because we added a number of members in those particular products that were having issues with in the second quarter, about 13,000 members or so.

And so we expect continued deterioration of that through the second half of the year. That being said, and I'll let Brian expand on this, one of the concerns we had going into next year was whether we could make all the appropriate benefit changes on certain products. As Brian mentioned, again Brian feel free to elaborate, we actually made a conscious decision not to renew those products at all, we actually did not resubmit those products. So one of the reasons is that we expect to see obviously some positive tailwinds there is that it is those particular products that we're having our issues with, it's not the broader Med Advantage program in and of itself. Brian, do you want to expand on that?

Brian Sassi - *WellPoint, Inc. - EVP and and President of our Consumer Business*

Sure. From an enrollment standpoint, we're likely to see a modest decline as a result of not refiling some of the enhanced plans in select geographies. Additionally, we made benefit changes to some of the non-enhanced plans and the sum total of those two changes we are expecting to reflect increased operating gain. We expect to continue to be very well-positioned in the Part D segment in 2009 also.

Charles Boorady - *Citigroup - Analyst*

Can you give us any numbers at all, or just rough numbers like -- is most of your book at your target level of profitability but you're losing money in enhanced, or is your whole book below your target level of profitability?

Brian Sassi - *WellPoint, Inc. - EVP and and President of our Consumer Business*

The entire book is not below our target profitability. It is in select product designs, which we have addressed in the 2009 bid process.

Charles Boorady - *Citigroup - Analyst*

Will dropping enhanced get you to your target level of profitability next year?

Brian Sassi - *WellPoint, Inc. - EVP and and President of our Consumer Business*

That's what we're projecting.

Charles Boorady - *Citigroup - Analyst*

How many basis points below your target are you on the book, or how much higher is your loss ratio overall than the new target?

Brian Sassi - *WellPoint, Inc. - EVP and and President of our Consumer Business*

We don't share loss ratios by product.

Charles Boorady - *Citigroup - Analyst*

Right, just the number of points (multiple speakers)

Wayne DeVeydt - *WellPoint, Inc. - EVP and CFO*

Consolidated it's about 45 basis points. But again we don't do it at a product level.

Charles Boorady - *Citigroup - Analyst*

It contributed 45 basis points to the increase year-over-year?

Brian Sassi - *WellPoint, Inc. - EVP and and President of our Consumer Business*

Yes.

Charles Boorady - *Citigroup - Analyst*

I can figure that out, thanks.

Operator

Josh Raskin, Lehman Brothers.

Josh Raskin - *Lehman Brothers - Analyst*

Just want to clarify on the cost trends, just looking at the press release. So just so I get this right, the 90 basis points in terms of some of the year-over-year impact, that's the same impact that we saw in the first quarter. And the reason the MLR was up less year-over-year in the second quarter versus the first quarter was mainly because you saw a little bit of improvement on the MA side?

Wayne DeVeydt - *WellPoint, Inc. - EVP and CFO*

It's a couple things. Obviously we've written a lot more Med Part D this year than we did the previous year. Remember our seasonality patterns there because the product designs we had actually put even more down side pressure on the MLR in the first quarter and we're seeing that unwind in the second quarter and thereafter. So while overall Med Advantage isn't necessarily improving, the Med Part D seasonality is starting to come through and we're seeing those improvements and that's actually doing well for us at this point in time. So that's one of the drivers in that year-over-year comparison and quarter-over-quarter.

Josh Raskin - *Lehman Brothers - Analyst*

But obviously nothing on the commercial side - nothing got worse on any of that.

Wayne DeVeydt - *WellPoint, Inc. - EVP and CFO*

No, Commercial is actually slightly better than our expectations, and we think the 8% plus or minus 50 basis points medical cost trend projection is very good -- but I will say that while we think it appears that trends have stabilized, we are assuming for pricing for next year a rising trend.

Josh Raskin - *Lehman Brothers - Analyst*

That's helpful. Second question, in the press release you also talked about account retention programs. And I saw broker incentives were right near that. I'm just curious, what exactly are account retention programs? Is that done from a pricing perspective, or are there other service type of guarantees or improvements you're making?

Angela Braly - *WellPoint, Inc. - President and CEO*

Brian can answer that. As Brian spiked out in the individual, our sales are great, but retention was a concern so there are programs that we put in place to reach out to those members.

Brian Sassi - *WellPoint, Inc. - EVP and and President of our Consumer Business*

There are a number of things that we've put in place in both our individual, and we're also beginning to leverage our senior book of business, where we're actually making outreach calls to members that have indicated a desire to cancel. And our early returns in last six months are that we're retaining 70% to 80% of the people that we actually contact in the plans. So that's a successful program.

As well, we've implemented health plan advisers in a number of our geographies, and they're really our higher level people, very familiar with different plan designs to really assist members, instead of dropping coverage, moving to a more appropriately priced product for what they're looking for.

Ken Goulet - *WellPoint, Inc. - President & CEO, Commercial Business Unit*

And with the employer group or the commercial side we've instituted in national accounts and in many of our large group areas, a process called the WAR Room or Winning At Renewal, where we are reviewing all aspects of an account before going out to make sure we're being consultative in our approach to looking at alternatives to meet the client needs. And it is helping in our overall approach to being a consultative partner to the customers. Pricing appropriately, finding the right margins, but also working together to find the right approach. The WAR Room has helped our overall activity.

We have also done some very detailed pricing analysis across all lines of business, and as mentioned earlier, our active vs. canceled ratios are in the positive. And we spent a lot of time looking at where we need to make sure we always hold the line and where we can be flexible on some more cases that are running very well. And we started to roll that out across more and more geographies.

Operator

Scott Fidel, Deutsche Bank.

Scott Fidel - *Deutsche Bank - Analyst*

Just wondered if you could elaborate a bit more just on the outlook for the early read for '09 medical cost trends. Wayne I know you said you're assuming a bit of an uptick there. Maybe if you could talk about the magnitude of that, and just looking at the individual components maybe where you see the most risks to acceleration and then areas where you could potentially see some improvement in '09 relative to '08.

Wayne DeVeydt - *WellPoint, Inc. - EVP and CFO*

Again for competitive reasons, obviously we don't typically talk about the level of increase, but I will try to give you some high-level overviews. Again, this will vary by geography and by product. What I would say is we are assuming in our pricing the trend will be moving upwards, and probably the best way to describe it at the consolidated level is, I know one public competitor has already discussed the level, I would say that level is very reasonable. That's probably the best way for me to describe it regarding overall upward trend that we may be expecting.

That being said, there are a number of things that could impact that. One of the items that could actually put downward pressure on that trend really is going to be mix shift in the business and how that evolves. For example, if we continue to see more higher-deductible products, more within the CDHP programs that evolve, that actually can drive down the paid trends even more than what we thought underlying trends would be. So one of the items that could be distorting to the trend numbers could actually be the mix shift. It could actually show what might be a favorable trend, but it's more of a mix shift more than underlying trend itself.

One of the things we're doing, though, is when we price for next year is we look at what we believe core underlying trend is, and we price for that and then we modify it based on the actual products in the mix shift versus using mix shift in that pricing decision upfront, we actually do it on the back end. So I think that's one item that could clearly impact it. The other thing is we do price so that our premium yields do include total medical cost trends. And again that includes SG&A as well, and then obviously try to leverage our SG&A accordingly.

Scott Fidel - *Deutsche Bank - Analyst*

As a follow-up, I know that one competitor which I think had cited a 50 basis point increase in expectation for next year, they also just talked about seeing some increases in their behavioral costs just relative to utilization which they thought might be economic related. Just given that you have a pretty big behavioral book, if you can talk about what you're seeing around costs in the behavioral business at this point.

Wayne DeVeydt - *WellPoint, Inc. - EVP and CFO*

We're not necessarily seeing that -- the economy doesn't usually appear to be a major driver on the behavioral utilization, at least in 2008. There's often a lag, though, during economic downturns, and there's more use after job loss than when individuals are experiencing stress in their workplace.

So we're obviously taking that into consideration as we look to our pricing for next year. But as it relates to '08, we're not necessarily seeing those behaviors changing. Also, the effects of the Timothy Law in New York, those were largely felt in '07 and those were incorporated into our '08 trends and pricing. Again I think we've got a relatively good baseline for that.

Operator

Peter Costa, FTN Midwest Securities.

Peter Costa - *FTN Midwest Securities - Analyst*

A couple of points to clarify. You have taken another $220 million charge to equity for your portfolio. Is there anything in there that's not paying dividends currently? And second, on your inpatient prices mostly, but costs overall, you said went from upper single digits last quarter to low double digits this quarter. Is that more out of network costs, or is that more higher prices at negotiated rates in your Blue markets? Or is that something else, or is it the non-specific volume of large claims that you talked about the first quarter?

Wayne DeVeydt - *WellPoint, Inc. - EVP and CFO*

Let me start with the latter part. Again 95% of it is really unit costs at this point in time, something we continue to look at on our contracting. In terms of the portfolio, while I don't have the exact percent in front of me, I know it's south of 10% in terms of equity. While some of those equity portfolio is paying a dividend, a substantial portion of it isn't dividend paying.

And again, it's part of our policy just to remind you of how we treat equities. If an equity is underwater by $1 after twelve months, we will write that down and take that through our P&L. If it's underwater by 20%, in six months we will write that down to that value even though we haven't sold the underlying asset.

A big part of what you're seeing there is within the equity portfolio, and obviously we'll file our 10-Q today. And I think when you look at that you'll see the vast majority of the impact for realized losses that we've run through the P&L as well as the pressure you've seen on the overall reduction for the unrealized gain loss position is coming from the equity portfolio and what's happening in the current equity markets.

Peter Costa - *FTN Midwest Securities - Analyst*

Wayne, I was actually talking about what didn't run through the P&L, but went straight to the equity line.

Wayne DeVeydt - *WellPoint, Inc. - EVP and CFO*

Again that you'll see the unrealized gains and losses being almost primarily driven by the equity portfolio as well. So for the assets we still hold that have not met that criteria, we are marking to market those every month and every quarter. So as the markets slide down and as we have all seen with the Dow lose almost 2000 points just in the last three months, that impact does run directly through our equity as an unrealized loss.

Or said differently, many of those were in an unrealized gain position, and that gain has come down substantially. So if you actually look at our total portfolio, it's in a very slight loss position. But again, that's more market-based timing. As we all know if the market starts to turn around and recover, that will shift back to a positive number in the next quarter.

Peter Costa - *FTN Midwest Securities - Analyst*

You did say it was price on the hospital side of things. You didn't say whether that's out of network prices that are higher, or is that in network prices that are higher.

Angela Braly - *WellPoint, Inc. - President and CEO*

It's likely both. We're seeing for outpatient about 85% is really driven by unit costs, and 95% in terms of inpatient, and it could be both. We're addressing unit costs and utilization, focused on our contracting, our medical and clinical management. We've put some specific focus around NICU and oncology, because we saw those as drivers early in the year. And so we're looking carefully and working on programs around that as well.

Wayne DeVeydt - *WellPoint, Inc. - EVP and CFO*

It's mostly in network.

Operator

Carl McDonald, Oppenheimer.

Carl McDonald - *Oppenheimer - Analyst*

In the past you've talked about not just pricing to trend in 2009, but trying to make up at least a portion of the 90 basis points of mispricing this year. Is that still your intent for next year?

Wayne DeVeydt - *WellPoint, Inc. - EVP and CFO*

In areas where we can believe we can make up for that delta and appropriately price without having attrition that would cause active vs. cancelled loss ratios to be distorted. We're obviously trying to bake that into pricing.

In other areas where it is extremely competitive we will not be able to get that full 90 basis points, we recognize that, without having negative impact we think to the broader Company. So we're looking at that very strategically by market. I don't want anybody to assume that there's going to be an additional 90 basis points tacked onto pricing on an enterprisewide basis. That is not the case.

Ken Goulet - *WellPoint, Inc. - President & CEO, Commercial Business Unit*

I'll jump in as well. This is Ken. That's something that over time will work back, but you cannot do a onetime increase to recover or else your trend increases are different than other carriers. And it will drive more looking at alternatives, so we balance it appropriately according to how well we're positioned in each market. But it's something that we will earn back over time.

Carl McDonald - *Oppenheimer - Analyst*

And we've heard from both Aetna and WellPoint in the last month or so that they really haven't seen competitors doing any kind of material increase in pricing for 2009 relative to the rate increases this year. Is that consistent with what you've seen overall?

Ken Goulet - *WellPoint, Inc. - President & CEO, Commercial Business Unit*

We're generally seeing rational pricing. We are sensing that pricing is continuing to firm up in certain areas. I think others will see where our pricing has made changes and where we have recovered in certain areas. But I think it's safe to say that it's consistent with prior years, but I do believe I am seeing others recognize a slight increase in trend for next year as well.

Carl McDonald - *Oppenheimer - Analyst*

Last one really quick, when do we actually get into the heart of the January 1, '09 full risk renewal season?

Ken Goulet - *WellPoint, Inc. - President & CEO, Commercial Business Unit*

The full risk renewal season is, believe it or not, not until last quarter, and literally into -- for small group into the November/December time frame. It really is finalized during the last portion of the year. The ASO - we are well into it right now, but it's all last quarter for small group. We've done some large group renewals at this point, and we've also had some large group sales activity for 1/1 of next year. We captured a pretty nice 23,000 life fully insured case. But in general, the majority of what we do for commercial fully insured is in the last quarter.

Operator

Michael Baker, Raymond James.

Michael Baker - *Raymond James - Analyst*

Just a follow-up question on the unit costs trends on the inpatient side. Have you seen any change in coding intensity by hospitals contributing to that?

Wayne DeVeydt - *WellPoint, Inc. - EVP and CFO*

I can't say we've seen that necessarily happening, although I will tell you our Medical Management Group is continuing to evaluate bundling that may or may not be happening and how they are applying some of the DRG codes and what they're doing there. I'd turn to Ken and Brian. I don't think we're really seeing like that at this point.

Ken Goulet - *WellPoint, Inc. - President & CEO, Commercial Business Unit*

There's one area we didn't bring up earlier. There's the hospital consolidator in the West who is purchasing hospitals and immediately dropping out of network of all carriers -- so we do see a slight increase there of out of network in the West. That is being legally challenged -- not through ourselves, but through the government and other areas, it's being looked at. So that's where I've seen really the most significant change. But in hospital inpatient, I think it's consistent with what it has been in the past, and we have not seen a significant change.

Angela Braly - *WellPoint, Inc. - President and CEO*

To that question, I'm going to have to make it the last one. But as we roll out and have consistent claims editing of processes on our side, we can really start to see where there's variation across the country, and then target our cost of care and management activities toward places where we're seeing variation. So it's going to be a powerful thing.

Unfortunately I'm going to have to make that the last question. I know there are several analysts who are in the queue that we were not able to get to due to time, and I apologize for that. But I'm going to wrap it up here, and I really do appreciate and thank you for your questions.

In closing, I want you to know that we're responding aggressively to help ensure achievement of our goals. And this includes implementing actuarially sound rate actions and executing on cost optimization opportunities to achieve our financial objectives. We're introducing innovative products to improve our competitive positioning. Our leadership team is in place. We're gaining traction and we're executing on our growth initiatives, product development, simplification plans, specialty integration strategies, and we're driving for sustainable long-term results.

I want to thank you all for participating on the call this morning. Operator, please provide the call replay information, and thank you all.

Operator

Ladies and gentlemen, this conference will be available for replay after 11 AM Eastern Time today through midnight, August 6. You may access the replay service by dialing 1-800-475-6701 and entering the access code 908943. International participants may dial 320-365-3844 and use the same access code, 908943. That does conclude our conference for today. Thank you for using AT&T executive teleconference. You may now disconnect.

Editor

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