FINAL TRANSCRIPT

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the WellPoint Inc. quarterly results conference call.

At this time, all lines are in a listen-only mode. Later, there will be a question and answer session; instructions will be given at that time. (Operator Instructions). As a reminder, this conference is being recorded.

I'd now like to turn the conference over the Company's management. Please go ahead.

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

Good morning and welcome to WellPoint's first-quarter earnings conference call. I'm Michael Kleinman, Vice President of Investor Relations. With me this morning are 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 some of our first-quarter challenges, actions, and accomplishments. Wayne will then offer a detailed review of our first-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 risks 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 period filings we make with the SEC.

In addition, our discussion will include certain non-GAAP financial measures as defined under SEC rules. As required by the rules, a reconciliation of those measures to the most comparable GAAP measures is available on our Web site at wwww.wellpoint.com.

I will now turn the call over to Angela.

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

Good morning and thank you, Michael. The first quarter was challenging for us. Our GAAP net income was $1.07 per diluted share, and included $0.06 per share in net realized investment losses. Excluding realized investment gains and losses, this is within the low end of the guidance range we provided last month. While Wayne will update our first-quarter results in more detail later on this call I'd like to take a few minutes to discuss:

The three primary areas that prompted our earnings guidance revision last month;

The actions we have taken since then;

What we've learned from these actions;

And the current expectations for 2008 earnings.

More importantly, I would like to discuss the key action plans that we are implementing to improve results for the remainder of this year, and position us for 2009. Finally, I will provide some commentary on our value proposition and steps we are taking to enhance our competitive advantages.

The three areas we discussed on our call last month related to higher-than-expected medical costs, including less favorable than expected prior-year reserve development, lower-than-expected fully insured enrollment, and the changing economic and regulatory environment in which we operate.

Since our earnings guidance call last month, we have focused on significantly lowering our claims inventories. We increased staffing for medical management, added claims examiners and reduced our consolidated claims inventories by over 10% in the month of March.

We've now learned that our claims experience in 2007 was even higher than we thought earlier. Our prior-year reserve development continues to be favorable but less favorable than we expected. We recorded approximately $60 million of additional benefit expense in March, due to less favorable prior-year development, which impacts earnings and also increases our underlying medical costs or baseline on which we assess trend. Consequently, we have strengthened our reserves significantly as shown by our balance sheet. With the significant reductions in our claims inventories, we have achieved better visibility into our medical costs and trends and are now pricing our business accordingly. We now believe that we underestimated baseline claims by approximately 90 basis points, as opposed to the 50 basis points that we used in developing the guidance we provided last month, and as a result have adjusted our guidance today.

Another one of our actions steps was to complete a comprehensive review of medical claims to help further understand the issues we are facing so we can manage them appropriately.

We know that, in our Senior Segment, we have concerns about certain benefit plan designs and pricing that have resulted in adverse selection. Higher claims on these products are expected to continue for the remainder of the year.

Additionally, flu activity spiked near the end of the first quarter. We expect that the flu will not significantly impact the rest of this year. We regret that we did not better execute our business integrations and system migrations that were significant causes of the loss in visibility on our claims. We began these integrations and migrations following the Anthem, WellPoint and WellChoice merger activities and subsequent reorganizations. We are now completing corrective actions from prior migrations.

So what actions are we taking?

We are acting decisively to improve results for the remainder of this year and properly position us for 2009.

Performance in our Senior business was well below expectations. We lost more than $200 million in that business during first quarter, and Brian Sassi, who is with us today, is currently recruiting a new president for our Senior division. But we're not waiting for this new president to make improvement.

We have implemented medical management initiatives to address the high claims experience in our Medicare Advantage products, including senior provider audits. We are currently developing 2009 Medicare Advantage benefits and pricing, following the CMS release of the 2009 rate increases earlier this month.

For our State-Sponsored business, we recently hired Kevin Hayden as our new President. Kevin is a seasoned executive And prior to joining us, he served as Secretary of the Department of Health and Family Services for the state of Wisconsin. Kevin will bring fresh perspective to improve performance in our State-Sponsored business.

We are utilizing our better visibility into 2007 claims experience and trends to price our business more appropriately on a going forward basis. One of the advantages of having many of our renewals spread throughout the year is that we do not have to wait until January 1 to adjust our pricing for the experience we are now seeing. It's important to note, however, that we do not implement price increases across the board at the same level.

Our methodology looks at specific Large Groups, blocks of business, and particular benefit designs, and prices each according to its experience so that we minimize attrition of profitable business due to rate increases. In 2007, the Large Groups that canceled their coverage with us had a combined benefit expense ratio 570 basis points higher than active groups.

At times, certain benefit designs in particular geographic areas have worse than average experience and require higher-than-average rate increases. As an example, we have certain blocks of higher-deductible plans with richer coverage after the deductible is met that require and are receiving higher-than-average rate increases. For many of these customers, we can offer benefit buydowns that include a different coinsurance percentage after the deductible is met to produce a more affordable premium.

I'd like to now discuss fully insured membership.

Fully insured membership is running slightly favorable to the guidance we provided last month, and we continue to develop and expand our product portfolio.

To enhance our fully insured membership, we are introducing more affordable products with multiple price points. Plans like our Prism product for Small Groups in New York allow employers flexibility in plan design and cover preventive services. We are also expanding the availability of successful products like Employee Elect into new geographies.

For our individual business, we are currently rolling out a number of new products, including our SmartSense and Premier products. SmartSense is a lower-end PPO option with a wide-range of deductibles, 30% coinsurance in network, and generic drug coverage. Members can also purchase optional life and dental benefits. The Premier product is a more traditional PPO option with lower coinsurance options and both generic and branded drug coverage.

As we are rolling out these new products, we will continue to price business for appropriate margins. We will not sacrifice profitability for membership.

We are also enhancing our broker support program, increasing our marketing and sponsorship activities, and increasing outbound calling to improve membership retention.

The remaining issue we discussed in our guidance call last month related to the economy and regulatory environment. We have seen no significant changes impacting our revised guidance on either front. We continue to see negative in-group change in Small Group, which is likely related to economic conditions. On the regulatory side, we have contracting activities underway as we try to minimize the impact on WellPoint of the 10% Medi-Cal provider cuts. We will remain disciplined on decisions affecting the Medicaid business, as we recently demonstrated in the Ohio Covered Families and Children Medicaid program that we exited on April 1.

So now that we have performed all of these reviews, and created corrective action plans, what does it mean to our financial outlook?

As we stated, we had further deterioration in our 2007 baseline medical costs, and we now realize that we had a miss in our initial 2008 pricing. As we continue to price our business, we can get this miss behind us, and have our book appropriately priced for the future.

With the benefit of all this information, we now believe that our 2008 full-year earnings will be in the range of $5.42 to $5.67 per share, which includes the $0.06 per share of net realized investment losses incurred during the first quarter. This range allows us to continue our long-term investment activity, while providing some allowance for a potential incremental increase in medical cost trend.

We now expect the full-year 2008 benefit expense ratio to be in the range of 83.3% to 83.6%, less than the first quarter of 2008, due to expected premium rate increases, enhanced medical-management initiatives, a more normal pattern of prior-period reserve adjustments, seasonality adjustments, and membership mix changes.

We know what our issues are and have plans to fix them. However, we also continue to have what I believe is the best value proposition in the market.

We have more providers in our networks with better discounts than anyone else. Since health care is locally delivered and locally consumed, having scale matters. We have the number one market share in almost all of our 14 Blue states. In four of these states, our market share is in excess of 40%, and in another four of these states, our market share is in excess of 30%. This allows us to negotiate deep discounts from providers in our Blue states and to implement programs intended to optimize the cost of care.

We are aggressively executing on our strategy to expand best practices and improve contracting performance across our organization. We have launched pay-for-performance initiatives in many of our states, like the one in California we announced last month to establish consistently effective programs across the enterprise.

We continually adjust reimbursement methodologies to reduce cost shifting and optimize discounts.

We are establishing national vendor contracting where appropriate, for medical services such as dialysis, implants, and radio-pharmaceuticals. We expect these initiatives to help improve our results throughout 2008 and beyond.

Before I turn the call over to Wayne, I want to note that last week we acquired Resolution Health, a leading data analytics-driven personal health care guidance company. The acquisition will allow us to expand efforts to improve health care quality and reduce healthcare costs for our customers. Demand for personalized, actionable healthcare guidance continues to grow as consumers become more involved in managing their own care. As an industry leader in proactive health care management, we know that evidenced-based health interventions can help improve treatment by identifying potential drug interactions, gaps in care and other issues.

I would also like to reiterate that while this certainly has been a challenging start to the year, I believe that we're taking the actions necessary to improve our future results. I want to emphasize that the internal issues that negatively impacted our results are fixable. We have a unique competitive position in this industry and I am confident that we will deliver long-term success for our customers and our shareholders.

Wayne will now discuss our first-quarter financial statements, medical cost trend, and provide additional guidance details for 2008. Wayne?

Wayne DeVeydt - *WellPoint, Inc. - CFO*

Thank you, Angela, and good morning.

As Angela noted, we have several challenges right now and are disappointed with our lower earnings guidance for 2008, but we also have positive aspects to discuss.

One of the positives is that we continued our strong organic membership growth in the first quarter. We added 564,000 new members and our medical enrollment totaled approximately 35.4 million members at March 31, 2008, an increase of 1.6% from $34.8 million at December 31, 2007.

Enrollment in our National business increased by 517,000, including 354,000 new National account members and 163,000 BlueCard members. Our National membership has increased by approximately 2 million members since December 31, of 2005. This is an excellent indication that customers continue to find great value in the products and services and we are providing in the marketplace.

Local Group membership in our Blue states increased by 164,000 members in the quarter, while our non-Blue UniCare and HealthLink membership declined by 136,000 members. As of March 31, 2008, self-funded membership comprised approximately 52% of our medical enrollment, up from 51% at December 31, 2007.

Premiums in the first quarter of 2008 increased $477 million or 3.5% to $14.2 billion from the first quarter of 2007, primarily due to growth in our Medicare Advantage business, premium rate increases for all customer types, and increased reimbursement in the Federal Employees Program or FEP. These increases were partially offset by the loss of the New York State prescription drug contract that had approximately $1.3 billion in annual premiums, small declines in National accounts and Local Group business due to fully insured membership losses and conversion of the Connecticut Medicaid program from fully insured to self-funded.

Administrative fees in the first quarter of 2008 increased $45 million or 4.9%, to $970 million from the first quarter of 2007, primarily due to increased revenue for care and disease-management programs offered by our Comprehensive Health Solutions business unit, and self-funded membership growth in National accounts, including BlueCard and Local Group. Self-funded membership growth was driven by our value proposition, including network breadth, discounts, excellent service and increased focus on the health improvement and wellness.

Our benefit expense ratio was 85.1% in the first quarter of 2008, an increase of 200 basis points over the first quarter of 2007. Prior-period reserve development was approximately $120 million less favorable than the first quarter 2008 than in the first quarter 2007.

The benefit expense ratio increase was almost entirely attributable to the Consumer Business segment. Approximately 160 basis points of the increase resulted from higher claims experience in the Senior business. Benefit expense ratios for our Medicare Advantage and Medicare Prescription Drug plan products increased significantly from the prior-year quarter.

As Angela noted, we have benefit design and pricing issues in our Senior products, and in particular in our Medicare Advantage offerings, which cause an increase in the benefit expense ratio. Higher claims experience is expected to continue in those products for the rest of this year until changes are made for 2009.

The benefit expense ratio increase for Medicare Part D was due to seasonality patterns in one of our products, which changed from a deductible to a copay this year. As a result, we incurred expenses earlier in 2008 as compared to 2007. We expect this plan design change to favorably impact comparisons of future quarters' benefits expense ratios to the corresponding quarters in 2007.

Approximately 30 basis points of the increase in the consolidated benefit expense ratio were due to company's Individual business. We are adjusting pricing and plan designs in certain markets, rolling out new product offerings and enhancing customer retention efforts to improve the individual segment results.

The remaining 10 basis points of increase in the consolidated benefit expense ratio represents the net impact of changes in all other lines of business. The increase in benefits expense ratio for items such as additional high dollar claims, flu season, and other related increases has been partially offset by the reduction in the ratio from the loss of the New York State prescription drug account.

I want you to know that we remain very disciplined in our underwriting approach and do not pursue business that we believe is priced below our profitability targets.

New and refreshed plan designs are a tool we are utilizing to attract new fully insured members and Angela highlighted a number of these new plans we are launching in both the individual and group markets.

We are pricing business so that our expected premium yield exceeds total cost trend, where total cost trend includes medical costs and selling, general and administrative expense. Medical cost trends are expected to be in the range of 8%, plus or minus 50 basis points for 2008.

For the rolling twelve-month period ended March 31, 2008, unit cost increases continue to be the primary drivers of medical cost trends. As we are getting greater visibility into our prior-year claims, we are recognizing a slightly higher utilization trend and increases in inpatient unit cost.

Inpatient trend is in the upper single digit range with more than 90% of the trend related to unit cost. Inpatient hospital admissions per thousand have increased approximately 0.5%. A higher-than-expected volume of large claims was paid in the first quarter of 2008 impacting prior-year reserves and driving baseline medical costs higher.

Outpatient services trend is in the upper single digit range, and about 90% of the trend is related to unit cost increases, while 10% is utilization-related. The primary drivers of outpatient trend continue to be outpatient surgery and emergency room costs. We have a number of contracting initiatives underway to address outpatient costs in various geographies, including contracting initiatives with lab fees, durable medical equipment, physical therapy, and occupational therapy.

Physician trend is in the mid single digit range with about 60% of the trend related to costs and 40% utilization related

Pharmacy trend has declined slightly and is now in the mid single digit range with 55% of the increase related to unit costs and 45% utilization-related. Continued improvement in our unit cost trend is attributable to our improved fee schedule and the recontracting of our negotiated rates with providers. We also have initiatives underway in our PBM to improve mail service volume and generic utilization.

We are also continuing to impact both the cost and quality of healthcare. Our HealthCore subsidiary demonstrates our commitment to providing the best possible care to our members through initiatives like the recently announced Safety Sentinel System, which will help to identify safety risks associated with drugs and other clinical care decisions. HealthCore focuses on providing evidence of the real world safety and effectiveness of therapeutics, offering insight into best utilize this evidence and communicate these findings to healthcare decision-makers. This work is increasingly used to support the practice of evidence-based medicine to advance quality improvement and to enhance patients' quality-of-life and satisfaction with care.

Moving back to the income statement, our SG&A expense ratio was 14.6% in the first quarter of 2008, an increase of 20 basis points from 14.4% in the first quarter of 2007. The increase was expected and primarily due to higher compensation, outside services, and marketing and advertising expenses.

Net investment income in the first quarter of 2008 decreased $14 million or 5.6% to $233 million from the first quarter of '07, due to reduced investments resulting from the use of cash for repurchases of our common stock.

Interest expense increased $16 million or 15.6% to $119 million in the first quarter of '08, primarily due to the issuance of $2 billion of long-term debt during 2007 and an increased use of commercial paper.

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

Net realized losses were $46 million in the first quarter of '08 and were primarily driven by other-than-temporary impairments related mostly to the deterioration in equity markets and to a lesser extent other-than-temporary impairments of fixed maturity securities. These were partially offset by net realized gains from the sale of equity in fixed maturity securities.

At March 31, 2008, both our bond and our equity portfolios were at slight unrealized gain positions. We will continue to manage our portfolio prudently. However, we have a very conservative other-than-temporary impairment policy for investments, particularly in our equity portfolio, which could cause certain unrealized losses to move from the balance sheet through income as realized losses during the balance of 2008.

As has been our practice, we do not include additional future realized investment gains or losses in our earnings guidance.

Our effective tax rate for the quarter dropped to 33.1%. The rate was lower due to a combination of effective tax-planning ideas, the favorable resolution of prior audit issues which represents approximately $15 million, and changes in our profitability among the states in which we operate. Some of these factors are temporary, while some are permanent. We expect our tax rate to be closer to 36% for full-year 2008.

Turning now to business segment results, we revised segments that are consistent with our new organizational structure. We now have the following reportable segments:

Commercial Business, which includes the Local Group, National, UniCare, and Specialty Product lines of business

Consumer business, which includes Individual, Senior, and State-Sponsored lines of business

Other, comprised of our Pharmacy Benefit Mmanagement, Disease Management, and Behavioral Health operations that are included in Comprehensive Health Solutions, FEP business, National Government Services, intersegment sales and expense limitations and corporate expenses not allocated to other reportable segments.

I'd like to take a few minutes to discuss each one of these segments.

The Commercial Business operating revenue increased $33 million or 0.3% to $9.5 billion in the first quarter of 2008, primarily due to premium rate increases in Local Group, National, and UniCare businesses offset by lower fully insured membership in UniCare and National and the loss of the New York State prescription drug contract.

Operating gain in this segment decreased $31 million or 3.4% to $884 million in the first quarter 2008 as the operating revenue increases were more than offset by higher benefit expense.

The consumer business operating revenue increased $374 million or 10% to $4.1 billion in the first quarter of 2008 primarily due to growth in our Medicare Advantage business and premium rate increases in State-Sponsored and Individual business. These increases were partially offset by declines in operating revenues due to the lower membership in our Individual business and the conversion of the Connecticut State-Sponsored business from fully insured to self-funded.

Operating gain in the Consumer Business segment decreased by $268 million to an operating loss of $124 million in the first quarter of '08, primarily due to higher benefit expense within our Medicare Advantage and Medicare Part D businesses. Higher benefit expense in our Senior Business resulted in a net operating loss of more than $200 million for that line of business in the first quarter of 2008, compared to an operating gain in the first quarter of 2007. Higher medical costs in our Individual business, including less favorable-than-expected prior-period redundancy, also contributed to the decline in operating gain.

Turning now to our claims reserves, medical claims payable were at an all-time high of $6.4 billion at the end of the first quarter. This is an increase of $610 million or 10.5% from year-end 2007, while fully insured membership declined.

Days in claims payable as of March 31, 2008 was 48.1 days, an increase of 3.1 days from 45 days as of December 31, 2007. This increase reflects our strengthened reserves for medical claims and was due to the following: Aproximately 1.2 day increase was due to the prior-period reserve adjustments

Approximately 0.7 days of the increase was due to claims cycle time, which again is the length of time between the date of service and the claim payments

Approximately 0.7 days of the increase is the timing of PBM claim payments

Approximately 0.4 days of the increase is due to change of provider settlements

Approximately 0.1 day of the increase is all other, net.

We believe that our reserves are appropriately stated. As in the past, our practice is not to include our first-quarter roll-forward schedule of medical claims payable reserves in our press release. For the three months ended March 31, 2008, we had significant positive prior-year reserve development, but as noted earlier, it was $120 million below that as of 3-31 of 2007. We continue to establish reserves in a consistent and conservative manner and consistent with past practice, we'll provide a roll-forward schedule in our second-quarter '08 earnings release.

Operating cash flow was strong in the first quarter at $1 billion or approximately 1.8 times net income. As a reminder, operating cash flow in the second quarter of 2008 is expected to be lower than in the first quarter, as we will be making two estimated federal income tax payments. For the full year, we now forecast operating cash flow of at least $3.3 billion.

We strive to utilize our strong cash flow in a manner that improves shareholder returns. During the first quarter we repurchased 29.7 million shares of our common stock for $2 billion. As of March 31, 2008, our remaining Board-approved share repurchase authorization totaled $2.3 billion.

We had $1.2 billion of cash and investments at the parent company at March 31, 2008, and we expect subsidiaries to dividend approximately $2.8 billion to the parent company during the balance of this year.

Long-term debt was $9.3 billion at March 31, 2008, a $243 million increase from year-end 2007, resulting primarily from increased commercial paper borrowings. Our debt-to-capital ratio was 30.2% at March 31, 2008 and in line with our targeted level.

Turning now to our earnings guidance for '08, as Angela noted, our net income is expected to be in the range of $5.42 to $5.67 per share. That does include net realized investment losses of $0.06 per share. Please recall that our previous guidance included $0.06 per share of realized investment gains. As I noted earlier, our guidance assumes no additional future realized investment gains or losses.

Medical enrollment is expected to be approximately $35.3 million at December 31, 2008, as a decline in State-Sponsored membership resulting from the April 1, 2008 exit of the Ohio Covered Families and children's Medicaid program is partially offset by additional growth in the commercial self-funded businesses during the second half of the year. Operating revenue is now expected to total approximately $62.3 billion. As noted earlier, the benefit expense ratio is now expected to be in the range of 83.3% to 83.6%.

The SG&A expense ratio is now expected to be approximately 14.4%.

Please notice that we did not provide quarterly earnings guidance. Our Executive Leadership Team is managing this business for long-term results, and consequently we are discontinuing the practice of providing quarterly earnings guidance. We will continue to provide qualitative statements about market conditions, trends and quantitative industry statistics so that analysts and shareholders can receive commented data upon which to make well-informed investment decisions and recommendations.

I would now like to turn the call back to Angela.

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

Thank you, Wayne. We will take your questions in just a moment.

We have been very focused on understanding why we are not achieving the growth rates we previously expected and are implementing corrective actions based on what we've learned. While we have faced both internal and external issues, we are accountable for our results and are working to address our issues. Even with all of that, we still have the best brand-name and the best value proposition in the industry, and we expect to capitalize on those strengths in the future.

Operator, please open the call up for questions.

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (OPERATOR INSTRUCTIONS). Matthew Borsch, Goldman Sachs.

Matthew Borsch - *Goldman Sachs - Analyst*

Yes, thank you. My one question is a follow-up, which is your view on commercial medical cost trend -- can you just give us what it is now for 2007, and what it is now for 2008? Is it higher for 2008 than your revised view for 2007?

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

Thank you, Matt, for the question. We have described that what we're looking at for '07, the baseline trend, is now 90 basis points higher than we had initially reported. In March 10, we described it. We thought it was 50 basis points higher. Since we worked down these claims, we've assessed that it was 40 basis points more than that or 90 basis points higher that are in the baseline for 2007.

In terms of 2008, we continue to expect that medical cost trends will be in the range of 8%, plus or minus 50 basis points for the full year.

Matthew Borsch - *Goldman Sachs - Analyst*

, Okay. What I'm just trying to understand is, with your revised forecast, do you see trend as higher or lower for 2008 relative to 2007, as you can see it now?

Wayne DeVeydt - *WellPoint, Inc. - CFO*

The trend is actually very much in line with 2007, now, Matt, when we look at it on a restated basis. I say, at this point, we are not expecting or at least have any early indications that trend is rising in '08 over our expectations, but we are still baking in the range of guidance we gave in the event it does. As you know, with only three months of activity at this point, I'm not prepared or is Angela to call the trend isn't rising. But I would say, on a restated basis, '07 is very much in line with '08. Right now, '08 is still in line with what we originally had expected, so again, we are building the range in the event the trend does move up but right now we're not ready to declare that because we're not really seeing that yet.

Operator

John Rex, Bear Stearns.

John Rex - *Bear Stearns - Analyst*

Yes, so I just wanted to come back still on the cost trend. So if I understand you correctly, I think the way you described '07 trend initially was less than 8%. So I don't know if that's 7.9% or 7.5%, but you are up 90 basis points over that level at this point. It would seem kind of then that the midpoint that you're talking to for '08 would still kind of be a reduction over that level. I guess I just want to clear up that.

Then if you could just come back and help us understand some of the commentary you gave in the March preannouncement, so I think in March it was mostly characterized as about being the commercial book, yet today, it looks like, overwhelmingly, the Medicare book that is driving the year-over-year change in Medicare -- vastly, overwhelmingly, the Medicare book. So it seems like a very different characterization. I want to understand kind of what you've learned over the past month that helped you get some more precision there.

Then if you can come back to your commentary in March about seeing higher medical costs, M.D. costs -- sorry, M.D. costs -- which is not apparent in the component trend guidance you gave today, that there's higher M.D. costs, and the higher high-cost claims.

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

Okay. Why don't we break this up a bit to answer your questions?

In terms of what we've learned since March, as we described in March, we were describing all of 2007 trends. We had great clarity and have received more clarity in terms of the commercial book the group business and individual book.

In terms of looking back, as you remember in March, we described that we thought that the trend for '07 was actually 50 basis points higher. We brought that up now another 40 to 90 basis points higher.

In terms of how that impacts 2008 now that we have that baseline correct, as Wayne said in the last response, we still think that, for '08, that we are in the range of 8%, plus or minus.

In terms of better understanding Medicare, and Brian is here as well and we can talk a little bit about that -- you know, we do have product design issues in pricing in the Medicare book that we are learning more about and experiencing more in the first quarter.

Brian Sassi - *WellPoint, Inc. - President of Consumer Segment*

Thank you, Angela. This is Brian Sassi. The most significant issue we are facing in the senior business is a product design issues in one of our private fee-for-service plans, the Enhance plan. We are getting adversely selected by Enrich benefit design for Part B drugs and Enhance SNF benefits, both of which we are correcting in the 2009 bid process.

Wayne DeVeydt - *WellPoint, Inc. - CFO*

John, I do want to take a stab, though, because I think this is a very fair question. You know, what did we learn and what's changed?

As we said in the early March call, we were seeing a significant increase in high-dollar claims, and at the time we were also seeing what were higher M.D. costs. We were really trying to get our hands around what that is in driving our inventories down substantially in the month of March. While we still have areas in the Company where I'd say inventories are at very normal levels, we do have areas where inventories are at 12-month lows. So I think we are getting much better visibility than we had before.

That being said, the increase that we saw in high-dollar claims was really more a function of costs that belonged in 2007, so when we got this process and got those into the proper year, year-over-year, it's not necessarily a spike now in high-dollar claims as much as it is the lack of visibility that we had because of the migration timing. So we've gotten those claims processed; we've got them in the proper period.

I would say, at this point, while we do have higher dollar claims still in MICU and we've got programs we're rolling out, we still saw some in oncology and we're working on programs there.

The long and short of it is what we really learned was that it's not necessarily a spike or a trend issue for 2008 as much as we really lost our visibility on 2007. That's why we increased our baseline pricing miss by 90 basis points versus 50 basis points.

In terms of the higher M.D. costs, utilization is slightly higher than we had expected, but the same phenomenon existed and then when we got it into the right periods, the year-over-year increase is not as much as we anticipated.

The real issue here is we missed baseline pricing by more than we thought; that's what we learned. As a result, we further strengthened reserves by an additional $60 million, and we know we have a product design issue in senior. Those are the three things that really caused the change.

Operator

Joshua Raskin, Lehman Brothers.

Joshua Raskin - *Lehman Brothers - Analyst*

Thanks. I apologize for sounding like a broken record but you guys had suggested, I guess back in January when you reported the fourth quarter, that you had seen medical cost trends for '07 below 8%. Then today you're saying 8%, plus or minus 50 basis points, but that's a 90 basis point change. So I guess I'm just asking the same question I think, but maybe asking it hopefully a little bit differently. Are we seeing medical cost trends come down in 2008, or is that the expectation?

Then second, maybe, Brian, could you walk us specifically through what the product design changes were in the private fee-for-service that's attracting all of this adverse development? And then what we should think about? I know it's before the bid so I don't want to ask sort of exactly what you're doing, but how you plan on changing that, maybe versus the competitors.

Wayne DeVeydt - *WellPoint, Inc. - CFO*

Josh, let me take a stab again at the medical cost trend. Again, we've three months in '08 so I don't want to declare whether it is decelerating or accelerating, which is why we gave the 8% plus or minus 50 basis points. What I would tell you is it's right in line with last year at this point in time. That being said, I'm not convinced it's accelerating at this point. It's just too early, and I'm not convinced it is accelerating.

You know, again, I think, to give any kind of trend relative to last year based on three months, is premature, which is why we provided the range. But at this point in time I think we will have better visibility around whether it's increasing or not by the second quarter. That's why, in the event it is increasing, we did build the range that we built.

Joshua Raskin - *Lehman Brothers - Analyst*

It sounds like your guidance, though, is that it's lower.

Wayne DeVeydt - *WellPoint, Inc. - CFO*

It's still -- our original guidance was that we thought it would be 8%, and we've changed that in March to 8%, plus or months 50 basis points. So, you know, if you looked at it year-over-year, it's relatively close on a restated basis.

Joshua Raskin - *Lehman Brothers - Analyst*

Okay, maybe I will follow-up off-line.

Brian Sassi - *WellPoint, Inc. - President of Consumer Segment*

With respect to the private fee-for-service plan design issue, what I can share is that a lot of the adverse selection is resulting from a 0 copay for Part B drugs on a new enhanced product that was rolled out in 2007.

Joshua Raskin - *Lehman Brothers - Analyst*

Okay, that's an easy fix then, right.

Operator

Charles Boorady, Citi.

Charles Boorady - *Citigroup - Analyst*

Thanks. If I could step back and ask a slightly bigger-picture question regarding guidance in terms of when you learned that the previous guidance was going to be off and just what concerns you have over your ability to meet this new guidance? For example, if you missed it, would IT more likely be because of industry trends being higher than you thought, or is there still a potential for more catch-up from claims processing or benefit design changes and other factors?

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

I think that's a good question. Let me say, in terms of when we revised guidance in March, we did so as soon as we could because we did have data and we knew at that time we didn't expect to meet our original guidance.

Since that time, you know, we have been very focused on improving our clarity into the claims and our processes. As we described, we really worked down those claims to get much more clarity.

As we provide this guidance today, we do have the downside of the range to reflect if there's further deterioration -- not that we are expecting it, but if there is additional deterioration in the trends overall.

You know, we've tried in our guidance to reflect what we're seeing from an overall economic perspective, in terms of greater buy-downs, in terms of (inaudible) change. You know, I'll let Wayne and Ken comment on kind of the market more generally, if you'd like.

Wayne DeVeydt - *WellPoint, Inc. - CFO*

Yes, Charles, a couple of other things that we did is that it was imperative that we have the reserves right, as close as we could be. While there's no guarantees, I think, if you look at the balance sheet, you'll see that the reserves are up almost $600 billion since 12-31 despite fully insured being down. Our DCP is up as well, and then the we did engage a third-party firm to come in and independently look at significant portions of our reserves and our balances. So I think we've taken a lot of steps above and beyond what we typically would do to try to ensure as best as we could that we would not be surprised with a revision.

That being said, I think, to your question, I think it would have to be something much broader in the industry at this point, but we did bake in the 25 range that we put forward, in the event that trend was either moving up or there was something that was unexpected.

So again, at this point, I think when we look at what we knew in early March, again the only real changes are in getting these inventories down is that we missed baseline by more than what we thought, we strengthened reserves, and we have a benefit design issue. We know what we need to do to fix it. So I think the rest of the year will hopefully be more stable.

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

You know, I will let Ken comment upon what we're seeing in the marketplace. As we described, we think pricing is competitive but rational. Ken, do you want to comment on that?

Ken Goulet - *WellPoint, Inc. - President of Commercial Segment*

Yes, Charles. It's Ken Goulet. I would say that our pricing in the marketplace is competitive but continues to be rational. As Wayne noted, we missed our base point. We have about 75% of our pricing is completed for 2008, and broken down, about 33% in January, 22% February through June, and 20% in July.

In looking at that, we will have correct pricing from August down and then our pricing. We would have captured the 50 basis points that we recognized six weeks ago. So, we feel very comfortable where we are from the August time from on, and we captured a good portion of it in our July pricing, which is 20%. That should put us in good position for the remainder of the year, and then for 2009 and beyond.

Charles Boorady - *Citigroup - Analyst*

Does your year-end enrollment assumptions take into account the potential for attrition as you put through rate increases? Does your loss ratio assumption take into consideration that the healthier members are more likely to go uninsured than those who actually need care? So that you might see a shift in the risk of the book if you do lose some customers in the process of raising price?

Ken Goulet - *WellPoint, Inc. - President of Commercial Segment*

The plan for the remainder of the year does take both of them into effect. The majority of -- we do have growth plans for the remainder of the year, but the majority of it -- in fact, in essence all of it is national with the large case sale that has already occurred. That is a midyear sale. Also, 1-1 of next year, our pricing does take into affect the pricing increases we have going in and the book change, although we very aggressively manage the active canceled loss ratios. As Angela said in the initial comments, we had a 570 basis point advantage in that area and our teams really do look at that as we go forward to make sure that we price well for the healthy cases, and for those that are not at a good loss ratio, price appropriately in those areas.

Operator

Doug Simpson, Merrill Lynch.

Doug Simpson - *Merrill Lynch - Analyst*

Good morning. I was wondering if we could just step back a little bit. You know, right now, it seems like there's MA benefit design issues, individual pricing issues, systems migration issues. You guys have had two major forecast changes in the last three months. You had a bunch of management turnover last year. Just stepping back, Angela, I guess I would ask, you know, the Company is a lot bigger than it was five years ago. As you are looking in the next few years, just maybe give us a sense. How comfortable are you with the depth and breadth of the management team? Should we be looking for bulk-up certain areas or I mean how do we think about all of those volatility say, the last six to eight months specifically?

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

I appreciate that question, Doug. I do think we have brought together a new management team that has considerable operating experience. Both Brian and Ken who are with us today are very experienced operators, have our P&L accountability, have begun to make significant improvements in their areas. Brian, as we described, has a number of challenges for the senior product. Those changes can begin to be made amidst this cycle. There are very fundamental execution issues that we need to improve upon in all of our lines of business. Both of these individuals -- Ken ran our national account business the last several years, and that business has shown a significant execution ability. I think he's bringing that to our team and to his team and the execution for his commercial business.

In terms of strengthening our ability to do integrations and system migrations, that is absolutely something we are very focused on. We disappointed ourselves, our shareholders and our customers as we made migrations that are not planned as well as they should have been. So we're very focused on executing on that. In fact, we have a performance improvement plan with very specific actions steps. We are holding people accountable. We have timelines. We are executing against those and we need to stay very focused on the fundamentals.

So I think it's an appropriate time for us to do that and to execute. I can see that we're making steps in the right direction there, and we will continue to focus on that and be very transparent about how we are doing that.

Doug Simpson - *Merrill Lynch - Analyst*

Okay. Then just as a follow-up, I know we've talked about this in the past but just given how the stock has performed and the volatility in your stock over the last six months, I'm just wondering. Could you just update us your thoughts on the potential for a cash dividend, given the cash flow that you guys are projecting? It seems that you certainly have room to maybe pay a decent cash dividend as well as share buybacks and still leave yourself dry powder to pursue any deals. Maybe just dovetail that with comments around the potential for Blue acquisitions. I guess the question is, if there's nothing in the pipeline for the next six months, why not go ahead and do something with a cash dividend that's a little more visible to people in the near-term?

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

You know, we constantly visit with our Board about the capital management plan, and we take those considerations very seriously. We will continue to reevaluate our capital management plan in light of where our stock price is and the other opportunities that exist. You know, we're striving to use our capital and our assets in the manner that most effectively improves shareholder value, so we continue to do that. But we think making the investments we are making and executing on the repurchase authority that we have is appropriate, but I can commit to you that we continually evaluate the dividend and the repurchase programs and what would be in the best interest of the shareholders.

Wayne, do you have anything to add to that?

Wayne DeVeydt - *WellPoint, Inc. - CFO*

No, I think everything you said, Angela, is exactly right on and we visit this with our Board on a regular basis and we will be reviewing it with them shortly.

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

In terms of, you know, the Blue acquisitions and how -- you know, is there one in the pipeline or there are others in the pipeline, we think we are making strides in partnering with Blue plans in a number of capabilities. Our AIM company has a number of Blue customers. Resolution Health, or RHI, that we acquired also has a number of Blue partnerships. We do think there's great value in our Blue partnerships in a variety of ways, and we're working well there. To the extent that there are Blue plans to over time think it appropriate to consider consolidation, we would be happy to partner with them in terms of that. But we do take that into account in terms of whether or not those are short-term or long-term opportunities. We will be thoughtful about that in terms of the capital plan.

Doug Simpson - *Merrill Lynch - Analyst*

Okay, thanks.

Operator

Scott Fidel, Deutsche Bank.

Scott Fidel - *Deutsche Bank - Analyst*

The first question, just maybe if you can talk a little bit about how the margins you are seeing in UniCare are relative to the Blue margins you're seeing in the commercial business. Also, just thinking more strategically, your updated thoughts on potentially divesting the UniCare business in the commercial side to focus on the markets, the Blue markets in commercial where you clearly have much more of a competitive advantage.

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

Thanks, Scott, for the question. I'm going to have Ken Goulet speak to it. As you know, we put Dennis Casey in the as President of UniCare. He is evaluating the business and the strategies there. But Ken, would you like to comment upon UniCare generally?

Ken Goulet - *WellPoint, Inc. - President of Commercial Segment*

Yes, I would say both Dennis and I are both relatively new and I've asked Dennis to run UniCare to take a look at it. But commercial UniCare membership, just to give a feel, was down about 146,000 members from year-end and the breakout is about 45% fully insured and 55% ASO.

Our margins, we've been very disciplined in our rate actions and pricing, which has driven some of the changes in the membership, both in the small case and in the individual business.

We have taken a number of strategic looks to see how is the best way to use the asset moving forward, which includes a variety of things, including different provider partnerships, direct strategies and others. We are evaluating all different options for UniCare going forward and will continue to through year-end.

Scott Fidel - *Deutsche Bank - Analyst*

Okay. If I could just ask a quick follow-up, too, just thinking more broadly and with the changing macroeconomic environment here in terms of the weakening economy. I am just wondering if you think there could be a shift at some point in the political landscape around seeing an increase in Blue plan conversions over the next 12 to 24 months, and just thinking about, as the states have to grapple with budget issues and Medicaid spending issues, whether you think you could see more of an opening in terms of states being amenable to Blue conversions.

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

You know, the thing you have to keep in mind with respect to Blue plans and Blue plan conversion is each plan has a different history and potential structure. In some states, it's clear that the Blue plan may have an obligation to the state or a charity. In other cases, it may be clearer that the Blue plan is really held by the policyholders. So that can have a big impact in terms of the political situation that applies to each of those Blue plans.

You know, we continue to believe that, in a consolidation and integration strategy, that over time, that the need for scale is evident in this business and as individual plans, you will have to continue to think of ways to achieve scale and deliver superior capabilities in the marketplace, because we know our competition has scale and is delivering in the Blue and against the Blue competitors. So we continue to forge good partnerships with our Blue plan partners. Those end up being individual decisions.

I do think, in terms of the political landscape, the states are going to be thinking about their budget issues. In certain places, they might have the Blue plan as an option there, and they are certainly evaluating those in certain places. But we're going to stay consistent with our strategy of partnering with Blues in a lot of ways and be available in the event that a consolidation is desirable.

Scott Fidel - *Deutsche Bank - Analyst*

Okay, thank you.

Operator

Justin Lake, UBS.

Justin Lake - *UBS - Analyst*

Thanks, two questions here. First, I just wanted to return to the medical cost trend for a second, because I'm still a little confused. I think, the last time we spoke, you had said cost trends were still under 8% for 2007. Can you give us the spot number where you think that actually ended up? Now that you've had to revise it up another 40, is it over 8% now?

Wayne DeVeydt - *WellPoint, Inc. - CFO*

I would say it's right about 8%.

Justin Lake - *UBS - Analyst*

So last year I guess, what is a little bit confusing to me is that would put you at about 7%, you know, pre all of the adjustments, which is materially different I think than the under-8 that you had talked to originally through the year. So I'm just trying to get my hands around it. did you think cost trends were going down because of -- which I guess would make sense because of the claims lag? Or were you at 7% the whole time and just were saying "under 8"?

Wayne DeVeydt - *WellPoint, Inc. - CFO*

No, I think we thought, in some cases, they would go down slightly, and it didn't pan out as we had expected.

Justin Lake - *UBS - Analyst*

Okay, so you thought trends were coming down, priced for them, and saw them go up. So you're right around 8% now. As you look at those claims come through, I think the cost trend number that you put out there was a rolling 12-month if I remember correctly.

Wayne DeVeydt - *WellPoint, Inc. - CFO*

Correct.

Justin Lake - *UBS - Analyst*

Can you talk about a rolling three-month average? Just, when you start putting those claims back in the right period, does the fourth quarter for instance look a lot higher or any materially different than the first quarter?

Wayne DeVeydt - *WellPoint, Inc. - CFO*

Well, let me answer it a little bit different, Justin. I would say that the rolling 12 months, when you look at our premium yields on a rolling 12-month basis, on a rolling 12-month basis, our premium are positive. But if you look at it relative to the quarter, we're missing and we're missing by about 90 basis points, quarter-over-quarter when you look at it on the restated.

So I'm not sure I'm answering your question correctly, but remember, that first quarter of '08 has significant reserve strengthening in it as well, so it's a little bit hard to look at it on a quarterly basis without trying to normalize it a little bit more. But when the look at it on a rolling 12-month average, we know last year that we missed it by 90 basis points.

Justin Lake - *UBS - Analyst*

Yes, I will take that off-line. Just one other follow-up quickly on the Medicare business -- it was great that you kind of quantified that $200 million of operating losses in the first quarter. I'm just wondering. With this revised plan that you've put out there, can you give us a ballpark as far as how much would be expected overall operating losses on the Medicare business that you've kind of embedded into the '08 plan, and how that differs versus your results in 2007?

Wayne DeVeydt - *WellPoint, Inc. - CFO*

You know, Justin, we don't provide, as you know, our profits by product for competitive reasons. What I will tell you, though, is that, relative to the $200 million loss in the quarter, about $60 million of that relates to timing on Part D. So we do expect a significant portion of that to unwind and then there is some flu-related in there. So you will need to bifurcate some of that out but it's fair to say that, as we continue to provide our segment reporting, our other businesses are doing -- while not as well as expected are still profitable. So the majority of what you're seeing in that segment is all related to seniors. I think you will get a pretty good gauge as the year develops.

Justin Lake - *UBS - Analyst*

-- I guess just the $140 million then, are you taking that benefit design mistake and accruing for the entire year, so that 100 -- I guess you're saying it's $140 million that's kind of attributable to Medicare Advantage as well as a little bit of float?

Wayne DeVeydt - *WellPoint, Inc. - CFO*

Yes.

Justin Lake - *UBS - Analyst*

Should we -- would that be for the full year? You've taken the reserve hit now or should we multiply that by 4 as we think about the rest of the year?

Wayne DeVeydt - *WellPoint, Inc. - CFO*

No, in our full-year guidance, we've obviously strengthened the reserves substantially in this quarter though (multiple speakers).

Justin Lake - *UBS - Analyst*

More Medicare Advantage specifically?

Wayne DeVeydt - *WellPoint, Inc. - CFO*

That's correct; that's correct. Then we've assumed some level of further deterioration throughout the year on it. (multiple speakers)

Justin Lake - *UBS - Analyst*

So Medicare will run the loss for 2008 in total probably?

Brian Sassi - *WellPoint, Inc. - President of Consumer Segment*

Also, Justin -- this is Brian -- to put it in perspective, private fee-for-service represents less than 50% of our MA book. The plan that we're having the issue on has a membership of about 25% private fee-for-service. So, it is not impacting the entire book.

Justin Lake - *UBS - Analyst*

But you will run at a loss in Medicare for 2008 overall because of this?

Brian Sassi - *WellPoint, Inc. - President of Consumer Segment*

No, no. I think we're going to run at a profit, but it's not going to be nearly at the levels that we had anticipated, and it will clearly be down over where we were at in the previous year.

Justin Lake - *UBS - Analyst*

Thank you very much.

Operator

Bill Georges, JPMorgan.

Bill Georges - *JPMorgan - Analyst*

Thanks. Good morning. I'm wondering again, on the cost trend issue, when you look back historically, WellPoint had always issued pinpoint EPS guidance and pinpoint MLR guidance. Now, it would seem, with the range and the new policy to not provide quarterly guidance, indicates arguably a more constrained view of costs, the direction of costs pricing and margins going forward.

So two questions -- what specifically, within cost trend, benefit design and pricing, has got you nervous going forward? How can you give us more comfort that you have in fact captured the full breadth of the issues that have been developing with the increasing momentum over the last several months?

Wayne DeVeydt - *WellPoint, Inc. - CFO*

Thanks, Bill, for the question. A couple of things -- one thing is clearly I think we are seeing an economy that many of us and many in this industry have not experienced in the most recent years, and it is creating some variability over what we've seen in the past.

The other thing I would say is that there is no other way of saying this. We did not execute well on our migrations, and we lost our visibility. So, while I think we've got visibility on the year and the action steps throughout the year, I think it's important that all of the decisions we make are focused on that and getting this right for 2009. So I believe in providing quarterly guidance, as does Angela, that it allows us to focus on driving the longer-term shareholder value, not the quarterly. It's not due to a lack of visibility as much as it is a focus on ensuring that we get these problems resolved and fixed and we get into 2009 on a strong foot.

In terms of just, again, the trends in that, it's clear that we missed the baseline last year, so I want to make sure that we're putting the right effort and energy around the resources we need to ensure that our actuarial folks have all the data they need to price for 2009 as well.

Bill Georges - *JPMorgan - Analyst*

If I could just ask one quick follow-up as well, I think Angela referenced the sort of continued dynamic of Blues or WellPoint provider discounts in the marketplace. We are hearing somewhat from you and certainly out in the marketplace and certainly from competitors that the magnitude of that discount has been decelerating. Can you provide any metrics around that? Obviously that's going to put competitive pressure on you in an already difficult environment, so how are thinking about that going forward?

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

You know, we are very focused on that in terms of we believe that our discounts are very competitive. We want to keep that competitive advantage, and we believe we have to continue to focus on new structures in order to do that. In particular, we've got to look at the networks that are available for certain products; we have to design products that are network-specific because we are seeing shifting around the PPO versus other structures. So, we are very aware of that and very focused on it.

We also really have to get the cost of care initiative in there and effective overall. You know, we continue to see the Blues succeed in the national account arena and Ken can comment on that specifically because we are seeing that competitive stance being portrayed by our competitors. We continue to believe that we need to stay very focused on that, that we still have an advantage, that we are seeing that in the marketplace, but we need to continue to hone in on that, look at network design and look at cost of care initiatives to drive that further.

Ken, do you want to comment?

Ken Goulet - *WellPoint, Inc. - President of Commercial Segment*

Yes, I think Angela hit it right on. First, we still feel we have a good, solid advantage in network depth and network discount across the board, and it's evidenced by the 2 million-plus increase in national account membership over the last few years, which is a very focused consultant-driven, discount analysis when comparing ourselves versus others. So we do have an advantage.

However, we have acknowledged that the cost advantage isn't as large as it once was. We're doing a lot of work on product and network assessments to ensure that we use the depth in the partnerships we have with our providers to continue to drive the advantages necessary, to keep the margins we want. It's a key focus of what we are doing and I'm very confident that, with the right focus, we will be able to either drive product or network advantage to continue to be a significant advantage moving forward.

Operator

Carl McDonald, Oppenheimer.

Carl McDonald - *Oppenheimer & Co. - Analyst*

The last call, you provided a breakdown of what was causing the increase in the loss ratio guidance for '08. I know you talked about a $125 million reserve strengthening related to '07, $40 million for the Medi-Cal cuts and then 20% for Medicare, with the balance being commercial. With the improved claims visibility you have now, can you update those figures for us?

Wayne DeVeydt - *WellPoint, Inc. - CFO*

Yes, Carl, if you look at really what the primary changes in the guidance range were, and approximately $60 million of it relates to further strengthening of reserves, which is what we did in the quarter. We have approximately an additional $40 million or so related to our senior products and what we're putting forward there than what we had previously anticipated. Then the delta in the change represents the additional 40 basis points, which approximates about $120 million or so of additional pricingness.

Carl McDonald - *Oppenheimer & Co. - Analyst*

Okay, and the total reserve strengthening, so I guess that is now $185 million -- any sense of how that breaks down between the commercial versus the senior products?

Wayne DeVeydt - *WellPoint, Inc. - CFO*

You know, we shoot for a high single digit margin on all of our products, so I would say that it's fair to say that last year, while both of our segments, both our commercial and our consumer, including the senior, did develop favorably, they both developed significantly less favorably than we expected. Keep in mind that, while we have a benefit design issue within senior, the baseline price misses is really around the commercial book. So I think it's important to recognize that we have a strength in both of them, and I don't want to say it's equally split but it's relatively comparable.

Operator

Christine Arnold, Morgan Stanley.

Christine Arnold - *Morgan Stanley - Analyst*

Good morning and thanks for taking my question. If I understand correctly, you said that the days claims payable increased 0.7 because of increased cycle time. That implies that your processing claim is potentially slower rather than faster. Could you address that?

Then could you talk about hospital pricing? How much is hospital pricing in '08 versus '07? How much of your hospital contracts are linked to inflation?

Then finally, the New York State PBM I think helped 50 basis points on the commercial loss ratio, so if I understand correctly, then other factors, ex-this PBM, increased the loss ratio 60. Could you address that? Thanks.

Wayne DeVeydt - *WellPoint, Inc. - CFO*

Christine, thank you for your comment. Your first question is I think a very fair question and a good question. The increase in cycle time is not due to a slowdown in inventories. It actually relates to the impact of the New York PBM and how that timing impacts the calculation. So remember, when we lost the PBM, that is a contract that has a very fast payment time. So, it's relatively misleading when we say that because our inventories are down and our cycle times are improving. So that represents just about a day. So that describes that particular component. So the remaining increase is due to the other factors that are there.

The second question I think was in terms of our hospital pricing. Ken, I don't know if you want to comment on what we're seeing out in the market and how we are addressing that.

Ken Goulet - *WellPoint, Inc. - President of Commercial Segment*

Christine, if we look at our inpatient hospital trend, we are in a hospital trend in the upper single digits and right now, 90% based on unit costs, 10% on utilization. What we enter into is long-term provider contracts. Most of them have fee increases that are not inflationary based. They are set contract-based over the terms of the contract. So they are not a variable-based contract. We know what they are against our plan so that we can base our pricing against what is built into the plan. They are all multi-year contracts.

We do incorporate pay-for-performance into our programs, and very heavily used in certain states such as Indiana, Kentucky and Ohio. But we will always base our multi-year contracts. Our preference is DRG or a per-diem basis, but not inflationary based, although there are inflationary measures built in over the multi-year contract. I hope that addresses it. Wayne, I think you had the third question.

Christine Arnold - *Morgan Stanley - Analyst*

Well, how much do you expect hospital pricing to rise '08 versus '07?

Ken Goulet - *WellPoint, Inc. - President of Commercial Segment*

Our inpatient trends of '08 over '07 are in the high single digits, and we are tracking very closely to plan. We watch it on a provider-by-provider basis (multiple speakers) so it's in the high single digit range, Christine.

Christine Arnold - *Morgan Stanley - Analyst*

But how much is pricing? Like, was pricing 5% last year and 7% this year for hospitals, or was it 5% and 5% or -- you get the idea?

Ken Goulet - *WellPoint, Inc. - President of Commercial Segment*

Yes. It's comparable.

Christine Arnold - *Morgan Stanley - Analyst*

Comparable pricing?

Ken Goulet - *WellPoint, Inc. - President of Commercial Segment*

Yes.

Christine Arnold - *Morgan Stanley - Analyst*

Okay, so high single digits. Okay, go ahead. Sorry, the last question was on the PBM.

Wayne DeVeydt - *WellPoint, Inc. - CFO*

Christine, could you repeat the question for me, please? I want to make sure I understand.

Christine Arnold - *Morgan Stanley - Analyst*

Yes. As I look at the New York State PBM, I estimate that eliminating that reduced or helped your commercial MLR '08 versus '07 by 50 basis points. So that means that, if all other combined with this is kind of a 10 basis point increase, then excluding the PBM, it's perhaps closer to 50 or 60. Can you help me with that? What's in this other category offsetting what looks like a significant benefit from losing the PBM on the commercial MLR?

Wayne DeVeydt - *WellPoint, Inc. - CFO*

Yes, I mean, clearly, part of it is that we are having higher-than-expected costs relative to the fact we missed our baseline pricing. So it's a pricing issue, not MLR going up because of trend but because of missed pricing, so that affecting it. Then again, the flu season -- and while we had baked in some of that for our original guidance, it was slightly higher than we had expected as well. But the majority of it, Christine, is just that we missed pricing, and that's affecting the MLR calculation.

Christine Arnold - *Morgan Stanley - Analyst*

Okay, and you said high dollar is was high-dollar related to the first quarter '08 or '07?

Wayne DeVeydt - *WellPoint, Inc. - CFO*

The flu?

Christine Arnold - *Morgan Stanley - Analyst*

You said that the 10 basis points was PBM loss offset by high dollar claims in flu. I'm just wondering. Those high-dollar claims, where they '07 claims or first quarter '08?

Wayne DeVeydt - *WellPoint, Inc. - CFO*

No, they were claims we paid in the first quarter of '08 and reserved for. But again, a lot of these relate to '07 though, which is why we know the baseline was wrong. So, when you miss your baseline pricing, you're taking the charge through but you just don't have the pricing to support it.

Christine Arnold - *Morgan Stanley - Analyst*

Okay, but the claims were incurred in '07, perfect. Thank you.

Wayne DeVeydt - *WellPoint, Inc. - CFO*

That's correct; that's correct.

Christine Arnold - *Morgan Stanley - Analyst*

Okay, perfect.

Operator

Peter Costa, FTN Midwest Securities.

Peter Costa - *FTN Midwest Securities - Analyst*

Two questions -- one, it looks like you booked in about $160 million straight to equity. I assume that's something on the portfolio. Can you tell me specifically what that was?

Then the second question, on the individual book of business, you know, to have that go up by 30 bips in terms of affecting the overall cost trend, that probably implies that the problem there is more like 200 or 300 basis points of problem, so it's a little bit more than the pricing miss that you've talked about. Plus, you've lost membership there. Can you describe exactly what's going on in that business, and then perhaps also tell me how much of that membership is currently in high deductible health plans?

Wayne DeVeydt - *WellPoint, Inc. - CFO*

Well, I will let Ken add some of this in there, but the first thing is I will need to follow up on the equity item. There's nothing unusual, so I will have to follow up on that for you. But in terms of the miss, I mean the vast majority of that miss in the individual business is the pricing. It's still very profitable. But I think, as we mentioned, we've seen membership declines on a net basis in that. I think it's fair to say that some of the members we are losing are the healthier members. So that is having somewhat of an adverse effect as well on some of the trends we've seen within that book, not necessarily because of the medical costs as much as it is mix shift in the book.

Ken, I don't know if you want to add anything or Brian would add anything.

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

Brian?

Brian Sassi - *WellPoint, Inc. - President of Consumer Segment*

Yes, I would just like to reiterate what Wayne said. The individual segment is still a very strong segment for us with good margins. We are seeing strong sales activity, even higher than 2007.

In terms of the membership miss, we did see greater attrition in a quarter-over-quarter basis when compared to '07. We recognized that trend in '07 and put a number of initiatives in place to stem that. Looking at the individual book from year-end '07 to the end of first quarter, we stemmed the membership loss and only lost 10,000 members in the first quarter, which was not unexpected given the seasonality of our California rate increase, which was effective 3-1, and the size of our California book. So membership is tracking to our expectations.

Wayne DeVeydt - *WellPoint, Inc. - CFO*

Peter, I think the item you are referring to on the balance sheet is the accumulated other comprehensive income and the shift that we saw there.

Peter Costa - *FTN Midwest Securities - Analyst*

Yes.

Wayne DeVeydt - *WellPoint, Inc. - CFO*

The majority of that represents realized gains and losses, or said differently unrealized gains and losses on our equity and bond portfolios. So since we mark to market our investments as the underlying equities move up or down, that number will change relative to how it moved within the quarter. But keep in mind, too, that we moved. Under our accounting policy, we actually took a realized loss for a significant portion, even though we didn't sell those investments. So essentially what we do is we shift it out from equity; we shift it up through the P&L for our other-than-temporary impairments, but it's more that shift; it's not related to any actual sales that occurred.

Peter Costa - *FTN Midwest Securities - Analyst*

I understand. But it wasn't -- but what specifically was the stuff that went down? Was it any particular class of security?

Wayne DeVeydt - *WellPoint, Inc. - CFO*

No, it's mostly just the equity markets that's driving the vast majority of it, the fact that the equity markets are down. Our policy on how we treat OTTI for equities is very conservative. Specifically, if an equity security is underwater by even $1 after 12 months, we write it off as other-than-temporary impairment and take the charge. If it's under by more than 20% after six months, we will take a similar charge. So it's more around the conservative impairment policy.

Peter Costa - *FTN Midwest Securities - Analyst*

Okay. Then how many members are in high-deductible health plans of the individual book?

Wayne DeVeydt - *WellPoint, Inc. - CFO*

In terms of consumer-directed healthcare plans?

Peter Costa - *FTN Midwest Securities - Analyst*

Yes.

Wayne DeVeydt - *WellPoint, Inc. - CFO*

A very small percentage, probably less than 5%.

Peter Costa - *FTN Midwest Securities - Analyst*

Thank you.

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

I want to recognize here that we have a number of people who were in the queue to ask questions. Unfortunately, we are unable to address everyone's questions, and for that we apologize. All right? But I do want to thank you for those questions.

In closing, I want you to know that we remain confident in the future due to our industry-leading value proposition and our dedicated 41,000 employees. We understand the issues affecting our business, and we're taking decisive actions to address these issues. We are monitoring our progress closely and consistently, and we have confidence in our ability to manage through these issues, to continue to provide distinctive products and services, to meet our expectations, and to continue to grow.

I want to thank you all for participating in the call.

Operator

Thank you. Ladies and gentlemen, this conference will be available for replay after 11:00 AM Eastern time today through May 7, 2008 at midnight. You make access to AT&T teleconference replay system at any time by dialing 1-800-475-6701 and entering the access code 908942. International participants please dial 320-365-3844. (Operator repeats numbers.)

That does conclude our conference for today. Thank you for your participation and for using the AT&T executive teleconference service. You may now disconnect.
