FINAL TRANSCRIPT

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WLP - Q4 2007 WellPoint, Inc. Earnings Conference Call

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CORPORATE PARTICIPANTS

Jamie Miller
WellPoint, Inc. - SVP and CAO

Angela Braly
WellPoint, Inc. - President and CEO

Wayne DeVeydt
WellPoint, Inc. - EVP and CFO

CONFERENCE CALL PARTICIPANTS

Matthew Borsch
Goldman Sachs - Analyst

Bill Georges
JPMorgan - Analyst

Josh Raskin
Lehman Brothers - Analyst

John Rex
Bear Stearns - Analyst

Christine Arnold
Morgan Stanley - Analyst

Justin Lake
UBS - Analyst

Tom Carroll
Stifel Nicolaus - Analyst

Charles Boorady
Citigroup - Analyst

Greg Nersessian
Credit Suisse - Analyst

Scott Fidel
Deutsche Bank - Analyst

Carl McDonald
Oppenheimer & Co. - Analyst

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the WellPoint conference call. At this time, all lines are in a listen-only mode. Later there will be a question-and-answer session and instructions will be given at that time. (OPERATOR INSTRUCTIONS). As a reminder, this conference is being recorded. I would now like to turn the conference over to the Company's management.

Jamie Miller - *WellPoint, Inc. - SVP and CAO*

Good morning, and welcome to WellPoint's fourth-quarter earnings conference call. I'm Jamie Miller, Chief Accounting Officer and executive responsible for Investor Relations and with me this morning are Angela Braly, our President and Chief Executive Officer and Wayne DeVeydt, our Executive Vice President and Chief Financial Officer.

Angela will begin this morning's call with an overview of our fourth-quarter accomplishments. Wayne will then offer a detailed review of our fourth-quarter financial performance and current guidance, which will be followed by a question-and-answer session.

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 and 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 Braly.

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

Good morning, and thank you, Jamie. We are pleased to report another good year for WellPoint with record membership levels, revenues, and earnings. We achieved our earnings per share expectations during the fourth quarter and full year of 2007 and continued our strong organic membership growth by adding over 700,000 new members during 2007. This is an excellent indication that customers continue to find great value in the products and services that we're providing to the marketplace.

In the fourth quarter, our reported GAAP net income of $1.51 per diluted share was 18% higher than $1.28 per diluted share in the fourth quarter of 2006. The fourth quarter of 2007 included less than $0.01 per share in net realized investment gains, while the fourth quarter of 2006 included $0.01 per share in net realized investment gains.

For the full year of 2007, GAAP net income of $5.56 per diluted share was 15.4% higher than 2006. Our 2007 earnings included $0.01 per share in net realized investment gains while 2006 included a tax benefit of $0.04 per share resulting from changes in state tax apportionment factors following the WellChoice acquisition. Our medical enrollment totaled 34.8 million members at December 31st, 2007, an increase of 708,000 members from 34.1 million members at December 31st of 2006. The largest enrollment increase was in the national business, which grew by 537,000 members. Large multi-state organizations continue to be attracted to WellPoint's compelling value proposition, which includes access to the broadest provider network in the industry, competitive pricing, leading wellness and care management programs, and innovative products and services. Membership in State Sponsored business increased by 292,000 during 2007 as we entered new markets with our Medicaid managed care program. We also expanded geographically in the senior business, adding 57,000 members and enrollment in the Federal Employee Program or FEP increased by 23,000.

Membership declined by approximately 201,000 members in the local group and Individual businesses, collectively, during 2007. Almost 90% of this decline occurred in our non-Blue branded service areas. We're undertaking a number of strategic initiatives, such as the introduction of our Solaura consumer-directed plan to enhance the competitiveness of our non-Blue commercial products, which we expect to improve results in future years. We have seen significant growth in our consumer-directed health plans or CDHP products. At December 31st of 2007, we had 1,354,000 CDHP members, and this business has grown by more than 500,000 members or 59% from December 31st, 2006. While CDHP currently represents less than 4% of our business, we expect this membership will continue to grow.

During the fourth quarter of 2007, the state of Connecticut implemented changes to its Medicaid managed care program, which resulted in approximately 144,000 members converting from fully insured to self-funded contractual arrangements. We are currently servicing these members under a self-funded arrangement that expires next month and we are in discussions with the state of Connecticut on extending this agreement.

Given this and other shifts in business mix, our overall membership base was 51% self-funded and 49% fully insured at December 31st, 2007 compared with 51% fully insured and 49% self-funded at December 31st, 2006.

For the full year 2007, operating revenues reached a record $60.1 billion, an increase of $4 billion or 7.1% over 2006. The revenue increases were driven by disciplined pricing in the Local Group business and growth in State Sponsored and Medicare Advantage membership. The benefit expense ratio was 82.4% for 2007, an increase of 120 basis points from 81.2% in 2006. This increase was due to higher than expected claims costs in the medical business of our Specialty, Senior and State Sponsored business reporting segment, or 4SB, as well as business mix changes and less favorable than expected reserve development in 2007. Wayne will discuss the benefit expense ratio in greater detail later in this call.

I would like to take a few minutes to address recent developments in our State Sponsored business. While 2007 was a very challenging year in our State Sponsored, or Medicaid managed care operations, we remain committed to this business and we have taken strategic actions to improve performance in 2008. These actions include our notice to terminate participation in the Ohio Covered Families & Children (or CFC) Medicaid program at the end of the first quarter. Unfortunately, we were unable to reach an agreement with the state that would allow us to continue serving these 145,000 Medicaid recipients in a financially sound manner. We haven't previously terminated such a relatively new Medicaid agreement.

However, we incurred disappointing financial results under this program in the latter half of 2007 as medical costs continue to increase. That, coupled with the state's proposed overall net rate reduction for the upcoming year led us to provide our prompt notice of termination. We will work with the state on a smooth transition of members and will continue to provide service under the Aged, Blind and Disabled program in Ohio.

In addition, as we previously mentioned, we were unable to obtain adequate rates to continue to serve the state of Connecticut Medicaid members on a fully insured basis, but have worked with the state to convert our 144,000 members to a self-funded contractual arrangement. This contract currently expires on February 29th of 2008, and we are continuing to work with the state to further extend this arrangement.

Finally, while we resolved our Medi-Cal rate issues in 10 of 11 counties in California, we still have one county left to resolve. In this county, we operate as a subcontractor for the Medi-Cal program, and we expect to finalize our negotiations with the primary contractor this quarter. We believe that offering Medicaid managed care programs benefits the states through lower medical costs and the beneficiaries through better coordinated care. We continue to focus on initiatives that can optimize the cost and quality of care for these beneficiaries, but we must participate in these programs in an actuarially sound manner.

Although we are only three weeks into the new year, we continue to have good visibility into our original guidance of one million net new members. We're running slightly ahead of expectations in National Accounts and behind expectations in Medicare Advantage. However, in light of our decision to terminate the Ohio CFC Medicaid program, we're lowering our full-year membership growth guidance by 200,000 and now expect 800,000 net new members for 2008. The majority of this adjustment is in Ohio Medicaid. We had expected the Ohio Medicaid business to grow during 2008 to 170,000 members.

We also know that the State Sponsored business in South Carolina and the Healthy Indiana Individual program are coming on a little slower than expected. While our 2008 membership guidance is lower, we are maintaining our $6.41 earnings per share guidance as the reduced membership in these areas had nominal contributions to EPS.

Our expected growth in 2008 and beyond results in part from a number of milestones we've accomplished during 2007. During the year, we expanded the services and value we offer to our members. We also improved our operational efficiency and reduced administrative costs as a percentage of revenue. We improved the selling, general, and administrative expense ratio by 120 basis points during 2007 when compared to 2006. General and administrative expenses actually declined in 2007 while we served more than 700,000 new members. And we accomplished this while making strategic investments to grow our business in the future and provide superior service to our members.

Some of the specific milestones we achieved in 2007 include the following. Completing several system migrations, resulting in lower technology production costs and improved information management capabilities. Rolling out industry-leading consumer-driven health plans to all of our customer segments. Introducing an action plan for the uninsured, a comprehensive plan to help reduce the growing ranks of the uninsured through a blend of public and private initiatives. We also sold new Individual policies to 365,000 members who were previously uninsured. Launching the Member Health Index, a first of its kind initiative designed to measure the improvement in the health of the Company's 34.8 million members and including this measure in our incentive compensation plan. Launching the State Health Index, a unique collaboration between WellPoint and local and state health officials that measures our progress on our commitment of improving the lives of the people we serve and the health of our communities. Expanding availability of new consumer transparency tools, including Anthem Care Comparison, 360 Degree Health, My Health Assessment, and the Medicare Part D Decision Tool. Introducing the Zagat Health Survey Tool to support consumers' health care decision-making. The new survey tool enables members to review and evaluate physicians based on a set of distinct criteria, creating a trusted resource to support informed member decision-making. While I am proud of these many accomplishments, I recognize that we still have much to do if we want to truly transform health care.

To that end, I am pleased to announce the completion of my executive leadership team following the announcement in October that Alice Rosenblatt and Joan Herman are retiring. Brian Sassi, who served as President of Blue Cross of California, will succeed Joan Herman as President and CEO of the Consumer Business unit. Brian has more than 25 years of successful industry experience, including his leadership role over the California plan. Cindy Miller was appointed to succeed Alice Rosenblatt as head of actuarial and integration management. Cindy has more than 20 years of experience in the industry and previously served as the Chief Actuary for Anthem. Both Brian and Cindy will report directly to me.

We also recently announced the addition of two other key members of our senior team, who will report to Ken Goulet. Leslie Margolin has been appointed as the new President and General Manager for Blue Cross of California, replacing Brian Sassi. Leslie has more than 20 years of health-care experience, including senior strategic and operational roles at CIGNA and Kaiser Permanente, most recently serving as Senior Vice President for Health Plan and Hospital Operations for Kaiser.

John Langenus has been appointed Senior Vice President and President and CEO of our National Accounts division, replacing Ken Goulet, who had held that position. John most recently served as President of Group Healthcare for Coventry Health Care. And prior to that, he had leadership positions at Evolution Benefits and CIGNA HealthCare, where he held increasingly responsible roles, including Senior Vice President of the National Markets segment.

As the largest health plan in terms of medical membership in the country, our leadership positions are highly desirable and we are able to attract accomplished individuals. We've promoted some of our outstanding internal leaders and combined that with top external talent.

In the coming year, our leadership team will continue to grow our business by focusing on the customer. Comprehensive quality and cost initiatives will create value for our members while we provide innovative and individualized products that meet each member's needs throughout their lifetime. We are committed to focusing on the needs of the uninsured and view this as a growth opportunity. We will continue to be a leader in the health-care reform debate, working closely with our public and private partners to find solutions to the major issues facing our health-care system.

Now, before I turn the call over to Wayne, I want to thank Alice Rosenblatt and Joan Herman for their many years of exemplary service to WellPoint. I feel fortunate to have worked with them for so many years and wish them both well in their retirement.

I will now turn the call over to Wayne DeVeydt to discuss our fourth-quarter financial statement, medical cost trend, and update our guidance for 2008. Wayne?

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

Thank you, Angela, and good morning to all of those participating on this call. We are very pleased with our financial results this quarter of $1.51 in earnings per share that include less than $1.01 per share in net realized investment gains. Premium revenue was a record $14.3 billion in the fourth quarter of '07, an increase of $972 million or 7.3% over 4Q of '06 due to disciplined pricing in our Local Group business and growth in State Sponsored and Medicare Advantage business. Administrative fees were $914 million in the fourth quarter of '07, an increase of $9 million or 1% over 4Q of '06, due primarily to growth in our National Accounts business, including BlueCard and Local Group.

Self-funded membership increased by 992,000 members in 2007. During the year, 235,000 members switched from our fully insured plans to self-funded plans, and this includes 144,000 Connecticut Medicaid members.

The full-year 2007 benefit expense ratio was 82.4%, an increase of 120 basis points from 81.2% in 2006. Approximately 80 basis points of the increase were driven by the medical business of our Specialty, Senior and State Sponsored business reporting segment. The remaining increase includes our business mix shift to a larger proportion of higher loss ratio products and less favorable than anticipated reserve development from 2006 and 2007. The benefit expense ratio was 82.9% in the fourth quarter of 2007, an increase of 190 basis points from 81% in the prior year quarter. The higher than expected 4Q '07 benefit expense ratio resulted from items that generally should not impact 2008. What I would like to do is take a few minutes to walk you through the specifics.

As we previously discussed, 2007 was unfavorably impacted by 2006 reserves that developed less favorably in 2007 than anticipated. This contributed 60 basis points of a difference between our 4Q '06 and 4Q '07 benefit expense ratios. In addition, higher than anticipated medical claims in our Ohio and Connecticut state-sponsored operations impacted the fourth-quarter 2007 benefit expense ratio by about 40 basis points. We incurred operating losses in both of these programs in 2007. We've taken fiscally responsible action in our problematic State Sponsored programs in Ohio and Connecticut. As Angela noted, we are currently in the process of exiting the Ohio CFC Medicaid program due to the inability to obtain fiscally sound rates. The Connecticut Medicaid contract converted to a self-funded arrangement during the fourth quarter of 2007 and also in California, we resolved pricing in all but one county and we expect resolution in that county this quarter.

Forty basis points of the difference in benefit expense ratio include a mix shift with a larger proportion of our business being in higher loss ratio products, and other items.

And finally, we also experienced a relatively high level of intra-year reserve adjustments in the CCB segment during the fourth quarter of 2007, and this unfavorably impacted the comparison to the fourth quarter of 2006 by another 50 basis points. We are migrating to fewer claims systems and streamlining our operations and processes. As a result, we've seen a slowdown of certain claims processing and our September 30th, 2007 reserves did not completely adjust for this slowdown. In the fourth quarter, we dedicated resources to address this issue and improved the timeliness of affected claims processing. We have carefully evaluated our year-end reserves. We've adjusted our completion factors to better take business process changes into consideration and are confident that our reserving is consistent, conservative, and appropriate, maintaining our high single-digit margin for adverse development.

So our 2008 benefit expense ratio guidance remains at 81.6% for the year, given the strong full-year 2007 operating results in our CCB segment, our continued outlook for stable medical cost trends in 2008, and the expected improvements in our State Sponsored operations. We continue to price our business so that our expected premium yield exceeds total cost trend, where total cost trend includes medical costs and selling, general and administrative expenses. As evidenced by our announced withdrawal from the Ohio CFC Medicaid program, we remain very disciplined in our underwriting approach and do not pursue business that we believe is priced below our profitability targets. Our 2007 medical cost trend was less than 8% and we continue to expect our 2008 medical cost trend to also be less than 8%.

In-patient hospital trend is in the mid single-digit range and is related to unit cost increases as utilization has been flat. Due to our recontracting efforts, unit cost trend is slightly lower than it was earlier in 2007.

Outpatient services trend is in the upper single-digit range and is all unit cost driven. Emergency room costs, surgery, and radiology continue to be the main drivers of outpatient cost trend.

Physician trend is in the mid single-digit range and is about 65% cost driven and about 35% utilization. Pharmacy trend is in the upper single-digit range and 60% unit cost related and 40% utilization driven.

Moving to the SG&A expense ratio, it was 13.8% in the fourth quarter of 2007, a decrease of 190 basis points from 15.7% in the fourth quarter of 2006. In absolute dollars, G&A spending in the fourth quarter of '07 was lower in the fourth quarter of '06 even though we've added more than 700,000 new medical members in 2007. The 190 basis point improvement is divided among the following categories. First, lower administrative expenses, predominately lower salary, fringe, and related expenses, contributed 80 basis points. As noted earlier, we're standardizing our processes, migrating to fewer claims systems and streamlining our operations to become more efficient.

Second, spreading administrative expenses across a growing revenue base contributed 70 basis points. And finally, lower incentive plan expense contributed 40 basis points.

Moving now to interest expense, it was $125 million in the fourth quarter of 2007, and increased $25 million or 25.3% from 4Q '06 due to our higher debt balances as we increased our debt to cap ratio. Our effective tax rate was 35.1% in the fourth quarter of 2007, 250 basis points lower than the 37.6 in the fourth quarter of '06 and 160 basis points lower sequentially. As we continue to execute on our tax planning strategies, we reached agreements to close certain open tax years. Our tax planning strategies have reduced our effective tax rate by approximately 90 basis points over the past year. This is part of our ongoing business activity, and we continue to expect our full-year 2008 effective tax rate to be 36.7%.

Turning to our reportable segments, CCB is our largest segment and continues to have strong financial results. Operating revenue in 4Q '07 was $10.6 billion, an increase of $305 million or 3% from 4Q '06, led by disciplined pricing. Operating gain for the CCB segment was $872 million in the fourth quarter of 2007, an increase of 2% compared with $854.7 million in the fourth quarter 2006. The year-over-year growth in operating gain was driven by revenue growth and lower SG&A expense, partially offset by higher benefit expense. The full year 2007 operating gain was $4 billion, an increase of 8.7% over 2006. The increases in operating gain were driven by premium rate increases across all lines of business and lower general and administrative expenses, partially offset by an increase in the segment's benefit expense ratio. Premium yields exceeded total cost trends in 2007 and operating margin in the CCB segment expanded by 40 basis points, confirming the Company's disciplined commercial pricing.

In our Specialty, Senior and State Sponsored business, or 4SB, operating revenue in our fourth quarter was $3.6 billion, an increase of $586 million or 19.4% from 4Q '06, primarily due to growth in State Sponsored and Medicare Advantage business. Operating gain for the 4SB segment totaled $392.3 million in the fourth quarter of 2007, an increase of 3.3% compared with $379.7 million in the fourth quarter of 2006. The increase in operating gain was driven by lower performance-based incentive comp in 2007 and improved results in our Pharmacy Benefit Management mail-order business, partially offset by lower Medicare Supplement and State Sponsored business profitability.

Operating gain totaled $972.3 million for the full year of 2007, a decrease of 13% from $1.1 billion in 2006. Lower financial performance in State-Sponsored operations and lower Medicare Supplement profitability was partially offset by growth in the PBM business.

Other segment operating revenue in 4Q '07 was $1.1 billion, an increase of $82 million or 8.2% from 4Q '06, primarily due to additional FEP revenue, partially offset by higher inter-segment eliminations, reflecting additional PBM sales to our CCB segment.

Operating gain for the other segment totaled $15 million in the fourth quarter of 2007, which compares to an operating loss of $12.7 million in the fourth quarter of 2006. For full year 2007, operating gain was $12.2 million compared with an operating loss of $59.6 million in 2006. Results in this segment improved year over year due to the non-recurrence of merger-related retention bonuses and growth in the FEP.

Now moving to the balance sheet, current assets were $13 billion at December 31st, 2007, an increase of $1.4 billion from year end 2006 due to increased cash and investments. I know many of you have had questions concerning our investment portfolio in light of the broader market issues. Our investment portfolio continues to perform extremely well despite the turmoil in the financial markets. There have been no downgrades of any of our mortgage-backed securities. We have no CDOs. We did have $271 million of sub-prime related securities at December 31st, 2007, which is down from $288 million at September 30th due to the normal paydowns associated with these mortgages. Nearly 99% of our sub-prime bonds are AAA with the remainder either AA or A. We are in higher quality tranches, and again, not one of these securities has been downgraded by any of the rating agencies.

Total assets were $52.1 billion at 12/31/2007, up $485 million from year end 2006. Medical claims payable were $5.8 billion at the end of the fourth quarter, an increase of $498 million or 9.4% from year end 2006.

Days in claims payable as of December 31st, 2007 was 45 days, a decrease of 1.8 days from 46.8 days as of September 30th, 2007, primarily due to the following: We had a 1.1 day decrease due to the timing of our medical claim payments. We had a 0.8 day decrease due to a reduction in the claims cycle time, which is really the length of time between the date of service and claims payment, and a 0.1 day decrease due to the timing of PBM claim payments. This was partially offset by a variety of other small items that netted to a 0.2 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 third-quarter 2007 press release. We report prior-year redundancies in order to demonstrate the adequacy and consistency of prior-year reserves. For the year ended December 31st, 2007, we had significant positive prior-year reserve development of $333 million. We continue to establish reserves in a consistent and conservative manner.

Long-term debt was $9 billion at December 31st, 2007, a $2 billion increase from year end 2006. Our debt to cap ratio at December 31st, 2007 was 28.2%, up from 22.2% at year end 2006 and closer to our targeted range of 30%. During the fourth quarter, Standard & Poor's upgraded WellPoint's senior debt rating to A- from BBB+ based upon their confidence in our capabilities and strong operating cash flow.

For the year ended December 31st, 2007, operating cash flow was better than expected and totaled $4.3 billion or 1.3 times net income. Operating cash flow in the fourth quarter was $1.1 billion or 1.3 times net income and included approximately $100 million in tax refunds related to settlements of prior years, the majority of which was acquisition-related and was applied to goodwill. As of December 31st, 2007, we had $2.2 billion of cash and investments at the parent holding company. In 2007, we received $4.4 billion in dividends from subsidiaries and expect at least $3.3 billion in dividends during 2008.

During the fourth quarter of 2007, we repurchased 22.5 million shares of common stock for $1.8 billion, bringing our year-to-date total to 76.9 million shares for $6.2 billion. Our remaining Board-approved share repurchase authorization was $4.3 billion at 12/31/2007, and we expect to utilize this in 2008 subject to market conditions.

Turning to our 2008 guidance, we continue to expect net income of $6.41 per share, representing growth of 15.3% over 2007. Year-end medical enrollment is now expected to approximate 35.6 million members with fully insured membership now expected to be 17.1 million and self-funded membership expected to be 18.5 million. Due primarily to the change in Ohio and Connecticut State Sponsored business, operating revenue is now expected to total approximately $62.6 billion.

As I noted earlier, we now expect the benefit expense ratio to be approximately 81.6 and our SG&A expense ratio is now expected to be approximately 14.4. We expect full-year 2008 operating cash flow of $4.4 billion or 1.2 times net income. Weighted average shares outstanding are expected to be 552 million for the full year 2008, down 50 million shares from 2007 due to share repurchases. We expect net income of $1.44 per share in the first quarter of 2008.

I will now turn the call over to Angela to lead a question-and-answer session.

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

Thank you, Wayne. Operator, please open the call up for questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Matthew Borsch, Goldman Sachs.

Matthew Borsch - *Goldman Sachs - Analyst*

Good morning. Maybe I could just dig a little bit deeper on the fourth-quarter MCR, in particular just understanding the change in your view on reserving from last quarter. Can you give us some idea of where you saw the impact in terms of, if it doesn't change your view on components of medical trend, maybe where the bulk of the claims volume was and was there a regional area where the expenses came in higher than expected? And I guess a last sort of related point here is the extent to which you are comfortable that you have this cleaned up now and that you are in a conservative position going into 2008.

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

Let me kind of address that on a high level, Matthew. We do feel very solid about 2008 and where we are. As we saw this experience in the slowdown that Wayne referred to, it was on a single system and we did have some migration into that system. We are very focused on excellent service and we saw the results of that in the fourth quarter as our claims processing timeliness increased and we got better transparency into the reserving. So I'll let Wayne speak to it a little bit more, but we're feeling really good about '08.

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

Hi, Matt. In terms of the question on the slowdown in claims processing. It's very common when you're doing a migration that you get a slowdown in some of your claims processing. Part of our focus was to account for that, which we thought we had done as of the third quarter. As part of our desire to continue to provide great customer service and improve our customer service rankings, which did improve in the fourth quarter, we really accelerated paying some of that backlog down. In doing that, we got a little more transparency around some of the actual development. And so from our perspective, I would say I feel very confident that we've got our reserves at that high single digit level they've been at historically and that we're going to start the new year off very strong. But these type of items do occur.

A couple things we did at year end though is we did slow the completion factors down a bit. And we also increased our incurred PMPM on the reserves, and that combination of those two items I think really gives us much more comfort that we think we got it right and that we'll be starting off the new year strong.

Matthew Borsch - *Goldman Sachs - Analyst*

And if I could just sneak in one more quick one, which is just on the pricing conditions you are seeing in your markets as you enter the new year, if you can compare that to last year?

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

We still think the market is very rational. We certainly are seeing competition, but we're staying very disciplined and we think the market continues to stay disciplined. In terms of year-over-year, we felt the market was rational in 2007, although quite competitive.

Matthew Borsch - *Goldman Sachs - Analyst*

All right, thank you.

Operator

Bill Georges, JPMorgan.

Bill Georges - *JPMorgan - Analyst*

Thanks. Good morning. Just another follow-up question on the MLR. I guess during the investor day, you provided a walk-through, taking us from an '07 MLR of 82.0 to your forecast for '08 of 81.6. Could you update us on that, starting with the higher base, now that '07 books are closed?

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

Wayne, do you want to respond to that?

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

Yes, hi, Bill. I would say that, again, while the pieces may change slightly as we roll that forward, I don't expect our original guidance to change from what we provided at our IR day.

One of the things to keep in mind is that some of these programs, specifically Ohio and Connecticut, I think it's very fair to say that we learned our lessons a year ago in light of what happened in California. And we weren't going to bake rate increases into the next year without knowing we had those locked and loaded. So from an earnings per share perspective, these become very neutral. In fact, our assumption was that we wanted to be conservative to the extent that if we had to exit these programs, we would be able to cover our exit costs.

So, in terms of exiting Ohio, it's neutral. In terms of Connecticut, the state has put forward an extension. We have not agreed to that extension yet. We are still working through the details, but from an overall earnings per share perspective, it remains neutral.

From an MLR perspective, while that inherently would drive a lower MLR by removing those programs, as we talked about, we're a little bit behind on some of our other areas. And as we finished off our fourth quarter, some of our Individual is slightly lower than we had expected. And those actually contribute a little bit favorably to the MLR. So when you kind of net them out, we still think our original guidance is right on at this point in time and we are very confident with it.

Bill Georges - *JPMorgan - Analyst*

Okay. And then, just as a follow-up question, I guess Medicaid membership growth was a meaningful part of the story in '07. Do some of the problems that you've seen in your Medicaid book, does that change your philosophy towards the business? And if so, how?

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

You know, let me speak to that a little bit. We believe that the Medicaid managed care business is an important one. It's a reflection of our value. We have the opportunity to really drive more value for the state and drive better outcomes for the beneficiary. That said, what 2007 has meant to us is that we do have some process improvement around the way that we enter into markets and the way that we contract with the states. We are very conscious of what the termination provisions are. We are looking at cost and quality initiatives around the cost of care, so we really can optimize that.

And so we're going to stay incredibly disciplined I think as a result of some of the process improvements we have from 2007, but we are committed to that market segment. We drive value there. And so you will see us stay in that market, but we're going to be very disciplined in how we contract with the states.

Bill Georges - *JPMorgan - Analyst*

Okay. Thanks very much.

Operator

Josh Raskin, Lehman Brothers.

Josh Raskin - *Lehman Brothers - Analyst*

I guess I'll ask one more question on to the MLR. Wayne, I think you said that the fourth-quarter items, none of them were going to impact 2008. And I think some of it -- I certainly understand the '06 reserves now, assuming reserves were adequate, that won't recur. Ohio and Connecticut, 40 bps, I understand that. But the mix shift of 40 basis points, I'm just curious why would that not continue into 2008? Do you expect a shift back to a different mix of business?

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

Well, and Josh, that's a very good question. Part of it is there will potentially be some intra-quarter shifting occurring. So, for example, let's take Ohio.

In Ohio, we had assumed that we would not get a level of rate increases in the plan. We wanted to be conservative with that. At the same time, what was disappointing for us was that in the fourth quarter, Ohio deteriorated significantly. And that, coupled with a rate decrease really required us to terminate that contract effective in the first week of January, which we did. That, inherently, will cause a higher MLR in the quarter.

The flip side is we have some other areas where we are doing better than expected that we think will drive the MLR down. We continue to see some good growth within our Group business, both Small and Local. Our National Accounts are doing better, including adding over 5,000 fully insured lives that we had not expected. So if we have a number of moving parts here, and again, we are three weeks into the year at this point, so it's hard to have 100% visibility. But what I will tell you is we've got some good things happening out there and we are seeing some positive development in other areas. And we think when you net them all out, we are still going to be dead on with our original guidance.

Josh Raskin - *Lehman Brothers - Analyst*

Okay. So it sounds like, obviously, the mix shift occurred, but there are some of the offsetting factors.

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

Yes.

Josh Raskin - *Lehman Brothers - Analyst*

And then just a quick follow-up. Could you just walk us through your expectations in terms of investment portfolio returns, your investment income expectations and what sort of yield assumptions you are using?

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

Michael, do you have the yield assumptions? I don't know if I have those off the top of my head, Josh. I can get back to you on that.

I would tell you that we were conservative in our estimation because we did expect that there may be some levels of decline in rates. I would say that the level of declines, I think we would all agree, have been somewhat unprecedented in the recent term, but I still feel confident in our original guidance there, but I will get you specifics on that later after the call.

Josh Raskin - *Lehman Brothers - Analyst*

Perfect. Thanks.

Operator

John Rex, Bear Stearns.

John Rex - *Bear Stearns - Analyst*

I was wondering if you just could compare for us. You mentioned about slowing -- using slower completion factors in your 4Q accruals, also increasing the PMPM reserves. How would that compare to the factors that you were using in the 4Q '06 on both those elements? Is there a way you can kind of -- I know this is difficult to quantify, but a way you can kind of show us how that's changed?

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

John, I would have to get back to you with the specifics on it. What I will tell you is that we did a lot of analysis, both from an actuarial perspective, but I would tell you I also did it on a cash basis, because, as you know, sometimes the numbers can be a little misleading if you don't look at it on a cash basis. What I would tell you is that they are higher, but they are higher to reflect the combination of cost of care trends coupled with the fact that we do know last year in 4Q of '06 that we were artificially too low, and we know that, and we know that having the benefit of hindsight.

So one of the things we did was not only look at it from an actuarial perspective, but we did similar analysis from a cash perspective. And I would say that they are up over last year. They are up quite a bit and I think it gives us some comfort that we're going into '08 adequately reserved.

John Rex - *Bear Stearns - Analyst*

And are the completion factors that you are using for 4Q '07, are they slower than you were using for 4Q '06?

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

Yes.

John Rex - *Bear Stearns - Analyst*

Okay. And then, just on your G&A spend, usually in a 4Q because of open enrollment, you will bear a lot of costs, so it's a little unusual to be down sequentially in a quarter like that. Is there an element here that we should consider deferred spend in the G&A line in the 4Q '07?

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

No, John, there were no delayed investments in advertising, or any of our decisions that we said we're going to invest for '08 that were deferred. What is fair to look at is that we are a performance-based company, and while we exceeded a number of our metrics this year and actually added over 700,000 new lines, more than any other competitor did, it fell short of our goals. And a big adjustment in the quarter was related to performance-based compensation.

John Rex - *Bear Stearns - Analyst*

So but aside from then that portion, and then -- this isn't a bad run rate to think about for the 1Q and then we'd also want to be backing off the normal 70 to $80 million in additional spend you get for open enrollment in 4Q. Is that the way to think about the set-up going into the next quarter?

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

Yes.

John Rex - *Bear Stearns - Analyst*

Okay. Great. And maybe just one last thing. Just back on Ohio and the Connecticut, I want to make sure I understand if something changed from what you were saying. As I recall, like nine months to date in '07, both plans are running kind of in the mid '90s in terms of MCR. Did they get meaningfully worse in the 4Q or kind of just persist at the levels you had seen throughout the year?

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

No, they got meaningfully worse in 4Q, John. Take Ohio as an example. What it being such a new program, you really don't have a lot of visibility until you get further in the year, when you get enough data points. And you know, we saw slight deterioration in the third quarter, but not enough to really concern us or worry us. It was still a new program. We were working with the state on contract negotiations. What we saw was pretty significant deterioration in the fourth quarter. Much more than we had expected. Couple that with late in the year, and I'm talking about literally right before the holidays, the state coming forward with a net rate reduction, which really led to our action that we took in January. So it was really unexpected.

John Rex - *Bear Stearns - Analyst*

Okay great. Thank you.

Operator

Christine Arnold, Morgan Stanley.

Christine Arnold - *Morgan Stanley - Analyst*

I'm going to come at this head on, so I apologize if it comes off across in a tough way, but it seems to me that your medical trends came in higher than expected, if you needed to increase your reserves related to '07. So baseline medical trend looks like it was higher than you thought. And yet, we're hearing from the marketplace that you relaxed pricing entering 2008. Could you help us understand whether you are going to reprice later in the year on commercial or what your plans are?

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

Christine, no, first of all, that's what I always appreciate and love about you is you don't pull any punches and you hit us head on with it. No, I am very confident in our pricing right now. I really am. Keep in mind, and I think your comments are dead on. What it really says is that our high single-digit margin for adverse development within '07 was not what we thought it was within some of the quarters. And so when you adjust for it, you get it back to where it needs to be.

Christine Arnold - *Morgan Stanley - Analyst*

What that means is that medical trends had to have been higher than you expected when you reserved, so your baseline trend is higher. True or false?

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

No, I think it's true to say that medical trend was slightly higher than we had expected. I would also say that relative to our pricing we had assumed next year, meaning '08, we had contemplated some of that higher trend.

When we saw October, which, again, October was more of an anomaly. It wasn't really a run rate, but we looked at that and we said look, we've got to think about some of that in some of our pricing that we had been filing at the time and that's what we did. So I'm not worried about '08, but your point is dead on for '07.

Christine Arnold - *Morgan Stanley - Analyst*

But you relaxed pricing in Individual and Small Group entering '08 in California, which is like 2 million members. Are you saying that's not representative of your pricing across your book? Are you saying California is better than the rest of your book?

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

California had a very good year. We did very well in California in '07.

Christine Arnold - *Morgan Stanley - Analyst*

So where were the costs higher than expected in '07, regionally?

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

They are more across the board. And again, this is about high single-digit margin that we're talking about -- the delta. We're not talking about changing underlying pricing. I want to make sure that I'm adequately addressing your question, but we carry more margin on our books than anybody does in the industry -- anybody. And we still had very significant margin development, so we're talking about the delta between a mid to upper single digit versus high single digit that we're strengthening for. So I still feel very confident in our pricing and our renewals.

If we had a situation, though, which I don't believe we had today, where we thought the pricing wasn't adequate, and we still have about a third of our book that we could price with 30 to 60 days notice. But at this point, Christine, I feel very confident in that.

Christine Arnold - *Morgan Stanley - Analyst*

Okay, thanks.

Operator

Justin Lake, UBS.

Justin Lake - *UBS - Analyst*

Thanks, good morning. Just getting back to the commentary around days claims payable, Wayne, I think you had described pretty adequately what the issues were that kind of drove it lower sequentially. But when you talk about those higher completion factors and the higher reserve levels on a PMPM basis, when I look back to the fourth quarter of last year, days claims payable are basically flat year over year. So, can you kind of give us an idea of what leaves you confident that -- what should leave us confident that those reserve levels are higher? And maybe give us an order of magnitude given that the days claims payable, really the only number that we have to look at, is telling us that the reserves are fairly comparable, especially given that they were problematic last year?

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

Yes, I think a couple things. One is, Justin, unlike last year, we had a significant drive in the fourth quarter of this year to drive our outstanding backlogs down significantly. So one is despite having significant paid activity in the quarter as compared to

4Q of last year, we still increased our incurred PMPMs and slowed down our completion factor. So one thing I think to recognize is that, unlike last year, while they may look from a DCP standpoint, apples to apples, they are really not.

The second thing I would tell you is that having the benefit of what happened throughout this past year and how those reserves developed and where we migrated, one of the things that we've met with the actuaries on and talked about is the fact that we want to ensure that when we go into '08, that we go in with great confidence, that we're not going to fall short. It's still an estimate. I can't tell you that it's going to be exactly 100% right. It could be a little over, it could be a little under. But at this point in time, we're still looking at it.

The other thing is, our cycle time has really shrunk between when we're receiving the claims and when we're paying it. And that's part of our initiative to drive better customer service.

So I think those are really the two factors that are different from a year ago. And when you consider those two factors, those would generally say you should accelerate your completion factors and we didn't do that. We actually slowed them down.

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

Well, also, we do have fewer claims processing systems now than we had at the end of '06. And we're seeing the benefit of that in a number of ways. We can get our arms around the inventories, the claims processing metrics. We get better visibility as we get more efficient and have fewer systems.

Justin Lake - *UBS - Analyst*

Wayne, I guess I looked at your -- you provide a lot of disclosure on the roll-forward table. I don't mean to get too detailed here, but I did look at the -- in the roll-forward, you give us the incurred claims and you give us the paid claims. I looked at that '07 versus '06 and it's running exactly on top of each other around 88%. And I even looked at the third quarter versus the fourth quarter and how it trended. And the numbers aren't saying that you paid a lot more claims as a percentage of incurred in the fourth quarter. Is there something else I can look at or is there -- is that not representative of what actually happened? Am I looking at the wrong number?

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

Yes, I think, Justin, I think after the call we'll take it off-line, but I don't think they are representative. I think the other thing to keep in mind is that these are full-year numbers. So again, as we talked about, some of that true-up we did in this quarter related to what should have probably happened in earlier quarters. But our paids were down significantly in the fourth quarter. And again, that's a point in time roll forward. So we'll address this one off-line with you, but I'm very confident (multiple speakers).

Justin Lake - *UBS - Analyst*

Okay. And then maybe just as a follow-up on the revenue guidance, you took down the top line by $1.3 billion. Obviously, the Ohio Medicaid has an impact. Maybe you can just spike out Ohio Medicaid. You mentioned Medicare Advantage is running a little bit below your expectations. Can you give us kind of components of where that revenue guidance decline comes from?

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

Yes, about one-third of it relates to the Ohio Medicaid at this point in time. We have about one-third actually related to Connecticut. While we had literally right before IR day gotten a verbal agreement on an ASO contract, we're adjusting for that on a fully insured basis because they were still talking to us about doing fully insured. They are still meeting with us and offered a new contract extension. But again, we're not talking about that publicly at this point other than to say that we're not going to bake in any of that into our revenue guidance for next year, so we are amending for that.

And then about one-third of that really relates to our fourth-quarter shortfalls and some of our Individual and some of our MA shortfalls we're seeing right now.

Justin Lake - *UBS - Analyst*

Got it. What is the MA number now for this year? I think you said 150,000 before.

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

We are -- it's only slightly below that. And Justin, I'm hesitant to amend it much at this point, even provide a number because while our apps are slightly down, we think our terms were a little bit conservative in our estimation and we do have some action plans throughout the year. So I'm not prepared yet to lower that number with a specific yet since we're only three weeks into the new year. But the big thing is right now it's clear to say that our apps are down from where we thought they would be and so we're starting out the year a little bit in the hole on our revenue side.

Justin Lake - *UBS - Analyst*

Thanks a lot.

Operator

Tom Carroll, Stifel Nicolaus.

Tom Carroll - *Stifel Nicolaus - Analyst*

A quick follow-up on your Ohio market. Could you talk more about what drove the unfavorable medical experience there? And then secondly, was there anything in your contract that precluded you from selling that business to one of the other managed care companies?

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

Well, first of all, I would say it was very much utilization driven in the program, and we saw utilization really spike there. Because our other lines of business and books in Ohio are doing quite well. One of the things that concerned us, though, was that, again, with the new program, you get better data as the year goes on. But we really saw a pretty significant spike in the fourth quarter. And I don't think -- I'll be surprised if many of our competitors aren't seeing the same thing. Because if you look at public filings as of 9/30, almost all of them were starting to see some early signs of some negative development. So when you couple that with a net rate reduction, that made that decision quite easy to exit.

The issue is, with the state, is that we had to give appropriate notice and timely notice to them so that they could provide appropriate notices to other players and vendors. When you consider the fact that it was running at a loss, when you consider the fact that the state was not willing to give any rate increase, in fact, wanted a rate reduction, there wasn't much of a sale that could be made of the book.

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

Tom, you know, we have really focused on our contracting in the Medicaid managed care contract to make sure we have appropriate termination provision. In terms of whether you can transfer the contract, in some cases we can and look at that as an option. Here, they were offering a rate decrease, probably pretty universally.

Tom Carroll - *Stifel Nicolaus - Analyst*

So utilization driven, again, is it coming from any one particular specialty or service? Is it O.B. related? That's the kind of the thing I was looking for in terms of an answer.

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

No, it's more broad across the board. But Tom, we'll get back to you if there's any one area that specifically drove it. But it was pretty across the board.

Tom Carroll - *Stifel Nicolaus - Analyst*

Okay, thanks.

Operator

Charles Boorady, Citi.

Charles Boorady - *Citigroup - Analyst*

First, I'm wondering when in '07 did you identify that the fourth quarter '06 medical claims liabilities were developing less favorably than you were previously expecting?

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

Let me make sure I understand the question. Good morning, Charles. You wanted to know when in '07 we identified that '06 was developing less favorably?

Charles Boorady - *Citigroup - Analyst*

Yes.

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

(multiple speakers) Q1. I would say by basically mid February, we had pretty good visibility that we were starting to develop less favorably.

Charles Boorady - *Citigroup - Analyst*

Okay. So the comment that you put in your press release about it was really more explaining why '06 was reported so low and --

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

That's correct, Charles.

Charles Boorady - *Citigroup - Analyst*

So this wasn't related to the lag -- there wasn't a lag in your identifying this related to the systems conversions that you described, in other words?

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

No, no.

Charles Boorady - *Citigroup - Analyst*

And in terms of the systems migrations, in light of what happened in '07, can you tell us has there been a change in your plans for continued migrations in '08? Are you slowing them down? And how many platforms are you on now and what do you expect to be on at the end of the year?

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

You know, with what we are doing around our migrations, we saw real process improvement over the year. We migrated over the last really year and a half four states off of their legacy systems onto our preferred systems and so that was -- there was quite a bit of migration movement over '06 and '07. But towards the end of '07, we had pretty significant migration activity in our National Accounts Host business that went very well. We executed really well on that migration as well as in the PBM. We had some flawless execution around those migrations. So our plan is to continue to migrate in the way that we have with the process improvement so that we are doing so slowly and cautiously and making good decisions around each element of the process in a really integrated business plan with operations and claims and IT. So we feel really good about that.

In terms of ultimately our destination systems, we have hopes to be down to three systems in 2010, three core claims processing systems. And in 2011 and beyond even reducing that further. So we have not changed our overall strategy. We're going to continue to do that, because it does drive the right results and we can make investments with what was lights on spend, by retiring systems, into innovation and consumer-directed capabilities.

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

In 2008, though, it is one system that we would expect to retire, represents about 7.7 million members, but 3.1 million is medical and about 4.6 million is specialty members. But I think as Angela said, we are driving the efficiencies from a G&A prospective that we fully expected to get with these and that's gone well. We have managed these well. Our customer service scores are actually improving and they've been good, but they are actually getting better. But the flip side is, I think we took into account some of the payment activity and shortened our completion factors. So the real change is we're not going to do that in the future. We're going to remain ultraconservative on the reserve side. And it wouldn't change our process.

Charles Boorady - *Citigroup - Analyst*

If I shift to Medicaid, it seems like there's a pattern here when you look at California, Ohio, Connecticut. And state budgets are going to get even tighter in '08, especially California's. So I'm just wondering if you think it's prudent to revise enrollment expectations for Medicaid, could there be other surprises in '08?

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

Well, I think we're trying to be really clear. Whether Connecticut extends on an ASO basis - we will keep watching that. We feel comfortable with where we have come with the ten of the 11 contracts in California. We have one county in which we are a subcontractor that remains.

But essentially, as the states are looking at their budgets, we have good data that shows that managed care in Medicaid really produces a better outcome for the state in terms of overall costs than a pure fee-for-service environment. So we really believe that they are going to look for that solution. We're going to be very disciplined in how we do that, but we will stay very focused on executing well in the Medicaid segment.

Charles Boorady - *Citigroup - Analyst*

Wayne, you bought 77 million shares back in the last year. The share count went down about 56 million. Generally, where did the other 20 million shares go? How much was for comp versus for acquisitions or other things?

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

Sorry, Charles. I want to make sure I understand the question.

Charles Boorady - *Citigroup - Analyst*

Yes, you bought back 77 million shares in the last year. Your share count is down by 56 million. So there's about a 21 million share difference?

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

Yes, the weighted average share count is down by that amount though. So again, a number of the shares we buy late in the year we're not getting the full credit for, but we get the full credit in '08.

Charles Boorady - *Citigroup - Analyst*

Yes, I'm mostly adjusting for that, but was there an issuance of shares for an acquisition or --?

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

No, no. The acquisitions we did this past year such as AIM, we used cash.

Charles Boorady - *Citigroup - Analyst*

Got it. Okay, thanks.

Operator

Greg Nersessian, Credit Suisse.

Greg Nersessian - *Credit Suisse - Analyst*

Thank you. Good morning. Wayne, I had a question about the 1Q '08 guidance. Just in terms of the medical loss ratio, it sounds like you are getting a rate cut in Ohio and that business doesn't terminate until the end of the quarter. And then you're also getting more heavily into Part D with lower-risk corridors. So wondering just directionally, the 1Q '08 MLR versus the 83.1% you reported 1Q '07, how should we think about that? Should that be higher in 1Q '08 year over year?

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

It's a good question. If everything was equal, then I would say yes. The flip side though is we expect to see some improvement in our California State Sponsored operations relative to first quarter of last year as well. So we need to see how more of the quarter pans out right now. While we don't provide the quarterly guidance, I would say that, again, if everything was equal and perfect, that you would expect within the quarter, slightly higher MLR.

Greg Nersessian - *Credit Suisse - Analyst*

Okay. And then just a follow-up on Charles's question about the other states, you entered Indiana, Kansas, Texas, and Nevada within the last couple of years also. Can you alert us, are there any issues in any of those states you are working with the states on, or are those tracking in line with your expectations?

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

I would say most of our states are tracking very much in line with our expectations, and I'm pleased with our contract negotiations we did in California because we are returning to the levels in those counties where we want to be.

The flip side though is that with all these programs, many of these are annual programs and so you have to negotiate them every day. And I don't think there's any secret that more and more states are struggling with balancing their budgets. And so that makes our negotiations harder.

So it's one though that we want to partner with the state; we value the relationships with the state, but we can be funding the states' budgets. And that's what's been happening in the last year or so, and that's why we took the swift action we took in Ohio.

Greg Nersessian - *Credit Suisse - Analyst*

Okay. And then just a quick question on Connecticut. Is this freedom of information situation a deal breaker for you in that state? And I guess what would it take for you to stay or to leave? And then just also, the enrollment guidance for '08, that is not assuming you leave Connecticut, right? That's assuming you stay either self-funded or fully insured?

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

Yes, the guidance assumes we are still in Connecticut on an ASO basis. And the FOIA issue in Connecticut has been a very significant issue for us and it's one that we've been very clear with the state on. It's important to us and it's different for us than potentially other contractors because we are happy to have complete transparency around the Medicaid contract and the Medicaid fee schedules themselves. The language that's been proposed in the past has gone beyond that and would go to our commercial business, which we can't do. So that's what's been important to us in terms of that contract.

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

We are working with the state, though, on alternatives. We provided a lot of alternatives. In fact, we very much support the state having all rights and access to all the data as it relates to their program. We've never had an issue with that and we continue to provide them language that supports them in that manner, and we are working a number of strategies. And I think the state values that and sees that and that's whey they've put forward a contract extension in front of us. Again, we haven't signed it yet because we are still wanting to make sure that we are all meeting the mutual needs of all parties. But that's why we are also leaving the membership in our guidance as well because we do have contract extensions in front of us.

Greg Nersessian - *Credit Suisse - Analyst*

Okay. That's helpful. Thank you.

Operator

Scott Fidel, Deutsche Bank.

Scott Fidel - *Deutsche Bank - Analyst*

the question just relates to Individual, and you did mention there was a bit of a shortfall in the fourth quarter. Maybe if you can tell us what sequentially your Individual enrollment did in the fourth quarter. And then what expectations you have built into Individual for your guidance for 2008. And maybe just some of the markets where you might have seen the pressure around the Individual enrollment?

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

Well, I tell you, a lot of the pressure we're seeing on the Individual side was in our non-Blue states. We're seeing a fair amount of pressure there. In a few of our Blue states, we have seen some pressure, mostly in large metropolitan areas. And we have at least one competitor who is doing very rational pricing. The pricing is very rational. But as you know, with Individual business, you are generally writing somebody at the healthiest stage in their life. And so these competitors are applying a very appropriate strategy. They're coming into markets. They're pricing appropriately, but they are offering a higher commission. And so we've seen some slight deterioration in some of our Blue metropolitan areas, specifically in Georgia and California, would be the two Blue states that we've seen some declines. But a significant portion of that decline is actually occurring in our non-Blue states.

Scott Fidel - *Deutsche Bank - Analyst*

Okay. And then Wayne, just interested in sort of how you are approaching assumptions around the slowing economy. And I know you have talked previously about building in some expectations for higher attrition. And maybe just if you could update us on sort of how you are approaching expectations for attrition. And then also how you think about medical cost trends as the economy slows in terms of, is this an offset to slowing enrollment? Or do you think about medical cost trends actually accelerating as the economy slows?

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

It's interesting, we have baked into our guidance an assumption for a slowdown and specifically, we were very specific about it relative to the National Account business that we had expected. Now the good news is I think our assumptions were conservative and we are actually seeing slightly better than expected results there, which is good. But I think we are far from having this economy downturn be final. And so we're not ready to declare victory there that we've got it 100% right. But right now I would say some of our assumptions appear to be conservative at this point.

Flip side is, we all know that when we start to see reductions in jobs, that you actually end up having an uptick in utilization initially because you have individuals who are taking advantage of those elective services that they didn't have done before. When they know they're losing their job, they try to take advantage of that. So that is something we all have to keep an eye on for the next year relative to that. But we did bake in some of that into our original guidance and right now, and we appear to be okay on that.

Scott Fidel - *Deutsche Bank - Analyst*

And if I could, just, one last quick one. Just relative to the Medicaid MLR again, maybe can you tell us how much improvement in the Medicaid MLR overall you are anticipating in the 2008 guidance relative to 2007? And maybe just give us sort of a baseline of where the aggregate Medicaid MLR is sort of exiting 2007 at?

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

Let me -- Scott, let me get back to you on that one. I want to make sure I'm adequately addressing your question. But one of the things we really need to do is pull together more of an apples-to-apples comparison too on where we're exiting. Where we're not exiting, the rate increases have helped us during negotiation. So we don't usually provide this information by line of business. But let me respond to you off-line on that and make sure we get your question answered adequately.

Scott Fidel - *Deutsche Bank - Analyst*

Okay, thank you.

Operator

Carl McDonald, Oppenheimer.

Carl McDonald - *Oppenheimer & Co. - Analyst*

I just had a quick balance sheet follow-up, which was end of '06, you had about $5.5 billion of mortgage securities on the balance sheet. Can you give us a sense of how that broke down between various categories?

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

The mortgage securities?

Carl McDonald - *Oppenheimer & Co. - Analyst*

Exactly.

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

Most of them are in high-quality government-backed securities, so we have very little in what I would call alternatives. In fact, our entire alternative portfolio, when you include REITs, LLCs, everything out there, is less than 2.5%.

Carl McDonald - *Oppenheimer & Co. - Analyst*

Okay, so --

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

These are very high-quality, government-backed Fannie Mae, Ginnie Mae. These are really high quality, Carl.

Carl McDonald - *Oppenheimer & Co. - Analyst*

Got you. And anything that you are anticipating in terms of shifting that portfolio around in '08? Any impact on the yield there?

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

Well, I think we're going to have to, obviously, keep an eye on where yields are at. The spreads right now are obviously pretty dramatic and we're going to continue to manage our portfolio to maximize our total return. So at this point, I think our strategy going into the year was we assumed a lower yield curve, but right now I would say rates are probably slightly lower than where we would have expected them. At the same time, we manage our portfolio on a regular basis, on a daily basis. So it's hard for me to give you a specific strategy point.

I think when you look at '07, we would all agree who would've thought rates would have gone up as fast as they did? And who would have thought they would have come down as fast as they did. But they did in both extremes in the same year. So we are obviously not going to bet they're going up on some of the things we've seen right now, so we're taking appropriate action within the portfolio.

Carl McDonald - *Oppenheimer & Co. - Analyst*

Great. Thank you.

Operator

Thank you. And I'd now like to turn the conference back to Angela Braly for the Company's closing comments.

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

Thank you all for your questions. In closing, we had a productive year in 2007 and we're off to a good start for 2008. I am very proud of our 41,000 associates for their efforts, accomplishments, and dedication. As 2008 begins, the new executive leadership team and I energetically look forward to leading WellPoint forward with confidence about our ability to truly make a difference in health care and provide more value to our customers and our shareholders. I want to thank you for your interest this morning and have a great day.

Operator

Thank you. And ladies and gentlemen, this conference will be available for replay starting today, Wednesday, January 23rd at 1:45 PM Eastern time, and it will be available through Tuesday, February 5th at midnight Eastern time. And you may access the AT&T Executive Replay Service by dialing 1-800-475-6701 for within the United States or Canada, or from outside the United States or Canada, please dial 320-365-3844 and then enter the access code of 857272. Those numbers once again are 1-800-475-6701 for within the U.S. or Canada or 320-365-3844 from outside the U.S. or Canada, and again, enter the access code of 857272. And that does conclude our conference for today. Thanks for your participation and for using AT&T's Executive Teleconference. You may now disconnect.

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This document contains certain forward-looking information about WellPoint, Inc. ("WellPoint") that is intended to be covered by the safe harbor for "forward-looking statements" provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that are not generally historical facts. Words such as "expect(s)", "feel(s)", "believe(s)", "will", "may", "anticipate(s)", "intend", "estimate", "project" and similar expressions are intended to identify forward-looking statements. These statements include, but are not limited to, financial projections and estimates and their underlying assumptions; statements regarding plans, objectives and expectations with respect to future operations, products and services; and statements regarding future performance. Such statements are subject to certain risks and uncertainties, many of which are difficult to predict and generally beyond the control of WellPoint, that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. These risks and uncertainties include - those discussed and identified in public filings with the U.S. Securities and Exchange Commission ("SEC") made by WellPoint; increased government regulation of health benefits, managed care and pharmacy benefit management operations; trends in health care costs and utilization rates; our ability to secure sufficient premium rate increases; our ability to contract with providers consistent with past practice; competitor pricing below market trends of increasing costs; reduced enrollment, as well as a negative change in our health care product mix; risks and uncertainties regarding the Medicare Part D Prescription Drug benefits program, including potential uncollectability of receivables resulting from processing and/or verifying enrollment (including facilitated enrollment), inadequacy of underwriting assumptions, inability to receive and process information, uncollectability of premium from members, increased pharmaceutical costs, and the underlying seasonality of the business; a downgrade in our financial strength ratings; litigation and investigations targeted at health benefits companies and our ability to resolve litigation and investigations within estimates; our ability to meet expectations regarding repurchases of shares of our common stock; funding risks with respect to revenue received from participation in Medicare and Medicaid programs; non-compliance with the complex regulations imposed on Medicare and Medicaid programs; events that result in negative publicity for the health benefits industry; failure to effectively maintain and modernize our information systems and e-business organization and to maintain good relationships with third party vendors for information system resources; events that may negatively affect our license with the Blue Cross and Blue Shield Association; possible impairment of the value of our intangible assets if future results do not adequately support goodwill and other intangible assets; intense competition to attract and retain employees; unauthorized disclosure of member sensitive or confidential information; changes in the economic and market conditions, as well as regulations, applicable to our investment portfolios; possible restrictions in the payment of dividends by our subsidiaries and increases in required minimum levels of capital and the potential negative affect from our substantial amount of outstanding indebtedness; general risks associated with mergers and acquisitions; various laws and our governing documents may prevent or discourage takeovers and business combinations; potential hedging activities in our common stock; future bio-terrorist activity or other potential public health epidemics; and general economic downturns. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date hereof. Except to the extent otherwise required by federal securities law, WellPoint does not undertake any obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the various disclosures in WellPoint's SEC reports.