UNITEDHEALTH GROUP INC
Form 10-Q
August 04, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _______ TO _______
Commission file number: 1-10864

UnitedHealth Group Incorporated
(Exact name of registrant as specified in its charter)

Minnesota (State or other jurisdiction of incorporation or organization)	41-1321939 (I.R.S. Employer Identification No.)
UnitedHealth Group Center 9900 Bren Road East Minnetonka, Minnesota (Address of principal executive offices)	55343 (Zip Code)

(952) 936-1300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

Large accelerated filer	x	Accelerated filer	o	Non-accelerated filer	o	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
As of July 31, 2014, there were 971,624,800 shares of the registrant's Common Stock, $.01 par value per share, issued and outstanding.

UNITEDHEALTH GROUP
Table of Contents

Table of Contents

PART I
ITEM 1. FINANCIAL STATEMENTS

UnitedHealth Group
Condensed Consolidated Balance Sheets
(Unaudited)

(in millions, except per share data)	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$6,412	$7,276
Short-term investments	1,877	1,937
Accounts receivable, net	5,383	3,052
Other current receivables, net	4,041	3,998
Assets under management	2,791	2,757
Deferred income taxes	496	430
Prepaid expenses and other current assets	1,851	930
Total current assets	22,851	20,380
Long-term investments	19,274	19,605
Property, equipment and capitalized software, net	4,267	4,010
Goodwill	32,462	31,604
Other intangible assets, net	3,791	3,844
Other assets	2,821	2,439
Total assets	$85,466	$81,882
Liabilities and shareholders' equity		
Current liabilities:		
Medical costs payable	$12,305	$11,575
Accounts payable and accrued liabilities	9,625	7,458
Other policy liabilities	5,247	5,279
Commercial paper and current maturities of long-term debt	2,117	1,969
Unearned revenues	1,482	1,600
Total current liabilities	30,776	27,881
Long-term debt, less current maturities	14,630	14,891
Future policy benefits	2,479	2,465
Deferred income taxes	2,011	1,796
Other liabilities	1,332	1,525
Total liabilities	51,228	48,558
Commitments and contingencies (Note 9)		
Redeemable noncontrolling interests	1,303	1,175
Shareholders' equity:		
Preferred stock, $0.001 par value - 10 shares authorized; no shares issued or outstanding	—	—
Common stock, $0.01 par value - 3,000 shares authorized; 973 and 988 issued and outstanding	10	10
Retained earnings	33,215	33,047
Accumulated other comprehensive loss	(290)	(908)
Total shareholders' equity	32,935	32,149
Total liabilities and shareholders' equity	$85,466	$81,882

See Notes to the Condensed Consolidated Financial Statements

1

Table of Contents

UnitedHealth Group
Condensed Consolidated Statements of Operations
(Unaudited)

(in millions, except per share data)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Revenues:				
Premiums	$28,840	$27,220	$56,955	$54,494
Services	2,447	2,244	4,851	4,356
Products	1,037	749	2,035	1,500
Investment and other income	250	195	441	398
Total revenues	32,574	30,408	64,282	60,748
Operating costs:				
Medical costs	23,523	22,173	46,731	44,742
Operating costs	5,206	4,825	10,400	9,439
Cost of products sold	929	669	1,821	1,351
Depreciation and amortization	364	340	724	676
Total operating costs	30,022	28,007	59,676	56,208
Earnings from operations	2,552	2,401	4,606	4,540
Interest expense	(155)	(176)	(315)	(354)
Earnings before income taxes	2,397	2,225	4,291	4,186
Provision for income taxes	(989)	(789)	(1,784)	(1,510)
Net earnings	1,408	1,436	2,507	2,676
Earnings attributable to noncontrolling interests	—	—	—	(48)
Net earnings attributable to UnitedHealth Group common shareholders	$1,408	$1,436	$2,507	$2,628
Earnings per share attributable to UnitedHealth Group common shareholders:				
Basic	$1.44	$1.42	$2.56	$2.60
Diluted	$1.42	$1.40	$2.52	$2.56
Basic weighted-average number of common shares outstanding	979	1,009	981	1,012
Dilutive effect of common share equivalents	12	17	13	15
Diluted weighted-average number of common shares outstanding	991	1,026	994	1,027
Anti-dilutive shares excluded from the calculation of dilutive effect of common share equivalents	8	9	9	13
Cash dividends declared per common share	$0.3750	$0.2800	$0.6550	$0.4925

See Notes to the Condensed Consolidated Financial Statements

Table of Contents

UnitedHealth Group
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(in millions)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net earnings	$1,408	$1,436	$2,507	$2,676
Other comprehensive income (loss):				
Gross unrealized holding gains (losses) on investment securities during the period	314	(453)	480	(501)
Income tax effect	(114)	165	(175)	181
Total unrealized gains (losses), net of tax	200	(288)	305	(320)
Gross reclassification adjustment for net realized gains included in net earnings	(107)	(49)	(153)	(106)
Income tax effect	39	18	56	39
Total reclassification adjustment, net of tax	(68)	(31)	(97)	(67)
Total foreign currency translation gains (losses)	151	(604)	410	(586)
Other comprehensive income (loss)	283	(923)	618	(973)
Comprehensive income	1,691	513	3,125	1,703
Comprehensive income attributable to noncontrolling interests	—	—	—	(48)
Comprehensive income attributable to UnitedHealth Group common shareholders	$1,691	$513	$3,125	$1,655

See Notes to the Condensed Consolidated Financial Statements

Table of Contents

UnitedHealth Group
Condensed Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)

	Common Stock				Accumulated Other Comprehensive Income (Loss)		
(in millions)	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Net Unrealized Gains (Losses) on Investments	Foreign Currency Translation (Losses) Gains	Total Shareholders' Equity
Balance at January 1, 2014	988	$10	$—	$33,047	$54	$(962)	$32,149
Net earnings attributable to UnitedHealth Group common shareholders				2,507			2,507
Other comprehensive income					208	410	618
Issuances of common shares, and related tax effects	10	—	23				23
Share-based compensation, and related tax benefits			217				217
Common share repurchases	(25)	—	(240)	(1,697)			(1,937)
Cash dividends paid on common shares				(642)			(642)
Balance at June 30, 2014	973	$10	$—	$33,215	$262	$(552)	$32,935
Balance at January 1, 2013	1,019	$10	$66	$30,664	$516	$(78)	$31,178
Net earnings attributable to UnitedHealth Group common shareholders				2,628			2,628
Other comprehensive loss					(387)	(586)	(973)
Issuances of common shares, and related tax effects	10	—	228				228
Share-based compensation, and related tax benefits			207				207
Common share repurchases	(23)	—	(445)	(889)			(1,334)
Acquisition of noncontrolling interests			(56)				(56)
Cash dividends paid on common shares				(497)			(497)
Balance at June 30, 2013	1,006	$10	$—	$31,906	$129	$(664)	$31,381

See Notes to the Condensed Consolidated Financial Statements

Table of Contents

UnitedHealth Group
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
(in millions)	2014	2013
Operating activities		
Net earnings	$2,507	$2,676
Noncash items:		
Depreciation and amortization	724	676
Deferred income taxes	(16)	100
Share-based compensation	188	176
Other, net	(148)	(86)
Net change in other operating items, net of effects from acquisitions and changes in AARP balances:		
Accounts receivable	(2,131)	(952)
Other assets	(1,135)	(661)
Medical costs payable	560	792
Accounts payable and other liabilities	2,219	107
Other policy liabilities	(218)	(41)
Unearned revenues	(128)	(260)
Cash flows from operating activities	2,422	2,527
Investing activities		
Purchases of investments	(5,477)	(5,942)
Sales of investments	4,393	2,924
Maturities of investments	1,544	2,718
Cash paid for acquisitions, net of cash assumed	(523)	(284)
Purchases of property, equipment and capitalized software	(716)	(625)
Proceeds from disposal of property, equipment and capitalized software	—	146
Other, net	(99)	45
Cash flows used for investing activities	(878)	(1,018)
Financing activities		
Acquisition of noncontrolling interest shares	—	(1,474)
Common stock repurchases	(1,937)	(1,334)
Cash dividends paid	(642)	(497)
Proceeds from common stock issuances	267	314
Repayments of long-term debt	(172)	(1,560)
Repayments of commercial paper, net	(101)	(688)
Proceeds from issuance of long-term debt	—	2,235
Customer funds administered	333	855
Other, net	(170)	(18)
Cash flows used for financing activities	(2,422)	(2,167)
Effect of exchange rate changes on cash and cash equivalents	14	(94)
Decrease in cash and cash equivalents	(864)	(752)
Cash and cash equivalents, beginning of period	7,276	8,406
Cash and cash equivalents, end of period	$6,412	$7,654

See Notes to the Condensed Consolidated Financial Statements

5

Table of Contents

UnitedHealth Group
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

1.Basis of Presentation

Basis of Presentation

UnitedHealth Group Incorporated (individually and together with its subsidiaries, “UnitedHealth Group” and “the Company”) is a diversified health and well-being company dedicated to helping people live healthier lives and making health care work better. The Company offers a broad spectrum of products and services through two distinct platforms: UnitedHealthcare, which provides health care coverage and benefits services; and Optum, which provides information and technology-enabled health services.

The Company has prepared the Condensed Consolidated Financial Statements according to U.S. Generally Accepted Accounting Principles (GAAP) and has included the accounts of UnitedHealth Group and its subsidiaries. The year-end condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. In accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC), the Company has omitted certain footnote disclosures that would substantially duplicate the disclosures contained in its annual audited Consolidated Financial Statements. Therefore, these Condensed Consolidated Financial Statements should be read together with the Consolidated Financial Statements and the Notes included in Part II, Item 8, “Financial Statements” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2013 as filed with the SEC (2013 10-K). The accompanying Condensed Consolidated Financial Statements include all normal recurring adjustments necessary to present the interim financial statements fairly.

On January 1, 2014, the Company realigned certain of its businesses to respond to changes in the markets it serves and the opportunities that are emerging as the health system evolves. The Company’s Optum business platform took responsibility for certain technology operations and business processing activities with the intention of pursuing additional third-party commercial opportunities in addition to continuing to serve UnitedHealthcare. These activities, which were historically a corporate function, are now included in OptumInsight’s results of operations. The Company’s reportable segments remain the same and prior period segment financial information has been recast to conform to the 2014 presentation. See Note 10 for segment financial information.

Use of Estimates

These Condensed Consolidated Financial Statements include certain amounts based on the Company’s best estimates and judgments. The Company’s most significant estimates relate to estimates and judgments for medical costs payable and revenues, valuation and impairment analysis of goodwill and other intangible assets, estimates of other policy liabilities and other current receivables, valuations of certain investments, and estimates and judgments related to income taxes and contingent liabilities. Certain of these estimates require the application of complex assumptions and judgments, often because they involve matters that are inherently uncertain and will likely change in subsequent periods. The impact of any change in estimates is included in earnings in the period in which the estimate is adjusted.

Accounting Policies

Industry Tax. The Patient Protection and Affordable Care Act and a reconciliation measure, the Health Care and Education Reconciliation Act of 2010 (together, Health Reform Legislation or ACA) include an annual, nondeductible insurance industry tax (Industry Tax) to be levied proportionally across the insurance industry for risk-based health insurance products that began on January 1, 2014.

The Company estimates its liability for the Industry Tax based on a ratio of the Company’s applicable net premiums written compared to the U.S. health insurance industry total applicable net premiums, both for the previous calendar year. The Company records in full the estimated liability for the Industry Tax at the beginning of the calendar year with a corresponding deferred cost that is amortized to operating costs on the Condensed Consolidated Statements of Operations using a straight-line method of allocation over the calendar year. The liability is recorded in accounts payable and accrued liabilities and the corresponding deferred cost is recorded in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets. The Industry Tax liability was $1.3 billion and as of June 30, 2014 the unamortized asset was $660 million. The Company has experienced a higher effective income tax rate in

2014 as compared to 2013 due to the nondeductible nature of the Industry Tax.

Premium Stabilization Programs. Since the beginning of 2014, Health Reform Legislation has included three programs designed to stabilize health insurance markets (Premium Stabilization Programs): a permanent risk adjustment program; a temporary risk corridors program; and a transitional reinsurance program (Reinsurance Program).

Table of Contents

The risk-adjustment provisions of Health Reform Legislation are permanent regulations and apply to market reform compliant individual and small group plans in the commercial markets. Under the program, each covered member is assigned a risk score based upon demographic information and applicable diagnostic codes from the current year paid claims, in order to determine an average risk score for each plan in a particular state and market risk pool. Generally, a plan with an average risk score that is less than the state's average risk score will pay into a pool, while a plan with an average risk score that is greater than the state's average risk score will receive money from the pool.

The risk corridors provisions of Health Reform Legislation will be in place for three years and are intended to limit the gains and losses of individual and small group qualified health plans. Plans are required to calculate the U.S. Department of Health and Human Services (HHS) risk corridor ratio of allowable costs (defined as medical claims plus quality improvement costs adjusted for the impact of reinsurance recoveries and the risk adjustment program) to the defined target amount (defined as actual premiums less defined allowable administrative costs inclusive of taxes and profits). Qualified health plans with ratios below 97% are required to make payments to HHS, while plans with ratios greater than 103% will receive funds from HHS.

The Reinsurance Program is a temporary three year program that is funded on a per capita basis from all commercial lines of business including insured and self-funded arrangements. Only issuers of market reform compliant individual plans are eligible for reinsurance recoveries from the risk pools.

None of the Premium Stabilization Programs are expected to have a material impact on the Condensed Consolidated Financial Statements.

All other accounting policies disclosed in Note 2 of Notes to the Consolidated Financial Statements in Part II, Item 8, "Financial Statements" in the 2013 10-K remain unchanged.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board issued Accounting Standard Update (ASU) No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" (ASU 2014-09). ASU 2014-09 will supersede existing revenue recognition standards with a single model unless those contracts are within the scope of other standards (e.g., an insurance entity's insurance contracts). The revenue recognition principle is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, ASU 2014-09 will require new and enhanced disclosures. Companies can adopt the new standard either using the full retrospective approach, a modified retrospective approach with practical expedients, or a cumulative effect upon adoption approach. ASU 2014-09 will become effective for annual and interim reporting periods beginning after December 15, 2016. Early adoption is not permitted. The Company is currently evaluating the effect of the new revenue recognition guidance.

The Company has determined that there have been no other recently adopted or issued accounting standards that had, or will have, a material impact on its Condensed Consolidated Financial Statements.

Table of Contents

2.Investments

A summary of short-term and long-term investments by major security type is as follows:

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2014				
Debt securities - available-for-sale:				
U.S. government and agency obligations	$1,693	$6	$(1)	$1,698
State and municipal obligations	6,549	220	(7)	6,762
Corporate obligations	7,284	162	(12)	7,434
U.S. agency mortgage-backed securities	2,092	36	(11)	2,117
Non-U.S. agency mortgage-backed securities	847	15	(2)	860
Total debt securities - available-for-sale	18,465	439	(33)	18,871
Equity securities - available-for-sale	1,727	24	(11)	1,740
Debt securities - held-to-maturity:				
U.S. government and agency obligations	187	3	—	190
State and municipal obligations	28	—	—	28
Corporate obligations	325	—	—	325
Total debt securities - held-to-maturity	540	3	—	543
Total investments	$20,732	$466	$(44)	$21,154
December 31, 2013				
Debt securities - available-for-sale:				
U.S. government and agency obligations	$2,211	$5	$(21)	$2,195
State and municipal obligations	6,902	147	(72)	6,977
Corporate obligations	7,265	130	(60)	7,335
U.S. agency mortgage-backed securities	2,256	23	(61)	2,218
Non-U.S. agency mortgage-backed securities	697	12	(7)	702
Total debt securities - available-for-sale	19,331	317	(221)	19,427
Equity securities - available-for-sale	1,576	9	(13)	1,572
Debt securities - held-to-maturity:				
U.S. government and agency obligations	181	1	—	182
State and municipal obligations	28	—	—	28
Corporate obligations	334	—	—	334
Total debt securities - held-to-maturity	543	1	—	544
Total investments	$21,450	$327	$(234)	$21,543

Table of Contents

The fair values of the Company's mortgage-backed securities by credit rating (when multiple credit ratings are available for an individual security, the average of the available ratings is used) and origination date as of June 30, 2014 were as follows:

(in millions)	AAA	AA	Non-Investment Grade	Total Fair Value
2014	$157	$—	$—	$157
2013	171	—	—	171
2012	88	—	—	88
2011	18	—	—	18
2010	24	—	—	24
2009	7	—	—	7
Pre - 2009	380	2	13	395
U.S. agency mortgage-backed securities	2,115	2	—	2,117
Total	$2,960	$4	$13	$2,977

The Company includes any securities backed by Alt-A or subprime mortgages and any commercial mortgage loans in default in the non-investment grade column in the table above.

The amortized cost and fair value of available-for-sale debt securities as of June 30, 2014, by contractual maturity, were as follows:

(in millions)	Amortized Cost	Fair Value
Due in one year or less	$1,975	$1,986
Due after one year through five years	7,046	7,179
Due after five years through ten years	4,754	4,900
Due after ten years	1,751	1,829
U.S. agency mortgage-backed securities	2,092	2,117
Non-U.S. agency mortgage-backed securities	847	860
Total debt securities - available-for-sale	$18,465	$18,871

The amortized cost and fair value of held-to-maturity debt securities as of June 30, 2014, by contractual maturity, were as follows:

(in millions)	Amortized Cost	Fair Value
Due in one year or less	$82	$82
Due after one year through five years	231	231
Due after five years through ten years	130	131
Due after ten years	97	99
Total debt securities - held-to-maturity	$540	$543

Table of Contents

The fair value of available-for-sale investments with gross unrealized losses by major security type and length of time that individual securities have been in a continuous unrealized loss position were as follows:

	Less Than 12 Months		12 Months or Greater		Total	
(in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2014						
Debt securities - available-for-sale:						
U.S. government and agency obligations	$—	$—	$61	$(1)	$61	$(1)
State and municipal obligations	349	(2)	332	(5)	681	(7)
Corporate obligations	765	(3)	479	(9)	1,244	(12)
U.S. agency mortgage-backed securities	—	—	402	(11)	402	(11)
Non-U.S. agency mortgage-backed securities	—	—	139	(2)	139	(2)
Total debt securities - available-for-sale	$1,114	$(5)	$1,413	$(28)	$2,527	$(33)
Equity securities - available-for-sale	$108	$(7)	$59	$(4)	$167	$(11)
December 31, 2013						
Debt securities - available-for-sale:						
U.S. government and agency obligations	$1,055	$(19)	$17	$(2)	$1,072	$(21)
State and municipal obligations	2,491	(62)	128	(10)	2,619	(72)
Corporate obligations	2,573	(51)	103	(9)	2,676	(60)
U.S. agency mortgage-backed securities	1,393	(51)	105	(10)	1,498	(61)
Non-U.S. agency mortgage-backed securities	289	(6)	26	(1)	315	(7)
Total debt securities - available-for-sale	$7,801	$(189)	$379	$(32)	$8,180	$(221)
Equity securities - available-for-sale	$180	$(13)	$—	$—	$180	$(13)

The Company's unrealized losses from all securities as of June 30, 2014 were generated from approximately 2,800 positions out of a total of 21,300 positions. The Company believes that it will collect the principal and interest due on its debt securities that have an amortized cost in excess of fair value. The unrealized losses were primarily caused by interest rate increases and not by unfavorable changes in the credit quality associated with these securities. At each reporting period, the Company evaluates securities for impairment when the fair value of the investment is less than its amortized cost. The Company evaluated the underlying credit quality and credit ratings of the issuers, noting neither a significant deterioration since purchase nor other factors leading to an other-than-temporary impairment (OTTI). As of June 30, 2014, the Company did not have the intent to sell any of the securities in an unrealized loss position. Therefore, the Company believes these losses to be temporary.

The Company's investments in equity securities consist of investments in Brazilian real denominated fixed-income funds, employee savings plan related investments, venture capital funds, and dividend paying stocks. The Company evaluated its investments in equity securities for severity and duration of unrealized loss, overall market volatility and other market factors.

Net realized gains reclassified out of accumulated other comprehensive income were from the following sources:

	Three Months Ended June 30,	Six Months Ended June 30,

(in millions)	2014	2013	2014	2013
Total OTTI	$(4)	$(1)	$(7)	$(4)
Portion of loss recognized in other comprehensive income	—	—	—	—
Net OTTI recognized in earnings	(4)	(1)	(7)	(4)
Gross realized losses from sales	(29)	(2)	(39)	(3)
Gross realized gains from sales	140	52	199	113
Net realized gains (included in investment and other income on the Condensed Consolidated Statements of Operations)	107	49	153	106
Income tax effect (included in provision for income taxes on the Condensed Consolidated Statements of Operations)	(39)	(18)	(56)	(39)
Realized gains, net of taxes	$68	$31	$97	$67

Table of Contents

3. Fair Value

Certain assets and liabilities are measured at fair value in the Condensed Consolidated Financial Statements or have fair values disclosed in the Notes to the Condensed Consolidated Financial Statements. These assets and liabilities are classified into one of three levels of a hierarchy defined by GAAP. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The fair value hierarchy is summarized as follows:

Level 1 — Quoted prices (unadjusted) for identical assets/liabilities in active markets.

Level 2 — Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets/liabilities in nonactive markets (e.g., few transactions, limited information, noncurrent prices, high variability over time);
- Inputs other than quoted prices that are observable for the asset/liability (e.g., interest rates, yield curves, implied volatilities, credit spreads); and
- Inputs that are corroborated by other observable market data.

Level 3 — Unobservable inputs that cannot be corroborated by observable market data.

Transfers between levels, if any, are recorded as of the beginning of the reporting period in which the transfer occurs; there were no transfers between Levels 1, 2 or 3 of any financial assets or liabilities during 2014 or 2013.

Nonfinancial assets and liabilities or financial assets and liabilities that are measured at fair value on a nonrecurring basis are subject to fair value adjustments only in certain circumstances, such as when the Company records an impairment. There were no significant fair value adjustments for these assets and liabilities recorded during the six months ended June 30, 2014 or 2013.

The following methods and assumptions were used to estimate the fair value and determine the fair value hierarchy classification of each class of financial instrument included in the tables below:

Cash and Cash Equivalents. The carrying value of cash and cash equivalents approximates fair value as maturities are less than three months. Fair values of cash equivalent instruments that do not trade on a regular basis in active markets are classified as Level 2.

Debt and Equity Securities. Fair values of debt and equity securities are based on quoted market prices, where available. The Company obtains one price for each security primarily from a third-party pricing service (pricing service), which generally uses quoted or other observable inputs for the determination of fair value. The pricing service normally derives the security prices through recently reported trades for identical or similar securities, and, if necessary, makes adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, benchmark yields, credit spreads, default rates, prepayment speeds and nonbinding broker quotes. As the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to prices reported by a secondary pricing source, such as its custodian, its investment consultant and third-party investment advisors. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. The Company's internal price verification procedures and reviews of fair value methodology documentation provided by independent pricing services have not historically resulted in adjustment in the prices obtained from the pricing service.

Fair values of debt securities that do not trade on a regular basis in active markets but are priced using other observable inputs are classified as Level 2.

Fair value estimates for Level 1 and Level 2 equity securities are based on quoted market prices for actively traded equity securities and/or other market data for the same or comparable instruments and transactions in establishing the prices.

The fair values of Level 3 investments in venture capital portfolios are estimated using a market valuation technique that relies heavily on management assumptions and qualitative observations. Under the market approach, the fair values of the Company’s various venture capital investments are computed using limited quantitative and qualitative observations of activity for similar companies in the current market. The Company’s market modeling utilizes, as applicable, transactions for comparable

Table of Contents

companies in similar industries that also have similar revenue and growth characteristics and preferences in their capital structure. Key significant unobservable inputs in the market technique include implied earnings before interest, taxes, depreciation and amortization (EBITDA) multiples and revenue multiples. Additionally, the fair values of certain of the Company’s venture capital securities are based off of recent transactions in inactive markets for identical or similar securities. Significant changes in any of these inputs could result in significantly lower or higher fair value measurements.

Throughout the procedures discussed above in relation to the Company’s processes for validating third-party pricing information, the Company validates the understanding of assumptions and inputs used in security pricing and determines the proper classification in the hierarchy based on that understanding.

AARP Program-related Investments. The Company provides health insurance products and services to members of AARP under a Supplemental Health Insurance Program (AARP Program). AARP Program-related investments consist of debt securities and other investments held to fund costs associated with the AARP Program and are priced and classified using the same methodologies as the Company’s investments in debt and equity securities.

Interest Rate Swaps. Fair values of the Company’s swaps are estimated using the terms of the swaps and publicly available information including market yield curves. Because the swaps are unique and not actively traded but are valued using other observable inputs, the fair values are classified as Level 2.

Long-term Debt. The fair value of the Company’s long-term debt is estimated and classified using the same methodologies as the Company’s investments in debt securities.

AARP Program-related Other Liabilities. AARP Program-related other liabilities consist of liabilities that represent the amount of net investment gains and losses related to AARP Program-related investments that accrue to the benefit of the AARP policyholders.

Table of Contents

The following table presents a summary of fair value measurements by level and carrying values for items measured at fair value on a recurring basis in the Condensed Consolidated Balance Sheets excluding AARP Program-related assets and liabilities, which are presented in a separate table below:

(in millions)	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair and Carrying Value
June 30, 2014				
Cash and cash equivalents	$6,402	$10	$—	$6,412
Debt securities - available-for-sale:				
U.S. government and agency obligations	1,445	253	—	1,698
State and municipal obligations	—	6,762	—	6,762
Corporate obligations	19	7,365	50	7,434
U.S. agency mortgage-backed securities	—	2,117	—	2,117
Non-U.S. agency mortgage-backed securities	—	853	7	860
Total debt securities - available-for-sale	1,464	17,350	57	18,871
Equity securities - available-for-sale	1,426	12	302	1,740
Total assets at fair value	$9,292	$17,372	$359	$27,023
Percentage of total assets at fair value	35 %	64 %	1 %	100 %
Interest rate swap liabilities	$—	$30	$—	$30
December 31, 2013				
Cash and cash equivalents	$7,005	$271	$—	$7,276
Debt securities - available-for-sale:				
U.S. government and agency obligations	1,750	445	—	2,195
State and municipal obligations	—	6,977	—	6,977
Corporate obligations	25	7,274	36	7,335
U.S. agency mortgage-backed securities	—	2,218	—	2,218
Non-U.S. agency mortgage-backed securities	—	696	6	702
Total debt securities - available-for-sale	1,775	17,610	42	19,427
Equity securities - available-for-sale	1,291	12	269	1,572
Total assets at fair value	$10,071	$17,893	$311	$28,275
Percentage of total assets at fair value	36 %	63 %	1 %	100 %
Interest rate swap liabilities	$—	$163	$—	$163

Table of Contents

The following table presents a summary of fair value measurements by level and carrying values for certain financial instruments not measured at fair value on a recurring basis in the Condensed Consolidated Balance Sheets:

(in millions)	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value	Total Carrying Value
June 30, 2014					
Debt securities - held-to-maturity:					
U.S. government and agency obligations	$ 190	$—	$—	$190	$187
State and municipal obligations	—	—	28	28	28
Corporate obligations	50	9	266	325	325
Total debt securities - held-to-maturity	$ 240	$9	$ 294	$543	$540
Long-term debt and other financing obligations	$—	$17,256	$—	$17,256	$15,733
December 31, 2013					
Debt securities - held-to-maturity:					
U.S. government and agency obligations	$ 182	$—	$—	$182	$181
State and municipal obligations	—	—	28	28	28
Corporate obligations	47	9	278	334	334
Total debt securities - held-to-maturity	$ 229	$9	$ 306	$544	$543
Long-term debt and other financing obligations	$—	$16,602	$—	$16,602	$15,745

The carrying amounts reported on the Condensed Consolidated Balance Sheets for other financial assets and liabilities approximate fair value because of their short-term nature. These assets and liabilities are not listed in the table above.
A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level 3 inputs is as follows:

(in millions)	Three Months Ended			Six Months Ended		
	Debt Securities	Equity Securities	Total	Debt Securities	Equity Securities	Total
June 30, 2014						
Balance at beginning of period	$46	$313	$359	$42	$269	$311
Purchases	10	6	16	13	50	63
Sales	—	(147)	(147)	—	(151)	(151)
Net unrealized gains in accumulated other comprehensive income	1	6	7	2	10	12
Net realized gains in investment and other income	—	124	124	—	124	124
Balance at end of period	$57	$302	$359	$57	$302	$359
June 30, 2013						
Balance at beginning of period	$32	$239	$271	$17	$224	$241
Purchases	7	11	18	22	42	64
Sales	—	—	—	—	(21)	(21)
Net unrealized losses in accumulated other comprehensive income	(1)	(4)	(5)	(1)	(6)	(7)
Net realized (losses) gains in investment and other income	—	(1)	(1)	—	6	6
Balance at end of period	$38	$245	$283	$38	$245	$283

14

Table of Contents

The following table presents quantitative information regarding unobservable inputs that were significant to the valuation of assets measured at fair value on a recurring basis using Level 3 inputs:

(in millions)	Fair Value	Valuation Technique	Unobservable Input	Range Low	Range High
June 30, 2014					
Equity securities - available-for-sale					
Venture capital portfolios	$259	Market approach - comparable companies	Revenue multiple	1.0	5.0
			EBITDA multiple	8.0	10.0
	43	Market approach - recent transactions	Inactive market transactions	N/A	N/A
Total equity securities available-for-sale	$302				

Also included in the Company's assets measured at fair value on a recurring basis using Level 3 inputs were $57 million of available-for-sale debt securities at June 30, 2014, which were not significant.

The Company elected to measure the entirety of the AARP Program assets under management at fair value pursuant to the fair value option. See Note 2 of Notes to the Consolidated Financial Statements in Item II, Part 8, "Financial Statements" in the Company's 2013 10-K for further detail on the AARP Program. The following table presents fair value information about the AARP Program-related financial assets and liabilities:

(in millions)	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Total Fair and Carrying Value
June 30, 2014			
Cash and cash equivalents	$230	$—	$230
Debt securities:			
U.S. government and agency obligations	422	283	705
State and municipal obligations	—	79	79
Corporate obligations	—	1,168	1,168
U.S. agency mortgage-backed securities	—	383	383
Non-U.S. agency mortgage-backed securities	—	147	147
Total debt securities	422	2,060	2,482
Other investments	—	79	79
Total assets at fair value	$652	$2,139	$2,791
Other liabilities	$6	$14	$20
December 31, 2013			
Cash and cash equivalents	$265	$—	$265
Debt securities:			
U.S. government and agency obligations	426	301	727
State and municipal obligations	—	63	63
Corporate obligations	—	1,145	1,145
U.S. agency mortgage-backed securities	—	414	414
Non-U.S. agency mortgage-backed securities	—	139	139
Total debt securities	426	2,062	2,488
Equity securities - available-for-sale	—	4	4
Total assets at fair value	$691	$2,066	$2,757

Other liabilities	$3	$11	$14

15

Table of Contents

4. Medicare Part D Pharmacy Benefits

Medicare Part D Pharmacy Benefits

The Condensed Consolidated Balance Sheets include the following amounts associated with the Medicare Part D program:

	June 30, 2014			December 31, 2013		
(in millions)	Subsidies	Drug Discount	Risk-Share	Subsidies	Drug Discount	Risk-Share
Other current receivables	$895	$250	$—	$881	$425	$—
Other policy liabilities	—	129	34	—	152	214

The Catastrophic Reinsurance and Low-Income Member Cost Sharing Subsidies (Subsidies) and drug discounts represent cost reimbursements under the Medicare Part D program. The Company is fully reimbursed by the Centers for Medicare & Medicaid Services (CMS) for costs incurred for these contract elements and, accordingly, there is no insurance risk to the Company. Amounts received for these contract elements are not reflected as premium revenues, but rather are accounted for as a reduction of receivables and/or increase in deposit liabilities. CMS provides prospective payments for the drug discounts, which the Company records as liabilities when received. The drug discounts are ultimately funded by the pharmaceutical manufacturers. The Company bills them for claims under the program and records those bills as receivables. Related cash flows are presented as customer funds administered within financing activities on the Condensed Consolidated Statements of Cash Flows.

Premiums from CMS are subject to risk-sharing provisions based on a comparison of the Company's annual bid estimates of prescription drug costs and the actual costs incurred. Variances may result in CMS making additional payments to the Company or require the Company to remit funds to CMS subsequent to the end of the year. The Company records risk-share adjustments to premium revenue and to other current receivables or other policy liabilities on the Condensed Consolidated Balance Sheets. See Note 2 of Notes to the Consolidated Financial Statements in Item II, Part 8, "Financial Statements" in the Company's 2013 10-K for further detail on Medicare Part D.

5. Medical Cost Reserve Development

The following table provides details of the Company's favorable medical cost reserve development:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2014	2013	2014	2013
Related to Prior Years	$40	$120	$260	$400
Related to Current Year	90	190	N/A	N/A

In both the three and six months ended June 30, 2014, the favorable medical cost reserve development was driven by a number of individual factors that were not material. Lower than expected health system utilization levels were a significant driver in both the three and six months ended June 30, 2013.

Table of Contents

6. Commercial Paper and Long-Term Debt

Commercial paper and senior unsecured long-term debt consisted of the following:

	June 30, 2014			December 31, 2013		
(in millions, except percentages)	Par Value	Carrying Value	Fair Value	Par Value	Carrying Value	Fair Value
Commercial paper	$1,014	$1,014	$1,014	$1,115	$1,115	$1,115
4.750% notes due February 2014	—	—	—	172	173	173
5.000% notes due August 2014	389	391	392	389	397	400
Floating-rate notes due August 2014	250	250	250	250	250	250
4.875% notes due March 2015 (a)	416	426	429	416	431	436
0.850% notes due October 2015 (a)	625	625	628	625	624	628
5.375% notes due March 2016 (a)	601	632	648	601	641	657
1.875% notes due November 2016	400	398	409	400	398	408
5.360% notes due November 2016	95	95	105	95	95	107
6.000% notes due June 2017	441	473	501	441	479	506
1.400% notes due October 2017 (a)	625	617	627	625	613	617
6.000% notes due November 2017	156	166	177	156	168	178
6.000% notes due February 2018	1,100	1,114	1,269	1,100	1,116	1,271
1.625% notes due March 2019 (a)	500	496	492	500	489	481
3.875% notes due October 2020 (a)	450	447	483	450	435	474
4.700% notes due February 2021	400	415	445	400	416	436
3.375% notes due November 2021 (a)	500	488	513	500	472	494
2.875% notes due March 2022 (a)	1,100	1,021	1,094	1,100	981	1,046
0.000% notes due November 2022	15	10	11	15	9	10
2.750% notes due February 2023 (a)	625	589	606	625	563	572
2.875% notes due March 2023 (a)	750	760	736	750	729	698
5.800% notes due March 2036	850	845	1,023	850	845	935
6.500% notes due June 2037	500	495	654	500	495	593
6.625% notes due November 2037	650	646	862	650	645	786
6.875% notes due February 2038	1,100	1,085	1,489	1,100	1,084	1,370
5.700% notes due October 2040	300	298	359	300	298	329
5.950% notes due February 2041	350	348	434	350	348	397
4.625% notes due November 2041	600	593	626	600	593	567
4.375% notes due March 2042	502	486	502	502	486	459
3.950% notes due October 2042	625	611	586	625	611	530
4.250% notes due March 2043	750	740	733	750	740	673
Total commercial paper and long-term debt	$16,679	$16,574	$18,097	$16,952	$16,739	$17,596

(a) Fixed-rate debt instruments hedged with interest rate swap contracts. See below for more information on the Company’s interest rate swaps.

The Company’s long-term debt obligations also included $173 million and $121 million of other financing obligations, of which $36 million and $34 million were current as of June 30, 2014 and December 31, 2013, respectively.

Commercial Paper and Bank Credit Facilities

Commercial paper consists of short-duration, senior unsecured debt privately placed on a discount basis through broker-dealers. As of June 30, 2014, the Company’s outstanding commercial paper had a weighted-average annual interest rate of 0.2%.

The Company has $3.0 billion five-year and $1.0 billion 364-day revolving bank credit facilities with 23 banks, which mature in November 2018 and November 2014, respectively. These facilities provide liquidity support for the Company’s $4.0 billion commercial paper program and are available for general corporate purposes. There were no amounts outstanding under these facilities as of June 30, 2014. The interest rates on borrowings are variable based on term and are calculated based on the London Interbank Offered Rate (LIBOR) plus a credit spread based on the Company’s senior unsecured credit ratings. As of June 30, 2014, the annual interest rates on the bank credit facilities, had they been drawn, would have ranged from 1.0% to 1.2%.

Table of Contents

Debt Covenants

The Company’s bank credit facilities contain various covenants including requiring the Company to maintain a debt to debt-plus-equity ratio of not more than 50%. The Company was in compliance with its debt covenants as of June 30, 2014.

Interest Rate Swap Contracts

The Company uses interest rate swap contracts to convert a portion of its interest rate exposure from fixed rates to floating rates to more closely align interest expense with interest income received on its cash equivalent and variable rate investment balances. The floating rates are benchmarked to LIBOR. The swaps are designated as fair value hedges on the Company’s fixed-rate debt. Since the critical terms of the swaps match those of the debt being hedged, they are considered to be highly effective hedges and all changes in the fair values of the swaps are recorded as adjustments to the carrying value of the related debt with no net impact recorded on the Condensed Consolidated Statements of Operations. Both the hedge fair value changes and the offsetting debt adjustments are recorded in interest expense on the Condensed Consolidated Statements of Operations. As of June 30, 2014 and December 31, 2013, the Company had interest rate swap contracts with notional amounts of $6.2 billion. The fair values of these swap liabilities were $30 million and $163 million, as of June 30, 2014 and December 31, 2013, respectively, which were recorded in other liabilities on the Condensed Consolidated Balance Sheets.

7. Shareholders' Equity

Share Repurchase Program

Under its Board of Directors’ authorization, the Company maintains a share repurchase program. The objectives of the share repurchase program are to optimize the Company’s capital structure and cost of capital, thereby improving returns to shareholders, as well as to offset the dilutive impact of share-based awards. Repurchases may be made from time to time in open market purchases or other types of transactions (including prepaid or structured share repurchase programs), subject to certain Board restrictions. In June 2014, the Board renewed the Company’s share repurchase program with an authorization to repurchase up to 100 million shares of its common stock. During the six months ended June 30, 2014, the Company repurchased 25 million shares at an average price of $76.91 per share and an aggregate cost of $1.9 billion.

Dividends

In June 2014, the Company’s Board of Directors increased the Company’s quarterly cash dividend to shareholders to equal an annual dividend rate of $1.50 per share compared to the annual dividend rate of $1.12 per share, which the Company had paid since June 2013. Declaration and payment of future quarterly dividends is at the discretion of the Board and may be adjusted as business needs or market conditions change.

The following table provides details of the Company’s 2014 dividend payments:

Payment Date	Amount per Share	Total Amount Paid (in millions)
March 25, 2014	$ 0.2800	$ 276
June 25, 2014	0.3750	366

8. Share-Based Compensation

The Company’s outstanding share-based awards consist mainly of nonqualified stock options, stock-settled stock appreciation rights (SARs) and restricted stock and restricted stock units (collectively, restricted shares).

Stock Options and SARs

Stock option and SAR activity for the six months ended June 30, 2014 is summarized in the table below:

	Shares (in millions)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at beginning of period	41	$48		

Granted	8	70		
Exercised	(9)	46		
Forfeited	(1)	60		
Outstanding at end of period	39	53	5.4	$1,131
Exercisable at end of period	25	46	3.3	884
Vested and expected to vest, end of period	38	52	5.3	1,114

Table of Contents

Restricted Shares

Restricted share activity for the six months ended June 30, 2014 is summarized in the table below:

(shares in millions)	Shares	Weighted-Average Grant Date Fair Value per Share
Nonvested at beginning of period	11	$50
Granted	4	70
Vested	(6)	46
Nonvested at end of period	9	61

Other Share-Based Compensation Data

(in millions, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Stock Options and SARs				
Weighted-average grant date fair value of shares granted, per share	$19	$20	$22	$19
Total intrinsic value of stock options and SARs exercised	74	242	286	325
Restricted Shares				
Weighted-average grant date fair value of shares granted, per share	80	62	70	58
Total fair value of restricted shares vested	9	—	423	—
Share-Based Compensation Items				
Share-based compensation expense, before tax	83	77	188	176
Share-based compensation expense, net of tax effects	71	18	157	107
Income tax benefit realized from share-based award exercises	24	83	143	116

(in millions, except years)	June 30, 2014
Unrecognized compensation expense related to share awards	$509
Weighted-average years to recognize compensation expense	1.4

Share-Based Compensation Recognition and Estimates

The principal assumptions the Company used in calculating grant-date fair value for stock options and SARs were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Risk-free interest rate	1.8%	1.1%	1.7% - 1.8%	1.0% - 1.1%
Expected volatility	31.7%	43.0%	31.7% - 39.6%	42.6% - 43.0%
Expected dividend yield	1.9%	1.4%	1.6% - 1.9%	1.4% - 1.5%
Forfeiture rate	5.0%	5.0%	5.0%	5.0%
Expected life in years	5.4	5.3	5.4	5.3

Table of Contents

9. Commitments and Contingencies

Legal Matters

Because of the nature of its businesses, the Company is frequently made party to a variety of legal actions and regulatory inquiries, including class actions and suits brought by members, care providers, consumer advocacy organizations, customers and regulators, relating to the Company's businesses, including management and administration of health benefit plans and other services. These matters include medical malpractice, employment, intellectual property, antitrust, privacy and contract claims, and claims related to health care benefits coverage and other business practices.

The Company records liabilities for its estimates of probable costs resulting from these matters where appropriate. Estimates of costs resulting from legal and regulatory matters involving the Company are inherently difficult to predict, particularly where the matters: involve indeterminate claims for monetary damages or may involve fines, penalties or punitive damages; present novel legal theories or represent a shift in regulatory policy; involve a large number of claimants or regulatory bodies; are in the early stages of the proceedings; or could result in a change in business practices. Accordingly, the Company is often unable to estimate the losses or ranges of losses for those matters where there is a reasonable possibility or it is probable that a loss may be incurred.

Litigation Matters

California Claims Processing Matter. On January 25, 2008, the California Department of Insurance (CDI) issued an Order to Show Cause to PacifiCare Life and Health Insurance Company, a subsidiary of the Company, alleging violations of certain insurance statutes and regulations related to an alleged failure to include certain language in standard claims correspondence, timeliness and accuracy of claims processing, interest payments, care provider contract implementation, care provider dispute resolution and other related matters. Although the Company believes that CDI had never before issued a fine in excess of $8 million, CDI advocated a fine of approximately $325 million in this matter. The matter was the subject of an administrative hearing before a California administrative law judge beginning in December 2009, and in August 2013, the administrative law judge issued a nonbinding proposed decision recommending a fine of $11.5 million. The California Insurance Commissioner rejected the administrative law judge's recommendation and on June 9, 2014, issued his own decision imposing a fine of approximately $174 million. On July 10, 2014, the Company filed a lawsuit in California state court challenging the Commissioner's decision. The Company cannot reasonably estimate the range of loss, if any, that may result from this matter given the procedural status of the dispute, the wide range of possible outcomes, the legal issues presented (including the legal basis for the majority of the alleged violations), the inherent difficulty in predicting a regulatory fine in the event of a remand, and the various remedies and levels of judicial review that remain available to the Company.

Endoscopy Center of Southern Nevada Litigation. In April 2013, a Las Vegas jury awarded $24 million in compensatory damages and $500 million in punitive damages against a Company health plan and its parent corporation on the theory that they were negligent in their credentialing and monitoring of an in-network endoscopy center owned and operated by independent physicians who were subsequently linked by regulators to an outbreak of hepatitis C. The trial court reduced the overall award to $366 million. The Company is appealing the case. Company plans are party to 41 additional individual lawsuits and two class actions, at various procedural stages, relating to the outbreak. The Company cannot reasonably estimate the range of loss, if any, that may result from these matters given the likelihood of reversal on appeal, the availability of statutory and other limits on damages, the novel legal theories being advanced by the plaintiffs, the various postures of the remaining cases, the availability in many cases of federal defenses under Medicare law and the Employee Retirement Income Security Act, and the pendency of certain relevant legal questions before the Nevada Supreme Court. The Company is vigorously defending these lawsuits.

Government Investigations, Audits and Reviews

The Company has been involved or is currently involved in various governmental investigations, audits and reviews. These include routine, regular and special investigations, audits and reviews by CMS, state insurance and health and welfare departments, the Brazilian national regulatory agency for private health insurance and plans (the Agência Nacional de Saúde Suplementar), state attorneys general, the Office of the Inspector General, the Office of Personnel Management, the Office of Civil Rights, the Government Accountability Office, the Federal Trade Commission, U.S.

Congressional committees, the U.S. Department of Justice, the SEC, the Internal Revenue Service, the Brazilian federal revenue service (the Secretaria da Receita Federal), the U.S. Department of Labor, the Federal Deposit Insurance Corporation, the Defense Contract Audit Agency and other governmental authorities. Certain of the Company's businesses have been reviewed or are currently under review, including for, among other things, compliance with coding and other requirements under the Medicare risk-adjustment model.

In February 2012, CMS announced a final Risk Adjustment Data Validation (RADV) audit and payment adjustment methodology and that it will conduct RADV audits beginning with the 2011 payment year. These audits involve a review of medical records maintained by care providers and may result in retrospective adjustments to payments made to health plans.

Table of Contents

CMS has not communicated how the final payment adjustment under its methodology will be implemented.
The Company cannot reasonably estimate the range of loss, if any, that may result from any material government investigations, audits and reviews in which it is currently involved given the inherent difficulty in predicting regulatory action, fines and penalties, if any, and the various remedies and levels of judicial review available to the Company in the event of an adverse finding.

10. Segment Financial Information

Factors used to determine the Company's reportable segments include the nature of operating activities, economic characteristics, existence of separate senior management teams and the type of information presented to the Company's chief operating decision maker to evaluate its results of operations. Reportable segments with similar economic characteristics are combined. The Company's four reportable segments are UnitedHealthcare, OptumHealth, OptumInsight and OptumRx.

Transactions between reportable segments principally consist of sales of pharmacy benefit products and services to UnitedHealthcare customers by OptumRx, certain product offerings and care management and integrated care delivery services sold to UnitedHealthcare by OptumHealth, and health information and technology solutions, consulting and other services sold to UnitedHealthcare by OptumInsight. These transactions are recorded at management's estimate of fair value. Intersegment transactions are eliminated in consolidation. Corporate and intersegment elimination amounts are presented to reconcile the reportable segment results to the consolidated results. For more information on the Company's segments see Part I, Item I, "Business" and Note 13 of Notes to the Consolidated Financial Statements in Item II, Part 8, "Financial Statements" in the Company's 2013 10-K.

Prior period reportable segment financial information has been recast to conform to the 2014 presentation as discussed in Note 1. The following table presents the reportable segment financial information:

(in millions)	UnitedHealthcare	OptumHealth	OptumInsight	OptumRx	Optum Eliminations	Optum	Corporate and Eliminations	Consolidated
Three Months Ended June 30, 2014								
Revenues - external customers:								
Premiums	$ 28,213	$627	$ —	$ —	$ —	$627	$ —	$ 28,840
Services	1,646	242	532	27	—	801	—	2,447
Products	1	4	14	1,018	—	1,036	—	1,037
Total revenues - external customers	29,860	873	546	1,045	—	2,464	—	32,324
Total revenues - intersegment	—	1,674	697	6,955	(115)	9,211	(9,211)	—
Investment and other income	211	39	—	—	—	39	—	250
Total revenues	$ 30,071	$2,586	$ 1,243	$ 8,000	$ (115)	$11,714	$ (9,211)	$ 32,574
Earnings from operations	$ 1,824	$224	$ 213	$ 291	$ —	$728	$ —	$ 2,552
Interest expense	—	—	—	—	—	—	(155)	(155)
Earnings before income taxes	$ 1,824	$224	$ 213	$ 291	$ —	$728	$ (155)	$ 2,397
Three Months Ended June 30, 2013								
Revenues - external customers:								
Premiums	$ 26,603	$617	$ —	$ —	$ —	$617	$ —	$ 27,220

Services	1,537	176	507	24	—	707	—	2,244
Products	2	5	14	728	—	747	—	749
Total revenues - external customers	28,142	798	521	752	—	2,071	—	30,213
Total revenues - intersegment	—	1,581	660	4,895	(115)	7,021	(7,021)	—
Investment and other income	163	32	—	—	—	32	—	195
Total revenues	$ 28,305	$2,411	$ 1,181	$ 5,647	$ (115)	$9,124	$ (7,021)	$ 30,408
Earnings from operations	$ 1,809	$216	$ 230	$ 146	$ —	$592	$ —	$ 2,401
Interest expense	—	—	—	—	—	—	(176)	(176)
Earnings before income taxes	$ 1,809	$216	$ 230	$ 146	$ —	$592	$ (176)	$ 2,225

Table of Contents

(in millions)	UnitedHealthcare	Optum OptumHealth	OptumInsight	OptumRx	Optum Eliminations	Optum	Corporate and Eliminations	Consolidated
Six Months Ended June 30, 2014								
Revenues - external customers:								
Premiums	$ 55,724	$1,231	$ —	$—	$ —	$1,231	$ —	$ 56,955
Services	3,232	505	1,057	57	—	1,619	—	4,851
Products	2	11	40	1,982	—	2,033	—	2,035
Total revenues - external customers	58,958	1,747	1,097	2,039	—	4,883	—	63,841
Total revenues - intersegment	—	3,345	1,393	13,419	(230)	17,927	(17,927)	—
Investment and other income	367	74	—	—	—	74	—	441
Total revenues	$ 59,325	$5,166	$ 2,490	$15,458	$ (230)	$22,884	$ (17,927)	$ 64,282
Earnings from operations	$ 3,228	$435	$ 410	$533	$ —	$1,378	$ —	$ 4,606
Interest expense	—	—	—	—	—	—	(315)	(315)
Earnings before income taxes	$ 3,228	$435	$ 410	$533	$ —	$1,378	$ (315)	$ 4,291
Six Months Ended June 30, 2013								
Revenues - external customers:								
Premiums	$ 53,284	$1,210	$ —	$—	$ —	$1,210	$ —	$ 54,494
Services	2,931	383	995	47	—	1,425	—	4,356
Products	4	10	33	1,453	—	1,496	—	1,500
Total revenues - external customers	56,219	1,603	1,028	1,500	—	4,131	—	60,350
Total revenues - intersegment	—	3,188	1,306	9,343	(223)			