UNITEDHEALTH GROUP INC
Form 10-Q
August 02, 2011
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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, 2011

or

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

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 ¨

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. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of July 29, 2011, there were 1,076,159,413 shares of the registrant s Common Stock, $.01 par value per share, issued and outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UnitedHealth Group

Condensed Consolidated Balance Sheets

(Unaudited)

(in millions, except per share data)	June 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 9,775	$ 9,123
Short-term investments	2,532	2,072
Accounts receivable, net	2,851	2,061
Assets under management	2,510	2,550
Deferred income taxes	153	403
Other current receivables, net	1,961	1,643
Prepaid expenses and other current assets	647	541
Total current assets	20,429	18,393
Long-term investments	14,935	14,707
Property, equipment and capitalized software, net	2,302	2,200
Goodwill	23,423	22,745
Other intangible assets, net	2,878	2,910
Other assets	2,148	2,108
Total assets	$ 66,115	$ 63,063
Liabilities and shareholders equity		
Current liabilities:		
Medical costs payable	$ 9,521	$ 9,220
Accounts payable and accrued liabilities	6,373	6,488
Other policy liabilities	5,317	3,979
Commercial paper and current maturities of long-term debt	1,689	2,480
Unearned revenues	1,474	1,533
Total current liabilities	24,374	23,700
Long-term debt, less current maturities	9,442	8,662
Future policy benefits	2,448	2,361
Deferred income taxes and other liabilities	2,488	2,515
Total liabilities	38,752	37,238
Commitments and contingencies (Note 12)		
Shareholders equity:		
Preferred stock, $0.001 par value - 10 shares authorized; no shares issued or outstanding	0	0
	11	11

Common stock, $0.01 par value - 3,000 shares authorized; 1,069 and 1,086 issued and outstanding		
Retained earnings	27,020	25,562
Accumulated other comprehensive income (loss):		
Net unrealized gains on investments, net of tax effects	338	280
Foreign currency translation losses	(6)	(28)
Total shareholders equity	27,363	25,825
Total liabilities and shareholders equity	$ 66,115	$ 63,063

See Notes to the Condensed Consolidated Financial Statements

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UnitedHealth Group

Condensed Consolidated Statements of Operations

(Unaudited)

(in millions, except per share data)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Revenues:				
Premiums	$ 22,813	$ 21,125	$ 45,816	$ 42,253
Services	1,656	1,413	3,254	2,777
Products	605	577	1,254	1,105
Investment and other income	160	149	342	322
Total revenues	25,234	23,264	50,666	46,457
Operating costs:				
Medical costs	18,578	17,221	37,303	34,391
Operating costs	3,733	3,359	7,350	6,635
Cost of products sold	554	534	1,153	1,017
Depreciation and amortization	270	249	540	497
Total operating costs	23,135	21,363	46,346	42,540
Earnings from operations	2,099	1,901	4,320	3,917
Interest expense	(119)	(119)	(237)	(244)
Earnings before income taxes	1,980	1,782	4,083	3,673
Provision for income taxes	(713)	(659)	(1,470)	(1,359)
Net earnings	$ 1,267	$ 1,123	$ 2,613	$ 2,314
Basic net earnings per common share	$ 1.18	$ 1.00	$ 2.42	$ 2.04
Diluted net earnings per common share	$ 1.16	$ 0.99	$ 2.38	$ 2.02
Basic weighted-average number of common shares outstanding	1,075	1,127	1,079	1,136
Dilutive effect of common stock equivalents	19	8	17	10
Diluted weighted-average number of common shares outstanding	1,094	1,135	1,096	1,146
Anti-dilutive shares excluded from the calculation of dilutive effect of common stock equivalents	44	100	52	98
Cash dividends per common share	$ 0.1625	$ 0.1550	$ 0.2875	$ 0.1550

See Notes to the Condensed Consolidated Financial Statements

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UnitedHealth Group

Condensed Consolidated Statements of Changes in Shareholders Equity

(Unaudited)

(in millions)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance at January 1, 2011	1,086	$ 11	$ 0	$ 25,562	$ 252	$ 25,825
Net earnings				2,613		2,613
Unrealized holding gains on investment securities during the period, net of tax expense					102	102
Reclassification adjustment for net realized gains included in net earnings, net of tax expense					(44)	(44)
Foreign currency translation gain					22	22
Issuances of common stock, and related tax benefits	11	0	153			153
Common stock repurchases	(28)	0	(409)	(846)		(1,255)
Share-based compensation, and related tax benefits			256			256
Common stock dividends				(309)		(309)
Balance at June 30, 2011	1,069	$ 11	$ 0	$ 27,020	$ 332	$ 27,363
Balance at January 1, 2010	1,147	$ 11	$ 0	$ 23,342	$ 253	$ 23,606
Net earnings				2,314		2,314
Unrealized holding gains on investment securities during the period, net of tax expense					148	148
Reclassification adjustment for net realized gains included in net earnings, net of tax expense					(35)	(35)
Foreign currency translation loss					(13)	(13)
Issuances of common stock, and related tax benefits	7	0	46			46
Common stock repurchases	(39)	0	(224)	(1,017)		(1,241)
Share-based compensation, and related tax benefits			178			178
Common stock dividends				(174)		(174)
Balance at June 30, 2010	1,115	$ 11	$ 0	$ 24,465	$ 353	$ 24,829

See Notes to the Condensed Consolidated Financial Statements

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UnitedHealth Group

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in millions)	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Operating activities		
Net earnings	$ 2,613	$ 2,314
Noncash items:		
Depreciation and amortization	540	497
Deferred income taxes	264	59
Share-based compensation	218	167
Other	(62)	9
Net change in other operating items, net of effects from acquisitions and changes in AARP balances:		
Accounts receivable	(843)	(789)
Other assets	(281)	(70)
Medical costs payable	120	41
Accounts payable and other liabilities	(128)	(14)
Other policy liabilities	37	(97)
Unearned revenues	(59)	(189)
Cash flows from operating activities	2,419	1,928
Investing activities		
Purchases of investments	(4,479)	(3,258)
Sales of investments	1,985	1,522
Maturities of investments	1,901	1,426
Cash paid for acquisitions, net of cash assumed	(827)	(165)
Cash received for dispositions	378	0
Purchases of property, equipment and capitalized software	(516)	(343)
Cash flows used for investing activities	(1,558)	(818)
Financing activities		
Common stock repurchases	(1,255)	(1,241)
Proceeds from common stock issuances	225	106
Dividends paid	(309)	(174)
Proceeds from commercial paper, net	154	880
Proceeds from issuance of long-term debt	747	0
Payments for retirement of long-term debt	(955)	(1,333)
Customer funds administered	1,228	1,108
Checks outstanding	(88)	(222)
Other	44	(51)
Cash flows used for financing activities	(209)	(927)
Increase in cash and cash equivalents	652	183
Cash and cash equivalents, beginning of period	9,123	9,800
Cash and cash equivalents, end of period	$ 9,775	$ 9,983

See Notes to the Condensed Consolidated Financial Statements

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UNITEDHEALTH GROUP

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying Condensed Consolidated Financial Statements include the consolidated accounts of UnitedHealth Group Incorporated and its subsidiaries (the Company). The Company has eliminated intercompany balances and transactions. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. Generally Accepted Accounting Principles (U.S. 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. However, these Condensed Consolidated Financial Statements should be read together with the Consolidated Financial Statements and the Notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010 as filed with the SEC (2010 10-K). The accompanying Condensed Consolidated Financial Statements include all normal recurring adjustments necessary to present the interim financial statements fairly.

During the first quarter of 2011, the Company renamed its reportable segments to conform to the naming conventions of its market facing businesses. Consequently, the Health Benefits reportable segment is now UnitedHealthcare, and the health services businesses, OptumHealth, Ingenix, and Prescriptions Solutions, are now under the Company s Optum brand as OptumHealth, OptumInsight, and OptumRx, respectively. On January 1, 2011, 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. For example, OptumHealth s results of operations now include the Company s clinical services assets, including Southwest Medical multi-specialty clinics in Nevada and Evercare nurse practitioners serving the frail and elderly, which had historically been reported in UnitedHealthcare Employer & Individual and UnitedHealthcare Medicare & Retirement, respectively. UnitedHealthcare Employer & Individual s results of operations now include OptumHealth Specialty Benefits, including dental, vision, life and disability. The Company s reportable segments remain the same and prior period segment financial information has been recast to conform to the 2011 presentation. See Note 11 of Notes to the Condensed Consolidated Financial Statements 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 medical costs, medical costs payable, revenues, goodwill, other policy liabilities, other current receivables, other intangible assets, investments, income taxes and contingent liabilities. 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 changes in estimates is included in earnings in the period in which the estimate is adjusted.

Recently Issued Accounting Standards. In July 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-06, Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers a consensus of the FASB Emerging Issues Task Force (ASU 2011-06). This update addresses the recognition and classification of an entity s share of the annual health insurance industry assessment (the fee) mandated by the Patient Protection and Affordable Care Act and its related reconciliation act (Health Reform Legislation). The fee will be levied on health insurers for each calendar year beginning on or after January 1, 2014 and is not deductible for income tax purposes. For reporting entities subject to the fee, the amendments in ASU 2011-06 specify that the liability for the fee should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable.

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

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2. Investments

A summary of short-term and long-term investments is as follows:

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2011				
Debt securities - available-for-sale:				
U.S. government and agency obligations	$ 1,897	$ 28	$ (3)	$ 1,922
State and municipal obligations	6,148	236	(12)	6,372
Corporate obligations	5,409	198	(7)	5,600
U.S. agency mortgage-backed securities	2,165	67	(3)	2,229
Non-U.S. agency mortgage-backed securities	557	28	0	585
Total debt securities - available-for-sale	16,176	557	(25)	16,708
Equity securities - available-for-sale	552	20	(14)	558
Debt securities - held-to-maturity:				
U.S. government and agency obligations	168	5	0	173
State and municipal obligations	15	0	0	15
Corporate obligations	18	0	0	18
Total debt securities - held-to-maturity	201	5	0	206
Total investments	$ 16,929	$ 582	$ (39)	$ 17,472
December 31, 2010				
Debt securities - available-for-sale:				
U.S. government and agency obligations	$ 2,214	$ 28	$ (8)	$ 2,234
State and municipal obligations	6,007	183	(42)	6,148
Corporate obligations	5,111	210	(11)	5,310
U.S. agency mortgage-backed securities	1,851	58	(6)	1,903
Non-U.S. agency mortgage-backed securities	439	26	0	465
Total debt securities - available-for-sale	15,622	505	(67)	16,060
Equity securities - available-for-sale	508	22	(14)	516
Debt securities - held-to-maturity:				
U.S. government and agency obligations	167	5	0	172
State and municipal obligations	15	0	0	15
Corporate obligations	21	0	0	21
Total debt securities - held-to-maturity	203	5	0	208
Total investments	$ 16,333	$ 532	$ (81)	$ 16,784

Included in the Company s investment portfolio were securities collateralized by sub-prime home equity lines of credit with fair values of $3 million and $6 million as of June 30, 2011 and December 31, 2010, respectively. Also included were Alt-A securities with fair values of $11 million and $15 million as of June 30, 2011 and December 31, 2010, respectively.

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The fair values of the Company s mortgage-backed securities by credit rating and origination as of June 30, 2011 were as follows:

(in millions)	AAA	A	Non-Investment Grade	Total Fair Value
2011	$ 20	$ 0	$ 0	$ 20
2010	8	0	0	8
2007	123	0	3	126
2006	196	0	12	208
2005	138	0	3	141
Pre - 2005	78	4	0	82
U.S. agency mortgage-backed securities	2,229	0	0	2,229
Total	$ 2,792	$ 4	$ 18	$ 2,814

The amortized cost and fair value of available-for-sale debt securities as of June 30, 2011, by contractual maturity, were as follows:

(in millions)	Amortized Cost	Fair Value
Due in one year or less	$ 2,673	$ 2,686
Due after one year through five years	4,875	5,078
Due after five years through ten years	4,078	4,250
Due after ten years	1,828	1,880
U.S. agency mortgage-backed securities	2,165	2,229
Non-U.S. agency mortgage-backed securities	557	585
Total debt securities - available-for-sale	$ 16,176	$ 16,708

The amortized cost and fair value of held-to-maturity debt securities as of June 30, 2011, by contractual maturity, were as follows:

(in millions)	Amortized Cost	Fair Value
Due in one year or less	$ 38	$ 38
Due after one year through five years	136	139
Due after five years through ten years	18	19
Due after ten years	9	10
Total debt securities - held-to-maturity	$ 201	$ 206

The fair value of available-for-sale investments with gross unrealized losses by investment 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, 2011						
Debt securities - available-for-sale:						

U.S. government and agency obligations	$ 179	$ (3)	$ 0	$ 0	$ 179	$ (3)
State and municipal obligations	536	(10)	19	(2)	555	(12)
Corporate obligations	699	(7)	9	0	708	(7)
U.S. agency mortgage-backed securities	306	(3)	1	0	307	(3)
Total debt securities - available-for-sale	$ 1,720	$ (23)	$ 29	$ (2)	$ 1,749	$ (25)
Equity securities - available-for-sale	$ 243	$ (13)	$ 12	$ (1)	$ 255	$ (14)
December 31, 2010						
Debt securities - available-for-sale:						
U.S. government and agency obligations	$ 548	$ (8)	$ 0	$ 0	$ 548	$ (8)
State and municipal obligations	1,383	(40)	18	(2)	1,401	(42)
Corporate obligations	949	(11)	14	0	963	(11)
U.S. agency mortgage-backed securities	355	(6)	0	0	355	(6)
Total debt securities - available-for-sale	$ 3,235	$ (65)	$ 32	$ (2)	$ 3,267	$ (67)
Equity securities - available-for-sale	$ 206	$ (14)	$ 11	$ 0	$ 217	$ (14)

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The unrealized losses from all securities as of June 30, 2011 were generated from 1,700 positions out of a total of 14,700 positions. The Company believes that it will collect the principal and interest due on its investments that have an amortized cost in excess of fair value. The unrealized losses on investments in U.S. government and agency obligations, state and municipal obligations and corporate obligations as of June 30, 2011 were primarily caused by interest rate increases and not by unfavorable changes in the credit ratings associated with these securities. The Company evaluates impairment at each reporting period for securities where the fair value of the investment is less than its amortized cost. The Company evaluated the underlying credit quality of the issuers and the credit ratings of the state and municipal obligations and the corporate obligations, noting neither a significant deterioration since purchase nor other factors leading to an other-than-temporary impairment (OTTI). The unrealized losses on mortgage-backed securities as of June 30, 2011 were primarily caused by higher interest rates in the marketplace. These unrealized losses represented less than 1% of the total amortized cost of the Company s mortgage-backed security holdings as of June 30, 2011. The Company believes these losses to be temporary. All of the Company s mortgage-backed securities in an unrealized loss position as of June 30, 2011 were rated AAA with no known deterioration or other factors leading to an OTTI. As of June 30, 2011, the Company did not have the intent to sell any of the securities in an unrealized loss position.

As of June 30, 2011, the Company s holdings of non-U.S. agency mortgage-backed securities included $8 million of commercial mortgage loans in default. These investments were acquired in the first quarter of 2008 pursuant to an acquisition and were recorded at fair value. They represented less than 1% of the Company s total mortgage-backed security holdings as of June 30, 2011.

A portion of the Company s investments in equity securities and venture capital funds consists of investments held in various public and nonpublic companies concentrated in the areas of health care services and related information technologies. Market conditions that affect the value of health care and related technology stocks will likewise impact the value of the Company s equity portfolio. The equity securities and venture capital funds were evaluated for severity and duration of unrealized loss, overall market volatility and other market factors.

Net realized gains included in Investment and Other Income on the Condensed Consolidated Statements of Operations were from the following sources:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2011**	**2010**	**2011**	**2010**
Total OTTI	$ (2)	$ (4)	$ (6)	$ (5)
Portion of loss recognized in other comprehensive income	0	0	0	0
Net OTTI recognized in earnings	(2)	(4)	(6)	(5)
Gross realized losses from sales	(3)	(2)	(4)	(3)
Gross realized gains from sales	26	22	79	62
Net realized gains	$ 21	$ 16	$ 69	$ 54

For the three and six months ended June 30, 2011 and 2010, all of the recorded OTTI charges resulted from the Company s intent to sell certain impaired securities.

3. Fair Value

Fair values of available-for-sale 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, making 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 non-binding 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 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 review of fair value methodology documentation provided by independent pricing services has not historically resulted in adjustment in the prices obtained from the pricing service.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined 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.

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The fair value hierarchy is as follows:

Level 1 Quoted (unadjusted) prices 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 in non-active markets (e.g., few transactions, limited information, non-current prices, high variability over time);
- Inputs other than quoted prices that are observable for the asset/liability (e.g., interest rates, yield curves, volatilities, default rates); and
- Inputs that are derived principally from or corroborated by other observable market data.

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

The following table presents a summary of fair value measurements by level for assets and liabilities measured at fair value on a recurring basis excluding AARP related assets and liabilities.

(in millions)	**Quoted Prices in Active Markets (Level 1)**	**Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Total Fair Value**
June 30, 2011				
Cash and cash equivalents	$ 8,600	$ 1,175	$ 0	$ 9,775
Debt securities - available-for-sale:				
U.S. government and agency obligations	1,303	619	0	1,922
State and municipal obligations	0	6,372	0	6,372
Corporate obligations	51	5,417	132	5,600
U.S. agency mortgage-backed securities	0	2,229	0	2,229
Non-U.S. agency mortgage-backed securities	0	577	8	585
Total debt securities - available-for-sale	1,354	15,214	140	16,708
Equity securities - available-for-sale	334	2	222	558
Total cash, cash equivalents and investments at fair value	10,288	16,391	362	27,041
Interest rate swap assets	0	63	0	63
Total assets at fair value	$ 10,288	$ 16,454	$ 362	$ 27,104
Percentage of total assets at fair value	38%	61%	1%	100%
Interest rate swap liabilities	$ 0	$ 63	$ 0	$ 63

December 31, 2010				
Cash and cash equivalents	$ 8,069	$ 1,054	$ 0	$ 9,123
Debt securities - available-for-sale:				
U.S. government and agency obligations	1,515	719	0	2,234
State and municipal obligations	0	6,148	0	6,148
Corporate obligations	31	5,146	133	5,310
U.S. agency mortgage-backed securities	0	1,903	0	1,903
Non-U.S. agency mortgage-backed securities	0	457	8	465
Total debt securities - available-for-sale	1,546	14,373	141	16,060
Equity securities - available-for-sale	306	2	208	516
Total cash, cash equivalents and investments at fair value	9,921	15,429	349	25,699
Interest rate swap assets	0	46	0	46
Total assets at fair value	$ 9,921	$ 15,475	$ 349	$ 25,745
Percentage of total assets at fair value	39%	60%	1%	100%
Interest rate swap liabilities	$ 0	$ 104	$ 0	$ 104

There were no transfers between Levels 1 and 2 during the three and six months ended June 30, 2011 and 2010.

The Company provides health insurance products and services to members of AARP under a Supplemental Health Insurance Program (the Program). The Company elected to measure the entirety of the AARP Assets Under Management at fair value pursuant to the fair value option. See Note 12 of Notes to the Consolidated Financial Statements in the Company s 2010 10-K for further detail on AARP. 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)	Unobservable Inputs (Level 3)	Total Fair Value
June 30, 2011				
Cash and cash equivalents	$ 103	$ 0	$ 0	$ 103
Debt securities:				
U.S. government and agency obligations	426	215	0	641
State and municipal obligations	0	21	0	21
Corporate obligations	0	1,168	0	1,168
U.S. agency mortgage-backed securities	0	424	0	424
Non-U.S. agency mortgage-backed securities	0	151	0	151
Total debt securities	426	1,979	0	2,405
Equity securities - available-for-sale	0	2	0	2
Total cash, cash equivalents and investments at fair value	$ 529	$ 1,981	$ 0	$ 2,510
Other liabilities	$ 13	$ 52	$ 0	$ 65
Total liabilities at fair value	$ 13	$ 52	$ 0	$ 65
December 31, 2010				
Cash and cash equivalents	$ 115	$ 0	$ 0	$ 115
Debt securities:				
U.S. government and agency obligations	515	244	0	759
State and municipal obligations	0	15	0	15
Corporate obligations	0	1,129	0	1,129
U.S. agency mortgage-backed securities	0	393	0	393
Non-U.S. agency mortgage-backed securities	0	137	0	137
Total debt securities	515	1,918	0	2,433
Equity securities - available-for-sale	0	2	0	2
Total cash, cash equivalents and investments at fair value	$ 630	$ 1,920	$ 0	$ 2,550
Other liabilities	$ 0	$ 0	$ 59	$ 59
Total liabilities at fair value	$ 0	$ 0	$ 59	$ 59

There were no transfers between Levels 1 and 2 during the three and six months ended June 30, 2011 and 2010.

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The table below includes fair values for certain financial instruments for which it is practicable to estimate fair value. The carrying values and fair values of these financial instruments were as follows:

	June 30, 2011		December 31, 2010	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Debt securities - available-for-sale	$ 16,708	$ 16,708	$ 16,060	$ 16,060
Equity securities - available-for-sale	558	558	516	516
Debt securities - held-to-maturity	201	206	203	208
AARP Program-related investments	2,407	2,407	2,435	2,435
Interest rate swap assets	63	63	46	46
Liabilities				
Senior unsecured notes	10,046	10,733	10,212	10,903
Interest rate swap liabilities	63	63	104	104
AARP Program-related other liabilities	65	65	59	59

The carrying amounts reported in the Condensed Consolidated Balance Sheets for cash and cash equivalents, accounts and other current receivables, unearned revenues, commercial paper, accounts payable and accrued liabilities approximate fair value because of their short-term nature. These assets and liabilities are not listed in the table above.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

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 Securities. The estimated fair values of debt securities held as available-for-sale are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices. 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. The Company s Level 3 debt securities consist mainly of low income housing investments that are unique and non transferrable.

Equity Securities. Equity securities are held as available-for-sale investments. Fair value estimates for Level 1 and Level 2 publicly traded equity securities are based on quoted market prices 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 market modeling approaches that rely heavily on management assumptions and qualitative observations. These investments totaled $181 million and $166 million as of June 30, 2011 and December 31, 2010, respectively. 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 key inputs utilized in the Company s market modeling include, as applicable, transactions for comparable companies in similar industries and having similar revenue and growth characteristics; similar preferences in the capital structure; discounted cash flows; liquidation values and milestones established at initial funding; and the assumption that the values of the Company s venture capital investments can be inferred from these inputs. The Company s remaining Level 3 equity securities holdings of $41 million and $42 million as of June 30, 2011 and December 31, 2010, respectively, consist of preferred stock and other items for which there are no active markets.

Interest Rate Swaps. Fair values of the Company s interest rate swaps are estimated using the terms of the swaps and publicly available market yield curves. Because the swaps are unique and not actively traded, the fair values are classified as Level 2.

AARP Program-related Investments. AARP Program-related investments consist of debt and equity securities held to fund costs associated with the AARP Program and are priced and classified using the same methodologies as the Company s other securities.

Senior Unsecured Notes. The fair values of the senior unsecured notes are estimated based on third-party quoted market prices for the same or similar issues.

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.

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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:

	Three Months Ended			Six Months Ended		
(in millions)	Debt Securities	Equity Securities	Total	Debt Securities	Equity Securities	Total
June 30, 2011						
Balance at beginning of period	$ 135	$ 201	$ 336	$ 141	$ 208	$ 349
Purchases	9	27	36	9	31	40
Sales	0	(5)	(5)	0	(14)	(14)
Settlements	(4)	0	(4)	(10)	0	(10)
Net unrealized losses in accumulated other comprehensive income	0	(1)	(1)	0	(3)	(3)
Balance at end of period	$ 140	$ 222	$ 362	$ 140	$ 222	$ 362
June 30, 2010						
Balance at beginning of period	$ 114	$ 324	$ 438	$ 120	$ 312	$ 432
Purchases	0	1	1	1	21	22
Sales	(7)	0	(7)	(8)	(10)	(18)
Settlements	(2)	(153)	(155)	(7)	(153)	(160)
Net unrealized gains in accumulated other comprehensive income	0	6	6	0	6	6
Net realized gains in investment and other income	2	8	10	1	10	11
Balance at end of period	$ 107	$ 186	$ 293	$ 107	$ 186	$ 293

Non-financial 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 three and six months ended June 30, 2011 and 2010.

4. Medicare Part D Pharmacy Benefits Contract

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

	June 30, 2011			December 31, 2010	
(in millions)	CMS Subsidies (a)	Drug Discount	Risk-Share	CMS Subsidies (a)	Risk-Share
Other current receivables	$ 0	$ 161	$ 62	$ 0	$ 0
Other policy liabilities	1,310	345	0	475	265

(a) Includes the Catastrophic Reinsurance Subsidy and the Low-Income Member Cost Sharing Subsidy.

The Catastrophic Reinsurance and the Low-Income Member Cost Sharing Subsidies 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. Beginning in 2011, the Health Reform Legislation mandates consumer discounts of 50% on brand name prescription drugs and 7% on generic prescription drugs for Part D plan participants in the coverage gap. These discounts are funded by CMS and pharmaceutical manufacturers while the Company administers the application of these funds. Amounts received for these subsidies and discounts are not reflected as premium revenues, but rather are accounted for as deposits. Related cash flows are presented as Customer Funds Administered within financing activities in 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 other current receivables or other policy liabilities in the Condensed Consolidated Balance Sheets.

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5. Goodwill

Changes in the carrying amount of goodwill, by reportable segment, were as follows:

(in millions)	UnitedHealthcare	OptumHealth	OptumInsight	OptumRx	Consolidated
Balance at December 31, 2010 (a)	$ 17,837	$ 760	$ 3,308	$ 840	$ 22,745
Acquisitions	7	892	0	0	899
Dispositions	(2)	0	(214)	0	(216)
Subsequent payments and adjustments, net	(2)	0	(3)	0	(5)
Balance at June 30, 2011	$ 17,840	$ 1,652	$ 3,091	$ 840	$ 23,423

(a) Prior period reportable segment financial information has been recast to conform to the 2011 presentation as discussed in Note 1 of Notes to the Condensed Consolidated Financial Statements.

6. Medical Costs and Medical Costs Payable

Medical costs and medical costs payable include estimates of the Company s obligations for medical care services that have been rendered on behalf of insured consumers, but for which claims have either not yet been received or processed, and for liabilities for physician, hospital and other medical cost disputes. The Company develops estimates for medical costs incurred but not reported using an actuarial process that is consistently applied, centrally controlled and automated. The actuarial models consider factors such as time from date of service to claim receipt, claim backlogs, care provider contract rate changes, medical care consumption and other medical cost trends. The Company estimates liabilities for physician, hospital and other medical cost disputes based upon an analysis of potential outcomes, assuming a combination of litigation and settlement strategies. Each period, the Company re-examines previously established medical costs payable estimates based on actual claim submissions and other changes in facts and circumstances. As the medical costs payable estimates recorded in prior periods develop, the Company adjusts the amount of the estimates and includes the changes in estimates in medical costs in the period in which the change is identified.

For the three months ended June 30, 2011, there was $120 million of net favorable medical cost development related to prior fiscal years and $60 million of net favorable medical cost development related to the first quarter of 2011. For the six months ended June 30, 2011, medical costs included $560 million of net favorable medical cost development related to prior fiscal years. The favorable development for both the three and six months ended June 30, 2011 was primarily driven by changes in previous estimates related to lower than expected health system utilization levels and continued efficiencies in claims submission, handling and processing, which results in higher completion factors.

For the three months ended June 30, 2010, there was $90 million of net favorable medical cost development related to prior fiscal years and $180 million of net favorable medical cost development related to the first quarter of 2010. For the six months ended June 30, 2010, medical costs included $580 million of net favorable medical cost development related to prior fiscal years. The favorable development for both the three and six months ended June 30, 2010 was primarily driven by changes in previous estimates related to more efficient claims handling and processing, resulting in higher completion factors and lower than expected health system utilization levels.

7. Commercial Paper and Long-Term Debt

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

	June 30, 2011			December 31, 2010		
(in millions)	Par Value	Carrying Value	Fair Value	Par Value	Carrying Value	Fair Value
Commercial paper	$ 1,085	$ 1,085	$ 1,085	$ 930	$ 930	$ 930
Senior unsecured floating-rate notes due February 2011	0	0	0	250	250	250
5.3% senior unsecured notes due March 2011	0	0	0	705	712	711
5.5% senior unsecured notes due November 2012	352	368	373	352	372	377
4.9% senior unsecured notes due February 2013	534	542	564	534	541	568
4.9% senior unsecured notes due April 2013	409	424	433	409	425	437
4.8% senior unsecured notes due February 2014	172	186	186	172	186	184
5.0% senior unsecured notes due August 2014	389	424	427	389	425	423
4.9% senior unsecured notes due March 2015	416	457	454	416	456	444
5.4% senior unsecured notes due March 2016	601	669	673	601	666	661
5.4% senior unsecured notes due November 2016	95	95	107	95	95	105
6.0% senior unsecured notes due June 2017	441	488	499	441	484	491
6.0% senior unsecured notes due November 2017	156	169	177	156	167	174
6.0% senior unsecured notes due February 2018	1,100	1,085	1,247	1,100	1,065	1,249
3.9% senior unsecured notes due October 2020	450	422	440	450	413	429
4.7% senior unsecured notes due February 2021	400	399	417	0	0	0
Zero coupon senior unsecured notes due November 2022	1,095	604	697	1,095	588	677
5.8% senior unsecured notes due March 2036	850	844	858	850	844	862
6.5% senior unsecured notes due June 2037	500	495	547	500	495	552
6.6% senior unsecured notes due November 2037	650	645	721	650	645	729
6.9% senior unsecured notes due February 2038	1,100	1,084	1,258	1,100	1,085	1,281
5.7% senior unsecured notes due October 2040	300	298	297	300	298	299
6.0% senior unsecured notes due February 2041	350	348	358	0	0	0
Total commercial paper and long-term debt	$ 11,445	$ 11,131	$ 11,818	$ 11,495	$ 11,142	$ 11,833

Commercial Paper and Bank Credit Facility

Commercial paper consists of senior unsecured debt privately placed on a discount basis through broker-dealers with maturities up to 270 days. As of June 30, 2011, the Company s outstanding commercial paper had a weighted-average annual interest rate of 0.4%.

The Company has a $2.5 billion five-year revolving bank credit facility with 23 banks, which matures in May 2012. This facility supports the Company s commercial paper program and is available for general corporate purposes. There were no amounts outstanding under this facility during the six months ended June 30, 2011. The interest rate on borrowings is variable based on term and amount and is 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, 2011, the annual interest rate on this facility, had it been drawn, would have ranged from 0.4% to 0.6%.

Debt Covenants

The Company s bank credit facility contains various covenants including requiring the Company to maintain a debt-to-total-capital ratio, calculated as debt divided by the sum of debt and shareholders equity, below 50%. The Company was in compliance with its debt covenants as of June 30, 2011.

Long-Term Debt

In February 2011, the Company issued $750 million in senior unsecured notes. The issuance included $400 million of 4.7% fixed-rate notes due February 2021 and $350 million of 5.95% fixed-rate notes due February 2041.

Interest Rate Swap Contracts

During 2010, the Company entered into 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 investment balances. The floating rates are benchmarked to LIBOR. The swaps are designated as fair value hedges on fixed-rate debt issues maturing between November 2012 through March 2016 and June 2017 through October 2020. Since the specific terms and notional amounts of the swaps match those of the debt being hedged, they were assumed to be highly effective hedges and all changes in fair value of the swaps were recorded on the Condensed Consolidated Balance Sheets with no net impact recorded in the Condensed Consolidated Statements of Operations.

The following table summarizes the location and fair value of fair value hedges on the Company s Condensed Consolidated Balance Sheets:

(in millions)	June 30, 2011 ($5,020 Notional Amount)	December 31, 2010 ($5,725 Notional Amount)
Balance Sheet Location		
Other assets	$ 63	$ 46
Other liabilities	63	104

The following table provides a summary of the effect of changes in fair value of fair value hedges on the Company s Condensed Consolidated Statements of Operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2011	2010	2011	2010
Hedge gain recognized in interest expense	$ 96	$ 47	$ 58	$ 33
Hedged item loss recognized in interest expense	(96)	(47)	(58)	(33)
Net impact on the Company s Condensed Consolidated Statements of Operations	$ 0	$ 0	$ 0	$ 0

8. 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 at prevailing prices in the open market, subject to certain Board restrictions. In May 2011, the Board renewed the Company s share repurchase program with an authorization to repurchase up to 110 million shares of its common stock. During the six months ended June 30, 2011, the Company repurchased 28 million shares at an average price of approximately $45 per share and an aggregate cost of $1.3 billion. As of June 30, 2011, the Company had Board authorization to purchase up to an additional 101 million shares of its common stock.

Dividends

In May 2011, the Company s Board of Directors increased the Company s cash dividend to shareholders to an annual dividend rate of $0.65 per share, paid quarterly. Since June 2010, the Company had paid a quarterly dividend of $0.125 per share. 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 dividend payments in 2011:

Payment Date	Amount per Share	Total Amount Paid (in millions)
3/21/2011	$ 0.1250	$ 135
6/21/2011	0.1625	174

9. Share-Based Compensation

In May 2011, the Company s shareholders approved the 2011 Stock Incentive Plan (Plan). The Plan is intended to attract and retain employees and non-employee directors, offer them incentives to put forth maximum efforts for the success of the Company s business and afford them an opportunity to acquire a proprietary interest in the Company. The Plan allows the Company to grant stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards or other stock-based awards to eligible employees and non-employee directors. The Plan incorporates the following plans adopted by the Company: 2002 Stock and Incentive Plan, 1991 Stock and Incentive Plan, 1998 Broad-Based Stock Incentive Plan and Non-employee Director Stock Option Plan. All outstanding stock options, restricted stock and other awards issued under the prior plans will remain subject to the terms and conditions of the plans under which they were issued.

As of June 30, 2011, the Company had 49 million shares available for future grants of share-based awards under its share-based compensation plan, including, but not limited to, incentive or non-qualified stock options, stock-settled stock appreciation rights (SARs), and up to 23 million of awards in restricted stock and restricted stock units (collectively, restricted shares). The Company s outstanding share-based awards consist mainly of non-qualified stock options, SARs and restricted shares.

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Stock Options and SARs

Stock options and SARs generally vest ratably over four to six years and may be exercised up to 10 years from the date of grant. Stock option and SAR activity for the six months ended June 30, 2011 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	112	$ 40		
Granted	1	43		
Exercised	(11)	30		
Forfeited	(2)	42		
Outstanding at end of period	100	$ 41	5.0	$ 1,156
Exercisable at end of period	82	$ 43	4.4	$ 821
Vested and expected to vest end of period				