

April 7, 2014

Industry View  
In-Line

## Managed Care

### 1Q Survey: Significant Rate Acceleration Continues

**Our April AlphaWise survey of 148 brokers points to significant acceleration in small group & individual rate increases in excess of 1,100bps and 1,200bps, respectively, in 2014. We expect the increases are largely due to changes under the ACA.**

**Surveyed brokers reported another quarter of acceleration in individual and small group rate increases.** Specifically, brokers reported average individual rate increases of 1,116bps Y/Y and small group increases of 1,222bps Y/Y in April. This compares with individual and small group increases of 924bps and 621bps, respectively, in our December survey. We expect the acceleration in annual renewals is largely due to changes in the commercial market including: 1) inclusion of the industry fee (and the gross up), 2) 3:1 age bands, 3) underwriting restrictions such as community rating and guaranteed issue, and 4) new benefit designs.

**Pricing from large carriers continues to appear rational.** In our view, commercial pricing appears to be mostly rational, which largely foots with commentary from the publicly traded plans. Notably, AET, HUM, and WLP have individual rate increases in excess of 1,000 bps Y/Y, according to brokers. The increases are also consistent with company guidance of pricing to a 50 to 100bps increase in cost trend for 2014. Separately, fears of Blues plans aggressively pricing seem to be unfounded as brokers reported average individual renewals of 746bps.

**Hospital survey indicates muted utilization in 1Q14 driven in part by the weather.** Despite concerns around cost trend picking up in 2014, our 1Q AlphaWise hospital survey, also published today, suggests inpatient utilization decreased -60bps Y/Y while outpatient utilization only increased +30bps Y/Y. Specifically, adverse weather negatively impacted inpatient volumes by 90bps and outpatient volumes by 140bps in the quarter. This bodes well for MCOs in 1Q, but we believe much of this is already factored into expectations.

### Brokers Report Significant Acceleration in Individual and Small Group Rate Increases in 2014

	Jul 2012	Sep 2012	Dec 2012	Apr 2013	Jul 2013	Sep 2013	Dec 2013	Apr 2014
Individual	(166 bps)	(91 bps)	212 bps	242 bps	213 bps	218 bps	924 bps	1,116 bps
Small Group	(129 bps)	(22 bps)	206 bps	179 bps	241 bps	285 bps	621 bps	1,222 bps

Source: Morgan Stanley AlphaWise April 2014 Broker Survey

Morgan Stanley does and seeks to do business with companies covered in Morgan Stanley Research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of Morgan Stanley Research. Investors should consider Morgan Stanley Research as only a single factor in making their investment decision.

**For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.**

## Increases Reflect Commercial Market Changes

Our 1Q14 AlphaWise survey of 148 commercial insurance brokers surveyed in April 2014, points to significant acceleration in Y/Y price increases across both the individual and small group markets. Specifically, brokers reported individual rate hikes of 1,116bps Y/Y on average and small group rate hikes 1,222bps Y/Y. This compares with average individual rate increases of 924bps Y/Y in December and 242bps Y/Y in April 2013 as well as small group rate increases of 621bps Y/Y in December and 179bps Y/Y in April 2013.

The second quarter of rate acceleration was largely anticipated given the changes to the commercial marketplace from the ACA. We expected plans would raise prices due to new commercial underwriting restrictions including guaranteed issue, community ratings, 3:1 age bands as well as the inclusion of the industry excise tax and new benefit designs. Recall, plans began to price for the insurance fee in 2013 for products that renewed after 1/1/13, which our December 2012 survey reflected as brokers reported an inflection in rate increases.

Exhibit 1

### 1Q Individual and Small Group Price Increases are the Largest Reported Since the Survey Began

	AET	CI	HNT	HUM	UNH	WLP	Publicly Traded Average	BCBS	Other	Total (ALL)
<b>Y-Y Δ, Individual Commercial Rate Increases</b>										
Δ 2010A - 2011E (April 2011)	(105 bps)	(525 bps)	214 bps	157 bps	100 bps	96 bps	67 bps	118 bps	(5 bps)	68 bps
Δ 2010A - 2011E (September 2011)	(166 bps)	(620 bps)	200 bps	320 bps	(107 bps)	(54 bps)	(21 bps)	70 bps	64 bps	11 bps
Δ 2011A - 2012E (December 2011)	(233 bps)	(20 bps)	(133 bps)	(7 bps)	(11 bps)	(79 bps)	(101 bps)	(67 bps)	(161 bps)	(107 bps)
Δ 2011A - 2012E (April 2012)	(174 bps)	219 bps	78 bps	(28 bps)	(69 bps)	(56 bps)	(59 bps)	(73 bps)	(199 bps)	(90 bps)
Δ 2011A - 2012E (July 2012)	(161 bps)	(557 bps)	(144 bps)	(167 bps)	(170 bps)	(200 bps)	(179 bps)	(28 bps)	(259 bps)	(166 bps)
Δ 2011A - 2012E (September 2012)	28 bps	0 bps	(171 bps)	(194 bps)	(50 bps)	(40 bps)	(51 bps)	(105 bps)	(194 bps)	(91 bps)
Δ 2012E - 2013E (December 2012)	184 bps	471 bps	457 bps	154 bps	142 bps	120 bps	161 bps	382 bps	127 bps	212 bps
Δ 2012E - 2013E (April 2013)	41 bps	427 bps	67 bps	205 bps	137 bps	213 bps	171 bps	371 bps	269 bps	242 bps
Δ 2012E - 2013E (July 2013)	135 bps	100 bps	460 bps	(44 bps)	123 bps	212 bps	113 bps	283 bps	349 bps	213 bps
Δ 2012E - 2013E (September 2013)	(59 bps)	(0 bps)	(100 bps)	62 bps	230 bps	177 bps	106 bps	435 bps	263 bps	218 bps
Δ 2013E - 2014E (December 2013)	1,234 bps	(1,120 bps)	633 bps	585 bps	573 bps	1,190 bps	832 bps	875 bps	1,163 bps	924 bps
Δ 2013E - 2014E (April 2014)	1,242 bps	585 bps	22 bps	1,186 bps	927 bps	1,723 bps	1,144 bps	746 bps	1,304 bps	1,116 bps
<b>Y-Y Δ, Small Group Commercial Rate Increases</b>										
Δ 2010A - 2011E (April 2011)	19 bps	(267 bps)	417 bps	(98 bps)	24 bps	169 bps	28 bps	101 bps	(92 bps)	28 bps
Δ 2010A - 2011E (September 2011)	(229 bps)	(1,183 bps)	243 bps	(36 bps)	(292 bps)	(141 bps)	(175 bps)	(99 bps)	(9 bps)	(133 bps)
Δ 2011A - 2012E (December 2011)	(323 bps)	(467 bps)	86 bps	240 bps	49 bps	4 bps	(45 bps)	(102 bps)	(229 bps)	(92 bps)
Δ 2011A - 2012E (April 2012)	(103 bps)	(160 bps)	(200 bps)	(149 bps)	(198 bps)	(67 bps)	(139 bps)	(181 bps)	(189 bps)	(156 bps)
Δ 2011A - 2012E (July 2012)	(74 bps)	(429 bps)	(325 bps)	(53 bps)	(161 bps)	(63 bps)	(119 bps)	(98 bps)	(195 bps)	(129 bps)
Δ 2011A - 2012E (September 2012)	16 bps	0 bps	(67 bps)	(68 bps)	(1 bps)	(11 bps)	(19 bps)	1 bps	(53 bps)	(22 bps)
Δ 2012E - 2013E (December 2012)	319 bps	214 bps	(33 bps)	272 bps	187 bps	133 bps	219 bps	268 bps	109 bps	206 bps
Δ 2012E - 2013E (April 2013)	87 bps	95 bps	358 bps	218 bps	122 bps	17 bps	116 bps	338 bps	132 bps	179 bps
Δ 2012E - 2013E (July 2013)	312 bps	56 bps	120 bps	238 bps	269 bps	255 bps	248 bps	289 bps	169 bps	241 bps
Δ 2012E - 2013E (September 2013)	422 bps	320 bps	(189 bps)	88 bps	300 bps	286 bps	265 bps	327 bps	288 bps	285 bps
Δ 2013E - 2014E (December 2013)	749 bps	320 bps	311 bps	485 bps	308 bps	462 bps	483 bps	644 bps	852 bps	621 bps
Δ 2013E - 2014E (April 2014)	669 bps	877 bps	1,282 bps	1,900 bps	696 bps	1,483 bps	1,096 bps	1,585 bps	955 bps	1,222 bps

1Q Survey Points to the Largest Y-Y Acceleration in Individual & Small Group Price Increases In last 3 Years

Source: Company Data, Morgan Stanley Research

## 1Q14 AlphaWise Survey of Individual & Small Group Brokers

### 1. Are there signs of aggressive pricing actions within the individual market?

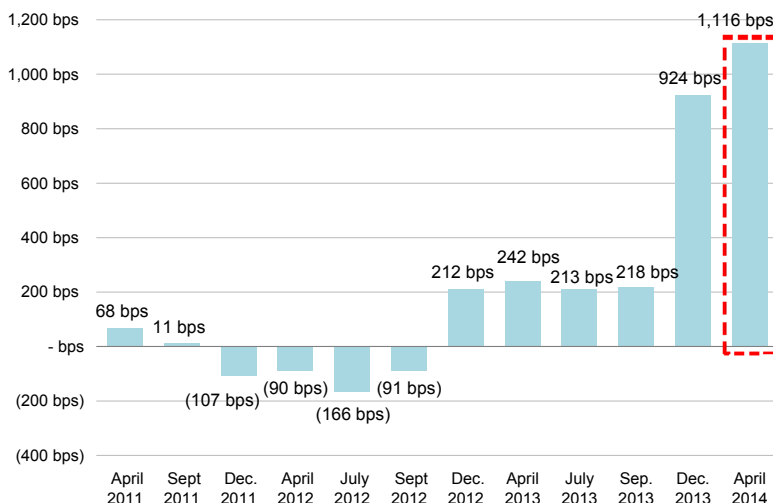
**Our view:** Brokers saw another quarter of outsized commercial rate increases in the individual market in April 2014 relative to April 2013. We believe the increases largely reflect changes to the marketplace from the ACA.

Key Themes:

- In 1Q, brokers reported Y/Y acceleration in individual rate increases of 1,116bps, on average, vs. Y/Y acceleration of 924bps in 4Q13.
- The average increase of publicly traded plans was ~30bps higher than the aggregate increase at 1,144bps Y/Y.

### Individual Price Increases Accelerate >1,100bps Y/Y

Y/Y Δ Avg. Gross Renewal Rates in Markets Where Plan Serves as Top 3 Carrier



Source: Morgan Stanley AlphaWise Small Group and Individual Broker Survey, (April 2014); Note: We consider the aggregate trends much more useful than the trends among the individual insurers, where the number of observations is necessarily smaller

### 2. Are there signs of aggressive pricing actions within the small group market?

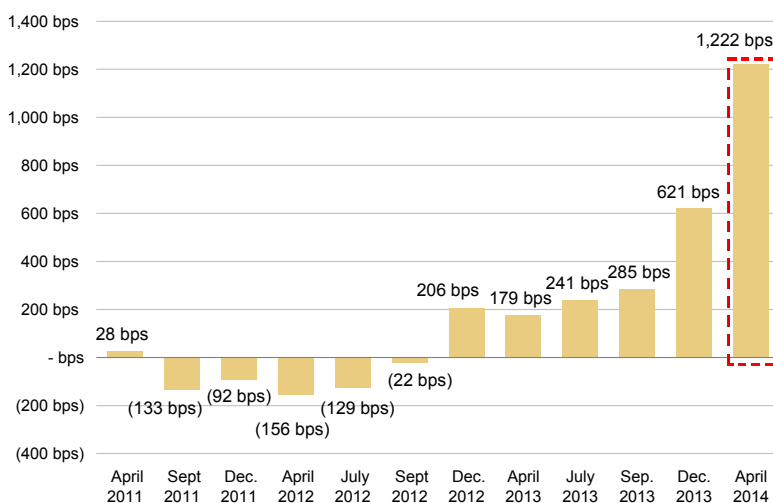
**Our view:** Commercial pricing in the small group market also saw significant acceleration in 1Q, surpassing the individual market. We expect the majority of the increase relates to the inclusion of the ACA industry fee in pricing and potential uptick in cost trend in 2014.

Key Themes:

- In 1Q14, brokers reported Y/Y acceleration in small group rate increases of 1,222bps Y/Y, on average, vs. Y/Y acceleration of 621bps in 4Q13.
- Brokers in markets where a publicly traded plan servers as one of the top three carriers reported Y/Y acceleration in small group price increases of 1,096bps, more than 100bps below than the overall average.

### Small Grp Price Increases Accelerate >1,200bps Y/Y

Y/Y Δ Avg. Gross Renewal Rates in Markets Where Plan Serves as Top 3 Carrier

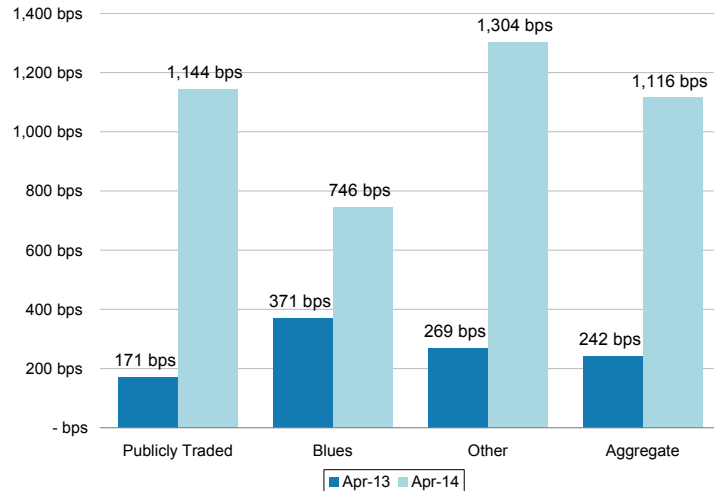


Source: Morgan Stanley AlphaWise Small Group and Individual Broker Survey, (April 2014); Note: We consider the aggregate trends much more useful than the trends among the individual insurers, where the number of observations is necessarily smaller

**3. Are there signs of aggressive pricing by Blues in the individual market?**

- Despite investor fears that Blues have been building up capital so they can price more competitively, the plans do not seem to be aggressively pricing in 2014
- On average, brokers reported rate increases of 746bps Y/Y from BCBS plans in the individual market in 1Q14 vs. 371bps Y/Y in 1Q13.

**Y/Y  $\Delta$  Avg. Gross Renewal Rates in Markets Where Plan Serves as Top 3 Carrier**

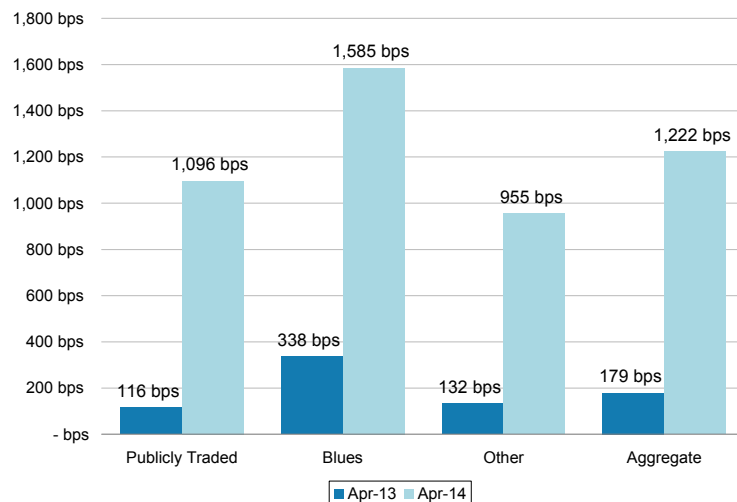


Source: Morgan Stanley AlphaWise Small Group and Individual Broker Survey, (April 2014); Note: We consider the aggregate trends much more useful than the trends among the individual insurers, where the number of observations is necessarily smaller

**4. Are there signs of aggressive pricing by Blues in the small group market?**

- Like the individual market, Blues do not appear to be overly competitive in the small group market in 2014, according to surveyed brokers.
- On average, brokers reported small group rate hikes of 1,585bps Y/Y from BCBS plans in 1Q14 vs. 338bps Y/Y in 1Q13.
- Notably, the rate increases reported by the Blues were larger than the aggregate and publicly traded names, which is consistent with 1Q13 results.

**Y/Y  $\Delta$  Avg. Gross Renewal Rates in Markets Where Plan Serves as Top 3 Carrier**



Source: Morgan Stanley AlphaWise Small Group and Individual Broker Survey, (April 2014); Note: We consider the aggregate trends much more useful than the trends among the individual insurers, where the number of observations is necessarily smaller

Exhibit 2

## Companies Project Cost Trends Are Set to Increase 50bps to 100bps in 2014

		<u>2011A</u>	<u>2012A</u>	<u>2013E, BOY</u>	<u>2013A</u>	<u>2014E BOY</u>
AET	Cost trend, agg	< 5.5%	6.5% +/- 50 bps	6.5% +/- 50 bps	5.5% - 6.0%	6.0% - 7.0%
	Inpatient			mid-high single digits		mid-high single digits
	Outpatient			high-single digits		high-single digits
	Physician Pharmacy			mid-single digits mid-high single digits		mid-single digits mid-high single digits
CI	Cost trend, agg	5.0%	<5.5%	6.0% - 7.0%	below 5%	5% - 6.0%
	Inpatient	mid-high single digits				
	Outpatient	mid-single digits				
	Physician Pharmacy	3.0%				
HUM	Cost trend, agg	low end of 4% - 6%	5.0%	6.5% +/-50 bps	4.5%-5%	5% - 6.0%
	Inpatient					
	Outpatient					
	Physician Pharmacy					
UNH	Cost trend, agg	5.5%	less than 5.5%	5.5% +/- 50 bps	~5.0%	6.0% +/- 50bps
	Inpatient			4.0% - 5.0%		4.0% - 5.0%
	Outpatient			6.0% - 7.0%		7.0% - 8.0%
	Physician			3.0% - 4.0%		4.0% - 5.0%
	Pharmacy			6.5% - 7.5%		5.0% - 6.0%
WLP	Cost trend, agg	7.0%	7% +/- 50bps (low end)	7% +/-50bps	~6%	~6.5%
	Inpatient	low double digits				
	Outpatient	high single digits				
	Physician Pharmacy	mid single digits mid-high single digits				

Source: Company Data, Morgan Stanley Research estimates

April 7, 2014  
Managed Care

## State Specific Commercial Rate Increases

State	Indiv 2014	Indiv 2013	SG 2014	SG 2013	Indiv Δ	SG Δ	# of Responses
Arizona	11.0%	14.3%	15.8%	16.8%	(400bps)	(100bps)	4
California	53.1%	17.1%	36.6%	12.9%	1,708bps	2,364bps	14
Colorado	31.5%	16.3%	29.0%	10.8%	1,525bps	1,825bps	4
Connecticut	44.5%	12.5%	16.7%	13.7%	3,200bps	300bps	6
Delaware	100.0%	17.0%	20.0%	9.0%	8,300bps	1,100bps	1
Florida	36.8%	27.2%	20.7%	12.0%	820bps	867bps	6
Georgia	29.0%	11.3%	20.5%	15.8%	1,775bps	467bps	8
Idaho	25.5%	16.0%	18.6%	12.6%	591bps	602bps	31
Illinois	17.0%	9.0%	18.0%	13.7%	800bps	433bps	3
Indiana	53.6%	15.0%	34.2%	15.6%	3,860bps	1,833bps	5
Iowa	15.0%	21.0%	13.0%	17.0%	(600bps)	(400bps)	1
Kansas	21.3%	11.3%	19.8%	11.8%	1,000bps	800bps	4
Kentucky	29.1%	12.6%	30.2%	11.8%	1,652bps	1,860bps	6
Louisiana	n/a	n/a	10.0%	8.0%	n/a	200bps	1
Maine	8.0%	6.5%	10.5%	5.5%	150bps	500bps	2
Maryland	22.5%	15.0%	25.0%	11.5%	750bps	1,350bps	2
Massachusetts	11.8%	5.2%	14.6%	5.4%	660bps	920bps	5
Michigan	35.6%	16.2%	26.8%	10.5%	2,420bps	1,633bps	6
Minnesota	5.0%	7.0%	2.0%	8.0%	(200bps)	(600bps)	1
Mississippi	14.1%	10.8%	21.7%	11.3%	324bps	1,033bps	3
Missouri	20.0%	20.0%	25.0%	25.0%	0bps	0bps	1
Nevada	25.0%	13.5%	22.5%	10.0%	1,150bps	1,250bps	2
New Hampshire	90.0%	80.0%	15.0%	10.0%	1,000bps	500bps	1
New York	8.4%	13.6%	11.9%	12.4%	(525bps)	(50bps)	8
Ohio	15.0%	10.0%	18.0%	8.0%	500bps	1,000bps	1
Oregon	4.5%	12.5%	18.0%	14.5%	(800bps)	350bps	2
Pennsylvania	28.3%	12.3%	66.3%	20.0%	1,600bps	4,633bps	3
South Carolina	11.7%	8.7%	14.3%	11.0%	300bps	333bps	3
Tennessee	20.0%	15.3%	20.7%	21.7%	467bps	(100bps)	3
Texas	19.5%	13.0%	14.3%	11.5%	650bps	275bps	4
Utah	5.0%	9.0%	n/a	n/a	(400bps)	n/a	1
Virginia	10.0%	14.0%	10.0%	15.0%	(400bps)	(500bps)	1
Washington	21.5%	20.0%	587.8%	496.5%	150bps	9,125bps	4
Wisconsin	7.0%	9.0%	9.0%	10.0%	(200bps)	(100bps)	1

Source: Morgan Stanley AlphaWise Small Group and Individual Broker Survey, (December 2013); Note: We consider the aggregate trends much more useful than the trends among the individual insurers, where the number of observations is necessarily smaller

**AlphaWise** conducts proprietary evidence-based investment research. Click to read AlphaWise [Market Research](#) and [Web Research](#) whitepapers on evidence gathering. For further information, please contact [alphawise@morganstanley.com](mailto:alphawise@morganstanley.com).

## Other Recent Morgan Stanley Research Based on AlphaWise Evidence

NA Healthcare	Matthew Harrison	3/26/2014	<a href="#">Gilead Sciences Inc.: How Long Can Sovaldi Stay This Big? Init at EW, \$75 PT</a>	Our AlphaWise survey of physicians points to ~40% warehousing in 2H and a potential sizeable impact from competition beyond 2014
NA Healthcare	Matthew Harrison	3/26/2014	<a href="#">Regeneron Pharmaceuticals Inc.: Not Enough Eyes In The Room: Init at EW, \$320 PT</a>	Our AlphaWise survey of physicians indicates a strong DME launch for Eyelea, Regeneron's major value driver, but we think it's in the price
NA Healthcare	Matthew Harrison	3/26/2014	<a href="#">Biogen Idec Inc.: A Lot More To Come: Initiate at OW, \$395 PT</a>	Our AlphaWise survey supports upside EU Tecfidera launch. Physician feedback also suggests Hemophilia is another source of upside to consensus
NA Machinery	Nicole DeBlase	3/24/2014	<a href="#">Machinery: Monthly Data Haul: Survey Says...Fleet Growth Accelerating in 2014e</a>	Trucking carriers participated in our AlphaWise survey expect to expand their fleet size by 5.5% in 2014, but see room to age out their trucks, which may pressure replacement demand
NA Technology	Katy Huberty	3/19/2014	<a href="#">AlphaWise Smartphone Tracker: Apple and Samsung Smartphone Demand Better Than Expected</a>	Our AlphaWise Smartphone Tracker's data through March 15 suggests C1Q14 iPhone shipments are tracking ahead of consensus expectations
EEMEA Consumer & Retail	Nicholas J Ashworth	3/18/2014	<a href="#">EEMEA - Consumer &amp; Retail: AlphaWise Russian beer: Aefes' opportunity substantial</a>	Our AlphaWise survey of 1120 Russia consumers shows beer is gaining popularity vs. spirits and wine; However, volumes for all alcohol remain under pressure in the near term
EU Auto & Parts	Laura Lembke	3/18/2014	<a href="#">Autos &amp; Auto Parts: 2nd French Car Dealer Survey Paints a Mixed Picture</a>	Our 2nd AlphaWise survey of French car dealers shows muted volume outlook for 2014, tough pricing but inventory level under control
AP Consumer	Kelly Kim	3/17/2014	<a href="#">Amorepacific: Asia Insight: Bigger Exposure; Bigger Potential</a>	Our AlphaWise survey of Chinese consumers underscores the potential for AP's China expansion story, as the younger generation shows strong preference for Korean brands

Please note that all important disclosures including personal holdings disclosures and Morgan Stanley disclosures appear on the Morgan Stanley public website at [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures).

## Disclosure Section

The information and opinions in Morgan Stanley Research were prepared by Morgan Stanley & Co. LLC, and/or Morgan Stanley C.T.V.M. S.A., and/or Morgan Stanley Mexico, Casa de Bolsa, S.A. de C.V., and/or Morgan Stanley Canada Limited. As used in this disclosure section, "Morgan Stanley" includes Morgan Stanley & Co. LLC, Morgan Stanley C.T.V.M. S.A., Morgan Stanley Mexico, Casa de Bolsa, S.A. de C.V., Morgan Stanley Canada Limited and their affiliates as necessary.

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures), or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

For valuation methodology and risks associated with any price targets referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 800 303-2495; Hong Kong +852 2848-5999; Latin America +1 718 754-5444 (U.S.); London +44 (0)20-7425-8169; Singapore +65 6834-6860; Sydney +61 (0)2-9770-1505; Tokyo +81 (0)3-6836-9000. Alternatively you may contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY 10036 USA.

### Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Andrew Schenker.

Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

### Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at [www.morganstanley.com/institutional/research/conflictpolicies](http://www.morganstanley.com/institutional/research/conflictpolicies).

### Important US Regulatory Disclosures on Subject Companies

Within the last 12 months, Morgan Stanley managed or co-managed a public offering (or 144A offering) of securities of Aetna Inc., WellPoint Inc. Within the last 12 months, Morgan Stanley has received compensation for investment banking services from Aetna Inc., Centene Corp, Cigna Corp, Humana Inc, UnitedHealth Group Inc, Wellcare Health Plans Inc, WellPoint Inc.

In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from Aetna Inc., Centene Corp, Cigna Corp, Humana Inc, Molina Healthcare Inc, UnitedHealth Group Inc, Wellcare Health Plans Inc, WellPoint Inc.

Within the last 12 months, Morgan Stanley has received compensation for products and services other than investment banking services from Aetna Inc., Centene Corp, Cigna Corp, Humana Inc, UnitedHealth Group Inc, Wellcare Health Plans Inc, WellPoint Inc.

Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: Aetna Inc., Centene Corp, Cigna Corp, Humana Inc, Molina Healthcare Inc, UnitedHealth Group Inc, Wellcare Health Plans Inc, WellPoint Inc.

Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: Aetna Inc., Centene Corp, Cigna Corp, Humana Inc, UnitedHealth Group Inc, Wellcare Health Plans Inc, WellPoint Inc.

Morgan Stanley & Co. LLC makes a market in the securities of Aetna Inc., Centene Corp, Cigna Corp, Humana Inc, Molina Healthcare Inc, UnitedHealth Group Inc, Wellcare Health Plans Inc, WellPoint Inc.

The equity research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

Morgan Stanley and its affiliates do business that relates to companies/instruments covered in Morgan Stanley Research, including market making, providing liquidity and specialized trading, risk arbitrage and other proprietary trading, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Research on a principal basis. Morgan Stanley may have a position in the debt of the Company or instruments discussed in this report. Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

### STOCK RATINGS

Morgan Stanley uses a relative rating system using terms such as Overweight, Equal-weight, Not-Rated or Underweight (see definitions below). Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold and sell. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst's views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

### Global Stock Ratings Distribution

(as of March 31, 2014)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	<b>1035</b>	<b>35%</b>	<b>354</b>	<b>38%</b>	<b>34%</b>
<b>Equal-weight/Hold</b>	<b>1286</b>	<b>43%</b>	<b>446</b>	<b>48%</b>	<b>35%</b>
<b>Not-Rated/Hold</b>	<b>99</b>	<b>3%</b>	<b>24</b>	<b>3%</b>	<b>24%</b>
<b>Underweight/Sell</b>	<b>539</b>	<b>18%</b>	<b>105</b>	<b>11%</b>	<b>19%</b>
<b>Total</b>	<b>2,959</b>		<b>929</b>		

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

### Analyst Stock Ratings



April 7, 2014  
Managed Care

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

### Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

### Important Disclosures for Morgan Stanley Smith Barney LLC Customers

Important disclosures regarding the relationship between the companies that are the subject of Morgan Stanley Research and Morgan Stanley Smith Barney LLC or Morgan Stanley or any of their affiliates, are available on the Morgan Stanley Wealth Management disclosure website at [www.morganstanley.com/online/researchdisclosures](http://www.morganstanley.com/online/researchdisclosures). For Morgan Stanley specific disclosures, you may refer to [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures).

Each Morgan Stanley Equity Research report is reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval is conducted by the same person who reviews the Equity Research report on behalf of Morgan Stanley. This could create a conflict of interest.

### Other Important Disclosures

Morgan Stanley & Co. International PLC and its affiliates have a significant financial interest in the debt securities of Aetna Inc., Centene Corp, Cigna Corp, Humana Inc, UnitedHealth Group Inc, WellPoint Inc.

Morgan Stanley is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Morgan Stanley produces an equity research product called a "Tactical Idea." Views contained in a "Tactical Idea" on a particular stock may be contrary to the recommendations or views expressed in research on the same stock. This may be the result of differing time horizons, methodologies, market events, or other factors. For all research available on a particular stock, please contact your sales representative or go to Matrix at <http://www.morganstanley.com/matrix>.

Morgan Stanley Research is provided to our clients through our proprietary research portal on Matrix and also distributed electronically by Morgan Stanley to clients. Certain, but not all, Morgan Stanley Research products are also made available to clients through third-party vendors or redistributed to clients through alternate electronic means as a convenience. For access to all available Morgan Stanley Research, please contact your sales representative or go to Matrix at <http://www.morganstanley.com/matrix>.

Any access and/or use of Morgan Stanley Research is subject to Morgan Stanley's Terms of Use (<http://www.morganstanley.com/terms.html>). By accessing and/or using Morgan Stanley Research, you are indicating that you have read and agree to be bound by our Terms of Use (<http://www.morganstanley.com/terms.html>). In addition you consent to Morgan Stanley processing your personal data and using cookies in accordance with our Privacy Policy and our Global Cookies Policy ([http://www.morganstanley.com/privacy\\_pledge.html](http://www.morganstanley.com/privacy_pledge.html)), including for the purposes of setting your preferences and to collect readership data so that we can deliver better and more personalized service and products to you. To find out more information about how Morgan Stanley processes personal data, how we use cookies and how to reject cookies see our Privacy Policy and our Global Cookies Policy ([http://www.morganstanley.com/privacy\\_pledge.html](http://www.morganstanley.com/privacy_pledge.html)).

If you do not agree to our Terms of Use and/or if you do not wish to provide your consent to Morgan Stanley processing your personal data or using cookies please do not access our research.

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the circumstances and objectives of those who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of an investment or strategy will depend on an investor's circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

The fixed income research analysts, strategists or economists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts', strategists' or economists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

The "Important US Regulatory Disclosures on Subject Companies" section in Morgan Stanley Research lists all companies mentioned where Morgan Stanley owns 1% or more of a class of common equity securities of the companies. For all other companies mentioned in Morgan Stanley Research, Morgan Stanley may have an investment of less than 1% in securities/instruments or derivatives of securities/instruments of companies and may trade them in ways different from those discussed in Morgan Stanley Research. Employees of Morgan Stanley not involved in the preparation of Morgan Stanley Research may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned and may trade them in ways different from those discussed in Morgan Stanley Research. Derivatives may be issued by Morgan Stanley or associated persons.

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley Research personnel may participate in company events such as site visits and are generally prohibited from accepting payment by the company of associated expenses unless pre-approved by authorized members of Research management.

Morgan Stanley may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

To our readers in Taiwan: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments. To our readers in Hong Kong: Information is distributed in Hong Kong by and on behalf of, and is attributable to, Morgan Stanley Asia Limited as part of its regulated activities in Hong Kong. If you have any queries concerning Morgan Stanley Research, please contact our Hong Kong sales representatives.

April 7, 2014  
Managed Care

Morgan Stanley is not incorporated under PRC law and the research in relation to this report is conducted outside the PRC. Morgan Stanley Research does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves.

Morgan Stanley Research is disseminated in Brazil by Morgan Stanley C.T.V.M. S.A.; in Japan by Morgan Stanley MUFG Securities Co., Ltd. and, for Commodities related research reports only, Morgan Stanley Capital Group Japan Co., Ltd; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents); in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore (which accepts legal responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research); in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to "wholesale clients" and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited; in Indonesia by PT Morgan Stanley Asia Indonesia; in Canada by Morgan Stanley Canada Limited, which has approved of and takes responsibility for its contents in Canada; in Germany by Morgan Stanley Bank AG, Frankfurt am Main and Morgan Stanley Private Wealth Management Limited, Niederlassung Deutschland, regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin); in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that Morgan Stanley Research has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the US by Morgan Stanley & Co. LLC, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized by the Prudential Regulatory Authority and regulated by the Financial Conduct Authority and the Prudential Regulatory Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. Morgan Stanley Private Wealth Management Limited, authorized and regulated by the Financial Conduct Authority, also disseminates Morgan Stanley Research in the UK. Private UK investors should obtain the advice of their Morgan Stanley & Co. International plc or Morgan Stanley Private Wealth Management representative about the investments concerned. RMB Morgan Stanley (Proprietary) Limited is a member of the JSE Limited and regulated by the Financial Services Board in South Africa. RMB Morgan Stanley (Proprietary) Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at Professional Clients only, as defined by the DFSA. The financial products or financial services to which this research relates will only be made available to a customer who we are satisfied meets the regulatory criteria to be a Professional Client.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA.

As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided in accordance with a contract of engagement on investment advisory concluded between brokerage houses, portfolio management companies, non-deposit banks and clients. Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations.

The trademarks and service marks contained in Morgan Stanley Research are the property of their respective owners. Third-party data providers make no warranties or representations relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages relating to such data. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and S&P. Morgan Stanley Research or portions of it may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

Morgan Stanley Research, or any portion thereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

**The Americas**

1585 Broadway  
New York, NY 10036-8293  
**United States**  
Tel: +1 (1) 212 761 4000

**Europe**

20 Bank Street, Canary Wharf  
London E14 4AD  
**United Kingdom**  
Tel: +44 (0) 20 7 425 8000

**Japan**

4-20-3 Ebisu, Shibuya-ku  
Tokyo 150-6008  
**Japan**  
Tel: +81 (0) 3 5424 5000

**Asia/Pacific**

1 Austin Road West  
Kowloon  
**Hong Kong**  
Tel: +852 2848 5200

## Industry Coverage: Managed Care

Company (Ticker)	Rating (as of)	Price* (04/04/2014)
<b>Andrew Schenker</b>		
Aetna Inc. (AET.N)	O (11/20/2013)	\$74.23
Centene Corp (CNC.N)	E (11/20/2013)	\$59.13
Cigna Corp (CI.N)	O (11/20/2013)	\$81.8
Humana Inc (HUM.N)	E (11/20/2013)	\$112.21
Molina Healthcare Inc (MOH.N)	E (11/20/2013)	\$35.31
UnitedHealth Group Inc (UNH.N)	O (11/20/2013)	\$81.53
WellPoint Inc (WLP.N)	E (11/20/2013)	\$97.59
Wellcare Health Plans Inc (WCG.N)	U (11/20/2013)	\$64.31

Stock Ratings are subject to change. Please see latest research for each company.  
\* Historical prices are not split adjusted.