

## LETTER FROM THE CHAIRMAN

Each year I write to you discussing the strength of our company's annual performance, its key elements and the continuing growth strategies we are pursuing, which have now created a decade with a compound annual growth rate of 25 percent. This year's results demonstrate that our momentum remains as strong as ever, and we are poised to sustain and advance our performance as we enter 2002. I will depart from my customary approach and — after a brief discussion of 2001 results — focus the balance of this letter on the important challenges within our national health care system, how all of us can begin to address these challenges, and where we envision our company's role going forward.

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This discussion is critical because our various stakeholders need to understand the issues to be faced within a broader strategic context. Broader vision is really what matters here, since the future opportunities for UnitedHealth Group are ultimately intertwined with the positive evolution of our nation's health care policies. Our approach to building shareholder value will be shaped by the direction our nation's health care system pursues.

### **2001 FINANCIAL RESULTS**

The future direction of UnitedHealth Group remains unchanged, propelled not so much by prior successes, but by the powerful future opportunities that are a product of the continuing pressures on our health care system and the growing needs of all those who participate in and depend on it. We have responded positively to those needs in the past, and our strong 2001 results underscore our advancing capabilities:

- > Revenues rose more than 11 percent to \$23.5 billion, representing a more diversified and balanced revenue stream than ever before.
- > Earnings per share for 2001 grew 33 percent, following a 32 percent increase from 2000.
- > Cash flows from operations increased to more than \$1.8 billion, a 21 percent increase.
- > Return on equity rose to more than 24 percent for the year.
- > We provided services to over 1.4 million more Americans than in 2000 and now directly serve more than 38 million people through our companies.
- > As many stocks suffered the effects of a broad economic downturn, our share price increased 15 percent in 2001, following a 130 percent increase in 2000 and a 23 percent increase in 1999.
- > We took major steps forward in Internet services, operational advancements to simplify services, and core system modernization to enhance current performance and future flexibility.

The pages of this annual report document the depth, quality and diversification of our performance, providing clear and comprehensive analysis, discussion and disclosure. Accordingly, I will not delve further into that arena, but instead will offer some views on our nation's health care system. I come to this discussion not just as the chairman and chief executive of one of our nation's leading health care companies, but as a former practicing physician, medical researcher, a shareholder and, most importantly, a deeply concerned fellow citizen.

***OUR NATIONAL HEALTH CARE SYSTEM: CHALLENGES AND HOPE***

This discussion is driven in part by personal disappointment and frustration with aspects of our nation's health system that are today sub-optimal. But I am more motivated by hope and determination, feelings that are magnified when I consider the performance of UnitedHealth Group and its contributions to advancing health and well-being in the past year and, in fact, over the past decade. I firmly believe we at UnitedHealth Group can play a leadership role in addressing the challenges facing our nation directly and advance them to higher national prominence.

Make no mistake, these challenges are immense and are becoming more pressing by the day. From a failure to build a medical system based on science and efficiency, to vast and growing numbers of uninsured citizens, to the swelling ranks of those in need of chronic disease management, to wide variations in care delivery and inefficient use of resources: all of these problems suggest our health care system is seriously troubled and faces expanding challenges.

At its best, ours is a system of truly great assets and resources, unparalleled science and technology, and miraculous outcomes. But it is also an environment characterized by fragmented health care "systems" and agendas, unsupportable variation in clinical approaches to care, maldistribution of health services by geography and population segment, loose definitions of essential care services, no agreement on what constitutes quality or even safety, a general unwillingness to make choices or give up on any chance for improvement no matter how remote, and a very wealthy and hugely consumptive society.

Against that backdrop, our national health care expenditures will exceed \$1.5 trillion this year, roughly 14 percent of the U.S. gross domestic product, and are projected to increase to more than \$2.6 trillion, or 16 percent of our GDP by 2010. Our fundamental problem is not that we spend too little, nor is it that we fail to generally cover enough benefits or services. Instead, we too often fail to spend wisely or appropriately, and we have not created a coherent system built on science, efficiency and optimal value for each and every one of our citizens.

In response to these issues, our nation's efforts have for too long worked at the edges of the problem. The opportunity to improve our health care system and,

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in turn, the health and well-being of every individual, lies in addressing underlying issues with approaches and tools that bridge populations, geographies and economics. The result should be a more efficient, simplified health system that is predicated on science and evidence in the utilization of its resources. Applied to all populations, it can function more effectively to lessen suffering and improve outcomes and, ultimately, will cost less while extending its benefits to every individual.

#### *FIXING THE SYSTEM: GOALS AND SOLUTIONS*

Our goal must be no less than essential health care for all Americans. This will not be easy, given the endemic challenges of our health care system. But the result of our shortcomings now — just as in years past — is a waste of valuable resources and dollars, significantly escalating health care costs and decreasing access to essential care for many. This status quo cannot, and should not, continue. Left unaddressed, it will ultimately impose a social cost we cannot afford.

As part of addressing these issues, I suggest the following course of action:

> **FIRST, we must promote a process that clearly defines what constitutes a basic health benefit package, and then work to deliver these basic benefits to everyone.** The government should lead in this effort, since no other sector of our society can possibly spearhead such an initiative and support its ultimate authority. Importantly, in this endeavor we must avoid weighing down the process with too many agendas and avoid the narrow rhetoric of self-interest.

I do not advocate a broader role for government in operating our health services or adding further coverage mandates for the private sector. I am also opposed to a single payer health system. Indeed, there is no evidence that services operated by government are more effective or can outperform the private sector, and there is some evidence that would suggest the opposite. What is needed instead starts with an informed public consensus on the necessary attributes of a minimum, essential health benefit package made available to all and funded both by government and private sources as appropriate for the population in question. From there, it can fall to the private sector — including hospitals, physicians and related health professionals, employers, health plans and other intermediaries — to make these benefits available in the marketplace as cost-effectively and creatively as possible. So-called “nonessential” and discretionary benefits can then be made available as supplements, based on the willingness of an individual, employer or other party to pay for them in a competitive marketplace.

An essential and basic benefit package should be based on firm evidence of the effectiveness and the cost efficiency of its components, and include a minimum set of health-promoting, health-protecting, diagnostic, therapeutic and restorative

elements. Accordingly, it may exclude many benefits and interventions now included in government-funded programs, as well as several current state or federal mandates that are unproven or nonessential. Other areas such as palliative care and selected behavioral health services may need to be strengthened. Clearly a challenging concept even if approached properly, the result would be critical service availability for all people, coupled with the potential for significantly improved resource deployment, curbed consumption, outcomes improvement and cost savings.

> **SECOND, the administrative components of health care services need across-the-board simplification and standardization.** Some of the core processes in the industry scream out for uniformity and interconnectivity. The current fragmentation in health care's administrative infrastructure — and the associated waste and inefficiency — is simply unacceptable in this day of advanced technology.

Participants in the health care arena, including companies such as our own, must step forward and jointly align basic data requirements, processes and guidelines. Tools and approaches that facilitate efficiency, accuracy and lower costs — such as the use of the Internet for communication and data flow — must be actively promoted and adopted. This means dislocation of some established but inefficient prior practices and venues, which is entirely appropriate given the issues and opportunity.

In this endeavor, government regulation must be prudent and applied carefully. Far too frequently we stifle efforts such as these with over-burdensome regulation, which in turn adds incremental costs and process complexity. But done properly, the rewards can be meaningful and rapid. This has been well demonstrated with UnitedHealth Group's deployment of free Internet portals that establish links with physicians, employers and individual consumers. In these cases, we have been at the forefront of best practices, and our efforts give a clear view of the gains to be made on behalf of all constituents. Yet, we have only scratched the surface in this area.

> **THIRD, evidence-based medicine should be upheld as the standard of quality.** Academic medical centers, physicians and their professional societies need to step forward and better define, promulgate and enforce a scientific and evidence-based system of medical practice. As physicians, we have often failed to optimize medical decision-making and the resultant health care outcomes, and thus have not adequately fulfilled our obligations. We must be equally concerned by under-use of appropriate interventions that have proven scientific effectiveness, and the overuse of medical interventions that are not supported by good science or whose cost-benefit relationship is sub-optimal. Medicine is a science-based profession, and the wide variations that we witness in clinical practice too often represent poor quality care and waste of valuable resources.

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The distribution of up-to-date, scientifically based information to physicians and other health care providers needs to be expanded. We have extensive evidence that such efforts are well received and have a positive impact on approaches to care. Our UnitedHealth Foundation has documented this receptivity for information and support through its twice yearly distribution of *Clinical Evidence* — the definitive text on evidence-based medicine produced by the *British Medical Journal* — to 500,000 physicians and other health professionals. In addition, we have experienced a significant and dramatic increase in use of the Internet as part of our business efforts to support enhanced integration of clinically relevant knowledge into medical practice, and provide physicians with feedback on their actual clinical practices compared against evidence-based standards.

On a related point, we should as a nation wholeheartedly support our federally operated research enterprises such as the National Institutes of Health as part of our ongoing investments in promoting scientific and evidence-based health care. It is essential that we maintain our leadership and contributions in medical research and discovery — for our nation and the world — and in turn apply their output to our society as a whole.

> **FOURTH, health consumers must receive better information and decision-support tools as they participate, along with their physicians, in making health care decisions.** The explosion in consumer information sources, combined with the Internet, provides both important opportunities and some risks. Information can enhance individual decision-making and help bridge gaps in our fragmented health delivery system, so we must promote this effort. At the same time, appropriate safeguards regarding the validity of data content as well as the privacy and confidentiality of individually identifiable health information are essential. A key part of the challenge, therefore, in providing health consumers with better information and decision support, is striking a balance between safeguarding privacy and avoiding over-regulation of health information sources.

Services that help facilitate care regimens, identify gaps in care that may result in sub-optimal outcomes, and direct preventive efforts in anticipation of future health issues are emerging today and should be promoted. Used in the increasingly complex environment of health care today, they become valuable adjuncts to physicians, patients and families. This will become even more important as our population ages and chronic disease becomes more prevalent. These services and the information systems and technology upon which they are built, warrant our support and promotion.

The efforts and investments by UnitedHealth Group in this arena have clearly been of value to physicians, by helping them implement clinical regimens and stay alert to variances in clinical care approaches; to patients, by facilitating treatment programs and helping them navigate through complex issues; and

to employers and other health care payers, by lowering costs and improving the health status of those affected. Better resource utilization and improved short-term outcomes will translate into enhanced long-term health and more appropriate economic outlays. Needless to say, these are positive gains for all.

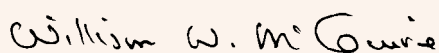
***LOOKING FORWARD: ACTION AND OPPORTUNITIES***

Our nation has the most sophisticated and technology-rich health care system in the world. The tragedy of our nation's health care system is that, in spite of its many impressive features, it has ultimately failed to make even basic care consistently available to all of our citizens. While all of these considerations illuminate the shortcomings of our health care system, they also highlight the magnitude of the opportunity for our society by appropriately utilizing the many tools that are already at our disposal.

The time for action is now. UnitedHealth Group remains committed to being a leader in resolving the problems and issues now chronic to our health care system. And we will pursue solutions on all fronts. We will continue to engage our national leaders to address fundamental issues rather than narrow interests that fail to advance the whole. We will continue to work with the medical community to strengthen the fact-based clinical evidence resources at their disposal, and to press for evidence-based medicine to be upheld as the standard of quality and safety. Our investments in technology, information tools, facilitation of care and basic operating disciplines will help for years to come in addressing the challenges in our health care system regarding simplicity, efficiency, and analysis and distribution of important data in order to facilitate informed decision-making.

Resolving our health care problems, while retaining and enhancing all that is good in our health care system, will not happen overnight or without some pain. As all of us address the challenges and pursue the opportunities for improvement, I believe that UnitedHealth Group can demonstrate many of the better ways to approach health care. That, in turn, has the potential to significantly enhance shareholder value. Yet there is far more at stake. Since our inception, we have sought to contribute toward the creation of a more effective health care system that can provide for the well-being of our nation and all of its people without exceptions. We would not be in this business otherwise. I promise to you that we will continue to do our part in advancing this national discussion, while helping to provide tangible solutions and services.

Sincerely,



*Chairman and Chief Executive Officer*

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