

UNITEDHEALTH GROUP INC
Form 10-Q
November 05, 2015

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

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015
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)

Delaware 41-1321939
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

UnitedHealth Group Center 55343
9900 Bren Road East
Minnetonka, Minnesota (Zip Code)
(Address of principal executive offices)
(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 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 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:

Large accelerated filer 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

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As of October 30, 2015, there were 953,108,435 shares of the registrant's Common Stock, \$.01 par value per share, issued and outstanding.

UNITEDHEALTH GROUP
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PART I

ITEM 1. FINANCIAL STATEMENTS

UnitedHealth Group

Condensed Consolidated Balance Sheets

(Unaudited)

| (in millions, except per share data) | September 30, 2015 | December 31, 2014 |
|----------------------------------------------------------------------------------------------|-----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$7,983 | \$7,495 |
| Short-term investments | 1,942 | 1,741 |
| Accounts receivable, net | 6,752 | 4,252 |
| Other current receivables, net | 7,667 | 5,498 |
| Assets under management | 2,948 | 2,962 |
| Deferred income taxes | 670 | 556 |
| Prepaid expenses and other current assets | 1,973 | 1,052 |
| Total current assets | 29,935 | 23,556 |
| Long-term investments | 18,535 | 18,827 |
| Property, equipment and capitalized software, net | 4,532 | 4,418 |
| Goodwill | 43,680 | 32,940 |
| Other intangible assets, net | 8,405 | 3,669 |
| Other assets | 3,185 | 2,972 |
| Total assets | \$108,272 | \$86,382 |
| Liabilities and equity | | |
| Current liabilities: | | |
| Medical costs payable | \$13,906 | \$12,040 |
| Accounts payable and accrued liabilities | 11,300 | 9,247 |
| Other policy liabilities | 7,249 | 5,965 |
| Commercial paper and current maturities of long-term debt | 5,767 | 1,399 |
| Unearned revenues | 1,731 | 1,972 |
| Total current liabilities | 39,953 | 30,623 |
| Long-term debt, less current maturities | 26,015 | 16,007 |
| Future policy benefits | 2,489 | 2,488 |
| Deferred income taxes | 3,593 | 2,065 |
| Other liabilities | 1,529 | 1,357 |
| Total liabilities | 73,579 | 52,540 |
| Commitments and contingencies (Note 12) | | |
| Redeemable noncontrolling interests | 1,571 | 1,388 |
| Equity: | | |
| Preferred stock, \$0.001 par value - 10 shares authorized; no shares issued or outstanding | — | — |
| Common stock, \$0.01 par value - 3,000 shares authorized; 953 and 954 issued and outstanding | 10 | 10 |
| Additional paid in capital | 69 | — |
| Retained earnings | 36,382 | 33,836 |
| Accumulated other comprehensive loss | (3,347 |) (1,392 |
| Nonredeemable noncontrolling interest | 8 | — |
| Total equity | 33,122 | 32,454 |
| Total liabilities and equity | \$108,272 | \$86,382 |

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 September 30, | | Nine Months Ended September 30, | |
|---------------------------------------------------------------------------------------------------|-------------------------------------|----------|------------------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenues: | | | | |
| Premiums | \$31,801 | \$28,972 | \$95,436 | \$85,927 |
| Products | 6,482 | 1,080 | 8,935 | 3,115 |
| Services | 3,036 | 2,535 | 8,607 | 7,386 |
| Investment and other income | 170 | 172 | 530 | 613 |
| Total revenues | 41,489 | 32,759 | 113,508 | 97,041 |
| Operating costs: | | | | |
| Medical costs | 25,618 | 23,092 | 77,333 | 69,823 |
| Operating costs | 6,301 | 5,436 | 18,102 | 15,836 |
| Cost of products sold | 6,100 | 955 | 8,311 | 2,776 |
| Depreciation and amortization | 452 | 373 | 1,209 | 1,097 |
| Total operating costs | 38,471 | 29,856 | 104,955 | 89,532 |
| Earnings from operations | 3,018 | 2,903 | 8,553 | 7,509 |
| Interest expense | (229) | (152) | (530) | (467) |
| Earnings before income taxes | 2,789 | 2,751 | 8,023 | 7,042 |
| Provision for income taxes | (1,171) | (1,149) | (3,407) | (2,933) |
| Net earnings | 1,618 | 1,602 | 4,616 | 4,109 |
| Earnings attributable to noncontrolling interests | (21) | — | (21) | — |
| Net earnings attributable to UnitedHealth Group common shareholders | \$1,597 | \$1,602 | \$4,595 | \$4,109 |
| Earnings per share attributable to UnitedHealth Group common shareholders: | | | | |
| Basic | \$1.68 | \$1.65 | \$4.82 | \$4.21 |
| Diluted | \$1.65 | \$1.63 | \$4.75 | \$4.15 |
| Basic weighted-average number of common shares outstanding | 953 | 969 | 953 | 977 |
| Dilutive effect of common share equivalents | 14 | 13 | 14 | 13 |
| Diluted weighted-average number of common shares outstanding | 967 | 982 | 967 | 990 |
| Anti-dilutive shares excluded from the calculation of dilutive effect of common share equivalents | 8 | 7 | 8 | 8 |
| Cash dividends declared per common share | \$0.5000 | \$0.3750 | \$1.3750 | \$1.0300 |

See Notes to the Condensed Consolidated Financial Statements

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UnitedHealth Group
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

| (in millions) | Three Months Ended | | Nine Months Ended | | |
|-----------------------------------------------------------------------------------|--------------------|---------|-------------------|---------|---|
| | September 30, | | September 30, | | |
| | 2015 | 2014 | 2015 | 2014 | |
| Net earnings | \$1,618 | \$1,602 | \$4,616 | \$4,109 | |
| Other comprehensive loss: | | | | | |
| Gross unrealized gains (losses) on investment securities during the period | 66 | (53 |) (51 |) 427 | |
| Income tax effect | (26 |) 20 | 17 | (155 |) |
| Total unrealized gains (losses), net of tax | 40 | (33 |) (34 |) 272 | |
| Gross reclassification adjustment for net realized gains included in net earnings | (28 |) (30 |) (99 |) (183 |) |
| Income tax effect | 11 | 11 | 37 | 67 | |
| Total reclassification adjustment, net of tax | (17 |) (19 |) (62 |) (116 |) |
| Total foreign currency translation losses | (1,063 |) (642 |) (1,859 |) (232 |) |
| Other comprehensive loss | (1,040 |) (694 |) (1,955 |) (76 |) |
| Comprehensive income | 578 | 908 | 2,661 | 4,033 | |
| Comprehensive income attributable to noncontrolling interests | (21 |) — | (21 |) — | |
| Comprehensive income attributable to UnitedHealth Group common shareholders | \$557 | \$908 | \$2,640 | \$4,033 | |

See Notes to the Condensed Consolidated Financial Statements

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

| (in millions) | Common Stock | | | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | | | Nonredeemable Noncontrolling Interest | Total Equity |
|----------------------------------------------------------------------|--------------|--------|----------------------------|-------------------|-----------------------------------------------|-------------------------------------|-------|---------------------------------------|--------------|
| | Shares | Amount | Additional Paid-In Capital | | Net Unrealized Gains (Losses) on Investments | Foreign Currency Translation Losses | | | |
| Balance at January 1, 2015 | 954 | \$ 10 | \$ — | \$ 33,836 | \$ 223 | \$ (1,615) | \$ — | \$ 32,454 | |
| Net earnings | | | | 4,595 | | | 11 | 4,606 | |
| Other comprehensive loss | | | | | (96) | (1,859) | | (1,955) | |
| Issuances of common shares, and related tax effects | 9 | — | 112 | | | | | 112 | |
| Share-based compensation, and related tax benefits | | | 477 | | | | | 477 | |
| Common share repurchases | (10) | — | (391) | (739) | | | | (1,130) | |
| Cash dividends paid on common shares | | | | (1,310) | | | | (1,310) | |
| Redeemable noncontrolling interests fair value and other adjustments | | | (129) | | | | | (129) | |
| Acquisition of nonredeemable noncontrolling interest | | | | | | | 9 | 9 | |
| Distribution to nonredeemable noncontrolling interest | | | | | | | (12) | (12) | |
| Balance at September 30, 2015 | 953 | \$ 10 | \$ 69 | \$ 36,382 | \$ 127 | \$ (3,474) | \$ 8 | \$ 33,122 | |
| Balance at January 1, 2014 | 988 | \$ 10 | \$ — | \$ 33,047 | \$ 54 | \$ (962) | \$ — | \$ 32,149 | |
| Net earnings | | | | 4,109 | | | — | 4,109 | |
| Other comprehensive income (loss) | | | | | 156 | (232) | | (76) | |
| Issuances of common shares, and related tax effects | 12 | — | 130 | | | | | 130 | |
| Share-based compensation, and related tax benefits | | | 320 | | | | | 320 | |
| | (38) | — | (450) | (2,574) | | | | (3,024) | |

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| | | | | | | | | | |
|--------------------------------------|-----|------|------|----------|-------|-------------|------|--|----------|
| Common share repurchases | | | | | | | | | |
| Cash dividends paid on common shares | | | | (1,004) | | | | | (1,004) |
| Balance at September 30, 2014 | 962 | \$10 | \$ — | \$33,578 | \$210 | \$ (1,194) | \$ — | | \$32,604 |

See Notes to the Condensed Consolidated Financial Statements

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UnitedHealth Group
Condensed Consolidated Statements of Cash Flows
(Unaudited)

| (in millions) | Nine Months Ended | |
|-----------------------------------------------------------------------------------------------------|-----------------------|---------|
| | September 30, 2015 | 2014 |
| Operating activities | | |
| Net earnings | \$4,616 | \$4,109 |
| Noncash items: | | |
| Depreciation and amortization | 1,209 | 1,097 |
| Deferred income taxes | (49) | (107) |
| Share-based compensation | 306 | 269 |
| Other, net | (208) | (253) |
| Net change in other operating items, net of effects from acquisitions and changes in AARP balances: | | |
| Accounts receivable | (907) | (545) |
| Other assets | (1,686) | (819) |
| Medical costs payable | 2,137 | 654 |
| Accounts payable and other liabilities | 616 | 1,126 |
| Other policy liabilities | 374 | — |
| Unearned revenues | (179) | 91 |
| Cash flows from operating activities | 6,229 | 5,622 |
| Investing activities | | |
| Purchases of investments | (6,712) | (7,823) |
| Sales of investments | 4,041 | 5,810 |
| Maturities of investments | 2,557 | 2,266 |
| Cash paid for acquisitions, net of cash assumed | (16,183) | (851) |
| Purchases of property, equipment and capitalized software | (1,072) | (1,121) |
| Other, net | (51) | (139) |
| Cash flows used for investing activities | (17,420) | (1,858) |
| Financing activities | | |
| Common stock repurchases | (1,130) | (3,024) |
| Cash dividends paid | (1,310) | (1,004) |
| Proceeds from common stock issuances | 366 | 400 |
| Proceeds from long-term debt | 11,982 | — |
| Repayments of long-term debt | (416) | (812) |
| Proceeds from commercial paper, net | 2,665 | 1,355 |
| Customer funds administered | 119 | (440) |
| Other, net | (446) | (285) |
| Cash flows from (used for) financing activities | 11,830 | (3,810) |
| Effect of exchange rate changes on cash and cash equivalents | (151) | 3 |
| Increase (decrease) in cash and cash equivalents | 488 | (43) |
| Cash and cash equivalents, beginning of period | 7,495 | 7,276 |
| Cash and cash equivalents, end of period | \$7,983 | \$7,233 |

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

UnitedHealth Group Incorporated (individually and together with its subsidiaries, “UnitedHealth Group” and “the Company”) is a diversified health and well-being company dedicated to helping people live healthier lives and making the health system work better for everyone. Through its diversified family of businesses, the Company leverages core competencies in advanced, enabling technology; health care data, information and intelligence; and clinical care management and coordination to help meet the demands of the health system. The Company offers a broad spectrum of products and services through two distinct platforms: UnitedHealthcare, which provides health care coverage and benefits services; and Optum, which provides pharmacy care services and information and technology-enabled health services.

The Company has prepared the Condensed Consolidated Financial Statements according to U.S. Generally Accepted Accounting Principles (GAAP) and has included the accounts of UnitedHealth Group and its subsidiaries. The year-end condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. In accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC), the Company has omitted certain footnote disclosures that would substantially duplicate the disclosures contained in its annual audited Consolidated Financial Statements. Therefore, these Condensed Consolidated Financial Statements should be read together with the Consolidated Financial Statements and the Notes included in Part II, Item 8, “Financial Statements” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 as filed with the SEC (2014 10-K). The accompanying Condensed Consolidated Financial Statements include all normal recurring adjustments necessary to present the interim financial statements fairly.

Use of Estimates

These Condensed Consolidated Financial Statements include certain amounts based on the Company’s best estimates and judgments. The Company’s most significant estimates relate to estimates and judgments for medical costs payable and revenues, valuation and impairment analysis of goodwill and other intangible assets, estimates of other policy liabilities and other current receivables, valuations of certain investments, and estimates and judgments related to income taxes and contingent liabilities. Certain of these estimates require the application of complex assumptions and judgments, often because they involve matters that are inherently uncertain and will likely change in subsequent periods. The impact of any change in estimates is included in earnings in the period in which the estimate is adjusted. The accounting policies disclosed in Note 2 of Notes to the Consolidated Financial Statements in Part II, Item 8, “Financial Statements” in the 2014 10-K remain unchanged.

Reincorporation

On July 1, 2015, UnitedHealth Group Incorporated changed its state of incorporation from Minnesota to Delaware pursuant to a plan of conversion. The reincorporation was approved by the Company’s shareholders at its 2015 Annual Meeting of Shareholders held on June 1, 2015. Upon reincorporation, the affairs of UnitedHealth Group Incorporated became subject to the Delaware General Corporation Law, a new certificate of incorporation and new bylaws, and each previously outstanding share of UnitedHealth Group Incorporated’s common stock as a Minnesota corporation (UNH Minnesota) converted into an outstanding share of common stock of UnitedHealth Group Incorporated as a Delaware corporation after the reincorporation (UNH Delaware). The reincorporation was a tax-free reorganization under the U.S. Internal Revenue Code and did not affect the Company’s business operations.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (ASU 2014-09) as modified by ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date.” ASU 2014-09 will supersede existing revenue recognition standards with a single model unless those contracts are within the scope of other standards (e.g., an insurance entity’s insurance contracts). The revenue recognition principle in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, new and

enhanced disclosures will be required. Companies can adopt the new standard either using the full retrospective approach, a modified retrospective approach with practical expedients, or a cumulative effect upon adoption approach. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2017. Early adoption at the original effective date, interim and annual periods beginning after December 15, 2016, will be permitted. The Company is currently evaluating the effect of the new revenue recognition guidance.

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

2. Business Combination

On July 23, 2015, the Company acquired all of the outstanding common shares of Catamaran Corporation (Catamaran) and funded Catamaran's payoff of its outstanding debt and credit facility for \$14.3 billion in cash. Catamaran offers pharmacy benefits management services similar to OptumRx to a broad client portfolio, including health plans and employers serving 35 million people, and provides health care information technology solutions to the pharmacy benefits management industry.

The Company paid for the acquisition primarily with the proceeds of new indebtedness. Debt issuances included \$10.5 billion of senior unsecured notes, approximately \$2.4 billion of commercial paper and a \$1.5 billion term loan. The total consideration exceeded the estimated fair value of the net tangible assets acquired by \$15.6 billion, of which \$5.4 billion has been allocated to finite-lived intangible assets and \$10.2 billion to goodwill. The goodwill is not deductible for income tax purposes.

Acquired tangible assets (liabilities) for Catamaran at acquisition date were:

(in millions)

| | | |
|-------------------------------------------------------|----------|---|
| Accounts receivable and other current assets | \$1,947 | |
| Rebates receivable | 602 | |
| Property, equipment and other long-term assets | 215 | |
| Accounts payable and other current liabilities | (2,038 |) |
| Deferred income taxes and other long-term liabilities | (2,019 |) |
| Nonredeemable noncontrolling interest | (9 |) |
| Total net tangible liabilities | \$(1,302 |) |

Since the Catamaran acquisition closed during the three months ended September 30, 2015, the preliminary purchase price allocation is subject to adjustment as valuation analyses, primarily related to intangible assets and contingent and tax liabilities, are finalized.

The acquisition date fair values and weighted-average useful lives assigned to Catamaran's finite-lived intangible assets were:

| (in millions, except years) | Fair Value | Weighted-Average Useful Life |
|-----------------------------------------------|------------|------------------------------|
| Customer-related | \$5,278 | 19 years |
| Trademarks and technology | 159 | 4 years |
| Total acquired finite-lived intangible assets | \$5,437 | 19 years |

The results of operations and financial condition of Catamaran have been included in the Company's consolidated results and the results of the OptumRx segment as of July 23, 2015. Since then, the Catamaran business has generated \$5.3 billion in revenue, and had an immaterial impact on net earnings.

Unaudited pro forma revenues for the nine months ended September 30, 2015 and 2014 as if the acquisition of Catamaran had occurred on January 1, 2014 were \$128 billion and \$113 billion, respectively. The pro forma effects of this acquisition on net earnings were immaterial for both periods.

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3. Goodwill and Other Intangible Assets

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

| (in millions) | UnitedHealthcare | OptumHealth | OptumInsight | OptumRx | Consolidated | |
|-----------------------------------------------|------------------|-------------|--------------|-----------|--------------|---|
| Balance at January 1, 2014 | \$ 24,251 | \$ 2,860 | \$ 3,653 | \$ 840 | \$ 31,604 | |
| Acquisitions | 266 | 978 | 591 | — | 1,835 | |
| Foreign currency effects and adjustments, net | (487 |) (4 |) (8 |) — | (499 |) |
| Balance at December 31, 2014 | 24,030 | 3,834 | 4,236 | 840 | 32,940 | |
| Acquisitions | 51 | 1,679 | 89 | 10,238 | 12,057 | |
| Foreign currency effects and adjustments, net | (1,288 |) (1 |) (28 |) — | (1,317 |) |
| Balance at September 30, 2015 | \$ 22,793 | \$ 5,512 | \$ 4,297 | \$ 11,078 | \$ 43,680 | |

The increase in the Company's goodwill is primarily due to the acquisition of Catamaran in July 2015. For more detail on the Catamaran acquisition, see Note 2 of the Notes to the Condensed Consolidated Financial Statements.

During the three months ended September 30, 2015, the Company changed its annual quantitative goodwill impairment testing date from January 1 to October 1 of each year. The change in the goodwill impairment test date better aligns the impairment testing procedures with the timing of the Company's long-term planning process, which is a significant input to the testing. This change in testing date did not delay, accelerate, or avoid a goodwill impairment charge.

Estimated full year amortization expense relating to intangible assets for each of the next five years ending September 30 is as follows:

| (in millions) | |
|---------------|--------|
| 2016 | \$ 799 |
| 2017 | 768 |
| 2018 | 675 |
| 2019 | 617 |
| 2020 | 543 |

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4. Investments

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

| (in millions) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--------------------------------------------|-------------------|------------------------------|-------------------------------|---------------|
| September 30, 2015 | | | | |
| Debt securities - available-for-sale: | | | | |
| U.S. government and agency obligations | \$1,890 | \$14 | \$— | \$1,904 |
| State and municipal obligations | 5,993 | 155 | (6 |) 6,142 |
| Corporate obligations | 7,441 | 77 | (47 |) 7,471 |
| U.S. agency mortgage-backed securities | 2,026 | 27 | (6 |) 2,047 |
| Non-U.S. agency mortgage-backed securities | 872 | 11 | (4 |) 879 |
| Total debt securities - available-for-sale | 18,222 | 284 | (63 |) 18,443 |
| Equity securities - available-for-sale | 1,526 | 44 | (58 |) 1,512 |
| Debt securities - held-to-maturity: | | | | |
| U.S. government and agency obligations | 162 | 2 | — | 164 |
| State and municipal obligations | 15 | — | — | 15 |
| Corporate obligations | 345 | — | — | 345 |
| Total debt securities - held-to-maturity | 522 | 2 | — | 524 |
| Total investments | \$20,270 | \$330 | \$(121 |) \$20,479 |
| December 31, 2014 | | | | |
| Debt securities - available-for-sale: | | | | |
| U.S. government and agency obligations | \$1,614 | \$7 | \$(1 |) \$1,620 |
| State and municipal obligations | 6,456 | 217 | (5 |) 6,668 |
| Corporate obligations | 7,241 | 112 | (26 |) 7,327 |
| U.S. agency mortgage-backed securities | 2,022 | 39 | (5 |) 2,056 |
| Non-U.S. agency mortgage-backed securities | 872 | 12 | (4 |) 880 |
| Total debt securities - available-for-sale | 18,205 | 387 | (41 |) 18,551 |
| Equity securities - available-for-sale | 1,511 | 36 | (25 |) 1,522 |
| Debt securities - held-to-maturity: | | | | |
| U.S. government and agency obligations | 178 | 2 | — | 180 |
| State and municipal obligations | 19 | — | — | 19 |
| Corporate obligations | 298 | — | — | 298 |
| Total debt securities - held-to-maturity | 495 | 2 | — | 497 |
| Total investments | \$20,211 | \$425 | \$(66 |) \$20,570 |

The amortized cost and fair value of available-for-sale debt securities as of September 30, 2015, by contractual maturity, were as follows:

| (in millions) | Amortized Cost | Fair Value |
|--------------------------------------------|-------------------|---------------|
| Due in one year or less | \$2,047 | \$2,051 |
| Due after one year through five years | 6,830 | 6,901 |
| Due after five years through ten years | 4,720 | 4,793 |
| Due after ten years | 1,727 | 1,772 |
| U.S. agency mortgage-backed securities | 2,026 | 2,047 |
| Non-U.S. agency mortgage-backed securities | 872 | 879 |
| Total debt securities - available-for-sale | \$18,222 | \$18,443 |

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The amortized cost and fair value of held-to-maturity debt securities as of September 30, 2015, by contractual maturity, were as follows:

| (in millions) | Amortized Cost | Fair Value |
|------------------------------------------|----------------|------------|
| Due in one year or less | \$121 | \$121 |
| Due after one year through five years | 203 | 204 |
| Due after five years through ten years | 84 | 84 |
| Due after ten years | 114 | 115 |
| Total debt securities - held-to-maturity | \$522 | \$524 |

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

| (in millions) | Less Than 12 Months | | 12 Months or Greater | | Total | |
|--------------------------------------------|---------------------|-------------------------|----------------------|-------------------------|------------|-------------------------|
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| September 30, 2015 | | | | | | |
| Debt securities - available-for-sale: | | | | | | |
| State and municipal obligations | \$507 | \$(5) | \$17 | \$(1) | \$524 | \$(6) |
| Corporate obligations | 2,799 | (39) | 270 | (8) | 3,069 | (47) |
| U.S. agency mortgage-backed securities | 365 | (3) | 122 | (3) | 487 | (6) |
| Non-U.S. agency mortgage-backed securities | 317 | (3) | 93 | (1) | 410 | (4) |
| Total debt securities - available-for-sale | \$3,988 | \$(50) | \$502 | \$(13) | \$4,490 | \$(63) |
| Equity securities - available-for-sale | \$140 | \$(16) | \$82 | \$(42) | \$222 | \$(58) |
| December 31, 2014 | | | | | | |
| Debt securities - available-for-sale: | | | | | | |
| U.S. government and agency obligations | \$420 | \$(1) | \$— | \$— | \$420 | \$(1) |
| State and municipal obligations | 711 | (4) | 99 | (1) | 810 | (5) |
| Corporate obligations | 2,595 | (17) | 464 | (9) | 3,059 | (26) |
| U.S. agency mortgage-backed securities | — | — | 272 | (5) | 272 | (5) |
| Non-U.S. agency mortgage-backed securities | 254 | (2) | 114 | (2) | 368 | (4) |
| Total debt securities - available-for-sale | \$3,980 | \$(24) | \$949 | \$(17) | \$4,929 | \$(41) |
| Equity securities - available-for-sale | \$107 | \$(6) | \$88 | \$(19) | \$195 | \$(25) |

The Company's unrealized losses from all securities as of September 30, 2015 were generated from approximately 6,000 positions out of a total of 23,000 positions. The Company believes that it will collect the principal and interest due on its debt securities that have an amortized cost in excess of fair value. The unrealized losses were primarily caused by interest rate increases and not by unfavorable changes in the credit quality associated with these securities. At each reporting period, the Company evaluates securities for impairment when the fair value of the investment is less than its amortized cost. The Company evaluated the underlying credit quality and credit ratings of the issuers, noting neither a significant deterioration since purchase nor other factors leading to an other-than-temporary impairment (OTTI). As of September 30, 2015, the Company did not have the intent to sell any of the securities in an unrealized loss position. Therefore, the Company believes these losses to be temporary.

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

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

| (in millions) | Three Months Ended | | Nine Months Ended | |
|---------------------------------------------------------------------------------------------------------------------|--------------------|----------|-------------------|----------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Total OTTI | \$ (4 |) \$ (18 |) \$ (8 |) \$ (25 |
| Portion of loss recognized in other comprehensive income | — | — | — | — |
| Net OTTI recognized in earnings | (4 |) (18 |) (8 |) (25 |
| Gross realized losses from sales | (9 |) (3 |) (20 |) (42 |
| Gross realized gains from sales | 41 | 51 | 127 | 250 |
| Net realized gains (included in investment and other income on the Condensed Consolidated Statements of Operations) | 28 | 30 | 99 | 183 |
| Income tax effect (included in provision for income taxes on the Condensed Consolidated Statements of Operations) | (11 |) (11 |) (37 |) (67 |
| Realized gains, net of taxes | \$ 17 | \$ 19 | \$ 62 | \$ 116 |

5. Fair Value

Certain assets and liabilities are measured at fair value in the Condensed Consolidated Financial Statements or have fair values disclosed in the Notes to the Condensed Consolidated Financial Statements. These assets and liabilities are classified into one of three levels of a hierarchy defined by GAAP.

For a description of the methods and assumptions that are used to estimate the fair value and determine the fair value hierarchy classification of each class of financial instrument, see Note 4 of Notes to the Consolidated Financial Statements in Part II, Item 8, "Financial Statements" in the 2014 10-K.

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

| (in millions) | Quoted Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total Fair and Carrying Value | | |
|--------------------------------------------|----------------------------------------------------|--------------------------------------------|-------------------------------------|----------------------------------------|--|---|
| September 30, 2015 | | | | | | |
| Cash and cash equivalents | \$7,865 | \$118 | \$— | \$7,983 | | |
| Debt securities - available-for-sale: | | | | | | |
| U.S. government and agency obligations | 1,705 | 199 | — | 1,904 | | |
| State and municipal obligations | — | 6,142 | — | 6,142 | | |
| Corporate obligations | 15 | 7,368 | 88 | 7,471 | | |
| U.S. agency mortgage-backed securities | — | 2,047 | — | 2,047 | | |
| Non-U.S. agency mortgage-backed securities | — | 874 | 5 | 879 | | |
| Total debt securities - available-for-sale | 1,720 | 16,630 | 93 | 18,443 | | |
| Equity securities - available-for-sale | 1,137 | 12 | 363 | 1,512 | | |
| Interest rate swap assets | — | 168 | — | 168 | | |
| Total assets at fair value | \$10,722 | \$16,928 | \$456 | \$28,106 | | |
| Percentage of total assets at fair value | 38 | % 60 | % 2 | % 100 | | % |
| Interest rate swap liabilities | \$— | \$1 | \$— | \$1 | | |
| December 31, 2014 | | | | | | |
| Cash and cash equivalents | \$7,472 | \$23 | \$— | \$7,495 | | |
| Debt securities - available-for-sale: | | | | | | |
| U.S. government and agency obligations | 1,427 | 193 | — | 1,620 | | |
| State and municipal obligations | — | 6,668 | — | 6,668 | | |
| Corporate obligations | 2 | 7,257 | 68 | 7,327 | | |
| U.S. agency mortgage-backed securities | — | 2,056 | — | 2,056 | | |
| Non-U.S. agency mortgage-backed securities | — | 874 | 6 | 880 | | |
| Total debt securities - available-for-sale | 1,429 | 17,048 | 74 | 18,551 | | |
| Equity securities - available-for-sale | 1,200 | 12 | 310 | 1,522 | | |
| Interest rate swap assets | — | 62 | — | 62 | | |
| Total assets at fair value | \$10,101 | \$17,145 | \$384 | \$27,630 | | |
| Percentage of total assets at fair value | 37 | % 62 | % 1 | % 100 | | % |
| Interest rate swap liabilities | \$— | \$55 | \$— | \$55 | | |

Transfers between levels, if any, are recorded as of the beginning of the reporting period in which the transfer occurs; there were no transfers between Levels 1, 2 or 3 of any financial assets or liabilities during the nine months ended September 30, 2015 or 2014.

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

| (in millions) | Quoted Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total Fair Value | Total Carrying Value |
|------------------------------------------------|----------------------------------------------------|--------------------------------------------|-------------------------------------|------------------------|----------------------------|
| September 30, 2015 | | | | | |
| Debt securities - held-to-maturity: | | | | | |
| U.S. government and agency obligations | \$ 164 | \$— | \$— | \$164 | \$162 |
| State and municipal obligations | — | — | 15 | 15 | 15 |
| Corporate obligations | 91 | 13 | 241 | 345 | 345 |
| Total debt securities - held-to-maturity | \$ 255 | \$13 | \$ 256 | \$524 | \$522 |
| Other assets | \$— | \$478 | \$— | \$478 | \$480 |
| Long-term debt and other financing obligations | \$— | \$30,309 | \$— | \$30,309 | \$28,796 |
| December 31, 2014 | | | | | |
| Debt securities - held-to-maturity: | | | | | |
| U.S. government and agency obligations | \$ 180 | \$— | \$— | \$180 | \$178 |
| State and municipal obligations | — | — | 19 | 19 | 19 |
| Corporate obligations | 46 | 10 | 242 | 298 | 298 |
| Total debt securities - held-to-maturity | \$ 226 | \$10 | \$ 261 | \$497 | \$495 |
| Other assets | \$— | \$478 | \$— | \$478 | \$484 |
| Long-term debt and other financing obligations | \$— | \$18,863 | \$— | \$18,863 | \$17,085 |

Nonfinancial assets and liabilities or financial assets and liabilities that are measured at fair value on a nonrecurring basis are subject to fair value adjustments only in certain circumstances, such as when the Company records an impairment. There were no significant fair value adjustments for these assets and liabilities recorded during the nine months ended September 30, 2015 or 2014.

The carrying amounts reported on the Condensed Consolidated Balance Sheets for other current financial assets and liabilities approximate fair value because of their short-term nature. These assets and liabilities are not listed in the table above.

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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:

| (in millions) | Three Months Ended | | | Nine Months Ended | | |
|-------------------------------------------------------------------------|--------------------|-------------------|-------|-------------------|-------------------|--------|
| | Debt Securities | Equity Securities | Total | Debt Securities | Equity Securities | Total |
| September 30, 2015 | | | | | | |
| Balance at beginning of period | \$84 | \$319 | \$403 | \$74 | \$310 | \$384 |
| Purchases | 12 | 45 | 57 | 22 | 59 | 81 |
| Sales | (2) | (6) | (8) | (4) | (20) | (24) |
| Net unrealized gains in accumulated other comprehensive income | — | 6 | 6 | 2 | 1 | 3 |
| Net realized (losses) gains in investment and other income | (1) | (1) | (2) | (1) | 13 | 12 |
| Balance at end of period | \$93 | \$363 | \$456 | \$93 | \$363 | \$456 |
| September 30, 2014 | | | | | | |
| Balance at beginning of period | \$57 | \$302 | \$359 | \$42 | \$269 | \$311 |
| Purchases | 11 | 36 | 47 | 24 | 86 | 110 |
| Sales | — | (18) | (18) | — | (169) | (169) |
| Net unrealized (losses) gains in accumulated other comprehensive income | (2) | (4) | (6) | — | 6 | 6 |
| Net realized (losses) gains in investment and other income | — | (15) | (15) | — | 109 | 109 |
| Balance at end of period | \$66 | \$301 | \$367 | \$66 | \$301 | \$367 |

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

| (in millions, except ranges) | Fair Value | Valuation Technique | Unobservable Input | Range | |
|--------------------------------------------|------------|----------------------------------------|------------------------------|-------|------|
| | | | | Low | High |
| September 30, 2015 | | | | | |
| Equity securities - available-for-sale: | | | | | |
| Venture capital portfolios | \$322 | Market approach - comparable companies | Revenue multiple | 1.0 | 5.0 |
| | | | EBITDA multiple | 9.0 | 10.0 |
| | 41 | Market approach - recent transactions | Inactive market transactions | N/A | N/A |
| Total equity securities available-for-sale | \$363 | | | | |

Also included in the Company's assets measured at fair value on a recurring basis using Level 3 inputs were \$93 million of available-for-sale debt securities as of September 30, 2015, which were not significant.

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The Company elected to measure the entirety of the AARP Program assets under management at fair value pursuant to the fair value option. See Note 2 of Notes to the Consolidated Financial Statements in Part II, Item 8, "Financial Statements" in the Company's 2014 10-K for further detail on the AARP Program. The following table presents fair value information about the AARP Program-related financial assets and liabilities:

| (in millions) | Quoted Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Total Fair and Carrying Value |
|--------------------------------------------|----------------------------------------------------|--------------------------------------------|----------------------------------------|
| September 30, 2015 | | | |
| Cash and cash equivalents | \$292 | \$— | \$292 |
| Debt securities: | | | |
| U.S. government and agency obligations | 444 | 142 | 586 |
| State and municipal obligations | — | 105 | 105 |
| Corporate obligations | — | 1,292 | 1,292 |
| U.S. agency mortgage-backed securities | — | 391 | 391 |
| Non-U.S. agency mortgage-backed securities | — | 199 | 199 |
| Total debt securities | 444 | 2,129 | 2,573 |
| Other investments | — | 83 | 83 |
| Total assets at fair value | \$736 | \$2,212 | \$2,948 |
| Other liabilities | \$7 | \$6 | \$13 |
| December 31, 2014 | | | |
| Cash and cash equivalents | \$415 | \$— | \$415 |
| Debt securities: | | | |
| U.S. government and agency obligations | 409 | 245 | 654 |
| State and municipal obligations | — | 95 | 95 |
| Corporate obligations | — | 1,200 | 1,200 |
| U.S. agency mortgage-backed securities | — | 340 | 340 |
| Non-U.S. agency mortgage-backed securities | — | 177 | 177 |
| Total debt securities | 409 | 2,057 | 2,466 |
| Other investments | — | 81 | 81 |
| Total assets at fair value | \$824 | \$2,138 | \$2,962 |
| Other liabilities | \$5 | \$13 | \$18 |

6. Medicare Part D Pharmacy Benefits

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

| (in millions) | September 30, 2015 | | | December 31, 2014 | | |
|---------------------------|--------------------|---------------|------------|-------------------|---------------|------------|
| | Subsidies | Drug Discount | Risk-Share | Subsidies | Drug Discount | Risk-Share |
| Other current receivables | \$2,466 | \$690 | \$— | \$1,801 | \$719 | \$20 |
| Other policy liabilities | — | 377 | 200 | — | 302 | — |

See Note 2 of Notes to the Consolidated Financial Statements in Part II, Item 8, "Financial Statements" in the Company's 2014 10-K for further detail on Medicare Part D.

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7. Medical Costs Reserve Development

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

| (in millions) | Three Months Ended | | Nine Months Ended September | |
|-------------------------|--------------------|-------|-----------------------------|-------|
| | September 30, | | 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Related to Prior Years | \$100 | \$120 | \$230 | \$380 |
| Related to Current Year | 50 | 150 | N/A | N/A |

In the three and nine months ended September 30, 2015 and 2014, the medical cost reserve development was driven by a number of individual factors that were not material.

8. Health Insurance Industry Tax

The Patient Protection and Affordable Care Act and a reconciliation measure, the Health Care and Education Reconciliation Act of 2010 (together, Health Reform Legislation) includes an annual, nondeductible insurance industry tax (Health Insurance Industry Tax). In September 2015, the Company paid its full year 2015 Health Insurance Industry Tax of \$1.8 billion. As of September 30, 2015, the deferred cost recorded in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets related to the Health Insurance Industry Tax was \$450 million. There was no liability or asset related to the Health Insurance Industry Tax recorded as of December 31, 2014 as the Health Insurance Industry Tax was paid in September 2014 and the asset was fully expensed by year end. See Note 2 of Notes to the Consolidated Financial Statements in Part II, Item 8, "Financial Statements" in the Company's 2014 10-K for further detail on the Health Insurance Industry Tax.

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9. Commercial Paper and Long-Term Debt

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

| (in millions, except percentages) | September 30, 2015 | | | December 31, 2014 | | |
|------------------------------------------------------|--------------------|----------------|------------|-------------------|----------------|------------|
| | Par Value | Carrying Value | Fair Value | Par Value | Carrying Value | Fair Value |
| Commercial paper | \$2,986 | \$2,986 | \$2,986 | \$321 | \$321 | \$321 |
| Floating rate term loan due July 2016 | 1,500 | 1,500 | 1,500 | — | — | — |
| 4.875% notes due March 2015 (a) | — | — | — | 416 | 419 | 419 |
| 0.850% notes due October 2015 (a), (b) | 625 | 625 | 625 | 625 | 625 | 627 |
| 5.375% notes due March 2016 (a), (b) | 601 | 610 | 612 | 601 | 623 | 634 |
| 1.875% notes due November 2016 (a), (b) | 400 | 400 | 405 | 400 | 397 | 406 |
| 5.360% notes due November 2016 | 95 | 95 | 100 | 95 | 95 | 103 |
| Floating rate notes due January 2017 (c) | 750 | 750 | 750 | — | — | — |
| 6.000% notes due June 2017 (a), (b) | 441 | 461 | 476 | 441 | 466 | 489 |
| 1.450% notes due July 2017 (c) | 750 | 750 | 754 | — | — | — |
| 1.400% notes due October 2017 (a), (b) | 625 | 625 | 629 | 625 | 616 | 624 |
| 6.000% notes due November 2017 (a), (b) | 156 | 164 | 171 | 156 | 164 | 175 |
| 1.400% notes due December 2017 (a), (b) | 750 | 753 | 749 | 750 | 745 | 749 |
| 6.000% notes due February 2018 (a), (b) | 1,100 | 1,117 | 1,212 | 1,100 | 1,106 | 1,238 |
| 1.900% notes due July 2018 (c) | 1,500 | 1,498 | 1,516 | — | — | — |
| 1.625% notes due March 2019 (a), (b) | 500 | 504 | 497 | 500 | 496 | 493 |
| 2.300% notes due December 2019 (a) | 500 | 508 | 507 | 500 | 496 | 502 |
| 2.700% notes due July 2020 (c) | 1,500 | 1,499 | 1,535 | — | — | — |
| 3.875% notes due October 2020 (a) | 450 | 461 | 483 | 450 | 450 | 477 |
| 4.700% notes due February 2021 (a) | 400 | 422 | 445 | 400 | 413 | 450 |
| 3.375% notes due November 2021 (a) | 500 | 510 | 525 | 500 | 496 | 519 |
| 2.875% notes due December 2021 (a) | 750 | 768 | 761 | 750 | 748 | 759 |
| 2.875% notes due March 2022 (a) | 1,100 | 1,077 | 1,110 | 1,100 | 1,042 | 1,104 |
| 3.350% notes due July 2022 (c) | 1,000 | 999 | 1,032 | — | — | — |
| 0.000% notes due November 2022 | 15 | 10 | 12 | 15 | 10 | 11 |
| 2.750% notes due February 2023 (a) | 625 | 623 | 616 | 625 | 604 | 613 |
| 2.875% notes due March 2023 (a) | 750 | 797 | 747 | 750 | 777 | 745 |
| 3.750% notes due July 2025 (c) | 2,000 | 1,995 | 2,067 | — | — | — |
| 4.625% notes due July 2035 (c) | 1,000 | 1,000 | 1,055 | — | — | — |
| 5.800% notes due March 2036 | 850 | 845 | 1,016 | 850 | 845 | 1,052 |
| 6.500% notes due June 2037 | 500 | 495 | 637 | 500 | 495 | 670 |
| 6.625% notes due November 2037 | 650 | 646 | 836 | 650 | 646 | 888 |
| 6.875% notes due February 2038 | 1,100 | 1,085 | 1,465 | 1,100 | 1,085 | 1,544 |
| 5.700% notes due October 2040 | 300 | 298 | 354 | 300 | 298 | 378 |
| 5.950% notes due February 2041 | 350 | 348 | 424 | 350 | 348 | 455 |
| 4.625% notes due November 2041 | 600 | 593 | 615 | 600 | 593 | 646 |
| 4.375% notes due March 2042 | 502 | 486 | 494 | 502 | 486 | 536 |
| 3.950% notes due October 2042 | 625 | 612 | 589 | 625 | 611 | 621 |
| 4.250% notes due March 2043 | 750 | 740 | 742 | 750 | 740 | 786 |
| 4.750% notes due July 2045 (c) | 2,000 | 1,992 | 2,111 | — | — | — |
| Total commercial paper, term loan and long-term debt | \$31,596 | \$31,647 | \$33,160 | \$17,347 | \$17,256 | \$19,034 |

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

(b) The Company terminated the interest rate swap contracts on these hedged instruments during the three months ended September 30, 2015. See below for more information on this termination.

(c) Debt issued to fund the Catamaran acquisition. For more detail on Catamaran, see Note 2 of Notes to the Condensed Consolidated Financial Statements.

The Company's long-term debt obligations also included \$135 million and \$150 million of other financing obligations, of which \$46 million and \$34 million were current as of September 30, 2015 and December 31, 2014, respectively.

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Commercial Paper and Bank Credit Facilities

Commercial paper consists of short-duration, senior unsecured debt privately placed on a discount basis through broker-dealers. As of September 30, 2015, the Company's outstanding commercial paper had a weighted-average annual interest rate of 0.4%.

The Company has \$3.0 billion five-year and \$1.0 billion 364-day revolving bank credit facilities with 23 banks, which mature in November 2019 and November 2015, respectively. The Company also has a \$2.0 billion 364-day revolving bank credit facility with 22 banks maturing in April 2016. These facilities provide liquidity support for the Company's commercial paper program and are available for general corporate purposes. As of September 30, 2015, no amounts had been drawn on any of the bank credit facilities. The annual interest rates, which are variable based on term, are calculated based on the London Interbank Offered Rate (LIBOR) plus a credit spread based on the Company's senior unsecured credit ratings. If amounts had been drawn on the bank credit facilities as of September 30, 2015, annual interest rates would have ranged from 1.0% to 1.4%.

Debt Covenants

The Company's bank credit facilities contain various covenants, including covenants requiring the Company to maintain a defined debt to debt-plus-shareholders' equity ratio of not more than 50%. The Company was in compliance with its debt covenants as of September 30, 2015.

Interest Rate Swap Contracts

The Company uses interest rate swap contracts to convert a portion of its interest rate exposure from fixed rates to floating rates to more closely align interest expense with interest income received on its variable rate financial assets. The floating rates are benchmarked to LIBOR. The swaps are designated as fair value hedges on the Company's fixed-rate debt. Since the critical terms of the swaps match those of the debt being hedged, they are considered to be highly effective hedges and all changes in the fair values of the swaps are recorded as adjustments to the carrying value of the related debt with no net impact recorded on the Condensed Consolidated Statements of Operations. Both the hedge fair value changes and the offsetting debt adjustments are recorded in interest expense on the Condensed Consolidated Statements of Operations. The following table summarizes the location and fair value of the interest rate swap fair value hedges on the Company's Condensed Consolidated Balance Sheet:

| Type of Fair Value Hedge | Notional Amount (in billions) | Fair Value (in millions) | Balance Sheet Location |
|------------------------------|----------------------------------|-----------------------------|------------------------|
| September 30, 2015 | | | |
| Interest rate swap contracts | \$5.1 | \$168 | Other assets |
| | | 1 | Other liabilities |
| December 31, 2014 | | | |
| Interest rate swap contracts | \$10.7 | \$62 | Other assets |
| | | 55 | Other liabilities |

During the three months ended September 30, 2015, the Company terminated \$5.2 billion notional amount of its interest rate swap fair value hedges. The resulting gain was not material.

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:

| (in millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------------------------------------------------------------|----------------------------------|--------|---------------------------------|-------|
| | 2015 | 2014 | 2015 | 2014 |
| Hedge - interest rate swap gain (loss) recognized in interest expense | \$146 | \$(11) | \$160 | \$122 |
| Hedged item - long-term debt (loss) gain recognized in interest expense | (146) | 11 | (160) | (122) |
| Net impact on the Company's Condensed Consolidated Statements of Operations | \$— | \$— | \$— | \$— |

10. Shareholders' Equity

Share Repurchase Program

Under its Board of Directors' authorization, the Company maintains a share repurchase program. The objectives of the share repurchase program are to optimize the Company's capital structure and cost of capital, thereby improving returns to shareholders, as well as to offset the dilutive impact of share-based awards. Repurchases may be made from time to time in

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open market purchases or other types of transactions (including prepaid or structured repurchase programs), subject to certain Board restrictions. During the nine months ended September 30, 2015, the Company repurchased 10 million shares at an average price of \$112.30 per share and an aggregate cost of \$1.1 billion. As of September 30, 2015, the Company had Board authorization to purchase up to 61 million shares of its common stock.

Dividends

In June 2015, the Company's Board of Directors increased the Company's quarterly cash dividend to shareholders to equal an annual dividend rate of \$2.00 per share compared to the annual dividend rate of \$1.50 per share, which the Company had paid since June 2014. 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 2015 dividend payments:

| Payment Date | Amount per Share | Total Amount Paid (in millions) |
|--------------------|------------------|------------------------------------|
| March 24, 2015 | \$ 0.3750 | \$ 357 |
| June 24, 2015 | 0.5000 | 476 |
| September 22, 2015 | 0.5000 | 477 |

11. Share-Based Compensation

In June 2015, the Company's shareholders approved an amendment to the 2011 Stock Incentive Plan (Plan). The approved amendment increased the number of shares authorized for issuance under the Plan by 70 million and removed the limit in the Plan for shares other than options and stock-settled stock appreciation rights (SARs) that can be awarded. The Company's outstanding share-based awards consist mainly of nonqualified stock options, SARs and restricted stock and restricted stock units (collectively, restricted shares). As of September 30, 2015, the Company had 85 million shares available for future grants of share-based awards under its share-based compensation plan.

Stock Options and SARs

Stock option and SAR activity for the nine months ended September 30, 2015 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 | 33 | \$53 | | |
| Granted | 9 | 110 | | |
| Exercised | (6 |) 52 | | |
| Forfeited | (1 |) 79 | | |
| Outstanding at end of period | 35 | 68 | 6.1 | \$1,693 |
| Exercisable at end of period | 17 | 47 | 3.5 | 1,167 |
| Vested and expected to vest, end of period | 34 | 67 | 6.0 | 1,668 |

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Restricted Shares

Restricted share activity for the nine months ended September 30, 2015 is summarized in the table below:

| (shares in millions) | Shares | Weighted-Average Grant Date Fair Value per Share |
|----------------------------------|--------|--------------------------------------------------------|
| Nonvested at beginning of period | 9 | \$61 |
| Granted | 3 | 110 |
| Vested | (5 |) 61 |
| Nonvested at end of period | 7 | 82 |

Other Share-Based Compensation Data

| (in millions, except per share amounts) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------------------------|-------------------------------------|------|------------------------------------|------|
| | 2015 | 2014 | 2015 | 2014 |

Stock Options and SARs

| | | | | |
|---------------------------------------------------------------------|------|------|------|------|
| Weighted-average grant date fair value of shares granted, per share | \$22 | \$17 | \$23 | \$22 |
| Total intrinsic value of stock options and SARs exercised | 74 | 89 | 402 | 375 |

Restricted Shares

| | | | | |
|---------------------------------------------------------------------|-----|----|-----|-----|
| Weighted-average grant date fair value of shares granted, per share | 122 | 80 | 110 | 71 |
| Total fair value of restricted shares vested | 41 | 5 | 448 | 428 |

Share-Based Compensation Items

| | | | | |
|--------------------------------------------------------------|----|----|-----|-----|
| Share-based compensation expense, before tax | 95 | 81 | 306 | 269 |
| Share-based compensation expense, net of tax effects | 86 | 73 | 263 | 230 |
| Income tax benefit realized from share-based award exercises | 38 | 39 | 212 | 182 |

(in millions, except years)

| | | | | |
|-----------------------------------------------------------|--|--|--------------------|--|
| Unrecognized compensation expense related to share awards | | | September 30, 2015 | |
| Weighted-average years to recognize compensation expense | | | 1.4 | |

Share-Based Compensation Recognition and Estimates

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------|-------------------------------------|-------|------------------------------------|---------------|
| | 2015 | 2014 | 2015 | 2014 |
| Risk-free interest rate | 1.6% | 1.7% | 1.6% - 1.7% | 1.7% - 1.8% |
| Expected volatility | 22.3% | 27.2% | 22.3% - 24.1% | 27.2% - 39.6% |
| Expected dividend yield | 1.6% | 1.9% | 1.4% - 1.7% | 1.6% - 1.9% |
| Forfeiture rate | 5.0% | 5.0% | 5.0% | 5.0% |
| Expected life in years | 5.5 | 5.4 | 5.5 - 6.1 | 5.4 |

12. Commitments and Contingencies

Legal Matters

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

The Company records liabilities for its estimates of probable costs resulting from these matters where appropriate. Estimates of costs resulting from legal and regulatory matters involving the Company are inherently difficult to predict, particularly where the matters: involve indeterminate claims for monetary damages or may involve fines, penalties or punitive damages; present

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novel legal theories or represent a shift in regulatory policy; involve a large number of claimants or regulatory bodies; are in the early stages of the proceedings; or could result in a change in business practices. Accordingly, the Company is often unable to estimate the losses or ranges of losses for those matters where there is a reasonable possibility or it is probable that a loss may be incurred.

Litigation Matters

California Claims Processing Matter. On January 25, 2008, the California Department of Insurance (CDI) issued an Order to Show Cause to PacifiCare Life and Health Insurance Company, a subsidiary of the Company, alleging violations of certain insurance statutes and regulations related to an alleged failure to include certain language in standard claims correspondence, timeliness and accuracy of claims processing, interest payments, care provider contract implementation, care provider dispute resolution and other related matters. Although the Company believes that CDI had never before issued a fine in excess of \$8 million, CDI advocated a fine of approximately \$325 million in this matter. The matter was the subject of an administrative hearing before a California administrative law judge beginning in December 2009, and in August 2013, the administrative law judge issued a nonbinding proposed decision recommending a fine of \$11.5 million. The California Insurance Commissioner rejected the administrative law judge's recommendation and on June 9, 2014, issued his own decision imposing a fine of approximately \$174 million. On July 10, 2014, the Company filed a lawsuit in California state court challenging the Commissioner's decision. On September 8, 2015, in the first phase of that lawsuit, the California state court issued an order invalidating certain of the regulations the Commissioner had relied upon in issuing his decision and penalty. The Company cannot reasonably estimate the range of loss, if any, that may result from this matter given the procedural status of the dispute, the wide range of possible outcomes, the legal issues presented (including the legal basis for the majority of the alleged violations), the inherent difficulty in predicting a regulatory fine in the event of a remand, and the various remedies and levels of judicial review that remain available to the Company.

Government Investigations, Audits and Reviews

The Company has been involved or is currently involved in various governmental investigations, audits and reviews. These include routine, regular and special investigations, audits and reviews by CMS, state insurance and health and welfare departments, the Brazilian national regulatory agency for private health insurance and plans (the Agência Nacional de Saúde Suplementar), state attorneys general, the Office of the Inspector General, the Office of Personnel Management, the Office of Civil Rights, the Government Accountability Office, the Federal Trade Commission, U.S. Congressional committees, the U.S. Department of Justice, the SEC, the Internal Revenue Service, the U.S. Drug Enforcement Administration, the Brazilian federal revenue service (the Secretaria da Receita Federal), the U.S. Department of Labor, the Federal Deposit Insurance Corporation, the Defense Contract Audit Agency and other governmental authorities. Certain of the Company's businesses have been reviewed or are currently under review, including for, among other things, compliance with coding and other requirements under the Medicare risk-adjustment model.

In February 2012, CMS announced a final Risk Adjustment Data Validation (RADV) audit and payment adjustment methodology and that it will conduct RADV audits beginning with the 2011 payment year. These audits involve a review of medical records maintained by care providers and may result in retrospective adjustments to payments made to health plans. CMS has not communicated how the final payment adjustment under its methodology will be implemented.

The Company cannot reasonably estimate the range of loss, if any, that may result from any material government investigations, audits and reviews in which it is currently involved given the inherent difficulty in predicting regulatory action, fines and penalties, if any, and the various remedies and levels of judicial review available to the Company in the event of an adverse finding.

Guaranty Fund Assessments

Under state guaranty fund laws, certain insurance companies can be assessed (up to prescribed limits) for certain obligations to the policyholders and claimants of insolvent insurance companies (including certain state health insurance cooperatives). In 2009, the Pennsylvania Insurance Commissioner placed long term care insurer Penn Treaty Network America Insurance Company and its subsidiary (Penn Treaty), neither of which is affiliated with the Company, in rehabilitation and petitioned a state court for approval to liquidate Penn Treaty. In 2012, the court denied

the liquidation petition and ordered the Insurance Commissioner to submit a rehabilitation plan. The court held a hearing on July 13-14, 2015 to begin its consideration of the latest proposed rehabilitation plan. The hearing is scheduled to continue on February 16, 2016.

If the current proposed rehabilitation plan, which contemplates the partial liquidation of Penn Treaty, is approved by the court, the Company's insurance entities and other insurers may be required to pay a portion of Penn Treaty's policyholder claims through state guaranty association assessments in future periods. The Company intends to vigorously challenge the proposed rehabilitation plan. The Company is currently unable to estimate losses or ranges of losses because the Company cannot predict whether, when or to what extent Penn Treaty will ultimately be declared insolvent, the amount of the insolvency, if any, the

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amount and timing of any associated guaranty fund assessments or the availability and amount of any premium tax and other potential offsets.

13. Segment Financial Information

The Company's four reportable segments are UnitedHealthcare, OptumHealth, OptumInsight and OptumRx. For more information on the Company's segments see Part I, Item I, "Business" and Note 13 of Notes to the Consolidated Financial Statements in Part II, Item 8, "Financial Statements" in the Company's 2014 10-K.

The following table presents the reportable segment financial information:

| (in millions) | Optum | | | | | | Corporate and Eliminations | Consolidated |
|-------------------------------------|------------------|-------------|--------------|------------------------|-----------------------|-----------|-------------------------------|--------------|
| | UnitedHealthcare | OptumHealth | OptumInsight | OptumRx ^(a) | Optum Eliminations | Optum | | |
| Three Months Ended | | | | | | | | |
| September 30, 2015 | | | | | | | | |
| Revenues - external customers: | | | | | | | | |
| Premiums | \$ 30,978 | \$823 | \$ — | \$ — | \$ — | \$823 | \$ — | \$ 31,801 |
| Products | — | 8 | 31 | 6,443 | — | 6,482 | — | 6,482 |
| Services | 1,710 | 594 | 592 | 140 | — | 1,326 | — | 3,036 |
| Total revenues - external customers | 32,688 | 1,425 | 623 | 6,583 | — | 8,631 | — | 41,319 |
| Total revenues - intersegment | — | 2,067 | 961 | 7,824 | (222) | 10,630 | (10,630) | — |
| Investment and other income | 129 | 40 | 1 | — | — | 41 | — | 170 |
| Total revenues | \$ 32,817 | \$3,532 | \$ 1,585 | \$ 14,407 | \$ (222) | \$ 19,302 | \$ (10,630) | \$ 41,489 |
| Earnings from operations | \$ 1,876 | \$363 | \$ 289 | \$ 490 | \$ — | \$ 1,142 | \$ — | \$ 3,018 |
| Interest expense | — | — | — | — | — | — | (229) | (229) |
| Earnings before income taxes | \$ 1,876 | \$363 | \$ 289 | \$ 490 | \$ — | \$ 1,142 | \$ (229) | \$ 2,789 |
| Three Months Ended | | | | | | | | |
| September 30, 2014 | | | | | | | | |
| Revenues - external customers: | | | | | | | | |
| Premiums | \$ 28,287 | \$685 | \$ — | \$ — | \$ — | \$685 | \$ — | \$ 28,972 |
| Products | — | 6 | 23 | 1,051 | — | 1,080 | — | 1,080 |
| Services | 1,617 | 373 | 521 | 24 | — | 918 | — | 2,535 |
| Total revenues - external customers | 29,904 | 1,064 | 544 | 1,075 | — | 2,683 | — | 32,587 |
| Total revenues - intersegment | — | 1,749 | 705 | 6,936 | (124) | 9,266 | (9,266) | — |
| Investment and other income | 135 | 36 | 1 | — | — | 37 | — | 172 |
| Total revenues | \$ 30,039 | \$2,849 | \$ 1,250 | \$ 8,011 | \$ (124) | \$ 11,986 | \$ (9,266) | \$ 32,759 |
| Earnings from operations | \$ 2,038 | \$314 | \$ 225 | \$ 326 | \$ — | \$ 865 | \$ — | \$ 2,903 |
| Interest expense | — | — | — | — | — | — | (152) | (152) |
| Earnings before income taxes | \$ 2,038 | \$314 | \$ 225 | \$ 326 | \$ — | \$ 865 | \$ (152) | \$ 2,751 |

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| (in millions) | Optum | | | | | | Corporate and Eliminations | Consolidated |
|-----------------------------------------|------------------|-------------|--------------|------------------------|-----------------------|-----------|-------------------------------|--------------|
| | UnitedHealthcare | OptumHealth | OptumInsight | OptumRx ^(a) | Optum Eliminations | Optum | | |
| Nine Months Ended September 30, 2015 | | | | | | | | |
| Revenues - external customers: | | | | | | | | |
| Premiums | \$ 93,069 | \$ 2,367 | \$ — | \$ — | \$ — | \$ 2,367 | \$ — | \$ 95,436 |
| Products | 1 | 24 | 67 | 8,843 | — | 8,934 | — | 8,935 |
| Services | 5,028 | 1,694 | 1,693 | 192 | — | 3,579 | — | 8,607 |
| Total revenues - external customers | 98,098 | 4,085 | 1,760 | 9,035 | — | 14,880 | — | 112,978 |
| Total revenues - intersegment | — | 6,061 | 2,623 | 22,579 | (553) | 30,710 | (30,710) | — |
| Investment and other income | 415 | 113 | 1 | 1 | — | 115 | — | 530 |
| Total revenues | \$ 98,513 | \$ 10,259 | \$ 4,384 | \$ 31,615 | \$ (553) | \$ 45,705 | \$ (30,710) | \$ 113,508 |
| Earnings from operations | \$ 5,805 | \$ 850 | \$ 782 | \$ 1,116 | \$ — | \$ 2,748 | \$ — | \$ 8,553 |
| Interest expense | — | — | — | — | — | — | (530) | (530) |
| Earnings before income taxes | \$ 5,805 | \$ 850 | \$ 782 | \$ 1,116 | \$ — | \$ 2,748 | \$ (530) | \$ 8,023 |
| Nine Months Ended September 30, 2014 | | | | | | | | |
| Revenues - external customers: | | | | | | | | |
| Premiums | \$ 84,011 | \$ 1,916 | \$ — | \$ — | \$ — | \$ 1,916 | \$ — | \$ 85,927 |
| Products | 2 | 17 | 63 | 3,033 | — | 3,113 | — | 3,115 |
| Services | 4,849 | 878 | 1,578 | 81 | — | 2,537 | — | 7,386 |
| Total revenues - external customers | 88,862 | 2,811 | 1,641 | 3,114 | — | 7,566 | — | 96,428 |
| Total revenues - intersegment | — | 5,094 | 2,098 | 20,355 | (354) | 27,193 | (27,193) | — |
| Investment and other income | 502 | 110 | 1 | — | — | 111 | — | 613 |
| Total revenues | \$ 89,364 | \$ 8,015 | \$ 3,740 | \$ 23,469 | \$ (354) | \$ 34,870 | \$ (27,193) | \$ 97,041 |
| Earnings from operations | \$ 5,266 | \$ 749 | \$ 635 | \$ 859 | \$ — | \$ 2,243 | \$ — | \$ 7,509 |
| Interest expense | — | — | — | — | — | — | (467) | (467) |
| Earnings before income taxes | \$ 5,266 | \$ 749 | \$ 635 | \$ 859 | \$ — | \$ 2,243 | \$ (467) | \$ 7,042 |

As of September 30, 2015, OptumRx's total assets were \$25.7 billion as compared to \$5.5 billion as of December 31, 2014. The increase was due to the Catamaran acquisition completed during the three months ended September 30, 2015. See Note 2 of Notes to the Condensed Consolidated Financial Statements for more information on the Company's acquisition of Catamaran.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read together with the accompanying Condensed Consolidated Financial Statements and Notes and with our 2014 10-K, including the Consolidated Financial Statements and Notes in Part II,

Item 8, "Financial Statements" in that report. Unless the context indicates otherwise, references to the terms "UnitedHealth Group," "we," "our" or "us" used throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations refer to UnitedHealth Group Incorporated and its consolidated subsidiaries. Readers are cautioned that the statements, estimates, projections or outlook contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations, including discussions regarding financial prospects, economic conditions, trends and uncertainties contained in this Item 2, may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (PSLRA). These forward-looking statements involve risks and uncertainties that may cause our actual results to differ materially from the results discussed or implied in the forward-looking statements. A description of some of the risks and uncertainties is set forth in Part I, Item 1A, "Risk Factors" in our 2014 10-K and in the discussion below.

EXECUTIVE OVERVIEW

General

UnitedHealth Group is a diversified health and well-being company dedicated to helping people live healthier lives and making the health system work better for everyone. Through our diversified family of businesses, we leverage core competencies in advanced, enabling technology; health care data, information and intelligence; and clinical care management and coordination to help meet the demands of the health system. We offer a broad spectrum of products and services through two distinct

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platforms: UnitedHealthcare, which provides health care coverage and benefits services; and Optum, which provides pharmacy care services and information and technology-enabled health services.

Further information on our business is included in Part I, Item 1, “Business” and Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2014 10-K and additional information on our segments can be found in this Item 2 and in Note 13 of Notes to the Condensed Consolidated Financial Statements in Part I, Item 1 of this report.

Business Trends

Our businesses participate in the U.S., Brazilian and certain other international health economies. In the United States, health care spending comprises approximately 18% of gross domestic product and has grown consistently for many years. We expect overall spending on health care to continue to grow in the future, due to inflation, medical technology and pharmaceutical advancement, regulatory requirements, demographic trends in the population and national interest in health and well-being. The rate of market growth may be affected by a variety of factors, including macro-economic conditions and regulatory changes, including enacted health reform legislation in the United States, which have impacted and could further impact our results of operations.

Pricing Trends. To price our health care benefit products, we start with our view of expected future costs. We frequently evaluate and adjust our approach in each of the local markets we serve, considering all relevant factors, such as product positioning, price competitiveness and environmental, competitive, legislative and regulatory considerations. Our review of regulatory considerations involves a focus on minimum loss ratio (MLR) thresholds and the risk adjustment, risk corridor and reinsurance provisions that impact the small group and individual markets. We will continue seeking to balance growth and profitability across all of these dimensions.

We continue to be under pressure from ongoing market competition in commercial products and from government payment rates. The intensity of commercial pricing competition depends on local market conditions and competitive dynamics. Annual commercial premium rate increases are subject to federal and state review and approval procedures. The Medicare Advantage rate structure is changing and funding has been cut in recent years, with additional reductions taking effect in 2015, as discussed below in “Regulatory Trends and Uncertainties.” Although we expect continued Medicaid revenue increases due to anticipated growth in the number of people served through our offerings, the reimbursement rate environment creates the risk of downward pressure on Medicaid net margin percentages.

Medical Cost Trends. Our medical cost trends are primarily related to changes in unit costs, health system utilization and prescription drug costs. Although Health Reform Legislation and prescription drug utilization, particularly use of new specialty medications, have exerted upward pressure on medical cost trends, our medical cost management strategies have had a moderating impact on utilization trends in recent years.

Regulatory Trends and Uncertainties

Following is a summary of management’s view of the trends and uncertainties related to some of the key provisions of Health Reform Legislation and other regulatory items. For additional information regarding Health Reform Legislation and regulatory trends and uncertainties, see Part I, Item 1, “Business - Government Regulation”, Item 1A, “Risk Factors”, and Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2014 10-K.

Medicare Advantage Rates. Medicare Advantage rates have been cut over the last several years, with additional funding reductions to be phased-in through 2017. The impact of these cuts to our 2015 Medicare Advantage revenues is partially mitigated by reductions in provider reimbursements for those care providers with rates indexed to Medicare Advantage revenues or Medicare fee-for-service reimbursement rates. These factors affected our plan benefit designs, market participation, growth prospects and earnings expectations for our Medicare Advantage plans this year.

The 2016 Final Rate notice released by CMS in April 2015 provided some progress toward more stable program rates, with the industry seeing an average increase in funding of 125 basis points. However, these rates still trail the pace of the rising cost of medical care and create continued pressure on the Medicare Advantage program.

Our Medicare Advantage rates are currently enhanced by CMS quality bonuses in certain counties based on our local plans’ Star ratings. The level of Star ratings from CMS, based upon specified clinical and operational performance standards, will impact future quality bonuses. In addition, Star ratings affect the amount of savings a plan has to

generate to offer supplemental benefits, which ultimately may affect the plan's membership and revenue. The previous Star bonus program, which paid bonuses to qualifying plans rated 3 stars or higher, expired after 2014. In 2015, quality bonus payments will be paid only to plans rated 4 stars and higher. For the 2015 Star bonus payment year, 39% of our Medicare Advantage members are enrolled in plans rated 4 stars or higher. For the 2016 and 2017 Star bonus payment years, we estimate approximately 56% and 63%,

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respectively, of our Medicare Advantage members will be enrolled in plans rated 4 stars or higher, based on current enrollment. We are dedicating substantial resources to advance our quality scores and Star ratings to strengthen our local market programs and further improve our performance in future years.

Health Insurance Industry Tax and Premium Stabilization Programs. Health Reform Legislation includes a Health Insurance Industry Tax levied on risk-based products proportionally across the industry. The industry-wide amount of the annual tax is \$11.3 billion in 2015 and we paid our proportionate share of \$1.8 billion in September 2015. Health Reform Legislation also includes three programs designed to stabilize the health insurance markets. These programs encompass: a temporary reinsurance program; a temporary risk corridors program; and a permanent risk adjustment program. Of the \$8 billion for the reinsurance program in 2015, \$6 billion will fund the reinsurance pool and \$2 billion will fund the U.S. Treasury. While funding for the reinsurance program will come from all commercial lines of business, only market reform compliant individual business will be eligible for reinsurance recoveries.

For further detail on the Health Insurance Industry Tax and Premium Stabilization Programs, see Note 2 of Notes to the Consolidated Financial Statements included in Part II, Item 8, "Financial Statements" in our 2014 10-K.

Exchanges and Coverage Expansion. We and our competitors are adapting product, network and marketing strategies across markets to anticipate new or expanding distribution channels, including public exchanges, private exchanges and off exchange purchasing. In 2015, we are participating in 23 individual public exchanges and in 12 small group public exchanges.

RESULTS SUMMARY

The following table summarizes our consolidated results of operations and other financial information:

| (in millions, except percentages and per share data) | Three Months Ended | | Increase/(Decrease) | | Nine Months Ended | | Increase/(Decrease) | | |
|---------------------------------------------------------------------|--------------------|---------------|---------------------|-----------|--------------------|---------------|---------------------|-----------|--|
| | September 30, 2015 | 2014 | 2015 vs. 2014 | | September 30, 2015 | 2014 | 2015 vs. 2014 | | |
| Revenues: | | | | | | | | | |
| Premiums | \$31,801 | \$28,972 | \$2,829 | 10 % | \$95,436 | \$85,927 | \$9,509 | 11 % | |
| Products | 6,482 | 1,080 | 5,402 | 500 | 8,935 | 3,115 | 5,820 | 187 | |
| Services | 3,036 | 2,535 | 501 | 20 | 8,607 | 7,386 | 1,221 | 17 | |
| Investment and other income | 170 | 172 | (2) | (1) | 530 | 613 | (83) | (14) | |
| Total revenues | 41,489 | 32,759 | 8,730 | 27 | 113,508 | 97,041 | 16,467 | 17 | |
| Operating costs: | | | | | | | | | |
| Medical costs | 25,618 | 23,092 | 2,526 | 11 | 77,333 | 69,823 | 7,510 | 11 | |
| Operating costs | 6,301 | 5,436 | 865 | 16 | 18,102 | 15,836 | 2,266 | 14 | |
| Cost of products sold | 6,100 | 955 | 5,145 | 539 | 8,311 | 2,776 | 5,535 | 199 | |
| Depreciation and amortization | 452 | 373 | 79 | 21 | 1,209 | 1,097 | 112 | 10 | |
| Total operating costs | 38,471 | 29,856 | 8,615 | 29 | 104,955 | 89,532 | 15,423 | 17 | |
| Earnings from operations | 3,018 | 2,903 | 115 | 4 | 8,553 | 7,509 | 1,044 | 14 | |
| Interest expense | (229) | (152) | 77 | 51 | (530) | (467) | 63 | 13 | |
| Earnings before income taxes | 2,789 | 2,751 | 38 | 1 | 8,023 | 7,042 | 981 | 14 | |
| Provision for income taxes | (1,171) | (1,149) | 22 | 2 | (3,407) | (2,933) | 474 | 16 | |
| Net earnings | 1,618 | 1,602 | 16 | 1 | 4,616 | 4,109 | 507 | 12 | |
| Earnings attributable to noncontrolling interests | (21) | — | (21) | nm | (21) | — | (21) | nm | |
| Net earnings attributable to UnitedHealth Group common shareholders | \$1,597 | \$1,602 | \$(5) | — % | \$4,595 | \$4,109 | \$486 | 12 % | |
| | \$1.65 | \$1.63 | \$0.02 | 1 % | \$4.75 | \$4.15 | \$0.60 | 14 % | |

Diluted earnings per share
 attributable to
 UnitedHealth Group
 common shareholders

| | | | | | | | | |
|-------------------------|------|--------|---------|----|------|--------|---------|----|
| Medical care ratio (a) | 80.6 | % 79.7 | % 0.9 | % | 81.0 | % 81.3 | % (0.3) |)% |
| Operating cost ratio | 15.2 | 16.6 | (1.4) |) | 15.9 | 16.3 | (0.4) |) |
| Operating margin | 7.3 | 8.9 | (1.6) |) | 7.5 | 7.7 | (0.2) |) |
| Tax rate | 42.0 | 41.8 | 0.2 | | 42.5 | 41.7 | 0.8 | |
| Net earnings margin (b) | 3.8 | 4.9 | (1.1) |) | 4.0 | 4.2 | (0.2) |) |
| Return on equity (c) | 19.3 | % 19.6 | % (0.3) |)% | 18.8 | % 16.8 | % 2.0 | % |

(a) Medical care ratio is calculated as medical costs divided by premium revenue.

(b) Net earnings margin attributable to UnitedHealth Group shareholders.

Return on equity is calculated as annualized net earnings divided by average equity. Average equity is calculated (c) using the equity balance at the end of the preceding year and the equity balances at the end of each of the quarters in the periods presented.

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SELECTED OPERATING PERFORMANCE AND OTHER SIGNIFICANT ITEMS

The following summarizes select third quarter 2015 year-over-year operating comparisons to third quarter 2014 and other 2015 significant items.

Consolidated revenues grew 27%, UnitedHealthcare revenues grew 9% and Optum revenues grew 61%.

UnitedHealthcare grew to serve an additional 1.7 million people domestically.

Earnings from operations increased 4%, including an increase of 32% at Optum partially offset by a decrease of 8% at UnitedHealthcare.

Diluted earnings per common share increased 1% to \$1.65.

Year-to-date 2015 cash flows from operations were \$6.2 billion, an increase of 11%.

On July 23, 2015, we acquired Catamaran through the purchase of all of its outstanding common stock for cash. See Note 2 of Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report for more information.

2015 RESULTS OF OPERATIONS COMPARED TO 2014 RESULTS

Our results of operations for the three and nine months ended September 30, 2015 compared to the corresponding prior periods was affected by our acquisition of Catamaran on July 23, 2015.

Consolidated Financial Results

Revenues

The increase in revenues during the three and nine months ended September 30, 2015 was primarily driven by the effect of the Catamaran acquisition and organic growth in the number of individuals served across our benefits businesses and across all of Optum's businesses.

Medical Costs and Medical Care Ratio

Medical costs during the three and nine months ended September 30, 2015 increased due to risk-based membership growth in our benefits businesses. The medical care ratio for the three months ended September 30, 2015 increased primarily due to increased medical spending for Medicare Star quality performance, an increased mix of government sponsored benefits businesses and lower levels of favorable reserve development. The medical care ratio for the nine months ended September 30, 2015 was consistent with 2014.

Operating Cost Ratio

The decrease in our operating cost ratio during the three and nine months ended September 30, 2015 was due to the inclusion of Catamaran and by growth in government benefits programs, both of which have lower operating cost ratios, and Company-wide productivity gains.

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Reportable Segments

See Note 13 of Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1, "Financial Statements" for more information on our segments. The following table presents a summary of the reportable segment financial information:

| (in millions, except percentages) | Three Months Ended September 30, | | Increase/(Decrease) | | Nine Months Ended September 30, | | Increase/(Decrease) | |
|---------------------------------------|-------------------------------------|----------|---------------------|-------|------------------------------------|-----------|---------------------|------|
| | 2015 | 2014 | 2015 vs. 2014 | | 2015 | 2014 | 2015 vs. 2014 | |
| Revenues | | | | | | | | |
| UnitedHealthcare | \$32,817 | \$30,039 | \$2,778 | 9 % | \$98,513 | \$89,364 | \$9,149 | 10 % |
| OptumHealth | 3,532 | 2,849 | 683 | 24 | 10,259 | 8,015 | 2,244 | 28 |
| OptumInsight | 1,585 | 1,250 | 335 | 27 | 4,384 | 3,740 | 644 | 17 |
| OptumRx | 14,407 | 8,011 | 6,396 | 80 | 31,615 | 23,469 | 8,146 | 35 |
| Optum eliminations | (222) | (124) | 98 | 79 | (553) | (354) | 199 | 56 |
| Optum | 19,302 | 11,986 | 7,316 | 61 | 45,705 | 34,870 | 10,835 | 31 |
| Eliminations | (10,630) | (9,266) | 1,364 | 15 | (30,710) | (27,193) | 3,517 | 13 |
| Consolidated revenues | \$41,489 | \$32,759 | \$8,730 | 27 % | \$113,508 | \$97,041 | \$16,467 | 17 % |
| Earnings from operations | | | | | | | | |
| UnitedHealthcare | \$1,876 | \$2,038 | \$(162) | (8)% | \$5,805 | \$5,266 | \$539 | 10 % |
| OptumHealth | 363 | 314 | 49 | 16 | 850 | 749 | 101 | 13 |
| OptumInsight | 289 | 225 | 64 | 28 | 782 | 635 | 147 | 23 |
| OptumRx | 490 | 326 | 164 | 50 | 1,116 | 859 | 257 | 30 |
| Optum | 1,142 | 865 | 277 | 32 | 2,748 | 2,243 | 505 | 23 |
| Consolidated earnings from operations | \$3,018 | \$2,903 | \$115 | 4 % | \$8,553 | \$7,509 | \$1,044 | 14 % |
| Operating margin | | | | | | | | |
| UnitedHealthcare | 5.7 % | 6.8 % | (1.1)% | | 5.9 % | 5.9 % | — % | |
| OptumHealth | 10.3 | 11.0 | (0.7) | | 8.3 | 9.3 | (1.0) | |
| OptumInsight | 18.2 | 18.0 | 0.2 | | 17.8 | 17.0 | 0.8 | |
| OptumRx | 3.4 | 4.1 | (0.7) | | 3.5 | 3.7 | (0.2) | |
| Optum | 5.9 | 7.2 | (1.3) | | 6.0 | 6.4 | (0.4) | |
| Consolidated operating margin | 7.3 % | 8.9 % | (1.6)% | | 7.5 % | 7.7 % | (0.2)% | |

UnitedHealthcare

The following table summarizes UnitedHealthcare revenues by business:

| (in millions, except percentages) | Three Months Ended September 30, | | Increase/(Decrease) | | Nine Months Ended September 30, | | Increase/(Decrease) | |
|----------------------------------------|-------------------------------------|----------|---------------------|-------|------------------------------------|----------|---------------------|-------|
| | 2015 | 2014 | 2015 vs. 2014 | | 2015 | 2014 | 2015 vs. 2014 | |
| UnitedHealthcare Employer & Individual | \$11,871 | \$10,610 | \$1,261 | 12 % | \$35,139 | \$32,296 | \$2,843 | 9 % |
| UnitedHealthcare Medicare & Retirement | 12,267 | 11,477 | 790 | 7 | 37,607 | 34,764 | 2,843 | 8 |
| UnitedHealthcare Community & State | 7,392 | 6,131 | 1,261 | 21 | 21,502 | 17,069 | 4,433 | 26 |
| UnitedHealthcare Global | 1,287 | 1,821 | (534) | (29) | 4,265 | 5,235 | (970) | (19) |
| Total UnitedHealthcare revenues | \$32,817 | \$30,039 | \$2,778 | 9 % | \$98,513 | \$89,364 | \$9,149 | 10 % |

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The following table summarizes the number of individuals served by our UnitedHealthcare businesses, by major market segment and funding arrangement:

| (in thousands, except percentages) | September 30, | | Increase/(Decrease) | | |
|-------------------------------------------|---------------|--------|---------------------|------|----|
| | 2015 | 2014 | 2015 vs. 2014 | | |
| Commercial risk-based | 8,180 | 7,545 | 635 | 8 | % |
| Commercial fee-based, including TRICARE | 21,350 | 21,210 | 140 | 1 | |
| Total commercial | 29,530 | 28,755 | 775 | 3 | |
| Medicare Advantage | 3,225 | 2,995 | 230 | 8 | |
| Medicaid | 5,305 | 4,920 | 385 | 8 | |
| Medicare Supplement (Standardized) | 4,010 | 3,715 | 295 | 8 | |
| Total public and senior | 12,540 | 11,630 | 910 | 8 | |
| Total UnitedHealthcare - domestic medical | 42,070 | 40,385 | 1,685 | 4 | |
| International | 4,010 | 4,550 | (540) | (12) |) |
| Total UnitedHealthcare - medical | 46,080 | 44,935 | 1,145 | 3 | % |
| Supplemental Data: | | | | | |
| Medicare Part D stand-alone | 5,075 | 5,155 | (80) | (2) |)% |

The increase in commercial risk-based enrollment was a result of strong participation in UnitedHealthcare's individual public exchange products and favorable annual renewal activity and new business wins in the employer group segment. Medicare Advantage participation increased year-over-year primarily due to growth in people served through employer-sponsored group Medicare Advantage plans. Medicaid growth was driven by the combination of ACA Medicaid expansion, states launching new programs to complement established programs and growth in established programs, which was partially offset by a decrease of 175,000 people in one market, where an additional offering was introduced by the state in the first quarter of 2015. Medicare Supplement growth reflected strong customer retention and new sales. The number of people served internationally decreased year-over-year primarily due to pricing and underwriting disciplines in Brazil in response to regulatory actions and declining employment levels in Brazil.

UnitedHealthcare's revenue growth during the three and nine months ended September 30, 2015 was due to growth in the number of individuals served across its businesses and price increases reflecting underlying medical cost trends. UnitedHealthcare's operating earnings for the three months ended September 30, 2015 decreased year-over-year due to lower levels of favorable reserve development, increased investments in and medical costs associated with advancing Medicare Star performance, as well as the impact of individual public exchange products. Operating earnings for the nine months ended September 30, 2015 increased as strong growth across the business along with improved medical cost management and increased productivity more than offset the items that resulted in the third quarter operating earnings decrease.

Optum

Total revenues and operating earnings increased for the three and nine months ended September 30, 2015 as each reporting segment increased revenues and earnings from operations by double-digit percentages as a result of the factors discussed below.

The results by segment were as follows:

OptumHealth

Revenue and earnings from operations increased at OptumHealth during the three and nine months ended September 30, 2015 primarily due to growth in its health delivery businesses and the impact of acquisitions in patient care centers and population health management services. The operating margins for the three and nine months ended September 30, 2015 decreased from the prior year primarily due to investments made to develop future growth opportunities.

OptumInsight

Revenue, earnings from operations and operating margins at OptumInsight for the three and nine months ended September 30, 2015 increased primarily due to expansion and growth in care provider revenue management services, payment integrity and government exchange services.

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OptumRx

Revenue and earnings from operations for the three and nine months ended September 30, 2015 increased due to the acquisition of Catamaran and strong organic growth. Operating margins for both the three and nine months ended September 30, 2015 decreased due to the inclusion of lower margin Catamaran business. For more information about Catamaran, see Note 2 in Notes to the Condensed Consolidated Financial Statements in Part I, Item 1 of this report.

LIQUIDITY, FINANCIAL CONDITION AND CAPITAL RESOURCES

Liquidity

Introduction

We manage our liquidity and financial position in the context of our overall business strategy. We continually forecast and manage our cash, investments, working capital balances and capital structure to meet the short-term and long-term obligations of our businesses while seeking to maintain liquidity and financial flexibility. Cash flows generated from operating activities are principally from earnings before noncash expenses.

Our regulated subsidiaries generate significant cash flows from operations and are subject to financial regulations and standards in their respective jurisdictions. These standards, among other things, require these subsidiaries to maintain specified levels of statutory capital, as defined by each jurisdiction, and restrict the timing and amount of dividends and other distributions that may be paid to their parent companies. In the United States, these regulations and standards are generally consistent with model regulations established by the National Association of Insurance Commissioners. These standards generally permit dividends to be paid from statutory unassigned surplus of the regulated subsidiary and are limited based on the regulated subsidiary's level of statutory net income and statutory capital and surplus. These dividends are referred to as "ordinary dividends" and generally may be paid without prior regulatory approval. If the dividend, together with other dividends paid within the preceding twelve months, exceeds a specified statutory limit or is paid from sources other than earned surplus, the entire dividend is generally considered an "extraordinary dividend" and must receive prior regulatory approval.

For the nine months ended September 30, 2015, our U.S. regulated subsidiaries paid their parent companies dividends of \$3.5 billion, and we had approximately \$1.1 billion in ordinary dividend capacity remaining for the year.

Our nonregulated businesses also generate cash flows from operations that are available for general corporate use. Cash flows generated by these entities, combined with dividends from our regulated entities and financing through the issuance of long-term debt as well as issuance of commercial paper or the ability to draw under our committed credit facilities, further strengthen our operating and financial flexibility. We use these cash flows to expand our businesses through acquisitions, reinvest in our businesses through capital expenditures, repay debt, and return capital to our shareholders through shareholder dividends and/or repurchases of our common stock, depending on market conditions.

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Summary of our Major Sources and Uses of Cash and Cash Equivalents

| (in millions) | Nine Months Ended | | Increase/(Decrease) 2015 vs. 2014 |
|---------------------------------------------------------------------|-----------------------|----------|--------------------------------------|
| | September 30, 2015 | 2014 | |
| Sources of cash: | | | |
| Cash provided by operating activities | \$6,229 | \$5,622 | \$ 607 |
| Issuances of commercial paper and long-term debt, net of repayments | 14,231 | 543 | 13,688 |
| Proceeds from common stock issuances | 366 | 400 | (34) |
| Customer funds administered | 119 | — | 119 |
| Sales and maturities of investments, net of purchases | — | 253 | (253) |
| Total sources of cash | 20,945 | 6,818 | |
| Uses of cash: | | | |
| Common stock repurchases | (1,130) | (3,024) | 1,894 |
| Cash paid for acquisitions, net of cash assumed | (16,183) | (851) | (15,332) |
| Purchases of investments, net of sales and maturities | (114) | — | (114) |
| Purchases of property, equipment and capitalized software, net | (1,072) | (1,121) | 49 |
| Cash dividends paid | (1,310) | (1,004) | (306) |
| Customer funds administered | — | (440) | 440 |
| Other | (497) | (424) | (73) |
| Total uses of cash | (20,306) | (6,864) | |
| Effect of exchange rate changes on cash and cash equivalents | (151) | 3 | (154) |
| Net increase (decrease) in cash and cash equivalents | \$488 | \$(43) | \$ 531 |

2015 Cash Flows Compared to 2014 Cash Flows

Cash flows provided by operating activities in 2015 increased primarily due to improvement in net earnings and growth in risk-based products, which increased medical costs payable, partially offset by the increase in the third quarter payment of the 2015 Health Insurance Industry Tax and the first quarter 2015 payment of reinsurance program fees.

Other significant changes in sources or uses of cash year-over-year included increased cash paid for acquisitions and net debt issuances and decreased share repurchases, all due to the Catamaran acquisition.

Financial Condition

As of September 30, 2015, our cash, cash equivalent and available-for-sale investment balances of \$27.9 billion included \$8.0 billion of cash and cash equivalents (of which \$983 million was available for general corporate use), \$18.4 billion of debt securities and \$1.5 billion of investments in equity securities consisting of investments in non-U.S. dollar fixed-income funds; employee savings plan related investments; venture capital funds; and dividend paying stocks. Given the significant portion of our portfolio held in cash equivalents, we do not anticipate fluctuations in the aggregate fair value of our financial assets to have a material impact on our liquidity or capital position. The use of different market assumptions or valuation methodologies, especially those used in valuing our \$456 million of available-for-sale Level 3 securities (those securities priced using significant unobservable inputs), may have an effect on the estimated fair values of our investments. Due to the subjective nature of these assumptions, the estimates may not be indicative of the actual exit price if we had sold the investment at the measurement date. Other sources of liquidity, primarily from operating cash flows and our commercial paper program, which is supported by our bank credit facilities, reduce the need to sell investments during adverse market conditions. See Note 5 of Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report for further detail concerning our fair value measurements.

Our available-for-sale debt portfolio had a weighted-average duration of 3.4 years and a weighted-average credit rating of "AA" as of September 30, 2015. When multiple credit ratings are available for an individual security, the average of the available ratings is used to determine the weighted-average credit rating.

Table of Contents**Capital Resources and Uses of Liquidity**

In addition to cash flows from operations and cash and cash equivalent balances available for general corporate use, our capital resources and uses of liquidity are as follows:

Commercial Paper and Bank Credit Facilities. Our bank credit facilities provide liquidity support for our commercial paper borrowing program, which facilitates the private placement of unsecured debt through third-party broker-dealers, and are available for general corporate purposes. For more information on our commercial paper and bank credit facilities, see Note 9 of Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

Our bank credit facilities contain various covenants, including covenants requiring us to maintain a defined debt to debt-plus-shareholders' equity ratio of not more than 50%. As of September 30, 2015, our debt to debt-plus-shareholders' equity ratio, as defined and calculated under the credit facilities was approximately 47%.

Long-Term Debt. Periodically, we access capital markets and issue long-term debt for general corporate purposes, for example, to meet our working capital requirements, to refinance debt, to finance acquisitions or for share repurchases. In July 2015, we issued debt to fund the acquisition of Catamaran. For more information on this debt issuance, see Note 9 of Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

Credit Ratings. Our credit ratings as of September 30, 2015, were as follows:

| | Moody's | | Standard & Poor's | | Fitch | | A.M. Best | |
|-----------------------|---------|----------|-------------------|----------|---------|----------|-----------|---------|
| | Ratings | Outlook | Ratings | Outlook | Ratings | Outlook | Ratings | Outlook |
| Senior unsecured debt | A3 | Negative | A+ | Negative | A- | Negative | bbb+ | Stable |
| Commercial paper | P-2 | n/a | A-1 | n/a | F1 | n/a | AMB-2 | n/a |

The availability of financing in the form of debt or equity is influenced by many factors, including our profitability, operating cash flows, debt levels, credit ratings, debt covenants and other contractual restrictions, regulatory requirements and economic and market conditions. For example, a significant downgrade in our credit ratings or adverse conditions in the capital markets may increase the cost of borrowing for us or limit our access to capital.

Share Repurchase Program. We expect continued moderated share repurchase activity for the remainder of 2015 due to the acquisition of Catamaran. For more information on our share repurchase program, see Note 10 of Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

Dividends. In June 2015, our Board increased our quarterly cash dividend to shareholders to an annual dividend rate of \$2.00 per share. For more information on our dividend, see Note 10 of Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

A summary of future obligations under our various contractual obligations and commitments as of December 31, 2014 was disclosed in our 2014 10-K. During the nine months ended September 30, 2015, there were no material changes to this previously disclosed information outside the ordinary course of business. However, we continually evaluate opportunities to expand our operations, including through internal development of new products, programs and technology applications and acquisitions.

RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" as modified by ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date." ASU 2014-09 will supersede existing revenue recognition standards with a single model unless those contracts are within the scope of other standards (e.g., an insurance entity's insurance contracts). The revenue recognition principle in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, new and enhanced disclosures will be required. Companies can adopt the new standard either using the full retrospective approach, a modified retrospective approach with practical expedients, or a cumulative effect upon adoption approach. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2017. Early adoption at the original effective date, interim and annual periods beginning after December 15, 2016, will be permitted. We are currently evaluating the effect of the new revenue recognition guidance.

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We have determined that there have been no other recently issued, but not yet adopted, accounting standards that will have a material impact on our Condensed Consolidated Financial Statements.

CRITICAL ACCOUNTING ESTIMATES

In preparing our Condensed Consolidated Financial Statements, we are required to make judgments, assumptions and estimates, which we believe are reasonable and prudent based on the available facts and circumstances. These judgments, assumptions and estimates affect certain of our revenues and expenses and their related balance sheet accounts and disclosure of our contingent liabilities. We base our assumptions and estimates primarily on historical experience and consider known and projected trends. On an ongoing basis, we re-evaluate our selection of assumptions and the method of calculating our estimates. Actual results, however, may materially differ from our calculated estimates and this difference would be reported in our current operations.

Our critical accounting estimates include medical costs payable, revenues, goodwill and intangible assets, investments, income taxes and contingent liabilities. For a detailed description of our critical accounting estimates, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of our 2014 10-K. For a detailed discussion of our significant accounting policies, see Note 2 of Notes to the Consolidated Financial Statements in Part II, Item 8, “Financial Statements” in our 2014 10-K.

FORWARD-LOOKING STATEMENTS

The statements, estimates, projections, guidance or outlook contained in this document include “forward-looking” statements within the meaning of the PSLRA. These statements are intended to take advantage of the “safe harbor” provisions of the PSLRA. Generally the words “believe,” “expect,” “intend,” “estimate,” “anticipate,” “forecast,” “plan,” “project,” “should” and similar expressions identify forward-looking statements, which generally are not historical in nature. These statements may contain information about financial prospects, economic conditions and trends and involve risks and uncertainties. We caution that actual results could differ materially from those that management expects, depending on the outcome of certain factors.

Some factors that could cause actual results to differ materially from results discussed or implied in the forward-looking statements include: our ability to effectively estimate, price for and manage our medical costs, including the impact of any new coverage requirements; new laws or regulations, or changes in existing laws or regulations, or their enforcement or application, including increases in medical, administrative, technology or other costs or decreases in enrollment resulting from U.S., Brazilian and other jurisdictions regulations affecting the health care industry; assessments for insolvent payers under state guaranty fund laws; our ability to achieve improvement in CMS Star ratings and other quality scores that impact revenue; reductions in revenue or delays to cash flows received under Medicare, Medicaid and TRICARE programs, including sequestration and the effects of a prolonged U.S. government shutdown or debt ceiling constraints; changes in Medicare, including changes in payment methodology, the CMS Star ratings program or the application of risk adjustment data validation audits; our participation in federal and state health insurance exchanges which entail uncertainties associated with mix and volume of business; cyber-attacks or other privacy or data security incidents; failure to comply with privacy and data security regulations; regulatory and other risks and uncertainties of the pharmacy benefits management industry; competitive pressures, which could affect our ability to maintain or increase our market share; challenges to our public sector contract awards; our ability to execute contracts on competitive terms with physicians, hospitals and other service providers; failure to achieve targeted operating cost productivity improvements, including savings resulting from technology enhancement and administrative modernization; increases in costs and other liabilities associated with increased litigation, government investigations, audits or reviews; failure to manage successfully our strategic alliances or complete or receive anticipated benefits of acquisitions and other strategic transactions, including our acquisition of Catamaran; fluctuations in foreign currency exchange rates on our reported shareholders equity and results of operations; downgrades in our credit ratings; adverse economic conditions, including decreases in enrollment resulting from increases in the unemployment rate and commercial attrition; the performance of our investment portfolio; impairment of the value of our goodwill and intangible assets in connection with dispositions or if estimated future results do not adequately support goodwill and intangible assets recorded for our existing businesses or the businesses that we acquire; increases in health care costs resulting from large-scale medical emergencies; failure to maintain effective and efficient information systems or if our technology products do not operate as intended; and our ability to

obtain sufficient funds from our regulated subsidiaries or the debt or capital markets to fund our obligations, to maintain our debt to total capital ratio at targeted levels, to maintain our quarterly dividend payment cycle or to continue repurchasing shares of our common stock.

This list of important factors is not intended to be exhaustive. We discuss certain of these matters more fully, as well as certain risk factors that may affect our business operations, financial condition and results of operations, in our other periodic and current filings with the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. Any or all forward-looking statements we make may turn out to be wrong, and can be affected by inaccurate

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assumptions we might make or by known or unknown risks and uncertainties. By their nature, forward-looking statements are not guarantees of future performance or results and are subject to risks, uncertainties and assumptions that are difficult to predict or quantify. Actual future results may vary materially from expectations expressed or implied in this document or any of our prior communications. You should not place undue reliance on forward-looking statements, which speak only as of the date they are made. We do not undertake to update or revise any forward-looking statements, except as required by applicable securities laws.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risks are exposures to changes in interest rates that impact our investment income and interest expense and the fair value of certain of our fixed-rate investments and debt, as well as foreign currency exchange rate risk of the U.S. dollar primarily to the Brazilian real.

We manage exposure to market interest rates by diversifying investments across different fixed income market sectors and debt across maturities, as well as by endeavoring to match our floating-rate assets and liabilities over time, either directly or through the use of interest rate swap contracts. Unrealized gains and losses on investments in available-for-sale securities are reported in comprehensive income.

The following table summarizes the impact of hypothetical changes in market interest rates across the entire yield curve by 1% point or 2% points as of September 30, 2015 on our investment income and interest expense per annum, and the fair value of our investments and debt (in millions, except percentages):

| Increase (Decrease) in Market Interest Rate | September 30, 2015 | | | |
|---------------------------------------------|---------------------------------|--------------------------------|------------------------------------|-------------------------------------|
| | Investment Income Per Annum (a) | Interest Expense Per Annum (a) | Fair Value of Financial Assets (b) | Fair Value of Financial Liabilities |
| 2 % | \$198 | \$238 | \$(1,380) | \$(3,351) |
| 1 | 99 | 119 | (696) | (1,813) |
| (1) | (59) | (23) | 634 | 2,121 |
| (2) | nm | nm | 1,013 | 4,487 |

nm = not meaningful

Given the low absolute level of short-term market rates on our floating-rate assets and liabilities as of September 30, 2015, the assumed hypothetical change in interest rates does not reflect the full 100 basis point reduction in interest income or interest expense as the rate cannot fall below zero and thus the 200 basis point reduction is not meaningful.

(a) As of September 30, 2015, some of our investments had interest rates below 2% so the assumed hypothetical change in the fair value of investments does not reflect the full 200 basis point reduction.

We have an exposure to changes in the value of the Brazilian real to the U.S. dollar in translation of Amil's operating results at the average exchange rate over the accounting period, and Amil's assets and liabilities at the spot rate at the end of the accounting period. The gains or losses resulting from translating foreign assets and liabilities into U.S. dollars are included in shareholders' equity and comprehensive income.

An appreciation of the U.S. dollar against the Brazilian real reduces the carrying value of the net assets denominated in Brazilian real. For example, as of September 30, 2015, a hypothetical 10% and 25% increase in the value of the U.S. dollar against the Brazilian real would have caused a reduction in net assets of approximately \$280 million and \$620 million, respectively. We manage exposure to foreign currency risk by conducting our international business operations primarily in their functional currencies.

ITEM 4. CONTROLS AND PROCEDURES**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

We maintain disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act) that are designed to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms; and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the filing of this Form 10-Q, management evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2015. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2015.

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CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

A description of our legal proceedings is included in and incorporated by reference to Note 12 of Notes to the Condensed Consolidated Financial Statements contained in Part I, Item 1 of this report.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A, "Risk Factors" of our 2014 10-K, which could materially affect our business, financial condition or future results. The risks described in our 2014 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or future results.

There have been no material changes to the risk factors disclosed in our 2014 10-K.

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities (a)

Third Quarter 2015

| For the Month Ended | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares That May Yet Be Purchased Under The Plans or Programs |
|---------------------|----------------------------------|------------------------------|----------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| | (in millions) | | (in millions) | (in millions) |
| July 31, 2015 | — | \$— | — | 63 |
| August 31, 2015 | 2 | 116 | 2 | 61 |
| September 30, 2015 | — | — | — | 61 |
| Total | 2 | \$116 | 2 | |

In November 1997, our Board of Directors adopted a share repurchase program, which the Board evaluates periodically. In June 2014, the Board renewed our share repurchase program with an authorization to repurchase up to 100 million shares of our common stock in open market purchases or other types of transactions (including prepaid or structured repurchase programs). There is no established expiration date for the program.

ITEM 5. OTHER INFORMATION

On November 5, 2015, we adopted an amendment (the "Amendment") to the Amended and Restated UnitedHealth Group Incorporated 2008 Executive Incentive Plan which:

changed the change in control provision to a "double-trigger" provision requiring both a change in control and termination of employment in order for cash long-term incentive plan awards to be paid out; and conformed the change in control definition to the definition in our equity award agreements, which included increasing from 20% to 50% the stock ownership threshold constituting a change in control and eliminating the Board's ability to determine within its discretion whether a change in control has occurred.

The Amendment is attached hereto as Exhibit 10.3 and is incorporated herein by reference.

On November 5, 2015, we also adopted new forms of equity award agreements to be used for grants beginning in 2016 under the UnitedHealth Group Incorporated 2011 Stock Incentive Plan, as amended and restated in 2015 (the "2011 Plan"). The definition of "good reason" contained in each award agreement has been revised to delete as good reason triggers: (1) a diminution in budget responsibility, (2) a change in reporting relationship and (3) an office relocation of more than 25 miles. The performance-based restricted stock unit award agreement was further revised to

include a “double-trigger” change in control provision requiring both a change in control and termination of employment for an award to vest in the event of a change in control.

The forms of stock option, restricted stock unit and performance-based restricted stock unit award agreements to be used for awards under the 2011 Plan beginning in 2016 are attached hereto as Exhibit 10.4, Exhibit 10.5 and Exhibit 10.6, respectively.

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ITEM 6. EXHIBITS**

The following exhibits are filed in response to Item 601 of Regulation S-K.

- 3.1 Certificate of Incorporation of UnitedHealth Group Incorporated (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form 8-A/A filed on July 1, 2015)
- 3.2 Bylaws of UnitedHealth Group Incorporated (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form 8-A/A filed on July 1, 2015)
- 4.1 Senior Indenture, dated as of November 15, 1998, between United HealthCare Corporation and The Bank of New York (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3/A, SEC File Number 333-66013, filed on January 11, 1999)
- 4.2 Amendment, dated as of November 6, 2000, to Senior Indenture, dated as of November 15, 1998, between UnitedHealth Group Incorporated and The Bank of New York (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001)
- 4.3 Instrument of Resignation, Appointment and Acceptance of Trustee, dated January 8, 2007, pursuant to the Senior Indenture, dated as of November 15, 1998, amended November 6, 2000, among UnitedHealth Group Incorporated, The Bank of New York and Wilmington Trust Company (incorporated by reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007)
- 4.4 Indenture, dated as of February 4, 2008, between UnitedHealth Group Incorporated and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3, SEC File Number 333-149031, filed on February 4, 2008)
- 10.1 Form of Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 1, 2015)
- *10.2 Sixth Amendment to UnitedHealth Group Executive Savings Plan (2004 Statement)
- *10.3 Second Amendment, dated as of November 5, 2015, of Amended and Restated UnitedHealth Group Incorporated 2008 Executive Incentive Plan
- *10.4 Form of Agreement for Non-Qualified Stock Option Award to Executives under UnitedHealth Group Incorporated's 2011 Stock Incentive Plan, as amended and restated in 2015, for awards made after January 1, 2016
- *10.5 Form of Agreement for Restricted Stock Unit Award to Executives under UnitedHealth Group Incorporated's 2011 Stock Incentive Plan, as amended and restated in 2015, for awards made after January 1, 2016
- *10.6 Form of Agreement for Performance-based Restricted Stock Unit Award to Executives under UnitedHealth Group Incorporated's 2011 Stock Incentive Plan, as amended and restated in 2015, for awards made after January 1, 2016
- 12.1 Computation of Ratio of Earnings to Fixed Charges
- 31.1 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from UnitedHealth Group Incorporated's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 filed on November 5, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Changes in Equity, (v) Condensed Consolidated Statements of Cash Flows, and (vi) Notes to the Condensed Consolidated Financial Statements.

* Denotes management contracts and compensation plans in which certain directors and named executive officers participate and which are being filed pursuant to Item 601(b)(10)(iii)(A) of Regulation S-K.

** Pursuant to Item 601(b)(4)(iii) of Regulation S-K, copies of instruments defining the rights of certain holders of long-term debt are not filed. The Company will furnish copies thereof to the SEC upon request.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITEDHEALTH GROUP INCORPORATED

| | | |
|----------------------------------------------|----------------------------------------------------------|-------------------------|
| /s/ STEPHEN J. HEMSLEY Stephen J. Hemsley | Chief Executive Officer (principal executive officer) | Dated: November 5, 2015 |
|----------------------------------------------|----------------------------------------------------------|-------------------------|

| | | |
|--------------------------------------------|------------------------------------------------------------------------|-------------------------|
| /s/ DAVID S. WICHMANN David S. Wichmann | President and Chief Financial Officer (principal financial officer) | Dated: November 5, 2015 |
|--------------------------------------------|------------------------------------------------------------------------|-------------------------|

| | | |
|--------------------------------------|-----------------------------------------------------------------------------------------|-------------------------|
| /S/ THOMAS E. ROOS Thomas E. Roos | Senior Vice President and Chief Accounting Officer (principal accounting officer) | Dated: November 5, 2015 |
|--------------------------------------|-----------------------------------------------------------------------------------------|-------------------------|

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- 4.2 Amendment, dated as of November 6, 2000, to Senior Indenture, dated as of November 15, 1998, between UnitedHealth Group Incorporated and The Bank of New York (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001)
- 4.3 Instrument of Resignation, Appointment and Acceptance of Trustee, dated January 8, 2007, pursuant to the Senior Indenture, dated as of November 15, 1998, amended November 6, 2000, among UnitedHealth Group Incorporated, The Bank of New York and Wilmington Trust Company (incorporated by reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007)
- 4.4 Indenture, dated as of February 4, 2008, between UnitedHealth Group Incorporated and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3, SEC File Number 333-149031, filed on February 4, 2008)
- 10.1 Form of Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 1, 2015)
- *10.2 Sixth Amendment to UnitedHealth Group Executive Savings Plan (2004 Statement)
- *10.3 Second Amendment, dated as of November 5, 2015, of Amended and Restated UnitedHealth Group Incorporated 2008 Executive Incentive Plan
- *10.4 Form of Agreement for Non-Qualified Stock Option Award to Executives under UnitedHealth Group Incorporated's 2011 Stock Incentive Plan, as amended and restated in 2015, for awards made after January 1, 2016
- *10.5 Form of Agreement for Restricted Stock Unit Award to Executives under UnitedHealth Group Incorporated's 2011 Stock Incentive Plan, as amended and restated in 2015, for awards made after January 1, 2016
- *10.6 Form of Agreement for Performance-based Restricted Stock Unit Award to Executives under UnitedHealth Group Incorporated's 2011 Stock Incentive Plan, as amended and restated in 2015, for awards made after January 1, 2016
- 12.1 Computation of Ratio of Earnings to Fixed Charges
- 31.1 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from UnitedHealth Group Incorporated's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 filed on November 5, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Changes in Equity, (v) Condensed Consolidated Statements of Cash Flows, and (vi) Notes to the Condensed Consolidated Financial Statements.

* Denotes management contracts and compensation plans in which certain directors and named executive officers participate and which are being filed pursuant to Item 601(b)(10)(iii)(A) of Regulation S-K.

** Pursuant to Item 601(b)(4)(iii) of Regulation S-K, copies of instruments defining the rights of certain holders of long-term debt are not filed. The Company will furnish copies thereof to the SEC upon request.

