



Humana Reports Third Quarter Results

October 31, 2000

LOUISVILLE, Ky., Oct. 31 /PRNewswire/ -- Humana Inc. (NYSE: HUM) today reported operating earnings of \$.14 per diluted share for the third quarter ended September 30, 2000.

These results compare to operating earnings of \$.13 per diluted share for the third quarter of 1999. (Third quarter 1999 earnings per diluted share were \$.05 excluding the beneficial effects from previously established premium deficiency charges and favorable development in the company's workers' compensation liabilities.)

Net income for the third quarter of 2000 was \$23 million, compared to earnings of \$22 million for the same period in the prior year. Weighted average shares outstanding (assuming dilution) were 165,690,000 in the third quarter 2000 versus 168,030,000 in the prior year's quarter due to the impact of treasury stock transactions during the most recent quarter.

"While we are generally pleased with our earnings improvement, Humana's associates and leaders understand that our turnaround is far from complete," said Michael B. McCallister, Humana's president and chief executive officer. "With our operating results heading in the right direction, we can devote more of our attention to the next phase of our turnaround -- growing our core business."

Revenue and Membership

Revenue in the third quarter increased 2.3 percent from the year ago quarter to \$2.62 billion versus \$2.56 billion in 1999.

Commercial premium yields averaged 13.5 percent for the third quarter, compared to 6.7 percent for the same period in the prior year. Due to the impact that premium increases had on member retention, Humana's commercial membership was 2,639,600, a 7.2 percent decline sequentially.

Medicare premium yields rose to 5.5 percent in the third quarter of 2000 versus 4.0 percent for the prior year quarter, the result of a new pricing component -- member premiums -- implemented in the first quarter of 2000 and a change in the mix of members in markets with higher HCFA reimbursement rates. On June 30, 2000, the company announced its intent to exit 45 Medicare counties January 1, 2001, affecting approximately 80,000 members.

Medical and Administrative Expenses

The company's medical expense ratio for the third quarter was 84.2 percent, versus ratios of 85.0 percent for the same period in 1999 and 85.0 percent in the second quarter of 2000.

Planned spending on infrastructure and technology initiatives combined with a lower ratio of members to employees resulted in a sequential increase of 50 basis points in the company's administrative expense ratio, to 15.5 percent. This compares to 15.0 percent in the second quarter of 2000 and 14.6 percent from the year-ago quarter.

"We are closely monitoring our administrative expenses given our reduced membership base. At the same time we are investing the resources needed to position our core business for growth and improving our business model for the future," stated McCallister.

The company's effective tax rate of 21 percent for the third quarter of 2000 was unchanged from that reported for the first and second quarters of 2000 and compares to 35 percent for the third quarter of 1999. The lower effective tax rate for 2000 results from the implementation of certain tax planning strategies related to the disposition of the company's workers' compensation business.

Cash flows

Excluding the timing of the receipt of the Medicare premium payment from HCFA, cash flows provided by operations totaled \$49 million in the third quarter of 2000. Cash flows during the quarter include the impact of a 10 percent reduction in claims liabilities.

The claims liability reduction reflects a conscious effort by the company, as it strives to become more efficient. "The benefits of our claim inventory reductions are many," McCallister noted. "Provider and member satisfaction increases as claims are processed more expeditiously. Correspondingly, claim resubmission levels decline and customer service associates can spend a greater amount of time assisting our customers and members."

In addition, the company is working diligently to increase the amount of claims submitted electronically, resulting in quicker and more efficient processing of such claims. "This is an important step in our ongoing progress towards a fully electronically-enabled environment," McCallister said. "By harnessing the speed and convenience of electronic technology, including the Internet, we expect to make our health plans more customer-focused, more physician-friendly, and obviously more efficient."

Claim inventory reductions accounted for 2.3 days of the sequential decline in days in claims payable for the quarter. The run-off of claims related to terminated membership lowered the days by nearly two more days.

Highlights from Operating Divisions

Health Plan Division

Large Group Commercial

- Premium yields were in the 10 to 11 percent range in the third quarter of 2000 consistent with the first and second quarter of 2000.

* Membership declined 6.6 percent to 1,278,500 from 1,369,000 at

June 30, 2000. Excluding the third quarter loss of 47,000 members related to the State of Texas account, membership declined 3.2 percent sequentially.

- Medical cost trends were in the 6 to 7 percent range for the third quarter of 2000 compared to a range of 6 to 7 percent in the second quarter of 2000 and a range of 7 to 8 percent in the third quarter of 1999. These cost trends include costs related to the company's non-core business.

Medicare

- Premium yields were 5.5 percent in the third quarter of 2000 compared to 6.3 percent in the second quarter of 2000.

* Membership declined sequentially 1.7 percent or 9,100 members to 513,100

as of September 30, 2000, as the company experienced some attrition related to Medicare counties it will be exiting January 1, 2001.

- Medical cost trends were in the 7 to 8 percent range in the third quarter of 2000 compared to a range of 7 to 8 percent for the second quarter of 2000 and 5 to 6 percent for the third quarter of 1999. Excluding counties that the company intends to exit on January 1, 2001, medical cost trends approximated 6 to 7 percent. Increased utilization in the 2001 exit counties contributed approximately 100 basis points to the cost trends in this line of business.

Small Group Division

Small Group Commercial

- Premium yields were in the 16 to 17 percent range in the third quarter of 2000 compared to a range of 13 to 14 percent in the second quarter of 2000. The third quarter premium yield includes the impact of focal increases in Colorado and Texas.
- Membership declined sequentially approximately 114,400 or 7.8 percent, with a significant portion of the decline in those markets where focal rate increases were introduced.
- Medical cost trends were in the 9 to 10 percent range in the third quarter of 2000 compared to 11 to 12 percent in the second quarter of 2000 and 10 to 11 percent in the third quarter of 1999. The progressive implementation of Humana's three-tier pharmacy benefit helped drive lower cost trends in the third quarter.

Humana Inc., headquartered in Louisville, Kentucky, is one of the nation's largest publicly traded health services companies, with approximately 5.4 million medical members located primarily in 15 states and Puerto Rico. Humana offers coordinated health insurance coverage through a variety of plans

- health maintenance organizations, preferred provider organizations, point-of-service-plans and administrative service products -- to employer groups, government-sponsored plans and individuals.

More information regarding Humana is available via the Internet at www.humana.com, including on-line:

- Copies of annual report to shareholders, Form 10-K, Form 10-Qs, and proxy statement;
- Copy of most recent investor presentation;
- Copies of quarterly earnings press releases;
- Audio archive of the most recent earnings release conference call;
- Calendar of events (includes upcoming earnings release date, related conference call access number, and planned participation in investor conferences).

This news release contains forward-looking statements. The forward-looking statements made in this news release are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be significantly impacted by certain risks and uncertainties described in the following documents, as filed with the Securities and Exchange Commission:

- Humana's 1999 Form 10-K;
- Humana's Form 10-Qs for the first and second quarters of 2000.

Summary of operating results for the three months ended September 30:

	2000	1999
Revenues	\$ 2,616,000,000	\$ 2,557,000,000
Income before income taxes	\$ 29,000,000	\$ 34,000,000 (a)
Net income	\$ 23,000,000	\$ 22,000,000 (a)
Basic earnings per common share	\$.14	\$.13 (a)
Diluted earnings per common share	\$.14	\$.13 (a)
Shares used in basic earnings per		

common share computation	165,380,000	167,571,000
Shares used in diluted earnings per common share computation	165,690,000	168,030,000

(a) Includes \$22 million (\$14 million after tax, \$.08 per diluted share)

related to the beneficial effects of the previously established premium deficiency charge and favorable liability development in the company's run-off workers' compensation business.

Summary of operating results for the nine months ended September 30:

	2000	1999 (b)
Revenues	\$ 7,954,000,000	\$ 7,539,000,000
Income before income taxes	\$ 80,000,000	\$ 53,000,000 (c)
Net income	\$ 63,000,000	\$ 34,000,000 (c)
Basic earnings per common share	\$.38	\$.20 (c)
Diluted earnings per common share	\$.38	\$.20 (c)
Shares used in basic earnings per common share computation	166,957,000	167,569,000
Shares used in diluted earnings per common share computation	167,094,000	168,326,000

(b) Includes additional medical claims expense of \$90 million (\$58 million

after tax, or \$.34 per diluted share) and a \$12 million (\$8 million after tax, or \$.04 per diluted share) gain on the sale of a tangible asset.

(c) Includes \$74 million (\$48 million after tax, \$.28 per diluted share)

related to the beneficial effects of the previously established premium deficiency and severance charges, favorable liability development in the company's run-off workers' compensation business and non-recurring investment gains.

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Dollars in millions, except per share results

Summarized Operating Results

	Three months ended September 30,		Nine months ended September 30,	
	2000	1999	2000	1999(a)
Revenues:				
Premiums	\$ 2,588	\$ 2,527	\$ 7,865	\$ 7,416
Interest	26	29	82	103
Other income	2	1	7	20
Total revenues	2,616	2,557	7,954	7,539
Operating expenses:				
Medical	2,179	2,148	6,664	6,378
Selling, general and administrative	363	338	1,079	992
Depreciation and amortization	38	30	109	91
Total operating expenses	2,580	2,516	7,852	7,461
Income from operations	36	41	102	78
Interest expense	7	7	22	25
Income before income				

taxes	29	34	80	53
Provision for income taxes	6	12	17	19
Net income	\$ 23	\$ 22	\$ 63	\$ 34

Basic earnings per common share	\$ 0.14	\$ 0.13	\$ 0.38	\$ 0.20
Diluted earnings per common share	\$ 0.14	\$ 0.13	\$ 0.38	\$ 0.20

Shares used in basic earnings per share computation (000)	165,380	167,571	166,957	167,569
Shares used in diluted earnings per share computation (000)	165,690	168,030	167,094	168,326

Medical expense ratio	84.2%	85.0%	84.7%	86.0%
Administrative expense ratio	15.5%	14.6%	15.1%	14.6%

(a) Includes medical expenses of \$90 million (\$58 million after tax, or

\$.34 per diluted share) primarily related to premium deficiency and medical reserve strengthening and a \$12 million (\$8 million after tax, or \$.04 per diluted share) gain on the sale of a tangible asset.

Premiums

Health Plans:

Large group commercial	\$ 589	\$ 581	\$ 1,796	\$ 1,765
Medicare HMO	828	738	2,468	2,184
Medicaid	156	158	515	451
TRICARE	238	236	671	638
Other	12	27	66	82
Total Health Plans	1,823	1,740	5,516	5,120

Small Group:

Small group commercial	705	730	2,167	2,129
Specialty	60	57	182	167
Total Small Group	765	787	2,349	2,296

Total premiums	\$ 2,588	\$ 2,527	\$ 7,865	\$ 7,416
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	September 30, December 31,	
Financial Position	2000	1999
Assets:		
Cash and investments	\$ 1,980	\$ 2,738
Property and equipment, net	429	418
Other assets	1,507	1,744
Total assets	\$ 3,916	\$ 4,900
Liabilities and equity:		
Medical expenses payable, current portion	\$ 1,216	\$ 1,432(b)
Other liabilities	1,379	2,200
Equity	1,321	1,268
Total liabilities and equity	\$ 3,916	\$ 4,900

(b) Excluding the current portion of workers' compensation liabilities,

medical expenses payable would have been \$1,324 at December 31, 1999.

Humana Inc.

Dollars in millions, except per share results

Summarized Operating Results (excluding non-recurring items)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2000	1999	2000	1999(c)
Revenues:				
Premiums	\$ 2,588	\$ 2,527	\$ 7,865	\$ 7,416
Interest	26	29	82	103
Other income	2	1	7	8
Total revenues	2,616	2,557	7,954	7,527
Operating expenses:				
Medical	2,179	2,148	6,664	6,288
Selling, general and administrative	363	338	1,079	992
Depreciation and amortization	38	30	109	91
Total operating expenses	2,580	2,516	7,852	7,371
Income from operations	36	41	102	156
Interest expense	7	7	22	25
Income before income taxes	29	34	80	131
Provision for income taxes	6	12	17	48
Net income	\$ 23	\$ 22	\$ 63	\$ 83

Basic earnings per common share	\$ 0.14	\$ 0.13	\$ 0.38	\$ 0.50
Diluted earnings per common share	\$ 0.14	\$ 0.13	\$ 0.38	\$ 0.50

Shares used in basic earnings per share computation (000)	165,380	167,571	166,957	167,569
Shares used in diluted earnings per share computation (000)	165,690	168,030	167,094	168,326

Medical expense ratio	84.2%	85.0%	84.7%	84.8%
Administrative expense ratio	15.5%	14.6%	15.1%	14.6%

(c) Excludes medical expenses of \$90 million (\$58 million after tax, or

\$.34 per diluted share) primarily related to premium deficiency and medical reserve strengthening and a \$12 million (\$8 million after tax, or \$.04 per diluted share) gain on the sale of a tangible asset.

Operating Cash Flows

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2000	1999	2000	1999
Net income	\$ 23	\$ 22	\$ 63	\$ 34
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Depreciation and amortization	38	30	109	91
Deferred income tax provision	17	15	18	18
Gain on sale of a tangible asset	--	--	--	(12)

Gain on sale of marketable securities	--	--	(1)	(12)
Payment for government audit settlement	--	--	(15)	--
Changes in operating assets and liabilities excluding effects of acquisitions and divestitures:				
Premiums receivable	47	(37)	8	(39)
Other assets	3	26	(13)	26
Medical and other expenses payable	(126)	(13)	(145)	(61)
Workers' compensation run out claims reduction	--	(39)	(30)	(115)
Trade accounts payable and accrued expenses	54	28	(8)	1
Unearned premium revenues	(307)	5	(259)	(222)
Income taxes payable	26	18	34	56
Other	4	(7)	--	(6)
Net cash (used in) provided by operating activities	\$ (221)	\$ 48	\$ (239)	\$ (241)
Timing of Medicare premium payment	270	--	251	235
Workers' compensation liability payments	--	31	30	92
Pro forma net cash provided by operating activities	\$ 49	\$ 79	\$ 42	\$ 86

Humana Inc.

In thousands

Ending Medical Membership

	September 30,		Percent	
	2000	1999	Difference	Change
Health Plans:				
Large group commercial	1,278.5	1,424.4	(145.9)	(10.2)
Medicare HMO	513.1	489.3	23.8	4.9
Medicaid	584.4(d)	648.7	(64.3)	(9.9)
TRICARE	1,063.2	1,065.5	(2.3)	(0.2)
Administrative services	647.3(e)	641.0	6.3	1.0
Medicare supplement	--(e)	46.3	(46.3)	(100.0)
Total Health Plans	4,086.5	4,315.2	(228.7)	(5.3)

Small Group:

Small group commercial	1,361.1	1,706.8	(345.7)	(20.3)
Total ending medical membership	5,447.6	6,022.0	(574.4)	(9.5)

Ending Specialty Membership

	September 30,		Percent	
	2000	1999	Difference	Change
Health Plans:				
Workers' compensation	--	445.8	(445.8)	(100.0)
TRICARE dental	28.6	28.5	0.1	0.4
Total Health Plans	28.6	474.3	(445.7)	(94.0)

Small Group:				
Dental	1,647.3	1,523.0	124.3	8.2
Group Life	685.1	831.9	(146.8)	(17.6)
Other	33.5	60.9	(27.4)	(45.0)
Total Small Group	2,365.9	2,415.8	(49.9)	(2.1)
Total ending specialty membership	2,394.5	2,890.1	(495.6)	(17.1)

Average Medical Membership

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2000	1999	2000	1999

Health Plans:				
Large group				
commercial	1,318.8	1,437.7	1,362.8	1,479.3
Medicare HMO	517.3	486.5	514.9	483.1
Medicaid	585.1	651.8	632.8	650.7
TRICARE	1,063.2	1,065.3	1,058.0	1,073.6
Administrative services				
	661.6	639.8	656.3	626.6
Medicare supplement	--	46.9	40.9	50.2
Total Health Plans	4,146.0	4,328.0	4,265.7	4,363.5

Small Group:				
Small group commercial				
	1,406.0	1,698.0	1,507.7	1,686.6
Total average medical membership				
	5,552.0	6,026.0	5,773.4	6,050.1

(d) 96,300 North Florida Medicaid members were transferred on July 1, 2000

effective with the sale of this business to HealthEase of Florida, Inc., an affiliate of Well Care HMO Inc.

(e) Medicare Supplement members were transferred to Administrative

services on July 1, 2000 effective with the reinsurance of this business to United Teacher Associates Insurance Company.

SOURCE Humana Inc.