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

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**Form 10-Q**

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☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016**

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**

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**UNITEDHEALTH GROUP®**

**UnitedHealth Group Incorporated**  
(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**41-1321939**  
(I.R.S. Employer  
Identification No.)

**UnitedHealth Group Center**  
**9900 Bren Road East**  
**Minnetonka, Minnesota**  
(Address of principal executive offices)

**55343**  
(Zip Code)

**(952) 936-1300**  
(Registrant's telephone number, including area code)

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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 ☒

As of July 29, 2016, there were 952,391,411 shares of the registrant's Common Stock, \$.01 par value per share, issued and outstanding.

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# UNITEDHEALTH GROUP

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ITEM 1. FINANCIAL STATEMENTS

**PART I**  
**UnitedHealth Group**  
**Condensed Consolidated Balance Sheets**  
**(Unaudited)**

(in millions, except per share data)	June 30, 2016	December 31, 2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 8,217	\$ 10,923
Short-term investments	2,757	1,988
Accounts receivable, net	9,346	6,523
Other current receivables, net	7,355	6,801
Assets under management	2,855	2,998
Prepaid expenses and other current assets	2,768	2,406
Total current assets	33,298	31,639
Long-term investments	22,211	18,792
Property, equipment and capitalized software, net	5,189	4,861
Goodwill	46,881	44,453
Other intangible assets, net	8,878	8,391
Other assets	3,146	3,118
Total assets	\$ 119,603	\$ 111,254
<b>Liabilities, redeemable noncontrolling interests and equity</b>		
Current liabilities:		
Medical costs payable	\$ 16,632	\$ 14,330
Accounts payable and accrued liabilities	14,366	11,994
Other policy liabilities	8,447	7,798
Commercial paper and current maturities of long-term debt	6,364	6,634
Unearned revenues	1,567	2,142
Total current liabilities	47,376	42,898
Long-term debt, less current maturities	26,834	25,331
Future policy benefits	2,507	2,496
Deferred income taxes	2,857	3,587
Other liabilities	1,998	1,481
Total liabilities	81,572	75,793
Commitments and contingencies (Note 9)		
Redeemable noncontrolling interests	1,744	1,736
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; 951 and 953 issued and outstanding	10	10
Additional paid-in capital	—	29
Retained earnings	38,579	37,125
Accumulated other comprehensive loss	(2,203)	(3,334)
Nonredeemable noncontrolling interest	(99)	(105)
Total equity	36,287	33,725
Total liabilities, redeemable noncontrolling interests and equity	\$ 119,603	\$ 111,254

See Notes to the Condensed Consolidated Financial Statements

**UnitedHealth Group**  
**Condensed Consolidated Statements of Operations**  
(Unaudited)

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
<b>(in millions, except per share data)</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Revenues:				
Premiums	\$ 36,413	\$ 31,961	\$ 71,224	\$ 63,635
Products	6,610	1,223	13,003	2,453
Services	3,269	2,865	6,409	5,571
Investment and other income	193	214	376	360
Total revenues	46,485	36,263	91,012	72,019
Operating costs:				
Medical costs	29,872	26,127	58,302	51,917
Operating costs	6,793	5,738	13,551	11,572
Cost of products sold	6,106	1,124	11,983	2,238
Depreciation and amortization	511	379	1,013	757
Total operating costs	43,282	33,368	84,849	66,484
Earnings from operations	3,203	2,895	6,163	5,535
Interest expense	(271)	(151)	(530)	(301)
Earnings before income taxes	2,932	2,744	5,633	5,234
Provision for income taxes	(1,172)	(1,159)	(2,246)	(2,236)
Net earnings	1,760	1,585	3,387	2,998
Earnings attributable to noncontrolling interests	(6)	—	(22)	—
Net earnings attributable to UnitedHealth Group common shareholders	\$ 1,754	\$ 1,585	\$ 3,365	\$ 2,998
Earnings per share attributable to UnitedHealth Group common shareholders:				
Basic	\$ 1.84	\$ 1.66	\$ 3.53	\$ 3.15
Diluted	\$ 1.81	\$ 1.64	\$ 3.48	\$ 3.10
Basic weighted-average number of common shares outstanding	951	952	952	953
Dilutive effect of common share equivalents	16	14	15	14
Diluted weighted-average number of common shares outstanding	967	966	967	967
Anti-dilutive shares excluded from the calculation of dilutive effect of common share equivalents	1	8	4	8
Cash dividends declared per common share	\$ 0.625	\$ 0.500	\$ 1.125	\$ 0.875

See Notes to the Condensed Consolidated Financial Statements

**UnitedHealth Group**  
**Condensed Consolidated Statements of Comprehensive Income**  
**(Unaudited)**

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net earnings	\$ 1,760	\$ 1,585	\$ 3,387	\$ 2,998
Other comprehensive income (loss):				
Gross unrealized gains (losses) on investment securities during the period	234	(222)	494	(117)
Income tax effect	(84)	80	(180)	43
Total unrealized gains (losses), net of tax	150	(142)	314	(74)
Gross reclassification adjustment for net realized gains included in net earnings	(36)	(68)	(71)	(71)
Income tax effect	13	25	26	26
Total reclassification adjustment, net of tax	(23)	(43)	(45)	(45)
Total foreign currency translation gains (losses)	474	163	862	(796)
Other comprehensive income (loss)	601	(22)	1,131	(915)
Comprehensive income	2,361	1,563	4,518	2,083
Comprehensive income attributable to noncontrolling interests	(6)	—	(22)	—
Comprehensive income attributable to UnitedHealth Group common shareholders	\$ 2,355	\$ 1,563	\$ 4,496	\$ 2,083

See Notes to the Condensed Consolidated Financial Statements

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

(in millions)	Common Stock		Accumulated Other Comprehensive Income (Loss)					Total Equity
	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Net Unrealized Gains (Losses) on Investments	Foreign Currency Translation (Losses) Gains	Nonredeemable Noncontrolling Interest	
Balance at January 1, 2016	953	\$ 10	\$ 29	\$ 37,125	\$ 56	\$ (3,390)	\$ (105)	\$ 33,725
Adjustment to adopt ASU 2016-09				28				28
Net earnings				3,365			22	3,387
Other comprehensive income					269	862		1,131
Issuances of common stock, and related tax effects	6	—	76					76
Share-based compensation			249					249
Common share repurchases	(8)	—	(112)	(868)				(980)
Cash dividends paid on common shares				(1,071)				(1,071)
Acquisition of redeemable noncontrolling interest shares			(139)					(139)
Redeemable noncontrolling interests fair value and other adjustments			(103)					(103)
Distribution to nonredeemable noncontrolling interest							(16)	(16)
Balance at June 30, 2016	951	\$ 10	\$ —	\$ 38,579	\$ 325	\$ (2,528)	\$ (99)	\$ 36,287
Balance at January 1, 2015	954	\$ 10	\$ —	\$ 33,836	\$ 223	\$ (1,615)	\$ —	\$ 32,454
Net earnings				2,998				2,998
Other comprehensive loss					(119)	(796)		(915)
Issuances of common stock, and related tax effects	7	—	23					23
Share-based compensation, and related tax benefits			319					319
Common share repurchases	(9)	—	(214)	(739)				(953)
Cash dividends paid on common shares				(833)				(833)
Redeemable noncontrolling interests fair value and other adjustments			(73)					(73)
Balance at June 30, 2015	952	\$ 10	\$ 55	\$ 35,262	\$ 104	\$ (2,411)	\$ —	\$ 33,020

See Notes to the Condensed Consolidated Financial Statements

**UnitedHealth Group**  
**Condensed Consolidated Statements of Cash Flows**  
(Unaudited)

(in millions)	Six Months Ended June 30,	
	2016	2015
<b>Operating activities</b>		
Net earnings	\$ 3,387	\$ 2,998
Noncash items:		
Depreciation and amortization	1,013	757
Deferred income taxes	(141)	(30)
Share-based compensation	262	211
Other, net	(20)	(160)
Net change in other operating items, net of effects from acquisitions and changes in AARP balances:		
Accounts receivable	(2,638)	(1,725)
Other assets	(2,052)	(2,178)
Medical costs payable	2,099	1,988
Accounts payable and other liabilities	2,403	1,809
Other policy liabilities	283	208
Unearned revenues	(595)	(446)
Cash flows from operating activities	4,001	3,432
<b>Investing activities</b>		
Purchases of investments	(8,975)	(4,286)
Sales of investments	3,421	2,260
Maturities of investments	1,973	1,622
Cash paid for acquisitions, net of cash assumed	(2,035)	(1,778)
Purchases of property, equipment and capitalized software	(813)	(716)
Other, net	16	48
Cash flows used for investing activities	(6,413)	(2,850)
<b>Financing activities</b>		
Common share repurchases	(980)	(953)
Acquisition of redeemable noncontrolling interest shares	(257)	—
Cash dividends paid	(1,071)	(833)
Proceeds from common stock issuances	254	242
Proceeds from issuance of long-term debt	2,485	—
Repayments of long-term debt	(1,601)	(416)
Proceeds from commercial paper, net	124	1,086
Customer funds administered	1,039	941
Other, net	(352)	(188)
Cash flows used for financing activities	(359)	(121)
Effect of exchange rate changes on cash and cash equivalents	65	(69)
(Decrease) increase in cash and cash equivalents	(2,706)	392
Cash and cash equivalents, beginning of period	10,923	7,495
Cash and cash equivalents, end of period	\$ 8,217	\$ 7,887

See Notes to the Condensed Consolidated Financial Statements

**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, 2015 as filed with the SEC (2015 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 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 and valuations of certain investments. 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 2015 10-K remain unchanged.

***Reclassification***

During the fourth quarter of 2015, the Company aligned its accounting policy to conform the presentation of certain pharmacy fulfillment costs related to an acquired OptumRx business. These costs are now included in medical costs and cost of products sold, whereas they were previously included in operating costs. Prior periods have been reclassified to conform to the current period presentation. The reclassification increased medical expenses by \$101 million and \$202 million, decreased operating costs by \$114 million and \$229 million and increased cost of products sold by \$13 million and \$27 million for the three and six months ended June 30, 2015, respectively. The reclassification had no impact on total operating costs, earnings from operations, net earnings, earnings per share or total equity.

***Recently Issued Accounting Standards***

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2016-02, “Leases (Topic 842)” (ASU 2016-02). Under ASU 2016-02, an entity will be required to recognize assets and liabilities for the rights and obligations created by leases on the entity’s balance sheet for both finance and operating leases. For leases with a term of 12 months or less, an entity can elect to not recognize lease assets and lease liabilities and expense the lease over a straight-line basis for the term of the lease. ASU 2016-02 will require new disclosures that depict the amount, timing, and uncertainty of cash flows pertaining to an entity’s leases. Companies are required to adopt the new standard using a modified retrospective approach for annual and interim periods beginning after December 15, 2018. Early adoption of ASU 2016-02 is permitted. The Company is currently evaluating the effect of the new leasing guidance.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” (ASU 2016-01). The new guidance changes the current accounting related to (i) the classification and measurement of certain equity investments, (ii) the presentation of changes in the fair value of financial liabilities measured under the fair value option that are due to instrument-specific credit risk, and (iii) certain disclosures associated with the fair value of financial instruments. Most notably, ASU 2016-01 requires that equity investments, with certain exemptions, be measured at fair value with changes in fair value recognized in net income as opposed to other



comprehensive income. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2017. The Company is currently evaluating the effect of the new financial instruments guidance.

In May 2014, the FASB issued 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 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing," and ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients." 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 may 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. When adopted, the Company does not expect ASU 2014-09 to have a material impact on its consolidated financial position, results of operations, equity or cash flows.

#### ***Recently Adopted Accounting Standards***

In March 2016, the FASB issued ASU No. 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" (ASU 2016-09). ASU 2016-09 modifies several aspects of the accounting for share-based payment awards, including income tax consequences, and classification on the statement of cash flows. The Company early adopted ASU 2016-09 in the first quarter of 2016. The provisions of ASU 2016-09 related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements and forfeitures were adopted using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of January 1, 2016. The provisions of ASU 2016-09 related to the recognition of excess tax benefits in the income statement and classification in the statement of cash flows were adopted prospectively and the prior periods were not retrospectively adjusted. The adoption of ASU 2016-09 did not materially impact the Company's consolidated financial position, results of operations, equity or cash flows.

In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes" (ASU 2015-17). ASU 2015-17 requires entities to present deferred tax assets and deferred tax liabilities as noncurrent on the balance sheet. Prior to the issuance of ASU 2015-17, deferred taxes were required to be presented as a net current asset or liability and a net noncurrent asset or liability. The Company adopted ASU 2015-17 on a prospective basis in the first quarter of 2016 and the prior period was not retrospectively adjusted. The adoption of ASU 2015-17 did not impact the Company's consolidated financial position, results of operations, equity or cash flows.

In April 2015, the FASB issued ASU No. 2015-03, "Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" (ASU 2015-03). ASU 2015-03 requires debt issuance costs to be presented as a reduction of the carrying amount of the related debt liability. Prior to the issuance of ASU 2015-03, debt issuance costs were required to be presented as an asset in the balance sheet. The Company adopted ASU 2015-03 on a retrospective basis, as required, in the first quarter of 2016. The Company reclassified \$129 million in debt issuance costs that were recorded in other assets on the Consolidated Balance Sheet as of December 31, 2015 to long-term debt, less current maturities.

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. 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
<b>June 30, 2016</b>				
Debt securities - available-for-sale:				
U.S. government and agency obligations	\$ 2,401	\$ 24	\$ —	\$ 2,425
State and municipal obligations	6,749	260	(1)	7,008
Corporate obligations	9,479	170	(11)	9,638
U.S. agency mortgage-backed securities	2,580	44	(1)	2,623
Non-U.S. agency mortgage-backed securities	930	27	(3)	954
Total debt securities - available-for-sale	22,139	525	(16)	22,648
Equity securities - available-for-sale	1,804	52	(45)	1,811
Debt securities - held-to-maturity:				
U.S. government and agency obligations	175	3	—	178
State and municipal obligations	7	—	—	7
Corporate obligations	327	—	—	327
Total debt securities - held-to-maturity	509	3	—	512
Total investments	\$ 24,452	\$ 580	\$ (61)	\$ 24,971
<b>December 31, 2015</b>				
Debt securities - available-for-sale:				
U.S. government and agency obligations	\$ 1,982	\$ 1	\$ (6)	\$ 1,977
State and municipal obligations	6,022	149	(3)	6,168
Corporate obligations	7,446	41	(81)	7,406
U.S. agency mortgage-backed securities	2,127	13	(16)	2,124
Non-U.S. agency mortgage-backed securities	962	5	(11)	956
Total debt securities - available-for-sale	18,539	209	(117)	18,631
Equity securities - available-for-sale	1,638	58	(57)	1,639
Debt securities - held-to-maturity:				
U.S. government and agency obligations	163	1	—	164
State and municipal obligations	8	—	—	8
Corporate obligations	339	—	—	339
Total debt securities - held-to-maturity	510	1	—	511
Total investments	\$ 20,687	\$ 268	\$ (174)	\$ 20,781

The amortized cost and fair value of debt securities as of June 30, 2016, by contractual maturity, were as follows:

(in millions)	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 2,872	\$ 2,877	\$ 139	\$ 139
Due after one year through five years	8,341	8,461	175	177
Due after five years through ten years	5,234	5,438	107	107
Due after ten years	2,182	2,295	88	89
U.S. agency mortgage-backed securities	2,580	2,623	—	—
Non-U.S. agency mortgage-backed securities	930	954	—	—
Total debt securities	\$ 22,139	\$ 22,648	\$ 509	\$ 512

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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
<b>June 30, 2016</b>						
Debt securities - available-for-sale:						
State and municipal obligations	\$ 173	\$ (1)	\$ —	\$ —	\$ 173	\$ (1)
Corporate obligations	1,034	(4)	481	(7)	1,515	(11)
U.S. agency mortgage-backed securities	—	—	114	(1)	114	(1)
Non-U.S. agency mortgage-backed securities	—	—	129	(3)	129	(3)
Total debt securities - available-for-sale	\$ 1,207	\$ (5)	\$ 724	\$ (11)	\$ 1,931	\$ (16)
Equity securities - available-for-sale	\$ 62	\$ (4)	\$ 105	\$ (41)	\$ 167	\$ (45)
<b>December 31, 2015</b>						
Debt securities - available-for-sale:						
U.S. government and agency obligations	\$ 1,473	\$ (6)	\$ —	\$ —	\$ 1,473	\$ (6)
State and municipal obligations	650	(3)	—	—	650	(3)
Corporate obligations	4,629	(63)	339	(18)	4,968	(81)
U.S. agency mortgage-backed securities	1,304	(12)	116	(4)	1,420	(16)
Non-U.S. agency mortgage-backed securities	593	(7)	127	(4)	720	(11)
Total debt securities - available-for-sale	\$ 8,649	\$ (91)	\$ 582	\$ (26)	\$ 9,231	\$ (117)
Equity securities - available-for-sale	\$ 112	\$ (11)	\$ 89	\$ (46)	\$ 201	\$ (57)

The Company's unrealized losses from all securities as of June 30, 2016 were generated from approximately 3,000 positions out of a total of 26,000 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. As of June 30, 2016, 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.

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

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Total other than temporary impairments recognized in earnings	\$ (1)	\$ (3)	\$ (22)	\$ (4)
Gross realized losses from sales	(4)	(5)	(35)	(11)
Gross realized gains from sales	41	76	128	86
Net realized gains (included in investment and other income on the Condensed Consolidated Statements of Operations)	36	68	71	71
Income tax effect (included in provision for income taxes on the Condensed Consolidated Statements of Operations)	(13)	(25)	(26)	(26)
Realized gains, net of taxes	\$ 23	\$ 43	\$ 45	\$ 45

### 3. 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 5 of Notes to the Consolidated Financial Statements in Part II, Item 8, "Financial Statements" in the 2015 10-K.

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The Company elected to measure the entirety of the Supplemental Health Insurance Program (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 2015 10-K for further detail on the AARP Program.

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 the AARP Program:

(in millions)	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair and Carrying Value
<b>June 30, 2016</b>				
Cash and cash equivalents	\$ 8,188	\$ 29	\$ —	\$ 8,217
Debt securities - available-for-sale:				
U.S. government and agency obligations	2,219	206	—	2,425
State and municipal obligations	—	7,008	—	7,008
Corporate obligations	—	9,537	101	9,638
U.S. agency mortgage-backed securities	—	2,623	—	2,623
Non-U.S. agency mortgage-backed securities	—	954	—	954
Total debt securities - available-for-sale	2,219	20,328	101	22,648
Equity securities - available-for-sale	1,410	13	388	1,811
Interest rate swap assets	—	299	—	299
Total assets at fair value	\$ 11,817	\$ 20,669	\$ 489	\$ 32,975
Percentage of total assets at fair value	36%	63%	1%	100%
<b>December 31, 2015</b>				
Cash and cash equivalents	\$ 10,906	\$ 17	\$ —	\$ 10,923
Debt securities - available-for-sale:				
U.S. government and agency obligations	1,779	198	—	1,977
State and municipal obligations	—	6,168	—	6,168
Corporate obligations	5	7,308	93	7,406
U.S. agency mortgage-backed securities	—	2,124	—	2,124
Non-U.S. agency mortgage-backed securities	—	951	5	956
Total debt securities - available-for-sale	1,784	16,749	98	18,631
Equity securities - available-for-sale	1,223	14	402	1,639
Interest rate swap assets	—	93	—	93
Total assets at fair value	\$ 13,913	\$ 16,873	\$ 500	\$ 31,286
Percentage of total assets at fair value	44%	54%	2%	100%
Interest rate swap liabilities	\$ —	\$ 11	\$ —	\$ 11

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 six months ended June 30, 2016 or 2015.

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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
<b>June 30, 2016</b>					
Debt securities - held-to-maturity:					
U.S. government and agency obligations	\$ 178	\$ —	\$ —	\$ 178	\$ 175
State and municipal obligations	—	—	7	7	7
Corporate obligations	91	11	225	327	327
Total debt securities - held-to-maturity	\$ 269	\$ 11	\$ 232	\$ 512	\$ 509
Other assets	\$ —	\$ 465	\$ —	\$ 465	\$ 466
Long-term debt and other financing obligations	\$ —	\$ 32,144	\$ —	\$ 32,144	\$ 29,087
<b>December 31, 2015</b>					
Debt securities - held-to-maturity:					
U.S. government and agency obligations	\$ 164	\$ —	\$ —	\$ 164	\$ 163
State and municipal obligations	—	—	8	8	8
Corporate obligations	91	10	238	339	339
Total debt securities - held-to-maturity	\$ 255	\$ 10	\$ 246	\$ 511	\$ 510
Other assets	\$ —	\$ 493	\$ —	\$ 493	\$ 500
Long-term debt and other financing obligations	\$ —	\$ 29,455	\$ —	\$ 29,455	\$ 27,978

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 six months ended June 30, 2016 or 2015.

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			Six Months Ended		
	Debt Securities	Equity Securities	Total	Debt Securities	Equity Securities	Total
<b>June 30, 2016</b>						
Balance at beginning of period	\$ 98	\$ 390	\$ 488	\$ 98	\$ 402	\$ 500
Purchases	—	8	8	4	20	24
Sales	—	(2)	(2)	(7)	(4)	(11)
Net unrealized gains (losses) in accumulated other comprehensive income	3	(8)	(5)	6	(14)	(8)
Net realized losses in investment and other income	—	—	—	—	(16)	(16)
Balance at end of period	\$ 101	\$ 388	\$ 489	\$ 101	\$ 388	\$ 489
<b>June 30, 2015</b>						
Balance at beginning of period	\$ 79	\$ 309	\$ 388	\$ 74	\$ 310	\$ 384
Purchases	6	10	16	10	14	24
Sales	(2)	(13)	(15)	(2)	(14)	(16)
Net unrealized gains (losses) in accumulated other comprehensive income	1	—	1	2	(5)	(3)
Net realized gains in investment and other income	—	13	13	—	14	14
Balance at end of period	\$ 84	\$ 319	\$ 403	\$ 84	\$ 319	\$ 403

#### 4. Medicare Part D Pharmacy Benefits

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

(in millions)	June 30, 2016			December 31, 2015		
	Subsidies	Drug Discount	Risk-Share	Subsidies	Drug Discount	Risk-Share
Other current receivables	\$ 1,434	\$ 297	\$ —	\$ 1,703	\$ 423	\$ —
Other policy liabilities	—	236	510	—	58	496

See Note 2 of Notes to the Consolidated Financial Statements in Part II, Item 8, “Financial Statements” in the 2015 10-K for further detail on Medicare Part D.

#### 5. Other Current Receivables

The Company’s pharmacy care services businesses contract with pharmaceutical manufacturers, some of which provide rebates based on use of the manufacturers’ products by its affiliated and non-affiliated clients. As of June 30, 2016 and December 31, 2015, total pharmaceutical manufacturer rebates receivable included in other receivables in the Condensed Consolidated Balance Sheets amounted to \$2.5 billion and \$2.6 billion, respectively. See Note 2 of Notes to the Consolidated Financial Statements in Part II, Item 8, “Financial Statements” in the 2015 10-K for more information on the Company’s pharmaceutical manufacturer rebates.

#### 6. Medical Costs Reserve Development

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

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Related to prior years	\$ (60)	\$ (10)	\$ 300	\$ 130
Related to current year	(40)	100	N/A	N/A

For the three and six months ended June 30, 2016 and June 30, 2015, the medical cost reserve development included a number of individual items, none of which were material.

## 7. Commercial Paper and Long-Term Debt

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

(in millions, except percentages)	June 30, 2016			December 31, 2015		
	Par Value	Carrying Value	Fair Value	Par Value	Carrying Value (a)	Fair Value
Commercial paper	\$ 4,111	\$ 4,111	\$ 4,111	\$ 3,987	\$ 3,987	\$ 3,987
Floating rate term loan due July 2016	500	500	500	1,500	1,500	1,500
5.375% notes due March 2016	—	—	—	601	605	606
1.875% notes due November 2016	400	400	401	400	400	403
5.360% notes due November 2016	95	95	97	95	95	98
Floating rate notes due January 2017	750	749	751	750	749	751
6.000% notes due June 2017	441	452	461	441	458	469
1.450% notes due July 2017	750	749	754	750	749	750
1.400% notes due October 2017	625	624	628	625	624	624
6.000% notes due November 2017	156	161	167	156	162	168
1.400% notes due December 2017	750	751	754	750	751	748
6.000% notes due February 2018	1,100	1,110	1,186	1,100	1,114	1,196
1.900% notes due July 2018	1,500	1,495	1,526	1,500	1,494	1,505
1.700% notes due February 2019	750	747	758	—	—	—
1.625% notes due March 2019	500	502	505	500	502	494
2.300% notes due December 2019	500	512	516	500	499	502
2.700% notes due July 2020	1,500	1,494	1,562	1,500	1,493	1,516
3.875% notes due October 2020	450	467	495	450	452	476
4.700% notes due February 2021	400	427	452	400	413	438
2.125% notes due March 2021	750	745	764	—	—	—
3.375% notes due November 2021	500	521	540	500	500	517
2.875% notes due December 2021	750	786	790	750	753	760
2.875% notes due March 2022	1,100	1,112	1,149	1,100	1,059	1,099
3.350% notes due July 2022	1,000	995	1,070	1,000	994	1,023
0.000% notes due November 2022	15	11	12	15	10	11
2.750% notes due February 2023	625	645	642	625	611	613
2.875% notes due March 2023	750	821	781	750	781	742
3.750% notes due July 2025	2,000	1,985	2,194	2,000	1,985	2,062
3.100% notes due March 2026	1,000	994	1,043	—	—	—
4.625% notes due July 2035	1,000	991	1,161	1,000	991	1,038
5.800% notes due March 2036	850	837	1,115	850	838	1,003
6.500% notes due June 2037	500	491	697	500	492	628
6.625% notes due November 2037	650	640	919	650	641	829
6.875% notes due February 2038	1,100	1,074	1,605	1,100	1,076	1,439
5.700% notes due October 2040	300	296	384	300	296	348
5.950% notes due February 2041	350	345	458	350	345	416
4.625% notes due November 2041	600	588	685	600	588	609
4.375% notes due March 2042	502	483	557	502	483	493
3.950% notes due October 2042	625	606	654	625	606	582
4.250% notes due March 2043	750	734	821	750	734	728
4.750% notes due July 2045	2,000	1,971	2,409	2,000	1,971	2,107
Total commercial paper, term loan and long-term debt	\$ 32,995	\$ 33,017	\$ 36,074	\$ 31,972	\$ 31,801	\$ 33,278

(a) In the first quarter of 2016, the Company adopted ASU 2015-03, retrospectively as required. See Note 1 of Notes to the Condensed Consolidated Financial Statements for more information on the adoption of ASU 2015-03.

The Company's long-term debt obligations also included \$181 million and \$164 million of other financing obligations, of which \$57 million and \$47 million were current as of June 30, 2016 and December 31, 2015, respectively.

**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 June 30, 2016, the Company's outstanding commercial paper had a weighted-average annual interest rate of 0.7%.

The Company has \$3.0 billion five-year, \$2.0 billion three-year and \$1.0 billion 364-day revolving bank credit facilities with 23 banks, which mature in December 2020, December 2018, and December 2016, respectively. These facilities provide liquidity support for the Company's commercial paper program and are available for general corporate purposes. As of June 30, 2016, 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 June 30, 2016, annual interest rates would have ranged from 1.3% to 1.8%.

**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 55%. The Company was in compliance with its debt covenants as of June 30, 2016.

**8. Shareholders' Equity****Dividends**

In June 2016, the Company's Board of Directors increased the Company's quarterly cash dividend to shareholders to an annual dividend rate of \$2.50 per share compared to the annual dividend rate of \$2.00 per share, which the Company had paid since June 2015. 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 2016 dividend payments:

Payment Date	Amount per Share	Total Amount Paid (in millions)
March 22, 2016	\$ 0.500	\$ 477
June 28, 2016	0.625	594

**9. 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 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 the Centers for Medicare and Medicaid Services (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 matters, compliance with coding and other requirements under the Medicare risk-adjustment model. The Company has produced documents, information and witnesses to the Department of Justice in cooperation with a current review of the Company's risk-adjustment processes, including the Company's patient chart review and related programs. CMS has selected certain of the Company's local plans for risk adjustment data validation (RADV) audits to validate the coding practices of and supporting documentation maintained by health care providers and such audits may result in retrospective adjustments to payments made to the Company's health plans.

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 status of the reviews, the wide range of possible outcomes and inherent difficulty in predicting regulatory action, fines and penalties, if any, the Company's legal and factual defenses 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 association laws, certain insurance companies can be assessed (up to prescribed limits) for certain obligations to the policyholders and claimants of impaired or insolvent insurance companies (including state health insurance cooperatives) that write the same line or similar lines of business. 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 in July 2015 to begin its consideration of the latest proposed rehabilitation plan. The hearing is scheduled to continue in 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. The Company continues to vigorously challenge the proposed rehabilitation plan. The Company is currently unable to estimate losses or ranges of losses because the Company cannot predict when or to what extent Penn Treaty will ultimately be liquidated, the amount of the insolvency, the amount and timing of any associated guaranty fund assessments or the availability and amount of any premium tax and other potential offsets.

#### **10. 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 14 of Notes to the Consolidated Financial Statements in Part II, Item 8, "Financial Statements" in the 2015 10-K.

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The following table presents the reportable segment financial information:

(in millions)	UnitedHealthcare	Optum					Corporate and Eliminations	Consolidated
		OptumHealth	OptumInsight	OptumRx	OptumEliminations	Optum		
<b>Three Months Ended June 30, 2016</b>								
Revenues - external customers:								
Premiums	\$ 35,541	\$ 872	\$ —	\$ —	\$ —	\$ 872	\$ —	\$ 36,413
Products	1	11	17	6,581	—	6,609	—	6,610
Services	1,866	597	639	167	—	1,403	—	3,269
Total revenues - external customers	37,408	1,480	656	6,748	—	8,884	—	46,292
Total revenues - intersegment	—	2,541	1,106	8,324	(277)	11,694	(11,694)	—
Investment and other income	148	44	—	1	—	45	—	193
Total revenues	\$ 37,556	\$ 4,065	\$ 1,762	\$ 15,073	\$ (277)	\$ 20,623	\$ (11,694)	\$ 46,485
Earnings from operations	\$ 1,942	\$ 304	\$ 333	\$ 624	\$ —	\$ 1,261	\$ —	\$ 3,203
Interest expense	—	—	—	—	—	—	(271)	(271)
Earnings before income taxes	\$ 1,942	\$ 304	\$ 333	\$ 624	\$ —	\$ 1,261	\$ (271)	\$ 2,932
<b>Three Months Ended June 30, 2015</b>								
Revenues - external customers:								
Premiums	\$ 31,186	\$ 775	\$ —	\$ —	\$ —	\$ 775	\$ —	\$ 31,961
Products	1	11	16	1,195	—	1,222	—	1,223
Services	1,715	579	542	29	—	1,150	—	2,865
Total revenues - external customers	32,902	1,365	558	1,224	—	3,147	—	36,049
Total revenues - intersegment	—	2,031	851	7,688	(172)	10,398	(10,398)	—
Investment and other income	171	42	—	1	—	43	—	214
Total revenues	\$ 33,073	\$ 3,438	\$ 1,409	\$ 8,913	\$ (172)	\$ 13,588	\$ (10,398)	\$ 36,263
Earnings from operations	\$ 2,031	\$ 253	\$ 271	\$ 340	\$ —	\$ 864	\$ —	\$ 2,895
Interest expense	—	—	—	—	—	—	(151)	(151)
Earnings before income taxes	\$ 2,031	\$ 253	\$ 271	\$ 340	\$ —	\$ 864	\$ (151)	\$ 2,744

(in millions)	UnitedHealthcare	Optum					Corporate and Eliminations	Consolidated
		OptumHealth	OptumInsight	OptumRx	OptumEliminations	Optum		
<b>Six Months Ended June 30, 2016</b>								
Revenues - external customers:								
Premiums	\$ 69,504	\$ 1,720	\$ —	\$ —	\$ —	\$ 1,720	\$ —	\$ 71,224
Products	1	24	37	12,941	—	13,002	—	13,003
Services	3,662	1,209	1,245	293	—	2,747	—	6,409
Total revenues - external customers	73,167	2,953	1,282	13,234	—	17,469	—	90,636
Total revenues - intersegment	—	5,026	2,147	16,109	(531)	22,751	(22,751)	—
Investment and other income	289	84	—	3	—	87	—	376
Total revenues	\$ 73,456	\$ 8,063	\$ 3,429	\$ 29,346	\$ (531)	\$ 40,307	\$ (22,751)	\$ 91,012
Earnings from operations	\$ 3,796	\$ 604	\$ 579	\$ 1,184	\$ —	\$ 2,367	\$ —	\$ 6,163
Interest expense	—	—	—	—	—	—	(530)	(530)
Earnings before income taxes	\$ 3,796	\$ 604	\$ 579	\$ 1,184	\$ —	\$ 2,367	\$ (530)	\$ 5,633
<b>Six Months Ended June 30, 2015</b>								
Revenues - external customers:								
Premiums	\$ 62,091	\$ 1,544	\$ —	\$ —	\$ —	\$ 1,544	\$ —	\$ 63,635
Products	1	16	36	2,400	—	2,452	—	2,453
Services	3,318	1,100	1,101	52	—	2,253	—	5,571
Total revenues - external customers	65,410	2,660	1,137	2,452	—	6,249	—	71,659
Total revenues - intersegment	—	3,994	1,662	14,755	(331)	20,080	(20,080)	—
Investment and other income	286	73	—	1	—	74	—	360
Total revenues	\$ 65,696	\$ 6,727	\$ 2,799	\$ 17,208	\$ (331)	\$ 26,403	\$ (20,080)	\$ 72,019
Earnings from operations	\$ 3,929	\$ 487	\$ 493	\$ 626	\$ —	\$ 1,606	\$ —	\$ 5,535
Interest expense	—	—	—	—	—	—	(301)	(301)
Earnings before income taxes	\$ 3,929	\$ 487	\$ 493	\$ 626	\$ —	\$ 1,606	\$ (301)	\$ 5,234

## 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 2015 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 2015 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

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 2015 10-K and additional information on our segments can be found in this Item 2 and in Note 10 of Notes to the Condensed Consolidated Financial Statements in Part I, Item 1 of this report.

#### **Business Trends**

Our businesses participate in the United States, Brazilian and certain other international health economies. In the United States, health care spending has grown consistently for many years and comprises approximately 18% of gross domestic product. 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, 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 aspects. Our review of regulatory considerations involves a focus on minimum loss ratio (MLR) thresholds and the risk adjustment 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 expect broad-based competition in commercial products and pressure from government funding. 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. In addition, a provision in the 2016 Federal Budget imposes a one year moratorium for payment of the 2017 Health Insurance Industry Tax. For policies that include a portion of 2017 coverage periods, our premiums will reflect the impact of the moratorium. Medicare Advantage funding continues to be pressured, as discussed below in “Regulatory Trends and Uncertainties.” We expect continued Medicaid revenue growth due to anticipated increases in the number of people we serve; we also believe that the reimbursement rate environment creates the risk of downward pressure on Medicaid net margin percentages.

**Medical Cost Trends.** Our medical cost trends primarily relate to changes in unit costs, health system utilization and prescription drug costs. We endeavor to mitigate those increases with medical management. Our 2016 management activities include managing costs across all health care categories, including specialty pharmacy spending, as new therapies are introduced at high costs and older drugs experience price increases.

#### **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 the Patient Protection and Affordable Care Act and a reconciliation measure, the Health Care and Education Reconciliation Act of 2010 (together, Health Reform Legislation) and other regulatory items. For additional information about 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 2015 10-K.

**Medicare Advantage Rates and Minimum Loss Ratios.** Final 2017 Medicare Advantage rates resulted in an increase in industry base rates of approximately 0.85%, well short of the industry forward medical cost trend of 3%, which creates continued pressure in the Medicare Advantage program. The impact of this funding shortfall in Medicare Advantage 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 can affect our plan benefit designs, pricing, growth prospects and earnings expectations for our Medicare Advantage plans.

As provided in the Affordable Care Act, 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 can use to offer supplemental benefits, which ultimately may affect the plan’s membership and revenue. For the 2016 payment year, approximately 57% of our Medicare Advantage members are in plans rated four stars or higher. We expect that at least 63% of our Medicare Advantage members will be in plans rated four stars or higher for payment year 2017. We continue to dedicate substantial resources to advance our quality scores and star ratings to strengthen our local market programs and further improve our performance.

**Health Insurance Industry Tax and Premium Stabilization Programs.** The industry-wide amount of the annual tax is \$11.3 billion in 2016 and we expect to pay our proportionate share of \$1.8 billion in September 2016. 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.

For details on the Health Insurance Industry Tax and Premium Stabilization Programs, see Note 2 of Notes to the Consolidated Financial Statements included in Part 2, Item 8, "Financial Statements" in our 2015 10-K.

**Individual Public Exchanges.** In 2016, we are participating in individual public exchange offerings in 34 states. We have a premium deficiency reserve recorded as of June 30, 2016, for our estimated losses for the remainder of 2016. A portion of the premium deficiency reserve was recorded in our 2015 results for in-force contracts as of January 1, 2016. In 2017, we expect to participate in only a few individual 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 June 30,		Increase/(Decrease)		Six Months Ended June 30,		Increase/(Decrease)	
	2016	2015	2016 vs. 2015		2016	2015	2016 vs. 2015	
Revenues:								
Premiums	\$ 36,413	\$ 31,961	\$ 4,452	14%	\$ 71,224	\$ 63,635	\$ 7,589	12%
Products	6,610	1,223	5,387	440	13,003	2,453	10,550	430
Services	3,269	2,865	404	14	6,409	5,571	838	15
Investment and other income	193	214	(21)	(10)	376	360	16	4
Total revenues	46,485	36,263	10,222	28	91,012	72,019	18,993	26
Operating costs (a):								
Medical costs	29,872	26,127	3,745	14	58,302	51,917	6,385	12
Operating costs	6,793	5,738	1,055	18	13,551	11,572	1,979	17
Cost of products sold	6,106	1,124	4,982	443	11,983	2,238	9,745	435
Depreciation and amortization	511	379	132	35	1,013	757	256	34
Total operating costs	43,282	33,368	9,914	30	84,849	66,484	18,365	28
Earnings from operations	3,203	2,895	308	11	6,163	5,535	628	11
Interest expense	(271)	(151)	120	79	(530)	(301)	229	76
Earnings before income taxes	2,932	2,744	188	7	5,633	5,234	399	8
Provision for income taxes	(1,172)	(1,159)	13	1	(2,246)	(2,236)	10	—
Net earnings	1,760	1,585	175	11	3,387	2,998	389	13
Earnings attributable to noncontrolling interests	(6)	—	6	nm	(22)	—	22	nm
Net earnings attributable to UnitedHealth Group common shareholders	\$ 1,754	\$ 1,585	\$ 169	11 %	\$ 3,365	\$ 2,998	\$ 367	12%
Diluted earnings per share attributable to UnitedHealth Group common shareholders	\$ 1.81	\$ 1.64	\$ 0.17	10 %	\$ 3.48	\$ 3.10	\$ 0.38	12%
Medical care ratio (b)	82.0%	81.7%	0.3 %		81.9%	81.6%	0.3 %	
Operating cost ratio	14.6	15.8	(1.2)		14.9	16.1	(1.2)	
Operating margin	6.9	8.0	(1.1)		6.8	7.7	(0.9)	
Tax rate	40.0	42.2	(2.2)		39.9	42.7	(2.8)	
Net earnings margin (c)	3.8	4.4	(0.6)		3.7	4.2	(0.5)	
Return on equity (d)	19.6%	19.5%	0.1 %		19.2%	18.5%	0.7 %	

nm= not meaningful

(a) During the fourth quarter of 2015, we changed our presentation of certain pharmacy fulfillment costs related to its OptumRx business. See Note 1 of Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report for more information on this reclassification.

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

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

(d) Return on equity is calculated as annualized net earnings divided by average equity. Average equity is calculated 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 period presented.

## ***SELECTED OPERATING PERFORMANCE AND OTHER SIGNIFICANT ITEMS***

The following summarizes select second quarter 2016 year-over-year operating comparisons to second quarter 2015 and other 2016 significant items.

- Consolidated revenues grew 28%, UnitedHealthcare revenues grew 14% and Optum revenues grew 52%.
- UnitedHealthcare grew to serve an additional 2.1 million people domestically.
- Earnings from operations increased 11%, including an increase of 46% at Optum, partially offset by a slight decrease at UnitedHealthcare.
- Diluted earnings per common share increased 10% to \$1.81.
- Cash flows from operations for the six months ended June 30, 2016 were \$4.0 billion.

## ***2016 RESULTS OF OPERATIONS COMPARED TO 2015 RESULTS***

Our results of operations for the three and six months ended June 30, 2016 compared to the corresponding prior periods were affected by our acquisition of Catamaran Corporation (Catamaran) in the third quarter of 2015.

### **Consolidated Financial Results**

#### ***Revenues***

The increases in revenues were primarily driven by the effect of the Catamaran acquisition, organic growth in the number of individuals served across our benefits businesses and growth across all of Optum's businesses.

#### ***Medical Costs***

Medical costs increased due to risk-based membership growth, medical cost trends and additional ACA-compliant individual product losses. For the six months ended June 30, 2016, these losses were partially offset by higher levels of favorable reserve development.

#### ***Operating Cost Ratio***

The decreases in our operating cost ratio were due to changes in business mix, including the acquisition of Catamaran.

#### ***Income Tax Rate***

Our effective tax rates decreased primarily due to the adoption of ASU 2016-09, which we adopted in the first quarter of 2016. See Note 1 of Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report for more information about the adoption of ASU 2016-09.

## Reportable Segments

See Note 10 of Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report 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 June 30,		Increase/(Decrease)		Six Months Ended June 30,		Increase/(Decrease)	
	2016	2015	2016 vs. 2015		2016	2015	2016 vs. 2015	
<b>Revenues</b>								
UnitedHealthcare	\$ 37,556	\$ 33,073	\$ 4,483	14%	\$ 73,456	\$ 65,696	\$ 7,760	12%
OptumHealth	4,065	3,438	627	18	8,063	6,727	1,336	20%
OptumInsight	1,762	1,409	353	25	3,429	2,799	630	23%
OptumRx	15,073	8,913	6,160	69	29,346	17,208	12,138	71%
Optum eliminations	(277)	(172)	105	61	(531)	(331)	200	60%
Optum	20,623	13,588	7,035	52	40,307	26,403	13,904	53%
Eliminations	(11,694)	(10,398)	1,296	12	(22,751)	(20,080)	2,671	13%
Consolidated revenues	\$ 46,485	\$ 36,263	\$ 10,222	28%	\$ 91,012	\$ 72,019	\$ 18,993	26%
<b>Earnings from operations</b>								
UnitedHealthcare	\$ 1,942	\$ 2,031	\$ (89)	(4)%	\$ 3,796	\$ 3,929	\$ (133)	(3)%
OptumHealth	304	253	51	20	604	487	117	24 %
OptumInsight	333	271	62	23	579	493	86	17 %
OptumRx	624	340	284	84	1,184	626	558	89 %
Optum	1,261	864	397	46	2,367	1,606	761	47 %
Consolidated earnings from operations	\$ 3,203	\$ 2,895	\$ 308	11 %	\$ 6,163	\$ 5,535	\$ 628	11 %
<b>Operating margin</b>								
UnitedHealthcare	5.2%	6.1%	(0.9)%		5.2%	6.0%	(0.8)%	
OptumHealth	7.5	7.4	0.1		7.5	7.2	0.3	
OptumInsight	18.9	19.2	(0.3)		16.9	17.6	(0.7)	
OptumRx	4.1	3.8	0.3		4.0	3.6	0.4	
Optum	6.1	6.4	(0.3)		5.9	6.1	(0.2)	
Consolidated operating margin	6.9%	8.0%	(1.1)%		6.8%	7.7%	(0.9)%	

## UnitedHealthcare

The following table summarizes UnitedHealthcare revenues by business:

(in millions, except percentages)	Three Months Ended June 30,		Increase/(Decrease)		Six Months Ended June 30,		Increase/(Decrease)	
	2016	2015	2016 vs. 2015		2016	2015	2016 vs. 2015	
UnitedHealthcare Employer & Individual	\$ 13,509	\$ 11,845	\$ 1,664	14%	\$ 26,329	\$ 23,268	\$ 3,061	13 %
UnitedHealthcare Medicare & Retirement	14,294	12,559	1,735	14	28,359	25,340	3,019	12
UnitedHealthcare Community & State	8,263	7,205	1,058	15	15,991	14,110	1,881	13
UnitedHealthcare Global	1,490	1,464	26	2	2,777	2,978	(201)	(7)
Total UnitedHealthcare revenues	\$ 37,556	\$ 33,073	\$ 4,483	14%	\$ 73,456	\$ 65,696	\$ 7,760	12 %

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

(in thousands, except percentages)	June 30,		Increase/(Decrease)	
	2016	2015	2016 vs. 2015	
Commercial risk-based	8,695	8,105	590	7 %
Commercial fee-based, including TRICARE	21,790	21,295	495	2
Total commercial	30,485	29,400	1,085	4
Medicare Advantage	3,550	3,205	345	11
Medicaid	5,675	5,210	465	9
Medicare Supplement (Standardized)	4,215	3,965	250	6
Total public and senior	13,440	12,380	1,060	9
Total UnitedHealthcare - domestic medical	43,925	41,780	2,145	5
International	4,050	4,080	(30)	(1)
Total UnitedHealthcare - medical	47,975	45,860	2,115	5 %
Supplemental Data:				
Medicare Part D stand-alone	4,940	5,075	(135)	(3)%

Growth in services to the public sector, mid-sized employers, small groups and individuals led the overall increase in people served through risk-based benefit plans in the commercial market. Medicare Advantage increased year-over-year due to growth in people served through individual and employer-sponsored group Medicare Advantage plans. Medicaid growth was driven by the combination of new state-based awards and growth in established programs. Medicare Supplement growth reflected strong customer retention and new sales. The number of people served internationally decreased year-over-year primarily due to pricing increases in response to inflationary economic conditions in Brazil.

UnitedHealthcare's year-over-year revenue increase was due to growth in the number of individuals served across its businesses and price increases reflecting underlying medical cost trends.

The decreases in UnitedHealthcare's operating earnings and operating margins year-over-year were driven by ACA-compliant individual product losses. For the six months ended June 30, 2016, these decreases were partially offset by higher levels of favorable reserve development.

### **Optum**

Total revenues and operating earnings increased as each reporting segment reported increased revenues and earnings from operations as a result of the factors discussed below. An increased mix of pharmacy care services business decreased Optum's operating margins from the prior year.

The results by segment were as follows:

#### **OptumHealth**

Revenue and earnings from operations increased at OptumHealth primarily due to growth in its health delivery and population health management businesses, and expansion of behavioral services into new Medicaid markets.

#### **OptumInsight**

Revenue and earnings from operations at OptumInsight increased primarily due to growth in technology services, care provider revenue management services and payer service offerings.

#### **OptumRx**

Revenue and earnings from operations increased due to Catamaran and organic growth. For more information about Catamaran, see Note 3 in Notes to the Consolidated Financial Statements in Part II, Item 8, "Financial Statements" in our 2015 10-K.



## LIQUIDITY, FINANCIAL CONDITION AND CAPITAL RESOURCES

### Liquidity

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

(in millions)	Six Months Ended June 30,		Increase/(Decrease)
	2016	2015	2016 vs. 2015
Sources of cash:			
Cash provided by operating activities	\$ 4,001	\$ 3,432	\$ 569
Issuances of commercial paper and long-term debt, net of repayments	1,008	670	338
Proceeds from common stock issuances	254	242	12
Customer funds administered	1,039	941	98
Other	16	48	(32)
Total sources of cash	6,318	5,333	
Uses of cash:			
Common stock repurchases	(980)	(953)	(27)
Cash paid for acquisitions and redeemable noncontrolling interest shares, net of cash assumed	(2,292)	(1,778)	(514)
Purchases of investments, net of sales and maturities	(3,581)	(404)	(3,177)
Purchases of property, equipment and capitalized software, net	(813)	(716)	(97)
Cash dividends paid	(1,071)	(833)	(238)
Other	(352)	(188)	(164)
Total uses of cash	(9,089)	(4,872)	
Effect of exchange rate changes on cash and cash equivalents	65	(69)	134
Net increase in cash and cash equivalents	\$ (2,706)	\$ 392	\$ (3,098)

#### 2016 Cash Flows Compared to 2015 Cash Flows

Cash flows provided by operating activities in 2016 increased primarily due to higher net earnings.

Other significant changes in sources or uses of cash year-over-year included increased net purchases of investments and cash paid for acquisitions, partially offset by an increase in proceeds from debt issuances.

### Financial Condition

As of June 30, 2016, our cash, cash equivalent and available-for-sale investment balances of \$32.7 billion included \$8.2 billion of cash and cash equivalents (of which \$500 million was available for general corporate use), \$22.6 billion of debt securities and \$1.8 billion of investments in equity securities. 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. Our available-for-sale debt portfolio had a weighted-average duration of 3.2 years and a weighted-average credit rating of “AA” as of June 30, 2016. 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.

### 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 revolving 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 7 of Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

Our revolving 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 55%. As of June 30, 2016, our debt to debt-plus-shareholders’ equity ratio, as defined and calculated under the credit facilities, was approximately 46%.

**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 February 2016, we issued debt to repay commercial paper borrowings, which were incurred for general corporate and working capital purposes, and to repay our 5.375% notes that were due March 15, 2016. For more information, see Note 7 of Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

**Credit Ratings.** Our credit ratings as of June 30, 2016 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.** During the six months ended June 30, 2016, we repurchased 8 million shares at an average price of \$125.80 per share. As of June 30, 2016, we had Board authorization to purchase up to an additional 53 million shares of our common stock.

**Dividends.** In June 2016, our Board increased our quarterly cash dividend to shareholders to an annual dividend rate of \$2.50 per share. For more information on our dividend, see Note 8 of Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

For additional liquidity discussion, see Note 11 of Notes to the Consolidated Financial Statements in Part II, Item 8, "Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 in our 2015 10-K.

### CONTRACTUAL OBLIGATIONS AND COMMITMENTS

A summary of future obligations under our various contractual obligations and commitments as of December 31, 2015 was disclosed in our 2015 10-K. During the six months ended June 30, 2016, 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

See Note 1 of Notes to the Condensed Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of new accounting pronouncements that affect us.

### 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 and investments. 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 2015 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 2015 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 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.

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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 June 30, 2016 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	June 30, 2016			
	Investment Income Per Annum (a)	Interest Expense Per Annum (a)	Fair Value of Financial Assets (b)	Fair Value of Financial Liabilities
2 %	\$ 216	\$ 254	\$ (1,599)	\$ (3,821)
1	108	127	(804)	(2,061)
(1)	(81)	(59)	715	2,422
(2)	nm	nm	874	4,906

nm = not meaningful

- (a) Given the low absolute level of short-term market rates on our floating-rate assets and liabilities as of June 30, 2016, 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.
- (b) As of June 30, 2016, 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 equity and comprehensive income in our Condensed Consolidated Financial Statements.

An appreciation of the U.S. dollar against the Brazilian real reduces the carrying value of the net assets denominated in the Brazilian real. For example, as of June 30, 2016, 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 \$360 million and \$795 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 quarterly report on 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 June 30, 2016. 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 June 30, 2016.

##### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2016 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 9 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 2015 10-K, which could materially affect our business, financial condition or future results. The risks

described in our 2015 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 2015 10-K.

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

### Issuer Purchases of Equity Securities (a) Second Quarter 2016

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)
April 30, 2016	4	\$ 133	4	53
May 31, 2016	—	—	—	53
June 30, 2016	—	—	—	53
Total	4	\$ 133	4	

- (a) 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 6. EXHIBITS\*\***

The following exhibits are filed or incorporated by reference herein in response to Item 601 of Regulation S-K. The Company files Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K pursuant to the Securities Exchange Act of 1934 under Commission File No. 1-10864.

- 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, effective February 9, 2016 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 9, 2016)
- 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\* Amended and Restated Employment Agreement, dated as of June 7, 2016, between United HealthCare Services, Inc. and John Rex
- 10.2\* Amendment to Agreement for Supplemental Executive Retirement Pay, dated as of June 7, 2016, between UnitedHealth Group Incorporated and Stephen J. Hemsley
- 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 June 30, 2016 filed on August 2, 2016, 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.

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\* 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.

**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: August 2, 2016

/s/ JOHN F. REX

**John F. Rex**

Executive Vice President and  
Chief Financial Officer  
(principal financial officer)

Dated: August 2, 2016

/S/ THOMAS E. ROOS

**Thomas E. Roos**

Senior Vice President and  
Chief Accounting Officer  
(principal accounting officer)

Dated: August 2, 2016

**EXHIBIT INDEX\*\***

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