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

Form 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017

or

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number: 1-10864

UNITEDHEALTH GROUP®

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

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)

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 31, 2017, there were 966,859,926 shares of the registrant's Common Stock, \$.01 par value per share, issued and outstanding.

UNITEDHEALTH GROUP

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PART I

ITEM 1. FINANCIAL STATEMENTS

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

(in millions, except per share data)	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 14,582	\$ 10,430
Short-term investments	3,388	2,845
Accounts receivable, net	10,538	8,152
Other current receivables, net	7,232	7,499
Assets under management.....	2,977	3,105
Prepaid expenses and other current assets	2,522	1,848
Total current assets.....	41,239	33,879
Long-term investments	26,397	23,868
Property, equipment and capitalized software, net	6,324	5,901
Goodwill	52,498	47,584
Other intangible assets, net	8,338	8,541
Other assets	3,301	3,037
Total assets.....	<u>\$ 138,097</u>	<u>\$ 122,810</u>
Liabilities, redeemable noncontrolling interests and equity		
Current liabilities:		
Medical costs payable	\$ 17,710	\$ 16,391
Accounts payable and accrued liabilities	14,514	13,361
Commercial paper and current maturities of long-term debt	5,739	7,193
Unearned revenues	6,115	1,968
Other current liabilities	13,043	10,339
Total current liabilities.....	57,121	49,252
Long-term debt, less current maturities	26,197	25,777
Future policy benefits	2,521	2,524
Deferred income taxes	2,844	2,761
Other liabilities.....	2,421	2,307
Total liabilities.....	91,104	82,621
Commitments and contingencies (Note 8)		
Redeemable noncontrolling interests.....	1,657	2,012
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; 965 and 952 issued and outstanding.....	10	10
Additional paid-in capital	1,661	—
Retained earnings.....	44,081	40,945
Accumulated other comprehensive loss.....	(2,591)	(2,681)
Nonredeemable noncontrolling interest	2,175	(97)
Total equity.....	45,336	38,177
Total liabilities, redeemable noncontrolling interests and equity.....	<u>\$ 138,097</u>	<u>\$ 122,810</u>

See Notes to the Condensed Consolidated Financial Statements

UnitedHealth Group
Condensed Consolidated Statements of Operations
(Unaudited)

(in millions, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Premiums	\$ 39,585	\$ 36,413	\$ 78,523	\$ 71,224
Products	6,415	6,610	12,544	13,003
Services	3,797	3,269	7,231	6,409
Investment and other income	256	193	478	376
Total revenues	50,053	46,485	98,776	91,012
Operating costs:				
Medical costs	32,549	29,872	64,628	58,302
Operating costs	7,328	6,793	14,350	13,551
Cost of products sold	5,889	6,106	11,565	11,983
Depreciation and amortization	556	511	1,089	1,013
Total operating costs	46,322	43,282	91,632	84,849
Earnings from operations	3,731	3,203	7,144	6,163
Interest expense	(301)	(271)	(584)	(530)
Earnings before income taxes	3,430	2,932	6,560	5,633
Provision for income taxes	(1,080)	(1,172)	(2,019)	(2,246)
Net earnings	2,350	1,760	4,541	3,387
Earnings attributable to noncontrolling interests	(66)	(6)	(85)	(22)
Net earnings attributable to UnitedHealth Group common shareholders	\$ 2,284	\$ 1,754	\$ 4,456	\$ 3,365
Earnings per share attributable to UnitedHealth Group common shareholders:				
Basic	\$ 2.37	\$ 1.84	\$ 4.65	\$ 3.53
Diluted	\$ 2.32	\$ 1.81	\$ 4.55	\$ 3.48
Basic weighted-average number of common shares outstanding	964	951	959	952
Dilutive effect of common share equivalents	21	16	21	15
Diluted weighted-average number of common shares outstanding	985	967	980	967
Anti-dilutive shares excluded from the calculation of dilutive effect of common share equivalents	8	1	9	4
Cash dividends declared per common share	\$ 0.750	\$ 0.625	\$ 1.375	\$ 1.125

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,	
	2017	2016	2017	2016
Net earnings.....	\$ 2,350	\$ 1,760	\$ 4,541	\$ 3,387
Other comprehensive (loss) income:				
Gross unrealized gains on investment securities during the period	170	234	269	494
Income tax effect.....	(62)	(84)	(94)	(180)
Total unrealized gains, net of tax.....	108	150	175	314
Gross reclassification adjustment for net realized gains included in net earnings.....	(20)	(36)	(41)	(71)
Income tax effect.....	7	13	15	26
Total reclassification adjustment, net of tax.....	(13)	(23)	(26)	(45)
Total foreign currency translation (losses) gains.....	(239)	474	(59)	862
Other comprehensive (loss) income.....	(144)	601	90	1,131
Comprehensive income	2,206	2,361	4,631	4,518
Comprehensive income attributable to noncontrolling interests	(66)	(6)	(85)	(22)
Comprehensive income attributable to UnitedHealth Group common shareholders	\$ 2,140	\$ 2,355	\$ 4,546	\$ 4,496

See Notes to the Condensed Consolidated Financial Statements

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

(in millions)	Common Stock			Retained Earnings	Accumulated Other Comprehensive (Loss) Income		Nonredeemable Noncontrolling Interest	Total Equity
	Shares	Amount	Additional Paid-In Capital		Net Unrealized (Losses) Gains on Investments	Foreign Currency Translation (Losses) Gains		
Balance at January 1, 2017	952	\$ 10	\$ —	\$ 40,945	\$ (97)	\$ (2,584)	\$ (97)	\$ 38,177
Net earnings				4,456			63	4,519
Other comprehensive income (loss)					149	(59)		90
Issuances of common stock, and related tax effects	19	—	1,969					1,969
Share-based compensation			326					326
Common share repurchases	(6)	—	(1,045)					(1,045)
Cash dividends paid on common shares				(1,320)				(1,320)
Redeemable noncontrolling interests fair value and other adjustments			411					411
Acquisition of nonredeemable noncontrolling interest							2,265	2,265
Distribution to nonredeemable noncontrolling interest							(56)	(56)
Balance at June 30, 2017	<u>965</u>	<u>\$ 10</u>	<u>\$ 1,661</u>	<u>\$ 44,081</u>	<u>\$ 52</u>	<u>\$ (2,643)</u>	<u>\$ 2,175</u>	<u>\$ 45,336</u>
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	<u>951</u>	<u>\$ 10</u>	<u>\$ —</u>	<u>\$ 38,579</u>	<u>\$ 325</u>	<u>\$ (2,528)</u>	<u>\$ (99)</u>	<u>\$ 36,287</u>

See Notes to the Condensed Consolidated Financial Statements

UnitedHealth Group
Condensed Consolidated Statements of Cash Flows
(Unaudited)

**Six Months Ended
June 30,**

(in millions)	Six Months Ended June 30,	
	2017	2016
Operating activities		
Net earnings	\$ 4,541	\$ 3,387
Noncash items:		
Depreciation and amortization	1,089	1,013
Deferred income taxes	(200)	(141)
Share-based compensation	332	262
Other, net	111	(20)
Net change in other operating items, net of effects from acquisitions and changes in AARP balances:		
Accounts receivable	(2,185)	(2,638)
Other assets	(1,520)	(2,052)
Medical costs payable	1,095	2,099
Accounts payable and other liabilities	1,221	2,686
Unearned revenues	4,143	(595)
Cash flows from operating activities	<u>8,627</u>	<u>4,001</u>
Investing activities		
Purchases of investments	(6,944)	(8,975)
Sales of investments	2,086	3,421
Maturities of investments	2,776	1,973
Cash paid for acquisitions, net of cash assumed	(704)	(2,035)
Purchases of property, equipment and capitalized software	(925)	(813)
Other, net	55	16
Cash flows used for investing activities	<u>(3,656)</u>	<u>(6,413)</u>
Financing activities		
Common share repurchases	(1,045)	(980)
Cash dividends paid	(1,320)	(1,071)
Proceeds from common stock issuances	391	254
Proceeds from issuance of long-term debt	1,342	2,485
Repayments of long-term debt	(2,117)	(1,601)
(Repayments of) proceeds from commercial paper, net	(1,396)	124
Customer funds administered	3,899	1,039
Other, net	(566)	(609)
Cash flows used for financing activities	<u>(812)</u>	<u>(359)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(7)</u>	<u>65</u>
Increase (decrease) in cash and cash equivalents	4,152	(2,706)
Cash and cash equivalents, beginning of period	10,430	10,923
Cash and cash equivalents, end of period	<u>\$ 14,582</u>	<u>\$ 8,217</u>
Supplemental Schedule of Noncash Investing Activities		
Common stock issued for acquisition	\$ 1,867	\$ —

See Notes to the Condensed Consolidated Financial Statements

UnitedHealth Group
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

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 helping to make 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. These core competencies are deployed within the Company’s two distinct, but strategically aligned, business platforms: health benefits operating under UnitedHealthcare and health services operating under Optum.

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” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 as filed with the SEC (2016 10-K). The accompanying Condensed Consolidated Financial Statements include all normal recurring adjustments necessary to present the interim financial statements fairly.

Use of Estimates

These Condensed Consolidated Financial Statements include certain amounts based on the Company’s best estimates and judgments. The Company’s most significant estimates relate to estimates and judgments for medical costs payable and revenues, valuation and impairment analysis of goodwill and other intangible assets 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.

Revenues

The Company’s revenues include premium, product, and service revenues. Service revenues include net patient service revenues that are recorded based upon established billing rates, less allowances for contractual adjustments, and are recognized as services are provided. For more information about the Company’s revenues, see Notes 2 and 13 of Notes to the Consolidated Financial Statements in Part II, Item 8, “Financial Statements” in the 2016 10-K. See Note 9 for disaggregation of revenue by segment and type.

As of June 30, 2017, accounts receivables related to products and services were \$3.4 billion. For the three and six months ended June 30, 2017, the Company had no material bad-debt expense and there were no material contract assets, contract liabilities or deferred contract costs recorded on the Condensed Consolidated Balance Sheet as of June 30, 2017.

For the three and six months ended June 30, 2017, revenue recognized from performance obligations related to prior periods (for example, due to changes in transaction price), was not material.

Revenue expected to be recognized in any future year related to remaining performance obligations, excluding revenue pertaining to contracts that have an original expected duration of one year or less, contracts where revenue is recognized as invoiced and contracts with variable consideration related to undelivered performance obligations, is not material.

Health Insurance Industry Tax

The Patient Protection and Affordable Care Act (ACA) included an annual, nondeductible insurance industry tax (Health Insurance Industry Tax) to be levied proportionally across the insurance industry for risk-based health insurance products. A provision in the 2016 Federal Budget imposed a one year moratorium for 2017 on the collection of the Health Insurance Industry Tax. The Company has experienced a lower effective income tax rate in 2017 as compared to 2016 primarily due to the moratorium.

The remainder of the accounting policies disclosed in Note 2 of Notes to the Consolidated Financial Statements in Part II, Item 8, “Financial Statements” in the 2016 10-K remain unchanged.

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. When adopted, the Company does not expect ASU 2016-02 to have a material impact on its results of operations, equity or cash flows. The impact of ASU 2016-02 on the Company's consolidated financial position will be based on leases outstanding at the time of adoption.

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. As of June 30, 2017, based on equity securities held, the Company does not expect ASU 2016-01 to have a material impact on its consolidated financial position, results of operations, equity or cash flows. The Company will continue to evaluate any changes in its mix of investments or market conditions and the related impact of ASU 2016-01.

Recently Adopted Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" as modified by subsequently issued ASUs 2015-14, 2016-08, 2016-10, 2016-12 and 2016-20 (collectively ASU 2014-09). ASU 2014-09 superseded 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. The Company early adopted the new standard effective January 1, 2017, as allowed, using the modified retrospective approach. A significant majority of the Company's revenues are not subject to the new guidance. The adoption of ASU 2014-09 did not have a material impact on the Company's consolidated financial position, results of operations, equity or cash flows as of the adoption date or for the six months ended June 30, 2017. The Company has included the disclosures required by ASU 2014-09 above.

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
June 30, 2017				
Debt securities - available-for-sale:				
U.S. government and agency obligations	\$ 2,557	\$ 3	\$ (23)	\$ 2,537
State and municipal obligations.....	6,771	106	(27)	6,850
Corporate obligations.....	12,402	75	(30)	12,447
U.S. agency mortgage-backed securities	3,629	10	(34)	3,605
Non-U.S. agency mortgage-backed securities.....	995	5	(5)	995
Total debt securities - available-for-sale.....	<u>26,354</u>	<u>199</u>	<u>(119)</u>	<u>26,434</u>
Equity securities.....	2,165	42	(40)	2,167
Debt securities - held-to-maturity:				
U.S. government and agency obligations	256	1	—	257
State and municipal obligations.....	5	—	—	5
Corporate obligations.....	295	—	—	295
Total debt securities - held-to-maturity.....	<u>556</u>	<u>1</u>	<u>—</u>	<u>557</u>
Total investments.....	<u>\$ 29,075</u>	<u>\$ 242</u>	<u>\$ (159)</u>	<u>\$ 29,158</u>
December 31, 2016				
Debt securities - available-for-sale:				
U.S. government and agency obligations	\$ 2,294	\$ 1	\$ (31)	\$ 2,264
State and municipal obligations.....	7,120	40	(101)	7,059
Corporate obligations.....	10,944	41	(58)	10,927
U.S. agency mortgage-backed securities	2,963	7	(43)	2,927
Non-U.S. agency mortgage-backed securities.....	1,009	3	(10)	1,002
Total debt securities - available-for-sale.....	<u>24,330</u>	<u>92</u>	<u>(243)</u>	<u>24,179</u>
Equity securities.....	2,036	52	(47)	2,041
Debt securities - held-to-maturity:				
U.S. government and agency obligations	250	1	—	251
State and municipal obligations.....	5	—	—	5
Corporate obligations.....	238	—	—	238
Total debt securities - held-to-maturity.....	<u>493</u>	<u>1</u>	<u>—</u>	<u>494</u>
Total investments.....	<u>\$ 26,859</u>	<u>\$ 145</u>	<u>\$ (290)</u>	<u>\$ 26,714</u>

The amortized cost and fair value of debt securities as of June 30, 2017, 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	\$ 3,500	\$ 3,500	\$ 167	\$ 168
Due after one year through five years	9,979	10,007	126	126
Due after five years through ten years	6,199	6,251	116	116
Due after ten years.....	2,052	2,076	147	147
U.S. agency mortgage-backed securities.....	3,629	3,605	—	—
Non-U.S. agency mortgage-backed securities	995	995	—	—
Total debt securities.....	<u>\$ 26,354</u>	<u>\$ 26,434</u>	<u>\$ 556</u>	<u>\$ 557</u>

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
June 30, 2017						
Debt securities - available-for-sale:						
U.S. government and agency obligations ..	\$ 2,079	\$ (23)	\$ —	\$ —	\$ 2,079	\$ (23)
State and municipal obligations	2,441	(27)	—	—	2,441	(27)
Corporate obligations	4,294	(28)	43	(2)	4,337	(30)
U.S. agency mortgage-backed securities ...	2,159	(32)	72	(2)	2,231	(34)
Non-U.S. agency mortgage-backed securities	428	(4)	13	(1)	441	(5)
Total debt securities - available-for-sale	<u>\$ 11,401</u>	<u>\$ (114)</u>	<u>\$ 128</u>	<u>\$ (5)</u>	<u>\$ 11,529</u>	<u>\$ (119)</u>
Equity securities	<u>\$ 73</u>	<u>\$ (4)</u>	<u>\$ 100</u>	<u>\$ (36)</u>	<u>\$ 173</u>	<u>\$ (40)</u>
December 31, 2016						
Debt securities - available-for-sale:						
U.S. government and agency obligations ..	\$ 1,794	\$ (31)	\$ —	\$ —	\$ 1,794	\$ (31)
State and municipal obligations	4,376	(101)	—	—	4,376	(101)
Corporate obligations	5,128	(56)	137	(2)	5,265	(58)
U.S. agency mortgage-backed securities ...	2,247	(40)	79	(3)	2,326	(43)
Non-U.S. agency mortgage-backed securities	544	(7)	97	(3)	641	(10)
Total debt securities - available-for-sale	<u>\$ 14,089</u>	<u>\$ (235)</u>	<u>\$ 313</u>	<u>\$ (8)</u>	<u>\$ 14,402</u>	<u>\$ (243)</u>
Equity securities	<u>\$ 93</u>	<u>\$ (5)</u>	<u>\$ 91</u>	<u>\$ (42)</u>	<u>\$ 184</u>	<u>\$ (47)</u>

The Company's unrealized losses from all securities as of June 30, 2017 were generated from 10,000 positions out of a total of 28,000 positions. The Company believes that it will collect the principal and interest due on its debt securities that have an amortized cost in excess of fair value. The unrealized losses were primarily caused by interest rate increases and not by unfavorable changes in the credit quality associated with these securities. At each reporting period, the Company evaluates securities for impairment when the fair value of the investment is less than its amortized cost. The Company evaluated the underlying credit quality and credit ratings of the issuers, noting no significant deterioration since purchase. As of June 30, 2017, the Company did not have the intent to sell any of the securities in an unrealized loss position. Therefore, the Company believes these losses to be temporary.

The Company's investments in equity securities consist of investments in Brazilian real denominated fixed-income funds, employee savings plan related investments, venture capital funds, and dividend paying stocks. The Company evaluated its investments in equity securities for severity and duration of unrealized loss, overall market volatility and other market factors. Additionally, as of June 30, 2017, the Company's investments included \$628 million in equity method investments.

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 4 of Notes to the Consolidated Financial Statements in Part II, Item 8, "Financial Statements" in the 2016 10-K.

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:

(in millions)	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair and Carrying Value
June 30, 2017				
Cash and cash equivalents	\$ 14,533	\$ 49	\$ —	\$ 14,582
Debt securities - available-for-sale:				
U.S. government and agency obligations	2,274	263	—	2,537
State and municipal obligations.....	—	6,850	—	6,850
Corporate obligations.....	55	12,273	119	12,447
U.S. agency mortgage-backed securities	—	3,605	—	3,605
Non-U.S. agency mortgage-backed securities.....	—	995	—	995
Total debt securities - available-for-sale.....	<u>2,329</u>	<u>23,986</u>	<u>119</u>	<u>26,434</u>
Equity securities.....	1,707	13	447	2,167
Assets under management.....	968	2,009	—	2,977
Interest rate swap assets.....	—	60	—	60
Total assets at fair value.....	<u>\$ 19,537</u>	<u>\$ 26,117</u>	<u>\$ 566</u>	<u>\$ 46,220</u>
Percentage of total assets at fair value	<u>42%</u>	<u>57%</u>	<u>1%</u>	<u>100%</u>
Interest rate swap liabilities	<u>\$ —</u>	<u>\$ 11</u>	<u>\$ —</u>	<u>\$ 11</u>
December 31, 2016				
Cash and cash equivalents	\$ 10,386	\$ 44	\$ —	\$ 10,430
Debt securities - available-for-sale:				
U.S. government and agency obligations	2,017	247	—	2,264
State and municipal obligations.....	—	7,059	—	7,059
Corporate obligations.....	21	10,804	102	10,927
U.S. agency mortgage-backed securities	—	2,927	—	2,927
Non-U.S. agency mortgage-backed securities.....	—	1,002	—	1,002
Total debt securities - available-for-sale.....	<u>2,038</u>	<u>22,039</u>	<u>102</u>	<u>24,179</u>
Equity securities.....	1,591	13	437	2,041
Assets under management.....	1,064	2,041	—	3,105
Interest rate swap assets.....	—	55	—	55
Total assets at fair value.....	<u>\$ 15,079</u>	<u>\$ 24,192</u>	<u>\$ 539</u>	<u>\$ 39,810</u>
Percentage of total assets at fair value	<u>38%</u>	<u>61%</u>	<u>1%</u>	<u>100%</u>
Interest rate swap liabilities	<u>\$ —</u>	<u>\$ 14</u>	<u>\$ —</u>	<u>\$ 14</u>

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, 2017 or 2016.

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
June 30, 2017					
Debt securities - held-to-maturity:					
U.S. government and agency obligations.....	\$ 254	\$ 3	\$ —	\$ 257	\$ 256
State and municipal obligations	—	—	5	5	5
Corporate obligations	16	2	277	295	295
Total debt securities - held-to-maturity	<u>\$ 270</u>	<u>\$ 5</u>	<u>\$ 282</u>	<u>\$ 557</u>	<u>\$ 556</u>
Other assets	<u>\$ —</u>	<u>\$ 474</u>	<u>\$ —</u>	<u>\$ 474</u>	<u>\$ 472</u>
Long-term debt and other financing obligations	<u>\$ —</u>	<u>\$ 32,289</u>	<u>\$ —</u>	<u>\$ 32,289</u>	<u>\$ 29,682</u>
December 31, 2016					
Debt securities - held-to-maturity:					
U.S. government and agency obligations.....	\$ 251	\$ —	\$ —	\$ 251	\$ 250
State and municipal obligations	—	—	5	5	5
Corporate obligations	20	8	210	238	238
Total debt securities - held-to-maturity	<u>\$ 271</u>	<u>\$ 8</u>	<u>\$ 215</u>	<u>\$ 494</u>	<u>\$ 493</u>
Other assets	<u>\$ —</u>	<u>\$ 476</u>	<u>\$ —</u>	<u>\$ 476</u>	<u>\$ 471</u>
Long-term debt and other financing obligations	<u>\$ —</u>	<u>\$ 31,295</u>	<u>\$ —</u>	<u>\$ 31,295</u>	<u>\$ 29,337</u>

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, 2017 or 2016.

4. 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 the Company's clients. As of June 30, 2017 and December 31, 2016, total pharmaceutical manufacturer rebates receivable included in other receivables in the Condensed Consolidated Balance Sheets amounted to \$4.2 billion and \$3.3 billion, respectively. See Note 2 of Notes to the Consolidated Financial Statements in Part II, Item 8, "Financial Statements" in the 2016 10-K for more information on the Company's pharmaceutical manufacturer rebates.

5. Medical Costs Payable

The following table shows the components of the change in medical costs payable for the six months ended June 30:

(in millions)	2017	2016
Medical costs payable, beginning of period	\$ 16,391	\$ 14,330
Acquisitions	76	—
Reported medical costs:		
Current year	65,208	58,602
Prior years	(580)	(300)
Total reported medical costs	<u>64,628</u>	<u>58,302</u>
Medical payments:		
Payments for current year	(49,673)	(43,476)
Payments for prior years	(13,712)	(12,524)
Total medical payments	<u>(63,385)</u>	<u>(56,000)</u>
Medical costs payable, end of period	<u>\$ 17,710</u>	<u>\$ 16,632</u>

For the six months ended June 30, 2017 and 2016 the medical cost reserve development included no individual factors that were material. Medical costs payable included reserves for claims incurred by insured customers but not yet reported to the Company of \$12.6 billion and \$11.6 billion at June 30, 2017 and December 31, 2016, respectively.

6. Commercial Paper and Long-Term Debt

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

(in millions, except percentages)	June 30, 2017			December 31, 2016		
	Par Value	Carrying Value	Fair Value	Par Value	Carrying Value	Fair Value
Commercial paper.....	\$ 2,254	\$ 2,254	\$ 2,254	\$ 3,633	\$ 3,633	\$ 3,633
Floating rate notes due January 2017.....	—	—	—	750	750	750
6.000% notes due June 2017.....	—	—	—	441	446	450
1.450% notes due July 2017.....	750	750	750	750	750	751
1.400% notes due October 2017.....	625	625	625	625	624	626
6.000% notes due November 2017.....	156	158	159	156	159	163
1.400% notes due December 2017.....	750	750	750	750	751	750
6.000% notes due February 2018.....	1,100	1,104	1,129	1,100	1,107	1,153
1.900% notes due July 2018.....	1,500	1,498	1,506	1,500	1,496	1,507
1.700% notes due February 2019.....	750	748	749	750	748	748
1.625% notes due March 2019.....	500	501	497	500	501	498
2.300% notes due December 2019.....	500	498	505	500	498	504
2.700% notes due July 2020.....	1,500	1,495	1,532	1,500	1,495	1,523
3.875% notes due October 2020.....	450	450	474	450	450	474
4.700% notes due February 2021.....	400	409	432	400	409	433
2.125% notes due March 2021.....	750	746	748	750	745	741
3.375% notes due November 2021.....	500	498	521	500	497	519
2.875% notes due December 2021.....	750	750	767	750	748	760
2.875% notes due March 2022.....	1,100	1,063	1,125	1,100	1,057	1,114
3.350% notes due July 2022.....	1,000	996	1,044	1,000	995	1,030
0.000% notes due November 2022.....	15	11	12	15	11	12
2.750% notes due February 2023.....	625	612	630	625	609	622
2.875% notes due March 2023.....	750	772	762	750	771	753
3.750% notes due July 2025.....	2,000	1,987	2,107	2,000	1,986	2,070
3.100% notes due March 2026.....	1,000	995	1,005	1,000	994	986
3.450% notes due January 2027.....	750	745	771	750	745	762
3.375% notes due April 2027.....	625	618	639	—	—	—
4.625% notes due July 2035.....	1,000	991	1,124	1,000	991	1,090
5.800% notes due March 2036.....	850	837	1,076	850	837	1,034
6.500% notes due June 2037.....	500	491	675	500	491	643
6.625% notes due November 2037.....	650	641	896	650	640	850
6.875% notes due February 2038.....	1,100	1,075	1,562	1,100	1,075	1,497
5.700% notes due October 2040.....	300	296	383	300	296	366
5.950% notes due February 2041.....	350	345	458	350	345	437
4.625% notes due November 2041.....	600	588	661	600	588	634
4.375% notes due March 2042.....	502	483	539	502	483	509
3.950% notes due October 2042.....	625	606	633	625	606	609
4.250% notes due March 2043.....	750	734	793	750	734	765
4.750% notes due July 2045.....	2,000	1,972	2,297	2,000	1,972	2,203
4.200% notes due January 2047.....	750	738	791	750	737	759
4.250% notes due April 2047.....	725	717	773	—	—	—
Total commercial paper and long-term debt.....	\$ 31,802	\$ 31,547	\$ 34,154	\$ 33,022	\$ 32,770	\$ 34,728

In 2017, the Company repaid \$926 million in debt assumed in the first quarter in connection with an acquisition. The Company's long-term debt obligations also included \$389 million and \$200 million of other financing obligations, of which \$98 million and \$80 million were classified as current as of June 30, 2017 and December 31, 2016, 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, 2017, the Company's outstanding commercial paper had a weighted-average annual interest rate of 1.3%.

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 2021, December 2019 and December 2017, respectively. These facilities provide liquidity support for the Company's commercial paper program and are available for general corporate purposes. As of June 30, 2017, 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, 2017, annual interest rates would have ranged from 2.0% to 2.3%.

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, 2017.

7. Shareholders' Equity

Dividends

In June 2017, the Company's Board of Directors increased the Company's quarterly cash dividend to shareholders to an annual dividend rate of \$3.00 per share from \$2.50 per share, which the Company had paid since June 2016. 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 2017 dividend payments:

Payment Date	Amount per Share	Total Amount Paid
		(in millions)
March 10, 2017	\$ 0.625	\$ 596
June 27, 2017	0.750	724

8. 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 demands, audits, class actions and suits brought by members, care providers, consumer advocacy organizations, customers, shareholders 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 (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. In March 2017, the court entered a tentative ruling reversing all of the penalties imposed and remanding certain further issues to the Commissioner. A final order is expected later in 2017. 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 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. 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.

On February 14, 2017, the Department of Justice (DOJ) announced its decision to pursue certain claims within a lawsuit initially asserted against the Company and filed under seal by a whistleblower in 2011. The whistleblower's complaint, which was unsealed on February 15, 2017, alleges that the Company, along with a number of other Medicare Advantage plans, made improper risk adjustment submissions and violated the False Claims Act. On March 24, 2017, DOJ intervened in a separate lawsuit initially asserted against the Company and filed by a whistleblower in 2009 concerning risk adjustment submissions by Medicare Advantage plans. Both cases are now pending in the U.S. District Court for the Central District of California. DOJ filed its complaint in the two cases in May 2017. The Company cannot reasonably estimate the outcome that may result from these matters given their current posture.

9. Segment Financial Information

The Company's four reportable segments are UnitedHealthcare, OptumHealth, OptumInsight and OptumRx. For more information on the Company's segments see Part I, Item I, "Business" and Note 13 of Notes to the Consolidated Financial Statements in Part II, Item 8, "Financial Statements" in the 2016 10-K.

As of June 30, 2017, OptumHealth's total assets were \$25.3 billion as compared to \$18.7 billion as of December 31, 2016. The increase was due to acquisitions, which increased goodwill by \$4.9 billion during the six months ended June 30, 2017.

The following tables present reportable segment financial information:

(in millions)	Optum						Corporate and Eliminations	Consolidated
	UnitedHealthcare	OptumHealth	OptumInsight	OptumRx	Optum Eliminations	Optum		
Three Months Ended June 30, 2017								
Revenues - unaffiliated customers:								
Premiums	\$ 38,666	\$ 919	\$ —	\$ —	\$ —	\$ 919	\$ —	\$ 39,585
Products.....	—	11	19	6,385	—	6,415	—	6,415
Services	1,958	1,008	692	139	—	1,839	—	3,797
Total revenues - unaffiliated customers	40,624	1,938	711	6,524	—	9,173	—	49,797
Total revenues - affiliated customers	—	3,097	1,281	9,312	(284)	13,406	(13,406)	—
Investment and other income	164	87	1	4	—	92	—	256
Total revenues	<u>\$ 40,788</u>	<u>\$ 5,122</u>	<u>\$ 1,993</u>	<u>\$ 15,840</u>	<u>\$ (284)</u>	<u>\$ 22,671</u>	<u>\$ (13,406)</u>	<u>\$ 50,053</u>
Earnings from operations	\$ 2,211	\$ 422	\$ 372	\$ 726	\$ —	\$ 1,520	\$ —	\$ 3,731
Interest expense.....	—	—	—	—	—	—	(301)	(301)
Earnings before income taxes	<u>\$ 2,211</u>	<u>\$ 422</u>	<u>\$ 372</u>	<u>\$ 726</u>	<u>\$ —</u>	<u>\$ 1,520</u>	<u>\$ (301)</u>	<u>\$ 3,430</u>
Three Months Ended June 30, 2016								
Revenues - unaffiliated 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 - unaffiliated customers	37,408	1,480	656	6,748	—	8,884	—	46,292
Total revenues - affiliated customers	—	2,541	1,106	8,324	(277)	11,694	(11,694)	—
Investment and other income	148	44	—	1	—	45	—	193
Total revenues	<u>\$ 37,556</u>	<u>\$ 4,065</u>	<u>\$ 1,762</u>	<u>\$ 15,073</u>	<u>\$ (277)</u>	<u>\$ 20,623</u>	<u>\$ (11,694)</u>	<u>\$ 46,485</u>
Earnings from operations	\$ 1,942	\$ 304	\$ 333	\$ 624	\$ —	\$ 1,261	\$ —	\$ 3,203
Interest expense.....	—	—	—	—	—	—	(271)	(271)
Earnings before income taxes	<u>\$ 1,942</u>	<u>\$ 304</u>	<u>\$ 333</u>	<u>\$ 624</u>	<u>\$ —</u>	<u>\$ 1,261</u>	<u>\$ (271)</u>	<u>\$ 2,932</u>

(in millions)	Optum						Corporate and Eliminations	Consolidated
	UnitedHealthcare	OptumHealth	OptumInsight	OptumRx	Optum Eliminations	Optum		
Six Months Ended June 30, 2017								
Revenues - unaffiliated customers:								
Premiums	\$ 76,719	\$ 1,804	\$ —	\$ —	\$ —	\$ 1,804	\$ —	\$ 78,523
Products.....	—	23	40	12,481	—	12,544	—	12,544
Services	3,880	1,729	1,334	288	—	3,351	—	7,231
Total revenues - unaffiliated customers.....	80,599	3,556	1,374	12,769	—	17,699	—	98,298
Total revenues - affiliated customers	—	6,156	2,460	18,010	(570)	26,056	(26,056)	—
Investment and other income	325	143	2	8	—	153	—	478
Total revenues.....	\$ 80,924	\$ 9,855	\$ 3,836	\$30,787	\$ (570)	\$43,908	\$ (26,056)	\$ 98,776
Earnings from operations.....	\$ 4,345	\$ 754	\$ 666	\$ 1,379	\$ —	\$ 2,799	\$ —	\$ 7,144
Interest expense.....	—	—	—	—	—	—	(584)	(584)
Earnings before income taxes	\$ 4,345	\$ 754	\$ 666	\$ 1,379	\$ —	\$ 2,799	\$ (584)	\$ 6,560
Six Months Ended June 30, 2016								
Revenues - unaffiliated 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 - unaffiliated customers.....	73,167	2,953	1,282	13,234	—	17,469	—	90,636
Total revenues - affiliated customers	—	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

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 2016 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 2016 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 helping to make 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. These core competencies are deployed within our two distinct, but strategically aligned, business platforms: health benefits operating under UnitedHealthcare and health services operating under Optum.

Further information on our business is presented 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 2016 10-K and additional information on our segments can be found in this Item 2 and in Note 9 of Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

Business Trends

Our businesses participate in the United States, Brazilian and certain other international health markets. 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 considerations.

The commercial risk market remains highly competitive in both the small group and large group segments. We expect broad-based competition to continue as the industry adapts to individual and employer needs amid reform changes. A provision in the 2016 Federal Budget imposed a one year moratorium for 2017 on the collection of the Health Insurance Industry Tax. Pricing for contracts that cover some portion of calendar year 2018 will reflect the impact of the returning Health Insurance Industry Tax.

Medicare Advantage funding continues to be pressured, as discussed below in “Regulatory Trends and Uncertainties.”

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 2017 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 Medicare Advantage rates. For additional information regarding the ACA and other 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 2016 10-K.

Medicare Advantage Rates. Final 2018 Medicare Advantage rates resulted in an increase in industry base rates of approximately 0.45%, 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 payments for those care providers with rates indexed to Medicare Advantage revenues or Medicare fee-for-service payment rates. These factors can affect our plan benefit designs, pricing, growth prospects and earnings expectations for our Medicare Advantage plans.

As provided in the ACA, 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 2017 payment year, approximately 80% of our Medicare Advantage members are in plans rated four stars or higher. We expect at least 85% of our Medicare Advantage members will be in plans rated four stars or higher for payment year 2018. 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.

SELECTED OPERATING PERFORMANCE AND OTHER SIGNIFICANT ITEMS

The following summarizes select second quarter 2017 year-over-year operating comparisons to second quarter 2016 and other 2017 significant items.

- Consolidated revenues grew 8%, UnitedHealthcare revenues grew 9% and Optum revenues grew 10%.
- UnitedHealthcare grew to serve an additional 1.5 million people.
- Earnings from operations increased 16%, including increases of 14% at UnitedHealthcare and 21% at Optum.
- The effective income tax rate decreased 850 basis points to 31.5%.
- Diluted earnings per common share increased 28%.
- Cash flows from operations for the six months ended June 30, 2017 were \$8.6 billion, aided by the June 2017 receipt of our July CMS premium payment of \$4.5 billion.

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)	
	2017	2016	2017 vs. 2016		2017	2016	2017 vs. 2016	
Revenues:								
Premiums	\$ 39,585	\$ 36,413	\$ 3,172	9%	\$ 78,523	\$ 71,224	\$ 7,299	10%
Products.....	6,415	6,610	(195)	(3)	12,544	13,003	(459)	(4)
Services	3,797	3,269	528	16	7,231	6,409	822	13
Investment and other income	256	193	63	33	478	376	102	27
Total revenues.....	<u>50,053</u>	<u>46,485</u>	<u>3,568</u>	8	<u>98,776</u>	<u>91,012</u>	<u>7,764</u>	9
Operating costs:								
Medical costs	32,549	29,872	2,677	9	64,628	58,302	6,326	11
Operating costs.....	7,328	6,793	535	8	14,350	13,551	799	6
Cost of products sold	5,889	6,106	(217)	(4)	11,565	11,983	(418)	(3)
Depreciation and amortization.....	556	511	45	9	1,089	1,013	76	8
Total operating costs.....	<u>46,322</u>	<u>43,282</u>	<u>3,040</u>	7	<u>91,632</u>	<u>84,849</u>	<u>6,783</u>	8
Earnings from operations.....	3,731	3,203	528	16	7,144	6,163	981	16
Interest expense.....	(301)	(271)	(30)	11	(584)	(530)	(54)	10
Earnings before income taxes	3,430	2,932	498	17	6,560	5,633	927	16
Provision for income taxes.....	(1,080)	(1,172)	92	(8)	(2,019)	(2,246)	227	(10)
Net earnings	<u>2,350</u>	<u>1,760</u>	<u>590</u>	34	<u>4,541</u>	<u>3,387</u>	<u>1,154</u>	34
Earnings attributable to noncontrolling interests	(66)	(6)	(60)	nm	(85)	(22)	(63)	nm
Net earnings attributable to UnitedHealth Group common shareholders.....	<u>\$ 2,284</u>	<u>\$ 1,754</u>	<u>\$ 530</u>	30%	<u>\$ 4,456</u>	<u>\$ 3,365</u>	<u>\$ 1,091</u>	32%
Diluted earnings per share attributable to UnitedHealth Group common shareholders	\$ 2.32	\$ 1.81	\$ 0.51	28%	\$ 4.55	\$ 3.48	\$ 1.07	31%
Medical care ratio (a).....	82.2%	82.0%	0.2%		82.3%	81.9%	0.4%	
Operating cost ratio.....	14.6	14.6	—		14.5	14.9	(0.4)	
Operating margin	7.5	6.9	0.6		7.2	6.8	0.4	
Tax rate.....	31.5	40.0	(8.5)		30.8	39.9	(9.1)	
Net earnings margin (b).....	4.6	3.8	0.8		4.5	3.7	0.8	
Return on equity (c).....	21.5%	19.6%	1.9%		21.7%	19.2%	2.5%	

nm = not meaningful

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

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

(c) 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 year presented.

2017 RESULTS OF OPERATIONS COMPARED TO 2016 RESULTS OF OPERATIONS

Consolidated Financial Results

Revenues

The increases in revenues were primarily driven by organic growth in the number of individuals served across our benefits businesses and growth across all of Optum's businesses. These increases were partially offset by revenue decreases due to withdrawals of individual ACA-compliant products in the individual market and the effects of the Health Insurance Industry Tax moratorium.

Medical Costs and Medical Care Ratio (MCR)

Medical costs increased due to risk-based membership growth and medical cost trends. The MCR increases were due to the effects of the Health Insurance Industry Tax moratorium offset primarily by the reduction of individual ACA business and an increase in favorable medical cost reserve development.

Income Tax Rate

Our effective tax rates decreased primarily due to the Health Insurance Industry Tax moratorium and higher tax benefits resulting from an increase in share-based payment activity.

Reportable Segments

See Note 9 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) 2017 vs. 2016		Six Months Ended June 30,		Increase/(Decrease) 2017 vs. 2016	
	2017	2016			2017	2016		
Revenues								
UnitedHealthcare	\$ 40,788	\$ 37,556	\$ 3,232	9%	\$ 80,924	\$ 73,456	\$ 7,468	10%
OptumHealth	5,122	4,065	1,057	26	9,855	8,063	1,792	22
OptumInsight	1,993	1,762	231	13	3,836	3,429	407	12
OptumRx	15,840	15,073	767	5	30,787	29,346	1,441	5
Optum eliminations	(284)	(277)	(7)	3	(570)	(531)	(39)	7
Optum	22,671	20,623	2,048	10	43,908	40,307	3,601	9
Eliminations	(13,406)	(11,694)	(1,712)	15	(26,056)	(22,751)	(3,305)	15
Consolidated revenues	<u>\$ 50,053</u>	<u>\$ 46,485</u>	<u>\$ 3,568</u>	8%	<u>\$ 98,776</u>	<u>\$ 91,012</u>	<u>\$ 7,764</u>	9%
Earnings from operations								
UnitedHealthcare	\$ 2,211	\$ 1,942	\$ 269	14%	\$ 4,345	\$ 3,796	\$ 549	14%
OptumHealth	422	304	118	39	754	604	150	25
OptumInsight	372	333	39	12	666	579	87	15
OptumRx	726	624	102	16	1,379	1,184	195	16
Optum	1,520	1,261	259	21	2,799	2,367	432	18
Consolidated earnings from operations	<u>\$ 3,731</u>	<u>\$ 3,203</u>	<u>\$ 528</u>	16%	<u>\$ 7,144</u>	<u>\$ 6,163</u>	<u>\$ 981</u>	16%
Operating margin								
UnitedHealthcare	5.4%	5.2%	0.2%		5.4%	5.2%	0.2%	
OptumHealth	8.2	7.5	0.7		7.7	7.5	0.2	
OptumInsight	18.7	18.9	(0.2)		17.4	16.9	0.5	
OptumRx	4.6	4.1	0.5		4.5	4.0	0.5	
Optum	6.7	6.1	0.6		6.4	5.9	0.5	
Consolidated operating margin	7.5%	6.9%	0.6%		7.2%	6.8%	0.4%	

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)	
	2017	2016	2017 vs. 2016		2017	2016	2017 vs. 2016	
UnitedHealthcare Employer & Individual	\$ 12,966	\$ 13,509	\$ (543)	(4)%	\$ 25,705	\$ 26,329	\$ (624)	(2)%
UnitedHealthcare Medicare & Retirement	16,747	14,294	2,453	17	33,299	28,359	4,940	17
UnitedHealthcare Community & State	9,178	8,263	915	11	18,127	15,991	2,136	13
UnitedHealthcare Global	1,897	1,490	407	27	3,793	2,777	1,016	37
Total UnitedHealthcare revenues	\$ 40,788	\$ 37,556	\$ 3,232	9 %	\$ 80,924	\$ 73,456	\$ 7,468	10 %

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)	
	2017	2016	2017 vs. 2016	
Commercial group:				
Risk-based	7,765	7,175	590	8 %
Fee-based	19,110	18,935	175	1
Total commercial group	26,875	26,110	765	3
Individual	540	1,520	(980)	(64)
Fee-based TRICARE	2,855	2,855	—	—
Total commercial	30,270	30,485	(215)	(1)
Medicare Advantage	4,340	3,550	790	22
Medicaid	6,380	5,675	705	12
Medicare Supplement (Standardized)	4,360	4,215	145	3
Total public and senior	15,080	13,440	1,640	12
Total UnitedHealthcare - domestic medical	45,350	43,925	1,425	3
International	4,115	4,050	65	2
Total UnitedHealthcare - medical	49,465	47,975	1,490	3 %
Supplemental Data:				
Medicare Part D stand-alone	4,935	4,940	(5)	— %

Broad-based growth across group sizes and regions, led by gains in services to small groups, resulted in the overall increase in people served through risk-based benefit plans in the commercial group market. Membership in individual decreased due to our reduced participation in ACA-compliant products in 2017. 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.

UnitedHealthcare's revenue increases were due to growth in the number of individuals served across its businesses and price increases for underlying medical cost trends, which were partially offset by the reduction of people served in ACA-compliant individual products and the impact of the Health Insurance Industry Tax moratorium.

The increase in UnitedHealthcare's operating earnings was led by diversified growth and increased operating margin. The 2016 results included ACA-compliant losses in individual products.

Optum

Total revenues and operating earnings increased as each segment reported increased revenues and earnings from operations as a result of the factors discussed below.

The results by segment were as follows:

OptumHealth

Revenue and earnings from operations increased at OptumHealth primarily due to organic and acquisition-related growth in care delivery.

OptumInsight

Revenue and earnings from operations at OptumInsight increased primarily due to growth in revenue management services and business process services.

OptumRx

Revenue and earnings from operations at OptumRx increased primarily due to client and consumer growth. OptumRx fulfilled 322 million adjusted scripts in the second quarter of 2017 compared to 306 million in 2016.

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)
	2017	2016	2017 vs. 2016
Sources of cash:			
Cash provided by operating activities.....	\$ 8,627	\$ 4,001	\$ 4,626
Issuances of commercial paper and long-term debt, net of repayments.....	—	1,008	(1,008)
Proceeds from common stock issuances.....	391	254	137
Customer funds administered.....	3,899	1,039	2,860
Other.....	55	16	39
Total sources of cash.....	12,972	6,318	
Uses of cash:			
Common stock repurchases.....	(1,045)	(980)	(65)
Cash paid for acquisitions, net of cash assumed.....	(704)	(2,035)	1,331
Purchases of investments, net of sales and maturities.....	(2,082)	(3,581)	1,499
Repayments of commercial paper and long-term debt, net of issuances.....	(2,171)	—	(2,171)
Purchases of property, equipment and capitalized software.....	(925)	(813)	(112)
Cash dividends paid.....	(1,320)	(1,071)	(249)
Other.....	(566)	(609)	43
Total uses of cash.....	(8,813)	(9,089)	
Effect of exchange rate changes on cash and cash equivalents.....	(7)	65	(72)
Net increase (decrease) in cash and cash equivalents.....	\$ 4,152	\$ (2,706)	\$ 6,858

2017 Cash Flows Compared to 2016 Cash Flows

Increased cash flows provided by operating activities were primarily driven by the increase in unearned revenues, due to the June 2017 receipt of our July CMS premium payment of \$4.5 billion, and higher net earnings, partially offset by the impact of the Health Insurance Industry Tax and the impact of discontinuing many ACA-compliant products.

Other significant changes in sources or uses of cash year-over-year included increased customer funds administered primarily due to the June receipt of our July CMS payment, decreased cash paid for acquisitions and net purchases of investments, partially offset by 2017 net repayments of debt compared to 2016 net proceeds from debt issuances.

Financial Condition

As of June 30, 2017, our cash, cash equivalent and available-for-sale investment balances of \$43.2 billion included \$14.6 billion of cash and cash equivalents (of which \$0.6 billion was available for general corporate use), \$26.4 billion of debt securities and \$2.2 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 3.3 years and a weighted-average credit rating of “AA” as of June 30, 2017. 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 6 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, 2017, our debt to debt-plus-shareholders’ equity ratio, as defined and calculated under the credit facilities, was approximately 40%.

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. For more information on our long-term debt, see Note 6 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, 2017 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)	A+	Negative	A-	Negative	bbb+	Stable
Commercial paper	P-2	n/a	A-1	n/a	F1	n/a	AMB-2	n/a

(a) In July 2017, Moody’s affirmed our ratings and changed our outlook to Stable.

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, 2017, we repurchased 6 million shares at an average price of \$162.37 per share. As of June 30, 2017, we had Board authorization to purchase up to an additional 44 million shares of our common stock.

Dividends. In June 2017, our Board increased our quarterly cash dividend to shareholders to an annual dividend rate of \$3.00 per share. For more information on our dividend, see Note 7 of Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

For additional liquidity discussion, see Note 10 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 2016 10-K.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

A summary of future obligations under our various contractual obligations and commitments as of December 31, 2016 was disclosed in our 2016 10-K. During the six months ended June 30, 2017, 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 other intangible assets and valuations of certain 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 in our 2016 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 2016 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,” “outlook,” “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; our ability to maintain and 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 other government programs, including 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; 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; changes in or 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, fluctuations in foreign currency exchange rates on our reported shareholders’ equity and results of operations; downgrades in our credit ratings; the performance of our investment portfolio; impairment of the value of our goodwill and intangible assets if estimated future results do not adequately support goodwill and intangible assets recorded for our existing businesses or the businesses that we acquire; 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

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

The following table summarizes the impact of hypothetical changes in market interest rates across the entire yield curve by 1% point or 2% points as of June 30, 2017 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, 2017			
	Investment Income Per Annum (a)	Interest Expense Per Annum (b)	Fair Value of Financial Assets (c)	Fair Value of Financial Liabilities
2 %	\$ 349	\$ 209	\$ (1,843)	\$ (4,040)
1	174	105	(936)	(2,188)
(1)	(170)	(105)	906	2,602
(2)	nm	(128)	1,524	5,651

nm = not meaningful

- (a) Given the low absolute level of short-term market rates on our floating-rate assets as of June 30, 2017, the assumed hypothetical change in interest rates does not reflect the full 100 basis point reduction in interest income as the rate cannot fall below zero and thus the 200 basis point reduction is not meaningful.
- (b) Given the low absolute level of short-term market rates on our floating-rate liabilities as of June 30, 2017, the assumed hypothetical change in interest rates does not reflect the full 200 basis point reduction in interest expense as the rate cannot fall below zero.
- (c) As of June 30, 2017, 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.

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, 2017. 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, 2017.

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, 2017 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 8 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 2016 10-K, which could materially affect our business, financial condition or future results. The risks described in our 2016 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 2016 10-K.

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

In November 1997, our Board of Directors adopted a share repurchase program, which the Board evaluates periodically. There is no established expiration date for the program. During the second quarter 2017, we repurchased approximately 2 million shares at an average price of \$165.56 per share. As of June 30, 2017, we had Board authorization to purchase up to 44 million shares of our common stock.

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 12, 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)
- 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, 2017 filed on August 4, 2017, 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.

* 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 4, 2017

/s/ JOHN F. REX

John F. Rex

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

Dated: August 4, 2017

/s/ THOMAS E. ROOS

Thomas E. Roos

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

Dated: August 4, 2017

EXHIBIT INDEX*

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 12, 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)
- 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, 2017 filed on August 4, 2017, 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.

* 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.