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**HEALTHCARE**

**HealthSpring enters rich market with Leon acquisition**

**Since Medicare HMOs are well reimbursed under the Bush administration, Tennessee's HealthSpring is tapping into a lucrative market with its acquisition of Leon Medical for \$400M.**

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BY JOHN DORSCHNER  
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A Tennessee company stepped into the world of *clínicas* and *cafecitos* on Friday, its chief executive donning an earpiece at a West Dade press conference to hear a translation of how he had just spent \$400 million to purchase Leon Medical Centers Health Plans.

HealthSpring, a managed health organization -- which has Medicare HMOs in five states -- was paying a premium to enter the lucrative South Florida market, where Medicare reimbursement rates are among the highest in the country.

Led by Chief Executive Herb Fritch, HealthSpring purchased Leon's Medicare HMO with 25,700 members, all in Miami-Dade and the vast majority of them Hispanic. That works out to about \$15,500 per member. The deal does not include Leon's five clinics, which tend to be palatial, with bubbling fountains and marble bathrooms in some.

In December 2004, Humana bought a CarePlus, a Medicare HMO that was also predominantly Hispanic, for \$450 million. With 50,000 members, that worked out to \$9,000 per member, but Humana also received the 10 CAC clinics that CarePlus owned.

Leon's health maintenance organization is valuable because, under the Bush administration, Medicare HMOs have become well reimbursed and high valuable.

While the original theory was that Medicare HMOs were supposed to be more efficient and cost less than government-run fee for service, the present plans are now getting 112 percent more than regular Medicare, according to a federal government analysis.

Because the HMO reimbursement rates are connected to how much seniors spend on fee-for-service in an area, Medicare HMOs in Miami-Dade get about \$1,200 per patient per month, according to data collected by the Kaiser Family Foundation. In the Minneapolis area, a Medicare HMO gets about \$730 a month per senior.

**SUPERIOR SERVICE**

Fritch praised the "phenomenal job" that Benjamín León Jr. had done in building up the HMO and the clinics, saying their customer service was "better than anything we've seen in the country."

The Leon clinics provide free transportation, uniformed greeters to guide patients to the right area and small cafeterías, where seniors can have a little coffee and chat with friends while waiting to see a doctor.

Other insurers -- notably UnitedHealthcare -- have bought into the Hispanic HMO market in South Florida, discontinued social amenities and then failed.

"I hope we've learned from that," Fritch said. "My plan is don't mess with it."

A León son-in-law, Albert Maurey, will run the Leon HMO for HealthSpring and all patients will continue going to their regular doctors at the Leon clinics as part of a 15-year agreement.

"Patients will see absolutely no change," León said. He and his family are the sole owners of the HMO and the clinics.

Under the terms of the deal, León receives \$355 million in cash and gets 2.7 million shares in HealthSpring if it completes plans to build another two clinics, one set for southwestern Miami-Dade and another for the northeastern part of the county.

On Friday, the purchase sent HealthSpring's stock soaring 13.7 percent, closing at \$19, making León's shares worth \$51 million. He will also join the HealthSpring board.

**HIGH LOSS RATIO**

In a conference call with analysts on Friday morning, HealthSpring executives said that the Leon HMO averaged a loss ratio of about 80 percent -- meaning that about \$960 a month per senior goes to healthcare costs and the other \$240 to administrative costs and profit.

In 2006, the Leon HMO received \$269 million in premiums, according to HealthSpring's report. Adjusting to remove one-time charges, the HMO had \$39 million in earnings before interest, taxes, depreciation and amortization -- a 14.5 percent return. "Those are very good numbers," Fritch said.

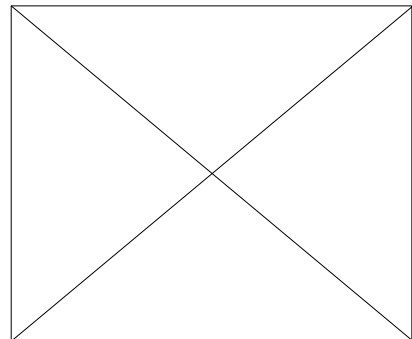
Tricia Neuman, a Medicare expert with the Kaiser Family Foundation, wondered if they were too good. "Who's paying for all of that?" she asked. The answer is taxpayers and seniors not in HMOs, who could see Medicare premiums go up to compensate for the

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HMO spending, Neuman said.

The \$400 million deal is a huge payoff for the León family, which has been toiling in Miami healthcare for more than 40 years. Benjamín León Sr. started a Clínica Cubana in Little Havana in 1964, when the monthly charge was \$2 for an individual and \$5 for a family. On Friday, León Jr. said he plans to continue to expand the number of clinics, in South Florida and elsewhere around the country. "This is just the beginning," he said.

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