

**CHARTER OF THE COMPENSATION COMMITTEE  
OF THE BOARD OF DIRECTORS OF PACIFICARE HEALTH SYSTEMS, INC.**

**I. PURPOSE OF THE COMMITTEE**

The purposes of the Compensation Committee (the "Committee") of the Board of Directors (the "Board") of PacifiCare Health Systems, Inc. (the "Company") shall be (i) to provide general oversight regarding the overall strategy, goals and objectives of the Company's broad-based employee compensation and benefit plans and practices; (ii) to provide specific oversight regarding the strategy, goals and objectives of the Company's compensation and benefit plans applicable to Senior Executives (as defined in Section IV.A.3 below) and ERISA-qualified employee benefit plans; and (iii) to produce an annual report on executive compensation for inclusion in the Company's proxy statement, in accordance with all applicable rules and regulations. The Committee shall perform such additional activities, and consider such other matters, within the scope of its responsibilities, as the Committee or the Board deems necessary or appropriate.

**II. COMPOSITION OF THE COMMITTEE**

The Committee shall be composed entirely of members of the Board who qualify as independent directors ("Independent Directors") under the listing standards of the New York Stock Exchange (the "NYSE"). Members of the Committee shall also qualify as "non-employee directors" within the meaning of Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and "outside directors" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), and shall satisfy any other necessary standards of independence under the federal securities and tax laws. Alternatively, in lieu of having all Committee members so qualified, the Committee may establish an appropriately qualified sub-committee of the Committee in accordance with Article III composed of members who qualify as both "non-employee directors" and "outside directors" to take action on all matters that are likely to be subject to Section 16 of the Exchange Act, or Section 162(m) of the Code.

The members of the Committee shall be elected annually to one-year terms by majority vote of the Board at the first meeting of the Board to be held following the annual meeting of stockholders. After considering the recommendations of the Governance and Nominating Committee, the Board shall fill any vacancies on the Committee by a majority vote of the Board. No member of the Committee shall be removed except by majority vote of the Independent Directors then in office.

**III. MEETINGS AND PROCEDURES OF THE COMMITTEE**

The Committee shall meet as frequently as it deems necessary to carry out its duties and responsibilities. The Board shall designate one member of the Committee as its Chairperson. The Chairperson of the Committee or a majority of the members of the Committee may also call a special meeting of the Committee. A majority of the members of the Committee present in

person or by means of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other shall constitute a quorum.

The Committee may form subcommittees for any purpose that the Committee deems appropriate and may delegate to such subcommittees such power and authority as the Committee deems appropriate; *provided, however*, that no subcommittee shall consist of fewer than two members; and *provided further* that the Committee shall not delegate to a subcommittee any power or authority required by any law, regulation or listing standard to be exercised by the Committee as a whole.

The Committee may request that any directors, officers or employees of the Company, or other persons whose advice and counsel are sought by the Committee, attend any meeting of the Committee to provide such pertinent information as the Committee requests.

Following each of its meetings, the Committee shall deliver a report on the meeting to the Board, including a summary of all actions taken by the Committee at the meeting. The Committee shall keep written minutes of its meetings, which minutes shall be maintained with the books and records of the Company.

#### **IV. COMMITTEE RESPONSIBILITIES**

The goals and responsibilities listed below are within the authority of the Committee.

##### **A. Senior Executive Compensation and Benefits**

The Committee shall have the following goals and responsibilities with respect to the Company's Senior Executive (as defined in Section IV.A.3 below) compensation and benefit plans:

1. To periodically review the Company's Senior Executive compensation and benefit plans, and, if the Committee deems it appropriate, adopt, or recommend to the Board the adoption of, new, or the amendment of existing, Senior Executive compensation and benefit plans.
2. To evaluate annually the performance of the principal executive officer, who shall be the highest ranking employee executive of the Company (the "Principal Executive Officer"), in light of the goals and objectives of the Company's executive compensation and benefit plans, and set his or her compensation level based on this evaluation. In determining the long-term incentive component of the Principal Executive Officer's compensation, the Committee shall consider all relevant factors, including the Company's performance and relative stockholder return, the value of similar awards to principal executive officers of comparable companies, and the awards given to the Principal Executive Officer of the Company in past years. The Committee shall solicit input from the full Board and provide a report to the Board as to the results of its evaluation.

3. To review and approve the compensation and benefits, including perquisites, of the named executive officers in the annual proxy statement (the “NEOs”) and to review the Principal Executive Officer’s recommendations with respect to compensation and benefits, including perquisites, for those executives not included in the NEOs who are (i) the top executive for a strategic business or (ii) at the level of Senior Vice President or above (collectively, the “Senior Executives”).
4. To evaluate annually the appropriate level of compensation for Board and Committee service by non-employee members of the Board.
5. To review and approve any severance or termination arrangements to be made with any Senior Executive of the Company.
6. To perform such duties and responsibilities as may be assigned to the Committee under the terms of any Senior Executive compensation or benefit plan.
7. To produce an annual report on executive compensation for inclusion in the Company's proxy statement, in accordance with all applicable rules and regulations.

#### **B. Senior Executive Incentive-Compensation and Equity-Based Plans**

The Committee shall have the following responsibilities with respect to the Company's Senior Executive incentive-compensation and equity-based plans:

1. To periodically review the Company's Senior Executive incentive-compensation and equity-based plans, and, if the Committee deems it appropriate, adopt, or recommend to the Board the adoption of, new, or the amendment of existing, Senior Executive incentive compensation and equity-based plans.
2. To review all Senior Executive equity-compensation plans that are not subject to stockholder approval under the listing standards of the NYSE, and to approve such plans in its sole discretion, subject to Board approval to the extent necessary.
3. To perform such duties and responsibilities as may be assigned to the Committee under the terms of any management incentive-compensation or equity-based plan.

#### **C. General Compensation and Employee Benefit Plans and Other Duties**

The Committee shall have the following responsibilities with respect to the Company’s broad-based compensation and employee benefit plans:

1. To periodically review, on a general policy-level basis, the Company's various broad-based compensation plans and other employee benefit plans and, if the Committee deems it appropriate, adopt, or recommend to the Board or the

Company the adoption of, new, or the amendment of existing, broad-based compensation and other employee benefit plans.

2. To perform such duties and responsibilities as may be assigned to the Board or the Committee under the terms of its general compensation plans and other employee benefit plans.
3. To review, periodically, reports received from the Principal Executive Officer regarding (i) development of senior management and (ii) a succession plan for the position of Principal Executive Officer, and to deliver to the Board a report setting forth the results of such reviews.

#### **V. EVALUATION OF THE COMMITTEE**

The Committee shall, on an annual basis, evaluate its performance under this Charter. In conducting this review, the Committee shall evaluate whether this Charter appropriately addresses the matters that are or should be within its scope. The Committee shall address all matters that the Committee considers relevant to its performance, including at least the following: the adequacy, appropriateness and quality of the information and recommendations presented by the Committee to the Board, the manner in which they were discussed or debated, and whether the number and length of meetings of the Committee were adequate for the Committee to complete its work in a thorough and thoughtful manner.

The Committee shall provide a report to the Board as to the results of its evaluation, including any recommended amendments to this Charter and any recommended changes to the Company's or the Board's policies or procedures.

#### **VI. INVESTIGATIONS AND STUDIES; OUTSIDE ADVISERS**

The Committee may conduct or authorize investigations into or studies of matters within the Committee's scope of responsibilities, and may retain, at the Company's expense, such independent counsel or other advisers as it deems necessary. The Committee shall have the sole authority to retain or terminate a compensation consultant to assist the Committee in carrying out its responsibilities, including sole authority to approve the consultant's fees and other retention terms, such fees to be borne by the Company.