



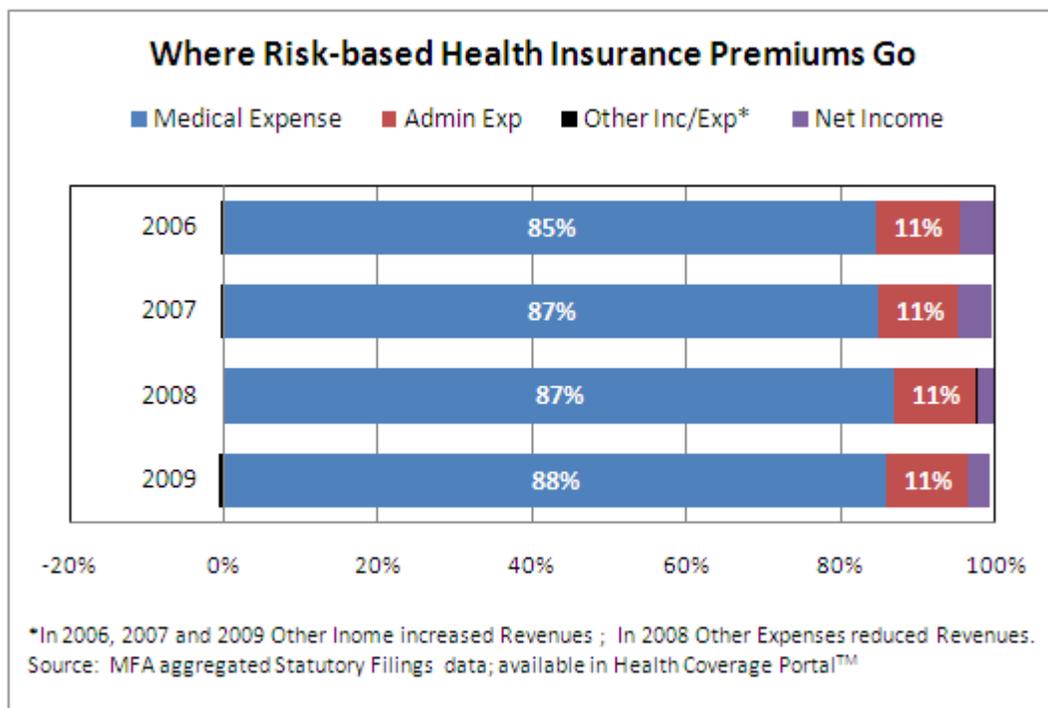
## Medical Expense Trend Declined in 2009

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by Debra A. Donahue

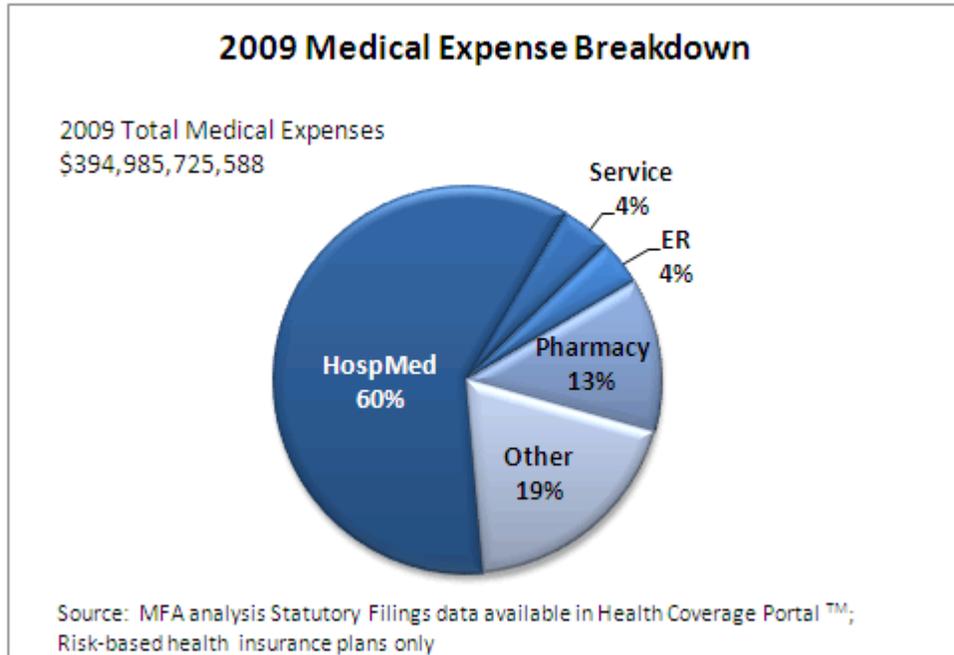
As regulations for the Patient Protection and Affordable Care Act of 2010 are finalized, health plans continue to reduce administrative expenses and lower medical costs. Health insurance plans paid nearly \$395 billion for fully insured (risk-based) medical expenses during 2009. Medical expenses on a per member per month basis escalated at nearly 8% per year from 2002 - 2008, but saw a dip in 2009 to 4.9%, according to an analysis done by Mark Farrah Associates (MFA). Using statutory filings that health plans submit to state regulators and to the National Association of Insurance Commissioners (NAIC), MFA analyzed medical expenses for risk-based insurance plans for the years 2002 to 2009. The study found that health plans have succeeded in stabilizing medical expense trends and in lowering them in 2009.

In 2009, 88% percent of all fully insured health insurance premiums went toward medical expenses; as a percentage of revenue, that number is up 1% over 2008 and is a 3% increase over 2006.



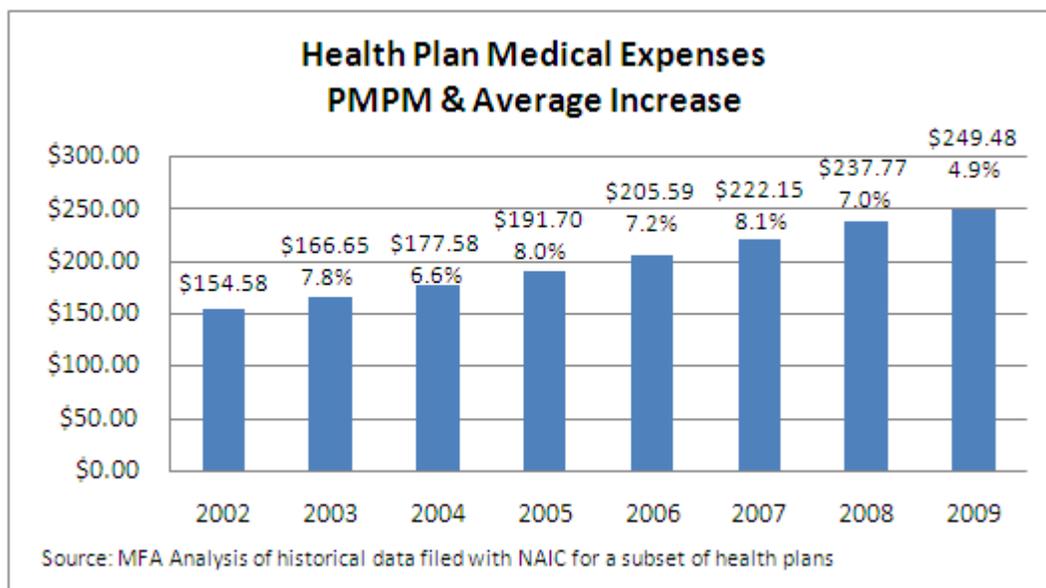
For 2009, 77 plans received over \$1 billion each in risk-based health insurance premiums for a total of \$191.1 billion. These plans incurred a total of \$166.8 billion for medical expenses. The percentage of premiums spent on medical expenses is often referred to as a medical loss ratio (MLR). The MLRs for these 77 companies ranged from 80% to 96%. Kaiser Foundation Health Plan, with its electronic health records and almost fully integrated health system, leads the industry in terms of premiums earned for fully insured business and spends nearly 96 cents of every dollar it receives on medical expenses.

Pharmacy related costs as a percentage of total medical expenses are down nearly a full percentage point from 13.7% in 2008 to 12.9% in 2009. This may be related to efforts to curb pharmaceutical costs or a result of members not filling prescriptions due to the economy. As pharmacy costs declined the percentage of hospital costs increased from 58.7% in 2008 to 60.0% in 2009.



### PMPM Medical Expenses

Another method of looking at medical expenses is on a per member per month (PMPM) basis. In order to determine how the health insurance industry fared, Mark Farrah Associates (MFA) analyzed statutory financial data for a sample of 393 health plans nationwide for the last several years. These plans have been in business from 2002 to 2009 and have consistently reported data.



By reviewing information from the Five-Year Historical Exhibit in the 2006 through 2009 Health Annual Statements for these plans, MFA noted that medical expenses trended at around 7.8% for the six years from 2002 - 2008. Between 2008 and 2009 the increase declined to 4.9% for these same plans. On a PMPM basis medical expenses have grown from \$154.64 in 2002 to \$249.48 in 2009. It is still too early to tell if this dip will hold for 2010 but it does show promise.

Several plans reported improvements in their financial condition in 2009, citing a better flu season than expected and reduced prior year claims adjustments. Many additional causes may have contributed to the decline including the economy and high unemployment. With a rise in the number of consumer- directed health plans and an increase in products that include additional cost sharing arrangements with members; these factors may also have played a role in reducing medical expenses. More analysis is needed; but for now, the medical expense trend is heading in the right direction, down.

### About the Research Sample

Data for 393 health plans from 181 companies was used to analyze financial trends presented in this overview. Only plans that filed 2006 through 2009 Health Annual Statements and consistently reported revenues for all years were included. The research sample encompassed health plans domiciled in every state except Alaska and Mississippi. Washington DC was also included. Excluded from the dataset were California HMOs that are not required to file Annual Statements with the NAIC, and specialty, non-medical plans such as dental insurers. MFA considers this research sample to be representative for analyzing industry trends.

### About the Data

Health plans file statutory data on a quarterly and annual basis with state insurance regulators. Financial statements are prepared using statutory accounting rules as defined by the National Association of Insurance Commissioners (NAIC). For companies seeking comprehensive market data, MFA offers the [Health Coverage Portal™](#) (</products/health-coverage-portal.aspx>), a unique online application that integrates NAIC statutory and MFA self-insured datasets. The Health Coverage Portal™ provides easy access to financials, PMPM comparisons, ratios, membership and market share. For companies that would like just a snapshot of health plans' current financial and enrollment data, Health Plans USA™ is the product for those needs.

### About Health Plans USA™

MFA's new [Health Plans USA™](#) (</products/health-plans-usa.aspx>), data tool is the most comprehensive and accurate resource available for U.S. health insurance market share data. This user-friendly database presents the latest health plan membership including: Self-funded — Commercial risk — Medicare — Medicaid enrollment, market share by parent, plan or state, and revenue and expenses for U.S. health insurance companies. Plus, the Company Contacts tool provides current contact information and useful company snapshots.

### About Mark Farrah Associates (MFA)

Mark Farrah Associates (MFA) is a leading data aggregator and publisher providing health plan market data and analysis tools for the healthcare industry. We are a licensed redistributor of NAIC data. MFA's Health Coverage Portal™ includes both risk-based and administrative services only membership and financial data by plan, parent, state, region and nationally. Committed to simplifying analysis of health insurance business, our products include Medicare Business Online™, Medicare Benefits Analyzer™, Health Coverage Portal™, Health Insurer Insights™ and the new Health Plans USA™.

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