



## Medical Expense Trend Up in 2011

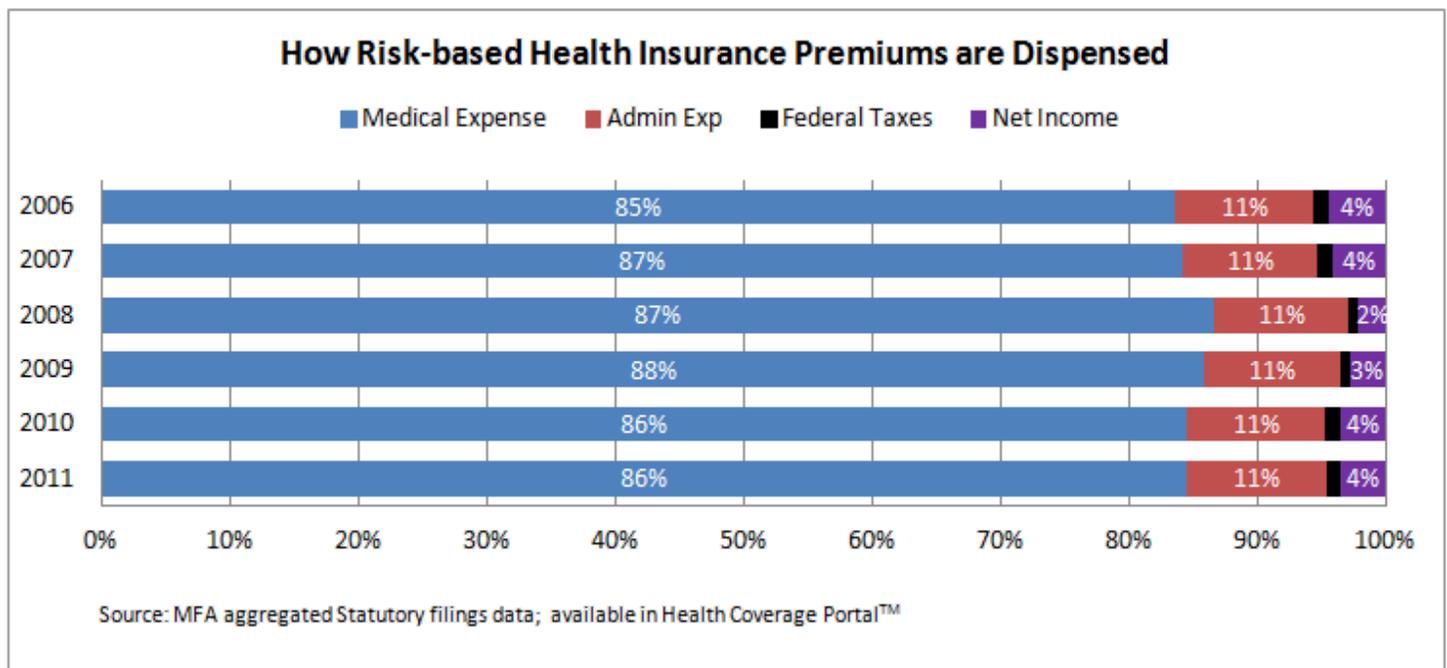
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by Debra A. Donahue

Total medical expense, that is the amount of money health plans dispensed to pay for medical and hospital benefits, grew 5.5% in 2011, from \$391.8 billion in 2010 to \$413.2 billion in 2011. WellPoint reported \$47.0 billion of medical and hospital expenses, the largest amount for any organization. Kaiser Foundation Health Plans and UnitedHealthcare reported the next largest amounts at \$44.3 billion and \$34.7 billion, respectively. These three organizations paid nearly a third (30.5%) of all medical expenses in the United States, as reported by health plans in annual financial statements.

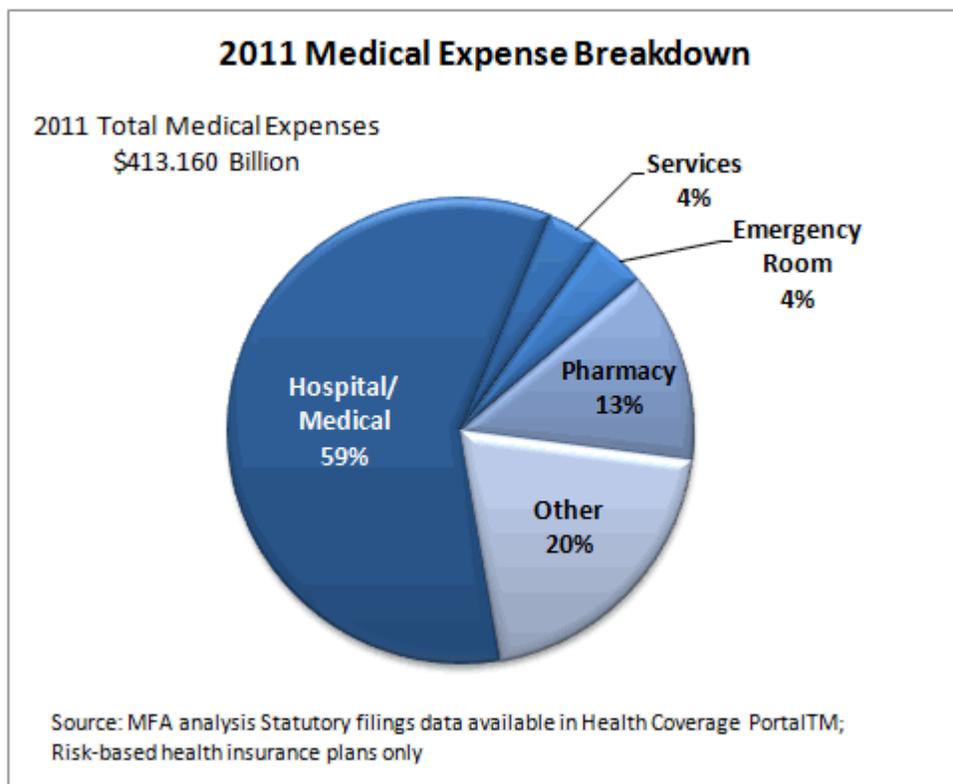
According to analyses done by Mark Farrah Associates (MFA), medical expenses on a per member per month basis (PMPM) escalated at nearly 8% per year from 2002 – 2008. For 2011, PMPM medical expenses increased only 2.4%, when compared to 2010. Using statutory filings that health plans submit to state regulators and the National Association of Insurance Commissioners (NAIC), MFA recently analyzed medical expenses for risk-based insurance plans for the years 2006 to 2011. The study found that health plan medical expense trends were relatively lower from 2009 - 2011. Pharmacological solutions (the advancement and use of prescription drugs to treat chronic diseases and other illnesses), which played a large part in reducing hospital costs, may have contributed to increased health plans' prescription drug (Pharmacy) costs from 2002 to 2007. In recent years, Pharmacy cost increases have leveled off and pharmacy costs as a percentage of total medical costs have decreased from 14.0% in 2006 to 13.2% of total medical costs in 2011.

In 2011, 86.3% percent of all fully insured health insurance premiums went toward medical expenses, down less than 0.1% from 86.4% in 2010.



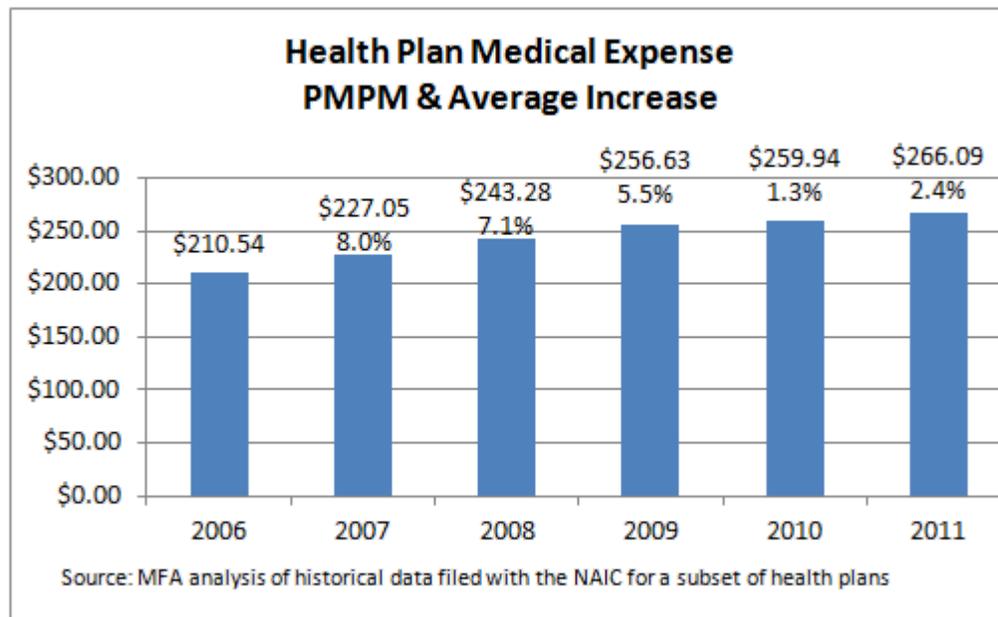
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Hospital related costs as a percentage of total medical expenses are up from 58.3% in 2006 to 59.1% in 2011. Pharmaceutical (Pharmacy), costs a subset of total medical expenses and the amount of money health plans paid for prescription drugs, decreased during the same period from 14.0% in 2006 to 13.2% of total medical costs in 2011.



## 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 402 health plans nationwide for the last several years. These plans have been in business from 2006 to 2011 and have consistently reported data.

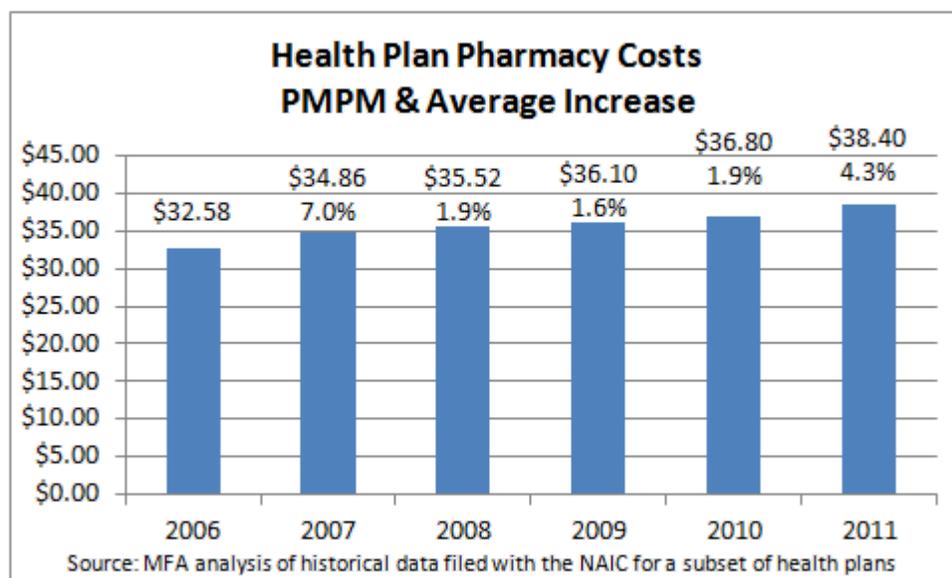


By reviewing information from the Revenue and Expense data filed by these plans in the 2006 through 2011 Health Annual Statements, MFA noted that medical expenses on a PMPM basis increased 8.0% between 2006 and 2007. From 2008 to 2010, the trend showed marked improvement. For 2011, PMPM medical expenses increased 2.4%. The low single digit increases during the last two years represents a significant improvement over the 2002 to 2008 period. In a previous analysis MFA noted that for the six years from 2002 – 2008, medical expenses on a PMPM basis increased around 7.8% annually. On a PMPM cost basis medical expenses have grown from \$210.54 in 2006 to \$266.09 in 2011.

### Pharmacy PMPM Costs

Pharmacological solutions (the advancement and use of prescription drugs to treat chronic diseases and other illnesses), which played a large part in reducing hospital costs, may have contributed to increased health plans' prescription drug (Pharmacy) costs from 2002 to 2007.

For the years 2007 to 2009, pharmaceutical costs on a PMPM basis increased at a lower amount than overall medical cost trends. However, in 2010 and again in 2011 pharmacy costs increased at a faster pace, growing at 1.9% and 4.3% respectively.



MFA data is available for more in-depth analysis of medical expenses and loss ratios; additional insights may be gleaned from statutory financial and enrollment data that are available in MFA's Health Coverage Portal™. While it appears that health plans have reduced medical expense growth trends, the uptick in 2011 and early indications of 2012 data suggest costs may be rising once again.

## About the Research Sample

Data for 402 health plans from 198 companies was used to analyze financial trends presented in this overview. Only plans that reported data for 2006 through 2011 in Health Annual Statements and consistently reported revenues and expenses for all years were included. The research sample encompassed health plans domiciled in every state except Alaska and Mississippi. Washington DC and Puerto Rico were also included. Excluded from the dataset were 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) (</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.

## 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 detailed financial data by plan, parent, state, region and nationally. Committed to simplifying analysis of health insurance business, our products include Health Coverage Portal™, County Health Coverage™, Health Insurer Insights™, Medicare Business Online™, Medicare Benefits Analyzer™, and Health Plans USA™.

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