



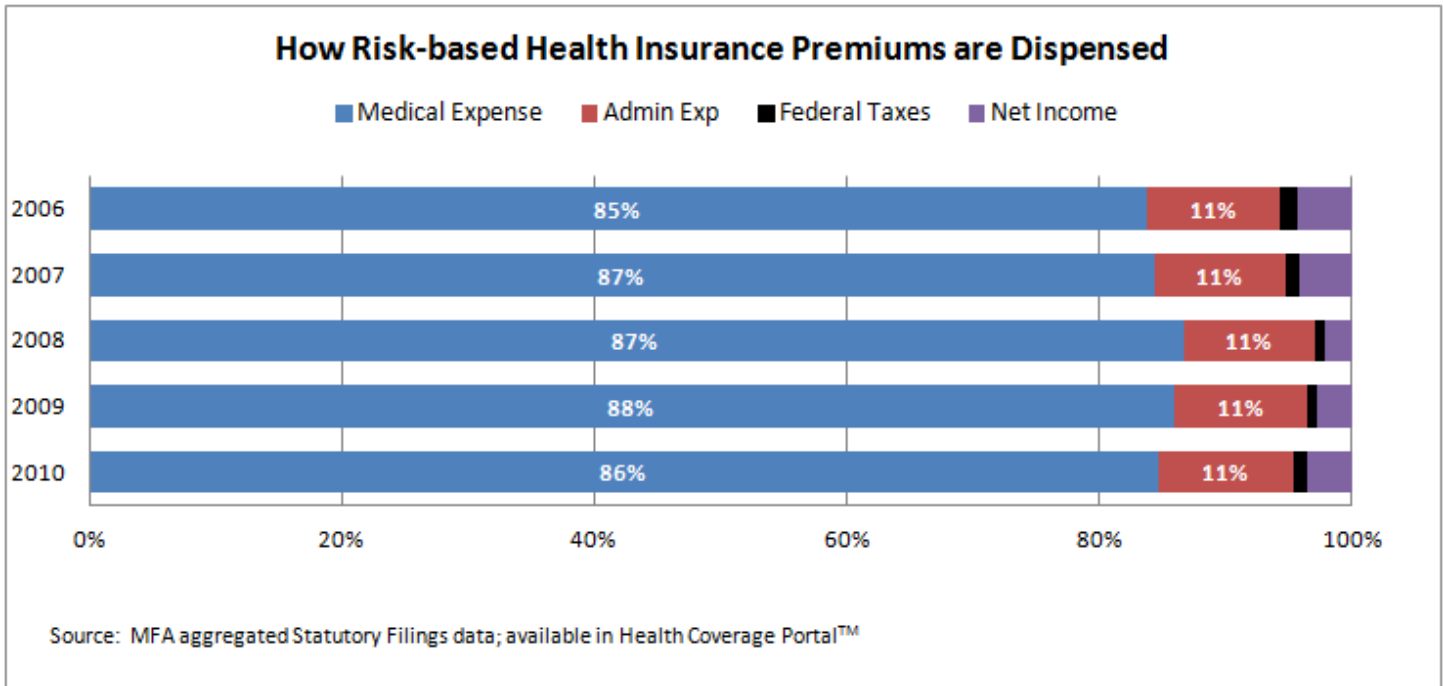
Medical Expense Trend Declines in 2010

9/23/2011

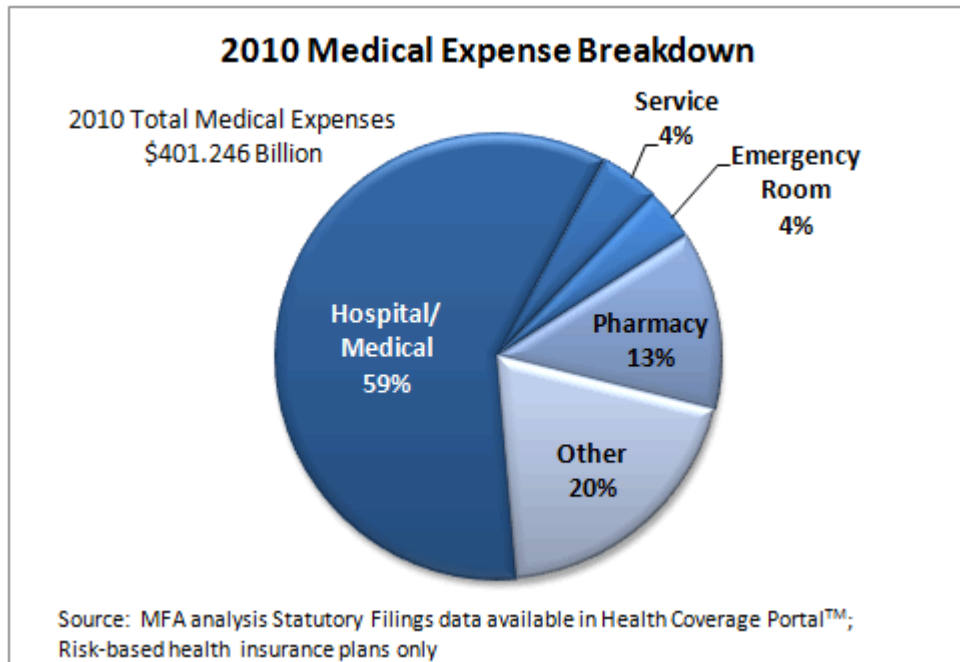
by Debra A. Donahue

Total medical expenses, that is the amount of money health plans dispensed to pay for medical and hospital benefits, grew 1.7% in 2010, from \$395 billion in 2009 to \$401 billion in 2010. Medical expenses on a per member per month basis which escalated at nearly 8% per year from 2002 — 2008, saw a decline in 2009 to 4.9% and a growth rate of only 1.1% in 2010, 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 2010. The study found that health plans have succeeded in stabilizing medical expense trends and in lowering them in 2009 and 2010. Regulating medical loss ratios is one way Congress is attempting to lower the cost of health care through the Patient Protection and Affordable Care Act of 2010 (PPACA). However, steps taken by health plans appear to be working ahead of scheduled implementation of PPACA provisions. This is good news for everyone impacted by the health system.

In 2010, 86% percent of all fully insured health insurance premiums went toward medical expenses. As a percentage of premiums, that number is down 1.5% over 2009 and is a 1.1% increase over 2006.

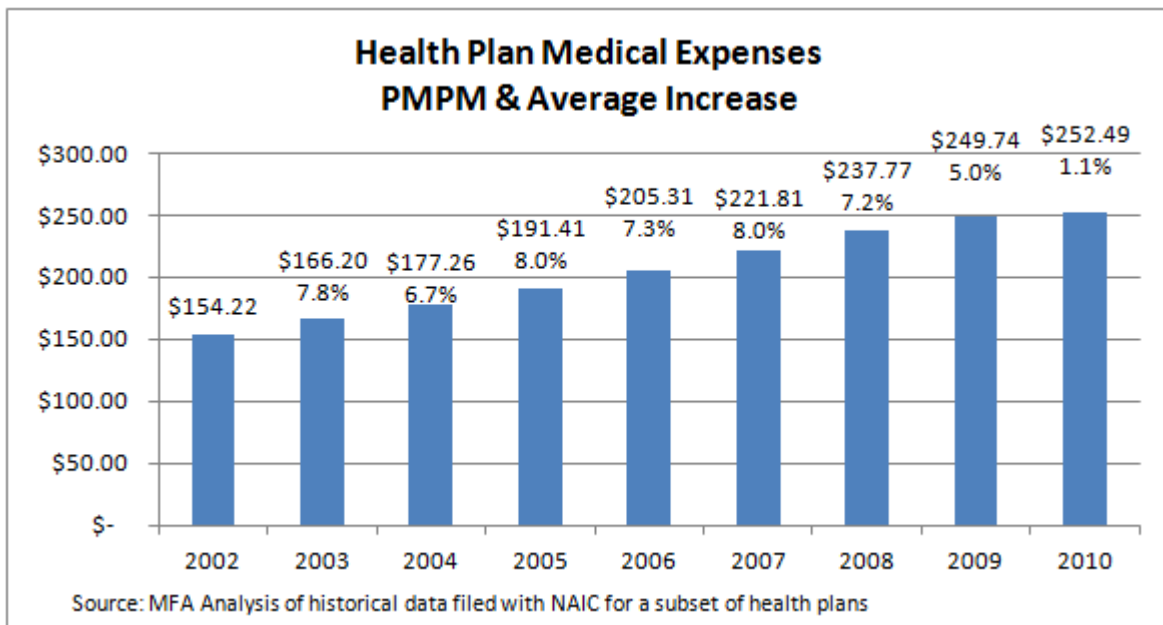


Total medical expenses, the amount of money health plans dispensed to pay for medical and hospital benefits, grew 1.7% in 2010, from \$395 billion in 2009 to \$401 billion in 2010. Hospital related costs as a percentage of total medical expenses are down from 60.0% in 2009 to 59.3% in 2010, while 2010 pharmaceutical costs remained the same as 2009 at 12.9% of total medical cost.



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 356 health plans nationwide for the last several years. These plans have been in business from 2002 to 2010 and have consistently reported data.



By reviewing information from the Five-Year Historical Exhibit in the 2006 through 2010 Health Annual Statements for these plans, MFA noted that medical expenses on a PMPM basis trended at around 7.8% for the six years from 2002 - 2008. Between 2008 and 2009 the increase declined to 5.0% for these same plans and then from 2009 to 2010 the increase was 1.1%, a promising decline. On a PMPM basis medical expenses have grown from \$154.22 in 2002 to \$252.49 in 2010.

Several plans reported improvements in their financial condition in 2010, 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.

MFA is conducting more in-depth analysis of medical expenses and loss ratios using data from the new Supplemental Health Care Exhibit; additional insights will be released soon. We will examine the difference in MLR calculations from the new PPACA regulations to traditional methods, review strategies organizations will use if they do not meet the new MLR thresholds and consider the impact declining medical expenses may have on premiums. For now, industry data confirms the medical expense trend is heading in the right direction ... downward.

About the Research Sample

Data for 356 health plans from 171 companies was used to analyze financial trends presented in this overview. Only plans that reported data for 2002 through 2010 in Health Annual Statements and consistently reported revenues for all years were included. The research sample encompassed health plans domiciled in every state except Alaska, Idaho 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.

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™, Health Insurer Insights™, Medicare Business Online™, Medicare Benefits Analyzer™, Health Plans USA™ and the new County Health Coverage™, which offers population and health plan enrollment data by county nationwide.

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