



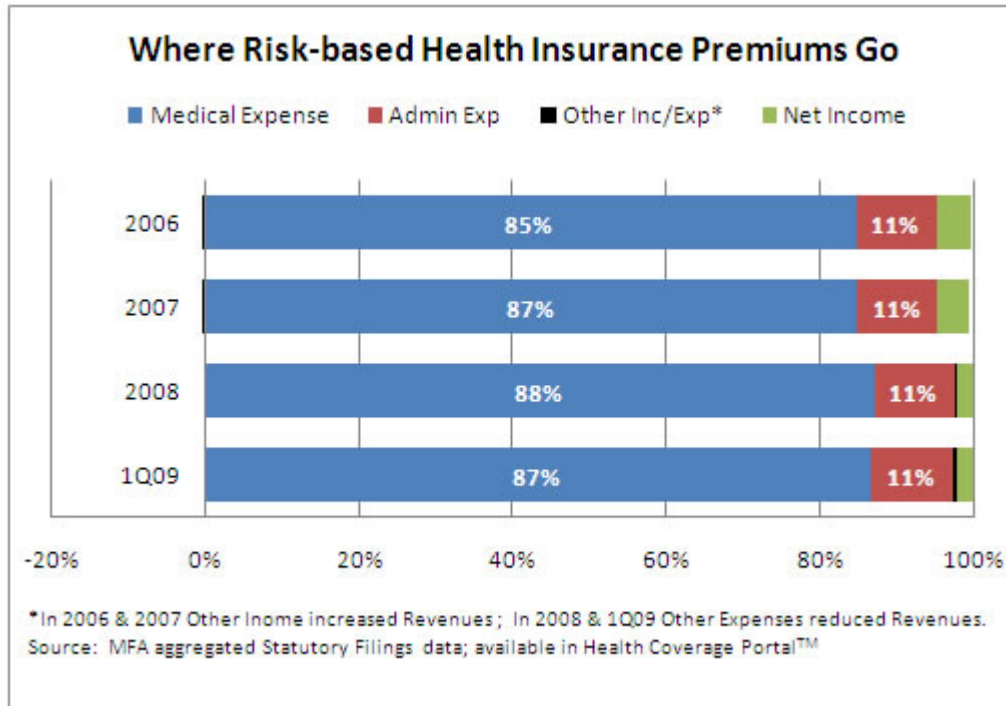
## Medical Expense Trend Stabilized

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by Debra A. Donahue

As the health care reform debate rages on, and health plans scramble to reduce administrative costs and make up for losses to investment portfolios, reducing medical expenses is also a priority. Health insurance plans paid nearly \$96 billion for fully insured (risk-based) medical expenses during the first quarter of 2009. For the past six years medical expenses on a per member per month basis have escalated at nearly 8% per year, 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 2008 and for first quarter 2009. The study found that health plans have succeeded in stabilizing medical expense trends; however, the next challenge will be to reverse the escalation of those costs.

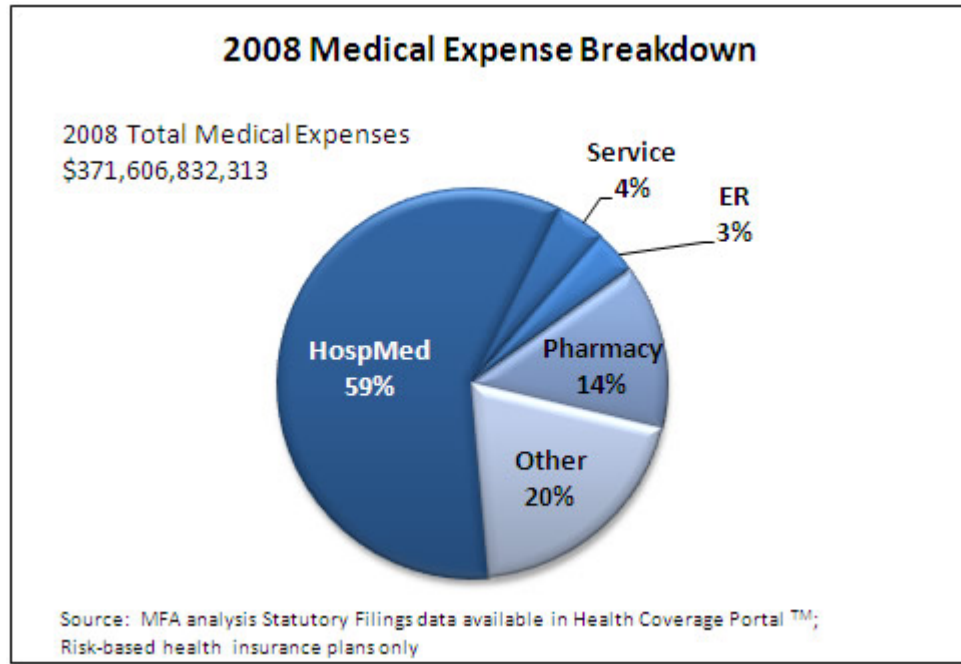
In 2008, 88% percent of all fully insured health insurance premiums went toward medical expenses; as a percentage of revenue, that number is up 1% over 2007 and is a 3% increase over 2006. Although health plans promote wellness initiatives and programs are underway to reduce medical errors, little is being done to reign in hospital costs and physician reimbursement levels.



For the first three months of 2009, 22 companies received over \$1 billion each in risk-based health insurance premiums for a total of \$74.6 billion. These plans incurred a total of \$64.9 billion for medical expenses through the first quarter. The percentage of premiums spent on medical expenses is often referred to as a medical loss ratio (MLR). The MLRs for these 22 companies ranged from 81% to 96%. Kaiser Foundation Health Plan, with its electronic health records and almost fully integrated health system, leads the industry in terms of premiums

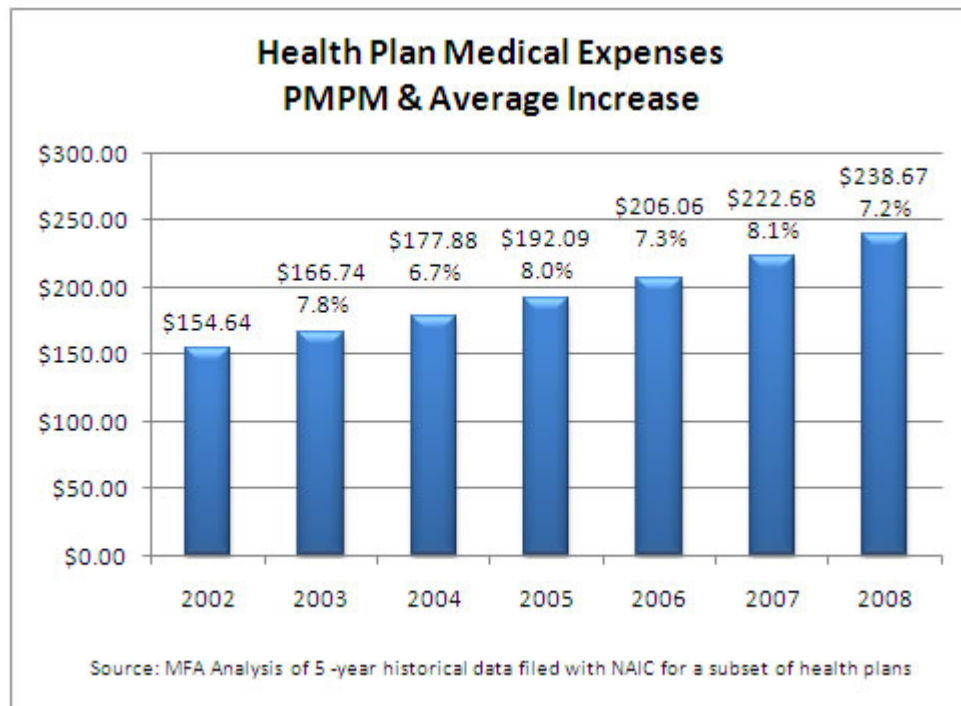
earned for fully insured business and spends nearly 96 cents of every dollar it receives on medical expenses. Fourteen of the top 22 companies include Blue Cross and/or Blue Shield licensed plans and have a non-weighted average MLR of 87%. These 14 companies are arguably more representative of the rest of the industry.

Reform efforts to reduce prescription drug related expenses for seniors is another admirable achievement but pharmacy expenses only account for 14% of total medical expenses for risk-based insurers. Over half of all medical expenses are for hospital and physician charges and this is the area that will need to be addressed before any meaningful reductions to the overall costs of health care will be achieved.



### 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 398 health plans nationwide for the last three years. These plans have been in business from 2002 to 2008 and have consistently reported data. By reviewing information from the Five-Year Historical Exhibit in the 2006 through 2008 Health Annual Statements for these plans, MFA noted that medical expenses have been trending at around 7.8% for the last six years. On a PMPM basis medical expenses have grown from \$154.64 in 2002 to \$238.67 in 2008. Although some venues may see a stable 7% to 8% growth rate as good, this rate does not bode well for the overall cost of health care in the future.



Some regions of the country are experiencing slightly different medical expense trend rates according to the sample plans' data. While risk-based health plans domiciled in the Mid-Atlantic region (District of Columbia, Delaware and Maryland) have the highest medical costs PMPM, plans in the Northeast region (New England, New York, New Jersey and Pennsylvania) have experienced the highest average annual increases. The Western region sample, which excludes most plans serving California as well as Kaiser's California members, still has the lowest cost and lowest average annual increase in the United States.

<b>Regional Medical Expenses PMPM</b>			
	2002	2008	Average Annual Increase
Mid-Atlantic	\$157.36	\$250.31	8.4%
Midwest	\$170.27	\$247.10	6.4%
Northeast	\$147.20	\$244.94	9.5%
South	\$156.35	\$235.12	7.2%
Soutwest	\$151.76	\$229.04	7.3%
West	\$156.18	\$211.44	5.1%
<b>Grand Total</b>	<b>\$154.64</b>	<b>\$238.67</b>	<b>7.8%</b>
Source: MFA Analysis of 5 -year historical data filed with NAIC for a subset of health plans			

Now that the medical expense trend has stabilized, it is time to start working toward reducing it. While the President works on getting public support for reform and Congress works to determine who will administer and pay for extending health care to the uninsured, the government may learn, what health plans have known for a long time, that medical expenses are the root of the problem and until those issues are addressed reform efforts will not reduce escalating costs.

#### About the Research Sample

Data for 398 health plans from 183 companies was used to analyze financial trends presented in this overview. Only plans that filed 2006 through 2008 Health Annual Statement and consistently reported revenues for all five years in the Five-Year Historical Exhibit 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™, 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 Health Coverage Portal™

Market data for health insurance companies can be analyzed in many ways to provide strategic planning insights. The challenge is finding & aggregating the right data. The solution is the Health Coverage Portal™ (</products/health-coverage-portal.aspx>), a data tool that integrates market measures for all types of health coverage. 50-state Health Coverage Portal™ - and Selective-state Health Coverage Portal™ subscription rates are available. Custom portal designs can also be created upon request.

#### 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™, the Health Coverage Portal™, Health Insurer Insights™ and Health Plans USA™.

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