



Medical Premiums...

Where do they come from?

Mark Brown, FSA, MAAA

Chief Actuary

SelectHealth





Overview

- Premium Equation
- Sources of Medical Expense
- Anatomy of a Rating Worksheet
- Healthcare Reform Initiatives
- Wrap-up & Questions





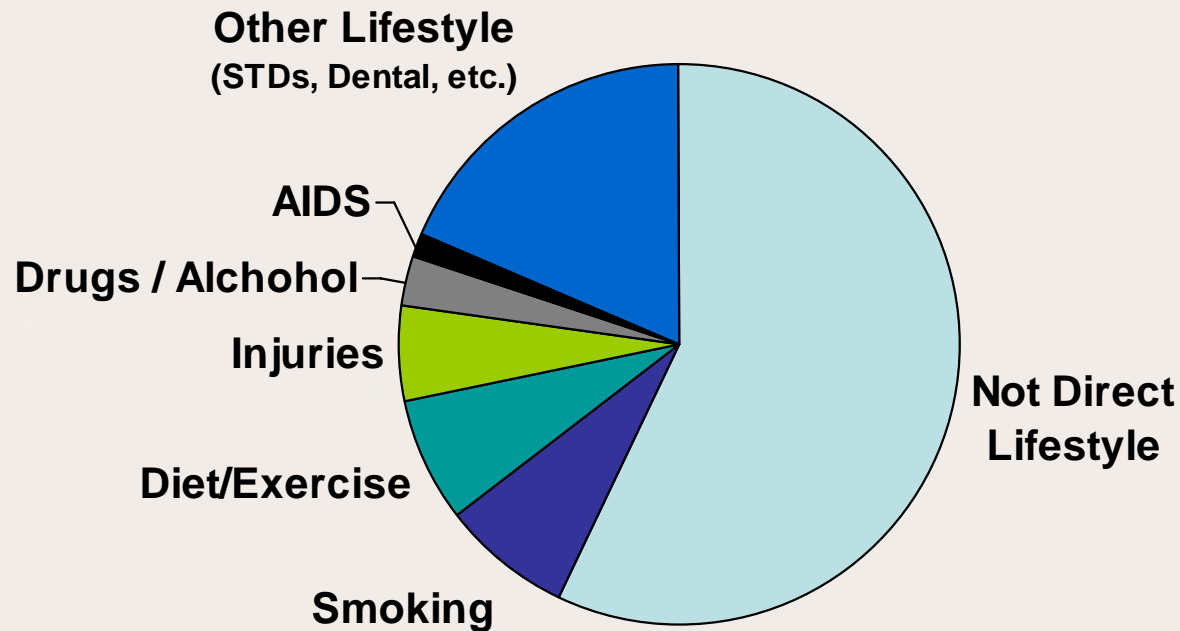
Premium Equation

PREMIUM = CLAIMS + ADMIN





Sources of Medical Expense

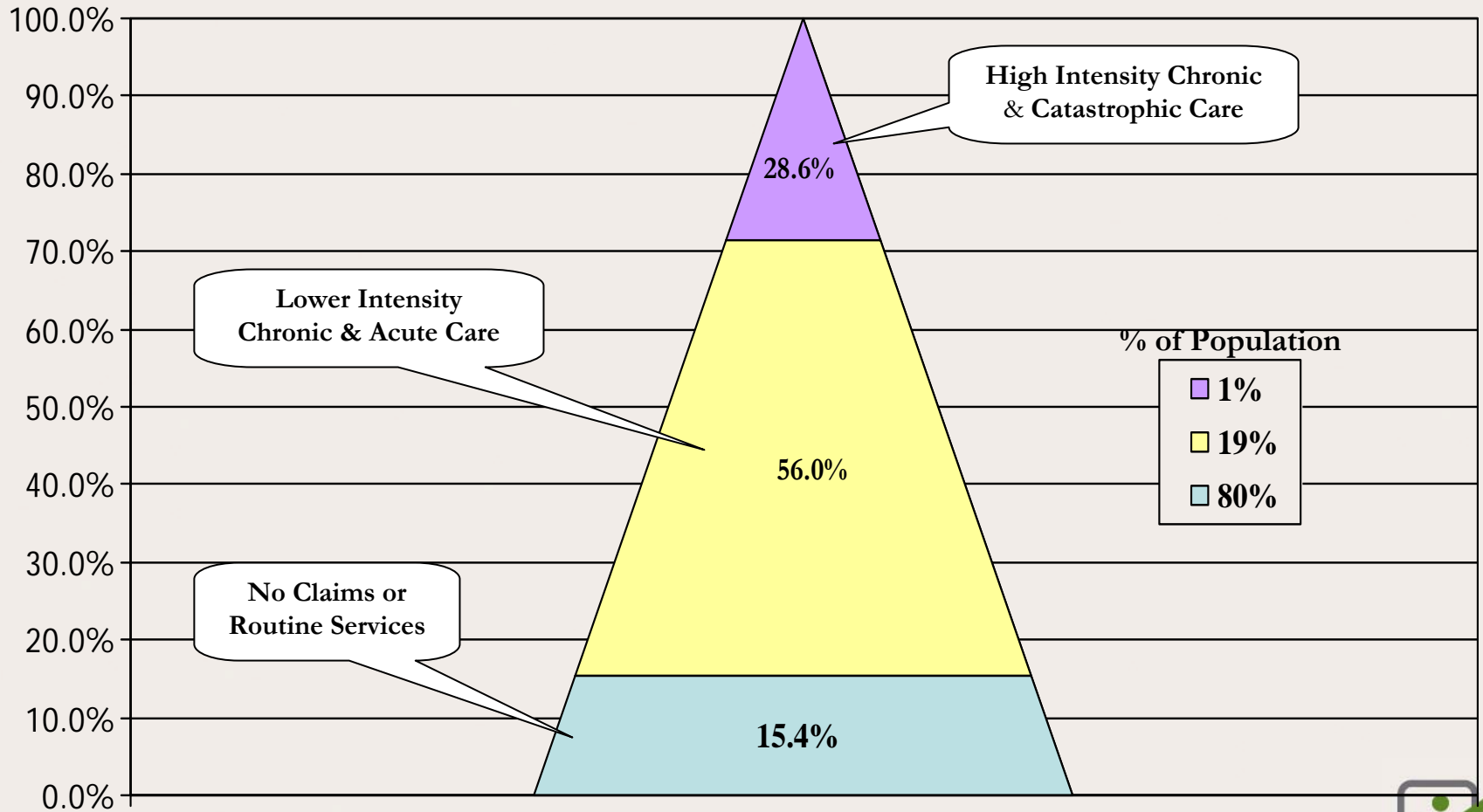


Source: ACMHA, 1990; DHHS, 1991; HIAA, 1992



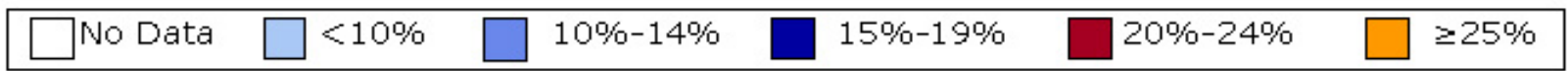
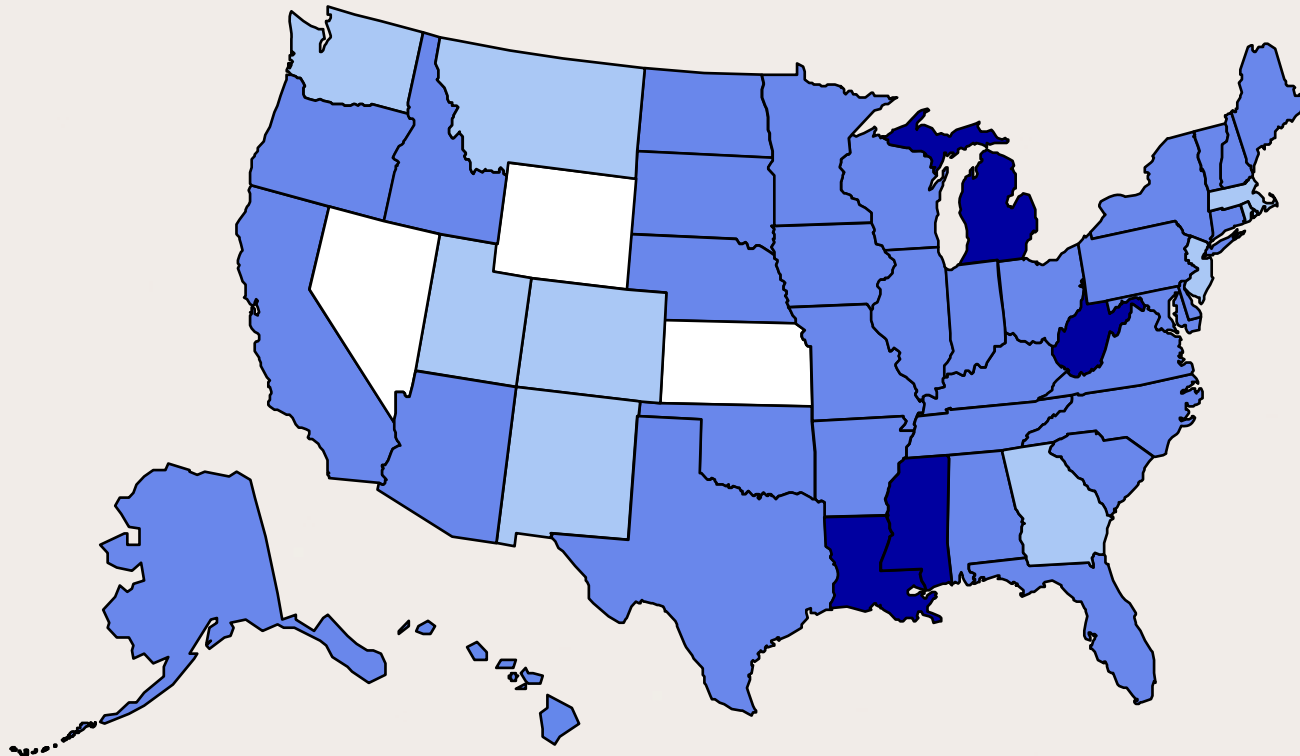


DISTRIBUTION OF CLAIM DOLLARS by % of the POPULATION





Obesity Percent of Population, 1991

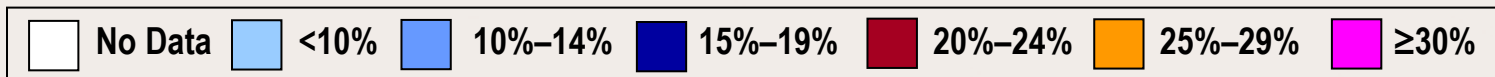
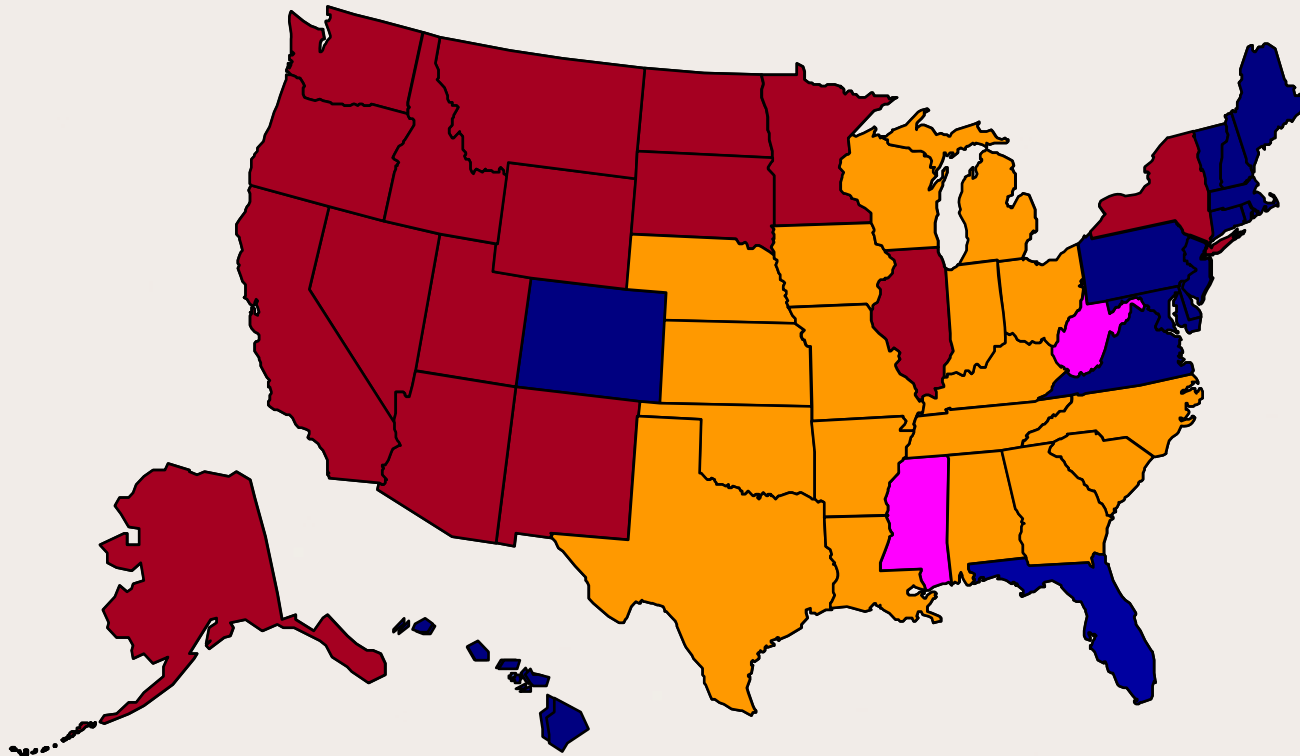


Source: Behavioral Risk Factor Surveillance System, CDC





Obesity Percent of Population, 2006



Source: Behavioral Risk Factor Surveillance System, CDC





Main Treatment Categories

Inpatient Costs

Maternity
Skeletal
Circulatory
Digestive
Respiratory

Outpatient Costs

Skeletal
Digestive
Urology
Circulatory
Respiratory

Physician Costs

General
Maternity
Skeletal
Respiratory
Hematology/
Oncology





Main Treatment Categories

Pharmaceutical Costs

Proton-Pump Inhibitors (*Prilosec; Heartburn & Acid Reflux/GERD*)

HMG-CoA Reductase Inhibitors (*Lipitor; Cholesterol*)

Opiate Agonists (*OxyContin, Oxycodone; Chronic Pain*)

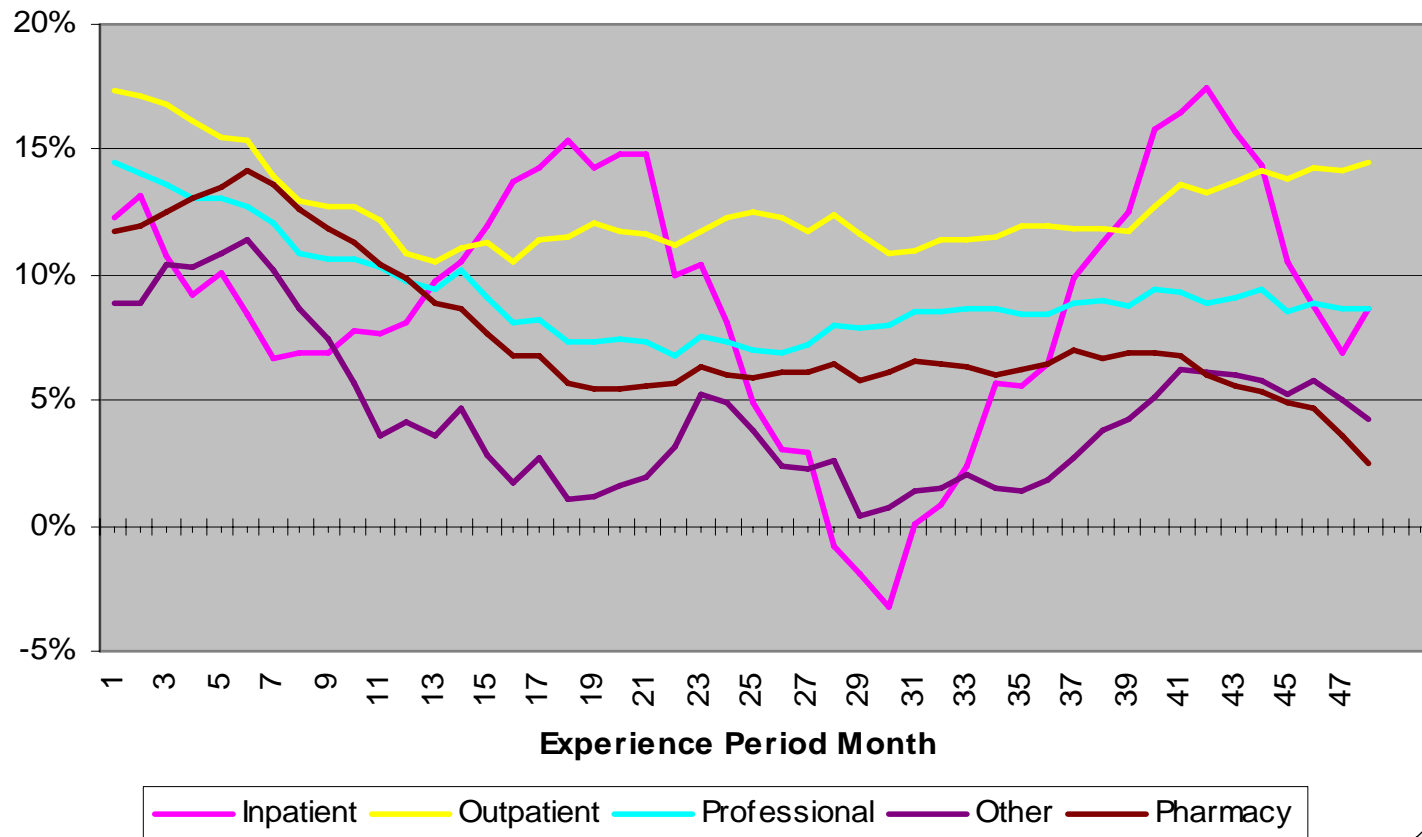
Selective-Serotonin Reuptake Inhibitors (*Prozac, Zoloft; Depression and a variety of Mental Health conditions, Fibromyalgia*)

Contraceptives



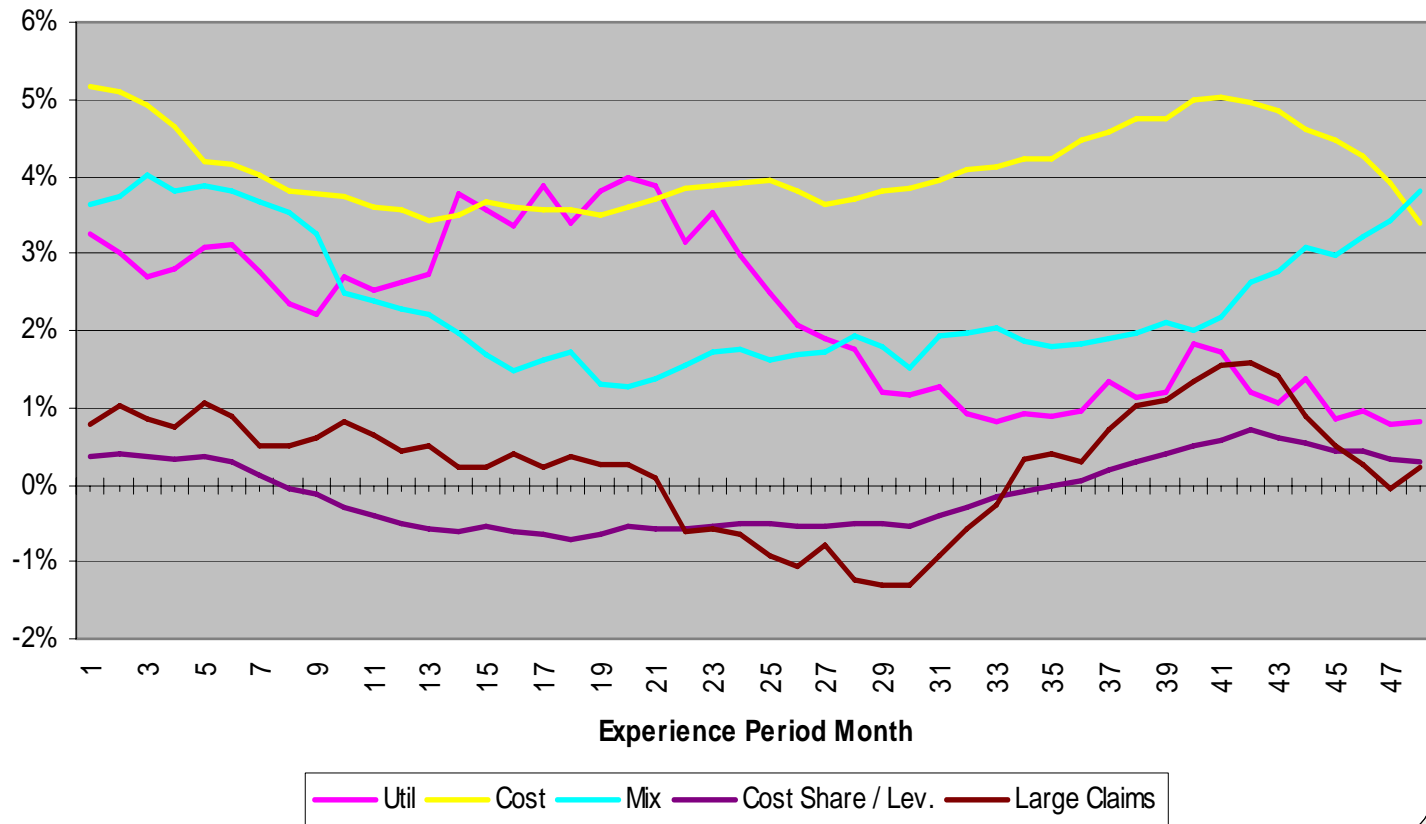


By Service Type



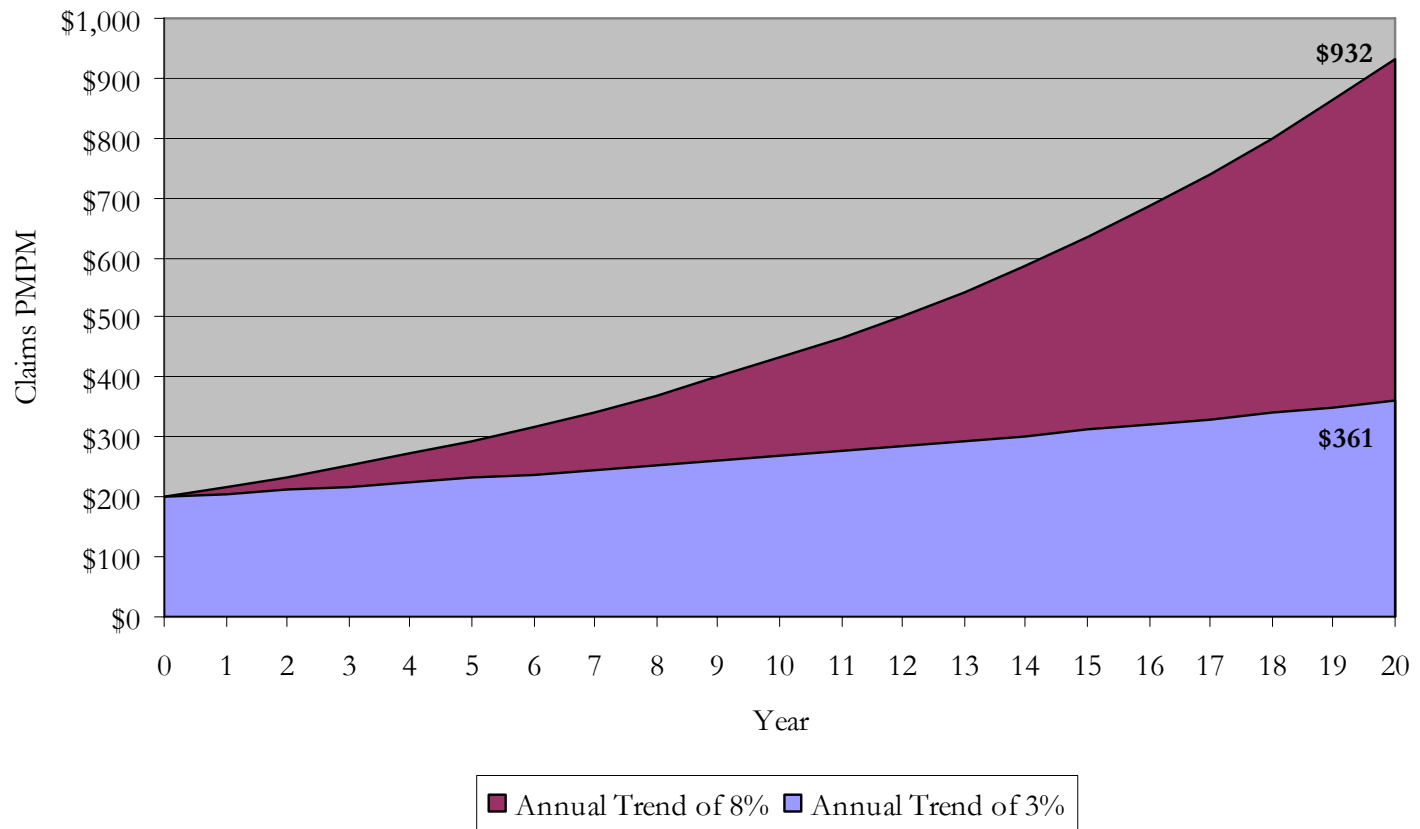


By Trend Component



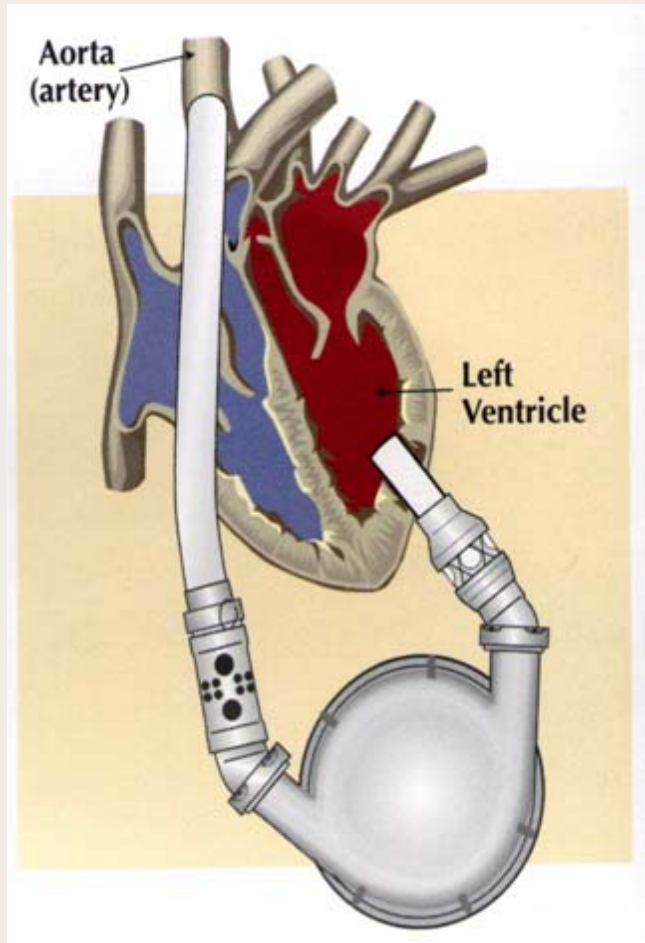


Impact of Trend over Time

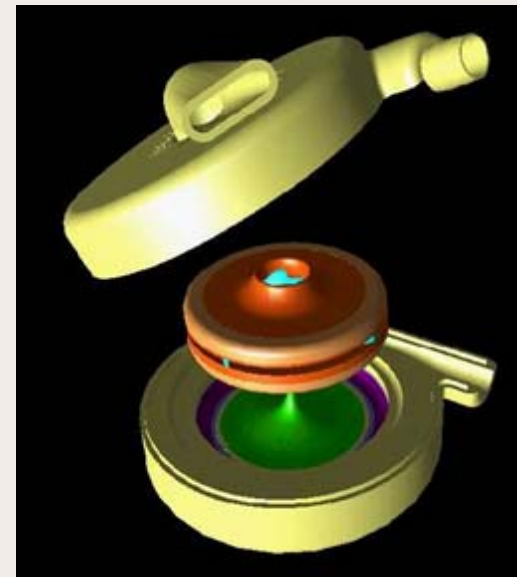




Ventricular Assist Devices Will Become Much More Important Over the Next Decade



- VADs are now accepted for permanent placement rather than simply as bridges to transplant
- Nearly 80,000 people could benefit from this technology – but at a significant cost





Medication Pipeline





Category	Drug	Expected Date
Diabetes	Galvus, saxagliptan	2008Q1
	Arxxant	?
	Acomplia (rimonabant)	2007Q3
	Byetta LAR	2008
Nasal Steroids	Alvesco (ciclesonide)	Approved - 2007Q3?
	Veramyst (fluticasone)	Approved – late May 2007
Depression / VMS	Pristiq (desvenlafaxine)	2007Q3
Hypertension	Tekturna (aliskiren)	Available – review in June
	Exforge	June 2007
	CS-8663	September 2007
	darusentan	
COPD	Brovana (arformoterol)	2007
Asthma	Symbicort	May 2007





Category	Drug	Expected Date
SERMS	Viviant (bazedoxifene) And combos	Approved - Mid 2007
ADHD	Vyvanse (lisdexamfetamine) Adderall XR	2007Q2
Triptans	Trexima (suma + naproxen)	
Statin combos	Simcor (simva + Niaspan) New formulation of Niaspan	
Atypical antipsychotics	Seroquel SR bifeprunox	August 2007
Antiepileptic drugs	Lamictal XR	





Recent & Future Generic Approvals

- Pravachol (pravastatin)
 - April 2006
- Zocor (simvastatin)
 - June 2006
- Zoloft (sertraline)
 - July 2006
- Mobic (meloxicam)
 - July 2006
- Wellbutrin XL (bupropion)
 - Dec. 2006
- Zofran (ondansetron)
 - Dec. 2006
- Mavik (trandolapril)
 - Feb. 2007
- Ditropan XL (oxybutynin XL)
 - Jan. 2007
- Inderal LA (propranolol ER)
 - Jan. 2007
- Norvasc (amlodipine)
 - March. 2007
- Ambien (zolpidem)
 - April 2007
- Lamisil (terbinafine)
 - June 2007
- Valtrex (valacyclovir)
 - July 2007 (2009?)
- Coreg (carvedilol)
 - Sept 2007





**Renewal Worksheet
XYZ Corporation**

Effective Period of Contract 01-Jan-2008 To 31-Dec-2008

Incurred Experience Period	01-Jul-2006	To	30-Jun-2007	12.00 Months
Paid and Incurred Experience Period	01-Jul-2006	To	24-Aug-2007	13.77 Months
				Enrollment as of 15-Aug-2007
			Employees	Members
Plan Design	1 Select Care Plus		2	14
	2 Select Med Plus		77	153
	3 Select Med Plus		714	2560
	4 Select Med		19	46
	5 Select Choice		16	59
	Total		828	2832

Claims		
Claims Paid and Incurred		4,737,383
Incurred But Not Reported (IBNR)	IBNR as a Percent of Completed Incurred Claims: 2.43%	117,780
Completed Incurred Claims		4,855,163
Pooling Level		200,000
Pooling Credit		154,175
Net Incurred Claims		4,700,988
Value of Prior Year Plan Change		-0.84%
Adjustment to claims so that Prior Years claims reflect the plan changes made at the Prior Renewal.		(18,802)
Adjusted Net Incurred Claims		4,682,186
Member Months Associated with Experience Period		35,719
Adjusted Net Incurred Claims (PMPM)		\$ 131.06
Trend		
Annual Medical Trend		10.75%
Annual Prescription Drug Trend		9.90%
Combined Annual Trend based on Group's Experience		10.58%
Number of Months from the Midpoint of the Experience Period to the Midpoint of the Rating Period		18
Effective Trend - Trending the Annual Trend for 18 Months		116.28%
Trended Adjusted Net Incurred Claims		\$ 152.42
Pooling		
Pooling Charge		1.38
Projected Claims with Pooling Charge		\$ 153.80
Credibility		
Credibility to Group's Experience		100.00%
Credibility to Community		0.00%
Projected Experience Claims Expense		153.80
Projected Community Claims Expense		171.91
Blended Projected Claims Expense		\$ 153.80
Administrative & Other Fees		
General Administrative Fees (for Fully Insured Contracts): This Fee includes a Pharmacy Rebate Offset of \$2.50		15.07
Broker Commission		1.62
Risk Charge (for Fully Insured Contracts)		1.72
Chiropractic Fee		0.00
Total Fees		18.41
Projected Revenue Requirement (for Fully Insured Contracts)		\$ 172.21
Renewal Increase		
Current Rates		\$ 152.82
Calculated Formula Increase (for Fully Insured Contracts)		12.69%
Proposed Increase (for Fully Insured Contracts)		12.70%





Healthcare Reform





National Initiatives

- Presidential Candidates





National Initiatives

- Presidential Candidates
- Organizations & Politicians: AHIP, Mayo Clinic
Kennedy, Bennett/Wyden
- States: Massachusetts, California, Tennessee, Colorado, etc.





Local Initiatives

- Legislators
- Utah Health Cooperative (Jarvis, Hillman)
- Opportunities for Healthcare Reform (Michie)
- Utah Hospital Association
- United Way / Chamber of Commerce
- Governor Huntsman





Challenges

- Financing
- Real impact on the underlying cost of care
- Political ability/willingness





Questions?

