

Effect of Economic Factors, Rating Issues and Current Environment on Medical Trends

SEAC 2010 Spring Meeting

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Topics for Discussion Today

- Economic Issues Affecting Trends
- Trend Differences to Account For
- Current Environment, Health Care Reform and Regulator Scrutiny
- Some Overlap Between Them

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Economic Factors Affecting Short Term Medical Trends

- Hospitals and Physicians Target Revenues to Match their Target Budgets
- Providers can control Resource and Budget Growth to Reflect Expected Revenue
- Balance over all sources of Revenue
- Medicaid and Uninsured Lose Money
- Shifts in Medicaid and Uninsured Drive Budgets

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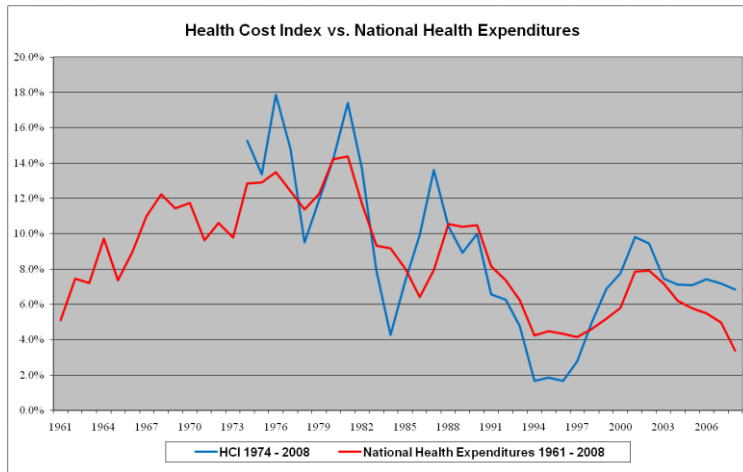
Economic Factors Affecting Short Term Medical Trends

- **Total Level NHE**
 - Components by Type of Service
 - Hospital, Physician, Rx, etc.
 - Components by Type of Payer or Risk-Taker
 - Commercial, Medicare, Medicaid, etc.
 - Not helpful for understanding insured trends without additional info
 - Even then problems

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Health Cost Index vs. National Health Expenditures Annual Trends



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Economic Factors Affecting Short Term Medical Trends

- NHE not a good indicator, and big lag
- Need something current for insured independent of carriers
- May be something new soon

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Economic Factors Affecting Short Term Medical Trends

- **High concentration of resources and especially Specialist Physician and Hospital Beds**

- Higher spending
- More use of High-Cost, Non-Evidence Based Care
- Quality no Better and Possibly Poorer

- **Implications**

- Growth in Physicians/Capita Increasing Trends
- Growth in Specialist/Physician Increases Trends

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Economic Factors Affecting Short Term Medical Trends

- **Local differences affect local Trends and Costs**

- Physicians
- Specialist
- Hospital Beds
- Health Employment and Wage Rates
- Hospital Beds
 - Replacement
 - Specialty Hospital
- New Technology
 - MRIs, PETs, etc.
 - New Employment, Possibly Higher Wages for Skills

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Economic Factors Affecting Short Term Medical Trends

- New ASC and OP Hospital Facilities
- Benefits Changes
- **National**
 - Working Days

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Economic Factors Affecting Short Term Medical Trends

- **Interventions**
 - DRG (1983-84)
 - RBRVS (1992)
 - Managed Care Effect Early 1990s
 - Back Lash in Late 1990s
- **Cost Shift**
 - Medicare/Medicaid Government Set Fee Increases
 - Medicare Advantage
- **Random Events**
 - Flu
- **Second Order Reactions**
 - Steps vs. Trends

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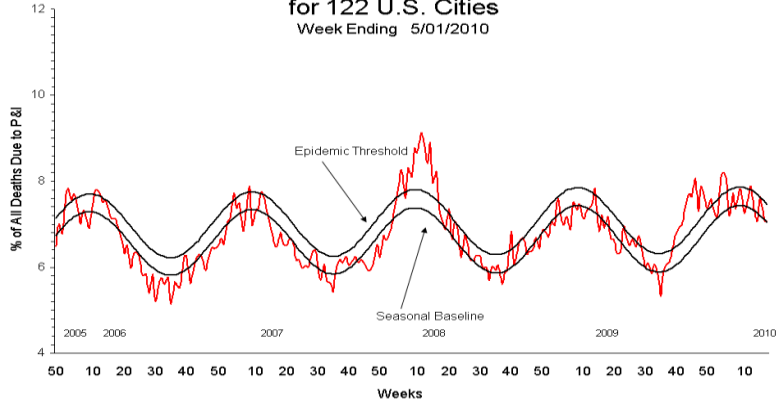
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CDC – Morbidity and Mortality

Pneumonia and Influenza Mortality

for 122 U.S. Cities

Week Ending 5/01/2010



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Illustration of Working Day Impact

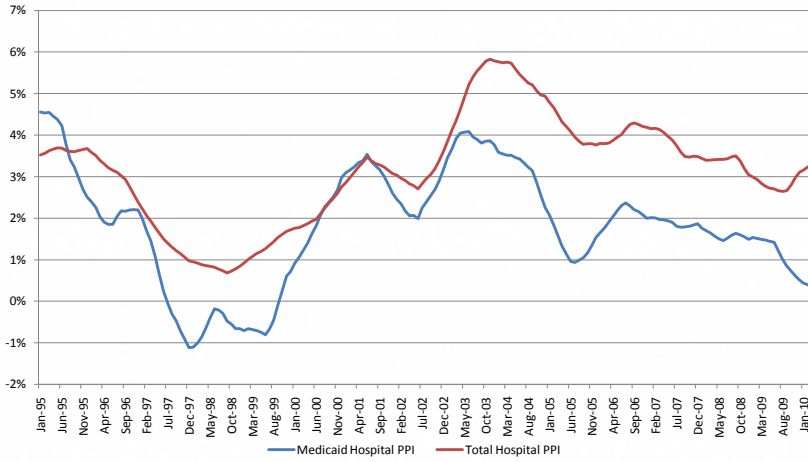
	Hospital Year/Year Quarter Trend
March-04	1.4%
June-04	0.0%
September-04	-0.1%
December-04	-0.3%
March-05	-0.7%
June-05	0.0%
September-05	0.0%
December-05	0.5%
March-06	0.1%
June-06	0.0%
September-06	-0.7%
December-06	-0.2%

	Hospital Year/Year Quarter Trend
March-07	-0.1%
June-07	0.0%
September-07	0.0%
December-07	-0.1%
March-08	0.5%
June-08	0.0%
September-08	0.9%
December-08	0.1%
March-09	-1.3%
June-09	0.0%
September-09	0.0%
December-09	0.3%

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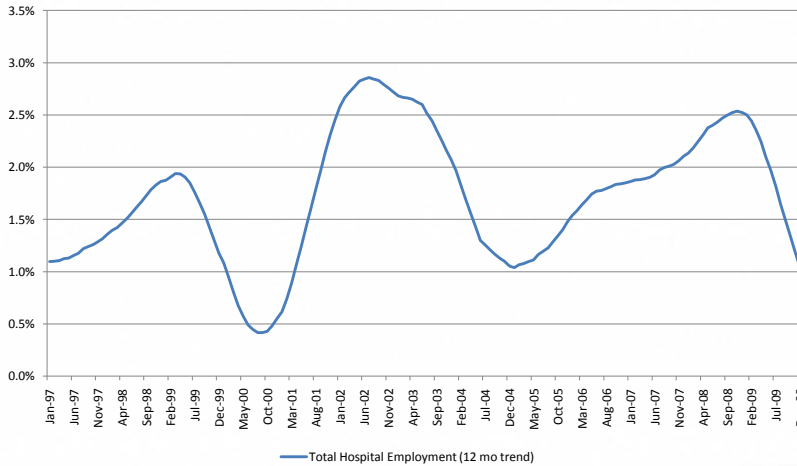
Hospital PPI(12-month trend)



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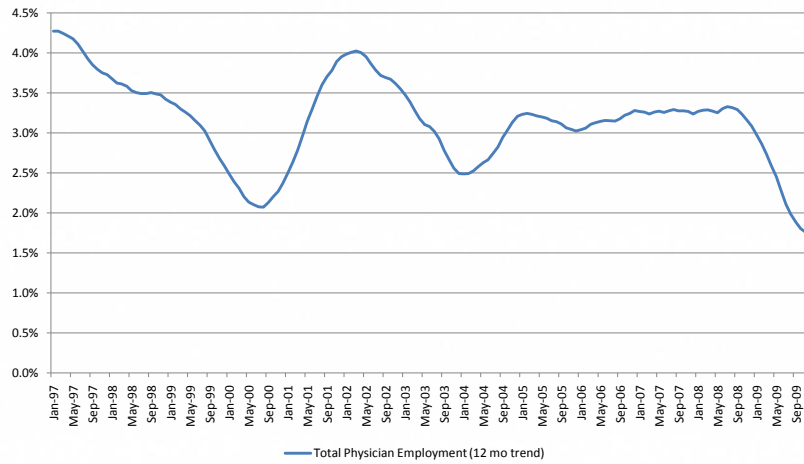
Total Hospital Employment (12-month trend)



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Total Physician Employment (12-month trend)



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Driving Economic Factors

■ National Macro Economic Drivers

- Inflation
- Economic Growth
- Technology

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Issues to Account For

- **Carriers own data**
 - If credible
 - Various blocks of business
 - Adjust for all confounding factors
- **Each carrier has adjustment issues**
 - Small Group vs. ASO vs. Experience Rated
 - Geographic Mix
 - Plus trend differences by area
 - Catastrophic Claim variation
 - Adverse Selection
 - Benefit Differences and Changes
 - Consistent Data History

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Issues to Account For

- **Deductible/copay leverage**
- **Underwriting effects**
 - Guaranteed issue
- **Impact of utilization effects of benefit buydowns**
 - **Effect for groups with constant benefits**

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Current Environment -- Health Care Reform

- **Current Trends**
 - National
- **Future Trends**
 - Risky Environment
- **Benefit changes required, child extension removal of lifetime and annual maximums**

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Current Environment -- Health Care Reform

- **Documentation of trends for Insurance Department Rate Filings**
 - Adverse Selection
 - Geographic Mix Change
 - Impact of Benefit Buy Downs
 - Other
- **Don't Make Mistakes**
- **Educate Insurance Departments**
 - Get them off CPI or Medical CPI—not appropriate
 - Trends vs. rate Increases
- **Compile Solid Evidence to Support Your Assumptions**

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