

Health Reinsurance Update

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Health Reinsurance Update

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Health Reinsurance Update

- Reinsurance Market Conditions
- Medical Cost Trends
- Reinsurance Treaty Terms

Reinsurance Market Conditions *Underwriting Cycle*

- Late 1980s through early 1990s: profitable!
 - Less capacity + reinsurance cost low small & margins high
- Mid 1990s through 2000: ugly losses!
 - Too much capacity → poor pricing & UW → significant losses
- 2001 to today: recovery period
 - Reduced capacity
 - Lower expense levels + increased discipline + increased UW controls
- Recovery period ramifications:
 - Reinsurers more risk averse
 - Reinsurance management expectations for more consistent results
 - Allocable capital for health lines competing with non-health lines

Reinsurance Market Conditions

The Reinsurance Decision

- Reasons for purchasing reinsurance:
 - Risk transfer
 - Reinsurer expertise & services
 - Balance sheet issues (credit on Annual Statement)
 - Arbitrage (“naïve capacity”)
- Considerations in selecting a reinsurer:
 - Financial strength
 - Commitment
 - Reputation

Reinsurance Market Conditions

Market Segments

- National carriers and the Blues
- Individual Medical
- Small Group Medical (< 50 EE's)
- Employer stop loss
- HMO & provider excess
- Niche plans

Reinsurance Market Conditions *Market Segments*

National Carriers and The Blues

- Market size: top 10 writers totaled \$150 Billion in 2003 (source: AM Best)
- National carriers continuing to grow through acquisition and organic growth
- Recent experience: 2003-2005 has been a profitable period
- Little, if any, reinsurance opportunity
 - Why/not Quota Share?
 - Why/not Excess?

Reinsurance Market Conditions *Market Segments*

Individual Medical

- Consolidation: fewer and larger players
- 15 million policyholders
- Expanding market due to growing number of self-employed individuals and early retirees

Reinsurance Market Conditions Market Segments

Small Group Market (Under 50 Employees)

- Some self-funded business migrating back to fully insured
- Impact of HRA & HSA plans
- Typical plan: min \$1,000 ded, 80/60 coins., 3-4 tier Rx card
- 2005 renewal increases: 12%-16% average
- High renewal persistency (70%-80% of cases)
- Benefit “buy-downs” at renewal:
 - “Price point” reached → sizable number of groups with average 10% buy-down
 - Helps improve persistency, but does not necessarily lower trend

Reinsurance Market Conditions Market Segments

Employer Stop Loss

- Is the market hardening or softening?
 - Milder conditions today than 5-6 years ago
 - Aggregate turnaround
- Average renewal rate increases vary widely
- High renewal persistency (70%-80% of cases)
- Smarter claims management
 - Improved identification of potential high dollar claims
 - Laser, rate-up, or decline during underwriting

Reinsurance Market Conditions Market Segments

HMO & Provider Excess

- Smaller market today due to significant consolidation among HMOs and providers' move away from capitation
- Greater reinsurance scrutiny of claims experience, coverage terms, provider contracts, etc.
- Typical cover
 - Comprehensive coverage has given way to more limited coverage
 - Higher reinsurance deductibles
 - Inpatient average daily maximums & more defined fee schedules

Reinsurance Market Conditions Market Segments

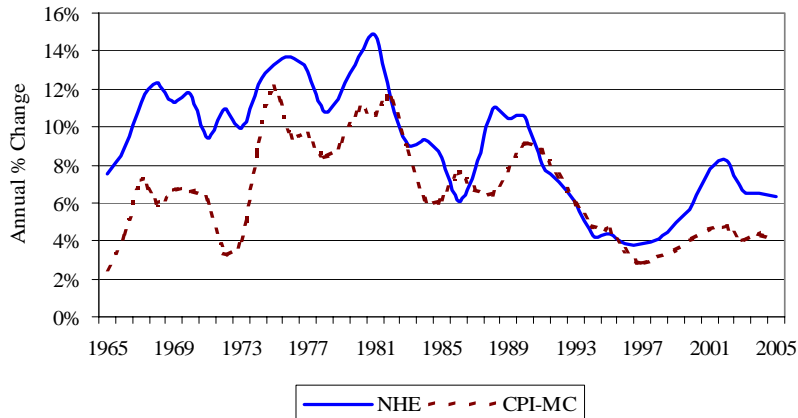
Niche Plans

- Effort to meet varied market needs:
 - Previously uninsured
 - Take pressure off of Medicaid and state high-risk pools
 - Voluntary/worksite options underneath high-deductible plans
- Mini-med
- Low-limit comprehensive
- Gap plans

Medical Cost Trends

Historical Macroeconomic Cost Trends

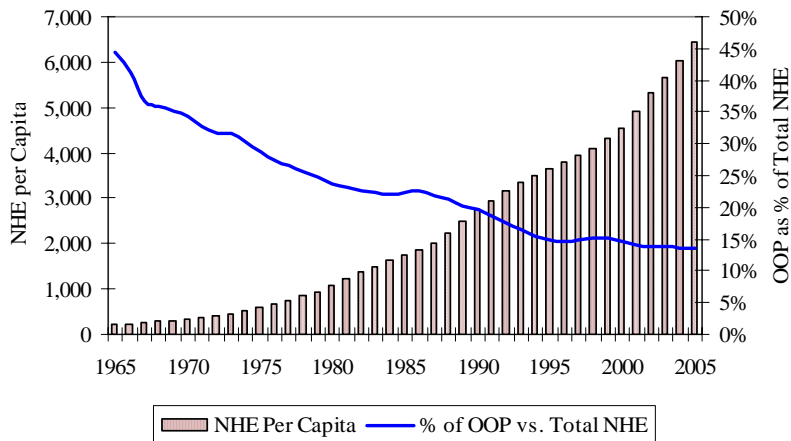
Annual Change in Per Capita National Health Expenditures (NHE) vs. Consumer Price Index – Medical Care (CPI-MC) for All Urban Consumers ('82-'84 Base)



Medical Cost Trends

Historical Macroeconomic Cost Trends

NHE Per Capita vs. Out-of-Pocket (OOP) Expense as % of Total NHE

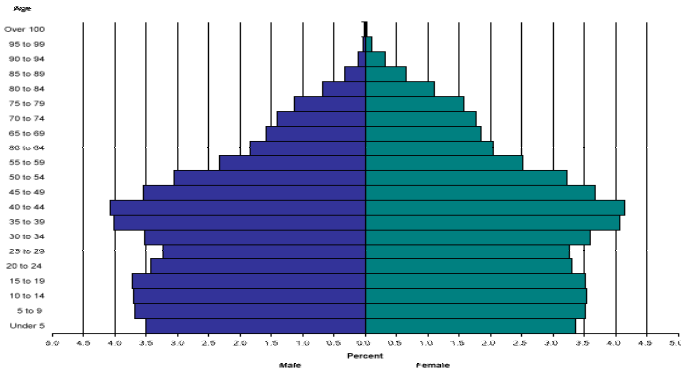


Medical Cost Trends

Aging of the Population

Demographic Realities: Today

(NP-P2) Projected Resident Population of the United States as of July 1, 2000, Middle Series.



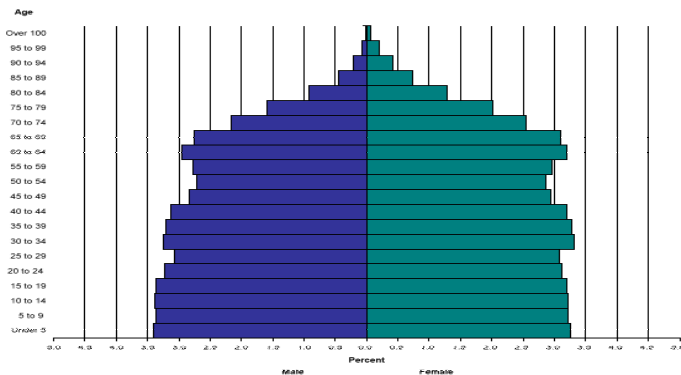
Source: National Projections Program, Population Division, U.S. Census Bureau, Washington, D.C. 20233

Medical Cost Trends

Aging of the Population

Demographic Realities: Tomorrow

(NP-P3) Projected Resident Population of the United States as of July 1, 2025, Middle Series.



Source: National Projections Program, Population Division, U.S. Census Bureau, Washington, D.C. 20233

Medical Cost Trends

First Dollar Cost Trends

GRL July 2005 Trend Recommendations

- PPO Medical (w/o Rx) = 12.2%
- Prescription Drug = 14.9%
- PPO Medical & Rx = 12.6%

Medical Cost Trends

Leveraged Cost Trends - Illustration

- 2005
 - Ground-up claim = \$100,000
 - Specific deductible = \$50,000
 - Claim in excess of deductible = \$50,000
 - 1st dollar trend = 12.6%
 - 2006
 - Ground-up claim = \$112,600 ($\$100,000 \times 1.126$)
 - Specific deductible = \$50,000
 - Claim in excess of deductible = \$62,600
- Trend on excess portion of claim = 25.2% ($\$62,600 / \$50,000 - 1$)

Medical Cost Trends *Leveraged Cost Trends*

- Illustrative example using GRL models and database comprised of both fully insured and self-funded claims.
 - 12.6% first dollar trend assumed (medical and Rx combined)
 - Composite employee and dependent claims
 - Leveraged trend by deductible and pricing component:

Deductible	Frequency	Severity	Cost PEPM
\$50,000	13%	7%	21%
\$100,000	19%	5%	25%
\$250,000	24%	6%	31%
\$500,000	26%	9%	37%
\$1 Million	30%	12%	46%

Medical Cost Trends *Cost Drivers*

- Underlying inflation
- Aging of population
- New technologies and treatments
- Professional liability costs
- Regulations and mandates
- Consumer behavior

Reinsurance Treaty Terms *Evaluating Opportunities*

- Underwriting “beyond the manual”
- Running the numbers
- Quality of the business and the business partner(s)
- Pricing and underwriting considerations
- Environmental factors
- Major contract provisions
- Challenges

Reinsurance Treaty Terms *Important Success Factors*

- Alignment of financial interests (“skin in the game”)
- Disciplined underwriting
- Sound pricing
- Reasonable expenses
- Good claims management
- Supportive distribution channels

Reinsurance Treaty Terms *Major Provisions*

- Scope & limits
 - What business is/not covered
 - Must effectively deal with “what if” scenarios
- Underwriting guidelines
- Confidentiality
- Arbitration
- Extra-contractual obligations
- Commencement and termination

Health Reinsurance Update *Questions? Comments?*

Thank You!