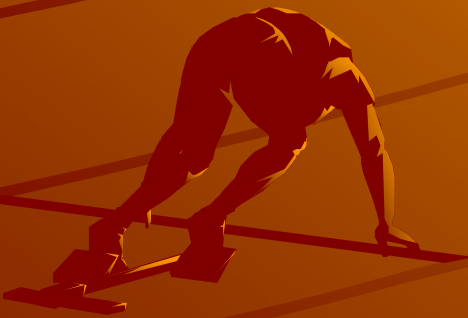


Accident and Health Products Workplace to Group

James H. Baum, MAAA
Vice President
Actuarial Resources Corporation

SEAC
Amelia Island
June 18, 2003



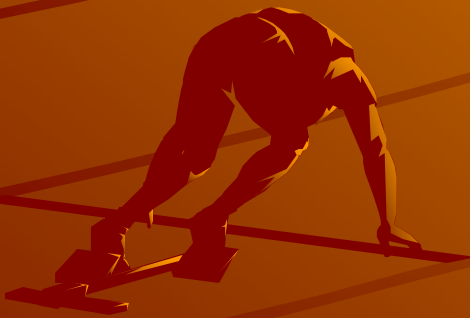
Health Premium Inflation

- ◆ Double digit increases return
- ◆ General Economy sluggish
- ◆ Most industries do not have pricing power - Cannot pass through costs



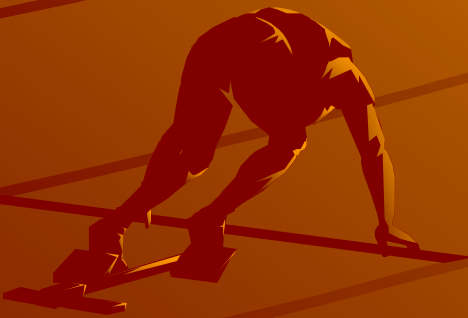
Problems = Opportunities

- ◆ Problems accelerate change
- ◆ Markets respond to problem solvers



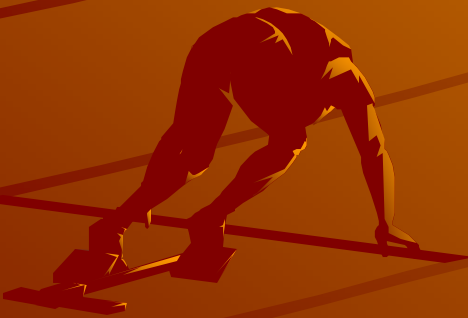
Recognizing Price Resistance

- ✦ Reduction in new Sales
- ✦ Renewal Resistance
- ✦ Reduction in Penetration by Account



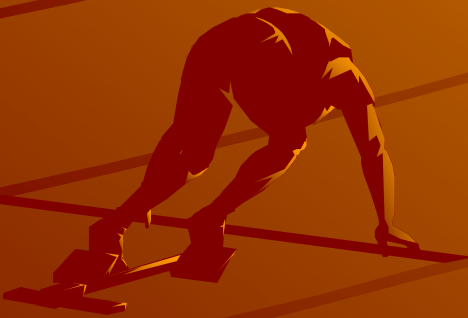
Responses to Price Resistance

- ◆ Squeeze Suppliers
- ◆ Reengineer Delivery
- ◆ Change Products



Squeeze Suppliers

- ◆ Leverage suppliers for lower prices
- ◆ Switch sources to obtain goals



Reengineer Delivery

- ◆ Stream-line, cut “fat”
- ◆ Use technology to more effectively serve customers
- ◆ Cut distribution costs of sales



Change Products

- ✦ Health Products, except indemnity are subject to unit price changes
- ✦ In order to manage price levels, it is necessary to address unit price levels as well as utilization rates.



Addressing Unit Price Levels

- ◆ Move to Indemnity
- ◆ Reduce Coverage
- ◆ Differentiate Level of Coverage
Reflective of Cost Levels



Indemnity

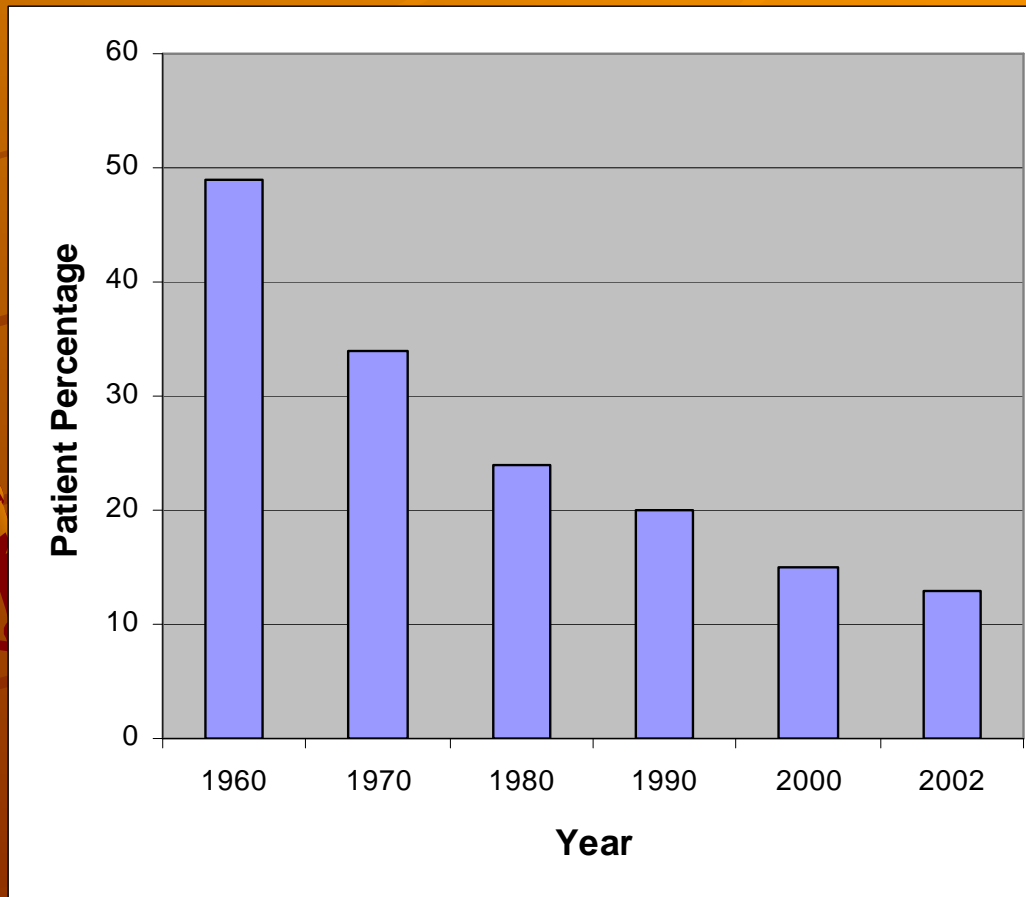
- ✦ Fee schedule products have continued to proliferate in the limited benefits medical market.
- ✦ Fee schedule dental products have filled a need in the payroll portfolio



Reduce Coverage

- ◆ Increasing co-pays, coinsurance and deductibles, have long been used to address product price resistance.
- ◆ Limited benefit plans often use a reverse approach, by covering more first dollar items, while capping high cost expenses. Using this philosophy we see more restriction of the high cost area.

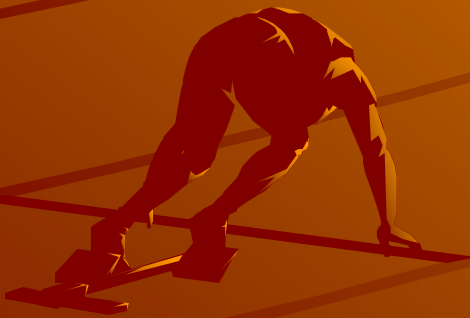
Patient Share of Total Health Costs



Source: CMS

Differentiate Level of Coverage by Cost Level

- ◆ Multiple Layered Network Programs



Addressing Utilization Rates

- ◆ Underwriting
- ◆ Pre-Existing Exclusion
- ◆ Benefit Phase-In
- ◆ Changing Behavior



Changing Behavior

- ◆ Make the patient the purchaser
- ◆ Flexible Spending Accounts
- ◆ Incorporating Spending Accounts into Insured Products

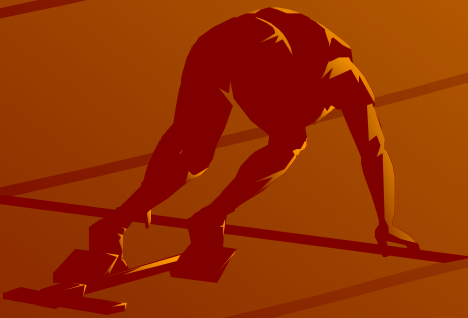


Consumer Driven Healthcare

- ✦ Requires that Consumers can make decisions
- ✦ For success, requires that Consumer has more information than generally available in the past
- ✦ Provides financial consequences to Consumer

New Era of Personal Responsibility

- ◆ 401 K vs. Pension model
- ◆ National Initiative of Consumerism
- ◆ Choice within Risk Pools



Health Care Funding

- ✦ Reversing the trend toward no patient responsibility
- ✦ Changing Behavior through incentives and disincentives
- ✦ Changes to the Legal and Tax structure shape product opportunities

Initiative of Consumerism

- ◆ Pot of money concept
- ◆ From individual products to group health
- ◆ Action taker vs. the acted upon
- ◆ Reward desired behaviors
- ◆ Change utilization patterns

Risk Capture and Rate Adequacy

- ◆ Adverse Selection
- ◆ What are the perceived wants
- ◆ What risk can be spread
- ◆ Are there risks that must be avoided
- ◆ Can morbidity be improved

The Race

- ✦ Is an ongoing event
- ✦ What are your goals
- ✦ Will your actions get you there
- ✦ Adjust strategy and/or tactics



Keep Moving!!!

