

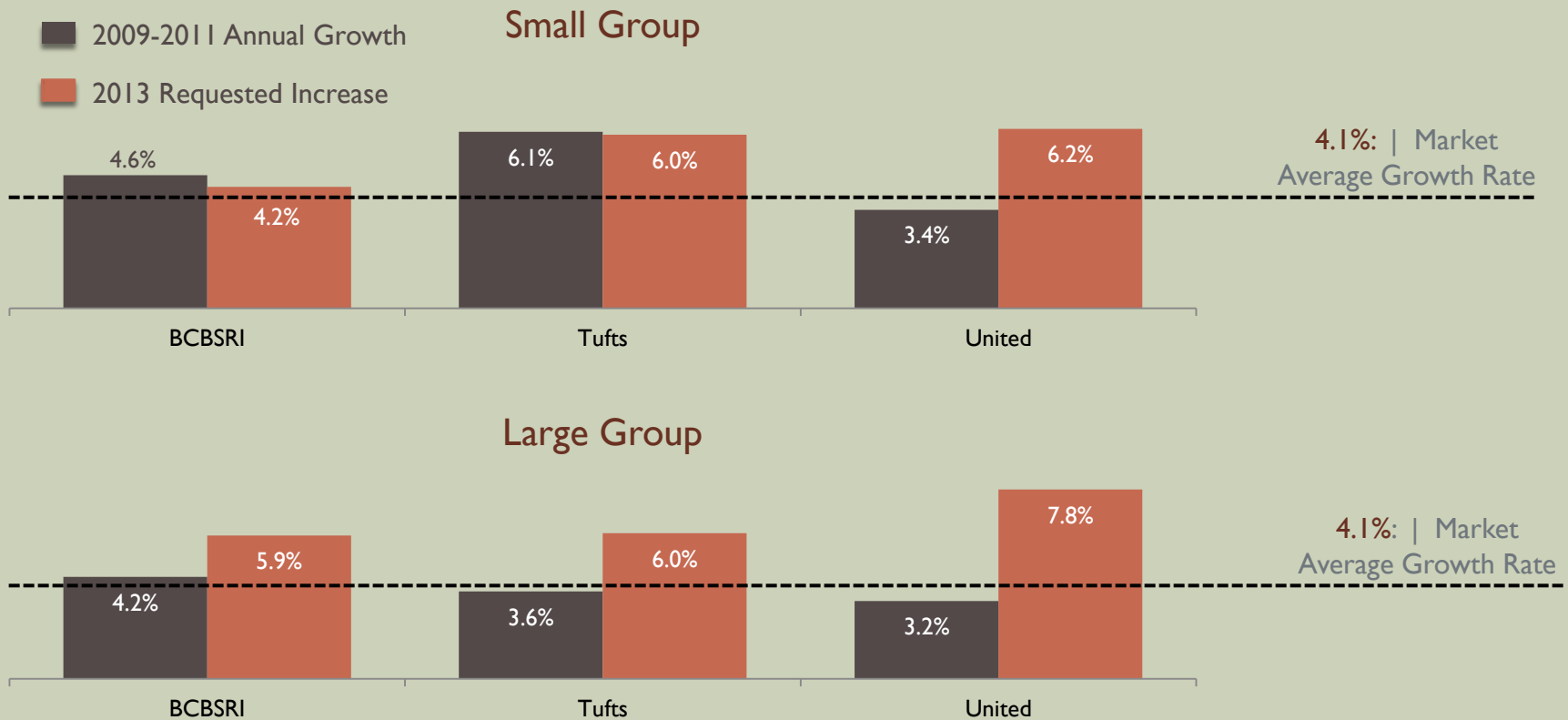
# Commercial Health Insurance Premium Trends

Presentation to  
HIAC

September 18,  
2012

# 2009-2011: EARNED PREMIUMS GREW BY 4.1% ANNUALLY

PER MEMBER, PER MONTH (PMPM)

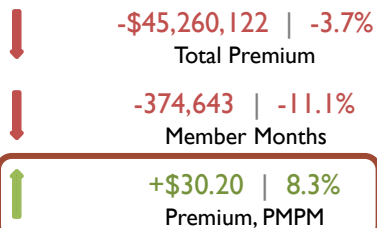


*Annual Growth* refers to the annualized rate of growth in collected, or earned, premium per member per month between 2009 and 2011  
*Requested Increase* refers to the requested rate of increase in benefit neutral PMPM premiums, as submitted to OHIC for 2012 Rate Review

**Source:** Company submissions to Rhode Island Office of the Health Insurance Commissioner, 2012 Rate Review

# Why are premiums rising (PMPM)?

## PMPM Change, 2009 through 2011 Small and Large Group Combined



### Quarterly Trend

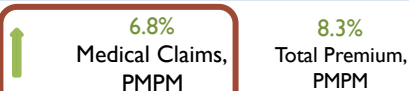


The three companies **earned less premium** in 2011 than in 2009 ...

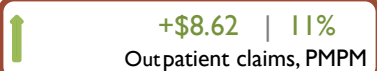
...but also **lost members** at a faster rate than premiums fell...

...leading to **higher premiums per member**, per month (PMPM). In 2011, the market-wide premium, PMPM, was \$392.67

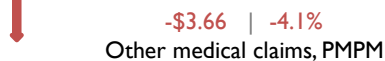
### What's behind this trend?



**Medical claims** are the largest driver of premium increases. Between 2009 and 2011, claims rose slightly less than premiums on a PMPM basis.



Among medical categories, **outpatient spending increased the most** per member per month. The three companies together paid \$8.62 more for every member per month in 2011 versus 2009.



Spending in most other medical categories -- per member, per month -- also increased.

Taken together, companies spent **\$21 more in medical services** -- including capitation and state health assessments -- **for every member per month** in 2011 versus 2009.

- The small and large group markets lost members faster than they lost total premium.
- Premium did not fall as fast as members did because medical claims, per person, rose by 6.8% during this period.
- The biggest driver of rising medical claims were outpatient claims, which jumped by 11%, followed closely by inpatient claims (also 11%)

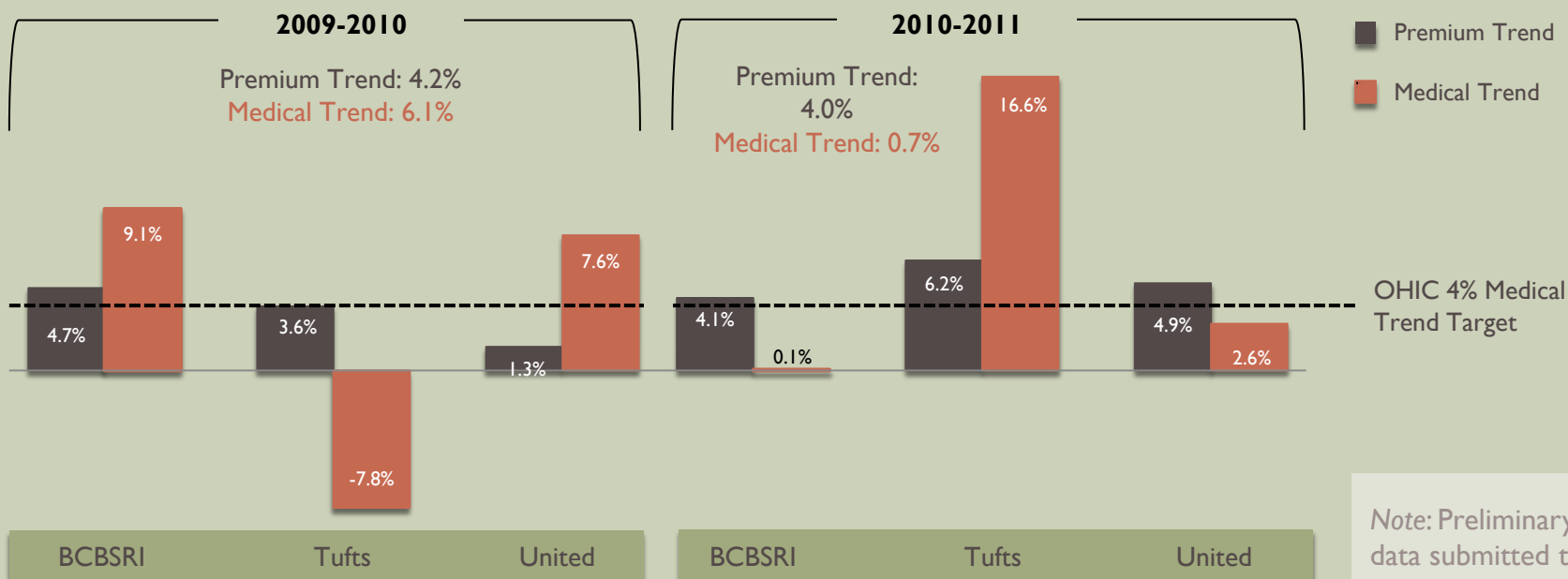
# Q: How have the medical trend and premium trend changed each year?

## *Background*

- Medical trends – the premium dollars spent on medical claims – tend to vary more from year to year than overall premium
  - Premiums are set prospectively while medical claims occur in real time
  - Members may delay care in a tough economic environment and seek care when their financial situation improves
  - Premiums rates must take into account a certain amount of uncertainty in medical claims

# A: Medical claims growth slowed in 2010-2011 while premium growth held steady at about 4%

## Premiums and Medical Spending | Annual Percent Change Small + Large Group



Note: Preliminary data submitted to OHIC indicate that medical spending rose significantly from 2011 to 2012.

Premium Trend refers to the year over year percent change in total premium dollars that each company collected  
 Medical Trend refers to the year over year percent change in total premium used to pay medical claims

Source: Company submissions to Rhode Island Office of the Health Insurance Commissioner, 2012 Rate Review

# Have small and large group trends differed?

Factor	Group	BCBSRI	United	Tufts
Medical Trend	Small Group	+8.8%	+12.4%	-5.5%
	Large Group	+4.4%	+10.4%	+10.5%
Premium Growth (PMPM)	Small Group	+9.5%	+6.9%	+12.6%
	Large Group	+8.7%	+6.6%	+7.4%
Fastest Growing Medical Category	Small Group	OP (+16%)	Primary Care (+20%)	Rx (+54%)
	Large Group	IP (+11%)	IP (+13%)	Other (+20%)

- Overall, slightly higher medical trend in the small group market.
- Hospital services are growing quickly in both groups
- Tufts is a new entrant and has relatively little volume so results may differ from total market trends

Source: Company submissions to Rhode Island Office of the Health Insurance Commissioner, 2012 Rate Review

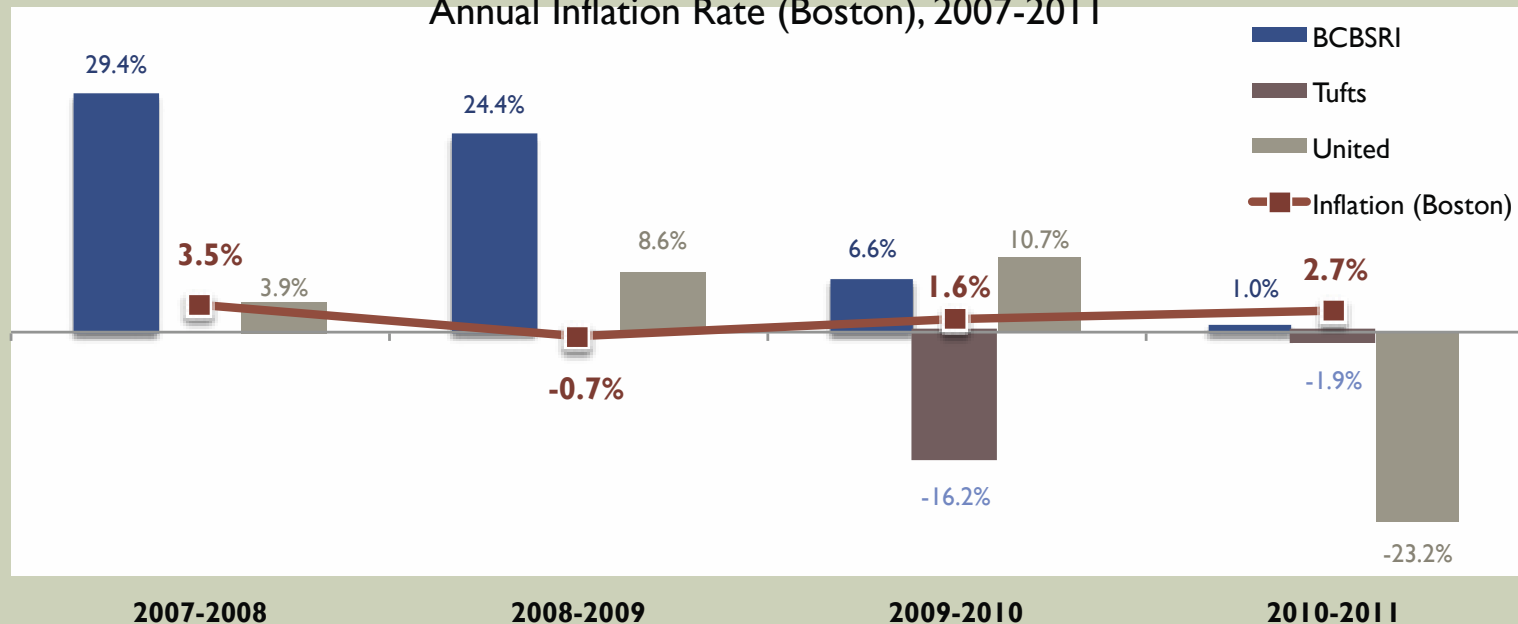
# Administrative Spending & Premiums

## *Costs are still high but have fallen recently*

Administration costs (PMPM) have grown much faster than the inflation rate but have slowed in recent years. As a result, the portion of premium spent on medical claims rather than administrative expenses, also known as the **Medical Loss Ratio (MLR)**, rose (increasing efficiency) or fell more slowly than it would have otherwise.

In 2010, the market spent 19.8% of its premiums on administrative expenses. In 2013, it predicts that portion to be 11.8%, based on our analysis of individual company rate requests.

Annual Percent Change in PMPM Total Administrative Costs and Annual Inflation Rate (Boston), 2007-2011



Source: Inflation: Consumer Price Index, All Urban Consumers, Boston-Brockton-Nashua, comparison of annual indices

# Contribution to Reserves & Premiums

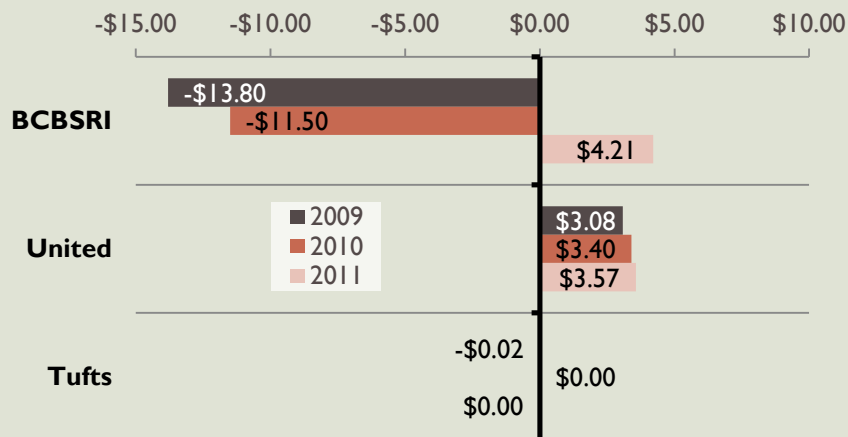
## *Results vary widely by company*

A company's *contribution to reserves* is the value of the collected premium remaining after paying medical claims and administrative expenses. This money ensures companies have funds on which to draw for capital expenses or unexpected losses.

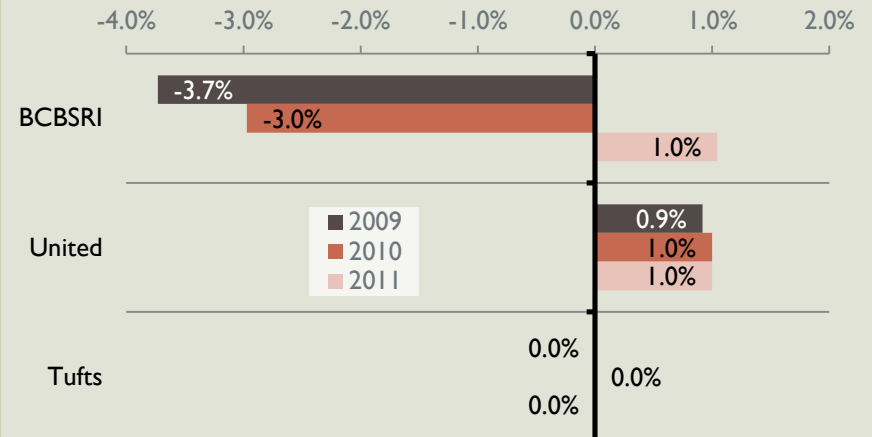
Insurers explicitly request their target amount in their rate filings with OHIC. For 2013, the three commercial insurers requested the following contributions to reserves, expressed as a percent of premium:

BCBSRI: 3.34% small and large group  
 United: 2.00%, small and large group  
 Tufts: 0.00%, small and large group

Contribution to Reserves, PMPM  
2009-2011



Contribution to Reserves, % of Premium  
2009-2011





# CONCLUSION

- (a) Spending on hospital services is growing quickly for both large and small employers,
- (b) Administrative costs are still high but have fallen recently, and
- (c) We are likely to see higher medical expense trend and higher requested premium increases in the future, underscoring the need for continued oversight and further action by policy makers