

What We'll Cover

- Background on the market
- Principles and standards governing pricing
- What goes into an individual market premium?
- How do you calculate a rate increase?
- Other considerations

BACKGROUND

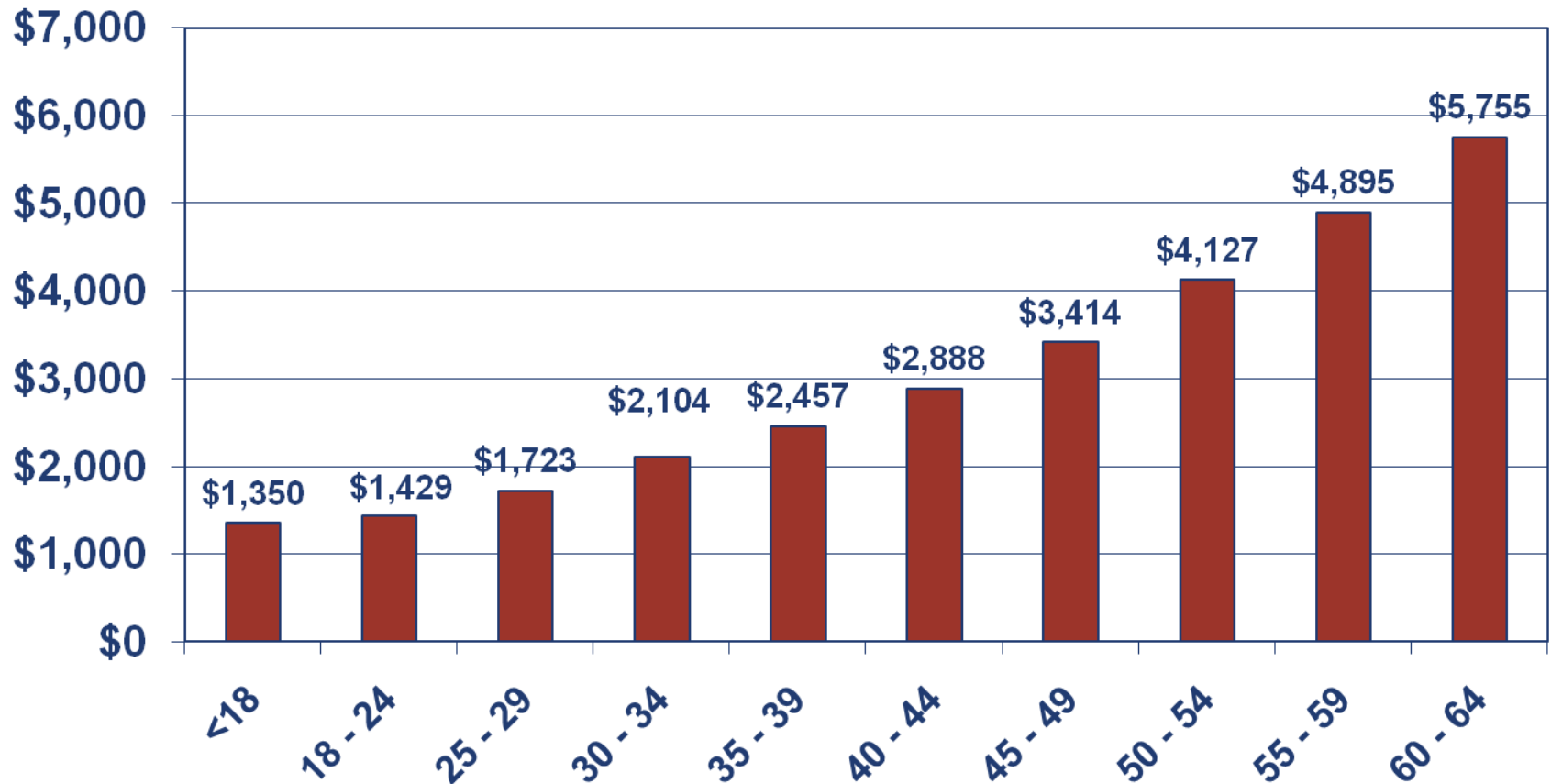
Setting the Baseline for the Individual Market

- Coverage is voluntary
- Similar range of products available as the group market
- Buyers are generally more cost conscious (no employer subsidy)
- Typically choose higher deductibles, co-payments and out-of-pocket limits to hold down premiums
- Resulting average premiums are lower than what we see employers paying
- Premiums typically vary significantly by age

Setting the Baseline

Average Premiums: 2009		
	Single	Family
Individual	\$2,985	\$6,328
Small Group (3-199)	\$4,717	\$12,696
Large Group (200+)	\$4,876	\$13,704
Sources: 2009 AHIP Individual Market Survey; 2009 Kaiser Family Foundation Employer Survey		

Setting the Baseline: Individual Market Premiums by Age



Source: *Individual Health Insurance 2009: A Comprehensive Survey of Premiums, Availability and Benefits*, AHIP, October 2009

PRINCIPLES AND STANDARDS

Premiums must be:

- Adequate (solvency)
- Reasonable in relation to benefits (consumer protection – often measured by loss ratio)

Standards governing pricing

- State rules
 - Rate regulations (directly)
 - Solvency regulations (indirectly)
- Federal rules
 - HIPAA
 - COBRA
 - New PPACA Minimum Loss Ratios
- Actuarial Standards of Practice (ASOPs)

Other regulations, such as benefit mandates, also affect the cost of coverage.

Professional Actuarial Standards of Practice for Rating Factors

- Objective
- Clearly related to the likely cost of providing coverage
- Practical to administer
- Consistent with applicable law
- Designed to protect the long-term viability of the insurance program

"Risk Classification (for All Practice Areas)," Actuarial Standard of Practice No. 12, Actuarial Standards Board, December 2005

WHAT GOES INTO A PREMIUM?

Let's Set the Premium for a New Plan

- The first, biggest piece is the benefit cost
 - Who will buy it? (let's assume an average age of 30-34)
 - How many medical services will they need?
 - What will each service cost, on average?
 - How much does the beneficiary pay? (e.g., deductibles and co-payments)

I'm going to project \$1,575 for this year

Health insurance is a buffet,
not an iPod

Let's Set the Premium for a New Plan

- The first, biggest piece is the benefit cost (\$1,575)
- Someone has to sell the policies
 - How much will we pay our agents?
 - Do we need to do some advertising?
 - Do we need some sales managers to work with the agents?

I'm going to project \$170 for this year

Let's Set the Premium for a New Plan

- The first, biggest piece is the benefit cost (\$1,575)
- Someone has to sell the policies (\$170)
- Someone has to run the plan
 - Pay claims
 - Run disease management, prevention & wellness programs
 - Provide nurse hotlines
 - Provide quality improvement & health IT
 - Establish high quality provider networks
 - Collect premiums
 - Keep the books
 - Some costs are fixed, others are variable

I'm going to project \$210 for this year

Let's Set the Premium for a New Plan

- The first, biggest piece is the benefit cost (\$1,575)
- Someone has to sell the policies (\$170)
- Someone has to administer all this (\$210)
- We can't forget taxes
 - State premium taxes (vary considerably)
 - Federal income taxes
 - Other fees

I'm going to project \$63 for this year

Let's Set the Premium for a New Plan

- The first, biggest piece is the benefit cost (\$1,575)
- Someone has to sell the policies (\$170)
- Someone has to administer all this (\$210)
- We can't forget taxes (\$63)
- We have to cover our capital & insurance risk

I'm going to project \$82 for this year

What's My Premium?

Assumptions Used in Pricing for Year 1		
Benefit Costs	\$1,575	75%
Commissions & Marketing	\$170	8%
Administrative Cost	\$210	10%
Taxes, Licenses & Fees	\$63	3%
Capital & Insurance Risk	\$82	4%
Total Premium	\$2,100	100%

WHAT IF OUR PROJECTIONS ARE OFF?

What If Our Projections Are Off?

	What I Expected	What Actually Happened
Benefit Costs	\$1,575	\$1,750
Commissions & Marketing	\$170	\$168
Administrative Cost	\$210	\$220
Taxes, Licenses & Fees	\$63	\$21
Operating Earnings (loss)	\$82	-\$59
Total Premium	\$2,100	\$2,100

So, how much do I need to charge next year?

- Benefit costs

- Pricing are going up at, say, 3.5% (similar to Medical CPI)
- People are using more health care – perhaps another 2%
- New treatments are appearing all the time: 1%
- Increasing obesity, less healthy lifestyles: 0.5%

So, we think benefit costs will go up by about 7%

So, how much do I need to charge next year?

- Benefit costs (6.5%)
- Administrative costs (1%)
 - Our internal costs are largely wage driven
 - We're losing money and the economy is bad, so let's freeze salaries and budget for a 1% increase
- Commissions and Marketing Expenses
 - Commissions are a percentage of premiums
 - We're losing money, so let's hold the non-commission expenses level with what we actually spent last year

So, how much do I need to charge next year?

- Benefit costs (6.5%)
- Administrative costs (1%)
- Commissions and Marketing Expenses
- Gain (4%)
 - Our cost of capital hasn't changed
 - We'll use the same 4% of premium target
- Taxes, licenses and fees
 - Last year our taxes were low because we lost money
 - If we hit our 4% gain target, then our taxes will pop back up to 3%

What Do I Need to Charge for Year 2?

	Year 1 Actual	Year 2 Projected	Increase
Benefit Costs	\$1,750	\$1,873	7%
Commissions & Marketing	\$168	\$189	11%
Administrative Cost	\$220	\$222	1%
Taxes, Licenses & Fees	\$21	\$74	252%
Capital & Insurance Risk		\$96	
Total Premium		\$2,454	

This works out to a 17% increase over the year 1 premium of \$2,100

How Does the Year 2 Premium Break Down?

	Year 2 Projected	Percent
Benefit Costs	\$1,873	76.3%
Commissions & Marketing	\$189	7.7%
Administrative Cost	\$222	9 %
Taxes, Licenses & Fees	\$74	3%
Capital & Insurance Risk	\$96	4%
Total Premium	\$2,454	100%

What Goes Into Premium Increases?

- Increases in the *price* of health care (this is *all* that Medical CPI tries to measure)
- Increases in the *use* of health care
- New technologies (and anything else that drives up health spending)
- Changes in enrollment
- Impact of regulatory changes
- Adjusting assumptions to reflect actual experience

OTHER CONSIDERATIONS

What Makes Large Employer Sponsored Coverage Work?

- “Natural” Groups
- ***Large*** Employer Contributions
- High Participation Rates
- Tax Preferences

How Do We Attract Young People?

Age	Premium	Offer Rate	Uninsured
< 18	\$1,350	95.2%	9.9%
18 - 24	\$1,429	90.0%	28.6%
25 - 29	\$1,723	87.8%	29.2%
30 - 34	\$2,104	88.3%	23.6%
35 - 39	\$2,457	87.2%	20.1%
40 - 44	\$2,888	85.9%	18.8%
45 - 49	\$3,414	83.6%	16.9%
50 - 54	\$4,127	80.4%	14.8%
55 - 59	\$4,895	76.0%	13.0%
60 - 64	\$5,755	70.8%	12.0%
Total	\$2,985	87.3%	17.3%

Based on 2009 AHIP Individual Market Survey and 2008 CPS data (2009 annual supplement)..

BACKUP SLIDES

Effect of Medical Underwriting (where allowed)

Age	Declination Rate	Offer Rate
< 18	4.8%	95.2%
18 - 24	10.0%	90.0%
25 - 29	12.2%	87.8%
30 - 34	11.7%	88.3%
35 - 39	12.8%	87.2%
40 - 44	14.1%	85.9%
45 - 49	16.4%	83.6%
50 - 54	19.6%	80.4%
55 - 59	24.0%	76.0%
60 - 64	29.2%	70.8%
Total	12.7%	87.3%

Based on 2009 AHIP Individual Market Survey

Average Individual Market Premiums – 2009

Age	Single Coverage
< 18	\$1,350
18 - 24	\$1,429
25 - 29	\$1,723
30 - 34	\$2,104
35 - 39	\$2,457
40 - 44	\$2,888
45 - 49	\$3,414
50 - 54	\$4,127
55 - 59	\$4,895
60 - 64	\$5,755
Total	\$2,985

Based on 2009 AHIP Individual Market Survey