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For

***The U.S. House of Representatives
Committee on Veteran's Affairs***

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I. Introduction

INTRODUCTION

Mr. Chairman and distinguished members of the Committee on Veterans Affairs, we appreciate this opportunity to testify before you on the private sector approach to healthcare expense forecasting. I am Tim Feeser, a principal with Reden & Anders, Ltd. (R&A), a national actuarial, clinical and management consulting firm specializing in financial and business decision support for the health care industry. We work with a full range of clients: managed care companies, insurance carriers, health care providers, employers, employer coalitions, medical device manufacturers and pharmaceutical companies. We have long-standing relationships with many of our clients and have built a reputation for credibility, creativity and outstanding service. Our professional staff includes credentialed actuaries, clinical consultants, underwriters, strategy and operations experts and researchers.

R&A is the consulting division within Ingenix, the information technology company owned by UnitedHealth Group (UHG).

R&A has been asked to discuss its methods to develop projected medical expense budgets for health plan clients. For purposes of our discussion, we will discuss the development of projected medical expenses for a fictitious health plan called ABC Health Plans (ABC).

Specifically, this report will address the following:

- Explanation of performing the historical experience analysis, including the overall methodology, lag analysis, allocation of medical expenses into common expense categories.
- Details regarding the development of medical expense trend assumptions.
- Illustrate the process of projecting medical expenses from a historical period to the forecasted period.
- Discussion of emerging techniques in the medical expense forecasting process.

The remainder of this report will outline the details undertaken in preparing the projected medical expense budget for ABC. We note that the numerical data presented in the exhibits is sample data prepared to illustrate the forecasting process.

II. Historical Experience Analysis

METHODOLOGY

In order to project the calendar year 2006 medical expense budget for ABC, it is necessary to develop baseline medical expense levels over recent historical time periods for key groupings of medical expense categories. In order to develop baseline historical medical expenses, we collected the following information from ABC:

- Claims experience for dates of service beginning January 2003 through December 31, 2004, with paid claims runout through April 30, 2005.
- ABC enrollment summaries over the January 2003 through December 2004 timeframe.
- Information regarding contractual changes with network facility providers.
- Information regarding average physician reimbursement levels and expected future changes.
- Information regarding any provider capitation arrangements and expected future changes.

Based on the aforementioned informational items, we developed experience summaries for ABC for calendar years 2003 and 2004.

Using the claims information provided by ABC, we developed experience summaries by major expense category classification, including inpatient facility services, outpatient facility services, physician/other services and pharmacy services. Paid claims triangles were also extracted from the claims experience to coincide with the major expense category groupings (i.e., inpatient facility, outpatient facility, and physician/other) in order to develop aggregate completion factor adjustments to the baseline experience.

LAG ANALYSIS

In order to develop completion factors to be used in converting the paid claims experience to an incurred basis, we sorted the ABC paid claims data into paid claims triangles for inpatient facility, outpatient facility and physician/other services. Dates of service were for the January 1, 2003 through December 31, 2004 timeframe, with payments through April 30, 2005. The averaging method used to calculate the completion factors was a four of six modified arithmetic method.

A completion factor represents how complete total expected claims are at a given point in time.

Historical Experience Analysis (cont'd)

COMMON EXPENSE CATEGORIES

In order to ensure ongoing flexibility in the medical expense budget forecasting process, it is important to summarize medical expenses into defined expense categories to allow for appropriate application of the following:

- Medical expense trends
- Changing benefit levels
- Ad hoc adjustments that could affect projections that should be considered

Development of common categorizations of medical expenses is intended to provide the specificity necessary in order to allow for greater flexibility in the medical expense budget projection process.

Common hospital inpatient categories are defined by bed type, including medical, surgical, complex newborn and delivery stays. In addition, separate expense line items are provided for mental and substance abuse services, as well as skilled nursing facility services. However, if mental and substance abuse services are provided by a specialty vendor, they are excluded from the experience analysis.

For hospital outpatient facility services, medical expenses are grouped into categories of care based on the main reason for the visit. Common hospital outpatient categories include emergency room services, laboratory and radiology services, observation room visits, outpatient surgeries and all other outpatient services.

Common medical expense groupings of physician/other services are based on groupings of CPT codes allowing pricing of current procedural terminology (CPT) codes as published by the American Medical Association.

Prescription drug services are all grouped together as a single line item in a standard budget model, although greater off-line analysis is performed at the therapeutic class level.

Exhibits A.1 and A.2 provide the details of the experience summaries for the common categories discussed above for calendar years 2003 and 2004. The completion factors used to convert paid claims experience to an incurred basis are also shown. For each of the medical expense category groupings, utilization per thousand rates, allowed cost per service figures and calculated allowed PMPM numbers are shown. In addition, net paid PMPM for each of the line items is shown and the resulting implied plan benefit factor, which is the ratio of the net paid PMPM to the allowed PMPM.

Historical Experience Analysis (cont'd)

MEDICAL EXPENSE SUMMARIES

Table 1 provides a summary of the ABC experience for calendar years 2003 and 2004, along with the implied experience trends in calendar year 2004 from calendar year 2003.

	CY 2003 PMPMs			CY 2004 PMPMs			Paid Trend
	Allowed	Paid	Benefit Ratio	Allowed	Paid	Benefit Ratio	
Inpatient	\$39.78	\$38.61	.971	\$43.57	\$42.36	.972	9.7%
Outpatient	45.72	42.84	.937	50.80	47.76	.940	11.5%
Physician/Other	59.41	48.71	.820	62.71	51.54	.822	5.8%
Pharmacy	61.11	43.33	.709	67.83	49.34	.727	13.9%
Total	\$206.02	\$173.50	.842	\$224.91	\$191.00	.849	10.1%

In Exhibit A.2, note that a comparison of the experience trends on an allowed and paid basis show the paid trend to be slightly higher. This is due to what is called leveraged trend associated with a flat deductible and coinsurance benefit plan. The amounts that the insured member pays are constant (i.e., reflect zero trend) while the cost of medical services the plan pays continue to rise. Hence, the plans share of total medical expenses increases while the insured members share decreases into future periods.

III. Medical Expense Trend Analysis

INPATIENT HOSPITAL

To forecast medical expense trend, it is important to consider future changes to provider reimbursement contracts, either known or reasonable expectations as to what they might be and their associated impact.

In evaluating inpatient unit cost trend, information regarding current and changing hospital contracts is collected for key high volume network hospitals. In order to assess the relative impact on inpatient facility unit cost trend, evaluations of the change in reimbursement terms is performed through the use of analytic models. Payment terms within the contracts are evaluated both on a pre and post payment change basis. The relative percentage expected change due to updated payment rates at the particular facilities analyzed is used as an annual rate of trend for the given facility.

Based on the weighted days volume over the experience period, we developed a blended average expected trend rate for inpatient facility unit cost.

Details regarding the average annual trend assumptions for all hospitals can be found in Exhibit C. The 8.3% composite trend assumption for unit costs was used in the projection of inpatient facility expense for calendar year 2006. It should be noted that the 8.3% composite trend is based on ABC's inpatient volume mix across facilities during calendar year 2004.

A common practice in contracting with hospitals is to negotiate rates for two to three years. One will notice that for certain hospitals, a higher level of trend will be experienced in a given year, with smaller increases forecasted thereafter. This is because at the onset of a newly signed contract, there is often some catch up on the part of the hospital increasing their rates in the first year of a new three year contract with the plan.

OUTPATIENT HOSPITAL

The process used to assess trends for outpatient facility services is analogous to the process described above for inpatient facility services. In developing annual trend rate assumptions for outpatient facility services, an evaluation of the change in reimbursement terms is performed through the use of analytical models. Payment terms within the contracts are evaluated both on a pre and post payment change basis. The relative percentage of expected change, due to updated payment rates at the particular facilities analyzed, is used as an annual rate of trend for the given facility.

Exhibit D provides details regarding the development of the outpatient hospital annual unit cost trend across all hospitals.

Medical Expense Trend Analysis (cont'd)

PHYSICIAN SERVICES

The process used to assess trends for physician/other services is done more at an aggregate level, due to the sheer volume of physicians being substantially greater than the number of contracted facilities. ABC, as most other health insurers across the county, reimburse physicians a multiple of the Medicare fee schedule.

Analytical models that compare changes in the Medicare fee schedule year-to-year are used to evaluate the changing relative value units (RVUs) by CPT code. Published reports regarding prospective changes in the Medicare fee schedule are tracked and considered in evaluating trends for physician unit costs. Exhibit E provides a high level summary of physician unit cost trend analysis.

PHARMACY SERVICES

The process used to determine unit pricing trend for prescription drugs is done separately for brand name and generic prescriptions (scripts). Changes to discounts from average wholesale price (AWP) are considered, along with anticipated increases in pricing for brand name and generic drugs. Future shifts to generic scripts are also considered, based on emerging availability of new lower cost generic drugs.

Exhibit F provides a summary of the development of the annual trend for average ingredient cost per script for brand and generic scripts.

UTILIZATION TRENDS

For the utilization trend component, we believe relying on what we have seen within the industry to be a good proxy for most health plans in general, especially smaller plans where year-to-year experience can be volatile. Where specific changes are occurring within a given health plan's network, greater attention may be placed on particular expense category components. For larger plans, relying on their historical experience is the best indicator, factoring in any known circumstances specific to the plan that should be considered.

IV. Projected Medical Expense Budget for Calendar Year 2006

Based on ABC's actual experience over calendar year 2004, in conjunction with the estimates of annual trend, a projected medical expense budget for calendar year 2006 is developed. Table 2 provides a summary of the projections.

Medical Expense	CY 2004		CY 2006		Annualized Trend	
	Allowed	Paid	Allowed	Paid	Allowed	Paid
Inpatient	\$43.57	\$42.36	\$52.14	\$50.95	9.4%	9.7%
Outpatient	50.80	47.76	65.99	62.57	14.0%	14.5%
Physician/Other	62.71	51.54	71.05	59.00	6.4%	7.0%
Pharmacy	67.83	49.34	91.68	66.69	16.3%	16.3%
Total	\$224.91	\$191.99	\$280.86	\$239.21	11.7%	11.9%

Exhibit B provides greater detail of projected allowed and paid medical expenses for calendar year 2006. The annual trend rates used in projecting the allowed expenses are also shown in Exhibit B.

For this example, we note that we did not make changes to the underlying benefits in developing these projections. Hence, Table 2 shows the ongoing effect of leveraged trend on a non-changing deductible and coinsurance plan with paid trend .2% higher than allowed trend.

V. Emerging Techniques in Medical Expense Forecasting

Due to improving technologies in the healthcare data collection efforts of health insurers, more advanced techniques have emerged in how health insurers analyze past trends and forecast future trends.

Some advanced recent practices are as follows:

- The tracking of emerging medical technologies and quantification of their estimated use and cost impact on future trends.
- The tracking of emerging higher cost brand name drugs, when they will hit the market, and quantification of their use and cost impact on future trends.
- The tracking of brand name drug patents expiring and factoring in the use of cost impact on lower priced generic equivalent drugs.
- Greater focus on analyzing the relative disease state of a health insurers covered lives and the associated.

Continued advances in how the healthcare industry uses technology could lead to ongoing advancements in medical expense trend forecasting capabilities over time.

VI. Conclusion

In conclusion, projecting medical expense budgets for private sector health plans is a multi-step process involving analysis of historical experience, quantification of estimated trends and their application in the projections. Again, thank you for the opportunity to testify on this important topic. I would be happy to answer any questions you might have for me.

Exhibit A.1
ABC Health Plan
Summary of Claims Experience

Experience Period: Calendar Year 2003
Member Months 900,000

Service Category	2003 Claims Paid Through April, 2005						Incurred Adjustment Factor	Completed Util/1000	Allowed per Util	Allowed PMPM	Cost Share PMPM	Plan Paid PMPM	Implied Benefit Ratio
	Days	Allowed	Member Cost Share	Plan Paid	Member Cost Share	Plan Paid							
Hospital Inpatient													
Medical/Surgical	18,000	30,000,000	900,000	29,100,000	900,000	29,100,000	1,000	240.00	1,666.67	33.33	1.00	32.33	0.970
Maternity	3,000	5,000,000	150,000	4,850,000	150,000	4,850,000	1,000	40.00	1,666.67	5.56	0.17	5.39	0.970
Complex Newborn	1,200	500,000	-	500,000	-	500,000	1,000	16.00	416.67	0.56	-	0.56	1.000
Subtotal	22,200	35,500,000	1,050,000	34,450,000	1,050,000	34,450,000	1,000	296.00	\$ 1,599.10	39.44	1.17	38.28	0.970
SNF	800	300,000	-	300,000	-	300,000	1,000	10.67	375.00	0.33	-	0.33	1.000
Subtotal Hospital Inpatient	23,000	35,800,000	1,050,000	34,750,000	1,050,000	34,750,000	1,000	306.67	\$ 1,556.52	39.78	1.17	38.61	0.971
Hospital Outpatient													
Emergency Room	8,000	8,000,000	600,000	7,400,000	600,000	7,400,000	1,000	106.67	1,000.00	8.89	0.67	8.22	0.925
Laboratory/Pathology	14,000	3,000,000	180,000	2,820,000	180,000	2,820,000	1,000	186.67	214.29	3.33	0.20	3.13	0.940
Radiology	21,000	10,000,000	600,000	9,400,000	600,000	9,400,000	1,000	280.00	476.19	11.11	0.67	10.44	0.940
Surgery	8,000	20,000,000	1,200,000	18,800,000	1,200,000	18,800,000	1,000	106.67	2,500.00	22.22	1.33	20.89	0.940
All Other	11,000	150,000	10,000	140,000	10,000	140,000	1,000	146.67	13.64	0.17	0.01	0.16	0.933
Subtotal Hospital Outpatient	62,000	41,150,000	2,590,000	38,560,000	2,590,000	38,560,000	1,000	146.67	45.72	2.88	2.88	42.84	0.937
Physician/Other Services													
Surgery - Non-Maternity	42,000	10,000,000	1,800,000	8,200,000	1,800,000	8,200,000	1,000	560.00	238.10	11.11	2.00	9.11	0.820
Surgery - Maternity - Non-Delivery	10,000	125,000	22,500	102,500	22,500	102,500	1,000	133.33	12.50	0.14	0.03	0.11	0.820
Surgery - Maternity - Delivery	1,500	950,000	171,000	779,000	171,000	779,000	1,000	20.00	633.33	1.06	0.19	0.87	0.820
Anesthesia	8,500	3,500,000	630,000	2,870,000	630,000	2,870,000	1,000	113.33	411.76	3.89	0.70	3.19	0.820
Radiology	85,000	5,000,000	900,000	4,100,000	900,000	4,100,000	1,000	1,133.33	58.82	5.56	1.00	4.56	0.820
Pathology/Lab	240,000	4,000,000	720,000	3,280,000	720,000	3,280,000	1,000	3,200.00	16.67	4.44	0.80	3.64	0.820
E&M - Office Visits	225,000	13,000,000	2,340,000	10,660,000	2,340,000	10,660,000	1,000	3,000.00	57.78	14.44	2.60	11.84	0.820
E&M - Preventive Medicine	17,000	1,400,000	252,000	1,148,000	252,000	1,148,000	1,000	226.67	82.35	1.56	0.28	1.28	0.820
E&M - Inpatient Visits	20,000	1,450,000	251,000	1,199,000	251,000	1,199,000	1,000	266.67	72.50	1.61	0.29	1.32	0.820
Consultations	15,000	1,850,000	333,000	1,517,000	333,000	1,517,000	1,000	200.00	123.33	2.06	0.37	1.69	0.820
Emergency Room/Critical Care	12,000	900,000	162,000	738,000	162,000	738,000	1,000	160.00	75.00	1.00	0.18	0.82	0.820
Ophthalmology - Exams	7,000	600,000	108,000	492,000	108,000	492,000	1,000	93.33	85.71	0.67	0.12	0.55	0.820
Ophthalmology - Services	3,500	210,000	37,800	172,200	37,800	172,200	1,000	46.67	60.00	0.23	0.04	0.19	0.820
Cardiovascular	18,000	1,150,000	207,000	943,000	207,000	943,000	1,000	240.00	63.89	1.28	0.23	1.05	0.820
Allergy	17,500	250,000	45,000	205,000	45,000	205,000	1,000	233.33	14.29	0.28	0.05	0.23	0.820
Immi/inj	45,000	950,000	171,000	779,000	171,000	779,000	1,000	600.00	21.11	1.06	0.19	0.87	0.820
Physical Medicine	20,000	475,000	85,500	389,500	85,500	389,500	1,000	266.67	23.75	0.53	0.10	0.43	0.820
Accidental Dental	500	125,000	22,500	102,500	22,500	102,500	1,000	6.67	250.00	0.14	0.03	0.11	0.820
Ambulance	1,500	385,000	69,300	315,700	69,300	315,700	1,000	20.00	256.67	0.43	0.08	0.35	0.820
DME	11,500	1,550,000	279,000	1,271,000	279,000	1,271,000	1,000	153.33	134.78	1.72	0.31	1.41	0.820
Home Health	16,000	1,425,000	256,500	1,168,500	256,500	1,168,500	1,000	213.33	89.06	1.58	0.29	1.30	0.820
Chiropractor	21,000	570,000	102,600	467,400	102,600	467,400	1,000	280.00	27.14	0.63	0.11	0.52	0.820
Miscellaneous	65,000	3,600,000	648,000	2,952,000	648,000	2,952,000	1,000	866.67	55.38	4.00	0.72	3.28	0.820
Subtotal Physician/Other	18,838	53,465,000	9,623,700	43,841,300	9,623,700	43,841,300	1,000	59.41	10.69	10.69	10.69	48.71	0.820
Subtotal - Medical	800,000	130,415,000	13,263,700	117,151,300	13,263,700	117,151,300	1,000	10,666.67	68.75	144.91	14.74	130.17	0.898
Prescription Drugs		55,000,000	16,000,000	39,000,000	16,000,000	39,000,000	1,000	10,666.67	68.75	61.11	17.78	43.33	0.708
Grand Total		185,415,000	29,263,700	156,151,300	29,263,700	156,151,300				206.02	32.52	173.50	0.842

Exhibit B
AEC Health Plan
Projected Medical Expense Budget For CY 2006

Service Type	Months Of Trend			24		
	Completed Util/1000	Allowed per Util	Total Cost	Completed Util/1000	Allowed PMPM	Total Cost
Hospital Inpatient	1.0%	8.3%	9.4%			
Hospital Outpatient	2.0%	11.7%	14.0%			
Physician - Surgery	2.0%	3.6%	5.6%			
Physician - Maternity	2.0%	2.2%	4.2%			
Physician - Radiology	2.0%	5.1%	7.2%			
Physician - Lab/Pathology	2.0%	3.9%	5.9%			
Physician - Medicine Non-E&M	2.0%	4.1%	6.2%			
Physician - Medicine E&M	2.0%	5.3%	7.4%			
Prescription Drugs	4.0%	11.8%	16.3%			
Calendar Year 2004 Medical Expense Summary						
Service Category	Completed Util/1000	Allowed per Util	Allowed PMPM	Cost Share PMPM	Plan Paid PMPM	Plan Paid PMPM
Hospital Inpatient	244.82	1,789.82	\$ 36.52	1.04	35.48	
Medical/Surgical	40.80	1,789.82	6.09	0.18	5.91	
Maternity	16.32	447.45	0.61	-	0.73	
Complex Newborn	301.94	1,717.26	\$ 43.21	1.22	41.99	
Subtotal	10.88	402.71	0.37	-	0.37	
SNF	312.82	1,671.54	\$ 43.57	1.22	42.36	
Subtotal Hospital Inpatient	109.89	1,078.43	\$ 9.88	0.68	9.19	
Hospital Outpatient	192.30	231.09	3.70	0.21	3.49	
Emergency Room	288.46	513.54	12.34	0.70	11.65	
Laboratory/Pathology	109.89	2,696.08	24.69	1.44	23.25	
Radiology	151.10	14.71	0.19	0.01	0.17	
Surgery						
All Other						
Subtotal Hospital Outpatient	582.61	241.58	\$ 11.73	2.17	9.56	
Physician/Other Services	138.72	12.68	0.15	0.03	0.12	
Surgery - Non-Maternity	20.81	642.39	1.11	0.20	0.92	
Surgery - Maternity - Delivery	117.92	417.77	4.11	0.72	3.38	
Anesthesia	3,329.20	16.91	5.86	1.04	4.82	
Radiology	3,121.13	58.62	15.25	2.70	12.55	
Pathology/Lab	235.82	83.56	1.64	0.29	1.35	
E&M - Office Visits	277.43	73.56	1.70	0.30	1.40	
E&M - Inpatient Visits	208.08	125.14	2.17	0.37	1.80	
Consultations	166.46	76.10	1.06	0.18	0.87	
Emergency Room/Critical Care	97.10	86.97	0.70	0.12	0.58	
Ophthalmology - Exams	48.56	60.87	0.25	0.04	0.20	
Ophthalmology - Services	249.69	64.82	1.35	0.24	1.11	
Cardiovascular	624.23	14.49	0.29	0.05	0.24	
Allergy	277.43	21.42	1.11	0.20	0.92	
Immun/j	6.94	24.10	0.56	0.10	0.46	
Physical Medicine	20.81	253.41	0.15	0.03	0.12	
Accidental Dental	159.53	260.34	0.45	0.08	0.37	
Ambulance	221.95	136.75	1.82	0.32	1.49	
DWIE	291.31	90.37	0.67	0.10	0.30	
Home Health	901.66	27.54	0.12	0.12	0.55	
Chiropractor		56.20	4.22	0.74	3.48	
Miscellaneous						
Subtotal Physician/Other	11,093.33	73.38	\$ 57.83	18.49	49.34	
Subtotal - Medical						
Prescription Drugs						
Grand Total						

Service Category	Calendar Year 2004 Medical Expense Summary			Projected Medical Expenses Calendar Year 2006						
	Completed Util/1000	Allowed per Util	Allowed PMPM	Trend Factors(1) Util	Cost	Util/1000	Allowed per Util	Allowed PMPM	Benefit Ratio	Plan Paid PMPM
Hospital Inpatient	244.82	1,789.82	\$ 36.52	1.020	1,173	249.74	2,099.49	\$ 43.69	0.977	\$ 42.67
Medical/Surgical	40.80	1,789.82	6.09	1.020	1,173	41.62	2,099.49	7.28	0.976	7.10
Maternity	16.32	447.45	0.61	1.020	1,173	16.65	524.87	0.73	1.005	0.73
Complex Newborn	301.94	1,717.26	\$ 43.21	1.020	1,173	308.01	2,014.38	\$ 51.70	1.005	\$ 50.51
Subtotal	10.88	402.71	0.37	1.020	1,173	11.10	472.39	0.44	1.005	0.44
SNF	312.82	1,671.54	\$ 43.57	1.040	1,249	319.11	1,960.74	\$ 52.14	0.944	\$ 50.95
Subtotal Hospital Inpatient	109.89	1,078.43	\$ 9.88	1.040	1,249	114.33	1,346.54	\$ 12.83	0.939	\$ 12.04
Hospital Outpatient	192.30	231.09	3.70	1.040	1,249	200.07	268.54	4.81	0.950	4.57
Emergency Room	288.46	513.54	12.34	1.040	1,249	300.11	641.21	16.04	0.952	15.26
Laboratory/Pathology	109.89	2,696.08	24.69	1.040	1,249	114.33	3,366.36	32.07	0.950	30.46
Radiology	151.10	14.71	0.19	1.040	1,249	157.20	18.36	0.24	0.944	0.23
Surgery										
All Other										
Subtotal Hospital Outpatient	582.61	241.58	\$ 11.73	1.040	1,073	606.15	259.12	\$ 13.09	0.824	\$ 10.78
Physician/Other Services	138.72	12.68	0.15	1.040	1,073	144.32	13.60	0.16	0.832	0.14
Surgery - Non-Maternity	20.81	642.39	1.11	1.040	1,044	21.66	670.57	1.21	0.831	1.01
Surgery - Maternity - Delivery	117.92	417.77	4.11	1.040	1,073	122.68	448.09	4.58	0.833	3.81
Anesthesia	3,329.20	16.91	5.86	1.040	1,105	1,226.73	65.96	6.74	0.831	5.60
Radiology	3,121.13	58.62	15.25	1.040	1,079	3,463.70	18.24	5.26	0.833	4.39
Pathology/Lab	235.82	83.56	1.64	1.040	1,108	3,247.22	64.97	17.58	0.831	14.62
E&M - Office Visits	277.43	73.56	1.70	1.040	1,108	245.35	92.61	1.89	0.831	1.57
E&M - Inpatient Visits	208.08	125.14	2.17	1.040	1,108	288.64	81.53	1.96	0.829	1.63
Consultations	166.46	76.10	1.06	1.040	1,083	216.48	135.56	2.45	0.838	2.05
Emergency Room/Critical Care	97.10	86.97	0.70	1.040	1,083	173.18	82.43	1.19	0.834	0.99
Ophthalmology - Exams	48.56	60.87	0.25	1.040	1,063	101.02	94.21	0.79	0.833	0.66
Ophthalmology - Services	249.69	64.82	1.35	1.040	1,063	50.52	65.94	0.28	0.835	0.23
Cardiovascular	624.23	14.49	0.29	1.040	1,063	299.78	70.22	1.52	0.833	1.27
Allergy	277.43	21.42	1.11	1.040	1,063	252.57	15.70	0.33	0.832	0.28
Immun/j	6.94	24.10	0.56	1.040	1,063	649.44	23.20	1.26	0.833	1.05
Physical Medicine	20.81	253.41	0.15	1.040	1,063	288.64	26.10	0.63	0.832	0.52
Accidental Dental	159.53	260.34	0.45	1.040	1,063	7.22	274.51	0.17	0.835	0.14
Ambulance	221.95	136.75	1.82	1.040	1,063	21.66	282.01	0.51	0.831	0.42
DWIE	291.31	90.37	0.67	1.040	1,063	165.98	148.13	2.05	0.830	1.70
Home Health	901.66	27.54	0.12	1.040	1,063	303.07	29.83	0.75	0.831	1.57
Chiropractor		56.20	4.22	1.040	1,063	938.09	60.87	4.76	0.833	3.96
Miscellaneous										
Subtotal Physician/Other	11,093.33	73.38	\$ 57.83	1.082	1,250	11,988.55	91.69	\$ 91.68	0.727	\$ 66.69
Subtotal - Medical										
Prescription Drugs										
Grand Total										

[1] Average Annualized Trend From CY 2004 To CY 2006. Note that the trend factors reflect the trend rates shown in the upper left corner table, but projected for 24 months.

Exhibit D
 ABC Health Plan
 Development Of Outpatient Hospital Unit Cost Trend

Hospital	Calendar Year 2003			Calendar Year 2004			Implied Discount	CY 2003 To CY 2004 Trend	Trend For CY 2005	Trend For CY 2006	Projected Allowed CY 2006	Average Annual Trend CY 2004 To CY 2006
	Visits	Charge Per Visit	Allowed Per Visit	Visits	Charge Per Visit	Allowed Per Day						
Hospital A	17,000	\$ 897.25	\$ 625.00	17,100	\$ 969.03	\$ 675.00	30%	8.0%	20.0%	15.0%	\$ 932.00	17.5%
Hospital B	11,500	776.00	570.00	11,700	838.08	610.00	27%	7.0%	12.0%	10.0%	752.00	11.0%
Hospital C	7,200	921.50	690.00	7,450	995.22	735.00	26%	6.5%	12.0%	10.0%	906.00	11.0%
Hospital D	6,300	800.25	615.00	6,450	864.27	660.00	24%	7.3%	12.0%	10.0%	813.00	11.0%
Hospital E	4,700	911.80	765.00	4,800	984.74	820.00	17%	7.2%	8.0%	12.0%	992.00	10.0%
Hospital F	2,800	1,164.00	980.00	2,850	1,257.12	1,050.00	16%	7.1%	4.0%	8.0%	1,179.00	6.0%
Hospital G	2,000	640.20	545.00	2,100	691.42	585.00	15%	7.3%	7.0%	8.0%	676.00	7.5%
Hospital H	1,650	722.65	620.00	1,700	780.46	670.00	14%	8.1%	9.0%	8.0%	789.00	8.5%
Hospital I	1,250	703.25	605.00	1,300	900.00	785.00	13%	29.8%	9.0%	10.0%	941.00	9.5%
Hospital J	1,000	829.35	725.00	1,030	895.70	785.00	12%	8.3%	3.0%	10.0%	889.00	6.4%
Hospital K	850	1,018.50	895.00	870	1,099.98	965.00	12%	7.8%	5.0%	5.0%	1,064.00	5.0%
Hospital L	810	1,071.85	955.00	820	1,157.60	1,030.00	11%	7.9%	5.0%	5.0%	1,136.00	5.0%
Hospital M	720	659.60	590.00	740	712.37	635.00	11%	7.6%	7.0%	7.0%	727.00	7.0%
Hospital N	610	712.95	650.00	620	769.99	700.00	9%	7.7%	13.0%	13.0%	894.00	13.0%
Hospital O	560	800.25	725.00	570	864.27	785.00	9%	8.3%	13.0%	13.0%	1,002.00	13.0%
Hospital P	500	819.65	745.00	510	885.22	800.00	10%	7.4%	10.0%	10.0%	968.00	10.0%
Hospital Q	410	868.15	820.00	420	937.60	885.00	6%	7.9%	12.0%	12.0%	1,110.00	12.0%
Hospital R	360	873.00	835.00	370	942.84	902.00	4%	8.0%	10.0%	10.0%	1,091.00	10.0%
Hospital S	400	824.50	785.00	420	890.46	850.00	5%	8.3%	10.0%	10.0%	1,029.00	10.0%
Hospital T	380	848.75	815.00	390	916.65	880.00	4%	8.0%	10.0%	10.0%	1,065.00	10.0%
Hospital U	350	873.00	845.00	360	942.84	910.00	3%	7.7%	7.0%	7.0%	1,042.00	7.0%
Hospital V	300	725.00	725.00	310	785.00	785.00	0%	8.3%	7.0%	7.0%	899.00	7.0%
Hospital W	120	810.00	810.00	130	870.00	870.00	0%	7.4%	7.0%	7.0%	996.00	7.0%
Hospital X	110	820.00	820.00	110	885.00	885.00	0%	7.9%	7.0%	7.0%	1,013.00	7.0%
Hospital Y	90	835.00	835.00	90	900.00	900.00	0%	7.8%	7.0%	7.0%	1,030.00	7.0%
Hospital Z	30	780.00	780.00	30	830.00	830.00	0%	6.4%	10.0%	10.0%	1,004.00	10.0%
Totals	62,000	\$ 858.27	\$ 663.71	63,240	\$ 929.75	\$ 715.77	23%	7.8%	12.7%	11.2%	\$ 893.72	11.7%
Utilization Trend Factor	1.020											

Exhibit E
ABC Health Plan
Development Of Physician/Other Unit Cost Trend

Medical Expense Category	Volume	CY 2004		CY 2005		Trend[1]
		Units	Cost Per Service	Units	Cost Per Service	
Surgery	55,000	6.00	221.40	6.05	229.30	3.6%
Surgery - Maternity	1,500	38.00	1,402.20	37.80	1,432.62	2.2%
Radiology	87,000	1.70	62.73	1.74	65.95	5.1%
Laboratory/Pathology	245,000	1.80	66.42	1.82	68.98	3.9%
Medicine Non-E&M	275,000	1.50	55.35	1.52	57.61	4.1%
Medicine E&M	270,000	2.00	73.80	2.05	77.70	5.3%
Total	933,500	2.07	76.23	2.10	79.50	4.3%

[1] Estimated Trend for 2005 over 2004 that represents best estimate of trend for 2006.

Exhibit F
 ABC Health Plan
 Development Of Prescription Drug Unit Cost Trend

Scrip Category	Prescriptions	CY 2003		CY 2004		CY 2004 Over CY 2003 Trend
		Cost Per Service	80.00	Cost Per Service	90.00	
Brand Name Scrips	520,000	80.00	90.00		12.5%	
Generic Scrips	280,000	26.00	28.00		7.7%	
Total	800,000	61.10	68.30		11.8%	