

What Drives Insurance Costs?



UnitedHealth Group®

Insurance premiums reflect the costs of care.

- Rising health insurance costs reflect increasing demand and the underlying costs of medical care, i.e., physician, hospital, pharmaceutical and diagnostic costs.
- Our goal in pricing is to match expected medical cost increases with premiums, while helping patients and employers hold down costs and access the most appropriate quality care.
- Net premiums for our commercial business, UnitedHealthcare, have increased 6% on average per person over the past three years. Our comparable UnitedHealthcare medical costs increased by nearly 7½% a year on average per person in the same period.
- The UnitedHealthcare medical cost ratio has been increasing steadily in recent years, from 80.5% in 2006, rising to 84% in 2009 – pushing margins down as they have occurred across the industry.

Premium increases are driven by underlying medical costs.

- For 2010, we are expecting our UnitedHealthcare net medical costs to increase by about 8% (+/-50bps).
- Sharply rising hospital costs are the main cause of these rising medical costs for our consumers and employers: we're expecting 2010 inpatient costs to rise by 11.5% to 12.5%.
- Two-thirds of our 2010 medical cost increases are expected to be from hospitals and doctors charging higher prices, compared to one-third due to increased treatment volumes.
- Prices of many branded and specialty drugs are rising sharply – in some cases by 20%-40%.

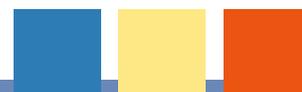
The government's own data confirm that it is rising medical costs that drives US health spending.

- According to CBO and HHS data, fewer than 7 cents of every dollar of US health spending is on "administration and the net cost of private insurance."
- Over the past five years, rising hospital, physician and drug costs accounted for 75 cents of every dollar increase in national health care costs. Health insurance plans accounted for just one-twentieth of the increase.

Many factors explain why US medical costs are rising, including a) health care provider price inflation, b) greater volumes of treatment, and c) the rising burden of chronic disease.

a) *Health care provider price inflation:*

- Hospitals have been seeking major increases. For example:
 - A large multi-hospital system in California sought a 23% price increase.



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- A hospital in suburban New Jersey – the only hospital in its community – is demanding health plans pay an extra 15-16% more, to compensate it for Medicaid and Medicare payments that are rising by 4-5% less than the hospital's own costs.
- A hospital in the Northeast is refusing to renew its contract unless it receives increases about 50% above what it charges its own health plan.
- Massachusetts Attorney General Martha Coakley reported in January that higher prices are correlated to hospitals' monopoly power or market leverage, rather than to their costs or quality.
- A current report from the Center for Studying Health System Change found that in California growing physician and hospital market clout gives providers an upper hand in demanding higher reimbursement rates and is an underlying driver of increased premiums. The report, entitled "Unchecked Provider Clout in California Foreshadows Challenges to Health Reform," published in the April issue of the journal *Health Affairs*, concludes, "the trends in California suggest an urgent need for policymakers to address the issue of growing provider market strength."

b) Treatment volumes are increasing:

- HHS has just published data showing that over the past decade (to 2006/07):
 - MRI/CT/PET scans tripled
 - Hip replacements are up by a third
 - Knee replacement surgeries shot up by 70%
 - Kidney and liver transplantation rates are up by between 31-42%
 - Statin usage is up nearly tenfold

c) Chronic disease and lifestyle-related health problems are driving demand:

- Recent research from the United Health Foundation and experts at Emory University shows that on current trends, obesity will be contributing to more than a fifth of the nation's healthcare costs by the end of the decade.
- But if we act as a nation – and if obesity levels can be held at their current rates – we could save almost \$200 billion dollars – \$820 for every adult in the country.

Health insurers' profits are low compared with other health care companies and overall businesses.

- Health plans' net profits are less than a third of those for the health care sector as a whole (including pharma, hospitals).
- The profit margin for UnitedHealth Group in 2009 was 4.4%. According to an August 2009 *U.S. News & World Report*, the profit margin for health insurance companies overall ranked 87th out of 215 industries.

