Health Insurance
Unpaid Claims Liabilities

Casualty Loss Reserve Seminar
15 September 2011
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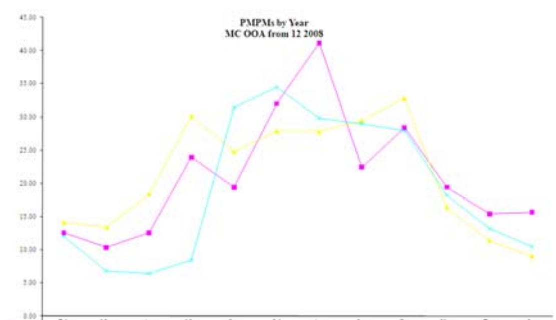
- Differences in the standard "Development" Method
  - Monthly incurrals instead of yearly incurrals
  - Exposure base is typically member or employee counts by month instead of annual premium
    - This gives us a per member per month (PMPM) or per employee per month (PEPM) historical cost view as opposed to an historical loss ratio
    - Eliminates impact of premium increases, but results in an upward trend in costs instead of a relatively level target
  - Very short tailed liabilities with 90% of runout paid within three months of incurral for regular medical claims and up to 99% of runout paid within 1 month of incurral for pharmacy.
  - Results in the significant majority of the reserve in months where we are estimating the expected incurral instead of relying on the completion factor estimate.

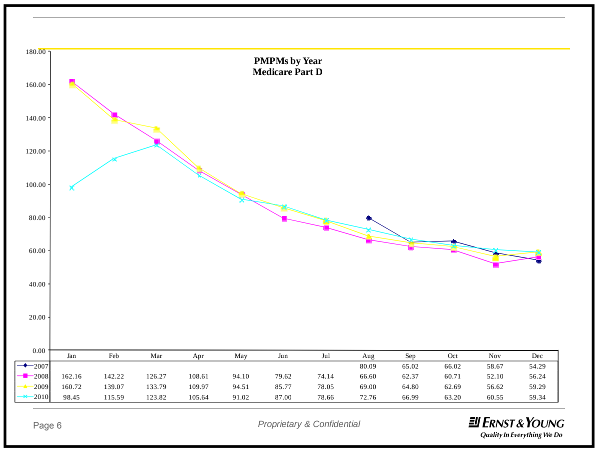
- Adjustments to model that may affect incurred claims calculated by the Development Method
  - Removal of excess "large" claims payments from an anomalous cell
    - EY Internal Guideline: more than 1% of claims incurred and paid for that incurral month AND more than 2.5 standard deviations for claims paid in the same duration across all incurral months
    - Process is judgmental – trying to eliminate aberrations but not repetitive infrequent occurrences.
  - Backlog adjustment due to changes in claims processing
  - Claims processed via settlement / AP and not in triangle (not a reserve impact in months where Development Method is used exclusively)
  - Known large claims pending
  - Adjustments for other aberrations such as no claims payments for a month due to system conversion or claims processing issues

- Adjustments to model that may affect incurred claims calculated by the PMPM method
  - Removal of excess claims causing development factor or base period changes
  - Backlog adjustments due to changes in claims processing
  - Benefit changes – either new benefit offered or plan design change by a large portion of a block of business
  - Benefit Contract and Provider Reimbursement Contract changes
  - Census and morbidity changes
  - Seasonality patterns
    - Work Days / Calendar Days / Residual (plan design features)
  - Pre-Authorizations/Certifications for hospital admissions
  - Medical Cost/Utilization Trends
  - Known large claims pending

- Credibility of development method in most recent months
  - We will typically do a weighted average between the development method and a modified B-F method using standard weights but this requires frequent review as standard weights may not provide a reasonable result and therefore adjustments are made
- Other Statistics considered during our analysis
  - Base period (3mos, 6mos, 12mos, 6 of 8, other)
  - Number of months equivalent to UCL
  - Average duration (date of service to date of payment
  - Differences in completion factors methods
  - Rolling medical cost trends
  - Completeness of oldest month
  - Negative claims run-outs (completion factors > 1.00)
  - Provision for Adverse Deviation (or explicit margin)



	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
2006												
2007	12.54	10.32	12.58	23.95	19.40	31.96	41.11	22.44	28.40	19.44	15.45	15.68
2008	14.14	13.39	18.45	30.16	24.82	27.81	27.84	29.49	32.83	16.39	11.41	9.00
2009	12.03	6.78	6.37	8.40	31.42	34.47	29.87	29.03	27.98	18.23	13.19	10.44


PMPMs by Year
Medicare Part D
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2007								80.09	65.02	66.02	58.67	54.29
2008	162.16	142.22	126.27	108.61	94.10	79.62	74.14	66.60	62.37	60.71	52.10	56.24
2009	160.72	139.07	133.79	109.97	94.51	85.77	78.05	69.00	64.80	62.69	56.62	59.29
2010	98.45	115.59	123.82	105.64	91.02	87.00	78.66	72.76	66.99	63.20	60.55	59.34
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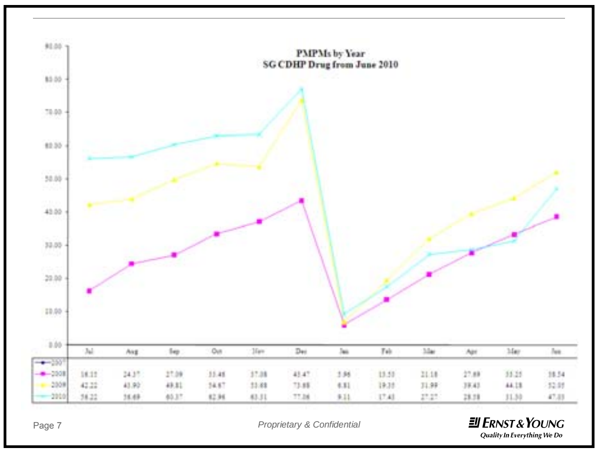
PMPMs by Year
SG CDHP Drug from June 2010
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PMPMs by Year
Individual Drug from Sep 2009
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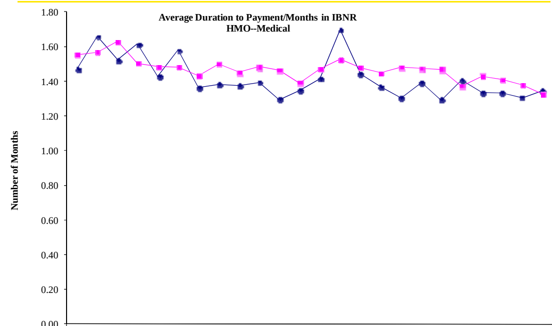

	1/09	2/09	3/09	4/09	5/09	6/09	7/09	8/09	9/09	10/09	11/09	12/09	1/10	2/10	3/10	4/10	5/10	6/10	7/10	8/10	9/10	10/10	11/10	12/10
Avg Duration	1.47	1.66	1.52	1.62	1.43	1.58	1.36	1.38	1.37	1.39	1.29	1.35	1.41	1.70	1.44	1.37	1.30	1.39	1.29	1.41	1.34	1.33	1.31	1.35
Mo. in IBNR	1.55	1.57	1.63	1.50	1.48	1.48	1.43	1.50	1.45	1.48	1.46	1.39	1.47	1.53	1.48	1.45	1.48	1.47	1.47	1.37	1.43	1.41	1.38	1.33

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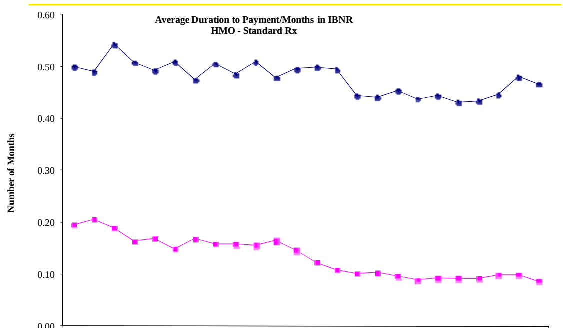

	1/09	2/09	3/09	4/09	5/09	6/09	7/09	8/09	9/09	10/09	11/09	12/09	1/10	2/10	3/10	4/10	5/10	6/10	7/10	8/10	9/10	10/10	11/10	12/10
Avg Duration	0.50	0.49	0.54	0.51	0.49	0.51	0.47	0.51	0.49	0.51	0.48	0.50	0.50	0.49	0.44	0.44	0.45	0.44	0.44	0.43	0.43	0.45	0.48	0.47
Mo. in IBNR	0.20	0.21	0.19	0.16	0.17	0.15	0.17	0.16	0.16	0.16	0.17	0.15	0.12	0.11	0.10	0.10	0.10	0.09	0.09	0.09	0.09	0.10	0.10	0.09

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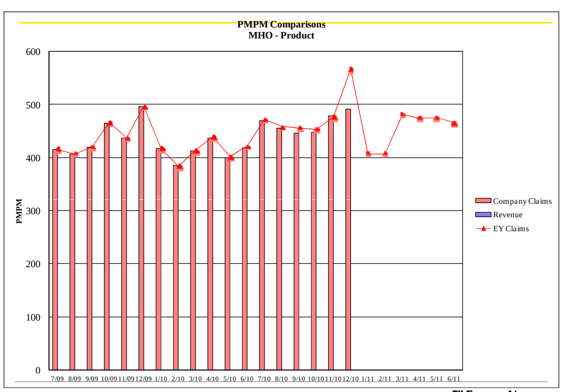

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