

Direct Pay Data Request - 2009

AG

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Exhibit 3 of the 2008 Class DIR Filing included a chart that provided an historical comparison of trend projections to actual historical trends. Please provide that same chart, updated to include actual results for the period effective April 2008, and estimated results for the period effective April 2009.

Person Responsible: Lynch.J

Answer:

**Direct Pay Rate Filing Effective April 2010
Filed Versus Actual Historical Trend Factors ⁽¹⁾**

<u>Category</u>	<u>Effective April 2006</u>	<u>Effective April 2007</u>	<u>Effective April 2008</u>	<u>Effective April 2009</u>
Inpatient	1.0885	1.0850	1.1075	1.0737
Outpatient	1.1615	1.1442	1.0847	1.1142
Surgical/Medical	1.0841	1.0595	1.0651	1.0766
<u>Prescription Drugs</u>	<u>1.1000</u>	<u>1.1000</u>	<u>1.1048</u>	<u>1.0700</u>
Weighted Total	1.1042	1.0923	1.0875	1.0829
Historical Actual	0.9986	1.0026	1.0426	1.0610

⁽¹⁾ Rate development uses 22-24 month trends to project claims from the base period to the rate year. The annualized trends are shown in the chart. Historical Actual are the annualized actual trends over the same 22-24 month period. The Effective April 2009 Historical Actual trend is a combination of actual and projected results.

The above filed trends do not include additional rating components which impact the historical claim trends. Our 2006 and 2007 rate filings included "benefit richness" and "contractual adjustment" factors of 4-5% to reflect the anticipated medical expense savings that would flow from the significant changes being made in the product portfolio. The actual impacts of these product changes are reflected in the historical trends. These differences mean the above table does not provide a complete comparison of actual versus projected experience. We provide a more appropriate trend comparison below.

The following chart provides Pool 1, Pool 2 and Total ppm values for the 2007 and 2008 rate years and the resulting historical trends experienced. Note that the historical trend for the Total Direct Pay block is less than the trend experienced in either Pool 1 and Pool 2. This is due to the increasing percentage of Pool 2 enrollment. The "Total Trend excl. shifting" value is simply the average of the separate Pool 1 and Pool 2 trend values weighted by the base period claims.

	<u>Pool 1</u>	<u>Pool 2</u>	<u>Utilization Adjustment</u>	<u>Total Trend</u>	<u>Pool Shifting</u>	<u>Total Trend excl. shifting</u>
4/07-3/08 PMPM	\$534.44	\$187.54	0%	<u>\$368.55</u>		
<u>4/08-3/09 PMPM</u>	<u>\$566.28</u>	<u>\$217.95</u>	0%	<u>\$389.35</u>		
12 Month Trend	5.96%	16.22%		5.64%	2.66%	8.45%

The next table displays the trends underlying our current filing with adjustments to make them comparable to the historical trends provided above. As you can see, our filing assumes that the rate of pmpm increase we will experience in the 2010 rate year will be less than we experienced over the most recently completed rate year.

	<u>Pool 1</u>	<u>Pool 2</u>	<u>Utilization Adjustment</u>	<u>Total Trend</u>	<u>Pool Shifting</u>	<u>Total Trend excl. shifting</u>
4/09-3/10 PMPM	\$614.40	\$236.94	0%	<u>\$406.00</u>		
<u>4/10-3/11 PMPM</u>	<u>\$670.87</u>	<u>\$259.33</u>	-1.42%	<u>\$426.85</u>		
12 Month Trend	9.19%	9.45%		5.14%	2.48%	7.74%

We have modified our trend methodology with this filing to clarify the recognition given to the ongoing pool shift. There are two elements to this modification. Firstly, instead of developing composite trend factors based on the total pmpm costs we developed separate trend factors for Pool 1 and Pool 2 based on their separate pmpm cost experience. Secondly, instead of developing our required income projection based on the base period pool mix as we have in prior filings, we made an explicit pool shift assumption in this filing.

While this year's approach is actuarially equivalent to our prior approach, we believe it represents a methodological improvement. Recognizing pool shift explicitly rather than implicitly gives us the capability of adjusting for changes in the rate of shift. Even more importantly, it improves the "cosmetics" of our filing by allowing a more direct comparison of filed and actual trends.

- c. N. Benoit, Esquire
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12/31/2009