Rate Factor Benchmarks

OHIC, May 18, 2009

		Massachusetts[1]		National Trends
Hospital Inpatient	Composite Inflation(%)	9.2% (avg 2002 – 2006); 9.0% 2005-06		Declining share of Medical Costs (Health Affairs) 39% of total medical in 1996 → 34% of total medical in 2003[2]
	Annual Unit Cost Inflation (%)	9.9% (avg. 2002 – 2006)		
	Annual Utilization Inflation (%)	-0.7% (avg 2002 – 2006)		
Hospital Outpatient	Composite Inflation(%)	15.9% (avg. 2002 – 2006) PMPM 13.7% 2005-06		Declining share of Medical Costs (Health Affairs) 39% of total medical in 1996 → 36% of total medical in 2003[3]
		By category: 15.5% outpatient hospital ER 12.8% outpatient hospital surgery, 18.4% outpatient hospital radiology costs; 19.6% outpatient hospital lab costs; 16.0% outpatient hospital high-cost imaging		
	Annual Unit Cost Inflation (%)	*[not available in aggregate]* By category: 13.1% outpatient hospital ER, 9.4% outpatient hospital surgery, -6.4% outpatient hospital radiology costs; 6.1% outpatient hospital lab costs; 9.3% outpatient hospital high-cost imaging		

		Massachusetts[1]		National Trends
	Annual Utilization Inflation (%)	*[not available in aggregate]* By category: 2.1% outpatient hospital ER, 3.1% outpatient hospital surgery, 26.5% outpatient hospital radiology costs; 12.8% outpatient hospital lab costs; 6.1% outpatient hospital high-cost imaging		Significant increase in OP utilization over 10 year span 37% increase from 1996 → 2006 (25.4 visits per 1000 → 34.7)[4]
Pharmacy	Composite Inflation(%)	10.4% (avg 2002 – 2006) 7.4% 2005-06 7.6% brand name cost PMPM and 20.8% generic cost PMPM (avg. 2002 – 2006)		Increasing share of Medical Costs (Health Affairs) 12% of total medical in 1996 → 20% of total medical in 2003[5]
	Annual Unit Cost Inflation (%)	(avg. 2002 – 2006); 13.9% brand name cost and 9.5% generic cost		
	Annual Utilization Inflation (%)	(avg. 2002 – 2006) -5.5% brand name and 10.3% generics		
Physician Services	Composite Inflation(%)	10.0% (avg 2002 – 2006) 11.9% 2005-06		
		By category: 9.3% office visits 10.9% physician inpatient 21.2% chiropractic services 8.7% preventive visit costs		
	Annual Unit Cost Inflation (%)	*[not available in aggregate]* (avg. 2002 – 2006); By category: 8.4% office visits 11.8% Physician inpatient 9.5% chiropractic services 1.7% preventive visit costs		

		Massachusetts[1]		National Trends
	Annual Utilization Inflation (%)	*[not available in aggregate]* (avg. 2002 – 2006) By category: 0.9% office visits -0.8% Physician inpatient 10.7% chiropractic services 6.9% preventive visit costs		
Other Medical	Composite Inflation(%)	13.6% (avg. 2002 – 2006) ambulance, DME, prosthetics, other ancillary		
Administrative Cost Ratio (ACR)		Average 10.8% in 2007 10.4% - 11.5% of annual cost of premium (avg. from 2002 – 2007) $40.90 pmpm in 2007 Note: Reflects 90+% of MA insured coverage		Wellpoint Administrative Cost Ratio (ACR): 15.5% of operating revenue for 3rd quarter '08,up from 14.6% in '07[6] Aetna's ACR (SG&A as % of operating revenue) =18.7%[7] Aetna's ACR has been higher than average, primarily because of the company's focus on lower-revenue non-risk business. We think econ of scale will cause improvement from 18.7% in '08 to 16.5% by 2018. United ACR: 14.3% of operating revenue for 3rd quarter '08,[8] down 20 basis points from the prior year.
Projected Portion of Premium for Reserves and Profit, Medical Cost Ratio (MCR)		Health Plan Profits 3.3% -4.2% of premium (2004-2006)[9] 3.6% of premium in 2007[10] Medical Cost Ratio 2007 MCR: 87.1% Average MCR: 86.5% (2002 and 2007)		"Wellpoint's MCR averaged 81.3% over the past five years, expected to worsen to an average of 84.1% during next 10 years"[11] During the last six years, Aetna has had industry-leading MCR (81.5% in '08), with operating margin of 7% Due to strong underwriting discipline, Aetna experienced less severe margin contraction than some of its peers in 2008. We think competition, cost pressures, and a less favorable business mix will cause this key metric to deteriorate from 81.5% in 2008 to 83.5% by 2018. Overall, we expect operating margins (excluding interest income) to improve from 7% last year to around 7.5% by 2018. We estimate Aetna's cost of equity at 10.5%."[12] United: "…the consolidated MCR was flat at 82.4% for 3rd quarter '08 with operating margin of 7.6%. Commercial MCR improved by 100 basis points, to 81.5%, masked by business mix shift toward lower-margin government programs. Overall operating margin of 7.6% was down 80 basis points from prior year, 50 basis points of which was due to lower investment income, with rest due to changing business mix." [13]

2008 Health Plan Financial Performance

Blue Cross & Blue Shield of Rhode Island

REVENUES & EXPENSES								
OPERATING RATIOS NET OF REINS. BY LINE OF BUSINESS	**Medical Loss Ratio 2008**	**Industry Avg.**	**Admin. Expense Ratio 2008**	**Industry Avg.**	**Combined Ratio 2008**	**Industry Avg.**	**Profit Margin**	**Industry Avg.**
Commercial	83.40%	87.4	16.20%	12.1	99.60%	99.5	0.400%	0.50%
Medicare Supplement	82.20%	85	11.80%	15.2	94.00%	100.2	6.000%	-0.20%
Vision		77.9		11.1		89	N/A	11.00%
Dental	85.00%	82.2	8.60%	14.3	93.60%	96.6	6.400%	3.40%
FEHBP	92.60%	94.6	6.00%	4.9	98.60%	99.5	1.400%	0.50%
Medicare	83.30%	88.7	8.30%	9	91.60%	97.7	8.400%	2.30%
Medicaid	89.50%	90.5	12.90%	11.2	102.40%	101.7	-2.400%	-1.70%
Other	82.80%	80.3	12.30%	5	95.10%	85.2	4.900%	14.80%
Other Non-Health	N/A	N/A		N/A		N/A	N/A	N/A
TOTAL	84.00%	88	13.30%	11	97.30%	99.1	2.700%	0.90%

United Healthcare of New England

REVENUES & EXPENSES								
OPERATING RATIOS NET OF REINS. BY LINE OF BUSINESS	**Medical Loss Ratio 2008**	**Industry Avg.**	**Admin. Expense Ratio 2008**	**Industry Avg.**	**Combined Ratio 2008**	**Industry Avg.**	**Profit Margin**	**Industry Avg.**
Commercial	76.80%	86.1	16.60%	11.9	93.40%	98	6.600%	2.00%
Medicare Supplement		81.6		16.7		98.3	N/A	1.70%
Vision		74.7		17.1		91.8	N/A	8.20%
Dental		73.1		17.1		90.2	N/A	9.80%
FEHBP		88.2		9.1		97.3	N/A	2.70%
Medicare	79.30%	84.2	12.50%	10.3	91.80%	94.4	8.200%	5.60%
Medicaid	88.00%	86.6	12.40%	12	100.40%	98.5	-0.400%	1.50%
Other		80.1		9		89	N/A	11.00%
Other Non-Health	N/A	N/A		N/A		N/A	N/A	N/A
TOTAL	81.30%	85.7	13.20%	11.4	94.60%	97.1	5.400%	2.90%

Source: Ratios calculated from the Annual Statement Filings of each company.

End Notes:

[1] All Massachusetts data is from *Trends in Health Claims for Fully-Insured, Health Maintenance Organizations in Massachusetts, 2002-2006*; Sept. 2008.

[2] Zuvekas and Cohen Prescription Drugs and the Changing Concentration of Health Care Expenditures *Health Affairs.* 26 (1): 249. (2007)

[3] Zuvekas and Cohen Prescription Drugs and the Changing Concentration of Health Care Expenditures *Health Affairs.* 26 (1): 249. (2007)

[4] Hing Esther, Hall, M, et. al. National Hospital Ambulatory Medical Care Survey: 2006 Outpatient Department Summary; *National Health Statistics Reports*. August 6. 2008

[5] Zuvekas and Cohen Prescription Drugs and the Changing Concentration of Health Care Expenditures *Health Affairs.* 26 (1): 249. (2007)

[6] Morning Star analyst report of Wellpoint; 4/22/09

[7] Morning Star analyst report of Aetna; 5/08/09

[8] Morning Star analyst report of United Healthcare; 4/21/09

[9] Bruce Cryan, Health of RI Health Insurers (2006), A financial Analysis, June 2007, a joint production of the Rhode Island Department of Health and the Office of the Health Insurance Commissioner

[10] Massachusetts Association of Health Plans (MAHP) Annual Report, 2008. 2007 data is reported as health plan median, vs. historical data as health plan average.

[11] Morning Star analyst report of Wellpoint; 4/22/09

[12] Morning Star analyst report of Aetna; 5/08/09

[13] Morning Star analyst report of United Healthcare; 4/21/09