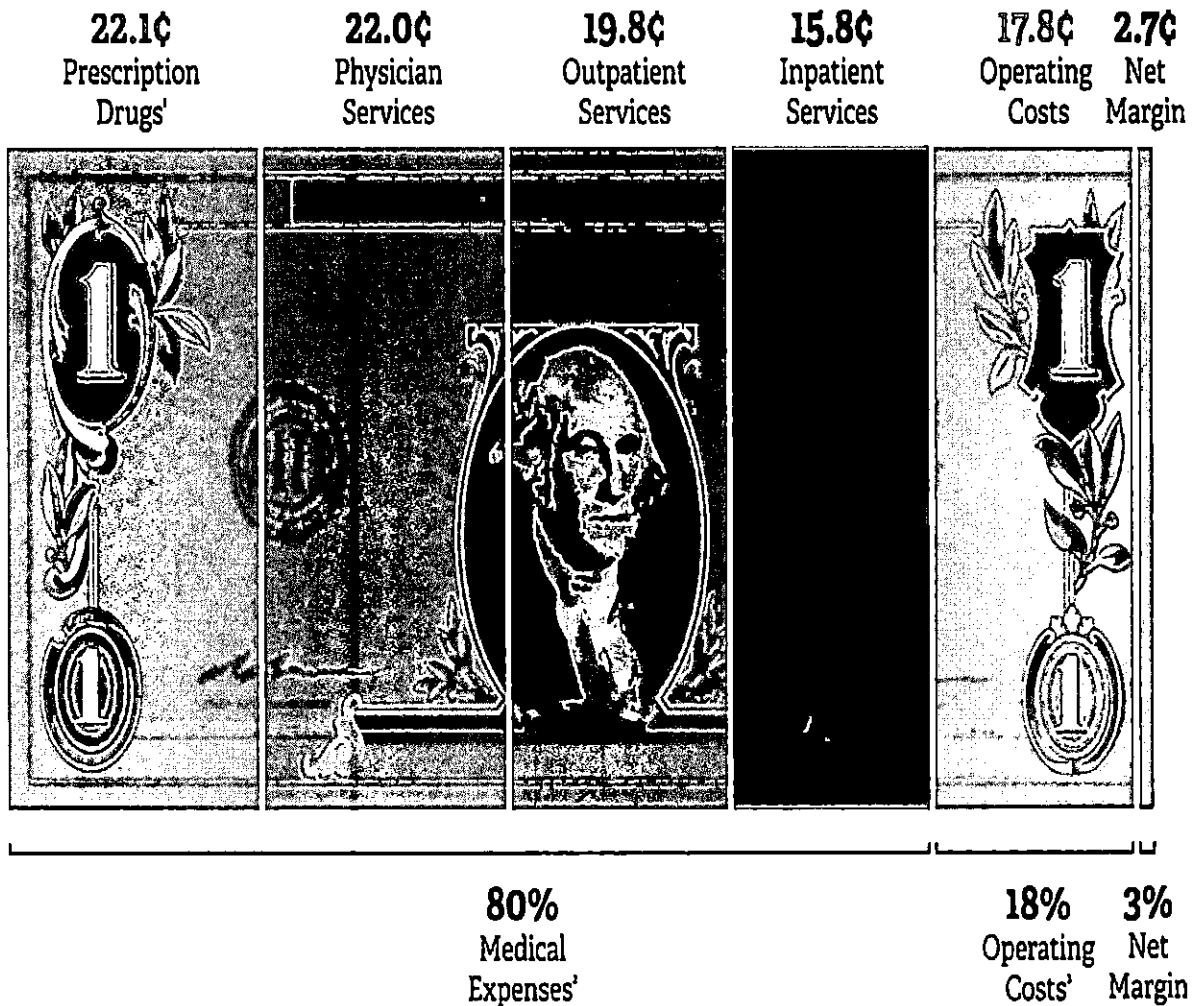




INFOGRAPHICS

Health care costs are too high for too many. Your premium, or how much you pay for your health insurance each month, covers the costs of providing your insurance as well as the medical care you might receive – everything from prescription drugs and doctors' visits to health improvement programs and customer service. Here is a visual breakdown of where your premium dollar really goes.

Where Does Your Premium Dollar Go?



1. Prescription drug costs include outpatient, physician- and self-administered medications – but not those administered in inpatient settings
2. Medical expenses as identified in this research differs from Medical Loss Ratio as defined by the Affordable Care Act.
3. Operating costs include consumer-centric activities such as communicating with members, running customer service operations, quality reviews, and data analysis, among other activities.

Notes

- Values exceed 100% due to rounding

- Operating costs include consumer-centric activities such as communicating with members, running customer service operations, quality reviews, and data analysis, among other activities.
- The objective of this analysis is to characterize how a dollar of commercial health insurance premium is spent. Specifically, the analysis shows the amounts paid by commercial health insurance plans in 2014 for the medical care of plan members; the amounts paid for general operating expenses of the health plan; and the reported profit (or loss).
- To determine the amounts paid for medical services, commercial claims data from the MarketScan® Commercial Claims and Encounters database (Truven Health Analytics, Inc) were summarized. The Inpatient Services file, the Outpatient Services file, and the Outpatient Drug file of the MarketScan® database were utilized for the study.
- To estimate operating costs and profitability, for publically-traded insurance companies, their 2014 10K filings with the Securities and Exchange Commission were examined; while operating expense and profitability data for private, not-for-profit organizations were extracted from their 2014 Form 990, filed with the Internal Revenue Service.

Methodology

MEDICAL EXPENSES

Only those patients under the age of 65 on the date of service who had evidence of continuous health plan enrollment for 2014 and had prescription drug coverage were included. Claims having missing payment information; missing dates of service; and in the case of the inpatient and outpatient services claims, missing data on whether or not the claim was submitted by the facility or the physician were excluded from the study. The main variable of interest was the “net payment” variable which is the amount paid by the health insurer. The net payment amounts of all included claims in 2014 were summed for the following four categories:

PRESCRIPTION DRUGS:

Claims for prescription medications, mostly self-administered drugs, filled at outpatient pharmacies; as well as, claims for prescription medications administered in the physician's office or clinic. Physician-administered drugs were extracted from the 2015 *Healthcare Common Procedure Coding System* (HCPCS) downloaded from The Centers for Medicare and Medicaid Services website (cms.gov). Medical claims stored in the Outpatient Services file were flagged if a relevant physician-administered drug code appeared in the procedure field of the claim. The net payment amounts for these flagged medical claims were then summed and added to the total expenditures from the Outpatient Prescription Drug pharmacy claims file. Medications administered during a hospital stay are included in the Inpatient Services category;

PHYSICIAN SERVICES:

Claims submitted by individual providers for all non-drug related inpatient and outpatient services provided;

OUTPATIENT SERVICES:

Claims submitted by the facility for all non-drug related outpatient services provided;

INPATIENT SERVICES:

Claims submitted by the facility for all services, including the administration of prescription drugs, provided during a hospital stay.

TOTAL MEDICAL EXPENSES FOR 2014*	\$104,670,510,123
Prescription Drugs, self- and provider-administered	\$28,957,910,123
Physician Services, inpatient and outpatient	\$28,898,413,009
Outpatient Services, all non-drug related	\$26,100,000,000
Inpatient Services, all services provided	\$20,714,200,000

*Expenditures for durable medical equipment were not available in the claims database

Operating Expenses and Profitability

The Form 10K or Form 990 were reviewed for a random selection of insurers who had the majority of their business (ie. greater than 50% of enrollees) in the commercial market in 2014, as reported in *AIS's Directory of Health Plans: 2014*. For the five publicly-traded, for-profit insurers, amounts listed as "Operating Costs", "General and Administrative Expenses" or "Sales, General and Administrative" were extracted from their 2014 Income Statement. Amounts shown as "Net Income" or "Net Profit" were also recorded. Three of the twenty-five randomly-selected, not-for-profit plans were excluded as they had only begun operations in 2014. For the resulting twenty-two private, not-for-profit entities, operating expenses were calculated by subtracting the "Benefits Paid To or For Members" amount from the "Total Functional Expenses" amount appearing in their Form 990. Similarly, profitability was determined by subtracting the "Total Expenses" from their "Total Revenues".

REVENUES

Only those revenues attributable to premium payments from health plan members were recorded. As revenues derived from premium payments are a material source of revenues to health insurers, they are reported as their own line item on 10K Income Statements and Form 990s.

OPERATING MARGIN AND NET MARGIN

Operating expenses and net income amounts were divided by the revenues derived from premiums for each plan to yield the insurer's operating margin and net margin. A simple average of these percentages was calculated across all plans. To account for differences in the sampling of for-profit (n=5 plans) and not-for-profits (n=22 plans), these two averages were then weighted by the proportion of commercial enrollment for the publically-traded, for-profit plans (56.9%) and the not-for-profit plans (43.1%) in 2014.

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