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December 5, 2007

City of Albany
Albany-Dougherty Economic Development Commission
Dougherty County
Doherty, Duggan & Rouse Insurors, Inc.
225 Pine Avenue
Albany, GA 31701

Re: Albany, GA Healthcare Cost Study

Dear Sirs:

The City of Albany, Albany-Dougherty Economic Development Commission, and Dougherty County with the assistance of Doherty, Duggan & Rouse Insurors, Inc. (Group) engaged Milliman, Inc. (Milliman) to analyze healthcare costs for the Albany, GA metropolitan area. This draft report presents the results of our analysis.

Distribution

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Variability of Results

The results in this letter are based upon data provided by the Group, data from Milliman's proprietary *Health Cost Guidelines*, and our professional actuarial judgment. Because the results depend on historical information and the actuarial assumptions chosen, actual results will differ from the estimated results in this letter to the extent that future experience differs from the assumptions used.

Data Reliance

In performing this analysis, Milliman has relied on information provided by the Group. We have reviewed this information for reasonableness but have not audited the data.

There are some issues with the underlying data received from the Group, as outlined throughout this report. We have made attempts to fill in gaps due to missing data or make assumptions to the extent possible.

Project Description

Milliman was asked to analyze the health care costs for several groups in the Albany, GA region. The groups that were to be included in the study were:

- The City of Albany
- The City of Albany Water, Gas & Light Commission
- Dougherty County
- SouthernAG Carriers, Inc.
- Procter & Gamble
- Miller County Hospital
- Phoebe Putney Memorial Hospital
- Crisp County
- Lee County

Milliman requested detailed claims data, enrollment, and benefit plan descriptions for the groups listed above. This data would be used to estimate per employee per month (PEPM) claim costs and then compared with expected health care costs based on Milliman *Health Cost Guidelines* research data for the region. Claim costs were separated by service categories, such as hospital inpatient, hospital outpatient, physician services, prescription drugs, and other services. The time period included in our analysis is the 2006 calendar year. Claim costs for the active employee population were included. Retirees were not included in this analysis.

Note that the distribution of the actual claim costs by service categories were based on our interpretation of the coding information contained within the claim files that were provided by the different sources. The allocation of these costs is considered to be estimates and could vary from the true underlying distribution of services; however, the total amounts would be unchanged.

Milliman's *Health Cost Guidelines*

For more than 50 years, Milliman's Health Cost Guidelines (HCGs) have been helping insurers gain precise insight into the impact of rising healthcare costs and trends by capitalizing on an increasingly rich information environment. What began in 1954 as a modest effort to track claim costs by hospital, surgical, medical, and other categories has evolved into a sophisticated series of guidelines and software-based tools derived from an abundance of information sources. Today, Milliman is one of the largest global independent actuarial and consultant firms, with 47 offices in principal cities worldwide. More than 100 leading national insurers rely on Milliman's Health Cost Guidelines and accompanying tools to model healthcare utilization and estimate claim

costs. Versions of the HCGs are also now available in healthcare markets outside the U.S. The HCGs can be used to adjust national average healthcare costs for specific geographic areas, benefits, reimbursement structures, and plan characteristics, and for these reasons traditional health carriers, managed care organizations, and third-party administrators find them valuable for product evaluation and pricing. Milliman's own in-house consultants use the HCGs to provide expert consultation and insight into the key drivers of healthcare costs and utilization.

Comparison of Relative Claim Costs by Region

Shown on the next two pages of this report is a comparison of expected total claim costs for a pre-defined level of healthcare coverage (claim costs) for several regions of the U.S. This comparison is based on "area factors" from our HCG research data, which reflect differences in utilization, average provider charges, and claim costs for these regions. In this comparison we have provided relativities for several regions where Procter & Gamble has facilities; these were identified from information on Procter & Gamble's web site. The comparison relates the claim costs for the different regions to Albany, GA. For example, expected claim costs in the Augusta, GA region appear to be 18% higher than those for the Albany, GA region. The results shown indicate that, in general, overall claim costs in the Albany, GA region are less than a majority of the regions shown in the exhibit. Although not shown in the exhibit, our data indicates that average claim costs in the Albany, GA region are approximately 16% less than the nationwide average.

EXHIBIT I
Albany, GA Health Care Study
Comparison of HCG Area Factors
Regions where Procter & Gamble has Plant Locations

The following comparison is based on area factors from the Milliman 2007 Commercial HCGs. Area factors used are for all benefits and are not adjusted for plan designs. The area factors reflect differences in utilization, average charge, and claim cost by geographic area. Area factors are based primarily on provider data rather than carrier data; therefore, average charge level factors are based on geographic differences in amounts billed by providers.

(Procter & Gamble locations taken from P&G website, http://www.pg.com/jobs/jobs_us/usinfo/plants_main.jhtml)

Region (from P&G website)	3 Digit Zip	Corresponding MSA in HCGs	Relativity to Albany, GA Factor	% Diff.
Albany, GA	**317**	**Albany, GA**	**1.00**	**0%**
Augusta, GA	309	Augusta, GA-SC	1.18	18%
Atlanta, GA	303	Atlanta-Sandy Springs, GA	1.06	6%
		Georgia – Statewide	1.06	6%
Phoenix, AZ	850	Phoenix-Mesa-Scottsdale, AZ	1.16	16%
		Arizona – Statewide	1.18	18%
Russellville, AR	728	Non-MSA area	0.96	-4%
		Arkansas – Statewide	1.02	2%
Anaheim, CA	928	Santa Ana-Anaheim-Irvine, CA	1.29	29%
Oxnard, CA	**930**	**Oxnard-Thousand Oaks, CA**	**1.23**	**23%**
Sacramento, CA	942	Non-MSA Areas, CA	1.36	36%
		California – Statewide	1.38	38%
Dover, DE	199	Dover, DE	1.20	20%
		Delaware – Statewide	1.16	16%
Iowa City, IA	522	Iowa City, IA	1.14	14%
		Iowa – Statewide	1.02	2%
Kansas City, KS	661	Kansas City, MO-KS	1.16	16%
		Kansas – Statewide	1.08	8%
Alexandria, LA	713	Alexandria, LA	1.26	26%
New Orleans, LA	701	New Orleans-Metairie, LA	1.47	47%
		Louisiana – Statewide	1.25	25%
Auburn, ME	042	Lewiston-Auburn, ME	1.09	9%
		Maine – Statewide	0.95	-5%
Hunt Valley, MD	210	Baltimore-Towson, MD	1.05	5%
		Maryland – Statewide	1.04	4%

EXHIBIT I (Cont'd)
Albany, GA Health Care Study
Comparison of HCG Area Factors
Regions where Procter & Gamble has Plant Locations

Region (from P&G website)	3 Digit Zip	Corresponding MSA in HCGs	Relativity to Albany, GA Factor	% Diff.
Cape Girardeau, MO	**637**	**Non-MSA Areas, MO**	**1.05**	**5%**
Kansas City, MO	641	Kansas City, MO-KS	1.16	16%
St. Louis, MO	631	St. Louis, MO-IL	1.20	20%
		Missouri – Statewide	1.13	13%
Aurora, NE	688	Non-MSA Areas, NE	1.04	4%
		Nebraska – Statewide	1.12	12%
Avenel, NJ	070	Newark-Union, NJ-PA	1.74	74%
South Brunswick, NJ	088	Edison, NJ	1.83	83%
		New Jersey – Statewide	1.73	73%
Greensboro, NC	274	Greensboro-High Point, NC	0.86	-14%
Henderson, NC	275	Durham, NC	1.15	15%
		North Carolina – Statewide	1.00	0%
Cincinnati, OH	452	Cinc.-Middletown, OH-KY-IN	1.08	8%
Lima, OH	458	Lima, OH	0.96	-4%
Leipsic, OH	458	Lima, OH	0.96	-4%
Lewisburg, OH	453	Dayton, OH	1.06	6%
		Ohio – Statewide	1.09	9%
Mehoopany, PA	**186**	**Scranton-Wilkes-Barre, PA**	**1.11**	**11%**
		Pennsylvania – Statewide	1.40	40%
North Sioux, SD	570	Sioux City, IA-NE-SD	0.96	-4%
		South Dakota – Statewide	1.05	5%
Jackson, TN	383	Jackson, TN	1.10	10%
		Tennessee – Statewide	1.14	14%
Sherman, TX	750	Sherman-Denison, TX	1.09	9%
		Texas – Statewide	1.18	18%
Green Bay, WI	**543**	**Green Bay, WI**	**0.99**	**-1%**
		Wisconsin – Statewide	1.14	14%

Total # of regions included above	**52**
# of regions above w/ lower Area Factor than Albany, GA	**7**
% of regions above w/ lower Area Factor than Albany, GA	**13%**

Development of Expected Claim Cost Models

Milliman developed expected claim cost models for each of the groups included in the study. Unless otherwise indicated below, these claim cost models were developed based on the following input data and assumptions:

- Plan benefit descriptions provided by the Group.
- Calendar year 2006 experience period.
- Albany, GA Metropolitan Statistical Area (MSA).
- Network provider discounts/reimbursement assumptions as follows:
    - Inpatient: 25% discount
    - Outpatient: 25% discount
    - Physician: 127% of Medicare RBRVS
    - Other: 20% discount
- Prescription drug claim costs were modeled assuming a 16% discount off of average wholesale price (AWP) for brand name drugs, and a 55% discount for generic drugs.
- Assumed 20% Degree of Healthcare Management (DoHM). The DoHM is a concept used by Milliman to determine the expected utilization and average charges of a population based on the extent to which its care is being managed. A 0% DoHM would indicate an unmanaged or loosely managed plan while a 100% DoHM would indicate a very well managed plan. A high DoHM would result from the efficient and effective use of multiple cost management programs (pre-admission testing, large case management, concurrent review, etc.), but would also be influenced by such factors as the geographic distribution of the population.
- Assumed 89% in-network usage based on internal Milliman research data for PPO plans in the region.
- Standard Milliman age and gender employee demographics.
- Assumed 2.5 members per employee ratio (used to convert per member per month to per employee per month basis), as provided by Kirk Rouse.

These assumptions are based to the extent possible on data supplied from the client, but also rely heavily on proprietary Milliman research, and our own professional experience and judgment.

Comparison of Actual to Expected Claim Costs

Below is a summary of the results for each group in the study with a description of the methodology and assumptions used in determining the actual health care costs for each group. Also provided for each group is a comparison between the actual claim costs with the expected claim costs as described above.

City of Albany

Milliman estimated 2006 PEPM claim costs for the City of Albany based on the actual detailed claims experience data provided by the Group. Claim costs were separated by service category, such as hospital inpatient, hospital outpatient, physician, prescription drug, and other services.

A provision for unpaid claims was determined by estimating a completion factor based on the lag time between the date of service and paid dates in the underlying claims data. Estimated completed claims for 2006 were divided by 2006 exposure to determine the PEPMs for each service category. The 2006 exposure was determined by the monthly employee counts listed in the Group Resources monthly reports.

The modeled PEPM claim costs were estimated based on plan design information provided by the Group along with the methodology and assumptions as described above.

Table 1 below gives a comparison of the actual to expected claim costs for the City of Albany group.

TABLE 1
2006 PEPM Claim Cost Comparison
City of Albany

Service Category	Actual Experience	Modeled Costs
Inpatient	$ 91.11	$ 162.12
Outpatient	224.15	113.45
Physician	125.27	191.66
Other Services	3.92	18.02
Prescription Drugs	58.61	105.52
Total	$ 503.06	$ 590.77

As can be seen in the table above, outpatient hospital costs appear significantly higher than the modeled costs, while inpatient hospital, physician and prescription drug costs are significantly lower. Total claim costs for City of Albany were approximately 15% less than expected costs.

City of Albany Water, Gas & Light Commission (WG&L)

Experience data for WG&L came from the same source as the City of Albany. Milliman estimated 2006 PEPM claim costs for WG&L based on the actual claims experience provided by the group, in a manner similar to City of Albany. Claims were separated by service categories and then completed using the lag time between dates of service and paid dates. Completed claims were divided by 2006 employee exposure to determine the PEPMs for each service

category. The 2006 exposure was determined from the monthly employee counts listed in the Group Resources report.

The modeled PEPM claim costs were estimated based on plan design information provided by the Group along with the methodology and assumptions as described above.

Table 2 below gives a comparison of the actual to expected claim costs for WG&L.

TABLE 2
2006 PEPM Claim Cost Comparison
WG&L

Service Category	Actual Experience	Modeled Costs
Inpatient	$ 151.87	$ 162.12
Outpatient	272.89	113.45
Physician	162.28	191.66
Other Services	1.71	18.02
Prescription Drugs	75.13	105.52
Total	$ 663.89	$ 590.77

Note that the modeled cost for WG&L is the same as modeled cost for the City of Albany. This is because these groups have the same benefits, and the same assumptions were used in the cost models, as described above. If we had more information on the underlying population, we could adjust the models accordingly and get a better comparison.

As was the case for City of Albany, outpatient hospital costs appear significantly higher than expected costs, while inpatient, physician, and prescription drug costs are lower than expected. Total costs for WG&L were approximately 12% higher than expected costs.

Dougherty County

Experience data for Dougherty County came from the same source as City of Albany and WG&L. Milliman estimated 2006 PEPM claim costs in a manner similar to City of Albany and WG&L.

The modeled PEPM claim costs were estimated based on plan design information provided by the Group along with the methodology and assumptions as described above.

Table 3 below gives a comparison of the actual to expected claim costs for the Dougherty County group.

TABLE 3 2006 PEPM Claim Cost Comparison Dougherty County		
Service Category	Actual Experience	Modeled Costs
Inpatient	$ 69.93	$ 162.12
Outpatient	261.43	113.45
Physician	148.04	191.66
Other Services	7.33	18.02
Prescription Drugs	90.60	105.52
Total	$ 577.33	$ 590.77

Note that the modeled claim cost is the same as City of Albany and WG&L. This is because these three groups have the same benefits, and the same assumptions were used in the cost models, as described above. Again, if we had more information on the underlying population, we could adjust the models accordingly and get a better comparison.

As was the case for the City of Albany, outpatient hospital costs appear significantly higher than the modeled costs, while inpatient hospital costs are significantly lower. Total claim costs for Dougherty County were approximately 15% less than expected costs.

Procter & Gamble

For Procter & Gamble, we received detailed claims data only through September 2006. We estimated calendar year 2006 claim costs by service category using the detailed claims data from the twelve-month period ending September 30, 2006, estimating unpaid claims using a completion factor, and then trending the claims forward three months. The completion factor was estimated based on the lag time between the date of service and paid dates in the underlying claims data. Trend estimates were based on Milliman trend research data.

We were only provided an average total enrollment count for Procter & Gamble of 1,289 covered employees. We used this figure to estimate annual exposure to determine the 2006 PEPM claim costs.

Modeled PEPM claim costs were estimated based on plan design information provided by the Group along with the methodology and assumptions as described above.

Note, however, that we did not receive a description of the prescription drug benefits. For our claim cost model, we assumed the same prescription drug benefits as the City of Albany.

Table 4 below provides a comparison of the actual to expected claim costs for Procter & Gamble.

TABLE 4 2006 PEPM Claim Cost Comparison Procter & Gamble		
Service Category	Actual Experience	Modeled Costs
Inpatient	$ 261.27	$ 166.66
Outpatient	173.07	114.72
Physician	197.69	184.47
Other Services	10.74	18.43
Prescription Drugs	105.82	102.16
Total	$ 748.60	$ 585.85

As seen in the table above, inpatient and outpatient facility charges appear to be higher than the modeled costs. Total claim costs for Procter & Gamble were approximately 28% higher than expected costs.

Phoebe Putney Memorial Hospital

For Phoebe Putney Memorial Hospital, we calculated 2006 PEPM claim costs by service category, based on detailed claims data and actual employee census data provided by the group. Claims were completed by estimating a completion factor based on lag information provided in the claims data. Exposure counts for 2006 were estimated based on the census data provided.

We modeled PEPM claim costs for the two benefit options based on the plan descriptions that were provided by the Group. A combined PEPM was estimated by weighting together the PEPMs from the two plans using the enrollment distribution between the two options. Actual demographics were also used in the modeled PEPM costs.

The plans have a tiered network structure where an insured received a better benefit if they utilized Phoebe Putney Memorial Hospital as opposed to other hospitals in the network. The underlying claims data contained some information that we were able to use to estimate average provider discounts. The Group also provided some information on network discounts. These average discounts were incorporated into the cost models. We assumed higher discounts for Phoebe Putney Memorial than other network hospitals. We also assumed a higher DoHM for Phoebe Putney Memorial (25%) than other network hospitals.

Table 5 below provides a comparison of the actual to expected claim costs for Phoebe Putney Memorial Hospital.

TABLE 5 2006 PEPM Claim Cost Comparison Phoebe Putney Memorial Hospital		
Service Category	Actual Experience	Modeled Costs
Inpatient	$ 141.38	$ 154.06
Outpatient	207.05	108.61
Physician	260.80	281.56
Other Services	23.36	27.38
Prescription Drugs	81.98	110.35
Total	$ 714.58	$ 681.96

As can be seen from the table, outpatient costs appear to be significantly higher than the modeled costs, while prescription drug costs were lower. Overall PEPM costs were approximately 5% higher than the modeled PEPM costs.

SouthernAG Carriers

For SouthernAG Carriers, experience data came from two different sources. This was due to the fact that SouthernAG Carriers changed administrators in July 2006. Experience data for the first six months was provided by the prior administrator. The current administrator provided experience data for the last six months of 2006. Milliman calculated actual 2006 PEPM claim costs by service category based on the raw claims data provided by the two sources. Completed claims were estimated based on an assumed completion factor, as claim lag information was not available from one of the sources. Completed claims were divided by 2006 employee exposure to determine the PEPMs for each service category.

The Group provided benefit descriptions for four plan options. Milliman developed claim cost models for each of the plans. A combined PEPM claim cost was estimated by weighting together the PEPMs from the four plans using the enrollment distribution provided for the four options.

Table 6 below provides a comparison of the actual to expected claim costs for SouthernAG Carriers.

TABLE 6 2006 PEPM Claim Cost Comparison SouthernAG Carriers		
Service Category	Actual Experience	Modeled Costs
Inpatient	$ 205.08	$ 135.00
Outpatient	168.76	95.63
Physician	72.59	140.57
Other Services	1.50	14.41
Prescription Drugs	100.02	90.10
Total	$ 547.95	$ 475.72

The actual claim costs for inpatient and outpatient services were significantly higher than expected claim costs. Physician and other services were significantly lower than expected. Overall 2006 claim costs were approximately 15% higher than expected costs.

Miller County Hospital

For Miller County Hospital, non-prescription drug data included claims with dates of service only through November 2006. We estimated calendar year 2006 claim costs by service category using twelve months of claims with dates of service from December 2005 through November 2006. Incurred claims were completed using a completion factor. Claims were trended forward one month to give calendar year 2006 claims. Trend estimates were based on Milliman trend research data. Prescription drug data came from a separate source and included twelve months of claims through December 2006. Annual exposure for 2006 was used to calculate PEPM claim costs.

Modeled PEPM claim costs were estimated based on plan design information provided by the Group. The benefit plan has a tiered network structure where an insured receives increased benefits if services are rendered at Miller County Hospital as opposed to other hospitals in the network. Provider discounts for Miller County Hospital and other network hospitals are the same, according to information provided by the group. We assumed a higher DoHM for Miller County Hospital (25%) than other network hospitals.

Table 7 below provides a comparison of the actual to expected claim costs for Miller County Hospital.

TABLE 7 2006 PEPM Claim Cost Comparison Miller County Hospital		
Service Category	Actual Experience	Modeled Costs
Inpatient	$ 193.17	$ 174.73
Outpatient	302.32	118.76
Physician	75.78	199.79
Other Services	0.00	31.14
Prescription Drugs	59.10	117.10
Total	$ 630.36	$ 641.51

The actual claim costs for outpatient services were significantly higher than expected claim costs. Physician and prescription drugs were significantly lower than expected. Overall 2006 claim costs were approximately 2% lower than expected costs.

Crisp County

For Crisp County, we calculated 2006 PEPM claim costs by service category, based on claims and enrollment data provided by the group. Claims were completed by estimating a completion factor based on lag information provided in the claims data.

We modeled PEPM claim costs for two benefit options based on the plan descriptions that were provided by the Group. A combined PEPM was estimated by weighting together the PEPMs from the two plans using the enrollment distribution between the two options. Actual demographics were also used in the modeled PEPM costs. The Group also provided some information on network discounts. These average discounts were incorporated into the cost models.

Table 8 below provides a comparison of the actual to expected claim costs for Crisp County.

TABLE 8 2006 PEPM Claim Cost Comparison Crisp County		
Service Category	Actual Experience	Modeled Costs
Inpatient	$ 24.03	$ 146.30
Outpatient	109.63	110.23
Physician	28.27	222.40
Other Services	128.98	14.65
Prescription Drugs	62.68	68.31
Total	$ 353.59	$ 561.89

The actual claim costs for inpatient and physician services were significantly lower than expected claim costs, while costs other services were significantly higher. Overall 2006 claim costs were approximately 37% lower than expected costs. We compared the claim totals from 2006 to 2005 and noted that total claims were down approximately 42% from 2005. Inpatient claims decreased approximately 75% and physician claims decreased approximately 59%. In 2006, inpatient claims were incurred in only four months of service – March, April, May, and August. It is possible to have fluctuations in experience from year to year with a group of this size (approximately 230 employees); however, it is more likely that there could be some data missing in the claims file we received.

Lee County

For Lee County, we calculated 2006 PEPM claim costs by service category, based on claims and enrollment data provided by the group. Claims were completed by estimating a completion factor based on lag information provided in the claims data.

The modeled PEPM claim costs were estimated based on plan design information provided by the Group along with the methodology and assumptions as described above.

2006 actual claim costs from the experience data provided was significantly high. In reviewing the claims data, there were three individuals that had incurred more than $950,000 in claims in 2006, which was approximately 36% of the total claims for the group. We removed these three individuals from the comparison, assuming that the plan's stop loss coverage would have covered most of these claims.

Table 9 below provides a comparison of the actual to expected claim costs for Lee County, after removing the three individuals as described above.

TABLE 9 2006 PEPM Claim Cost Comparison Lee County		
Service Category	Actual Experience	Modeled Costs
Inpatient	$ 105.10	$ 177.09
Outpatient	258.13	120.32
Physician	278.39	189.82
Other Services	7.65	19.07
Prescription Drugs	21.58	143.64
Total	$ 670.84	$ 649.95

In comparing the adjusted experience to the modeled costs, outpatient and physician costs were significantly higher than expected, while inpatient and prescription drugs were significantly lower. Overall costs were approximately 3% higher than expected costs, excluding the three high claim individuals.

Summary of Actual to Expected Claim Costs

Table 10 below gives a comparison of the total actual and expected costs for all groups in the study, including rankings relative to each of the groups.

TABLE 10 Comparison of Actual vs. Expected Claim Costs by Group						
Group	Actual PEPM	Rank	Modeled PEPM	Rank	Relative Difference	Rank
City of Albany	$503.06	8	$590.77	T4	-14.8%	8
Albany WG&L	663.89	4	590.77	T4	+12.4%	3
Dougherty Co.	577.33	6	590.77	T4	-2.3%	7
SouthernAG	547.95	7	475.72	9	15.2%	2
Procter & Gamble	748.60	1	585.85	7	27.8%	1
Miller Co. Hosp.	630.36	5	641.51	3	-1.7%	6
Phoebe Putney	714.58	2	681.96	1	4.8%	4
Crisp County	353.59	9	561.89	8	-37.1%	9
Lee County	670.84	3	649.95	2	+3.2%	5

Conclusion

It appears that outpatient costs are consistently higher than modeled costs across all groups except for Crisp County. We reviewed the method used to classify claims as outpatient for the larger groups and believe it was reasonable given the data fields available in the various claim files. The magnitude and consistency of the difference suggest that this may be a data issue so it is difficult to draw any conclusions regarding the breakouts of the claims. However, the total results appear credible.

Of the nine groups in the comparison, five groups experienced worse than expected overall claim costs in 2006 (as can be seen by the negative relative differences in Table 10), while four groups experienced better than expected overall costs (as can be seen by the positive relative differences in Table 10). The two biggest groups in the study, Phoebe Putney and Procter & Gamble, had worse than expected overall costs.

Moreover, Procter & Gamble had the highest claim cost experience of all the groups in the study, while their modeled claim cost was relatively low. However, we must caveat these results due to some of the limitations in the data we received for this group. Without an accurate count of the group's eligibility or demographics it is difficult to draw conclusions regarding this group.

Both actual and expected costs for Phoebe Putney were high relative to the other groups. However, the ratio of actual to expected costs ranked in the middle. There are a few possible reasons for this: 1) Phoebe Putney benefits are richer than the other groups, and/or 2) there could be differences in the demographic mix (e.g., possibly an older population).

In comparing the modeled claim costs between the groups, it should be noted that there are several drivers that cause differences in the expected claim costs. These drivers include, but are not limited to: differences in the level of benefits and cost sharing, differences in the age and gender demographic mix of the groups, differences in geographic location, and differences in provider reimbursement levels.

Also, there are some factors that can create differences in actual claim costs when comparing them to expected claim costs. These can include, but are not limited to, variations in the types of medical services being utilized, utilization behaviors of the insured population, fluctuations in utilization and costs of services from year to year, increases in diagnostic services due to defensive medical practices, increases in costs due to newer, higher-priced technologies, and possible carryover of workers compensation claims into health plan costs. These factors should be monitored periodically in order to get a better measurement of the impact of these potential cost drivers.

There are some measures that employer groups can do to potentially mitigate rising claim costs. Examples of these measures include smoking cessation, weight loss, and other programs that promote healthier lifestyles, encouraging smoke-free environments, management of chronic diseases and conditions, increasing competition between providers (e.g., pay-for performance),

consumer-driven based initiatives, and providing insureds with information and tools to aid in choosing providers based on value (i.e., transparency). Increasing member cost sharing and other benefit changes may also be considered.

Please review the report and let us know if you have any questions.

Sincerely,

Timothy F. Harris

Timothy F. Harris, F.S.A., M.A.A.A.
Principal & Consulting Actuary