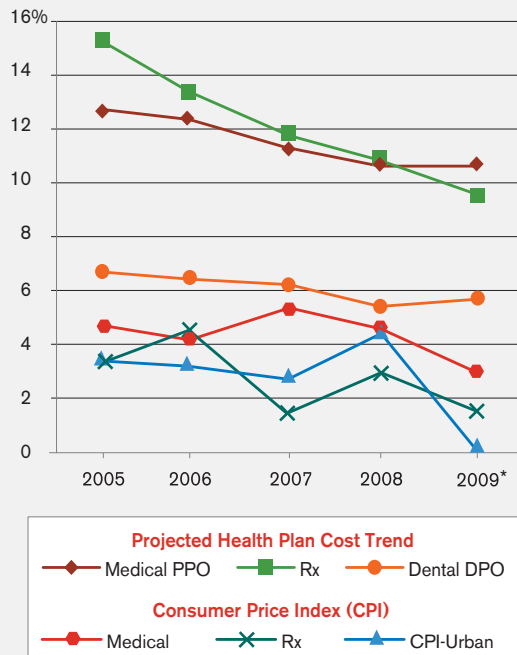


TREND AND CPI

Projected health claim cost trend is declining slightly, but is still higher than general inflation:



* 2009 CPI data is for February.

Sources: 2009 Segal Health Plan Cost Trend Survey (<http://www.sibson.com/publications/surveysandstudies/2009trendsurvey.pdf>) and Bureau of Labor Statistics for CPI (<http://www.bls.gov/cpi/>)

Trend is the forecasted change in claims cost determined by insurance carriers, managed care organizations (MCOs), pharmacy benefits managers (PBMs) and third party administrators (TPAs). Trend can be influenced by a variety of factors including price inflation, the leveraging effect of copayments, cost shifting and utilization. The **CPI** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The CPI is often used as an economic indicator.

THE VENDOR MARKETPLACE

First DataBank and Medispan, the leading publishers of Average Wholesale Prices (AWP)¹ of prescription drugs, have agreed to an amended settlement in which they will pay \$2.7 million to a settlement fund and reduce the mark-up factor used in connection with the calculation of AWP. They will discontinue publication of AWP within two years.

A year-long investigation by the New York Attorney General (NY AG) found that the Ingenix database containing medical claims pricing information, set artificially low "usual and customary" (U&C) rates for out-of-network medical care. Under the settlement, the NY AG will designate a non-profit organization to develop a new database, (funded by the insurers using Ingenix that settled with the NY AG), designed to replace the Prevailing Health Charges System (PHCS) and Medical Data Research (MDR) database products owned by UnitedHealth Group's subsidiary, Ingenix. When the new database product is ready, Ingenix will close the PHCS and MDR database products.²

COMPLIANCE NEWS

The American Recovery and Reinvestment Act of 2009 provides temporary premium assistance for continuation of health insurance under Consolidated Omnibus Budget Reconciliation Act (COBRA), in which the participant will pay 35 percent of the COBRA rate for up to nine months. Plan sponsors will be reimbursed for the 65 percent subsidy from the federal government, to make up for the shortfall. This applies to all private and public sector group health plans subject to COBRA.³

The Centers for Medicare & Medicaid Services issued guidance on new data-reporting obligations for group health plans, their insurers and TPAs that were effective on January 1, 2009. "Responsible Reporting Entities", including health insurance companies, TPAs and plan administrators or fiduciaries of self-insured/self-administered group health plans, must register with CMS and report data. Group health plans that do not currently exchange data with Medicare using a Voluntary Data Sharing Agreement must register on a secure Web site beginning April 1 through April 30, 2009.⁴

WHAT EMPLOYERS ARE DOING TO MANAGE COSTS: SELECTED STRATEGIES

Negotiate appropriate AWP alternatives with PBMs utilizing actual plan cost data. Innovative drug pricing strategies providing guaranteed drug unit costs and annual increase factors can increase transparency and help employers to better align plan costs to actual drug acquisition costs.

Determine the impact of Mental Health Parity Addiction and Equity Act of 2008 on the plan. Employers will need to determine when the law becomes effective for their plan and review their benefit provisions to determine what their options are regarding plan design changes that may be required in order to comply. They may also want to consider the spectrum of specialized behavioral health programs that can assist in managing their participants' care more effectively and the benefits more cost-efficiently.

Review strategies for pricing out-of-network claims. Such strategies include reviewing plan design language on how out-of-network reimbursement allowances should be set, removing controversial terms such as U&C from summary plan descriptions and other plan documents, and creating a policy of setting maximum allowable charges from another database source.

KEY TRENDS, DEVELOPMENTS AND STATISTICS

The Small Business & Entrepreneurship Council's "Health Care Policy Cost Index" ranks states according to five policy measures affecting the cost of health care; the number of health care regulation mandates, the "play or-pay" mandate, health savings accounts, guaranteed issue of self-employed group of one, and community rating. The top five ranked states are Idaho, Utah, Iowa, Michigan and Ohio.

Medicare patients treated at top-ranked hospitals for the most common Medicare procedures are 27 percent less likely to die, on average, than those admitted to all other hospitals, according to a study released by HealthGrades, a health care ratings organization. The study also found that over 150,000 lives may have been saved and over 11,000 major complications avoided, had the quality of care of all hospitals matched the level of those in the top five percent.

¹ AWP is a published, nationally recognized standard used to determine pricing and discounting of prescription drugs.

² See Sibson's *Bulletin*, "Out-of-Network Fee Schedules Will Soon Need to Change": <http://www.sibson.com/publications/bulletins/march09U&C.pdf>

³ See Sibson's *Bulletin*, "The Stimulus Law's Temporary Subsidy for COBRA Premiums": <http://www.sibson.com/publications/bulletins/feb09COBRAsubsidy.pdf>

⁴ See Sibson's *Bulletin*, "Employer Duties under Medicare Mandatory Insurer Reporting": <http://www.sibson.com/publications/bulletins/jan09Medicarereporting.pdf>