How medical prices impact premiums

Neil Kelsey, VP, Chief Actuary, ConnectiCare

Roberta Wachtelhausen, Interim President, ConnectiCare | President, WellSpark Health
How a Premium Dollar Is Spent

- 20¢: Physician
- 24¢: Outpatient
- 18¢: Inpatient
- 22¢: Prescription
- 10¢: Admin Expense
- 3¢: Taxes & Fees
- 3¢: Surplus
- Contribution

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Medical Costs – Fundamentals of Health Insurance

Medical Cost = Utilization x Unit Cost

- Utilization:
  - Demand for services
  - # seeking service
  - # services per visit
  - Lifestyle
  - Behavior

- Unit Cost:
  - Cost per service
  - Provider type
  - Location
  - Pharmacy

In a fee-per-service approach, more services done at increasing costs drives higher overall cost
The Impact of Provider Contracting

Each negotiation is unique

Typically negotiate multi-year contracts, including inflators

Parties look to external data points
- Cost studies (Rand)
- Providers look to arrangements with other carriers, Medicare and Medicaid
- Carriers look to arrangements with other systems
- Cost benchmarks (state)
The Impact of Provider Contracting

Drive toward a value-based discussion

Goal is to find the right balance between

• Provider requirements for revenue
• Carrier desire to maintain the network within constraints of revenue (premium)
The Impact of Lifestyle Behaviors and Social Determinants of Health (SDoH) on Medical Costs

SDoH and lifestyle behaviors have a tremendous affect on an individual’s health regardless of age, race or ethnicity.

Source: Institute for Clinical Systems Improvement: Going Beyond Clinical Walls: Solving Complex Problems. 2014 Graphic designed by ProMedica