MERCER

TALENT • HEALTH • RETIREMENT • INVESTMENTS

General Board of Pension and Health Benefits of The United Methodist Church

TRENDS AND PERFORMANCE

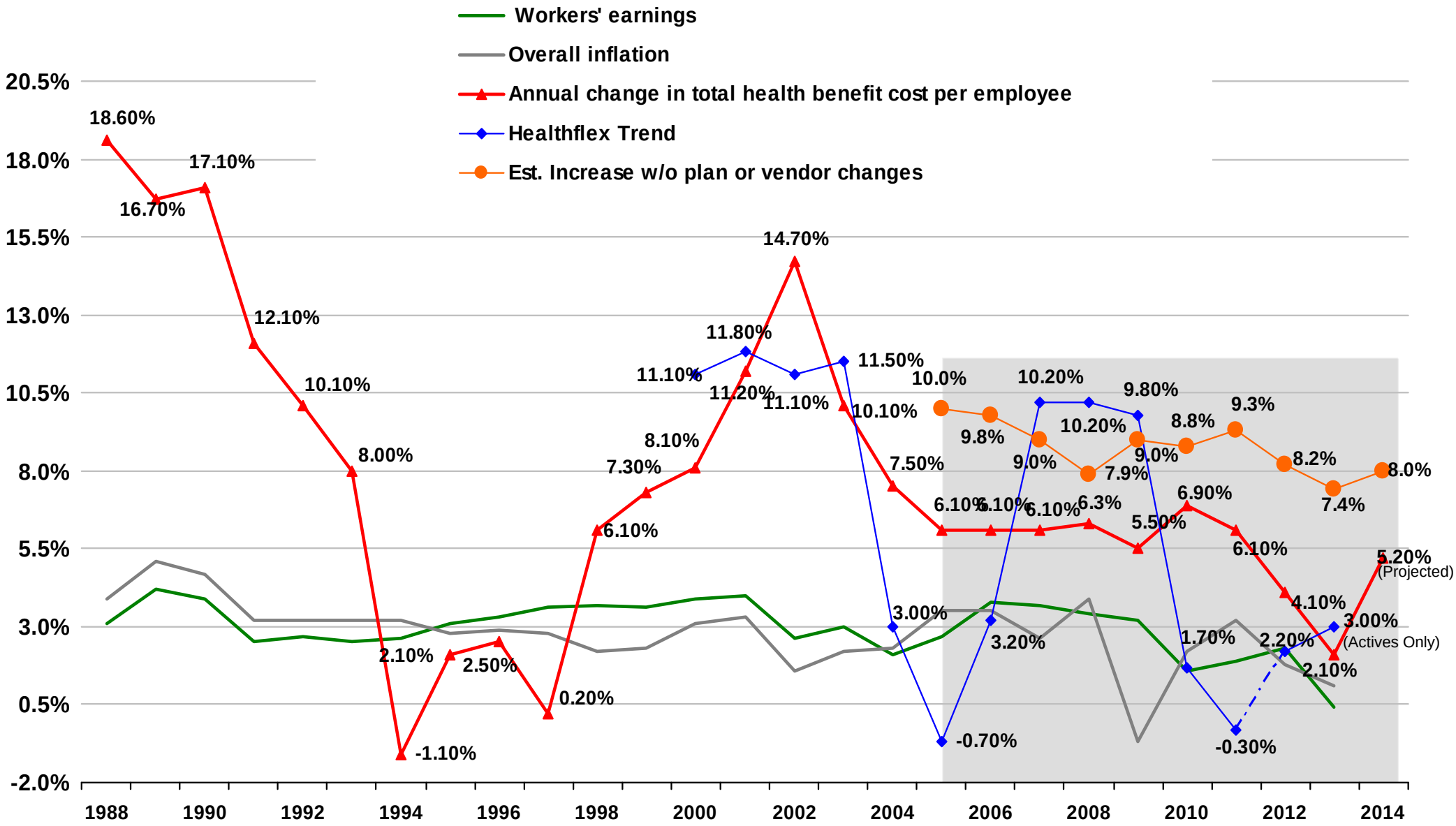
March 2014

MARSH & McLENNAN COMPANIES

Section 1

MARKET TRENDS

Annual health cost trends vs. earnings and CPI (1988-2013)



Source: Mercer's National Survey of Employer-Sponsored Health Plans; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April) 1988-2007; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey (April to April) 1988-2007.

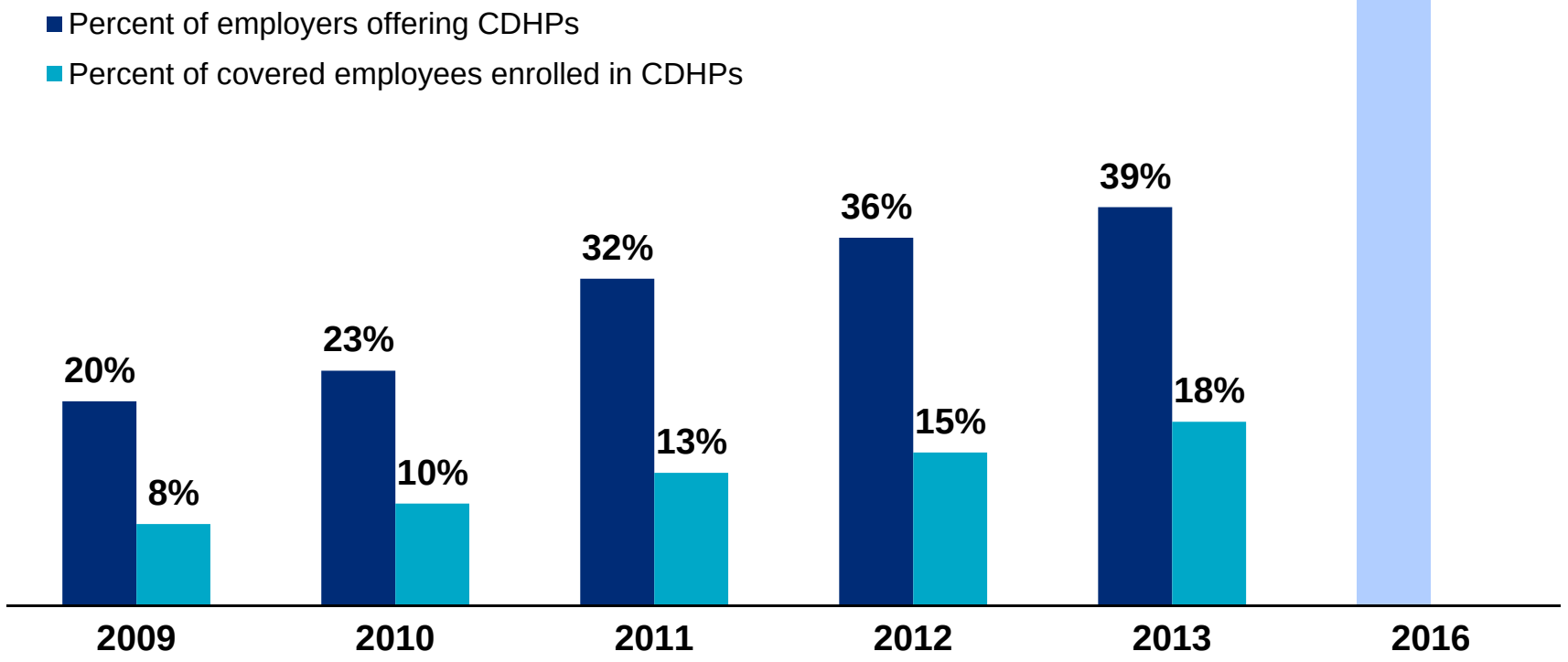
Continued slower trends seen by employers

- Sluggish economy still keeping the pressure on employers to control health cost trend – and on employees to watch spending.
  - HealthFlex costs continued to increase by low levels; for actives and non-Medicare retirees it increased by only +3.0% on a per person basis, following very low and negative cost change seen during 2010 through 2012.
- Health reform is still in the forefront of employers' strategy consideration for the near future, focusing now on concern about the excise tax on high-cost plans.
  - Center for Health looking at plan options and strategy; eliminating richer plans by 2016.
  - No intention to exit HealthFlex options in near future.
    - Mercer survey results indicate large employers are committed to continuing to offer health insurance to their employees (only 6% of employers with 500 or more employees believe it is likely that they will terminate their plans within the next five years).
  - Possible review of private exchange offering.

Use of consumer-driven health plans is likely to accelerate over the next three years

Large employers (500+ employees)

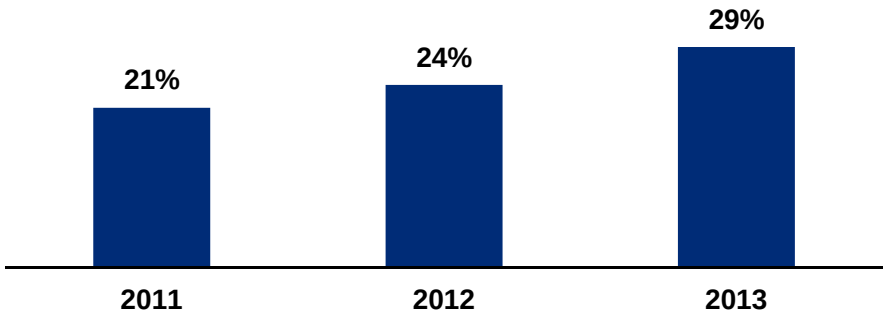
By 2016, 64% of large employers expect to offer a CDHP



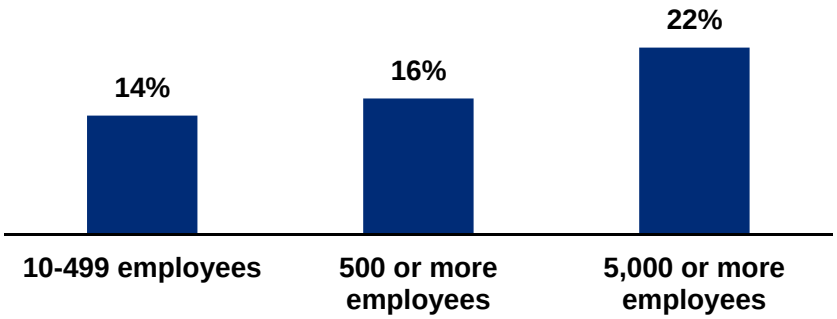
Many employers see CDHPs as central to their response to health reform

Employers working to build enrollment in CDHPs
Large employers

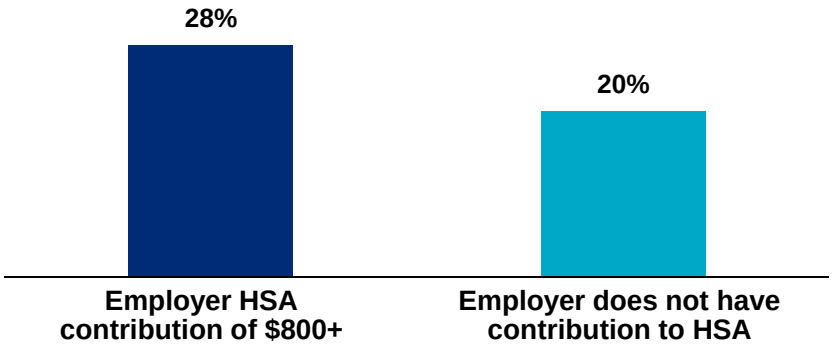
HSA-based CDHP enrollment rises over time
% choosing CDHP when offered w/other medical plans



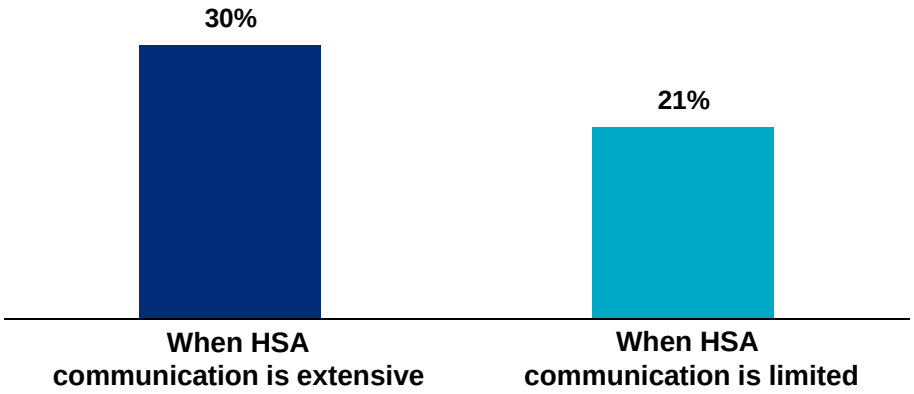
Expect to offer a CDHP as full replacement 3 years from now



Employer HSA funding drives enrollment . . .
% choosing HSA when offered with other medical plans

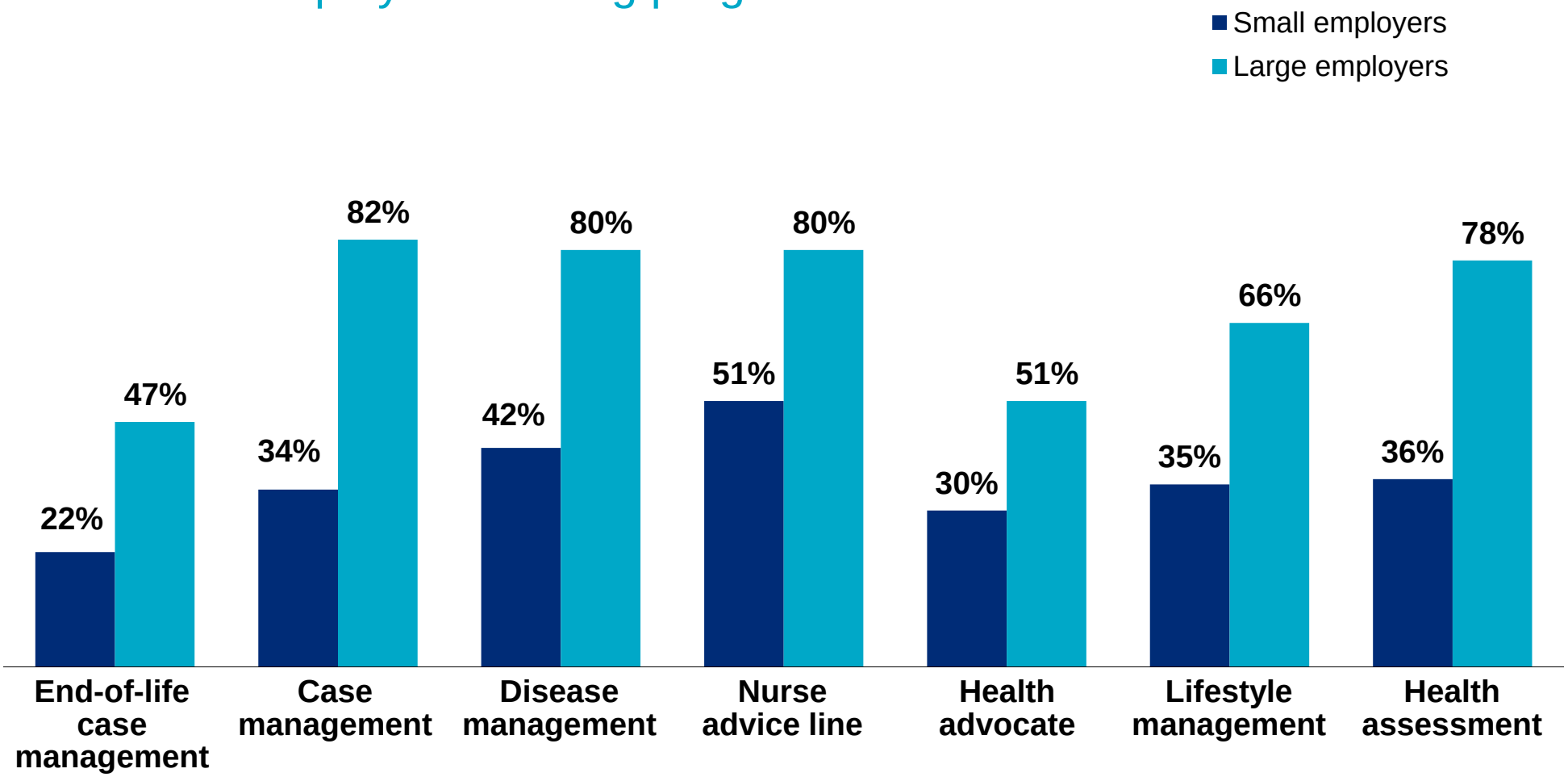


. . . but extensive communication is also important
% choosing HSA when offered with other medical plans



Health management is now the norm, addressing a full range of needs

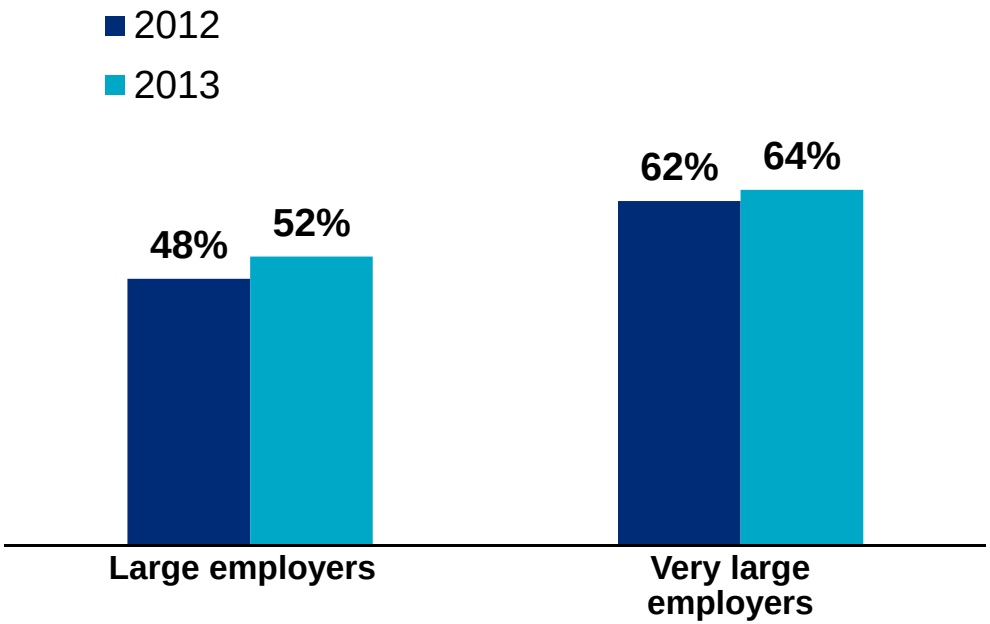
Percent of employers offering program



Addressing the continuum of health needs

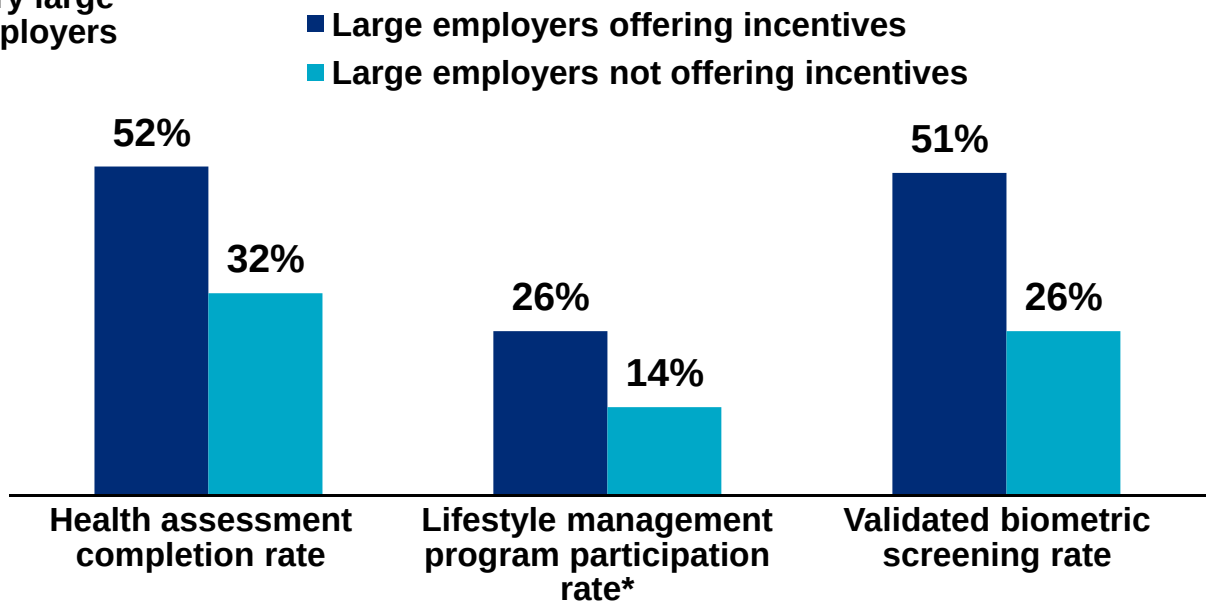
REACTIVE → **PROACTIVE**

Financial incentives are becoming the norm in health management programs, and participation rates are rising as a result



More employers are driving engagement through financial incentives, most often cash or contribution reductions

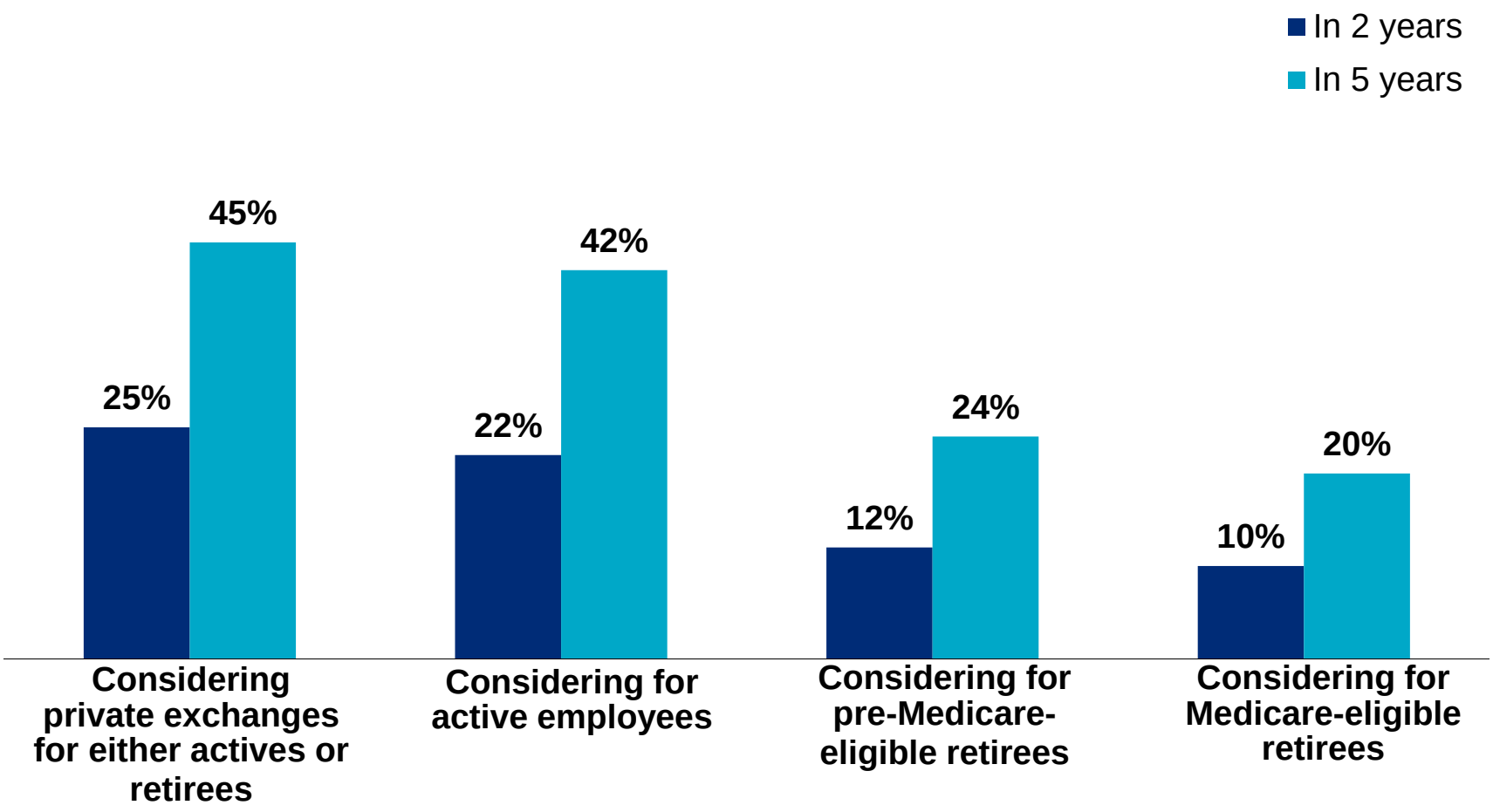
Large employers using incentives report higher participation rates



* Average % of identified persons actively engaged in program

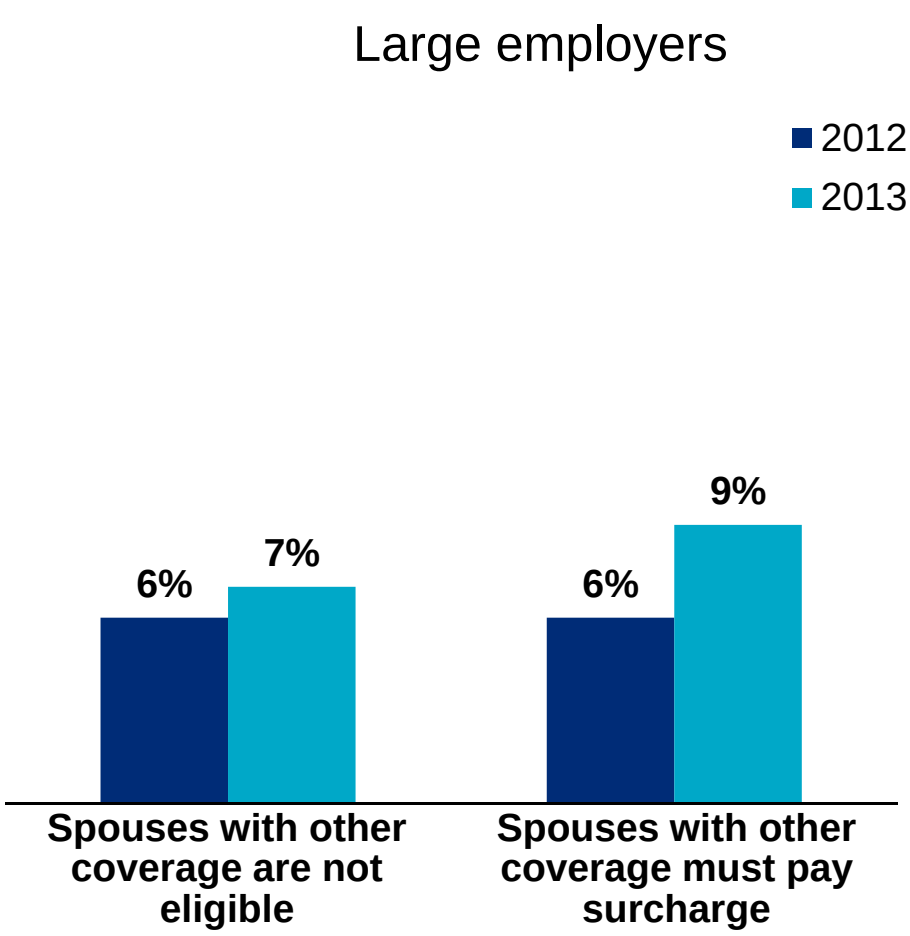
Private health care exchanges poised for rapid growth

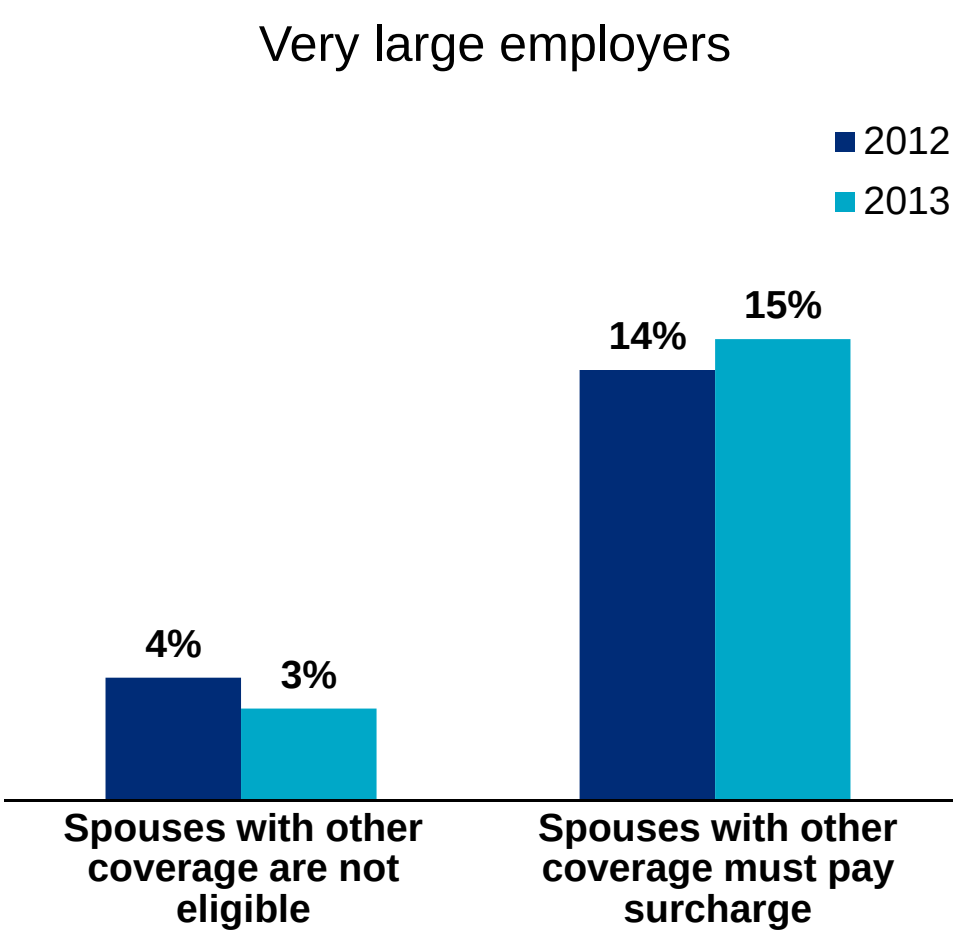
One-fourth of employers are considering switching to a private exchange within two years, and 45% would consider switching within five years



Employers taking bolder action to steer spouses to other coverage

Special provisions concerning spouses with other coverage available





Section 2

HEALTHFLEX COST DRIVERS

HealthFlex cost driver summary
Medical/Rx

- Medical services
  - Utilization of outpatient services generally dampened in 2013 from the slight increases seen in 2012; the increase in enrollment in CDHP will affect some of the utilization results, such as for ER.
  - However, the reduction in usage for these outpatient services was mostly offset by increases in cost per service, especially for x-ray, where there will be a variance in cost depending on the specific services incurred.
  - Both inpatient average length of stay and cost per day were up, indicating an increase in the severity of inpatient stays compared to 2012.
  - Overall net medical/Rx PEPM costs were up 3.0% in 2013 versus 2012.
- Net effective discounts remain flat at best-in-class levels.
- Member cost sharing remained flat for the PPO and CDHP as most plan sponsors remained in the same PPO or CDH plans, but increased for the EPO with the elimination of the richer EPO B option.
- CDHP experience continues to trend at levels better than projected, with lower utilization for overused services like ER.

HealthFlex cost driver summary
Medical/Rx (continued)

- Rx net PMPM costs: 8.2% lower in 2013.
  - Decrease in Medicare members covered in 2013 led to drop in usage of 13.2% (average days supply per member); decrease in usage mostly for mail order drugs (more maintenance medication used by Medicare retirees).
  - Continued increase in generic use rates.
  - Plan design changes to coinsurance-based design are promoting consumerism and helping to produce lower trends.
- Rx cost per day paid by the plan increased by 5.8%.
  - Offsets large decrease in usage; active/early retiree population uses more retail brand formulary, which is more expensive on a cost per day than mail.

CDHP results

- CDHP participants, while demographically similar to PPO participants, have significantly lower use rates in key service categories.
- This is due to selection (healthier lives) and consumerism (having direct interest in the cost of care). The differences in use rates (PPO vs. CDHP) continue to be markedly different despite growing enrollment. This is evidence of the strong impact of consumerism.

Category	CDHP	PPO	Variance
Average age	52.5	52.7	-0.38%
Average household size	1.84	2.11	-12.55%
Admits/1000	48.90	64.20	-23.83%
Days/1000	200.49	295.32	-32.11%
MD visits/1000	4,491	5,176	-13.23%
OP Surgery/1000	195	213	-8.45%
X-rays/1000	2,046	2,429	-15.77%
Labs/1000	7,413	8,916	-16.86%
ER/1000	132	191	-30.89%
Rx allowed $/member	$1,294	$1,611	-19.66%
Rx-Generic %	73.50%	73.50%	0.0 pp
% Medical Claims In-Network	92.60%	91.90%	+0.7 pp
Preventive care (% members using)	41.92%	41.10%	+0.8 pp
Emergency Room (% members using)	10.60%	13.43%	-2.8 pp

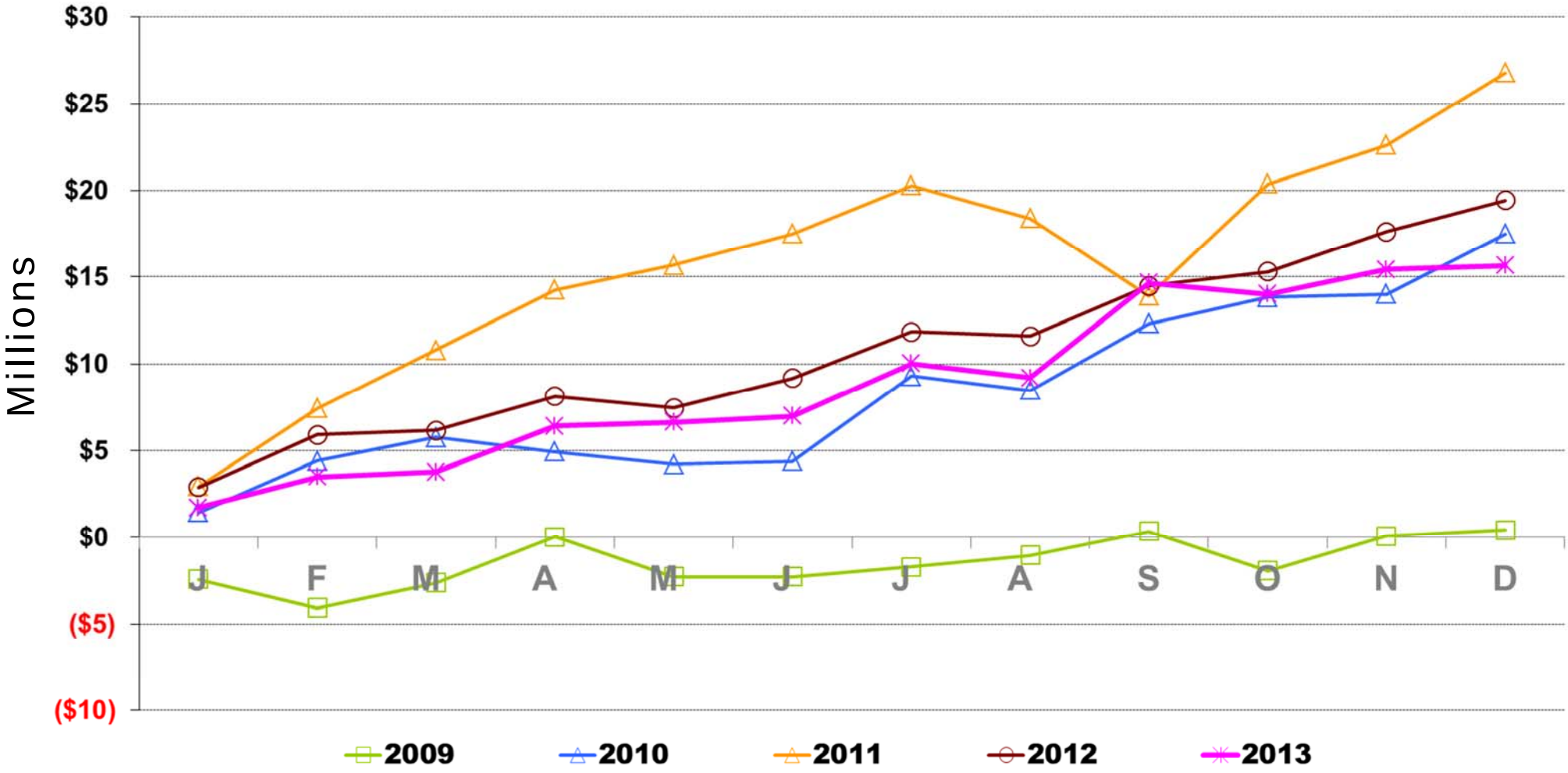
Note: Incurred October 2012 – September 2013 and paid through December 2013.

Section 3

HEALTHFLEX EXPERIENCE

Cumulative

2009, 2010, 2011, 2012 and 2013
Total (U/W + Investment Income)



HealthFlex financial history
($000)

Year	Underwriting Gain/(Loss)	Investment & Other Income	Surplus Gain/(Loss)	% of Premium
2000	$(3,550)	$5,072	$1,522	2.8%
2001	$(5,965)	$1,038	$(4,927)	(6.4%)
2002	$(10,577)	$709	$(9,868)	(10.3%)
2003	$1,005	$74	$1,079	1.0%
2004	$12,511	$1,802	$14,313	12.0%
2005	$19,832	$916	$20,748	16.2%
2006	$19,926	$11,602	$31,528	23.9%
2007	$10,896	$6,531	$17,426	13.4%
2008	$(2,845)	$(17,580)	$(20,425)	(14.6%)
2009	$(8,397)	$7,502	$(895)	(0.6%)
2010	$10,593	$6,901	$17,494	10.7%
2011	$26,798	$(709)	$26,090	14.6%
2012	$14,308	$5,132	$19,440	12.1%
2013	$7,809	$7,835	$15,644	10.9%

2005 - 2006 performance Dividend ($000 omitted; paid in 2007): $9,873
2010 - 2011 performance Dividend ($000 omitted; paid in 2012): $15,000

HealthFlex — Historical annual trend in claims (PEPM)

Year	PPO	EPO	CDHP	Medicare	Total Claims
2000	10.9%	9.0%		15.6%	11.1%
2001	10.4%	26.0%		11.7%	11.8%
2002	10.6%	13.5%		15.3%	11.1%
2003	12.1%	19.8%		6.9%	11.5%
2004	7.9%	-13.9%		6.4%	3.0%
2005	-3.0%	15.1%		9.0%	-0.7%
2006	-3.2%	7.6%		9.0%	3.2%
2007	11.3%	6.4%		7.7%	10.2%
2008	12.0%	9.2%		8.3%	10.2%
2009	8.9%	16.8%		6.5%	9.8%
2010	1.2%	5.9%		-2.6%	1.7%
2011	0.8%	1.7%		-2.1%	-0.3%
2012	2.8%	0.9%	11.3%	-1.3%	2.2%
2013	4.9%	-1.8%	-6.2%	N/A	+3.0%*

** 2013 PEPM increases for Total Claims excludes Medicare as the significant drop in covered members in Medicare plans as of 2013 skews the total PEPM figures.*

Historical claims funding ratios

Year	PPO	EPO	CDHP	Medicare	Total
1999	108.0	97.9		93.1	104.0
2000	115.2	102.4		98.3	109.8
2001	116.6	113.6		99.5	112.5
2002	117.5	124.7		100.8	115.2
2003	106.7	100.0		87.9	101.2
2004	94.0	75.6		77.7	87.2
2005	82.9	86.8		87.7	84.6
2006	80.8	92.1		93.7	85.7
2007	91.3	96.8		99.9	94.2
2008	101.8	103.3		101.9	102.1
2009	109.3	110.0		103.5	108.1
2010	97.1	98.8		94.7	97.0
2011	93.4	89.8	71.0	85.7	89.5
2012	94.0	99.3	76.1	89.0	92.5
2013	100.2	102.6	73.7	N/A	98.1*

** 2013 PEPM increases for Total Claims excludes Medicare as the significant drop in covered members in Medicare plans as of 2013 skews the loss ratio figures.*

Section 4

APPENDIX

HealthFlex cost drivers (PPO, EPO & CDHP)
Utilization — Medical only

	CY 2011	CY 2012	% Change	CY 2013	% Change
Inpatient					
Admits/1,000	72.7	71.3	-1.9%	69.0	-3.2%
ALOS	4.5	4.7	4.4%	4.9	4.3%
Days/1,000	327.2	335.1	2.4%	338.1	0.9%
Outpatient					
MD visits/1,000	5,078	5,324	4.8%	5,227	-1.8%
OP surgeries/1,000	221	222	0.5%	211	-5.0%
X-Rays/1,000	2,516	2,582	2.6%	2,312	-10.5%
Labs/1,000	9,028	9,233	2.3%	8,853	-4.1%
ER visits/1,000	197	196	-0.5%	191	-2.6%

HealthFlex cost drivers (PPO, EPO & CDHP)
Cost per service[1] — Medical only

	CY 2011	CY 2012	% Change	CY 2013	% Change
Inpatient					
Cost per day	$4,071	$3,916	-3.8%	$4,317	10.2%
Cost per admit	$18,318	$18,405	0.5%	$21,151	14.9%
Outpatient					
Cost per MD visit	$72	$73	1.4%	$73	0.0%
Cost per OP surgery	$598	$629	5.2%	$624	-0.8%
Cost per X-Ray	$144	$143	-0.7%	$158	10.5%
Cost per Lab	$25	$26	4.0%	$26	0.0%
Cost per ER visit	$700	$678	-3.1%	$642	-5.3%

[1] *Costs are on a plan paid basis.*

HealthFlex cost drivers (Medicare only)
Utilization — Medical only

	CY 2011	CY 2012	% Change	CY 2013	% Change
Inpatient					
Admits/1,000	228.1	239.5	5.6%	269.1	12.4%
ALOS	6.7	7.4	10.4%	8.1	9.5%
Days/1,000	1,528.3	1,772.3	16.6%	2,179.7	23.0%
Outpatient					
MD visits/1,000	9,988	10,106	1.8%	10,053	-0.5%
OP surgeries/1,000	533	574	8.5%	615	7.1%
X-Rays/1,000	4,252	4,496	6.1%	4,271	-5.0%
Labs/1,000	7,264	7,399	2.7%	8,436	14.0%
ER visits/1,000	487	516	6.2%	562	8.9%

HealthFlex cost drivers (Medicare only)
Cost per service[1] — Medical only

	CY 2011	CY 2012	% Change	CY 2013	% Change
Inpatient					
Cost per day	$5,148	$5,171	0.4%	$4,805	-7.1%
Cost per admit	$34,437	$38,304	11.2%	$38,914	1.6%
Outpatient					
Cost per MD visit	$100	$109	9.0%	$104	-4.6%
Cost per OP surgery	$1,492	$1,617	9.9%	$1,425	-11.9%
Cost per X-Ray	$342	$346	1.2%	$410	18.5%
Cost per Lab	$73	$75	2.7%	$84	12.0%
Cost per ER visit	$1,394	$1,505	8.0%	$1,358	-9.8%

[1] Costs are on an allowed basis due to the impact of Medicare offsets.

HealthFlex cost drivers (Medicare only)
Medical only

- Due to the reduction in Plan Sponsors offering the Medicare Companion plans, the data comparing 2012 and 2013 will be skewed.
- Inpatient days continued to increase, up by 23.0%, after a 16.6% increase in 2012.
  - Overall per member costs are offset by a decrease in the cost per day of 7.1%.
- Allowed cost per service decreased for all services except lab and x-ray which both saw significant increases in 2013.
- Utilization of outpatient surgeries, labs, and ER visits all increased in 2013.
- Labs, outpatient surgeries, and ER visits continue to increase.

HealthFlex cost drivers
In-network discounts

	CY 2011	CY 2012	% Change	CY 2013	% Change
PPO					
In-network discount	48.5%	50.1%	+1.6%	50.9%	+0.8%
% dollars in-network	92.7%	91.2%	-1.5%	92.8%	+1.6%
Net effective discount	45.0%	45.7%	+0.7%	47.2%	+1.5%
CDHP					
In-network discount	47.2%	44.0%	-3.2%	45.3%	+1.3%
% dollars in-network	95.8%	95.2%	-0.6%	93.1%	-2.1%
Net effective discount	45.2%	41.9%	-3.3%	42.2%	+0.3%
EPO					
In-network discount	52.8%	53.5%	+0.7%	55.5%	+2.0%
% dollars in-network	94.1%	92.7%	-1.4%	92.1%	-0.6%
Net effective discount	49.7%	49.6%	-0.1%	51.1%	+1.5%

CDHP % dollars in-network removes amounts for one claimant under South Georgia who skews the results due to being Medicare primary.

HealthFlex cost drivers
Member cost sharing

	CY 2011	CY 2012	% Change	CY 2013	% Change
PPO					
$ Out-of-pocket per member	$1,549	$1,584	2.3%	$1,579	-0.3%
% of allowed paid by member	14.4%	13.8%	-4.2%	13.3%	-3.6%
EPO					
$ Out-of-pocket per member	$562	$1,099	95.6%	$1,352	23.0%
% of allowed paid by member	5.6%	10.2%	82.1%	11.8%	15.7%
CDHP					
$ Out-of-pocket per member	$2,161	$2,200	2.0%	$2,195	-0.2%
% of allowed paid by member	28.5%	26.1%	-8.4%	25.4%	-2.7%
Medicare					
$ Out-of-pocket per member	$775	$919	20.9%	$958	4.2%
% of allowed paid by member	2.9%	2.9%	3.6%	2.7%	-6.9%

- Cost sharing by members has remained relatively flat in the PPO and CDHP plan, and increased in the EPO plans due to the required change to EPO D from EPO B for 2013.
- EPO had more out-of-network (not covered) claims that lead to higher out of pocket for members as well as the elimination of EPO A for 2012.
- The CDHP member cost share is highest as expected due to the larger deductible.

HealthFlex cost drivers
Prescription drug key metrics[1]

	CY 2011	CY 2012	% Change	CY 2013	% Change
Cost per Member per Month					
Total Billed Charges	$172.50	$170.33	-1.3%	$156.58	-8.1%
Member Paid	$30.58	$31.70	3.7%	$29.25	-7.7%
HealthFlex Paid	$141.92	$138.63	-2.3%	$127.33	-8.2%
Days Supply					
Days Supply Per Member Per Month	$70.37	70.54	0.2%	61.23	-13.2%
Cost per Day Supply					
Total Billed Charges	$2.45	$2.41	-1.5%	$2.56	5.9%
Member Paid	$0.43	$0.45	3.4%	$0.48	6.3%
HealthFlex Paid	$2.02	$1.97	-2.5%	$2.08	5.8%

- Average cost sharing by members decreased in 2013, due to a reduction in usage of prescription drugs.
- Days supply metric decreased significantly, likely due to reduction in covered Medicare members in 2013.
- However billed cost per day and plan paid dollars increased, due to change in mix of drugs with a reduction in maintenance mail order prescriptions as a result of the decrease in Medicare members.

[1] *Based on Medco's Paid Cycle Date.*

HealthFlex cost drivers
CDHP review

Incurred Oct 2012 – Sept 2013 (Paid Through Dec 2013)	PPO	EPO	CDHP
Inpatient			
Admits/1,000	64.2	77.5	48.9
ALOS	4.6	5.7	4.1
Days/1,000	295.3	441.8	200.5
Outpatient			
MD visits/1,000	5,176	5,617	4,491
OP surgeries/1,000	213	210	195
X-Rays/1,000	2,429	2,310	2,046
Labs/1,000	8,916	9,275	7,413
ER visits/1,000	191	194	132

- Inpatient days are less controllable through short-term consumerism behaviors and continues to reflect the fact that those in the CDHP might be healthier.
- However outpatient visits and procedures are more controllable, and show that the CDHP generally has the lowest usage of these services, with Emergency Room usage continuing to be significantly lower for the CDHP.

HealthFlex cost drivers
CDHP review

Incurred Oct 2012 – Sept 2013
Paid Oct 2012-Dec 2013

	PPO	EPO	CDHP
In-network discount	50.9%	56.4%	44.6%
% dollars in-network	91.9%	92.1%	92.6%
Net effective discount	46.8%	51.9%	41.3%

- Discounts are not on a comparable basis between plans as discounts differ based on location and CDHP represents discounts received in those locations for the plan sponsors who currently offer the CDHP.
- However, % dollars in-network is comparable as access to the network is generally similar for most plan sponsors.
- CDHP % dollars in-network removes amounts for one claimant under one annual conference who skews the results due to being Medicare primary.

HealthFlex cost drivers
CDHP review

Incurred Oct 2012 – Sept 2013
Paid Through Dec 2013

	PPO	EPO	CDHP
Generic Use %	73.5%	73.4%	73.5%
# Claims/Member	11.28	10.45	10.44
Paid/Member	$1,333	$1,261	$1,026
Allowed/Member	$1,611	$1,503	$1,294
Allowed Cost/Generic Script	$48	$52	$48
Allowed Cost/Brand Script	$421	$415	$326

- Generic use is essentially the same across all plan types and continues to increase from prior years (e.g., prior year period was 68%-69%).
- The number of claims per member is not very different between the plans, suggesting that risks are not significantly different, with PPO being slightly higher.
- Plan paid per member should be lower for CDHP due to the P 2 design, but allowed charges (prior to member cost sharing) shows CDHP is still lower than the PPO or EPO, driven by lower average cost of brand-name prescriptions.