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Introducing Healthcare Claims Indices

1. What are the S&P Healthcare Claims Indices?

The S&P Healthcare Claims Indices (the indices) are an index series developed from medical and pharmaceutical claims data, which are obtained from leading health insurance companies and other data providers in the U.S. The indices track the changes in the cost and utilization of private medical insurance programs (including self-insured health plans sponsored by large corporations) and are a tool to analyze changes in healthcare expenditures. More specifically, the indices provide data on the cost, utilization and unit costs of healthcare services covering inpatient and outpatient services, as well as generic and branded prescription pharmaceuticals.

2. How can these indices be used?

Because our indices represent a benchmark for healthcare costs, they can be used in various ways:

- Insurers can use them to analyze past trends, thus helping to set future rates.
- Medical providers can use the indices to help guide forecasts for future revenue growth.
- Analysts and other industry experts can use them to understand where specific trends in healthcare costs are originating, and how to respond to these trends.
- The indices can also be used as a basis for providing rate or trend guarantees, or for structuring risk sharing arrangements between health plans, employers and/or providers for annual or longer term periods.

3. What makes the indices unique?

This is the first index series to consist of actual healthcare claims data from approximately 60 million individuals (approximately 40% of commercially insured fee-for-service population in the U.S.) from 33 contributing plans. Because of this, we expect that the indices will be a valuable tool to health plans, healthcare provider systems, employers and other parties. In addition, the analysis from these indices could result in better risk management tools for the broader healthcare industry.

4. How are the indices calculated?

For more information on how the indices are calculated, please refer to our published methodology document on our website: www.healthcare.spdji.com.

5. Is there a lag period for the indices, and if so what is it?

We have a range of indices with different lags. S&P Dow Jones Indices LLC (S&P DJI) publishes three separate series based on its receipt of incurred data:

- Three-month index: Accumulates claims that have arrived in a three-month window prior to reporting. Generally picks up 80% of activity;
- Six-month index: Accumulates claims that have arrived in a six-month window prior to reporting; and
- 12-month index: Accumulates substantially all claims with a 12-month look back.

For more information on lag periods, please refer to our published methodology document at: www.healthcare.spdji.com.

6. Are there any restatements of the data?

Incurred claims data obtained from health insurance companies and other data providers are revised each month after the initial monthly data file is received by S&P DJI until 11 additional monthly updates are available. S&P DJI retains complete history of the initial and all restated data.

For more information on restatements, please refer to our published methodology document at: www.healthcare.spdji.com.

7. How much history is available for these indices?

History for these indices date back to March 2008.

8. Who is Health Index Advisors, and what is its role in the indices?

Health Index Advisors LLC, a joint venture between Aon Inc. and Milliman Inc., provides actuarial and healthcare expertise to S&P DJI to analyze current market developments and conduct ongoing analysis of the indices.

9. What is the difference between the S&P Healthcare Economic Indices and the S&P Healthcare Claims Indices?

The healthcare economic indices are model-based, utilizing government data such as medical employment and wages and benefits, as well as other variables (influenza information, for example), to estimate healthcare costs. By contrast, the S&P Healthcare Claims Indices are calculated using actual claims data provided by insurers, thereby providing a more complete and direct measure of healthcare cost trends. Moreover, the claims indices do not include non-commercial data, such as Medicare, whereas the economic indices do not include pharmaceutical-related data.

10. How do these indices differ from the Medical Consumer Price Index?

The Medical Consumer Price Index (“Med-CPI”) is published monthly by the Bureau of Labor Statistics, with a two- to three-week lag. The Med-CPI is intended to measure inflation at the retail level on out-of-pocket household expenses for a “market basket” of healthcare services. However, Med-CPI may understate the true level of healthcare claim cost trends for the following reasons:

- Med-CPI tracks a wide range of healthcare price changes, some of which are not covered under most medical insurance programs (such as over-the-counter pharmaceuticals, dental and vision services).
- Med-CPI does not track changes in the utilization, amount of usage or mix across different services. Utilization levels have a significant impact on the total per capita change in expenses for health insurance programs. By not tracking the utilization changes on a timely basis, Med-CPI omits one of the key factors driving healthcare claim cost trends.
- Med-CPI is affected by the impact of market changes in the pricing of healthcare services, such as potential cost-shifting between public (Medicare and Medicaid) and private insurance programs, since all programs are included in the Med-CPI.
- Med-CPI represents a fixed market basket of services from a fixed point in time in the past, and as such, it does not capture the impact of changes in the mix of services (for example, x-rays versus cat-scans versus MRIs) or new services until they are added to the market basket.

11. How do these indices compare to other external measures of healthcare cost changes?

The indices have several important features. They measure both changes in cost of services and utilization. Furthermore, the indices measure distinct trends in different lines of business for commercial medical plans. Relative to other sources, the indices provide more detailed data by geography, and distinct indices are available at a regional, state and metropolitan level.

12. Why might one insurer or group of insurers experience trends that are different from the indices?

Since the indices are an industry-wide measure of the average trend for healthcare services, it is probable that any health plan will observe variations from time to time when comparing their experience trends to the claims indices. Several factors, including differences in benefit levels, demographics, provider reimbursement mechanisms and geography could contribute to these differences. At the inpatient level, catastrophic claims can have a dramatic effect on measured claims trends over short periods. In addition, the indices measure the trends for allowed charges, including deductibles and co-payments, whereas, the reported financial experience of health plans excludes the impact of the member payments and usually results in higher trends over time due to the fixed nature of many of the member payments.

13. Where can I obtain more information about the indices?

Historical and current monthly index information, including a factsheet and index methodology, is available at www.healthcare.spdji.com.

Additional indices and geographical sets are available by subscription only. For more information, please contact index.services@spdji.com.

Index Breakdowns

1. Which lines of business are covered?

The indices cover the following lines of business:

- Large insured group policies (typically cover 100 or greater employees);
- Small insured group policies (generally cover fewer than 100 employees);
- Individual insured policies (a direct contract between an individual and the health insurer for healthcare services in exchange for a premium paid to the insurer); and
- Administrative services only (“ASO”) plans (includes programs where the insurance carrier administers the plan while the plan sponsor or employer is responsible for payment of the incurred costs).

2. Which categories are not covered?

The indices track healthcare medical and pharmaceutical cost changes for the commercially insured population in the U.S. As such, the following categories are excluded:

- Medicare and Medicaid populations;
- Uninsured populations;
- Dental, vision, nursing homes and other miscellaneous healthcare categories; and
- Veteran Affairs.

While S&P DJI collects data on services paid through a capitation arrangement, we are not calculating separate capitation indices at this point.

3. Are there plans to publish capitation indices?

Capitation indices are not currently available but are being considered as a future planned launch.

4. Are there any utilization and unit cost indices?

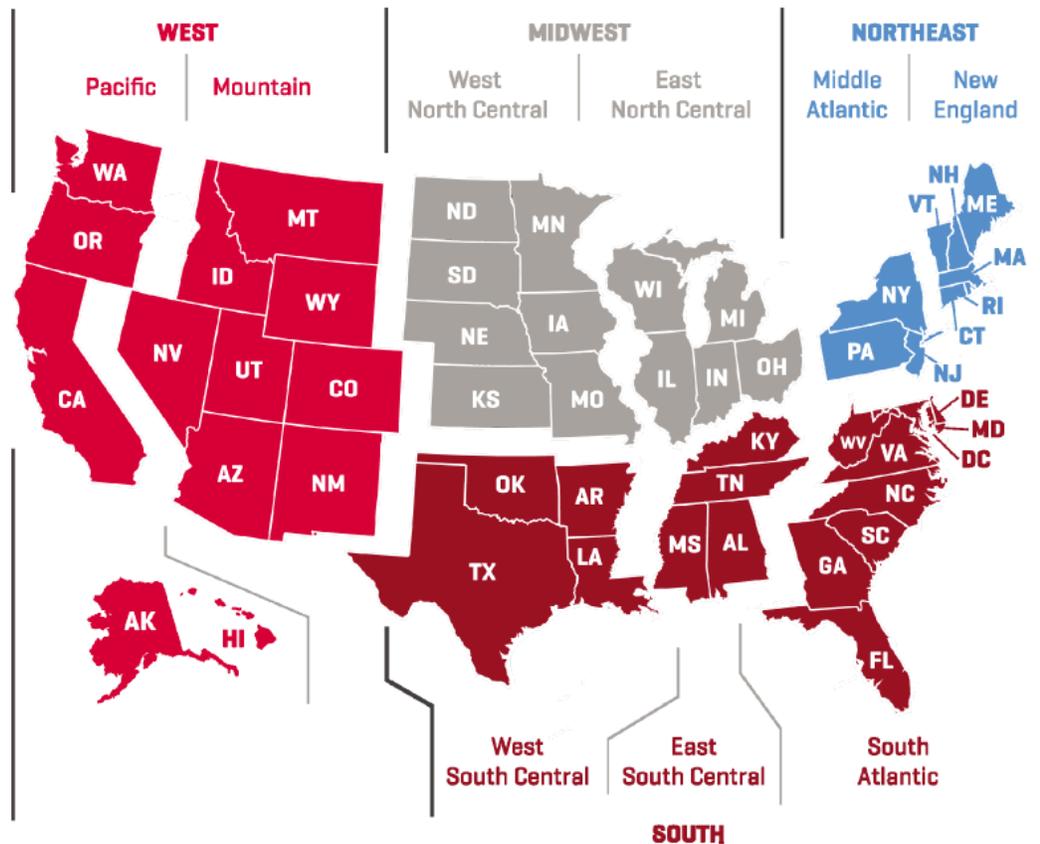
Yes. Utilization and unit cost indices are available for the inpatient and pharmaceutical indices. However, utilization and unit cost indices cannot be calculated where the underlying types of services are too diverse. Outpatient indices are a good example of this. These types of procedures encompass a wide range of service types and costs (from surgery to imaging to physical therapy), which does not allow a single measure of utilization.

S&P DJI calculates three broad categories:

- Cost indices: Track the cost of a set of specific covered services per insured individual;
- Utilization indices: Track usage per period of time per insured individual of covered services; and
- Unit cost indices: Track the average cost per unit of healthcare service provided (such as cost per inpatient hospital day) for a specific type of healthcare service.

5. What is the geographic breakdown of these indices?

The indices are broken into four different census divisions, nine different census regions, 50 states and 49 metropolitan areas. In addition, California is broken into north and southern California, and Pennsylvania is broken into eastern and western Pennsylvania. Also, the Atlantic census region is broken into North Atlantic and South Atlantic. U.S. territories are not covered.

Exhibit 1: Geographic Breakdown

Source: U.S. Census Bureau.

6. Are there any restrictions to publishing an index?

To protect the confidentiality of individual contributor data, S&P DJI will restrict publishing certain indices that do not adequately distribute contribution weight over enough plans. In addition, S&P DJI will not publish an index that could be decompiled or reverse-engineered to reveal individual healthcare data.

For more information on published and available indices, please refer to our published methodology document at: www.healthcare.spdji.com.

7. What is the minimum enrollment for publishing an index?

For non-pharmaceutical indices, we require a minimum enrollment of 7,500 members and for pharmaceutical indices we require a minimum enrollment of 5,000 members. However, despite these minimum enrollment limits, significant trend fluctuations can still occur due to catastrophic claims and other contributing factors.

8. Why do the pharmaceutical indices have lower overall enrollment than the medical indices?

The pharmaceutical data are gathered from the same sources as the medical cost data (health plans and healthcare data firms). Because many health plans carve out the delivery of pharmaceutical supplies to third-party Pharmacy Benefit Managers (PBMs), the health plan may not have the actual claims data for the pharmaceutical expenses. As such, the number of members with available medical claims may not match the number with available pharmaceutical data.

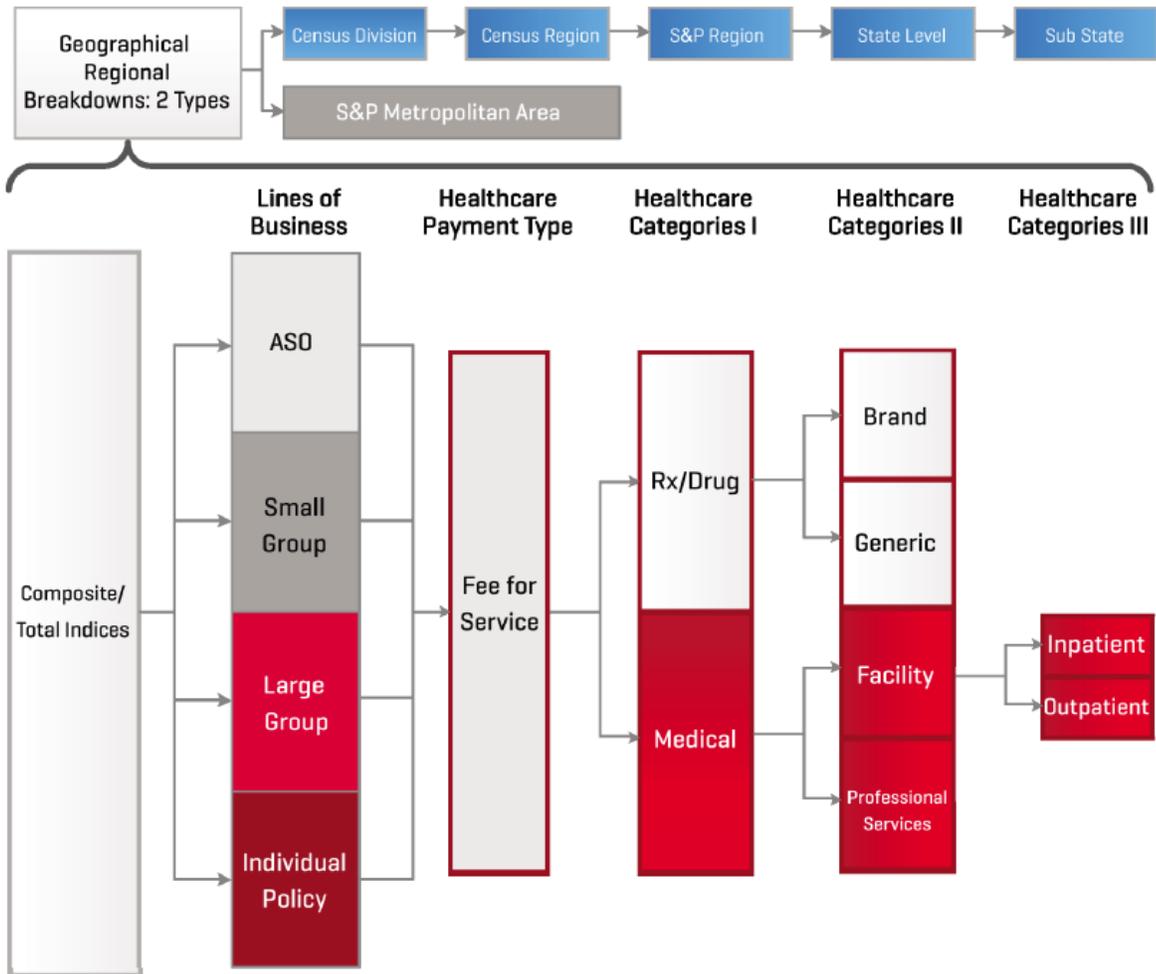
9. Are there brand and generic pharmaceutical indices?

Yes. There are separate brand and generic pharmaceutical indices, as well as composite pharmaceutical indices (brand plus generic). All pharmaceutical indices are calculated in cost, utilization and unit cost versions.

10. What index breakdowns are available?

In total, S&P DJI publishes more than 31,000 indices, with various combinations by lines of business, medical and pharmaceutical and distinct geographic break-downs.

Exhibit 2: Overview of the S&P Healthcare Claims Indices



Source: S&P Dow Jones Indices.

Index combinations will also be available in cost, unit cost and utilization versions.

11. Are co-payments made by individuals included?

Yes, claims submitted to S&P DJI by the insurers reflect both the covered charges, including the individual insured’s co-payments and deductibles.

12. What is the difference between hospital inpatient and hospital outpatient?

Outpatient services refer to walk-in patients at a hospital who are not hospitalized overnight but who visit a hospital, clinic or associated facility (such as a free standing ambulatory surgical center or imaging center) for diagnosis or treatment. Inpatient services refer to patients who are admitted to the hospital for at least one night for care and treatment.

13. What is the difference between incurred versus paid claims?

Incurred claims reflect the full ultimate liability amounts for the covered medical services provided irrespective of when billed by or paid to the providers, and include both the paid and unpaid amounts of that liability to the healthcare providers. Paid claims are the claims dollars that have been paid to the provider as of a given point in time. The S&P Healthcare Claims Indices are calculated using incurred claims data.

14. Does S&P DJI publish a paid series of indices?

No, S&P DJI has no plans to publish a paid series of indices.

15. What does facility mean?

For the purposes of the S&P Healthcare Claims indices, facility refers to hospitals and outpatient care centers.

16. What does capitation mean?

Capitation is another method of financing healthcare insurance programs by paying a healthcare provider organization a fixed amount per enrolled member each month as full payment for a defined set of healthcare services, regardless of the actual services provided. In essence, capitation establishes a fixed budget payment amount for a provider in place of the fee-for-service system. Because capitation is still an emerging trend and is concentrated in certain market segments, not enough data sets are currently available to create a robust, representative index.

Data Collection and Validation

1. Where does the data used for calculating indices come from?

These data are provided by industry-leading health insurance companies and third-party healthcare data suppliers, covering approximately 40% of the total commercially insured fee-for-service U.S. healthcare market. S&P DJI has entered into license agreements with health insurance companies and healthcare data suppliers to access and use the data.

2. Are regular checks performed on data quality?

Contributing health plans, third-party suppliers and S&P DJI all perform extensive quality checks to confirm the integrity and quality of the data.

3. Are all health plans in the U.S. included in the indices?

No. While the indices currently have broad representation of health plans, not all health plans in the U.S. are included. S&P DJI may expand coverage in the future based on data availability.

4. What role do the health plans have in index publication?

All contributing data sources have a limited role in publishing indices. Certain plans may provide advice and consultation regarding developing new indices. However, the indices are calculated and maintained by an Index Committee. The plans do not have representatives on the committee.

For more information on the Index Committee's role, please refer to our published methodology document at: www.healthcare.spdji.com.

5. Will the addition/deletion of a health plan distort the indices?

No, S&P DJI uses an adjustment factor to measure changes in actual healthcare costs, not artificial changes due to the addition or deletion of health plans from the indices.

6. Do the contributors check their data for quality before sending it to S&P DJI?

Yes. Health plans utilize this same data for internal purposes, and thus the data sent to S&P DJI go through the same quality checks as they use for their internal operations.

7. Does S&P DJI check the data for quality?

Yes, S&P DJI performs various quality control checks each month.

Data Distribution and Licensing

1. How often are the indices published?

The indices will be published on a monthly basis, with related press releases sent to major media outlets quarterly. An annual schedule of index release dates will be published on www.healthcare.spdji.com each December for the following year.

2. Where can I find the indices?

The indices will be published at: www.healthcare.spdji.com. They are also available on Bloomberg. For more information, please contact index.services@spdji.com.

3. Do I need a license from S&P DJI in order to receive and use the indices?

Yes, in order to receive, use or distribute the indices, you will be required to enter into a subscription or license agreement with S&P DJI. Questions regarding licensing the indices can be addressed to:

Bo Chung
Managing Director
bo.chung@spdji.com, +1.212.438.3519

4. Do I need a license from S&P DJI to use the indices in connection with financial products?

Yes, in order to use the indices in connection with a financial product or transaction, you will be required to enter into a license agreement with S&P DJI. However, if you are a counterparty to a transaction with a bank or broker-dealer, such bank or broker-dealer may enter into the license agreement with S&P DJI for the transaction.

Questions regarding licensing the S&P Healthcare Claims Indices can be addressed to::

Bo Chung
Managing Director
bo.chung@spdji.com, +1.212.438.3519

5. How much do the indices cost?

Pricing information requests can be addressed to:

Bo Chung
Managing Director
bo.chung@spdji.com, +1.212.438.3519

6. Will S&P DJI calculate customized versions of the indices that are not broadly published by S&P DJI?

Yes, custom indices by geographic area, type of coverage (individual, small group, large group and ASO) and combinations of benefits (for example, physician + pharmaceutical, etc.) can be developed and distributed at an additional cost. Custom index requests can also be addressed to:

Bo Chung
Managing Director
bo.chung@spdji.com, +1.212.438.3519

About S&P Dow Jones Indices

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The Indices do not reflect real time data with respect to healthcare claims. There is a lag between when a healthcare claim is incurred and when such incurred claim will be reflected in the Indices.

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