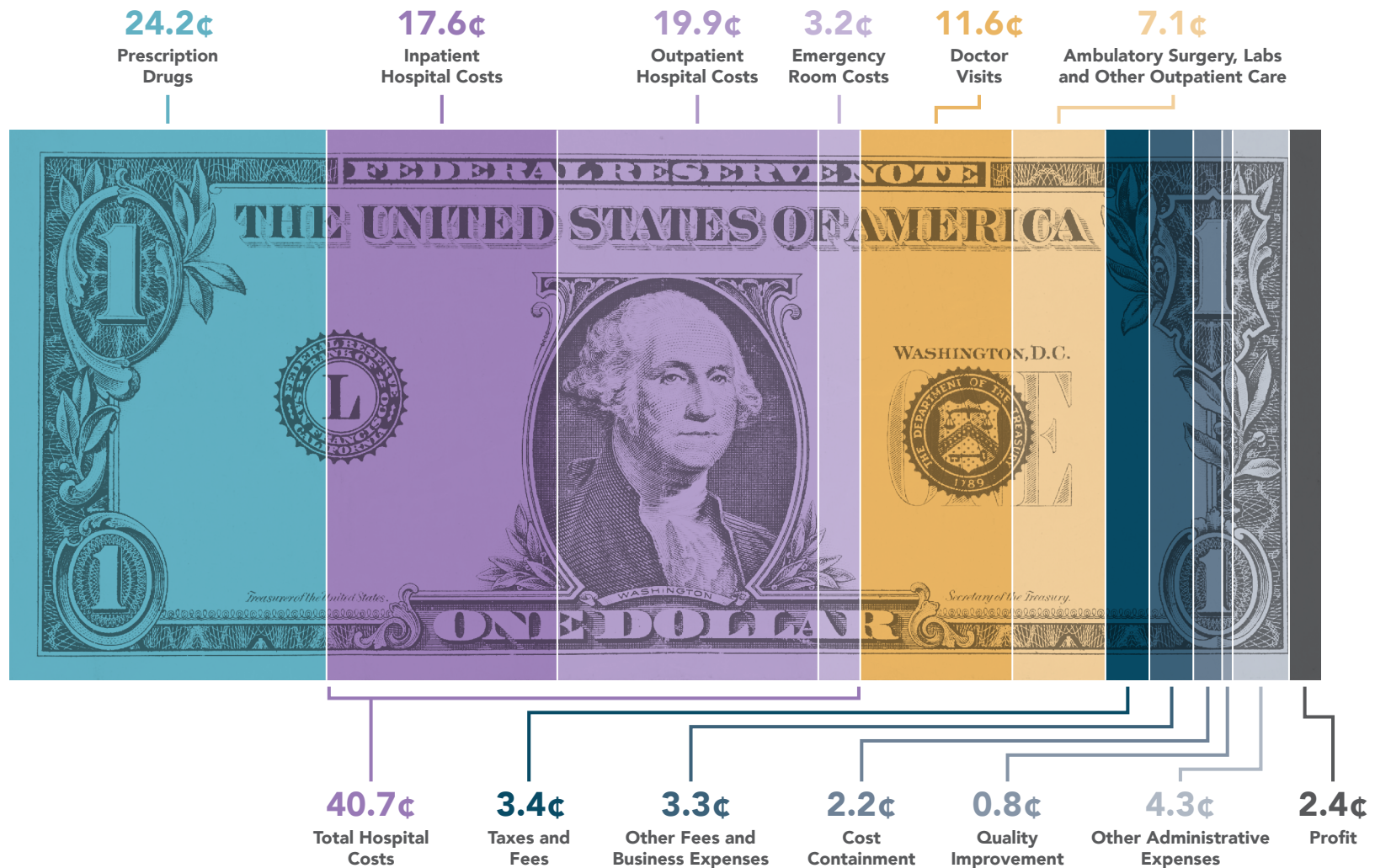


Where Does Your Health Care Dollar Go?

Your premium is how much you pay for your health insurance coverage each month. It helps cover the costs of the medications and care you receive and improves health care affordability, access and quality for everyone.

Here is where your health care dollar really goes.



This data represents how your commercial health plan premiums pay for medical care, as well as related services and essential operations. This data includes employer-provided coverage as well as coverage you purchase on your own in the individual market. Data reflects averages for the 2020-22 benefit years. Totals may not add up to 100% due to rounding.

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CATEGORIES	WHAT THIS INCLUDES:	EXAMPLES:
Prescription Drugs	Payments for outpatient prescription medications, mostly self-administered drugs, as well as payments for prescription medications administered in the physician's office or clinic. The self-administered prescription drug spending was calculated net of any estimated prescription drug rebates paid by the drug manufacturers.	Medications you pick up from your local pharmacist, like antibiotics, blood pressure pills, or creams for rashes. Also, injectable drugs that are administered by a nurse or doctor either at their office or in your home.
Inpatient Hospital Costs	Payments for all services during hospitalization, including the administration of prescription drugs provided during a hospital stay. Payments to physicians, and facility payments.	The costs for your hospital room and board, including equipment or supplies used during your hospital stay. Salaries of doctors, nursing staff, and all other hospital personnel. General overhead costs of running a hospital, such as utilities and land.
Outpatient Hospital Costs	Physician and facility non-drug-related payments for treatment in the outpatient department of hospitals, not including emergency room care.	Going to a hospital to get an MRI or an X-ray. Visiting a primary care doctor or a specialist in the hospital outpatient department.
Emergency Room Costs	Physician and facility non-drug-related payments for emergency room visits and ambulance transportation.	Paying doctors for their time and expertise in arriving at a diagnosis and a treatment plan during your hospital emergency room visit. Paying for equipment or supplies used during your visit. General overhead necessary to operate the emergency room around the clock. If you stay overnight, the payment is included under inpatient hospital costs.
Doctor Visits	Payments to doctors or clinics for all non-drug-related outpatient services provided during visits to doctor offices, clinics, and urgent care facilities.	Equipment or supplies used during a doctor or nurse visit. Paying doctors for their time and expertise in arriving at a diagnosis and a treatment plan for you. Salaries of nursing staff and other ancillary staff. Office rent and general overhead costs of running a physician's office or clinic.
Ambulatory Surgery, Labs and Other Outpatient Care	Payments for all outpatient services incurred outside hospitals, doctor offices and clinics, such as claims from ambulatory surgery centers, labs, dialysis, or at-home care.	Lab work, treatment in dialysis centers, home health care, or surgeries performed in ambulatory surgery centers.

CATEGORIES	WHAT THIS INCLUDES:	EXAMPLES:
Taxes and Fees	All taxes and assessments paid by the health insurance plan.	All the usual federal, state, and local taxes paid by any business, like income taxes, property taxes, and payroll taxes. Also includes payments that are unique to a health insurance plan, like taxes paid on insurance premiums and regulatory authority licenses and fees.
Other Fees and Business Expenses	Direct sales salaries and benefits, agent and broker fees and commissions, and insurance rebate payments.	Expenses required to run any insurance business, like costs associated with paying insurance agents and brokers. Also includes money paid back to customers as insurance premium rebates.
Cost Containment	Claims adjustment expenses, detection and prevention of fraud and abuse, case management, expenses for appeals, expenses for developing and managing provider and prescription drugs networks.	Prevention of fraud, waste, and abuse by doctors and patients. Answering questions from doctors and hospitals. Helping providers with best practices. Ensuring proper credentialing for quality care. Programs to better manage chronic conditions and coordinate care between doctors, to ensure that the right treatment is provided to the patient at the right time.
Quality Improvement	Efforts to improve health quality and increase the likelihood of desired health outcomes such as preventing hospital readmissions, improving patient safety, wellness and health promotion, and health information technology.	Preventive care programs to keep you healthy, like weight management plans or smoking cessation plans. Patient education and follow-up calls by health plan staff to members discharged from a hospital. Services to improve health in communities, like sponsoring local health fairs and providing free disease screenings and other educational events.
Other Administrative Expenses	General and administrative costs to run the business, including salaries, outsourced services, equipment, accreditation and certification fees, rent, legal fees and expenses, advertising, postage, utilities, etc.	Managing employee benefits and retirement plans. Reviewing contracts or conducting legal research. Maintaining office space.
Profit	Net profit of for-profit health insurance health insurance plans and the difference between total revenue and total expenses for not-for-profit health insurance plans.	The revenue remaining after all costs are paid.

Methodology

The goal of our analysis is to show how premiums for a typical commercial (employer-provided coverage and individual market) health insurance plan are invested. The analysis shows the inflation-adjusted average annual amounts paid by commercial health insurance plans in 2020-2022 for the medical care of plan members; the average annual amounts paid for general operating expenses; and the average annual reported profit or loss. The data reflect the impact on health plan spending related to COVID-19 inasmuch as it affected the medical services utilization, provider payments, profit and administrative expenses starting in 2020.

Overview of Data Used

Medical Services

Certain data used in this study were supplied by Merative™ as part of one or more MarketScan® Research Databases. Any analysis, interpretation, or conclusion based on these data is solely that of the authors and not Merative. To determine the annual amounts paid for medical services in 2020-22, the commercial claims data from the Merative® MarketScan® Commercial Database were summarized. The main variable of interest was the portion of the total medical or pharmacy bill paid by the health insurance plan.

Since the analysis used multiple years of data, all expenditure data were adjusted for inflation and expressed in 2022 dollars. This inflation adjustment was performed using the Medical Care Component of the Consumer Price Index (CPI) reported by the U.S. Bureau of Labor Statistics (www.bls.gov).

Only those patients under the age of 65 on the date of service who had evidence of continuous health plan enrollment for the entire period in each study year and had prescription drug coverage were included. Claims with missing payment or dates of service information were excluded from the study.

Premium Revenues, Operating Expenses and Profit

AHIP analyzed financial statements of 29 health insurance plans: 4 publicly traded for-profit health insurance companies and 25 randomly selected not-for-profit health insurance plans that had the majority of their business (i.e., greater than 50% of enrollees) in the commercial market.

To estimate operating expenses and profitability for the 4 publicly traded insurance plans, their 2020-2022 10K filings with the Securities and Exchange Commission were examined; while operating expenses and profitability data for private, not-for-profit organizations were extracted from their 2020-2022 Form 990s, filed with the Internal Revenue Service, or, when not available, from the financial statements published on the health plans' websites.

Only those revenues attributable to premium payments from health plan members were recorded for each plan, for each year. Revenues from sources other than premium payments, such as from other business segments or investment income, were excluded. For each plan, the average revenue across the 3 years was calculated.

For the 4 publicly traded, for-profit health insurance plans, their total operating expenses were recorded from amounts listed in their 10K filings as "Operating Costs," "General and Administrative Expenses," or "Sales, General and Administrative". Similarly, profitability was recorded from amounts shown as "Net Income" or "Net Profit". For each plan, average total operating expenses and average net profit were calculated across the 3 years.

For the 25 private, not-for-profit entities, their total operating expenses were calculated by subtracting the "Benefits Paid to or For Members" from the "Total Functional Expenses" amounts appearing in their Form 990. Similarly, profitability was determined by subtracting the "Total Expenses" from their "Total Revenues." For each plan, average total operating expenses and an average net profit were calculated across the 3 years and recorded.

Finally, for those health insurance plans that have multiple revenue streams beyond member premiums, some of the plans' total operating expenses and profits could be unrelated to servicing their insured population. To account for that, we apportioned the operating expenses and profits based on the share of the health plan's revenue derived from member premiums. For example, if a plan had 80% of its revenue derived from member premiums, we used 80% of its total operating expenses and profits in our calculations.

For each plan, the average total operating expenses and the average net profit amounts were divided by the average revenues derived from premiums to yield that

insurance plan's operating margin and net profit margin. To account for differences in the sampling of for-profit (n=4 plans) and not-for-profits (n=25 plans), a simple average of the operating margin and an average of the net profit margins were calculated separately for the for-profit and not-for-profit plan subgroups. These two averages were then weighted by these two groups' share of commercial enrollment and combined.

The average total operating expenses calculated across all plans were further subcategorized into the key functional areas. The proportions of the average total operating expenses attributable to each of these core administrative functions were determined by the consulting firm, Oliver Wyman. Oliver Wyman analyzed 2020-2022 Supplemental Health Care Exhibit filings submitted by commercial insurance plans to the National Association of Insurance Commissioners (NAIC) as part of their statutory filings.

Since the analysis of NAIC filings used multiple years of data, all administrative expenses data were adjusted for inflation by using the Medical Care Component of the Consumer Price Index (CPI) reported by the U.S. Bureau of Labor Statistics (www.bls.gov) and expressed in 2022 dollars.

Drug Costs Net of Rebate

To account for the pharmaceutical manufacturers' rebates, which are not reflected in the claims data, AHIP subtracted the estimated value of rebates from the total pharmaceutical spend to present the prescription drugs spending net of all rebates received. The application of rebates has not been extended to drugs that must be administered by a physician, since these drugs are typically purchased directly by medical providers and are subsequently reimbursed by insurers through medical, and not pharmacy, benefits.

To calculate the value of rebates, AHIP used the rebate data from the CMS's Medical Loss Ratio Public Use Files. AHIP calculated the median rebate percentages in 2020-2022 for individual, small, and large commercial plans and apportioned the value of rebates according to the share of national fully insured commercial enrollment in individual, small, and large plans based on the 2020-22 National Association of Insurance Commissioners (NAIC) and California Department of Managed Health Care enrollment.