

MARKETPLACE ALERT:
TREND PROJECTIONS FOR 2002

“EDUCATION THROUGH INFORMATION”

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INSURANCE

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HEALTH CARE MANAGEMENT STRATEGIES

Marketplace Alert: Trend Projections for 2002

What is trend?

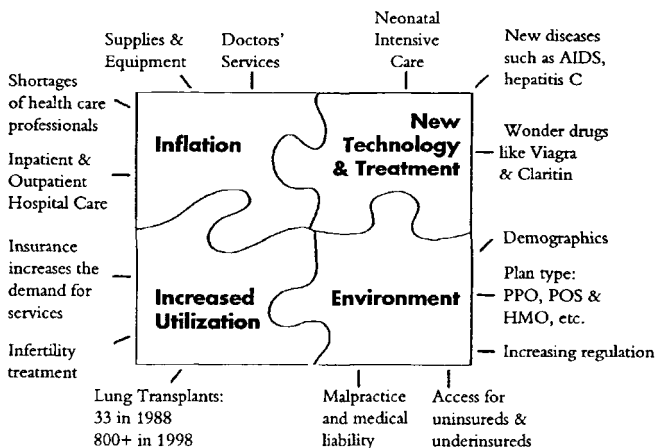
Because this term is often misunderstood in the marketplace and sometimes misused, we would like to start with a definition:

Trend is a prediction of how much claim costs will change from one time period to the next with the assumption that the covered population will remain the same.

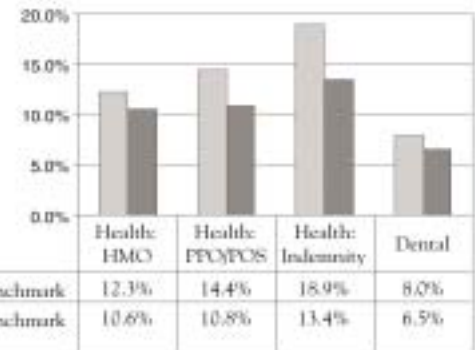
Please note that trend is not equivalent to how much rates increase. Trend is a factor in the development of the rate increase for individual employers, but it is not the only factor. Things like prior claims experience and administrative costs are also relevant.

The 4 main components of trend serve as a puzzle in terms of what the final outcome will yield. The figure below provides a good overview of the components and factors that influence them.

Trend Components



Source: Sun Life of Canada



Overview of Data Sources

The source data for our projections were based on extensive discussions with state and national insurance carriers/administrators. The information obtained through these discussions was then benchmarked with our actuarial review of client claims experience and trend thereof to develop our baseline expectations for trend for 2002.

In addition, we have collected extensive information from national surveys and have developed an algorithm that represents a consensus of the national benchmarks for comparison purposes. The results of our findings are presented in the graph above.

Other things to Consider

Knowing that all provider networks are not equal in their effectiveness and that employee populations are far from stable, the baseline trend factors that have been developed serve only as a starting point for projecting future claims liability. This starting point is often adjusted to reflect the unique circumstances of the individual employer.