Differences in the Standard Development Method

- Monthly incurrals instead of yearly incurrals
- Exposure base is typically member or employee counts by month instead of annual premium
  - This gives us a per member per month (PMPM) or per employee per month (PEPM) historical cost view as opposed to an historical loss ratio
  - Eliminates impact of premium increases, but results in an upward trend in costs instead of a relatively level target
- Very short tailed liabilities with 90% of runout paid within three months of incurreal for regular medical claims and up to 99% of runout paid within 1 month of incurreal for pharmacy.
- Results in the significant majority of the reserve in months where we are estimating the expected incurreal instead of relying on the completion factor estimate.
Adjustments to model that may affect incurreds calculated by the Development Method

- Removal of excess claims from an anomalous cell
  - EY Internal Guideline: more than 1% of claims incurred and paid for that incurral month AND more than 2.5 standard deviations for claims paid in the same duration across all incurral months
  - Process is judgmental – trying to eliminate aberrations but not repetitive infrequent occurrences.

- Backlog adjustment due to changes in claims processing

- Claims processed via settlement / AP and not in triangle (not a reserve impact in months where Development Method is used exclusively)

- Known large claims pending

- Adjustments for other aberrations such as no claims payments for a month due to system conversion or claims processing issues
Adjustments to model that may affect incurreds calculated by the PMPM method

- Removal of excess claims causing development factor or base period changes
- Backlog adjustments due to changes in claims processing
- Benefit changes – either new benefit offered or plan design change by a large portion of a block of business
- Contract changes
- Census changes
- Seasonality
  - Work Days / Calendar Days / Residual
- Authorizations
- Trend
- Known large claims pending
Credibility of development method in most recent months

- We will typically do a weighted average between the development method and a modified B-F method using standard weights but this requires frequent review as standard weights may not provide a reasonable result and therefore adjustments are made.

Other Statistics considered during our analysis

- Base period
- Months in IBNR
- Average duration
- Differences in completion factors methods
- Rolling trends
- Completeness of oldest month
- Negative reserves
### PMPMs by Year

**Individual Drug from Sep 2009**

<table>
<thead>
<tr>
<th></th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
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