

HEALTHCARE SPENDING INDEX FOR PRIVATE INSURANCE

NOVEMBER 2010

The *Thomson Reuters Healthcare Spending Index for Private Insurance* (HSI-PI) measures historical and current levels of per capita spending on healthcare for individuals with private health insurance. The index measures spending on a rolling four-quarter basis.

The current release of the *HSI-PI* is confined to self-insured employers offering healthcare coverage to employees and dependents. Only non-elderly individuals and those with non-capitated health insurance coverage are included. We estimate that in 2009 this segment of the privately insured population represented roughly 25 percent of the U.S. total.

The *HSI-PI* estimates are based on data from the *Thomson Reuters MarketScan® Databases*, a large dataset containing paid claims for inpatient and outpatient services, as well as outpatient prescription drugs. An average of 4.9 million employees and dependents in the *MarketScan® Databases* were used to construct the index for 2002.

The *HSI-PI* will be released quarterly, approximately 90 days after the end of the quarter in which healthcare services were used. The baseline of the index (value of 100) is set at the 4th quarter of 2002 for all reported components. The leading four quarters of estimates are preliminary and are subject to revision in subsequent quarterly releases of the indexes.

The *HSI-PI* will be reported at several levels:

- Total spending per capita
- Physician (professional) spending
- Hospital (facility) spending
- Drug spending
- Consumer out-of-pocket spending

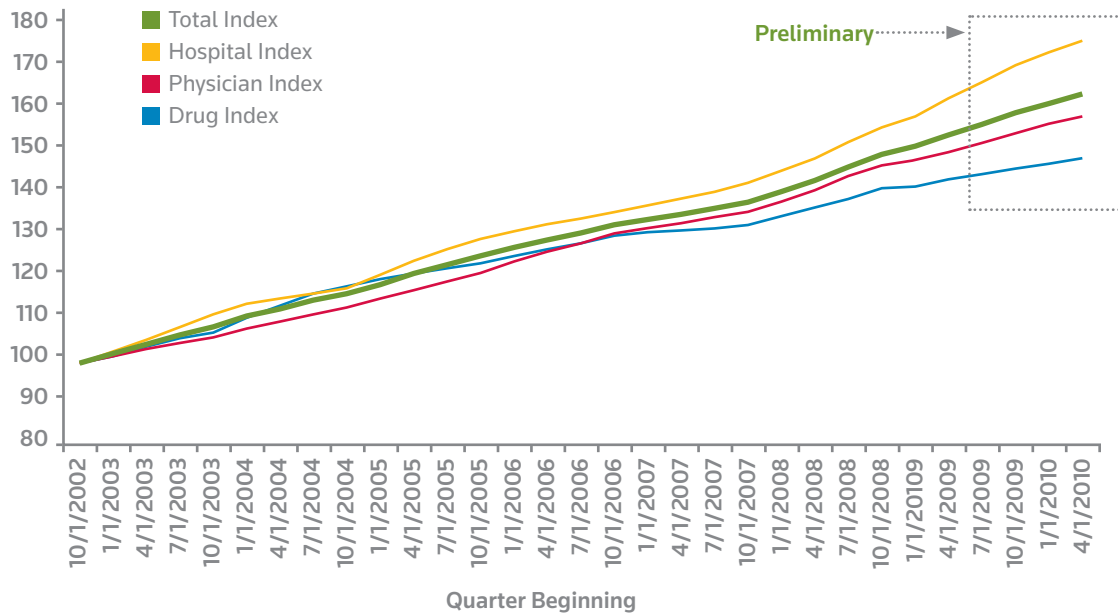
Table 1 contains current preliminary values of the index as of the 2nd quarter of 2010.

TABLE 1: Thomson Reuters Healthcare Spending Index - Private Insurance (2010 Q2 Preliminary Values)					
SPENDING CATEGORY	2009 Q2 INDEX	2010 Q1 PRELIMINARY INDEX	2010 Q2 PRELIMINARY INDEX	ANNUAL % CHANGE 2010 Q2	QUARTERLY % CHANGE 2010 Q2
Total	153	160	162	6.3%	1.3%
Hospital	161	172	174	8.2%	1.5%
Physician	149	155	157	5.5%	1.2%
Drug	142	146	147	3.4%	0.8%



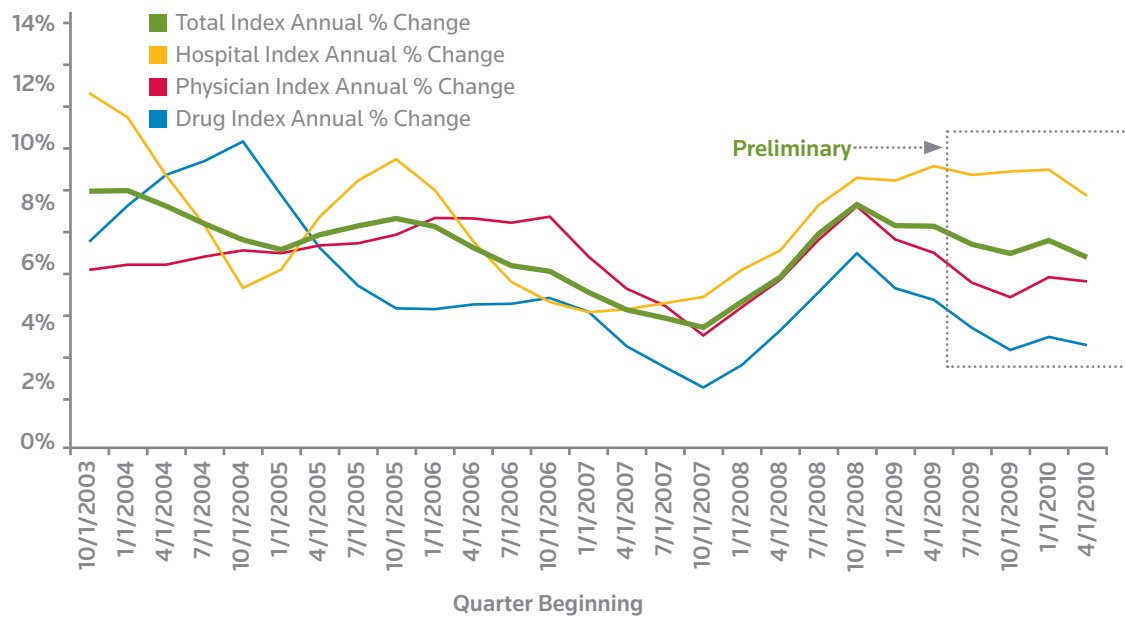
Historically, hospital (facility) per capita spending has increased most rapidly in the period 2002-2010Q2, with an index value of 174 in 2010Q2 (an annualized rate of increase of 7.7 percent, see Figure 1). In 2004, increases in prescription drug spending matched those for hospital care, but have slowed steadily since then, resulting in a value of 147 in 2010Q2, the smallest of the components being tracked with an annualized rate of increase of 5.3 percent. The long-term increase in per capita spending on physician (professional) care was near that for total spending, with an index value of 157 in 2010Q2, or an annualized increase of 6.2 percent.

FIGURE 1: Thomson Reuters Healthcare Spending Index for Private Insurance



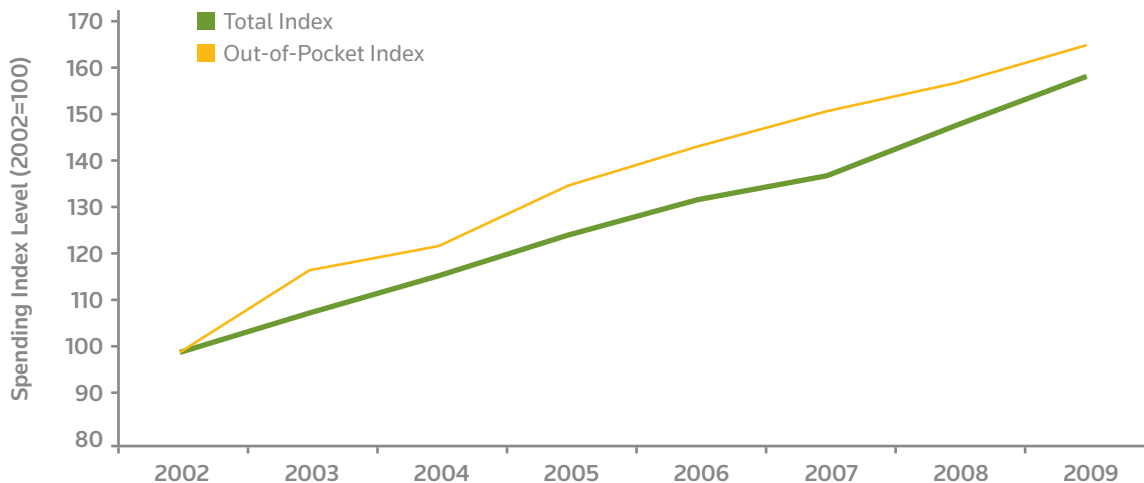
Annual changes in the index can be used to estimate per capita healthcare spending inflation. There have been marked fluctuations in year-over-year changes in spending, as illustrated in Figure 2. Per capita spending inflation for prescription drugs increased dramatically prior to 2002 and was in fact the most rapidly increasing index in our series around 2004. Since then, the rate of increase has fallen, with the result that prescription drug annual spending inflation is the lowest of the components we are tracking in the 2nd quarter of 2010 (3.4 percent, see Figure 2). In contrast, hospital per capita spending has increased at the most rapid rate since mid-2007, with an annual inflation rate of 8.2 percent the 2nd quarter of 2010. Overall, we estimate the per capita healthcare spending for those covered by private insurance is increasing at a rate of 6.3 percent annually in the 2nd quarter of 2010.

FIGURE 2: Annual Rate of Change in the Thomson Reuters Healthcare Spending Index for Private Insurance



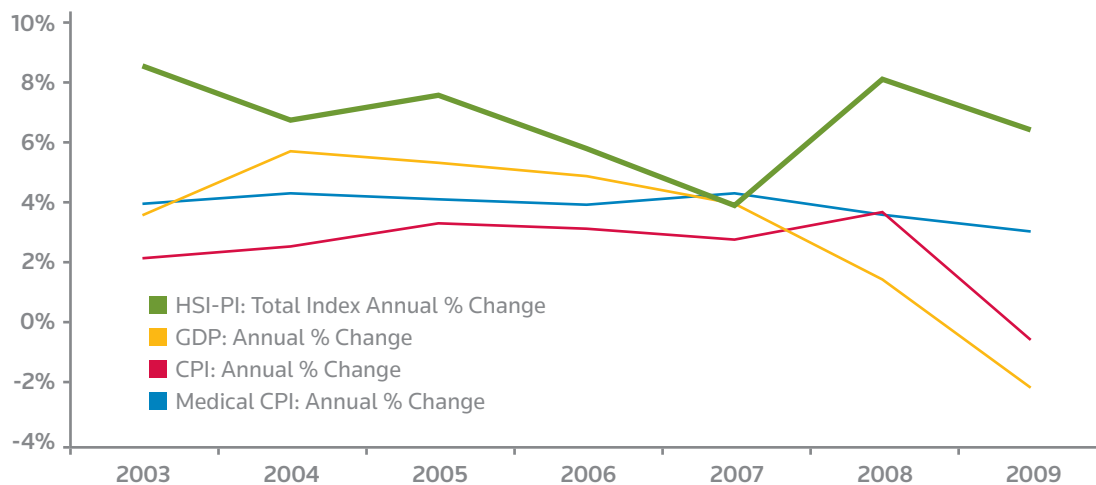
Per capita out-of-pocket spending includes payments made by healthcare consumers for copays, deductibles, and coinsurance. Reliable estimates are available starting in 2002 and are presented here on an annual basis. The base of the index (value of 100) is set at 2002Q4. Figure 3 compares total and out-of-pocket spending indexes by year from 2002–2009. Throughout this period out-of-pocket spending increased more rapidly than total spending, indicating that the consumer portion of total payment has been increasing between 2002 and 2009.

FIGURE 3: Thomson Reuters Healthcare Spending Index for Private Insurance: Out-of-Pocket and Total Spending



How does the *HSI-PI* compare to other measures of healthcare spending and to growth in prices and the economy overall? Figure 4 compares annual rates of change in the index with the overall and medical consumer price indexes*, as well as estimated percent change in U.S. Gross Domestic Product (GDP)**. Generally, the rate of inflation has been greater than the annual change in either of the Consumer Price Indexes (CPI) or GDP. (Note that the index captures changes in unit prices and services utilized, while the price indexes measure price changes for a fixed set of services and goods). In particular, the gap between healthcare spending inflation, as measured by the index, and economic growth/inflation is most noticeable in 2009, when the full effect of the recession was felt.

FIGURE 4: Thomson Reuters Healthcare Spending Index for Private Insurance: Comparison With Other Indexes and Economic Metrics



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*Bureau of Labor Statistics, U.S. city average.

**Bureau of Economic Analysis.

