

Producer Price Index Medical Insurance Indexes

In July 2004, in its ongoing effort to expand coverage of the service sector in the Producer Price Index (PPI), the Bureau of Labor Statistics (BLS) introduced a new price index for the direct health and medical insurance carriers industry.

Data are available for December 2002 to present.

The primary output of this industry is the contractual transfer of the risk for payment of medical costs and financial intermediation. The policy underwritten by the insurer represents a unique output. The policy lists the conditions for which restitution would be made to the policyholder to cover medical costs. The amount of risk being transferred to the insurer is clearly stated in terms of covered benefits (and benefits not covered), and it obligates the insurer to pay claims for all such occurrences. The indexes for this industry measure the change in the total premium (employee and employer contribution) paid to the insurer plus the return on the invested portion of the premium.

The services for which price indexes are available include:

<u>NAICS code</u>	<u>Title</u>
5241141	Medical service plans
524114101	Group comprehensive medical service plans
52411410101	Group managed care medical service plans
52411410102	Group fee-for-service medical service plans
524114102	Other group and individual medical service plans
52411410201	Individual comprehensive medical service plans
52411410202	Dental service plans
52411410203	Supplemental Medicare service plans
52411410204	Other medical service plans
5241142	Accident and health insurance

To track price movement for the selected policy, insurance companies participating in the survey are presented with two options.

First option: Companies are asked to estimate a premium for a "frozen" policy. An actual policy is selected, and the price-determining characteristics are held constant when the policy is priced each year on its anniversary or renewal date. The companies estimate the premium using current charges applied to the characteristics of this policy.

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Second option: the insurance companies follow the selected policy over time. They are asked to provide the actual premium charged to the policyholder and to identify any modifications to the policy each year on the anniversary, or renewal, date. Any changes in benefits over time must be factored out so that index movements reflect only changes in price and not any additional benefits. To maintain constant quality, the companies must be able to provide the value of the risk change associated with any change to the policy characteristics.

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