

MEDICAL AND PRESCRIPTION DRUG COST ESCALATION FACTORS

- Medical costs have historically increased at a rate greater than the overall inflation rate as measured by the Consumer Price Index (CPI).
- During the 41-year period from 1975 to 2015 inflation averaged 3.94% per year.
- During this same 41-year period, medical costs increased at an average annual rate of 5.95%, or 2.01% more per year than overall inflation. This difference of 2.01% is the Medical Cost Escalation Premium.
- Table 1 presents a comparison of CPI Inflation and the Medical Cost Index and the calculation of the Medical Cost Escalation Premium.
- Adding the Medical Cost Escalation Premium 2.01% to the net discount rate of <0.98%> results in the 1.02% Net Medical Cost Escalation Factor. The Prescription Drug Cost Premium is 2.53% with a net discount rate of 1.54%.

TABLE 1
Medical Escalation Factor

Year	Inflation CPI - U	Medical Cost Index
1975	9.1%	12.0%
1976	5.8%	9.5%
1977	6.5%	9.6%
1978	7.7%	8.4%
1979	11.3%	9.2%
1980	13.5%	11.0%
1981	10.4%	10.7%
1982	6.1%	11.6%
1983	3.2%	8.8%
1984	4.3%	6.2%
1985	3.6%	6.3%
1986	1.9%	7.5%
1987	3.7%	6.6%
1988	4.1%	6.5%
1989	4.8%	7.7%
1990	5.4%	9.0%
1991	4.2%	8.7%

1992	3.0%	7.4%	
1993	3.0%	5.9%	
1994	2.6%	4.8%	
1995	2.8%	4.5%	
1996	2.9%	3.5%	
1997	2.3%	2.8%	
1998	1.6%	3.4%	
1999	2.2%	3.7%	
2000	3.4%	4.2%	
2001	2.8%	4.7%	
2002	1.6%	5.0%	
2003	2.3%	3.7%	
2004	2.7%	4.2%	
2005	3.4%	4.3%	
2006	3.2%	3.6%	
2007	2.8%	5.2%	
2008	3.8%	2.6%	
2009	-0.4%	3.4%	
2010	1.6%	3.3%	
2011	3.2%	3.5%	
2012	2.1%	3.2%	
2013	1.5%	2.0%	
2014	1.6%	3.0%	
2015	<u>0.1%</u>	<u>2.6%</u>	
Average	<u>3.94%</u>	<u>5.95%</u>	<u>2.01%</u>

Medical Cost Escalation Premium	2.01%
Long-Term Inflation	<u>2.25%</u>
Medical Escalation Factor	4.26%
Long-Term Inflation	2.25%
Net Discount Rate	<u>0.98%</u>
Discount Rate	<u>3.23%</u>
Net Medical Escalation Factor	<u>1.02%</u>

TABLE 2
 Prescription Drug Escalation Factor

Year	Inflation CPI - U	Prescription Drug Index	Difference
1982	6.1%	11.6%	
1983	3.2%	11.0%	
1984	4.3%	9.6%	
1985	3.6%	9.5%	
1986	1.9%	8.6%	
1987	3.7%	8.0%	
1988	4.1%	8.0%	
1989	4.8%	8.7%	
1990	5.4%	10.0%	
1991	4.2%	9.9%	
1992	3.0%	7.5%	
1993	3.0%	3.9%	
1994	2.6%	3.4%	
1995	2.8%	1.9%	
1996	2.9%	3.4%	
1997	2.3%	2.6%	
1998	1.6%	3.7%	
1999	2.2%	5.7%	
2000	3.4%	4.4%	
2001	2.8%	5.4%	
2002	1.6%	5.2%	
2003	2.3%	3.1%	
2004	2.7%	3.3%	
2005	3.4%	3.5%	
2006	3.2%	4.3%	
2007	2.8%	1.4%	
2008	3.8%	2.5%	
2009	-0.4%	3.4%	
2010	1.6%	4.1%	
2011	3.2%	4.1%	
2012	2.1%	1.9%	
2013	1.5%	0.8%	
2014	1.6%	6.4%	
2015	0.1%	2.4%	
Average	<u>2.86%</u>	<u>5.39%</u>	<u>2.53%</u>

Prescription Drug Escalation Premium	2.53%
Net Discount Rate	<u>-0.98%</u>
Net Prescription Drug Escalation Rate	<u>1.54%</u>