

# health care trend survey

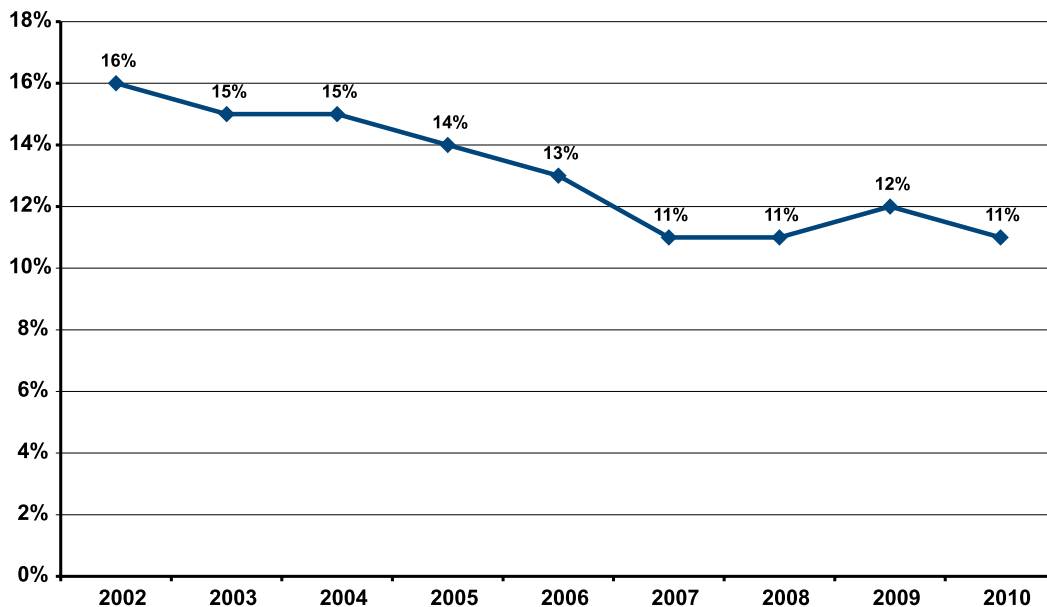
## 2010: Long-term Medical/Rx Trend Rates to Remain a Problem (Even if Health Care Reform is Enacted)

Findley Davies has conducted an annual survey of health benefit underwriters since 1998. We ask the underwriters for the medical, prescription drug (Rx), and dental trend rates they use in developing their January 1 renewals. "Trend" measures the change in per capita annual claims costs assuming no change in benefits. Trend rates are influenced by several factors, including changes in provider prices, utilization patterns, and advances in medical technologies.

Other trend surveys are based on the experience and expectations of large employers. Findley Davies' survey examines the observations and opinions of health underwriters whose organizations are responsible for covering more than 100 million Americans.

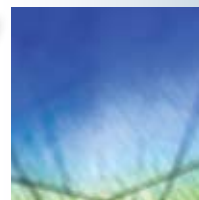
For 2010, the average annual trend rate for PPO Medical (the most prevalent health plan type) with Rx benefits is 11% – slightly less than last year's average of 12% – but still considerably higher than projected 2010 wage and salary increases.

Findley Davies Annual Trend Survey Results:  
PPO Medical/Rx Annual Trend Factors



We also found more variation in this year's survey as noted below:

Type of Plan	Range in Trend Rates	Average Trend Rate	Median Trend Rate
PPO w/Rx	8% to 13.0%	10.9%	11.0%
HMO w/Rx	8% to 12.8%	11.0%	11.0%
CDHP w/Rx	8% to 15.4%	11.5%	11.4%
Freestanding Rx	7% to 15.0%	11.0%	11.0%



Fall 2009

We believe this variation is due to uncertainty about the impact the following matters are having, or will have, on claims experience:

## The Economy

**Q:** By what percentage has the economic downturn impacted health care utilization?

**A:** Responses were split between “None or Unknown” and increases in trend rates ranging from 1% to 5%.

Conventional wisdom once held that utilization of health care services increased when employees were fearful of losing their job and health coverage. However, with increased cost-sharing provisions, some hospital clients have cited reduced utilization during this economy, as employees deferred elective surgery to conserve cash that would otherwise be spent meeting deductibles and paying coinsurance.

## The American Recovery and Reinvestment Act (ARRA)

**Q:** By what percentage will the ARRA COBRA subsidies affect 2010 health care trend rates?

**A:** While most said “None or Unknown” and others said “Less than 1%,” we have noted significant adverse selection in some clients who have had major headcount reductions.

Several clients have asked if the COBRA subsidies will be extended. Although we have not seen any proposals to either extend from nine (the number of months for which subsidies are available) or the 12/31/09 deadline for involuntary terminations, it’s certainly possible that if the economy is not percolating in the fourth quarter, such proposals will be advanced.

Since employers can offer the former employee the option of a lower cost plan (so long as the plan is available to active employees), employers may wish to mitigate COBRA claim costs by adopting a high deductible health plan if they have not done so already.

## Requirements to Equalize Mental Health and Substance Abuse Benefits

**Q:** By what percentage will implementing the Mental Health Parity and Addiction Equity Act impact trend rates?

**A:** While most respondents replied, “None or less than 1%,” others predicted increased trend rates ranging from 1.5% to 5%.

CompPsych has released case studies showing that total health care costs were reduced after equalizing mental health and substance abuse benefits with medical-surgical benefits. This was done by making the EAP more robust and diverting inpatient care to outpatient resources. Employers will want to consider the feasibility of carving out mental health and substance abuse benefits and outsourcing them to a qualified EAP. Findley Davies’ proprietary e-procurement system, Impetro.com™, is available to assist employers in evaluating EAP capabilities and select the firm best suited to the employer’s needs.

## Federal Health Care Reform

**Q:** If comprehensive federal health reform is enacted, how will annual health trend rates change over the next three years?

**A:** Most replied there would be moderate to significant increases, while a minority said they either didn’t know, or the trend rates were likely to remain the same. Only one respondent believed comprehensive reform would lead to a moderate decrease in annual trend rates.

Our sense is health care reform in some fashion is coming. We recommend employers conduct a self-assessment to determine what role health benefits currently play in their people strategy and to what extent their benefits and contributions philosophies can or should change to better support their organization’s business objectives and ability to keep, motivate, and attract healthy, productive employees.

## Other Key Findings in Our 2010 Trend Survey Include

- **Consumer-Directed Health Plan (CDHP) enrollment** is likely to grow as employers search for reduced costs and funding stability. CDHP enrollment as of 12/31/08 and 12/31/09 ranges from 1% to 30% of the carriers’ books of business, but a few noted CDHP enrollment in 2009 would be up, with estimated increases ranging from 0.1% to 3%. By 12/31/10, projected CDHP enrollment ranges from 1% to 33% of total membership with several respondents indicating their CDHP enrollment would increase by up to 4%. Nevertheless, it is difficult to determine why the annual trend rates underwriters assign to CDHPs, coupled with Rx benefits, is roughly the same as the rates used for traditional PPOs. Either there is little evidence CDHPs are successful in flattening the long-term cost curve by changing enrollees’ behavior, or the underwriters are remaining very conservative in developing expected 2010 claim rates for their CDHPs.
- **The impact of Wellness initiatives remains unclear.** We asked, “By what percentage does a robust, holistic wellness and population health management program reduce long-term trend rates?” Most respondents indicated “Unknown” or “1% or less.” A few were more optimistic, saying the trend rates would decrease, ranging from 2% to 5%. But when asked, “Which employer strategy holds the greatest promise in lowering long-term health trend rates?” most respondents said strong incentives for employees to reduce their health risk factors. Considering the answers to these two questions, either the underwriters think the wellness initiatives underway in their covered populations are too new to yet have an effect, or they are reflecting skepticism about their effectiveness in bending the cost curve.

- **Survey respondents indicated increased demand and utilization of health care services** will be the most troubling issues in health care trends over the next three years. This is driven by the aging population; continued advances in medical technologies; and direct-to-consumer advertising (especially for new drugs). This may intensify as legislation is enacted or not enacted, depending on the specific issue, over the next year or so. However, without effective medical liability reform and local health planning based on need, increased utilization will not be held in check.

- **Dental trend rates remain relatively flat.** Trend rates for indemnity plans range from 5% to 10% but average 7%, while trend rates for Dental PPOs range from 3% to 9% and average 6%. We continue to observe dental carriers aggressively competing for market share and promoting the use of a passive PPO. Several vendors are marketing their claims protocols based on evidence-based dentistry and others are unveiling innovative, incentive-based programs to promote maintenance of oral health. Findley Davies will be reviewing new developments in dental benefit design in an upcoming Client Advisory Bulletin.

## What Can Employers Do to Control Health Care Costs in 2010?

For several years, we have discussed various strategies employers can use in controlling their health benefits costs. Recommendations have ranged from conducting RFPs to instituting value-based insurance design to promote compliance with disease management protocols for those with chronic illnesses, such as diabetes.

For 2010, we see a renewed emphasis on expense reduction. As such, we recommend employers consider the following:

1. Current best practices include dependent eligibility audits. If you have not yet audited eligibility, get started and use an amnesty period to encourage employees to quickly and voluntarily disenroll ineligible dependents without penalty. In audits conducted by Findley Davies, as many as 10% of covered dependents have been identified as ineligible.
2. Value the impact of practical changes to health benefits, employee contributions, and dependent subsidies on gross and net costs. Findley Davies' interactive BenScan<sup>®</sup> tool has proven helpful to self-funded employers in reaching consensus on appropriate changes, so employee cost-sharing is not eroded by health care trends.
3. For those employers with retirees, ensure your claims administrator is correctly integrating with Medicare. We continue to find examples during claim audits where the administrator's eligibility system incorrectly codes the retiree as active and benefits are paid as primary, instead of secondary, to Medicare.
4. Update your risk retention strategy and push back on conservative stop-loss insurance renewals using inflated leverage trend factors. In addition, audit your claims administrator to ensure they have accurately reported to your excess risk carrier all claims eligible for stop-loss reimbursement. In our claim audits, we have found some large claims that have "fallen through the cracks."
5. Negotiate changes in your ASO fees to reflect how your organization's wages and salaries are likely to change next year. Otherwise, expect the carriers and TPAs to ask for annual increases ranging from 3 to 6% (or more).
6. If you have a CDHP option, consider making it the "benchmark plan." In this way, your employer-employee cost sharing is built around the CDHP. If an employee selects the traditional plan, then the employee pays the required CDHP contribution plus the difference in cost between the two plans.
7. Evaluate the feasibility of establishing an on-site clinic to promote wellness initiatives and to preserve access to primary care services. If comprehensive health care reform is enacted, covering millions of uninsured people may crowd out established patients due to the shortage of primary care physicians.
8. Evaluate available PPO networks in your key areas to optimize provider discounts. The best way is through claims re-pricing, based on your plan's actual utilization, instead of relying on a network's self-reported area-wide average discounts.  
  
We remain concerned that if comprehensive health care reform is enacted, there will be significant reductions in Medicare and Medicaid reimbursements to pay for the cost of covering the uninsured. As a result, will cost-shifting to the private sector intensify? We have seen recent examples of providers securing increased PPO reimbursements. Employers will need to monitor how their effective discounts are changing and evaluate their PPO alternatives.
9. Investigate the opportunity to join an employer coalition and take advantage of their group purchasing arrangements, if appropriate. For example, we have validated significant Rx savings, without changing plan design, by accessing large employer coalitions.
10. If you have a three-tier Rx plan, investigate savings by re-engineering the formulary to focus on generics, less expensive brands, and not covering expensive remedies, such as Nexium.
11. Work with your claims administrator to identify the prevalence of chronic disease within your covered population and develop high-yield strategies and incentives to engage employees in disease management programs to prevent their conditions from worsening.
12. Regularly educate your employees on new developments in the care delivery system, such as the availability of retail clinics in their area for non-acute conditions, or how to best access special offers like free antibiotics, \$4 scripts, or flu shots. Teaching consumerism principles and personal responsibility should remain a high priority.



## For More Information

To discuss this survey or to obtain additional information, please contact one of the Findley Davies consultants below.

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## Companies Participating in the Findley Davies 2010 Trend Survey

Ameritas	Principal Financial Group
Aetna	Quantum Health
Blue Cross Blue Shield of Michigan	RESTAT
Delta Dental	Sun Life
Highmark Blue Cross Blue Shield	Superior Dental
ING	SXC
Kaiser Permanente	United Healthcare
MetLife	WellPoint
Paramount Health Care	

## About Findley Davies

Findley Davies works with companies interested in maximizing the effectiveness of their human resources strategies and programs. They specialize in helping clients attract and retain talent, enhance the effectiveness of HR processes, leverage technology, improve financial performance through effective management of costs, and structure solutions that drive organizational change.

Established in 1969, Findley Davies is owned and led by a group of senior consultants working from offices in Charlotte, Cleveland, Columbus, Greensboro and Toledo. Its consultants, actuaries, and administrators are accomplished professionals with proven track records in HR, ERISA and tax law, retirement plans, actuarial science, compensation and rewards, communications, health and group benefits, and HR technology. Visit [www.findleydavies.com](http://www.findleydavies.com).

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