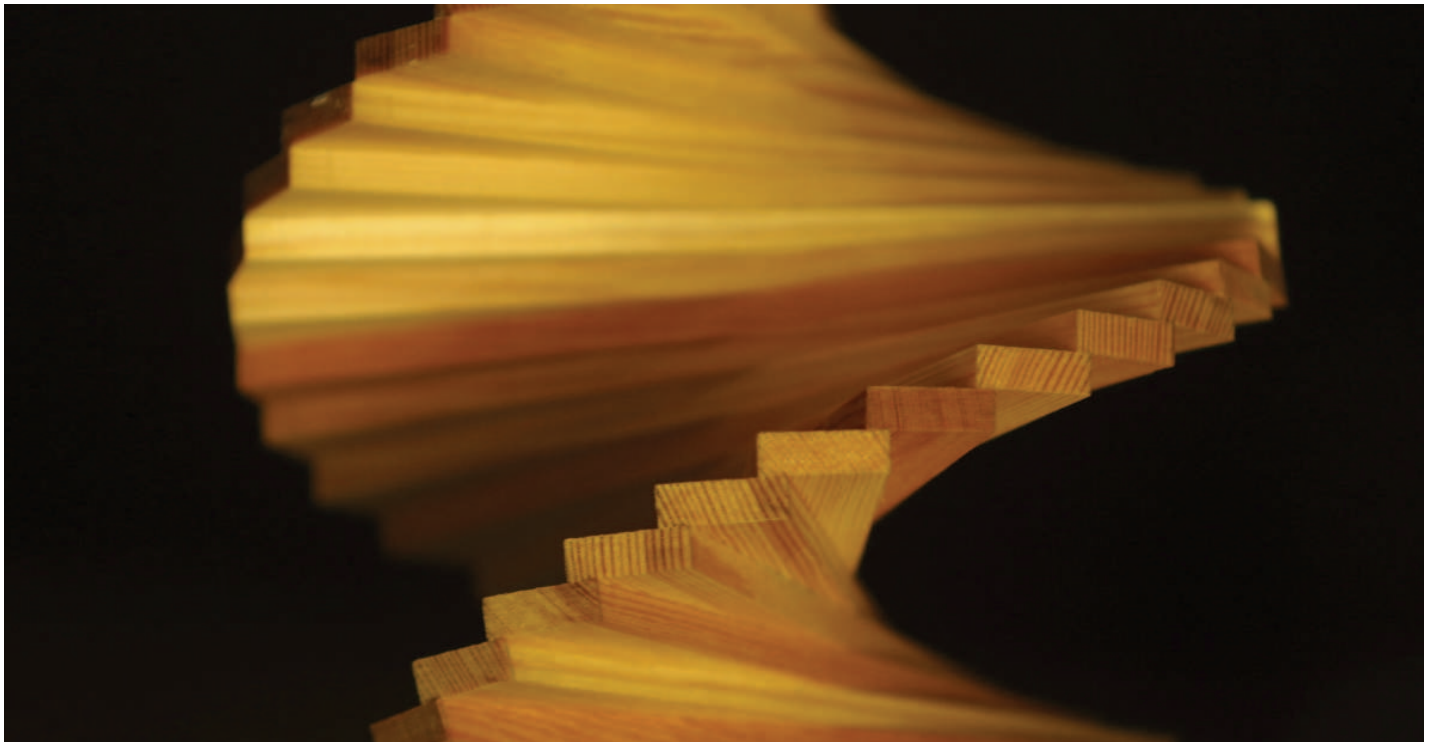


# Medical Trend

## *Stopping the Upward Spiral*

by Scott Simon, GBA, MBA



*Healthcare costs continue to rise rapidly in the United States and throughout the world. Recent trend studies indicate that total U.S. healthcare expenditures are projected to increase from \$2.17 trillion in 2006 to \$2.88 trillion in 2010.*

Health spending in the U.S., at about 16% of the Gross Domestic Product (GDP) in 2006, will grow to nearly 20% by 2017. That's right—20 cents of every dollar spent in the United States will be health-related!

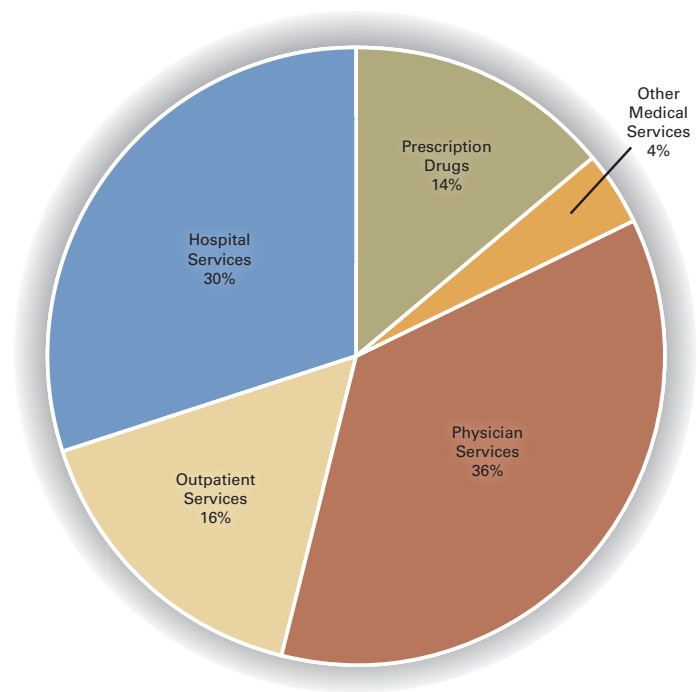
### **What is Medical Cost Trend?**

For the private sector, medical trend can be defined as *the direction in which medical costs are moving*. It is influenced by several factors:

1. Medical inflation, or the change in the unit price of medical products and services
2. Changes in utilization or changes in the volume of services used as a result of health status, demographics, advertising and the use of new technology
3. Government cost shifting away from entitlement programs like Medicare/Medicaid toward the private sector
4. Deterioration of benefit plans as a result of deductibles/copayments remaining unchanged, despite the rise in inflation and medical costs
5. New technology and medical procedures

The primary purpose of medical trend is to estimate what today's health insurance plan will cost in the following year. For example, a 10% trend factor for a plan that costs \$7,000 per employee per year in 2007 would result in an annual cost of \$7,700 per employee in 2008.

When evaluating medical trend, it can be helpful to focus on the key components driving healthcare costs. In 2006, the largest component was physician services at 36%, with hospital services at 30%, outpatient services at 16% and prescription drugs at 14%.



An increase in medical trend does not necessarily result in increased insurance premiums. Employers have typically altered benefits offered to employees to counteract medical trend. Common cost-saving plan changes include increasing deductibles and copayments. It may also be assumed that health insurance premiums can be impacted by other factors unrelated to medical trend, such as disease management and wellness programs.

### What Trends Are Expected in 2008?

A study completed by five of the largest national health insurance carriers indicated that medical trend should be lower in 2008 in comparison to 2007. While it is still too early to evaluate the impact of consumer-driven plans, health insurance carriers indicate that these plans are tracking roughly 2.5% below HMO and PPO plans.

Type of Plan	2007	2008
PPO	11.9%	9.9%
HMO/POS	11.8%	9.9%
Consumer Directed Health Plan	10.7%	7.4%

### Looking Ahead

Over the next several years, the following factors will be critical in helping to offset increases in medical trend.

1. **Prescription Drug Utilization**—With increases in generic and mail-order utilization, brand name drugs coming off patent and new over-the-counter medications, pharmacy trend should continue to decrease.
2. **Consumer-Driven Healthcare**—Plans with higher deductibles and the removal of copayments are becoming a more common offering. This results in increased transparency and cost-sharing to the end user, which should help lower utilization and medical trend.
3. **Total Healthcare Management**—A more common strategy has been to focus on wellness initiatives and disease management. The objective of these programs is for healthcare consumers to be more proactive. Such programs also provide resources for members to live healthier lifestyles and assist them with managing chronic and/or ongoing illnesses. Studies have indicated these programs help lower future medical costs.
4. **Electronic Healthcare Access/Increased Technology**—A higher frequency of claims being submitted electronically should result in lower administrative costs. Also, with an increase in available technology, members should experience greater accessibility to health records and valuable information to assist them in proactively managing their healthcare and reducing unnecessary services. Ultimately, these factors should assist in slowing down medical trend.