



Spring 2007

# HEALTH CARE TREND SURVEY

*Contributed by Bill Sharon from the National Health and Benefits Practice Council*

## **Aon Consulting's Spring 2007 Health Care Trend Survey**

Each spring and fall, we provide you with updated health care trend data. The Spring 2007 survey results are reported below. We hope this information will assist you as you evaluate health insurance premium renewals and develop self-funded health plan claim projections.

As in past years, our survey indicates that medical plan costs are forecasted to increase at double-digit rates. Reasons for these increases include: increasing patient demand for services, an aging population, increasing medical technology costs, increasing hospital costs, increasing price and utilization of prescription drugs, poor lifestyle choices, cost shifting, and medical malpractice costs.

## **Health Care Trend Rates**

Based on data provided by over seventy leading medical, dental, pharmacy, and vision vendors, we are forecasting the following health care trend rates for the twelve-month rating periods beginning between April and September 2007.

Medical (Actives & Retirees < 65)	With Rx	Without Rx
HMO	10.9%	11.0%
POS	10.8%	10.9%
PPO	11.2%	11.3%
Indemnity	12.7%	13.1%
CDH	10.7%	10.7%

Medical (Retirees Age 65+)	With Rx	Without Rx
Medicare Supplement	11.2%	9.0%
Medicare Advantage	9.2%	8.0%

Dental	
DHMO	4.5%
PPO	6.1%
Indemnity	7.1%

Pharmacy	
General	9.5%
Specialty	15.1%

Vision	
	3.1%

*Some observations about our Spring 2007 trend forecast:*

- The medical trend rate is more than four times the February 2007 increase in consumer price index for all urban consumers (CPI-U) of 2.4%.
- Compared to our Fall 2006 trend survey our reported medical trend rates are down slightly..... about .5 percentage point.
- Insurance companies are forecasting consumer driven health (CDH) plan trend rates to be about the same as HMOs, POS plans and PPOs. It should be noted that CDH studies by some of these same insurance companies indicate that CDH plans are trending lower than the figures indicated here. The reasons insurance companies give us for the conservative figures in this survey are: (1) the number of members in CDH plans is still relatively small and the experience to date is not 100% credible, and (2) CDH results vary considerably from employer to employer depending on plan design, CDH enrollment, and degree of consumerism education.
- The post-65 retiree medical plan trend rates are similar to last time. The Medicare Supplement (with Rx) rate is up a little and the other three rates are down a little.
- The dental trend rates are down slightly from the Fall 2006 figures.
- The general pharmacy trend rate is down about 1% compared to the Fall 2006 trend forecast. The specialty pharmacy trend rate is up slightly. Note: Specialty pharmacy includes biotechnology agents designed for complex and chronic conditions.
- The vision trend rate is up slightly to 3.1%.

## Trend Rate History

The following table and corresponding charts summarize our most recent Fall 2006 survey and our past five Spring trend surveys:

	Spring 2002	Spring 2003	Spring 2004	Spring 2005	Spring 2006	Fall 2006
<b>Medical – Actives &amp; Retirees &lt;65 (with Rx)</b>						
HMO	16.2%	16.4%	14.1%	13.2%	12.2%	11.4%
POS	16.0%	16.1%	14.1%	13.0%	11.9%	11.2%
PPO	16.0%	15.7%	14.2%	13.0%	12.4%	11.6%
Indemnity	18.3%	17.2%	15.3%	14.6%	14.4%	13.9%
CDH			14.1%	12.7%	12.5%	10.5%

<b>Medical – Actives &amp; Retirees &lt;65 (without Rx)</b>						
HMO	14.6%	14.7%	13.4%	12.9%	12.0%	11.4%
POS	14.5%	14.5%	13.5%	12.7%	11.8%	11.2%
PPO	14.6%	14.4%	13.5%	12.7%	12.3%	11.4%
Indemnity	17.1%	16.4%	14.7%	14.6%	14.4%	13.9%
CDHP			13.3%	12.4%	12.3%	10.3%

<b>Medical – Retirees Age 65+ (with Rx)</b>						
Medicare Supplement					11.5%	10.5%
Medicare Advantage					10.2%	10.1%

<b>Medical – Retirees Age 65+ (without Rx)</b>						
Medicare Supplement					9.9%	10.5%
Medicare Advantage					8.0%	8.2%

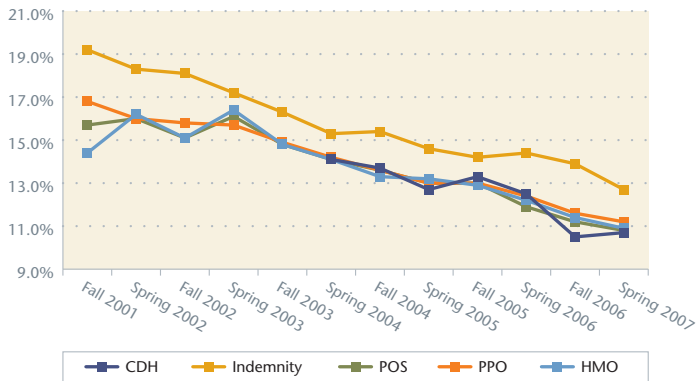
<b>Dental</b>						
DHMO	4.4%	4.8%	5.0%	4.7%	4.8%	4.7%
PPO	7.6%	7.6%	7.3%	7.1%	6.7%	6.5%
Indemnity	8.4%	7.6%	7.7%	7.6%	7.1%	7.2%

<b>Pharmacy</b>						
General	17.8%	17.7%	14.4%	13.1%	12.2%	10.6%
Specialty				22.5%	17.0%	14.9%

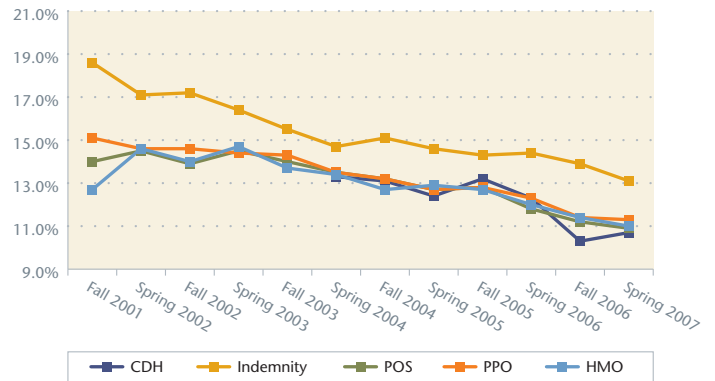
<b>Vision</b>						
	3.2%	3.8%	3.9%	3.9%	3.6%	2.9%



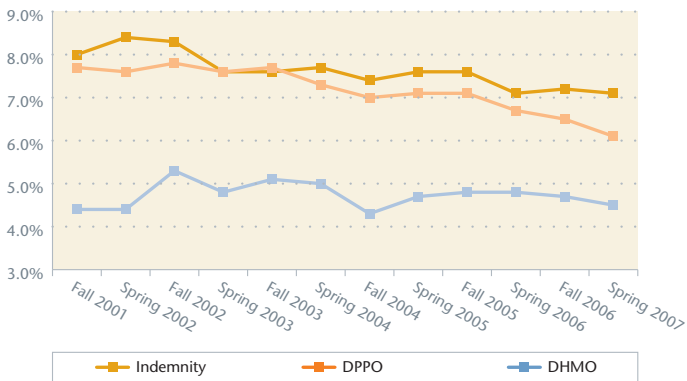
Aon Consulting Spring 2007 Trend Survey  
Medical Plans with Rx



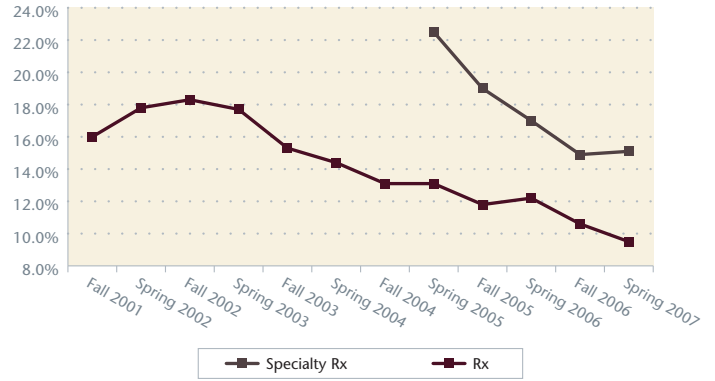
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Medical Plans without Rx



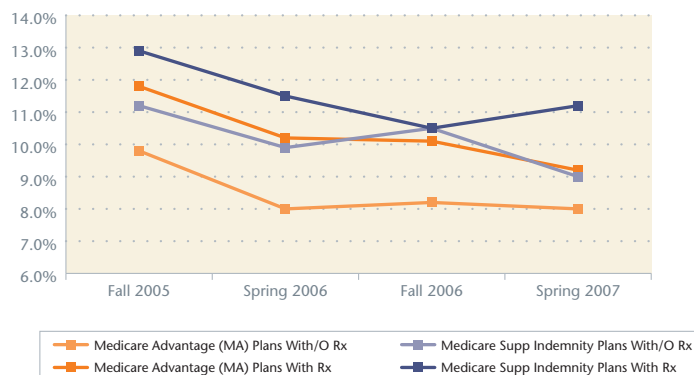
Aon Consulting Spring 2007 Trend Survey  
Dental Plans



Aon Consulting Spring 2007 Trend Survey  
Prescription Programs



Aon Consulting Spring 2007 Trend Survey  
Medicare Supp & Medicare Advantage Post-65 Plans



## About This Survey Report

The trend rates shown above represent national averages and are the predicted increase in claims cost. Trend increases for a specific company may vary significantly from these trend rates due to regional cost variations, company plan design, company demographics, etc. In addition, insured rate increases may be higher or lower than these trend rates based on an insurance company's profitability, the plan's claims loss ratio, the plan design, insured demographics, etc. It is important to note that these trend rates might not be appropriate for other purposes. Consultants should consider their specific client circumstances in selecting the appropriate trend rate. For example, standards such as FAS 106 and Actuarial Standard of Practice No. 5 and No. 6 might dictate the use of alternative trend rate assumptions.

These trend rates include the following components:

**Price Inflation.** Price inflation is the average increase in the cost of goods and services of health care providers for medical, prescription drug, dental and vision services.

**Deductible Leveraging.** Deductible leveraging is the cost added to a health plan due to the subtraction of an unchanging deductible from a trended claim amount. Suppose a claim of \$500 increases by 10% in the next year to \$550. If the deductible is \$200, the insurance cost increases by 17% from \$300 to \$350. The deductible leveraging is the difference between the 17% and the 10%.

**Utilization.** This is the increase in the number of medical procedures performed in response to an aging population and new medical techniques.

**Technological Advances.** This is the change in cost due to new procedures replacing old procedures. Examples of technological advances include organ transplants, artificial organs, Diffusion Tensor Magnetic Resonance Imaging, therapeutic cloning and Positron-Emission Tomography (PET) scans.

**Cost Shifting.** This is an individual provider's shifting of costs from fixed or discount payers to reasonable and customary payers such as insurance companies or self-funded employers. Discount payers include Medicare, Medicaid, and managed care plans.

## Companies Providing Trend Data

*The following companies contributed to the Aon Spring 2007 Health Care Trend Survey:*

Medical	Medicare/Post-65 Retiree Medical	Dental	Pharmacy	Vision
Aetna	Aetna	Aetna	Aetna	Aetna
BCBS (39 plans)	BCBS (24 plans)	Assurant	BCBS (40 plans)	BCBS (9 plans)
CIGNA	CIGNA	BCBS (27 plans)	Caremark Rx, Inc.	CIGNA
Fiserv Health	Fiserv Health	CIGNA	CIGNA	Davis Vision
Great-West Healthcare	Group Health Plan	Delta Dental (23 plans)	Express Scripts	EyeMed Vision Care
Group Health Plan	Health Partners	Dominion Dental	Fiserv Health	Guardian Life Insurance
Guardian Life Insurance	Kaiser (3 plans)	Fiserv Health	Great-West Healthcare	Kaiser
Health Partners	Medica	Great-West Healthcare	Group Health Plan	Superior Vision Services
Kaiser (8 plans)	UniCare	Group Health Plan	Guardian Life Insurance	UnitedHealthcare
Medica	UnitedHealthcare	Guardian Life Insurance	Health Partners	
UniCare		Health Partners	Kaiser (8 plans)	
UnitedHealthcare		Kaiser	MedcoHealth	
		MetLife	Medica	
		UniCare	MedImpact	
		United Concordia/Highmark	RxAmerica	
		UnitedHealthcare	UniCare	
			UnitedHealthcare	
			WalMart	