



# Heffernan Benefit Advisory Services Health Care Trend Report



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## Definitions:

- Health Maintenance Organization (HMO) – plans that require a Primary Care Physician (PCP) gatekeeper referral for specialty services
- Preferred Provider Organization (PPO) – benefits paid at a specific level if patient seeks care for a preferred provider network, these plans do not require a PCP referral
- Point-of-Service (POS) – plans that require a PCP referral on the first tier, and offer a PPO type structure on the second and third tiers
- Consumer Directed Health Plans (CDHP) – plans that have high deductibles, tax-advantaged, designed to encourage consumer engagement
- Dental HMO (DHMO) – a dental plan wherein a set group of dentists provides broad and affordable dental care at a low monthly premium
- Dental PPO - benefits paid at a specific level if patient seeks care through a preferred dental provider network
- Dental Indemnity – also known as traditional plan, services are paid on a fee for service basis, individuals can visit any dentist

# EXECUTIVE SUMMARY



In the second half of this decade, trend projections have decreased from the high levels of the early 2000s. 2017 saw the lowest trend projection in years, but unfortunately the trend projections for 2018, while still at a fairly reasonable level, have increased slightly. The drug trend for prescription drugs is slightly lower than the 2017 projections, but this is not enough to offset the increased medical trend for 2018. There are a number of drivers that affect these trend projections, but the uncertainty of healthcare reform is one of the key drivers for the upturn in 2018.

Despite the political uncertainties, employers remain committed to offering employees as comprehensive employee benefits package as possible. To do this without increasing costs, more employers are offering a broader range of voluntary benefits that help fill in some of the gaps in coverage and cover the total spectrum of employee's wellbeing. Additionally, employers are re-focusing on wellness programs, particularly biometric screening, that engages employees and potentially helps a wider range of employees.

Over the last few years, with the increased development of specialty drugs, the prescription drug trend has become one of the key factors in the overall expected medical costs. Since 2016, there have been very few brand name drugs that have come off patent. In the past, the introduction of new generic drugs have helped offset the costs of new, expensive drugs entering the market. Even though the drug costs are not being offset by new generic drugs in 2018, the pharmacy trend is significantly lower than it was last year. The key deflators in the prescription drug trend are the increase in public scrutiny of the pharmaceutical industry and the significant increase in prescription drug rebates.

Since the inception of the Affordable Care Act, health care reform has been a key influencer on all employer sponsored plans. With the new presidential administration that took office in 2017, there have been many efforts to repeal and replace the existing law. However, as of August 2017 these legislative attempts have not been approved and it appears that there will be no foreseeable changes to health care reform in the new future. With the lack of any new legislation, the Affordable Care Act is still the governing law, and employers must follow the applicable provisions.

# WHAT IS TREND?



**T**rend is defined as the change in health care costs. There are many factors that affect or influence trend but the primary components are:

**Price Inflation** - The average increase in the cost of goods and services such as medical supplies, equipment, staffing, etc.

**Utilization** - The usage of medical care and services.

**Deductible Leveraging** - The cost added to a health plan as a result of increases to the cost of services while benefits, such as copays and deductibles, remain constant.

For example:

*Year One: A \$3,000 claim with a \$500 deductible costs the carrier \$2,500.*

*Year Two: The same \$3,000 claim trended at 10% now costs \$3,300. With a \$500 deductible, this claim now costs \$2,800 which represents a 12% increase.*

**Technological Advancements** – The change in cost due to new procedures or equipment replacing older ones.

Health care trend is often looked at in two different ways, prospective health care trend and retrospective health care trend. Prospective health care trend is the prediction of trend whereas retrospective health care trend is a measure of the actual change in health care costs experienced. It is important for an employer group to understand both outlooks of trend, but when predicting what types of renewal increases that an employer might be facing, the prospective health care trend is a better indicator of an upcoming renewal.

Heffernan's annual trend report surveys more than fifty (50) health, dental, and vision providers asking them what trend factors they will use to determine their 2018 renewals. An employer group's actual renewal increase may differ from the regional or national trend predictions due to plan design differences, demographics, the size of the group, regional cost variations, and health care taxes. However, it is important to understand the prospective trend for 2018 because the projected cost of claims has the biggest influence on an employer group's renewal increase.

Health, Dental, and Vision Plans that HIB Surveyed Include:

Aetna, AIG, Ameritas, Anthem Blue Cross, Assurant, Atlantis Health Plan, Best Life and Health, Blue Cross Blue Shield of Missouri, Blue Shield of California, Cigna, Coventry Health Care of Missouri, Dearborn National, Delta Dental, EmblemHealth, Empire Blue Cross, EyeMed, Guardian, Health Net of California, Health Net of Oregon, Humana, Kaiser Permanente, Kaiser Foundation Health Plan of Oregon, Lincoln, Medical Eye Services, MetLife, Moda Health, Mutual of Omaha, PacificSource Health Plans, Premier Access, Principal, Providence, Regence Blue Cross, Reliance, Standard, Sun Life Financial, Superior Vision, Sutter Health Plus, United Concordia, United Healthcare, Unum, VSP

# MEDICAL TREND PROJECTIONS FOR 2018



## 2018 MEDICAL PLAN SURVEY RESULTS

Plan Type	Northern California	Southern California	Northwest	National
HMO w/Rx	7.0%	6.8%	5.8%	8.4%
PPO w/Rx	9.3%	9.3%	8.2%	9.3%
POS w/Rx	8.6%	8.6%	8.3%	8.8%
CDHP w/Rx	8.5%	8.6%	7.6%	8.2%
Ind.w/RX	10.0%	10.0%	8.9%	10.3%

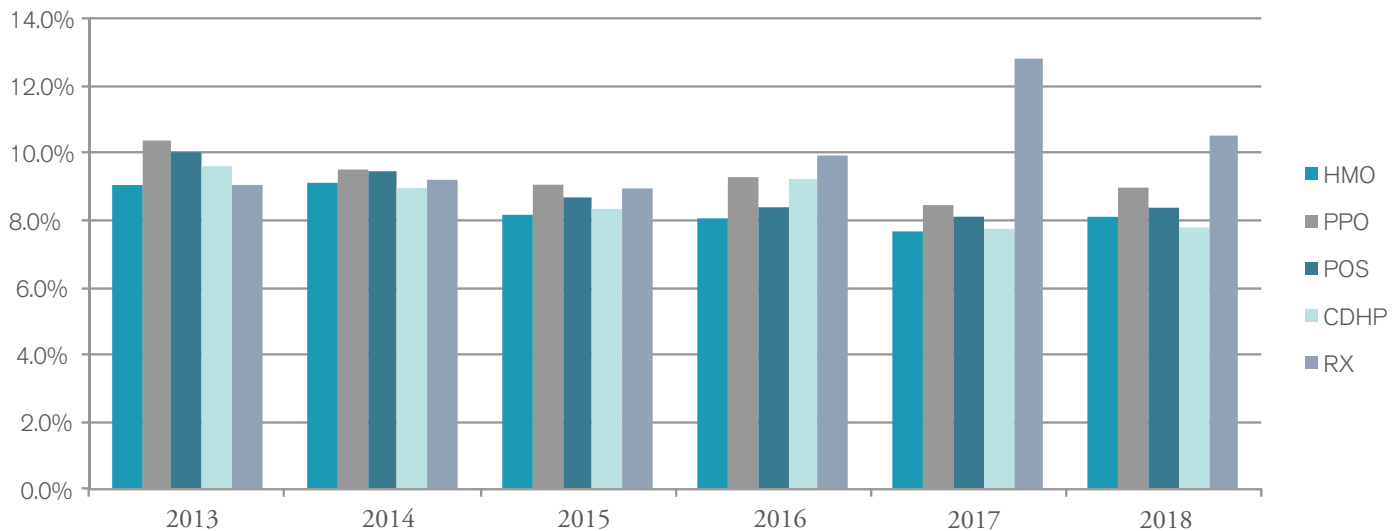
### Summary of Medical Trend Results

- In the regional market areas as well as nationally, the plan type with the lowest trend projection for 2018 is the HMO plan. However, while the HMO trend projection in Southern California has decreased from the 2017 projection, the HMO trend projection for Northern California has increased. The Northwest region is projecting an HMO trend that is almost 1.5% lower than the 2017 projection. Nationally, the HMO is also trending lower for 2018 than in 2017.
- With the exception of the Indemnity plan, the trend projection for PPO plans in almost all regions and nationally is the highest trending product. It is also the product with the most market share. The PPO trend projection for California for 2018 is up more than half a percent from the prior year's projections. The Northwest region however, is seeing a decrease in the PPO trend projection for 2018.
- Across all products, Northern California is projecting a higher trend for 2018 than in 2017. Southern California is also seeing an upturn in their trend projections for 2018 (with the exception of HMO plans). This increase in trend is predominately driven by a higher RX trend as well as carriers attributing prescription drugs to be a higher percentage of the overall market spend.
- Overall, the Northwest region is projecting a lower trend projection for 2018 than for 2017 in almost all products except for CDHP plans.
- In the National market, the trend projections for 2018 are overall slightly less than in the prior year.

# MEDICAL TREND PROJECTIONS FOR 2018



## HISTORIC NATIONAL MEDICAL TREND



In our 2018 Medical Plan Survey results we show the projected trend in each region for each product blending in the trend for prescription drugs. However, when we look at the historic national medical trend we are looking at the national trend projections for each type of plan with the RX trend as a separate component.

### Summary of National Medical Trend Results

- Trend projections for 2018 are higher than they were in 2017, with the exception of prescription drugs. Despite the increase, the projections are significantly lower than they were five years ago. Trend projections for 2018 remain in the single digits.
- Consumer Driven Health Plans, CDHPs, are the only medical product that is projecting a decrease for 2018. While there hasn't been significant growth in the number of employers offering these plans, there has been a steady increase in the participation of employees in these plans, helping to drive down the trend projections.
- The RX trend projection, while significantly lower than it was in 2017, is still at 10.5%, much higher than it was in prior years.

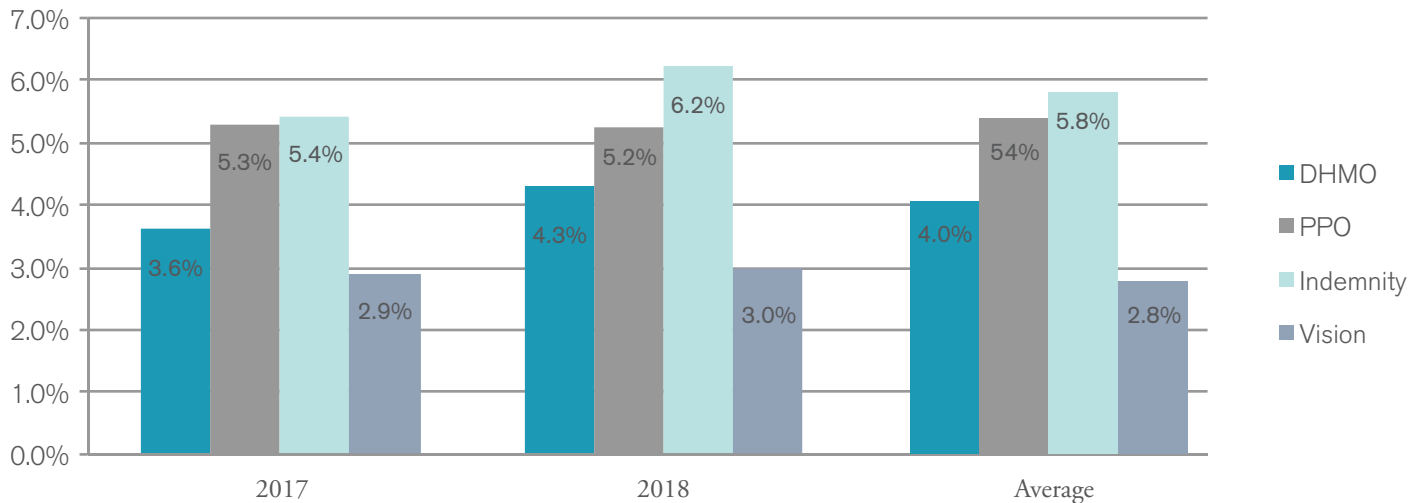
# DENTAL AND VISION TREND PROJECTIONS FOR 2018



## 2018 DENTAL AND VISION SURVEY RESULTS

Plan Type	2013	2014	2015	2016	2017	2018
DHMO	4.2%	3.6%	4.2%	4.0%	3.6%	4.3%
PPO	5.8%	5.5%	5.5%	5.2%	5.3%	5.2%
Indemnity	6.2%	6.4%	5.4%	5.1%	5.4%	6.2%
Vision	2.6%	2.9%	2.2%	3.0%	2.9%	3.0%

## 2017 & 2018 DENTAL AND VISION TREND COMPARED TO SIX YEAR AVERAGE



### Summary of Dental and Vision Trend Results

- The Dental HMO product is projecting over a half percent increase for 2018 than in 2017. The 2018 projection is also 0.3% higher than the five year average.
- The 2018 projection for the dental PPO is 0.1% lower than the 2017 projection and is 0.2% lower than the five year average.
- The vision trend continues to slightly increase. The 2018 projection is 0.1% higher than the prior year and is now 0.2% higher than the five year average.

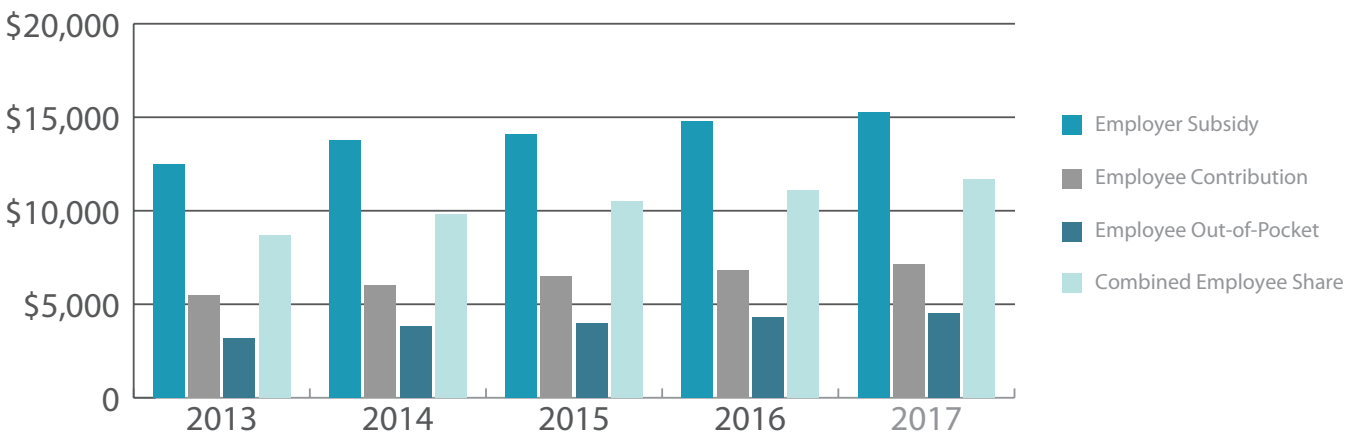
# HEALTH CARE TRENDS



## Employee Total Well-Being

Despite the uncertainty regarding health care reform, employers are even more committed to offering their employees a comprehensive benefits package that focuses on the total well-being of their employees. With the large increases in health care costs that employers were seeing in the beginning of the decade, many employers had to shift costs to pay these large increases. This cost-shifting meant that employees not only paid a higher percentage of the premiums; but also that employees and their dependents were paying a higher cost at the point of access in terms of co-pays, co-insurance and deductibles. While the projected trends for 2018 (and for the last few years) are not as high as they have been, the medical trend still outpaces the increase in the cost of living, and there is very little room left for cost-shifting. As a result employers have been looking at other ways to reduce costs by focusing on well-being initiatives that increase productivity, decrease turnover, and improve their employees' general health.

## MEDICAL COST BY EMPLOYEE/EMPLOYER SHARE



\*2017 Milliman Medical Index



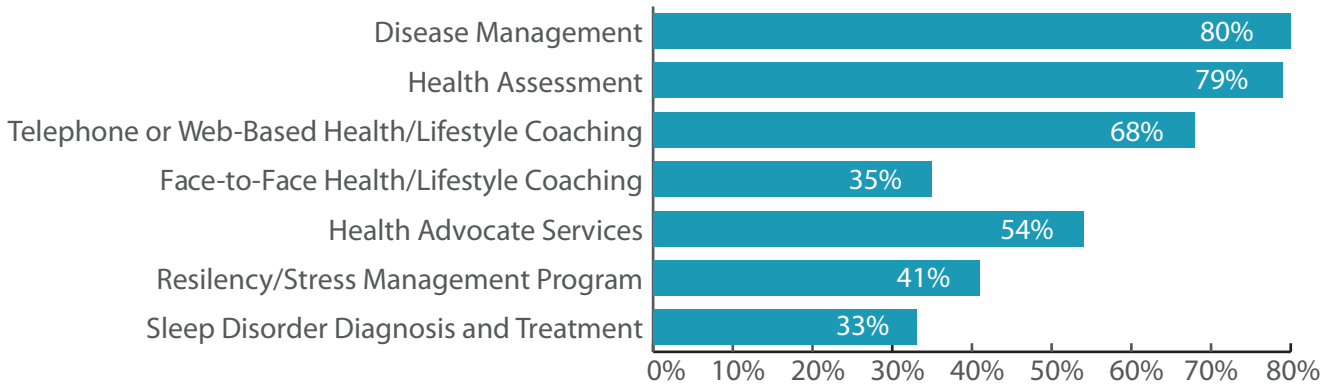
# HEALTH CARE TRENDS



## Wellness Programs

While wellness programs are not anything new, employers are re-focusing their efforts on these programs to encourage healthier lifestyles that will promote healthier employees. In the past, wellness programs that encouraged exercise, health eating challenges, etc. were popular with the portion of the population that were already living a relatively healthy lifestyle. In the last few years, there has been a strong increase in the development of health assessment with bio-metric screening programs as part of the wellness offerings. Bio-metric screenings offered at the worksite make it easier for employers to receive these screening, increasing the likelihood of catching conditions that could be treated before they become severe, which further creates a healthier work population.

## EMPLOYERS OFFERING HEALTH MANAGEMENT PROGRAMS



*\*Mercer, "National Survey of Employer Sponsored Plans, 2016"*

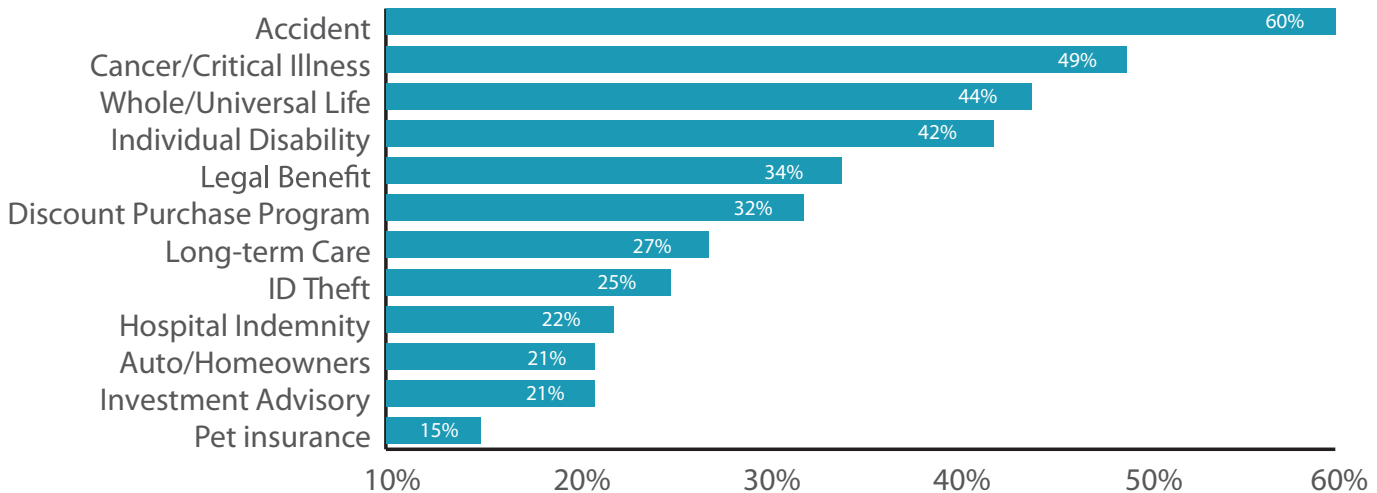
## Total Rewards

In an effort to increase productivity and attract as well as retain talented employees, employers are increasingly offering more than medical, dental, vision, and life to their core offerings. Employee benefit packages are now expanding to offer benefits that meet employees' total needs, not just their health needs; these expanded benefit offerings also cover the employees' social, financial, and emotional needs. Some of the common benefits that are now available include identity protection, legal assistance, financial planning, life-coaching, and discount programs. In addition to the well-being programs that are being offered, employers are also offering more voluntary programs, such as accident and critical illness plans, which alleviate the exposure from the high-deductible/high out of pocket maximum plans.

# HEALTH CARE TRENDS



## EMPLOYERS OFFERING VOLUNTARY PROGRAMS



\*Mercer, "National Survey of Employer Sponsored Plans, 2016"

## Rising Cost of Prescription Drugs



In 2014 there was a marked increase in the prescription drug trend rate, primarily due to the development of new specialty drugs that came at a significant cost increase. While the prescription drug trend projections for 2018 may not be as high as the last couple of years, **the drugs trends are nevertheless still outpacing the medical trend** and are much higher than they were at the beginning of the decade.

One of the key drivers of the prescription drug trend is the continued development of new specialty drugs. While there hasn't been a drug like the hepatitis C curative drug that rocked the marketplace with a \$100,000 price point for a course of treatment, there has been a significant number of specialty drugs that treat more common therapy classes than hepatitis C, such as inflammatory conditions, oncology, multiple sclerosis, and HIV.<sup>1</sup> These new specialty drugs have both high unit costs as well as high utilization rates.

In addition to the new drug developments, there has been a decline in the number of drugs coming off patent, which means that fewer cost-saving generics will come to market in 2018. **Generics can offer a price savings of 80 to 85 percent** off of the cost of the branded originals.<sup>2</sup> The lack of new generics entering the marketplace in 2018 will increase the overall drug trend.

# HEALTH CARE TRENDS

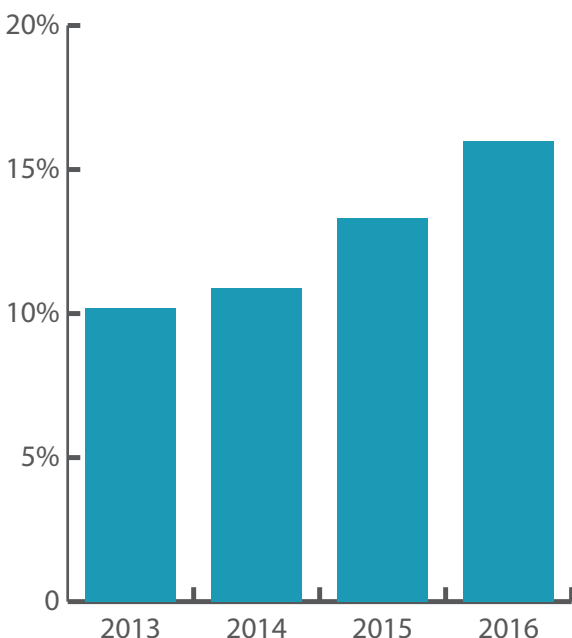


However, there have been a few factors that have kept the prescription drug trend in check. One of the most significant is the increase in both political and public scrutiny over the high percentage prescription drug price increases over the last two years. One particular case caused both a media backlash and political action, the rise in EpiPen's price from \$165 in 2011, to \$300 in 2014, to \$600 in 2016.<sup>3</sup> These type of unsubstantiated price increases have lead federal and state lawmakers of various political leanings to take action.

There has been increased pressure to allow drugs to be imported from other countries where prices are kept in check, as well as a demand for hearings to investigate these dramatic rate increases. While there hasn't been any definitive laws as a result of the public outcry, there has been an increased amount of self-regulation by the pharmaceutical industry. Some companies are making pledges to limit the percent price increases to single digits as well as creating more price transparencies.<sup>4</sup>

In addition to public pressure helping to drive down the cost of prescription drugs, another deflator of the prescription trend has been the increase in the number of prescription rebates. To encourage the use of specific drugs, manufacturers may give a rebate to the Pharmacy Benefit Manager, PBM, or to a health plan. **Over the last several years, the amount of these rebates have increased in volume and amounts which has lowered the net pharmacy trends (the trend amount after the rebates).** However, most of the rebates are returned to the plan and not at the time of sale, so consumers have not been directly seeing the result of these lower rebated prices. According to CVS, the walk-away rate (when a patient refuses the prescription rather than pay the price) is now at 20%.<sup>5</sup> Because of this many pharmacies are striving to offer more point-of-sale rebates, where the consumer would receive the rebate when the prescription is filled.<sup>6</sup>

## REBATES RECEIVED AS % PRESCRIPTION DRUG CLAIMS



*\*2017 Milliman Medical Index*



## The Future of Health Care Reform

Since the Affordable Care Act, ACA, was passed in 2010, Health Care Reform has been a driving influence in how the insurance industry and employers look at their employee benefit offerings. The ACA has made significant changes to the health care system, including new coverage requirements, patient protections and cost limitations and has taken years to be fully implemented. With the change of the presidential administration in 2017, there has been much concern with what comes next in Health Care Reform.

The current Trump Administration has been committed to repealing and replacing the Affordable Care Act. Republicans in both the Senate and the U.S. House of Representatives have been using a three step process to repeal and replace the ACA. Step one is Budget Reconciliation. This means that the proposed bills can only address ACA provisions that directly relate to budgetary issues—specifically, federal spending and taxation. As a result, these proposals cannot fully repeal the ACA. Step two would be the administrative actions by the Department of Health and Human Services (HHS) which are responsible for the enforcement of the ACA. This second step might also have included actions by the Department of Labor and IRS. Step three would be legislation to address the additional provisions that could not be done through the budget reconciliation process. The budget reconciliation process was the preferred method because this legislation can be passed by both houses with a simple majority vote. A full replacement bill of the ACA would have required 60 votes in the Senate to pass.

- On May 4, 2017, the House voted 217-213 to pass the American Health Care Act (AHCA), which is its proposal to repeal and replace the ACA. As a result, the AHCA moved on to the Senate for consideration.
- In response, the Senate originally drafted the Better Care Reconciliation Act (BCRA) as its own ACA repeal and replacement bill, followed by amendments to the BCRA on July 13, 2017. However, on July 18, 2017, Senate Republicans abandoned the BCRA due to a lack of votes.
- On July 25, 2017, the Senate voted 50-50 to open up the AHCA for debate and amendments, with Vice President Mike Pence casting the tie-breaking vote in favor of the measure. As a result of the vote, the Senate began a 20-hour debate period, where amendments would be introduced and voted on in succession. The Health Care Freedom Act (HCFA) was the last amendment that was introduced during the 20-hour debate period.
- On July 28, 2017 The Senate voted 49-51 to reject the HCFA, effectively ending the current efforts to repeal and replace the ACA.

Because the Senate was unable to pass any ACA repeal or replacement bill, **the ACA remains current law, and employers must continue to comply with all applicable ACA provisions.** The Senate's rejection of the HCFA was the final vote of the Senate's 20-hour debate period, and effectively ends the Republicans' current efforts to repeal and replace the ACA.

# CONCLUSION



In the last few years, employers have been seeing significantly lower trends. But even with these lower trends, health care costs far exceeded the cost of living and employers had to cut costs by reducing benefits and increasing employee costs. Employers began offering high deductible plans that encouraged employees to become better consumers. The ability of employers to reduce benefits and cost shift has hit its threshold. Now, in order to reduce costs employers have to look at reducing prices at a deeper level.

Prescription drug coverage remains a key component of the overall health care trend. The new drug therapies that are being developed, while expensive, do have the potential to treat conditions before they result in higher costing medical or surgical care. However, these life-saving drugs come at a steep price and employers are looking deeper at their pharmacy plans to make sure that their prescriptions are being properly managed. Formularies are getting stricter and new programs are being developed and utilized that encourage mail order fulfillment, increase adherence to their prescription treatment and make use of the rebates available to them. In order to keep costs down, employers have had to become savvier at managing their costs.

Despite all the political uncertainty around health care reform and the increasing prices, employers are still strongly committed to offering their employees the best benefits package possible. Employers are focusing on keeping costs down by increasing the health, productivity, and total well-being of their employees. The definition of a health care package for employees has expanded from the basic health services. Employers are looking more specifically at their own populations to evaluate and determine the best coverage needs for their employees. This redirection will help employers to provide the best value to their employees that incentivizes each individual to create a healthier lifestyle and hopefully reduce costs in the long-term.

# CONCLUSION



## Sources:

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2. *US Food and Drug Administration, "Facts about Generic Drugs," <https://www.fda.gov/downloads/drugs/resourcesforyou/consumers/buyingusingmedicinesafely/understandinggenericdrugs/ucm305908.PDF>*
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7. *National Survey of Employer-Sponsored Health Plans, 2016 Survey Report, Mercer.*



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