

# Segal predicts little difference in 2008 health plan cost increases

By Eileen M Flick

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Increases in per-capita medical claims costs for all managed-care-type plans are expected to converge in 2008, all falling in the 10.5% to 10.9% range (see box below). This compares with projected increases of 11.1% to 12.0% for 2007. It marks the fifth consecutive year of declining medical trends, according to the 2008 Segal Health Plan Cost Trend Survey, Segal's 11th annual survey of managed care organizations, health insurers, pharmacy benefit managers and third party administrators.

Historically, the most tightly managed plans, such as HMOs, observed lower trend rates. For example, 10 years ago, the gap between the trend rates for HMOs and PPOs was more than three percentage points, versus near convergence now.

Cost increases for all managed care plan models have converged for four main reasons:

1. The liberalization of the primary care gatekeeper role has made PPO options more attractive, which has increased their market share. This has enabled PPOs to negotiate provider discounts comparable to those negotiated by HMOs.
2. Providers have shown a willingness to drop out of managed care networks if they are not adequately compensated or if the network generates only marginal revenue for a provider.
3. Advances in technology have increased health costs for all types of managed care plans. For example, more high-cost imaging procedures are being performed utilizing MRI, CAT scans and PET scans.
4. Capitation payment systems that transfer risk to providers were not well-received or understood by specialists, limiting their widespread adoption.

## Projected versus actual trend

It is interesting to note the difference between past projections and actual cost increases.

For example, for 2006 (the most recent year for which actual data is available), the high-deductible health plan trend, which was projected to be 12.6% in 2005, turned out to be 10.5%.

At the same time, the open-access PPOs/POS plan trend, projected at 12.4%, was 9.6%.

The PPOs/POS plan (with primary care physician as gatekeeper) trend, projected to be 11.8%, was actually 10%, and the HMO trend, projected at 11.6%, was 10.2%.

What does all this reveal?

Insurers tend to make conservative projections.

The accuracy of underwriter projections is subject to a natural lag in the underwriting cycle.

In periods where costs are decelerating, forecasters tend to overestimate trends.

Similarly, when costs are accelerating, the projections will generally be underestimated for a short period of time.

## **Smart changes needed**

A growing number of plan sponsors are adopting a total health management approach to address health care cost increases.

THM involves developing a multi-year strategy to influence participant behaviors and plan sponsor capabilities and to improve health care provider efficiency and service provider performance.

The most successful sponsors use detailed claims data to determine what diseases, conditions, facilities and treatments are driving cost increases.

Integrated data mining helps them identify gaps in needed treatment and where quality health care delivery is poor.

It also allows them to develop targeted strategies for improving the health and health care consumption of their participants, as well as reducing health trends to manageable levels.

One new approach to THM includes raising patient awareness through demand management - giving plan participants information that can help them use medical care more appropriately.

Strategies include tying financial rewards or penalties to employee actions.

With an outcomes-based THM strategy, plan sponsors can focus on implementing a value-based plan design that utilizes cost/quality tradeoffs by evaluating clinical settings.

Specifically, no or low copays are set for high-value interventions, such as managing diabetes and coronary artery disease.

Higher copays are established for interventions of less value, such as lifestyle treatments.

Although the increases being projected for 2008 are smaller than the previous year's, they are still substantial and well above consumer price inflation and wage increases.

The good news is that plan sponsors that take an active role in managing their health plans are already seeing sustained results and more engaged employees.

*Eileen M. Flick is a vice president and benefits consultant for the national health services practice in the New York office of The Segal Company.*