Smaller Hikes in Health Premium Rates Forecast for 2016

Rate increases still outpace inflation; plan design changes help control costs

By Stephen Miller, CEBS 9/22/2015

Compared to the steep spikes in health plan premiums seen in years past, rate increases for 2016 will remain relatively modest for most medical plan options, although still outpacing overall inflation as represented by the consumer price index (CPI).

But costs will increase substantially for prescription drug coverage, hitting double-digit rates, according to forecasts based on recent health cost trend surveys.

The 2016 Segal Health Plan Cost Trend Surveyreport, released in September 2015, captured data on cost projections for large U.S. group health plan sponsors before any plan design changes have been made. The survey examined 2016 projected medical cost trends as reported by major health insurance firms by service type.

Selected Medical, Prescription and Dental Plan Cost Trends

Year	PPOs	POS Plans	HMOs	MA HMOs	Rx	Dental POs
2015 projected	7.8%	7.5%	6.2%	3.9%	8.6%	4.7%
2016 projected	7.8%	8.0%	6.8%	3.5%	11.3%	3.5%

PPOs—preferred provider organizations / **POS plans**—point of service plans / **HMOs**—health maintenance organizations / **MA HMOs**—Medicaid Advantage program HMOs for retirees / **Rx**—prescription drug carve-out plans (data captured for both retail and mail-order delivery) / **Dental POs**—dental provider organizations.

Source: 2016 Segal Health Plan Cost Trend Survey.

Price inflation for hospital services and brand-name medications were the leading drivers of plan cost increases, the researchers found. But overall, in light of more modest cost increases, cost-shifting to employees will be more restrained compared with past years that saw large rate increases, Ed Kaplan, national health practice leader in HR consultancy Segal's New York City office, told *SHRM Online*.

“Corporate plans have made some cost-shifting decisions over the last couple of years, but it was six to 10 years ago that te biggest shifts took place,” said Kaplan. “In the last couple of years, we haven’t seen major wholesale changes, such as replacing all of the [available employer-provided] plans with a high-deductible plan, for example. Or if they went from a $300 deductible to a $500 deductible in the past, typically they haven’t moved it up to $700. If they had a primary care physician co-pay of $20 and it went to $25, it’s tended to stay there.”

Even as employers are adding high-deductible plan options to promote cost-conscious spending decisions and hold down premiums, “the deductible may be increasing, but [employers are] offsetting that with contributions to health savings accounts [HSAs], for example,” said Kaplan. “If they’ve added an HSA, they’re deciding if they’re going to increase their contribution.”

For the most part, HSA contributions are holding steady, he noted. “Since the claims experience has been very good for the most part on the high deductible plans”—which is evidence that they are helping to hold down medically unnecessary spending—“we’re seeing less of a cost increase in terms of payroll deduction for the workers who are currently in a high-deductible plan,” although employers seem more apt to “tweak [upward] payroll deduction for traditional HMO or traditional PPO plans” that have lower deductibles.

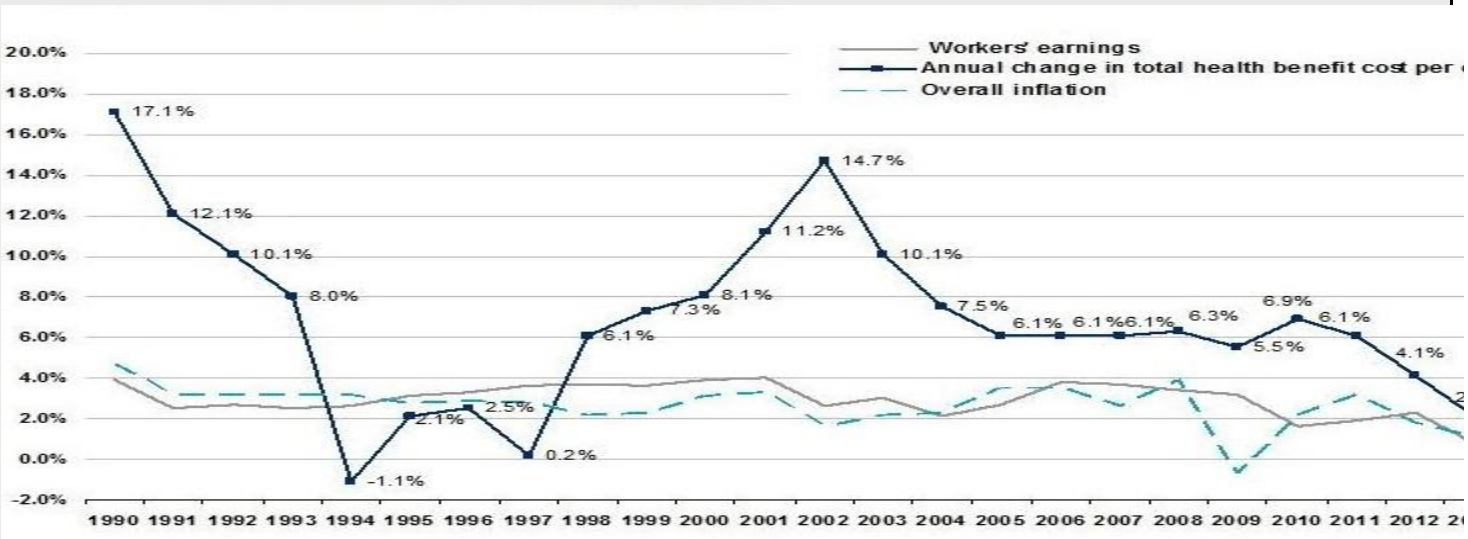
Kaplan said he’s optimistic that plan sponsors that engage in cost-controlling strategies will continue to get high value from their medical benefit programs, while controlling plan cost increases in the future (see “Five Steps to Control Health Plan Costs,” below).

Cost Increases with Plan Changes

Early responses released in September 2015 from a major Mercer survey still in the field show employers predicting that health benefit costs per employee will rise by 4.2 percent on average in 2016 after they make planned changes, such as raising deductibles or switching carriers. This is consistent with the actual cost growth Mercer found in 2014 (3.9 percent) and the expected cost growth for 2015.

More than 1,200 employers responded to Mercer’s National Survey of Employer-Sponsored Health Plans.

Average Health Benefit Cost per Employee Projected to Rise by Less than 5% for the Fifth Straight Year



Source: Mercer’s National Survey of Employer-Sponsored Health Plans.

“What is surprising–and encouraging–is the slowdown in the underlying cost growth, the increase employers would expect if they made no changes to their medical plans,” said Tracy Watts, senior partner in Mercer’s Washington, D.C., office and the consultancy’s national health reform leader. “Employers said costs would rise by an average of 6.4 percent in 2016 if they made no changes. That’s down from 7.1 percent for 2015 and is the lowest rate of underlying cost growth seen since Mercer began collecting this information in 2005,” she noted.

Despite the slower cost trend, more than half of the survey respondents (54 percent) planned to make some changes to their programs in 2016. “Employers are well-aware that the ACA’s [Affordable Care Act’s] excise tax on high-cost plans is slated to go into effect in 2018, even as calls for reform or repeal are mounting,” said Watts.

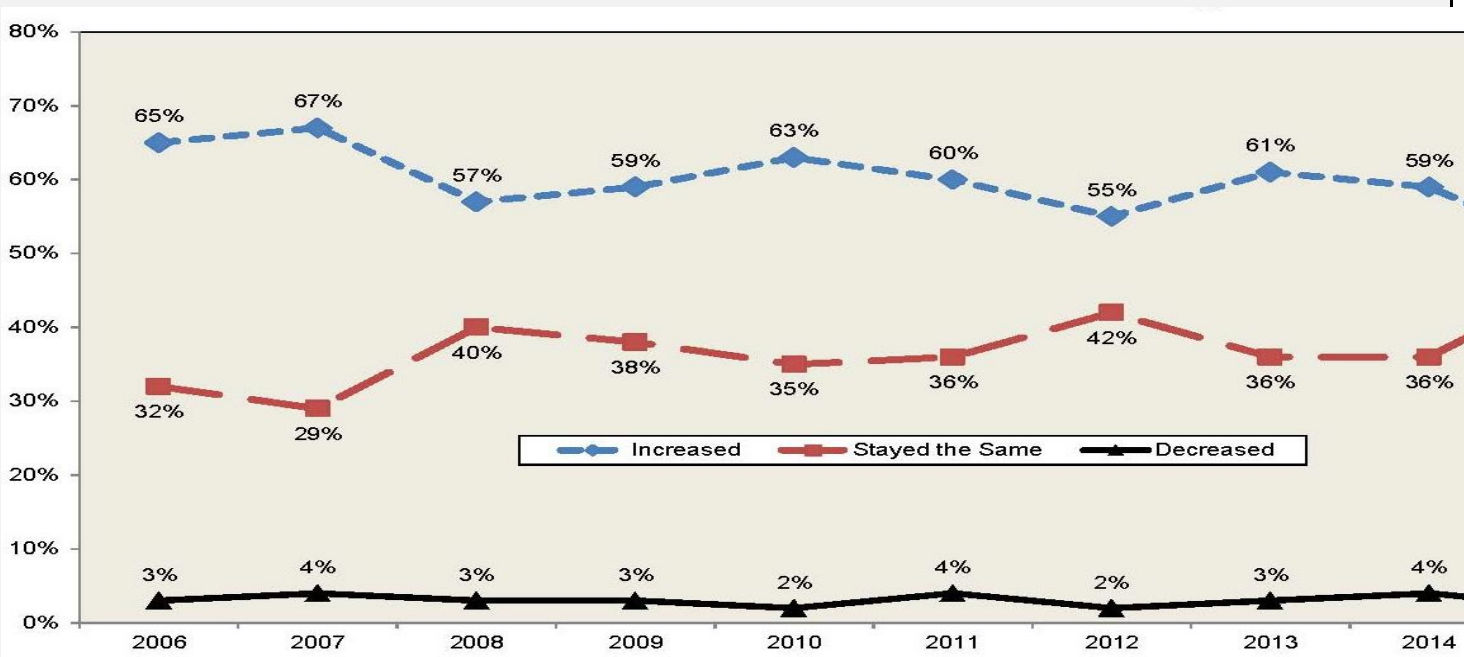
Mercer has estimated that, based on plan cost reported in 2014, about a third of all employers (31 percent) were on track to reach the excise tax threshold.

Fewer Seeing Cost Increases; Hardships for Those Who Are

While the above surveys polled insurers and employers, fewer workers, when asked, indicated they experienced health care cost increases in 2015 compared with previous years.

Results from the 2015 Health and Voluntary Workplace Benefits Survey by the nonprofit Employee Benefit Research Institute (EBRI) and research firm Greenwald & Associates show that one-half of workers report having experienced an increase in health care costs in 2015—down from 59 percent in 2014 and a historical low for the annual survey. The findings are published in the September 2015 issue of *EBRI Notes*.

Percentage of Individuals Reporting an Increase or Decrease in Premiums or Cost-Sharing, 2006-2015



Source: Employee Benefit Research Institute and Greenwald & Associates.

Nevertheless, the survey found that high health costs cause financial difficulties for many workers, and that those experiencing cost increases continue to report that they are changing the way they use the health care system:

- Nearly 7 in 10 (69 percent) said increased costs have led them to try to take better care of themselves, and 52 percent indicated they choose generic drugs more often.
- One-half said they go to the doctor only for more serious conditions or symptoms (49 percent) and 43 percent said that they delay going to the doctor.
- 23 percent said they have decreased their contributions to retirement plans.

Workers' ratings of their own health plans continue to be generally favorable, the survey found. One-half of those with health insurance coverage are extremely or very satisfied, while only 9 percent are not satisfied with their current health plan.

Five Steps to Control Health Plan Costs

Plan sponsors are continuing to look for ways to manage costs by taking a closer look at their health plans. Segal's 2016 Health Plan Cost Trend Survey report advises that successful cost management typically involves taking one or more of these actions:

- **Perform data analytics and data mining.** Use workforce health data and metrics to evaluate the performance of health plans, to make changes to lower costs by reducing plan waste and inefficiencies, and to target disease-management programs.
- **Manage use of specialty drugs.** Given the expected double-digit cost increase for specialty pharmacy drugs, consider prescription benefit design changes such as requiring prior authorization, implementing step therapy, mandating use of a limited network of specialty pharmacies and identifying preferred treatments within disease categories.
- **Request competitive proposals.** With the recent merger activity among medical and pharmacy benefit networks, plan sponsors that conduct market bids can upgrade contract terms and realize significant savings.
- **Consider narrow or custom provider networks.** Seeking out only the best quality, highest value hospital and physician groups may result in lower unit costs and better long-term outcomes. The trade-off of less choice for plan participants will need to be studied against the financial returns these narrow networks can offer.
- **Adopt a cafeteria-style approach to health benefit coverage options.** Plan sponsors that have not moved to a cafeteria-style menu of plan offerings with a fixed defined contribution funding strategy may want to consider this approach.

2015 Employer Health Plan Numbers

To help put the 2016 rate forecasts in perspective, here is a look at health plan premiums as they stood in 2015 and related plan numbers.

Single and family premiums for employer-sponsored health insurance rose an average of 4 percent in 2015, continuing a decade-long period of moderate growth, according to the Kaiser Family Foundation/Health Research & Educational Trust (KFF/HRET) 2015 Employer Health Benefits Survey released in September. Since 2005, premiums have grown an average of 5 percent each year, compared to 11 percent annually between 1999 and 2005, the survey noted.

The average annual premium for single coverage was $6,251, of which workers on average paid $1,071. The average family premium was $17,545, with workers on average contributing $4,955.

The KFF/HRET survey also found that 81 percent of covered workers were in plans with a general annual deductible, on average, of $1,318 for single coverage in 2015. Covered workers in smaller firms (three to 199 workers) faced an average deductible of $1,836 this year—66 percent more than the $1,105 average deductible facing covered workers at large firms (with at least 200 workers).

Since 2010, both the share of workers with deductibles and the size of those deductibles have increased sharply. These two trends together result in a 67 percent increase in deductibles since 2010, much faster than the rise in single premiums (24 percent) and about seven times the rise in workers' wages (10 percent) and general inflation (9 percent).