

Aon Consulting

2010 Health Care Trend Survey

Summer

Contributed by:

Bill Sharon
National H&B Consumer Driven
Healthcare Practice Leader

AON



2010 Health Care Trend Survey

Summer

Contents

- 4. Overview
- 5. Health Care Trend Rates
- 7. Trend Rate History
- 10. About This Survey Report
- 11. Companies Providing Trend Data

Overview Beginning this year, we changed the release dates for the Aon Health Care Trend Survey to the summer and winter. The summer 2010 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 sixty leading medical, dental, pharmacy, and vision vendors, we are forecasting the following health care trend rates for the twelve-month rating periods beginning between July and December 2010.

Plan Type		Rates	
		With Rx	Without Rx
Medical – Actives & Retirees <65	HMO	10.5%	10.8%
	POS	10.6%	10.9%
	PPO	10.7%	10.9%
	Indemnity	12.4%	12.8%
	CDH	11.0%	11.1%
Medical – Retirees Age 65+	Medicare Supplement	7.5%	7.8%
	Medicare Advantage	6.7%	6.3%
Dental	DHMO	4.2%	
	PPO	6.0%	
	Indemnity	6.8%	
Pharmacy	General	8.4%	
	Specialty	14.0%	
Vision		2.9%	

2010 Trend Forecast Some observations about our summer 2010 trend forecast:

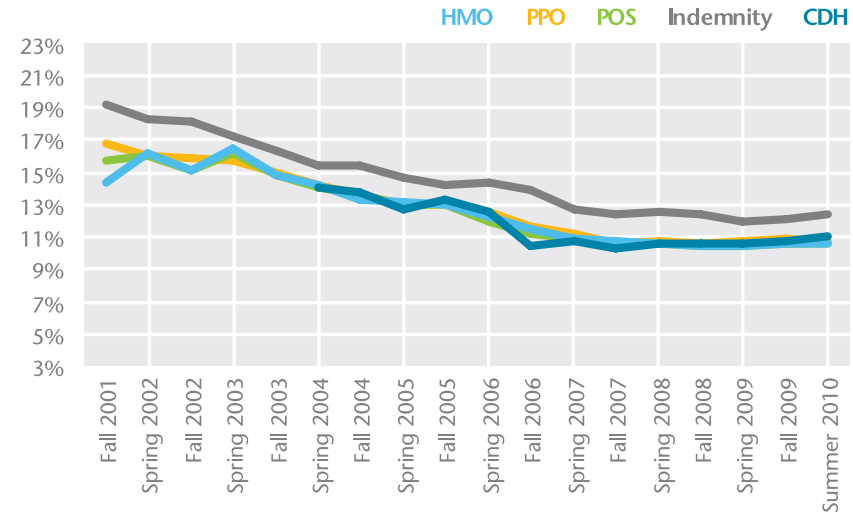
- The medical trend rate is significantly higher than the May 2010 annual increase in consumer price index for all urban consumers (CPI-U) of 2.0%
- The medical trend rates are very similar to our fall 2009 survey rates.
- Insurance companies are forecasting consumer driven health (CDH) plan trend rates to be about the same as HMOs, POS plans and PPOs. CDH studies by some of these same insurance companies indicate that CDH trends for “best practice” CDH plans are considerably lower than HMOs, POS plans and PPOs. The conservative figures in this survey are due to: (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 medical trend rates for retirees age 65 and older are similar to the fall 2009 survey.
- The dental trend rates are similar to our fall 2009 figures.
- The general pharmacy trend rate is down about 1.0 percentage point from our fall 2009 trend forecast. The specialty pharmacy trend rate is similar to the our fall 2009 figure. Note: Specialty pharmacy includes biotechnology agents designed for complex and chronic conditions.
- The vision trend rate is down a little from our fall 2009 survey.

Trend Rate History

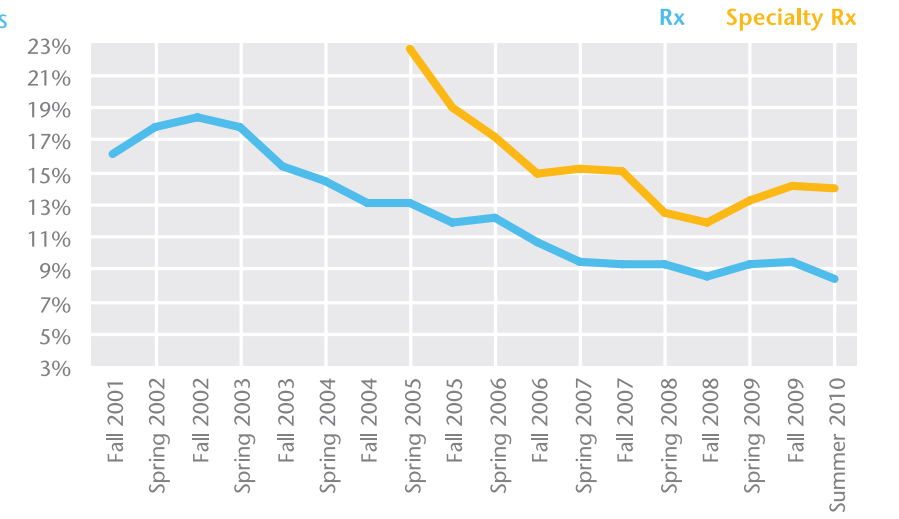
The following table and corresponding charts summarize our most recent summer 2010 survey and our past seven spring trend surveys:

Plan Type		Spring 2003	Spring 2004	Spring 2005	Spring 2006	Spring 2007	Spring 2008	Spring 2009	Summer 2010
Medical – Actives & Retirees <65 (with Rx)	HMO	16.4%	14.1%	13.2%	12.2%	10.9%	10.6%	10.4%	10.5%
	POS	16.1%	14.1%	13.0%	11.9%	10.8%	10.5%	10.4%	10.6%
	PPO	15.7%	14.2%	13.0%	12.4%	11.2%	10.7%	10.7%	10.7%
	Indemnity	17.2%	15.3%	14.6%	14.4%	12.7%	12.40%	11.9%	12.4%
	CDH	N/A	14.1%	12.7%	12.5%	10.7%	10.5%	10.5%	11.0%
Medical – Actives & Retirees <65 (without Rx)	HMO	14.7%	13.4%	12.9%	12.0%	11.0%	10.8%	10.5%	10.8%
	POS	14.5%	13.5%	12.7%	11.8%	10.9%	10.5%	10.5%	10.9%
	PPO	14.4%	13.5%	12.7%	12.3%	11.3%	10.9%	11.0%	10.9%
	Indemnity	16.4%	14.7%	14.6%	14.4%	13.1%	12.6%	12.4%	12.8%
	CDH	N/A	13.3%	12.4%	12.3%	10.7%	10.3%	10.4%	11.1%
Medical – Retirees Age 65+ (with Rx)	Medicare Supplement	N/A	N/A	N/A	11.5%	11.2%	7.3%	6.6%	7.5%
	Medicare Advantage	N/A	N/A	N/A	10.2%	9.2%	7.7%	7.3%	6.7%
Medical – Retirees Age 65+ (without Rx)	Medicare Supplement	N/A	N/A	N/A	9.9%	9.0%	7.3%	6.6%	7.8%
	Medicare Advantage	N/A	N/A	N/A	8.0%	8.0%	7.0%	7.0%	6.3%
Dental	DHMO	4.8%	5.0%	4.7%	4.8%	4.5%	4.2%	4.1%	4.2%
	PPO	7.6%	7.3%	7.1%	6.7%	6.1%	6.3%	5.9%	6.0%
	Indemnity	7.6%	7.7%	7.6%	7.1%	7.0%	7.0%	6.5%	6.8%
Pharmacy	General	17.7%	14.4%	13.1%	12.2%	9.5%	9.4%	9.3%	8.4%
	Specialty	N/A	N/A	N/A	17.0%	15.1%	12.4%	13.2%	14.0%
Vision		3.8%	3.9%	3.9%	3.6%	3.1%	3.1%	2.9%	2.9%

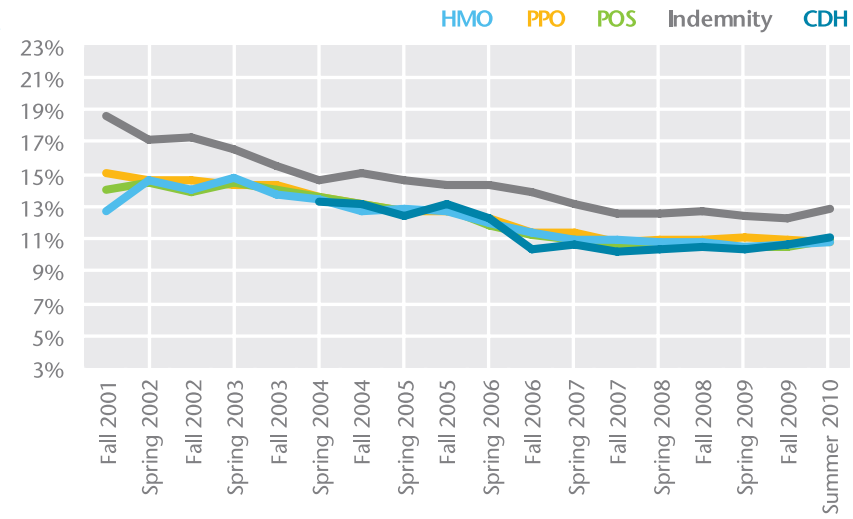
Medical Plans with Rx



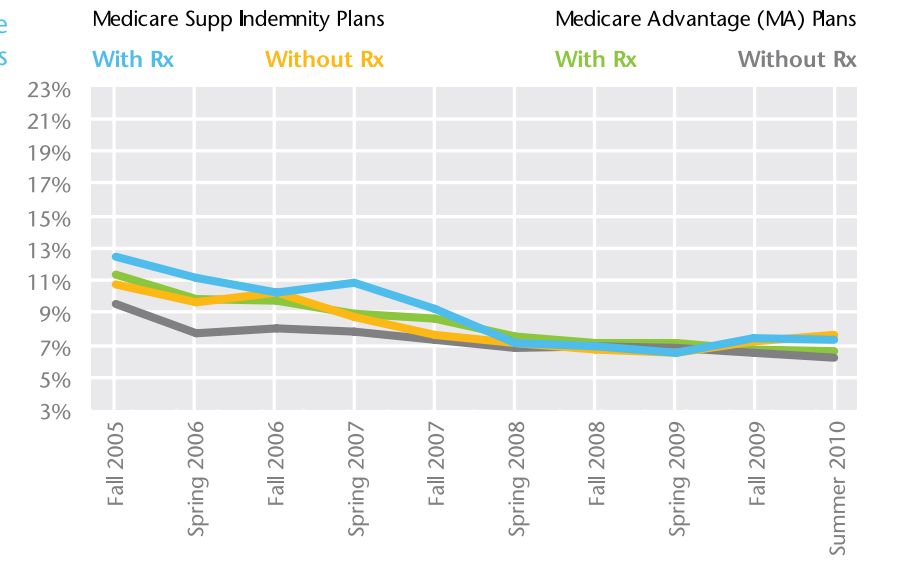
Prescription Programs



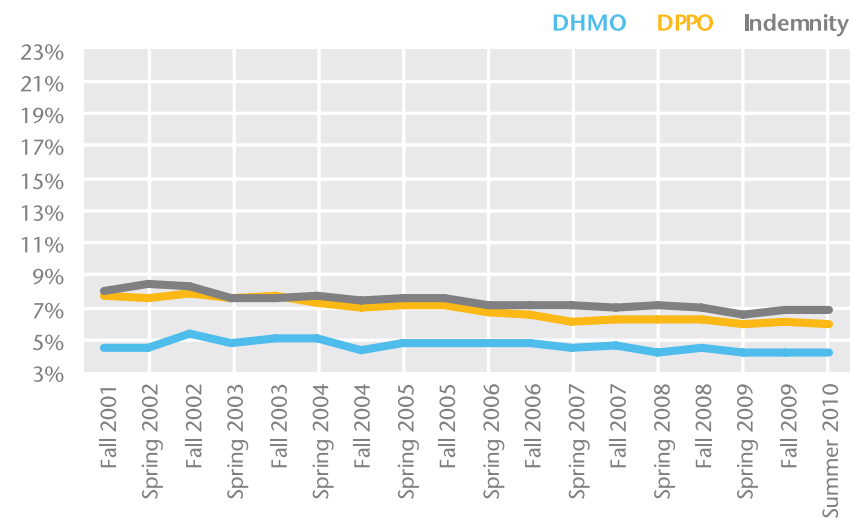
Medical Plans without Rx



Medicare Supp & Medicare Advantage Post-65 Plans



Dental 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 Summer 2009 Health Care Trend Survey:

Plan Type	Company
Medical	Aetna BCBS (31 plans) CIGNA Coventry Fiserv Health/UMR Guardian Life Insurance Health Partners Humana Kaiser (9 plans) Medica Principal UnitedHealthcare (UHC)
Medicare/Post-65 Retiree Medical	BCBS (28 plans) CIGNA Health Partners Humana Kaiser (6 plans) Medica
Dental	Aetna Assurant BCBS (21 plans) CIGNA Dominion Dental Fiserv Health/UMR Guardian Life Insurance Health Partners Humana Kaiser MetLife Principal United Concordia/Highmark
Pharmacy	Aetna BCBS (33 plans) Caremark Rx, Inc. CIGNA Coventry Express Scripts Fiserv Health/UMR Guardian Life Insurance Health Partners Humana Kaiser (9 plans) MedcoHealth Solutions Medica MedImpact Prescription Solutions UnitedHealthcare (UHC) WalMart
Vision	Aetna Assurant BCBS (16 plans) CIGNA Davis Vision EyeMed Vision Care Guardian Life Insurance Humana Kaiser MetLife WalMart Vision Service Plan

Aon Consulting

Aon Consulting is among the top global human capital consulting firms, with more than 6,300 professionals in 229 offices worldwide. The firm works with organizations to improve business performance and shape the workplace of the future through employee benefits, talent management and rewards strategies and solutions. Aon Consulting was named the best employee benefit consulting firm by the readers of *Business Insurance* magazine in 2006, 2007, 2008 and 2009.

For more information on Aon Consulting, please visit www.aon.com/human-capital-consulting.