

News From Aon

Global Medical Costs Expected to Increase in 2017 Despite Lower Rates of Inflation

New Aon analysis reveals non-communicable diseases continue to be primary drivers of cost increases

TORONTO, December 19, 2016 – While global inflation rates appear to be mitigating, average cost increases for employer-sponsored medical plans globally are continuing to rise, according to a new report from Aon. Average cost increases are projected to be 8.2 percent in 2017, up slightly from 8.1 percent in 2016. However, the average inflation rate in 2017 is projected to be 2.8 percent, down slightly from 2.9 percent in 2016.

Aon's report reflects the medical trend expectations of employer-sponsored medical plans in more than 90 countries based on reported data from Aon professionals, clients and carriers represented in the portfolio of Aon medical plan business in each country.

According to Aon, projected medical trend rates are expected to vary significantly by region. For example, countries in Latin America and the Middle East should expect to see a sizeable jump in average medical premium rate increases from 2016 to 2017, while Asia Pacific and Europe are projected to see lower rates of increase for 2017. Despite variations in regional trend rates, all regions are expected to exceed average regional inflation levels by at least 4 percentage points.

“Medical cost trend rates continue to increase due to many factors, including global population aging, poor lifestyle habits in emerging countries, cost shifting from social programs and the increased prevalence and utilization of employer-sponsored health plans in many countries,” said Wil Gaitan, senior vice president and global consulting actuary at Aon. “Today’s multinational employers are experiencing the increased costs and complexities across their organizations with lowered productivity levels due to the aforementioned factors.”

Average Medical Trend Rates by Region

	2016		2017	
	Medical trend rate	Annual general inflation rate	Medical trend rate	Annual general inflation rate
Asia Pacific	9.4%	3.2%	8.9%	2.9%
Europe	5.9%	1.6%	5.7%	1.6%
Latin America and Caribbean	13.6%	6.4%	14.2%	6.0%
Middle East and Africa	11.6%	6.3%	14.3%	6.7%
North America	6.0%	1.5%	6.3%	1.6%
Global	8.1%	2.9%	8.2%	2.8%

In Canada, Aon Hewitt's analysis of extended health care programs indicates that over the past several years, medical cost inflation, both gross and net, has been trending higher, signaling a return to historical levels. Medical costs are expected to rise by 8% in 2017 – the same level as 2016 – on a gross basis; assuming a 1.9% general inflation rate, the net medical trend rate comes in at 6.1% for next year.

While employers enjoyed a reprieve from rapidly rising costs for several years owing to governments legislating lower generic drug prices, that trend has clearly reversed. Canadian employers now face some of the highest prescription drug costs in the world, and the introduction of new specialty and biologic drugs will have an associated impact on benefit plan costs – in particular, the premium rates for large amount pooling. Meanwhile, Canada's aging population will contribute significantly to the ongoing trend of rising plan utilization.

“Organizations should be taking full advantage of the various plan management design features available from their benefits carriers to help with both cost growth and appropriate utilization,” said Anthony Perlman, Senior Vice President and National Practice Leader, Health & Benefits, Aon Hewitt Canada. “At the same time, insurers and employers need to evaluate the implications of longer-term trends and potential impacts in an environment that increasingly demands change and adaptation.”

Poor Health Habits Primary Driver of Cost Increases

Aon’s report revealed that cardiovascular, cancer and respiratory conditions were the most prevalent health conditions driving health care claims around the world. The global risk factors expected to drive future claims—and contribute to the adverse experience driving high medical cost increases—continue to be primarily non-communicable diseases: high blood pressure, high cholesterol, and physical inactivity.

“Many of the factors driving the upward momentum for higher medical costs are ones that individuals can change when the appropriate support and programs are available,” noted Tim Nimmer, chief health care actuary at Aon. “Employers can play a key role by motivating individuals and their families to take a more active role in managing their health, including participating in health and wellness activities and better managing chronic conditions that frequently drive higher costs for treatments.”

Employer Strategies for Alleviating Medical Costs

Aon’s report found cost sharing, managing provider networks and making plan design changes were the top strategies for controlling costs globally, though strategies vary slightly based on region. For example, while cost sharing is the most prevalent strategy in Asia Pacific and Middle East/Africa, managing provider networks is the preferred strategy for employers in Europe and Latin America.

“Many of these approaches will not be as effective in the future, and employers will need to adopt more innovative strategies to mitigate costs and influence the health and wellbeing of their employee population,” said Francois Choquette, leader of Aon’s Global Benefits practice.

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