Global Medical Costs Expected to Increase in 2018 as Local Rates of Inflation Rise

New Aon analysis reveals poor lifestyle habits and increased utilization of health care are key contributors in cost increases around the world

TORONTO, December 14, 2017 – Global inflation rates are projected to rise around the world in 2018, and cost increases for employer-sponsored medical plans are likely to follow suit, according to a new report from Aon, the leading global professional services firm providing a broad range of risk, retirement and health solutions. Global average cost increases are projected to be 8.4 percent in 2018—nearly three times the projected rate of inflation of 3.1 percent.

Aon’s report reflects the medical trend expectations of employer-sponsored medical plans in 98 countries based on reported data from Aon professionals, clients and carriers represented in the portfolio of Aon medical plan business in each country.

Projected medical trend rates for 2018 are expected to vary significantly by region. For example, countries in the Middle East/Africa and Latin America regions should continue to see the highest average medical premium rates of any region, at 15.3 percent and 13.9 percent respectively. In contrast, Asia Pacific, Europe and North America are projected to see average rate increases in the single digits, with Europe seeing the lowest rate of increase at 5.8 percent.

Despite variations in regional trend rates, all regions are expected to exceed average regional inflation levels by nearly four percentage points. According to Aon, the gap between average global medical trend rates and average general inflation rates have remained above 5 percentage points over the past five years, leading to a nominal cumulative increase of 69 percent from 2013 to 2018.

“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 health care 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 lower employee productivity levels due to the aforementioned factors.”

Average Medical Trend Rates by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gross medical trend rate</td>
<td>Annual general inflation rate</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>8.9%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Canada</td>
<td>8.0%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Europe</td>
<td>5.7%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Latin America and Caribbean*</td>
<td>14.2%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Middle East and Africa</td>
<td>14.3%</td>
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*Includes Mexico

Distinctive trends in Canada
In Canada, medical cost inflation, both gross and net of general inflation, is trending lower than both the global and the North American average, reversing a multi-year trend that had seen inflation approach historical norms (~8%). According to Aon Hewitt’s analysis of extended health care plans, medical costs in Canada are expected to rise by 6.0% in 2018—down two percentage points from 2017 – on a gross basis. Assuming an annual general inflation rate of 2.1% for 2018, the net medical trend rate is expected to be only 3.9%, down from 6.1% last year.
The decline in cost inflation is a reprieve for Canadian employers, who are already facing some of the highest prescription drug costs in the world. Yet the outlook is not clear. According to the Aon report, mental health issues, aging and physical inactivity are expected to be prime drivers of future claims in Canada, and will likely contribute significantly to plan utilization. Meanwhile, the introduction of new specialty and biologic drugs, especially immunomodulators, is already having an impact on benefit plan costs.

“More moderate cost inflation is welcome news in the short term, but the underlying trends pushing medical costs up long-term are only going to accelerate,” said Anthony Perlman, Senior Vice-President and National Practice Leader, Health & Benefits, Aon Hewitt Canada. “Employers and their insurers should be taking this opportunity to assess the impact of those trends, and to explore ways to take advantage of plan management options that can help them mitigate cost increases and ensure sustainable utilization.”

**Poor Health Habits Primary Driver of Cost Increases**
Aon’s report revealed the increasing impact of non-communicable diseases worldwide on health care costs. Cancer, cardiovascular ailments such as high blood pressure, diabetes and respiratory conditions were the most prevalent health conditions driving health care claims around the world. Aon’s report also confirms the growing prevalence of risks from unhealthy personal habits around the world—such as physical inactivity, poor stress management, bad nutrition and obesity, high cholesterol and high blood pressure.

“Many of the global risk factors often lead to chronic conditions with long medical cost tails that make them expensive to treat and result in long-term medical cost increases,” 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 are fueling medical cost escalation around the world.”

**Employer Strategies for Alleviating Medical Costs**
To mitigate costs, Aon’s report revealed a growing number of companies are moving away from traditional strategies such as tweaking plan designs and negotiating with carriers and focusing more on impacting the root causes of high health care costs. This includes targeted programs to reduce chronic conditions and more education tools to help consumers better use their health care benefits.

These strategies vary in prominence based on region. For example, cost containment was the most prevalent strategy in countries in Asia Pacific and Europe. A focus on basic wellness strategies, such as detection and education, as well as preventive strategies like vaccinations, were more prevalent in countries in Latin America and in the Middle East/Africa.

“Employers need to adopt more innovative strategies to mitigate costs and influence the health and wellbeing of their employee population, although the task is made difficult by the lack of available detailed claim data from company plans and social programs. A good start is educating employees on the importance of good health, particularly in regions like Europe and Latin America where non-communicable diseases have a high impact on premium costs,” said Francois Choquette, leader of Aon’s Global Benefits practice.

**About Aon**
Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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2018 Global Medical Trend Rates

Average Medical Trend Rates in Canada

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2018 Medical trend Rates in Canada

**Top 3 Primary medical conditions** that were reported to generate adverse claim experience in Canada are:

1. MENTAL HEALTH
2. CARDIOVASCULAR
3. DIABETES

**Top 3 Risk factors** that are expected to generate future claims in Canada are:

1. AGING
2. PHYSICAL INACTIVITY
3. OBESITY

**Top 3 Cost elements** reported in Canada are:

1. BIOLOGIC IMMUNOMODULATORS
2. PRESCRIPTION DRUGS
3. PREVENTIVE CARE