

Understanding Medical Trend and the Impact on Employer Health Plan Renewal Rates

Currently, healthcare costs in the United States are high and rising, outpacing inflation and wage increases. While many employers had relatively lower claim costs during the COVID-19 pandemic, medical plan costs are approaching pre-pandemic levels as healthcare utilization rebounds. Other factors like inflation, specialty and novel prescription drugs, new medical technology, catastrophic claims, and consolidation among hospitals and providers have contributed to healthcare cost increases.

Healthcare costs are expected to grow 7% in 2024 due to rising pharmaceutical expenses and insurers increasing rates in response to inflation, according to an annual report from professional services firm PwC. This expectation is higher than 2022's and 2023's projected medical costs rates, which were 5.5% and 6%, respectively. As a result, employers face the difficult task of addressing rising healthcare costs while trying to keep employee benefits coverage affordable, especially as employers renew their health plans. However, many organizations' budgets are limited, forcing them to find new ways to balance their spending.

With healthcare costs rising for the foreseeable future, savvy employers are implementing strategies to ensure their benefits plans are sustainable and valuable to employees. By understanding medical trend and its impact on health plan renewal rates, employers can implement effective strategies to mitigate rising healthcare costs. This article explains medical trend and its impact on employers' renewal rates.

WHAT IS TREND?

One of the factors in calculating any future cost increase is called a medical trend or simply "trend." Trend is a prediction of how much healthcare costs will rise over the next policy year, assuming benefits remain the same. It's one of the factors used to calculate renewal rates for health plans and stop-loss insurance. Each year, carriers set their own trend level based on various factors, including the current healthcare inflation rate, analysts' forecasts, and their own experiences. It is important to note that the trend rate is not the same as the actual renewal rate, though trend does play a role in how the carrier determines the annual plan cost.

HOW IS TREND ESTABLISHED?

Carriers typically determine trend by considering the "experience period" (the known claims experience) and the "projection period." Claims are trended using the midpoint of the experience period (six months of claims) to the midpoint of the projection period (six months of projected claims). For example, if an employer's policy period is January 2023 to December 2023 and the renewal projection is utilizing claims experience from October 2021 to September 2022, they need to account for the additional months of claims in 2020 that are not included in the renewal projection. Therefore, in the example, the employer would utilize the annual trend factor multiplied by 15 months (to include the months not accounted for in the renewal projection).

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WHAT FACTORS HELP DETERMINE TREND?

There are four main components of trend. These elements are common across the risk spectrum, although organizations will likely see that the impact of any given component will vary widely depending on which level of risk is being evaluated (e.g., first-dollar coverage, consumer-driven options, or catastrophic risk). Each element of trend needs to be viewed on a stand-alone basis:

- + **Inflation**—The price per unit of service (e.g., medical supplies, equipment, staffing) will likely increase over time and must be accounted for in projecting plan costs.
- + **Cost-shifting**—Medical care providers can shift costs from discounted payers (such as government programs and the uninsured) to those whose charges are based on what is considered reasonable and customary.
- + **Utilization of new technology**—The use of medical care can be impacted by plan design, local and regional conditions, and new technologies, drugs, and therapies.
- + **Deductible leverage**—If fixed plan benefits—such as copays, deductibles, and other plan limits—remain the same over time, there’s a greater claim cost to the plan because the cost of services increases. For example:
 - Year 1: \$2,500 claim minus \$250 plan deductible = \$2,250 paid claim
 - Year 2: \$2,850 claim (increased by 14% trend) minus \$250 plan deductible = \$2,600 paid claim

Trend is a complex concept that takes into account many interacting factors, including historical experience and future estimates. Its influence on determining medical plan costs makes it essential to know and understand. Medical carriers should be able to provide employers with even greater detail on their trend determinants, as they can vary widely by plan design type and location.



SUMMARY

Tackling affordability and rising healthcare costs will continue to be top challenges for employers for the foreseeable future. Employers may need to find new strategies, rework existing business models, and take advantage of transformational opportunities to lessen the impact of rising healthcare costs on their organizations. Understanding medical cost trend can help employers examine their plan designs and take steps to protect themselves against increasing healthcare costs.

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