“Understanding Renewals 101”

Components of “Trend”:
- Inflation
- Cost Shifting
- Utilization / Technology
- Deductible Leveraging

(Source: Zywave Inc. 2008, Trends and the Impact on Your Renewal)

*Read the following document and call us at 412-456-7000*
Understanding Trend and the Impact on Your Renewal

**Market Overview & Update**

The healthcare industry continues to evolve. Employers are challenged to absorb health insurance increases and the impact to the bottom line. The rise in healthcare costs continues to more than double the rate of inflation. Employer strategies for managing healthcare costs include educating employees on wise use of healthcare services, wellness initiatives, and increased accountability for employees to manage their own healthcare decisions.

Spending in the U.S. for prescription drugs is one of the fastest growing components of national healthcare spending. Employers have pushed generic and over-the-counter alternatives to help lower this trend.

Healthcare provider systems are being challenged to provide greater transparency and disclosure for the pricing of medical services. The additional information is intended to increase consumer awareness and improve decision making.

Health insurers continue to develop cost-sharing measures, broader provider networks, and additional offerings for high-deductible health plans. This shift impacts vendor market strategies, pricing deals, administration processes, and ultimately creates service challenges for the broker and employer.

**What is a Trend?**

One of the factors in calculating any future increase is trend.

Trend is a prediction of how much healthcare costs will rise over the next policy year. It’s just one factor used to calculate renewal rates for health plans and stop loss insurance. Every year the insurance company sets its trend level based on last year’s healthcare inflation rate, analysts’ forecasts and its own experience.

Carriers typically determine trend by taking into account the “experience period” or the known claims experience, and the “projection period”. Claims are trended using the midpoint of the experience period (6 months of claims) to the midpoint of the projection period (6 months of projected claims). For example, if the policy period is January 2006 – December 2006 and the renewal projection is utilizing claims experience from October 2004 – September 2005, you need to account for the additional months of claims in 2005 that are not accounted for in the renewal projection. Therefore, in this example you would utilize the annual trend factor multiplied by 15 months (the number of months not accounted for in the renewal projection).
There are four main components of trend. These elements will be common across the risk spectrum, although you will 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.

What are the components that make up trend?
- **Inflation**: the price per unit of service (medical supplies, equipment, staffing, etc.) will likely increase over time, this must be accounted in projecting plan costs.
- **Cost shifting**: medical care providers can shift costs from discounted payers (government programs and the uninsured) to those whose charges are based on reasonable and customary.
- **Utilization/New Technology**: usage of medical care can be impacted by plan design, local and regional conditions, as well as new technologies, drugs, and therapies.
- **Deductible leveraging**: if fixed plan benefits such as copays, deductibles, and other plan limits remain the same over time, there is a greater claim cost to the plan because the cost of services increases. For example:
  - Year 1: $2500 claim minus $250 plan deductible = $2250 paid claim
  - Year 2: $2850 claim (increased by 14 percent trend) minus $250 deductible = $2600 paid claim.

Trend is a complex concept, taking into account many interacting factors including historical experience and future estimates. Its influence on determining medical plan costs makes it worth understanding.

JRG Advisors, LLC welcomes the opportunity to help your organization examine its plan design(s) and make recommendations for improvement.

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