

Medical Cost Trend Behind the Numbers 2017

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HFMA

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About our report

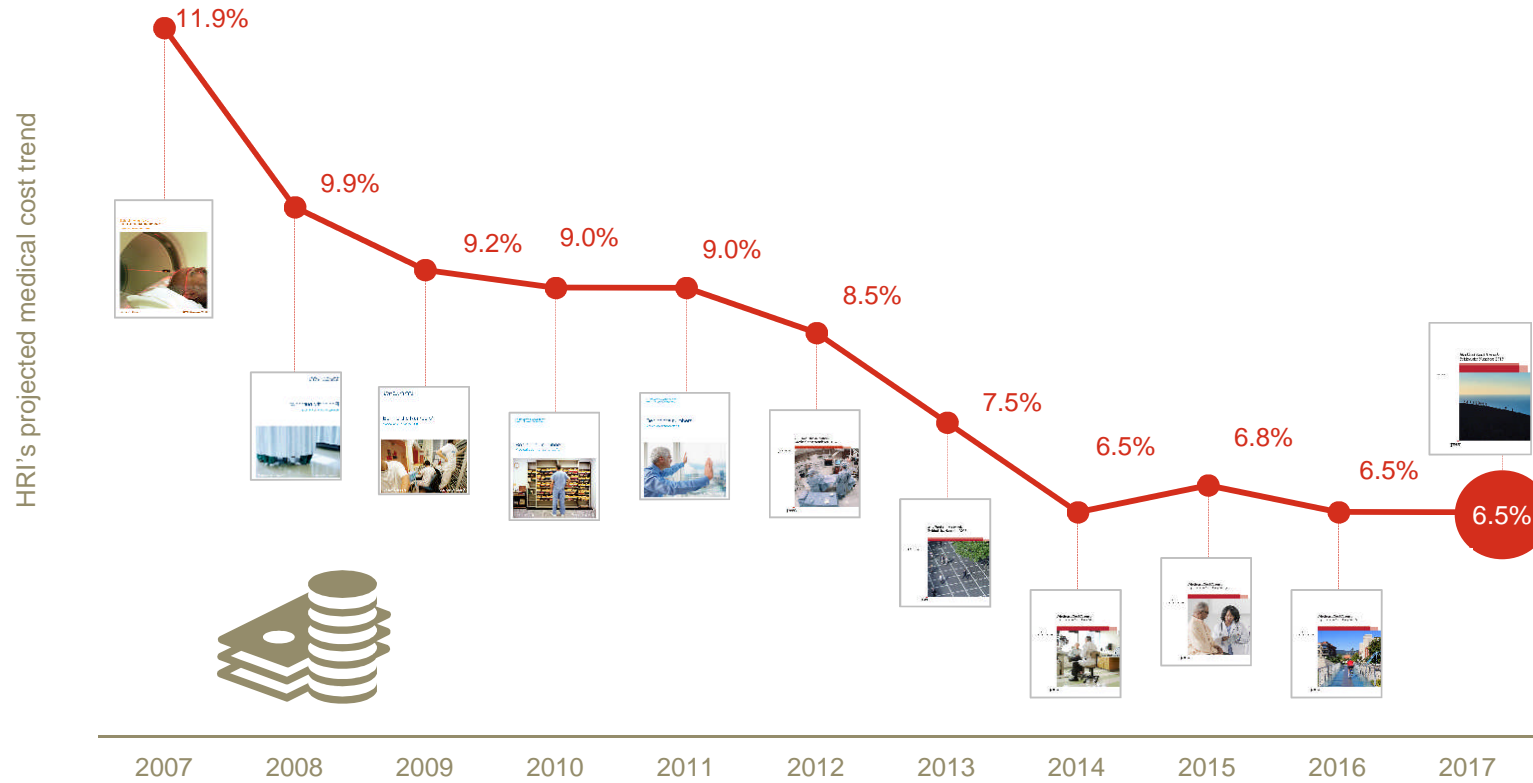
- Conducted interviews with 12 health plan executives whose companies cover more than 100 million people
- Conducted interviews with internal PwC subject matter specialists covering payer, provider, pharma, and employer sectors
- Included results from PwC's 2016 Health and Well-being Touchstone Survey of more than 1,100 employers from 36 industries, HRI consumer survey of more than 1,000 US adults, and an HRI survey of Health Plan Alliance members
- Analyzed government data, academic journal articles, industry trend reports and conference proceedings in determining the 2017 growth rate



The 101: what is medical cost trend?

Definition	Projected percentage increase in the cost to treat patients, or healthcare spending growth rate
Importance	The projection is used by insurance companies and employers to calculate health plan premiums for the coming year
Influencers	Changes in the price of medical products and services, known as unit cost inflation Changes in the number of services used, or per capita utilization increases

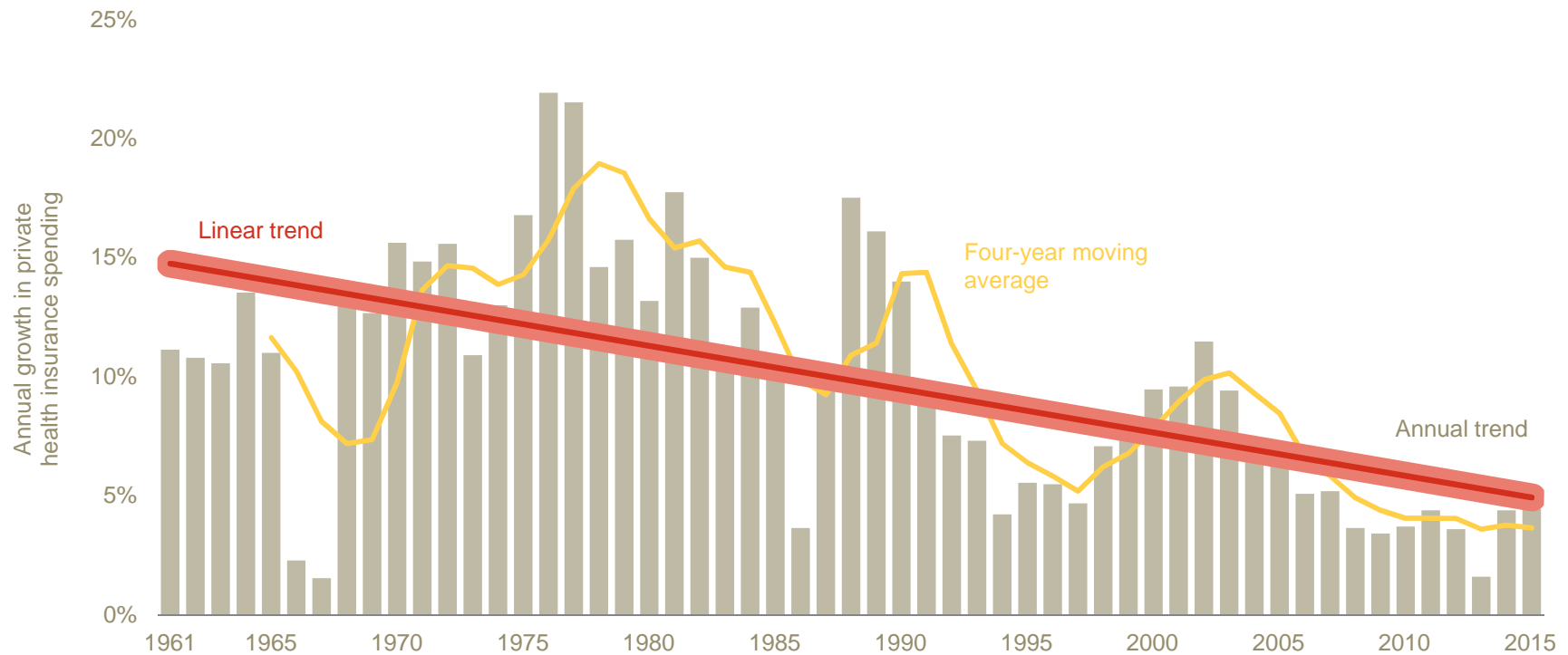
PwC's HRI projects a 2017 medical cost trend of 6.5%—level with the 2016 projection



Source: PwC Health Research Institute medical cost trends 2007–2017

Recent trends in health insurance costs are at historical lows

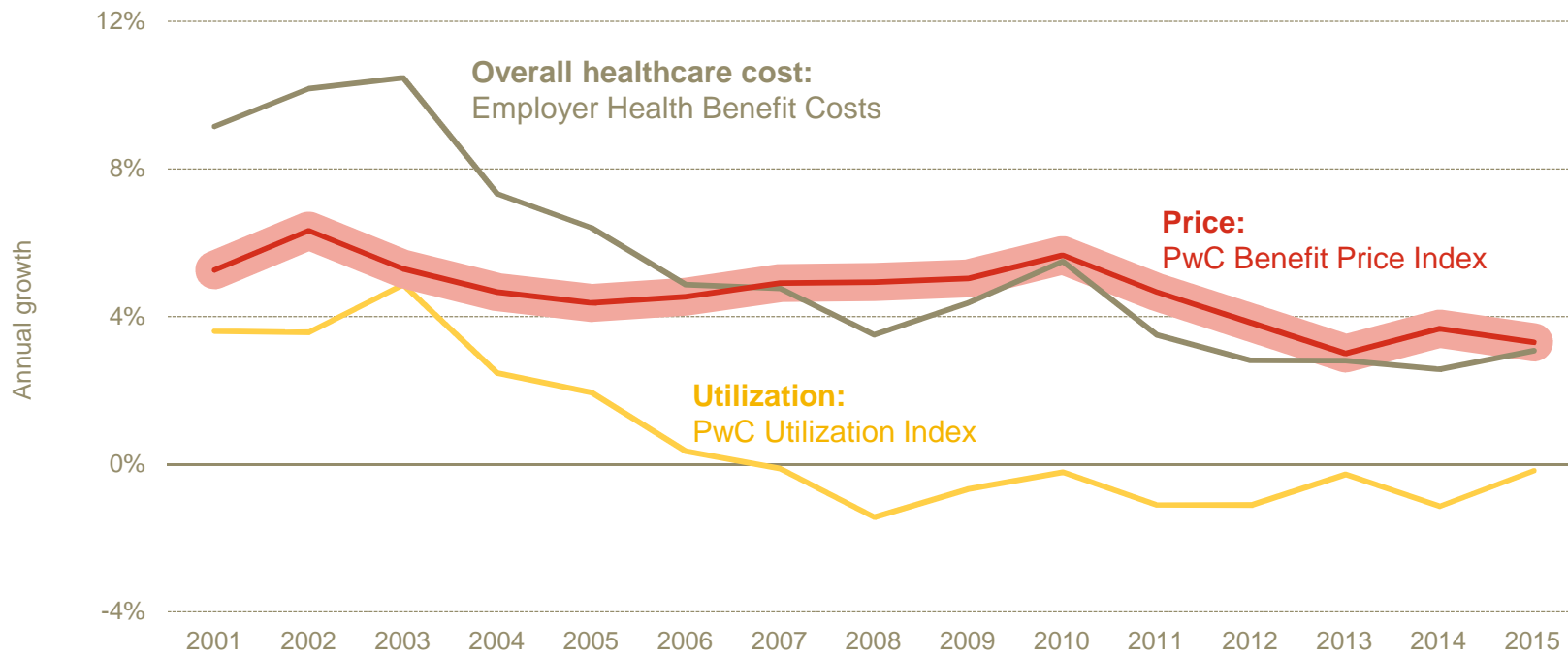
Growth in health expenditures for private employers from 1961-2015



Source: PwC Health Research Institute analysis based on CMS National Health Expenditures Private Health Insurance Component data

Price, not utilization, is the historical force behind medical cost trend

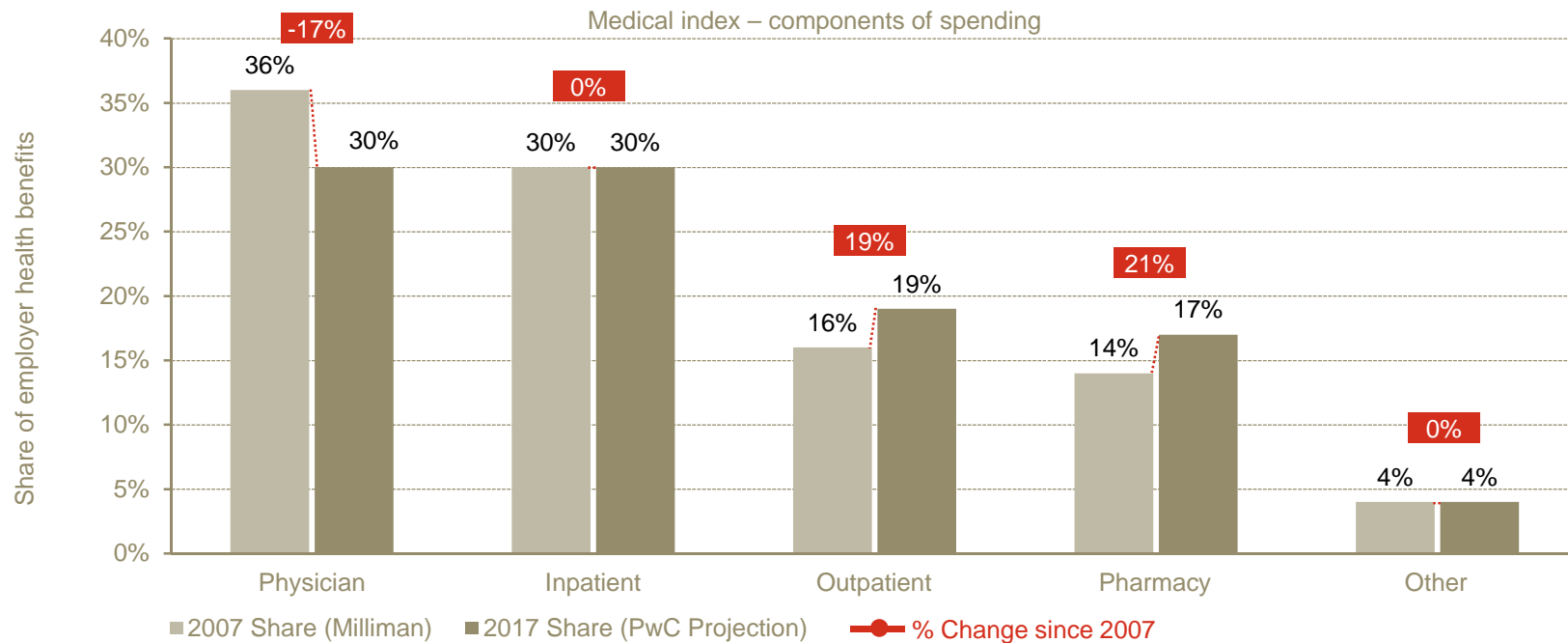
Components of growth in healthcare costs from 2001-2015



Source: PwC Health Research Institute analysis of Bureau of Labor Statistics data

Roughly half of employer health costs stem from hospital inpatient and outpatient services; the prescription drug share is small but increasing

Share of employer healthcare spending in 2007 and projected 2017



Source: Milliman Medical Index for 2007 and PwC Health Research Institute projections of 2017 medical spending based on the 2016 Milliman Medical Index. <http://us.milliman.com/insight/?pfld=2413>

Feedback from ACA health insurance exchanges

Adoption of private exchanges by employers

- The ACA exchanges attracted strong enrollment in their first few years
- Premiums are similar to or lower than those for comparable employer plans

Adoption of narrow networks by exchange enrollees

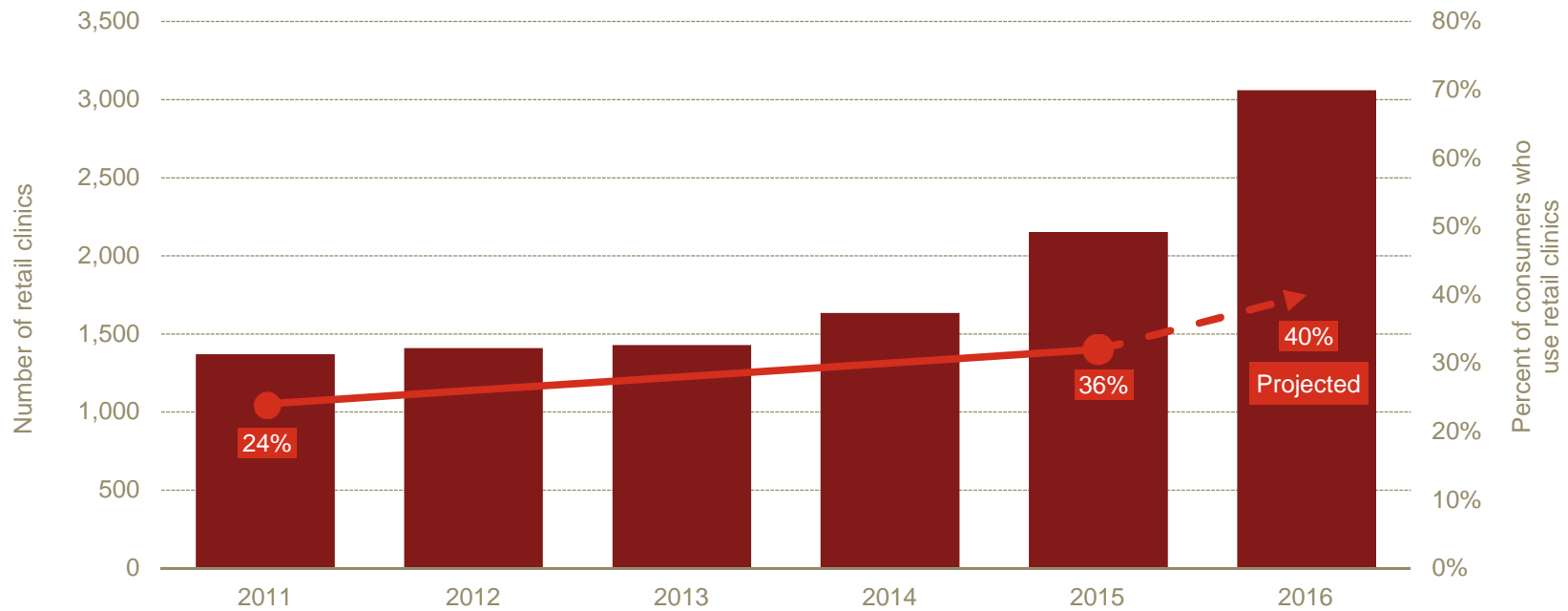
- Lower cost of narrow networks is appealing to employers
- Acceptance of narrow networks by exchange enrollees may encourage employers to introduce them

Employer cross-subsidization may decline in Medicaid expansion states

- Medicaid expansion can help reduce employer costs by one-half to one-third in states where uninsured are enrolled in both Medicaid and the exchanges

Inflator #1: Convenience has a cost

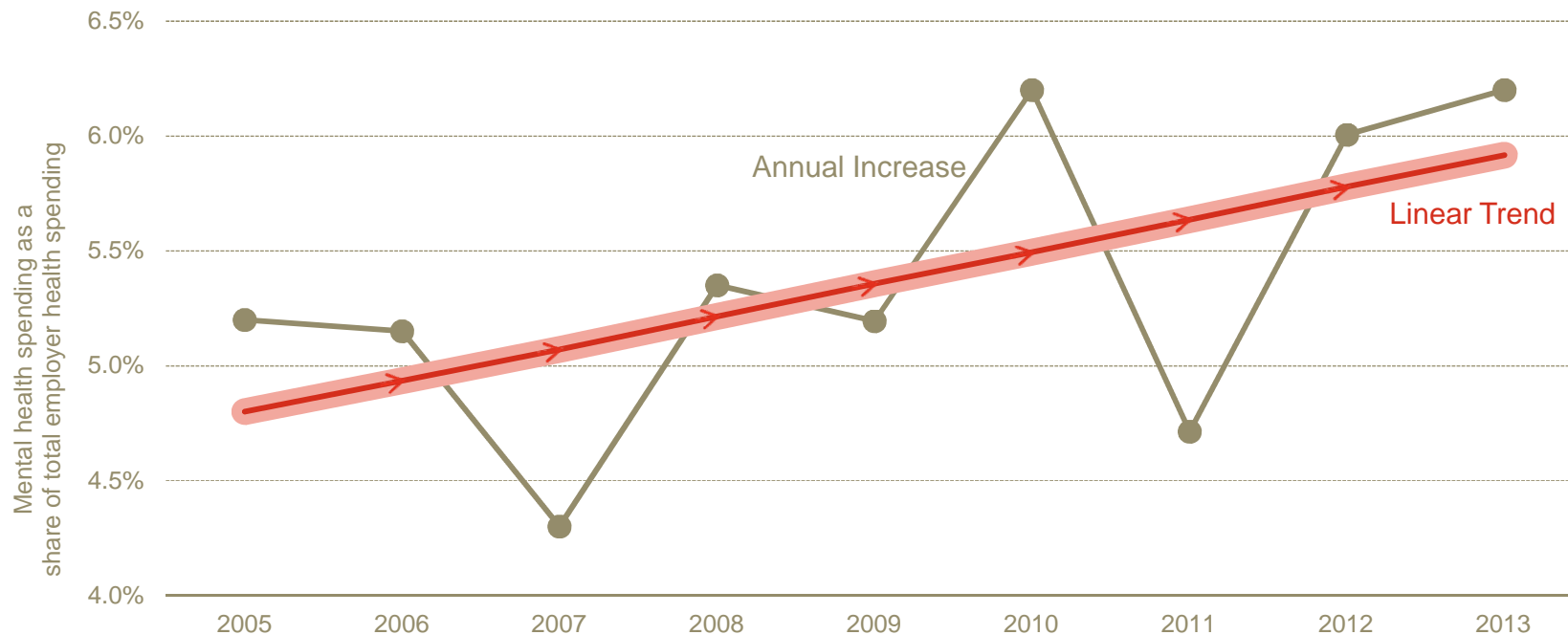
Use of retail clinics is increasing along with the number of places for treatment



Source: PwC Health Research Institute Consumer Survey and Convenient Care Association data

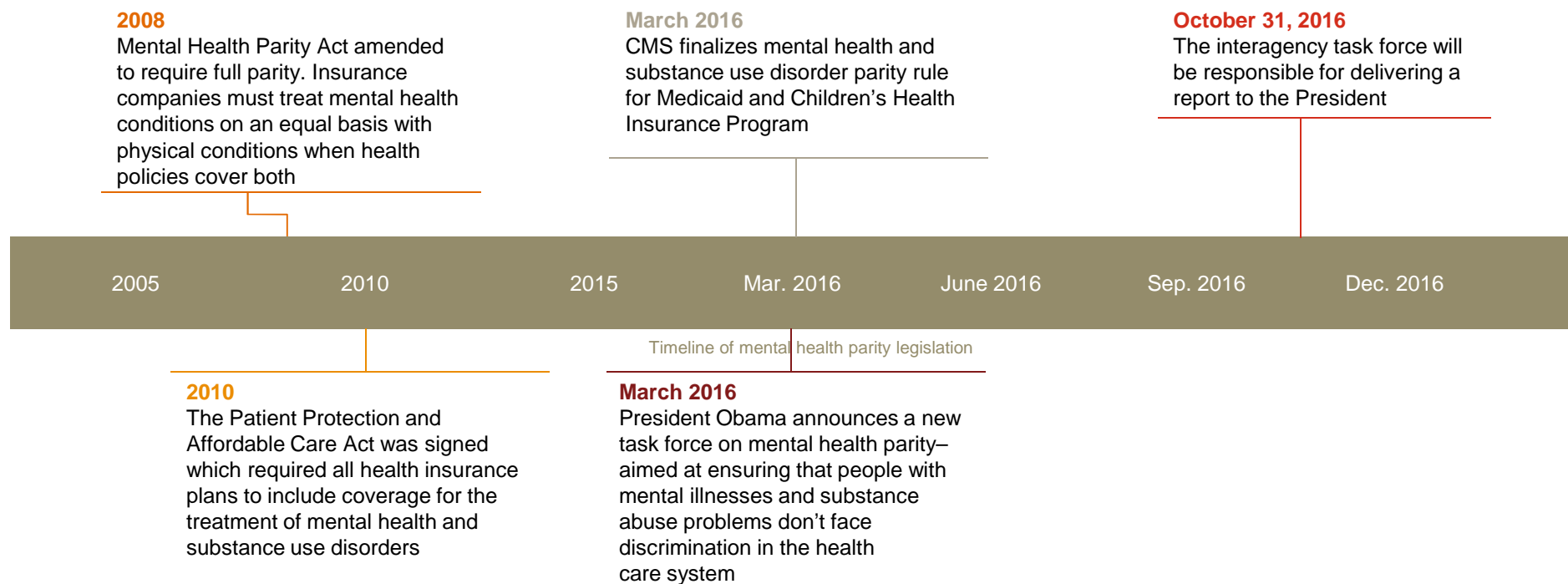
Inflator #2: The share of employer health spending on mental health services is increasing

Mental health spending as a share of total employer health spending from 2005-2013



Source: PwC Health Research Institute analysis based on Medical Expenditure Panel Survey data

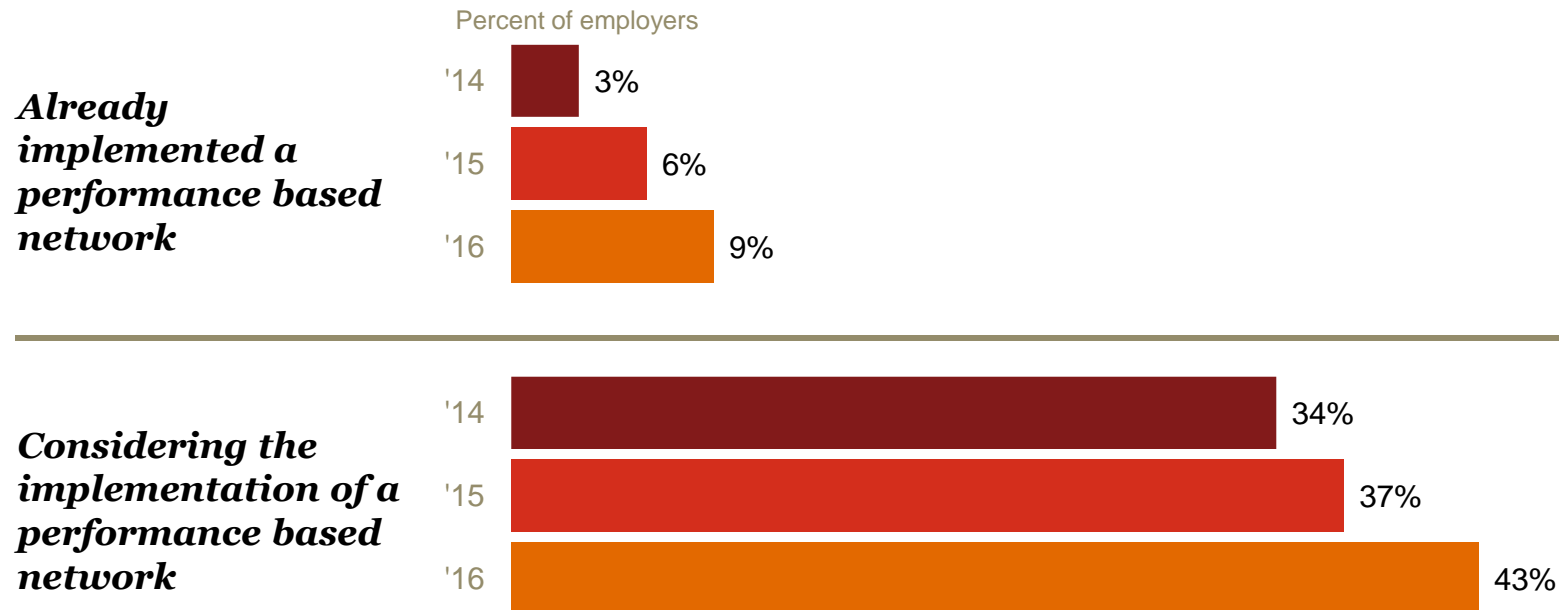
Inflator #2: The new focus on mental health parity will likely increase utilization in 2017



Source: PwC Health Research Institute analysis, Kaiser Family Foundation, Kaiser Health News and Health Affairs

Deflator # 1: Interest in high performance networks has increased substantially

As more employees push back against high cost sharing due to their inability to pay their deductibles, employers are exploring other ways to control costs



Source: PwC Health Research Institute analysis of PwC's Health and Well-being Touchstone survey for 2014, 2015 and 2016

Deflator # 2: PBMs win price concessions

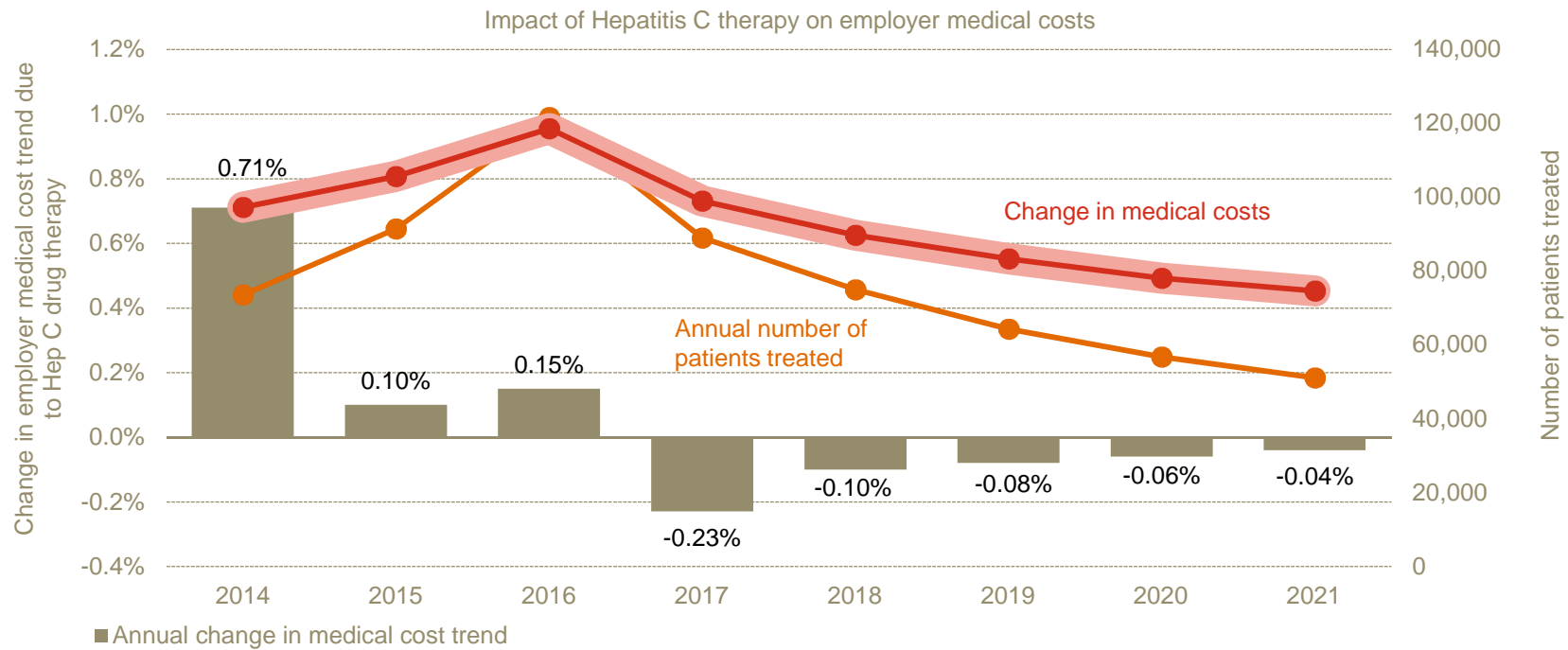
The approval of a second specialty medication within a treatment class can give PBMs leverage to extract sizable rebates



Source: PwC Health Research Institute

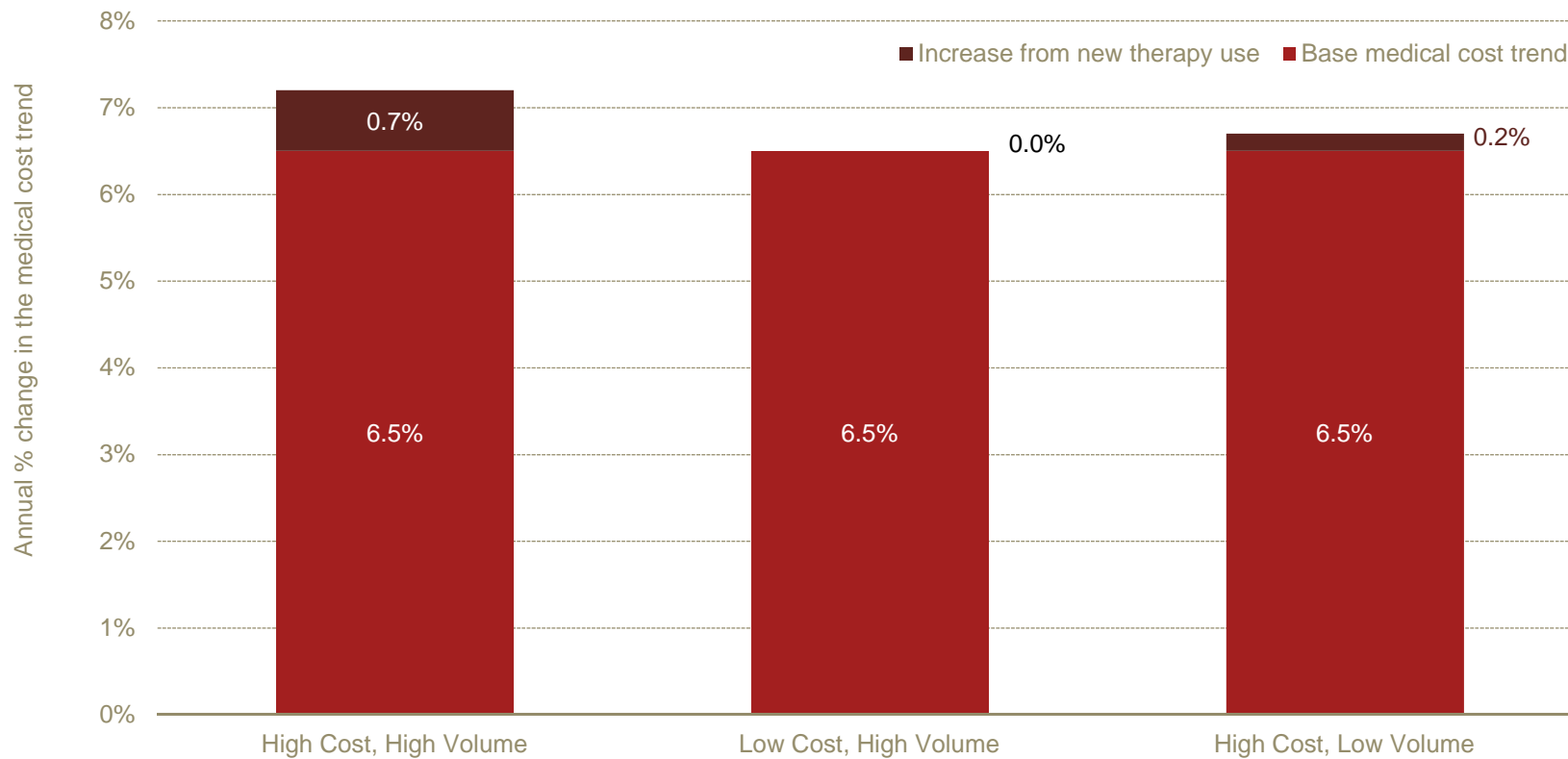
Specialty drugs are loosening their grip on growth

The impact of Hepatitis C therapy on medical cost trend declines after 2016 as the number of patients treated declines



Source: PwC Health Research Institute estimate based on National Health and Nutrition Examination Survey and 2012 Truven Health Analytics claims data from employers

The impact of a new specialty drug entering the market can vary greatly depending on price and volume of sales



Source: PwC Health Research Institute estimate

Healthcare organizations are looking for new ways to reduce costs as consumerism and value forge ahead

Employers



- 1) Realign cost sharing on ambulatory services
- 2) Consider a high performance network arrangement
- 3) Evaluate PBM arrangements

Healthcare providers



- 1) Considering partnerships with insurers
- 2) Providing convenience that consumers are demanding
- 3) Collaborating with PBMs

Health insurers



- 1) Leveraging alternative therapies
- 2) Creating a framework for high performance networks
- 3) Reviewing PBM relationships

Pharma and life sciences



- 1) Developing an effective pricing strategy
- 2) Discussing new products with insurers and PBMs early
- 3) Considering the impression made by pricing decisions

Thank you!

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To download the full report, please visit: www.pwc.com/us/medicalcosttrends

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