Cover Story

Health Insurance Premium Increases Expected to Rise

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The prognosis isn't certain, but health care cost increases could spike.

3/1/2014 By Susan J. Wells

Scanning the many health care cost projections for 2014, employers initially might think a wholesale celebration is in order.

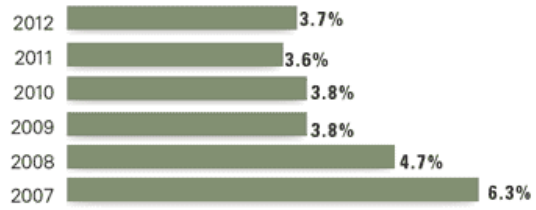
"Slowest rate of increase in health plan cost trends in 14 years projected for 2014," trumpets one study. "Defying historical patterns, medical inflation in 2014 will dip even lower than in 2013," proclaims another. "Lowest health care premium rate increases in more than a decade," concludes one more.

Projected trends are generally lower than they have been in years. Nationally, spending growth on health care has been low for four consecutive years, measuring 3.7 percent in 2012, according to the latest figures from the Centers for Medicare and Medicaid Services.

But a closer look indicates that 2014 may be a pivotal year in which the trend of low health care cost increases may be reversed. Employers will not only grapple with the impact of the Affordable Care Act (ACA) but also redouble efforts to address accelerating trends that predate the health care reform law.

Health Care Inflation Low, for Now

The overall growth in national spending on health care in 2012 was slow for the fourth consecutive year, the latest figures show.



Source: Centers for Medicare and Medicaid Services (2014).

Health care cost changes are primarily affected by price inflation and service utilization. Costs are also now being influenced by the early effects of health care reform, including additional government-mandated benefits and new taxes and fees that began this year. New medical treatments, therapies and technologies, as well as overall changes in health care delivery and plan designs, further influence cost trends.

The result: "The normal cost drivers are in a state of flux," says Beth Umland, director of research for health and benefits at Mercer. Umland, who is based in the consulting company's New York City office, leads an annual survey that has tracked public and private employer health cost expectations since 1986. "So many variables are affecting costs in ways no one can yet fully parse and understand," she notes.

Reviewing the research piece by piece can help make sense of various predictions in a volatile time. Much of the data focus on annual per-employee costs; other studies measure premiums, co-pays and deductibles. Some surveys poll only private employers; others include public organizations. Still others bypass employers altogether, instead seeking out the cost estimates of the price-setters—health insurers, managed care organizations and third-party administrators.

ACA's Impact

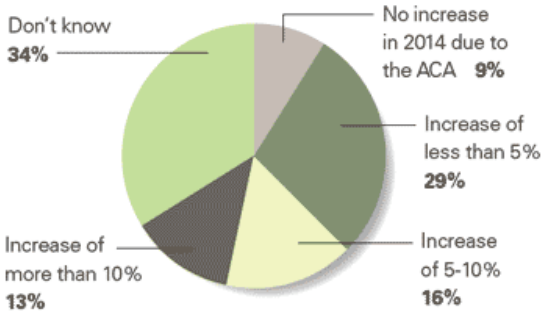
Mercer's poll of 2,842 employers with 10 or more employees shows that growth in the per-employee cost of coverage slowed from 4.1 percent in 2012 to just 2.1 percent in 2013. But that rate will more than double this year, to 5.2 percent.

That figure takes into account plan changes employers will make to reduce costs. "If they made no changes to the current plans, they estimate that costs would rise more—by an average of 8 percent," Umland notes.

- A transitional reinsurance fee for self-funded group plans during benefit years 2014 through 2016. For 2014, the cost is $5.25 a month, or $63 a year, per covered life. The fee will be used to stabilize premiums in the individual market for those with pre-existing conditions.
- A fee to fund the Patient-Centered Outcomes Research Institute, to promote evidence-based medical practices. Currently $2, it's multiplied by the average number of lives covered under the plan for the plan year. The amount will be indexed to inflation annually starting in 2014.
- A fee on insurers, called the Health Insurance Provider Fee. The fee begins this year and is expected to generate $8 billion in 2014 alone to help fund the cost of the ACA. Employers that sponsor self-funded health plans are exempt.

Health Care Reform Could Boost Costs

Most large employers predict at least some increase in the cost of health care benefits in 2014 as the result of the Affordable Care Act (ACA).



Percentages do not total 100 percent due to rounding.
Source: Mercer, National Survey of Employer-Sponsored Health Plans (2013).

When Mercer surveyed large employers, 92 percent said higher enrollments and new fees will increase their benefits spending for 2014. The median amount of the predicted rise is 3.5 percent; however, 13 percent of the organizations expect a hike of more than 10 percent.

Technology giant Intel Corp. prepared employees for the higher costs. Tami Graham, director of global benefits, says the Santa Clara, Calif.-based company informed employees during open enrollment that there would be a premium increase of about 6 percent for 2014. That includes 1.25 percent attributable to ACA fees, she says. Intel provides health insurance to about 48,000 U.S. employees and 79,000 of their dependents.

Plan Costs Trend Upward

This swing toward higher costs is noteworthy, as it comes on the heels of the lowest employer health care premium rate increases in more than a decade, according to Aon Hewitt. The consulting company analyzed 2013 data derived from its Health Value Initiative database, which captures health care cost and benefits data for 516 U.S. employers, more than 1,200 plans and $61.2 billion in health care spending.

After plan design changes and vendor negotiations, the average premium increase for large employers was 3.3 percent last year, down from 4.9 percent in 2012 and 8.5 percent in 2011, the study shows.

That is changing this year, says Tim Nimmer, chief health care actuary at Aon Hewitt in Lincolnshire, Ill. "We expect to see 2014 premium increases shift back toward the 6 percent to 7 percent range overall."

Nimmer says his analysis shows that the average health care cost per employee was $10,471 in 2013, up from $10,131 in 2012. For 2014, average health care costs are projected to increase to $11,176 per employee.

Premium Costs by Plan Type

Plan costs on a per-employee basis, including employee contributions but not out-of-pocket expenses.

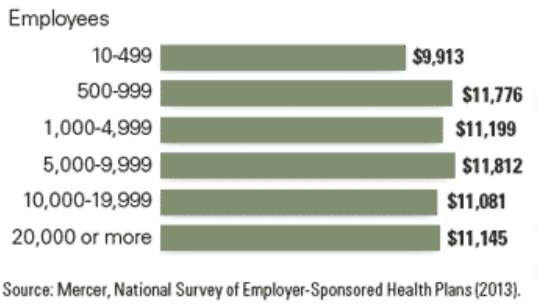
Year	Plan Type			
	Health Maintenance Organization	Point of Service	Preferred Provider Organization	National

total was $1,984. For 2014, average employee out-of-pocket costs are expected to increase 9 percent to $2,470.

Over the past decade, the employee share of health care expenses, including employee premium contributions and out-of-pocket costs, has increased almost 150 percent—from $2,011 in 2004 to $4,969 in 2014. At the same time, the employer share has increased almost 75 percent, from $4,977 in 2004 to $8,677 in 2014.

Premium Costs by Employer Size

Total health benefit cost per employee in 2013. Data include employer and employee premiums for all medical, dental and vision plans.



Source: Mercer, National Survey of Employer-Sponsored Health Plans (2013).

Regional benefits costs vary dramatically, however, and HR professionals can compare their organizations' costs with regional and local benchmarks to negotiate better terms. By making such comparisons, clients at United Benefit Advisors, an employee benefits advisory company based in Indianapolis, saved an average of 4.8 percent on their initial medical plan renewal offer in 2013, according to Thom Mangan, the company's CEO.

Claims Increases Slowing

While health insurance premium costs are on the rise, The Segal Group's forecast of per-capita claims increases continues to show a deceleration, contends Edward Kaplan, senior vice president and national health practice leader for Segal, a benefits, compensation and HR consulting firm in New York City.

As the creator, in 1996, of the company's Health Plan Cost Trend Survey—now a standard in the industry—Kaplan sought to develop a truer picture of underlying costs in employer health care than the many tallies of employer-only projections that existed at the time. So he annually asks about 100 of the biggest health insurers, managed care organizations, pharmacy benefit managers and third-party administrators across the country to provide the trend factors they will be applying to historical claims to predict expected claims in the coming year.

"Changes in the costs to plan sponsors can be significantly different from projected claims cost trends," he says.

Segal's 2014 survey data show that all medical plan types are expected to experience health cost trend rate declines this year. For example, the trend rate projection for high-deductible health plans without prescription drugs is 8.3 percent for 2014, down from 9.1 percent projected for 2013.

Trend rate projections for health maintenance organizations are a full percentage point lower than such projections last year—7.2 percent in 2014 vs. 8.2 percent in 2013. And prescription drug benefit trends for retail and mail order combined were expected to be 6.3 percent, which is consistent with last year's 6.4 percent. Dental and vision plan trend rates, meanwhile, remain essentially unchanged in 2014, the data show.

"While this decline in the trend rate is positive news, it's pretty unclear if health plan cost trends will continue to decline or return to their historical inflationary cycle," Kaplan says. "The downward moves may continue for the very short term—one, maybe two years—but I'm not at all confident it will stay low."

Regional Premium Cost Variations

Total health benefit cost per employee at large employers in 2013. Data include employer and

consumers of health and medical services, along with wellness promotion, tighter vendor and provider network management, and a focus on value-based cost-sharing. Those strategies are working—and they're managing to keep cost increases in check, he says.

"At least part of the credit goes to employers that have supported changes in the health care delivery system that lower costs without reducing their plans' quality of care," Kaplan says.

Bending the Cost Curve

Back before the ACA made the term accountable care organization the latest buzzword in health care, 4,600-employee Fieldale Farms Corp. was experimenting with a similar health care delivery model to lower costs without compromising care. Accountable care organizations—patient-centered models of care in which health care providers coordinate treatment to deliver high-quality care and better patient results at lower costs—have gained traction in recent years.

Since 2000, the Baldwin, Ga.-based poultry processing and packaging company has required mandatory employee-only coverage. In 2004, the company began moving toward a patient-centered care plan with a focus on wellness, provider quality and onsite clinics as a hub for more cost-effective employee health care. The company opened its first onsite clinic in 2004; a second followed in 2012, along with an onsite pharmacy.

The goal, says Denise Ivester, group health and wellness manager, is to drive the best possible outcomes through the use of the clinics and a highly integrated network of physicians and hospitals.

Fieldale offers employees incentives, including low co-pays and retail gift cards, for using the onsite clinics for primary care and a doctor/hospital network for care not provided in the clinics. Because of the tighter network of doctors, the company has been able to increase the discounts it receives from the insurer, Ivester says. "Even though some outcomes are difficult to track because a lot of the components in these programs are based on preventive measures, we can say with certainty that our overall costs have been reduced."

Fieldale spends about $5,000 a year on health care per employee, compared with a manufacturing industry average of $10,000 in the southern U.S., and Ivester counts $2.2 million per year in savings as a result of the company's clinics and pharmacy.

Though the company continues to evaluate the long-term effects of ACA provisions, she believes it is headed in the right direction. "We plan to stay the course," she says, "with no knee-jerk reactions."

Managing Risk

Until now, many employers' primary health care strategy has been focused on easing the year-to-year cost trend. With new layers of costs to come, employers are now faced with more decisions that demand actively managing risk.

At the University of Virginia in Charlottesville, Va., health care costs have marched steadily upward since 2009. The state university is projecting a 15 percent rise in health plan costs this year, says Susan Carkeek, SPHR, vice president and chief HR officer. Annual employee premiums are $9,270, which track below the state average of $13,249.

The treatment of chronic conditions accounts for some of the university's cost increases. Carkeek also attributes a portion of the rise to plan design changes and fees associated with the ACA; these components will cost $7.3 million in 2014 alone. High-cost claims are another factor, she says. They typically reflect very serious medical conditions and treatments exceeding $100,000 for a single enrollee. These claims increased from 44 in 2008 to 104 in 2012, and the cost of the claims jumped from $7 million to $24 million.

To preserve the level of benefits offered and contain costs in the years ahead, Carkeek launched a number of changes this year. They include a new, third health plan option—a high-deductible plan with a health savings account—and a stronger focus on the university's wellness program, dubbed "Hoo's Well," which already has a participation rate of 85 percent. Employees who complete a biometric screening and an online health assessment will avoid a $40-per-month hike in premiums this year.

"Placing more emphasis on wellness for all of our employees should help prevent some health issues from developing into very serious problems," Carkeek says. "A lot of our hope is pinned on that."

The university also implemented a working-spouse exclusion this year. Spouses who have access to coverage through their own employer are no longer eligible for coverage under the university employee's plan. That represents a savings of $1.5 million.

"Everything we implemented reflects difficult decisions in some cases," Carkeek says, "but in all cases the modifications are being made with an eye on long-term strategic results."

"You can't turn a big ship that fast," she says. "So all of our actions this year really are a way of navigating