

Study: 6.5% Growth in Medical Costs for 2014

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By Stephen Miller, CEBS

Health care cost growth for large employers in the U.S. is projected to slow to 6.5 percent in 2014, down from 7.5 percent in 2013, according to consultancy PricewaterhouseCoopers (PwC) Health Research Institute's annual report, *Medical Cost Trend: Behind the Numbers*. This projection is based on an analysis of medical costs in the large-employer market, which covers about 150 million Americans.

The medical cost trend (or growth rate) reflects changes in the actual cost to treat patients. The trend is a key ingredient in setting insurance premiums. After accounting for likely changes in benefit design, such as higher deductibles and other cost-shifting measures, the report projects a net increase in large-employer health care outlays of 4.5 percent next year.

Uncertainty about the impact of health care reform implementation and what to expect from a largely unknown, newly insured population is making it difficult to predict future costs, particularly in the individual market, the study found. At the same time, structural changes within the health care industry are helping to contain costs and deliver care more efficiently.

Employees, who are paying a greater share of the costs, are also making spending adjustments that are helping to restrain cost increases. Many are delaying care, using fewer services and choosing less expensive options, such as retail clinics and urgent-care centers, according to the report.

The findings are based on interviews conducted in March and April 2013 with 10 health plan officials whose companies cover a combined 95 million people, as well as on data from a 2013 PwC survey of 1,047 employers from more than 35 industries. The researchers also examined government data sources, journal articles and conference proceedings to determine the medical cost trend.

Cost-Controlling Measures

In response to the rising costs, businesses are shifting more of the financial burden to workers, reducing retiree benefits and pursuing more aggressive strategies to promote measureable health outcomes, the report found. Companies still describe health insurance as a valuable tool for recruitment and retention, and tax advantages are expected to keep employer coverage at high levels in 2014.

Steps employers are taking to better control costs include:

- **Adopting high-deductible plans.** According to the report, 44 percent of organizations are considering offering high-deductible health plans as the only benefit option in 2014. Already 17 percent of employers offer these plans as their only option—a 31 percent increase over 2012.

In 2013 the average individual in-network deduction in employer-provided plans was \$1,230 (up from \$680 in 2009), and the average individual out-of-network deductible was \$2,110 (up from \$1,000 in 2009).

"As high-deductible plans become more of the norm, employers should ensure that employees understand their benefits and responsibilities. Studies have shown that some people in high-deductible plans forgo preventive care that is fully covered by the plan," the report states.

- **Exploring high-performance networks even if they are not local.** To hold down costs, major employers are turning to health plans that offer a high-performance network for medical care or are beginning to contract directly with big-name health systems to tackle expensive and complex procedures for employees, such as heart surgery and spinal fusion. According to the report, 33 percent of businesses are considering adopting high-performance networks over the next year.
- **Encouraging use of new care venues** Onsite work clinics, retail clinics and mobile health options are convenient and typically less expensive than traditionally delivered care, employers are finding. "Round-the-clock care centers reduce time spent away from work," the report observed.

- **Embracing the data.** Companies are evaluating program results to determine what works and then continually modifying strategies to improve the value of their programs and the care that their employees receive.

Stephen Miller, CEBS, is an online editor/manager for SHRM.

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