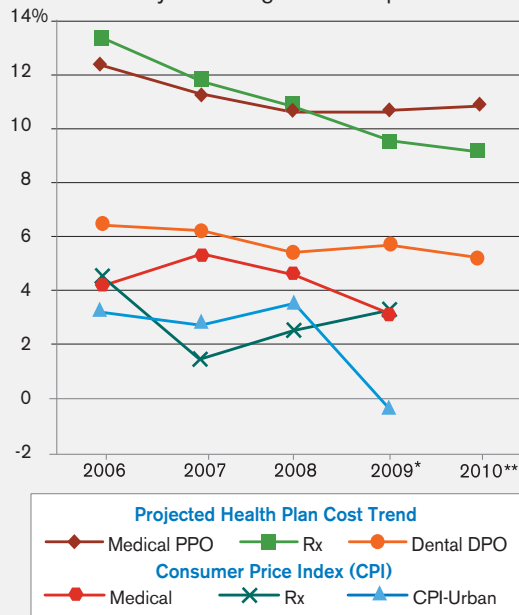


TREND AND CPI

In 2010, medical plan cost trends will continue to be more than four times greater than the annual increase in average hourly earnings and will be in sharp contrast to changes in the consumer price index for urban consumers (CPI-U), which have been relatively flat or negative in the past 12 months.



* 2009 CPI data is for December.

** In 2010, prescription drug carve-out data was captured for retail and mail order delivery channels combined.

Sources: 2010 Segal Health Plan Cost Trend Survey (<http://www.segalco.com/publications/surveysandstudies/2010trendsreport.pdf>) and Bureau of Labor Statistics for CPI (<http://www.bls.gov/cpi/>)

Trend is the forecasted change in claims cost determined by insurance carriers, managed care organizations (MCOs), pharmacy benefits managers (PBMs) and third party administrators (TPAs). Trend can be influenced by a variety of factors including price inflation, the leveraging effect of copayments, cost shifting and utilization. The **CPI** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The CPI is often used as an economic indicator.

FEDERAL HEALTH CARE REFORM LEGISLATION

Health care reform remains an important issue in 2010. The fate of House and Senate bills is unclear in light of the election of Scott Brown (R-MA) to the Senate as the 41st Republican senator. This could have a dramatic effect on the politics of health care reform, because 60 votes are needed in the Senate to move a measure past a declared filibuster. As the Congressional leadership moves forward with legislation, plan sponsors may be affected by issues including a proposed excise tax on employer-sponsored health plans, an individual and an employer mandate, health insurance exchanges, and the inclusion of the Medicare Part D Retiree Drug Subsidy in income for employers with a tax liability. The Segal Company Web site features a page called Stat! Health Reform Weekly that is updated every week.

THE VENDOR MARKETPLACE

The United States Preventive Services Task Force, and an advisory panel appointed by the Department of Health and Human Services (HHS), recommended that most women delay the start of routine mammograms until they are 50, rather than 40, as the group suggested in 2002. In the same week, the American College of Obstetricians and Gynecologists announced a similar revision to its screening guidelines for cervical cancer. Despite these changes, major insurance carriers are not changing their coverage policies.

COMPLIANCE NEWS

President Obama signed into law a defense appropriations bill that includes an extension for the COBRA premium assistance subsidy that was set to expire on December 31, 2009. The law now extends the COBRA premium assistance subsidy eligibility window to February 28, 2010 and extends the subsidy period from 9 to 15 months, for all assistance-eligible individuals, including those whose subsidy ended November 30, 2009 or December 31, 2009.¹

HHS has published an online form for reporting breaches of unsecured protected health information (PHI), as required by the Health Information Technology for Economic and Clinical Health (HITECH) Act. This breach notification requirement applies to covered entities under the Health Insurance Portability and Accountability Act and was enacted as part of the American Recovery and Reinvestment Act of 2009 ("the stimulus law").²

WHAT MULTIEMPLOYER HEALTH FUNDS ARE DOING TO MANAGE COSTS: SELECTED STRATEGIES

Consider cost management strategies designed to address a sustained economic downturn. Challenges related to the still-distressed economy may be addressed by considering multiple strategies. These strategies include monitoring participants' use of health care services via data-mining, checking health plan rolls through eligibility audits, reviewing the plan's eligibility rules and the potential cost impact of changes, setting reserve policies and periodically reviewing reserve levels, and reexamining the appropriateness and effectiveness of cost-sharing.

Encourage use of lower cost drug therapy alternatives. Plan sponsors may wish to consider implementing specific prescription drug programs designed to reduce waste and help control cost inflation. One such program is a mandatory generic plan design provision, which requires the use of generic medications when they are available. This change typically affects fewer than 5 percent of all prescription drug claims and creates minimal disruption for participants. Plan sponsors can also consider prior authorization, designed to ensure that participants are receiving the appropriate medication based on clinical criteria and alternative, lower cost drugs available to treat their condition. Quantity limit edits may also be incorporated into a prescription drug program to ensure that members are only obtaining enough medication to treat their condition and not more.

KEY TRENDS, DEVELOPMENTS AND STATISTICS

The State of California has created an interactive, consumer-friendly report card for preferred provider organizations (PPOs), similar to the report card it created for health maintenance organizations eight years ago. The PPO Report Card allows participants to compare PPOs in a number of key areas such as diabetes care, treating children and heart care. Each PPO is given an overall grade, and participants can find the components of those grades, down to the individual scores for dozens of best practices.

According to *The Future Cost of Obesity: National and State Estimates of the Impact of Obesity on Direct Health Care Expenses*, in 2018, the cost of obesity at a national level is projected to be \$1,425 per person, rising from \$361 per adult today. The prevalence of obesity in 2018 is estimated to average 42.8 percent of the population.³

¹ See Segal's *Bulletin*, "COBRA Premium Subsidy Extended": <http://www.segalco.com/publications/bulletins/dec09COBRAsubsidy.pdf>

² See Segal's *Capital Checkup*, "HHS Posts Reporting Form for HIPAA Breaches": <http://www.segalco.com/publications-and-resources/capital-checkup/archives/?id=1320>

³ The report is available on the following Web page: <http://www.americashealthrankings.org/2009/report/Cost%20Obesity%20Report-final.pdf>



For information about the strategies above or any of the developments discussed on this page, contact your Segal benefits consultant, or send an e-mail to info@segalco.com