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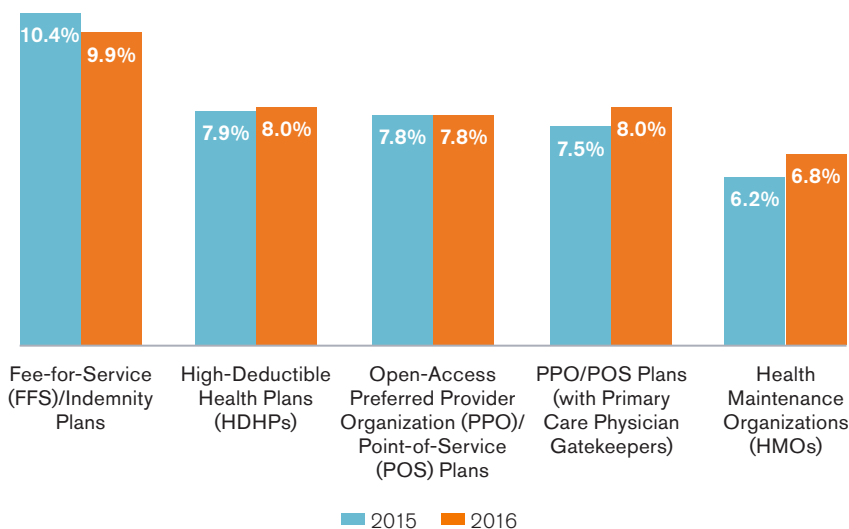
2016 Segal Health Plan Cost Trend Survey

Health benefit plan cost trend rates for 2016 will increase for most medical plan options and increase substantially for prescription drug coverage to double-digit rates, according to forecasts compiled in the 2016 *Segal Health Plan Cost Trend Survey*. Trend is the forecast of annual gross per capita claims cost increases. (The text box on page 4 provides a more detailed description of trend.) The survey captured data on trend projections for large group health plan sponsors before any plan changes. This is Segal's nineteenth annual survey of managed care organizations (MCOs), health insurers, pharmacy benefit managers (PBMs) and third-party administrators (TPAs). (See the last page for a list of survey participants.)

“Health benefit plan cost trend rates for 2016 will increase for most medical plan options and increase substantially for prescription drug coverage to double-digit rates.”

Benefit Trend Projections for 2016

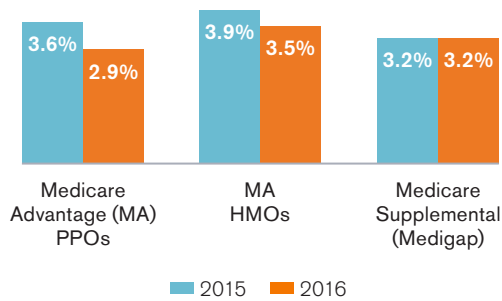
Projected Medical Trends for Actives and Retirees Under Age 65: 2015 and 2016



Key findings illustrated in the adjacent graph:

- Medical trends are projected to range from a low of 6.8 percent for HMOs to a high of 9.9 percent for FFS plans.
- For the most common plan types offered — open-access PPO/POS plans and HMOs — trend rates are projected to vary by about 1 percentage point across product types.

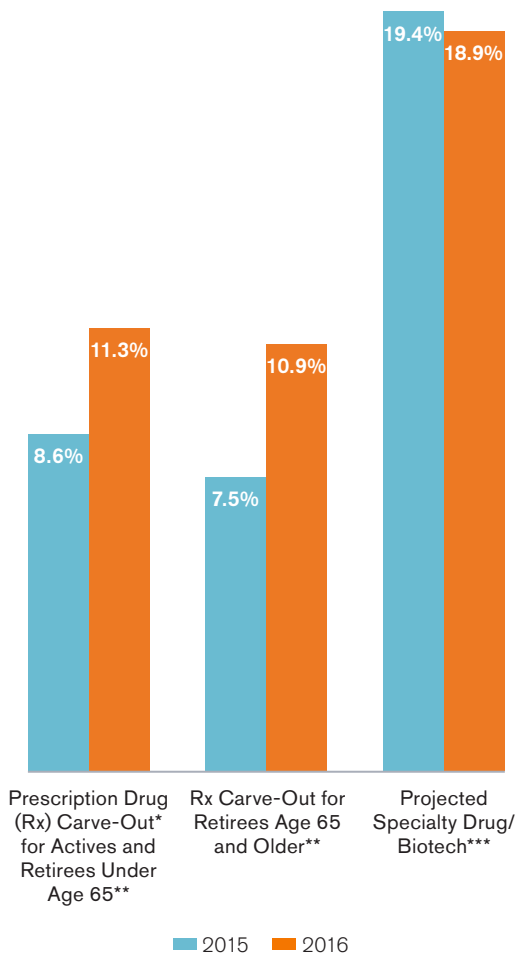
Projected Medical Trends for Retirees Age 65 and Older: 2015 and 2016



Notable findings:

- The trend for MA PPOs and MA HMOs is expected to decline.
- The trend for Medicare supplemental plans will remain the same.

Projected Prescription Drug Trends: 2015 and 2016



Key survey findings:

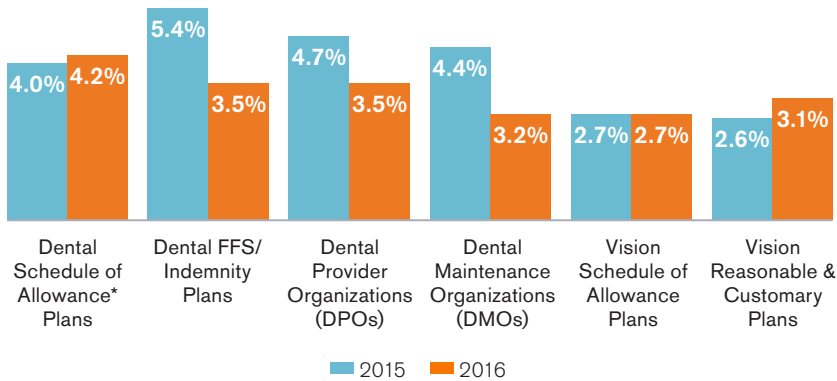
- The trend rate for prescription drug carve-out coverage for actives and retirees under age 65 is expected to increase significantly in 2016 to a rate of 11.3 percent.
- Prescription drug trend for retirees age 65 and older is expected to increase significantly from 7.5 percent for 2015 to 10.9 percent for 2016.
- The projected specialty drug/biotech trend rate for 2016 will decrease slightly from 2015 to 18.9 percent.

* Prescription drug carve-out data was captured for retail and mail-order delivery channels combined.

** This data is for all prescription drugs (non-specialty and specialty drugs combined).

*** This data is for all coverage of specialty drugs and both age groups.

Projected Dental and Vision Trends: 2015 and 2016



* A schedule of allowance plan is a plan with a list of covered services with a fixed-dollar amount that represents the total obligation of the plan with respect to payment for services, but does not necessarily represent the provider's entire fee for the service.

Noteworthy observations:

- Trends for dental coverage are expected to be lower for 2016 compared to 2015 projections — except for dental schedule of allowance plans.
- Dental plan trends are projected to decrease to 3.5 percent for FFS plans and DPOs.
- The cost trend rate for vision schedule of allowance plans is projected to remain the same for 2016 as in 2015.
- In contrast, the trend rate for vision reasonable and customary plans is projected to increase.

The survey looked for regional variations in trend rates. The table below presents the results of that analysis.

Projected 2016 Medical Trends for PPO/POS Plans* for Actives and Retirees Under Age 65 by Region**

West	Midwest***	Northeast	South***
9.8%	6.1%	7.5%	7.1%

* This analysis includes both open-access PPO/POS plans and PPO/POS plans with primary care physician gatekeepers.

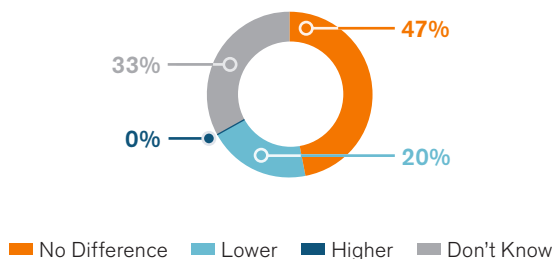
** This analysis is based on the U.S. Census Bureau's regions.

*** The results for this region are based on a limited sample size and, therefore, may not be representative of the region.

Projected 2016 trend rates for PPO/POS plans show regional variations, with the lowest rate of 6.1 percent in the Midwest and highest rate of 9.8 percent in the West. The West had the highest rate increase for projected 2015 trend rates as well.

For plans that offer narrow networks, which typically offer less than half of available providers in the network area, survey participants were asked the average cost impact on their 2016 plan trend relative to standard networks.

Impact on 2016 Plan Trend for Narrow Networks Relative to Standard Broad Networks



The findings:

- Most reported no difference.
- However, one-fifth indicated narrow network cost trends would be lower than standard networks.

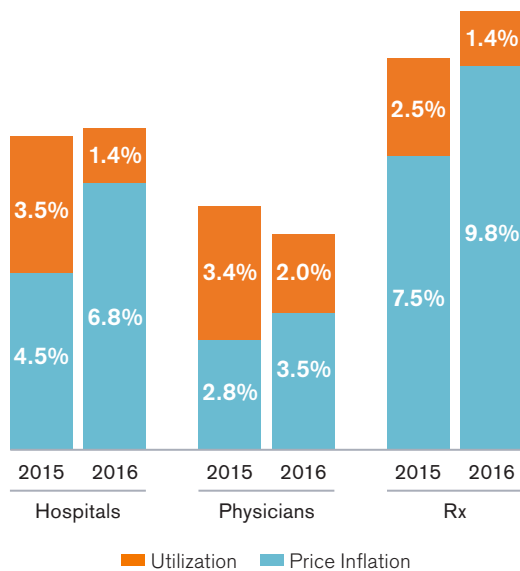
What Is Trend?

Trend is a forecast of per capita *claims cost increases* that takes into account various factors, including price inflation, utilization, government-mandated benefits, and new treatments, therapies and technology. Although there is usually a high correlation between a trend rate and the actual cost increase assessed by a carrier, trend and the net annual change in plan costs are *not* the same. Changes in the costs to plan sponsors can be significantly different from projected claims cost trends, reflecting such diverse factors as group demographics, changes in plan design, administrative fees, reinsurance premiums and changes in participant contributions.

Components of 2016 Medical Trends

The survey examined 2016 projected medical trends by service type. Price inflation is the overwhelming driver of cost increases. Most notably, price inflation for hospital services and brand-name medications are the leading drivers of plan cost trend increases.

Components of 2015 and 2016 Projected Trends for Hospital Services, Physician Services and Prescription Drugs for Actives and Retirees Under Age 65*



* Hospital and physician trends are for open-access PPOs. The components do not add up to totals because there are other components of trend not illustrated, reflecting such factors as the impact of cost shifting, technology changes and drug mix. Not all survey respondents provided a breakdown of trend by component, which may produce results that vary from the overall prescription drug plan cost survey results found on page 2.

Key findings:

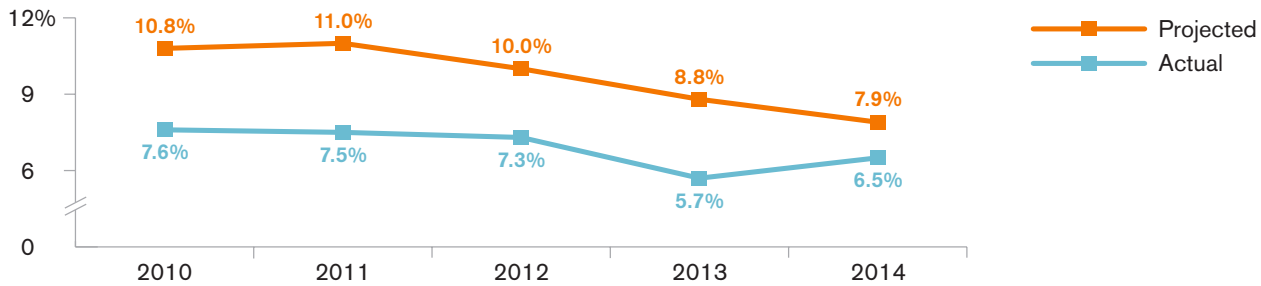
- The projected trend for hospital services is 8.2 percent for 2016, which is slightly higher than the projected trend for 2015.
- The projected trend for physician services is 5.5 percent for 2016, which is a modest reduction from the projected trend for 2015.
- Utilization trend rates (for the number of physician services, hospital stays or prescriptions filled per enrollee) are forecast to drop in 2016 to between 1 and 2 percent. In fact, a growing number of Segal clients are already experiencing actual negative trends in utilization rates.
- A large increase of more than 2 percentage points in hospital price inflation is expected.
- Prescription drug price inflation is approaching double digits, more than 10 times the rate of overall CPI for all goods and services.

Accuracy of Trend Projections

To assess the accuracy of trend projections, Segal compared the average 2014 trend forecasts by national and regional insurers, MCOs, PBMs and TPAs for group medical, prescription drug benefit and dental plans to the actual average trend rates experienced by the health plans covered by those organizations for the same 12-month period (the most recent full year for which actual data is available), as reported by the survey respondents. Consistent with previous survey findings, this year's findings support our observation that insurers tend to make conservative projections and confirm that trend projections have been generally higher than actual experience in most years. Projections for pharmacy trend, however, were understated substantially in 2014 for the first time in several years, creating new pressures to adopt more aggressive plan changes and clinical management programs in 2015.

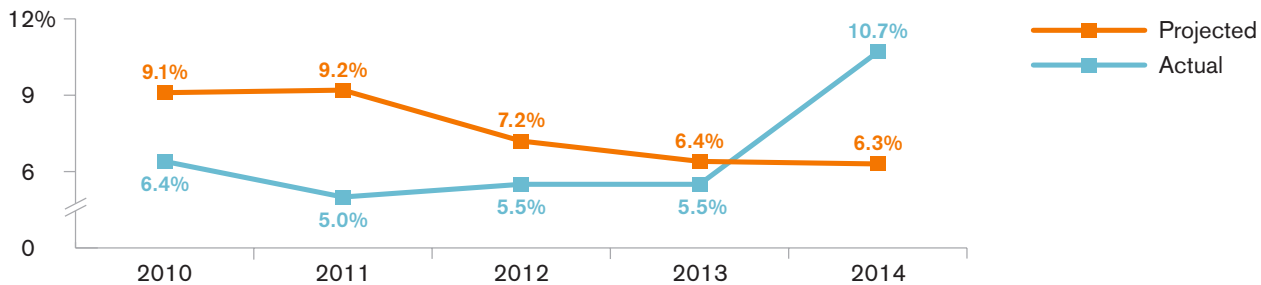
An assessment of the accuracy of trend assumptions should be based on a comparison of projected trend to actual trend over multiple years. The three graphs below compare projected trends to actual trends for five years.

Comparison of Projected to Actual Trends for Open-Access PPO/POS Plans for Actives and Retirees Under Age 65: 2010–2014*



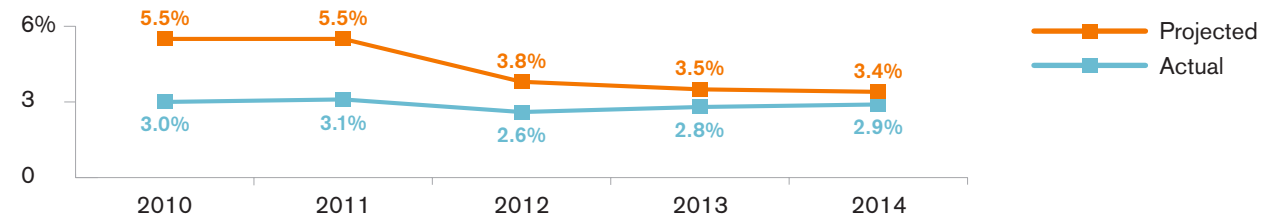
* All medical trend results exclude Rx.

Comparison of Projected to Actual Trends for Rx* Carve-Out Coverage for Actives and Retirees Under Age 65: 2010–2014



* This data reflects retail and mail-order delivery channels combined.

Comparison of Projected to Actual Trends for Dental PPOs: 2010–2014



The table below shows selected trends for 14 years (actual trends for 2003–2014 and projected trends for 2015 and 2016). Between 2013 and 2014, *actual* prescription drug trend nearly doubled from 5.5 percent to 10.7 percent, primarily because of the launch of new specialty drug options and brand price inflation. This is the largest single-year increase in actual prescription drug trend ever reported by the *Segal Health Plan Cost Trend Survey*. The last time actual prescription drug trend reached double digits was in 2005.

The jump in *projected* prescription drug trend between 2015 and 2016 by nearly 3 percentage points is also notable. That increase is significant because prescription drug accounts for 20 to 25 percent of total health care spending for the average plan sponsor.

Selected Medical,¹ Rx Carve-Out² and Dental Trends: 2003–2014 Actual and 2015 and 2016 Projected³

Year	PPOs	POS Plans	HMOs	MA HMOs	Rx	DPOs
2003 Actual	12.0%	11.5%	11.5%	10.0%	14.3%	6.5%
2004 Actual	10.9%	11.6%	11.5%	11.4%	13.3%	6.2%
2005 Actual	10.4%	11.1%	10.6%	8.4%	10.5%	5.0%
2006 Actual	9.6%	10.0%	10.2%	7.2%	9.5%	5.1%
2007 Actual	8.9%	9.5%	9.8%	7.0%	7.9%	5.0%
2008 Actual	9.7%	9.4%	9.7%	7.7%	7.4%	5.5%
2009 Actual	9.5%	9.7%	10.2%	4.0%	7.9%	4.7%
2010 Actual	7.6%	8.3%	8.7%	3.6%	6.4%	3.0%
2011 Actual	7.5%	7.8%	8.0%	4.5%	5.0%	3.1%
2012 Actual	7.3%	8.4%	6.7%	3.0%	5.5%	2.6%
2013 Actual	5.7%	6.7%	6.1%	3.1%	5.5%	2.8%
2014 Actual	6.5%	7.6%	6.3%	1.9%	10.7%	2.9%
2015 Projected	7.8%	7.5%	6.2%	3.9%	8.6%	4.7%
2016 Projected	7.8%	8.0%	6.8%	3.5%	11.3%	3.5%

¹ Medical trends exclude prescription drug coverage.

² Prescription drug trend data for 2003–2007 only reflects retail. For 2008–2016, prescription drug retail and mail-order delivery channels are combined.

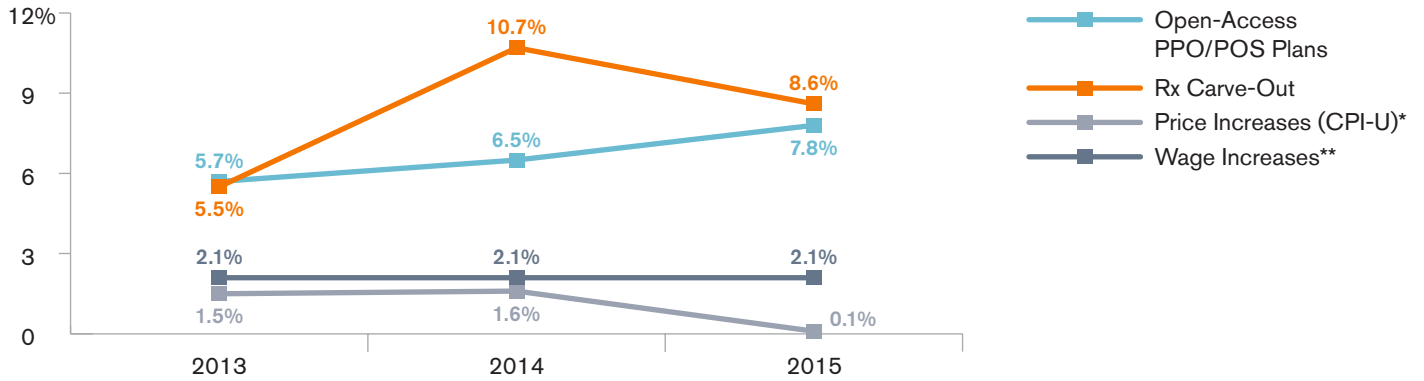
³ All trends are illustrated for actives and retirees under age 65, except for the MA Plans. (A graph comparing 14 years of survey data — 2003 through 2014 actual trends and 2015 and 2016 projected trends — is available as a [supplement](#) to this report.)

“Between 2013 and 2014, *actual* prescription drug trend nearly doubled from 5.5 percent to 10.7 percent. ...The jump in *projected* prescription drug trend between 2015 and 2016...is also notable.”

Trend Rates Compared to Increases in Prices and Wages

For many plan sponsors, the increase in medical plan cost trends can be more than three times the rate of increase in wages.

Comparison of Selected Trend Rates (2013–2014 Actual and 2015 Projected) to Price and Wage Increases



* The drop in CPI in 2015 is partially the result of declining energy and food prices.

** Bureau of Labor Statistics Table B-3. Average hourly earnings of all employees on private nonfarm payrolls, seasonally adjusted.

“The increase in medical plan cost trends can be more than three times the rate of increase in wages.”

Cost-Management Strategies

Survey participants were asked to indicate the top cost-management strategies implemented in 2015. The text box below reports the results for medical plans and prescription drug plans.

Top Medical Plan and Prescription Drug Plan Cost-Management Strategies Implemented in 2015

Medical Plan Strategies

1. Adding narrow or restrictive provider networks
2. Contracting with value-based providers
3. Focusing on wellness design and incentives
4. Expanding access to lower-cost treatment options (e.g., clinics and telemedicine)
5. Introducing reference-based pricing* plan rules

Prescription Drug Plan Strategies

1. Using specialty pharmacy management
2. Expanding prior authorization
3. Intensifying pharmacy management program
4. Adding Part D Employer Group Waiver Plans (EGWPs)** for Medicare-eligible retirees
5. Expanding step therapy programs

* Reference pricing involves designs where a plan sets a maximum price for covering the cost of a particular service to steer patients away from higher-priced providers who have no evidence of providing higher-quality services.

** EGWP is an abbreviation of Employer Group Waiver Plan.

Commentary & Outlook

Health care cost trends continue to outpace wage increases and overall consumer price inflation for other goods and services. Efforts to bend the cost curve seem to be working to lower the utilization rates for medical treatments, but price inflation for treatment continues to be problematic. Whether it is new high-tech surgical or diagnostic procedures replacing lower-cost options, or extremely high-cost specialty biotech drugs growing in popularity, plans sponsors still face significant challenges to manage medical plan cost trends to more sustainable long-term levels.

Plan sponsors will need to continue to focus their efforts to decrease health care spending before the Affordable Care Act's 40 percent excise tax on high-cost health plans goes into effect in 2018. It is important to make projections now to determine whether (or when) a plan will be subject to the excise tax in 2018 and beyond. As long as medical plan trend continues to be substantially above core CPI (which is used to increase the tax threshold), a growing number of health plan sponsors will likely exceed the Affordable Care Act's excise tax threshold in the years ahead.

Plan sponsors are continuing to look for ways to manage costs by taking a closer look at their health plans. Successful cost management typically involves taking one or more of these actions:

- **Perform data analytics and data mining.** In the coming years, this will become increasingly important as health care plan costs rise. Plan sponsors have used data and metrics to evaluate the performance of their health plan, to make changes to lower costs by reducing plan waste and inefficiencies, and to target disease-management programs.
- **Manage utilization of specialty drugs.** Given the expected double-digit increase for specialty pharmacy trend, plan sponsors should model the financial impact and develop a plan for management of these high-cost drugs. Cost-management options include requiring prior authorization, implementing step therapy, mandating use of a limited network of specialty pharmacies and identifying preferred treatments within disease categories.
- **Request competitive proposals.** With the recent merger activity among medical and PBM networks, and the market competition for membership growth, plan sponsors that conduct market bids can realize significant savings and upgrade contract terms to include more performance-based results and transparency.
- **Consider narrow or custom provider networks.** Seeking out only the best quality, highest value hospital and physician groups may result in lower unit costs and better long-term outcomes. The trade-off of less choice for plan participants will need to be studied against the financial returns these narrow networks can offer.
- **Add remote and telemedicine services.** These services, which generally provide 24/7 access to phone or web-based consultation, can reduce some higher-cost urgent and emergency care use. Plan sponsors should consider evaluating the impact of adding telemedicine to the plan design based upon an evaluation of current needs, demographics and marketplace options.

“Plan sponsors will need to continue to focus their efforts to decrease health care spending before the Affordable Care Act's 40 percent excise tax on high-cost health plans goes into effect in 2018.”

continued

- **Implement value-based purchasing strategies.** Plan sponsors can improve the value of health care services by holding providers accountable for the quality of care, managing the use of health care to reduce inappropriate care, rewarding the best-performing providers and encouraging participants to be knowledgeable health care purchasers.
- **Offer an HDHP.** Plan sponsors can motivate participants to enroll by implementing a custom communication program to explain the tax advantages and lower premiums for themselves and long-term cost savings for the plan. Participants are more likely to “buy in” when plan sponsors offer transparency tools and provide responsible financial incentives, such as pre-funded health savings accounts.
- **Introduce innovative participant contribution strategies.** Plan sponsors can include incentives to influence enrollment decisions regarding coverage for spouses or other dependents who may have coverage options elsewhere.
- **Use hospital-discharge monitors.** Monitoring can be used to determine if hospitals are achieving the expected outcomes and as a vehicle to lower the high cost of readmission.
- **Take advantage of additional discounts for brand-only maintenance medications.** There are two ways for plan sponsors to receive additional discounts of 8 to 10 percent for those drugs. They can incent the use of mail-order pharmacies through mandates and/or lower copayments or require participants to use a “retail 90” pharmacy network. Retail 90 refers to filling a 90-day supply for long-term medication at a limited network of designated retail pharmacies. The smaller network coupled with the larger days’ supply results in the pharmacies offering deeper discounts. Traditionally, 90-day supplies were restricted to mail-order pharmacies.
- **Adopt a cafeteria-style approach to health benefit coverage options offered to participants.** Opinion surveys suggest that most participants want to select coverage from a choice of options and are willing to shop among those options. Plan sponsors that have not moved to a cafeteria-style menu of plan offerings with a fixed defined contribution funding strategy may want to consider this approach.

Segal is optimistic that plan sponsors that engage in some or all of these strategies will continue to get high value from their medical benefit programs, while controlling plan cost increases in the future. Substantial opportunities exist to avoid unnecessary costs and lower future trends rates. Through improved plan management, provider management, consumer engagement and investments in meaningful healthy lifestyle changes, many plan sponsors have already seen excellent long-term results. With Millennials (those born between the early 1980s and the mid-1990s) becoming the largest segment of the U.S. workforce, and tremendous breakthroughs in access to medical information and outcomes, plan sponsors will have new opportunities to leverage information on medical plan costs, quality and outcomes in order to continue to improve the cost efficiency and participant satisfaction with their medical benefit plans.

“Substantial opportunities exist to avoid unnecessary costs and lower future trend rates. Through improved plan management, provider management, consumer engagement and investments in meaningful healthy lifestyle changes, many plan sponsors have already seen excellent long-term results.”

The Survey Participants

The names of participants in the 2016 *Segal Health Plan Cost Trend Survey* that agreed to disclose their names are listed below in alphabetical order.

Aetna	Delta Dental of California	Delta Dental Plan of Vermont (part of Northeast Delta Dental affiliation)
AmeriHealth New Jersey	Delta Dental of Colorado	EmblemHealth
Anthem, Inc.	Delta Dental of Delaware	Envision Pharmaceutical Services, LLC
Arkansas Blue Cross and Blue Shield	Delta Dental of the District of Columbia	Excellus BlueCross BlueShield
Assurant Employee Benefits	Delta Dental of Illinois	Express Scripts, Inc.
Benecard PBF	Delta Dental of Indiana	Group Vision Service
Blue Cross Blue Shield of Arizona	Delta Dental of Kansas	Guardian Life Insurance Company of America
Blue Cross and Blue Shield of Louisiana	Delta Dental of Massachusetts	Health Net, Inc.
Blue Cross Blue Shield of Massachusetts	Delta Dental of Michigan	Horizon Blue Cross Blue Shield of New Jersey
Blue Cross Blue Shield of Michigan	Delta Dental of Minnesota	Humana
Blue Cross and Blue Shield of Rhode Island	Delta Dental of Nebraska	Independence Blue Cross
BlueCross BlueShield of Tennessee	Delta Dental of New Mexico	Kaiser Foundation Health Plan, Inc.
Blue Shield of California	Delta Dental of New York	Medica Health Plans
Capital District Physicians' Health Plan	Delta Dental of North Carolina	Medical Mutual
Care Plus Dental Plans	Delta Dental of Ohio	MedImpact Healthcare Systems, Inc.
CareFirst BlueCross BlueShield	Delta Dental of Oklahoma	Metropolitan Life Insurance Company
Catamaran	Delta Dental of Pennsylvania	Moda Health
Cigna	Delta Dental of Rhode Island	Navitus Health Solutions
CVS Caremark	Delta Dental of Tennessee	Prime Therapeutics LLC
Davis Vision	Delta Dental of Virginia	Sav-Rx Prescription Services
Delta Dental Insurance Company (DDIC)	Delta Dental of West Virginia	Starmark
Delta Dental of Arizona	Delta Dental Plan of Maine (part of Northeast Delta Dental affiliation)	Tufts Health Plan
	Delta Dental Plan of New Hampshire (part of Northeast Delta Dental affiliation)	UnitedHealthcare
	Delta Dental Plan of Oregon	Voya Financial
		Wellmark Blue Cross and Blue Shield

Questions? Feedback? Contact Us.

For assistance with health care cost-management strategies, contact your Segal consultant or one of the following experts:

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