

# Benefits Insights

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## A Primer on Medical Trend

Current health care costs in the United States are high and rising. For many individuals, their health care costs outpace their wages. Since 2010, medical trend has grown by 73%, according to the Council for Affordable Health Coverage (CAHC). This is approximately four times faster than the average American's wage and five times quicker than the consumer price index. Due to health care costs accelerating faster than wages, health care coverage is becoming less affordable for many individuals. According to CAHC, if the current trend continues, the average family will spend more than 50% of their income on health care by 2030.

With health care costs rising for the foreseeable future, savvy employers are implementing strategies to ensure their benefits plans are sustainable and benefit employees. By understanding medical trend, employers can better design benefits plans that meet the needs of their organization and employees. This article explains medical trend and its impact on employers and employees.

### What Is Medical Trend?

According to PricewaterhouseCoopers' (PwC) Health Research Institute, medical trend is the projected percentage increase in the cost to treat patients from one year to the next, assuming benefits remain the same. Insurance companies use these projections to calculate health plan premiums for the upcoming year. For example, if an insurance company projects a 7% increase in medical cost trend for the upcoming year, then a health plan that costs \$10,000 per employee will increase to \$10,700 the following year. Generally, the prior year's health care spending data is used as input to project medical trend for the upcoming year.

### Why Is Medical Trend Increasing?

Each year, health care costs in the United States continue to increase. In fact, health care spending grows faster than the rest of the U.S. economy. The United States spends 70% more

as a share of the gross domestic product on health care than other similar countries.

The leading cause for medical trend rising is the price increase at points of care. However, there are several other factors that impact medical trend, including the following:

- Health care utilization
- Impact of fixed deductibles and copays
- Health care cost shifts from uninsured individuals to insurance companies
- Government-mandated benefits
- Technological advancements
- High-cost medical treatments and prescription drugs

### Medical Trend Inflation and Deflators

PwC's Health Research Institute projects that medical trend will increase 6.5% in 2022, slightly lower than the 7% increase in 2021. The report further anticipated that health care spending would return to pre-pandemic levels this year. PwC analyzed medical trend by looking at inflation and deflators. Inflation is trends that are expected to increase medical costs and deflators are those that can mitigate rising costs.

According to PwC's report, 2022 medical trend inflation include the following:

- Increased health care utilization from care deferred during the COVID-19 pandemic
- Continuation of the mental health and substance misuse crises



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- Individuals' poor health behaviors
- Investments in improved forecasting and supply chain management by the health care system to prepare for the next pandemic
- Health care providers increased spending on staff and safety measures
- Health care system considerations for health disparities highlighted by the pandemic
- Digital investment leading to increased health care utilization

The report also highlighted several medical trend deflators, including the following:

- Health care consumers using low-cost and more convenient forms of care
- Digital solutions providing individuals with more care for less money
- New technology automation and cloud infrastructure allowing health care administrative employees to work remotely

Not all of these trends are new or clear inflators or deflators of medical cost trend, but organizations should monitor them closely to better understand how they impact their medical costs.

### Impact of Increasing Medical Trend

Increased medical trend often equates to higher medical costs for employers. In the past, employers have been able to mitigate increased medical costs by passing them on to their employees. However, due to the current state of the labor market, many employers will likely avoid shifting health care costs to their employees. As a result, many employers are searching for cost-effective solutions to manage growing health care costs and keep benefits affordable for employees. These solutions may include directing employees to cost-effective care, improving employee health literacy, incorporating health care technology and adjusting plan design. Employers can also consider secondary insurance options to help offset employee out-of-pocket costs.

For employees, an increasing medical trend generally means a higher percentage of their paychecks will be directed to

health care. In some cases, even wage increases could likely be absorbed by rising premiums. Because of record-high inflation, many employees are already feeling stretched financially, so employees are likely to put off care or reduce their medical spending. Employers can help employees counter inflation's impact and stay healthy by keeping employee benefits affordable.

### Conclusion

The health care system is currently experiencing many changes in response to the recent crises, such as the COVID-19 pandemic. This transformation includes how the overall health care system operates and how individuals access care. These changes will likely impact medical trend going forward. By understanding medical trend, employers can better monitor health care costs, respond to its long-term impact on their organization and find ways to keep benefits affordable for employees.

For more health care resources, contact National Insurance Services today.