Trends Driving Increased Healthcare Costs

It is no secret that healthcare costs are steadily increasing creating a significant burden for employers offering healthcare benefit plans. By analyzing claims data, we can uncover the trends that are driving these costs. Once we understand the data behind the costs, we can identify opportunities to respond and gain control.

Pharmacy Trends

Pharmacy spending is the fastest-growing component of employer-sponsored healthcare plan costs, having risen an average of 20% since 2008. Specialty drugs now account for more than one third of total pharmacy spending, dramatically impacting the overall cost of this component. To illustrate this, here are some staggering statistics:

• Overall drug price increases from 2015-2016 – 20%
• In 1990, there were 10 specialty drugs. By 2015, there were 300 and as of this year there are 700 new specialty drugs under development.
• The specialty drug spend in 2012 was $87 billion, accounting for 3.1% of the National Health Spend. This is anticipated to increase to $400 billion by the year 2020.

Medical Device & Implant Trends

The medical devices market in the U.S. is expected to be worth $73.9 billion by 2017, with almost half of this cost forecasted for orthopedic implants. Our aging population, as well as increased obesity and sedentary lifestyles, fuels the high demand for orthopedic implantation procedures such as spinal fusion/fixation and total knee/hip replacements.

• There were 40,000 total knee replacements and 24,000 total hip replacements between 2011-2015.
• Providers are profiting an estimated 100% for knee replacements and 90% for hip replacements.

Catastrophic Claims Trends in the ACA Environment

Claims in excess of $1 million have steadily risen in recent years with the frequency nearly doubling from 2011-2015. The largest spike of these high-cost claims was in 2014, the first year with no annual or lifetime limits. The top five conditions incurring catastrophic claims are:

• Premature birth
• Leukemia
• Sepsis
• Congestive heart failure
• Other cancers

How can you respond to rising healthcare costs?

While it seems there is no end in sight to the out-of-control healthcare costs, employers have many options when considering how they can respond. Employers who are strategically addressing their healthcare benefits, may want to consider some of the following options:

• Narrow Networks
• Accountable Care Organizations
• Value-based/Bundled Payments
• Carve-out Programs for Pharmacy
• Alternative Risk Financing (Self-funding or Captives)

My concern is that until the *price* of healthcare is addressed, as opposed to simply *who pays for it*, we will continue to experience significant challenges.

Michael Wahlstrom presented on this topic at the Scott Benefit Services 2017 Healthcare & Risk Management Forum in Greensboro, N.C. earlier this month. Our Performance Thinking seminars and webinars focus on timely topics and offer pragmatic solutions and efficient resources to help business owners/leaders make informed decisions regarding risk management and employee benefits.

For more information about how Scott Benefit Services can help your organization respond to rising healthcare costs, contact a Scott Benefits Consultant.

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As Senior Vice President at Tokio Marine HCC – Stop Loss, Michael is responsible for the sales production and underwriting results for the 12-state Southeast Region. Prior to joining TMHCC in early 2016, he held underwriting leadership positions at BlueCrossBlueShield of Georgia and Coventry Health Care. A proven leader with a diverse business and underwriting background, his prior management responsibilities include fully insured, ASO, stop-loss and alternate funding portfolios, as well as multiple Affordable Care Act initiatives. Mr. Wahlstrom holds a B.S. in Finance and Economics and an MBA from Chadron State College in Nebraska.