

Part 1: Did you ever wonder?
What causes those crazy health insurance increases each year?

There are many factors that influence the annual increases in Health and Dental claims, particularly health claims. There are three broad categories:

1. The particular claiming levels of a given Group.
2. The claiming levels of the "pool" of groups that a Group belongs to: this is particularly true for smaller groups that might otherwise have wildly fluctuating rates from year to year if they were not sharing the risk with a larger pool of groups. Large individual groups (for example groups with 500 or more employees) are less affected by this factor and more affected by point 1.
3. Trend Factors: Inflation and Utilization. All groups are substantially affected by this factor.

In this bulletin we will focus on Trend which consists of factors that cause increased usage of covered items (sometimes a decrease, but on balance, an increase) and inflation factors which cause an increase in the price of covered items.

Trend factors, that is the trend in the cost of items covered by a plan, are near universal in terms of the degree of impact they have on claims experience. Generally, groups, whether large or small and regardless of the type of business they are in, are affected in near identical ways (a future article will touch on why there may be some degree of variation, but for the most part there is not a significant difference across groups). While different insurers may use somewhat different factors, or disagree on the relative impact of utilization vs. inflation, in the end actual trend does not vary by much among insurers, if at all, and the total Trend factor applied by the different insurers varies within a fairly narrow band, especially when averaged over a few years.

On the next page is a chart that will give you a detailed look at the specific factors that influence the claims trend applied in a given year.

In the future we will review other elements that go into determining health and dental rates.

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Health & Dental: Trend* (Inflation & Utilization)

	Causes	Trend Factor Type		Services Affected					
		Inflation	Utilization**	Drugs	Service fees & Professional Services	Medical supplies, equipment & services	Vision	Hospital Charges	Dental
1	Increases in the price of a product or service from one year to the next	✓		✓	✓	✓	✓	✓	✓
2	Changes in public health policy & practice that result in greater out patient services and shorter hospital stays		✓	✓	✓	✓			✓
	The above includes:								
4	Drug & other cost shifting from hospitals (paid by OHIP while in hospital) to privately borne while treated on an outpatient basis.		✓	✓	✓	✓			
5	Introduction of new drugs for existing conditions that are more expensive than existing drugs for the same condition	✓	✓	✓					
6	New treatment for existing conditions				✓	✓		✓	✓
7	New drugs for the treatment of newly diagnosed or newly treatable conditions		✓	✓					
8	New Treatments for the treatment of newly diagnosed or newly treatable conditions		✓		✓	✓		✓	✓
9	Increasing use of lifestyle services & products		✓	✓	✓	✓	✓	✓	✓
	The above includes:								
10	ED treatments, fertility treatment (increase do to trend to later parenthood), Obesity and smoking cessation etc., hospital stays for things like gastric bypass		✓	✓	✓	✓	✓	✓	
11	More demanding patients/consumers who know about available treatments and get their doctors/dentists to prescribe them		✓	✓	✓	✓	✓	✓	✓
12	Poor "doctoring" or dentistry to make patients go away or engage unnecessary services		✓	✓	✓	✓	✓	✓	✓
13	Lack of proper cost sharing in plan designs		✓	✓	✓	✓	✓	✓	✓
14	General increases in demand for products and services	✓		✓	✓	✓	✓		✓

* Trend consists of two factors: Inflation (increased price) and Utilization (increased usage). It is often referred to as inflation.
** Once a treatment is affected by utilization, it then joins the ranks of products and services subject to inflation.

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