

Behind the Numbers

Why Medical Trend Averages May Be Misleading

Every year, consulting firms release their summaries of the average increase in medical trend – also known as medical inflation. That invariably prompts questions as to why small group trend figures do not generally correspond exactly to the stated average.



Here's an explanation to better help you and your clients understand medical trend.

What is Medical Trend?

Medical trend is the forecast change in health plans' per capita claims costs. Factors that influence medical trend include:

- Price inflation
- Leveraging effect of fixed deductibles and copays
- Cost shifting from the uninsured to private payers
- Increased utilization
- Use of more expensive drugs and treatments
- Government-mandated benefits
- Technological advancements

Why healthcare costs are increasing

It's no secret that healthcare costs go up every year, with healthcare spending growing at a faster rate than the rest of the economy. Americans today have higher incomes and greater expectations, so they demand more health services and use such services more frequently. While this can mean a longer, healthier life, it does increase healthcare spending and trend.

The effect of "buying down" benefits

The average trend figure you see in the press does not always reflect the actual cost increase insurance companies (payers) experience from year to year. In other words, the reported medical trend figure may be actually based on the premiums paid. The reported trend might be lower than the actual trend since premiums are often reduced by changing benefit options. Many times, to offset a premium increase, employers "buy down" their benefits by raising deductibles and lowering coinsurance. Reported trend figures may not reflect changes in plan designs and participants' contributions.

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 costs trends, reflecting such diverse factors as plan design changes, employee contribution rate increases, group demographics, carrier retention, margins, stop-loss coverage and artificial rate relief from the effects of competitive bidding.

How trend affects small groups

The average medical trend figures you're seeing in articles typically apply to larger groups. Small groups traditionally have a higher trend because they're more likely to be impacted by adverse selection, which happens when people choose the combination of benefits that will benefit them most based on their knowledge of their own health needs.

In addition, smaller groups tend to have larger deductibles, which further the leveraging effect of fixed deductibles and copays. As shown in the example below, although Year 2 shows the same deductible level as Year 1, with medical costs increasing 15%, insurance company costs actually increase 19%.

EXAMPLE

Deductible Leveraging	Year 1	Year 2	Trend Impact
Deductible	\$1,000	\$1,000	
Charges	\$5,000	\$5,750	15% Medical COst Trend
Insurance Company Paid	\$4,000	\$4,750	19% Payor Cost Trend

We're helping minimize the impact of medical inflation by offering network access or provider reimbursement based on the Reasonable Fee, large case management, subrogation, fraud detection services and information helping employers and employees to become smarter healthcare consumers.

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