

HOW THE TREND FACTOR AFFECTS YOUR BENEFITS COSTS



BY JUDY BUCKLEY

At 11.59%, the overall average health trend factor will continue in the same range this year as it has for the last four years, says the 2015 *Accompass Guide to Health and Dental Trends*, which polled nine insurers.

If you're thinking *So what?*, you're not alone. Many employers don't understand the impact the overall trend factor has on their group insurance renewal rates—and, more importantly, the steps they can take to reduce their own trend factors.

When group insurance providers apply a trend factor to a health plan's cost, the anticipated annual cost of providing that plan increases by a certain percentage. However, the impact will vary depending on your company: your renewal rate may be higher or lower than the annual overall average trend factor.

What Influences Trend Factors

Elements affecting trend factors can be industry-wide (such as insurers' reaction to legislated changes in provincial health coverage and drug pricing reforms) or specific to your plan's circumstances (such as its claims experience, demographics and administrative costs). If your plan is insured, your renewal rate will include the full market trend, regardless of its own trend factor. But certain things, such as your claims experience, will also be factored into your rate.

During each financial review of your plan, you and your advisor should evaluate the provider's factors in relation to your organization to determine whether the overall trend factor is appropriate. If your plan's trend factor has been lower than average for several years, you should consider alternate funding, such as a self-funding arrangement, in which the insurance company doesn't insure the plan and the employer is responsible for paying out claims. Even if your own trend factor has been consistently lower than average, it's always worth considering what steps you can take to further decrease it.

How to Lower Your Trend Factor

Your plan advisor should be able to make some suggestions—particularly relating to your drug plan costs, which typically represent the largest portion of health claims, at 65% to 75%.

The study shows many insurers offer cost-containment solutions. However, these solutions would be more effective if more plan sponsors were taking advantage of them and looking for new ones.


Mandatory generic drug plans - These plans ensure all efforts are made to reimburse prescriptions at the generic cost. The 2015 study shows an 18% increase over last year in the

number of respondents with more than one quarter of their clients (employers) on a mandatory generic drug plan. However, the practice still isn't universally accepted.

Preferred pharmacy arrangements - A preferred pharmacy network encourages employees to be smart shoppers when filling prescriptions. Per the Accompass study, the number of insurers providing a preferred pharmacy arrangement increased by 19% in 2015, compared with 2014. However, such an arrangement doesn't influence trend factors—they're not reduced when an organization participates. This may be a point worth asking about when negotiating renewal costs.

Preferred pricing - Insurers can sometimes negotiate better pricing for specific drugs and pass those savings along to their clients. A small but growing number of carriers are striking deals with drug manufacturers for specific high-priced drugs, such as Remicade, which treats rheumatoid arthritis.

Tiered managed formularies - This type of formulary provides reimbursement for most drugs, but more cost-effective treatments are reimbursed at higher levels. All insurers polled said less than one quarter of their clients use a two- or three-tiered managed formulary. This low response isn't unexpected, since tiered managed formularies can be complicated to administer.

Even if this year's trend rate increase isn't surprising, an employer shouldn't forego discussion with its plan advisor and insurer at renewal time. It's crucial to understand which factors drive cost increases in your plan and find ways to contain costs. 

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WE NEED to talk

When discussing rate increases with your insurer, ask these questions:

1. Is my plan's renewal rate typical?
2. Which factors were particularly influential in determining my plan's rate increase?
3. How can we work together to better manage costs?