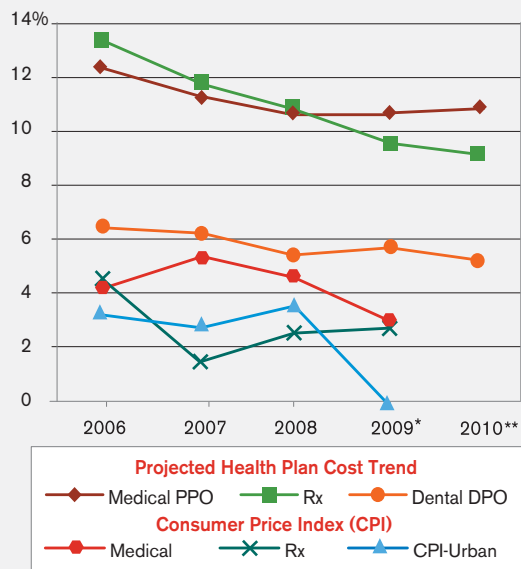


TREND AND CPI

In 2010, medical plan cost trends will continue to be more than four times greater than the annual increase in average hourly earnings and will be in sharp contrast to changes in the consumer price index for urban consumers (CPI-U), which have been relatively flat or negative in the past 12 months.



* 2009 CPI data is for August.

** In 2010, prescription drug carve-out data was captured for retail and mail order delivery channels combined.

Sources: 2010 Segal Health Plan Cost Trend Survey (<http://www.sibson.com/publications/surveysandstudies/2010trendsreport.pdf>) and Bureau of Labor Statistics for CPI (<http://www.bls.gov/cpi/>)

Trend is the forecasted change in claims cost determined by insurance carriers, managed care organizations (MCOs), pharmacy benefits managers (PBMs) and third party administrators (TPAs). Trend can be influenced by a variety of factors including price inflation, the leveraging effect of copayments, cost shifting and utilization. The **CPI** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The CPI is often used as an economic indicator.

FEDERAL HEALTH CARE REFORM LEGISLATION

In September, President Obama addressed a joint session of Congress to describe his plan for health reform, including such key elements as providing security and stability for those with health insurance, providing insurance to those who do not, and lowering the cost of health care. The President endorsed both an individual mandate requiring all Americans to have insurance coverage and a mandate requiring employers with more than 50 employees to provide health coverage or pay a fee.¹

THE VENDOR MARKETPLACE

In July, the Centers for Medicare & Medicaid Services proposed changes to physician supervision requirements for outpatient services, which would allow nurse practitioners, physician assistants and others to directly supervise hospital outpatient therapeutic services. Services would have to be performed according to state scope-of-practice and hospital-privileges rules. Currently, only physicians can directly supervise outpatient services.

A.M. Best, a credit rating company, will no longer rate health insurers, including health maintenance organizations and Blue Cross and Blue Shield plans, based solely on publicly available financial information. Some health insurers still have ratings with Standard & Poor's and other credit rating companies.

COMPLIANCE NEWS

The Department of Health and Human Services has issued interim final regulations on the Health Information Technology for Economic and Clinical Health (HITECH) breach notification requirement for protected health information (PHI) under the Health Insurance Portability and Accountability Act (HIPAA).² The regulations require that covered entities notify individuals when there is a breach of unsecured PHI that affects them. The notice must be provided to individuals within 60 days after the breach is discovered.³

Although applications for the Medicare Part D Retiree Drug Subsidy for calendar-year plans were due September 30, 2009, the deadline can be extended 30 days, if specifically requested. Plan sponsors that requested the 30-day extension should finalize the application by the extended deadline and assure that their PBM or TPA files the retiree list in a timely manner.

WHAT HEALTH PLAN SPONSORS ARE DOING TO MANAGE COSTS: SELECTED STRATEGIES

Evaluating PBMs' new prescription drug pricing methodologies. As a result of the final settlements of the class action lawsuit regarding the alleged inflation of average wholesale pricing (AWP) methodology, there has been a one-time price rollback to brand name drugs to reduce reported AWP. Plan sponsors should review PBMs' temporary AWP equalization methodologies, determine which long-term prescription drug pricing methodology will be the best financial alternative to AWP once it disappears, and negotiate performance guarantees with PBMs based upon the new methodologies.

Advancing value-based plan designs. Plan sponsors have eliminated or greatly reduced coverage for some brand name drugs classes (e.g., gastrointestinal drugs) and reduced or eliminated copayments for medications that treat chronic conditions. They have also reduced copayments for primary care visits and visits to non-physician providers (such as physician assistants, nurse practitioners, certified nurse specialists and certified nurse-midwives), while increasing copayments for visits to specialists. Plan sponsors are also investing more in preventive screenings by reducing or waiving member copayments for certain tests like targeted cancer screenings.

KEY TRENDS, DEVELOPMENTS AND STATISTICS

According to the 2010 Health Plan Cost Trend Survey from The Segal Company, the parent of Sibson Consulting, most 2010 trend rates are forecasted to be similar to 2009 rates. Projected prescription drug trends are expected to continue to drop, remaining under 10 percent for the second consecutive year. Moreover, they will stay below medical plan trends. As in the past, most projected trend rates continue to outpace overall inflation and wage increases by two and three times.⁴

The Centers for Disease Control and Prevention launched a new Web site, called **LEANWorks!**, designed to help plan sponsors address the obesity epidemic: www.cdc.gov/leanworks. The Web site can help plan sponsors calculate the cost of obesity and develop tailored approaches to help control these costs through interventions, such as fitness classes, lunchtime health education sessions and weight management programs. Case studies of successful worksite obesity prevention programs are available.

¹ For the latest information on health reform, see Sibson's Web page, Stat! Health Reform Weekly: <http://www.sibson.com/publications-and-resources/stat/>

² See Sibson's Bulletin, "HIPAA Privacy and Security Provisions in the Stimulus Law": <http://www.sibson.com/publications/bulletins/march09HIPAA.pdf>

³ See Sibson's Bulletin, "Final Regulations on HITECH Security Breach Notification for HIPAA Protected Health Information": <http://www.sibson.com/publications/bulletins/sept09HITECH.pdf>

⁴ Refer to the 2010 Segal Health Plan Cost Trend Survey in the source line under the "Trend and CPI" graph. A graph, showing selected trend data from the last 10 surveys, is available as an online supplement to the report: <http://www.sibson.com/publications/surveysandstudies/2010trendsreportsupplement.pdf>