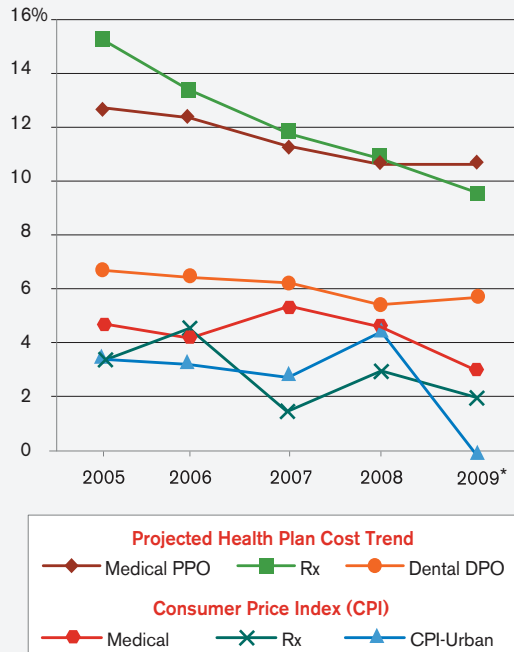


TREND AND CPI

Health claim cost trend is projected to decline slightly in 2009, but is still higher than general inflation:



* 2009 CPI data is for May.

Sources: 2009 Segal Health Plan Cost Trend Survey (<http://www.sibson.com/publications/surveysandstudies/2009trendsurvey.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.

THE VENDOR MARKETPLACE

The class-action settlements involving alleged inflation of average wholesale prices (AWP) by the McKesson Corporation and First Databank will result in a 4 percent price rollback on hundreds of brand name drugs as of September 26, 2009.¹ Employers will want to evaluate any changes presented by their PBM to modify current AWP contract terms to ensure the rollback will be cost neutral. The filing deadline for any third party payer interested in filing a claim as part of the settlement is July 9, 2009.

There is a pending class action lawsuit against Ingenix for allegedly setting artificially low "usual and customary rates" (U&C) for out-of-network medical care and there are expected to be alternative approaches in the future. In the interim many health insurers and plan sponsors continue to rely on data from Ingenix. Employers should evaluate alternate methods for setting out-of-network payments and begin to ask their TPA or insurer, if applicable, for new methods for setting U&C rates. Plans should also amend their SPDs, as needed.

COMPLIANCE NEWS

The Centers for Medicare & Medicaid Services revised and made final the indexed Medicare Part D standard benefit and Retiree Drug Subsidy (RDS) amounts for 2010. For 2010, employers eligible for the RDS will receive 28 percent of Part D prescription drug expenses between the cost threshold of \$310 and the cost limit of \$6,300 per individual. In 2009, those numbers were \$295 and \$6,000, respectively. For 2010, the individual's deductible is \$310 and the true out-of-pocket maximum (TrOOP) is \$4,550.²

Under new guidance from the Department of Health and Human Services, group health plans, including employer-sponsored health plans, will be required to provide notice to affected individuals when certain unsecured protected health information (PHI) is used or disclosed improperly. To prevent a breach and to comply with the breach notification requirement, employers should assess the plan's readiness to comply with the new safe harbor encryption and destruction standards for PHI.³

WHAT EMPLOYERS ARE DOING TO MANAGE COSTS: SELECTED STRATEGIES

Evaluate the plan's mental health benefits strategy. Complying with the Mental Health Parity Addiction and Equity Act of 2008 (MHPAEA) provides an opportunity for employers to reassess their mental health and substance abuse benefits strategy and their employee assistance programs, while determining the impact of compliance. For a typical health plan, the majority of insurers are forecasting that the overall plan cost to comply is 1 percent or less. MHPAEA is effective for plan years beginning after October 3, 2009.

Consider a diagnostic checkup of the plan's prescription drug program. Strategies may include gauging the competitiveness of the plan's PBM financial arrangements, monitoring PBM performance in critical areas such as generic and formulary drug dispensing rates, benchmarking key financial and cost sharing components of the plan's current program, highlighting plan parameters and suggesting changes to reduce costs.

Conduct a stop-loss insurance request for proposal (RFP). Some stop-loss insurers are beginning to vary pricing based on the presence of deep discounted networks, case management, and wellness and disease management programs. Employers may want to consider re-bidding their stop-loss programs to take advantage of current market rates.

FEDERAL HEALTH CARE REFORM LEGISLATION⁴

Proposals being considered would reform the insurance marketplace (e.g., no preexisting conditions and guaranteed issue), enact both an individual mandate and an employer mandate, create new health insurance purchasing centers called "exchanges," change Medicare/Medicaid reimbursement structures, and create a new public health insurance plan. Congress is expected to debate legislation throughout the summer, and President Obama has called for a final bill by October 2009.

¹ See Sibson's *Bulletin*, "Claiming Damages and Evaluating New Prescription Drug Pricing Methodologies in the Wake of Two Settlements of a Class Action AWP Lawsuit: Action Needed by July 9, 2009": <http://www.sibson.com/publications/bulletins/july09AWP.pdf>

² See Sibson's *Capital Checkup*, "CMS Revises Indexed Medicare Part D Amounts for 2010": <http://www.sibson.com/publications-and-resources/capital-checkup/archives/?id=1222>

³ See Sibson's *Capital Checkup*, "HHS Guidance on Securing Protected Health Information and Avoiding Breach Notification": <http://www.sibson.com/publications-and-resources/capital-checkup/archives/?id=1273>

⁴ For more information on health reform see the following page on the Sibson Web site: <http://www.sibson.com/publications-and-resources/guide-to-health-reform/>