

2007 health plan costs to rise

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Health care costs will rise by double-digits in 2007 absent any plan changes, a study by PriceWaterhouseCoopers L.L.P. projects.

Preferred provider organization costs will increase the most—11.9%—while HMO costs will climb slightly less—11.8%. Consumer-driven health plans are expected to experience the least growth, though costs will still surge 10.7%, PwC researchers found.

Although medical costs are expected to increase by double digits, the corresponding premium increases could be lower, since the rate of increase in these costs are just one of several factors health plans use to base their premiums, PwC researchers explain.

Moreover, employers can influence premiums through strategic and creative benefit plan design changes, suggests Jack Rodgers, managing director of PwC's Health Policy Economics Group, which conducted the study.

Among the factors contributing to the double-digit increases in medical costs are:

- New treatments and technologies, including the use of new prescription drugs and diagnostic testing. Though these contribute to early diagnosis and treatment, and in many cases are worth the increased cost, their availability obligates some physicians to order more tests to protect against potential malpractice suits.
- Increased demand for services. Although employers have been increasing cost-sharing, employees have largely been insulated from health care inflation. In fact, their share of health care costs, which averaged 6% in 1960, was still about that amount in 2004.
- Obesity, aging and declining health status. Obesity-related medical expenses have accounted for one-fourth of the increase in total health spending between 1987 and 2001. Moreover, obese individuals are twice as likely to have heart disease.

To come up with its findings, PwC surveyed major health plans, insurers and third-party administrators in the summer of 2006, asking a series of questions about the trends on which they are basing 2007 premiums. Researchers also reviewed publicly available reports from firms that survey employers about their health plan costs.

A detailed analysis of medical cost trends is published in the report, "Behind the Numbers: Medical Cost Trends for 2007," which is available free of charge on PwC's Web site to all who register. Visit <http://pwc.com/2007healthcosttrends> <<http://pwc.com/2007healthcosttrends>> to view the report.