

# ***Medical cost trend***

## ***Behind the numbers 2018***

*PwC projects 2018 medical costs will grow at a slightly faster rate than 2017. Future reductions in cost trend will require more focus on price.*

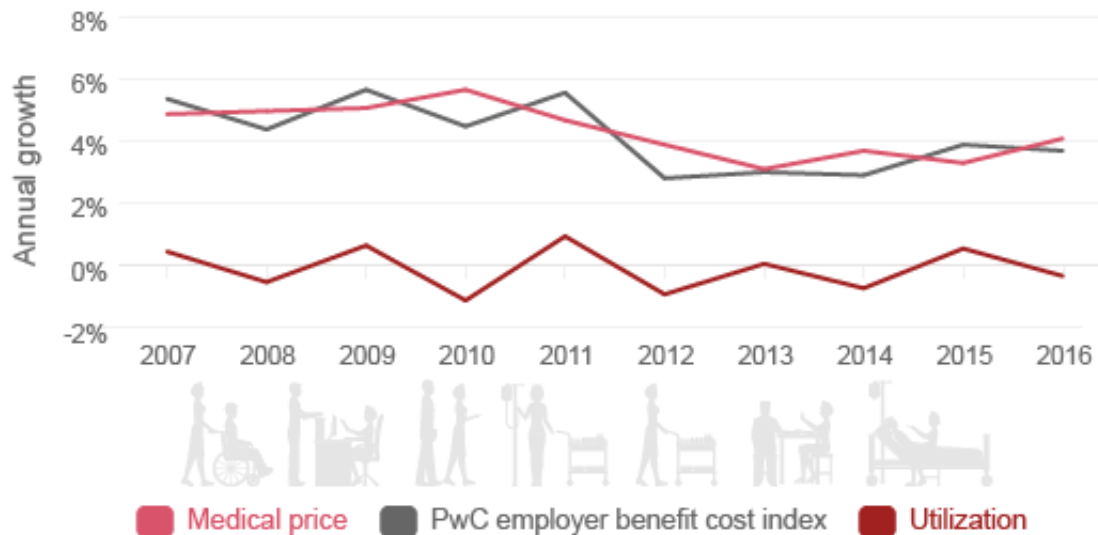
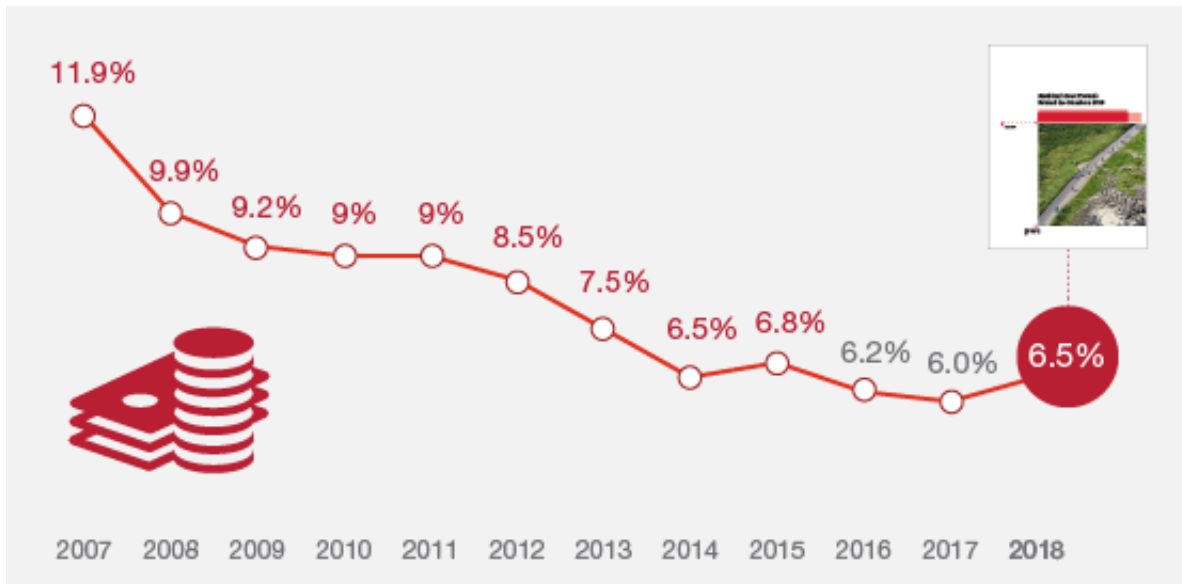
PwC's Health Research Institute (HRI) annually projects the growth of medical costs in the employer insurance market for the coming year and identifies the leading factors expected to impact the trend.

Heading into 2018, the healthcare industry appears to be settling into a "new normal" marked by more moderate fluctuations in a single-digit medical cost trend.

- HRI projects 2018's medical cost trend to be 6.5%—the first uptick in growth in three years.
- Price continues to be a major driver of healthcare costs.
- Businesses will have to tackle the price of services as well as the rate of utilization to reduce medical cost trend in the future.

## ***Medical cost trend over the years***

As healthcare continues to take up a larger part of the overall economy, structural changes—such as the push toward paying for value, greater emphasis on care management and increased cost sharing with consumers—are taking a stronger hold, pulling back against rapid healthcare spending growth. Still, with medical cost trend hovering between 6 and 7 percent for several years, health spending continues to outpace the economy. Even the "new normal" is not sustainable.



## *Future reductions in cost trend will require more focus on price*

In recent years, low utilization growth—largely driven by increased cost-sharing with American consumers—has helped counteract prices that have continued to rise. However, further cost shifting to consumers is getting more difficult, so annual utilization growth could start to rise in the future. Without low utilization serving as a counterbalance, rising prices likely will put upward pressure on overall healthcare costs.

To slow healthcare spending growth moving forward, employers will consider supply-side management strategies—such as narrower provider networks and value-based purchasing—that focus on bringing price, rather than utilization, down.

# *What this means for your business*

## *Employers*

In a competitive labor market, employers are looking for new cost containment strategies beyond shifting more costs to employees. They are pursuing new contract arrangements with providers to help them tackle healthcare prices.

Actions to consider:

- Target work site health promotion programs to the right people.
- Evaluate the value of drug spending.

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## *Healthcare providers*

Healthcare providers, with opportunities to take on more risk and work with employers directly, are focusing on improving care management and optimizing their use of physician extenders and nonclinical staff to keep costs down and optimize patient care.

Actions to consider:

- Assess skills mix.
- Look for new opportunities to manage drug costs.

## *Health insurers*

Health insurers, in an effort to prove their value to employers, must work to steer patients to the most effective treatments and help providers accelerate pricing transparency efforts.

Actions to consider:

- Look for ways to automate processes.
- Consider alternative therapies.
- Explore value-based purchasing with biopharmaceutical companies.

## *Pharmaceutical and life sciences*

Drug companies are focusing on increasing collaboration across the industry, giving stakeholders greater insight into their pricing and the role they play in keeping patients healthy and out of high-cost delivery settings.

Actions to consider:

- Re-evaluate sales and marketing needs.
- Model drug pricing policy impacts.
- Collaborate on pricing decisions upfront

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