

Aon Spring 2004 Health Care Trend Survey

Each Spring and Fall, Aon Consulting provides you with updated health care trend data. We have completed the Spring 2004 survey and the results are reported below. We hope this information will assist you as you evaluate health insurance premium renewals and develop self-funded health plan claim projections.

Findings Overview

Medical plan costs continue to increase at double-digit rates. Reasons for these increases include: increasing patient demand for services, an aging population, lessening of tight managed care controls, increasing medical technology costs, increasing price and utilization of prescription drugs, poor lifestyle choices, cost shifting and medical malpractice costs.

Health Care Trend Rates

Based on data provided by over twenty leading medical, dental, pharmacy and vision vendors, we are forecasting the following 2004/2005 health care trend rates. These trend rates are the forecasted annual increase in claims for rating periods beginning between April 2004 and September 2004.

Medical	With Rx	Without Rx
HMO	14.1%	13.4%
POS	14.1%	13.5%
PPO	14.2%	13.5%
Indemnity	15.3%	14.7%
CDHP	14.1%	13.3%
Dental		
DHMO	5.0%	
PPO	7.3%	
Indemnity	7.7%	
Pharmacy		
	14.4%	
Vision		
	3.9%	

These forecasted trend rates are slightly lower than our forecast issued in Fall 2003. Some items of note are:

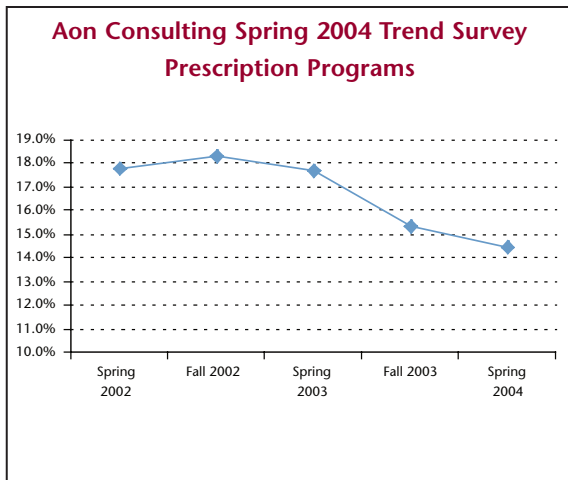
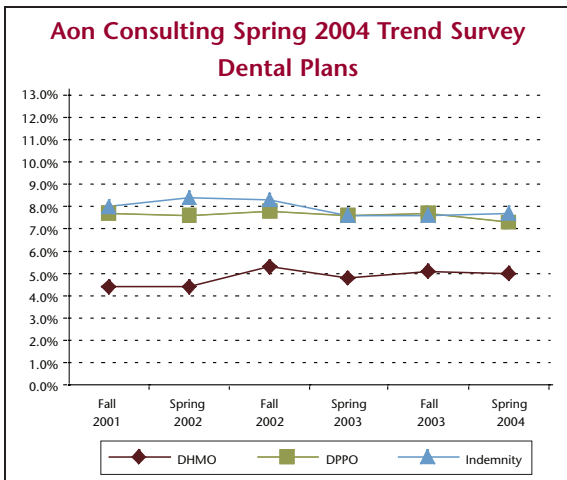
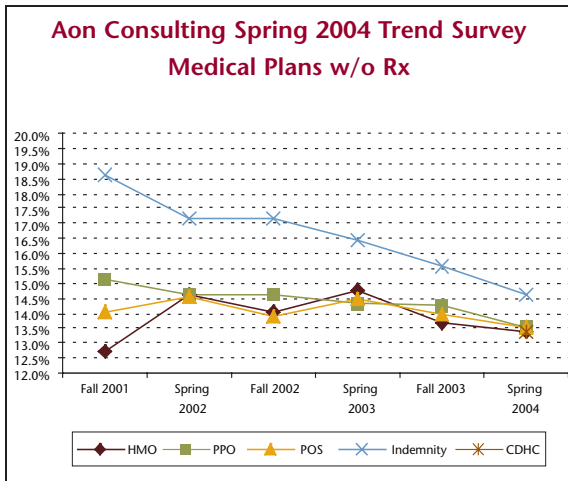
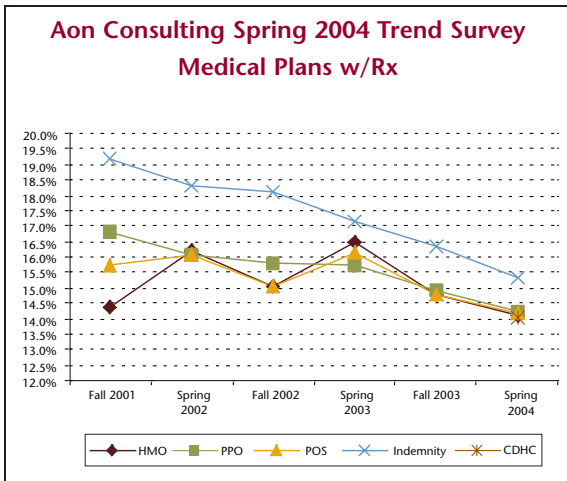
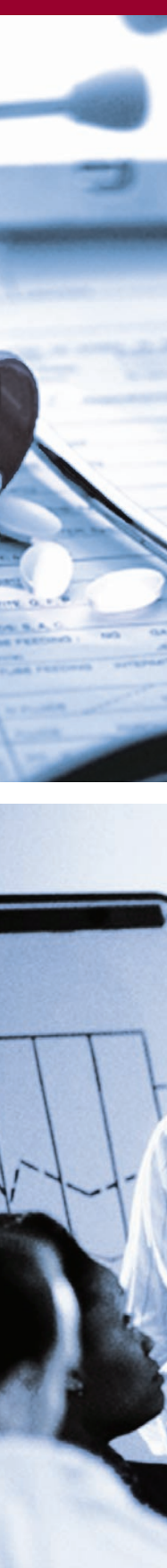
- The medical trend rates are over eight times the February 2004 increase in consumer price index for all urban consumers (CPI-U) of 1.7%.
- The medical trend rate is down about 7/10ths of a percentage point from the Fall 2003 trend rate.
- The pharmacy trend rate of 14.4% is down from 15.3% in our Fall 2003 survey. The 1 percentage point decline in pharmacy trend rate appears to be due to more consumer use of generic drugs and somewhat lower utilization of prescription drugs due to higher co-pays.

- The trend rate gap between medical with Rx and medical without Rx is closing. This is because the pharmacy trend rate is approaching the same level as the general medical trend rate. In general, managed care companies continue to forecast a higher pharmacy trend rate than Pharmacy Benefit Managers (PBMs).
- There continues to be little difference in trend rates between HMO, POS and PPO plans.
- The managed care trend advantage over indemnity plans has remained constant at slightly more than one percentage point.
- This survey introduces a trend rate for Consumer Driven Health Plans (CDHP). The trend rate for CDHP plans is comparable to managed care plans.
- The dental and vision trend rates are similar to the trend rates reported in our Fall 2003 survey.

Trend Rate History

The following table summarizes the forecasted trend rates for our past five surveys:

Medical (w/Rx)	Fall 2001	Spring 2002	Fall 2002	Spring 2003	Fall 2003
HMO	14.4%	16.2%	15.1%	16.4%	14.8%
POS	15.7%	16.0%	15.1%	16.1%	14.8%
PPO	16.8%	16.0%	15.8%	15.7%	14.9%
Indemnity	19.2%	18.3%	18.1%	17.2%	16.3%
Medical (w/o Rx)					
HMO	12.7%	14.6%	14.0%	14.7%	13.7%
POS	14.0%	14.5%	13.9%	14.5%	14.0%
PPO	15.1%	14.6%	14.6%	14.4%	14.3%
Indemnity	18.6%	17.1%	17.2%	16.4%	15.5%
Dental					
DHMO	4.4%	4.4%	5.3%	4.8%	5.1%
PPO	7.7%	7.6%	7.8%	7.6%	7.7%
Indemnity	8.0%	8.4%	8.3%	7.6%	7.6%
Pharmacy	16.0%	17.8%	18.3%	17.7%	15.3%
Vision	N/A	3.2%	3.5%	3.8%	3.4%



About This Survey Report

The trend rates shown in the above charts represent national averages and are the predicted increase in claims cost. Trend increases for a specific company may vary significantly from these trend rates due to regional cost variations, company plan design, company demographics, etc. In addition, insured rate increases may be higher or lower than these trend rates based on an insurance company's profitability position, the plan's claims loss ratio, the plan design, etc. These trend rates apply to an active workforce. Trend rates for post-retirement health coverage might be higher due to the higher percentage of claims associated with the use of prescription drugs and the leveraging affect of Medicare.

These trend rates include the following components:

Price Inflation. Price inflation is the average increase in the cost of goods and services of health care providers for medical, prescription drug, dental and vision services.

Deductible Leveraging. Deductible leveraging is the cost added to a health plan due to the subtraction of an unchanging deductible from a trended claim amount. Suppose a claim of \$500 increases by 10% in the next year to \$550. If the deductible is \$200, the insurance cost increases by 17% from \$300 to \$350. The deductible leveraging is the difference between the 17% and the 10%.

Utilization. This is the increase in the number of medical procedures performed in response to an aging population and new medical techniques.

Technological Advances. This is the change in cost due to new procedures replacing old procedures. Examples of technological advances include organ transplants, artificial organs, Diffusion Tensor Magnetic Resonance Imaging, therapeutic cloning and Positron-Emission Tomography (PET) scans.

Cost Shifting. This is an individual provider's shifting of costs from fixed or discount payers to reasonable and customary payers such as insurance companies or self-funded employers. Discount payers include Medicare, Medicaid, and managed care plans.

Companies Providing Trend Data

The following companies contributed to the Aon Spring 2004 Health Care Trend Survey:

Medical	Dental	Pharmacy	Vision
Aetna	Aetna	Aetna	Aetna
BCBS	BCBS	Advance PCS	BCBS
CIGNA	CIGNA	BCBS	CIGNA
Oxford Health Plans	Dominion Dental	Caremark	Cole Managed Vision
PacifiCare/PHS	Fortis/Assurant	CIGNA	Davis Vision
Unicare/Wellpoint	Guardian	Eckerd	EyeMed Vision Care
United Healthcare	MetLife	Express Scripts/NPA	PacifiCare/PHS
	PacifiCare/PHS	MedImpact	Superior Vision Service
	Unicare/Wellpoint	Medco Health Solutions, Inc.	Vision Services Plan
	United Concordia/Highmark	Oxford Health Plans	
	United Healthcare	PacifiCare/PHS	
		Pharmacare	
		RxAmerica	
		Unicare/Wellpoint	
		United Healthcare	

© Aon Consulting, Inc. 2004