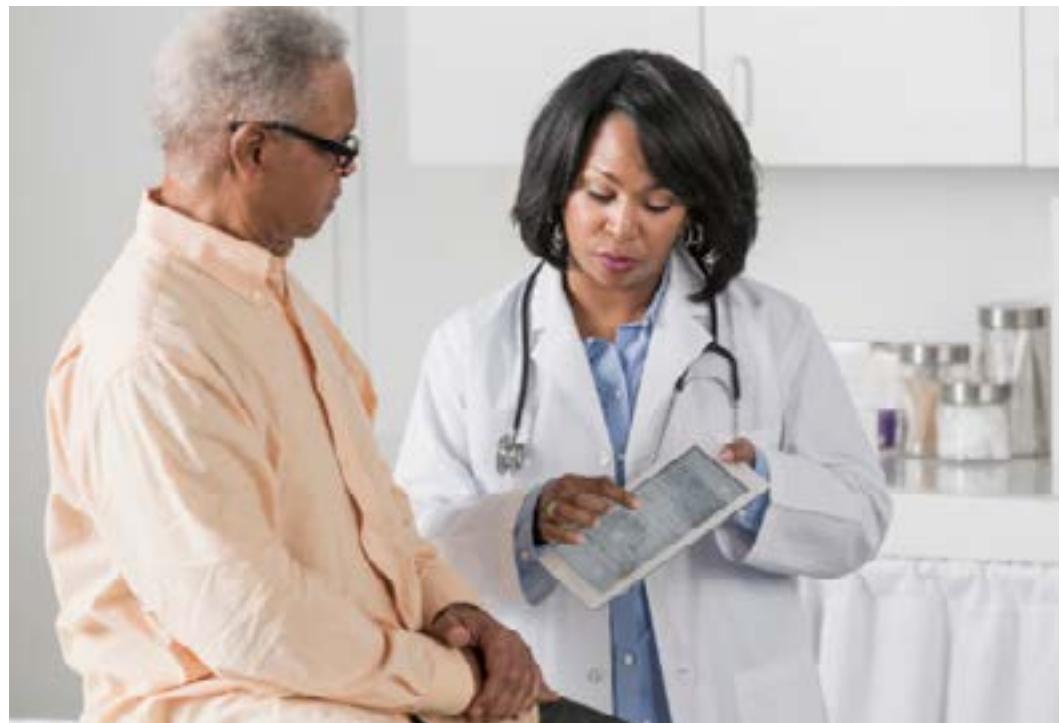

Medical cost trend: Behind the numbers 2015

Chart pack

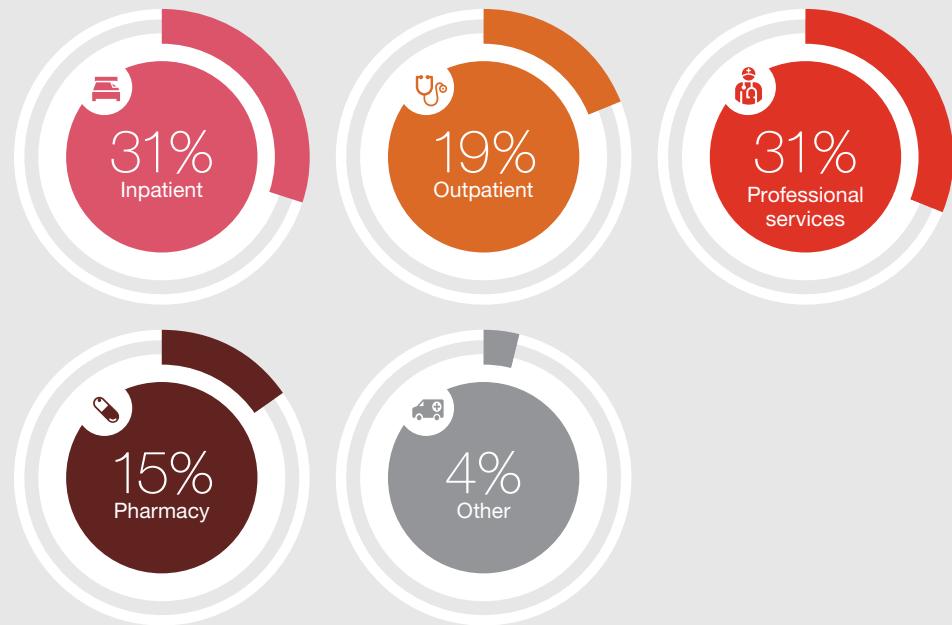
Health Research Institute
2014 June



HRI projects 2015's medical cost trend to be 6.8%—a modest increase over our 2014 projection of 6.5%. As more people gain insurance under the Affordable Care Act (ACA), more money is spent—but this is not the same as higher costs per person. Inpatient and professional services account for the largest amount of private health insurance spending.

Inpatient and professional services account for the largest amount of private health insurance spending

Projected 2015 private health insurance spending by medical category



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pwc.com/us/medicalcosttrend

Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015*, June 2014, analysis based on the 2014 Milliman Medical Index

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Since enrollment in high-deductible plans has tripled since 2009, consumers have taken a greater stake in the health system: demanding more value for their dollar.

Enrollment in high-deductible plans has tripled since 2009

Enrollment in employer-sponsored health plans by type of plan, 2009–2014



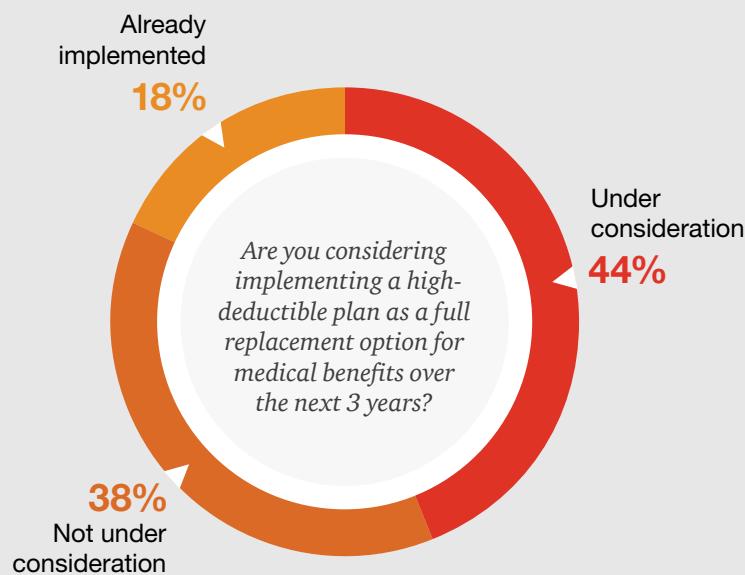
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Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015*, June 2014, based on PwC 2014 Touchstone Survey

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Most employers are considering or already offer a high-deductible plan as the only option for employees. Shifting costs to employees results in behavior changes such as using fewer services or making less-expensive care decisions.

Most employers are considering or already offer a high-deductible plan as the only option for employees



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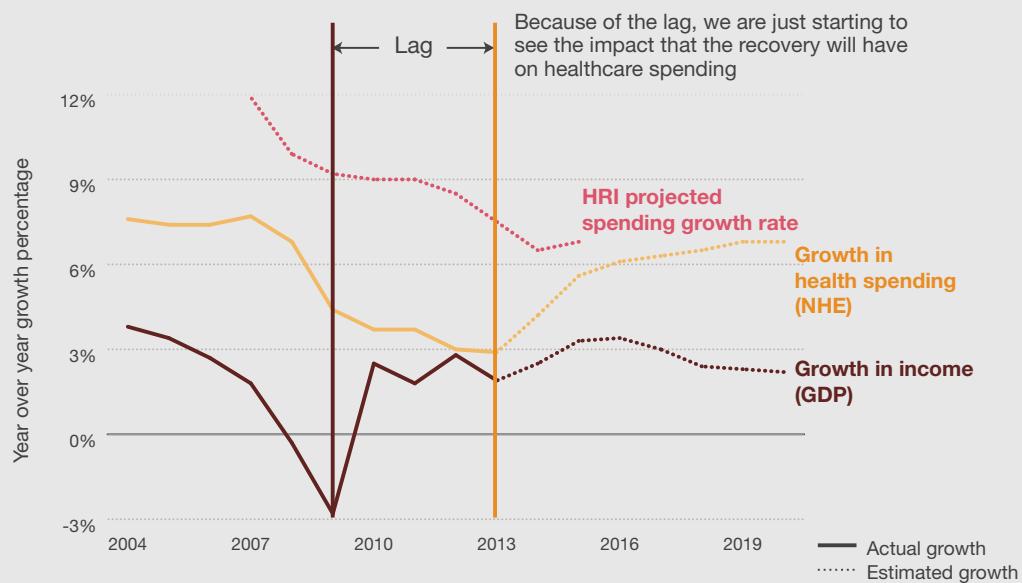
Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015*, June 2014, based on PwC 2014 Touchstone Survey

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Although the health economy shares a tight connection to the overall economy, its cycle generally lags behind broader economic fluctuations.

Health spending and income growth track each other but with a lag

Relationship between growth in Gross Domestic Product (GDP) and growth in National Health Expenditures (NHE), 2004–2019



For more information, please visit:
pwc.com/us/medicalcosttrend

Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015*, June 2014, analysis based on data from the Bureau of Economic Analysis and the Office of Actuary in the Centers for Medicare & Medicaid Services, and on projections of GDP from the Congressional Budget Office

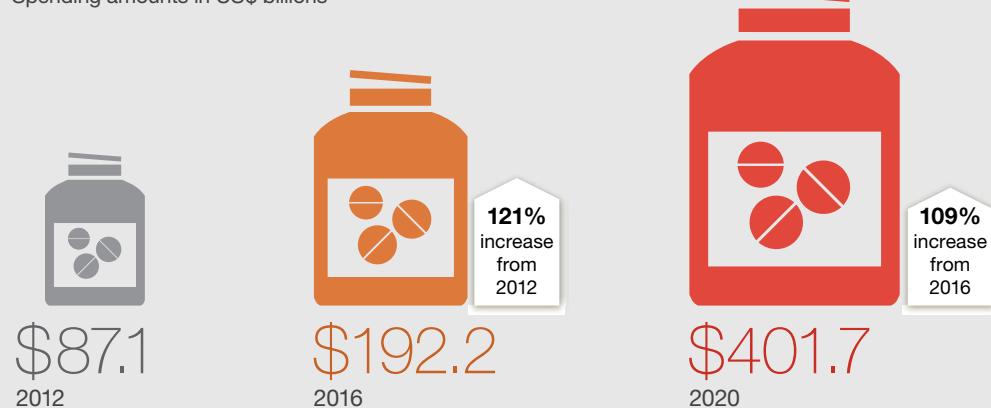
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US specialty drug spending is forecast to quadruple by 2020, sparking anxiety and debate among purchasers over whether the high price tag will be balanced by less spending on chronic conditions in the long term.

US specialty drug spending will quadruple by 2020

Projected specialty drug spending from 2012 to 2020

Spending amounts in US\$ billions



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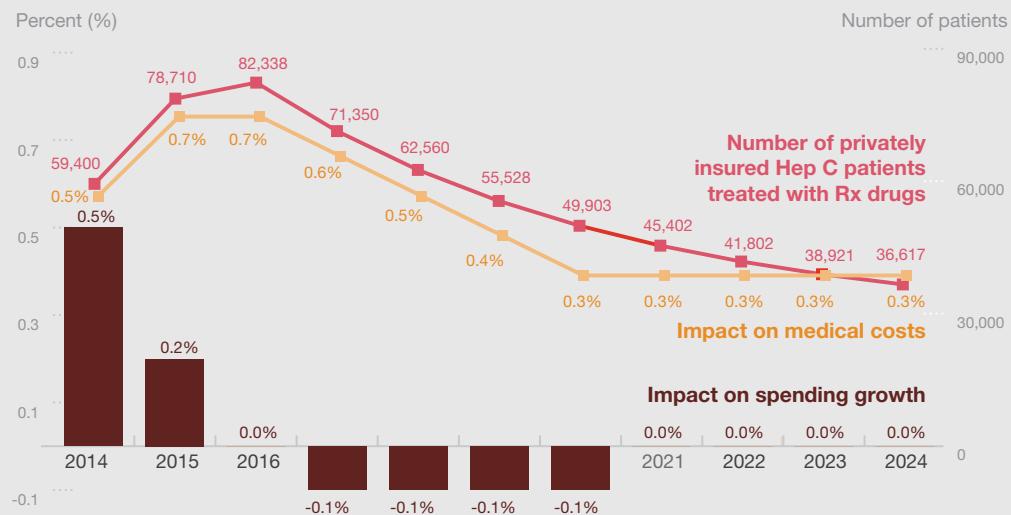
Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015*, June 2014, analysis based on data from CVS Caremark

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The use of new Hepatitis C therapies will increase rapidly, but the impact on projected spending growth rate will only last two years since the cost spike will level off as patients are “cured.” The average cost of the new treatment is \$86,000 but if Hep C results in a liver transplant the cost is about \$580,000.

The use of new Hepatitis C therapies will increase rapidly, but the greatest financial impact of the new therapies is likely to be in the early years

2015-2016 is the highest cumulative impact on benefit costs for employer plans



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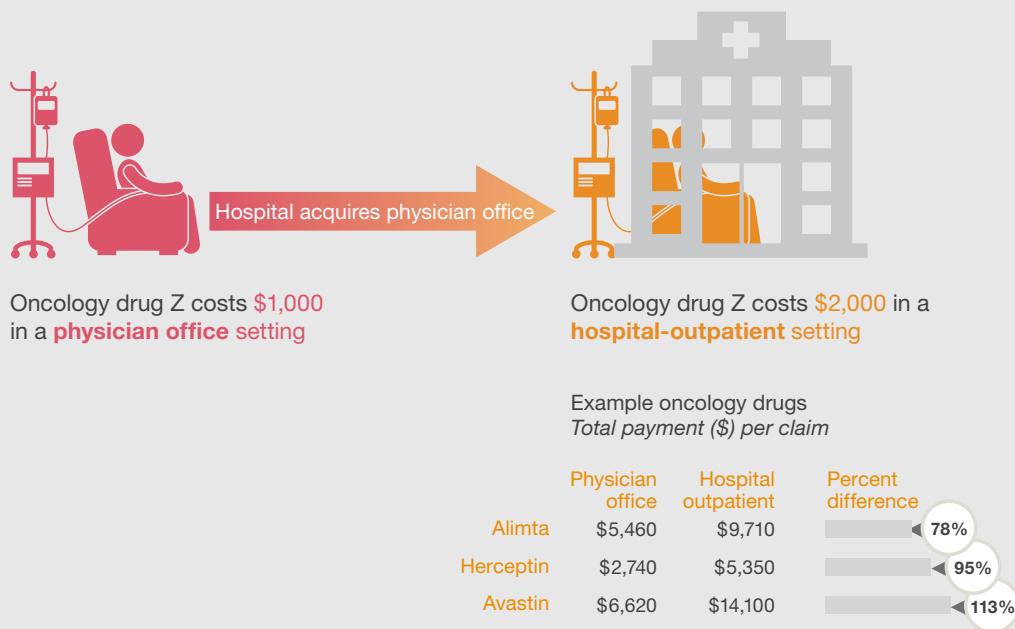
Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015*, June 2014, analysis based on National Health and Nutrition Examination Survey and 2012 Truven claims data from employers

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Oncology drugs cost more when administered in a "hospital-outpatient" department rather than a doctor's office. Hospitals and health systems that purchase physician groups can charge the higher hospital rate for procedures in the newly acquired offices, despite not being a hospital setting.

Oncology drugs cost more when administered in a "hospital-outpatient" department

Oncology drugs administered in a "hospital outpatient" department can cost twice as much as a physician office



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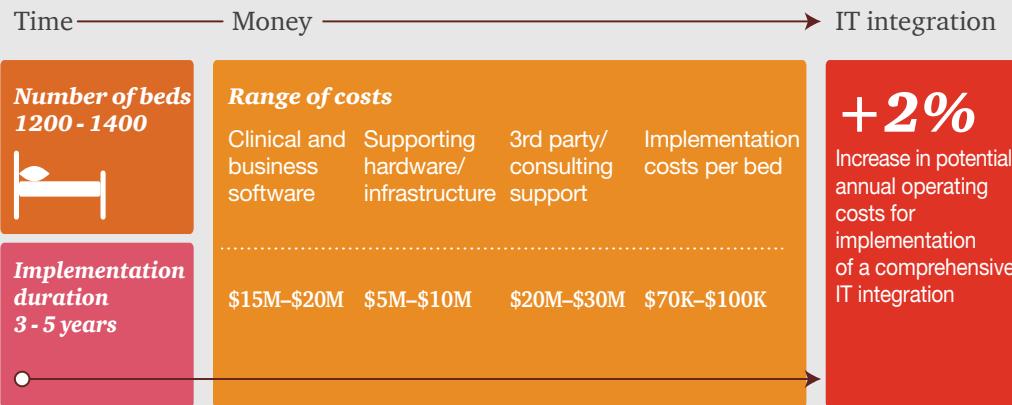
Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015*, June 2014, analysis based on 2012 Truven claims data

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After mergers or acquisitions, integrating health information technology between two systems becomes a necessary early investment that can better connect clinical care, business operations and technology and improve the consumer's experience.

Integrating health information technology between two systems requires time and money

Example costs and duration for an end-to-end IT integration



*Does not represent complete range of costs. Numbers are representative.



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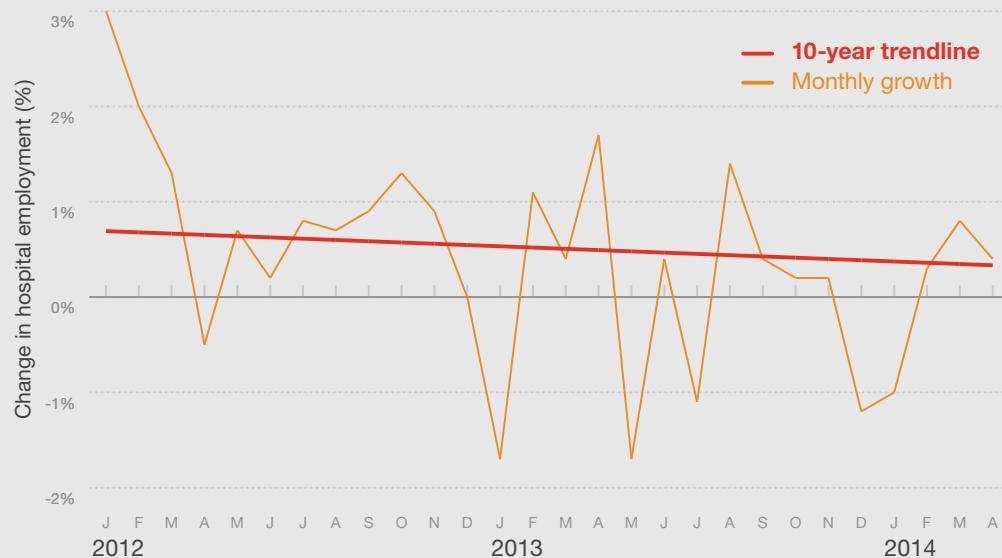
Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015*, June 2014, analysis of IT cost model based on multiple hospital costs

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Since 2012, hospital employment growth has slowed and is projected to continue on this trend—evidence that providers are achieving efficiency with fewer resources. Personnel costs are over half (60%) of hospital budgets.

Hospital employment growth is decreasing

Monthly growth in hospital employment (seasonally adjusted; annualized: January 2012–April 2014)



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Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015*, June 2014, analysis based on Bureau of Labor Statistics data

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Employer feedback shows a strong interest in increasing employee cost sharing through plan design changes. While increased cost sharing and high deductibles do not affect medical inflation directly, consumer behavior does.

Employer survey shows a strong interest in increasing employee cost sharing through plan design changes



85%

of employers have already implemented or are considering an increase in employee cost sharing through plan design changes over the next 3 years



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Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015*, June 2014, based on PwC 2014 Touchstone Survey

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Consumer preferences vary for healthcare shopping. While many (43%) want to compare prices online, some prefer doing so by calling around. Others would rather use a dedicated website with a menu of comparative plan options laid out by a health insurer, employer, or the government.

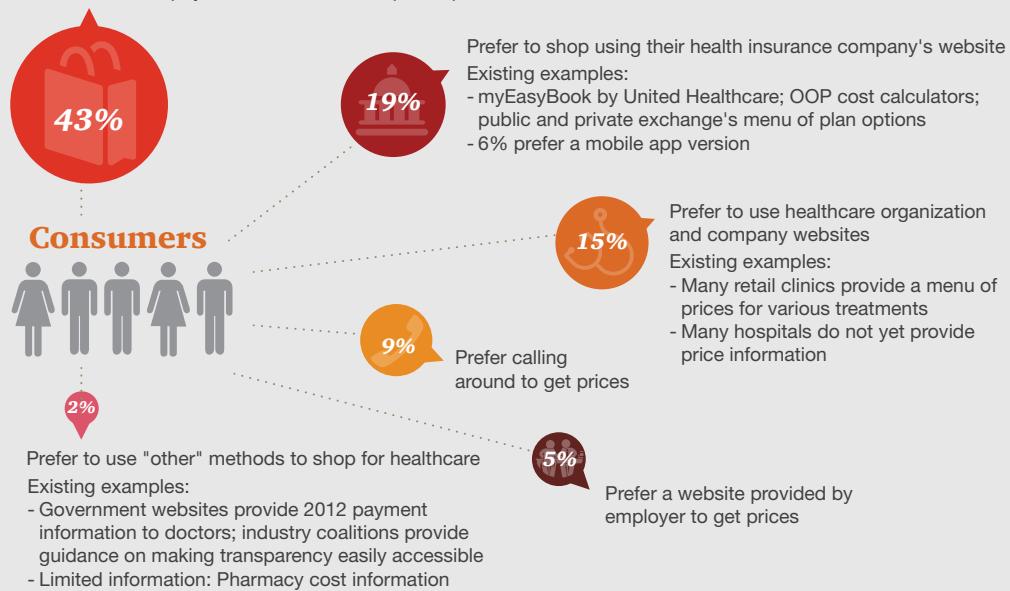
Consumer preferences in healthcare shopping

Percent of consumers who prefer to shop for health and medical services in specific ways

Prefer an online healthcare shopping website with different options at different prices

Existing examples:

- Castlight and Change Healthcare provide expected cost information for physicians, services, and prescriptions



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Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015*, June 2014, based on PwC Health Research Institute Consumer Survey, December 2013

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Risk-based initiatives by the numbers: from the percentage of Medicare Accountable Care Organizations (ACO) that exceeded savings targets to how many public and private ACOs exist nationwide.

Examples of savings from risk-based Accountable Care Organizations



47%	\$126M
The percentage of Medicare Shared Savings Program ACOs that exceeded savings targets within their first year.	The amount of shared savings generated by 29 Medicare Shared Savings Program ACOs.
\$95M	600
The amount of net savings generated by a large commercial ACO in California over 4 years.	The number of public and private ACOs across the nation, covering more than 18 million insured patients.



For more information, please visit:
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Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015*, June 2014, based on information from U.S. Department of Health & Human Services; Health Affairs Blog 2014; Health Affairs 2013

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