



Aon's Carrier Trend Report

Key Findings From Aon's 2021 Carrier Trend Survey

Table of Contents

Introduction	2
Medical and Prescription Drug Trends	3
Medical Trends by Plan Type	4
Medical Trends by Percentiles	5
Medical Trend Drivers and Savings Examples	6
Prescription Drug Trends	7
Prescription Drug Trends by Percentiles	8
Net Effect of COVID-19 Impacts on 2020 Claims	8
Employer-Realized Cost Increases	10
Aon Employer Benchmarking	10
Trend Rate History	11
About This Report	12
Trend Rate Overview	12
Companies Providing Trend Data	13
Contact Information	14
About Aon	15

Introduction

Aon is pleased to present the results of its 2021 survey of leading health care carriers in the U.S. The survey was conducted during the first quarter of 2021, after the emergence of the coronavirus (“COVID-19”) in the U.S. Responses were collected from more than 50 national and regional carriers that offer medical, prescription drug, dental, and/or vision benefits.

The survey responses reflect the carriers’ predicted increase in claims costs (net of COVID-19 impacts) for renewals issued during 2021 and are intended to assist in evaluating insurance premium renewals.

Aon has conducted this survey to assist companies in:

- Evaluating health care renewals.
- Understanding the factors that are driving medical cost increases.
- Devising cost-containment initiatives to respond to the increasing costs.
- Understanding how the carriers are projecting the net impact of COVID-19 through the suppression of and additional claims in the market.

The carriers were asked to provide net impacts for COVID-19 for each quarter of 2020 (for instance, through having to address COVID-19 directly or with varying levels of utilization over the course of the year). These can be used as a reference point when reviewing actual 2020 employer medical, prescription drug, dental, and vision claims data.

The trend rate figures shown in this report represent the percentage increases in medical plan costs that are anticipated to be required to address projected price inflation, technology advances in the medical field, plan utilization patterns, and cost shifting from public to commercial payers.

The trend rates presented from the carrier survey in this report do not include any allowances for potential employer countermeasures such as cost-containment plan amendments or the impact of any attendant employer negotiations with carriers.

Comparing the most recent trend results to Aon’s 2020 survey, medical trend expectations are fairly consistent of trends reported for most major plan types, with less than a 0.5% change. Prescription drug trends have decreased from last year, which is primarily driven by the specialty prescription drug trend change. Dental trends have increased from last year, likely due to the net impact of COVID-19 (a suppression of claims in 2020, with additional projected claims in 2021). Vision trends are expected to remain relatively steady. The overall health care trend expectations continue to be well above general inflation and remain unsustainably high for employers and employees if no cost management actions are taken, with COVID-19 adding pressure to the plan costs.

Medical and Prescription Drug Trends

The purpose of this report is to provide risk managers and financial leaders of health care systems in the U.S. with a data-supported tool to help them better understand medical and prescription drug cost trends. Note that carriers did not report combined medical and prescription drug cost trends in 2021.

For **medical only** trends, the 2021 carrier trends appear to be relatively stable from the most recent midyear 2020 survey. For reference, the recent medical only trend survey results are as follows:

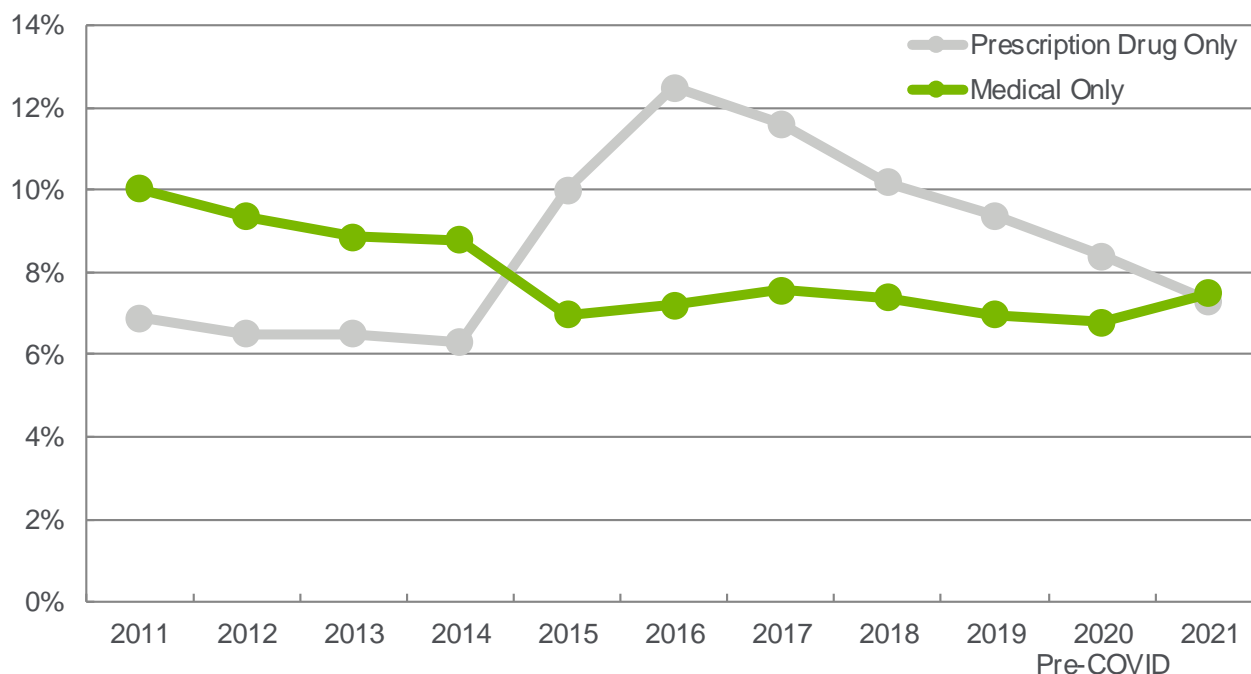
- 7.5% from Aon's 2021 Carrier Trend Survey, applicable to renewals issued between January 2021 and December 2021, net of COVID-19 impacts
- 7.8% from Aon's midyear 2020 survey (post-pandemic) and 6.8% from Aon's winter 2020 survey (pre-pandemic)

In general, most carriers projected some impact from COVID-19; however, note that the range of responses varied from +0.5% to +3.0%.

For **prescription drugs**, the trends are expected to decrease by 0.6% from the midyear 2020 survey report. For reference, the recent prescription drug only trend survey results are as follows:

- 7.32% from Aon's 2021 Carrier Trend Survey, applicable to renewals issued between January 2021 and December 2021
- 7.8% from Aon's midyear 2020 survey (post-pandemic) and 8.4% from Aon's winter 2020 survey (pre-pandemic)

In general, carriers do not foresee a material impact from COVID-19 on prescription drug claim costs.



What Is “Trend”?

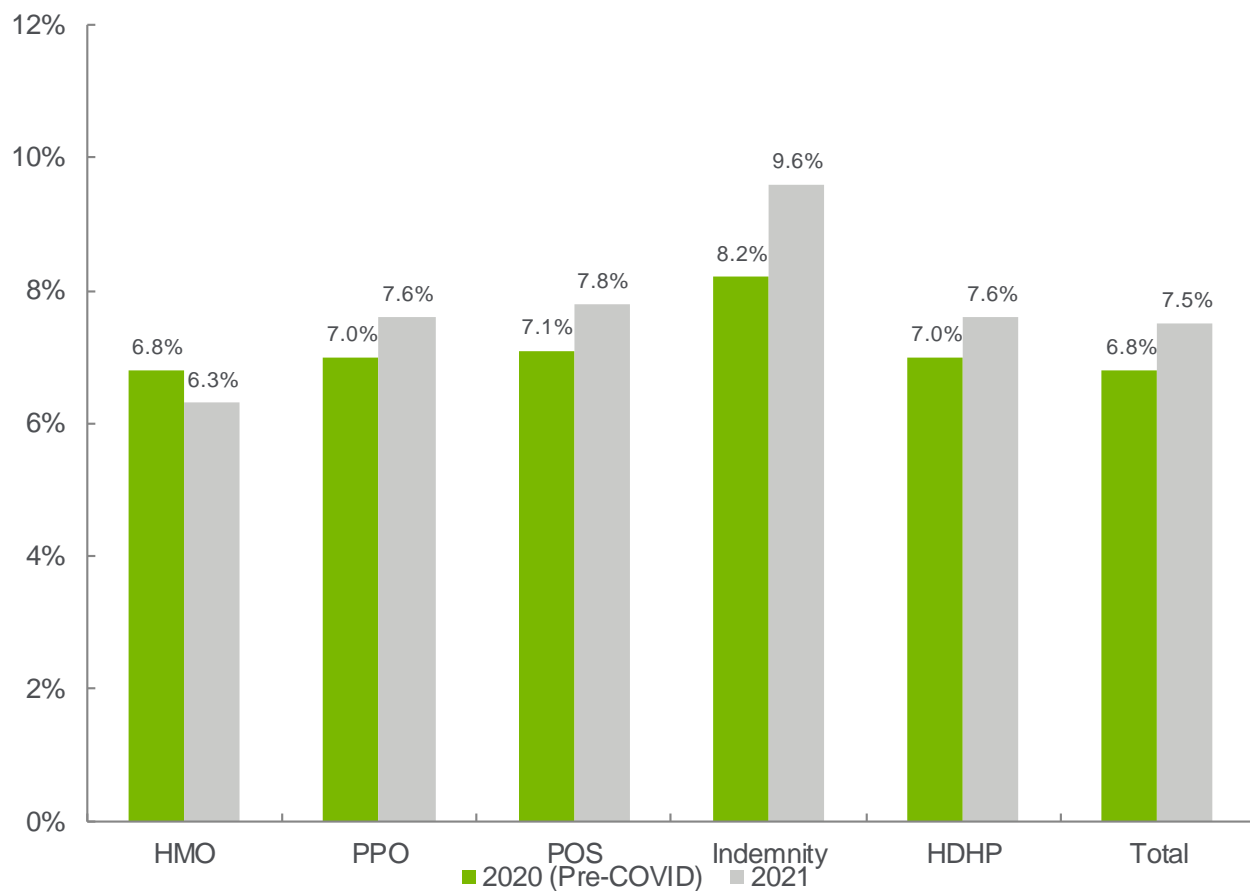
The trend rate figures shown on the previous page represent the carriers’ estimated annual increases in per-person costs without any changes in plan design, vendor changes, or networks. Key drivers of medical and prescription drug trend include price inflation, technology advances, plan utilization patterns, and cost shifting.

Price inflation has been a key driver of medical cost while new specialty drugs drive prescription drug trends. Technological advances continue to create new opportunities for treatments of illnesses, such as cancer, that were unavailable just a few short years ago.

Note that reported trend for January 2021–December 2021 renewals includes the projected net impact of COVID-19 on medical claims (no material impacts anticipated for prescription drug costs).

Medical Trends by Plan Type

Carriers are reporting slightly increased trends across most plan options from 2020 (pre-pandemic) to 2021. HMO plans continue to have the lowest trends at 6.3% while HDHPs and PPOs are 1.3% higher.



PPO, or “preferred provider organization” plans, allow participants to visit any in-network physician or health care provider without requiring a referral from a primary care physician. PPO plans are likely to make significant payments to providers based on fee-for-service (FFS) arrangements.

HMO, or “health maintenance organization” plans, require a “gatekeeper” or primary care physician to manage all health care services. HMOs typically include significant capitation, which is fixed payments to providers regardless of utilization of services. Only services delivered in the provider network are covered.

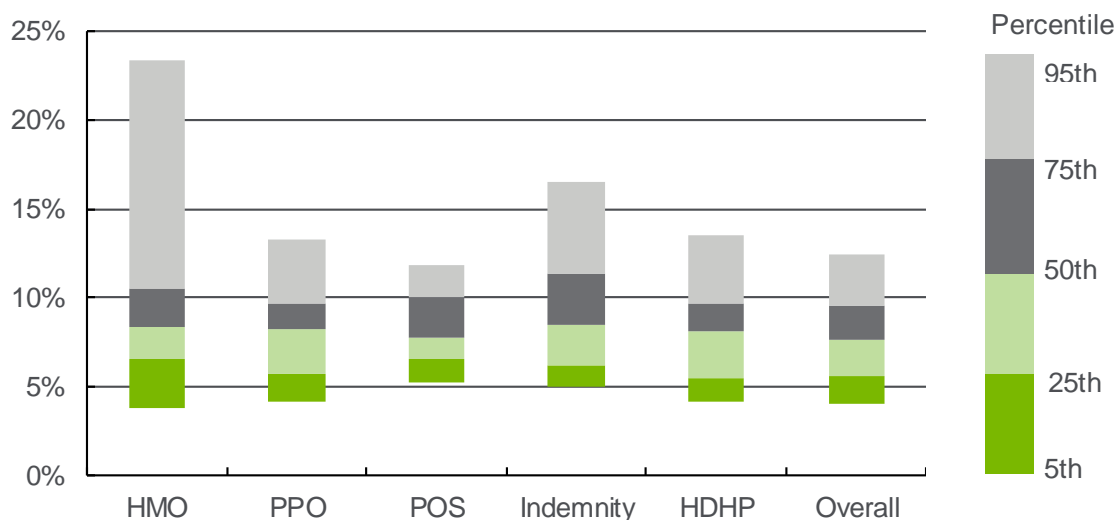
POS, or “point of service” plans, are a type of managed care plan that is a hybrid of HMO and PPO plans. Like an HMO, participants designate an in-network physician to be their primary care provider. But like a PPO, patients may go outside the provider network for health care services.

Indemnity plans allow participants to access health care from any doctor or hospital.

HDHP, or “high-deductible health plans,” are a subset of health insurance arrangements in which individuals have an IRS-qualified HDHP coupled with a tax-advantaged health savings account (HSA) they can use to pay health care expenses not covered by insurance.

Medical Trends by Percentiles

While the average medical increase for renewals in 2021 is 7.5% when weighted by enrollment, there is a significant differential in the reported trend rates by carrier. The following chart illustrates the range of reported trends.



Medical Trend	HMO	PPO	POS	Indemnity	HDHP	Overall
5th Percentile	3.8%	4.2%	5.2%	5.0%	4.1%	4.0%
25th Percentile	6.5%	5.7%	6.5%	6.2%	5.5%	5.6%
50th Percentile	8.4%	8.2%	7.8%	8.5%	8.2%	7.6%
75th Percentile	10.5%	9.7%	10.0%	11.4%	9.7%	9.5%
95th Percentile	23.3%	13.3%	11.9%	16.5%	13.5%	12.4%

Medical Trend Drivers and Savings Examples

Trend Drivers

Carriers were asked to quantify the various components comprising their reported medical trends. Based on the responses, carriers identified three primary drivers. Price inflation comprises the largest portion of trend at 3.5%, closely followed by utilization at 3.0%. In addition, cost sharing (common examples include leveraging of a fixed deductible) contributes to trend, but at a much smaller rate of 1.0%.

Savings Through High-Performing Networks

Many carriers have established high-performing networks, structured as a subset of providers and facilities from the carriers' broad (normal) network. Members are typically directed to providers and facilities which offer lower costs and higher quality treatment. Some employers leverage this network model arrangement to mitigate their health care trends.

In Aon's 2021 Carrier Trend Survey, carriers were asked to provide the average savings realized by implementing a high-performing network in place of a broad PPO network. Based on the responses of 10 carriers, savings averaged approximately 9% (ranging from 5% to 19%).

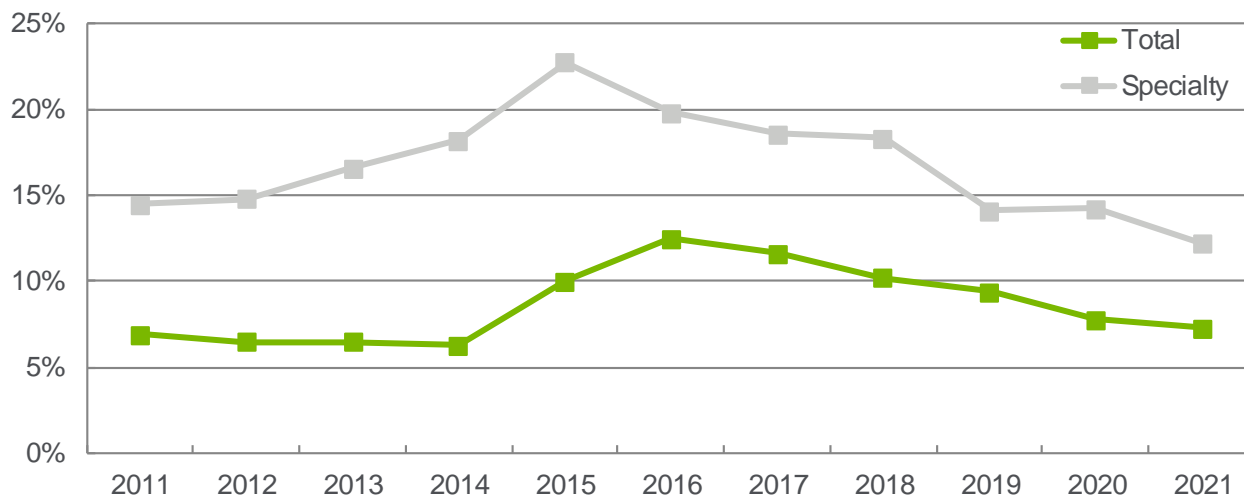
Savings Through Accountable Care Organizations

An accountable care organization (ACO) is a structured health system used by employers to manage their population's health by partnering with providers and utilizing a risk-sharing arrangement. With an ACO, a provider manages the member across a spectrum of care, directing them toward evidence-based and quality treatment. In return, the provider shares in the ACO's financial gains and losses associated with the member's health outcomes. In this manner, financial incentives are linked closely to providing value and quality to the member's health.

In Aon's 2021 Carrier Trend Survey, carriers were asked to provide the average savings realized by implementing an ACO in place of a broad PPO network. Based on the responses of five carriers, savings averaged approximately 11% (ranging from 3% to 15%).

Prescription Drug Trends

Prescription drug trends continue to moderate from their peak, with carriers indicating that there are no expected material impacts to trend due to COVID-19. Total prescription drug trends from the carriers continue to decrease and are approximately 7%, with the specialty drug trend at approximately 12%.

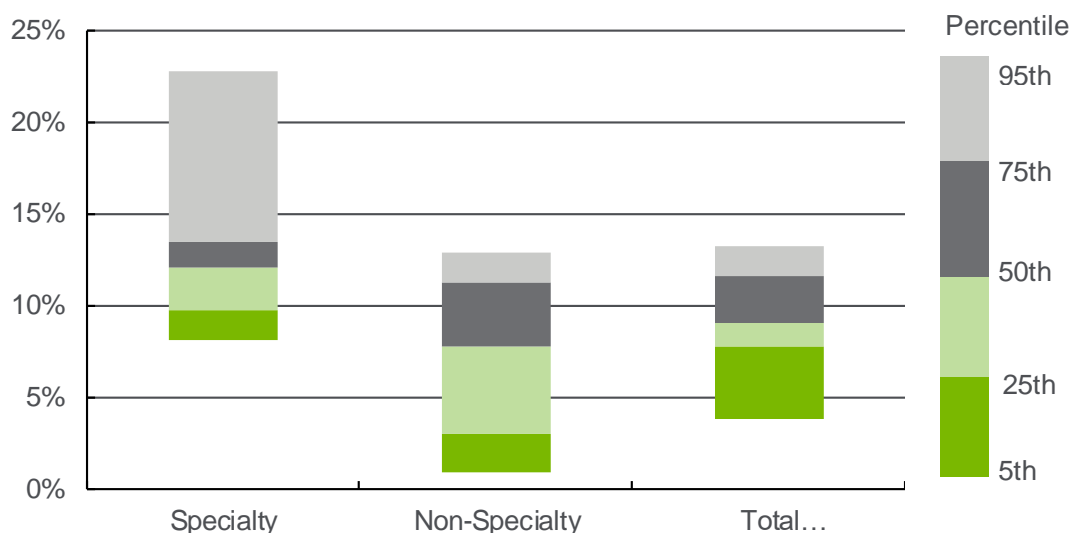


Potential unmanaged employer prescription drug costs were projected to grow by approximately 100% from 2014 to 2021, according to Aon's survey. Even though the specialty drug cost trend expectation has come down from 23% in 2015 to 12% in 2021, specialty drugs remain a primary driver of pharmacy trends, representing around 50% of prescription drug costs.

Combating these market dynamics are employers banding together to gain purchasing scale through prescription drug group purchasing coalitions. The Aon Rx Coalition (ARxC) now represents 370+ clients with more than \$4 billion in drug spend. By joining a purchasing coalition, such as the ARxC, employers gain improved purchasing power with leading pharmacy benefit managers (PBMs) that they cannot get on their own.

Prescription Drug Trends by Percentiles

While the average medical increase for renewals in 2021 is 7.3% when weighted by enrollment, there is a significant differential in the reported trend rates by carrier. The following chart illustrates the range of reported trends.



Prescription Drug Trend	Specialty	Non-Specialty	Total Prescription Drug
5th Percentile	8.1%	0.9%	3.8%
25th Percentile	9.8%	3.0%	7.8%
50th Percentile	12.1%	7.8%	9.1%
75th Percentile	13.5%	11.2%	11.7%
95th Percentile	22.8%	12.9%	13.2%

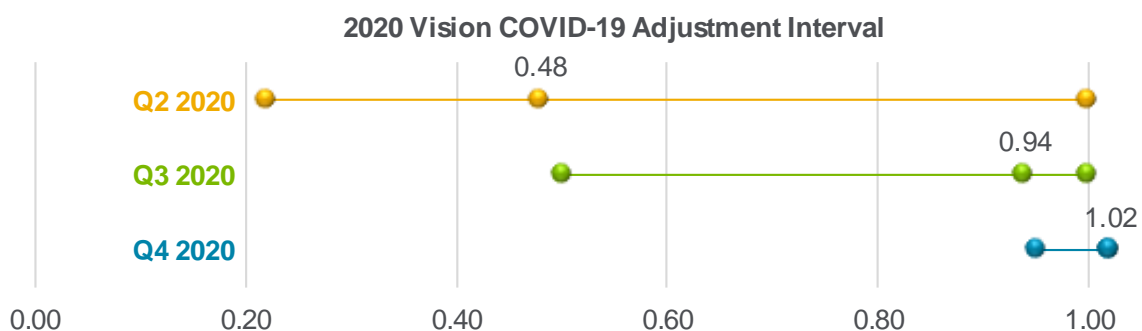
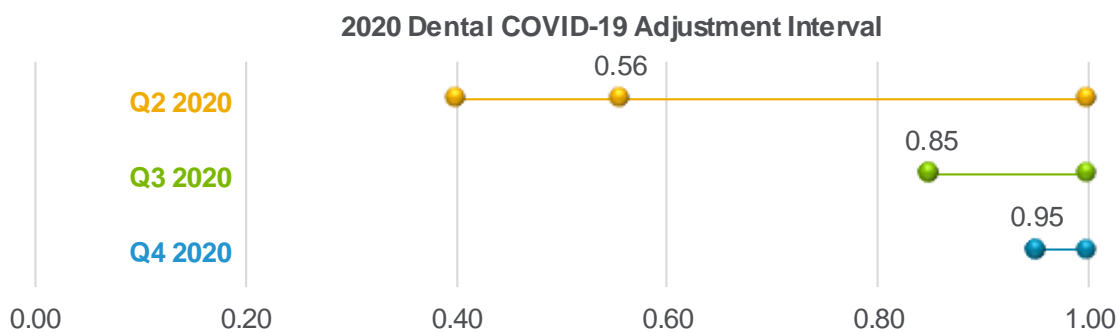
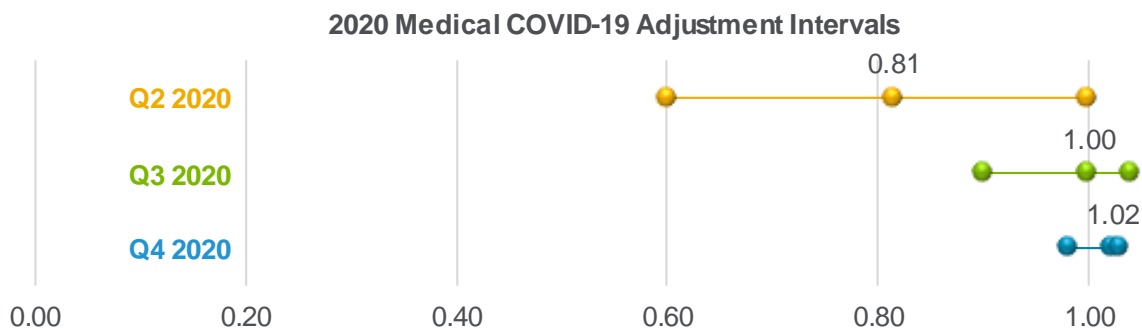
Net Effect of COVID-19 Impacts on 2020 Claims

For purposes of comparing actual 2020 claims experience to projected pre-pandemic 2020 claims experience, carriers provided the following claims adjustment factors by quarter. For example, Q2 2020 medical claims are estimated to represent 81% of pre-pandemic amount.

Incurred Claims	Medical	Prescription Drugs	Dental	Vision
Q2 2020	0.81	1.00	0.56	0.48
Q3 2020	1.00	1.00	0.85	0.94
Q4 2020	1.02	1.00	0.95	1.02

Note: These could vary significantly depending on a variety of factors, including company demographics, industry, plan design, and geography.

Although this list is not exhaustive, the factors shown above can encompass additional vaccination costs, additional provider cost pressure due to personal protective equipment (PPE)/safety measures, additional provider consolidation, changes to utilization patterns, deferral of services, reductions due to shift to telehealth, etc.



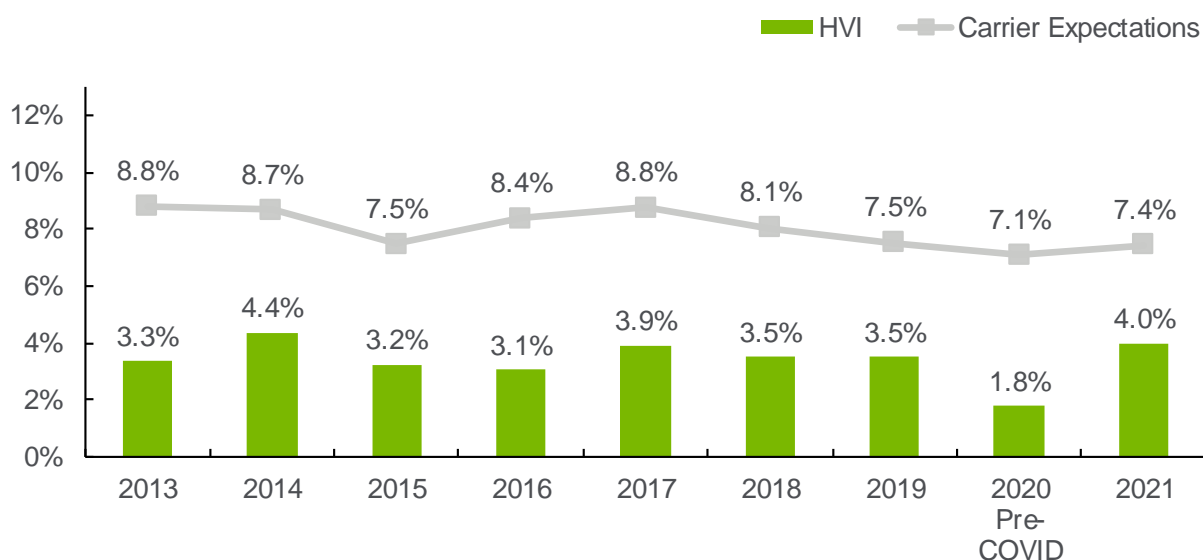
Employer-Realized Cost Increases

Employer's realized costs increases will differ from the carriers used trends for a variety of reasons.

Plan Design Changes	Changes in cost-sharing elements including copays, deductibles, and coinsurance
Vendor Optimization	Changes to vendors that presumably will lower costs
Cost Management Programs	Services such as prior authorization, medical management, and utilization management programs
Wellness Initiatives	Improvements in the overall health and productivity of the population
Network Optimization	Changes in networks including narrowing, ACOs, and other strategies
Underwriting Margins	Carriers may include provisions against adverse deviations as they are projecting trends compared to measuring actual experience
Administrative Fees	Included in actual employer premiums but not in carrier expectations
Utilization	Carriers expect higher increases in utilization of services than has been realized recently

Aon Employer Benchmarking

Aon's Health Value Initiative™ (HVI) database is the largest analysis of actual employer-based health plan results of its kind. The data captures health care cost and benefit data for more than 600 U.S. employers representing 5 million employees and \$64 billion in 2020 health care spend. The database indicates that employers experience a much lower cost increase over time when compared to expected trend rates from carriers for many reasons (some of which are highlighted above).



Note: The 7.4% carrier expectations trend for 2021 is developed based on an 80% medical/20% prescription drug weighting of the 7.5% medical/7.3% prescription drug carrier trends. The 2021 HVI trend represents a preliminary estimate, and 2020 values are on pre-pandemic basis.

Trend Rate History

Plan Type	2011	2012	2013	2014	2015	2016	2017	2018	2019	Winter 2020	Midyear 2020	2021
Medical—Actives & Retirees <65 (With Rx)												
▪ HMO	9.8%	8.8%	8.2%	7.9%	7.1%	8.1%	8.7%	8.2%	7.4%	N/A	N/A	N/A
▪ PPO	9.9%	9.2%	9.0%	9.0%	7.6%	8.4%	8.8%	8.0%	7.5%	N/A	N/A	N/A
▪ POS	10.0%	9.1%	8.4%	8.7%	7.6%	8.2%	8.5%	8.1%	7.7%	N/A	N/A	N/A
▪ Indemnity	10.1%	9.7%	9.2%	10.2%	8.8%	9.6%	10.4%	9.4%	8.6%	N/A	N/A	N/A
▪ HDHP	9.7%	9.0%	8.6%	7.7%	7.0%	8.5%	8.6%	8.0%	7.5%	N/A	N/A	N/A
Total	9.9%	9.1%	8.8%	8.7%	7.5%	8.4%	8.8%	8.1%	7.5%	7.1%	7.8%	7.4%
Medical—Actives & Retirees <65 (Without Rx)												
▪ HMO	10.1%	9.0%	8.3%	8.3%	6.8%	6.3%	7.8%	7.6%	6.9%	6.8%	N/A	6.3%
▪ PPO	10.0%	9.4%	9.0%	9.0%	7.0%	7.3%	7.5%	7.3%	6.9%	7.0%	N/A	7.6%
▪ POS	10.3%	9.4%	8.6%	8.5%	6.9%	7.0%	7.6%	7.5%	7.2%	7.1%	N/A	7.8%
▪ Indemnity	10.5%	9.8%	9.3%	10.1%	8.3%	8.3%	8.6%	9.0%	8.2%	8.2%	N/A	9.6%
▪ HDHP	9.8%	9.5%	8.8%	8.3%	6.9%	7.7%	7.6%	7.3%	7.0%	7.0%	N/A	7.6%
Total	10.0%	9.4%	8.9%	8.8%	7.0%	7.2%	7.6%	7.4%	7.0%	6.8%	7.8%	7.5%
Medical—Retirees Age 65+ (With Rx)												
▪ Medicare Supplement	6.5%	5.5%	4.3%	4.2%	3.0%	4.3%	4.8%	4.5%	4.5%	4.5%	N/A	4.8%
▪ Medicare Advantage	6.1%	5.9%	4.5%	3.0%	2.8%	3.3%	3.1%	3.6%	3.8%	3.8%	N/A	5.1%
Medical—Retirees Age 65+ (Without Rx)												
▪ Medicare Supplement	6.4%	5.9%	4.3%	3.8%	2.5%	4.3%	4.1%	3.7%	4.0%	4.0%	N/A	4.0%
▪ Medicare Advantage	6.0%	5.8%	4.4%	2.8%	2.5%	2.5%	2.4%	3.5%	3.6%	3.6%	N/A	4.4%
Prescription Drug												
▪ General (Total)	6.9%	6.5%	6.5%	6.3%	10.0%	12.5%	11.6%	10.2%	9.4%	8.4%	7.8%	7.3%
▪ Specialty	14.5%	14.8%	16.6%	18.2%	22.7%	19.8%	18.6%	18.3%	14.1%	11.9%	14.2%	12.2%
Dental												
▪ DHMO	4.0%	4.0%	4.1%	4.3%	3.9%	3.5%	3.4%	3.8%	3.4%	3.2%	3.6%	3.9%
▪ PPO	5.4%	5.0%	4.5%	4.9%	4.7%	4.1%	4.0%	3.8%	3.5%	3.3%	4.6%	4.8%
▪ Indemnity	6.0%	5.5%	5.6%	5.7%	5.7%	4.0%	3.8%	3.8%	4.3%	4.1%	5.2%	5.6%
Vision	3.6%	3.7%	3.5%	2.5%	2.5%	2.9%	3.0%	2.9%	2.2%	2.6%	1.6%	2.3%

Note: The 2020 and 2021 medical with prescription drug trends are developed based on an 80% medical/20% prescription drug weighting of separately provided medical and pharmacy carrier trends.

About This Report

Trend Rate Overview

The trend rates shown in this report represent national averages and are the predicted increases 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, and other factors. In addition, insured rate increases may be higher or lower than these trend rates based on an insurance company's profitability, the plan's claims-loss ratio, the plan design, insured demographics, and other factors. It is important to note that these trend rates might not be appropriate for use in many cases. Consultants should consider their specific client circumstances in selecting the appropriate trend rate. For example, standards such as ASC 715-60 and Actuarial Standards of Practice might dictate the use of alternative trend rate assumptions.

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.
- **Fixed-Dollar Leveraging**—Fixed-dollar leveraging is the cost added to a health plan by the subtraction of unchanging deductibles, copays, or out-of-pocket maximums from a trended claim amount. To illustrate this with an example, suppose a claim of \$5,000 increases by 10% in the next year to \$5,500 and a plan has a \$500 deductible that remains fixed. The net plan cost in this case increases from \$4,500 to \$5,000, or by a net trend of 11%. The fixed-dollar leveraging leads to the difference between the 11% and the 10%. Fixed-dollar leveraging has a significantly larger impact on consumer-driver health plans (CDHPs) than on other plan types.
- **Utilization**—This is the increase in the number of medical procedures performed in response to an aging population, new medical techniques, and more aggressive treatments of conditions.
- **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 2021 Carrier Trend Survey:

- Aetna
- Blue Cross and Blue Shield of Alabama
- Blue Cross and Blue Shield of Arizona
- Blue Cross and Blue Shield of Central New York
- Blue Cross and Blue Shield of Florida
- Blue Cross and Blue Shield of Illinois
- Blue Cross and Blue Shield of Michigan
- Blue Cross and Blue Shield of Montana
- Blue Cross and Blue Shield of New Mexico
- Blue Cross and Blue Shield of North Carolina
- Blue Cross and Blue Shield of Oklahoma
- Blue Cross Blue Shield of Texas
- Blue Cross and Blue Shield of the Rochester Area
- Blue Cross and Blue Shield of Utica-Watertown
- Blue Shield of California
- Capital Blue Cross
- CareFirst Blue Cross Blue Shield (DC/MD)
- Cigna
- CVS Health
- Davis Vision
- Delta Dental
- Dominion Dental Services, Inc.
- Express Scripts
- EyeMed Vision Care
- Health Partners
- Highmark Blue Cross Blue Shield of Central Pennsylvania
- Highmark Blue Cross Blue Shield of Delaware
- Highmark Blue Cross Blue Shield of Western Pennsylvania
- Highmark Blue Cross Blue Shield of West Virginia
- Horizon Healthcare of New Jersey
- Independence Blue Cross
- Medica Health Plans
- MetLife
- Optima Health Plan
- OptumRx
- Prime Therapeutics
- Regence Blue Shield of Washington
- Regence Group
- UnitedHealthcare
- Versant Health
- Vision Service Plan
- Ten other carriers who wish to remain anonymous

Contact Information

Edward Cwikla, FSA, MAAA, FCA

U.S. Chief Actuary
+1.847.442.3098
ed.cwikla@aon.com

Yuliya Kandratsenka, FSA, MAAA, FCA

Senior Vice President
+1.847.442.3336
yuliya.kandratsenka@aon.com

Carrie Brandine, FSA, MAAA

Vice President
+1.732.271.1763
carrie.brandine@aon.com

Daniel Gorman, FSA

Senior Consultant
+1.312.381.1730
dan.gorman@aon.com

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement, and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

The information contained herein and the statements expressed are of a general nature and are not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information and use sources we consider reliable, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Copyright © 2021 Aon plc