HMOs See Highest Rate Increases in Five Years, According to Aon Hewitt

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LINCOLNSHIRE, Ill., Nov. 30, 2010 /PRNewswire-FirstCall/ -- An analysis by Aon Hewitt, the human capital consulting and outsourcing solutions business of Aon Corporation (NYSE: AON), indicates that HMO plans will have the highest premium increases in five years.

According to Aon Hewitt proprietary data, derived from its Hewitt Health Resource™ (HHR)—a website that captures HMO rate information for 160 large companies representing approximately 1 million participants—average HMO rates for 2011 increased 9.8 percent after plan changes, negotiations and terminations. This is the highest rate increase since 2006 (10 percent). Final rate increases were 9.4 percent and 9.0 percent in 2010 and 2009, respectively.

Aon Hewitt believes a number of factors are contributing to high HMO premium costs. During the past few years, high deductible health plans (HDHP) and PPO plans—both of which generally have a lower premium price tag than HMO plans—have become increasingly popular among employees, particularly those who are younger, unmarried and generally healthy. HMOs, on the other hand, tend to provide richer benefits but at a higher cost, thus attracting individuals and/or families who may use health care more often or need more robust coverage. Having a higher mix of these plan participants in HMO plans raises the risk pool, which can drive costs higher. HMO plans have also been more aggressive in estimating the cost impact of some of the most immediate applications of health care reform—including covering children up to age 26, the elimination of certain lifetime and annual limits and covering preventive care at 100 percent.

"Employers continue to be successful in reducing HMO rate increases by a few percentage points through aggressive negotiations with health plans, changes in plan designs and employee cost sharing," said Jeff Smith, a principal and leader of Aon Hewitt's HMO rate analysis project. "Still, these increases have been very difficult for employers to absorb, particularly this year when many companies are focused on economic recovery and complying with health care reform. If HMO rates continue to outpace average health care cost increases, employers may elect to take even more aggressive steps in the coming years, such as eliminating HMO plans altogether."

According to recent Aon Hewitt data(1), this is a trend that has already begun to take shape. Fewer than half (47 percent) offered HMOs in 2010, compared to 58 percent in 2007.

HMO Rate Increases by Region

According to Aon Hewitt's data, final average HMO rate increases remain fairly consistent across regions. The Southeast region is likely to see the nation's highest rate increases at 12.5

percent, up from 8.6 percent in 2010. The West region is expected to have the lowest premium increases at 9 percent, down from 9.2 percent in 2010.

Click on the following link for HMO rate increases for active/pre-65 retirees by region from 2008 – 2011: http://aon.mediaroom.com/index.php?s=13

Difference in Cost Increases Among Various Health Plans Narrows

While cost increases for HMO plans remain higher than other health plans, the difference in costs is actually narrowing. According to Aon Hewitt, average cost increases for point-of-service (POS) and preferred provider organizations (PPO) plans are projected to be 8.5 percent in 2011. These numbers are up approximately 2 percentage points from last year, from 6.9 percent and 6.3 percent, respectively.

"HMO providers know they have to take steps to be competitive to compete with many of the other health plan options out there," said Tim Nimmer, Aon Hewitt's chief health care actuary. "Cost is obviously a big factor, which is why we see the rate of increases for these plans beginning to slow, while the rate of increases for other plans has risen."

Managing Costs Through Plan Designs

As rates increase, employers continue to tweak their HMO plan designs to share more of the cost with employees. Next year, workers are most likely to see these increases in the form of higher copays for primary and specialty care visits. Aon Hewitt's data shows that the number of companies offering $30 primary care office copays will increase to 13 percent in 2011, up from 5 percent in 2010. Conversely, the number of employers offering $20 primary copays is expected to drop to 36 percent in 2011, compared with 45 percent in 2010. Copays for specialty care are also increasing, as 20 percent of employers will offer copays between $45 and $80 in 2011, compared to just 10 percent in 2010.

"Companies are likely to make smaller but more frequent changes to their HMO plan designs in the next few years," added Smith. "This is particularly true for those employers with fully insured health plans that want to maintain grandfather plan status under health care reform in the next few years."

While copays are increasing, Aon Hewitt's analysis shows little change in prescription drug benefit designs. A $15 copay for retail generic drugs remains the most popular plan design choice, with 58 percent of employers offering it in 2011. There has, however, been a slight move toward higher formulary/non formulary copays over the last few years. According to Aon Hewitt's data, 14 percent of companies will offer a $35 copay for retail formulary drugs in 2011, up from 5 percent in 2010. Almost one in five (18 percent) will require a $55 to $80 copay for retail non formulary drugs in 2011, up from 10 percent in 2010.

"Workers have reached a breaking point with prescription drug prices," said Smith. "Employers realize that continuing to increase copays could likely lead to lower drug compliance, which may eventually mean higher medical costs and reduced productivity due to illness. We see an increasing number of companies adopting alternative strategies—such as subsidizing certain drugs under value-based plan designs—to actually encourage people to take care of their health."

About Aon Hewitt

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(1) Aon Hewitt's 2010-2011 SpecSummary database.