

KEY FINDINGS

HEALTHCARE COSTS RISE
MORE THAN 7 PERCENT FOR
U.S. EMPLOYERS IN 2009

EMPLOYER PRACTICE LEADERSHIP

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INTRODUCTION

During Inflation-Free 2009, Employers Experienced a Spike in Healthcare Costs

Average healthcare costs for U.S. employers increased 7.3 percent per capita in 2009, according to an analysis of medical claims data for 144 companies that provided health benefits to 9.5 million individuals from 2007 to 2009.

This increase is particularly striking given that the overall U.S. inflation rate, as measured by the Consumer Price Index (CPI), declined by 0.4 percent in 2009 – which was the first time since 1955 this index has seen an annual decrease.

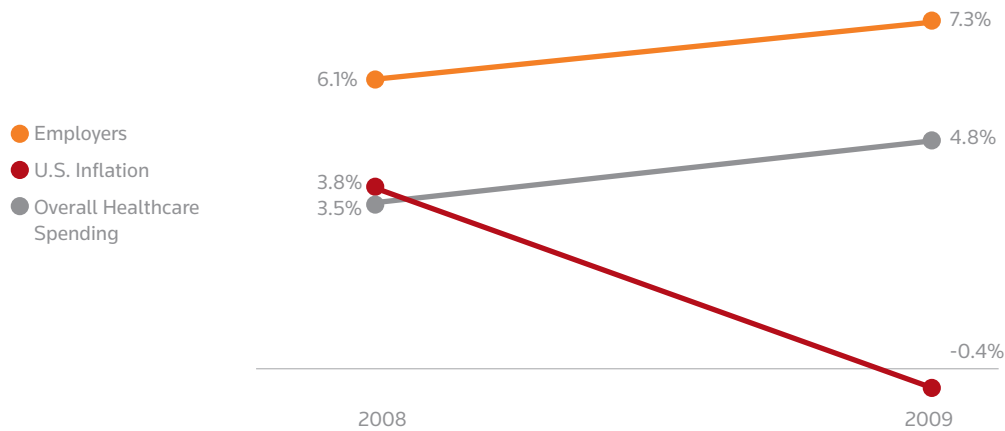
Employer costs represent one part of the nation's total healthcare spending. Overall, U.S. healthcare costs grew at a more modest 4.8 percent per capita in 2009, according to National Health Expenditures (NHE) data from the Center for Medicare and Medicaid Services Office of the Actuary.

The rate of healthcare inflation accelerated in 2009 for employers, increasing from 6.1 percent in 2008 to 7.3 percent in 2009. This followed more modest increases of 4.5 percent in 2006 and 4.7 percent in 2007, according to Thomson Reuters data.

The 7.3 percent spike experienced by U.S. employers means their net healthcare payments for active employees increased from \$3,113 to \$3,341 in 2009¹. This cost increase comes at a particularly difficult time for U.S. companies struggling through the worst economic downturn in decades.

Medical and pharmacy data used in the study are from the Thomson Reuters MarketScan® dataset.

FIGURE 1: U.S. Healthcare Cost Trends



¹ Net healthcare payments represent per capita employer costs after adjustment for healthcare provider discounts and employee out-of-pocket costs, but before offsets for employee premium contributions.

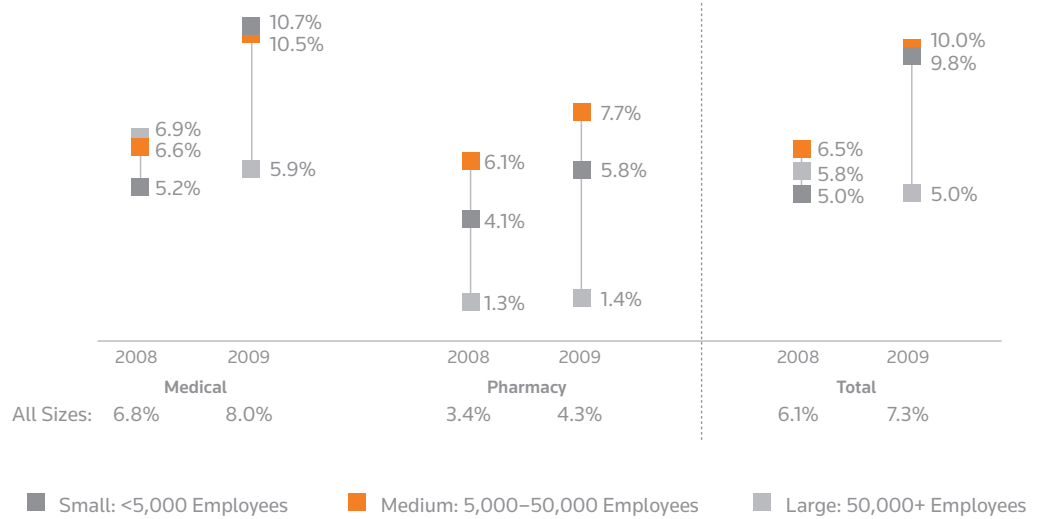
SMALL AND MIDSIZE EMPLOYERS HIT HARD

For large employers in the study, healthcare costs per capita rose at a slower rate in 2009 than they did in 2008. For small and midsize employers, they rose at a dramatically faster pace.

In fact, healthcare inflation hit small and midsize companies twice as hard as it hit large employers in 2009.

- Among small employers (less than 5,000 employees), healthcare costs increased 9.8 percent in 2009, nearly double the 5 percent rate seen in 2008.
- Medium-sized employers (5,000 to 50,000 employees) saw costs increase from 6.5 percent in 2008 to 10 percent in 2009.
- Among large companies (more than 50,000 employees) costs rose 5 percent in 2009 – a decrease from the 5.8 percent recorded in 2008.

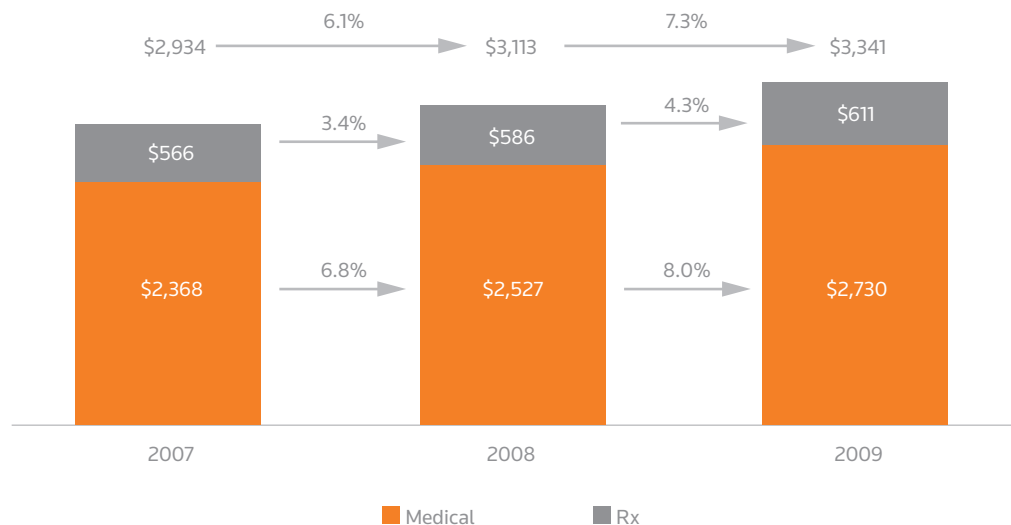
FIGURE 2: Cost Trends by Company Size



BEHIND THE TREND: INFLATION CONTINUES TO ACCELERATE FOR BOTH MEDICAL AND PHARMACY EXPENDITURES

In Figure 3, employer healthcare costs are divided into two categories: pharmacy costs and medical costs, which include inpatient and outpatient care. Medical costs Per Member Per Year (PMPY) accelerated 8.0 percent in 2009 – an increase from the 6.8 percent rate seen in 2008. Meanwhile, pharmacy spending PMPY increased 4.3 percent in 2009 – up from a 3.4 percent increase in 2008 despite a continued shift to generic drugs and the absence of new blockbuster brand drugs in 2009.

FIGURE 3: Employer Per Capita Net Costs



BEHIND THE TREND: INPATIENT AND OUTPATIENT COSTS

As noted below, overall net per capita medical payments increased 8.0 percent to \$2,730 in 2009. Figure 4 shows two components of this total, inpatient and outpatient costs:

- Net inpatient medical costs increased 4.7 percent to \$852 per capita in 2009. This increase was driven by a 6.8 percent increase in the per capita cost of a hospital admission and partially offset by a 2 percent decrease in the number of admissions per 1,000 individuals.
- Outpatient net costs increased by 8.7 percent to \$1,824 PMPY in 2009 and reflect relatively equal increases in the use and price of healthcare services. Outpatient services per 1,000 members increased 4.8 percent and net pay per outpatient service increased 3.8 percent.
 - Within the outpatient segment, facility costs increased 12.8 percent to \$808 and professional costs increased by 5.7 percent to \$1,017. (Figure 5)

FIGURE 4: Per Capita Net Medical Costs

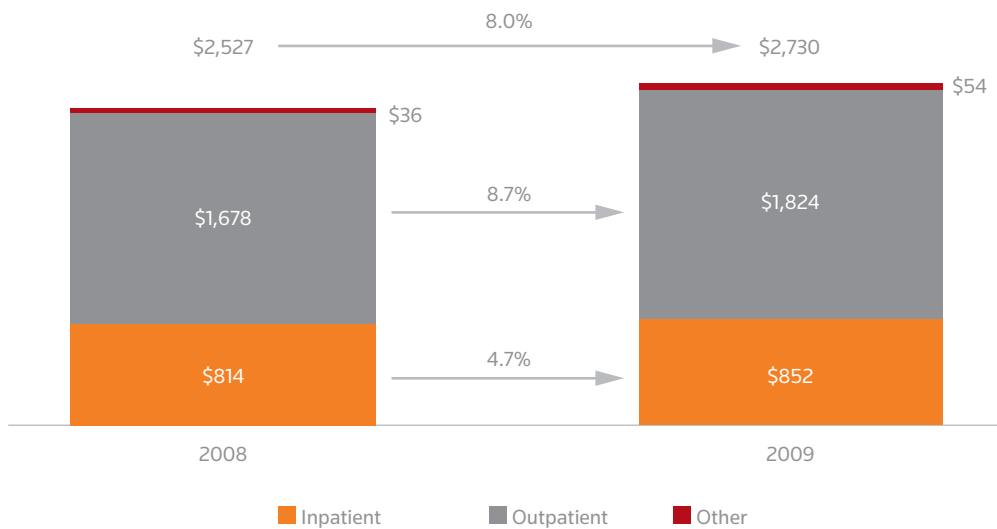
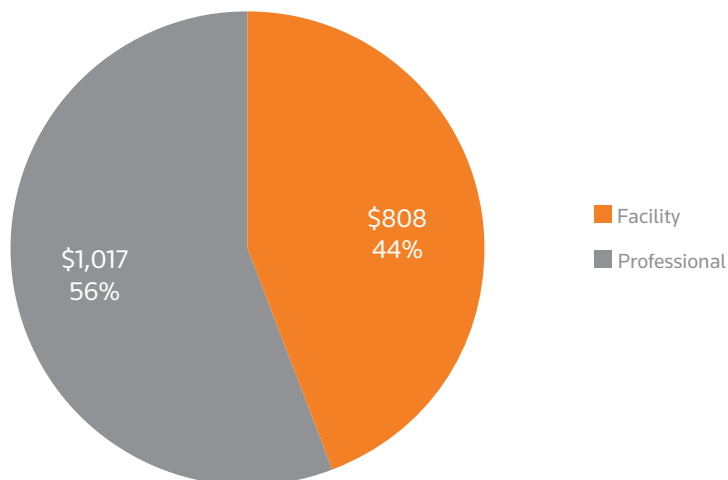


FIGURE 5: 2009 Per Capita Outpatient Costs

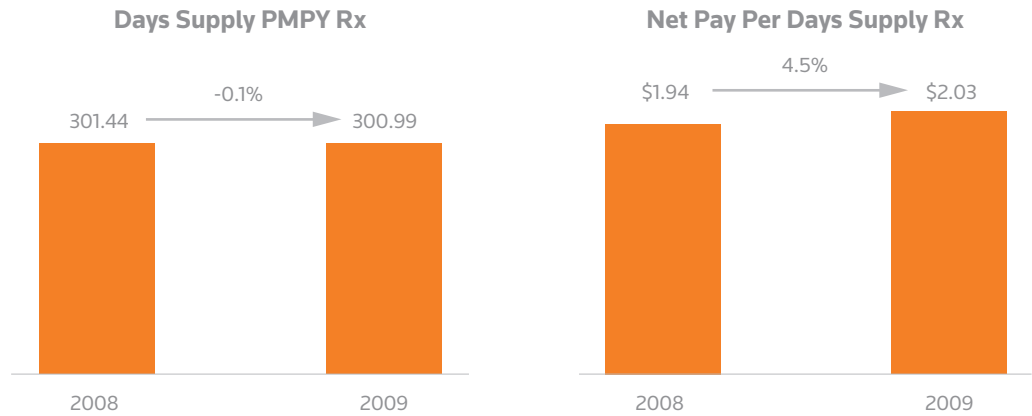


Emergency room costs continue to be an important component of the medical cost trend. In 2009, allowed ER costs increased 11.6 percent to \$133, reflecting a slight increase (0.5 percent) in ER visits per 1,000 members and an 11.1 percent increase in cost per visit.

BEHIND THE TREND: PHARMACY COSTS

Net pharmacy payments increased by 4.3 percent to \$611 per capita in 2009, driven primarily by a 4.5 percent increase in unit cost. Utilization declined 0.1 percent.

FIGURE 6: Net Pharmacy Costs



MARKETSCAN SEMI-ANNUAL EMPLOYER NORMS

The results in this paper were developed from a subset of the data collected for the *3rd Quarter 2009 MarketScan Semi-Annual Employer Norms Report*. The Semi-Annual Norms reflect the aggregated healthcare claims of more than 260 employers and 16 million active and retired employees included in Thomson Reuters MarketScan dataset. These normative results are based on eligibility and claims data paid through October 31, 2009.

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Thomson Reuters
777 E. Eisenhower Parkway
Ann Arbor, MI 48108 USA
Phone +1 734 913 3000

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