

# 2012 Global Medical Trends

## Survey Report

### Executive Summary

Across every market, rising employee medical costs have become a universal challenge for multinational organizations. Especially in countries that are scaling back on public health care and social programs, many employers are bridging the affordability and access gap. As a result, the cost of providing employee medical benefits has escalated in almost every region of the world.

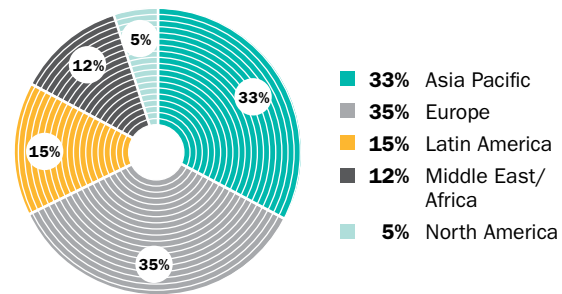
In some markets, these costs are exacerbated by fragmented systems, poor infrastructure and inefficiencies that drive up the use of care. In addition, rising health and lifestyle risks the world over — including increased obesity rates and smoking-related illnesses — have accelerated higher costs for employers. Aging populations also exacerbate the strain.

The question many multinationals now face is: How can we provide effective medical benefits and promote better workforce health, while also controlling costs?

### About the Survey

The Towers Watson Global Medical Trends Survey was conducted in January 2012 and reflects responses from 237 leading medical insurers operating in 48 countries (where insurers have representative market share). The number of insurers and countries participating in this survey continues to increase — this year's survey represents a nearly 40% increase in participating insurers and a 30% increase in the number of countries since 2008 — illustrating how rapidly the private health care industry is expanding worldwide and how popular health care coverage has become as an employee benefit.

### Participant profile



### Key Findings

The survey results show that:

- The average medical trend is 9.8% for 2011 and projected to be at a similar level for 2012.
- Aside from Europe, all regions are continuing to experience global medical trend rates rising at double-digit levels.
- While some countries are seeing rates stabilize, a number of growth markets in the Asia Pacific region and Latin America continue to face increases above 10%.
- While traditional cost management approaches still dominate, wellness interventions are growing, with insurers increasing their wellness capabilities through in-house or partner resources.
- The prevalence of employer-sponsored health benefits continues to grow rapidly across more countries and more health insurers.

## Medical Trends by Country

Although medical trend rates across most regions continue to rise, they are showing some signs of stabilizing compared with our survey findings from last year. Globally, insurers experienced an average trend of 9.8% in 2011, compared with 10.2% in 2009 (Figure 1).

### Asia Pacific

In Asia Pacific, we see steady increases from 2010 to 2011, and expect additional increases in 2012 in almost all countries. India continues to show one of the highest ascents in the region, as insurers not only try to adjust for increased utilization and provider costs, but also seek to effect market corrections to earlier pricing practices in which medical coverage was often heavily underpriced or subsidized by other lines of coverage. China expects continued high rates of increase at close to 10% in 2012, driven by employee demand for private health care as well as the expanding private insurer landscape. Even the more developed health care markets in Asia Pacific are not immune to rising medical trend rates: Singapore and Hong Kong are consistently seeing trend rates of 8% to 9%.

### Europe

Compared to other regions, Europe is currently seeing the lowest level of medical trend on both a gross and net-of-inflation basis. While one would expect some countries with austerity measures in place, such as Greece, to experience a lower medical trend, we are also seeing more unexpected countries, such as France, project lower trends in 2012 (down from 7.5%, to 6.2%). However, there are some markets where concerns remain. Russia's trend rate continues unabated at 12% for 2011 and 2012, due in part to the challenges faced in obtaining detailed claims and utilization data needed for plan management. The United Kingdom trend rate continues to grow and is expected to reach almost 10% in 2012.

### Latin America

Latin America continues to experience double-digit increases in most countries. Brazil, where the cost of private health insurance is the highest in the region, continues to project medical trend rates at 12% for 2011 and 2012. Similarly, in Central America, many markets (e.g., Costa Rica, Guatemala, Honduras and Panama) show trend rates at 11% to 12%. Private health care costs continue to rise rapidly in these markets, with health providers recognizing that while local costs are much lower than a trip to the U.S.

Figure 1. Global medical trends by region: 2009 – 2012

	Gross			
	2009	2010	2011	2012*
Asia Pacific	9.9%	9.6%	10.1%	10.2%
Europe	9.4%	9.0%	8.5%	8.1%
Latin America	11.6%	10.0%	10.4%	10.5%
Middle East/Africa	10.9%	9.8%	10.7%	10.0%
North America	10.8%	12.1%	11.4%	11.0%
Global	10.2%	9.6%	9.8%	9.6%

\*Projected

(which has historically been a destination for major surgeries for employees of multinational employers), there is room for these local costs to increase and still remain significantly lower than those in the U.S. Mexico was a market where we surprisingly saw a slight drop in the projected trend rate for 2012 compared to 2011. However, the Mexico trend rate is still projected at close to 9% for 2012. There are some outliers in the Latin America data, notably the Dominican Republic, which shows an extraordinary increase in projected trend rate of over 30%, presumably a short-term adjustment. In another aberration, Chile shows a significant drop in trend compared to 2009.

### Middle East and Africa

Medical cost trends in the Middle East and Africa are relatively stable at around 11% from 2010 to 2012. In South Africa, one of the most advanced countries worldwide in the use of wellness programs, the medical trend rate dropped to just above 8% (down from 12% in 2009). Most major locations in the Middle East are experiencing gross medical trend rates around 11%, including the United Arab Emirates and Saudi Arabia. The trend in Egypt is also 11%. However, unlike other countries, when inflation is taken out of the equation, Egypt's medical trend growth is, in fact, negative.

### North America

North America (including Canada and the U.S.) reports a trend of 11%. However, separate Towers Watson research\* indicates that leading employers in the U.S. are experiencing a much lower trend (6% to 8%). High cost pressures in the U.S. have been in place for some time, and this lower number may be the result of stronger health management initiatives finally paying off for employers. The trend in Canada appears to be dropping slightly for 2011 and 2012 — from 12.5% in 2009 to a projected level of 10.5% in 2012.

\*2012 Towers Watson/National Business Group on Health Employer Survey on Purchasing Value in Health Care, "Performance in an Era of Uncertainty"

Figure 2. Global average medical trend rates by country: 2009 – 2012

	Gross				Net**			
	2009*	2010	2011	2012 (Expected)	2009*	2010	2011	2012 (Expected)
<b>Asia Pacific</b>								
Bangladesh	–	15.50%	15.00%	16.00%	–	7.34%	4.86%	8.55%
China	10.10%	8.33%	9.25%	9.27%	10.80%	5.01%	3.75%	5.97%
Hong Kong	6.80%	9.44%	10.00%	9.78%	6.30%	7.13%	4.50%	5.28%
India	12.00%	12.67%	13.25%	13.00%	1.10%	0.68%	2.70%	4.41%
Indonesia	10.70%	11.10%	13.55%	13.95%	5.90%	5.97%	7.86%	7.48%
Malaysia	8.90%	9.75%	10.00%	10.10%	8.30%	8.05%	6.80%	7.60%
Philippines	10.00%	6.87%	7.23%	7.30%	6.80%	3.04%	2.70%	3.15%
Singapore	7.10%	8.68%	8.68%	8.40%	6.60%	5.86%	4.98%	5.50%
Taiwan	15.00%	9.67%	10.80%	11.00%	15.90%	8.70%	9.00%	9.20%
Thailand	8.80%	8.75%	8.20%	8.50%	9.60%	5.40%	4.19%	4.43%
<b>Europe</b>								
Belgium	7.80%	6.50%	6.25%	6.00%	7.80%	4.20%	3.09%	4.00%
Bulgaria	–	20.00%	5.00%	5.00%	–	16.96%	1.25%	2.06%
Cyprus	7.00%	5.00%	5.00%	5.00%	6.80%	2.44%	1.04%	2.60%
Czech Republic	–	6.50%	5.75%	5.50%	–	5.04%	3.95%	3.50%
Denmark	–	7.00%	6.25%	6.50%	–	4.70%	3.05%	4.10%
Estonia	–	20.00%	15.00%	20.00%	–	17.11%	9.86%	16.50%
France	6.50%	6.00%	7.50%	6.17%	6.40%	4.26%	5.35%	4.82%
Greece	9.80%	7.56%	6.50%	5.00%	8.50%	2.86%	3.62%	3.97%
Hungary	–	7.00%	6.75%	6.00%	–	2.15%	3.05%	3.00%
Ireland	12.00%	8.00%	8.00%	8.00%	13.70%	9.56%	6.88%	7.36%
Italy	8.30%	7.50%	7.25%	7.00%	7.50%	5.86%	4.64%	5.36%
Netherlands	5.00%	7.00%	6.75%	6.00%	4.00%	6.07%	4.25%	4.00%
Norway	–	9.50%	9.25%	9.00%	–	7.10%	7.59%	6.83%
Poland	–	8.50%	7.75%	6.50%	–	5.92%	3.72%	3.68%
Portugal	5.90%	3.85%	7.89%	8.25%	6.80%	2.46%	4.45%	6.14%
Romania	–	5.00%	8.50%	9.00%	–	–1.11%	2.13%	4.74%
Russia	18.30%	14.17%	12.17%	12.17%	6.70%	7.31%	3.30%	4.88%
Sweden	–	14.00%	13.50%	11.50%	–	12.09%	10.50%	9.00%
Turkey	–	7.84%	9.57%	9.29%	–	–0.73%	3.55%	2.42%
United Kingdom	9.30%	8.50%	9.63%	9.88%	7.10%	5.16%	5.11%	7.44%
Ukraine	–	11.00%	8.50%	8.25%	–	1.63%	–0.79%	–0.81%

\*2009 rates are drawn from the 2011 Global Medical Trends Survey.

\*\*Net of general inflation

Figure 2. Global average medical trend rates by country: 2009 – 2012 (cont.)

	Gross				Net**			
	2009*	2010	2011	2012 (Expected)	2009*	2010	2011	2012 (Expected)
<b>Latin America</b>								
Bahamas	–	10.00%	10.00%	11.00%	–	8.98%	7.50%	9.00%
Brazil	10.40%	11.00%	12.00%	12.00%	5.50%	5.96%	5.41%	6.85%
Cayman Islands	–	10.00%	10.00%	11.00%	–	9.70%	6.60%	–
Chile	13.90%	6.75%	6.43%	6.00%	12.30%	5.23%	3.33%	2.90%
Costa Rica	10.00%	11.50%	11.00%	12.00%	2.20%	5.84%	5.73%	5.23%
Dominican Republic	–	35.00%	33.00%	35.00%	–	28.70%	24.66%	28.75%
Guatemala, El Salvador, Honduras, Nicaragua and Belize	–	11.00%	11.00%	12.00%	–	7.45%	4.76%	6.00%
Mexico	10.70%	8.31%	9.09%	8.77%	5.40%	4.16%	5.72%	5.65%
Panama	8.30%	10.00%	11.00%	11.50%	5.80%	6.51%	5.29%	8.00%
<b>Middle East/Africa</b>								
Egypt	13.30%	12.00%	10.50%	11.00%	–3.00%	0.30%	–0.57%	–0.32%
Qatar	–	10.50%	10.50%	10.83%	–	12.93%	8.16%	6.72%
Saudi Arabia	12.00%	8.67%	10.33%	11.33%	6.90%	3.31%	4.93%	6.02%
South Africa	12.50%	8.45%	8.97%	8.25%	5.40%	4.18%	3.04%	3.25%
Tunisia	–	11.17%	23.69%	12.00%	–	6.73%	20.20%	8.00%
United Arab Emirates	10.30%	11.17%	11.50%	11.00%	9.00%	10.29%	8.98%	8.54%
<b>North America</b>								
Canada	12.50%	12.60%	11.26%	10.46%	12.50%	10.82%	8.36%	8.39%
United States	9.10%	10.75%	11.50%	11.83%	9.10%	9.10%	8.51%	10.62%

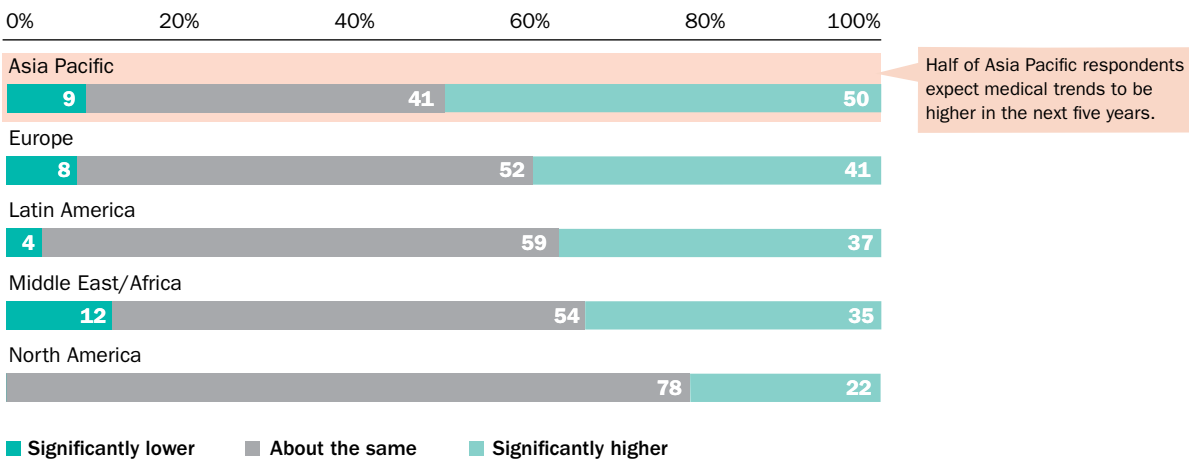
\*2009 rates are drawn from the 2011 Global Medical Trends Survey.

\*\*Net of general inflation

## Expected Rate of Future Medical Trend

Across all regions, the number of respondents that expect medical trend rates to be somewhat or significantly higher in the next five years has dropped, perhaps evidence of the global economic slowdown and its natural impact on medical trend. Nevertheless, the underlying theme remains that trend rates are expected to continue rising, just less quickly than in the past. Very few insurers expect to see lower medical trends in the next five years.

**Figure 3. How do you expect medical trend to change over the next five years?**



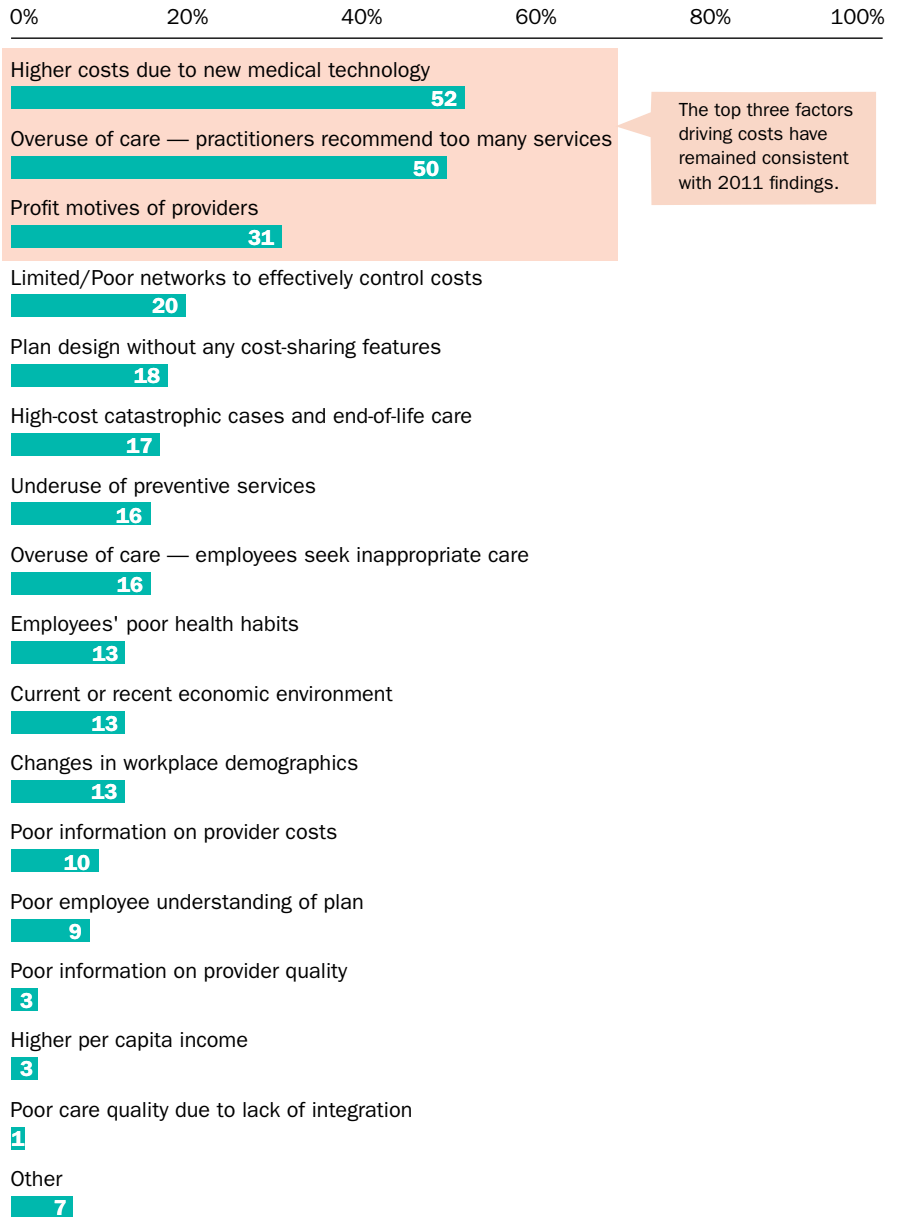
## What's Driving Medical Cost Increases?

A variety of factors can contribute to shifts in health care cost trends. While some are more specific to certain markets and regions than others, many are experienced universally. The top three cost drivers have remained consistent with 2011 findings — new medical technology, overuse of care caused by practitioners recommending too many services, and providers' profit motives (*Figure 4*).

In addition, a number of insurers cited underuse of preventive services as a factor driving costs — highlighting a hidden opportunity for employers. Preventive services can include easy-to-implement programs, such as health risk assessments and biometric screenings, and can provide a direct route to better employee health and long-term savings.

Employees seeking inappropriate care, maintaining poor health habits, and having a limited understanding of their health plan services and coverage are also cited as driving factors and may contribute to a larger portion of costs than many employers realize. Some of these factors — for instance, poor health habits — are likely to result in greater cost increases in the long run. Many of these issues can be curbed before they become more significant by embracing a holistic organizational health and wellness program, accompanied by a robust communication and education strategy, to engage employees and encourage them to take a more active role in their own health.

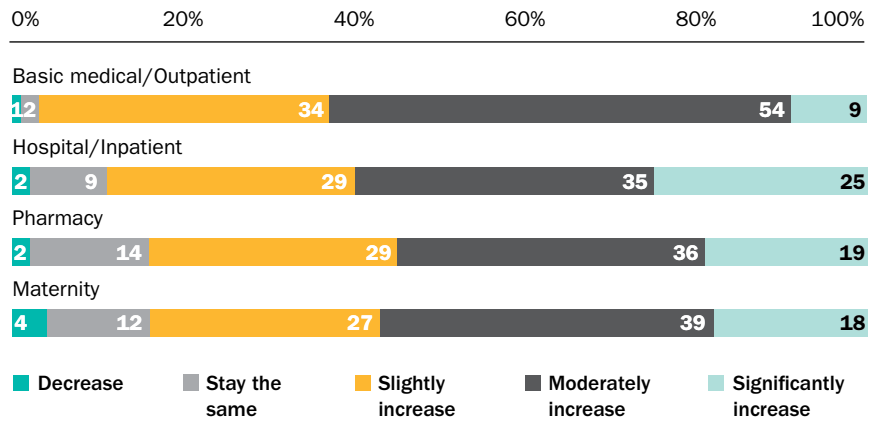
**Figure 4. What are the three most significant factors driving medical costs?**



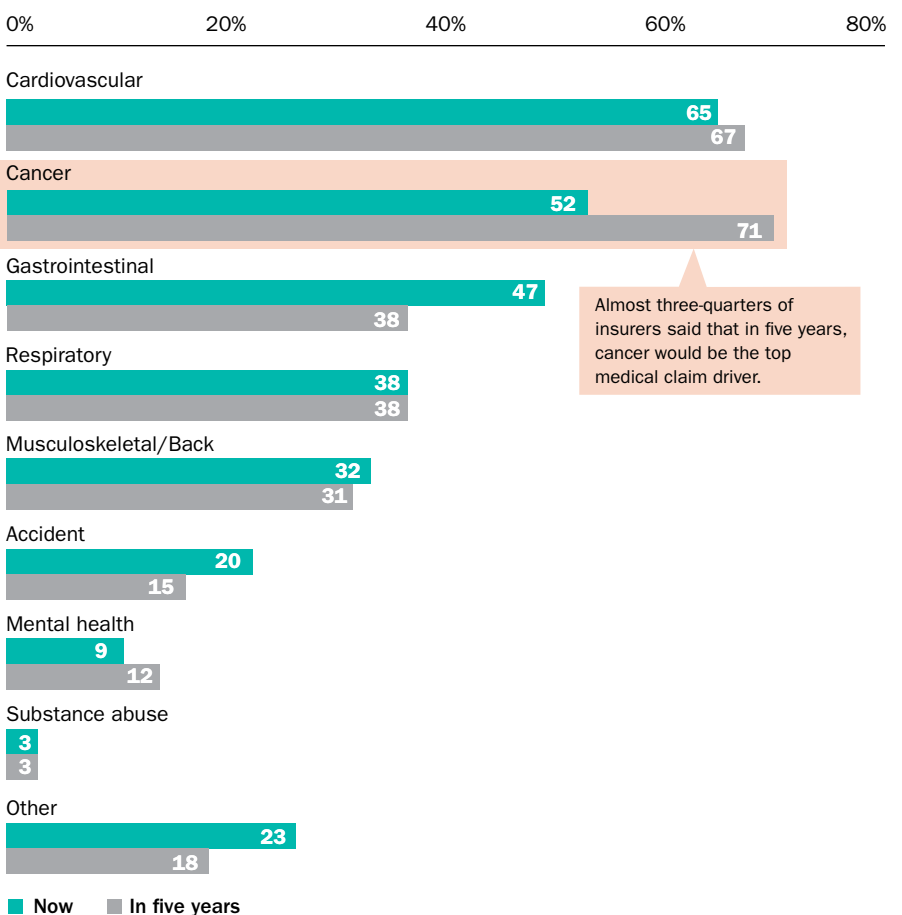
The greatest percentage of respondents (25%) say that medical/inpatient claims will experience the highest cost increases in the next five years, compared to other top service categories (basic outpatient care, maternity and pharmacy) (Figure 5). Cardiovascular disease (Figure 6) remains the top medical condition driving claims (as in 2011), but in five years, most insurers expect cancer to replace it in first place. Heart disease also continues to be the leading cause of death globally (the cause of 12.8% of deaths worldwide\*), according to the World Health Organization, and that includes high-income (15.6% of deaths) and middle-income (13.7%) countries. Research also shows that major developing markets, such as India and China, are seeing a steep uptick in diseases relating to lifestyle, traditionally a problem for more developed countries.

In Latin America, cancer is already the leading condition driving claims, while musculoskeletal conditions appear in the top three in both Europe and North America (Figure 7).

**Figure 5. How do you expect expenses related to the following service categories to change over the next five years?**



**Figure 6. What are the top three conditions that cause the highest prevalence of claims?**



**Figure 7. What are the top three conditions that cause the highest prevalence of claims (by region)?**

	Asia Pacific	Europe	Latin America	Middle East/Africa	North America
1	Cardiovascular	Cardiovascular	Cancer	Cardiovascular	Gastrointestinal
2	Gastrointestinal	Musculoskeletal	Cardiovascular	Cancer	Cardiovascular
3	Cancer/Respiratory	Cancer	Gastrointestinal	Respiratory	Musculoskeletal

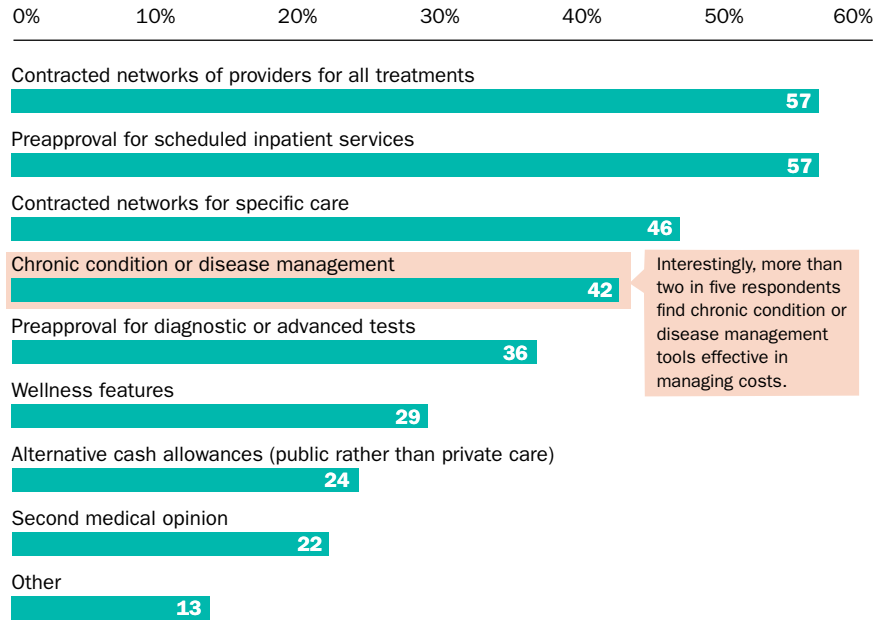
\*Factsheet, "The Top 10 Causes of Death," June 2011, World Health Organization

## How Are Insurers Managing Medical Cost Increases?

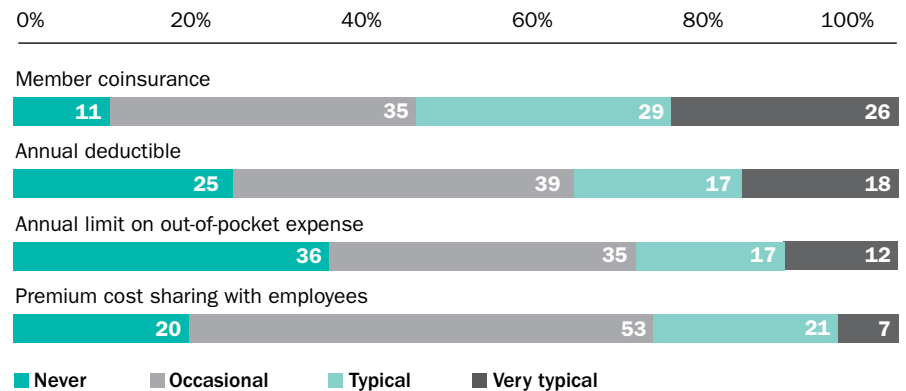
The most popular methods of medical cost management remain contracted provider networks and preapproval for inpatient services (Figure 8). We are also seeing some less traditional methods begin to make their presence felt, for instance, chronic condition or disease management, which can strike at the root causes of poor employee health. It is also interesting to note that wellness programs are employed by 29% of respondents.

When it comes to cost sharing (Figure 9), the use of coinsurance has increased for employers, with 55% of all insurers reporting the use of coinsurance as typical or very typical, compared to 41% in 2011. In addition, we have seen premium cost sharing with employees become more common globally, with a prevalence of 28%, compared to 16% in 2011. While these methods may encourage employees to be more judicious in their use of care, it is important to note that they alone are not likely to be as successful in improving an organization's health in the long term.

**Figure 8. What are the most effective tools you employ for managing medical costs?**



**Figure 9. How typical are the following cost-sharing approaches for the medical products you offer?**





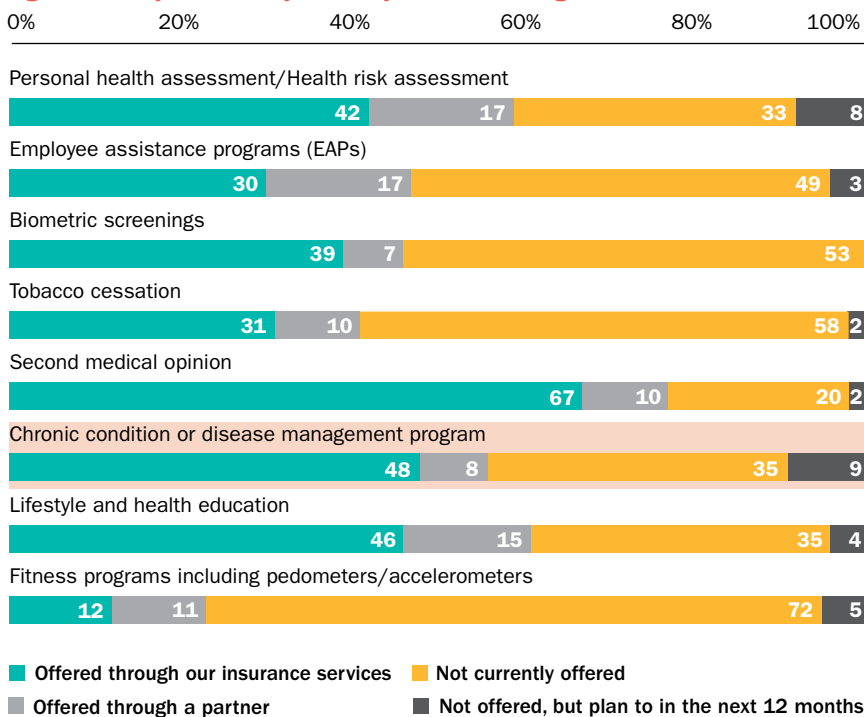
## Health Promotion

Many insurers cite the use of wellness programs, which encourage employees to get involved in improving their own health, to help reduce medical claims and manage costs. Still, many employers struggle to find vendors that can provide wellness services on a global or regional basis.

While a large number of insurers partner with providers to offer wellness features, an increasing number are looking to provide their own preventive services in addition to their more typical medical insurance

products. The most common prevention feature offered globally remains the second medical opinion, which is offered by nearly 80% of all respondents (both in-house and through a partner). Health risk assessments and chronic condition/disease management programs are also becoming more commonplace, with more than 50% of respondents now offering these programs. Insurers based in North America or Europe are more likely to offer a wide range of wellness features than those in Asia Pacific or Latin America.

**Figure 10. Do you currently offer any of the following wellness features?**



Over a third still do not offer chronic condition or disease management programs.

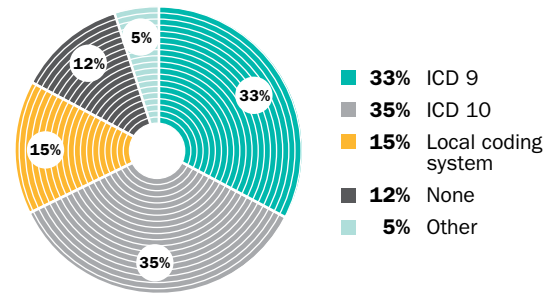
## Claim-Coding System

Historically, obtaining consistent medical claim data has been very difficult on a global basis. This year, we asked participants to comment on the claim-coding system they use to adjudicate medical claims. While we saw 68% of all participants (*Figure 11*) confirm using one of the recognized International Classification of Diseases (ICD) claim-coding systems (ICD 9 or 10), interestingly, almost a third of insurers said that they do not use any internationally recognized system, preferring to use either a local-country-derived system or none at all. Until this changes, it appears that consistent claim data reporting is still a long way from being realized for multinational employers.

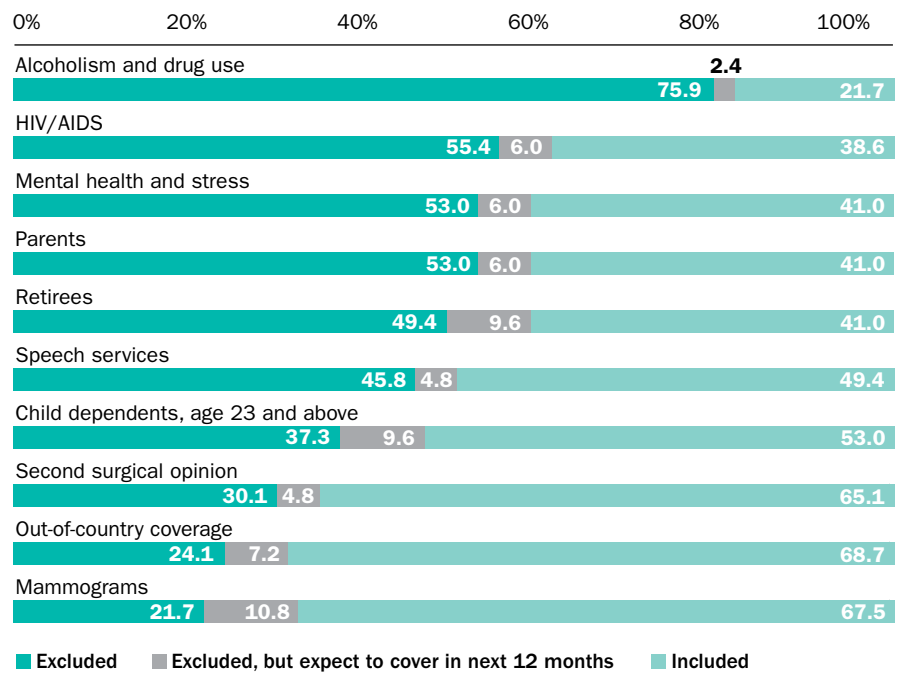
## Exclusions

Some traditional exclusions to coverage (*Figure 12*) are being removed from employer medical programs globally. This is being driven by a variety of factors, including increased government regulation, reduced social program coverage, increased use of wellness features and growing employee demand. Nevertheless, a large number of insurers continue to apply exclusions, for instance, for claims related to alcoholism and drug use (over 75%) and HIV/AIDS (55%). In addition, despite the growing belief that stress is one of the leading risk factors for multinational employers, over half of participating insurers currently exclude mental health and stress from their standard medical insurance programs.

**Figure 11. What claim-coding system do you use to adjudicate medical claims?**



**Figure 12. Typical medical insurance program exclusions**



## Conclusion

While the sharp upward growth in medical cost trends has stabilized in some markets to a certain extent this year, employers will feel little relief anytime soon. In both developed and emerging markets, the cost of providing medical care will continue to rise, driving forward-looking employers to look for innovative ways to alleviate their burden. Scaling back on plans is not a viable option — not only might this lead to exacerbated health issues, resulting in even higher costs, it could also cause attraction and retention problems in a growing number of markets where employer-sponsored health benefits are a key factor and could provide a crucial edge in the war for talent.

Traditional methods of medical cost management are still dominant globally. However, these measures can take an employer only so far in managing medical costs. From this survey, we see that insurers are increasingly leveraging health promotion strategies to help improve outcomes and meet employer needs. At the same time, employers are looking for faster access to higher-quality data from their insurers that will help them design appropriate health interventions, and help educate employees and, ultimately, change risky employee behavior.

It is clear that the employer focus on wellness is strengthening. But this movement is a steady rather than a rapid progression. The path to an effective health promotion strategy will require greater access to wellness intervention services from providers, as well as the removal of some legacy policy exclusions.

## For more information

To learn more about global medical trends and approaches to cost management, please contact your Towers Watson consultant or:

**Francis Coleman**

+1 818 623 4529

francis.coleman@towerswatson.com

**Nicole Serfontein**

+1 703 258 8286

nicole.serfontein@towerswatson.com

## About Towers Watson

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management.