



TREND REPORT

2016 Trends *in* Health Care





INTRODUCTION

Each year, your organization makes the decision to offer quality health benefits to your employees. This investment not only shows you care about the well-being of your employees, but also that you're committed to attracting and retaining the best talent in a competitive marketplace. Ultimately, what's important is understanding whether or not your investment is sound.

The *M3 Trend Report* is an annual publication that examines health benefit plans and demonstrates actual trends in the Wisconsin marketplace. It provides readers an overview of overall trends and distinct factors such as region, employer size, and sector.

This annual report will allow you to compare your plan to others in the marketplace. Are the structure, cost and benefits associated with your plan in line with those of your peers? Review the data to find out.

OVERVIEW

In 2016, health plan premiums grew at an overall rate of 6.7 percent. Although this is the second-highest rate of change since 2011, it does mark a slowdown in the rate of change. This is a benefit of the reduction in insurer fees under the Affordable Care Act (ACA), coupled with stable insurance company pricing "trend" as the health sector continues to mirror the tepid general economic recovery. M3 clients experienced an average premium change of 6.7 percent in 2016, compared to 7.1 percent in 2015.

Benefit plan design changes remain instrumental in restraining costs, especially in the public sector. Through such changes, M3 public sector clients held cost increases to 5.6 percent compared to 6.9 percent for private firms. The overall annual average cost per employee fell to \$12,533 in 2016, down modestly from \$12,811 in 2015 (partly due to the emergence of "minimum value" plans for ACA affordability).

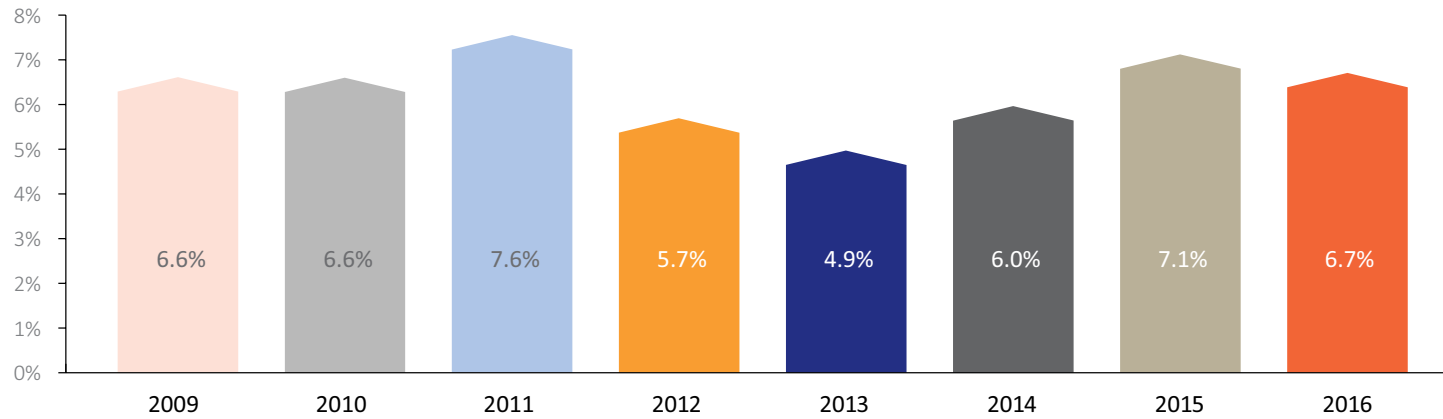
The change in employee and employer contributions was more pronounced than in recent years with the public sector outpacing the private firms. The rates per sector are as follows:

- Private sector single employees contributed 26 percent of the total cost (\$144 per month) in 2016, close to last year's share (25 percent and \$132). Families contributed 32 percent of the total cost (\$515) in 2016, a more significant change from 2015 (30 percent and \$479).
- Public sector employees saw much greater changes. Single plan contributions grew to 14 percent (\$101 per month) compared to 10 percent (\$74) last year, while family coverage increased to 14 percent (\$237) compared to 11 percent (\$179) in the previous year.

Further examination of the data suggests organizations are continuing to rely on benefit plan design changes in tandem with increased employee contributions to help moderate costs.

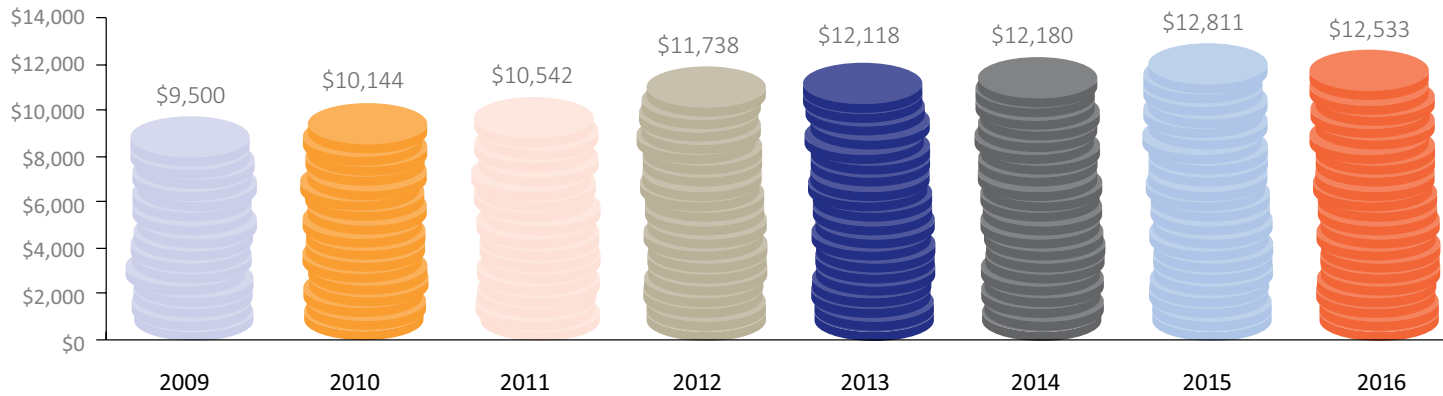
ANNUAL INCREASE IN HEALTH BENEFIT COST

Per Employee



AVERAGE ANNUAL HEALTH BENEFIT COST

Per Employee



PLAN DESIGN

2016 saw some moderation of the change in private sector employee cost sharing, but marked another year of appreciable increases in public sector employee cost sharing. This is consistent with the overall cost trend previously noted. Highlights from the year include:

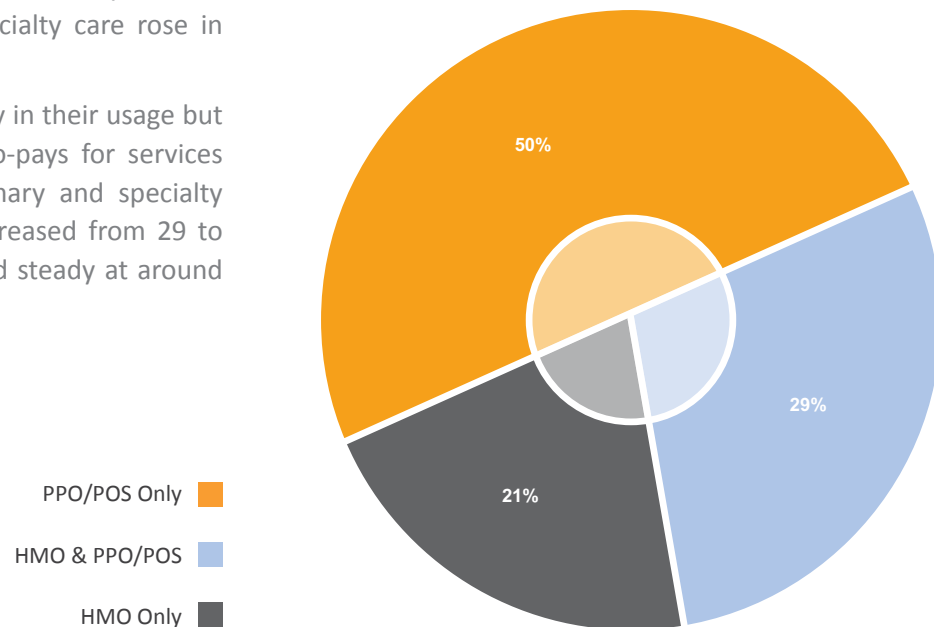
- Preferred Provider Organization (PPO) plan deductibles rose by only 7 percent on average for private sector clients but, swelled by 38 percent for public sector employers.
- Public sector plans also experienced a more significant growth in out-of-pocket expenses. Private sector PPO out-of-pocket maximums actually held steady overall, public sector employees saw theirs grow by nearly 31 percent.
- Private sector co-pays for services such as primary care office and emergency room visits held steady in both magnitude and prevalence, but specialty care rose in magnitude by nearly 33%.
- Public sector co-pays also held steady in their usage but their amounts continued to rise. Co-pays for services such as physician office visits (primary and specialty care) and emergency room care increased from 29 to 48 percent while their existence held steady at around 70 percent.

The table “Primary Benefit Plan Parameters for the Private and Public Sectors” provides averages for the most popular benefit plan design features along with their prevalence.

M3 clients continue to offer a wide variety of plan designs to their employees to provide flexibility and choice, and to further offset cost increases. 21 percent of M3 clients offered a Health Maintenance Organization (HMO) plan only (up from 18 percent in 2015); 50 percent offered PPO or Point of Service (POS) plan(s) only (same as last year); and 29 percent offered a combination of HMO and PPO/POS plans (down slightly from 30 percent in 2015).

TYPE OF HEALTH BENEFIT PACKAGE OFFERED

Percentage of all M3 Clients



PRIMARY BENEFIT PLAN PARAMETERS FOR THE PRIVATE AND PUBLIC SECTORS

	PPO/POS		HMO	
	Private	Public	Private	Public
In-Network Deductible	\$1,700	\$1,783	\$1,708	\$1,345
% of Plans with Deductible	86%	87%	79%	63%
In-Network Co-Insurance	90%	91%	90%	92%
% of Plans with Co-Insurance <100%	56%	41%	54%	43%
In-Network Out-of-Pocket	\$2,628	\$2,379	\$2,652	\$2,017
% of Plans with Out-of-Pocket	96%	94%	94%	87%
Office Visit Co-Pay	\$26	\$23	\$26	\$23
% of Plans with Office Visit Co-Pay	65%	69%	73%	73%
Specialist Visit Co-Pay	\$53	\$46	\$51	\$44
% of Plans with Split Office Visit Co-Pay	32%	31%	32%	33%
Emergency Room Co-Pay	\$146	\$138	\$136	\$117
% of Plans with Emergency Room Co-Pay	70%	80%	76%	87%
Urgent Care Co-Pay	\$56	\$47	\$50	\$40
% of Plans with Urgent Care Co-Pay	61%	67%	69%	77%
Generic Rx Co-Pay	\$9	\$8	\$9	\$8
% of Plans with Generic Dollar Co-Pay	98%	98%	97%	96%
Preferred Brand Rx Co-Pay	\$30	\$25	\$28	\$28
% of Plans with Preferred Brand Dollar Co-Pay	92%	91%	94%	87%
Non-Formulary Rx Co-Pay	\$53	\$46	\$51	\$49
% of Plans with Non-Formulary Dollar Co-Pay	90%	87%	85%	87%

HIGH-DEDUCTIBLE PLANS

For purposes of this report, a “high-deductible plan” is defined as being equal to or greater than the current IRS requirement (\$1,300), but should not be confused with the statutorily defined “High-Deductible Health Plan” (HDHP); which is subject to several additional regulatory parameters and is typically used in conjunction with a Health Savings Account (HSA).

2016 saw yet another increase in the offering of high-deductible plans as exhibited by these statistics:

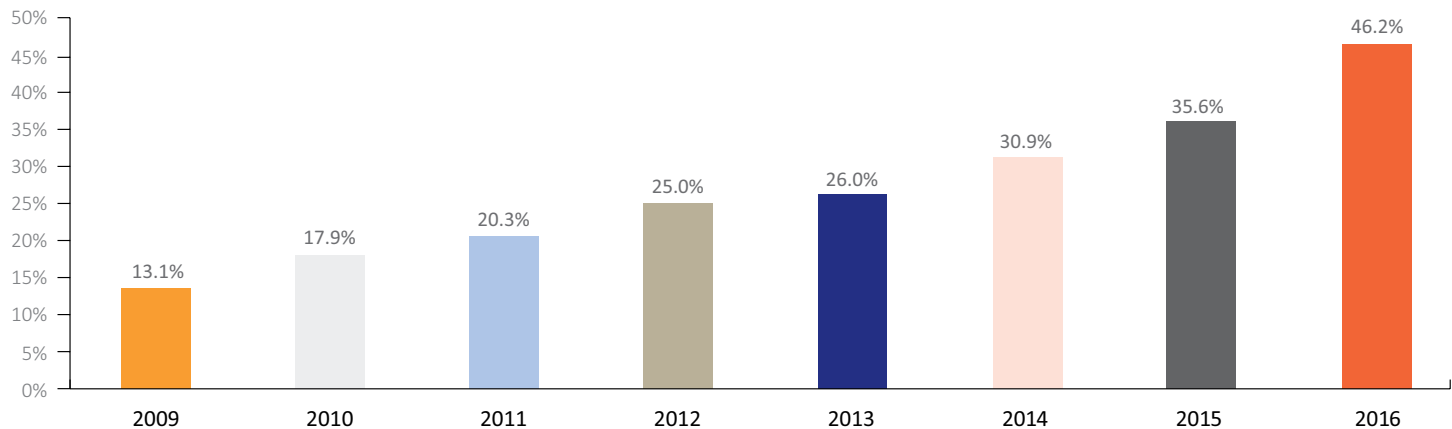
- The total number of high-deductible plans offered by M3 clients rose sharply to over 46 percent of all plans, as compared to 36 percent for 2015; the largest yearly change since 2010.

- The percentage of employees actually enrolled in a high-deductible plan grew significantly up to 43 percent, an increase from the 29 percent seen in 2015. If the greater Madison region is omitted, the percentage of high-deductible enrollment is 48 percent (nearly unchanged from 49 percent in 2015).

While the ongoing employer migration to high-deductible plans is consistent with the trend for higher employee cost sharing in general, it also reflects efforts to ensure an “affordable” option is available for employees under ACA requirements.

HIGH-DEDUCTIBLE PLANS

Percentage of all M3 Designs



COSTS

PUBLIC VS. PRIVATE SECTORS

For the fifth successive year the average public sector cost per employee grew slower than the private sector. Public sector plans grew on average by only 5.6 percent while their private sector counterparts saw cost increases averaging 6.9 percent. Some of this difference is due to benefit plan design changes.

- The average public sector annual cost per employee fell slightly to \$16,113 in 2016 from \$16,788 in 2015.
- The 2016 private sector average annual cost per employee fell to \$11,607 from \$11,811 in 2015.

Though increases were smaller, public sector plan costs themselves continued to exceed those of the private sector.

Data from the past several years shows that insurance benefits offered in the public sector continue to behave more like plans offered by private sector employers. Public sector employees are now being asked to shoulder a greater share of health care costs, both in the premiums they pay and their out-of-pocket costs when receiving care.

PUBLIC VS. PRIVATE PLANS

Average Annual Cost Per Employee



Due to richer benefits packages, health plans for the public sector have been consistently more costly than private sector plans over time.

EMPLOYER SIZE

2016 saw some variation in cost changes among employers of different sizes, and the pattern was generally consistent with past years.

- < 99 Small employers with 99 or fewer employees experienced the largest cost increases at 6.9 percent, a moderation from 2015's increase of 7.2 percent.
- 100 to 249 Mid-size employers of 100-249 employees displayed cost increases of 6.8 percent as compared to 6.9 percent in 2015.
- > 500 The largest employers, those with 500 or more employees, saw an overall cost change of only 5.0 percent compared to 7.1 percent in 2015.

SELF-FUNDED VS. FULLY INSURED

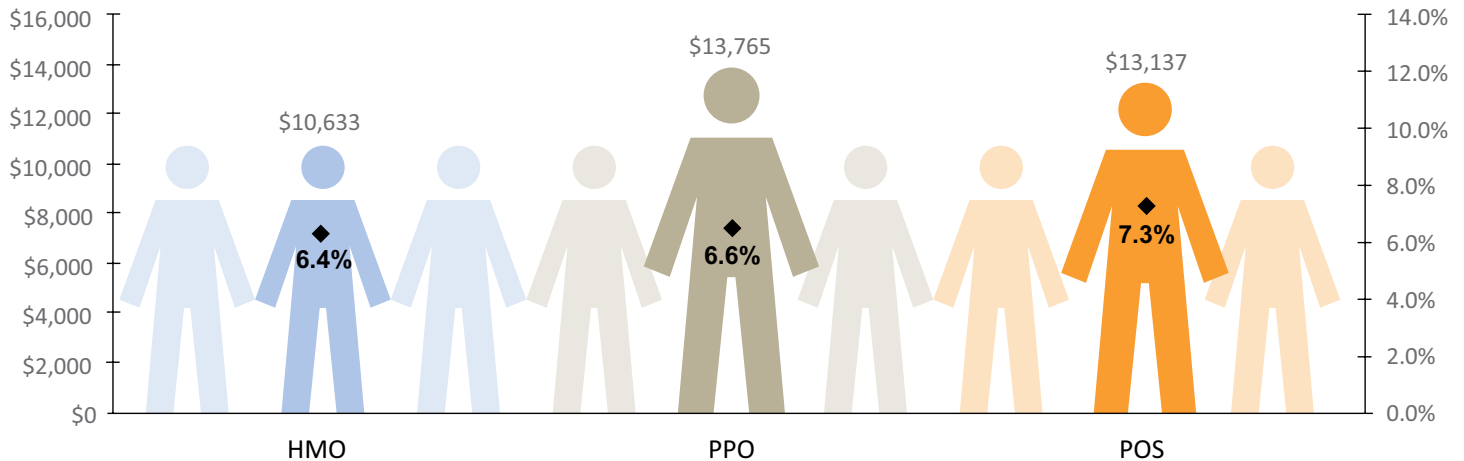
2016 was the third time in the last several years that self-funded employers enjoyed a slightly lower annual cost increase than their fully insured peers.

In terms of cost increase for 2016, self-funded employers fared better than their fully insured counterparts with an average overall cost change of 2.6 percent as compared to 2.7 percent for 2015. The average annual cost per employee fell to \$12,030 in 2016, down from \$12,149 in 2015.

For the fourth consecutive year, the change in costs was significantly different across so called "fixed costs" (administration fees, network access fees and reinsurance premiums) and actual medical and prescription drug expenditures (commonly called "variable costs"). In 2016, fixed costs rose at a 4.7 percent rate (down from 6.2 percent in 2015) while variable costs rose by only 1.0 percent (down from 1.5 percent last year).

ANNUAL COST & RATE INCREASE BY PLAN DESIGN

Per Employee



TYPE OF BENEFIT PLAN AND COST


The type of benefit plan offered can have a considerable bearing on the cost of that plan. Plans with broad provider networks (or no network at all) and relatively loose care and utilization management (such as PPO and POS plans) typically cost more than more tightly-managed HMO benefit plans with a more restrictive choice of providers. However, this does not mean lower premium increases.

Consistent with past years, in 2016 HMO plans had the lowest overall cost per employee at \$10,633 while PPO and POS plans came in at \$13,765 and \$13,137 respectively. This pattern differs slightly for the change in overall average costs. In this category, HMO plans lead the group in 2016 with an increase of 6.4 percent followed by PPO plans at 6.6 percent and POS plans at 7.3 percent.



EMPLOYEE CONTRIBUTIONS TO PREMIUMS

Health benefit plan costs are typically shared between an employee and his or her employer.

Private sector employee contributions were as follows:

-  On a percentage basis, private sector employee contribution rates increased in 2016 to 26 percent for single coverage and 32 percent for family coverage (the corresponding values for 2015 were 25 percent and 30 percent).
-  On a dollar basis, the change was similar with 2016 monthly contributions growing to \$144 for single coverage and \$515 for a family plan (compared to \$132 and \$479 in 2015).

Public sector employee contributions were as follows:

-  On a percentage basis, employee contribution rates rose sharply for single coverage, growing to 14 percent in 2016 from 10 percent in 2015. The average family contribution also increased to 14 percent compared to 11 percent in 2015.
-  On a dollar basis, the change in monthly dollar premium contributions was also marked, with 2016 contribution rates rising to \$101 for single coverage and \$237 for family plans (compared to \$74 and \$179 in 2015).





METHODOLOGY

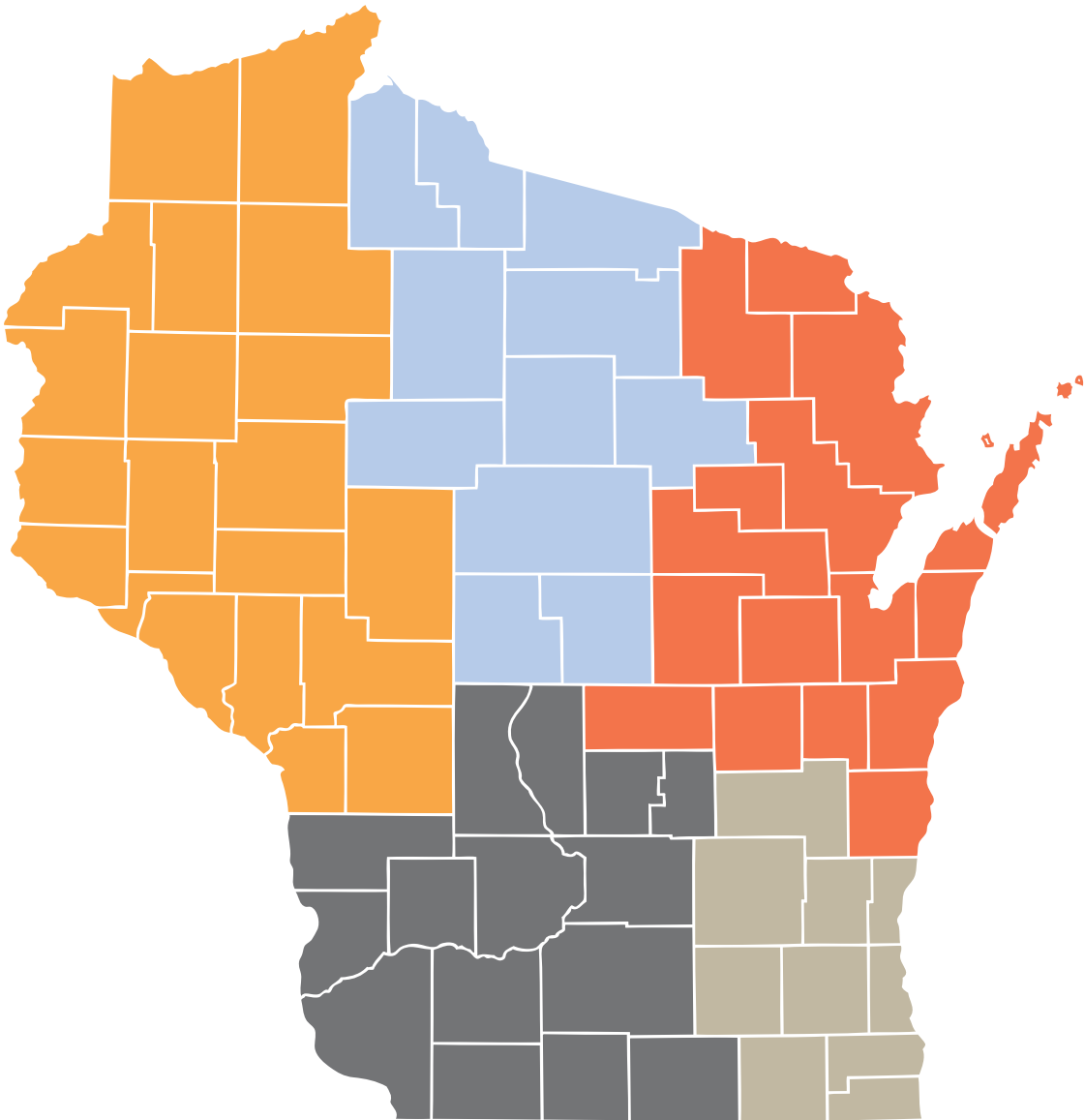
The *M3 Trend Report*, provided by M3 Insurance, is based on data harvested from its clientele which consists of 1,367 distinct benefit plans among 646 employers. Most of these employers are Wisconsin-based. Firms range in size from three to more than 5,000 employees. The study sample includes roughly 80 percent private sector businesses and 20 percent public sector entities. The data provided in the *M3 Trend Report* is based on plan design information as of April 30, 2016.

REGIONAL SNAPSHOT

The *M3 Trend Report* provides a regional snapshot of M3's Wisconsin clients across a variety of industries; in both public and private sectors. It is important to note that there can be significant differences in network and carrier/health plan availability throughout the state and, as such, costs can vary greatly. Please refer to the map of Wisconsin on the next page for data that is representative of your area, including average increases, average annual costs, average employee contributions and more.

2016 HEALTH CARE TRENDS BY GEOGRAPHIC REGION

Among M3 Insurance Clients



8.1% of all M3 Clients
 8.1% of all M3 Client
 Full-Time Employees
 6.5% Average Increase
 \$14,437 Annual Cost
 15.1% Contribution - Single
 \$2,166 Average Deductible
 67.0% Public Sector

6.3% of all M3 Clients
 7.6% of all M3 Client
 Full-Time Employees
 6.0% Average Increase
 \$15,443 Annual Cost
 18.3% Contribution - Single
 \$1,667 Average Deductible
 47.1% Public Sector

13.7% of all M3 Clients
 19.6% of all M3 Client
 Full-Time Employees
 5.5% Average Increase
 \$11,730 Annual Cost
 20.7% Contribution - Single
 \$1,675 Average Deductible
 33.3% Public Sector

15.1% of all M3 Clients
 13.0% of all M3 Client
 Full-Time Employees
 5.8% Average Increase
 \$12,739 Annual Cost
 22.0% Contribution - Single
 \$1,686 Average Deductible
 24.4% Public Sector

56.8% of all M3 Clients
 51.7% of all M3 Client
 Full-Time Employees
 7.2% Average Increase
 \$12,131 Annual Cost
 25.8% Contribution - Single
 \$1,663 Average Deductible
 6.6% Public Sector

**For more information about trends in Employee Benefits
contact your Account Executive at 800.272.2443.**

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