

# 2011 Global Medical Trends

## Survey Report

### Executive Summary

In recent years, health insurance provision by employers has grown globally and is rapidly becoming the most valued employee benefit, particularly in developing markets. In many countries, benefits provided under public health programs are being scaled back, both in terms of coverage and the share of costs covered. As a result, employer-sponsored health plans have grown exponentially in the past decade. Companies increasingly recognize that poor workforce health, as well as medical and disability costs, are a drag on productivity and financial performance. Health care benefits continue to transition from optional to required in most major economies.

As demand for these benefits has grown, so has the cost of providing them. Our survey of large global insurers, some of which operate in multiple countries, shows that medical costs have risen rapidly since 2006 in nearly all markets. Many countries have experienced double-digit trends, and in the vast majority, the trend exceeded the rates of general inflation.

Looking ahead, little relief is in sight, as trends for 2011 are projected to be even higher than last year. The rising cost of health care is a global issue that is quickly becoming one of the biggest financial challenges for multinational companies.

### Key Findings

The survey results show:

- In 95% of the countries, the medical trend exceeded the rate of general inflation.
- The rate of growth of medical trend has slowed in emerging markets, whereas some developed markets are currently seeing a higher rate compared to five years ago.
- Almost three-quarters (72%) of total survey respondents expect higher medical costs over the next five years.
- The average gross medical cost trend for 2009 was 10.2% (6.9% net of general inflation); Latin America and Middle East/Africa had the highest rates among the regions. At two to three times the rate of general inflation, the rate of medical trend is beginning to create significant affordability challenges for businesses — and employees — around the world.
- In 2011, the average medical cost trend globally is expected to be 10.5%. Medical trend is expected to be 2.5% higher in emerging economies than in advanced economies.\* Respondents in Latin America and North America project the largest average medical trend for 2011 (13.7% and 11.6%, respectively). Only European respondents expect a single-digit average medical trend (9.1%) for 2011.
- Wellness service offerings are growing in prevalence across all regions. Wellness will be a major focus for employers and insurers in the future as a vital tool to mitigate medical trend increases.

### About the Survey

The survey, conducted in September and October 2010, includes responses from leading health insurers that provide medical insurance solutions to employers in 37 countries throughout Asia, Africa, Europe and the Americas. In total, 170 insurers responded, and country data were reported only for those countries where responses represented sufficient market share.

Respondents were asked to provide the percentage increase in medical cost (trend) for their covered lives in each of their representative countries. The medical trend reported includes the increases in both price inflation and utilization for 2009, and anticipated levels in 2010 and 2011. It should be noted that insurance — herein referred to as the medical trend — is only one component when measuring medical inflation. This report is a follow-up to the 2008 Global Medical Trends Survey and offers comparisons to those findings.

\*Economic status is based on International Monetary Fund definitions.

## Average Medical Trends by Region and Type of Economy

In 2009, health insurers experienced a global medical trend rate of 10.2%, and this rate is projected to be even higher in 2011, at 10.5% (*Figure 1* on page 3). In 95% (35 of 37) of the countries surveyed, the 2009 rate of medical inflation exceeded general inflation. While there have been some drops in net medical trends compared to 2006, these are largely due to an uptick in expectations of inflation in 2010 and 2011 in those markets. Overall, double-digit medical cost increases are now commonplace globally.

In **Asia Pacific**, it is surprising to see that the gross medical trend rates for **India** and **China** are lower now than was reported between 2006 and 2008. Nevertheless, both countries show double-digit increases, a significant cost for employers that target these economies for their lower labor costs. **South Korea** and **Taiwan** show the highest rates overall.

The medical trend rate is higher than expected in **Europe**, especially in advanced economies such as Ireland, the **U.K.**, **Switzerland** and **Italy**. In these countries, rates may be influenced by the increasing shift of health care costs from national health systems to employers and individuals.

To manage these costs, national health authorities are taking actions such as restricting access to certain drugs and technologies, and in some cases, slowing the speed of access to services. This, in turn, places greater demand on employer plans to supplement coverage.

One exception in **Europe** is the **Netherlands**, which shows a lower trend rate than other countries. This is particularly interesting in light of the privatization of government-provided health care in 2006. Is government regulation helping keep medical costs in check?

In **Russia**, the gross medical trend rate is higher than in 2008, continuing to reflect the fact that health care is a highly valued employee benefit.

In **Latin America**, **Venezuela** led with an expected high trend rate, largely due to high general inflation. Surprisingly, **Chile's** rate was the second highest, and **Brazil's** has increased into the double-digit range since 2008. As one of the more developed health care markets globally, at least in terms of provider choice and availability of medical cost management, we would have expected the trend rate to be slightly lower in **Brazil**.

The **Middle East** and **Africa** have seen growth in both medical products and demand in countries such as the **U.A.E.** and **Saudi Arabia**, as well as a move toward mandated coverage in some locations. It's not unexpected to see high medical trend rates in these countries, nor is the return of the double-digit increase unusual in **South Africa**, which also has a well-developed health care market.

In **North America**, **Canada's** medical trend is similar to its level in 2008 but is not projected to drop. The **U.S.** medical trend, however, continues to increase, with upward pressure applied by mandates under the Patient Protection and Affordable Care Act, e.g., the requirement that dependent coverage be extended to children up to age 26 and extensions to preventive care.

“The rate of growth of medical trend has slowed in emerging markets, whereas some developed markets are currently seeing a higher rate compared to five years ago.”

**Figure 1. Global Average Medical Trends: 2006–2011**

Measure	Global medical trends				Net medical trends*			
	2006**	2009	2010	2011	2006**	2009	2010	2011
<b>All</b>	10.6%	10.2%	9.8%	10.5%	6.8%	6.9%	5.7%	6.8%
Advanced***	6.6%	9.1%	8.9%	9.3%	4.7%	8.8%	7.2%	7.7%
Emerging***	13.9%	11.3%	10.7%	11.8%	8.5%	5.0%	4.2%	5.8%
<b>Asia Pacific</b>	12.2%	9.9%	10.3%	10.2%	8.8%	8.1%	6.6%	7.1%
China	15.2%	10.1%	8.9%	9.4%	13.7%	10.8%	5.3%	6.7%
Hong Kong	6.8%	6.8%	7.0%	7.4%	4.8%	6.3%	4.3%	4.4%
India	22.0%	12.0%	13.2%	12.3%	15.8%	1.1%	0.0%	5.7%
Indonesia		10.7%	13.4%	14.2%		5.9%	8.3%	8.7%
Japan		6.2%	3.2%	4.0%		7.6%	4.1%	4.3%
Malaysia		8.9%	7.8%	9.6%		8.3%	5.6%	7.5%
Philippines	11.6%	10.0%	10.3%	10.3%	5.4%	6.8%	5.8%	6.3%
Singapore	5.5%	7.1%	7.4%	8.4%	4.5%	6.6%	4.5%	6.0%
South Korea		13.0%	14.0%	10.0%		10.2%	10.9%	6.6%
Taiwan		15.0%	20.0%	17.3%		15.9%	18.5%	15.8%
Thailand		8.8%	8.4%	9.0%		9.6%	5.4%	6.2%
<b>Europe</b>	5.4%	9.4%	7.8%	9.1%	3.6%	8.2%	5.8%	7.2%
Belgium		7.8%	7.6%	8.8%		7.8%	5.6%	6.8%
Cyprus		7.0%	5.0%	10.0%		6.8%	2.8%	7.7%
France	5.6%	6.5%	6.1%	8.4%	3.7%	6.4%	4.5%	6.8%
Greece		9.8%	9.3%	10.8%		8.5%	4.7%	8.6%
Ireland		12.0%	12.0%	10.0%		13.7%	13.6%	10.5%
Italy	5.5%	8.3%	8.3%	9.5%	3.3%	7.5%	6.6%	7.8%
Netherlands	6.0%	5.0%	4.0%	5.5%	4.3%	4.0%	2.7%	4.4%
Portugal		5.9%	6.1%	6.5%		6.8%	5.2%	5.3%
Russia		18.3%	6.7%	11.7%		6.7%	0.1%	4.2%
Spain		9.3%	8.7%	9.7%		9.6%	7.2%	8.5%
Switzerland	3.8%	9.0%	8.0%	9.5%	2.7%	9.5%	7.3%	9.0%
United Kingdom	6.0%	9.3%	8.8%	9.5%	3.7%	7.1%	5.7%	7.0%
<b>Latin America</b>	14.6%	11.6%	12.1%	13.7%	8.4%	4.0%	4.7%	6.1%
Brazil	9.2%	10.4%	9.8%	11.0%	5.0%	5.5%	4.8%	6.4%
Chile	5.8%	13.9%	13.8%	18.3%	2.4%	12.3%	12.1%	15.3%
Colombia		8.0%	11.3%	11.0%		3.8%	8.8%	8.4%
Costa Rica		10.0%	10.0%	11.0%		2.2%	4.4%	6.8%
Mexico	12.0%	10.7%	9.7%	10.0%	8.4%	5.4%	5.4%	6.8%
Panama		8.3%	8.3%	9.5%		5.8%	4.8%	6.5%
Venezuela	31.3%	20.0%	21.7%	25.0%	17.6%	-7.1%	-7.5%	-7.2%
<b>Middle East/Africa</b>	11.4%	10.9%	10.1%	10.3%	6.3%	3.7%	3.5%	4.4%
Egypt	10.0%	13.3%	10.8%	11.3%	5.8%	-3.0%	-1.0%	1.3%
Saudi Arabia	13.3%	12.0%	10.0%	10.8%	11.0%	6.9%	4.5%	5.5%
South Africa	7.4%	12.5%	10.4%	9.3%	2.7%	5.4%	4.8%	3.4%
Turkey		6.3%	10.7%	10.0%		0.1%	2.0%	4.3%
United Arab Emirates	15.0%	10.3%	8.9%	10.1%	5.7%	9.0%	6.9%	7.6%
<b>North America</b>	10.3%	10.8%	11.3%	11.6%	7.7 %	10.8%	9.7%	10.1%
Canada	12.3%	12.5%	12.5%	13.3%	10.3%	12.2%	10.7%	11.3%
United States	8.3%	9.1%	10.1%	9.9%	5.1%	9.4%	8.7%	8.9%

\*Net of general inflation rate

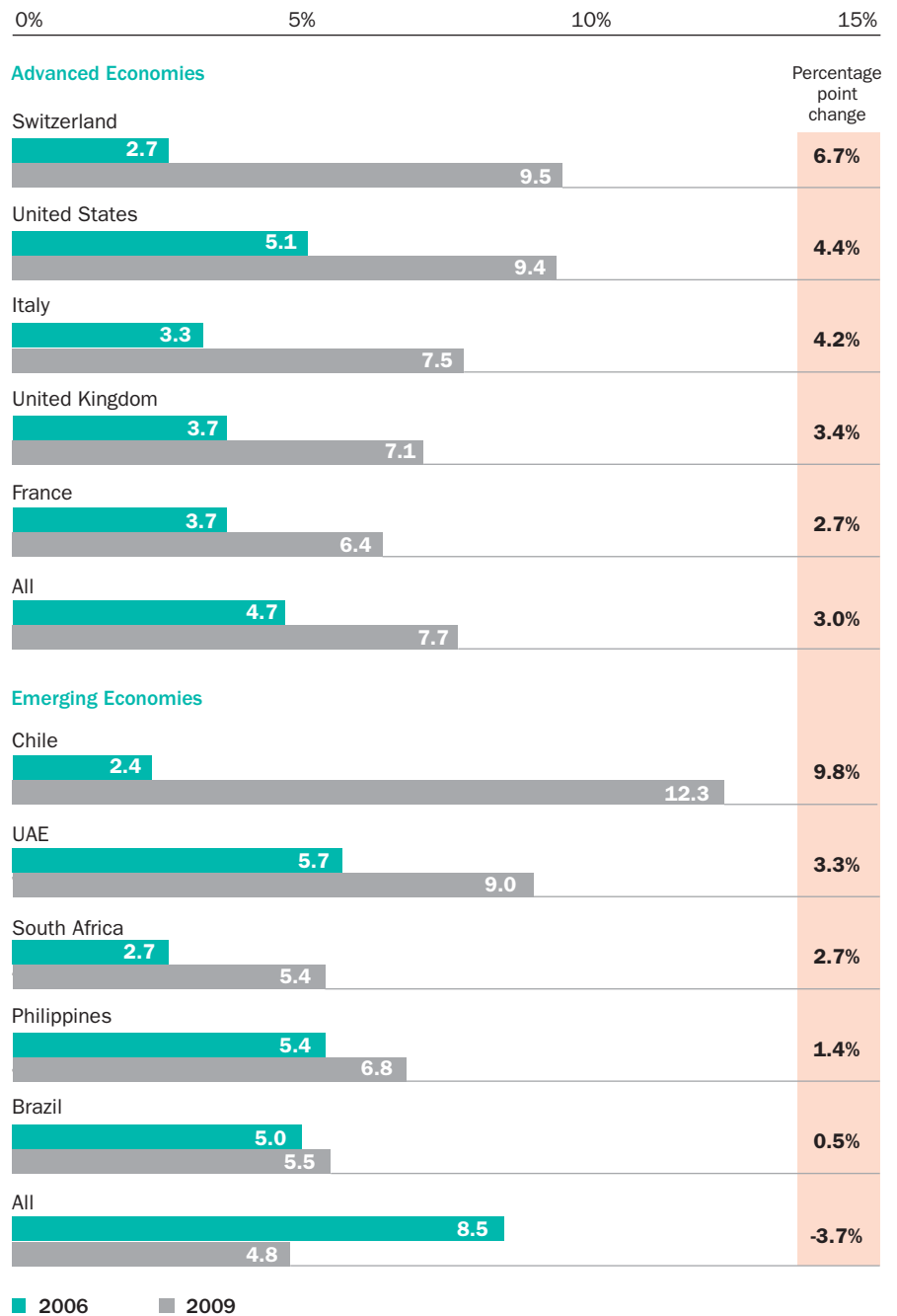
\*\*2006 rates are drawn from the 2008 Global Medical Trends Survey and are based on a sample size of 22 countries.

\*\*\*Economic status is based on IMF definitions.

Summary considers only countries that were collected in all years, and estimates are equally weighted by country. Rates for 2010 and 2011 are projected and not yet final. Inflation rates are taken from International Monetary Fund, WEO Data: October 2010 Edition.

While real growth in medical costs has been steadily advancing in developed economies since 2006, the picture for emerging economies is mixed (Figure 2). However, the gap between medical trend rates in advanced and emerging markets has become smaller over the past six years.

**Figure 2. Countries with the largest changes in medical trend\***



\*Please note that differences may vary due to rounding

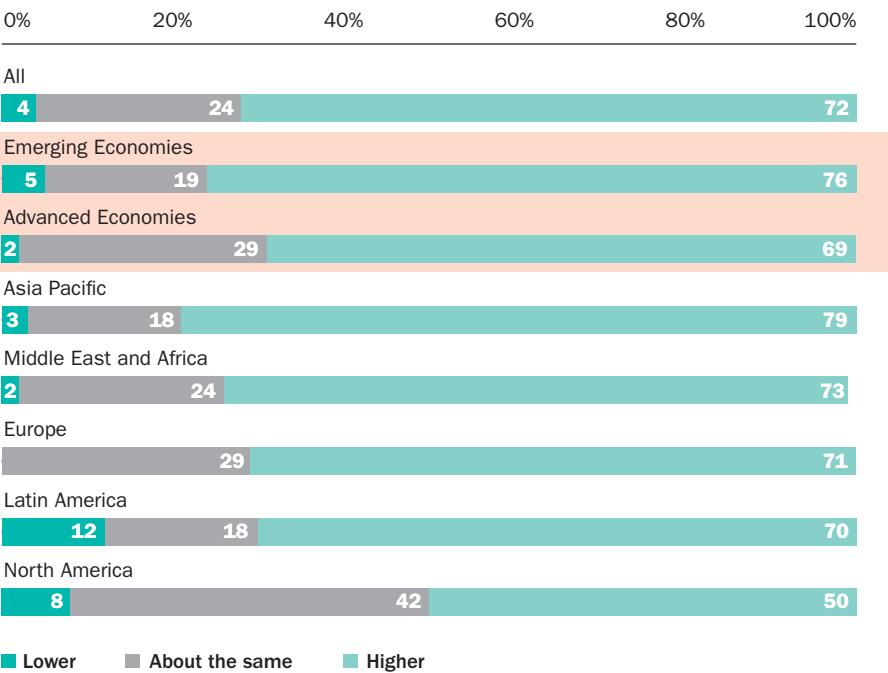
### Expected Rate of Future Medical Trend

Although medical trend increases have slowed since 2008, 72% of respondents expect them to rise over the next five years. Despite a small dip in rates projected in 2010, costs are expected to rise into 2011, with all regions except North America showing similar levels of growth. However, as *Figure 3* shows, it is expected that medical costs outside North America will rise at a faster rate in the longer term.

Of the components comprising medical coverage (*Figure 4*), it is expected that hospitalization or inpatient costs will see the most significant increase; however, costs are expected to increase in all areas.

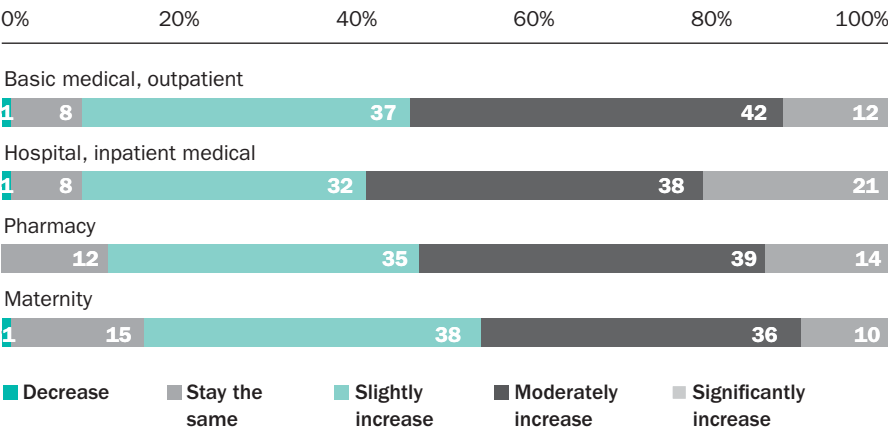
“It is expected that medical costs outside North America will rise at a faster rate in the longer term.”

**Figure 3. How do you expect the medical trend in your overall book of business to change over the next five years compared to current rates?**



Note: Country-weighted estimates

**Figure 4. In each country where you provide medical insurance or administration services, how do you expect the expenses related to the following service categories to change over the next five years?**



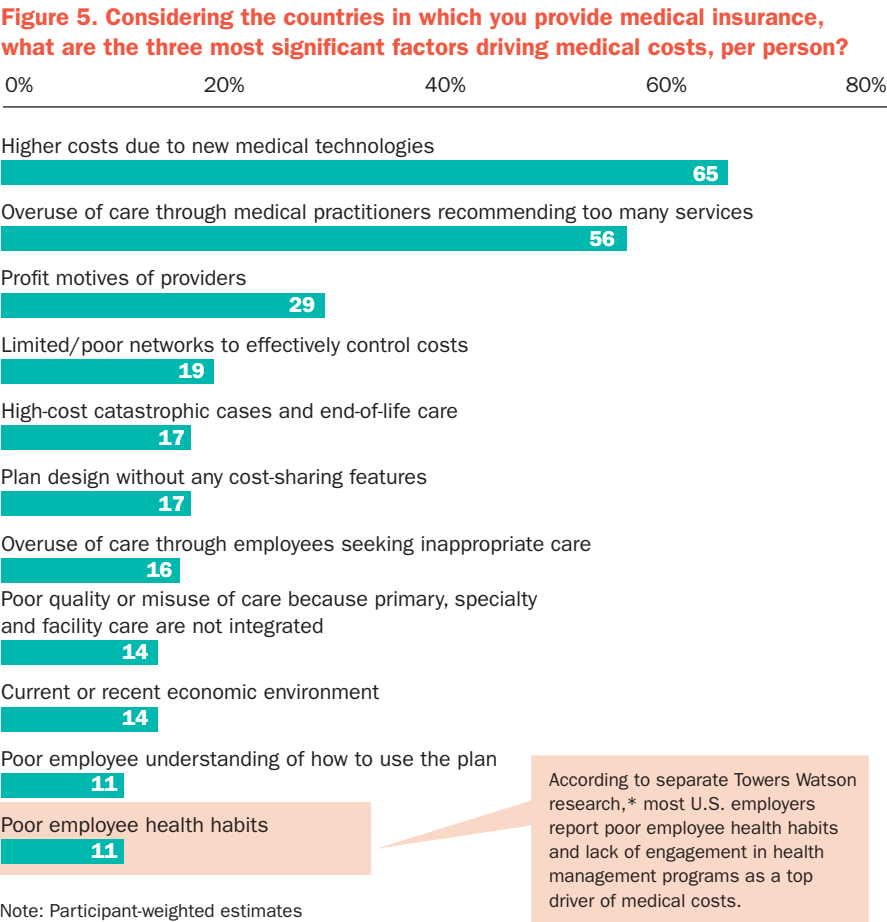
Note: Country-weighted estimates

## Factors Driving Medical Cost Increases

Insurers report that the two most significant factors driving medical cost increases are new medical technologies and the overuse of care (*Figure 5*). It could be argued that these factors, linked with the third leading cause — profit motives of providers — demonstrate how the nature of health care provision has changed internationally.

Health care is becoming a significant business sector: Health providers need to cover costs of investment in new equipment as well as maintain growing profit margins. Higher costs related to medical technology are also likely a result of increased employee demand for the latest and greatest, regardless of where they live.

It is interesting to note that, the leading factor typically identified by U.S. employers as driving medical cost increases — poor employee health habits — is the lowest ranked on a global basis. A recent Towers Watson survey, *Raising the Bar on Health Care: Moving Beyond Incremental Change*,\* in which 507 U.S. employers participated, found that poor health habits was the leading challenge to managing health care costs (cited by 67% of respondents). In future years, we expect this factor to grow in importance in other countries as well.



“Health care is becoming a significant business sector: Health providers need to cover costs of investment in new equipment as well as maintain growing profit margins.”

\*Raising the Bar on Health Care: Moving Beyond Incremental Change, the 15th Annual National Business Group on Health/Towers Watson Employer Survey on Purchasing Value in Health Care

Overall, insurers report that cardiovascular disease and cancer are the leading causes of medical claims in their client portfolio today, and these factors are expected to remain the leading source of claims over the next five years (Figure 6). Other major sources of health care claims come from gastrointestinal and respiratory diseases, and musculoskeletal issues.

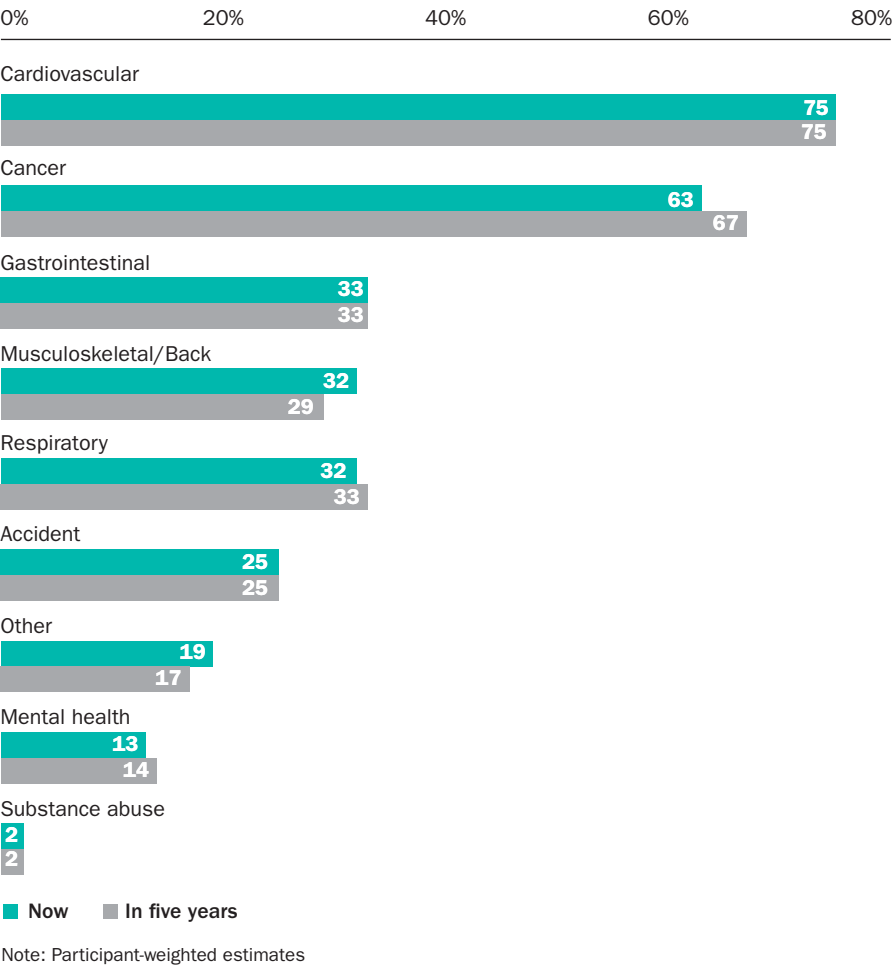
The leading medical expenditures reported by insurers are closely aligned to the leading causes of death around the world. In a report by the World Health Organization, cardiovascular disease was named as the leading cause of death in the world, causing nearly 32% of deaths in women and 27% of deaths in men in 2004. Infectious and parasitic diseases ranked next as a leading cause of about 16% of deaths, primarily an issue in low-income countries, followed by cancers, which caused about 13% of deaths.\*

### Managing Medical Cost Increases

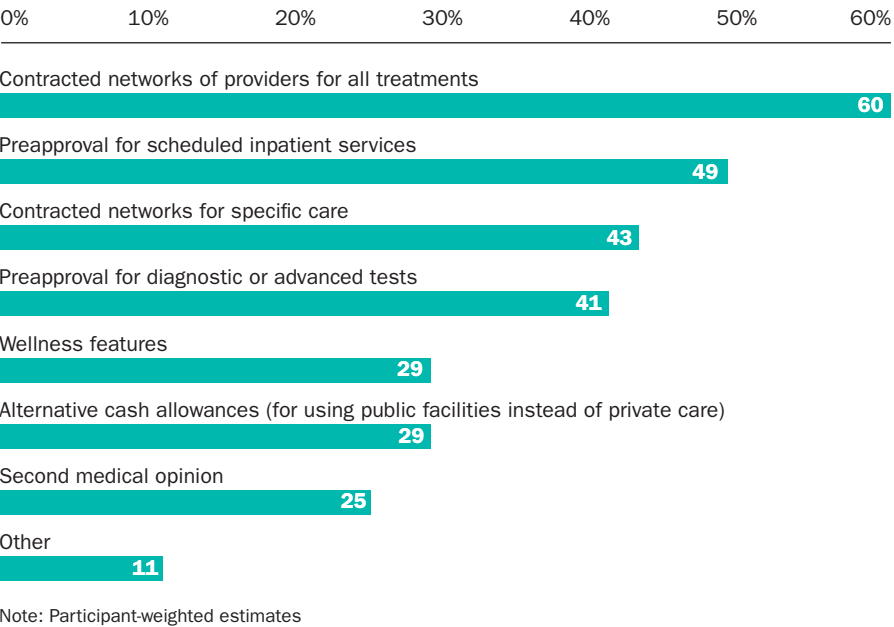
As Figure 7 shows, the preferred methods for managing medical costs include directing patients through specific networks, where either discounted costs of care can be obtained or preapproval is required for scheduled services. Both procedures allow the insurer to better control outcomes and costs.

“The leading medical expenditures reported by insurers are closely aligned to the leading causes of death around the world.”

**Figure 6. What are the top three conditions that cause the highest prevalence of claims in your medical client portfolio today, and what are your expectations over the next five years?**



**Figure 7. What are the most effective tools you employ for managing medical costs for your clients in your countries of operation?**



\*World Health Organization, *The Global Burden of Disease*, 2004 Update, Geneva, Switzerland, 2008



In terms of cost-sharing approaches (Figure 8), member coinsurance and annual deductibles are the most commonly used and continue to increase globally, with European countries arguably seeing the largest adoption in the last few years.

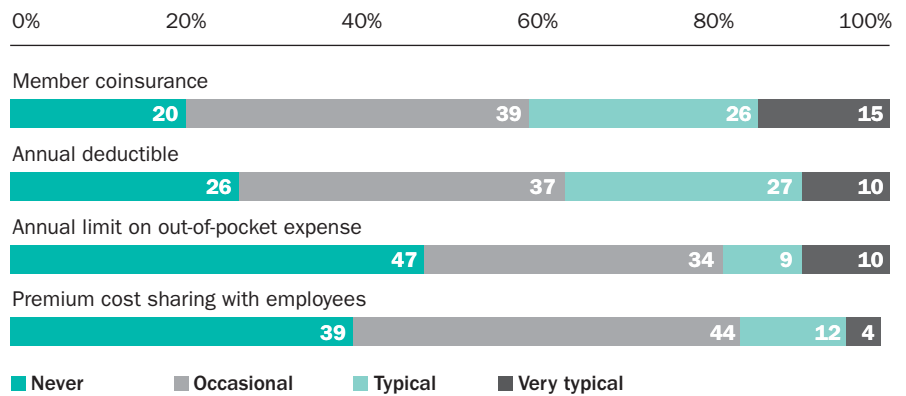
While these approaches could counteract some of the effects of overuse of care, a recognized cost driver, they may also lead to lower participation in plans and, in particular, lower utilization of wellness features, which many health providers are beginning to adopt. Wellness features include health risk assessments, health education and lifestyle change programs — such as smoking cessation, health education and information resources — all of which are closely linked by employers to managing medical cost increases.

While all countries offer some wellness features (Figure 9), and wellness is a growing focus regardless of region, it is very rare to find a country in which all of the wellness features listed are currently utilized by an insurer. However, their increasing prevalence has positive implications for employers, as providers will be better equipped to offer intervention strategies that help to manage overall health costs and risks.

There appears to be a greater emphasis by insurers on implementing preventive care alternatives by providing tools to help individuals become more aware of their health and more educated about health risks.

Although poor employee health habits are not seen as a major cost driver globally, more employers are beginning to view this factor as a risk. Overall, the traditional insurer model is being replaced by one

**Figure 8. What are the most effective tools you employ for managing medical costs for your clients in your countries of operation?**



Note: Country-weighted estimates

that takes a holistic approach toward individual health needs. These findings also support a global shift toward a consumerism model resulting in increasingly empowered health plan participants.

It is important to note that chronic condition or disease management is not a common plan feature in Europe or the advanced economies, where insurers may be expecting government health systems to play a greater role.

Along similar lines, absence management is far less prevalent in Asia Pacific than in other regions. This may reflect the fact that, in some of these countries, labor costs are low, and the replacement talent pool remains strong.

**Figure 9. In each country where you provide medical insurance or administration services, do you offer any wellness features as part of or separate from your medical products?**

	Personal health assessment	Lifestyle and health education	Chronic condition and/or disease management	Absence, disability, return to work	Emotional well-being support
All Countries	63%	72%	40%	34%	49%
<b>Economic status</b>					
Advanced economies	74%	67%	26%	37%	60%
Emerging economies	53%	78%	53%	31%	38%
<b>Region</b>					
North America	83%	100%	42%	71%	100%
Latin America	31%	74%	74%	52%	24%
Europe	67%	68%	24%	40%	66%
Middle East and Africa	73%	84%	48%	33%	64%
Asia Pacific	71%	66%	32%	10%	30%

Note: Country-weighted estimates



## Taking a Long-Term, Holistic Approach to Curbing Medical Costs

Globally, medical costs are growing, even in developing economies, and double-digit increases are the norm for 2011. Medical trend rates are not predicted to drop significantly anytime soon — in fact, in most countries, they are expected to continue to rise over the next five years. While this may not be wholly unexpected, it is surprising that emerging economies are showing a much more mixed picture than advanced economies — overall, the gap has closed in rate of medical trend between them. Employers and insurers in all regions will need to carefully monitor costs globally, and design cost management techniques and programs to help rein in rising costs.

Heightened demand for health care is also spurring growth in the insured private sector — a shift that is evidenced by the increase in the number of insurers providing these services. Given some of the factors encouraging private health insurance purchasing, emerging economies may be in a more favorable position for growing private sector participation than advanced markets.

The top conditions driving medical claims reflect the prevalence of these conditions globally; cardiovascular conditions top both lists. Although health providers are still using more traditional techniques to manage health costs (e.g., coinsurance, deductibles, contracted networks and preapproval), they are also taking a more holistic view of health, including employee wellness, to help curb the prevalence of these conditions.

The clear interest all regions are showing in employee wellness is encouraging, and we expect that wellness features will play a greater role in managing global medical costs going forward. In a global economy that will likely continue to experience medical inflation in the short and medium terms, these approaches may be more effective as cost-management tools for organizations than traditional cost-sharing methods. And they have the substantial added benefit of encouraging employee participation, engagement and productivity in the long term, further reining in cost growth.

### For more information

To learn more about global medical costs and approaches to managing them, or for any questions about this survey, please contact your Towers Watson consultant, or:

**Francis Coleman**

+1 818 623 4529

[francis.coleman@towerswatson.com](mailto:francis.coleman@towerswatson.com)

**Nicole Serfontein**

+1 703 258 8286

[nicole.serfontein@towerswatson.com](mailto: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.