



benefitNEWS

2017 Milliman Medical Index on Changes in Healthcare Costs for Employers

According to the actuarial consulting firm Milliman and their [2017 Medical Index Research Report](#), for 2017 the cost of healthcare for a typical American family of four covered by an average employer-sponsored preferred provider organization (PPO) plan is \$26,944. The annual rate of increase is 4.3%. This is the lowest rate of increase since Milliman began tracking data in 2001, yet the dollar amount is still very high. Of the \$26,944 spent by a typical family of four, \$11,685 is paid by the employee through a combination of \$7,151 in payroll deductions for premium and \$4,534 in out-of-pocket costs incurred at time of care.

According to Milliman's research, for a typical family of four, approximately one-half of healthcare expenditures are for hospital services, both inpatient and outpatient. The total increase in hospital expenses from 2016 to 2017 was only 3.9%, its lowest rate of increase since they first measured this in 2001. Inpatient hospital costs grew by 3.7% and outpatient costs grew by 4.2%.

The second largest category of medical expenditures is physician services, which represent 30% of the family of four's healthcare spending in 2017. These expenditures are for all professional fees, including those from physicians and other healthcare professionals that are incurred when a patient uses a hospital, clinic, surgical center, stand-alone lab, imaging center, or a physician office. Expenditure growth rates for professional services have moderated over the past 10 years, landing at 3.2% in 2017.

Other notable highlights of findings from the Report are below:

- Physician costs have grown at a much slower pace than other services, dropping from 40% of the pie in 2001 to 30% in 2017. A big chunk of the physician slice has effectively been reallocated to pharmacy, outpatient facility services, and the 'other' category, which includes ambulance services, durable medical equipment and supplies, prosthetics, and home healthcare.
- Prescription drugs continue to be an increasingly important driver of expenditures. Because prescription drug expenses have grown more quickly than other healthcare expenditures, drugs have increased from approximately 13.2% of the total in 2001 to 17.1% in 2017. For the first time since 2013 and 2014, prescription drug trends for the family of four have decreased for two consecutive years. Still, a 2017 prescription drug cost increase of 8% is more than double the medical increase of 3.6%.
- The employee's share of costs has grown gradually over time. In 2001, the first year measured, employers were picking up just over 61% of the tab. Now, in 2017, employers

are paying about 57% and employees are paying the other 43% (Table 1).

Table 1. Annual increase in spending split by employer and employee portions					
2012-2017					
	2013/12	2014/13	2015/14	2016/15	2017/16
Employer subsidy	6.1%	4.9%	8.5%	4.8%	6.5%
Employee portion					
Employee contribution	8.4	6.6	8.5	4.8	6.5
Employee out-of-pocket	3.7	5.2	7.3	6.2	5.1
Employee total cost	6.5	6.0	8.0	5.3	5.9
Total for employer + employee	6.3	5.4	6.3	4.7	4.3

Employers adjust benefits each year in line with their healthcare budget constraints. In 2017, employers assumed \$466 of the total increase of the cost of care for a typical family of four. The total employer subsidy increased by 3.2% from 2016 to 2017. Employees saw a greater increase, at 5.9%, or \$652 (\$434 from the increased payroll deductions and \$218 from higher out-of-pocket expenses). In other words, while both employer and employee costs increased, the employee had a larger percentage increase.

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