May 2021

viewpoint

Control costs and break the trend: should you include medical in your global programme?

Are you facing a costs vs benefits dilemma? You are not alone! Multinational employers all over the world face complex choices when it comes to medical benefits – on the one hand they are clearly the most important and valued benefit for employees in most parts of the world, but they are expensive, and the costs keep rising.

It's a tough balancing act. You want to provide one of the most sought-after benefits, that also helps keep your employees engaged, healthy and productive, but you need to do so in a cost-effective way. So, as we say, you're not alone – your peers all over the world are tackling this significant issue too.

Of course, a common and successful way for multinationals to control their employee benefits (EB) costs – such as life, accident, disability and medical – is by including local EB policies into global programmes, like pooling, global underwriting/global risk and captive solutions.

This idea isn't new. While EB captive programmes have become more popular in the last decade or so, companies have been pooling EB risks for more than 50 years. The benefits of doing so are well recognised – including greater cost control, global oversight and access to a wealth of data. And yet, some employers still have concerns that medical risks can have a negative effect on a global programme and, therefore, are reluctant to include them.

In this Viewpoint, we're going to look at some of the reasons this might be the case and, we hope, clear up some of the myths that are out there. Let's start by looking at some of the reasons multinationals give for not wanting to add medical to their global programme.

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MetLife and AXA in partnership

MAXIS GLOBAL BENEFITS NETWORK

Rising trend, cost volatility and COVID concerns

It's hardly surprising that cost is the main reason for concern when it comes to medical benefits – whether they are included in a global programme or not. Research among UK HR decision makers provides some substance to these worries – it found nearly two-fifths didn't know how much healthcare benefits are estimated to cost their organisation.[1]

Unlike other employee benefits risks, such as life insurance, medical cost increases are not linked to salary inflation, they are linked to medical trend. Matthias Helmbold, Head of Technical & Services at MAXIS GBN said: "Most benefits costs go up in line with salaries and general inflation. For medical it's a completely different relationship. It's not at all linked to salary cost. If a company has trouble with costs, it will offer lower salary increases and this will also translate into a similarly modest increase in life insurance premiums. With medical you don't have that level of control. Medical trend rates are an important topic all over the world and some multinational companies discuss medical trend rates at C-Suite level."

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Aon's 2021 Medical Trend Rates Report shows that medical inflation has fallen this year but is still projected to be at 7.2% while general inflation is estimated to be at 2.2%.

This difference between medical trend and inflation is important because the greater the difference the less affordable medical costs become. For example, in Mexico it's estimated that medical costs will double (so a 100% rise) in five years while general inflation is predicted to only rise by 32.7% over the same period of time. While in Thailand, the estimate is that medical costs will double in seven years while general inflation is predicted to only rise by 4.4% over that period.[2]

And the events of 2020 and 2021 are naturally worrying for those that believe medical is too risky to include in a global programme. Nobody is certain what the impact of COVID-19 will be on medical costs but Lockton estimates that in many markets any fall in medical claims is largely due to the cancellation or postponement of medical treatment during the pandemic[3] and not because people have been less unwell. In England for example, National Health Service waiting lists are now at their highest since 2007 with 4.7 million people waiting for operations and procedures[4] – medical issues have not gone away, they have just been postponed!

There's an expectation that claims will increase this year as health services shift back to a more 'normal' pattern and treatments for musculoskeletal issues and mental health conditions – contracted during the pandemic – as well as delayed procedures begin. All of this is likely to have a knock-on effect, driving prices higher and increasing the cost of medical for employers around the world.

Hervé Balzano, President, Health at Mercer and Mercer Marsh Benefits International Leader, said: "COVID-19 has had profound effects on all parts of society and the economy, including healthcare. With an expected rebound in elective treatments deferred during lockdown, a rise in negative health issues related to remote working and sedentary lifestyle, including musculoskeletal and mental health issues, and ongoing concerns about the long-term physical and mental health implications of COVID-19, we expect medical costs to continue to increase."[5]

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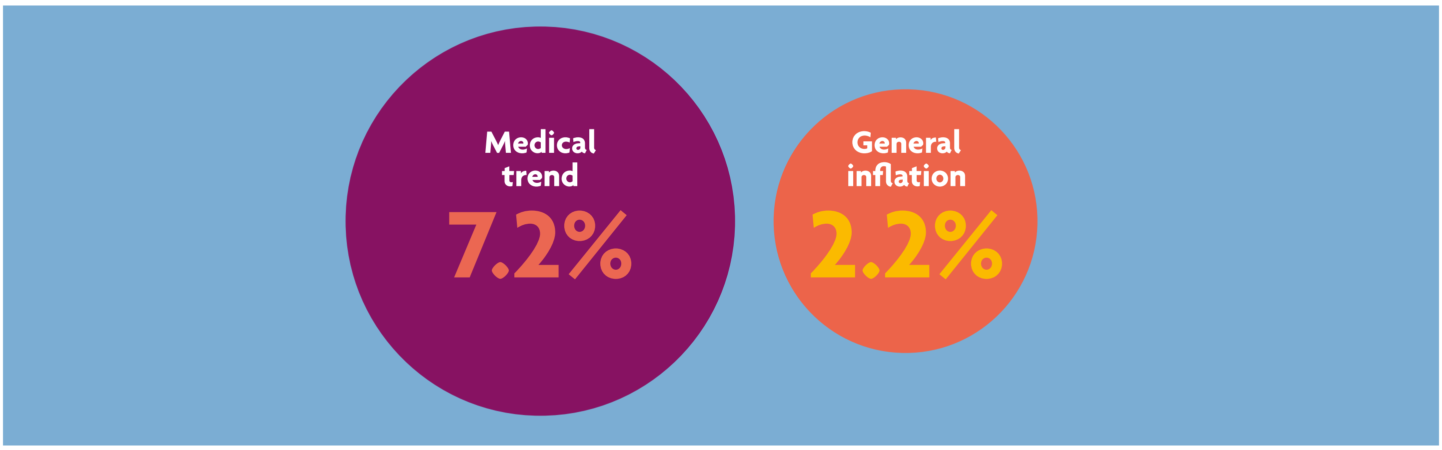

So why would you include medical in your global EB programme?

Despite the rising cost of medical it can, in fact, be rather predictable. EB professionals who worry that including medical will negatively impact a global programme's overall performance might be surprised to learn that it's possible to underwrite medical policies quite accurately at the global level. In 2019 the net loss ratio of medical policies included in MAXIS GBN global programmes was 99% and the figure has been consistently stable over recent years.

Understanding the trend is key and when underwriters are experienced at underwriting medical business across a portfolio there's usually no negative impact on the performance of the global programme. Plus, the fact that medical is a high frequency risk makes the programme predictable and easier for underwriters to price.

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Matthias Helmbold said, "Multinationals are losing out by not adding medical plans to a global programme. Often, we see multinationals worried that adding medical will impact their likelihood of receiving a dividend from their pool or negatively impact their captive. But the fact that our net loss ratio on medical is 99% shows that underwriters do know how to price it well."

Also, having more business in your global programme typically leads to lower percentages of charges applied, like a risk charge or a central fee – which is a great way to save money without sacrificing any of the valuable benefits you're offering to your employees.

Including medical benefits in a global programme gives multinationals access to a wide range of data and full visibility of premiums, claims and reserves at a global level.

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The power of data to help bend the trend

And data might be the key to being more accurate in predicting – and ultimately bending – the trend.

Including medical benefits in a global programme gives multinationals access to a wide range of data and full visibility of premiums, claims and reserves at a global level. It means forecasting costs more efficiently is possible – if you are facing a 10% or 20% rise then you will be aware of that ahead of the increase coming through and will be able to prepare.

Plus, medical reporting data provides huge amounts of information on utilisation and claims. This is where proactive wellness schemes and behaviour change programmes can come in. By analysing healthcare data, employers can design effective wellness programmes which not only meet the growing demand from employees but also help to manage the cost of the medical benefits by providing proactive solutions to conditions before they become chronic and costly.

Conclusion – why you should include medical

Medical is the number one benefit for employees in many parts of the world and is a highly valued as part of benefits programmes everywhere. Controlling costs is always important for multinationals, but a healthy and engaged workforce is good for business and medical insurance can provide important support to help deliver that goal.

Including medical in a global programme offers a way to control medical costs and, in some cases, reduce them over time with proactive wellness plans. Medical trend rates apply no matter how you offer medical to employees but by including it in a global programme, you'll have the support of global underwriters that know how to price the risk, and access to data and intervention solutions that can help break the rising rates. Achieving that is likely to have more impact on benefit costs than avoiding including medical in a programme in the first place.

The benefit of a global programme and a global network is being able to offset risks against each other which means having a spread of lines of business in one programme. Given that you're providing medical benefits anyway, why wouldn't you look to bend the trend and control your costs with a global programme?

1 Louron Pratt, Employee Benefits https://employeebenefits.co.uk/cost-of-healthcare-benefits/ (sourced May 2021)
2 Damien Kelly, Aon https://aoninsights.com.au/2021-global-medical-trend-rates-report/ (sourced May 2021)
3 Stephen James. Lockton https://www.locktoninternational.com/gb/articles/pandemic-reveals-gaps-global-employee-benefits-programmes (sourced May 2021)
4 Anon, BBC News https://www.bbc.co.uk/news/health-56752599 (sourced May 2021)
5 Anon, Mercer https://www.mercer.com/newsroom/covid-19-to-impact-employee-health-benefits-for-years-to-come-mercer-marsh-benefits-study.html (sourced May 2021)