Health & Retirement Services of Illinois
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OUR NEWS LETTER

In Our Newsletter

10 things that are getting cheaper

Since inflation barged into the US economy two years ago, there's been wide variation in prices. Some things have gotten a lot more expensive, others just a little more expensive. In general, however, almost everything has gone up in price.

We're finally seeing price declines in some areas, as inflation settles down. The broad trend so far this year is disinflation, which means a declining rate of inflation. Since peaking at 9% in June 2022, the overall inflation rate has dropped to 3.2%. That's obviously good news, but disinflation means prices are still rising—just by less than they used to. It also means all the price hikes of the past remain in place.

When prices fall, that's deflation, and that helps consumers regain lost ground after inflation eroded their purchasing power. For the last two years, Yahoo Finance has been tracking monthly changes in the cost of 27 spending categories that capture most of the things ordinary families spend their money on. We're now seeing year-over-year price drops in more than one-third of those categories, the most since we started tracking the data.

The chart below shows 10 spending categories where prices have declined during the last 12 months. We also include the two-year change in prices for those categories, to capture the broader price trends since inflation became a problem in 2021. Average incomes have risen by 4.4% during the last year, and 10% during the last two years. Anything that has risen by less than incomes is getting cheaper on a real, inflation-adjusted basis.

Used vehicles are one standout category. For about a year, there was eye-popping inflation in used vehicles, because a shortage of microchips for new cars sent millions of buyers into the used market, with demand and prices surging. Starting in October 2021, the annual inflation rate for used vehicles was 38% or higher 10 months in a row, with the peak hitting 60% in June 2022. As more new vehicles came online, used prices began to drop, with the biggest decline so far being a 27% year-over-year decline in June of this year.

Used vehicles are now 5.6% cheaper than they were a year ago, and just 0.6% costlier than two years ago. That two-year number tells us the market is getting back to normal. Prices are still above pre-COVID levels, but they've risen by considerably less than incomes since 2021, which means the typical worker can afford a bit more. Consider used vehicle inflation solved.

The cost of transportation more broadly is down 3% during the last year, but is still up 13% during the last two years, mainly because the cost of gasoline and new vehicles is still elevated on a 24-month basis.

Prices have yo-yoed in a few other categories that are now also normalizing, including airfare, rental cars, appliances, and furniture. There was never much COVID-era inflation in medical care, education, toys, or electronics. Before COVID, however, the cost of healthcare and college tuition routinely rose by more than incomes, so nobody's likely to think either of these things is suddenly a bargain.

Anybody managing a family budget will notice a couple of things conspicuously missing from this list of things getting cheaper: food and rent. Food prices are now rising at a modest 3.6% year over year, but during the last two years they're up 17%. That's a good example of the trend improving, but the longer-term hit of higher prices still causing pain.

Rents are up 8% since this time last year, and 15% since 2021. Housing costs are the biggest expenditure for most families, and elevated rents remain the biggest unsolved inflation problem. Most homeowners were able to lower their housing costs during the last few years, by refinancing their mortgages when rates were at record lows. Renters didn't get that break. Help may be coming, however. A Zillow measure of rent inflation peaked last year, and has been dropping since then, which may portend lower rents as leases come due and renters re-sign or move.

Overall inflation, including all categories, is up 3.2% year-over-year and 12% during the last two years, or just two percentage points more than incomes. Housing, food, and energy are the main forces pushing that higher. In the best scenario, inflation would be low and incomes, on a sustained basis, would be rising by a little bit more than inflation.

We're not there yet, but we're getting closer.

Medicare announces first 10 drugs subject to price negotiations

The Centers for Medicare and Medicaid Services yesterday announced the first 10 prescription drugs that will be subject to Medicare price negotiations under the Inflation Reduction Act.

Under the act, Medicare will be able to directly negotiate with drugmakers over prices for the costliest medications. The negotiated prices will go into effect in 2026.

Blood thinners and diabetes drugs head up the list of prescription medications up for negotiations. The list of drugs includes:

- Eliquis, a blood thinner.
- Xarelto, a blood thinner.
- Januvia, a diabetes drug.
- Jardiance, a diabetes drug.
- Enbrel, a rheumatoid arthritis drug.
- Imbruvica, a drug for blood cancers.
- Farxiga, a drug for diabetes, heart failure and chronic kidney disease.
- Entresto, a heart failure drug.
- Stelara, a drug for psoriasis and Crohn's disease.
- Fiasp and NovoLog, for diabetes.

CMS said that together, the 10 drugs selected accounted for $50.5 billion, or 20%, of Medicare Part D spending from June 1, 2022, to May 3.

Drugmakers must sign agreements to join the negotiations by Oct. 1. CMS will then make an initial price offer to manufacturers in February 2024, and those companies have a month to accept or make a counteroffer.

The negotiations will end in August 2024, with agreed-upon prices published on Sept. 1, 2024. The reduced prices won’t go into effect until January 2026.

If a drugmaker declines to negotiate, it must either pay an excise tax of up to 95% of its medication’s U.S. sales or pull all of its products from the Medicare and Medicaid markets.

What it means for Medicare enrollees

Tuesday's announcement "highlights the importance of these potential savings in relation to overall retirement health care expenses," said Ron Mastrogiovanni, CEO and chairman of HealthView Services, wrote in an analysis this week.

Mastrogiovanni said it is important to understand that retirees have two primary medication expenses – Medicare Part D premiums and out-of-pocket costs from co-pays. Price controls will primarily impact retirees' out-of-pocket prescription drug expenses, which account for around 20% of total expected retirement healthcare costs, including Medicare Part B, Medicare Part D, supplemental insurance dental premiums, and all out-of-pocket costs. Long-term care is not included in these calculations.

The reduction in out-of-pocket costs for insulin and commonly prescribed drugs will benefit retirees who are dependent on these medications, he continued. Additionally, the administration's lowering of the maximum out-of-pocket payout to $2,000 for catastrophic prescription drug expenses (beginning in 2025) will serve to moderate the impact of increasing retirement healthcare costs overall. However, since these price caps only address a portion of all medical expenditures, healthcare will continue to remain a significant expense that requires special consideration during the retirement planning process.

Drawing on 530 million medical cases, inflation, actuarial, government and other data, HealthView Services' cost projections provide a comprehensive breakdown of future retirement health care expenses. An average 65-year-old couple will spend more than $158,000 (future value) on out-of-pocket prescription drug costs throughout their retirement (age 87, male and age 89, female). When combined with Medicare Part D premiums, their overall spend on prescription drugs will exceed $228,000.

	Premiums	OOPs	Total
Hospital/Doc/Test	$205,777	$20,203	$225,980
Prescriptions	$70,772	$158,086	$228,858
Supplemental	$222,990	N/A	$222,990
Dental	$48,276	$29,655	$77,931
Hearing/Vision	N/A	$24,603	$24,603
All Categories	$547,815	$232,547	$780,362

When viewed as a share of overall health care spending, more than one-fifth of every health care dollar spent in retirement will be for out-of-pocket costs related to prescription drugs. Adding in Part D premiums brings the total to nearly 30%

	Premiums	OOPs	Total
Hospital/Doc/Test	26.4%	2.6%	29.0%
Prescriptions	9.1%	20.2%	29.3%
Supplemental	28.5%	N/A	28.5%
Dental	6.2%	3.8%	10.0%
Hearing/Vision	N/A	3.2%	3.2%
All Categories	70.2%	29.8%	100.0%

For both current and prospective retirees, particularly those managing chronic health conditions that require substantial prescription needs, this legislation will reduce out-of-pocket expenses. As the complete list of drugs is announced over the coming years, the actual impact on prescription spending in retirement will become clearer.

Only the start

Today's announcement is only the start of several measures aimed at lowering prescription drugs costs for Medicare enrollees. Under the Inflation Reduction Act, negotiated prices will go into effect for 15 more drugs in 2027, followed by another 15 drugs in 2028 and 20 more in each subsequent year.

2024 Employer Health Care Costs Projected to Increase 8.5%: Aon

Average costs for U.S. employers that pay for their employees' health care will increase 8.5% to more than $15,000 per employee in 2024, according to a new report from global professional services firm Aon plc.

The projection increase, which assumes employers do not implement employee cost sharing increases and other cost saving strategies, is nearly double the 4.5% increase to health care budgets that employers experienced from 2022 to 2023.

On average, the budgeted health care plan cost for clients is $13,906 per employee in 2023. The analysis uses the firm's Health Value Initiative database, which captures information for more than 800 U.S. employers representing approximately 5.6 million employees.

Since the COVID-19 pandemic, employers are seeing medical claims experience return to typical levels of growth and should anticipate more inflationary cost pressures in the coming year.

"While economy-wide inflation spiked during the past two years, employer-sponsored health care costs did not see dramatic increases during the same time period due to the multi-year nature of typical medical provider contracts," said Debbie Ashford, the North America chief actuary for Health Solutions at Aon. "Even though inflation is subsiding, health care trend is growing as medical providers push insurers for larger cost increases to cover the higher costs of wages and supplies that they endured during the last couple years but were unable to pass on to payers."

"Other contributing factors adding pressure on health care cost trends are the proliferation of newly indicated weight loss drugs, new technologies, severity of catastrophic claims and increasing share of specialty drugs," Ashford added.

In terms of 2023 health plans, employer costs increased 4.5%, while employee premiums from pay checks were slated to be a more modest 1.7% increase from 2022, according to Aon's analysis. Plan costs represent the employer's and employee's combined premiums for medical and prescription drug costs but exclude employee out-of-pocket payments such as deductibles, co-pays and co-insurance. On average, employers subsidize about 81% of the plan cost, while employees pay the remainder.

"We see employers continuing to absorb most of the health care cost increases," said Farheen Dam, North American Health Solutions leader at Aon. "In a tight labor market, plan sponsors are hesitant to shift significant cost to plan participants and make benefits less affordable."

Employees in 2023 are contributing about $4,675 for health care coverage, of which $2,682 is paid in the form of premiums from pay checks and $1,993 is paid through plan design features such as deductibles, co-pays and co-insurance, according to the firm's analysis.

The rate of health care cost increases vary by industry, as does the proportion of cost shared by the plan, employer plan sponsor and employee. The professional services industry has the highest average employer cost increase at 7.5%, while the manufacturing industry has the highest average employee cost increase at 2.9%. The retail and wholesale industry has the lowest average change in employee contributions: a half percent decrease from 2022 to 2023.

Improving outcomes, costs by predicting and addressing complex conditions

"High-cost claimants are one of the largest drivers of health care expenses for employers, and this group of members is growing," Dam said. "This growth is caused by several factors, including new high-cost injectable drugs, increasing cancer rates and longer hospital stays resulting from multiple conditions, complications and complex procedures. On the other hand, reinsurance premiums are climbing, making it harder for employers to hedge the elevated claim risk."

To help employers manage their health care spend and build a more resilient workforce, Aon developed its Health Risk Navigator, which provides predictive insights to anticipate and protect against the elevated risk employers face. The tool helps plan sponsors make better decisions to optimize reinsurance coverage, improve budget planning and implement targeted care management programs by using machine learning and risk simulation to analyze historical claims and demographic data for each individual employee, accurately predicting high-cost claim risks.

Baby boomers may be to blame for today's housing imbalance, Barclays says

Millennials may have another beef with boomers: the shortage in housing.

In a note from Barclays' housing research team, economists point the finger at the aging Americans fueling the demand for homes as the market remains surprisingly resilient.

"The US housing sector is on the upswing again, even with mortgage rates at multi-decade highs. Although much has been attributed to shortages of existing properties and mortgage lock-in effects, we think strong demand is a symptom of the aging population," Jonathan Millar, director and senior US economist at Barclays Investment Bank, wrote in a note to clients.

"The theory that the aging population would require fewer homes isn’t quite accurate. It turns out older consumers tend to prefer smaller dwellings but not fewer homes. The Barclays housing team makes the argument that currently more boomers are partly responsible for creating more households, putting pressure on housing demand.

"This is because the composition of the population has important effects on demand: a given person is generally more likely to become the head of a household as he or she ages, with the highest likelihood occurring beyond retirement age," Millar wrote.

"Hence, as an increasing share of the population shifts into older age groups, more and more households tend to be formed. That is, as a given household head ages, the size of the household (in terms of people) tends to become smaller and smaller, with children moving out and couples separating because of divorce or death," the economist added.

However, there’s a difference now from the previous aging generation. The boomer generation is a much larger one, so they are using up more houses than prior generations as they age.

"Retired people always are much more likely to be the head of a household than those in pre-retirement age. This is because a given person in this age group is much more likely to be a single head of a household, especially as they, inevitably, lose a life partner," Millar told Yahoo Finance in an email. "The difference now is that this generation is a much larger group than the one that preceded it, which means that they demand much more housing."

That leaves less existing inventory for the younger ones, especially millennials as they reach an age where they would form a new household and buy a house.

"Despite notable increases in demand from the 35-44 cohort, almost all of [the] additional demand is explained by the aging population, with significant increases in households in the 65-74 and 75+ groups," Millar wrote.

The youngest boomers are 59 years old, and not yet retired, while the oldest are 77 years old. Boomers will eventually require "less housing" as this group ages, but it will take time for that to happen.

"Along the way, the retirement age (65+) cohort grew from about 13% of the civilian population in 2010 to 16.5% in 2020, and it is expected to increase to 20.5% by the end of this decade," Millar wrote.

"Trends for the 75+ group are even starker, with the share expected to expand from 6% in 2010 to 9.5% by the end of this decade, then well above 10% in the decades that follow," he added.

But there’s still an upside for the younger generation.

"Unlike the boomer generation, the population in these younger age groups is not especially large in comparison to what it has been over the past few decades," Millar told Yahoo Finance, signaling the current demand dynamics for housing may not persist in the future.

Meanwhile, the housing shortage has remained a major headwind for homebuyers. Rising mortgage rates have stalled out the market’s inventory. Existing homeowners are reluctant to sell and risk giving up a lower rate they secured before the Federal Reserve’s aggressive interest rate hikes that have pushed mortgage rates to a two-decade high.

The share of homes listed for sale dropped 18% over the same period last year, marking the biggest fall since the start of 2022, according to Redfin’s August market update.

The limited inventory also means buyers must compete for a limited pool of housing, pushing home prices higher.

What drives household formation?

The formation of households is one of the factors that fuels the housing market. It happens when consumers move out on their own, creating a head of a new household.

The move happens as younger adults venture away from college and their parents. Per Barclays, the available data through 2022 shows that there’s a rise in household formation at the age of 25, which increases steadily and peaks around retirement age and older.

"Among other things, this reflects the parenthood phase during prime age (25-54), the separation of adult children from the household, divorce, and the heightened possibility of eventually losing a life partner to death," Millar noted.

Medicare Fraud: Shut It Down

The best way to stop Medicare fraud? Help prevent it in the first place. Follow these 3 tips to protect yourself from scammers:

1. **If you get a call, text or email asking for your Medicare Number, don't respond.** Don't give your Medicare card or Medicare Number to anyone except your doctor or people you know should have it. Remember, **Medicare will never call you** unprompted and ask you for your personal information.
2. **Check your Medicare Summary Notices (MSNs) or claims statements carefully.** If you see a charge for a service you didn't get or a product you didn't order (like a COVID-19 over-the-counter test), it may be fraud.
3. **If you suspect fraud, report it at 1-800-MEDICARE (1-800-633-4227).** Visit **Medicare.gov,** the official source for Medicare information, to learn more about preventing Medicare fraud.

To contact us: go to www.healthcareil.com or Call (800) 739-4700