The Fed raised interest rates again and strongly indicated that further increases will come in order to reign in the highest inflation numbers in 30 years. What does this mean for workers compensation loss cost trends, especially medical inflation? Before we answer that question, let's take a brief look back over the last 20 years. Medical cost trends in workers compensation have enjoyed a fairly long period of moderate inflation since the double-digit days of the 1990's. The cumulative change in medical severity on lost-time claims was 10% over the last 10 years as reported by the NCCI in their 2022 "State of the Line Report". They report the key drivers behind this have been reductions in prescription drug costs, moderate physician cost increases, and reductions in the utilization of medical services and prescription drugs in the "The Medical Dilemma Report".

Looking ahead – time will tell if physician and prescription costs continue with these moderate cost trends. But basic economic principles tell us that if the cost to produce a product are increasing - office staff salaries, rent and utilities, etc. – then the price for those services will increase in the long-term. As an industry, we need to be cognizant that the past doesn't always predict the future.

But we also need to unpack the NCCI's overall conclusions. The Medical Dilemma Report shows the following trends over the last 10 years:

- Inpatient paid per visit has escalated nearly 75%
- Outpatient surgical paid per visit has risen nearly 40%
- Ambulatory surgery paid per visit has increased nearly 60%

Despite moderate overall medical severity trends, we saw significant increases in facility and surgical costs. And given the current environment, this significant upward pressure on costs will continue. In April of this year, The American Hospital Association released a report titled, "Massive Growth in Expenses & Rising Inflation Fuel Financial Challenges for America's Hospitals & Health Systems". In the report, they cite a 20.1% increase in expenses per patient in the two-year period from 2019 to 2021. In the press release to the study, they stated:

> *Hospitals and health systems have repeatedly confronted a range of financial and operational challenges, including historic volume and revenue losses, as well as skyrocketing expenses. When coupled with rising inflation and growth in input prices, these expense increases have been severely detrimental to hospital finances, leading to billions in losses and over 33% of hospitals operating on negative margins.*

And further detail in the actual report went on to say:

> *by the end of 2021, total hospital expenses were up 11% compared to pre-pandemic levels in 2019. Even after accounting for changes in volume that occurred during the pandemic, hospital expenses per patient increased significantly from pre-pandemic levels across every category.*

With costs increases as they are it's only safe to assume that we will see continued pressure to increase charges and reimbursement amounts.

For many years, the existing industry solutions to address these moderate cost trends have been effective, though unpacking the overall medical costs as the NCCI did, shows that specific solutions for addressing facility and surgical costs have not. But we are at an inflection point and as an industry we need to take a renewed – and more importantly – new look at these solutions. At WellRithms we have done just that. Our methodology does not rely on traditional cost-to-charge ratios or percent-of-billed charges negotiations as other vendors do. Rather we have an innovative and truly ground-breaking methodology using individual facility cost data. We build our recommended reimbursement amounts from the ground-up, while including appropriate inflation adjustments as well as a reasonable profit provision. In addition, we defend and GUARANTEE our reimbursement amount – and your savings.

Bottom-line, the cost for healthcare is likely to increase beyond general inflation rates for some years to come, but there are solutions to address this inflationary environment. The name WellRithms represents Financial Wellness and Proven Algorithms. Our philosophy is to reimburse providers fairly and accurately and ensure that payers like you don't overpay for services.

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