Medical and well-care pricing on the rise

Data from more than 6 million pet health insurance claims shows shift in direction for veterinary pricing in the first six months of 2015

Executive Summary

Veterinary pricing has changed direction, with an increase across the range of pricing data analyzed as part of the latest refresh of the Nationwide® | Purdue Veterinary Price Index. The increase reflects a shift in the steady downward trend of veterinary pricing reported in previous semi-annual releases of the Veterinary Price Index, which is based on more than 6 million pet health insurance claims filed with Nationwide (formerly Veterinary Pet Insurance® or VPI®) since 2009.

The Nationwide | Purdue analysis shows an annualized 5.1% price increase over the period from January through June 2015. For comparison, the U.S. Consumer Price Index (CPI) reports an annualized 4.0% increase for all consumer spending on goods and services over the same period, and an annualized 2.7% increase in pricing of veterinary services for the same timespan as reported by the federal government.

Over the 2009 to 2015 period however, veterinary pricing still significantly lags pricing increases for other consumer goods and services. From 2009 through June of 2015, the government reported a 12.2% increase in the overall CPI and a 24.6% increase in pricing for veterinary services. The Nationwide® | Purdue Veterinary Price Index, however, reveals a 0.1% increase over the same time period, essentially flat pricing even with the increase in the first six months of 2015 taken into account.

Background

The pet-care industry has been recognized as a considerable force in the U.S. economy, estimated to be worth $58.04 billion by the American Pet Products Association (APPA) in 2014, with a projected value of $60.59 billion in 2015. The APPA values the veterinary sector at $15.04 billion (2014)[1]. As the popularity of companion animals and the amount spent on them continues to climb, both anecdotal reports from pet owners and statistical releases from the U.S. government suggested that the cost of veterinary care is climbing faster than all consumer prices.

In late 2014, Nationwide began a collaboration with the Krannert School of Management at Purdue University to examine companion animal practice pricing data within the veterinary industry, based on actual claims data for medical and wellness care.

The relationship was developed to provide third-party access to data proprietary to Nationwide under the business unit formerly known as Veterinary Pet Insurance (VPI). Although Nationwide has its own expert research team for both the business and medical analysis of its peerless historical database of pet health insurance claims, the collaboration allowed for a more independent analysis of the economic drivers.

The inaugural Nationwide® | Purdue Veterinary Price Index was presented at the North American Veterinary Community conference in January of 2015, with a refresh of the data and a subsequent analysis presented at the American Veterinary Medicine Association convention in July of the same year. Concurrently, the
studies were publicly released along with an overview of the methodology on the website NationwideDVM.com, with further disseminations on NationwideDVM social media platforms. Additionally, presentations were made to veterinary organizations throughout 2015.

The inaugural release of the Veterinary Price Index, and the first refresh six months later, surprised many in the veterinary industry, and the Nationwide-Purdue presenters came to expect animated discussion both from packed rooms of key veterinary influencers and smaller gatherings of veterinary colleagues throughout 2015. Additionally, publication of the results in JAVMA news, DVM360/Veterinary Economics and other prominent and well respected industry journals, websites and publications drew a great deal of additional interest and comments, and led to an invitation for the Nationwide team to present at the AVMA Economic Summit. Further discussions have been initiated with the AVMA’s economics team to share raw data for further studies of benefit to the veterinary community, pet owners and the pets cared for by both.

The inaugural release of the Nationwide® | Purdue Veterinary Price Index – based on more than 6 million actual pet insurance claims – elicited such interest and widespread discussion because it revealed a widening gap not only between the Veterinary Price Index and general perception of price hikes, but also between the Veterinary Index and federal reports that showed veterinary pricing increasing faster than the rate of overall consumer inflation. The inaugural Veterinary Price Index showed pricing for common medical and well-pet procedures combined fell throughout the economic downturn, and continued to fall after the nation’s slow recovery began. The Nationwide | Purdue analysis revealed the methods by which the federal government compiled its figures based on self-reported pricing from limited phone surveys of veterinary practices.

The first refresh confirmed not only the first report, but showed the downward trend continuing, and feline-only pricing falling even more sharply. Pricing trends for wellness care roughly tracked the overall CPI, but medical care fell throughout the period, and dragged the entire index down once again in the second release of the Nationwide® | Purdue Veterinary Price Index.

Through 2014, the CPI reported an overall price increase in consumer products of 10.4% (urban consumers), with an increase to 19% for veterinary goods and services from 2009 through 2014. The July 2015 release of the Nationwide® | Purdue Veterinary Price Index, however, revealed a 2.1% decrease in veterinary pricing in the United States. In addition, the Nationwide | Purdue study showed that while pricing had fallen in all regions, the drop had been most dramatic in the West and in markets defined as urban.

New Nationwide data shows veterinary pricing increase

With a refresh of the claims data and analysis to include the first six months of 2015, the Nationwide® | Purdue Veterinary Price Index analysis shows veterinary pricing hitting bottom in December of 2014 and beginning an increase in the first six months of 2015.

Pricing for wellness care once again tracked closely with the overall CPI (CPI up 4.0% vs. Nationwide | Purdue, up 3.8% for wellness care). For the first time in the analysis, however, pricing for medical care increased at a higher rate than pricing for wellness care, increasing 5.6% in the first six months of 2015.
Differences in regional and in areas reflecting different population densities continued to reflect the pricing pressures in play. Only the Northeast showed slight increase in overall veterinary pricing over the 2009-2015 period analyzed by the latest Nationwide® | Purdue Veterinary Price Index. The Northeast again leads the nation in the pricing of veterinary care. The Western region continues to show the sharpest decline in pricing, while remaining on par overall with the Northeast for cost of care as reflected in the claims data. The South and Midwest are likewise closely paired in pricing at the other side of a gap below the other two regions.

The gap between pricing in urban, suburban and rural settings remained in place from the previous releases of the Veterinary Price Index, with rural pricing again the lowest. However, rural areas were the only population density showing a small increase overall.

The next refresh of the Nationwide® | Purdue Veterinary Price Index, to be released in the summer of 2016 at the annual convention of the American Veterinary Medical Association, will reflect claims data from the whole of 2015. This will help to indicate whether the increase in pricing of common canine treatments (medical plus wellness) reflects a short term pricing correction or a more sustainable increase in veterinary pricing overall.

Methodology

The Nationwide (VPI) database breaks down claims filed by policyholders into specific treatments, with the expense of each treatment separately recorded. The Nationwide® | Purdue Veterinary Price Index analysis started with this claims database for services purchased by Nationwide (VPI) members from 2009 to 2015. The bulk of the database contains data from canine claims, so the focus of analysis is on veterinary services for dogs. Approximately 85% of insured pets across the pet health insurance industry are dogs.

The resulting dataset contains 1,306 distinct treatments for canines. The dataset classifies 1,181 of these treatments as “medical” treatments; the remaining 125 are classified as “well-care” treatments.

### Medical

- Otitis Externa: 450k
- Atopic or allergic dermatitis: 430k
- Pyoderma: 312k
- Gastritis: 225k
- Osteoarthritis: 205k
- Enteritis: 203k
- Cystitis: 172k
- +150 other treatments: 7MM

### Wellness

- Vaccination Bordetella: 899k
- Physical Exam: 883k
- Heartworm test: 856k
- Fecal test: 822k
- Vaccination DHL-P: 798k
- Vaccination Parvovirus: 740k
- Vaccination Rabies: 570k
- +36 other treatments: 9MM

To construct a price index, it is important to have a large number of price observations of specific treatments spread over the entire time period being considered. The analysis was thus limited to canine treatments that are commonly observed in the claims data. In particular, only treatments that have at least 5,000 claims over the six-year period from 2009 to 2015 and at least 500 claims each year during this period were considered. This reduces the number of canine medical treatments considered by 87%, from 1,181 to 157, and reduces the number of well-care treatments considered by 71%, from 125 to 43. The resulting dataset of “common” treatments for canines, however, still represents 84% of the total value recorded across all treatment codes.

To remain consistent in a year-over-year comparison basis, the 2013 base year for the basket of treatments used to calculate these indices was again used. Movement in the price indices reflect only price changes as the proportion of claims of each type are held constant at the level observed in 2013. In April 2014, VPI had a change in its claim process which impacted the way physical exam costs were represented in the dataset. In order to preserve
consistency of the data before and after April 2014, the affected physical exams after April 2014 and those that would have been affected prior to April 2014 were excluded from the analysis. More than 80% of the physical exams were retained in the analysis.

The resulting Nationwide® | Purdue Veterinary Price Index reflects important differences from the index of veterinary prices released by the U.S. government in these critical ways:

- Minor focus
- Hundreds of interviews
- Aggregated
- Annual

Why the discrepancy? The Nationwide® | Purdue Veterinary Price Index is based on millions of transactions, building a true picture of veterinary services and pricing from a granular perspective. The U.S. government’s aggregated approach is based on hundreds of interviews, its final numbers a single brushstroke in the larger picture of consumer prices. By contrast, the Nationwide® | Purdue Veterinary Price Index was solely intended to use the depth and breadth of the company’s historic database to develop a picture that accurately depicts veterinary service pricing. The index reflects not only transactions but also the larger trend toward preventive and wellness care.

Still, with a noteworthy change from the previous semi-annual releases of the Nationwide® | Purdue Veterinary Price Index, the next release in the summer of 2016 promises to be highly anticipated. Nationwide and the Krannert School of Management at Purdue University have established a relationship that will ensure regular updates on pricing trends and additional studies based on historic and current VPI/Nationwide claims data.

Nationwide considers such uses of its data to be of service not only to the small animal veterinary community but also to the broader community in the petcare services industry, as well to individual pet owners and Nationwide members. The ongoing commitment to the Nationwide® | Purdue Veterinary Price Index represents a considerable investment in service to those overlapping communities.

All releases of the Nationwide® | Purdue Veterinary Price Index are available on Dr. Carol McConnell’s blog for the veterinary community, NationwideDVM.com. Future releases will be posted there as soon as the information is made public.


Authors
For Nationwide: Carol McConnell, DVM, MBA, Chief Veterinary Officer, and Kerry O’Hara, Ph.D., Director of Research and Marketing Strategy.

For the Krannert School of Management, Purdue University: Kevin Mumford, Ph.D., and John M. Barron, Ph.D.