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March 3, 2008

Mercer's National Survey of Employer-Sponsored Health Plans 2007

2008 Benefits & Healthcare Conference

Joan Smyth
New York NY

www.mercer.com

About Mercer's National Survey of Employer-sponsored Health Plans

Oldest

Marking 22 years of measuring health plan trends

Largest

Nearly 3,000 employers participated in 2007

Most comprehensive

44-page questionnaire covers a full range of health benefit issues

Statistically valid

Only Mercer and Kaiser Family Foundation survey this way

Covers the country

Results project to what all US employers (with 10 or more employees) are doing

Strategic

Tracks trends and measures what employers are looking at next

Today's Agenda

Top stories

More on cost

More on Consumerism/CDHPs and Care Management

PPOs, HMOs & Rx – plan design

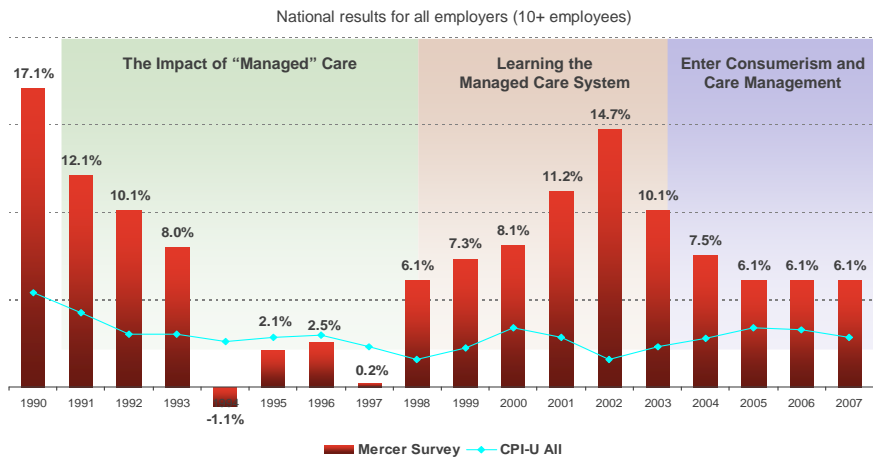
Other items – retirees, state and federal initiatives



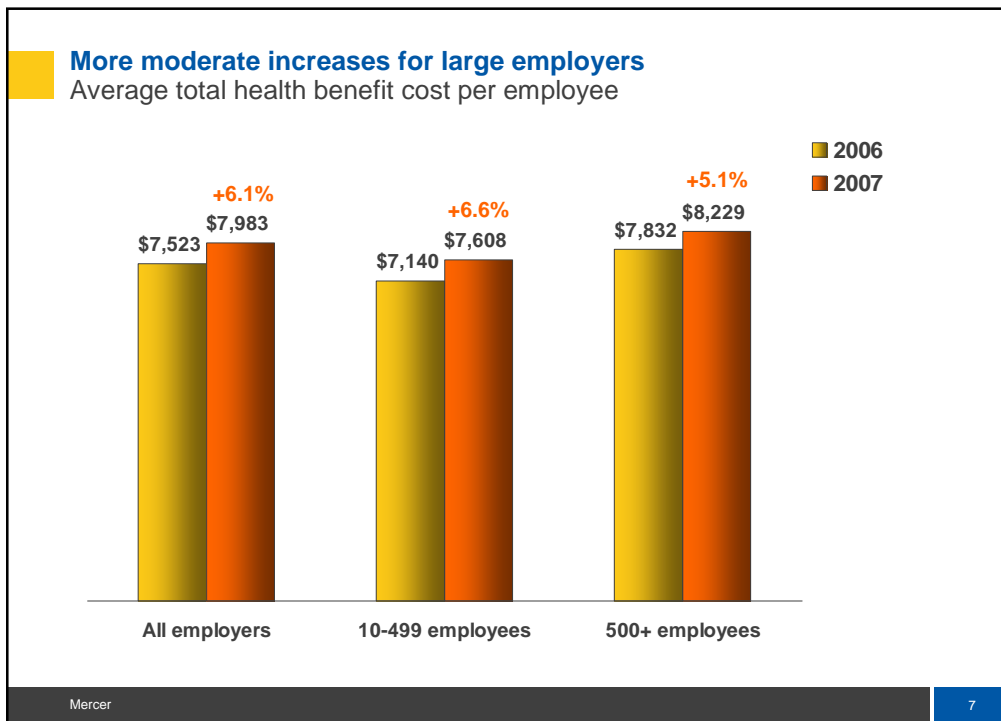
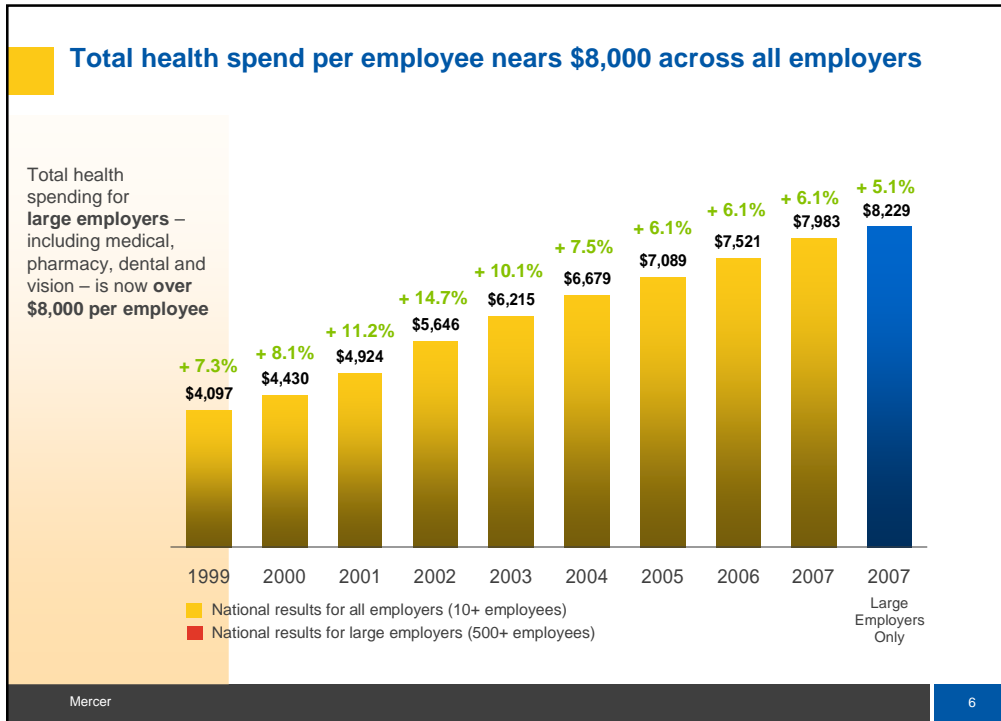
Top Stories

Annual health benefit cost increase levels at 6.1% for third straight year

Total cost trend after plan design changes



Total cost includes medical, pharmacy, dental, vision



Employer use of health management programs growing

Percent of employers offering program

	2004	2007
10-499 employees		
Health risk assessment	13%	20%
Disease management	29%	37%
Nurse advice lines	35%	44%
Case management	—	26%
500-4,999 employees		
Health risk assessment	34%	54%
Disease management	54%	65%
Nurse advice lines	58%	65%
Case management	—	75%

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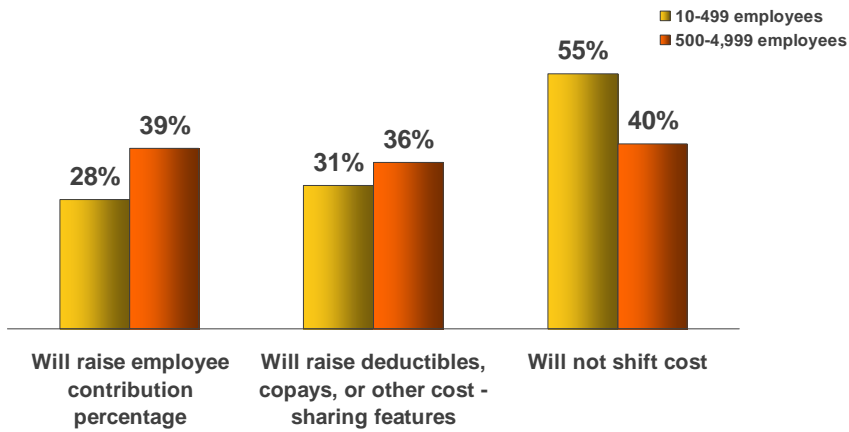
Cost-shifting helped hold down cost in 2007

	2007	2006
10-499 employees		
Require in-network PPO deductible	77%	79%
Average PPO deductible amount	\$872	\$859
Require PPO deductible of \$1,000 or more	43%	39%
Average HMO physician office copay	\$20	\$19
500-4,999 employees		
Require in-network PPO deductible	77%	73%
Average PPO deductible amount	\$484	\$434
Require PPO deductible of \$1,000 or more	14%	9%
Average HMO physician office copay	\$18	\$16

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Employers will continue to shift cost in 2008

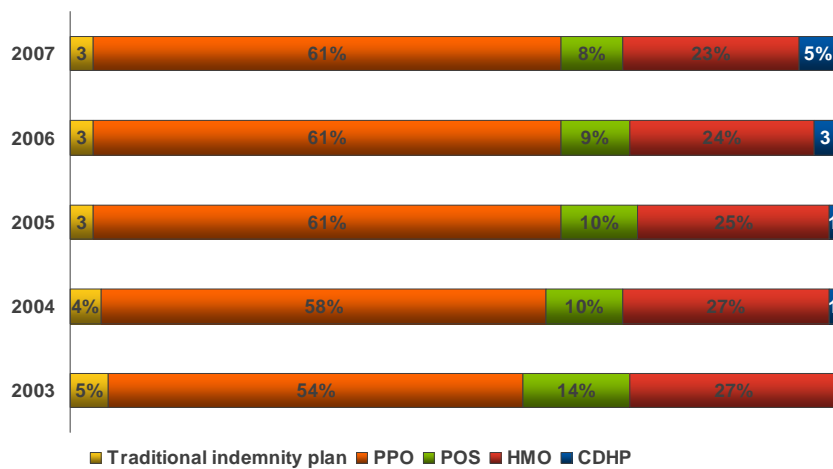


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CDHP enrollment reaches 5% of all covered employees

Percent of covered employees



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Employers favor HSA-based CDHPs over HRA-based plans

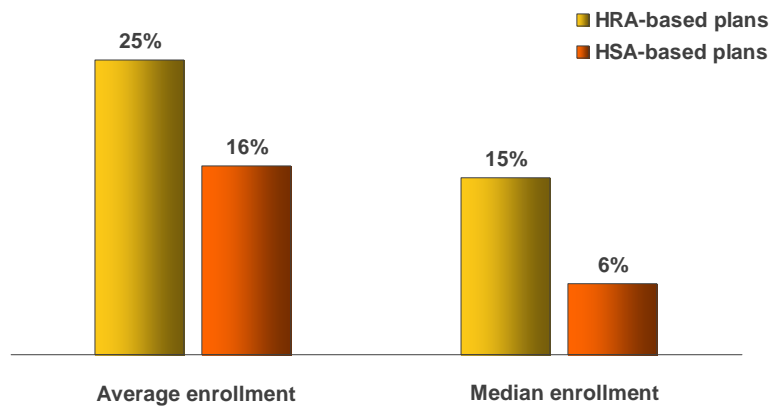
	Offer CDHP in 2007		Very likely to offer CDHP in 2008	
	HSA-based CDHP	HRA-based CDHP	HSA-based CDHP	HRA-based CDHP
10-499 employees	6%	1%	9%	6%
500-4,999 employees	7%	5%	11%	8%
5,000 or more	19%	14%	23%	16%

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Employees more likely to enroll in HRA-based plans

Percent of eligible employees enrolled*, among large CDHP sponsors



* When CDHP is offered as an option alongside other medical plan choice

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Comparing HSA, HRA and PPO plan design

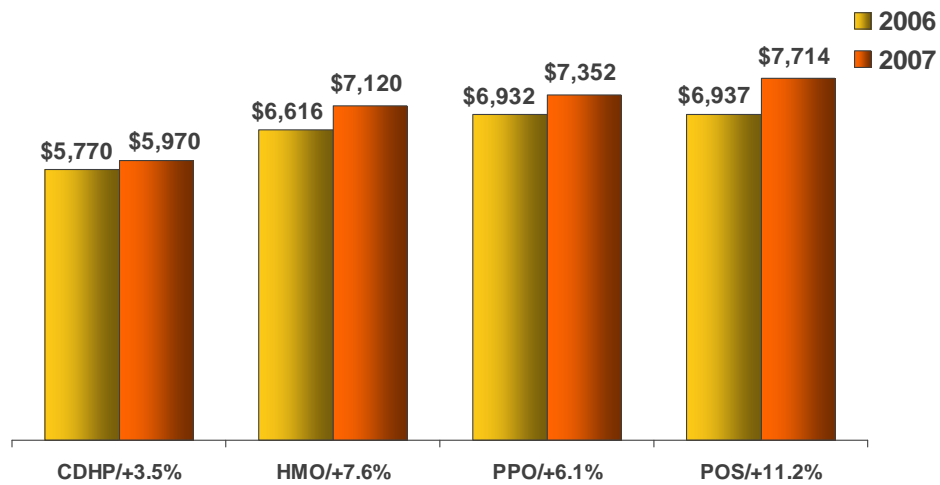
Employers with 500 or more employees

	HSA	HRA	PPO
Average in-network deductible	\$1,769	\$1,457	\$473
% employers contributing to account	65%	100%	–
Average employer account contribution	\$626*	\$621	–
Average "gap"	\$1,143	\$836	\$473
Average cost per employee	\$5,479	\$6,110	\$7,429
Average monthly employee premium contribution	\$69	\$65	\$89

*Based on employers making an HSA contribution. Including zeros, the average employer HSA contribution is \$408.

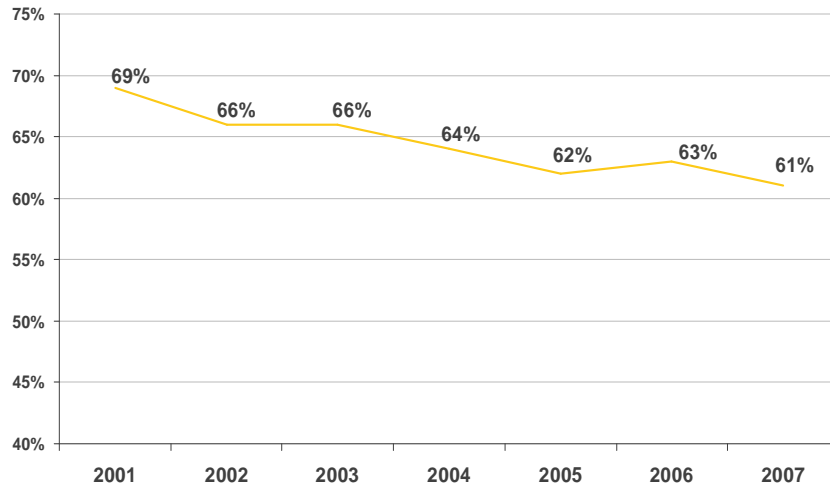
Employers save money with CDHPs

Average cost per employee



Health coverage eroding among small employers

Percent of employers with 10-199 employees that offer coverage

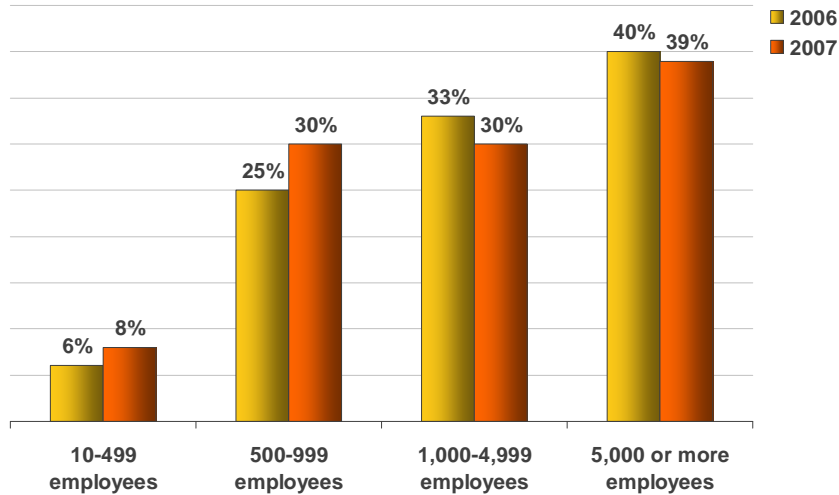


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Surprise uptick in retiree medical offerings in 2007 among smaller employers

Percent of employers offering coverage to any retirees



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Employer cost management activities helping to slow increases

Large employers

	Use strategy	Believe it has been very/ somewhat successful*	Too soon to tell
Health management	80%	63%	33%
Consumerism	52%	62%	29%
Data warehousing	24%	59%	39%
Collective purchasing	21%	84%	13%
Evidence-based plan design	20%	57%	39%
Performance transparency	12%	28%	63%
High-performance networks	11%	54%	44%

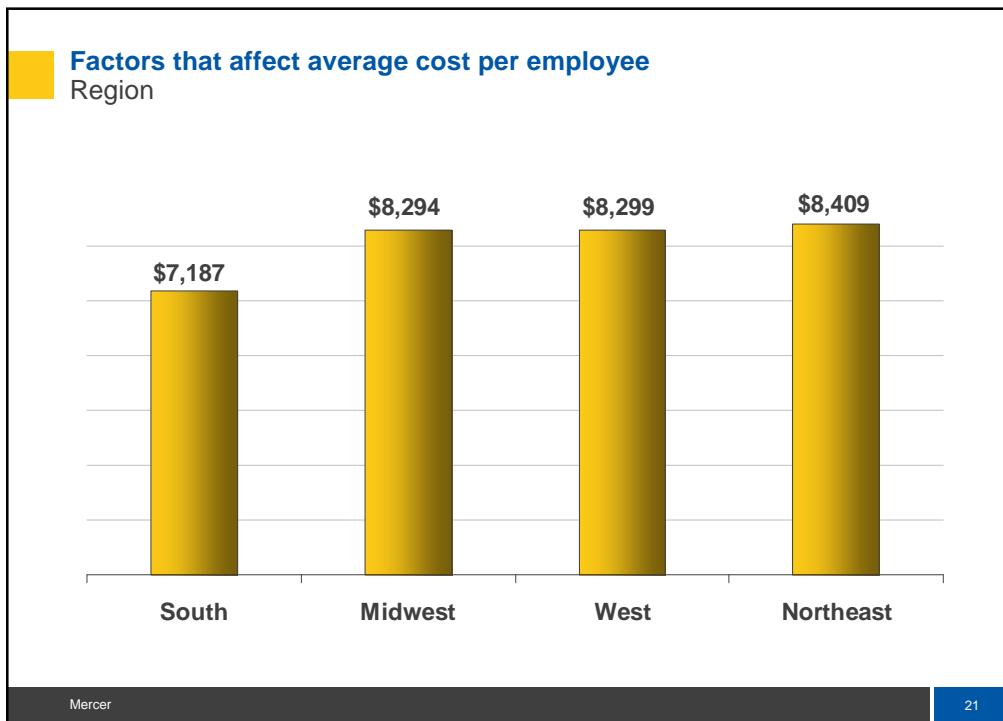
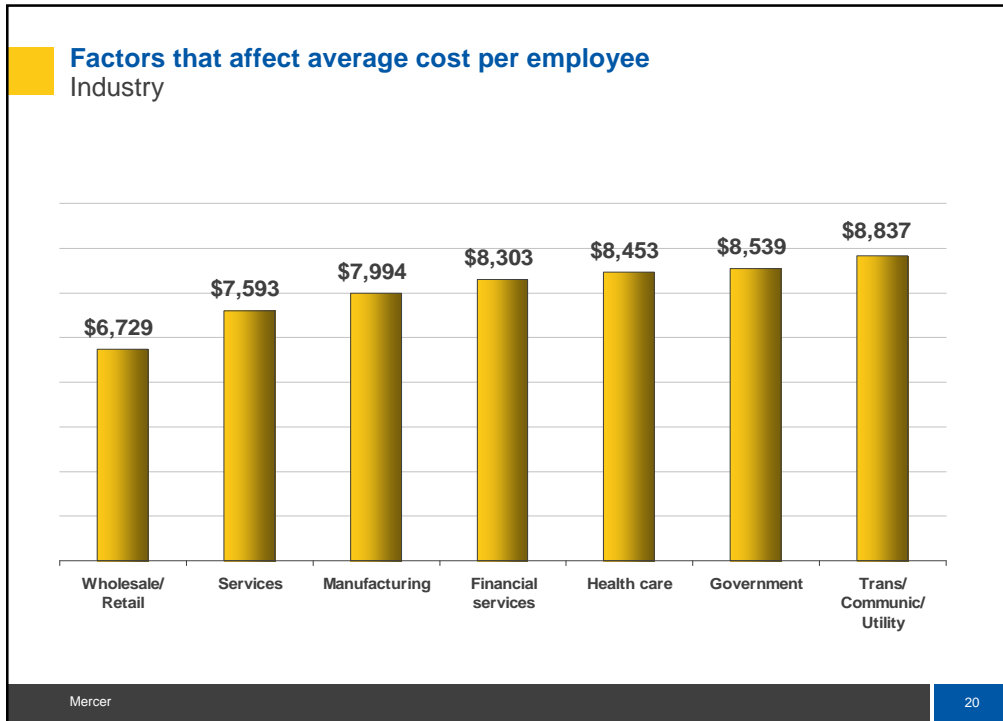
* in efforts to control health benefit cost or improve workforce health and productivity

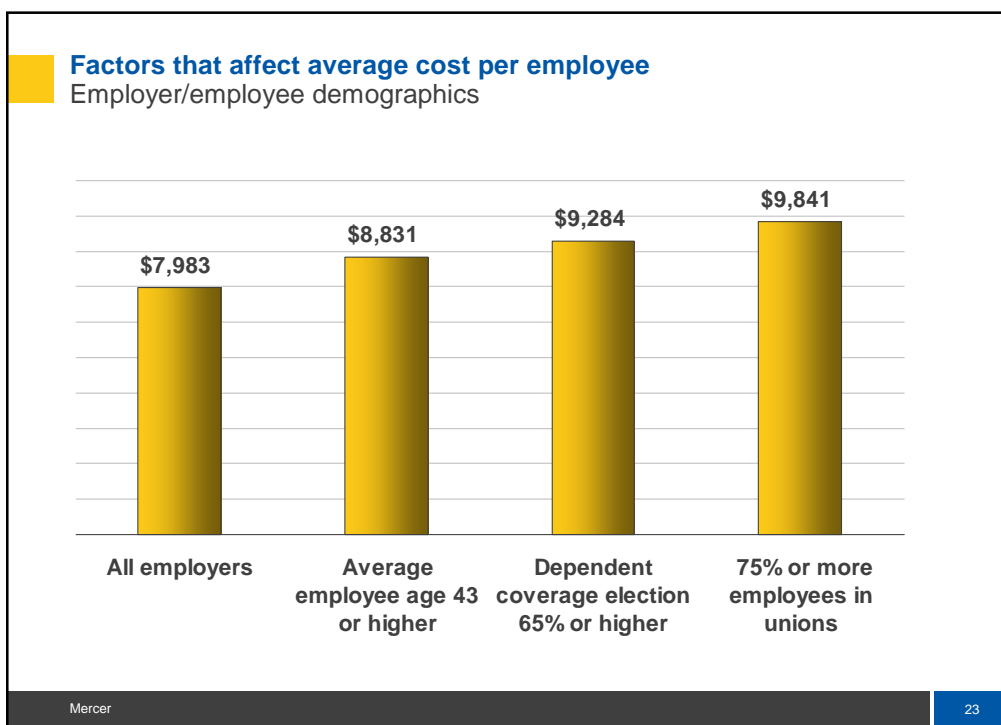
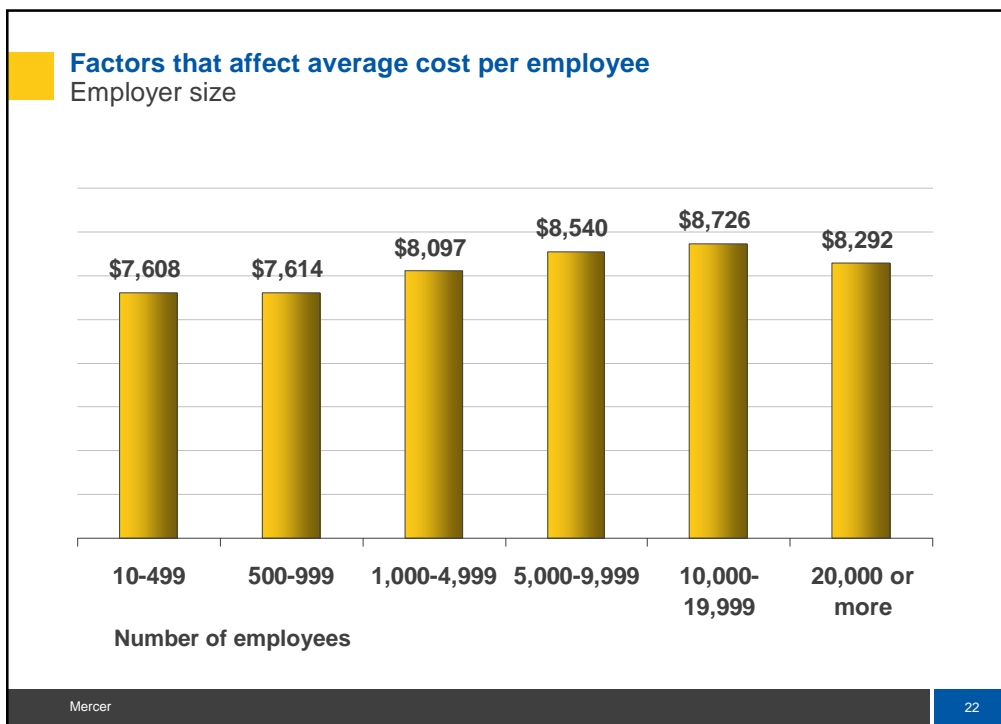
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More on Cost





Survey Results Vary...

Mercer survey tools can be used to best match your specific benchmarking needs

	Financial	Manufacturing	Health Care	Trans/Comm/Util
Company Size	<20,000	5,000 – 19,999	5,000 – 9,999	1,000 – 4,999
Geography	Northeast	Midwest	Northeast	Midwest
Average 2007 Benefit Cost	\$9,471	\$8,903	\$8,617	\$8,911
Increase from 2006	4.1%	4.7%	7.1%	3.7%



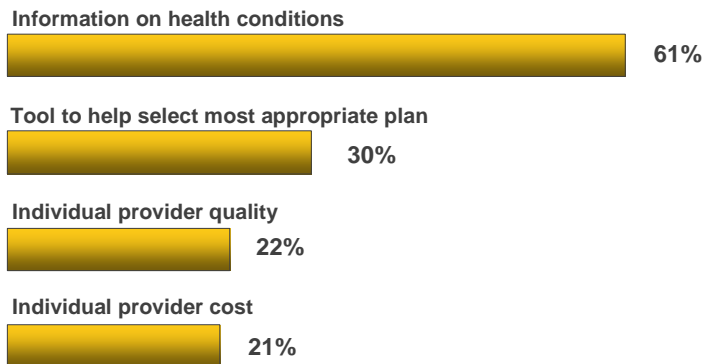
More on Consumerism and CDHPs

What is health care consumerism?

- Healthy behavior
- Personal responsibility for the cost and quality of the services that an individual purchases
- Strategies for encouraging consumerism range from employee communication and information to innovative plan design
- Consumerism is more than a consumer-directed health plan

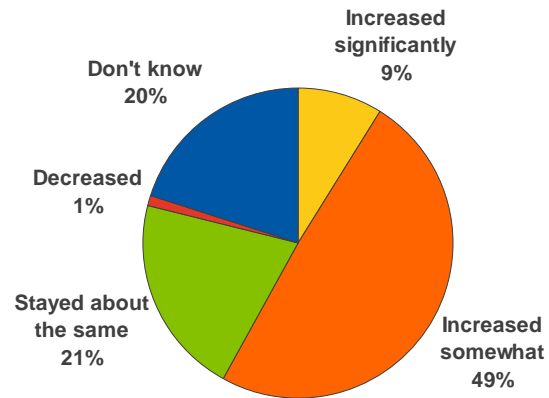
Type of health information provided

Employers with 500 or more employees



Employers see increased utilization of health information

Among large employers* that provide health information



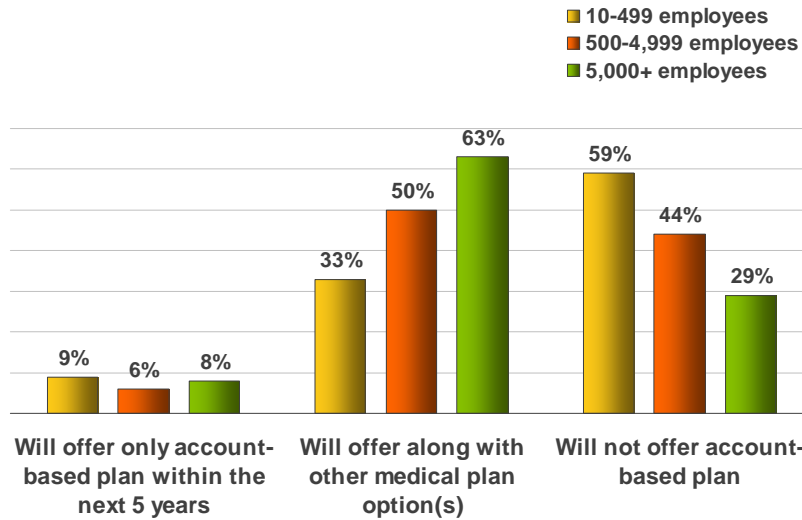
* Employers with 500 or more employees

What is a consumer-directed health plan?

▪ A plan under which employees spend money from Health Reimbursement Accounts (HRAs) or Health Savings Accounts (HSAs) to purchase routine services directly.

- Non-routine expenses are covered by traditional insurance after members meet a generally high deductible.
- Online health and financial tools are typically provided.

Majority of large employers expect to offer an account-based plan near-term, but not as the only plan



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CDHP offerings continue to grow, but at slower pace

Percent of employers offering/likely to offer CDHP, by employer size

Employer size	2005	2006	2007	Very likely to offer in 2008
10-49 employees	2%	5%	6%	10%
50-199	1%	7%	9%	13%
200-499	5%	7%	6%	12%
500-999	4%	6%	9%	11%
1,000-4,999	4%	12%	16%	21%
5,000-9,999	10%	18%	22%	28%
10,000-19,999	19%	21%	36%	40%
20,000 or more	22%	37%	41%	43%

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More on Consumerism: HRA-based CDHPs

Employee monthly dollar contributions for HRA-based CDHP coverage lower than for PPO and HMO coverage

Employers with 500-4,999 employees

	No contribution required	Average monthly dollar amount	Average contribution as a % of premium
HRA-based CDHP			
Employee-only	8%	\$67	23%
Family	2%	\$285	35%
PPO			
Employee-only	17%	\$90	23%
Family	6%	\$338	35%
HMO			
Employee-only	17%	\$87	23%
Family	5%	\$345	36%

HRA-based CDHP plan design

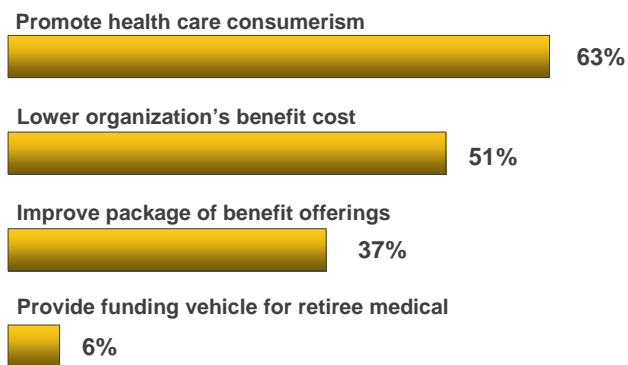
HRA sponsors with 500-4,999 employees

	Employer contribution (median)	Deductible (median)	Out-of-pocket maximum (median)
Employee-only	\$500	\$1,250	\$2,200
Family	\$1,000	\$2,500	\$4,500

- 33% of sponsors set a maximum on amount that may be rolled over
- 31% of sponsors allow HRA funds to be carried forward to purchase retiree medical coverage

Objectives for HRA-based CDHPs

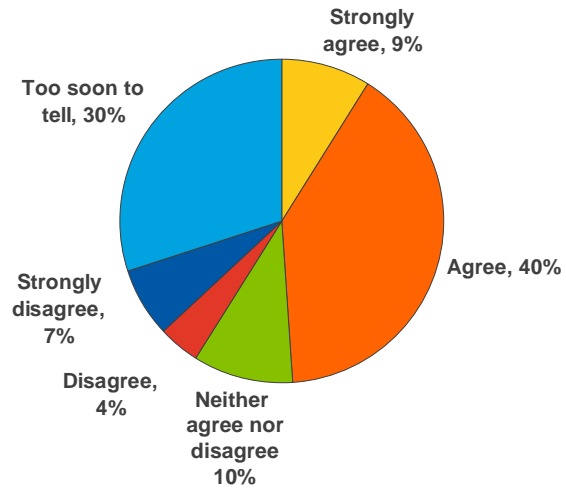
Percent of large HRA sponsors* rating objective "very important"



* Employers with 500-4,999 employees

Employer reaction to HRA-based plan: “Most important objectives have been met”

HRA sponsors with 500-4,999 employees

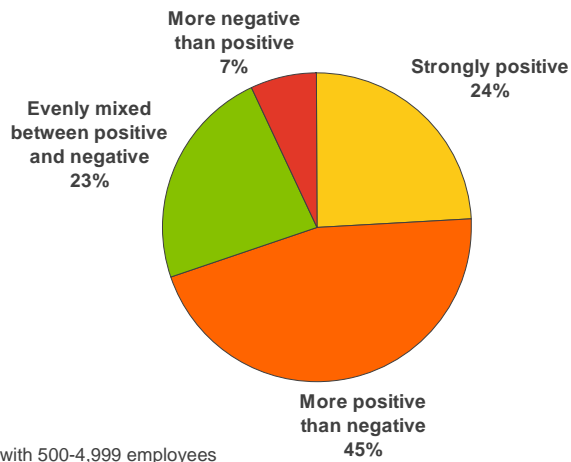


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Employee reaction to HRA-based CDHP

Large HRA sponsors* characterize the response of employees enrolled in the plan



* Employers with 500-4,999 employees

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More on Consumerism: HSA-based CDHPs

Employee monthly dollar contributions for HSA-based CDHP coverage lower than for PPO and HMO coverage

Employers with 500-4,999 employees

	No contribution required	Average monthly dollar amount	Average contribution as a % of premium
HSA-based CDHP			
Employee-only	14%	\$76	29%
Family	6%	\$301	35%
PPO			
Employee-only	17%	\$90	23%
Family	6%	\$338	35%
HMO			
Employee-only	17%	\$87	23%
Family	5%	\$345	36%

CDHP plan design—HSA

HSA sponsors with 500-4,999 employees

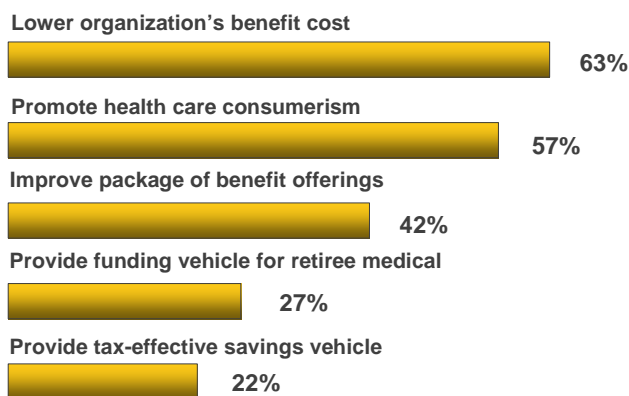
* Zeros not included

	No employer contribution (percent of sponsors)	Employer contribution amount* (median)	Deductible (median)	Out-of-pocket maximum (median)
Employee-only	36%	\$535	\$1,500	\$2,650
Family	37%	\$1,000	\$3,000	\$5,000

- 89% of sponsors selected the HSA for employees to use with their HDHP
- Of those,72% of sponsors allow employees to make payroll deductions to fund their account
- 71% provide a debit (swipe) card that members use at the point of service to access HSA funds

Objectives for HSA-based CDHPs

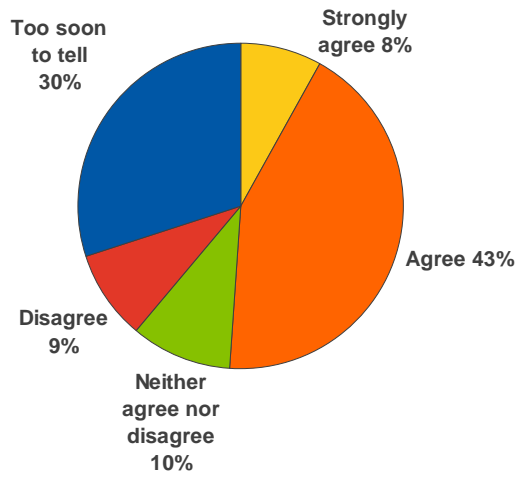
Percent of large sponsors* rating objective “very important”



* Employers with 500-4,999 employees

Employer reaction to HSA-based plan: “Most important objectives have been met”

HSA sponsors with 500-4,999 employees

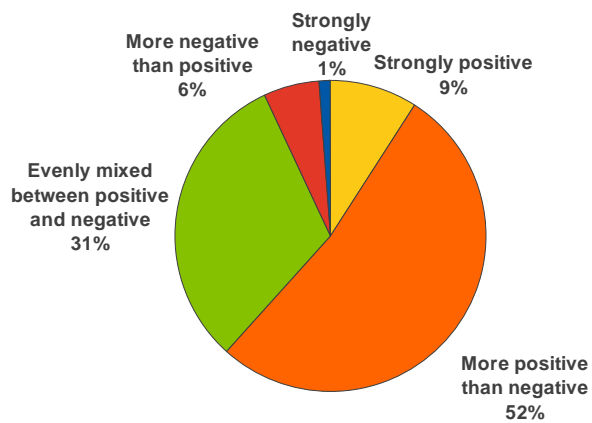


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Employee reaction to HSA-based CDHP

Large HSA sponsors* characterize the response of employees enrolled in the plan



* Employers with 500-4,999 employees

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More on Care Management

Use of specific health management programs

	10-499 employees	500-4,999 employees
Health website	58%	77%
Case management	26%	75%
Nurse advice line	44%	65%
Health risk assessment	20%	54%
End-of-life case management	15%	41%
Health advocate services	21%	37%
Targeted behavior modification	16%	29%

Use of specific disease management programs

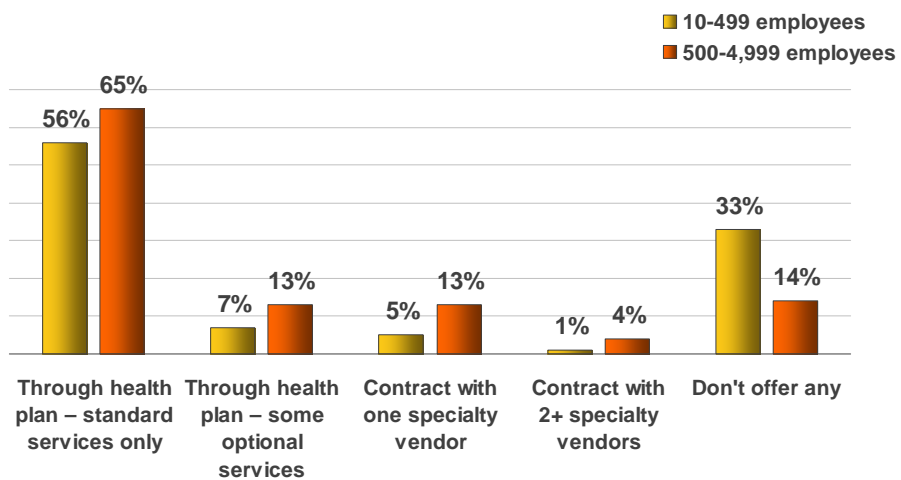
Offered to employees enrolled in primary medical plan

	10-499 employees	500-4,999 employees
Diabetes	29%	61%
Heart disease/hypertension	25%	53%
Asthma	22%	46%
Cancer	27%	42%
Depression	27%	34%
Renal disease	16%	31%
Obesity	17%	31%
Low back pain	16%	28%
Rare diseases	15%	23%
Any disease management program	37%	65%

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How health management programs are offered



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Use incentives to encourage participation in care management programs offered

	10-499 employees	500-4,999 employees
Completing a Health Risk Assessment	10%	27%
Participation in a disease management program	4%	10%
Participation in a behavior modification program	9%	21%
Completing a behavior modification program	7%	16%
Any health management programs	7%	22%

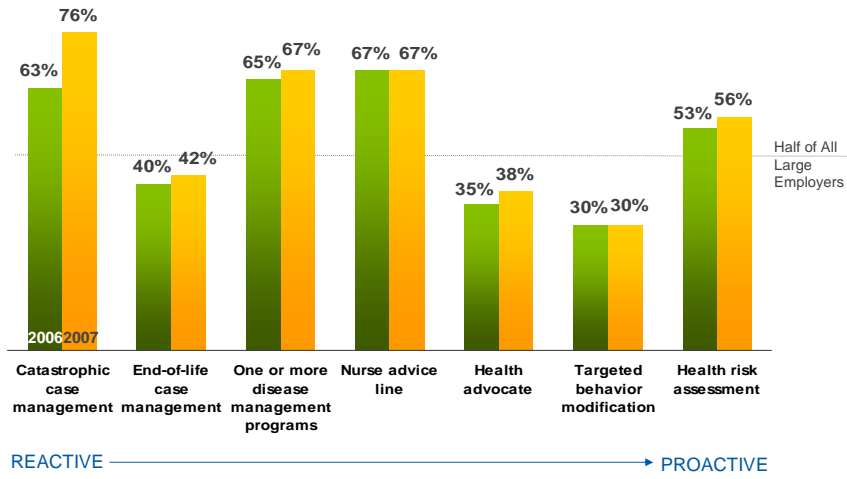
Consumerism initiatives for large employers (over 500 employees)

	Large employers	Largest employers
■ Replaced copays with coinsurance*	16%	36%
■ Vary premium contribution based on health status	5%	16%
■ Use evidence-based design	20%	24%
– Reduce cost-sharing for maintenance drugs	10%	11%
– Waive/reduce copays for specific, effective drug therapies	5%	6%
– Waive/reduce copays for specific, effective treatment modalities	3%	4%

* Change made in the last two years

Care management programs becoming the norm for large employers

Percent of large employers offering program in 2006 & 2007



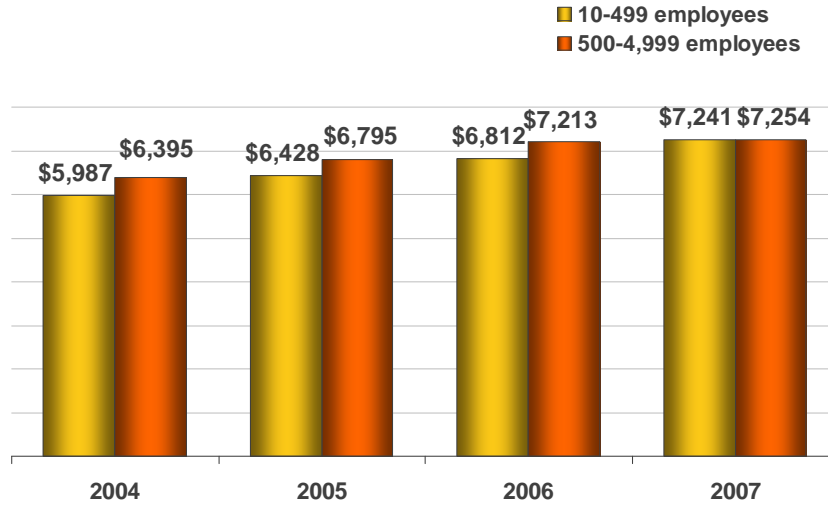
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Preferred Provider Organizations

PPO cost per employee, 2003-2007



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Offer PPO; percent of employees enrolled

	10-499 employees	500-4,999 employees
Percent of employers offering PPO	64%	85%
Percent of employees enrolled in PPO	64%	68%

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Employee cost-sharing requirements for PPO

Employers with 10-499 employees

DEDUCTIBLE (MEDIAN)	In-network	Out-of-network
Require deductible	77%	81%
Individual amount (median)	\$500	\$1,000
Family amount (median)	\$1,500	\$1,500
DOCTOR'S OFFICE VISIT		
Require copay	88%	39%
Copay amount (median)	\$20	\$25
Require coinsurance	7%	55%
Coinsurance amount (median)	20%	30%
HOSPITALIZATION		
Require per-admission copay	24%	17%
Copay amount (median)	\$400	\$500
Require coinsurance	51%	73%
Coinsurance amount (median)	20%	30%
OUT-OF-POCKET MAXIMUM		
Plan includes maximum	77%	77%
Individual OOP max (median)	\$2,000	\$3,000

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Employee cost-sharing requirements for PPO

Employers with 500-4,999 employees

DEDUCTIBLE (MEDIAN)	In-network	Out-of-network
Require deductible	77%	94%
Individual amount (median)	\$300	\$500
Family amount (median)	\$900	\$1,200
DOCTOR'S OFFICE VISIT		
Require copay	82%	14%
Copay amount (median)	\$20	\$20
Require coinsurance	19%	85%
Coinsurance amount (median)	20%	30%
HOSPITALIZATION		
Require per-admission copay	23%	16%
Copay amount (median)	\$250	\$350
Require coinsurance	65%	88%
Coinsurance amount (median)	20%	30%
OUT-OF-POCKET MAXIMUM		
Plan includes maximum	83%	85%
Individual OOP max (median)	\$2,000	\$3,200

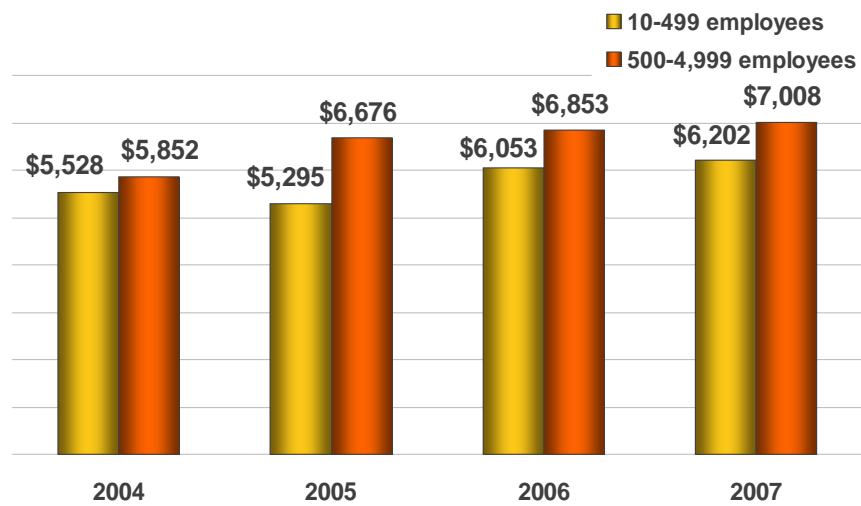
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Health Maintenance Organizations

HMO plan cost per employee, 2004-2007



Offer HMO; percent of employees enrolled

	10-499 employees	500-4,999 employees
Percent of employers offering HMO	27%	36%
Percent of employees enrolled in HMO	18%	21%

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Employee cost-sharing requirements for HMO

	10-499 employees	500-4,999 employees
MEDIAN PHYSICIAN COPAYMENT	\$20	\$15
HOSPITAL DEDUCTIBLE		
Employers requiring deductible	52%	54%
Median deductible	\$250	\$250
EMERGENCY ROOM COPAYMENT		
Employers requiring copayment	93%	96%
Median copayment	\$75	\$75

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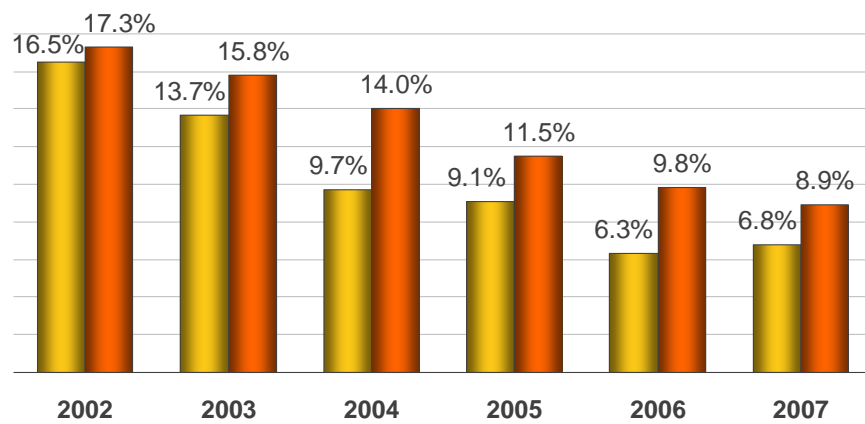


Prescription Drug Benefits

Prescription drug benefit cost increase continues to slow for mid-sized employers

Cost increase in primary medical plan

■ 10-499 employees
■ 500-4,999 employees



Majority of employers require 3-tier copayments in drug card plans

Type of cost-sharing used in employers' primary medical plan

	10-499 employees	500-4,999 employees
Cost-sharing structure:		
1 tier	3%	3%
2 tiers for generic, brand drugs	27%	18%
3 tiers for generic, formulary brand, non-formulary brand	64%	71%
Four or five tiers	5%	5%
No cost-sharing required	1%	--

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Average copayment amounts in prescription drug card plan

In employers' primary medical plan

	10-499 employees	500-4,999 employees
Two-tier copayments		
Generic	\$13	\$10
Brand-name	\$30	\$25
Three-tier copayments		
Generic	\$12	\$10
Formulary brand	\$26	\$25
Non-formulary brand	\$44	\$42

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Average copayment amounts in prescription drug *mail-order* plan

In employers' primary medical plan

	10-499 employees	500-4,999 employees
Two-tier copayments		
Generic	\$17	\$17
Brand-name	\$36	\$38
Three-tier copayments		
Generic	\$18	\$19
Formulary brand	\$41	\$48
Non-formulary brand	\$69	\$78

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Use of coinsurance in drug plans

Percent of employers requiring coinsurance

	10-499 employees		500-4,999 employees	
	Retail card	Mail-order	Retail card	Mail-order
Generic drugs	3%	1%	6%	5%
Formulary brand	4%	3%	7%	6%
Non-formulary brand	5%	4%	9%	6%
Specialty/biotech/ lifestyle	2%	--	2%	2%
Any drug category	10%	7%	17%	14%

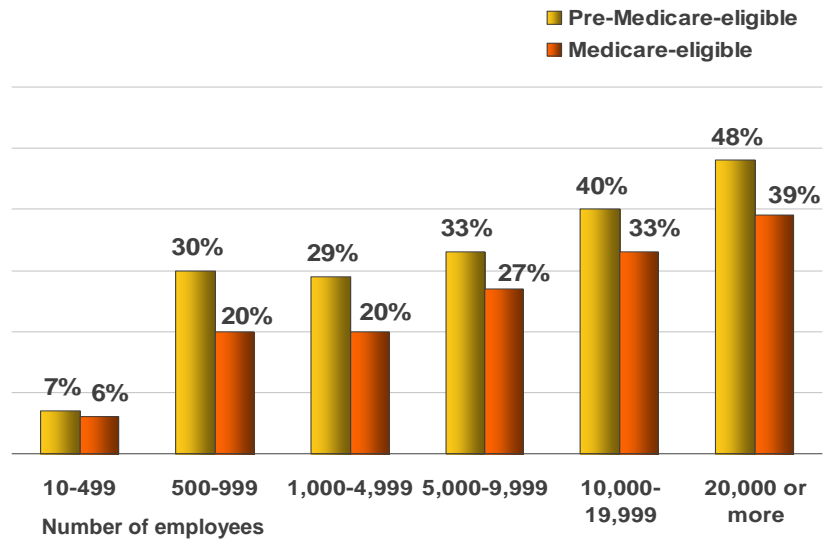
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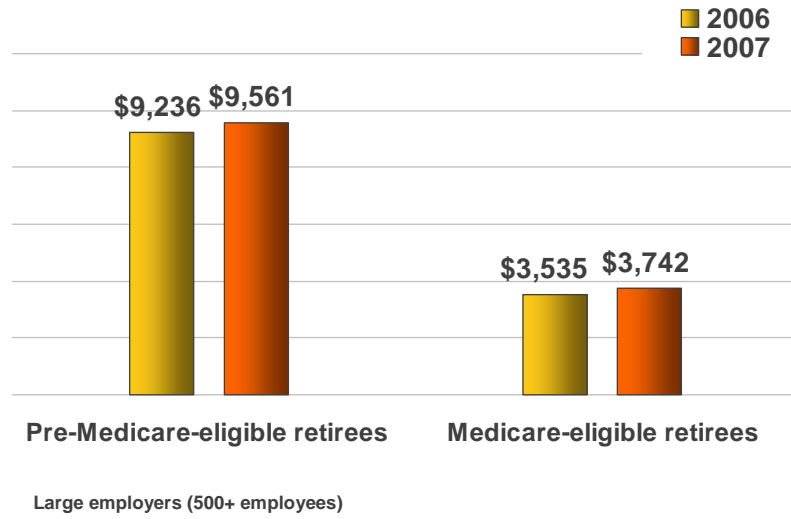
Other items

Offer retiree coverage in 2007, by employer size



Average health benefit cost per retiree

Based on 2007 respondents providing both 2006 and 2007 cost

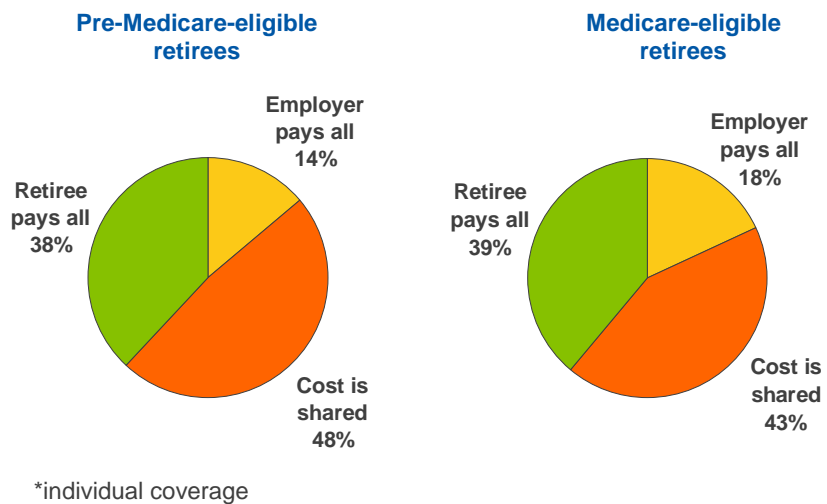


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Contribution strategies* for retirees

Large retiree plan sponsors



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Employer opinions on health reform initiatives or proposals

Reform effort	Disapprove/ Strongly disapprove	Approve/ Strongly approve
"Pay or play" -- requiring employers to offer a health plan or pay into a fund to provide coverage for the uninsured	50%	23%
Individual mandates -- requiring individuals to purchase health insurance, at specified levels of coverage and cost	48%	23%
Extending the age of children entitled to dependent coverage	23%	48%
Making section 125 cafeteria plans a requirement to allow all employees (including those not eligible for coverage) to make pretax premium contributions	18%	61%
Connector or exchange agencies that provide access to affordable insurance for individuals and small businesses	15%	58%

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The trillion-dollar question – increasing access for the uninsured

Do employers have a role?

- The high number of uninsured contributes to the fact that the US ranks only 20th out of 30 developed nations in longevity, while outspending all of them.
- Uncontrolled cost growth has been a key factor in the problem of the uninsured
- Employer and health industry initiatives have helped slow cost growth in recent years and continue to show promise
- Government-led reform needs to build on this progress -- this time around, employers should and will have a seat at the table

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