

MERCER



7th Annual
2011 Health Care Benefits New York
Show & Conference

Welcome!

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

Oldest

Marking 25 years of measuring health plan trends

Largest

Over 2800 employers participated in 2010

Most comprehensive

Extensive online 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

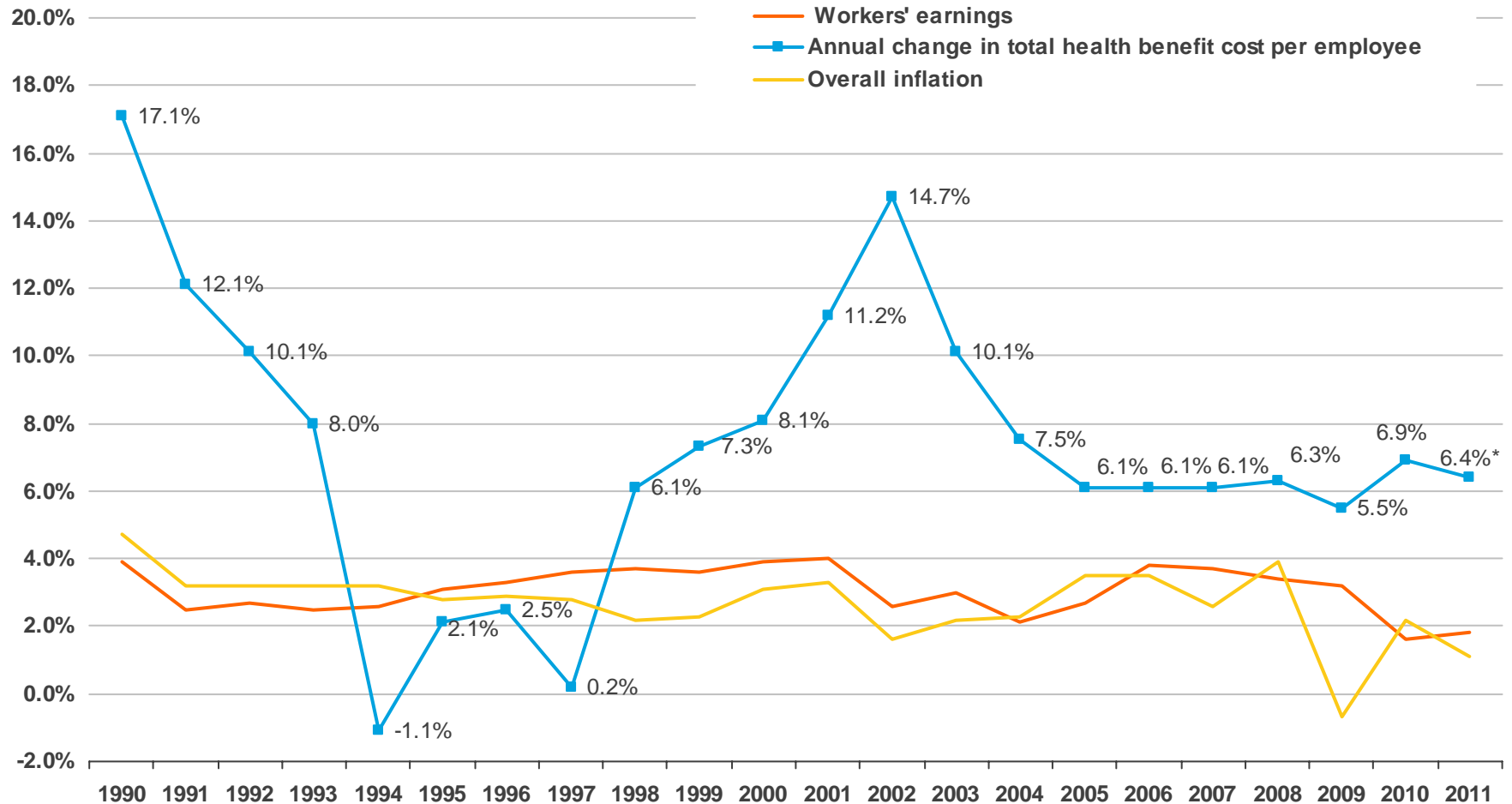
Tracks trends and measures what employers are looking at next

Unless noted, results are shown for “Large Employers” (500+ employees); Select results also shown for Small (under 500), Jumbo (20,000+) & All Groups



Top Stories

Total health benefit cost per employee rises 6.9% in 2010, the sharpest increase since 2004



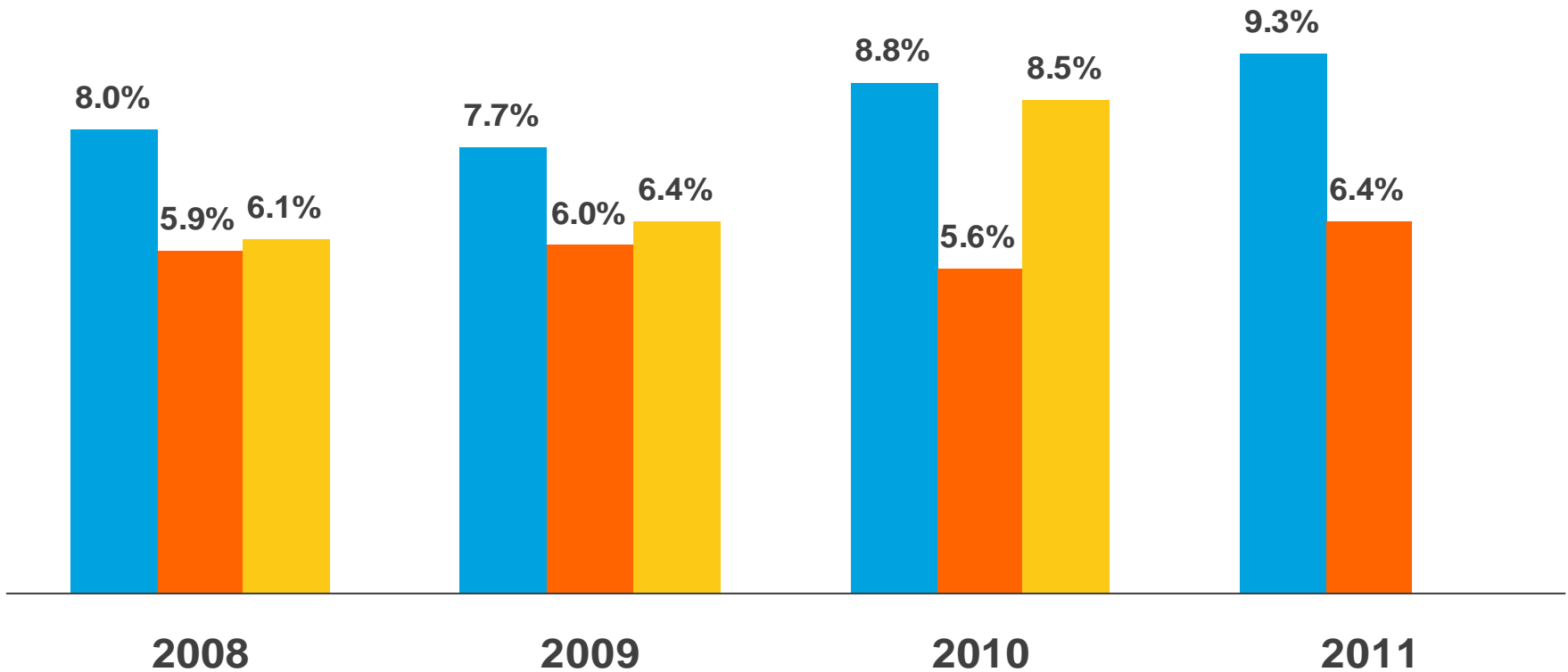
*Projected

Source: Mercer's National Survey of Employer-Sponsored Health Plans; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April) 1990-2010; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey (April to April) 1990-2010.

While the underlying health benefit cost trend is rising, employers will work to keep 2011 increases to about the same level as past years

Large employers

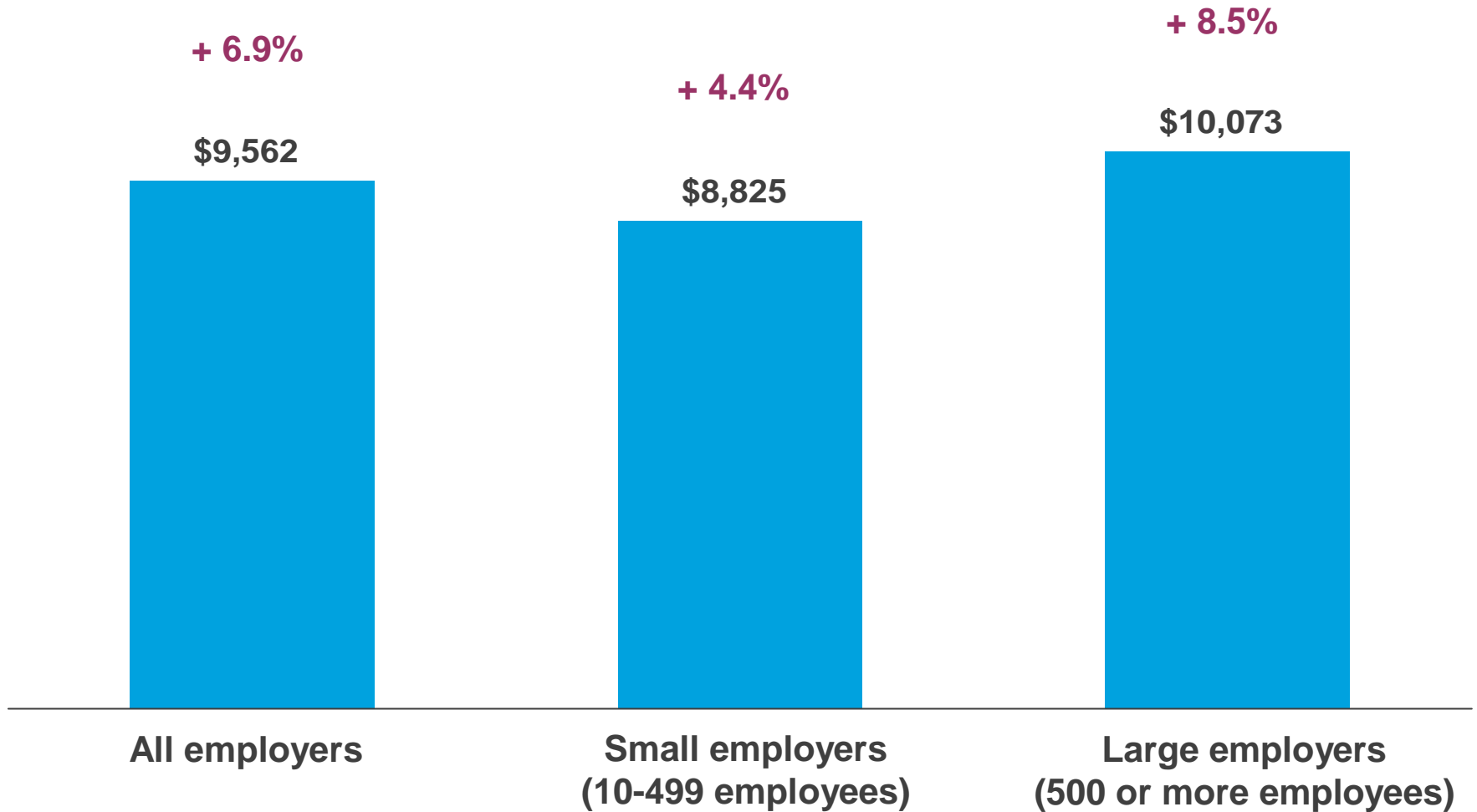
- Predicted increase, before changes*
- Predicted increase, after changes*
- Actual increase



*to plan design or health plan vendor

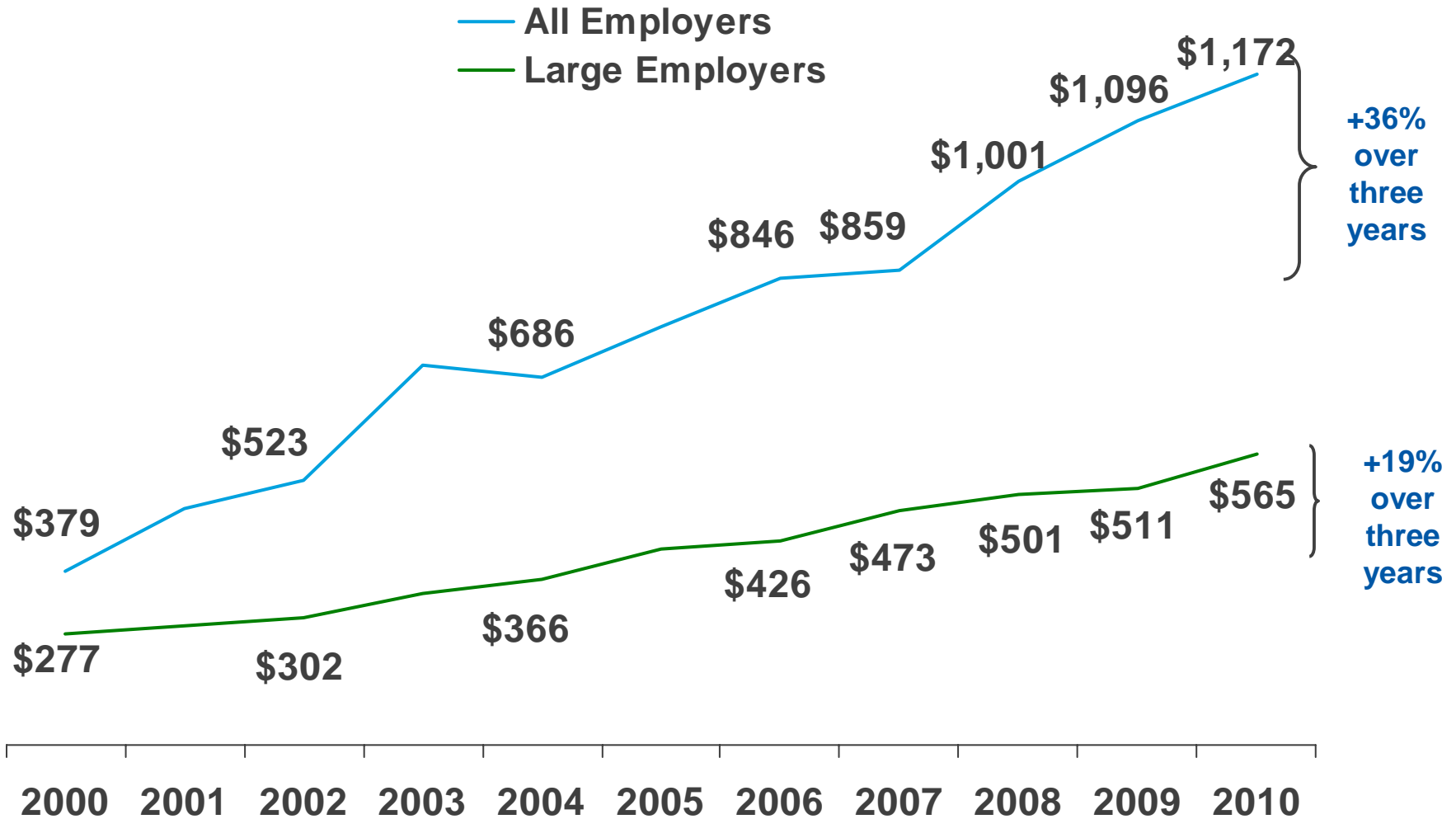
Cost rose fastest among large employers

Total health benefit cost per employee in 2010, by employer size



Employee cost features continue to rise

PPO – average individual in-network deductible



With more than half of the nation's largest employers now offering a CDHP, enrollment is climbing

	CDHP* offered in:			Percent of employees enrolled:		
	2008	2009	2010	2008	2009	2010
Small employers (10-499 employees)	9%	15%	16%	6%	10%	12%
All large employers (500 or more employees)	20%	20%	23%	7%	8%	10%
Jumbo employers (20,000 or more employees)	45%	43%	51%	8%	9%	15%

*Based on either a health savings account or health reimbursement arrangement.

Employers with more intensive health management programs have reported lower annual cost increases, on average, for two years

- Employer groups compared:
 - Offer only the standard health management services provided by the health plan or no health management services at all
 - Offer some optional health management services through the health plan, and/or contract with a separate specialty vendor to provide health management services to employees
- Compared the average health plan cost increase for 2010
- The average increase for the group offering more intensive health management was more than two points lower than the average for the less intensive group.
- Results using last year's survey data were similar, providing some validation of the methodology

With health reform bringing new cost pressures, employers need to focus on managing cost for the foreseeable future

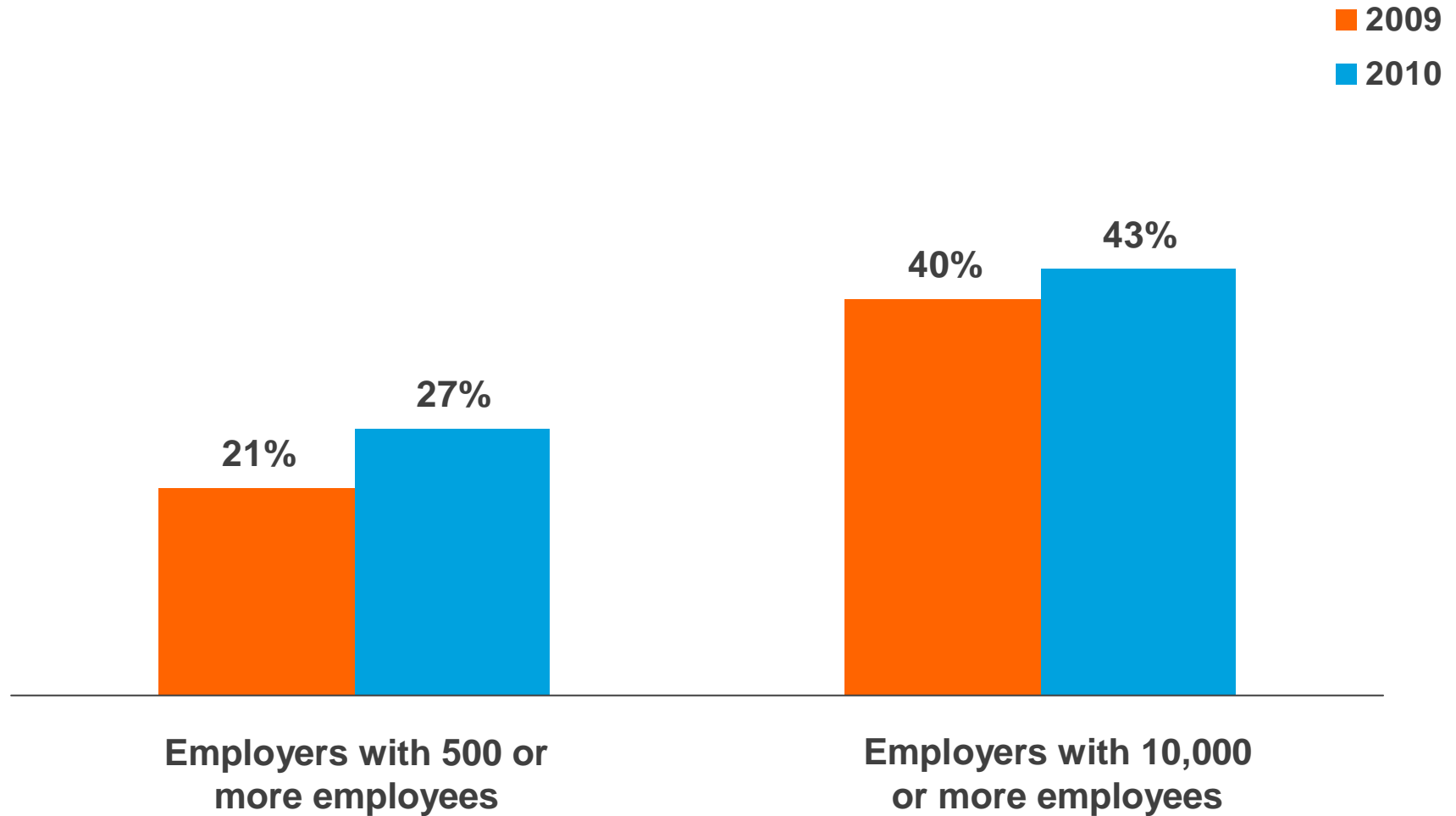
What's working, according to the survey?

- Health management: The majority of employers that have invested in health management are satisfied with their return
 - Employers are increasingly providing meaningful financial incentives for employees to participate in HM programs
- Consumer-directed health plans: As these plans become more familiar, they are providing a welcome low-cost option
 - With the majority of jumbo employers now offering a CDHP, this new plan model may be approaching the tipping point
 - A handful of very large employers have braved full replacement
- Advanced strategies focused on quality and efficiency
 - Centers of excellence, world-class surgical centers
 - Medical homes
 - Value-based design



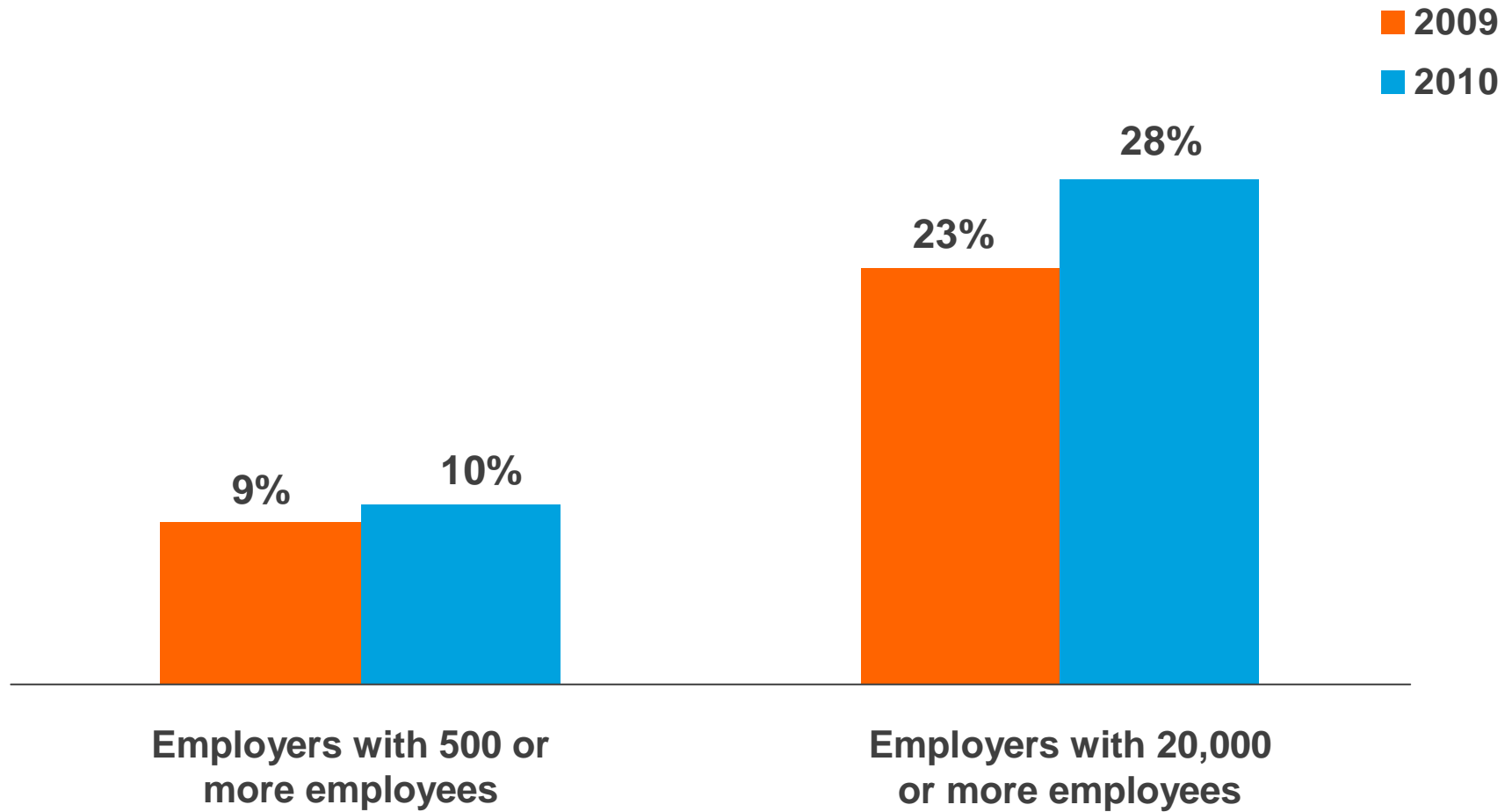
More on Consumerism – Health Management

More employers offering incentives to boost employee participation in wellness / health management programs

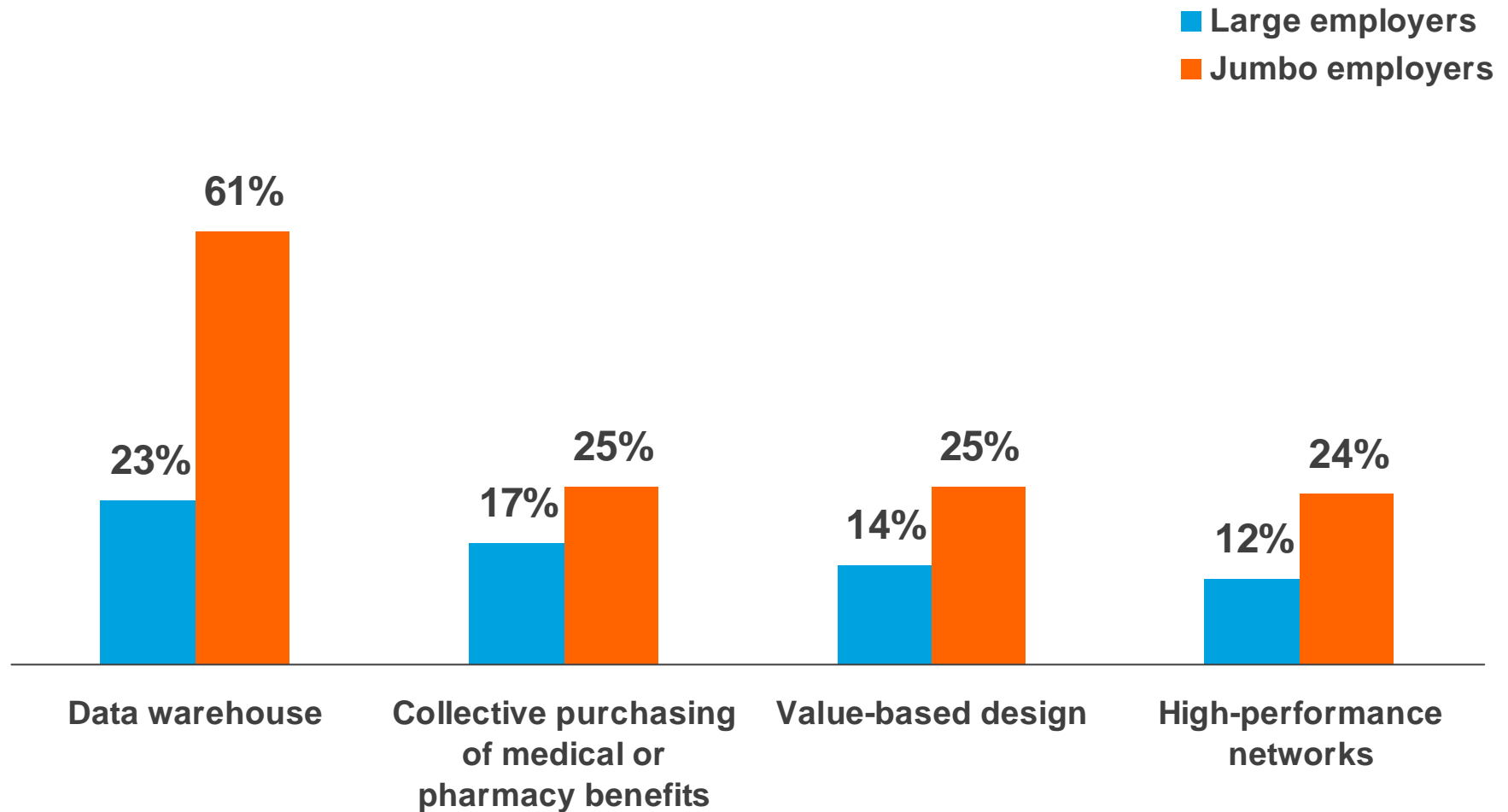


Require lower premium contributions for nonsmokers

Percent of employers



Largest employers using advanced cost-management strategies



Use of specific disease management programs

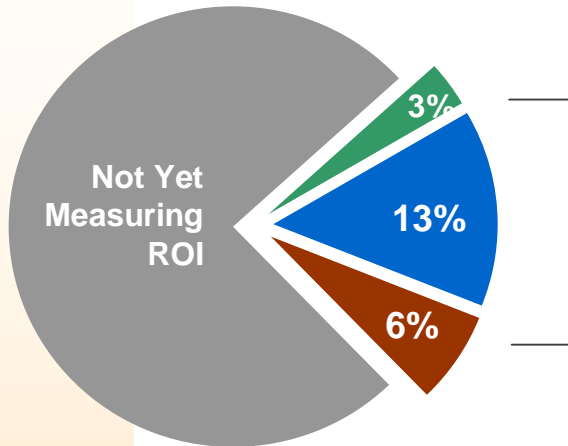
Offered to employees enrolled in primary medical plan

	Large employers	Jumbo employers
Diabetes	68%	90%
Asthma	56%	82%
Coronary Artery Disease (CAD)	50%	77%
Congestive Heart Failure (CHF)	48%	75%
Hypertension	46%	61%
Cancer	42%	48%
Depression	34%	44%
Obesity	32%	49%
Low back pain	29%	51%
Rare diseases	23%	23%
Any disease management program	73%	92%

Most employers are satisfied with health management programs' ROI

And more are measuring, especially those with the most exposure

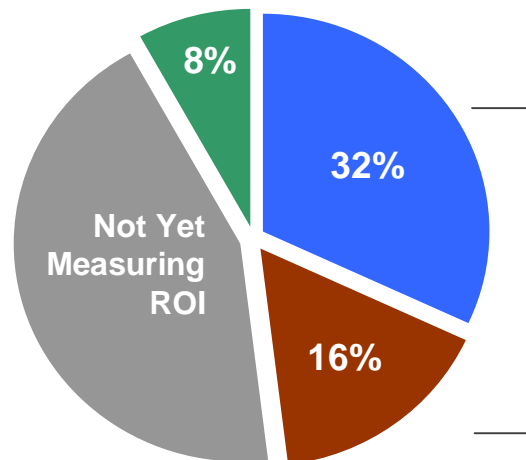
Large Employers



→ 57%

Satisfied with ROI

Largest Employers



→ 50%

- Measuring ROI Using Vendor/Carrier Reports
- Measuring ROI Using Internal Data & Vendor/Carrier Reports
- Measuring ROI Using Internal Staff

Health management incentives

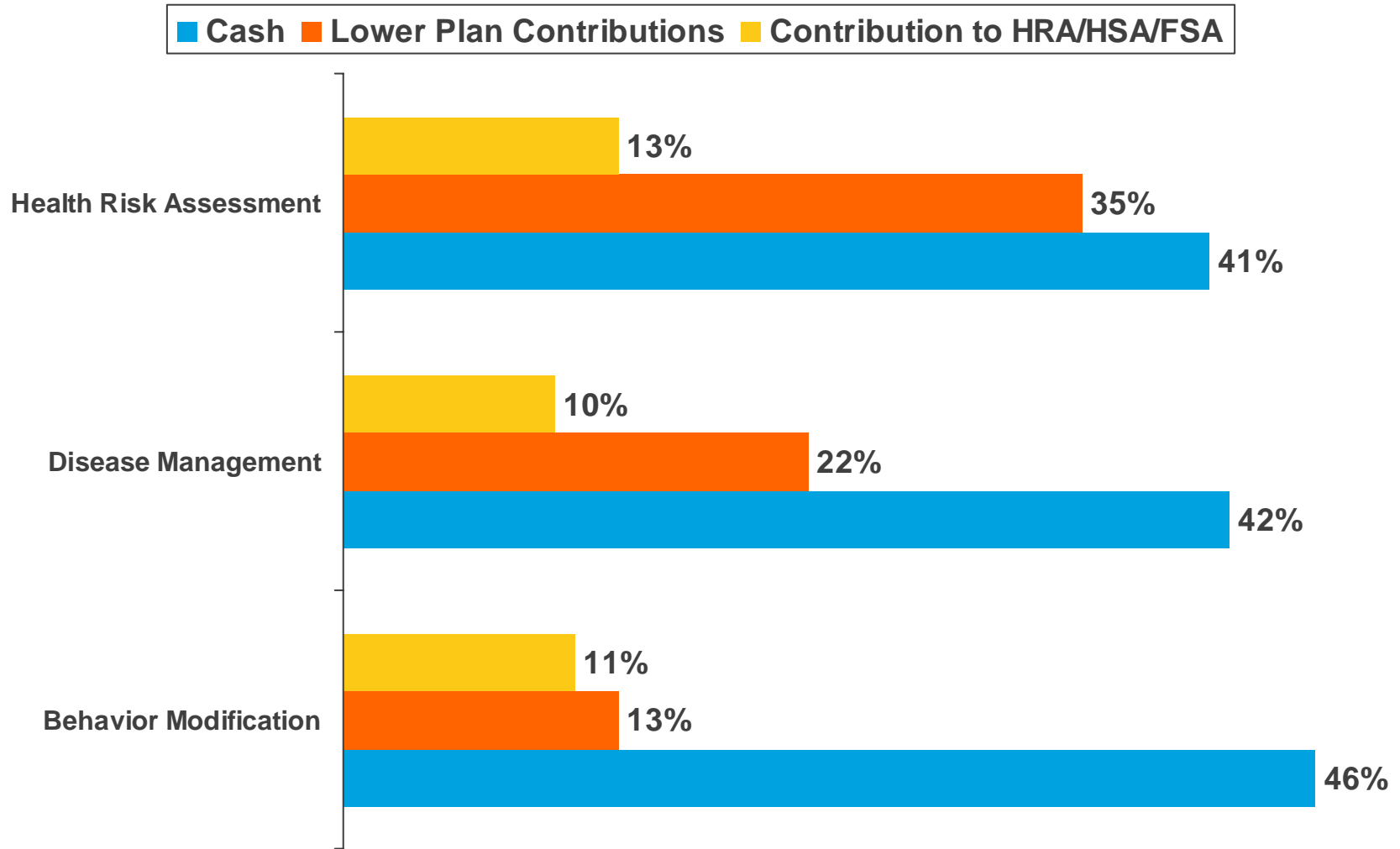
Based on large employers offering the program

	Large employers	Jumbo employers
Provide incentive for completion of health risk assessment	31%	48%
Average cash value of incentive	\$125	ID
Provide incentive for participating in disease management program	10%	23%
Provide incentive for participating in behavior modification program	18%	34%

ID = Insufficient data

Type of incentive used with different health management programs

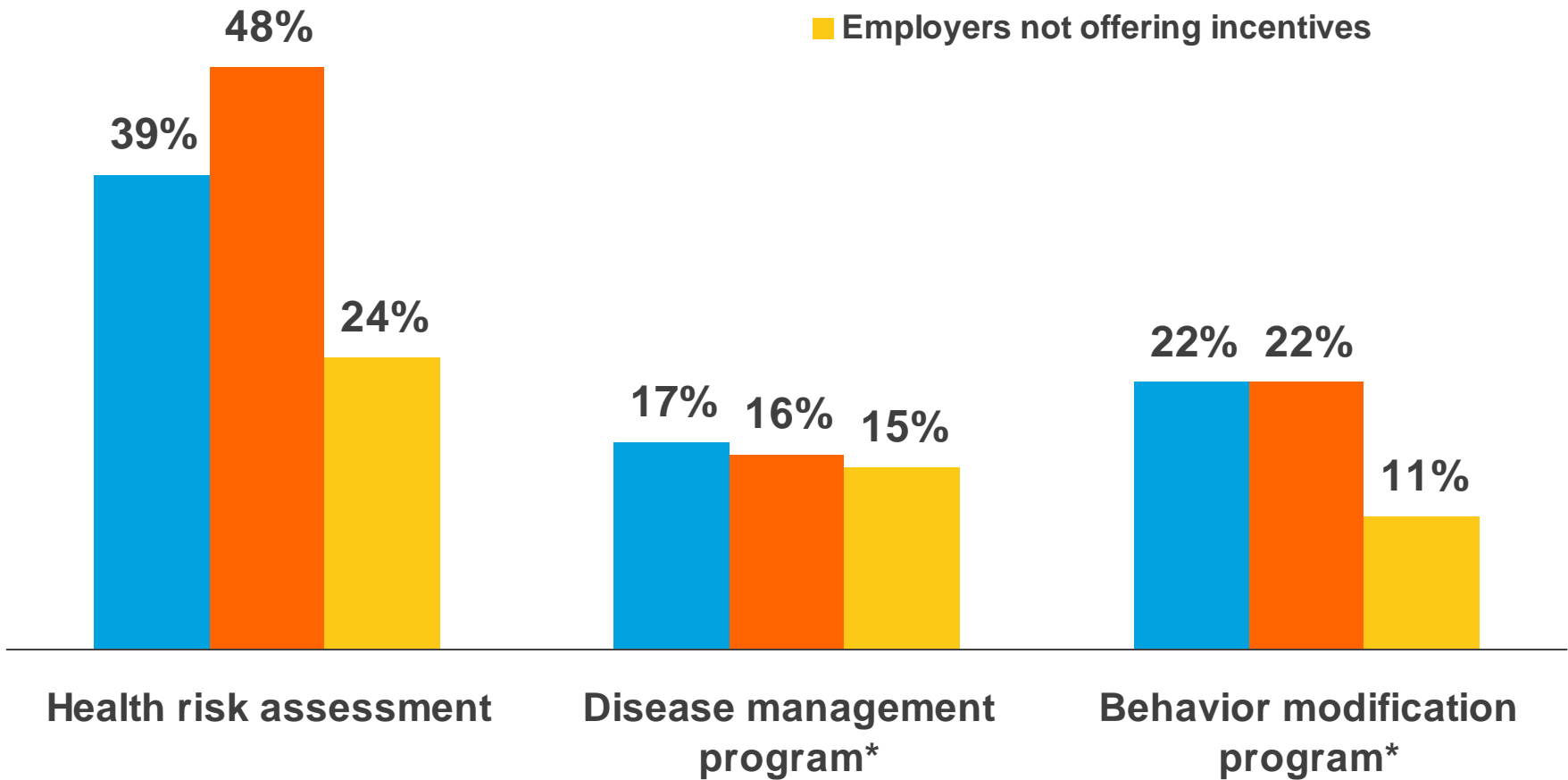
Among large employers providing an incentive



Average participation rates for health management programs, among large employers

Percent of eligible employees / identified persons participating in program

- All employers offering program
- Employers offering incentives
- Employers not offering incentives



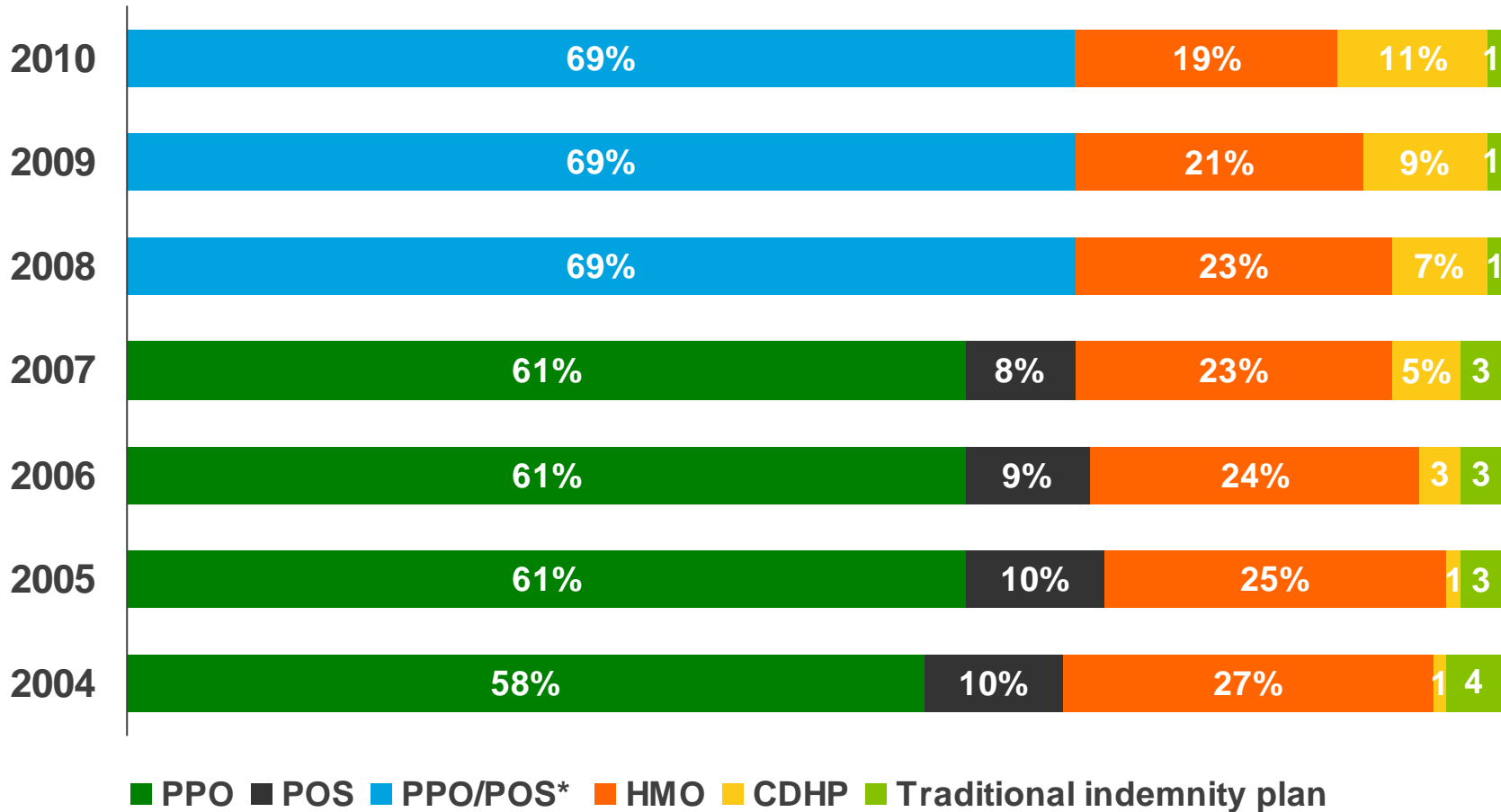
*Percentage of identified persons actively engaged in program



More on Consumerism – CDHPs

Enrollment in CDHPs continues to rise as HMOs lose ground

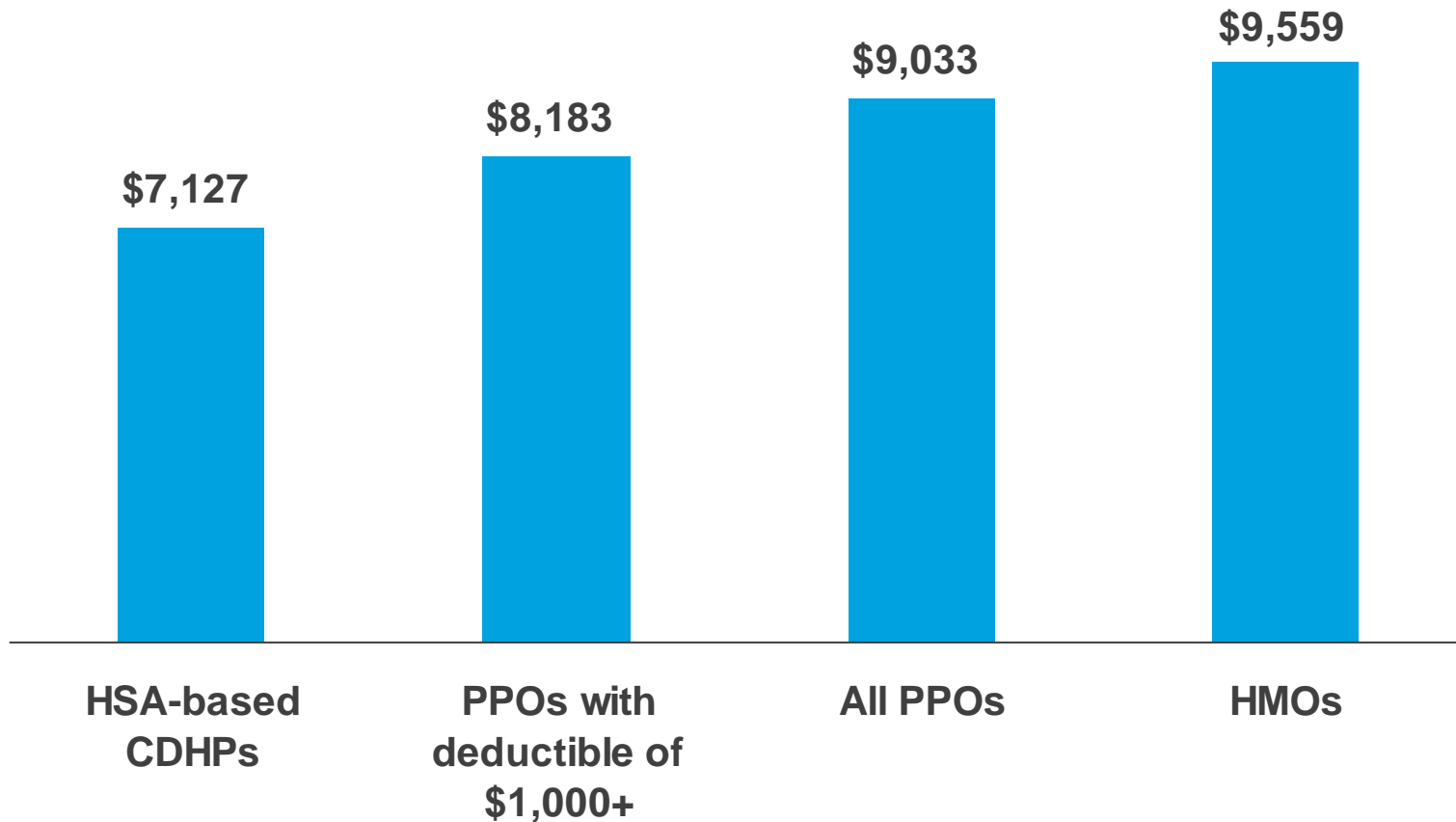
Percentage of all covered employees enrolled in each plan type



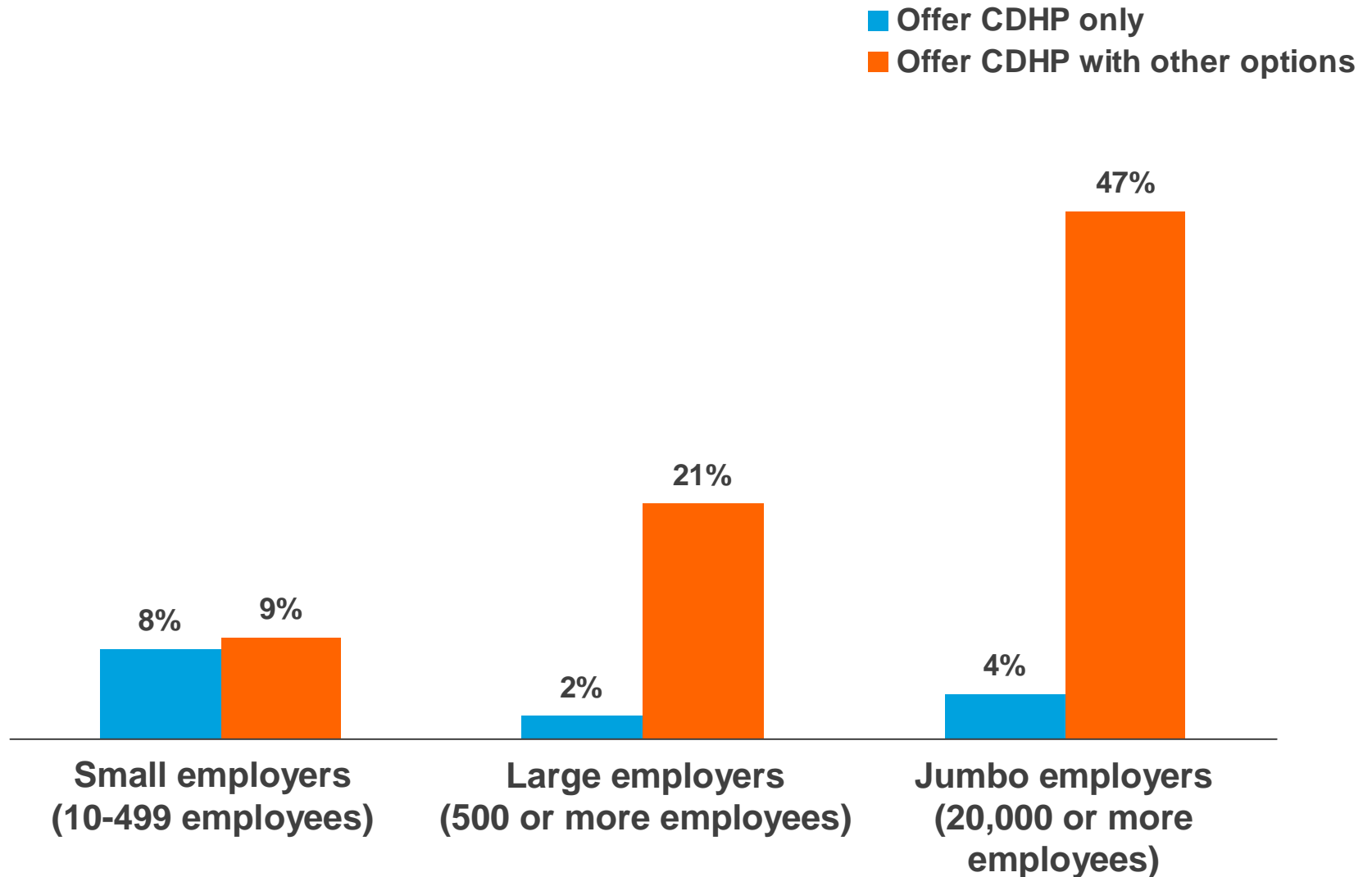
*Combined in 2008 due to declining offerings of/enrollment in POS plans.

Coverage in an HSA/CDHP costs significantly less than coverage in HMOs or PPOs – even high-deductible PPOs

Average cost per employee among large employers



Large employers still reluctant to offer CDHP as the only medical plan choice





Health Care Reform

What employers should be doing



Completed

- Implement 2011 health reform requirements
- Establish regulatory monitoring process
- Inform executives of key changes – and the need for a strategic plan
- For retiree medical plans:
 - Account for drug subsidy changes
 - File for reimbursement for high cost pre-65 claimants
 - Revisit long term strategy



In process

- Analyze the impact of requirements for 2012 through 2014
- Set financial targets
- Evaluate and choose preferred strategies. Assess impact on:
 - Company costs
 - Employee costs
 - Benefit and reward programs
 - Attraction and retention
 - Workforce structure
- Create implementation plan
- Identify and monitor risks



Going forward

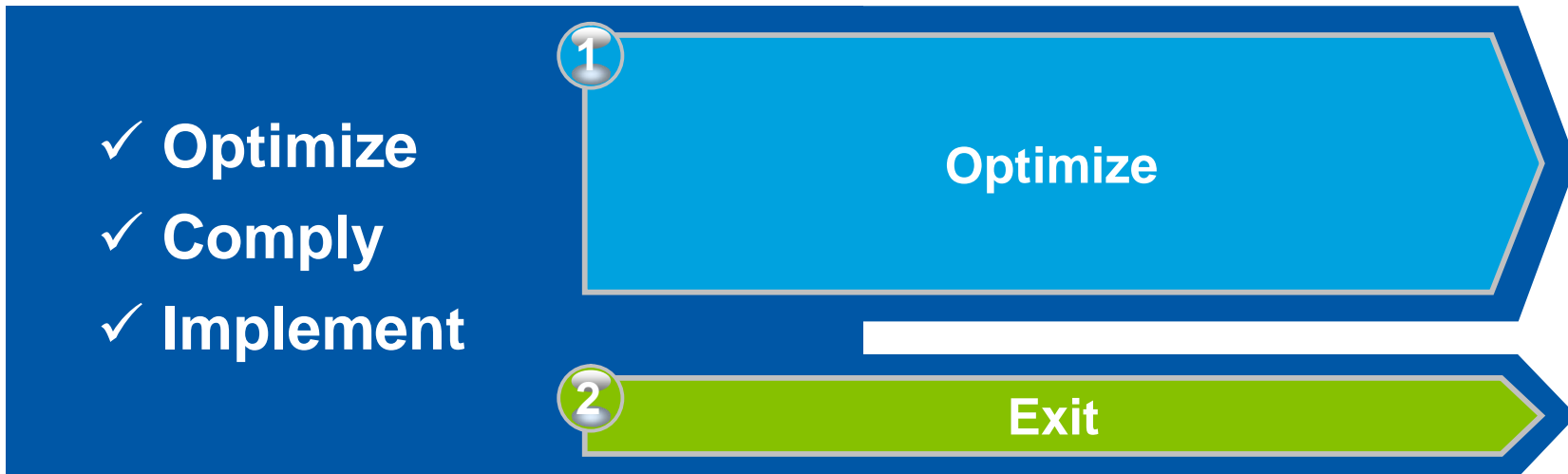
- Implement changes for 2012 and 2013
- Plan and execute a communication program in 2013 and 2014
- Prepare for 2013 and 2014 benefit administration requirements
- Improve benefit plan results: Engage members and improve health and productivity
- Update strategy to respond to future reforms and market changes

Two basic paths through 2014 and beyond

2011

2014

2018



1 Most companies will retain and **optimize** their current programs

2 Some companies will terminate their plans and **exit**

*Companies will tailor strategies by workforce segment
Companies will manage benefits to avoid the high-cost excise tax*

Path to optimization

Start with foundation strategies

Avoid the penalty and exchanges in 2014

- Meet minimum plan design and contribution requirements
- Keep employees in employer risk pool and out of exchanges
- Avoid employer tax penalties

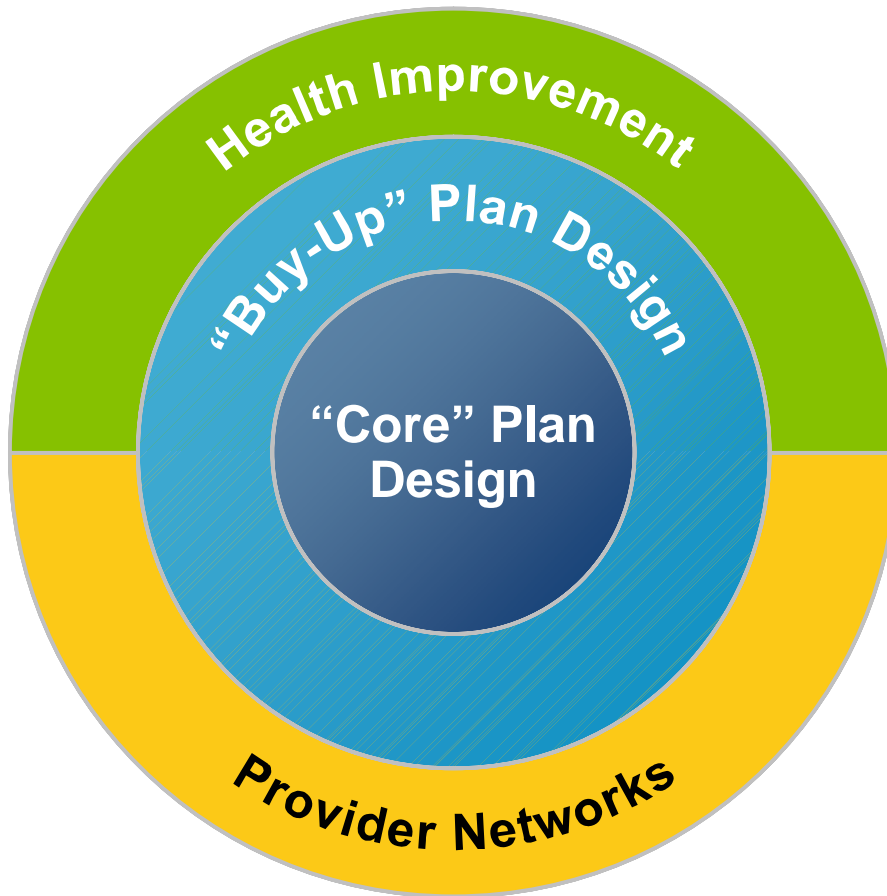
Could require changes to plan design or cost sharing

Enable access to public programs

- Offer contributions that allow lower wage employees to get tax credits to use in exchanges
- Continue to offer coverage to all employees

Evaluate impact of enrollment shift on costs and compliance

Potential path to optimization



- “Core Plan” = Low cost option
- Employees default to “Core” if auto-enrolled

- Employees can “buy up” to richer benefits
- Can be based on current or new designs
- Consider adding new benefits, e.g., voluntary programs to enhance value

- Targeted health management for all employees
- “Core Plan” includes incentives for healthy behaviors and outcomes (carrots and sticks)

- “Core Plan” uses smaller provider network (lower cost, equal quality)
- Buy up option uses current networks

Potential path to optimization

Core plan design, health improvement and networks

Core Plan Design (High Deductible + HSA) (Minimum 60% value; can be increased)

	In Network	Out of Network
Deductible	\$2,000 / \$4,000	\$4,000 / \$8,000
HSA Account	Up to \$250 can be earned for compliance with one or more health management programs	
Coinsurance	50%	
Preventive Services	100%	Not covered
Out of Pocket Maximum	\$5,950 / \$11,900 (incl. deductible)	\$11,900 / \$23,800 (incl. deductible)
Pharmacy	Subject to deductible & coinsurance	

Health Improvement

Choose one or more of the following:

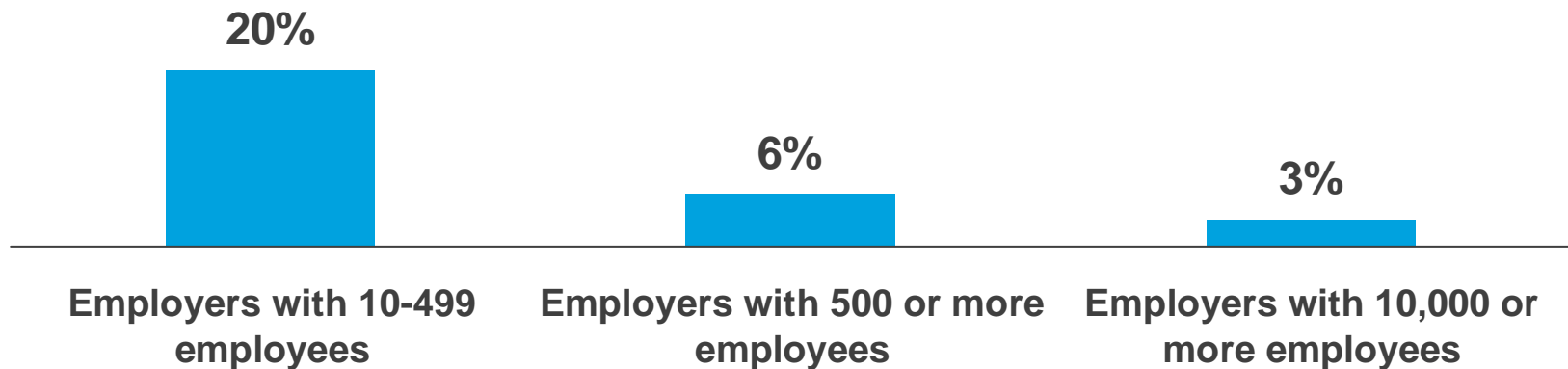
- Penalties for tobacco users
- Incentives based on completion of health assessment and biometric screenings
- Incentives for meeting health status targets (weight, tobacco, cholesterol, blood pressure) or showing progress on goals
- Incentives for completion of coaching programs

Provider Networks

- Narrow provider network with selection based on lower cost and equal or better quality
- Adequate geographic access for members
- Significant plan design features to steer members to preferred providers

One-fifth of small employers, but few large employers, say they are likely to drop medical plans after insurance exchanges are operational in 2014

If Massachusetts' three-year experience with exchanges is a guide, few employers of any size will actually do so



More than a fourth of large employers currently do not provide coverage to all employees working 30 or more hours per week

Large employers

All large employers	28%
Government	52%
Wholesale / retail	30%
Manufacturing	27%
Service	27%
Transportation/Communication/Utilities	24%
Health care	23%
Financial services	22%

Likely* actions with regard to providing coverage to all employees working 30 or more hours per week

Based on large employers that do not currently offer coverage to all employees working 30 or more hours per week

Make all employees working 30+ hours / week eligible for full-time employee plan(s)



Change workforce strategy so that fewer employees work 30+ hours / week



Add a lower-cost plan for employees that work fewer than 40 hours / week



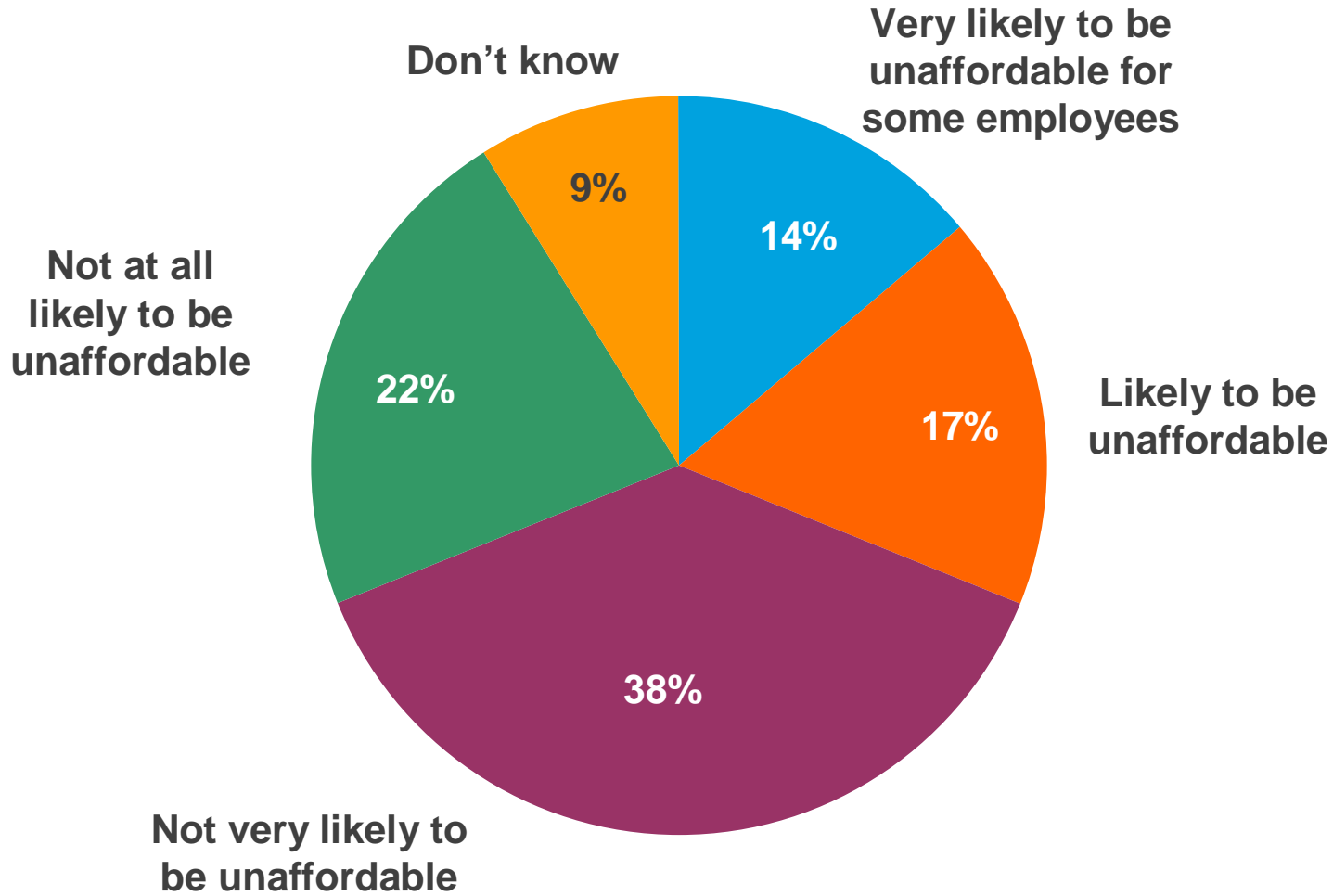
Make no (or minimal) changes and pay penalty as necessary



*Selected 4 or 5 on a 5-point scale, where 1="Not at all likely" and 5="Very likely"

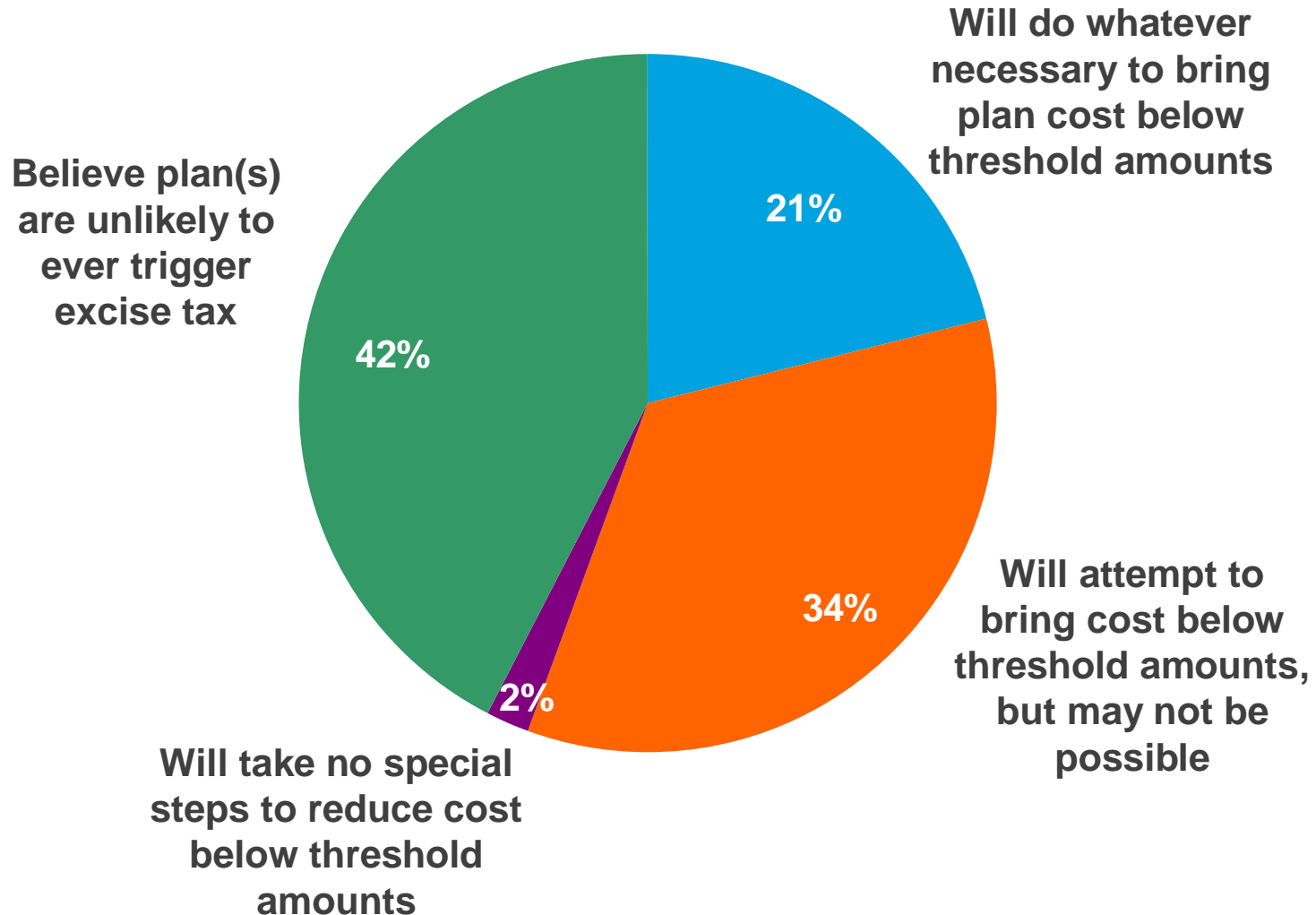
About a third of employers say their current health plan coverage would likely be considered unaffordable for at least some employees

Large employers



Employer reaction to excise tax - Large employers

Over 40% of large employers could be subject to the excise tax in 2018 with no changes in plan design



Framing longer-term strategies

Bridging the impact on Culture and on Cost

CULTURE	COST
<p>How important are health benefits for employee attraction & retention?</p> <p>What are competitors doing?</p> <p>Is there a stigma around promoting social insurance programs?</p> <p>What rewards speak to a diverse workforce?</p> <p>Are full-time and part-time employees interchangeable?</p> <p>How far are you willing to go with benefit changes?</p>	<p>What long-term increases in health care spending are tolerable?</p> <p>Are we willing to pay an excise tax?</p> <p>Is it cheaper to play—offer coverage—or pay?</p> <p>Does the cost of turnover offset savings from benefit cuts?</p> <p>What kinds of benefit program changes will control cost?</p> <p>How far are you willing to go with benefit changes?</p>

HEALTH

CARE

REFORM

HEALTH

CARE

REFORM

New challenges and opportunities for employers

2012–2017: Market changes and health reform converge

New challenges and opportunities for employers:

-  Redefine benefit commitment
-  Manage health related costs
-  Improve health and productivity
-  Reduce internal administration
-  Buy benefits more efficiently
-  Increase employee satisfaction

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