The Challenges of Providing Health Care Benefits: Recent Data Findings

Health Web Summit

Rich Ostuw
Senior Consultant

Towers Perrin
Current Issues

Towers Perrin research findings:
- TP Track, *The Changing Face of Health Care: Balancing Employer and Employee Needs*
- Towers Perrin 2003 *Health Care Cost Survey*

Engaging employees through communication

Closing Thoughts
Current Issues
Current situation: employers faced with diverse pressures

- Health industry changes
- Profit pressure
- General economy
- Administrative burden
- Employer
- Employee concerns
- Health care technology
- Health care cost
- Government and courts
Research findings

We offer two sets of research findings to further clarify these issues:

1. To quantify the impact of rising costs, the *2003 Health Care Cost Survey* captures premium and contribution information from over 350 employers throughout the U.S.

2. To learn more about how companies are addressing these challenges, and their emerging views on effective approaches, the TP Track research program asked approximately 200 senior executives their views on balancing employer and employee needs.
2003 Health Care Cost Survey Findings
2003 health care cost increases are occurring in a difficult economy

Towers Perrin’s 2003 Health Care Cost Survey and Dow Jones Industrial Average

- Forecasted increase of 16% in health care costs - fourth consecutive year of double-digit increases

Percent Increase

*National medical and Rx cost trend actives and retirees combined.

Source: Towers Perrin 2003 Health Care Cost Survey
Costs increases for all covered groups

Average Cost Increases: 1993 - 2003

Cost increases for Medicare-eligible retirees have outpaced cost increases for younger retirees and actives for the seventh year in a row

Source: Towers Perrin 2003 Health Care Cost Survey
Costs vary significantly across employers

Range of 2003 Employer Health Care Costs

The spread for active employees is over $2,500/employee/year for low- (10th percentile) vs. high- (90th percentile) cost medical programs, and even more for retirees.

Source: Towers Perrin 2003 Health Care Cost Survey
Employers still shouldering lion’s share of costs

Average Employee/Retiree Share of 2003 Coverage Costs

- In 2003, employees will contribute 19% for employee-only coverage and 22% for family coverage.

<table>
<thead>
<tr>
<th></th>
<th>Active employees</th>
<th>Retirees under age 65</th>
<th>Retirees over age 65</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee/retiree only coverage</td>
<td>$576</td>
<td>$1,764</td>
<td>$1,056</td>
</tr>
<tr>
<td>Family coverage</td>
<td>$1,956</td>
<td>$4,596</td>
<td>$2,076</td>
</tr>
</tbody>
</table>

Annual contribution per employee/retiree

Source: Towers Perrin 2003 Health Care Cost Survey
Interventions to control cost of health benefits

- Made selective changes in copays or coinsurance for prescription drug plans: 78% have adopted, 49% are considering.
- Changed plan design and cost-sharing features: 75% have adopted, 53% are considering.
- Made selective changes in contributions: 57% have adopted, 41% are considering.
- Consolidated health plan vendors/initiated major change in vendors: 55% have adopted, 30% are considering.
- Introduced communication strategy to educate employees: 53% have adopted, 30% are considering.
- Used data analysis to identify targeted disease/demand management interventions: 55% have adopted, 34% are considering.
- Introduced targeted care management programs: 39% have adopted, 32% are considering.

Source: Towers Perrin 2003 Health Care Cost Survey
Growing interest in “consumer-driven” health plans

Source: Towers Perrin 2003 Health Care Cost Survey
The Towers Perrin 2003 Health Care Cost Survey, conducted in September 2002 marks the 14th consecutive year that Towers Perrin has reported on major trends in health care costs.

A total of 358 employers responded, representing 4.6 million employees and retirees.
“TP Track” Survey Findings
Survey Highlights

- While a majority of employers still hope to balance cost and employee relation objectives in delivering health benefits, cost management is taking precedence over employee relation goals at a growing number of companies.

- Employers are generally relying on interventions they deem effective in managing costs, most of which still focus on tactical, short-term cost shifting to employees.

- There is evidence of movement toward a more strategic approach to managing costs that embraces longer-term consumerism solutions.

- However, employers face a significant challenge in educating their workforce and building long-term behavioral change among employees.
What is your company’s overall philosophy on health care benefits?

- Offer minimal health care benefits to employees: 3%
- Offer average health options: 37%
- Offer the best health options: 60%

Source: Towers Perrin TP Track: The Changing Face of Health Care: Balancing Employer and Employee Needs
To what degree do you emphasize cost management vs. employee relations now, and how will that change in 2003?

- **Emphasis on cost management**
  - Current emphasis: 29%
  - Anticipated focus for 2003: 40%

- **Equal balance of employee relations and cost management**
  - Current emphasis: 54%
  - Anticipated focus for 2003: 53%

- **Emphasis on employee relations**
  - Current emphasis: 17%
  - Anticipated focus for 2003: 7%

**Source:** Towers Perrin *TP Track: The Changing Face of Health Care: Balancing Employer and Employee Needs*
Which interventions is your company using to manage health care costs?

- **Selective change in co-pays or co-insurance for prescription drug plans**
  - Already implemented: 54%
  - Considering/will implement 2003: 31%
  - Not considering: 9%
  - Don't know: 6%

- **Greater use of managed care**
  - Already implemented: 54%
  - Considering/will implement 2003: 6%
  - Not considering: 36%
  - Don't know: 4%

- **Selective change in co-pays or co-insurance for health plans overall**
  - Already implemented: 43%
  - Considering/will implement 2003: 37%
  - Not considering: 13%
  - Don't know: 7%

- **Selective change in employee contributions**
  - Already implemented: 42%
  - Considering/will implement 2003: 32%
  - Not considering: 19%
  - Don't know: 7%

- **Introduce/expand emphasis on wellness and preventive care**
  - Already implemented: 38%
  - Considering/will implement 2003: 37%
  - Not considering: 17%
  - Don't know: 8%

- **Introduce/expand consumerism within traditional plans**
  - Already implemented: 31%
  - Considering/will implement 2003: 36%
  - Not considering: 25%
  - Don't know: 8%

- **Health plan vendor consolidation or major change in vendors**
  - Already implemented: 31%
  - Considering/will implement 2003: 26%
  - Not considering: 37%
  - Don't know: 6%

- **Introduce/expand disease management**
  - Already implemented: 27%
  - Considering/will implement 2003: 34%
  - Not considering: 23%
  - Don't know: 16%

- **Outsource health & wellness plan administration**
  - Already implemented: 27%
  - Considering/will implement 2003: 8%
  - Not considering: 56%
  - Don't know: 9%

- **Greater use of self-insurance for HMOs**
  - Already implemented: 23%
  - Considering/will implement 2003: 9%
  - Not considering: 58%
  - Don't know: 10%

- **Encourage greater selection of quality providers**
  - Already implemented: 16%
  - Considering/will implement 2003: 12%
  - Not considering: 63%
  - Don't know: 9%

- **Reduce use of managed care**
  - Already implemented: 7%
  - Considering/will implement 2003: 23%
  - Not considering: 54%
  - Don't know: 16%

- **Introduce/expand new type of health plan**
  - Already implemented: 7%
  - Considering/will implement 2003: 6%
  - Not considering: 83%
  - Don't know: 4%

**Source:** Towers Perrin *TP Track: The Changing Face of Health Care: Balancing Employer and Employee Needs*
How effective are these interventions in controlling costs?

- Selective change in co-pays or co-insurance for prescription drug plans: 85% achieve savings, 10% no impact, 5% increase cost.
- Selective change in co-pays or co-insurance for health plans overall: 84% achieve savings, 12% no impact, 4% increase cost.
- Selective change in employee contributions: 72% achieve savings, 25% no impact, 3% increase cost.
- Introduce/expand emphasis on wellness and preventive care: 62% achieve savings, 30% no impact, 8% increase cost.
- Introduce/expand disease management: 61% achieve savings, 32% no impact, 7% increase cost.
- Greater use of managed care: 57% achieve savings, 34% no impact, 9% increase cost.
- Introduce/expand consumerism within traditional plans: 56% achieve savings, 39% no impact, 5% increase cost.
- Introduce/expand new type of health plan: 50% achieve savings, 37% no impact, 13% increase cost.
- Health plan vendor consolidation or major change in vendors: 46% achieve savings, 45% no impact, 9% increase cost.
- Greater use of self-insurance for HMOs: 27% achieve savings, 66% no impact, 7% increase cost.
- Encourage greater selection of quality providers: 27% achieve savings, 64% no impact, 9% increase cost.
- Outsource health & wellness plan administration: 15% achieve savings, 58% no impact, 27% increase cost.
- Reduce use of managed care: 9% achieve savings, 26% no impact, 68% increase cost.

Source: Towers Perrin TP Track: The Changing Face of Health Care: Balancing Employer and Employee Needs
Which cost-sharing arrangements are likely to have the most impact on the bottom line?

- Increase employee cost sharing at time of service: 44%
- Increase premium paid by employees for dependent coverage: 22%
- Change basis of contributions to better influence selection of cost-effective plans: 17%
- Increase premium paid by employees for employee-only coverage: 8%
- None: 6%
- Other: 3%

Source: Towers Perrin TP Track: The Changing Face of Health Care: Balancing Employer and Employee Needs
Which cost-sharing arrangements are being considered by your company?

- Increase employee cost sharing at time of service: 72%
- Increase premium paid by employees for dependent coverage: 65%
- Increase premium paid by employees for employee-only coverage: 59%
- Change basis of contributions to better influence selection of cost-effective plans: 45%
- Not considering any changes: 12%
- Other: 8%

Source: Towers Perrin TP Track: The Changing Face of Health Care: Balancing Employer and Employee Needs
How important is it to help employees understand the value and cost of their health benefits?

- **Understand value of benefits**: 92% important, 7% neutral, 1% not important.
- **Understand cost of benefits**: 90% important, 9% neutral, 1% not important.

**Source:** Towers Perrin *TP Track: The Changing Face of Health Care: Balancing Employer and Employee Needs*
How successful is your company in helping employees understand the value and cost of their health benefits?

Understand value of benefits
- Successful: 27%
- Neutral: 47%
- Not successful: 26%

Understand cost of benefits
- Successful: 25%
- Neutral: 46%
- Not successful: 29%

Source: Towers Perrin TP Track: The Changing Face of Health Care: Balancing Employer and Employee Needs
How knowledgeable do you believe employees are about making health benefit decisions?

- Not knowledgeable: 17%
- Knowledgeable: 22%
- Neutral: 61%

Source: Towers Perrin TP Track: The Changing Face of Health Care: Balancing Employer and Employee Needs
Do you agree with these statements about current health care issues?

- Employees want more control over their health care decisions: 65% Agree, 25% Neutral, 10% Disagree
- Employees are willing to use the web to be better health care consumers: 41% Agree, 40% Neutral, 19% Disagree
- Employers understand the health care needs of their employees: 37% Agree, 45% Neutral, 18% Disagree
- Employers are committed to providing employees with resources: 35% Agree, 42% Neutral, 23% Disagree
- Employees are becoming educated health care consumers: 32% Agree, 45% Neutral, 23% Disagree
- Employees have the employer-provided tools they need: 32% Agree, 36% Neutral, 32% Disagree
- Privacy concerns inhibit employees’ use of the web for health care decisions: 18% Agree, 26% Neutral, 56% Disagree

Source: Towers Perrin TP Track: The Changing Face of Health Care: Balancing Employer and Employee Needs
How important/likely is it for your company to continue to offer health care benefits to retirees?

Current Retirees
- Important: 83%
- Likely: 83%

Future Retirees
- Important: 59%
- Likely: 52%

Source: Towers Perrin  *TP Track: The Changing Face of Health Care: Balancing Employer and Employee Needs*
The TP Track survey research was conducted in June-July, 2003, with approximately 200 HR and Finance executives participating.

Source: Towers Perrin *TP Track: The Changing Face of Health Care: Balancing Employer and Employee Needs*
Current trends

- Refine approaches to managing the supply side through care management and vendor management
- Engage employees as health care consumers
- Update cost sharing
- Employers are looking for new ways to succeed
Engaging employees as health care consumers

- Employee responsibility and accountability with employer support
- Choosing the right plan
- Staying healthy
- Managing the use of health care services
- Achieved through modification of traditional plan or introduction of new plan types

Employers can lead in managing the supply side, but must work with employees to manage the demand side.
Engaging Employees Through Communication
Communications is a key to achieving change

- Change in behavior requires content, attention, motivation and time
- Employees have diverse needs and preferences for benefits and information
- Health care is complex, emotional and personal
- Employees are busy and skeptical
- Health care and life style information is everywhere
  - with messages from providers, general press, manufacturers, fast food, etc.
  - to consumers and physicians
  - making it difficult for employers to get attention and action.
- Employees want easy and timely information
Engaging employees for long-term results

Supporting the framework for employee consumerism:

- Make a long-term commitment to an ongoing communication efforts
- Realize that this requires a change in behavior … more than just understanding
- Educate management, employees and families on the concept of shared responsibility
  - Employers provide information, tools, programs, fair pricing, etc.
    - encouragement and personalized support: proactive for high risk participants
- In turn, employees must do three things:
  - Learn how to use the health care system wisely: ask the right questions, understand your purchasing power
  - Manage their own personal health appropriately: eat less, exercise more, quit smoking
  - Choose the right plan based on their own personal situation: what’s the true out-of-pocket cost of your coverage?
- Employees must understand the accountability they bear if they don’t change their behavior
But just communicating isn’t enough... changing behavior requires moving people through a logical sequence

**Awareness**
- I know what the company is doing and why
- I have a general sense of what these changes mean to me and my family
- I understand how my health care plan works
- I have a general idea of how what I do contributes to our success

**Understanding**
- I know what I need to do to become a smarter consumer of health care services
- I understand my responsibility for improving my own health
- I know what I need to do to make the right decision when choosing coverage
- I understand the company’s role

**Commitment**
- I understand the consequences to me and the company if I don’t do my share
- I support what the company is trying to do and appreciate my benefits
- I feel connected to our long-term strategy
- I feel capable and confident in my ability to make the right decisions, choices
Closing thoughts
Managing supply AND demand is the key to long-term success...

Today
- Limitless desire for health care services
- Limited employee competencies
- Lack of accountability

Tomorrow
- Informed, rational consumers

Managing Supply and Demand
- New alliance of employers, health plans, providers

Desired Outcomes
- Accountability by all stakeholders
- Healthier population
- Better outcomes
- Rational cost
- Increased productivity
- Decreased absenteeism
- Adequate ROI

Informed, rational consumers

New alliance of employers, health plans, providers

Desired Outcomes
- Accountability by all stakeholders
- Healthier population
- Better outcomes
- Rational cost
- Increased productivity
- Decreased absenteeism
- Adequate ROI
Summary

Tweaking current programs will not be enough

*Sustained success requires:*

- The right direction for the organization
- The right program structure, plan design and pricing
- The right vendors, services, contracting and funding
- The right messages and support for employees

Excellent execution
Contact Information