The Challenges of Providing Health Care Benefits: Recent Data Findings

Speaker Notes

New Directions in Managing Health Care Costs
Health Web Summit
December 2 - 13

Rich Ostuw
Senior Consultant
Towers Perrin

Page 1
This presentation draws on recent plans and actions of large U.S. employers compiled through Towers Perrin surveys over the past 6 months. Findings from both the "TP Track" Health Care Survey and the 2003 Health Care Cost Survey will be highlighted. We will focus on the implications of this data for employers and what steps employers can take to cut costs and engage employees in health benefit decisions.

Page 2
Let's start with a discussion of the current health benefits environment.

Page 3
While health care cost increases have been cyclical for decades, the current cycle is persistent and burdensome. The changing and complex environment makes it especially difficult to solve the current business problems. The pressures on employers are diverse and severe.

Page 4
Research findings

Page 5
2003 Health Care Cost Survey Findings

Page 6
There is any number of trends impacting employers' health care costs. Some of the leading drivers include:

- Escalating HMO and Medicare+Choice premiums
- Prescription drug increases
- Rapidly rising hospital unit costs
- Increasing demand for expensive diagnostic tests

Page 7
Cost increases for all covered groups

Page 8
Costs vary significantly across employers

Page 9
Employers still shouldering lion’s share of costs

Page 10
Most common interventions:
- Cost sharing
- Vendor/HMO restructuring
- Prescription drug copays
- Data analysis and targeted disease management

Page 11
Recognizing that short-term cost shifting, vendor restructuring and disease management can go only so far in reducing long-term health care costs, a large number of employers are moving toward a more consumerist focus in the interventions they’re planning for 2003 and beyond.

While only 7% of respondents have introduced a consumer-driven health plan as an additional option to their traditional health plan offerings, 44% are considering this approach, versus only 13% in 2002. In addition, while less than 1% of respondents have replaced their traditional plans with a consumer-driven plan, nearly one-fifth (19%) are considering this approach, compared to just 5% in 2002. Many others are introducing elements of consumerism into their traditional plans that will impact all employees.

Page 12
Health Care Cost Survey participant demographics

Page 13
“TP Track” Survey Findings

Page 14
Survey Highlights

Page 15
Most companies want to offer employees the best health care available, but feel increasingly pressured to reduce costs. There is some evidence of a shift in focus from employee relations to stricter cost management. Generally, companies want to do their best for employees. Close to two-thirds of our sample said their company’s philosophy is to give employees the best health care options available.

Page 16
When asked about the balance between cost objectives and employee relations (such as giving employees the best options) we found that a majority of employers still seek a fairly even balance between the two.

However, in looking ahead to 2003, there is evidence of a shift in focus from employee relations to stricter cost management. This is not surprising, given the recent sharp re-escalation of health care costs and a slowing economy. In fact, that 53% still plan to try to balance cost and employee relations may be the more surprising result — suggesting a continuing recognition of the importance of meaningful health care benefits as part of the core employer/employee deal.

Pages 17-18
Current approaches to cost control — while largely tactical and short-term focused — do support increased employee involvement.
As this slide shows, respondents are using a wide array of tactics to control costs. In general, the most prevalent are also viewed as the most effective (see following chart). These include:

- Selective changes in co-payments or coinsurance to encourage cost-effective use of prescription drug plans
- Selective changes in co-payments or coinsurance to encourage cost-effective use of health care generally
- Selective changes in contributions to encourage cost-effective selection of plans.

The common thread for these is that all are designed to enhance employees’ financial responsibility for health care decisions and costs. Interestingly, the only approach in the top five that respondents don’t consider very effective is managed care. This appears to confirm the view that managed care has matured as a cost-containment tool and that other tactics are needed to gain greater savings.

Pages 19 - 20
Overall, respondents see greater cost-saving potential in changes to employee cost sharing at the time of service than changes in health care contributions. Not surprisingly, close to three-quarters (72%) are considering an increase in time-of-service cost sharing (see this and the following charts).

A large number also plan to increase employee contributions to enroll in coverage for themselves and dependents. This not only reflects the need to have employees pick up a greater share of premium increases, but also addresses employers’ view that employees are too insulated from actual costs when they receive health care services.

Page 21
Employers need to focus considerable time and attention on educating their workforce and changing employee behavior to support consumerism.

Even as companies rely on immediate tactical cost sharing (e.g., increased co-payments and coinsurance), they are also beginning to embrace more strategic and long-term strategies as well. But as consumerism gains ground, the issue of employee education looms ever larger.

Creating well-educated health care consumers is perhaps the most important factor in making consumerism work. And right now, employers haven’t fully embraced this responsibility or figured out how to do it effectively. For instance, our respondents overwhelmingly agree that helping employees understand the value and cost of their benefits is important to their companies. Yet ...

Page 22
Yet, only one-quarter of respondents rate themselves as successful in this area

Page 23
And less than one-quarter of respondents believe that employees generally understand enough to make health benefit decisions

Page 24
The good news is that today’s technology makes it far easier for employers to communicate with employees on an ongoing basis and provide decision support tools about health care programs.

In particular, the Web — and company intranets — provide the means to push relevant information to employees and offer tools to support more informed decision making. And if there were doubts about employees’ willingness to use the Web in this regard, those appear to have dissipated over time. 41% percent of our respondents believe employees are willing to use the Web to become better health care consumers. And 56% don’t see worries about online privacy as an obstacle to such use.

However, while the right media are available, there still appears to be a considerable gap in how well companies are using those media to create well-educated consumers. Just about a third of the respondents agree employees are becoming informed consumers, and only a little more than a third are convinced of employers’ commitment to creating well-informed employee consumers. Clearly, this will be a big issue for companies going forward.

Most employers providing health benefits to retirees feel strongly about continuing to offer such benefits to current and, surprisingly, future retirees as well.

83% indicated it was important to continue offering such benefits to current retirees. More surprisingly, 59% also agreed it was important to continue offering health benefits to future retirees. This percentage is higher than one would expect, given increasing retiree health care costs and the growing emphasis on cost containment.

One reason employers may feel this way is that the market for top-performing employees remains highly competitive despite the economic slowdown. Whatever their motivation, employers seem prepared to act on their beliefs. Eighty-three percent of respondents indicated that it was likely that they would continue offering health care benefits to their current retirees, and 52% said the same about future retirees.

At a high level, there are a few major trends in how employers are balancing their conflicting objectives of cost management, employee satisfaction, administrative efficiency and quality of care. Because there is no universal solution, employers are looking at varied approaches to solve their problems in their unique situations.

The key to consumerism is engaging employees to lead healthier lives and accept responsibility for managing their care.
Of course, changing behavior is easier said than done. It requires content, attention, motivation and time. Time is the key here – because as with any behavioral change, there’s no quick fix.

Page 31
And the best way to engage employees is through ongoing communication. Communicating consumerism is not a one-shot effort to announce plan changes or introduce a new program prior to enrollment. Changing behavior requires a long-term commitment on the part of the employer. And that commitment can yield favorable long-term results.

Page 32
Changing behavior requires moving your employees through a logical three-stage sequence. The first is building awareness of the issues that surround health care and what the company is trying to achieve. The next stage is helping employees understand what it is they need to do. And the third stage is commitment on the part of employees to take responsibility for their care.

Page 33
Closing thoughts

Page 34
To achieve the desired outcomes we must work on both the supply side issues (related to vendors and providers) and demand side issues (related to employee health needs and preferences).

Page 35
A comprehensive and thorough approach is needed to solve such a complex and difficult challenge. Sustained success is possible but not simple.