Best Practices in Managing Health Care Costs in Metro New York

Key Findings That Can Help You Gain Control

Jointly Sponsored by Towers Perrin and Thomson Healthcare

December 5, 2007

This document is incomplete without the accompanying discussion; it is confidential and intended solely for the information and benefit of the immediate recipient hereof.
Agenda

- Introductions
- Comprehensive Approach to Health Benefit Management
  - Metrics/Desired Outcomes
  - Strategic Levers
- Solutions
- Summary
- Questions
Our Speakers

Dan Graovac is a Director of New Market Initiatives for Thomson Healthcare. In this role, he is responsible for working with employers, health plans and government agencies on emerging trends in health care and providing innovative solutions to address those trends. He has over ten years of health care strategy experience.

Matt Ponicall is a senior consultant in Towers Perrin’s Stamford, CT office. His consulting assignments have included the design and implementation of active and retiree group health and welfare benefit strategies and the ongoing management of these plans. He has experience with managed health care, dental, disability and life benefit programs, flexible benefits strategy and pricing, merger and acquisition integration and analysis of group benefits design changes.

David Scheer is a senior consultant in Towers Perrin’s New York office, specializing in the design, financing, selection, and administration of all health and welfare benefits. His responsibilities include acting as project manager and providing technical assistance on client assignments. In addition to his client responsibilities, David manages the firm’s strategic alliance with Thomson Healthcare.
About Towers Perrin

Towers Perrin is a global professional services firm that helps organizations around the world optimize performance through effective people, risk and financial management. The firm provides innovative solutions to client issues in the areas of human resource strategy, design and management; actuarial and management consulting to the financial services industry; and reinsurance intermediary services.

About the Towers Perrin 2008 Health Care Cost Survey

The Towers Perrin 2008 Health Care Cost Survey was conducted during August 2007 and September 2007. Participants were asked to report their 2008 per-capita premium costs for insured health and dental plans and premium equivalents (i.e., estimated benefit and administrative costs) for self-insured plans. Survey respondents represent primarily Fortune 1000 companies with operations in numerous locations nationwide. Health benefits for the 500 participating companies cost more than $15 billion annually.
About Thomson Healthcare

Armed with unmatched market intelligence, databases, software applications and analytic expertise, Thomson Healthcare is a trusted partner to healthcare decision makers. We help you uncover, understand and manage both the financial and quality aspects of health care. We help you identify objective solutions to your most pressing problems. And, one solution at a time, we help you drive better results.

At Thomson Healthcare, we practice innovation as an imperative — because your business demands it. As part of the world’s leading information resource, our solutions put content, technology and high-end analytical tools and services into your work flow. An $8-billion provider of integrated information-based solutions, the Thomson Corporation helps business and professional customers in health care, higher education, financial services and law make better decisions faster.

<table>
<thead>
<tr>
<th>Market Expert</th>
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<tr>
<td>Thomson Healthcare Market Expert® is a powerful Internet-based strategic planning and marketing solution that delivers detailed market analyses and projections to help you make better business decisions.</td>
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<table>
<thead>
<tr>
<th>MarketScan Databases</th>
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<tr>
<td>The gold standard in proprietary U.S. research databases, the MarketScan® data warehouse provides health care researchers access to fully integrated, de-identified, individual-level health care claims data to understand health economics and outcomes.</td>
</tr>
</tbody>
</table>
We know health care plays a key role in the rewards package

<table>
<thead>
<tr>
<th>Top Attraction Drivers</th>
<th>Top Retention Drivers</th>
<th>Top Engagement Drivers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive base pay</td>
<td>Have excellent career advancement opportunities</td>
<td>Senior management sincerely interested in employee well-being</td>
</tr>
<tr>
<td>Competitive health care benefits</td>
<td>Satisfaction with the organization’s business decisions</td>
<td>Organization’s reputation in community</td>
</tr>
<tr>
<td>Vacation/paid time off</td>
<td>Good relationship with supervisor</td>
<td>Improved my skills and capabilities over the last year</td>
</tr>
<tr>
<td>Convenient work location</td>
<td>Organization’s reputation as a great place to work</td>
<td>Appropriate amount of decision-making authority to do my job well</td>
</tr>
<tr>
<td>Flexible schedule</td>
<td>Ability to balance my work/personal life</td>
<td>Organization quickly resolves customer concerns</td>
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A comprehensive approach to health benefit management

Goals
- Use health care benefits as a competitive advantage
- Beat national trend through efficient delivery and innovative solutions

Metrics/Desired Outcomes

Financial Performance
The cost, value and efficiency of the program exceed competitive benchmarks

Consumer Engagement
Employees use and understand benefits, tools and resources and are ready for new solutions

Population Health
Programs are based on company’s cost and risk drivers and help influence health outcomes and resource consumption

Strategic Levers

Strategy and Governance
- Well articulated
- Defined metrics
- Ongoing measurement
- Links to business
- Links to total rewards

Change Management
- Leadership support
- Ongoing communication
- Wellness culture
- Decision support tools
- Employee accountability

Financial Management
- Optimal funding
- Selection pricing
- Quarterly budget review
- Annual benchmarking

Delivery
- Best vendors by location
- Right number of vendors
- Efficient carve-out vendors
- Aligned strategies
- Superior customer service
- Innovative solutions (on-site health centers)
- Effective care management
- Ongoing review

Design
- Cost transparency
- Meaningful choice
- Aligned contributions
- Targeted incentives
- Point-of-care accountability
## Financial Performance: Medical Cost and Trend

### Active Employees Only

<table>
<thead>
<tr>
<th></th>
<th>Metro New York</th>
<th>National</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Medical Cost</td>
<td>$822</td>
<td>$762</td>
</tr>
<tr>
<td>Average 2008 Increase</td>
<td>6.7%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Average 2008 Employee Share</td>
<td>20.6%</td>
<td>22.5%</td>
</tr>
</tbody>
</table>

Financial performance: Medical cost composition

Region and Year

- **Metro NY 2006**
  - Inpatient: 25%
  - Outpatient: 55%
  - Rx: 20%

- **US 2006**
  - Inpatient: 27%
  - Outpatient: 54%
  - Rx: 19%

- **Metro NY 2005**
  - Inpatient: 25%
  - Outpatient: 55%
  - Rx: 20%

- **US 2005**
  - Inpatient: 28%
  - Outpatient: 54%
  - Rx: 18%

Source: Thomson Healthcare MarketScan® data warehouse.
Financial performance: Preventive services cost

- Metro New York screening costs are lower than the U.S. benchmarks for some screenings

Net Payment per Service

Source: Thomson Healthcare MarketScan® data warehouse.
Consumer engagement: Preventive screening prevalence

Metro New York follows screening guidelines at a higher rate than the U.S. for most screenings

Source: Thomson Healthcare MarketScan® data warehouse.
New York is a leader in seeking out health information

Index of Concentration

New York

New Jersey

Connecticut

Judging Quality:
Hospital

Judging Quality:
Info Influenced
Decision

Judging Quality:
Physician

Seek Info to
Judge Quality of
Provider/Facility

Population health: Weight management and positive results

- Metro New York is more active in weight management and experiences better results

Percent Difference from U.S.

ACTIVITIES

Exercise to Manage Weight
Eating healthier to manage weight
Trying to lose weight
Normal weight

RESULTS

Overweight (BMI>25)
Morbidly Obese (BMI>40)

Population health: Chronic condition prevalence

- With the exception of cancer, Metro New York has lower prevalence.

Prevalence Rates

Population health: Chronic condition prevalence

- New Jersey has lower chronic condition prevalence

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Population health: Cost of chronic conditions

2005 U.S. Norm Cost per Patient with Chronic Condition*

<table>
<thead>
<tr>
<th>Condition</th>
<th>Cost</th>
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<tbody>
<tr>
<td>Type II Diabetes</td>
<td>$11,279</td>
</tr>
<tr>
<td>Osteoarthritis</td>
<td>$12,867</td>
</tr>
<tr>
<td>Headache</td>
<td>$8,685</td>
</tr>
<tr>
<td>High Blood Pressure</td>
<td>$8,508</td>
</tr>
<tr>
<td>Coronary Artery Disease</td>
<td>$18,441</td>
</tr>
<tr>
<td>Depression</td>
<td>$8,536</td>
</tr>
<tr>
<td>Prostate Cancer</td>
<td>$11,252</td>
</tr>
<tr>
<td>Colon Cancer</td>
<td>$35,876</td>
</tr>
<tr>
<td>Cervical Cancer</td>
<td>$6,072</td>
</tr>
<tr>
<td>Breast Cancer</td>
<td>$19,503</td>
</tr>
<tr>
<td>Back Pain</td>
<td>$9,146</td>
</tr>
<tr>
<td>Asthma</td>
<td>$7,130</td>
</tr>
</tbody>
</table>

U.S. Benchmark — Net Pay Per Patient Med & Rx
$3,117

*Medical and prescription drug costs cited above are not condition-specific, i.e., these costs include those associated with comorbidities.

Source: Thomson Healthcare MarketScan® data warehouse.
Population health: Health status comparison

# Population health: Medical utilization

## Metro New York Active and Early Retirees

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<thead>
<tr>
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<th>Paid</th>
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<tbody>
<tr>
<td></td>
<td>January 2006 – December 2006</td>
</tr>
<tr>
<td>Employees average</td>
<td>152,985</td>
</tr>
<tr>
<td>Members average</td>
<td>335,533</td>
</tr>
<tr>
<td>Family size average</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Inpatient</strong></td>
<td></td>
</tr>
<tr>
<td>Admits per 1,000 acute</td>
<td>64.2</td>
</tr>
<tr>
<td>Days per 1,000 admits acute</td>
<td>259.0</td>
</tr>
<tr>
<td>Days LOS admit acute</td>
<td>4.03</td>
</tr>
<tr>
<td><strong>Outpatient</strong></td>
<td></td>
</tr>
<tr>
<td>Services per 1,000 medical</td>
<td>23,305.1</td>
</tr>
<tr>
<td>Visits per 1,000 office medical</td>
<td>7,196.4</td>
</tr>
<tr>
<td>Visits per 1,000 ER</td>
<td>202.9</td>
</tr>
<tr>
<td><strong>Pharmacy</strong></td>
<td></td>
</tr>
<tr>
<td>Scripts per 1,000 Rx</td>
<td>8,580.1</td>
</tr>
<tr>
<td>Days Supply Per Pat Rx</td>
<td>358.0</td>
</tr>
</tbody>
</table>

Source: Thomson Healthcare MarketScan® data warehouse.
### Case Study

<table>
<thead>
<tr>
<th>Analysis</th>
<th>Program Responses</th>
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</table>
| - Stratified population and costs based on member needs  
- Evaluated health plan clinical and operational performance to best practices  
- Benchmarked plan designs against peer group (industry and geographic) best practices | - Carve out core utilization management and care management from the health plans  
- Create a custom care management (health advocate) approach utilizing a specialty vendor to provide consistent services across all health plans  
- Design health and wellness delivery model to manage employees pre-event, at-event, and post-event, with a focus on risk reduction and rapid return to health and productivity  
- Implement a robust incentive strategy  
- Integrate internal benefits and health and wellness groups |

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<tr>
<th>Issues</th>
<th>Outcomes</th>
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| - Fragmented care management efforts due to HMO and POS vendor strategy  
- Co-pay based designs provide little incentive for member involvement in health care  
- High-risk population (especially high levels of stress)  
- Low preventive services utilization | - Reduced overall per capita costs by an average of $225 annually — $8.5 million  
- Improved identification of members with modifiable health risks  
- Significantly reduced risks of highest-risk employees  
- Reduced rates of smoking (6%), HBP (11%), high cholesterol (16%), and inactivity (39%) among employees |
## Percent of Employers Implementing Interventions to Control Health Care Costs

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<tbody>
<tr>
<td>Change plan design and cost-sharing features to increase point-of-care accountability</td>
<td>39%</td>
<td>53%</td>
<td>52%</td>
</tr>
<tr>
<td>Changes to prescription drug programs</td>
<td>45%</td>
<td>50%</td>
<td>49%</td>
</tr>
<tr>
<td>Communication strategy to engage employees in consumer-driven behaviors</td>
<td>41%</td>
<td>45%</td>
<td>62%</td>
</tr>
<tr>
<td>Major change in health vendors</td>
<td>41%</td>
<td>49%</td>
<td>50%</td>
</tr>
<tr>
<td>Implement care management programs</td>
<td>27%</td>
<td>46%</td>
<td>54%</td>
</tr>
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</table>
Key Findings: 2008 Health Care Cost Survey

- The average health benefit expenditure for 2008 for large employers will be approximately $9,144 per employee — an increase of 6% over 2007.
- The 2008 data show that nearly a quarter of these companies are still experiencing increases of 10% or more.
- Nearly one half of high performing companies, those companies that are “actively managing” their health plans and delivery processes, are managing to get their increases closer to the medical CPI of about 4% through:
  - Well-articulated strategies and metrics for evaluation program effectiveness
  - Benefit designs that encourage transparency and accountability
  - Extensive and effective communication and decision support programs that engage employees and help build a culture of health
- Despite a relatively steady trend rate, the cumulative effects of rising costs continue to produce record high numbers for employer-sponsored health plans and employee contributions. The burden falls mostly on the lower-wage workers.
Conclusions

- As a whole, Metro New York tends to be a healthier population and utilizes more preventive services than the U.S. total.
  - At the same time, the cost of medical coverage is higher in Metro New York than the rest of the country.

- Given the high cost of patients with chronic conditions and increasing prevalence rates, opportunities exist to better manage these diseases and mitigate the at-risk population.

- While regional segmentation is important and an effective tool at understanding differences in health care utilization and costs, it is important for each organization to understand its own population’s needs.

- Understanding population differences can be meaningful in developing and implementing more targeted programs.
Questions?

For more information on the topics you have heard today or to schedule a meeting, please feel free to contact:

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