2009 Towers Perrin Health Care Cost Survey: Delivering the Health Dividend

Dave Guilmette
Martha Terry

January 29, 2009
Today’s discussion

- Health care cost and affordability issues for 2009
- Rising costs in a sinking economy: Benefit management challenges
- Opportunities and commitments: Pointers from high-performing organizations
Audience poll #1: Give us your feedback

Which statement below best describes actions your organization has taken or will take in response to the economic downturn? (Please select one response.)

- Accelerate benefit changes we would have made anyway 8%
- Try or consider new benefit strategies we would not have considered otherwise 21%
- Monitor benefit program performance and stay the course 48%
- All of the above 20%
- None of the above 3%

Use the polling screen to respond
Costs and affordability: Average trend for 2009 holds steady at 6%...

Average Cost Increases: 1993 – 2009

But ongoing cost increases outpace CPI and wage growth

- In the past 5 years, employers’ health care costs have increased 29% and employees’ by 40%
- The affordability gap is growing — with significant erosion in compensation values and consumer purchasing power

The Growing Affordability Gap — Cumulative Active Employee Health Care Costs vs. Wage Increases

Low-wage workers and pre-65 retirees are most vulnerable...

- The total annual composite cost for pre-65 retirees is highest in the survey at $13,296
- Pre-65 retirees pick up $6,996 — over half the total
- That cost is 70% more than five years ago
- In 5 years, pre-65 retirees could be paying 80% of the cost

### Average 2009 Monthly Medical Costs and Cost Increases by Covered Group

<table>
<thead>
<tr>
<th></th>
<th>Employee/Retiree Only</th>
<th>Employee/Retiree Plus One</th>
<th>Family</th>
<th>Composite*</th>
<th>Average Increase From 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active employees</td>
<td>$402</td>
<td>$826</td>
<td>$1,172</td>
<td>$796</td>
<td>6%</td>
</tr>
<tr>
<td>Retirees under age 65</td>
<td>$595</td>
<td>$1,202</td>
<td>$1,572</td>
<td>$1,108</td>
<td>6%</td>
</tr>
<tr>
<td>Retirees age 65 and older</td>
<td>$310</td>
<td>$638</td>
<td>N/A</td>
<td>$501</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: Towers Perrin 2009 Health Care Cost Survey

*Composite (i.e., employee/retiree only, employee/retiree plus one and family combined).
...And the outlook for retirees remains challenging

- Less than half of the survey respondents are confident that their benefit programs today give employees opportunities to prepare for retirement.
- Only about a third anticipate playing a major role in helping employees meet their retirement needs just 3 years from now.

**Retirement Readiness: Will Employees be Prepared to Retire?**
*(Percent Responding Strongly Agree/Agree)*

- **It is important to our company that current employees are financially prepared to retire**: 66%
- **We provide tools to assist current employees in modeling wealth accumulation needs for retirement**: 53%
- **Our current programs give employees opportunities that allow them to be financially prepared to retire**: 48%

Source: Towers Perrin 2009 Health Care Cost Survey
Rising costs in a sinking economy mean employers and employees take a double hit

<table>
<thead>
<tr>
<th>Employees/Retirees Face…</th>
<th>Employers Face…</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Shrinking income and purchasing power</td>
<td>– Unbudgeted cost increases due to:</td>
</tr>
<tr>
<td>– Trade-offs between health care and other necessities</td>
<td>– Increased utilization of medical and disability plans</td>
</tr>
<tr>
<td>– Job stress</td>
<td>– Increasing numbers of covered dependents due to widespread layoffs</td>
</tr>
<tr>
<td>– Unemployment</td>
<td>– Increased COBRA exposure</td>
</tr>
<tr>
<td>– Capital losses</td>
<td>– Postponed retirements</td>
</tr>
<tr>
<td>– Delayed retirement</td>
<td>– Lower employee engagement</td>
</tr>
<tr>
<td></td>
<td>– Lower productivity</td>
</tr>
<tr>
<td></td>
<td>– Inability to attract and retain needed skills</td>
</tr>
<tr>
<td></td>
<td>– Inability to achieve desired workforce turnover rates</td>
</tr>
<tr>
<td></td>
<td>– Increased scrutiny of retiree medical liabilities as bottom lines are squeezed</td>
</tr>
</tbody>
</table>
**Audience poll #2: Give us your feedback**

Which of the following employee behavior changes are you most concerned might result from the economic downturn? (Please select one response.)

- Postpone retirement: 14%
- Reduce participation in retirement savings plans (HSA, 401(k)): 17%
- Increase utilization of health and disability plans: 21%
- Reduce utilization of health plans and services: 5%
- All of the above: 41%
- None of the above: 2%

Use the polling screen to respond
The signs of stress are beginning to show

- In a December poll, 67% of employees said their companies have taken or plan to take actions — including hiring freezes, workforce reductions and / or increases in employees’ share of benefit costs.

- Clearly, employees feel that their risks have increased.

**Perceived Change in Levels of Financial Risk Employees Face**

<table>
<thead>
<tr>
<th>Risk</th>
<th>Greatly/somewhat increased</th>
<th>No change</th>
<th>Somewhat/greatly decreased</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk that you won’t be able to afford to retire when you want to</td>
<td>65%</td>
<td>32%</td>
<td>3%</td>
</tr>
<tr>
<td>Risk that your future earnings will plateau or decline</td>
<td>55%</td>
<td>41%</td>
<td>4%</td>
</tr>
<tr>
<td>Risk that your job will change or be eliminated</td>
<td>45%</td>
<td>53%</td>
<td>2%</td>
</tr>
<tr>
<td>Risk that you will incur medical expenses that you cannot pay</td>
<td>30%</td>
<td>67%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: Towers Perrin Employee Pulse Survey: December 2008
The focus is shifting to job security, benefit protection and the shelter of a strong employer

Aspects of the Work Experience Most Important to Employees

- **Having a good balance between my work and family**: 51% (August 2008), 52% (December 2008)
- **Having a secure position I can count on for the long term**: 46% (August 2008), 59% (December 2008)
- **Having good quality coworkers on my team**: 44% (August 2008), 49% (December 2008)
- **Having adequate benefit protection for myself and my family**: 37% (August 2008), 56% (December 2008)
- **Maximizing the amount of money I can earn**: 34% (August 2008), 27% (December 2008)
- **Working for a successful organization with a strong future**: 31% (August 2008), 39% (December 2008)

Source: Towers Perrin Employee Pulse Survey: December 2008
But the crosscurrents signal a sense of commitment and shared destiny

- Managing talent is still a concern
  - Over half (54%) of employer respondents to an October pulse survey said they were concerned about losing high-performing employees

- Employees are committed
  - Over three-quarters of employees in the December poll (76%) agreed they were personally motivated to help the company succeed, up from 69% four months earlier

Challenge: Balancing cost and talent in a highly stressed environment
High-performing companies are well positioned to meet the challenge — and gain a health dividend

- High-performing companies will pay 12% less ($1,200 per employee) than low performers — adding up to millions in 2009 savings
- The health dividend includes other positive workforce management outcomes, such as higher employee engagement
- In a tough economy, a health dividend can create an important competitive advantage

### Cost Variation Across Companies: 2009
High-Performing vs. Low-Performing Companies

<table>
<thead>
<tr>
<th>Cost per employee per year (composite for all plans)</th>
<th>High-Performing Companies</th>
<th>Low-Performing Companies</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in overall cost</td>
<td>4%</td>
<td>7%</td>
<td>3%</td>
</tr>
<tr>
<td>Increase in employer cost</td>
<td>4%</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>Increase in employee cost</td>
<td>8%</td>
<td>10%</td>
<td>2%</td>
</tr>
<tr>
<td>Employee annual contribution</td>
<td>$2,040</td>
<td>$2,364</td>
<td>$324</td>
</tr>
</tbody>
</table>

Source: Towers Perrin 2009 Health Care Cost Survey
What do high performers do differently?

- Build the link between workforce health and business results
- Ensure that key success factors, such as leadership involvement, are firmly in place
- Engage employees, promote a culture of health and proactively manage change
- Invest in a broad range of existing and emerging health management programs and approaches
- Design and price programs to create transparency and appropriate incentives
- Rigorously measure program and vendor performance against goals
- Build action plans to address gaps and opportunities
Make the business case: A clear strategy, strong programs and a focus on the value of employee health

Factors Shaping Health Care Strategy
(Percent Responding Extremely/Very Important)

- Providing affordable health plans to employees: 78% (High-performing companies), 60% (Low-performing companies)
- Demonstrating the organization's interest in employee well-being*: 74% (High-performing companies), 42% (Low-performing companies)
- Providing affordable health plans to low-wage workers: 62% (High-performing companies), 43% (Low-performing companies)
- Demonstrating the business impact of health benefits and related programs: 60% (High-performing companies), 42% (Low-performing companies)
- Understanding employees as health care consumers: 59% (High-performing companies), 29% (Low-performing companies)
- Helping employees manage their health and wealth: 58% (High-performing companies), 33% (Low-performing companies)

Source: Towers Perrin 2009 Health Care Cost Survey

*Senior management interest in employee well-being is the top driver of employee engagement in the Towers Perrin 2007 – 2008 Global Workforce Study.
Commit to key performance factors: Leadership involvement, measurement, disciplined execution

Critical Performance Factors: Are They in Place? (Percent Responding Critical Factor; in Place Now)

- Senior management involvement: 87% (62% high-performing, 45% low-performing)
- Disciplined execution: 82% (45% high-performing, 37% low-performing)
- Measuring performance and acting on results: 77% (39% high-performing, 37% low-performing)
- Employee trust in senior management: 76% (37% high-performing, 37% low-performing)
- Support from managers and supervisors: 73% (48% high-performing, 25% low-performing)
- Ability to demonstrate ROI: 54% (25% high-performing, 25% low-performing)
- Helping employees manage increased risk/responsibility: 46% (13% high-performing, 13% low-performing)

Source: Towers Perrin 2009 Health Care Cost Survey
Look broadly and systematically for burning issues and low-hanging fruit

Sample Goal: Support ABC’s workforce strategies with benefit programs that are efficient and integrated, affordable and competitive with the market

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-specific cost and risk drivers and help influence health outcomes and resource consumption

Strategic Levers

- **Strategy and Governance**
- **Change Management**
- **Financial Management**
- **Delivery**
- **Design**
Understand cost drivers and identify controllable costs for targeted reduction

Towers Perrin Health Care 360 Performance Study

Database Actual

<table>
<thead>
<tr>
<th>Adjustment Factors</th>
<th>Custom Benchmark</th>
<th>ABC Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age/Gender</td>
<td>$8,807</td>
<td>$10,417</td>
</tr>
<tr>
<td>Family Size</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Geography</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>Plan Value</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>Composite</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>-7%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Key Message
Your total program is 9% less efficient than the database. This translates into an estimated savings potential of $3.8 million.

Source: Towers Perrin  Health Care 360 Performance Study
Consider account-based approaches for actives and retirees: Define — and support — strategic objectives

ABHP Objectives
(Percent Responding Extremely/Very Important)

- Encouraging employees to spend health care dollars more wisely: 64% (High), 78% (Low)
- Encouraging healthy behaviors and appropriate health care decisions: 58% (High), 76% (Low)
- Building a sense of shared responsibility with employees: 47% (High), 68% (Low)
- Achieving measurable change in employee behaviors that impact costs: 46% (High), 65% (Low)
- Controlling employer costs: 45% (High), 57% (Low)
- Controlling employee costs: 28% (High), 53% (Low)
- Providing a tax-effective savings option for post-retirement medical expenses: 32% (High), 43% (Low)

Source: Towers Perrin 2009 Health Care Cost Survey
## Review eligibility issues

### Dependent Eligibility Audit Value

<table>
<thead>
<tr>
<th>Sample One-Year Return on Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees</td>
</tr>
<tr>
<td>Employees with dependents</td>
</tr>
<tr>
<td>Number of dependents</td>
</tr>
<tr>
<td>Dependents removed</td>
</tr>
<tr>
<td>Health care costs per dependent</td>
</tr>
<tr>
<td>Estimated <em>annual</em> total costs avoided</td>
</tr>
</tbody>
</table>
Take a fresh look at demand management

Employee Health Management: Prevalent Activities
(Percent Responding Doing to a Great/Moderate Degree)

- Standard (vendor designed) care/disease management: 75% high, 62% low
- Health risk assessment: 67% high, 36% low
- Health improvement programs (obesity, smoking, etc.): 66% high, 41% low
- Health advocate to manage a chronic condition or serious illness: 64% high, 38% low
- Process to measure effectiveness of employee health management programs: 42% high, 19% low
- Customized care/disease management: 39% high, 19% low

Source: Towers Perrin 2009 Health Care Cost Survey
Consider emerging health management approaches

Employee Health Management: Emerging Activities (Percent Responding Doing to a Great/Moderate Degree)

- Onsite biometric screening: 39% (High), 20% (Low)
- Lifestyle coaching: 39% (High), 13% (Low)
- Personal health record (electronic): 31% (High), 13% (Low)
- Integration of disability with medical care management: 23% (High), 6% (Low)

Source: Towers Perrin 2009 Health Care Cost Survey
Make health a “requirement”: Strengthen incentives, consider penalties...

...Use your currency wisely

Incentives and Employee Accountability: Current Design Elements
(Percent Responding Doing to a Great/Moderate Degree)

- Incentives for completion of health risk assessment: 51% (High), 27% (Low)
- Incentives for employees to participate in care management programs or adopt healthy lifestyles: 49% (High), 17% (Low)
- Change from copays to coinsurance: 41% (High), 35% (Low)
- Incentives for completion of biometrics screening: 30% (High), 12% (Low)

Review paths/barriers to retirement

Actions Employers Have Taken / Will Take for Retiree Medical Program (Percent Responding in Place in 2008 / Will Implement in 2009)

- Maintain post-65 prescription drug coverage qualifying for federal subsidy: 75%
- Offer Medicare Advantage HMO/PPO options to post-65 retirees: 29%
- Implement HSA for actives/pre-65 retirees as a means to help employees/retirees save for future expenses: 29%

Source: Towers Perrin 2009 Health Care Cost Survey
Commit to communication and consumer engagement

Engaging Consumers
(Percent Responding Doing to a Great/Moderate Degree)

- Information to help employees make better decisions about health care: 72% (High-performing) vs. 42% (Low-performing)
- Year-round employee education, communication, access to health information: 67% (High-performing) vs. 32% (Low-performing)
- Health care Web site sponsored by the company: 62% (High-performing) vs. 30% (Low-performing)
- Changes in work environment to encourage healthier behavior: 58% (High-performing) vs. 33% (Low-performing)
- Communication from senior leadership about the importance of employee health: 57% (High-performing) vs. 27% (Low-performing)
- Support tools for employee decisions about providers/services: 56% (High-performing) vs. 21% (Low-performing)
- Financial modeling tools for health care expenses and payments: 51% (High-performing) vs. 28% (Low-performing)

Source: Towers Perrin 2009 Health Care Cost Survey
Cultures at High- vs. Low-Performing Companies
(Percent Responding Strongly Agree/Agree)

- Our company views employee health as a critical component of superior business performance
  - High-performing companies: 89%
  - Low-performing companies: 59%

- Our senior leadership communicates clearly about strategy, growth and business challenges
  - High-performing companies: 88%
  - Low-performing companies: 58%

- Our senior leadership communicates that the organization cares about employee well-being
  - High-performing companies: 82%
  - Low-performing companies: 51%

- Our company promotes a culture of shared responsibility and accountability
  - High-performing companies: 81%
  - Low-performing companies: 43%

- Our company consistently rewards high performance
  - High-performing companies: 78%
  - Low-performing companies: 48%

- Employees in our company are engaged
  - High-performing companies: 74%
  - Low-performing companies: 44%

Source: Towers Perrin 2009 Health Care Cost Survey

*Senior management interest in employee well-being is the top driver of employee engagement in the Towers Perrin 2007 – 2008 Global Workforce Study.
Factor future directions into today’s thinking

The Evolving Role of the Employer
(Percent Responding Primary/Large Role)

- Providing competitive benefits for employees: 86% today, 84% in 2011
- Managing costs: 84% today, 90% in 2011
- Meeting employees’ financial protection needs: 65% today, 65% in 2011
- Motivating employees to manage their health and health care purchases responsibly: 58% today, 78% in 2011
- Identifying and managing health risks and conditions in your employee population: 55% today, 74% in 2011
- Supporting employees’ capability to make sound health care decisions: 53% today, 74% in 2011
- Helping employees meet their post-retirement financial protection needs, e.g., through employee health care savings or employer subsidy: 25% today, 33% in 2011

Source: Towers Perrin 2009 Health Care Cost Survey
Audience poll #3: Give us your feedback

Given the actions your organization is now taking to get through the economic crisis, what potential long-term impact are you most concerned about? (Please select one response.)

- Our ability to attract the talent we need: 5%
- Our ability to retain the talent we need: 8%
- Employee engagement and productivity: 23%
- Leadership credibility: 3%
- Company reputation: 1%
- Organizational sustainability: 15%
- All of the above: 39%
- None of the above: 6%

Use the polling screen to respond
Questions?

dave.guilmette@towersperrin.com
martha.terry@towersperrin.com