

Purchasing Value in Health Care

Selected Findings From the 15th Annual National Business Group on Health/Towers Watson Survey Report — 2010

The still sluggish economy combined with continued above-inflation increases in health care costs is forcing employers to do even more to hold the line on costs.

Executive Summary

The prolonged economic downturn is putting additional pressure on companies to change their health care programs to help relieve financial strain. The results of this year's survey also show employers are frustrated by employees' poor health habits and are struggling to effectively motivate behavior change. Additionally, they are uncertain about the future of employer-sponsored benefits, especially in light of the potential for health care reform legislation. Against this backdrop, employers are doing more to hold the line on costs and achieve better health and productivity outcomes.

- Annual median health care cost increases rose slightly in 2009 to 7%, compared with 6% in 2008. This pace is still more than twice the rate of inflation.
- Fifty-seven percent of respondents are very confident that employers will continue to offer health care benefits 10 years from now. This figure is down from 2009, when 62% of employers expressed a high level of confidence.
- Employers report that lack of employee engagement is the biggest obstacle to changing health behaviors. Still, they are trying new ways to encourage employees to become healthier and buy health care services more efficiently.
- There is considerable room for improvement in vendor programs designed to change member health habits and encourage efficient use of health care services. Employers rate these programs as ineffective.
- Today, 54% of companies have a consumer-driven health plan (CDHP) in place – a 6% increase over last year's findings – and this figure is expected to increase to 61% in 2011.

Health care costs up one percentage point over prior year

The annual median increase in health care costs was 7% in 2009, compared with 6% in 2008. The increase is expected to be 6.5% in 2010, as shown in **Figure 1**. Respondents spend an average of \$7,700 per employee per year on health care costs.

Figure 1. Health care cost increases¹



Note: Based on median trend. * Expected.

¹ A company's medical benefit expenses for insured plans include the premium paid by the company and for self-insured plans include all medical and drug claims paid by the plan, company contributions to medical accounts (flexible spending accounts/health reimbursement accounts/health savings accounts) and costs of administration minus employee premium contributions. The annual change in costs is based on costs for active employees after plan and contribution changes.

The weak economy is forcing companies to take actions to cut costs

Compared with last year, more companies have taken or expect to take actions related to their health care programs. In 2010, 83% of companies have already revamped or expect to revamp their health care strategy, up from 59% in 2009 (Figure 2).

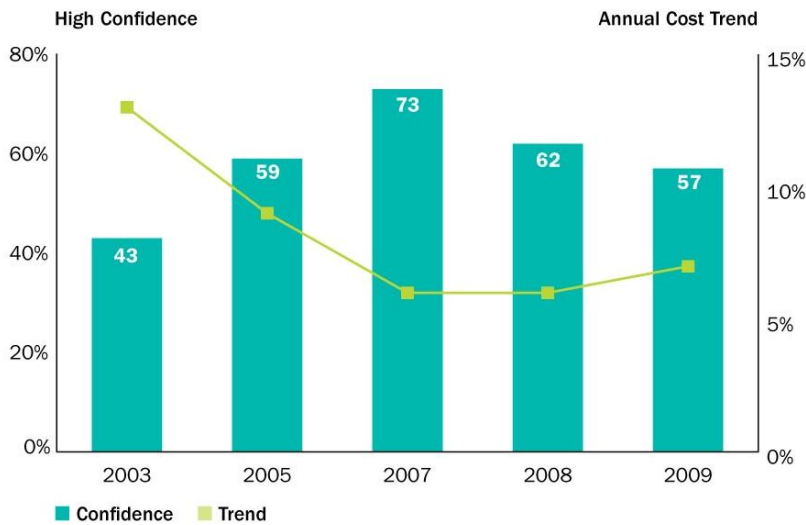
Figure 2. Changes to benefit programs under way

	Planning Change in Next 2 Years		No Changes Planned	
	HAVE ALREADY TAKEN ACTION; EXPECT TO TAKE FURTHER ACTION	EXPECT TO TAKE ACTION IN THE NEXT 2 YEARS	HAVE ALREADY TAKEN ACTION; NO FURTHER ACTION EXPECTED	NO ACTION EXPECTED
Revamp health care strategy	27%	23%	32%	17%
Replace ineffective medical plan administrators	12%	20%	26%	42%
Adopt a CDHP	9%	14%	44%	34%
Consolidate health and productivity programs with single vendor or health plan	8%	13%	23%	57%
Increase/add spousal surcharges	4%	13%	19%	64%
Delay/cancel adding new health and productivity program offerings	4%	6%	6%	83%
Delay/cancel planned changes in plan design	6%	4%	6%	84%
Reduce internal staff dedicated to health benefits programs	2%	3%	16%	78%
Reduce/eliminate health promotion programs	3%	1%	4%	93%

Companies are less confident in the outlook for employer-sponsored benefits

Frustrated by their health plan's ability to deliver desired outcomes and uncertain as to the outcome of health care reform legislation, a slim majority of respondents — 57% — are very confident that employers will continue to offer health care benefits 10 years from now (**Figure 3**). Confidence today is below levels reported in prior years, when health care cost trends were increasing at a higher annual rate.

Figure 3. Confidence in future of employer as benefits sponsor



Note: High Confidence represents responses of "Very confident."

Companies say reform would result in higher costs, less generous benefit programs

Sixty-nine percent of employers project that health care reform, if enacted, would result in a moderate or large increase in the overall cost of their health care program (**Figure 4**). Twenty-seven percent say reform would lead them to reduce the value of health benefits provided.

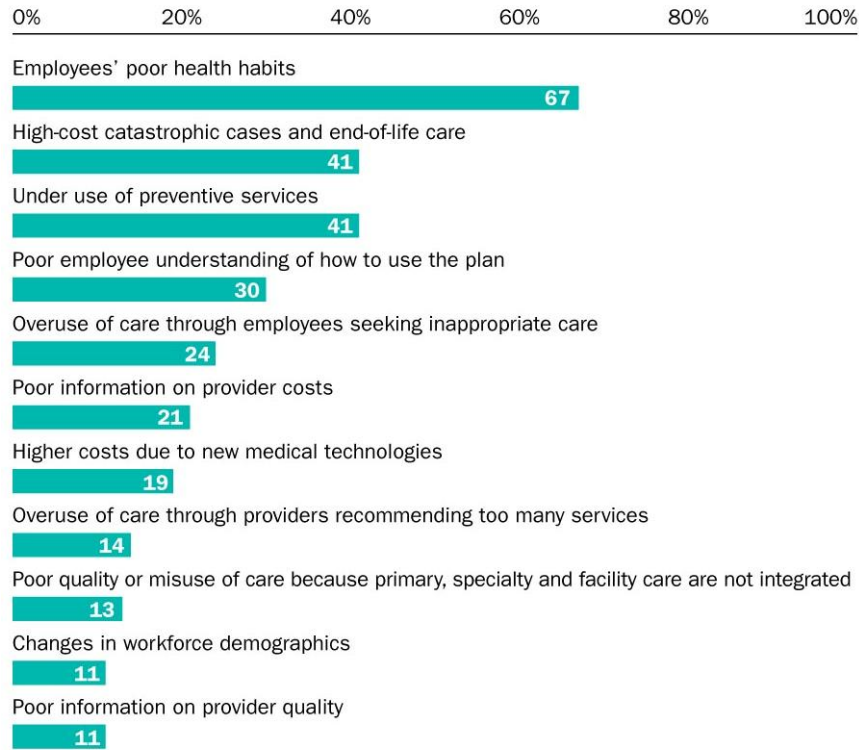
Figure 4. Impact of health care reform on companies' health care programs

	LARGE DECREASE	MODERATE DECREASE	NO CHANGE	MODERATE INCREASE	LARGE INCREASE	DO NOT KNOW
Overall costs of your health care program	1%	1%	10%	43%	26%	20%
Number of employees your plan covers	1%	10%	45%	22%	8%	14%
Generosity/value of your health care benefits	3%	24%	40%	12%	2%	18%
Overall health of employees enrolled in your plan	2%	9%	58%	8%	1%	22%
Costs of administering your health care plan	1%	2%	12%	45%	24%	16%
Subsidies provided to spouses and dependents	1%	8%	46%	13%	3%	29%
Offering of retiree medical benefits	3%	5%	56%	6%	3%	27%
Adoption/offering of health management programs	1%	2%	57%	13%	2%	25%
Use of incentives to encourage participation in health management programs	1%	4%	48%	19%	3%	25%

Employees' poor health habits are the top challenge to employers' ability to offer affordable health coverage

Companies also struggle with underuse of preventive health care services and the high cost of catastrophic care. These top three challenges are the same as last year (Figure 5).

Figure 5. Top challenges to maintaining affordable benefit coverage

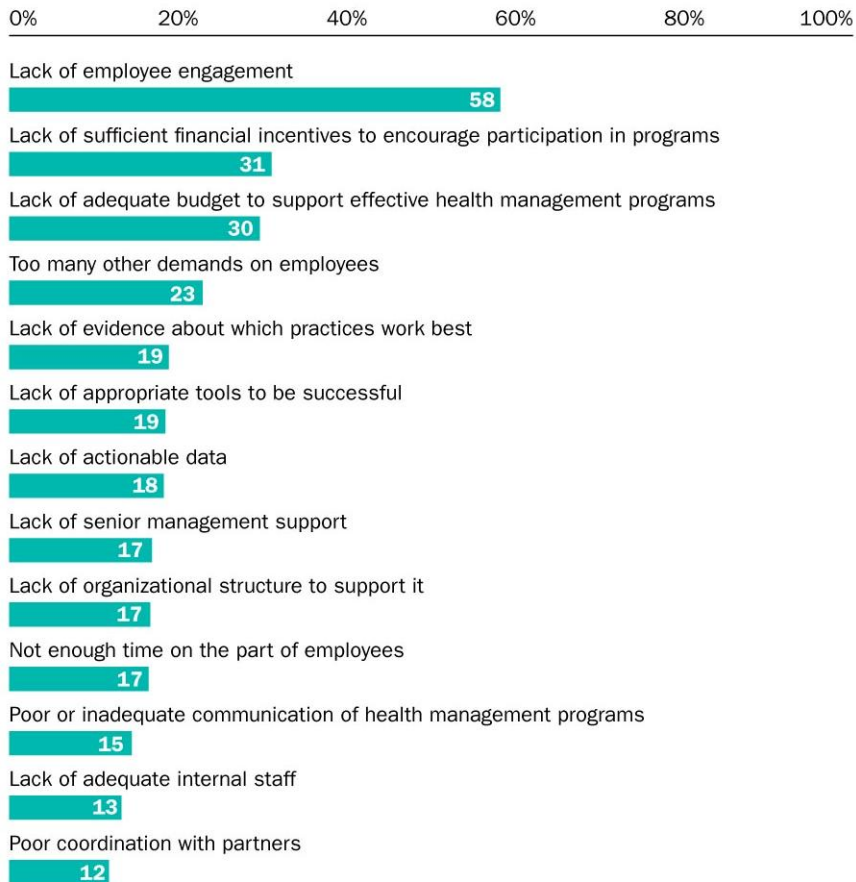


Note: Companies were asked to identify their top three challenges.

Lack of employee engagement is the biggest obstacle to changing health habits and behaviors

Changing employees' poor health habits is essential to holding the line on costs, but employers find employees to be unreceptive to programs such as those that encourage healthy lifestyles and use of preventive care services (**Figure 6**). Employers also struggle to provide sufficient incentives and financially support effective health management programs.

Figure 6. Biggest obstacles to changing employee behavior related to health



Note: Companies were asked to identify their top three obstacles.

What will it take to bring about behavior change? Survey findings show an increase in companies' use of incentives and new plan offerings

More companies are covering use of retail clinics, providing incentives for completion of a health risk appraisal and offering access to a health coach (**Figure 7**). These new provisions are targeting behaviors that support health and fitness as well as employees' use of plan services.

Figure 7. Employers' efforts to encourage healthy behaviors and an informed approach to care management

	2008	2009	2010	% POINT CHANGE FROM 2008 TO 2010
Provide coverage for use of retail clinics	31%	36%	46%	15%
Use norms or benchmarks	77%	79%	91%	14%
Audit or review eligibility and enrollment in your health plan	55%	61%	69%	14%
Incent completion of a health risk appraisal	53%	61%	66%	13%
Use claims analysis of data in a warehouse	45%	44%	57%	13%
Encourage plans and providers to allow patients access to online medical information	44%	54%	57%	12%
Offer health coach	48%	56%	56%	8%
Provide personalized reminders of need and timing for obtaining preventive procedures	33%	39%	40%	7%
Reduce pharmacy copays or coinsurance for those with chronic conditions	12%	17%	19%	6%
Offer lifestyle behavior change programs purchased through one or more of your health plans	44%	58%	50%	6%

Vendors can do more to support behavior change

Employers rate as ineffective vendor-provided services designed to promote healthier lifestyles, encourage more efficient use of health care services and foster high-quality care (**Figure 8**).

Vendor efforts to target participants for health management programs are considered more effective, as are programs designed to provide support for management of chronic and catastrophic conditions.

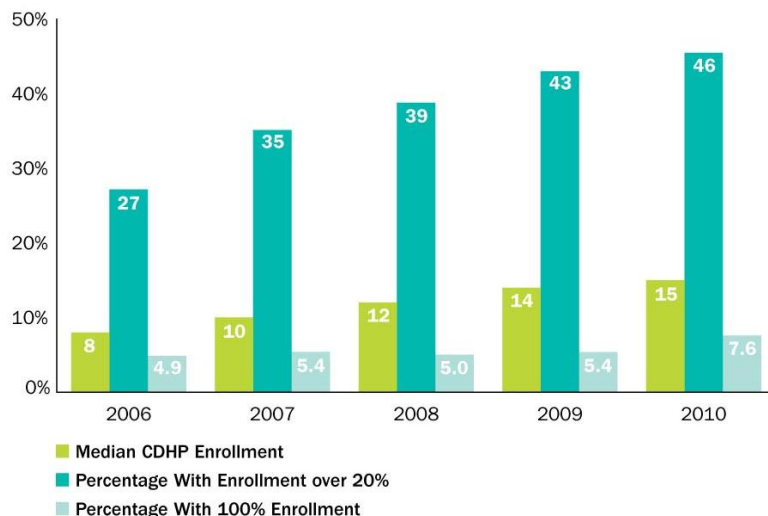
Figure 8. Rating the performance of medical vendors

	Effectiveness of Medical Vendors		
	NOT AT ALL OR SLIGHTLY	MODERATELY	HIGHLY OR VERY HIGHLY
Screening claims to find claimants and invite them to participate in health management programs	42%	33%	25%
Integrating data to determine appropriate treatment plans for catastrophic cases	41%	38%	21%
Integrating data to determine appropriate treatment plans for chronic conditions	46%	36%	18%
Encouraging members to comply with appropriate preventive care guidelines	51%	36%	13%
Assisting employees in understanding and maximizing their benefit plan	55%	35%	11%
Driving care to higher-quality providers	57%	35%	9%
Changing member behavior to drive more efficient use of health care services	67%	25%	8%
Changing member behavior related to making healthy lifestyle decisions	66%	27%	6%

CDHPs continue to play a leading role in the marketplace; among account-based plans, CDHPs with health savings accounts (HSAs) are the most popular arrangements

Today, 54% of companies have a CDHP in place, a 6% increase over last year's findings. Median CDHP enrollment continues to trend gradually higher, with 46% of employers reporting CDHP enrollment rates above 20%.

Figure 9. Annual CDHP enrollment



Conclusion

Financial pressure, continued increases in annual health care costs and new uncertainties about the future of employer-sponsored benefits, particularly in light of the debate over health care reform, have convinced employers they need to take more aggressive action to moderate expected cost increases. Findings reveal a host of plan design changes under way, particularly those intended to motivate employees to make better health decisions. These include new incentive programs for lifestyle and health management and new tools to empower consumerism.

About the survey

The 15th Annual National Business Group on Health-Towers Watson Employer Survey on Purchasing Value in Health Care tracks employers' opinions and practices and the results of their efforts to provide and manage health benefits for their workforce. The survey was completed between November 2009 and January 2010, and findings reflect responses from 507 U.S. companies. The full report will be available March 10, 2010, on www.towerswatson.com.

About the National Business Group on Health

The National Business Group on Health is the nation's only nonprofit, membership organization of large employers devoted exclusively to finding innovative and forward-thinking solutions to their most important health care and related benefits issues. The NBGH identifies and shares best practices in health benefits, disability, health and productivity, related paid time off and work/life balance issues. NBGH members provide health coverage for more than 50 million U.S. workers, retirees and their families. For more information about the NBGH, visit www.businessgrouphealth.org.

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