Executive Summary

The new imperative for employer-sponsored health care programs is higher performance. To qualify as high performing, a program must be aligned with business needs, efficient, affordable and engaging. It must also demonstrate value to the organization. Companies seeking to achieve and sustain such high performance need to develop clearly defined, comprehensive and aggressive multiyear strategies for maximizing their health care investments. At the same time, they would do well to remain flexible and agile in the continuing uncertainty of a dramatically changing marketplace.

Towers Watson’s 2015 Emerging Trends in Health Care Survey yields insights into employers’ health care strategies for the next few years and key actions for delivering high performance. The responses of 444 midsize to large U.S. organizations employing 7.2 million employees underscore four major areas that will help frame employer-sponsored benefits:

- **Managing costs.** Health care costs have been growing more slowly over the last several years; however, cost trends are still more than double the rate of inflation. Affordability concerns persist for employers and employees.

- **Adding value.** Employers are placing more emphasis on quality of care and patient outcomes by using centers of excellence (COEs) and offering benefit differentials for employees selecting narrow medical networks.

- **Improving employee engagement.** Employers continue to take steps that encourage employees to be more active decision makers in their own medical treatment and care options.

- **Exploring new options.** Employers can tap into private and public insurance exchanges as alternatives to the traditional self-managed health plan.

“Companies seeking to achieve and sustain high performance need to develop clearly defined, comprehensive and aggressive multiyear strategies for maximizing their health care investments.”
Key Survey Findings

Managing Costs
• Health care costs for 2015 are projected to increase by 4% after plan changes, compared to the 4.5% employers previously projected for 2014. Without changes, the increase would have been 5.2%.
• The excise tax is a primary focus of companies’ health care strategies. Two-thirds of employers (62%) say the 2018 excise tax will have a moderate to significant impact on their health care strategy. Two in five employers that have done extensive modeling of their plans say they will trigger the tax in 2018.
• Companies continue to aggressively manage their plans to keep costs down. One-third (32%) are using spousal surcharges today, which is expected to almost double (61%) in three years. A slight majority of companies (53%) plan to significantly reduce subsidies for spouses and dependents by 2018. Four in 10 employers (41%) may adopt a defined contribution (DC) arrangement by 2018. Also, employers report including coverage and utilization restrictions (61%) in their specialty pharmacy strategy to address cost pressures.

Adding Value
• Employers exhibit strong interest in building high-performing health programs. Two-thirds (64%) will use data and metrics extensively to evaluate plan performance and behavior change.
• Employers continue to partner with their vendors to link payment to value and enhance networking strategies. Use of COEs and narrow medical networks is expected to more than triple over the next three years.
• Telemedicine services expanded by 35% over the last year, and more than 80% of employers could be offering these services by 2018.

Increasing Employee Engagement
• Employers are embracing various tactics to improve health and engagement, and raise individual accountability. Nearly two-thirds of companies (65%) expect to add emergent technologies to boost social networking by 2018. Six in 10 companies (63%) may use tobacco surcharges by 2018. Almost half (49%) will offer or consider offering an account-based health plan (ABHP) as their only health plan by 2018.

Exploring New Options
• Nearly eight in 10 employers (79%) lack confidence in public exchanges as a viable alternative to employer-sponsored programs over the next two years. Almost all employers surveyed (98%) have no plans to exit active medical plans and direct employees and their eligible dependents to the public exchanges.
• Private health insurance exchanges will become more attractive to employers over the next few years: 17% of employers surveyed believe they will provide a viable alternative for employer-sponsored coverage for active full-time employees in 2016, but confidence builds to 37% for 2018.
• Companies that have done an extensive analysis of private exchanges are twice as likely to consider them a viable option in 2016 (29% versus 14%).
The High-Performance Health Care Imperative

Employers continue to adopt bold strategies to improve the performance of health care programs for active employees. Several forces are causing them to act:

- **Macroeconomic conditions**: Cost increases remain at historically low levels. After plan changes, 2015 health care costs are projected to increase by 4%, compared to the 4.5% employers previously projected for 2014. Without changes to medical and pharmacy plan designs, vendors, provider networks or other features, the increase would have been 5.2% (Figure 1).

- **Population health risks**: Despite the modest increase, employers’ affordability concerns are growing as health care costs are increasing at more than twice the rate of inflation — an issue that has persisted for a half century. The slow economy has limited wage growth. Stagnant wages make health care costs challenging for employees, especially workers in low-wage industries (e.g., retail and food services).

- **New market entrants**: Federal reform has profoundly changed the future of health care delivery and continues to create both opportunities and challenges for employers. New entrants are offering innovative services such as high-performance network development, expanded onsite clinic services, cost and quality transparency tools, health technology, wellness and health improvement programs, care coordination, treatment decision support, and other high-value member services.

- **The provider landscape**: Health systems and provider organizations are consolidating and integrating. Accountable care organizations and patient-centered medical homes are forming to give employers new value-based (versus volume-based) contracting opportunities.

- **The Patient Protection and Affordable Care Act**: Federal reform has profoundly changed the future of health care delivery and continues to create both opportunities and challenges for employers.

- **Expense control**: Expense control is a top focus for companies in light of historic low inflation rates, low productivity growth, limited pricing power and intense margin pressure. Expense control is a top focus for companies in light of historic low inflation rates, low productivity growth, limited pricing power and intense margin pressure.

- **Macroeconomic conditions**: The illness burden affects medical costs and workforce productivity. The illness burden affects medical costs and workforce productivity.

- **The provider landscape**: The illness burden affects medical costs and workforce productivity.

Managing Costs: Performance Gap Calls for Change

Health care cost increases for active employees remain at historically low levels. After plan changes, 2015 health care costs are projected to increase by 4%, compared to the 4.5% employers previously projected for 2014. Without changes to medical and pharmacy plan designs, vendors, provider networks or other features, the increase would have been 5.2% (Figure 1).

Despite the modest increase, employers’ affordability concerns are growing as health care costs are increasing at more than twice the rate of inflation — an issue that has persisted for a half century. The slow economy has limited wage growth. Stagnant wages make health care costs challenging for employees, especially workers in low-wage industries (e.g., retail and food services).

**Figure 1. Increases in health care costs are at historically low levels, yet double the rate of inflation**

What combined medical and pharmacy rate increase (or decrease) did your company experience for actively enrolled employees between 2013 and 2014? For 2014 and 2015 (expected)?

![Chart](chart.png)

**Note:**
- Median trends for medical and drug claims for active employees
- CPI-U extracted from the Department of Labor, Bureau of Labor Statistics

*Expected

For employers, managing health care costs requires more than looking at future cost trends. After relentless increases beyond inflation every year over the last 50 years, health care has become a growing piece of the total rewards pie. And at some companies and in some industries, health care cost increases have been much higher than average for many years. Our data show a wide differential — varying from $9,000 to $16,000 per employee per year — across and within industries. This variation signals an opportunity for employers to identify the causes of their performance gap and address problem areas.

In addition to the incremental burden of annual cost increases, the 2018 excise tax on high-cost health benefits has placed a time clock on optimizing health plan performance, triggering a new sense of urgency at many organizations. Almost two-thirds (62%) say the 2018 excise tax will have a moderate to significant impact on their health care strategy (Figure 2).

“In addition to the incremental burden of annual cost increases, the 2018 excise tax on high-cost health benefits has placed a time clock on optimizing health plan performance, triggering a new sense of urgency at many organizations.”
Half (49%) have done an extensive evaluation of when their organization will hit the excise tax (Figure 3). What’s more, two in five that have done extensive modeling of their plans have discovered they will hit the excise tax threshold the first year it is assessed.

Two precepts of the excise tax are important for every organization to factor in when considering the impact of the tax:

- The excise tax is based on both employer and employee premium contributions, not just what the employer pays for coverage.
- Tax-advantaged health care accounts such as health flexible spending accounts, health reimbursement accounts and pretax contributions to a health savings account all need to be included in tax calculations. The tax is not determined by the value of the medical plan alone but rather the value of all affected health benefits elected by an employee or family.

Taking into consideration the implications of the excise tax, HR and Finance leaders face a new gold standard for high performance: managing health cost increases at the overall Consumer Price Index (CPI), currently 2% or less — far lower than medical cost trend of 7%* and the average 4% annual health care cost increase after plan changes projected by the employers surveyed.

*As estimated by Towers Watson

---

**Figure 3. Analysis of the excise tax leads many organizations to take actions around their health care strategy**

Has your HR/Benefit team evaluated when the organization might trigger the excise tax?

<table>
<thead>
<tr>
<th>No evaluation</th>
<th>Some evaluation</th>
<th>Extensive evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>4%</td>
<td>47%</td>
<td>49%</td>
</tr>
</tbody>
</table>

How will the 2018 excise tax influence your organization’s health care strategy in 2016 and 2017?

<table>
<thead>
<tr>
<th>No influence</th>
<th>Small influence</th>
<th>Moderate influence</th>
<th>Significant influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>4%</td>
<td>11%</td>
<td>58%</td>
<td>16%</td>
</tr>
</tbody>
</table>

When will your organization first trigger the excise tax if no changes are made to the health care benefit strategy?

<table>
<thead>
<tr>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>Beyond 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>26%</td>
<td>31%</td>
<td>5%</td>
<td>35%</td>
</tr>
</tbody>
</table>

It will be the most important factor influencing our health care strategy

<table>
<thead>
<tr>
<th>0%</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
<th>80%</th>
</tr>
</thead>
<tbody>
<tr>
<td>4%</td>
<td>8%</td>
<td>3%</td>
<td>16%</td>
<td>11%</td>
</tr>
</tbody>
</table>

*As estimated by Towers Watson
With so much at stake, it is no surprise that employers predict moderate to significant changes to their health care benefits over the next three years: 79% for part-time and 84% for full-time employees (Figure 4). In fact, 55% report that making changes to avoid the excise tax ceiling is one of their top five areas of focus for their organizations’ health care activities in 2016. As employers evaluate which changes to implement, more than half (56%) report they will review the actions of competitors or industry peers as they develop their organization’s health care agenda in 2016. Rather than follow the competition, however, organizations would be more successful at improving performance by adopting solutions that fit their corporate culture, aligning them with their total rewards strategy and supporting the employee value proposition.

These are the top actions employers are taking to combat high costs and improve performance:

- More than half (51%) track dependent eligibility and assess participation rates today, and another 17% are considering this tactic by 2018.
- They are scaling back on health coverage for spouses and dependents. Today, three in 10 (32%) use spousal waivers or surcharges (when coverage is available elsewhere to the spouse), and this could grow to 61% by 2018.
- 14% significantly reduced coverage subsidies for spouses/dependents in 2015, and another 39% are examining this by 2018.
- DC arrangements (i.e., employer contributions based on a flat dollar amount) will gain appeal — 13% have this approach in place today, and another 28% will explore it by 2018.

Double-digit specialty pharmacy cost trends are taking a toll on employers’ health care budgets, and survey respondents are using a range of options to tame the exorbitant costs (Figure 5):

- Adopting new coverage or utilization restrictions as part of your specialty pharmacy strategy (e.g., require prior authorization or quantity limits based on clinical evidence) — in place today for 61% of employers and could rise to 87% by 2018.
- Evaluating and addressing specialty pharmacy spend within the medical benefit — four in 10 (41%) in 2015 and another 42% by 2018.
- Implementing coverage changes to influence site of care for specialty pharmacy — three in 10 (30%) take this action today, possibly advancing to 67% by 2018.

### Figure 4. Employers plan changes to their health care benefits over the next three years

How significantly do you anticipate changing your health benefit programs between now and January 1, 2018?*

<table>
<thead>
<tr>
<th></th>
<th>0%</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
<th>80%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active full-time employees</td>
<td>15</td>
<td>62</td>
<td>22</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active part-time employees**</td>
<td>20</td>
<td>60</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Little to no change ■ Moderate change ■ Significant change

*Responses of “not applicable” have been removed.
**Based on employers that offer coverage to part-time employees

### Figure 5. Companies take actions to address the cost pressures from specialty pharmacy

Which specific actions does your organization have in place or is it considering between now and 2018 for its health care program?

<table>
<thead>
<tr>
<th>Pharmacy</th>
<th>In place today</th>
<th>Planned for 2016</th>
<th>Considering for 2017 or 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adopt new coverage or utilization restrictions as part of your specialty pharmacy strategy (e.g., require prior authorization or quantity limits based on clinical evidence)</td>
<td>61%</td>
<td>10%</td>
<td>16%</td>
</tr>
<tr>
<td>Evaluate and address specialty pharmacy spend within the medical benefit</td>
<td>41%</td>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>Adopt a high-performance formulary that eliminates or reduces brand-name coverage or utilization in certain categories</td>
<td>35%</td>
<td>7%</td>
<td>19%</td>
</tr>
<tr>
<td>Implement coverage changes to influence site of care for specialty pharmacy</td>
<td>30%</td>
<td>10%</td>
<td>27%</td>
</tr>
<tr>
<td>Implement a narrow retail pharmacy network</td>
<td>11%</td>
<td>5%</td>
<td>20%</td>
</tr>
</tbody>
</table>
Across the health care industry, value is defined as the health outcome or result per dollar spent. To maximize their health care investments, employers are embracing high-value approaches to improve quality, safety, efficiency and outcomes. In fact, half (53%) report evaluating vendor/network strategy as one of their top five priorities for health care activities in 2016.

Specifically, these actions are taking hold (Figure 6):

- Nearly four in 10 (38%) offer telemedicine (e.g., real-time interactive services that leverage mobile collaboration technologies) for easy access to medical care and to reduce time away from work. This could reach eight in 10 (81%) by 2018.
- A quarter of employers (22%) report expanding the use of COEs either within their health plans or via a separate network today, and another 53% are considering this by 2018.
- To encourage use of high-performance/narrow medical networks, employers report modest use of benefit differentials today at 13%, possibly rising to 61% by 2018.

Employers will be more diligent about measuring the effectiveness of high-value approaches. Over the next two years, two-thirds (64%) will extensively use data and metrics to evaluate plan performance and employee behavior change. Also, half of employers (53%) are currently tracking health plan performance against financial benchmarks (e.g., CPI, relative program efficiency), and this is expected to accelerate to 74% by 2018.

Employers are stepping up their focus on employee engagement and accountability in 2016:

- Two-thirds (66%) expect to develop/enhance a workplace culture where employees are responsible for their health.
- Half (51%) plan to adopt/expand the use of financial incentives to encourage healthy behaviors.

Employers recognize the business value of a healthy workforce and are encouraging employees to take control of their health. Popular solutions for boosting engagement and improving access to health care include:

- **Transparency.** Over the next two years, nearly half of employers (48%) will place more emphasis on educating employees about how to select providers based on quality and cost information. Also, to help employees make better consumer choices, 43% of employers report adopting price and quality transparency tools as a top priority for health care activities in 2016.

- **Technology.** Today, 60% of employers deliver health and wellness messages through mobile apps and portals, and this is expected to advance considerably to 95% by 2018.

- **Plan design.** Employers that offer ABHPs are considering moving to full replacement (ending other plan options): 17% have this in place for 2015, and it could reach 49% by 2018.

- **Health management.** More than one-third of employers (35%) are expanding use of tobacco surcharges today, with another 28% considering this action by 2018.
Exploring New Options: Pathways to High Performance

Public and private exchanges are reshaping the future of employer-sponsored health insurance and giving employers new alternatives to the traditional, self-managed group benefit plan for active workers. These emerging channels enable organizations to connect their unique covered population segments to optimal value.

Public exchanges hold promise for part-time workers (those working less than 30 hours a week), certain low-wage workers and COBRA participants thanks to guaranteed-issue coverage, plan choice, and the potential availability of subsidies that reduce premiums and improve benefits at the point of care. However, according to our findings, employers are not ready to embrace public exchanges:

- Nearly eight in 10 report they are not confident that public health insurance exchanges will provide a viable alternative in 2016 or 2017 to employer-sponsored coverage for active full-time employees.
- Furthermore, 98% have no plans to discontinue health care plans for active full-timers in 2016 or 2017 and direct them and their dependents to the public exchanges.

As the public exchanges stabilize and become more mainstream, employer interest is likely to grow. Over the next few years, private exchanges will become more attractive to employers as a benefit delivery channel:

- Nearly two in 10 (17%) view them as a viable alternative for employer-sponsored coverage for active full-time workers in 2016, but confidence improves to 37% for 2018 (Figure 7).
- 20% report that their organization is more interested in engaging a private exchange today than it was a year ago (Figure 8).

Private health exchanges have been available for Medicare retirees for nearly a decade and have proved to be an effective alternative to the traditional employer-sponsored retiree plan. According to our 2015 Survey on Retiree Health Care Strategies, 78% of employers that offer retiree benefits are using or considering using the services of a Medicare exchange to assist retirees in electing individual coverage. And 35% of employers surveyed said they would be confident in public exchanges as a viable alternative to their health plan for pre-Medicare retirees by 2017.

Figure 7. Growing support for private exchanges as a viable alternative for employer-sponsored coverage

To what extent do you agree with the following perspective about private health insurance exchanges for active employees?

Private health insurance exchanges will provide a viable alternative for employer-sponsored coverage for active full-time employees in:

<table>
<thead>
<tr>
<th>Year</th>
<th>0%</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
<th>80%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td></td>
<td>17</td>
<td>42</td>
<td>41</td>
<td>30</td>
<td>27</td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td>27</td>
<td>43</td>
<td>23</td>
<td>29</td>
<td>19</td>
</tr>
<tr>
<td>2018 and beyond</td>
<td>37</td>
<td>42</td>
<td>30</td>
<td>22</td>
<td>19</td>
<td>17</td>
</tr>
</tbody>
</table>

Figure 8. Finance will have an important role in many organizations’ decision to move to a private exchange

To what extent do you agree with the following perspectives about private health insurance exchanges for active employees?

Given that the private exchange market for active workers is a relatively new arrangement, some employers are reluctant to be early adopters, and they are evaluating its value proposition on medical quality and cost. A quarter of employers (26%) have done an extensive analysis on private exchanges (Figure 8). And knowledge is power: Organizations that have conducted analysis are twice as likely to say private exchanges are a viable option in 2016 (29% versus 14%).
For employers that have struggled to manage current costs, failed to mitigate cost trend or simply want to lighten the benefit management burden, the high-performance private exchange for actives offers an attractive solution. In fact, employers surveyed report that cost savings and administrative simplicity are key factors in prompting their use of private exchanges (Figure 9).

With the 2018 excise tax drawing near, prudent employers are examining the business risk they face, assessing the liability and determining whether to build their own platform for high performance or seek to buy a high-performance private exchange. To select the best pathway for connecting their employees with value, employers need to understand the opportunities and fit for both the organization’s health and welfare benefit strategy and its broader total rewards strategy. As a result, the Finance leaders at most organizations increasingly are playing a key role in this critical strategic discussion: More than half of the 444 employers (53%) surveyed report that Finance will influence the decision to move to a private exchange or continue to maintain a traditional, employer-managed plan (Figure 8).

**Conclusion**

As financial and competitive pressures heighten, health care costs mount, the excise tax approaches and employers rely more heavily on a healthy workforce to boost the bottom line, a high-performance health care program is more vital than ever. Fortunately, employers are rising to the challenge even amid the complexity of a rapidly changing marketplace. They are applying a holistic approach for propelling performance that includes a wide range of actions:

- Changing subsidies for spouses and dependents
- Adopting DC arrangements
- Managing specialty pharmacy spend
- Offering telemedicine services
- Expanding use of COEs
- Encouraging use of high-performance or narrow medical networks
- Providing education and tools to help employees spend health care dollars wisely
- Embracing health technology solutions
- Expanding ABHPs
- Analyzing the viability of private exchanges

Employers that integrate these actions under a well-defined strategy can engage employees in new ways and drive the viability and affordability of their health care programs over the long term.
About the Survey

Towers Watson’s 2015 Emerging Trends in Health Care Survey was conducted online in January to gain insights into how employers are thinking about health care benefits and the key actions they anticipate taking over the next few years. A total of 444 employee benefit professionals representing 7.2 million employees across a variety of industries completed the survey.

Employee populations

- **24%** More than 25,000
- **27%** 10,000 to 25,000
- **20%** 5,000 to 10,000
- **17%** 2,500 to 5,000
- **12%** 1,000 to 2,500

Industry groups

- **11%** Energy and Utilities
- **13%** Financial Services
- **7%** General Services
- **14%** Health Care
- **12%** IT and Telecom
- **28%** Manufacturing
- **4%** Public Sector and Education
- **10%** Wholesale and Retail

About Towers Watson

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 15,000 associates around the world, we offer consulting, technology and solutions in the areas of benefits, talent management, rewards, and risk and capital management. Learn more at towerswatson.com.