

Employers Taking Bold Action to Manage Health Costs and Offer Affordable Care, Towers Watson/National Business Group on Health Survey Finds

Health care costs expected to increase by 7% in 2011; adoption of account-based health plans projected to jump in 2012

NEW YORK, March 10, 2011 — Over the past year, employers have focused their efforts on immediate compliance with health reform, but looking ahead to 2012 and beyond, many employers are pursuing bolder actions and implementing health program changes to hold employees and providers more accountable in the struggle to manage costs and improve worker health, according to findings from the 16th Annual Towers Watson/National Business Group on Health Employer Survey on Purchasing Value in Health Care.

The shift toward bolder health care benefit design decisions is being driven by continuing cost challenges and the anticipated effects of health care reform. Employers expect average costs for active health care benefits to increase by 7% in 2011, up from a 6% increase in 2010. While increases have stabilized over the past few years, they considerably outpace wage increases year over year, continuing to place significant financial pressure on employees and their families. According to the research report, the total anticipated annual costs per active employee are expected to reach \$11,176 (up 7.6% from \$10,387 in 2010), and the average employee's share of costs in 2011 is expected to rise 11.8%, to \$2,660.

“We cannot continue to think that the rise in health care costs is sustainable. Health care costs have experienced dramatic cost inflation over the past two decades, and employers continue to subsidize the majority of plan costs,” said Helen Darling, president of the National Business Group on Health. “But these costs are cutting into employers’ profitability and the total rewards they are able to offer employees, plus concerns about the future Cadillac tax add a new level of urgency to their challenges. Employers that are best able to minimize this cost burden will be those that are able to provide the most competitive benefits package and attract the most talented employees.”

The report also revealed cost variations in the different plan types. Account-based health plans (ABHPs)* are the most affordable plan type, costing \$730 less than HMOs for employee-only coverage and \$2,118 less for family coverage. Preferred provider organization (PPO) and point of service (POS) are the most expensive plan types, costing an average employee about \$200 more than a typical health maintenance organization (HMO) plan for single-only coverage and more than \$750 more for family coverage.

Sweeping Design Changes on the Way

To control the impact of these rising costs on employers’ total rewards offerings and preemptively guard against reform penalties, employers are planning to move beyond minor adjustments and make the most systemic changes in decades.

“Health care benefit managers have historically been focused on making incremental plan design changes,” said Randall Abbott, a senior health care consultant with Towers Watson. “When confronted with the post-reform health care landscape, employers are now considering sweeping changes to their

health benefit and workforce health improvement strategies. Increasingly, this is a focus of the executive suite, which is accelerating the discussion.”

To mitigate costs and minimize the longer-term impact of reform, employers are redesigning health benefit programs to incorporate enhanced point-of-care consumerism, repositioning incentives to improve employee engagement, redefining their financial commitment to dependent and retiree coverage, and emphasizing use of high-value providers. Among the notable planned benefit design changes are:

- **Dependent coverage subsidies:** 68% are moving to increase contributions for dependents, with 19% targeting per-dependent contributions, and 35% using or planning to implement spousal waivers or surcharges.
- **Retiree medical coverage:** 26% of employers plan to cease employer sponsorship; 25% plan to convert a current subsidy to a retiree health account, and 23% plan to eliminate employer-managed drug coverage for post-65 retirees and rely on Medicare Part D plans.
- **Incentives for high-value providers:** 28% of employers plan to differentiate cost sharing for high-performance networks or centers of excellence in 2012, and 21% plan to adopt value-based designs over the next year. In addition, 18% plan to offer incentives or penalties to providers for coordination of care, use of emerging technologies or use of evidence-based treatments.
- **Accountability for engagement:** A third of employers plan to reward or penalize their employees based on biometric outcomes (for weight and cholesterol), compared with just 7% in 2011 and 6% in 2010. Social media is one of the emerging creative strategies employers (9%) are using to improve employee health and well-being.

ABHP Adoption Increases, Driven by Proof of Plan Efficacy

Recognizing the financial benefits for the business and their employees, employers are continuing the shift toward ABHPs. In 2002, just 2% of all employers offered ABHPs, but by 2011, that number has exploded to 53%. By 2012, another 13% of all respondents plan to add an ABHP. In addition to effectively lowering employer health care cost trends and helping employers delay costs related to the implementation of the 2018 excise tax, these plans can offer employees the ability pay for current costs while giving them a wealth-accumulation vehicle for retirement.

Employers are trying to encourage ABHP adoption by offering employees significant reductions in premium contributions. For example, 56% of employers set their employees' ABHP premium contributions at least 20% lower than contributions for their traditional plan, and more than one in four employers (26%) cut employee premium contributions by more than half when compared with other plan types. On the employer side, companies that added 10% or more employees to their ABHP between 2009 and 2010 held their health care costs nearly flat, and the companies that were most successful at driving ABHP adoption reduced their costs by nearly \$1,000 per employee.

Long-Term Effects of Reform Driving Strategic Decisions Today

The Towers Watson/NBGH survey revealed that employers believe the opening of insurance exchanges in 2014 will have some impact on their active (70%) and retiree (78%) medical programs. In addition, more than a quarter of employers (27%) believe the opening of the exchanges will have an extensive impact on their retiree plans. The implementation of the excise tax is expected to have an impact on both

active (81%) and retiree (66%) medical programs as well, with 24% and 20% of employers anticipating an extensive impact on their active and retiree programs, respectively.

While the excise tax will not take effect until 2018, Towers Watson research has shown that, if current average annual cost increases continue, 60% of companies will reach the taxable level by 2018, and companies that take strategic actions now will have a distinct competitive advantage.

For access to the full survey report, visit www.towerswatson.com/hcreport2011.

*The Towers Watson/National Business Group on Health Employer Survey defines an account-based health plan as a plan with a deductible offered together with a personal account (i.e., health savings account or health reimbursement arrangement) that can be used to pay a portion of the medical expense not paid by the plan.

About the Survey

The 16th Annual Towers Watson/National Business Group on Health Employer Survey on Purchasing Value in Health Care tracks employers' 2010, 2011 and 2012 strategies and practices, and the result of their efforts to provide and manage health benefits for their workforce. The survey was completed by 588 employers between November 2010 and January 2011. Respondents collectively employ 9.2 million full-time employees and have 7.8 million employees enrolled in their health care programs, equating to a collective \$81 billion in total health care expenditures.

About Towers Watson

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About the National Business Group on Health

The National Business Group on Health is the nation's only non-profit, membership organization of large employers devoted exclusively to finding innovative and forward-thinking solutions to their most important health care and related benefits issues and to being the voice for large employers on national health care issues. The Business Group, whose 320 members include 66 of the Fortune 100, identifies, develops and shares best practices in health benefits, disability, health and productivity, related paid time off and work/life balance issues. Business Group members provide health coverage for more than 55 million U.S. workers, retirees and their families. For more information, visit www.businessgrouphealth.org.