The Future of Employment-Based Health Benefits: Will Employers Reach a Tipping Point?

A Survey of Employer Sentiment

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Health reform, again

“The plan that will ultimately win approval from Congress has not been written yet.”

— EBRI Issue Brief, *Health Reform: Examining the Alternatives*, March 1994
Large employer benefit managers’ views on health reform

- Background
  - Surveyed large employers during August and September 2007
  - 500 employers
  - Primarily Fortune 1000 companies
  - Provide generous health benefits to full-time and many part-time staff
  - Total medical spend exceeds $46B annually
  - 19th year of the survey
  - Included health care reform questions this year
Large employer benefit managers’ views on health reform

- Data suggests that most large employers
  - Believe health reform will happen
  - Believe we are rapidly approaching a tipping point – but they do not plan to exit offering health benefits
  - Seem to want reforms that will improve health care delivery and performance
  - Continue to support an employer-based delivery system
- Employers with “high-performing” health plans reflect a distinctive view on health care reform
  - They gain competitive advantage from their health plans and they want that to continue
Do large employers expect reform?

- Will health care reform happen?
  - Over 60% of large employers anticipate major federal health reforms will become law during one of the next two Presidential terms of office
  - Conversely, almost 40% believe federal-level reform will take longer than that or will never happen
  - Despite the slowing pace of state health reforms being enacted into law, about three-quarters of the employers still expect that over half the states will enact significant (Massachusetts-type) reform laws within the next 10 years
What does health care reform mean?

- What form should health reform take?
  - Decidedly *not* a government-based system

- Most, but not as many, employers prefer that health benefits continue to be provided by employers

- There is strong expectation of evolutionary long-term change in the employer role

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly/Somewhat Disagree</th>
<th>Strongly/Somewhat Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. health system should be an entirely government-based system</td>
<td>84%</td>
<td>16%</td>
</tr>
<tr>
<td>U.S. health care system should remain primarily an employment-based system (pre-Medicare)</td>
<td>29%</td>
<td>71%</td>
</tr>
<tr>
<td>All individuals should be required by law to have minimum health insurance coverage from any source</td>
<td>32%</td>
<td>78%</td>
</tr>
<tr>
<td>U.S. health care system should move toward a system of voluntary individual health insurance</td>
<td>64%</td>
<td>36%</td>
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Source: *Towers Perrin 2008 Health Care Cost Survey*
How do employers think they would be affected by health reform changes?

- There is no consensus on the current state
- Also, no consensus on the business impact of achieving universal health coverage
- Message: *Health reformers will need to spend time educating and illustrating the business case for many employers*

Source: Towers Perrin 2008 Health Care Cost Survey
High-performing employers see health care reform differently

What do high-performing employers do differently?

- Their commitment is different
  - They view their role as motivating, supporting and helping manage employee health, by a 2:1 margin compared to low-performing employers

- They have a strategy and they measure
  - More than two-thirds of high-performers calculate the business impact of their employee health programs

- They manage employee health
  - They implement customized disease management programs four times more often than low-performing employers

- They engage employees as health consumers
  - They provide employees with information and support tools to make better health care decisions at almost twice the rate of low-performing employers

- They are building a culture of health
  - They are more than twice as likely to have identified and communicated to employees the changes in behavior needed to improve program performance

- They have relatively lower health care costs and those costs grow more slowly than other employers
In some respects health reform as an evolutionary change has already begun

- High-performing employers are already acting as change agents of health reform
  - Fostering increased employee responsibility for
    - Maintaining health coverage
    - Maintaining good health
    - Saving/planning for health care as for other financial needs

- Even so, among high-performing employers 7 in 10 do not think the U.S. should move toward a system of voluntary individual coverage

<table>
<thead>
<tr>
<th>% Disagree/Agree</th>
<th>High-performing employers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly/Somewhat Disagree</td>
<td>70%</td>
</tr>
<tr>
<td>Strongly/Somewhat Agree</td>
<td>30%</td>
</tr>
</tbody>
</table>

Source: Towers Perrin 2008 Health Care Cost Survey
Beyond the survey

- Key reform issues still to be determined
  - **ERISA preemption of State laws**
    - Will employers retain ability to offer uniform national benefit plans or, will Congress or the Courts cede reform to the States by weakening ERISA?
  - **Insurance reform**
    - Will individuals have reliable access to a market for individual health coverage outside employment?
    - Challenge for insurers: If they come, will you build it?
  - **Tax law changes**
    - Will Congress alter tax law to level the playing field between employer and the individual market or, tilt the tax law in order to remove employers from a role?
Appendices

I.  *Towers Perrin 2008 Health Care Cost Survey*

II. Emerging Employer Strategies:
    What High-Performing Employers Do Differently
Towers Perrin 2008 Health Care Cost Survey
Background on *Towers Perrin 2008 Health Care Cost Survey*

- Overall cost increases from 2007 (active employees)
  - Total: 6%, to $9,144
  - Employer: 6%, to $7,080
  - Employee: 8%, to $2,064 (23% of total costs)

- Remarkable differentiation in results between high- and low-performing respondents:
  - 5% vs. 7% increase in employer costs
  - 20% gross cost differential

- Clear distinction between high- and low-performing respondents in employer commitment and employee engagement, where high-performers report greater
  - Activity in developing employee capability and motivation to make good decisions and manage their health
  - Activity in strategy, governance, and measurement
  - Introduction of accountability and transparency in design
  - Vendor management
  - Development of tools and educational resources to promote consumer engagement and a culture of health

- 500 respondents
Total number of U.S. based employees in your organization (share of responses)

Distribution of survey participants by number of U.S.-based employees

- Under 5,000 employees: 48%
- 5,000 to 19,999 employees: 34%
- 20,000 or more employees: 18%

Source: Towers Perrin 2008 Health Care Cost Survey
Emerging Employer Strategies: What High-Performing Employers Do Differently
## Employer health care cost variations

**Top third vs. Bottom third – based on health care spend**

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<thead>
<tr>
<th></th>
<th>High-performing employers</th>
<th>Low-performing employers</th>
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<tbody>
<tr>
<td>Cost per employee per year</td>
<td>$8,532</td>
<td>$10,200</td>
</tr>
<tr>
<td>Increase in employer cost</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>Increase in employee cost</td>
<td>8%</td>
<td>9%</td>
</tr>
</tbody>
</table>

- **2008 Health Care Cost Survey** respondents were separated into **high-performing** and **low-performing** based on costs as well as how well they are meeting their strategic objectives.

Building a culture of health

- My organization is committed to building and maintaining a culture of health for employees: 65% (High-performing employers) vs. 33% (Low-performing employers)
- My organization focuses its health care communication on the benefits of improved personal health: 56% (High-performing employers) vs. 21% (Low-performing employers)
- Our communication and education fully inform employees about how their plan operates: 54% (High-performing employers) vs. 25% (Low-performing employers)
- My organization has clearly communicated to employees what it means to be an effective health care consumer: 53% (High-performing employers) vs. 18% (Low-performing employers)
- My organization has identified the changes in employee behavior that will improve health program performance: 43% (High-performing employers) vs. 20% (Low-performing employers)

Source: Towers Perrin 2008 Health Care Cost Survey