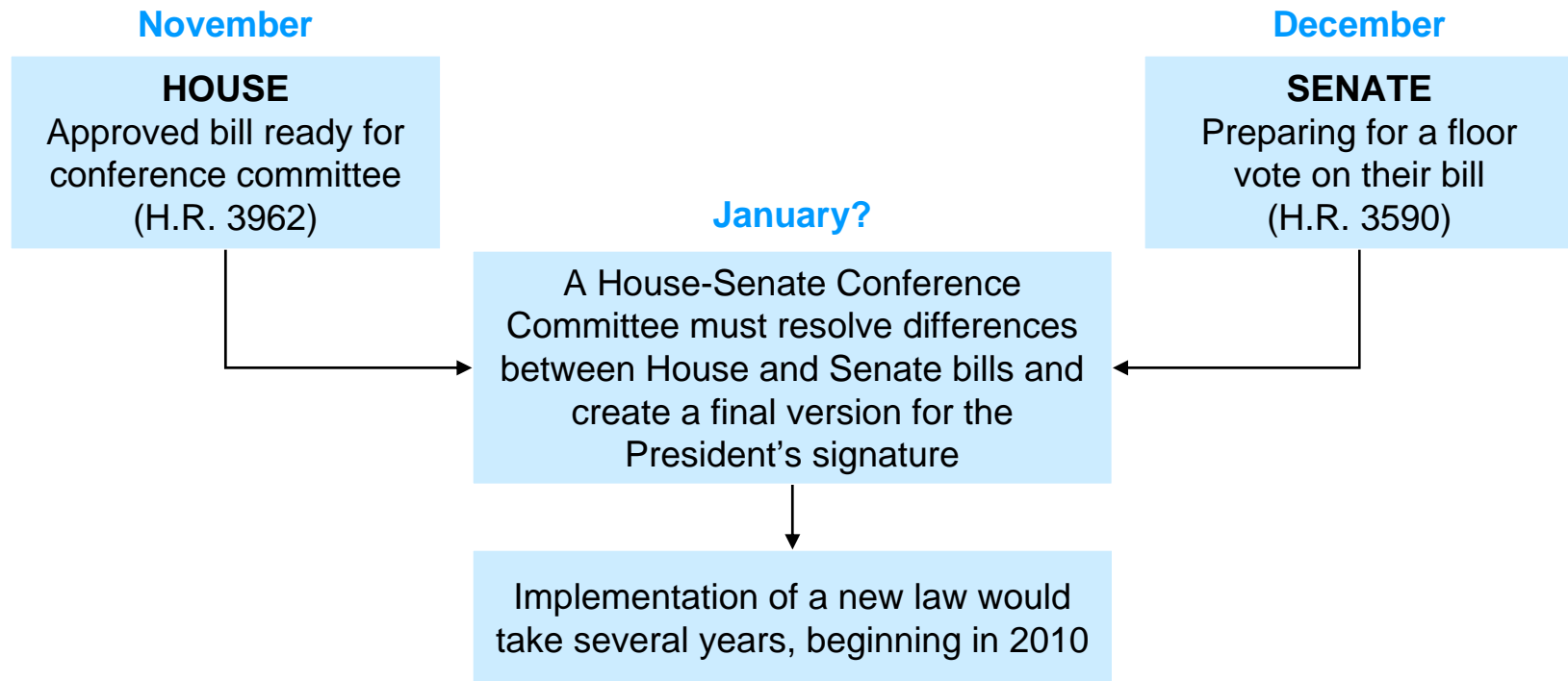


Health Care Reform: Where We Are, How Employers Might Respond

EBRI Policy Forum

December 10, 2009

Health care reform is coming — and will bring significant short- and long-term challenges for employers



- Reform has significant implications for employers, individuals, insurers, health care providers and others
- For employers in particular:
 - *Short-term* challenges include understanding the legislation and estimating its impact on the organization and others involved with the health care system
 - *Long-term* challenges include managing compensation and benefit strategy in a new environment

Shared/similar provisions in the two current bills: Potential for final legislation — and triggers for employer action

	Senate H.R. 3590 <i>Awaits vote by full Senate</i>	House H.R. 3962 <i>Passed Nov 7, 2009</i>
Individual mandate	✓	✓
Individual and small group market reform	✓	✓
Low- and middle-income premium subsidies	✓	✓
Health insurance exchanges	✓	✓
Standard benefit packages	✓	✓
Employer pay or play mandate	✓ ("free rider")	✓ (8% of employer's average wages)
Cap health FSAs at \$2,500 per year	✓	✓
Public option	✓	✓
Tax employers on 'high-cost' plans	✓ (40%)	No
New taxes on high income individuals	✓ (Medicare payroll tax)	✓ (Income tax surcharge)

Employers face costs, risks and opportunities

Costs and Risks

- Increased enrollment in employer-sponsored plans
- Penalties for employees who fail to enroll in employer coverage
- Consequences of pay-or-play decisions
- Tax cap/excise tax on “high cost” plans
- Increased charges by insurers/medical suppliers to recoup assessments
- Cost shifting due to reduced Medicare payments to providers
- Reduced government subsidy for Medicare Advantage plans
- P&L impact of change in RDS tax treatment
- “Vested” retiree health benefits
- New reporting requirements (tax cap, W2)

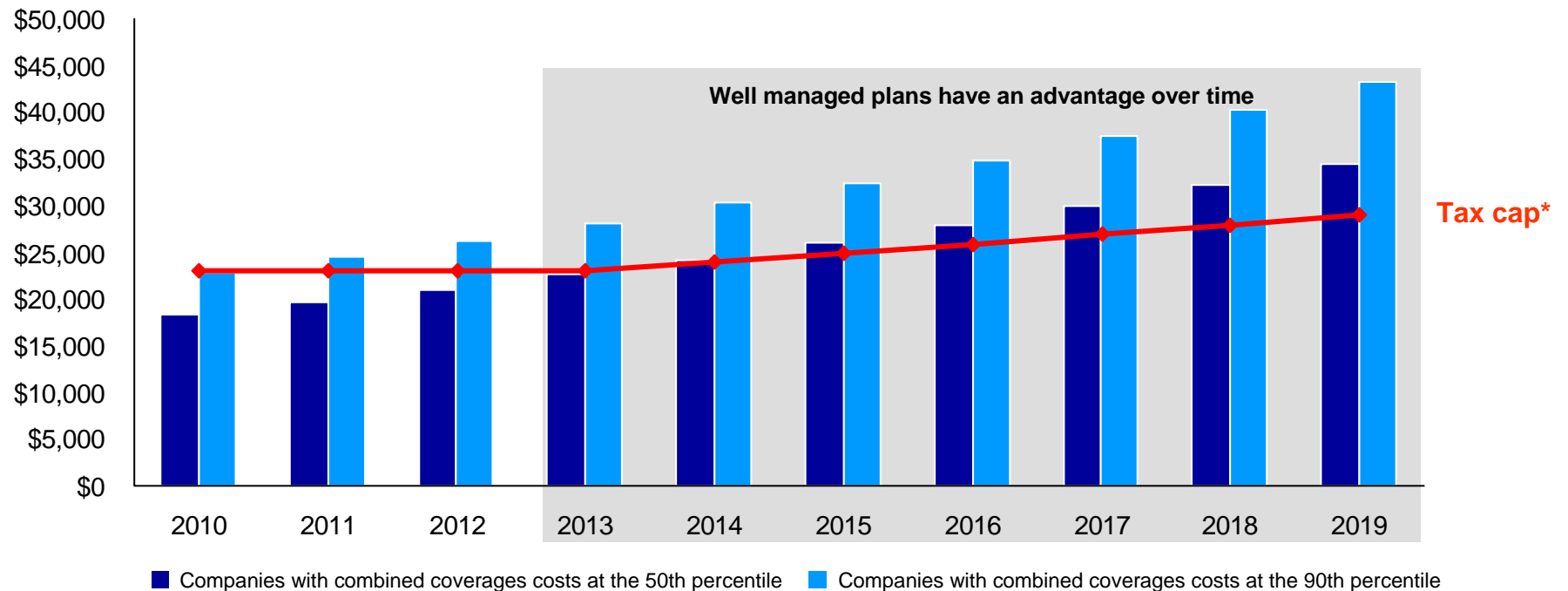
Opportunities

- Possible benefit reduction/redesign for active or inactive employees and/or dependents to offset cost increases or change strategy
- Reduction in cost shifting due to uncompensated care
- Effect of Medicare payment reforms addressing quality of care and comparative effectiveness research
- Potential reinsurance program for employer-sponsored pre-65 coverage
- Reduced need for employer role in retiree medical (e.g., improved pre-65 access in private market, Part D benefit enhancements)

Sizing up the impact (example)

Excise tax on high cost plans: Efficient plans would have an edge

Family Rates for Combined Coverages (e.g., Medical, Dental, Vision, FSA)



*Tax cap assumes future index of 4%

Medical trend 8%, dental 5%, HRA/FSA/HSA 3%

Source: Towers Perrin 2010 Health Care Cost Survey

How will employers respond?

Towers Perrin pulse survey results

Strategy

- Nearly all respondents expect to reexamine their health benefit strategies for active employees
- Half expect to reevaluate their health care strategies for retirees; options for dealing with retiree medical may expand under reform

Cost

- Companies are struggling to balance cost and talent management needs
- Respondents will act to avoid cost increases due to reform
- Despite sensitivity to costs, respondents express strong views on the importance of workforce health to business success

Pay or Play?

- The proposed employer pay-or-play mandate draws mixed reactions
 - 41% see the business impact as neutral
 - 47% see a negative impact on business
- Some companies would consider dropping their company-sponsored health care plans if cost-efficient alternatives were available

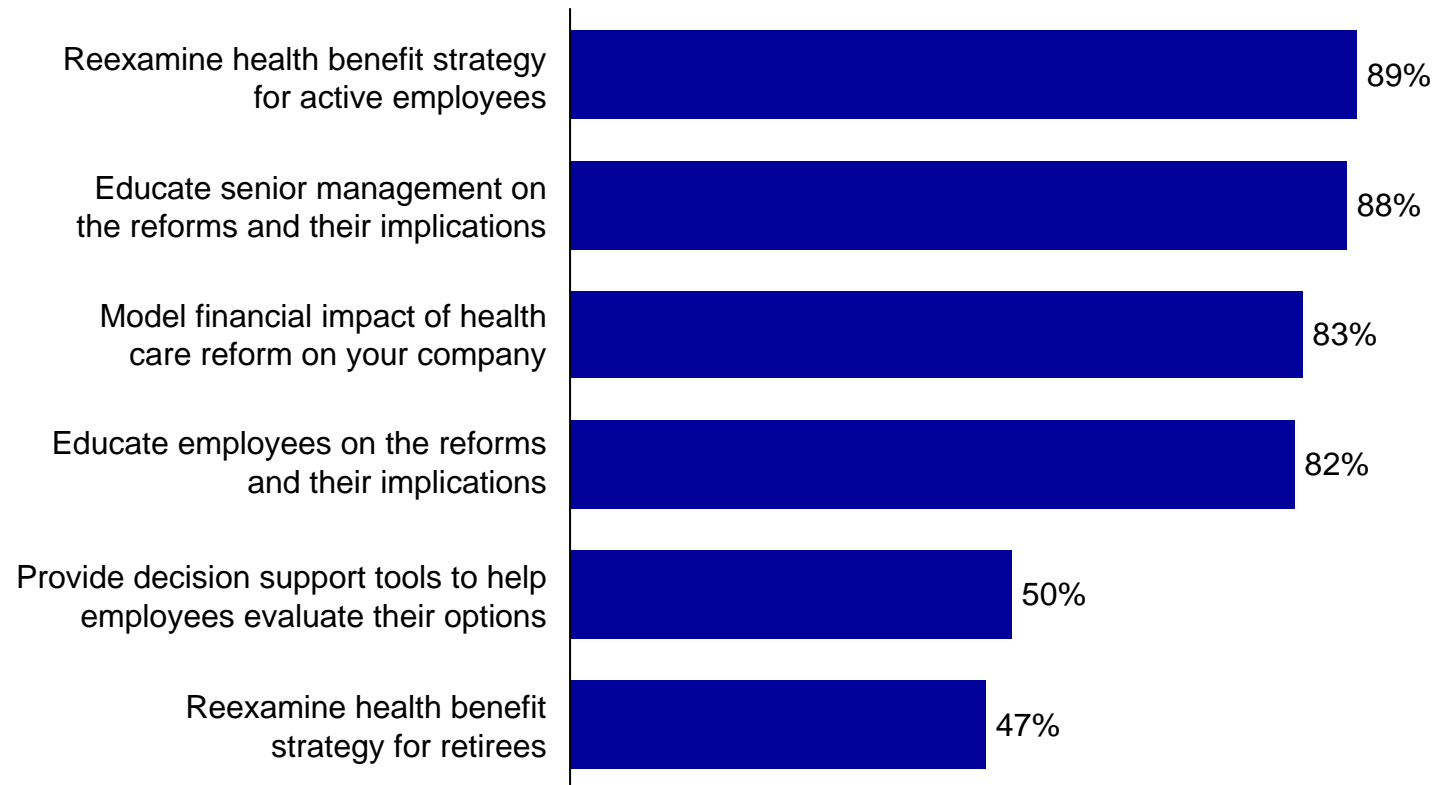
Other Reform Issues

- Employers are generally positive about reform provisions that would encourage research on effectiveness of alternative treatments
- Respondents are positive about potential insurance reforms
- Respondents believe that reform as currently proposed will not influence the consumer behaviors that drive costs

Source: Towers Perrin Health Care Reform 2009: Leading Employers Weigh In — Pulse Survey Report, September 2009.

Employers expect to reexamine their health benefit strategies, educate leaders and employees

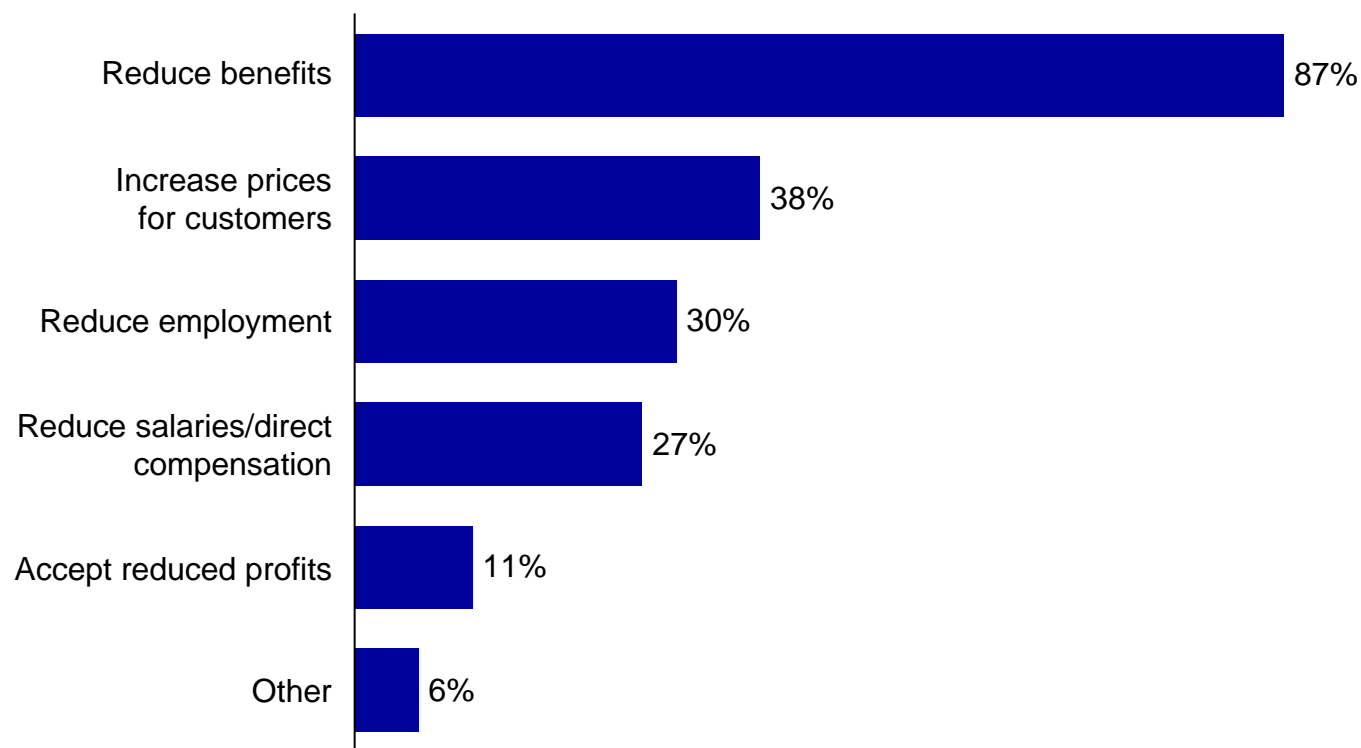
**Employer Actions in Response to Passage of Health Care Reform Legislation
(Percent Responding Very Likely/Likely)**



Source: Towers Perrin Health Care Reform 2009: Leading Employers Weigh In — Pulse Survey Report, September 2009.

Employers will take a variety of actions to avoid cost impact

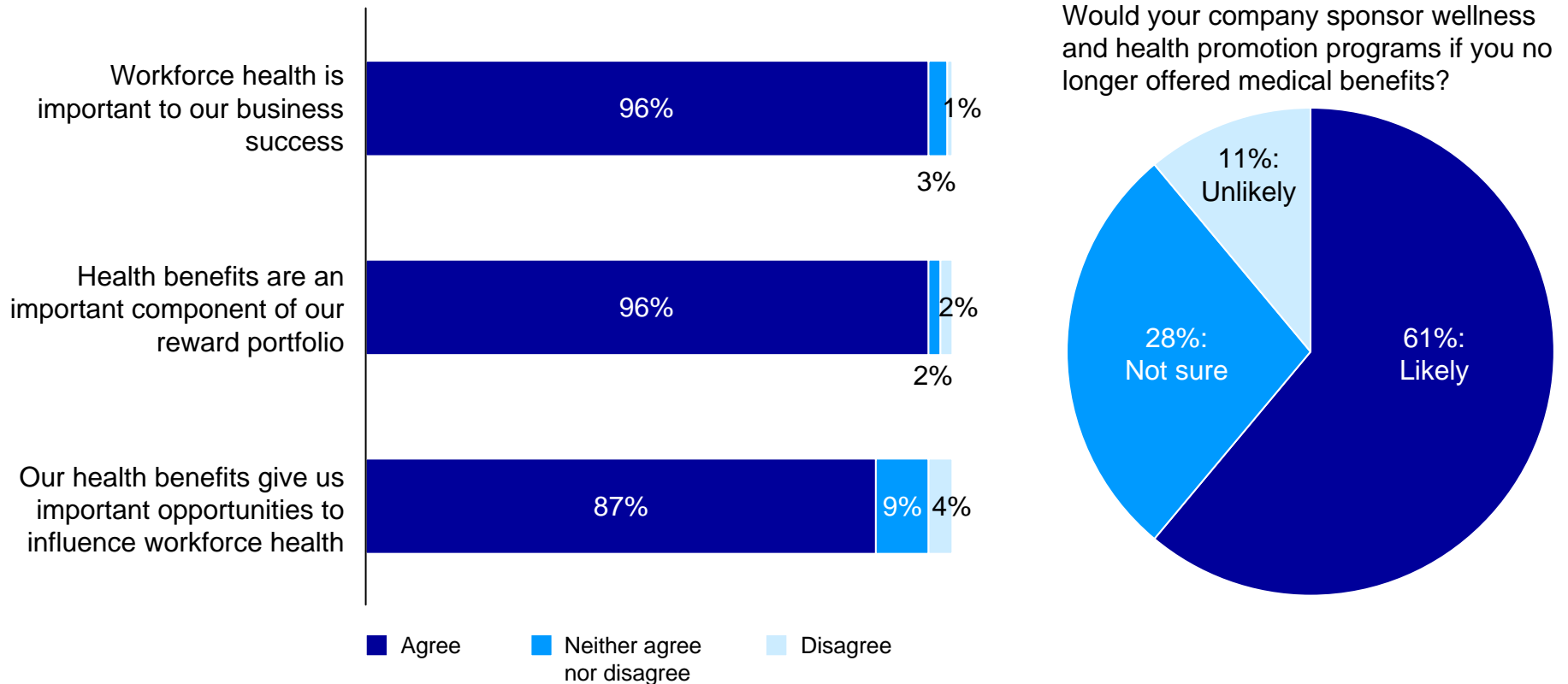
Employer Actions If Health Care Reform Increases Employer Costs (Percent Responding Very Likely/Likely)



Source: Towers Perrin Health Care Reform 2009: Leading Employers Weigh In — Pulse Survey Report, September 2009.

Employer commitment to workforce health is likely to remain strong

Context for Reform: The Going-In Proposition for Health Benefits



Source: Towers Perrin Health Care Reform 2009: Leading Employers Weigh In — Pulse Survey Report, September 2009.