Employer Cost Management Strategies

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# Medical Costs in 2007

## Active Employees Only

<table>
<thead>
<tr>
<th></th>
<th>New England</th>
<th>National</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Monthly Medical Cost</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>—High Cost</td>
<td>$817</td>
<td>$733</td>
</tr>
<tr>
<td>—Low Cost</td>
<td>$693</td>
<td>$590</td>
</tr>
<tr>
<td><strong>Average 2007 Increase</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>—High Cost</td>
<td>8.2%</td>
<td>6.9%</td>
</tr>
<tr>
<td>—Low Cost</td>
<td>5.7%</td>
<td>4.7%</td>
</tr>
<tr>
<td><strong>Average 2007 Employee Share</strong></td>
<td>20.9%</td>
<td>21.8%</td>
</tr>
</tbody>
</table>

A framework for addressing the problem

Overall goal: A healthy organization with efficient benefit programs, acceptable benefit costs and a productive, engaged workforce

Metrics/Desired Outcomes

Financial Performance | Consumer Engagement | Population Health

Strategic Levers

Strategy and Governance | Design | Financial Management | Delivery | Change Management

Overall goal: A healthy organization with efficient benefit programs, acceptable benefit costs and a productive, engaged workforce
Employers are taking multiple steps to control costs

Percent of employers implementing interventions to control health care costs

- Change plan design and cost-sharing features to increase point-of-care accountability
  - 2003-2004: 39%
  - 2004-2005: 36%
  - 2005-2006: 54%
  - 2006-2007: 74%

- Changes to prescription drug programs
  - 2003-2004: 10%
  - 2004-2005: 36%
  - 2005-2006: 49%
  - 2006-2007: 72%

- Change in health plan contribution strategy
  - 2003-2004: 20%
  - 2004-2005: 41%
  - 2005-2006: 49%
  - 2006-2007: 73%

- Major change in health vendors
  - 2003-2004: 20%
  - 2004-2005: 40%
  - 2005-2006: 42%
  - 2006-2007: 49%

- Implement care management programs
  - 2003-2004: 10%
  - 2004-2005: 20%
  - 2005-2006: 36%
  - 2006-2007: 48%

- Implement consumer-driven health plans
  - 2003-2004: 10%
  - 2004-2005: 27%
  - 2005-2006: 46%

Change Management: Employers are forming “partnership” with employees, educating their partners via more access to tools.

Consumer Engagement
(have implemented/will implement in 2007)
(low cost companies vs. high cost companies)

- Education to help understand how rising health care costs affect the company
  - Low-cost companies: 80%
  - High-cost companies: 58%

- Information/tools to help employees make better decisions about their health care coverage during enrollment
  - Low-cost companies: 75%
  - High-cost companies: 60%

- Communication that defines what it means to be a better health care consumer and how employees can benefit
  - Low-cost companies: 71%
  - High-cost companies: 45%

- Online tool to help employees evaluate the quality of physicians or hospitals
  - Low-cost companies: 61%
  - High-cost companies: 48%

Employee health management activities

Access to health expert to help manage illness, chronic condition
- High-performing companies: 67%
- Low-performing companies: 46%

Health improvement programs
- High-performing companies: 65%
- Low-performing companies: 37%

Health risk assessments
- High-performing companies: 64%
- Low-performing companies: 35%

Off-the-shelf care/disease management programs designed and provided by the vendor
- High-performing companies: 59%
- Low-performing companies: 49%

Customized care/disease management programs
- High-performing companies: 38%
- Low-performing companies: 8%

Source: Towers Perrin 2008 Health Care Cost Survey
Financial Management: Comprehensive, rigorous measurement taking hold

Budgeting and Measurement
(low cost companies vs. high cost companies)

- Extensively measure medical program costs
  - Low-cost companies: 80%
  - High-cost companies: 61%

- Extensively measure health care utilization data
  - Low-cost companies: 41%
  - High-cost companies: 22%

### Measurement

<table>
<thead>
<tr>
<th>Category</th>
<th>High-performing companies (%)</th>
<th>Low-performing companies (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee plan elections by age/health status</td>
<td>83</td>
<td>65</td>
</tr>
<tr>
<td>Employee use of resources and tools</td>
<td>82</td>
<td>54</td>
</tr>
<tr>
<td>Employee attitudes/understanding of health benefits</td>
<td>79</td>
<td>63</td>
</tr>
<tr>
<td>Employee health status/risk vs. company or national benchmarks</td>
<td>75</td>
<td>45</td>
</tr>
<tr>
<td>Cost of health-related absence and disability</td>
<td>57</td>
<td>23</td>
</tr>
</tbody>
</table>

Source: *Towers Perrin 2008 Health Care Cost Survey*
Design: Taking steps to control costs

Transparency and Accountability
(have implemented/will implement in 2007)
(low cost companies vs. high cost companies)

- Brand-name drug vs. generic drug differential
  - Low-cost companies: 93%
  - High-cost companies: 81%

- Change from copays to coinsurance
  - Low-cost companies: 62%
  - High-cost companies: 37%

- Increase copays for specialist vs. primary care
  - Low-cost companies: 57%
  - High-cost companies: 43%

- Financial incentives for employees to adopt healthy lifestyles or to use health care services efficiently
  - Low-cost companies: 28%
  - High-cost companies: 19%

Vendor management

Enhance vendor connections across all health-related programs
- High-performing companies: 51%
- Low-performing companies: 21%

Conduct vendor performance analysis/audits
- High-performing companies: 47%
- Low-performing companies: 23%

Consolidate vendors
- High-performing companies: 40%
- Low-performing companies: 36%

Source: Towers Perrin 2008 Health Care Cost Survey
Employer commitment/company role today

- Motivating employees to manage their health and health care purchases responsibly: 78% (High-performing companies), 36% (Low-performing companies)
- Supporting employees’ capability to make sound health care decisions: 74% (High-performing companies), 35% (Low-performing companies)
- Employee health management (e.g., identifying and managing health risks in the employee population, managing disease, chronic conditions, high-cost cases): 72% (High-performing companies), 33% (Low-performing companies)

NOTE: Only 29% of TOTAL respondents say their organization today plays a large/primary role in helping employees meet their post-retirement financial protection needs.

Source: Towers Perrin 2008 Health Care Cost Survey
Lower-cost companies want healthy organizations

- Strategy
  - Long term commitment
  - Monitor and measure

- Change management
  - Drive desired behavior
  - Improve health and productivity

- Financial management
  - Track metrics
  - Audit

- Delivery
  - Integrate, move to a continuum of health solutions and care management
  - Population health

- Design
  - Affordable designs
  - Account-based health plans