

**NARROW NETWORKS & EMPLOYER-SPONSORED INSURANCE:
HAVEN'T I SEEN THIS MOVIE BEFORE AND IT DIDN'T HAVE A
HAPPY ENDING?**

Will the Differences This Time Around Lead to a Different Ending?

What might make a difference

- Quality along with cost is being used to form the networks
- Consumers in general are better educated about healthcare costs and the need for trade-offs
- The sector is more prepared for the change: accreditation programs for narrow networks, e.g., NCQA are already in play, etc.
- Insurance exchanges make the savings more explicit

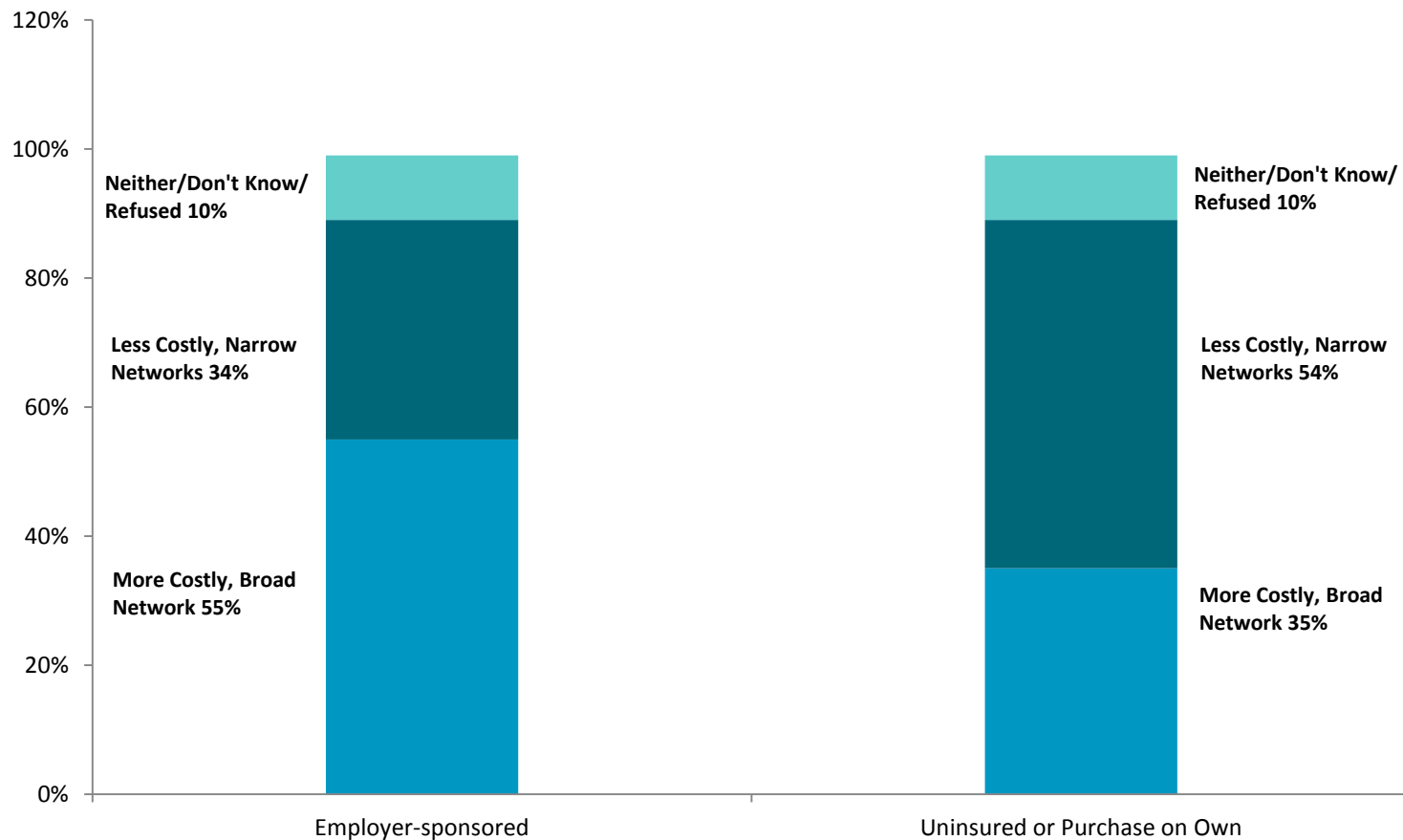
What probably won't be any different

- Disenfranchised hospitals and physicians will see an economic threat and not agree with metrics
- Politicians are still likely to see more gain from siding blindly with consumers than managing costs
- Execution errors by network developers – provider friction, inadequate messaging to enrollees, inaccurate provider directories – will cause unnecessary negativity
- Lack of choice feels differently when you or your family get a bad diagnosis

Two phenomenon that could be game-changers

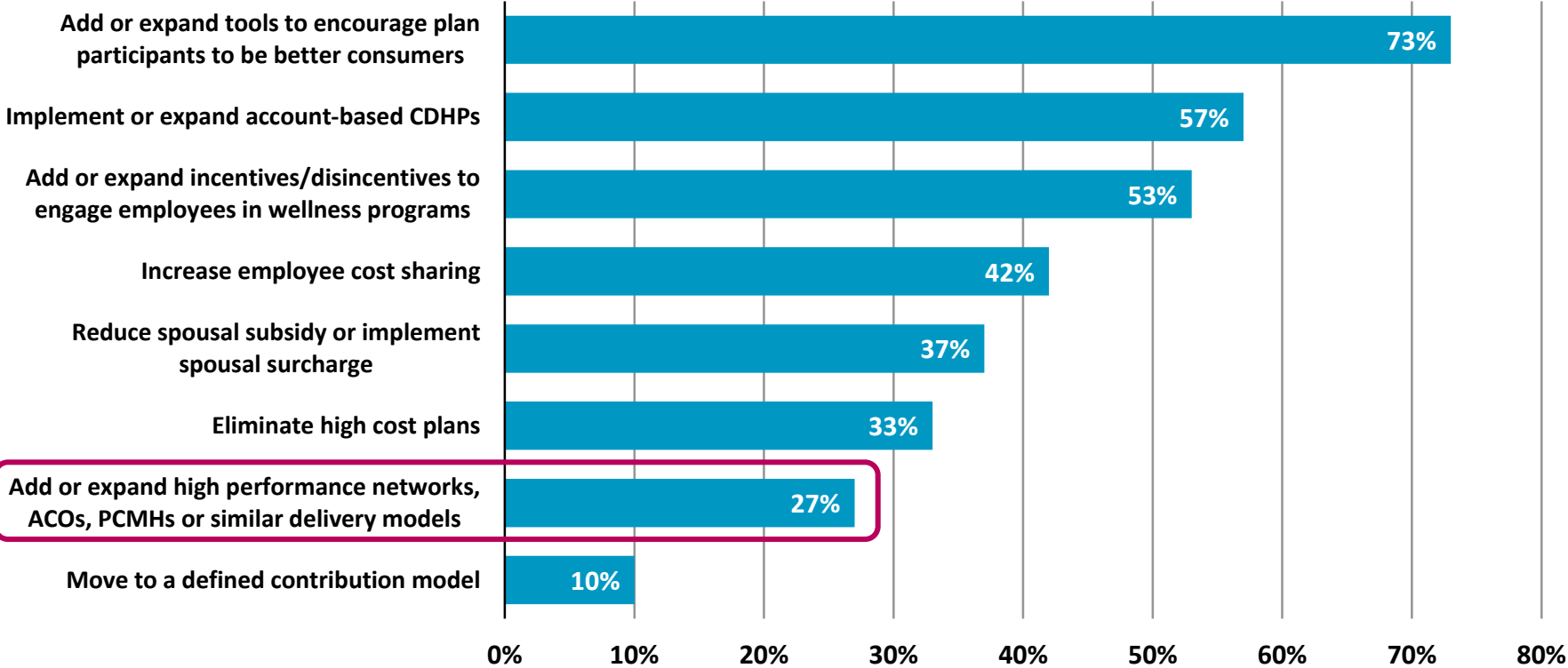
- There is choice: people have the freedom to buy up for more access
- If costs remain sufficiently high people will accept less choice for lower price

ESI-covered individuals significantly less likely to choose narrow networks



Source: Kaiser Family Foundation. Kaiser Health Tracking Poll: February 2014. Conducted February 11-17, 2014.

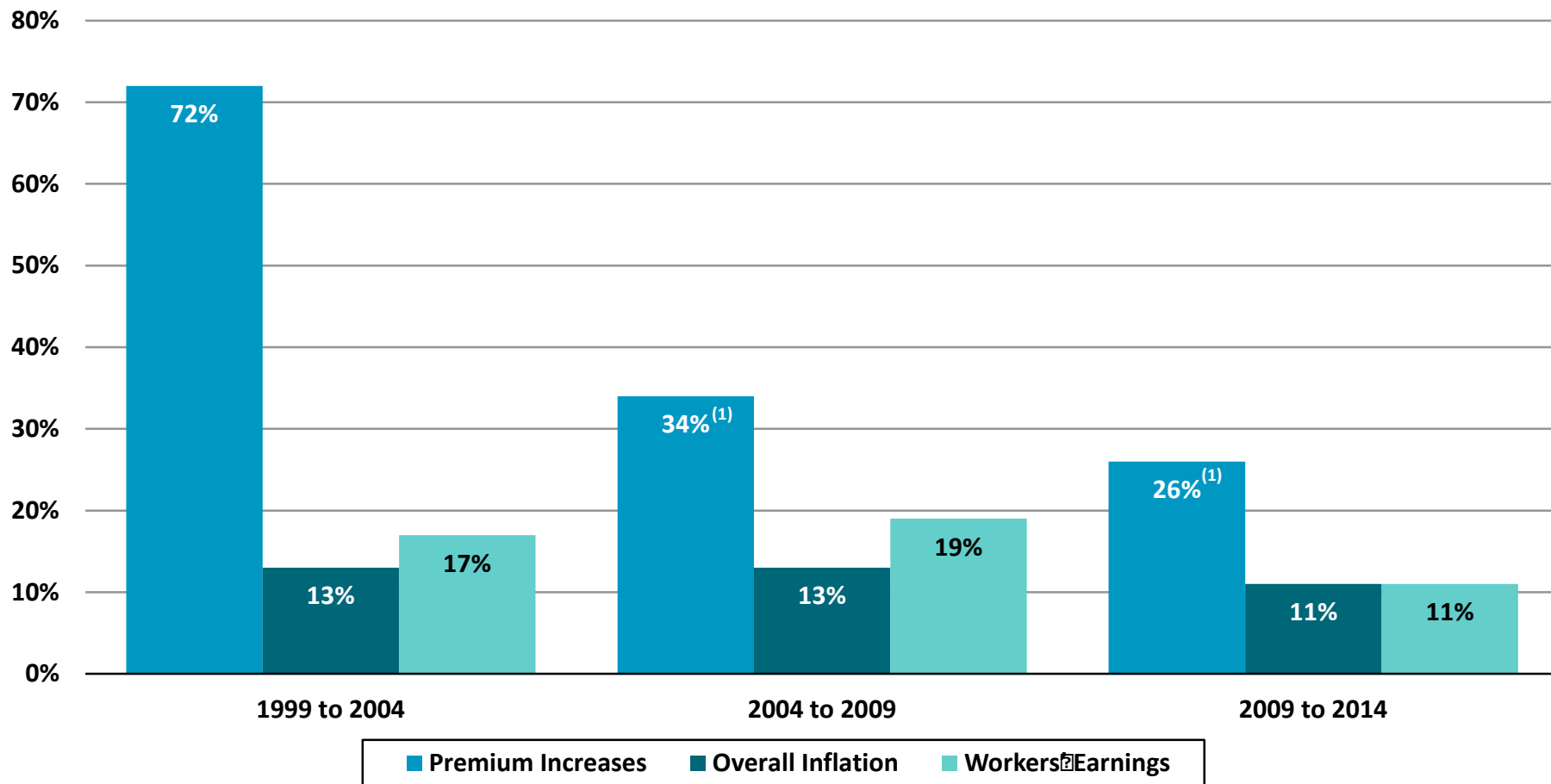
Employer Actions to Minimize the Impact of the Excise Tax



Note: Respondents were allowed to select more than one option. Other responses included: benefit changes to drive low cost consumer choices.

Moderating Costs Will Freeze All Tough Decisions

Cumulative Average Premium Increases for Employer-provided Family Coverage over Three Five-year Periods from 1999 to 2014



Source: Kaiser / HRET Survey of Employer-Sponsored Health Benefits. 1999–2014. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 2000–2014; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 2000–2014 (April to April).

(1) Premium change is statistically different from previous. shown (P<.05).

Will There Be A Different Ending This Time?

Yes, but more of a whimper than a bang

- **Narrow networks will survive - but they will be purchased by the most price-sensitive consumers**
- **They won't grow as fast outside the exchanges– ESI will see a slow migration**
- **Growth in ESI will be driven by move to private exchanges**
- **The pace of growth will be largely determined by healthcare inflation overall**

Two final cultural caveats

- **Never underestimate how much choice means to Americans**
- **It's hard to underestimate what restricted choice means until you're really ill and most people aren't ill most of the time**