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# PEBA Cost Containment Strategies

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# Agenda

- State of Healthcare Reform
- More on cost
- Cost containment strategies
- More on CDHP's



# State of Health Care Reform

## Why employers need to stay focused on cost management...

Health reform not likely to provide a “magic bullet” any time soon

- Republican Scott Brown’s win in Massachusetts dramatically changed the course of reform
- Hill Democratic leaders now looking to move ahead, weighing options
  - Option 1 – try to move forward with broad reform based on Senate bill
  - Option 2 – adopt incremental reforms, possibly with GOP help, focused on insurance and quality
  - Option 3 – start over, work with Republicans to draft new legislation
  - Option 4 – temporarily drop reform and focus on jobs

## With reform, what are the highest sources of risk for employers?

- Eligibility for new groups of employees and dependents
  - Employees who work 30 hours or more
  - Dependents up to age 25 or 27
  - Domestic partners
  - New hires who are not eligible within 60 (or 90) days of hire
- High rate of opt-outs
- High cost plans
- Group plan design provisions
  - No cost sharing for preventive services
  - No annual or lifetime maximums
- Employer contribution rates set below minimum for all employees and/or for low income employees
- Retiree medical plans

## Without reform, what are the short-term risks facing employers?

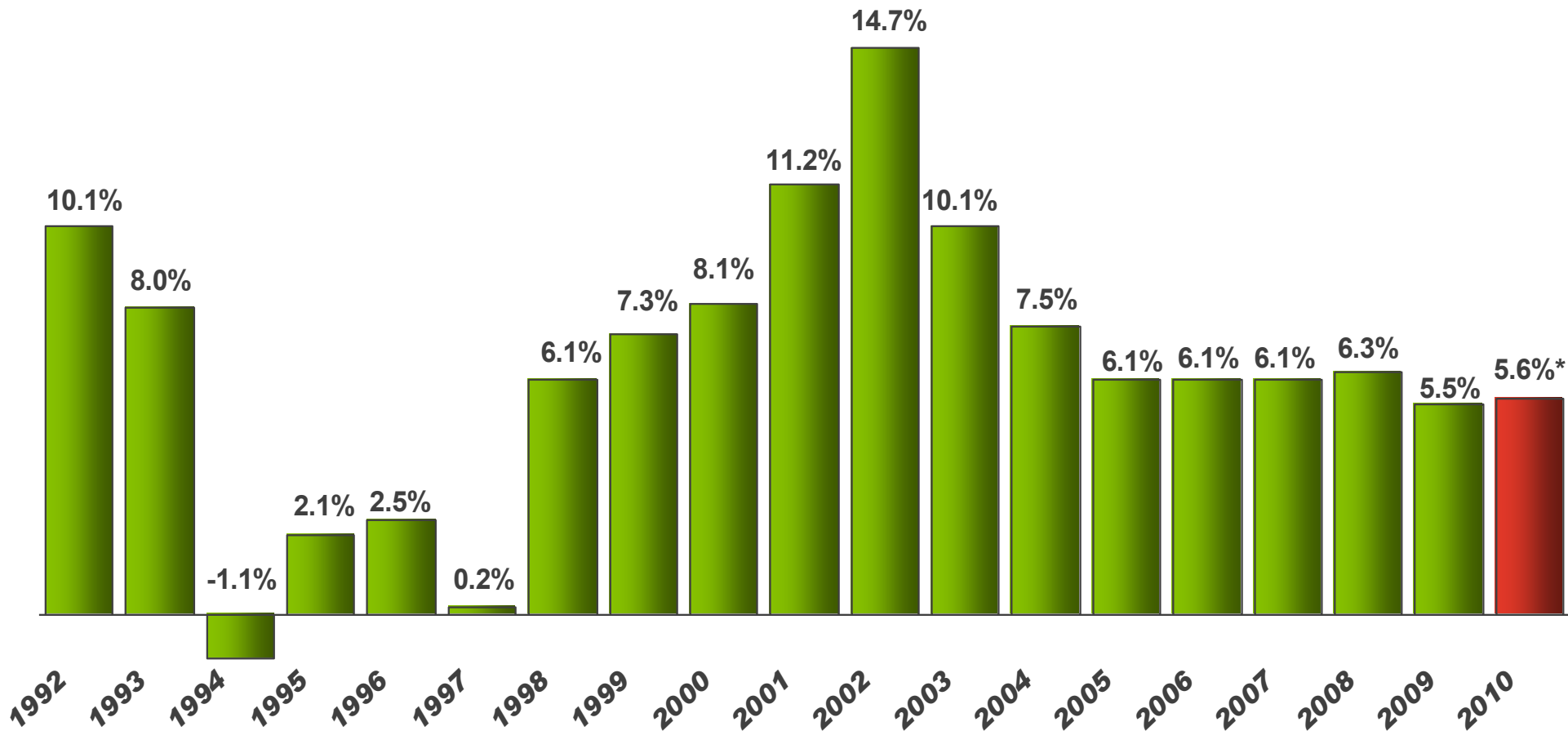
- Cost shifting
  - Pressure on Medicare and Medicaid to control provider cost
  - Uncompensated care
- State health reform initiatives
- Cost shifting from carriers if individual market reform is passed at federal or state level
  - Margin requirements may not be adequate or include cost for managing care
  - Rates may not be adequate to cover adverse selection caused by a weak or non-existent individual mandate
- Potential for further expansions to COBRA
- Providers and suppliers may view the legislative uncertainty as a window for increasing cost



# More on Cost

## Cost growth slows in 2009

Annual change in total health benefit cost from 1992-2010

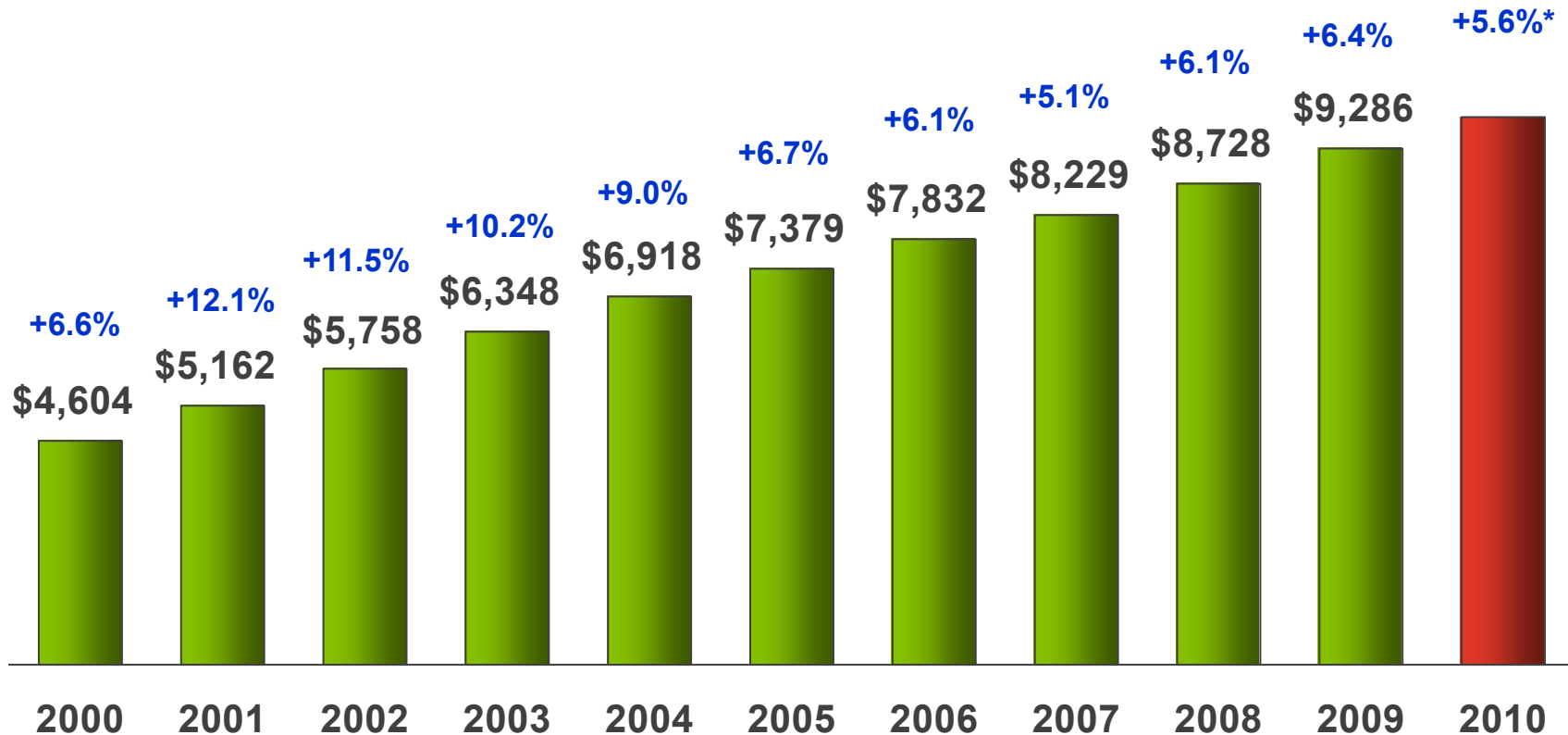


Note: Results for 1992-1998 are based on cost for active and retired employees combined. The change in cost from 1999-2009 is based on cost for active employees only.

\* Average increase projected for 2010 after changes to plan design

# Total health benefit cost for active employees up 6.4% in 2009

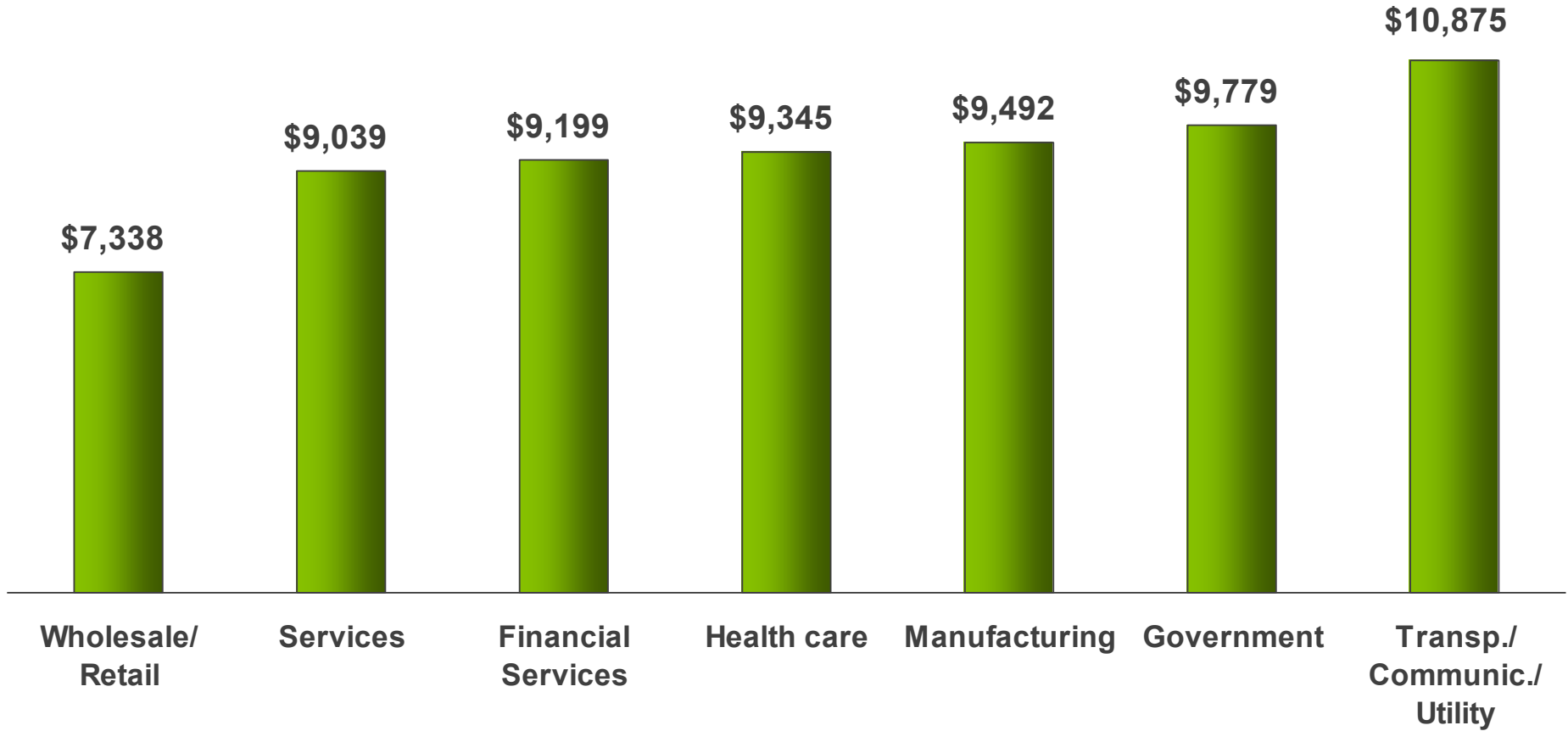
Large employers



*\*Average increase projected for 2010 after changes; increase of 8.8% predicted before changes*

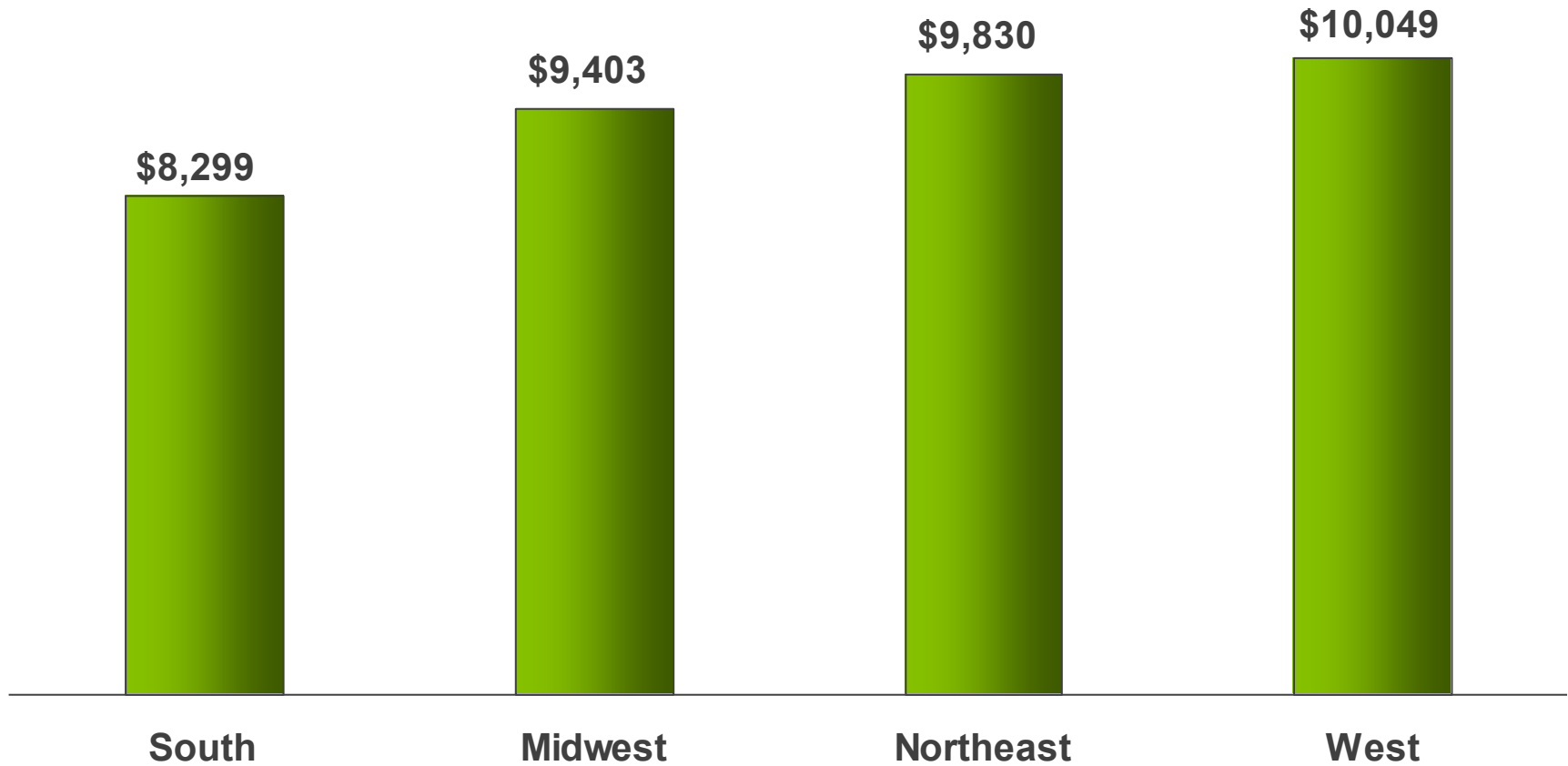
# Factors that affect average cost per employee

Industry—large employers



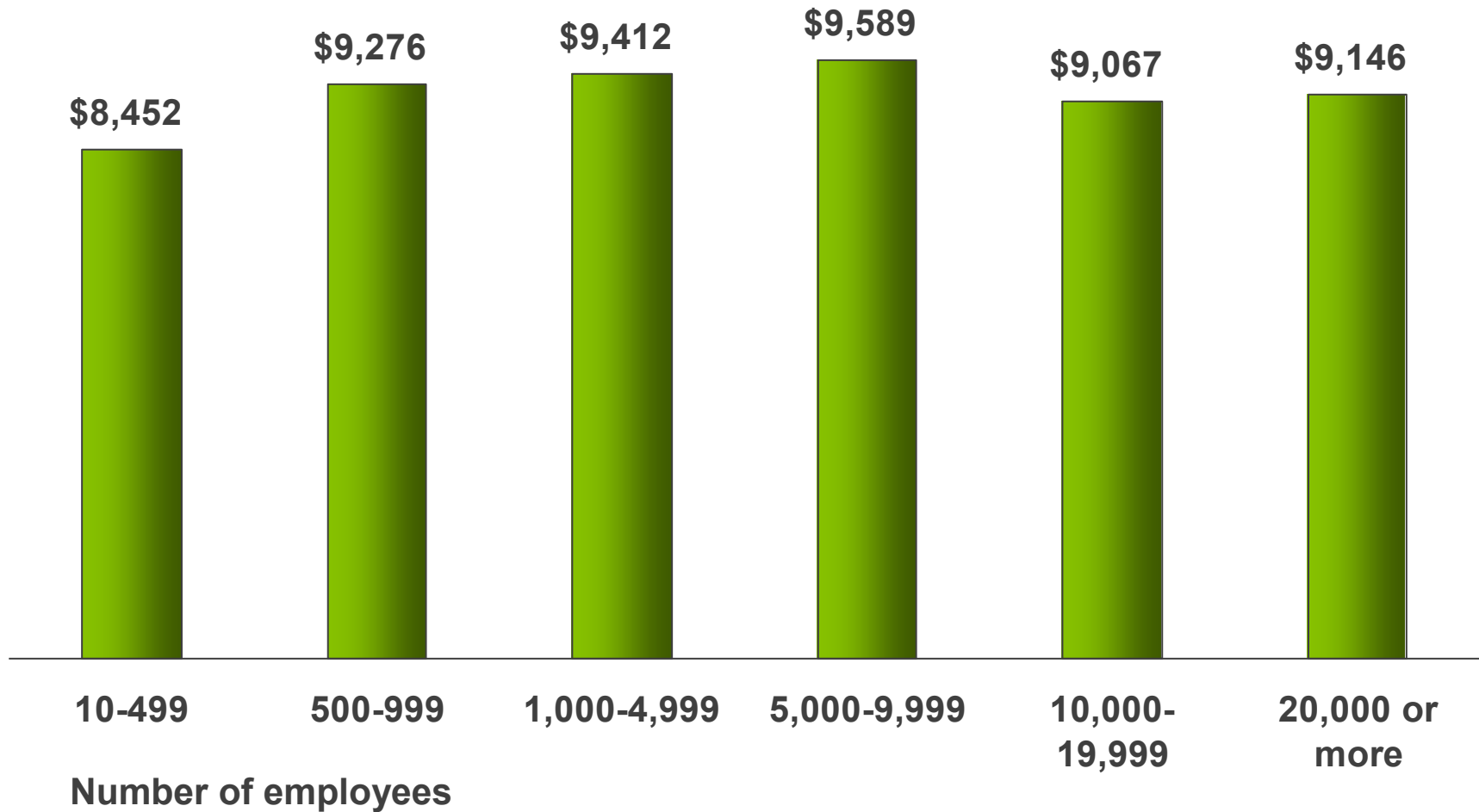
## Factors that affect average cost per employee

Region—large employers



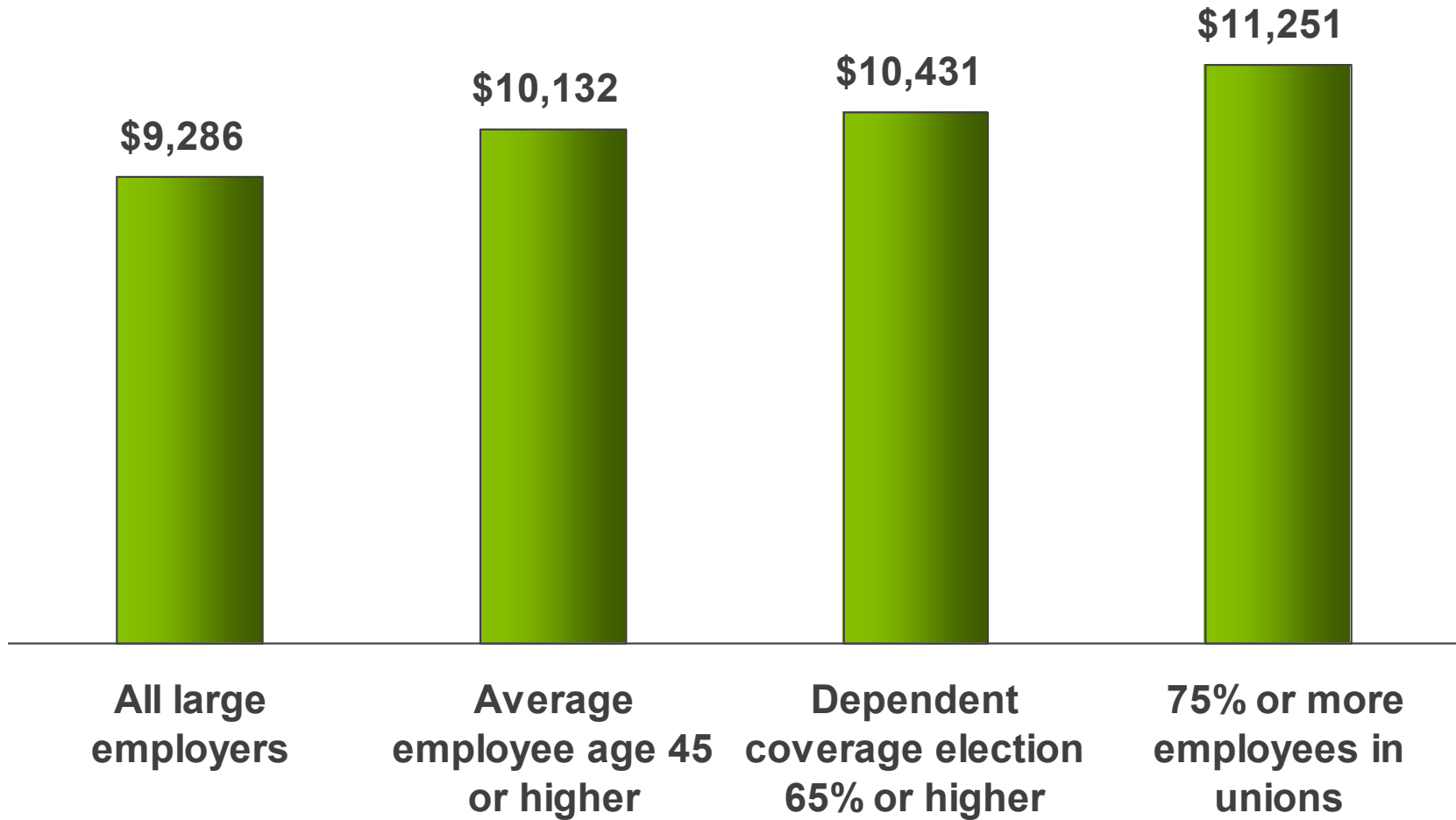
# Factors that affect average cost per employee

## Employer size



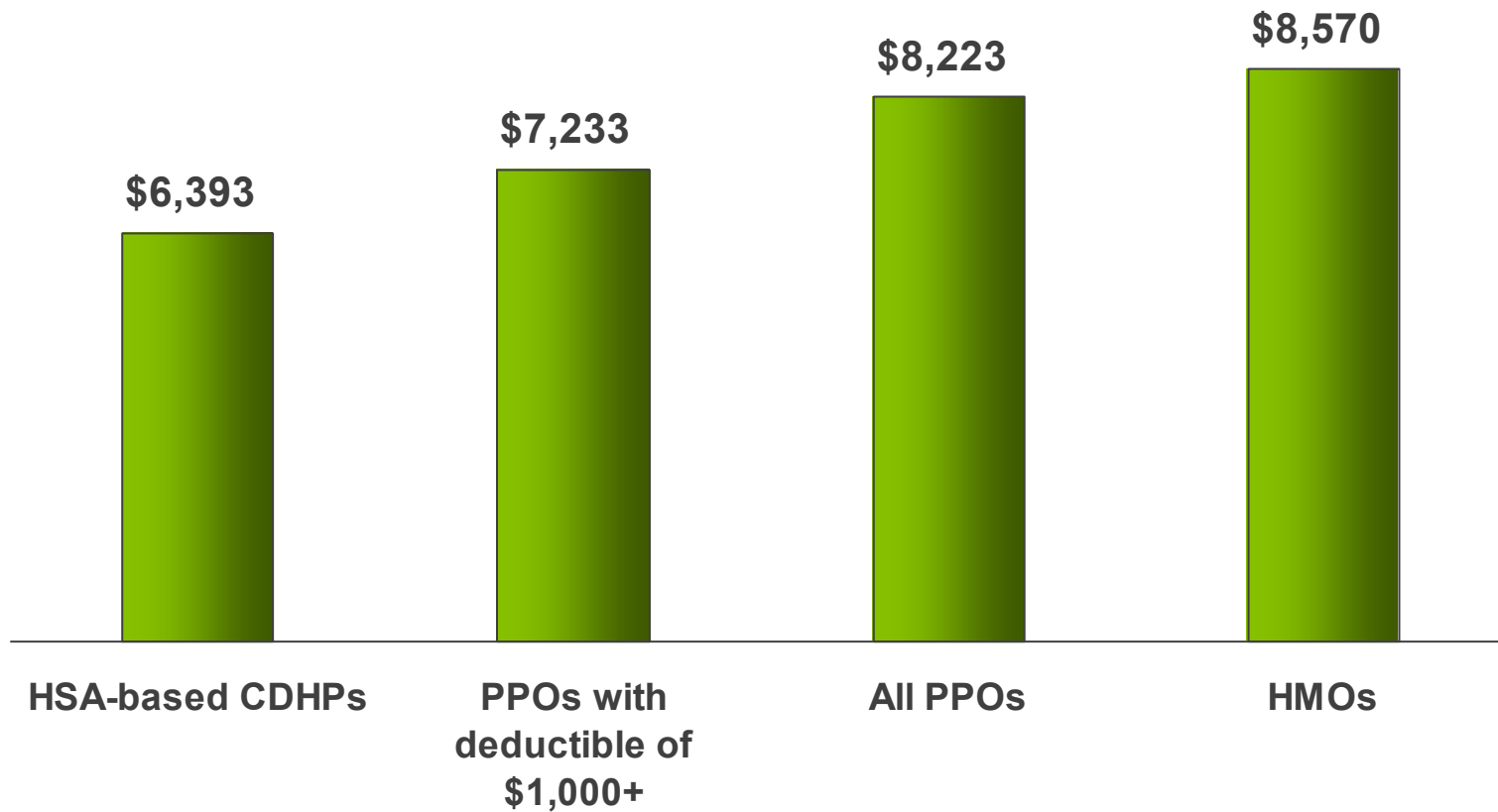
## Factors that affect average cost per employee

Employer/employee demographics—large employers



# Factors that affect average cost per employee

## Plan Design





# Cost Containment Strategies

## Back in 2006: Health management and consumerism emerge as large employers' most important cost-management strategies for the next five years\*

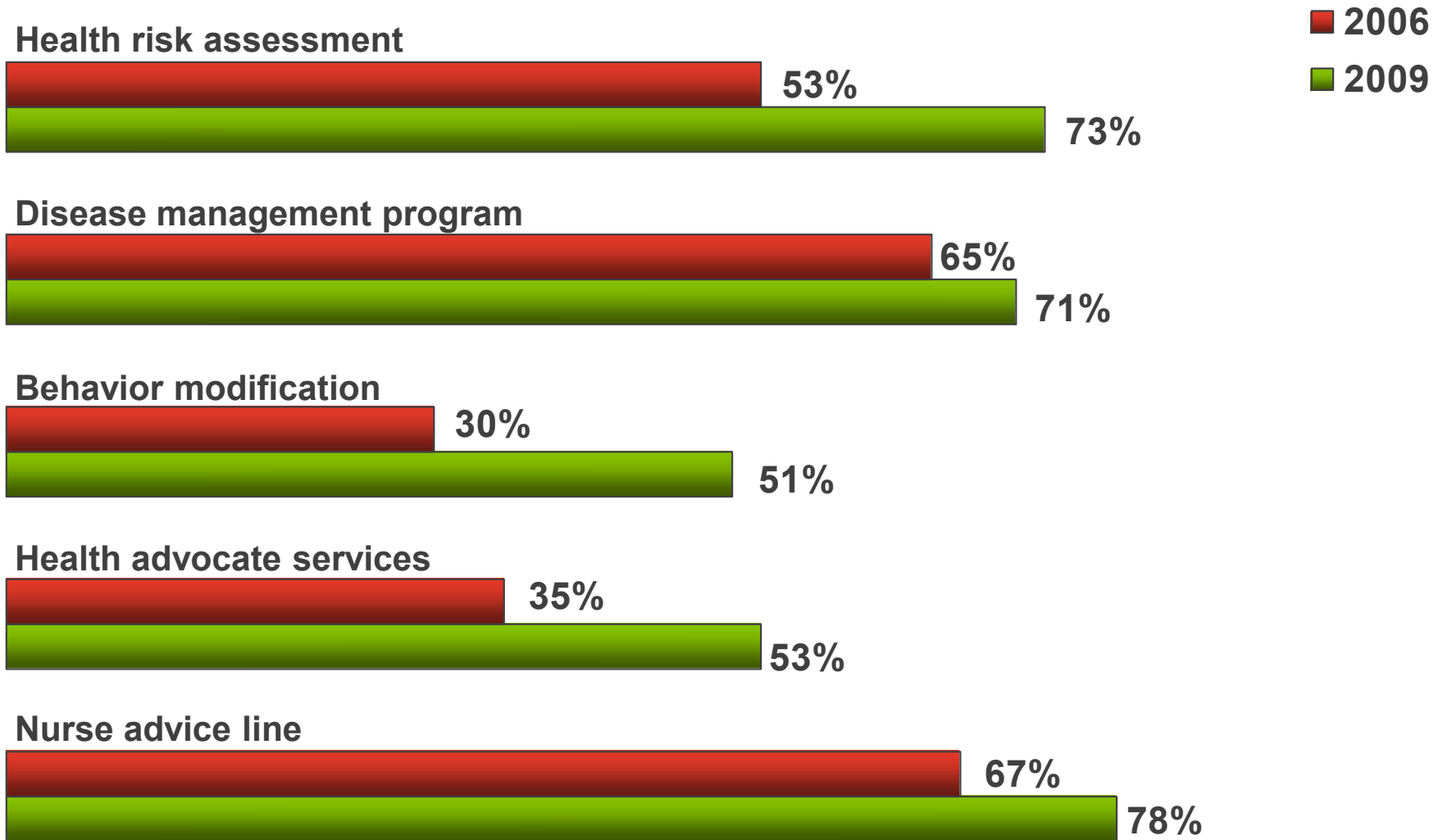
	All large employers	Jumbo employers
Health management	71%	85%
Consumerism	64%	77%
High-performance networks	41%	51%
Collective purchasing	37%	29%
Scaling back benefits/shifting cost to employees	37%	21%

\* Employers indicating strategy will be significant in efforts to manage health benefit cost.

Source: Mercer's National Survey of Employer-Sponsored Health Plans 2006

# Sharp growth in use of health management programs

Percent of large employers offering programs



## Employer use of health management programs growing

Percent of employers offering program

	2005	2009
<b>50-499 employees</b>		
Health risk assessment	22%	48%
Disease management	41%	46%
Nurse advice lines	40%	66%
Case management	—	52%
Behavior modification	11%	29%
<b>500-4,999 employees</b>		
Health risk assessment	34%	72%
Disease management	57%	69%
Nurse advice lines	58%	77%
Case management	—	81%
Behavior modification	20%	51%

## Growth in CDHP

Percent of employers

	CDHP* offered in:					Very likely to offer in 2010
	2005	2006	2007	2008	2009	
10-499 employees	2%	5%	7%	9%	15%	18%
500+ employees	5%	11%	14%	20%	20%	24%
20,000+ employees	22%	37%	41%	45%	43%	47%

\*Based on either a health savings account or health reimbursement arrangement.

## Emerging cost-management strategies

Employers with 5,000 or more employees

	Interested / very interested	Very interested	Already use strategy
Surgical centers of excellence in the U.S.	57%	16%	17%
Retail clinics for chronic care management	45%	8%	12%
Treating telemediated physician care as eligible expense	47%	7%	8%
Medical homes (A-ICU model)	53%	10%	1%
Tiering of non-drug treatments	53%	7%	2%

## Summary of Initiatives you can do today

- Plan Design Changes
  - CDHP
  - Prescription Drug Changes
  - Incentives for behavior
- Exclude Members
  - Dependent audits
  - Spouse surcharge
  - Waiting periods
  - Penalties for non-compliance
- Aggressive inclusion in programs
  - Preventive care
  - Disease management
  - Predictive modeling
- Aggressive negotiations
  - Collective purchasing for buying power
  - Performance standards
- Administrative efficiency
  - Outsourcing
  - System integration with HRIS
- Analytics
  - Improved carrier reporting and benchmarks
  - Data warehouse
  - Predictive modeling



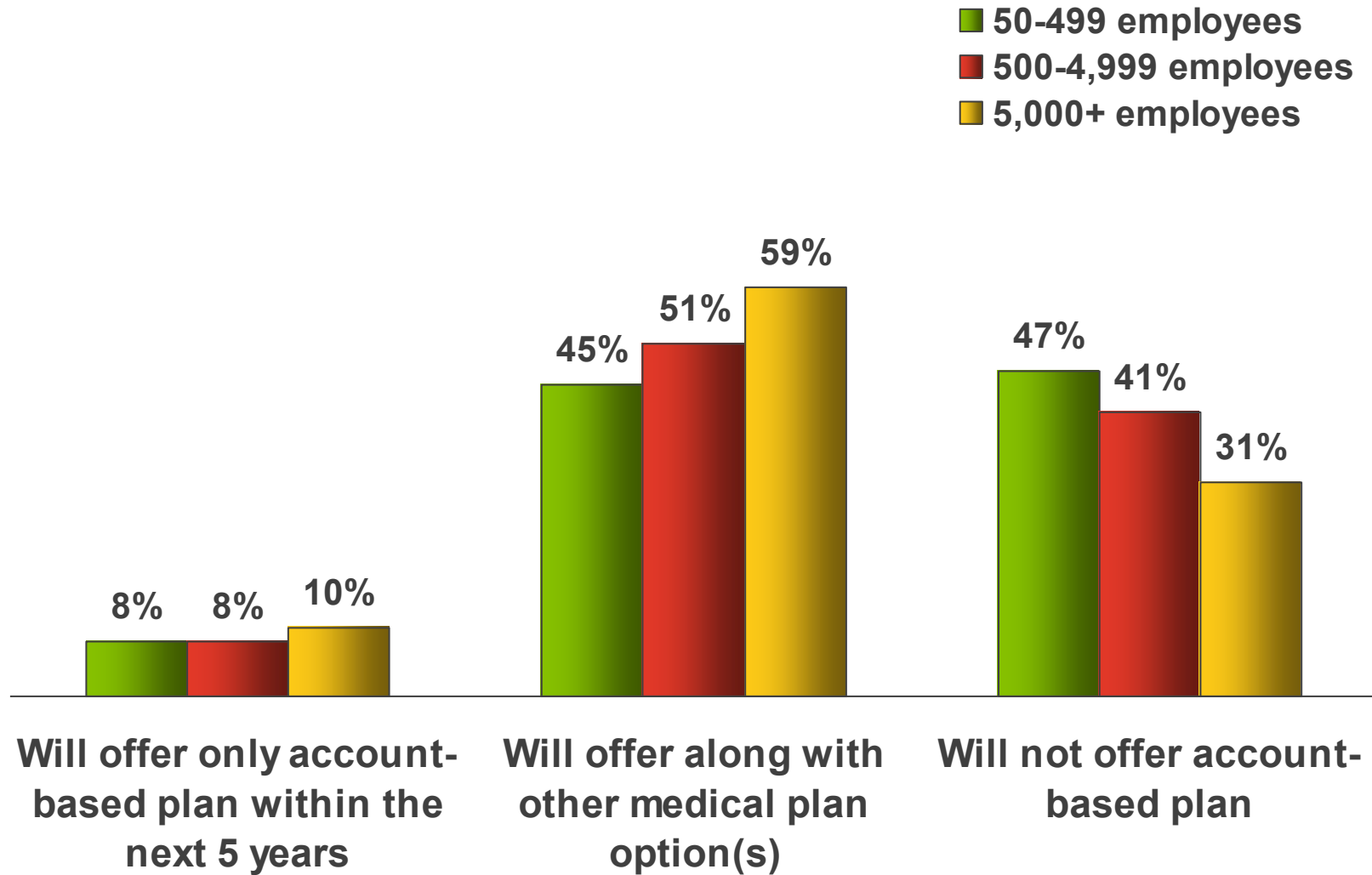
## More on CDHP's

## Return on investment in health management

	<b>50-499 employees</b>		<b>500-4,999 employees</b>	
	<b>2007</b>	<b>2009</b>	<b>2007</b>	<b>2009</b>
Have attempted to measure return on investment (ROI)*	8%	9%	18%	28%
Of those that have measured ROI, % of employers that are satisfied with ROI	--	--	75%	72%

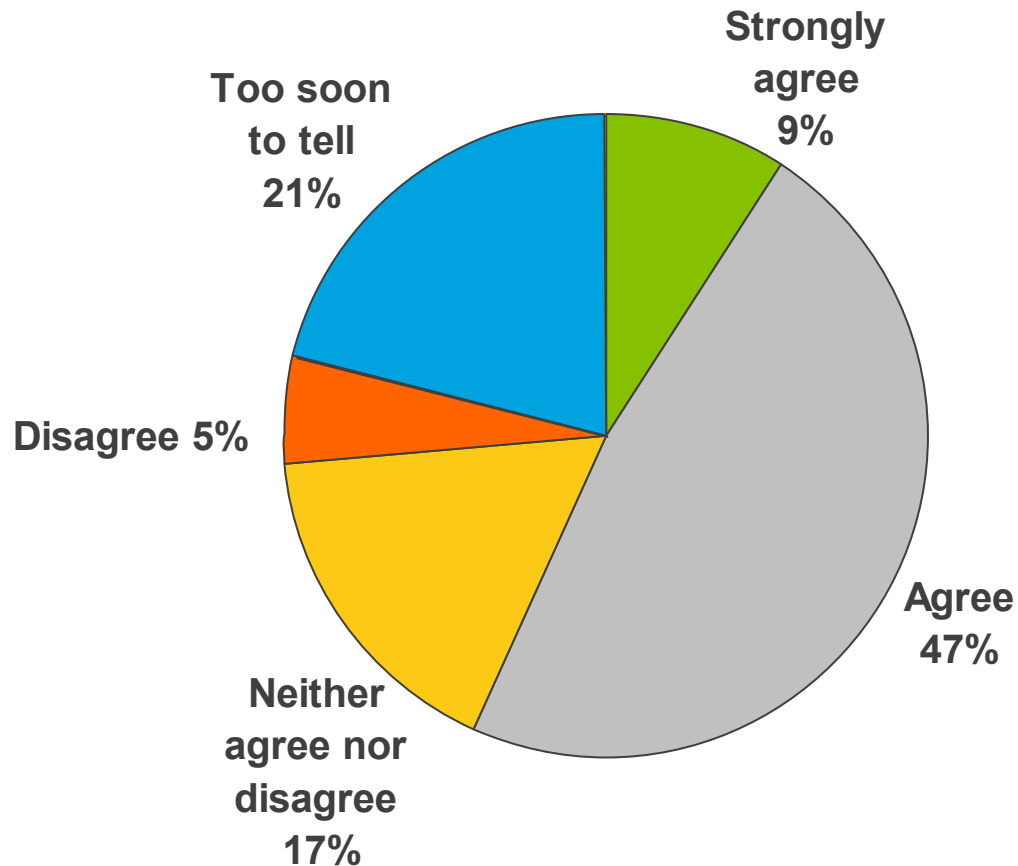
\*Among employers that offer disease or care management programs

## Majority of large employers expect to offer an account-based plan near-term, but not as the only plan



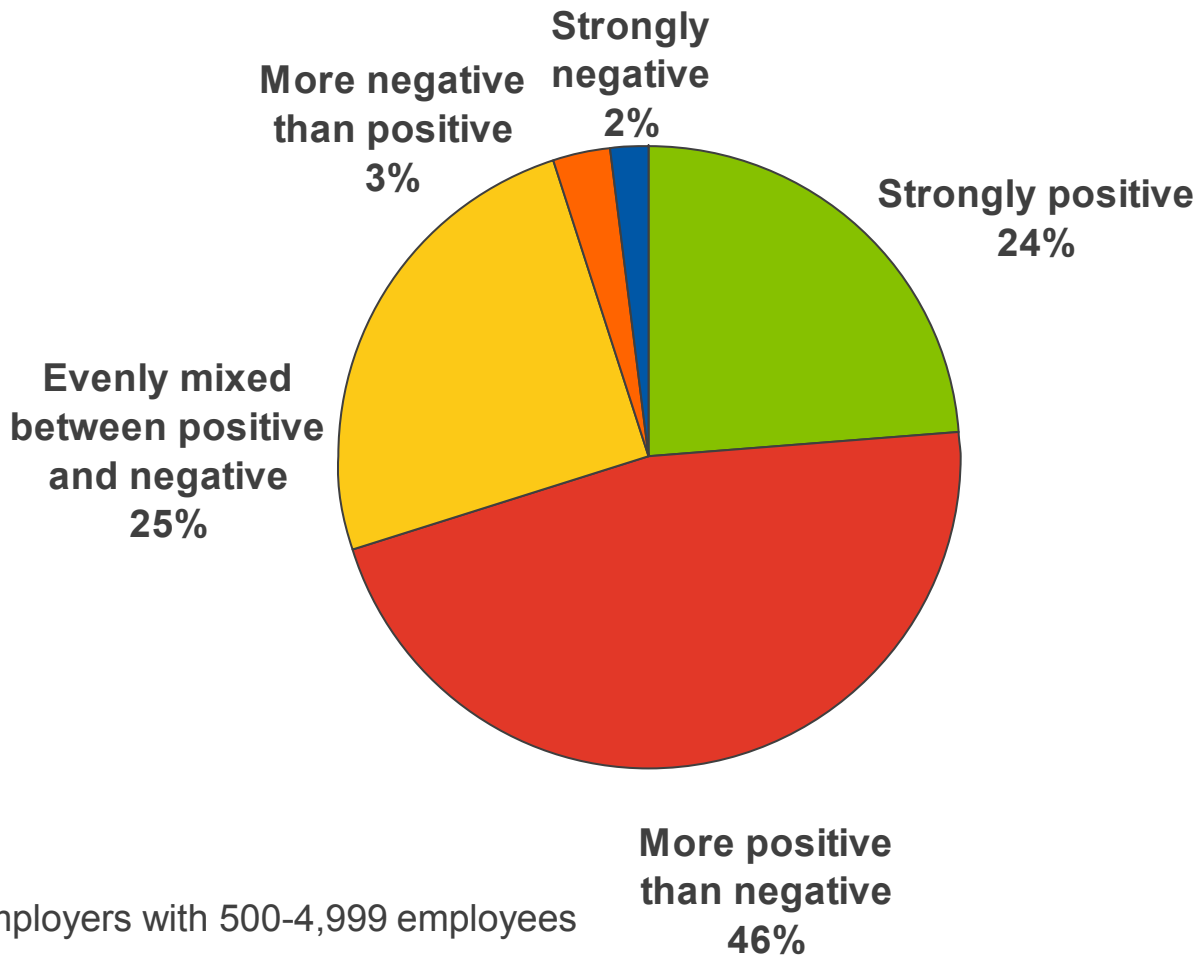
## Employer reaction to HSA-based plan: “Most important objectives have been met”

HSA sponsors with 500-4,999 employees



## Employee reaction to HSA-based CDHP

Large HSA sponsors\* characterize the response of employees enrolled in the plan



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