



United States

Shaping Health Care Strategy

in a Post-Reform Environment

2011

**16th Annual Towers Watson/National Business Group on Health
Employer Survey on Purchasing Value in Health Care**



**National
Business
Group on
Health**

TOWERS WATSON





2011

Employer Survey on Purchasing Value in Health Care



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Executive Summary

Landmark health care reform legislation, coupled with an uncertain economy, is sharpening employers' focus on new strategies and tactics to mitigate costs and improve worker health and productivity, according to the findings of the 16th Annual Towers Watson/National Business Group on Health Employer Survey on Purchasing Value in Health Care. Many employers are taking bold actions, and implementing new health benefit program changes to drive employee and provider accountability. What's more, some employers are viewing the coming years as a unique opportunity to reshape their total rewards portfolio and make critical changes to their employee value proposition.

To help us assess emerging trends in employer-sponsored health care programs, nearly 600 survey participants provided detailed information about their health care programs, their strategies and practices, and the results of their efforts to manage health benefit costs and improve employee health.

Key Findings

Taking bold actions to manage costs and offer affordable care

In 2011, total health care costs per active employee, on average, are expected to reach \$11,176, up from \$10,387 in 2010 (*Figure 7*, page 5). In fact, employers pay 36% more for health care, and employees contribute over 45% more than they did five years ago. To mitigate costs, employers are redefining their financial commitments to health benefits by redesigning programs to incorporate enhanced point-of-care consumerism, positioning incentives more aggressively and redefining the employee versus dependent subsidy. Further, coming changes in the pre-65 and Medicare marketplace are fueling some employers to reconsider their commitment to retiree medical sponsorship.

Engaging all stakeholders in costs and care

Health care reform is providing employers with a catalyst to further engage all health plan stakeholders to hold the line on costs and focus on quality of care. For example, employers are designing creative engagement approaches, applying new ideas, such as behavioral economics, and leveraging social media to communicate critical messages.

Setting their sights on bigger changes ahead

While organizations have responded to the initial wave of mandates and regulatory changes under the new health care reform law, employers expect even bigger changes in the not-too-distant future with the opening of the insurance exchanges in 2014 and a potential excise tax, which takes effect in 2018 (*Figure 16*, page 9). Rather than rely on incrementalism, employers are considering significant changes in their health care strategy to stave off the excise tax.

About the Survey

The 16th Annual Towers Watson/National Business Group on Health Employer Survey on Purchasing Value in Health Care tracks employers' strategies and practices, and the results of their efforts to provide and manage health benefits for their workforce. This report identifies the actions of high-performing companies, as well as current trends in the health care benefit programs of U.S. employers with at least 1,000 employees (Figure 1). Respondents were also asked about specific implications for their health care benefit programs attributed to the health care reform Patient Protection and Affordable Care Act (PPACA).

The survey was completed by 588 employers, between November 2010 and January 2011, and reflects respondents' 2010 and 2011 health program decisions and strategies and, in some cases, their 2012 plans. Respondents collectively employ 9.2 million full-time employees, have 7.8 million employees enrolled in their health care programs and operate in all major industry sectors (Figures 2 and 3). In 2010, respondents spent, on average, \$10,387 per employee on health care, which equates to a collective \$81 billion in total health care expenditures.

Improving workforce health

Employers remain strongly committed to improving the health of their workforce. Along these lines, many employers are expanding the use of employee incentives to participate in lifestyle coaching, complete biometric screenings and take advantage of other measures (Figure 25, page 15 and Figure 26, page 16). Employers are also encouraging vendors to coordinate care, implement evidence-based treatments and use emerging technologies aimed at improving quality and efficiency (Figure 24, page 15).

Linking benefits, health and productivity

Taking a page from consistent performers' playbook, more employers are monitoring their health plans and programs, and measuring results. These employers are assessing program performance, pinpointing areas that need improvement and targeting future investments (Figure 33, page 20).

What's Next?

Health care reform provides employers with an unparalleled opportunity to reassess their health care strategy and consider where health benefits fit within their total rewards package and their overall business strategy. Those organizations that are thoughtful and nimble in assessing the post-health care reform landscape will position themselves to profit from the myriad larger opportunities that lie ahead.

Our survey report offers a detailed look at the changing dynamics in health care benefits and workforce health.

Figure 1. Number of full-time workers employed by respondents

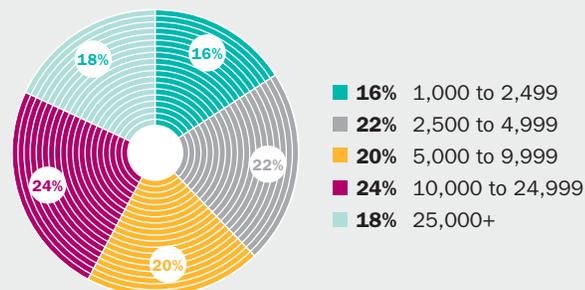


Figure 2. Region where the majority of benefit-eligible workforce is located

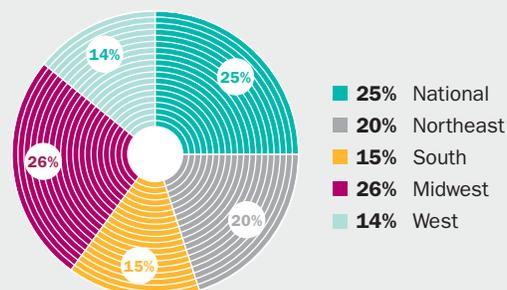
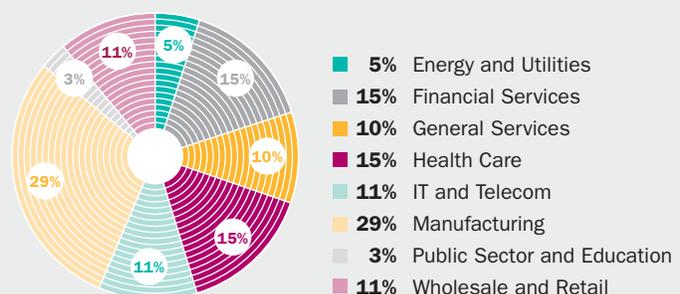


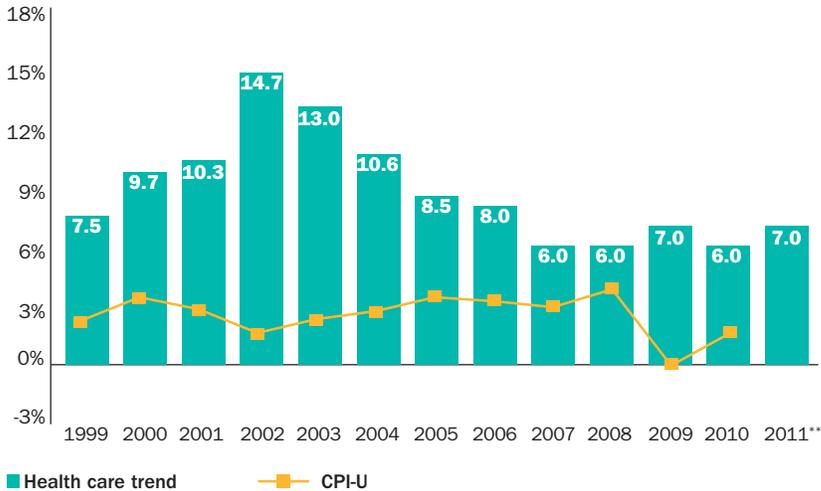
Figure 3. Industry groups



*A company had to complete this year's survey and the 2009 and/or the 2010 Towers Watson/National Business Group on Health Employer Survey to be eligible to be a consistent performer. The number of consistent performers is based on 225 eligible companies, which translates to 22% of companies reporting an annual trend at or below the all-company median for each year from 2007 to 2010.

Costs Continue to Outpace Inflation

Figure 4. Health care cost increases have reached a plateau*

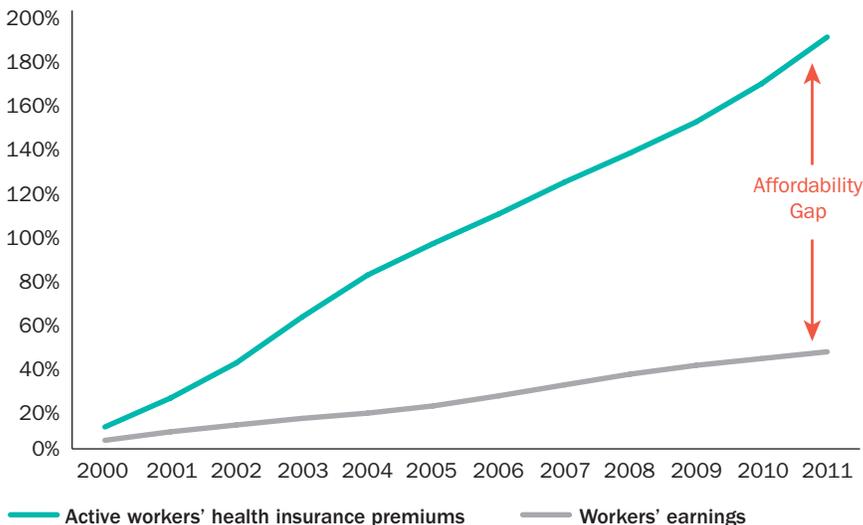


Notes: Median trends for medical and drug claims for active employees, after plan design changes. CPI-U extracted from the Department of Labor, Bureau of Labor Statistics.

* A company's medical benefit expenses for insured plans include the premium paid by the company. For self-insured plans, these expenses include all medical and drug claims paid by the plan, company contributions to medical accounts (FSA/HRA/HSA) and costs of administration minus employee premium contributions. The annual change in costs is based on costs for active employees after plan and contribution changes. Respondents were asked to report trends directly in the survey.

** Expected

Figure 5. Affordability gap widens



Notes: Towers Watson Health Care Cost Survey, Towers Watson Health Care Trend Survey 2011 and the Department of Labor, Bureau of Labor Statistics, seasonally adjusted average hourly earnings of production and nonsupervisory employees from the Current Employment Statistics Survey

Annual cost increases for active health care benefits have stabilized between 6% and 7% over the last four years. Medical trends reported in *Figure 4* reflect cost increases after plan changes and are net of employee contributions. At the same time, it's worth noting that without changes to plan design and/or employee contributions, average cost trends would have been 8% in 2010 and are expected to be slightly higher (8.5%) in 2011.

While increases in health care costs have been trending downward since the early part of this decade, they continue to climb at rates well above the general Consumer Price Index (CPI). Looked at another way, as health care costs for active employees outpace wage increases year after year, and the economic downturn takes its toll on reward programs, the affordability gap continues to widen (*Figure 5*).

Underscoring the affordability issues, total health care costs continue a climb to unprecedented levels, reaching an anticipated \$11,176 per active employee in 2011 — up from \$10,387 in 2010 (*Figure 6*, page 5) — a 7.6% increase in gross costs over this period. At more than \$8,000 in 2010, health care costs per active employee (net of employee premium contributions) are anticipated to rise to \$8,516 in 2011.

On average, employees across all plan types and coverage tiers paid 22.9% of total premium costs in 2010. As employers take steps to manage their costs, employees' share of premiums will increase to 23.8% in 2011.

Nevertheless, the actual dollar burden for employees has grown due to the ever-increasing cost base. On average, employees contributed \$2,379 to premiums in 2010. The average employee's share of costs in 2011 is expected to rise to \$2,660, an 11.8% annual increase. And sustained increases in health care costs have affected employers and employees alike. Employers pay 36% more for health care than they did just five years ago, and employees contribute more than 45% more over the same period (*Figure 7*, page 5).

Companies anticipate that employees' out-of-pocket expenses (other than premium contributions) will represent 16% of total allowed charges in 2011, compared with 17% in 2010 and 18% in 2009. This slight decline in out-of-pocket costs is unexpected. However, as we discuss later on, this finding could reflect employers' reluctance to make more significant plan design changes in the current economic environment and given the uncertainty around health care reform.

Premium equivalent rates are based on the costs of plans and can be used to compare the relative costs of different plan types. Today, preferred provider organization (PPO) and point of service (POS) are the most expensive plan types. These plans cost the average employee almost \$200 more than a typical health maintenance organization (HMO) plan for single-only coverage and more than \$750 more for family coverage (Figure 8). This could reflect the fact that since fewer companies offer HMO-type plans, the HMO plans that are still in place have lower costs.* The cost of ABHP coverage is considerably more affordable than either PPO/POS plan or HMO plan coverage in 2011. ABHP employee-only coverage is about \$900 lower than coverage in other plan types. ABHP rates for family coverage are \$2,885 below median PPO/POS plan costs and \$2,118 lower than average HMO plan costs.

Retirees, who pay a considerably larger share of coverage costs, face even greater affordability issues. Retirees not yet eligible for Medicare pay nearly \$4,100 per year for single-only coverage and \$10,200 per year for family coverage. As a result of these costs, absent some other form of subsidy, some employees may find it difficult to retire and secure affordable coverage (Figure 9). On another front, Medicare benefits help cover some of the costs for retirees age 65 and over. Medicare-eligible retirees pay more than \$2,000 for single-only coverage and \$5,200 for family coverage.

Figure 6. Annual health care costs

Percentile	Total PEPY Costs		Net PEPY Costs	
	2010	2011*	2010	2011*
Mean	\$10,387	\$11,176	\$8,008	\$8,516
10th	\$6,656	\$6,943	\$5,160	\$5,424
25th	\$8,167	\$8,725	\$6,618	\$6,998
50th	\$9,990	\$10,531	\$7,992	\$8,425
75th	\$11,714	\$12,268	\$9,371	\$9,990
90th	\$12,150	\$13,036	\$10,800	\$11,435

Note: Costs include medical and drug claims for active employees. Total per-employee per-year (PEPY) costs (or gross costs) include both employer and employee shares. Net PEPY costs are less employee contributions.

*Expected

Figure 7. Total employee/employer health care costs

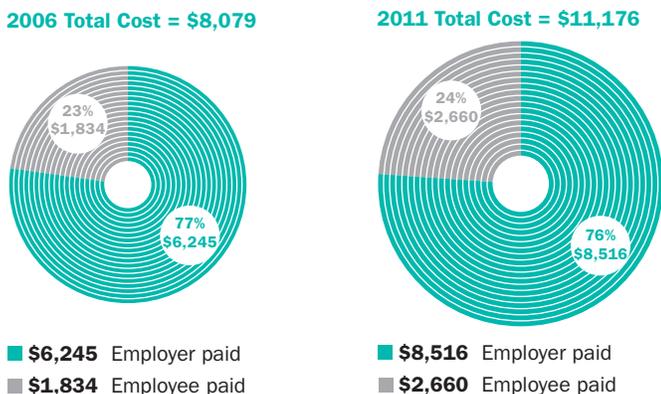


Figure 8. Annual premiums for employee-only and family coverage for 2011

	Employee-Only	Family
PPO and POS plans	\$5,532	\$16,361
HMO plans	\$5,333	\$15,594
ABHPs (including account contributions)	\$4,603	\$13,476

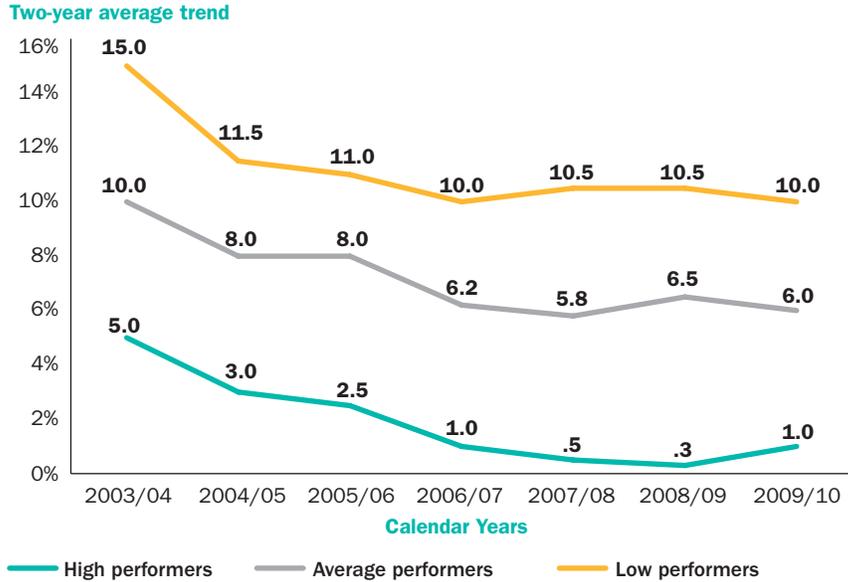
Note: Data show medians, including the 2% administration fee.

Figure 9. Annual premiums for retiree-only and family coverage for 2011

	Annual Total Premiums		Retiree Premium Share	
	Retiree-Only	Family	Retiree-Only	Family
Retirees under age 65	\$8,031	\$19,275	51%	53%
Retirees age 65 and older	\$4,507	\$11,000	46%	48%

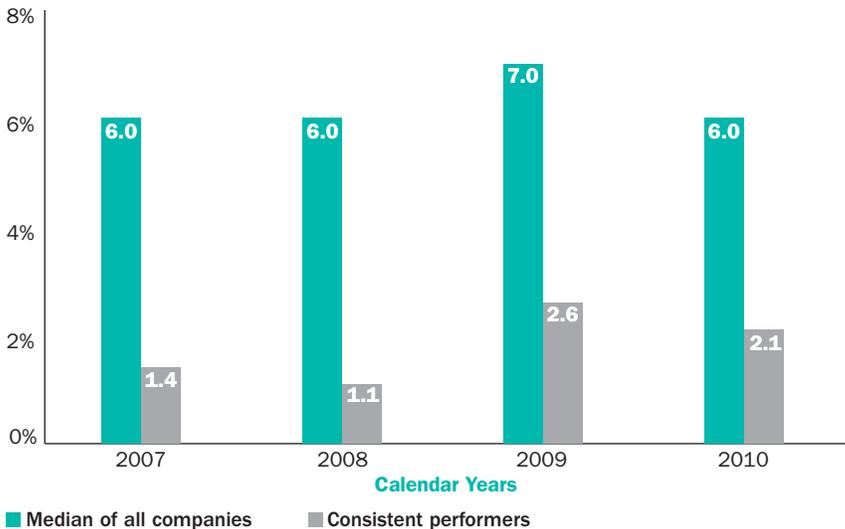
*Forty-eight percent of companies offer an HMO plan in 2011, compared with 93% that offer a PPO/POS plan.

Figure 10. Median trends for high, average and low performers



Note: Two-year average trends for medical and drug claims for active employees, net of employee premium contributions

Figure 11. Consistent performers vs. median annual cost trends, 2007–2010



Note: Median trends for medical and drug claims for active employees, net of employee premium contributions

High Performers Reap Rewards

Consistent with our findings over several years, organizations show dramatic variation in their ability to reduce health care cost trends. While the median two-year trend (for 2009 and expected for 2010) for all organizations is 6%, high-performing companies have significantly lower cost trends (Figure 10). High-performing companies — those with a median two-year average cost increase in the lowest quartile among all respondents — have a median 1% cost trend. On the other hand, low-performing companies — those in the highest quartile — have a 10% cost trend.

Consistent Performers Drive Long-Term Results

Some organizations have been successful in maintaining health care cost trends at or below the norm for each of the last four years. As a group, we refer to these organizations as “consistent performers.” The ability to keep cost increases low over an extended period of time distinguishes these companies from other organizations, including high-performing companies.

Our research identified 50 companies that qualify as consistent performers.* While consistent performers were required only to maintain trends at or below the median from 2007 through 2010, they report average trends significantly below the median cost trend for each of the last four years (Figure 11). In fact, the median trend across the last four years was 6.3% versus 1.8% for consistent performers.

*A company had to complete this year’s survey and the 2009 and/or 2010 Towers Watson/National Business Group on Health survey to be eligible to be a consistent performer. The number of consistent performers is based on 225 eligible companies, which translates to 22% of companies reporting an annual trend at or below the all-company median for each year from 2007 to 2010.



“Consistent performers report average trends significantly below the median cost trend for each of the last four years.”

Figure 12. Annual costs and increases by performance group

	Performance Groups			Difference	
	Consistent Performers	High Performers	Low Performers	Consistent vs. Low	High vs. Low
Total PEPY costs, 2010	\$9,016	\$9,302	\$11,047	-\$2,031	-\$1,745
PEPY costs, net contributions, 2010	\$7,042	\$7,392	\$8,576	-\$1,534	-\$1,184
Employee contributions, 2010	\$1,974	\$1,910	\$2,471	-\$497	-\$561
Employee share of contributions, 2010	21.9	20.5	22.4	-0.5	-1.8
Two-year average cost trend	2.6	1.0	10.0	-7.4	-9.0
2010 cost trend, net contributions	2.1	0.0	10.0	-7.9	-10.0
2010 cost trend, before changes	4.8	4.5	10.0	-5.2	-5.5

In terms of cost management, both consistent and high performers are noticeably ahead. In 2010, the cost difference between consistent performers and low performers was more than \$2,000 per employee. The cost difference between high performers and low performers was \$1,745 per employee (Figure 12). For a consistent performer with 10,000 employees, this adds up to a \$20 million cost advantage over a low-performing

competitor. Consistent performers' affordability proposition for employees is also superior to low performers'. Notably, employees at consistent-performing companies pay 20% less than their counterparts at low-performing companies. Apart from the obvious advantages of paying lower costs, affordable health care is key to providing a competitive reward package, and to attracting and retaining top talent.*

*See 2010 Employee Perspectives on Health Care, 2010 Global Workforce Study and 2010 Global Talent Management and Rewards Study.

How Consistent Performers Make a Difference: Top Tactics

In 2011, the most successful companies took significant steps to make their health plans more cost efficient by renegotiating financial arrangements with their current pharmacy benefit manager (PBM) and by changing plan options (Figure 13). Consistent performers also made changes in their plan options.

Although the economic downturn is putting added pressure on health care budgets, the high-performing companies are resolute in their promotion of workforce well-being and healthy lifestyles. Some of these investments include rewarding enrollment in healthy lifestyle activities — or penalizing nonenrollment — and imposing tougher restrictions on receiving financial incentives. Consistent performers are also more likely to shape new directions in health care delivery by participating in community-based pilot programs, such as patient-centered medical homes.

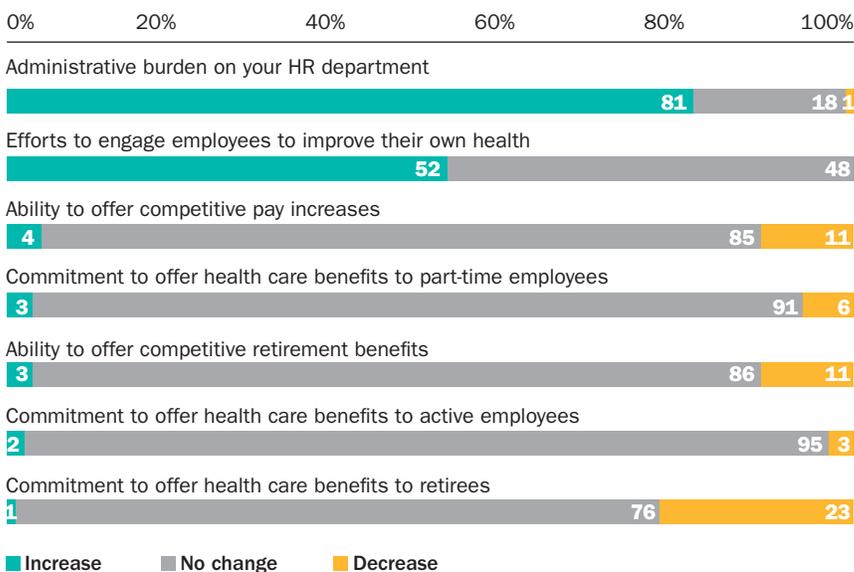
Figure 13. Top 12 tactics implemented in 2011

	Percentage Implementing in 2011	Ratio of Tactics Already in Use
	Consistent Performers	Consistent to Low Performers
1. Renegotiate financial arrangements with current pharmacy benefit manager (PBM)	16%	1.50
2. Reward (or penalize) enrollment in healthy lifestyle activities	14%	1.22
3. Change plan options	12%	1.37
4. Provide a total compensation or total benefit statement that includes the value of health benefits	10%	1.16
5. Participate in a community-based pilot program (e.g., patient-centered medical home, accountable care organization)	10%	4.12
6. Use hard-dollar return-on-investment calculations to support future decisions	10%	1.81
7. Reward (or penalize) only those who complete requirements of a healthy lifestyle activity	10%	2.15
8. Require employees to complete the health risk appraisal and/or biometric screening to be eligible for other financial incentives for healthy activities	8%	1.45
9. Provide employees with information on provider and/or hospital quality	6%	1.20
10. Use centers of excellence for treatments other than transplants (e.g., specialty treatment networks)	6%	1.20
11. Reward (or penalize) based on smoker, tobacco-use status	6%	1.89
12. Invest in enhancements to case management for serious conditions	4%	1.94

Note: The percentages reflect the consistent performers that were not using the tactic in 2010, but added it in 2011.

Bigger Changes on the Horizon

Figure 15. Changes due to health care reform



Note: Data exclude respondents indicating "NA."

Emerging health care reform regulatory guidelines and mandates are driving myriad changes among health plan sponsors. Specifically, the health care reform law has had more of an impact on program administration than on employers' long-term benefit strategies. As Figure 15 shows, more than 80% of companies indicate that health care reform has increased the administrative burden on their HR departments.

Rising health care costs and the potential financial impact of health care reform are leading more than half of employers to step up their efforts to engage employees in actively managing their health. Employers' commitment to providing health care benefits for active employees remains strong. However, health care reform could accelerate a growing employer exit from retiree medical programs.

How Consistent Performers Make a Difference: Top Tactics (cont.)

Looking ahead, improving the quality and coordination of care within their health plans is a top objective for consistent performers. For example, 27% plan to differentiate cost sharing for using high-performance networks; 20% plan to provide employees with information on provider quality, and 16% plan to expand their use of centers of excellence beyond transplants (Figure 14). This could signal that consistent performers are becoming increasingly receptive to narrow networks.

As shown in Figure 14, there are many specific factors that contribute to superior results of the consistent performers. And there is a lot to learn from these companies by looking at what they have been doing and where they are headed. In the section “Road Map for Success: Strategies for Building a Healthy, Productive Workforce,” we show that the most successful companies use a combination of tactics in seven main areas to hold the line on cost increases while engaging employees to improve their health habits.

Figure 14. Top 12 tactics planned for 2012

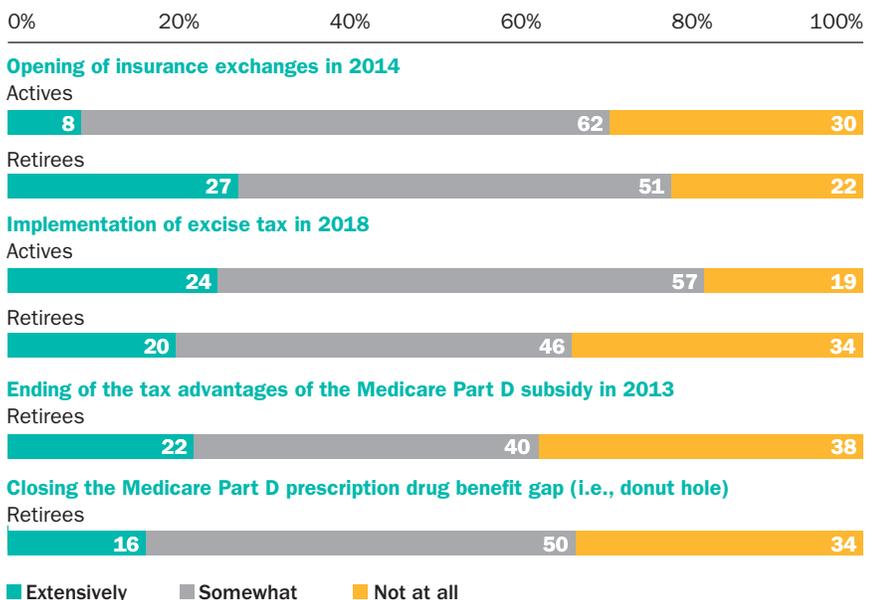
	Percentage Planning for 2012	Ratio of Tactics Already in Use
	Consistent Performers	Consistent to Low Performers
1. Differentiate cost sharing for use of high-performance networks or centers of excellence	27%	1.47
2. Reward (or penalize) based on biometric outcomes other than smoker, tobacco-use status	24%	2.04
3. Change plan options	22%	1.37
4. Use value-based benefit designs	22%	2.00
5. Reward (or penalize) based on smoker, tobacco-use status	22%	1.89
6. Audit of medical claim payments	21%	1.36
7. Provide employees with information on provider and/or hospital quality	20%	1.20
8. Use centers of excellence for treatments other than transplants	16%	1.20
9. Reward (or penalize) only those who complete requirements of a healthy lifestyle activity	16%	2.15
10. Require employees to complete the health risk appraisal and/or biometric screening to be eligible for other financial incentives for healthy activities	16%	1.45
11. Reward (or penalize) enrollment in healthy lifestyle activities	14%	1.22
12. Use hard-dollar return-on-investment calculations to support future decisions	12%	1.81

Note: The percentages reflect the consistent performers that were not using the tactic in 2010 or 2011, but plan to add it in 2012.

Although organizations have responded to the initial wave of mandates and regulatory changes under the new law, employers expect even bigger changes ahead. Nearly three-quarters of respondents expect the opening of the insurance exchanges in 2014 to have an impact on their active medical plans (Figure 16). Employers are turning their attention to the excise tax, which takes effect in 2018, as a key driver of change in their health care strategy for active employees. In fact, 80% of respondents expect the excise tax to have at least some impact, and nearly a quarter of respondents believe it will have an extensive impact on their active medical programs, if no subsequent changes are made to their plan designs. As noted later on, this may lead to an acceleration in ABHPs* as companies take more aggressive actions to encourage healthier lifestyles.

*We define an account-based health plan (ABHP) as a plan with a deductible offered together with a personal account (i.e., health savings account or health reimbursement arrangement) that can be used to pay a portion of the medical expense not paid by the plan. ABHPs typically include decision support tools that help consumers better manage their health, health care and medical spending.

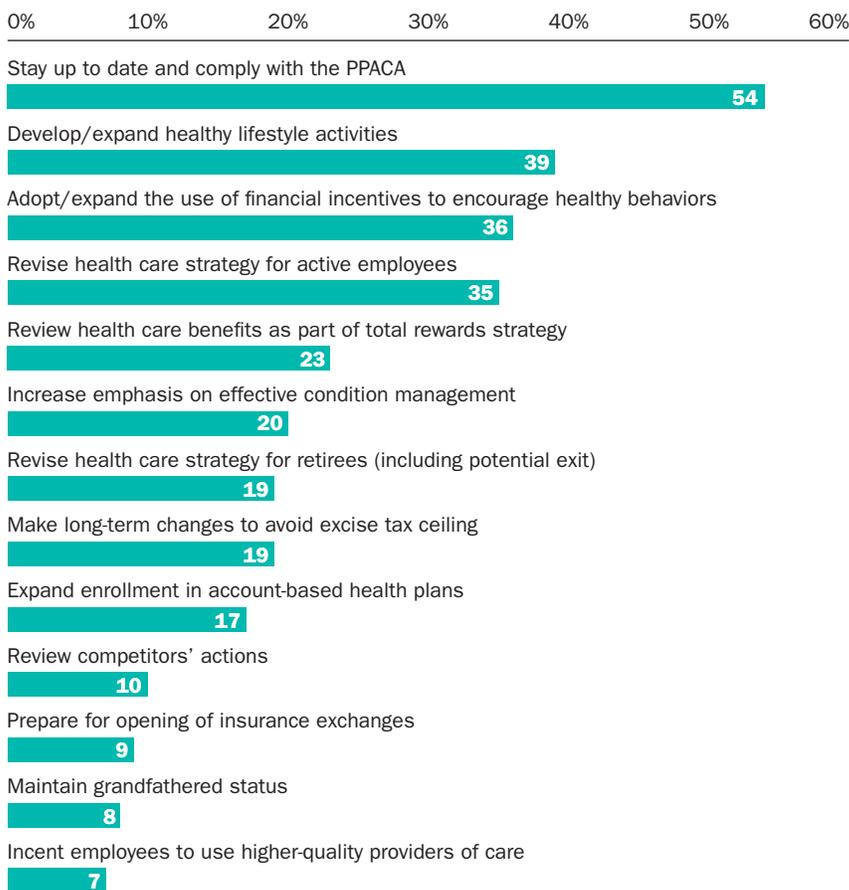
Figure 16. Anticipated impact of health care reform on active and retiree medical plans



Note: Responses to retiree programs based on companies that offer a retiree program today

“Organizations will continue to focus on actions that encourage healthier employee lifestyles and behaviors.”

Figure 17. Top health care strategies for 2012



Note: Companies were asked to identify their top three focus areas.

Turning toward 2012, a top strategy for employers is keeping abreast of and complying with the health care reform law (*Figure 17*). At the same time, more than a third of organizations say health care strategy will be one of their top three focus areas in 2012, most likely due to the persistent challenges with rising health care costs and also in anticipation of the exchanges and the excise tax. While the excise tax may be a number of years away, Towers Watson research has shown that 60% of companies will reach the status of a “rich” plan by 2018 (i.e., plans that cost a total of more than \$10,200 for single coverage and more than \$27,500 for family coverage in 2018). Those companies that take more strategic actions now will likely have a leg up on other organizations when it comes to managing health care reform mandates and controlling future costs.

Organizations will also continue to focus on actions that encourage healthier employee lifestyles and behaviors. As health care affordability continues to erode and health care benefits become a larger share of employee compensation, nearly a quarter of employers will review their health benefit programs as part of their total rewards strategy over the next year.

Decline in Employer Confidence

Employers’ increasing frustration with plan performance, a lack of employee engagement in programs designed to encourage healthy behaviors and medical vendor services are key themes that emerged in both last year’s and this year’s report.

On another front, financial challenges and an aura of uncertainty surrounding the health care reform law are contributing to a decline in employer confidence in the future of their health benefit programs.

Part-Time Benefits Vary From One Employer to the Next

Forty-four percent of employers offer the same health care coverage options to part-time and full-time employees, while 29% offer more limited options to part-timers. More than a quarter of companies (28%) don't offer health care benefits to part-time employees.

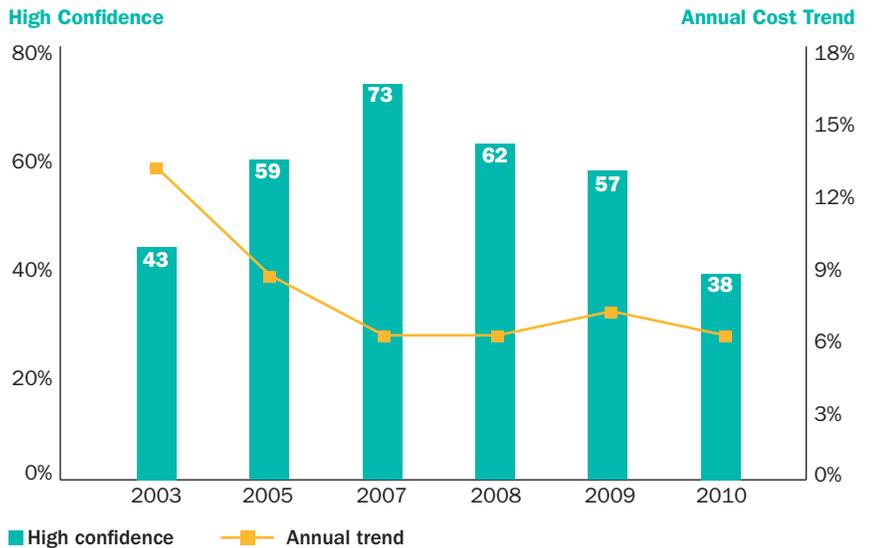
For nearly two-thirds of companies (63%), employees must work a minimum of 20 hours per week to be eligible for health care benefits, and 10% of employers require between 20 and 30 hours per week for coverage eligibility. At the high end, 13% of employers require 30 hours or more hours per week for eligibility versus the low end, wherein 14% of employers require fewer than 20 hours per week.

For nearly a decade, Towers Watson has been tracking employers' confidence that health care benefits for active employees will be offered in 10 years' time. Historically, employer confidence levels have trended in the opposite direction of health care cost increases. In other words, confidence is typically high when health care trends are low and vice versa. But despite health care cost increases that have hovered between 6% and 7% over the last half decade, employer confidence (38%) is at its lowest point since we began tracking these data (Figure 18). In fact, confidence is below levels reported in 2003 when health care cost trends were upwards of 13%. Yet confidence is higher over a shorter horizon: 71% are very confident about offering active health care benefits in the next five years.

Top Employer Challenges

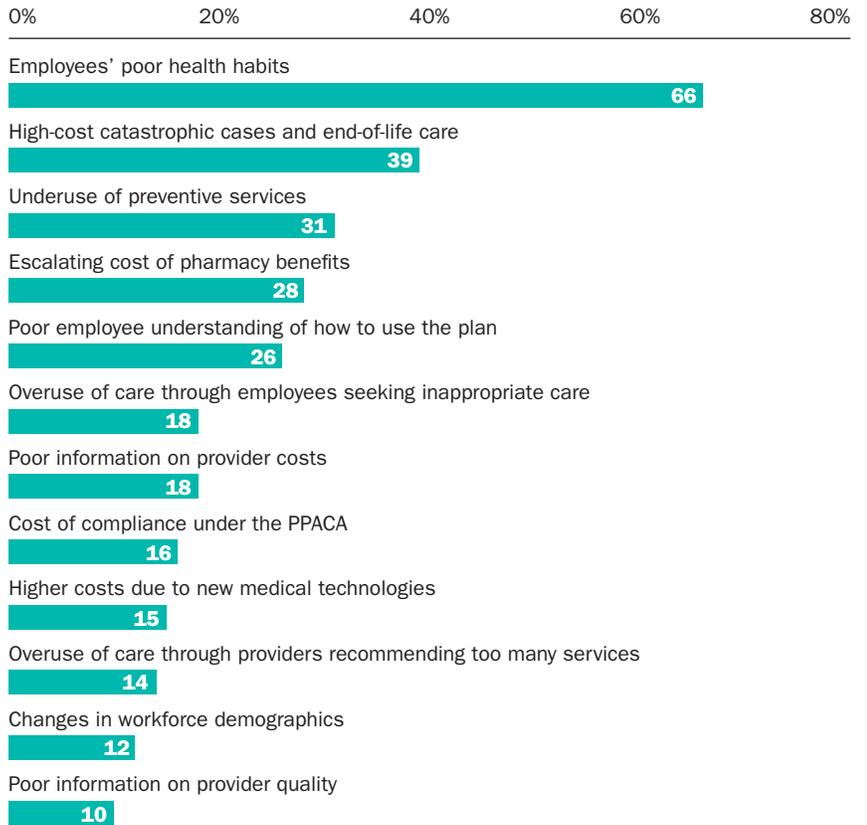
Similar to findings in previous years, employee health habits are the top challenge employers face in managing their health care costs (Figure 19). High-cost catastrophic and end-of-life care are also a major challenge, followed by the underuse of preventive services.

Figure 18. Steep decline in employer's confidence that health care benefits will be offered at their organization a decade from now



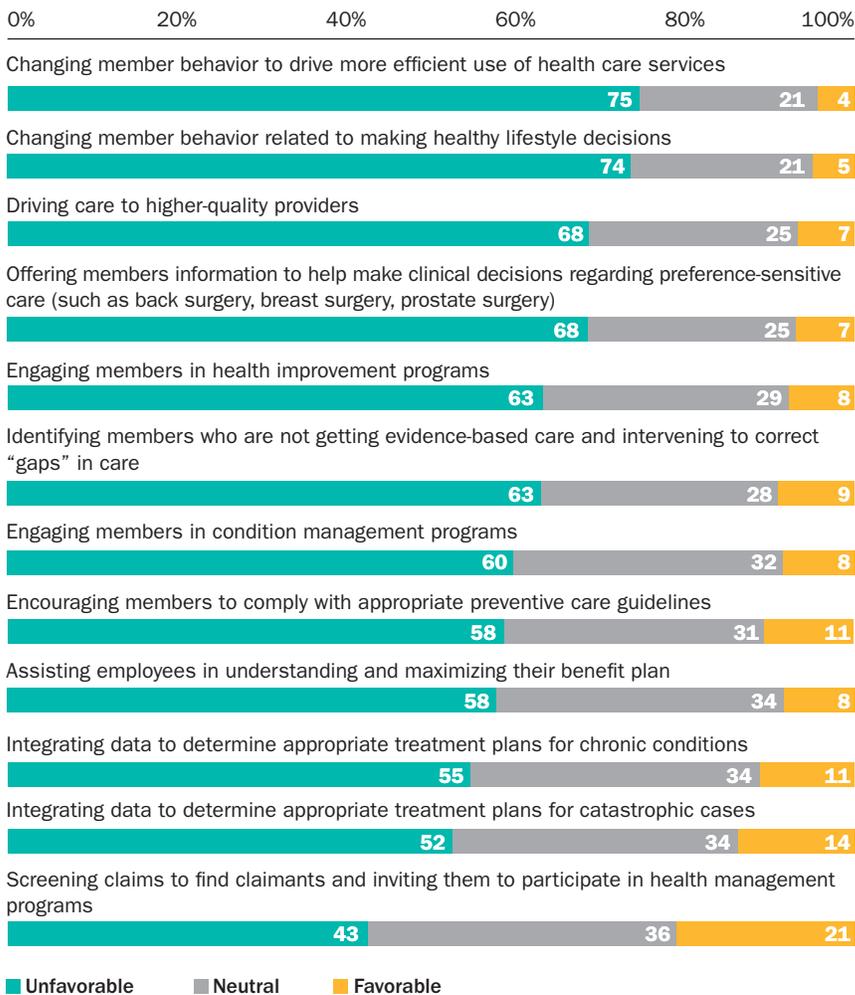
Note: High confidence represents responses of "very confident."

Figure 19. Top challenges employers face to maintain affordable benefit coverage



Note: Companies were asked to identify their top three challenges.

Figure 20. Rating the effectiveness of health plan vendors

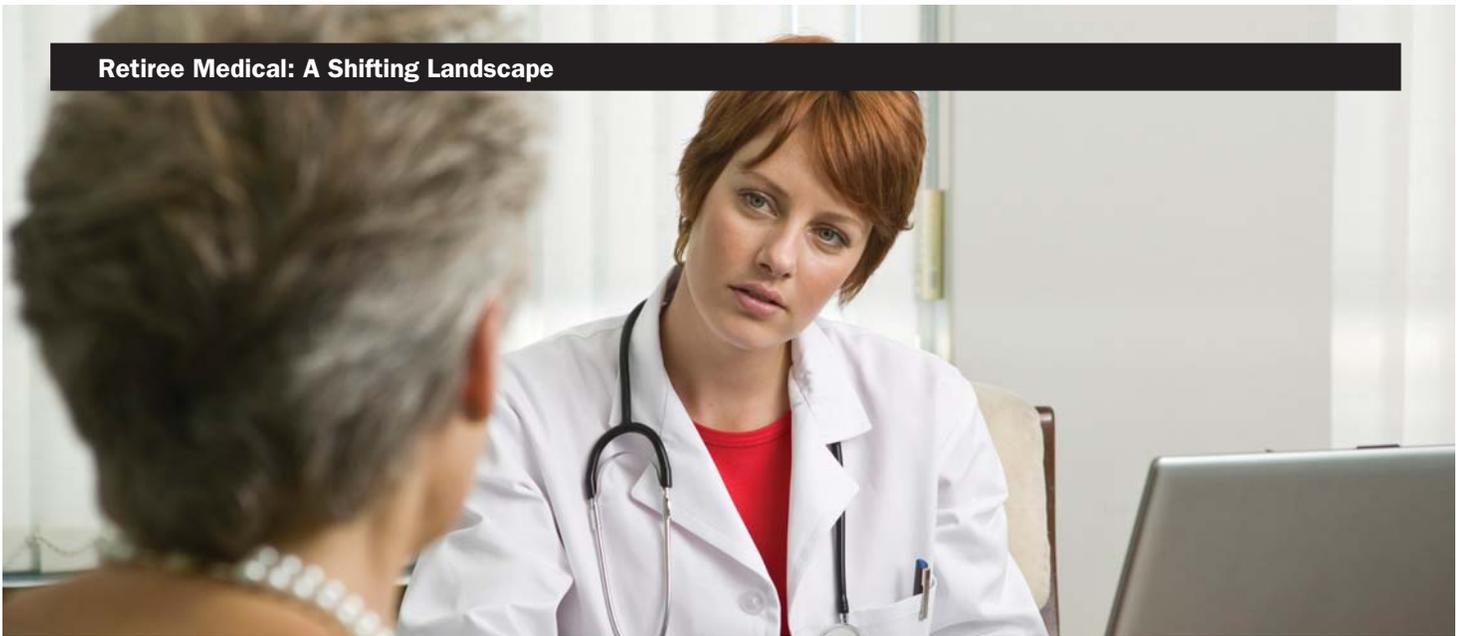


Note: Unfavorable includes "not at all" and "to a slight extent" effective; neutral includes "to a moderate extent" effective; favorable includes "to a great extent" or "to a very great extent" effective.

Medical vendor performance is another sticking point for many employers (Figure 20). And compared to last year's findings, employer discontent appears to be growing. Three-quarters of employers gave their medical vendors poor marks for their inability to promote healthier lifestyles and encourage more efficient use of health care services. Last year, two-thirds of employers rated their vendors unfavorably in these areas.

It is likely that employers' low marks for health plan vendors tie back to their sense of frustration with the overall lack of employee engagement in health care. By the same token, employers that forge a strong connection with their health plan(s) and other vendors, and actively support programs aimed at engaging employees and promoting patient safety and quality improvements, can be very effective at managing their health care costs and building a healthy workforce.

Looking ahead, no matter how health care reform plays out, improvements in workforce health will continue be the centerpiece of employers' health benefit strategy to boost productivity, retention and financial performance.

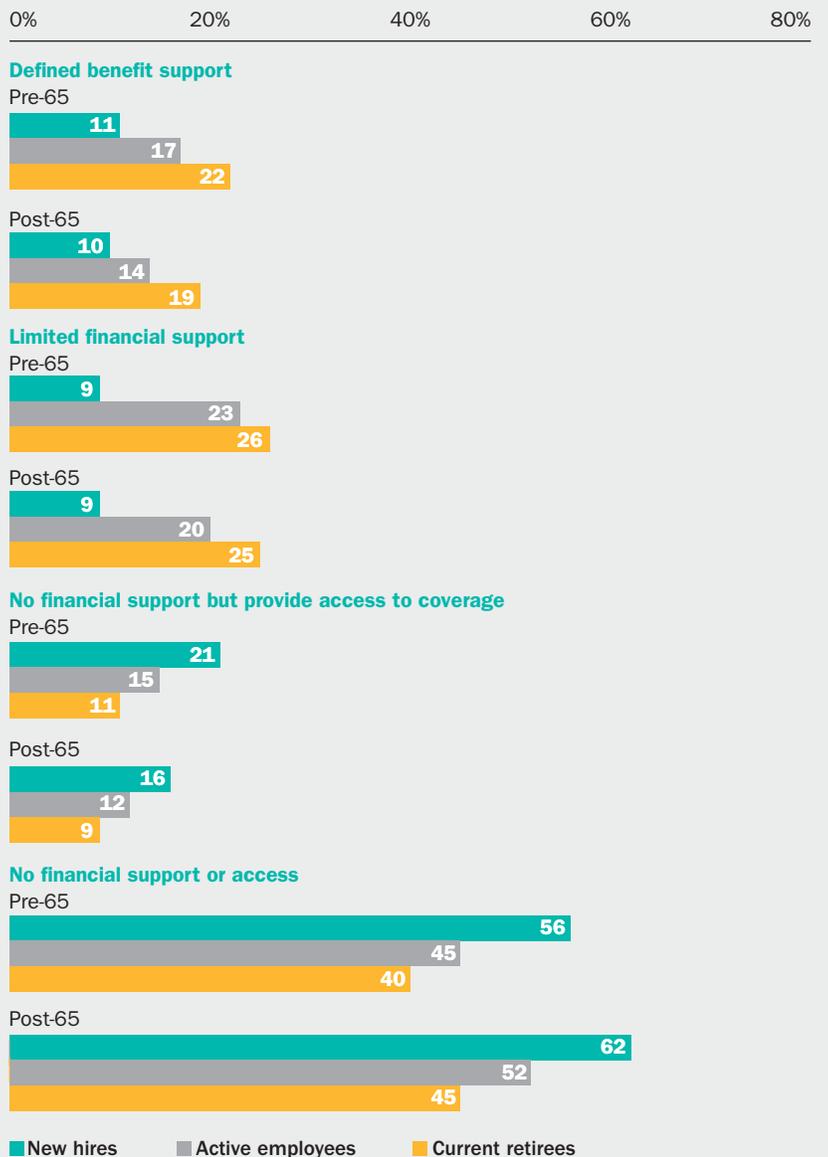


The health care reform law has the potential to completely change the landscape of employer-sponsored health benefits, most notably retiree medical programs. If the legislation works as intended, the health insurance market will become more attractive for pre-65 retirees, allowing companies to exit sponsorship of these programs. What's more, elimination of the Medicare Part D prescription drug benefit donut hole and the potential emergence of new solutions may make it easier for employers to transition from providing direct financial support of a retiree medical plan to simply providing access to coverage — still a significant value to retirees.

As shown in *Figure 21*, less than half (48%) of companies in our database offer subsidized retiree medical coverage to current retirees under age 65 (versus 50% in 2010), and 44% provide at least some coverage to Medicare-eligible retirees (versus 47% in 2010). New hires are much less likely to receive financial support: 20% receive some pre-65 coverage, and 19% have post-65 coverage.

In lieu of direct financial support, some organizations have taken steps to leverage the external marketplace by providing retirees with access to insurance products that improve plan choice and increase levels of government funding. Today, 20% of employers offer services that expand access to pre-65 insurance products to new hires, and 16% do so for post-65 coverage. Roughly 10% of companies offer these services to current retirees in 2011.

Figure 21. Retiree medical support for various subgroups of the workforce

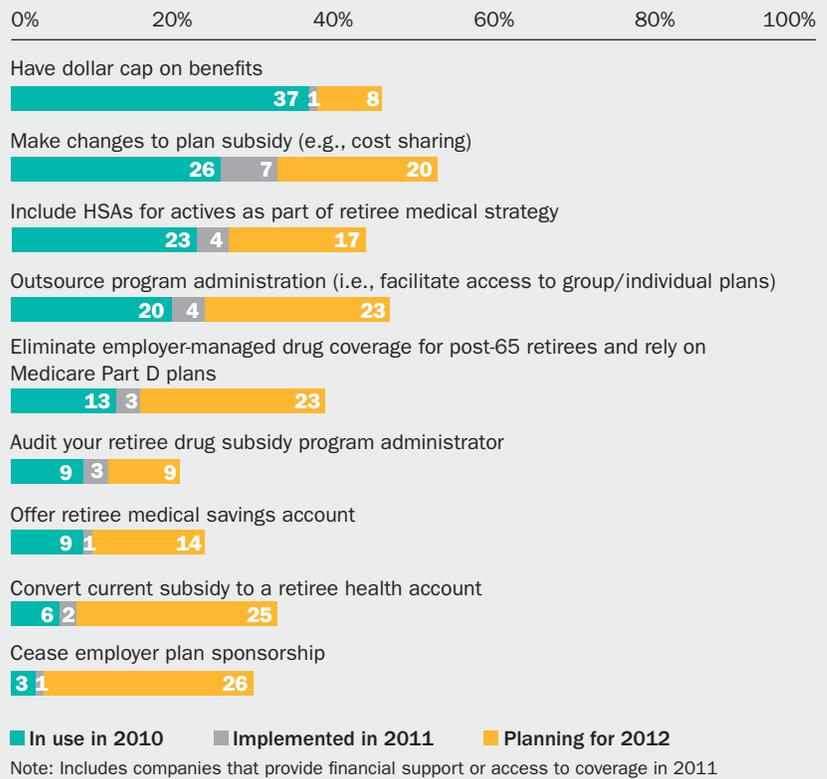


Retiree Medical: A Shifting Landscape (cont.)

Economic conditions, changes in the Medicare marketplace and health care reform provide strong incentives for employers to change their current approach to retiree medical. More than one-quarter of companies plan to discontinue retiree medical sponsorship in 2012 for at least one segment of current and/or future retirees (Figure 22).

Health savings accounts are becoming a popular retiree medical solution. Twenty-five percent of companies plan to convert their current subsidy to a retiree health account next year. Health savings accounts (HSAs) also represent a unique, tax-effective way for active employees to save for retirement medical costs and for pre-65 retirees to pay medical expenses tax effectively. However, only 27% of survey respondents that sponsor retiree medical programs currently offer employees an HSA. This approach may be implemented by another 17% of companies in 2012.

Figure 22. Declining retiree medical plan sponsorship and retiree health accounts are on the horizon



Managing Health Care for Results

Figure 23. Changes to medical and pharmacy plans in 2011

	No Change or Decrease	Small Increase	Medium Increase	Large Increase
Employee's share of premium contributions	36%	38%	21%	4%
Dependent's share of premium contributions	39%	34%	23%	5%
Deductibles in all/most plan options	67%	18%	11%	3%
Employee medical copays or coinsurance	70%	22%	7%	1%
Pharmacy copays, deductibles or coinsurance	75%	19%	6%	1%
Employee's share of costs for brand versus generic drugs	80%	12%	6%	1%
Employee out-of-pocket limits	69%	18%	12%	2%

The economic slowdown and the likely increase in costs due to health care reform have led many employers to use various incentives to promote greater individual responsibility. In previous years, we reported that employers took significant steps to manage costs by increasing point-of-care cost sharing through higher medical and pharmacy plan deductibles, copays and coinsurance rates. But over the last year, employers put more emphasis on increasing premium contributions (Figure 23). Nearly two-thirds of companies have increased the share employees and their dependents pay in premium contributions (versus in 2010). However, most indicate only small increases in employee contributions, consistent with the earlier finding of a one-percentage-point increase in average premium share over the last year.

Some companies are also taking a closer look at their pharmacy programs in part by changing plan designs. But with many drugs set to lose patent protection over the next few years, companies are also looking more critically at the share of costs paid for brand-name drugs versus their generic counterparts, with some companies opting to exclude popular brand-name drugs from their formulary altogether.

As employers design their 2012 health care strategies, they plan to redefine the financial commitment made between employees and dependents (Figure 24). Along these lines, employer actions planned for next year include increasing contributions in tiers with dependent coverage, raising contributions per each covered dependent, and/or using spousal waivers or surcharges. Companies will also take more significant steps in 2012 to boost enrollment in a high-deductible health plan, such as an ABHP (see “ABHPs: Gaining Momentum?” page 16).

In the coming year, employers will also take steps to improve provider quality and incent the use of evidence-based care. Twenty-eight percent of employers plan to differentiate cost sharing for high-performance networks or centers of excellence in 2012, and 21% plan to adopt value-based designs over the next year. Employers are also doling out incentives (or penalties) to providers to encourage coordination of care, the use of emerging technologies and/or evidence-based treatments.

Companies increasingly recognize that a healthy workforce can be a competitive advantage. At the same time, despite significant investments in wellness and other health management programs, engaging employees in their health is proving to be a very difficult challenge. As a result, a growing number of employers are rethinking their current strategies and imposing tougher, more specific requirements for incentives. For example, this last year marked a twofold increase in incentive designs that pinpoint specific outcomes for weight control or cholesterol levels (Figure 25). Another 33% of employers plan to adopt an outcome-based program in 2012 — a staggering increase given only 6% of employers had such a program in 2010.

Figure 24. Cost-sharing strategies and value-based designs

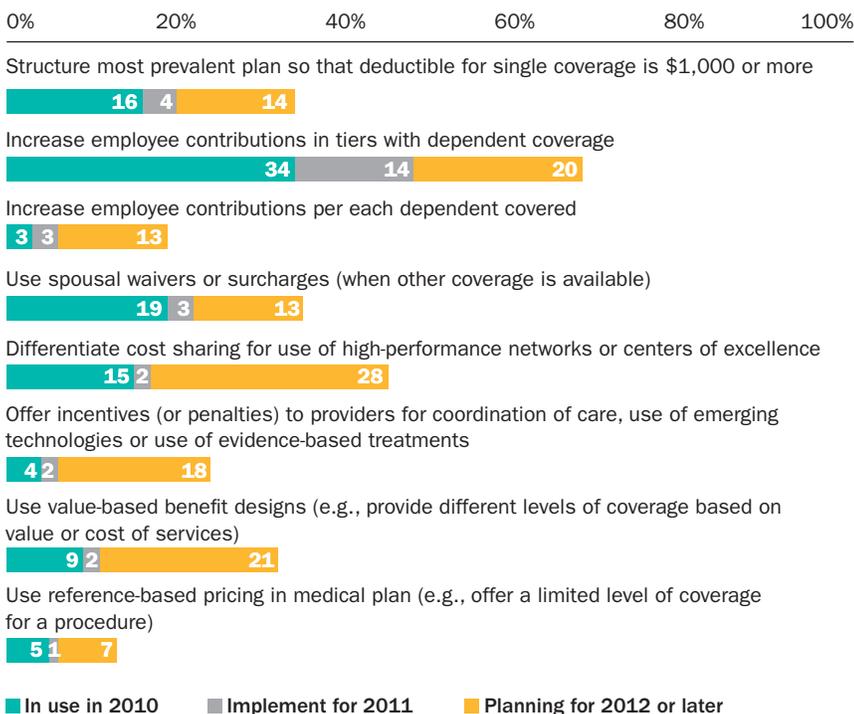


Figure 25. Companies continue to raise the bar on wellness incentives

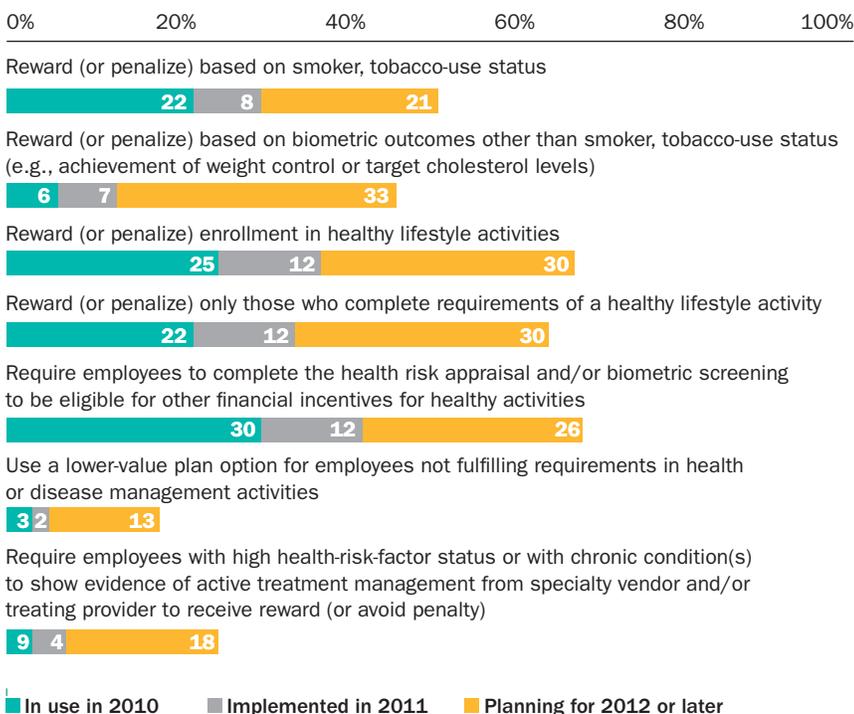


Figure 26. Types of financial incentives by healthy lifestyle activities

	% Offering Program	Offer Program but Don't Use Incentives	Rewards				Penalties	
			Premium Discount	Coverage Differentials	Account Contributions, Cash or Equivalent	Other Rewards	Premium Surcharge	Other Penalties
Health risk appraisal	79%	24%	30%	3%	31%	11%	4%	1%
Biometric screenings (separate from the health risk appraisal)	62%	48%	19%	2%	21%	11%	3%	0%
Weight management program	73%	62%	6%	1%	20%	12%	0%	0%
Smoking cessation program	78%	56%	13%	3%	15%	15%	0%	1%
Lifestyle coaching	58%	60%	9%	2%	20%	10%	1%	1%
Disease management programs for those with chronic condition	87%	74%	5%	3%	11%	6%	2%	1%
Physical activity	78%	66%	6%	1%	16%	13%	0%	0%
Smoker, tobacco-use status	30%	—	43%	2%	14%	4%	40%	4%
Biometric outcomes	13%	—	39%	0%	48%	14%	2%	0%

Employers Up the Ante on Wellness Incentives

Fifty-eight percent of employers are offering cash, premium credits and/or account contributions to their employees to encourage participation in healthy lifestyle activities in 2011 — up from 52% in 2010. For the typical company that offers incentives, the maximum amount of cash employees can earn is \$300 — a \$50 increase over 2010. Among companies that provide incentives, 46% are offering them to dependents in 2011, versus 39% in 2010. The highest cash total that can be earned by both employees and dependents for companies that offer incentives to dependents increased by \$100 over the last year, to \$600.

While employers are clearly raising the bar for earning wellness program financial rewards, few seem willing to penalize employees via premium surcharges, with exceptions for smokers/tobacco use (Figure 26).

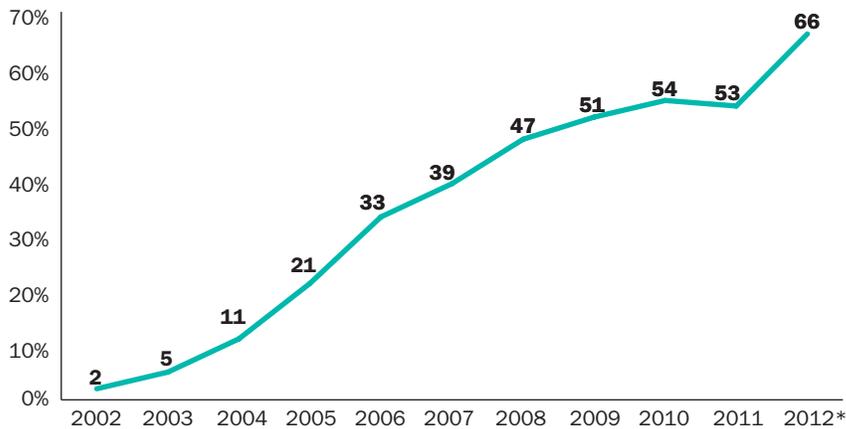
ABHPs: Gaining Momentum?

While organizations have been steadily adopting ABHPs over much of the last decade, in 2011, 53% of companies have this plan in place — roughly the same percentage as last year (Figure 27). However, 27% of respondents that do not have an ABHP in place (13% of all respondents) plan to offer one in 2012.

In general, ABHPs can be a valuable tool in helping employers stave off the impact of the 2018 excise tax. These plans also benefit employees in both the short and long term by helping them pay for current costs while giving them a wealth-accumulation vehicle for retirement. For those companies planning to adopt an ABHP next year, 39% indicate that the PPACA had a “moderate” or “great” impact on their decision, while 26% said it was not an important factor.

ABHP enrollment has been picking up steam over the past five years. But employers are still experiencing challenges in positioning these plans for success. Among companies offering an ABHP today, only 15% of eligible employees are enrolled in the plan — the same percentage as last year (Figure 28). Along similar lines, the percentage of companies with at least 20% enrollment plateaued at 44% this year.

Figure 27. Take-up in ABHPs stabilizes — for now



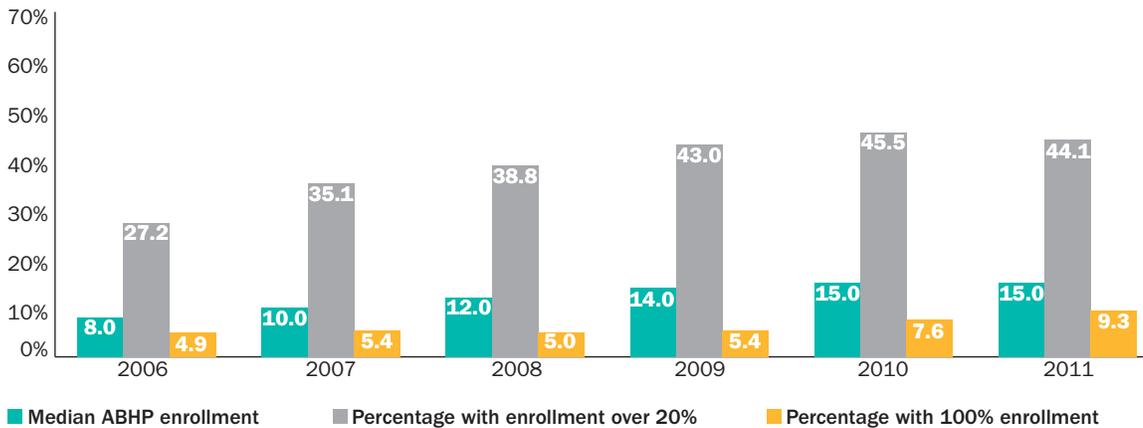
*Planned for 2012

Stepped-Up Demand for Onsite Services

Onsite health services are expected to grow over the coming years for several reasons. Most notably, these services can be an effective way for some organizations to lower injury- and illness-related costs with attendant concerns toward time away from the job and return to work following an absence. And in the wake of health care reform, the availability of onsite health services may help to increase access for employees to primary care as millions of newly insured individuals gain entry to the U.S. health care system.

Today, 23% of companies offer onsite health services to employees, and 16% offer onsite pharmacy services. Looking ahead, another 12% of companies plan to offer onsite health services in 2012, and an additional 5% plan to offer onsite pharmacy. Those employers that offer these services also plan to expand their current offerings. Eleven percent of companies expanded their service offerings over the last two years, and another 11% plan to do so in 2012.

Figure 28. ABHP enrollment rates

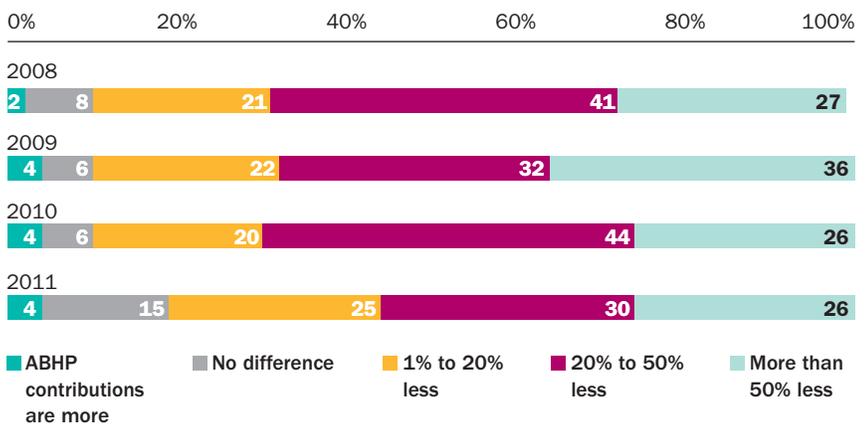


Note: Estimates are based on companies that offer an ABHP in various years. Year 2006 is based on the 12th annual Towers Watson/National Business Group on Health survey; 2007 is based on the 13th annual survey; 2008 is based on the 14th annual survey, and 2009 and 2010 are based on the 15th annual survey.

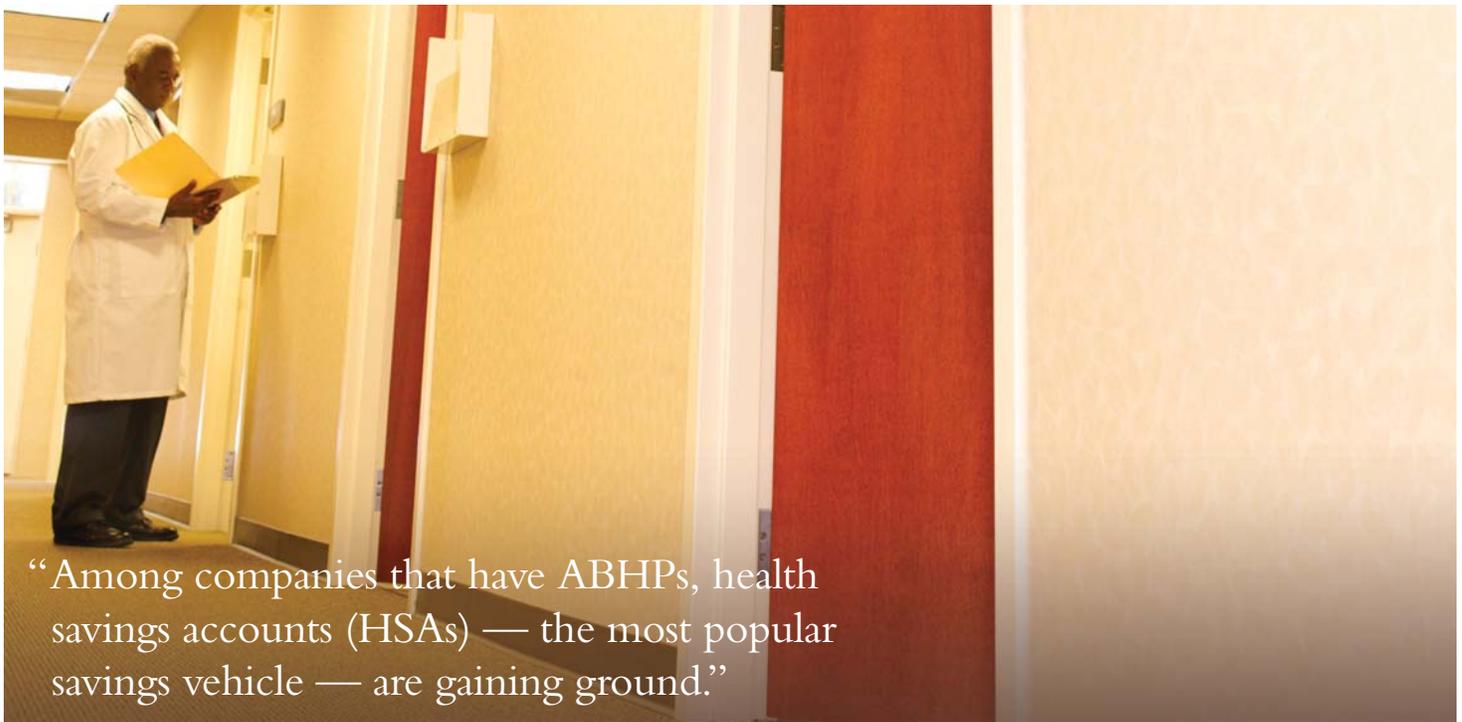
While few employers have been willing to migrate their entire workforce to an ABHP, the percentage of companies with a total replacement ABHP increased by 22% over last year, and by nearly 75% over the last two years (9.3% versus 5.4%).

To encourage enrollment, many companies set employee premium contributions for ABHPs significantly lower than any other plan types. Today, 56% of employers set their employees' ABHP premium contributions at least 20% lower than contributions for their traditional copay plan (Figure 29). This premium advantage for ABHPs was more significant in previous years, which may partially explain why enrollment rates have remained flat. However, more than one-quarter of employers (26%) set employee premium contributions at more than 50% less than other plan types, the same as last year.

Figure 29. Companies offer significantly lower premium costs for employees enrolled in ABHPs

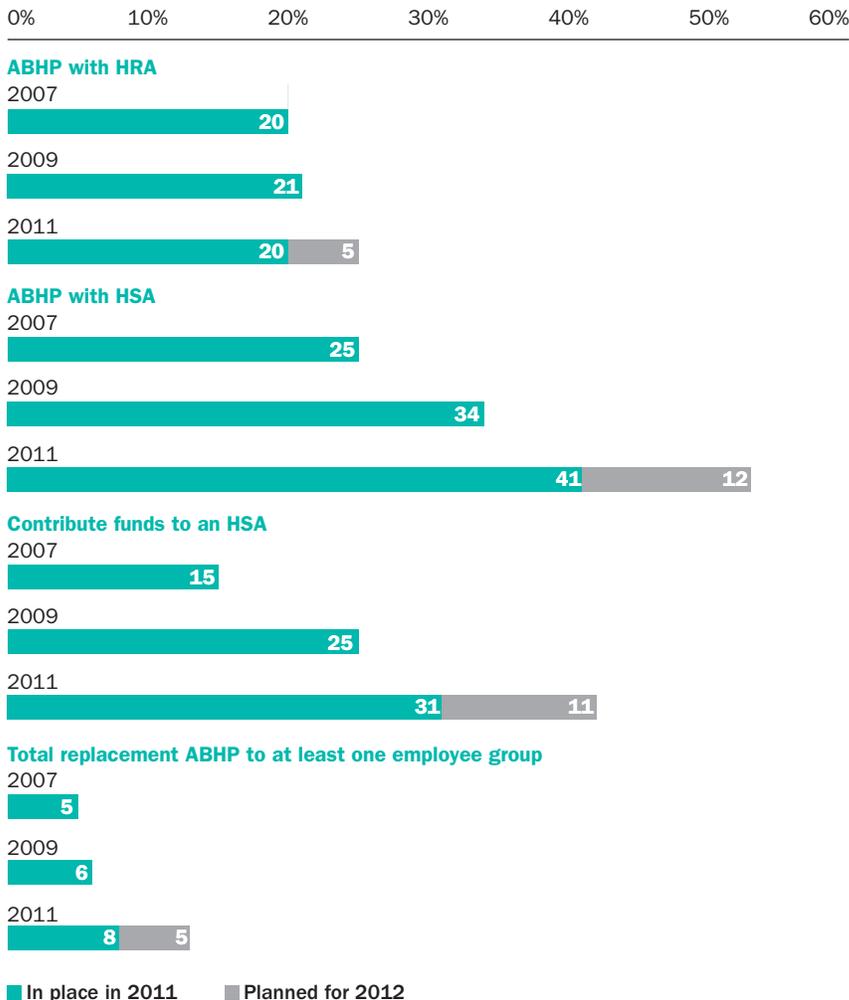


Note: Results are based on companies that offer an ABHP, excluding those with a total replacement plan.



“Among companies that have ABHPs, health savings accounts (HSAs) — the most popular savings vehicle — are gaining ground.”

Figure 30. ABHPs with health savings accounts are the most popular account-based plans



Note: Percentages based on all companies — with or without an ABHP

Company Account Contributions Vary

The typical contribution for employers with an ABHP is \$500 for employee-only coverage and \$1,000 for family coverage. However, 12% of employers with this type of plan contribute at least \$1,000 for employee-only coverage, and 11% contribute at least \$2,000 for family coverage. Roughly 16% of companies with an ABHP do not contribute funds to HSAs.

Among companies that have ABHPs, health savings accounts (HSAs) — the most popular savings vehicle — are gaining ground. Forty-one percent of companies offer an HSA today, with another 12% expected to add one in 2012 (Figure 30). Thirty-one percent of all companies contribute funds to their HSA, and an additional 11% plan to do so next year. On the other hand, the percentage of companies offering health reimbursement accounts (HRAs) remains unchanged over the last five years.

Today, 8% of employers offer a total replacement ABHP to at least a portion of their workforce. That rate could reach almost 13% by 2012 if companies follow through with their current health plan strategy. In addition, 15% of companies offer ABHPs as their default plan, and another 11% plan to do so in 2012.

The relationship between lower cost trends and higher ABHP enrollment has become less evident as the ABHP market has matured. This is particularly the case over the last year, with the take-up in ABHPs and enrollment rates being flat. Instead, higher levels of ABHP enrollment are linked to lower costs per employee. In particular, companies with at least 50% of employees enrolled in the ABHP report average annual costs per employee of nearly \$600 less than organizations without an ABHP (Figure 31).

However, our research shows again this year that companies that have been successful at growing ABHP enrollment at a steady pace report lower health care cost trends compared with companies adding new enrollees more slowly. In fact, companies that added 10% or more employees to their ABHP between 2009 and 2010 achieved cost trends of almost 0%, nearly six percentage points lower than companies with less than 10% enrollment growth (Figure 32). Similarly, employers most successful at boosting ABHP enrollment pay more than \$1,000 less in total costs per employee per year than companies with only modest take-up of their ABHP over the last year, and nearly \$1,500 less per employee per year than companies that don't offer an ABHP.

Figure 31. Lower health care costs for companies with higher ABHP enrollment

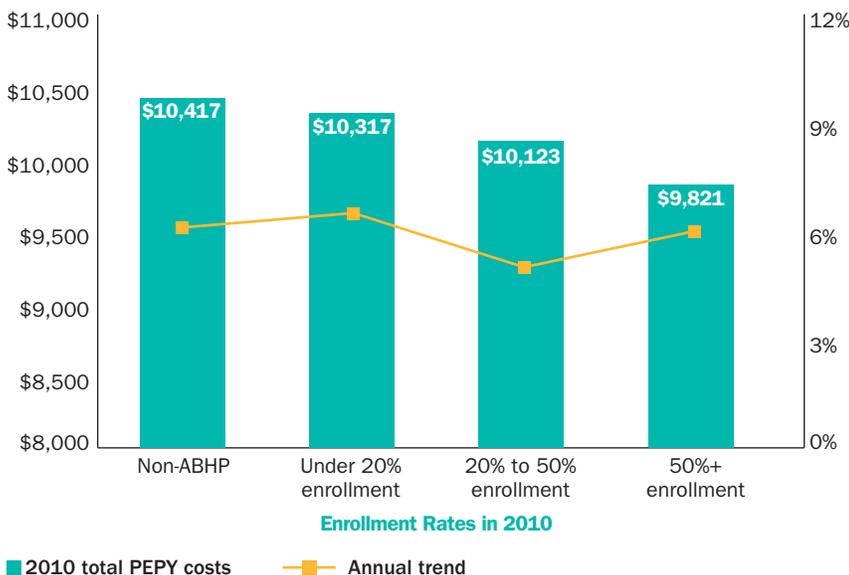
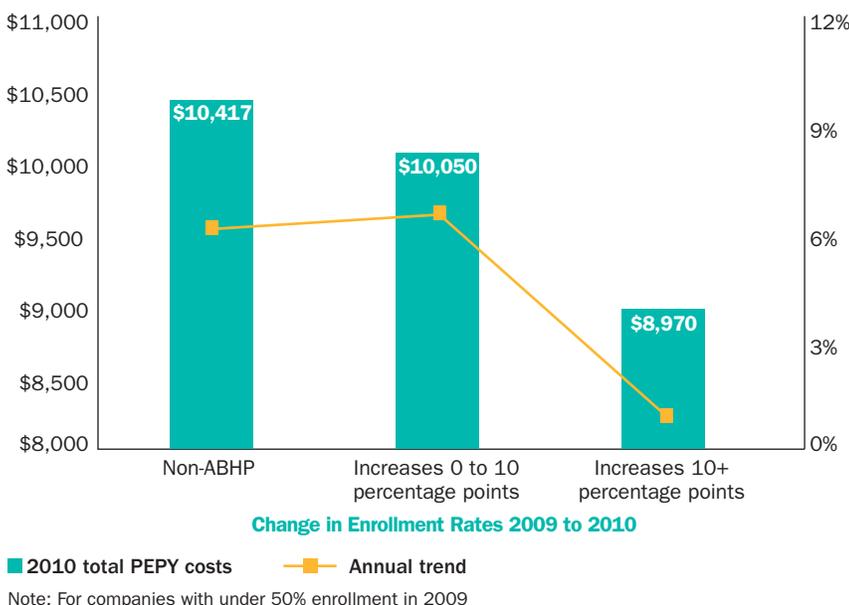


Figure 32. Increases in ABHP enrollment are linked to lower median trends and costs



Road Map for Success — Strategies for Building a Healthy, Productive Workforce

Performance variations tell an important story about successful health benefit programs and the specific factors that contribute to their superior results. With economic challenges persisting and health care reform poised to transform the health care landscape, there has never been a more critical time for employers' health benefit programs to operate efficiently. And the potential for a clear competitive advantage has never been greater.

The findings of this year's analysis clearly show that the most successful companies stand head and shoulders above their competitors by making significant strides in six core areas:

- **H**ealth improvement
- **E**ngagement
- **A**ccountability
- **L**inking provider strategies
- **T**echnology
- **H**ealthy environment

To achieve the right outcomes, these companies recognize the inextricable link between their health benefit program and workforce health and productivity. How do these companies connect the dots? Simply stated, they evaluate the performance of each of these six components using data and metrics to gauge their impact on two key indicators: cost reduction and improvements in workforce health and productivity. As shown in Figure 33, consistent performers have universally made greater strides in each of the core tactic areas, especially by increasing employee accountability, promoting higher-quality care and investing in a comprehensive approach to engage employees in living healthier lifestyles.

Figure 33. Key drivers of performance

	Summary of Program Use		Difference in Program Use*
	Consistent Performers	Low Performers	Consistent to Low
Accountability	21%	12%	72%
Linking provider strategies	30%	19%	56%
Engagement	32%	22%	45%
Measurement	43%	33%	29%
Healthy environment	34%	27%	25%
Technology	35%	29%	20%
Health improvement	58%	50%	18%

*Difference in program use represents the percentage difference between consistent performers' use of the tactics in each of the seven areas and that of low performers. For example, consistent performers are using 72% more of the activities addressing employee accountability.

“Consistent performers have universally made greater strides, especially by increasing employee accountability.”



Health Improvement

Consistent performers focus on health improvement to provide employees with the tools and resources they need to lead healthy, productive lives. These companies are more likely than their peers to invest in enhancements to case management for serious conditions (Figure 34). These companies also recognize the need to identify potential future issues by capturing lifestyle risk factors across their population through health risk appraisals and biometric monitoring. In addition, consistent performers are ahead of the game when it comes to offering health improvement initiatives, such as smoking cessation and health coaching. While some lifestyle behavior change and disease management programs do not distinguish top-performing companies, these programs build a strong foundation for achieving better performance, and the most successful companies distinguish themselves by more effectively engaging employees in living healthier lifestyles.

Figure 34. Use of health improvement programs

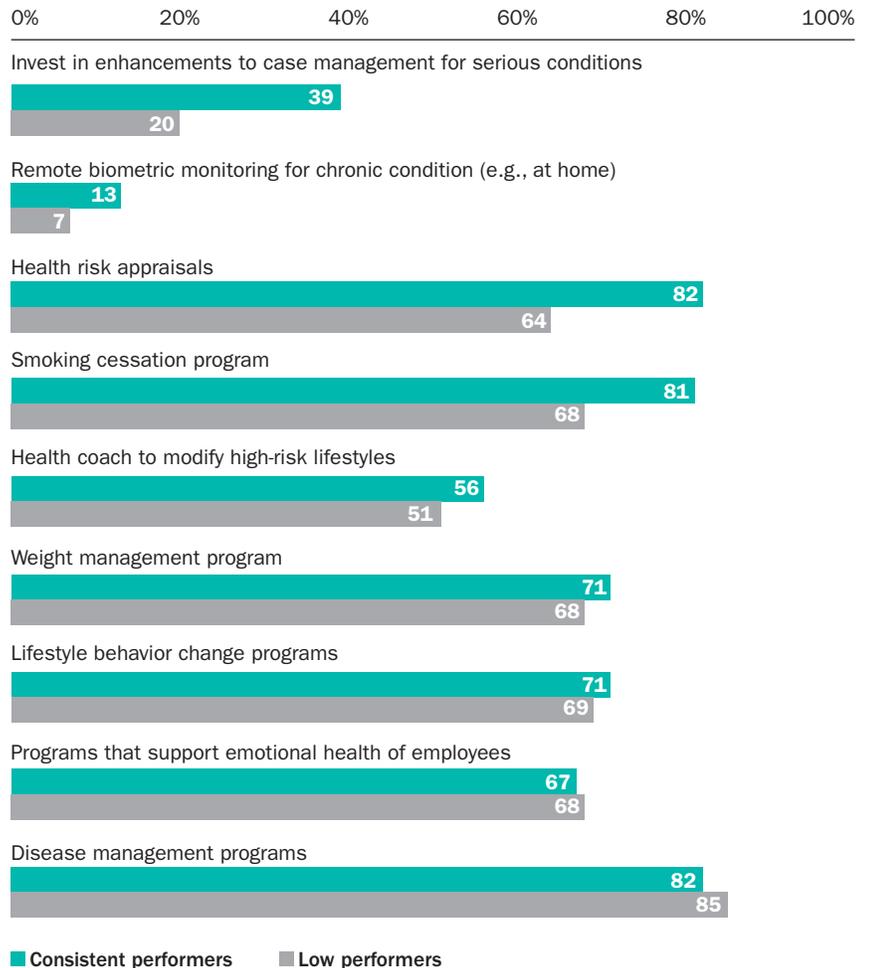
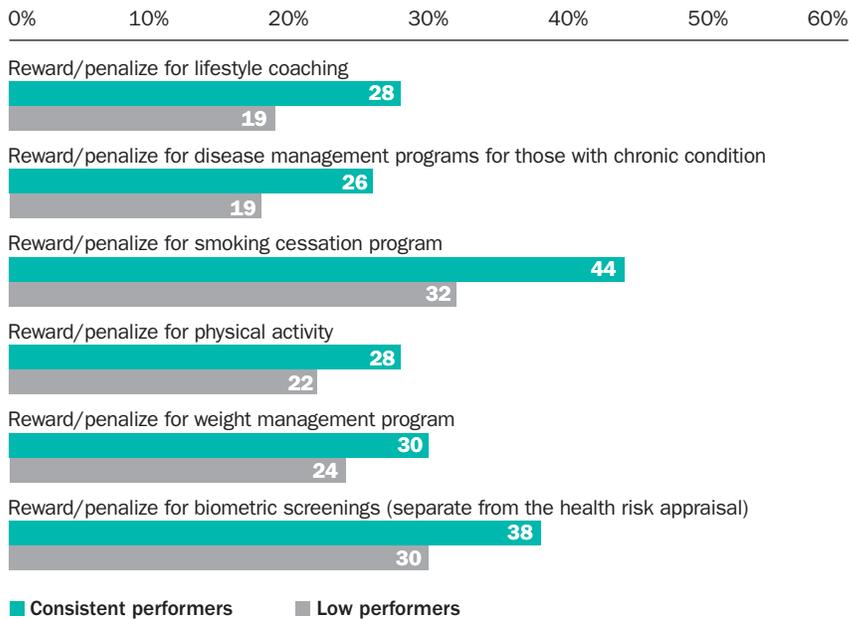


Figure 35. Engaging employees in healthy lifestyle activities



Engagement

While many organizations offer programs to support behavior change and encourage healthier lifestyles, consistent performers use a multifaceted approach. As shown in *Figure 35*, providing monetary rewards for participating in various lifestyle initiatives — such as lifestyle coaching, smoking cessation and completing a health risk appraisal — is a fundamental component of their strategy.

Consistent performers also provide employees with the information they need to make clinical decisions regarding preference-sensitive care (such as back surgery, breast surgery and prostate surgery) and target programs to people with health risks (*Figure 36*). What’s more, the most successful companies apply principles of behavioral economics to engage employees in wellness programs. These employers also impose stricter requirements for monetary rewards. For example, employees must complete all the requirements of a healthy lifestyle activity to receive a financial reward. Consistent performers are also twice as likely to use specific health-related standards for smoker status, weight control and cholesterol levels than their peers.

Figure 36. Engaging employees through achievement standards and information

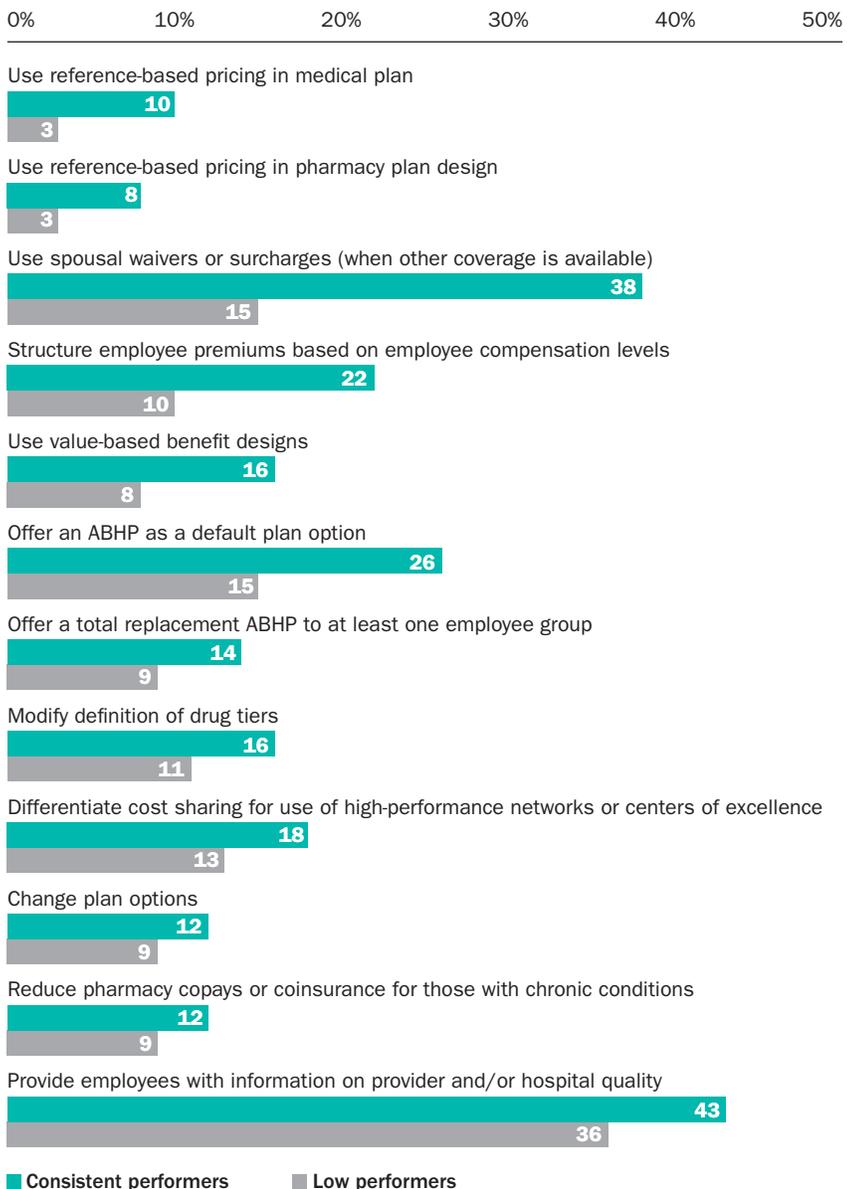


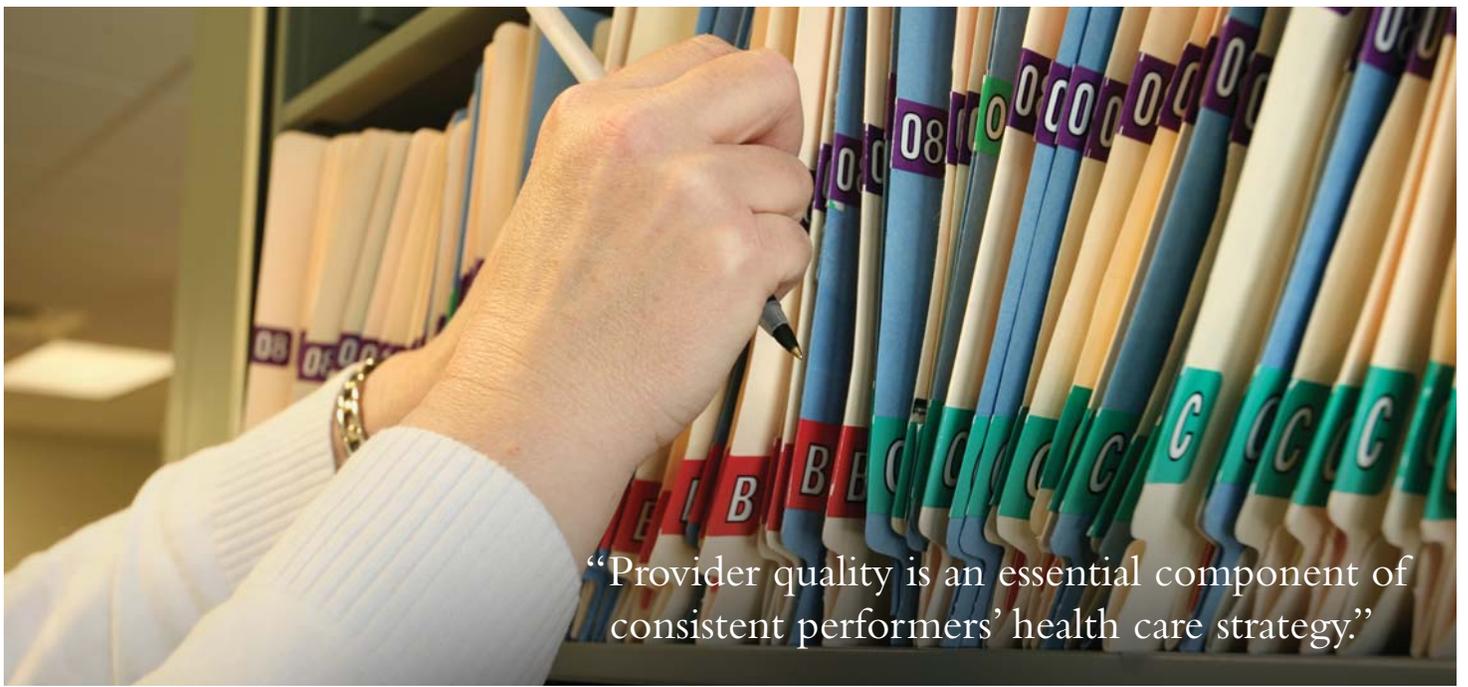


Accountability

Consistent performers are making bold strides to increase employee accountability for their health and care by promoting the use of evidence-based care (Figure 37). For example, these employers use value-based benefit designs and reference-based pricing in their medical and pharmacy plans. Consistent performers also take a harder-lined position in their ABHP strategy by using these plans as their default option and offering a total replacement ABHP to at least one employee group. Moreover, consistent performers target certain groups with higher contributions (e.g., by structuring premiums based on employee compensation levels) and use spousal surcharges when other coverage is available.

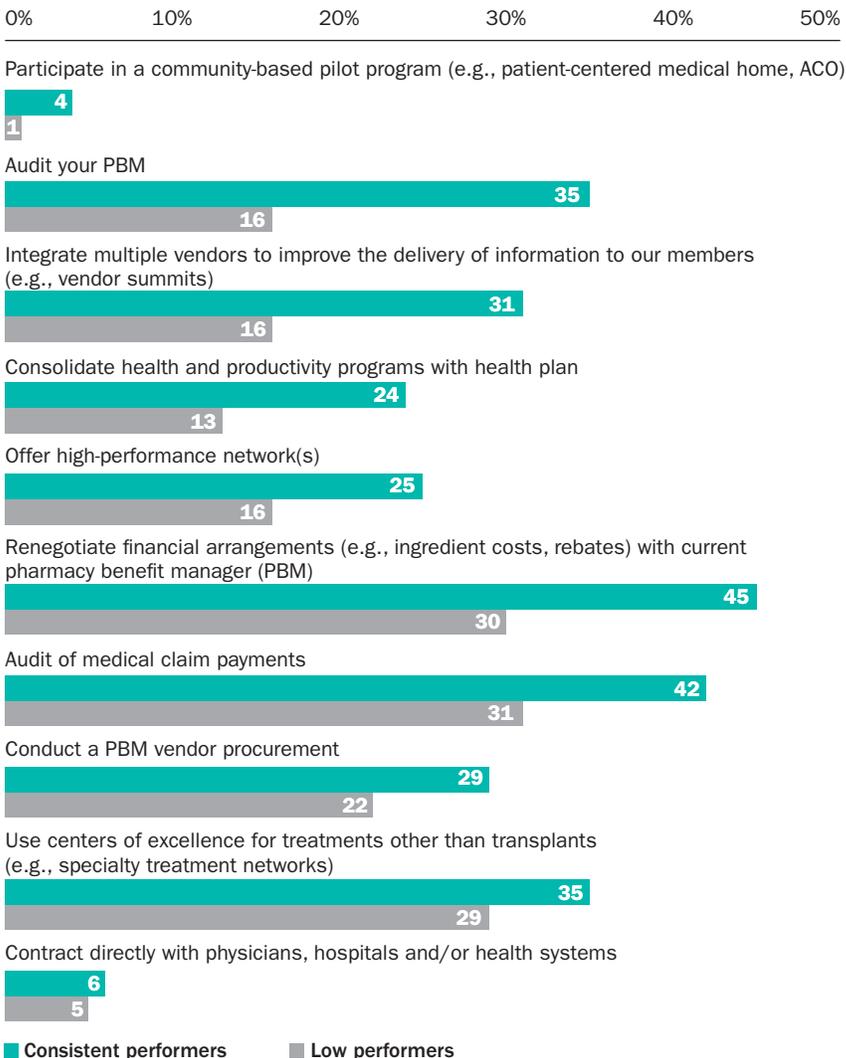
Figure 37. Tactics to promote accountability





“Provider quality is an essential component of consistent performers’ health care strategy.”

Figure 38. Tactics to improve quality of care delivered by providers



Linking Provider Strategies

As noted in previous years, provider quality is an essential component of consistent performers’ health care strategy. For example, these employers use targeted contracting with providers — with an emphasis on outcomes and cost — to ensure employees receive high-quality care at a fair price (Figure 38). Consistent performers also integrate health and productivity programs, and rely on vendor summits and best practices to improve service delivery. Lastly, consistent performers use high-performance networks and centers of excellence to achieve the best outcomes.

Technology

Applying the most effective technologies to automate data, target those at risk, personalize the health experience and establish social communities are effective steps consistent performers take to gain operational efficiencies and lower the cost of health care. The right technology can help providers and members identify gaps in care (Figure 39). Consistent performers are more likely to provide employees with personal health records and a company-sponsored website to promote year-round education on important health topics and other information. While social media has become a way of life in mainstream America, it has yet to take off with benefit and HR managers as a way to connect with employees about health care. But as the social media environment evolves and more credible and trusted sites emerge, it is likely more employers will embrace this vehicle to provide their workforce with expanded education and support.

Healthy Environment

Consistent performers are most likely to embrace a culture of health by creating a work environment that encourages healthier lifestyles (Figure 40). These employers also use environmental audits to ensure health messages align with workplace health and safety initiatives. Consistent performers also brand their wellness program in all communication related to healthy lifestyle activities and use local wellness champions to carry the message forward.

These companies also recognize the importance of senior management support and involvement. As a matter of routine, these respondents provide senior leaders with up-to-date health and productivity program utilization reports.

Figure 39. Applying the most effective technologies

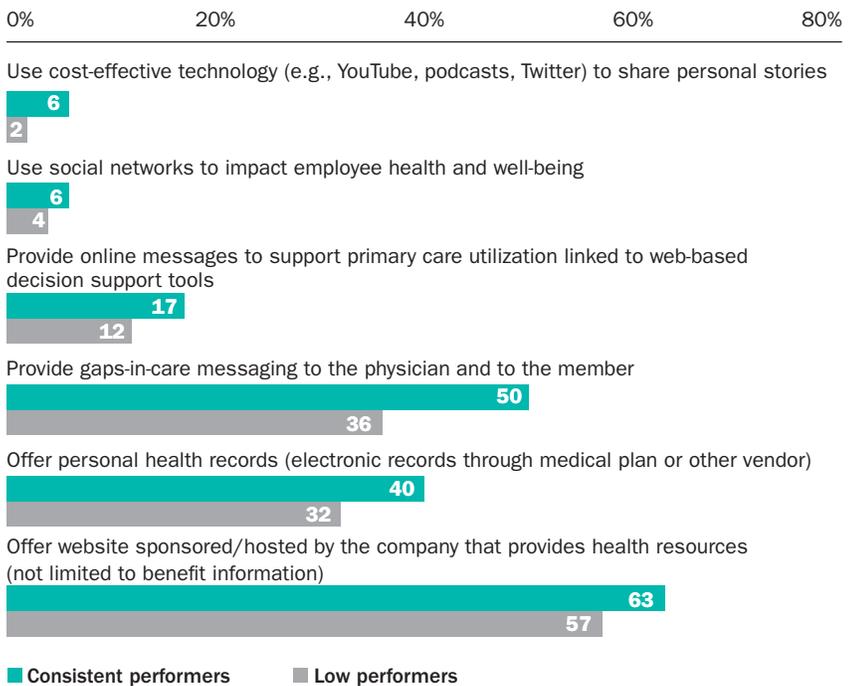


Figure 40. Tactics to encourage a healthy environment

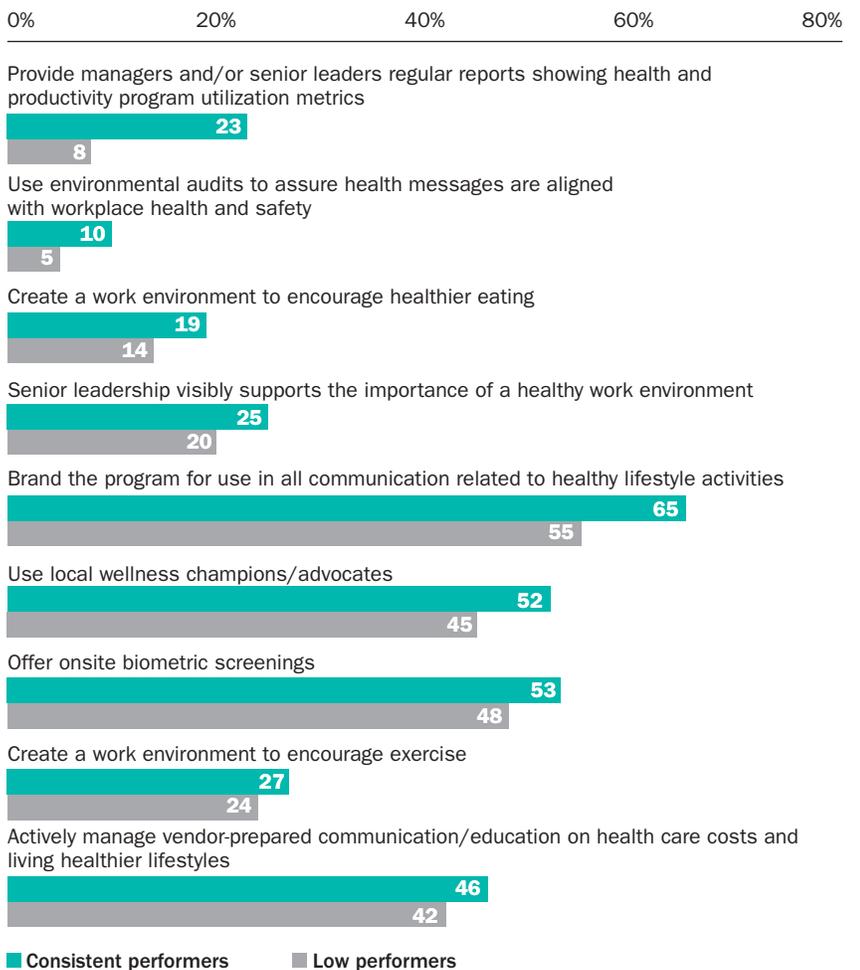
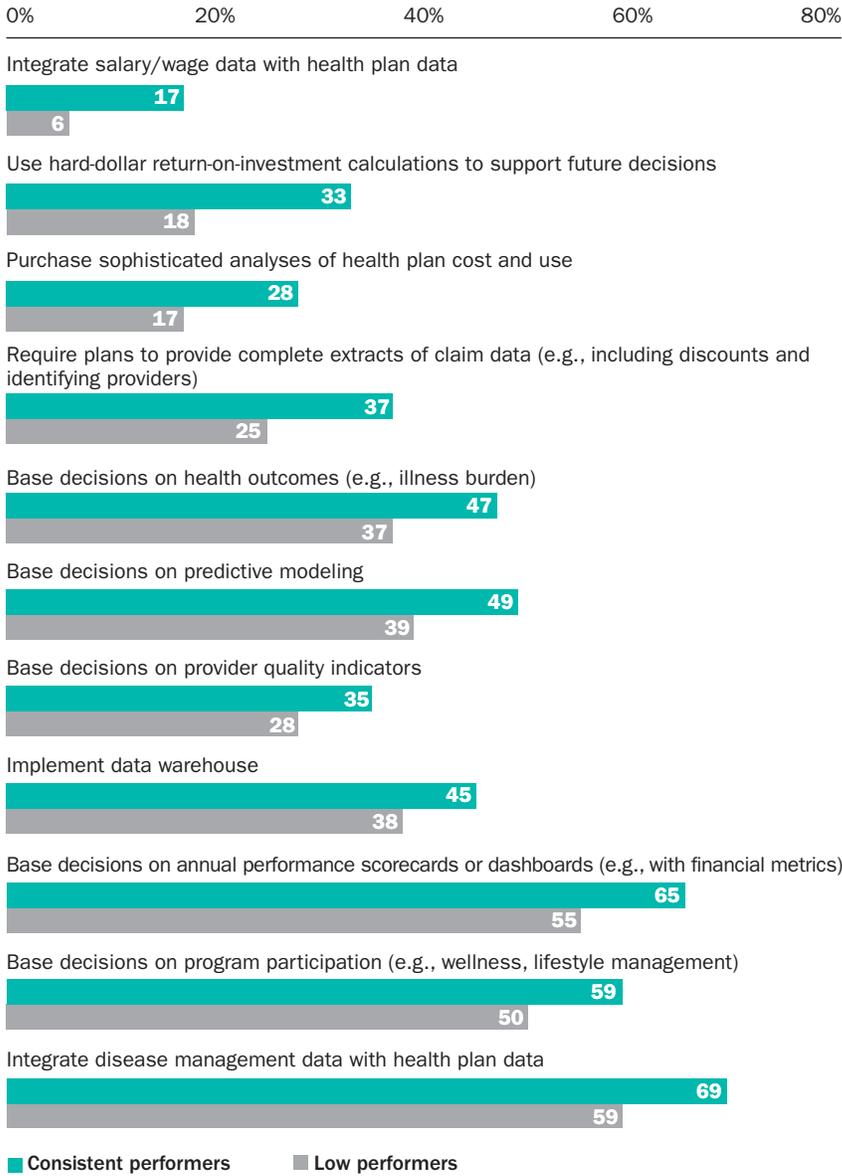


Figure 41. Strategies for monitoring results



Measurement and Improvement

The most successful companies use a data-driven approach to achieve the best outcomes, rely on a variety of metrics to evaluate programs, and target areas for improvement and future investment. These respondents also integrate their health plan data with absence, disease management, salary/wages and program participation metrics (Figure 41). In addition, these low cost trend companies analyze claim data, along with health plan costs, and are most likely to use a data warehouse to support their data analytics. While many companies use health measures as performance yardsticks, consistent performers make decisions based on a host of metrics, including their hard-dollar return-on-investment calculations, health outcomes and predictive modeling.



Conclusion

Health care reform is impacting employers in countless ways. Beyond the immediate cost, compliance and insurance challenges, this landmark legislation provides organizations with an unprecedented opportunity to rethink their role in offering employer-provided health care and the broad-reaching impact — well beyond the health benefits arena — of potential decisions. To stay in front of these complex issues, employers will need to respond quickly and thoughtfully. These insights, culled from our research and our work with clients, are an initial set of actions employers can take right now to manage costs and mitigate risks.

Stave Off the Excise Tax

While the excise tax may be a number of years away, Towers Watson's research has shown that 60% of companies will reach the status of a "rich" plan by 2018 (i.e., plans that cost a total of more than \$10,200 for single coverage and more than \$27,500 for family coverage in 2018). Those companies taking more strategic actions now, for example, through program design and other strategies to drive home improvements in workplace health, will likely have a leg up on other organizations managing health care reform mandates and controlling costs.

Keep Abreast of Evolving Regulatory Interpretation, Litigation and Political Fallout

Due to the health care reform law's sheer volume and complexity, interpretive regulations for implementation will be required for years to come. What's more, recent political controversy, litigation and ongoing uncertainty underscore the imperative for health benefit sponsors to understand all of the implications of the health care reform law as they chart their benefit, communication and business strategies over the next several years.

Take Advantage of ABHPs

As our study findings confirm, sponsorship of ABHPs is expected to surge in 2012, most likely to address the rising costs of health care and to respond to provisions under the 2018 excise tax that will limit future program costs. ABHPs can also be beneficial to employees in both the short and long term, helping them pay for current costs while giving them a wealth-accumulation vehicle for retirement. In fact, developing a consistent health benefit strategy that links active employee benefits to retiree programs is an effective way for employers to achieve savings while delivering value and empowering employees to play an active role in preparing for retirement.

Increase Employee Accountability

Clearly, changes in plan design can play a critical role in encouraging employees to be more responsible for their health care and their costs. For example, leading organizations are using value-based benefit designs and reference-based pricing in both their medical and pharmacy plans. Some of these organizations are also adopting more aggressive ABHP strategies.

Engage Employees With Tools/ Resources to Manage Their Health

Our research results consistently support the notion that consistent performers are more likely than their peers to make investments in improving the health of their workforce. For example, these companies use health risk appraisals and biometric monitoring to capture risk factors across their population. They also invest in enhancements to case management, smoking cessation, health coaching, financial incentives and other initiatives to engage employees in managing their health.

Forge Strong Connections With Health Plan Vendors and Other Providers

Consistent performers set themselves apart by making provider quality a top priority. These companies rely on targeted contracting, with an emphasis on cost and outcomes to ensure employees receive high-quality care at a fair price. These companies also hold vendors accountable for using best practices to improve service delivery, and actively manage their pharmacy benefit manager (PBM) by renegotiating financial arrangements and auditing medical claim payments.

Reevaluate Your Retiree Medical Strategy

Consider anticipated health plan costs after health care reform and the role of retiree medical in your total rewards program. In light of opportunities that will be available in 2014, what is the appropriate role for your organization? How will changes in your organization's retiree medical offering affect other elements of total rewards?

Embrace a Culture of Health

Leading companies are building employee health and well-being into their organization's platform for delivering the business outcomes they strive to achieve. They recognize the strong correlation between employee health and positive financial and operational results — a health dividend that includes lower costs as well as improved performance and overall business success.

Measure the Results

What places successful companies ahead of the pack is their emphasis on data to evaluate programs, address areas that need improvement and target future investments. These companies also integrate their health plan data with absence, disease management, salary/wages and program participation metrics, and make decisions based on a host of measures, such as health outcomes, predictive modeling and hard-dollar investments.

Looking Ahead

The latest litigation, political controversy and regulatory actions underscore the fact that the jury is still out on how the health care reform law will play out. But one implication is clear: Employers need to respond quickly by developing the necessary business planning, analytics modeling and decision support to understand the PPACA's far-reaching implications for their entire organization — from staffing and reward strategies, recruitment and retention, to change management and myriad other issues. By taking advantage of new opportunities presented by health care reform and other initiatives, employers' potential to align their health benefit programs with their total rewards and business strategy — and achieve a competitive advantage — has never been greater.



About the National Business Group on Health

The National Business Group on Health is the nation's only nonprofit membership organization of large employers devoted exclusively to finding innovative and forward-thinking solutions to their most important health care and related benefits issues. The Business Group identifies and shares best practices in health benefits, disability, health and productivity, related paid time off and work/life balance issues. NBGH members provide health coverage for more than 50 million U.S. workers, retirees and their families. For more information about the NBGH, visit www.businessgrouphealth.org.

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