MERCER'S NATIONAL SURVEY OF EMPLOYER-SPONSORED HEALTH PLANS 2015

SHRM BRANSON, MO MEETING

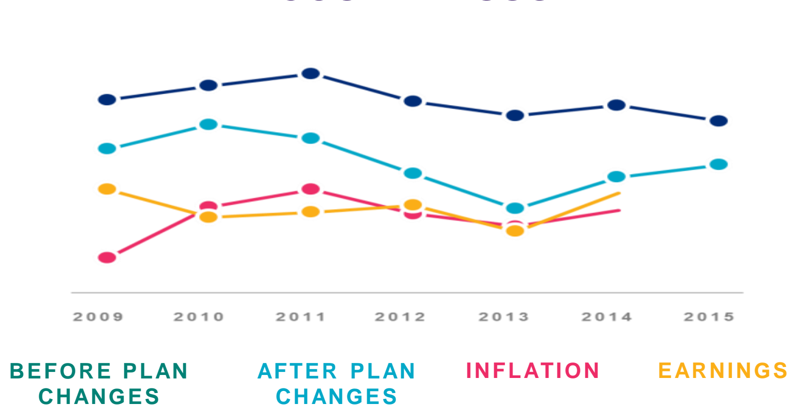
July 13, 2016

Jack Noble
Principal

THE HEALTH CARE MARKET TIPPING POINT

Cost pressure is continuing to accelerate

COST PRESSURE



while care quality is poor…

POOR CARE QUALITY

	Preventive health	Acute care	Chronic care
Patient compliance	50%	70%	60%
Care delivery	99%	70%	80%
Efficiency	50%	49%	48%

…and major mega-trends are further compounding issues.

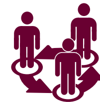
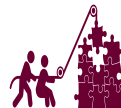
1. Broad regulatory changes
2. Dramatic changes to payor/provider roles
3. Growing consumer accountability
4. Multi-generational workforce driving new behaviors/needs
5. Explosion of technology and data

Mercer's National Survey of Employer-Sponsored Health Plans 2015

TODAY'S CHALLENGES REQUIRE INNOVATIVE, FORWARD-THINKING SOLUTIONS

To deal with pressing issues like these…

…employers need:

To deal with pressing issues like these…		…employers need:
Best in class benefits vs. cost sustainability		**A focus on strategy** Innovative approaches that meet the larger needs of the business
Skyrocketing pharmacy costs		**Flexibility** Customized solutions to respond to dynamic market conditions
Providing benefits expected by employees while avoiding the excise tax		**Seamless implementation** Real-world, workable solutions that reflect the complexity of the environment and the future of health care

SURVEY RESULTS

ABOUT MERCER'S NATIONAL SURVEY OF EMPLOYER-SPONSORED HEALTH PLANS

Oldest
Marking 30 years of measuring health plan trends

Largest
2,486 employers participated in 2015

Most comprehensive
Extensive questionnaire covers a full range of health benefit issues and strategies

Statistically valid
Based on a probability sample of private and public employers for reliable results

Includes employers of all sizes, all industries, all regions
Results project to all US employers with 10 or more employees

Employer size groups in presentation
Small: 10-499 employees/Large: 500+ employees/Jumbo: 20,000+ employees

THE YEAR'S TOP STORIES

1

Cost growth moderate at 3.8% in 2015 with 4.3% projected for 2016

But while large employers held increase to 2.9%, small employers saw cost rise 5.9%

2

One in four covered employees is now in a CDHP

Consumerism tools are helping employees make the best plan choice.

3

25 proven strategies that helped employers achieve lower costs/trends in 2015

Successful practices spanned program design, care delivery, workforce health

4

Consumer empowerment is building, supported by new programs and technology

Telemedicine, cost transparency tools and mobile devices are on the rise

5

New clinical models – ACOs and medical homes – lead the evolution to value-based care

Centers of Excellence and narrow networks are first steps for some employers

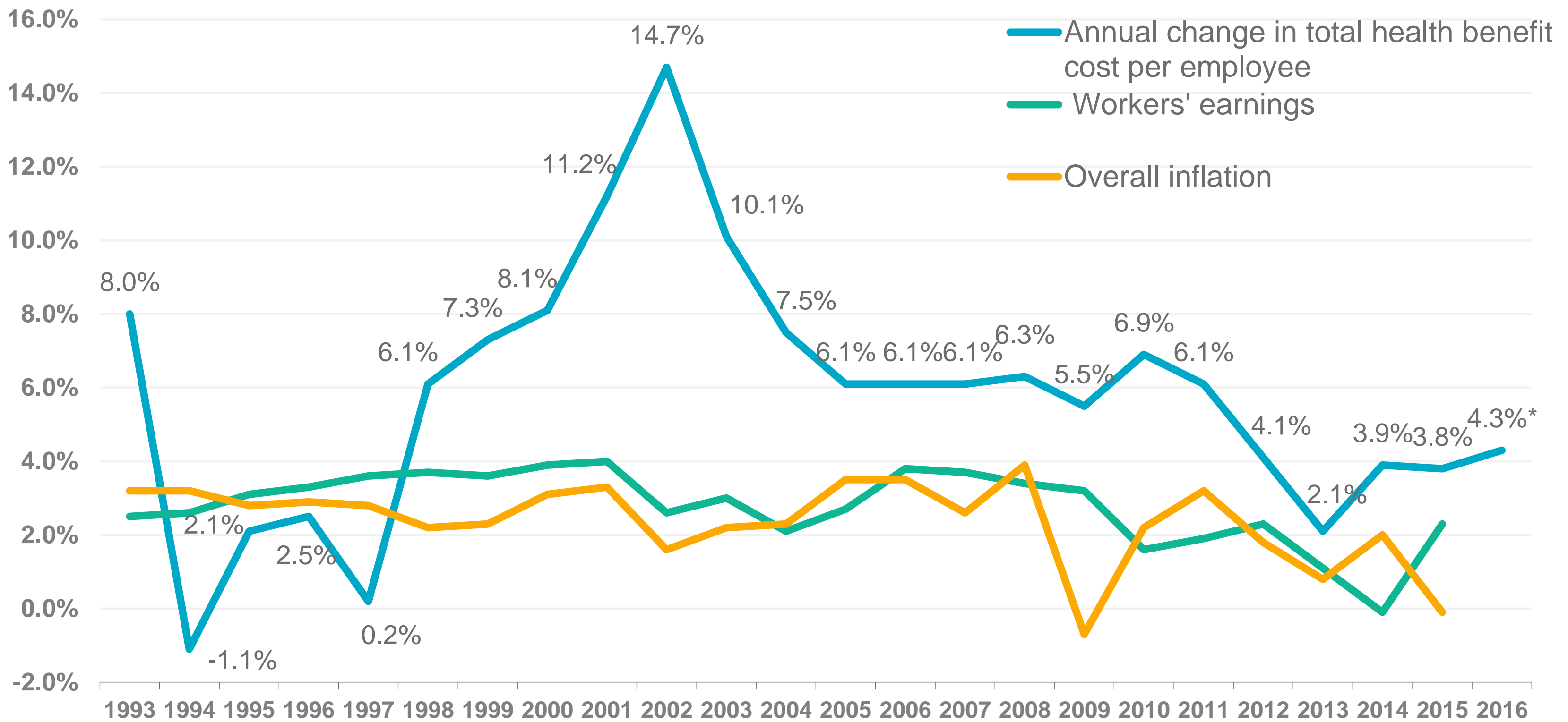
6

Private exchanges will be used by 6% of large employers for 2017 with rapid growth expected to continue through 2020

Employers seek to add choice, ease administration, manage cost and more easily transition to CDHPs

COST ROSE A MODERATE 3.8% IN 2015, WITH A SIMILAR INCREASE OF 4.3% PREDICTED FOR 2016

Change in total health benefit cost per employee compared to CPI, workers' earnings

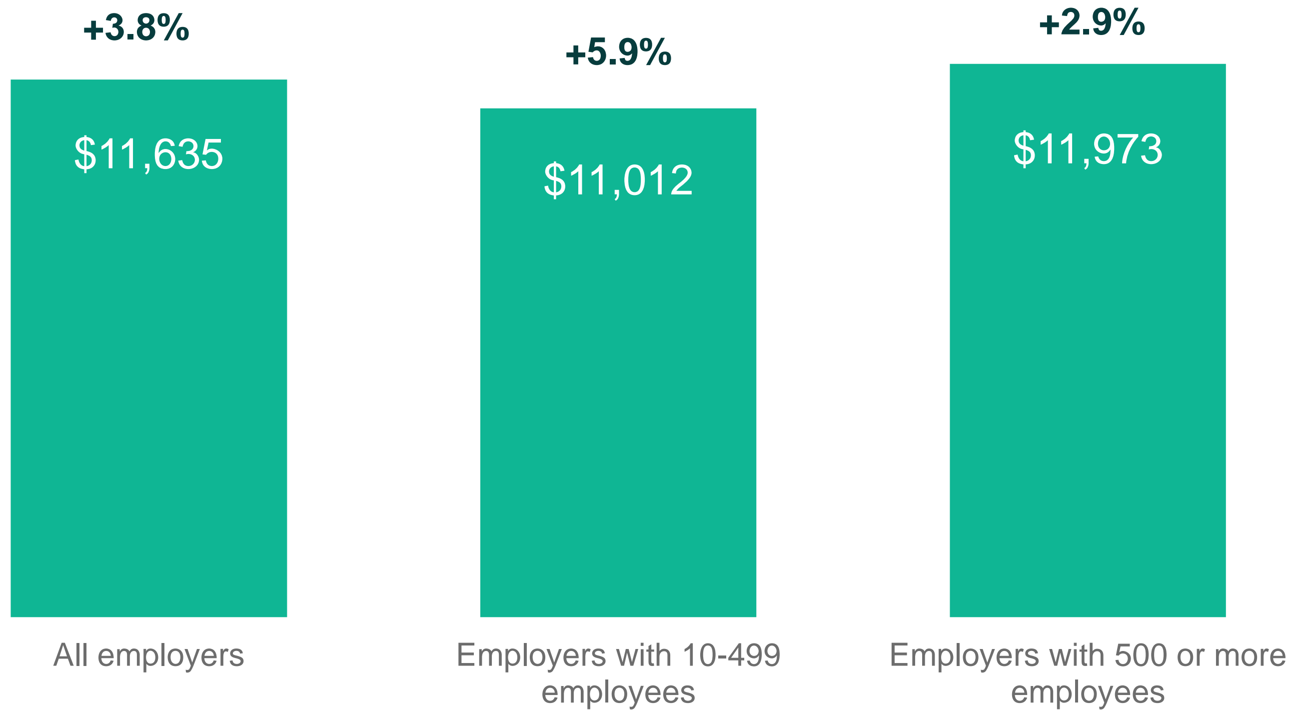


* Projected

Source: Mercer's National Survey of Employer-Sponsored Health Plans; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April) 1993-2015; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey (April to April) 1993-2015.

SHARPER INCREASE BUT LOWER PER-EMPLOYEE COST FOR SMALL EMPLOYERS

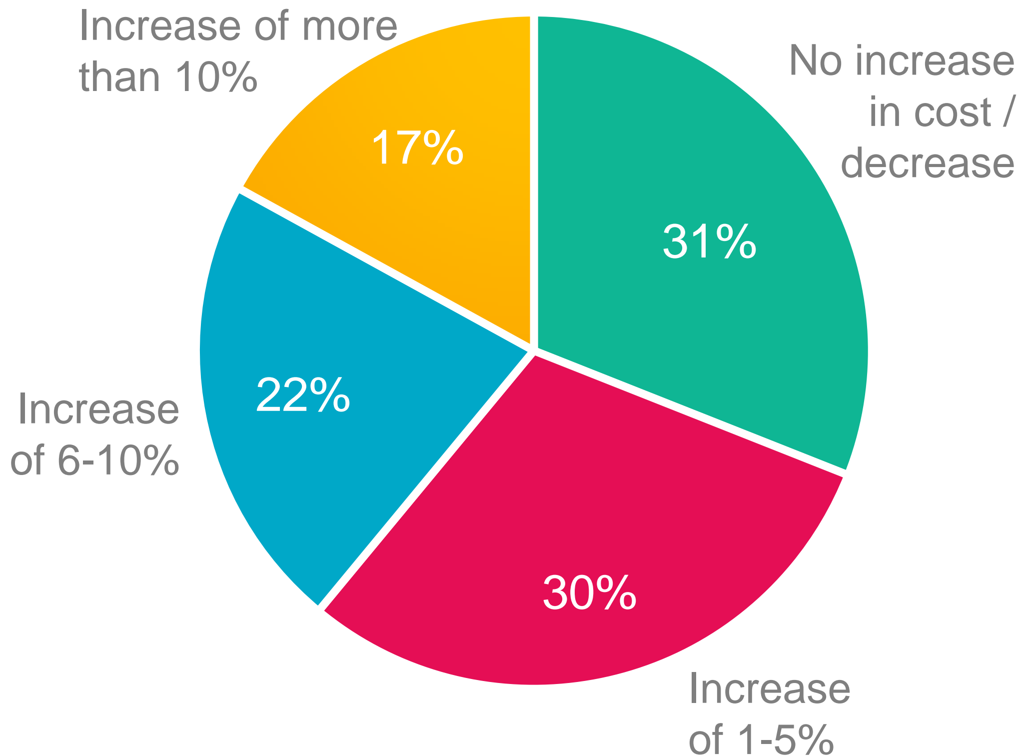
Average total health benefit cost per employee in 2015



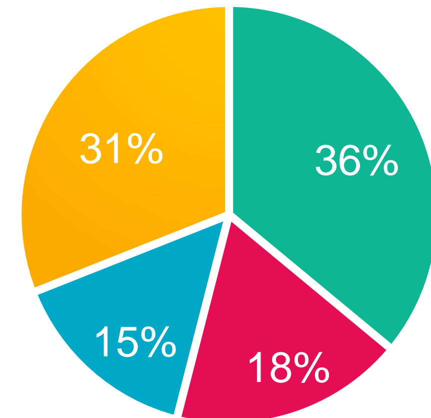
BEHIND THE AVERAGE: COST INCREASES VARIED WIDELY BY EMPLOYER IN 2015

Based on employers providing cost for 2014 and 2015

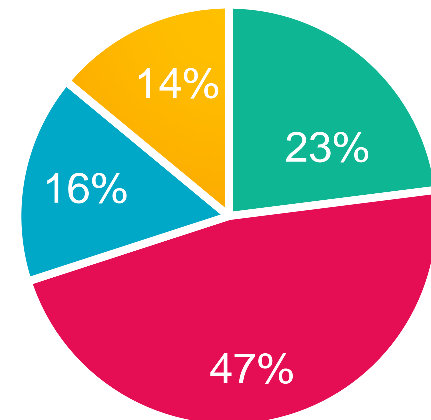
Employers with 500+ employees



Employers with 10-499 employees



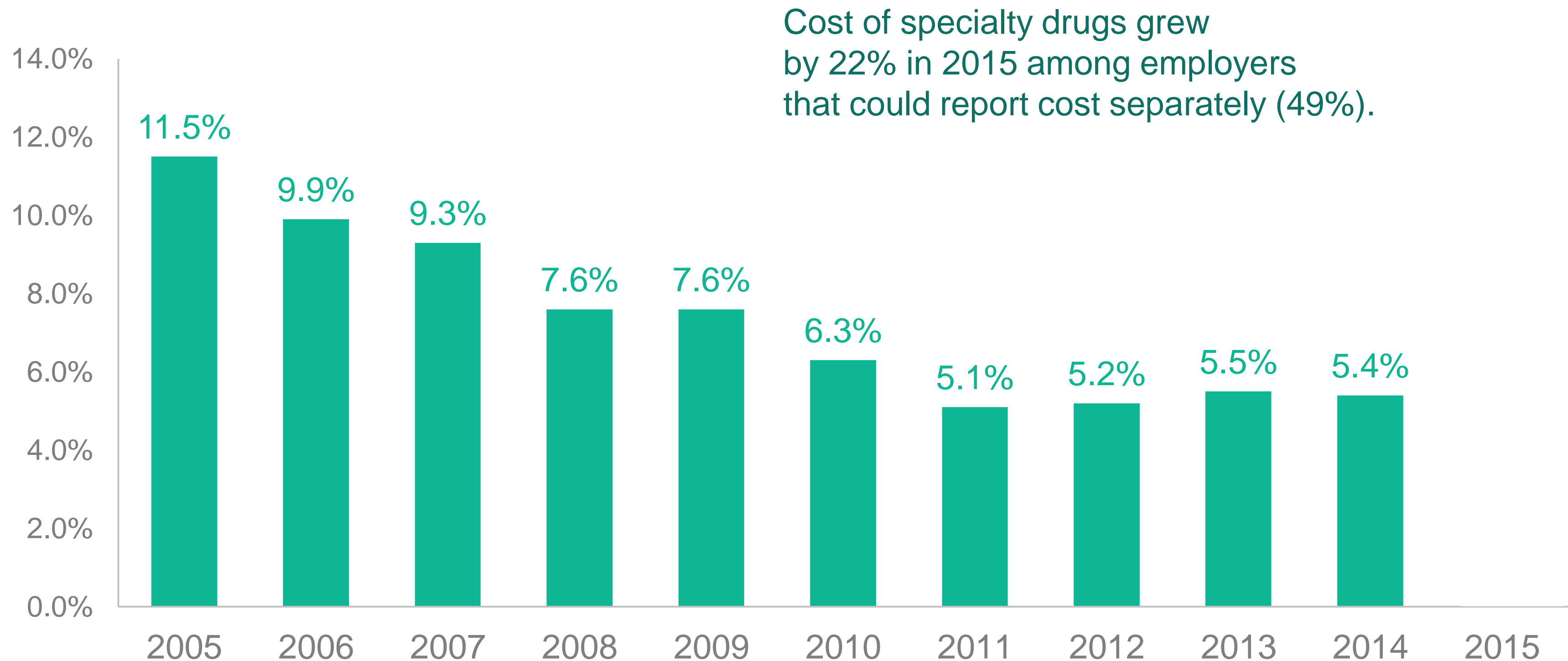
Employers with 20,000+ employees



Mercer's National Survey of Employer-Sponsored Health Plans 2015

ONE KEY COST DRIVER IN 2015: A JUMP IN PRESCRIPTION DRUG BENEFIT COST

Cost change for prescription drug benefits in primary medical plan for large employers



ACA IMPACT: WHEN DUST SETTLED FROM "PLAY OR PAY", ENROLLMENT LEVELS WERE LARGELY UNCHANGED

37%

- Employers who had to take action to comply with ACA requirement to offer coverage

1 in 12

- Of employers taking action, number that had increased enrollment

10%

- Employers who made eligibility requirements tougher
- 5% eliminated PT coverage
- 4% increased

Threshold for offering coverage to "substantially all" employees rose to 95% as of January 2016 – employers need to consider implications

ACA IMPACT: EMPLOYERS TOOK STEPS TO REDUCE EXCISE TAX EXPOSURE (Large employers)

39%
built or added onto a CDHP

19%
shifted costs to employees

11%
dropped a high cost plan

3%
eliminated health FSA

The delay in the excise tax may slow the pace of change, but employers will continue to take action to manage long-term cost growth

COST-SHIFTING HAS ACCELERATED IN THE HEALTH REFORM ERA, CHALLENGING EMPLOYERS TO HELP EMPLOYEES MANAGE GROWING FINANCIAL RISK

Average PPO deductible for individual, in-network coverage

Small employers: up 46% since 2010

Large employers: up 47% since 2010

Mercer's National Survey of Employer-Sponsored Health Plans 2015

WHAT'S WORKING TO HOLD DOWN COST?

Respondents' costs were analyzed based on their use of more than 25 cost-management best practices

Plan design and delivery infrastructure

- Contribution for family coverage in primary plan is 20%+ of premium
- PPO in-network deductible is $500+
- Offer CDHP
- HSA sponsor makes a contribution to employees' accounts
- Voluntary benefits integrated with core
- Mandatory generics or other Rx strategies
- Steer members to specialty pharmacy for specialty drugs
- Reference-based pricing
- Data warehousing
- Collective purchasing of medical or Rx benefits
- Transparency tool provided by specialty vendor and/or used by 10% of members
- Use private health benefits exchange

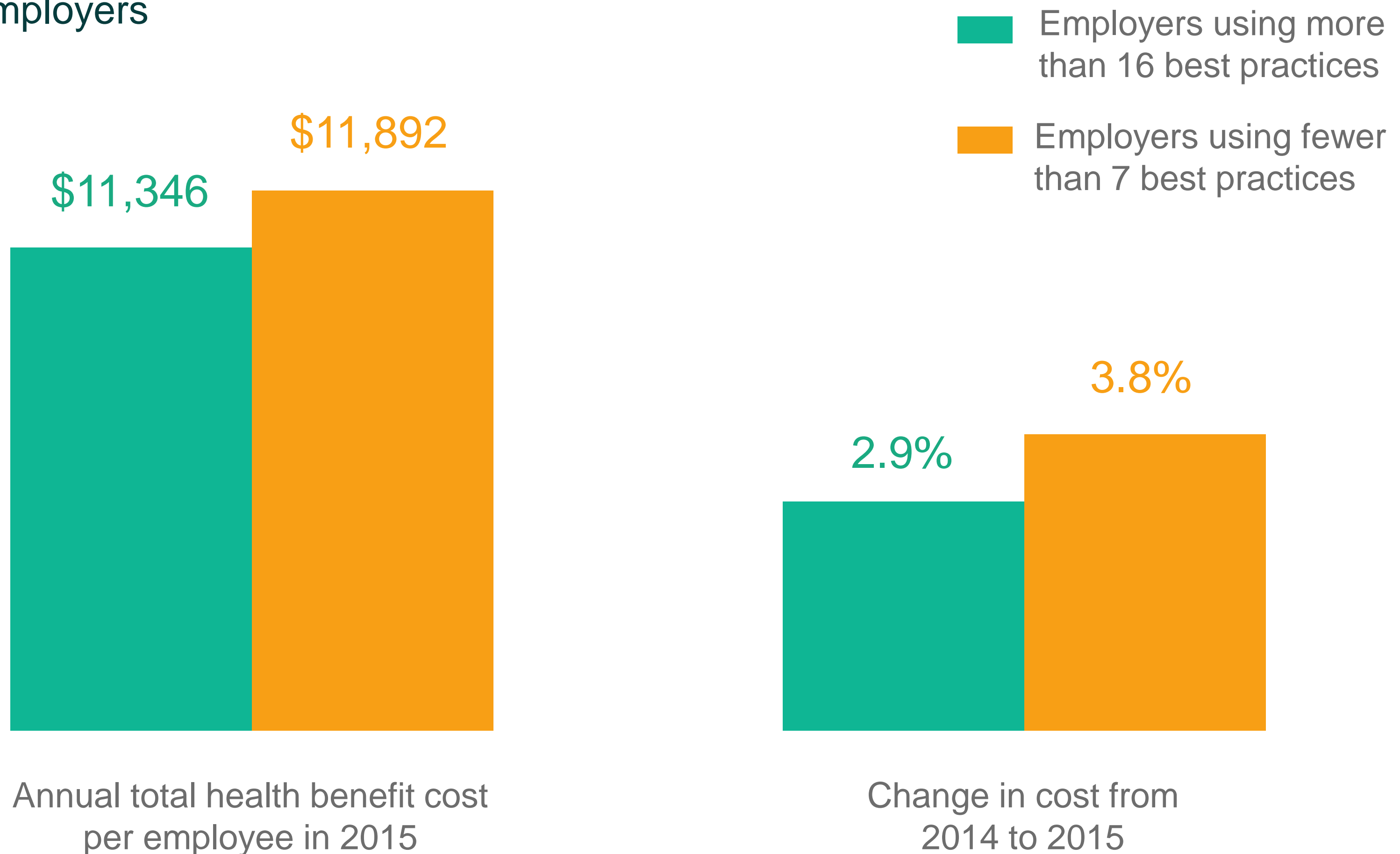
Employee well-being

- Offer optional (paid) well-being programs through plan or vendor
- Provide opportunity to participate in personal/group health challenges
- Offer technology-based well-being resources (apps, devices, web-based)
- Worksite biometric screening
- Encourage physical activity at work (gym, walking trails, standing desks, etc.)
- Use incentives for well-being programs
- Spouses and/or children may participate in programs
- Smoker surcharge
- Offer EAP

Care delivery

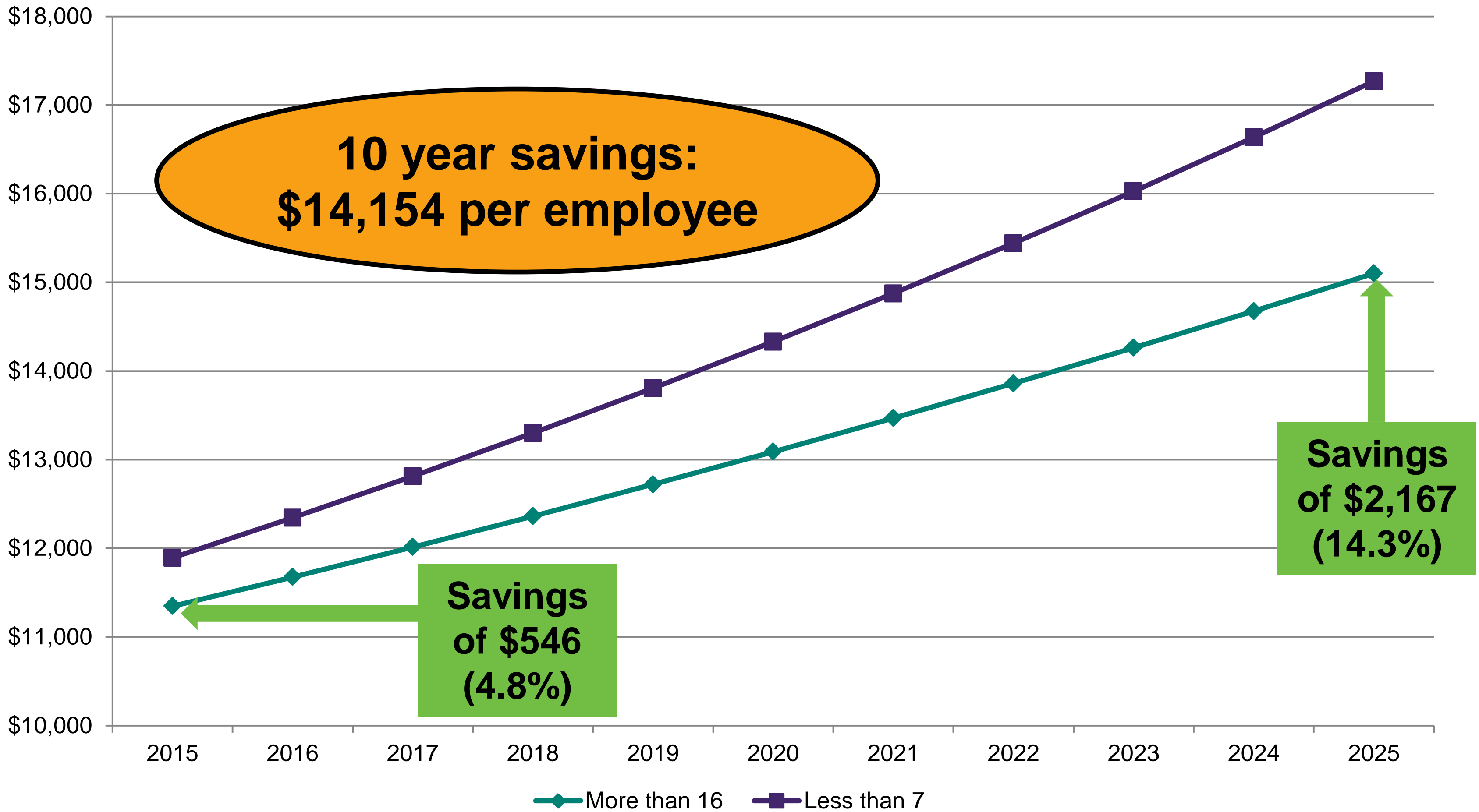
- High-performance networks
- Surgical centers of excellence
- On-site clinic
- Telemedicine
- Value-based design
- Medical homes
- Accountable care organizations

COMPARISON OF EMPLOYERS USING THE MOST VS. THE FEWEST BEST PRACTICES AGAIN FINDS DIFFERENCES IN COST AND COST GROWTH



*Analysis based on unweighted cost data from respondents providing cost for both 2014 and 2015.

LONG TERM IMPACT OF BEST PRACTICES
"Bending the Curve"

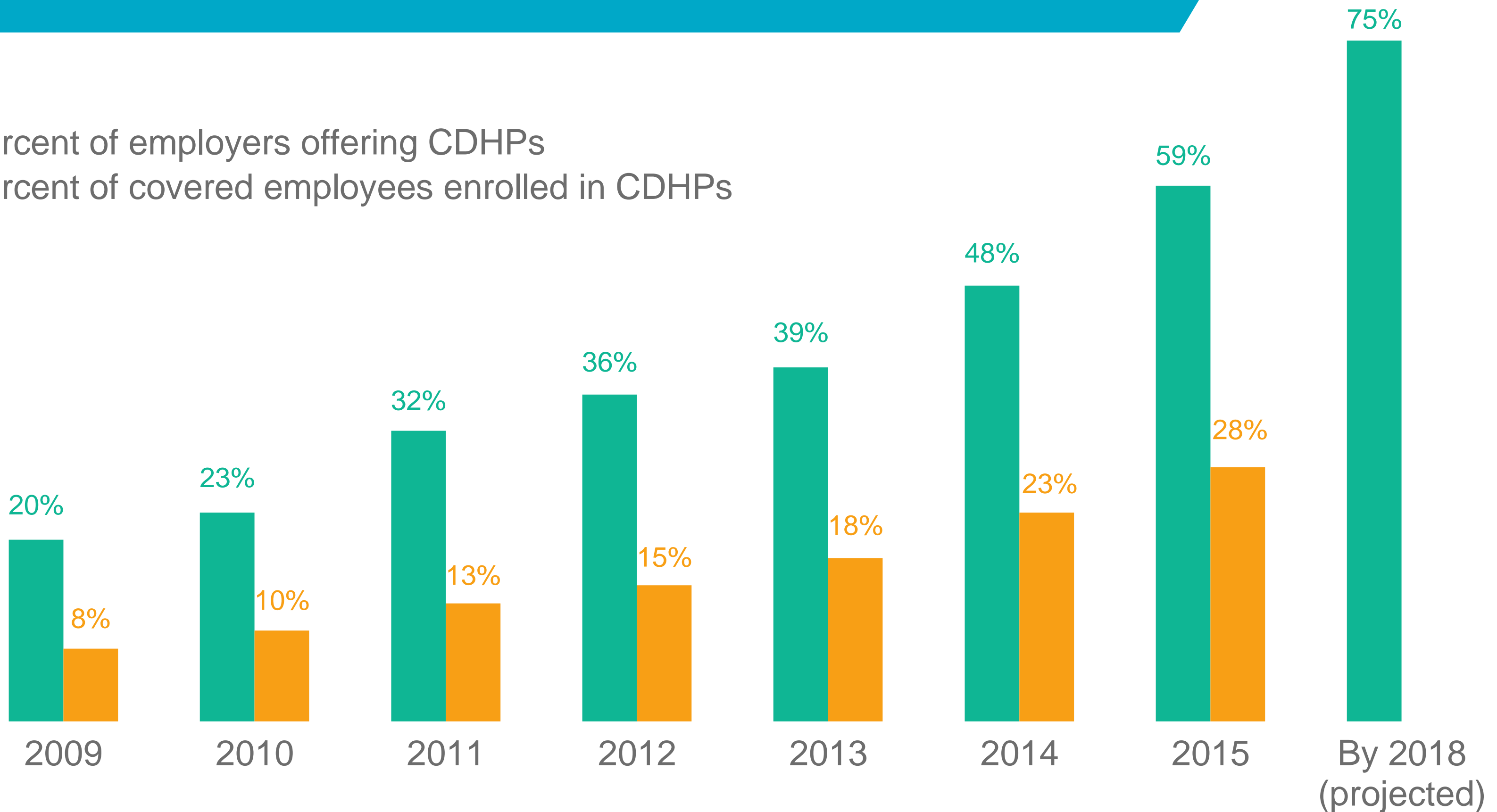


PROGRAM DESIGN

WHO IS OFFERED WHAT BENEFITS AND HOW THEY PAY FOR THEM

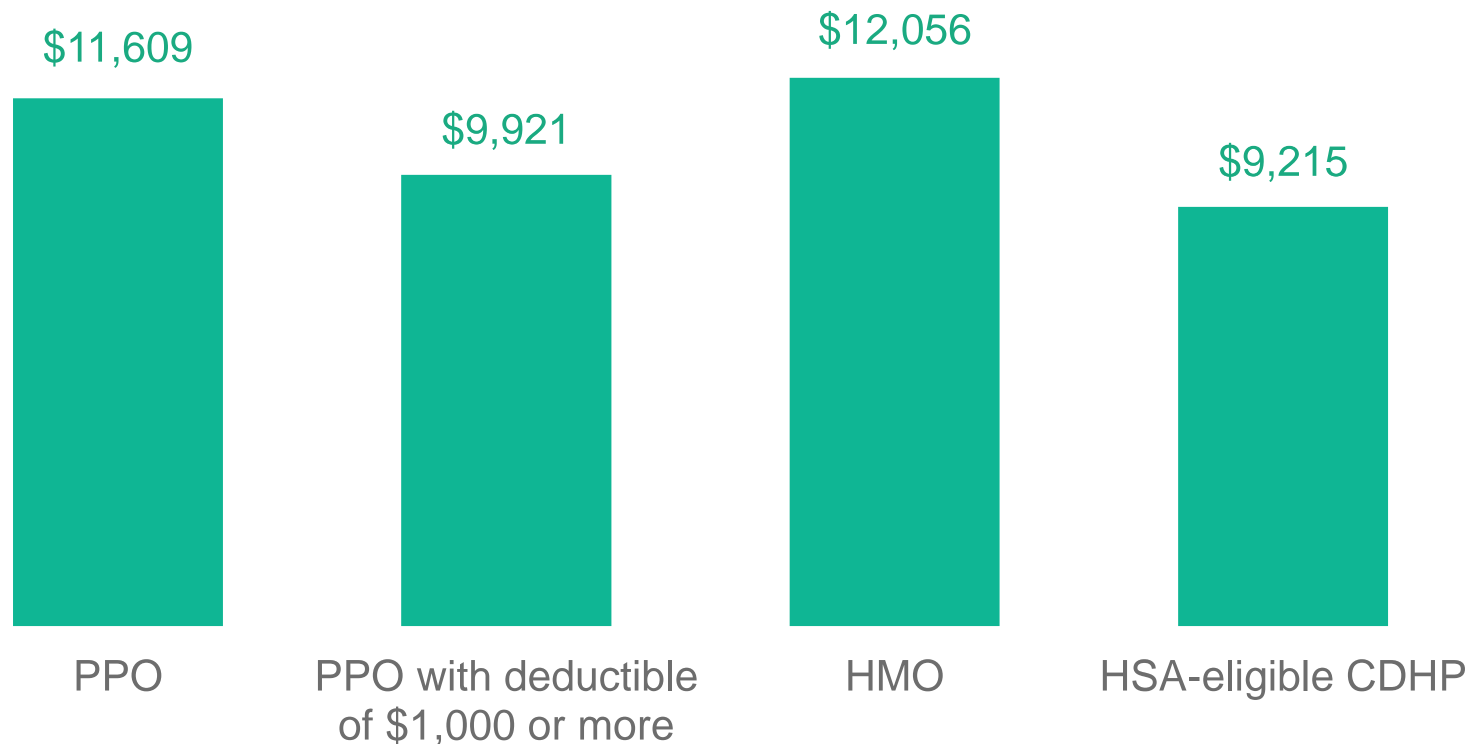
OVER A FOURTH OF ALL COVERED EMPLOYEES ARE ENROLLED IN A CONSUMER-DIRECTED HEALTH PLAN

Large employers



EMPLOYERS SAVE WITH HSA-BASED CDHPs: AVERAGE COST WAS MORE THAN 20% LOWER THAN FOR EITHER PPOs OR HMOs IN 2015

Medical plan cost per employee (includes employer contributions to HSA accounts) among large employers

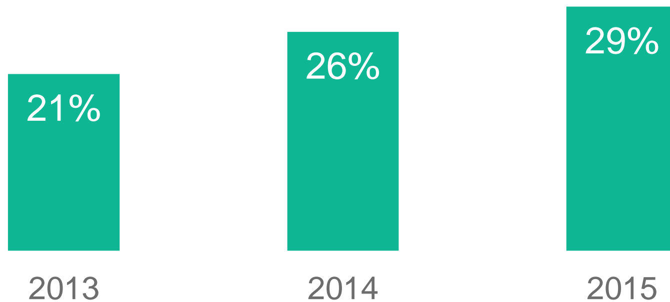


ENROLLMENT IN CDHPs GROWS SLOWLY OVER TIME, AND EMPLOYER ACCOUNT CONTRIBUTION IS CRITICAL

Large employers offering HSA-based CDHPs

Enrollment growth over time

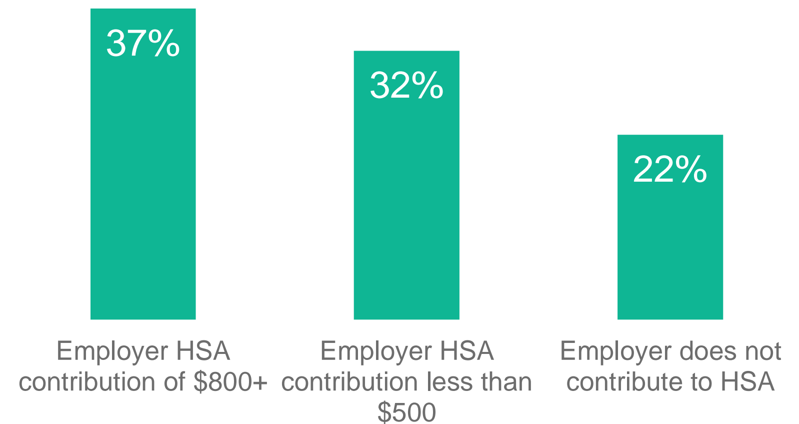
% eligible employees choosing HSA-based CDHP when offered w/other medical plans*



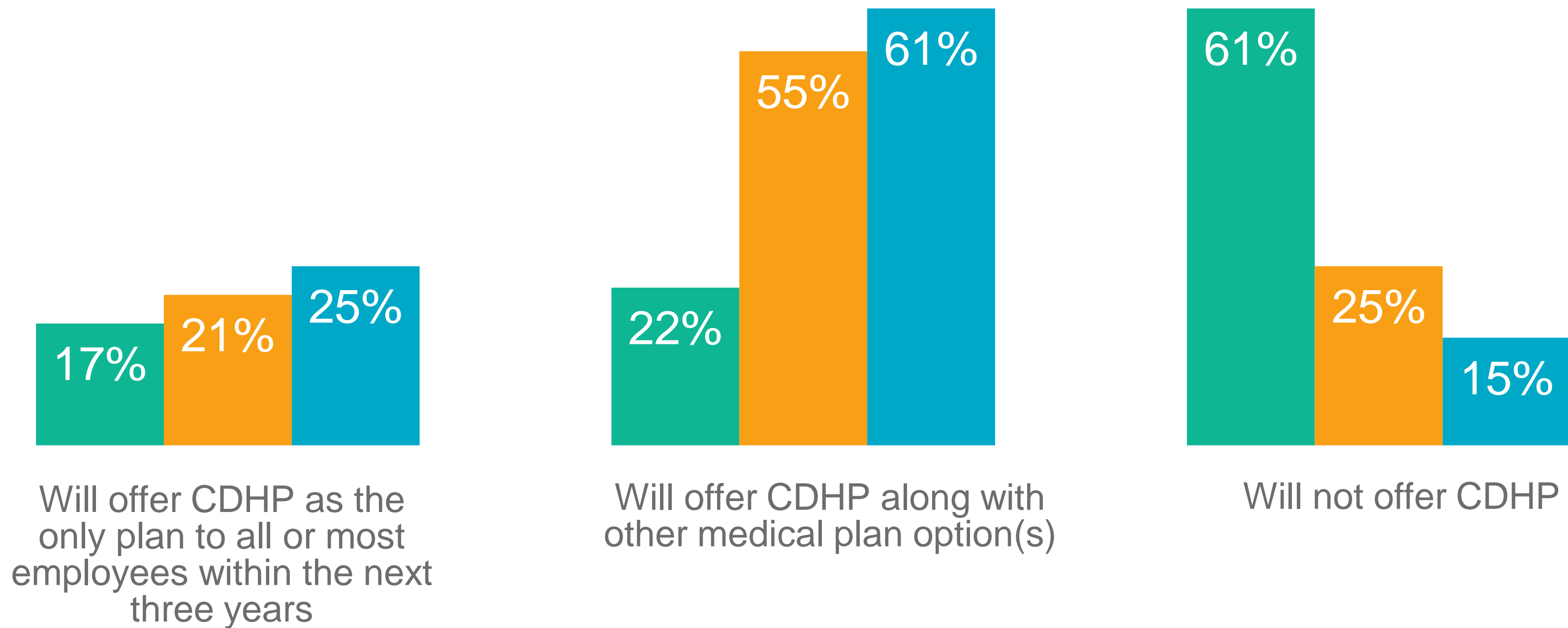
*Among employers offering the plan for three years

Employer HSA funding affects enrollment

% eligible employees choosing HSA when offered with other medical plans



MAJORITY OF LARGE EMPLOYERS EXPECT TO OFFER A CDHP BY 2018 – BUT MOST SEE IT AS AN OPTION, RATHER THAN A FULL REPLACEMENT



EMPLOYERS USING VOLUNTARY BENEFITS TO FILL GAPS IN CORE BENEFITS

Objectives for program, based on large employers offering VBs

To give employees opportunity to fill gaps in employer-paid benefits

To offer additional benefits at no cost to employer

To accommodate employee requests

To help employees reduce financial stress / improve financial health

To maintain employee benefit options as core benefits change

To help drive participation in lower-cost plans

76%
of employers with VB plans indicate their objectives have been met

EXPANDING EMPLOYEES' VIEW OF THE WHOLE BENEFIT PACKAGE

Meeting diverse needs without driving up employer costs

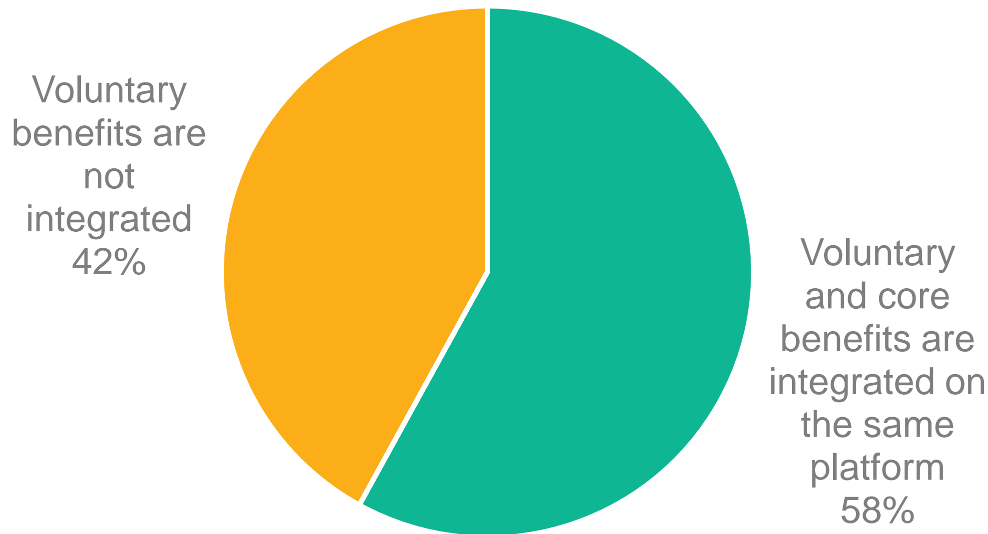
VOLUNTARY BENEFITS

Percent of large employers offering the benefit

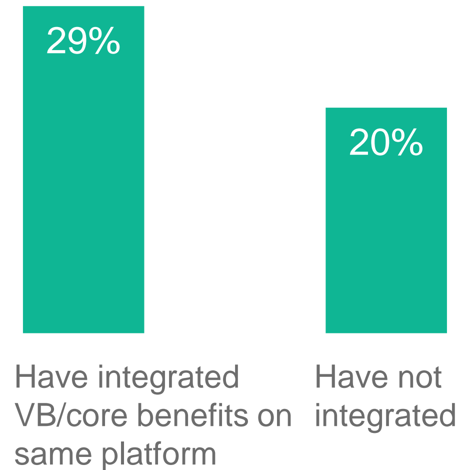
Benefit	Percent
Individual disability	61%
Accident	59%
Cancer / critical illness	45%
Whole / universal life	43%
Legal benefit	30%
Discount purchase program	26%
Long-term care	25%
Hospital indemnity	21%
Auto / Homeowners	20%
Investment advisory	19%
Telemedicine	18%
ID theft	17%
Pet insurance	10%

INTEGRATING VOLUNTARY AND CORE BENEFITS ON SAME PLATFORM IMPROVES EMPLOYEE TAKE-UP

Large employers



VB sponsors reporting growth in take-up over past two years



COST TRANSPARENCY TOOLS

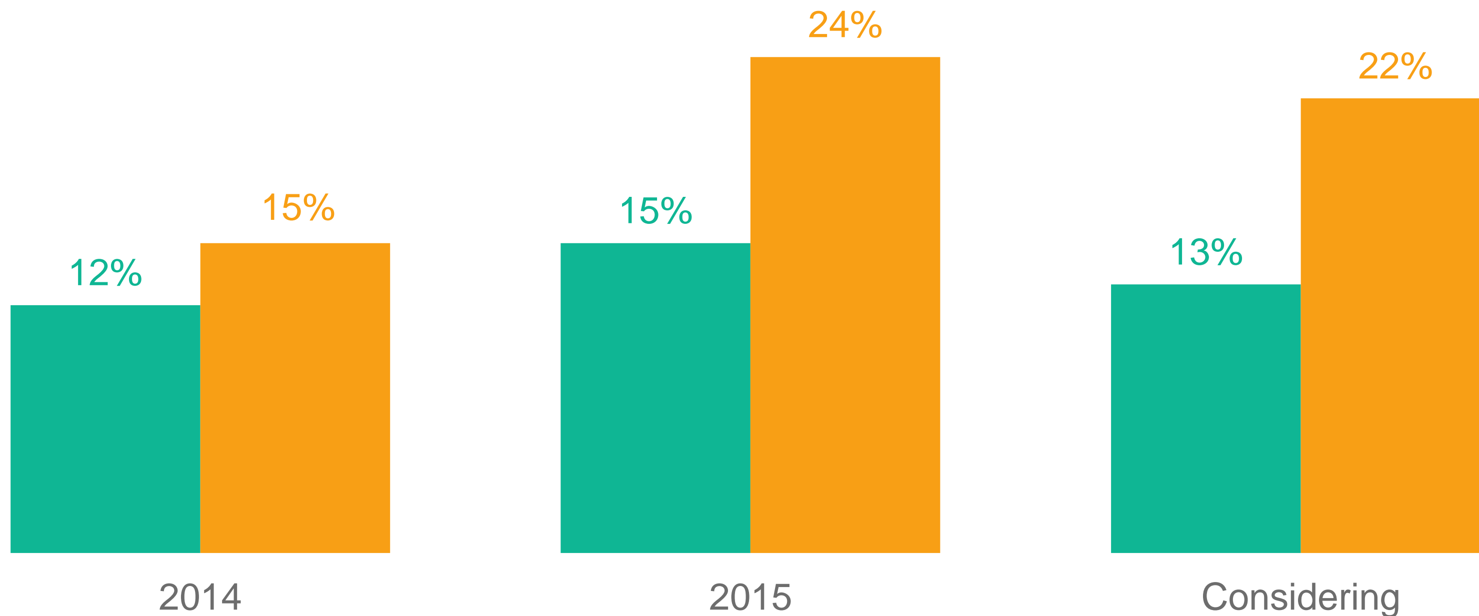
Percentage of employers that contract with a specialty vendor outside the health plan to provide transparency tool

Among large employers who provide transparency tools:

- 13% provide incentives to employees to use tools
- 27% track utilization. Nearly 20% report utilization of 20% or more, but nearly 50% report utilization of less than 5%

■ All large employers

■ Employers with 20,000+ employees



CARE DELIVERY

HOW AND WHERE A MEMBER ACCESSES CARE

Value-based care that seeks to rationalize provider incentives

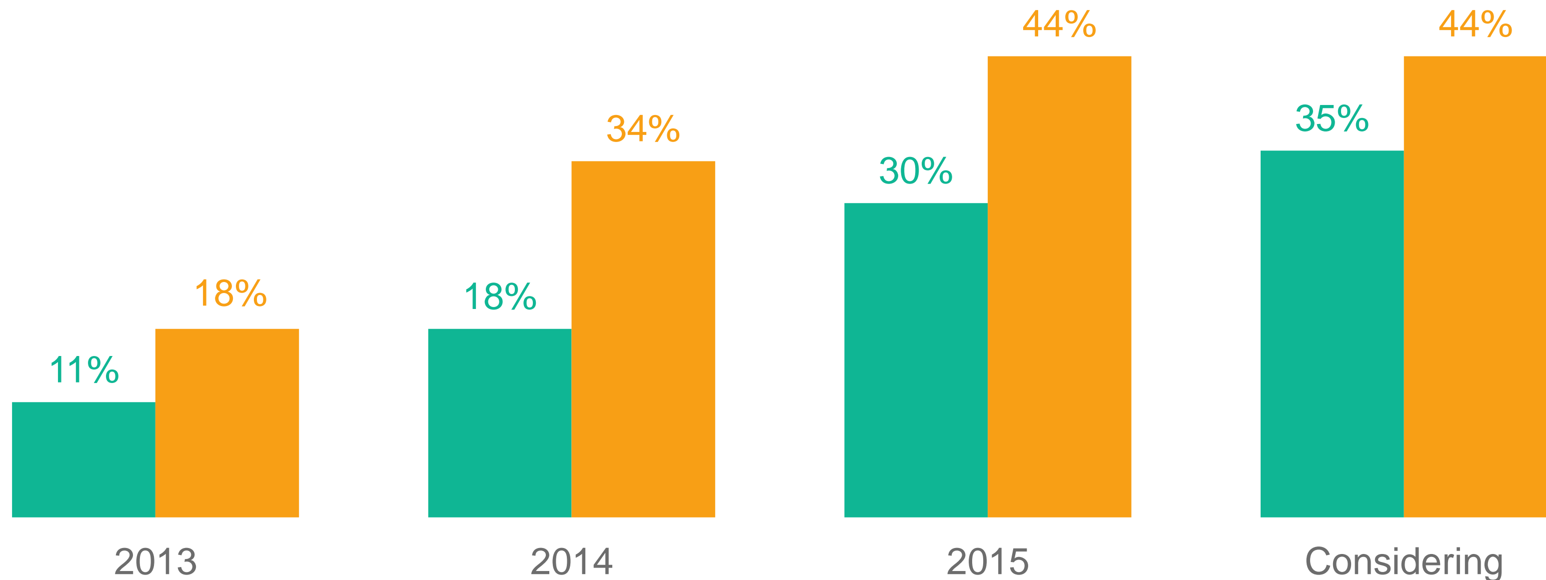
New care settings that give consumers convenient, cost-effective options

Innovative tools that empower the consumer

TELEMEDICINE IS THE FASTEST GROWING TREND IN CARE DELIVERY

Among large employers offering telemedicine:

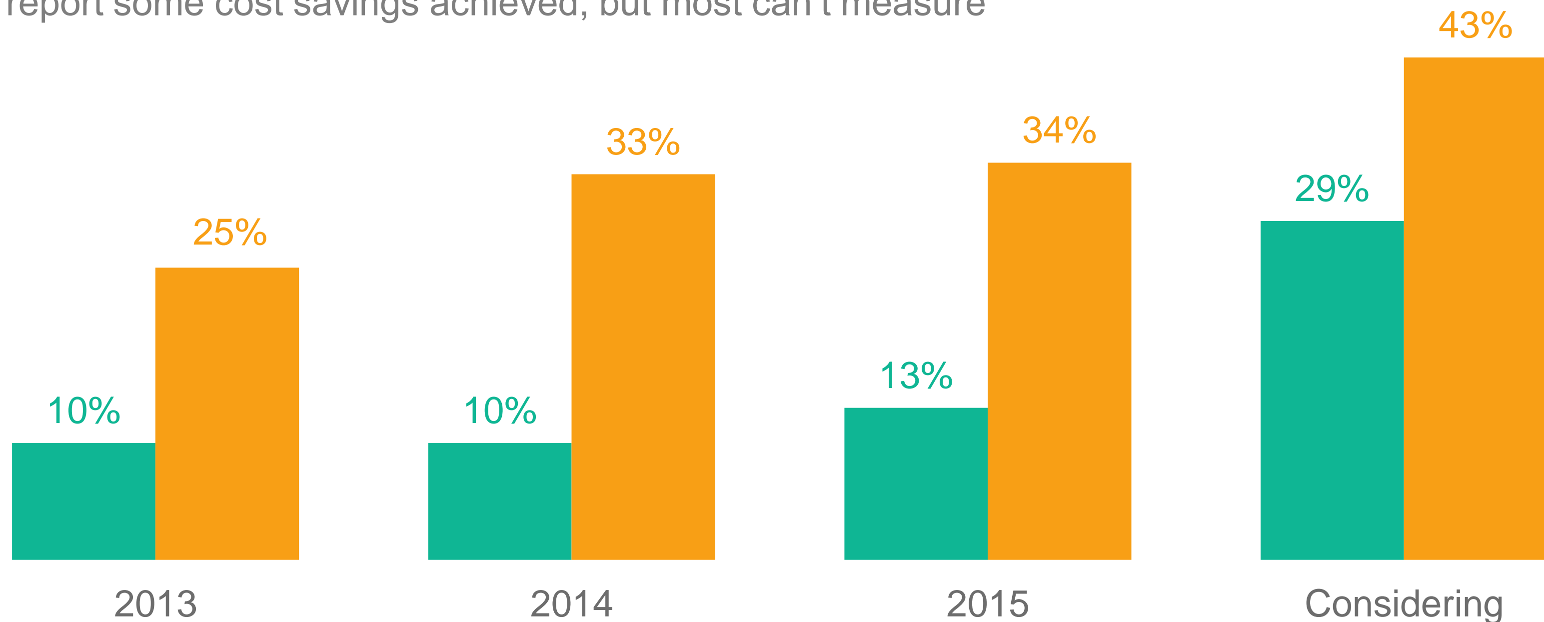
- 26% reported utilization rate of 5% or higher
- 47% agree program has met objectives
- 85% say that the most important reason for offering is to provide a more affordable, convenient source of care



USE OF ACCOUNTABLE CARE ORGANIZATIONS (ACOs) IS RISING, BUT COST IMPACT NOT CLEAR TO MOST

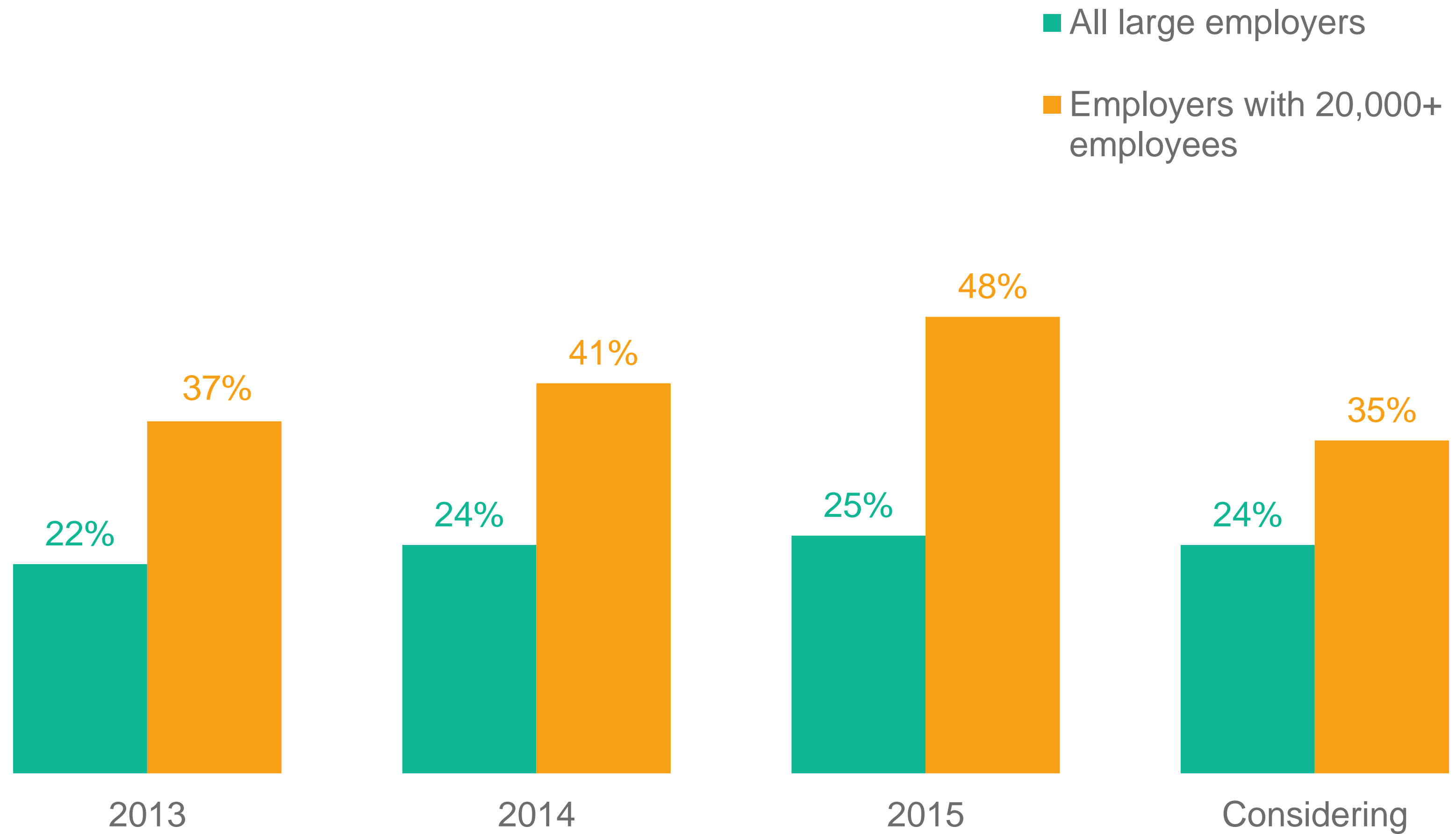
Among employers currently offering ACOs*:

- 80% offer through their health plan rather than through a direct contract
- 28% actively encourage members to seek care from the ACO
- 16% report some cost savings achieved, but most can't measure

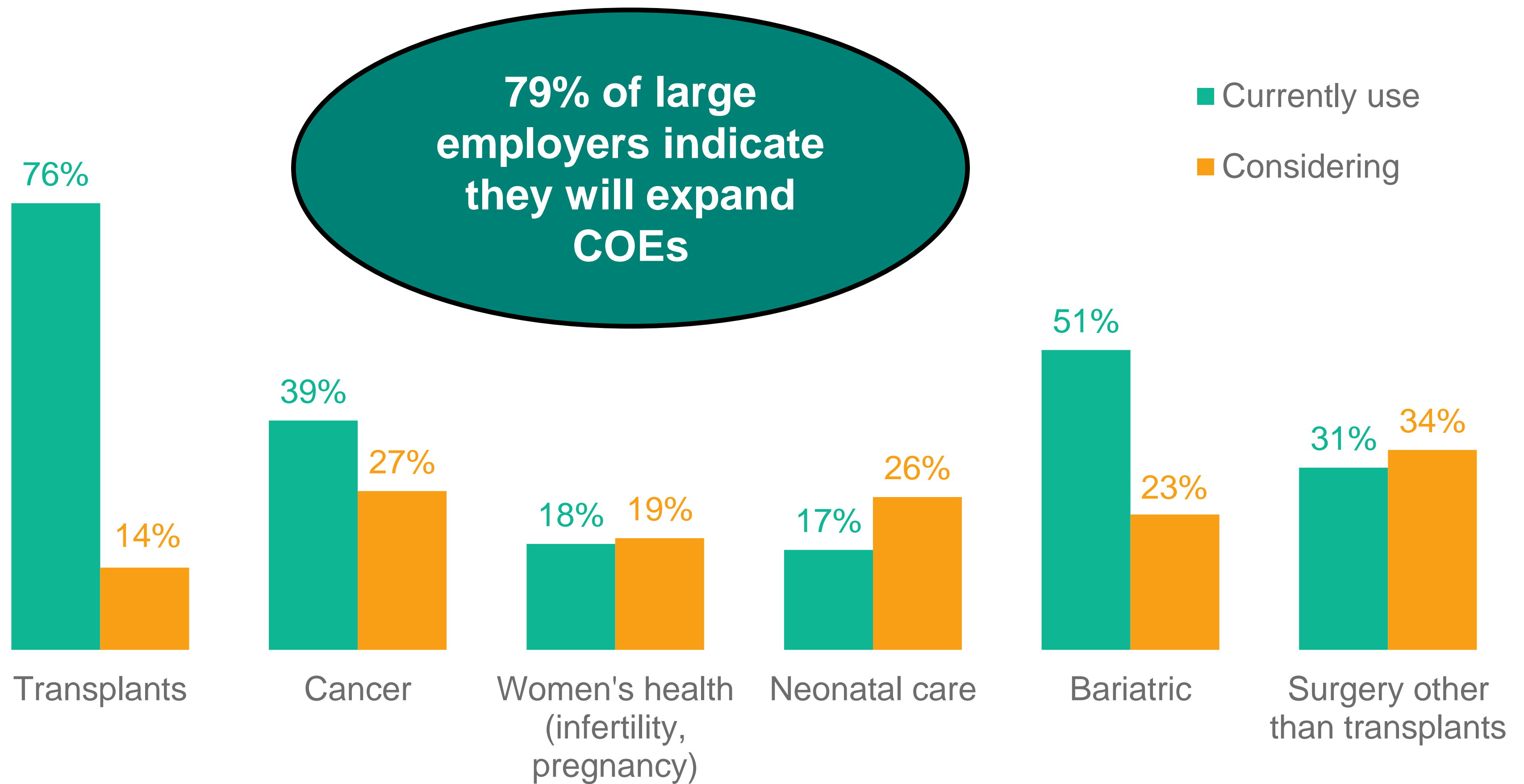


*Preliminary results from supplemental survey of employers with 5,000 or more employees

GROWTH IN USE OF "CENTERS OF EXCELLENCE" AMONG LARGEST EMPLOYERS



TYPES OF COEs CURRENTLY USED OR BEING CONSIDERED

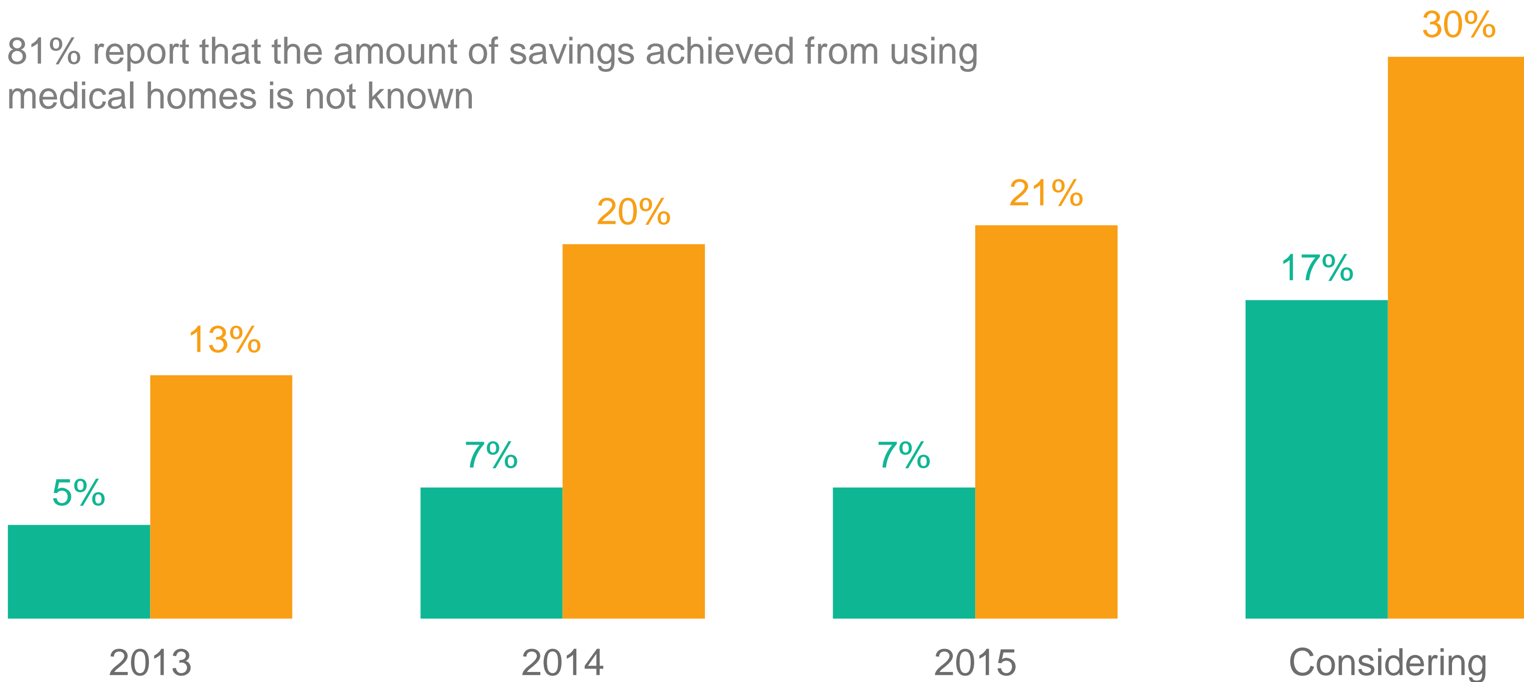


*Preliminary results from supplemental survey of employers with 5,000 or more employees

MEDICAL HOMES GROWING MORE SLOWLY, BUT THE LARGEST EMPLOYERS SHOW STRONG INTEREST

Among employers with 5,000+ employees offering patient-centered medical homes*:

- 33% actively encourage members to seek care from a medical home
- 81% report that the amount of savings achieved from using medical homes is not known



*Preliminary results from supplemental survey of employers with 5,000 or more employees

WORKFORCE HEALTH

HOW AN EMPLOYER INFLUENCES BEHAVIOR, HEALTH AND WELL-BEING

Three pillars of well-being: physical, emotional, financial

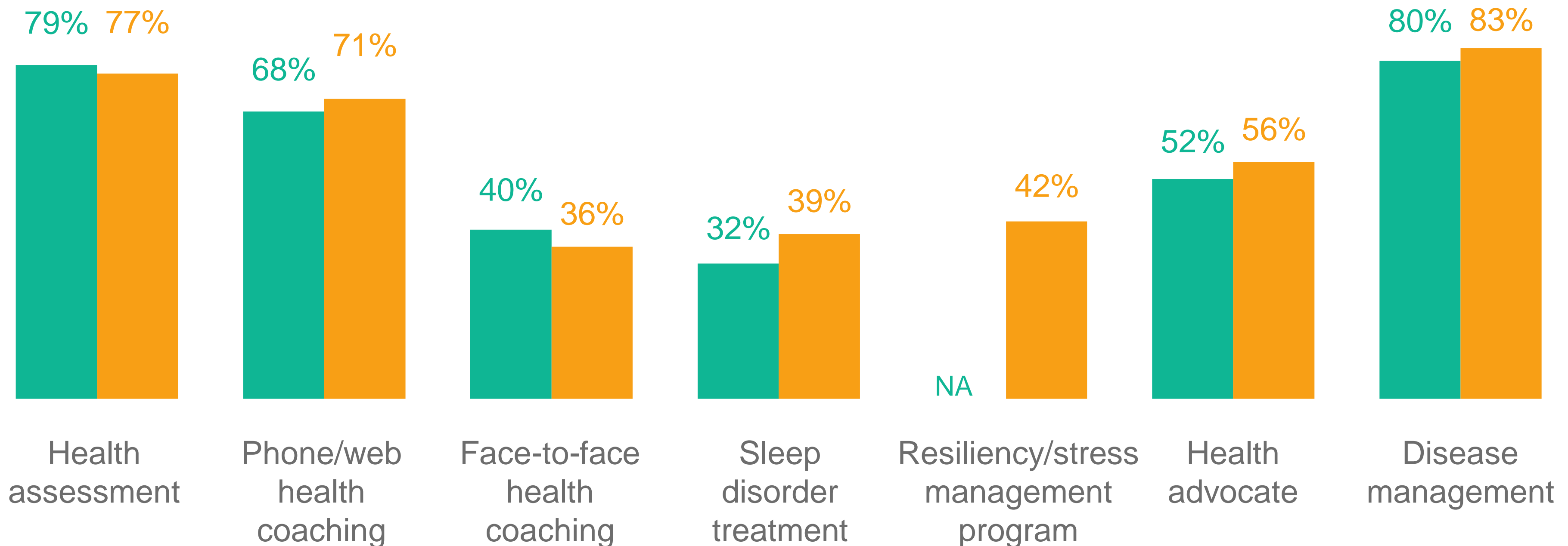
Physical environment can make the healthy choice the easy choice

Activity trackers, mobile apps bring health awareness into daily life

Culture of health and social connections key to building intrinsic motivation

Employers starting to measure well-being VOI as well as ROI.

HEALTH ADVOCACY IS INCREASINGLY RECOGNIZED AS A CRITICAL RESOURCE IN A COMPLEX HEALTH CARE SYSTEM



Addressing the continuum of health needs

RESOURCES TO HELP EMPLOYEES IMPROVE THEIR FINANCIAL HEALTH

Large employers

Resource	Large employers
Tools or resources for retirement planning	59%
Financial planning tools for budgeting or debt management	27%
Financial calculators to assist with managing personal/family expenses	26%
Other financial resources	29%
No financial resources provided	31%

INNOVATIVE TECHNOLOGIES AND ACTIVITIES FOR A MORE ENGAGING MEMBER EXPERIENCE

ACTIVITIES

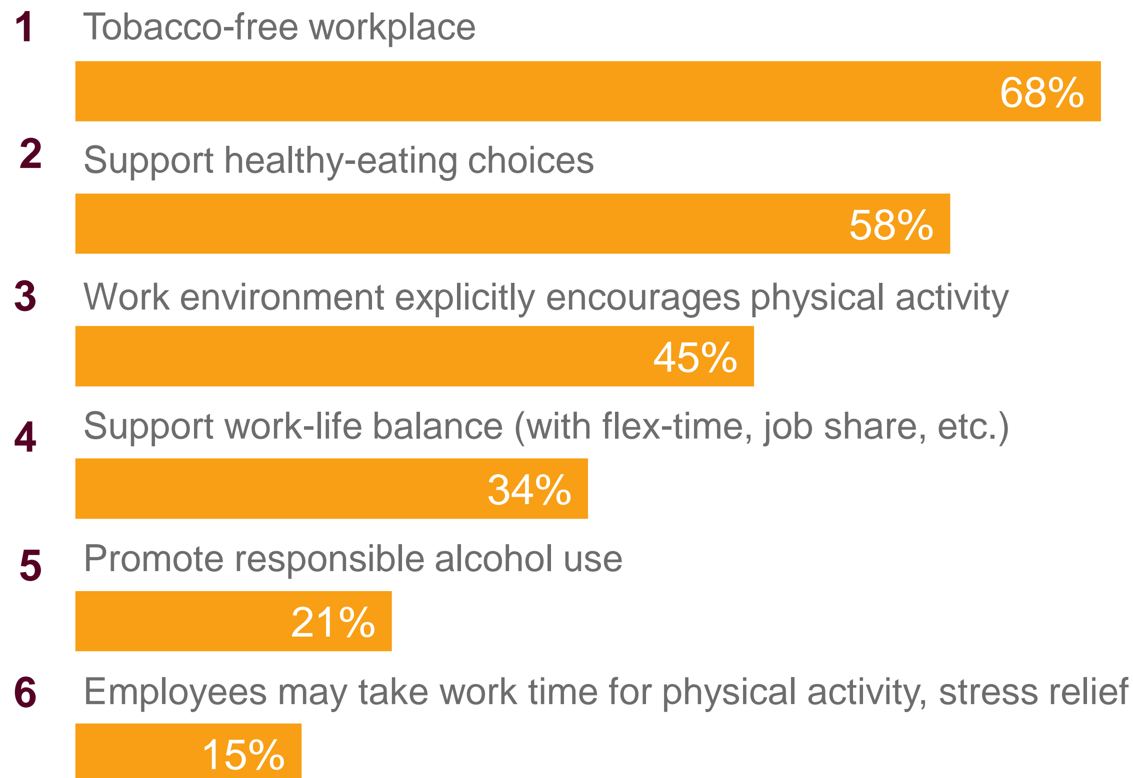
	All large employers	Employers with 20,000+ employees
Worksite biometric screening event	56%	71%
Business unit/location group challenges	45%	57%
Onsite exercise or yoga classes or weight loss programs (such as Weight Watchers)	43%	76%
Personal challenges	40%	55%
Peer-to-peer support	19%	33%

TECHNOLOGY-BASED RESOURCES

	All large employers	Employers with 20,000+ employees
Mobile apps	30%	44%
Wearables / apps to monitor activity	24%	38%
Devices to transmit health measures to providers	4%	11%
Onsite kiosks	7%	12%
Other web-based resources/tools	40%	63%

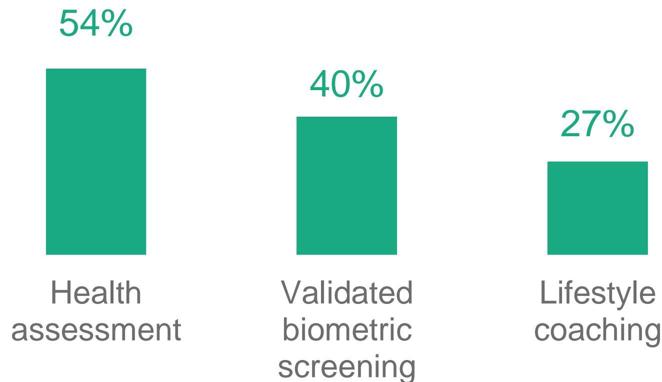
BUILDING A CULTURE OF HEALTH: SIX POLICIES THAT PROMOTE EMPLOYEE WELL-BEING

Large employers



EMPLOYERS USE FINANCIAL INCENTIVES TO DRIVE PARTICIPATION RATES IN KEY PROGRAMS

Large employers

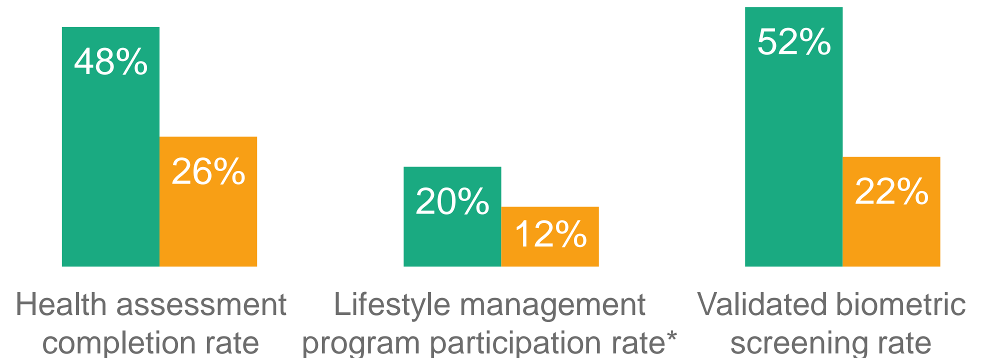


Offer incentives (among employers with programs)

Including spouses builds engagement:

- **62% of employers make key elements of program available to spouses (up from 56% in 2014)**
- **Half of those make spouses eligible for incentives**

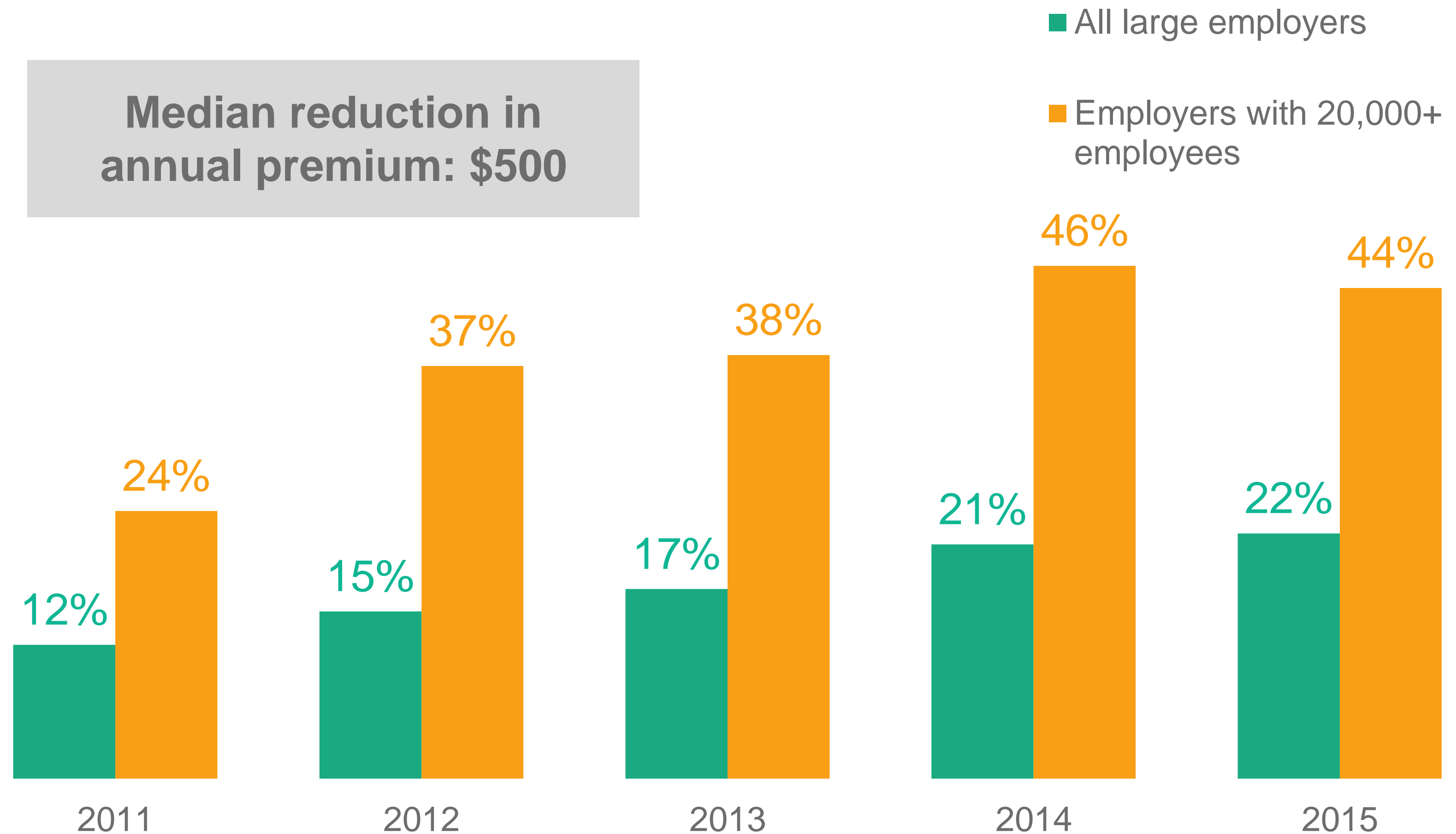
Large employers using incentives report higher participation rates.



*Average % of identified persons actively engaged in program

EMPLOYERS MAY BE COOLING ON TOBACCO-USE INCENTIVES IN WAKE OF REGULATORY QUESTIONS

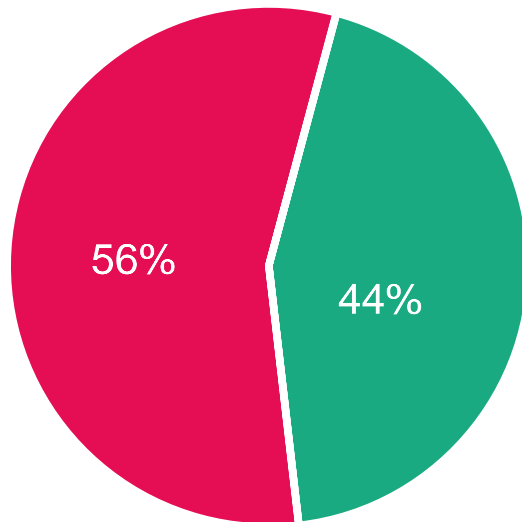
Offer lower premium contributions to non-tobacco users



CONSIDERING "VALUE OF INVESTMENT" (VOI) AS WELL AS ROI MEANS DEVELOPING NEW METRICS

Employers with 20,000 or more employees

Over two-fifths have attempted to measure program impact…

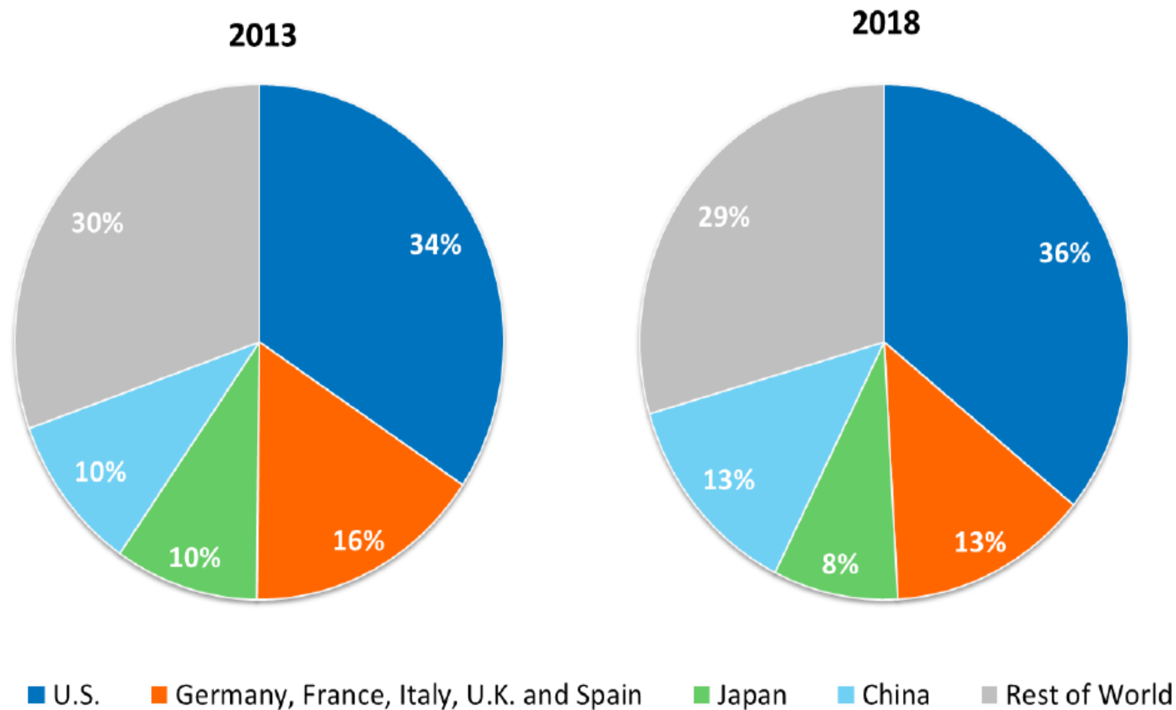


…with the majority of these reporting improvement in medical plan trend and/or other areas

Impact	%
Positive impact on medical cost trend	66%
Improved employee satisfaction	44%
Improved productivity	26%
Improved attraction and retention	25%
Positive impact on disability cost trend	25%
No positive impact was found so far	17%

PHARMACY

US LEADS THE WAY IN PHARMACY SPENDING



- US has ~5% of global population and 33% of global costs
- Increased costs from 2013-18 largely driven by Specialty Biotech medications

KEY TRENDS AFFECTING PLAN SPONSORS

Huge growth in costs
  - $100B in last decade
  - Expected to grow to $482 BN (77%) in next 10 years

Specialty boom reshaping the entire industry
  - Major source of revenue and profit for PBMs
  - US pricing much higher than the rest of the world

- Increased influence of Public Sector payers on pricing methodology
- ***Warning: strategic differentiation among many PBMs may mean higher disruption if changing PBM providers***
- Strategic alliances (PBMs, retailers, wholesalers) will continue to reflect changing industry dynamics
- Pharma consolidation will likely add to cost pressures
- ACA reporting requirements may affect vendor selection (in favor of carve-in)

DRUG BENEFITS HAVE BEEN CARVED OUT OF PRIMARY MEDICAL PLAN, BY EMPLOYER SIZE

500–999 EMPLOYEES

1,000–4,999 EMPLOYEES

5,000–9,999 EMPLOYEES

10,000–19,999 EMPLOYEES

20,000 OR MORE EMPLOYEES

7% OF LARGE EMPLOYERS THAT CARVE OUT RX BENEFITS ARE CONSIDERING CARVING IT BACK INTO THEIR MEDICAL PLAN

NEARLY A QUARTER OF LARGE EMPLOYERS USE A FOURTH COST-SHARING TIER IN THEIR DRUG PLANS

COST-SHARING PROVISIONS IN EMPLOYERS' PRIMARY PLAN

COST-SHARING STRUCTURE	RETAIL	MAIL-ORDER
Same level of cost-sharing for all drugs	7%	8%
2 levels for generic, brand drugs	10%	11%
3 levels for generic, formulary brand, non-formulary brand	57%	60%
4 or more levels	22%	19%
Other	1%	2%

COST-MANAGEMENT FEATURES

STEP THERAPY

MANDATORY GENERICS WITH OR WITHOUT PHYSICIAN OVERRIDE

MANDATORY DRUG EXCLUSIONS

RETAIL PENALTY PROGRAM

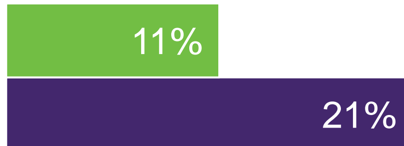
MANDATORY MAIL ORDER (AFTER 2–4 RETAIL FILLS)

■ Employers with 500+ employees ■ Employers with 20,000+ employees

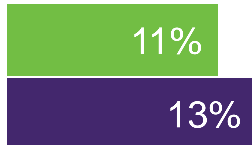
PLAN MEMBERS ARE ENCOURAGED TO USE SPECIALTY PHARMACY

SOME/ALL SPECIALTY DRUGS EXCLUDED FROM RETAIL PHARMACY/MEDICAL BENEFIT

ENCOURAGE USE OF SPECIALTY PHARMACIES SOME OTHER WAY



OFFER LOWER COST-SHARING IF EMPLOYEES USE THE SPECIALTY PHARMACY



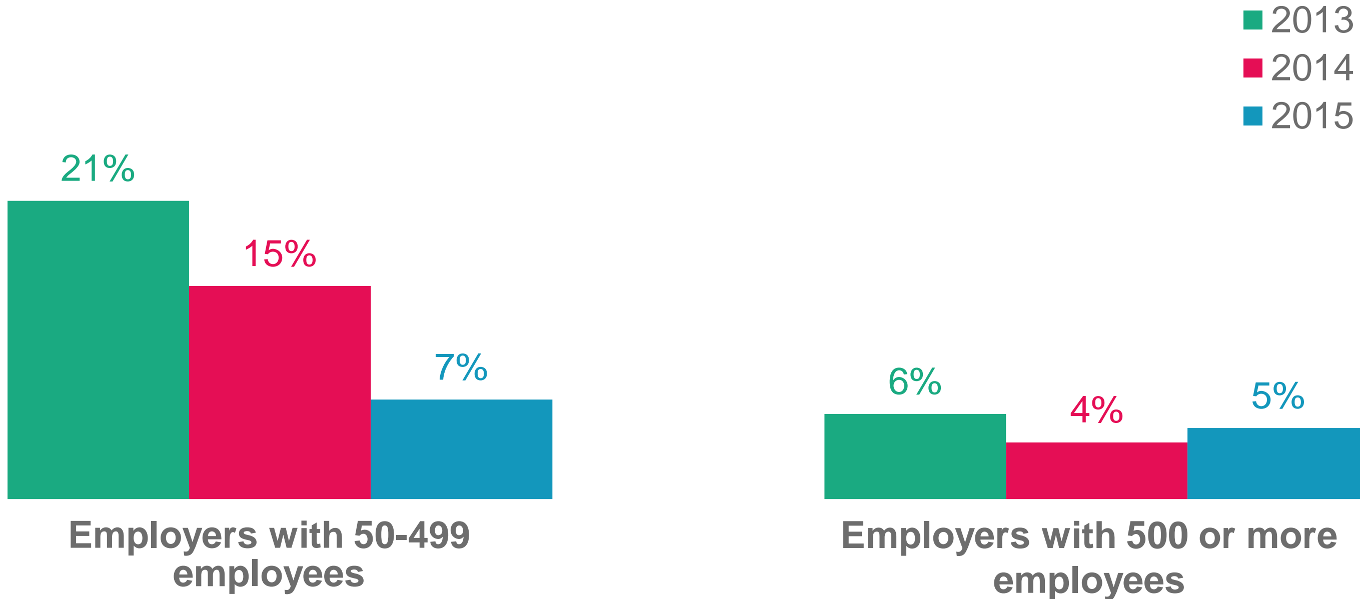
DO NOT ATTEMPT TO STEER MEMBERS TO ANY CHANNEL FOR SPECIALTY MEDICATIONS

■ Employers with 500+ employees ■ Employers with 20,000+ employees

WRAP UP

GIVEN HOW STRONGLY EMPLOYEES VALUE HEALTH BENEFITS, EVEN SMALL EMPLOYERS PLAN TO STAY IN THE GAME

Percent of employers that say they are “very likely” or “likely” to terminate plans within the next five years



HOMEWORK ASSIGNMENT
Which cost management strategies are you using?

Plan design and delivery infrastructure

- Contribution for family coverage in primary plan is 20%+ of premium
- PPO in-network deductible is $500+
- Offer CDHP
- HSA sponsor makes a contribution to employees' accounts
- Voluntary benefits integrated with core
- Mandatory generics or other Rx strategies
- Steer members to specialty pharmacy for specialty drugs
- Reference-based pricing
- Data warehousing
- Collective purchasing of medical or Rx benefits
- Transparency tool provided by specialty vendor and/or used by 10% of members
- Use private health benefits exchange

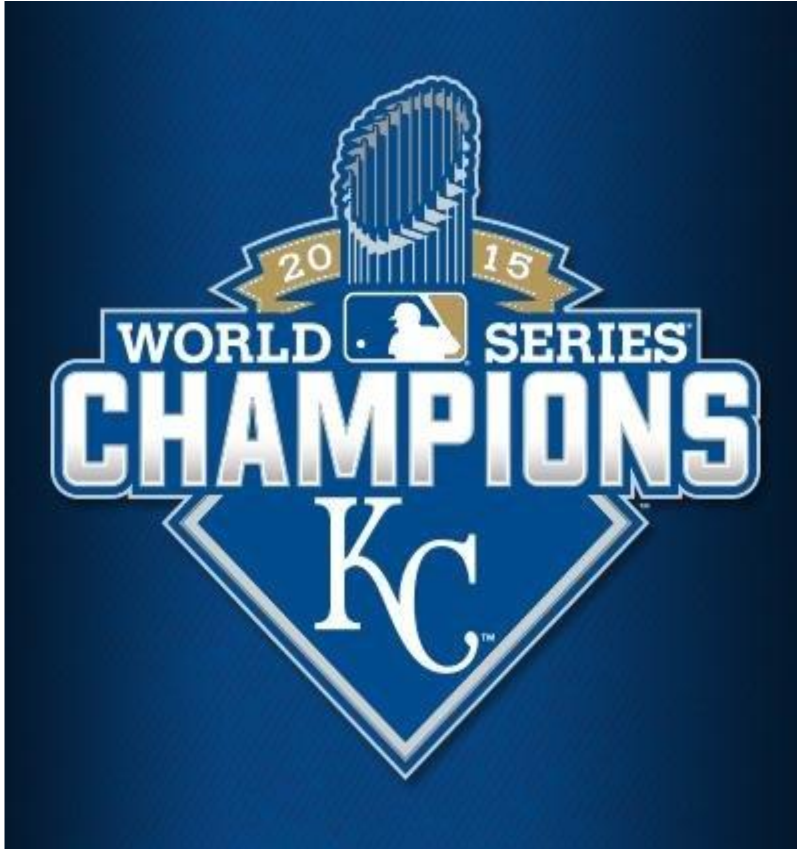
Employee well-being

- Offer optional (paid) well-being programs through plan or vendor
- Provide opportunity to participate in personal/group health challenges
- Offer technology-based well-being resources (apps, devices, web-based)
- Worksite biometric screening
- Encourage physical activity at work (gym, walking trails, standing desks, etc.)
- Use incentives for well-being programs
- Spouses and/or children may participate in programs
- Smoker surcharge
- Offer EAP

Care delivery

- High-performance networks
- Surgical centers of excellence
- On-site clinic
- Telemedicine
- Value-based design
- Medical homes
- Accountable care organizations

MANAGING HEALTH CARE IS LIKE



- “Small ball”
- Virtually no grand slams
- Not many home runs
- Few walks
- Lots of singles, sacrifices, stolen bases
- Solid pitching and defense
- “Never quit” attitude
- Get in there and play ball