

Employers Committed to Offering Health Care Benefits Today; Concerned About Viability of Insurance Exchanges

Health care costs expected to increase 5.9% in 2012, but benefit offerings will begin to shrink

NEW YORK, August 24, 2011 — After focusing closely on compliance aspects of health care reform legislation in 2011, employers are planning only moderate changes in their health care plans for 2012, according to a survey of 368 midsize to large companies by Towers Watson (NYSE, NASDAQ: TW), a global professional services company. The survey also found that while employer health care costs will rise at a noticeably lower rate during 2012 compared with 2011 (5.9% versus 7.6%, respectively), the vast majority of employers (88%) are planning to take steps to control their costs and avoid the impact of health care reform's excise tax.¹ Roughly half (45%) will rethink their long-term health care strategy during 2012, and many are uncertain how they will respond to the looming impact of state-based insurance Exchanges in 2014.

Over two-thirds (71%) of the respondent companies indicate that they will continue offering health care benefit coverage to their active employees through 2014. Among the remaining 29%, most are unsure about whether they will continue sponsorship or offset the loss of health care benefits (if they exit) with an equivalent salary increase. For retirees, more than half of employers (54%) that offer health care benefits plan to discontinue them for both pre-65 and post-65 retirees.

One of the driving forces behind significant health care design changes and cost shifting is health care reform. A majority of employers (53%) are confident that health care reform will be implemented within the anticipated timeline, but 70% of employers are skeptical that health insurance Exchanges will provide a viable alternative to employer-sponsored coverage for active employees in 2014 or 2015. On top of that uncertainty, 56% of employers believe that they will trigger the excise tax by 2018. Yet more than three-quarters believe that health care benefits will continue to be a key component of their overall employee value proposition beyond 2014.

“With so much still unknown regarding both the short- and long-term impact of health care reform, most employers will not make wholesale changes to employer-sponsored health plans in 2012,” said Ron Fontanetta, senior health care consulting leader at Towers Watson. “However, a small group of employers is driving more fundamental change in 2012 by using account-based platform designs, aggressively positioning incentives and rethinking subsidization levels.”

Specifically, between now and 2014, employers are planning or considering the following actions:

- Increase offering of account-based health plans (ABHP)² (17% intend to add this plan design in 2013 or 2014, which would result in nearly three in four [74%] employers offering an ABHP)
- Use value-based benefit designs³ (49%)
- Increase use of preferred networks (58%)

Additionally, employers are considering further strategy changes in 2014 and 2015:

- Substantially reduce the health care benefit value of active employees (47%)
- Reduce employee health care contributions for lower-paid workers (57%)

2012 Health Care Costs: A Snapshot

The average reported annual cost of medical and pharmacy coverage is \$11,204 per employee for active coverage. Roughly two-thirds of employers (66%) will increase employees' share-of-premium contributions for single-only coverage for 2012, and 73% will increase them for employees with dependent coverage.

Increase in Employee's Share of Premium Contribution ³/₄ 2012 vs. 2011

	Decrease	No change	Increase of one to five percentage points	Increase of five or more percentage points
Single-only coverage	1%	32%	46%	20%
Dependent coverage	1%	26%	44%	29%

Cost shifting is expected to continue well beyond 2012. According to the survey, by 2013 or 2014, many employers are considering significantly reducing their subsidization of coverage for spouses and dependents (23%), and using spousal waivers and surcharges when other coverage is available (19%). Today, only 5% of employers have, or plan to encourage, performance-based payments⁴ to providers based on the health status of plan participants by 2012, but an additional 26% are considering the implementation of this strategy for 2013 or 2014.

"It is clear from our research that employers remain committed to providing employer-sponsored benefits for the foreseeable future," said Randall Abbott, senior health care consulting leader at Towers Watson. "2012 will ultimately be a defining year— the year some employers head down a path of bold and decisive actions, while others will wait and see. Whether choosing to pay or play, employers will need a strategic view for the future."

Other interesting data points emerging from the survey include:

- Seven out of 10 employers (70%) expect to lose grandfathered status by 2012.⁵
- More than half (57%) of employers are considering rewarding or penalizing their employees based on biometric outcomes (versus 8% today).
- One in three employers (32%) don't offer health care coverage to their part-time employees.
- More than four in 10 (44%) employers currently use or are considering using social media tools to impact employee health and well-being (versus 14% today), and 26% currently support or are considering supporting employee health management with the use of online games (versus 9% today).

¹ Excise tax: According to the PPACA, the federal government will impose an excise tax of 40% on insurers of employer-sponsored health plans, including self-insured employers, with an aggregate value of more than \$10,200 for individual coverage and \$27,500 for family coverage.

² Account-based health plans: A plan with a deductible offered together with a personal account (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

³ Value-based design: Explicit use of plan incentives to encourage enrollee adoption and appropriate use of high-value services, healthy lifestyles and use of high-performance providers that adhere to evidence-based treatment guidelines

⁴ Performance-based payments: Health care providers under this arrangement are rewarded for meeting preestablished target metrics for cost-effective and efficient delivery of health care services.

⁵ Grandfathered status: A grandfathered plan is a group health plan that was in existence on the date of enactment of the PPACA (March 23, 2010). These plans are currently exempt from complying with some parts of the health reform law, so long as the plan does not make significant changes to existing policy.

About the Survey

The 2011 Towers Watson Health Care Trend Survey focuses on the health care benefit decisions employers plan to make in reaction to the Patient Protection and Affordable Care Act (PPACA).

The survey was completed by 368 employers during July 2011 and reflects respondents 2012 – 2014 health care benefit decisions. The responding companies comprise a broad range of industries and business sizes, and collectively employ six million employees.