



**TOWERS
PERRIN**

Health Care Costs: What are organizations with lower costs doing differently?

2008 CPEEHCC 10th Annual Training Conference

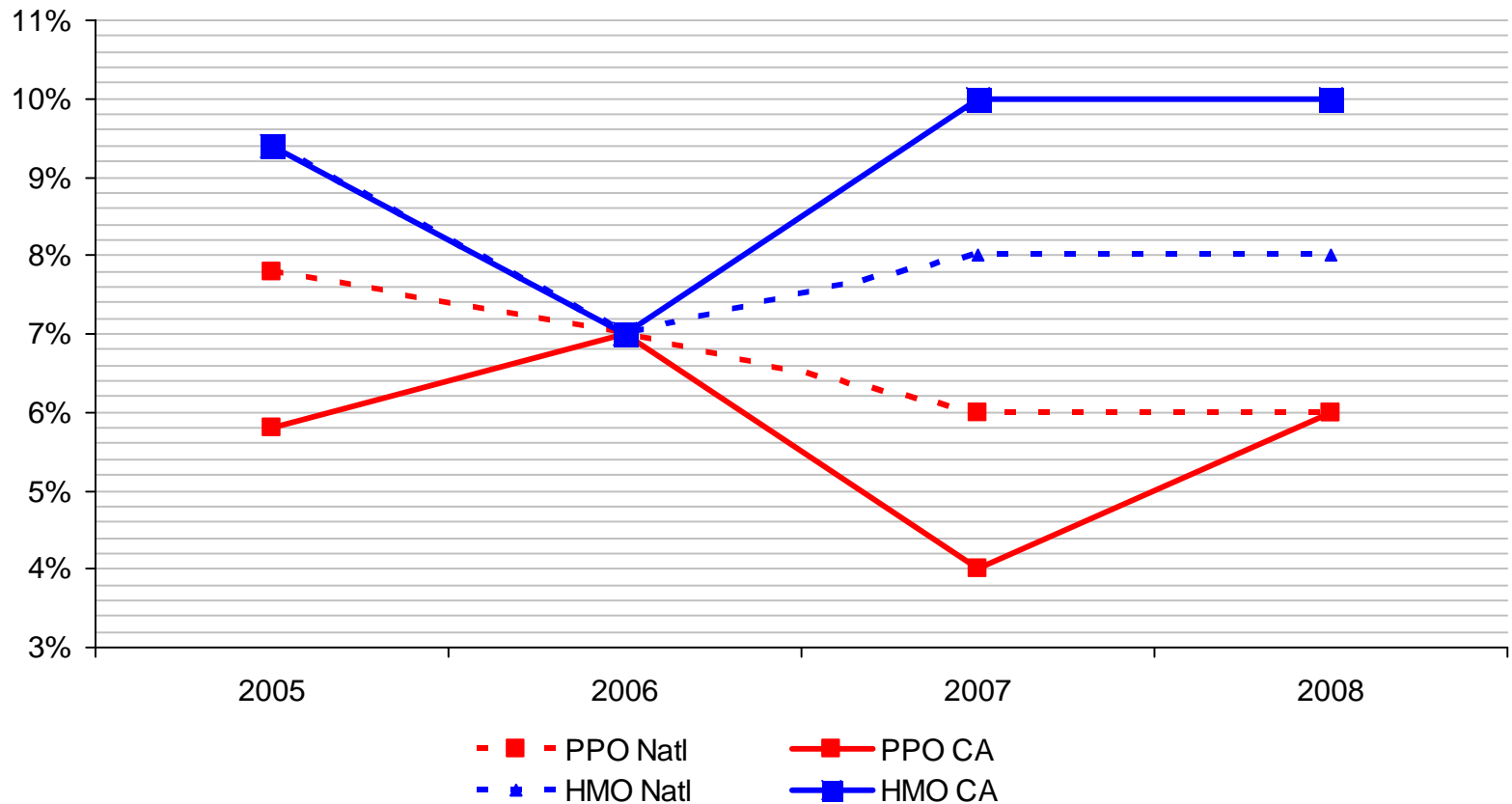
January 2008

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About the Survey

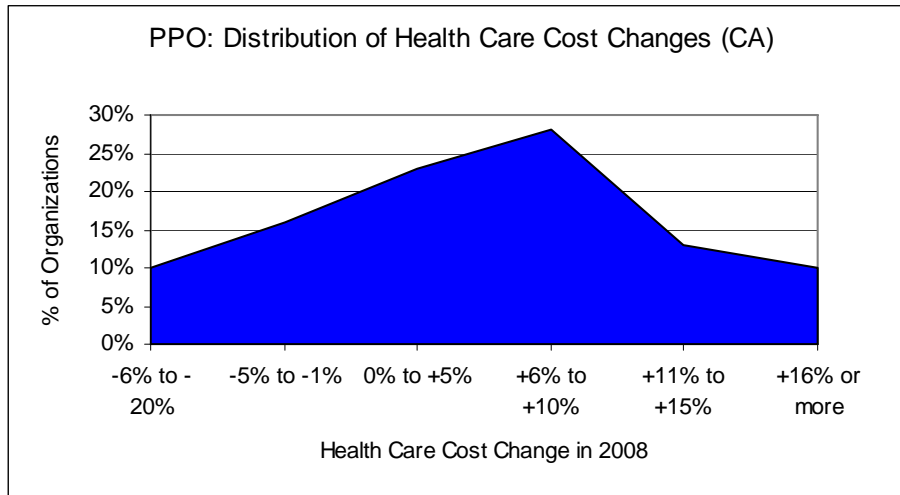
- Towers Perrin Health Care Cost Survey has been conducted annually since 1993
- Characteristics
 - Looks prospectively at 2008 costs
 - Highly predictive because it is based on renewal costs
 - Provides data around the differences between how companies manage their programs
- 2008 survey conducted with over 300 national employers representing about 6 million employees, retirees, and dependents with a total annual health care spend of +\$30B

Average growth in health care costs: HMO vs PPO (CA vs national average)



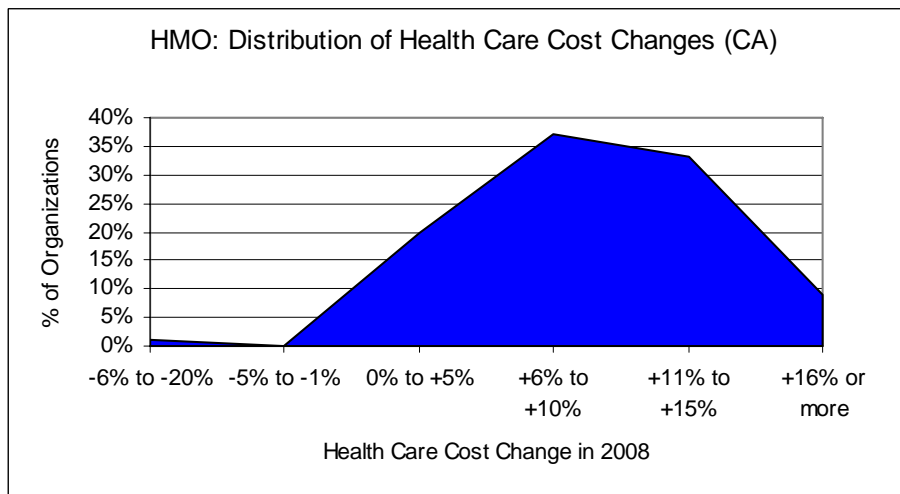
Source: Towers Perrin 2005-2008 Health Care Cost Surveys

2008 Distribution of Health Care Cost Changes (CA)



PPO

- Greater fluctuation on cost changes
- Almost one-quarter saw accrual rates stay the same or drop for 2008
- About 10% went up 16% or more
- Average cost of \$847 PEPM



HMO

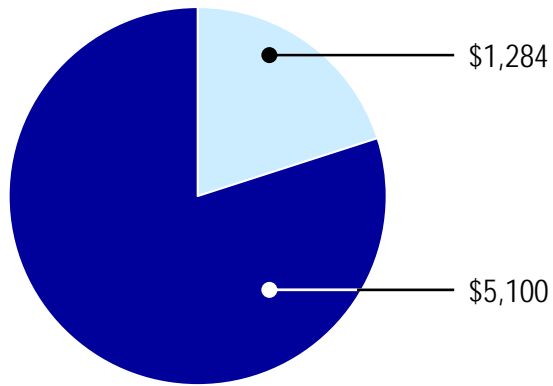
- Less fluctuation
- Generally higher increases than PPO with only 1% experiencing a rate reduction
- About 9% went up 16% or more
- Average cost of \$687 PEPM

2008 national results

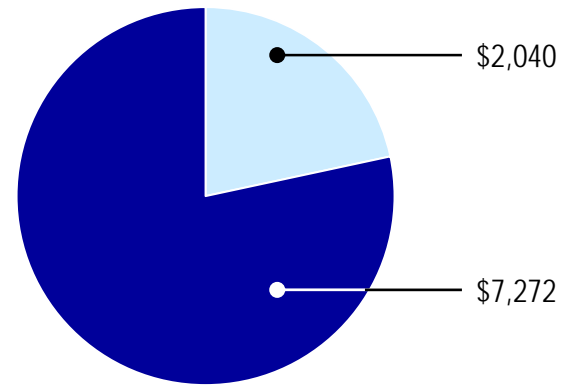
Exhibit 1

Total Employee/Employer Health Care Costs: 2003 vs. 2008

2003 Total Cost = \$6,384



2008 Total Cost = \$9,312



Employee Employer

Source: Towers Perrin 2008 Health Care Cost Survey

2008 national results

Exhibit 2

Average Annual Health Care Costs and Cost Increases by Covered Group

	Employee/Retiree Only	Employee/Retiree Plus Spouse	Family	Composite*	Average Increase from 2007
Active employees	\$4,704	\$9,660	\$13,704	\$9,312	7%
Retirees under age 65	\$6,828	\$13,968	\$18,144	\$12,780	6%
Medicare-eligible retirees	\$3,408	\$6,936	N/A	\$5,532	7%

*Composite (i.e., employee/retiree only, employee/retiree plus spouse and family combined)

Data show average annual rates across all plan types (PPO, HMO, POS, etc.)

Source: Towers Perrin 2008 Health Care Cost Survey

2008 national results

Exhibit 3

Cost Variation Across Companies: High-Performing Companies vs. Low-Performing Companies

	High-Performing Companies	Low-Performing Companies
Cost per employee per year	\$8,844	\$10,320
Increase in employer cost	5%	7%
Increase in employee cost	9%	9%

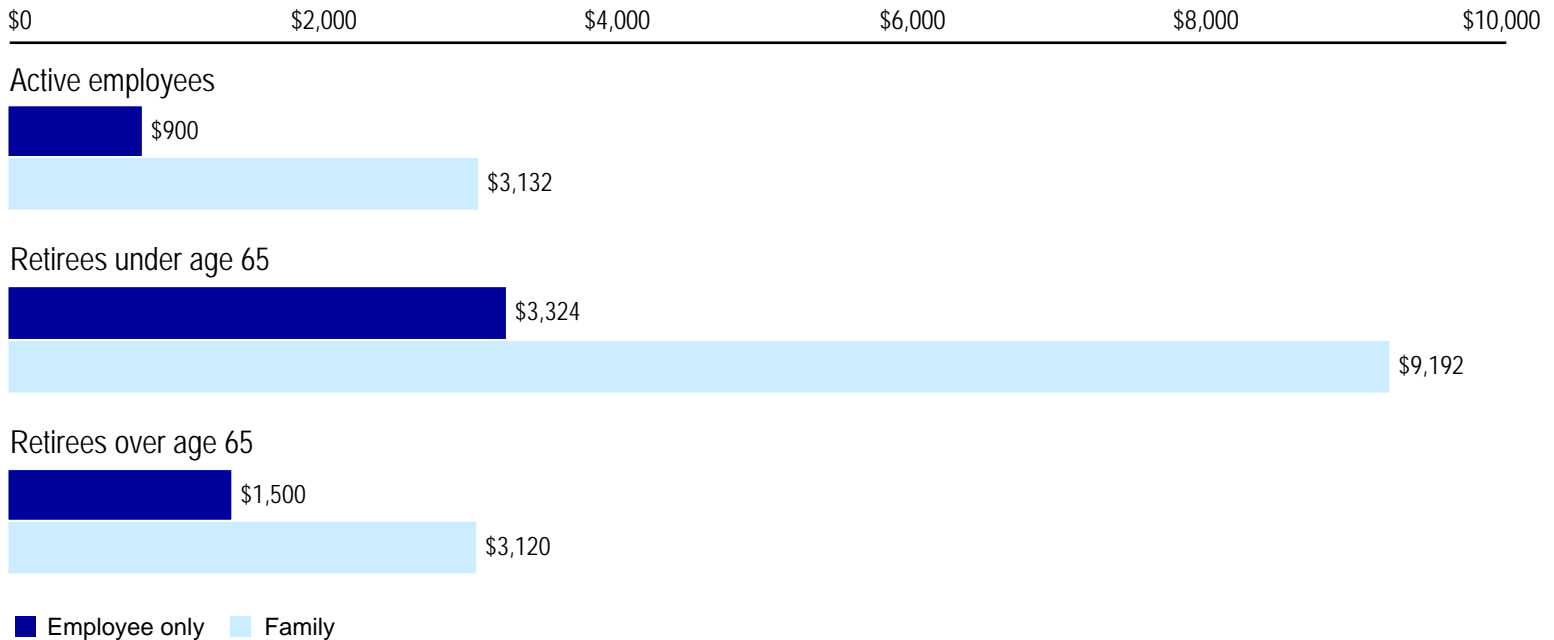
Source: *Towers Perrin 2008 Health Care Cost Survey*

Performance designations are based on relative costs and costs increases, as well as whether an organization is meeting its health benefit objectives in certain key areas.

2008 national results

Exhibit 4

Average Employee/Retiree Share of 2008 Coverage Costs



Source: Towers Perrin 2008 Health Care Cost Survey

2008 national results

Exhibit 5

Average Cost Increases: 1998 – 2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Health Care Plans											
Active employees	4%	7%	10%	12%	13%	15%	12%	8%	7%	7%	7%
Retirees under age 65	4	6	10	17	13	17	15	9	9	9	6
Retirees age 65 and older	5	10	24	18	19	19	13	9	6	8	7
Combined	4	7	12	13	14	16	12	8	7	7	7
Dental Plans											
Active employees	5%	7%	6%	7%	6%	7%	5%	5%	4%	3%	3%
Retirees under age 65	4	4	6	6	5	6	5	} 7	} 7	} 2	} 5
Retirees over age 65	3	3	6	4	4	5	6				
Inflation Measures											
Consumer Price Index (CPI)	2%	2.7%	3.4%	1.6%	2.0%	2.3%	3.2%	4.3%	2.5%	2.0*	
Medical care component of CPI	3	3.7	4.2	4.7	4.8	4.0	4.5	4.1	3.6	4.1*	

*Unadjusted 12 months ended 8/31/07

Source: Towers Perrin 2008 Health Care Cost Survey

Emerging Employer Strategies – What High-Performing Companies Do Differently

Employer health care cost variations

Top third vs. Bottom third – based on health care spend

	High-performing Companies	Low-performing Companies
Cost per employee per year	\$8,532	\$10,200
Increase in employer cost	5%	7%
Increase in employee cost	8%	9%

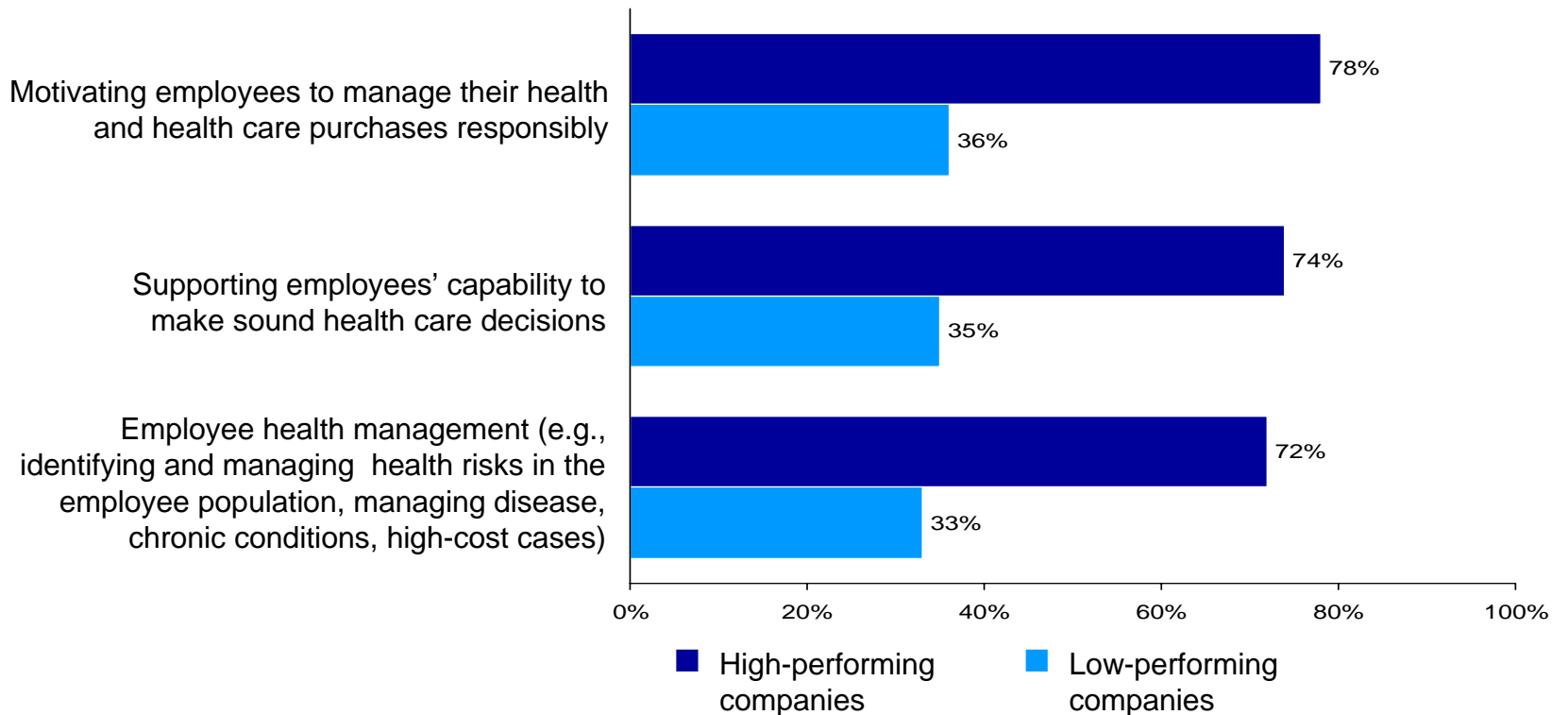
2008 Health Care Cost Survey respondents were separated into **high-performing** and **low-performing** based on average cost per active employee per year

Source: Towers Perrin 2008 Health Care Cost Survey.

Employer commitment

How Do You Describe Your Company Role Today?

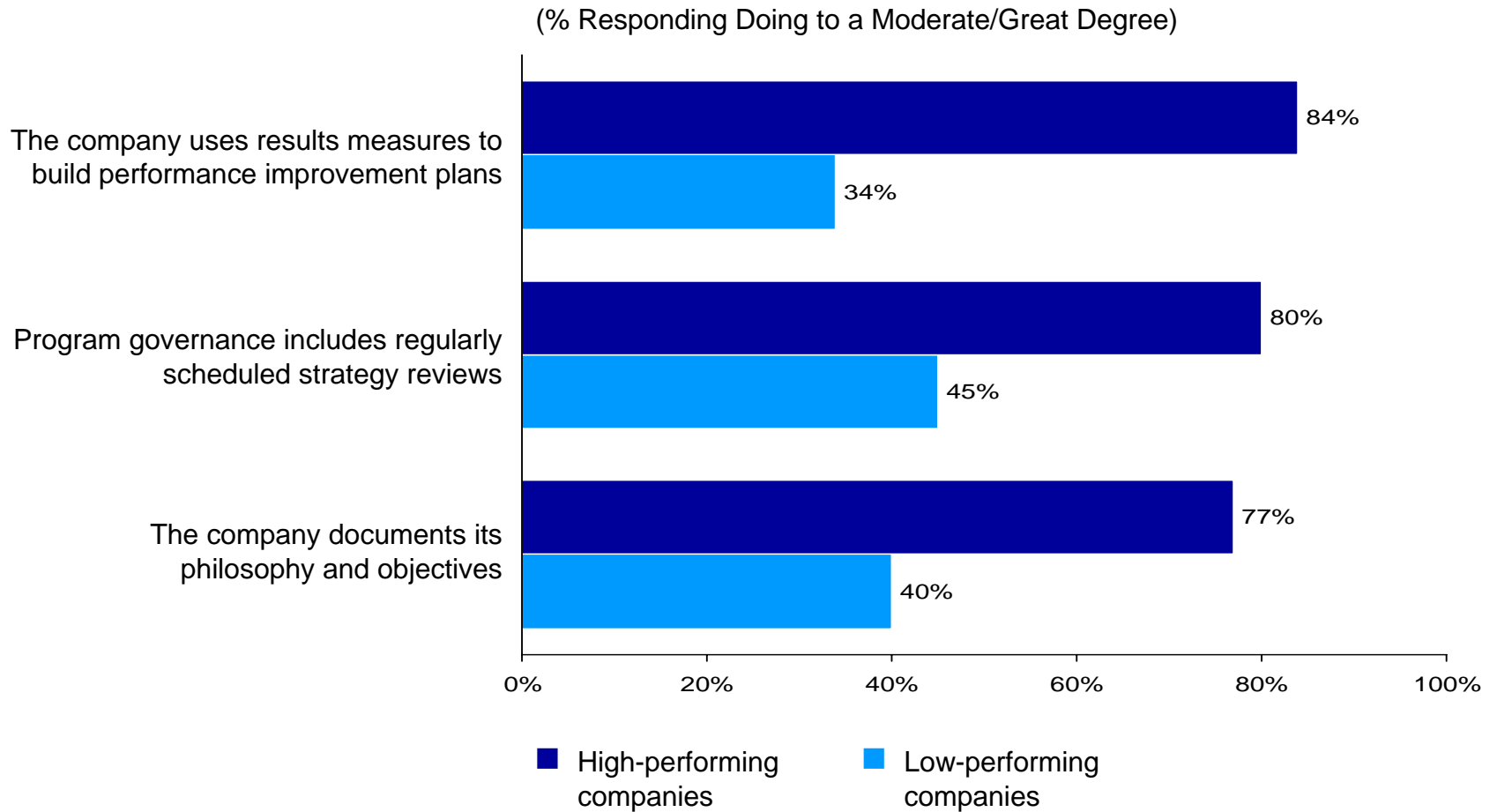
(% Large/Primary Role)



NOTE: Only 29% of TOTAL respondents say their organization today plays a large/primary role in helping employees meet their **post-retirement** financial protection needs

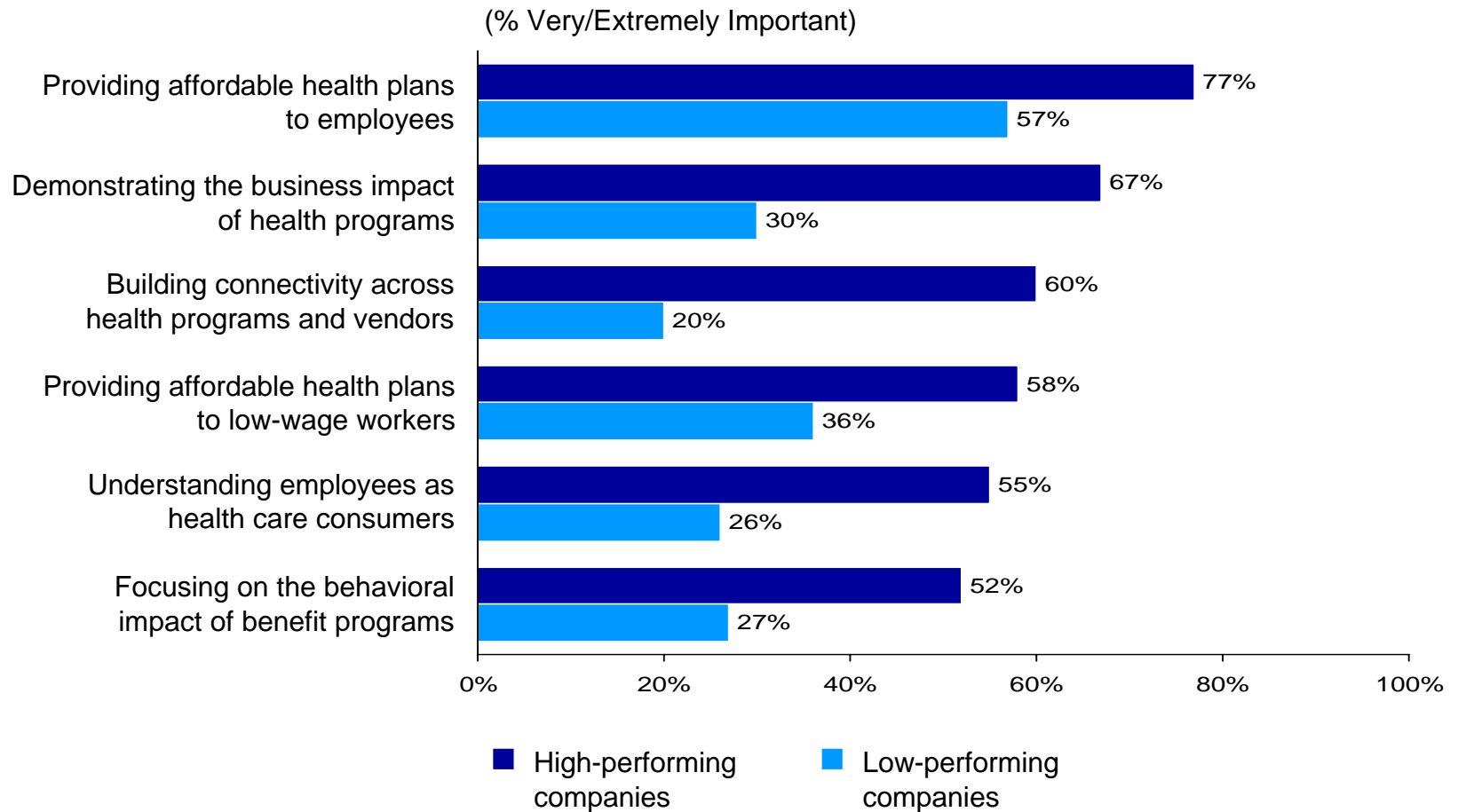
Source: Towers Perrin 2008 Health Care Cost Survey

Strategy and governance



Source: Towers Perrin 2008 Health Care Cost Survey

Factors shaping strategy



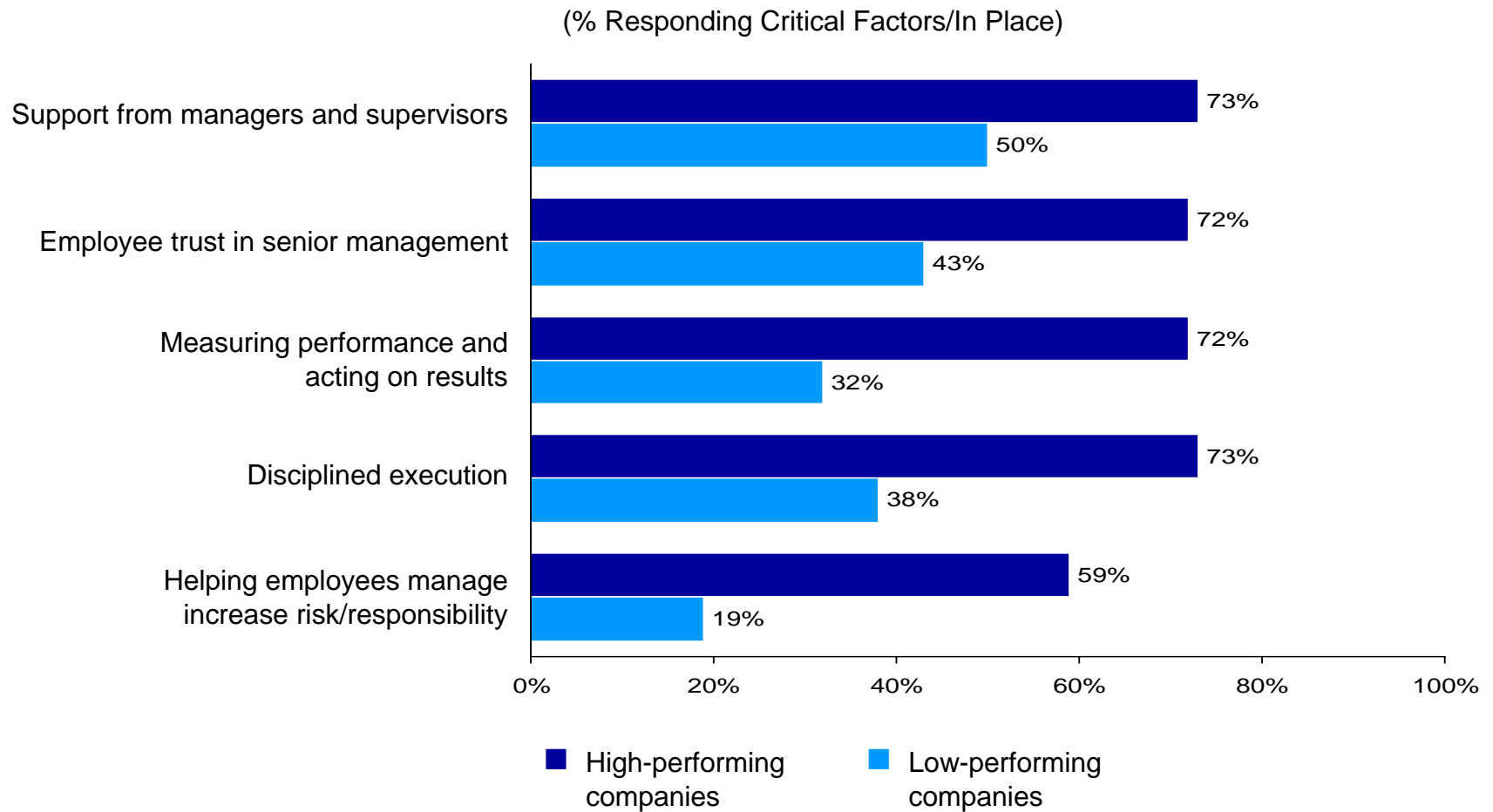
NOTE:

In total group, providing affordable health plans to employees is very/extremely important to 69% of respondents.

In total group, providing affordable health plans to **low wage workers** is every/extremely important to 50% of respondents

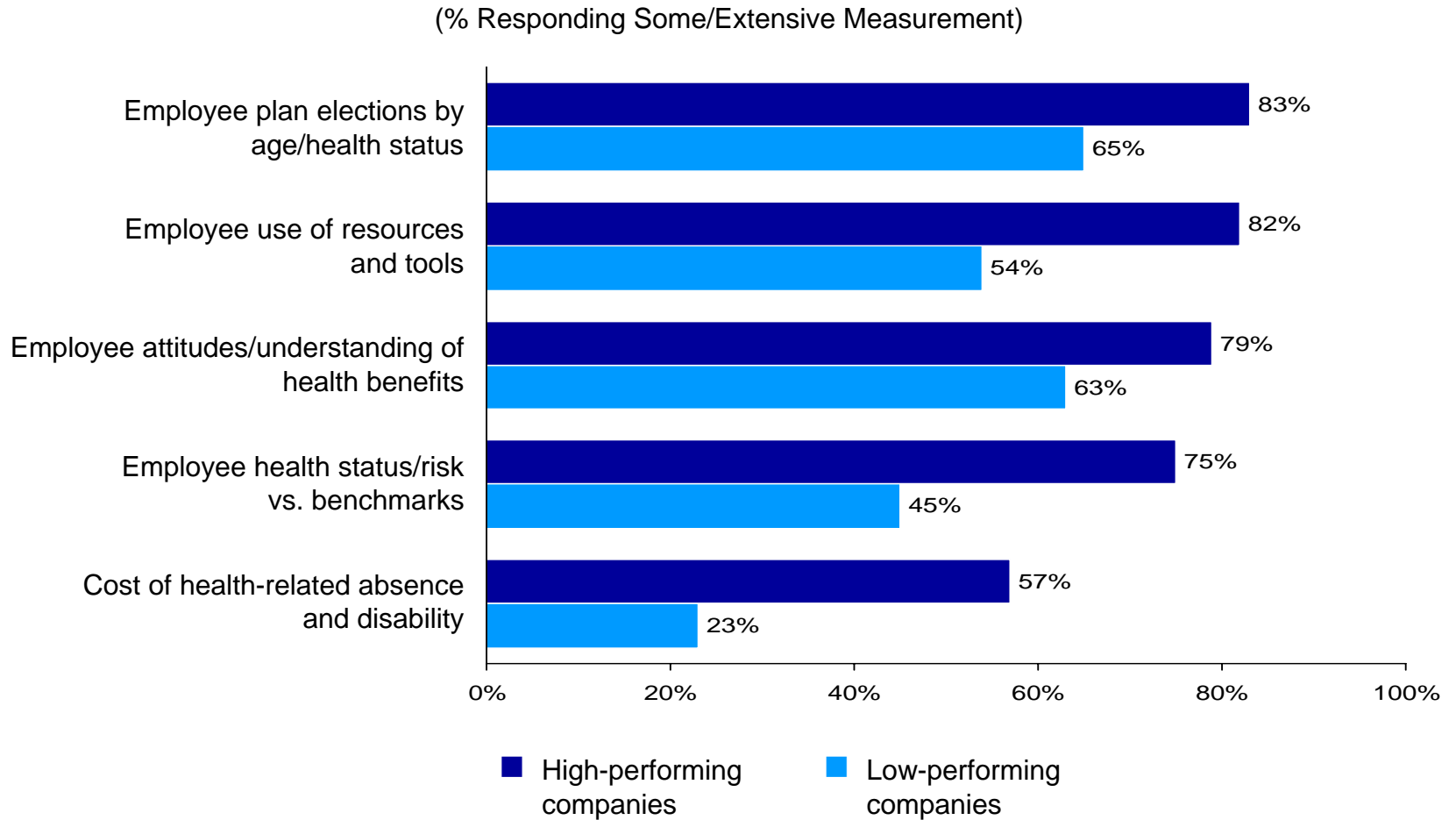
Source: *Towers Perrin 2008 Health Care Cost Survey*

Critical performance factors: Are they in place?



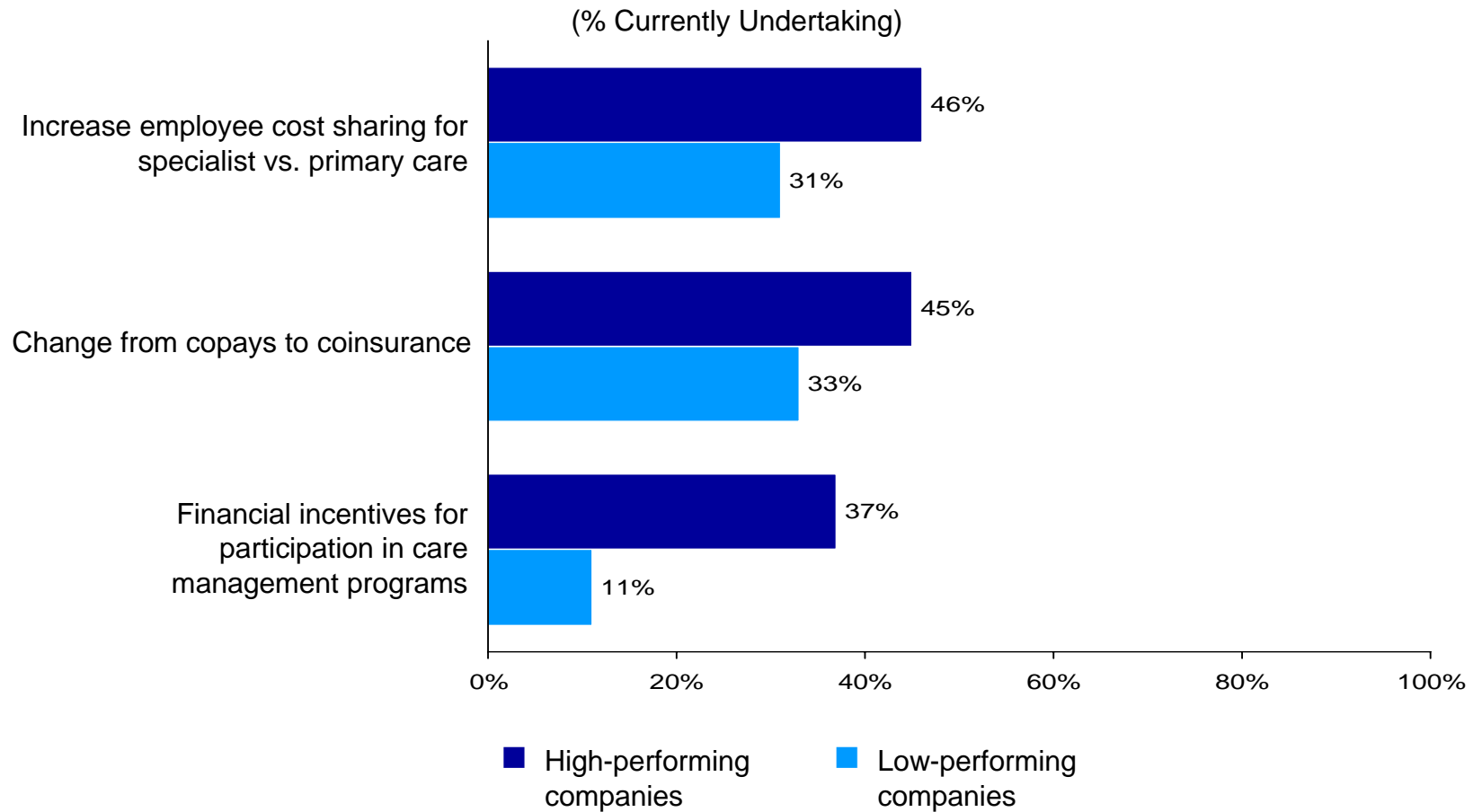
Source: Towers Perrin 2008 Health Care Cost Survey

Measurement



Source: Towers Perrin 2008 Health Care Cost Survey

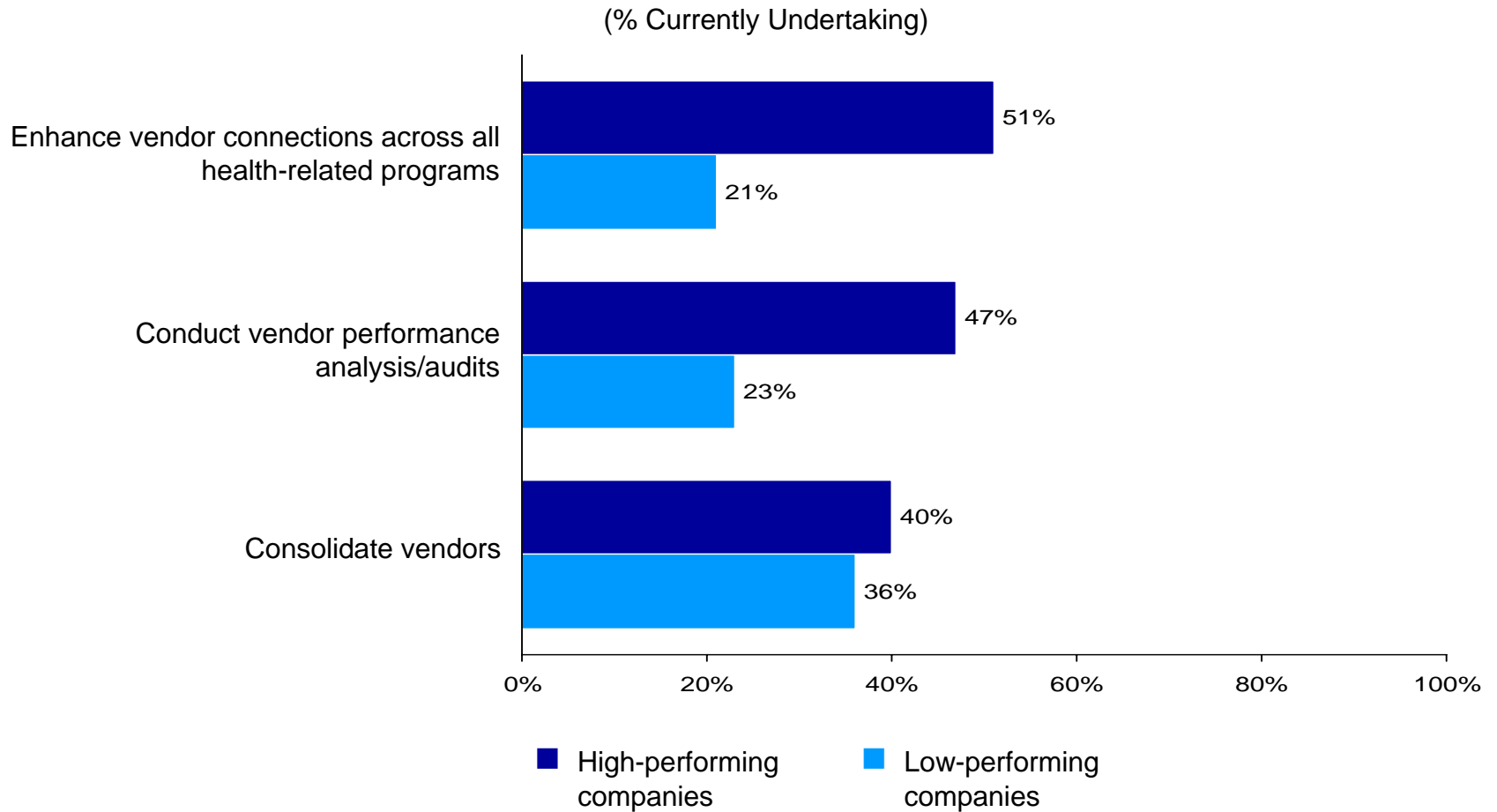
Accountability/transparency in benefit design



NOTE: More high performing companies also use coinsurance for preferred drug brands than low performing companies.

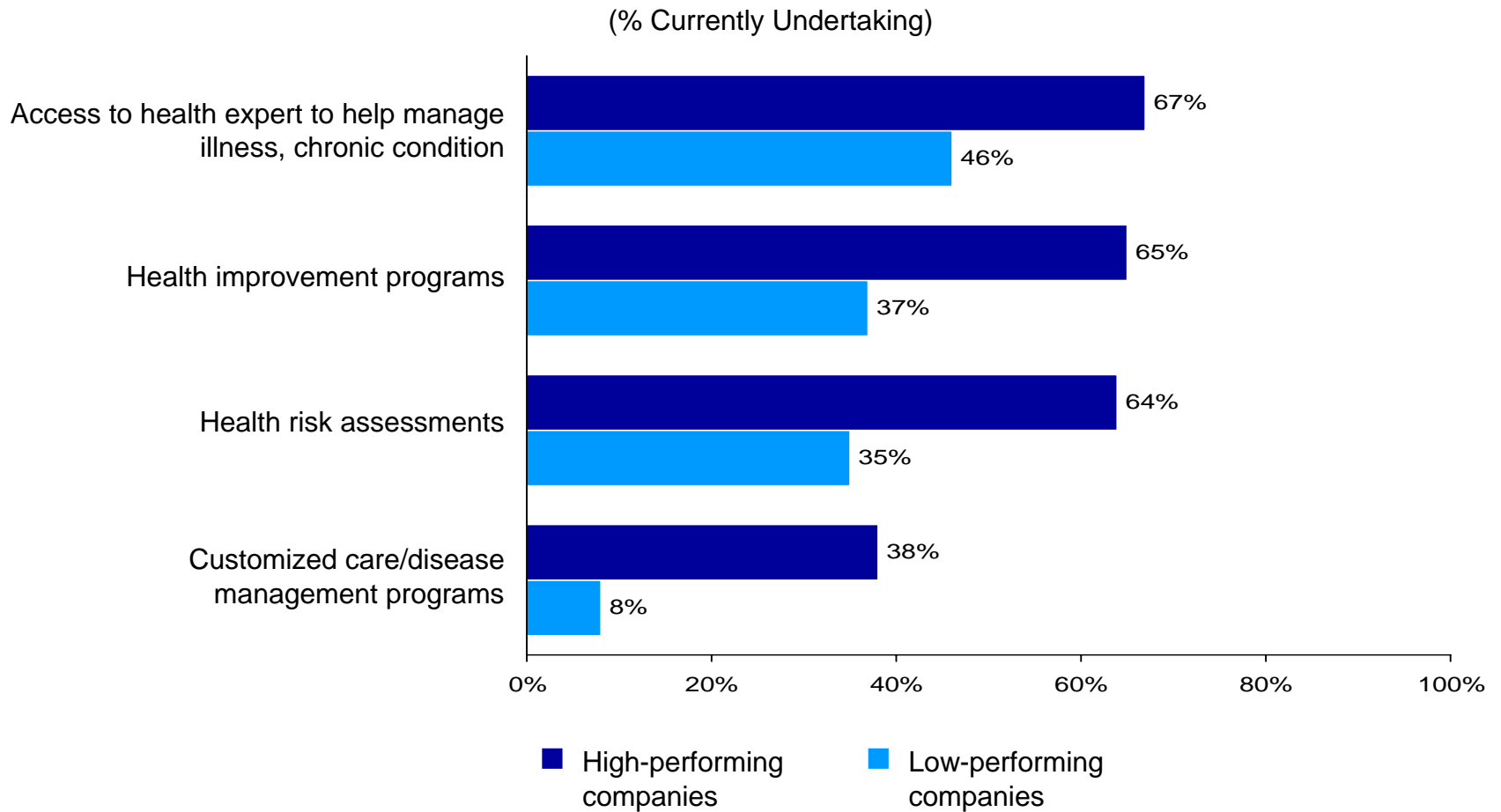
Source: *Towers Perrin 2008 Health Care Cost Survey*

Vendor management



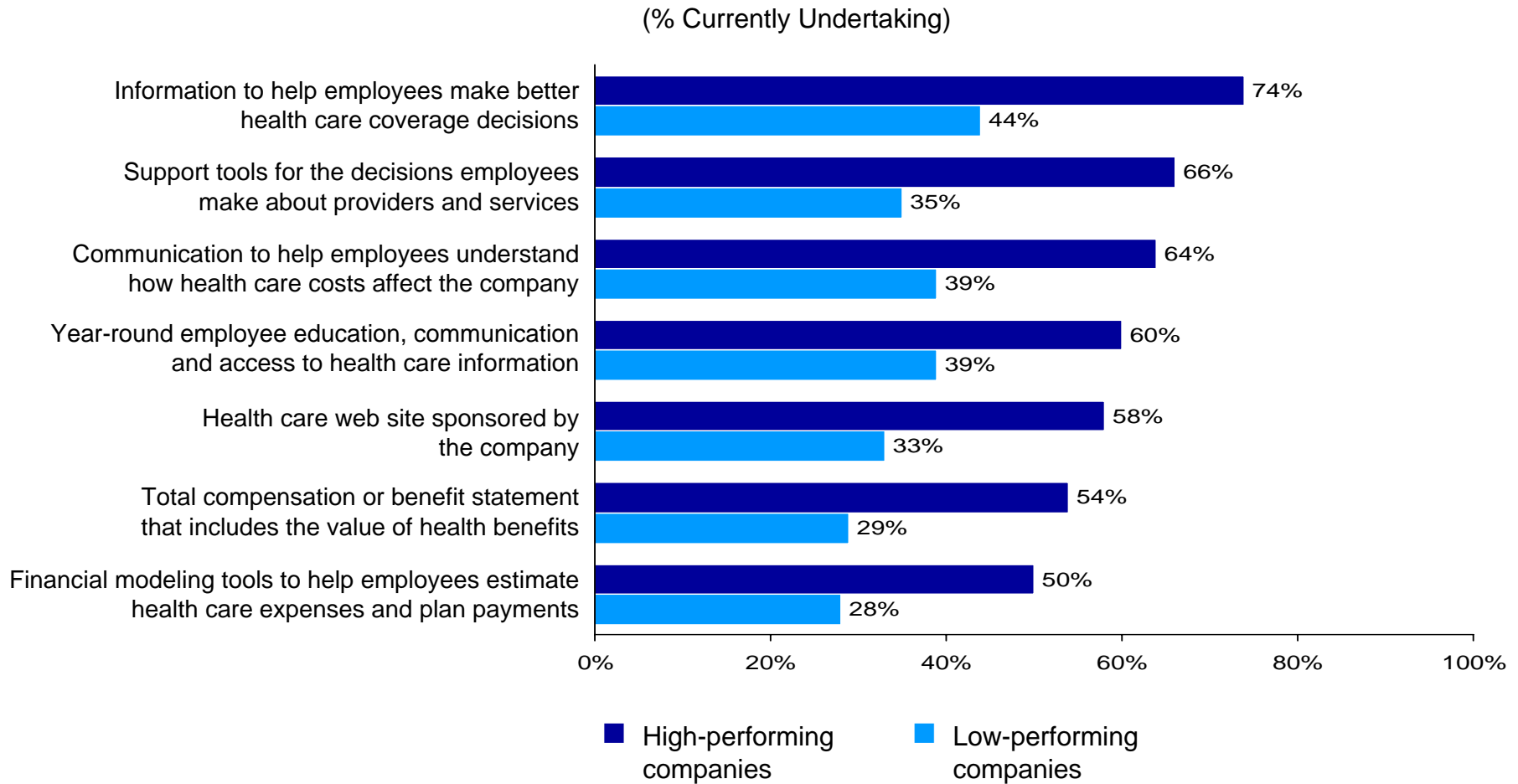
Source: Towers Perrin 2008 Health Care Cost Survey

Employee health management activities



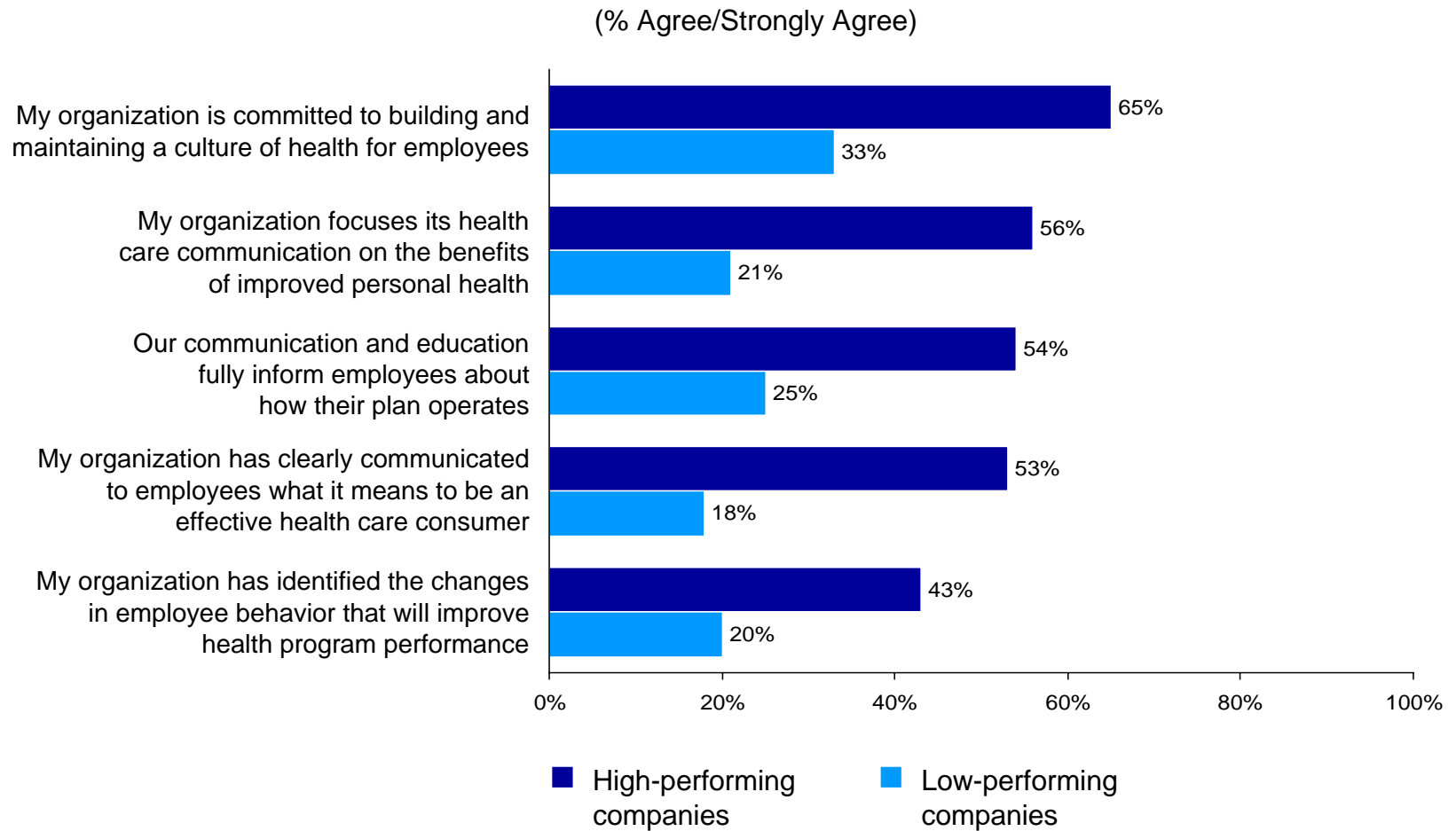
Source: Towers Perrin 2008 Health Care Cost Survey

Consumer engagement



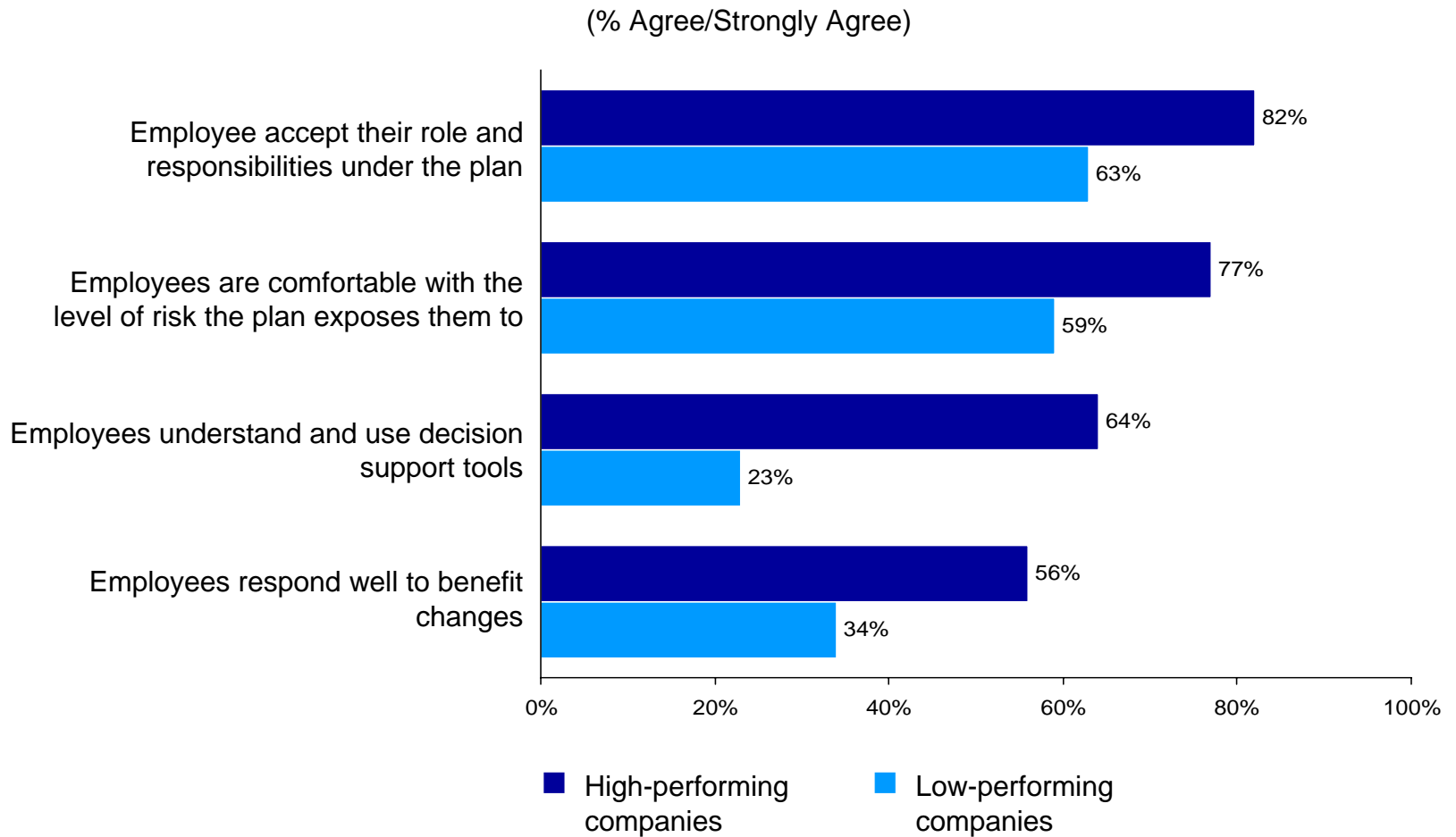
Source: Towers Perrin 2008 Health Care Cost Survey

Building a culture of health



Source: Towers Perrin 2008 Health Care Cost Survey

Communication effectiveness



Source: Towers Perrin 2008 Health Care Cost Survey

Summary

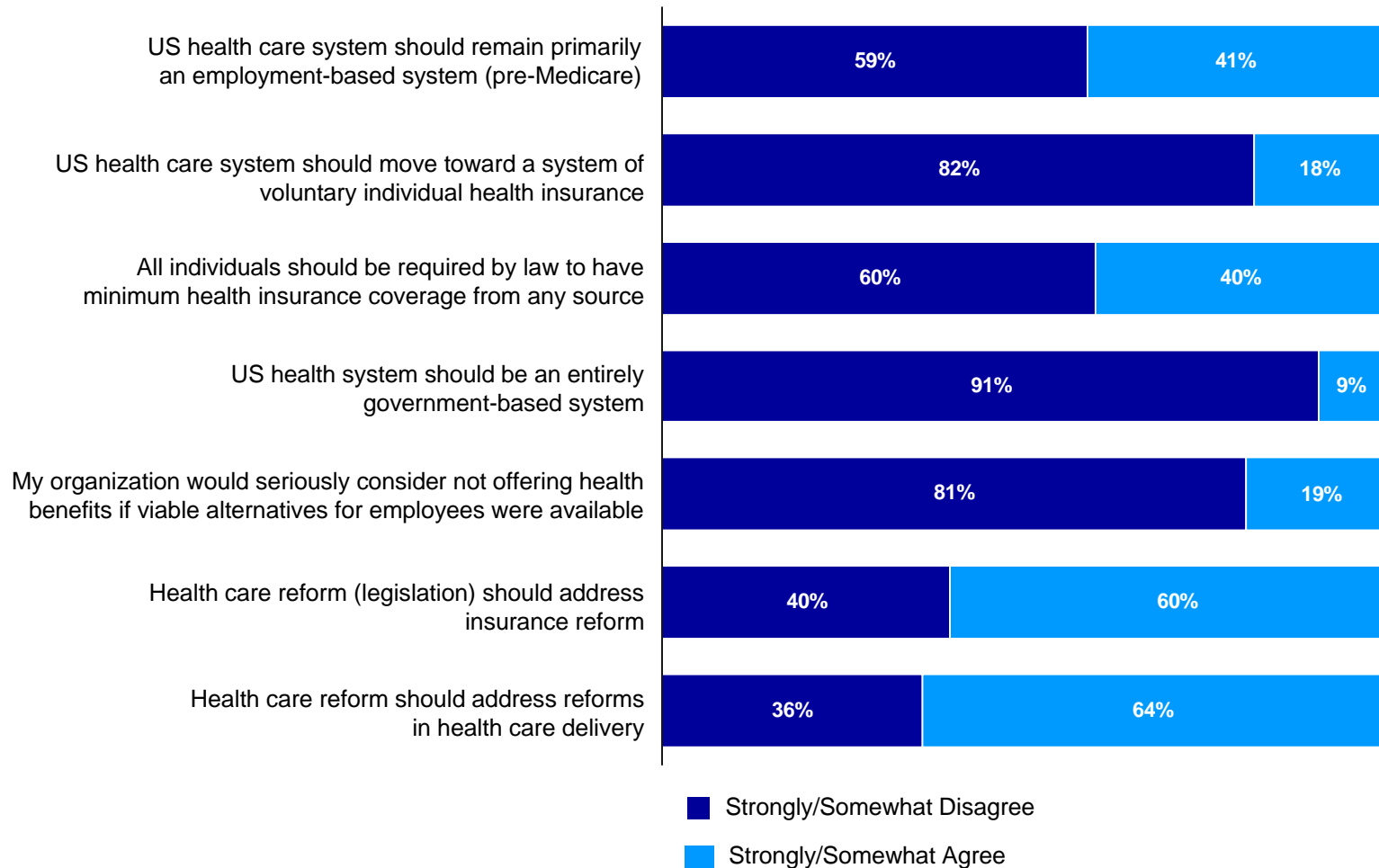
High performers

- Manage *insured and self-funded plans* in the same way (as much as possible)
- Track and manage health risks of the population over time
- Actively support employee decision-making
- Make costs transparent to employees wherever possible to engage them as consumers
- Do not accept standard reports; monitor frequently
- Manage vendor performance (audits, guarantees, negotiations)
- Measure the results of decisions
- See their plans as a competitive advantage in the market

Opinions on Health Care Reform

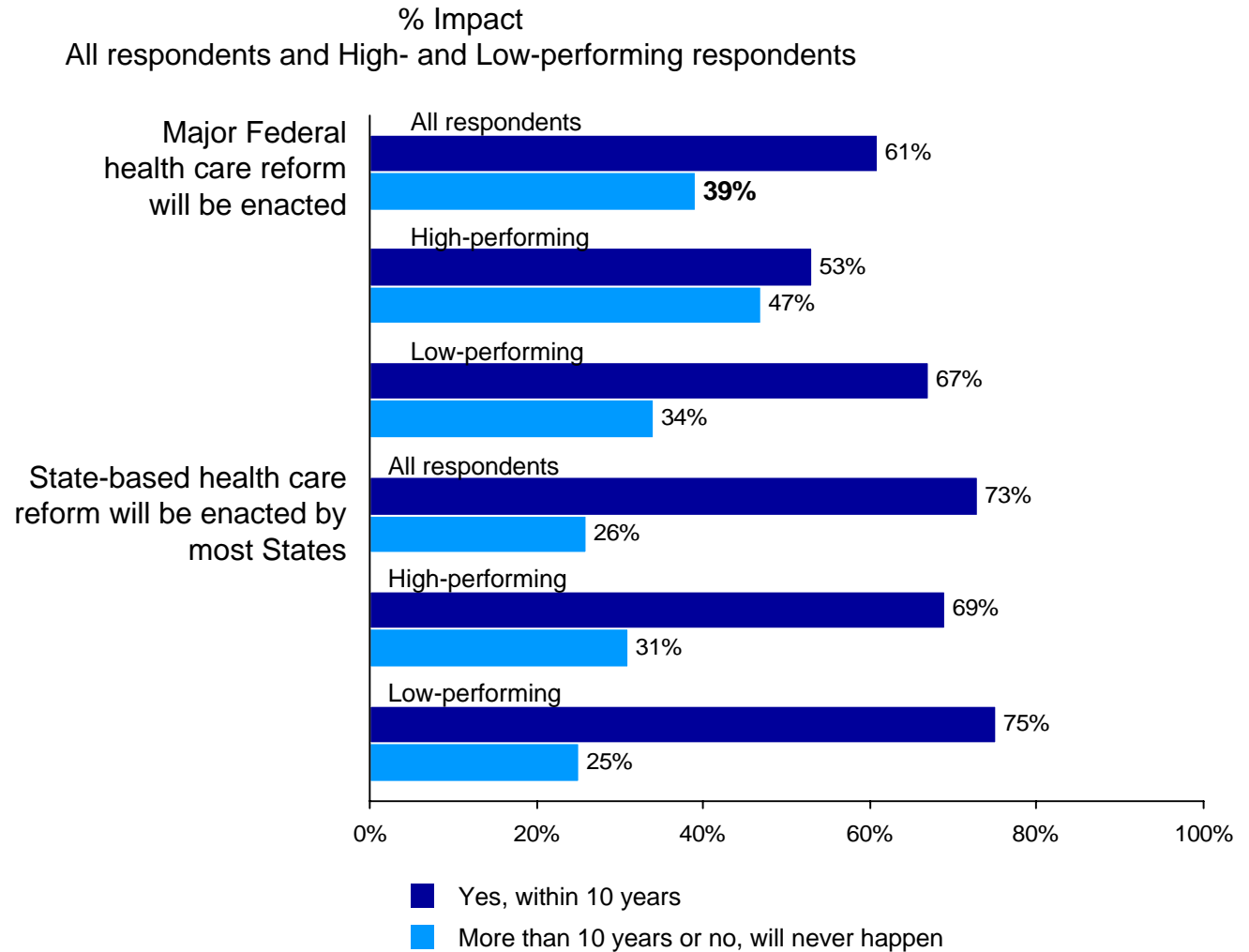
Organizational perspectives on health care reform

% Disagree/Agree
All respondents



Source: Towers Perrin 2008 Health Care Cost Survey

Expectations – possibility and timing of health care reform in the U.S.



Source: Towers Perrin 2008 Health Care Cost Survey