Towers Perrin 2008 Health Care Cost Survey:
What are organizations with lower costs doing differently?

Orange County Employee Benefit Council

March 2008
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 500 national employers representing about 10 million employees, retirees, and dependents with a total annual health care spend of $46B.
Average Growth In Health Care Costs: 
HMO Vs. PPO (CA Vs. National Average)

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
HMO costs by state

<table>
<thead>
<tr>
<th>State</th>
<th>Average Cost</th>
<th>State</th>
<th>Average Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>AZ</td>
<td>$3,941</td>
<td>NC</td>
<td>$4,491</td>
</tr>
<tr>
<td>CA</td>
<td>$3,430</td>
<td>NH</td>
<td>$4,870</td>
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<tr>
<td>CO</td>
<td>$3,825</td>
<td>NJ</td>
<td>$4,586</td>
</tr>
<tr>
<td>CT</td>
<td>$4,565</td>
<td>NM</td>
<td>$3,510</td>
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<tr>
<td>FL</td>
<td>$4,012</td>
<td>NV</td>
<td>$3,988</td>
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<tr>
<td>GA</td>
<td>$3,522</td>
<td>NY</td>
<td>$4,253</td>
</tr>
<tr>
<td>HI</td>
<td>$3,086</td>
<td>OH</td>
<td>$4,361</td>
</tr>
<tr>
<td>IA</td>
<td>$3,449</td>
<td>OR</td>
<td>$4,040</td>
</tr>
<tr>
<td>IL</td>
<td>$3,779</td>
<td>PA</td>
<td>$4,185</td>
</tr>
<tr>
<td>IN</td>
<td>$4,421</td>
<td>RI</td>
<td>$4,609</td>
</tr>
<tr>
<td>KY</td>
<td>$4,577</td>
<td>SC</td>
<td>$4,530</td>
</tr>
<tr>
<td>LA</td>
<td>$4,232</td>
<td>TX</td>
<td>$4,455</td>
</tr>
<tr>
<td>MA</td>
<td>$4,817</td>
<td>UT</td>
<td>$3,450</td>
</tr>
<tr>
<td>MD</td>
<td>$3,859</td>
<td>VA</td>
<td>$3,598</td>
</tr>
<tr>
<td>ME</td>
<td>$5,277</td>
<td>WA</td>
<td>$4,257</td>
</tr>
<tr>
<td>MI</td>
<td>$4,245</td>
<td>WI</td>
<td>$4,256</td>
</tr>
<tr>
<td>MN</td>
<td>$4,860</td>
<td>WV</td>
<td>$4,975</td>
</tr>
<tr>
<td>MO</td>
<td>$4,433</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2006 fully insured unadjusted HMO costs for states with more than 500 enrollees.

## Southern California Active and Early Retirees

<table>
<thead>
<tr>
<th>Paid</th>
<th>January 2006 – December 2006</th>
<th>U.S. Benchmark</th>
<th>Percent Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees average</td>
<td>159,267</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members average</td>
<td>343,859</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family size average</td>
<td>2.1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Inpatient

| Admits per 1,000 acute | 56.8 | 69.8 | -18.7% |
| Days per 1,000 admits acute | 223.2 | 274.7 | -18.7% |
| Days LOS admit acute | 3.93 | 3.94 | -0.1% |

### Outpatient

| Services per 1,000 medical | 19,525.5 | 24,965.3 | -21.8% |
| Visits per 1,000 office medical | 5,924.9 | 6,117.5 | -3.1% |
| Visits per 1,000 ER | 152.4 | 198.7 | -23.3% |

### Pharmacy

| Scripts per 1,000 Rx | 8,613.5 | 10,539.1 | -18.3% |
| Days Supply Per Pat Rx | 412.2 | 448.3 | -8.1% |

Source: Thomson Healthcare MarketScan® data warehouse.
Consumer engagement: Preventive screening prevalence

Southern California follows screening guidelines at a higher rate than the U.S. for some screenings

Prevalence Rates

Source: Thomson Healthcare MarketScan® data warehouse.
Population health: chronic condition prevalence

- With the exception of asthma, Southern California has lower prevalence.

Prevalence Rates

2008 National Results

Exhibit 1
Total Employee/Employer Health Care Costs: 2003 vs. 2008

2003 Total Cost = $6,384

- Employee: $1,284
- Employer: $5,100

2008 Total Cost = $9,312

- Employee: $2,040
- Employer: $7,272

### 2008 National Results

#### Exhibit 2
**Average Annual Health Care Costs and Cost Increases by Covered Group**

<table>
<thead>
<tr>
<th></th>
<th>Employee/Retiree Only</th>
<th>Employee/Retiree Plus Spouse</th>
<th>Family</th>
<th>Composite*</th>
<th>Average Increase from 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Active Employees</strong></td>
<td>$4,704</td>
<td>$9,660</td>
<td>$13,704</td>
<td>$9,312</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Retirees Under Age 65</strong></td>
<td>$6,828</td>
<td>$13,968</td>
<td>$18,144</td>
<td>$12,780</td>
<td>6%</td>
</tr>
<tr>
<td><strong>Medicare-Eligible Retirees</strong></td>
<td>$3,408</td>
<td>$6,936</td>
<td>N/A</td>
<td>$5,532</td>
<td>7%</td>
</tr>
</tbody>
</table>

Data show average annual rates across all plan types (PPO, HMO, POS, etc.).
*Composite (i.e., employee/retiree only, employee/retiree plus spouse and family combined).
# 2008 National Results

## Exhibit 3
Average Employee/Retiree Share of 2008 Coverage Costs

<table>
<thead>
<tr>
<th></th>
<th>$0</th>
<th>$2,000</th>
<th>$4,000</th>
<th>$6,000</th>
<th>$8,000</th>
<th>$10,000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Active Employees</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee only</td>
<td>$900</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Family</td>
<td></td>
<td>$3,132</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Retirees Under Age 65</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$3,324</td>
<td>$9,192</td>
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<tr>
<td><strong>Retirees Over Age 65</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$1,500</td>
<td>$3,120</td>
</tr>
</tbody>
</table>

- Employee only
- Family

### 2008 National Results

**Exhibit 4**
**Average Cost Increases: 1998 – 2008**

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Health Care Plans</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Active employees</td>
<td>4%</td>
<td>7%</td>
<td>10%</td>
<td>12%</td>
<td>13%</td>
<td>15%</td>
<td>12%</td>
<td>8%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
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<tr>
<td>Retirees under age 65</td>
<td>4</td>
<td>6</td>
<td>10</td>
<td>17</td>
<td>13</td>
<td>17</td>
<td>15</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>Retirees age 65 and older</td>
<td>5</td>
<td>10</td>
<td>24</td>
<td>18</td>
<td>19</td>
<td>13</td>
<td>9</td>
<td>6</td>
<td>8</td>
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<tr>
<td>Combined</td>
<td>4</td>
<td>7</td>
<td>12</td>
<td>13</td>
<td>14</td>
<td>16</td>
<td>12</td>
<td>8</td>
<td>7</td>
<td>7</td>
<td>7</td>
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<tr>
<td><strong>Dental Plans</strong></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Active employees</td>
<td>5%</td>
<td>7%</td>
<td>6%</td>
<td>7%</td>
<td>6%</td>
<td>7%</td>
<td>5%</td>
<td>5%</td>
<td>4%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Retirees under age 65</td>
<td>4</td>
<td>4</td>
<td>6</td>
<td>6</td>
<td>5</td>
<td>6</td>
<td>5</td>
<td>7</td>
<td>7</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Retirees over age 65</td>
<td>3</td>
<td>3</td>
<td>6</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Inflation Measures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Price Index (CPI)</td>
<td>2%</td>
<td>2.7%</td>
<td>3.4%</td>
<td>1.6%</td>
<td>2.0%</td>
<td>2.3%</td>
<td>3.2%</td>
<td>4.3%</td>
<td>2.5%</td>
<td>2.0*</td>
<td></td>
</tr>
<tr>
<td>Medical care component of CPI</td>
<td>3</td>
<td>3.7</td>
<td>4.2</td>
<td>4.7</td>
<td>4.8</td>
<td>4.0</td>
<td>4.5</td>
<td>4.1</td>
<td>3.6</td>
<td>4.1*</td>
<td></td>
</tr>
</tbody>
</table>

*Unadjusted 12 months ended 8/31/07

2008 Average Medical Cost Increases by Plan Type

Active Employees

- All medical plans combined: 6%
- PPO plans: 6%
- POS plans: 8%
- HMOs: 7%
- Indemnity: 7%
- ABHPs with health reimbursement account: 7%
- ABHPs with health savings account: 7%

Emerging Employer Strategies — What High-Performing Companies Do Differently
Employer Health Care Cost Variations

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

<table>
<thead>
<tr>
<th></th>
<th>High-Performing Companies</th>
<th>Low-Performing Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost per employee per year</td>
<td>$8,532</td>
<td>$10,200</td>
</tr>
<tr>
<td>Increase in employer cost</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>Increase in employee cost</td>
<td>8%</td>
<td>9%</td>
</tr>
</tbody>
</table>

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

Nearly one half of high performing companies, those companies who are “actively managing” their health plans and delivery processes, are managing to get their increases closer to the medical CPI of about 4%.

Employee health management (e.g., identifying and managing health risks in the employee population, managing disease, chronic conditions, high-cost cases)

Supporting employees’ capability to make sound health care decisions

Motivating employees to manage their health and health care purchases responsibly

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.

The company uses results measures to build performance improvement plans.

Program governance includes regularly scheduled strategy reviews.

The company documents its philosophy and objectives.

**Factors Shaping Strategy**

- **Providing affordable health plans to employees**: 77% (High-Performing: 57%, Low-Performing: 67%)
- **Demonstrating the business impact of health programs**: 60% (High-Performing: 30%, Low-Performing: 20%)
- **Building connectivity across health programs and vendors**: 55% (High-Performing: 26%, Low-Performing: 27%)
- **Providing affordable health plans to low-wage workers**: 58% (High-Performing: 36%, Low-Performing: 36%)
- **Understanding employees as health care consumers**: 52% (High-Performing: 26%, Low-Performing: 26%)
- **Focusing on the behavioral impact of benefit programs**: 50% (High-Performing: 20%, Low-Performing: 20%)

*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 very/extremely important to 50% of respondents.

Critical Performance Factors: Are They In Place?

(% Responding Critical Factors/In Place)

- Support from managers and supervisors: 73% (High-Performing) vs. 50% (Low-Performing)
- Employee trust in senior management: 72% (High-Performing) vs. 43% (Low-Performing)
- Measuring performance and acting on results: 72% (High-Performing) vs. 32% (Low-Performing)
- Disciplined execution: 73% (High-Performing) vs. 38% (Low-Performing)
- Helping employees manage increase risk/responsibility: 59% (High-Performing) vs. 19% (Low-Performing)

Measurement

(% Responding Some/Extensive Measurement)

- Employee plan elections by age/health status: 83% (High-Performing) vs. 65% (Low-Performing)
- Employee use of resources and tools: 82% (High-Performing) vs. 54% (Low-Performing)
- Employee attitudes/understanding of health benefits: 79% (High-Performing) vs. 63% (Low-Performing)
- Employee health status/risk vs. benchmarks: 75% (High-Performing) vs. 45% (Low-Performing)
- Cost of health-related absence and disability: 57% (High-Performing) vs. 23% (Low-Performing)

Accountability/Transparency In Benefit Design

- Increase employee cost sharing for specialist vs. primary care
  - High-Performing companies: 46%
  - Low-Performing companies: 31%

- Change from copays to coinsurance
  - High-Performing companies: 45%
  - Low-Performing companies: 33%

- Financial incentives for participation in care management programs
  - High-Performing companies: 37%
  - Low-Performing companies: 11%

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

Vendor Management

- Enhance vendor connections across all health-related programs: 51% (High-Performing companies), 21% (Low-Performing companies)
- Conduct vendor performance analysis/audits: 47% (High-Performing companies), 23% (Low-Performing companies)
- Consolidate vendors: 40% (High-Performing companies), 36% (Low-Performing companies)

Employee Health Management Activities

<table>
<thead>
<tr>
<th>Activity</th>
<th>High-Performing companies</th>
<th>Low-Performing companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to health expert to help manage illness, chronic condition</td>
<td>67%</td>
<td>46%</td>
</tr>
<tr>
<td>Health improvement programs</td>
<td>65%</td>
<td>37%</td>
</tr>
<tr>
<td>Health risk assessments</td>
<td>64%</td>
<td>35%</td>
</tr>
<tr>
<td>Customized care/disease management programs</td>
<td>38%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Information to help employees make better health care coverage decisions
28%

Support tools for the decisions employees make about providers and services
33%

Communication to help employees understand how health care costs affect the company
39%

Year-round employee education, communication and access to health care information
39%

Health care web site sponsored by the company
33%

Total compensation or benefit statement that includes the value of health benefits
58%

Financial modeling tools to help employees estimate health care expenses and plan payments

High-Performing companies
Low-Performing companies

Building A Culture Of Health

- My organization is committed to building and maintaining a culture of health for employees
- My organization focuses its health care communication on the benefits of improved personal health
- Our communication and education fully inform employees about how their plan operates
- My organization has clearly communicated to employees what it means to be an effective health care consumer
- My organization has identified the changes in employee behavior that will improve health program performance

Communication Effectiveness

Employee accept their role and responsibilities under the plan
- High-Performing companies: 82%
- Low-Performing companies: 63%

Employees are comfortable with the level of risk the plan exposes them to
- High-Performing companies: 77%
- Low-Performing companies: 59%

Employees understand and use decision support tools
- High-Performing companies: 64%
- Low-Performing companies: 23%

Employees respond well to benefit changes
- High-Performing companies: 56%
- Low-Performing companies: 34%

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
  - Attain greater employee involvement in managing their own care
- 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; accountability models)
- Measure the results of decisions
- See their plans as a competitive advantage in the market
Outlook for Retiree Medical

- 47% provide a retiree subsidy
  - 96% of retirees eligible for retiree subsidy
  - 67% of current actives eligible for a retiree subsidy
  - 48% of new hires eligible for a retiree subsidy
- 32% changing the employer subsidy
- 31% tightening retiree eligibility
- 28% offering (more) Medicare Advantage HMO/PPO options
- 24% changing plan design
Evolving Role of the Employer

(% responding primary/large role)

- Cost management: 86% today, 87% in 2012
- Providing competitive benefits: 85% today, 80% in 2012
- Meeting employee financial protection needs: 68% today, 64% in 2012
- Motivating employees to manage their health care purchases responsibly: 59% today, 72% in 2012
- Employee health management: 57% today, 70% in 2012
- Supporting employees’ capability to make sound care decisions: 55% today, 69% in 2012

Opinions on Health Care Reform
### Organizational Perspectives On Health Care Reform

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly/Somewhat Disagree</th>
<th>Strongly/Somewhat Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>US health care system should remain primarily an employment-based system (pre-Medicare)</td>
<td>16%</td>
<td>84%</td>
</tr>
<tr>
<td>US health care system should move toward a system of voluntary individual health insurance</td>
<td>64%</td>
<td>36%</td>
</tr>
<tr>
<td>All individuals should be required by law to have minimum health insurance coverage from any source</td>
<td>32%</td>
<td>68%</td>
</tr>
<tr>
<td>US health system should be an entirely government-based system</td>
<td>91%</td>
<td>9%</td>
</tr>
<tr>
<td>My organization would seriously consider not offering health benefits if viable alternatives for employees were available</td>
<td>81%</td>
<td>19%</td>
</tr>
<tr>
<td>Health care reform (legislation) should address insurance reform</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>Health care reform should address reforms in health care delivery</td>
<td>36%</td>
<td>64%</td>
</tr>
</tbody>
</table>

Expectations — Possibility and Timing Of Health Care Reform In the U.S.

% Impact
All Respondents and High- and Low-Performing Respondents

Major Federal health care reform will be enacted
- All Respondents: 61%
  - High-Performing: 53%
  - Low-Performing: 67%
- All Respondents: 39%
  - High-Performing: 47%
  - Low-Performing: 34%

State-based health care reform will be enacted by most States
- All Respondents: 73%
  - High-Performing: 69%
  - Low-Performing: 75%
- All Respondents: 26%
  - High-Performing: 31%
  - Low-Performing: 25%


- Yes, within 10 years
- More than 10 years or no, will never happen
Questions