2016 Willis Towers Watson Survey Update
Best Practices in Health Care (Fall 2015)
Emerging Trends (Spring 2016)

March 10, 2016

A presentation to Orange County Employee Benefits Council
by Sandy Ageloff, Willis Towers Watson West Health & Benefits Leader
About the Willis Towers Watson surveys

Emerging Trends Survey

467/12.1M

Employers / Full Time Employees

- Survey data collected between January and February 2016

Best Practices Survey

487/15.1M

Employers / Full Time Employees

- Survey data collected between June and July 2015

Number of full-time workers employed by respondents

- 500 to 2,500: 21%
- 2,500 to 5,000: 24%
- 5,000 to 10,000: 19%
- 10,000 to 25,000: 28%
- 25,000+: 13%


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Key trends

1. Health care trend remains in the mid single digits

2. Excise tax will continue to influence benefits strategy despite its delay

3. Digital engagement is becoming the norm

4. Telemedicine has quickly become a core offering, with Centers of Excellence and High Performance Networks on the rise

5. Employers are beginning to understand the value of group private exchanges

Health care cost trend remains low; but consistently higher than CPI-U for several years

<table>
<thead>
<tr>
<th>Year</th>
<th>Health care trend after plan changes (total plan costs)</th>
<th>Health care trend before plan changes</th>
<th>CPI-U</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>10.3%</td>
<td>5.3%</td>
<td>4.0%</td>
</tr>
<tr>
<td>2002</td>
<td>14.7%</td>
<td>6.8%</td>
<td>4.9%</td>
</tr>
<tr>
<td>2003</td>
<td>13.0%</td>
<td>6.8%</td>
<td>4.0%</td>
</tr>
<tr>
<td>2004</td>
<td>11.3%</td>
<td>6.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>2005</td>
<td>9.2%</td>
<td>5.5%</td>
<td>4.0%</td>
</tr>
<tr>
<td>2006</td>
<td>9.0%</td>
<td>6.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>2007</td>
<td>8.3%</td>
<td>5.5%</td>
<td>4.0%</td>
</tr>
<tr>
<td>2008</td>
<td>6.4%</td>
<td>4.2%</td>
<td>3.0%</td>
</tr>
<tr>
<td>2009</td>
<td>6.0%</td>
<td>5.8%</td>
<td>4.0%</td>
</tr>
<tr>
<td>2010</td>
<td>8.0%</td>
<td>4.9%</td>
<td>4.0%</td>
</tr>
<tr>
<td>2011</td>
<td>8.0%</td>
<td>5.5%</td>
<td>4.0%</td>
</tr>
<tr>
<td>2012</td>
<td>8.0%</td>
<td>6.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>2013</td>
<td>6.8%</td>
<td>6.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>2014</td>
<td>5.5%</td>
<td>6.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>2015</td>
<td>5.5%</td>
<td>5.5%</td>
<td>4.0%</td>
</tr>
<tr>
<td>2016</td>
<td>6.8%</td>
<td>6.0%</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

2016: 6.0% before changes 4.0% after changes

Note:
- Median trends for medical and drug claims for active employees.
- CPI-U extracted from the Department of Labor, Bureau of Labor Statistics.

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Employer confidence in offering health care coverage in ten years nearly doubles

Note: High Confidence represents responses of “Very confident.”
Cost is the key driver of change for health care programs

Trend
- Leadership buy-in
- Specialty Pharmacy
- Excise Tax
- Regulatory Changes
- Utilization
- High cost claimants
- ACOs and COEs
- Wellness Incentives
- Union Negotiations
- Employee Engagement

Employers take aggressive action to control costs

#1 Priority is to evaluate health and pharmacy plan design strategy

- 80% Plan to change health and pharmacy plan design as most important priority in the next 3 years
- 60% Anticipate adopting spousal surcharge, compared to 27% today
- 40% Structure employee contributions based on employees taking specific actions
- 20% Currently use defined contribution strategies, expected to double by 2018

While the emphasis on excise tax is shifting, most employers plan moderate to significant changes over the next 4 years.

<table>
<thead>
<tr>
<th>No influence on health care strategy</th>
<th>Small influence on health care strategy</th>
<th>Moderate influence on health care strategy</th>
<th>Significant influence on health care strategy</th>
<th>Most important factor influencing our health care strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>28%</td>
<td>42%</td>
<td>23%</td>
<td>7%</td>
<td>1%</td>
</tr>
</tbody>
</table>

2015: 29%

Note: Responses of “not applicable” have been removed.
Employers are placing more emphasis on using data and metrics

WTW POINT OF VIEW …
The rate and level of change in the vendor marketplace has resulted in employers pursuing a number of different approaches in search of value

- Offer **more** health plan vendors in a market
  - Not at all: 9%
  - To a moderate extent: 5%
  - To a great extent: 86%

- Offer **fewer** health plan vendors in a market
  - Not at all: 9%
  - To a moderate extent: 7%
  - To a great extent: 83%

- Offer **fewer** medical design options
  - Not at all: 18%
  - To a moderate extent: 16%
  - To a great extent: 66%

- Offer **additional** medical design options
  - Not at all: 22%
  - To a moderate extent: 18%
  - To a great extent: 59%

- Use data and metrics to evaluate plan performance and employee behavior change
  - Not at all: 10%
  - To a moderate extent: 32%
  - To a great extent: 58%

Low participation in wellness activities causes companies to revisit their incentive strategy

86% Offer some type of wellness incentive to encourage participation

40% Employees earn no incentives in a given year

88% Plan to re-evaluate their incentive strategy over the next 3 years

$880 Average incentive dollar opportunity

$365 Average actual dollar payout

Employees leave money (and a lot of it) on the table

The majority of organizations are leveraging technology to facilitate communication and engagement

<table>
<thead>
<tr>
<th>Activity</th>
<th>In place today</th>
<th>Planned for 2017</th>
<th>Considering for 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communicate/educate through apps and portals</td>
<td>59%</td>
<td>19%</td>
<td>14%</td>
</tr>
<tr>
<td>Use technology to enable employees to make better plan elections</td>
<td>52%</td>
<td>19%</td>
<td>18%</td>
</tr>
<tr>
<td>Educate employees about selecting providers based on quality and cost information</td>
<td>49%</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Use social media tools to promote engagement</td>
<td>23%</td>
<td>15%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Access to health care via network and provider strategies continues to be a key area of focus

<table>
<thead>
<tr>
<th>Strategy</th>
<th>In place today</th>
<th>Planned for 2017</th>
<th>Considering for 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offer telemedicine</td>
<td>67%</td>
<td></td>
<td>11% 12%</td>
</tr>
<tr>
<td>Expand use of centers of excellence</td>
<td>31%</td>
<td>9%</td>
<td>33%</td>
</tr>
<tr>
<td>Offer an onsite/near-site health center</td>
<td>22%</td>
<td>5%</td>
<td>13%</td>
</tr>
<tr>
<td>Offer high-performance networks alongside broad networks</td>
<td>13%</td>
<td>5%</td>
<td>38%</td>
</tr>
<tr>
<td>Offer benefit differential for use of high-performance network</td>
<td>9%</td>
<td>5%</td>
<td>40%</td>
</tr>
<tr>
<td>Offer high-performance networks as a third tier</td>
<td>3%</td>
<td></td>
<td>33%</td>
</tr>
<tr>
<td>Offer high-performance networks as a replacement to broad networks</td>
<td>3%</td>
<td></td>
<td>22%</td>
</tr>
</tbody>
</table>

Trends and insights
State of the private exchange industry

- Over 1/2 of early adopters agree that private exchanges control an employer’s health care costs*
- 60% of early adopters believe that a private health care exchange simplifies the role of employers*
- 62% of early adopters believe it becomes easier to offer a defined contribution approach*
- CHOICE: consumers are expecting significantly more choice in benefit options**
- 85% of employers feel tools that aid in plan selection are very important***

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One in 6 employers are considering a private exchange for full-time employees and their families

- Already transitioned to a private exchange: 3%
- Currently considering transition to a private exchange: 16%
- No plans to adopt a private exchange: 71%
- Not sure: 9%

Best performers create a financial advantage through lower total cost and lower trend

New! Definition of Best Performers

Health Plan Efficiency
Two-year average efficiency that is 5% or greater

Cost Trends Before Changes
Two-year average trend before plan changes at or below the national norm

Unadjusted Total Costs PEPY

<table>
<thead>
<tr>
<th>Year</th>
<th>Best Performers</th>
<th>Other Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$10,258</td>
<td>$12,264</td>
</tr>
</tbody>
</table>

Average Efficiency in 2015

- Best Performers: 17%
- Other Companies: 0%

2014/15 Cost Trends

Before Plan Changes
- Best Performers: 4.3%
- Other Companies: 6.9%

After Plan Changes
- Best Performers: 3.7%
- Other Companies: 5.0%

What’s driving variability in health care costs?

Best performers leverage participation and subsidization

**Participation**
- Structure employee contributions on a per dependent covered basis
  - Best performers: 13% vs. National average: 5%
- Use spousal surcharge
  - Best performers: 32% vs. National average: 27%

**Subsidization**
- Structure employee contributions based on employees taking specific steps
  - Best performers: 53% vs. National average: 39%
- Offer low-value plan options
  - Best performers: 30% vs. National average: 22%
- Use value-based benefit design in medical plans
  - Best performers: 17% vs. National average: 11%

Best performers focus on key drivers of efficiency

<table>
<thead>
<tr>
<th>Health Care Delivery</th>
<th>Vendor Partner Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offer medical tourism</td>
<td>Involve vendors in strategic planning 54% vs. 47%</td>
</tr>
<tr>
<td>Differentiate cost share for use of high-perf networks</td>
<td>Require vendors to share data for employee outreach and reporting 68% vs. 56%</td>
</tr>
<tr>
<td>Provide lower cost for telemedicine usage</td>
<td>Select vendors based on willingness to partner with third parties 83% vs. 70%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pharmacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adopt high-performance formulary with very limited brand coverage 24% vs. 14%</td>
</tr>
<tr>
<td>Closely manage specialty drug cost/utilization 34% vs. 26%</td>
</tr>
<tr>
<td>Exclude compound drugs 57% vs. 39%</td>
</tr>
</tbody>
</table>

Best performers focus on key drivers of efficiency

<table>
<thead>
<tr>
<th>Engagement and Consumerism</th>
<th>Workforce Health</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus on strategies to build a healthy workplace and culture</td>
<td>39% vs. 34%</td>
</tr>
<tr>
<td>Refresh incentive strategy annually to promote new health-related activities</td>
<td>37% vs. 24%</td>
</tr>
<tr>
<td>Provide incentives for tobacco cessation</td>
<td>54% vs. 32%</td>
</tr>
<tr>
<td>Offer price/quality transparency tools</td>
<td>68% vs. 59%</td>
</tr>
<tr>
<td>Provide managers with tools to promote health and well-being</td>
<td>51% vs. 38%</td>
</tr>
<tr>
<td>Embrace fitness challenge among employees</td>
<td>78% vs. 64%</td>
</tr>
<tr>
<td>Use consumer marketing techniques in communication</td>
<td>38% vs. 28%</td>
</tr>
<tr>
<td>Invite employees to suggest ways to change work environment</td>
<td>72% vs. 56%</td>
</tr>
<tr>
<td>Sponsor use of wearable devices to track activity and/or nutrition</td>
<td>44% vs. 36%</td>
</tr>
</tbody>
</table>


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Most employers plan moderate to significant changes to their Pre-65 retiree health care benefits over the next 4 years

Pre-65 retirees

- Little to no change: 27%
- Moderate change: 39%
- Significant change: 33%

Post-65 retirees

- Little to no change: 54%
- Moderate change: 25%
- Significant change: 21%

Note: Responses of “not applicable” have been removed.
Employers don’t expect public health insurance exchanges to provide a viable alternative for their pre-65 retirees

<table>
<thead>
<tr>
<th>Year</th>
<th>Very Confident</th>
<th>Somewhat Confident</th>
<th>Not at all confident</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>12%</td>
<td>38%</td>
<td>50%</td>
</tr>
<tr>
<td>2018</td>
<td>20%</td>
<td>36%</td>
<td>44%</td>
</tr>
</tbody>
</table>

Of employers that offer retiree medical, nearly a third are considering providing access to a private exchange for 2018

Pre-65 Retirees

- Offer with employer subsidy: 67% (in place today), 1% (planned for 2017), 2% (considering for 2018)
- Provide access to a private exchange: 7% (in place today), 7% (planned for 2017), 31% (considering for 2018)
- Offer without an employer subsidy: 33% (in place today), 1% (planned for 2017), 5% (considering for 2018)
- Discontinue employer sponsorship: 9% (in place today), 2% (planned for 2017), 16% (considering for 2018)

Employers with retiree benefits are also planning to provide increased access to a Medicare exchange

Post-65 Retirees

<table>
<thead>
<tr>
<th>Service</th>
<th>In place today</th>
<th>Planned for 2017</th>
<th>Considering for 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offer with employer subsidy</td>
<td>66%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Provide access to a Medicare exchange</td>
<td>34%</td>
<td>9%</td>
<td>20%</td>
</tr>
<tr>
<td>Offer without an employer subsidy</td>
<td>29%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discontinue employer sponsorship</td>
<td>11%</td>
<td>3%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Conclusions: What can we learn from best performers?

- **Understanding population health is critical**
  - Metrics are not consistently used, but are key to understanding spend

- **Lack of employee engagement** remains the biggest obstacle
  - **Persistent low program participation** warrants a review of program structure, vendor partners, or incentive strategy

- **Consider care extenders**, such as telemedicine and onsite/near site clinics
  - Enhance employee control, productivity, and convenience

- **Make employees partners** in financial implications of care
  - Transparency in sharing total cost of care
  - Encourage use of HSAs and wellness programs with incentives
  - Reduce costs for telemedicine and value-based pharmacy spend

Thank you

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