



North America

Raising the Bar on Health Care

Moving Beyond Incremental Change

2010

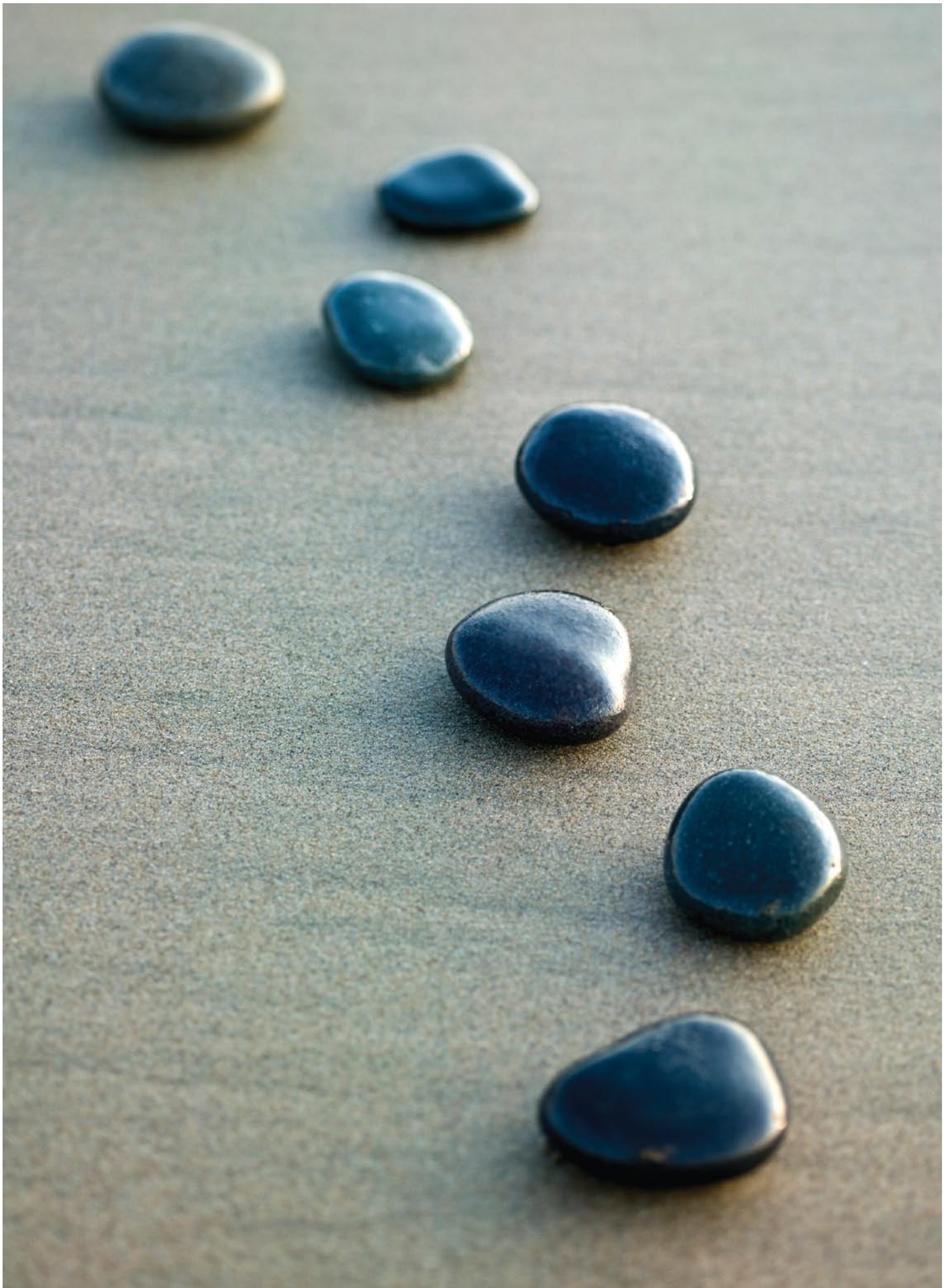
15th Annual National Business Group on Health/Towers Watson
Employer Survey on Purchasing Value in Health Care



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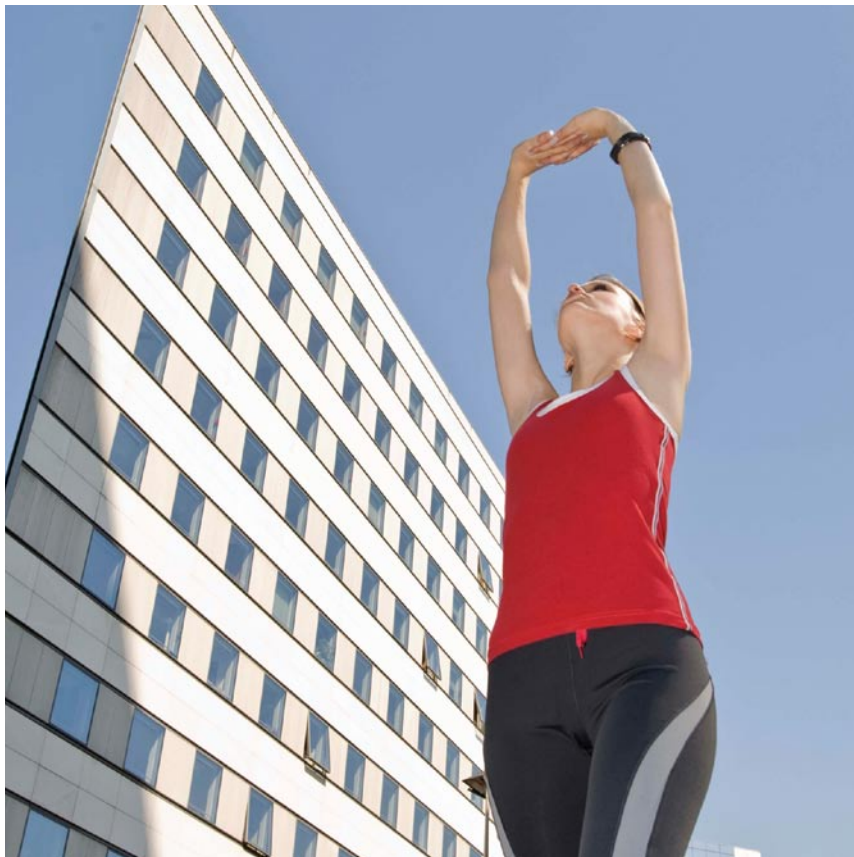
TOWERS WATSON





2010

Employer Survey on Purchasing Value in Health Care



At a Glance

The prolonged economic downturn is putting additional pressure on companies to change their health care programs to help relieve financial strain.

Annual median health care cost increases rose slightly in 2009 to 7%, compared with 6% in 2008. This pace is still more than twice the rate of inflation.

Today, 54% of companies have a consumer-directed health plan in place — a 6% increase over last year's findings. This figure is expected to increase to 61% in 2011.

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Executive Summary

Amid heightened cost pressures brought about by the prolonged economic downturn, companies are assessing their health care programs to control costs and build healthier and more productive workforces. Despite their efforts, however, employers remain frustrated by employees' poor health habits and the difficulty in motivating behavior change. Additionally, they are uncertain about the potential for health care reform legislation that could increase their financial and administrative burdens.

Results from the *15th Annual National Business Group on Health/Towers Watson Employer Survey on Purchasing Value in Health Care* show that companies are pursuing new strategies to overcome these obstacles, but their results vary widely. The most successful companies are building a record of consistent performance that uses a combination of tactics — appropriate financial incentives, effective communication, health and productivity programs, metrics and initiatives to improve quality — to hold the line on cost increases while engaging employees to improve their health habits. The health plan strategies set by these consistent performers offer valuable guidance as companies wrestle with year-after-year higher health care costs at a time when they can least afford it.

Key Findings

Sharply rising cost curve stabilizes. Health care costs increased 7% in 2009, compared with 6% in 2008, a pace significantly above the historic rate of inflation. Cost trends are expected to be 6.5% in 2010.

Best and consistent performers flatten trend. Median cost trends over the last two years for employers with the lowest health care cost increases (our best performers) was 0.3%, compared with 6.5% for all respondents. The median trend for employers that have maintained cost increases at or below the TW/NBGH median for the past four years (our consistent performers) was 2.1%, compared with 6.8% for all respondents.

Employers resist significantly greater cost shifting. Even in this difficult economy, employers have not shifted the bulk of cost increases to employees. On average, employees paid 20% of total premium costs in 2009. Employees' share of premiums will increase slightly to 21% in 2010.

Employers are frustrated with low levels of employee engagement. Employees' lack of interest in or reluctance to participate in health and wellness programs is the No. 1 obstacle to changing health behaviors. Further, nearly two-thirds of respondents say the biggest challenge to managing affordable health care coverage is employees' poor health habits.

Employers take action. Persistently high health care costs have motivated many employers to make significant changes to their health care programs. In total, 83% of companies have changed or plan to change their strategy compared with 59% in 2009.

Companies continue to invest in the health of their employees. Ninety-three percent of companies have no plans to eliminate their health promotion programs, and 83% expect to continue with their existing strategy and will not delay or cancel plans to add new health and productivity program offerings.

Employers consider raising the bar on financial incentives. As companies struggle with low levels of employee engagement and face limited budgets for financial incentives, there is growing interest among employers to impose tougher requirements for members to receive financial incentives around health engagement activities.

CDHPs become more popular. Today, 54% of companies have a consumer-directed health plan (CDHP) in place, with another 7% of respondents planning to add one by 2011. Total-replacement CDHPs increased to 7.6% compared with 5.4% last year — an increase of more than 40%.

About the Survey

The 15th Annual National Business Group on Health/Towers Watson Employer Survey on Purchasing Value in Health Care tracks employers' strategies and practices, and the results of their efforts to provide and manage health benefits for their workforce. This report identifies the actions of best-performing companies as well as current trends in the health care benefit programs of U.S. employers with at least 1,000 employees (see **Figure 1**).

The survey was completed by 507 employers between November 2009 and January 2010 and reflects respondents' 2009 and 2010 health program decisions and strategies and, in some cases, their 2011 plans. Respondents collectively employ 11.5 million employees, with 8.0 million employees covered by health care programs, and operate in all regions of the country and all major industry sectors (see **Figures 2** and **3**). In 2009, respondents spent on average \$7,700 per active employee on health care, which equates to \$62 billion in total annual health care expenditures for responding organizations.

Figure 1. Number of full-time workers employed by respondents

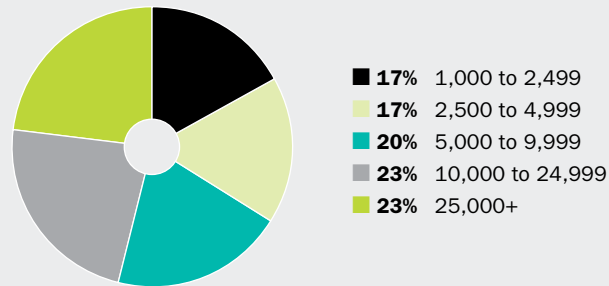


Figure 2. Region where the majority of benefit-eligible workforce is located

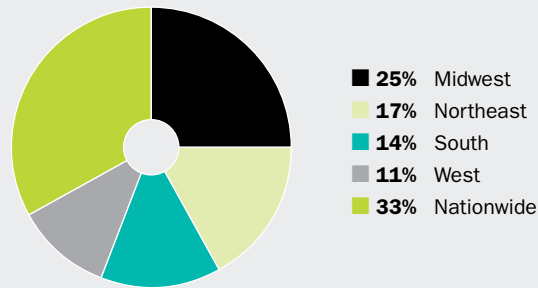
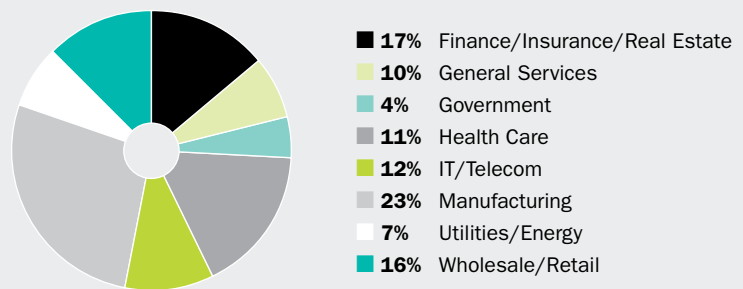


Figure 3. Industry groups represented in survey



Employers Growing Concerned

Waning Confidence

Respondents to this year's survey indicate a growing number of challenges to managing their health care programs and to developing a healthy workplace. Employers are increasingly frustrated by the performance of their plans today, pointing specifically to a lack of employee engagement in programs designed to change health behaviors and the ineffectiveness of programs and services provided by medical vendors.

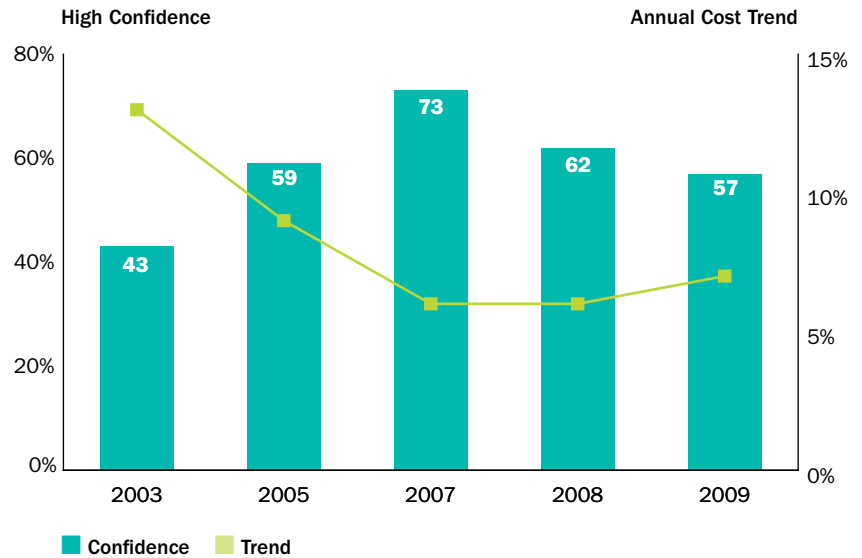
The economic slowdown and financial challenges have created significant uncertainty among employers about the future of their health care programs. Likewise, the potential for considerable reforms in the U.S. health care system has added even greater uncertainty.

The result is a further decline in employer confidence. Today, 57% of companies are very confident that they will continue to offer health care benefits for the next 10 years (see **Figure 4**). Confidence today is below levels reported in 2005, when health care cost trends were increasing at an annual rate of 8.5%.

Challenges and Barriers

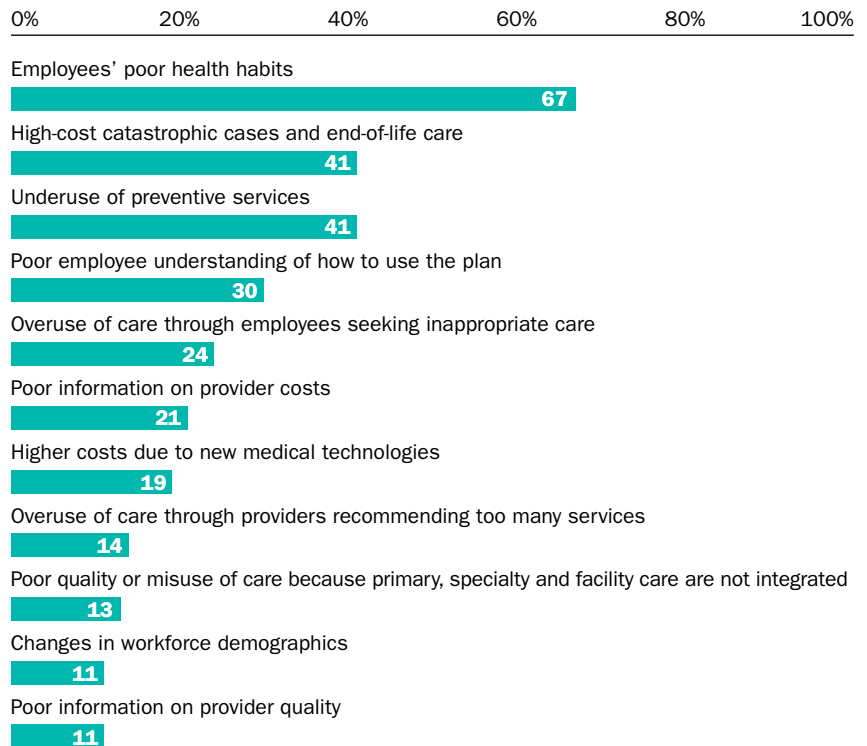
Nearly two-thirds of respondents say the biggest challenge to managing health care costs is employees' poor health habits (see **Figure 5**). Companies also struggle with high-cost catastrophic cases and the underuse of preventive services. These top three challenges are unchanged from last year's survey. Other challenges include various aspects of provider quality: poor information, overuse of care related to providers or patients and misuse of care due to poor care coordination.

Figure 4. Declining confidence that employers will offer health care benefits a decade from now



Note: High Confidence represents responses of "Very confident."

Figure 5. Employers' top challenges in maintaining affordable benefit coverage



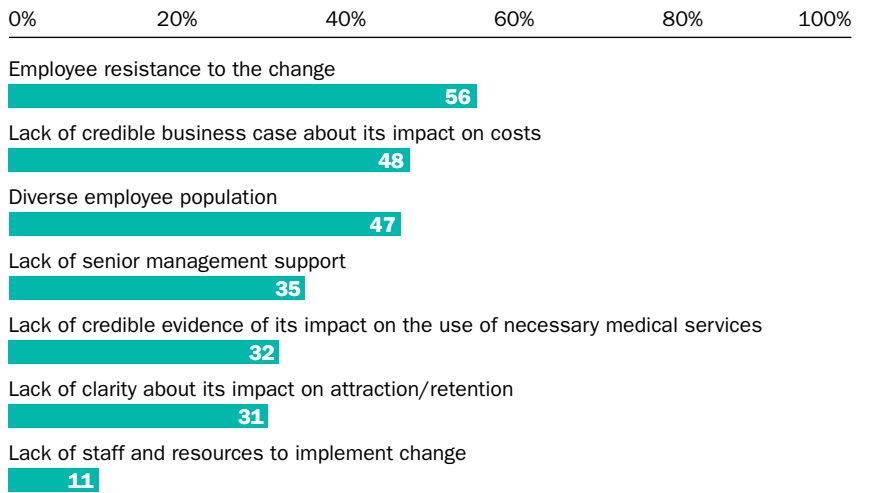
Note: Companies were asked to identify their top three challenges.

In this year's survey, we also asked employers to identify the biggest obstacles that have prevented their organization from making more significant changes in plan designs and limited their success in developing a healthy workforce. Today, less than 10% of companies offer a total replacement CDHP to at least one segment of their workforce. More than half of respondents (56%) indicate the biggest barrier to their organization's adopting a total replacement CDHP is employee resistance to the change (see **Figure 6**). Nearly half of respondents indicate a lack of credible research to support the business case about its impact on costs, and equally as many point to a diverse employee population, such as a significant union population or wide range of earnings levels.

Changing employee behaviors related to health has also been a major obstacle for many companies. Above all, the lack of employee engagement (that is, low participation or interest in programs) is cited by 58% as the biggest obstacle to encouraging employees to live healthier lifestyles and to take appropriate care of chronic conditions (see **Figure 7**). Three in 10 companies also struggle to find adequate financial support for incentives (31%) and to support effective health management programs (30%). Twenty-three percent of companies find that healthy lifestyle initiatives fail to capture and maintain the attention of employees with so many other organizational demands on their time.

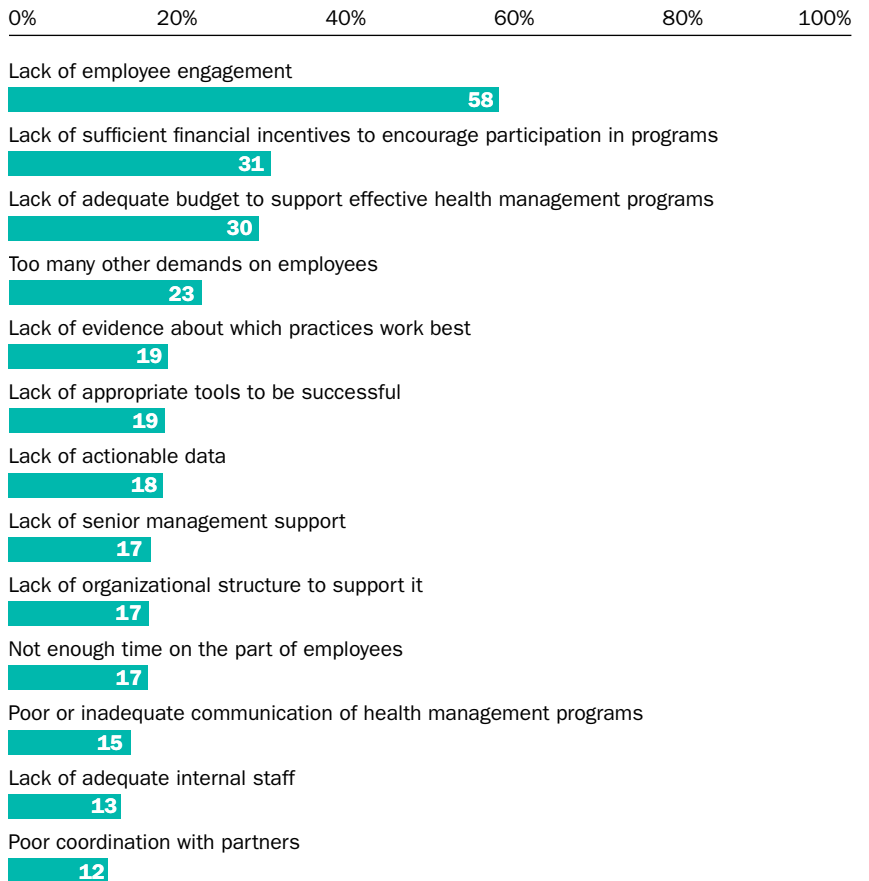
Today, organizations have made only limited inroads in promoting the use of high-quality and efficient providers. The biggest obstacle cited by 59% of employers is the lack of information about which providers are best, and 46% point to the need for more actionable and credible data (see **Figure 8**, page 6). Many employers (44%) also indicate the failure of the health care delivery system, which does not promote and reward high-quality care. Similarly, it is unclear to 30% of respondents the extent to which employers can improve the quality of care that is delivered to their employees.

Figure 6. Top challenges to employers offering a total replacement CDHP



Note: Companies were asked to identify their top three challenges. Includes companies without a total replacement CDHP.

Figure 7. Biggest obstacles to changing employee behavior related to health

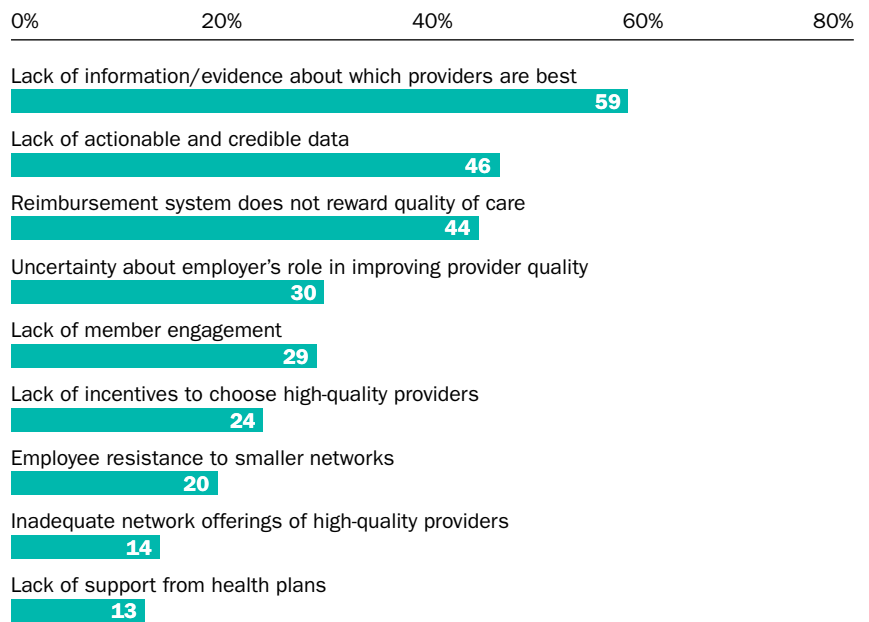


Note: Companies were asked to identify their top three challenges.

Medical Vendor Effectiveness

Another challenge cited by many employers is the ineffectiveness of medical vendors across a wide range of services. Specifically, employers identify their medical vendors as least effective at changing member behavior to promote healthier lifestyles and to encourage more efficient use of health care services. Medical vendors are also ineffective in driving individuals to higher-quality providers and are largely ineffective partners in increasing employee understanding of the health care plan. On a positive note, one in four employers indicates its medical vendors are effective at identifying appropriate employees to participate in health management programs (see **Figure 9**). In addition, one in five indicates its vendors are effective at integrating data to determine appropriate treatments for catastrophic cases and for those managing chronic conditions.

Figure 8. Biggest obstacles to taking actions around provider quality



Note: Companies were asked to identify their top three challenges.

Figure 9. Medical vendor performance

	Effectiveness of Medical Vendors		
	Not at All or Slightly	Moderately	Highly or Very Highly
Screening claims to find claimants and invite them to participate in health management programs	42%	33%	25%
Integrating data to determine appropriate treatment plans for catastrophic cases	41%	38%	21%
Integrating data to determine appropriate treatment plans for chronic conditions	46%	36%	18%
Encouraging members to comply with appropriate preventive care guidelines	51%	36%	13%
Assisting employees in understanding and maximizing their benefit plan	55%	35%	11%
Driving care to higher-quality providers	57%	35%	9%
Changing member behavior to drive more efficient use of health care services	67%	25%	8%
Changing member behavior related to making healthy lifestyle decisions	66%	27%	6%

Health Care Reform

Many employers are skeptical that health care reform, if enacted, would help curb the rising costs of health care. In fact, 69% of employers believe health care reform would increase costs for their own health care program, and an equal number believe it would lead to a greater administrative burden (see **Figure 10**). More than a quarter of employers also anticipate that the reforms being discussed will result in a reduction in the value of health care benefits they offer.

Figure 10. Impact of health care reform on companies' health care programs

	Large Decrease	Moderate Decrease	No Change	Moderate Increase	Large Increase	Do Not Know
Overall costs of your health care program	1%	1%	10%	43%	26%	20%
Number of employees your plan covers	1%	10%	45%	22%	8%	14%
Generosity/value of your health care benefits	3%	24%	40%	12%	2%	18%
Overall health of employees enrolled in your plans	2%	9%	58%	8%	1%	22%
Costs of administering your health care plan	1%	2%	12%	45%	24%	16%
Subsidies provided to spouses and dependents	1%	8%	46%	13%	3%	29%
Offering of retiree medical benefits	3%	5%	56%	6%	3%	27%
Adoption/offering of health management programs	1%	2%	57%	13%	2%	25%
Use of incentives to encourage participation in health management programs	1%	4%	48%	19%	3%	25%

As for the broader implications, while health care reform could ultimately provide greater access to health care for more Americans, nearly three-fourths (71%) of employers believe health care reform will increase the overall cost of health care services in the United States (see **Figure 11**). One-third of employers anticipate the number of employer-sponsored plans to decline. Employers expect an uptick from health care reform in the number of employers adopting total replacement CDHPs, but reform also could lead to further erosion of retiree medical coverage. On a positive note, 34% believe reform will increase transparency of provider prices, and 30% say it will increase the transparency of provider quality.

Figure 11. Impact of health care reform on costs, quality and access

	Large Decrease	Moderate Decrease	No Change	Moderate Increase	Large Increase	Do Not Know
Overall costs of health care services in the United States	1%	8%	6%	35%	36%	14%
Access to health benefit coverage	4%	7%	7%	49%	22%	11%
Number of large employers offering employer-sponsored health benefits	6%	29%	43%	7%	0%	15%
Adoption of total replacement CDHPs by large employers	3%	6%	27%	25%	9%	30%
Offering of employer-sponsored retiree medical benefits	19%	27%	27%	4%	1%	23%
Transparency of provider prices	1%	4%	40%	30%	4%	22%
Transparency of provider quality	1%	4%	43%	28%	2%	22%
Overall quality of health care services	6%	21%	39%	13%	1%	19%
Offering of patient-centered medical home or accountable care organization (ACO) programs	2%	2%	35%	15%	1%	45%

Cost Trends

Annual median cost increases for active health care benefits rose slightly over the last year. Costs increased 7% in 2009 compared with 6% in 2008 and are expected to increase by 6.5% in 2010. Companies report that pharmacy trends flattened at 5% in both 2008 and 2009 and anticipate trends to hold steady through 2010.

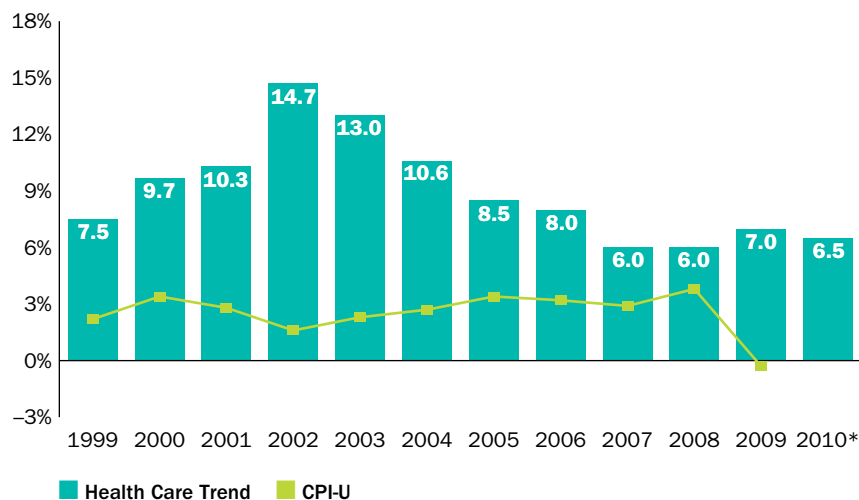
Without changes to plan design and/or employee contributions, average cost trends would have been 8% for 2009, and the same trend (8%) is anticipated with no further changes in 2010.

While health care costs have been trending downward since the early part of this decade, cost trends appear to have reached a plateau at a point much higher than the rate of inflation (see **Figure 12**). Employers are now concerned that health care reform may ignite another cycle of rising costs.

In 2009, the median health care cost per active employee, net of employee premium contributions, was \$7,700, and this figure is anticipated to increase to roughly \$8,000 in 2010. On average, employees paid 20% of total premium costs in 2009. Employees' share of premiums will increase slightly to 21% in 2010. Altogether, this equates to total employer/employee health care costs per active employee of \$10,094 in 2010 (see **Figure 13**).

Companies anticipate that out-of-pocket expenses paid by employees will be 17% of total allowed charges in 2010, which is similar to results in 2009 (18%) — a surprising result in the current economy. Companies offering a CDHP report that employees will pay 19% of allowed charges in 2010 compared with 15% for non-CDHP companies, and employees at organizations with a total replacement CDHP will pay 20% in 2010. However, many companies offer significantly lower premiums to enrollees in a CDHP than to those opting for a more traditional plan option (see section on “Consumer-Directed Health Plans” on page 15).

Figure 12. Health care cost increases apparently reaching a plateau¹



Note: Median trends for medical and drug claims for active employees, net of employee premium contributions. (*) Indicates expected.

Figure 13. Medical and pharmacy costs and employee premium share

Percentile	Net Per-Employee Per-Year Costs		Employee Premium Share	
	2009	2010*	2009	2010*
Mean	\$7,599	\$7,992	23%	24%
10th	\$4,646	\$4,822	10%	10%
25th	\$6,091	\$6,400	15%	16%
50th	\$7,700	\$7,975	20%	21%
75th	\$9,044	\$9,500	27%	27%
90th	\$10,247	\$11,000	35%	35%

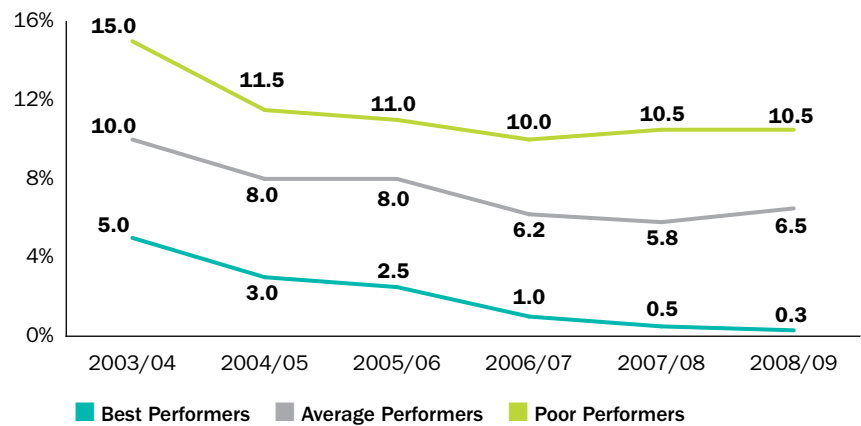
Notes: Costs for medical and drug claims for active employees, net of employee premium contributions. (*) Indicates expected.

¹ A company's medical benefit expenses for insured plans include the premium paid by the company and for self-insured plans, including all medical and drug claims paid by the plan, company contributions to medical accounts (FSA/HRA/HSA) and costs of administration minus employee premium contributions. The annual change in costs is based on costs for active employees after plan and contribution changes.

Defining Best and Consistent Performers

Organizations continue to show dramatic differences in their ability to reduce health care cost trends. While the median two-year trend (for 2008 and expected for 2009) for all organizations is 6.5%, best-performing companies have significantly lower cost trends. The best-performing companies — those with a median two-year average cost increase in the lowest quartile among all respondents — have a median two-year trend of 0.3% (see **Figure 14**). Conversely, poor-performing companies — those in the highest quartile — have a cost trend of 10.5%. Best-performing companies' trends have steadily declined since 2004/2005, whereas trends among poor performers actually have increased since 2006/2007.

Figure 14. Median cost trends for best, average and poor performers
Two-year average trend by calendar year



Plan Enrollment and COBRA Rates

This year's survey asked a number of questions about employee enrollment and plan costs. Overall, 88% of eligible employees enrolled in their company's health care plans in 2009 and 2010. Enrollment rates are slightly lower among companies offering a CDHP, with 87% of eligible employees enrolling in 2009 and 2010. Companies with a total replacement CDHP have even lower rates, at 84% for 2009 and 2010.

Consolidated Omnibus Budget Reconciliation Act (COBRA) rates are based on the costs of plans and can be used to compare the relative costs of different plan types. Today, preferred provider organization (PPO)/point of service (POS) plans have surpassed health maintenance organization (HMO) plans as the most expensive, costing the average employee

with single-only coverage \$69 more than a typical HMO plan and nearly \$500 more for family coverage (see **Figure 15**). This could reflect the declining share of companies offering HMO-type plans with the surviving plans having lower cost.² It could also indicate that a greater number of employees who are high users of health care services value the freedom of provider choice in PPO/POS-type plans. The cost of coverage for CDHPs is considerably lower than for either PPO/POS plans or HMO plans in 2010. Employee-only coverage for CDHPs is roughly \$900 lower than for other plan types. For family coverage, CDHP rates are \$2,692 below the median PPO/POS plan rates and \$2,193 lower than the average HMO plan costs.

² In 2010, 47% of companies offer an HMO plan and 94% offer a PPO/POS plan.

Figure 15. PPO/POS plan rates are highest
COBRA premiums for employee-only and family coverage for 2009 and 2010

	Employee-Only Coverage		Family Coverage	
	2009	2010	2009	2010
PPO and POS plans	\$4,800	\$5,184	\$13,906	\$15,202
HMO plans	\$4,800	\$5,115	\$14,110	\$14,703
CDHPs	\$3,948	\$4,250	\$11,760	\$12,510

Note: Medians

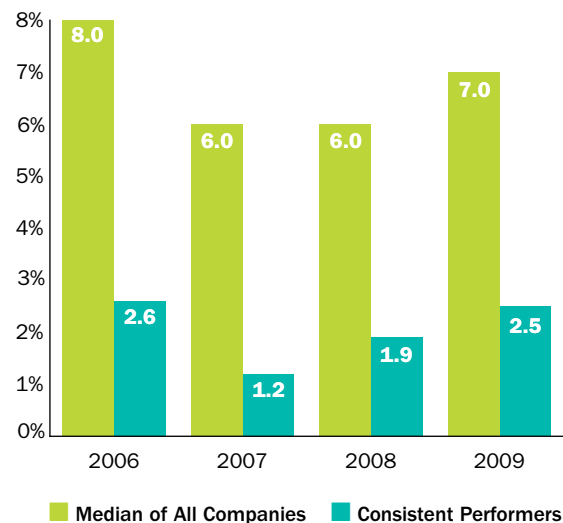


Best performers also spend less each year per employee on health care. On average, the best-performing companies spent \$7,138 per active employee in 2009 compared with the \$8,167 spent by poor-performing companies — a difference of more than \$1,000.

Some organizations have consistently shown an ability to maintain health care cost trends at or below the norm for each of the last four years, a group we call “consistent performers.” There is much to be learned from these organizations about how they achieved their success.

This year our research identified 41 companies that qualify as consistent performers.³ These companies report average trends significantly below the median cost trend for each of the last four years (see **Figure 16**). In fact, the median trend across the last four years was 6.8% compared with only 2.1% for consistent performers. Consistent performers also have an average spend per employee of \$6,536 — nearly \$1,200 below the all-company average.

Figure 16. Consistent performers versus median annual cost trends, 2006 to 2009



³ The number of consistent performers is based on 216 companies that also completed the 14th annual and/or the 13th annual NBGH/Watson Wyatt survey. This translates to 19% of companies reporting an annual trend at or below the all-company median for each year from 2006 to 2009.

Employers Taking Action

Responding to the Economic Crisis

The sluggish economy continues to lead a number of companies to take actions regarding their health care plan to defray costs. Compared with last year, many more companies are taking or expect to take actions with their health care program. In total, 83% of companies have changed or plan to change their strategy (see **Figure 17**) compared with 59% in 2009. Likewise, 84% have increased or expect to increase the share of total health care costs paid by an employee, up from 56% last year. Thirty-eight percent of companies have already taken steps to replace ineffective medical plan administrators, and roughly a third of companies expect to take actions over the next two years.

Despite broad-based efforts to cut costs during the economic slowdown, companies remain committed to their health and productivity programs. Ninety-three percent of companies have no plans to eliminate their health promotion programs, and 83% expect to continue with their existing strategy and will not delay or cancel adding new health and productivity program offerings. All in all, cuts in their health benefits staff have already taken place (16%), and only 5% of companies plan any additional staff reductions.

The economic slowdown has also led to significant changes in plan design to help employers manage the rising costs of health care. In 2010, more companies indicate significant increases in point-of-care cost sharing in both their medical and pharmacy plans through higher deductibles, copays and coinsurance rates than in 2009 (see **Figure 18**). Looking ahead, an even greater number of employers are planning to take such steps in 2011.

Figure 17. Actions to defray costs of health care plans

	Planning Change in Next Two Years		No Changes Planned	
	Have already acted and expect to take further action	Expect to take action in the next two years	Have already acted but no further action expected	No action expected
Revamp health care strategy	27%	23%	32%	17%
Increase the share of total health care costs paid by employees	27%	14%	43%	16%
Replace ineffective medical plan administrators	12%	20%	26%	42%
Adopt a consumer-directed health care plan	9%	14%	44%	34%
Consolidate health and productivity programs with single vendor or health plan	8%	13%	23%	57%
Increase/add spousal surcharges	4%	13%	19%	64%
Delay/cancel adding new health and productivity program offerings	4%	6%	6%	83%
Delay/cancel planned changes in plan design	6%	4%	6%	84%
Reduce internal staff dedicated to health benefit programs	2%	3%	16%	78%
Reduce/eliminate health promotion programs	3%	1%	4%	93%

Figure 18: Cost-sharing strategies

	2009	2010	2011*	Percentage Point Change
				2009 to 2011
Increase the share of total health care costs paid by employees	34%	43%	56%	22%
Significantly increase employee premium contributions	23%	30%	37%	14%
Significantly increase deductibles in all/most plan options	18%	28%	38%	20%
Significantly increase pharmacy copays, deductibles or coinsurance	17%	23%	28%	11%
Significantly increase employee medical copays or coinsurance	16%	21%	27%	11%
Change plan options	25%	27%	52%	27%
Restrict eligibility	16%	19%	23%	7%
Use spousal waivers or surcharges	18%	21%	28%	10%

Note: (*) Planned for 2011.

Companies are also raising premiums as a way to cut costs during the economic slowdown. In 2011, 56% of companies plan to increase the share of health care costs paid by employees compared with 34% in 2009 — an increase of 22 percentage points. However, despite all indications that employers are increasingly shifting the burden of higher health care costs onto their workforce, the share of premiums paid by employees increased by only one percentage point over the last year — from 20% to 21%.

Raising the Bar on Financial Incentives

As companies struggle with low levels of employee engagement and face limited budgets for financial incentives, employers demonstrate a growing interest in imposing tougher requirements for members to receive financial incentives around health engagement activities (see **Figure 19**). This trend is expected to increase in the coming years. Today, 37% of respondents offer incentives only to members who meet the company's requirements for completion of a health engagement activity, and another 23% plan to do so in 2011. In addition, 5% of companies default members into a plan for not fulfilling the requirements in a health or disease management program, a number expected to rise to 14% next year.

Today, companies are most likely to incent members for taking a health risk appraisal, completing a biometric screening and maintaining a tobacco-free

status (see **Figure 20**). Despite the economic climate, many more companies are considering these incentives for future plan years. While companies have yet to broadly put in place standards for maintaining target levels of body mass index (BMI), blood pressure or cholesterol levels, many are considering these incentives for the upcoming year. Few companies have in place requirements that employees must meet in order to enroll in a preferred plan option, but a small number are considering using these standards in the future.

Figure 19. Tougher requirements for financial incentives

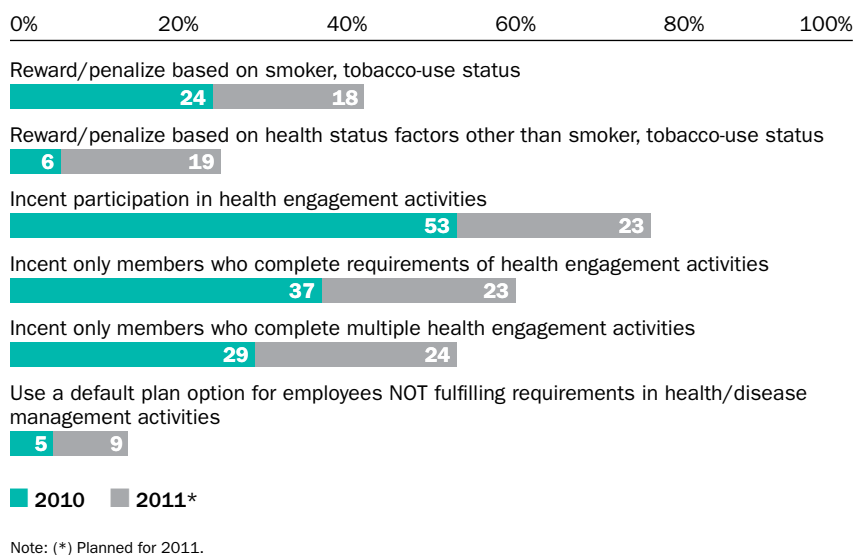


Figure 20. Standards to receive financial incentives and/or enroll in preferred plan option

	Requirements/Standards to:					
	Receive Financial Incentive			Enroll in Preferred Plan Option		
	In place	Considering	Neither	In place	Considering	Neither
Smoker, tobacco-use status	25%	11%	64%	4%	6%	90%
Completion of a health risk appraisal	46%	12%	41%	12%	9%	79%
Completion of a biometric screening	23%	17%	60%	5%	8%	87%
Completion of both health risk appraisal and biometric screening	22%	19%	59%	5%	10%	85%
Completion of an adult health exam	14%	13%	74%	4%	6%	90%
Maintaining BMI within target levels	4%	14%	83%	1%	6%	92%
Maintaining blood pressure within target levels	3%	13%	83%	1%	7%	92%
Maintaining cholesterol level within target levels	3%	14%	83%	1%	7%	92%
Completion of health coaching or disease management for those with chronic condition	22%	20%	58%	5%	9%	85%

Note: Numbers may not add to 100% due to rounding.

On the Rise/On the Slide

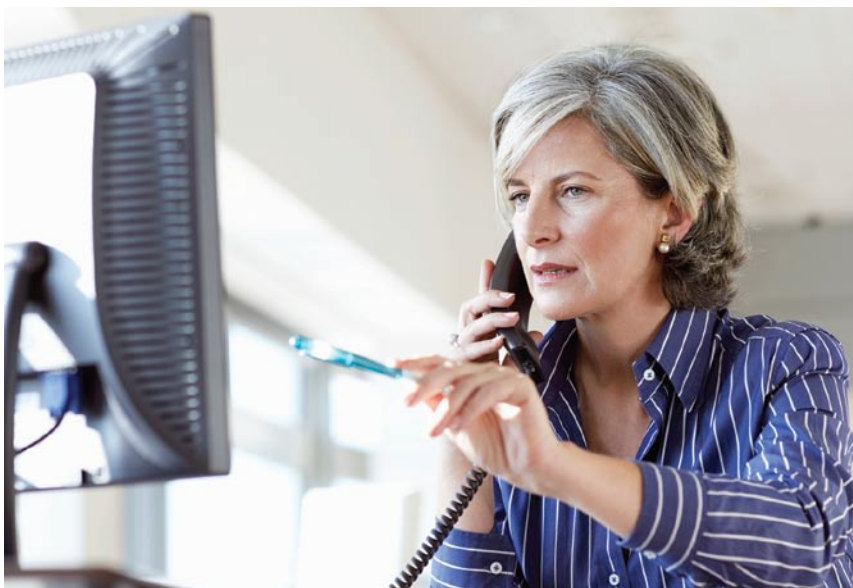
Rising health care costs have led many employers to make significant changes to their health care programs over the last few years. Many of the changes have been directly linked to the evolution of the consumer-oriented health care model. **Figure 21** on page 14 shows the rising, stagnant and declining trends in health care programs over the last three years.

Rising Programs

Companies are increasingly making changes in their programs to encourage more cost-effective care by covering employees' use of retail clinics and to more effectively manage chronic conditions by reducing pharmacy copays. With health care budgets under pressure due to the economic downturn, companies have increased their use of metrics and data to monitor and evaluate the performance of their programs. Because health risks are a key component of a measurement strategy, companies have made investments in incentives to encourage the completion of a health risk appraisal. Companies have also expanded their use of eligibility and enrollment audits and have encouraged plans and providers to offer patients access to online medical information. Increasingly, companies are using their health plans rather than specialty vendors for their disease management and lifestyle management programs.

Stagnant or Declining Programs

Organizations have been slow to adopt strategies to promote the use of high-quality providers, such as adding more selective networks or using high-performance networks, and far fewer companies today are providing members with information on provider or hospital quality compared with a few years ago. Little progress has been made on providing employees with unit price information for services, and there has been a decline in the number of companies offering decision-making tools. While health risk appraisals were one of the fastest risers in recent years, it appears their use has peaked. The use of metrics around health risks has remained steady. The takeup in weight management programs and the use of incentives to encourage participation in a smoking cessation program or maintenance of a personal health record has not changed in the last three years.



Opportunities

Strategies that differentiate the best- and consistent-performing companies from poor performers identify key opportunities. Both best and consistent performers focus on giving employees the tools to make informed decisions about their health care by providing personalized reminders and encouraging their plans to offer members online medical information. Companies with the lowest costs have also made the most progress by providing coverage for retail clinics and by encouraging the use of centers of excellence (COE). The use of data and metrics has been particularly popular for consistent performers in claims analysis, lifestyle risk metrics and integration of medical claims with disability, work/life and other health-related programs. However, while audits are being used much more today than two years ago, their use tends to be highest among companies that have recently had higher cost increases.

A number of strategies whose use has been stagnant or has declined over the last three years have been more highly used by companies that have maintained the lowest increases in costs. This could be a sign that companies struggling to control costs are quicker to change programs that are believed to be ineffective, especially in the wake of a sluggish economy. Strategies promoting the quality of care — such as using high-performance networks and providing employees with information on provider quality — have declined in overall popularity in recent years yet are much more popular among best and consistent performers. Likewise, low-cost companies are more likely to provide decision-making tools and service unit price information to employees despite their drop in use in recent years. Could this further compromise the ability of poor performers to successfully manage costs in the future?

Figure 21. Programs and strategies on the rise and slide

		2008	2009	2010	Percentage Point Change	Ratio of Usage:		
						Best to Poor Performer ^a	Consistent to Poor Performer ^b	
Rise	Provide coverage for use of retail clinics	31%	36%	46%	15%	1.2	1.4	
	Use norms or benchmarks	77%	79%	91%	14%	1.0	1.0	
	Audit or review eligibility and enrollment in your health plan	55%	61%	69%	14%	0.9	0.8	
	Incent completion of a health risk appraisal ^(c)	53%	61%	66%	13%	1.0	1.1	
	Use claims analysis of data in a warehouse	45%	44%	57%	13%	1.0	1.2	
	Encourage plans and providers to provide patients access to online medical information	44%	54%	57%	12%	1.3	1.4	
	Offer health coach	48%	56%	56%	8%	1.1	1.2	
	Provide personalized reminders of need and timing for obtaining preventive procedures	33%	39%	40%	7%	1.3	1.6	
	Reduce pharmacy copays or coinsurance for those with chronic conditions	12%	17%	19%	6%	1.1	1.4	
	Offer lifestyle behavior change programs purchased through one or more of your health plans	44%	58%	50%	6%	1.0	1.2	
	Use hard-dollar return-on-investment calculations as part of decision making	35%	41%	40%	5%	1.0	1.1	
	Offer disease management programs purchased through one or more of your health plans	67%	–	72%	5%	1.0	1.0	
	Offer smoking cessation program	71%	73%	76%	5%	1.0	1.2	
	Implement carved-out specialty pharmacy from medical plan	42%	46%	47%	5%	1.1	1.2	
	Stagnant	Use COEs for treatments other than transplants	40%	44%	44%	4%	1.3	1.3
Incent participation in weight management program ^(c)		31%	34%	34%	3%	1.0	1.2	
Integrate health care, disability, work/family, employee assistance program (EAP) and other health-related benefits		19%	27%	21%	2%	1.3	1.3	
Offer personal health records		37%	40%	39%	2%	1.2	1.1	
Use metrics on health risk appraisals		57%	54%	59%	1%	1.2	1.4	
Offer lifestyle behavior change programs purchased separately through specialty vendor(s)		43%	49%	45%	1%	1.0	1.1	
Require plans to provide complete extracts of claims data		38%	44%	39%	1%	1.1	1.1	
Implement data warehouse (typically through a third-party vendor)		42%	40%	42%	0%	1.0	1.2	
Implement mandatory program for generic drugs		35%	35%	35%	0%	1.0	1.2	
Incent maintenance of a personal health record ^(c)		7%	7%	7%	0%	1.9	2.6	
Incent participation in smoking cessation program ^(c)		40%	40%	40%	0%	1.2	1.2	
Restrict eligibility (e.g., spousal coverage, reduction in part-time benefits)		20%	16%	19%	-1%	1.3	0.8	
Add more selective networks based on provider quality and/or efficiency		13%	17%	11%	-2%	1.8	2.4	
Slide		Provide employees with health care service unit price information	24%	20%	21%	-3%	1.2	1.5
		Offer weight management program that focuses on reducing obesity among employees	59%	52%	56%	-3%	1.1	1.2
	Offer disease management programs purchased separately through specialty vendor(s)	29%	–	26%	-3%	1.1	1.2	
	Offer high-performance network(s)	26%	23%	20%	-6%	1.6	1.6	
	Offer health risk appraisals	83%	80%	78%	-6%	1.1	1.1	
	Improve case management for serious conditions	52%	51%	45%	-7%	1.0	1.2	
	Provide employees with decision-making tools	76%	71%	68%	-8%	1.1	1.2	
	Integrate health management programs into one vendor or with health plan	49%	46%	41%	-9%	1.1	1.3	
	Provide employees with information on provider and/or hospital quality	61%	50%	49%	-12%	1.2	1.2	
	Incent participation in disease management program ^(c)	42%	26%	26%	-16%	1.2	1.5	

Notes: (a) Ratio represents the average of the last three surveys. (b) Ratio represents the average of the last two surveys. (c) Based on companies that offer these programs.

Consumer-Directed Health Plans

Organizations have been steadily adopting consumer-directed health plans. Today, 54% of companies have a CDHP in place — a 6% increase over last year (see **Figure 22**). While the adoption of CDHPs has slowed in recent years, another 15% of respondents without a program today (7% of all respondents) are expected to adopt a CDHP in 2011.

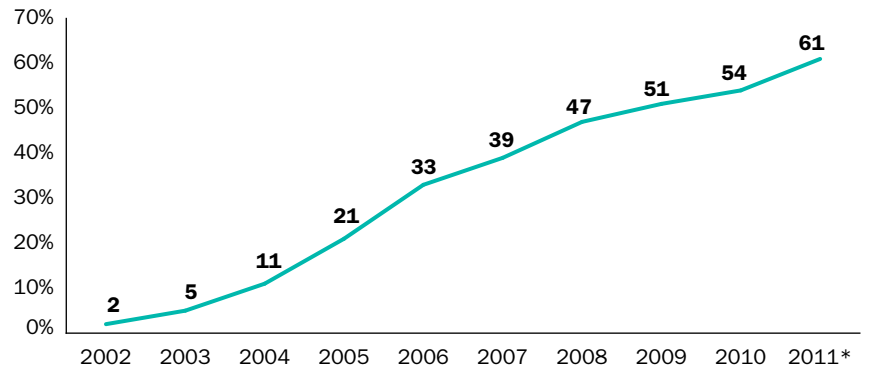
To encourage enrollment in CDHPs, many companies offer significantly lower premiums for CDHP enrollees. For nearly 60% of respondents, employees pay CDHP premiums that are at least 30% less than those for traditional copay plans (see **Figure 23**). In the survey, that contribution is identical to last year, but significantly higher than in 2006. However, 26% of employers report the employees' portion of CDHP premiums are less than half their non-CDHP premiums, down from 36% last year. While companies have been successful at boosting enrollment rates in CDHPs, they are collecting significantly lower premiums from employees.

CDHP enrollment has been increasing steadily albeit at a moderate pace over the last five years (see **Figure 24**). While few employers have been willing to migrate their entire workforce to a CDHP, the percentage of companies with a total replacement CDHP jumped by more than 40% over the last year (7.6% versus 5.4%). The percentage of companies with at least 20% CDHP enrollment is up to 46% in 2010 — an increase of more than 70% in the last five years.

Definition of CDHP

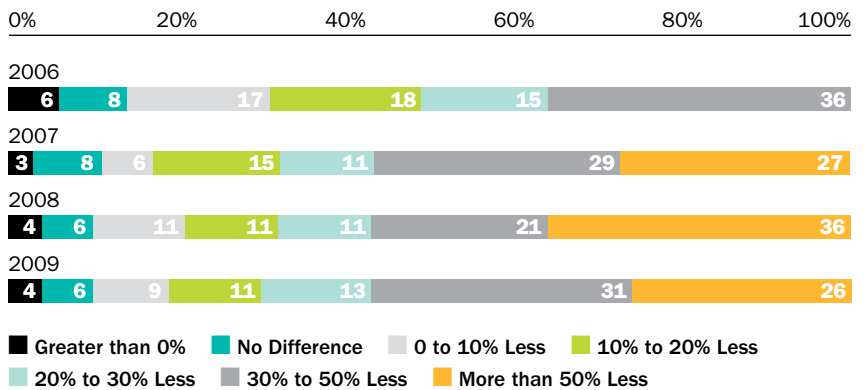
We define a CDHP as a plan with a deductible offered together with a personal account — health savings account (HSA) or health reimbursement arrangement (HRA) — that can be used to pay a portion of the medical expense not paid by the plan. A total replacement CDHP would include the entire workforce without a low- or no-deductible plan option.

Figure 22. The continuing rise of CDHPs



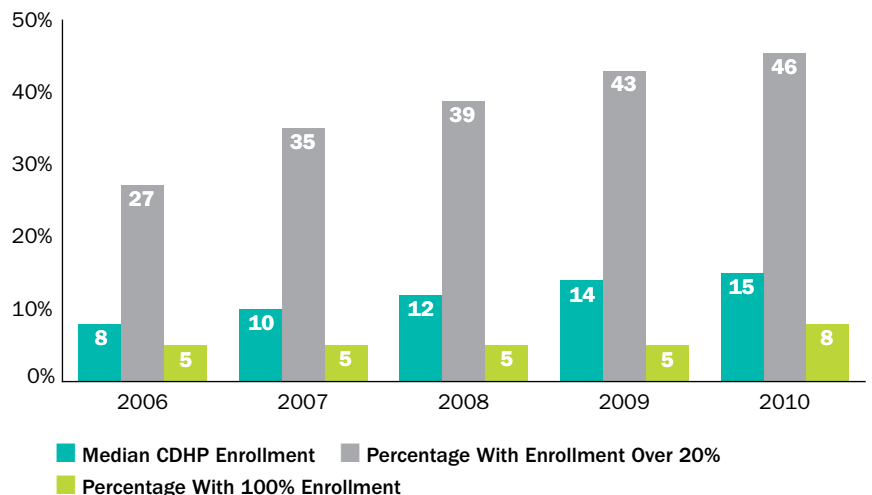
Note: (*) Planned for 2011.

Figure 23: Significantly lower premium costs for CDHP enrollees than non-CDHP enrollees



Notes: In 2006, options "30% to 50% less" and "more than 50% less" were combined. Numbers may not add to 100% due to rounding.

Figure 24: Rising CDHP enrollment rates



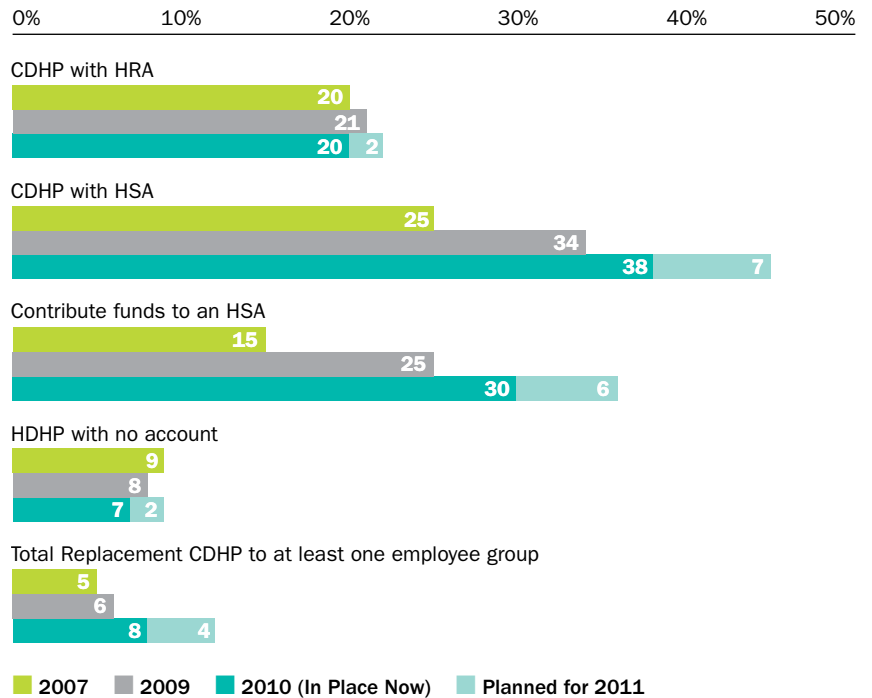
Note: Based on companies with a CDHP.

For account-based programs, HSAs continue to expand. Thirty-eight percent of companies offer them today, with an expected increase of 7% in 2011 (see **Figure 25**). Thirty percent of companies with a CDHP contribute funds to an HSA, and another 6% plan to do so next year. Although health reimbursement arrangements (HRAs) are popular with 20% of companies, the percentage of respondents offering them has not changed in the last four years. Up to this point, companies have been slow to adopt total replacement programs for any segment of their workforce. Today, 8% of employers offer a total replacement CDHP to a portion of their workforce. That rate could reach almost 12% by 2011, if companies follow through with their current strategy plans.

Ninety-one percent of companies with a CDHP in place today offer 100% coverage for preventive services to employees in the CDHP, and another 2% plan to do so in 2011. However, only 16% of companies offer 100% coverage for preventive drugs in their CDHP. This is expected to rise to 23% by 2011. Twenty percent of companies that offer a CDHP have made it the default plan option in hopes of boosting enrollment in these plans, and another 5% plan to do so in 2011.

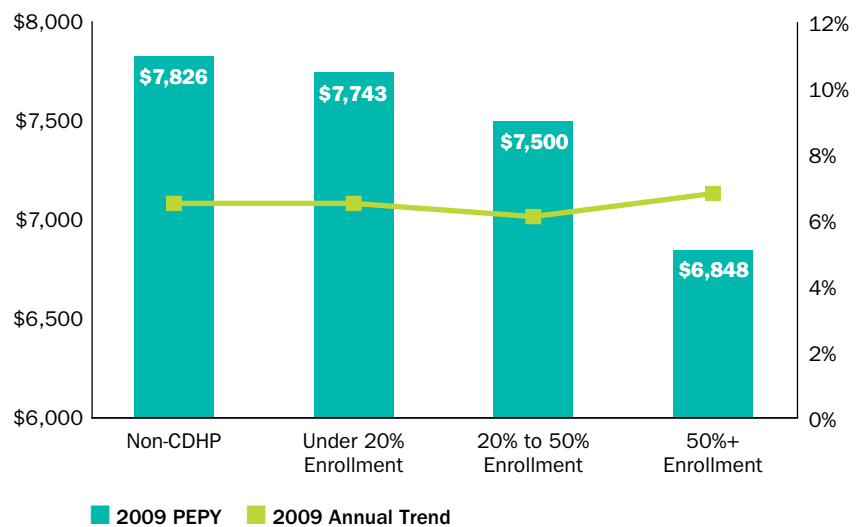
Our previous studies reported significantly lower health care cost trends for companies with higher CDHP enrollment. However, as the CDHP market has matured with an increasing number of employers having a plan in place for multiple years, the relationship between lower cost trends and higher CDHP enrollment disappears in this year's analysis (see **Figure 26**). Instead, CDHP enrollment levels are strongly linked to lower costs per employee. Companies with at least 50% of employees enrolled in the CDHP report average annual costs per employee of nearly \$900 less than companies with low CDHP enrollment and almost \$1,000 less than non-CDHP companies.

Figure 25. CDHPs with health savings accounts: most popular account-based plans



Note: Percentages based on all companies — with or without a CDHP.

Figure 26. Lower health care costs for companies with higher CDHP enrollment in 2009

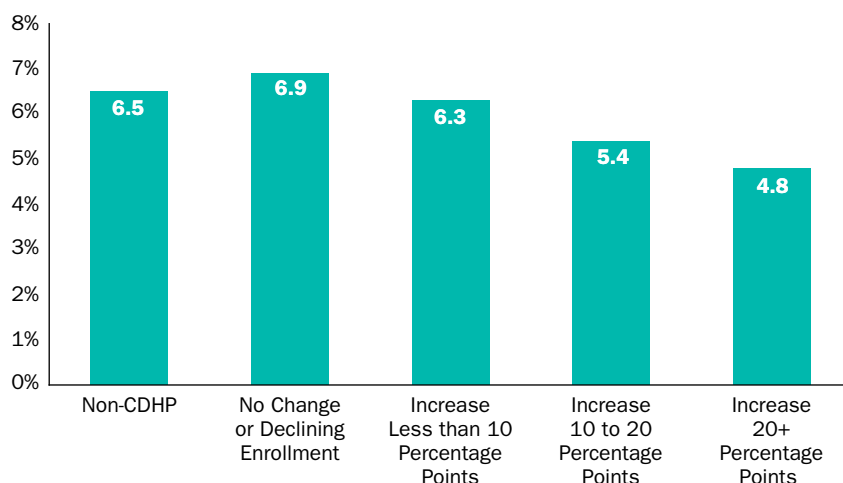


Many companies choose to adopt CDHPs at a more measured pace in lieu of a total replacement strategy. These companies rely on education and communication campaigns along with financial incentives such as premium discounts to boost participation. Our research shows that companies that have been successful at growing CDHP enrollment at a steady pace report lower health care cost trends compared with companies adding new enrollees more slowly (see **Figure 27**). In fact, companies adding 20% or more enrollment between 2008 and 2010 achieved 1.5 percentage points in lower cost trends compared with those that had enrollment growth of under 10 percentage points, and 2.1 percentage points in lower cost trends compared with companies whose CDHP enrollment did not change or declined over the last two years.

Success in reducing cost trends is also linked to recent adopters of a CDHP. Companies that implemented a CDHP in 2009 report significantly lower health care cost increases last year than experienced by those that added a CDHP in the preceding years and by non-CDHP companies (see **Figure 28**). However, recent adopters had higher per-employee per-year costs in 2009, which might have been motivation for adopting a CDHP in the first place. Increases in costs among CDHP companies that added their program prior to 2009 are very similar to those of non-CDHP companies; however, these companies in general report lower per-employee costs compared with the non-CDHP average (i.e., \$7,273 vs. \$7,826).

For all the advantages of CDHP design to empower employees with greater responsibility for managing their own health, plan design alone is not enough to control future increases in costs. As we illustrate in the next section, the way to differentiate on trend is through implementing effective programs to encourage employees to make better health care decisions.

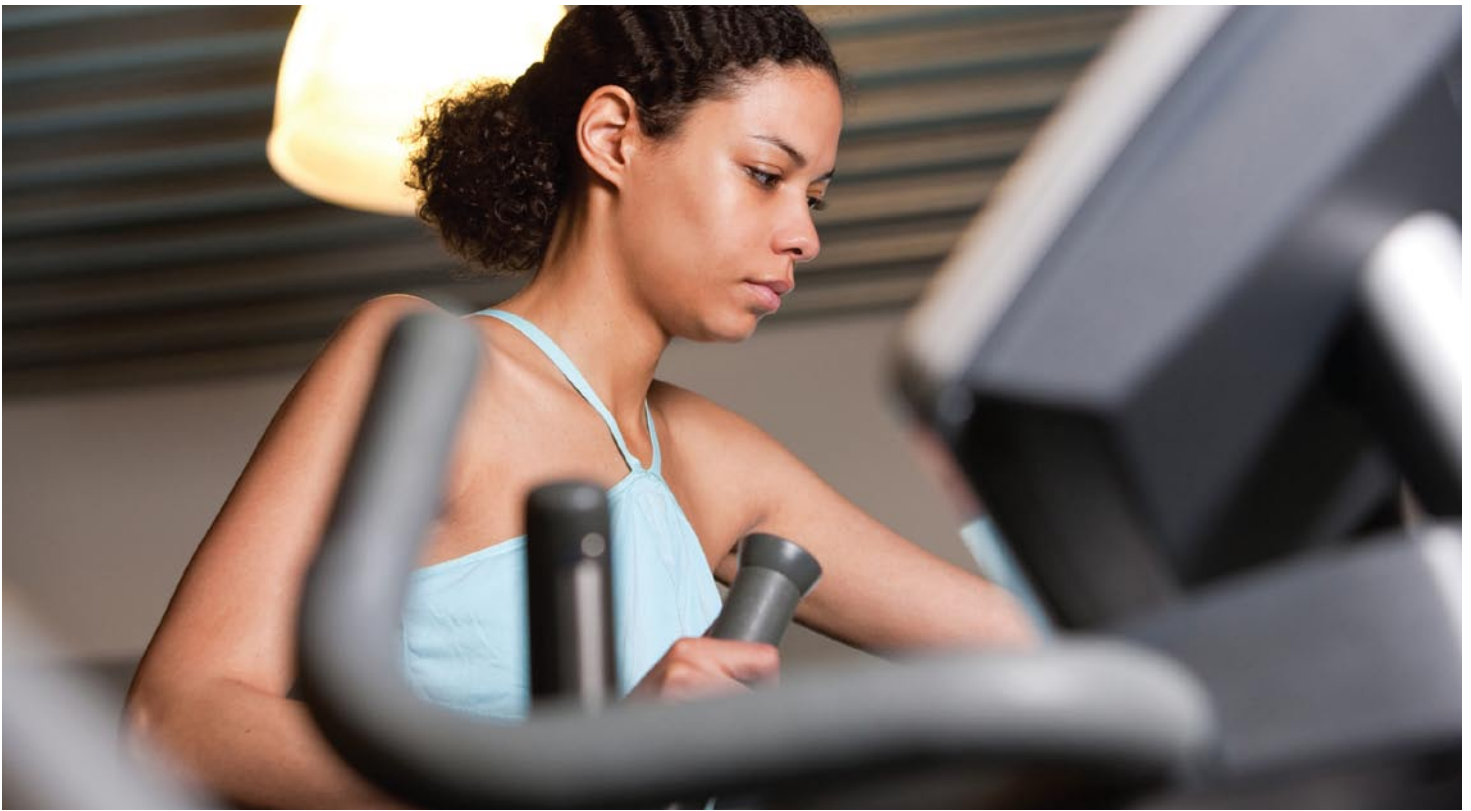
Figure 27: Increases in CDHP enrollment linked to lower median trend
Two-year median trend



Note: Change in CDHP enrollment (2008–2010) for companies with less than 50% enrollment in 2008.

Figure 28: Costs trends lowest for recent adopters of CDHPs

Year of CDHP Implementation	Median Cost Trends		Percent Point Change	2009 PEPY
	2008	2009		
2005 and prior	6.3%	7.3%	1.0%	\$7,715
2006	7.4%	7.5%	0.1%	\$7,130
2007	6.0%	8.0%	2.0%	\$7,300
2008	5.5%	7.0%	1.5%	\$7,328
2009	5.1%	2.0%	-3.1%	\$8,397
2010	7.8%	6.5%	-1.3%	\$7,600
Non-CDHP	5.4%	7.0%	1.6%	\$7,826



The Way Forward

Keys to Consistent Performance

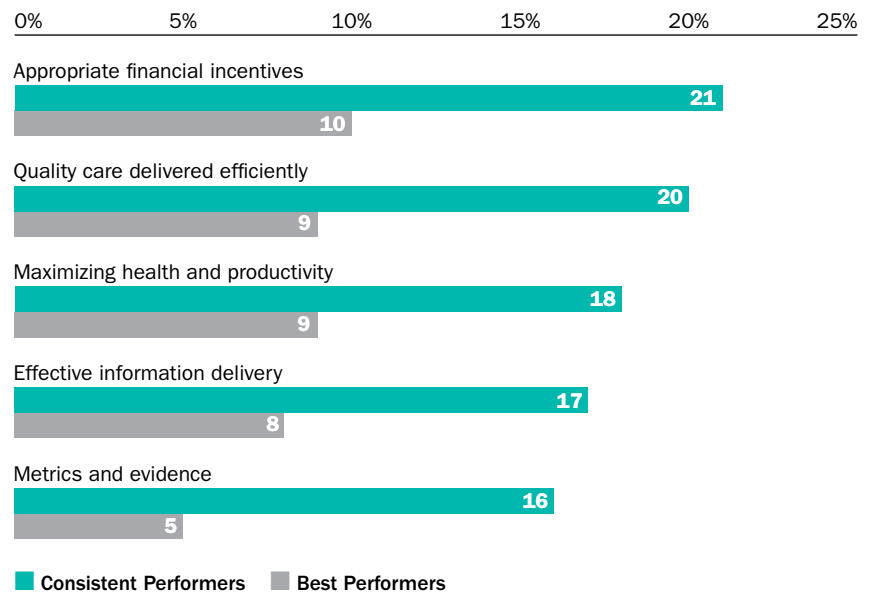
As this research has shown in previous years, best-performing companies are getting better results compared with poor-performing companies by investing in programs and strategies in each of these five areas:

- Appropriate financial incentives
- Effective information delivery
- Metrics and evidence
- Quality care
- Maximizing health and productivity

But, as shown in the figures that follow, companies that have maintained consistently lower health care cost trends over the last four years are clearly differentiating themselves from other companies, including the best performers. Consistent performers have universally made greater strides in each of the five main areas, especially in their use of financial incentives and through emphasis on the quality of care being delivered to their members (see **Figure 29**).

Figure 29. Key drivers of performance

Ratio of program use compared with poor performers



Note: Percentage is the extent to which consistent and best performers are more likely to implement programs with these features compared with poor performers.

Case Study: Andersen Corporation

A blueprint for action and measured progress toward goals

In 2004, home prices, sales and starts were all still on the upswing — as were annual cost increases for the company's employee medical plan. Andersen, a privately held window and door manufacturer, was seeing double-digit increases in health care cost trends, and company management recognized the need for a new approach.

"We brought together a cross-functional team and developed a three-year health care strategy. Our initial focus was on plan design, health improvement, and education and communication," says Kathy Prondzinski, director of corporate benefits design.

Designing the approach

As a first step, the company looked at its data to determine what was driving health care costs. It completed an avoidable claims analysis, which revealed that many of its health care costs were related to preventable conditions. Next, Andersen conducted a series of focus groups and an employee survey to understand employees' knowledge of health care and interest in health-related programs.

From the survey and focus groups, the company learned that employees wanted choice and lower monthly premiums and that there was a strong interest in programs to help them improve their health. The data revealed in the avoidable claims analysis and the information gathered from the survey and focus groups supported a focus on preventive care, health improvement and health care consumerism.

In 2005, Andersen hired a full-time health improvement program manager. That fall, the company launched A+ Health. The comprehensive health improvement program, which was rolled out first to employees and now extends to spouses and retirees, was a key element in moving Andersen toward a culture of health.

The program also included financial incentives. Employees can shave \$5 to \$20 off the monthly cost of premiums by completing a health assessment (HA) and participating in health improvement programs. In 2009, 53% of employees completed the HA, and more than half also participated in a health improvement program.

A focus on consumerism

In 2006 and 2007, the company moved from a copayment to a coinsurance medical plan design, implemented a three-tier prescription drug plan design, and added a consumer-directed health plan to encourage employee accountability and

responsibility for personal health and health care. Andersen also selected a medical plan vendor better able than its predecessor to partner with the company for long-term cost containment.

Education and communication

Onsite posters, newsletters, home mailings and electronic communications combined with workplace activities keep A+ Health and health care education front and center. Health campaigns are offered at various times during the year to help employees and their families develop and maintain positive lifestyle habits. For example, each spring the 10K-A-Day campaign encourages participants to increase their physical activity by tracking their daily steps, with the goal of reaching 10,000 steps each day.

In addition, Andersen has enlisted vendors' help in pushing preventive care reminders and targeting programs and messages based on age, gender and health risks.

From entitlement to empowerment

"We pretty much started from scratch. Employees didn't know what the company was paying for their health care, did not understand their role in getting cost-effective care and were not taking steps to improve their health. We had to address these issues with education and engage members as consumers," Prondzinski says.

With diligent implementation of its common-sense approach, Andersen dramatically altered its course. The company saw a negative cost trend after the first full year of implementing the integrated health strategy of plan design changes, launching the A+ Health program and focusing on education and communication goals. The largest of five business units at Andersen has not had an increase in the employee portion of premiums in the four years since the program launch. There has also been a 13.5% reduction in employee health risks.

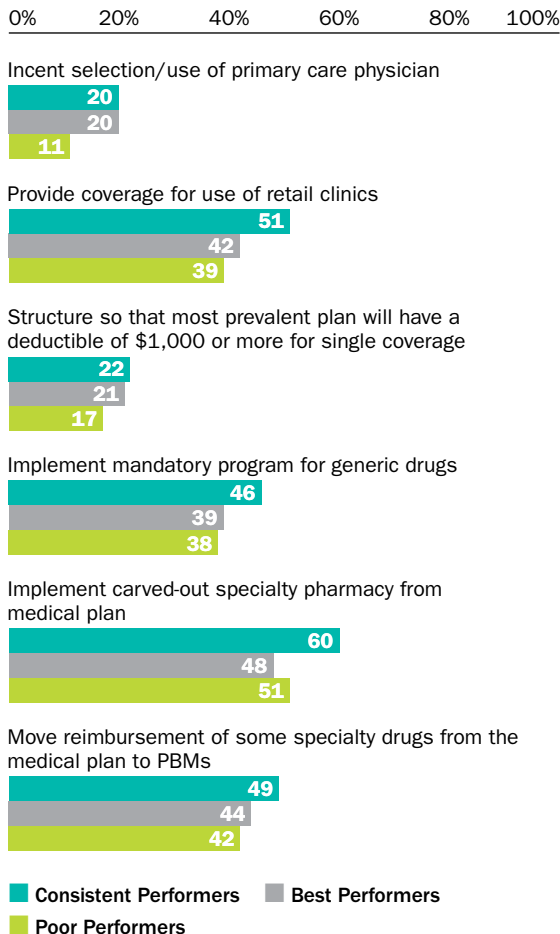
By transforming and continually improving its health strategy, Andersen has realized a significant competitive advantage. Lower health care costs have delivered bottom-line savings at an important time. It was one of the many "rings of defense" the company implemented to preserve financial strength during a decline in the housing industry and to ensure that medical coverage could be sustained for the long term. The new approach has also reinforced the company's commitment to employees' well-being and has enlisted employees as partners in health management.

Appropriate Financial Incentives

Both best performers and consistent performers are more likely than their peers to use financial incentives to influence appropriate health care decisions among employees. While higher deductibles and point-of-care cost sharing is one means of creating more cost-conscious consumers of health care, best-performing and consistent-performing companies use other types of financial incentives (see **Figure 30**). For example, the best and most consistent performers incent the selection and use of a primary care physician and provide coverage for the use of retail clinics. Consistent performers have led the way in pharmacy plan designs by moving reimbursements of some specialty drugs to their pharmacy benefit managers (PBMs) and by implementing mandatory programs for generic drugs.

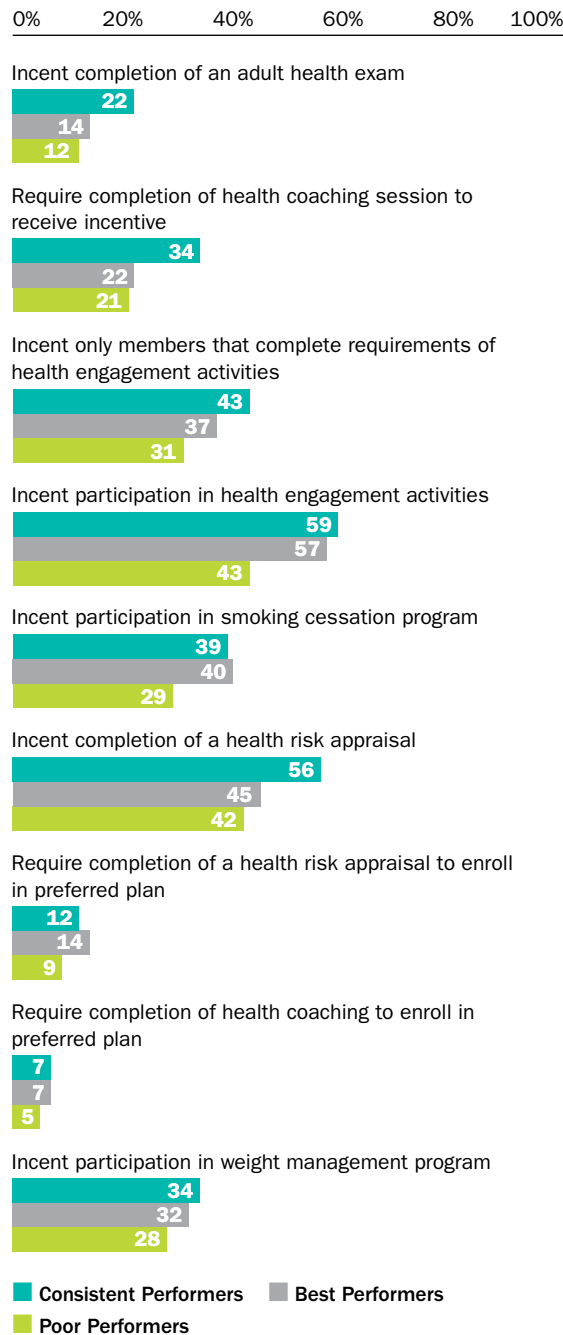
Companies have been increasingly using financial incentives to boost participation in their health management programs. Both best performers and

Figure 30. Appropriate financial incentives



consistent performers are leading the way by incenting participation in a smoking cessation program, completion of a health risk appraisal and participation in a weight management program (see **Figure 31**). Low-cost companies are also implementing tougher standards requiring the completion of health engagement activities to receive financial incentives or to enroll in a preferred plan option.

Figure 31. Financial incentives that encourage healthy lifestyles



Case Study: PepsiCo

A coordinated and consistently monitored approach to improved plan performance

Top-performer PepsiCo offers comprehensive health care plans to more than 200,000 active employees and family members. These plans include outstanding wellness programs and resources that help employees get and stay well and be smart consumers of health care. The company's multi-pronged strategy takes an aggressive approach to managing vendor costs and performance, promoting consumerism, focusing on wellness and prevention, and encouraging quality care.

"At its core, our health plan strategy is a conversation with our employees about balance, costs and choices. The message is that, as an employer, we'll work to keep coverage affordable and support healthy lifestyles. But employees have to do their part to be conscientious consumers and take steps to change unhealthy behaviors or pay more for their care," says Cindy Sloat, director of health and welfare benefits.

The success of PepsiCo's health plan is determined not just by lower-than-average trends, but by progress in increasing healthy behaviors and reducing health risks. HealthRoads, the company's employee wellness benefit plan, established in 2004, promotes healthier lifestyles through a combination of personal health assessments, personalized coaching, fitness and nutrition programs, online tools, financial rewards and worksite wellness initiatives.

This balanced approach is consistent with PepsiCo's commitment to Talent Sustainability, part of the company's Performance with Purpose mission. The resources, tools and incentives help employees lead healthier lives so they can contribute toward a sustainable business.

Data drives decisions

One challenge of managing the plan is knowing what makes a difference. PepsiCo evaluates a dashboard of metrics quarterly to gain insight into current cost, health risks, and claim and demographic trends, so that the company can plan for the following year.

For example, after observing lower-than-average-use of preventive care and increasing risks in the population, the plan was enhanced to waive the deductible for preventive care visits. This was designed to remove potential barriers to participation and steer members to receive appropriate preventive care.

Metrics also help identify opportunities for better utilization of wellness services. For example, data showed that a significant number of employees were not taking advantage of smoking cessation and disease management programs as health care

spend related to member behavior continued to rise. In 2008, the company improved these programs and added free nicotine replacement therapy coverage. It also added a \$600 premium surcharge to employees who chose not to participate in smoking cessation and disease management programs. As a result, participation in smoking cessation has increased 10-fold; quit rates have risen 14%; and participation in disease management has reached 97% of those contacted.

"We use incentives to give an extra nudge to employees who want to make changes. For instance, it is hard to quit smoking, but increasingly people are motivated to stop. Good health is its own reward, but incentives provide a boost to help them achieve their goal," says Ellen Exum, director of wellness and prevention.

Metrics are also used to evaluate program performance. For instance, more than 31,000 participants have improved or eliminated a health risk. An independent review by the RAND Corporation demonstrated the company's wellness programs had a positive impact on total medical expenditures. In fact the review showed that by year three, every dollar spent on wellness saved more than \$3.00 on health care expenses.

A coordinated approach

PepsiCo employees have diverse backgrounds, needs and attitudes about their well-being, but they can all benefit from programs that support preventive care, healthy eating and exercise. A key to sustaining a wellness culture is to make it relevant at the local level. PepsiCo has 20 locations with HealthRoads' worksite wellness operations. At these locations, worksite wellness coordinators and local wellness committees run wellness activities such as "Biggest Loser" programs, Energy Balance programs, education seminars, competitions and events including health risk assessment days and health fairs. Worksite wellness locations have higher-than-average health assessment completions, more than 10,000 pounds lost, 290 million steps walked and lower disability claims. The program has been recognized by the National Business Group on Health and received the platinum award given to Best Employers for Healthy Lifestyles.

PepsiCo understands that an effective health care strategy enhances workforce productivity, improves employee relations and contributes to the company's Performance with Purpose mission. The company's rigorous and broad-based approach is delivering impressive results and keeping downward pressure on health care costs.

Coverage of Preventive Services

Many companies offer 100% coverage of a wide range of preventive services within their CDHPs, although first-dollar coverage is still quite high within non-CDHPs (see **Figure 32**). Overall, health exams, mammograms and gynecological exams are almost universally covered within CDHPs, with first-dollar coverage about 15 percentage points lower for these services within non-CDHPs. The least likely to be covered at 100% are preventive prescription drugs and vision exams.

Figure 32. Preventive services covered at 100% within CDHPs and other plan designs

	CDHP ^a	Non-CDHP ^b	Neither
Adult health exam	94%	79%	9%
Well-child visits	94%	79%	10%
Prenatal office visits	52%	54%	36%
Vision exam	31%	33%	59%
Mammogram	94%	80%	9%
Gynecology exam/Pap test	94%	78%	10%
Influenza vaccination	79%	67%	22%
Preventive prescription drugs	20%	13%	74%
Colonoscopy	81%	66%	22%
Prostate screening	87%	71%	17%
Diabetes screening	60%	51%	37%

Notes: (a) Includes only companies with a CDHP. (b) Excludes companies with a total replacement CDHP for their entire eligible workforce.

Health and Productivity

Previously, Towers Watson research has shown that the most successful companies take a holistic approach to addressing the health care issues faced by their workforce.⁴ This includes a comprehensive set of programs that addresses the complex physical and mental health issues facing employees and spans the entire health continuum. Best and consistent performers have clearly taken more steps than poor performers by offering lifestyle behavior change programs, smoking cessation programs and disease management programs. Companies with the lowest cost trends are also taking steps to more effectively manage their programs by consolidating their health and productivity programs with a single vendor or with their health plan (see **Figure 33**).

⁴ See 2009/2010 Towers Watson/National Business Group on Health North American Staying@Work Report, *The Health and Productivity Advantage*.

Effective Information Delivery

Because employees are increasingly responsible for making decisions about their health care, participants must be familiar with the health care system and understand their health care options. Both best and consistent performers are more likely than their peers to provide employees with the education and tools needed to become informed health care consumers (see **Figure 34**). These companies are especially focused on personalized messages, such as reminders encouraging preventive procedures and supporting the use of a primary care physician. Low-cost companies also integrate vendors to improve the delivery of information and actively manage vendor-prepared communication on health care costs and living healthier lifestyles. Creating a healthy workplace culture requires the support of senior leadership. The most successful organizations are able to foster a culture of health by having senior leaders show visible support for the importance of a healthy work environment and by having local wellness champions drive employees to participate and engage in efforts to improve their health.

Figure 33. Health and productivity

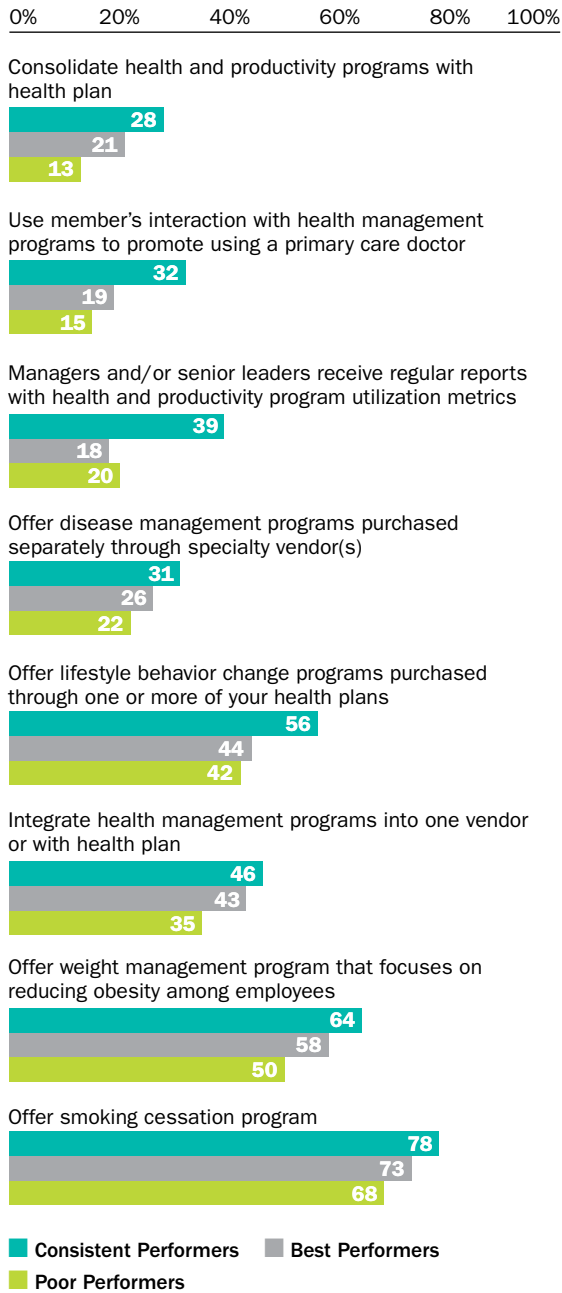
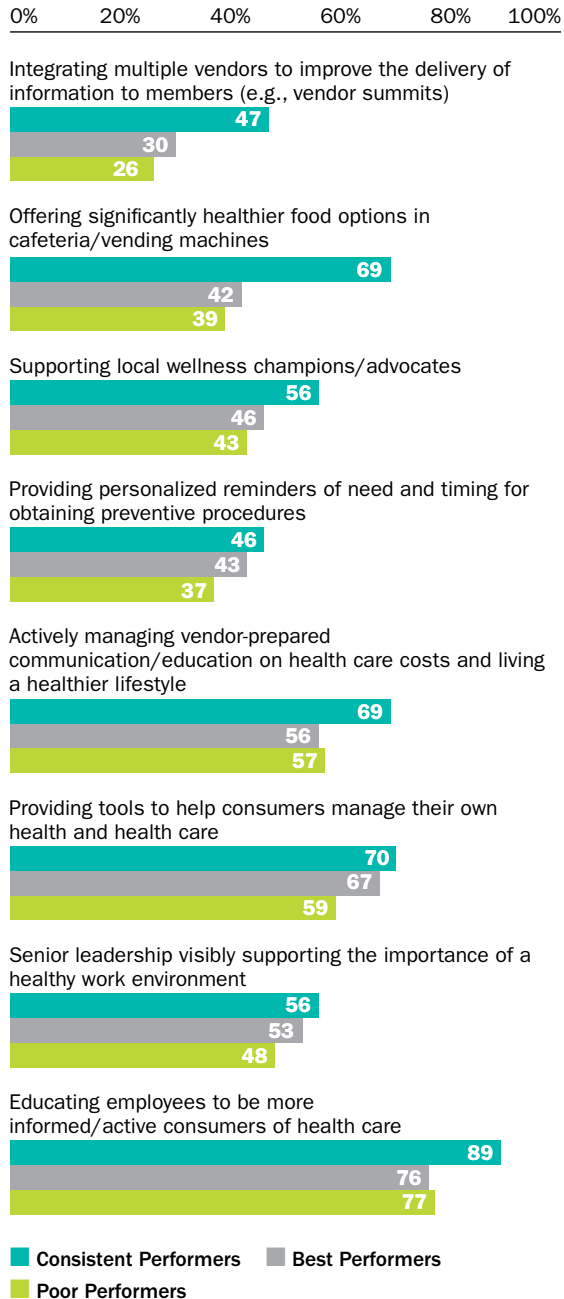


Figure 34. Effective information delivery



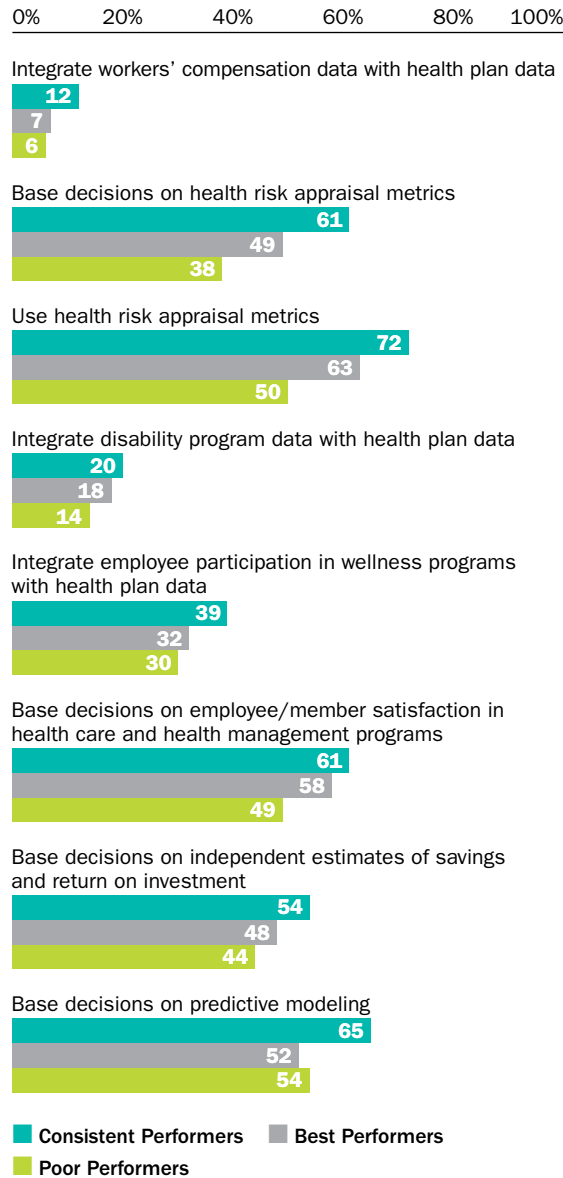
Health Metrics

Metrics and data analysis are a central ingredient of the most successful health care strategies, and this is particularly evident with companies that are consistent performers. Creating connections with data by integrating their health plan data with absence, disability, workers' compensation and program participation is a vital strategy of both best and consistent performers (see **Figure 35**). However, consistent performers appear more focused on health risks, as they are more likely than other companies to both use and base decisions on health risk appraisal metrics. Consistent performers also are more likely than other companies to use and make decisions based on claims analysis and predictive modeling.

Audits

Eligibility audits and reviews of plan enrollment are among the fastest-growing actions being taken by employers. In 2007, 42% of companies audited eligibility and enrollment patterns within their health plan. In 2010, the number of respondents conducting such audits rose to 69%, and another 15% plan to do so in 2011. However, eligibility reviews are most popular with companies experiencing the highest increases in health care costs (poor performers), with 76% undertaking audits today compared with 58% of consistent performers and 59% of best performers.

Figure 35. Health metrics



Quality

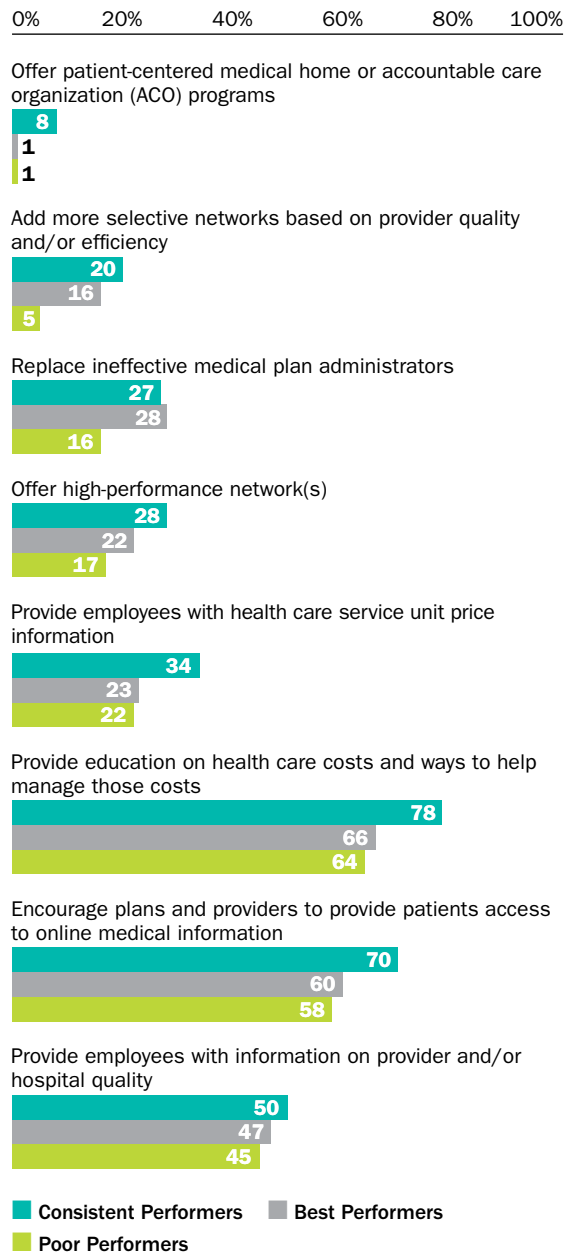
Although consistent and reliable provider quality information is still difficult to obtain, both the best and consistent performers have made it an essential component of their health care strategy (see **Figure 36**). These companies are much more likely to be adding more selective networks based on provider quality and/or efficiency and to be using high-performance networks. Low-cost companies are also more likely than poor-performing companies to be taking steps to replace ineffective medical plan administrators. Consistent performers are leading the way in providing employees with information and education on unit prices and hospital quality in order to assist them in making better health care decisions.

Incenting Participation in Wellness Programs

Many companies make considerable investments in wellness programs to encourage employees to adopt healthier lifestyles. Despite efforts to cut costs during the economic slowdown, companies remain committed to their health and productivity programs. But the key to success extends beyond simply offering a program; success depends on achieving high rates of program participation.

As discussed at the outset, companies continue to struggle in motivating employees to engage in healthier lifestyles and, for those with chronic conditions, to take appropriate actions to manage their health. While more frequent and timely communication is essential to boosting employee engagement, many companies have been using financial incentives to encourage program participation and, in some cases, the achievement of health status factors.

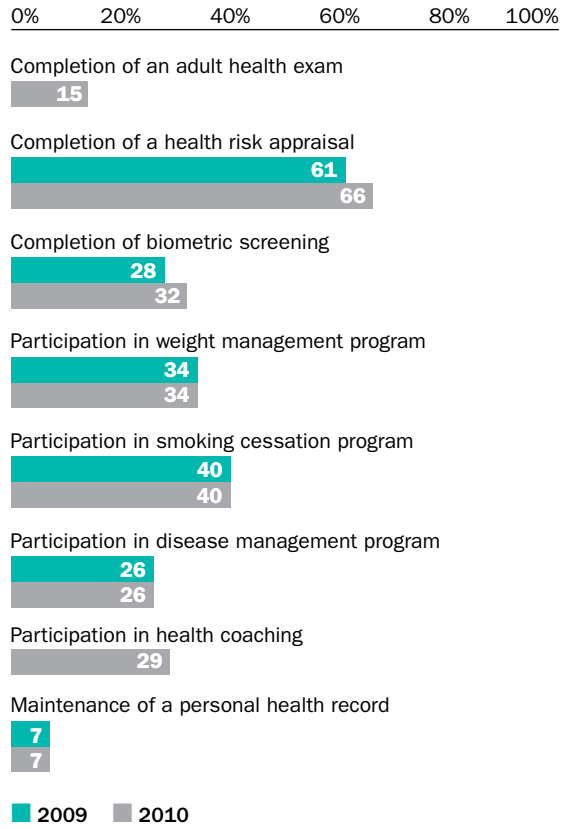
Figure 36. Quality



Companies most commonly use financial incentives to encourage completion of health risk appraisals and participation in smoking cessation and weight management programs (see **Figure 37**). However, the use of incentives is at roughly the same level as last year, except for small increases in incentives for completing a health risk appraisal and a biometric screening. While the economy is tightening health care budgets, companies continue to take steps to boost program participation and maximize their investments in their health management programs by embracing tougher requirements and using standards for earning financial incentives or enrolling in a preferred plan option (see “Raising the Bar on Financial Incentives” on page 12).

Financial incentives are clearly most effective at boosting completion of a health risk appraisal and a biometric screening. In fact, 49% of companies that offer financial incentives have more than half of their workforce complete a health risk appraisal, whereas only 9% achieved that level of participation without a financial reward (see **Figure 38**). Financial incentives also appear effective at encouraging employees to enroll in a weight management program, participate in a health coaching session and maintain a personal health record. But financial incentives may not be enough to boost participation in some programs. The impact of incentives is less evident in achieving higher participation in disease management and smoking cessation programs, and the use of financial incentives over and above 100% coverage under the plan does not appear effective at encouraging higher rates of annual health exams.

Figure 37. Percentage of companies offering financial incentives in wellness programs



Note: Based on companies that offer these programs.

Figure 38. Financial incentives linked to higher program participation

	Offer Incentives	0 to 5%	6% to 10%	11% to 20%	21% to 50%	51% to 75%	More Than 75%
Completion of an adult health exam	Offer	2%	4%	18%	54%	12%	11%
	Don't Offer	2%	8%	22%	45%	18%	5%
Completion of a health risk appraisal	Offer	9%	6%	8%	27%	30%	19%
	Don't Offer	60%	9%	10%	12%	3%	6%
Completion of biometric screening	Offer	9%	7%	5%	35%	25%	19%
	Don't Offer	32%	13%	20%	25%	7%	3%
Participation in weight management program	Offer	48%	28%	19%	5%	0%	0%
	Don't Offer	62%	25%	8%	4%	0%	1%
Participation in smoking cessation program	Offer	71%	16%	10%	1%	2%	1%
	Don't Offer	80%	12%	6%	2%	0%	1%
Participation in disease management program	Offer	44%	28%	12%	12%	3%	1%
	Don't Offer	47%	27%	15%	8%	1%	1%
Participation in health coaching	Offer	43%	24%	19%	6%	5%	4%
	Don't Offer	63%	20%	12%	4%	2%	0%
Maintenance of a personal health record	Offer	41%	29%	12%	6%	0%	12%
	Don't Offer	73%	10%	5%	6%	3%	3%

Note: Based on companies that offer the program and provided a response for the participation rate.

Whether through more effective communication or financial incentives, companies that do a particularly good job of encouraging employees to participate in their health management programs report lower overall cost trends; this is consistent across nearly all health-related activities. For example, companies able to have at least 50% of their employees complete a biometric screening report average cost trends of 6% compared with cost increases of 7.5% for those with lower participation (see **Figure 39**). However, the link between higher participation and lower cost trends is not evident with disease management and weight management programs.

Cash and Premium Credits

Fifty-two percent of employers offer cash and/or premium credits to their employees, and 23% offer them to dependents. For those that offer incentives, the maximum amount of cash employees can earn on average is \$329, which is identical to the amount reported last year. For dependents, cash caps are set at \$261, which is \$33 below the maximum in 2009.

Figure 39. Health management program participation and cost trends

	Median 2009 Trend		Definition of High Participation
	Low Participation	High Participation	
Completion of an adult health exam	7.0%	6.0%	50%+
Completion of a health risk appraisal	7.2%	6.0%	50%+
Completion of biometric screening	7.5%	6.0%	50%+
Participation in weight management program	7.0%	6.8%	11%+
Participation in smoking cessation program	7.0%	6.4%	11%+
Participation in disease management program	7.0%	7.0%	11%+
Participation in health coaching	8.0%	6.0%	11%+
Maintenance of a personal health record	6.9%	5.5%	11%+

Note: Based on companies that offer these programs and provided a response for the participation rate. The definition of "high participation" roughly equals the top quartile of all respondents and is not intended as a best-practice participation level.

Incentive Amounts and Program Participation

For many health-related activities, higher financial incentives are strongly linked to higher rates of member participation. This is especially the case with health risk appraisals, biometric screenings and health coaching (see **Figure 40**).

However, modest levels of financial incentives can also be effective at boosting employee engagement in weight management, disease management and smoking cessation programs.

Figure 40. Percentage with high program participation by amount of incentive offered

Percentage With High Program Participation	None	\$50 or Less	\$51 to \$100	\$101 to \$250	More Than \$250
Completion of a health risk appraisal	17%	24%	40%	57%	89%
Completion of biometric screening	13%	15%	40%	54%	82%
Participation in weight management program	14%	23%	20%	39%	20%
Participation in smoking cessation program	10%	9%	9%	23%	10%
Participation in disease management program	27%	25%	25%	35%	18%
Participation in health coaching	18%	28%	38%	50%	50%

Notes: Based on companies that offer the program and provided a response for the participation rate. High program participation is defined as 50%+ for health risk appraisals and biometric screenings and 11%+ for all other health-related activities.

Declining Coverage of Retiree Medical

The sluggish economy has put significant pressure on organizations to reduce benefit budgets, especially health care costs. This has led many organizations to re-evaluate all of their programs, including retiree medical. In recent years companies have reduced or even eliminated altogether retiree medical benefits. Results from this year's survey show a continuation of this trend (see **Figure 41**).

Today, half of companies provide at least some financial support to current retirees under age 65 — down from 57% last year — and 47% provide at least some coverage to Medicare-eligible retirees, a decline from 51% in 2009. New hires are much less likely to receive financial support, with 22% receiving some pre-65 coverage and 18% getting post-65 coverage.

In lieu of direct financial support, some organizations have taken steps to leverage the external marketplace by providing retirees access to insurance products that improve plan

choice and increase levels of government funding. Today, more than a quarter of employers that do not provide financial support offer new hires services that expand access to pre-65 insurance products, and one-fifth do so for post-65 coverage. As financial coverage continues to decline for current retirees, companies have expanded the use of these services for pre-65 retirees to 14% in 2010 from 9% in 2009 and for post-65 retirees to 10% this year from 7% last year.

In addition, HSAs provide a tax-effective way for workers to accumulate savings to cover their retiree medical expenses. The number of employers offering HSAs has rapidly expanded in recent years, rising from 25% in 2007 to 38% today, with another 7% planning to do so for 2011 (see **Figure 25**). HSAs have become particularly popular among companies that are providing services that expand access. Among companies that offer new hires these services, 49% offer an HSA of which nearly 80% contribute funds to the account.

Figure 41: Retiree medical support for various subgroups of the workforce

Retiree Medical Coverage	Coverage Group				
	Year	Pre-65 for New Hires	Medicare Retiree Coverage for New Hires	Current Pre-65 Retirees	Current Medicare Retirees
Defined benefit support	2009	12%	10%	23%	20%
	2010	12%	8%	20%	18%
Limited financial support	2009	14%	12%	34%	31%
	2010	10%	10%	30%	29%
No financial support but access to coverage	2009	25%	21%	9%	7%
	2010	26%	20%	14%	10%
No financial support or access	2009	48%	57%	34%	42%
	2010	53%	62%	35%	43%

Conclusion

The economic downturn combined with the push for health care reform legislation has sharpened employers' focus on health care programs. Organizations have responded with an array of tactics designed to hold the line on costs and motivate employees to be better stewards of their own health and more savvy buyers of health care services.

Yet our research demonstrates that individual tactics or program changes are not — by themselves — the answer. For instance, while more companies are adopting CDHPs and enrollment is expanding, these trends alone do not put sufficient downward pressure on health care costs. While companies continue to offer health and productivity programs, these initiatives alone do not create healthier workforces. Instead, we see that the path to better plan performance is determined by a full complement of integrated and well-managed health plan practices and incentives.

Those companies that get it right year after year demonstrate that

it is possible to build a successful health care program for the long term. Further, they provide the model for other organizations seeking significantly better cost outcomes.

- Consistent performers have a median trend of only 2.1%, compared with 6.8% for all organizations surveyed.
- They have an average spend per employee of \$6,536 — nearly \$1,200 below the all-company average.

Results from this and prior-year surveys show that successful strategies have common attributes. Specifically, those companies that have been able to contain costs are more likely to use financial incentives to influence appropriate health care decisions; more likely to provide employees with the education and tools needed to become informed health care consumers; and more likely to offer programs for lifestyle behavior change, smoking cessation and disease management. These and other decisions made by consistent performers can serve as a road map for employers steering through a myriad of health plan choices and complexities, a challenge compounded by a difficult business climate and the uncertainty surrounding health care reform.

About the National Business Group on Health

The National Business Group on Health is the nation's only nonprofit membership organization of large employers devoted exclusively to finding innovative and forward-thinking solutions to their most important health care and related benefits issues. The Business Group identifies and shares best practices in health benefits, disability, health and productivity, related paid time off and work/life balance issues. NBGH members provide health coverage for more than 50 million U.S. workers, retirees and their families. For more information about the NBGH, visit www.businessgrouphealth.org.

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