

2014 Health Care Changes Ahead Survey

Emerging Factors Influencing Employer-Sponsored

Health Care Benefits

Executive Summary

Plan sponsors face a highly complex health care benefit environment that continues to evolve. A variety of forces are converging — escalating costs within a weak economy worldwide, competitive pressures, the need for improved workforce productivity, health care reform's ongoing impact and new benefit delivery channels — that present unique challenges and opportunities for employers to maintain or achieve a high-performing health program. As a result, companies will refine their strategies and approaches to achieve optimal value from their health benefit programs, and help employees improve health status and overall well-being.

Towers Watson's 2014 Health Care Changes Ahead Survey yields insights into how employers are thinking about health care benefits and the key actions they anticipate adopting in response to the new health care landscape. The responses of 379 midsize to large U.S. organizations point to five primary factors that will help frame employer-sponsored benefits:

- CEOs and CFOs are more engaged in health care strategy decisions, given their significant business implications.
- Employers' actions will have a material effect on employees and their families as a result of companies' growing focus on outcome-based incentives and the way they subsidize coverage for spouses and families.
- Employers' interest in private exchanges for active employees continues to grow, but many await additional evidence that this model can deliver more value than their traditional self-managed program.
- Employers will use technology as a pivotal tool in strategies to boost employee engagement and improve access to health care.
- Employers remain committed to health care for active employees and view it as a key part of their employee value proposition (EVP).

“Nearly nine in 10 employers (87%) say health care benefits will be a key part of their EVP in 2015.”

Key Survey Findings

- 2015 health care costs are projected to increase by 4% after plan changes, compared to the 5% employers previously projected for 2014.
- Total per-employee costs are expected to average \$13,037, with employers paying \$10,233 and employees paying \$2,804.
- Without changes to medical and pharmacy plan designs, vendors, provider networks or other features, the increase would have been 5.2% for 2015.
- Employers are maintaining their commitment to subsidized health care benefits. Nearly nine in 10 employers (87%) say health care benefits will be a key part of their EVP in 2015, and this rate dips only slightly, to 83%, for 2016 and beyond.
- Health care reform heightens affordability concerns: Nearly two-thirds of employers believe employees' health care costs will be higher than in the past.
- Companies are making moderate to significant changes to health benefit programs between now and 2017.
- Making changes to avoid the excise tax ceiling is employers' top priority. Moreover, more than half (54%) will trigger the excise tax by 2020 if no changes are made to their health care benefit strategy.
- Organizational health care strategies are gaining more attention from CEOs and CFOs as costs rise and the excise tax effective date (January 1, 2018) approaches. Two-thirds of CEOs and CFOs are more directly involved in health care benefit decisions than they were three to five years ago.
- To mitigate costs, better engage plan members and improve the quality of care delivered, employers will take a number of actions. They will expand account-based health plan (ABHP) enrollment, add price and utilization management strategies for specialty pharmacy spend, explore defined contribution (DC) arrangements, rethink health coverage subsidies for spouses and dependents, adopt technology solutions for more convenient access to and information about providers, use outcome-based incentives to hold employees more accountable, use new payment methodologies to hold providers more accountable, and expand the use of value-based designs and benefit differentials to drive workers to high-performance/narrow networks.
- Nearly eight in 10 (77%) employers lack confidence in public insurance exchanges as a viable alternative to employer-sponsored coverage, and almost all employers surveyed (99.5%) have no plans to exit active medical plans and direct employees to this arrangement.
- Before companies will seriously consider a private exchange for active workers, they need proof that this model can deliver greater value than their current self-managed programs (64%). Just over a quarter of employers (28%) have done an extensive analysis of the viability of a private exchange for their organizations. And employer confidence is growing: 24% today feel more confident that private exchanges will be a viable alternative by 2016, compared to 14% by 2015.

“Health care benefit programs affect attraction, retention, employee health and productivity, engagement, and more.”

Health Care Benefits Remain Core to the EVP

Employers do not plan to eliminate subsidized health care benefits for active employees. The majority of employers (87%) indicate that health care benefits will be a key part of the total rewards package and EVP in 2015, and this rate dips only slightly, to 83%, for 2016 and beyond (Figure 1). Furthermore, virtually all employers surveyed (99.5%) have no plans to exit active medical plans for full-time employees and direct them to the public exchanges.

This commitment also holds true for part-time workers:

- The majority of employers (91%) say they are unlikely to discontinue health care plans for this workforce segment.
- In addition, when asked about using public exchanges, more than nine in 10 (97%) companies report they do not plan to discontinue health care plans for part-time employees and provide a financial subsidy to purchase coverage via this delivery channel.

Health care benefit programs affect attraction, retention, employee health and productivity, engagement and more. Therefore, prudent employers are pursuing a thoughtful approach to assessing the various options, risks and opportunities before making decisions that will disrupt the EVP.

The C-Suite Influences Health Care Strategy Decisions

The role of the C-suite in crafting a sustainable and affordable organizational health strategy is more vital than ever as global economic uncertainty persists, companies remain focused on managing costs aggressively, the excise tax approaches in 2018 and employers rely more heavily on a healthy workforce to achieve business objectives. These factors make health care strategy a business imperative top executives cannot ignore. The survey findings reveal

that two-thirds of CEOs and CFOs are more directly involved in health care strategy decisions than they were three to five years ago (Figure 2). What’s more, when asked about their company’s top priorities for its employee benefit programs over the next year, more than half (54%) of the senior finance executives surveyed by CFO Research pinpoint controlling the employer cost for health care benefits.*

Figure 1. Health care benefits will continue to be an important part of the EVP
How important will subsidized health care benefits be as a part of your EVP, and how important do you expect them to be in the future?

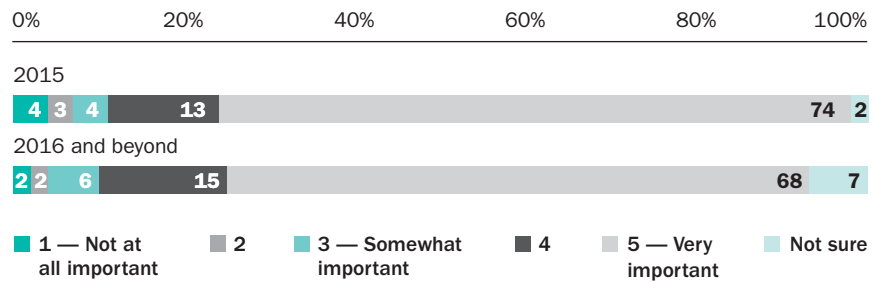
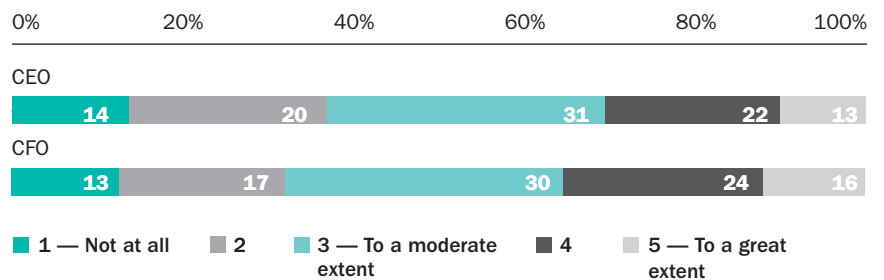
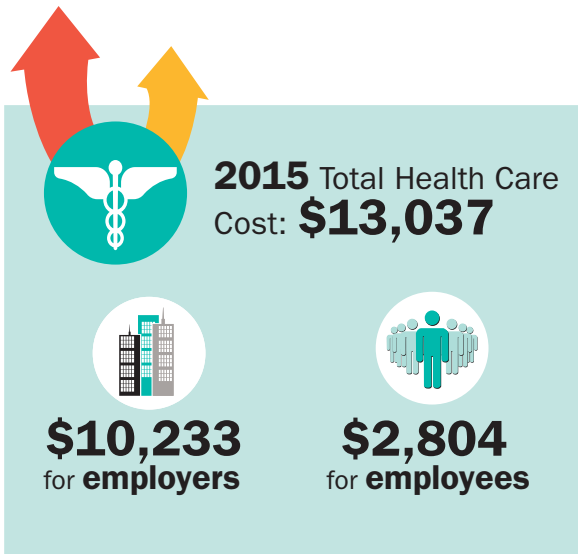


Figure 2. Two-thirds of CEOs and CFOs are more directly involved in developing their company’s health care strategy

To what extent are the following leaders more involved than they were three to five years ago in decisions related to your organization’s health care strategy?



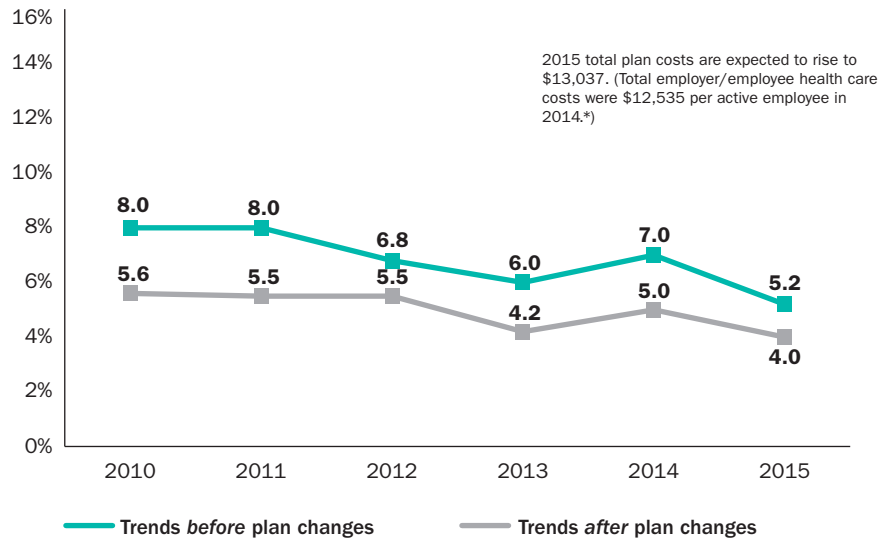
*2014 *Managing Financial Risk in Retirement and Benefits Programs: Translating Awareness Into Action*, CFO Research



Health care cost increases for active employee coverage have remained steady over the last year. The increase is expected to slow modestly in 2015, to 4% from 5% this year, after plan changes (Figure 3). That equates to a projected per-employee health care cost of \$13,037 in 2015 (up from \$12,535 this year), representing a per-employee cost of \$10,233 for employers and \$2,804 for employees.

Employees also face an increasing health care cost burden. Six in 10 (62%) employers believe employees' health care costs (i.e., employee contributions and point-of-care costs) will be higher than in the past due to health care reform. In addition, Towers Watson's database indicates that employee contributions to employer-sponsored plans are projected to increase next year by 4.4% — from \$2,686 in 2014, to \$2,804. Also, medical spend varies within and across industries (e.g., 10th to 90th percentile), so active oversight of program performance is critical.

Figure 3. U.S. employers expect health care costs to rise 4%
Medical and pharmacy cost combined



n = 479 (2015)

Note: Cost trends for 2010 through 2014 are based on the 2014 Towers Watson/National Business Group on Health Employer Survey on Purchasing Value in Health Care.

*2014 Towers Watson/National Business Group on Health Employer Survey on Purchasing Value in Health Care

“The 2018 excise tax on high-cost health plans adds to the cost pressures, with companies noting that making changes to avoid this business risk is the top priority.”

The 2018 excise tax on high-cost health plans adds to the cost pressures, with companies noting that making changes to avoid this business risk is the top priority. In addition, our survey results show that the excise tax is a primary issue for employers' health programs:

- Almost two-thirds of companies (62%) report that the excise tax will moderately or strongly influence health care strategies over the next two years (Figure 4).
- Seven in 10 (73%) are concerned they will trigger the excise tax if they maintain the benefit plan designs currently offered to employees (Figure 5).
- More than half (54%) of companies will trigger the excise tax by 2020 if they don't make adjustments to their health care benefit strategy (Figure 5).

Figure 4. The excise tax will influence health care strategies over the next two years

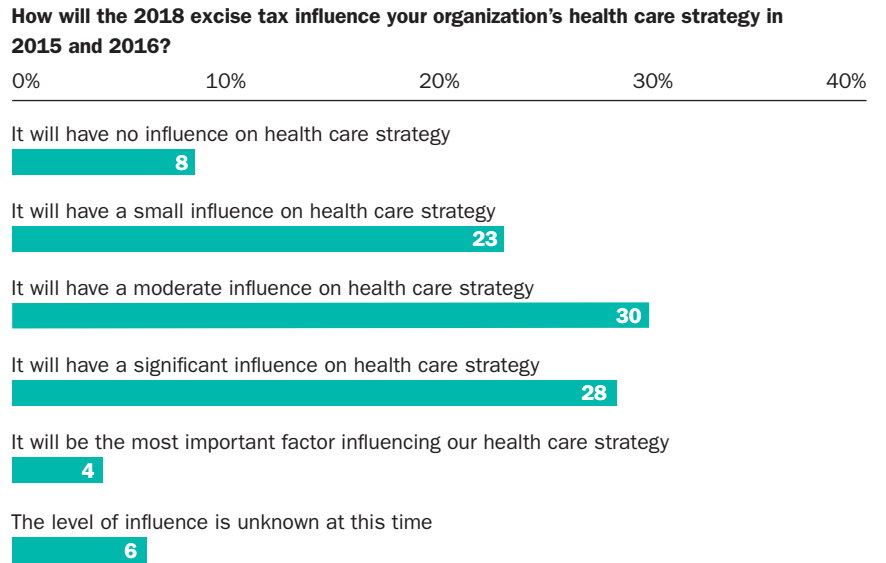
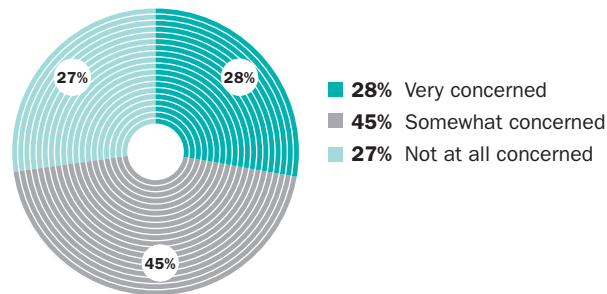
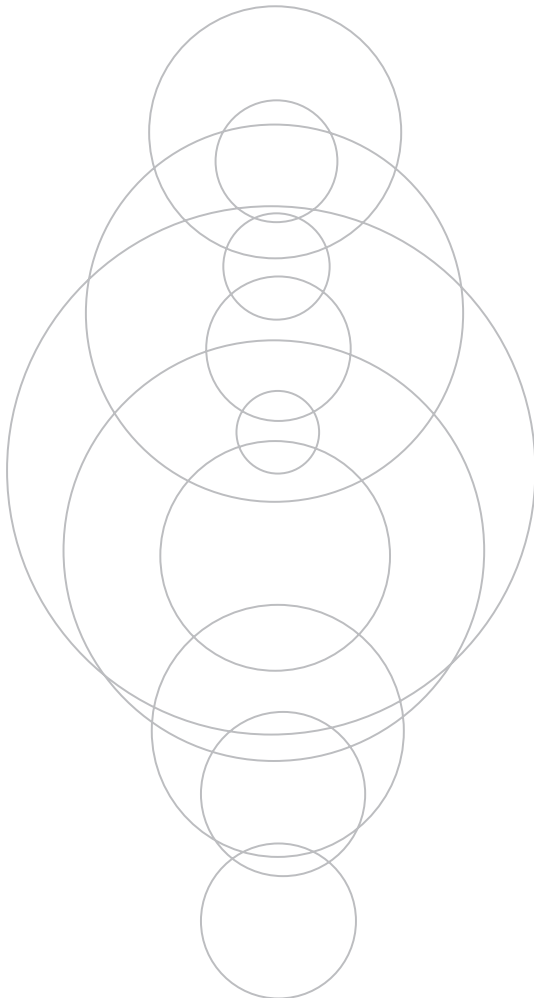
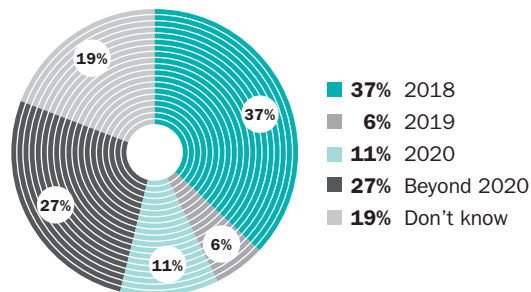


Figure 5. More than half of companies will trigger the excise tax by 2020 without changes to their benefit strategy

How concerned are you that your organization will hit the 2018 excise tax based on plans currently offered?



When will your organization trigger the excise tax if no changes are made to the health care benefit strategy?



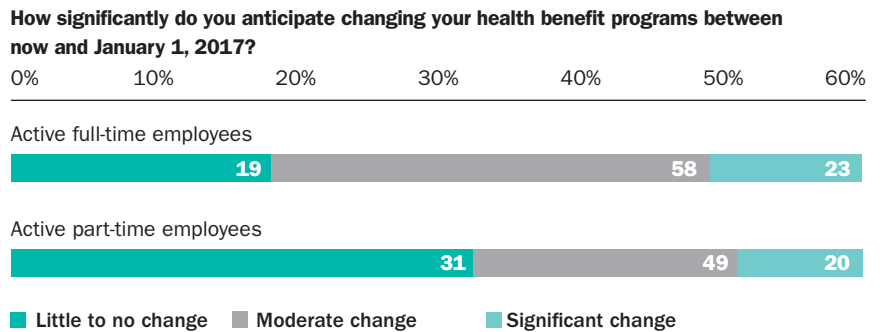
Employer Actions Have Major Implications for Employees and Dependents

While companies are committed to their health program investment, they are contemplating changes that will transform the design of employer-provided health plans for the future. They anticipate making moderate to significant changes to health benefit programs between now and 2017 — 81% for full-time active employees and 69% for part-timers (Figure 6). Their ultimate goal is to achieve a high-performing health plan that mitigates mounting costs and the future trend rate, reduces exposure to the excise tax and improves the quality of medical care delivered. To ensure they obtain optimal results, 60% of employers will place a stronger emphasis on data and metrics to evaluate plan performance and behavior change.

As a result, employees will have to adjust their expectations for company-sponsored health care benefits. Many employers are exchanging traditional health plan approaches for more cost-effective and sustainable solutions that will significantly impact workers and their families:

- In an effort to transition employees from passive patients to empowered consumers, nearly half (49%) of companies expect to offer an ABHP as their only plan option by 2017.
- DC approaches are gaining traction, with 16% of plan sponsors using them by 2015 and another 30% considering this solution for 2016 or 2017. Changes in health care costs can affect an employer's ability to achieve profitability targets, so companies are seeking cost certainty and budget stability with DC approaches that give employees a fixed amount of money for health care coverage. These employees will face more decision-making responsibility for their health behaviors and how they use health care services.
- By 2017, 63% of companies expect to use spousal exclusions or surcharges when coverage for a spouse is available elsewhere, and 52% are considering making a significant reduction in subsidies for employees' family members.

Figure 6. Companies plan moderate to significant changes to health benefits over the next three years



Note: Percentages exclude those who responded "not applicable."

- Employer interest in telemedicine is growing, and implementation is expected to reach 37% by 2015, with another 34% considering the option by 2017. Virtual physician visits enable easier and less expensive health care access for employees.
- To secure employee accountability and encourage healthy behaviors, outcome-based incentives (based on achieving specific results or biometric targets) are becoming more prevalent: 18% of employers offer them today; another 10% intend to offer them in 2015, and an additional 48% by 2016 or 2017.
- Two-thirds of employers (66%) will use eligibility and/or utilization restrictions as part of their specialty pharmacy strategy by 2015. Another 15% are considering this solution for 2016 or 2017. In addition, nearly six in 10 (58%) will evaluate and focus on specialty pharmacy spend within the medical benefit by 2015, and 24% more will consider this by 2016 or 2017.
- Companies increasingly prefer to work with health plan partners that are aggressively adopting new, value-based payment methods that incorporate criteria for improving efficiency, quality and outcomes rather than reimbursing providers for each unit of service. Nearly three in 10 employers (29%) will evaluate partners with these strategies in mind for 2015, and another 32% are considering this approach for 2016 or 2017.
- The use of value-based designs and benefit differentials that drive employees to high-performance or narrow networks for medical care is projected to rise. One in seven organizations (14%) will use value-based designs by 2015, and another 34% are considering them for 2016 or 2017. One in five (20%) employers will offer benefit differentials by 2015, and 37% more are examining this tactic for 2016 or 2017.

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Exchange-Based Insurance Offers New Options for Health Benefit Delivery

Beyond maintaining a traditional self-managed, employer-sponsored plan for active workers and their families, companies may choose to tap into private or public insurance exchanges as new channels to deliver health care benefits. A well-designed, private exchange incorporates features that help employers improve their costs, manage care better, increase employee engagement, upgrade technology, reduce the administrative burden and enhance the employee health care experience.

A private exchange for active employees is an alternative approach to the long-standing employer self-managed health plan. Now plan sponsors can *buy* a high-value plan rather than expend extensive effort, commitment and measurement rigor to *build* and *maintain* one.

Our survey findings reveal that interest in private exchanges continues to grow, and employers increasingly view them as a viable potential alternative for their active workforce. (Private exchanges have already proved very effective for Medicare-eligible retirees, leading a great number of employers to adopt them for retiree plans in recent years.) However, many employers lack a full understanding of how they work for actives and are cautiously watching their results. The three most important reasons organizations would seriously consider a private exchange for active full-time employees are (Figure 7):

- Proof that private exchanges can deliver greater value than their current self-managed model for actives (64%)
- Actions of other large companies in their industry (34%)
- Inability to stay below the excise tax threshold using their traditional approach (26%)

Almost three in 10 (28%) employers have done an extensive analysis of the viability of a private exchange for their organizations. As more employers conduct analyses, the adoption rate is likely to increase. In fact, their confidence in private exchanges as a viable alternative for employer-sponsored coverage builds between plan years 2015 (14%) and 2016 (24%).

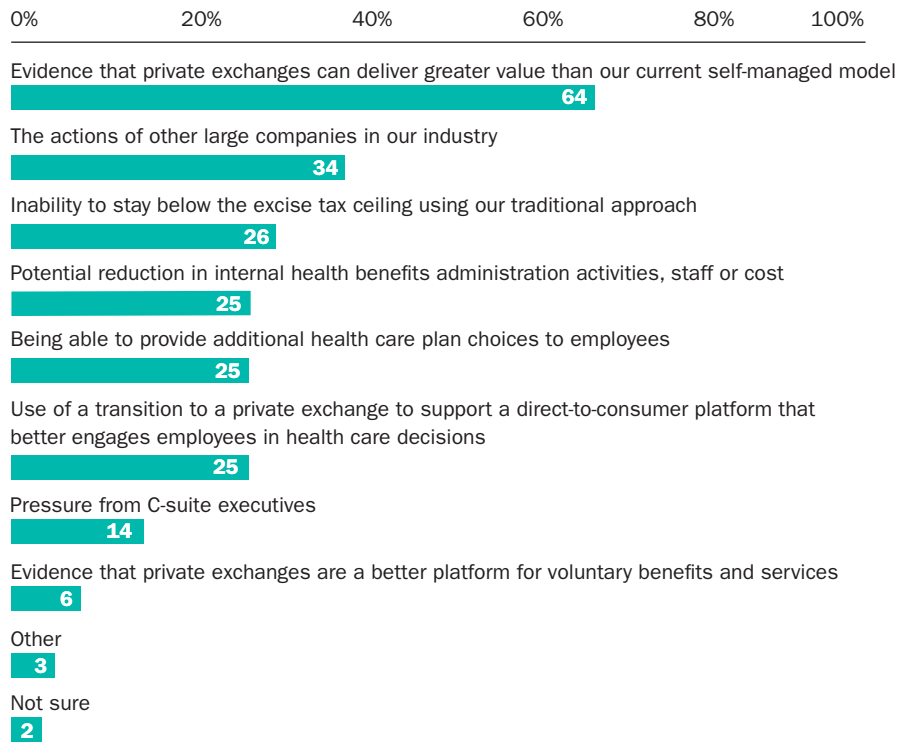
Public insurance exchanges endured a highly publicized rocky start, which may contribute to plan sponsors' low confidence in this delivery channel.

Only about two in 10 (23%) surveyed are somewhat to very confident that public exchanges will provide a viable alternative to employer-sponsored coverage for active full-time employees. Public exchanges present a possible solution for certain population segments, such as part-time workers (less than 30 hours per week), low-wage workers, COBRA participants and pre-Medicare retirees.

In reality, a “one group plan for all” scenario may not deliver the high-performance, high-value results employers seek to keep their health programs viable in the long term. More and more employers are discovering that using a combination of exchange-based and self-managed approaches will achieve the greatest value for unique population segments. Companies can conduct a population analysis to gauge the best way to deploy the range of benefit delivery channels now available.

Figure 7. Employers need more evidence that private exchanges can deliver greater value than their current programs

What are the three most important factors that would cause you to seriously consider a private exchange for your active full-time employees?



Employers Adopt Technology Solutions to Boost Employee Engagement

One of the biggest obstacles to improving health program performance is the absence of employee engagement and accountability. To address this issue, employers are turning to personalized digital technologies. More than three-fourths (76%) of companies are exploring mobile apps and fitness wearables for activity tracking (e.g., fitness and nutrition) (Figure 8). Also, more than half are using them for health care delivery (56%) and price/quality transparency tools (54%). These solutions encourage employees to take a more active role in both their personal health status and how they use health care goods and services.

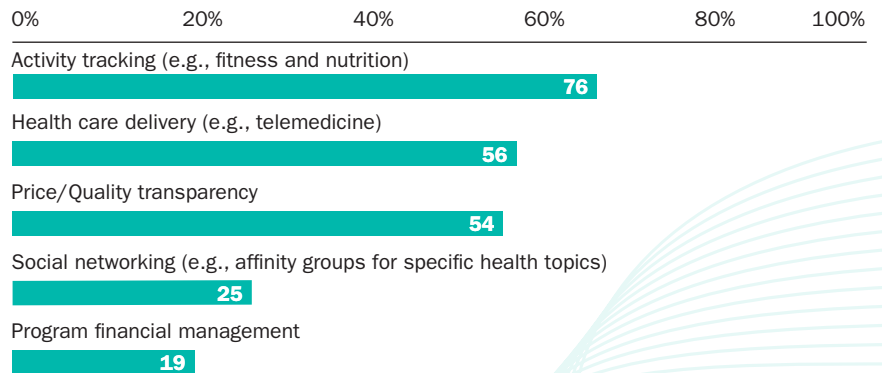
Conclusion

Employers will continue to encounter uncertainty and challenges in an evolving benefit landscape. However, amid all the ambiguity, one priority is clear: They want to achieve and sustain a high-performing health program. Fortunately, this period of profound transformation, and heightened cost and competitive pressures, introduces broad and important opportunities for companies to reshape their health care agendas in ways that were not possible before. And employee benefit leaders are now uniquely positioned as catalysts for new strategies and creative initiatives. With access to new delivery models, new technologies, new partnerships, new accountabilities for employees, and new methods for financing, contracting and payment, companies are better equipped to enhance workforce health and achieve a higher return on their health care investment. Furthermore, the factors detailed in this report will influence an increasing number to take aggressive action in the next three years to reach their goals, using these specific tactics:

- Expand ABHPs
- Establish DC arrangements
- Reduce financial support for spouses and dependents
- Adopt new technology solutions
- Offer action-based incentives
- Control specialty pharmacy spend
- Employ network optimization approaches
- Adopt exchange-based benefit options

Figure 8. Most employers are exploring mobile apps and fitness wearables to encourage greater activity

To improve employee well-being and health plan performance, is your organization exploring the use of personalized digital technologies (i.e., mobile apps and fitness wearables) and social media to address the following areas?

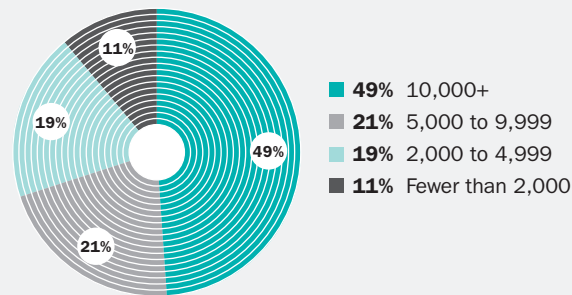


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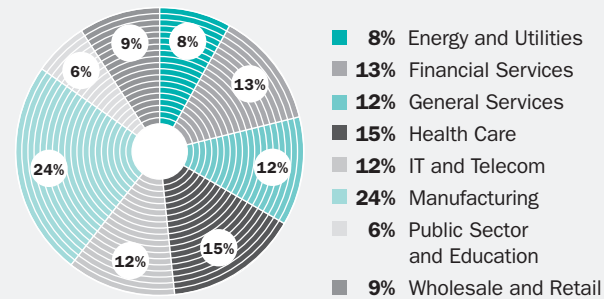
About the Survey

Towers Watson's 2014 Health Care Changes Ahead Survey was conducted online in July to gain insight into how companies are changing their health care strategies to comply with health care reform, combat escalating costs, avoid the business risks associated with the 2018 excise tax and improve employee engagement. A total of 379 employee benefit professionals from midsize to large companies across a variety of industries completed the survey. The survey also includes cost-related data gathered by consultants on behalf of 492 Towers Watson clients.

Employee populations



Industry groups



About Towers Watson

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With more than 14,000 associates around the world, we offer consulting, technology and solutions in the areas of benefits, talent management, rewards, and risk and capital management.

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