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News in Brief: Market Update

Employers Accelerate Efforts to Control Health Plan Costs

Special points of interest:

- Alter design versus total cost shift to employees
- Consumerism in plan design creates significant savings

Employers in the U.S. are accelerating their efforts to bring health benefit cost under control. According to the *National Survey of Employer-Sponsored Health Plans* conducted annually by HR consultancy Mercer:

- Growth in the average total health benefit cost per employee, which had reached 6.9% in 2010, slowed to 6.1% in 2011, with an increase of 5.7% expected for 2012.
- Total health benefit costs per employee was, on average, \$10,146 in 2011.

Mercer's nationally projectable annual survey includes public and private organizations in the U.S. with 10 or more employees. In 2011, 2,844 employers responded to the survey. Preliminary results were released in November 2011.

In a tough economy where high benefit cost increases often have to be balanced with lower pay increases, cost management is already important. But given the new cost pressure from health reform, for

many employers it's becoming an imperative.

While cost shifting to employees is still going on, in 2011 we saw more employers adopting strategies they believe will provide better results over the long haul.

Employers add consumer-directed plans

In 2011, we saw the biggest increase ever in the adoption of high-deductible, account-based *consumer-directed health plans* (CDHPs) by large organizations.

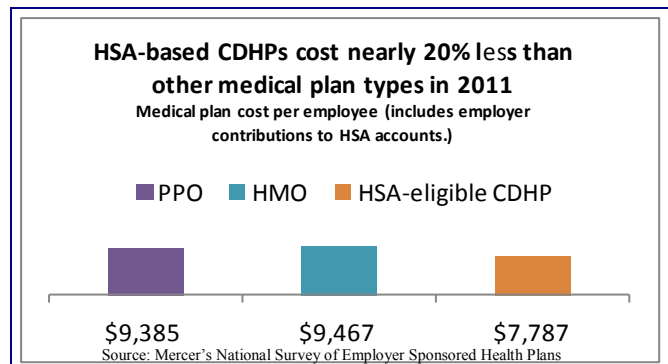
- A CDHP was offered in 2011 by 32% of all employers with 500 or more employees, up sharply from 23% in 2010.

- The largest employers were the most likely to offer a CDHP (47% of those with 10,000 or more employees did so).
- Among small employers, CDHP use grew as well, from 16% to 20% of those with 10-499 employees.

Overall, 13% of all covered employees were enrolled in a CDHP. Enrollment growth has been rapid—five years ago, CDHPs enrolled just 3% of covered employees.

The cost of coverage in a CDHP with a health savings account (HSA) was nearly 20% lower, on average, than the cost of preferred provided organizations (PPO) coverage—\$7,787 per employee compared to \$9,385.

See chart below



Employers Accelerate Efforts to Control Health Plan Costs (Cont.)

Some employers see CDHPs as integral to strategies to improve workforce health. One feature of the CDHP that employers like is flexibility in funding employees' spending accounts. A growing number of employers are making their account contributions contingent on the employee's willingness to take steps to improve their own health.

Employers put teeth in to health management programs with incentive—and penalties

Workforce health management, or "wellness," has emerged as employers top long-term strategy for controlling health spending. An overwhelming 87% of large employers said they will add or strengthen programs or policies to encourage more health-conscious behavior.

In 2011 these efforts were well underway. For a second year in a row there was a sharp increase in the use of incentives or penalties to encourage higher participation rates: 33% of large employers with health management programs

provided incentives or penalties, up from 27% in 2010 and 21% in 2009.

"Best Practices" Save Money

Large employers reported a significantly lower average health benefit cost increase than small employers in 2011: 3.6% for large employers vs. 9.9% for small employers.

Small employers tend to offer less-generous coverage than large employers. They are also less likely to invest in the types of programs that large employers are using to manage cost.

Employers are controlling costs through the use of best practices. Among large U.S. employers, those using 6 or fewer best practices had an average per-employee medical plan costs that were 7% higher than among employers using 10 or more best practices some of which are: Employer offered a CDHP, Employer made contributions to an HSA, Smoker surcharge, Rx drug mail-order co-pay, Employees' contribution for family coverage in the primary plan was at least 20% of the premium.

What's exciting about this analysis is that it shows that effective tools exist to hold health care cost in check—and that it's not all about shifting cost to employees.

Other Findings

Additional items that were revealed in the survey:

- A significant drop in offerings of medical plans for Medicare-eligible retirees.
- Domestic partner coverage - up sharply for larger employers.
- Spousal surcharges -7% imposed a surcharge for those with other coverage.
- Drug costs - slowed to just 5% increase in 2011.
- Move to self-funding?- cost concerns drive increase.
- Grandfathered status - only half will retain status.

Let Clearpoint Advisors, LLC be a compensation benefit resource to you or your client to explore alternative designs.

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- **CDHP funding based on mandated health behaviors**
- **Creating surcharges for not embracing healthy choices**