Health Care Changes Ahead

2012 Towers Watson Survey
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About this survey

- 440 respondents to external survey designed to gain insight into the focus and timing of employers’ planned response to the Patient Protection and Affordable Care Act (PPACA); collectively, responding organizations have 6.6 million employees
- 355 employers in the internal cost survey, collectively representing 4.7 million active employees
- Both surveys completed in July 2012
  - External survey was completed by mid- to senior-level benefit professionals in the U.S.
  - Internal survey was completed by Towers Watson consultants
Key findings

- Health care costs are projected to increase by 5.3% in 2013 (down from an expected 5.9% increase in 2012)
  - Employee cost sharing in active plans continues to rise, albeit slowly, reflecting modest reductions in subsidization for employees and dependents
  - Trends after plan changes in pre-65 retiree programs are similar to active medical plans (6.0%), while those in post-65 programs are lower (4.5%)
- Projected 2013 per employee total cost is $11,507, of which employees pay $2,596
- Employers maintain focus on cost controls and avoiding the excise tax
- Most employers (88%) affirmed their commitment to offer health care benefits to their active employees in 2014
- Companies continue to push toward the exit of retiree medical plan sponsorship
- Examining health care benefits in a total rewards framework is on the rise
- Continued adoption of, and enrollment in ABHPs – with total replacement ABHPs growing
- Greater emphasis on health care delivery, e.g., performance standards, quality of care, payment strategies, telemedicine/onsite services
Most employers plan to retain their active medical plans

Does your company plan to terminate its health care plans for active employees working 30-plus hours per week in 2014 or after?

2012 Survey Results
- 71% had no plans to exit
- 20% were unsure of their plans
2013 health care cost increases for active employees are projected to slow modestly

Medical & Pharmacy Cost Combined

- Total employer/employee health care costs were $10,925 per active employee in 2012**
- Total premium costs are expected to rise to $11,507 in 2013
  - Employer cost: $8,911
  - Employee cost: $2,596

** Source: Towers Watson’s HC360

Cost trends before and after plan changes are based on insured premiums or premium equivalent rates for self-insured plans, including both employer and employee portions across all plans. Premium equivalent rates include both benefit claim costs and third-party administration costs (e.g., claim processing fees, network access fees, utilization review fees, stop-loss premiums) and company contributions to medical accounts (FSA, HSA and HRA) and wellness incentives paid by the plan.

Cost Trends BEFORE Plan Changes are the per employee per year medical and pharmacy benefit expense increase (or decrease) if the company made no changes to the medical or pharmacy plan designs, vendors, networks or other programs that would impact trend (e.g., care management programs) for the following periods and coverage groups.

Cost Trends AFTER Plan Changes are the per employee per year medical and pharmacy benefit expense increase (or decrease) after the company changed the medical or pharmacy plan designs, vendors, networks or other programs that impact trend (e.g., care management programs) for the following periods and coverage groups.

The Supreme Court’s decision will have an impact on employers’ health care strategy

How will the Supreme Court's decision on PPACA impact the various components of your health care strategy over the next 1 or 2 years?

<table>
<thead>
<tr>
<th>Component</th>
<th>Little to no change</th>
<th>Moderate change</th>
<th>Significant change</th>
<th>Not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidized health care benefits for active employees</td>
<td>57%</td>
<td>32%</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Subsidized health care benefits for retirees</td>
<td>63%</td>
<td>18%</td>
<td>11%</td>
<td>9%</td>
</tr>
<tr>
<td>Improved workforce health and productivity</td>
<td>52%</td>
<td>29%</td>
<td>6%</td>
<td>13%</td>
</tr>
<tr>
<td>Overall health care strategy</td>
<td>30%</td>
<td>51%</td>
<td>14%</td>
<td>5%</td>
</tr>
</tbody>
</table>
More than half of employers have begun to recalibrate their health care strategy in response to PPACA

What event has been or will be the primary catalyst for recalibrating your health care strategy to adapt to PPACA?

- Original passage of the law (March 2010): 40%
- Supreme Court decision (June 2012): 14%
- U.S. elections (November 2012): 7%
- Development of the Exchanges (2014): 26%
- No plans to recalibrate strategy: 12%

The waiting game continues for the one-third of employers that are looking to the upcoming election and development of the Exchanges before revamping their health care strategy.
Few employers are confident about the Exchanges providing a viable alternative to employer-sponsored active coverage in 2014

How confident are you of the following?

<table>
<thead>
<tr>
<th>Provision</th>
<th>Not confident</th>
<th>Somewhat confident</th>
<th>Very confident</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provisions under PPACA will be implemented in the timeline planned under current law</td>
<td>38%</td>
<td>35%</td>
<td>27%</td>
</tr>
<tr>
<td>Health insurance Exchanges will provide a viable alternative to employer-sponsored coverage for active employees in 2014 or 2015</td>
<td>72%</td>
<td>24%</td>
<td>4%</td>
</tr>
<tr>
<td>Health insurance Exchanges will provide a viable alternative to employer-sponsored coverage for pre-65 retirees in 2014 or 2015</td>
<td>44%</td>
<td>41%</td>
<td>15%</td>
</tr>
<tr>
<td>Employer “play or pay” penalties will remain at their current levels in 2014</td>
<td>49%</td>
<td>41%</td>
<td>10%</td>
</tr>
<tr>
<td>Your organization will trigger the 2018 excise tax levels if implemented under current law and no changes are made to your benefit strategy</td>
<td>42%</td>
<td>16%</td>
<td>42%</td>
</tr>
</tbody>
</table>
Companies continue to push toward the exit of retiree medical plan sponsorship

In response to health care reform, how likely are you to take the following actions in 2014 or 2015 for active employees? Assume there are no changes made to the current law.

Plan sponsorship changes for retirees

Discontinue sponsoring an employer-sponsored plan for pre-65 retirees

- 17% Not at all likely
- 19% Somewhat likely
- 34% Likely
- 11% Very likely
- 19% Not applicable

Discontinue sponsoring an employer-sponsored plan for post-65 retirees

- 19% Not at all likely
- 21% Somewhat likely
- 18% Likely
- 13% Very likely
- 28% Not applicable

Employers very likely to discontinue sponsoring plans for post-65 retirees jumped from 20% in 2011 -- a 40% increase

Note: Percentages on chart exclude those who responded “Not Applicable.”
Avoiding the excise tax in 2018 is a key focus

In response to health care reform, how likely are you to take the following actions in 2014 or 2015 for active employees? Assume there are no changes made to the current law.

Plan design changes

<table>
<thead>
<tr>
<th>Plan Design Changes</th>
<th>1 — Not at all likely</th>
<th>2 — Somewhat likely</th>
<th>3 — Somewhat likely</th>
<th>4 — Somewhat likely</th>
<th>5 — Very likely</th>
</tr>
</thead>
<tbody>
<tr>
<td>Make plan design or subsidization changes to reduce employee contributions for lower-paid workers</td>
<td>19%</td>
<td>31%</td>
<td>32%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Set health care plan strategy for active employees to include a substantive reduction in benefit value</td>
<td>25%</td>
<td>38%</td>
<td>25%</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>Reduce the number of employees working 30-plus hours per week</td>
<td>64%</td>
<td></td>
<td>17%</td>
<td>10%</td>
<td>4%</td>
</tr>
<tr>
<td>Take steps to reduce health plan costs below the threshold amounts to avoid the excise tax in 2018</td>
<td>5%</td>
<td>11%</td>
<td>22%</td>
<td>17%</td>
<td>44%</td>
</tr>
</tbody>
</table>

Note: Percentages on chart exclude those who responded “Not Applicable.”
Examining health care benefits in a total rewards framework is increasing

Which specific actions/programs does your organization have in place or is it considering between now and 2015?

Financial management

<table>
<thead>
<tr>
<th>Action taken/Tactic used in 2012</th>
<th>Planned for 2013</th>
<th>Considering for 2014 or 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change plan options</td>
<td>14%</td>
<td>21%</td>
</tr>
<tr>
<td>Structure employee premiums</td>
<td>16%</td>
<td>2%</td>
</tr>
<tr>
<td>based on employee compensation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Significant reduction in</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>subsidization of coverage for</td>
<td></td>
<td></td>
</tr>
<tr>
<td>spouses/dependents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use spousal waivers or</td>
<td>20%</td>
<td>4%</td>
</tr>
<tr>
<td>surcharges (when other coverage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>is available)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Examine health care benefits,</td>
<td>21%</td>
<td>13%</td>
</tr>
<tr>
<td>employee subsidies in a total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>rewards framework</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Employee premium contributions for single-only coverage are moderating

Which best describes the changes you will make to the employees' share of premium contributions for 2013 compared to 2012?

Percentage-point change in the share of total premium employees will contribute for single-only coverage

Note: Percentages on chart exclude those who responded “Not Applicable.”
Health care benefits will continue to be core to the employee value proposition in the next few years

How important are subsidized health care benefits as a part of your employee value proposition in 2013, and how important do you expect them to be in 2014 and beyond (after the expected opening of the insurance Exchanges)?

In 2013:
- Not at all important: 6%
- Somewhat important: 3%
- Very important: 8%
- Not sure: 11%
- Very important: 73%

In 2014 and after:
- Not at all important: 3%
- Somewhat important: 3%
- Very important: 10%
- Not sure: 19%
- Very important: 58%

- Not sure: 8%
Prevalence of ABHPs is on the rise

Do you currently offer or plan to offer an account-based health plan (ABHP)?

Note: 2004 – 2012 values are based on various years of the Towers Watson/NBGH Employer Survey on Purchasing Value in Health Care.
*Planning for 2013.
**Considering for 2014 or 2015.
Employers focus on simplifying and accelerating access to care through onsite and telemedicine services

Which specific provider strategies/programs does your organization have in place or is it considering between now and 2015?

Provider strategies/programs (continued)

<table>
<thead>
<tr>
<th>Service</th>
<th>2012</th>
<th>2013</th>
<th>2014-2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offer telemedicine for professional consultation</td>
<td>8%</td>
<td>9%</td>
<td>27%</td>
</tr>
<tr>
<td>Offer onsite health clinic in at least one location</td>
<td>19%</td>
<td>3%</td>
<td>14%</td>
</tr>
<tr>
<td>Offer onsite health coaching in at least one location</td>
<td>22%</td>
<td>7%</td>
<td>19%</td>
</tr>
<tr>
<td>Provide price and hospital quality transparency tools purchased through one or more of your health plans</td>
<td>31%</td>
<td>13%</td>
<td>21%</td>
</tr>
<tr>
<td>Provide price and hospital quality transparency tools purchased separately through specialty vendor(s)</td>
<td>7%</td>
<td>5%</td>
<td>21%</td>
</tr>
</tbody>
</table>
Key Contacts

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