Healthcare Benefit Trends & Practices

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Sources

1. PricewaterhouseCoopers’ Behind the Numbers – Medical Cost Trends for 2012, May 2011
2. Tower Watson – 2012 Global Medical Trends
4. 2012 Segal Health Plan Cost Trend Survey
5. Local Carrier’s Underwriting Departments – March 2012
7. CSAct Client’s Medical and Prescription Drug Rates, 2011
9. SHRM, 2011 Employee Benefits
11. Mercer, August 2011
12. 2011 Milliman Medical Index
13. EBRI/MGA Consumer Engagement in Healthcare Survey
16. The Commonwealth Fund – Nov 2011
17. International Foundation – Healthcare Reform Employer Actions – One Year Later
19. Federal Employees Health Benefit Program (FEHBP)
Understanding Medical Cost Trends

Medical Cost Trend is the projected increase in the costs of medical services assumed in setting premium for health insurance plans.

Medical cost trend is influenced primarily by:

- Cost of services
- Utilization
Medical Cost Trends and Premium Increases

Medical Cost Trends

Cost Deflators
1. More employee out-of-pocket cost at time of service
2. Blockbuster brand-name drugs go off patent
3. Tiering on out-of-network providers is put in place

Cost Inflators
1. Provider consolidation will continue
2. Cost-shifting from Medicare and Medicaid to increase
3. Post-recession stress builds up on workers

Sources: 1

Medical Cost Trend and Premium Increases

National and Local Medical Trends

<table>
<thead>
<tr>
<th>Source</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>PricewaterhouseCoopers</td>
<td>9.2%</td>
<td>9.0%</td>
<td>9.0%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Towers Watson</td>
<td>8.0%</td>
<td>8.0%</td>
<td>8.0%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Buck Consultants (PPO)</td>
<td>N/A</td>
<td>11.1%</td>
<td>11.2%</td>
<td>9.9%</td>
</tr>
<tr>
<td>The Segal Group, Inc. (PPO)</td>
<td>10.6%</td>
<td>10.8%</td>
<td>11.0%</td>
<td>10.0%</td>
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<tr>
<td>Capital BlueCross (PPO)</td>
<td>10.75%</td>
<td>11.75%</td>
<td>11.75%</td>
<td>11.0%</td>
</tr>
<tr>
<td>HealthAmerica (PPO)</td>
<td>14.0%</td>
<td>13.0%</td>
<td>10.4%</td>
<td>11.9%</td>
</tr>
<tr>
<td>Highmark Blue Shield (PPO)</td>
<td>11.7%</td>
<td>12.0%</td>
<td>10.0%</td>
<td>9.5%</td>
</tr>
<tr>
<td>United Healthcare (PPO)</td>
<td>11.0%</td>
<td>12.0%</td>
<td>8.3%</td>
<td>10.1%</td>
</tr>
</tbody>
</table>

Sources: 1, 2, 3, 4, 5 & 10
### Medical Cost Trend and Premium Increases

#### National and Local Prescription Drug Trends

<table>
<thead>
<tr>
<th>Source</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<tbody>
<tr>
<td>The Segal Group, Inc.</td>
<td>9.8%</td>
<td>9.1%</td>
<td>9.2%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Buck Consultants</td>
<td>N/A</td>
<td>10.9%</td>
<td>11.3%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Capital BlueCross</td>
<td>11.0%</td>
<td>10.0%</td>
<td>10.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td>HealthAmerica</td>
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<td>10.5%</td>
<td>9.5%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Highmark Blue Shield</td>
<td>11.0%</td>
<td>11.0%</td>
<td>9.0%</td>
<td>9.0%</td>
</tr>
<tr>
<td>United Healthcare</td>
<td>12.4%</td>
<td>12.6%</td>
<td>12.0%</td>
<td>13.2%</td>
</tr>
</tbody>
</table>

Sources: 3, 4, 5 & 10

### Healthcare Benefit Trends and Practices

#### Percentage Premium Changes Over Time (Including Benefit Changes)

Sources: 6, 12, 13 & 14
**Medical Cost Trend and Premium Increases**

**Special Focus: Cost of PPACA Mandates**

PPACA was passed 3/23/2010 and set forth provisions that affected renewals after 9/23/2010. These provisions are not included in trend, but with adjustments to pricing outside of trend.

Some examples of PPACA provisions affecting cost:
- Dependents to Age 26
- Preventive Care in Medical Plans
- Women’s Preventive Care
- Automatic Employee Enrollment
**Special Focus: Cost of PPACA Mandates**

Cost of Mandates – Currently Implemented Provisions

- Dependents to Age 26: Most respondents estimated 2% - 3% for this provision

<table>
<thead>
<tr>
<th>Cost Associated with Dependents to Age 26</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BEFORE</strong></td>
</tr>
<tr>
<td><strong>Enrolled</strong></td>
</tr>
<tr>
<td>Single</td>
</tr>
<tr>
<td>Two Party</td>
</tr>
<tr>
<td>Family</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

1% Increase in Premium prior to Enrollment Shift

1% Increase

Medical Preventive Care: Estimated by survey respondents at 1% to 2%

Sources: 5 & 12

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**Special Focus: Cost of PPACA Mandates**

Cost of Mandates - Future Provisions

Women’s Preventive Care

- Cover contraceptives
- Do not cover contraceptives

82%

Automatic Enrollment

Employer Shared Responsibility

“Cadillac” Tax

Sources: 5, 8 & 12
Cumulative Changes in Health Insurance Premiums, Inflation, and Workers’ Earnings, 1999-2011

Medical Cost Trend and Premium Increases

Average Annual Premium of Health Insurance (All Plans – Medical & Prescription Drug)

Sources: 6, 2, 6, 7, 8, 11, 12 & 14
**Special Focus: Excise Tax in 2018 (Cadillac Tax)**

**What is the tax?**

All plans having annual premiums or cost values of $10,200 ($850/month) per employee or $27,500 ($2,292/month) per family on an annual basis will face an excise tax of 40% beginning in 2018.

**Are many plans in danger of this tax?**

Based on Kaiser’s current national premium averages for Single and Family coverage, an annual increase of 8% between now and 2018 will push the average plan near these limits.

**2018 Estimated Projected Annual Premiums (8% Increase per year)**

- Approximate Annual Single Premium: $9,300
- Approximate Annual Family Premium: $25,800

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**Medical Cost Trend and Premium Increases**

**Special Focus: Excise Tax in 2018 (Cadillac Tax)**

The chart above looks at premium distribution for the 2011 year and assumes a premium trend of approximately 8% going forward. The groups shown in red would have premiums near or in excess of the Cadillac tax limits in 2018 under these assumptions.

**Sources:** 6
Medical Cost Trend and Premium Increases

Special Focus: Excise Tax in 2018 (Cadillac Tax)

Family Coverage Premiums

- Projected to not be affected
- Projected to be affected

The chart above looks at premium distribution for the 2011 year and assumes a premium trend of approximately 8% going forward. The groups shown in red would have premiums near or in excess of the Cadillac tax limits in 2018 under these assumptions.

Sources: 6

Healthcare Benefit Trends & Practices

How Do Employers Respond to Rising Costs?

- Funding Arrangement and Benefit Plan Types
- Employee Claim Cost-Sharing
- Employee Premium Cost-Sharing
- Offering Coverage to Full-Time, Part-Time and Retired Employees
- Restrict Employee Healthcare Eligibility
- Restrict Spousal Healthcare Enrollment
- Audit Dependents
- Implement Wellness
- Conduct an RFP
Funding Arrangement and Benefit Plan Types

Funding Arrangements

- The two most common types of funding arrangements are Insured and Self-Funded.

- Often, to save money on administrative fees, an employer may choose to take on claims risk and self-fund a benefit.

- Because of the risk involved in this type of funding arrangement, self-funding is typically seen for larger groups.
### Funding Arrangement and Benefit Plan Types

#### Distribution of Self-Funded Plans – By Group Size

<table>
<thead>
<tr>
<th>Group Size</th>
<th>3-199</th>
<th>200-999</th>
<th>1,000-4,999</th>
<th>5,000+</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>13%</td>
<td>48%</td>
<td>67%</td>
<td>72%</td>
<td>49%</td>
</tr>
<tr>
<td>2003</td>
<td>10%</td>
<td>50%</td>
<td>71%</td>
<td>79%</td>
<td>52%</td>
</tr>
<tr>
<td>2004</td>
<td>10%</td>
<td>50%</td>
<td>78%</td>
<td>80%</td>
<td>54%</td>
</tr>
<tr>
<td>2005</td>
<td>13%</td>
<td>53%</td>
<td>78%</td>
<td>82%</td>
<td>54%</td>
</tr>
<tr>
<td>2006</td>
<td>13%</td>
<td>53%</td>
<td>77%</td>
<td>89%</td>
<td>55%</td>
</tr>
<tr>
<td>2007</td>
<td>12%</td>
<td>53%</td>
<td>76%</td>
<td>86%</td>
<td>55%</td>
</tr>
<tr>
<td>2008</td>
<td>12%</td>
<td>47%</td>
<td>76%</td>
<td>89%</td>
<td>55%</td>
</tr>
<tr>
<td>2009</td>
<td>15%</td>
<td>48%</td>
<td>80%</td>
<td>88%</td>
<td>57%</td>
</tr>
<tr>
<td>2010</td>
<td>16%</td>
<td>58%</td>
<td>80%</td>
<td>93%</td>
<td>59%</td>
</tr>
<tr>
<td>2011</td>
<td>13%</td>
<td>50%</td>
<td>79%</td>
<td>96%</td>
<td>60%</td>
</tr>
</tbody>
</table>

Sources: 6

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### Funding Arrangement and Benefit Plan Types

#### Percentage of Employers Offering Given Plans

<table>
<thead>
<tr>
<th>Source</th>
<th>HMO</th>
<th>PPO</th>
<th>POS</th>
<th>Conventional</th>
<th>HDHP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kaiser (Large Group)</td>
<td>26%</td>
<td>72%</td>
<td>19%</td>
<td>3%</td>
<td>29%</td>
</tr>
<tr>
<td>SHRM</td>
<td>33%</td>
<td>84%</td>
<td>22%</td>
<td>8%</td>
<td>35%</td>
</tr>
<tr>
<td>CSAct Survey</td>
<td>12%</td>
<td>84%</td>
<td>10%</td>
<td>3%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Sources: 6, 8, & 9
Funding Arrangement and Benefit Plan Types

Special Focus: High Deductible Health Plans with HSAs

Audience Question:

How many employers offer a High Deductible Plan with an HSA?

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Percentage of Employers Offering Qualified HDHP/HSA

<table>
<thead>
<tr>
<th>Source</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSAct</td>
<td>8%</td>
<td>12%</td>
<td>10%</td>
</tr>
<tr>
<td>Kaiser</td>
<td>10%</td>
<td>12%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Sources: 6 & 8
Special Focus: High Deductible Health Plans with HSAs

Large Employers (500+ Employees) Offering Qualified HDHP/HSA

![Bar chart showing distribution of QHDHP deductibles for single coverage.]

Sources: 11

Special Focus: High Deductible Health Plans with HSAs

Distribution of QHDHP Deductibles—Single Coverage

![Bar chart showing distribution of QHDHP deductibles for single coverage.]

Sources: 6
**Funding Arrangement and Benefit Plan Types**

*Special Focus: High Deductible Health Plans with HSAs*

**Distribution of HSA Employer Contributions**

- Single Coverage

<table>
<thead>
<tr>
<th>Contribution Range</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>$0</td>
<td>31%</td>
</tr>
<tr>
<td>$1-$399</td>
<td>9%</td>
</tr>
<tr>
<td>$400-$599</td>
<td>22%</td>
</tr>
<tr>
<td>$600-$799</td>
<td>12%</td>
</tr>
<tr>
<td>$800-$999</td>
<td>3%</td>
</tr>
<tr>
<td>$1,000-$1,199</td>
<td>2%</td>
</tr>
<tr>
<td>$1,200+</td>
<td>20%</td>
</tr>
</tbody>
</table>

Sources: 6

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**Funding Arrangement and Benefit Plan Types**

*Special Focus: High Deductible Health Plans with HSAs*

**Average HSA Balance**

<table>
<thead>
<tr>
<th>Year</th>
<th>Average HSA Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$696</td>
</tr>
<tr>
<td>2007</td>
<td>$1,320</td>
</tr>
<tr>
<td>2008</td>
<td>$1,356</td>
</tr>
<tr>
<td>2009</td>
<td>$1,419</td>
</tr>
<tr>
<td>2010</td>
<td>$1,355</td>
</tr>
<tr>
<td>2011</td>
<td>$1,470</td>
</tr>
</tbody>
</table>

Sources: 13
Employee Cost-Sharing

Claims Cost-Sharing vs. Premium Cost-Sharing
Employee Cost-Sharing

Total Cost of Health Coverage – Average Family of Four

Total Annual Cost - $19,933

- Employer Contributions: $11,385 (59%)
- Employee Contributions: $4,728 (24%)
- Employee Out-of-Pocket Cost: $3,820 (17%)

Sources: 12

Employee Claims Cost-Sharing

Employee Claims Cost-Sharing as a Method of Cost Savings

Plan design components that affect employee cost-sharing:

- Deductibles
- Coinsurance
- Out-of-Pocket Maximums
- Office Visit Copayments
- Emergency Room Copayments
- Prescription Drug Copayments
- Plan Maximums
Employee Claims Cost-Sharing

Local Plans with $0 Deductible and $1,000 + Deductible

Sources: 6 & 8

Employee Claims Cost-Sharing

Distribution of Network Employee Coinsurance in Local Plans

Sources: 8
### Average Office Visit Copayments

**Kaiser-All**
- PCP Office Visit: $22
- Specialist Office Visit: $32

**CSAct Survey**
- PCP Office Visit: $20
- Specialist Office Visit: $31

Sources: 6 & 8

### Local Plan Distribution of Emergency Room Copays

- **$35**: 12% (2010), 12% (2011)
- **$50**: 12% (2010), 15% (2011)
- **$75**: 16% (2010), 18% (2011)
- **$100**: 36% (2010), 42% (2011)
- **$125**: 5% (2010), 11% (2011)
- **$150**: 3% (2010), 3% (2011)
- **$200**: 1% (2010), 2% (2011)
- **Other**: 12% (2010), 7% (2011)

Sources: 8
Improperly Staged Copayments
PCP - $20, ER - $35

Properly Staged Copayments
PCP - $20, ER - $100

Employee Claims Cost Sharing

Average Retail Drug Copayments by Year

Sources: 6
Employee Premium Contributions: Premium-Sharing

Average Employee Premium Cost-Sharing Percentage

<table>
<thead>
<tr>
<th>Source</th>
<th>Single Coverage</th>
<th>Family Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kaiser - All</td>
<td>18%</td>
<td>28%</td>
</tr>
<tr>
<td>Kaiser - 3-199 EE’s</td>
<td>15%</td>
<td>36%</td>
</tr>
<tr>
<td>Kaiser - 200+ EE’s</td>
<td>19%</td>
<td>25%</td>
</tr>
<tr>
<td>Bureau of Labor - State/Local Gov’t</td>
<td>12%</td>
<td>29%</td>
</tr>
<tr>
<td>Bureau of Labor - Private</td>
<td>20%</td>
<td>31%</td>
</tr>
<tr>
<td>The Commonwealth Fund</td>
<td>21%</td>
<td>27%</td>
</tr>
<tr>
<td>CSAct Survey &amp; Clients</td>
<td>18%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Sources: 6, 8 & 11
Employee Premium-Sharing

Employer Premium Contributions for Individual and Family Coverages

Sources: 6

Healthcare Benefit Trends & Practices

Offering Coverage To Full-Time, Part-Time, and Retired Employees
Offering Coverage to Full-Time Employees

Offering Healthcare Coverage

Large Employers (>200 Employees)

• Amongst large employers, healthcare coverage is offered to employees 99% of the time. This percentage has remained consistent over the past decade.
• Though some large employers shifted costs towards their employees in 2011, very few large employers dropped coverage altogether.

Small Employers (<200 Employees)

• The amount of small employers offering coverage was approximately 59% during 2011. This percentage has been between 60% and 70% over the past several years.
• Small employers are more likely to drop coverage than large employers - the percentage offering coverage decreased in 2011.

Sources: 6

Offering Coverage to Part-Time and Retired Employees

Part-Time and Retiree Medical Coverage

Sources: 6
Offering Coverage to Full-Time Employees

Special Focus: “Shared Responsibility” for Large Employers

Employers Offering Coverage to All Employees Working 30+ Hours Per Week

- 78% Offer coverage
- 22% Do not offer coverage

Sources: 17

Healthcare Benefit Trends & Practices

Restricting Employee and Spouse Eligibility
Restricting Employee and Spouse Eligibility

Eligibility for Medical and Prescription Drug Benefits

Towards

| Source: 6 & 8 |

3 Common Ways to Restrict Spousal Enrollment within a Plan

1. Do not allow spouses on plan who have coverage available elsewhere

2. Apply surcharge to spouses who have coverage available elsewhere

3. Use premium cost-sharing to charge all spouses a higher percentage of premium
Restricting Employee and Spouse Eligibility

Special Focus: Restricting Spousal Enrollment

Do not allow spouses on plan who have access to coverage elsewhere

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>14%</td>
</tr>
<tr>
<td>2008</td>
<td>19%</td>
</tr>
<tr>
<td>2009</td>
<td>18%</td>
</tr>
<tr>
<td>2010</td>
<td>21%</td>
</tr>
<tr>
<td>2011</td>
<td>24%</td>
</tr>
</tbody>
</table>

Sources: 8

Restricting Employee and Spouse Eligibility

Special Focus: Restricting Spousal Enrollment

Apply surcharges to spouses with coverage available elsewhere

- Using surcharge
- Planning on using surcharge in the future
- Does not use surcharge

- Using surcharge: 63%
- Planning on using surcharge in the future: 24%
- Does not use surcharge: 13%

Sources: 14
Special Focus: Restricting Spousal Enrollment

Use premium cost-sharing to charge all spouses a higher percentage of plan premium

• The least aggressive way of driving spouses off the plan, but also has the downside of hurting those who do not have options to coverage elsewhere

Sources: 8

Healthcare Benefit Trends & Practices

Offering Worksite Wellness Programs
Offering Worksite Wellness Programs

Percentage of Companies Offering Worksite Wellness Programs

- CSAct: 45%
- Kaiser: 65%
- SHRM: 60%

Sources: 6, 9 & 10

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Offering Worksite Wellness Programs

Percentage of Companies Offering Direct Financial Incentives for Wellness Participation

- All Companies: 14%
- Small Employers (3-199 EE's): 27%
- Large Employers (200+ EE's): 13%

Sources: 6
Offering Worksite Wellness Programs

Other Types of Financial Incentives in Wellness Programs

- Smaller Share of Premium
  - 2% for 3-199 Employees
  - 11% for 200+ Employees

- Higher HRA/HSA Contribution
  - 1% for 3-199 Employees
  - 11% for 200+ Employees

Sources: 6

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Healthcare Benefit Trends & Practices

Thank you for your time and attention.
If you have questions about the Conrad Siegel Actuaries Health & Welfare Benefit Surveys, please email us at BenefitSurvey@conradsiegel.com.

Vicki Alfieri
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BenefitSurvey@conradsiegel.com