

November 13, 2012

“The Future of Employer-Sponsored Insurance: In the Game, Out of the Game or Somewhere in Between?”

NBCH Annual Meeting

Which One is Right?



%Employers Dropping Coverage:

- CBO** – ~5% (10MM)

- McKinsey** – 30% (50MM)

- Towers Watson** – 10% (~15MM)

The Employer Dilemma

Health Affairs

“Between a Rock and a Hard Place:
Understanding the Employer Mind-Set.”

Robert S. Galvin and Suzanne Delbanco

The New England Journal of Medicine

“Why Employers Need To Rethink How
They Buy Health Care”

Robert S. Galvin and Suzanne Delbanco

Unique supply chain cost

Reluctance to invest

■ Personal

■ Complicated

■ Hard to measure

■ Long term

Reluctance to surrender

Three Powerful Changes from PACA

More cost

- Expanded restrictions, cost shifting & Cadillac tax
- Play or pay: penalties for not offering sufficient/affordable coverage

Accountability & incentives

- Up to 30% of premium

Exit option

- Exchanges : 2014 & 2017 two key dates
- Subsidies/credits enable affordability



**“REPORTS OF MY DEATH HAVE BEEN
GREATLY EXAGGERATED”**

Mark Twain

But Profound Philosophical Shift is a Game-Changer




OLD –

- ❑ “We pay 80% of costs and leave it to health insurers to manage the rest – it’s up to employees to decide how engaged they want to be in their health”

NEW –

- ❑ “We will protect employees financially against catastrophic expenses and fund their preventive services....but the vast number of healthcare decisions in the middle need to be made by employees and resemble other important decisions they make in their lives....and enough of their money has to be at stake to get them engaged.”



Thinking Clearly About The Employer Space

Three Myths About The Employer Space



- (1) This is the end of ESI.....employers will move to some form of defined contribution in the near future
- (2) Public exchanges will not offer coverage and service that will be attractive to employees
- (3) Employers are sufficiently invested in the health and productivity of their workers that they will continue to sponsor health benefits

It's All About Stratification



Group I: don't offer today

Group II: offer today

- In sectors with high turnover, part time jobs and non-technical workers

Group III

- A. In sectors with high degree of labor competition
- B. Strong cultural (or CEO) beliefs in health as a business strategy or lack of trust in government
- C. In healthcare space commercially



How Employers Are Addressing Their Options

Broad Employer Actions

- ❑ Intense examination of options
- ❑ Focus primarily on part-timers, COBRA and retirees
- ❑ Predominant (i.e. Group III) view among C-Suites
 - Wait and see
 - Little interest or enthusiasm in public exchanges
 - Curious about private exchanges but cautious
- ❑ Cadillac tax 'cliff' too far in future to worry about

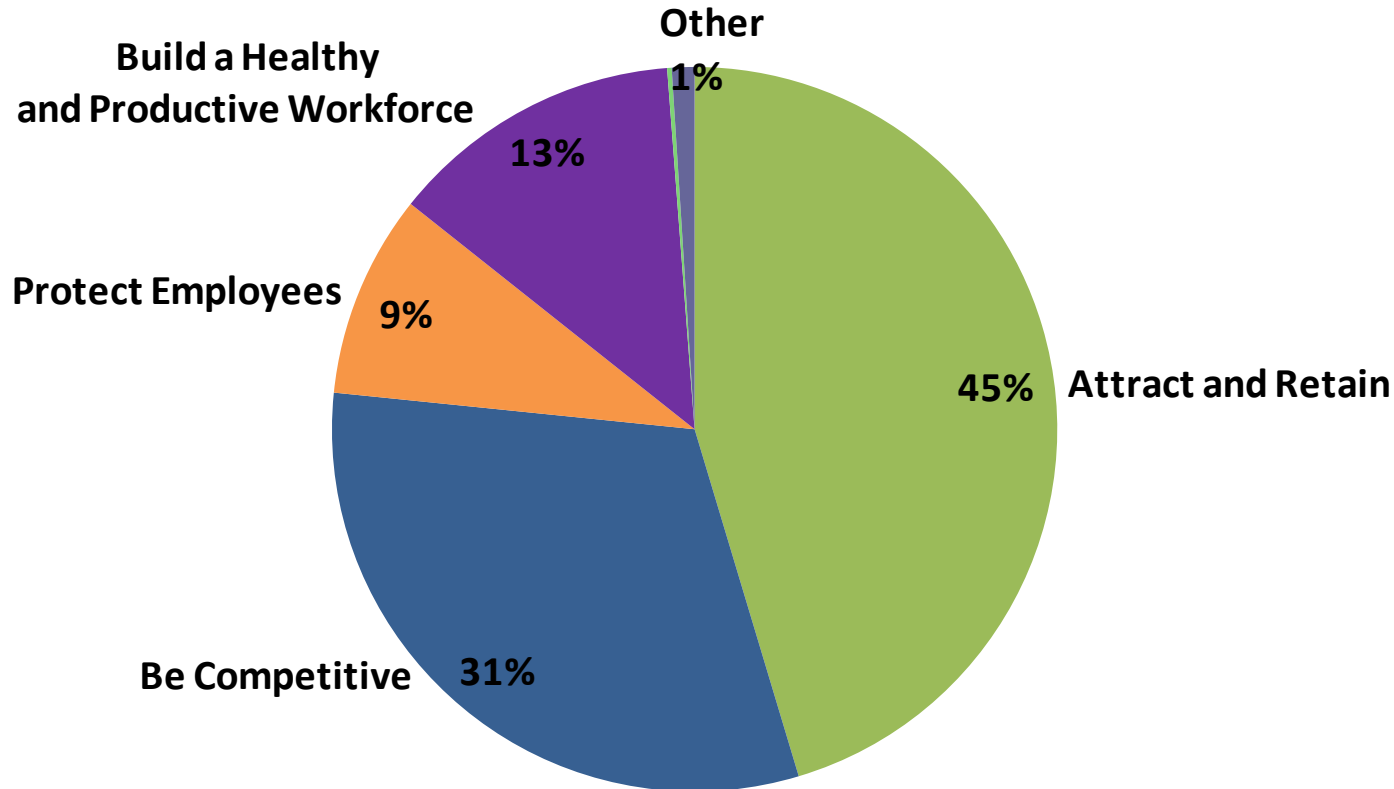
2014 Exchange Fantasy Fading Fast

- Employees paying large cost share can access benefits through the Insurance Exchanges
- They get subsidy if make \$88K or less
- Employer would pay \$2000 or \$3000 fine
- Far less than the \$8K paid today
- Why wouldn't I do this??

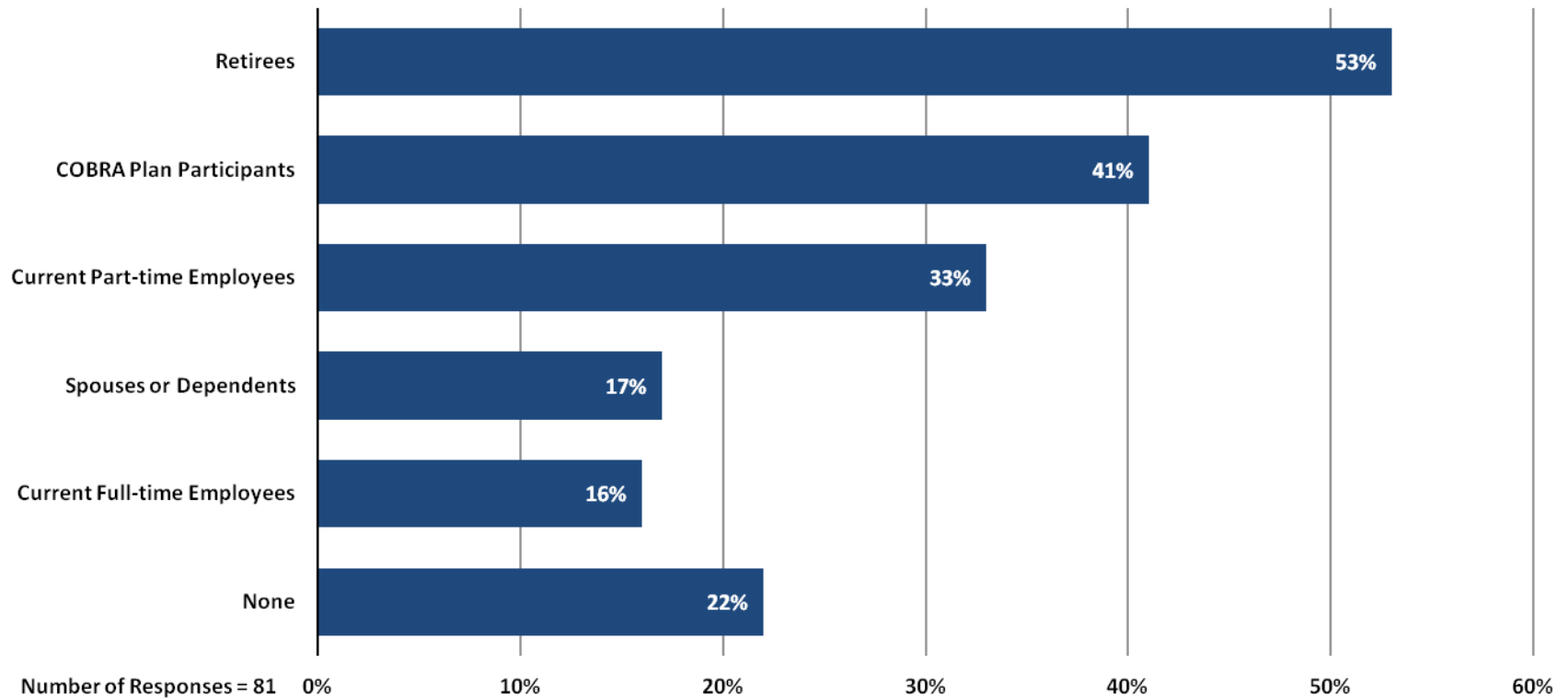
If It Seems To Good To Be True...

- Once salaries are increased to make the Exchange affordable and the loss of the health care tax break and the benefits of self-insurance are factored in, savings disappear in most cases
- Fines will certainly increase
- Labor competitiveness
- Two-tiered benefits and employee morale

Labor Competitiveness Matters As Much As Costs



Will Exchanges Offer an “Exit Strategy”?



Source: National Business Group on Health, Large Employers' 2012 Health Plan Design Changes, August 2011.



WSJ (9/27/12): Big Firms Overhaul Health Coverage

- ❑ Two big employers are planning a radical change in the way they provide health benefits to their workers, giving employees a fixed sum of money and allowing them to choose their medical coverage and insurer from an online marketplace.
- ❑ Sears Holdings Corp. and Darden Restaurants Inc. say the change isn't designed to make workers pay a higher share of health-coverage costs. Instead they say it is supposed to put more control over health benefits in the hands of employees.

Employer Responses to Health Care Reform Will Fall on a Spectrum

In the Game

Exit Strategy

- Maintain coverage for employees, but reduce dependent/retiree coverage**
- Drive consumerism and wellness**
- High-deductible plans, incentives and price transparency, etc.**
- Set employee portion of premium above 9.5% of household income for some employees, qualifying them for subsidies**
- Shift toward part-time labor**
- Eliminate coverage, but help make employee whole**
- Public or private exchanges**



**What Happens Today
Matters Tomorrow**

What Will Employers Do in the Longer Term?

- ❑ There is really no complete exit from funding – employers can either sponsor benefits directly or fund the system through some form of ‘fine’, aka, a tax
- ❑ The government doesn’t favor the dissolution of ESI because this will mean an increase in tax rates – not a popular stance
- ❑ Defined contribution only controls costs if the annual increase of the employer share is tied to CPI vs. health care inflation
- ❑ Argument that employers will do the latter....as they did with retirement benefits...is less likely than it sounds
- ❑ So even with exchanges health care increases will be borne by employers



Consumerism

- Incentives for health outcomes
- VBID
- High deductible plans
- Price transparency/Reference pricing

Delivery system

- Performance networks
- Payment reform
- Medical homes & ACO's

After a Two-Year Loan to the United States, Michelangelo's David Is Being Returned to Italy



His proud sponsors were:



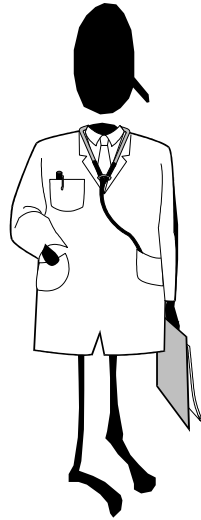
For a Sore Throat in Schenectady...



Exam by your in-network primary physician	\$65
In-network Urgent Care Center	\$90
Out-of-network Urgent Care	\$130
Out-of-network specialist	\$325
ER visit	\$800



Will Too Big to Fail Come to Healthcare?



Doctors

Hospitals



Integration

Consolidation

Improved Outcomes
Lower Costs

Higher Prices
Unchanged Outcomes



Managing Through Uncertainty

Key variables to watch

- How will the public accept insurance exchanges?
- What will the government do with the penalties?
- How big an impact with the 2018 Cadillac tax have?
- Will health care costs slow down?
- What happens to the economy and labor markets?
- Will there be a first mover?

How Would Healthcare System Change With Less ESI?

- ❑ If a lot of employers 'exited' to the exchanges, self-funded employers would be valued by the insurers but have less clout
- ❑ We could see the further development of a two-tiered employer system, with wraparound 'Exchange-a-Gap' designs, including concierge services at the high end
- ❑ The system would lose a unique and key source of fiscal discipline and innovation
- ❑ Employers would still be in the game, just a different one
 - Workers Comp and safety, onsite treatment, fitness centers & other wellness, healthy food choices

These are the Good Old Days



“We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten.”

– Bill Gates