

Employer Health Care Costs Expected to Rise 8.2% in 2011, Towers Watson Survey

Finds

Against a backdrop of continued economic uncertainty, employer health care costs for active employees are projected to rise 8.2% (after plan changes), to an average annual cost of \$10,730 in 2011, according to a recent survey of 466 large and midsize employers conducted by Towers Watson (NYSE, NASDAQ: TW), a global professional services company.

“Employees today are adjusting to historically lower-than-average merit pay increases, while at the same time facing higher health care contributions, copays and deductibles. This combination could adversely affect many employees and intensify the growing affordability crisis,” said Ron Fontanetta, senior health care consultant with Towers Watson. “With employers also facing the challenge of steadily rising costs plus the advent of health care reform, the need to rethink employer approaches to health care is greater than ever.”

Not since the late 1980s – a time of unprecedented health care cost inflation in the U.S. – have the nation’s leading employers given as much attention to their organization’s health benefit plans as they are today. As companies assess the impact of health care reform, senior managers are once again closely involving themselves in health benefit strategy. Most employers are currently focused on compliance with the Patient Protection and Affordable Care Act (PPACA), while some are already making significant changes to their health benefit plans.

According to survey respondents, 59% of employers plan to implement significant or moderate health care plan design changes in 2011, and two-thirds (67%) plan to do so in 2012. While more than half of employers (57%) report that compliance with the PPACA is their top priority today, 43% plan to rethink the long-term benefit strategy for active employees as their primary focus next year.

“In light of the complexities around all of the regulatory guidelines and mandates, most employers are taking the time to understand the new legal environment before making too many

long-term changes to their health benefit strategy," said Randall Abbott, a senior health care consultant with Towers Watson. "Nonetheless, the earlier employers consider the strategic ramifications of the law and can act, the better they can assess their future role as health care benefit sponsors, and understand the implications on their business and employees."

Many employers today, however, are not staying the course. Survey respondents are looking to:

Accelerate account-based health plan (ABHP) adoption: By 2012, 64% of employers are projected to offer an ABHP, and 39% of employers are projected to have ABHP enrollment of more than 20%.

Raise employee contributions: Employees must continue to cope with the increasing affordability gap, as merit pay increases have gone up 16% while employee contributions have risen 49% over the last five years.

Shift from incentives for employee participation in wellness programs to incentives for improvements in health metrics: 62% of employers are projected to apply outcome-based incentives by 2012.

"Health care reform has reinforced employers' commitment to wellness [health management] programs," said Fontanetta. "Employers today understand that one of the keys to controlling long-term health care costs is to provide employees with the tools to personalize and manage their health. They are also offering incentives to encourage employees to maintain their well-being and access to clinical support and advice."

According to the survey, 86% of U.S. employers plan to increase efforts to encourage employees to engage in wellness/health promotion programs, with 65% already or planning to increase incentives for these programs and another 17% considering this action for 2012. Among specific health promotion programs, employers plan to increase efforts to encourage employees to engage in behavioral health programs (78%), biometric screenings (74%), health risk assessments (71%) and disease management programs (67%).

In other revealing findings, employers expect to:

Continue offering employer-sponsored health care plans for active employees (94%)

Lose their plan's grandfathered status by 2011 (55%) or by 2013 (85%) Increase efforts to encourage employees outside the U.S. to engage in their wellness/health promotion programs (54%)

Eliminate or reduce sponsorship of retiree medical plans (51%*) Examine new engagement strategies, such as using social networks and other channels to communicate about

employee health and well-being (40%) * These data appear in Towers Watson's May 2010 survey on health care reform. Towers Watson experts expect most changes in retiree medical plans to occur sometime after 2014, when health insurance exchanges provide retirees with an alternate option.

About the Survey

Towers Watson's August 2010 health care survey was conducted online in early August to determine how U.S. employers view the expected impact of health care reform and how they plan to respond. More than 460 health care benefit professionals from large and midsize companies across a broad range of industries participated in the survey, with the average participant's company employing more than 15,000 employees in the U.S. The survey also includes some cost-related data gathered by consultants on behalf of 459 Towers Watson clients.

About Towers Watson

Towers Watson (NYSE, NASDAQ: TW) is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. The company offers solutions in the areas of employee benefits, talent management, rewards, and risk and capital management. Towers Watson has 14,000 associates around the world and is located on the web at towerswatson.com.

<http://www.bioportfolio.com/news/article/142377/Employer-Health-Care-Costs-Expected-To-Rise-8-2-In-2011-Towers.html>