

Wisconsin Health Care Cost Trends

What You Can Do

April 2, 2008

Today's speakers

Dave Osterndorf, F.S.A., M.A.A.A.

Dave is Chief Actuary of Towers Perrin's Health and Welfare practice and is located in the firm's Milwaukee office. Dave has broad-based experience in the areas of benefit and compensation strategy and design, funding and financial management of retirement, and employee welfare benefit programs.

Rich Yurkowitz, A.S.A., M.A.A.A.

Rich is a Principal and Senior Actuary in Towers Perrin's Milwaukee office, specializing in design and financial analysis of health and welfare programs. He has experience with retiree medical benefits, consumer-driven plans, flexible benefit plans and compliance issues.

Agenda

- Introductions
- Towers Perrin *2008 Health Care Cost Survey* national results
- Wisconsin results
- Successful companies
- Summary
- Questions

The context for reviewing health care — and, more broadly, population health — is one of raised expectations and complex change management

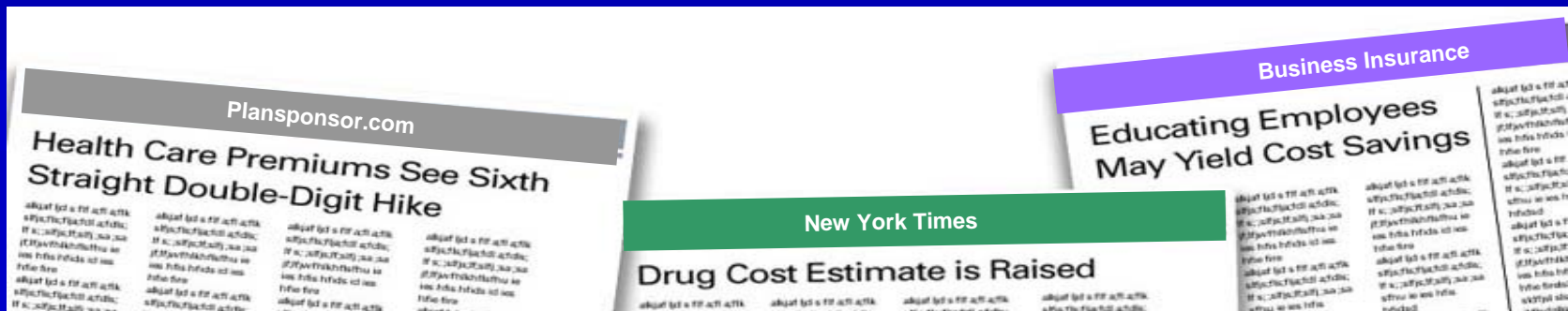
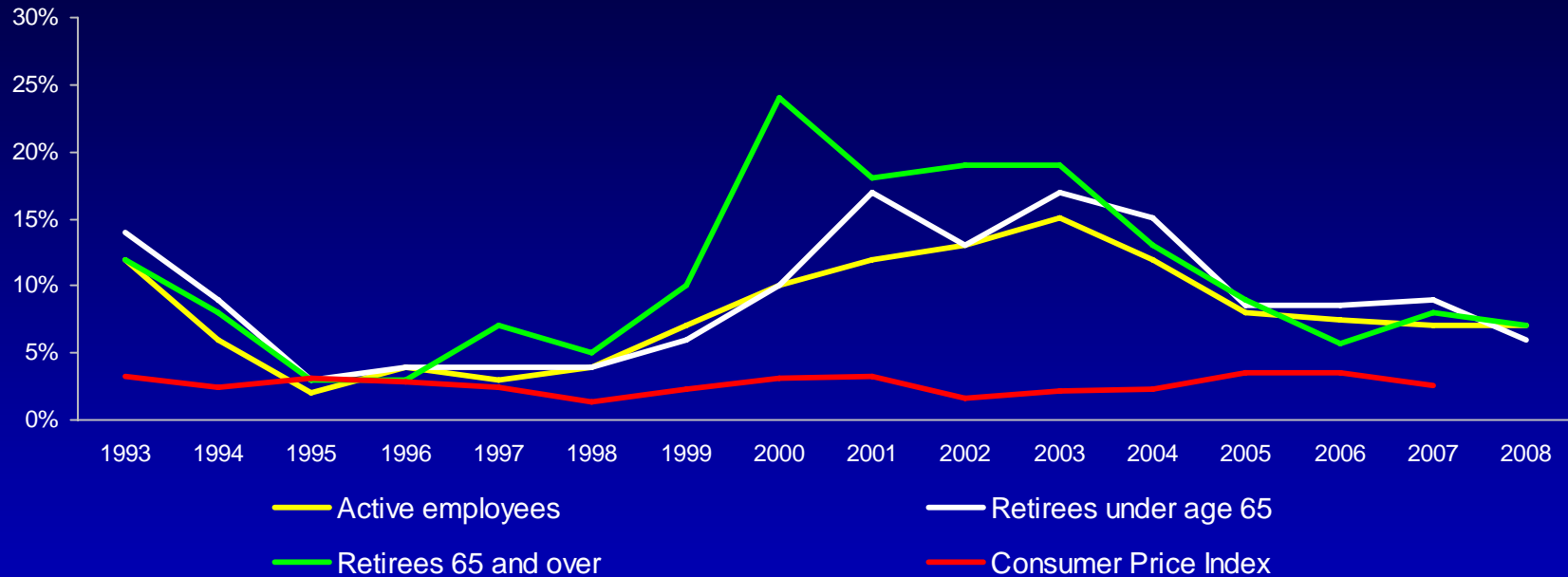
- Increasing demands from both shareholders and corporate customers resulting in significant pressure for cost reductions
- Growing focus on delivering health care services at the patient level
- Need to engage individuals to become more educated users of health care services
- Low marks on patient/customer service
- Increasing information security requirements
- Looming government regulations/involvement
- Diminishing leverage with health systems caused by consolidation and greater negotiating sophistication
- Lagging workforce productivity

At the same time, health decisions impact employee behavior in numerous ways

Top Attraction Drivers 	Top Retention Drivers 	Top Engagement Drivers
Competitive base pay	Satisfaction with the organization's people decisions	Senior management sincerely interested in employee well-being
Flexible schedule	Senior management acts to ensure organization's long-term success	Organization develops leaders at all levels
Competitive health care benefits 	Organization's reputation for social responsibility	Organization quickly resolves customer concerns
Vacation/paid time off	Input into decision making in my department	Appropriate amount of decision-making authority to do my job well
Convenient work location	Have excellent career advancement opportunities	Organization's reputation for financial stability
Career advancement opportunities	Good relationship with supervisor	Enjoy challenging work assignments that broaden skills
Challenging work	Ability to balance my work/personal life	Improved my skills and capabilities over the last year
Competitive retirement benefits	People in my unit work well together as a team	Input into decision making in my department
Competitive benefits		Can impact quality of work/product/service
Reputation of the organization as a good employer		Organization's reputation for social responsibility

Cost increases have moderated recently

Average Cost Increases: 1993 – 2008



Source: Towers Perrin *Health Care Cost Survey (1993 – 2008)* (active employee data) and Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation, April-April, 1988-2007, Bureau of Labor Statistics.

From a very high cost base, employees continue to pay more, raising affordability concerns

Average Monthly Medical Costs and Cost Increases by Covered Group

	Employee/Retiree Only	Employee/Retiree Plus Spouse	Family	Composite*	Average Increase From 2007
Active employees	\$385	\$792	\$1,119	\$762	6%
Retirees under age 65	\$566	\$1,157	\$1,501	\$1,058	6%
Medicare-eligible retirees	\$304	\$612	N/A	\$489	7%

*Composite (i.e., employee/retiree only, employee/retiree plus spouse and family combined)

Average monthly medical contribution (dollars/month and % of total cost) paid by plan participants

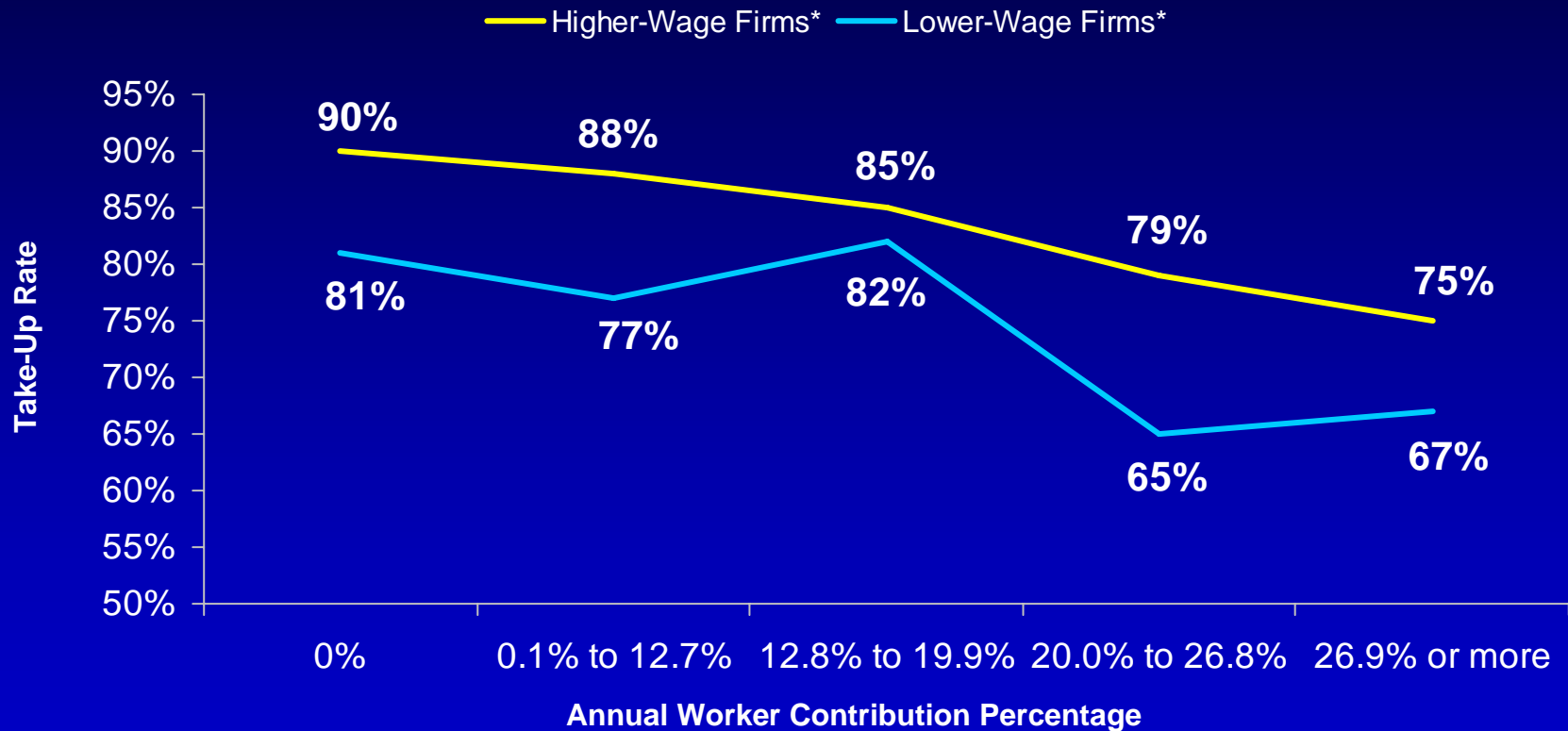
	Employee/Retiree Only	Employee/Retiree Plus Spouse	Family
Employees	\$78 / 20%	\$180 / 23%	\$262 / 24%
Retirees under age 65	\$283 / 50%	\$585 / 51%	\$782 / 52%
Medicare-eligible retirees	\$136 / 45%	\$276 / 45%	N/A

*Composite (i.e., employee/retiree only, employee/retiree plus spouse and family combined)

Source: Towers Perrin 2008 Health Care Cost Survey

Insurance take-up rate by percentage contribution and wage levels illustrates the affordability concern

Firm health insurance take-up rate by percentage contribution for single coverage and wage



*Lower-wage firms defined as those where more than 35% of the workers made \$20,000 or less in a given survey year. Higher-wage firms are those with 35% or less of such workers.

Source: Kaiser Family Foundation, *Snapshots: Health Care Costs*, "Insurance Premium Cost-Sharing and Coverage Take-Up," February 2007 (Pooled data from 2005 and 2006 Kaiser/HRET Annual Employer Health Benefits Surveys. Percentages weighted by number of workers in responding firms.)

Variations by industry segment continue to grow — with a \$3,000+ spread from low to high

Total unadjusted medical cost by industry for all plan types: 2007

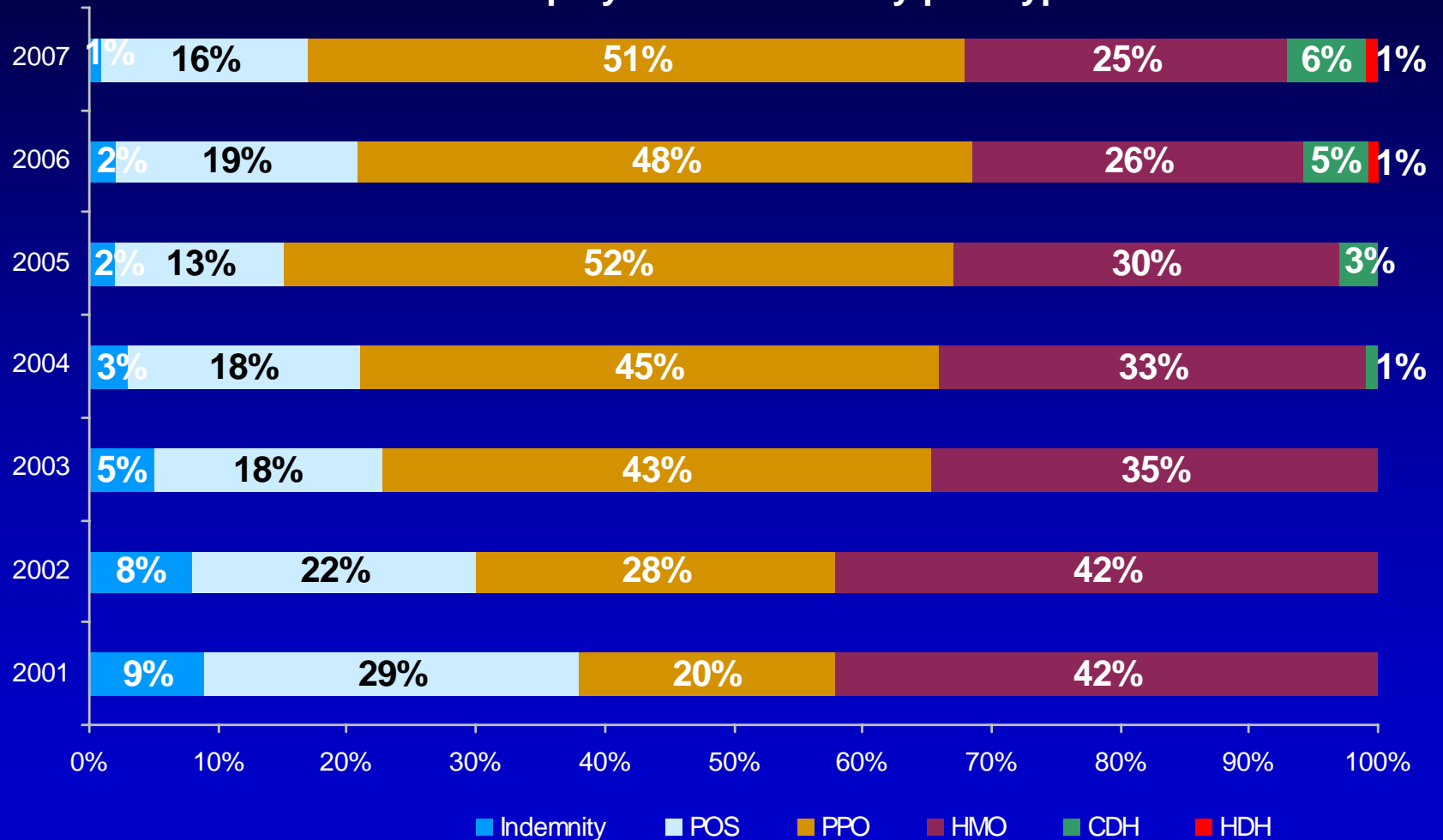
Average Gross Annual Cost (PEPY)



Source: Towers Perrin 2007 Health Care 360 Performance Study

Continuing change in enrollment by plan type is part of the story

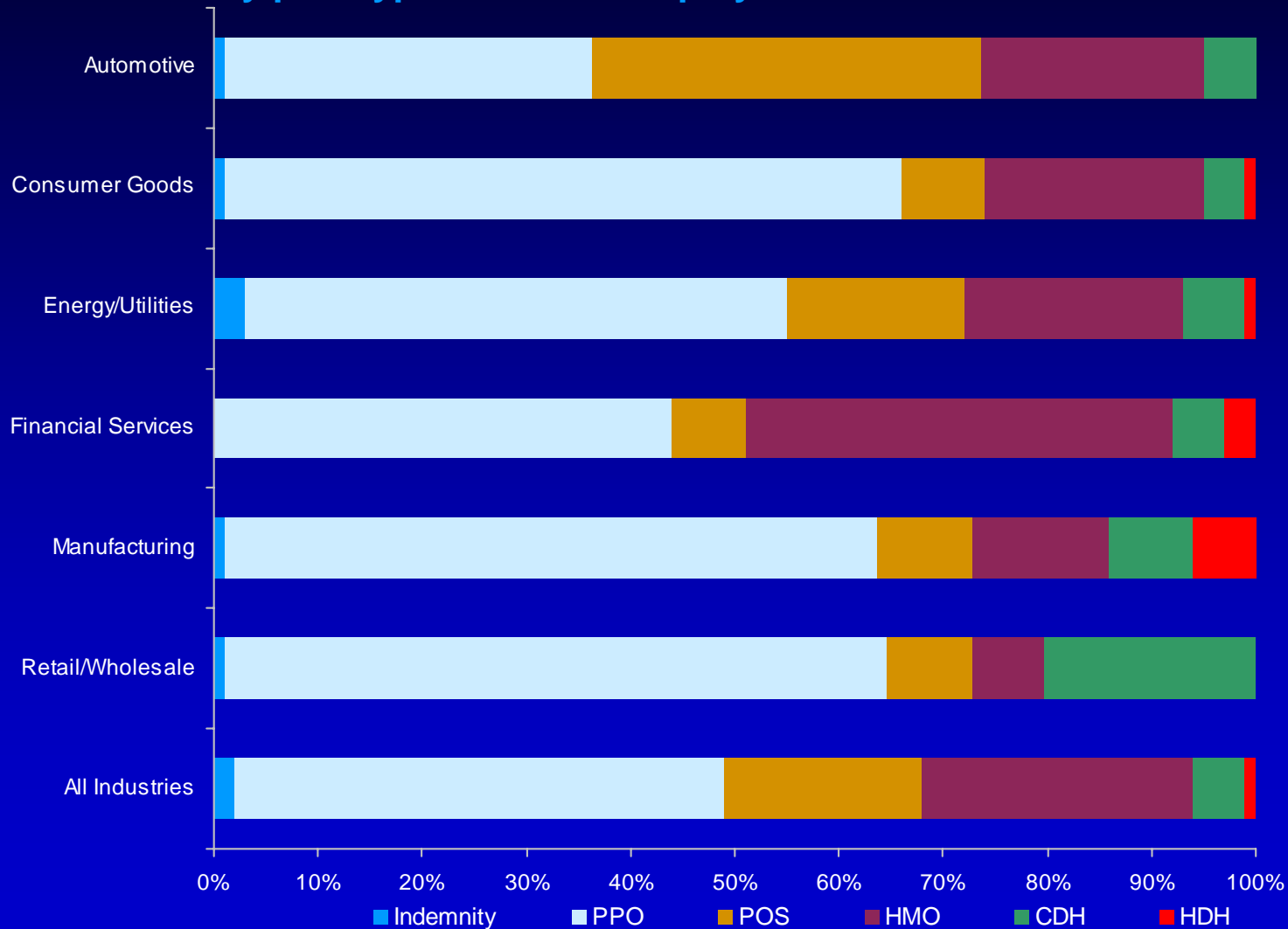
Distribution of active employee enrollment by plan type: 2000 – 2007



Source: Towers Perrin 2007 Health Care 360 Performance Study and Health Plan Performance Benchmarking Study, 2001-2006.

And industry variation is, again, substantial

Enrollment by plan type for active employees



Source: Towers Perrin 2007 Health Care 360 Performance Study.

Financial performance: Medical cost and trend in Wisconsin

Active Employees Only

	Wisconsin	National
Monthly Medical Cost	\$818	\$762
Average 2008 Increase	3.7%	6.1%
Average 2008 Employee Share	19.9%	22.5%

Source: Towers Perrin 2008 Health Care Cost Survey.

What happened to the spread between WI and other locations?

- Prior surveys/reports showed results including
 - Southeast WI costs exceeding other Midwest markets by 55%
 - WI costs, according to GAO, are higher by 27% than national averages
 - Other results, ranging from 10% to 39% higher costs, have been published
- 2008 Towers Perrin HCCS results are now showing a 7% higher cost in WI — why?
 - Survey respondents are mainly large organizations
 - Wisconsin health dynamics are changing

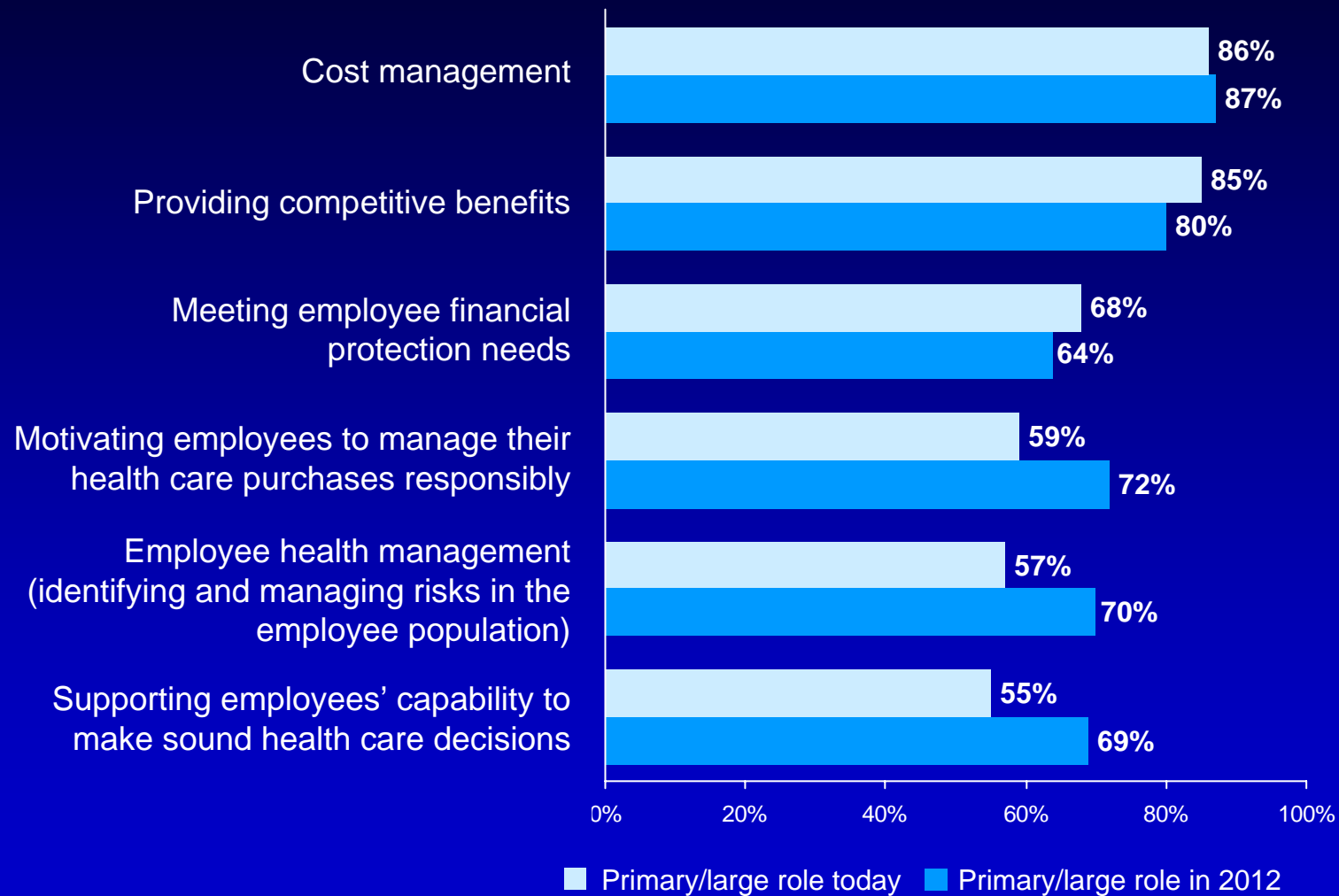
Financial performance: Wisconsin successes

- Wisconsin companies face significant cost pressure, especially in locations in Southeastern Wisconsin
 - Health care costs are a CEO-level issue
 - Decisions about where to site facilities and staff are impacted by costs
- Lower trends for Wisconsin employees have resulted from successful efforts including
 - Negotiating better deals/changing networks/carriers — with substantial support from business coalitions
 - Emphasis on employee (and dependent) health status — including innovative uses of on-site facilities, education tools and financial incentives
 - Consumer focus created by plan design evolution and change management efforts

Can we continue the positive momentum toward closing the gap?

- Reductions in unit prices — through network change and contracting efforts — may offer limited opportunity
 - Many employers have already moved to networks with best-in-class discounts
 - Continuing consolidation of health care providers will create resistance
- Positive change is likely only if we address employee behavior
 - WI employees tend to respond to incentives — and to information on cost, if provided on a timely basis
 - Lifestyle decisions are key drivers
 - Positive change must mean benefits for the employee as well as the employer

Evolving employer role: Increasing focus on employee responsibility *with* employer support



Source: Towers Perrin 2008 Health Care Cost Survey

What's the differential between high- and low-performing companies?

Top Third vs. Bottom Third

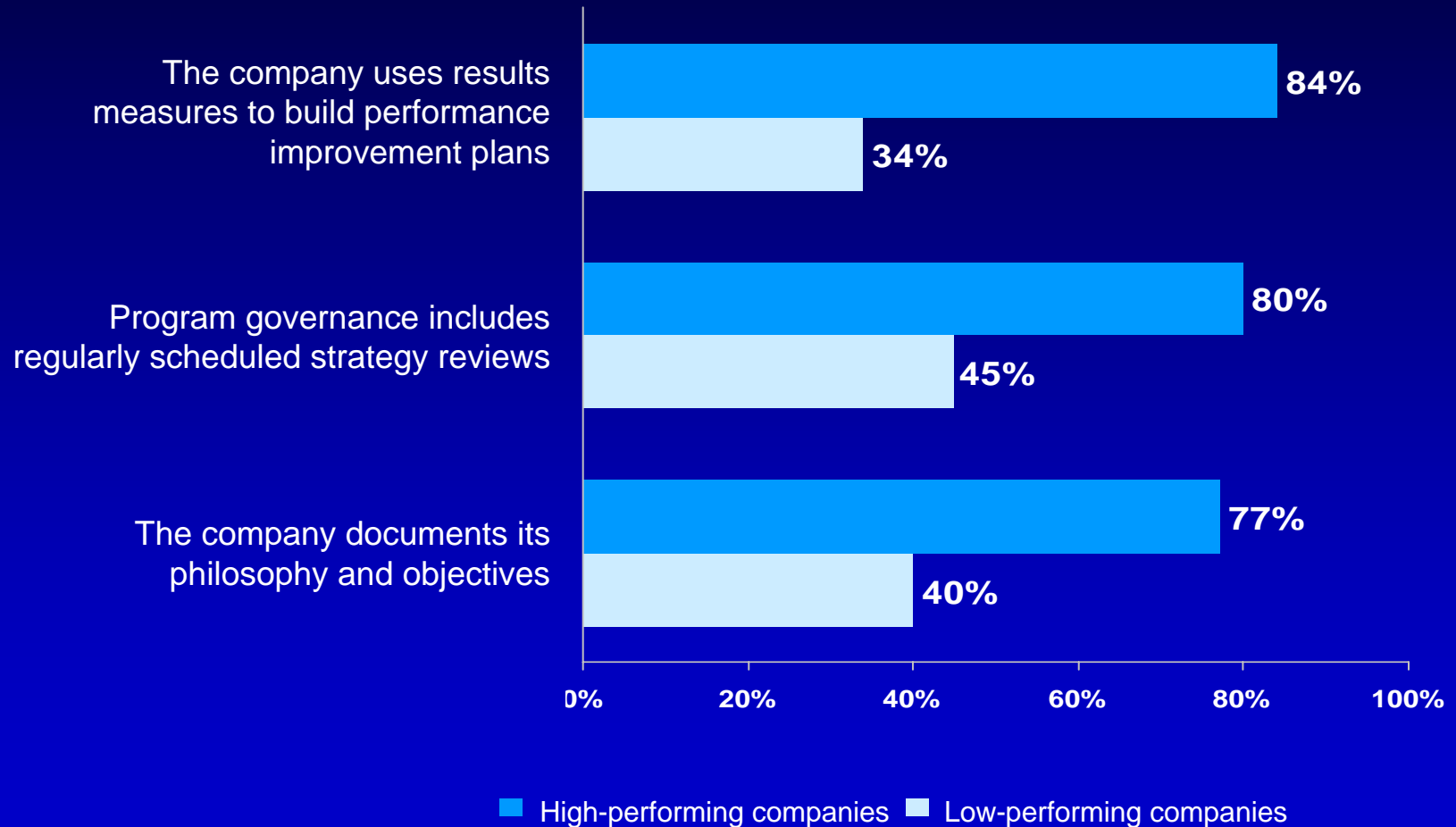
	High-performing employers	Low-performing employers
Cost per employee per year	\$8,532	\$10,200
Increase in employer cost	5%	7%
Increase in employee cost	8%	9%

2008 Health Care Cost Survey respondents were separated into **high-performing** and **low-performing** groups based on costs — as well as how well they are meeting their strategic objectives

Source: Towers Perrin *2008 Health Care Cost Survey*.

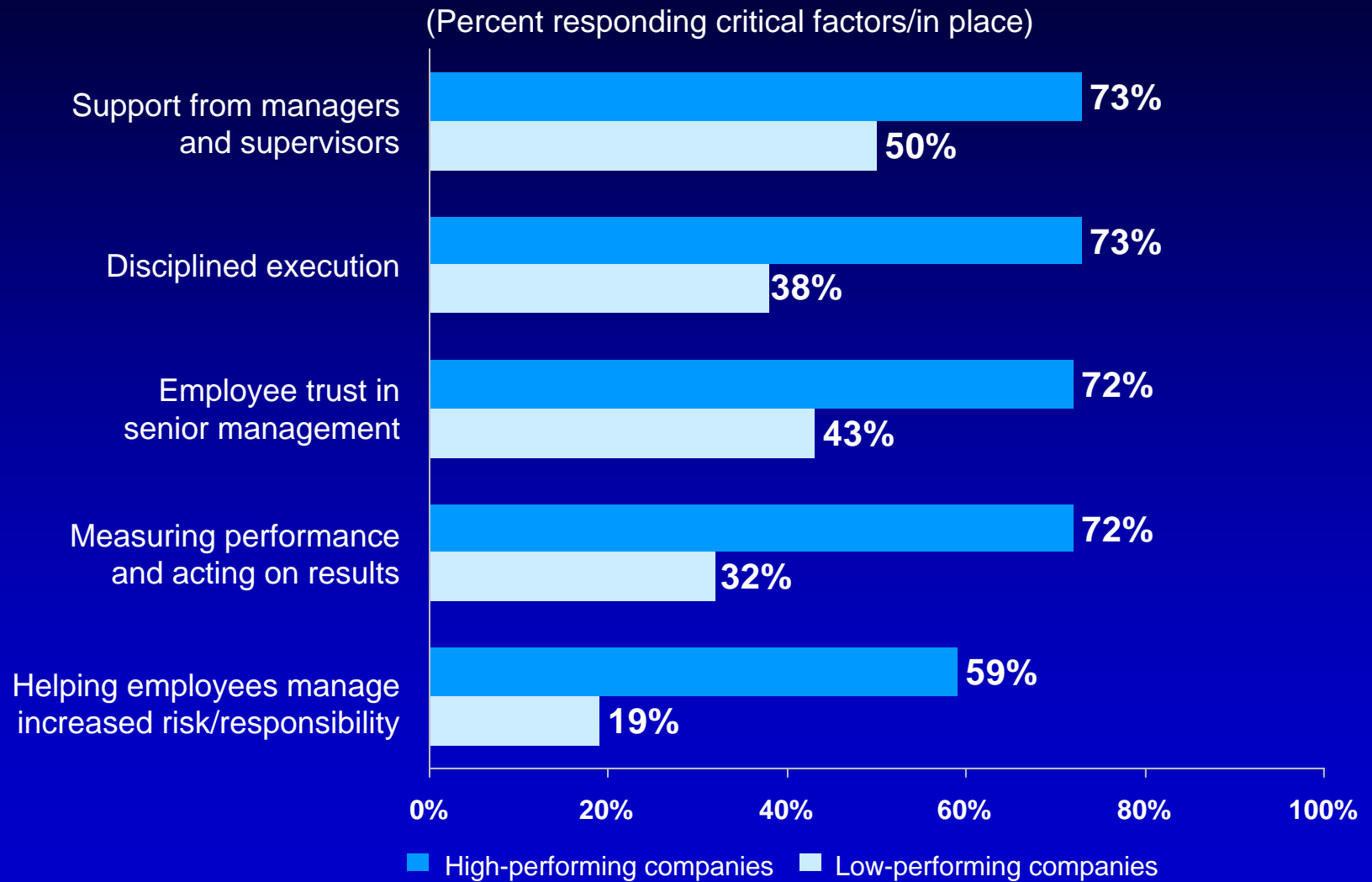
What do high performers do differently? They have a formal process for strategy and governance

(Percent responding doing to a moderate/great degree)



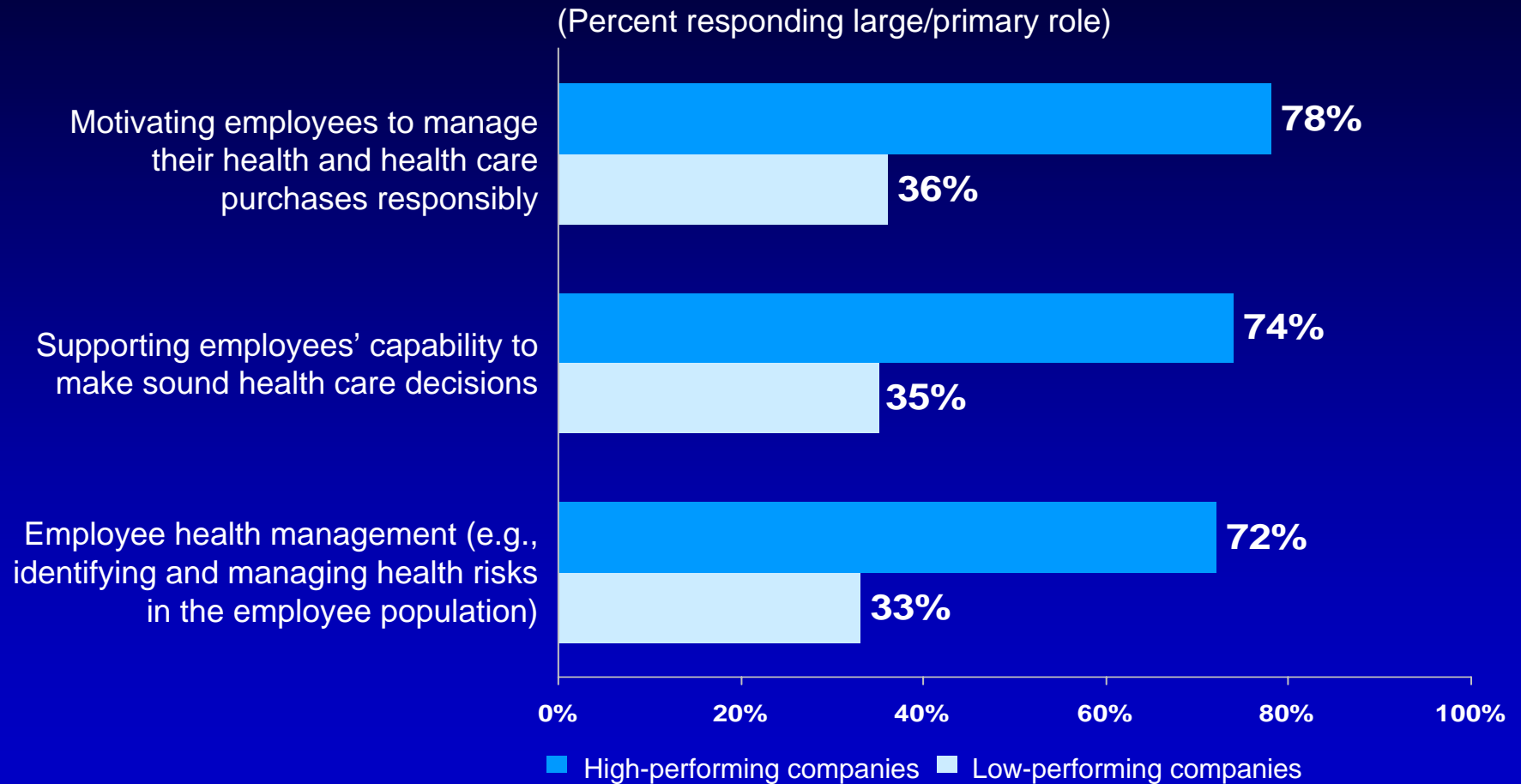
Source: Towers Perrin 2008 Health Care Cost Survey

They know — and analyze — critical performance/execution factors



Source: Towers Perrin 2008 Health Care Cost Survey

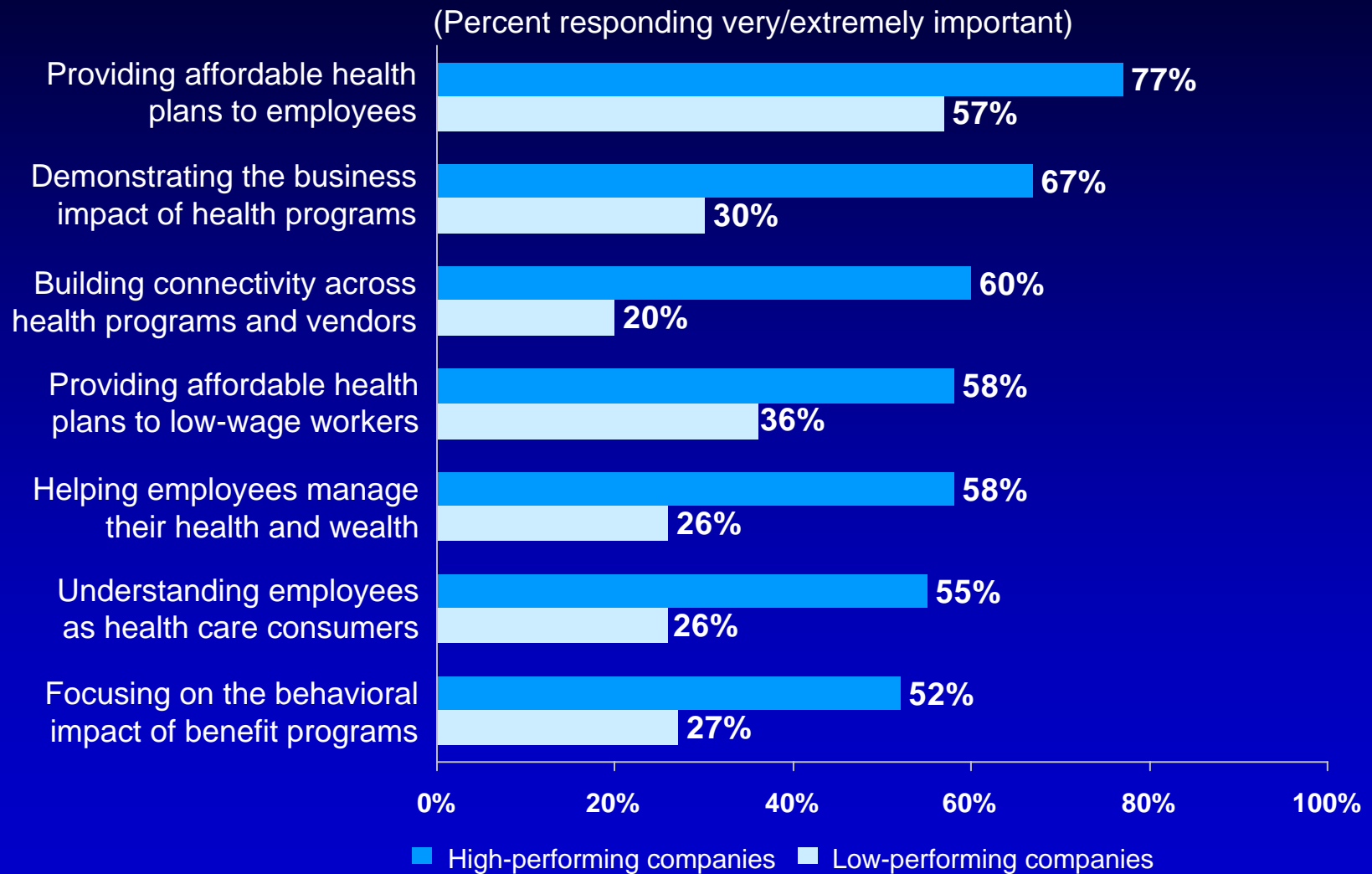
They see their role as educator and supporter of better health



NOTE: Only 29% of TOTAL respondents say their organization today plays a large/primary role in helping employees meet their **postretirement** financial protection needs

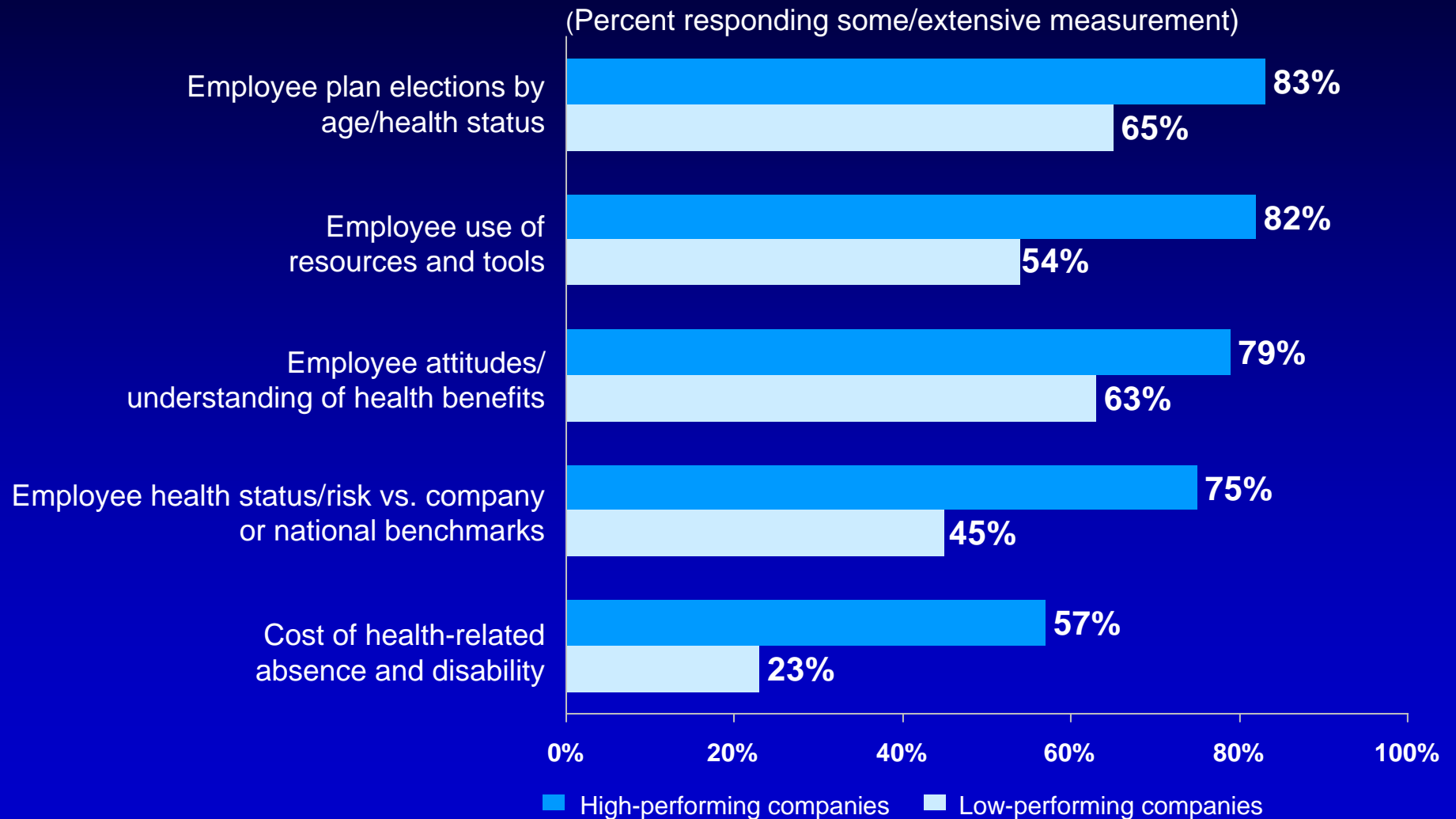
Source: Towers Perrin 2008 Health Care Cost Survey

They provide a supportive infrastructure tied to positive behavior change



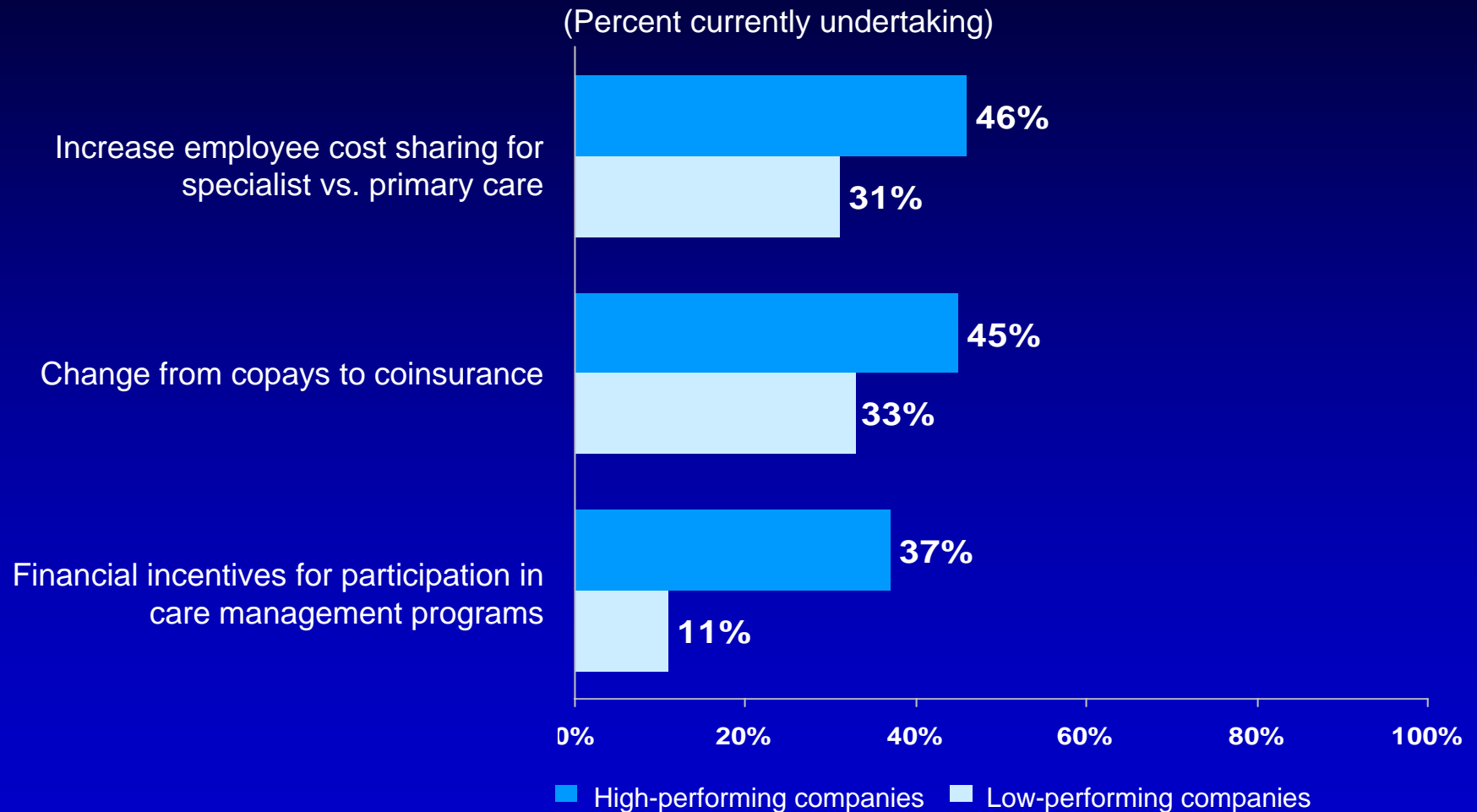
Source: Towers Perrin 2008 Health Care Cost Survey

They measure — and not just costs



Source: Towers Perrin 2008 Health Care Cost Survey

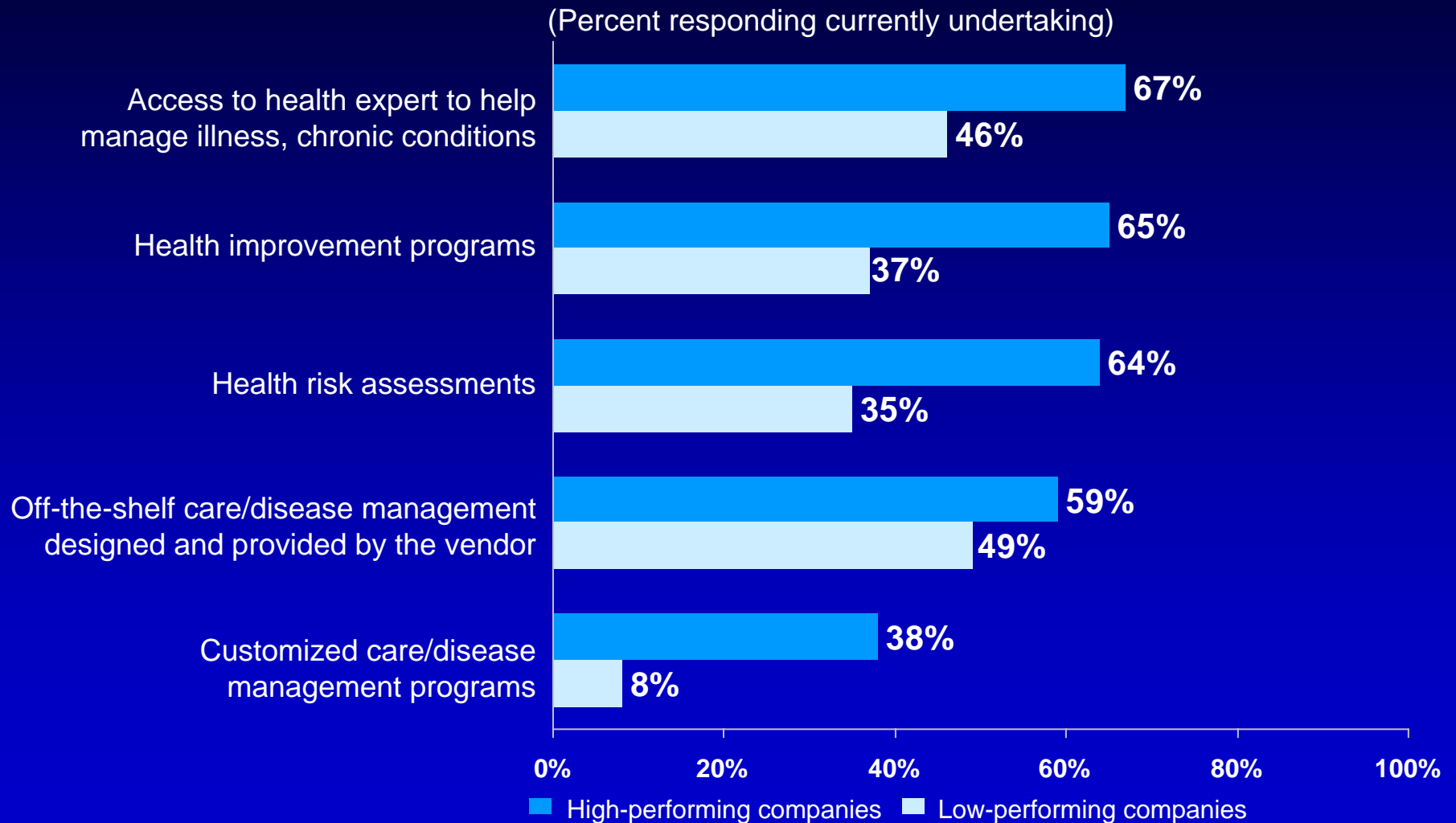
Their design changes are targeted at specific purchasing decisions, not broad cost-sharing



NOTE: More high-performing companies also use coinsurance for preferred drug brands than low-performing companies.

Source: Towers Perrin 2008 Health Care Cost Survey

They create access to specialized expertise and personalized health information



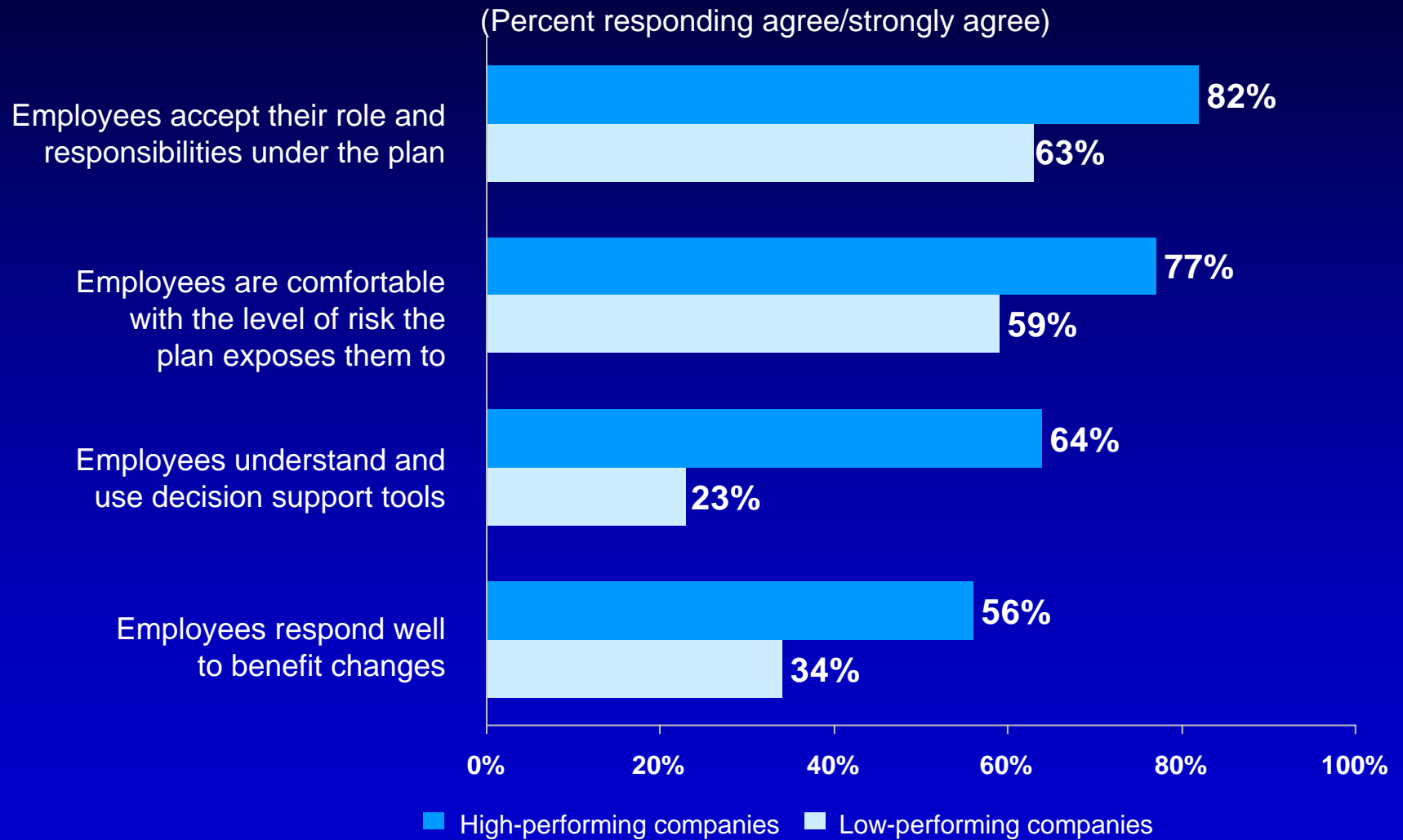
Source: Towers Perrin 2008 Health Care Cost Survey

They have robust — and continuous — communication and education programs



Source: Towers Perrin 2008 Health Care Cost Survey

And they look for validation at the employee level — and address issues as they arise



Source: Towers Perrin 2008 Health Care Cost Survey

Key findings: *2008 Health Care Cost Survey*

- The average 2008 health benefit expenditure for large employers will be approximately \$9,144 per employee — an increase of 6% over 2007
 - About a quarter of the companies are still experiencing double-digit increases
 - Despite a relatively steady trend rate, rising costs continue to produce record high numbers for employers — and employees
- Wisconsin employers are doing better — but still have a way to go

Key findings: *2008 Health Care Cost Survey* (cont.)

- Many high-performing companies — those that are aggressively managing their health plans and delivery processes — are keeping their increases closer to the medical CPI of about 4% through
 - Well-articulated strategies and metrics for evaluating program effectiveness
 - Benefit designs that encourage transparency and accountability
 - Extensive and effective communication and decision support programs that engage employees and help build a culture of health

Questions?

- For more information on the topics you've heard about today or to schedule a meeting, please feel free to contact
 - Dave Osterndorf
414-287-1312
dave.osterndorf@towersperrin.com
 - Rich Yurkowitz
414-287-1305
rich.yurkowitz@towersperrin.com

About Towers Perrin

Towers Perrin is a global professional services firm that helps organizations improve performance through effective people, risk and financial management. The firm provides innovative solutions in the areas of human capital strategy, program design and management, and in the areas of risk and capital management, reinsurance intermediary services and actuarial consulting.

Towers Perrin has offices and alliance partners in the world's major markets. More information about Towers Perrin is available at www.towersperrin.com.

About the Towers Perrin 2008 Health Care Cost Survey (U.S.)

The Towers Perrin 2008 *Health Care Cost Survey* was conducted during August 2007 and September 2007. Participants were asked to report their 2008 per capita premium costs for insured health and dental plans and premium equivalents (i.e., estimated benefit and administrative costs) for self-insured plans. Survey respondents represent primarily *Fortune* 1000 companies with operations in numerous locations nationwide. Health benefits for the 500 participating companies cost more than \$15 billion annually.

Appendix A

Average cost increases: 1998 – 2008

Medical Plans

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Active employees	4%	7%	10%	12%	13%	15%	12%	8%	7%	7%	6%
Retirees under age 65	4	6	10	17	13	17	15	9	9	9	6
Retirees age 65 and older	5	10	24	18	19	19	13	9	6	8	7
Combined	4	7	12	13	14	16	12	8	7	7	6

Dental Plans

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Active employees	5%	7%	6%	7%	6%	7%	5%	5%	4%	3%	3%
Retirees under age 65	4	4	6	6	5	6	5	7*	7*	2*	5*
Retirees age 65 and older	3	3	6	4	4	5	6				

Inflation Measures

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Consumer Price Index (CPI)	2%	2.7%	3.4%	1.6%	2.0%	2.3%	3.2%	4.3%	2.5%	3.5%**
Medical care component of CPI	3	3.7	4.2	4.7	4.8	4.0	4.5	4.1	3.6	4.2**

* Average cost increase for retirees under and over age 65

**Unadjusted 12 months as of October 2007

Source: Towers Perrin 2008 Health Care Cost Survey

Appendix B

Variations by industry segment continues to grow - with a \$3,000+ spread from low to high

Total unadjusted medical cost by industry for all plan types: 2007

Average Gross Annual Cost (PEPY)



Source: Towers Perrin 2007 Health Care 360 Performance Study.

Appendix C

And industry variation is, again, substantial

