TOWERS PERRIN

SEPTEMBER 2009

HEALTH CARE REFORM 2009: LEADING EMPLOYERS WEIGH IN

PULSE SURVEY REPORT

EXECUTIVE SUMMARY

The sands of health care reform continue to shift as key elements of the proposed legislation evolve and the politics heat up. One thing, however, is certain: When and if health reform becomes law, it will create a new environment for employers, employees, insurers and providers alike. For employers, health reform could bring, at a minimum, heavier administrative burdens — and higher costs in some cases.

How will employers respond? The 433 human resource executives who participated in our pulse survey offer an interesting preview. The overwhelming majority expect to rethink their benefit strategies in a post-reform world. They also indicate that a key factor in the thought process will be the perennial balancing act between cost and talent management. And when push comes to shove in the challenging economic climate we're experiencing today, survey respondents say cost management will probably come out on top.

Expressing strong views on the importance of workforce health as a business value and health benefits as an effective talent management tool, many respondents plan to continue, post-health reform, what they're doing today, with some adjustments. They expect to continue to offer competitive health benefits (in some cases exceeding any new federally mandated minimum standards) as a way to support their business goals and continue their work on containing costs.

However, they emphatically *do not* plan to absorb more health care costs or share any company savings (if there are any). And they're prepared to take action to avoid unfavorable cost impacts — primarily by cutting benefits, but also by reducing head count or increasing prices for customers.

Clearly, employer reaction to health care reform will vary by industry and an organization's other key business characteristics. For example, our survey shows that some companies (especially in industries with high turnover and low wages) would consider dropping their health care plans if attractive alternatives were made available under an employer pay-or-play mandate. Many companies, however, say they'd be unlikely to drop their plans, and some would provide richer benefits than any legislated minimum standard as a lever for managing talent.

Overall, most employers will take the opportunity to revisit their role in sponsoring health care coverage for active employees and retirees, thoroughly consider alternatives ranging from incremental adjustments to significant changes in direction and chart an optimal path for the future.

Following is a closer look at the key survey findings.

Most employers are keeping a close eye on reform, with resources dedicated to monitoring developments.

KEY FINDINGS

Health care reform: Watch this space
Health care reform is *the* hot domestic issue for 2009 and, not surprisingly, our survey respondents are closely following the action *(Exhibit 1).* Nearly 70% have individuals or groups within their organizations designated to keep track of the potential impact on the company and its employees. About half say their employees are interested in following reform, and that the company is supporting them in understanding and influencing the reform agenda *(Exhibit 2).*

In contrast to many health reform proponents, employers in the survey group were less clear on the connection between reform and a broader economic recovery (although just over a third see a favorable link between reform and an uptick in the economy).

Despite the high level of interest in reform, most employers are staying the course for now, neither rushing to change their programs nor postponing action — undoubtedly due to the remaining uncertainties and the fact

EXHIBIT 1
Tracking Health Care Reform

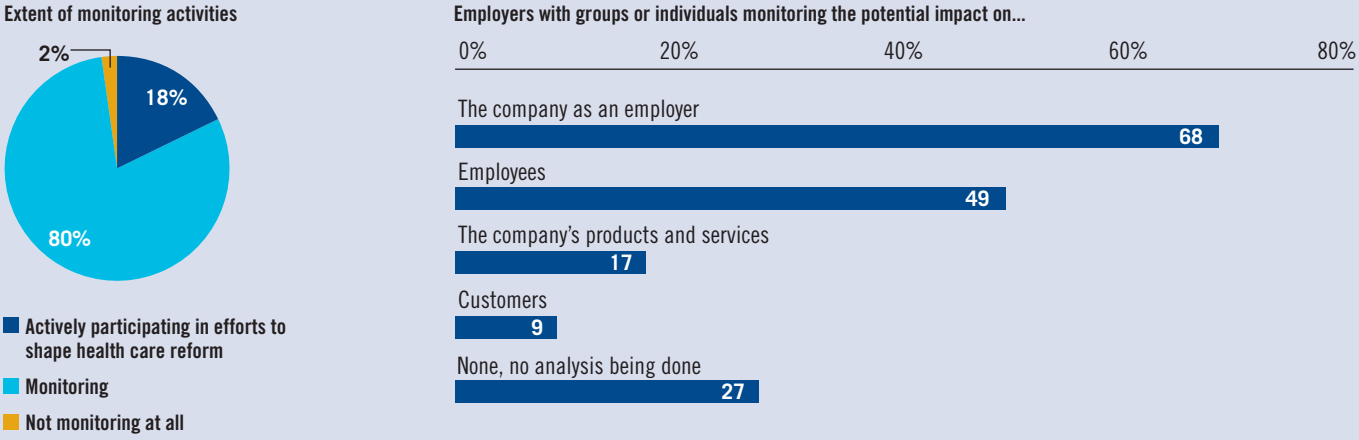
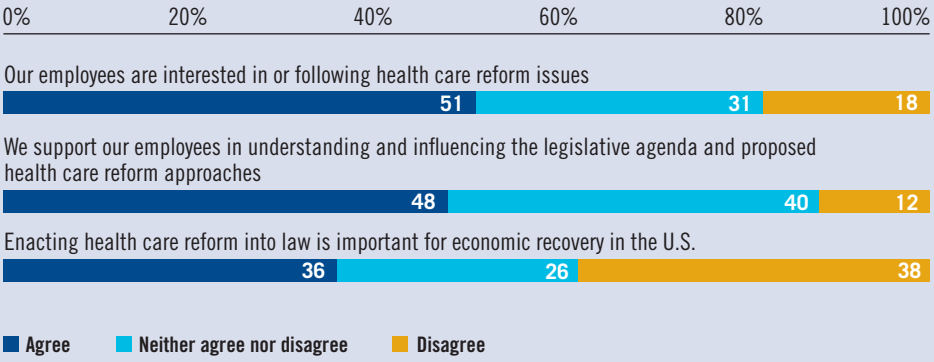
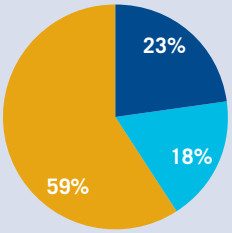


EXHIBIT 2
Importance for Employees...and the Economy



that most of the key reform provisions affecting employers have effective dates several years into the future *(Exhibit 3).* That said, just under a quarter (23%) report they are rethinking benefit changes in light of potential reform, a number that could increase this fall as the legislative details become more clear.

EXHIBIT 3
How Impending Reform Is Affecting Health Benefit Planning



- We are rethinking benefit changes in light of possible reforms
- We are deferring making changes in our health benefit strategy and program
- No effect — we are not considering possible health care reform in our current health benefit planning activities

On every radar screen…but missing the mark?

With over 160 million Americans enrolled in company-sponsored health coverage, employers have an obvious interest in health care reform. Our survey results suggest, however, that the reform proposals currently on the table may not align well with employer concerns. As shown in *Exhibit 4,* virtually all respondents put cost containment — for employers and employees — at the top of their reform priority list. Improving quality of care follows, with about three-quarters of the vote.

Many observers would say, however, that the current reform proposals are aimed primarily at other issues — expanding coverage and reforming certain insurance practices (e.g., limitations for preexisting conditions) — both of which large employers logically believe they have addressed, at least for their own workforces. Moreover, under the proposed legislation, cost and quality improvements important to employers would come only through indirect means and would take years to materialize.

On a related issue, nearly two-thirds of survey respondents say that health care reform as currently proposed will have little or no impact on consumer behaviors that drive costs, an area many leading employers have begun to target as one of their key cost-containment opportunities *(Exhibit 5).*

EXHIBIT 4
Relative Importance of Health Care Reform Goals

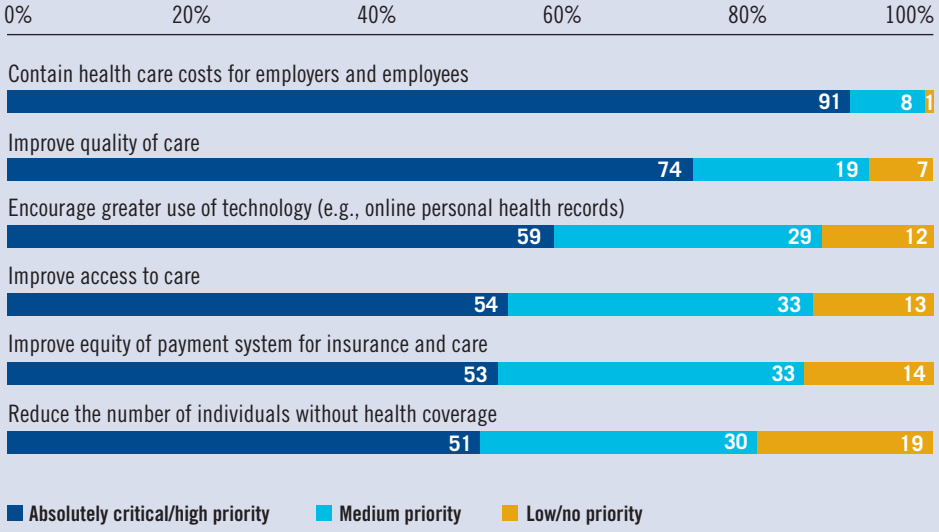
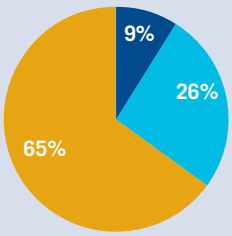


EXHIBIT 5
Impact of Reform on Consumer Behaviors Driving Costs

Degree of impact on consumer behaviors



- High
- Moderate
- Low/none

Respondents say they'd be likely to continue investing in employee wellness and health promotion programs post-reform.

The cost/talent conundrum remains

Although employers rank costs at the top of their priority list for reform, their views are notably multidimensional. As a going-in proposition, the vast majority of survey respondents say that workforce health is important to their business success, that health benefits are key components of their rewards portfolio and that these programs offer companies important opportunities to influence workforce health *(Exhibit 6).*

What's more, the majority (61%) say they'd be likely to continue investing in employee wellness and health promotion programs post-reform, even if they had chosen to end their medical benefit programs and thereby ceded control over employee claim costs *(Exhibit 7).*

In a nutshell, what's at stake for employers in health care reform goes well beyond costs, although, in today's economy, cost concerns rise to the top of the agenda more often than not.

EXHIBIT 6
Context for Reform: The Going-In Proposition for Health Benefits

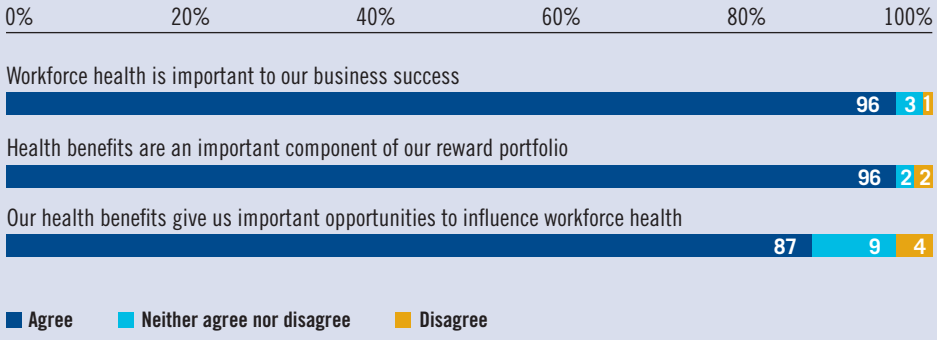
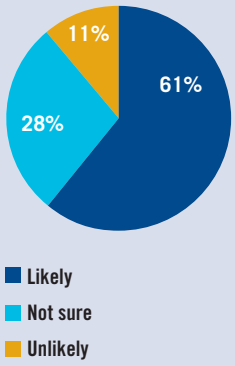


EXHIBIT 7
Impact of Health Care Reform on Employee Wellness Programs

Would your company sponsor wellness and health promotion programs if you no longer offered medical benefits?

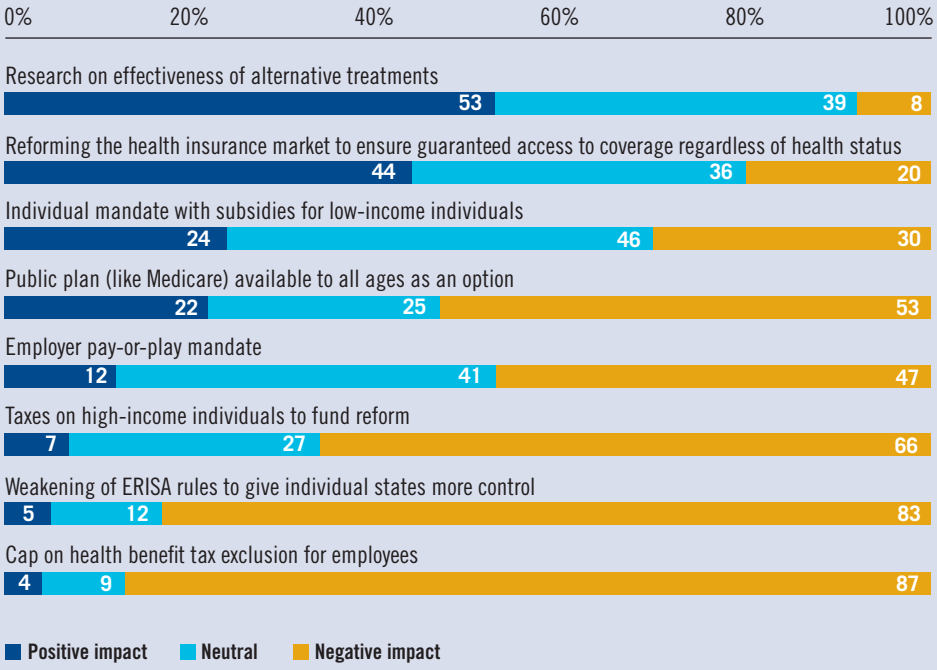


Sizing up the business impact

When asked what potential impact reform would have on their business, survey respondents were clearly negative about some proposals, ambivalent about others and mildly positive about one or two *(Exhibit 8,* next page). A cap on the health benefit tax exclusion for employees (now apparently off the table in existing reform proposals) was most unpopular, followed closely by changes in ERISA preemption to give states more control over health programs (which would likely create new administrative burdens for employers with workforces in multiple states). Two-thirds of respondents have a negative view of the impact of potential taxes on high-income individuals as a way to fund reform.

There is an apparent divide among respondents as to the business impact of a pay-or-play mandate.

EXHIBIT 8
Expected Business Impact of Proposed Health Care Reform Provisions



Another controversial provision — the idea of a tax on employers and/or insurers for health coverage with a value above a threshold amount — had not yet entered the debate when this survey was completed in July 2009. Anecdotal reaction suggests, not surprisingly, that employers would not view such a provision favorably either.

Meanwhile, the employers in our survey express a predominantly "neutral" view on the business impact of a coverage mandate for individuals (with federal subsidies for people with low incomes). Notable, however, is the apparent divide among the respondents on an employer pay-or-play mandate, with a relatively large group (41%) seeing the business impact as neutral and another slightly larger group (47%) seeing a negative impact. (This finding is consistent with the varying cost implications of pay-or-play, depending on a company's workforce demographics, industry, etc.)

Survey respondents are relatively positive about reform provisions that would encourage research on the effectiveness of alternative treatments — an effort which, over time, could help influence consumer and provider behaviors, manage costs and improve quality of care. Respondents are also relatively favorable about the potential impact of insurance reforms. These reforms could ultimately reduce employer costs by expanding the number of people covered by health insurance, thereby reducing uncompensated care and the need to cover that cost in provider pricing. (Any reduction in prices due to a reduction in uncompensated care would depend on how effectively the health plans negotiate modified pricing with providers.)

How will employers respond?

Regardless of the final details of the legislation, health care reform seems destined to alter the environment for employer-based health plans. Accordingly, nearly all employers in our survey (89%) expect to reexamine their health benefit strategy for active employees in a post-reform world *(Exhibit 9).* Most expect to evaluate the financial impact of health care reform legislation on their company and bring senior leadership up to speed on the implications.

Nearly all respondents expect to reexamine their health benefit strategy for active employees.

Most respondents also plan to educate employees on the implications of reform. And, it stands to reason, in an environment where the economic crisis has already shaken some of the fundamentals of the employment relationship or "deal" (including pay, paid time off, training opportunities and so forth), any changes in a core benefit such as health care will require sensitivity and careful planning and implementation.

At the same time, about half of the respondents plan to reevaluate their health care strategies for retirees. (This finding held true even when we looked only at companies that currently offer retiree medical benefits — whether subsidized or not.) These employers may find that, in a post-reform world, their options for dealing with retiree medical (an administratively complex, heavy burden for many) may expand rather than diminish. What's more, those new options may actually reduce the resource commitment currently needed to manage these programs.

As an example, for organizations phasing out subsidized retiree medical coverage, guaranteed access to broad coverage and government subsidies in the post-reform environment would be beneficial to employers and their retirees alike. One potential complication, however, is a provision added to the House bill (H.R. 3200) after this survey was conducted. This new provision would prohibit employers from reducing benefits provided to retired health plan participants (or their beneficiaries) unless that reduction is also made for active employees.

EXHIBIT 9

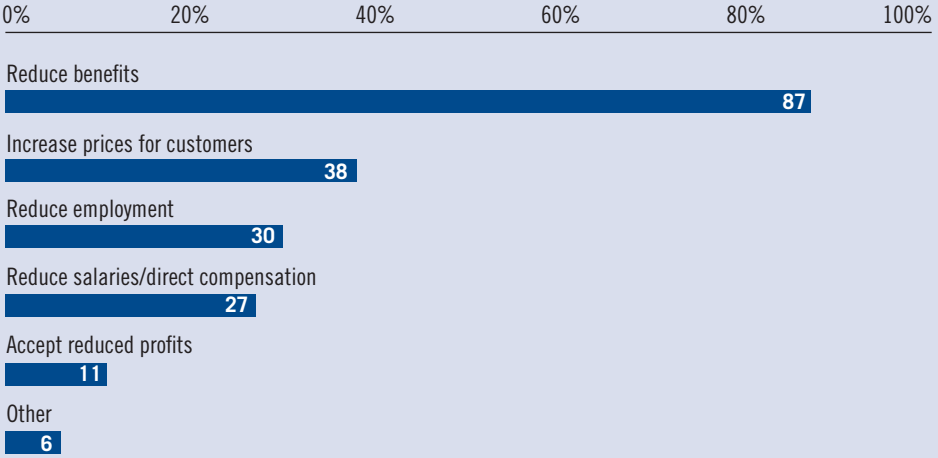
Employer Actions in Response to Passage of Health Care Reform Legislation

% responding very likely/likely

EXHIBIT 10

Employer Actions If Health Care Reform Increases Employer Costs*

% responding very likely/likely



*Excluding those who responded "don't know"

If reform increases company costs, nearly all respondents say they would reduce benefits.

Most employers are not prepared to absorb higher costs

Although costs are a sensitive business issue today, interestingly, when we asked survey participants how they would respond to various cost scenarios under health care reform, a significant number (ranging from just over a quarter to just over 30%) said they didn't know what they would do.

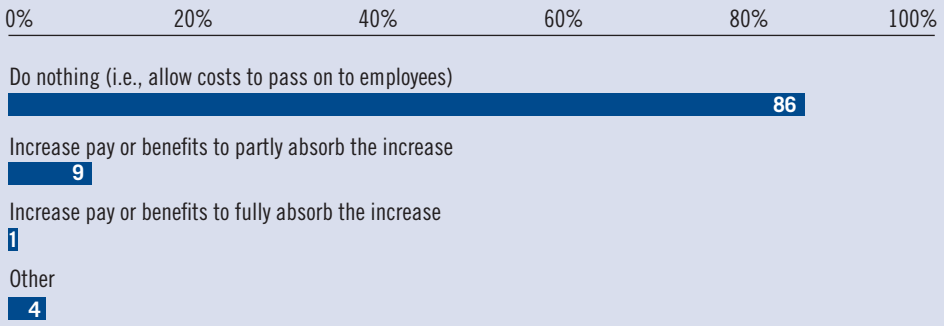
But among the majority of respondents who did have an expected course of action, the response was very clear. Regardless of the specifics of reform legislation, these employers do not plan to absorb higher health benefit costs and would take a variety of actions to avoid doing so *(Exhibit 10,* previous page). Nearly all would reduce benefits. Some would cut jobs or salaries. And over a third (38%) would increase prices for customers.

Along similar lines, survey respondents who have a clear course of action in mind (i.e., once again excluding those who gave "don't know" responses) would not shield employees from any cost increases that reform might bring for them *(Exhibit 11).* And if any savings were to result from reform, most employers would retain those savings in the business *(Exhibit 12).*

EXHIBIT 11

Employer Actions If Health Care Reform Increases Employee Costs*

% responding very likely/likely

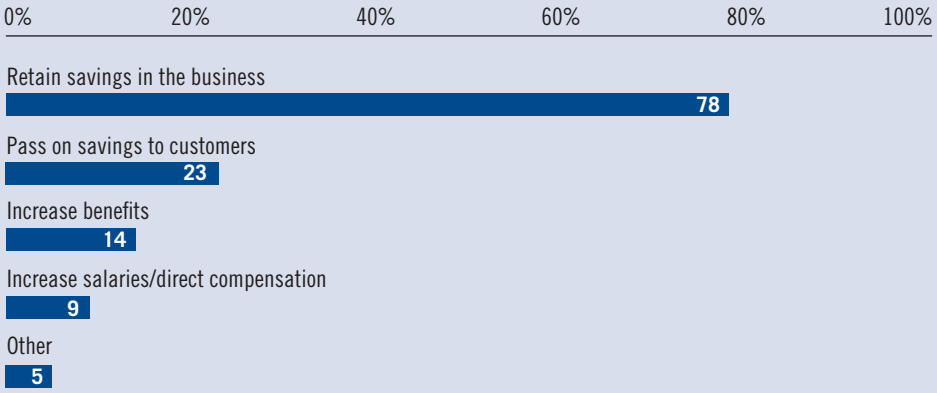


*Excluding those who responded "don't know"

EXHIBIT 12

Employer Actions If Health Care Reform Reduces Benefit Costs to the Organization*

% responding very likely/likely



*Excluding those who responded "don't know"

To play…or not to play

One of the specific reform proposals that would potentially have a cost impact for employers is the pay-or-play mandate requiring companies to provide coverage to workers and their families or pay an assessment to the government. Although it remains to be seen whether this provision will survive in final legislation, many employers have begun to consider the ramifications.

The mandate concept raises a fundamental question for employers: "Should our company continue to play an active role in providing health coverage for employees or — given that our employees will be able to secure affordable health care coverage in a reformed individual market — should we exit health plan sponsorship and instead pay an assessment to the government?"

For many, this question will not elicit simple answers. While it implies an "either/or" choice, there may be alternatives that lie somewhere in between, where the ongoing push/pull between cost and talent management issues once again comes to the fore.

The upshot? Our survey results suggest that a pay-or-play mandate would prompt most large employers to stay in the game but make incremental strategy adjustments — i.e., most employers would continue to "play," but would adjust their programs to address the new conditions.

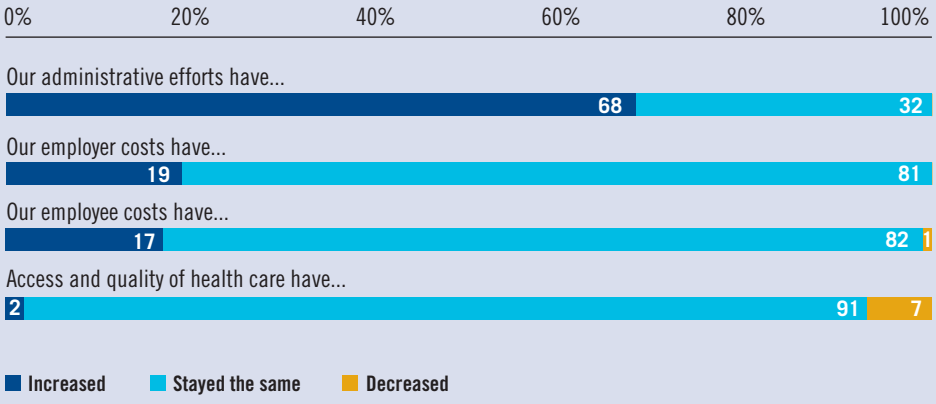
The Massachusetts Experience: Good, Bad or Indifferent?

Companies with employee populations in Massachusetts (as well as Vermont and San Francisco) have essentially had a preview of at least one potential reform component: the employer pay-or-play mandate. (Massachusetts also has an individual coverage mandate in place.) After about three years of experience in the pay-or-play world, some companies in our survey are not sure what impact, if any, the mandate has had. Excluding those who are not sure, the vast majority of respondents with programs in Massachusetts have seen little or no impact on employer costs, employee costs, access or quality of care, as shown below. Notably, however, over two-thirds report that their administrative burdens have increased.

Clearly, a federal pay-or-play mandate would have a greater impact than current mandates confined to a handful of markets. As noted in the analysis on page 10, many large employers would see increases in administrative burdens and some cost uptick due to increased enrollments and payment requirements for some opt-outs and ineligibles. Most employers will find the cost increases manageable, and, as reported in this survey, many employers will make benefit changes to offset those additional costs.

Experience With the Massachusetts Mandates

Compared to what would have resulted without this law...



Significant changes in the cost equation could lead some employers to take bold steps.

Nevertheless, costs continue to be a powerful motivator, and significant changes in the cost equation could lead some employers to take bold steps. For example, only 9% of survey respondents say they would likely discontinue their health benefit program if the cost of payments to the government were *somewhat lower* than current company costs *(Exhibit 13).* But if the cost to "pay" were *substantially lower,* the number of respondents who said they would be likely to close their plans and send their employees out into the reformed insurance market more than triples, to 29%.

Similarly, survey respondents say that the top consideration in their health benefit sponsorship decision is the cost to the company *(Exhibit 14).* However, a strong majority also indicate that critical/important factors in their sponsorship decision include talent management considerations — such as attraction and retention, workforce health and productivity, and employee engagement.

So, even in a pay-or-play world, employers will continue to strive for balance between cost and talent management. Notably, as shown in Exhibit 13, more than a third of respondents would choose to continue providing health care coverage that exceeds any minimum requirements to remain competitive and meet other business goals.

EXHIBIT 13
Employer Actions in Response to a Pay-or-Play Mandate

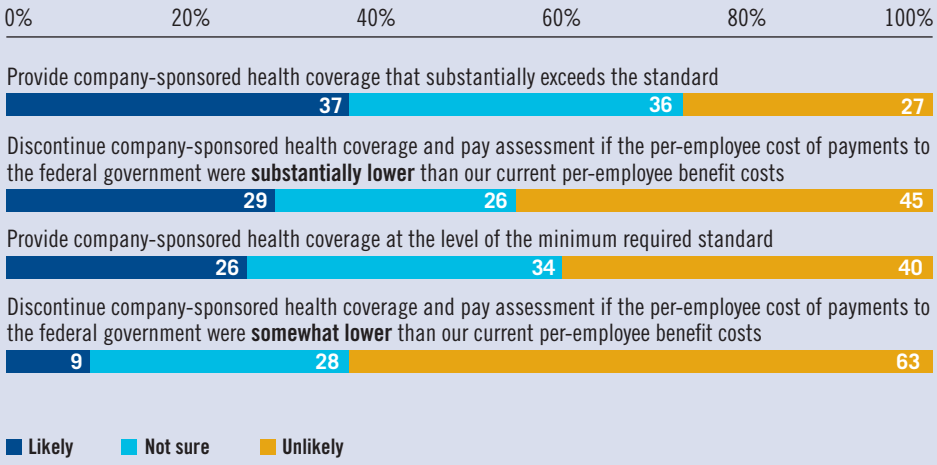
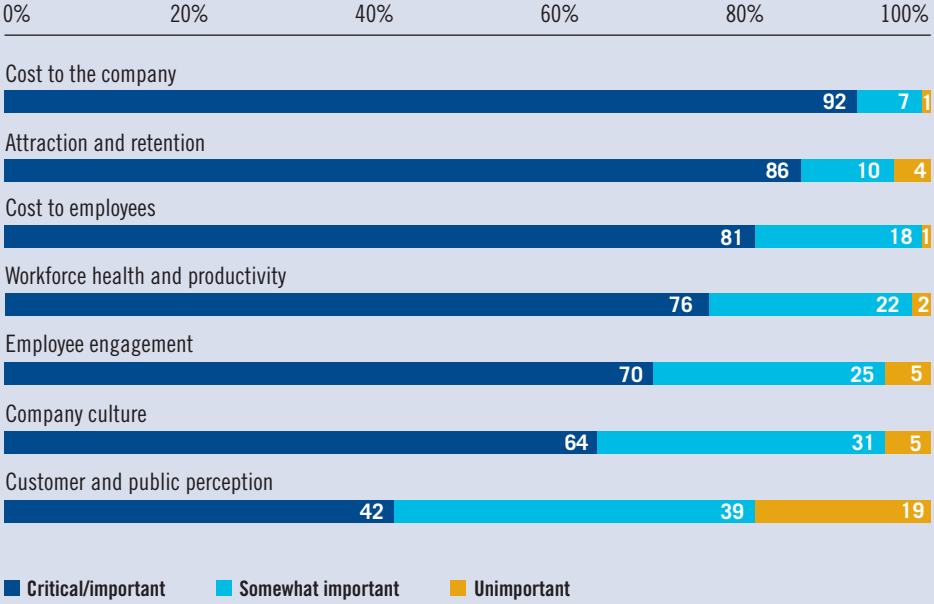


EXHIBIT 14
Factors Driving Employer Decisions to Continue/Discontinue Sponsoring Health Benefits

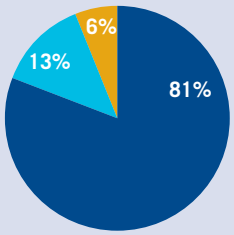


Health benefits are viewed as critical to the total rewards package and serve as an important lever in managing talent.

Impact — and reactions — will vary by industry

How would a pay-or-play mandate actually play out from a cost perspective? Results from our survey show that, on average, respondents (large employers) cover 81% of their employees under their company's group health plans *(Exhibit 15).* Survey respondents also report that, on average, 13% of employees are eligible for coverage under the company's plans but are not enrolled, and 6% are not eligible. So, while there may be some coverage shifts between employers for two-worker families, the overall effect of a play-or-pay mandate on a given company will be a cost increase due to increased enrollment and/or "pay" penalties (for certain opt-outs and ineligible employees).

EXHIBIT 15
Survey Respondents' Average Health Benefit Eligibility and Enrollment Percentages



- Enrolled in company's health benefit program
- Eligible but not enrolled in company's health benefit program
- Not eligible for company's health benefit program

Not surprisingly, companies with higher percentages of ineligible employees are paying close attention to the reform debate. In our survey, 80% of employers with 15% or more ineligible employees say they are monitoring the potential impact on their companies, versus 64% among companies with less than 15% ineligible.

In some industries, particularly those with low margins and lower-income/high-turnover employee populations, some companies will choose to write a check to the government and allow employees to purchase coverage in a reformed market for individual health insurance.

Moreover, our survey results show that, as a general rule, the greater the savings potentially achieved by paying rather than playing, the greater the number of companies that might consider exiting health benefit sponsorship in favor of the "pay" option. For example, retailers in our survey report they would be more likely to drop their health plans if per-employee assessments were substantially lower than current costs. (Fully 42% of retail respondents say they would close their plans, versus 28% of those in financial services and 24% of those in technology/telecommunications.) A further motivation might be the staffing and administrative savings achieved by exiting the management role required by company-sponsored health benefits.

By contrast, larger percentages of companies with higher-paid workers (both salaried and hourly) and companies in the health care industry (about 46% and 63%, respectively) say it would be *unlikely* that they'd end sponsorship even if the per-employee cost to pay were substantially lower than current costs. This finding once again confirms that, for many companies and in certain industries, health benefits are viewed as critical to the total rewards package and serve as an important lever in managing talent and supporting other business objectives.

Coupled with shifts in the employment relationship brought by the economic downturn, health care reform may prompt employers to strike a new deal with employees.

Along these same lines, financial services firms, health care companies, utilities and technology/telecommunication companies in the survey group are more likely to say they would offer health benefits with higher value than the minimum standard required as part of a pay-or-play mandate *(Exhibit 16).*

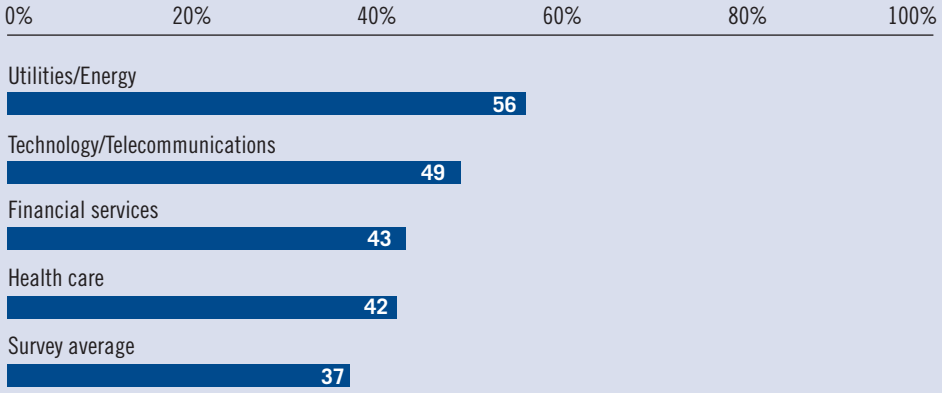
A NEW ACT — OR JUST ANOTHER BALL TO JUGGLE?

Today, nearly all large employers offer health benefits to active employees, even though there is no federal requirement to do so. And, as our survey findings suggest, it's quite possible there will be little change in that role in the short term. The one change that would affect all employers (regardless of their pay-or-play decisions) is increased administration requirements. In fact, many employers may find that health care reform, rather than a sea change, is just the next complication in offering benefits they willingly provide to enhance their organization's ability to manage talent. Some, compelled by cost issues, will undoubtedly take advantage of new alternatives offered by a reformed individual market and decline to offer coverage to some or all employees and retirees, leaving this responsibility for others to manage.

EXHIBIT 16

Pay or Play: Would Your Company Provide Coverage That Substantially Exceeds a Government-Mandated Standard?

% responding very likely/likely



For all employers, health care reform will require a reexamination of current benefit offerings to ensure alignment with business objectives. The new environment will also offer employers an important opportunity to define an optimal approach for the future. Coupled with significant shifts in the employment relationship brought by the economic downturn, health care reform may in fact prompt employers to strike a new deal with employees — a deal that may or may not include comprehensive company-sponsored health benefits, but one that could bring increasing responsibilities for individuals in managing both their physical and financial health.

At the end of the day, employers must control costs, but they remain committed to the business value of workforce health. And the prospect of a "health dividend" — in the form of enhanced employee productivity and engagement, in addition to lower costs — might compel employers to expand rather than reduce their investments in workforce well-being and health promotion.*

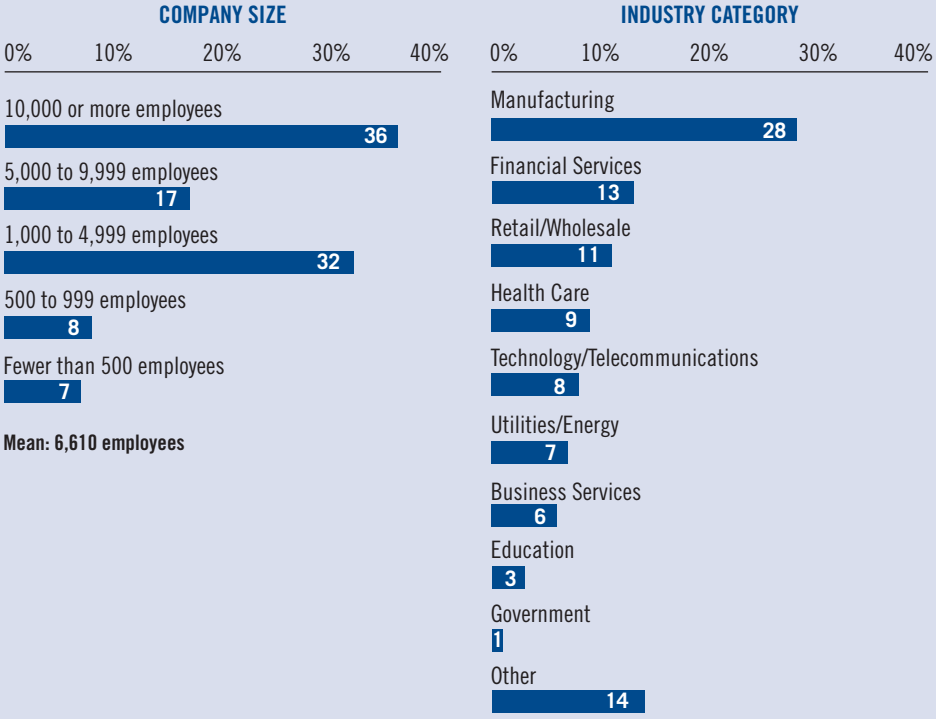
ABOUT TOWERS PERRIN

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, insurance and reinsurance intermediary services, and actuarial consulting.

About This Study

This study captures the opinions of leading employers on key health care reform proposals and their expected actions should certain provisions become law. The survey was conducted online in July 2009 and drew responses from 433 HR and business executives working for midsize to large companies (with an average of about 6,600 U.S. employees) in a broad cross section of industries.

Company Size and Industry Category



*See also *Benefits in Crisis — Weathering Economic Climate Change*, a 2009 Towers Perrin pulse survey that similarly showed strong employer commitment to workforce well-being and health promotion.