



# Health Care Costs and Transformation

## - An Overview for SHBP

October 2004

# Current Health Trends

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- **National surveys show that in 2003:**
  - health benefit costs rose 10.1% (five times CPI)
  - average employer cost per employee per year was \$6,215
  - average cost to employees for family coverage was \$1,947
  - total of contributions and 'out of pocket' expenses approaching 5% of employee take home pay
- This increase in premiums mitigated by nearly 70% of corporate employers surveyed shifting costs via increased deductibles, co-pays and co-insurance.
- Manufacturing sector attributed costs of health care as a major factor in competing favorably on a global basis.
- Recent reports from Families USA indicated health care premiums outpaced salary increases 3 to 1.

# Current Trends – Public and Private Sectors

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- **Historically, more generous 'fringe benefits' have supported the public sector in the 'war for talent' – attraction and retention of requisite human capital**
- **Cost sharing in contribution strategies in 2003:**
  - **State Plans (2003 Segal Study) average share of employee cost is 90% of premium and State share of family cost is 78% of premium**
  - **Corporate statistics (2003 Mercer Study) show 77% of employee cost borne by the company and 68% of the family premium paid by the employer**
- **Corporations terminating or significantly limiting post-employment medical benefits; retiree medical remains a common thread in public sector programs.**

# Current Health Trends – Private Sector Example

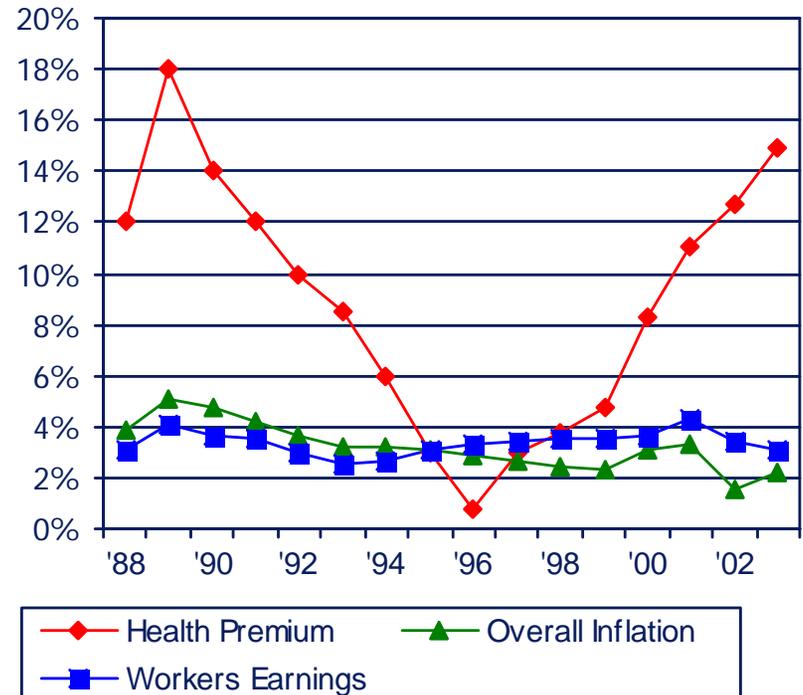
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- **GM health care costs now at \$4.5 billion for 1.2 million workers**
  - **\$1,200 of 'added cost' to each vehicle**
  - **'more than the cost of steel in each car' (2003 - GM CEO)**
- **GM burdened by labor contracts with retiree medical provisions and fixed contribution levels**
- **Impact to GM is reflected in:**
  - **impaired competitiveness of vehicles (increase in prices) in the global market**
  - **reduced profits and shareholder equity**
  - **depreciation in market capitalization (market impact on stock)**

# Escalating Health Care Costs Continue to be a Concern (SHBP problem #1)

- Health care costs are out of control; double digit annual increases are common; costs will double in 5 years
- Health care cost management is a major issue for virtually every employer
- Incentives are not aligned to fix the problems; employers, health plans, providers and consumers are out of sync

Increases in Health Insurance Premiums Compared to Other Indicators

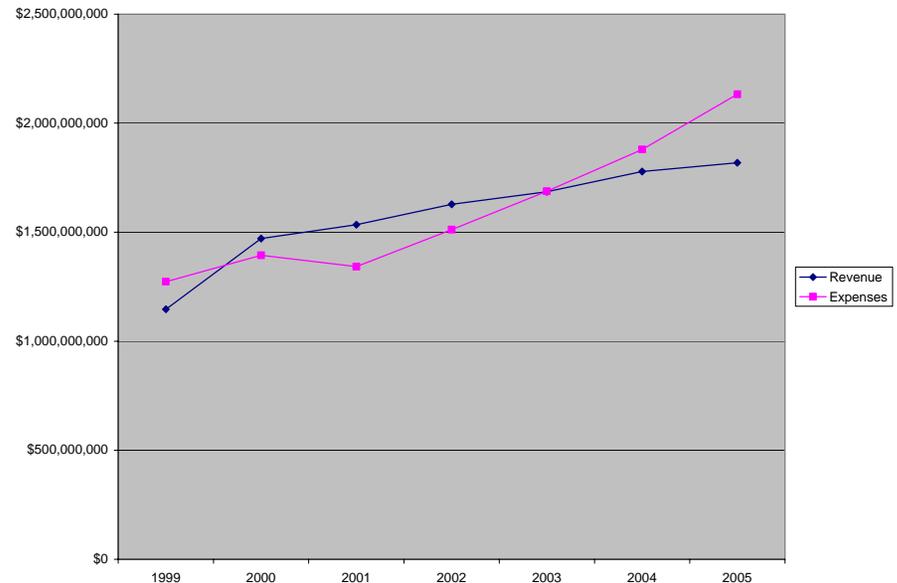


Source: Kaiser/HREC Survey

# Source of Funding (SHBP problem #2)

- Funding – unlike the private sector, SHBP can not pass increases to customers in the cost of goods and services.
  - With the exception of the employee contribution these sources of revenue are relatively flat and do not bear a relationship with the anticipated increases of 10+% in the near future.
  - Revenue sources are based on active payroll. But, retirees currently make up 22% of the plan expenses and are not reflected in payroll.
  - The 'gap' between revenues and expenses will continue to grow.

Projected revenue and expense chart



# Health Care Cost Management (SHBP problem # 3)

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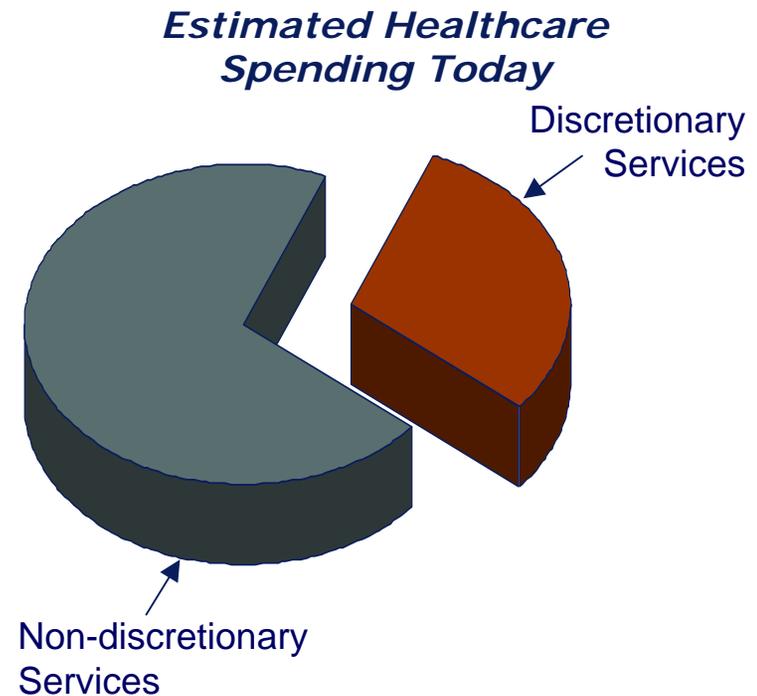
## Status Quo – strategies and incentives are not aligned to fix the problems ...

- **Employers** are financing but not controlling costs - and are demanding change; health care affordability of increasing concern; employment/pay/benefit tradeoff discussions becoming more common
- **Providers** are not directly accountable for delivering efficient care; quality-of-care metrics meaningful to consumers are lacking
- **Health Plans** did generate price discounts and lowered unit costs, but have not been able in all cases to effectively manage care or align cost increases with CPI; disease management programs remain under-utilized
- **Consumers** are generally not aware of the real cost of health services and are rarely accountable for their health care purchase decisions; healthcare availability and affordability of increasing concern; little provider-specific quality information to drive decisions

# Healthcare Transformation: Value Proposition

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- **A strategy of consumerism that focuses on healthcare transformation and meets these employer goals**
  - Reduce costs by reducing demand and utilization (actuarial models and initial results suggest sustainable utilization reductions of 7%-12%)
  - Control annual trend (reduction of 3%-5%)
  - Reduce administrative complexity (potentially a single source for financial and clinical information)
  - Emphasize health management
  - Satisfy and empower employees



# Health Care Cost Management: Paradigm Shift

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## Three Strategies

- Consumer Driven Health Plans (CDHPs)
  - plans that promote informed and responsible spending on health-related goods and services
  - combined with Health Reimbursement Accounts (HRAs) – a tax preferred account funded by the employer to offset deductibles and coinsurance, but with 'carry over' features
- Tiered Provider Networks
  - networks of providers within networks segmented in categories that reflect efficiencies and quality
  - plan designs and financial incentives for employees to consider in choosing a tier.
- Health Management
  - focus on high cost populations: individuals with chronic illness and acute care needs
  - disease state management, health risk assessment, nurse advice lines, websites and other tools are providing the ROI expected.

# What the Future Requires

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- ***Employers willing to change the game***
  - Direct access to care
  - Providing significant incentives to stay healthy
  - Demanding health plans provide the engines for consumerism
- ***Employees who know what it costs***
  - Have a stake in their own utilization
  - Understand how and why to improve their health status
  - Have incentive to change
- ***Health plans that improve health***
  - They must have a stake in health status
  - Create the tools the programs that facilitate health and cost consciousness
  - Provide real time care management
- ***Providers who are accountable***
  - Provide the outcome and cost data to measure efficiency
  - Paid for performance
  - Compete with direct delivery models

**Deloitte.**