HEALTH CARE BENEFIT TRENDS

GREATER CINCINNATI COMPENSATION & BENEFITS ASSOCIATION

JUNE 2, 2016
1. **Cost growth moderate, at 3.8% in 2015 with 4.3% projected for 2016**
   But while large employers held increase to 2.9%, small employers saw cost rise 5.9%.

2. **One in four covered employees is now in a CDHP**
   Consumerism tools are helping employees make the best plan choice.

3. **Analysis: 25 strategies that helped employers achieve lower cost and trend in 2015**
   Successful practices spanned program design, care delivery, workforce health.

4. **Consumer empowerment is building, supported by new programs and technology**
   Telemedicine, cost transparency tools and mobile devices are all on the rise.

5. **New clinical models—ACOs and medical homes—lead the evolution to value-based care**
   Centers of Excellence and narrow networks are first steps for some employers.

6. **Private exchanges will be used by 6% of large employers for 2017 open enrollment, with rapid growth expected to continue through 2020**
   Employers seek to add choice, ease administration, manage cost, and more easily transition to CDHPs.
ABOUT MERCER’S NATIONAL SURVEY OF EMPLOYER-SPONSORED HEALTH PLANS

Oldest
Marking 30 years of measuring health plan trends

Largest
2,486 employers participated in 2015

Most comprehensive
Extensive questionnaire covers a full range of health benefit issues and strategies

Statistically valid
Based on a probability sample of private and public employers for reliable results

Includes employers of all sizes, all industries, all regions
Results project to all US employers with 10 or more employees

Employer size groups in presentation
Small: 10-499 employees/Large: 500+ employees/Jumbo: 20,000+ employees
COST TRENDS
COSTS ROSE MODERATELY IN 2015, WITH A SIMILAR INCREASE PREDICTED FOR 2016

Change in total health benefit cost per employee compared to CPI & workers’ earnings

SHARPER INCREASE BUT LOWER PER-EMPLOYEE COST FOR SMALL EMPLOYERS

Average total health benefit cost per employee in 2015

- All employers: $11,635 (+3.8%)
- Employers with 10-499 employees: $11,012 (+5.9%)
- Employers with 500 or more employees: $11,973 (+2.9%)

Cincinnati/Dayton: $12,211 (+3.9%)
AVERAGE COST BY INDUSTRY

Large employers

Wholesale / Retail: $9,668
Services: $11,388
Financial services: $11,892
Transp. / Comm. / Utility: $11,951
Health care: $12,054
Manufacturing: $12,390
Government: $13,383
AVERAGE COST BY REGION

Large employers

South: $11,209
Midwest: $11,513
West: $12,762
Northeast: $12,893
PRESCRIPTION DRUGS ARE BECOMING A MAJOR COST DRIVER

Cost change for prescription drug benefits in primary medical plan for large employers

Cost of specialty drugs grew by 22% in 2015 among employers that could report cost separately (49%)
DENTAL COST BENCHMARKS

Large dental plan sponsors

All large employers / +1.4%

- 2015: $816
- 2014: $805

West / +1.1%

- 2015: $992
- 2014: $981

Midwest / -2.6%

- 2015: $735
- 2014: $755

Northeast / +6.0%

- 2015: $894
- 2014: $843

South / -1.4%

- 2015: $704
- 2014: $714

Cincinnati/Dayton:
- $721 in 2015,
- $718 in 2014
(+0.4%)
DESIGN & CONTRIBUTION TRENDS

Large employers

Cincinnati/Dayton: 88% PPO / 73% CDHP / 31% HMO
MAJORITY OF LARGE EMPLOYERS EXPECT TO OFFER A CDHP BY 2018 – BUT MOST SEE IT AS AN OPTION, RATHER THAN A FULL REPLACEMENT

- Small employers (10-499 employees)
- Large employers (500+ employees)
- Jumbo employers (20,000+ employees)

<table>
<thead>
<tr>
<th>Category</th>
<th>Option 1</th>
<th>Option 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small employers (10-499 employees)</td>
<td>17%</td>
<td>21%</td>
</tr>
<tr>
<td>Large employers (500+ employees)</td>
<td>22%</td>
<td>61%</td>
</tr>
<tr>
<td>Jumbo employers (20,000+ employees)</td>
<td>61%</td>
<td></td>
</tr>
</tbody>
</table>

- Will offer CDHP as the only plan to all or most employees within the next three years
- Will offer CDHP along with other medical plan option(s)
- Will not offer CDHP
EMPLOYERS SAVE WITH HSA-BASED CDHPs: AVERAGE COST WAS MORE THAN 20% LOWER THAN FOR EITHER PPOs OR HMOs IN 2015

Medical plan cost per employee (includes employer contributions to HSA accounts) among large employers

- **PPO**: $11,609
- **PPO with deductible of $1,000 or more**: $9,921
- **HMO**: $12,056
- **HSA-eligible CDHP**: $9,215
## Pharmacy Benefit Design Trends

Cost-sharing provisions used in large employers’ primary plan

<table>
<thead>
<tr>
<th>Cost-Sharing Structure</th>
<th>Retail</th>
<th>Mail-Order</th>
</tr>
</thead>
<tbody>
<tr>
<td>Same level of cost-sharing for all drugs</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>Two levels (generic / brand)</td>
<td>10%</td>
<td>11%</td>
</tr>
<tr>
<td>Three levels (generic / formulary / non-formulary)</td>
<td>57%</td>
<td>59%</td>
</tr>
<tr>
<td>Four or more levels</td>
<td>22%</td>
<td>19%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
<td>2%</td>
</tr>
</tbody>
</table>
**PHARMACY COST-MANAGEMENT TECHNIQUES**

- **Step therapy**: 55% (Employers with 500+ employees) vs. 79% (Employers with 20,000+ employees)
- **Mandatory generics with or without physician override**: 32% vs. 47%
- **Mandatory drug exclusions**: 18% vs. 40%
- **Retail penalty program**: 14% vs. 16%
- **Mandatory mail order (after 2-4 retail fills)**: 13% vs. 31%

Mercer’s National Survey of Employer-Sponsored Health Plans 2015
SOME GROWTH IN USE OF SPOUSAL SURCHARGES, BUT NOT IN EXCLUSIONS

Cincinnati/Dayton: 19% exclusion / 27% surcharge

Employers with 500 or more employees

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spouses with other coverage are not eligible</td>
<td>7%</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>Spouses with other coverage must pay surcharge</td>
<td>9%</td>
<td>9%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Employers with 20,000 or more employees

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spouses with other coverage are not eligible</td>
<td>3%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Spouses with other coverage must pay surcharge</td>
<td>20%</td>
<td>27%</td>
<td>26%</td>
</tr>
</tbody>
</table>
## Average Employee Contributions by Coverage Type

### Large Employers

<table>
<thead>
<tr>
<th></th>
<th>No Contribution Required</th>
<th>Average Monthly Dollar Amount</th>
<th>Average Contribution as % of Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HSA-eligible CDHP</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee-only</td>
<td>11%</td>
<td>$85</td>
<td>$82</td>
</tr>
<tr>
<td>Family</td>
<td>4%</td>
<td>$338</td>
<td>$252</td>
</tr>
<tr>
<td><strong>HRA-based CDHP</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee-only</td>
<td>13%</td>
<td>$82</td>
<td>N/A</td>
</tr>
<tr>
<td>Family</td>
<td>2%</td>
<td>$313</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>PPO</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee-only</td>
<td>7%</td>
<td>$130</td>
<td>$112</td>
</tr>
<tr>
<td>Family</td>
<td>3%</td>
<td>$472</td>
<td>$312</td>
</tr>
<tr>
<td><strong>HMO</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee-only</td>
<td>11%</td>
<td>$127</td>
<td>N/A</td>
</tr>
<tr>
<td>Family</td>
<td>5%</td>
<td>$476</td>
<td>N/A</td>
</tr>
</tbody>
</table>

*Cincinnati/Dayton figures in orange*
EMPLOYERS USING VOLUNTARY BENEFITS TO FILL GAPS IN CORE BENEFITS

Objectives for program, based on large employers offering VBs

- To give employees opportunity to fill gaps in employer-paid benefits: 74%
- To offer additional benefits at no cost to employer: 67%
- To accommodate employee requests: 55%
- To help employees reduce financial stress / improve financial health: 55%
- To maintain employee benefit options as core benefits change: 26%
- To help drive participation in lower-cost plans: 18%

76% of employers with voluntary benefits say their objectives have been met.
### EXPANDING EMPLOYEES’ VIEW OF THE WHOLE BENEFIT PACKAGE

Meeting diverse needs without driving up employer costs

<table>
<thead>
<tr>
<th>VOLUNTARY BENEFITS</th>
<th>Percent of large employers offering the benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual disability</td>
<td>61%</td>
</tr>
<tr>
<td>Accident</td>
<td>59%</td>
</tr>
<tr>
<td>Cancer / critical illness</td>
<td>45%</td>
</tr>
<tr>
<td>Whole / universal life</td>
<td>43%</td>
</tr>
<tr>
<td>Legal benefit</td>
<td>30%</td>
</tr>
<tr>
<td>Discount purchase program</td>
<td>26%</td>
</tr>
<tr>
<td>Long-term care</td>
<td>25%</td>
</tr>
<tr>
<td>Hospital indemnity</td>
<td>21%</td>
</tr>
<tr>
<td>Auto / Homeowners</td>
<td>20%</td>
</tr>
<tr>
<td>Investment advisory</td>
<td>19%</td>
</tr>
<tr>
<td>Telemedicine</td>
<td>18%</td>
</tr>
<tr>
<td>ID theft</td>
<td>17%</td>
</tr>
<tr>
<td>Pet insurance</td>
<td>10%</td>
</tr>
</tbody>
</table>
CARE DELIVERY TRENDS
USE OF ACCOUNTABLE CARE ORGANIZATIONS (ACOs) IS RISING, BUT COST IMPACT NOT CLEAR TO MOST

Among employers currently offering ACOs*:

- 80% offer the ACO through their health plan (as a standard offering) rather than through a direct contract.
- 28% actively encourage members to seek care from the ACO.
- 16% report some cost savings achieved with the ACO; most can’t measure.

*Preliminary results from supplemental survey of employers with 5,000 or more employees
Among employers with 5,000+ employees offering COEs*:

- 79% say they are likely to expand COE use in the future

*Preliminary results from supplemental survey of employers with 5,000 or more employees
Among employers with 5,000+ employees offering patient-centered medical homes*:

- 33% actively encourage members to seek care from a medical home.
- 81% report that the amount of savings achieved from using medical homes is not known.

*Preliminary results from supplemental survey of employers with 5,000 or more employees

**All large employers**

**Employers with 20,000+ employees**

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*Preliminary results from supplemental survey of employers with 5,000 or more employees*
ONSITE OR NEAR-SITE CLINIC PREVALENCE

Large employers

- Health care: 41%
- Government: 34%
- Manufacturing: 28%
- Transport/Comm/Utility: 15%
- Services: 13%
- Wholesale/Retail: 17%
- Financial services: 21%

- Occupational health services
- Primary care services
COST TRANSPARENCY TOOLS

Percentage of employers that contract with a specialty vendor outside the health plan to provide transparency tool

Among large employers who provide transparency tools:

- 13% provide incentives to encourage employees to use them.
- 27% track utilization. Of those, about 1 in 5 report utilization of 20% or more, but nearly half report utilization of less than 5%.
STRONG INTEREST IN REFERENCE-BASED PRICING AMONG THE LARGEST EMPLOYERS

Reference-based pricing addresses the broad variation in prices for health care services within a given market.

- All large employers
- Employers with 20,000+ employees

<table>
<thead>
<tr>
<th>Year</th>
<th>All Large Employers</th>
<th>Employers with 20,000+ Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td>2014</td>
<td>11%</td>
<td>15%</td>
</tr>
<tr>
<td>2015</td>
<td>13%</td>
<td>15%</td>
</tr>
<tr>
<td>Considering</td>
<td>18%</td>
<td>29%</td>
</tr>
</tbody>
</table>
TELEMEDICINE IS THE FASTEST GROWING TREND IN CARE DELIVERY

Among large employers offering telemedicine:

• 26% reported a utilization rate of 5% or higher in 2014.

• 47% agree that the telemedicine program has met their objectives.

• 85% say that the most important reason for offering telemedicine is to provide employees with a more affordable, convenient source of care.
PRIVATE HEALTH BENEFIT EXCHANGES GAIN A FOOTHOLD AS INTEREST CONTINUES TO BUILD

Large employers

- For active employees:
  - Use now: 4%
  - Use now / planned for 2017: 6%
  - Considering using within 5 years: 27%

- For pre-Medicare-eligible retirees:
  - Use now: 4%
  - Use now / planned for 2017: 8%
  - Considering using within 5 years: 24%

- For Medicare-eligible retirees:
  - Use now: 13%
  - Use now / planned for 2017: 15%
  - Considering using within 5 years: 17%

* Among current retiree medical plan sponsors
HEALTH & WELLBEING TRENDS
HEALTH ADVOCACY IS INCREASINGLY RECOGNIZED AS A CRITICAL RESOURCE IN A COMPLEX HEALTH CARE SYSTEM

Percent of large employers offering program

<table>
<thead>
<tr>
<th>Service</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health assessment</td>
<td>79%</td>
<td>77%</td>
</tr>
<tr>
<td>Phone/web health coaching</td>
<td>68%</td>
<td>71%</td>
</tr>
<tr>
<td>Face-to-face health coaching</td>
<td>40%</td>
<td>36%</td>
</tr>
<tr>
<td>Sleep disorder treatment</td>
<td>32%</td>
<td>39%</td>
</tr>
<tr>
<td>Resiliency/stress management program</td>
<td>42%</td>
<td></td>
</tr>
<tr>
<td>Health advocate</td>
<td>52%</td>
<td>56%</td>
</tr>
<tr>
<td>Disease management</td>
<td>80%</td>
<td>83%</td>
</tr>
</tbody>
</table>

Addressing the continuum of health needs
EMPLOYEE PARTICIPATION RATES FOR HEALTH MANAGEMENT PROGRAMS STRUGGLE TO BREAK 50%

Large employers offering programs

*Percent of identified persons actively engaged in program
## Employers are Exploring New Technologies and Activities to Improve the Member Experience

### Activities

<table>
<thead>
<tr>
<th>Activity</th>
<th>All large employers</th>
<th>Employers with 20,000+ employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Worksite biometric screening event</td>
<td>56%</td>
<td>71%</td>
</tr>
<tr>
<td>Business unit/location group challenges</td>
<td>45%</td>
<td>57%</td>
</tr>
<tr>
<td>Onsite exercise or yoga classes or weight loss programs (such as Weight Watchers)</td>
<td>43%</td>
<td>76%</td>
</tr>
<tr>
<td>Personal challenges</td>
<td>40%</td>
<td>55%</td>
</tr>
<tr>
<td>Peer-to-peer support</td>
<td>19%</td>
<td>33%</td>
</tr>
</tbody>
</table>

### Technology-Based Resources

<table>
<thead>
<tr>
<th>Resource</th>
<th>All large employers</th>
<th>Employers with 20,000+ employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile apps</td>
<td>30%</td>
<td>44%</td>
</tr>
<tr>
<td>Wearables / apps to monitor activity</td>
<td>24%</td>
<td>38%</td>
</tr>
<tr>
<td>Devices to transmit health measures to providers</td>
<td>4%</td>
<td>11%</td>
</tr>
<tr>
<td>Onsite kiosks</td>
<td>7%</td>
<td>12%</td>
</tr>
<tr>
<td>Other web-based resources/tools</td>
<td>40%</td>
<td>63%</td>
</tr>
</tbody>
</table>
PUTTING IT ALL TOGETHER
Evaluate emerging trends and solutions

Identify leading vendors

Develop perspective on best-in-class approaches and differentiators

Help our clients navigate a rapidly changing landscape

Partner with innovative companies to bring unique solutions to our clients
EXPLOSION OF TECHNOLOGY AND DATA

MEMBER

Financial Wellbeing
Sleep
Physical Activity/Wellness
Pharmacy
Transparency
TeleHealth
Care Coordination
Onsite Networks
Centers of Excellence

Employer-Sponsored/Exchange
Communications
Incentives/Challenges
Assessments/Testing
Communications
Employer-Sponsored/Exchange

Narrow
Population
Focus

Smoking
Pregnancy/Family
Condition Mgmt.
Resiliency/Mental Health
Weight/Nutrition
EXPLOSION OF TECHNOLOGY AND DATA
**WHAT’S WORKING TO HOLD DOWN COST?**

RESPONDENTS’ COSTS WERE ANALYZED BASED ON THEIR USE OF MORE THAN 25 COST-MANAGEMENT BEST PRACTICES

<table>
<thead>
<tr>
<th>Plan design and delivery infrastructure</th>
<th>Employee well-being</th>
<th>Care delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Contribution for family coverage in primary plan is 20%+ of premium</td>
<td>• Offer optional (paid) well-being programs through plan or vendor</td>
<td>• High-performance networks</td>
</tr>
<tr>
<td>• PPO in-network deductible is $500+</td>
<td>• Provide opportunity to participate in personal/group health challenges</td>
<td>• Surgical centers of excellence</td>
</tr>
<tr>
<td>• Offer CDHP</td>
<td>• Offer technology-based well-being resources (apps, devices, web-based)</td>
<td>• On-site clinic</td>
</tr>
<tr>
<td>• HSA sponsor makes a contribution to employees’ accounts</td>
<td>• Worksite biometric screening</td>
<td>• Telemedicine</td>
</tr>
<tr>
<td>• Voluntary benefits integrated with core</td>
<td>• Encourage physical activity at work (gym, walking trails, standing desks, etc.)</td>
<td>• Value-based design</td>
</tr>
<tr>
<td>• Mandatory generics or other Rx strategies</td>
<td>• Use incentives for well-being programs</td>
<td>• Medical homes</td>
</tr>
<tr>
<td>• Steer members to specialty pharmacy for specialty drugs</td>
<td>• Spouses and/or children may participate in programs</td>
<td>• Accountable care organizations</td>
</tr>
<tr>
<td>• Reference-based pricing</td>
<td>• Smoker surcharge</td>
<td></td>
</tr>
</tbody>
</table>
EMPLOYERS USING MORE BEST PRACTICES EXPERIENCE BETTER COST RESULTS AND LOWER INCREASES

LARGE EMPLOYERS

Annual total health benefit cost per employee in 2015

Employers using more than 16 best practices

Employers using fewer than 7 best practices

Change in cost from 2014 to 2015

*Analysis based on unweighted cost data from respondents providing cost for both 2014 and 2015.