

Challenges for Health Care in Uncertain Times 2009

Hewitt's 10th Annual Health Care Report



About Hewitt Associates

Hewitt Associates (NYSE: HEW) provides leading organizations around the world with expert human resources consulting and outsourcing solutions to help them anticipate and solve their most complex benefits, talent, and related financial challenges. Hewitt consults with companies to design and implement a wide range of human resources, retirement, investment management, health management, compensation, and talent management strategies. As a leading outsourcing provider, Hewitt administers health care, retirement, payroll, and other HR programs to millions of employees, their families, and retirees. With a history of exceptional client service since 1940, Hewitt has offices in 33 countries and employs approximately 23,000 associates who are helping make the world a better place to work. For more information, please visit www.hewitt.com.

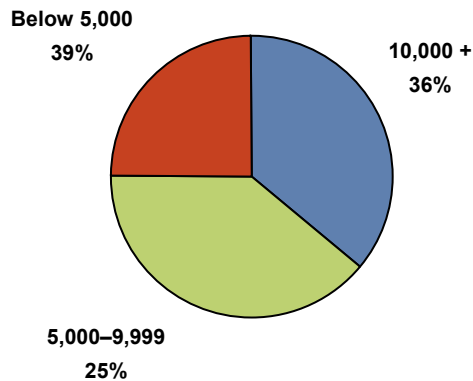
About This Survey

For more than two decades, Hewitt Associates' health care survey has tracked employer health care practices, benefit programs, and efforts to provide and manage workforce health benefits. This report, *Challenges for Health Care in Uncertain Times*, highlights employer-sponsored health care programs and other benefits including short- and long-term cost trends, strategy, and design features. In addition, it covers employers' practices, views, and perspectives regarding managing health care costs, improving workforce health and productivity, and cost prevention—allowing us to identify trends, critical business issues, and opportunities as they develop.

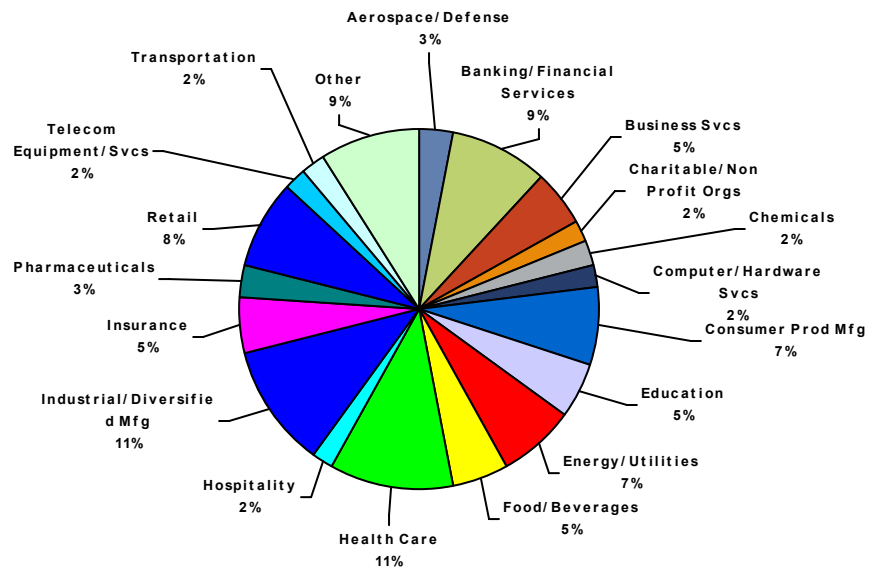
The Road Ahead—Emerging Health Trends 2009 survey continued to collect directional data about cost trends, strategy, and design features of employer-provided health care and other benefits. The 2009 survey also collected information on the post-election prospects for health care reform and employer views on the economic downturn.

A total of 343 executives, whose companies employ more than five million employees and represent a broad spectrum of industries, completed the survey. Their responses were collected in December 2008–January 2009 and reflect their current health plan decisions, as well as strategies for the next three to five years.

Number of U.S. Benefit-Eligible Employees



Industry Profile



Executive Summary

In 2009, America's health care system remains in a chaotic state and the reform debate continues to be contentious. The economic downturn in the U.S. economy has become more severe than many had expected. The U.S. is experiencing both unprecedented global economic challenges and dramatic shifts in political power. President Obama has promised to make health care a top priority, and congressional majorities are eager to pass reform. Health care is a critical element of the U.S. economy, consuming vast resources and employing millions of people. (It was one of the only sectors to add jobs in November 2008.) Health care affects every American and every business in some way.

Hewitt's tenth annual health care survey, *The Road Ahead—Emerging Health Trends 2009*, continued the collection of directional data on cost trends, strategy, and design features of employer-provided health care and other benefits. As in years past, the survey results are used to capture immediate as well as emerging trends. Reflecting the change in U.S. political leadership and state of the economy, this year's survey also collected employer perspectives on health care reform and the economic downturn. These questions, in addition to those on overall strategy and planning, helped us unlock what we can expect from employers in 2009, as well as over the next few years.

From Superhighway to Exit Ramp

For the past three years, we examined the "roads" available to employers as they consider their health care strategy. In contrast to previous years, U.S. employers are pulling back on their role in health care. In the 2008 survey, 82% of respondents identified their organization as on the "Superhighway," believing their organizations were focused on long-term solutions aimed at improving the health and productivity of their workforce. Today, only 65% of organizations report being on this path, with 75% reporting this will be their approach over the next three to five years (compared with 88% in 2008). In addition, 19% of organizations are planning to move away from directly sponsoring health care benefits (Exit Ramp) over the next three to five years, almost four times as many that said so in 2008 (4%).

Cost and Health as Key Drivers

While over one-half (52%) of employers think the economic downturn will affect their health care programs in 2010, the current economic crisis was not identified as a top business issue for 2009. "Managing cost" continues to be the primary business issue related to health care, and "keeping employees healthy" has become the primary workforce issue in 2009 affecting an organization's approach to health care benefits, up from the number two position in 2008.

Employee Accountability Is Key Strategy

As health costs continue to rise and the economy struggles in recession, employees are being challenged to take more responsibility for their own health. "Promoting employee accountability" was ranked the number one health and prevention component of organizations' health care strategies in 2009. "Offering competitive benefits" and "managing health risk" closely followed (86% and 71%, respectively).

Additional Survey Highlights

- Employers continue to use health care data and measurement to drive strategy and implement more sophisticated solutions. The success of over one-half (53%) of responding organizations' health and productivity programs is directed toward medical trend reduction. However, only one-quarter (25%) of employers ranked using hard dollar return on investment (ROI) calculations for decision making as a priority health care tactic for their organizations over the next three to five years.

- More employers are targeting specific health conditions for their employee population than in previous years. Companies targeting asthma, cardiovascular disease, depression, and diabetes increased at least 20% compared to last year. And, more organizations report targeting more than one condition. In 2009, only 20% of organizations report not targeting specific conditions at this time, versus 49% in 2008.
- When employers were asked to what extent the health care reform tactics outlined by the Obama administration would affect their current health and health care strategy, over one-half (51%) believed they would only have *some* impact. Forty-four percent indicate it would have *no* impact and they will continue to implement their health care strategies for 2010, 2011, and beyond as planned.
- While one-third of executives think President Obama's administration and Congress *should* address health care reform within his first year in office, almost two-thirds (63%) believe it *will* take place within his first term. To the extent that any type of government-initiated health care reform is implemented, 60% believe the federal government should take the lead, versus 33% who believe the federal government and the states should share responsibility.

Results to the *The Road Ahead—Emerging Health Trends 2009* survey are organized around the following themes:

- Strategy and Planning;
- Employer Plans and Actions; and
- The Economy and Health Care Reform.

The remainder of this report highlights health care trends employers have identified that will influence the industry in the immediate future as well as over the next three to five years.

Survey Results: Strategy and Planning

Strategic Direction

Numerous outside influences are influencing employers' health care strategies. To better understand organizations' current and future approaches to health care benefits, Hewitt has examined the "roads" available to employers as they consider their role in the increasingly stressed U.S. health care system, especially amid the worsening economy. From 2007 to 2008, organizations showed a migration toward the "Superhighway," reporting their organizations were focused on long-term solutions aimed at improving the health and productivity of their workforce.

**From
Superhighway
to Exit Ramp**

This year, *The Road Ahead—Emerging Health Trends 2009* survey results indicate organizations are pulling back on their role in health care. Today, only 65% of organizations report being on this path, with 75% reporting this will be their approach over the next three to five years—a 13 percentage point decrease from 2008. Organizations appear to be shifting their direction from long-term strategic solutions to short-term fixes primarily aimed at reducing medical costs.

In addition, 19% of organizations are planning to move away from directly sponsoring health care benefits (Exit Ramp) over the next three to five years, almost four times as many that reported doing so in 2008 (4%).

Employers' Approaches to Health Care Benefit Strategy

	2009	2008	2007
Strategy	Percent of Companies	Percent of Companies	Percent of Companies
Accelerate on to the Superhighway			
Our organization looks at short-term cost, but also makes significant investments in longer-term solutions that are aimed at improving the health and productivity of our workers.			
Today	65%	82%	63%
Next 3–5 Years	75%	87%	*
Driving Stop Light-to-Stop Light			
Our organization primarily seeks short-term fixes that are aimed at reducing our medical costs alone.			
Today	31%	15%	37%
Next 3–5 Years	6%	9%	*
Exit Health Care, Invest in Health			
Our organization is moving away from directly sponsoring health care benefits, but is making significant investments in longer-term solutions that are aimed at improving the health and productivity of our workers.			
Today	2%	3%	0
3–5 Years	14%	4%	*
Exit Health and Health Care			
Our organization is moving away from directly sponsoring health care benefits, and is not investing significantly in longer-term solutions aimed at improving the health and productivity of our workers.			
Today	2%	0	*
3–5 Years	5%	0	*

*New data point in 2008.

Strategic Approach

With the changes in our economy, it has become increasingly difficult for organizations to balance shorter-term decisions around cost with longer-term investments in health and health care improvement. Employers are faced with some of the same choices that they face in their core businesses: How can they reduce costs while preserving long-term sustainability and competitive advantage? How can operational performance be strengthened with diminishing resources and returns? How can employee engagement and morale be improved when fear of job loss seems imminent?

However, the same economic pressures that drive the need to reduce cost also can create opportunities to make changes that improve the overall health and productivity of a workforce. While there is a tendency to “buckle down” in tough times, clarifying strategic choices can help plot the steps needed to reach goals and design sustainable action plans.

Yet, over one-half of organizations continue to report they do *not* have a formal written policy or strategic plan for their employee health care program. Although the number of organizations with a formal written policy or strategic plan has increased over the past year (by eight percentage points—from 34% in 2008 to 42% in 2009), many organizations continue to take a more reactive approach versus strategically generating more value from limited or shrinking budget pools. The most successful organizations over the long term will be those that are able to cut costs now while still improving the health of their populations.

Hewitt Point of View: *Be proactive. Develop and implement a written strategic plan that combines short-term and long-term investments to maximize results.*

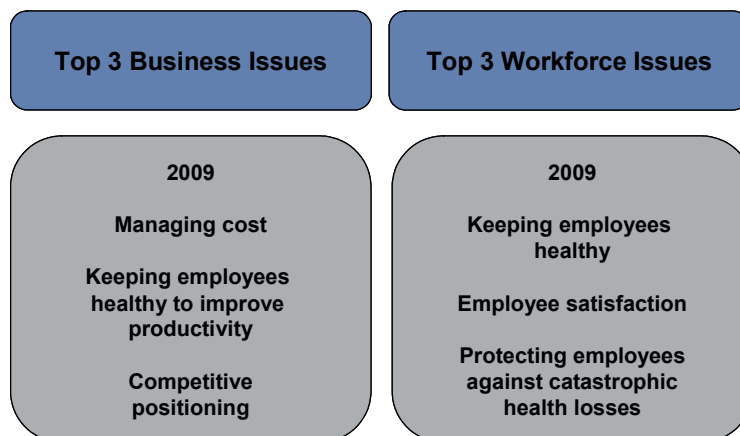
Top Business and Workforce Issues

The cost of poor health looms for employers, continuing to influence their business and workforce priorities. For the past three years, Hewitt has monitored employers’ top business and workforce issues affecting health and health care. The most significant change took place in 2008, as employers shifted focus from cost and profitability to the health of their employees. This shift affected both business and workforce issues, highlighting employers’ understanding and attitude toward employee health—which, along with cost, is a key health care driver.

While over one-half (52%) of employers think the economic downturn will affect their health care programs in 2010, the current economic crisis was not identified as a top business issue for 2009. “Managing cost” continues to be the primary business issue related to health care for the third

**Cost and Health
as Key Drivers**

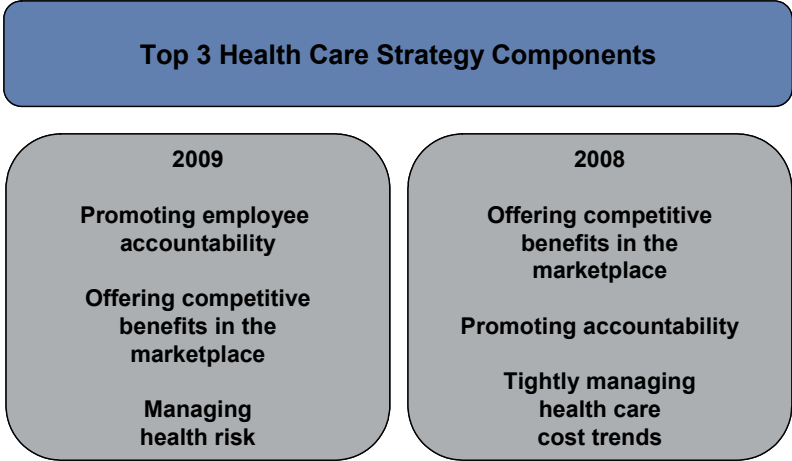
consecutive year. “Keeping employees healthy” also continues to be a top business and workforce issue affecting an organization’s approach to health care benefits. “Employee satisfaction” and “protecting employees from catastrophic health losses” continue to rank among the top three most significant workforce issues related to health benefits for the third year in a row.



Health Care Strategy Components

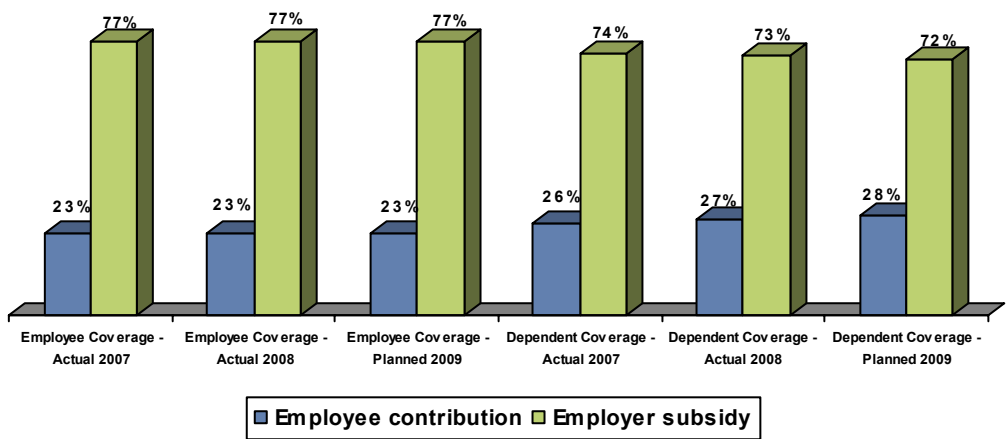
As health care costs continue to rise in this struggling economy, employees are being challenged to take more responsibility for their own health. “Promoting employee accountability” was ranked the number one health and prevention component of organizations’ health care strategies in 2009. “Offering competitive benefits” and “managing health risk” closely followed (86% and 71%, respectively). These results indicate employers are equating employee behaviors and health risks with cost. Over the past year, employers have shifted focus from managing cost to managing health risk—a cost driver. In addition, 57% of respondents offer incentives to engage employees to purchase and use health care. This indicates employers believe expending funds to motivate employee actions will result in net savings.

**Employee
Accountability Is
Key Strategy**



Employers are using a variety of tools, resources, and approaches to manage cost and promote employee accountability. Historically, employers have relied heavily on cost to drive plan selection and change behavior. However, average subsidy trends have remained relatively flat over the past three years with only a slight 1–2% shift from year to year. Organizations understand that cost shifting alone will not bring about the desired behavior change in employees.

Employer Cost Sharing 2007–2009



Action Ideas

- Pick the low hanging fruit.
- Show clinical and financial outcomes to justify the investment.
- Tackle specific behaviors and conditions.
- Get the whole organization involved, and set a personal example.

Survey Results: Employer Plans and Actions

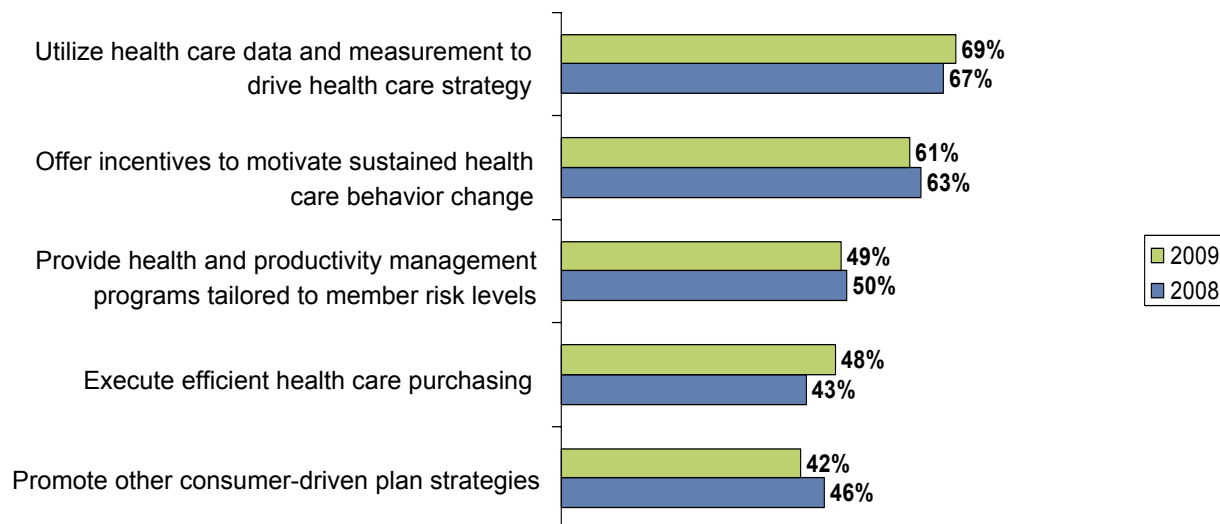
Health Care Priorities

Cost cutting and shifting alone has a limited shelf life. Some employers are acknowledging this and addressing cost and key health drivers through a variety of health care tactics—from managing health plan premiums to tracking and targeting more health conditions prevalent in their workforce. Their efforts include expanded health and wellness programs with incentives to encourage behavior change because they understand that strategic purchasing and improved health can drive savings.

Hewitt Point of View: *Employers can improve the health of their employees, but only with a sustained, long-term effort.*

To address both cost and the health concerns, employers use an arsenal of tools and resources, including cost management, and implementing and assessing health and productivity programs. The top five tactics identified by respondents to prioritize health care over the next three to five years are unchanged from 2008. Employers identified the following tactics, in order of priority, to address both cost and health concerns. “Utilizing health care data and measurement to drive health care strategy” continues to remain a top priority. However, only one-quarter of respondents (25%) are actually using hard dollar ROI calculations as part of their decision making. Employers show continued focus on tactics and programs that incent and motivate employee behavior change while targeting specific health conditions.

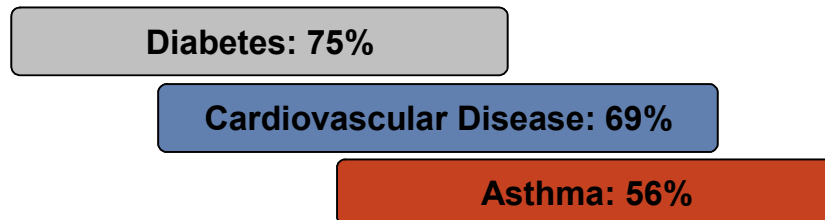
Top Ranking Health Care Tactics



Health Conditions Targeted by Employers

More organizations report targeting health conditions for their employee population than in previous years. In 2009, only 20% of respondents report *not* targeting specific conditions at this time, versus 49% in 2008. Also, many organizations report targeting more than one condition, with diabetes, cardiovascular disease, and asthma being most prevalent for the past two years. The number of employers targeting diabetes and cardiovascular disease has increased over 25 percentage points.

Top 3 Targeted Health Conditions



Our health care system spends enormous sums of money caring for those with diabetes, and both individuals and employers bear the costs, particularly from the complications that result when the disease is left untreated. According to the American Diabetes Association, one in every five health care dollars is spent caring for someone with diabetes. Offering preventive care and targeting specific conditions can fundamentally change the demand for health care services offered by employers, but long-term success will heavily depend on employers rewarding those who act now to take good care of themselves.

Diabetes and Cardiovascular Disease Statistics

According to the Centers for Disease Control and Prevention (CDC), diabetes now affects nearly 24 million Americans (8% of the U.S. population). An additional 57 million are estimated to have “pre-diabetes,” or elevated blood sugar levels, which puts them at increased risk for diabetes. These figures are projected to double by 2025.

The American Heart Association (AHA) and National Heart, Lung, and Blood Institute cite the estimated direct and indirect costs of cardiovascular disease and stroke were \$475.3 billion in 2008. The AHA states that 36.3% of all deaths (1 of every 2.8 deaths) in 2004 were due to cardiovascular disease.

Use of Incentives

Employers are focusing on offering employees the tools and resources to make informed health care decisions, but to date, employees have not changed their behavior significantly. It is clear that employers need a better understanding of what can motivate employees to engage in healthier behavior and make better health care decisions. In *The Road Ahead—Employee Views on Health 2008* survey, employees stated they intend to engage in healthy behaviors, prefer “carrot” incentives that reward, and intend to use resources and tools to make health care decisions.

Hewitt Point of View: *Employers must fundamentally change the demand for health care services, while rewarding those who act now to take good care of themselves.*

Employers are focusing on employee accountability and offering incentives to promote participation in various health and productivity tools and programs that will help employees make better informed health care decisions. Incentives for health risk assessments/questionnaires are offered by 51% of responding employers. Employers are beginning to show interest in offering incentives to encourage employees to participate in health improvement, wellness, and condition management programs as well. These incentives are often cash, but some employers tie them to the medical plan, offering lower copayments or premium contributions. Others provide token rewards, raffles, or gifts. The value of the incentives offered varies widely, with about one-third of these employers (31%) providing incentives worth US\$50 or less and about one-third (34%) providing incentives worth more than US\$100.

Incentives Offered to Promote Participation

	Monetary Incentive	Nonmonetary Incentive	No Incentive Offered
Health Risk Assessment / Health Risk Questionnaire	35%	18%	49%
Health Improvement / Wellness Programs	29%	20%	54%
Condition Management Programs	14%	12%	76%

Evaluating Program Success

Employers are increasingly applying business measurements and metrics that extend beyond traditional measures of “output per worker” to evaluate the success of their health and productivity programs. More than one-half (53%) of responding organizations report focusing on medical trend reduction/ROI to determine program success. A small number of organizations also report behavioral change and program utilization as determining success factors of their health and productivity programs.

While a growing number of employers are measuring the success of their health and productivity programs, many organizations do not evaluate their programs at all. Employers have indicated they plan to use data and measurement to evaluate and track programs based on specific criteria (such as health risks, utilization, efficient purchasing, and behavior change), but less than half (47%) of employers receive comprehensive reporting for each of their health and productivity programs.

Going forward, HR will be pressured to gather and report on health care and productivity-related data to finance and other C-suite executives and demonstrate ROI for specific programs both prospectively and retrospectively. They also will need to demonstrate the value of these investments with hard data rather than anecdotal evidence.

Action Ideas

- Engage employees and their families in the health dialogue.
- Establish the link between employee health and workforce productivity.

Survey Results: The Economy and Health Care Reform

Economy

The state of the U.S. economy has affected employers' health care strategies and planning, as well as the ability of some employees to pay for rising health care costs. In response, employers have taken a step back to reassess their health care planning. The following economic factors have affected both employers' and employees' costs and resulted in some employers modifying their health care strategy.

Economic Impact	Employer and Employee Reactions
Global recession	Delayed retirements
Dramatic reduction in stock prices	Increased health care and pension costs
Rising global unemployment	Disengaged leaders and critical talent
Increasing global government intervention	Opportunity to upgrade talent and bench strength

Economic Impact on Health Care Programs

Although the state of the economy was not identified as a primary business issue for 2009, slightly more than one-half (52%) of employers do believe the economic downturn will have an impact on their 2010 health care programs. We also asked these employers to identify how specific programs and offerings may be affected. Overall, employers are not changing their full-time and part-time health care benefits. Instead, they are focusing on both conventional and cutting edge approaches to address their economic concerns. For example, while respondents plan on reducing both employer health care subsidies (65%) and benefit plan design offerings (49%), some are planning to increase the prevalence of consumer-driven health care plans (40%) and wellness programs (33%).

Economic Downturn Impact on Programs

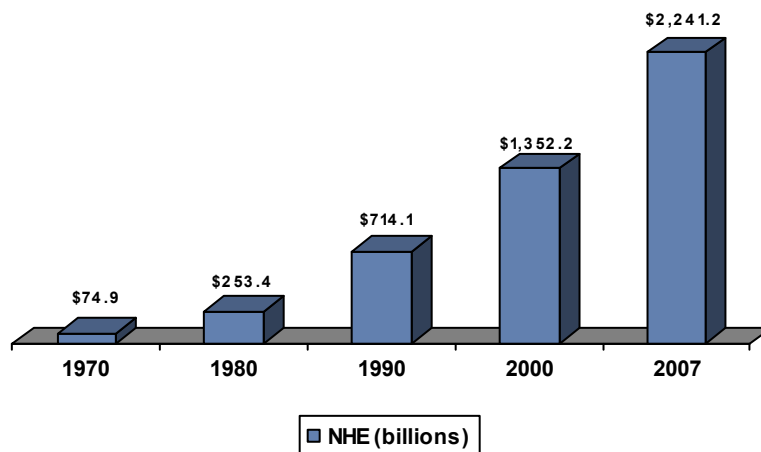
	Increase	No Impact	Reduce	Eliminate
Benefit plan design offerings	13%	37%	49%	<1%
Prevalence of consumer-driven health care plans	40%	55%	3%	2%
Employer health care subsidy	6%	28%	65%	0%
Full-time health care benefits	2%	82%	16%	0%
Incentive programs	20%	44%	30%	6%
Part-time health care benefits	1%	80%	13%	6%
Retiree health care benefits	0%	61%	26%	13%
Wellness programs	33%	41%	24%	2%

Health Care Reform

In the current economic climate, health care costs have placed an enormous added strain on employers, health care providers, and the government, not to mention employees. The economic crisis has led some analysts to suggest that health care and the economy are inextricably linked—that is, health care *is* an economic problem. Given the burden of growing health care costs on businesses, individuals, and the government, health care reform has moved from the back burner to center stage.

By taking an objective look at health care, we found providers are not engaged, population health is declining, and health costs are continuing to grow. On January 6, 2009, the Centers for Medicare and Medicaid Services (CMS) published the 2007 national health expenditures (NHE), including historical figures back to 1960. CMS has touted that NHE and spending have decelerated in 2007, increasing 6.1% compared to 6.7% in 2006. However, a look at the bigger picture shows the total health expenditures have reached \$2.2 trillion dollars, or 16.2% of the gross domestic product (GDP). The 2007 consumer costs consisting of out-of-pocket and health insurance payments are \$268.6 billion and \$775 billion, respectively. These figures represent a one-year trend, but when you look back almost 40 years, there is a more disturbing trend. A look at the NHE data by decade depicts costs have doubled or more than doubled since 1980.

CMS's National Health Expenditures (NHE)



A reform initiative such as universal health care will undoubtedly affect the NHE over the next decade. Health care executives were asked what impact they believed universal health care coverage would have on the growth rate of the NHE. Two-thirds of participants (66%) believe such reform would have a significant impact. All health care reform proposals will affect cost; however, it remains to be seen how far and how deep the stakeholders are willing to invest.

In response to the economic situation, President Obama has stated on several occasions that health care reform must be woven into our overall economic recovery plan. We asked health care executives to share their views on the federal government reforms proposed by Democrats and Republicans. A review of the top five proposals supported by employers show that the parties are closely aligned on several topics. The “meat and potatoes” of each proposal will no doubt generate more discussion.

As a result of the unrelenting costs, health care is a top priority for President Obama. During his inaugural address, he stated: *“That we are in the midst of crisis is now well understood...Our economy is badly weakened...Our health care is too costly...We will restore science to its rightful place, and wield technology’s wonders to raise health care’s quality and lower its cost.”* (January 20, 2009)

Top 5 Health Care Reform Proposals Supported by Employers

Proposal Topic	Employers Supporting Democratic Proposals	Employers Supporting Republican Proposals
Preventive Care	85%	93%
Transparency (Quality and Cost)	85%	93%
Increase Use of Generic Drugs	80%	79%
Health Information Technology	78%	79%
Medical Malpractice	64%	70%

Health care executives believe health care reform “should” and “will” be addressed within the President’s first term. However, when asked to what extent the health care reform tactics outlined by the Obama administration will affect their organization’s current health and health care strategies, the majority of employers (95%) anticipate health care reform will have little to no impact and will continue to implement their health care strategies for 2010, 2011, and beyond as planned.

Hewitt Point of View: *Health care reform will not improve the health of employer populations. Employers that invest in health will drive measurably better long-term results.*

Other health care executive views regarding health care reform include:

- Eighty-five percent of employers support universal health coverage, and of those, over one-half (55%) think such coverage will be attained in the form of combined individual and employer mandates.
- To the extent that any type of government-initiated health care reform is implemented, almost two-thirds (60%) think the federal government should take the lead, while one-third (33%) believe the federal government and the states should share this responsibility.
- Over three-quarters (76%) of organizations somewhat or strongly oppose a government-sponsored health plan (e.g., expanded Medicare for all) that would compete alongside employer-sponsored health plan options and commercial health plans. However, there is more support (51%) for a government-sponsored plan option that is delivered through private health plans (e.g., the Federal Employees Health Benefits Program).

There is no question that health care costs will continue to rise. It will require all affected parties—employers, employees, and governments alike—to take bold actions to effectively address our economic future. Employers in particular will be more challenged than ever to develop plans for benefit offerings that continue to promote better health and productivity of their workforce in financially responsible ways while the government implements health care reform to help ease the burden.

Action Ideas

- Get politically involved.
- Push for and openly drive technology in health care.
- Change the provider reimbursement model.
- Defend ERISA preemption.

Conclusion

The road ahead for health care will be bumpy as we work our way through 2009 and into 2010. Today's environment has caused health care leaders to pull back and seek ways to slow financial hemorrhaging. However, this "flight to safety" will eventually cost more to correct than it saves in the moment. The health care leaders who realize this will likely continue to diligently manage health care costs through a combination of approaches, including continued cost shifting, tougher negotiations with health plans, and expanded health and wellness programs with incentives to encourage behavior change.

However, managing cost will continue to be a challenge, particularly in an environment where the legislative, economic, and political landscape is rapidly changing, and where companies are under more pressure than ever to balance their needs with the needs of employees and their families. Over the next few years, organizations will need to take a more rigorous and aggressive approach to keeping employees healthy—which means implementing a combination of programs that drive actual behavior change, eliminate barriers to health care, and encourage people to take more responsibility for their personal health. These are the steps that will ultimately make an impact in lowering overall health care benefit costs, put more money in the wallets of employees, and help sustain a workforce that is healthy and productive.

For more information about this study, please contact:

Maureen Mersch
Hewitt Associates LLC
100 Half Day Road
Lincolnshire, IL 60069
(847) 442-4060
maureen.mersch@hewitt.com

Mary Ann Armatys
Hewitt Associates LLC
100 Half Day Road
Lincolnshire, IL 60069
(847) 442-4056
maarmaty@hewitt.com

www.hewitt.com