



What's Next in Health Care Cost Management

Strategies for Active and Retiree Health

GFOA
October 14, 2016

Prepared by Aon Hewitt
Health & Benefits Consulting

AON
Empower Results®



How Big is the Challenge?

Health and Benefit Issues: Challenges



Unsustainable medical costs



Affordable Care Act (ACA) driving major changes

- Insurance mandate for employers
- Excise tax will minimize differentiation in health



Health care system rapidly increasing in complexity

- Accountable Care Organizations (ACOs), delivery system transformation



Population health concerns

- Obesity
- Aging workers



Growing competition for key talent



U.S. health care system undergoing a seismic shift

Employer Priorities

65%
REDUCING



long-term health care trend (2–5 years)

79%
MOTIVATING



employees to make behavior changes

69%
COMPLYING



with government regulations

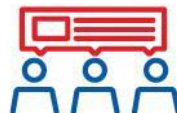
42%

UNPREDICTABILITY
of cost year over year



87%
INCREASING

participants awareness of and decision-making related to health issues



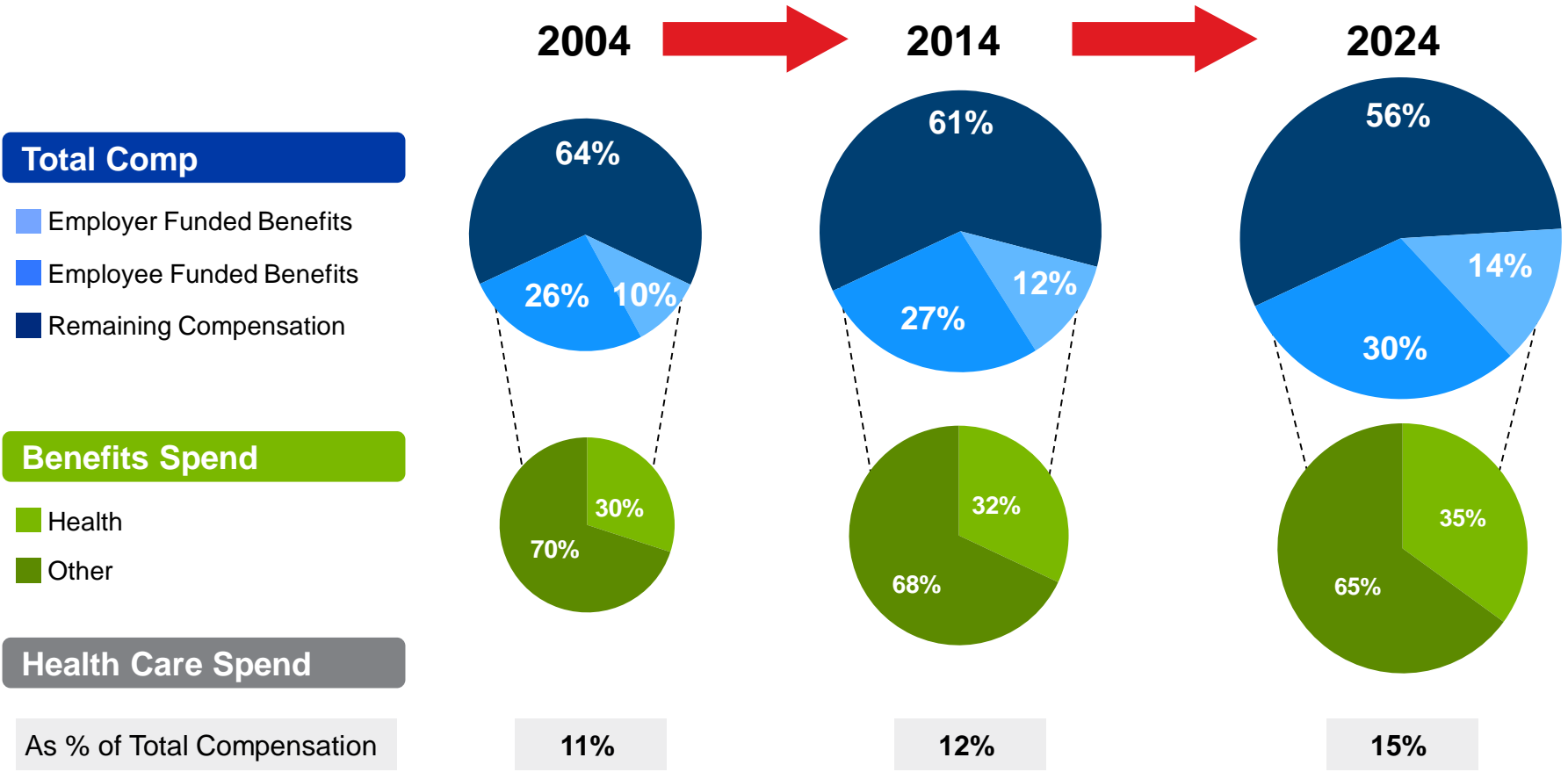
70%
REVISING

Total Rewards to accommodate changing needs and demographics



Health Care is Eroding Available Revenues and Employee Pay

Benefits Will Represent Nearly Half of the Average Employee's Total Compensation by 2024

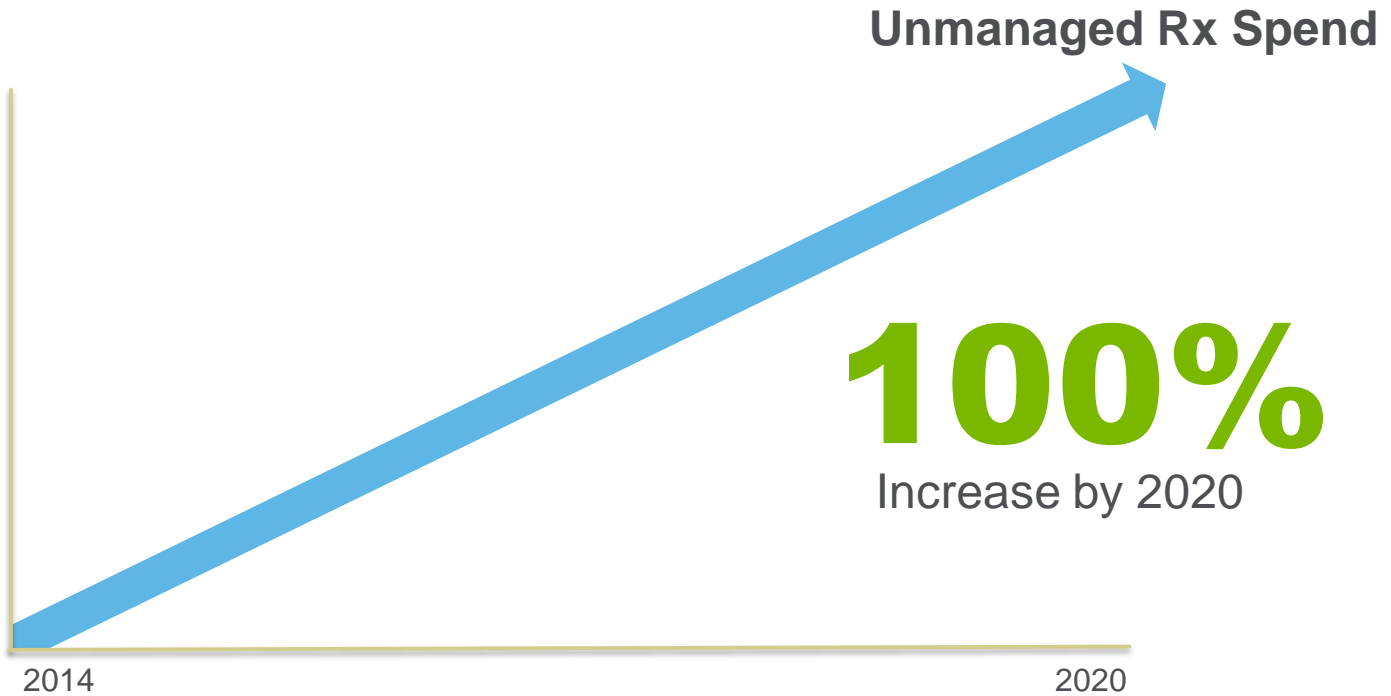


Sources: Bureau of Labor Statistics: Employer Costs for Employee Compensation; Bureau of Labor Statistics: Consumer Expenditure Survey; CBO Budget and Economic Outlook: 2014 to 2024

Projected Pharmacy Costs by 2020



Total Drug Cost
Increase vs. 2014



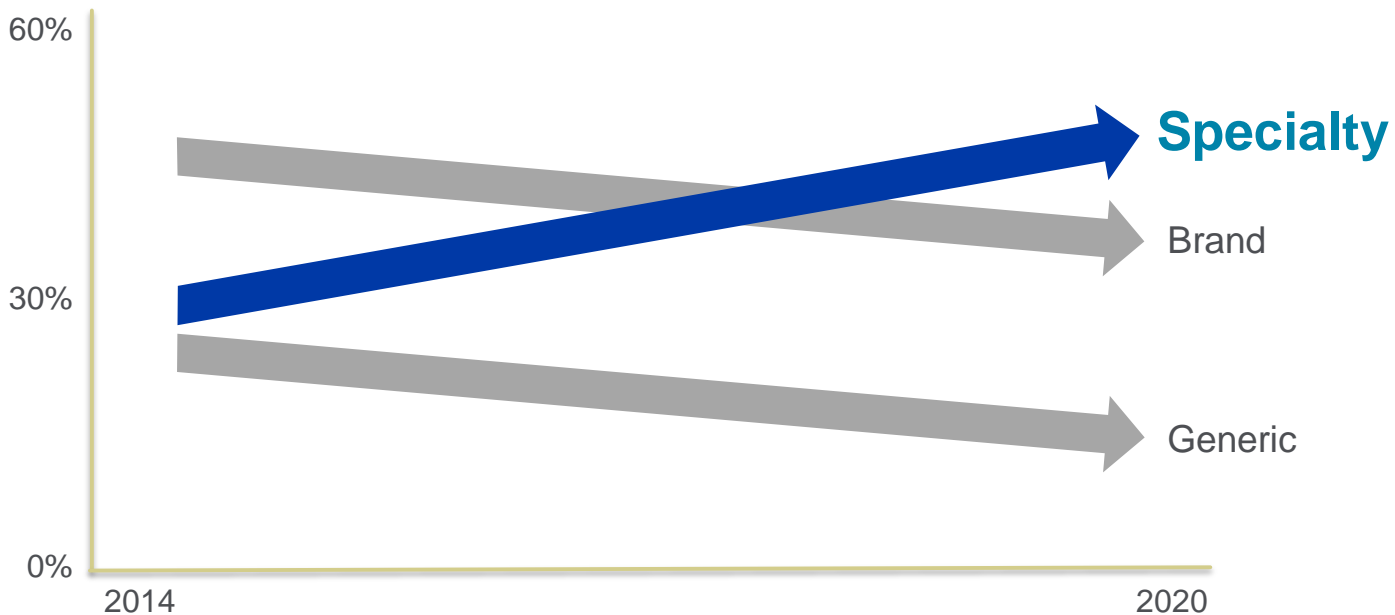
Aon Hewitt's analysis of over **1.3 million** commercial lives

Projected Pharmacy Costs by 2020



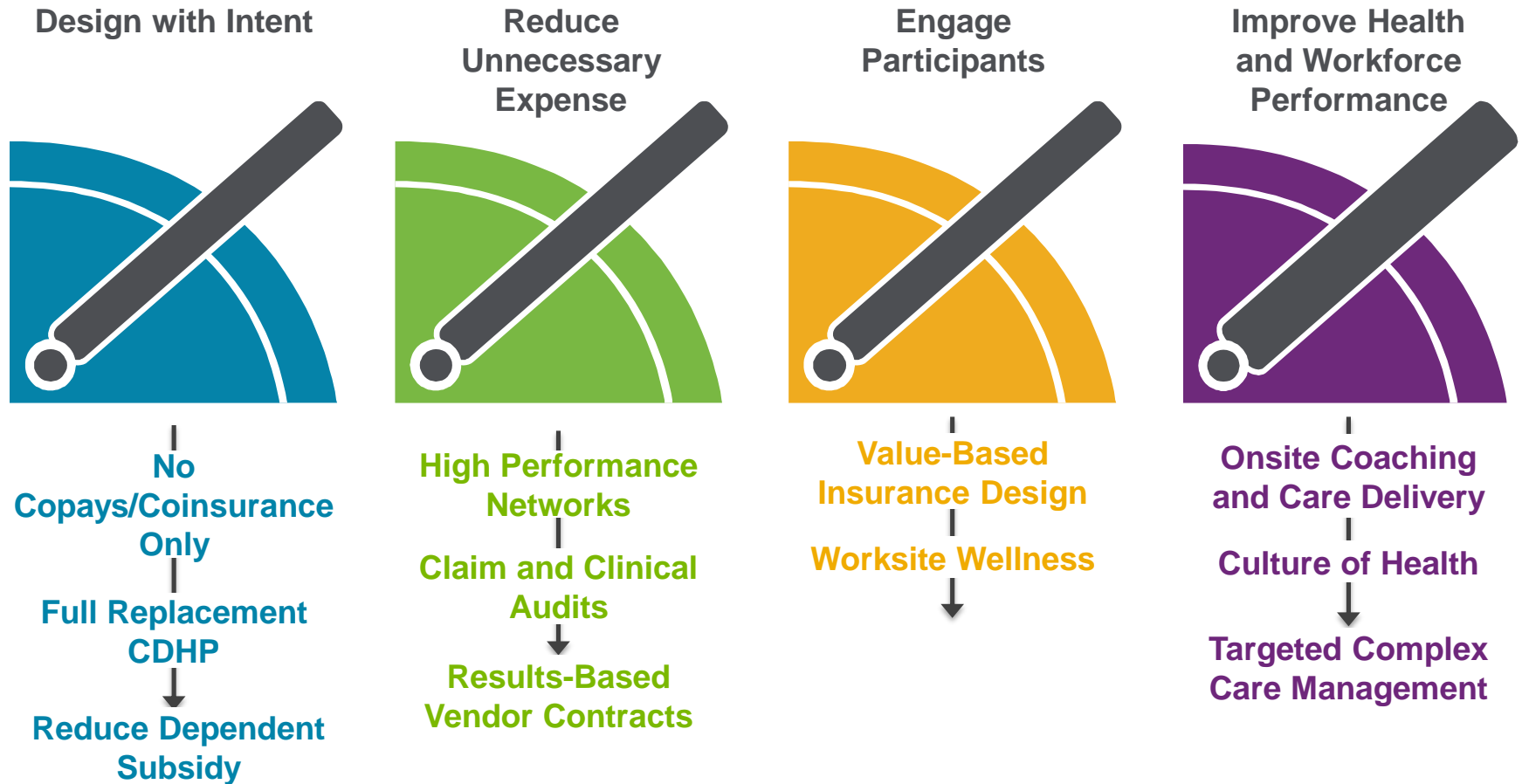
Projected Rx Cost Distribution, 2014 to 2020

By 2020, Specialty will account for **50%** or more of all pharmacy spend



Aon Hewitt's analysis of over **1.3 million** commercial lives

A Framework for Cost Management





Don't Forget the Basics

Don't Forget the Basics

- Plan Efficiency
 - PBM carve outs, bidding and Coalitions
 - Medical bidding
 - Fully Insured
 - Self Insured
 - ◆ Network Discount Evaluation
 - ◆ Fees
 - ◆ Optimal stop loss
 - ◆ Do you really need Aggregate Stop Loss?
- Benefit redesign
 - Benchmarking for deductibles, copays, out of pocket maximums



Design With Intent



Employer Subsidy Strategy

Consideration	Description/Rationale
Defined	<ul style="list-style-type: none"> ▪ Strategy to split plan cost between employer and employee ▪ Addresses cost share by member type as well as plan choice
Considerations	<ul style="list-style-type: none"> ▪ Vary by plan choice or a defined contribution? ▪ Does the organization feel a different obligation to subsidizing employee coverage vs. dependent coverage?
Market Prevalence	<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> <p>Working Spouse Surcharge</p> <p>17% 50%</p> </div> <div style="text-align: center;"> <p>Working Spouse Exclusion</p> <p>8% 48%</p> </div> </div> <div style="display: flex; justify-content: space-around; margin-top: 20px;"> <div style="text-align: center;"> <p>Reduce All Dependent Subsidies</p> <p>18% 50%</p> </div> <div style="text-align: center;"> <p>Tobacco Surcharge</p> <p>36% 39%</p> </div> </div>

Source: 2015 Aon Hewitt Health Care Survey

■ Current ■ Future

CDHP/HDHP

Consideration	Description/Rationale												
Defined	<ul style="list-style-type: none"> ▪ Encourages employees to become actively involved in managing their health care expenses by: <ul style="list-style-type: none"> – Giving employees a financial stake in lowering some of their health care costs through the use of high-deductible plans coupled with an account-based medical plan – Increasing employee awareness of the costs of medical care 												
Considerations	<ul style="list-style-type: none"> ▪ Various studies on the effectiveness of CDHP/HDHP in reducing unnecessary care without restricting essential care do not always reach the same conclusions 												
Market Prevalence in the Public Sector	<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> <p>Full Replacement CDHP/HDHP</p> <table border="1"> <tr> <th>Category</th> <th>Current</th> <th>Future</th> </tr> <tr> <td>Full Replacement CDHP/HDHP</td> <td>11%</td> <td>38%</td> </tr> </table> </div> <div style="text-align: center;"> <p>CDHP/HDHP as an Option</p> <table border="1"> <tr> <th>Category</th> <th>Current</th> <th>Future</th> </tr> <tr> <td>CDHP/HDHP as an Option</td> <td>58%</td> <td>30%</td> </tr> </table> </div> </div>	Category	Current	Future	Full Replacement CDHP/HDHP	11%	38%	Category	Current	Future	CDHP/HDHP as an Option	58%	30%
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Full Replacement CDHP/HDHP	11%	38%											
Category	Current	Future											
CDHP/HDHP as an Option	58%	30%											

Source: 2016 Aon Hewitt Health Care Survey

■ Current ■ Future

What We Know About CDHP/HDHP

The Good

- Robust evidence demonstrating effectiveness of CDHP designs: ranging between 5% and 24% reduction in costs
- Reductions in all utilization categories, Rx, and Outpatient highest
- Most savings are permanently sustained

The Bad

- Inconclusive or no “trend reduction” found after second year
- Some initial savings reversed in later years (Inpatient)

The Ugly

- Pharmacy reductions detected even in chronic maintenance drugs
- Higher reductions in utilization found in lower-income members



Reduce Unnecessary Expense



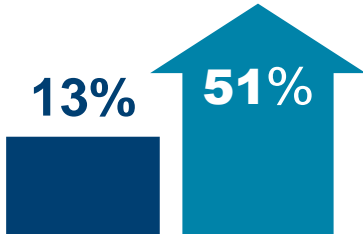
On-Site Clinics

Consideration	Description/Rationale						
Defined	<ul style="list-style-type: none"> ▪ Direct sourcing where there are a large number of employees in one location ▪ Traditionally focused on employees only, some have expanded to dependents ▪ Staffed with physician, nurse practitioner and/or physician assistant, and less frequently with a pharmacist 						
Considerations	<ul style="list-style-type: none"> ▪ Lower cost for office visits and simple procedures ▪ Reduced inpatient admissions and days, emergency room and urgent care visits, visits to specialists, improved use of generics, and improved drug compliance ▪ Better support/care for people with chronic illness who usually represent the top 5% of medical costs 						
Market Prevalence	<table border="1"> <caption>Market Prevalence Data</caption> <thead> <tr> <th>Category</th> <th>Prevalence</th> </tr> </thead> <tbody> <tr> <td>Current</td> <td>16%</td> </tr> <tr> <td>Future</td> <td>40%</td> </tr> </tbody> </table>	Category	Prevalence	Current	16%	Future	40%
Category	Prevalence						
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Source: 2015 Aon Hewitt Health Care Survey

■ Current ■ Future

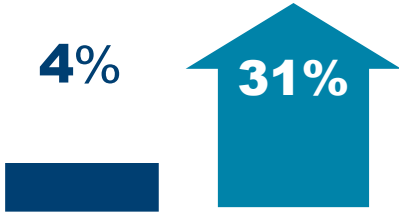
Centers of Excellence

Consideration	Description/Rationale						
Defined	<ul style="list-style-type: none"> ▪ Services such as transplants, bariatric surgery, heart surgery, back surgery, joint replacement surgery, and the treatment of complex cancers; ▪ Primary focus on the quality/outcomes and a secondary focus on cost 						
Considerations	<ul style="list-style-type: none"> ▪ Large untapped strategy to reduce health care cost and trend ▪ Benefit steerage includes a tiered benefit or reference-based pricing, and/or supported by concierge/navigator steerage ▪ Contracting process focused on high-dollar, high-volume services which have a large, measureable variability in price and/or quality 						
Public Sector Market Prevalence	 <p>A bar chart comparing current and future market prevalence. The current prevalence is 13%, represented by a dark blue bar. The future prevalence is 51%, represented by a teal bar that is shaped like an upward-pointing arrow. A legend below the chart identifies the dark blue color as 'Current' and the teal color as 'Future'.</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Current</td> <td>13%</td> </tr> <tr> <td>Future</td> <td>51%</td> </tr> </tbody> </table>	Category	Percentage	Current	13%	Future	51%
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■ Current ■ Future

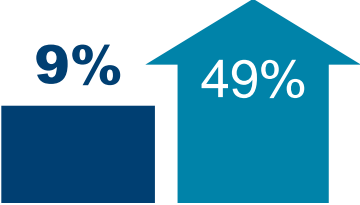
Accountable Care Organization (ACO) and Patient-Centered Medical Home (PCMH)

Consideration	Description/Rationale						
<p>Defined</p>	<ul style="list-style-type: none"> ▪ Integrated health systems organized and motivated to deliver improved outcomes through value-based reimbursement arrangements that hold providers at risk for key cost and quality metrics, with shared savings should results exceed targets 						
<p>Considerations</p>	<ul style="list-style-type: none"> ▪ ACOs and PCMHs come in a variety of forms and models and provider affiliations ▪ Passive model depends on attribution, with employer paying care coordination fees with no overt design steerage and provider contracts at aggregate level ▪ Active model requires formal option/choice with more formal contractual arrangements dictating risks/rewards and design/contribution steerage ▪ Challenge is determining if ACO/PCMHs are really constructed to deliver improved cost and quality results 						
<p>Prevalence in the Public Sector</p>	 <p>A bar chart comparing current and future prevalence in the public sector. The current prevalence is represented by a dark blue bar at 4%. The future prevalence is represented by a teal bar that is shaped like an upward-pointing arrow, reaching 31%.</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Prevalence</th> </tr> </thead> <tbody> <tr> <td>Current</td> <td>4%</td> </tr> <tr> <td>Future</td> <td>31%</td> </tr> </tbody> </table>	Category	Prevalence	Current	4%	Future	31%
Category	Prevalence						
Current	4%						
Future	31%						

Source: 2016 Aon Hewitt Health Care Survey

■ Current ■ Future

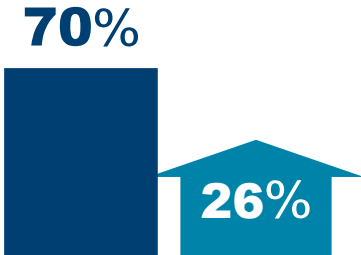
Tiered and Narrow Networks

Consideration	Description/Rationale						
Defined	<ul style="list-style-type: none"> ▪ Preferred subset of providers demonstrating quality and cost effective outcomes ▪ Non-preferred providers are offered at reduced benefit levels (tiered network) or treated as out-of-network (narrow network) 						
Considerations	<ul style="list-style-type: none"> ▪ Opportunity for improved quality and reduced cost ▪ Networks that drive value primarily through deeper discounts may miss an opportunity for quality improvement ▪ Savings in tiered models are often driven by coverage reductions on Tier 2 providers 						
Public Sector Market Prevalence	 <p>A bar chart comparing current and future market prevalence. The current prevalence is 9%, represented by a dark blue bar. The future prevalence is 49%, represented by a light blue bar that is significantly taller and has an upward-pointing arrow shape at the top. A legend below the chart identifies the dark blue as 'Current' and the light blue as 'Future'.</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Current</td> <td>9%</td> </tr> <tr> <td>Future</td> <td>49%</td> </tr> </tbody> </table>	Category	Percentage	Current	9%	Future	49%
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■ Current ■ Future

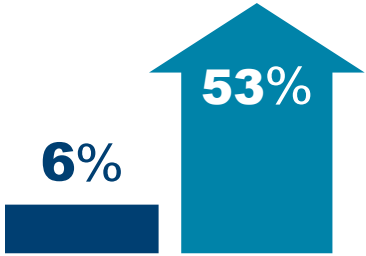
Transparency

Consideration	Description/Rationale
Defined	<ul style="list-style-type: none"> ▪ Cost and medical outcomes vary widely even in one geography ▪ 20%–40% of an employer’s costs are tied up in costs for which there is cost/quality data available (e.g., ‘shoppable’ care that is elective, not urgent, and can be in or outpatient) ▪ Emerging third-party vendors capable of bundling the costs for comparison shopping
Considerations	<ul style="list-style-type: none"> ▪ Health care shopping is a skill few Americans have ▪ Heavy education and marketing mandatory for success
Public Sector Prevalence	 <p data-bbox="1161 868 1663 1025">How effective are these tools and how often are they accessed?</p>

Source: 2016 Aon Hewitt Health Care Survey

■ Current ■ Future

Reference-Based Pricing

Consideration	Description/Rationale						
Defined	<ul style="list-style-type: none">Plan establishes the maximum amount (reference price) that will be covered for certain medical services that have wide cost variations without measurable differences in patient outcomesCost reductions occur by members paying more out of pocket, using providers at/below the reference price, and providers reducing costs to the reference price						
Considerations	<ul style="list-style-type: none">Reference-based pricing strategy effectiveness depends on completeness of transparency data available to members						
Market Prevalence	 <p>A bar chart comparing current and future market prevalence. The current prevalence is 6%, represented by a dark blue bar. The future prevalence is 53%, represented by a taller teal bar that is shaped like an upward-pointing arrow. A legend below the chart identifies the dark blue color as 'Current' and the teal color as 'Future'.</p> <table border="1"><thead><tr><th>Category</th><th>Percentage</th></tr></thead><tbody><tr><td>Current</td><td>6%</td></tr><tr><td>Future</td><td>53%</td></tr></tbody></table>	Category	Percentage	Current	6%	Future	53%
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Future	53%						

Source: 2015 Aon Hewitt Health Care Survey

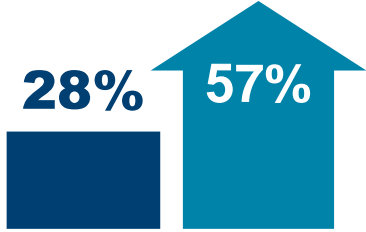
■ Current ■ Future



Engage Participants



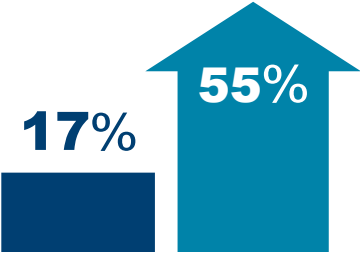
Concierge/Advocacy/Guide

Consideration	Description/Rationale						
Defined	<ul style="list-style-type: none"> ▪ Personalized, just in time help, for anything related to the use of the health care system and benefits ▪ In the absence of an active PCP role (Medical Home) this is considered a must-have 						
Considerations	<ul style="list-style-type: none"> ▪ Evidence supports the need for someone to address the complexity of health care benefits and the complexity of the health care system 						
Public Sector Prevalence	 <p>The chart displays two bars representing prevalence percentages. The first bar, labeled 'Current', is dark blue and reaches the 28% mark. The second bar, labeled 'Future', is a lighter blue and reaches the 57% mark. The bars are positioned under a light blue upward-pointing arrow shape.</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Current</td> <td>28%</td> </tr> <tr> <td>Future</td> <td>57%</td> </tr> </tbody> </table>	Category	Percentage	Current	28%	Future	57%
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Future	57%						

Source: 2016 Aon Hewitt Health Care Survey

■ Current ■ Future

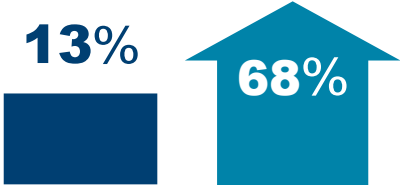
Second Opinions

Consideration	Description/Rationale						
Defined	<ul style="list-style-type: none"> ▪ “Expert” delivers a second opinion on the diagnosis and recommended treatments and/or surgery ▪ Can confirm or change a patient's diagnosis and treatment plan 						
Considerations	<ul style="list-style-type: none"> ▪ Most employers limit eligibility to those members enrolled in the medical plan, although some employers offer the service to all employees, and even to non-covered family members ▪ Second-opinion services are typically offered at no cost to members 						
Public Sector Prevalence	 <p>A bar chart comparing current and future prevalence of second opinions in the public sector. The current prevalence is 17%, represented by a dark blue bar. The future prevalence is 55%, represented by a teal bar that is shaped like an upward-pointing arrow. A legend below the chart identifies the dark blue color as 'Current' and the teal color as 'Future'.</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Prevalence</th> </tr> </thead> <tbody> <tr> <td>Current</td> <td>17%</td> </tr> <tr> <td>Future</td> <td>55%</td> </tr> </tbody> </table>	Category	Prevalence	Current	17%	Future	55%
Category	Prevalence						
Current	17%						
Future	55%						

Source: 2016 Aon Hewitt Health Care Survey

■ Current ■ Future

Value Based Design

Consideration	Description/Rationale						
Defined	<ul style="list-style-type: none"> ▪ Differentiate coverage level on the basis of clinical value, providing richer benefits for higher-value and/or leaner benefits for lower value medical services ▪ The basic premise of VBID is to remove barriers to essential, high-value services ▪ Improve treatment compliance 						
Considerations	<ul style="list-style-type: none"> ▪ Commonly used incentives: copayment reductions, premium reductions, eligibility for a richer benefit plan, access to a particular benefit, and contributions to health accounts 						
Public Sector Market Prevalence	 <p>The chart displays two data points: 'Current' at 13% and 'Future' at 68%. The 'Future' bar is shaped like an upward-pointing arrow, indicating a significant increase in market prevalence.</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Current</td> <td>13%</td> </tr> <tr> <td>Future</td> <td>68%</td> </tr> </tbody> </table>	Category	Percentage	Current	13%	Future	68%
Category	Percentage						
Current	13%						
Future	68%						

Source: 2016 Aon Hewitt Health Care Survey

■ Current ■ Future

Telehealth

Consideration	Description/Rationale
Defined	<ul style="list-style-type: none"> Health care delivery, diagnosis, consultation, and treatment remotely using 2-way video or phone consultation directly between the physician and the patient
Considerations	<ul style="list-style-type: none"> 24/7 access to board certified physicians licensed in the state where the patient is located Prescribe non-controlled medications without a physical, face-to-face examination Common conditions treated include sinus infections, allergies, stomach aches, ear infections, and upper respiratory infections; evolving to include behavioral health and dermatology
Market Prevalence	<p>21% 33%</p>

Source: 2015 Aon Hewitt Health Care Survey

■ Current ■ Future

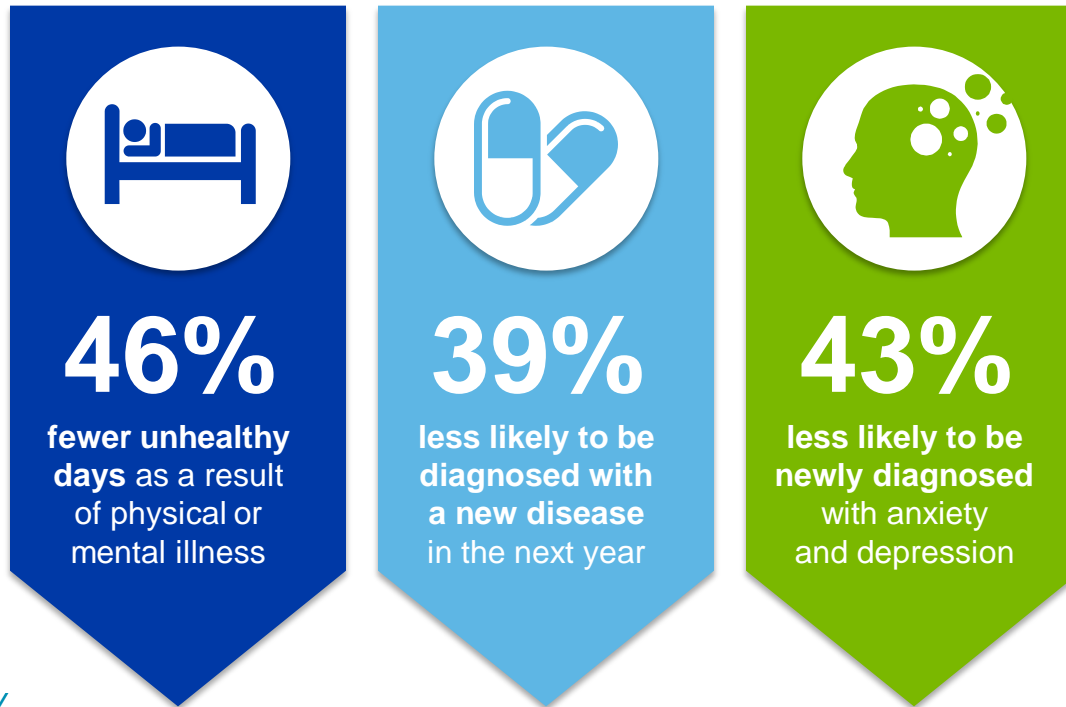


Improve Health and Workforce Performance



Health is Both a Valued Asset and Potential Financial Risk

Engaged colleagues with strong wellbeing are...

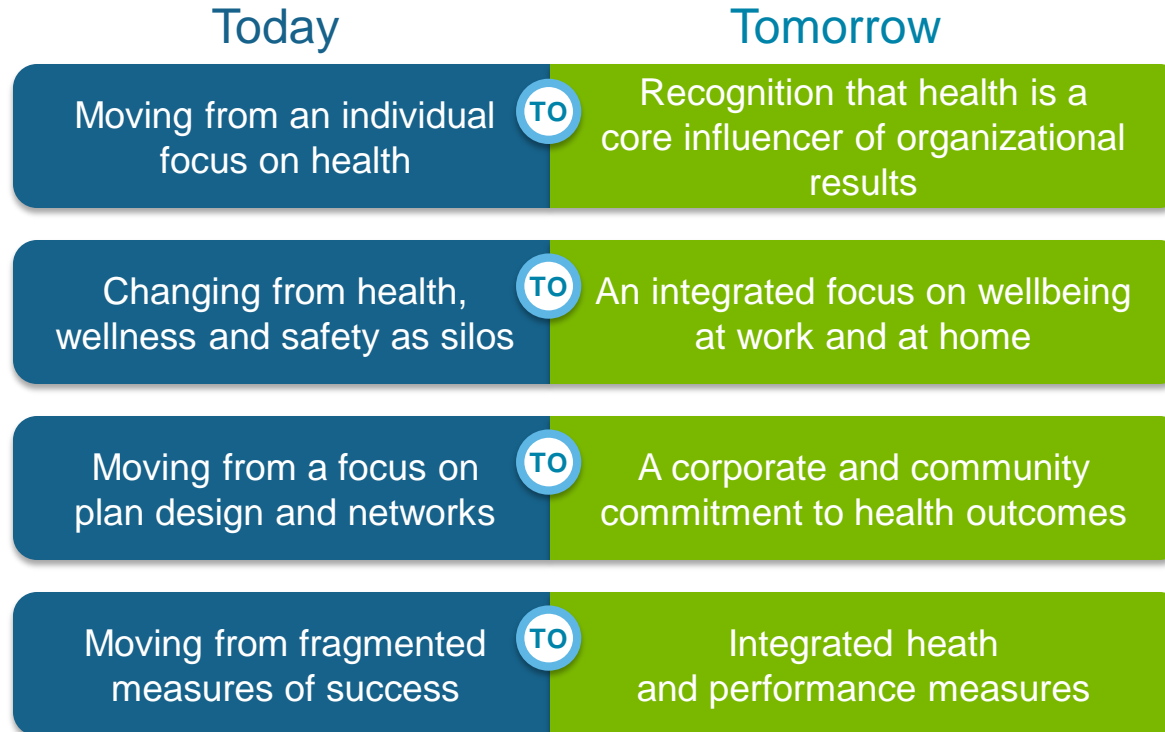


An **unhealthy workforce** contributes to higher health care and injury costs and cannot sustain basic business activities.

Source: Gallup, "State of The American Workplace Employee Engagement Insights for US Business Leaders", 2013

A Shift in Focus: Business Case for **Better Health**

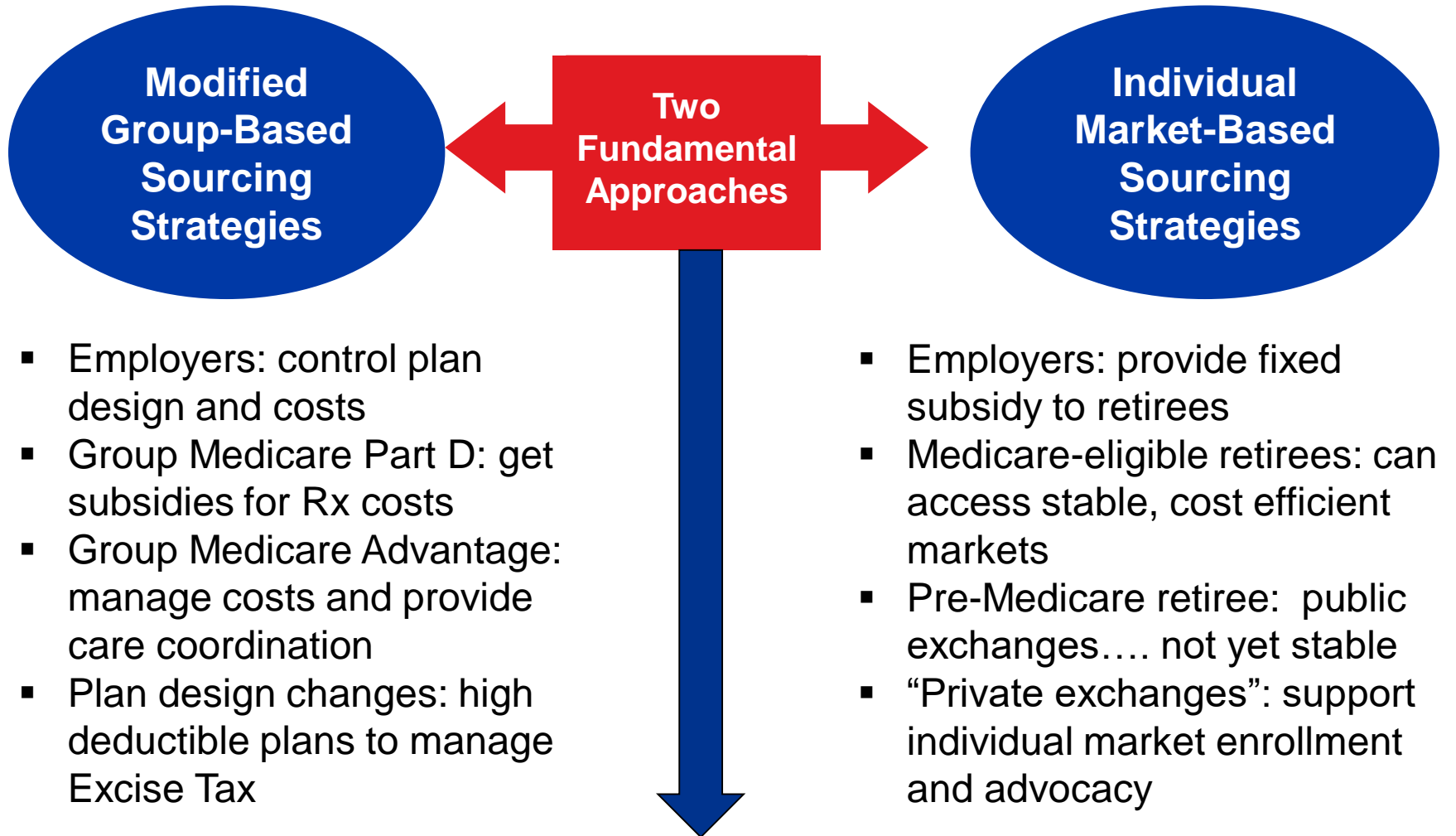
The HR Opportunity to Shift the Focus...





Retiree Healthcare

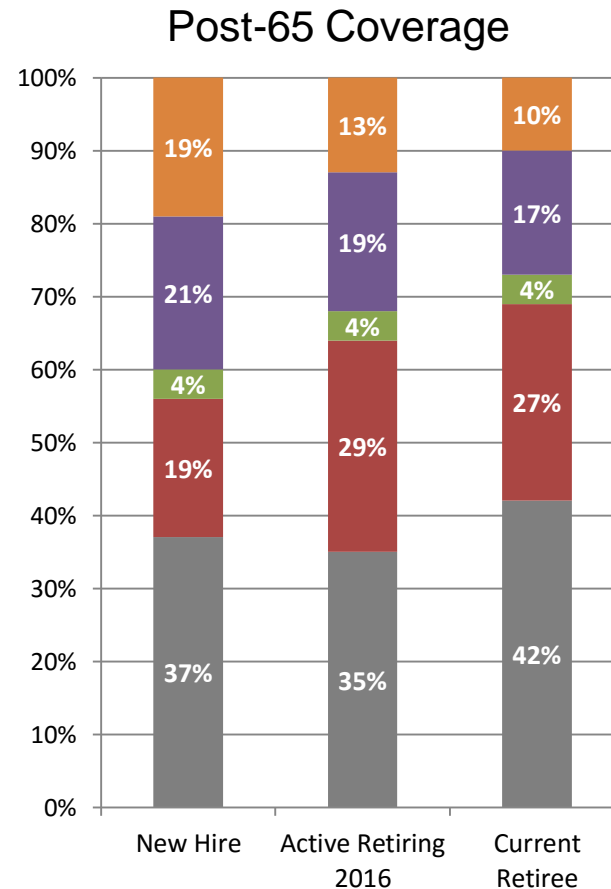
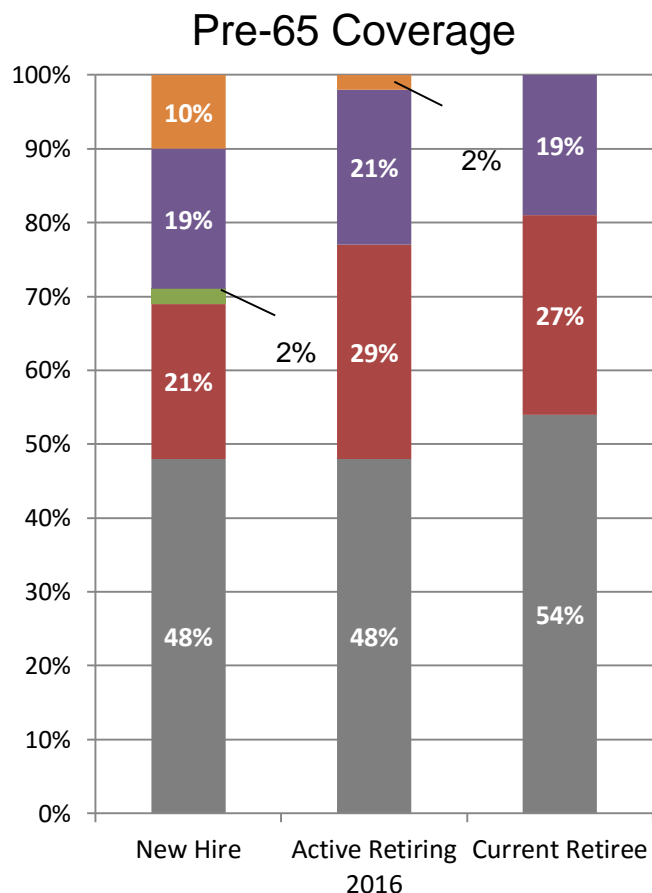
Retiree Health Care Strategy: Future Outlook... A New Paradigm



Many plan sponsors will segment their strategy and use both

Retiree Health Benefits General Trends

What are public sector employers doing for retiree health?



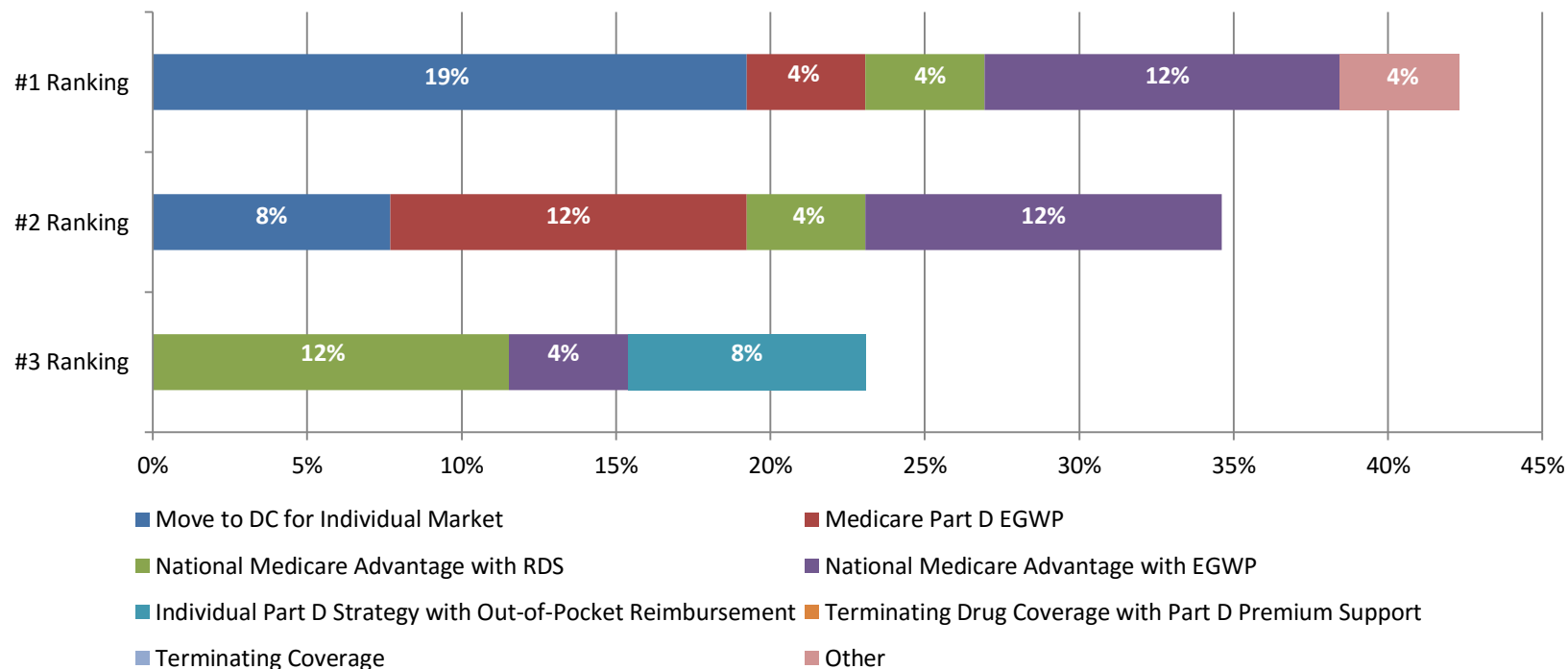
- Subsidized/uncapped/group
- Subsidized/capped/group
- Subsidized/HRA/exchange
- Access only/group
- Access only/exchange
- No coverage/no subsidy

(n=48)

Retiree Health Benefits General Trends (Continued)

Long term strategy for post-65 retiree health coverage

Public sector employers favor individual market strategy (#1 ranking) followed closely by National Medicare Advantage with prescription drugs on a group basis



(n=11)

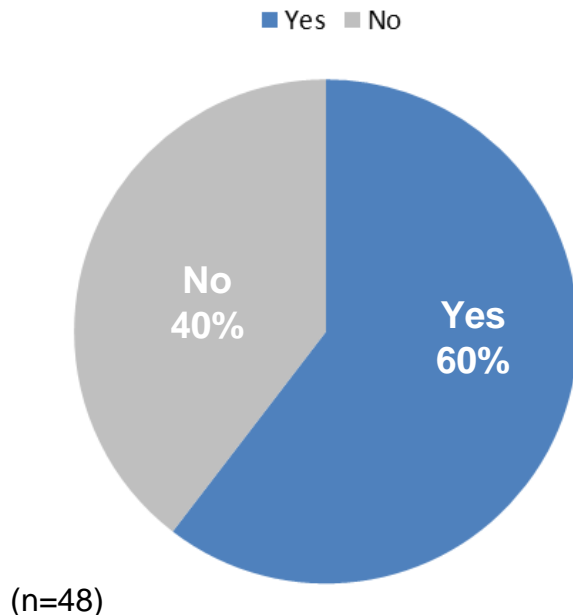
Source: 2016 Aon Hewitt Retiree Health Care Strategy Survey: Public Sector Respondents

Retiree Health Benefits General Trends (Continued)

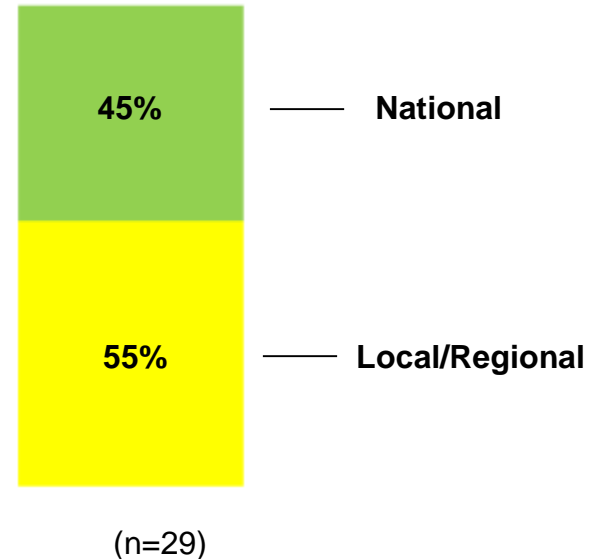
Group Medicare Advantage Plans -- Who Has These in Place?

60% of public sector plan sponsors currently offer group-based Medicare Advantage plans, and do so more often using local / regional insurers

Medicare Advantage Offered



Medicare Advantage Strategy

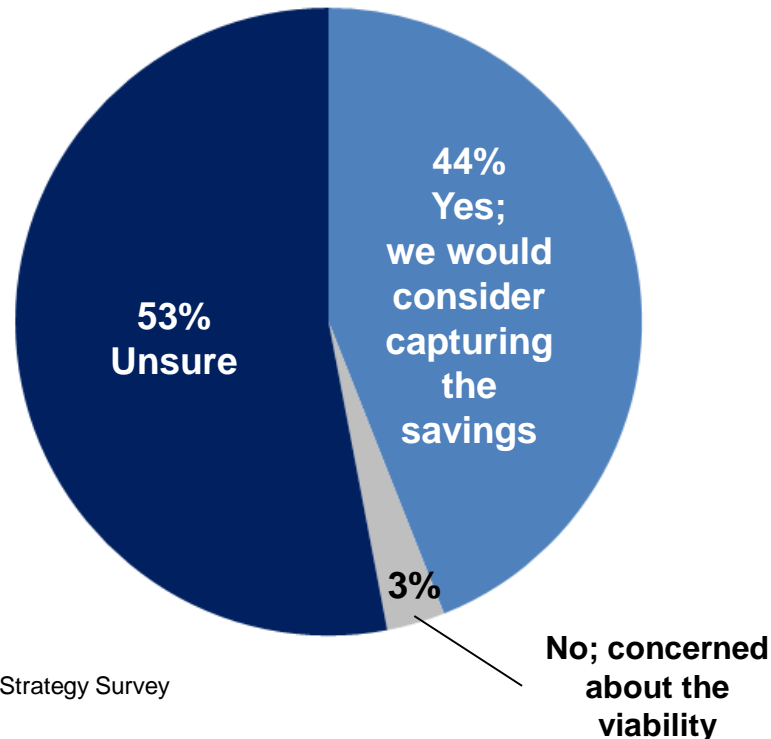


Source: 2016 Aon Hewitt Retiree Health Care Strategy Survey

Retiree Health Benefits General Trends (Continued)

National Medicare Advantage PPO: for material savings for near term, with no change in retiree benefits

Public sector plan sponsor feedback indicates that there is some degree of interest in a national Medicare Advantage PPO strategy to replace the traditional indemnity plan



(n=36)

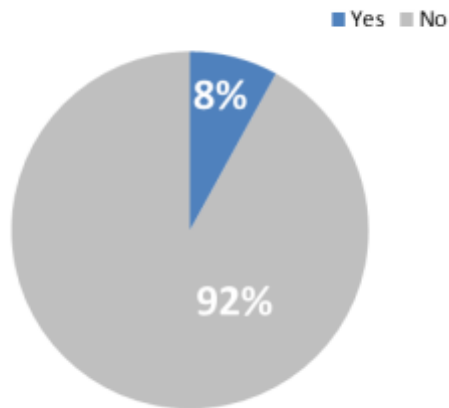
Source: 2016 Aon Hewitt Retiree Health Care Strategy Survey

Retiree Health Benefits General Trends (Continued)

Use of Private Exchange for Post-65 Retiree Health – Who’s Done It?

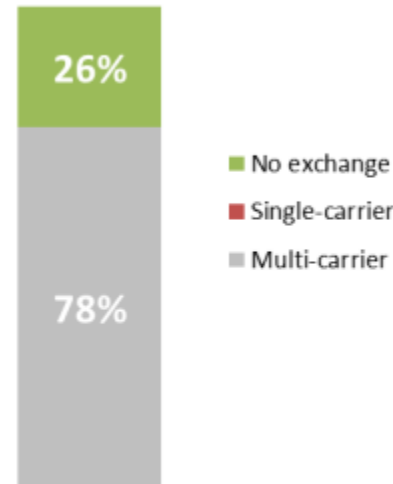
A handful of public sector employers have adopted this strategy, with all but one using multi-carrier exchange and varied HRA amounts

Implemented 2016 or Before



(n=48)

Exchange Type



(n=4)

HRA Amount

Annual HRA Amount	Count	Percent
Under \$500	0	0%
\$500 to \$999	0	0%
\$1,000 to \$1,499	0	0%
\$1,500 to \$1,999	0	0%
\$2,000 to \$2,499	1	33%
\$2,500 to \$2,999	1	33%
\$3,000 to \$3,499	1	33%
Over \$3,500	0	0%
Total	3	100%

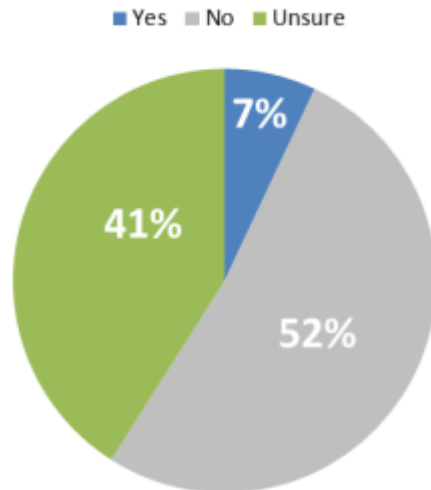
Source: 2016 Aon Hewitt Retiree Health Care Strategy Survey: Public Sector Respondents

Retiree Health Benefits General Trends (Continued)

Use of Private Exchange for Post-65 Retirees – Who's Thinking About It?

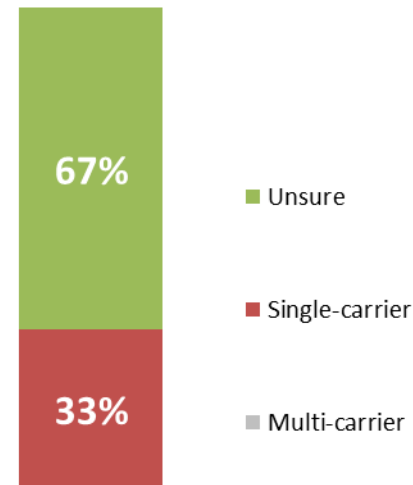
Most of the public sector employers are not interested in or unsure about this strategy; only a handful are thinking about it

Implement in Future



(n=48)

Exchange Type



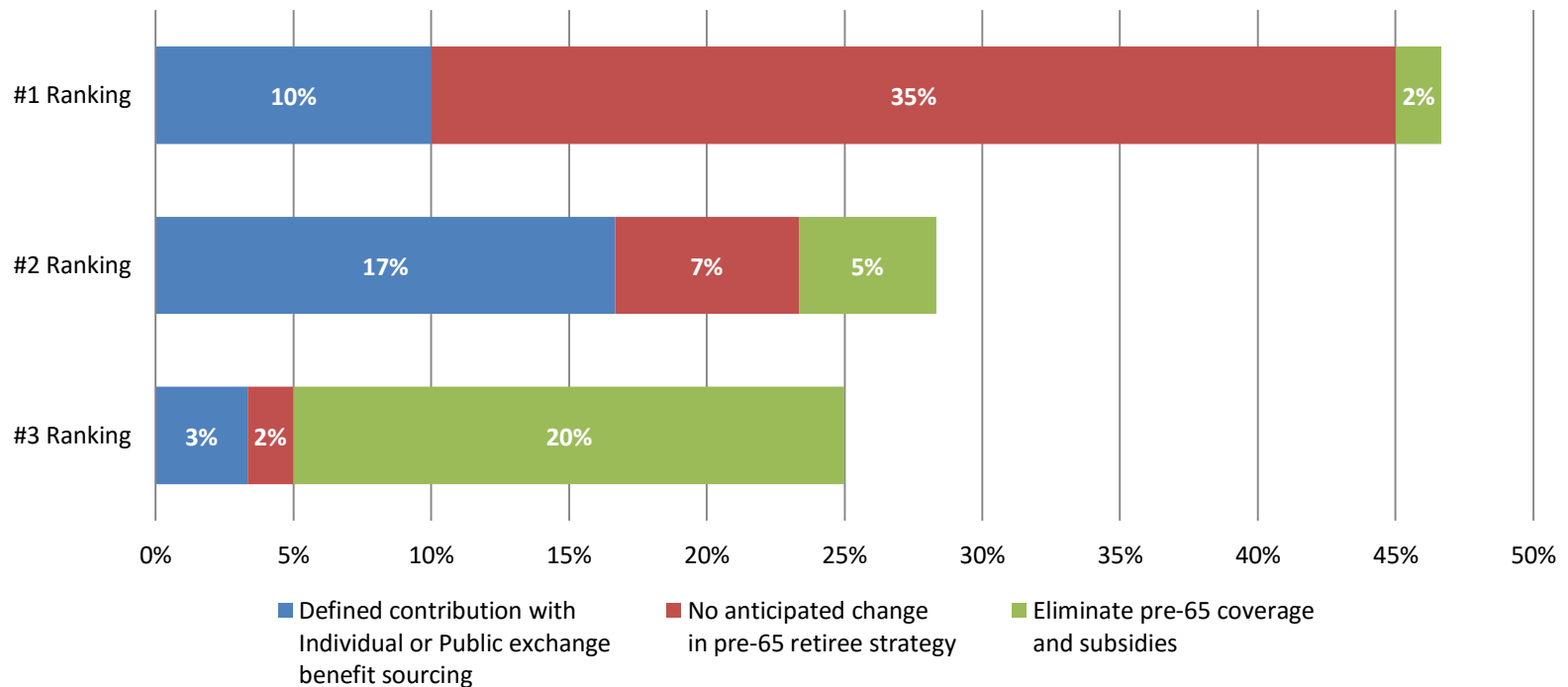
(n=3)

Source: 2016 Aon Hewitt Retiree Health Care Strategy Survey: Public Sector Respondents

Retiree Health Benefits General Trends (Continued)

Public Exchanges: Go or No Go Strategy?

Public sector employers' long-term strategies for Pre-65 retiree coverage is to “stay the course” followed by use of the public exchanges for benefit delivery



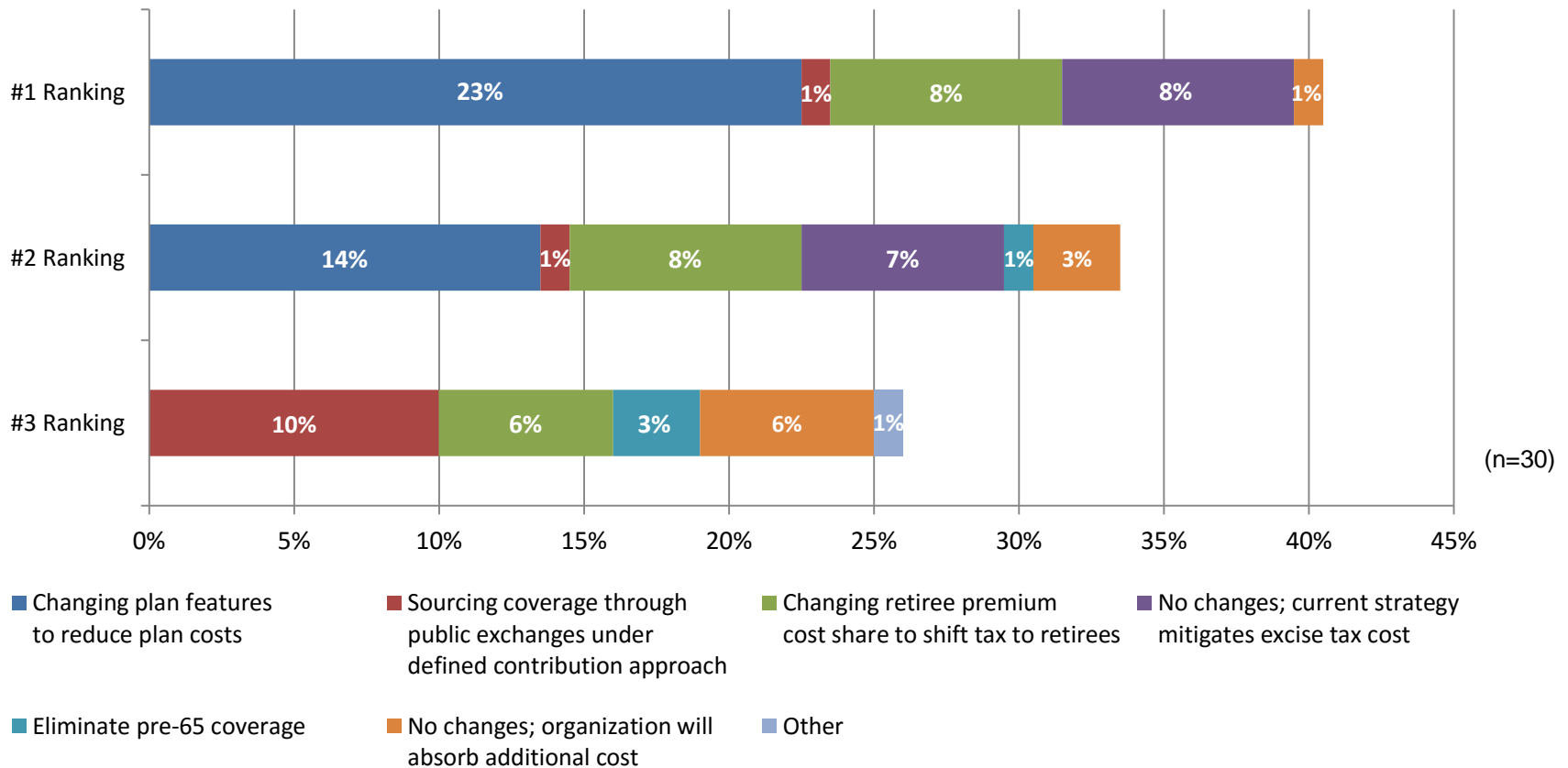
(n=28)

Source: 2016 Aon Hewitt Retiree Health Care Strategy Survey: Public Sector Respondents

Retiree Health Benefits General Trends (Continued)

Excise Tax will impact retiree health coverage

Public sector employers favor change in plan features (#1 ranking) followed by change in retiree premium to shift tax to retirees, to avoid excise tax for pre-65 retirees

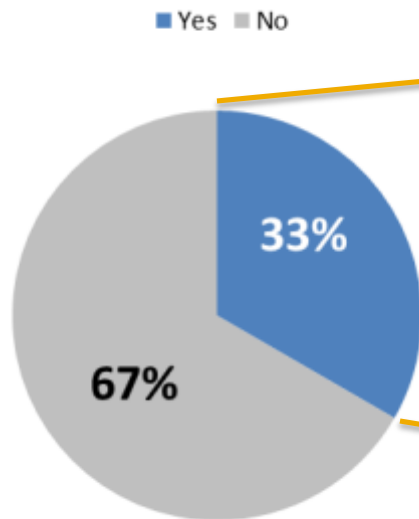


Retiree Health Benefits General Trends (Continued)

High Deductible Health Plan (“HDHP”) with Health Savings Account (“HSA”)

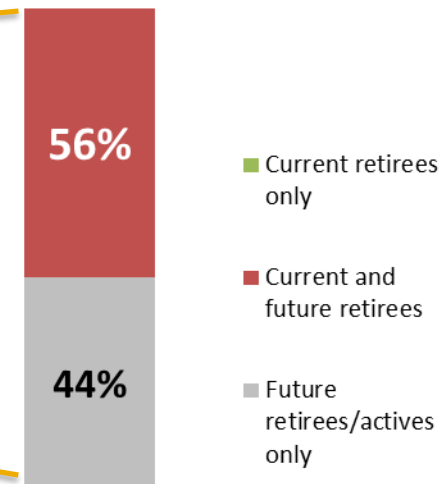
Public sector employers are more reluctant to provide HDHP to their pre-65 retirees

Offer Retirees HSA/HDHP



(n=48)

Eligible Populations



(n=16)

Source: 2016 Aon Hewitt Retiree Health Care Strategy Survey: Public Sector Respondents



Don't Forget the Basics

Basics

- Plan Efficiency – same as active employee health
 - PBM carve outs, bidding and coalitions
 - Medical bidding
- Benefit redesign
 - “Maintenance of benefits” Medicare coordination - Medicare retirees experience same cost share for services as an early retiree
- Contribution structures
 - True cost rates for retiree health coverage - eliminating hidden subsidy in rates
 - Service-based contributions for new retirees (maybe grandfather those close to retirement – retirement eligible, or near retirement eligible)
 - Lower subsidy for spouse’s coverage
- Eligibility for coverage
 - Increase age and / or service - separate from pension/retirement income eligibility

Questions?