

While HMO Premiums Remain High, Rate of Increase to Decline in 2009

To Combat Continued High Premium Rates, Companies Implementing More Aggressive Strategies to Mitigate Health Care Costs

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Preliminary information from Hewitt Associates, a global human resources consulting and outsourcing company, shows that HMO premium rates will increase by approximately 11.8 percent in 2009-lower than last year's initial rate increases, but still on track to outpace inflation and underlying health care trends.

As U.S. companies begin to negotiate HMO plan rates for 2009, data from Hewitt Health Resource(TM) (HHR)-a Web site that captures HMO rate information for 160 large companies representing approximately 1 million participants-shows that initial 2009 HMO rate increases are averaging 11.8percent, compared with estimates of 13.2 percent in 2008 and 11.7 percent in 2007. After plan changes, negotiations and terminations, final average HMO rates in 2008 increased by 9.4 percent.

"While initial 2009 HMO premium rate increases remain high, we expect to see that employers will once again be able to reduce overall increases-by at least 2 or 3 percentage points-through aggressive negotiations, changes in plan offerings and designs and an increased focus on employee health and productivity," said Jeff

Smith, a senior consultant and co-leader of Hewitt's HMO rate analysis project. "As the economy continues to weaken, and because salary increases are expected to remain similar to last year, employers are becoming increasingly sensitive to the effect higher health care costs have on employee take-home pay and payroll deductions. As a result, we expect to see more companies move away from traditional employer strategies-such as employee cost-shifting-toward more aggressive and innovative steps that not only help mitigate health care costs, but also keep more money in employees' pockets."

Southeastern U.S. to See Highest Rate Increases; Southwest to See Lowest

Although U.S. rate increases for 2009 are projected to decrease relative to last year's, there are variances by region. While the Southeast region is expected to experience higher-than-average rate increases at 15.4 percent, the rate has declined from its 2008 level of 18.2 percent. The Southwest region will have the lowest premium increase for 2009 at 7.3 percent, down almost 50 percent from 13.7 percent in 2008. (See charts for more regional information).

"It's hard to pinpoint exactly why HMO premium increases fluctuate across regions, but we do know that variances in demographics, health risks, provider density/costs/quality, plan designs, and coverage in specific areas of the country all play a role," said Maureen Fay, a principal and co-leader of Hewitt's HMO rate analysis project. "In some cases, we find that renewal increases are cyclical-where rates go up or down based on patterns in the underwriting cycle. In other words, a carrier who underestimated the trend in the prior year will likely come in with higher-than-average premium increases, whereas a carrier who overestimated the trend in the prior year will likely come in with lower-than-average premium increases.

"As health plans finalize their rates through the summer and fall, we will be able to better analyze the specific cost drivers contributing to the increases in each region and explain why those increases are trending above or below the national average."

Employer Response to Rate Increases

Building on the success of their efforts last year, employers will continue to take aggressive steps in

2009 to mitigate the impact of high HMO premium increases on their health care budgets. These steps include:

Consolidating Vendors and Moving to Self-Insured Plans:

An increasing number of companies are aggregating the lives from smaller and/or less efficient HMO plans into a consolidated risk pool with their most efficient health plan administrators. This creates more purchasing power and leverage through the negotiation process and typically results in more realistic assumptions around such factors as overhead and risk margins, while also reducing overall cost by having a smaller number of health plans to manage.

In addition, employers are moving away from local and regional fully insured HMO plan offerings, which have higher administrative costs and are subject to state-mandated benefit requirements that drive up premium costs. Instead, they are consolidating plan participants under self-insured arrangements where they assume the full financial risk for medical claim costs and pay the health plan an administrative fee for services such as claims processing and provider network management.

"By combining HMO enrollment under a national or regional self-insured platform, employers are able to streamline administration, offer more consistent designs across their markets and reduce costs—all of which help them avoid additional cost-shifting to employees, either in the form of reduced benefits or higher payroll increases," said Smith.

Increasing Focus on Improving Employee Health:

Employer interest in building employee knowledge and ownership for managing their health continues to grow. Most employers believe that keeping employees healthy has a

direct impact on controlling health care costs, maintaining high levels of productivity and mitigating absences. Hewitt's research shows more than 85 percent of companies invest or plan to invest significant resources in long-term health and productivity initiatives over the next three to five years. Health- and wellness-related programs that address the spectrum of health risk from the healthy to the chronically ill—including health risk assessments, disease management programs, nurse help lines, and smoking cessation and weight management programs—are the most widely offered; however, emerging strategies such as value-based health plan designs and biometric screenings are rapidly gaining interest among employers.

Aggressively Negotiating With Health Plans:

As in past years, employers continue to negotiate aggressively with their health plans to try to reduce initial premium increases, and they are coming to the negotiations table well-informed and ready to articulate their requirements.

As health and productivity becomes an increasingly important cost-management strategy, employers are engaging their health plans in multi-year partnerships to improve employee health. They are also holding them accountable for delivering on specific program measures, including participation levels, clinical outcomes, reductions in claim costs, and member satisfaction levels. In fact, Hewitt research shows that almost 60 percent of companies indicated that they plan to ask their vendors for quarterly reports on their contribution to their health and productivity strategy within the next five years.

Shifting Costs to Dependents:

As employers struggle with making their health care budget dollars

stretch further in an environment of continued high costs, some are beginning to cost-shift a portion of their dependent subsidy dollars to employees. This is taking many forms, whether through increased payroll contributions for dependent health care coverage or by applying surcharges to encourage dependent spouses to take coverage under their own employer's plans.

In addition, employers are becoming increasingly interested in conducting dependent audits, which are designed to assess and remove plan costs for dependents who don't qualify for coverage based on the employer's eligibility requirements. More than 40 percent of Hewitt's clients have conducted a dependent audit in the past five years, and another 10 percent planned to conduct one in 2008.

"On average, covered dependents account for more than half of the cost a company spends on health care, so while employers want to be viewed as 'family friendly,' they believe taking steps to reduce dependent costs are necessary in order to continue to provide affordable coverage for their workers," said Bob Tate, chief health care actuary at Hewitt. "At the same time, companies realize that cost-shifting is not a sustainable long-term strategy for reducing health care spend, and they are moving beyond health and wellness strategies that focus solely on employees to ones that emphasize their entire covered population, which may include spouses, children and other dependents."