

## Executive Summary

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Today's health care system is a \$1.9 trillion random walk with no ready-made solution around the corner. Despite significant effort on the part of employers and insurers, little progress has been made to ensure manageable health care costs, access to coverage, and competitive programs for participants. To date, market efforts have focused primarily on the "system" of health care, such as through vendor negotiations and efficient purchasing. Yet, at its core, health care happens between a patient and a provider. Therefore, if employers are to have any hope of improving outcomes in the short term, employers must influence these patient-provider interactions by creating a better system of health and health care than we have today.

We believe that employers are at a crossroad and face major decisions on how (and whether) they offer health care plans. To test our view, Hewitt Associates commissioned a survey of 448 executives, *The Road Ahead: Emerging Health Trends 2007*, and asked these executives to identify current health care trends and trends that will influence the industry over the next three to five years.

This report discusses health and health care at a high level and focuses in particular on trends that employers have identified as emerging or likely to emerge over the next three to five years. Furthermore, this report discusses clear philosophical differences between two groups of employers—those who are likely to continue on their current course of managing trends primarily through plan design changes and those who believe that more employer involvement in health and health care is a critical business issue. Those differences, and their relation to the programs that employers offer and expect to offer, are also discussed in detail.

### **Three Health Care "Roads"**

In designing this year's survey, we identified three "roads" that are available to employers and asked respondents to select the road they feel most accurately describes their organization's views on health and health care benefits.

### **The Exit Ramp**

Small employers have been exiting from health care, dropping sponsorship of their plans entirely. However, for most large employers, this approach would create significant difficulties for many of their employees. If an employee or dependent currently had a serious medical condition, for example, he or she may be denied coverage entirely in the individual marketplace. While costs continue to escalate, very few large employers are currently considering dropping sponsorship of health care plans.

Our survey validates this trend—no respondents believe their organization will be less involved in health care benefits over the next three to five years than they are today. One caveat is that few finance executives responded to the survey, a group that has been more likely to consider exit ramp

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strategies. The response, however, is a powerful affirmation of employer involvement in health care benefits for the foreseeable future.

## **Stop Light-to-Stop Light**

Just over one-third of respondents indicate they expect their involvement in health care benefits to remain about the same as it is today. We've labeled these employers "Stop Light-to-Stop Light," and find they are primarily focused on managing trends. While many have addressed cost issues, there is substantial resistance to cutting benefits because they view health care benefits as an attraction and retention tool and are in a competitive market for talent. At the same time, however, they do not tend to see health and productivity as a business issue.

## **The Superhighway**

Almost two-thirds of our respondents indicate they will become much more involved in health and health care benefits. These employers, which we refer to as being on the "Superhighway," view health and health care differently than those who are traveling Stop Light-to-Stop Light. They see a present and productive workforce as a critical business advantage and are much more likely to be offering cutting-edge programs around health and health care today as well as in the future.

## **Different Speeds or Different Directions?**

Initially, we thought the only difference between Stop Light-to-Stop Light and Superhighway respondents would be the rate at which they were adopting health and health care innovations. Every industry has its leaders, its fast followers, and the rest of the pack, and we thought that employer-provided health care benefits would show a similar distribution.

In some ways, this expectation has held true. For example, both Stop Light-to-Stop Light and Superhighway employers are adopting account-based consumer-driven health plan designs. However, when comparing these two groups, data reveal that Superhighway employers have more of their employees in these plans today and are more likely to predict greater enrollment in the future.

In many other ways, however, our results indicate a fundamental difference in philosophy between the two groups. Simply put, Superhighway employers offer health benefits for different reasons than Stop Light-to-Stop Light employers, and that differing philosophy affects their strategies, designs, and, based on preliminary analysis, results.

## **The Superhighway Is Not About Health Care**

Superhighway respondents answered many of the questions differently than Stop Light-to-Stop Light respondents. These differences point to employers whose primary concern is about managing the health and productivity of their populations and believe a healthy and productive workforce is a significant advantage in today's global economy.

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Superhighway employers are also more strategic about the ways in which they deploy health and health care dollars. They are more likely to use claims analyses to inform their benefits designs. They are more likely to include incentives, both for participants and providers, and are more likely to support health information technology (HIT) such as cost and quality transparency. In short, they are more likely to view expenditures in these areas as an investment in the health and productivity of their workforce. In addition, they are counting on that investment having a return which confers a strategic business advantage.

Superhighway employers are more likely to have the following characteristics:

### **Written Health Care Strategy**

Superhighway employers are more likely than Stop Light-to-Stop Light employers to have a written health care strategy (38% versus 23%, respectively) and more than twice as likely to have a written health improvement strategy (48% versus 20%, respectively). Having a written health strategy appears to be linked to improved results. Of those responding, 80 employers participate in Hewitt's Health Value Initiative Database, which compares medical costs using a variety of measures across health plans. Those with a formal written health strategy had an average health care cost increase of 5.0% for 2006 (average per employee costs of \$7,647), as compared to a health care cost increase of 6.3% (average per employee costs of \$8,023) for those without a written strategy.

### **Long-Term Focus on Business and Workforce Issues**

Employers from both roads ranked managing cost and competitive positioning as their top two business issues related to health care. However, the next most important business issue for Superhighway employers is a leadership mandate to address health care, whereas Stop Light-to-Stop Light employers are worried about profitability. Similarly, employers from both roads ranked employee satisfaction and protection from catastrophic loss as the top two employee issues related to health benefits. Superhighway employers ranked improving productivity next, while Stop Light-to-Stop Light employers are worried about turnover.

### **Health-Based and Data Driven Strategies**

Respondents on both roads report using health care data to drive their health care strategies (Superhighway employers ranked this their top strategy and Stop Light-to-Stop Light employers ranked it second). Stop Light-to-Stop Light employers ranked driving efficient purchasing as their number one strategy. Incentives to drive health behaviors and population risk management strategies followed for the Superhighway respondents as compared with adding an account-based consumer-driven plan (ranked third) by Stop Light-to-Stop Light respondents.

Further, more than twice as many Superhighway respondents believe keeping employees healthy is critical to business success. More than five times as many Superhighway respondents believe improving health should be the primary focus of their health care strategies.

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## **Future Focus on Quality and Health IT**

Superhighway employers report being more focused on health care quality than Stop Light-to-Stop Light employers and are more likely to select plans based on accreditation by organizations such as the National Committee for Quality Assurance (NCQA). They also tend to participate in initiatives such as Leapfrog, Bridges to Excellence, and to use high performance networks more than Stop Light-to-Stop Light employers. This enthusiasm drives interest in a number of other initiatives that are also driven by data and HIT. Up to twice as many Superhighway employers are interested in offering consistent measures of quality, transparent cost, and quality data to participants, as well as using a data warehouse. To a less significant degree, they are also more interested in various types of electronic medical records, electronic prescribing, and computerized clinical decision support tools for their providers and personal health records for their employees than employers driving Stop Light-to-Stop Light.

## **The Opportunities Are on the Superhighway**

In summary, we believe most of the significant opportunities for savings and business advantage will be seen by employers on the Superhighway. Over the next three to five years, employers proceeding Stop Light-to-Stop Light are unlikely to consistently beat trends and may in fact lag behind trends as more employers get on the Superhighway. The Stop Light-to-Stop Light approach may prove successful for a longer period of time for employers that have achieved good business results and can pass on cost increases to their customers. However, we believe more employers will find themselves on the Superhighway as their employees get older and less healthy, and as global business pressures continue to mount. It is also possible that some large employers will drop health care benefits, but based on our respondents, we do not think this will be widespread unless there are fundamental changes in the current health care environment.