

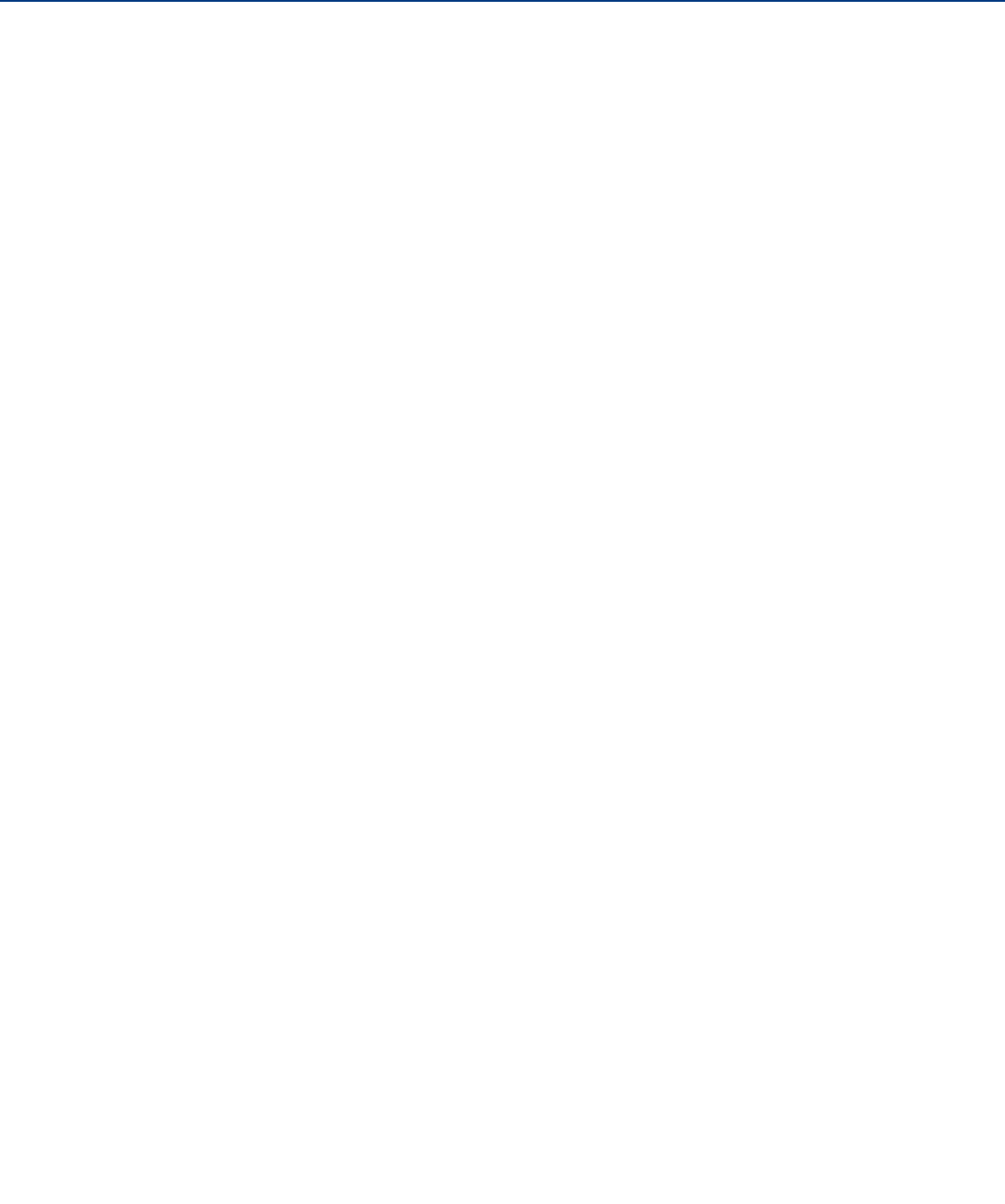


12th Annual National Business Group on Health/ Watson Wyatt Survey Report

2007

Dashboard for Success:
How Best Performers Do It





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Dashboard for Success: How Best Performers Do It

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Executive Summary

As the overall rate of health care cost increases remains at about twice the rate of inflation, some employers are significantly beating trend by taking a broad approach to their health care programs. These companies are addressing the root causes of health care costs by combining consumer-directed health plans (CDHPs) and health management initiatives with education and financial incentives to help employees become more actively engaged in their own health and make smarter health care decisions.

The 12th Annual National Business Group on Health/Watson Wyatt study details current trends and best practices in employer-sponsored health care benefit programs. Key findings include:

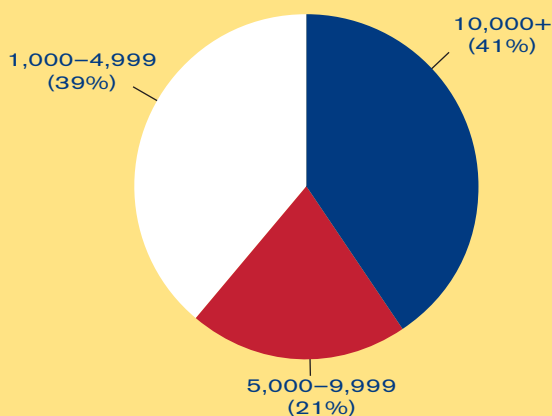
- Best-performing companies have a two-year median cost increase of 2.5 percent, compared with 11 percent for their poor-performing counterparts. Annual cost increases for all employers remained at 8 percent for the second year in a row and are expected to stay at this level through 2008.

About This Survey

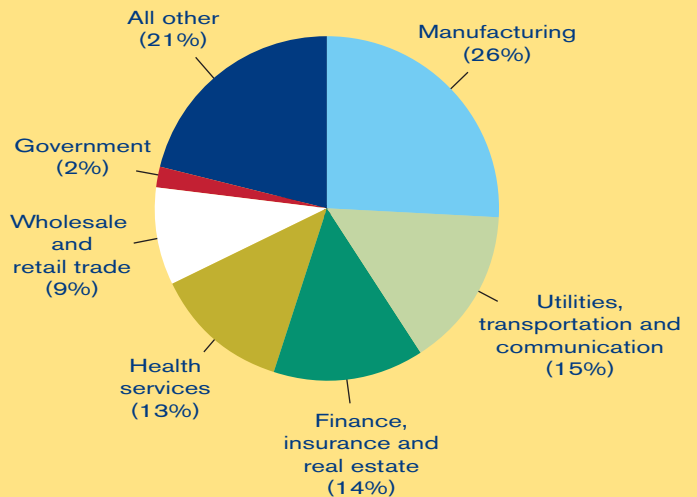
In its 12th year, the National Business Group on Health/Watson Wyatt *Employer Survey on Purchasing Value in Health Care* tracks employers' opinions and practices, as well as the results of their efforts to provide and manage health benefits for their workforce.

This report identifies the actions of best performers and current trends in the health care benefit programs of U.S. employers. The 573 survey participants collectively represent 11 million employees. Their responses, completed in January 2007, reflect their 2006, 2007 and, in some cases, 2008 health plan decisions and strategies.

Full-time employees in surveyed companies



Industry sectors



Totals do not equal 100% due to rounding.

- Best performers are more likely to implement programs that go beyond employee cost sharing and involve the appropriate use of financial incentives, effective information delivery, quality of care, employee health and productivity, data and metrics.
- CDHPs continue to gain popularity. Thirty-eight percent of employers now offer such a plan, and 25 percent offer a health savings account (HSA). Yet, the median employee enrollment rate in CDHPs remains a relatively low 8 percent. While CDHPs can help control cost increases when combined with other tactics, the use of CDHPs alone does not correlate with a lower cost trend.

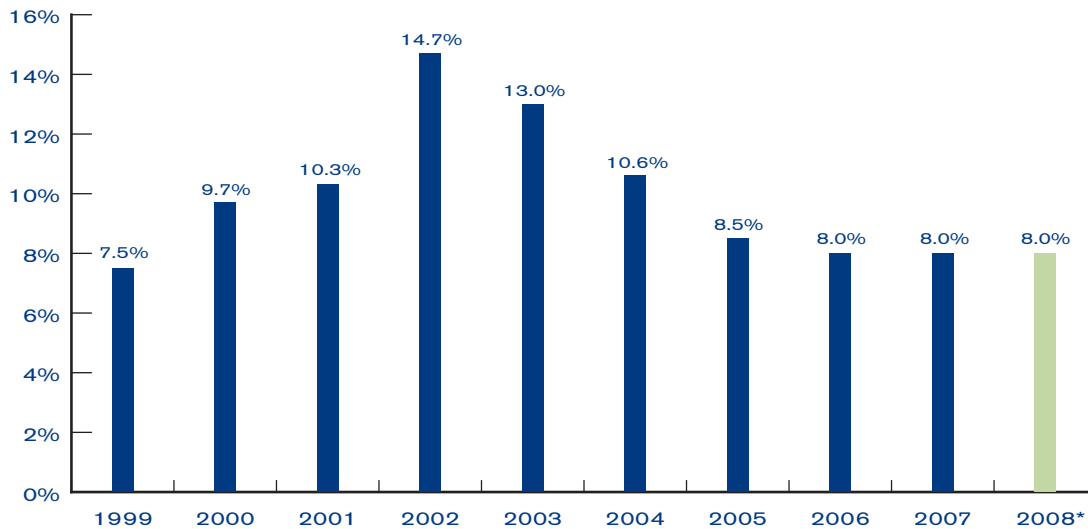
Survey Trends

Cost Increases Stabilize

Median annual cost increases for health care expenses were 8 percent in 2006 – in line with employers' expectations.

Employers are more accurately budgeting for their health care costs as well; 82 percent of employers came in either at or below budget in 2006. However, despite their efforts to curb future cost increases, employers expect the current rate of increase to continue through not only 2007 but also 2008 (Figure 1).

Figure 1 | Health care cost increases steady¹



¹Health care cost trend is based on the overall cost increase (or decrease) that organizations experienced across all components of their health care program. The annual change in costs is based on costs for active employees only and excludes plan changes.

*Estimated

In general, employers are establishing and maintaining a consistent cost-sharing relationship with employees. Although the number of employers that plan to absorb health plan cost increases decreased slightly, to 35 percent in 2007, the number of employers planning to significantly increase premium contributions, co-pays and deductibles held steady (Figure 2).

Use of CDHPs Growing

The number of companies offering a CDHP to their employees grew to 38 percent, up from 33 percent last year. Although employer adoption of CDHPs slowed in 2007 (Figure 3), the use of HSAs remains strong. Forty percent of employers either offer or plan to offer an HSA, and 26 percent offer or plan to offer health reimbursement accounts (HRAs) (Figure 4).

Figure 2 | Employers maintain existing cost-sharing relationship with employees

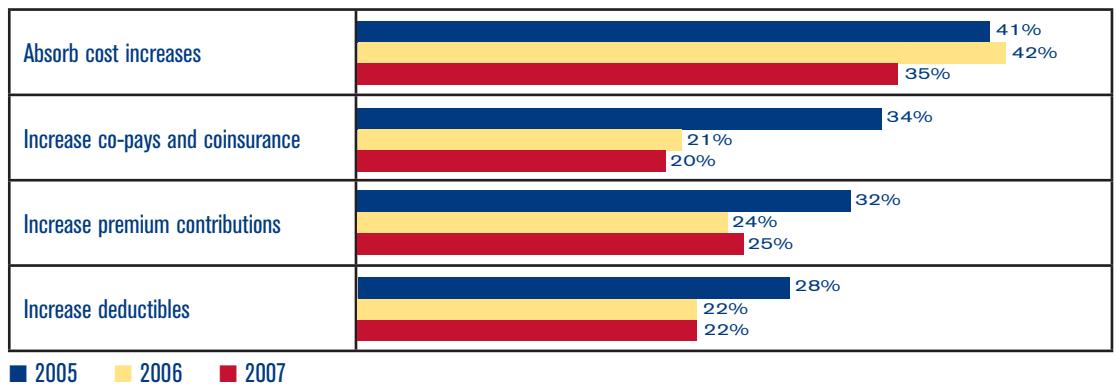


Figure 3 | More employers adopt CDHPs

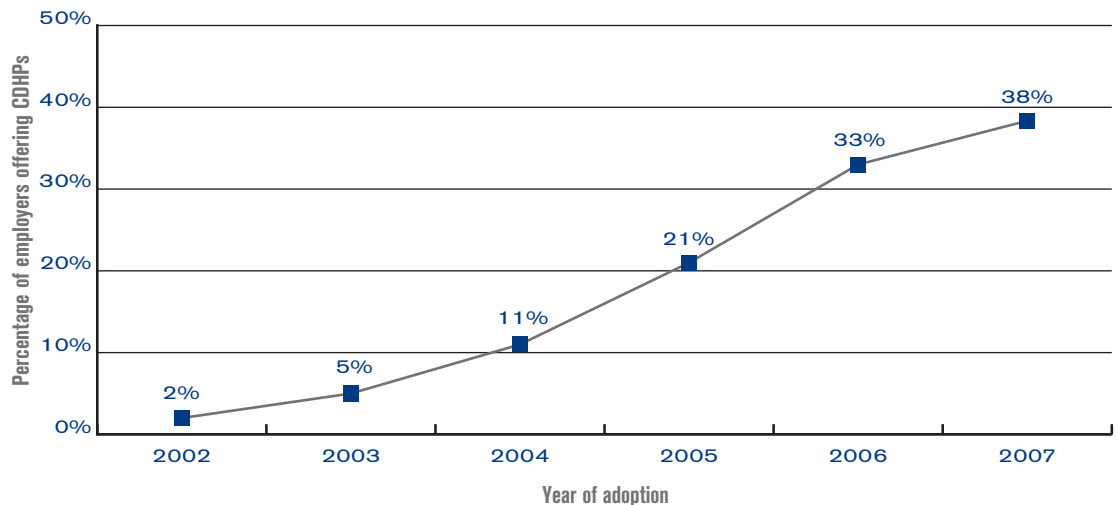
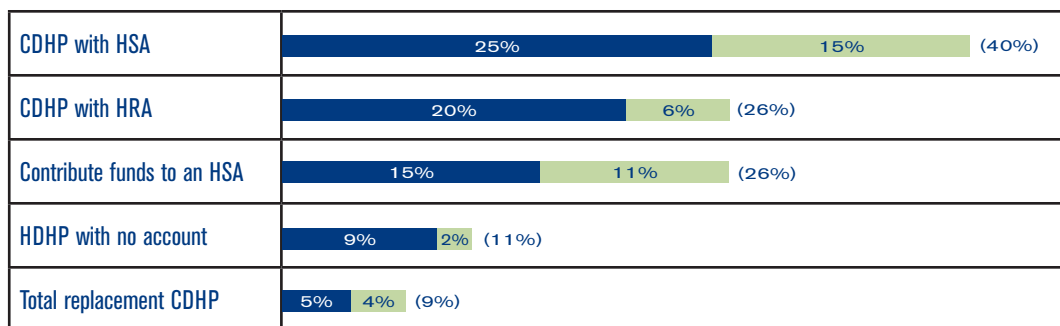
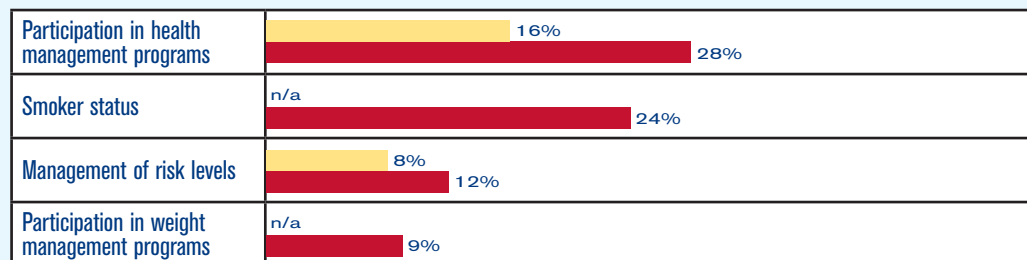


Figure 4 | CDHPs with account-based options growing in use



■ In place now ■ Planned for 2008

PREMIUM DIFFERENTIALS. The percentage of employers offering premium differentials based on employee participation in health management programs has risen to 28 percent, up significantly from 2006. In addition, some employers are now offering these differentials based on participation in weight management programs.



■ 2006 ■ 2007



A few employers are driving employee enrollment in CDHPs by offering these plans on a total replacement basis. Although these total replacement offerings are on the rise, the median employee enrollment in CDHPs was 8 percent in 2006, an increase of only one percentage point over the previous year. Moreover, 43 percent of employers with CDHPs have enrollment of 5 percent or less. This low enrollment illustrates the tenuous balance between significant premium differentials (36 percent of employers set employee premiums for CDHPs at least 30 percent lower than premiums for non-CDHP plans; Figure 5) and higher deductibles.

Predictably, the perception of CDHP effectiveness differs between employers that offer the plans and those that do not. Employers offering

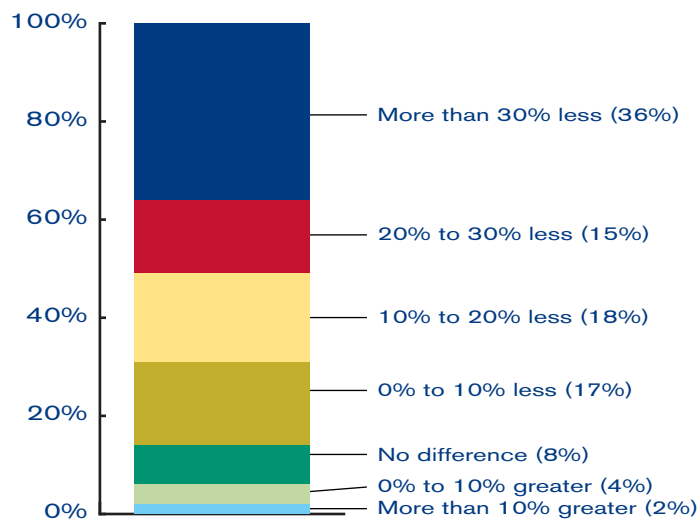
CDHPs are nearly 65 percent more likely to consider the plans effective at improving employee health. They are also nearly three times more likely to believe that CDHPs can improve employee productivity (i.e., lost workdays, absenteeism) (Figure 6).

Plan Management and Options

Employers are seeking to control costs through plan changes and better vendor management. Nearly half of employers (46 percent) have switched from regional to national health plans; only 5 percent have moved in the other direction. Also, more than one-third (36 percent) have consolidated their medical vendors or are planning to do so, while 15 percent have changed or are planning to change medical vendors without any consolidation.

PHARMACY. Many employers are implementing three-tier prescription drug programs (84 percent) or carved-out specialty programs (52 percent). Employers are also trying to increase the use of generic drugs through mandatory programs (45 percent have a program in place or planned), while 19 percent offer or plan to offer over-the-counter pharmacy coverage.

Figure 5 | Employee premium costs for CDHPs are significantly below those for other plans



Comparison of employee premiums for CDHPs versus other plans at the same company.

Figure 6 | CDHPs widely viewed as effective by those offering them to employees

Perceived effectiveness of CDHPs			
	All employers	Employers offering CDHPs	Employers not offering CDHPs
Increasing employee involvement in health care decision making	90%	96%	88%
Controlling health care cost increases	77%	84%	74%
Improving employee health	43%	59%	36%
Maintaining employee satisfaction	43%	74%	30%
Improving the quality of health care	35%	52%	28%
Improving employee productivity	20%	38%	14%

Employee Views on High-Deductible Health Plans (HDHPs)

Just as employers' views on HDHPs vary depending on their plan offerings, employees' views on HDHPs vary depending on their plan enrollment. A recent Watson Wyatt survey of 2,100 employees found that fewer employees enrolled in HDHPs are satisfied with their health care coverage compared with those enrolled in other plans (55 vs. 66 percent). In particular, HDHP enrollees are less likely to be satisfied with the cost of health care services (37 vs. 50 percent), the scope of services covered (62 vs. 73 percent) and interactions with their health care insurer (49 vs. 60 percent). Cost challenges are also of concern to HDHP enrollees as they cite higher out-of-pocket costs (57 vs. 48 percent) as well as difficulty understanding what they owe and when to pay (30 vs. 18 percent).

Across the board, employees are not comfortable with commonly used benefit terms. Nearly half of employees surveyed are unsure of "coinsurance" and 75 percent are unclear about "centers of excellence." Additionally, nearly two-thirds do not understand "formularies." HDHP enrollees, in particular, struggle with communication as they have more difficulty finding information on the cost of health care. Interestingly, fewer HDHP enrollees than non-HDHP enrollees read all the health care communication materials they receive (52 vs. 66 percent). This is likely because more employees who enroll in an HDHP say their health is very good or excellent (50 percent) compared with those not enrolled in such a plan (40 percent).

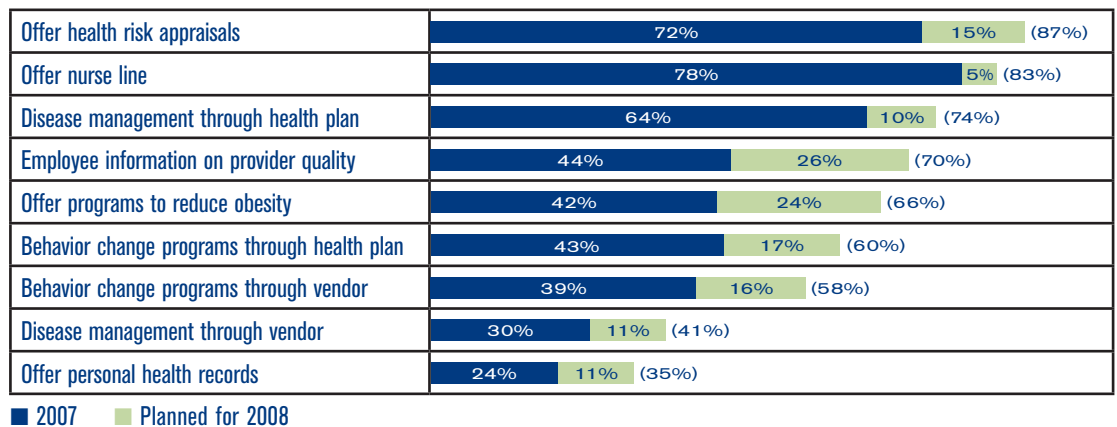
Yet, when it comes to health and productivity, employees tend to think alike regardless of their enrollment. As an encouraging sign, the vast majority of employees (90 percent enrolled in an HDHP and 84 percent enrolled in a non-HDHP plan) believe they have the ability to change their health status. Less than one-third of employees are in the process of changing their lifestyle, while another one-fourth is considering making changes. However, only a few have made a commitment to change in the next six months (8 percent of HDHP enrollees vs. 10 percent enrolled in a non-HDHP plan).

Surprisingly, only one-third of all employees are willing to pay more out of their paycheck in order to keep health care costs lower and more predictable. However, when presented with enrollment in a hypothetical HDHP, participants were adamant about what they wanted. Nearly two-thirds stated it was very or extremely important to have lower premiums, employer contributions to their personal account (HSA), and portable personal account funds they can take when leaving the company.

Health management programs remain a critical area of emphasis as well. About three-quarters of employers offer their employees health risk appraisals and a nurse line, while 44 percent offer a health coach. Many are also implementing disease management programs and lifestyle

behavior change programs through their health plans or a specialty vendor. Additionally, 42 percent have implemented a program to reduce obesity among employees and another 24 percent plan to do so in 2008 (Figure 7).

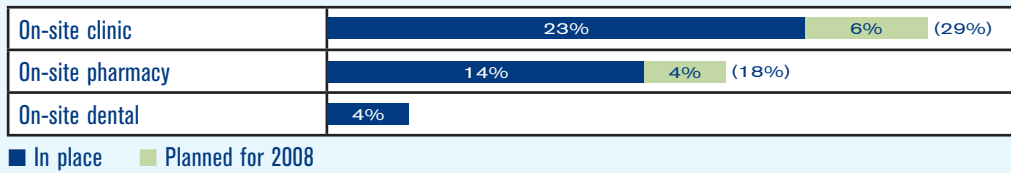
Figure 7 | Health management programs are increasing in use



RETIREE MEDICAL. Only 33 percent of new hires will receive financial support for retiree medical coverage from their employers, compared with 43 percent of current employees. However, 50 percent of current pre-65 retirees and 47 percent of current Medicare retirees receive limited or full financial support.

Best-performing companies – those with median two-year cost increases in the lowest quartile among all respondents – have a two-year trend of 2.5 percent, compared with 11 percent for their poor-performing counterparts.

ON-SITE CLINICS. Some employers have established on-site health facilities and pharmacies, with more planned for 2008. While nearly one-quarter of employers have on-site medical clinics, few have on-site dental clinics.

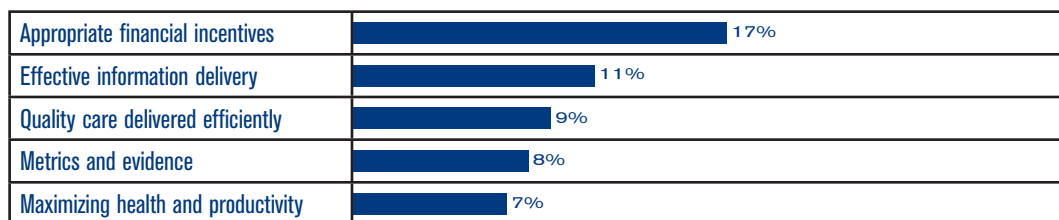


Best Performers

Organizations continue to differ dramatically in their ability to reduce health care cost trends. While the median two-year trend for all employers remains at 8 percent, best performers have achieved remarkably lower cost trends. These best-performing companies – those with median two-year cost increases in the lowest quartile among all respondents – have a two-year trend of 2.5 percent, compared with 11 percent for their poor-performing counterparts. This 8.5 percentage point gap represents a substantial difference in tangible costs.

The best-performing companies are lowering costs through a broad approach that incorporates programs and initiatives in five areas: appropriate financial incentives, effective information delivery, quality care, data and metrics, and health and productivity. Our research also looked at a sixth area, cost sharing, but found that initiatives in this area did not differentiate best performers (Figure 8).

Figure 8 | Key factors differentiate best performers



Percentage that best performers are more likely to implement programs with these features (as compared to poor performers)

A Best Performer's Road to Success

Case study: Xcel Energy

Xcel Energy, one of the best-performing companies in this year's study, improved from an 11 percent health care cost trend in 2005 to a 2.3 percent cost trend in 2006. Its successful strategy has focused on using data and metrics, integrating health and productivity programs, and educating employees and spouses.

Shortly after joining a data cooperative in 2002, Xcel Energy encouraged employees to complete a health risk assessment. By linking completion of the health risk assessment and access to the company's two most popular PPO health plans, Xcel Energy induced 95 percent of its employees – and their spouses – to participate. The company's health improvement team then mined the data to create programs in areas such as cholesterol awareness (resulting in a 33 percent increase in people reporting cholesterol levels), nicotine cessation and nutrition.

Xcel Energy also used data to alter its plans and increase employees' responsibility for their own health care decisions. After finding that its employees had low generic drug usage, for example, the company enacted a number of plan changes, including a shift to coinsurance for retail drugs that resulted in a 22 percent increase in generic drug use. The company supplements its proactive approach with aggressive fee negotiation, some cost sharing and employee education. In particular, effective information and employee engagement – achieved primarily through consistent communication, online training and tools, and clear support of top management – have been essential to its success.

The company will continue to use metrics such as claims data and lost workdays as the basis for future programs and plan changes. With three new areas for case management introduced in 2007 and a new high-deductible plan and health savings account option on tap for 2008, Xcel Energy recognizes that controlling health care costs is a long-term challenge.

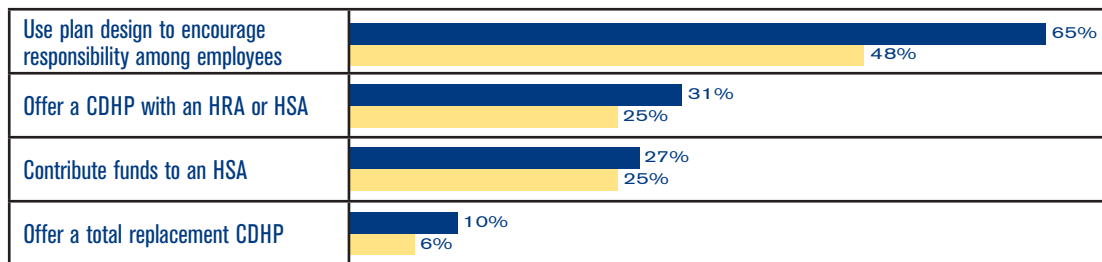
Financial incentives or plan designs that drive employees to enroll in CDHPs are especially important.

Appropriate Financial Incentives

Best performers are more likely to use financial incentives and programs designed to influence appropriate health care decisions among employees. In general, these companies focus on programs that increase employee accountability and also offer a CDHP that attracts enrollment of at least 10 percent. Although offering a CDHP does not differentiate best- and poor-performing companies, companies offering these plans with an account are 21 percent more likely to be best performers. Those that contribute funds to an HSA are 10 percent more likely to be best performers than poor performers.

Financial incentives or plan designs that drive employees to enroll in CDHPs are especially important. While only 5 percent of respondents offer a total replacement CDHP, best performers are 72 percent more likely to do so than poor performers (Figure 9). Interestingly, the types of incentives used to encourage employees to complete health risk appraisals or disease management programs (e.g., gifts, discounts, premium differences) are not associated with best performance.

Figure 9 | Best performers lower costs through financial incentives



■ Best performers ■ Poor performers



Effective Information Delivery

Best performers also excel in programs that deliver health-related information (e.g., cost, quality, health management) to engage and educate employees. These companies are more likely to help their employees make smarter health care decisions and manage their own health by providing them with information, especially via the Internet. Overall, best-performing companies are 37 percent more likely to provide education on health-related cost issues and 28 percent more likely to offer Web-based information and tools for employees (Figure 10).

Information on price by itself, however, is not correlated with low cost trend, because it is important for health care consumers to consider both price and quality when making health care choices.

Quality Care Delivered Efficiently

Despite the difficulty in obtaining reliable information on provider quality, best performers are more likely to provide information that directs employees to high-quality providers. Specifically, these employers are more likely to share the results of provider performance with their employees (23 percent more likely) and provide employees with information on provider quality (8 percent more likely), use centers of excellence for procedures other than transplants (22 percent more likely) and add more selective networks (28 percent more likely) (Figure 11). By contrast, offering tiered networks does not correlate with best performance. Because quality providers vary widely by procedure, networks must take a specific centers-of-excellence approach to lower their cost trend.

Figure 10 | Best performers provide effective information to employees

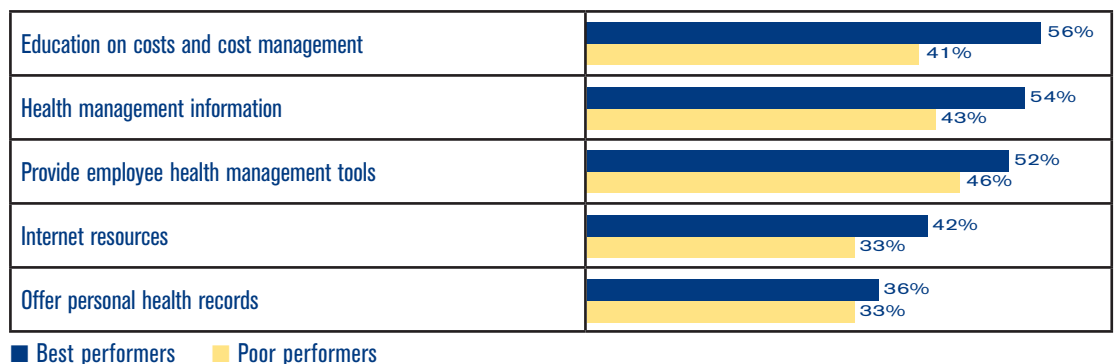
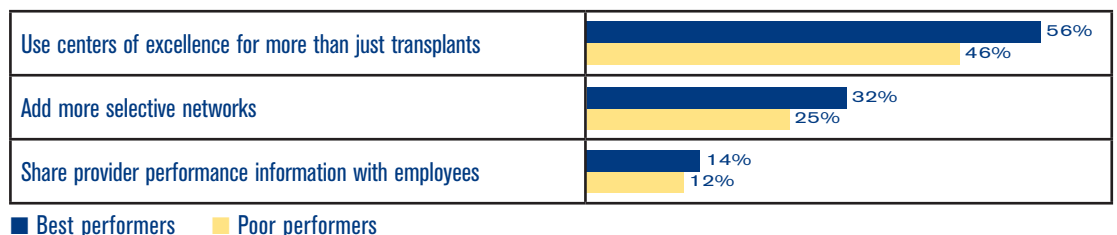


Figure 11 | Best performers emphasize high-quality health care



Overall, best-performing companies use data warehouses, cooperatives and purchasing coalitions more frequently than poor-performing companies.

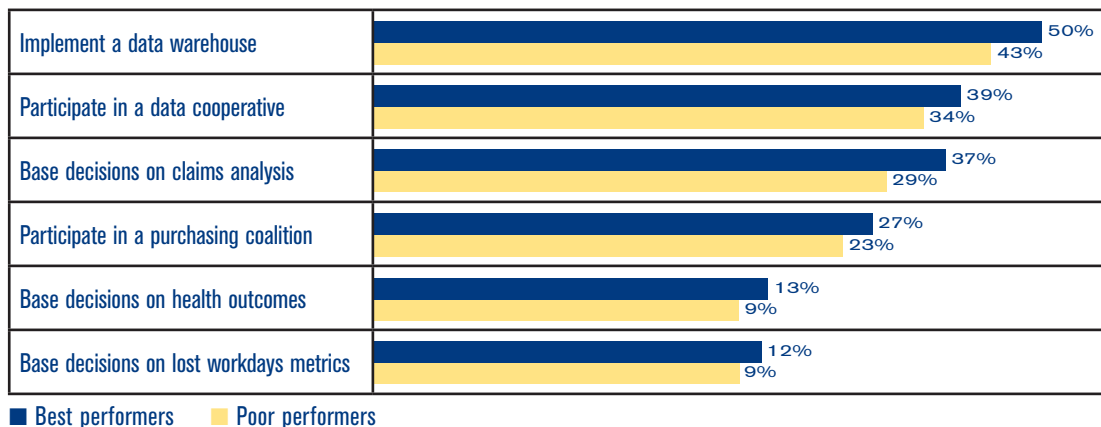
Metrics and Evidence

Best performers are not only more likely than poor performers to use data and evidence when making decisions about health plans, they are also more likely to find that information effective. Overall, best-performing companies use data warehouses, cooperatives and purchasing coalitions more frequently than poor-performing companies. Additionally, best performers use health outcomes and lost workdays more frequently than ROI calculations as a basis for their purchasing decisions (Figure 12).

The difference in using data from a data warehouse is particularly striking. While there is a clear association between best performance and claims analysis based on data from a data warehouse, there is no such tie with claims analysis based on data from employers' own health plans.

MEASURING LOST WORKDAYS. More than 10 percent of employers use metrics to measure lost workdays in their employee population, but only 7 percent think the design of their health care benefit plan motivates employees to minimize absence.

Figure 12 | Best performers utilize data and evidence in health care decisions



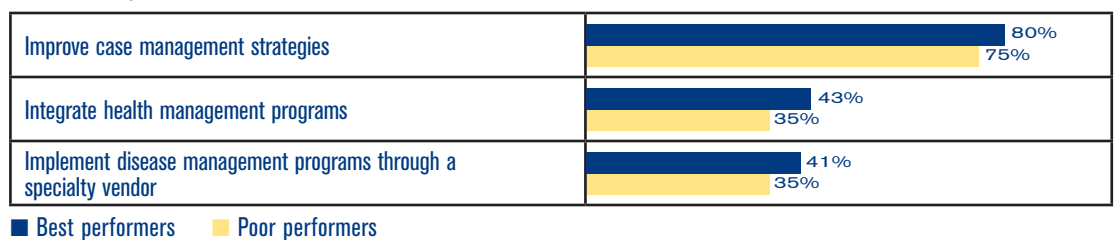
Maximizing Health and Productivity

Programs that help employees improve their health – whether those at low risk for serious medical conditions or those experiencing chronic health problems – also differentiate best performers. Although best and poor performers alike have adopted programs that encourage healthy behavior among employees, best performers are 7 percent more likely to use programs designed to maximize health and productivity. For example, they are 23 percent more likely to integrate health management programs into their health plans and 17 percent more likely to offer disease management programs through specialty vendors (Figure 13). However, adjusting premium differentials based on participation in these health management programs does not distinguish best-performing companies.

Cost Sharing/CDHPs

Cost sharing, by itself, is used by more poor-performing than best-performing companies (31 percent vs. 24 percent). There are a few notable exceptions. Employers that increase deductibles, for instance, are 10 percent more likely to experience lower cost trends; employers that review or place eligibility restrictions on health coverage, such as spousal coverage and coverage for part-time employees, are 73 percent more likely to be best performers than poor performers. On the whole, however, many employers have sought to maintain current cost-sharing levels and have refrained from significantly increasing employee costs.

Figure 13 | Best performers more likely to focus on maximizing health and productivity of employees



While the use of CDHPs does not directly correlate with cost savings, enrollment in the plans does.

Best performers implement plan designs that change consumer health care purchasing behavior to control their costs. For example, by combining a CDHP strategy with other tactics – effective information, high-quality care, health and productivity programs, and metrics – best performers can greatly lower their cost trend. As shown in **Figure 14**, employers with 10 percent or more employee enrollment in a CDHP that also have a strong, rather than weak, focus on quality achieve a 2.3 percentage point reduction in cost trend (6.4 percent vs. 8.7 percent).

Figure 14 | Combining a CDHP with at least 10% enrollment and other tactics lowers cost trends

Employers that offer a CDHP with 10% or more enrollment		
	Level of program focus	Median two-year cost trend
Effective information delivery	Low	7.0%
	High	6.9%
Quality care delivered efficiently	Low	8.7%
	High	6.4%
Maximizing health and productivity	Low	8.5%
	High	5.8%
Metrics and evidence	Low	8.5%
	High	5.9%

While the use of CDHPs does not directly correlate with cost savings, enrollment in these plans does. Those companies that enroll more than 10 percent of their workforce in a CDHP experienced a lower cost trend than those with low CDHP enrollment and those that do not offer a CDHP.

Conclusion

The rate of annual health care cost increases may have steadied at 8 percent, but at more than twice the rate of inflation, it remains a considerable burden for both employers and employees. Employers continue to tackle this issue by seeking to improve employee health and making employees more accountable for their own health care decisions. However, employers need to do more than pass along costs to employees or offer CDHPs to lower their cost trend.

Best-performing companies successfully control costs by taking a broad approach to consumerism that includes a strong emphasis on employee behavior. These companies supplement plan design with a combination of tactics that effectively deliver information, encourage the use of high-quality care, and maximize the health and productivity of their workers. And they continue to distinguish themselves by using data and evidence to refine past strategies, especially as some of these programs become more widely used.

For example, with more companies now providing quality information, best performers go beyond just offering data on quality providers and focus on procedure-based quality programs (i.e., centers of excellence). Instead of merely offering CDHPs, best performers now either drive employee enrollment to levels that will have an impact or offer total replacement plans.

Best performers understand that they need a multi-faceted strategy, including comprehensive communication, to reach all segments of their employee population – no matter their health status. They understand the need to focus on prevention, early intervention, disease management and quality outcomes, and they effectively engage employees to lead healthier lifestyles and become smarter purchasers of health care.

Lowering health care cost increases is not a simple task. But by addressing root causes, best performers are headed down a path that's already producing results. Employers concerned with managing costs and fostering employee health should note that it's a path worth following.

Best performers understand that they need a multi-faceted strategy, including comprehensive communication, to reach all segments of their employee population – no matter their health status.

About Watson Wyatt Worldwide

Watson Wyatt is the trusted business partner to the world's leading organizations on people and financial issues.

Our client relationships, many spanning decades, define who we are. They are shaped by a deep understanding of our clients' needs, a collaborative working style and a firm-wide commitment to service excellence.

Our consultants bring fresh thinking to client issues, along with the experience and research to know what really works. They deliver practical, evidence-based solutions that are tailored to your organization's culture and goals.

With 6,000 associates in 30 countries, our global services include:

- Managing the cost and effectiveness of employee benefit programs
- Developing attraction, retention and reward strategies that help create competitive advantage
- Advising pension plan sponsors and other institutions on optimal investment strategies
- Providing strategic and financial advice to insurance and financial services companies
- Delivering related technology, outsourcing and data services

About the National Business Group on Health

The National Business Group on Health, representing 238 large employers, is the nation's only non-profit organization devoted exclusively to finding innovative and forward-thinking solutions to large employers' most important health care and related benefits issues. The Business Group identifies and shares best practices in health benefits, disability, health and productivity, related paid time off and work/life balance issues. Business Group members, primarily *Fortune 500* employers, provide health coverage for more than 50 million U.S. workers, retirees and their families. The Business Group may be reached by calling 202/628-9320 or by visiting www.businessgrouphealth.org.

For more information on how Watson Wyatt can help you control health care costs and improve employee health, call 800/388-9868 or visit watsonwyatt.com.

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