

# Mercer Offers Health Cost Update

## Survey: Shift to Consumerism Taking Place

### Key Findings

- Health benefit cost increases level off at 6.1% in 2006
- Small employers are most affected; their average cost rose 7.0%, faster than in 2005
- Employers take a break from traditional cost-shifting, focus on tactics to improve employee health and make them better health care consumers
- Enrollment in consumer-directed plans triples

**T**otal health benefit costs rose by 6.1% in 2006, the same pace as in 2005, to an average of \$7,523\* per employee, according to the National Survey of Employer-Sponsored Health Plans, conducted annually by Mercer Health & Benefits LLC. With nearly 3,000 employer participants in 2006, it is the largest annual survey on the topic. All employers (private and public) with at least 10 employees are included in the survey sample.

This represents the end of a three-year period in which employers reduced the rate of growth in health benefit costs, which hit a 12-year high of 14.7% in 2002 and slowed to 6.1% by 2005. Employers with fewer than 500 employees saw costs rise by 7.0% in 2006, however, which was a faster rate than the previous year. Employers predict another 6.1% increase in average costs for 2007. With employee cost-shifting off the table for many employers, reducing this rate further, or even maintaining it, will require other cost management strategies, Mercer says.

In 2006, cost-shifting to employees was less of a factor in reducing health benefit cost increases than in past years. Average deductibles, co-pays and out-of-pocket maximums, which rose rapidly from 2000-2005, showed only modest growth last year, according to Mercer's data.

"So, the multi-million dollar question for employers is: If cost growth in health benefits has stopped slowing, will it now start to accelerate?" says Bob Boyer, market business leader in the Indianapolis office of Mercer Health & Benefits. "With less cost-shifting to employees going on, we'll see how well the leading-edge strategies for longer-term cost management – care management and consumerism – are working."

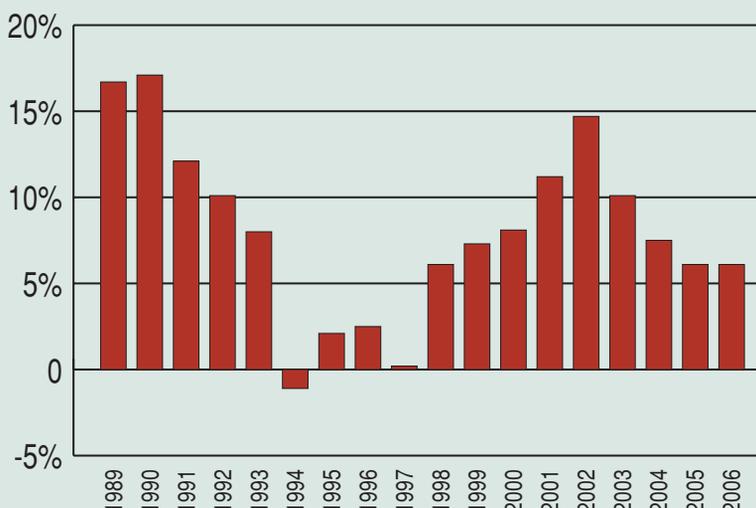
Rising rates for fully insured plans, which are most commonly offered by small employers, also provided upward pressure on costs in 2006. Employers, however, applied downward pressure in other areas. Prescription drug benefit cost increases for large employers continued to slow, from 11.5% in 2005 to 10.4% in 2006, as employers added multiple payment levels to encourage employees to buy generic or preferred brand-name drugs.

In addition, enrollment in consumer-directed account-based health plans, the least expensive type of medical plan by far, is increasing. As employees shift from more expensive plans to less expensive ones, the average cost per employee drops.

*\*This figure includes the cost of all medical and dental plans for employees and all covered dependents; employee premium contributions are counted but not their out-of-pocket costs.*

### Annual Change in Average Total Health Benefit Cost, 1989-2006

All employers



Note: Results for 1989-1998 are based on cost for active and retired employees combined. The change in cost from 1998-2005 is based on cost for active employees only.

Source: Mercer's National Survey of Employer-Sponsored Health Plans

Finally, employers continued to add care management features to their plans in 2006 – in particular, health risk assessments, now offered by 22% of all employers and 53% of large employers – and to add incentives for employees to use care management. Survey results suggest that employers are increasingly able to measure a return on their investment (ROI) in care management. Nearly a fourth of all large employers, and half of those with 20,000 or more employees, have attempted to measure

ROI on various care management programs. Of those, the great majority – 79% – are satisfied or very satisfied with the ROI.

Asked to rate the importance of six cost management strategies to their organization over the next five years, care management and consumerism were each rated important or very important by 43% of all employers (and about two-thirds of those with 500 or more employees). Only 31% of all employers (37% of large employers) believe shifting cost to employees or scaling back benefits will play an important role in controlling costs in the near future.

### Trend to consumerism

The percentage of all employers offering a consumer-directed health plan (CDHP) based on either a health reimbursement account (HRA) or a health savings account (HSA) tripled in 2006, from 2% to 6%, as small employers began adopting the new plan type in significant numbers for the first time. Growth was also strong among larger employers. CDHP offerings rose from 5% to 11% among employers with 500 or more employees, and from 22% to 37% among jumbo employers (20,000 or more employees), the first to embrace the model. Nationally, enrollment in CDHPs jumped from 1% to 3% of all covered employees.

“Some industry watchers look at the low enrollment in CDHPs and conclude that employees aren’t accepting the model,” notes Matthew Arnold, principal in the Indianapolis office of Mercer Health and Benefits. “But a three-fold increase in one year suggests otherwise.”

CDHPs delivered substantially lower cost per employee than either PPOs (preferred provider organizations) or HMOs (health maintenance organizations) in 2006. CDHP costs averaged \$5,770 per employee, compared to \$6,616 for HMOs and \$6,932 for PPOs (but just \$6,019 for PPOs with comparable deductibles of \$1,000 or more). The average CDHP cost is 5.3% higher than last year’s average cost of \$5,480.

### Slowdown for large employers

Near term, 14% of small employers say they are very likely to offer a CDHP in 2007, including those who currently offer one; this figure rises to 16% for 2008. This would represent a significant increase from the 5% of small employers offering a CDHP today. Even if not all these employers follow through in 2007 (respondents complete the survey in late summer, when

## Consumer-Directed Health Plan Growth

	Offered in 2005	Offered in 2006	Likely to offer in 2007*	Likely to offer in 2008*
All employers	2%	6%	14%	16%
Small employers (10-499)	2%	5%	14%	16%
Large employers (500+)	5%	11%	14%	19%
Jumbo employers (20,000+)	22%	37%	39%	43%

\*Selected 5 on a 5-point scale, where 1 = not at all likely and 5 = very likely. Includes employers that currently offer; 2008 figure includes employers likely to offer in 2007.

Source: Mercer’s National Survey of Employer-Sponsored Health Plans

many small employers in particular have not yet finalized plans for the upcoming year), it is a good indication of their enthusiasm for the new plan type.

While CDHPs initially grew fastest among larger employers, survey results indicate a cooling trend for the next two years. Among employers with 500 or more employees, CDHP offerings are predicted to rise from 11% this year to 14% in 2007 and 19% in 2008 – good, but not spectacular, growth. Among jumbo employers, where CDHPs have been embraced the most enthusiastically, growth will be modest, from 37% this year to 39% in 2007 and 43% in 2008.

If these predictions prove accurate, they suggest that the rapid growth in CDHP adoption seen in 2005 and 2006 will slow somewhat over the next two years. “That’s not unusual with a new plan,” Arnold adds. “By now, the early adopters have already acted; we can expect a pause while employers with more of a ‘show-me’ mindset wait for results.”

### INFORMATION LINK

**Resource:** The Mercer National Survey of Employer-Sponsored Health Plans is conducted using a national probability sample. There were nearly 3,000 employer participants in 2006. Results represent about 600,000 employers and more than 90 million full- and part-time employees, and have an error range of +/-3%.

The full report on the survey results, including a separate appendix of tables of responses broken out by employer size, region and industry, will be published in late March. The report costs \$500, and the report and tables cost \$1,000. Copies of the report and tables may be pre-ordered online at <http://MercerHR.com/ushealthplansurvey> or by calling Matt Arnold at (317) 261-9429.

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