Perspectives

Reshaping the Health Care Experience

What's Next? What's Now?

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"Employers are seeking to understand the health care reform law and its implications for their employee and retiree plans. Should they play or pay?"

The delivery and financing of health care in the U.S. is changing rapidly and profoundly. Employers are seeking to understand the health care reform law and its implications for their employee and retiree plans. Should they play or pay? What about the 2018 excise tax? How do exchanges work? How will retiree health plans be affected? And most important, how can they control costs and maintain good employee health under the new laws?

Employers — collectively among the biggest payers of health care — are bound to make major changes, both to stay competitive and to remain influential stakeholders. For retirees, change is close at hand, with an increasing number of employers changing their commitment to post-65 retiree health care and exploring new opportunities the public exchanges will create for pre-65 retirees.

For now, it appears that most employers will stay the course for active employees, continuing to invest in their health care, at least for the next few years. Data from the 2013 Towers Watson/National Business Group on Health survey — comprising nearly 600 companies representing 8.5 million employees in employer health plans — show that 95% of employers oppose sending their employees to the exchanges without a financial subsidy over the next five years.

Most will play. The question now is: *How* will they play?

In our view, employers that choose to continue offering employee health benefits will need to focus on two goals for their plans: viability and affordability. In short, a plan has to be viable both in terms of cost and in its value to the organization, and it must be affordable to both the organization and its employees.

Employers have invested substantially in health care over the past several decades. To keep that investment viable, organizations must continue to pay attention to affordability. Beginning next year, they will have new options with the public exchanges opening under the law and private exchanges coming to the market.

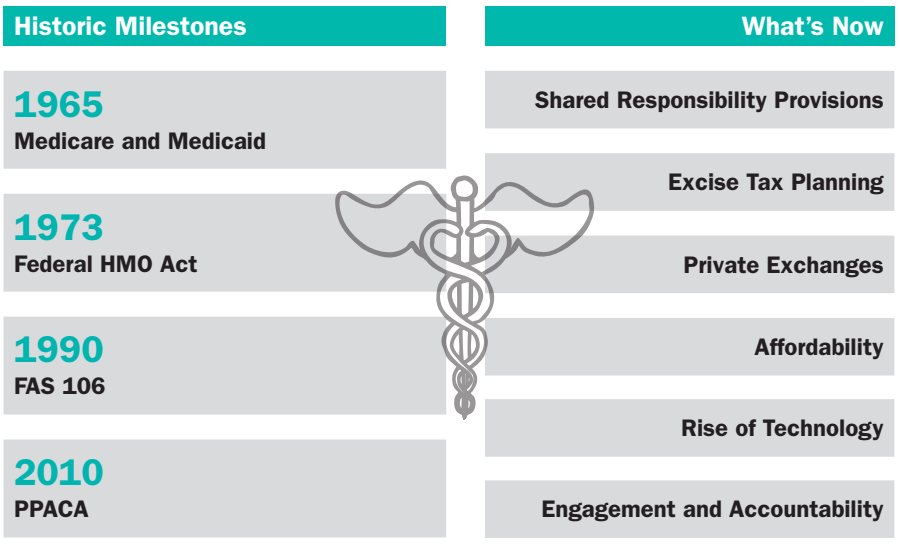
Employers need to examine all the options and decide how they fit into their overall employee health care strategy. They also have to consider what they should do now to prepare for the excise tax in 2018. What must they do to sustain affordability, employee engagement and health promotion in the workplace?

Before taking any action, employers need to summon the collective will and sense of urgency it will take to get their organizations ready for imminent changes in employee health care. Changes we've been talking about for years — including the demise of fee for service, as well as the arrival of bundled and episode-of-care payments — are here, and further changes are approaching faster every day.

Background: Government's Role in Health Care

Since World War II, the federal government has played a growing role in health care, passing a number of laws with the goal of improving the country's health. But while most other countries put various models of single-payer national systems in place, the U.S. mostly limited its investment to financially supporting coverage for retired and lower-income citizens, and providing tax breaks that supported employer-provided coverage for workers and their families *(Figure 1)*.

Figure 1. Reshaping health care



Today, Medicare for retirees over the age of 65 and disabled workers is the largest payer of health care in the country. The other major payers are the Medicaid government program for lower-income families, largely self-insured employers that cover millions of workers and their families, and insurance plans that administer employer plans and cover many people not covered by self-insured employer plans. The result of this patchwork quilt is uneven health care coverage. It has also spawned a business model that rewards health care providers for each service performed, regardless of need or outcome, and results in no medical coverage for more than 30 million people. These uninsured often turn to emergency rooms — potentially as charity burdens on hospitals, insured patients and taxpayers — when they need urgent care.

For decades, the U.S. health care cost trend has spiraled upward, outpacing the price increases of most other services. While it has moderated somewhat, on average, it is still double the rate of general inflation. This trend jeopardizes the future viability of Medicare and Medicaid, and also the future of employer-sponsored health care benefits, as it challenges the ability of employers to increase salaries and contributions to other employee benefits.

The Patient Protection and Affordable Care Act (PPACA) is the first law ever to require citizens under the age of 65 to make a health care choice — either buy health care insurance, or pay a penalty or tax — in return for guaranteed coverage, competitive pricing and federal subsidies to those who need it. It is also the first law to establish payment based on the three metrics of quality care, efficiency and improved health outcomes, and to apply it to all government health care programs (Medicare and Medicaid).

Powerful Players Outside Government

Against this backdrop of change, including the launch of the public exchanges, employers, providers and health plans continue to be powerful forces in American health care. Over the last few years, health care providers and health plans have prepared aggressively to change delivery of and payment for health care. Self-insured health plans and insurance companies, in particular, have wisely used the goals and metrics of the PPACA to their advantage, and are following the lead of Medicare and Medicaid in the use of different payment strategies (e.g., bundled and episode-of-care payments).

And everyone is leveraging cutting-edge technology, including social media, to help them achieve their goals. The changes already in place in the health care system make it highly unlikely that the old fee-for-service business model could ever return, even if the law disappeared tomorrow.

Employers: Make Sure Your Plan Is Viable

In selecting the strategy for your organization's health benefit program, we recommend looking through the lens of long-term viability *(Figure 2).* There are a number of measures to make sure your plan remains viable:

- The 2018 excise tax is a new, quantifiable measure of viability. You have to manage your plan below the excise tax cost threshold, or your plan will effectively cease to be viable. No organization wants to pay the hefty 40% tax on high-cost plans that exceed the threshold.
- Affordability is another viability measure, especially relevant to direct contribution approaches. You need to control top-line cost to allow for stability in employer contributions. But cost is not the only important metric. To make sure your employee health care program is viable, it must also add value to the organization.

Employers have every reason to want to protect the value of their substantial investment in employee health care over the years. Decisions you make on how you will play in health care will have an impact on your organization's brand, how you will attract and retain employees, the health and productivity of your employees, and how you organize and deploy your workforce. These are decisions to make carefully. Focus on where you are deriving value from your investments in health care.

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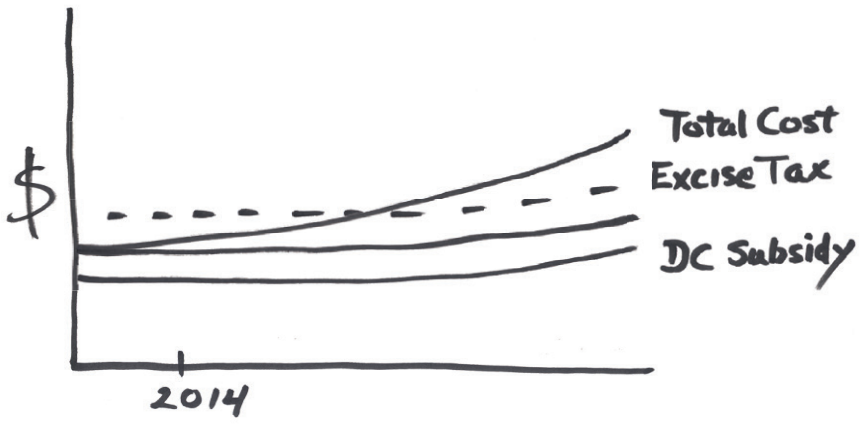
Figure 2. Viability is the watch word



What's Now? New Times, New Tools

In this post-reform period, there is plenty of good news. Reform has given us new tools along with permission to try new things. With the excise tax looming, many organizations are increasingly accepting cost-reduction strategies they may have been reluctant to leverage before health care reform, including account-based health plans, incentives and penalties for providers and employees, restricted networks, centers of excellence and better care management.

At the same time, hospitals, physician groups, government payers and health plans are making major investments to transform care and reimbursement from uncoordinated and volume-based, to coordinated and value-based.

And technology is playing a critical role. Changes in health care delivery and a greater focus on holistic wellness empowers participants in employer plans to track their health — and many employers are giving them the tools to do so. At the same time, we are seeing huge growth in the use of mobile devices and social media, as well as delivery of health care via telemedicine, kiosks and other media.

What's Next? Holistic Strategies

One thing we know for sure in this environment: Piecemeal strategies are unlikely to get the job done. Achieving high performance requires integrated attention to all areas.

On the demand side of the equation, employers need to coordinate and organize plan design, modeling tools, incentives and penalties, communication, and technology around a set of guiding principles that continue to support and demand higher levels of participant engagement and accountability.

On the supply side, there are new opportunities regarding provider alignment. Health plans have new solutions and healthy competition from specialty players in the areas of high-performance networks, cost and quality transparency.

Reform

has given us new tools along with permission to try new things.

- Account-based plans
- Differentiated networks
- Incentives
- New delivery models
- Value-based payment
- Technology
- Social media
- Onsite health
- New exchange-based channels

Towers Watson's View: Great Possibility

There is a wide range of possibilities for employers trying to decide how to play. Among their options are:

- Investing fully in sponsorship
- Combining sponsorship with public exchanges
- Outsourcing all insurance
- Leveraging private exchanges
- Incorporating geography-based solutions

While both the public and private exchanges are grabbing all the headlines, Towers Watson believes exchanges won't — by themselves — make your plan affordable and viable. You need more than a promise that competition among plans within the exchange will hold down costs. Employers shopping the exchanges need to look for those that add value — that include the advantages of the professionally self-managed programs most employers use today. In choosing the new path for your organization's various population segments, look for those exchanges promoting the value and high-performance characteristics we are accustomed to in today's employer plans.

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Retirees

The PPACA and its precursor, the Medicare Modernization Act, have presented employers opportunities to improve both the viability and affordability of health care benefits for retirees — perhaps more than any other population. Specifically, the Medicare space has become fertile ground for private exchange solutions through the value of standardized, guaranteed-issue products, significant federal subsidies and large rating pools. Hundreds of employers have leveraged exchange solutions to provide better health care choices and value to Medicare retirees, while reducing the cost and administrative burden of benefit delivery. Now, health care reform is expanding the reach of these valued items to early retirees as well with the launch of new insurance underwriting requirements, and new public and private exchanges. As this expansion evolves, employers will see additional opportunities to improve the viability and affordability of health care for former employees, regardless of Medicare eligibility. Thoughtful evaluation of these opportunities will be critical as employers look to effectively manage their workforces.

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Part-Time Workers

Similarly, employers will be able to help those workers ineligible for employer plans to navigate the public exchanges. Those working less than 30 hours a week will have access to care and guaranteed coverage, with possible government subsidies. Employers can play an important role in education and communication, and perhaps even navigation to the exchanges.

Actives

For active, full-time employees who work more than 30 hours a week, employers will be able to choose between the plans most have now and private exchanges that offer an array of plans. Either way, a high-performing plan is essential to achieve affordability and long-term viability. If you decide an exchange is the best option, be sure it can help leverage your long-term investment in your employee health care, employee engagement and workplace health. You should be confident that the exchange will be able to deliver value for many years to come.

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