

# MERCER

Consulting. Outsourcing. Investments.



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN



September 15, 2009

## **Healthcare 101: Basic Concepts** *Washington County Benefits Committee*

Mike Berry

Renee Balsiger

Kristin Kirschten

## Basic Benefit Concept

### What are Employee Benefits?

- Programs which protect employees from economic hardship due to unforeseen disruptions in earnings caused by illness, injury, disability, or death of the employee or the employee's family members.
- Employee Benefits are partially or fully paid for or sponsored by employers and generally amount to a substantial amount of total compensation.
  - Public Sector benefits traditionally more rich than private sector
  - Rare to have 100% contribution due to cost
  - Voluntary plans are becoming more common to supplement employer paid programs
  - We'll look at data specific to Washington County later this afternoon

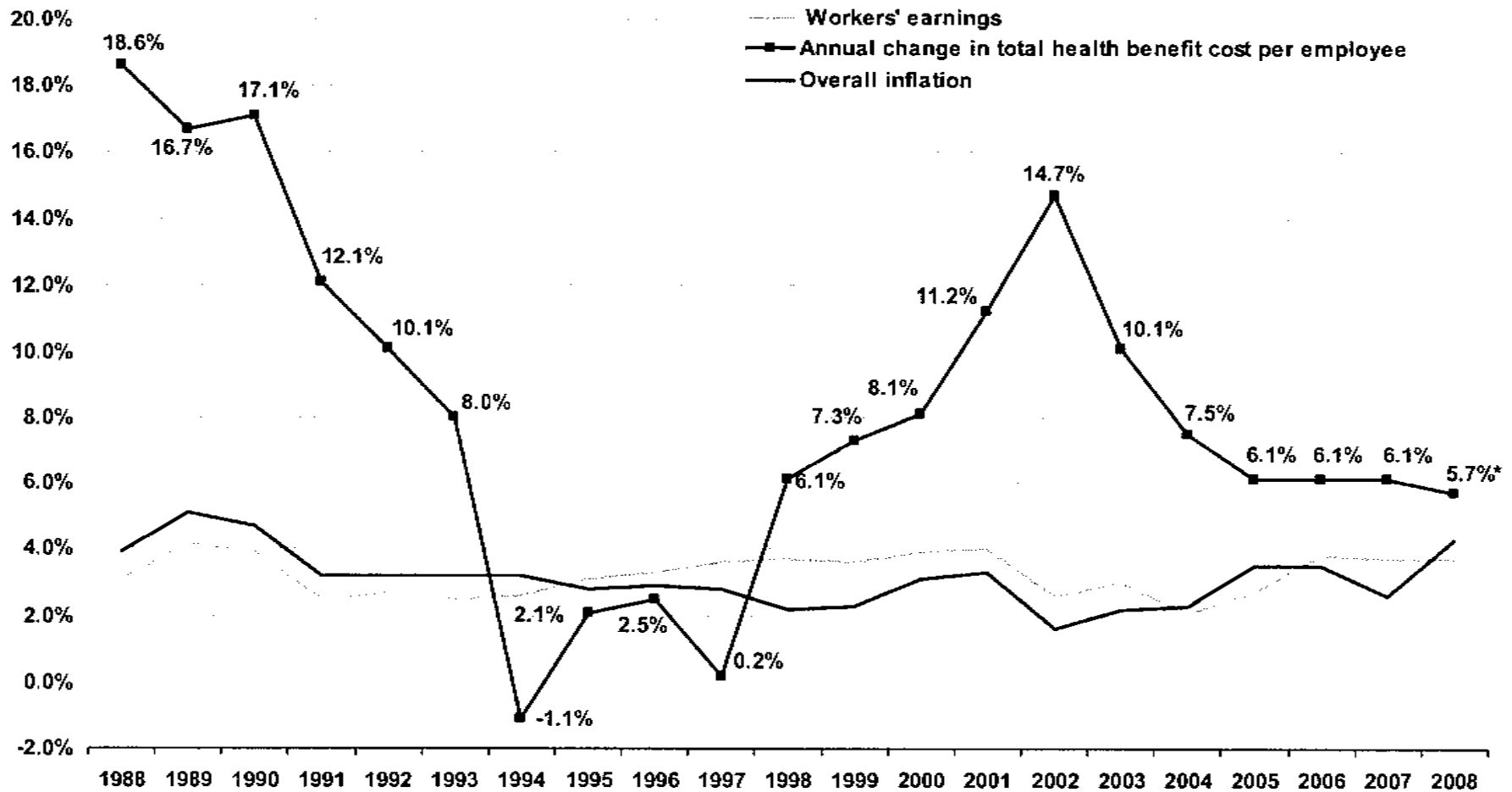
## Basic Benefit Concept

### ▪ Examples of Employee Benefit Plans

- Health & wellness (medical/Rx/vision/dental) (*Providence, Kaiser, WDS, VSP*)
- Lifestyle protection plans (life and disability insurance) (*The Standard*)
- Retirement plans (*457 plans, etc.*)
- Company stores, cafeterias, discounts, parking
- Employee assistance plans (*Cascade EAP*)
- Long term care plans
- Flexible spending accounts (*Manley*)

## Cost growth has been consistent since 2005

Total health benefit cost change vs. workers' earnings and general CPI



\* Projected

Source: Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April) 1988-2007; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey (April to April) 1988-2007.

## Health care spending

- Health care spending consumes 14% of the US gross national product. Over twice the amount of other industrialized nations.
- Average medical cost increases are 10%, with 30% to 40% increases experienced by some employer plans.
- The monthly cost for family premium can be greater than the monthly wages for a minimum wage employee.
- The average U.S. benefit\* cost per employee in 2007 was \$8,229. A 10% increase costs an additional \$823 per year. A 30% increase costs an additional \$2,469.
- No wonder that *Health Care Reform* is on everyone's radar screen.

\*Includes medical/dental/vision

## Health Care Delivery Systems

- Delivery Systems
  - PPO – Preferred Provider Organization (*Providence*)
  - POS – Point of Service Plan
  - HMO – Health Maintenance Organization (*Kaiser*)
  - Indemnity
  - CDHP or “Consumer Directed Health Plans”:
    - HSA – Health Saving Account
    - HRA – Health Reimbursement Account
  - Other delivery systems you may hear discussed:
    - Medicare (primarily over age 65 and totally disabled individuals)
    - Medicaid (Oregon Health Plan)
    - High risk Insurance Pools (Oregon Medical Insurance Pool or “OMIP”)

## Health Care Funding Arrangements

- Fully insured and pooled (*smaller organizations*)
- Fully insured and experience rated (*larger organizations like Washington County*)
- Self-funded with stop loss (*primarily larger organizations; rare in public sector in Oregon due to current laws and regulations*)
- Fully self-funded (*generally “megagroups” who have the financial ability to fund a plan in it’s entirety*)

## ■ Cost Drivers

- Behavior
- Aging population
- Claims and utilization
- Technology
- Consumer demand
- Prescription drugs
- Regulatory/legislative mandates
- Lack of transparent cost data prior to consumer purchase

## The Medical Cost of “The Big 3” Behaviors

- Obesity and nutrition
  - Avg 10% of total claims costs directly attributable to obesity
  - 60% of Americans exceed ideal BMI
  - Obesity predicted to become the leading cause of death
- Tobacco
  - Avg 10% of total claims costs directly attributable to tobacco
  - Health care costs for smokers are as much as 40% higher than non-smokers
  - Smoking is a risk factor for many chronic diseases
- Sedentary lifestyle
  - 60% perform no substantial activity or exercise

Source: Lumenos

## The Problem

- People with chronic diseases often account for 50% of costs – 70 million people have a chronic disease
- In most employer groups,
  - 20% of the members incur 80% of the healthcare costs
  - 3% to 5% of the members are responsible for 50% to 60% of the costs
  - Those with risk factors, (e.g., smoking, obesity, inactivity) can cost 10% to 70% more than those not at risk

To make matters worse.....

- On average, 50% of people with a chronic disease do not comply with their treatment plan resulting in disease progression and increased use of healthcare resources
- Poor compliance with prescribed medical treatment is estimated to cost between \$100 billion and \$150 billion annually in the U.S.

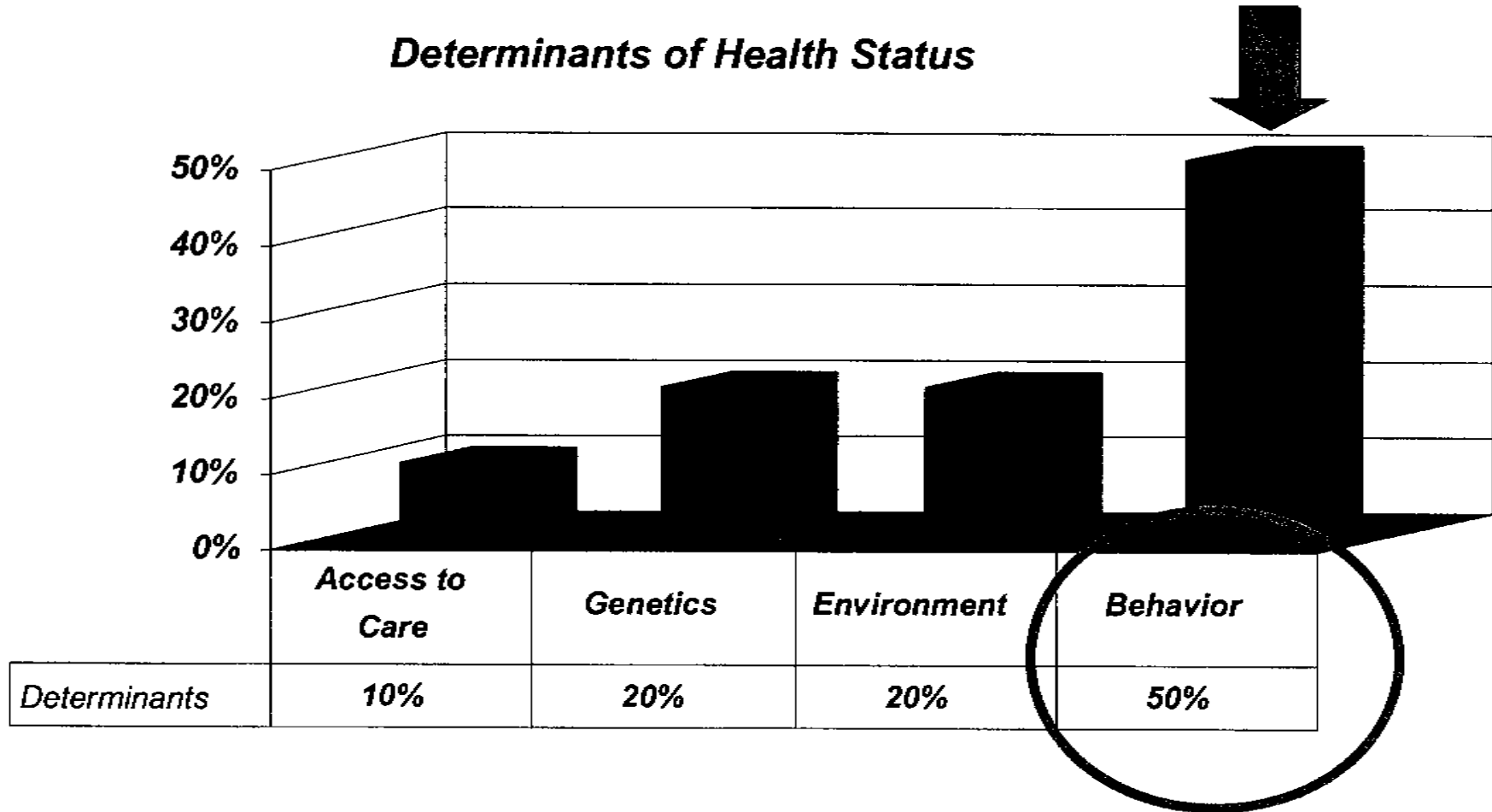


# The opportunity

Behaviors are key to an individual's health status

- Employee behavior determines 50% of health status and associated costs

*Determinants of Health Status*



## ■ Cost Saving Strategies

- Current Strategies
  - Benefit changes
  - Employee contributions
  - Eligibility
- Newer Strategies
  - Consumerism
  - Wellness
  - Disease and case management programs

*We will discuss strategies in detail!*

# MERCER



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN