



Health Care Reform: The National Exchange Solution

Post-Reform. New Paths. New Approaches.

South Carolina Business Coalition on Health
May 10, 2011



Our Point of View—"Wait and See" is Over

Are you prepared for health care's new realities?



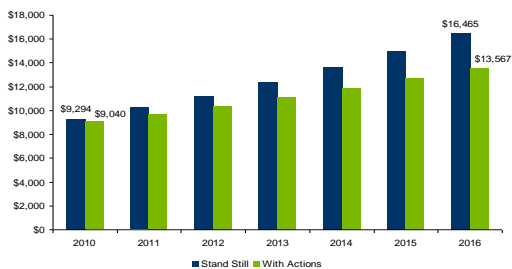
Creating a strategic plan is a business imperative, and regardless of the path you're on, employers need to take specific actions to support and influence a healthy, present, and productive workforce!



Stage Setting—The Realities in the Wake of Health Reform

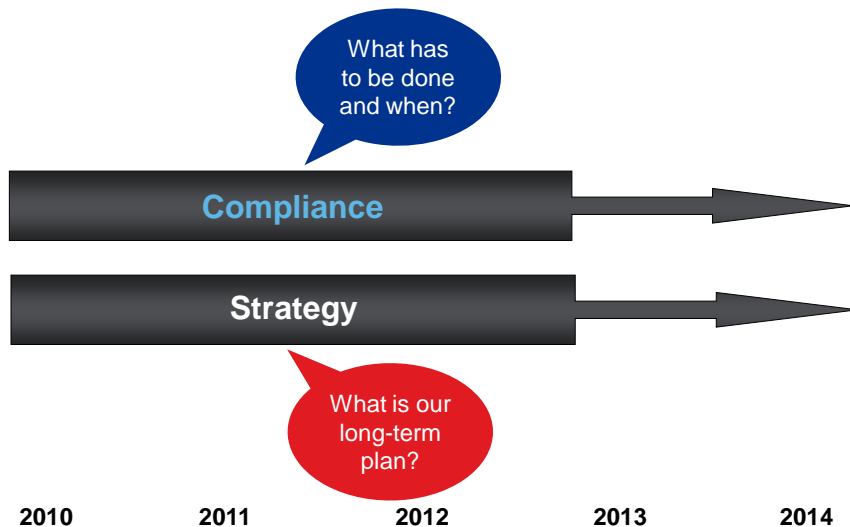
- This is just the beginning
 - Regulatory guidance, and potentially additional legislation, will be on the table...forever
- Without aggressive action, employer health care costs will increase 60% in the next five years
 - No one will be standing still
 - The era of the copy is over; designs will be meaner and leaner
 - Companies will be more requiring of their employees (carrots and sticks)
 - Some will move towards defined contribution approach in health care
 - All benefits are “on the table” as the employment deal is re-assessed

Annual gross trend of 10% per year; net trend of 7% per year



Even a 7% compound annual growth rate (CAGR) is unsustainable long-term; there needs to be a “new normal”

Reform Sends You Down Two Concurrent Paths...



...Leading to a Fork in the Road

Down either path, employers have a persistent need to have a workforce that is healthy, present, and productive; that is imperative for all businesses

» Aggressive Health Management

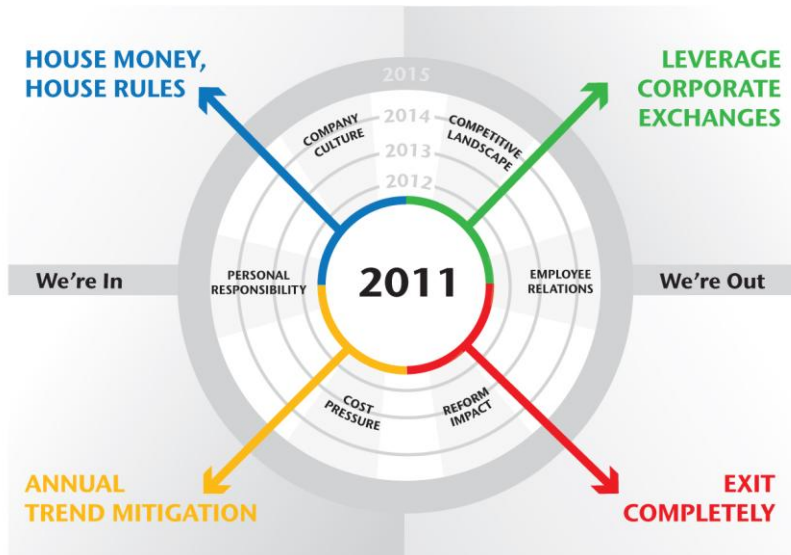
- Heavy emphasis on health risk improvement and cost management
- Sophisticated use of data analytics to drive design, program management, vendor accountability
- Migration from incentives to penalties and "requirement gates" to access better benefits
- Alignment with pay for performance business culture



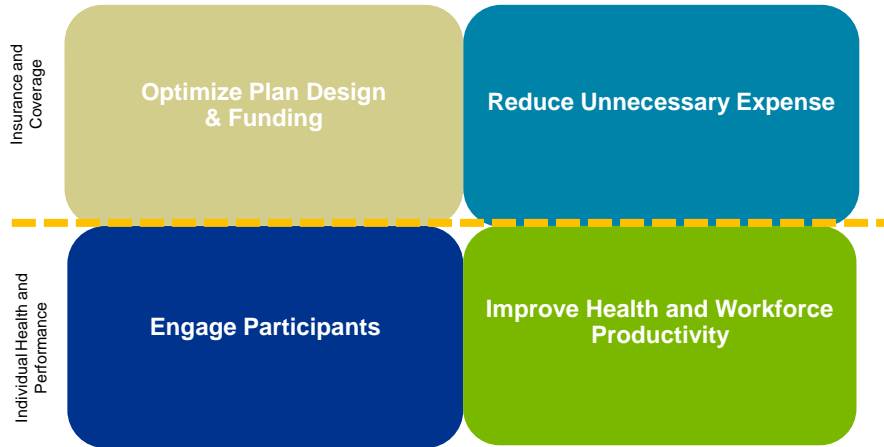
» Managed Defined Contribution

- Subsidy fixed with company-driven increase
- Coverage via individual market (private or public Exchanges)
- Worksite health shifts to focus on return to work, absence reduction, productivity gains

Develop a "What If" Plan Around Each of These Paths



No Matter What Your Path:
A Healthy and Productive Workforce is Critical to Business Success



Aggressively Managing Cost & Improving Health—Idea Starters

Optimize Plan Design & Funding



Reduce Unnecessary Expense



Engage Participants



Improve Health and Workforce Productivity



Why Employers Provide Health Care Benefits

1. Competitive Practice
2. Tax-Efficiency
3. Vested Interest in Health and Productivity
4. No Viable Individual Marketplace for All

**If your main competitor “got out”,
what would YOU do?**

**If YOU “got out”,
would you energize collective
bargaining?**

Why Large Employers Won't Completely Exit Health Care Completely

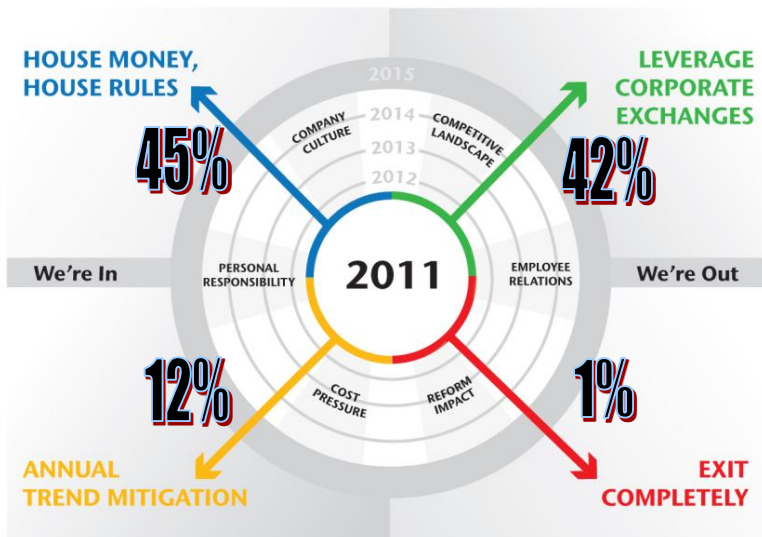
Getting Out—The Simplified Math

Total Health Care Premium	\$8,992
Employer Subsidy	\$7,015
Employee Contributions	\$1,977

Free Rider Penalty (non-deductible)	\$2,000 (?)
Loss of Deduction (40%)	<u>\$ 800</u>
Net Expense of Penalty	\$2,800
Employee Comp. Increase (50% of Subsidy)	\$3,507
Tax Gross-up (30%)	<u>\$1,503</u>
Total Comp. Expense	<u>\$5,010</u>
Total Employer Cost After Exit	\$7,810

Where are the Savings?

What We Are Hearing From Your Peers



Source: Aon Hewitt Health Care Conference Polling Results, February 2011: n=243

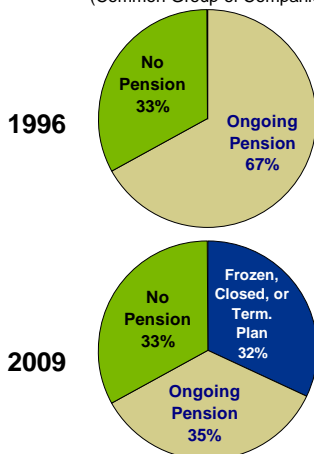
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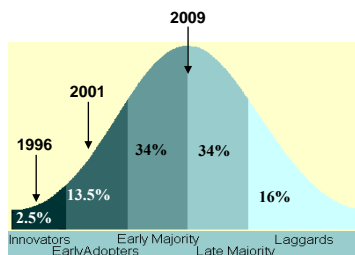
The Trend from DB to DC

Fortune 500 Pension Plan Prevalence (Common Group of Companies)



Sources: Hewitt Benefit SpecSelect, Rogers (1995)

- Started with market movers (AT&T, IBM)
- Driven by desire to reduce complexity, volatility, and annual cost increases
- Followed typical innovation curve
- Federal government didn't stand in the way; replacement alternatives existed
- Companies didn't make employees whole

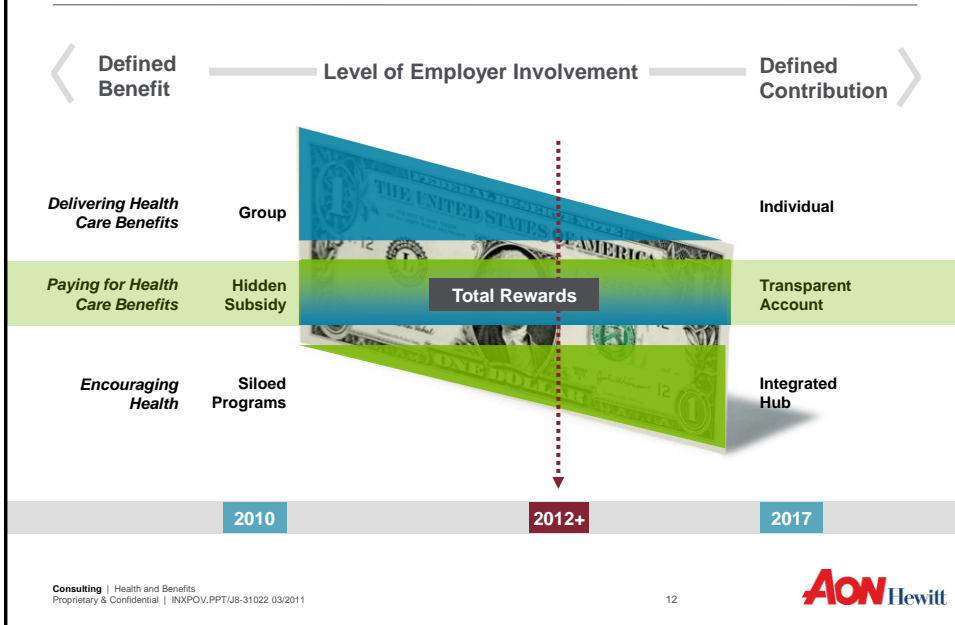


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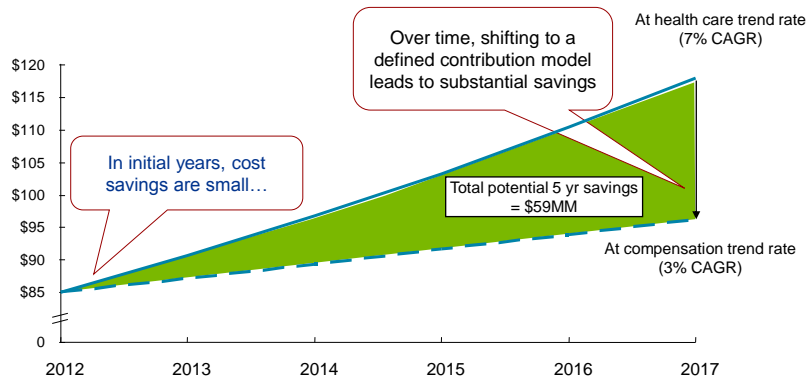
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A Movement Toward Defined Contribution



Getting Off the Health Care Trend Curve



Total estimated employer subsidy (current = \$7,000 PEPY), care costs and health for a typical employer with 10k lives at varying growth rates

**Annual savings of \$21MM at Year 5 drops to bottom line
Equivalent to \$315MM in shareholder value at PE of 15x**

Aon Hewitt Corporate Exchange Concept



Key Features

- Allows employees to choose from a variety of carriers and plan types
- Employees are flexible to use the Account dollars in the best suited health product
- Market competition in "retail" channel dampens trend
- Upon termination, Account dollars revert to the employer
- As transition to individual market occurs, the Aon Hewitt Corporate Exchange would have better risk and less variability than state-based exchanges

Aon Hewitt Corporate Exchange – Progress to Date

- **Employers:** Working group of 20 employers, mix of industries and geographies
- **Design:** team has development strawperson platinum, gold, silver, and bronze plans
 - Will require all carriers to quote on identical plan design
 - Employer group to weigh in on design specifics
- **Funding:** considering both insured and self-insured approaches
- **Defined Contribution Account:** looking at a "credits" model as alternative to premium-only health reimbursement account
 - Can't use HRA if design options include Health Savings Account
- **Vendors:** in depth conversations underway with major health plans and PBMs
- **Delivery:** "wireframe" structure complete and tested with employers
- **Timing:** as early as 2012, likely for 2013

Employers Will Join a Corporate Exchange if they:

- ✓ Are philosophically aligned with “monetizing” their commitment in the form of defined contribution
- ✓ Do not want to be involved in plan design or vendor relationships
- ✓ Do not believe that health benefits should differentiate in Total Rewards
- ✓ Want to move toward a compensation-like rate of cost growth in the long term
- ✓ Are comfortable with employees accessing information and support from a third-party

In Closing...Some Advice



Integrate Impact

Work through the design, administration and communication implications of health care reform together for the best outcome



Think Ahead

Pursue parallel tracks for both compliance and strategic decision points



Manage the Here and Now

Aggressively manage cost to keep trend below market as the landscape shifts



Engage Your People

Use new and innovative ways to engage employees and their families in the context of what they can control—their health



Act Now

Determine the changes that will need to occur in 2012 and 2013 to provide a glidepath to your desired vision in 2014

Questions

