

An HR perspective

The Future of Healthcare Benefits—Employers' opportunity for strategic change in the new healthcare world

February 2014

At a glance

As implementation of the Affordable Care Act (ACA) proceeds in the bellwether year of 2014, employers are confronting broader strategic considerations relating to health coverage for their employees.

With new requirements and almost certain cost increases for most employers, businesses are rethinking their role in providing health coverage, and other stakeholders are keenly interested in their moves.

PwC recently convened several roundtables of employers in New York, Chicago, and Atlanta to discuss health coverage at this pivotal moment. Highlights of the conversations and results of a related survey are presented on the next pages.



Day Surgery Centre

Theatre 3

*An HR perspective—
The Future of Healthcare Benefits—Employers' opportunity
for strategic change in the new healthcare world*

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Discussion Summary

In December 2013, PwC held a series of six employer roundtables across the country focusing on **The Future of Healthcare Benefits—Employers’ opportunity for strategic change in the new healthcare world**. While the discussions were wide ranging, each of the roundtable discussions covered:

- The ins and outs of private exchanges
- Rebooting wellness programs and leveraging new incentive models
- Integrating care delivery models (accountable care networks, expanded use of centers of excellence, and medical home models)
- The complex upcoming reporting requirements and other ACA requirements

This summary provides some headlines from those discussions across the country.

Private Exchanges

There was general consensus that “private exchanges” were the buzz of the day. With most of the major employee benefit consulting firms now offering their own version of a private exchange, employers were almost universally aware of their existence, although sometimes their knowledge was limited to one or two private exchanges.

The discussions related to private exchanges were mixed, with some expressing strong interest in a “new way” to provide more benefits choice and support to their employees. Some of the key concerns of participants tended to relate to the likelihood of cost savings, strength of the value proposition, ability to control plan design and strategy over time, and the transparency and size of the embedded costs of the private exchanges. The immaturity of the market was also seen as a concern.

There was also variation in the desirability of insured versus

self-insured approaches as well as the availability of voluntary benefit offerings. Some questions asked included:

- Does this fit our corporate culture? How does this change our employer value proposition? Am I willing to give up control?
- Are private exchanges simply “flex on steroids” or a more fundamental change in how we offer benefits?
- Are private exchanges a way to offload the costs and administrative burdens of offering health coverage?
- Are private exchanges a way to get to predictable, fixed costs?
- What is the role of commissions in a private health insurance exchange?
- What is the role of voluntary benefits in the private health insurance exchange and will employers/employees be oversold products?

- How can we understand the different fees and the other kinds of services where additional fees will be added?
- How can the incremental costs of insurance be justified?
- How will they be perceived by employees, and what impact will they have on our recruiting and retention strategy?
- What is the stability of the private exchanges over time?

Roundtable discussions indicated that 1) there was significant variation among the private exchanges so it is difficult to make statements about “private exchanges” in general and 2) the private exchanges for active employees are still very new. However, all of the major carriers appear to be participating in some or all of the private exchanges and will figure out how to underwrite the business over time because this is going to be an insurance product distribution channel for them.

The value proposition for private exchanges is likely to improve over time

Some asked about the role of population health and wellness programs in private exchanges. There were three points of view:

- Some exchanges will leverage the services of participating insurers
- Some exchanges will overlay their own population health strategy
- Some employers will make wellness/well-being independent of the private exchange offering

Regardless of the role the private exchange will play in wellness, several employers were still committed to wellness programs embedded in their health offerings for no other reason than intuitively it felt right.

Some additional observations shared:

- Many have already moved to private exchanges for Medicare-eligible retirees, and others view that as a first step into the private exchange arena. There is potential to move pre-Medicare retirees and COBRA participants to public exchanges

- Many are intrigued by the opportunity for a “defined contribution” approach to healthcare benefits. Some are concerned that since the private exchanges are based on their own claims experience, the cost of providing health coverage in this way will not be as different from their current approach as initially anticipated. This also was cited as a barrier to moving from a current self-insured health plan to insured approaches on private exchanges
- Those employers that favor private exchanges tend to see the value of a broader choice of options and improved employee experience in fitting those options to their needs. They don’t feel like they should continue to be as paternalistic as in the past
- Discussions continue about the lack of tax favored approaches to offer individual policies to active employees
- Some employers are concerned about the role of voluntary benefits, commissions, and employees potentially being sold unnecessary products
- Those employers that are less inclined to pursue this strategy are not sure where the savings will arise and wonder if first-year savings from a private exchange approach are acceptable. Some also feel that too much choice is confusing and not good for their employees
- The value proposition for private exchanges is likely to improve over time as they distinguish their products and services from those of their competitors. Parallels with leverage purchasing arrangements by private equity firms for their portfolio companies may be helpful
- The line between private exchanges and health plans may blur over time as private exchanges offer more overlay services that engage and support the consumer at enrollment and beyond and traditional health plans offer services that are network-agnostic

- Union and labor partners need to come on board or else may be a barrier to a company's long-term strategy for consistent delivery of benefits across all populations
- The private exchanges may enable more aggressive delivery-based strategies over time, including centers of excellence and, potentially, high-performance networks competing with broader network options
- Some employers still want to have influence over the health benefit program and are concerned with how governance is handled under various private exchanges
- Many employers are striving for opportunities to stay abreast of the private exchanges but are concerned about the independence of the advice being shared. PwC shared information about the Private Exchange Evaluation Collaborative (ThePEEC.com)
- Some employers feel that private exchanges and a defined contribution approach may be a strategy to manage Cadillac tax challenges

Some employers are very intrigued by and evaluating private exchanges as a way to provide employees with benefits tailored to meet their needs while limiting and/or controlling the costs of healthcare, making this strategy very attractive to leadership. Others are skeptical and want to make sure they understand how much control they would have over design, funding, etc., and better understand what is in it for the exchanges—how and how much are they getting paid.

Delivery System Reform

There is increasing interest in the impact of delivery system reform on health benefits strategy, including

- Increasing look at narrow or high-performance networks
- Expanding use of mid-level practitioners, telemedicine, and extended delivery
- Some experimentation with internal concierge services to keep employees out of emergency rooms

- Need for more public information, transparency, and outreach to help drive employee behavior
- Public and private exchanges potentially accelerating implementation of delivery system benefit strategies

Many were not comfortable moving toward direct relationships. Others felt more time is needed to better understand the financial impact of delivery system changes before making more aggressive delivery strategies. Private exchanges and health plans may play a key role in accelerating delivery-based strategies.

Cadillac Plan Tax

Regardless of the approach, many employers participating expressed significant concerns about the Cadillac Plan Tax slated to take effect in 2018. This is particularly important to employers with a concentration of employees who 1) are older, 2) live in higher-cost metropolitan areas, and/or 3) have traditionally been offered

The private exchanges may enable more aggressive delivery-based strategies over time

Key issues in 2014 are the employer “pay or play” penalties and related reporting

very generous benefits. Employers’ concerns focused on the possible need to:

- Start to make changes now to gradually mitigate costs to avoid and defer the tax
- Hold off on any significant changes now until it is clear that the Cadillac Plan Tax will stand and then “rip the bandage off” if necessary
- Develop a transitional choice strategy that will naturally allow and lead employees to “buy down” to lower cost coverage before and if the Cadillac Plan thresholds are hit
- Implement a private exchange to provide for more choice and enable a smooth transition when the Cadillac Plan Tax hits

Some of the key areas discussed to reduce costs were:

- Premium sharing (note that this does not help with the Cadillac Plan Tax directly)
- Population health improvement—broad-based and targeted

interventions that promote wellness, prevention, and chronic disease management and related incentives

- Supply chain—onsite clinics, accountable care organizations (ACOs)
- Cost sharing—high-deductible medical plans and value-based designs to make employees more responsible and aligned in their consumption of medical services
- Employee engagement—implementing social, mobile, and personalization strategies that drive greater engagement
- Vendor management—getting the right vendors that can deliver real value

In any event, the Cadillac Plan Tax is presenting a motivation to change the game and reset health benefits strategy, perhaps by implementing a cap or defined contribution on what the employer will pay. Some common strategies being employed by roundtable participants include:

- Implementing a high-deductible benefit plan as a total replacement

- Shifting toward more completely voluntary employee-paid benefits
- Raising the bar on population health and integrated delivery strategies to bend the cost curve
- Moving to greater choice, defined contribution, or private exchanges

There was concern about fallout of decisions around healthcare on other pieces of total rewards, and acknowledgement that companies need to take a holistic approach.

ACA Update/Reporting

Key issues in 2014 are the employer “pay or play” penalties and related reporting, including:

- Concerns about what technology is available and what vendors (e.g., payroll) are doing to address a clearinghouse or data aggregation solution to support reporting needs
- Difficulty in tracking hours for salaried staff
- Complexities with contingent work forces

- The need for workforce management systems
- Struggles to identify which part of the organization (e.g., tax, HR, and payroll) should be primarily responsible for reporting
- Lack of a centralized database within the company to compile the necessary data
- What reporting regulations will apply to federal (IRS, HHS) requirements and what reporting will be required to state exchanges or other state entities

Rebooting wellness

There was a discussion about an emerging new way to position wellness, focusing less on health improvement and more on total employee well-being. Some of the discussion included the following points:

- Discussions on nutrition, meditation, social aspects of well-being, and general focus on increasing activity

- Acknowledgment that it is difficult to continue reinvesting in wellness in light of the lack of data on ROI for wellness or disease management. Presently, there is not consistently strong evidence that wellness programs are reducing medical costs. The new trend started with “Science of Happiness” (in the late 1990s)

- There is a big correlation between happy employees and business outcomes:

- > More productivity and higher profitability
- > Higher sales
- > Greater innovation
- > Less turnover, sick leave, burnout

- Well-being versus wellness mind-set shift focused on five areas:

- > Physical
- > Social
- > Community
- > Financial
- > Career

- There is potential to apply pillars of change more broadly and across drivers. These include motivation (such as incentives), education, removal of barriers, personalized guidance, and community support

- SMAC technology (social, mobile, analytics, cloud) is an accelerator

- The seemingly greater challenge of addressing career and community more than emotional/physical/financial well-being
- Keen awareness of the connection between happiness and productivity and cited spend on anxiety and depression

- These have a more immediate impact on cost, absenteeism, and presenteeism than longer-term physical conditions

Selected Employer Points of View

- “Private exchanges are not appealing because of loss of control over benefit design, funding choice, coordination for

There is a big correlation between happy employees and business outcomes

Much of the corporate interest in private exchanges is coming from leadership and finance, not HR

care management and wellness; employer can't offer a uniform set of benefits or approach to all employees in different geographic areas. Also concern because of loss of leverage over carriers because employer becomes just one part of a bigger pool"

- "Private exchanges are very appealing for that exact reason. Employers want to be out of the business of wellness, which is not their core competency. They want to say to employees: 'Here is some money; make your choice.'"
- "Much of the corporate interest in private exchanges is coming from leadership and finance, not HR"
- "Employees may always look to HR when they are in need such that a company can't entirely step out of this business. In addition, health impacts more than just the employee personally. It also affects productivity, etc."
- "Change requires significant preparation. Implemented an HSA/HRA too quickly and without education and spent 12–24 months cleaning it up. Responded to finance cost cutting directive without thinking through impact on workforce"
- "Wanted to join a private exchange but came too late in the process to change this year—the economics were compelling"
- "Not looking at private exchanges because we have too many unions; but are considering for our retiree medical"
- "Looking for a national 'narrow network' but it is not here yet"
- "Why wouldn't employers go to a public exchange only and save on compliance, consulting, etc.?"
- "State public exchange experiences are very different state to state—so one company's employees would have very different experiences"
- "Even if it uses a defined contribution/public exchanges approach, the employer still cares about employee health and still needs a wellness program"
- "Wellness continues to be a focus, and employers will continue to invest in wellness programs"
- "Setting a strategy to avoid the Cadillac tax is a priority for many employers, and will result in benefit/contribution cuts and possibly the adoption of private exchanges"

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