

Saratoga
Human resource services

The Saratoga Review

Newsletter Issue: September 2009

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What's happening at PwC Saratoga

Some of the key activities coming up at PwC Saratoga include:

- September: Membership renewals and outreach begin for PwC Saratoga's 2010 US Human Capital Effectiveness Survey.
- September 21: Benchmark results from PwC Saratoga's South American human capital effectiveness survey will be available.
- September 22: PwC Saratoga's Federal Contractor Consortium members will launch an executive compensation survey.
- PwC Saratoga's next Metrics 101 course will be held October 13 in Houston. To register or learn more, please copy and paste the following URL into your web browser:
<http://www.meetpwc.com/saratogametric101>

Future Metric 101 sessions will be held in the following cities:

- Boston on October 20
- Philadelphia on November 3
- Minneapolis on December 1
- Los Angeles on December 10

To learn more about any of these activities, please see page 12 of this newsletter for the contact information of your local Saratoga representative or call 1-866-727-2864.

2009 PwC Health & Well-Being Touchstone survey results

PwC has released its 2009 Health & Well-Being Touchstone Survey, completed in the first quarter of 2009. This year's report contains detailed benefits information provided by 694 participating companies in 30 industries across the nation (up from 561 companies in 2008). The 2009 survey results include detailed data on medical and prescription drug plan designs and costs, wellness and disease management programs, and healthcare strategies. New this year is information gathered on companies' 401(k) and pension plans, work/life programs, and more.

PwC provides benefit cost and program design benchmarking information to our clients based on information provided through this survey. Benchmarking can be completed by specific industry, company size and/or geographic area. Key findings from this survey include:

- Medical costs continue to rise
- Survey participants are generally satisfied with their plan administrators but indicate concern in certain areas
- The PPO model continues to be most prevalent, but some provisions are changing
- Employee contributions have changed slightly
- Wellness and disease management programs continue to be a key focus for participants
- Work/life programs are prevalent
- Participants' retirement programs are primarily 401(k)-based
- Participants are focused on wellness and health improvement for managing healthcare costs

An overview of each of these findings is provided below.

Medical costs continue to rise

Medical costs continue to increase, but at a slightly lower rate (6.1 percent) than in 2008 (6.4 percent). The following table shows the distribution of medical plan cost trends for survey participants:

Calendar Year 2009 over 2008		2009
Decrease		11%
Unchanged		9%
1%-4% increase		15%
5%-9% increase		39%
10%-14% increase		19%
15% or greater increase		7%
Average		6.1% increase

Calendar Year 2008 over 2007		2009
Decrease		13%
Unchanged		8%
1%-4% increase		15%
5%-9% increase		35%
10%-14% increase		17%
15% or greater increase		12%
Average		6.4% increase

Sixty-six percent of participants reported gross medical costs greater than \$7,000 per employee per year. Seventy percent of participants have net costs greater than \$5,000 per employee per year.

Survey participants are generally satisfied with their plan administrators but indicate concern in certain areas

According to survey results, participants are generally very satisfied with the claims administration services and network discounts provided by their plan administrators. However, they are less satisfied with their administrators' consumer support, medical management, and wellness programs. The following chart displays the breakdown of survey results:

Satisfaction with the vendor selected for:	Very effective	Somewhat effective	Minimally effective	Not effective
Claim administration	59%	39%	1%	1%
Network discounts	56%	40%	3%	1%
Consumer support	44%	48%	6%	2%
Medical management	42%	50%	7%	1%
Wellness	31%	52%	14%	3%

The PPO model continues to be most prevalent, but some provisions are changing

The PPO model is the most common plan offered by participants, but plan design features vary. The most common medical plan features include:

In-network plan features

- \$200–\$299 deductible
- \$1,000–\$1,999 out of pocket maximum (excluding deductible)
- 10 percent–19 percent co-insurance
- \$20–\$29 primary care office visit co-pay
- \$20–\$29 specialist care office visit co-pay
- Co-insurance only for maximum hospital co-pay per admission
- \$100–\$124 for emergency room visits

Out-of-network plan features

- \$500–\$749 deductible
- < \$1,000 out-of-pocket maximum (excluding deductible)
- 30 percent–39 percent co-insurance

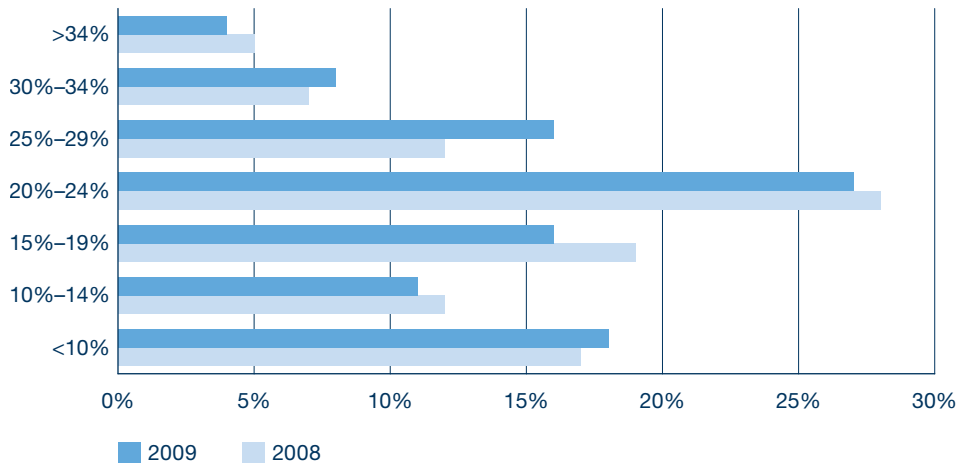
Prescription drug provisions

- Generic: \$5–\$9 co-pay
- Brand: \$20–\$29 co-pay
- Brand non-formulary: \$30–\$59 co-pay
- Specialty: < \$20 co-pay

Employee contributions have changed slightly

For most plans, the contribution percentage for employees and dependents is 20 percent to 24 percent of premium. The following chart shows the 2008/09 distribution of contribution percentages for employee-only coverage:

Employee contribution percentage for employee only coverage



Wellness and disease management programs continue to be a key focus for participants

A majority of participants provide wellness and disease management programs, and some provide incentives to employees to participate in these programs. Seventy-one percent of survey participants offer wellness programs. The most commonly offered wellness programs include:

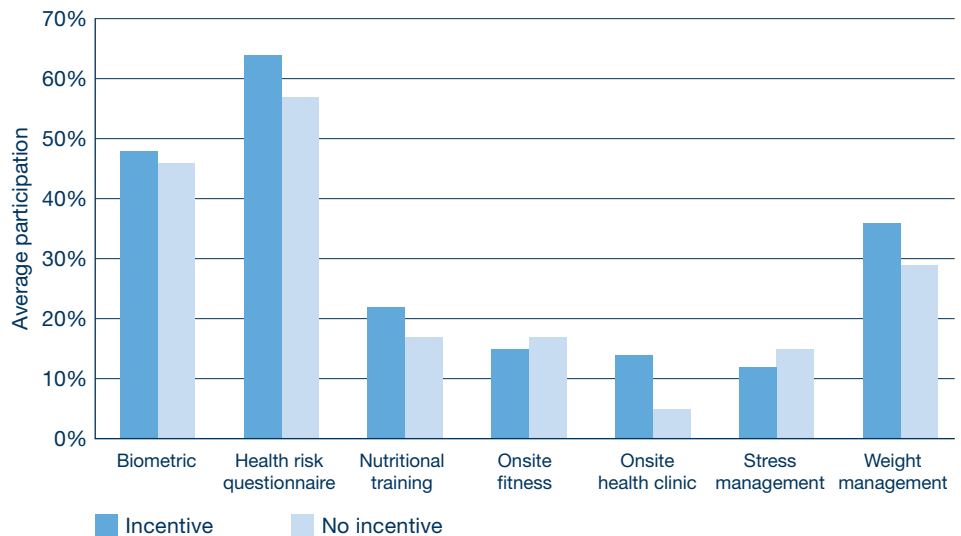
- Employee Assistance Program (86 percent)
- Health risk assessments (76 percent)
- Fitness and weight management (63 percent)
- Tobacco cessation (64 percent)
- Stress management (45 percent)

Sixty-seven percent of survey participants offer disease management programs. The most commonly offered disease management programs include:

- Diabetes (73 percent)
- Heart disease (69 percent)
- Asthma (66 percent)
- Lower back pain (49 percent)

Fewer than 40 percent of eligible individuals enroll in wellness programs, and typically fewer than 15 percent of eligible individuals participate in disease management programs. Participation in these programs is much greater when incentives are offered. Sixty-four percent of participants offer incentives related to wellness programs, but only 10 percent offer disease management incentives. The following chart shows the impact of incentives on participation in wellness programs:

Impact of incentives on participation



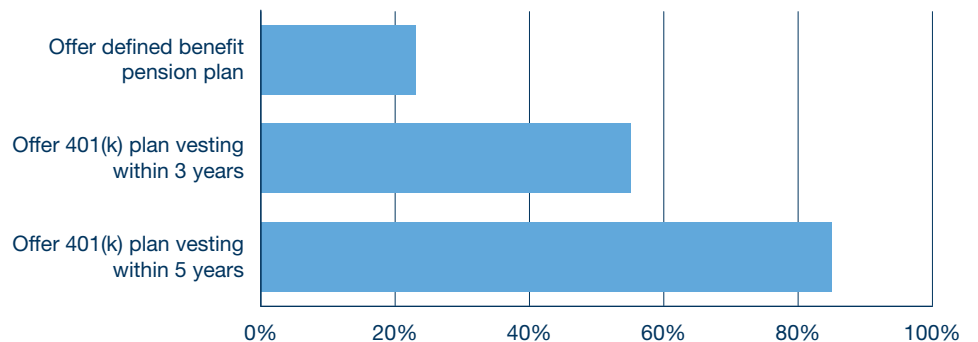
Work/life programs are prevalent

In addition to wellness and disease management programs, many employers also offer work/life programs. The most common work/life programs include:

- Telecommuting (52 percent)
- Flexible schedules (49 percent)
- Parental leave (39 percent)
- Reduced hours (30 percent)

Participants' retirement programs are primarily 401(k)-based

Most participants provide retirement programs, primarily a 401(k) plan. The following chart illustrates distribution of participants that offer the following retirement programs:

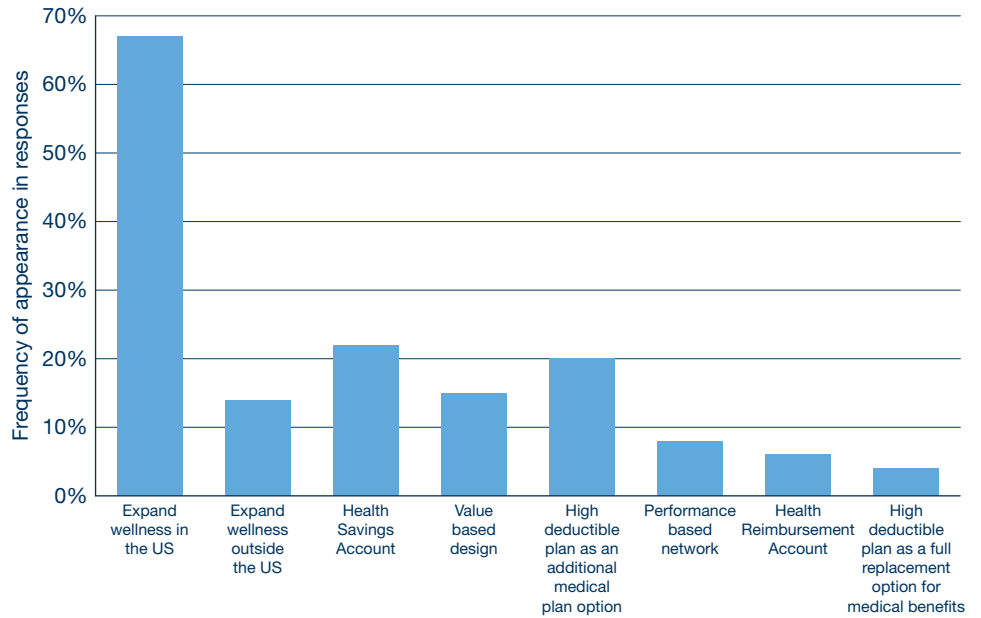


Fifty-five percent vest 401(k) contributions within three years while 85 percent vest 401(k) contributions within five years. The most common 401(k) match is 1 percent to 25 percent. Only 23 percent of participants offer a defined benefit plan.

Retiree medical programs are subsidized by fewer than half of employers with more than 5,000 employees. Forty-seven percent of employers with more than 5,000 employees subsidize pre-65 retiree medical coverage, and only 37 percent subsidize post-65 retiree medical coverage.

Participants are focused on wellness and health improvement for managing healthcare costs

PwC surveyed employers on their strategies for saving on healthcare costs. Most participants intend to expand or improve their wellness programs inside the United States. Other options include increasing employee contributions, increasing cost sharing, and offering a health savings account. The following graph illustrates the frequency of responses by strategy:



Next year's Touchstone survey launches in December 2009. There is no cost to participate in the Touchstone survey, and participants are provided with a full analysis of results. To register for the upcoming survey, please contact Heather O'Neil at (646) 471-8734 or heather.oneil@us.pwc.com

PwC's Rewards practice helps organizations:

- Ensure the competitiveness of their reward programs
- Align reward strategies with business objectives
- Take inventory of current reward programs across all territories in order to evaluate potential for redesign
- Confirm reward plans are tax-efficient and comply with legislation and corporate governance codes in all relevant jurisdictions

To learn more about PwC's Rewards practice Touchstone survey results, or to participate in the upcoming survey, please contact:

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Behind the numbers: Medical cost trends for 2010

The summary below is based on an article written by PwC's Health Research Institute practice. To view that article in its entirety, please click [here](#).

Even after the US economy recorded its worst contraction in a quarter-century in late 2008 and early 2009, medical costs continued to grow. The perplexing contrast of health spending growing amid a deflated general economy will present employers with unique challenges for their 2010 healthcare benefits strategies. The following are what employers can expect to see:

- Growth in medical costs for 2010 is expected to be 9 percent, slightly lower than in previous years; however, it will still outpace inflation and increases in worker earnings.
- The recession and the prospect of health reform will help temper medical costs, impacting the pricing, utilization, and behavior of both industry participants and consumers.
- As the recession pounded corporate profits in early 2009, employers surveyed said they were ready to push more of the costs of health insurance to their workers in 2010 while expecting more responsibility from workers for managing their personal health. Regarding which strategies employers were planning to implement over the next two years, improving wellness and increasing cost sharing led all responses.
 - » More than two-thirds of employers are expecting to expand wellness and disease management programs, although few are convinced that they are effective at mitigating healthcare costs.
 - » Forty-two percent of employers surveyed said they would increase employee contributions, up from 38 percent in 2008.
 - » In addition, 41 percent said they expect to increase medical cost sharing through plan design changes.

- Increased cost sharing could squeeze workers, many of whom took wage cuts in 2009 because of the recession. In the past five years, health insurance premiums have increased four times faster than wages, a trend that is expected to continue in 2009 and 2010. If employers follow through on plans for increased cost sharing, the affordability gap could grow larger.
- The economy is creating positive and negative pressures on medical costs.
 - » An unprecedented number of workers are in high-deductible health plans (HDHPs), which are expected to see lower utilization among cash-strapped workers who lack the resources to pay for medical procedures. This trend is expected to slow the rate of medical cost increases.
 - » Workers who have retained their jobs but are fearful of losing them may be using more services while they still have health insurance. Health plan executives interviewed indicated they are not seeing a reduction in overall utilization.
- Although health reform will have a major impact on the industry, its effect on medical costs likely will not be felt until 2011 or later. However, the prospect of health reform may have a dampening effect on overall healthcare price increases as it did during the Clinton health reform years.

Metric of the month: Healthcare costs per active employee



The debate on healthcare costs has gained increasing interest in the United States. The increasing cost of healthcare for organizations and the federal government has motivated the Obama administration and Congress to evaluate and propose changes to the system.

While these changes are debated, monitoring healthcare costs remains a critical task for organizations. PwC Saratoga offers a number of employee healthcare-focused metrics. This month we focus on Healthcare Costs per Active Employee. The formula for this metric is:

$$\frac{\text{Employer contribution toward healthcare coverage for active employees}}{\text{Employees participating in healthcare plan}}$$



PwC Saratoga's definition of healthcare costs includes medical, prescription drug, dental, and employee assistance program fees or premiums.

According to PwC Saratoga's 2009/2010 Human Capital Effectiveness Report, employer size matters. Organizations with 25,001 to 50,000 employees have Healthcare Costs per Active Employee under \$7,000 per employee while organizations with 1,001 and 2,000 employees have Healthcare Costs per Active Employee above \$9,100.



This month's newsletter includes a number of additional articles focused on healthcare costs and programs. To learn more, please read the *Behind the numbers: Medical cost trends for 2010* or *2009 PwC Health & Well-Being Touchstone Survey Results* articles.

To learn more about PwC Saratoga's measurement programs, visit www.pwc.com/saratoga or call (866) 727-2864.

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