

## Virginia Government Finance Officers' Association

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## Issues and Trends in Healthcare and Employee Benefits



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## Why are Healthcare Costs Increasing?

**Increased Utilization of Services – 43%**

- Shift from inpatient care to outpatient care
- Medical Liability and Defensive Medicine
- Aging population and unhealthy lifestyle
- Direct to consumer marketing, consumer demand
- Advancements in technology improve outcomes but at a greater cost

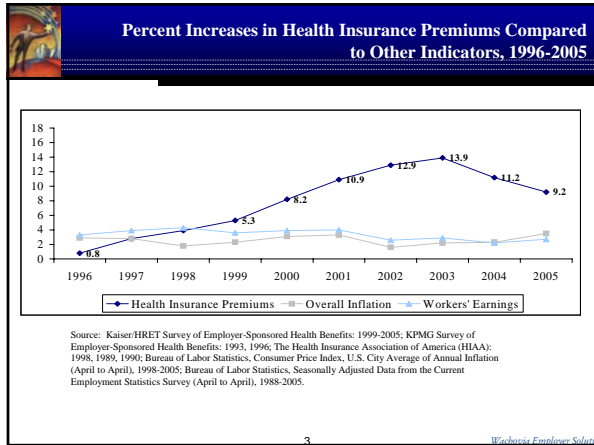
**Price increases in excess of inflation – 30%**

- Movement among employers towards broader-access health plans
- Consolidation by physician groups and facilities
- Cost shifting from Medicaid and the uninsured to private payers
- Advancements in technology at higher price

**General inflation accounts - 27%**

Kaiser/HRET Survey estimates the increase in health insurance premiums between 2004 and 2005 was 9.2%

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## Why are Healthcare Costs Increasing?

**Other Factors**

- A 2002 Juran Institute study estimated that the "cost of poor quality" in healthcare accounts for 30% of all direct healthcare spending

**Going in the other direction**

- Widespread adoption of multi-tiered pharmaceutical benefits and generic drugs have helped slow the rate of increase in prescription drug spending
- The number of new state and federal mandates has decreased markedly in recent years

Kaiser/HRET Survey estimates the increase in health insurance premiums between 2004 and 2005 was 9.2%

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## Premium Dollars and Cost of Health Care Services

**Premium Dollars:**

- 86% - Medical Services
- 5% - Consumer Services, provider support and marketing
- 6% - Government payments, compliance, claim processing
- 3% - Health plan profits

**Medical Services:**

- 24% Physician services
- 22% Outpatient costs
- 18% Inpatient costs
- 16% prescription drugs
- 6% other medical services

Kaiser/HRET Survey estimates the increase in health insurance premiums between 2004 and 2005 was 9.2%

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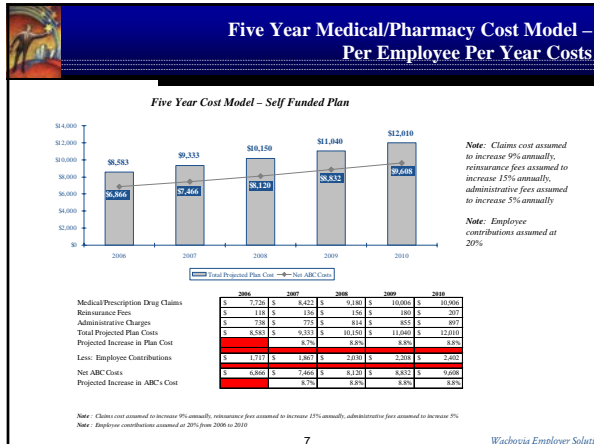
## Percent Increases in Health Insurance Premiums

### Cost of Medical Liability and Defensive Medicine as a Share of the Premium Dollar, 2005

Component	Total Share of Premium	Medical Liability Share of the Premium Cost	Benefit Share of Premium Less Medical Liability
Physician	24%	3%	21%
Outpatient	22%	4%	18%
Hospital Inpatient	18%	1%	17%
Prescription Drugs	16%	1%	15%
Other Medical Services	6%	1%	5%
<b>Total</b>	<b>86%</b>	<b>10%</b>	<b>76%</b>

Source: PricewaterhouseCoopers estimates, December 2005

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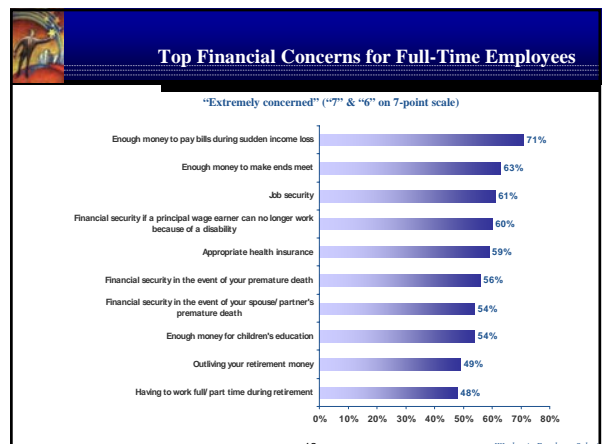


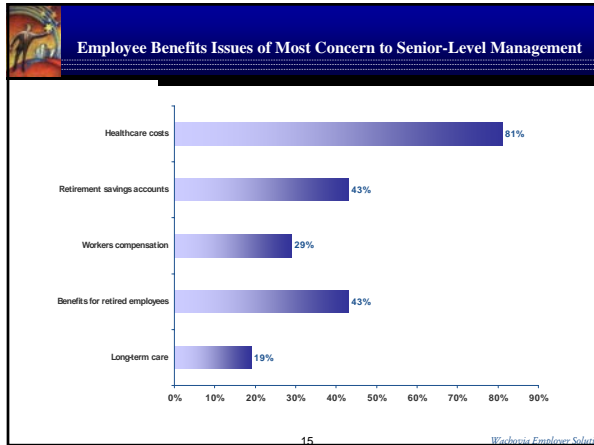
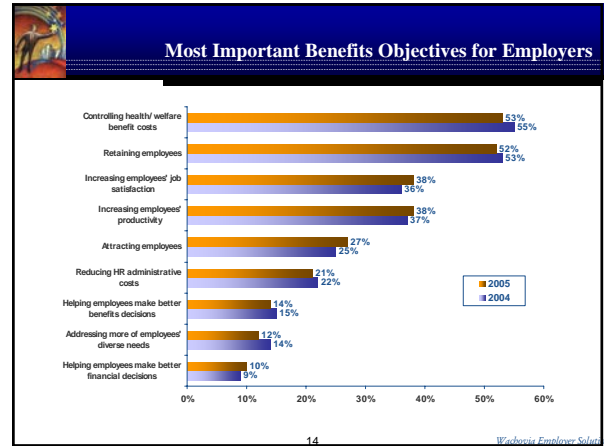
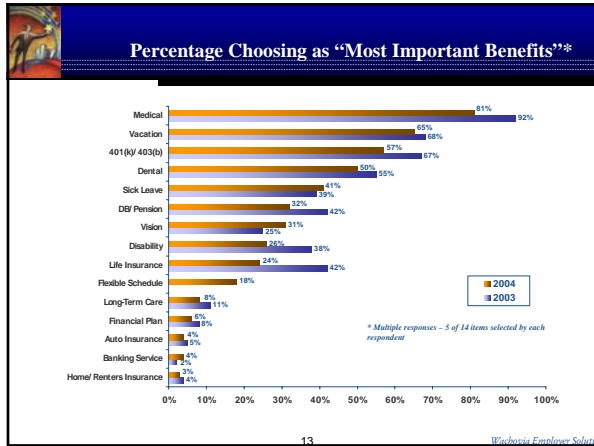
- ### Current Health Plan Trends
- Promote provider pay-for-performance
  - Transparency
  - Consumer engagement
  - Promoting healthy lifestyles
  - Measures to appropriately access the emergence of new technologies
  - Public reporting of quality measures across all members of the healthcare community would improve accountability throughout the healthcare system
- Increased enrollment in Health Savings Accounts, high-deductible health plans. AHIP reported of its member 3.2 million enrolled in January 2006 compared to 1 million in March 2005.

- ### Consumerism Initiatives
- eHealth – Internet education offered by most carriers
  - Health Risk Appraisals – with incentives to participate
  - Wellness Programs
  - Disease Management – Early detection and aggressive outreach
  - Predictive Modeling – Proactive Care Management
  - Defined Contribution/Consumer Driven Health Plans
    - Incentives to increase participation
  - Health Care Flexible Spending Accounts
  - Tiered Copay Programs – Higher deductibles at certain facilities
  - Pharmacy – Multi-tier Copays/Lifestyle Components - Coinsurance as an alternative to Copays
  - Tools, including but not exclusively on-line, to promote consumer awareness and informed decision making
  - Health coaching for high risk individuals

- ### Employee Benefits Trends – Major Findings
- Workers Sweat the Big Stuff – Healthcare, Disability, Retirement – But value vacation time more than savings and income protection products
  - Burdened with credit card debt and short-term planning horizons, workers struggle to save and meet financial goals
  - Employees underestimate retirement income needs and fall far behind in long-term savings
  - Voluntary benefits continue to grow in popularity, especially among young workers
  - With workplace diversity on the rise, employee savings and benefits goals vary widely and defy traditional stereotypes
  - Dissatisfied and confused, workers voice strong need for benefits education and advice

- ### Employee Benefits Trends – Major Findings
- Small businesses report higher-than-average job satisfaction and loyalty rates, but leave many workers vulnerable on retirement front
  - Large companies expect to be hardest hit by aging workforce
  - Employers cite healthcare and work-life balance as top benefits priorities, but remain on the fence about wellness and flex hours
  - Benefits funding: employee cost sharing is here to stay, even as company profits rebound
  - Employers expect a huge surge in eBenefits, with online enrollment increases of up to 50% projected over next 18 months
  - No growth forecast in executive and/or retiree benefits





- ### Six Healthcare Benefit Trends to Watch in 2006
1. **Coinsurance and deductibles replace copays**
  2. **Revising pharmacy plans**
    - Adding calendar year deductibles
    - Coinsurance features
    - Mandatory mail order
  3. **Consumer Driven Healthcare Plans (CDHP)**
    - HSAs and HRAs
    - Optional product vs. full implementation

- ### Six Healthcare Benefit Trends to Watch in 2006
4. **Wellness programs redesigned**
    - Health risk assessments
    - Disease management programs
    - Financial incentives
    - Mandatory participation
  5. **Educating Consumers**
    - Tools to help employees make informed choices
    - Employers forcing accountability
  6. **Managing Retiree Healthcare**
    - Redefining eligibility criteria
    - Redefining contribution formulas (especially for non-Medicare eligible retirees)
    - Determining how to package Medicare Part D