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News Release

THE WILLIS COMMENTARY ON…

Employee Benefits

New York, NY, March 17, 2004 – Addressing the economics of employee health benefits is a bit like visiting the doctor: nobody likes to do it, but avoidance is rarely effective in treating illness.

Employee expectations for the availability and range of healthcare options remain high while their understanding of the cost increases that will be needed to pay for those options remains low. Healthcare costs are rising faster than almost every other component of our economy, but most employees expect continued coverage at only a fractional increase in cost year over year – a very big challenge indeed for most companies today. While there may be little a risk manager or human resources manager can do to change the healthcare industry itself, steps can – and often must – be taken to aggressively manage their expenditures and maximize the benefit they receive for their healthcare dollars.

How bad is it? The marketplace of 2004 will likely be all too similar to that of last year. Average price increases will continue to climb roughly 12 to 15 percent. Prescription drug costs will continue to be one of the fastest growing components, with expected increases of 18 to 20 percent. Fixed costs of self-funded plans will experience ongoing increases. Employers with retiree medical plans (usually PPOs or HMOs) can again expect more substantial cost increases, largely because of greater use of prescription drugs by retirees.

Everyone in the healthcare delivery cycle has also been affected by the implementation of the privacy provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA). Those provisions require all healthcare providers to protect patient medical information so that it is used only for permitted purposes and by people who have a right to see it. A further goal of HIPAA is to safeguard the privacy rights of employees and families covered by employer-sponsored health insurance plans. While the intentions are noble, the mechanics of HIPAA have become extremely burdensome to providers, employers and administrators, further driving up costs in the healthcare arena.

Other areas that could substantially impact healthcare costs include the issue of mental health parity in general and what should be covered as a treatable mental illness versus personality traits that are simply a fact of life. Questions also surround the prescription drug provisions in Medicare that were signed into law at the end of last year. These may ease burdens on retiree medical plans and reduce costs, but not all of the ultimate consequences of the legislation are clear. Many retirees with private coverage (i.e., employer plans) fear that the Medicare entitlement will permit their current plan provider to drop or reduce the coverage in their plans (which are typically more generous than the proposed Medicare coverage).

So what treatment might help? As with many illnesses, there is no new wonder drug or magic pill about to be released; in fact there is no single solution that fits all employers. Rather the regimen to address and control the problem – for both employers and employees – involves things such as altered expectations, more information, behavior modification, lifestyle changes and belt-tightening. We expect to see more effort devoted to several areas:

§ Shifting a greater portion of costs to employees, in the form of higher premiums, plan design changes and tightening eligibility rules – with a continued emphasis on making employees better consumers of health care
§ Aggressive intervention into employee lifestyles and managing risk factors – changing behavior through wellness and disease management
§ Better monitoring and analysis of medical costs – to allow for custom solution that attack specific high dollar areas within any given company
§ Clearly and efficiently communicating information to employees
§ Using technology and the web to eliminate waste and paper in the enrollment and administration process
§ Efficiently monitoring employee compliance with company policies
§ Minimizing operating expenses for chosen benefits programs – and aggressively managing all vendor relationships

Companies may simply need to spend more time and care with employee benefits issues than they have in the past. Evaluating plan options may no longer be a once-a-year event, but instead may require more consistent attention and development of a long-term strategy. In addition, we see benefit decisions rising to the level of CFO and CEO in most organizations, because of the magnitude of the importance of health care costs.

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