

### Healthcare Costs and Benefits: A Glance Ahead

The cost of healthcare continues to outpace overall inflation. As the effect of that excess is compounded over time, many employers search for ways to effectively address the relentless upward spiral of traditional employee benefits program costs. Employers are finding that difficult to achieve and stay competitive. As a result, a growing number of companies are focusing on long-term healthcare planning as a potential solution.

Clearly, employers must react, and the federal government is unlikely to offer any meaningful solutions. (See *Willis Executive Signal, Issue 1.*) Even if a Democrat is elected president in 2008 and the Democrats maintain Congressional control, many legislative observers believe that there would still be insufficient votes (or money) to institute any national healthcare solution (whether or not one thinks favorably of such an outcome). So, what are the challenges – and opportunities – that lie ahead?

#### At the State Level

State activism in mandating that employers provide benefits or be subject to a payroll tax is just beginning. These efforts have led to court challenges and, though state mandates have been routinely rejected by the courts, further such attempts are expected. One of the most talked about efforts was the so-called Wal-Mart law in Maryland. This high profile and controversial law required the largest employers in the state to spend at least a certain amount (eight percent of payroll) on health benefits. The court struck down the law

because it was preempted by ERISA, and Maryland's attorney general has stated that he will not pursue any additional appeals. Other states have also faced ERISA preemption challenges – courts in several situations have said that ERISA supersedes state laws. Undaunted, states express great interest in regulating benefits and this trend is expected to continue. Massachusetts is in the process of implementing state-required benefits, and as of the date of this publication, no ERISA preemption lawsuits have been filed. Companies will need to stay abreast of state mandates as there is likely to be several years of lag time between the effective date of legislation and final resolution of all legal challenges.

#### Consumerism

Most employees with medical insurance have long been insulated from the actual costs of medical services. Neither doctors nor patients have had much incentive to keep costs down, and some observers believe that as much as 20 percent of all care is unnecessary and simply inflates our national healthcare



## Trends Impacting Costs

Given that employers will likely remain the primary source of private insurance, what trends will affect future costs?

- Life spans will increase, expanding the number of people of advanced age who require significant healthcare.
- Baby boomers will consume an enormous amount of prescription drugs, hip replacements, and cosmetic work.
- In the absence of a federal response, states and even municipalities have begun to pass legislation that involves employer mandates to provide medical benefits, individual mandates to buy coverage or both.
- Americans are becoming more addicted to sugar, becoming more obese and more at risk for diabetes and other chronic illnesses.
- Although generic drugs will be widely available and accepted, specialty drugs (for example, high-cost drugs used to treat complex medical conditions such as multiple sclerosis, hemophilia and rheumatoid arthritis) will represent a huge and growing expense.
- CT, other medical scanning, and traditional health testing services are seeing ever-increasing use with no end in sight.



bill. Involving workers as consumers in the financial consequences of healthcare decisions is an increasingly popular and effective option for employers. This will naturally contribute to the proliferation of high-deductible health plans and other healthcare options, such as health reimbursement arrangements (HRAs) and health savings accounts (HSAs).

The government will not help employers with the healthcare cost problem. Employers need to solve this themselves by exploring consumerism, wellness and other healthcare delivery strategies.

Although HRAs are more prevalent now, it appears that HSAs, with their multidimensional tax advantages, will increase exponentially and eventually take the lead. Many employers, however, will not be successful in their initial attempts to

introduce high-deductible health plans; flawed design and faulty execution will be common. In short, mistakes in implementation will diminish the potential cost savings.

Consumer-directed programs will naturally lead to changing demands from healthcare system users. Among other changes, information about healthcare quality will be increasingly scrutinized and required. While carriers do not like change and are often reluctant to confront providers, they will likely respond to the pressure and provide more cost and quality information. In addition, the physician and hospital communities are expected to begin taking a larger role in disseminating useful and transparent information about healthcare quality. Individuals will need this information to make better healthcare choices.

## Other Cost-Control Tactics

We expect wellness plan usage to double over the next three years. Biometric screenings will soon be the norm, and smart

employers will be drawn to sophisticated programs with demonstrable return on investment. Willis has identified several such programs that best reflect those desires, including programs that assess health status based on full blood draws and reward healthy behavior.



The quality and completeness of medical data will be increasingly important as employers try to identify the healthcare cost drivers that are most effectively controlled through wellness initiatives. Data warehouses, along with competent consulting, will be needed to measure claims, costs and employee health. Such metrics will continue to improve. Companies will pay more attention to analyzing productivity, absenteeism and disability costs, as well determining how overall workforce health and wellness can have a positive impact not only on health plan costs, but also on other related organizational expenses.

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Carriers such as Wellpoint/Anthem/Blue Cross, United, Aetna and Cigna are likely to continue performing well. Their combination of deep pockets and strong networks is hard to beat, even though all carriers (like all organizations) have individual strengths and weaknesses. Specialty players, such as Kaiser and Humana, are also expected to be successful in their operational niches.

## Additional Factors Impacting Costs

Reflecting the experience of the private sector, spending for Medicaid programs continues to escalate. Commentators continue to note that without meaningful changes, the Medicare program is unsustainable by the federal government. This year, the Medicare hospital insurance trust fund will likely pay out more in hospital benefits than it receives in taxes and other revenues, and the reserve is projected to be drawn down by 2019. Premiums for physician services and prescription drugs (these programs account for slightly over half of the total Medicare cost) are financed by general tax revenues and beneficiary contributions. This represents an enormous burden on taxpayers – particularly as cost increases grow faster than the economy and beneficiary income.

Employees will continue to feel the weight of their share of healthcare expenses and will have to become more accepting of their individual responsibility for healthcare costs. Employers are in a unique position to influence employee behavior.



Medical cost inflation is around nine to ten percent annually. (Surveys report premium increases well under this level, but the premium increases understate the true trend because of higher deductibles and out-of-pocket expenses.) Increasing global competition will exacerbate the need for US companies to manage healthcare costs. Other countries spend far less in terms of absolute dollars per person and percentage of their GDP and, in the context of a global economy, the US will face a serious and growing competitive burden unless it can meaningfully tackle its healthcare cost problems.

*Willis' Legal & Research Group gratefully acknowledges John Fortin, National Practice Leader, Willis Healthcare Cost Management, for his contributions to this article. For further information about wellness or healthcare cost issues, please contact your local Willis adviser or John at 404 224 5154, john.fortin@willis.com.*

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