The Future of Employment-Based Health Benefits

Paul Fronstin, Ph.D.
Director, Health Research and Education Program
Employee Benefit Research Institute
Washington, DC

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ACA “Leveled” the Playing Field

- Public insurance exchanges

- Guaranteed issue – workers can get coverage from insurer
  - No denials for pre-existing conditions

- Modified community rating
  - Limits premium differences between old & young

- Subsidies
  - <400% FPL
  - Eliminates premium differences between old & young in silver plan

- More health plan choices
Initial Reaction from Employers

Some quotes from 2009:
“If you like what you have you can keep it”
“Why Health Reform Will Kill Employment-Based Coverage”

Quote from 2010:
“I can get out of this and it will only cost me $2,000/worker”

Headline from June 2011
“30 Percent of Employers to Drop Health Coverage Because of Obamacare” (McKinsey survey)
Declining Confidence Among Employers That They Will Be Offering Health Care Benefits a Decade From Now


Note: Responses in December/January of designated years.
Obama Administration Point Person on ACA Predicts the Demise of Employment-Based Health Insurance

- The percentage of workers with coverage through their job will drop from 60% to <20% by 2025.

- “It’ll be a matter of a few big employers, blue-chip companies.”
Only One-Half of CHROs Agree that Their Company Will Continue to Offer Health Benefits for the Foreseeable Future

Reality:
Unemployment Rate, 1998-2015
Health Insurance by Far the Most Important or Second Most Important Benefit to Workers, 2015

- Health insurance: 75%
- Retirement savings plan: 36%
- Paid time off: 28%
- Traditional pension or DB plan: 10%

“Cadillac Tax” on the Horizon
Options for Employers: Engage Workers through Benefit Enhancements and Cuts

**Enhancements**
- Private insurance exchanges
- Wellness programs
- Rewards based on biometrics and/or health assessments
- Value-based insurance design
- Telemedicine
- High performance network/Centers of Excellence
- Alternative delivery systems (such as PCMH/ACO)
- Price & quality transparency tools

**Cuts**
- Defined contribution health benefits
- HSA-eligible health plans
- Higher deductibles/cost sharing
- Narrow networks
- Reference pricing
- Penalties based on biometrics and/or health assessments
- Higher premiums
- Spousal surcharges (or eliminate spousal coverage)
- Less part-time worker coverage
Supply Chain Rapidly Consolidating

Hospitals and Physician Practices Consolidating into Accountable Care Organizations

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Hospital M&amp;A Deals</th>
</tr>
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<tbody>
<tr>
<td>2008</td>
<td>52</td>
</tr>
<tr>
<td>2010</td>
<td>72</td>
</tr>
<tr>
<td>2011</td>
<td>90</td>
</tr>
<tr>
<td>2012</td>
<td>94</td>
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<tr>
<td>2013</td>
<td>89</td>
</tr>
<tr>
<td>2014</td>
<td>79</td>
</tr>
<tr>
<td>2015</td>
<td>92</td>
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</table>

Three PBMs Already Have 87% of the Large Employer Market

- CVS Caremark
- Express Scripts
- Catamaran + OptumRx
- All Other PBMs

Three Carriers Will Have 85% of the Large Employer Market Share

- UnitedHealth
- Express Scripts
- Aetna/Human
- All Others

Market Shares of PBMs Serving Large Employers

Health Insurers by 2014 Revenue
Options for Employers: Get Larger to Compete Against the Health Industry
Pay, Play, or Private Health Insurance Exchanges?

- A private business – typically operated by insurance brokers, benefit consultants, or insurers – that sells insurance products to consumers through web-based portals
- Private exchanges offer:
  - The use of defined contribution health plans
  - Expanded “employee choice”
  - Decision support (e.g., “recommendation technology”)
  - End-to-end transactional services
- Single-carrier or multiple-carrier
- Single-employer or multi-employer
- Can also provide dental, vision, and other voluntary benefits
Goals

• Facilitate movement to fixed-contributions or defined-contributions
• Create a competitive marketplace at the consumer level
• Expand choice
• Provide an alternative to state-based exchanges
• Offers a solution for retiree health
• Reduces administrative costs and burden
Headline from Bloomberg News: “Workers to Shop for Health Plans as Employers Quit Benefits”

“A growing number of Americans are no longer getting health insurance directly from work as companies quit administering benefits…”

Is It Déjà Vu All Over Again?
Technology “Caught-Up” to the Private Exchange Concept

Consumer-Choice Health Plan — Inflation and Inequity in Health Care Today: Alternatives for Cost Control and an Analysis of Proposals for National Health Insurance

Alain C. Enthoven, Ph.D.

March 23, 1978
Statement That Best Categorizes Company Strategy Relating to Health Benefits For Active Employees Over the Next 10 Years, 2011 Survey

- 46% Continue offering employment-based defined benefit health plans as we do today
- 36% Give serious consideration to moving to a defined contribution strategy
- 6% Give serious consideration to discontinuing providing health care benefits
- 12% Not sure

Source: HR Policy Association.
The Largest Employer with a Private Exchange

- Federal Employee Health Benefits Program (FEHBP)
- About 3 million workers
EBRI/Greenwald & Associates Health and Voluntary Workplace Benefits Survey

Methodology

• 3rd year of the Health and Voluntary Workplace Benefits Survey
  Interviewed 1,500 employed Americans ages 21-64

• Interviews conducted June 10-19, 2015 using the Research Now online panel

• Data weighted by age, gender, and education to reflect employed Americans ages 21-64
Satisfaction With Current Health Plan, Among Individuals With Employment-Based Health Benefits, 2015

12% Extremely satisfied
38% Very satisfied
41% Somewhat satisfied
7% Not too satisfied
2% Not at all satisfied

But, Nearly One-Third Want Something Else, And It Has Grown

- 74% 74%
- 69% 66%
- 15% 12% 12% 14%
- 10% 14% 19% 20%

Millennials May Drive Change

You are satisfied with the health benefits you receive now: 74.8% Baby Boomers, 68.7% Generation X, 56.3% Millennials.

You would rather have more health benefits and lower wages: 12.8% Baby Boomers, 9.8% Generation X, 18.1% Millennials.

You would rather have fewer health benefits and higher wages: 12.4% Baby Boomers, 21.5% Generation X, 25.7% Millennials.

About 40% of Workers Prefer “Defined Contribution” Health Benefits – Driven by Millennials

Importance that Employer Offers a Choice of Health Plan, 2015

Confidence that You Could Compare Different Health Plans Offered by Insurers and Choose Best Plan if Employer/Union Stopped Offering Health Insurance, 2015

Comfort Using Objective Rating System To Choose Health Insurance, 2015

Confidence That a Rating System Could Help You Choose Best Health Insurance, 2015

New Model Uncertainties

• Are expenses more predictable?
• Will it increase competition?
• Will increase choice be positive for consumer?
• Will employees shop intelligently and choose highest value plan?
• What happens to wellness programs?
• Will it reduce administrative costs?
• Do lessons learned from retirement benefits apply?
• How does moving to fully-insured model save money?
• If plans are standardized, how do they compete?
• Does risk-adjustment mitigate need to compete?
• Why would insurers invest in people if they can easily move to another plan during open enrollment?
• If employers aren’t pooled, what does it mean to be in an exchange?
• If employers self-insure, what does it mean to be in an exchange?
## Predicted Growth in Private Exchanges

<table>
<thead>
<tr>
<th>Consultant</th>
<th>Estimated Enrollment</th>
<th>By Year</th>
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</thead>
<tbody>
<tr>
<td>EBRI</td>
<td>5-6 million (5%)</td>
<td>2015</td>
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<tr>
<td>Accenture</td>
<td>40 million</td>
<td>2018</td>
</tr>
<tr>
<td>Oliver Wyman</td>
<td>39.1 million</td>
<td>2018</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>35 million</td>
<td>2019</td>
</tr>
<tr>
<td>EBRI</td>
<td>13-15 million (10%)</td>
<td>2020</td>
</tr>
<tr>
<td>Consumerdriven, LLC</td>
<td>75 million</td>
<td>2020</td>
</tr>
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# Trends Start with Small Numbers: Private Exchanges for Large Employer Active Market

<table>
<thead>
<tr>
<th>Year</th>
<th>Aon Hewitt</th>
<th>Buck</th>
<th>Mercer</th>
<th>Towers Watson</th>
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</thead>
<tbody>
<tr>
<td>2013</td>
<td>Darden &amp; Sears</td>
<td></td>
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<tr>
<td>2014 (1.3 mil.)</td>
<td>600,000 lives</td>
<td>400,000 lives</td>
<td>165,000 lives</td>
<td>127,000 lives</td>
</tr>
<tr>
<td>2015 (2.8 mil.)</td>
<td>&gt;850,000 lives &gt;30 employers</td>
<td>610,000 lives 16 employers</td>
<td>975,000 lives 170 employers</td>
<td>320,000 lives</td>
</tr>
<tr>
<td>2016</td>
<td>1.0 million 55 employers</td>
<td>900,000 lives 60 employers</td>
<td>1.4 million 222 employers</td>
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Select Employers

- **Aon**
  - Apollo Education Group
  - AXA
  - Aramark
  - Darden
  - Hallmark
  - Hilton Worldwide
  - Sears
  - Tesla Motors
  - Walgreens

- **Buck**
  - AMN Healthcare
  - Arby’s Restaurants
  - Bob Evans
  - Church & Dwight
  - Domino’s Pizza
  - Ovation Brands
  - Panera
  - Xerox Corp.

- **Mercer**
  - ABHOW
  - Addison Group
  - Avago Technologies
  - Costrategy
  - DineEquity
  - Kinder Morgan
  - Kraus Flooring
  - Marsh & McLennan
  - PAS Technologies
  - Petco
  - Sanborn Map Co.
  - Surgical Specialties Corp.
  - Vistronix

- **Towers Watson**
  - Convergys
  - Starwood Hotels
  - Time Inc.

Sources: available upon request.
Private Exchanges for Small Employer Market
(enrollment in millions)

Interest in Private Exchanges is High; Adoption is Low

Considering private exchange: 40%
Considered private exchange, not moving at this time: 37%
No interest: 16%
Other: 5%
Already using or will soon use: 2%

Move to Private Exchanges for Early Retirees Already Happening

- 36% Will continue to offer retiree health coverage
- 33% Moved or consider moving to private exchange
- 17% Considering whether to stop coverage
- 14% Other/Don't know

Employers Offering Private Exchange to Retirees

IBM
Kinder Morgan
GE
Ford
AT&T
TIME WARNER

ebri.org
Employee Benefit Research Institute

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Source: Kaiser Family Foundation.
The Dynamics are What’s Important

“While near-term changes in aggregate ESI rates are unlikely, longer-term erosion—over 10 to 20 years—is possible under certain circumstances. … if a few [emphasis added] large employers drop coverage after 2014, others could follow in a ‘me too’ effect. Both of these scenarios are difficult to model, but should be considered.” (Source: Avalere, 2011).

- Fidelity: 26% of small employers and 36% of large employers would seriously consider eliminating health care if other employers did.
- HR Policy Association: 80% reported that other companies moving away from health coverage would influence their decision to offer coverage.
- Benfield Group: 21% were highly likely and 49% somewhat likely to drop coverage if their industry competitors stopped offering health benefits.
Distribution of Private Sector Participants in an Employment-Based Retirement Plan, by Plan Type, 1979-2010

Percentage of Covered Workers Enrolled in a CDHP, 2006-2015

Source: Kaiser Family Foundation.
Percentage of Firms Offering Health Benefits, by Firm Size, 2010-2015

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits.
Many Small and Mid-Sized Employers Do Not Offer Health Risk Assessments or Biometric Screenings, 2015

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits.
Among Employers Offering Wellness Program, Percentage that Offer Incentives to Participate, 2015

- HRA
- Biometrics
- Reward or Penalty for Meeting Biometric Outcome

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits.
The Role of Public Policy

- Possible Cadillac Tax repeal – bipartisan support
- Do not assume it will not be replaced with some other form of tax cap
  - Tax credits supported by Speaker of the House Paul Ryan, and others
  - Tax credits and tax caps have had bipartisan support for 30 years
  - Jeb Bush would replace Cadillac tax with a tax cap ($12,000 individual/$30,000 family)
- Sen. Ted Cruz – would delink health insurance from employment
- Questions around whether DOL guidance regarding the definition of a fiduciary will result in more regulatory scrutiny of HSA investment options