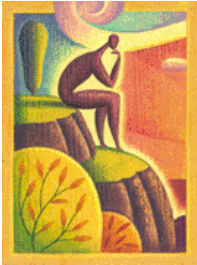


Mercer National Survey of Employer-Sponsored Health Plans - Presentation Summary



Orange County Employee Benefit Council - March 8, 2007



About the Mercer Survey

Longest trends.

Established in 1986; national probability sample used since 1993

Greatest number of participants.

2,930 employers participated in 2006

Statistical validity.

All other surveys are “convenience” samples, except Kaiser Family Foundation

Inclusive.

Results projectable to all US employers with 10 or more employees

Most comprehensive.

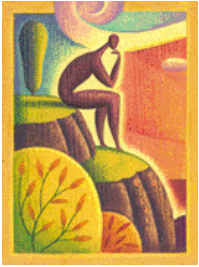
44-page questionnaire covers just about everything

Strategic.

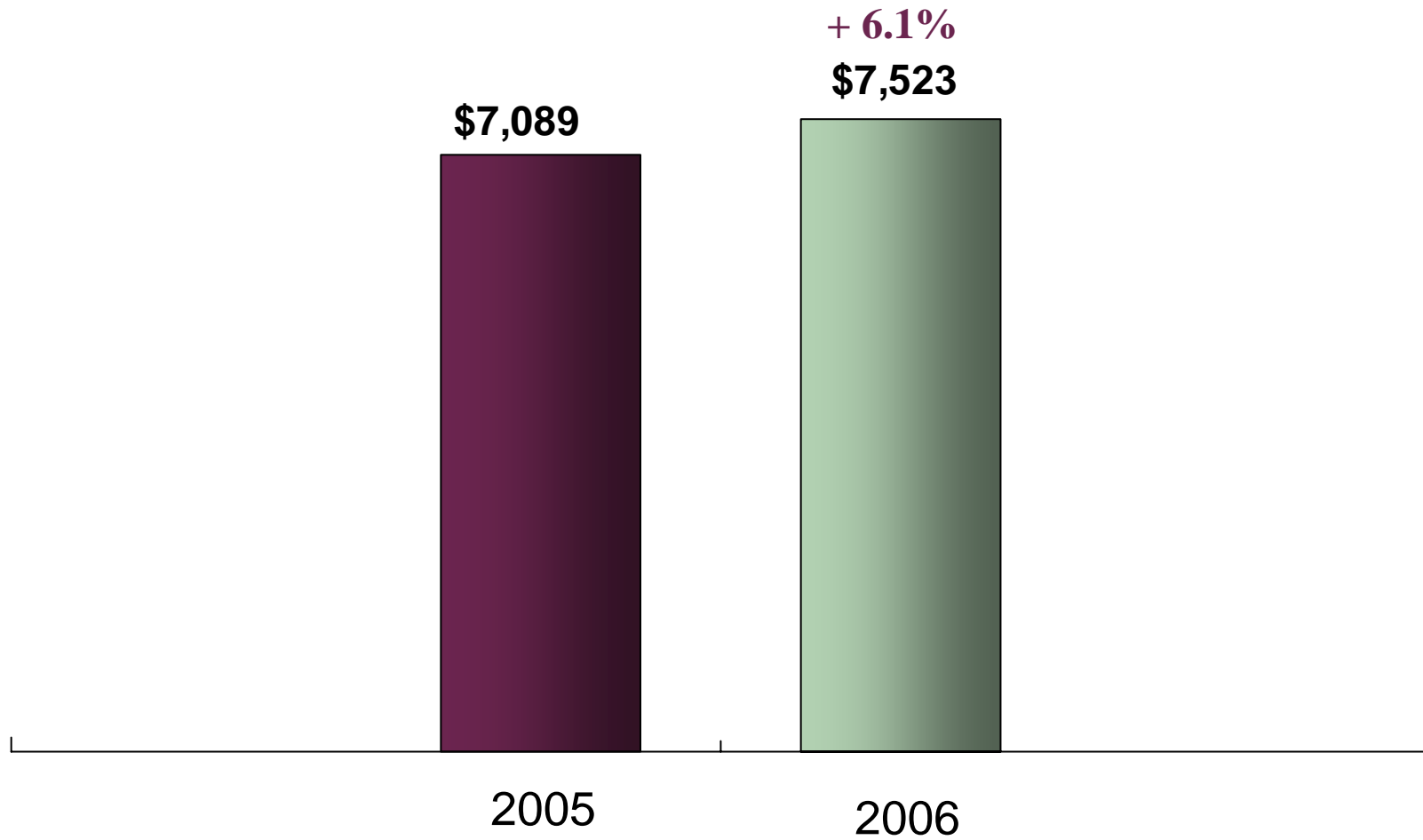
Tracks trends and determines market direction

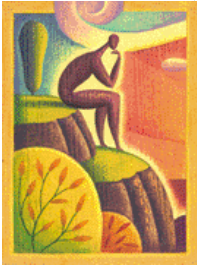


Top Stories



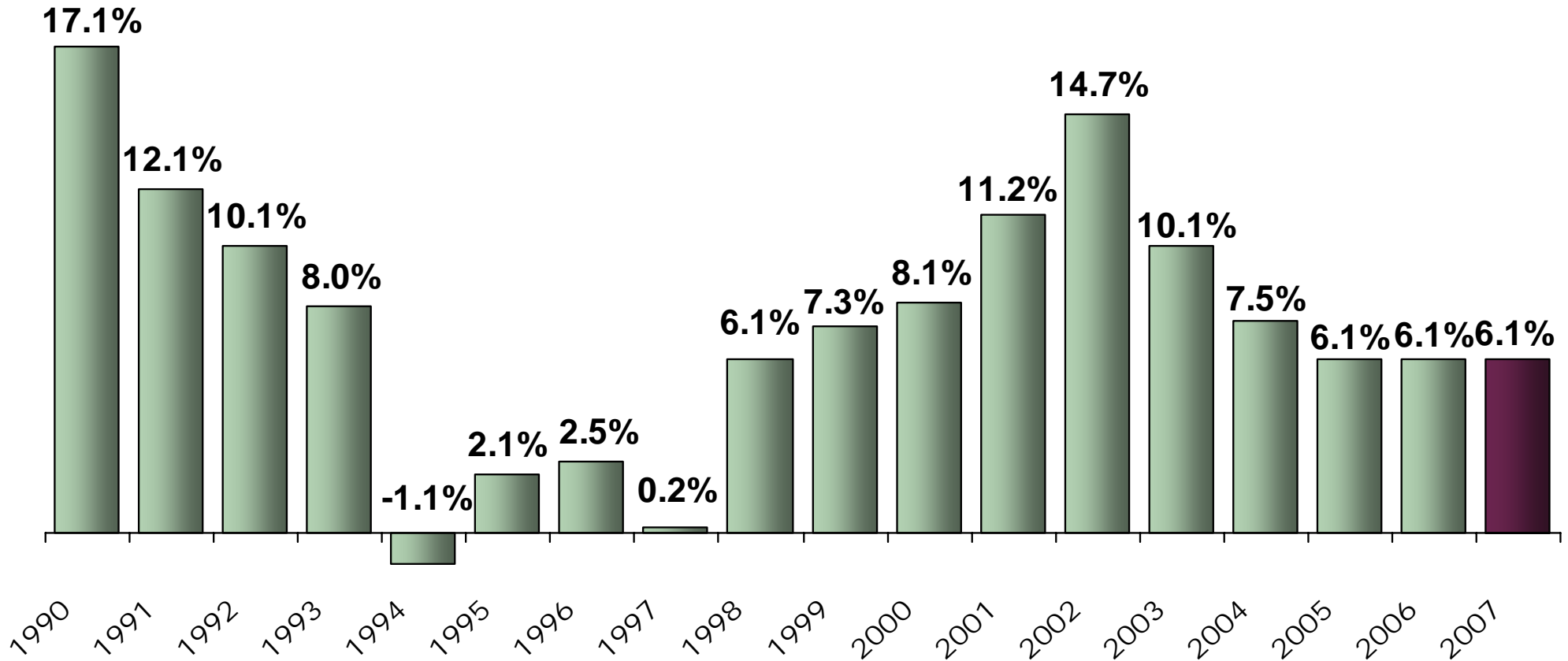
Average total health benefit cost per employee rises 6.1% among all employers





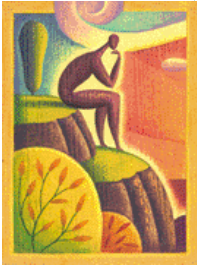
Annual change in total health benefit cost from 1990-2007

Cost growth levels off at 6.1%



Note: Results for 1990-1998 are based on cost for active and retired employees combined. The change in cost from 1998-2007 is based on cost for active employees only.

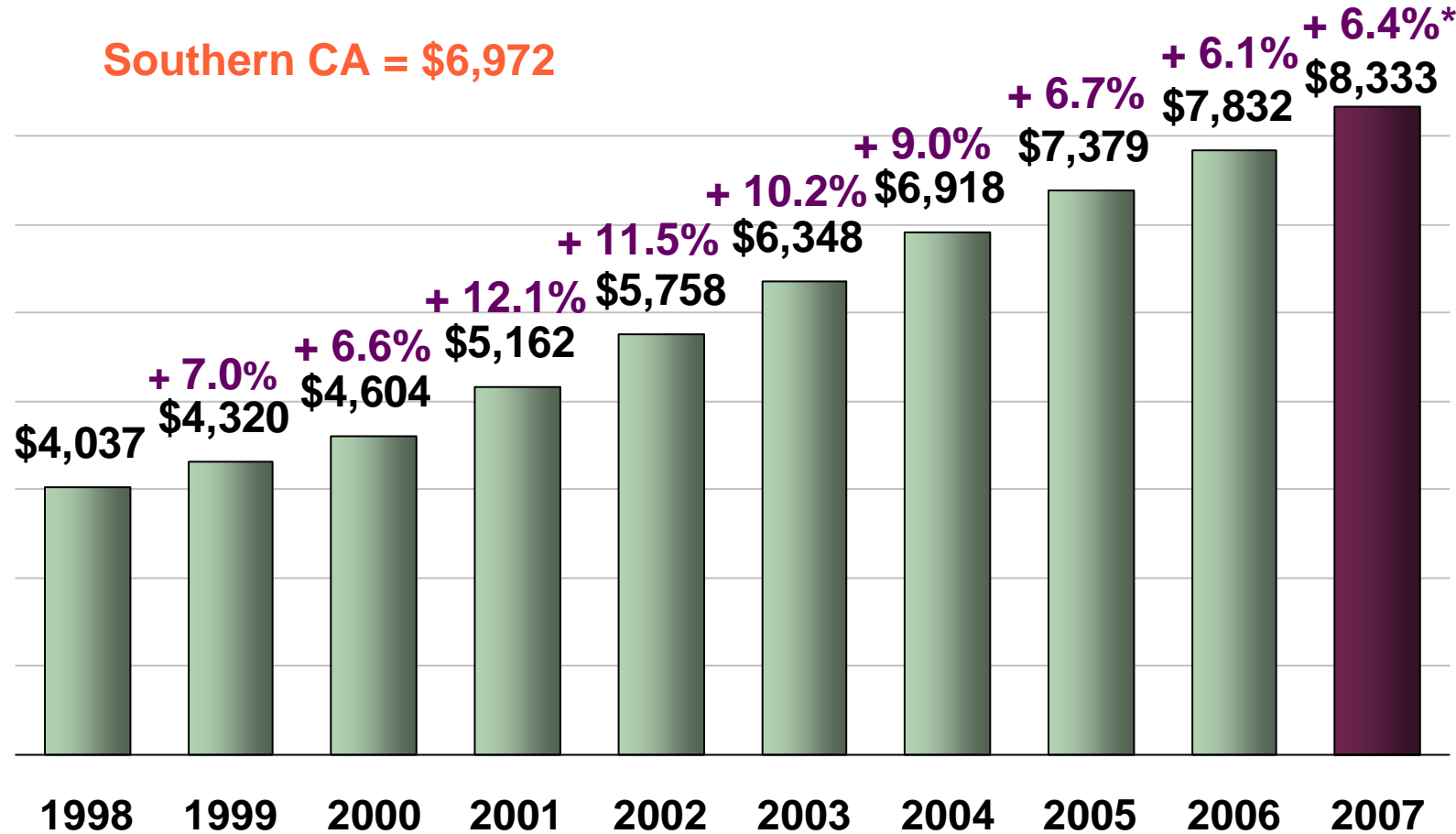
* Average increase projected for 2007 after changes to plan design



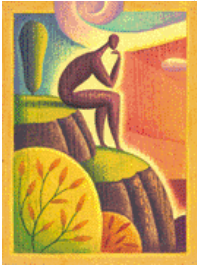
Total health benefit cost for active employees up 6.1%

Large employers

Southern CA = \$6,972



*Average increase projected for 2007 after changes; increase of 8.8% predicted before changes



Upward and downward pressures on cost in 2006

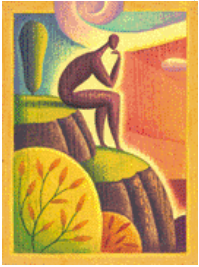
Care management

Slowing drug trends

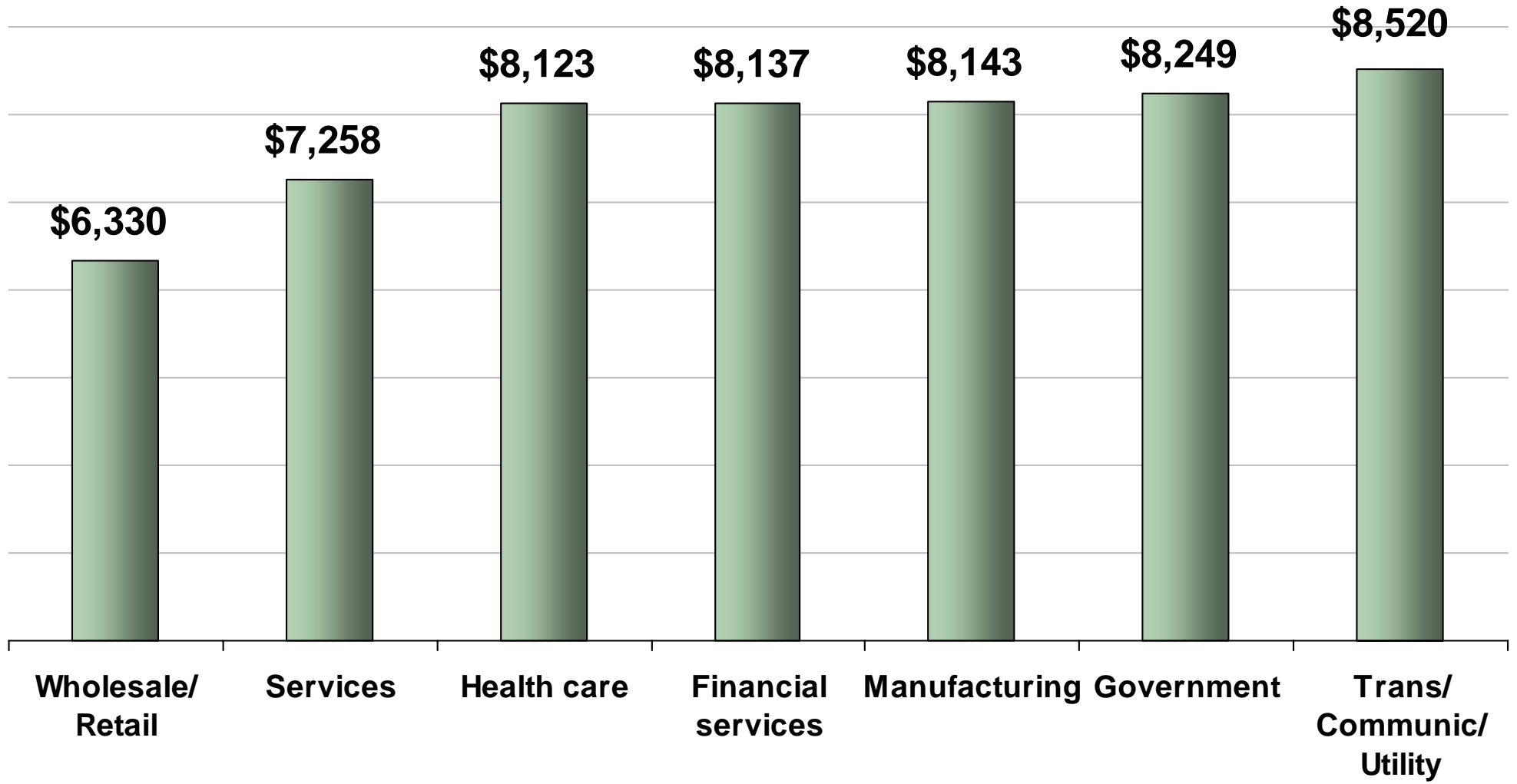
Growing enrollment in CDHPs

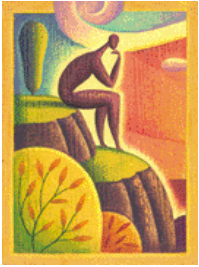
Less cost-shifting

Change in underwriting cycle brings higher cost for insured plans



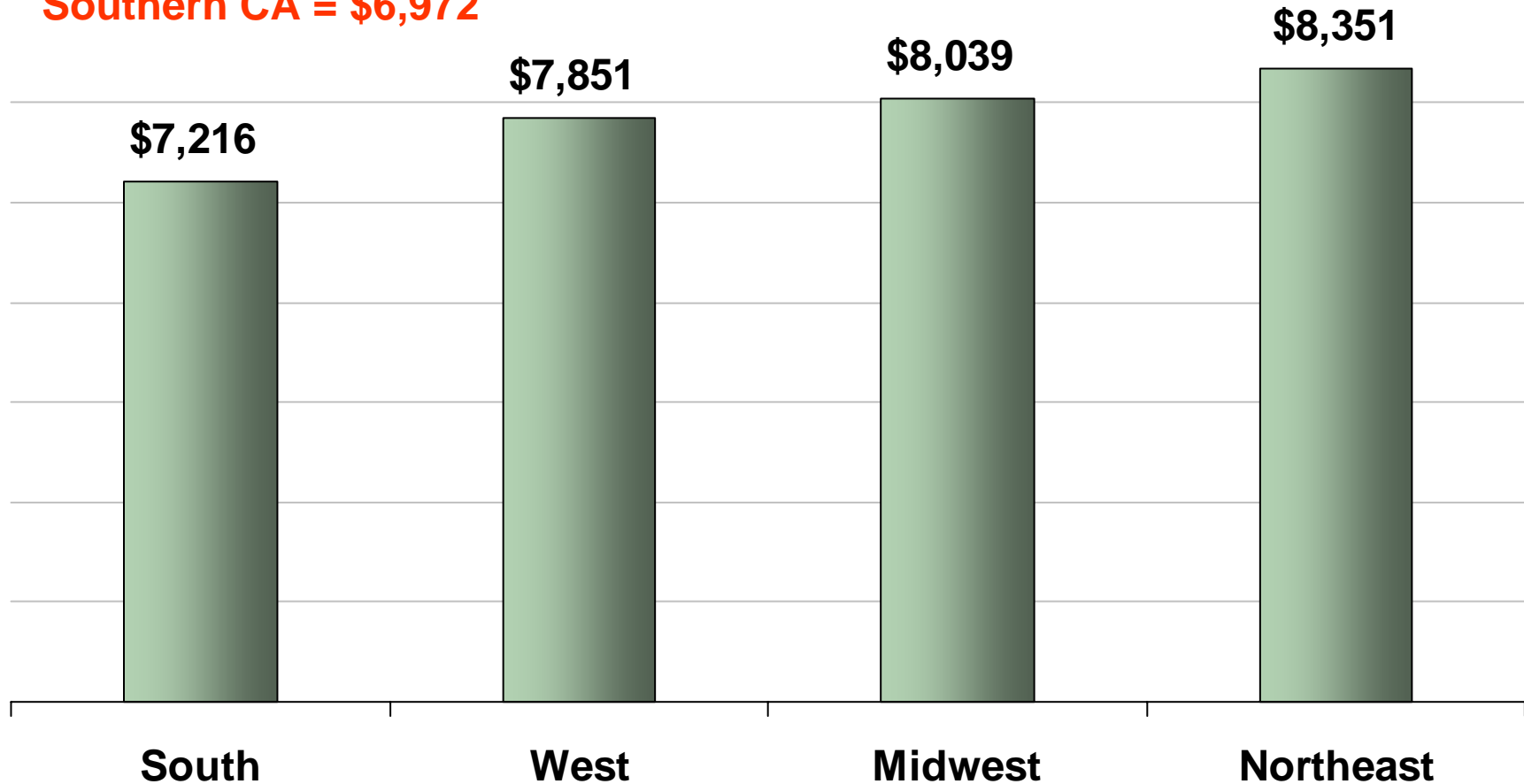
Factors that affect average cost per employee Industry—large employers

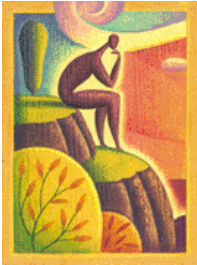




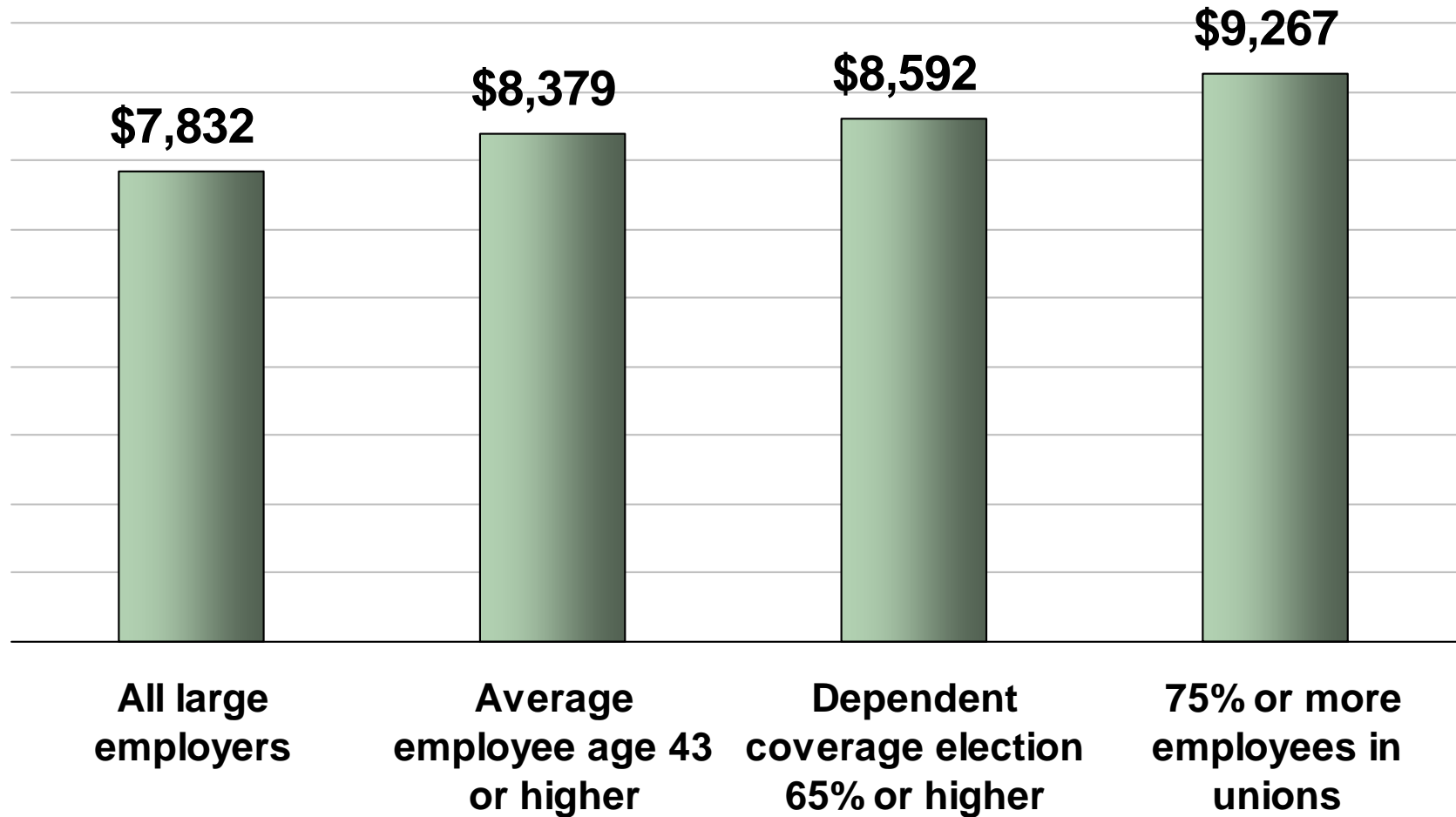
Factors that affect average cost per employee Region—large employers

Southern CA = \$6,972



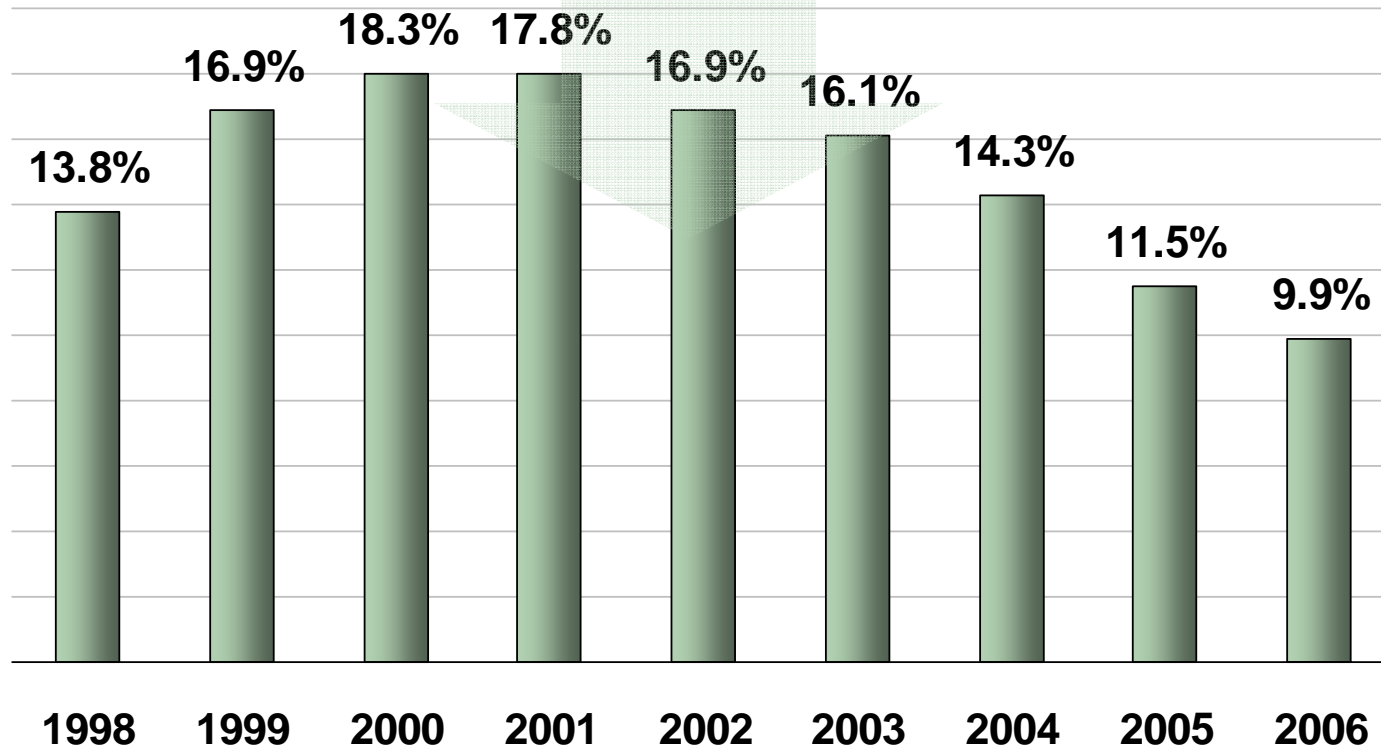


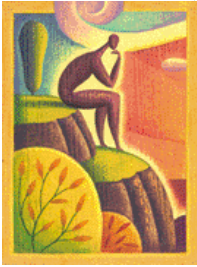
Factors that affect average cost per employee Employer/employee demographics—large employers





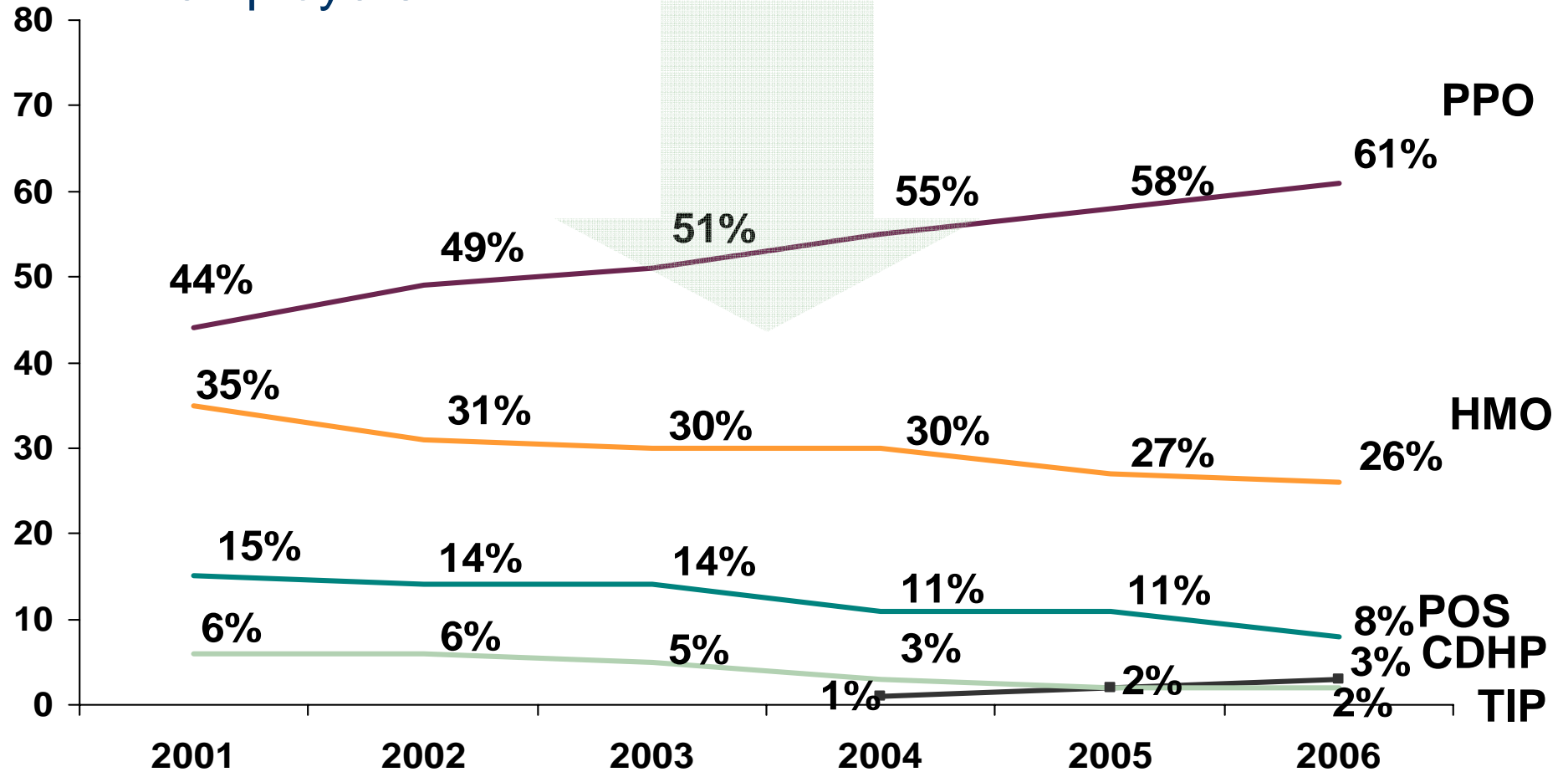
Prescription drug trend Cost increase in primary medical plan for large employers

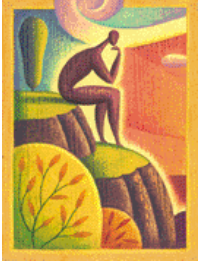




Consumer-directed health plans (CDHP) enrollment grows

Percent of covered employees enrolled, among large employers



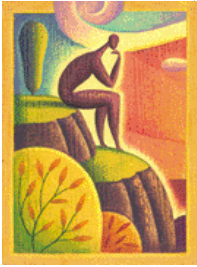


Growth in use of care management programs Percent of large employers offering program

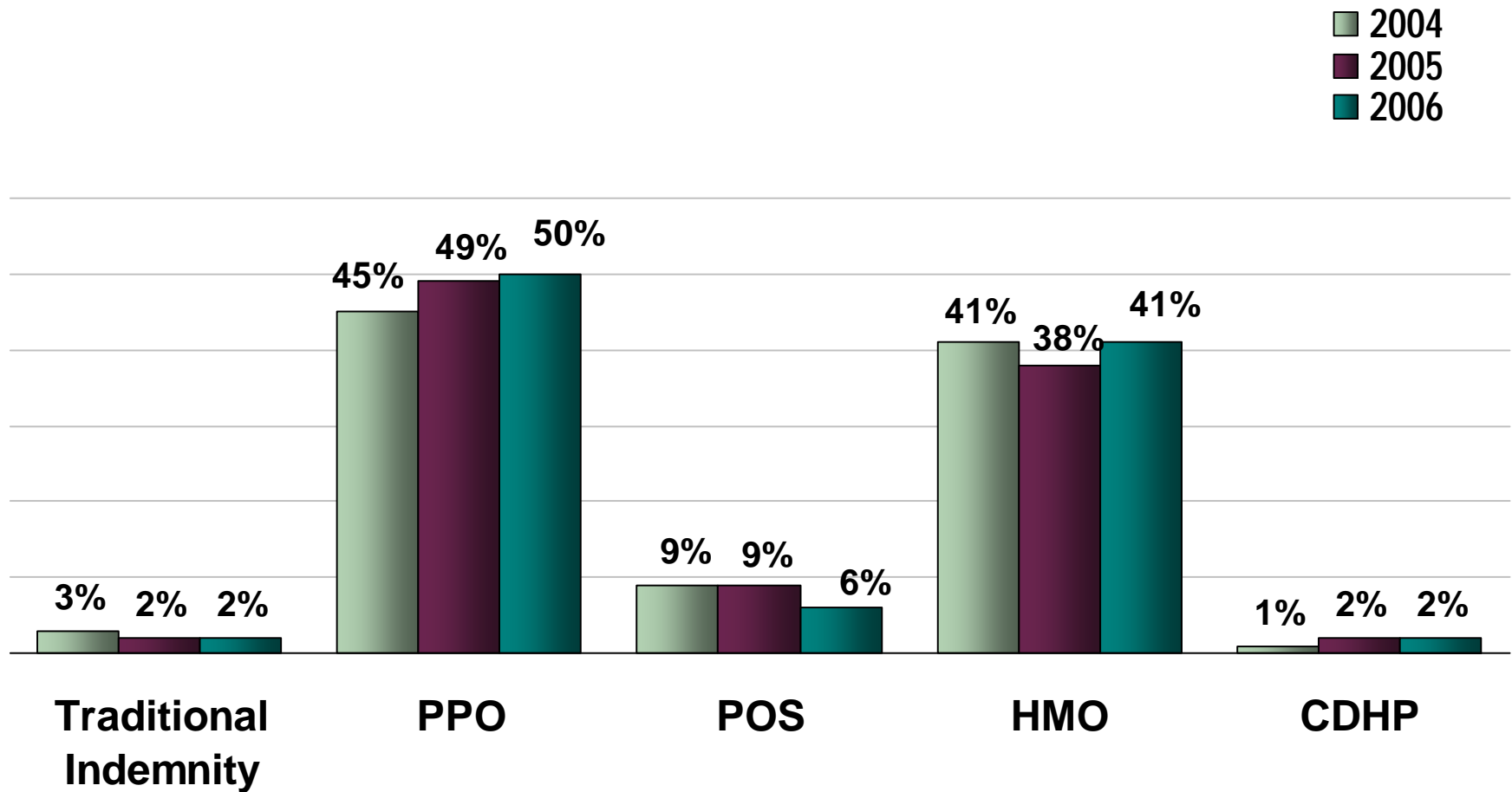
	2004	2006	Southern CA
Health risk assessment	35%	53%	55%
Disease management	58%	65%	82%
Nurse advice lines	59%	67%	70%
Catastrophic case management	59%	63%	69%

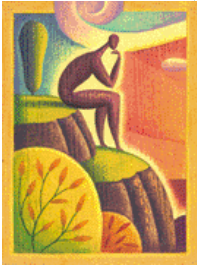


Key Design Features

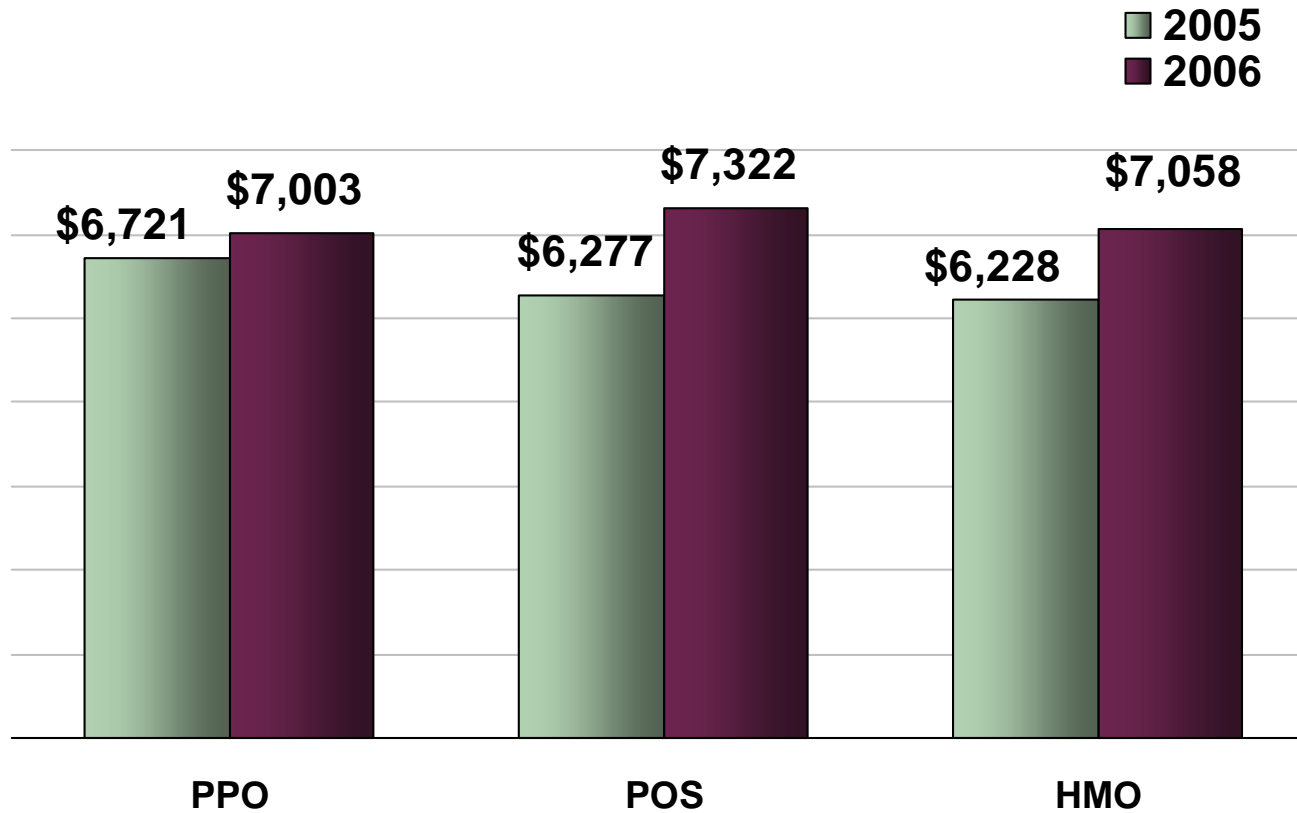


West region – employee enrollment Percent of covered employees enrolled—large employers



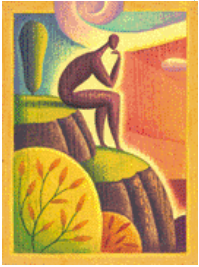


West region – average cost per active employee Large employers

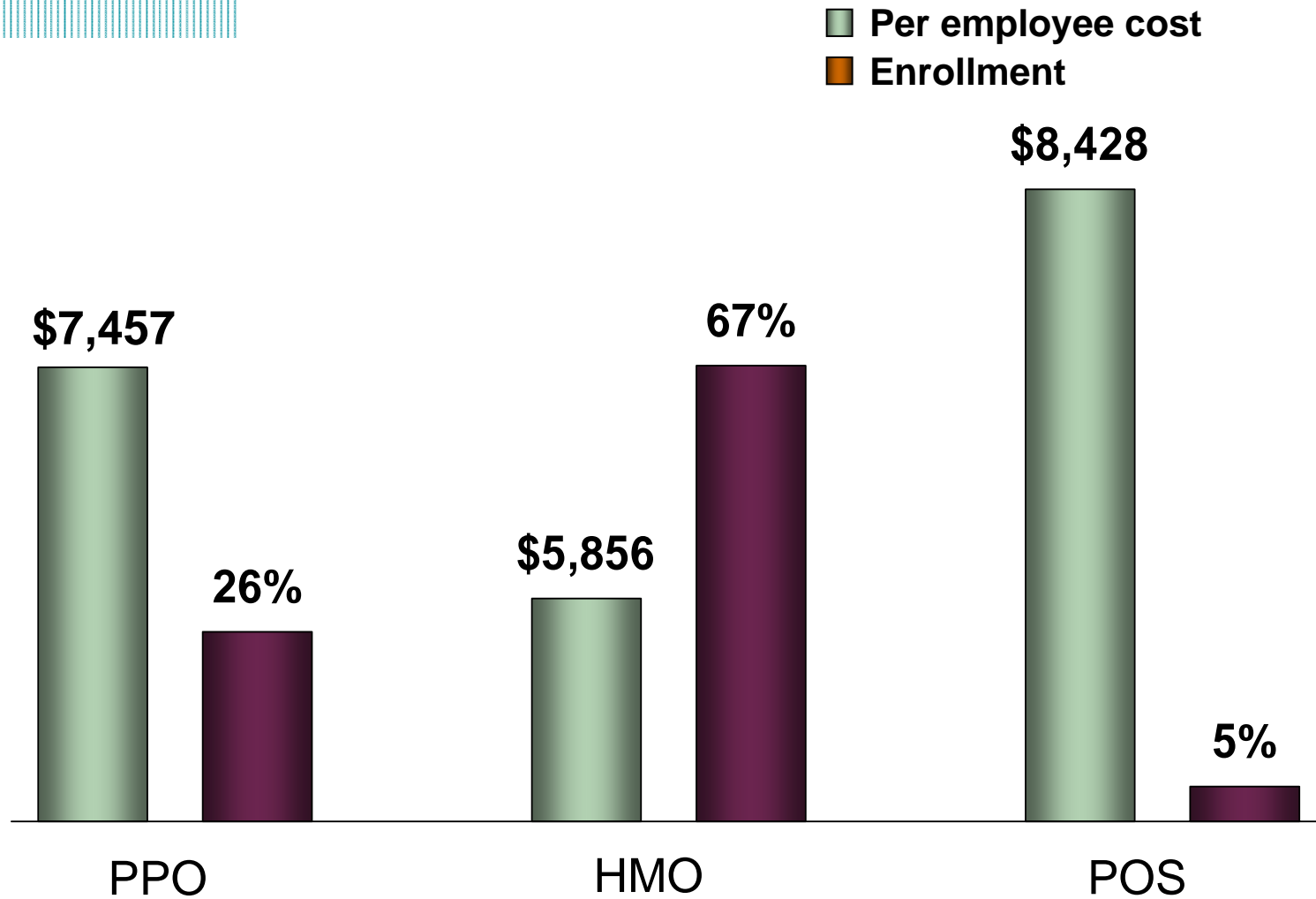


ID=Insufficient data

Mercer Health & Benefits ©

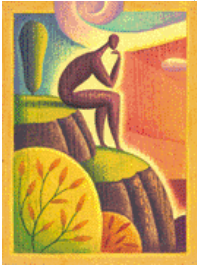


Southern California in a nutshell





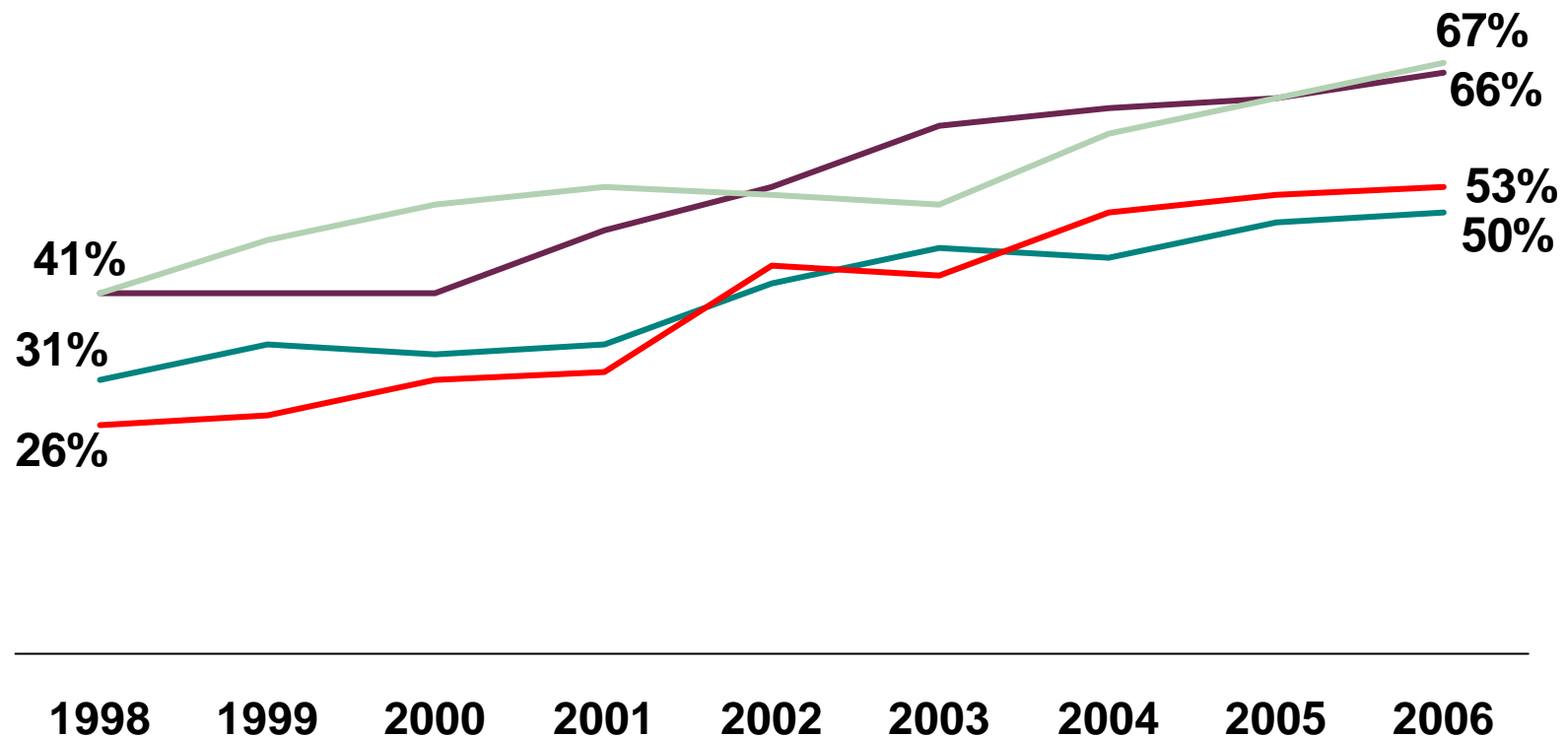
Preferred Provider Organizations

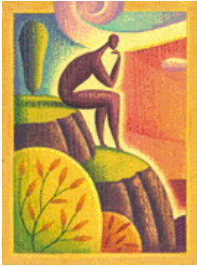


PPO enrollment 1998-2006, by region Large employers

— West — Midwest
— Northeast — South

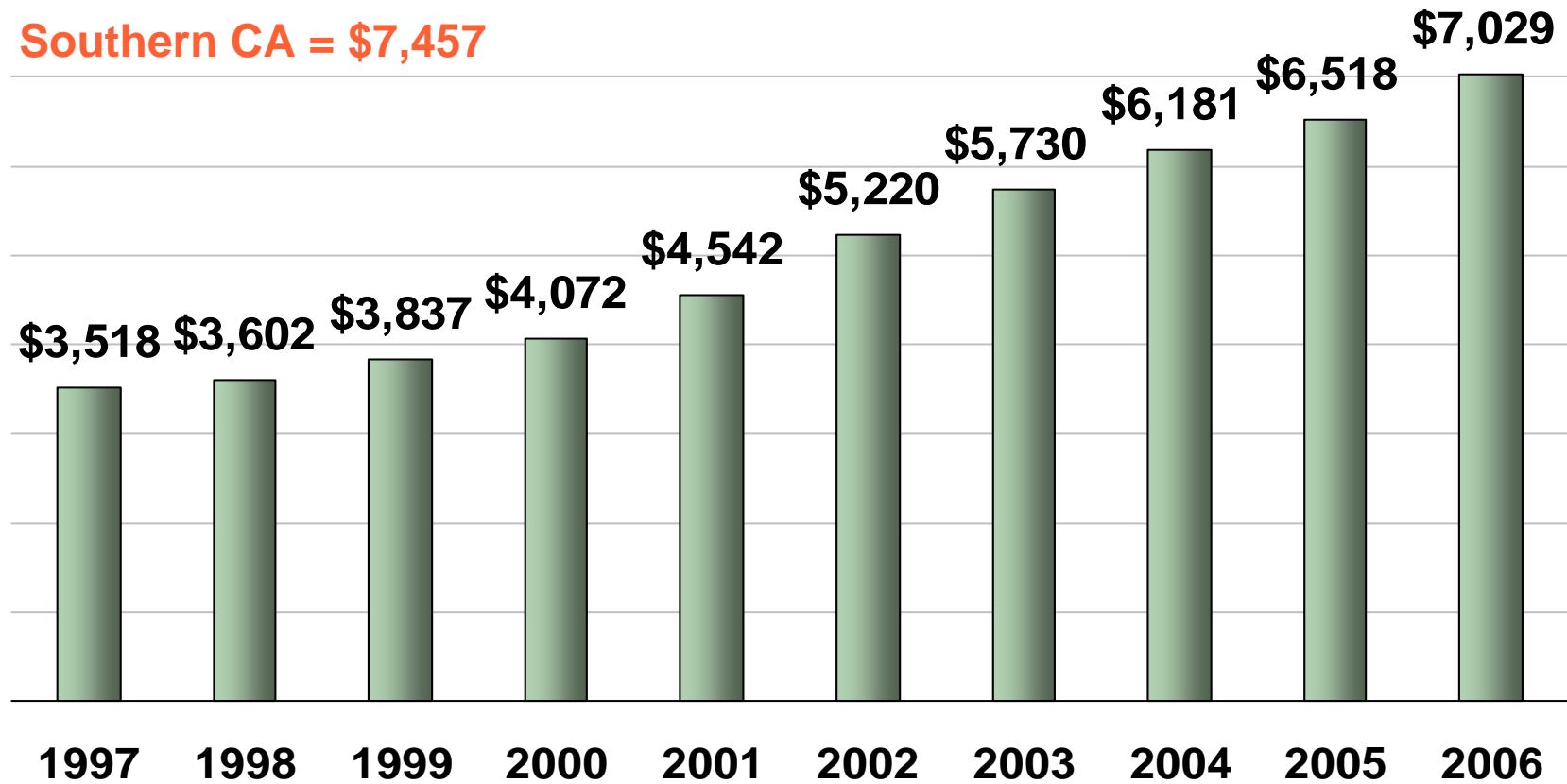
Southern CA = 26%





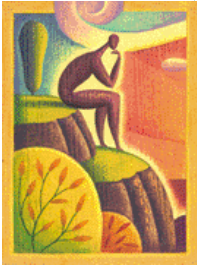
PPO cost per employee, 1997-2006 Large PPO sponsors

Southern CA = \$7,457



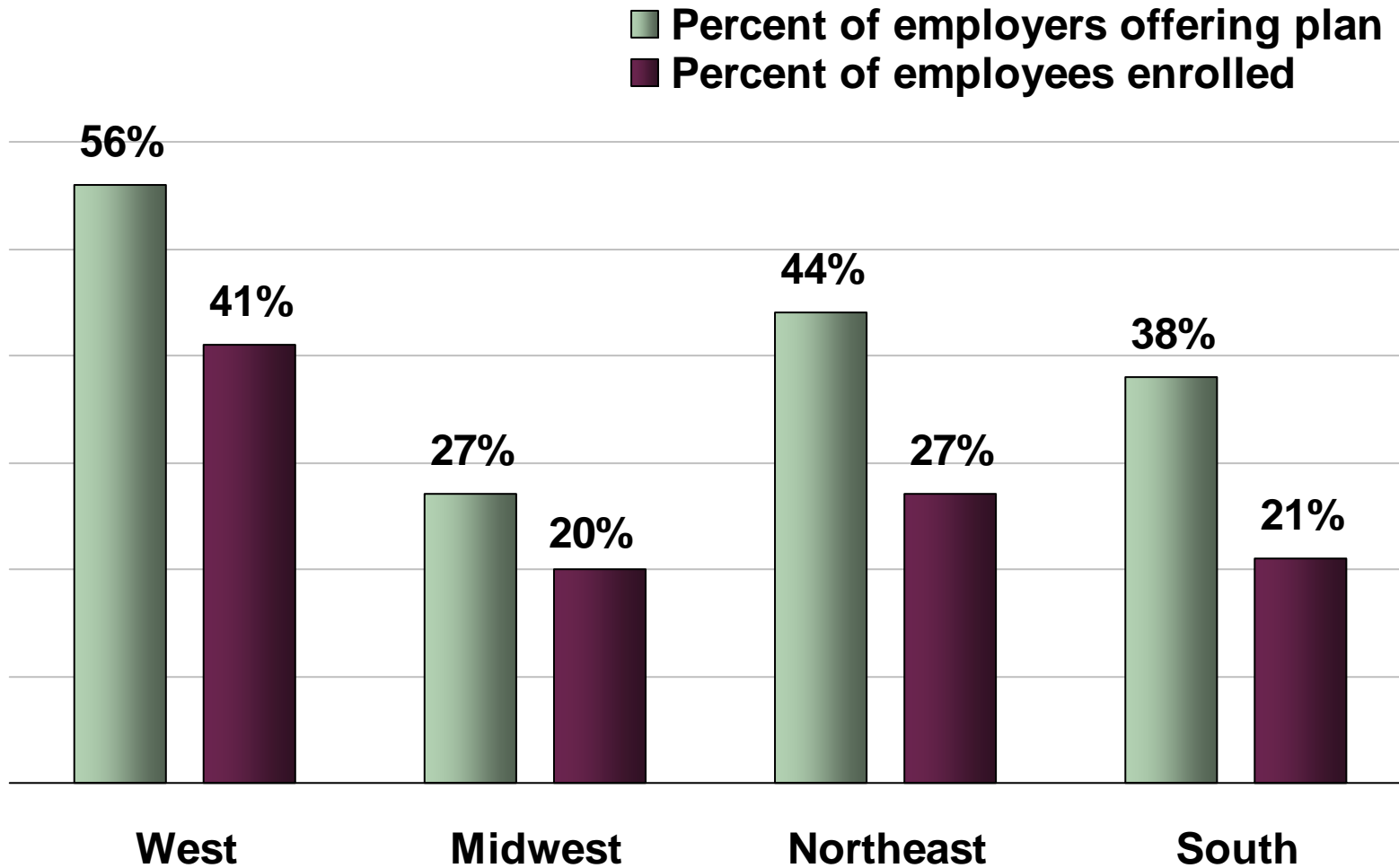


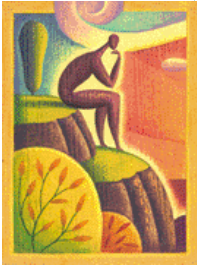
Health Maintenance Organizations



Offer HMO, by region; percent of employees enrolled

Large employers

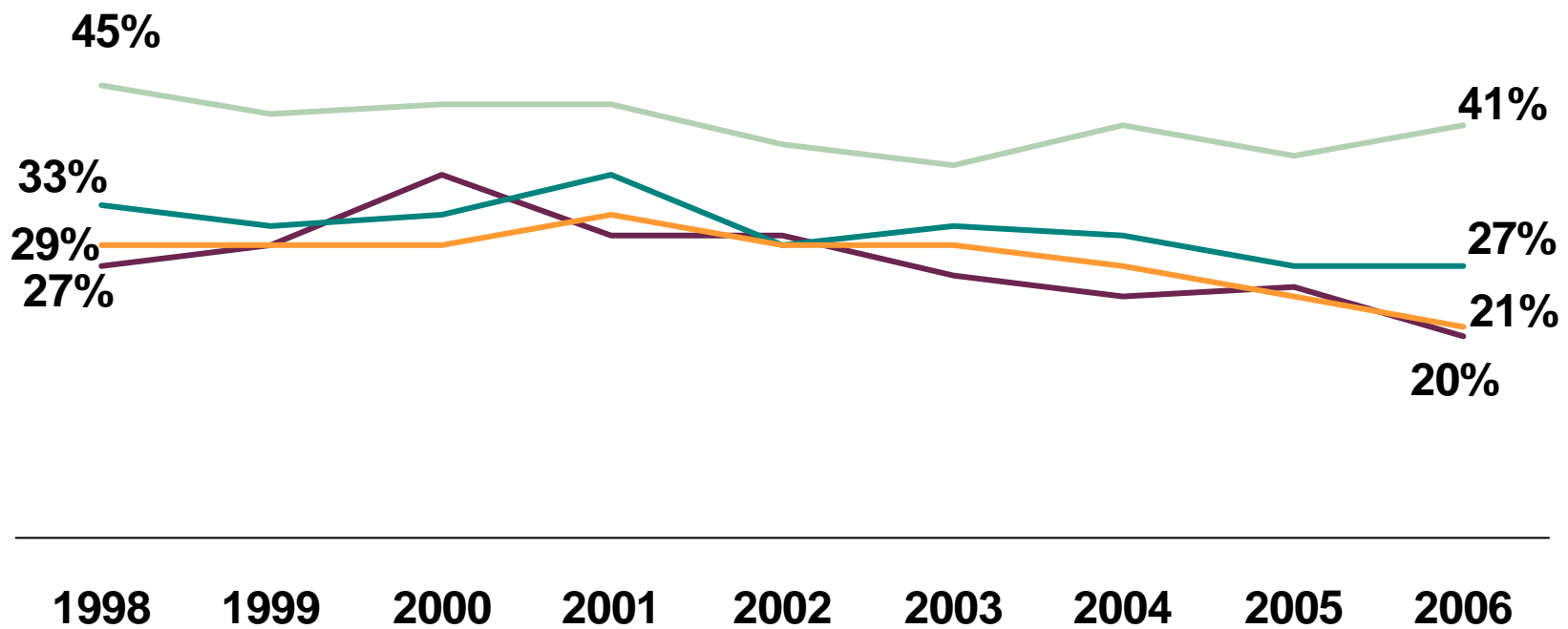


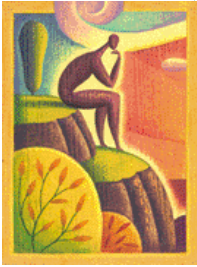


HMO enrollment 1998-2006, by region Large employers

Southern CA = 67%

— West — Midwest
— Northeast — South

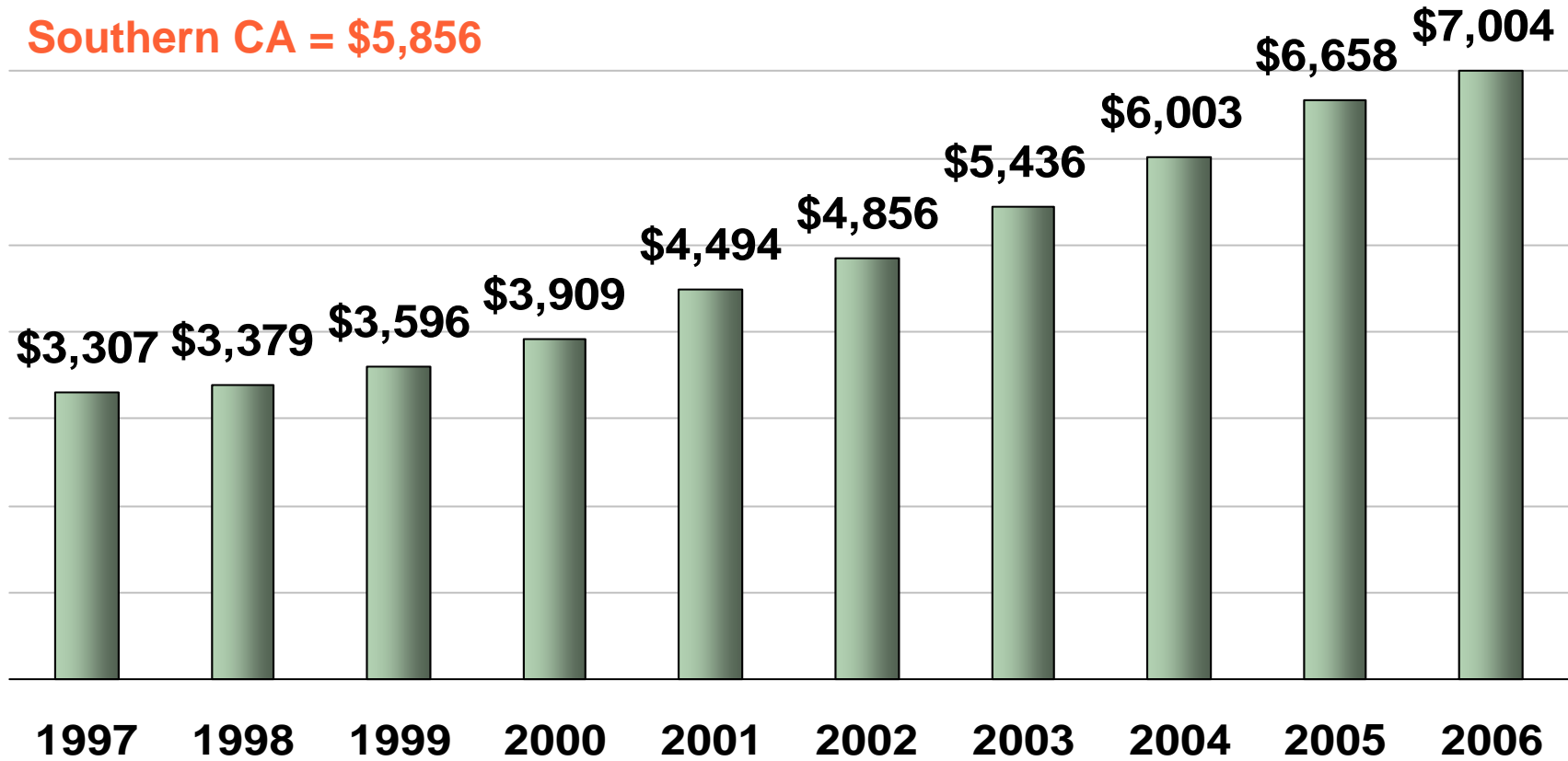


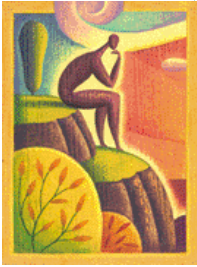


HMO plan cost per employee, 1997-2006

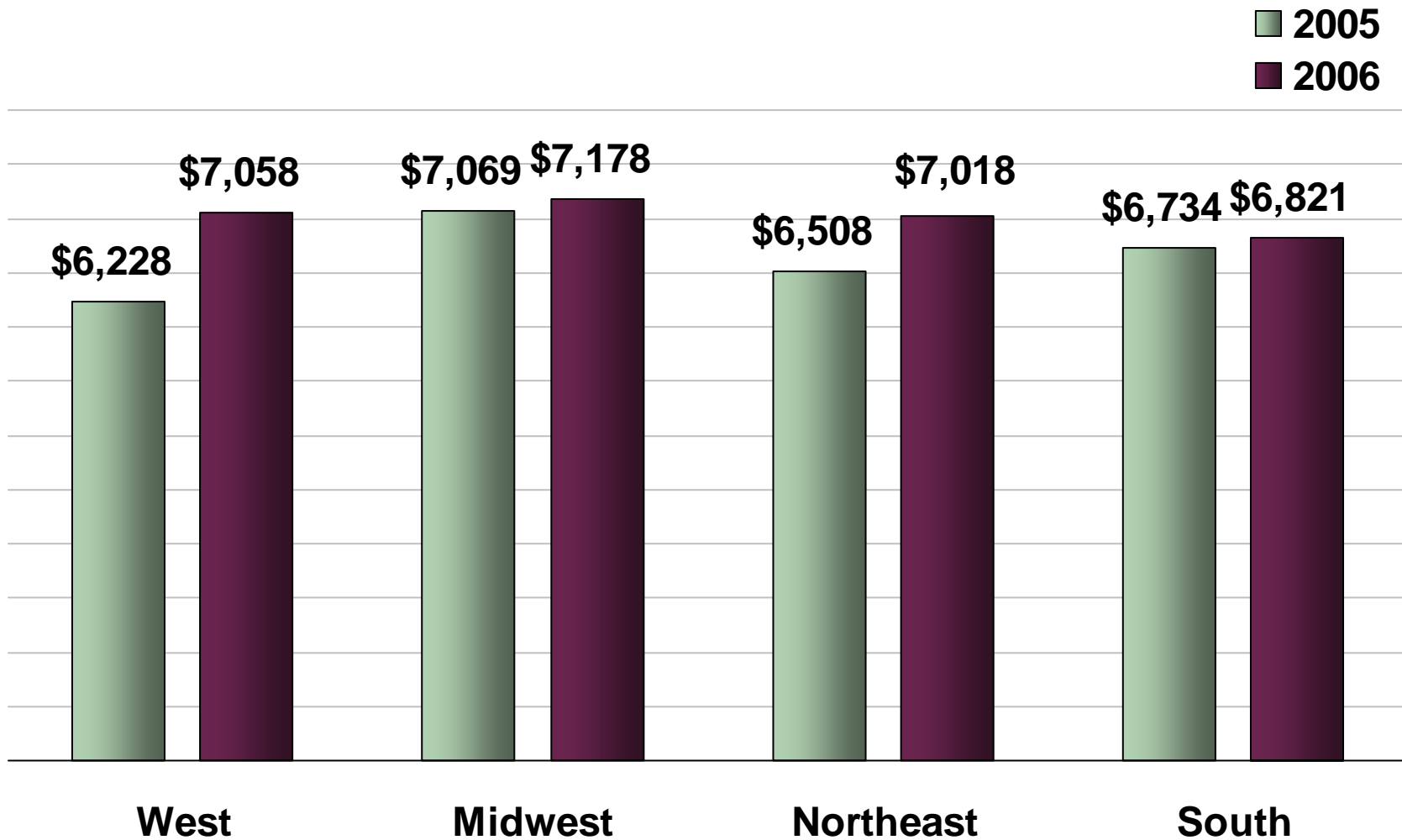
Large HMO sponsors

Southern CA = \$5,856



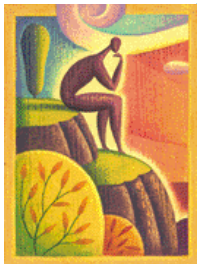


HMO cost per employee, by region Large HMO sponsors



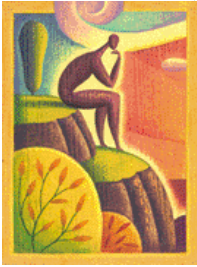
Consumerism and CDHPs



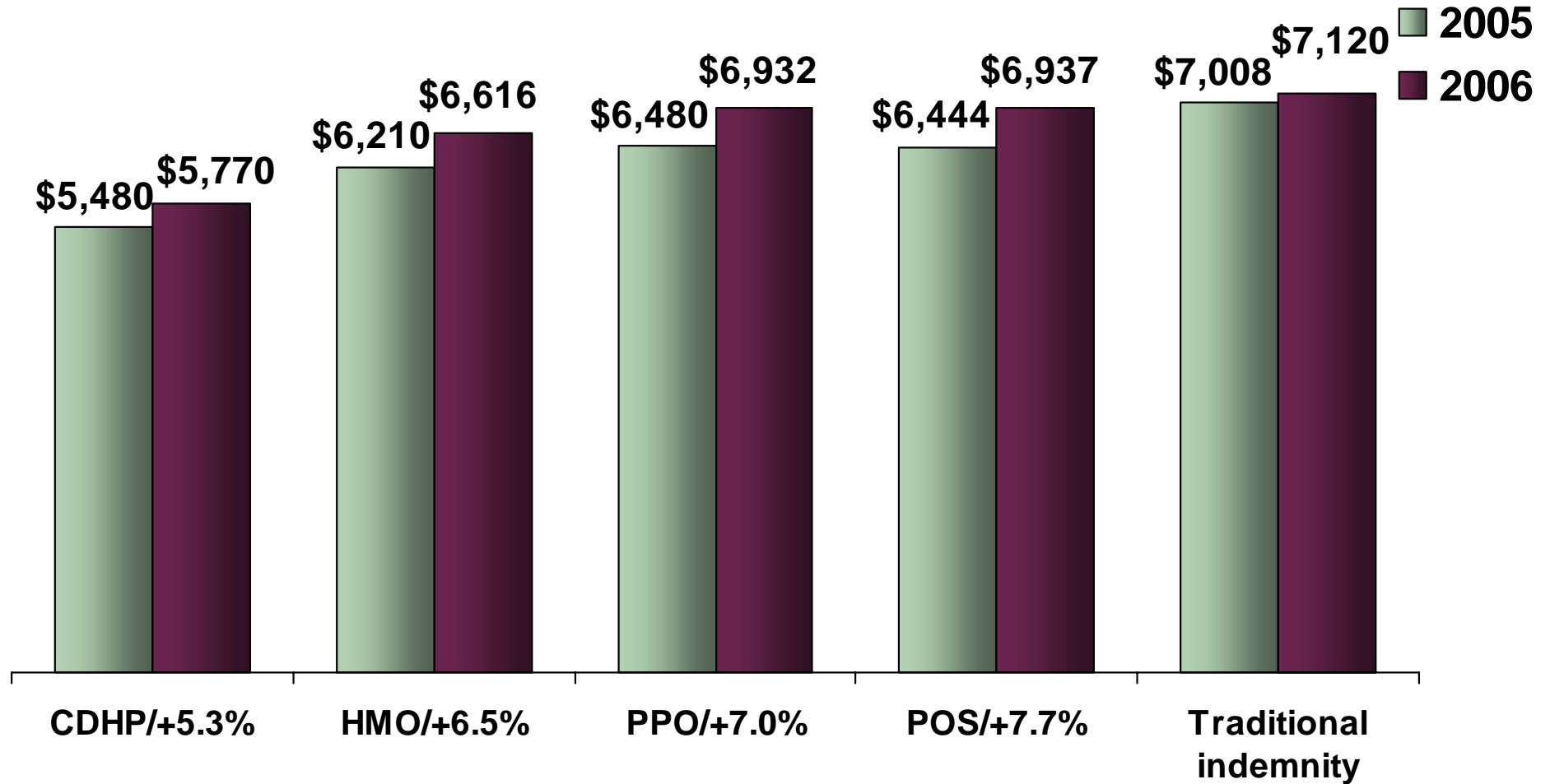


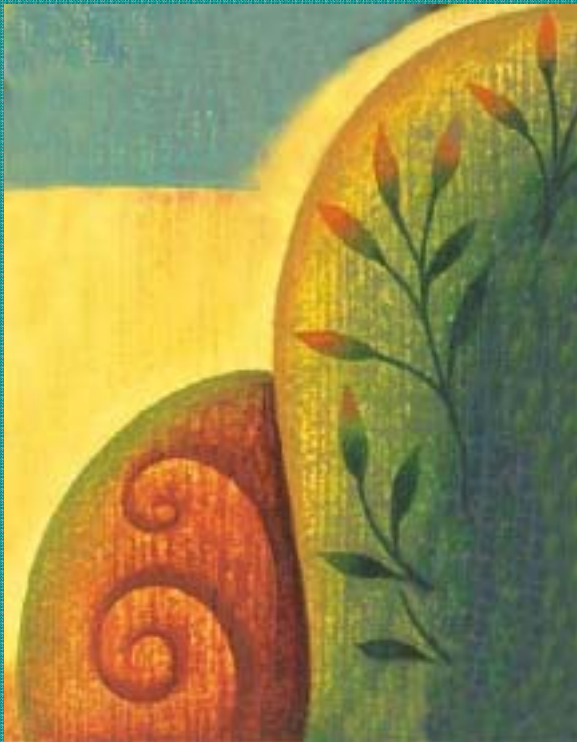
Survey results suggest CDHP growth will accelerate among smaller employers
Percent of employers offering/likely to offer CDHP, by employer size

EMPLOYER SIZE	2005	2006	Very likely to offer in 2007
10-49 employees	2%	5%	13%
50-199	1%	7%	17%
200-499	5%	7%	13%
500-999	4%	6%	10%
1,000-4,999	4%	12%	15%
5,000-9,999	10%	18%	21%
10,000-19,999	19%	21%	22%
20,000 or more	22%	37%	39%

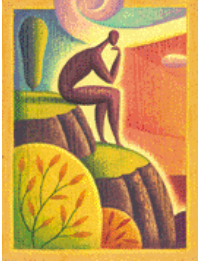


Employers save money with CDHPs Average cost per employee



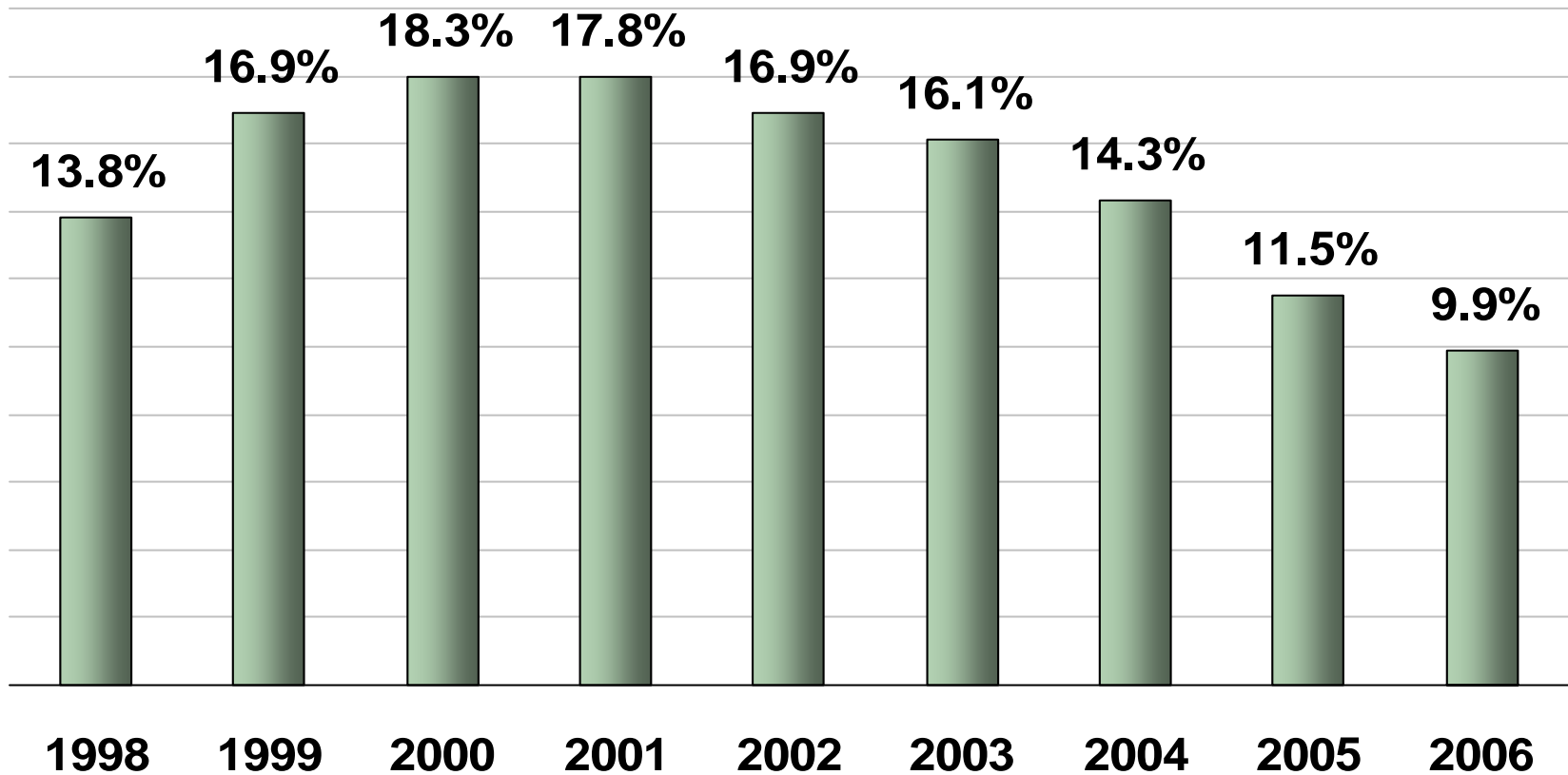


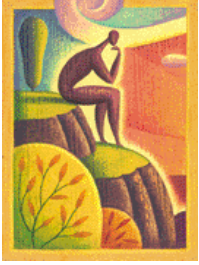
Prescription Drug Benefits



Prescription drug benefit cost slows for a sixth year, but continues to outpace overall cost

Cost increase in primary medical plan for large employers





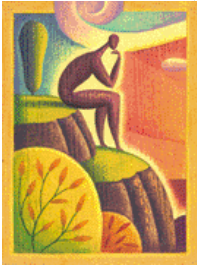
Majority of large employers require 3-tier cost-sharing in drug plans

Type of cost-sharing used in employers' primary medical plan

Retail card Mail-order

COST-SHARING STRUCTURE:

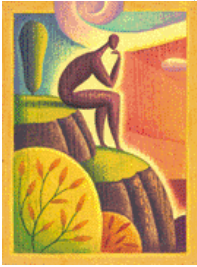
1 tier	3%	7%
2 tiers for generic, brand drugs	17%	17%
3 tiers for generic, formulary brand, non-formulary brand	72%	70%
4 or more tiers	6%	4%
No cost-sharing required	1%	–



Average copayment amounts in prescription drug card plan at RETAIL

In large employers' primary medical plan

	2003	2006
TWO-TIER COPAYMENTS		
Generic	\$9	\$9
Brand-name	\$20	\$20
THREE-TIER COPAYMENTS		
Generic	\$10	\$10
Formulary brand	\$21	\$24
Non-formulary brand	\$37	\$40



Use of coinsurance in drug plans

Percent of employers requiring coinsurance

	<u>Large employers</u>		<u>Jumbo employers</u>	
	Retail card	Mail-order	Retail card	Mail-order
Generic drugs	12%	6%	32%	18%
Formulary brand	12%	6%	34%	20%
Non-formulary brand	13%	7%	37%	23%
Specialty/biotech/ lifestyle	1%	1%	3%	2%
Any drug category	21%	14%	48%	35%



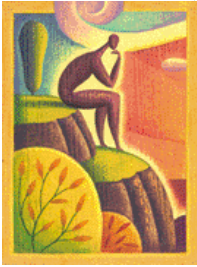
Trends



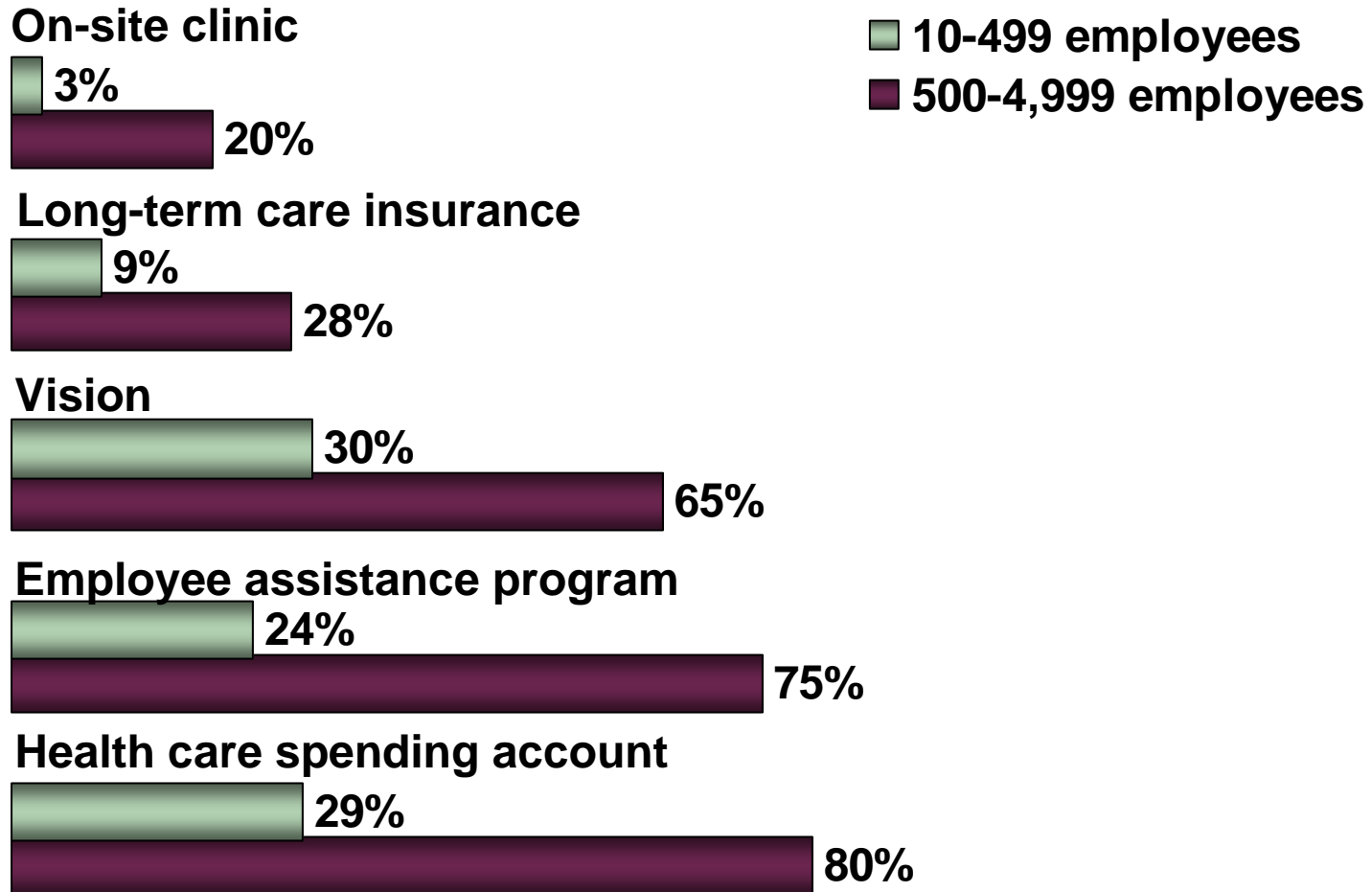
Employers see care management, consumerism as top cost management strategies for the next five years

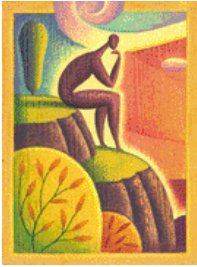
Strategy will be significant or very significant

	10-499 employees	500-4,999 employees
Care management	42%	69%
Consumerism	42%	63%
Data transparency	34%	32%
High-performance networks	34%	41%
Collective purchasing	45%	38%
Scaling back benefits/shifting cost to employees	31%	39%



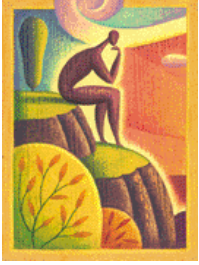
Other health care benefits offered





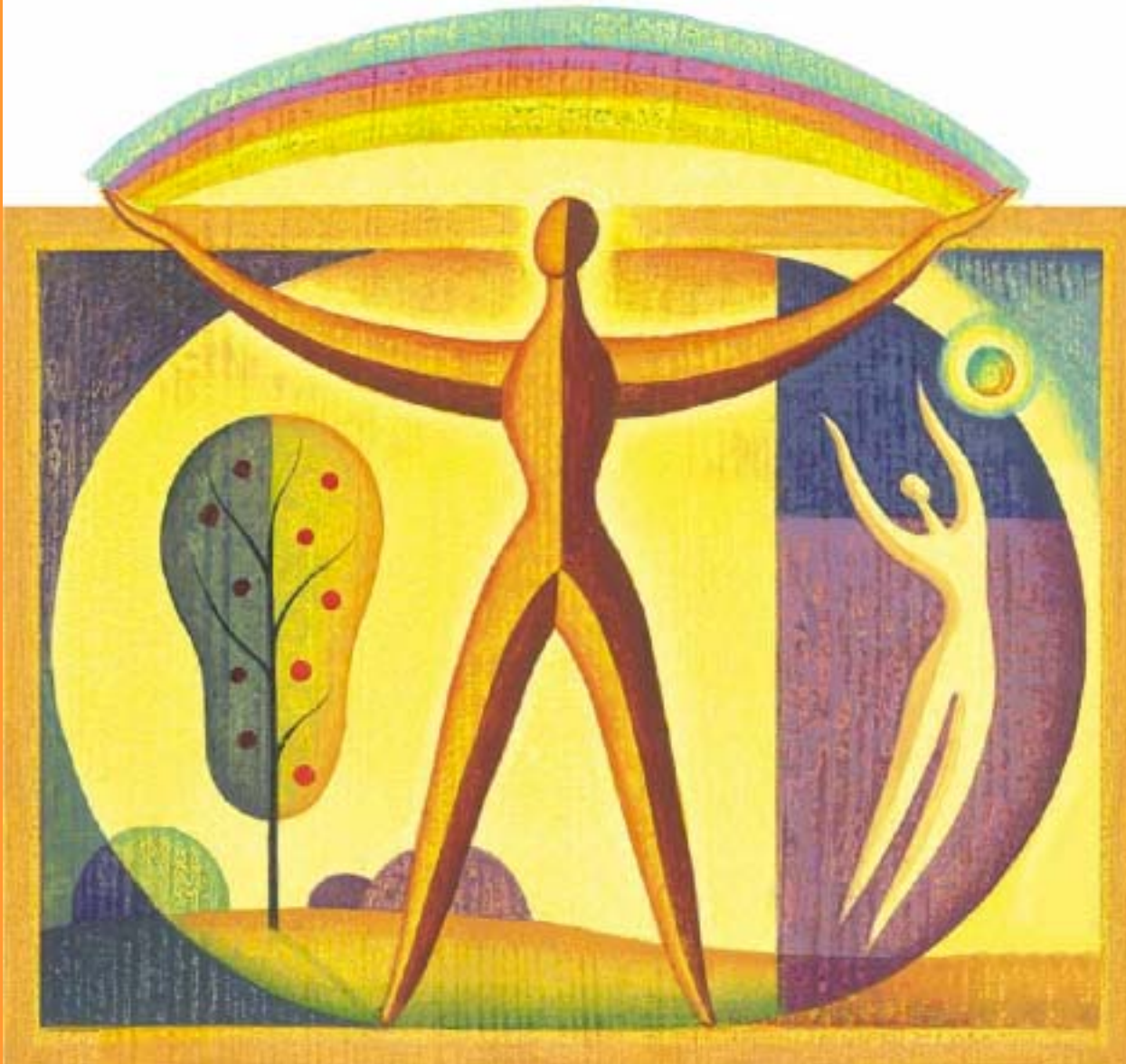
Potential Solutions to the Problem of the Uninsured – Ideas you liked:

	Approve	Strongly Approve
Providing tax credits for the health insurance for individuals	67%	21%
Providing additional tax incentives to promote the greater adoption of Health Savings Accounts	54%	17%
Adopting a Federally financed system, like Medicare, for all Americans	32%	11%

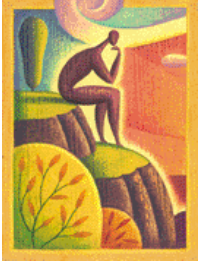


Potential Solutions to the Problem of the Uninsured – Ideas you did not like:

	Disapprove	Strongly Disapprove
Requiring employers to offer a health plan or pay into a fund that will be used to provide coverage for the uninsured	42%	14%
Requiring individuals to purchase health insurance	41%	11%



Early
Signs for
2007



Outlook for 2007 Large employers

- **Little interest in cost-shifting**
- **Implementing “best practices” care management and measuring results**
- **Promoting consumerism through CDHPs and other methods**
- **Growing focus on data transparency and health IT as a means of improving provider quality and cost-efficiency**