



News Release

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In a tough year, employers hold the line on health benefit cost increases

Large employers add health management programs; small employers move employees into account-based high-deductible plans

- Employers hold cost growth to 5.5 percent in 2009, the lowest increase in a decade
- Growth in use of wellness or health management programs accelerates as large employers look to hold down cost without cost-shifting
- Small employers added consumer-directed health plans in 2009, helping to push up enrollment in these high-deductible plans to 9 percent of all covered employees
- More than two-fifths of employers that don't offer coverage say they would be likely to do so if health reform mandates that all individuals obtain coverage

Providence, 18 November 2009 @ 10 a.m. EST

Many employers feared that health benefit cost growth would spike in 2009 as employees, worried about keeping their jobs and health coverage, consumed more health services than usual. In fact 2009 saw the lowest annual increase in a decade, as the average per-employee cost of health benefits rose 5.5 percent to reach \$8,945 after four years of increases of just over 6 percent. However, benefit cost growth outpaced inflation in 2009 by a widening margin (Figures 1 and 2).

Similar cost growth is expected in 2010. According to the *National Survey of Employer-Sponsored Health Plans*, conducted annually by Mercer and released today, employers predicted that medical plan cost would rise by about 9 percent in 2010 if they simply renewed their current plans without making any changes. However, they hope to achieve about a 6 percent increase after making changes to plan design or changing plan vendors.

Mercer's survey included public and private organizations with 10 or more employees and 2,914 employers responded in 2009.

"Small and large employers used different strategies to keep cost growth down in 2009," said Chris Côté, Providence-based principal in Mercer's health and benefits consulting business.

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Boston, 18 November 2009 @ 10 a.m. EST

“Small employers moved employees into low-cost consumer-directed health plans and raised PPO deductibles. We saw relatively little cost-shifting among large employers – what jumped out was a real increase in their use of programs and policies designed to improve workforce health.”

Sharp increase in adoption of health management programs by large employers

The ongoing workforce health management (or “wellness”) movement gained considerable momentum in 2009, as offerings of virtually every type of health management program – from health risk assessments to disease management programs to behavior modification programs – rose significantly (Figure 3). While not conclusive, survey results suggest these programs are having an impact: Medical plan cost increases in 2009 were about two percentage points lower, on average, among employers with extensive health management programs than among those employers offering limited or no health management programs. And nearly three-fourths of employers that have measured the return on their investment in health management programs say they are satisfied with the year-over-year savings, lower utilization rates or improved health risks. However, only about a third of all large employers have formally measured ROI.

“A lot more employers were willing to place their bet on health management in 2009,” said Mr. Coté. “But they will want to see continual gains. Measuring health management ROI is inherently challenging and continues to evolve. There’s growing anecdotal evidence that well-designed and communicated health management programs can improve outcomes, but we need to work harder at understanding and eliminating missed opportunities – and that includes changing noncompliant patient behavior.”

Some lawmakers are also looking to health management to reduce the cost of health care over time. One Senate bill would allow employers to give employees bigger financial incentives to participate in programs. Currently, a fifth of all large employers – but almost half of those with 20,000 or more employees – use health management incentives.

“Now that most large employers have at least some health management programs in place, we’re seeing a new focus on improving both provider and employee engagement by using incentives to drive improved participation, outcomes and compliance,” said Mr. Coté.

Very large employers are also increasingly willing to reward employees who demonstrate responsibility for their own health. Nearly a fourth of those with 20,000 or more employees vary employees’ premium contribution amounts based on their smoker status – 23 percent, up from 17 percent last year (Figure 4).

CDHPs catch on big with small employers in 2009

Small employers held down cost increases by sharply raising deductibles for in-network PPO services. Their actions drove the average PPO deductible among all employers up by about \$100 for an individual and \$300 for families, to \$1,096 and \$2,515, respectively (Figure 5). Consistent with past years, employers kept premium contributions relatively stable, choosing to keep the cost of coverage affordable while shifting the burden to those who use health services.

Compared to large employers, small employers have been slow to adopt high-deductible, account-based consumer-directed health plans. But in 2009 CDHP offerings among employers

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with 10-499 employees jumped from 9 percent to 15 percent (Figure 6). This helped drive the percentage of all covered employees enrolled in CDHPs from 7 percent to 9 percent. Enrollment in PPOs was flat at 69 percent, while enrollment in HMOs fell from 23 percent to 21 percent (Figure 7). HMO enrollment peaked in 2001 at 33 percent and has been eroding ever since. In 2009, the average HMO cost per employee was higher than PPO cost (Figure 8).

“Over the past decade employers have been moving away from HMOs to PPOs, in part because PPOs give them greater flexibility to control cost sharing with members,” said Mr. Coté. “Now we’re seeing growth in consumer-directed health plans, in which cost-sharing is sweetened by an account that allows employees to accumulate any health care dollars they save by spending less or spending more wisely.”

While growth in CDHP offerings in 2009 was evident only among small employers, the plans are still more common among larger employers: CDHPs are offered by 20 percent of employers with 500 or more employees, and 43 percent of those with 20,000 or more employees. However, small employers that offer a CDHP are much more likely to offer it as the only medical plan: 55 percent compared to just 9 percent of large employers with CDHPs. With the cost of coverage in an HSA-based CDHP more than 20 percent lower, on average, than the cost of coverage in a PPO, small employers that moved all employees into a CDHP in 2009 were able to realize significant cost savings.

A challenge for health reform: Predicting how employers that don’t offer coverage will react

National health reform may ultimately include a provision that would require employers to offer a plan or pay a penalty, and which course of action they would choose has important consequences for the future of the US health care system. In interviews with more than 500 employers that don’t currently offer coverage, Mercer found evidence suggesting they would rather play than pay.

More than two-fifths (44 percent) said they would be more likely to offer a plan to their employees if all individuals were required to obtain coverage – a provision that is also in House and Senate proposals – and 57 percent would be more likely to offer a health plan if they received an annual tax credit that would reduce the net cost of the health coverage to about \$2,000 per employee.

On the other hand, less than a fourth (22 percent) say they would support a requirement to pay 4 percent of their payroll into a public or private fund to provide coverage to their employees.

“Small employers, like large employers, want control over how their money is spent,” said Mr. Coté. “Using consumerism and health management strategies, employers have been able to keep cost increases stable for the past five years, and even to bend the trend in the right direction in 2009. These results signal their reluctance to sign on to an annual expense over which they ultimately have no control.”

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Other findings

- **The prevalence of employer-sponsored health plans** remains unchanged in 2009, at 65 percent of all employers (Figure 9). Among large employers (500 or more employees), health benefits are nearly universal.
- **Health care flexible spending accounts** are offered by 27 percent of all employers but 85 percent of those with 500 or more employees. The average employee contribution is \$1,424, well below the \$2,500 cap that has been suggested in health reform proposals.
- **COBRA take-up rates** rose after Sept. 2008 for half (51 percent) of all large employers.
- **Mental Health Parity:** About half of large employers (49 percent) were already in compliance with the requirements of the Mental Health Parity Act; 47 percent have made (or will make) changes to their behavioral health coverage to comply, in most cases by removing special coverage limits.
- **Spousal coverage:** Surcharges or other special provisions to limit election of coverage for spouses who have other coverage available are used by 12 percent of large employers, up from 8 percent in 2008. An additional 5 percent are considering adding such a provision.
- **Retiree medical:** There was no further erosion in the prevalence of retiree medical coverage in 2009. Among large employers, 28 percent offer an ongoing plan for pre-Medicare-eligible retirees, and 21 percent offer one for Medicare-eligible retirees. Ten years ago, in 1999, these figures were 35 percent and 28 percent, respectively (Figure 10).
- **Mini-med** or limited health programs – low-cost plans that are intended to cover routine or preventive care only (as opposed to catastrophic care) – are offered by 7 percent of large employers and 20 percent of those with 20,000 or more employees. Large employers in the wholesale/retail industry, which typically employ a lot of part-time employees, are the most likely to offer these plans (17 percent). There was no growth in offerings of these plans in 2009.
- **Worksite clinics:** More than a fourth of large employers (27 percent) offer an on-site or near-site medical clinic for occupational health services; 11 percent of large employers offer a clinic for primary care services.

Survey methodology

The Mercer *National Survey of Employer-Sponsored Health Plans* is conducted using a national probability sample of public and private employers with at least 10 employees. More than 2,900 employers completed the survey in 2009. The survey was conducted during the late summer, when most employers have a good fix on their costs for the current year. Results represent about 600,000 employers and more than 90 million full- and part-time employees. The error range is +/-3 percent.

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The full report on the Mercer survey, including a separate appendix of tables of responses broken out by employer size, region and industry, will be published in late March 2010. The report costs \$600 and the report and tables cost \$1,200. For more information, visit www.Mercer.com/ushealthplansurvey or call Tara Lewis at 212/345-2451.

Notes for editors

Health maintenance organizations (HMOs) use a network of health care providers and do not cover care provided outside of the network.

Preferred provider organizations (PPOs) utilize a network of providers. There may be incentives for members to use the network providers, but they are covered for care received outside the network. **Point-of-service plans** are included.

A **consumer-directed health plan (CDHP)** is a medical benefit design in which employees use spending accounts – **Health Savings Accounts (HSAs)** or **Health Reimbursement Arrangements (HRAs)** – to purchase routine health care services directly. Non-routine expenses are covered by traditional insurance after members meet a generally high deductible. Online health and financial tools are generally provided. With an HSA, employees may contribute pre-tax dollars into the account; an employer contribution is optional, but employees have full control over all money in the account. With an HRA, only employers may fund the account and they decide whether money left in the account at the end of the year may roll over.

About Mercer

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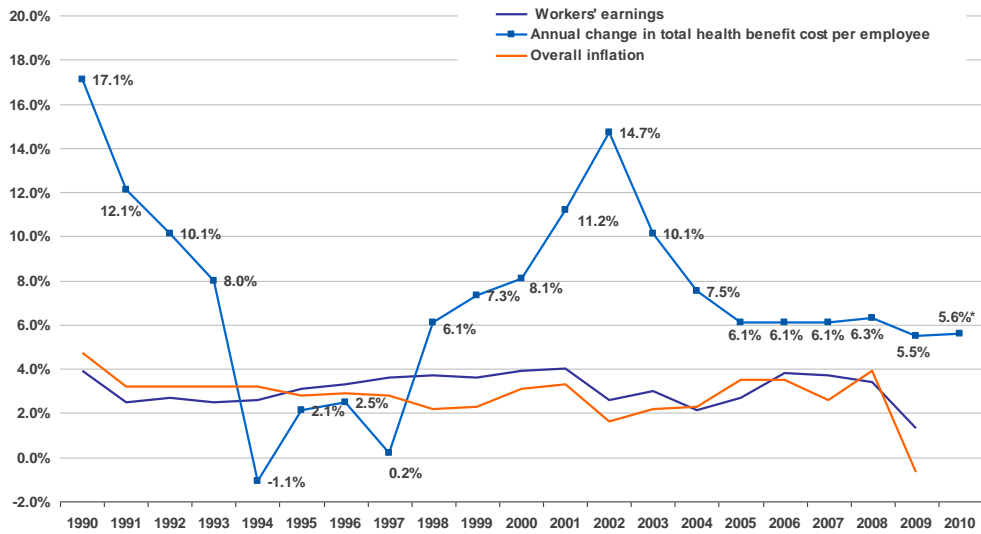
(see following pages for figures referenced)

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FIGURE 1

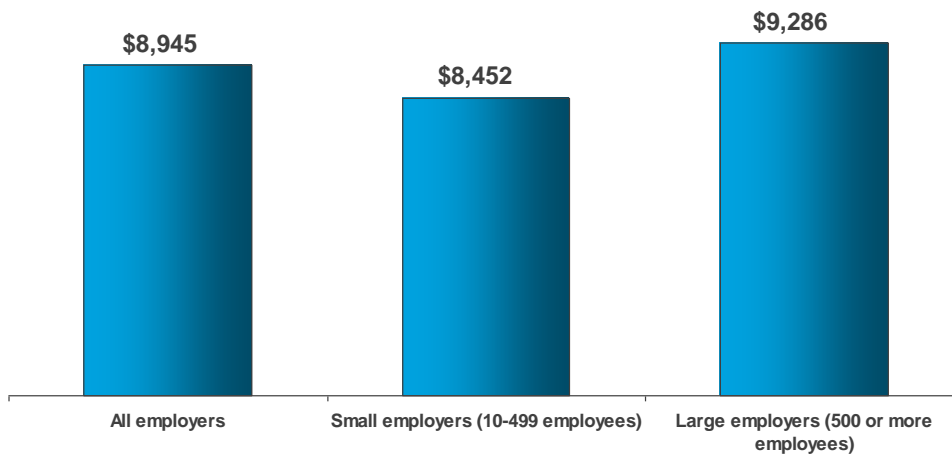
Total health benefit cost per employee rises 5.5% in 2009, the lowest annual increase in a decade.



*Projected
 Source: Mercer's National Survey of Employer-Sponsored Health Plans; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April) 1990-2009; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey (April to April) 1990-2009.

FIGURE 2

Total health benefit cost per employee in 2009, by employer size



Source: Mercer's National Survey of Employer-Sponsored Health Plans

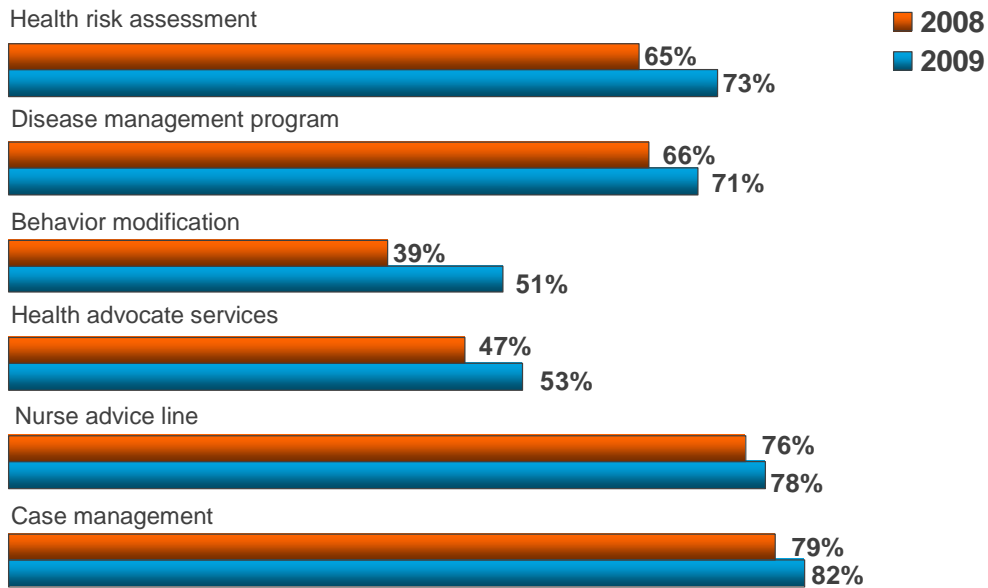
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FIGURE 3

Sharp growth in use of health management programs

Percent of large employers offering programs

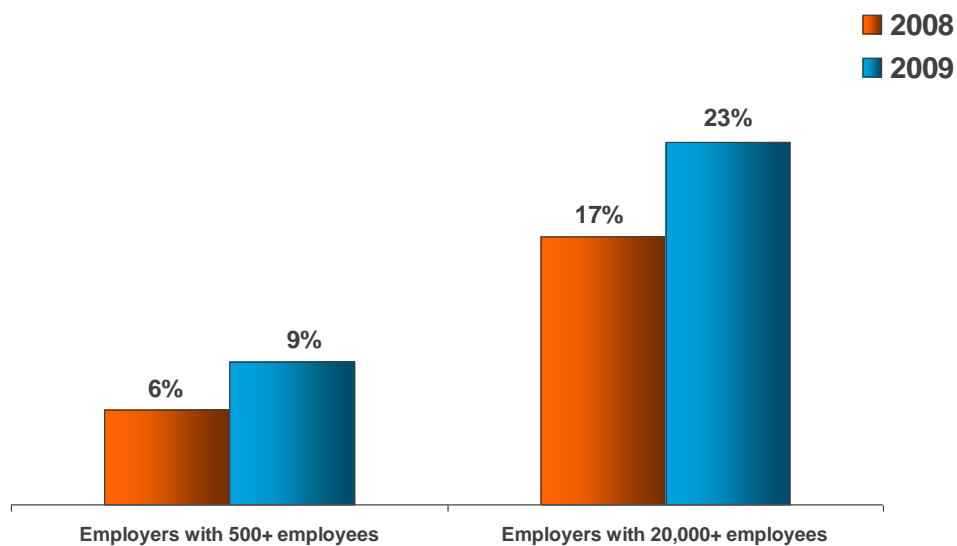


Source: Mercer's National Survey of Employer-Sponsored Health Plans

FIGURE 4

Lower premium contributions for non-smokers

Percent of employers



Source: Mercer's National Survey of Employer-Sponsored Health Plans

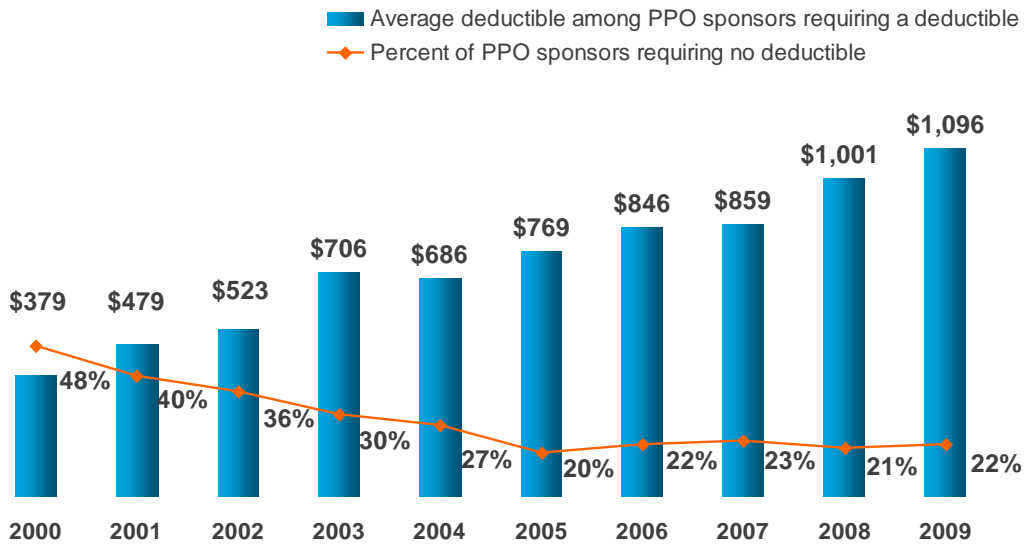
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FIGURE 5

PPO deductibles rise by almost \$100 for individual coverage

Average PPO deductible for individual, in-network coverage



Source: Mercer's National Survey of Employer-Sponsored Health Plans

FIGURE 6

Big jump in CDHP offerings among small employers

Percent of employers

	CDHP* offered in:					Very likely to offer in 2010
	2005	2006	2007	2008	2009	
Small employers (10-499 employees)	2%	5%	7%	9%	15%	18%
Large employers (500 or more employees)	5%	11%	14%	20%	20%	24%

*Based on either a health savings account or health reimbursement arrangement.

Source: Mercer's National Survey of Employer-Sponsored Health Plans

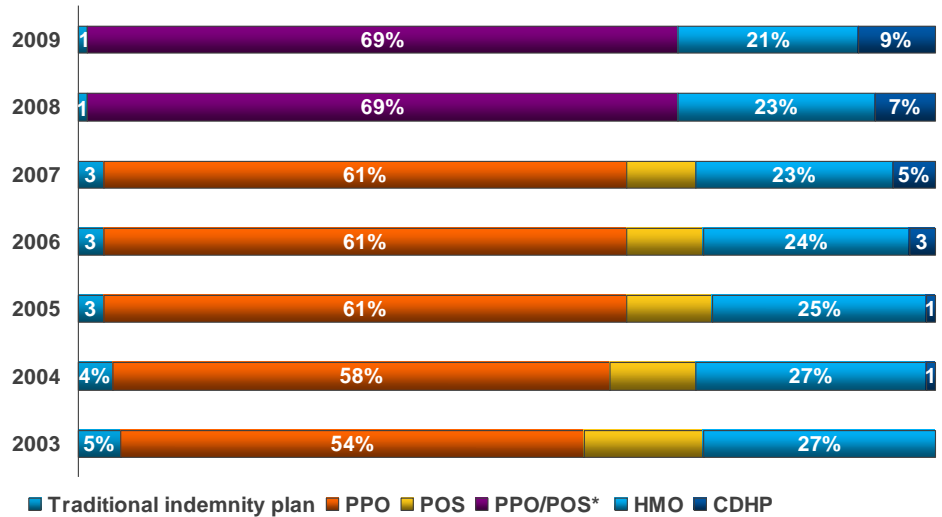
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FIGURE 7

Enrollment in CDHPs continues to rise as HMOs lose ground

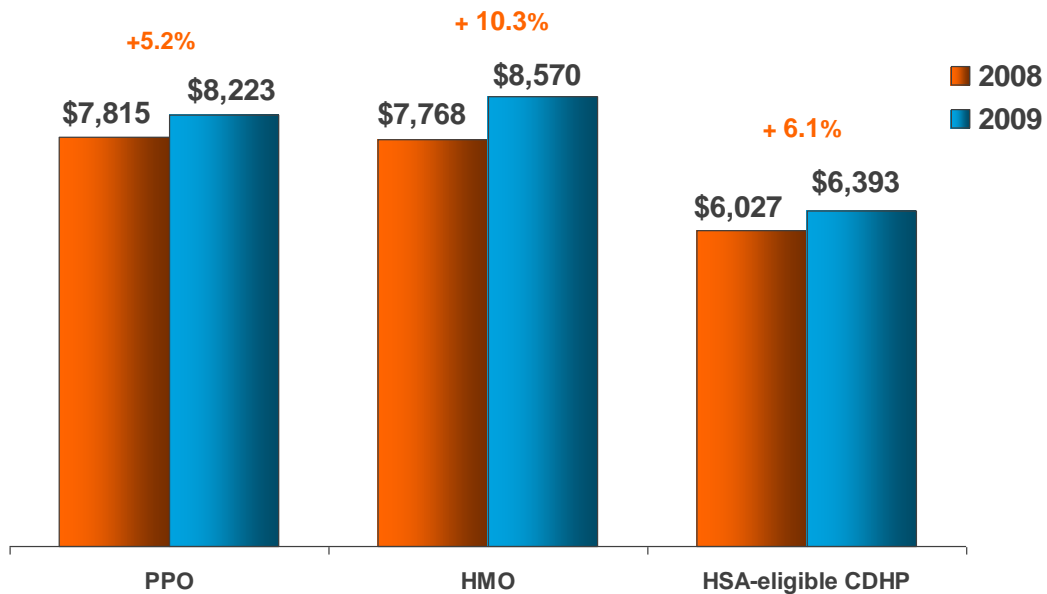
Percentage of all covered employees enrolled in each plan type



*Combined in 2008 due to declining offerings of/enrollment in POS plans.
Source: Mercer's National Survey of Employer-Sponsored Health Plans

FIGURE 8

Medical plan cost per employee



Source: Mercer's National Survey of Employer-Sponsored Health Plans

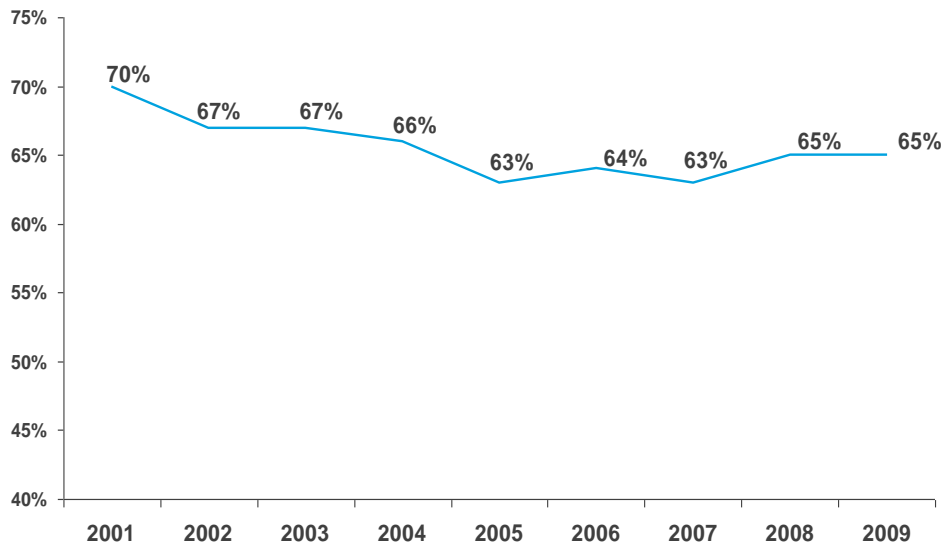
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FIGURE 9

No further erosion in coverage for active employees in 2009 as employers anticipate health reform

Percent of employers

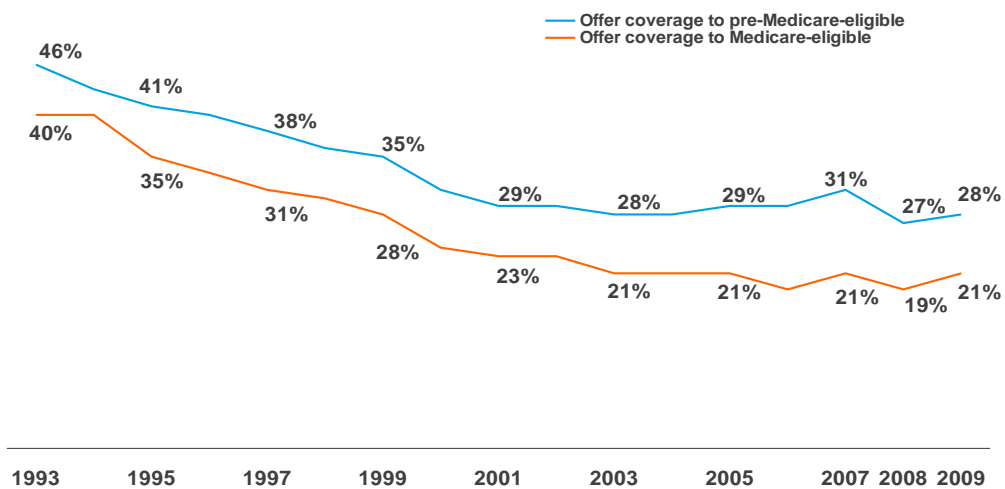


Source: Mercer's National Survey of Employer-Sponsored Health Plans

FIGURE 10

Offerings of retiree medical plans* have fallen sharply over the past decade.

Percent of large employers



*Plan must be offered on an ongoing basis (i.e., new hires are eligible).
Source: Mercer's National Survey of Employer-Sponsored Health Plans