

Tailoring the approach: Employer attitudes and healthcare strategies address distinct issues*

Health Research Institute
HealthBrief - April 2007

Key findings

Employers are still debating how to stave off future healthcare cost increases and incent employees to take on more responsibility for their health. They have long recognized that medical costs are impacting their bottom line but are not indicating a willingness to withdraw altogether from employer-sponsored benefits.

Employers are instead considering a partial retreat from the traditional blunt instruments of uniform employee cost-sharing to a targeted strategy that focuses more on the employee behaviors responsible for increasing medical costs. Employers have traditionally been reluctant to get involved in employees' personal healthcare matters for a variety of reasons, including privacy and nondiscrimination rules. However, they are now considering the appropriate use of incentives and penalties (e.g., charging smokers higher premiums than non-smokers) to activate and engage employees in the fight to control costs and improve value. In describing emerging employer attitudes and healthcare strategies, a tailoring of approaches can be observed, in which distinct issues, such as chronically ill employees, are being addressed through specific tools, incentives and disease management programs. Our newest results demonstrate the evolution of employer attitudes on benefit design, consumers and quality.

About the research

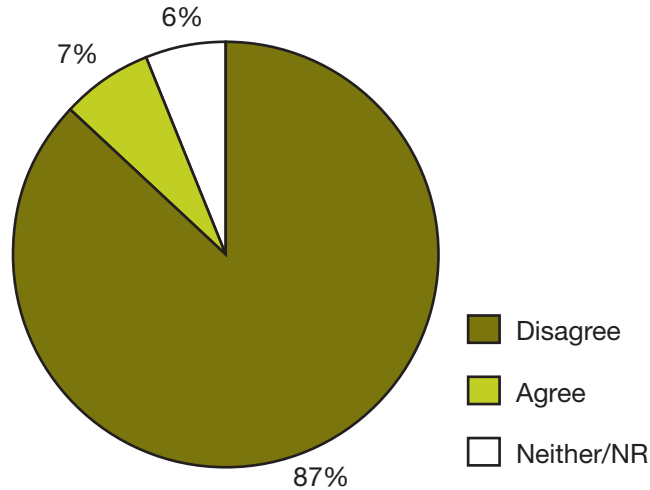
These findings are based on a survey of over 100 top executives, released by the Health Research Institute of PricewaterhouseCoopers and Management Barometer. PricewaterhouseCoopers' Management Barometer is a quarterly survey of top executives in large U.S. based multinational companies. Participants in the 2007 and 2005 employer panels have an average of 9,350 employees and \$2.13 billion in revenue. In total, the companies represent 1.4 million employees in technology, financial services, and consumer and industrial products/services.

Support for the employer-based model remains strong...

Support among the large multinational companies surveyed remains strong for the employer-based model of healthcare, despite an erosion among many small businesses that are dropping employee health coverage. When asked to describe their healthcare benefit strategies, 87% of the employers surveyed said they are opposed to moving away from employer-sponsored healthcare coverage altogether. In addition, 94% said they believe they can do a better job than they're doing now in supporting their employees in managing their own health to help reduce costs and improve business performance. (See Exhibits 1-a and 1-b.) In a climate of just under 5% unemployment nationally, employers view providing healthcare coverage as a competitive part of a comprehensive benefits package. Employers are more willing to refine the programs that are already in place than abandon them altogether.

Exhibit 1-a

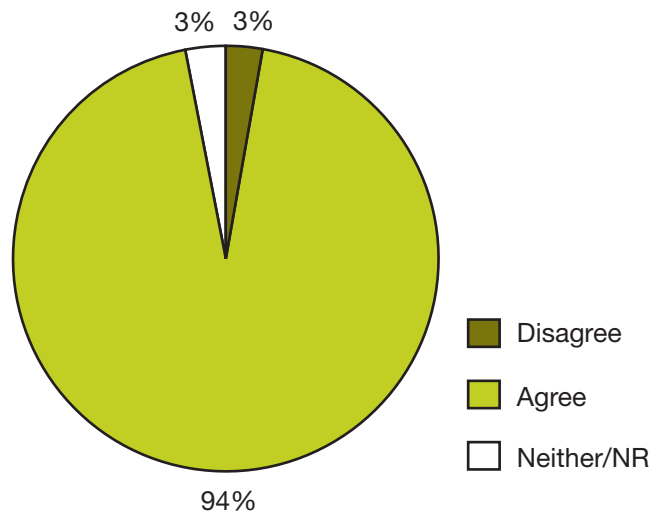
Employers should *move away* from providing healthcare coverage for Actives:



Source: PricewaterhouseCoopers 2007 Management Barometer Survey

Exhibit 1-b

Employers can do a *better job* than they're doing now *in supporting* employees in *managing their own health* to help reduce costs and improve business performance:



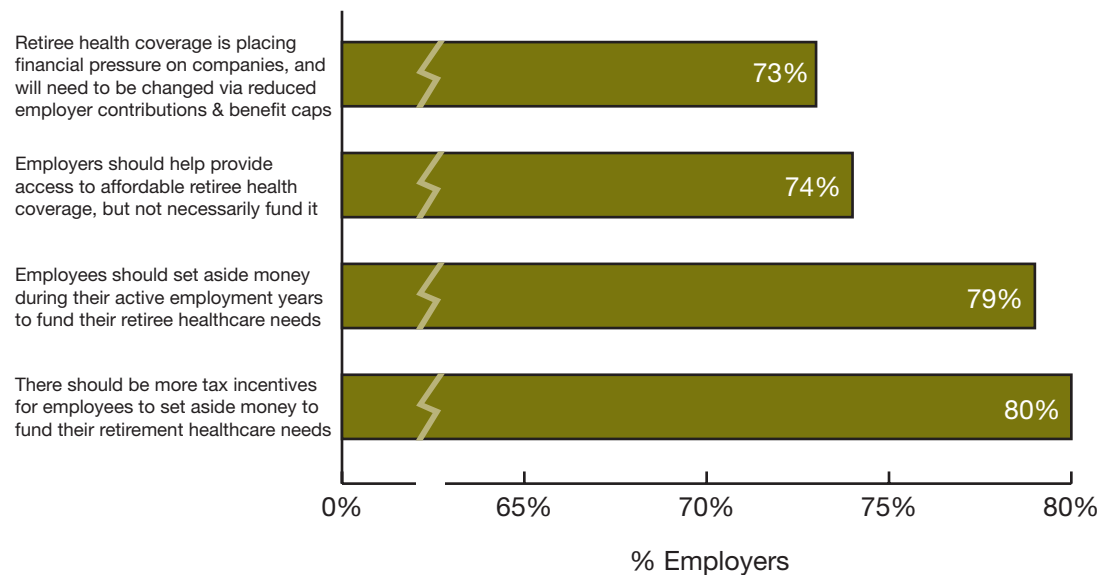
Source: PricewaterhouseCoopers 2007 Management Barometer Survey

...but, for retiree health coverage there is less certainty.

The employers surveyed are less certain about future support of providing retiree health coverage. When asked to describe their views on retiree health coverage, 73% said that retiree health coverage is placing financial pressure on companies, and it will need to be changed via reduced employer contributions and benefit caps. Employers, however, show strong support for assisting employees in managing their own retiree health and associated costs with nearly 80% in support of providing savings account mechanisms, tax incentives, and access to coverage even if they do not fund it. (See Exhibit 1-c.) In a climate of wellness, employers want to encourage active employees to “invest” now in their futures with healthy lifestyle changes as well as with sound financial decisions for retiree health coverage.

Exhibit 1-c

In describing your views about *retiree health coverage*, do you agree at least somewhat with the following statements?



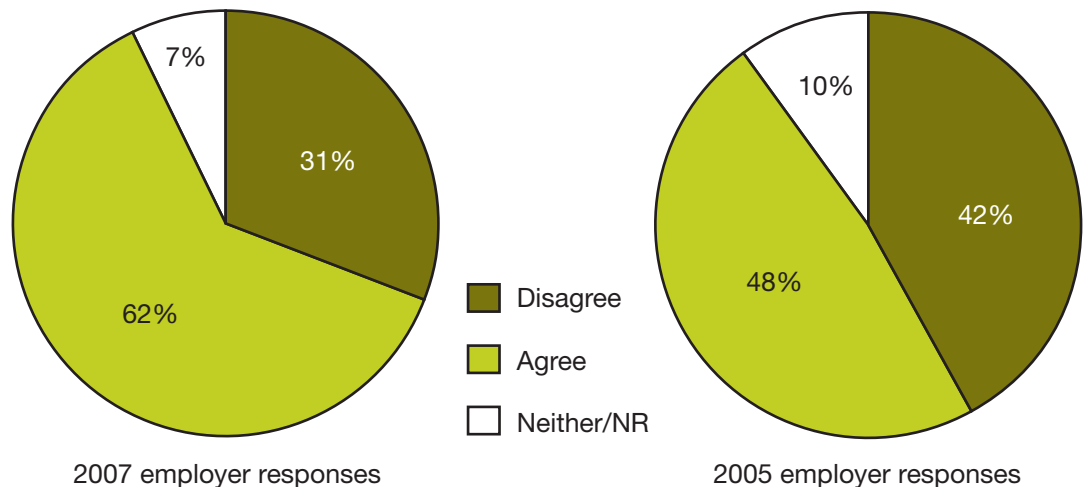
Source: PricewaterhouseCoopers 2007 Management Barometer Survey

Nearly two-thirds of employers agreed that employees with unhealthy lifestyles should pay more.

In the most recent survey, 62% of employers said employees with unhealthy lifestyle behaviors (e.g., smoking, poor diet and/or inadequate physical activity as related to obesity) should pay a larger portion of their health benefits costs. That was up from only 48% in 2005, according to the Barometer survey findings. (See Exhibit 2.) This finding demonstrates the beginning of a significant shift in the strategy of employers as they begin to zero in on employee behaviors driving costs. “About two-thirds of our members say it’s OK for smokers to pay more, and about half of companies are doing it,” said Helen Darling, president of the National Business Group on Health. “This will increase; it will become standard.” Larry Boress, president and CEO of the Midwest Business Group on Health, concurs: “Employers are only starting to look at obesity. Employers would much rather motivate than penalize someone.” Strategies to deter unhealthy behavior by charging higher premiums can be used in conjunction with incentives to activate responsibility and motivate employees. However, employers are proceeding with caution in order to ensure compliance with applicable regulations and sensitivity to privacy and discriminatory concerns.

Exhibit 2

“Our company should require employees who exhibit unhealthy behavior (smoking, poor diet and/or inadequate physical activity as related to obesity, etc.) to pay a larger share of their health benefit costs”



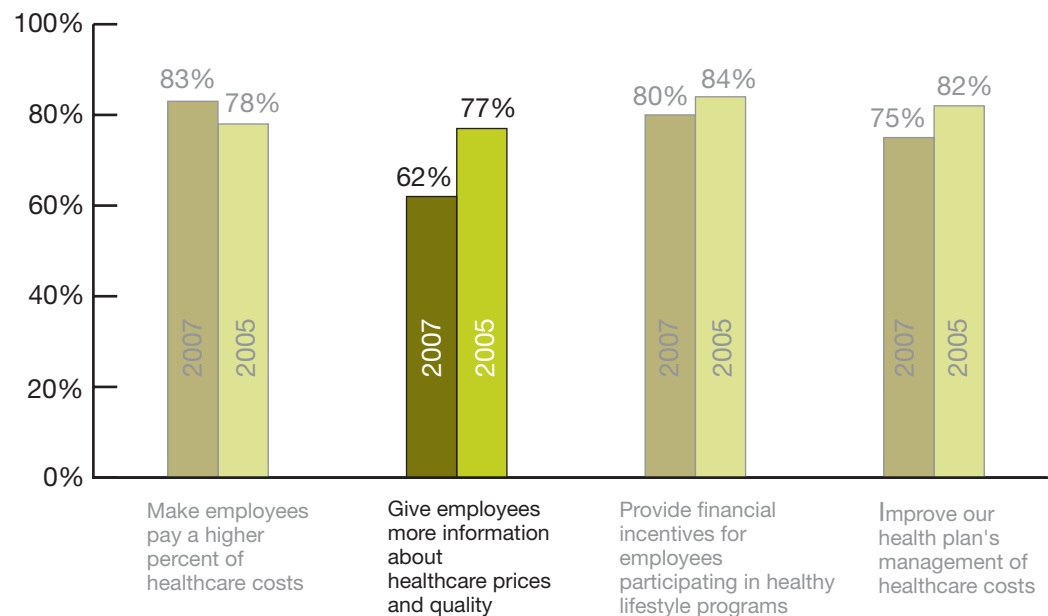
Source: PricewaterhouseCoopers 2007 Management Barometer Survey

Employers continue to provide information on quality and cost, but realize that information alone is not enough.

When asked about whether providing information on quality would reduce their company's healthcare costs, agreement dropped from 77% to 62%. (See Exhibit 3.) The finding may indicate that employers are realizing that information alone isn't enough to change behavior. Employers are beginning to realize that the real challenge remains in motivating employees to act upon the information provided.

Exhibit 3

Do you believe that the following *actions* would reduce your company's healthcare costs at least somewhat?



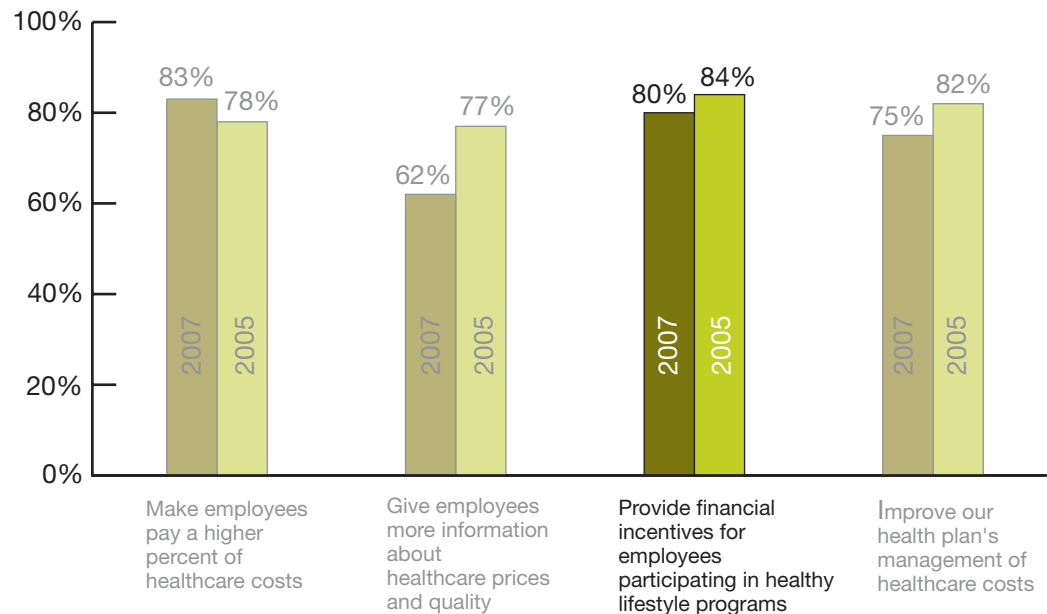
Source: PricewaterhouseCoopers 2007 Management Barometer Survey

Employer provided incentives and support remain key elements.

While some employer attitudes show movement, others remain relatively unchanged. Employers continue to believe that offering financial incentives to employees is essential. According to the survey, 80% of employers surveyed this year, as compared to 84% in the prior year, continue to believe that providing financial incentives for employees participating in healthy lifestyle programs will reduce their company's healthcare costs. (See Exhibit 4.) Incentive programs can range from cash for completing health risk appraisals to rewards for accomplishing agreed upon goals such as a specified amount of weight-loss or smoking cessation. While rewards are important, employer support is crucial to the success of these incentive-based programs. As Midwest Business Group's Boress points out, "Money is not enough; dangling money has a short-term lifespan, so employers must build something into the plan such as tools and health coaches to offer real support to employees."

Exhibit 4

Do you believe that the following *actions* would reduce your company's healthcare costs at least somewhat?



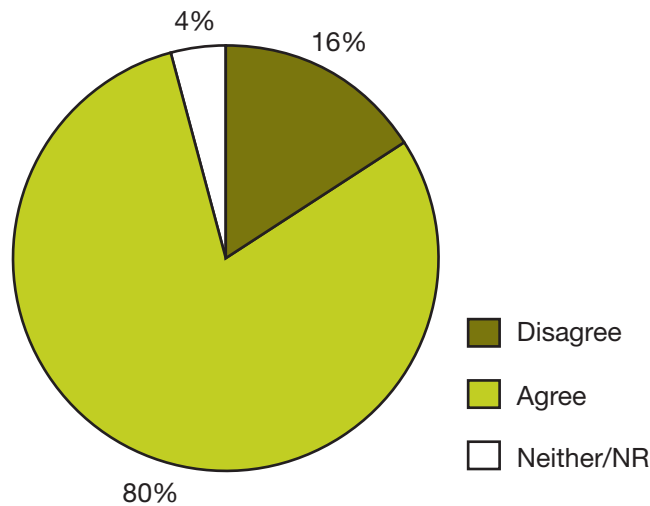
Source: PricewaterhouseCoopers 2007 Management Barometer Survey

Wellness and consumerism are everyone's business.

Based on the survey results, it is clear that employers are placing more emphasis on moving employees towards managing their own healthcare costs with tools and information provided by employers rather than relying only on their health plans to manage the healthcare costs. In describing their current health plan strategy, 80% of employers surveyed this year believe that employees must take more of their own responsibility for their health and healthcare costs. (See Exhibit 5.) Marianne Fazen, executive director of the Dallas-Fort Worth Business Group on Health, notes that "the challenge is always going to be participation; [employers] are always asking each other how to increase participation in these programs." Employers agree that a shared responsibility exists between employer and employee; employers commit to provide tools, incentives and support, while employees must commit themselves to working towards wellness.

Exhibit 5

Employees must take more of their *own responsibility* for their health and healthcare costs:



Source: PricewaterhouseCoopers 2007 Management Barometer Survey

Conclusion and recommendations

Employers must increasingly customize their approaches to providing health benefits to the unique health needs and behaviors of their workforce. Fortunately, a growing number of tools are available to activate employees. Tailoring the right approach may be challenging but not impossible with a few key employer axioms:

- Re-examine approaches to health and healthcare benefits to address root causes of expenditures.
- Re-align incentives to increase employee healthy behavior and shared accountability.
- Execute a holistic corporate health strategy to support employee health and well being.
- Develop a thoughtful transition strategy for employees as they assume a greater responsibility for their health security as they age into retirement years.

For more information regarding Wellness and Consumerism strategies, please download the Health Research Institute reports, “Working Towards Wellness: Accelerating the Prevention of Chronic Disease” and “Take Care of Yourself: Employers Embrace Consumerism to Control Healthcare Costs” at www.pwc.com/hri.

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PricewaterhouseCoopers Healthcare practice is one of the leading healthcare professional services network of organizations, providing assurance, tax, advisory, and consulting services for this highly integrated sector. The practice works with organizations that represent the healthcare delivery spectrum: integrated delivery systems, hospitals, physician organizations, payer and managed care organizations, pharmaceutical and health science companies, ministries of health, government and other policymakers, professional associations, and investors. Visit PwC on the Web at www.pwc.com/healthcare.

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About the Health Research Institute

PricewaterhouseCoopers Health Research Institute provides new intelligence, perspective, and analysis on trends affecting all health-related industries, including healthcare providers, pharmaceuticals, health and life sciences, and payers. The Institute helps executive decision makers and stakeholders navigate change through a process of fact-based research and collaborative exchange that draws on a network of more than 4,000 professionals with day-to-day experience in the health industries. The Institute is part of PricewaterhouseCoopers' larger initiative for the health-related industries that brings together expertise and allows collaboration across all sectors in the health continuum.

About the Management Barometer

PricewaterhouseCoopers' Management Barometer is a quarterly survey of 135 top executives in a cross-section of large, multinational businesses. The survey is developed and compiled with assistance from the opinion and economic research of BSI Global Research, Inc. The Barometer provides quarterly guideposts on the direction of the economy, including revenue growth, new investments, new hiring plans, emerging business barriers and more. Changing, in-depth "hot topics" are also featured each quarter, see www.barometersurveys.com.

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