



Aon Hewitt 2014 Health Care Survey

Future Ready. Real Now.

Future Ready. Real Now.

We are witnessing a sea change in the health care industry. Fueled by out-of-control costs, inefficient provider models, legislative change, evolving global markets, an aging and increasingly unhealthy workforce, and the emergence of public and private exchanges, health care is transforming to meet market demand. The goal: to deliver the right health services, at the right time, in the right setting, at the right total cost.

The employer's role in this health care equation escalates in importance as both a provider of health benefits to employees and an active advocate for healthy living. We now know that health, good or bad, impacts engagement, productivity, performance and, ultimately, business results. Health has become both a financial risk and a valued asset.

Waiting It Out Is an Option—Just Not the Best One

Employers must embrace change. The consequences of “waiting it out” for a more certain outcome include an unhealthy, unproductive workforce; legislative penalties; increasing cost volatility; and unplanned risk exposure. Senior-level executives recognize action is needed and are quickly making health care a top priority.

And yet, the *2014 Aon Hewitt Health Care Survey* suggests that a surprisingly large number of companies continue to use traditional (and often incremental) tools, tactics and programs to mitigate costs and improve health. They have not widely adopted new, innovative models to drive costs down, increase employee engagement, and track and analyze program performance.

Future Ready. Real Now.

It's challenging to stay afloat, let alone upright, amid the strong winds of change. But, improved health care programs will sharpen your competitive edge, lower costs for both employers and employees, increase employee performance and engagement, lower health risks and improve safety. In every way, the well-being of employees supports the well-being—and profitability—of the company.

At Aon Hewitt, we share our experience, expertise and innovative, differentiated solutions with our clients to solve their most critical health and benefits challenges. Working together, we develop high-value, results-focused strategies to lead health care into the future—starting now.

If you have questions or want to learn more, contact us or email health@aonhewitt.com.



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The Future of Health Care: Aon Hewitt Vision 2020

How do you sponsor, structure and deliver health benefits to manage cost and reduce absence? How can you attract and retain top talent, increase employee engagement and reduce health risks, especially for an aging workforce? How can you develop and execute a winning strategy for your company's health benefits? Finding answers to these and other challenges requires hard work, innovative thinking and accurate, timely information about the current state of health care.

Rapidly Evolving Environment

In our *2014 Health Care Survey* report, Aon Hewitt shares our latest findings on employer viewpoints about the health care marketplace, what strategies and tactics they have in place today and what they are looking to implement in the future. We have combined in-depth research with our extensive experience working with many clients of different sizes and across a wide range of industries. The result is a unique level of insight about changing roles, evolving markets and competitive developments in health care.

Many of these changes involve economic pressures that are rapidly and significantly increasing for U.S. employers and employees. Since 2006, health care costs have increased 63 percent, employer costs have increased 51 percent and employee costs have increased 91 percent¹. During that time, salaries rose just 26 percent at an average rate of 3 percent per year². In terms of tools for retaining top talent, which is a top concern for 31 percent of senior human resources professionals, there is a diminishing return on funding any increases in health benefits relative to increases in direct wages. In short, employers' ability to use the benefits themselves as a lever to improve attraction and retention of key talent has eroded over time.

Top Concerns on HR Leaders' Minds



Source: Aon Hewitt Talent Survey

According to an Aon Hewitt talent survey of senior HR professionals about their top concerns, 31 percent identified the retention of top talent, 18 percent noted business strategy execution, 16 percent said employee engagement and 9 percent pointed to issues involving an aging workforce and retirement.

1 Aon Hewitt Health Value Initiative

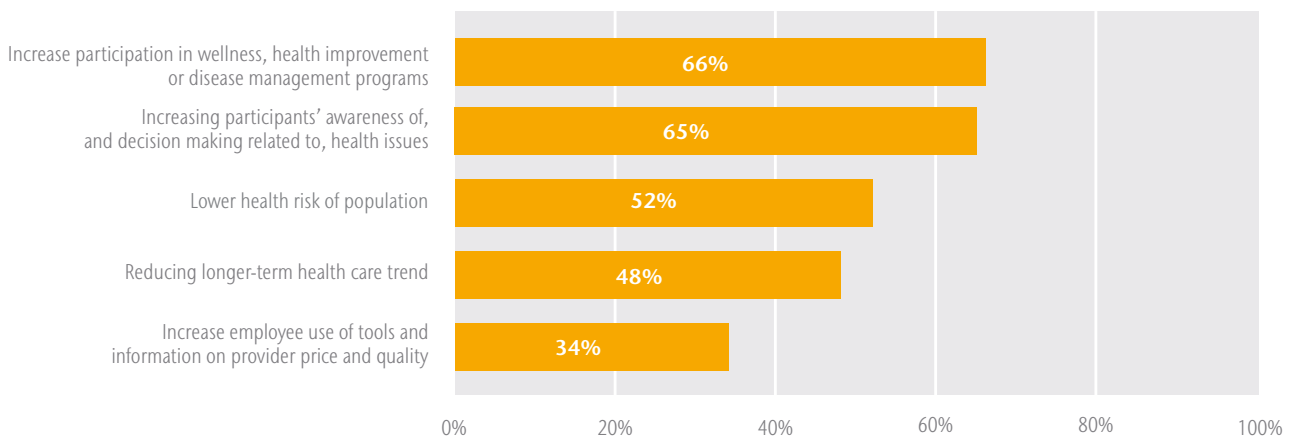
2 Aon Hewitt 2013-14 U.S. Salary Increase Survey

Value of Health

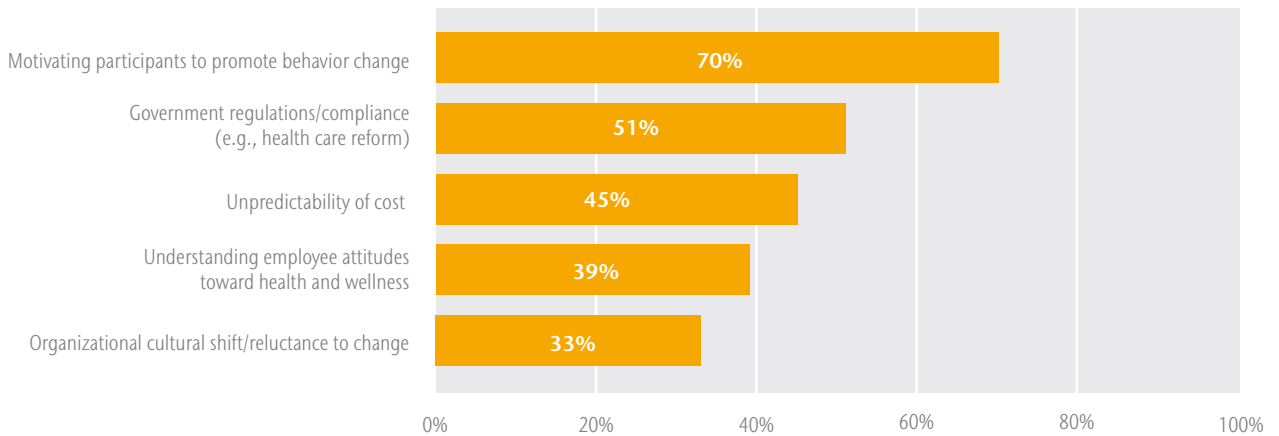
We expect a shift in focus from the specific health benefits an employer provides to the employee health experience it curates. The resulting “value of health” to the employer and employee is the new competitive differentiator. This shift aligns with employers’ desired outcomes and key challenges for 2014:

- Sixty-six percent aim to achieve increased participation in wellness, health improvement and disease management programs.
- Sixty-five percent desire to increase employee awareness of, and decision making related to, health issues.
- Seventy percent indicate that motivating employee health behavior change is a top challenge to achieving these outcomes.

Employers’ Top Desired Health Care Outcomes

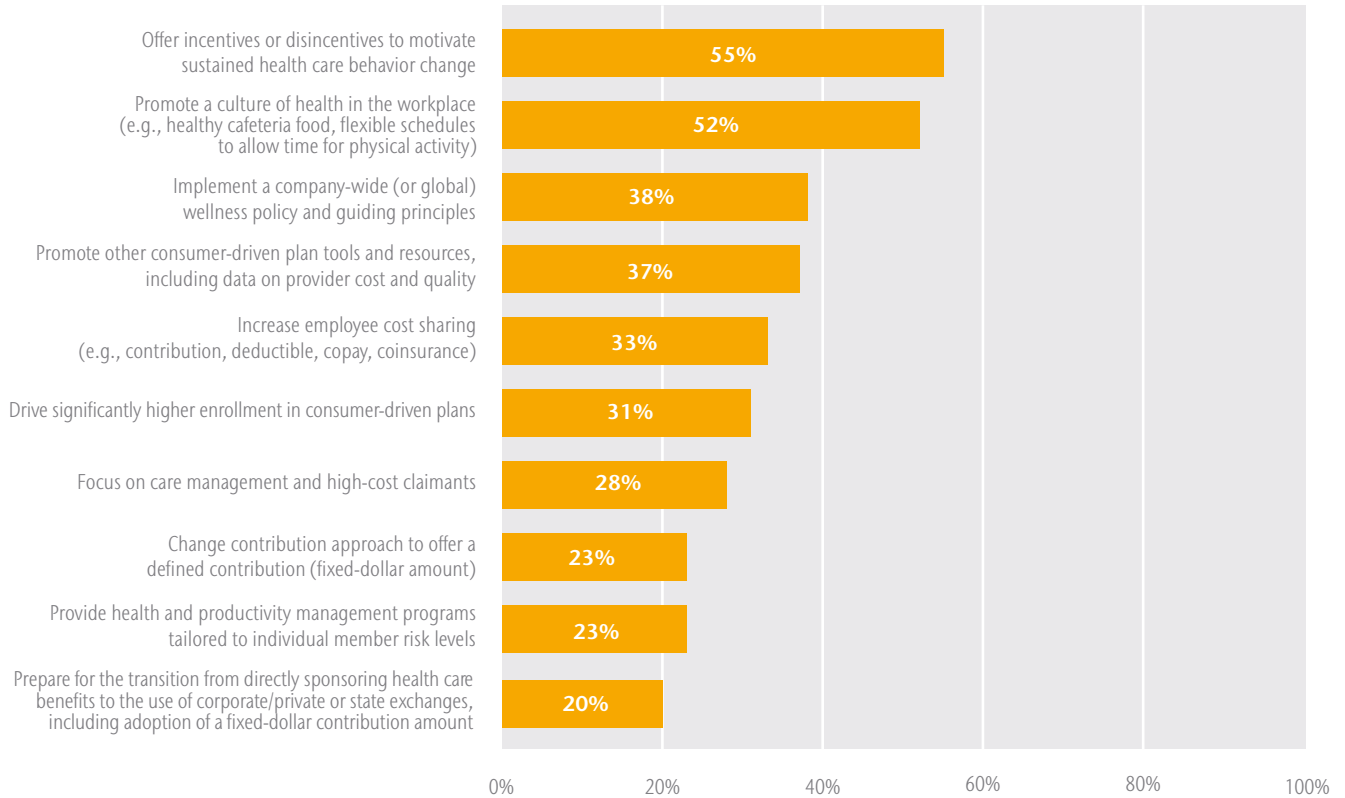


Employers’ Top Health Care Challenges



In response to these desired outcomes, and the challenges that get in the way, organizations are focused on an array of priorities.

Employers' Top Health Priorities



These desired outcomes, challenges and priorities are driving fundamental changes:

- A continued focus on employees as health consumers. This increased consumerism also creates demand for consumer-level competition among the carriers and a desire for clear and transparent information about the cost and quality of health care services.
- Traditional benefit plans where coverage and overall cost are managed by the employer are being supplemented or replaced by a wider range of programs and carrier choices. These include private exchanges, as well as public benefits such as federal and state marketplaces, and the growth in access to Medicaid and Medicare.

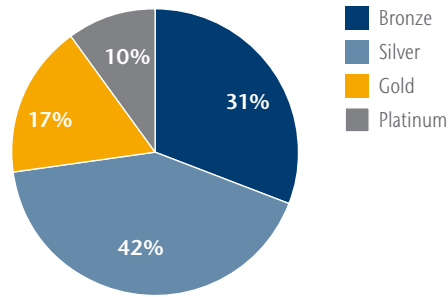
- Even the meaning of health benefits coverage is undergoing a significant evolution. Instead of “health insurance” considered as a single concept, we now see two related but distinct areas:
 - “Health” in terms of the overall physical, emotional, financial and social well-being of employees; the value this well-being provides to the company; and the value to employees of an employer-provided health experience.
 - “Insurance” that supports this holistic view of health, managed through superior fundamentals, new high-deductible programs, and added features such as elective benefits and other strategies.

These changes and the distinction of “health” and “insurance” are reflected in three main themes of this report: driving defined commitment, advancing trend mitigation and elevating the health imperative.

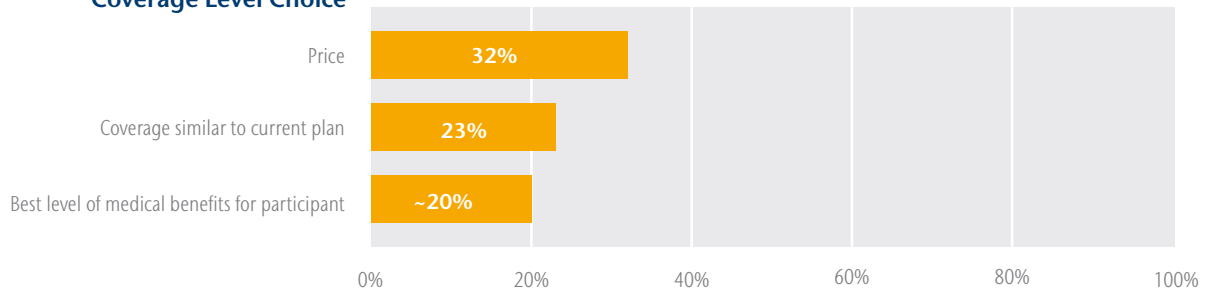
Driving Defined Commitment Market dynamics, innovative approaches and new financial models are intersecting to drive change and better health care outcomes and business results. As sponsors of health benefits, employers can take advantage of newly introduced options, such as private exchanges, to address cost and volatility. Equally important, employees can align these new strategies with a greater range of choices to truly “own” their own coverage options.

For example, reviewing enrollment data in Aon’s Active Health Exchange, we find a broad distribution of plan choice—indicating that the options are important to a diverse employee population. When evaluating choice of coverage level or carrier, price is consistently the top reason.

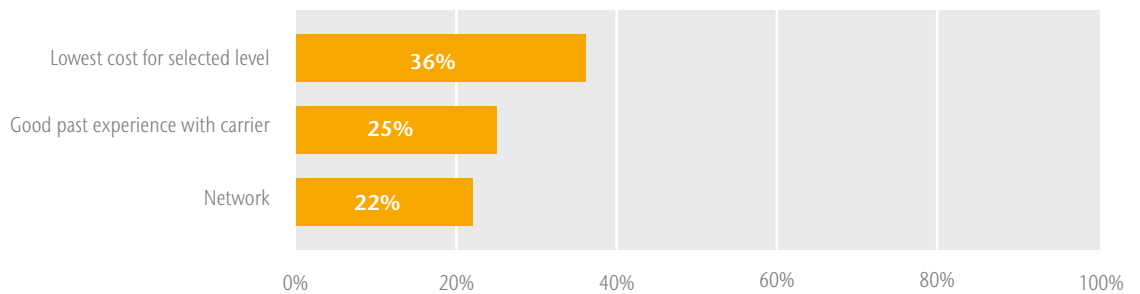
**Aon Active Health Exchange
2014 Enrollment Results**



**Tops Reasons for
Coverage Level Choice**



Top Reasons for Carrier Choice



Aon’s 2014 enrollment data indicated both a broad distribution of plans and that price mattered.

Advancing Trend Mitigation Many employers remain highly focused on managing year-to-year cost increases. To their advantage, the current market dynamics and opportunities have accelerated innovation. Employers have greater opportunity to adopt advanced approaches and make smarter decisions about networks, payments and delivery systems for health care providers and pharmacy benefits. To that end, employers are still gravitating toward existing cost control tactics while keeping an eye on the near future to understand what new tools may be applicable to their specific workforces as a means to reduce health care spend.

New Approaches and Tools to Manage Trend



Cost Drivers

- Covered population
- Geography
- Plan design
- Utilization
- High-cost claimants
- Provider pricing



Cost Reducers

- Employer subsidy
- Contribution strategy
- Increased consumerism
- Best-in-class networks/
provider discounts
- Clinical program
engagement

Due to changing market dynamics and recent innovations, employers have new approaches and tools to manage trend.

Elevating the Health Imperative

Health is a foundational element of four important employer-sponsored programs: workers' compensation, safety, absence management and wellness. All four drive financial results in terms of productivity, quality and risk control. Leading employers are integrating health into their core business strategies. They're developing innovative programs to improve their employees' experience and reduce broader organizational health risks.

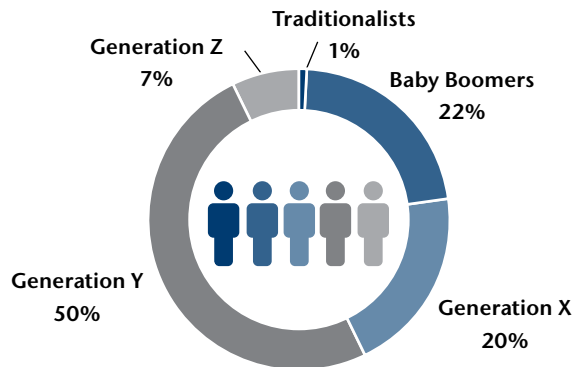
Engaged Employees Are Healthy and Productive



Successful companies recognize the strong relationship between employee well-being, a more fully engaged workforce and improved business results.

The future of health care for employers, employees and providers will be determined by major changes and a new dynamic in the business world. The workforce will include five generations by 2020, with over 50 percent representing Generation Y. By doing things differently—while leveraging proven strategies—companies will be able to redefine, elevate and advance the value of health to engage employees, support continued growth and drive business results.

2020 Projected Workforce by Generation



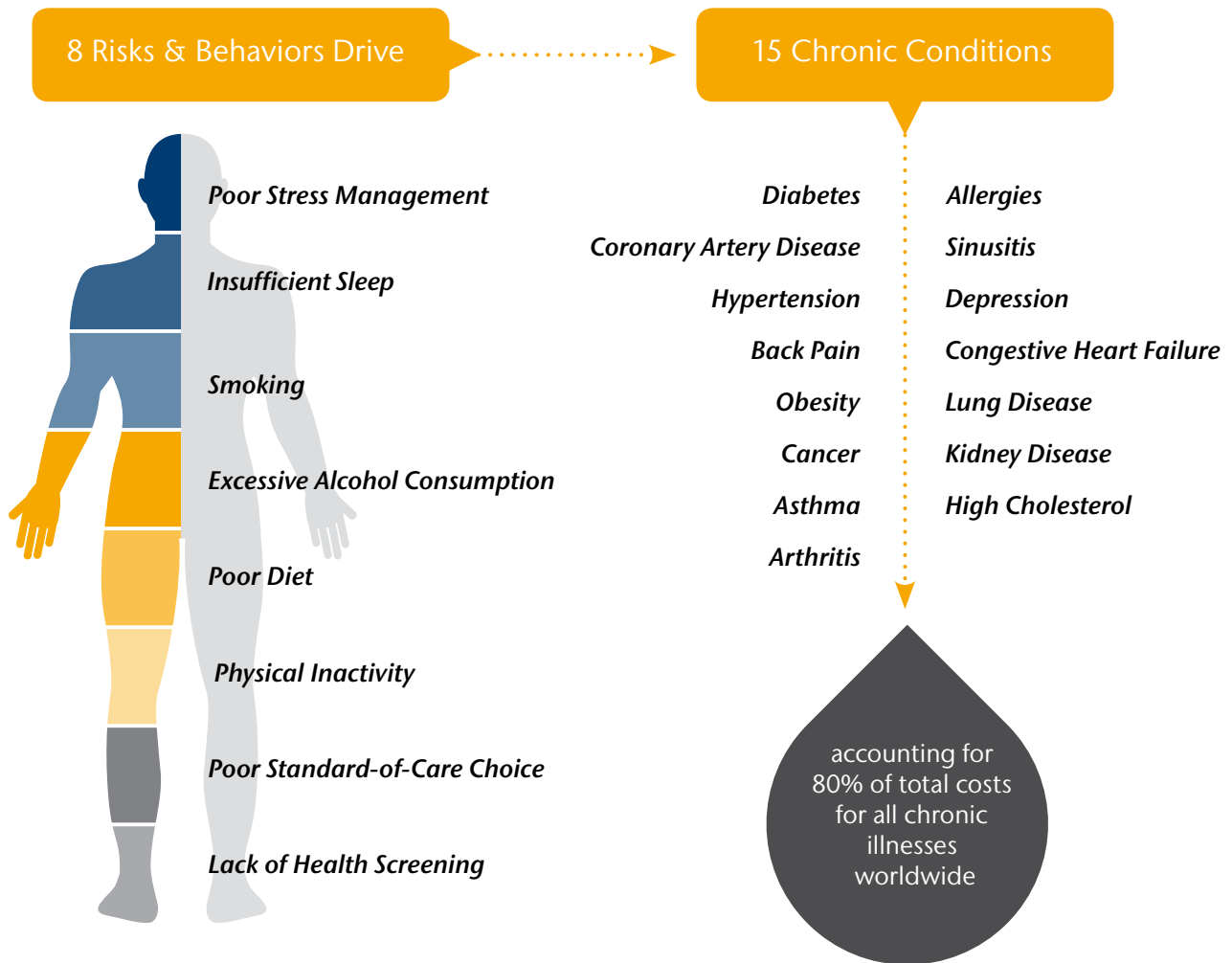
Executive Summary: Driving Defined Commitment
Key Findings

- Approximately 5 percent of employers use private health exchanges for active employees today, but an additional 33 percent expect to pursue this strategy over the next three to five years.
- The majority of employers see a private exchange as an effective way to increase employee coverage options while also transferring risk, managing volatility, reducing long-term cost trends and decreasing the time spent on vendor and plan management.
- About 20 percent of respondents indicate that the adoption of a defined dollar commitment is a priority as they transition to private or state exchanges.
- A total of 77 percent of company subsidies are based on health plan costs, but this number is expected to decrease to 57 percent as employers shift to a defined dollar amount.
- Today, 70 percent of employers use incentives to drive employee commitment, yet more than half do not know the related cost savings or relative return as it pertains to improved health.
- Employers are using elective benefits to support the shift to consumer-driven high-deductible plans. Thirty-six percent offer a critical illness benefit as part of their core enrollment. Cancer and hospital indemnity are offered by about one in five employers.

Advancing Trend Mitigation

- Cost shifting is still one of the most prevalent techniques for employers to manage cost, with 50 percent of respondents suggesting that their company will increase deductibles and/or copays.
- Use of reference-based pricing as a strategy will increase from about 10 percent to 68 percent in the next three to five years.
- Only about one in four employers is currently using or adding value-based incentive design for medical and pharmacy plans. However, 59 and 57 percent, respectively, plan to add in three to five years.
- More than seven out of 10 employers (72 percent) are, or will be, reducing employer subsidies for dependents.
- Only 23 percent of employers tightly manage the chronically ill through special networks or mandatory case/care management, but more than half (52 percent) are considering this approach in the next three to five years.
- Sixty-five percent of employers will include provider payment reform in their planning during the next three to five years. However, the adoption of new provider delivery options (narrow networks, accountable care organizations, patient-centered medical homes) appears slow with less than half of respondents expecting to employ these strategies within three to five years.

Risks, Behaviors and Chronic Conditions



Source: 2010 World Economic Forum

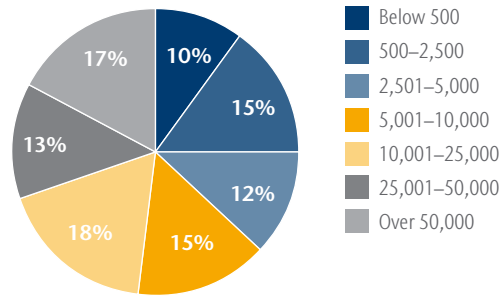
Elevating the Health Imperative

- Eighty-one percent of employers offer tools to better understand health status and risk, and this figure is expected to grow to 97 percent in the next three to five years.
- Of the eight key drivers of health cost, the top priorities focus only on the physical, such as inactivity, smoking and a lack of health screenings.
- Targeted communication is still primarily based on specific health conditions (62 percent) versus demographic information (30 percent).
- Only about 25 percent of companies consider employee input/participant attitudes when talking about overall strategy, plan design and rewards, but over 40 percent consider it in communication strategy and wellness programs.
- Only 14 percent of employers use social media to engage and communicate with employees.
- While industry averages show that absence costs employers about 8 percent of payroll, only 36 percent of employers measure the impact of absence on their bottom line.
- Ninety percent of employers believe that the work environment and culture have the most influence on impacting worker health and changing behavior.

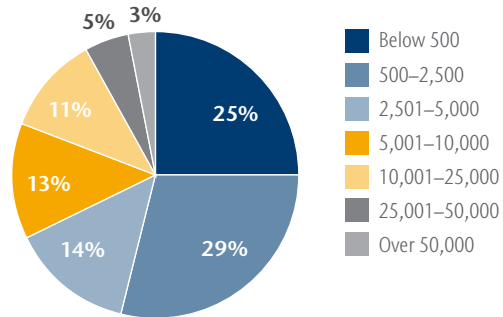
About This Survey

A total of 1,234 individuals participated in the *Aon Hewitt 2014 Health Care Survey* in December 2013 and January 2014. They were asked to answer questions about their U.S. health care benefits. Over half of the responding organizations have operations outside the United States.

Worldwide Number of Employees



Number of Active Benefits-Eligible U.S. Employees





Driving Defined Commitment

The traditional and most prevalent approach to employer-sponsored health insurance, where the employer sets and pays for a specific health benefit, is often referred to as a “defined benefit” approach. However, when the employer sets a specific amount to contribute toward coverage (but doesn’t dictate the exact health benefit) and the consumers are put in control of their health care and health insurance, it is often referred to as a “defined commitment” approach to health care.



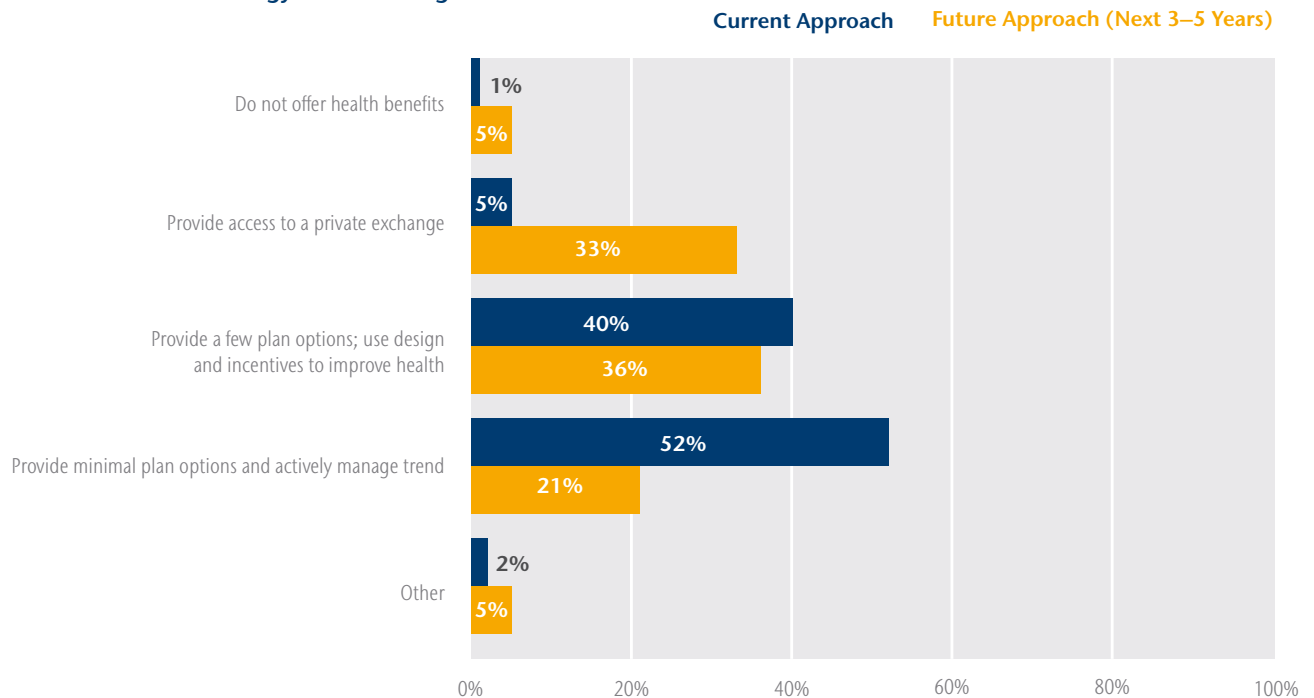
Reshape How You Sponsor Health

The defined commitment approach, by definition, offers employees more choice and ownership over their health care options and is a less paternalistic approach from an employer standpoint. Examples of a defined commitment approach include private exchanges as well as the use of incentives, cost limits, and elective or voluntary benefits. These solutions expand employee choice and control health care cost and volatility for employers.

Private Exchanges

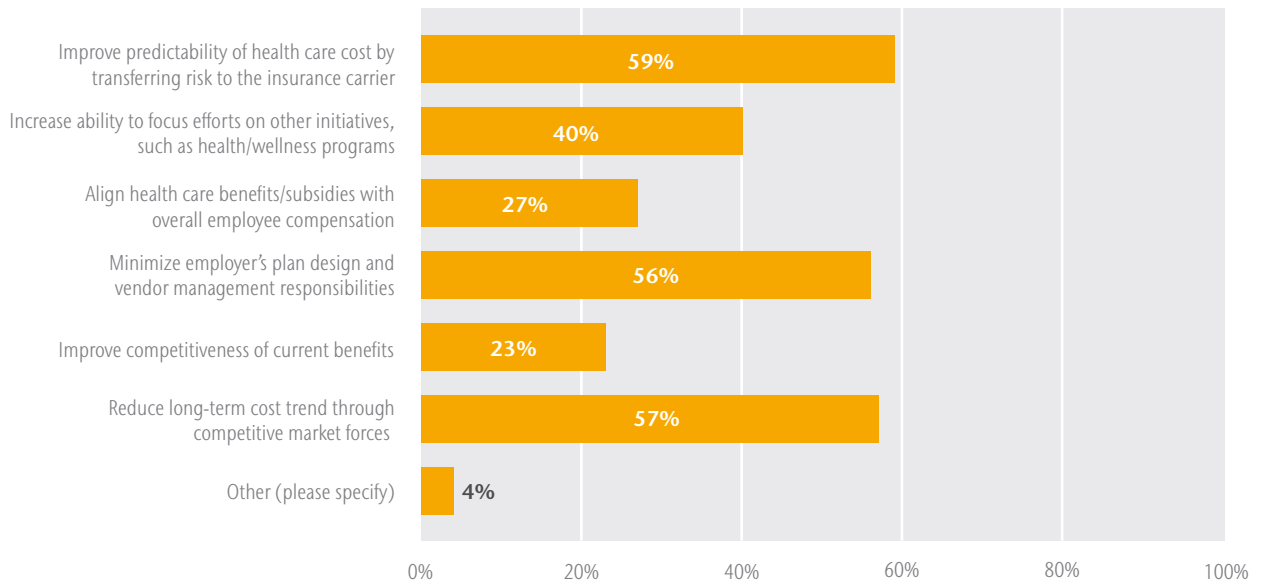
Respondents reported a high level of interest in offering benefits through an employer-sponsored private exchange and showed little interest in eliminating their benefits programs and sending their employees to the state- or federally sponsored health benefits marketplaces. Just 1 percent of employers have exited health care completely, and only 5 percent indicate interest in exiting over the next three to five years. Although only 5 percent of employers now use a private exchange for active employees, another 33 percent plan to consider private exchanges over the next three to five years.

Employer Health Care Strategy and Planning



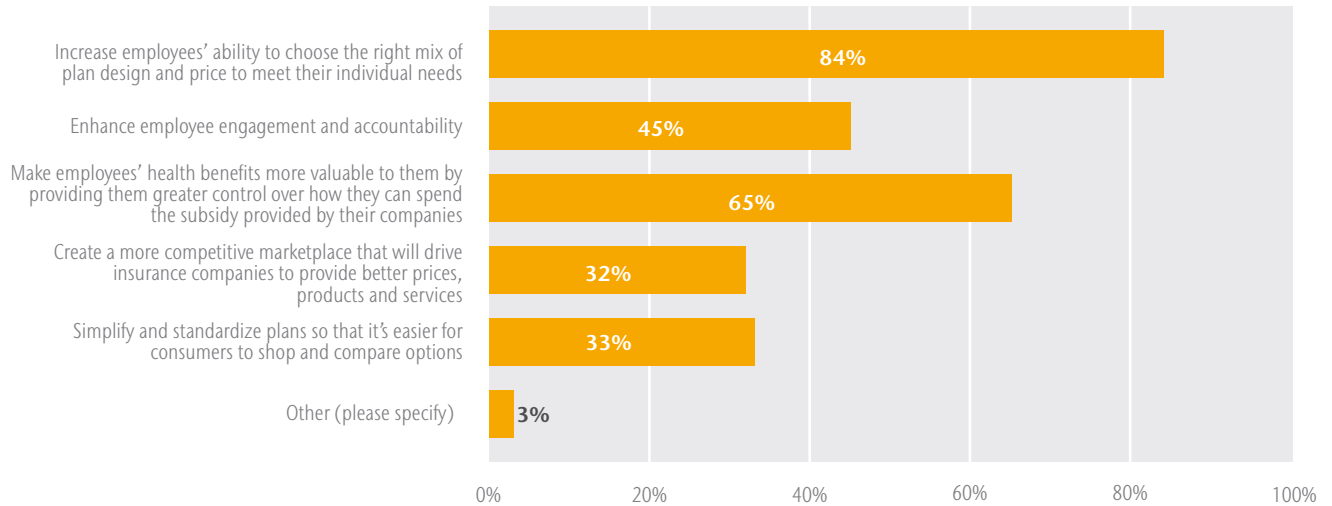
The majority of respondents (59 percent) view private exchanges as an effective way to transfer risk, reduce long-term cost trends (57 percent) and control the time spent on vendor and plan management (56 percent).

Employer Advantages of Moving to Private Exchange



Most employers (84 percent) recognize that private exchanges can increase employees' ability to choose health benefits that best meet their individual and family needs. And over half of employers believe that private exchanges will make employees' health benefits more valuable to them by providing greater control over how they can spend a company-provided subsidy.

Employee Advantages of Moving to Private Exchange



Employers view potential negative employee reaction (62 percent), program disruption exceeding cost savings (43 percent) and loss of control over plan design (40 percent) as the main concerns in moving to exchanges, highlighting the need for a comprehensive and effective communications strategy as an integral component of the exchange strategy.

Fixed-Dollar Contribution Approach

As noted earlier, among the key priorities for 20 percent of employers is preparing to transition to an exchange environment, including the adoption of a fixed-dollar contribution sometime over the next three to five years. In addition, during the same time frame, 23 percent indicate that a defined contribution approach with a fixed-dollar amount will be a priority for their contribution strategy.

At present, 77 percent of companies base their contributions or subsidies on health plan costs (a subsidy is a percentage of health plan cost, subject to changes in health care trend). But, over the next three to five years, more employers (37 percent, up from 16 percent today) plan to shift to a defined dollar amount (i.e., fixed subsidy) with increases managed as part of total rewards or other expenses. This change will lower the number of companies using subsidies based solely on health plan costs to 57 percent.

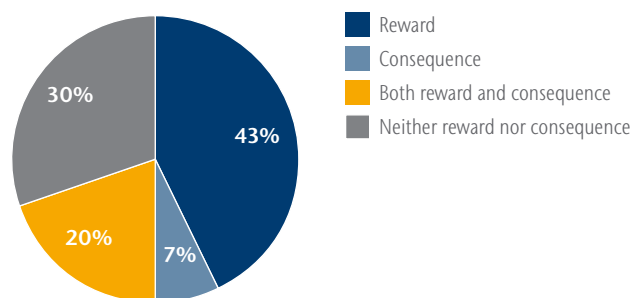
Health Care Subsidy Planning

Description A		Very Much Like A	Somewhat Like A	Somewhat Like B	Very Much Like B	Not Applicable	Description B
Company subsidy is a defined dollar amount with increases managed as part of the total rewards budget.	Today	10%	6%	9%	68%	7%	Company subsidy is determined based on health plan cost, with increases managed as part of the health plan budget process.
	Next 3–5 Years	13%	24%	20%	37%	5%	

Incentives As employers move from a defined benefit to a defined commitment approach to health care, they often start with health improvement and use incentives to motivate employees to take action. Incentives are a component of an overall health improvement strategy, and they also help demonstrate the employer’s and employee’s commitment to health.

Incentives are widely used by employers in an attempt to drive behaviors. Today, 70 percent of companies offer incentives (either rewards, consequences or a combination) to their employees. This will remain a focus for employers over the next three to five years as 55 percent identified using incentives (or disincentives) as a priority to drive positive health behavior change.

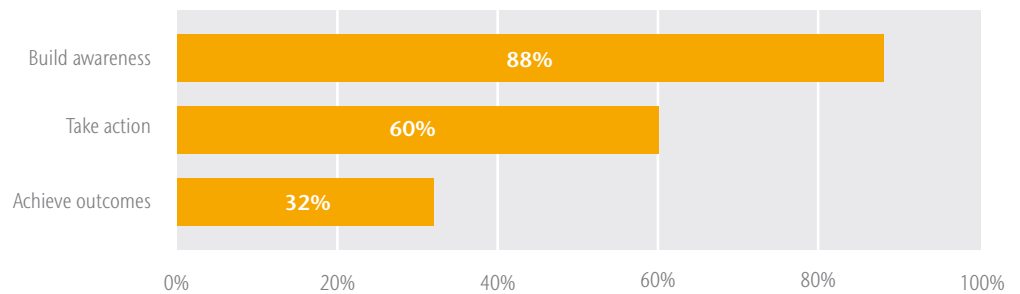
Incentive Prevalence



With respect to the focus of incentives, the data show that:

- Eighty-eight percent focus on building health awareness (HRQs, BMI screenings, cost and quality tool use, etc.).
- Sixty percent focus efforts on motivating employees to take action (active participation in health programs, campaigns, individual coaching, etc.).
- Only 32 percent of employers are using incentives for the achievement of outcomes (reaching a predetermined value or making progress toward that value; examples include BMI, blood pressure, etc.).

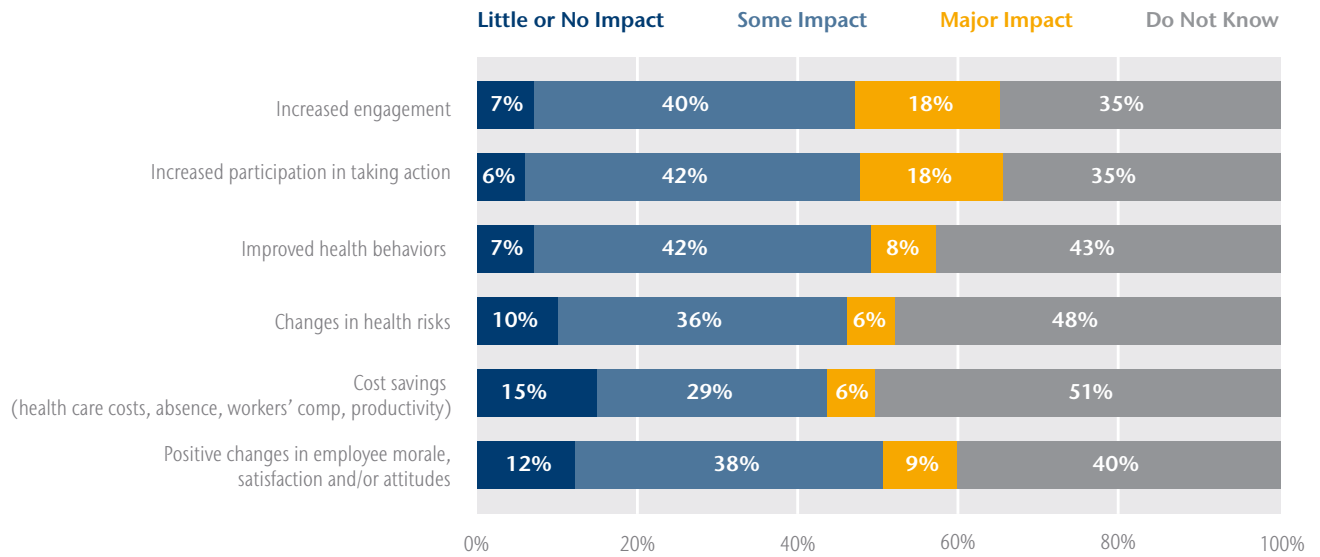
Incentive Focus



Of those employers focused on building awareness and achieving outcomes, 50 percent use health plan design incentives such as premium reductions. The use of cash or gift cards is the most favored incentive choice for employers focused on taking action (38 percent).

However, there is little understanding of the true return on investment of these initiatives as it pertains to improved health. More than half of employers (51 percent) do not know if incentives are driving cost savings. In addition, a significant number simply do not know, or think there is little impact, from the use of incentives in improving health (45 percent), changing health risks (48 percent) or improving morale (40 percent). Only 18 percent of employers think that incentives have a major impact on increased engagement and participation. These results underscore the need for employers to deploy measurement approaches that track changes in health risk resulting from incentive-driven program participation.

Incentive Impact on Plan Participants

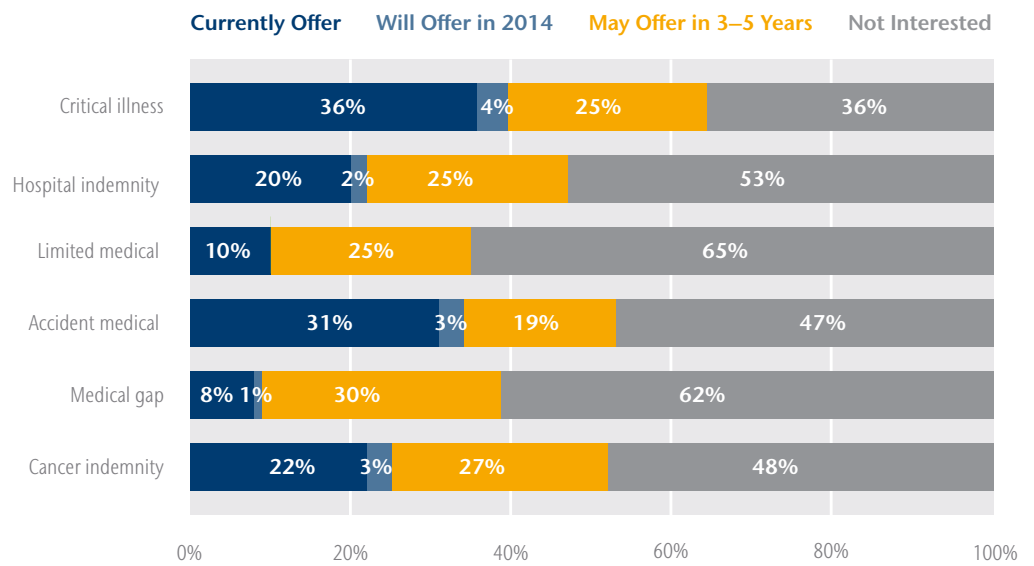


This reported disconnect between the health care programs companies offer and knowledge/tracking of the overall program impact can be noted in two other areas:

- Sixty-six percent of companies want to increase participation in wellness programs, yet nearly half of employers indicate that they do not know if the use of incentives is leading to healthy behaviors (43 percent) or to improvement in health risk (48 percent).
- In the same way, companies agreed that communication with employees was important, but few developed extensive communication programs. As noted above, just 14 percent currently use social media for employee communications.

Elective Benefits Elective, or voluntary, benefits are another tool that employers often use to support a defined commitment strategy and consumer-driven plans. These benefits add coverage, choice and value for employees by minimizing the risk of significant out-of-pocket expenses. According to survey results, the most popular voluntary supplemental medical benefit offered as part of employee enrollment is critical illness coverage, with 36 percent of employers offering currently and 25 percent adding this benefit in three to five years. Cancer and hospital indemnity benefit plans are offered by 22 percent and 20 percent of employers, respectively.

Voluntary Benefit Offerings



Aon Hewitt Point of View

Providing a defined commitment for benefits offers employees more choice and ownership over their health care options and can help drive consumerism and behavior change. Employers also gain the opportunity to reshape how they sponsor health care, choosing from a wider array of innovative options to address health care cost and volatility. By setting a fixed commitment/subsidy or defining an incentive strategy to “earn” benefits, employers can structure programs to drive improved results.

For all these approaches, we see a trend toward local and regional purchasing and a return to managed care principles with an increased focus on effective and efficient care delivery. Each defined commitment program will have to address specific needs in specific ways. A one-size-fits-all strategy will be neither effective nor cost-efficient.

Shifting risk back to insurance companies under a fully insured arrangement (for example, in private exchanges) requires a change in approach for many employers. Some recognize that the demand for more choice among plan options as well as the need for carrier competition and innovation have made “fully insured” plans a viable alternative again.

Traditional incentives, such as cash or contribution to spending accounts, remain popular with employers because this approach has been proven to be effective in increasing awareness; it remains to be seen if the same proof statement can materialize with regard to incentives promoting action.

Employers’ shift to defined commitment strategies relies on a communications plan to guide employee acceptance and engagement. Adding voluntary supplemental medical benefits can support a continued move to a consumer driven health plan.





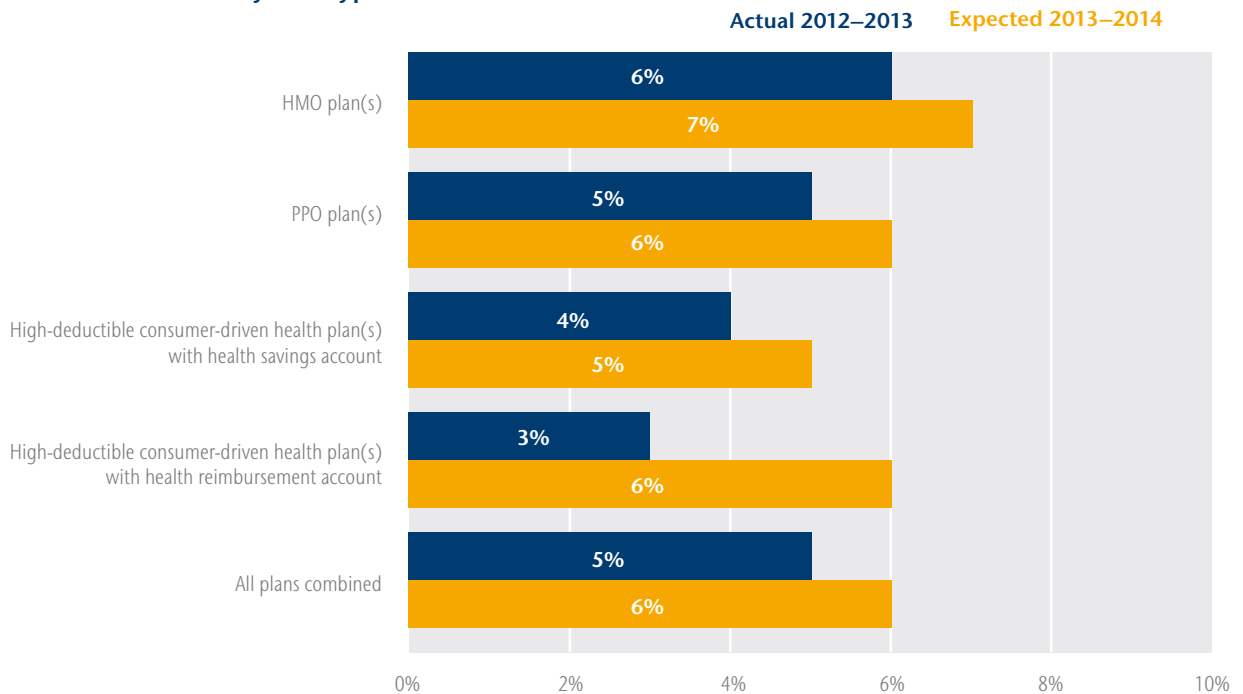
Advancing Trend Mitigation

In this section, a number of fundamental, yet progressive, strategies to trend mitigation were evaluated by employers, such as narrow networks and reference-based pricing, in addition to innovative strategies such as payment reform, health system transformation and new ways to control pharmacy spend.

Restructure Health Cost, Provider and Clinical Strategies

From 2012 to 2013, health care trend abated somewhat, with employers reporting 5 percent trend overall (all plans combined); PPO models experienced 5 percent trend, with 4 percent for HDHP with HSA and only 3 percent for HDHP with HRA. However, employers expect trend to increase into 2014. Overall trend is expected to be 6 percent; PPO models are expected to experience 7 percent trend, while HDHP models will experience 5 percent trend for HSA-compatible designs and 6 percent trend for HRA-compatible designs.

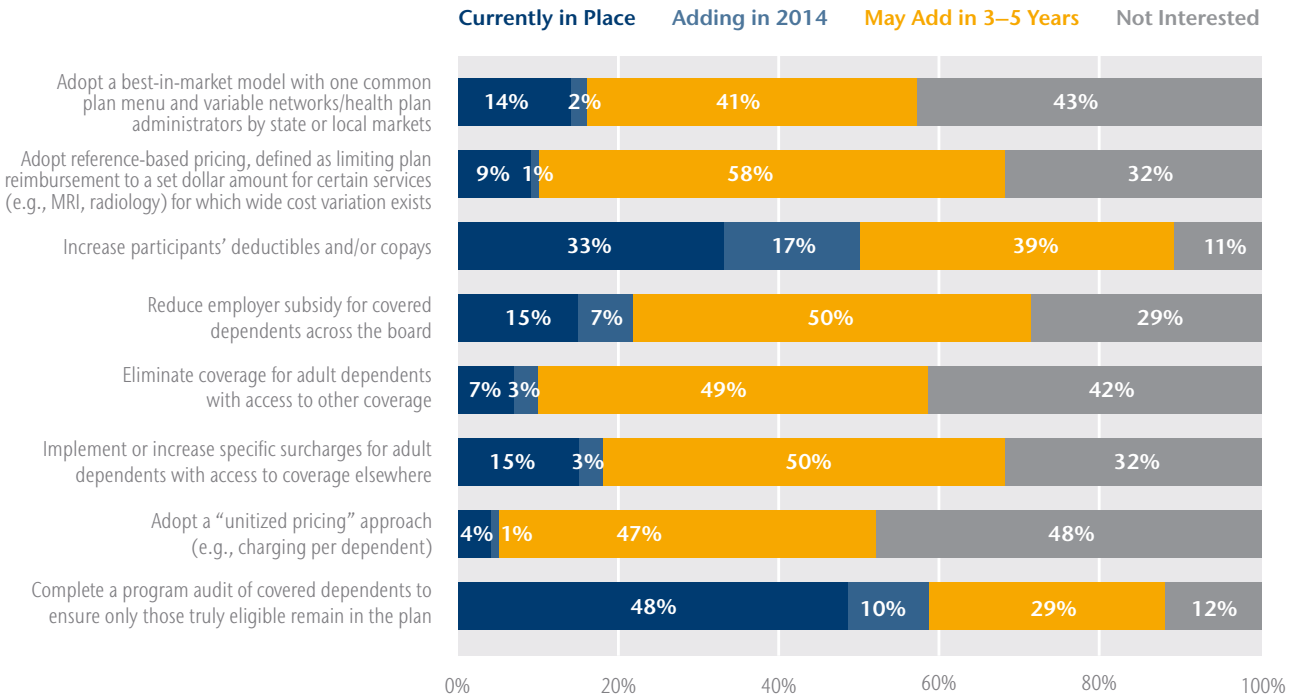
Actual and Expected Cost Increases by Plan Type



Managing Cost

Cost shifting is still one of the most prevalent techniques used by employers to mitigate rising health care spend. Fifty percent of employers have increased deductibles and/or copays, and an additional 39 percent plan to implement these increases in the next three to five years. Only dependent audits (57 percent of respondents) and increased reliance on data (62 percent of respondents) are more prevalent cost management strategies today.

Health Plan Design and Strategy



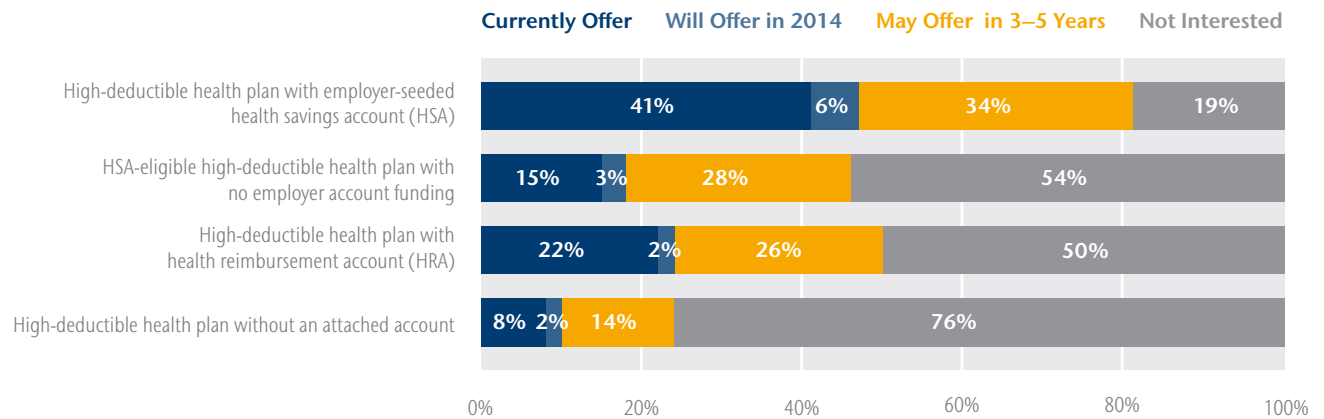
A cost control strategy that is gaining significant consideration is reference-based pricing, with an increase from 10 percent of respondents using this strategy today to an expected 68 percent adoption in the next three to five years. This increase will be driven by employers who set a pricing cap on benefits for certain medical services, typically those for which wide cost variation exists from provider to provider with no discernible differentiation in quality.

With respect to dependent coverage and adopting a specific dependent strategy, results show that the use of unit-based pricing for dependents is expected to significantly increase from 5 percent to 52 percent over the next three to five years. During the same time, 72 percent of employers will apply across-the-board reductions to subsidies for dependents. For adult dependents who have access to coverage elsewhere (i.e., working spouses/partners), 50 percent of employers plan to increase surcharges and 49 percent plan to eliminate coverage in the next three to five years (with 18 and 10 percent, respectively, already doing so).

Plan Design Moving to high-deductible plans continues as a primary trend mitigation strategy. While a preferred provider organization (PPO) is still the most common plan design, offered by 75 percent of respondents, high-deductible health plans (HDHPs) continue to increase in prevalence. Sixty percent of employers offer an HDHP as an option, with another 25 percent considering doing so in the next three to five years. While only 15 percent of employers offer HDHPs as the sole plan option, 42 percent of employers are considering doing so in the next three to five years.

A health savings account (HSA) remains the overwhelming favorite account type to fund HDHPs. Overall, 47 percent of employers offer an HSA versus 18 percent that fund with a health reimbursement arrangement (HRA).

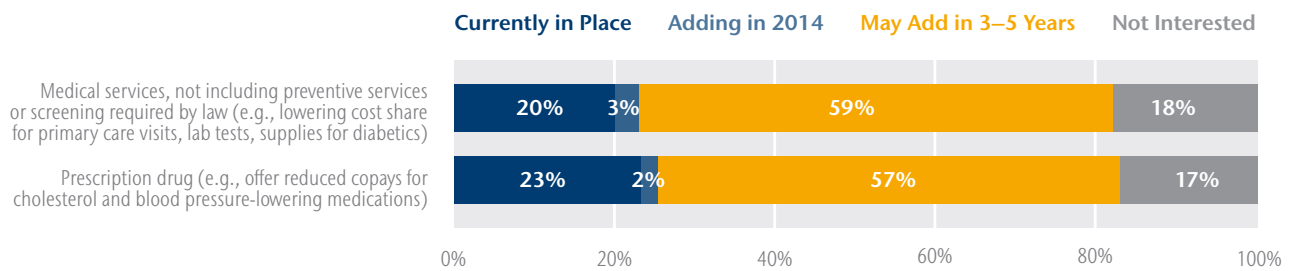
High-Deductible Health Plan Offerings



The current practice of offering multiple plan designs is giving way to design strategies with more focused approaches, such as full replacement HDHPs and “gated” plans. As noted previously, although only 15 percent of employers offer an HDHP as a full replacement plan today, another 42 percent plan to move in this direction during the next three to five years. Likewise, only one in five employers now provides expanded design choice for those employees who complete a “gate” such as a health risk questionnaire or biometric screening, but 60 percent of employers intend to add such a “gating” approach in three to five years.

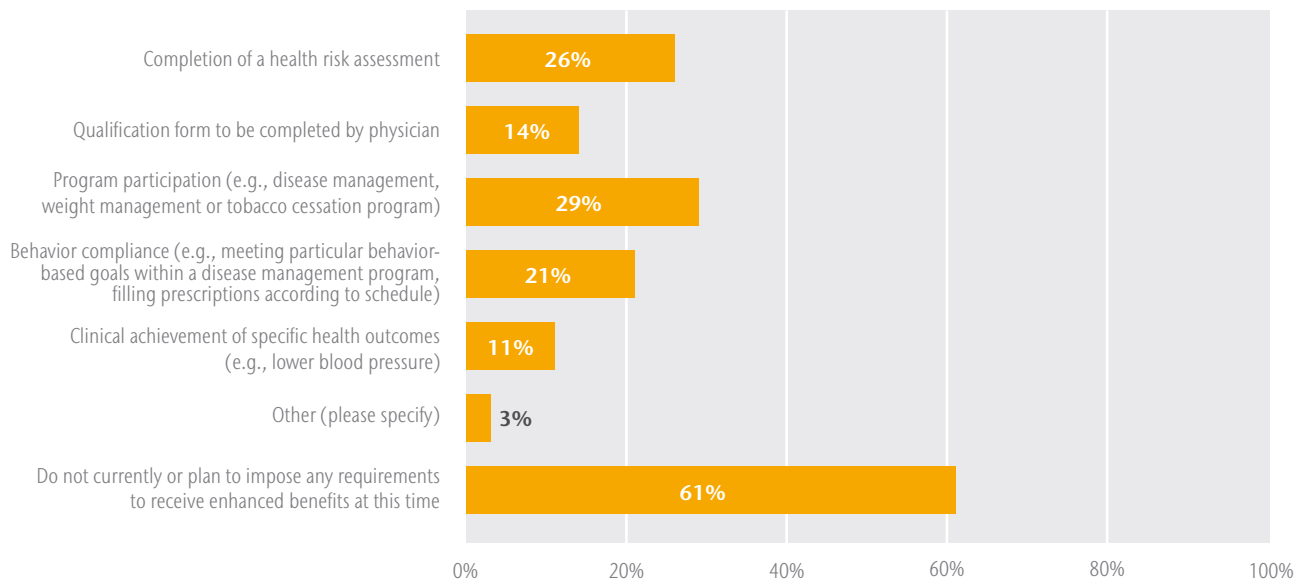
Value-based insurance design (VBID) for either medical or pharmaceutical coverage has not gained significant traction, with only 23 percent and 25 percent of respondents (respectively) targeting health conditions through VBID currently or adding in 2014. However, significant expansion is expected with this strategy; 59 percent of employers plan to add VBID for medical benefits in three to five years and 57 percent for pharmaceutical coverage.

Value-Based Insurance Design Offerings



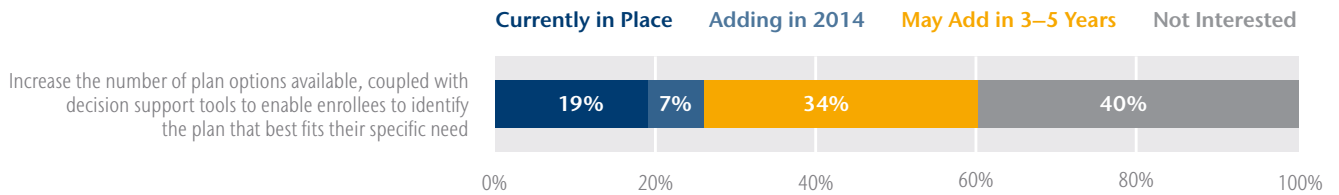
Of those employers that have or plan to use VBID, only 11 percent will base the reward on achieving health outcomes. In fact, six of 10 employers do not require any specific action or behavior on the part of the enrollee in order to access the enhanced benefit level under the VBID coverage.

VBID Employee Participation Requirements

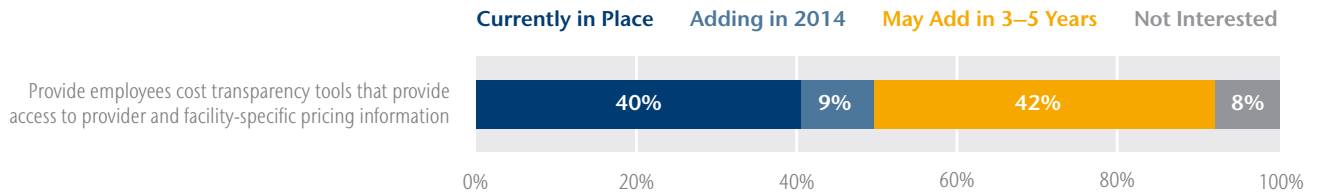


Looking at other aspects of plan designs, employers are providing more plan selection support but not necessarily using design to drive positive behavior changes. Consumer tools are evolving from basic to more robust, interactive support due to an increase in access to data-driven information, with technology as a key enabler. Among employers, 34 percent plan to offer tools to guide decisions in plan selection and utilization in the next three to five years versus 26 percent today. A total of 49 percent offer cost transparency tools, and that number is expected to increase to 91 percent over the next three to five years.

Increase Plan Options



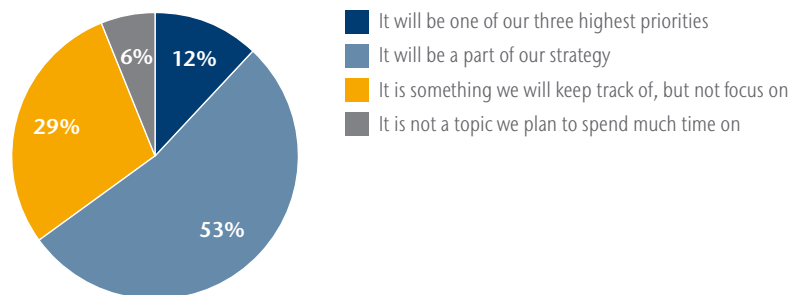
Cost Transparency Tools



Vendor Management

In terms of vendor management, most employers are discussing provider payment reform and delivery system transformation, although these areas are not a significant part of their immediate strategies. However, during the next three to five years, 65 percent of employers mentioned the inclusion of provider payment reforms to promote cost-effective, high-quality health care outcomes.

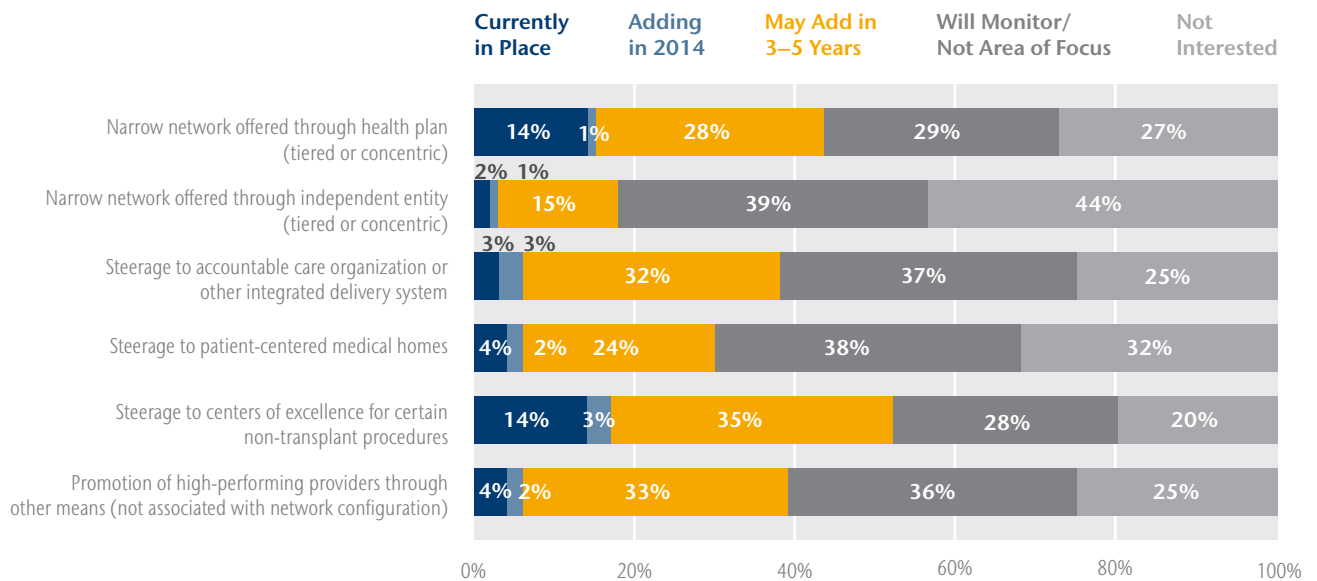
Provider Payment Model Adoption



In general, employers are seeking more financially efficient vendor management models. For example, although global medical tourism has been discussed for several years, only 5 percent offer this option today, yet 25 percent expect to consider it in the next three to five years. A greater number of employers are moving certain procedures to domestic centers of excellence than are moving them to global medical tourism. Both still lag significantly behind other trend mitigation strategies. Among employers promoting the use of centers of excellence, the majority of programs remain voluntary. However, 37 percent indicate they may adopt centers of excellence in three to five years. These shifts align with the trend to offer “best in market” or “best in service” providers in terms of cost and quality. However, there is more room for change, with only about 12 percent of employers currently showing interest in direct contracting as a method to further focus on cost and quality.

As we see a migration to more localized care (both in service and in purchasing), the move to narrow networks, accountable care organizations (ACOs) and patient-centered medical homes (PCMHs) remains limited, with less than half of respondents expecting to employ these strategies within three to five years. That said, there is emerging interest in these models specific to provider payment reform and overall physician contract management by the respective leaders in the vendor community. At the same time, employers are generally working through third parties such as health plans to assess alternative network strategies. Only 11 percent of employers today deploy some form of directly contracting with hospitals and/or physicians, and only 28 percent anticipate doing so in the next three to five years.

Provider Network Structure Use and Considerations



Clinical Programs Results show continued opportunities for employers to adopt clinical programs to advance trend mitigation. Many offer chronic condition management and health coaching programs, with little change anticipated in 2014. However, fewer than one in four employers go further to use special networks or mandatory case/care management for the chronically ill. This approach expands to more than half of all employers (52 percent) considering it over the next three to five years.

Employers also have an opportunity to expand clinical programs for their broader populations. Only 20 percent of employers offer an on-site or near-site clinic, and 57 percent have no interest in acquiring one. Among additional “care setting” trends, nurse lines (a phone or online service in which registered nurses guide callers in making decisions about seeking care) are still popular. Sixty-one percent of employers will offer nurse lines in 2014, but only 21 percent of employers will offer telemedicine (a phone or online service to provide clinical care). Finally, 27 percent of employers offer access to expert second opinion programs at no cost to the employee; 50 percent of employers are considering such programs for the next three to five years.

Aon Hewitt Point of View Employers are making important decisions that impact both their health care benefits (insurance coverage) and population health. Advancing trend mitigation involves multiple strategies to improve the benefit delivery foundation, including funding, design, clinical and provider system changes. Leading employers are attacking cost drivers with new approaches to utilization of, and payment for, health care.

In terms of funding, we see two strategies gaining popularity. Many employers set their subsidies as a percentage of total health care cost; as costs rise, so do their contributions. Going forward we expect more employers to adopt a fixed-subsidy approach, thereby allowing them to manage potential increases in funding in accordance with business needs. We also expect to see continued limits related to covering spouses or adult partners. Today, some employers have added spousal surcharges. In the future, employers may exclude spouses/partners from benefits programs.

Plan design strategies will evolve to be more requiring of participants. We expect more employers to use HDHPs as a total plan replacement versus an option. Along with this evolution, employers will require that HSA funding be earned through improved health outcomes or positive health behavior change. Consumers will be held more accountable, but they will also have more decision support tools with cost and quality transparency.

Vendor management is moving toward health plan and provider efficiency and effectiveness, increasing accountability with performance guarantees and enabling best-in-market strategies. We are moving from a one-size-fits-all vendor management approach to models that are more financially efficient.

Employers can support their advanced trend mitigation strategies and drive further cost savings by establishing a more rigorous environment around clinical programs and providing even more support for employees. Case management requirements can better manage health and cost for the chronically ill. Expanding on-site and near-site programs can advance prevention and acute care management to help improve population health results. We expect to see a continued shift toward requiring these types of approaches designed to get participants the right care, in the right setting, and at the right time and cost for a sustainable long-term health care program.

Provider delivery transformation and payment reform are driving much-needed system changes to manage health care cost trends. The health care market is shifting, mainly due to the ACA, with the emergence of public and private exchanges. Providers are reorganizing around alternative delivery systems and reacting to narrow and tiered networks along with centers of excellence. The use of value-based pricing and cost/quality transparency tools will encourage consumers as never before. The future direction for employers will be locally driven, focusing on access to cost-effective, quality care within a geographic area.

What does this mean for employers today? We expect a gradual but significant adoption of ACOs, where hospitals and physicians work in partnership to care for a patient, and PCMHs, where a group of physicians collectively drives the care of a patient across the system. These, and other more tightly managed network models, represent the possibility of combining value-based payments with population health management. Employers will exert increasing pressure on health plans—and by extension, providers—to move the system toward these value-based approaches. Employers that embrace and help lead this change will achieve better results moving forward.

Although not specifically addressed in this survey, another area where employers can advance trend mitigation is to closely manage pharmacy spend. With specialty drug costs expected to skyrocket, employers need to make transformational changes in managing pharmacy benefits and integrating them into overall health management in order to maintain a positive impact on health care cost and outcomes.



Elevating the Health Imperative

Health is a foundational element of four important employer performance-driven initiatives: workers' compensation, safety, absence management and wellness. All drive financial results through improved productivity, quality and risk control. Today's leading employers are taking a holistic view and finding shared connections to understand and improve the value of health across their businesses.

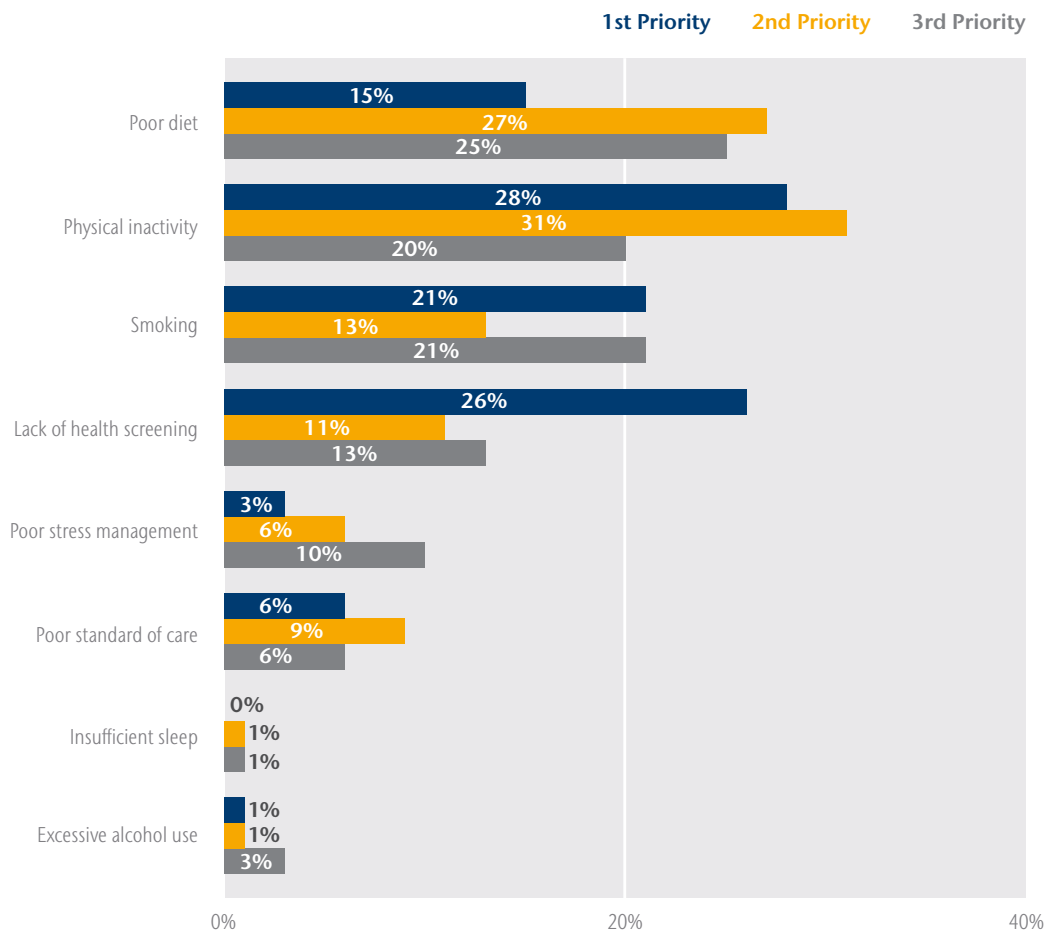
Deliver an Experience that Improves Health and Performance

Our previous topics covered new models to structure health benefits coverage and new approaches to reduce cost and mitigate trend. This section goes beyond insurance to present a broader view of how health impacts the organization as a whole.

Health Behaviors and Risks

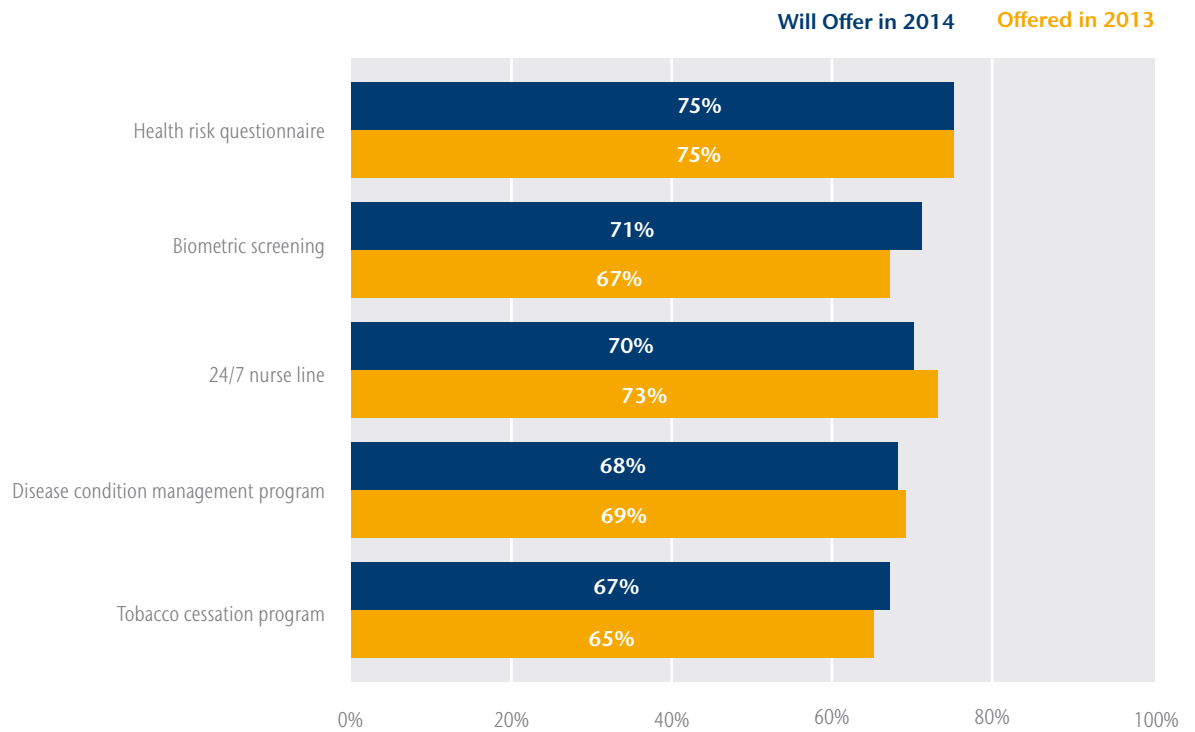
“Health” is the complete physical, mental and social well-being of each employee. Despite this, the overwhelming focus of employers remains on the physical. Of the eight main behaviors driving health cost, survey respondents give top priority to physical behaviors, focusing on inactivity (28 percent), inadequate health screening (26 percent) and smoking (21 percent). Lack of sleep, alcohol abuse and poor health care are linked to increased health risk, but employers have not significantly addressed these problems.

Top Employee Behavior Focus



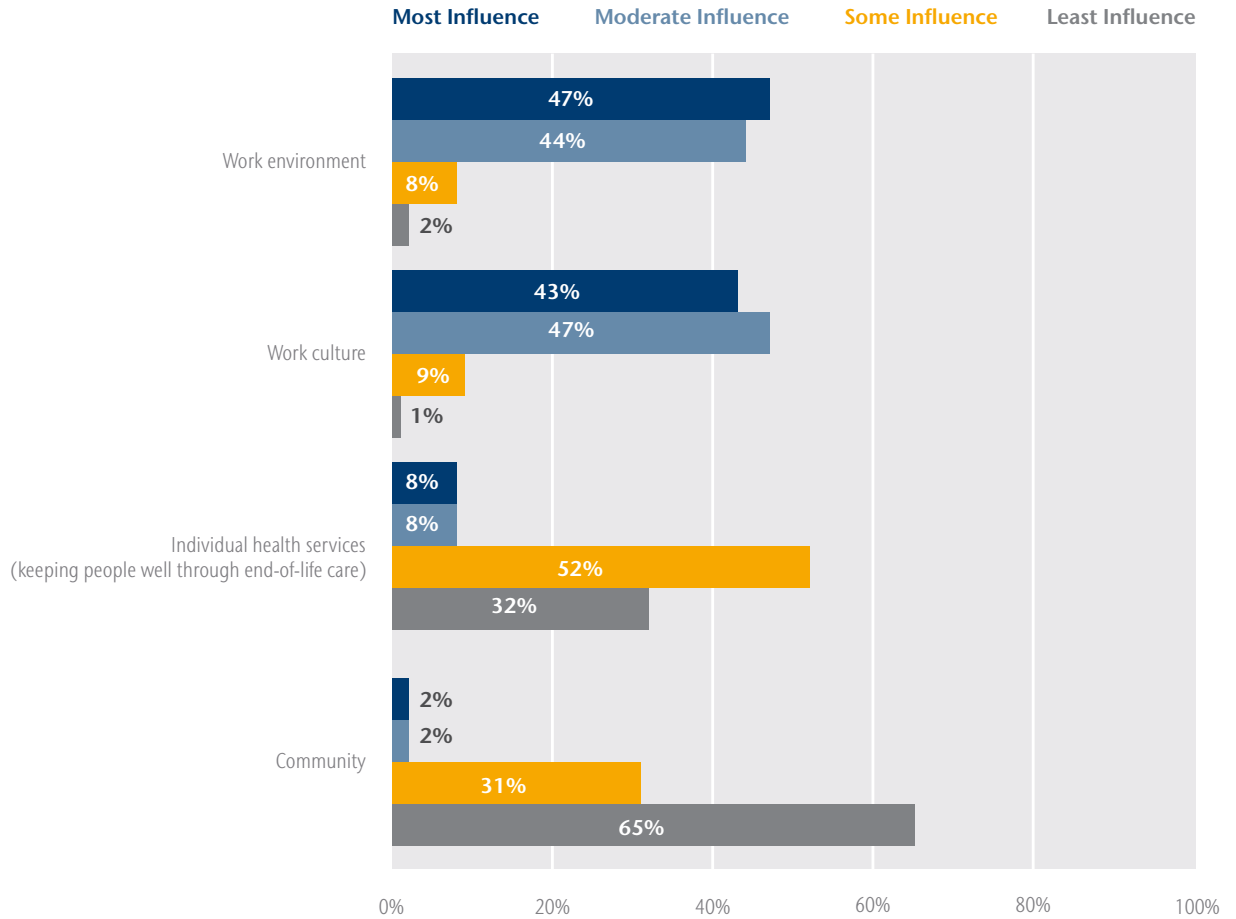
The top five health and performance programs offered by employers in 2014 include biometric screening, health risk questionnaire, 24/7 nurse line, disease management and tobacco cessation program. In addition, to reinforce the focus on improving workforce physical inactivity and diet, 56 percent of employers will offer physical activity challenges and 51 percent will offer health improvement coaching.

Most Prevalent Health Programs



In terms of the spheres that influence an individual's health behavior (community, work culture and work environment, along with health services) employers believe they can improve work culture (90 percent), but do not think they have much influence over individual health services (16 percent) or the community response to health (4 percent).

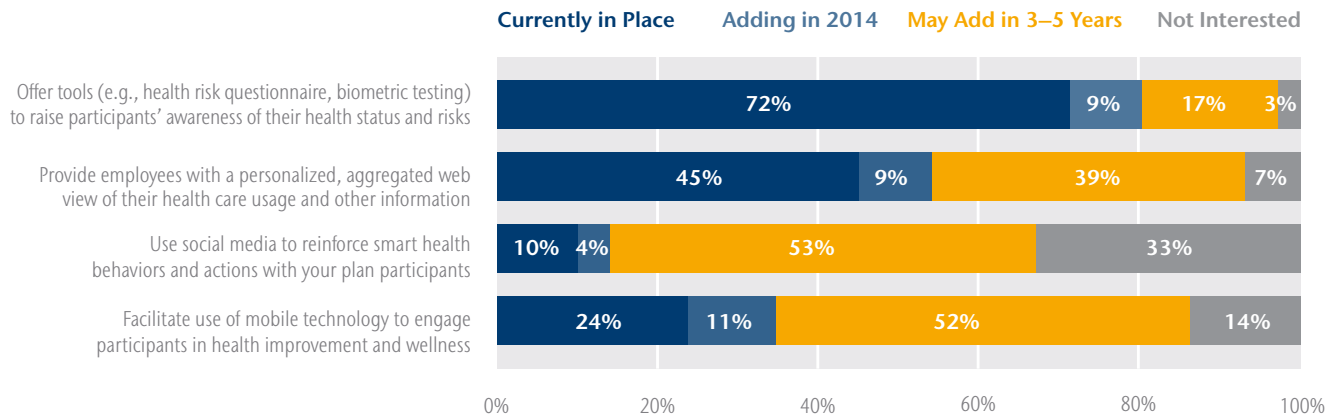
Impact of Health and Wellness Programs



Employee Experience

Employers are using communications to inform and support better decisions. Over 80 percent of employers now offer tools to help employees better understand their individual health status and risk, and this number is expected to grow to 97 percent over the next three to five years.

Tools to Help Understand Employee Health and Risk



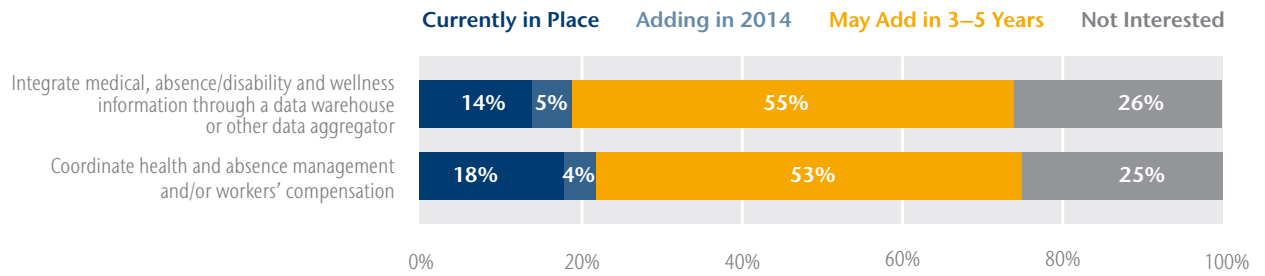
However, employers show little attention to the overall employee experience or to moving employees toward action. Although 54 percent provide employees with an aggregated view of their health usage and information, only 14 percent use social media to communicate with employees. This slow adoption of varying communication methods may potentially miss a high-tech, high-touch, personalized channel that can increase the effectiveness of the message being communicated.

The targeted communication that employers are using is overwhelmingly based on specific health conditions (62 percent) versus demographic information (30 percent). Only about a quarter of employers consider employee input and participation when talking about overall strategy, plans, designs and rewards, but over 40 percent consider it in communication strategy and wellness programs.

Integrating Data Across the Organization

Despite the critical importance of health, coordinating the related employer programs to effectively use data analytics and improve results is still in its infancy. For example, only 22 percent of employers coordinate health and absence management with workers' compensation; 19 percent use a data warehouse to integrate medical, absence, disability and wellness; and 27 percent have focused on strategies and programs to improve workplace performance versus a single focus on lowering medical cost.

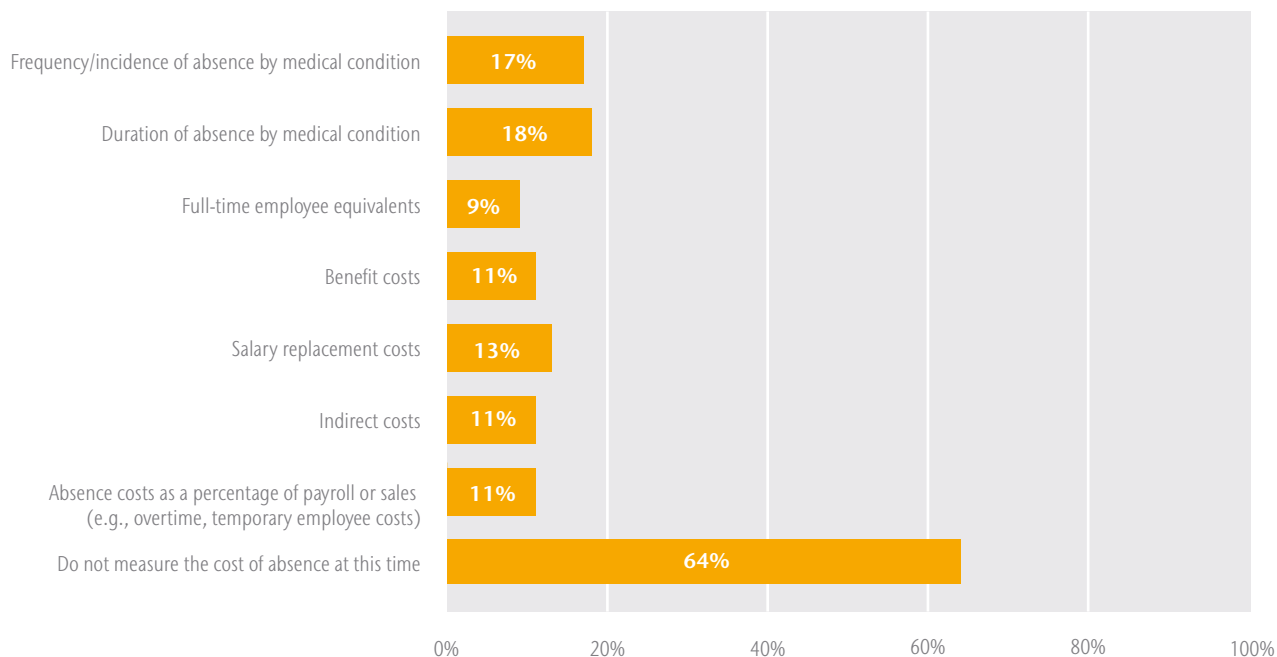
Absence Data Integration



Absence Management

Neither do employers use data and metrics to track absence or its cost. Sixty-four percent of employers do not measure the cost of absence and more than 82 percent do not relate absence to the frequency or duration of medical conditions. Employers could be missing a key integration point across absence, health and productivity.

Use of Metrics to Measure the Impact of Absence

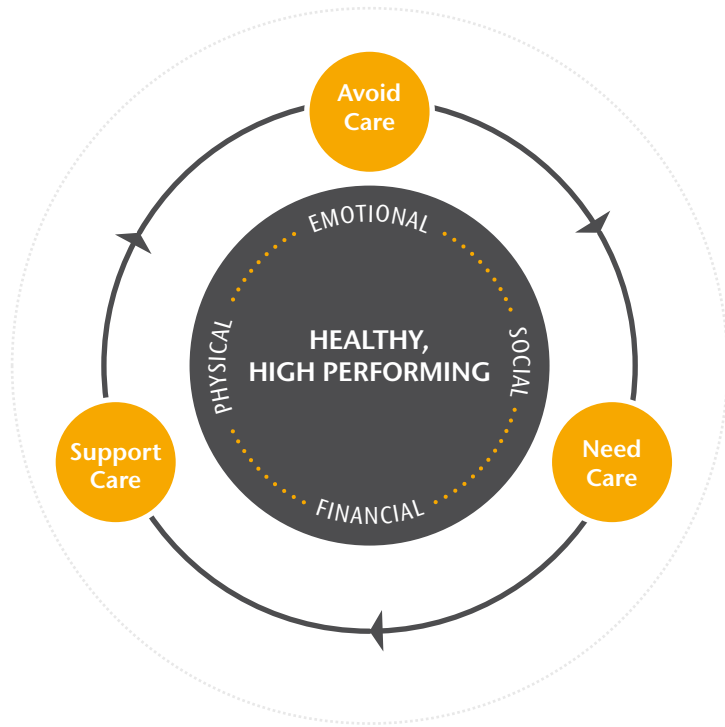


Aon Hewitt Point of View

Today, pervasive gaps exist between the health care system, employers and individuals. These gaps cause limited or disjointed results for all parties. Employers often overlook the impact of these gaps across their organization. Employees are aging and new workers are entering the workforce with existing chronic conditions. The current health care system contributes inconsistent diagnoses and treatments, and multiple touch points, for the same medical event across employer programs. The typical results are confusion and outcomes that fall far short of their potential.

Employers should consider a new model—one that redefines health to more broadly include social, emotional, financial and physical attributes. Employers should also recognize that health events are not linear but cyclical throughout an individual’s lifetime. Each employee has a health experience cycle: avoid care (prevention), need care (providing access) or support care (simplifying the experience of complex and ongoing care). This cycle is closely connected to employee performance, productivity and overall value to the organization.

Each part of the health experience cycle includes key performance dimensions that represent opportunities to connect organizational programs (wellness, absence, safety). For example, care coordination is a dimension of the support care phase. Implementing an effective stay-at-work program could improve outcomes across wellness, absence management and, potentially, workers' compensation. The key is to realize these connections, share data and metrics, and align goals. Obstacles will start to fade away as integration takes hold and the health imperative—with workers being present, energetic, creative and productive—becomes a priority.



Making the Future Real Now

Health care is a priority across all levels of the organization and is gaining more and more attention among senior leaders. We know that attracting, retaining and engaging key employees is paramount, but the power to pull specific levers to effectively manage health programs is slowly becoming diluted. As employers continue to opt to manage health and insurance programs using traditional methods, questions emerge: Will these tactics drive organizational engagement? How will your organization prepare to adapt to the changing health care delivery landscape, evolving workforce and overall program commoditization?

At Aon Hewitt, we are committed to providing continued innovative solutions, strategic direction and thought leadership. To learn more, help you and your organization tackle critical benefits challenges, and prepare for the future of health care, contact your Aon representative or email us at health@aonhewitt.com. Our goal is to help you lead the future of health care, starting now.

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Aon Hewitt empowers organizations and individuals to secure a better future through innovative talent, retirement and health solutions. We advise, design and execute a wide range of solutions that enable clients to cultivate talent to drive organizational and personal performance and growth, navigate retirement risk while providing new levels of financial security, and redefine health solutions for greater choice, affordability and wellness. Aon Hewitt is the global leader in human resource solutions, with over 30,000 professionals in 90 countries serving more than 20,000 clients worldwide.

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