

Beyond Cost Containment to Health and Productivity

A Shift in Employers' Healthcare Focus



Research by the Integrated Benefits Institute

May 2005



Executive Summary

Employers believe that their rising healthcare costs are part of a long-term trend they must manage to minimize the economic burden of ill health. They know they can't simply tinker with shifting costs. They prefer to encourage employee health and to manage disease as part of a continuum, from prevention through medical care through absence/disability.

This IBI survey of 620 employers also documents a significant challenge to their health and disability benefits suppliers as employer data needs move out of the group health silo. Within five years, employers want to link health and medical databases to broader measures, such as absence, disability, lost productivity and business outcomes.

Even under today's healthcare cost pressures, employers aren't simply relying on cost shifting to employees to deal with rising healthcare costs. Employers equally value giving employees more tools for making healthcare decisions and promoting employee health.

IBI partnered with LRP Publications in this research. IBI solicited its employer members to participate, and LRP sent survey announcements to readers of *Human Resource Executive* and *Risk & Insurance* magazines.

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Integrated Benefits Institute

The **Integrated Benefits Institute** is a national, nonprofit organization supported by employers, consultants, insurers, healthcare providers, disease management firms, third-party administrators, pharmaceutical companies, behavioral health providers and others having an interest in integrating health and productivity. To best serve the needs of employers and employees, IBI identifies and analyzes health and productivity issues as they cut across traditional benefits programs of workers' compensation, group health and non-occupational lost time. IBI provides research, an integrated health and productivity educational forum, and benefits measurement and benchmarking tools to monitor benefits down and across programs and up to business impacts.

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Beyond Cost Containment to Health and Productivity

A Shift in Employers' Healthcare Focus

Principal Findings

Employers are effecting a sea change in their approach to managing the economic burden of ill health.

- Only 15% will adopt, in the longer term, the traditional means of managing medical cost increases—minimizing increases year to year.
- More than six employers in 10 favor managing health in the future to affect broader outcomes in absence, disability and productivity.
- Another one in four prefers to focus on managing worker health in the longer term.
- Employers show a remarkable ability to disassociate future plans for delivering health and productivity to their workers from the means they have available today.

Even today, employers view health promotion and enhanced employee tools for healthcare decisions to be as important as shifting costs to employees in dealing with rising healthcare costs.

- 29% favor giving employees more responsibility for healthcare decisions as their most important strategy.
- 19% value employee health promotion as their best approach.
- Neither of these approaches is statistically different from the 26% that choose cost shifting.

Employers that appreciate the relationship of health and workforce productivity as it affects their company's bottom line tend to avoid cost shifting to employees.

- More than half the respondent employers appreciate this relationship and avoid an emphasis on cost-shifting strategies in both the short and the long term.

Employers' health-related data needs are changing radically in response to their long-term outlook.

- More than 85% of employers, over the next five years, want to link health and group medical data to broader outcomes, such as employee absence, disability, lost productivity and company financial performance.
- Only 14% believe that siloed group health data will be appropriate to their needs.
- Health and benefits suppliers should start now to meet employers' data expectations.

Employers' long-term approach to the business value of health is not related to their short-term strategies for dealing with the rising costs of healthcare.

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Background

Despite an apparent moderation in the rate of growth in healthcare costs,¹ increases still outpace inflation, and the cost is deemed by most employers to be too expensive to accept as a cost of doing business.² In summer of 2004, the Integrated Benefits Institute asked a broad cross-section of employers what they intend to do about their ever-rising costs of healthcare.

This study reports on three key issues covered in that survey:

- 1 How will employers manage healthcare costs in the long term?
- 2 How do employers respond to healthcare cost growth today?
- 3 How are employers likely to transition from short- to long-term approaches?

Later this summer, IBI will publish an additional report from this survey to address how employer practices in linking the management of their benefits programs influence their approaches for managing health and productivity (H&P).

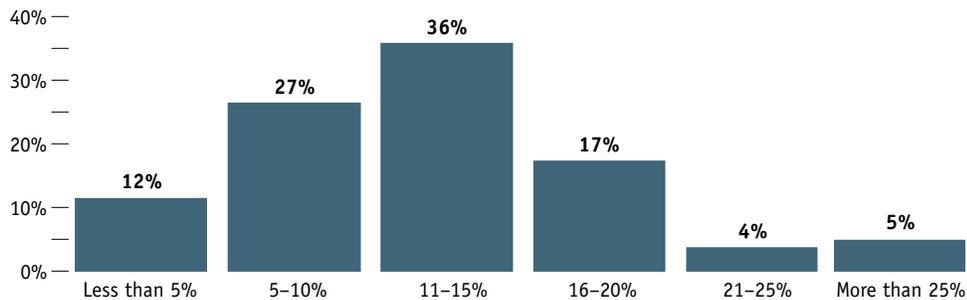
Initially, there are few surprises. Employers tell us that the rising cost of healthcare is an important issue for their company—82% ranked its importance at 5 on a five-point scale, and 15% ranked it at 4.

Small wonder that employers are deeply concerned. Double-digit cost increases are reported by 62% of respondents, and 9% report increases of 20% or more. These increases are borne by employers regardless of employer size.

In addition to IBI members, we also surveyed readers of *Risk & Insurance* and *Human Resource Executive* magazines in partnership with LRP Publications. Responses came from 620 employers.

Group Health Cost Increase over the Past Year

Percentage of respondents reporting various ranges of cost increases



¹ U.S. health benefit cost rises 7.5% in 2004, lowest increase in five years; Mercer Human Resource Consulting, November 22, 2004. "The healthcare benefit cost juggernaut lost momentum in 2004, as the trend slowed for a second year. Average per-employee cost rose 7.5%—still outpacing general inflation, but the lowest increase since 1999 and well down from last year's 10.1% increase."

² Hewitt Study Shows Employers Seeking to Attack Root Causes of Health Care Cost Inflation, Hewitt Associates, January 10, 2005. "Hewitt's survey of more than 500 major U.S. employers covering more than 6 million employees and family members finds that companies anticipate a cost increase of 12 percent for 2005, but can only afford a maximum 8 percent increase."

Employer Long-term Strategies

Although we asked respondents what their companies are doing about healthcare increases today (short-term findings begin on page 8), in this survey IBI principally sought to stretch employers' focus beyond what they *can* do in the short term to what they *want* their strategic response to be in the longer term (five years or more). Because 94% of respondents tell us they believe that healthcare cost increases are likely to be a longer-term trend—as opposed to being temporary or only cyclical—it is not surprising that they can identify a long-term approach to managing such costs.

Linking Health to the Bottom Line

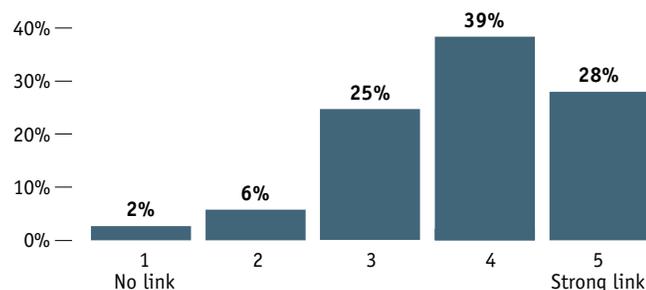
To begin to assess this notion of dealing with healthcare costs over the long term, we asked employers how strongly their company links employee health, workforce productivity and bottom-line financial results. We find a strong linkage, with two-thirds rating it at 4 or 5 on a five-point scale and only 8% of respondents saying there is little or no linkage.

Thus, employers recognize that they have a significant opportunity to affect business results through promoting health. That doesn't necessarily tell us, however, how concerned employers are about the negative

business effects of the *economic burden* of ill health in the workforce and how they will try to moderate healthcare cost increases in the long run.

Strong Linkage of Employee Health, Productivity and Bottom-line Results

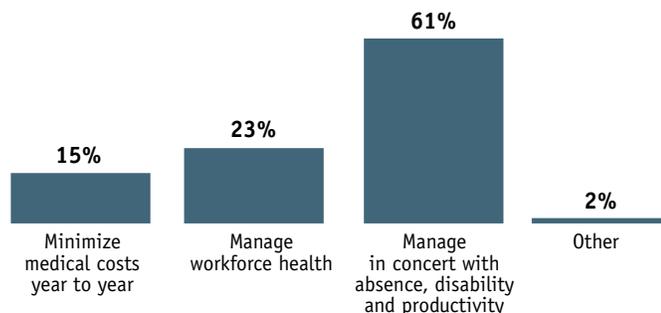
Percentage of respondents indicating strength of linkage



Managing the Economic Burden of Ill Health over the Long Term

In the traditional healthcare context, employers often seem to view healthcare payments as a cost to be borne—or transferred to their employees—rather than as an investment in health and, ultimately, the bottom line. We asked employers to identify their future strategy for managing the *economic burden* of ill health. The survey included three options: (1) managing health costs year to year, (2) focusing on workforce health only, or (3) managing health in concert with its broader outcomes such as absence, disability and workplace productivity.

Long-term Means of Managing the Economic Burden of Ill Health



The surprising result is that more than six employers in 10 believe that the economic burden of ill health can best be managed

in concert with outcomes broader than the traditional medical/health context, to include absence, disability and workplace productivity. This view is more likely to be shared by larger employers, by employers that strongly link health to the bottom line, by those that say they have adopted an H&P management strategy, and by employers that currently manage health within a continuum of benefits, including absence, productivity and safety. These characteristics show an

appreciation for a broader context for health, health-care and its effects—outside the group health silo.

These respondents can't be accused of being out of touch with healthcare issues and cost management: 92% of survey respondents report they have "substantial administrative involvement" in group health, and 85% are at the director, manager, VP or top executive level.

Expanded Savings Potential

Over the long term, these respondents are willing to adopt a broad approach to dealing with the economic burden of ill health that affects absence, disability and lost productivity. Employer willingness to embrace a broader view of health, focused on business-relevant outcomes, allows benefits managers

to generate—and take credit for—savings that come through preventing and managing disease, disability and lost productivity. These savings come as a result of maintaining a healthy workforce, preventing conditions before they arise, providing the appropriate medical care at the right time and focusing on return to work.

Managing Healthcare in the Future

We asked employers more directly about their long-term strategy. Participants selected the best long-term approach to healthcare from five different strategies:

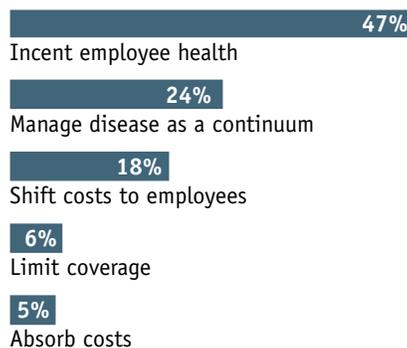
- Absorb healthcare costs
- Limit coverage
- Pass additional cost burdens on to employees
- Provide incentives for employees to adopt healthy behaviors
- Manage disease as a continuum, from prevention through medical care, through absence/disability

In choosing the best long-term approach to offering group health, almost half the respondents prefer to encourage healthy behavior in employees. An additional 24% said the best approach for employers is to

manage disease from start to finish—from prevention through treatment to absence/disability management. Only 18% believe that passing additional costs on to employees is the best long-term strategy. Relatively few choose to limit coverage or to absorb healthcare costs.

Best Approach to Offering Health Benefits Longer Term

When allowed to choose only a single, best approach, respondents cited:



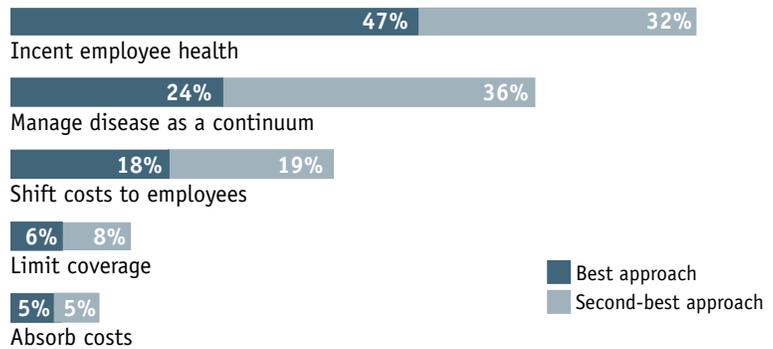
When we asked respondents to add their second-best strategy, no change in the overall rankings occurred. Managing disease over a continuum and promoting healthy behaviors remained the top strategies.

These results offer great promise to those who believe that for too long employers have managed benefits programs—particularly group health—in isolation of the goals and the outcomes of other programs. A strategy to promote healthcare savings by shifting costs to employees or shifting the risk to medical providers is likely to discourage appropriate use of medical treatment. Properly furnished, this medical treatment will help avoid unnecessary absence, disability and lost productivity.

Putting healthcare costs into the broader context of healthy workers and their value to their employers’ businesses refocuses the healthcare discussion. Recent IBI research shows that the “full costs” of absence and

Second-Best Approach to Offering Health Benefits Longer Term

First- and second-best approaches cited:



lost productivity are four times greater than group health costs alone.³ Adopting this broader view of health is a major step for employers in managing overall costs and in being able to demonstrate the worth of their investment in appropriate, effective healthcare.

³ *The Business Case for Managing Health and Productivity: Results from IBI’s Full-Cost Benchmarking Program*, Integrated Benefits Institute, June 2004. <www.ibiweb.org/publications/research/42/>

Data Management over the Long Term

It’s not realistic, however, for employers to commit to managing healthcare in the context of health-related and business-relevant outcomes unless they have the proper management tools in place. To probe employer willingness to take the necessary steps to develop those tools, we asked respondents to identify their preferred approach to managing employee health-related data over the next five years. The responses show that these respondents have moved substantially beyond the group health program silo in their vision of how to construct necessary database solutions.

We asked respondents to choose among three health-related data management options for the longer term:

- Focus on group health data alone
- Link group health data to information on employee absence, disability and productivity
- Link integrated health and absence/disability data to productivity/financial outcomes

Only 14% of respondents believe that group health data alone will be sufficient over the next five years. A remarkable 86% see the best data solution as one that links health data to absence, disability and productivity information (37%) or that adds financial results to these broad data (49%).

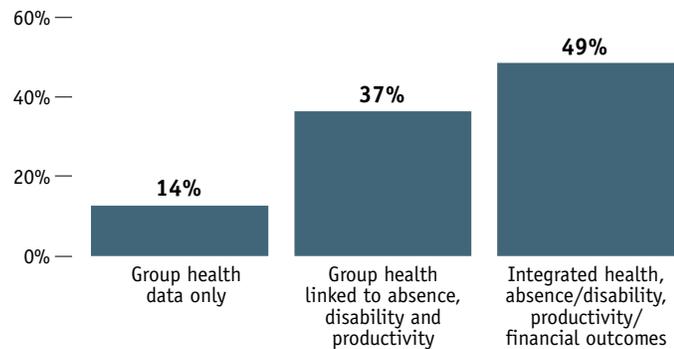
IBI’s analysis shows several characteristics associated with whether the employer adopts a broad or narrow view of future data needs—after adjusting for other characteristics we

measured. Two factors are associated with broadened data needs employers seek for the long term. Employers that believe the best long-term approach is to encourage employees to adopt healthy behaviors or to manage disease in an H&P continuum are four times more likely to select one of these broader approaches to long-term health-related data needs. The other important factor concerns who the principal motivator is for the employer's response to rising healthcare costs. When the motivator is CFO/Finance, the employer is far less likely to adopt a broad view of future data needs. This result implies that the CFO's focus is on minimizing out-of-pocket costs, including the cost of data.

Also significant is that taking a broad view of future data needs is *independent* of the employer's current strategies. An employer's choice among any of the short-term strategies as most important to dealing with rising healthcare costs is unrelated to the choice of a broad view of health data as the means to manage workforce health-related effects in the future. Employers are willing to think creatively about their future plans and management tools regardless of the strategies they choose (or are forced through exigencies to adopt) today.

The Health-related Data Solution

Respondents' preferred option for the long term:



The vast majority of respondents are directly involved in managing group health programs. Their responses here demonstrate a keen awareness that medical treatment and health results can be evaluated effectively only in the context of their effect on absence and lost productivity or, even more broadly, on the business results of their programs. These respondents appear to be willing to evaluate their program success in a manner much closer to the way that CFOs told IBI three years ago that they measure the financial success of the company—in terms of financial outcomes instead of the costs of individual benefits programs.⁴

⁴ *On the Brink of Change: How CFOs View Investments in Health & Productivity*, Integrated Benefits Institute, December 2002. <www.ibiweb.org/publications/research/33>

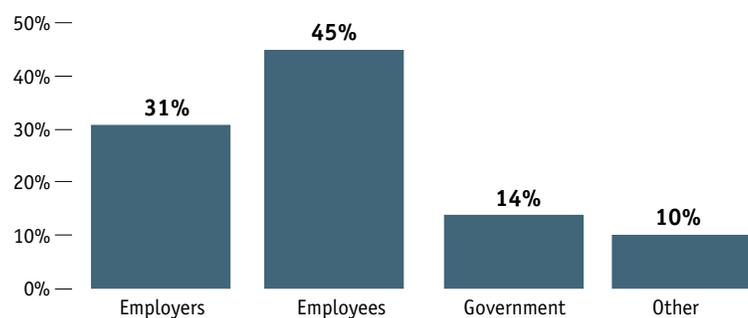
Who Should Have Long-term Healthcare Responsibility?

Four years of double-digit healthcare cost growth has employers asking a fundamental question: Who should have primary responsibility for healthcare in the future?

Four employers in 10 believe that employees should take on primary responsibility for healthcare, while only three employers in 10 believe that employers should retain primary responsibility. About three employers in 20 are ready to turn responsibility over to the government, while one in 10 have some combined solution in mind.

Who Should Have Primary Responsibility?

Respondents' opinion of long-term responsibility:



Our analysis shows that those relatively few employers that choose *improving medical delivery* as their most important current medical cost-control strategy (see discussion in the next section) are more likely to want employers to retain primary responsibility for healthcare than have the government or employees assume primary care. Perhaps this comparative optimism about the ability of employers to continue to be responsible for employee healthcare is premised on an existing employer-based strategy that uses case management, disease management and

medical treatment/disability guidelines to shape the healthcare that employees are getting in a way that promises to be effective now and in the future—for both the employee and the employers.

Employer choice on this key issue will likely depend on two things: (1) the rate of medical cost growth over the next several years and (2) the employer's view of healthcare as an asset that can be managed for business impact or only as a cost of doing business.

Employer Strategies Today

Current employer approaches to dealing with rising healthcare costs are strikingly different from their longer-term strategies. To fully appreciate these short-term responses, we examine what motivates and who drives the response in the employer organization. We then look at today's key strategies to respond to rising healthcare costs

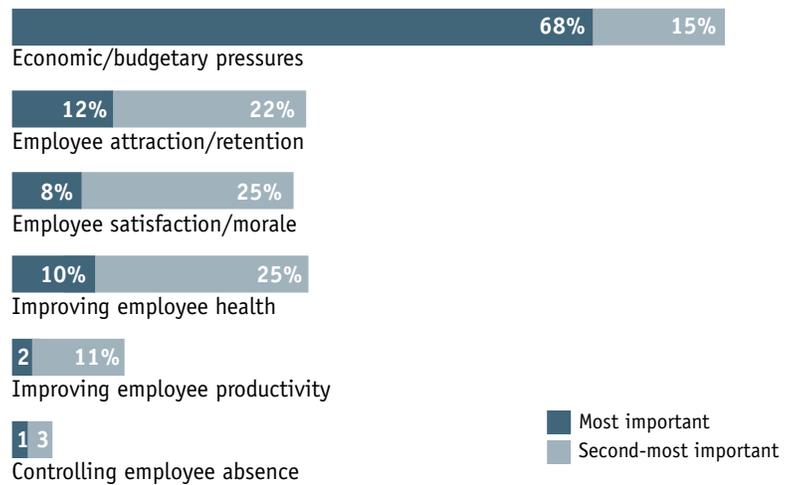
What Motivates Current Strategies?

We asked employers for the reasons behind adopting current strategies for dealing with rising healthcare costs. Respondents ranked the most-important reasons from among the following suggestions:

- Employee attraction/retention
- Economic/budgetary pressures
- Improving employee health
- Improving employee productivity
- Controlling employee absence
- Employee satisfaction/morale

Nearly seven employers in 10 cite economic and budgetary pressures as the dominant driver of their need to establish a short-term healthcare cost-control strategy. Other issues such as employee attraction/retention, satisfaction/morale and health improvement don't register as important cost-control responses until employers rank their second-most-important factor.

First- and Second-Most Important Reasons for Choosing the Strategies to Manage Rising Healthcare Costs



Currently, a need to promote employee productivity or absence management is *not* an important motivator. Thus, the focus respondents bring to such outcomes in the long term is even more surprising.

Who Initiates and Who Develops Responses?

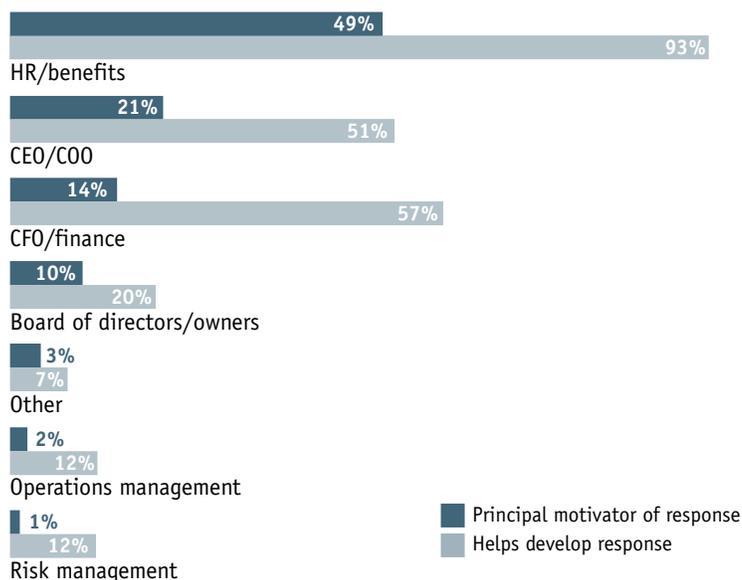
We also wanted to learn more about the dynamics behind current approaches to managing rising healthcare costs. We asked who is the principal motivator of the employer's response and who has a hand in developing the detail of the response.

We found that half the time it is the HR or benefits executive who motivates a company's response to rising healthcare costs. Almost half of the time, however, the principal impetus comes from senior management, the board of directors or company owners. This interest by senior management in a cost-control strategy may explain why economic and budget pressures dominate the motivation for today's healthcare cost management initiatives.

No matter where the *initial* motivation for choosing a strategy arises, a diverse group within the company is involved in the *development* of the company response.

It becomes apparent that the broad-based effort across the company to respond to what

Who Instigates vs. Who Develops Responses to Rising Healthcare Costs



is principally a financial threat ends up creating a strategic response that oftentimes is far broader than a simple financial fix.

Resulting Short-term Strategies

To determine today's employer focus, we asked respondents to select the *most important* strategy they either have in place or plan to adopt in the next year. Respondents chose from the following options:

- Absorb cost increases
- Shift costs to employees—including eliminating or reducing coverage
- Give employees more responsibility for making healthcare decisions
- Promote health of workforce to prevent illness before it occurs

- Improve the delivery of medical care to make the best use of the money spent
- Change insurers/providers
- Change health plan type
- Other

Three short-term strategies are most prominent in dealing with rising healthcare costs. Nearly 30% of respondents give employees more responsibility for healthcare decisions, while a little more than a quarter shift costs to employees. Because of sample variation, there is no statistical difference between the

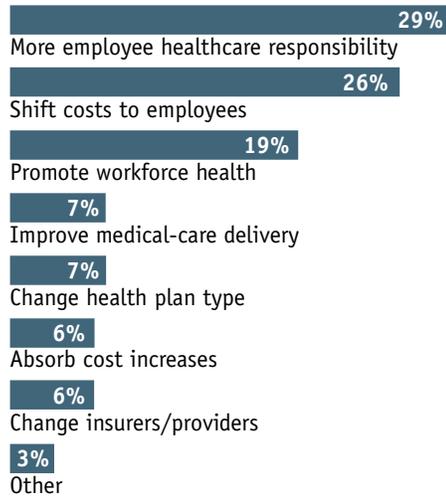
two. About 20% seek to alter employee health behavior, adopting work...force health promotion as an important way to manage rising healthcare costs. Again, because of sample variation, this strategy is statistically the same as the cost-shifting approach.

The U.S. workforce is aging and facing such health issues as obesity (and resulting conditions such as hypertension and diabetes) and chronic conditions like asthma and depression. As a result, many employers appear to understand the need to manage these underlying conditions, even when facing the budgetary shock of escalating healthcare costs in the short term. For these employers and the ones who want to promote more responsibility among employees in making healthcare decisions, cost shifting may simply be an expedient band-aid until better ways of ensuring a healthy, productive workforce can be implemented. In a later section of this report, we examine how short-term strategies develop into long-term healthcare cost management solutions.

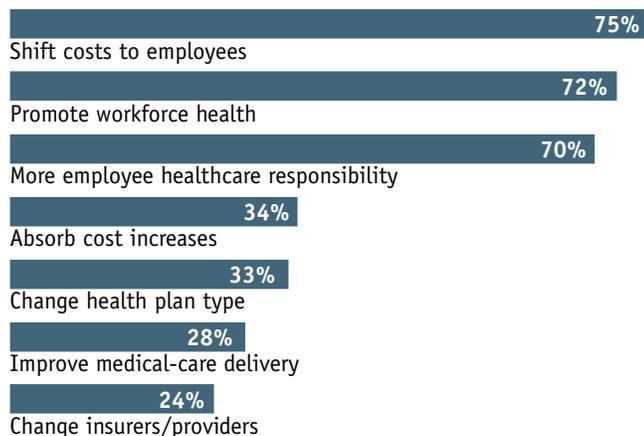
We also asked employers to identify *all* of their current strategies in place—not just their most important—for dealing with rising healthcare costs. Most common overall is shifting costs to employees, followed closely by workforce health promotion and giving employees more responsibility for healthcare decisions. The other strategies are relatively infrequent.

Statistically, there is no difference in the adoption by employers of the top-three strategies. All are equally likely to be in place for our respondents, though as we see, not equally valued.

Most Important Short-term Strategy for Dealing with Rising Healthcare Costs



Current Strategies Adopted



Who Selects Each Strategy, and What Tactics Are Involved?

We delved more deeply into each of the top-three strategies to determine the characteristics of those employers most likely to choose each. We also asked respondents to identify the tactics they adopt as part of each strategy.

Cost Shifting

Who Shifts Costs?

Little distinguishes employers that select cost shifting as their most important strategy: not size, not location, not demographics and not their approach to managing health and productivity. The only statistically significant factor is the employer's view of the link among health, productivity and the bottom line: Employers that see a weak link tend to shift costs to employees more often than those that see a strong link.

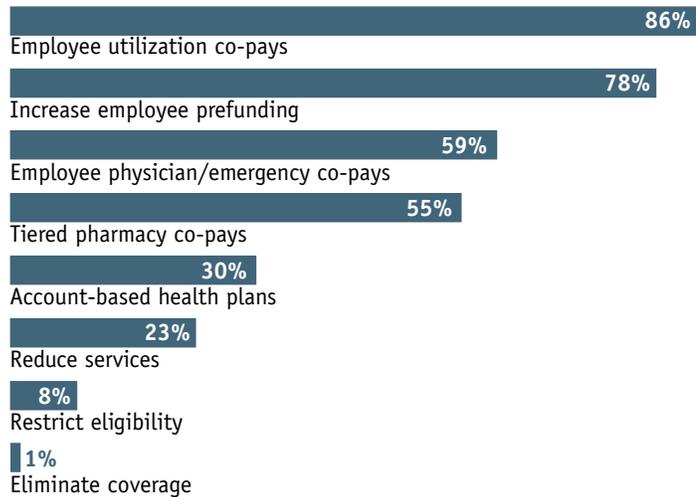
Perhaps we see so little differentiation among those choosing and not choosing cost shifting because greater cost sharing simply is a straightforward, broad-based economic necessity for employers after four years of double-digit cost increases—and therefore it cuts across virtually all types.

Cost-shifting Tactics

Employers choose cost shifting as the most common current short-term cost-control strategy overall. We asked employers which of the following practices they adopted:

- Increase employee prefunding costs (e.g., payroll contributions)
- Increase employee out-of-pocket costs for utilizing services (e.g., co-pays)
- Restrict eligibility for coverage
- Eliminate coverage
- Reduce or cap covered services
- Add tiered pharmacy co-pays

Tactics for Shifting Costs to Employees



- Increase physician or emergency care co-pays
- Offer account-based health plans (e.g., consumer-driven health, health saving accounts) as an employee option

Three of employers' top-four tactics shift more of the burden of utilization to employees through increased co-pays—86% increase co-pays for utilizing services, 59% increase co-pays for physician or emergency room visits and 55% charge variable co-pays depending on the drug choices made by employees. Employers also commonly ask employees to pay more up front in the costs of funding the health plan benefit—78%.

Relatively few restrict eligibility or eliminate coverage as a part of a cost-shifting strategy to deal with rising healthcare costs, 8% and 1%, respectively. This unwillingness to curtail healthcare coverage likely reflects the motivation that employers say they have to promote employee attraction and retention in determining their current strategies for dealing with rising healthcare costs.

Cost shifting appears to be a short-term response to what employers see as a long-term problem.

A relatively infrequent cost-shifting tactic is to reduce or cap covered services, either directly (23%) or through offering account-based health plans that cap an employer's contribution (30%).

Cost shifting appears to be a short-term response to what employers see as a long-term problem. For the vast majority of employers, this strategy is available and inarguably effective in reducing the health-care cost burden on employers, at least in the immediate time frame. It does result, however, in an unquantified cost to employers in employee health, absence, disability and lost productivity.

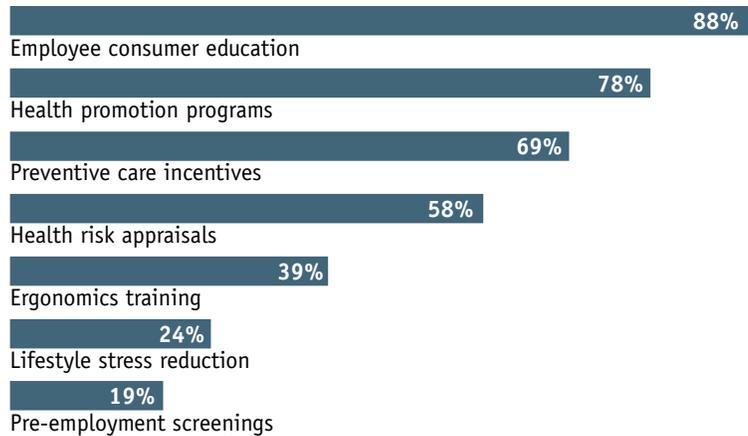
Workforce Health

Who Promotes Workforce Health?

Employers do, however, appear to understand the inextricable link between health-care costs and the health of their workforce. Three factors distinguish employers selecting this approach as their most important in the near term: (1) employers that have a health and productivity strategy in place; (2) employers that see a strong link among health, productivity and the bottom line; and (3) employers that manage group health independently from other benefits programs. This third factor may seem puzzling. However, when group health stands alone—and thus is not typically linked to absence or productivity outcomes—managers are likely to focus on the most likely effect of their effort: the health of employees. Also, employers that focus on health management in an independent silo may have a broader, more sophisticated view of health and health promotion as a cost-saving strategy and the availability of more resources in the form of prevention, wellness and disease management to carry out that more limited mission.

Interestingly, the choice of workforce health as an important strategy is *independent* of such factors as employer size, industry,

Tactics to Promote Workforce Health



location and how strongly the employer sees the link among health, productivity and financial success.

Health-promotion Tactics

We asked employers that adopt health promotion as an important strategy for dealing with rising healthcare costs to tell us the extent to which the following are part of that strategy:

- Undertake health risk appraisals (HRAs)
- Provide preventive care incentives (e.g., free vaccinations, gifts for participation)
- Provide ergonomics training
- Provide health promotion programs (e.g., weight-loss programs, smoking cessation)
- Educate employees to be more-effective healthcare consumers
- Provide lifestyle enhancements to reduce stress (e.g., childcare, concierge services)
- Require pre-employment health screenings

Employers appear willing to adopt a variety of techniques to promote employee health in the short term, even though cost shifting appears to be a more pragmatic, immediate response. Educating employees as healthcare

Employers believe that better, more-effective healthcare can come only if employees become more responsible for, and knowledgeable about, their own decisions.

consumers is immediately followed by provision of health promotion programs, employee incentives to prevent ill health and asking employees to participate in appraisals of their own health risks. These four practices form a rational program of services from easiest (and most frequent) to more difficult.

Increasing Employee Responsibility

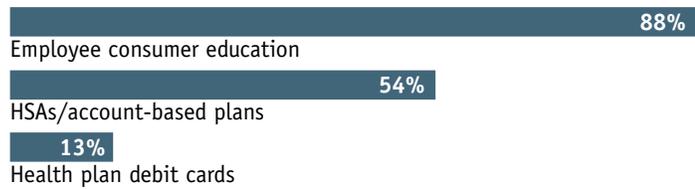
Who Gives Employees More Responsibility for Healthcare Decisions?

The rising tide of consumerism has the attention of employers. Employers clearly believe that better, more-effective healthcare can come only if employees become more responsible for, and knowledgeable about, their own healthcare decisions. Four factors distinguish employers choosing this strategy as most important: (1) employers seeing a strong link among health, productivity and the bottom line tend to want employees to take more responsibility; (2) employers that rank highly the importance of rising healthcare costs to their companies; (3) employers that manage group health and non-occupational disability together; and (4) employers that want to shift primary responsibility for healthcare to their employees. Employer size, location and H&P strategy are not statistically significant.

Tactics for Giving Employees More Responsibility

We asked employers that choose to give their employees more responsibility for healthcare decisions as their most important strategy for dealing with rising healthcare

Tactics for Giving More Responsibility to Employees



costs to identify which of the following are practices they adopt:

- Offer Health Savings Accounts (HSAs) or other account-based health plans as an employee option
- Educate employees to make better selections of healthcare providers and services
- Offer health plan debit cards

Educating employees to make better selections of healthcare providers and services is the most popular tactic by far. Programs to do this are available frequently in the marketplace, particularly online. Making such sites available to employees is a benign and empowering tactic for employers and employees alike.

The importance of account-based plans (either current or planned in the next year) reported by respondents is a surprise given the relative handful of employees reported as currently enrolled in such plans—3.2 million lives on January 1, 2005, according to *Inside Consumer-Directed Care*, an industry newsletter.⁵

⁵ "Enrollment in consumer-directed plans to exceed 3.2 million," *The Advisor* (Published electronically by *Employee Benefit News*), January 5, 2005.

Employers do, however, appear to understand the inextricable link between healthcare costs and the health of their workforce.

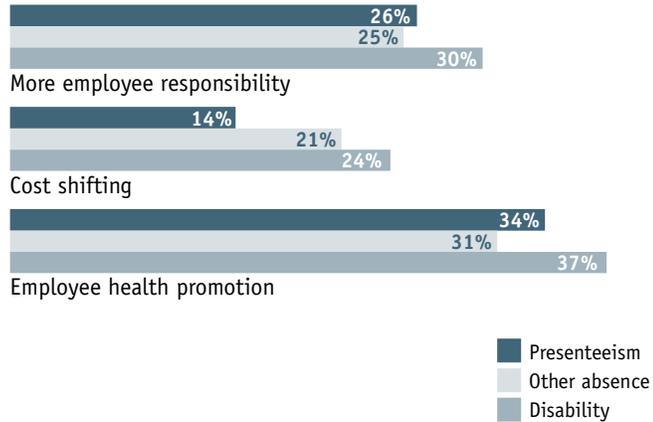
Effect of Strategy on Other Outcomes in the Short Term

We asked respondents that selected as important each of the top-three strategies the extent to which they examine the effect of that strategy on other outcomes in addition to its effect on healthcare costs. IBI specifically asked them whether they currently consider the effect of the strategy on disability, other absence or presenteeism (effects of employee ill health on on-the-job performance).

In the short term, it is apparent that not a lot of strategic thinking about other outcomes is going on, regardless of the strategy adopted. In no event did more than 37% evaluate the effect of the strategy on other outcomes, and in most cases far fewer did so. There is little statistical difference among the three strategies and their focus on broader outcomes in the near term.

Evaluating the Effect of Strategy on Outcomes Beyond Healthcare Costs

Percentage of respondents who considered how their top strategies would affect other outcomes:



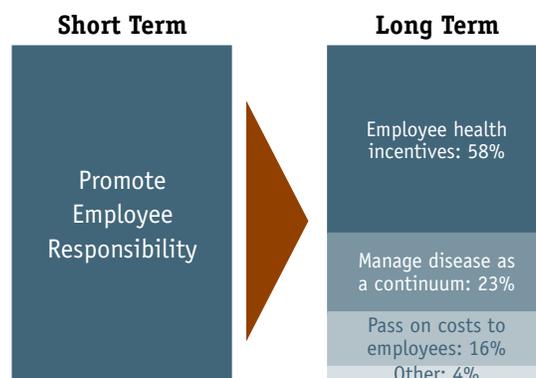
Getting from Here to There

How do short- and long-term strategies differ among individual employers, and how are they likely to navigate from their short- to their long-term approaches? We examine how the three key short-term strategies identified as most important—greater employee responsibility, cost shifting and employee health promotion—are expected to transform in the next few years into selected best longer-term approaches. We then examine the degree to which employers adopt employee-centric strategies (that is, strategies that *don't* shift the economic burden of ill health onto the employee) in both the short and the long term, and what distinguishes them from those that don't.

Giving Employees More Responsibility

About 30% of employer respondents identify one important aspect of consumerism—giving employees more responsibility for their healthcare decisions—as most important in the near term. We illustrate for these employers how this short-term strategy morphs into different long-term approaches.

More than half of the employers that extol employee responsibility today see providing employee health incentives as the best strategy in the longer term. This is the other side of the “consumerism” coin and the flipside of cost shifting. Employers understand that expecting employees to take more responsibility in the absence of appropriate, effective incentives is unrealistic. At the same time, a sizable group—23%—sees managing disease in the broader continuum, *from prevention*

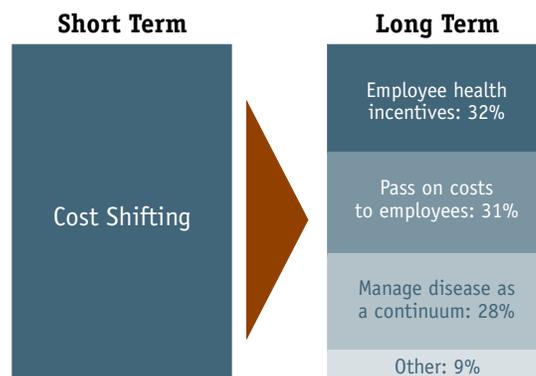


through medical care, through absence/disability, as the best long-term approach. Giving employees more responsibility for their healthcare choices in the near term does not translate into passing on costs over the long term. Fewer than one employer in six of this group sees passing on costs as the preferable long-term approach.

Cost Shifting

Shifting costs to employees is identified by a little more than a quarter of the participants as the most important strategy for dealing with rising healthcare costs in the short term—but even these employers expand their strategy in the longer term.

Three longer-term strategies are chosen about equally by those employers that select cost shifting as most important today. Nearly a



third believe that providing incentives for employees to adopt healthy behaviors is the best strategy in the longer term, while nearly as many will continue to shift costs as their favored strategy. Almost as many select managing disease in a continuum as their best long-term approach.

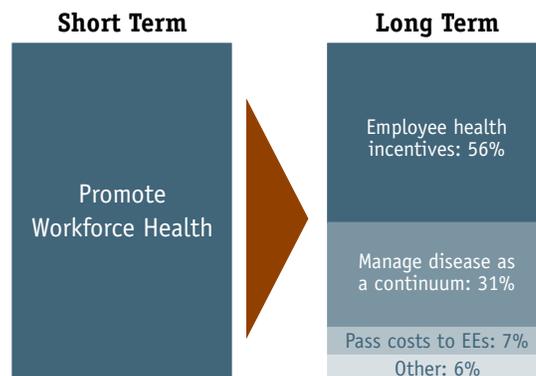
Even with this tendency, however, more than 60% of those selecting cost shifting in the short term will select a more employee-centric and broader strategy in the longer term.

Promoting Workforce Health

Promoting the health of the workforce is the most important shorter-term strategy for about 20% of respondents.

Employers that prefer to focus on workforce health in the short term maintain or expand that emphasis as the best approach in the longer term. More than half of the participants with this short-term focus maintain that approach in the longer term. However, an additional 30% expand that view beyond the group health focus to include managing disease as a continuum through absence and disability. Few of the employers focusing on workforce health in the near term believe that a cost-shift approach is a viable longer-term strategy—only 7% select this approach.

Employers are under stiff economic pressure from recent growth in healthcare costs. Some employers respond by passing on costs to employees, others by focusing on



workforce health and greater employee responsibility for healthcare decisions. This analysis shows that regardless of where employers are starting today in their strategies, their longer-term view has much more of an employee-centric flavor. Providing employee health incentives or managing disease in the broadest framework will substantially supplant cost shifting as key employer strategies over the next five years.

Strategy and Employee-centric Approaches

Do employers that take employee-centric approaches in the short term also adopt them in the longer term? Only one employer in eight maintains as a “most important” healthcare strategy one that isn’t employee-centric in either the short or long term. And relatively few—11%—have in place an employee-centric strategy in the short-term and then shift away from that in the longer

term. Unfortunately, we are unable to say anything about the unique characteristics of either group, as there are too few respondents to support statistical analysis.

More than half the employers in the sample, however, maintain an employee-centric focus in both the short and longer term, and we are able to say more about them.

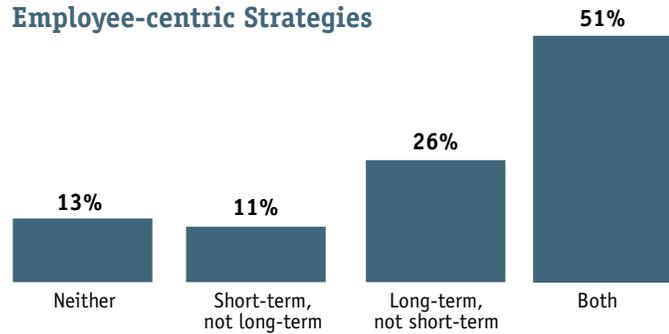
Statistical analysis shows that three key factors distinguish employers that focus

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on an employee-centric approach as most important, both in the short and the long term, from those that don't. Surprisingly, employer size, industry, location, the amount or importance of healthcare cost growth or the employer's view of who should have responsibility for healthcare in the future—employers, employees or the government—have no effect.

The three variables that determine the likelihood of an employer having an employee-centric strategic focus in both the short and the long term are: (1) having an H&P strategy in place; (2) seeing a strong link between health, productivity and financial success; and (3) currently managing health-related costs in a broader continuum of benefits and not independent of their effect on other benefits programs. Thus, the barriers to an employee-centric approach to managing medical costs are not structural for employers. They are more closely related to the

Short- and Long-term Employee-centric Strategies



attitude and the breadth of understanding employers have about the value of employee health, its impact on other programs within the company and its importance to their business goals. This attitude and understanding can be affected through information and education about health issues and their relation to productivity and the bottom line.

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Conclusion

Today, controlling medical costs is of prime importance to almost every employer. Although three employers in four pass some of the rising costs on to their employees, they aren't solely focused on shifting "dollar" responsibility. Instead, employers rank giving employees more responsibility for making healthcare decisions as equal to cost sharing.

As employers look to the future, their view broadens on how best to manage the economic burden of ill health.

- Employers value health promotion to prevent illness and educating employees to be better healthcare consumers.
- Employers aim to manage health in the broader context of its effects on absence, disability and workforce productivity—areas shown by IBI research to be far more costly than group health alone.
- Employers recognize that they must have measurement tools that combine health and resulting productivity gains in a single database. The challenge will be to find the healthcare suppliers that are willing to meet employers' emerging needs and for employers to put the necessary resources into developing such an approach.

Regardless of the long or short term, most employers recognize that the solution to healthcare issues in an employment setting must be a partnership between the employer and the employee. Best of all, promoting employee health—and the productivity benefits that come with it—compares very favorably with the mixed incentives and economic threats that often come from shifting costs to employees or medical providers.

Employers increasingly recognize that the solutions to healthcare issues in the workplace require a partnership between the employer and the employee.

Appendix

Demographics

IBI is pleased with the diversity of respondents to the 2004 survey. We invited participation from the readers of *Risk & Insurance* and *Human Resource Executive* magazines, from IBI's 440 employer members and from the 10 employer members of the Council on Employee Health and Productivity of the National Business Group on Health.

Company Size

Of the 620 total respondents, we attracted a broad size grouping, with 38% of respondent companies having fewer than 500 employees, 19% with 5,000 or more employees and 44% being midmarket, with 500 to 4,999 employees.

Fewer than 500 employees	38%
500–999 employees	21%
1,000–4,999 employees	23%
5,000–9,999 employees	5%
10,000–14,999 employees	4%
15,000–24,999 employees	3%
25,000+ employees	7%

Industry Representation

We also drew responses from a wide variety of industries, including broad representation from manufacturing, financial services, wholesale/retail, education/government, healthcare and transportation. Geographic dispersion was widespread but not diverse, with 65% of respondents with a majority of their workforce in the East, 25% from the West and 10% from other regions.

Manufacturing	23%
Financial services	21%
Wholesale/retail	15%
Education/government	14%
Healthcare	13%
Transportation	5%
Other industrial services	5%
Other services	4%

Unionization

Unionization in the workforce averaged 13.5%. Sixty-five percent of respondents had no unionized employees. More than 15% of respondents had more than 40% union participation among employees.

None unionized	65%
1%–20% unionized	12%
21%–40% unionized	7%
41%–60% unionized	7%
61%–80% unionized	6%
81%–99% unionized	2%

Age of Workforce

The workforce age included 22% who were more than 55 years of age, 30% under 30 years old and 48% between 30 and 55.

Less than 30 years of age	30%
30–55 years of age	48%
More than 55 years of age	22%

Level of Authority

Respondents were at a high level of authority within the benefits hierarchy, with 65% at the director level or above.

CEO/COO	2%
Vice president	23%
Director	40%
Manager	23%
Administrator/Implementation	10%
Other	2%

Respondents' Benefits Involvement

Overall, there is a high degree of overlap in "substantial administrative involvement" by respondents across benefits programs. Although some of that overlap can be explained because smaller employers have fewer people to manage multiple programs, even for larger employers the overlap is apparent. For large employers (5,000+ employees), 75% of respondents have substantial administrative involvement for group health, but 41% have such responsibility in workers' compensation, 78% in STD/LTD, 42% in incidental absence and 55% in Family and Medical Leave administration (FMLA). Even at the manager level, for large employers we found that 48% of respondents say they combine group health administrative involvement with involvement in one or more occupational and/or non-occupational disability programs.

Percentage of respondents with involvement in the following benefits programs:

Workers' compensation	68%
Group health	92%
Non-occupational disability	87%
FMLA	83%
Incidental absence	62%

The **Integrated Benefits Institute** is a national, nonprofit membership organization established in 1995. IBI's programs include research, an integrated benefits educational forum and benchmarking that monitors benefits down and across individual programs and up to bottom-line business measures. To best serve the needs of employers and employees, IBI identifies and analyzes health, wellness and productivity issues as they cut across traditional workers' compensation and non-occupational lost time benefits programs, as well as group health.

For membership information, please contact us through one of the channels below. IBI can provide you with invaluable information, work with you to benchmark your benefits programs and offer communication opportunities to keep you in tune with the latest changes in this rapidly evolving arena.

P h o n e :
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