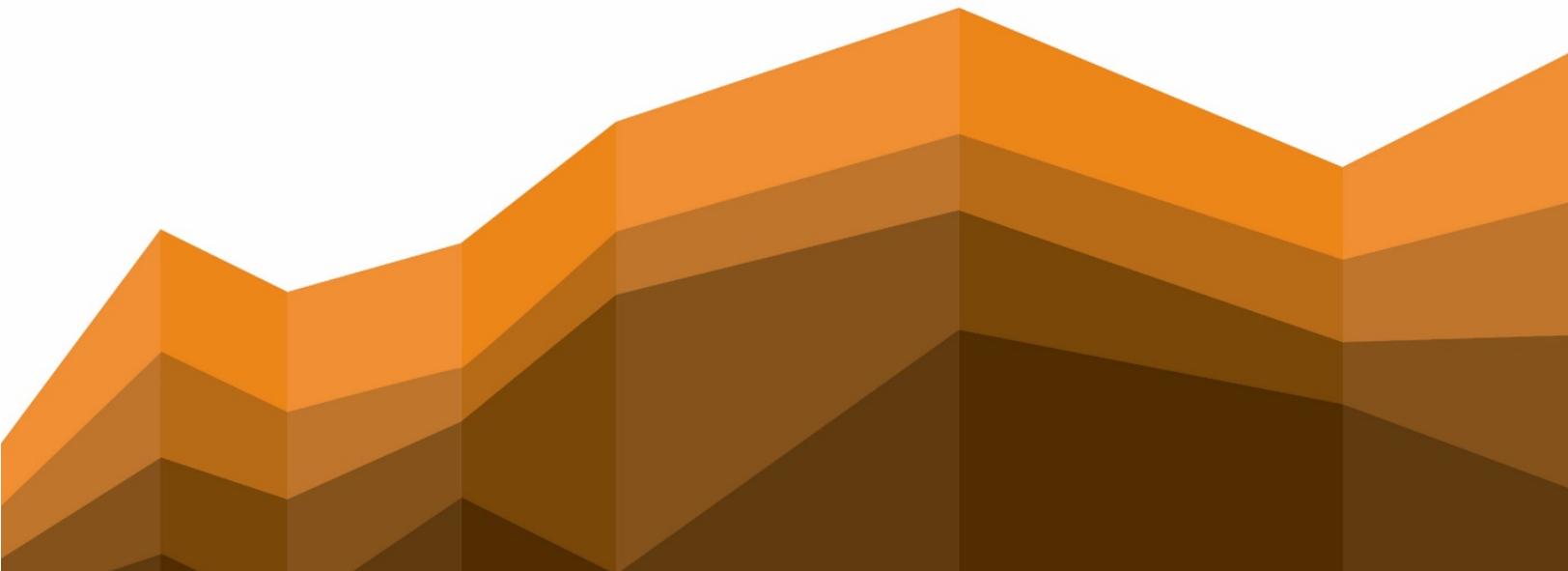


## **State of Employer-Sponsored Health Care**

### **Part 1: Top Concerns of CHROs and Their Teams**

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## Introduction

After passage of the Affordable Care Act (ACA), many experts predicted that employers would opt out of offering health insurance. The thought was that they would focus instead on providing defined contributions and directing employees to individual health insurance and the public marketplace. In May 2014, an S&P Capital IQ analysis projected that 90 percent of employees receiving employer coverage would be shifted to individual insurance and private and public exchanges by year 2020.<sup>1</sup> As the ACA exchanges stabilized, consumers would find more choices at better prices through avenues outside the employer.

So far, this prediction is not coming to fruition. The majority of Americans still get coverage via their employer: about 54 percent of U.S. residents with health insurance—or 169 million people.<sup>2</sup> The Congressional Budget Office (CBO) predicts that the number of those with employer coverage will fall slightly over the next three years, but estimates that it will remain stable through at least 2026.<sup>3</sup> This does not mean, however, that the employer-sponsored system is sustainable in the state it is currently in. Critical changes are needed to ensure employees receive the best care and to protect them from spiraling cost hikes.

AHPI interviewed 25 chief human resource officers (CHROs) and senior benefit managers from some of the largest companies in America to discover their thoughts on employer-sponsored health insurance (ESI). The vast majority of these representatives of large employers indicate that they are committed to maintaining ESI as an essential benefit for employees. These experts voiced many concerns, but at the same time expressed many more exciting opportunities for innovation. In this paper, we outline the main challenges large employers face in offering health insurance to employees and their dependents. The second installment will explore the steps employers are actively taking to address these problems and what the future holds for ESI.

## Value of Employer-Sponsored Insurance

Employers agree that ESI is likely to remain in place for the foreseeable future. As Thomas Kadien, CHRO at International Paper, says of employer-sponsored care, “It’s not going away anytime soon.” Employers recognize that health coverage not only attracts employees, but it also keeps them healthy and productive on the job. Pamela Murray, Benefits Senior Consultant at DuPont, says, “ESI is important and it’s continuing. We see ESI as a competitive benefit that’s tailored to our employees’ needs so that they may be healthier and more productive individuals.” Indeed, there is a positive relationship between employer offers of health insurance and labor productivity. A U.S. Census Bureau study found that in the manufacturing industry, the average labor productivity in establishments offering health coverage is approximately two times larger than for those not offering coverage.<sup>4</sup> Murray’s position is a consistent theme among human resource (HR) executives: Health insurance is a driving force in employee retention and is vital to securing a robust workforce. One senior benefits manager at a Fortune 500 corporation echoes this sentiment: “The employer-based health care system is strong. We still see health benefits as a value add in terms of employee value proposition,” she says. “Employees still want health care. We don’t see ESI going away, given the challenges we see in the exchanges. This is not a time where you would say the employer-based system doesn’t provide value.”

ESI is an efficient way to administer health coverage to large numbers of people. Another Fortune 500 VP of Compensation and Benefits acknowledges, “Employer-based care is a financially reasonable and prudent way to get care to our employees. Other methods are not as efficient.” As Peter Nelson, Director of Public Policy at the Center of the American Experiment, said during an American Enterprise Institute panel on the evolution of ESI, “Employers do get people covered—they very successfully get people covered.”<sup>5</sup> On the employee side, they appreciate, desire, and expect health insurance. Two-thirds of employees say they are satisfied with their health benefits and 44 percent would forgo a wage increase to maintain their current coverage.<sup>6</sup>

Offering health insurance is one way employers show individuals they are cared for within the larger company. This is why providing high quality plans is so important and is one of the main goals of HR personnel. One CHRO of a health insurance company says the driver of everything his HR department does is “understanding with specificity the motivations, conditions, behaviors, and environment of employees.” He says, “Commitment to employees’ health lifts the engagement of the entire company. We encourage employees to take care of themselves first and foremost.” Employers view quality, affordable health insurance plans as fundamental to maintaining a valuable and satisfied workforce. Employers, by and large, prefer having the ability to negotiate on behalf of their employees to secure the best possible deal for them.

HR executives stress that they are in a position to seek financially sustainable rates, whereas they would have less control if they were to send employees to the exchanges. DuPont’s Murray says, “We, as an employer, have daily interaction with our employees, giving us the insights needed in order to create the best plans for our population. It’s important that ESI continues, and that we don’t go to national coverage that’s outside of employers’ control.” This does not mean that employers are opposed to seeking guidance on how to properly choose the best benefits. Danielle Kirgan, CHRO of Darden Restaurants, Inc., says, “The benefits landscape has evolved significantly over the past few years. As CHRO, I am able to leverage external teams for knowledge that I would have traditionally had to have in-house. I like that concept—I don’t feel alone as an organization. I am willing to let go of some control in order to receive a broader and deeper level of strategic counsel. That being said, I still want to preserve my unique voice in this space. When negotiating with carriers, no one can advocate on behalf of my company as well as I can.”

Marriott International’s CHRO, David Rodriguez, explains that the heart of his company’s commitment to health benefits is the best interest of employees and their dependents: “Health insurance doesn’t necessarily have to be an employer-sponsored plan—but we would never abdicate the quality of care for our associates, even if it were offered by the government—if we didn’t have certainty of the overall wellbeing of our associates.”

## **High Cost of Health Benefits and Lack of Transparency**

Rising costs are perhaps the biggest challenge employers face in providing health benefits. Every employer we spoke to is frustrated with the high price of coverage and each is searching for new ways to hold down costs. Research shows medical expenses for employers are projected to increase 6.5 percent this year, slightly lower than the 6.8 percent rise in 2015.<sup>7</sup> International Paper’s Kadien says, “As much as we think we’re taking steps to manage costs, they’re still going up. Anything we do to try and manage costs understandably frustrates our employees. If we could cut health care costs by, say, 50 percent, it would make a difference in employees’

opinions. But nobody cares about a single digit vs. double digit increase. It's still an increase." Thomas Plath, International Paper's VP of Human Resources and Global Businesses, agrees: "I do think people are frustrated that the medical industry is the only industry, other than the government, where when you move a seven percent cost increase down to six percent, it's claimed as cost savings. It's not really a cost saving at all."

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American Water CHRO Brenda Holdnak notes that "the employer-sponsored health care system is not sustainable in its current form." She says, "It's painfully clear to anyone providing health care, whether you're a large company or a small company, there are limited choices." Those limited choices lead to higher rates, and while employers see the benefit of offering health care, they must weigh the tradeoff of growing costs. And when containing costs come in the form of higher premiums and deductibles, employees bear the consequences. A VP of a large retail company emphasizes the absence of price transparency: "Fundamentally, there is a lack of quality data and a lack of transparency on costs. This hampers the things we want to do: We want to send patients to the best providers, we want care to be well-coordinated, and we want to know the most efficient pricing. Without access to that data, which is nearly impossible to get, you can't steer people and help them get the right care." In the health care market, patients rarely know what they will pay for a service until they receive it and providers bill payers different prices for the same services, so prices for services vary significantly.<sup>8</sup>

If employees had the ability to choose higher quality services from more cost-efficient providers, this could encourage competition based on the value of care. Barry Cross, Total Rewards Lead at Michelin North America, says, "From our world, we are beginning to see health care providers interested in changing their business model, but it is pretty slow. At the same time, we realize it is an evolution and not a revolution. There are changes that need to take place. Many health systems have been getting automatic price increases without demonstrating quality year over year improvements and having performance shared risk arrangements."

Prescription drug prices also pose a threat. Total spending on pharmaceuticals reached \$310 billion in 2015, up 8.5 percent from the previous year. Over the next five years, annual spending is expected to rise 22 percent, climbing as high as \$400 billion in 2020. Using wholesale prices, spending increases to an exorbitant 46 percent, or \$640 billion.<sup>9</sup> Large employers that are self-insured are stuck with paying the bill themselves. Dennis Delaney, Executive VP of Human Resources and Administration at Ingram Industries Inc., says, "Now, in the U.S., 60 percent of the population is taking some kind of prescription drug. So, the evolution of the pharmaceutical world is really part and parcel to the whole health care delivery system, but we have a tendency to bifurcate them and not look at them holistically in how we deliver health care."

## Lagging Technology in the Health Sector

There is a lack of consistency around cost and quality of health care, in part, because the necessary technology is not easily accessible to patients, employers, or providers. Since there is no standardized electronic health record system, the transfer of information between providers

becomes complicated and disjointed. Riz Chand, CHRO at BNSF Railway Company, asserts, “As a nation, we don’t use big data to inform medical care decisions. Today, doctors have to act based on their own knowledge. Why can’t we take the tremendous amount of data on medical symptoms, procedures, medications, costs, and outcomes that exists across our fragmented health care sector and use ‘big data’ analytics to help those doctors with care decisions. Imagine the impact we could have on the effectiveness and cost of care if we would aggregate that data (while protecting individual patients’ privacy). It’s very doable with the technology that exists today.” Hospitals and physicians may actually be disincentivized to adopt technologies that could lower costs. If a new technology has the potential to reduce patient visits, for instance, this could cost physicians who are paid fee-for-service.

Employers suffer from the discontinuity of health data too, says OhioHealth CHRO Johnni Beckel: “Probably for us, the biggest frustration is the fragmentation. We’re frustrated about the access to data that could allow us to gain really deep insights to be innovative in problem solving. While data won’t solve the problem, it is a ticket to entry to be able to manage health care better and engage everyone in behavior change which is critical to success.” Tools are not readily available to give employees the opportunity to compare prices, either. CHROs who offer price comparison services say that although these tools are evolving, health plans remain reluctant to share data.

Kendell Sherrer, VP of Benefits at Cardinal Health, says, “If a patient goes to a doctor, the doctor has dozens of plans he’s working with. If the patient could have something on his or her smartphone that gives options of where to have a quality and cost effective MRI, for example, based on the patient’s individual health plan provisions, that would be phenomenal. The doctor could then refer the patient to that facility. We aren’t there yet, it’s more complicated than that.” Another reason technological innovation in health care lags is because there is confusion regarding who is to pay for these new technologies, argues Robert Pearl, M.D., CEO of the Permanente Medical Group. As he writes in *Forbes*, “Patients, physicians, hospitals and insurance companies long for the benefits and value of new technology. However, each thinks someone else should pay for it.”<sup>10</sup>

## Consumerism and Employee Engagement

There is some degree of consensus that employees are suboptimal health consumers, and do little shopping or price comparison. When they do shop around, it is typically only during enrollment period. On the flipside, employees often lack the proper information to make cost-efficient decisions. HR executives as a whole believe there is a need to move toward more consumerism and in order to facilitate this, employees must be better educated on how to incorporate transparency and quality data into making specific health care decisions. BNSF’s Riz Chand says the fragmented health care sector, the lack of transparency in cost and quality, and the complexity of insurance concepts and terms make it difficult and time-consuming for the average employee to be an informed, thoughtful consumer of health care: “We expect our employees to be engaged purchasers of health care services. Given the complexities of health care and the

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lack of consistent data, I am not sure how we expect employees and their families to decipher the system and use it well...unless they are a former Health and Human Services employee or HR person.”

Michelin’s Barry Cross notes that health care is one of the few industries where consumerism does not come naturally: “As you know, not everyone is a good health care consumer. When you go to get a knee surgery, no one is shopping for the new knee like they would for a car, boat or home. Where else can you get \$120,000 worth of services and not get a receipt on the spot? That’s a real pet peeve of mine. You really have no immediate clue of what you just spent. Consumerism and accountability will improve when you get a receipt the moment the services are given. The pharmaceutical industry is there, now medical needs to catch up.” Employee utilization of price comparison services is a common problem employers face. John Ohrnberger, Staff VP of Executive Compensation and Benefits at General Dynamics says, “We have Health Care Blue Book but we don’t force our employees to use it in terms of pricing. I don’t think many employees are utilizing the service, especially after they’ve already covered their deductibles. We aren’t forcing the issue, but will maybe reconsider over the next couple of years.”

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Employees with high deductibles are given little incentive to price shop since they know insurance will not kick in until they have spent a certain amount of health care usage. One VP at a large retail company says, “For the most part, employees are not engaged consumers. We protect them to a large extent with a \$350 deductible and 80/20 percent copay for primary care because we don’t want a financial barrier to be there. We try to provide rich benefits so employees can easily access care.” Many HR executives note that employees are poor consumers when it comes to routine doctor visits, but more serious health issues motivate employees to be prudent in their choices. She continues, “When patients need to get a hangnail fixed, they aren’t engaged health care consumers, but if they think they may have cancer, they are.”

We also hear that overspending is most often seen in the executive group and corporate offices. Executives do not feel the cost of extra care when in one-size-fits-all plans. They also tend to be more educated and have access to contacts within the health care industry. They are therefore more likely to go out of network and attempt to navigate themselves.

Some CHROs have indeed seen an uptick in employee engagement, if only during enrollment. Darden Restaurants, Inc.’s Danielle Kirgan says she sees firsthand the high degree of switching employees do year over year between carriers: “We can see our people utilizing tools to model and make better choices, which is great. Switching plans every year is not fun—you have to want to do that. I’ve seen a healthy progression of people making informed decisions. I feel good about how they are behaving during open enrollment, but I think there is still a lot of opportunity for education when it comes to how they act throughout the year.”

Some believe their employees are, in fact, all around engaged purchasers of health care. James Jones, CHRO at Emerson, contends, “We make sure employees are engaged consumers through our communications with them. We explain cost-sharing, what’s driving costs, and that everyone has skin in the game. They’re aware because we educate them.” In order to further

promote consumerism, Jones raises the question of whether his HR department is reaching the right people in the household. “Does the actual employee make the health care decisions, or is it a dependent such as a spouse?” he asks.

Pam Murray says the level of engagement is growing—though slowly—within her company, especially since replacing health plans and copays with coinsurance. However, there is still much work to be done. “We give our employees tools to compare quality and cost, but the use of those tools continues to be low. When people need specialty care or imaging services, they will rely on their doctors to direct them where to go,” she says. “However, when I myself used the available consumer tools, I found there’s a huge difference in cost, depending on where I receive a service.” Under the ACA, employees receive preventive services at 100 percent coverage, so it does not matter if those services are priced competitively. Even outside of preventive care, the individual claimant does not have incentive to spend time shopping to select a cheaper service for the sake of other employees’ rates.

Typically, the same is seen with doctors, who have no reason to direct patients to the most cost-efficient care. Murray says, however, that doctors are beginning to care. “In some cases, doctors and hospitals are linked to Accountable Care Organizations (A.C.O.s), or doctors are directly employed by the hospitals.” Carole Watkins, CHRO at Cardinal Health, says she sees a trend of employees actually helping to educate providers on consumerism: “Providers don’t know the answer. We had a partnership with a health system and were talking to them about consumerism and they were struggling to understand their role. Providers need to be more engaged to understand what consumerism is and what it means for their patients.”

## Policy Issues: Mandates and Regulations

Policies surrounding health care can make it difficult for employers to promote consumerism as well. This is one reason that complying with government legislation is another top concern to HR executives. David Stafford, CHRO at Michelin North America, notes that “The U.S. health care landscape is complex, and it is very difficult for a consumer or self-insured company provider like Michelin to manage and demonstrate continuous improvements with the basic concepts like quality, cost and value.” Emerson’s James Jones stresses the amount of time and energy his company devotes to providing health benefits. “From the employers’ perspective, we are frustrated with the bureaucracy that’s being created by the federal government,” he says. There is no such thing as an average plan member. Robert Foley, Director of Employee Benefits at Mutual of Omaha, says the ACA forcing employers to have plans of equal design has been burdensome: “The problem with this concept is that all patients are not equal. Some are sicker and require more care than others.” Carole Watkins agrees: “Many of the government mandates are at odds with consumerism. For example, if you look at what’s mandatory in coverage—even retiree plans are required to have coverage for birth control, which ends up costing the retiree more for coverage they will never need or use.” Anything that dictates what a plan must look like is problematic. General consensus is that the government should let the market decide that.

*“Many of the government mandates are at odds with consumerism.”*

In addition to the burden of current policies, anticipating the implementation of ACA mandates is another anxiety. Employers repeatedly list the Cadillac Tax, the ACA’s 40 percent excise tax on high cost health plans, as a specific area of concern. This penalty applies to ESI spending more than \$10,200 on an individual, or \$27,500 for family coverage, and is expected to go into effect in 2020. Robert Foley says you would think the Cadillac Tax’s threshold would be so high that it would not become a problem for most employers. However, “you have to add any employer contribution to a flexible savings account or HSA and soon, it becomes easier to reach that threshold,” he points out. Indeed, by 2031, the cost of the average family health care plan is projected to hit the excise tax threshold.<sup>11</sup> Bruce Culpepper, U.S. Country Chair and President at Shell, says, “The Cadillac tax is still looming. Any policy changes that drive up costs and make it harder for employers to provide quality health coverage are a concern to us.” One CHRO at a Fortune 100 company says, “Government needs to be as flexible as possible and make sure they don’t enact anything that creates unintended consequences that might permit employers to provide health care. The Cadillac Tax is one illustration.”

*“Government needs to be as flexible as possible and make sure they don’t enact anything that creates unintended consequences that might permit employers to provide health care.”*

Though federal laws get more attention and discussion, we find that employers are also having trouble navigating state laws. One senior benefits manager from a major corporation says, “Tracking and understanding state-level policy such as payroll and claims taxes has been hard. Some of these taxes are not coming through the legislatures, but from the governors’ budgets. Half the time, you don’t even know what’s out there, which makes tracking these issues challenging.” The same company’s VP of Compensation and Benefits agrees, saying, “Large employers struggle to differentiate how the laws apply in all fifty states because we have employees everywhere.” This goes along with the importance of abiding closely with the Employee Retirement Income Security Act of 1974 (ERISA), telemedicine laws, and data release laws.

General Dynamics’ John Ohrnberger stresses that the government “needs to stop latching fees onto the whole system.” He says, “The intended purpose of such fees never creates the desired outcome. For example, the government does not intend for businesses to cut back benefits to avoid the excise tax. In reality, businesses will opt to offer ‘worse’ benefits to avoid paying the tax. Government fees, the excise tax, Medicare fees, and state requirements are all a concern. . . . General Dynamics has employees in many states and is a global company, so we’re implicated in many different environments and jurisdictions.”

On the other hand, the number one provision employers want to see protected is the tax exemption on ESI. Mark Azzarello, VP of Global Compensation and Benefits at International Paper, says, “When you look at the opportunities for generating tax revenue, both the employer deduction of ESI and the employees’ ability to deduct their premiums on a pretax basis are both considered to be value-added. If the government touches either of those provisions, it would be a game changer. Especially the employer deduction. If the employee deduction gets implicated, employees will ask their employers what they will do to make up for this.” This concern is very timely, as congressional members are currently seeking ways to cap the tax exclusion. Further pushback from employers is needed to keep the status quo and to keep ESI strong.

Year 2017 will bring a change in White House leadership, and CHROs and their teams realize they must plan accordingly. Kendell Sherrer says, “Who knows, with the elections coming up, what the future will hold. If the new administration carves away at the ACA, that could actually make it more complicated. Trying to make things more simple can actually add complexity and frustration.” Employers know they must make changes whether or not the ACA is still intact in the future. These changes must meet the standard of working regardless of where the health care law stands. Marriott International’s David Rodriguez says that since government is already deeply entrenched in the health care system, “business and government have to figure out their respective roles and how they work synergistically, as opposed to what is happening now where they are stifling innovation and new opportunities to come together.”

## Conclusion

It is clear from this series of interviews that the employer based health care system is unlikely to disappear at any point in the foreseeable future. Moreover, the interviews reveal that senior executives are committed to remaining in the employer based health system for a variety of reasons. At the same time, it is also clear that CHROs and their teams have significant concerns about cost, quality, and levels of consumer engagement among their employees. Furthermore, senior human resource executives also worry about the policy environment, and what might be coming down the pike to complicate their efforts. In addition, technology is seen a significant potential game changer, albeit one that has not yet been fully realized. In sum, employers are committed to the ESI system but also that they recognize changes need to be made if that commitment is to continue.

## Endnotes

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Note: This paper is based on a series of interviews conducted with dozens of CHROs in late 2015 and early 2016. The CHROs were notified that their interviews would be included in a paper and that they would get to review their quotes before publication. Some chose to allow the quotes to run with their names and titles. Others chose to remain anonymous.

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