

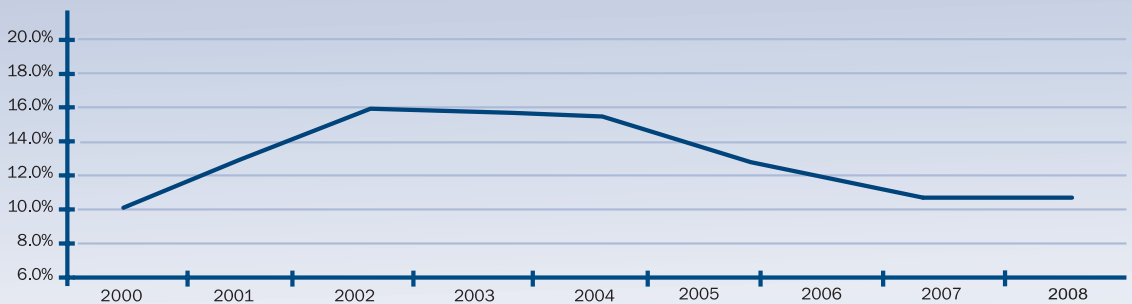
2008 In the Midst of Flat Trends

Doubt About the Effectiveness of New Cost Containment Strategies and Expected Surge in CDHP Enrollment

Each year Findley Davies surveys health benefit underwriters for the medical, prescription drug (Rx), dental and vision trend factors used in their January 1 renewals. "Trend" measures the change in per capita annual claim costs. As seen in the following equation, trend is influenced by several factors, including changes in utilization of services and provider pricing, as well as the introduction of new drugs or medical technologies.

$$\Delta \frac{\text{provider prices} \times \text{utilization (\# health care services} \times \text{treatment mix/intensity)}}{\text{\# covered employees}}$$

Our principal finding for 2008 is health care trend is flat – both Medical and Rx factors average 11% – the same level projected last year for 1/1/07. The following graph illustrates how health care trend (for PPOs-the most prevalent plan type, coupled with Rx), has decelerated over the last few years but has now leveled out.



Some will be pleased health care trend rates have not increased for 2008. However, since 11% trend is nearly 3 times the rate of inflation, health care costs will remain a problem for most employers. Therefore, in the last section of this report we offer advice on how to minimize 2008 cost increases.

If your health plan is insured, and your 2008 renewal uses a trend factor greater than 11%, speak with the underwriter to understand the rating assumptions and to test the reasonableness of the renewal. Self-funded plan sponsors will also want to challenge the use of trend factors greater than 11% as they establish benefit budgets, employee contributions, and COBRA rates.

Additional Highlights

Our survey also explores the effectiveness of consumerism, wellness and coordinated care strategies. Other key observations for 2008 are:

- Consumer-driven health plans (CDHPs) are not flattening trend, underwriters report only a .5% reduction in annual trend compared to a conventional PPO.
- 2007 enrollment in CDHPs is even with 2006 (roughly 5% of enrollees have opted for high deductible health plans with either a Health Savings Account or Health Reimbursement Arrangement) although growth is expected to surge in 2008 to more than 7% of enrollment.

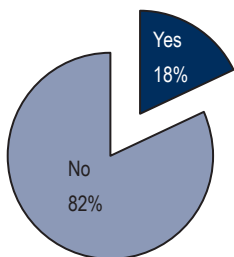
- Underwriters have doubts the following measures will reduce trend:
 - Using coinsurance instead of fixed copays for Rx;
 - Requiring employees to take a health risk assessment in order to re-enroll in the health plan;
 - Reducing or waiving Rx copays in exchange for complying with a condition management program; and
 - Providing incentives for using less expensive primary care physicians and coordinating specialist referrals.

Responding to Underwriters' Doubts

This section provides additional information about the skepticism of industry insiders on the effectiveness of certain current cost containment strategies. We offer corresponding observations based on our client experience.

Does the Rx trend factor vary when using coinsurance vs. fixed dollar copays?

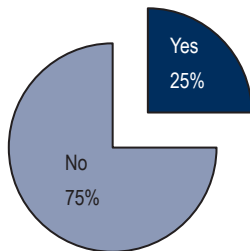
Using coinsurance instead of copays has proven to reduce utilization of physician office visits, so why is there doubt coinsurance will moderate Rx utilization? 18% of respondents agreed coinsurance would reduce Rx trend by 2 points on average. Findley Davies recommends coinsurance for Tier 2 Formulary and Tier 3 Non-Formulary drugs to keep employee cost-sharing from eroding and in pace with inflation. Retaining low fixed copays for generics, however can optimize their use.



Best practice data reveals generics should represent 60% of all scripts dispensed. If generic use in your plan is not at this level, consider appropriate changes in plan design or incentives to increase generic utilization.

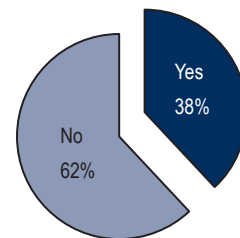
Will requiring members to complete a health risk assessment as a condition of enrollment reduce Medical/Rx trend factors?

The purpose of requiring a risk assessment is to identify those members with health risks, so the organization responsible for condition management can reach out to the members and engage them in behavior modification to improve their health. Many employers are considering requiring risk assessments as part of their long-term wellness initiatives. They expect it will have a meaningful return on investment, and the 25% minority agree, indicating this tactic will reduce Medical/Rx trend on average 1.5 points. Each employer will need to determine if requiring employees to complete risk assessments fits with their organization's culture and wellness objectives.



Will reducing or waiving Rx copays or coinsurance in exchange for complying with condition management programs impact Medical/Rx trend factors?

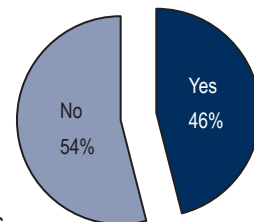
Pitney Bowes and the University of Michigan have produced evidence this strategy, known as value-based insurance design, is working to reduce not only Medical/Rx claims, but also absences and short-term disability costs. For example, if a diabetic participates in the diabetes management program, copays for his/her diabetes medications will be waived.



38% of survey respondents believe this approach will reduce Medical/Rx trend by 2.8 points on average. Interested employers will want to determine if their carrier or pharmacy benefits administrator is capable and ready to employ the measures necessary for successful value-based insurance design.

Will coordinated care services (i.e., promoting primary physician care and preventing duplicative/fragmented care) impact Medical/Rx trend factors?

Providing coordinated care was once the purview of HMOs, but now independent firms specializing in coordinated care are gaining traction in the marketplace. Some of these firms report success in holding down year-over-year health care costs to 4-5% without reducing benefits.



46% of the survey respondents indicate coordinated care services can reduce Medical/Rx trend by 3.9 points on average. Employers will want to investigate how these services work, whether they fit within their health care strategy, and if so, is their current administrator capable of delivering them.

Dental/Vision Trend Survey Findings

Dental plan sponsors can expect annual trend factors to be in the range of 6-7% with little difference between indemnity and PPO plans. On the other hand, vision plan sponsors can expect more than a 1.5% difference between a managed care model and an indemnity plan, i.e., 2.8% vs. 4.6%.

Enrollment in Consumer-Driven Health Plans to Surge

Health care industry observers indicate the upcoming open enrollment season will produce sharp gains in CDHP membership. Employers looking to maximize CDHP participation will need to make significant investments in employee communications, both initially and ongoing.

For employers offering CDHPs, most will make the CDHP available as an option to conventional PPOs. In these cases, employees must understand how CDHPs work and how exposure to out-of-pocket expenses (including employee contributions) varies amongst their plan choices. Web-enabled benefit toolkits can be added to the HR portal to help employees model out-of-pocket costs based on their own utilization assumptions.

Ten Tips for Avoiding Increased Health Care Costs in 2008

1. Tighten up eligibility administration by communicating requirements and giving your employees a fair amount of time to come forward and terminate any ineligibles without penalty. Reserve the right to audit thereafter and recover claims paid on ineligibles. Educate employees about their responsibility to inform HR upon divorce and what the criteria is to recognize common law marriage in their respective states.
2. Develop, execute and regularly articulate a long-term strategy regarding employee contributions for single and family coverage that is appropriate for your organization and its recruitment and retention efforts.
3. Re-engineer Rx formularies to optimize use of generics and less expensive brands. Find out if your pharmacy benefits manager can target your top therapeutic classes and move the expensive, yet highly-rebated drugs in those classes to Tier 3 copay status. This will enable you to focus promotion on less expensive brands, generics and where appropriate, over-the-counter medicines.
4. Consider the feasibility of worksite clinics to treat minor conditions in order to reduce the amount of time an employee misses work due to an MD appt. These clinics can also help you optimize your preventive care and wellness strategies. No longer solely in the realm of large employers, on-site clinics are being developed for mid-market employers, where the physician may be on-site 4-8 hours/week, depending on the need.
5. Similarly, encourage development of retail, walk-in clinics in your area's pharmacies as a less expensive alternative to the hospital ER, but ensure they closely coordinate with the member's family MD.
6. Investigate the value-based insurance design concept and coordinated care services. Consider piloting these strategies at one of your locations and evaluate their effectiveness. Implement appropriate penalties for those members in your covered population who do not engage with your Condition Managers. These penalties could range from higher contributions to limiting their future coverage election to a plan with higher deductibles and coinsurance.
7. Re-visit risk retention strategies. Your Findley Davies consultant can help you examine probabilities of large claims exceeding certain thresholds for a group like yours. You may find opportunities to reduce premium outlay for specific and/or aggregate stop loss coverages.
8. Develop and articulate a policy to update deductibles and out-of-pocket expense maximums annually to prevent your plan's cost sharing provisions from eroding.
9. Determine through medical claims re-pricing studies if there are opportunities to yield higher savings from a different provider network.
10. Don't give up on consumerism. A high deductible health plan is not necessary in order to give your employees a financial stake in their health care decisions. For example, some employers have no deductible, but significant coinsurance for network services. Engage your employees to learn what they know, their concerns, expectations and willingness to help you contain costs, and adjust your benefits program and communications accordingly.

For More Information

For further support or explanation of the health care trend information presented in this issue of *Health Care Trend Survey*, please contact one of the following Findley Davies consultants:

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Companies Participating in the Findley Davies 2008 Trend Survey

Aetna	Medcost Benefit Services
Anthem Blue Cross and Blue Shield	Medical Mutual of Ohio
Blue Cross Blue Shield of North Carolina	MetLife
Caremark	Paramount Health Care
Catalyst Rx	Principal Health Care
CIGNA	Quantum Health
Envision Rx	Standard Insurance Company
Eyemed Vision	Superior Vision
Great West Life	United Healthcare
Highmark Blue Cross and Blue Shield	Walmart Rx Services
Kaiser	WellDyne Rx

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Findley Davies is an independent, fee for service human resources consulting, actuarial and administrative services firm specializing in health and group benefits, retirement plans, compensation and rewards management, communication solutions, and HR sourcing and technology.

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