MERCER MARSH BENEFITS™

This Is Health | Point of View Series

Balancing cost and empathy in employee benefits

Keeping health and benefits plan costs under control

MARSH & McLENNAN COMPANIES

1. Introduction

Employer-sponsored health and benefit plans have moved from "fringe" or "nice-to-have" to being a central pillar of the employee value proposition, with increased C-suite attention.

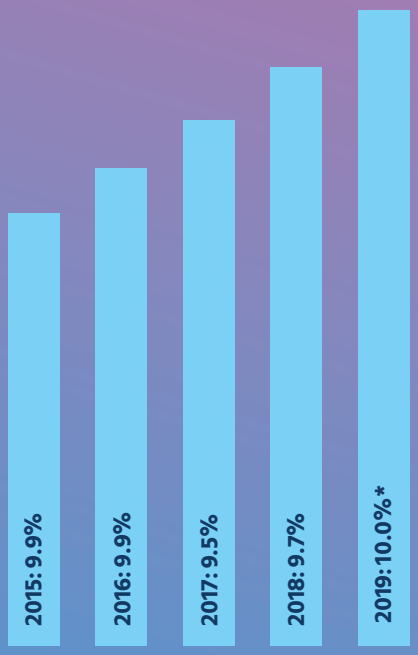
In response, the variety and sophistication of products in the market has grown — with many firms offering not just insurance benefits but also a broad range of physical, mental, social, and financial well-being initiatives. Still, the costs of employer-sponsored health plans are climbing rapidly. In fact, on average, medical costs outpace general inflation by close to three times.

Businesses are therefore seeking ways to economize and improve efficiencies in their health-related plans. The desire for employer-sponsored coverage and support continues to rank high among employees. Thus, employers are balancing the need to assure access and sustain affordability — for both the organization and the employee.

To successfully meet this objective, employers need to take quick action to modernize their benefits and optimize value to ensure they offer cost-effective plans that protect and improve employee health.

Medical inflation

Medical costs continue to outpace general inflation by close to three times. (Source: *MMB Medical Trends Around the World.*)



* MMB estimate from Q1 2020

In 2020, lockdowns and the cancellation of many elective procedures during the COVID-19 pandemic have resulted in a drop in some medical claims activity. We also face the risk that costs will rise due to delays in care as well as changes in the health provider community. Several studies have pointed to delays in care leading to worsening conditions and dips in preventative care — including vaccinations — as well as reduced emergency care.

During the subsequent economic downturn, we may see defensive actions by employees, health providers, and insurers put further pressure on plan costs.

Employers also may see changes to their group medical insurance risk profiles due to layoffs (for example, smaller spread of risk and distribution of fixed costs).

We will explore these issues more thoroughly in our updated medical trends research.

In addition, the pandemic has intensified the need for cost containment throughout the organization. Lockdowns, business interruption, and the economic slowdown have put business finances under significant pressure.

The health and resilience of staff are integral to your company's success — and so is keeping costs under control.

So how do employers balance economics and empathy to provide health programs that are meaningful, but also cost-effective for the future?

2. Creating a cost-containment strategy

Globally, employers have tried to manage costs, often in conjunction with the annual renewal of insured benefits. However, while modest year-on-year changes are important for keeping plans within budget, they do not typically make a long-term dent in cost growth.

Because benefit costs are highly complex, they are difficult to control. Issues include:

- Changing lifestyles and demographics leading to chronic illness.
- Advancing medical technologies.
- A lack of regulation and mechanisms to control practices such as referral-for-profit that lead to unnecessary diagnostics and hospital stays.
- Plan and payment incentives that drive inflationary practices and behavior, such as a lack of coverage for prevention or favoring inpatient treatment for services, which can be delivered in lower-cost settings.

To maintain balance between care and costs, employers must identify the market factors along with the employee and provider behaviors responsible for driving health benefit cost increases. Doing so will allow employers to develop effective, value-based cost-containment strategies that provide access to quality, affordable care while eliminating or managing risks. In turn, employers will have a much easier time making the necessary decisions to ensure their benefits plans are financially sustainable.

How to build a business case for benefits in a cost-cutting environment

Attraction and retention provide a clear rationale for justifying benefits plans and increased costs. Several studies also suggest that benefits are a critical enabler of organizational success in today's dynamic environment.

Consider the following as you educate stakeholders on the importance of benefits:

- Energized employees are six times more likely to say their workplace is focused on health and well-being. (Source: Mercer's 2020 *Global Talent Trends*.)
- Ninety-five percent of employers believe investment in health and well-being will be the same priority or greater in the future. (Source: MMB's *Health on Demand* 2020.)
- Senior decision makers cite safety as the most important objective for company health plans and/or well-being programs. (Source: MMB's *Health on Demand* 2020.)
- The more varied the health and well-being resources an employer offers, the more workers feel energized and supported — and the less likely they are to leave their employer. (Source: MMB's *Health on Demand* 2020.)

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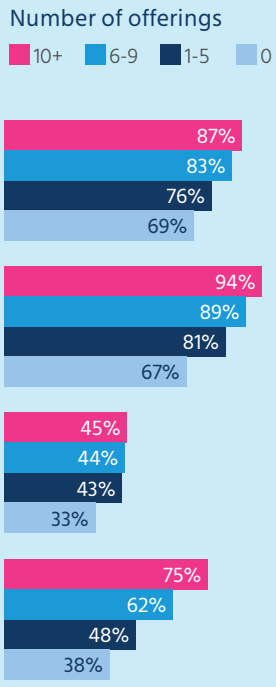


Benefits are an important risk-management tool. See our Managing People Risks Through Employee Benefit Plans point of view.

The three main strategies for cost containment are:

1. **Design for value** — through coverage provisions, network configuration and engagement.
2. **Manage health risk** — through a data-driven approach that promotes a healthy workforce.
3. **Drive efficiencies** — through smart financing and placement.

To bend the curve, companies need multipronged and multiyear strategies that address these three points simultaneously. The more affordable the plans are, the more you can open eligibility to a broader set of the workforce — which benefits everyone.

Businesses should be encouraging their insurers and advisors to think outside the box and challenge the status quo.

At the same time, companies should be looking at a variety of vendors that can support effective delivery of interventions. This may require short-term expenditure — for instance, investing in digital technologies.

3 elements of a truly effective health and benefit cost containment strategy:

1. Design for value — through coverage provisions, network configuration and engagement

The importance of plan design

Redesigning benefits plans and actively managing the design each year is crucial for containing costs. Cost containment is not about providing employees with suboptimal healthcare. If medical dollar spend is not laser-focused on quality solutions, both employers and employees lose out.

Misdiagnoses, complications, and hospital-borne infections are just some of the consequences of poor initial care that add unnecessary cost and degrade the patient experience and outcomes. Not only is the employer paying for medical wastage and possibly disability and absence, but employees are left worse off, potentially decreasing their quality or even length of life.

Employers can address this through medical plan design by guiding employees toward quality, cost-effective providers.

Consider:

- How best to incentivize employees and providers to assure quality care.
- Transparent plan structures, including defined contribution approaches, such as flexible benefits or spending accounts, that share costs with employees, but also give them more choice.
- Addressing who is eligible for coverage through waiting periods, definitions of eligible employees, and dependent limitations.
- Moving coverage to individual plans through voluntary insurance.
- Introducing preauthorization for specialist visits or reapproval (for example, of physiotherapy treatments after six visits).
- Creative approaches to paying health providers, such as:
  - Packaged pricing that encompasses a bundle of supplies and services related to a specific treatment, which shifts some of the risk for unexpected expenses to the provider.
  - Reference-based pricing that pays a provider an allowed amount based on a benchmark. Organizations have used this to control drug expenditures within a specific therapeutic class and for visits with medical providers.

- Introducing cost sharing techniques like deductibles, co-payments, and coinsurance (ideally tiered).
  - This provides financial incentive for employees to verify provider bills for accuracy, seek second opinions, question the need for lab tests or medication, avoid luxuries, and gain visibility into provider costs.
  - Structuring provider networks can also help — for instance, by introducing preferred suppliers for certain conditions, introducing centers of excellence (COE), and leveraging onsite clinics.
  - If you want employees to seek care from high-quality COEs or on an outpatient basis, consider reimbursing 90% of eligible member expenses if they access preferred providers, but only 70% if they make a different choice. You could also provide an additional financial incentive for employees that engage in virtual care, health improvement, or well-being activities. This tiered coinsurance approach encourages employees to optimize plan usage.

Employers should also select and monitor insurers based on their claims management capabilities and provider network monitoring, keeping in mind that regulatory environments may vary from country to country.

Our *2019 Medical Trends Around the World* report found that 54% of insurers use coinsurance and 67% use deductibles to mitigate medical costs and enhance accountability.

Make it easier for employees to do the right thing

When it comes to receiving the right care, at the right time, in the right setting, employees may not be equipped to make wise decisions. US experiments with consumer-directed health plans (CDHPs) have had limited results in bending the overall cost curve.*

Care support services can help employees decide whether to go to the emergency room, visit a local provider, try telemedicine, or visit a center of excellence. Assisting employees in navigating these options ensures they receive the most cost-effective care, which, in turn, will improve quality and affordability.

Our 2019 *Medical Trends Around the World* research shows that insurers are also increasingly funding unconventional methods of care. These include virtual, home-based, and even machine learning or artificial intelligence, such as AI symptom checkers.

Old-fashioned "smart-shopping" communication messages can also make it much easier for employees to do the right thing.

For example, make sure your employees understand their annual and/or lifetime plan maximums so they can manage their expenses to protect their coverage.

In many markets, MMB offers a range of materials to help employees participate more actively in their care, such as educational communications regarding the use of generic prescription drugs and the overuse of antibiotics.

*See Impact of Consumer-Directed Health Plans on Low-Value Healthcare.

https://www.healthaffairs.org/doi/full/10.1377/hlthaff.27.4.1111

https://pnhp.org/news/what-impact-do-consumer-directed-health-plans-really-have/

Empowering employees to make the right choices

Firms should also provide employees with the incentives, knowledge, and tools to manage their own health and costs.

The accountability strategy must consider each country's unique health risks, systems, and culture. For example, certain cultures may expect good doctors to order lots of lab tests and x-rays, even when not clinically necessary. In some markets, it may be taboo to question doctors.

If employers are serious about managing costs, they need to be explicit about expecting others in the value chain, such as insurance providers, to take more proactive measures to eradicate unnecessarily costly behaviors.

Our *Managing Healthcare Quality* paper examines actions employers can take to steer employees toward cost-efficient providers.

Key lessons include:

- Make care affordable for the entire workforce.
- Acknowledge and address barriers to care.
- Eliminate services that have little clinical value and may cause harm.
- Invest in low-cost healthcare services with proven long-term value that can prevent escalation to crisis care.
- Provide access to a high standard of care through preferred health providers.

Value comprehensive care

Given that many employee health and benefits programs have not evolved strategically, they may not reflect current clinical best practice. For example, many plans emphasize catastrophic care, major medical, and hospitalization-only expenses. Ensuring people have access to basic pharmaceuticals, screening, and other forms of preventive and primary care can reduce "crisis care" costs. For example, low-cost blood pressure medication and monitoring, perhaps delivered by onsite resources, can go a long way toward avoiding emergency room visits. Optimizing medication access and adherence is just one way to balance economics with empathy.

2. Drive efficiencies — through smart financing and placement

All good risk management plans contain strategies to eliminate and manage intrinsic threats, and your healthcare plan should be no different.

Circulatory, gastrointestinal, and respiratory conditions, largely related to lifestyle choices, continue to drive the top claims by cost and frequency. (Source: MMB's 2019 *Medical Trends Around the World*.)

One in three workers report not being in good health or being in fair health, and one in five has a chronic health condition. (Source: MMB's *Health on Demand* 2020.)

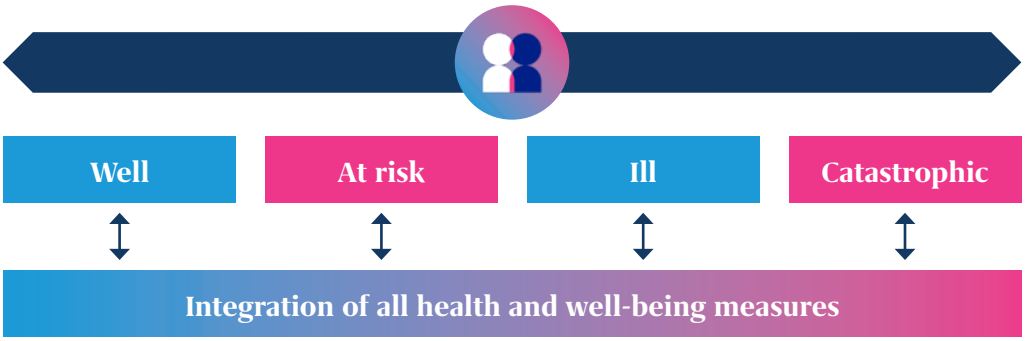
Understanding the health risks of your employees and their dependents — and managing these through data-driven initiatives and personalized support focused on changing behavior — can have a medium- to long-term impact on costs.

You will have employees who are well, at risk (due to lifestyle practices or family history, for example), ill, or disabled/unable to work, and they will move along this spectrum over time. Provide each of them with support to stay well and possibly prevent future costs.

Managing health risk involves:

- Keeping individuals well through health promotion, a culture of health, health education, vaccinations, and other illness and injury prevention initiatives.
- Identifying who is at risk of illness due to lifestyle, family history (where allowed under local laws), and/or working environment and eliminating or managing those risks.
- Providing support to people with illness to halt or stem the progression of the disease.
- Rigorously managing high-cost claimants to optimize care and, where possible, getting them back into productive work.

Putting your current health profile and management measures under the microscope can help you determine the gaps and inefficiencies in your program.



There may also be certain health risks inherent to your organization. Make sure to identify these so that controls focus on key problem areas, such as:

- Organizational culture.
- Physical environment.
- Management style and structure.
- Support/training systems and personal development.

Effectively managing health risks can result in a significant return on your investment. For instance, organizations such as Canada Life, Dupont, Prudential Insurance, and Citibank reported positive ROI in the range of US$2.00 to US$6.85 savings for each dollar invested in employee well-being[1].

Meanwhile, over five years of research and analysis, Sun Life and the Ivey Business School at Western University found that a treatment group that participated in a comprehensive well-being program experienced a 4% decrease in absence rates compared to a 23% increase for the control group[2].

Make health a business imperative. Develop a holistic health and well-being strategy that supports employees across physical, emotional, financial, and social dimensions.

[1] https://www.benefitscanada.com/benefits/health-wellness/how-well-is-your-wellness-program-37003
[2] https://www.sunlife.ca/static/canada/Sponsor/About%20Group%20Benefits/Group%20benefits%20products%20and%20services/Health%20and%20wellness/Wellness%20ROI%20Study/Files/PDF7224-E.pdf

3. Seize opportunities for efficiencies — through smart financing and placement

Managing wastage is a critical component of cost containment, as benefit plans can involve significant frictional costs.

Key opportunities include:

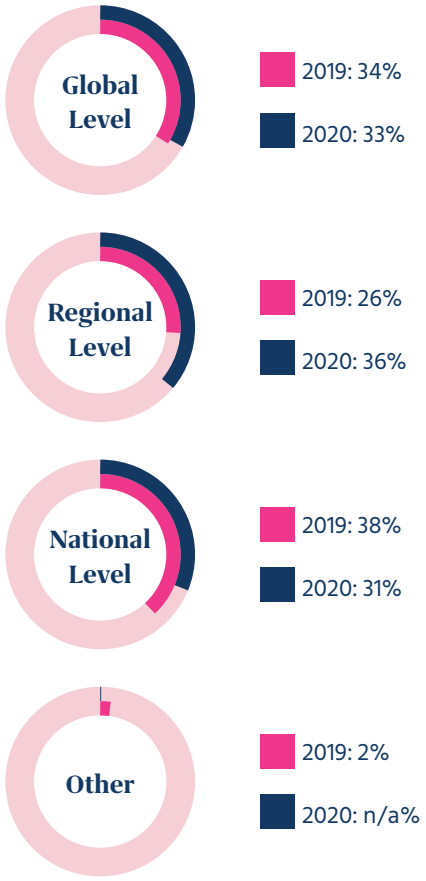
- Minimizing the margin and frictional costs (that is, administration charges, profit charges, risk charges) that exist in insurance premiums. Your broker will use various techniques to do this and should have insight into financial factors used by insurers in setting their rates.
- Evaluating loyalty-based approaches with insurers that provide price concessions in return for longer contract terms (for example, multiyear deal approaches, extended coverage periods).
- Eliminating redundant or duplicate benefits.
- Negotiating with healthcare vendors to obtain favorable/competitive pricing through volume discounts and packaged pricing.
- Making sure financial arrangements are optimal by considering alternative risk transfer approaches, such as self-insurance, profit sharing, and centralized underwriting.
- Consolidating and harmonizing disparate plans.
- Putting in place adjudication and case-management protocols to minimize fraud, ensure expenses are medically necessary, and ensure claims paid are reasonable and customary.
- Managing insurance and other vendors through service-level agreements and audits, which can often identify sources of fraud and opportunities for refunds from claim payers.
- Simplifying and automating administration to optimize use of HR resources.
- Purchasing benefits and related services, such as broking regionally and globally.

There are many ways to obtain economies of scale in your benefits plan.

Depending on your organization's appetite for risk, self-insurance through administrative-services-only contracts, trust arrangements, or captives will reduce costs for risk transfer (where allowed by law). Self-insurance is often appropriate for expenses that are easy to project, especially if they can be pooled with other risks.

For multinationals, adopting a global benefits management (GBM) approach will help ensure that you leverage global buying power with insurers, that your plans are not more generous than they need to be, and that you have a central source of information for improved decision-making and efficiency.

Purchasing other benefits, such as employee assistance plans, centrally rather than locally can bring additional savings. We are seeing a shift in multinationals moving towards central (often regional) control to manage both costs and the employee experience.



Source: Thomsons Online Benefits. The age of agility: Flexible, adaptable and resilient benefits report 2020/21 — At What Level Does Your Organization Manage Employee Benefits?

3. How to deliver cost-containment strategies

Adopt a digital approach

COVID-19 is transforming the way employees view benefits plans — accelerating demand for innovation and digital services.

The impact of the pandemic will reverberate long beyond the peak of contagion — infiltrating our thinking on connectivity, global supply chains, and business continuity. And this will change how we work — both now and in the future.

Our previous research showed that employers and employees alike were already keen to adopt digital healthcare initiatives, but COVID-19 and subsequent lockdowns have made this a necessity rather than a "nice-to-have."

Exploration of virtual care — both to contain medical costs and to encourage consumer-based behavior — is increasingly turning to execution. Our 2019 Medical Trends Around the World survey found that 78% of insurers are now considering or already supporting virtual health consultations.

Offering online member engagement is the obvious place to start given the expectations of today's workforce for a seamless consumer digital experience.

As a starting point, employers should consider:

- Expanding digital capabilities to support tasks such as claims submission.
- Allowing employees to navigate healthcare providers online.
- Implementing digital appointment booking and medical records management.

Digital disruption also embraces preventive solutions to help the "at-risk" and "chronic" populations manage their risks. Health insurers are not only focused on paying for sick care but are moving toward integrated offerings ranging from preventive well-being measures to condition management.

One such solution is a digital diabetes management program that facilitates early treatment interventions to prevent serious health problems, from blindness to heart failure, that can occur with poor disease management. The employee uses a connected glucose monitor that sends results to a secure online account; the data are then continuously assessed using predictive analytics, and any issues are flagged. At this point, a healthcare provider can step in to offer assistance, including further education, nutrition coaching, or scheduling a physician visit to develop a new treatment plan informed by the data.

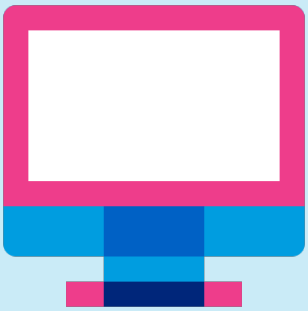
Teleconsultation is another way technology is lowering costs while improving health outcomes.

In China, there are few medical providers relative to the population, especially in rural areas. The government and private companies have invested in teleconsultation platforms where patients can make online doctor appointments via mobile devices, communicate with health providers by text and telephone, and request second opinions from doctors in other countries.

New uses of artificial intelligence (AI) in medical care can further support overburdened physicians, ease operational bottlenecks, and better match patients with suitable, high-quality health providers.

An explosion in digital providers that can contract directly with employers is making it easier to supplement these arrangements. MMB has incorporated many of these into our proprietary solutions to help fill gaps.

No matter where you are on the digitalization journey, irrespective of the size of your company, there is work to be done. As the labor market tightens and tech-savvy younger workers take the helm, companies must prioritize digital technology in the design and delivery of benefits to attract and retain the best employees in the future.



Darwin™ is the world's number-one global benefits administration and engagement platform. It enables organizations to achieve their benefits, people, and broader business goals — increasing employee engagement, streamlining benefits administration, controlling costs, and managing risk by:

- Helping organizations use their reward offerings to attract and retain the best talent, therefore reducing hiring costs.
- Empowering busy HR teams to do more with less by automating processes and providing extensive employee self-service tools.
- Minimizing manual data handling, reducing the risk of error and costly data breaches.
- Using data analytics to highlight hidden costs and inefficiencies at global, regional, and country levels.

Negotiate and drive market change

As a leading employee benefits advisor, MMB works on behalf of our clients to ensure premium rates are priced right, highly competitive, and financially sound.

We are also working on behalf of our clients to drive health and insurance industry change in several areas, including:

- Modernizing plan designs to incentivize the right behavior.
- Improving claims data capture and sharing to identify cost drivers and cost-containment opportunities.
- Advocating for coverage and support for cost-effective means of healthcare delivery (for example, telemedicine, applications to help find care).
- Addressing short-term COVID-related cashflow concerns by pursuing market-specific options, such as premium reductions/credits/refunds due to reduced claims, premium payment deferral, and reduction to late premium penalties.

4. Conclusion

The COVID-19 pandemic is pushing cost management up the corporate agenda, making it the ideal time for employers to think about long-term containment strategies. Achieving these goals, however, means going beyond the status quo of simply challenging prices at renewal.

Employers that are serious about managing expenditures need a multipronged approach over several years that targets the three core levers for cost containment: Designing for value, managing health risks, and driving efficiencies.

Organizations that embrace this challenge will create cost-effective benefits plans that truly benefit employees. Those that do not will only control costs in the short term.

Businesses need to be bold and willing to push boundaries beyond market practice. At MMB, we can help you leverage your data to identify the inefficiencies in your current program and challenge the status quo by balancing economics with empathy.

For further information, please contact your local Mercer Marsh Benefits office.

Mercer Marsh Benefits provides a range of solutions to help you manage people risk, including:

- Brokerage of core employee benefits as well as expatriate and special risks like business travel accident.
- Advice and support for health and well-being, plan member communications, and benefit plan financing.
- Digital solutions to engage plan members in their health and benefits.

Who we are and why we exist
Mercer Marsh Benefits (MMB) was born out of the unification of the world's best HR consultancy, the global leader in people risk advisory and the number one disruptive benefits technology firm to form one unique business. Together, we have shaped some of the world's most loved employee benefit experiences for small companies, growing enterprises and global firms. MMB is 7,000 strong, on the ground in 73 countries, and servicing clients in more than 150 countries. In 2019 this business generated $1.1bn in revenue, and is continuing to bring local expertise to more places and work side-by-side with our clients, and our Mercer and Marsh colleagues around the world.

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