American Health Policy Institute
Strategic Health Care Pathway Analysis Project

The Need

As large employers continue to deal with rising health care costs, as well as the implications of the Affordable Care Act and new emerging delivery models, many are evaluating their current approach to health care and actively considering fundamental changes to both their long-term approach and role in health care. The pathways now available to large employers include:

- Offering a traditional defined benefit plan;
- Sponsoring a consumer-directed health plan approach;
- Participating in a private exchange; or
- No longer directly sponsoring a health benefit and having beneficiaries seek coverage through the new public exchanges, Medicaid and/or the individual insurance market.

In discussing this matter with a number of Chief Human Resources Officers of large employers, the American Health Policy Institute (AHPI) has found they are seeking an unbiased and qualified source to give them an affordable, robust high-level analysis and cost/benefit study of these various alternatives. Among other things, they are concerned about conflicts between consulting organizations conducting studies like these and also selling products and services in this area, including private health care exchanges.

To address this need, AHPI reviewed a number of studies currently being conducted by various organizations and discovered that none were as comprehensive as what CHROs are seeking. Most simply evaluate the private exchange option.

The Approach

Last fall, AHPI conducted research to determine what employers need to assess the alternatives for providing health care, the costs of each approach, and whether there was a provider in the market that could address this need. The Institute formed a research committee comprised of many leading senior benefits executives from HR Policy member companies. Following a number of meetings and discussions, the committee identified the parameters of the analysis that companies were seeking, specifically, a resource that could do the following:

- Provide a baseline analysis of the employer’s current health care situation, including an estimate of ACA related expenses and the projected impact of the 2018 ACA excise tax;
- Conduct an analysis of various pathways an employer might want to pursue;
- Assess the merits of adopting a defined contribution approach; and
- Deliver a company-specific summary report that CHROs can use to support discussions with CEOs, CFOs, Boards of Directors and other members of their senior leadership team to help inform the appropriate long-term strategy for their organization.

Following this effort, the committee reached out to providers in the marketplace to determine if any of them could provide the analysis as articulated and determined that Milliman was best qualified to perform the work. Milliman is among the world's largest providers of actuarial and related products and services, and has a particularly strong focus on health care strategies.
Strategic Health Care Pathway Analysis Project
Information Employers Will Receive From Milliman

Executive Summary
- Key company objectives and summary of key findings and conclusions
- Overview of the marketplace and public policy dynamics
- Summary of the pathways now available to large employers
- One page executive level score sheet with key findings for the current state and all alternative pathways assessed
  - Cost projected over five years (company, employees/retirees, and total)
  - Administrative and compliance burden
  - Employer control
  - Employee/retiree choice
  - Reputational risk to the employer

Baseline Analysis
- Company specific perspective
  - Plan history
  - Financial performance
  - Risk management
  - Population health management
  - Key challenges
- Current and projected annual costs for current approach (next five years)
- Current and projected ACA related expenses (next five years)
- Projected impact of 2018 excise tax (under current approach)
- Estimate of how many employees qualify for subsidies through public exchanges

For Each Alternative Pathway Analyzed (projected annually for five years)
- Impact on total cost (employer and employee/retiree contribution combined)
- Impact on aggregate and per enrollee employer cost
- Impact on aggregate and per enrollee cost for employees/retirees
- Impact on total enrollment in the employer’s plans
- Impact on specific cost components (medical claims, pharmacy, administrative charges, taxes, etc.)
- Projected impact of 2018 ACA excise tax
- Estimated ACA costs by cost component
- Projected risk of falling below ACA’s minimum coverage and contribution requirements
- Number of employees who will be better or worse off
## Executive Summary Dashboard

**Strategic Pathway Analysis Performed for XYZ Company**

**Assessment of Strategic Path Impact**

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**EMPLOYER IMPACT**

- Total Cost (claims, administration, taxes, fees)
- Administration and Compliance Burden
- Reputational Risk

**EMPLOYEE/RETIREE IMPACT**

- Cost (premium, co-insurance)
- Choice of Plans
- Access to Providers

**SUMMARY**

- Best
- Fair
- Worst

### CFO Corner

**Company A Strategic Pathway Analysis**

($) cost in thousands

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<td>Average Plan Value</td>
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<td>$450</td>
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<td>Administrative Cost</td>
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<td>TOTAL</td>
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<td>$44,684</td>
<td>$43,952</td>
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<td>Health Premiums/Claims</td>
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<td>ACA fees</td>
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<td>$3,822</td>
<td>$2,385</td>
<td>$33,923</td>
<td>$250</td>
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<tr>
<td>Administrative Cost</td>
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<td>$2,679</td>
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Executive Summary Dashboard

Strategic Pathway Analysis Performed for XYZ Company

Assessment of Strategic Path Impact

Current Plans  Full Replacement HDHP

Private Exchange:
Insured Group

Private Exchange:
Self Insured Group  No Employer Sponsorship

EMPLOYER INFORMATION

• Number enrolled 10,000 10,000 10,000 10,000 10,000
• Number of plans 5 1 Varies Varies Varies
• Number of carriers 3 1 Varies Varies Varies

Metallic Levels Platinum, Gold, Silver Silver Most Offer All Most Offer All Platinum, Gold, Silver, Bronze

EMPLOYER IMPACT

Total Cost (claims, administration, taxes, fees)

Administration and Compliance Burden

Employer Control

Reputational Risk

EMPLOYEE/RETIREE IMPACT

Cost (premium, co-insurance)

Choice of Plans

Access to Providers

SUMMARY

• Employer may capture contributions are capped,
• employees have more choices and many may buy less generous coverage to save money

• Highest cost for employer,
• most employer control,
• best deal for employees

• Savings employer with higher costs for employees,
• access to adequate transparency tools a challenge

• Employer still bears insurance risk,
• impact on employees consistent with insured group exchange

• Employer savings are greatest,
• employee impact will vary greatly based on factors such as location, age and income.

Best                 Fair/may vary based on circumstances                 Worst

Current Private Private Federal  HDHP
Plan(s)  Exchange - Exchange -  Plans -  Full Replacement
Fully Insured Self Insured  No Sponsorship

Average Plan Value 87% Current ER Current ER Ranges based on pay 85% buys 85%

NET PLAN COST - 2014

Health Premiums/Claims  $37,000   $39,000   $38,000  – – – – –      $35,000
ACA fees  $650   $650   $650   $30,769   $650
Administrative Cost  $2,775   $2,340   $3,040  – – – – –     $2,625
TOTAL  $40,425   $41,990   $41,690   $30,769   $38,275

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TOTAL  $45,734   $51,152   $48,497   $33,923   $42,917

Comparison of Plan Premiums within Minimum Value and Excise Tax Ranges

2014 2015 2016 2017 2018

www.Milliman.com
Evaluating Health Care Pathways for Large Employers

February 21, 2014

The continued rising cost of U.S. health care, combined with the massive changes advanced by the Affordable Care Act (ACA) has made health care strategy a high priority for large employers. This is confirmed in the most recent HR Policy Association CHRO survey that identified health care as one of the top three HR priorities for member companies. While the ACA has increased the cost and complexity of employer sponsored health care, it has also opened up new and intriguing options (pathways) for how large employers deliver healthcare to their employees. Evaluating these new options requires independent and accurate assessments. Accuracy becomes a key issue, particularly as company leadership responds to the various sources of information including the media, public policy representatives, vendors who may have a substantial conflict of interest and their peers. These evaluations should be done with a fundamental understanding of the alternatives available to large employers, their implications, as well as how they fit into the larger context of health care benefits as part of the company’s broader HR strategy.

It is somewhat ironic that many employers are beginning to question their long term role in health care financing since their original entry into this space is to some degree an unintended consequence of history. Employers first got into the healthcare business due to WWII price controls on wages, and remained in the business because it was the most effective way to deliver compensation and benefits to employees due to the limitations of the individual marketplace, favorable tax treatment of employer sponsored benefits and ERISA which enabled multi-state employers to efficiently administer their benefit without dealing with state and local compliance obligations. Yet, even before the passage of ACA, the prevalence of employer sponsored coverage was in decline in the small group market, with a corresponding increase in the uninsured and Medicaid enrollees. Today it is also in rapid decline for retirees of large employers who have historically been enrolled in traditional employer sponsored coverage. In sum, because neither the government nor any other sector of the economy has been able to address the dual problems of access to care and cost of care, the burden of providing health care coverage has remained primarily with large employers. But new pathways are now available and a growing number of employers are thinking about adopting strategies that would not have been considered feasible until very recently.

WHAT HAS CHANGED?

The ACA contains a number of provisions that impact the health care marketplace, many with a direct impact on large employers. These include:

- Increased costs due to minimum coverage and eligibility requirements as well as new federal taxes and fees;
- A substantial increase in the ongoing administrative and compliance burden associated with employer sponsored plans;
- Threats to tax favored status of employer contributions towards coverage in group insurance plans (the ACA excise tax);
- The significant expansion of public subsidized coverage available to Americans who secure coverage outside the employment relationship;
- Insurance reforms that now guarantee all Americans access to the individual market (guaranteed access, underwriting limits) and transparency of coverage options; and
- Funding for a newly-insured/risk pool (paid for by employers)

WHAT HAS NOT CHANGED?

Although the ACA has many provisions designed to address the access issues that have plagued the American health care system, it did not adequately address the financial issues that have made the cost of health care in the U.S. by far the highest in the world. The ACA does not fully address supply chain payment reform or transparency.

Employees continue to “expect” employer-provided healthcare, and the demand for services – fueled by an aging demographic, continues relatively unabated. Also of note is the assumption of many policy-makers that the ACA did not have a material impact on large employers, who will continue to offer coverage consistent with the pre-ACA era.
WHAT PATHWAYS ARE NOW AVAILABLE TO LARGE EMPLOYERS?

Based on our work with a number of large employers, there are a few key pathways that are commonly being presented for employer consideration. They include:

- **Stay the course:**
  - Continuing to offer coverage under current defined benefit design and delivery mechanisms, which should be evaluated with a full knowledge of the impact of the ACA, both for 2014 and the future;

- **Consumer Directed Health Plan:**
  - Moving to a consumer oriented model and offering a CDHP alongside existing plans or a full CDHP conversion;

- **Private Exchange:**
  - Purchasing coverage through a private exchange, either on a group fully-insured, group self-insured or individual insured basis; and;

- **Public Exchange:**
  - Eliminating employer sponsored insurance, paying the penalties, and having participants seek coverage in the public exchanges, Medicaid, Medicare and the individual market

For many large employers, the ACA can be an opportunity to truly step back and reassess their options and long term strategy for health care delivery and financing, including pathways that previously would have been unworkable. Before assessing the alternative pathways above, we recommend that the following key strategic questions be addressed:

- What is the role of health care in your total rewards strategy? Do you prefer a more active or passive role?
- How important is it for you to provide health care for your employees?
- What are your financial objectives for health care spend?
- Do you have to make a change? What is driving the timing of the change?
- Do you want to be an early adopter or wait for others to test these new pathways?
- Do different approaches make sense for different populations such as full time vs. part time employees, collectively bargained populations, dependents and retirees?
- How much reputational risk are you willing to take?
- How confident are you with your ability to manage and deliver healthcare compared to the alternative pathways? Short term? Long Term?
- What do you believe the market/federal government will do with respect to managing health care costs, and how will that impact employers?

- How does the ever-changing nature of the ACA roll out impact your options? Will the ACA remain largely intact, or change in a way that could influence your long term approach?
- How do you evaluate options developed by consultants who may have financial and/or other interests in having those options adopted?
- How do you evaluate each of the pathways? How often?

WHAT IS LIKELY TO HAPPEN IN THE U.S. HEALTH CARE MARKETPLACE?

Emerging regulations and delays in the implementation of key provisions continue to reinterpret the ACA—some of which are in conflict with the original law. As a result, large employers face a highly uncertain environment as they seek to determine the ACA’s long term impact on their approach. This continuing change may lead to inactivity through confusion or fear of what will emerge. However, one recent parallel is particularly noteworthy when considering the potential impact of the ACA on the large employer market—the rapid decline of traditional employer sponsored coverage in the Medicare eligible marketplace.

The Medicare eligible marketplace has changed significantly as a result of the Medicare Modernization Act in 2003, which was designed to improve access and quality of care and funding to elderly Americans. New rules, much like those included in the ACA for those not yet eligible for Medicare, have fostered the development of a robust individual marketplace for Medicare products. As a result, one might argue that America is crossing the tipping point as more and more employers abandon traditional employer sponsored group benefits and instead are relying on the individual Medicare market (which is heavily subsidized by the federal government) to serve their post-65 retirees. Could the same changes begin to occur for active employees? Only time will tell.

The bottom line is that the world has changed more than many large employers may realize. The options are more varied and complex, the environment is rapidly evolving, and employers need the tools and skills to be able to assess the options and communicate the results.
ABOUT MILLIMAN

Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in healthcare, property & casualty insurance, life insurance and financial services, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe. For further information, visit milliman.com

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