

Current and Future Trends in Employee Benefits

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What's Going on Now

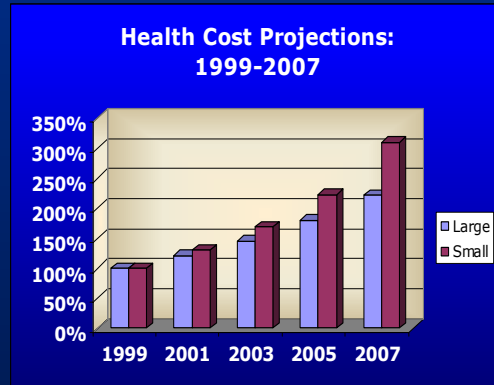
- Health care costs rising
 - ◆ 0-9% for large employers (95-98)
 - ◆ 8-15% for small employers over same timeframe
 - ◆ 9-30% in 1999-2003 for all
 - ◆ Double-digits again in 2004



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Health Care in 2007

- Large employers at 2 times 1999 rates
- Small employers at 3 to 3-1/2 times 1999 rates



Source: Kushner & Company 2000

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Current and Future Trends in Employee Benefits

Is the Status-Quo Sustainable?



Five-year difference per employee: \$2,385
\$2.4M per year savings for 1,000 ees

Five-year difference per employee: \$4,017
\$4M per year savings for 1,000 ees

Five-year difference per employee: \$5,429
\$5.4M per year savings for 1,000 ees



What's Going on Now (Con't)

- Value purchasing (high quality, low cost)
- Serious employer reviews of benefit plans and costs
 - ◆ Strategic rationale/Plan purpose
 - ◆ Re-examination of cost sharing strategies
 - ◆ Consumer-directed health plans (CDHP)
- Better alignment of reward strategy with HR and organization strategy



Plan Design Considerations

- Why are benefits structured the way they are?
- Who pays how much?
- How are the plans funded?

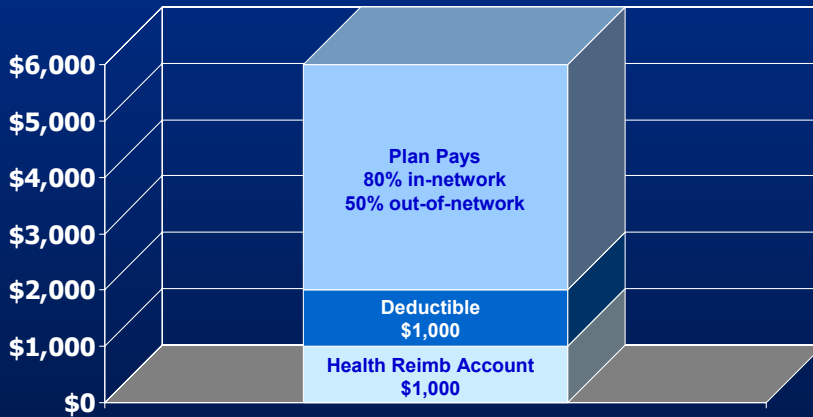


Current Trends

- The move in benefit planning from DB to DC
- Flexible benefit plans (and lifecycle plans)
- Retiree health issues – cost versus strategy
- Work/life benefits
- Data, data, data – for both employer and employee
- Consumer-directed health plans (CDHP)



Sample Consumer-Directed Health Plan



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Legislative and Regulatory Trends

- Anti-managed care backlash
 - ◆ Federal and state repercussions
 - ◆ Judicial intervention
- Health insurance reform (again)
- Medical privacy issues



Legislative and Regulatory Trends (Con't)

- Medicare reform
 - ◆ Fix trust fund deficiency
 - ◆ Cover more—but at a higher cost to recipients (perhaps means-tested)
 - ◆ Prescription drug benefits coming soon
 - ◆ Impacts
 - Longer worklives means employers are primary health care providers
 - Further erosion in post-retirement employer-provided benefits



Legislative and Regulatory Trends (Con't)

- Pension reform
 - ◆ Cash balance plans
 - ◆ RSAs, LSAs, and ERSAs (oh my!)?
 - ◆ Faster vesting schedules



Administrative Trends

- Significant movement to outsourcing
 - ◆ Retirement recordkeeping
 - ◆ Enrollment and historical tracking
 - ◆ Employee self-service
 - ◆ Premium reconciliation
 - ◆ IVR, intranet, internet and extranet capabilities
 - ◆ HIPAA EDI standards
- Retain strategic function internally



What to Do Now

- Perform strategic assessments on plans
 - ◆ Look at the big picture
- Analyze plan design for long-term changes
- Implement education strategy for employees
- Analyze systems and administration
- **Examine comprehensive solutions**

