

+ HEALTH INSURANCE UNDER 65 INTELLIGENCE SERVICE

2011 Business Managers' Outlook Study

January 2012



Study Overview

Research Dates

November 12-18, 2011

Study Population

- business managers who work for companies with 3-500 workers,
- ***and*** make decisions or recommendations concerning health benefits.

Sampling Frame

- Managers were recruited jointly from Survey Sampling International and e-Rewards.
- More information about SSI can be found at surveysampling.com
- More information about e-Rewards can be found at www.erewards.com
- **509** managers were surveyed nationally.

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Understanding the 3-500 Worker Group Market

...and the Five Economic Principles of Employer Sponsored Insurance



Thesis:

All businesses have a strategy whose ultimate goal is to increase revenue. The choice of strategy has implications for both growth and the mix of skills needed in the labor force. Whether or not workers are offered and accept health insurance depends on the difficulties employers have in recruiting needed workers and in the affordability of the offered health benefits to those workers.

Employers operate as rational economic players. As such, they continuously seek the optimal balance between competitive health benefits and the efficient administration of them. Because future exchanges will fill unmet needs, rational employers will use them. This study obtains information about the unmet needs and future strategies of employers in order to provide the basis for future participation in health exchanges.



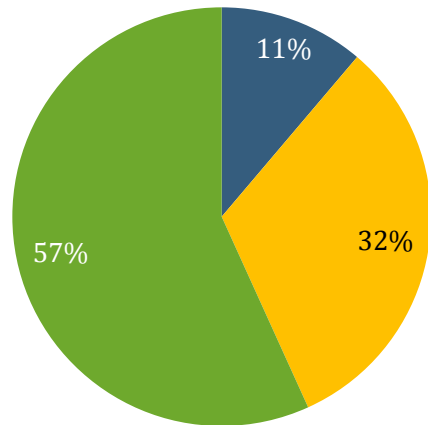
Primary Business Strategy*

Most businesses are focused on serving a particular clientele.

But manufacturing firms center their strategy on quality to compete against low cost.

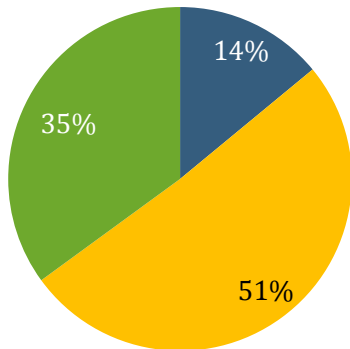
Base: All, n=509 businesses with less than 500 employees.

Primary Business Strategy



- Low Cost: We produce standardized products/services at the lowest possible costs to our customers
- Differentiated: We offer unique, differentiated products/services that are recognized as superior to lower cost competition
- Focused: We are tightly focused on serving with excellence the needs of a particular set of customers

Manufacturing's Primary Business Strategy



In equal proportions across all industries except manufacturing, the dominant strategy is to focus on serving a particular clientele. The strategy usually requires a specialized set of skills and high-service customer relationships. Because its focus limits the number of customers in any single location, the strategy suggests the need to attract a national and mostly domestic clientele. It could be global but only if resources allow overseas offices to manage relationships.

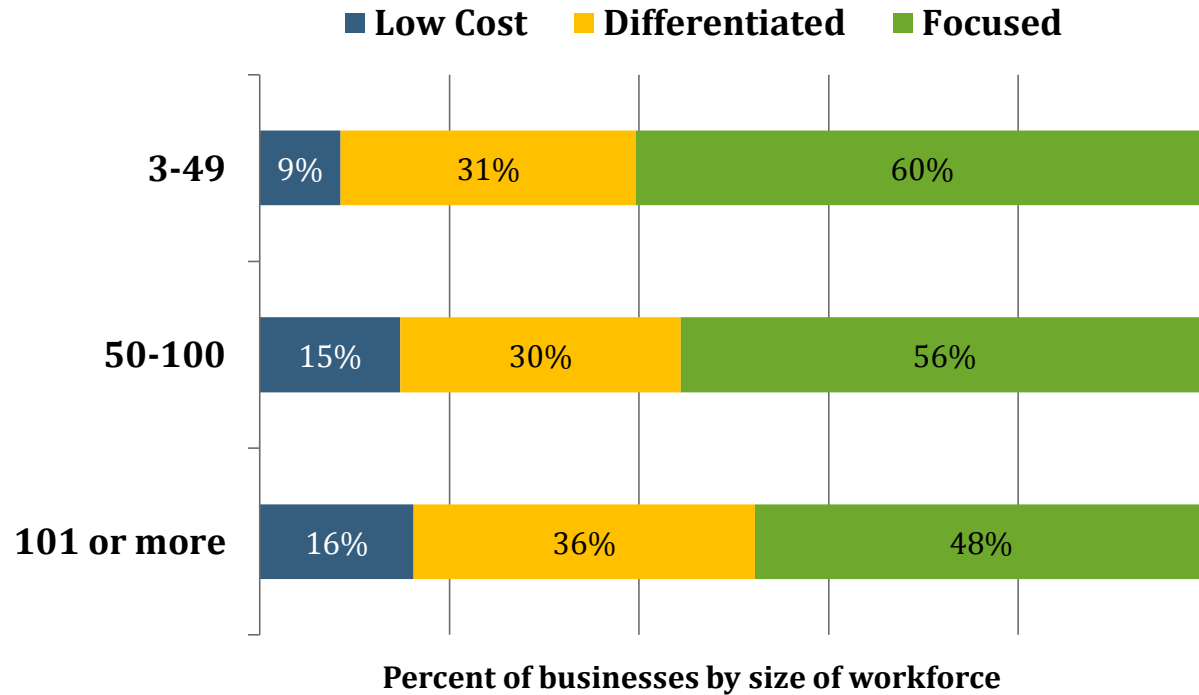
For half of the manufacturing sector, the response to competition has been to focus on superior quality that justifies higher prices. The strategy has mixed results: manufacturers are most likely to forecast negative growth over the next 3 years, but more than half expect to grow 5% or more.

* These strategies were first proposed by Michael E. Porter in his book "Competitive Strategy", 1980.



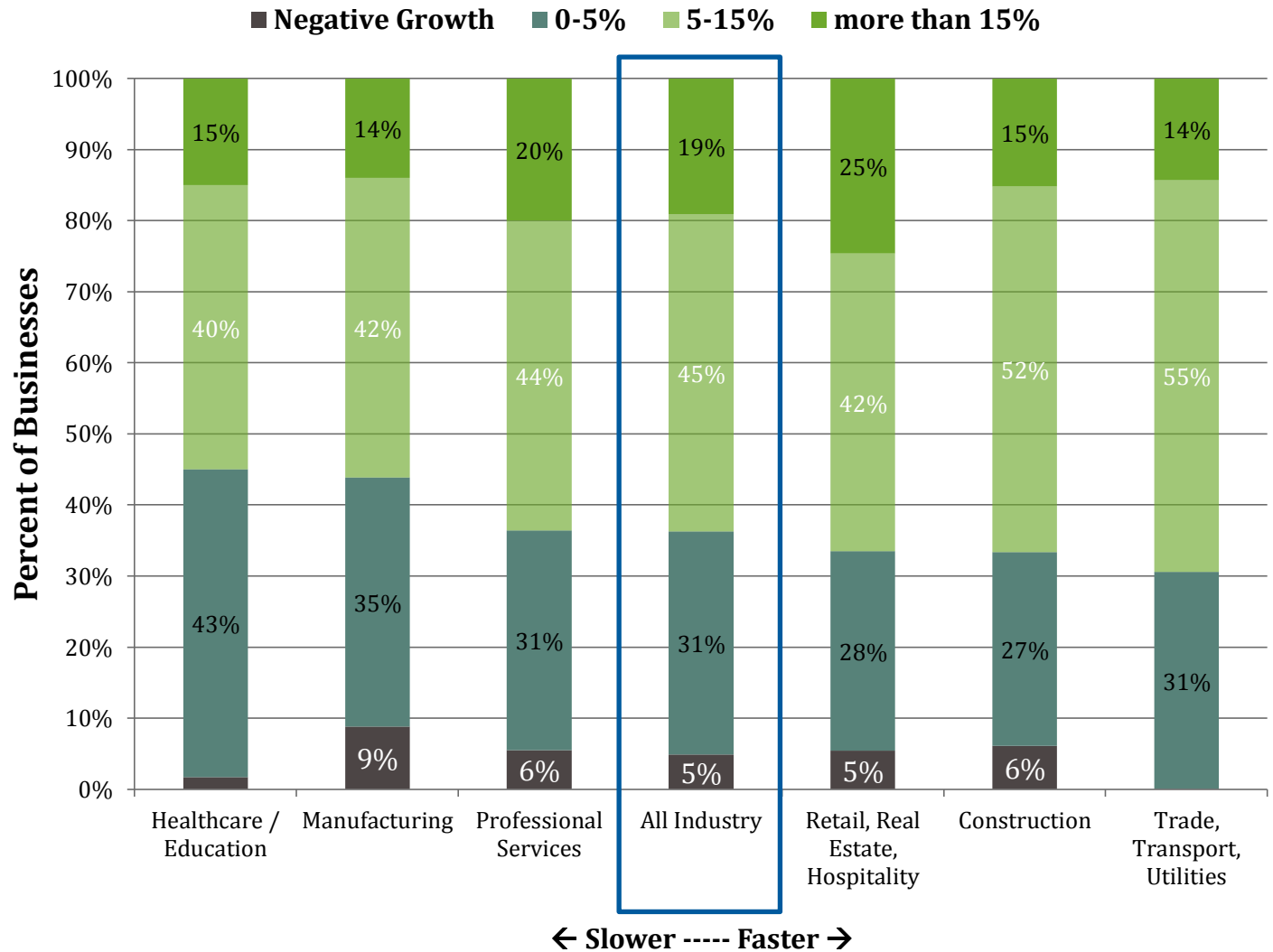
Business strategy is more diverse among larger firms.

Because it requires capital and scale; the low cost strategy is least common among smaller firms.





Forecasted 3 year growth

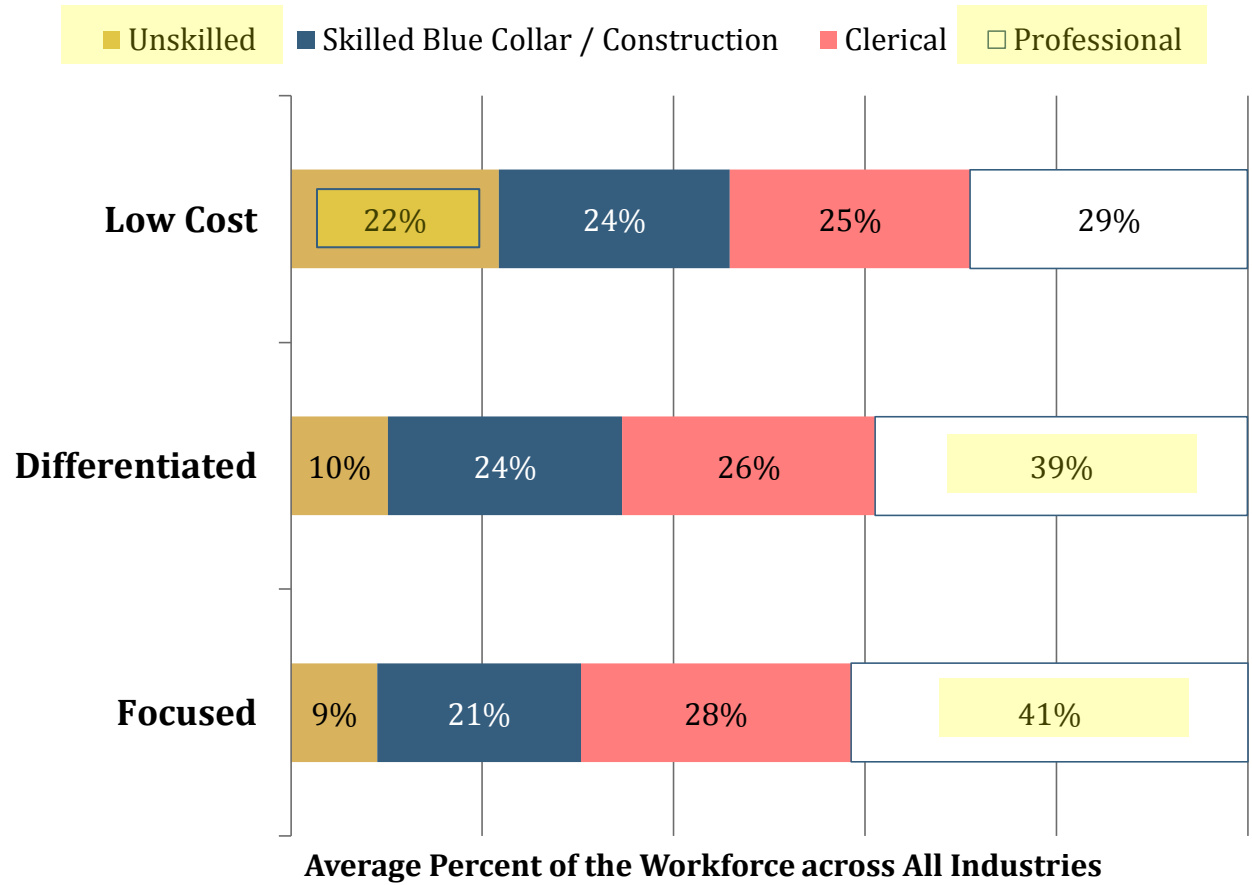




Business strategy is reflected in the proportion of workers who are either unskilled or professionals.

The Low Cost strategy depends for its success on operational efficiency. It is the least service oriented of the strategies.

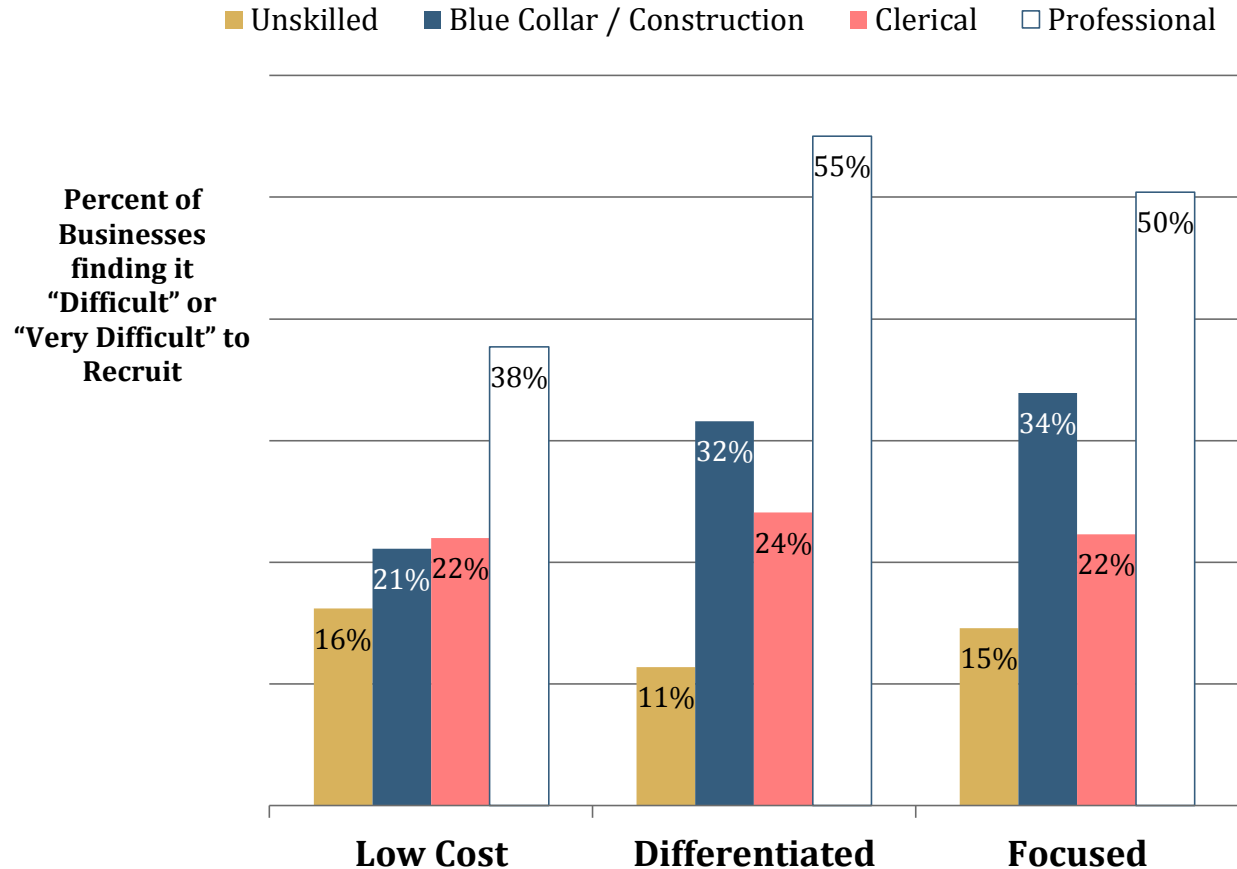
Differentiated and Focused businesses demand deep market and customer knowledge that leads to target marketing and innovative, responsive design engineering. They require a higher proportion of professional workers and fewer unskilled workers.





Attracting professionals and skilled blue collar are the primary recruitment problems.

And the problems get worse the more the business strategy requires a professional/skilled workforce.





Current and Future ESI Tactics Firms will Employ

We asked business leaders about 18 separate tactics they could institute relating to ESI

Their responses tell us which firms will (in no particular order):

1. Eliminate coverage for full-time workers
2. Eliminate coverage for part timers
3. Eliminate benefits for spouses and dependents
4. Decrease the number of plans employees can pick from
5. Stop offering health benefits but provide additional financial assistance
6. Increase the share of premiums that employees pay
7. Increase the share of premiums for spouses and dependents
8. Switch to a more limited network
9. Increase employees on high deductible plans
10. Offer a lean option that excludes more services
11. Introduce incentives for employees who stay healthy
12. Encourage all employees to take health risk assessments
13. Better manage pharmacy costs through higher generic utilization
14. Create programs to reduce absenteeism
15. Offer a more comprehensive health benefit
16. Increase the number of health plans employees can pick from
17. Start offering to employees current not eligible for health benefits
18. Increase the number of employees in HSAs

Their responses indicate what tactics employers will pursue ahead of ACA implementation in January 2014



Business Managers' Outlook provides answers to the following questions:

- What are the current strategies being considered by businesses to reduce premium liability?
- What types of businesses are poised to progress towards HSAs?
- What is the projection for HSAs in the under 500 market by 2014?
- Which types and sizes of business will move to a Defined Contribution model by 2014 and to what degree?
- What is the overall percentage of workers in the under 500 market that will move to the Individual Exchanges or SHOP exchanges by 2014 and 2016? How does this differ by business size and strategy?
- What is the relationship with time spent studying health reform and acceptance of exchange structure ?
- Which industries are most prepared for reform by size and business strategy?
- To what degree have employers paid attention to the establishment of state exchanges? How does that affect their receptivity to elements of exchange functionality?
- What is the relationship with reform knowledge and the likelihood that business will rely on:
 - ✓ Brokers for reform guidance
 - ✓ Insurance companies for reform guidance
 - ✓ State Exchanges for reform guidance...*and what does this mean for outreach tactics?*



Business Managers' Outlook provides answers to the following questions:

Mid-sized businesses:

- How prepared are mid-sized business for reform? What areas of compliance do they need the most help with?
- How likely are mid-sized businesses (50-100) to move to private exchanges in the coming years?
- How many workers in total will be affected?
- What are the key reasons why these business WILL and WILL NOT move to private exchanges? What implications does this have for insurers?

Large Businesses:

- How prepared are larger business for reform? Are they ready with IT requirements of the law? Where do they need the most help?
- What percentage of larger businesses is most likely to move to private exchanges?
- What areas of private exchange functionality prove to be the biggest draws for these firms?

And many more...



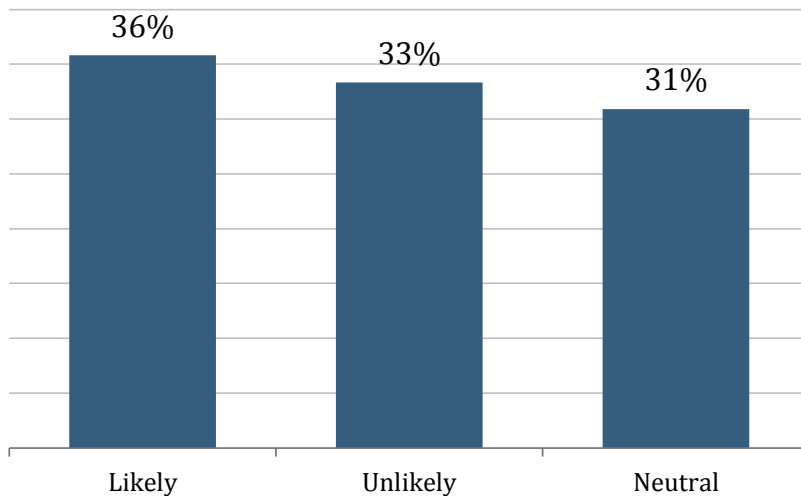
Midsized Employers were asked about private exchanges:

Health Insurance Exchanges are on-line insurance market places that allow individuals and families to compare and purchase a variety of health plans. State Health Exchanges are new and getting the most attention, but private health exchanges have been available for years.

Keeping their group health benefits intact, some employers are providing their employees access to a private exchange where employees can choose from various health plans. People who like this idea say it gives employees more choice and helps control premium increases because of the greater competition among a greater number of insurers. People who don't like the idea as much say private exchanges might steer employees to low premium plans only to have them incur very high out of pocket costs down the road.

How likely is it that your organization would move its health benefits into a private on-line exchange?

Likelihood of moving to a Private Exchange



The percent “Likely” to use a private exchange is an encouraging number for those who might be in the business of providing them. Given that exchanges were only concepts for most respondents, we would expect that positive experience will cause the number to grow.

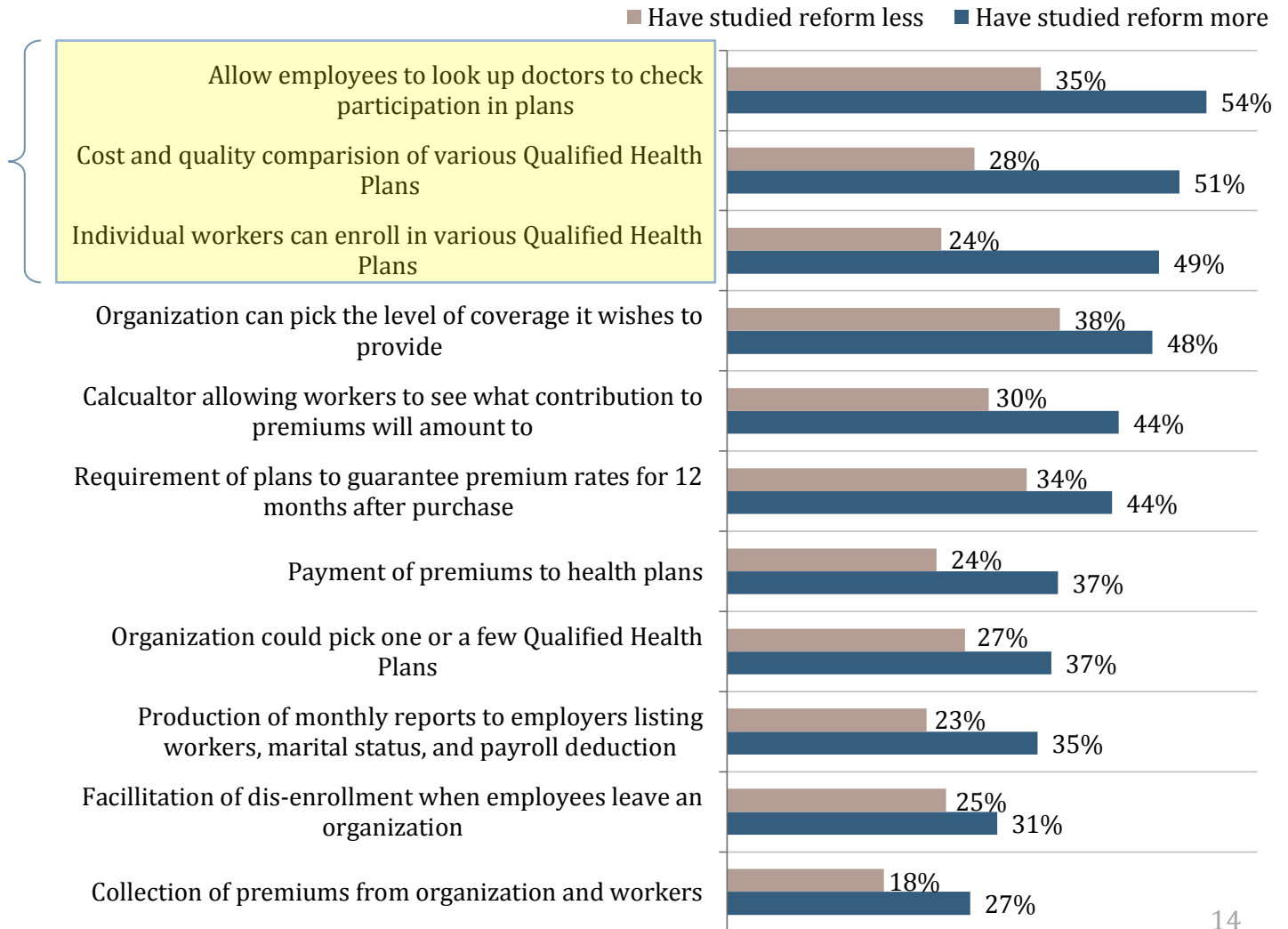
As it stands, our 36% suggests that the market who will consider private exchanges represents some 3.4 million workers at employers with 50-100 employees.



Spending more time studying health care reform corresponds to seeing the value exchanges may provide to their organizations.

Base: Businesses <50 Workers, n=317 % Saying Exchange Functions are "Very Valuable"

Managers that have spent more time studying reform are 20-25% more likely to value the top the exchange functions.





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Benefit Design & Market Dynamics Study, 2006-2012
National Senior Loyalty Study, 2006-2012
The Age-in Study, 2007-2012

Health Insurance Under 65 Series

Health Insurance Design, 2011
Shopping Pathways & the Internet, 2011
Business Managers' Outlook, 2012

Custom Healthcare Consumer Research

Shopping Behavior and Pathways
Consideration Sets – Competitive Assessment
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