

# BENEFIT

## Plan Trends



A monthly update focusing on Retirement and Executive Viewpoints

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## Health Plan Cost Trends Expected To Decline in 2012

Amid signs that the rapid pace of health care inflation could finally be slowing, results of a survey conducted in May and June of 2011 of managed care organizations, health insurers, pharmacy benefit managers, and third party administrators released by the Segal Company, an HR consultancy firm, have indicated that medical and prescription drug plan cost trend rates are on track to be lower in 2012 than in 2011, and that the actual cost trend rates for 2010 were the lowest in a decade.

A “trend” is defined as a forecast of per capita claims cost increases that takes into account various factors,

such as price inflation, utilization, and government-mandated benefits, and includes new treatments, therapies, and technologies. Researchers noted

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that, although there is usually a high correlation between a trend rate and the actual cost increase assessed by a carrier, trend and the net annual change in plan costs are not the same, and changes in the costs to plan sponsors can be significantly different from projected claims cost trends.

The analysis showed that all medical plan types are projected to experience lower cost trends for 2012 than for 2011, with managed care cost trends ranging from 9.6% to 10.4%, compared to projections of 10.2% to 11.7% for 2011. For example, the projections indicated

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that the trend rates will be 1.3 percentage points lower in 2012 than in 2011 for high-deductible health plans (HDHPs), and one percentage point lower for open access point-of-service (POS) plans and preferred provider organizations (PPOs).

Similarly, prescription drug trends (for retail and mail order combined) have been estimated at 7.2% for 2012, or two percentage points lower than projected trend rates for 2011. The projected trend rate for Medicare Advantage health maintenance organizations (HMOs) is 6.6%, down from 7% in 2011. Researchers speculated that the reduction in Medicare payments for preventable re-admissions may have influenced the 2012 trend projections.

For dental plans, the analysis showed that the trend rate for dental maintenance organizations (DMOs) will increase slightly in 2012, to 4.4% from 4.2% in 2011. However, the trend rate for dental provider organizations (DPOs) will decrease to 3.8% in 2012 from 5.5% the previous year, and the rate for fee-for-service (FFS) plans will decline to 4.2% in 2012 from 6.6% in 2011.

The survey also looked at regional variations in projected trend rates for 2012: lower in the South (8.8%) and the Midwest (8.9%), and higher in the West (10.8%) and the Northeast (9.8%).

Along with previous survey results from the last several years, price inflation for services and supplies were found to be the biggest contributor to overall medical plan cost trends in 2012. Price inflation is expected to be especially high for hospital services, while more modest price inflation is anticipated for physician services.

In addition to compiling projected trend rates, the survey looked at historical trend rates. Researchers noted that, in 2010 (the most recent full year for which actual data is available), there were significant declines in actual trend rates from the previous year, and that actual

trends for 2010 were the lowest reported in more than 10 years.

The survey asked about the potential impact of the Patient Protection and Affordable Care Act of 2010 (PPACA) on trend rates. The findings indicated that, in the short term, those surveyed expect the PPACA to increase plan sponsors' costs by only a minimal amount. For example, while three-quarters (75%) of respondents said the extension of coverage to adult children up to age 26 under the new law has contributed to a rise in plan costs in 2011, 71% said the projected impact represented an increase of less than 1%.

"Although the rate of increase in health plan cost is slowing, it is important to keep in mind that those rates are still putting pressure on both private and public sector budgets," the study's authors said. "Consequently, plan sponsors will need to continue to implement cost-management strategies that both mitigate increases and improve the overall health and well-being of their plan's population."

Researchers recommended that plan sponsors focus on several key areas in order to reduce costs, including managing provider network reimbursement increases more tightly to obtain deeper discounts, making effective investments in wellness and disease management programs, introducing comprehensive value-based designs that encourage greater use of clinics for minor episodes and of generic drugs, managing diagnostic technologies more tightly, conducting data mining that focuses on high-cost conditions and atypical utilization patterns, using more aggressive hospital admission management strategies, and conducting data-driven renewal negotiations.

In addition, plan sponsors should start introducing cost management strategies that will eventually be required by the PPACA, such as implementing initiatives to improve patient safety and quality, and introducing more efficient care models, like the medical home.

## More Workers To Manage Their Retirement Accounts

Employees who are enrolled in company-sponsored retirement plans appear to be focusing more on saving for retirement, and are becoming increasingly confident in their ability to manage their retirement accounts, despite a challenging economic climate, according to results from the annual Mercer Workplace Survey conducted by Mercer, an HR consultancy firm, in July 2011. Online interviews were conducted representing a national cross-section of 1,507 active 401(k) participants who were also enrolled in their employer's health plan.

When asked to predict how the economy will be performing 12 months in the future, 54% of participants said they expect the economy will be growing at an annual rate of between 1% and 2%, down from 71% of those surveyed in the summer of 2010. Meanwhile, 42% of the 2011 respondents said they expect the economy will be in recession in one year's time, up from 23% in 2010. By contrast, just 4% of the participants surveyed in 2011 said they anticipate robust annual growth of 3% or more one year in the future, compared with 6% in 2010.

Researchers pointed out that the levels of pessimism about the prospects for economic growth expressed by plan participants in 2011 are roughly in line with those found in the 2008 survey, at the height of the financial crisis. Further, while there is usually a direct correlation between economic outlook and retirement behavior, the 2011 participants seemed to be renewing their focus on retirement savings and gaining confidence in their ability to manage their financial future, despite their concerns about the economy.

"In 2010, most participants saw the economy improving but not their own personal situation—a highly unusual divergence," said Suzanne Nolan, director

of marketing and communications for Mercer's U.S. outsourcing business. "This year's results reflect a stunning reversal in terms of a highly negative view of the economy but a renewed commitment to and accountability for their own retirement planning."

For example, over the past year, 41% of plan participants have increased their 401(k) contribution rate (up from 31% in 2010), 40% have re-allocated their existing portfolios (up from 33%), and 38% have re-allocated their future contributions (up from 29%). A higher percentage also said they plan to contribute more to their 401(k) plans over the coming year, and a slightly higher percentage said they expect to contribute the tax-deferred maximum (11%, up from 8% in 2010).

In addition, health care costs in retirement seem to be playing a bigger role in retirement planning, with more than one-third (36%) citing saving for health care expenses in retirement as a major savings objective, up from 24% in 2010.

When asked about confidence levels in managing their 401(k) accounts, 85% said they feel confident in their 401(k) asset allocation, 83% said they are confident in their investment selection, and 77% indicated they are confident about the amount of money they are contributing. Researchers noted that these results are all improvements over the 2010 results, and that they are even higher than some levels found in pre-recession responses.

"We believe this increase in personal accountability among retirement plan participants is 'good news' for plan sponsors and their ongoing efforts to increase employee engagement levels," said Nolan. "Participants seem to be saying that they can no longer rely on market performance, their employer, or the government to build their retirement savings for them, but must take control of every aspect they can in order to provide for a successful retirement. Employers and plan sponsors alike should see this as a unique opportunity to offer and promote tools and resources to assist participants in making informed retirement decisions."



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## Effective Measures for Company Talent Management Strategies

Companies often overestimate the effectiveness of their talent management programs, largely because they fail to compare the success of their strategies with those of their competitors, according to a study conducted by ADP, an HR outsourcing and benefits solution provider.

Based on a survey of HR decision makers at 602 U.S. enterprises with 500 or more employees in August 2011, the report found that, while 75% of HR professionals think their own organization is on par with, or better than, their peers regarding talent management maturity, only 46% actually benchmark their key performance indicators (KPIs) against those of other companies in their industry, geography, size group, etc. This suggests a possible disconnect between perception and reality among those employers with a reputation for high performing talent management that do not benchmark the effectiveness of those strategies against approaches used by other companies.

The findings further indicated that nearly half of the companies surveyed (42%) do not have a formal talent management strategy in place, and that only 38% have a strategy that encompasses all five key areas of talent management: employee development, performance, recruitment, compensation, and succession. Researchers observed that, since three-quarters of respondents rate their company's strategies as on par with or better than those of their peers, it appears that most HR decision makers

believe that having a talent management strategy that does not cover all five areas is acceptable.

While almost all respondents (95%) said they use KPIs to measure success internally, fewer than one-third rate their organization's use of KPIs as "best in class" or "ahead of industry peers." Further, the companies surveyed are most likely to use KPIs in the areas of learning, performance, and compensation, and least likely to use KPIs in recruitment and succession.

However, only around one-quarter of respondents who reported using KPIs for talent management said they believe those metrics are very effective for measuring the impact of the HR function on the achievement of the company's overall business goals, or for evaluating the return on the organization's investments in talent management systems, tools, and services.

In addition, just 12% reported that their company's talent management strategic goals are "completely aligned" with the organization's overall business objectives, although another 40% said they believe the goals and objectives are "pretty closely" aligned. The survey also showed that, even in the largest companies that have a talent management strategy in place, only 20% of respondents reported complete alignment.

"Organizations that don't measure and benchmark their talent management strategies have a far less solid basis for judging the overall effectiveness and success of those strategies than those who do," said Tony Marzulli, ADP vice president of product management. "Until those issues are adequately addressed, and organizations achieve visibility into their talent management processes, they will struggle to effectively measure their success against their own history and how they compare to their peers," he added.



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