

U.S. Employers Expect Rate of Increase in Health Care Costs in 2015 to Remain Low but Well Above Inflation

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Despite continued cost concerns, employer confidence in offering health care coverage 10 years from now has nearly doubled from a year ago

ARLINGTON, Va.--(BUSINESS WIRE)--Oct. 6, 2015-- Employers expect a 4.1%¹ rate of increase in the cost of employer-sponsored health care benefits in 2015 — the lowest in 15 years but well above inflation, according to an annual survey by global professional services company Towers Watson (NASDAQ: TW) and the National Business Group on Health (NBGH), an association of large employers. The widely cited survey of 487 large U.S. employers also found that while employers remain concerned about the cost and effectiveness of their programs, they are more committed to providing some form of health care coverage to employees over the next 10 years than they have been in recent years. Employer confidence in offering health care coverage 10 years from now has nearly doubled to 44% today, from 25% in 2014.

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The findings of the 20th annual Towers Watson/NBGH Best Practices in Health Care Employer Survey point to a growing affordability challenge for employees, especially for lower-wage workers. Health care costs for 2015 are expected to average \$12,041 per employee, up from \$11,567 in 2014. On average, employees will pay 22.2% of total premium costs in 2015, which in payroll deductions translates into an average employee contribution of \$2,676, or \$223 a month.

"Against the backdrop of sluggish economic growth and low inflation, which limit the degree to which companies can raise prices on goods and services, employers continue to aggressively manage their health benefit plans to rein in costs," said Randall K. Abbott, a North American leader and senior strategist in Towers Watson's Health and Group Benefits practice. "By and large, employers have done a good job managing costs in recent years. Despite this success, the Affordable Care Act's excise tax looms ahead in 2018, and four out of five employers now identify changes to health and pharmacy plan designs as their most important strategic priority."

Employer actions taken and planned include:

- *Curbing the high cost of specialty pharmacy through new coverage/utilization restrictions:* 53% of employers have done so already; another 32% are likely to by 2018
- *Adopting spousal surcharges:* 27% of employers have implemented; could rise to nearly 60% in three years
- *Using a defined contribution strategy instead of defined benefit:* 20% today; expected to double by 2018
- *Offering more customization by adding voluntary benefits:* 34% today; could reach 70% by 2018

"While we have experienced several years of slower growth in health care trend, health care cost increases are still multiples of CPI," said Brian Marcotte, president and CEO of the NBGH. "Employers are trying to balance offering valuable benefits that meet employees' needs with the looming excise tax, which makes it imperative that they focus on areas where there are opportunities to make changes while preserving quality and effectiveness."

Other findings from the survey include:

- **Employers have nearly universally adopted account-based health plans (ABHPs).** Eighty-two percent of companies offered an ABHP in 2015, and another 4% expect to add an ABHP for the first time in 2016. Health savings accounts (HSAs) are the dominant model, with more than 70% of companies offering an ABHP with an HSA.
- **Employers view a healthy and productive workforce as a business imperative.** Employer concerns about employee well-being are prompting them to consider further changes to their health benefit plans and workforce health strategies. These concerns include health risks arising from lifestyle choices, lack of employee engagement in their own well-being and participation in wellness programs; and concerns about employee financial health.
- **Employers are transitioning to value-based payment strategies.** Over 70% of employers identify reimbursement methodologies that are based on cost, quality, improved efficiency and better outcomes as important to consider in selecting health plan vendor partners.

About the Survey

The 20th annual Towers Watson/NBGH Best Practices in Health Care Employer Survey tracks employers' best practices and the results of their efforts to provide and manage health benefits for their workforce. The report identifies the actions of high-performing companies, as well as current trends in the health care benefit programs of U.S. employers with at least 1,000 employees. The survey was completed by 487 employers in June and July 2015. Respondents collectively employ 15.1 million full-time employees, have 12.0 million employees enrolled in their health care programs and represent all major industry sectors.

About Towers Watson

Towers Watson (NASDAQ: TW) is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 16,000 associates around the world, the company offers consulting, technology and solutions in the areas of benefits, talent management, rewards, and risk and capital management. Learn more at towerswatson.com.

About the National Business Group on Health®

The NBGH is the nation's only nonprofit organization devoted exclusively to representing large employers' perspective on national health policy issues and helping companies optimize business performance through health improvement, innovation and health care management. The NBGH leads initiatives to address the most relevant health care issues facing employers today and enables human resource and benefit leaders to learn, share and leverage best practices from the most progressive companies. NBGH members, which include 71 *Fortune* 100 companies, provide health coverage for more than 50 million U.S. workers, retirees and their families. For more information, visit www.businessgrouphealth.org.

¹ Represents projected increase after plan changes; projected increase without plan changes is 5.7%.

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