

A grayscale photograph of a hand carefully balancing a series of smooth, rounded stones of varying sizes and shades of gray. The stones are stacked vertically, with the hand holding the top one. Below the main stack, there are more stones scattered on a flat surface, including a large, flat, rectangular stone. The background is a dark, solid color.

# Making Health Care Consumerism Work — Aligning Employer and Employee Interests

## The health care dilemma: Managing both costs and talent in a challenging business environment.

### INTRODUCTION

Ongoing double-digit increases in health care costs pose a growing dilemma for U.S. employers in today's global marketplace. Most employers simply can't afford cost increases of this magnitude year after year in a competitive business environment. But they can't abandon their current commitments either, because they must offer some level of health benefits to compete in the marketplace for talent and sustain the positive work environment needed to run a successful business.

Against this backdrop, companies nationwide have been looking for new approaches to slow the growth of health care costs. Unfortunately, there are no easy answers. The "single solution" savings offered by managed care in the 1990s are far behind us, and vendor management approaches, on their own, have had limited impact. As a result, many employers have begun moving toward health care "consumerism" strategies designed to encourage employees to take more responsibility for their health care and the cost of that care.

Although definitions of consumerism vary, the term is generally used to describe a new kind of partnership between employers and employees with regard to how employees use and pay

for needed health care services. Focusing on managing both costs and quality, this new partnership requires a significant shift in employee behavior away from the managed care model.

Under managed care, employer-sponsored plans limited employee choice and decision making through various "gatekeepers" (hence controlling supply). But they paid all or most of the cost of covered health care services, typically leaving employees responsible only for premium payments and small out-of-pocket copayments when they used specific services. Thus, employees had little incentive to be vigilant consumers of health care, because their health plans paid for almost everything and effectively shielded them from understanding the total cost of their choices.

Consumerism strategies, by contrast, typically focus on managing demand by educating employees about health care and costs, and by ensuring that employees pay a more meaningful portion of the cost of care. This encourages them to make informed decisions about a broad range of health-related issues from lifestyle choices (e.g., diet, exercise, smoking), to the type of health plan they select, to how (and how often) they use health care services and which providers they choose. To succeed, consumerism strategies must engage employees and, ultimately, encourage employees to change their behavior.

How do employees view this new framework? Are they receptive to employer-provided health care education and to health plan changes designed to give them "more skin in the game" when using health care services? Are employers pursuing the right tactics given several years of post-managed care cost shifting and employees' current mind-set?

Recent Towers Perrin surveys of both employers and employees provide important new insights into these questions and the overall health care dilemma facing U.S. employers today (see box, next page, for survey details). Among the key findings:

- Many corporate managers and executives view consumerism as a potential solution to their health care cost problem and are moving quickly to introduce a range of plan design and employee education tactics to promote consumer behaviors.
- At the same time, however, employees themselves are far from engaged in consumerism today and, in fact, are becoming increasingly resistant to their employers' cost-management efforts. Not surprisingly, employees are clearly focused on their self-interest and the impact on their own financial well-being while employers have been focusing largely on the company's interests.

For consumerism strategies to be effective, employers will need to address the fundamental disconnects that have emerged between employee and employer views on health care today.

■ Taken together, our data suggest that, for consumerism strategies to be effective, employers will need to address the fundamental disconnects that have emerged between employee and employer views on health care today.

Fortunately, our research shows that employees are open to their employers playing a role in helping them act as informed consumers of health care. So, a win-win solution is possible with the right approach — one that effectively aligns the interests of employers and employees to manage the demand for and use of health care. As part of this solution, employers need to take a step back to consider more systematic ways of managing their health benefit programs, essentially building an operating model for benefits that mirrors disciplines the company applies to other key areas of the business.

Following is a closer look at our survey findings and some implications for employers.

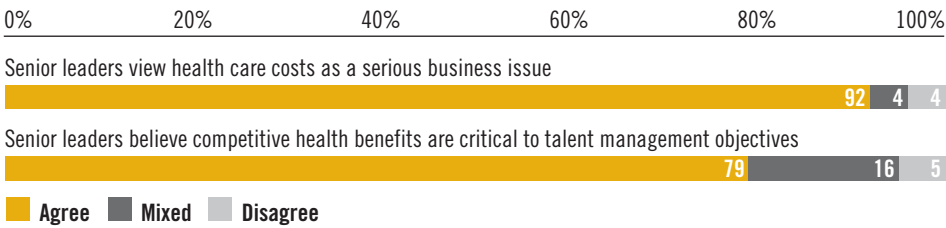
**THE BUSINESS CHALLENGE — AND EMPLOYER RESPONSES THUS FAR**  
Our employer survey underscores the fundamental business challenge posed by rising health care costs. On one hand, senior management in the vast majority of organizations surveyed

(92%) sees continuing double-digit cost increases as a serious business issue they must address (see *Exhibit 1*).

On the other hand, most of the responding managers (79%) also say their senior leadership believes competitive health care benefits are critical to the organization’s ability to meet key talent

management objectives, both now and in the future. So employers are, in effect, caught between a rock and hard place. And therein lies the challenge: *how to manage costs while preserving competitive advantage in the marketplace for talent and sustaining positive attitudes in the workplace once employees are on board.*

**EXHIBIT 1**  
**How Senior Management Views Health Care**



**ABOUT OUR SURVEYS**

Our online *employee* survey was conducted in January 2004 among U.S. employees working for midsize and large companies in a wide range of industries. More than 1,000 people responded, representing a statistically valid sample of workers in corporate America who participate in company-sponsored health care plans today. The survey questionnaire included a number of questions from a similar survey we conducted in 2003 (*Keeping Employees Engaged About Health Care*), providing a look at how employee views on health care have changed in the past year.

Our online *employer* survey was conducted in April 2004 among executives and managers who participate in our *TP Track* research program (an ongoing series of employer surveys on a range of key business and human resource management issues). This survey elicited responses from managers in more than 120 midsize and large U.S. companies across all industries. All of the survey respondents are involved in the design, management or communication of corporate health benefit programs.

Employee understanding and behavior change are the keys to success in using consumerism strategies to control cost growth while supporting talent management goals.

To date, the most common employer responses to the cost crunch have been to reduce benefit levels or share a portion of the added costs with employees via increases in employee contributions, or both. Over 80% of our employer respondents cited these steps.

But many of the companies surveyed have also begun to embrace consumerism as a part of their health benefit strategy. For example, well over half of our employer respondents now offer tools and information to support effective consumer behaviors (see *Exhibit 2*). Also notable is that over a quarter now offer

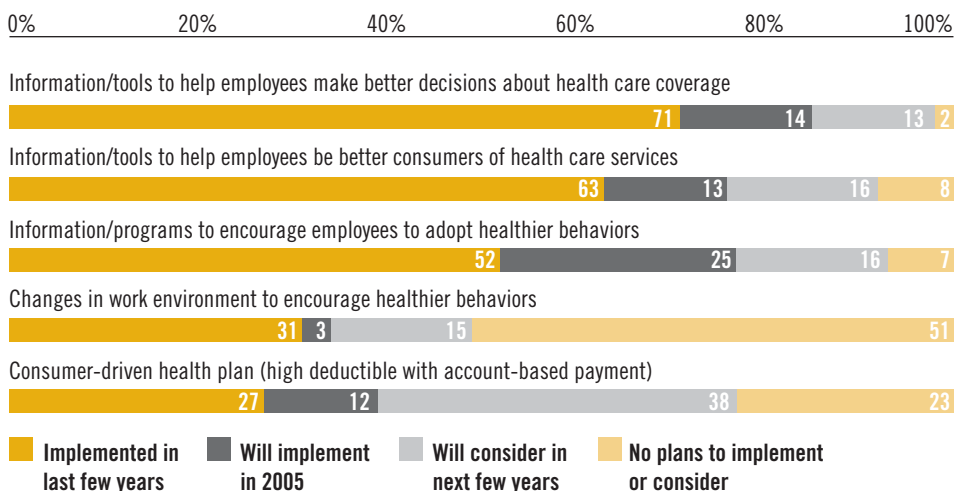
consumer-driven health plans that combine high-deductible coverage with account-based mechanisms to help employees pay for care. Most of the others will consider these plans in the near future.

Our employer respondents recognize, of course, that employee understanding and behavior change are the keys to success in using consumerism strategies to control cost growth while supporting talent management goals. What's most important, in their view, is that employees understand the threat rising costs pose to the company's ability to succeed as a business. Just as critical is that employees understand the true cost of the health care services they use and that employees be effective consumers of health care (see box below).

As our employee survey reveals, however, achieving this kind of buy-in and behavior change is likely to be difficult in many organizations.

## EXHIBIT 2

### Percentage of Employers Offering Consumerism Elements



## MEASUREMENT: AN EMERGING MANAGEMENT FOCUS

Less common now, although growing in importance given increasing attention from senior management, are efforts to formally measure the impact of health benefit costs on business performance. Almost half (44%) of our survey respondents have implemented measurement processes and another quarter are planning or considering implementing such measures.

## Employer Views: Top Three Factors Critical to the Success of Company Health Care Strategy

- Employees understand that rising costs could impact our ability to succeed as a business.
- Employees understand the true cost of the health care services they use.
- Employees are effective health care consumers.

Employees who see the potential impact on the business are more likely to understand how cost increases could squeeze their benefits and agree that their employer can't absorb the added costs alone.

### THE EMPLOYEE PERSPECTIVE

Employees, for their part, remain focused largely on the increase in their own costs seen in recent years in most companies. This is understandable, given that many employer communications about health care and benefits have also focused on cost issues, especially the cost to the business.

At the same time, employees care deeply about health benefits. For most, the availability of good health care coverage is one of the top reasons for choosing one similar job over another, according to our most recent assessment of workforce attitudes (*Understanding Employee Engagement: The*

*2003 Towers Perrin Talent Report*).

However, employees' views on whether those benefits are competitive or meet their needs have deteriorated significantly in the last several years (see *Exhibit 3*).

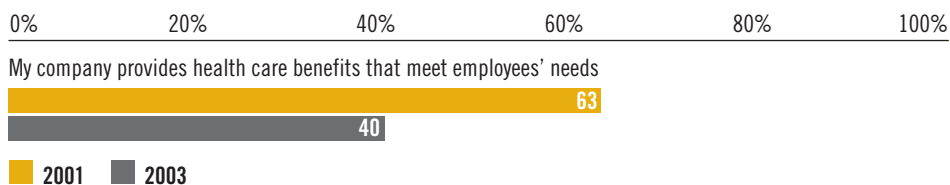
In a nutshell, relatively few employees are buying the company line about how health care costs are affecting the business. Only about a third of our employee respondents agree that rising costs could impact their company's ability to succeed, while 43% disagree (see *Exhibit 4*). What's more, only slightly over half of the employees responding to our survey say they *believe* what their employers communicate about health care costs.

This finding is consistent with other recent Towers Perrin research suggesting that the credibility of employee communications is low in many organizations (*Enhancing Corporate Credibility — Is It Time to Take the "Spin" Out of Employee Communication?*, Towers Perrin, 2003).

Employees are more likely to grasp the potential impact of rising health care costs on their benefits, and the vast majority (81%) say they see the impact of rising costs on their own budgets. In general, however, relatively few believe they should share more of the cost burden. Yet, those who see the potential impact on the business are more likely to understand how cost increases could squeeze their benefits. And these employees are almost three times more likely to agree that their employer can't absorb the added costs alone (see *Exhibit 5*, next page). Thus, one challenge for employers is to convince an increasingly skeptical employee audience that the business threat posed by rising health care costs is real.

### EXHIBIT 3

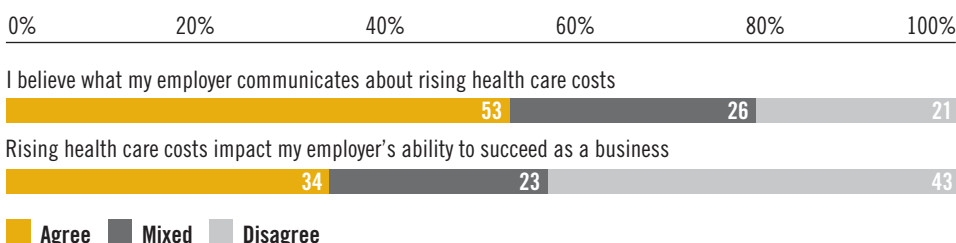
#### Perceived Value of Health Benefits: On the Decline



Source: *Understanding Employee Engagement: The 2003 Towers Perrin Talent Report*, Towers Perrin, 2003

### EXHIBIT 4

#### How Employees View Key Company Messages



Most employees believe they're already effective health care consumers and so may not see a need for change.

Perhaps the biggest challenge facing employers, however, is that many employees believe they're already effective health care consumers and so may not see a need for change in their behavior. While our employer respondents on average believe that only about a third of their employees are effective health care consumers, the vast majority (82%) of the employees surveyed think they're good consumers already. What's more, this percentage is actually up from 72% in our 2003 survey (see *Exhibit 6*). These diverging views on employees' effectiveness as health care consumers is one of the most significant disconnects identified by the surveys.

In fact, lack of a shared vision about what it means to be a good health care consumer may be the central issue determining whether consumerism strategies will work. Employees, for their part, may feel that they're good health care consumers for such reasons as:

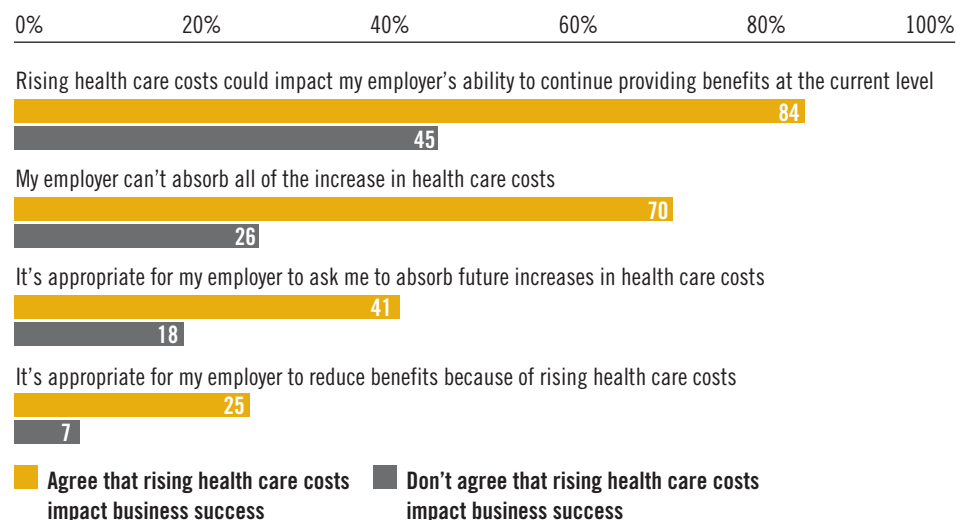
- They have a positive attitude (“I did what the doctor told me” or “I try to exercise, but just don't have the time”)
- They believe they're sufficiently thoughtful about how they spend their money and how much analysis they do in making decisions (“I asked my friends” about alternative treatments)
- They think they're paying the right price (i.e., the doctor visit is worth the \$15 they pay for it).

Employers, however, have different views on these very same issues, and typically don't believe employees are doing enough to discharge their responsibility to control the total cost. They are

more likely to view good consumer behavior as involving such things as greater attention to choosing appropriate coverage based on individual and family health needs, more scrupulous

#### EXHIBIT 5

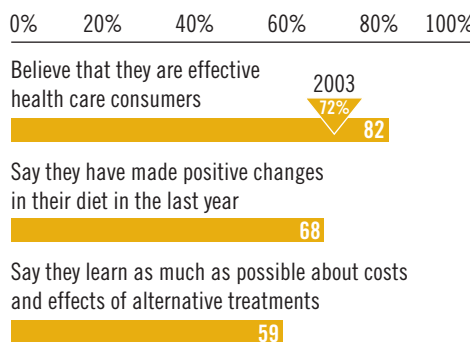
##### How Understanding the Business Implications Affects Employee Views



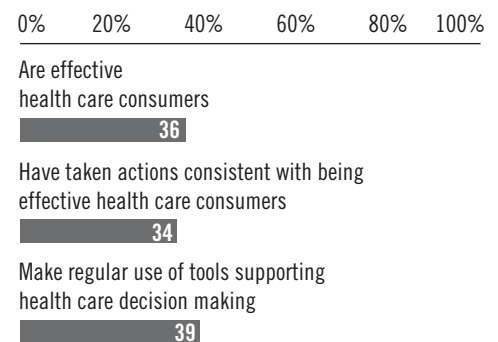
#### EXHIBIT 6

##### Diverging Views: Are Employees Effective Health Care Consumers?

###### Employee views: Percentage of employees who...



###### Employer views: Percentage of employees who...





What's clearly missing is communication that builds a shared understanding between employers and employees.

use of medical services (e.g., not visiting the doctor for a common cold), or greater adherence to a healthy diet. In any case, reaching a shared understanding between employers and employees of the behaviors implicit in being a “good consumer” is clearly a necessary first step in making a consumerism strategy successful.

#### THE GROWING COMMUNICATION GAP

Part of the reason for the growing divergence in views about health care comes down to communication. The problem, interestingly, is not frequency, but content and tone. Over two-thirds (69%) of our employer respondents say their organizations have communicated with employees in recent years about how rising health care costs affect the company. Another 29% indicate their companies will initiate or consider such communications in coming years. And most of the managers surveyed believe their organizations are doing an effective job of communicating with employees both about cost issues and about the value of company benefits (see *Exhibit 7*).

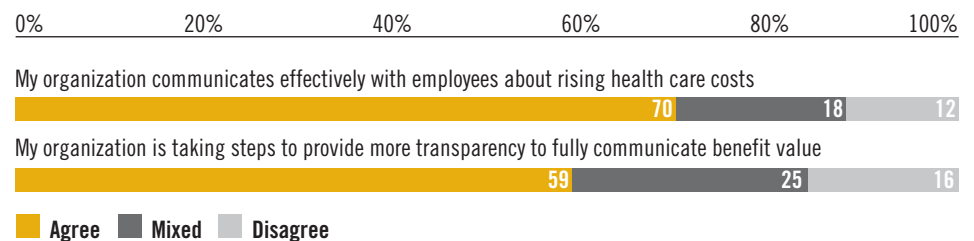
However, only about a third of our employer respondents feel their companies have sent clear messages about what employees need to do to

be effective health care consumers (see *Exhibit 8*). And even fewer report that their companies are communicating with employees about health care issues other than cost. So what's clearly missing is communication that builds a shared understanding between employers and employees.

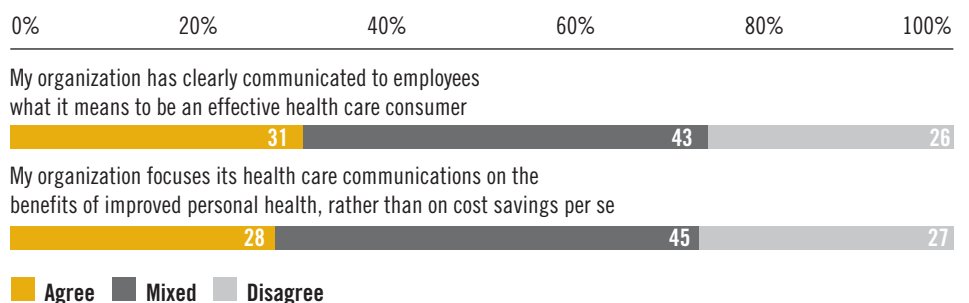
Indeed, employers' overriding focus on costs may help explain employees' growing resistance to company messages about health care overall and

consumerism in particular. Given the ongoing cost shifting that's taken place in many organizations over the past few years, many working Americans may now view their employer's health care communications as a broken record that can only bring bad news for employees on a personal level. As our survey responses show, employers' most common cost-control strategies of recent years — raising employee contributions and/or reducing benefits — are

#### EXHIBIT 7 Employer Views of Health Care Communications



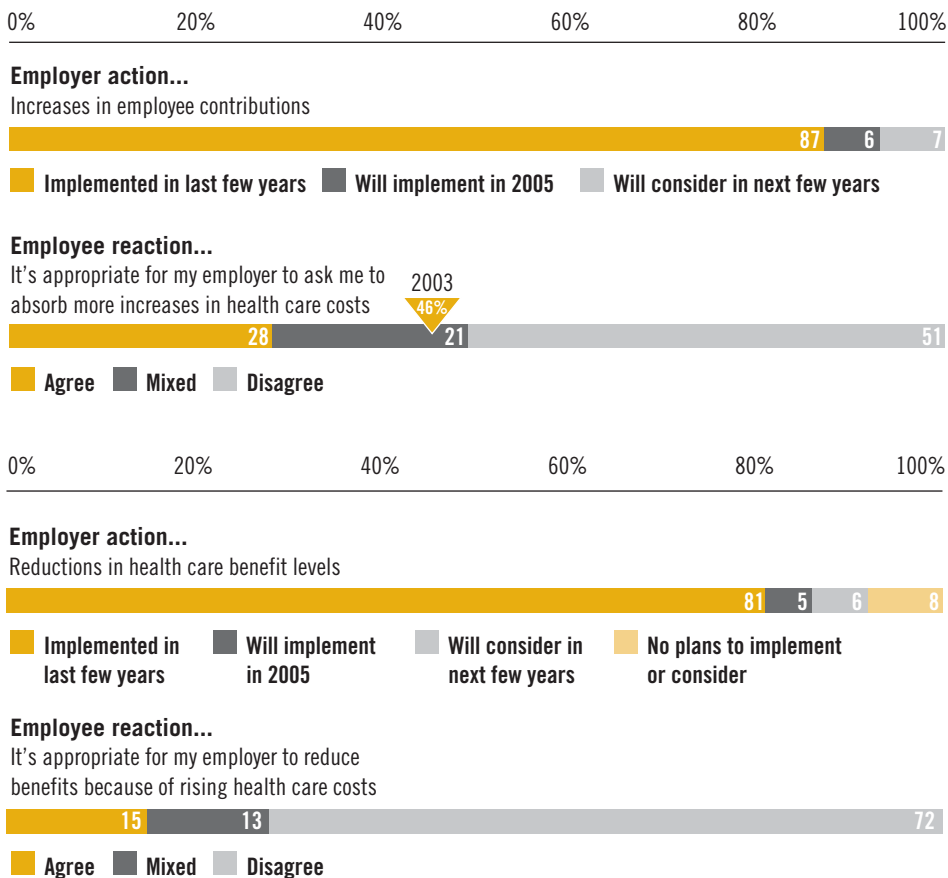
#### EXHIBIT 8 Key Communication Gaps



Employees appear open to behavior and program changes that could reduce costs for both them and their employers.

#### EXHIBIT 9

##### Growing Employee Resistance to Health Care Cost Shifting



the ones employees most resist (see *Exhibit 9*). And especially notable in our employee responses is the decline from last year in the percentage of employees who feel it's appropriate for their employers to ask them to share more of the increases in health care costs.

#### OPPORTUNITY FOR EMPLOYERS

Fortunately, our employee survey also indicates that employees are open to changing their behavior if they believe it's in their interest. For example, most employee respondents say they're open to a range of health management initiatives that directly benefit them (see *Exhibit 10*, next page). Among the key findings:

- Almost four out of five (79%) believe their employers should encourage employees to adopt healthy lifestyles.

- Almost as many (76%) say they would join a health plan that offered financial incentives for healthy behavior
- Just under two-thirds (64%) say they are willing to complete a confidential health risk assessment to help them identify health risks. This number was up significantly from our 2003 survey.

Many employees also believe their employers can play a role as a conduit for information and tools to help them manage their health and health care costs. Employer-provided resources viewed as most helpful by our employee respondents are:

- Health-related Web sites
- Information booklets and brochures
- Toll-free 800 number for independent nurse or nurse practitioner.

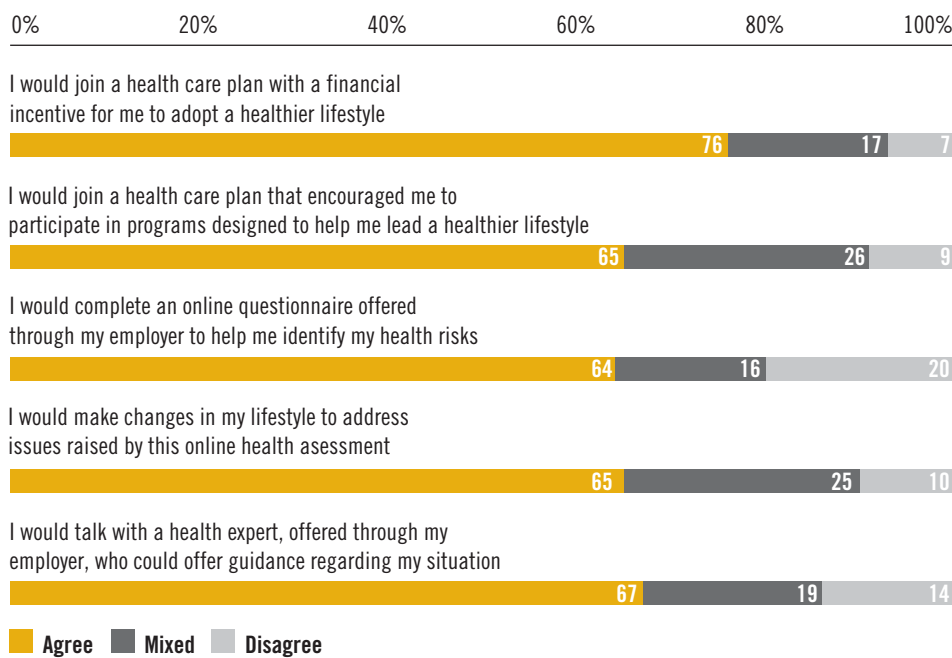
Clearly, employees understand that health care costs are a problem and they appear open to behavior and program changes that could reduce costs both for them and their employers. However, they are not motivated to change just to save their employers money. Employers have an opportunity to influence employee understanding and behavior, but they need to recognize that health care is an emotional issue for employees, not just a cost issue. For consumerism to be truly effective, employees need to believe it's in their interest.



The complex challenge posed by health care today calls for a disciplined approach to benefit program management that should mirror the disciplines the company applies to its other operations.

## EXHIBIT 10

### Employee Openness to Health Care Initiatives and Incentives



## GETTING TO WIN-WIN

Taken together, our surveys confirm that most U.S. employers see considerable promise in consumerism strategies to help them manage health care costs and that most employees are open to their employers playing a role in supporting effective consumer behaviors. What comes through loud and clear, however, is that employees are not fully engaged health care consumers today and that growing disconnects between employer and employee views threaten to undermine many employers' efforts.

To overcome these disconnects, employers need to recognize that employees have built up a strong sense of entitlement around health benefits along with an inertia and resistance to change that reflects the complex personal nature of health and health care issues in today's society. It's also important to remember that employees were largely shielded from the true cost of care during the managed care era, which encouraged them to "follow the rules" set by their health plans and behave as passive "users" rather than

informed purchasers. Given this mindset, it's easy to see why employees increasingly view their employers' efforts to share part of the increase in health care costs as takeaways and cost shifting.

So, how can employers get employees more actively involved in managing the demand for health care services? Our survey findings and consulting experience suggest that employers need to take a more holistic approach to the problem than many have traditionally. To this end, employers should focus on the desired result rather than a collection of tactics and one-off plan design changes and then align all supporting programs and program features with that result.

In fact, the complex challenge posed by health care today and level of senior management interest in outcomes for the organization calls for a more disciplined approach to benefit program management that should, in many ways, mirror the disciplines the company applies to other areas of its operations. An operating model for health benefits should consider both the program's structure and the way the program performs.

The benefit design should provide transparency to employees in terms of the true cost of care, as well as accountability for inefficient purchasing decisions.

So, for example, once consumerism has been established and articulated as the company's health care strategy, the benefit design should provide transparency to employees in terms of the true cost of care, as well as accountability for inefficient purchasing decisions (e.g., employees should pay more

for inappropriate emergency room visits or specialty services.) If the plan design uses a high-deductible, account-based approach, (a.k.a. "consumer-driven health plan"), it's particularly important that employees understand their financial opportunities and responsibilities as well as the actual cost of treatment alternatives.

From the employer's perspective, effective financial management means, first and foremost, defining and reaching the company's cost targets, as well as achieving efficiency goals for individual health plans and above-average efficiency for the program overall.

Delivery should align employer and employee interests by, for example, ensuring that vendors understand the employer's consumerist philosophy and monitor performance against employer goals, including employee satisfaction. Providing the right support for employees, such as care management, is equally important. Getting the delivery model right may also include making changes in the work environment so that the company doesn't send mixed signals about the importance of employee health (e.g., changing company cafeteria menus to reinforce the importance of a healthy diet). This is especially critical in view of the level of skepticism and distrust among employees today.

Another critical ingredient, of course, is making the connection with employees by appealing to their hearts and minds as well as to their pocketbooks (see box at left). Successful consumerism strategies require sustained communication efforts and a range of educational tools and information that respond directly to employees' health information needs, concerns and preferences. And, ultimately, employers need to craft messages and change processes that

#### **Case Study: Getting the Alignment Right**

Faced with a poorly performing medical plan and soaring health benefit costs, a major national retailer decided in late 2002 to replace the plan with a new consumer-driven plan design featuring a large deductible and company-funded medical spending accounts. The new plan was implemented quickly for the 2003 plan year, with little communication to employees. Employee reactions to the change were predominantly negative. In fact, given the company's inclusive culture and tradition of asking employees to vote on changes affecting them directly, it's not surprising that the plan's rollout created major employee relations problems.

To address this situation, the company asked Towers Perrin to conduct an in-depth evaluation and audit of the new plan and to assist company leaders in conducting a workforce survey to assess employees' needs, gauge their interest in benefit trade-offs and foster their acceptance and buy-in. Based on our evaluation and the employee survey results, the company revised the consumer-driven plan design and pricing, and developed an extensive employee communication strategy that was more consistent with the company's culture and values. As part of this strategy, the company asked all of its 30,000 employees to vote on whether the revised plan design (or two other alternatives) should be implemented for 2004.

The outcome: Almost 80% of the company's employees took part in the vote and the revised consumer-driven health plan was endorsed by 83% of those voting. As a result, the revised design was implemented for 2004 and the company's medical claims costs have declined by 13% thus far. Of equal importance to the company, follow-up surveys of plan participants have found high levels of understanding and satisfaction with the new plan design.

When supported by an effective operating model, consumerism can be a win-win proposition, optimizing program performance and the value of health care expenditures for individuals and the organization.

acknowledge the emotional aspects of health care and appeal to employees' self-interest, rather than positioning health care issues exclusively in the context of the company's business interests.

With a framework/operating model in place built on these key elements, supported by a leadership and monitoring process that includes periodic strategy review and ongoing measurement of key outcomes (spanning employee health, plan performance and financial metrics), consumerism can be a win-win proposition for employers and employees. That, in turn, can optimize the performance of the program and the value of health care expenditures for both individuals and the organization. Simply put, employees accept their role and appreciate the employer's efforts and the value the company provides. Employees make informed decisions about their health coverage, health lifestyle and use of health care services. Employees receive quality care and the company successfully manages costs.

#### ABOUT TOWERS PERRIN

Towers Perrin is a global professional services firm that helps organizations around the world optimize performance through effective people, risk and financial management.

The HR Services business of Towers Perrin provides global human resource consulting and administration services that help organizations effectively manage their investment in people. We offer our clients services in areas such as employee benefits, compensation, communication, change management, employee research and the delivery of HR services.