Future Trends in Employment, Health and Labor

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Agenda

- Affordable Care Act / Legislative Update
- State of the Healthcare / Insurance Market
- Municipal Health Plan Challenges
- Emerging Benefit Trends and Strategies
Affordable Care Act / Legislative Update
Results | Accessibility Grew!

14.5% or 45.0 million Americans were uninsured in 2013

September 2017
U.S. = 8.6%

Illinois = 6.5%
(817,000) per U.S. Census Bureau from a high of (1,618,000) or 12.7% in 2013

Across the US Medicaid increased 70% from 2011-2015.
Young Invincible Still sitting out

14.5% or 45.0 million Americans were uninsured in 2013

U.S. Department of Commerce – September 2017
Results | Affordability Remains Challenged!

Cumulative Increases in Health Insurance Premiums, Workers’ Contributions to Premiums, Inflation, and Workers’ Earnings, 1999-2016

Not Bending the Trend

Where Are They Insured Today?

*Kaiser

54% 34%

Uninsured

6% 6%
Employer Based Plans Are At Their Limits!

#1 Benefit to Attract Talent

Healthcare for a family of 4 tripled since 2001

Rising Medical and Rx Trend

ACA Compliance and Taxes

Cadillac Tax GASB 74/75 Liability

*Milliman 2016 Medical Index.
Repeal and Replace?
The Balloon Effect - What Happens in one healthcare market segment impacts another!
Affordable Care Act | What’s Next?

- **Individual Mandate Penalty $0 starting 2019**
- **Employer Mandate Remains**
  - Reporting still required with some extensions
  - Penalty Enforcement begins for those not offering coverage to full time 30+ hour employees.
  - Look for IRS Employer Penalty Letter 226J and react quickly!
- **Wellness 30% Differential Rule at odds with EEOC interpretation**
Affordable Care Act | What’s Next?

- Cadillac Tax Remains – starting January 2020
  - Several Bills being reviewed to again POSTPONE the Cadillac Tax, Health Insurance Provider Tax (HIT) and Medical Device Tax

- GASB 74 / 75 (OPEB) Implications
  - Stricter Calculations and Reporting Requirements
Affordable Care Act | What’s Next?

- President’s Executive Order Takes Shape!
  - Association Plans Formally Proposed - More Competition
    - Individual and Small Group
    - Seeking Economy's of Scale and Avoiding Costly Mandates
  - Illinois excludes pre-existing condition clause for future health programs
  - QSERA – Health Reimbursement Arrangements for groups under 50
State of the Healthcare / Insurance Market
Factors Driving Cost

Specialty Rx

$1 Million Claims On The Rise
Most Common: Leukemia, Transplants, Premature Babies
Change Is Happening All Around Us

- Markets are Seeking Efficiencies
  - Providers are being Paid for Performance not Volume
    - ACO (Accountable Care)
    - Greater Transparency to Consumers
- Normal Distribution Channels Are Being Disrupted
  - Telemedicine
  - Go Big or Go Home (ADVOCATE AND AURORA)
  - CVS Purchasing AETNA
  - AMAZON Testing Mail-Order Rx Business
Fastest Growing Sectors in Health Care

- Prescription Drugs: 9.0%
- Other Health Residential and Personal Care: 7.8%
- Total Physician and Clinical Expenditures: 6.3%
- Total Home Healthcare Expenditures: 6.3%
- Total Durable Medical Equipment Expenditures: 3.9%
- Government Administration: 3.4%
- Nursing and Retirement Continuing-Care: 2.7%
Specialty Drugs Are Driving Trend

Express Scripts drug spending growth trend by therapy class, 2006 -2014

Why Do Municipal Health Benefits Cost More?
• Benchmark Data from Blue Cross Blue Shield of Illinois
  • 150+ Life Employers Groups
  • Industry Vs. Book of Business
• Critical Differences Equate to:
  • Higher Premiums
  • Higher ACA Taxes, Including Cadillac Tax
  • Higher GASB 74/75 (OPEB) Liability
• Per Capita Cost Comparison (Mercer Study)
Age Differentials

BoB vs. EXECUTIVE, LEGISLATIVE, AND GENERAL GOVERNMENT, EXCEPT FINANCE

Average Age

Influenced by Participation of Older Generation Brackets including Retirees
Membership Participation

BoB vs. EXECUTIVE, LEGISLATIVE, AND GENERAL GOVERNMENT, EXCEPT FINANCE

Members per Subscriber

- 2.3 for BoB
- 2.5 for Ind

10% More Belly Buttons Insured

12% fewer Singles, 28% more Families
Risk Differentials

BoB vs. EXECUTIVE, LEGISLATIVE, AND GENERAL GOVERNMENT, EXCEPT FINANCE

Average Risk Score

<table>
<thead>
<tr>
<th></th>
<th>Member</th>
<th>Subscriber</th>
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<tbody>
<tr>
<td>BoB</td>
<td>100</td>
<td>158</td>
</tr>
<tr>
<td>Industry</td>
<td>119</td>
<td>124</td>
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28% Greater Risk
Cost Differentials

BoB vs. EXECUTIVE, LEGISLATIVE, AND GENERAL GOVERNMENT, EXCEPT FINANCE

Cost Comparison
Allowed PMPM Amount - Incurred 11/01/2016 - 10/31/2017
Paid Through 12/31/2017

35% Higher Cost
## Benefit Per Capita Cost Comparison

<table>
<thead>
<tr>
<th>Industry</th>
<th>Cost Per Employee*</th>
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<tbody>
<tr>
<td>Government</td>
<td>$13,342</td>
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<tr>
<td>Wholesale / Retail</td>
<td>$10,789</td>
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<tr>
<td>Healthcare</td>
<td>$11,960</td>
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<tr>
<td>Financial Services</td>
<td>$11,966</td>
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<td>Manufacturing</td>
<td>$12,711</td>
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*Mercer Health Study 2016*
Emerging Trends and Benefit Strategies

Controlling Vital Cost Components –

Risk and Demographics
Bending Trend Requires Managing Risk

Emerging Trends and Strategies

- Technology – Telehealth, Cost Transparency
- Worksite Wellness (Well-Being)
- Managing Eligibility
- Generational Benefit Planning –
  - War for Talent!
- Defined Contribution Cost Sharing
- Consumerism HSA / HRA
- Rx Management
Managing Eligibility

- Eligibility Management Can Impact Risk and Cost
  - OPT-OUT Programs for Employees
    - Unconditional vs. Conditional
    - Unconditional Arrangements will require the Opt-Out Payment to be included in the Affordability Test.
  - Other Tactics
    - 4 – Tier Rate Structure
    - Spouse Opt-Out Programs
    - Retiree Incentives (Pre and Post Age 65)
Retiree HealthCare | Why Review?

- Retirees Pre-65 and Post-65 are higher claimants than Active Employees, in many cases by 2:1 or even 3:1!!
- This higher implicit cost raises the price for everyone else on your plan also raising the Cadillac Tax Exposure and GASB (OPEB) liability!

![Graph showing the comparison between Blended premium and True age related cost for Employees and Retirees across different ages.](image)
Millennials will comprise the majority of the workforce by 2025.

Source: U.S. Census Bureau.
What Impact Will Full Employment Have?

**US to Illinois Unemployment Rates**

October 2017
4.1% US
4.9% Illinois

Data Source: BLS
<table>
<thead>
<tr>
<th>Benefit Objective</th>
<th>2015</th>
<th>2016</th>
<th>Change</th>
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<tbody>
<tr>
<td>Attract Employees</td>
<td>75%</td>
<td>80%</td>
<td>+ 5</td>
</tr>
<tr>
<td>Increase Employee Satisfaction</td>
<td>77%</td>
<td>80%</td>
<td>+ 3</td>
</tr>
<tr>
<td>Increase Employee Productivity</td>
<td>74%</td>
<td>79%</td>
<td>+ 5</td>
</tr>
<tr>
<td>Increase Employee Loyalty</td>
<td>73%</td>
<td>78%</td>
<td>+ 5</td>
</tr>
<tr>
<td>Help Employees Make Better Financial Decisions</td>
<td>53%</td>
<td>60%</td>
<td>+ 7</td>
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Must Have Benefits

[Chart showing the percentage of Must Have Benefits across different age groups (Millenials 21-34, Gen X 35-50, Boomers 51-65+) for various benefits such as Medical, Prescription drug, Vision, Defined Contribution Retirement Plan, Dental, and Life.]
Customization Increases Loyalty & Attraction

Employees seek diverse benefit experiences.

55% of employees want customized benefit options based on their personal information.

Ability to customize my benefits to meet my needs.

72% of employees will be more loyal to their current employer.

74% of employees will be more likely to accept a job with a new employer.
Revisiting Emerging Trends and Strategies

- Technology – Telehealth, Cost Transparency
- Worksite Wellness (Well-Being)

**Managing Eligibility**

**Generational Benefit Planning** –

- *War for Talent!*
- Defined Contribution Cost Sharing
- Consumerism HSA / HRA
- Rx Management
The Affordable Care Act allowed Millions to gain Access to Healthcare through subsidies or as dependents on parent’s plans to age 26.

Affordability has been defied throughout causing serious challenges to sustainability of Employer Sponsored Health Plans.

The Individual Mandate Penalty has been reduced to $0 starting with taxes/penalties paid for the 2019 tax year.

Executive Orders will fill the Gaps rather than full out Repeal.

The State of the Healthcare / Insurance Market is still experiencing high trend much caused by Rx innovation and inflation.

Municipal Markets are experiencing high trend due to industry and market characteristics.

Benchmarks vs. Private Sector shows more participation and at higher risk!
Key Takeaways

- Risk and Demographic control are vital cost containment components of Municipal Plans.
- Popular Demographic Control Tactics include Opt-Out Programs for Employees, Spouses and Retirees.
- The War for Talent has begun due to low unemployment levels and the Millennial generation reaching 50% of the workforce.
- The Value of Benefits has increased, especially if Customized.
- Employees are more likely to seek or stay with Employers who offer a more Customized benefit offering.
- The ACA remains the Law of the Land - Keep Your Plans ACA Compliant to minimize taxes and avoid penalties!
Questions
Thank You!