

# Employers' Readiness to Adopt Value-Based Benefit Strategies

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**Employers' Readiness to Change  
Survey Results: Plan Years 2006-08**





# Survey Results from Midwest Business Group on Health Show Leading Edge Employers Are Much More Aggressive at Making Changes in Benefit Programs

*These leading edge employers are gathering data about benefits from more sources and getting better results than companies with a more traditional approach to benefit design*

## EXECUTIVE SUMMARY

While still greatly concerned about the cost of health care, employers are recognizing that health and productivity are important results to expect from employee benefits programs, according to a survey from the Midwest Business Group on Health. The survey also shows that forward-thinking (or leading edge) employers are much more aggressive about making changes in benefit programs for their workers and they are getting much better results than companies with more traditional approaches to benefit strategies. Leading edge employers are more willing to try promising but unproven strategies than other companies and are improving their disease management efforts to include disease prevention and are implementing value-based benefits. The findings are drawn from a nationwide survey of 163 U.S. employers conducted during the fall of 2006 by the nonprofit Midwest Business Group on Health (MBGH) in Chicago. Called the Readiness to Change Survey, the research was conducted to determine employer understanding of, use of, and readiness to adopt value-based benefit design (VBBD) strategies, and to identify which strategies and experiences employers are currently promoting or using.

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## READINESS TO CHANGE SURVEY SHOWS EMPLOYERS ARE SHIFTING FOCUS

U.S. employers have long sought to keep health care costs down, but now a growing focus on improving the health of the workforce is beginning to take hold as well. Increasingly, employers are creating incentives designed to change employee behavior, not just by introducing disease management programs, but also by trying to prevent disease in the first place. Changing employee behavior and preventing disease are relatively new ways to contain health care spending.

The fact that forward-thinking companies are taking this aggressive approach toward slowing the rate of rising health care costs compared with the approaches of their more conventional counterparts suggests that these companies may well be on the leading edge of a new and promising trend in health benefit design, one that appears to be providing positive results for both employers and workers.

These findings are drawn from a nationwide survey of 163 U.S. employers conducted by the nonprofit Midwest Business Group on Health (MBGH), in Chicago. Called the Readiness to Change Survey, the research was conducted to determine employer understanding, use of, and readiness to adopt value-based benefit design (VBBD) strategies, and to identify which strategies and experiences employers are currently promoting or using.

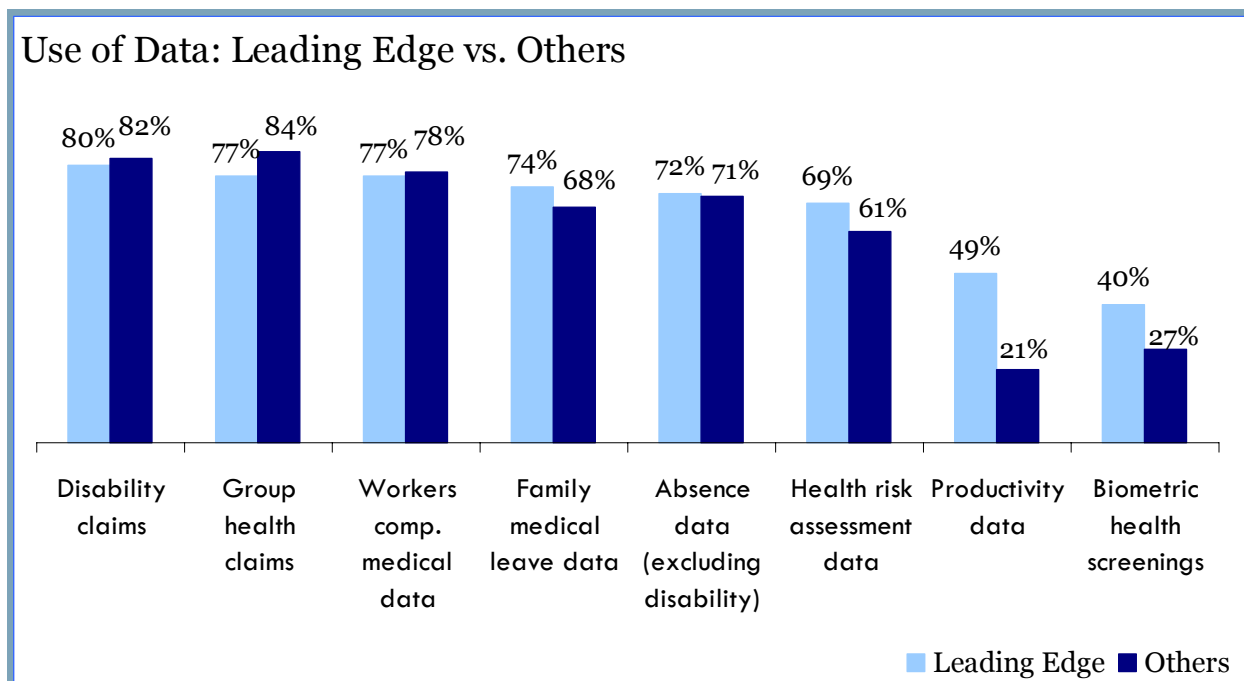
The survey results show that companies that consider themselves to be leading edge when it comes to health benefit design—meaning they are willing to try promising but unproven strategies—are not only broadening their disease management efforts to include disease prevention, but they also are moving away from cost shifting exclusively and moving toward implementing value-based benefits.

For example, the leading edge employers are more likely than other employers to offer employees incentives to obtain preventive health services, and to choose doctors and hospitals based on quality. As a result, these companies are finding that their health benefit costs are rising along with those of other companies, but their costs are rising at a slower rate.

## LEADING EDGE EMPLOYERS SHOW THE WAY

Among respondents, 21% describe themselves as “leading edge,” meaning they are willing to try new benefit design strategies based on the perceived, yet untested, value of the strategies. A second group of respondents characterize themselves as “careful watchers” and represent 54% of the employers responding. This group is willing to try new benefit strategies once the competition adopts them or when they see preliminary evidence of a positive return on investment. The third and last group of respondents represent 25% of the total and consider themselves “conservative,” meaning they are willing to try a new benefit strategy after it becomes an industry standard.

Leading edge employers generally share several characteristics that contribute to their status as early adopters of innovative benefit design strategies. They view the health of their workers as an asset and the cost of health benefits as an investment in human capital. Senior leaders at these companies are typically influential in designing health benefits, relying not only on commonly used data such as group health claims and disability information, but also on integrated cost and productivity data as well as information from health risk assessments (see Figure 1). These companies are also unusual because they factor into their decisions about benefit design the experience of other leading edge companies and academic research as well.



**Figure 1**

Nearly all employers (95%) agree that there is a link between an employee's health and his or her productivity. What sets leading edge companies apart from others is their willingness to pursue strategies aggressively to maximize employee health. Put another way, these companies are pursuing value-based benefit design by incorporating strategies that offer the best care for their money. Nearly 58% of respondents say they pay an incentive (primarily by contributing to a health savings account or a health reimbursement arrangement) to get workers to complete health risk assessments or they have plans to begin such a program. In addition, leading edge companies also tend to offer programs they believe will address health issues identified in those assessments. They are more likely to provide incentives that drive employees toward choices that may prevent illness and complications from illness.

For example, 62% of leading edge employers currently provide or plan to provide cash or other incentives to motivate employees to use preventive health services, compared with 34% of other employers. Leading edge employers also are more likely to waive co-payments to encourage participation in disease management programs.

Conversely, when it comes to encouraging smokers to quit, more leading edge employers use a stick—higher health premiums for smokers—than the carrot—lower premiums for non-smokers—that other employers favor. In both cases, however, the proportion of employers that currently have or plan to have smoking cessation incentives remains below 25%.

*...leading edge companies are pursuing value-based benefit design by focusing heavily on illness prevention.*

Leading edge employers also foster value-based benefit design by educating employees about health care quality and outcomes, and creating incentives that drive employees to choose high-quality providers, hospitals, and medical centers of excellence. The survey results show that leading edge companies are pursuing value-based benefit design by focusing heavily on illness prevention. One method these companies use for illness prevention involves contracting with disease management vendors to establish programs for workers with chronic conditions. The aim of these programs is to prevent hospitalizations and other costly complications. Leading edge companies also are focusing on illness prevention by providing incentives for employees to use the best physicians and the best hospitals (Figure 2). These companies find value in illness prevention so that they are using a combination of strategies to increase employee participation in illness-prevention efforts.

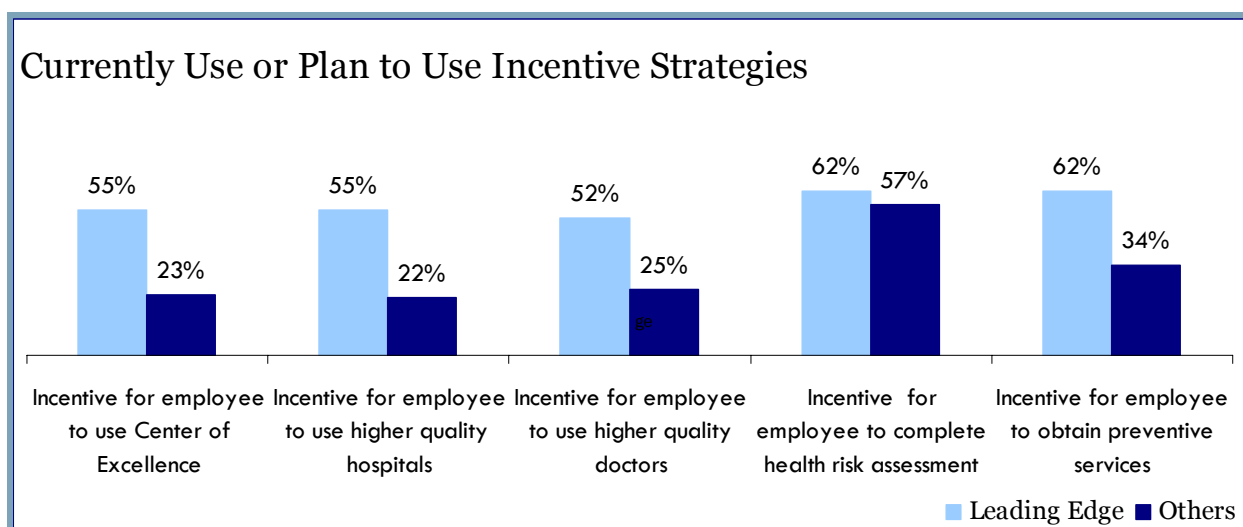


Figure 2

What's more, leading edge companies are willing to invest in illness prevention (Figure 3).

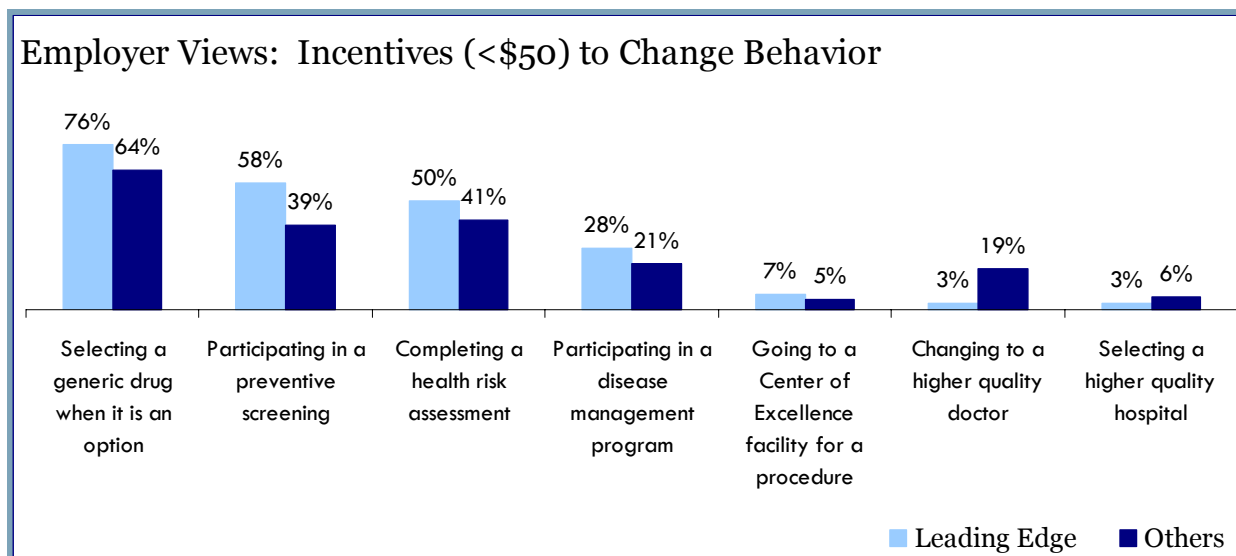


Figure 3

For example, more of the leading edge companies offer an incentive of greater than \$50 for participating in an illness-prevention screening than other companies (58% to 39%), for completing a health risk assessment (50% to 41%), and participating in a disease management program (28% to 21%). More leading edge companies than companies with a more traditional approach to benefits offer an incentive of \$51 to \$300 for changing to a higher quality doctor (49% to 35%) (Figure 4).

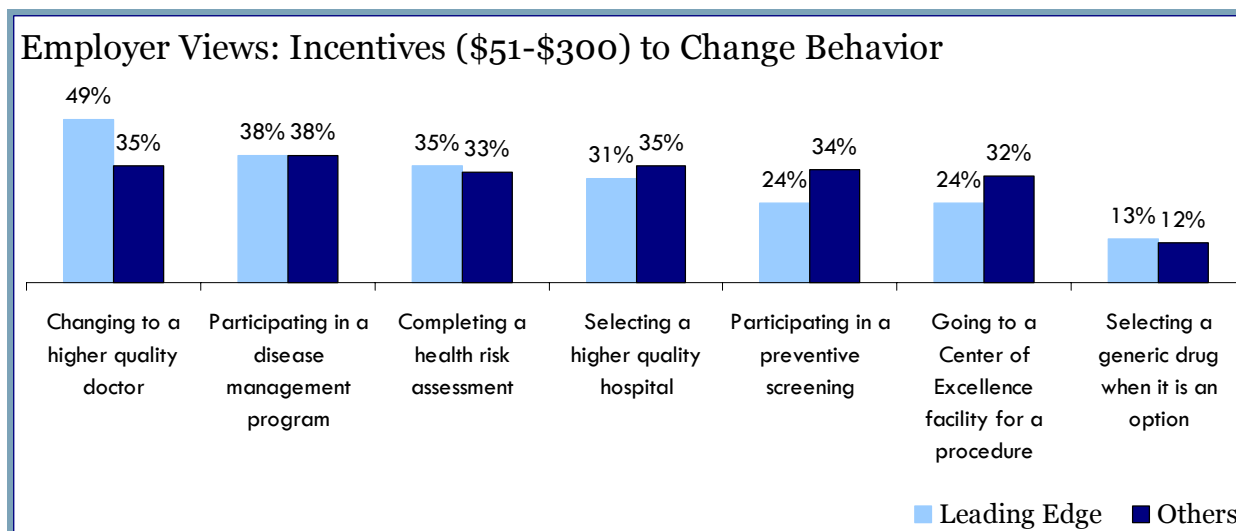


Figure 4

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Generally, the survey respondents define provider quality in terms of “better outcomes getting people back to work,” as well as providers who practice evidence-based medicine. Most respondents would rather pay employees to select better physicians and hospitals than pay providers for higher quality care (and the respondents are about evenly split in their views on whether paying physicians more for quality actually improves results). The respondents also believe there is insufficient information about the quality of care doctors and hospitals provide to enable consumers to make informed decisions. Nevertheless, 60% say they believe workers would be willing to change providers if they understood how quality varies and how quality affects health outcomes.

*Most respondents would rather pay employees to select better physicians and hospitals than pay providers for higher quality care...*

Most respondents (64%) say they are interested in offering “high performance” networks that offer a combination of cost-efficiency and high quality. Only 21% would offer a network of only cost-efficient providers. And 70% of respondents believe they should not have to pay hospitals for services provided due to preventable medical errors.

## **COST SHARING**

Nearly all respondents (94%) agree that employees need information about their out-of-pocket health care expenses in order to make informed choices about their health care options. Fifty-three percent (53%) of all respondents and 68% of leading edge employers agree that employee cost sharing reduces doctor visits. The challenge for employers focused on improving workplace health is to create cost-sharing strategies and incentives that work in concert to reduce unnecessary care and associated costs, while not discouraging patients from getting appropriate care.

About 62% of respondents believe that co-payments for drugs do not act as barriers to employees achieving optimal outcomes. In some cases, respondents may hold this opinion because they have already decreased the co-payment for some drugs (especially generic medications) to reduce potential cost barriers.

Leading edge companies recognize that the use of drugs proven to be effective for a condition reduces the cost of other health services for that condition, and they support their belief in the cost-efficiency of generic medications by mandating their use at about twice the rate of other employers (see Figure 5).

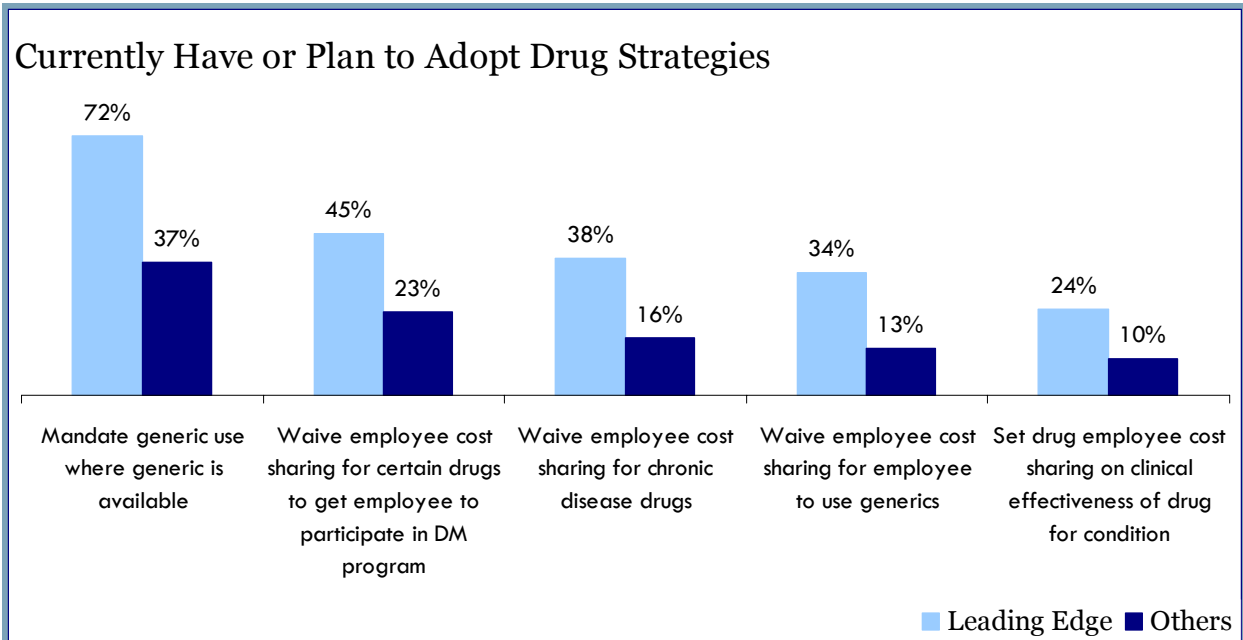


Figure 5

Contribution strategies among leading edge companies are more than twice as likely to be set to the lowest cost-benefit option as other respondents use (Figure 6), rather than setting the contribution strategies according to salary tiers. Additionally, leading edge employers also tend to make higher contributions to HRA and HSA accounts for employees with chronic conditions.

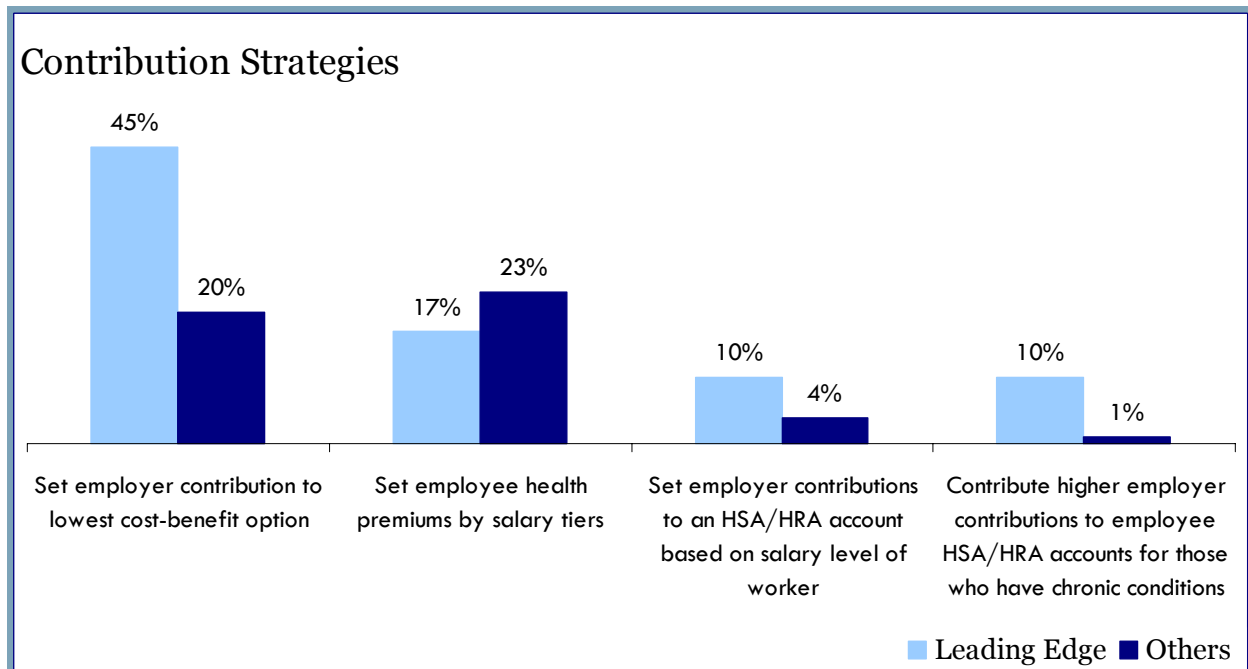


Figure 6

## COST TRENDS

Between 2003 and 2005, the majority of respondents surveyed experienced increases in health benefit costs ranging from 6% to 20%. But leading edge employers generally experienced lower percentage increases than other employers (Figure 7), a significant result given how much employers focus on containing costs.

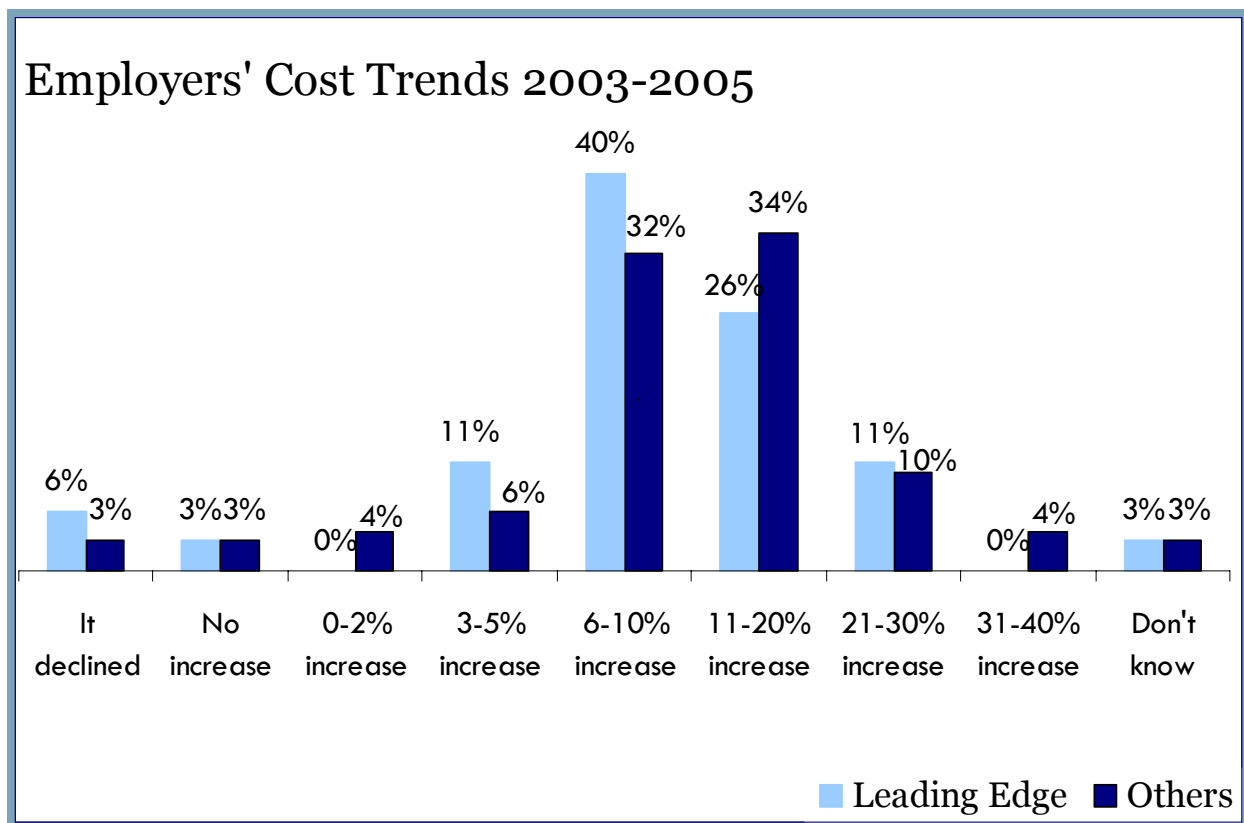


Figure 7

This result suggests that a dual focus on keeping costs down—such as by mandating the use of generic drugs—and improving employee health—by removing barriers to disease management programs, for example—may be having the desired effect on health care costs. The survey did not explore what effect these approaches have had on workers' health or health risks.

One other distinction between leading edge companies and those with a more traditional approach to benefits is that leading edge companies seek useful information about benefits strategies more aggressively than the more traditional companies do. For example, leading edge companies tend to use information on benefit strategies from academic sources and from other researchers. These companies also use data they collect themselves from their own employee surveys. They also tend to use more information from coalitions than other companies do. (Since the survey was done by a coalition, it is difficult to know if the survey's sponsor influenced the results on this

question.) The point is that leading edge companies tend to look beyond the traditional sources of information on benefit strategies.

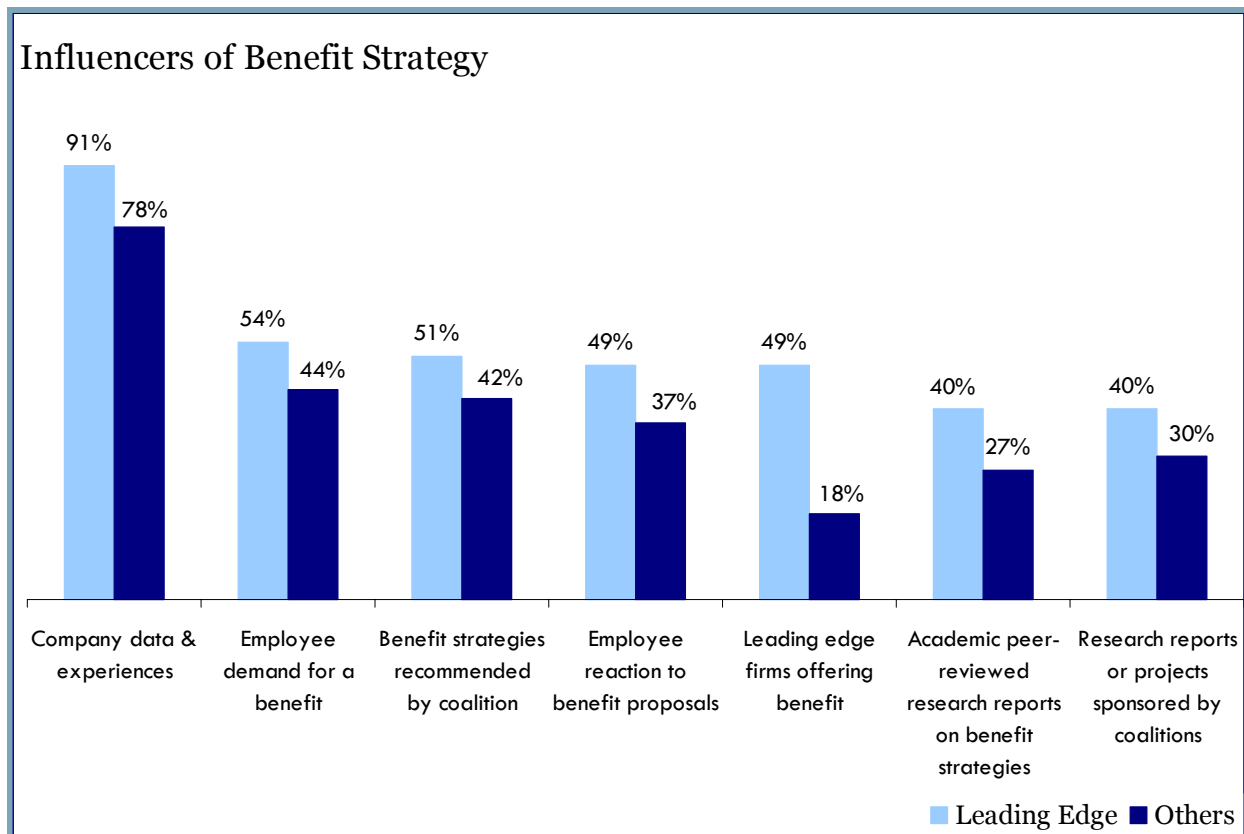


Figure 8

As seen in Figure 8, leading edge companies rely on information from other leading edge companies, academic peer-reviewed research, information from coalitions, and employee reaction much more heavily than other companies do. The leading edge companies also use their own data and experience (91% versus 78%). In other words, these companies are using a wide variety of data when making decisions about benefit strategies.

## CONCLUSION

The key benefit design strategies that leading edge employers currently use include:

- Focusing on enhancing the health of the workforce;
- Using incentives for participation in wellness and disease management programs; and
- Integrating cost and productivity data to help shape benefit design.

These value-based purchasing principles are intended to have a positive effect on the costs of care and the health of the workforce. The leading edge employers in the survey are using these strategies and are holding down the rate of increases in their health benefit programs.

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## THE SURVEY METHODOLOGY

The Readiness to Change Survey was distributed via e-mail by 14 business coalitions to more than 400 employers nationwide. Results were received from 163 employers representing a cross-section of industries. A majority of respondents, 34%, were manufacturers. Some 63% of respondents were located in the north central United States. Among respondents, 30% had more than 5,000 employees, 33% had 500 to 5,000 employees, and 37% had fewer than 500 employees. Cost trends among the companies were consistent with national trends between 2003 and 2005, averaging annual increases of 9% to 14%. Data analysis was conducted by MBGH staff and funded through an agreement with GlaxoSmithKline. Freelance writer Joseph Burns authored the publication.

MBGH's Project Advisory Council reviewed and approved the survey before it was sent to respondents. Members of the council include leading employers, coalitions, researchers, health plans, and consultants. The survey was designed to elicit responses in the following areas: employer demographics; cost trends from 2003 to 2005; positions on benefit philosophies; data activities; perspectives and experience with value-based benefit strategies; perspectives on availability of quality information; and sources and influences of benefit strategy information.

The survey was conducted with the following four primary objectives:

1. To determine employer familiarity with, understanding of, use of, and readiness to adopt various value-based benefit design strategies such as incentives for employees; pay-for-performance programs; consumer engagement strategies; and removing barriers to improve compliance with treatment;
2. To determine employers' use of and understanding of the data required to see the total costs of health; the effect of health on productivity; and adherence, compliance, quality, and wellness programs;
3. To determine the key elements required for organizations to adopt new benefit strategies; and
4. To identify what strategies or elements contribute to lower cost trends.

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