



AMERICAN BENEFITS

COUNCIL

Statement from

Michael J. Langan

Principal, Towers Perrin

On behalf of the American Benefits Council

Before the

U.S. House of Representatives

Committee on Education and Labor

Subcommittee on Health, Employment, Labor and Pensions

Hearing on

**“Ways to Reduce the Cost of Health Insurance for
Employers, Employees and Their Families”**

April 23, 2009

Mr. Chairman, Ranking Member Kline and members of the subcommittee, thank you for the opportunity to join you today at this important hearing on “Ways to Reduce the Cost of Health Insurance for Employers, Employees and their Families.” My name is Michael J. Langan and I am a Principal at Towers Perrin where I manage a group of employee benefits attorneys who analyze legislative and regulatory issues affecting employer benefit and compensation programs, including retirement, health and welfare, executive compensation and other human resource issues.

Towers Perrin is a global professional services firm that helps organizations improve performance through effective people, risk and financial management. The firm provides innovative solutions in the area of human capital strategy, program design and management, and in the areas of risk and capital management, insurance and reinsurance intermediary services and actuarial consulting. We have offices and alliance partners throughout the United States and in Canada, Europe, Asia, Latin America, South Africa, the Middle East, Australia and New Zealand.

I am here today on behalf of the American Benefits Council, a trade association representing principally Fortune 500 companies and other organizations that assist employers of all sizes in providing benefits to employees. Collectively, the Council’s members either sponsor directly or provide services to retirement and health plans covering more than 100 million Americans.

In addition to my own background providing consulting advice to our clients to help them meet the benefits needs of their employees, my statement today is drawn from the diverse experience of the Council’s membership, particularly its Board of Directors, which has shaped a set of 10 practical prescriptions to improve our health care system. The Council’s recommendations on health reform are contained in its January 2009 report, *Condition Critical*, which is aimed at achieving a stronger, more sustainable health care system. I was privileged to serve as a member of the Council’s Health Care Reform Task Force that worked throughout much of last year analyzing the many strengths and needs of our health care system and developing a set of specific policy proposals that we believe would build on its strengths while improving health quality, lowering health costs and extending coverage to all Americans.

The Importance of Employer-Sponsored Health Coverage

Mr. Chairman and Representative Kline, we are particularly grateful for your understanding and support for the employer-based health care system and your recognition of the vital role it plays in providing health coverage to more than 160 million Americans. As you, and all the members of this subcommittee, prepare to consider health reform legislation, we firmly believe that the employer-based health care system provides a solid foundation upon which to build toward the shared goal of achieving universal coverage.

In the Council's *Condition Critical* report, Prescription #1 calls for building on what works. For us, the best reform options are those that preserve and strengthen the voluntary role employers play as the largest source of health coverage for most Americans. By keeping employers engaged as sponsors of health coverage, we also keep the innovation and expertise employers bring to the table in the collective effort to achieve broad-based, practical health system reform.

One of the many strengths of our voluntary employer-based system is that group purchasing lowers health care costs because employers, especially larger employers, are able to effectively pool the risks of employees. In addition, employers are demanding purchasers of health care services. They are increasingly focused on leveraging their health care dollars with those who can demonstrate proven value and improved health care status for their employees and their families. Because employers have a strong interest in the health and productivity of their workforce, they work hard to identify solutions that improve productivity, reduce chronic illness, and lower disability costs. These investments in the health of their workforce not only provide broad access to primary care and specialty services, they increasingly have engaged employees in innovative health coaching and healthy lifestyle programs, cost and quality transparency initiatives, pharmaceutical management programs, and value-based health plan designs.

Typically, employers do not consider pre-existing health conditions when offering health coverage to their employees and do not adjust premiums, or limit coverage based on individual health status. Further, with the enactment of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), individuals cannot be denied health coverage due to their health status as they move from job to job. Employees typically report high levels of satisfaction with the health coverage they obtain through their employer and increasingly understand its value as the high cost of health coverage would make it much more difficult to obtain on their own.

Finally, it is important to keep in mind that nearly all employers with 200 or more employees provide health care coverage today. In fact, data from a 2008 Kaiser Family Foundation survey shows that 99 percent of employers with 200 or more employees offered health benefits to their workers, and that this percentage has never been lower than 98 percent at any time over the last ten years. By comparison, the same survey shows that 62 percent of firms with fewer than 200 employees offered health coverage.

As the subcommittee considers coverage solutions as part of health reform, we believe that strategies that focus on making health coverage more affordable for employers of all sizes is the best way to ensure both the continuation of the extremely high levels of participation by larger employers and increase the level of participation by smaller employers. Indeed, one reason we believe that a "pay or play" approach would be an inappropriate coverage solution is that the myriad requirements that would inevitably be imposed on those who might prefer to sponsor health coverage would ultimately, if

unintentionally, result in a net reduction in employer-sponsored coverage by leading some companies to simply “pay” rather than “play”. This would lower the level of active employer engagement and their important role as innovative and demanding purchasers of health care services.

Maintaining the ERISA Framework

We believe that a vitally important component of maintaining a strong employer-based health system starts with protecting the federal regulatory framework established by the Employee Retirement Income Security Act (ERISA) that allows employers to offer valuable benefits to their employees under a single set of rules, rather than being subjected to conflicting and costly state or local regulations. Employers that operate across state borders consider ERISA’s framework essential to their ability to offer and administer employee benefits consistently and efficiently. This regulatory approach also translates into better benefits and lower costs for employees. In addition, holding employer-sponsored benefits accountable under a single set of rules, interpreted at the federal level, as ERISA now does, is fundamentally fair to all employees covered under the same plan regardless of where they may live.

State benefit mandates alone can add as much as 12 percent of total premium according to a 2006 report by the Massachusetts Division of Health Care Finance and Policy, a cost that must be borne by both employers and employees who share the full cost of coverage. Importantly, most large employers who operate on a multi-state or national basis consistently report that without the ERISA framework they would face the untenable choice of attempting to maintain health coverage for their employees at even higher costs because of the need to meet each state’s separate set of benefits and regulatory requirements, or dropping health coverage entirely.

Improving the Individual Insurance Market and Public Programs

Health care reform will also require measures to ensure that those outside of employment-based health coverage are able to obtain meaningful, affordable coverage through the individual health insurance market. Our proposals include recommendations that would ensure that any person without health coverage through an employer and who is not otherwise eligible for coverage under a state or federal health insurance program could obtain in any state at least one individual market insurance plan that meets minimum federal requirements. These insurance products should be exempt from additional state benefit mandates, but for all other purposes – such as consumer protections, solvency requirements, rating rules and other requirements – state standards would continue to apply.

We also believe that reformed state-based high risk pools that meet minimum federal standards for coverage and rating can play a significant role in helping to keep the individual insurance market more affordable and competitive. In order to keep

coverage affordable for those enrolled in high-risk pools, we propose that premiums paid by enrollees in these state-based programs be limited and claims expenses that exceed the funding from enrollee premiums be shared by state and federal governments.

In addition to employer-based health coverage and improving the individual health insurance market, we believe that public health insurance programs such as Medicaid, Medicare and the Children's Health Insurance Program (CHIP) all must be improved, particularly by moving toward payment systems that reward health care providers who consistently meet evidence-based performance standards and away from payments based simply on the quantity of services delivered. Our recommendations for health care reform also call for the establishment of a federal eligibility floor for coverage for adults under Medicaid and more effective outreach and incentives for states to reach the more than 10 million individuals who are estimated to be eligible for health coverage under state-based health programs, but are not yet enrolled.

We also believe that the appropriate role for public health insurance programs is to complement, rather than compete with, private health plan options. Our vision of health reform calls for improvements in both private health insurance products, especially in the individual insurance market, and in public programs. Both have important roles to play in a reformed and robust health care system. However, we also think that both sources of health coverage have worked best by serving distinctly different roles and populations.

Improving the Quality and Efficiency of Health Care

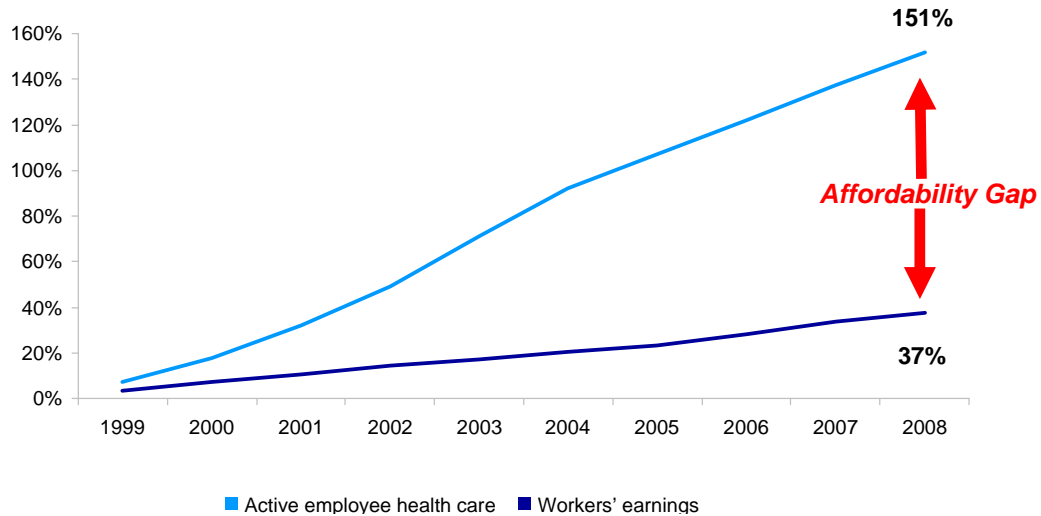
Health care spending already accounts for more than \$2 trillion annually, more than 17 percent of our gross domestic product and, according to a 2008 study published in *Health Affairs*, our national spending on health care is expected to nearly double by 2016, reaching a staggering \$4.3 trillion.

According to the most recent Towers Perrin survey of health care costs, employers reported that the average per employee cost for health coverage in 2009 is \$9,660 and that this represents an average increase of 6 percent over last year. As in previous years, our survey also indicates that employers will shoulder the lion's share of these costs, subsidizing, on average, 78 percent of the premium and asking employees to cover the remaining 22 percent, plus applicable cost sharing for co-pays, deductibles and coinsurance for covered services.

Average employee health care costs vary significantly depending on whether the coverage is for an employee-only, where average 2009 costs are \$4,860, while the average cost of family coverage is expected to be \$14,244 this year. While these numbers are remarkable in themselves, the impact of annual health care cost increases is most starkly evident when compared with average wage increases over the last 8 or

10 years. This gap between average increases in health costs and average wage increases forms what we refer to as the “affordability gap”. Over time, this results in an erosion in total compensation and employee purchasing power.

The growing affordability gap
Cumulative active employee health care costs vs. wage increases



Source: Towers Perrin *Health Care Cost Survey 2009* (active employee data) and Bureau of Labor Statistics, seasonally adjusted data from the Current Employment Statistics Survey Sept-Sept, 1999-2008.

Clearly, urgent action is needed to make our health care system more efficient while also ensuring more consistent delivery of high quality care. That is why the American Benefits Council joined with over 190 employers and other organizations who recently sent a letter to President Obama (attached) stating that a strategy to control health costs must be integral to any effort to improve the health care system and that “controlling spiraling health care costs benefits every American seeking access to quality, affordable care and makes it possible for employers to continue their role as voluntary sponsors of health plans for their employees.”

The Council’s *Condition Critical* report includes numerous recommendations directed at achieving higher quality, more affordable health care. For example, we call for a nationwide interoperable health information network to be adopted to permit the exchange of vital health records and patient information much more efficiently and to provide a backbone for a wide range of emerging quality improvement initiatives. The funding for health IT that was included in the recent economic stimulus bill that the President signed in February 2009 will make a major contribution toward a seamless, electronic health care system, and we will support additional steps to build on these initial investments as part of health reform legislation.

A transformed health care system is also one that makes price and performance information easily accessible so consumers can quickly determine where to find those providers who have a proven record of delivering high quality care. To reach that goal, we need to accelerate the development and implementation of consensus-based quality measures and begin to introduce these measures into our payment systems, starting with Medicare, to reward health care providers on the basis of proven performance rather than simply the volume of services they deliver. This fundamental transformation in our payment for health care services will also give health care providers the tools they need to compare their performance with other professionals in their field in order to support and encourage continuous quality improvement.

We also believe that we should establish a national entity for significantly increasing the capacity for independent, rigorous comparative effectiveness research on medical technology and services. This research should provide unbiased information on both clinical and cost effectiveness of services and technologies to help ensure that more patients receive the most effective care for their condition. Again, we support the steps taken to begin this important work in the February 2009 economic stimulus legislation and believe health reform legislation should build further on this initial investment in comparative effectiveness research.

In addition, many employers have moved to stop payments for serious preventable errors (so-called “never events”), just as Medicare has begun to do, so patients are protected from egregious errors that can occur in the clinical setting and all purchasers of health care services can send a consistent message about the importance of effective internal controls to avoid preventable errors.

Beyond these steps, other measures are needed in health reform legislation to help bring health care costs under control. For example, we need to reach agreement on effective medical liability reform to help limit frivolous litigation and reduce the costs of defensive medicine, stronger incentives for individuals to take personal responsibility for their own wellness and disease prevention, greater participation in proven chronic care and disease management programs, and a clear regulatory pathway to permit the approval of “bio-similar” or “bio-generic” drugs with appropriate protections of intellectual property rights for innovators.

The important message is that no one of these steps on their own will be sufficient to significantly bend the cost curve in health care. The effort will require a series of steps to be taken as part of health reform, but collectively these steps can make a significant difference, even if the net result is lowering the projected rates of growth by only 1 or 2 percent annually over the next 10 years. Most of all, from the perspective of most employers who already offer health coverage to their employees and are looking for better solutions to help meet that commitment in the future, the key test of whether health reform is meaningful will be the degree to which it squarely and fairly helps bring health care costs under control.

Conclusion

These are times of extraordinary economic turmoil and challenges. Some have even suggested that health reform may need to wait until we address other more urgent economic recovery priorities. We take the opposite view. Addressing the nation's health policy challenges is an integral element of — rather than an obstacle to — economic recovery and personal financial security. We agree with the growing consensus among our political leaders, economists, and business leaders that the current rate of spending for health care is not sustainable for individuals, employers, state or federal government or the American economy. Health reform is an urgent national priority and requires our best, collective efforts to see that it is achieved as swiftly as possible.

The American Benefits Council's prescriptions for health reform also recognize that the most important prescription for health reform may well be the willingness of all major stakeholder groups to engage in a collaborative effort to develop health reform solutions. As an organization whose members either directly sponsor or administer employee benefits covering more than 100 million Americans, we are committed to working with all those who believe, as we do, that health reform is both urgently needed and can only succeed if it is developed through an open, consensus-based process. If we take this path and are guided by a set of pragmatic prescriptions, we can succeed in achieving fundamental health care reform.

We look forward to working with this subcommittee, the Obama Administration, and other major stakeholders in our health care system in developing sensible solutions to deliver on the promise of making quality, affordable health care a reality for all Americans. Thank you again for the opportunity to share our views with you today and I look forward to addressing any questions you may have.

Attachment: Employer group letter to President Obama, April 1, 2009

April 1, 2009

The President
The White House
Washington, D. C. 20500

Dear Mr. President:

The undersigned companies and associations applaud your commitment to comprehensive, bipartisan health care reform, and share your belief that all Americans should have access to affordable health care coverage. As voluntary providers of health care to more than 170 million Americans, employers are leading the way in helping to improve our health care system. While firmly committed to helping workers and their families meet their health care needs, employers are also struggling with health care costs.

We have a direct and real stake in the outcome of health reform efforts. For decades, employers have provided health benefits for solid business reasons. Since 1999, however, employment-based health insurance premiums have increased 120 percent, compared to cumulative inflation of 44 percent and cumulative wage growth of 29 percent during the same period. If we fail to improve our health care system, rising health care costs will threaten the viability of U.S. businesses of all sizes and put job security, pay increases and other vital employee benefits at risk for millions of American workers.

A strategy to control costs must be the foundation of any effort to improve the health care system. Controlling spiraling health care costs benefits every American seeking access to quality, affordable care and makes it possible for employers to continue their role as voluntary sponsors of health plans for their employees. Faced with a severe and continuing economic crisis, employers simply cannot absorb new burdens, such as specific coverage levels or payment requirements, no matter how well intentioned.

Fortunately, many of the proposals to control costs can also improve quality and value. Health IT is one example, but there are many others. Employers have led the way in driving for a higher quality, evidence-based health care system and have an urgent interest in finding solutions that foster continuous quality improvement.

Any successful reform effort must build on the strengths of America's voluntary employer-based system while ensuring there is a greater variety of affordable private health plan options in the marketplace for all. By making it easier, not harder, for employers to provide quality health coverage for workers and their families we can not only strengthen health security, we can strengthen our nation's economic security.

We are eager to work with you to find solutions for this urgent national priority.

Sincerely,

Acry Fab, Inc.
Alcoa Inc.
Alliance Benefit Plan Management,
Inc.
American Administration Services Co.
American Airlines
American Bakers Association
American Benefits Council
American Boiler Manufacturers
Association
American Farm Bureau Federation
American Hotel & Lodging Association
American Rental Association
American Society of Home Inspectors
American Staffing Association
American Veterinary Medical
Association
AmeriGas Propane, Inc.
Aon Corp.
Arizona Chamber of Commerce
Associated Builders and Contractors,
Inc.
Associated Industries of Massachusetts
Association of Equipment
Manufacturers
Association of Ship Brokers & Agents
Assurant, Inc.
AT&T
Auntie Anne's, Inc.
Automotive Aftermarket Industry
Association
Avaya Inc.
Ball Corporation
Battery Council International
Best Buy Co., Inc.
Birmingham (AL) Regional Chamber of
Commerce
Bison Gear & Engineering
Boeing
BTE Technologies, Inc.
Buck Consultants, LLC.
Buffalo Wild Wings, Inc.

Business Roundtable
Case New Holland
Caterpillar Inc.
Chevron Corporation
Chicopee Chamber of Commerce (MA)
Chrysler LLC
CIGNA
Clark & Associates of Nevada, Inc.
Computing Technology Industry
Association (CompTIA)
Corporate Healthcare Coalition
Darden Restaurants Inc.
Deere & Company
Delta Airlines
Deseret Mutual
Dollar General Corporation
DTE Energy
Eastman Kodak Company
EBS Advisors, Inc.
El Paso Corporation
Employers Council on Flexible
Compensation
Exelon Corporation
Express Employment Professionals
F.C. Brengman & Associates
FMC Corporation
Food Marketing Institute
Ford
Fox Entertainment Group
Gap Inc.
Gateway Regional Chamber of
Commerce (NJ)
General Mills
General Motors Corporation
Goodrich Corporation
Great Plains Energy Incorporated
Greater New Haven Chamber of
Commerce
Harris Corp.
HealthCare 21 Business Coalition
Healthways
Hewitt Associates LLC

Honeywell
HR Policy Association
Independent Electrical Contractors
Independent Office Products &
Furniture Dealers Association
Ingram Industries Inc.
Institute of Electrical and Electronics
Engineers - United States of America
International Foodservice Distributors
Association
International Franchise Association
International Housewares Association
JELD-WEN, Inc.
Jostens, Inc.
Koller Enterprises Inc.
Kraft Foods Inc.
Lamiglas, Inc.
Los Angeles (CA) Chamber of
Commerce
Louisiana Business Group on Health
Lowe's Companies, Inc.
Manhattan Chamber of Commerce
Maryland Chamber of Commerce
MassMutual Financial Groups
Medco
Meridian Health
MetLife
Miles Fiberglass & Composites, Inc.
Mobile (AL) Area Chamber of
Commerce
Monsanto Company
Montana Chamber of Commerce
Motor & Equipment Manufacturers
Association
Motorola, Inc.
Mutual of Omaha
National Association of Computer
Consultant Businesses
National Association of Convenience
Stores
National Association of Health
Underwriters
National Association of Home Builders
National Association of Manufacturers

National Association of Theatre Owners
National Association of Wholesaler-
Distributors
National Burglar and Fire Alarm
Association
National Business Group on Health
National Coalition on Benefits
National Federation of Independent
Business
National Funeral Directors Association
National Lumber and Building Material
Dealers Association
National Restaurant Association
National Retail Federation
National Roofing Contractors
Association
National Rural Electric Cooperative
Association
National Tooling and Machining
Association
New Jersey Chamber of Commerce
Northeastern Retail Lumber Association
Northwestern Mutual
Palm Desert (CA) Chamber of
Commerce
Paul, Hastings, Janofsky & Walker LLP
Pharmaceutical Care Management
Association
Phoenix Electric Mfg. Co.
Pietzsch, Bonnett & Womack, PA
PPG Industries
Precision Metalforming Association
Principal Financial Group
Printing Industries of America
Professional Golfers' Association of
America
Quality Float Works, Inc.
Raytheon Company
Red Bud Industries, Inc.
Reno Sparks (NV) Chamber of
Commerce
Retail Industry Leaders Association
Rochester Business Alliance (NY)
Ryder System, Inc.

Santa Clara (CA) Chamber of
Commerce
Scottsdale (AZ) Chamber of Commerce
Sears Holdings Corporation
Sebago Lakes Region Chamber of
Commerce (ME)
Self-Insurance Institute of America
Small Business & Entrepreneurship
Council
Snyder's of Hanover
Society for Human Resource
Management
Society of American Florists
Society of the Plastics Industry
South Carolina Business Coalition on
Health
Specialty Equipment Market
Association
Spring Consulting Group LLC
Stuart/Martin County (FL) Chamber of
Commerce
SUPERVALU INC.
TechAmerica
Tempe (AZ) Chamber of Commerce
Textile Rental Services Association of
America
The Adhesive and Sealant Council, Inc.
The Association for Suppliers of
Printing, Publishing and Converting
Technologies

The Black & Decker Corporation
The Council of Insurance Agents &
Brokers
The Dow Chemical Company
The ERISA Industry Committee
The Financial Services Roundtable
The New Jersey Business and Industry
Association
The Savitz Organization, Inc.
Timesavers, Inc.
Tire Industry Association
Tyco Electronics
U.S. Chamber of Commerce
U.S. Foodservice, Inc.
Union Pacific Corporation
United States Steel Corporation
Unum
UPS
Verizon Communications
Visant Corporation
Volvo Group North America
Waste Management
Wedding and Event Videographers
Association International
WellPoint, Inc.
Western Growers
WillisHRH
Xerox Corporation
Yazaki North America Inc.

cc: Members of the U.S. House of
Representatives
Members of the United States Senate