EXECUTIVE SUMMARY

2014 EMPLOYEE BENEFITS PRACTICES IN HOSPITALS AND HEALTH SYSTEMS SURVEY

How can hospitals and health systems benchmark their benefits practices against those of industry peers? How does the implementation of health care reform affect operating costs and revenue through benefits design? Are employee health and wellness programs delivering measurable returns on investment?

In its third annual survey of hospital and health system employee benefits practices, Sullivan, Cotter and Associates, Inc. (SullivanCotter) compiled and analyzed information from many of the top hospitals and health systems across the country to help answer the questions listed above. Unlike research that includes insurance companies, pharmaceutical manufacturers and other organizations related to the health care sector, this survey focuses solely on hospitals and health systems. Health care organizations (HCOs) merit particular attention because they play a unique role of serving as both employer and health care provider. In an increasing number of cases, they are also the payers through private-label, system-run health plans.

HCOs are facing significant financial pressures that stem from aggressive steps taken by the industry in general, the Affordable Care Act (ACA) and new health care delivery models. To plan for the future and best understand the changing health care environment, HCOs must understand the effect of these pressures. Our survey findings help hospitals and health systems improve their performance metrics by allowing them to compare their own practices to those of their peers.

The 2014 *Employee Benefits Practices in Hospitals and Health Systems Survey* addressed a comprehensive range of issues, including benefits strategies, medical and prescription drug benefits, union employee benefits, health improvement programs, dental and vision benefits, vacation and paid time off, short- and long-term disability, life insurance and retirement benefits.

Survey Highlights

Each year, the scope of this research expands and shifts to reflect the industry's changing landscape and emerging challenges. This year's survey captured key metrics aimed at benchmarking the performance of employee health care programs, asked new, industry-relevant questions about the impact of the ACA and examined what HCOs are doing to manage costs. The 2014 survey also uncovered detailed information about retirement benefits, including defined benefit (DB) and defined contribution (DC) plans.

Notable highlights from the survey include the following:

- Wellness programs remain very popular despite the significant gap between their intended results and their effectiveness.
- HCOs are adopting more consumer-driven approaches that include the addition of high-deductible health plans (HDHPs).
- In the general industry, HCOs continue to lag in adopting consumer-driven health care.
- Organizations are increasing the variety of benefits they offer to meet the pressures related to vertical and horizontal integration. In particular, more than 25% of organizations offer better benefits to their physicians – while 12% offer less generous benefits to staff at other ancillary entities, such as long-term care facilities.
- The shift from DB to DC retirement plans has slowed. There appears to be some stabilization, and most organizations with ongoing DB plans appear committed to them for the near future.
- Many plan sponsors with frozen DB plans may be exposing themselves to unnecessary risk by not taking advantage of risk management strategies, such as effective asset allocation.

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- Most DC plans include employer-matching contributions, and there is an increase in the use of auto-enrollment and auto-escalation features.

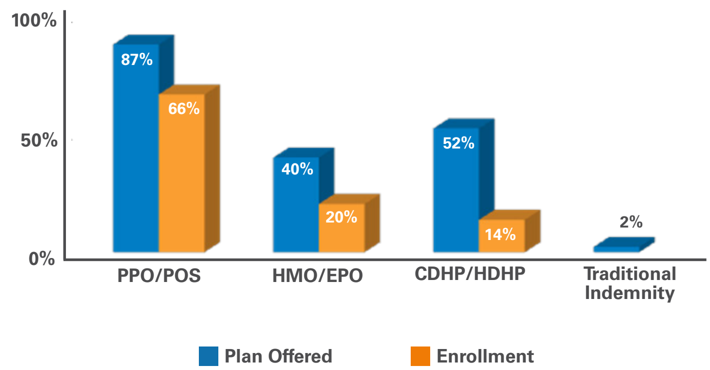
- Many organizations look beyond the health care industry and examine the practices of other employers in their local markets to design competitive benefits plans. The 2014 survey included questions designed to gauge how HCOs compare to the general industry in benefits strategies and offerings.

Key Findings

While a number of organizations in the general industry considered stopping or have already stopped offering benefits, 96% of the HCOs surveyed plan to continue to offer health care coverage. Over one-half (56%) believe that the ACA will cause them to offer less generous health care benefits in the future, but a number of respondents also believe that the ACA's effect will go beyond health care, resulting in reduced budgets for salary increases, short-term incentive (STI) plan payouts and retirement benefits.

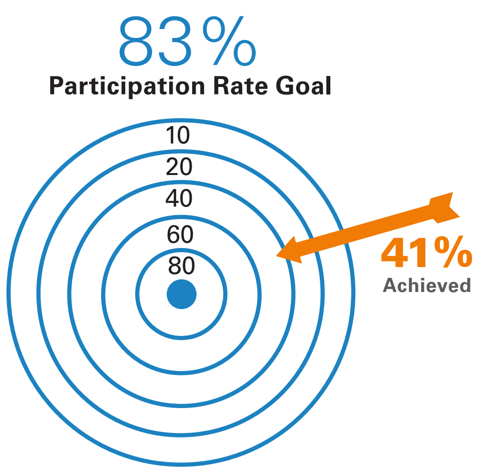
Insurance exchanges have been popular in the retail and hospitality industries and are predicted to grow dramatically in all industries over the next few years. As with the uptake of HDHPs, hospitals and health systems lag in the general industry, only one-half of those surveyed have even evaluated the use of an exchange.

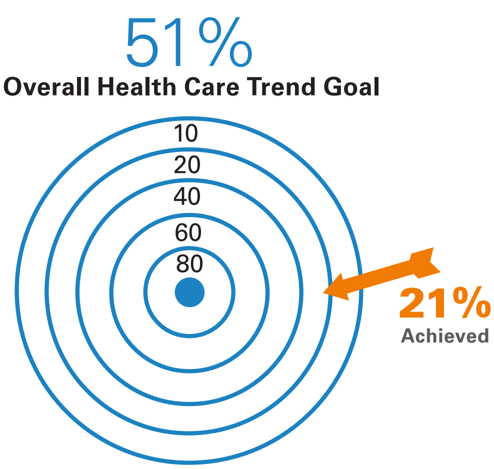
The prevalence of high-deductible plans has increased dramatically over the past year (from 37% to 52%). This type of plan is now the second-most prevalent plan, surpassing health maintenance organization or exclusive provider organization (HMO/EPO) plans. However, participation in these plans has increased only slightly over the past two years (from 13% to 14%). Very few organizations have implemented or considered implementing a full-replacement HDHP, which has become a much more common practice in the general industry. Many believe that the use of a full-replacement HDHP could affect domestic utilization, a key factor for HCOs, which could explain why HCOs are lukewarm about these plans or have not considered full replacement. If this is the case, HCOs should examine the effectiveness and value of these plans.



Payroll deduction cost-sharing percentages have remained consistent over the past year, with most premiums continuing to be an 80-20 split between employer and employee. HDHPs show an 87-13 split for premiums, but employees are paying a slightly greater percentage of the total cost of benefits than those who have other plans. A more precise way to look at cost sharing between employers and employees is to consider the total cost of providing benefits under the plan. Although these costs vary across plans, when the actual cost of all benefits paid is taken into account, the cost sharing is closer to 70-30. Both the use and amount of deductibles have increased slightly over the past year, while the use of coinsurance versus copayments has also increased. This reinforces a shift toward consumerism and drives costs to the benefits user instead of spreading the costs across all employee participants.

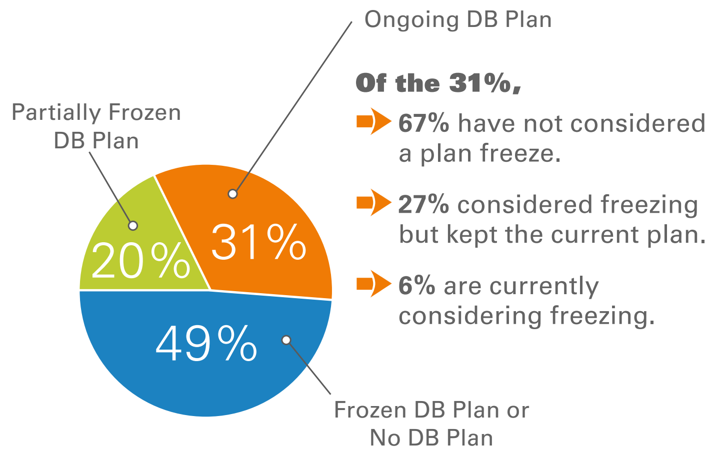
Many HCOs (78% of those surveyed) offer multiple plans to encourage wellness through physical fitness, healthy eating and other behaviors. No one will argue that these programs all have good intentions, but are they effective? While 83% of HCOs surveyed set participation goals, only 41% are achieving them. Almost one-half of those surveyed (47%) use an outcome-based program but are seeing only 18% goal achievement. Though there is a significant gap between the intended results of wellness programs and the desired outcomes, respondents still rely on these programs to improve employee well-being and reduce health care costs. Of the HCOs surveyed, 54% intend to implement a formal health care consumer education program in the next two years because education has proven to be very effective in achieving desired results.



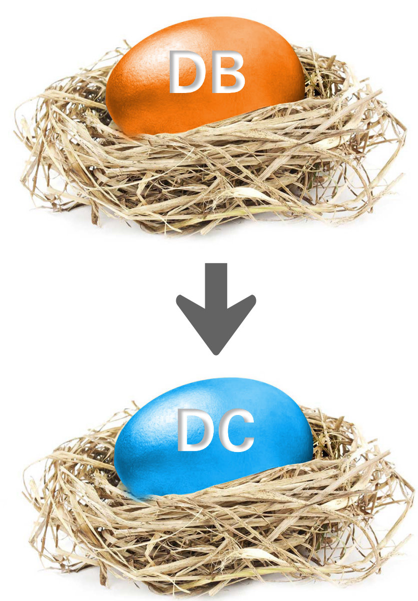


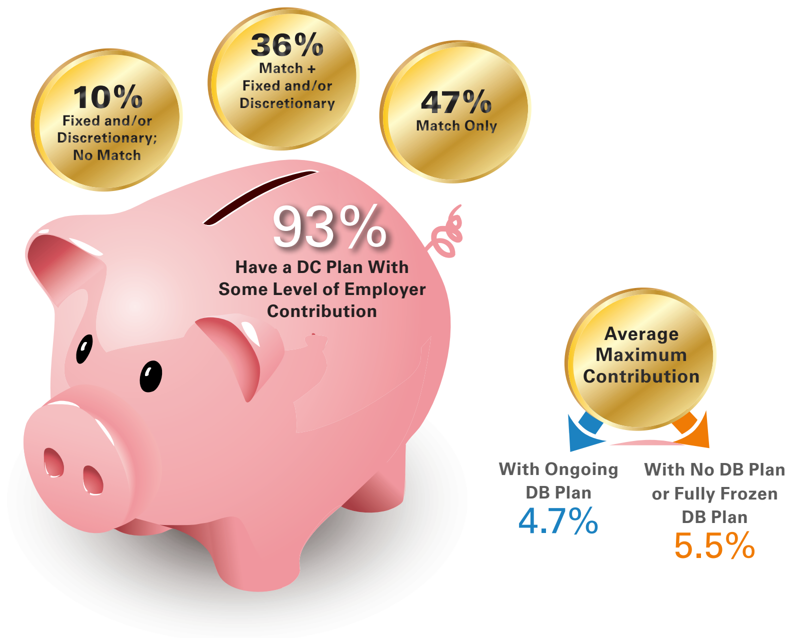
Consolidation of HCOs and related entities, especially physician practices, continues to be a growing trend in the industry. Upon acquiring an entity, decisions regarding when or if to harmonize benefits across all system organizations should be analyzed and eventually made. The 2014 survey found that 26% of organizations offer better benefits to their employed physicians – while 12% offer less generous benefits to staff at other ancillary entities, such as long-term care facilities.

The movement from DB to DC retirement plans has slowed; 31% of respondents continue to have an open, ongoing DB plan. Two-thirds of those respondents have not considered freezing their plan, and over one-quarter have considered a freeze but decided to continue with their current plan. Some respondents who have frozen plans have begun implementing strategies to reduce the overall size of their plan by adopting expanded lump-sum options or windows.



Others have begun to change their asset allocation to better match the liabilities of their plan or have developed dynamic asset allocation strategies that will automatically shift assets (usually from equities to fixed-income investments) as the funded status of their plan improves. Still others are planning to fully terminate their plan when the funding status improves and reaches an appropriate level. However, to help manage or reduce the economic risk after a freeze, the majority of respondents made no additional changes to the operations of their plan.





DC plans continue to be the most prevalent retirement vehicle, with the majority providing a match on employee contributions and almost one-half providing some type of fixed or discretionary employer contribution. Auto-enrollment and auto-escalation features are gaining prominence as devices to help encourage employee participation. Almost one-half of the respondents use auto-enrollment, and over one-third have an auto-escalation feature.

Industry Trends

The analysis of three consecutive years of survey findings has identified the following trends:

- Hospitals and health systems are focused on reducing cost – without sacrificing value – by implementing different types of plan designs. Survey findings show a significant increase in the number of organizations implementing a value-based design (from 20% to 32%). This trend is expected to continue to grow in the future.
- To help achieve better outcomes from wellness programs, more than one-half of those surveyed plan to implement formal health care consumer education programs for employees over the next two years. Additionally, 46% plan to use incentives in an outcomes-based health improvement model in the same period. Over the past three years, survey results have shown steady increases in deductibles and in the use of coinsurance. This trend is expected to continue as HCOs consider a more consumer-driven approach.

About the Survey

The 2014 *Employee Benefits Practices in Hospitals and Health Systems Survey* is the only national survey of its kind specifically designed for hospitals and health systems. Survey participants include some of the top health care systems in the country:

- 65% of respondents are part of a multihospital system.
- 21% are single hospital systems.
- 96% are not-for-profit organizations.

To obtain additional information about this survey, please visit our website at www.sullivancotter.com or contact us by phone at 888.739.7039.

About SullivanCotter

SullivanCotter is the leading independent consulting firm in the assessment and development of tailored total compensation and reward programs for tax-exempt, not-for-profit organizations. For more than 20 years, the firm has provided executive, physician and employee compensation and governance counsel to a wide variety of health care and higher education organizations, public charities, associations and foundations. A recognized leader in compensation benchmarking, trends and analyses, SullivanCotter has also developed the most widely recognized physician and health care executive compensation surveys in the United States. Building from this unparalleled data, the firm works closely with executives, boards and compensation committees to devise innovative solutions to attract and retain talent while satisfying not-for-profit missions and regulatory requirements.

SullivanCotter has offices in Atlanta, Boston, Chicago, Denver, Detroit, Minneapolis, New York, Parsippany, Philadelphia, Pittsburgh and San Francisco.