

Workers' Family Coverage Reaches \$10,880 Average

Small Employers Dropping Plans as Costs Rocket Another 9%

By Albert B. Crenshaw
Washington Post Staff Writer
Thursday, September 15, 2005; D02

The cost of health insurance for working Americans climbed 9.2 percent this year, the lowest rate of increase since 2000 but still far ahead of both general inflation and workers' pay increases, according to a nationwide survey by the Kaiser Family Foundation.

On average, health insurance for a family cost \$10,880 this year, with the employer paying \$8,167 and the worker \$2,713, the survey found. The total cost almost exactly matches the total annual earnings of a person working full time at the minimum wage, the survey noted.

For a single worker, the average cost totaled \$4,024, with \$3,413 paid by the employer and \$610 by the employee, the survey found.

At the same time, the proportion of employers providing health insurance continued its steady decline, falling to 60 percent this year from 69 percent five years ago. Most of the decline was among very small companies, the survey found, noting that less than half -- 47 percent -- of firms with three to nine workers now offer medical coverage to their employees.

This year is the second in a row with a slower rise in premiums, slipping from 11.2 percent last year and 13.9 percent in 2003. That 2003 rise capped an unbroken string of progressively higher increases dating back to 1996.

"The good news, if there is any good news, is the rate of increase is lower, and the bad news is that that's the only good news," said Kaiser Family Foundation President Drew E. Altman.

Preliminary results, released Tuesday, from an upcoming survey by Mercer Human Resource Consulting and Marsh Benefits showed a similar trend. Employers in that survey were asked about next year, and they emphasized their determination to cut costs, at least for themselves.

"We are seeing a trend for employers to essentially focus on a target" for health care cost growth, which they regard as necessary to remain competitive in the global market, said Blaine Bos of Mercer. That target has ranged between 6 and 7 percent recently, he said, with shifting costs to workers a major tool in achieving it.

Absent plan changes, Mercer said, employers project a rise of about 10 percent next year.

Kaiser's Altman cautioned that the recent slowdown in increases should not be a cause for any great optimism.

"I would say, don't be fooled by the moderation in the rate of increase. We've seen these dips before, and history teaches us they have a way of bouncing back," he said.

About 160 million Americans obtain health insurance through their employers, making it the predominant mechanism for paying for health care. The remainder buy it themselves or are covered under a variety of government programs such as Medicaid for low-income people and Medicare for the elderly. Roughly 47 million people are uninsured.

Altman and others who have watched cost-containment efforts over the years have seen such ideas as managed care burst onto the scene and appear to bring costs to heel. But each time, the new strategy has lost effectiveness, and costs resumed their seemingly inexorable climb.

The current "next big thing" is what has been dubbed "consumer-driven" health care, which combines high-deductible insurance with a fund that the individual can use to cover routine costs. In these arrangements, consumers are allowed to accumulate unspent money in the fund, giving them, theorists argue, an incentive to shop and eliminate unnecessary spending.

The Kaiser survey found much interest in these types of arrangements but, so far, little actual participation.

The share of firms offering high-deductible policies to workers doubled to 20 percent from 2004, but only a small fraction -- covering about 2.4 million workers -- have taken the additional step of providing a health care reimbursement account or a health savings account to encourage workers to shop.

"There absolutely is growing interest in consumer-driven arrangements," Altman said, but with the small number of workers enrolled in them, "it's impossible to make a judgment about their effect on health care cost."

"It's not that the jury is still out on them. The jury hasn't convened yet," he said.

In the meantime, the "preferred provider organization," in which there is a network of doctors, hospitals and other health professionals who have agreed to provide care for a set price, increased its lead as the dominant form of employer plan.

Family coverage under a PPO cost an average of \$11,090, with the employer paying \$8,449 and the worker \$2,641, making such plans not only the most popular -- covering 61 percent of employees, up from 55 percent a year ago -- but also the most expensive.

Health maintenance organizations, though cheaper at \$10,456 for a family, divided on average at \$7,852 for the employer and \$2,604 for the worker, showed a decline in enrollment share to 21 percent from 25 percent.

© 2005 The Washington Post Company



KAISER FAMILY FOUNDATION | www.kff.org



News Release

Embargoed for release until:
September 14, 2005, 10:00 a.m. E.T.

For further information contact:
Craig Palosky, (202) 347-5270 or cpalosky@kff.org
Larry Levitt, (650) 854-9400 or llevitt@kff.org

SURVEY FINDS STEADY DECLINE IN BUSINESSES OFFERING HEALTH BENEFITS TO WORKERS SINCE 2000

Premiums Rise 9.2% In 2005, Less Than In 2004 But Three Times The Increase In Workers' Wages

One in Five Firms Offer High-Deductible Health Plan Option; 2.4 Million Workers with Insurance Enrolled In Consumer-Driven Plans

Washington, D.C. – The percentage of businesses offering health insurance to their workers has declined steadily over the last five years as the cost of providing coverage continues to outpace inflation and wage growth, according to the 2005 Annual Employer Health Benefits Survey released by the Kaiser Family Foundation and Health Research and Educational Trust.

The survey found that three in five firms (60%) offered coverage to workers in 2005, down significantly from 69% in 2000 and 66% in 2003. The drop stems almost entirely from fewer small businesses offering health benefits, as nearly all businesses (98%) with 200 or more workers offer such benefits.

"It is low-wage workers who are being hurt the most by the steady drip, drip, drip of coverage draining out of the employer based health insurance system," Kaiser Family Foundation President and CEO Drew E. Altman, Ph.D., said.

Premiums increased an average of 9.2% in 2005, down from the 11.2% average found in 2004. The 2005 increase ended four consecutive years of double-digit increases, but the rate of growth is still more than three times the growth in workers' earnings (2.7%) and two-and-a-half times the rate of inflation (3.5%). Since 2000, premiums have gone up 73%.

The annual premiums for family coverage reached \$10,880 in 2005, eclipsing the gross earnings for a full-time minimum-wage worker (\$10,712). The average worker paid \$2,713 toward premiums for family coverage in 2005 or 26% of the total health premium. While workers' share of their premium has been relatively stable over the past few years, they are now paying on average \$1,094 more in premiums for

family coverage than they did in 2000.

"While premium increases slowed this year, they continue to rise much faster than inflation and other economic indicators. As a result, workers and businesses alike are finding it harder to afford health coverage," said Health Research and Educational Trust President Mary A. Pittman, Dr. P.H.

High-deductible health plans

The survey found that 20% of employers who offer health insurance now provide a high-deductible health plan option. Jumbo firms – those with 5,000 or more workers – are significantly more likely than smaller firms to offer a high-deductible plan option, with 33% offering one in 2005. The survey defines high-deductible health plans as those with at least a \$1,000 deductible for single coverage or at least a \$2,000 deductible for family coverage.

Among employers who offer a high-deductible plan, relatively few (19.5%, or 3.9% of all offering employers) also make a contribution to a health reimbursement arrangement (HRA), offer a plan that would permit an enrollee to establish a health savings account (HSA), or do both. HRAs and HSAs are tax-favored accounts that employees can use to pay for medical expenses. Such arrangements are often described as consumer-driven because patients pay for a greater share of their health care directly, rather than through insurers, and therefore may have a financial incentive to reduce their health-care spending.

Despite the growing availability of high-deductible plans, relatively few workers are enrolled in consumer-driven arrangements. The survey estimates that this year about 2.3% of non-federal covered workers, or 1.6 million people, are enrolled in high-deductible health plans with an HRA, and about 1.2%, or 810,000 people, are enrolled in plans that are eligible for use with an HSA.

"Consumer-driven plans are proving attractive to some, but with just a couple million people now enrolled, it's too early to know whether they'll have a meaningful effect on the health system," said Gary Claxton, a Kaiser Family Foundation vice president and co-author of the study. "The jury is still out on whether employees feel that these arrangements work for them, particularly when they get sick, and on whether employers feel that they have a real impact on costs."

The survey also provides a detailed look at the features of high-deductible health plans, including premiums, deductibles, use of spending accounts, and employer and worker contributions. Such plans can cost less than other forms of employer-sponsored health coverage, but also leave workers exposed to greater potential out-of-pocket costs.

"Premium increases have slowed somewhat, but there's little confidence out there that we have an answer to health care cost growth," said Jon Gabel, co-author of the study. "In the mid-1990s, premium hikes dropped to less than 1%, and we're still far away from that right now."

Other highlights from the 2005 survey include:

- **Reasons for not offering coverage.** Firms that do not offer health benefits to their workers – the overwhelming majority of whom are small firms – were most likely to cite cost as a key factor, with nearly three in four (73%) saying high premiums were "very important" to their decision. In comparison, just over half (52%) said their firm's small size and one in three (33%) said the fact that their workers had access to other coverage were very important to their decision.
- **Type of insurance.** In 2005, PPO plans were more common than ever, with 61% of all employees with health coverage enrolling in a PPO (up from 55% in 2004). Enrollment in HMOs, which generally cost less than PPOs, fell to 21% in 2005 from 25% in 2004. Conventional, or indemnity, benefit plans have all but disappeared, covering just 3% of covered workers.
- **Future plans.** Looking toward the future, more than 40% of large firms (200 or more workers)

offering health benefits say they are “very likely” to ask employees to pay more in premiums next year, while just 15% of smaller firms say they plan to do so. Across all firms offering coverage, relatively few say that they are “very likely” in the next year to raise deductibles (8%), raise office visit cost-sharing (7%) or raise prescription drug copayments (7%). About 1% of firms say they are “very likely” to drop health coverage entirely in the near future.

- **Utilization and disease management.** About eight in 10 covered workers (81%) are in a health plan that uses case management for high-cost claims. Most covered workers also must get prior certification for inpatient services (75%) and outpatient surgery (55%). More than half (56%) of covered workers are enrolled in a plan with at least one disease management program. Among workers in these plans, virtually all (99%) are in a plan that provides management for diabetes. Large majorities are also in plans that provide management for asthma (86%), hypertension (82%), and high cholesterol (66%).
- **Confidence in cost-containment strategies.** Few employers have a lot of confidence in strategies to contain rising health-care costs. For example, 16% of employers say consumer-driven health plans are “very” effective at controlling costs, while another 45% say they are “somewhat” effective. Nearly as many view higher employer cost-sharing as very (12%) or somewhat (46%) effective, and view disease management as very (14%) or somewhat (38%) effective. Fewer see tighter managed-care networks as very (7%) or somewhat (37%) effective.

The 2005 Employer Health Benefits Survey was conducted between January and May of 2005 and included 2,995 randomly selected, non-federal public and private firms with three or more employees (2,013 of which responded to the full survey and 982 of which responded to an additional question about offering coverage).

The full survey will be [available online](#).

A briefing on the survey’s findings will be [webcast live](#) beginning at 10 a.m. ET on Wednesday, September 14. An archived version of the video will be posted by 5 p.m. ET that day. In addition, two articles based on the survey’s results will be released that day by Health Affairs. The articles will be [available online](#) for free at.

The survey is a joint project of the Kaiser Family Foundation and the Health Research and Educational Trust. A research team at Kaiser and HRET conducted and analyzed the survey, led by Gary Claxton, Vice President and Director of the Health Care Marketplace Project at Kaiser, and Jon Gabel, formerly of HRET and now Vice President of the Center for Studying Health System Change.

METHODOLOGY

The Kaiser Family Foundation/Health Research and Educational Trust 2005 Annual Employer Health Benefits Survey (Kaiser/HRET) reports findings from a telephone survey of 2,995 randomly selected public and private employers, including 2,013 who responded to the full survey and an additional 982 who responded to one question about whether or not they provide health coverage to their employees. Kaiser/HRET drew its sample from a Dun & Bradstreet list of the nation’s employers with three or more workers. The Kaiser/HRET Employer Benefits Survey is based on previous surveys sponsored by the Health Insurance Association of America from 1987–1990 and KPMG from 1991–1998. Researchers at the Kaiser Family Foundation and the Health Research and Educational Trust designed and analyzed the survey and National Research LLC conducted the field work between January and May 2005. The overall response rate for the survey was 48%. All statistical tests are performed at the 0.05 level except where otherwise noted. Beginning with the 2003 Survey, several methodological changes were made to the survey, including standardizing survey weights to U.S. Census data. Therefore, historical data in the exhibits may differ slightly from previously published estimates.

The Kaiser Family Foundation is a non-profit, private operating foundation dedicated to providing information and analysis on health care issues to policymakers, the media, the health care community, and the general

public. The foundation is not associated with Kaiser Permanente or Kaiser Industries.

The Health Research and Educational Trust is a private, not-for-profit organization involved in research, education, and demonstration programs addressing health management and policy issues. Founded in 1944, HRET collaborates with health care, government, academic, business, and community organizations across the United States to conduct research and disseminate findings that help shape the future of health care.

#