

Employers Scramble to Find Solutions as Employee Health Plan Costs Continue to Rise *Faster* than **Inflation**



The rate of increase in the cost of employer health benefits slowed again last year, but large increases over the last five years have left employers in New Jersey and the nation scrambling for solutions to manage already high costs, three national surveys have found. And costs are still rising at twice the rate of inflation.

Recent annual surveys by Mercer Human Resources Consulting, Kaiser Family Foundation and Towers Perrin found that health-plan costs in 2005 and 2006 rose at an average rate of about 7 percent.

The cumulative cost increase over the last five years was 73 percent. (Kaiser) As a result, the total cost per employee is now so high that even moderate cost increases significantly add to the burden.

The average total cost of an

employer-sponsored health plan in 2005 was \$7,089 per covered employee for all companies, with New Jersey employers paying even more, \$7,860. (Mercer) This amount is an average blended cost that includes both single and family coverage.

The average cost of family coverage this year is approaching \$11,000 per covered employee for the largest companies. (Towers Perrin)

High and rising costs continue to force many smaller employers out of the health insurance market. Only 60 percent of all employers provided health coverage in 2005, down from 69 percent in 2000. (Kaiser) But 98 percent of companies with 200 or more employees still provide coverage. (Kaiser)

The great majority of employers

now use cost-sharing to manage rising health plan expenses, asking employees to pay higher premium contributions, deductibles and co-payments. Today, nearly 80 percent of workers with single coverage and about 90 percent of workers with family coverage share in the cost of premiums. (Kaiser) Workers generally contribute about 20 percent of premium costs, with their employers paying the other 80 percent. (Towers Perrin) About 80 percent of companies now require a deductible, even for in-network medical care, with workers paying a median annual deductible of about \$500. (Mercer)

As they try to find better ways to manage health costs, growing numbers of employers are encouraging their employees to participate in the process. Employers

that are having the most success in managing costs are encouraging workers to take more responsibility - both for their own health (for example, through weight-loss, smoking cessation and disease-management programs) and for making cost decisions at the point of service (for example, through the use of co-insurance).

This strategy is known as consumerism and, as a concept, it is being widely embraced. It recognizes that employees can only become responsible, cost-conscious healthcare consumers if they are given some real responsibilities and choices in managing their own health and healthcare spending.

What follows is more detailed information on the findings of each of the three national surveys.

Mercer Human Resources Consulting

The 2005 health benefits survey by Mercer Human Resources Consulting (the largest in the country with nearly 3,000 employers responding) showed the rate of increase in health insurance costs slowing for a third consecutive year.

The survey found that the average total cost of a health insurance policy for all employers (public and private) rose by 6.1 percent in 2005 to an average of \$7,089 per employee. (This amount includes the employer and employee contributions. It is an average of both single coverage and family coverage costs.) This increase was less than the 2004 increase of 7.5 percent and down from a peak of 14.7 percent found in 2002.

New Jersey employers paid some of the nation's highest health plan costs in 2005. The average

cost per employee in New Jersey was \$7,860, a 6.2 percent increase over the year before. The New Jersey cost was 11 percent higher than the national average of \$7,089. "New Jersey is higher than both New York and Pennsylvania and is

"New Jersey is higher than both New York and Pennsylvania and is one of the highest-cost states in the Northeast."

- Mercer Human Resources Senior Consultant Rich Fuerstenberg, commenting on the average cost of employee health coverage in New Jersey.

one of the highest-cost states in the Northeast," said Rich Fuerstenberg, a senior consultant with Mercer's Princeton office. The New Jersey results were based on responses from 79 New Jersey employers, a majority of which were large companies with 500 or more employees.

Looking ahead, respondents to the Mercer survey said they expect their health insurance costs to rise by an average of 6.7 percent in 2006.

The survey also found that the percentage of employers offering health benefits coverage to their employees continued to fall. Sixty-three percent of all employers offered coverage in 2005, down from 67 percent in 2003. The attrition has been most pronounced among smaller companies, those with 10-49 employees. In this group, only 58 percent offered coverage in 2005, down from 63 percent two years ago.

To control costs, the vast majority of employers offering health

coverage required their employees to pay a deductible. Eighty percent of employers required a deductible in 2005, up from 73 percent the year before. For all employers, the average in-network deductible was \$500.

The survey found that growing numbers of employers are embracing cost-management strategies that encourage employees to take better care of their own health and to take some responsibility for managing the cost of their own medical care at the point of service.

For example, many employers may require employees to pay "coinsurance" for specific medical treatments. Unlike the fixed payment required with a "copayment," the coinsurance payment is a percentage of the total charge and rises with inflation. Coinsurance gives employees an incentive to compare prices when seeking specialized medical treatment.

Survey participants identified this kind of "consumerism" as the cost-management strategy they are most likely to use over the next five years, with 34 percent of all employers and 55 percent of large employers saying it will be a significant tool.

Employers said "care management" will also be an important cost-management tool. This strategy encourages employees to take better care of their own health, frequently giving them incentives to manage specific diseases and conditions. Two-thirds of large companies already have at least one care management program in place.

Kaiser Family Foundation

The annual employer health benefits survey by the Kaiser Family Foundation found that the

Average Health Plan Cost*

\$7,089 - U.S.
\$7,860 - N.J.

** Mercer Human Resources Consulting: Average per employee costs of an employer-sponsored health plan in 2005. Blended costs includes both single and family coverages.*

average cost of a health insurance policy rose by 9.2 percent in 2005. (The survey group comprised more than 2,000 private and public randomly-selected employers with three or more employees.) This followed a cost increase of 11.2 percent in 2004 and 13.9 percent in 2003, a 15-year high.

The Kaiser report noted that the cumulative increase in costs over the last five years (2001-2005) was 73 percent, approximately five times comparable consumer inflation (14 percent) and wage-growth (15 percent) for the same period.

Unlike the Mercer survey, the Kaiser survey broke its cost findings into two tiers: the cost of single coverage (no dependents) and the cost of family coverage. The average cost of single coverage rose to \$4,024 per employee in 2005. The average family-coverage cost rose to \$10,880. These averages represent the total cost, including employer and employee contributions.

Employees made an average premium contribution of \$610 (16 percent of the total premium cost) for individual coverage in 2005 and an average contribution of \$2,713 (26 percent of the cost) for family coverage. The survey also found that 78 percent of all covered workers now share in the cost of premiums for individual coverage, and 91 percent for family coverage. Smaller companies (those with 3-199 employees) generally require a higher contribution from employees for family coverage. The average premium contribution made by small-company employees for family coverage was \$3,170 in 2005, versus \$2,487 for employees with larger companies (those with 200 or more employees).

A major finding of the Kaiser survey was a five-year decline in the percentage of all employers providing some form of health benefits. Only 60 percent of all companies offered health coverage

in 2005, compared with 69 percent in 2000. Virtually all of the falloff has been among smaller companies. The survey found that 98 percent of companies with 200 or more employees provided coverage in 2005.

In addition to sharing in the cost of premiums, most employees also must pay a deductible before most health plan benefits are provided. Fifty-six percent of employees with individual coverage paid an in-network deductible in 2005. For preferred provider organization (PPO) plans, the most common plan type, the average deductible in 2005 was \$323 in 2005 for single coverage and \$679 for family coverage.

Thirty-six percent of employees in the survey group also paid separate deductibles for hospital admissions, and the vast majority paid prescription drug co-payments, most often in the range of \$20-\$25 per prescription.

Looking at management of care, 56 percent of employees in the Kaiser survey worked for employers with at least one disease management plan. These plans most commonly provided for care of diabetes, asthma, hypertension and high cholesterol.

Towers Perrin

The Towers Perrin survey of 383 *Fortune* 1000 companies found that health plan costs are expected to rise by 7 percent overall in 2006 to a total average cost of \$8,448. (This amount includes the employer and employee contributions. It is an average of both single coverage and family coverage costs.) This followed an 8 percent increase in 2005, a 12 percent increase in 2004 and a record increase of 15 percent in 2003.

The survey noted that the cumulative increase over the last five years has been very large. The average cost to employers in 2006

was \$6,708, up from \$3,775 in 2001, a 78 percent increase. The total average cost (including employer and employee contributions) has risen from \$4,809 in 2001 to \$8,448 today.

The survey found that, on average, employees pay about 20 percent of total health plan premium costs and their employers, 80 percent. In 2006, covered employees paid an average of \$780 in premium costs for their share of individual coverage (18 percent of the total cost) and \$2,664 for family coverage (21 percent of the total).

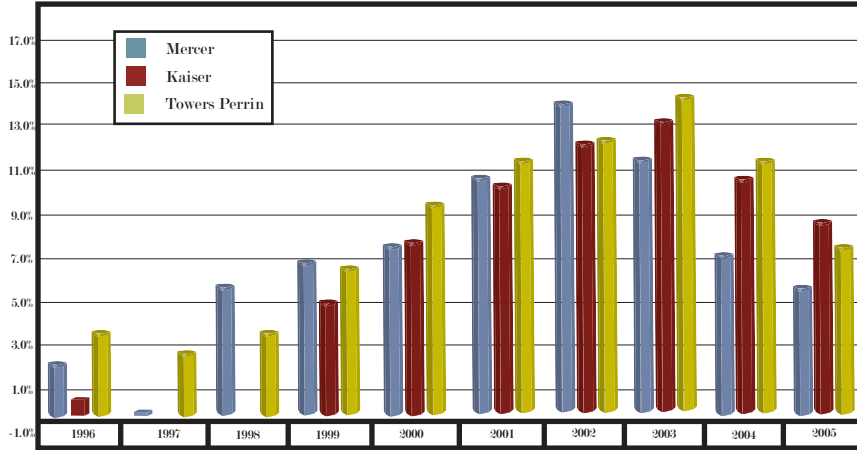
In its report on the survey findings, Towers Perrin noted that there are wide variations in costs between companies, depending on a number of factors, including location, benefit levels and how actively a company manages its healthcare program.

Looking at these variations, the upper one-third of survey respondents paid an average of \$9,972 per employee for health coverage and the lower one-third paid an average of \$6,888, a difference of more than \$3,000.

Based on responses to other questions in its survey, Towers Perrin said there is strong evidence that companies with lower-cost plans are more active in managing their costs. Lower-cost companies, for example, are more aggressive in managing their relationships with health-plan vendors. They also encourage employees to take more responsibility for how much they spend at the point of care, they do a better job of communicating with their employees about costs, and they give their employees the tools they need to make better healthcare choices, such as online comparisons of medical-treatment costs.

The survey also said most large employers now recognize the need to look beyond short-term "fixes," such as simple cost shifting, as the best way to manage rising health

Average Cost Increases for Employer Health Plans Over the Last Ten Years



Average Cost Increases for Employer Health Benefit Plans

plan costs.

“This year’s survey found that most employers are committed to staying in the game for the foreseeable future . . . and that low-cost companies are taking a comprehensive, longer-term approach to management costs and engaging employees.” An important part of that approach is engaging employees in the process of healthcare and cost management.

The survey found that companies with lower health plan costs are more likely to hold employees accountable for discretionary costs, for example, by charging higher copayments for specialty care than for primary care. They also are more likely to give incentives to their employees to adopt healthy lifestyles.

-- Chris Biddle, Vice President of Communications with the New Jersey Business & Industry Association.