

Employer Health Benefits

2002 Summary of Findings

EMPLOYER-SPONSORED HEALTH INSURANCE REACHES NEARLY TWO OUT OF EVERY THREE AMERICANS, INCLUDING ACTIVE WORKERS, RETIREES, AND THEIR DEPENDENTS. TO PROVIDE CURRENT INFORMATION ABOUT THE NATURE OF EMPLOYER-PROVIDED HEALTH BENEFITS, THE KAISER FAMILY FOUNDATION AND HEALTH RESEARCH AND EDUCATIONAL TRUST CONDUCT AN ANNUAL NATIONAL SURVEY OF EMPLOYERS OF ALL SIZES. THIS BRIEF SUMMARIZES FINDINGS FROM THE 2002 KAISER/HRET SURVEY.

HEALTH INSURANCE PREMIUMS

Between spring of 2001 and spring of 2002, monthly premiums for employer-sponsored health insurance rose 12.7%, the second consecutive year of double-digit premium increases, and the largest increase since 1990. Average annual premium costs rose to \$3,060 for single coverage (up from \$2,650 in 2001) and \$7,954 for family coverage (up from \$7,053 in 2001). Premiums increased substantially faster than overall inflation (1.6%) and wage gains for non-supervisory workers (3.4%). Average rates of increase were similar across firm sizes, industries, and regions of the country, but there was significant variability around the average: 21% of employees worked for firms where premiums increased by 5% or less, while 33% of employees worked for firms where premiums increased by more than 15% (EXHIBITS 1 and 2).

Of all plan types, health maintenance organizations (HMOs) remain the least costly and conventional fee-for-service plans remain the most expensive.

This high rate of growth appears to have been driven primarily by rapid inflation in spending for health care services. Premium equivalents for self-insured plans (the estimated cost of health care claims for an employee whose employer self-insures) – which are a reflection of growth in underlying health care costs – grew by 12.3% over the last year, or roughly the same

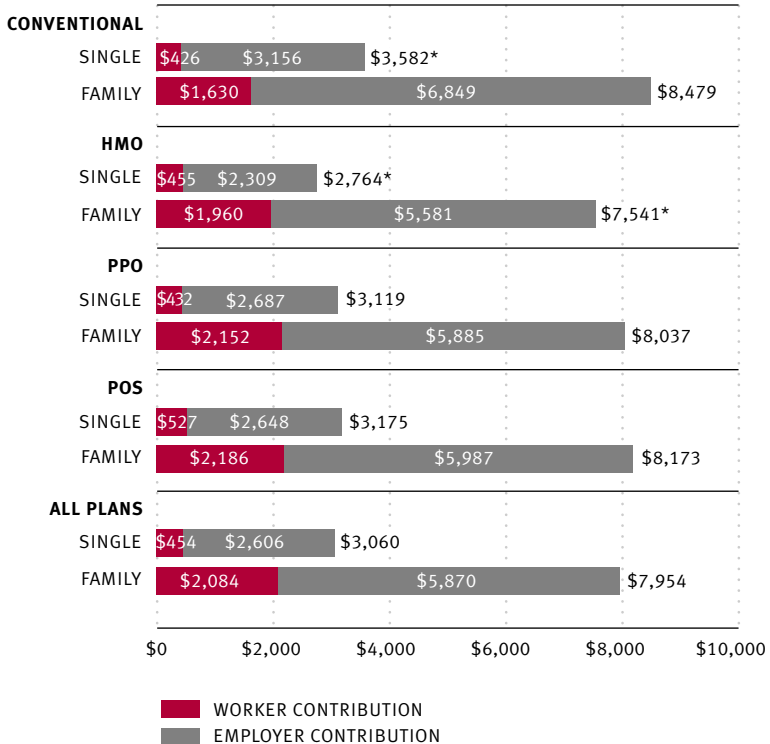
rate as premiums for insured plans. This suggests that insurers' decisions about premiums are being influenced more by cost trends than by catch-up pricing associated with the underwriting cycle.

EMPLOYEE CONTRIBUTIONS AND COST-SHARING

Workers are paying more for single coverage than they did in 2001. On average, employees are now paying \$38 per month

EXHIBIT 1

Average Annual Premium Costs for Covered Workers, Single and Family Coverage, 2002

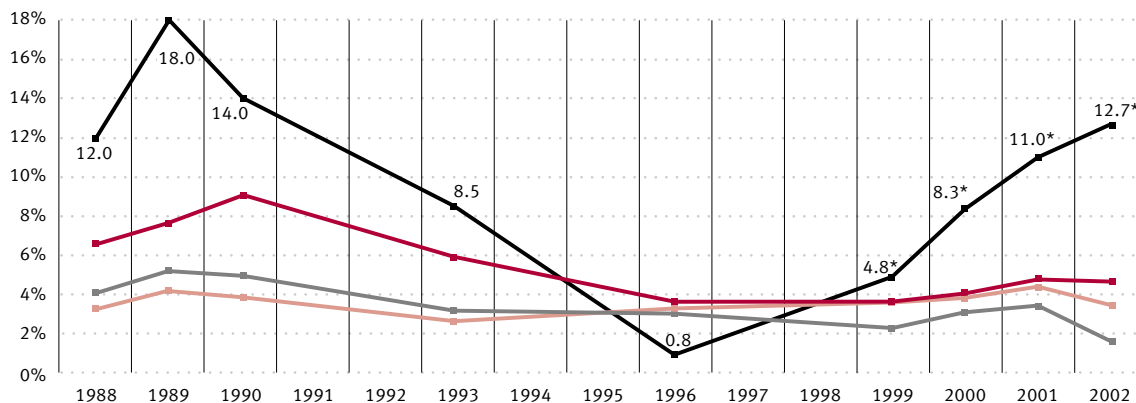


Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002

* Estimate is statistically different from All Plans by coverage type.

EXHIBIT 2

Increases in Health Insurance Premiums Compared to Other Indicators, 1988-2002



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002; KPMG Survey of Employer-Sponsored Health Benefits: 1993, 1996; The Health Insurance Association of America (HIAA): 1988, 1989, 1990; Bureau of Labor Statistics, Consumer Price Index, US City Average of Annual Inflation (April to April), and Medical Inflation, 1988-2002; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1988-2002.

— HEALTH INSURANCE PREMIUMS
 — MEDICAL INFLATION
 — OVERALL INFLATION
 — WORKERS' EARNINGS

* Estimate is statistically different from the previous year shown: 1996-1999, 1999-2000, 2000-2001, 2001-2002.

Note: Data on premium increases reflect the cost of health insurance premiums for a family of four.

(\$454 per year) for single coverage, a 27% increase from last year, and \$174 per month (\$2,084 per year) for family coverage, a 16% increase (EXHIBIT 3). Despite these large increases, the percentage of premiums paid by workers is statistically unchanged over the last two years, at 16% for single coverage and 27% for family

coverage. However, single employees are still paying a substantially lower share than the 21% of the premium they were paying in 1996.

During the past year, employers have also increased patient cost-sharing requirements in the form of higher deductibles

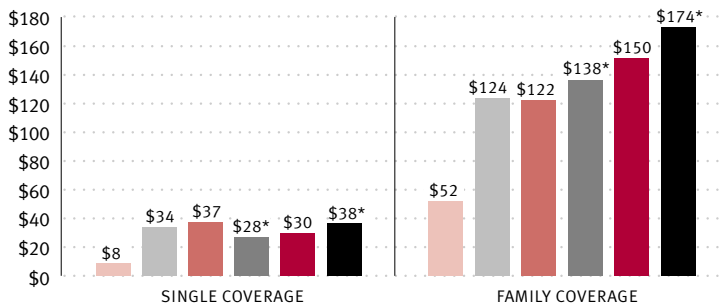
and copayments. For PPO plans (the most common type of plan covering about half of all workers), the average deductible for preferred providers increased 37% to \$276. The percentage of workers in HMOs facing a \$20 copayment for outpatient physician services rose from 2% last year to 11%. Tiered insurance plans, where cost-sharing varies for in-network providers based on their cost and, in some cases, their quality, are used for 5-9% of covered workers depending on plan type.

Copayments for prescription drugs continue to creep up, averaging \$9 for generics, \$17 for preferred drugs (brand name drugs with no generic substitutes), and \$26 for non-preferred drugs (brand name drugs with generic substitutes). Copayments for non-preferred drugs increased substantially, from \$21 last year to \$26 in 2002. The use of three-tier cost-sharing arrangements has nearly doubled over the past two years, growing from 29% of covered workers in 2000 to 57% in 2002. Additionally, 28% of covered workers have two-tier cost sharing.

The rise in employee costs is likely to continue. Fifty-six percent of large firms (200

EXHIBIT 3

Average Monthly Worker Contribution for Single and Family Coverage, 1988-2002



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002; KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2001, 2001-2002.

■ 1988
 ■ 1993
 ■ 1996
 ■ 2000
 ■ 2001
 ■ 2002

or more workers) increased the amount that employees paid for health insurance in 2002, and 78% say that a further increase is very or somewhat likely next year. About one-third of all firms and 42% of large firms say that they are very or somewhat likely to increase deductibles next year. While the less competitive labor market may make it easier for employers to pass along the cost of health insurance to employees, doing so may have an adverse impact on a firm's ability to attract and retain workers. Among the firms that did not increase the amount that employees pay, 15% reported it was much easier to attract and retain workers in the last year, compared to 4% of firms who increased employee costs.

COVERAGE

With a weakened economy and escalating premium inflation, the brief period of increasing employer coverage – and concomitant drop in the number of uninsured Americans – has come to a close. In 2002, 61% of all small businesses (3-199 employees) offered health coverage to their workers, down from 67% in 2000 (p<0.1). This may be evidence of erosion in the number of small firms offering coverage – we will need to watch for this trend next year.

Coverage continues to vary substantially by firm size: 55% of the smallest companies (3-9 workers) offer health insurance, but that rises to 74% for firms with 10 to 24 workers and 88% for businesses with 25 to 49 employees. Nearly all firms with 50 or more workers offer coverage. Firms with many part-time workers are less likely to offer health insurance – only 38% of firms with a high percentage (35% or more) of part-time workers offer health coverage to their employees, compared with 64% of firms with fewer part-time workers. Firms that employ union workers are very likely to offer coverage (92%).

However, even when a firm offers health insurance, not all workers get covered. In firms that offer coverage, 79% of workers are eligible for coverage, and 84% of those eligible elect to take it. In firms offering coverage, 67% of workers have job-based health insurance through their employers.

Rapidly increasing premiums have generated speculation that employers may move to new types of health insurance arrangements in order to help control future costs. One such option is a defined contribution approach – where, in the extreme, employees are given cash to buy health insurance on their own rather than selecting

among plans with which the employer contracts. As in previous years, however, most firms say they are not likely to move to this defined contribution approach, with only 6% of firms reporting that it is very likely and 17% reporting that it is somewhat likely that they will move to such an arrangement in the next five years.

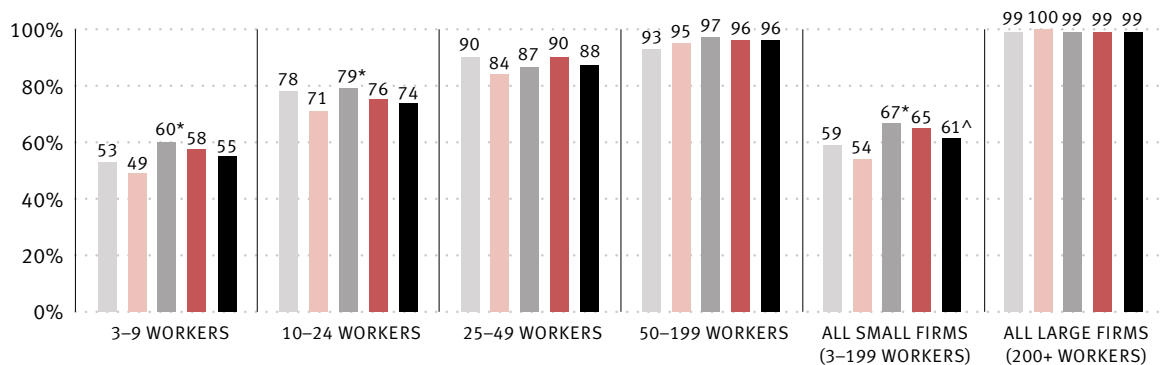
The debate over expanding Medicare to cover prescription drug benefits continues in 2002, calling attention to employer coverage of retirees (which accounts for most of the drug coverage now provided to Medicare-age beneficiaries). Of firms offering retiree health benefits, 31% (and 60% of firms with 5,000 or more workers) increased the share of premiums paid by enrollees. This year, 9% of large firms (200 or more workers) report that they have eliminated retiree benefits for new employees or for current employees who have not yet retired; 11% of large firms say that they are very or somewhat likely to do so over the next two years.

HEALTH PLAN ENROLLMENT AND CHOICE

PPOs continue to be the most common plan in 2002, enrolling just over half of all employees with health coverage. HMO

EXHIBIT 4

Percentage of Firms Offering Health Benefits, by Firm Size, 1996-2002



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002; KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2001, 2001-2002.

^ Estimate is statistically different from the previous year shown at p < 0.1: 2000-2002.

1996
1998
2000
2001
2002

enrollment, which had been falling over the past several years, appears to have stabilized. HMOs cover about 26% of employees with health insurance this year. Conventional (or indemnity) insurance has all but disappeared, enrolling just 5% of employees.

Most workers with health coverage through their employers continue to have a choice of health plans, with just under half having a choice of three or more plans. PPO coverage continues in 2002 to be the most common health plan option. Small firms (3-199 workers) are much less likely to offer workers a choice of health plans than larger companies – 93% of all small firms that provide coverage offer just one health plan, compared to 40% of larger businesses.

HEALTH BENEFITS

In general, larger firms offer somewhat more generous benefits than smaller firms, and HMO and POS plans tend to offer the most comprehensive benefits packages.

While most workers experienced no change in benefits in 2002, for the first time in several years, the percentage of covered workers in firms that report a decrease in the level of benefits offered to workers is greater than the percentage reporting increases, with 10% reporting benefit increases and 17% reporting benefit reductions. The percentage of workers in firms reporting decreased levels of benefits has been rising in the last several years, from 7% of all firms in 2000 to 17% of all firms in 2002.

OUTLOOK FOR THE FUTURE

This year's survey shows that multiple years of accelerating premium growth and a weakened economy may have begun to erode the coverage improvements of the past few years. The survey raises a cautionary note, with fewer small employers appearing to be offering health benefits (61%). A majority of employers (53% of all firms and 65% of large firms with 200 or more employees) report that health insurance is the benefit that causes the greatest cost concern,

and employers (61%) remain very or somewhat worried that the cost of health insurance will increase faster than they can afford. These results have held steady over the last few years. Despite concerns over increasing costs, however, less than 1% of firms report that they are very likely to stop offering health benefits in the near future.

What seems clear is that employees are likely to pay more for health benefits and health care in the future. This year, 43% of all firms and 78% of large firms (200 or more workers) report that they are very or somewhat likely to increase the amount that employees pay in 2003. Thirty-two percent of all firms and 42% of large firms report that they are very or somewhat likely to increase deductibles, while 34% of all firms say they are very or somewhat likely to raise employee costs for prescription drugs. A slightly higher percentage of all firms report they are very or somewhat likely to increase employee's costs or restrict eligibility for coverage if the economic downturn continues or premiums increase next year by 20% or more.

METHODOLOGY

The Kaiser Family Foundation/Health Research and Educational Trust 2002 Annual Employer Health Benefits Survey (Kaiser/HRET) reports findings from a survey of 3,262 randomly selected public and private employers, including 2,014 who responded to the full survey and 1,248 who indicated whether or not they provide health coverage. Firms range in size from small enterprises with as few as three workers to corporations with more than 300,000 employees. The Kaiser/HRET Employer Health Benefits Survey is based on previous surveys sponsored by the Health Insurance Association of America from 1986-1991 and KPMG from 1991-1998. Researchers at Health Research and Educational Trust and the Kaiser Family Foundation designed and analyzed the survey and National Research LLC conducted the fieldwork between January and May 2002. The overall response rate for the survey was 50%. All statistical tests are performed at the 0.05 levels except where otherwise noted. A select set of data were tested at the 0.10 level to explore the possibility of emerging changes in the health care offer rate, employee share of premiums, premium growth among small firms, coverage rates, and prescription drug carve outs.

The Kaiser Family Foundation is an independent, national health care philanthropy dedicated to providing information and analysis on health issues to policymakers, the media, and the general public. The Foundation is not associated with Kaiser Permanente or Kaiser Industries.

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.

Individual copies of the full report of survey findings (#3251) may be obtained by calling the Kaiser Family Foundation's Publication Request line at 1-800-656-4533. The report is also available on the Kaiser Family Foundation website at www.kff.org. Additional copies of this summary may be obtained by requesting publication #3252. Multiple copies may be obtained from HRET by calling 1-800-242-2626 (order #097508).



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