

USHE Finance, Facilities, and Accountability Committee

Report on Common Practices and Benchmarks in Health Benefits

June 2007

Common Practices and Benchmarks

I. Cost of Health Insurance

A. **Premium Increases** - The cost of job-based health insurance rose by 7.7% in 2006.

This is the third consecutive year that insurance premiums showed a declining rate of growth. Increases for the previous 6 years were 9.2% in 2005, 11.2% in 2004, 13.9% in 2003, 12.7% in 2002, 11% in 2001, and 8.3% in 2000.

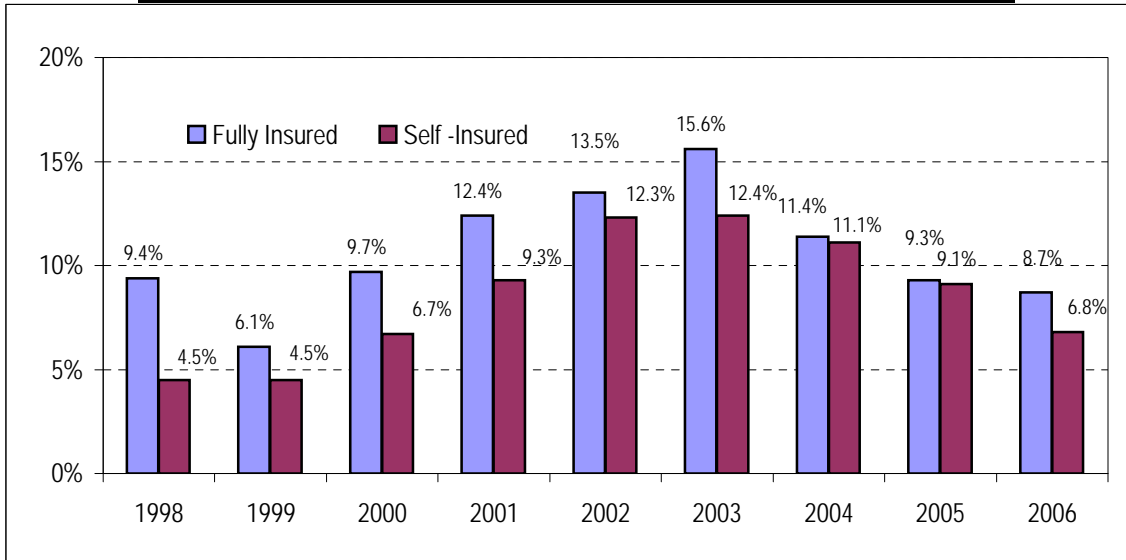
1. **Smaller Rate Increases Outpace Inflation and Wage Gains** - Despite the slowdown in rate increases, premium rate increases (7.7%) continue to exceed inflation (3.5%) and wage gains (3.8%).

2. **Larger Premium Increases for Small and Large Firms** - Employees in small firms experienced larger increases than large firms in 2006 (8.8% vs. 7.0%).

3. **Wide Variation in Premium Increases for Workers and Firms** - 13% of covered workers experienced increases greater than 15% while 42% of covered workers experienced increases of less than or equal to 5%.

4. **Fully-insured vs. Self-insured** - Premium equivalents for self-funded plans (6.8%) rose at a lower rate than premiums for fully insured plans (8.7%). (See Figure 1)

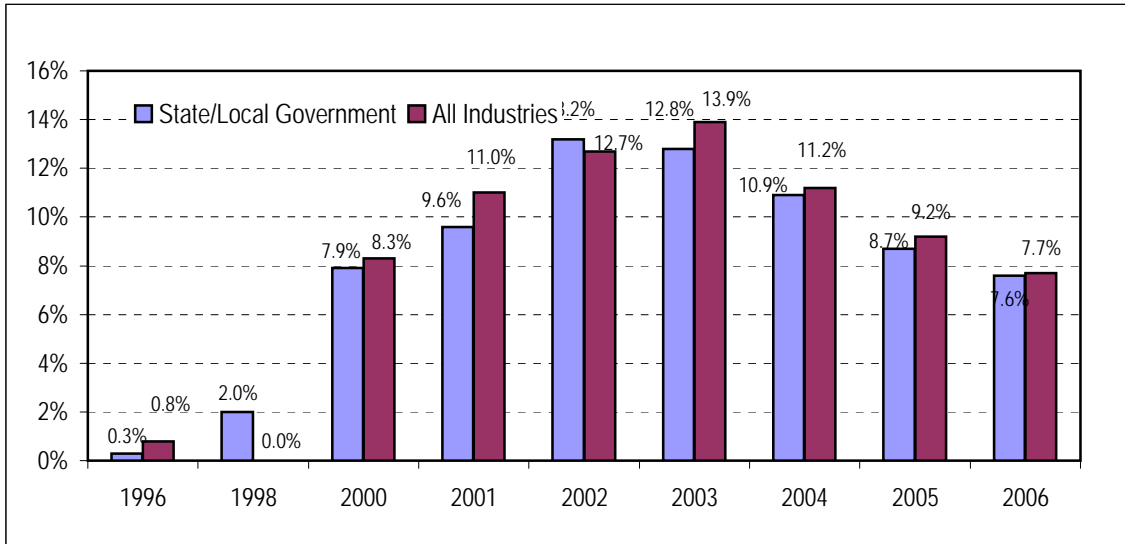
Figure 1. Premium Increases for Fully-insured vs. Self-insured Firms



Source: Kaiser and HRET, 2006

5. **State/Local Government Sector** - In 2006 premium increases for the State/Local Government were similar to the average premium increases for all industry sectors (See Figure 2).

Figure 2. Premium Increases by Industry



Source: Kaiser and HRET, 2006

B. Annual Premium Costs of Single and Family Coverage - Average annual premiums including employer and employee share equal \$4,242 for single coverage and \$11,480 for family coverage.

1. **PPO Premiums** - Average annual premiums are \$4,385 for single and \$11,765 for family coverage.
2. **HMO Premiums** - HMOs have the second lowest cost with annual premiums of \$4,049 for single coverage and \$11,278 for family coverage. HDHP/SO plans had the lowest annual premiums with \$3,405 for single coverage and \$9,484 for family coverage.
3. **Regional Differences** - Cost of coverage in the West is no longer the lowest. Cost of coverage in the Midwest is now the lowest with the West as second lowest. Cost of coverage remains the highest in the Northeast.

II. Health Insurance Choice

A. Most Available Plan Option - PPO coverage continues to be the most available plan option, with 79% of covered employees able to choose a PPO plan. HMO is the next available plan type with 43% of covered employees having this option. This is down from 44% in 2005.

B. Multiple Plan Options - The number of covered workers who can choose from multiple plans is 49%. Workers in the large firms are more likely to have more than one plan option (65%), while workers in the small firms are the least likely (20%).

III. Market Shares of Health Plans

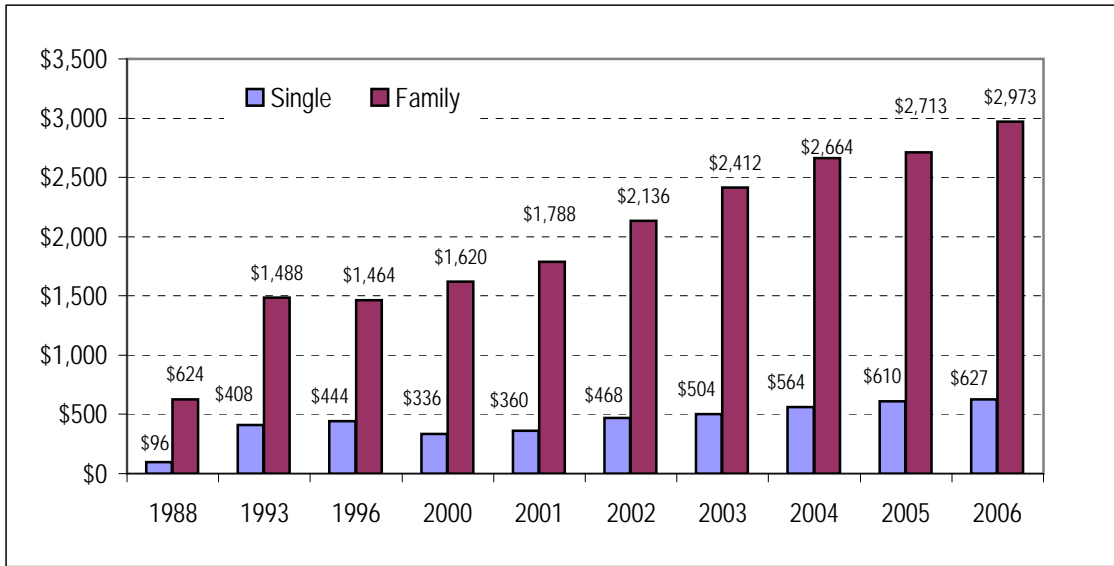
A. **PPO Enrollment** - More than half of covered workers (60%) enroll in PPO plans.

B. **HMO Enrollment** - Enrollment in HMO plans fell to 20% of total workers compared to 21% in 2005. The West Region is continues to have a higher enrollment in HMO plans than other regions (29%).

IV. Employee Contribution for Premiums

A. **Dollars Contributed** - The average monthly workers' contributions for single coverage is \$52 in 2006, while family coverage contributions is \$248. The annual average rates for single coverage and family coverage are \$627 and \$2,973, respectively (See Figure 3).

Figure 3. Average Annual Employee Premium Contribution



Source: Kaiser and HRET, 2006

B. **Employee Percentage Contributed** - 3 different sources (see Table 1)

1. **Kaiser and HRET:** Workers continued to pay about 16% for single coverage and 27% for family coverage (See Figure 4).

a) **Employers Fully Covering Premiums** - Twenty-three percent of covered workers have the full cost of single premiums paid by their employer compared with 9% who have the full cost of family premiums covered by the employer.

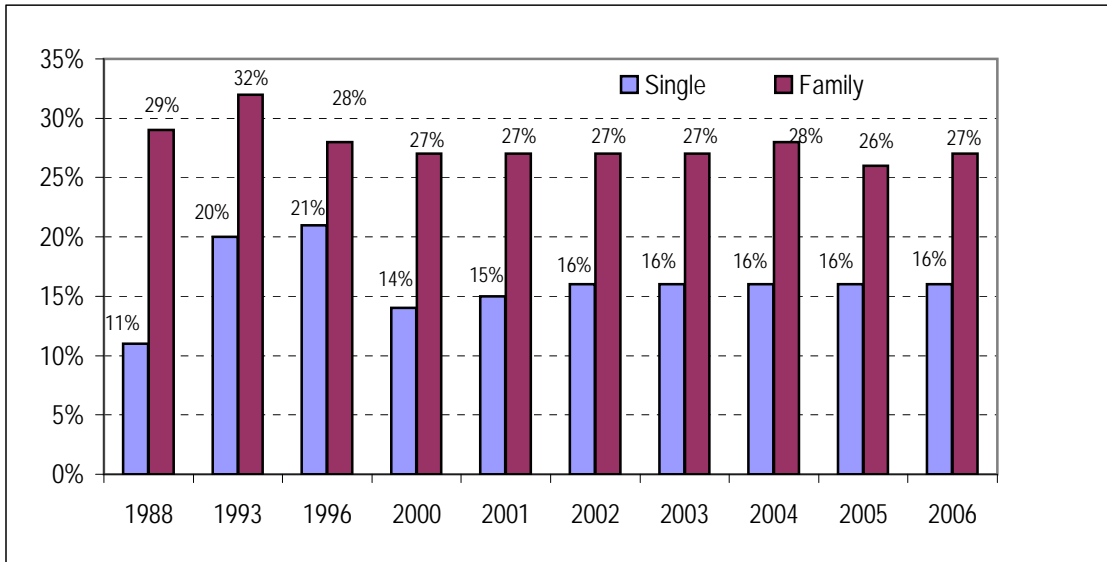
2. **2004 Medical Expenditure Panel Survey** - Nationally, workers pay 24% of the premium for family coverage and 18% of the premium for single coverage. In Utah, workers pay 28% of the premium for family coverage and 20% for single coverage.

3. U.S. Department of Labor - Employee contributions toward the premium for single coverage were 18% and 30% for family coverage.

Table 1. Employee Premium Contribution

Survey	Employee Share of Premium			
	US		Utah	
	Single	Family	Single	Family
Kaiser/HRET, 2006	16.0%	27.0%		
MEP Survey, 2004	18.0%	24.0%	20.0%	28.0%
Dept. of Labor, 2006	18.0%	30.0%		

Figure 4. Percentage of Employee Contribution to Premium



Source: Kaiser and HRET, 2006

V. Employee Cost Sharing

A. Deductibles - In 2006, annual deductibles in PPO plans - the most common plan type - increased over 2005. Average deductibles for single PPO Coverage are \$473 for preferred providers and \$710 for family coverage with a separate per person deductible.

B. Coinsurance -The vast majority of covered workers (82%) in HMOs, PPOs, POSs face a fixed-dollar co-payment rather than a percentage coinsurance (11%) when they visit a physician.

C. Co-payments- Among covered workers with co-payments around 20% pay a co-payment for in-network services of \$5 or \$10 per visit, 64% pay \$15 or \$20 per visit and 15% pay \$25 or or higher per visit.

VI. High Deductible Health Plans and Savings Account Options

A. Availability of HDHP Options - Seven percent of firms now offer HDHP plans, up from 4% in 2005, but the difference is not statistically significant. The number of firms offering the HDHP plan appears likely to grow over the next year.

VII. Prescription Drug Benefits

A. Prescription Benefit Coverage - Ninety-eight percent of covered workers in employee sponsored health plans have a prescription benefit. Of these 90% participate in a tiered cost sharing formula.

B. Three or Four-tier Cost-Sharing Arrangements Increasing - The use of tiered cost sharing arrangements to encourage the use of generic drugs and preferred brand name drugs has increased over the past year growing from 55% of covered workers in 2002 to 63% in 2003, 68% in 2004 and 74% in 2005 and 2006.

C. Pharmaceutical Co-payments - The average drug co-payments for generic (\$11), preferred (\$24) and non-preferred (\$38) drugs increased slightly over the last year. Average co-payments for a four-tier drug are \$74.

D. Pharmaceutical Co-payments - The average drug co-payments for generic (\$10), preferred (\$22) and non-preferred (\$35) drugs increased slightly over the last year. Average co-payments for a four-tier drug are \$63.

E. Pharmaceutical Coinsurance - Cost-sharing for workers with coinsurance averages 20% for generic, 25% for preferred and 33% for non-preferred drugs and 42% for four-tier drugs.

VIII. Plan Funding

A. Level of Self-Funding - Similar to 2005, 55% of covered employees are in a plan that is completely or partially self-insured in 2006. This has remained relatively stable over the last few years.

B. Related to Size of Firm - The amount of covered workers in self-funded plans varies dramatically by size of firm. Thirteen percent of covered workers in small firms (3 to 199 workers) are in self-insured plans compared to 53% of workers in mid-size firms (200 to 999 workers), 77% in large firms (1,000 - 4,999 workers) and 89% of workers in jumbo firms (5000+ workers).

C. Coverage of Self Insured Plans - Firms that self-insure are least likely to cover workers in HMO plans (33%) and most likely to cover workers in PPO plans (63%)

Sources

- Kaiser Family Foundation and Health Research and Educational Trust (HRET). 2006. *Employer Health Benefits: 2006 Annual Survey*. Found at <http://www.kff.org/insurance/7527/upload/7527.pdf>, March 19, 2007.

A national survey of 400 questions to 3,159 employers categorized by industry, size of firm, and region.
Note: All data comes from this report unless otherwise referenced.

- Agency for Healthcare Research and Quality, Center for Cost and Financing Studies. 2004. *2004 Medical Expenditure Panel Survey (MEPS) - Insurance Component*. Accessed through the Kaiser Family Foundation "State Health Facts Online" website, found at

<http://statehealthfacts.org/cgi-bin/healthfacts.cgi?action=compare&category=Health+Costs+%26+Budgets&subcategory=Employer-Based+Health+Premiums&topic=Family+Coverage&qsview=1>

<http://statehealthfacts.org/cgi-bin/healthfacts.cgi?action=compare&category=Health+Costs+%26+Budgets&subcategory=Employer%2dBased+Health+Premiums&topic=Single+Coverage>

March 21, 2007.

The Medical Expenditure Panel Survey - Insurance Component is an annual survey of establishments that collects information about employer-sponsored health insurance offerings in the United States.

- U.S. Department of Labor, Bureau of Labor Statistics. 2006. *National Compensation Survey: Employee Benefits in Private Industry in the United States, March 2006*. Found at <http://www.bls.gov/ncs/ebs/sp/ebsm0004.pdf> March 21, 2007.