

EMPLOYER HEALTH BENEFITS  
2004 ANNUAL SURVEY

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Cost of  
Health  
Insurance

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SECTION

1

## COST OF HEALTH INSURANCE

IN 2004, PREMIUMS FOR JOB-BASED HEALTH INSURANCE ROSE BY 11.2%, EXCEEDING BOTH THE OVERALL RATE OF INFLATION AND INCREASES IN WORKERS' WAGES BY NEARLY NINE PERCENTAGE POINTS (EXHIBIT 1.2). THIS IS THE FOURTH CONSECUTIVE YEAR OF DOUBLE-DIGIT INFLATION. SINCE 2000, THE COST OF JOB-BASED HEALTH COVERAGE HAS INCREASED BY 59%. PREMIUM INCREASES WERE LESS THAN THE 13.9% FIGURE POSTED IN 2003. THIS MARKED THE FIRST YEAR SINCE 1996 THAT PREMIUM INCREASES WERE LOWER THAN INCREASES IN THE PREVIOUS YEAR. COUPLED WITH RECENT DECLINES IN MEDICAL CLAIMS EXPENSES, IT WOULD APPEAR THAT THE WORST OF THE RECENT ROUND OF INFLATION IS OVER. THE AVERAGE ANNUAL COST OF FAMILY COVERAGE FOR A FAMILY OF FOUR IN 2004 IS \$9,950 AND THE AVERAGE COST FOR SINGLE COVERAGE IS \$3,695. THERE IS A CONSIDERABLE RANGE IN AVERAGE PREMIUMS ACROSS PLAN TYPES: THE AVERAGE ANNUAL PREMIUM FOR FAMILY COVERAGE IN HMO PLANS IS \$9,504, COMPARED TO AN AVERAGE ANNUAL PREMIUM OF \$10,217 IN PPO PLANS (EXHIBITS 1.13, 1.14, 1.15).

### PREMIUM INCREASES

- ▶ The cost of health insurance rose by 11.2%, down from 13.9% reported in 2003 (EXHIBIT 1.1).
- All types of health plans experienced similar double-digit premium increases – conventional (11.1%), HMO (12.0%), PPO (10.9%) and POS (11.3%) (EXHIBIT 1.1).
- All large firms (200 or more workers) and all small firms (3-199 workers) had similar increases in premiums (11.1% vs. 11.5%) (EXHIBIT 1.3).
- There was considerable variation in premium growth across employers: 24% of covered

*workers are employed in firms with premium increases of five percent or less, while 28% of covered workers experienced premium increases of greater than 15% (EXHIBIT 1.4).*

- Unlike 2003, premium equivalents for self-funded plans rose at a statistically equivalent rate as premiums for fully insured plans (11.1% vs. 11.4%) (EXHIBIT 1.6).

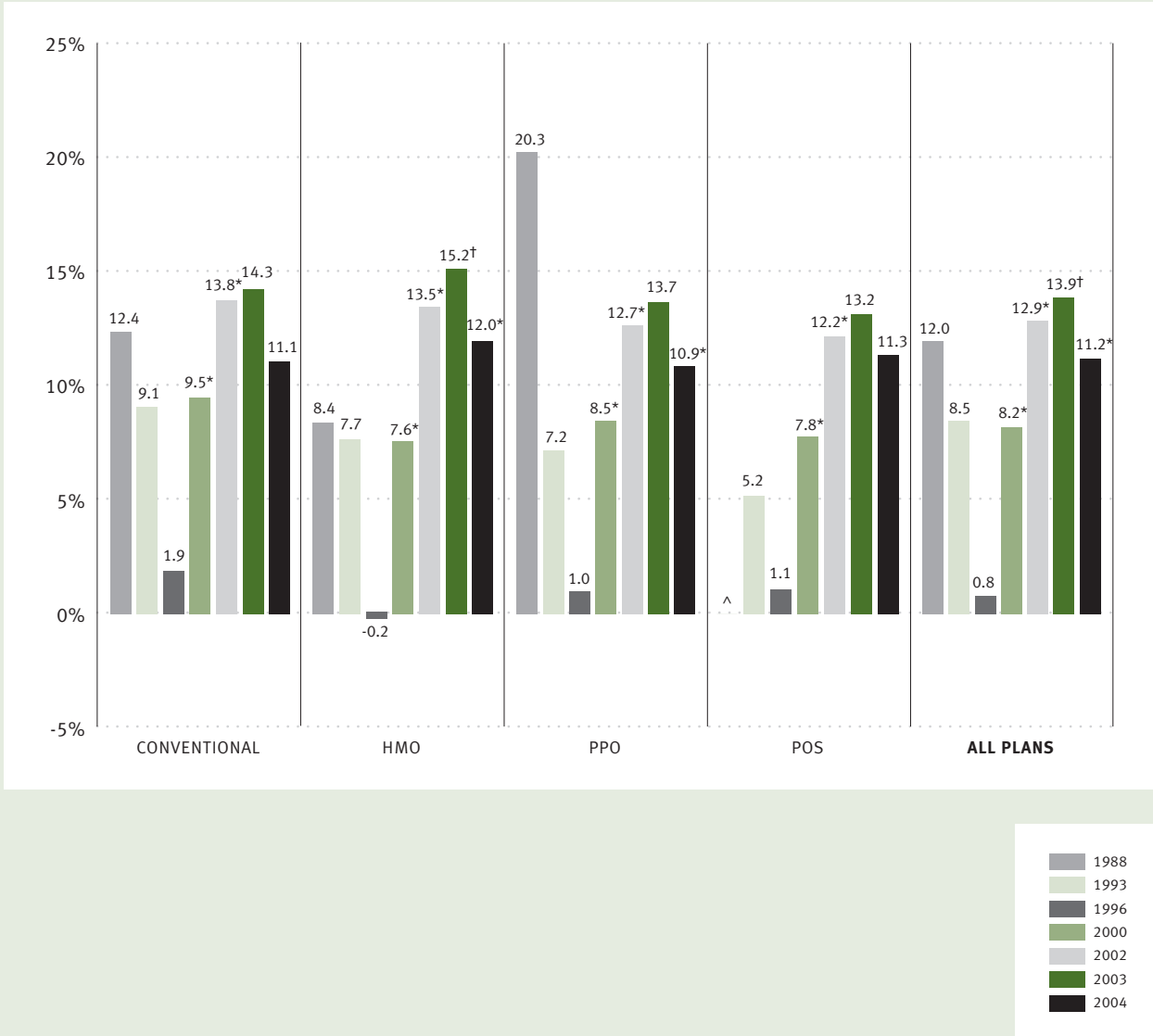
### MONTHLY PREMIUM COSTS OF SINGLE AND FAMILY COVERAGE

- ▶ The average monthly cost for single coverage in 2004 is \$308 and the average monthly cost for family coverage is \$829 (EXHIBIT 1.11).

- Covered workers in all large firms (200 or more workers) and all small firms (3-199 workers) face similar overall premiums (EXHIBIT 1.13). As discussed in Section 7, however, covered workers in all small firms face higher deductibles than workers in all large firms.
- Although PPOs cover a majority of workers, HMOs remain considerably cheaper. PPO premiums for single and family coverage are \$317 and \$851 per month respectively, compared to HMO monthly premiums of \$288 for single coverage and \$792 for family coverage (EXHIBIT 1.11).

EXHIBIT 1.1

Percentage Change in Health Insurance Premiums From Previous Year, by Plan Type, 1988-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003, 2004; KPMG Survey of Employer-Sponsored Health Benefits: 1993, 1996; The Health Insurance Association of America (HIAA): 1988.

\* Estimate is statistically different from the previous year shown at  $p < .05$ .

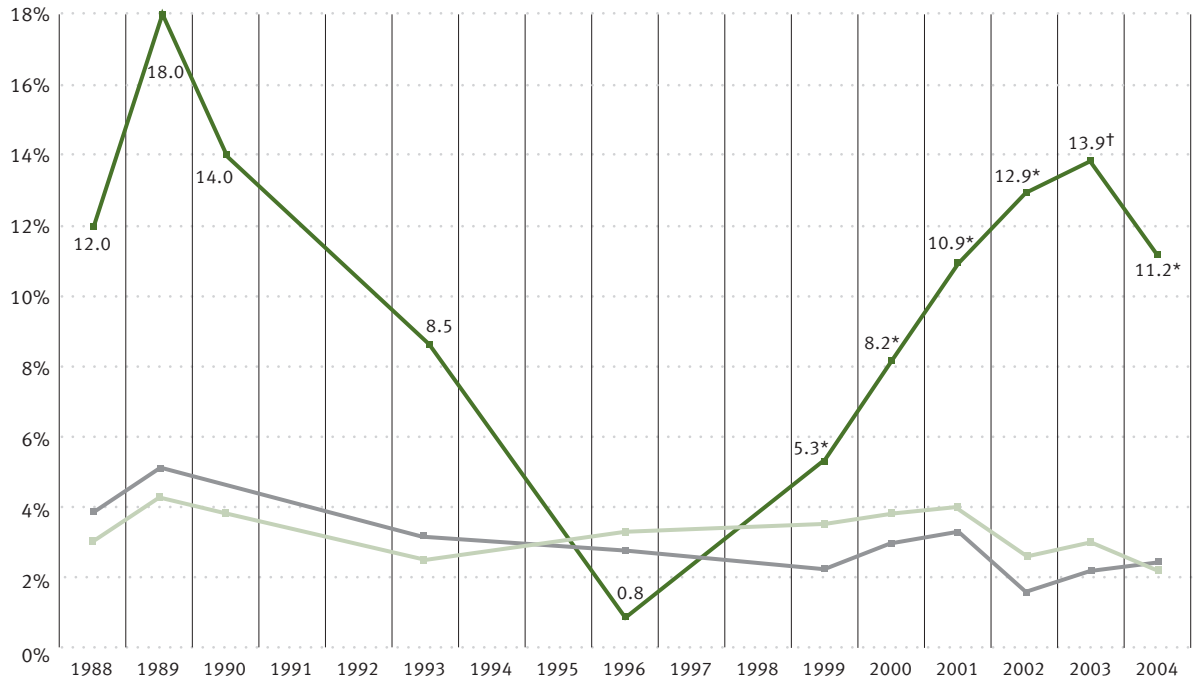
† Estimate is statistically different from the previous year shown at  $p < .10$ .

^ Information was not obtained for POS plans in 1988.

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

EXHIBIT 1.2

Increases in Health Insurance Premiums Compared to Other Indicators, 1988-2004



1988	1989	1990	1993	1996	1999	2000	2001	2002	2003	2004	
12.0	18.0	14.0	8.5	0.8	5.3*	8.2*	10.9*	12.9*	13.9†	11.2*	HEALTH INSURANCE PREMIUMS
3.9	5.1	4.7	3.2	2.9	2.3	3.1	3.3	1.6	2.2	2.3	OVERALL INFLATION
3.1	4.2	3.9	2.5	3.3	3.6	3.9	4.0	2.6	3.0	2.2	WORKERS' EARNINGS

SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002, 2003, 2004; 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, U.S. City Average of Annual Inflation (April to April), 1988-2004; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey (April to April), 1988-2004.

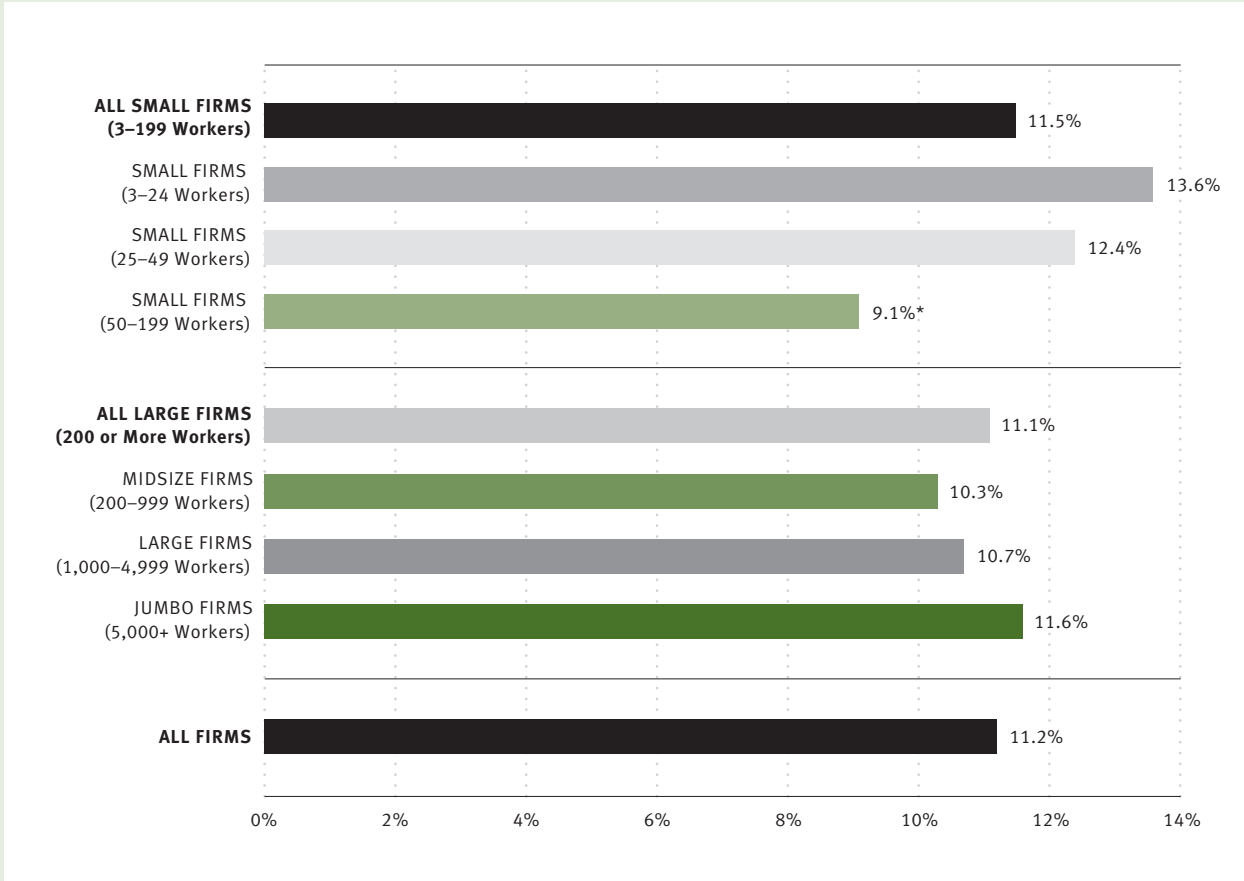
\* Estimate is statistically different from the previous year shown at  $p < .05$ .

† Estimate is statistically different from the previous year shown at  $p < .10$ .

Note: Data on premium increases reflect the cost of health insurance premiums for a family of four. Historical estimates of workers' earnings have been updated to reflect new industry classifications (NAICS).

EXHIBIT 1.3

Percentage Change in Premiums for Covered Workers, by Firm Size, 2004



SOURCE :

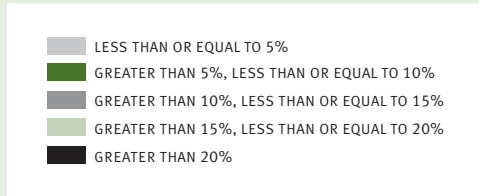
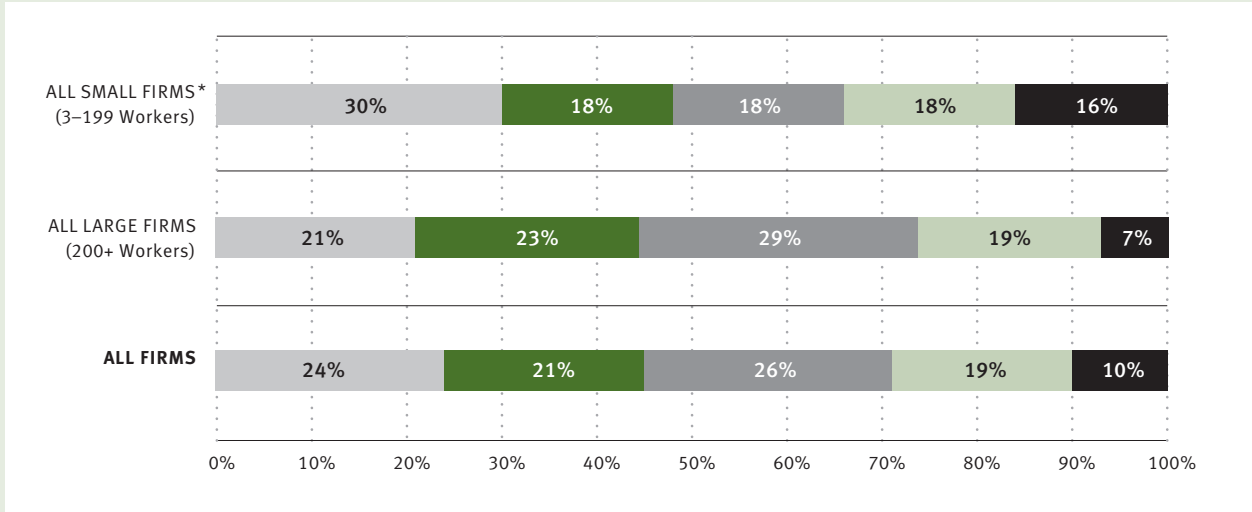
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

\* Estimate is statistically different from All Firms at  $p < .05$ .

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

EXHIBIT 1.4

Distribution of Premium Increases for Covered Workers, by Firm Size, 2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

\* Distribution is statistically different from All Firms at  $p < .05$ .

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

## EXHIBIT 1.5

## Percentage Change in Premiums, by Firm Size and Plan Type, 2004\*

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plans</i>
<b>FIRM SIZE</b>					
All Small Firms (3-199 Workers)	9.2%	13.1%	10.0%	14.7%	11.5%
All Large Firms (200 or More Workers)	12.8	11.6	11.3	9.2	11.1
<b>ALL FIRM SIZES</b>	<b>11.1%</b>	<b>12.0%</b>	<b>10.9%</b>	<b>11.3%</b>	<b>11.2%</b>

## SOURCE:

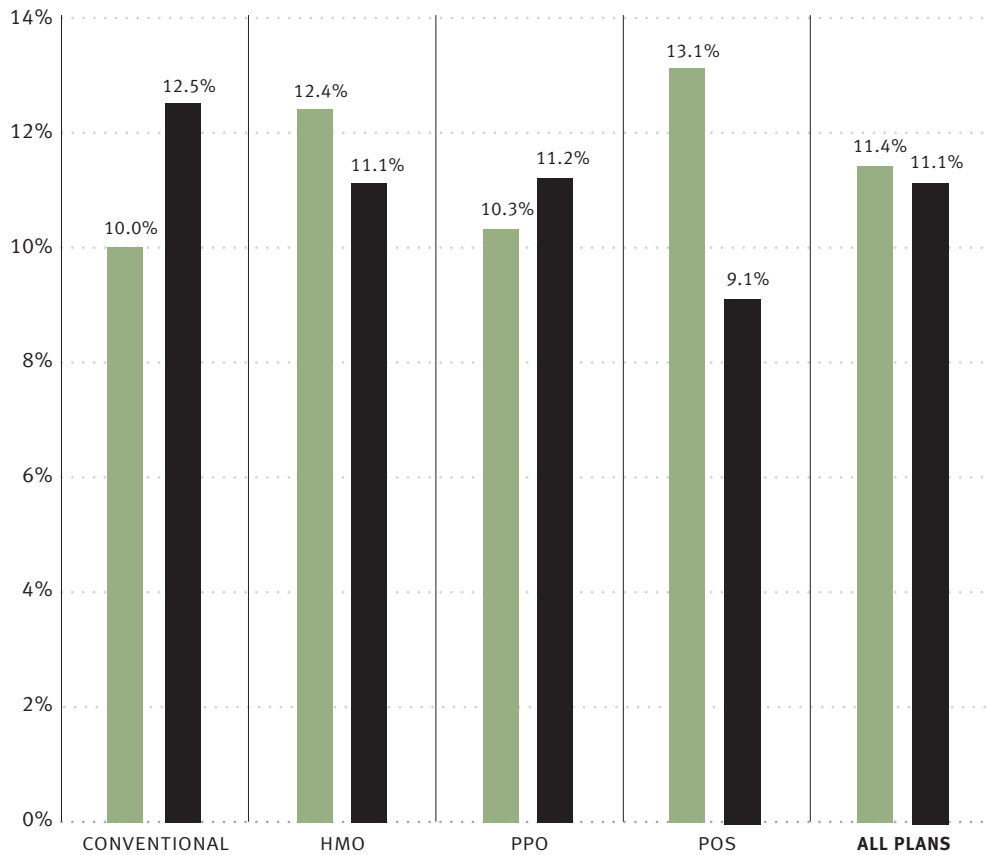
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

\* Tests found no statistically different estimates from All Plans within a firm size at  $p < .05$ .

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

EXHIBIT 1.6

Premium Increases, by Plan Type and Funding Arrangement, 2004\*



■ FULLY INSURED  
■ SELF-FUNDED

SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

\* Tests found no statistically different estimates between fully insured and self-funded plans at  $p < .05$ .

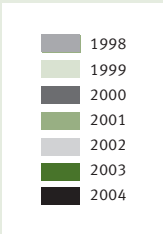
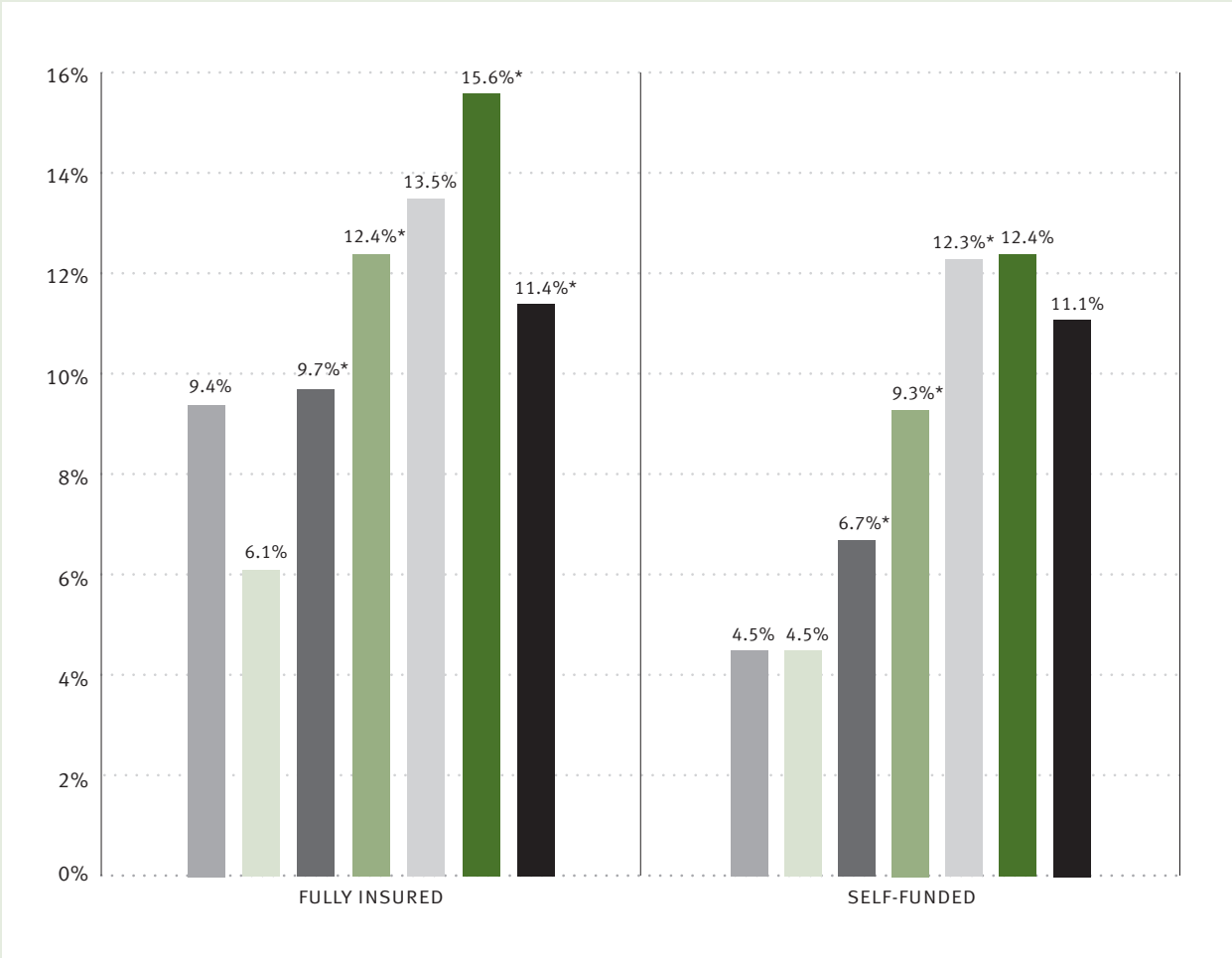
**Fully insured plan:** An insurance arrangement in which the employer contracts with a health plan to assume financial responsibility for the costs of enrollees' medical claims.

**Self-funded plan:** An insurance arrangement in which the employer assumes direct financial responsibility for the costs of enrollees' medical claims. Employers sponsoring self-funded plans typically contract with a third-party administrator or insurer to provide administrative services for the self-funded plan.

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

EXHIBIT 1.7

Premium Increases, by Funding Arrangement, 1998-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002, 2003, 2004;  
KPMG Survey of Employer-Sponsored Health Benefits: 1998.

\* Estimate is statistically different from previous year shown at  $p < .05$ .

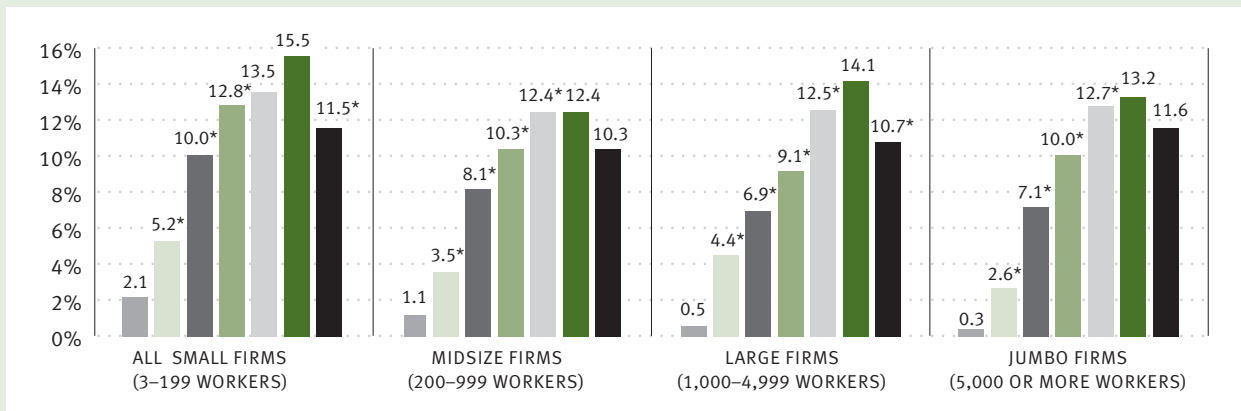
Fully insured plan: An insurance arrangement in which the employer contracts with a health plan to assume financial responsibility for the costs of enrollees' medical claims.

Self-funded plan: An insurance arrangement in which the employer assumes direct financial responsibility for the costs of enrollees' medical claims. Employers sponsoring self-funded plans typically contract with a third-party administrator or insurer to provide administrative services for the self-funded plan.

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

EXHIBIT 1.8

Premium Increases, by Firm Size, 1996-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003, 2004;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Estimate is statistically different from the previous year shown at p<.05.

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

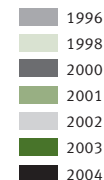
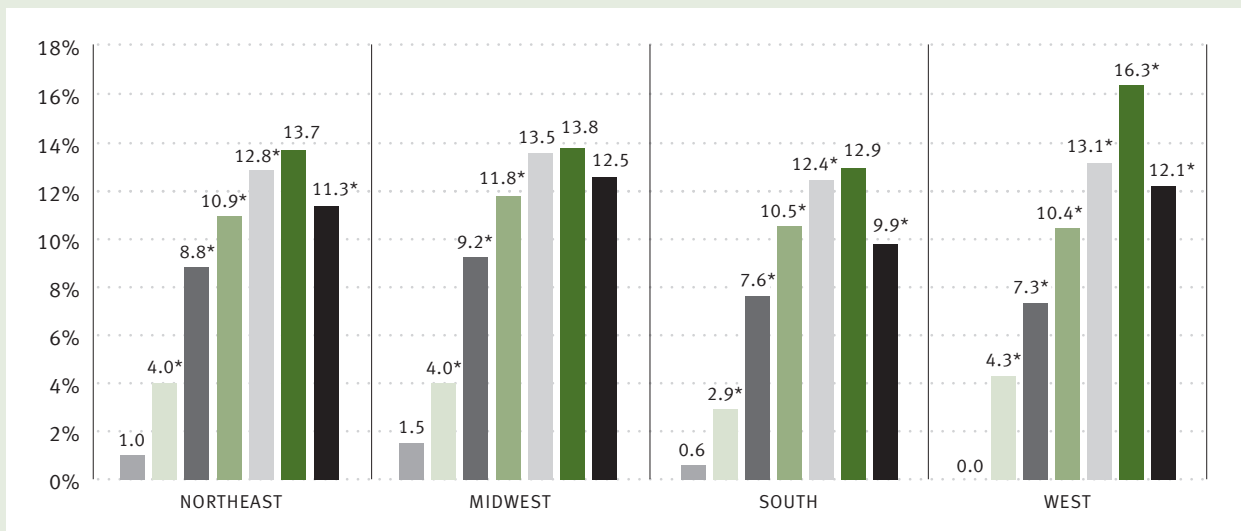


EXHIBIT 1.9

Premium Increases, by Region, 1996-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003, 2004;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Estimate is statistically different from the previous year shown at p<.05.

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

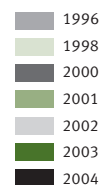
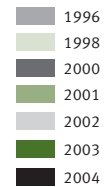
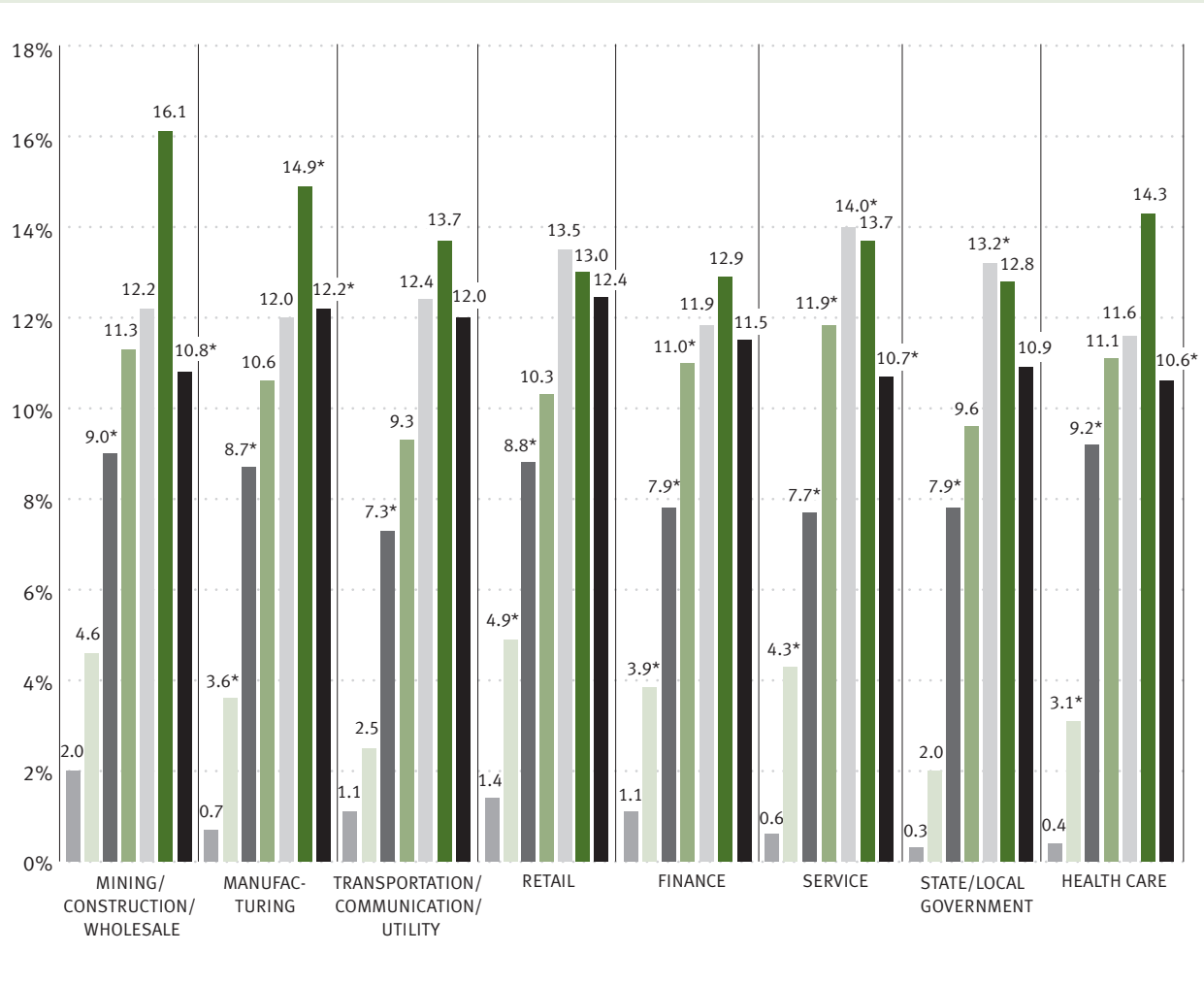


EXHIBIT 1.10

Premium Increases, by Industry, 1996-2004



SOURCE:

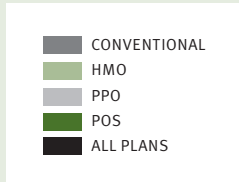
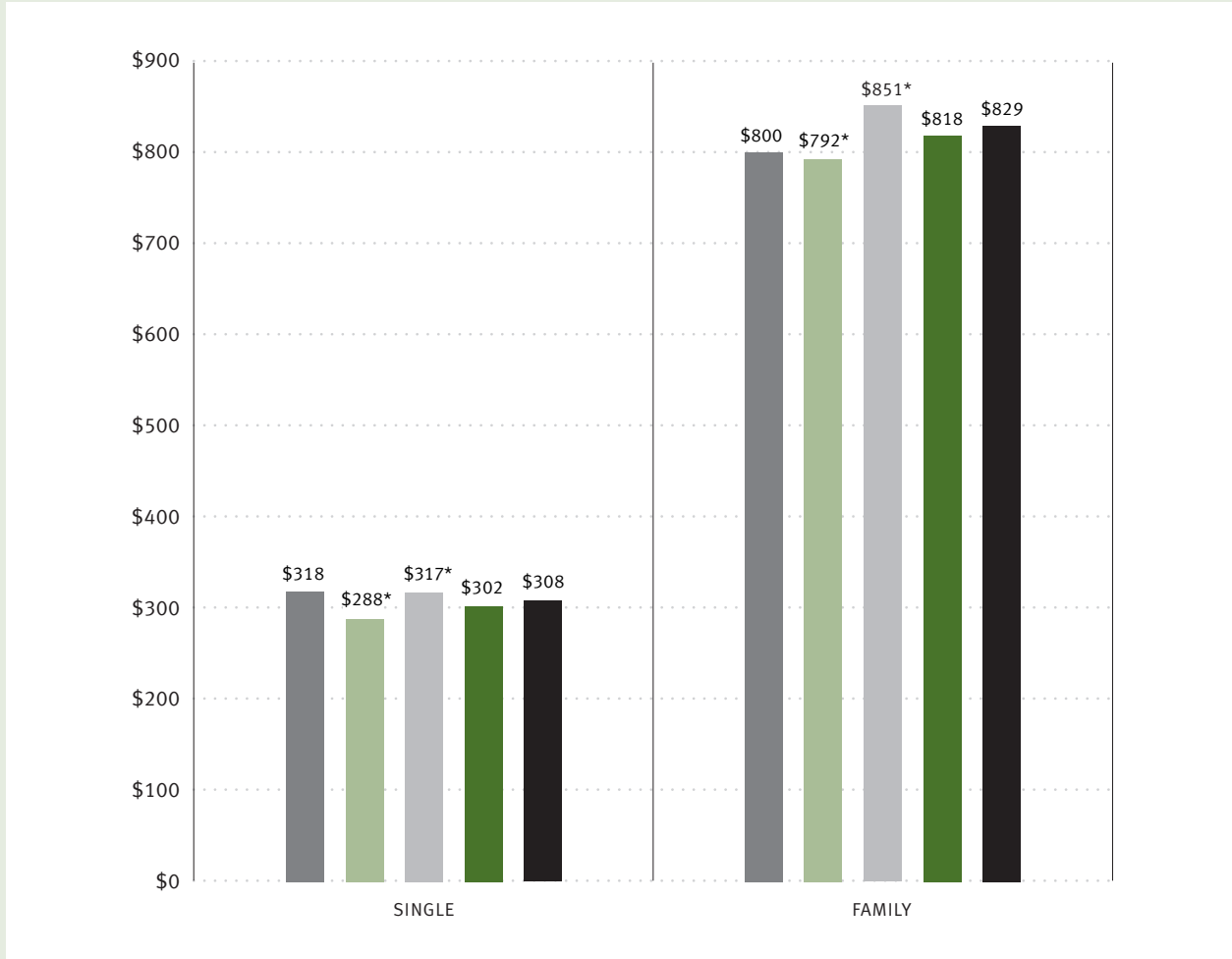
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003, 2004;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Estimate is statistically different from the previous year shown at  $p < .05$ .

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

EXHIBIT 1.11

Average Monthly Premiums for Covered Workers, Single and Family Coverage, by Plan Type, 2004



SOURCE :

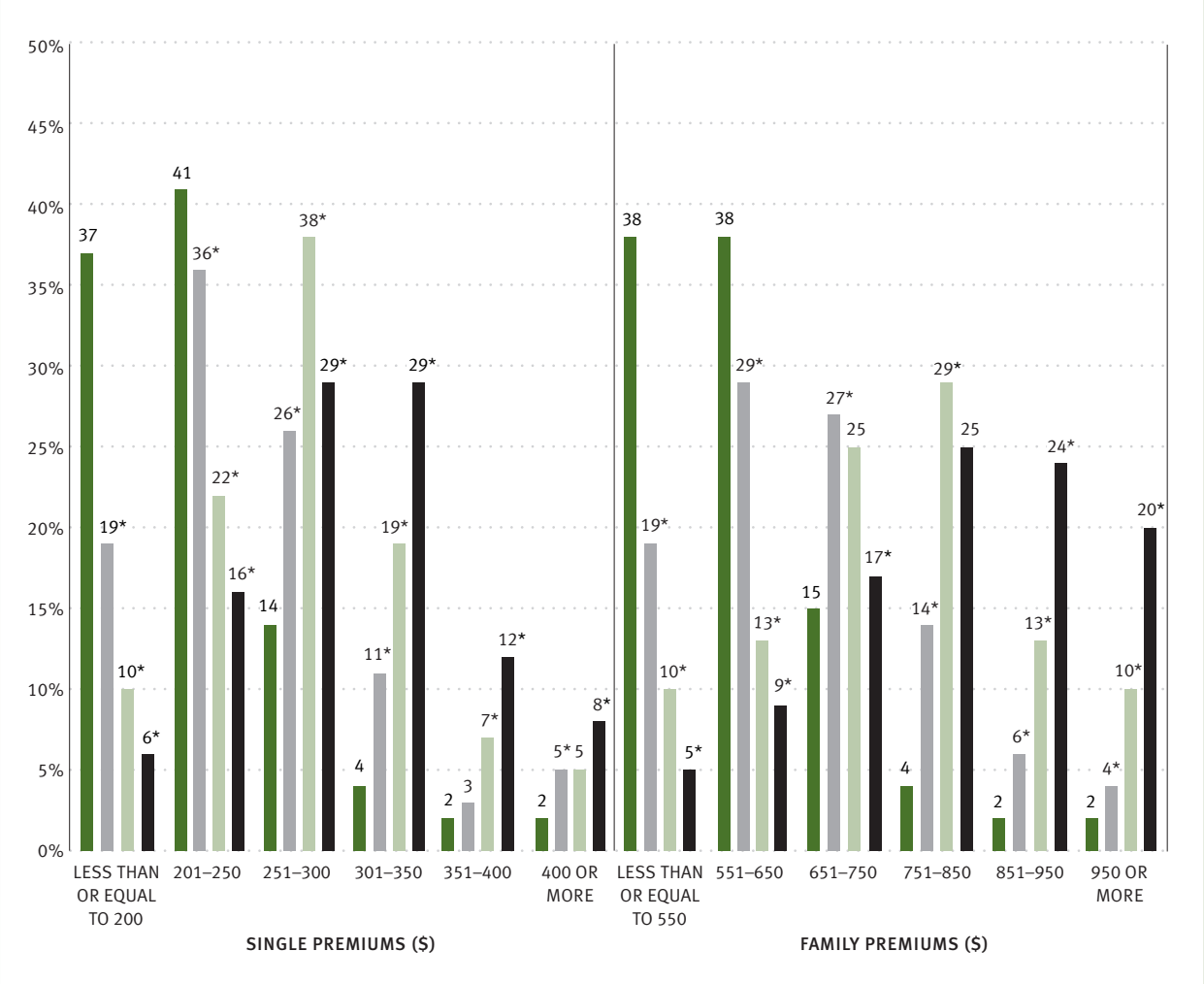
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

\* Estimate is statistically different from All Plans at  $p < .05$ .

Note: Family coverage is defined as health coverage for a family of four.

EXHIBIT 1.12

Distribution of Single and Family Premiums for Covered Workers, 2001-2004



- 2001
- 2002
- 2003
- 2004

SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2001, 2002, 2003, 2004.

\* Estimate is statistically different from the previous year shown at p<.05.

EXHIBIT 1.13

### Monthly and Annual Premiums for Covered Workers in Conventional, HMO, PPO, and POS Plans, by Firm Size, 2004\*

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
<b>CONVENTIONAL PLANS</b>				
All Small Firms (3-199 Workers)	\$318	\$778	\$3,815	\$9,340
All Large Firms (200 or More Workers)	319	820	3,825	9,844
<b>ALL FIRM SIZES</b>	<b>\$318</b>	<b>\$800</b>	<b>\$3,820</b>	<b>\$9,602</b>
<b>HMO PLANS</b>				
All Small Firms (3-199 Workers)	\$289	\$773	\$3,468	\$9,278
All Large Firms (200 or More Workers)	288	799	3,455	9,587
<b>ALL FIRM SIZES</b>	<b>\$288</b>	<b>\$792</b>	<b>\$3,458</b>	<b>\$9,504</b>
<b>PPO PLANS</b>				
All Small Firms (3-199 Workers)	\$323	\$848	\$3,872	\$10,175
All Large Firms (200 or More Workers)	315	853	3,782	10,235
<b>ALL FIRM SIZES</b>	<b>\$317</b>	<b>\$851</b>	<b>\$3,808</b>	<b>\$10,217</b>
<b>POS PLANS</b>				
All Small Firms (3-199 Workers)	\$301	\$766	\$3,612	\$ 9,197
All Large Firms (200 or More Workers)	303	849	3,637	10,193
<b>ALL FIRM SIZES</b>	<b>\$302</b>	<b>\$818</b>	<b>\$3,627</b>	<b>\$9,813</b>
<b>ALL PLANS</b>				
All Small Firms (3-199 Workers)	\$311	\$811	\$3,732	\$ 9,737
All Large Firms (200 or More Workers)	306	837	3,678	10,046
<b>ALL FIRM SIZES</b>	<b>\$308</b>	<b>\$829</b>	<b>\$3,695</b>	<b>\$9,950</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

\* Tests found no statistically different estimates from All Firms within a plan type at  $p < .05$ .

EXHIBIT 1.14

## Monthly and Annual Premiums for Covered Workers in Conventional, HMO, PPO, and POS Plans, by Region, 2004

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
<b>CONVENTIONAL PLANS</b>				
Northeast	\$337	\$855	\$4,041	\$10,256
Midwest	327	802	3,919	9,627
South	290	723	3,485	8,675
West	331	857	3,977	10,286
<b>ALL REGIONS</b>	<b>\$318</b>	<b>\$800</b>	<b>\$3,820</b>	<b>\$ 9,602</b>
<b>HMO PLANS</b>				
Northeast	\$295	\$821	\$3,542	\$9,848
Midwest	305	829	3,661	9,945
South	290	802	3,479	9,621
West	268*	731*	3,217*	8,777*
<b>ALL REGIONS</b>	<b>\$288</b>	<b>\$792</b>	<b>\$3,458</b>	<b>\$9,504</b>
<b>PPO PLANS</b>				
Northeast	\$331*	\$918*	\$3,971*	\$11,010*
Midwest	319	869	3,832	10,428
South	308	813*	3,701	9,761*
West	325	860	3,899	10,317
<b>ALL REGIONS</b>	<b>\$317</b>	<b>\$851</b>	<b>\$3,808</b>	<b>\$10,217</b>
<b>POS PLANS</b>				
Northeast	\$313	\$862	\$3,756	\$10,347
Midwest	295	864	3,536	10,366
South	293	774	3,514	9,293
West	308	784	3,698	9,411
<b>ALL REGIONS</b>	<b>\$302</b>	<b>\$818</b>	<b>\$3,627</b>	<b>\$ 9,813</b>
<b>ALL PLANS</b>				
Northeast	\$316	\$871*	\$3,789	\$10,449*
Midwest	314	857*	3,769	10,280*
South	302	802*	3,627	9,625*
West	302	802	3,629	9,629
<b>ALL REGIONS</b>	<b>\$308</b>	<b>\$829</b>	<b>\$3,695</b>	<b>\$ 9,950</b>

## SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

\* Estimate is statistically different from All Regions within a plan type at  $p < .05$ .

## EXHIBIT 1.15

## Monthly and Annual Premiums for Covered Workers in Conventional, HMO, PPO, and POS Plans, by Industry, 2004

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
<b>CONVENTIONAL PLANS</b>				
Mining/Construction/Wholesale	NSD	NSD	NSD	NSD
Manufacturing	\$259*	\$699*	\$3,113*	\$8,383*
Transportation/Communication/Utility	NSD	NSD	NSD	NSD
Retail	NSD	NSD	NSD	NSD
Finance	NSD	NSD	NSD	NSD
Service	325	777	3,894	9,323
State/Local Government	369	927	4,428	11,121
Health Care	NSD	NSD	NSD	NSD
<b>ALL INDUSTRIES</b>	<b>\$318</b>	<b>\$800</b>	<b>\$3,820</b>	<b>\$9,602</b>
<b>HMO PLANS</b>				
Mining/Construction/Wholesale	\$244*	\$737*	\$2,934*	\$8,846*
Manufacturing	284	803	3,411	9,632
Transportation/Communication/Utility	275	778	3,295	9,342
Retail	285	789	3,420	9,474
Finance	296	808	3,552	9,691
Service	286	779	3,434	9,345
State/Local Government	311*	812	3,738*	9,740
Health Care	286	811	3,428	9,730
<b>ALL INDUSTRIES</b>	<b>\$288</b>	<b>\$792</b>	<b>\$3,458</b>	<b>\$9,504</b>
<b>PPO PLANS</b>				
Mining/Construction/Wholesale	\$290*	\$814*	\$3,479*	\$9,769*
Manufacturing	297*	826	3,570*	9,915
Transportation/Communication/Utility	292*	815	3,507*	9,783
Retail	288	806	3,455	9,675
Finance	339*	939*	4,068*	11,271*
Service	330	879	3,960	10,554
State/Local Government	342*	826	4,103*	9,906
Health Care	352*	913*	4,224*	10,952*
<b>ALL INDUSTRIES</b>	<b>\$317</b>	<b>\$851</b>	<b>\$3,808</b>	<b>\$10,217</b>

Continued on page 31

EXHIBIT 1.15 Continued from page 30

## Monthly and Annual Premiums for Covered Workers in Conventional, HMO, PPO, and POS Plans, by Industry, 2004

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
<b>POS PLANS</b>				
Mining/Construction/Wholesale	\$278	\$789	\$3,341	\$ 9,472
Manufacturing	254*	793	3,046*	9,516
Transportation/Communication/Utility	NSD	NSD	NSD	NSD
Retail	NSD	NSD	NSD	NSD
Finance	334	943*	4,014	11,321*
Service	297	764	3,563	9,172
State/Local Government	335	858	4,014	10,296
Health Care	NSD	NSD	NSD	NSD
<b>ALL INDUSTRIES</b>	<b>\$302</b>	<b>\$818</b>	<b>\$3,627</b>	<b>\$ 9,813</b>
<b>ALL PLANS</b>				
Mining/Construction/Wholesale	\$282*	\$796*	\$3,389*	\$9,552*
Manufacturing	288*	812	3,462*	9,748
Transportation/Communication/Utility	288	805	3,454	9,663
Retail	294	812	3,526	9,749
Finance	328*	905*	3,931*	10,854*
Service	311	822	3,734	9,867
State/Local Government	332*	830	3,989*	9,963
Health Care	333*	893*	4,000*	10,711*
<b>ALL INDUSTRIES</b>	<b>\$308</b>	<b>\$829</b>	<b>\$3,695</b>	<b>\$9,950</b>

## SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004

\* Estimate is statistically different from All Industries within a plan type at  $p < .05$ .

NSD: Not Sufficient Data.