

EMPLOYER HEALTH BENEFITS
2007 ANNUAL SURVEY

Employer
Opinions and
Practices

SECTION

12

Employer Opinions and Practices

Employers play a significant role in health insurance coverage – providing health benefits to about 158 million nonelderly people in America¹ – so their attitudes, knowledge, and experiences are important factors in health policy discussions.

This year's survey asked employers how they view different approaches to containing cost increases and how they plan to change their health benefit plans in the near future. Employers also were asked about utilization management programs, how much they feel various factors are contributing to premium increases, whether they offer long-term care insurance, and whether they shopped for (or switched to) a new health plan, among other topics.

- All firms, including both those that offer and do not offer health benefits, were asked to rate how effective several different strategies are in reducing the growth of health care costs. In most instances, the percentages rating any of the suggested strategies as “very effective” at controlling costs are relatively low (between 12% and 28%). Larger percentages of firms (between 39% and 53%) report that each of the approaches we asked about were “somewhat effective” at controlling cost growth.
 - The approach perceived to be most effective by both small and large firms is disease management: 28% of small firms (3-199 workers) and 35% of large firms (200 or more workers) believe it to be “very effective” at controlling costs (Exhibit 12.1).
 - Similar percentages of employers report that tighter managed care networks (16%) and consumer-driven health plans (15%) would be “very effective” in reducing the growth of health care costs. However, more firms indicate that consumer-driven health plans would be “somewhat effective” than tighter managed care networks. Small firms (3-199 workers) are more likely than large firms (200 or more workers) to report tighter managed care networks as being “very effective” at controlling costs (16% vs. 4%) (Exhibit 12.1).
- Each year we ask employers whether they expect to change the employee premium contributions, cost sharing, or eligibility for health benefits in the next year.
 - Thirty-nine percent of large firms (200 or more workers) say that they are “very likely” to increase the amount employees pay for health insurance in the next year, compared to 21% of small firms (3-199 workers) (Exhibit 12.2). An additional 24% of all firms say they are “somewhat likely” to do so.
 - Relatively small percentages of firms say that they are “very likely” to increase employee cost sharing next year, with 12% saying that they are “very likely” to increase deductibles, 13% saying that they are “very likely” to increase copayments and coinsurance, and 11% saying that they are “very likely” to increase the amount that employees pay for prescription drugs. These

¹ Kaiser Family Foundation, Kaiser Commission on Medicaid and the Uninsured, *Health Insurance Coverage in America, 2005 Data Update*, May 2006.

- responses vary little between small firms (3-199 workers) and large firms (200 or more workers) (Exhibit 12.2).
- As observed in previous years, small percentages of employers report that they are likely to restrict eligibility or drop coverage altogether. Less than one percent of firms say that they are “very likely” to restrict eligibility for benefits in the next year. Similarly, about one percent of firms say that they are “very likely” to drop coverage in the next year (Exhibit 12.2).
 - The factor most often cited by firms as contributing “a lot” to higher health insurance premiums is higher spending for prescription drugs (66%), followed by higher spending for hospital care (60%), an aging population (52%), higher spending for physician services (46%), and higher insurance company profits (45%) (Exhibit 12.3).
 - Small firms (3-199 workers) are significantly more likely than large firms (200 or more workers) to cite higher insurance company profits, higher spending for hospital care, and higher spending for physician services as contributing “a lot” to higher health insurance premiums (Exhibit 12.3). When those that report “a lot” and “somewhat” are combined, the differences between small and large firms are eliminated, with the exception of those reporting higher insurance company profits.
 - About two-thirds (67%) of firms require pre-admission certification for inpatient hospital care in their health plan with the largest enrollment. Fifty-five percent of firms do so for outpatient surgery, and 48% include case management for large claims in their largest health plan. Large firms (200 or more workers) are significantly more likely than small firms (3-199 workers) to require preadmission certification for inpatient hospital care (78% vs. 66%) and case management for large claims in their health plan with the largest enrollment (82% vs. 46%) (Exhibit 12.4).
 - Fifteen percent of firms include a high-performance or tiered provider network in the health plan with the largest enrollment. The difference between small firms (3-199 workers) and large firms (200 or more) is not statistically significant (Exhibit 12.5). A high performance network is one that groups providers into the network based on quality, cost, and/or the efficiency of the care they deliver. These networks encourage patients to visit the most efficient doctors by either restricting networks to efficient providers, or by having different copays or coinsurance for providers in different tiers in the network.
 - Ten percent of firms offer employees a financial incentive to enroll in a spouse’s health plan. The differences between small (3-199 workers) and large firms (200 or more workers) and between regions are not statistically significant (Exhibit 12.5).
 - Looked at as a percentage of covered workers, 13% of covered workers are employed by a firm that offers employees a financial incentive to enroll in a spouse’s health plan. Fifteen percent of workers in large firms (200 or more workers) are offered an incentive, compared to 10% of workers in small firms (3-199 workers).

- The majority of firms that offer health insurance (65%) have shopped for a new health plan or insurance carrier in the past year (Exhibit 12.6). Small firms (3-199 workers) were more likely to do so than large firms (200 or more workers), at 66% versus 51%.
 - Of the firms that shopped, 25% changed insurance carriers in the past year, while 22% changed the type of health plan offered (Exhibit 12.7).
 - Sixty-nine percent of firms use a broker or consultant to assist in choosing an insurer or health plan. Small firms (3-199 workers) are less likely to do so than are large firms (200 or more workers) -- 68% versus 82% (Exhibit 12.5).
- Nineteen percent of firms that offer health benefits offer long-term care insurance. The difference between small firms (3-199 workers) and large firms (200 or more workers) is not statistically significant (Exhibit 12.5).
 - Looked at in terms of the percentage of covered workers, 34% of covered workers are employed by a firm that offers long-term care insurance. Workers in large firms (200 or more workers) are more likely to work for a firm that offers this benefit than workers in small firms (3-199 workers) (43% vs. 19%).
- Sixty-one percent of firms that offer health benefits allow employees to use pre-tax dollars to pay for health insurance premiums as allowable under Section 125 of the Internal Revenue Service Code. Virtually all large firms (200 or more workers) do so, at 92%, versus 60% of small firms (3-199 workers) (Exhibit 12.8).
 - The majority of covered workers (88%) are employed by a firm that allows at least some employees to use pre-tax dollars to pay for health insurance premiums. The difference between small and large firms is statistically significant, with 77% of covered workers in small firms (3-199 workers) compared to 94% of workers in large firms (200 or more workers) working for a firm that offers this Section 125 benefit.
- Twenty-two percent of firms that offer health benefits offer a flexible spending account (FSA). A FSA allows employees to set aside funds on a pre-tax basis to pay for medical expenses not covered by health insurance. Typically, employees decide at the beginning of the year how much to set aside in a FSA, and their employer deducts that amount from the employee's paycheck over the year. Funds set aside in a FSA must be used by the end of the year or are forfeited by the employee. FSAs are different from HRAs and HSAs. Substantial differences exist by firm size: 73% of large firms (200 or more workers) offer FSAs, compared with just 20% of small firms (3-199 workers) (Exhibit 12.8).
 - About 70% of covered workers are employed by a firm that offers a flexible spending account. Workers in large firms are more than twice as likely to work for a firm that offers a flexible spending account than workers in small firms (87% vs. 38%).

- Eighty-seven percent of covered workers are enrolled in plans where their employer made no changes to their level of health benefits, other than cost sharing, in the past year (Exhibit 12.9). Seven percent are in plans that included more health benefits than last year, and 6% are in plans that included fewer health benefits than last year.
- Over half (55%) of covered workers are in plans with a limit on the amount of benefits a plan will pay for an employee over his or her lifetime. Fifty-four percent of covered workers have a specified limit of one million dollars or more.
 - The majority of covered workers in HMO (76%) and POS (53%) plans have no lifetime maximum on benefits paid for by the plan, and about one-third of workers in PPOs have no limit (Exhibit 12.10).

Exhibit 12.1
Among All Firms Both Offering and Not Offering Health Benefits, Distribution of Firms' Opinions on the Effectiveness of the Following Strategies to Contain Health Insurance Costs, 2007

	Very Effective	Somewhat Effective	Not Too Effective	Not At All Effective	Don't Know
Tighter Managed Care Networks*					
All Small Firms (3-199 Workers)	16%	39%	19%	15%	11%
All Large Firms (200 or More Workers)	4%	42%	35%	17%	2%
ALL FIRMS	16%	39%	20%	15%	11%
Consumer-Driven Health Plans (Ex: High Deductible Plan Combined with a Health Savings Account)					
All Small Firms (3-199 Workers)	15%	53%	13%	12%	7%
All Large Firms (200 or More Workers)	17%	52%	19%	8%	4%
ALL FIRMS	15%	53%	13%	12%	7%
Higher Employee Cost Sharing*					
All Small Firms (3-199 Workers)	12%	46%	18%	19%	5%
All Large Firms (200 or More Workers)	14%	47%	26%	12%	2%
ALL FIRMS	12%	46%	18%	19%	5%
Disease Management Programs*					
All Small Firms (3-199 Workers)	28%	43%	12%	13%	4%
All Large Firms (200 or More Workers)	35%	50%	9%	4%	2%
ALL FIRMS	28%	43%	12%	13%	4%

* Distributions are statistically different between All Small Firms and All Large Firms within category ($p < .05$).

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007.

Exhibit 12.2
Among Firms Offering Health Benefits, Distribution of Firms Reporting the Likelihood of Making the Following Changes in the Next Year, by Firm Size, 2007

	Very Likely	Somewhat Likely	Not Too Likely	Not At All Likely	Don't Know
Increase the Amount Employees Pay for Health Insurance*					
All Small Firms (3-199 Workers)	21%	24%	21%	34%	<1%
All Large Firms (200 or More Workers)	39%	34%	17%	10%	<1%
ALL FIRMS	21%	24%	21%	33%	<1%
Increase the Amount Employees Pay for Prescription Drugs					
All Small Firms (3-199 Workers)	11%	30%	30%	26%	2%
All Large Firms (200 or More Workers)	9%	29%	41%	20%	1%
ALL FIRMS	11%	30%	31%	26%	2%
Increase the Amount Employees Pay for Deductibles*					
All Small Firms (3-199 Workers)	12%	25%	27%	35%	1%
All Large Firms (200 or More Workers)	9%	29%	40%	20%	1%
ALL FIRMS	12%	25%	28%	34%	1%
Increase the Amount Employees Pay for Office Visit Copays or Coinsurance*					
All Small Firms (3-199 Workers)	13%	29%	27%	29%	2%
All Large Firms (200 or More Workers)	7%	29%	43%	20%	1%
ALL FIRMS	13%	29%	28%	28%	2%
Introduce Tiered Cost Sharing for Doctor Visits or Hospital Stays					
All Small Firms (3-199 Workers)	7%	16%	39%	35%	3%
All Large Firms (200 or More Workers)	3%	16%	41%	39%	1%
ALL FIRMS	7%	16%	39%	35%	3%
Restrict Employees' Eligibility for Coverage					
All Small Firms (3-199 Workers)	<1%	4%	29%	64%	3%
All Large Firms (200 or More Workers)	1%	6%	28%	64%	<1%
ALL FIRMS	<1%	4%	29%	64%	3%
Drop Coverage Entirely*					
All Small Firms (3-199 Workers)	1%	2%	16%	81%	<1%
All Large Firms (200 or More Workers)	<1%	1%	5%	93%	<1%
ALL FIRMS	1%	2%	15%	82%	<1%
Offer HDHP/HRA[‡]					
All Small Firms (3-199 Workers)	3%	21%	30%	46%	<1%
All Large Firms (200 or More Workers)	4%	21%	30%	45%	1%
ALL FIRMS	3%	21%	30%	46%	<1%
Offer HSA Qualified HDHP[‡]					
All Small Firms (3-199 Workers)	1%	18%	32%	45%	3%
All Large Firms (200 or More Workers)	5%	23%	30%	41%	<1%
ALL FIRMS	2%	18%	32%	45%	3%

* Distributions are statistically different between All Small Firms and All Large Firms within category ($p < .05$).

[‡] Among firms not currently offering this type of HDHP/SO.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007.

Exhibit 12.3
Among All Firms Both Offering and Not Offering Health Benefits, Distribution of Firms Reporting the Contribution of the Following Factors to Increases in Health Insurance Premiums, by Firm Size, 2007

	A Lot	Somewhat	Not Too Much	Not At All	Don't Know
Higher Insurance Company Profits*					
All Small Firms (3-199 Workers)	46%	40%	9%	2%	2%
All Large Firms (200 or More Workers)	21%	54%	20%	4%	1%
ALL FIRMS	45%	41%	9%	3%	2%
Higher Spending for Hospital Care*					
All Small Firms (3-199 Workers)	60%	32%	3%	4%	1%
All Large Firms (200 or More Workers)	48%	46%	4%	1%	1%
ALL FIRMS	60%	32%	3%	4%	1%
Higher Spending for Physician Services*					
All Small Firms (3-199 Workers)	46%	42%	7%	5%	<1%
All Large Firms (200 or More Workers)	32%	55%	11%	1%	1%
ALL FIRMS	46%	42%	7%	4%	<1%
Higher Spending for Prescription Drugs					
All Small Firms (3-199 Workers)	67%	28%	3%	2%	<1%
All Large Firms (200 or More Workers)	65%	29%	4%	1%	1%
ALL FIRMS	66%	28%	3%	2%	<1%
Better Medical Technology					
All Small Firms (3-199 Workers)	39%	46%	10%	3%	2%
All Large Firms (200 or More Workers)	39%	50%	9%	2%	1%
ALL FIRMS	39%	46%	10%	3%	2%
An Aging Population					
All Small Firms (3-199 Workers)	52%	38%	6%	3%	<1%
All Large Firms (200 or More Workers)	57%	38%	4%	1%	<1%
ALL FIRMS	52%	38%	6%	3%	<1%
Workers Using More Services Because They Only Pay a Small Share of the Total Cost of Services*					
All Small Firms (3-199 Workers)	18%	53%	18%	8%	4%
All Large Firms (200 or More Workers)	23%	45%	27%	5%	<1%
ALL FIRMS	18%	53%	18%	8%	4%

* Distributions are statistically different between All Small Firms and All Large Firms within category ($p < .05$).

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007.

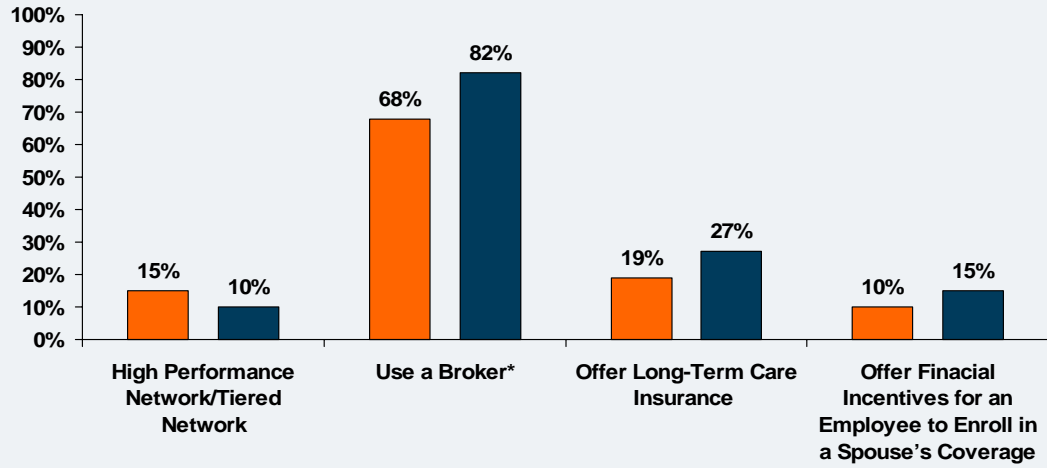
Exhibit 12.4
Percentage of Firms with the Following Utilization Management Provisions in their Largest Health Plan, By Size, Region, and Industry, 2007

	Pre-Admission Certification for Inpatient Hospital Care	Pre-Admission Certification for Outpatient Surgery	Case Management for Large Claims
FIRM SIZE			
3-24 Workers	67%	55%	45%*
25-199 Workers	61	56	53
200-999 Workers	77*	57	78*
1,000-4,999 Workers	82*	57	90*
5,000 or More Workers	78*	49	94*
All Small Firms (3-199 Workers)	66%*	55%	46%*
All Large Firms (200 or More Workers)	78%*	56%	82%*
REGION			
Northeast	48%*	40%*	42%
Midwest	63	46	39
South	82*	64	48
West	68	68	63*
INDUSTRY			
Agriculture/Mining/Construction	51%	52%	32%
Manufacturing	41*	37	42
Transportation/Communications/Utilities	87*	90*	90*
Wholesale	70	68	54
Retail	71	64	46
Finance	80	57	37
Service	70	51	50
State/Local Government	79	76*	60
Health Care	56	51	39
ALL FIRMS	67%	55%	48%

* Estimate for inpatient utilization management, outpatient utilization management, or case management is statistically different from all other firms not in the indicated size, region, or industry category ($p < .05$).

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007.

Exhibit 12.5
Among Firms Offering Health Benefits, Percentage of Firms With Specific Plan Offerings and Features, By Firm Size, 2007



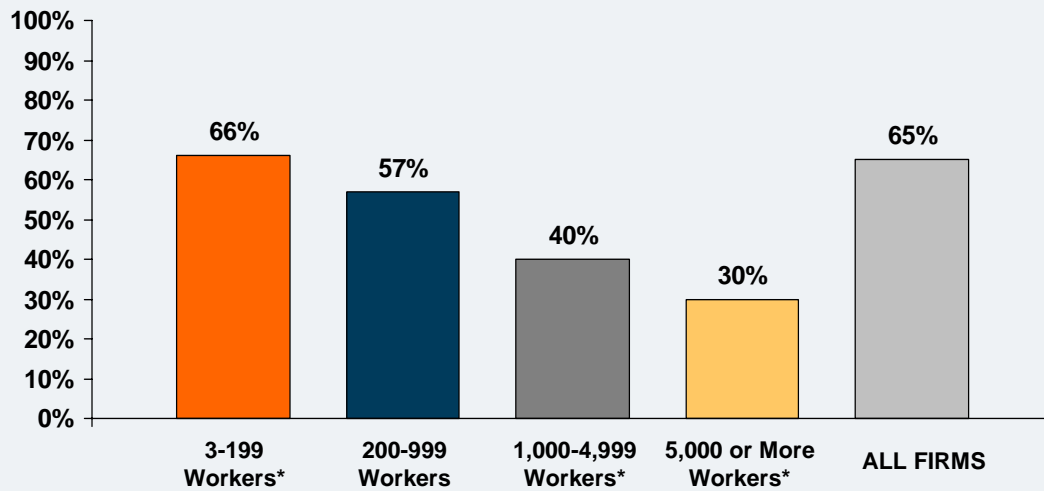
* Estimate is statistically different between All Small Firms and All Large Firms within category (p<.05).

Note: A high performance network is one that groups providers into the network based on quality, cost, and/or the efficiency of the care they deliver. These networks encourage patients to visit the most efficient doctors by either restricting networks to efficient providers, or by having different copays or coinsurance for providers in different tiers in the network.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007.

■ All Small Firms (3-199 Workers)
■ All Large Firms (200 or More Workers)

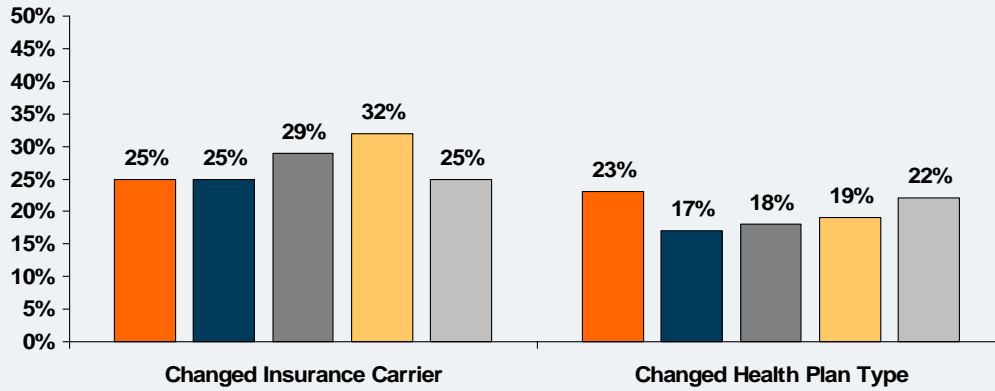
Exhibit 12.6
Percentage of Firms That Shopped For A New Plan or Health Insurance Carrier in the Past Year, by Firm Size, 2007



*Estimate is statistically different within category from estimate for firms not in the indicated size category ($p < .05$).

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007.

Exhibit 12.7
Among Firms That Shopped for a New Plan or Insurance Carrier, Percentage Reporting That They Changed Insurance Carrier and/or Health Plan Type in the Past Year, by Firm Size, 2007*

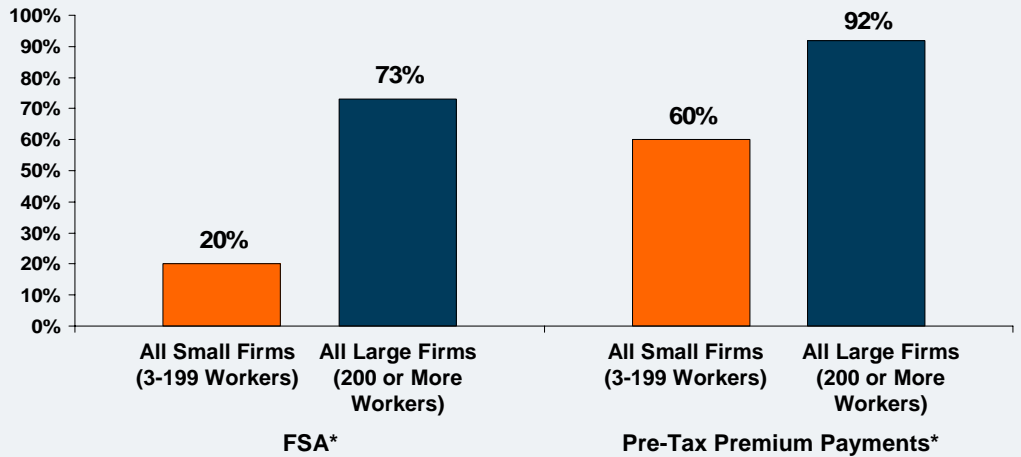


*Tests found no statistical difference within category between size category shown and all other firms not in the indicated size category (p<.05).

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007.

- 3-199 Workers
- 200-999 Workers
- 1,000-4,999 Workers
- 5,000 or More Workers
- ALL FIRMS

Exhibit 12.8
Among Firms Offering Health Benefits, Percentage of Firms
Offering Flexible Spending Accounts and Pre-Tax Premium
Payments, By Firm Size, 2007

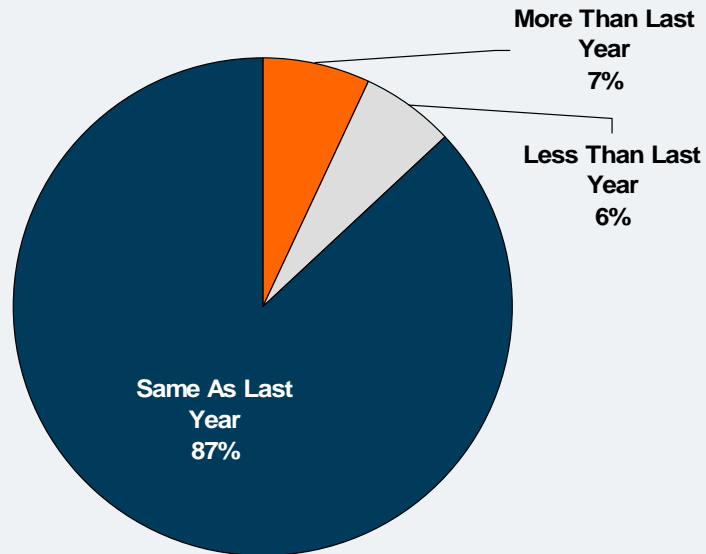


*Estimate is statistically different between All Small Firms and All Large Firms within category ($p < .05$).

Note: Section 125 of the Internal Revenue Service code permits employees to pay for health insurance premiums with pre-tax dollars. Section 125 also allows the establishment of flexible spending accounts (FSAs). An FSA allows employees to set aside funds on a pre-tax basis to pay for medical expenses not covered by health insurance. Typically, employees decide at the beginning of the year how much to set aside in a FSA, and their employer deducts that amount from the employee's paycheck over the year. Funds set aside in a FSA must be used by the end of the year or are forfeited by the employee. FSAs are different from HRAs and HSAs.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007.

Exhibit 12.9
Distribution of Covered Workers by a One-Year Change in
Level of Health Benefits, Other Than Cost Sharing, 2007



Note: Less than 1% of covered workers are in a plan that reported not having the same type of plan the year before.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007.

Exhibit 12.10
Distribution of Covered Workers by Maximum Lifetime Benefit Payable to an Employee with Single Coverage, by Plan Type and Firm Size, 2007

	Less than \$1,000,000	\$1,000,000 - \$1,999,999	\$2,000,000 or More	No Limit
HMO*				
All Small Firms (3-199 Workers)	0%	6%	8%	87%
All Large Firms (200 or More Workers)	0	11	18	71
All HMO Plans	0%	9%	15%	76%
PPO				
All Small Firms (3-199 Workers)	1	25	41	32
All Large Firms (200 or More Workers)	1	28	37	34
All PPO Plans	1%	27%	38%	33%
POS				
All Small Firms (3-199 Workers)	0	11	26	62
All Large Firms (200 or More Workers)	0	30	28	42
All POS Plans	0%	20%	27%	53%
HDHP/SO				
All Small Firms (3-199 Workers)	0	7	64	30
All Large Firms (200 or More Workers)	0	18	44	37
All HDHP/SOs	0%	13%	54%	33%
ALL PLANS				
All Small Firms (3-199 Workers)	1	17	33	50
All Large Firms (200 or More Workers)	1	24	32	43
ALL FIRMS	1%	22%	32%	45%

* Distributions are statistically different between All Small Firms and All Large Firms ($p < .05$).

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007.

Exhibit 12.11
Distribution of Covered Workers by Maximum Lifetime Benefit Payable to an Employee with Single Coverage, by Plan Type, 2004-2007

	Less than \$1,000,000	\$1,000,000 - \$1,999,999	\$2,000,000 or More	No Limit
HMO				
2004	<1%	10%	15%	75%
2007	0%	9%	15%	76%
PPO				
2004	1%	33%	31%	35%
2007*	1%	27%	38%	33%
POS				
2004	2%	21%	15%	63%
2007*	0%	20%	27%	53%
HDHP/SO[‡]				
2007	0%	13%	54%	33%
ALL PLANS				
2004	1%	24%	25%	49%
2007*	1%	22%	32%	45%

* Distribution is statistically different from distribution for the previous year shown ($p < .05$).

[‡] Information was not obtained for HDHP/SOs prior to 2006.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2004-2007.