

THE KAISER FAMILY FOUNDATION  
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HEALTH RESEARCH AND  
EDUCATIONAL TRUST

Employer  
Health  
Benefits

1999  
ANNUAL SURVEY  
EXECUTIVE SUMMARY



- AND - HEALTH RESEARCH AND  
EDUCATIONAL TRUST

Formerly produced by KPMG Peat Marwick

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The authors thank Jain Wang and Samantha Hawkins for their research assistance.

**The Kaiser Family Foundation**, based in Menlo Park, California, is an independent national health care philanthropy and is not associated with Kaiser Permanente or Kaiser Industries.

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Printed in the United States of America.

## INTRODUCTION

Employer-based health insurance in the U.S. covers more than 152 million American workers and their dependents, in addition to an estimated 17 million retirees and family members. During the past decade, the nature of job-based coverage has changed extensively, largely as a result of decisions made by the nation's employers and their workforce. For example, the percentage of American workers enrolled in conventional (also known as indemnity or fee-for-service) insurance plans declined dramatically from 73% in 1988 to 9% in 1999. At the same time, premium inflation declined every year from 1989 to 1996, though it has been climbing since then.

Despite lower health care inflation and the best economy since the 1960s, the percentage of Americans with job-based insurance has barely risen since 1993, and is lower today than it was 10 years ago. Some analysts would attribute this long term decline to changing conditions in the labor market, where the information revolution and the global economy have reduced the demand for low-skilled workers. This reduced demand has resulted in lower real wages for low-skilled workers and a reduction in the percentage of low-skilled workers who enjoy health benefits from their employers.

This Executive Summary by the Kaiser Family Foundation (Kaiser) and the Health Research and Educational Trust (HRET) highlights developments in employer-based health coverage based on a nationwide survey of employers. From 1991 to 1998, KPMG Peat Marwick LLP, an international consulting and accounting firm, surveyed a random sample of large U.S. employers to track changes in health insurance coverage. In 1998, KPMG divested itself of its Compensation and Benefits Practice and donated the annual survey of health benefits to HRET, a non-profit research organization. Beginning this year, the survey will be conducted under a partnership between Kaiser, a health care philanthropy and policy research organization, and HRET. The new survey will continue a core of questions from prior KPMG surveys, but has been expanded to include small employers and a variety of policy-oriented questions.

**The main objectives of the Kaiser/HRET survey are:**

- ▶ To document the types of health benefit plans employers provide to their workers;
- ▶ To determine the design, cost, and enrollment of these plans;
- ▶ To determine what types of firms offer coverage to their workers, and the percentage of their workers eligible for and taking up coverage;
- ▶ To learn how plans and coverage have changed over the past year and decade.

## SURVEY METHODS

Kaiser/HRET asked each participating company as many as 400 questions about its largest conventional, Health Maintenance Organization (HMO), Preferred Provider Organization (PPO), and Point-of-Service (POS) health plans. Kaiser/HRET retained National Research LLC (NR), a Washington, DC-based survey research firm, to conduct telephone interviews with human resource and benefits managers. NR conducted interviews during the Spring of 1999.

Kaiser/HRET drew its sample from a Dun & Bradstreet list of the nation's private and public employers with 3 or more workers. To increase precision, Kaiser/HRET stratified the sample by industry and the number of workers in the firm. Kaiser/HRET attempted to repeat interviews with many of the 2,759 firms interviewed in 1998 and replaced non-responding firms with another firm from the same industry and firm size. As a result, 1,377 firms in this year's total sample of 1,939 firms participated in both the 1998 and 1999 surveys. The overall response rate was 60%.

Because Kaiser/HRET selects firms randomly, it is possible through the use of statistical weights to extrapolate the results to national (as well as regional, industry, and firm size) averages. These weights allow Kaiser/HRET to present findings based on the number of workers covered by a health plan, the number of total workers, and the number of firms.

To further analyze changes in employer-sponsored health plans during the past few years, this report uses data from the 1993, 1996 and 1998 KPMG Surveys of Employer-Sponsored Health Benefits. For a longer term perspective, we also use the 1988 survey of the nation's employers conducted by the Health Insurance Association of America (HIAA). Many of the questions in the HIAA, the KPMG, and Kaiser/HRET surveys are identical, as is the sample design.

KEY FINDINGS

COST INCREASES

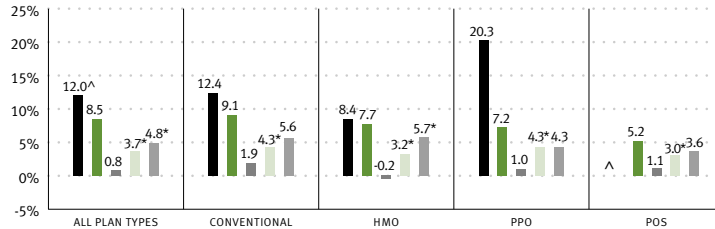
Premiums Rise by an Average of 4.8%; Small Firms Experience Substantially Larger Increases than Large Firms

Premiums for employer-sponsored health coverage increased 4.8% from the Spring of 1998 to Spring 1999 (EXHIBIT A). This was the highest nominal and inflation-adjusted increase in premiums since 1994. Covered workers in all small firms (employers with 3-199 workers) saw their premiums increase by 6.9%, compared to 4.1% for all large firms (those with 200 or more employees) (EXHIBIT B). The smallest of firms (those with 3-9 employees) saw the highest increases (9.2%). By plan type, premium increases ranged from 5.7% for HMO plans and 5.6% for conventional plans to 4.3% for PPO plans and 3.6% for POS plans (EXHIBIT A). Costs for plans where the employer buys coverage from an insurer increased nearly double those where the employer self-insures (5.8% versus 3.7%) (EXHIBIT C).

The lower premium increases for self-insured plans may reflect the underlying rate of health care inflation, while the driving force behind larger increases in fully-insured plans may be what is known as the “underwriting cycle.” The underwriting cycle is the historic pattern of profitability and pricing, where insurers during times of profitability compete for market-share by underpricing their products. Eventually, many insurers experience financial losses, and then try to restore their profitability by raising premiums. Premium increases for insured plans in 1999 may be driven in large part by losses

EXHIBIT A (2.1 IN FULL REPORT)

Percentage Change in Health Insurance Premiums from Previous Year, by Plan Type, 1988–1999



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999; KPMG Survey of Employer-Sponsored Health Benefits, 1988, 1993, 1996, 1998.  
 \* Estimate is statistically different from the previous year for years 1996–1998, 1998–1999.  
<sup>^</sup> Information was not obtained for POS plans in 1988.

EXHIBIT B (2.6 IN FULL REPORT)

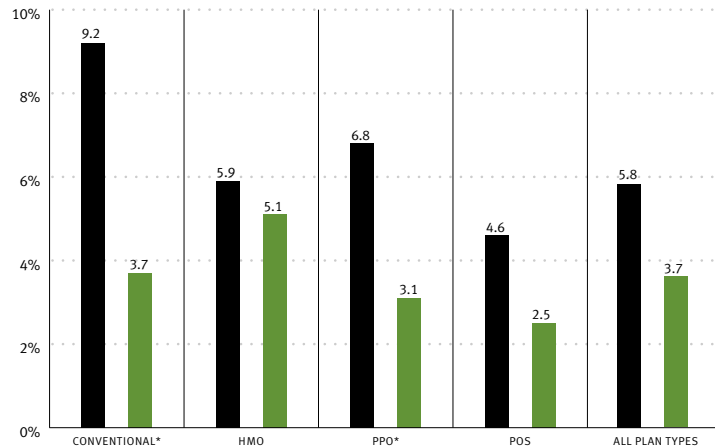
Premium Increases from Previous Year, by Firm Size, 1996, 1998 and 1999



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999; KPMG Survey of Employer-Sponsored Health Benefits, 1996, 1998.  
 \* Estimate is statistically different from the previous year for years 1996–1998, 1998–1999.

EXHIBIT C (2.4 IN FULL REPORT)

Premium Increases by Plan Type and Funding Arrangement, 1999



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999.  
 \* Estimates are statistically different within plan type.

experienced by health plans over the last several years — in 1996 and 1997, nearly two-thirds of managed care organizations and insurers suffered financial losses.

### Employers Take Steps to Reduce the Cost of Retiree Health Coverage

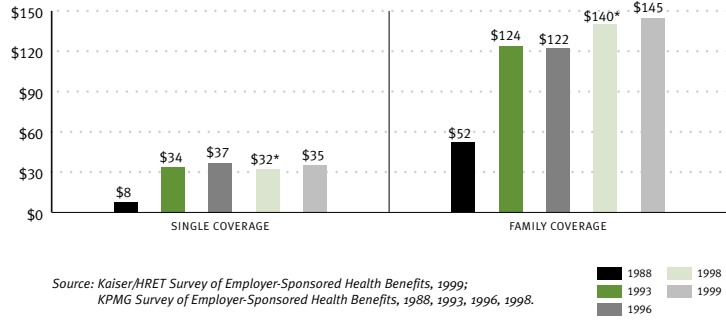
As Congress debates the future of the Medicare program, firms that offer retiree coverage took steps to reduce their costs. During the past 2 years, 35% of all large firms (with 200 or more employees) that offered retiree coverage capped their maximum contribution, and 7% dropped conventional coverage in favor of managed care plans. 41% of all large firms offer retiree coverage in 1999, a figure unchanged since 1996.

### Average Worker Contributions for Health Insurance Changed Little in 1999; Fewer Small Employers Require Contributions for Single Coverage

The average worker contributed \$35 per month for single coverage and \$145 per month for family coverage, up from \$32 and \$140 respectively in 1998 (EXHIBIT D). During the past few years, there has been a significant trend among small employers to offer non-contributory plans for single coverage, meaning that the employer pays the entire premium (EXHIBIT E). The majority of workers (56%) in all small firms today participate in non-contributory plans, a reversal of trends from 1988 to 1996. In contrast, only 29% of workers in all large firms do not contribute to the monthly premium cost of single coverage (EXHIBIT F).

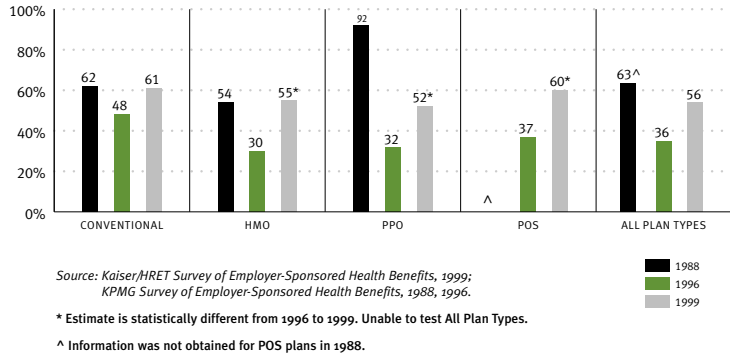
#### EXHIBIT D (7.1 IN FULL REPORT)

Average Monthly Worker Contribution for Single and Family Coverage, 1988–1999



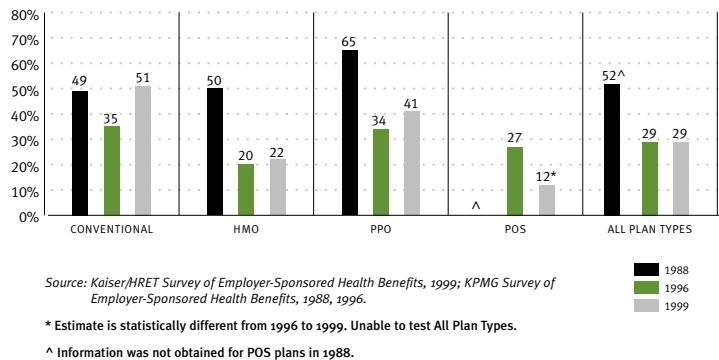
#### EXHIBIT E (7.10 IN FULL REPORT)

Percentage of Covered Workers in Plans Where Employer Pays Entire Cost of Single Plan Coverage, All Small Firms (3–199 Workers), 1988, 1996 and 1999



#### EXHIBIT F (7.11 IN FULL REPORT)

Percentage of Covered Workers in Plans Where Employer Pays Entire Cost of Single Plan Coverage, All Large Firms (200+ Workers), 1988, 1996 and 1999



## COVERAGE, BENEFITS, AND PLAN ENROLLMENTS

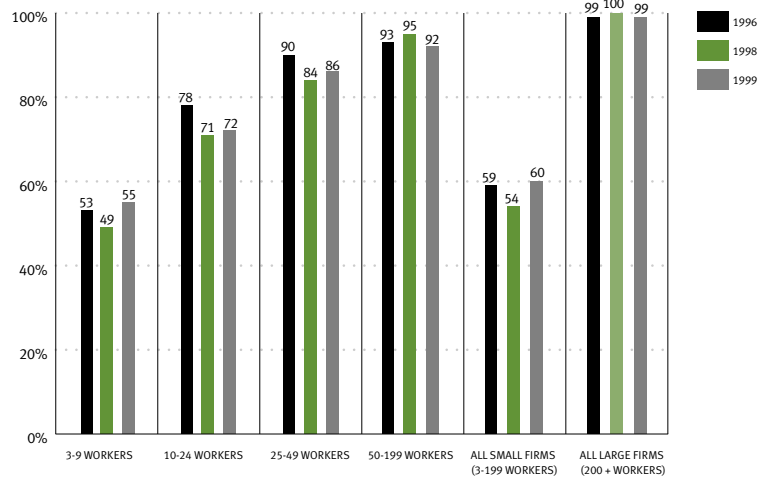
### In the Best Economy in Three Decades, There was Little Change in the Percentage of Americans Covered by Job-Based Health Insurance

60% of all small firms offered health insurance in 1999, statistically unchanged since 1996 (EXHIBIT G). Virtually all large firms continue to offer health benefits. In firms that offer coverage, 66% of workers are enrolled in one of the firm's health plans, statistically unchanged from 1996, but down from 73% in 1989 (EXHIBIT H). These coverage rates are much lower in firms that employ substantial numbers of low-wage workers. In low-wage firms (defined as firms where 35% or more of the workforce earns less than \$20,000 per year), only 55% of workers are covered through their employer. In contrast, 73% of workers in high wage-firms (defined as firms where 10% or less of the workforce earns \$20,000 or less per year) are enrolled in one of their firm's health plans.

Since 1996, the U.S. economy has added 9 million jobs, real wages have increased more than 6%, and the "misery index" — the sum of the rate of inflation and unemployment rate — has achieved its lowest level in 30 years. Yet, the percentage of employees covered by their employer's health plan has remained unchanged, as has the percentage of small firms offering coverage. The implication of these figures is that when the inevitable slow down in the economy arrives, the employer-based system is likely to provide a smaller share of employees with health insurance coverage.

#### EXHIBIT G (3.1 IN FULL REPORT)

Percentage of Firms Offering Health Benefits, by Firm Size, 1996, 1998 and 1999\*

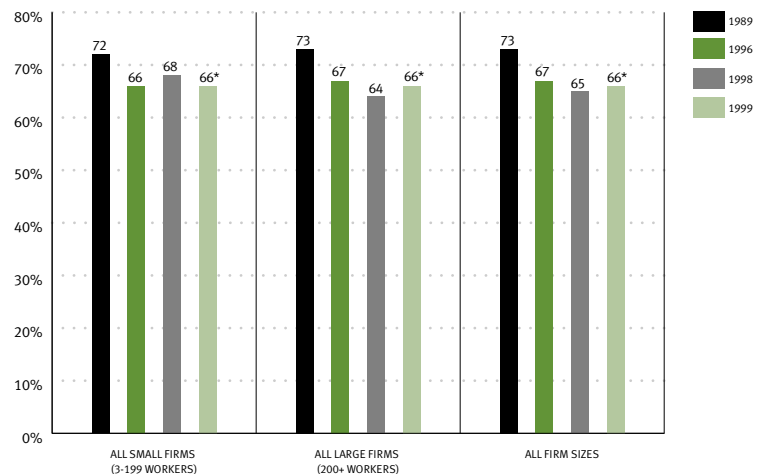


Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999;  
KPMG Survey of Employer-Sponsored Health Benefits, 1996, 1998.

\* Tests found no statistically different estimates from the previous year for years 1996–1998, 1998–1999.

#### EXHIBIT H (4.2 IN FULL REPORT)

Percentage of Workers in Firms Offering Health Benefits Who Are Covered by Their Employer's Health Plan, by Firm Size, 1989–1999



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999;  
KPMG Survey of Employer-Sponsored Health Benefits, 1989, 1996, 1998.

\* Estimate is statistically different from the 1989 estimate; no statistical differences in estimates from the previous year for years 1996–1998, 1998–1999.

### The Level of Covered Benefits Changes Little; Abortion Services Are Not Covered for the Majority of Americans with Job-Based Health Insurance

During the past year, 84% of employees did not experience a change in the level of covered services, while 6% experienced a decline (EXHIBIT I). Firms report that 37% of employees with employer-based coverage are covered for abortion services. Employees in all large firms are 3 to 4 times as likely to have coverage for abortion services as employees in all small firms, depending on the type of plan.

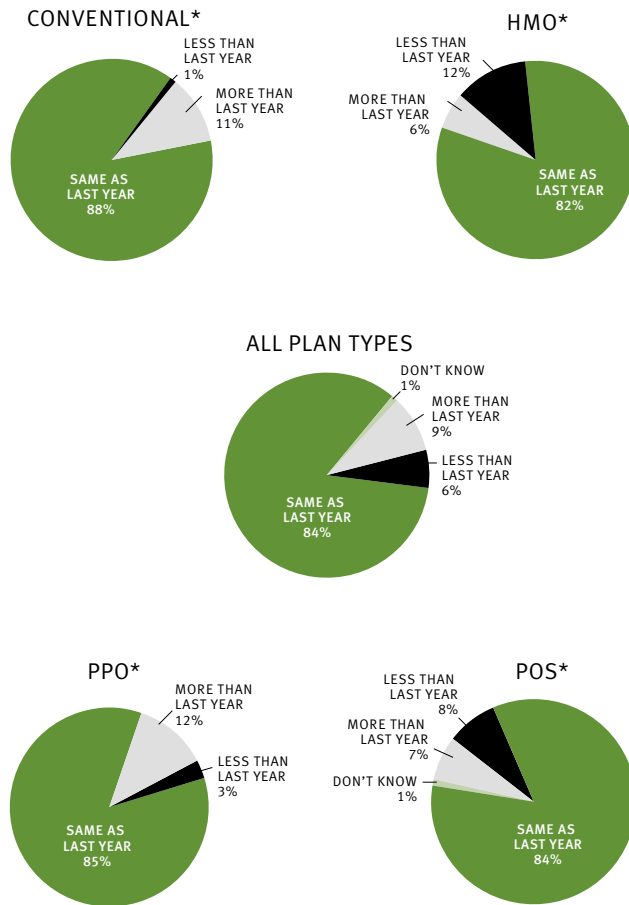
Mental health care is one area where benefit coverage has declined noticeably. Today, 21% of employees in all large firms have mental health benefits with unlimited outpatient visits, compared to 36% in 1991.

### About 4.7 Million Americans Use COBRA to Maintain Their Job-Based Coverage

The Kaiser/HRET survey provides to our knowledge the first national estimates from a random sample of employers about the prevalence of COBRA (Consolidated Omnibus Budget Reconciliation Act of 1995) coverage. COBRA allows former employees to extend their former job-based coverage for 18 months by paying 102% of the premium. During the Spring of 1999, almost 4.7 million former employees opted to extend their coverage through COBRA. For every 100 active workers with job-based coverage, 3 Americans are taking advantage of COBRA.

#### EXHIBIT I (8.1 IN FULL REPORT)

How Do Levels of Benefits for Covered Workers Compare to Last Year, by Plan Type, 1999



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999.

\* Distribution is statistically different from All Plan Types.

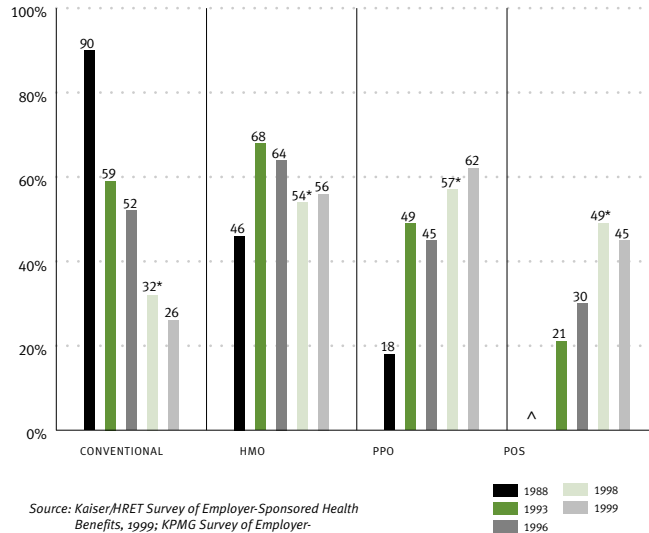
### Conventional Coverage Erodes Further

The long-term decline of conventional insurance continues. Only 9% of Americans with job-based coverage are enrolled in a conventional plan, down from 14% in 1998 and 73% in 1988 (EXHIBIT K). A major reason for this decline is fewer employees (26%) can select a conventional plan, down from 32% in 1998, 52% in 1996, and 90% in 1988 (EXHIBIT J). PPOs increased their market share to 38% (more than triple their share of 11% in 1988), and now are the most common type of plan, followed by HMOs at 28% and POS plans at 25% (EXHIBIT K).

The percentage of workers with a choice of health plans has changed little since 1996, though the extent of choice varies significantly by the size of the firm. For example, 88% of jumbo employers (firms with 5,000 or more workers) offer a choice of health plans, whereas only 10% of all small firms do so.

#### EXHIBIT J (5.1 IN FULL REPORT)

Percentage of Covered Workers with a Choice of Conventional, HMO, PPO, or POS Plans, 1988–1999



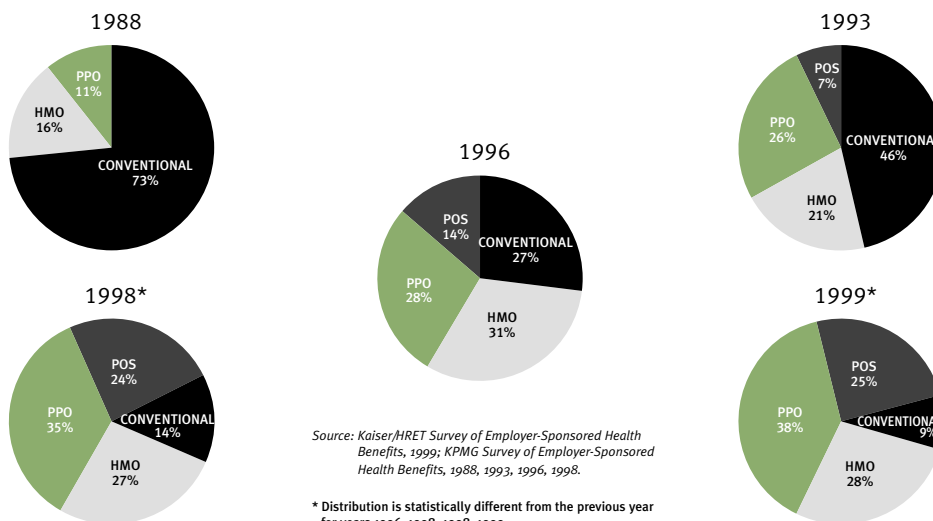
Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999; KPMG Survey of Employer-Sponsored Health Benefits, 1988, 1993, 1996, 1998.

\* Estimate is statistically different from previous year for years 1996–1998, 1998–1999.

^ Information was not obtained for POS plans in 1988.

#### EXHIBIT K (6.1 IN FULL REPORT)

Health Plan Enrollments for Covered Workers, 1988–1999



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999; KPMG Survey of Employer-Sponsored Health Benefits, 1988, 1993, 1996, 1998.

\* Distribution is statistically different from the previous year for years 1996–1998, 1998–1999.

**THE PATIENTS' RIGHTS DEBATE**

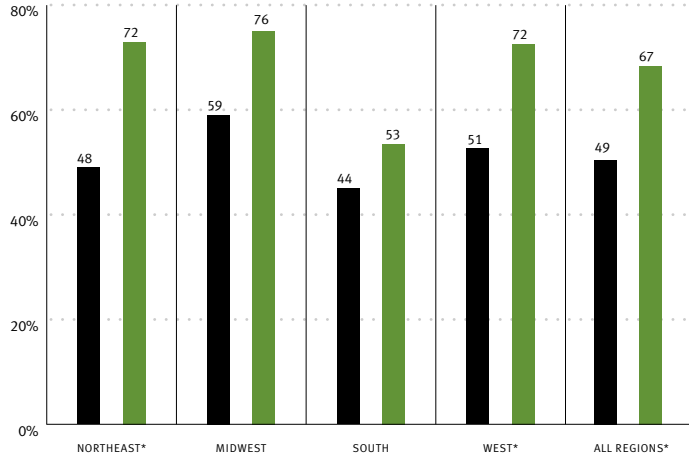
**Most Employers Support Key Patients' Rights Proposals; More HMO Members Can Select OB/GYNs as Their Primary Care Physician**

In a year when Congress is debating patient protection legislation, a majority of small and large employers support key features of this legislation: making it easier to get emergency room bills paid (85% of all small and 69% of all large employers), and giving patients the right to an independent appeal (94% of all small and 79% of all large employers). Large and small employers differ in their views about expanding the right to sue health plans. Small firms support allowing patients to sue health plans for malpractice by a two-to-one margin (61% support), while just 26% of all large firms express support. Support has increased for patient protection proposals from last year — particularly for the right to sue, where support is up 14 percentage points among all employers from last year.

Employers and HMOs expanded their definition of a primary care physician, one of the issues that is part of the patients' rights debate. Nationally, two-thirds (67%) of workers in HMO plans can designate an OB/GYN as their primary care physician, up substantially from 49% in 1998 (EXHIBIT L). One in four HMO members with a chronic condition can designate a specialist other than an OB/GYN as a primary care physician (EXHIBIT M).

**EXHIBIT L (15.1 IN FULL REPORT)**

**Percentage of Covered Workers Enrolled in Firm's Largest HMO Plan Where Their OB/GYN Can Act as Primary Care Physician, 1998 and 1999**

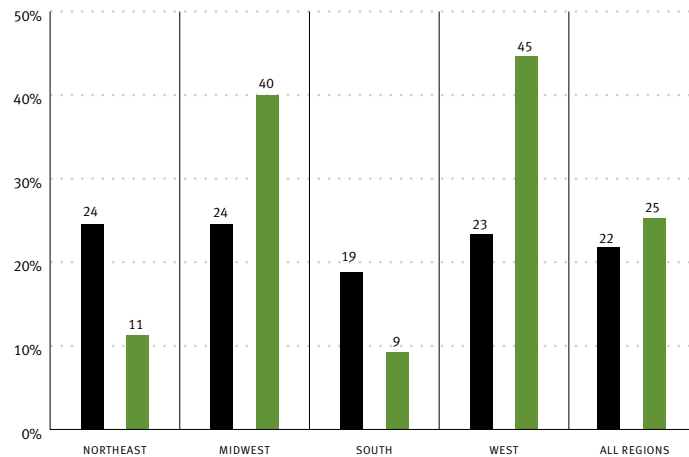


Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999; KPMG Survey of Employer-Sponsored Health Benefits, 1998.

\* Estimates are statistically different from 1998 to 1999.

**EXHIBIT M (15.2 IN FULL REPORT)**

**Percentage of Covered Workers Enrolled in Firm's Largest HMO Plan Where Their Specialist Can Act as Primary Care Physician, 1998 and 1999\***



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999; KPMG Survey of Employer-Sponsored Health Benefits, 1998.

\* Tests found no statistically different estimates from 1998 to 1999.

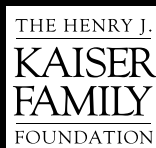
## THE TRADEOFF BETWEEN QUALITY AND COSTS

### Employers More Worried About Costs than Quality

Most employers are at least somewhat worried about future trends in health care costs and the implications of those cost increases, though fewer express concern about quality of care issues. 72% of all firms say they are worried that health care costs will increase faster than they can afford, 70% say they are worried they will have to cut back the scope of benefits they offer or the amount they contribute towards health insurance for their workers, and 65% say they are worried they will have to switch health plans because of costs. At the same time, 26% of firms say they are worried they will have to switch health plans because of concerns about quality of care. Larger firms are more likely to express concern about quality than smaller firms.

### Accreditation and Plan Ratings Continue to Play a Relatively Minor Role in Plan Selection

Among employers offering an HMO or POS plan, just 12% of workers are in firms where plans are required to be accredited by the National Committee for Quality Assurance (NCQA). The percentage of workers in firms that rate the cost of the plan (67%), the number of physicians in the plan (68%), and the reputation and credentials of physicians (67%) as “very important” is higher than the percentage of workers in firms that rate a plan’s NCQA accreditation status (18%) and how the plan is rated using HEDIS data (10%). HEDIS compares plans using a variety of quantitative measures. Surprisingly, the percentage of covered workers in firms familiar with NCQA accreditation decreased from last year. The percentage of covered workers in firms familiar with HEDIS is greater for larger firms than smaller ones — 76% among jumbo firms (those with 5,000 or more workers), compared to 7%–27% of smaller employers (4,999 or fewer workers).



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