



NEWS RELEASE

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SURVEY SHOWS THIRD CONSECUTIVE YEAR OF DOUBLE-DIGIT HEALTH INSURANCE PREMIUM INCREASES — UP 13.9% FROM LAST YEAR

Employers Shifting Costs But Not Dropping Coverage

Health Insurance Coverage More Costly and Complicated for Employees Faced with Premium Increases Along with Higher Cost-Sharing

Washington, DC – Private health insurance premiums increased 13.9% in 2003, a larger increase than last year and the third consecutive year of double-digit increases, according to the 2003 Annual Employer Health Benefits Survey released by the Kaiser Family Foundation and Health Research and Educational Trust (HRET). This was also the largest increase since 1990. While employers are not dropping coverage, most are passing on higher costs to employees. Over the past three years, the amount of the premium employees pay for family coverage has increased almost 50%, from \$1,619 to \$2,412. The typical family health insurance policy now costs \$9,068, with employers on average paying 73% and employees paying 27%.

Looking ahead, many employers, and particularly large employers (200 or more workers), say that they will increase employee contributions and cost-sharing next year, but very few say that they will reduce eligibility or drop coverage. A small but significant group of employers say that they are very likely to offer a high deductible plan in the next year.

“The combination of double-digit increases in health care costs and a weak economy means fewer jobs, lower wages, and higher health care payments for workers,” said Drew Altman, President and CEO of the Kaiser Family Foundation.

The survey was conducted between January and May of 2003 and included 2,808 randomly selected public and private firms ranging in size from three to more than 300,000 employees. This is the fifth year the joint survey was conducted by Kaiser and HRET, and the 16th year this survey has been conducted overall. Findings appear in the September/October issue of the journal *Health Affairs*.

Survey highlights include:

- Premiums increased 13.9% over the past year, the seventh straight year of increases and the third consecutive year of double digit increases. For the second consecutive year, premium increases have exceeded the rate of inflation by more than 10 percentage points.
- Premiums average \$3,383 for single coverage and \$9,068 for family coverage.
- Worker contributions for single coverage were stable but contributions for family coverage rose 13%; workers now pay on average \$508 per year toward the premium for single coverage and \$2,412 per year toward the premium for family coverage.

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- Workers are also facing higher costs at the point of service, including higher deductibles for out-of-network services in PPO plans, higher copayments for office visits in HMOs, and higher prescription drug copayments across all plan types. Some workers also saw their liability increase as firms excluded items and services that count toward individuals' annual out-of-pocket maximums.
- A new question on this year's survey finds that more than two in five workers face a separate deductible, copayment or coinsurance for each hospital admission. Deductibles and copayments average about \$200 per admission.
- Employers are willing to consider changes to their health plans, with 62% reporting that they shopped for a different arrangement and a third (33%) of these employers reporting that they either changed carriers or plan types. However, employers do not have a high level of confidence in current strategies to control costs.
- The survey finds that employers, particularly larger firms, are interested in high-deductible plans (a plan with a deductible of at least \$1,000 for single coverage). Seventeen percent of jumbo firms (5,000 or more workers) offered such a plan this year, and another 16% say they are highly likely to add such a plan next year.

When asked which factors contributed "a lot" to increases in health insurance premiums, employers were most likely to point to higher prescription drug spending (61%). Employers also identified higher spending for hospital services (55%) as a factor in driving up premiums.

"Premiums rose faster than underlying health care costs, and this enabled insurers to improve their profitability," said Jon Gabel, vice president for Health Systems Studies at the Health Research and Educational Trust.

COST-SHARING HIGHER AND MORE COMPLEX

In addition to the portion of the premium that most workers contribute, most employees also have to pay for a portion of health care services they use.

Deductibles

Nearly four in five workers face a deductible before health care expenses are covered under their plan. For PPOs – the most common type of plan – in-network deductibles average \$275 for single coverage (up \$100 from three years ago). Those working for smaller firms have even higher deductibles, averaging \$419. PPO deductibles for out-of-network services average \$561, up 20% from last year. More than two in five, or 44%, of workers also face a separate deductible, copayment or coinsurance for hospital stays (averaging \$200 per admission).

Copayments/Coinsurance

Virtually all (96%) workers face a copayment or coinsurance for physician office visits, and 86% were in a tiered (two-and three-tiered) prescription drug plan. Sixty-three percent are in a three-tiered plan, up from 55% of workers who were in such a plan last year, and 41% who were in 2001. Almost one-half of workers in HMOs now face a copayment for outpatient physician services of \$15 or more, up from 37% last year.

Out-of-Pocket Expenses

In addition, 15% of workers were in plans that increased their out-of-pocket liability by excluding spending for certain services from the calculation of the plans' annual out-of-pocket maximum. Employees in such plans who use these services must pay more out of pocket before their plan steps in to cover all of their remaining health care costs.

"It's becoming harder for workers to know how much they will have to pay for their health care. It's not enough just to look at the premium increases from year to year, this year workers are facing higher expenses across the board in terms of higher co-pays, deductibles, and even cost-sharing for hospital visits," said Gary Claxton, vice president and director of the Health Care Marketplace program for the Kaiser Family Foundation.

RETIREE COVERAGE

The current debate over adding prescription drug coverage to Medicare has brought retiree coverage into the spotlight, raising many questions about whether adding such a benefit will discourage employers from offering retiree health benefits and how to prevent those currently offering such coverage from discontinuing those benefits. While virtually all Medicare beneficiaries with retiree benefits have coverage for prescription drugs, the availability of retiree benefits has fallen significantly over time. In 2003, 38% of all large firms (200 or more workers) offer retiree coverage, unchanged from last year, but down dramatically from the 66% of large firms offering coverage in 1988.

NOWHERE TO TURN?

Despite continued increases in premiums, employers appear reluctant to drop health insurance coverage for their employees, but significant percentages of employers say they will increase employee contributions and cost-sharing in the future. Very few say they will reduce eligibility (10%) or drop coverage (16%). Yet employers lack confidence in any of the approaches to cost-containment currently available. The most commonly identified approach to raining in costs by employers was disease management, yet fewer than a quarter of firms believe it to be a very effective approach in addressing cost increases. Consumer driven health plans were considered very effective by 14% of employers, higher cost-sharing by 10% of employers and tighter managed care networks were considered very effective in containing costs by 6% of employers.

Employers' frustration with the inability of these approaches to bring down health care costs may be behind their interest in trying new alternatives such as offering a high deductible plan option to their employees. Seventeen percent of jumbo firms (5,000 or more workers) are now offering a high deductible plan—a plan with \$1,000 or more annual deductible for single coverage), and another 16% of such firms say they are highly likely to add a high deductible plan next year. Looking across large and small firms, 9% of the nation's employees now work for a firm offering a high deductible plan with another 11% working for a firm that will likely add one next year, although the plans may not be offered to all workers.

Methodology

The Kaiser Family Foundation/Health Research and Educational Trust (HRET) 2003 Annual Employer Benefits Survey includes 2,808 randomly selected public and private employers (1,856 responded to the full survey and 952 indicated only whether or not they provide health coverage). Firms surveyed range in size from small enterprises with as few as three workers to corporations with more than 300,000 employees. The survey is based on previous surveys sponsored by the Health Insurance Association of America from 1987-1991 and KPMG from 1992-1998. Researchers at HRET and the Kaiser Family Foundation designed and analyzed the survey and National Research LLC conducted the fieldwork between January and May 2003. The overall response rate was 50%. All statistical tests are performed at the 95% confidence levels except for a select set of data tested at the 90% level to explore the possibility of emerging changes. This year, several methodological changes were made to the survey, including standardizing survey weights to U.S. Census data; therefore historical data in the exhibits may differ slightly from previously published estimates.

A live webcast of this event will be provided by kaisernetwork.org, a free service of the Kaiser Family Foundation. The webcast, transcript, and related resources will be available at www.kaisernetwork.org/healthcast/kff/09sep03.

Individual copies of the survey report and the summary of findings are available on the web at www.kff.org. Multiple copies may be obtained from HRET by calling 800-242-2626 (order # 097510).

To obtain a copy of the September/October 2003 issue of *Health Affairs*, contact Jon Gardner at 301-656-7401 or press@healthaffairs.org. This article and selected others are available on the journal's web site, www.healthaffairs.org.

The Henry J. Kaiser Family Foundation is a non-profit, 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.

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