

EMPLOYER HEALTH BENEFITS
2003 ANNUAL SURVEY

Cost of
Health
Insurance

SECTION

1

COST OF HEALTH INSURANCE

IN 2003, PREMIUMS FOR JOB-BASED HEALTH BENEFITS ROSE BY 13.9%. THIS IS THE THIRD CONSECUTIVE YEAR OF DOUBLE-DIGIT PREMIUM INCREASES, AND A HIGHER RATE OF GROWTH THAN ANY YEAR SINCE 1990. PREMIUM INCREASES IN 2003 EXCEEDED THE OVERALL RATE OF INFLATION BY NEARLY 12 PERCENTAGE POINTS.

THE COST OF COVERAGE FOR A FAMILY OF FOUR IS NOW NEARLY \$9,100 PER YEAR. HMO COVERAGE REMAINS THE LOWEST COST HEALTH PLAN OPTION. PREMIUMS FOR INSURED PLANS ROSE AT A HIGHER RATE THAN PREMIUM EQUIVALENTS FOR SELF-FUNDED PLANS, AN INDICATION THAT INSURERS MAY BE PUTTING MORE EMPHASIS ON PROFITABILITY IN SETTING PREMIUMS.

PREMIUM INCREASES

- ▶ The cost of job-based health benefits rose by 13.9%, exceeding prior year rates of 12.9% in 2002⁶, 10.9% in 2001, and 8.2% in 2000 (EXHIBIT 1.1).
- All types of health plans experienced double-digit increases in costs. HMO premiums rose by 15.2%, conventional indemnity premiums increased by 14.3%, PPO premiums grew by 13.7%, and POS premiums rose by 13.2% (EXHIBIT 1.1).
- Small firms (3-199 workers) had increases of 15.5%, and premiums for large firms (200 or more workers) rose by 13.2% (EXHIBIT 1.3).
- There was a wide range of growth in the cost of health insurance among the nation's firms (EXHIBIT 1.4). Twenty percent of employees worked for a firm where premiums rose by 5% or less, while 22% of employees worked for a firm where premiums rose by 15% to 20%. Nearly one in five (19%) employees worked for a firm where premiums increased by more than 20%.
- Small firms (3-199 workers) are more likely than large firms (200 or more workers) to have experienced a premium increase greater than 15% (EXHIBIT 1.4).
- Premiums rose by 15.6% for fully insured plans, whereas premium equivalents increased by 12.4% among self-insured plans (EXHIBIT 1.6). Increases in premium equivalents are a proxy measure of the growth in underlying medical claims. The difference in premium increases between self and fully insured plans may indicate that insurers are expanding their underwriting gains.

NOTE:

⁶ The rate of premium increases rose significantly between 2002 and 2003 at the $p < 0.1$ level. This indicates that the finding is less robust than others in the study, but is still a strong indication of rising premiums.

► When asked about the factors that are driving increases in health insurance premiums, employers most often identified higher spending for prescription drug expenses and hospital expenses (EXHIBIT 1.11).

- *Sixty-one percent of employers (and 81% of large employers) identified prescription drug expenses as contributing “a lot” to rising premiums. Fifty-five percent identified hospitals as contributing “a lot” to premium growth.*
- *Forty-five percent of employers also say the demographic shift towards an “aging population” contributes “a lot” to rising premiums.⁷*
- *Fewer employers point to physician expenses (38%), higher insurance company profits (32%), and improved medical technology (29%) as factors contributing to premium increases.*

MONTHLY PREMIUM COSTS OF SINGLE AND FAMILY COVERAGE

► In 2003, average monthly premiums for single and family coverage (including worker and employer share of premium) are \$282 and \$756 respectively (EXHIBIT 1.12). The cost of family coverage is now nearly \$9,100 per year.

- *Average monthly premiums for PPO plans, which cover most Americans, are \$292 for single coverage and \$776 for family coverage. HMOs remain the lowest cost plan type at \$263 per month for single coverage and \$709 per month for family coverage.*

- *The proportion of covered workers in firms that pay more than \$250 per month for single coverage jumped from 46% in 2002 to 69% this year. In 2003, the proportion of covered workers in firms that pay more than \$650 for family coverage rose to 77%, up from 52% in 2002 (EXHIBIT 1.13).*

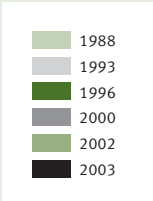
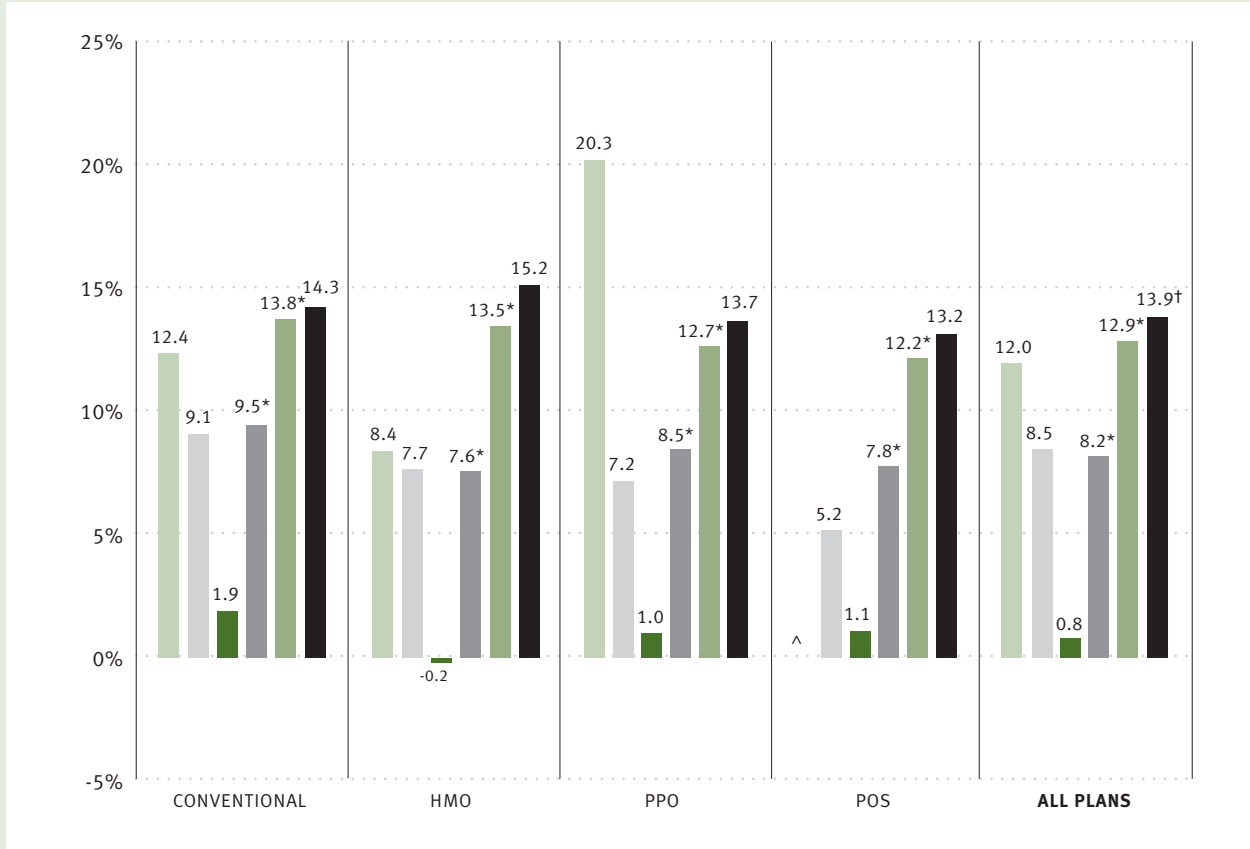
- *As in previous years, the cost of coverage tends to be lowest in the West where HMO penetration is highest (EXHIBIT 1.15). At the same time, cost increases were significantly higher in the West than in other regions.*

NOTE :

⁷ In fact, the aging of the population accounts for less than one percentage point of the increase in premiums. See B. Strunk, P. Ginsburg and J. Gabel, “Tracking Health Care Costs: Growth Accelerates Again in 2001,” *Health Affairs*, Web Exclusive, September 25, 2002, w299-w310.

EXHIBIT 1.1

Percentage Change in Health Insurance Premiums From Previous Year, by Plan Type, 1988-2003



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003;
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

* Estimate is statistically different from the previous year shown at $p < .05$: 1996-2000, 2000-2002.

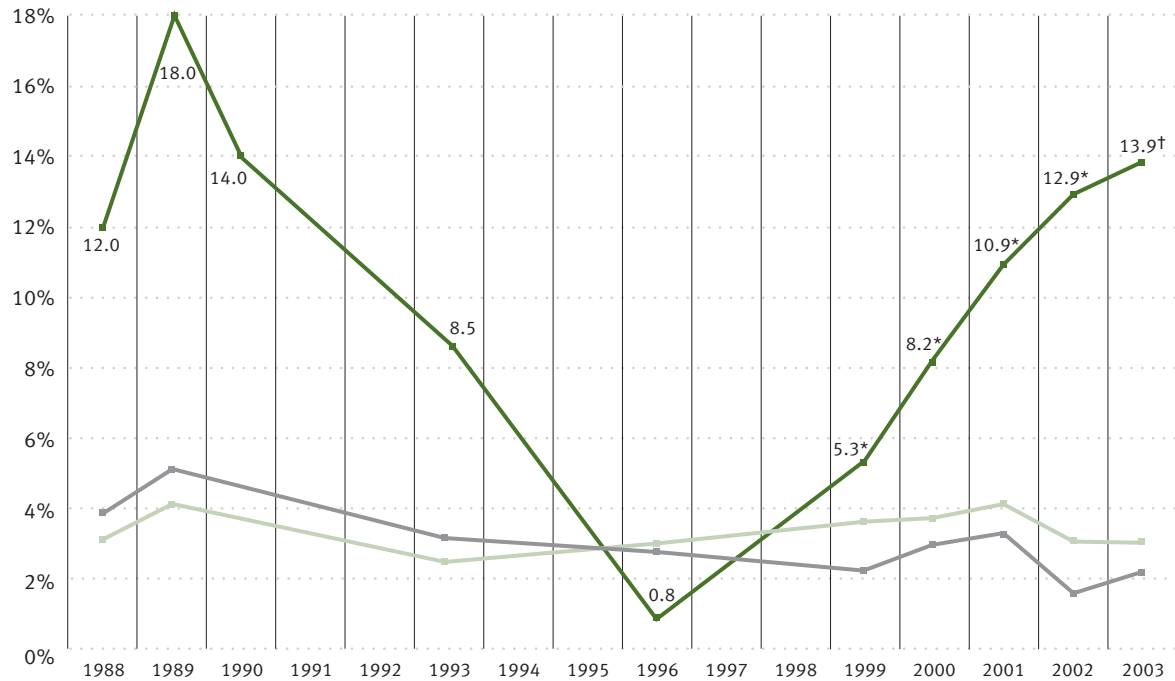
† Estimate is statistically different from the previous year shown at $p < .1$: 2002-2003.

^ 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, 1988-2003



1988	1989	1990	1993	1996	1999	2000	2001	2002	2003	
12.0	18.0	14.0	8.5	0.8	5.3*	8.2*	10.9*	12.9*	13.9	HEALTH INSURANCE PREMIUMS
3.9	5.1	4.7	3.2	2.9	2.3	3.1	3.3	1.6	2.2	OVERALL INFLATION
3.1	4.1	3.7	2.5	3.3	3.5	3.7	4.1	3.2	3.1	WORKERS' EARNINGS

SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002, 2003; 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), 1988-2002; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1988-2002.

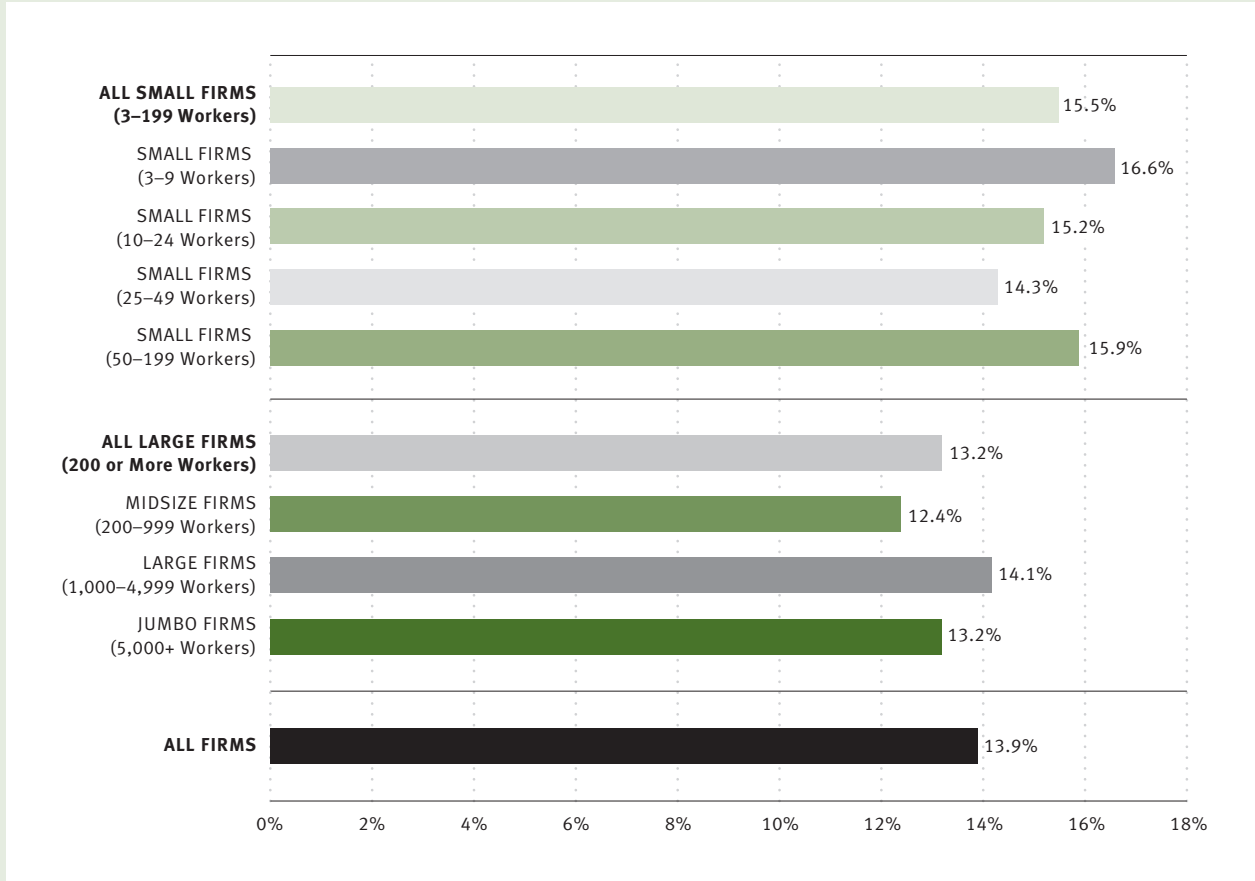
* Estimate is statistically different from the previous year shown at $p < 0.05$: 1996-1999, 1999-2000, 2000-2001, 2001-2002.

† Estimate is statistically different from the previous year shown at $p < 0.1$: 2002-2003.

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

EXHIBIT 1.3

Percentage Change in Premiums for Covered Workers[^], by Firm Size, 2003*



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

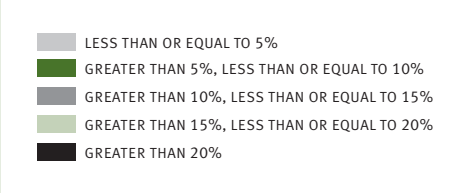
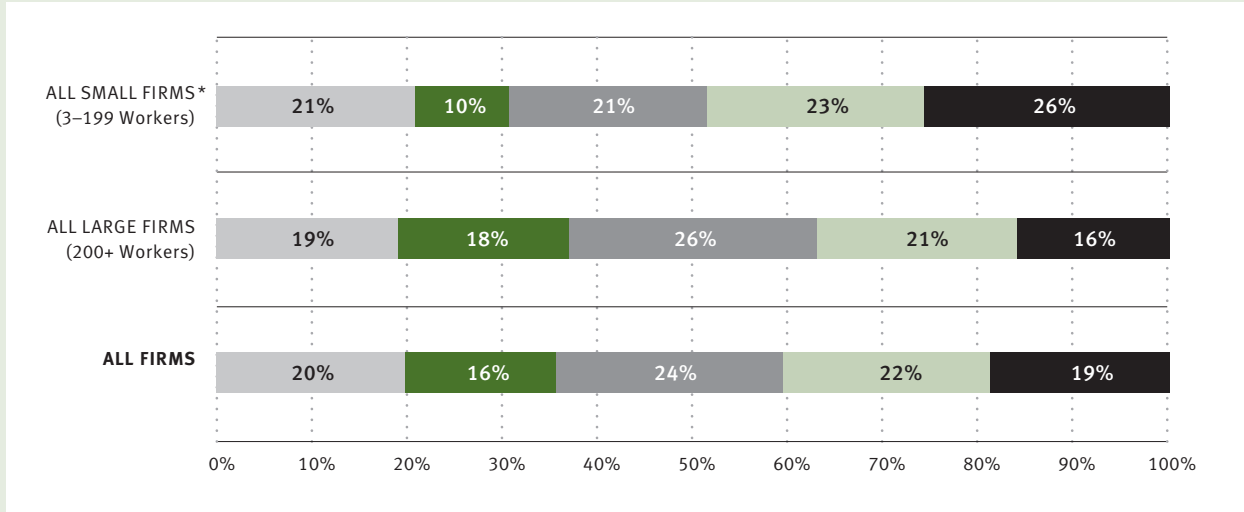
* Tests found no statistically different estimates from All Firms.

[^] Applies to employer and employee share of premiums.

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

EXHIBIT 1.4

Distribution of Premium Increases for Covered Workers, by Firm Size, 2003



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

* Distribution is statistically different from All Firms.

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

EXHIBIT 1.5

Percentage Change in Premiums, by Firm Size and Plan Type, 2003

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plans</i>
FIRM SIZE					
All Small Firms (3-199 Workers)	19.9%	14.3%	15.4%	15.6%	15.5%
All Large Firms (200+ Workers)	10.4	15.6	12.8	11.8	13.2
ALL FIRM SIZES	14.3%	15.2%	13.7%	13.2%	13.9%

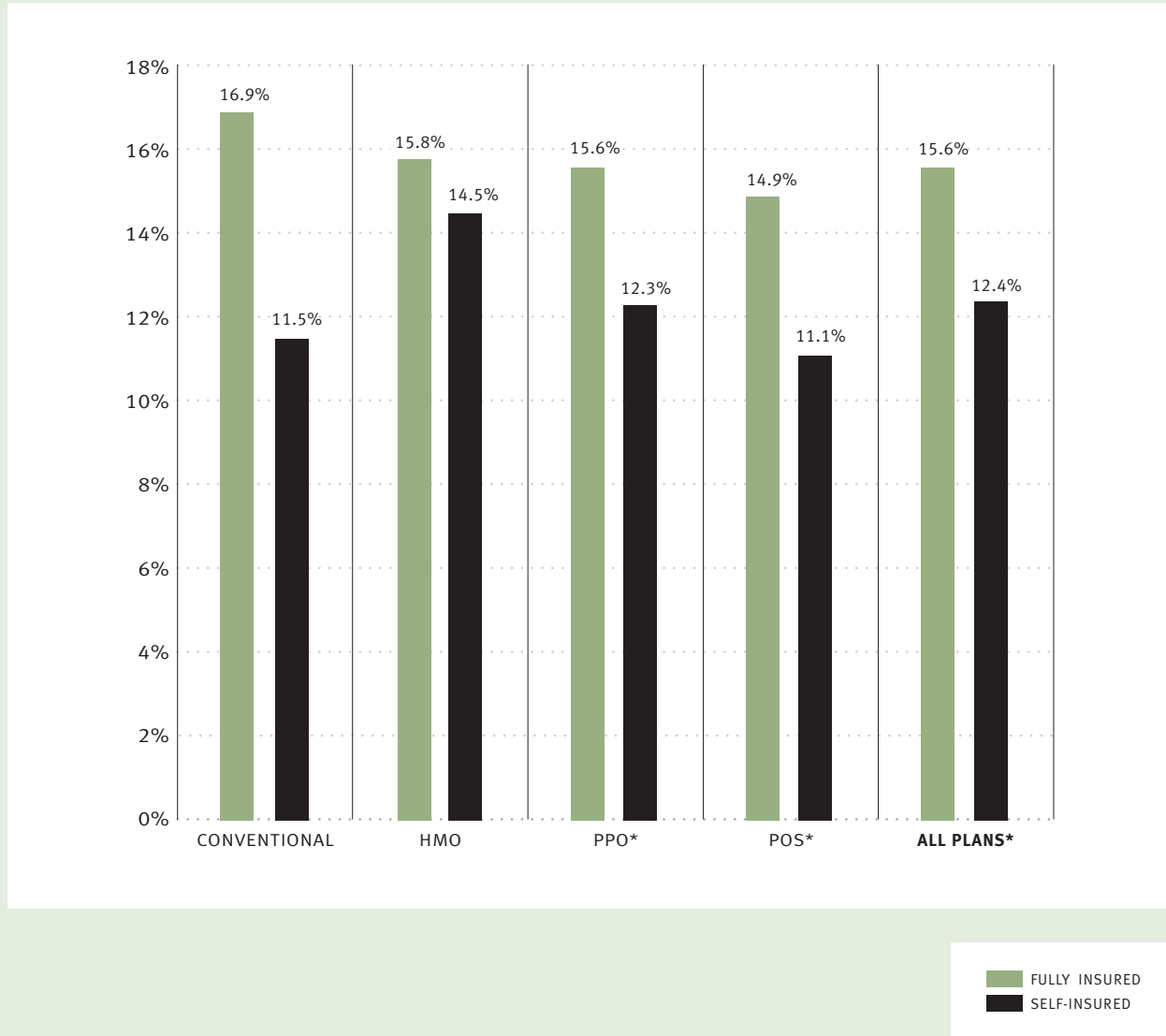
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

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, 2003



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

* Estimate is statistically different between Fully Insured and Self-Insured within a plan type.

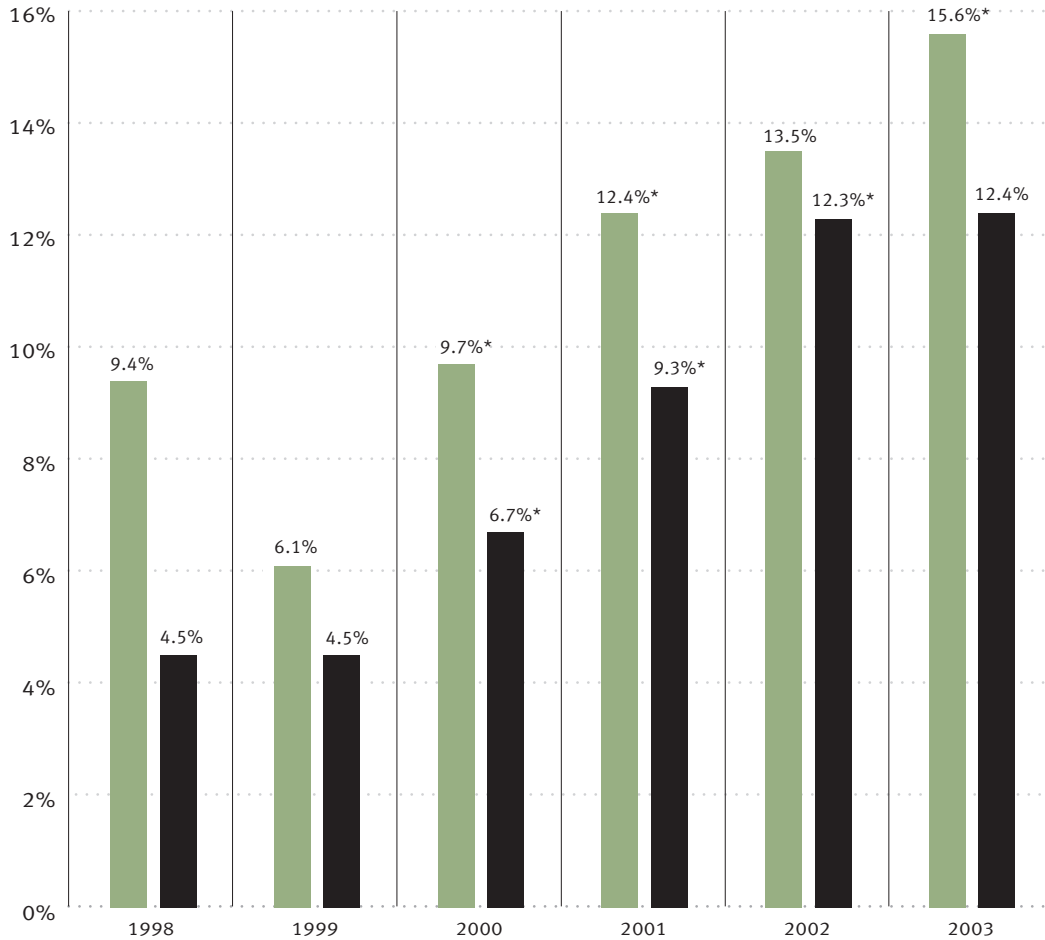
Fully insured: A plan where the employer contracts with a health plan to assume financial responsibility for the costs of enrollees' medical claims.

Self-insured plan: A plan where the employer assumes direct financial responsibility for the costs of enrollees' medical claims. Employer sponsoring self-insured plans typically contract with a third-party administrator or insurer to provide administrative services for the self-insured plan.

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

EXHIBIT 1.7

Premium Increases, by Funding Arrangement, 1998-2003



FULLY INSURED
SELF-INSURED

SOURCE :

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

* Estimate is statistically different from previous year shown within the type of funding arrangements: 1999-2000, 2000-2001, 2001-2002, 2002-2003.

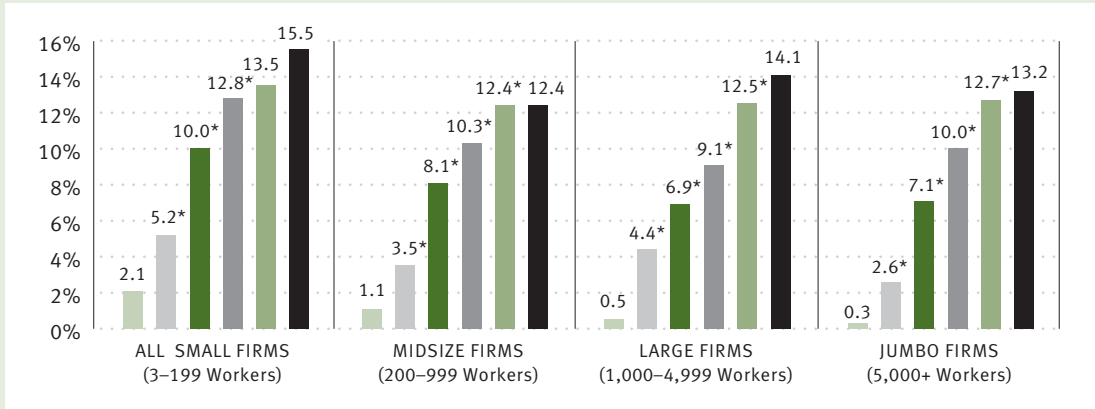
Fully insured: A plan where the employer contracts with a health plan to assume financial responsibility for the costs of enrollees' medical claims.

Self-insured plan: A plan where the employer assumes direct financial responsibility for the costs of enrollees' medical claims. Employer sponsoring self-insured plans typically contract with a third-party administrator or insurer to provide administrative services for the self-insured plan.

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

EXHIBIT 1.8

Premium Increases, by Firm Size, 1996-2003



SOURCE :

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

* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2001, 2001-2002, 2002-2003.

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

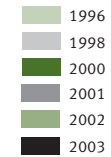
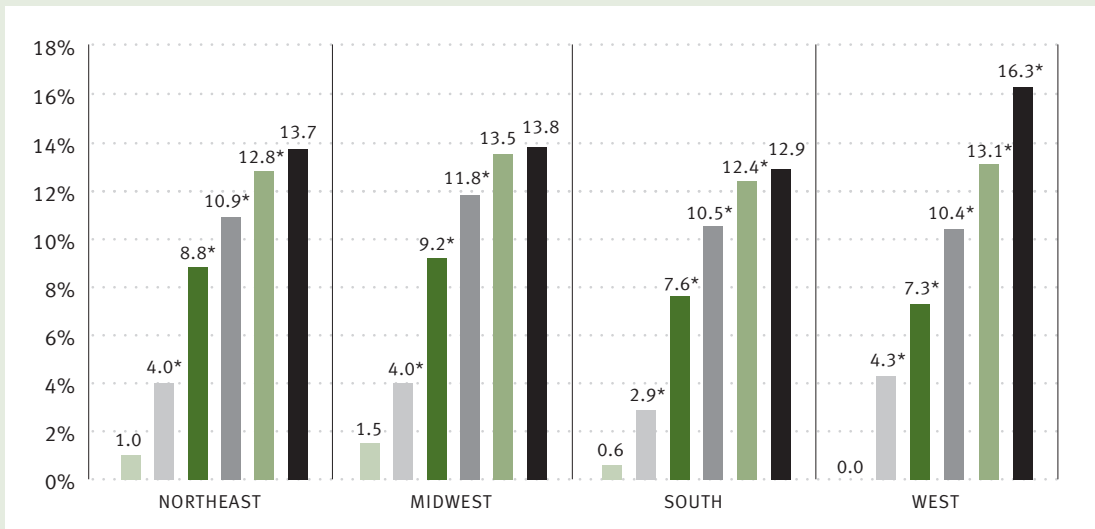


EXHIBIT 1.9

Premium Increases, by Region, 1996-2003



SOURCE :

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

* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2001, 2001-2002, 2002-2003.

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

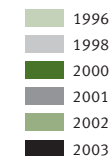
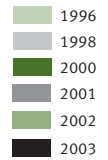
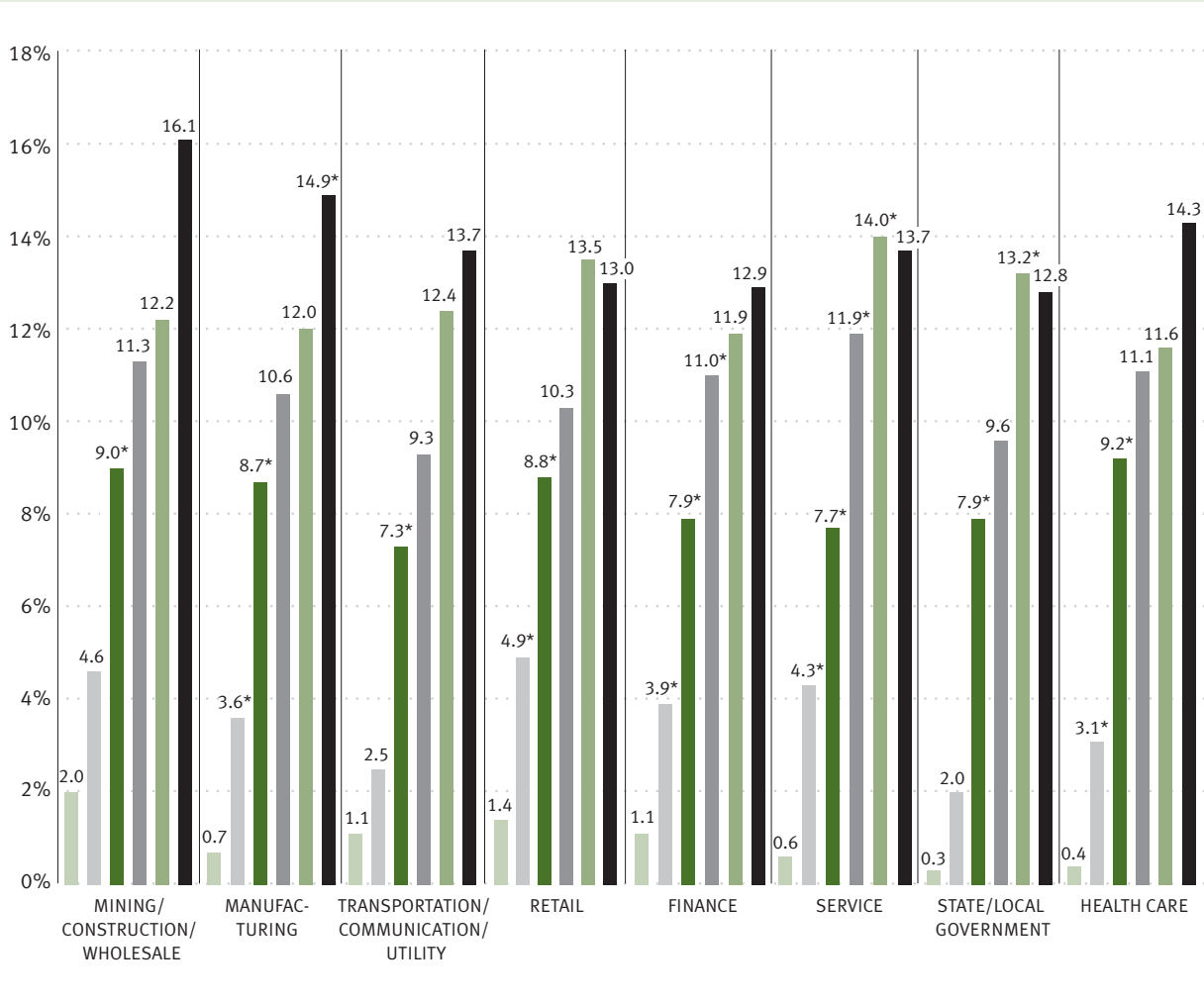


EXHIBIT 1.10

Premium Increases, by Industry, 1996-2003



SOURCE :

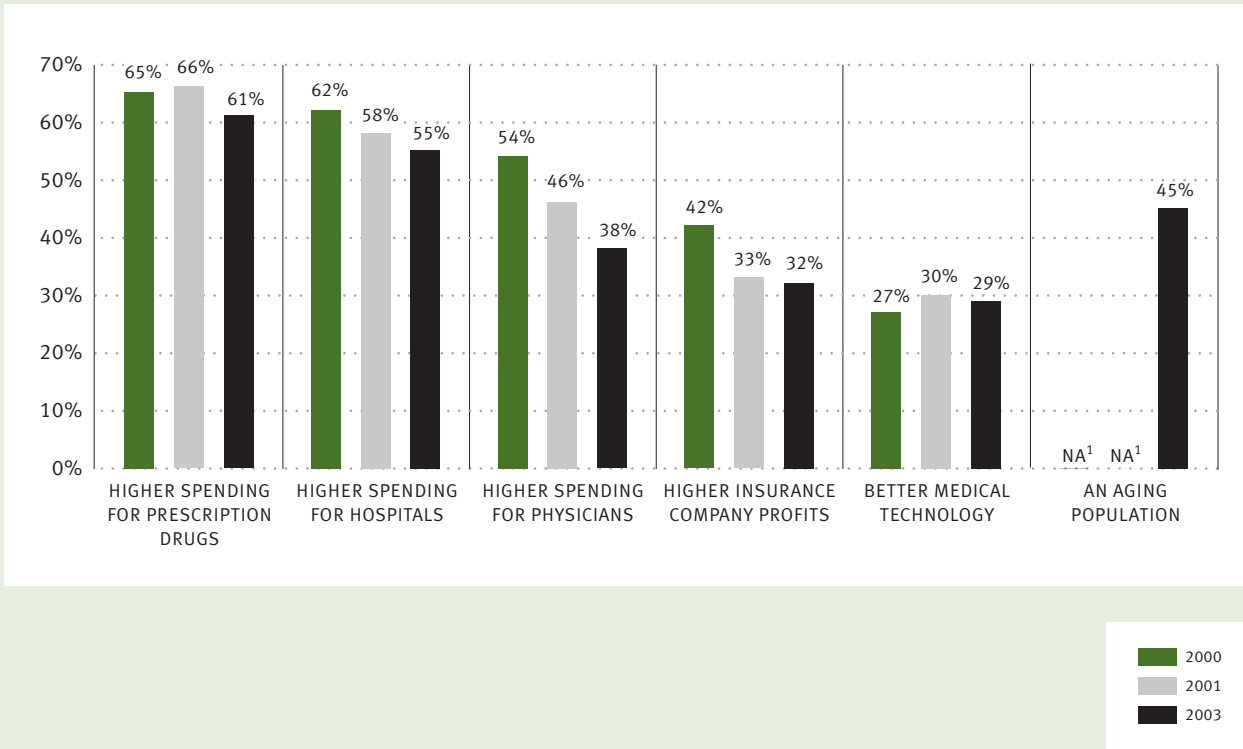
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003;
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2001, 2001-2002, 2002-2003.

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

EXHIBIT 1.11

Percentage of All Firms That Report the Following Factors Contribute A Lot to Increases in Health Insurance Premiums, 2000, 2001, and 2003*



SOURCE :

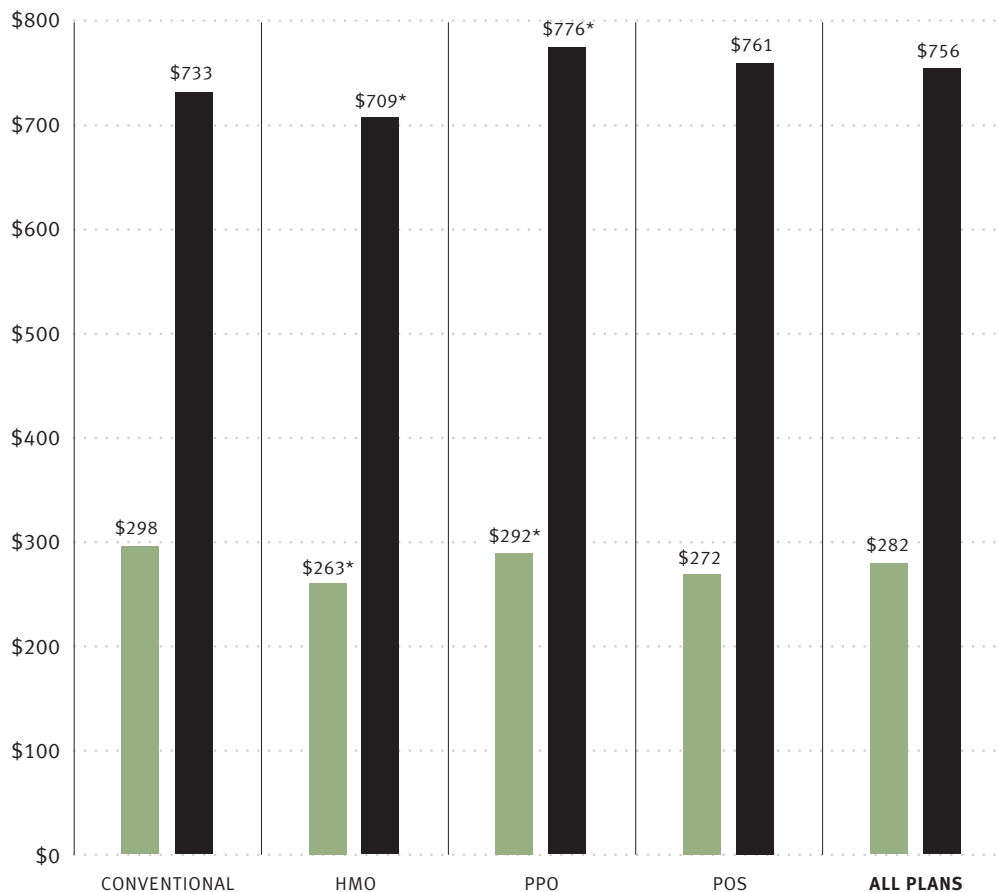
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2003.

* Tests found no statistically different estimates from the previous year shown: 2000-2001, 2001-2003.

¹ Firms were not asked this question in 2000 and 2001.

EXHIBIT 1.12

Average Monthly Premium Costs for Covered Workers, Single and Family Coverage, by Plan Type, 2003



■ SINGLE
■ FAMILY

SOURCE:

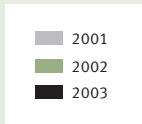
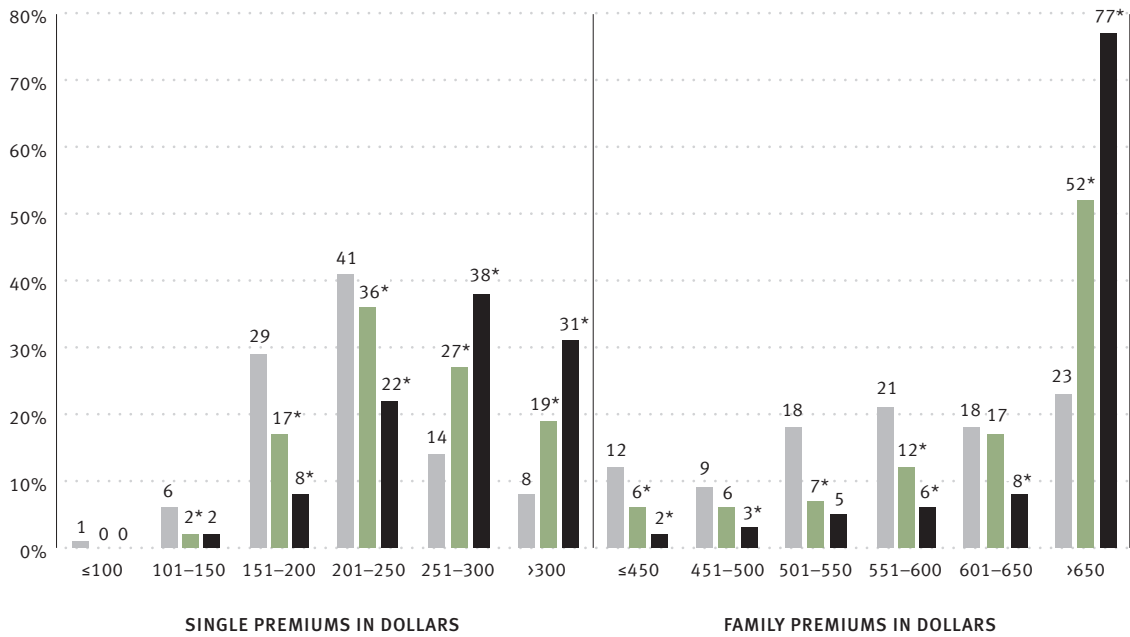
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

* Estimate is statistically different from All Plans by coverage type.

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

EXHIBIT 1.13

Distribution of Single and Family Premiums for Covered Workers, 2001-2003



SOURCE :

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

*Estimate is statistically different from the previous year shown: 2001-2002, 2002-2003.

EXHIBIT 1.14

Monthly and Annual Premiums for Workers in Conventional, HMO, PPO, and POS Plans, by Firm Size, 2003*

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
CONVENTIONAL PLANS				
All Small Firms (3-199 Workers)	\$307	\$760	\$3,687	\$9,123
All Large Firms (200+ Workers)	292	715	3,500	8,577
ALL FIRM SIZES	\$298	\$733	\$3,576	\$8,800
HMO PLANS				
All Small Firms (3-199 Workers)	\$262	\$675	\$3,150	\$8,102
All Large Firms (200+ Workers)	263	723	3,156	8,677
ALL FIRM SIZES	\$263	\$709	\$3,154	\$8,514
PPO PLANS				
All Small Firms (3-199 Workers)	\$295	\$764	\$3,539	\$9,169
All Large Firms (200+ Workers)	291	782	3,490	9,385
ALL FIRM SIZES	\$292	\$776	\$3,505	\$9,317
POS PLANS				
All Small Firms (3-199 Workers)	\$283	\$767	\$3,396	\$9,209
All Large Firms (200+ Workers)	266	757	3,191	9,090
ALL FIRM SIZES	\$272	\$761	\$3,268	\$9,134
ALL PLANS				
All Small Firms (3-199 Workers)	\$286	\$746	\$3,436	\$8,947
All Large Firms (200+ Workers)	280	761	3,358	9,127
ALL FIRM SIZES	\$282	\$756	\$3,383	\$9,068

SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

* Tests found no statistically different estimates from All Firms within a plan type.

EXHIBIT 1.15

Monthly and Annual Premiums for Workers in Conventional, HMO, PPO, and POS Plans, by Region, 2003

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
CONVENTIONAL PLANS				
Northeast	\$252	\$676	\$3,025	\$8,113
Midwest	315	780	3,786	9,359
South	273*	707	3,278*	8,482
West	340	757	4,078	9,088
ALL REGIONS	\$298	\$733	\$3,576	\$8,800
HMO PLANS				
Northeast	\$274	\$741	\$3,289	\$8,890
Midwest	281*	728	3,378*	8,733
South	277*	750*	3,320*	9,002*
West	229*	635*	2,751*	7,617*
ALL REGIONS	\$263	\$709	\$3,154	\$8,514
PPO PLANS				
Northeast	\$288	\$824*	\$3,457	\$9,887*
Midwest	286	769	3,436	9,232
South	294	769	3,527	9,228
West	302	754	3,629	9,043
ALL REGIONS	\$292	\$776	\$3,505	\$9,317
POS PLANS				
Northeast	\$274	\$770	\$3,291	\$9,242
Midwest	256	740	3,073	8,885
South	283	769	3,395	9,226
West	272	761	3,261	9,129
ALL REGIONS	\$272	\$761	\$3,268	\$9,134
ALL PLANS				
Northeast	\$280	\$784	\$3,356	\$9,404
Midwest	282	758	3,383	9,092
South	288	763	3,454	9,155
West	274	711*	3,288	8,536*
ALL REGIONS	\$282	\$756	\$3,383	\$9,068

SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

* Estimate is statistically different from All Regions within a plan type.

EXHIBIT 1.16

Monthly and Annual Premiums for Workers in Conventional, HMO, PPO, and POS Plans, by Industry, 2003

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
ALL PLANS				
Mining/Construction/Wholesale	\$272	\$738	\$3,270	\$8,853
Manufacturing	268	744	3,217	8,930
Transportation/Communication/Utility	263*	735	3,156*	8,820
Retail	258*	720*	3,098*	8,640*
Finance	277	758	3,327	9,094
Service	287	770	3,445	9,240
State/Local Government	303*	755	3,639*	9,059
Health Care	308*	800*	3,691*	9,603*
ALL INDUSTRIES	\$282	\$756	\$3,383	\$9,068
CONVENTIONAL PLANS				
Mining/Construction/Wholesale	NSD	NSD	NSD	NSD
Manufacturing	NSD	NSD	NSD	NSD
Transportation/Communication/Utility	NSD	NSD	NSD	NSD
Retail	NSD	NSD	NSD	NSD
Finance	NSD	NSD	NSD	NSD
Service	\$278	\$736	\$3,331	\$8,831
State/Local Government	356	763	4,276	9,157
Health Care	NSD	NSD	NSD	NSD
ALL INDUSTRIES	\$298	\$733	\$3,576	\$8,800
HMO PLANS				
Mining/Construction/Wholesale	\$266	\$689	\$3,197	\$8,271
Manufacturing	257	711	3,087	8,534
Transportation/Communication/Utility	266	759	3,196	9,109
Retail	240*	697	2,875*	8,358
Finance	260	690	3,122	8,275
Service	257	695	3,089	8,342
State/Local Government	274	717	3,289	8,603
Health Care	278	735	3,341	8,816
ALL INDUSTRIES	\$263	\$709	\$3,154	\$8,514

Continued on page 31

EXHIBIT 1.16 Continued from page 30

Monthly and Annual Premiums for Workers in Conventional, HMO, PPO, and POS Plans,
by Industry, 2003

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
PPO PLANS				
Mining/Construction/Wholesale	\$279	\$746	\$3,345	\$ 8,947
Manufacturing	277	768	3,322	9,221
Transportation/Communication/Utility	264*	738	3,164*	8,852
Retail	258*	728*	3,098*	8,740*
Finance	292	789	3,507	9,473
Service	300	795	3,598	9,539
State/Local Government	322*	773	3,861*	9,279
Health Care	329*	843	3,946*	10,122
ALL INDUSTRIES	\$292	\$776	\$3,505	\$ 9,317
POS PLANS				
Mining/Construction/Wholesale	\$247*	\$739	\$2,968*	\$8,867
Manufacturing	270	763	3,237	9,157
Transportation/Communication/Utility	238	664	2,859	7,963
Retail	259	727	3,109	8,721
Finance	252	732	3,027	8,787
Service	289	802	3,470	9,620
State/Local Government	290	779	3,476	9,353
Health Care	282	753	3,384	9,041
ALL INDUSTRIES	\$272	\$761	\$3,268	\$9,134

SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

* Estimate is statistically different from All Industries within a plan type.

NSD: Not sufficient data.

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