

EMPLOYER HEALTH BENEFITS
2003 ANNUAL SURVEY

Employee Cost Sharing

SECTION

7

EMPLOYEE COST SHARING

WORKERS SAW MODEST INCREASES IN TRADITIONAL COST SHARING FOR HEALTH CARE SERVICES, INCLUDING DEDUCTIBLES AND COPAYMENTS. THE SURVEY ALSO FINDS FOR THE FIRST TIME THAT MANY LARGE EMPLOYERS IMPOSE A SEPARATE AND SUBSTANTIAL DEDUCTIBLE OR COPAY FOR INPATIENT HOSPITAL SERVICES. RESEARCH HAS DEMONSTRATED THAT HIGHER COPAYS AND DEDUCTIBLES SAVE COSTS, BUT MAY ALSO DISCOURAGE USE OF NEEDED SERVICES, PARTICULARLY AMONG LOWER-INCOME INDIVIDUALS.¹¹

NON-PREFERRED PROVIDER (OUT-OF-NETWORK) DEDUCTIBLES IN PPOS JUMPED CONSIDERABLY THIS YEAR. THE PERCENTAGE OF HMO ENROLLEES FACING \$15 COPAYS FOR PHYSICIAN VISITS ALSO ROSE CONSIDERABLY.

- ▶ Workers face many different forms of cost sharing. More than three quarters of workers contribute to their monthly health insurance premium and similar percentages face cost sharing such as annual deductibles and copayments for prescription drugs and office visits (EXHIBIT 7.1).
- ▶ In 2003, deductibles increased for non-preferred providers in PPO plans and preferred providers in POS plans. For workers with single coverage, deductibles for PPO non-preferred providers, grew from \$466 to \$561 (EXHIBIT 7.2). Deductibles for single coverage in POS plans also increased – from \$54 to \$113 this year (EXHIBIT 7.2).
- *Deductibles are generally lower for workers in large firms (200 or more workers) than for workers in small firms (3-199 workers), across all types of plans. For PPO preferred providers, the average worker in a small firm with single coverage must pay a deductible of \$419, compared to \$209 for workers in large firms (200 or more workers) (EXHIBIT 7.3).*
- *Covered workers in firms with some union employees face an average PPO preferred provider deductible of \$181 for single coverage, compared with \$330 for workers in firms with no union workers.*
- ▶ The vast majority of covered workers in HMOs face a fixed-dollar copayment rather than a percentage coinsurance when they visit a physician. Those in PPO and POS plans also are likely to face copayments rather than coinsurance when using preferred health care providers. In contrast, workers in conventional plans are most likely to pay coinsurance (57%) (EXHIBIT 7.9).

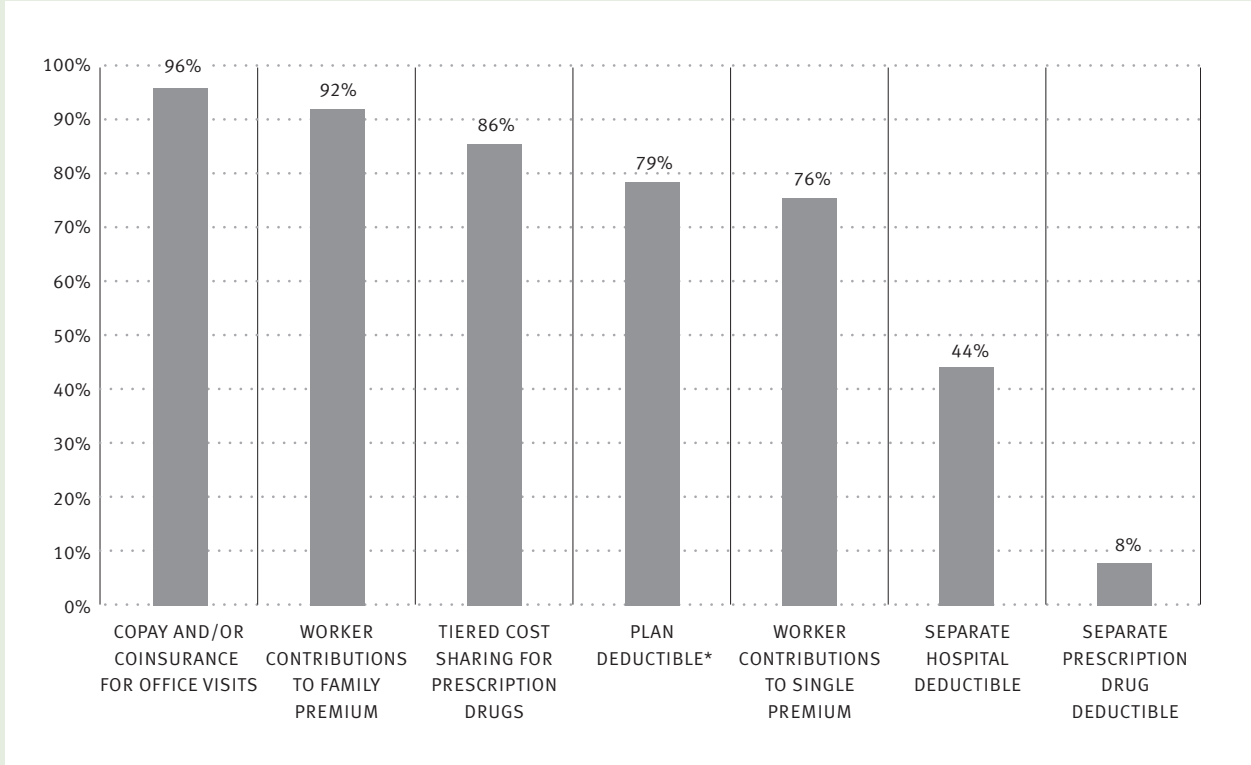
NOTE:

¹¹ Newhouse, Joseph, et. al., "Free for All, Lessons from the RAND Health Insurance Experiment," Harvard University Press, Cambridge, Massachusetts, 1993.

- For HMO coverage, a \$10 copayment is no longer the most common copayment amount for physician visits. Thirty-five percent of covered workers in HMOs now face a copayment of \$15, while 12% face a copayment of \$20. The percentage of workers with a copay of \$5 is 4%, while those with a \$10 copayment fell substantially, from 51% last year to 35% in 2003. (EXHIBIT 7.6).
- ▶ Significant proportions of covered workers in PPOs (55%) and POS plans (46%) face coinsurance rates of 30% or more for services received from non-preferred providers. Such substantial cost sharing for out-of-network services may substantially diminish the value to enrollees of these broader choice options (EXHIBIT 7.8).
- ▶ Large percentages of covered workers in HMO, PPO, and POS plans face some type of cost sharing for a hospital admission, either a deductible, copayment or coinsurance. Forty-four percent of covered workers have some type of cost sharing for a hospital admission (EXHIBIT 7.10).
 - Workers with deductibles or copays for hospital admissions pay \$202, on average, per hospitalization for all plan types (EXHIBIT 7.11).
- ▶ Last year the survey reported that just over half of workers with single coverage had a maximum out-of-pocket limit – the maximum total amount the plan will require beneficiaries to pay for services in a single year – of \$2,000. This year, firms were asked if in 2003 they had excluded services and items that previously counted towards the limit (such as deductibles and copays for particular prescription drugs), effectively raising the out-of-pocket limit for employees. Twenty-one percent of firms (representing 15% of covered workers) said they had done so in the past year (EXHIBIT 7.13).
- ▶ Tiered insurance plans, in which members must pay more to use certain physicians and hospitals based on their cost, remain uncommon (EXHIBIT 7.12). Six percent of workers in HMOs, PPOs, and POS plans are in such tiered plans, while an additional 19% are in firms that have considered adopting use of tiered networks in their HMO plans.

EXHIBIT 7.1

Percentage of Covered Workers With the Following Types of Cost Sharing for Health Benefits, 2003



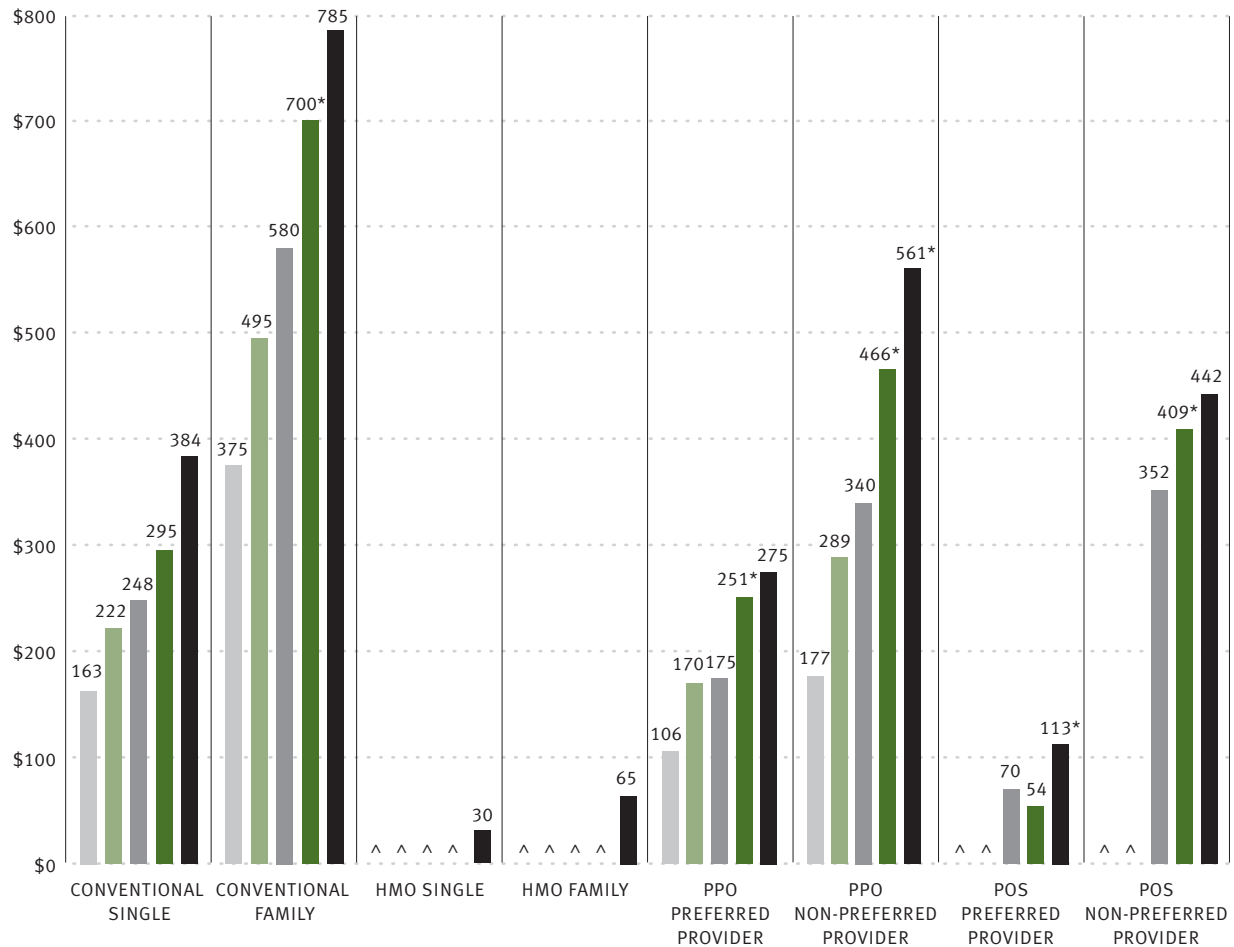
SOURCE :

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

* The percentage of covered workers with a plan deductible is calculated for workers with single coverage. For PPO and POS plans, the deductible for services received from preferred providers is used in the calculation.

EXHIBIT 7.2

Average Annual Deductibles 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.

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

^ Information was not obtained for HMO plans prior to 2003, or for POS plans in 1988 and 1993.

Note: Average deductibles include covered workers who do not have a deductible or report a \$0 deductible. For example, 32% of covered workers in PPO plans do not have a deductible for preferred providers. Among single workers enrolled in a PPO who do have a deductible, the average annual preferred provider deductible is \$384.

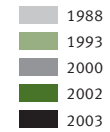


EXHIBIT 7.3

Average Annual Deductible for Typical Covered Worker, by Plan Type and Firm Size, 2003

	<i>Single Coverage</i>	<i>Family Coverage</i>
CONVENTIONAL PLANS		
All Small Firms (3-199 Workers)	\$492	\$839
Midsize (200-999 Workers)	184*	517*
Large (1,000-4,999 Workers)	238*	666
Jumbo (5,000+ Workers)	337	789
ALL FIRM SIZES	\$384	\$785
HMO PLANS		
All Small Firms (3-199 Workers)	\$54	\$99
Midsize (200-999 Workers)	7*	22*
Large (1,000-4,999 Workers)	50	151
Jumbo (5,000+ Workers)	13	27
ALL FIRM SIZES	\$30	\$65
	<i>Single Coverage Preferred Provider</i>	<i>Single Coverage Non-Preferred Provider</i>
PPO PLANS		
All Small Firms (3-199 Workers)	\$419*	\$783*
Midsize (200-999 Workers)	234	430*
Large (1,000-4,999 Workers)	182*	405*
Jumbo (5,000+ Workers)	208*	490
ALL FIRM SIZES	\$275	\$561
POS PLANS		
All Small Firms (3-199 Workers)	\$157	\$499
Midsize (200-999 Workers)	185	438
Large (1,000-4,999 Workers)	26*	323*
Jumbo (5,000+ Workers)	77	425
ALL FIRM SIZES	\$113	\$442

SOURCE:

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

* Estimate is statistically different from All Firms within a type.

Preferred providers: Providers that are part of a plan's approved list of doctors and hospitals; consumers generally pay lower cost sharing when using these providers.

Non-preferred providers: Providers that are not part of a plan's approved list of doctors and hospitals.

Note: Results include workers who do not have a deductible.

EXHIBIT 7.4

Average Annual Deductible for Typical Covered Worker, by Plan Type and Region, 2003

	<i>Single Coverage</i>	<i>Family Coverage</i>
CONVENTIONAL PLANS		
Northeast	\$518	\$726
Midwest	336	727
South	377	802
West	336	869
ALL REGIONS	\$384	\$785
HMO PLANS		
Northeast	\$28	\$73
Midwest	49	69
South	27	58
West	22	64
ALL REGIONS	\$30	\$65
	<i>Single Coverage Preferred Provider</i>	<i>Single Coverage Non-Preferred Provider</i>
PPO PLANS		
Northeast	\$154*	\$458*
Midwest	271	505
South	319	685*
West	315	481
ALL REGIONS	\$275	\$561
POS PLANS		
Northeast	\$ 83	\$465
Midwest	124	369
South	140	489
West	97	410
ALL REGIONS	\$113	\$442

SOURCE:

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

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

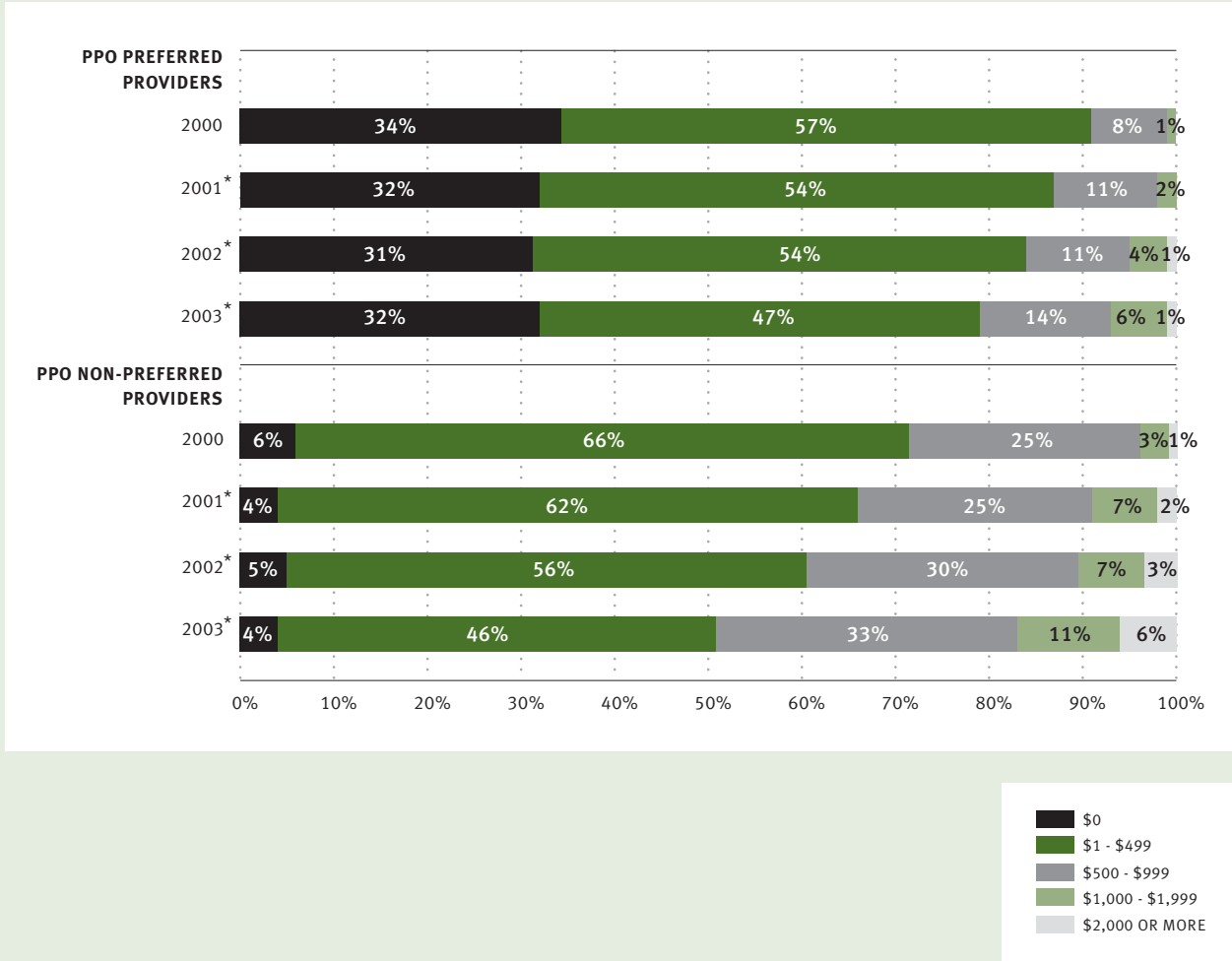
Preferred providers: Providers that are part of a plan's approved list of doctors and hospitals; consumers generally pay lower cost sharing when using these providers.

Non-preferred providers: Providers that are not part of a plan's approved list of doctors and hospitals.

Note: Results include workers who do not have a deductible.

EXHIBIT 7.5

Percentage of Covered Workers in Firms That Have the Following Deductibles for PPO Plans, 2000-2003



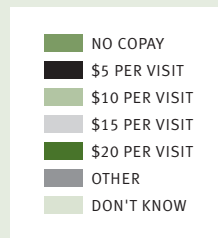
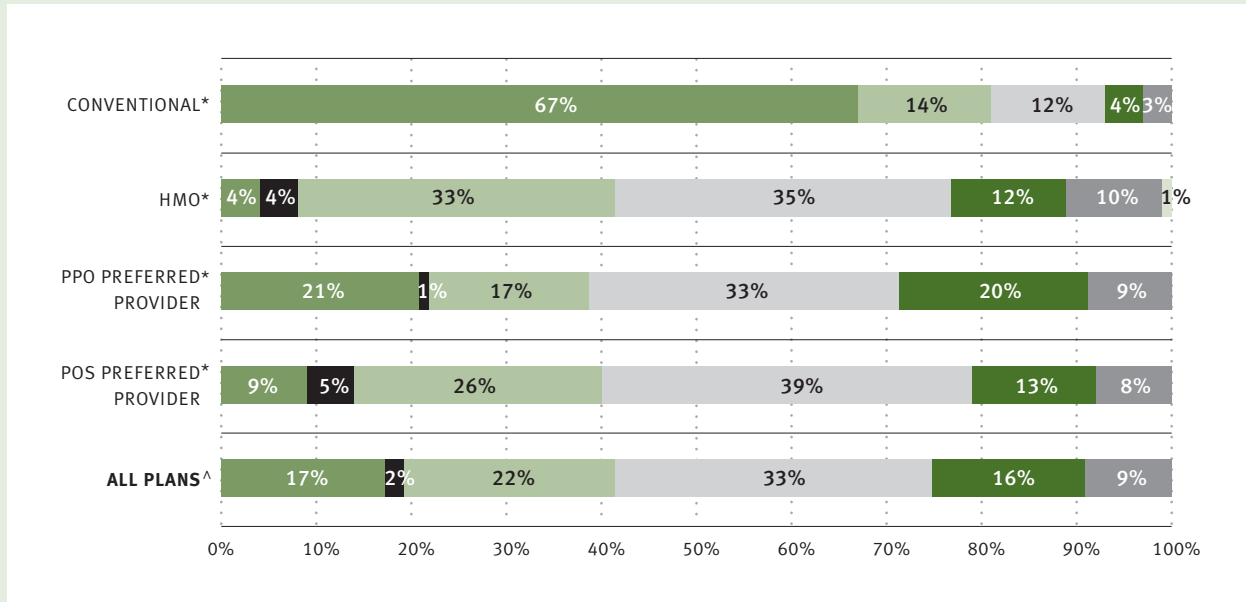
SOURCE :

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

* Distribution is statistically different from previous years shown: 2000-2001, 2001-2002, 2002-2003.

EXHIBIT 7.6

Percentage of Covered Workers Facing Various Copayments for Physician Office Visits, by Plan Type, 2003



SOURCE :

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

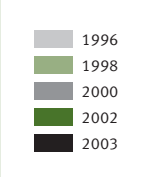
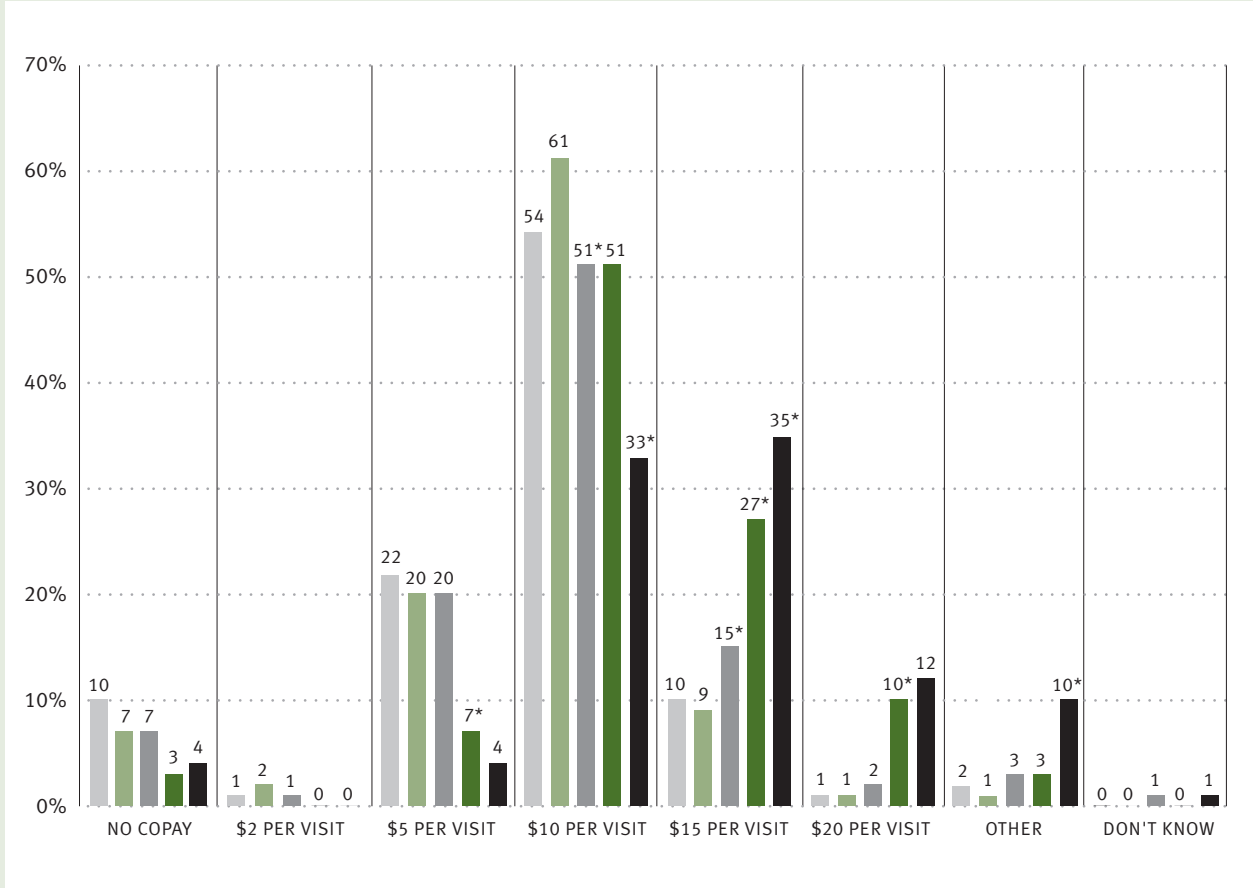
* Distribution is statistically different from All Plans.

^ In calculating the distribution of copayments across all plan types, the copayments applicable to preferred providers were used for PPO and POS plans.

Note: In conventional plans, 0% of covered workers face a \$5 copay.

EXHIBIT 7.7

Percentage of Covered Workers Facing HMO Copayments for Physician Office Visits, 1996-2003



SOURCE :

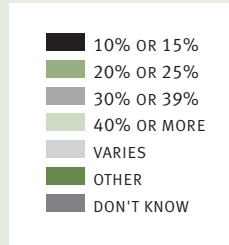
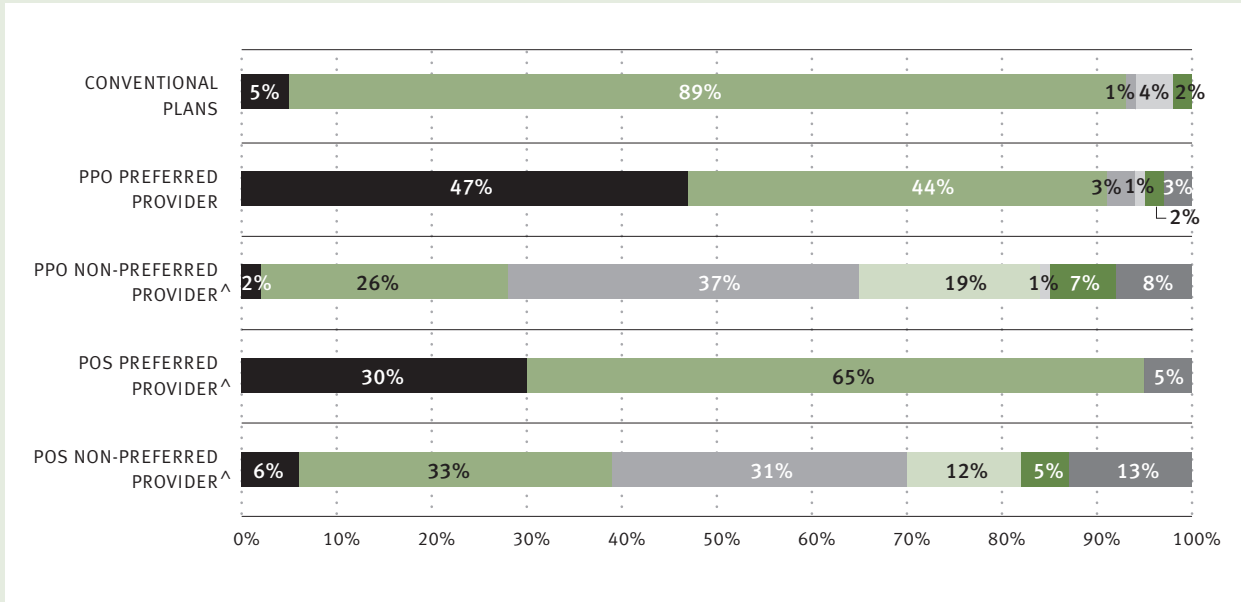
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003.
 KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

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

Note: Other includes No Copay.

EXHIBIT 7.8

Distribution of Coinsurance Rates Among Covered Workers Facing Coinsurance for Physician Office Visits, 2003



SOURCE :

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

^ The distribution of coinsurance rates does not include workers who pay copays for office visits or report having 0% coinsurance.

Note: HMO coinsurance rates are not included because 95% of covered workers have a copay for office visits. Categories not in the figure indicate a value of 0%.

EXHIBIT 7.9

Percentage of Covered Workers With the Following Types of Cost Sharing for Physician Office Visits, 2003

	<i>Copay</i>	<i>Coinsurance</i>	<i>Both</i>	<i>Neither</i>
OFFICE VISITS				
Conventional	22%	57%	10%	9%
HMO	95	2	1	2
PPO Preferred Provider	76	16	3	4
POS Preferred Provider	85	6	5	3

SOURCE :

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

Note: Less than or equal to 1% of covered workers indicate Don't Know for type of cost sharing for office visits. Survey respondents were not asked about the type of cost sharing for PPO and POS non-preferred providers. Respondents answered Don't Know less than 1% of the time.

EXHIBIT 7.10

Percentage of Covered Workers With the Following Types of Cost Sharing Per Hospital Admission*, 2003

	<i>Deductible or Copay</i>	<i>Coinsurance</i>	<i>Both</i>	<i>Neither</i>
HOSPITAL ADMISSIONS				
Conventional	18%	10%	1%	71%
HMO	49	3	2	46
PPO	26	10	4	59
POS	37	9	5	49
All Plans	32%	8%	4%	56%

SOURCE :

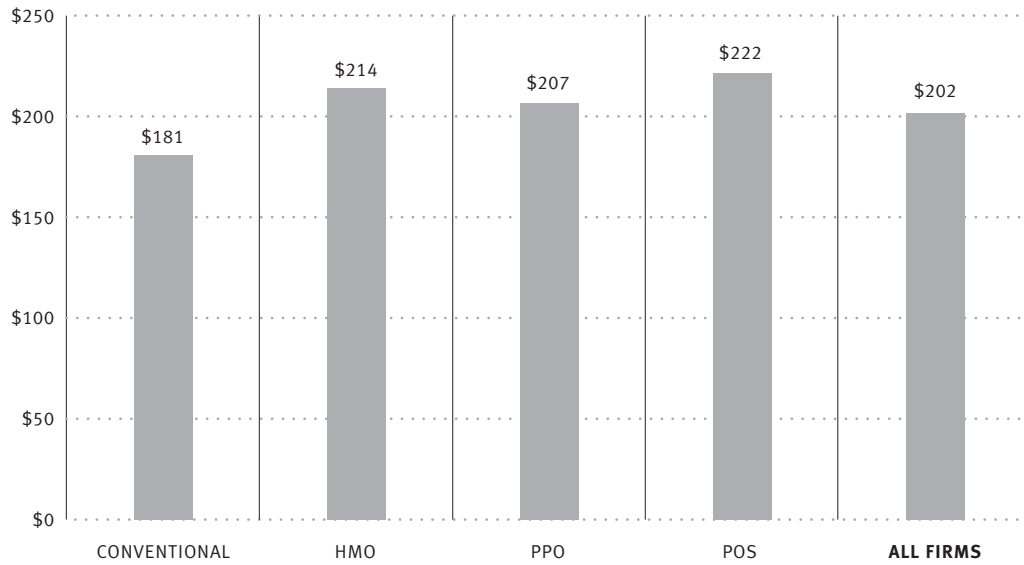
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

* Tests found no statistically different estimates from All Plans.

Note: Respondents answered Don't Know less than 1% of the time.

EXHIBIT 7.11

For Covered Workers With a Separate Hospital Deductible or Copay, the Average Cost Sharing Per Admission By Plan Type, 2003*



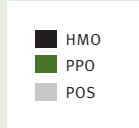
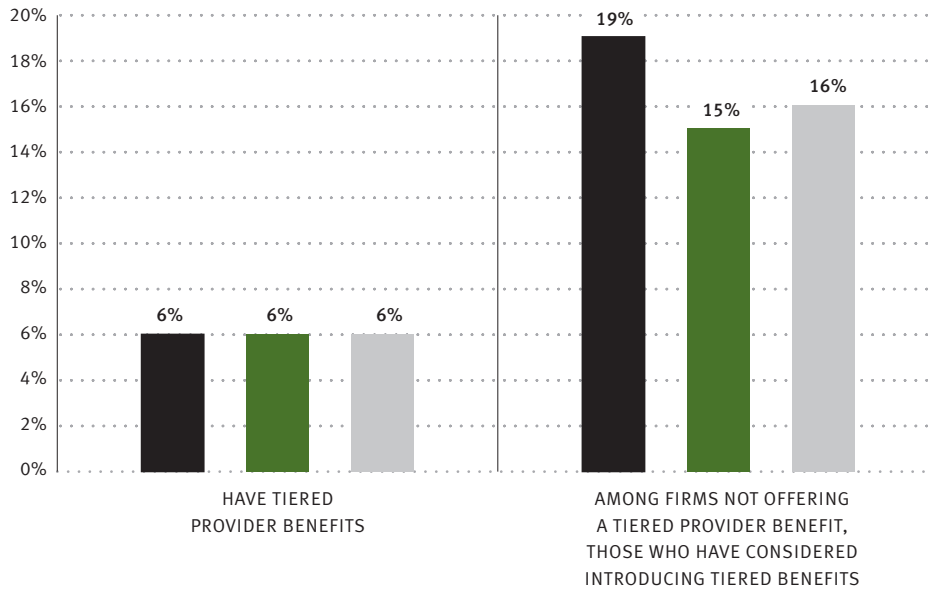
SOURCE :

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

* Tests found no statistically different estimates from All Firms.

EXHIBIT 7.12

Percentage of Covered Workers in HMO, PPO, and POS Plans Whose Plan Has a Tiered Cost Sharing Arrangement or Has Considered Introducing a Tiered Cost Sharing Arrangement for Physician or Hospital Visits, 2003

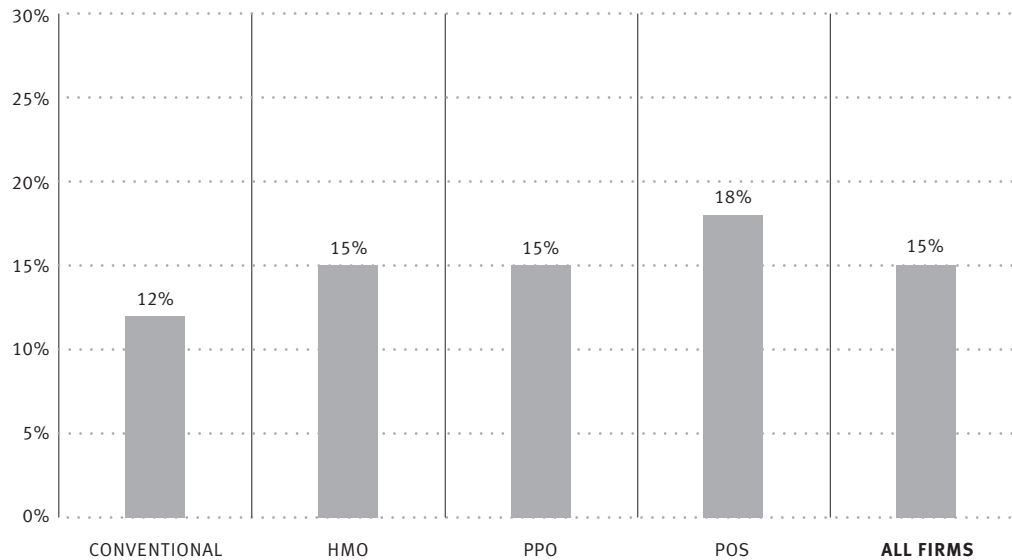


SOURCE :

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

EXHIBIT 7.13

Percentage of Covered Workers in Firms That Report Reducing the Items and Services That Count Toward Employees' Out-of-Pocket Limit in the Last Year, by Plan Type, 2003*



SOURCE :

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

* Tests found no statistically different estimates from All Firms.

Note: The question specifically asks firms if they increased employees' out-of-pocket maximum by excluding items that formerly counted towards the limit, such as deductibles and copays for particular prescription drugs.

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