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California Employer Health Benefits Survey, 2002

February 2003

Methods

The California Employer Health Benefits Survey is a joint product of the Kaiser Family Foundation and Health Research and Educational Trust. The survey was designed and analyzed by researchers at the Kaiser Family Foundation and HRET, and administered by National Research LLC (NR). The findings are based on a random sample of 861 interviews with employee benefit managers in private firms in California. NR conducted interviews from May to August 2002. The sample was drawn from the Dun & Bradstreet list of private employers with three or more workers. The margin of error for responses among all employers is +/- 3.5%. Some exhibits do not sum to 100% due to rounding effects.

The survey is based on a national employer survey conducted annually by the Kaiser Family Foundation and HRET. The U.S. results in this study are based on that survey (pub# 3251), and are available on the Foundation's web site at www.kff.org or by calling the Foundation's Publications Request Line at 1-800-656-4533. Prior to 1999, the national survey was conducted by KPMG Peat Marwick LLP. A similar employer survey was also conducted in 1999 in California, in conjunction with the Center for Health and Public Policy Studies at the University of California, Berkeley.

For the purposes of reporting the data, firms were aggregated into five firm sizes and five industry categories. The firm sizes were: 3-9 workers, 10-49 workers, 50-199 workers, 200-999 workers, and 1,000+ workers. Analyses were also done by small (3-199) and large firms (200+ workers). The industry groupings are as follows: Manufacturing/Transportation/Utilities/Communications, Health/Finance, Retail/Wholesale, Service, Mining/Agriculture/Construction. Government firms are not surveyed in the California survey, but are included in the national data.

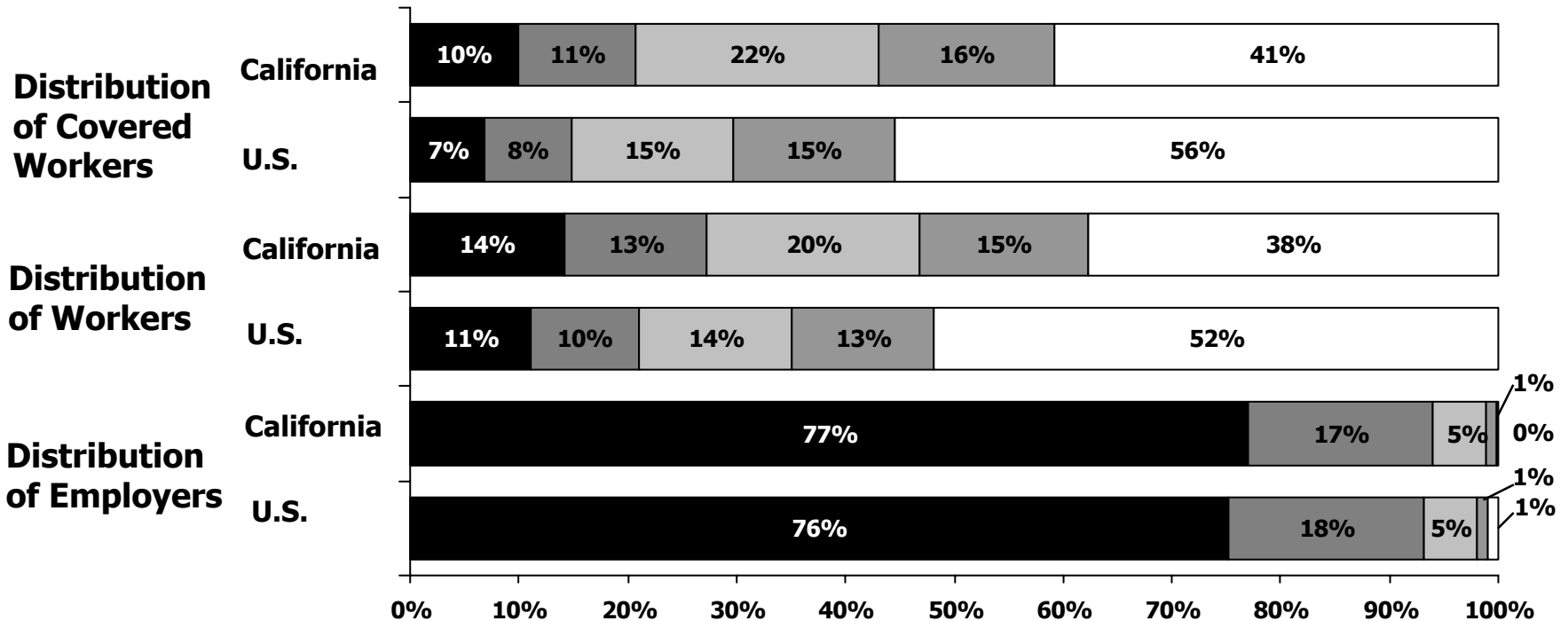
The survey asked questions about the following types of health plans: Health Maintenance Organizations (HMO), Preferred Provider Organizations (PPO), and Point-of-Service (POS) plans. Conventional (fee-for-service) plans are generally excluded from the plan type analyses because they comprise such a small share of the California market.

The Kaiser Family Foundation is an independent, national health 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.

The Health Research and Educational Trust (HRET) is a private, not-for-profit organization involved in research, education, and demonstration programs addressing health management and policy issues. Founded in 1944, HRET collaborates with health care, government, academic, business, and community organizations across the United States to conduct research and disseminate findings that help shape the future of health care.

Distribution of Employers, Workers, and Covered Workers, by Firm Size, 2002

■ 3-9 Workers ■ 10-49 Workers ■ 50-199 Workers ■ 200-999 Workers □ 1,000+ Workers



Note: Firms that employ more than 1,000 workers comprise less than 1% of the total number of firms.

Sources: Kaiser/HRET 2002 California Employer Health Benefits Survey; Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002

Survey Highlights

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Availability of Coverage

Despite the economic slowdown and rising unemployment, the percentage of California employers offering health insurance to their workers remained constant between 2001 and 2002. The high cost of coverage continues to be the primary reason why employers do not offer health coverage.

65% of California businesses offered health insurance in 2002, virtually unchanged from 66% in 2001. California's coverage rates are on par with the national coverage rates (62% of employers nationwide offered coverage in 2002) (Chart 1).

While virtually all large California employers – those with 200 or more workers – offer health insurance, fewer small businesses do so. Fifty-nine percent of the smallest companies with 3-9 workers provide coverage in California (Chart 2).

Employers are most likely to cite high premiums as the reason they don't offer health insurance in 2002. Seventy-three percent of employers that do not offer health insurance say high premiums are the most important reason (Chart 3).

Even in firms that offer health insurance, not all workers are covered.

Only about half (46%) of workers employed in firms that offer insurance offer coverage to part-time employees, and a very small percentage (6%) of workers are employed by firms offering coverage to temporary workers. As the number of workers employed in traditional jobs declines, workers are more likely to find themselves with part-time or temporary work and no health insurance (Chart 4).

Overall, approximately seven in ten workers (72%) in California firms that offer health insurance actually receive coverage from that firm. Eighty three percent of these workers are eligible for coverage offered by their firm, and 87% of those elect to take it (Chart 5).

The most common reason that employers cite for why their employees decline health benefits is that the employees have coverage elsewhere (e.g., through a spouse). Twenty-one percent of employers say that their employees decline coverage because they cannot afford their share of the premium in 2002. One percent of employers say workers decline coverage because they don't want or feel they need it (Chart 6).

Cost of Health Insurance

Health insurance premiums in California grew 13.0% in 2002, similar to the national average premium increase of 12.7% for the year. Premiums in 2002 increased more rapidly than the year before. (Chart 7).

Premium increases in California were more than six times the growth in inflation of 2.1%.

Small businesses (from 3 to 199 employees) experienced average premium increases of 14.1% (Chart 8). Half of small firms (50%) and over one-quarter (27%) of large firms (200 or more employees) experienced premium increases of more than 15%.

The average cost of health insurance in California continues to be lower than the average cost of coverage nationwide, although PPO coverage costs more on average in California than nationwide (Chart 9).

Annual premiums in 2002 for employer-provided health insurance in California averaged \$2,845 for single coverage and \$7,471 for family coverage, as compared to \$3,060 for single coverage and \$7,954 for family nationwide (Chart 11).

Health Maintenance Organizations (HMOs) remain the least expensive type of health plan, and cost approximately one-third less than Preferred Provider Organization (PPO) plans, which typically provide greater choice of providers and fewer restrictions on access to care. HMO plans also tend to be less expensive in California than nationally (Charts 9 & 10).

Monthly premiums in California for PPO coverage averaged \$307 for single coverage and \$763 for family coverage, exceeding nationwide average monthly PPO premiums of \$260 for single coverage and \$670 for family coverage (Chart 9). PPOs cover about one-half of all workers nationally, but only about 30% of workers in California.

The amount workers paid for health insurance coverage increased substantially in 2002, a trend that is likely to continue as premiums rise.

On average, workers in California contributed \$342 annually for single coverage and \$1,806 for family coverage in 2002, more than 30% over 2001 contribution levels (Chart 11). Workers' average share of the premium for family coverage is 26% in 2002 (Chart 12).

Nationally, workers contribute more for health coverage than workers in California -- on average, \$454 a year for a single policy and \$2,084 for a family policy (Chart 11).

Benefits and Cost Sharing

For the first time in three years, the percentage of employers reporting a decline in benefits for covered workers is greater than the percent reporting an increase in benefits.

The percentage of firms reporting that the overall level of benefits declined rose from 6% in 2001 to 12% in 2002. Eleven percent of firms reported increasing benefits in 2002 (Chart 13).

HMOs and PPOs tend to provide workers with similar benefits. Most plans cover a standard set of preventive benefits, including prescription drugs, annual adult physicals and ob/gyn exams, and outpatient mental health coverage (Chart 14).

Both HMO and PPO plans offer a high level of coverage for OB/GYN visits (99% of workers covered by both HMOs and PPOs) and annual physicals (97% HMO; 92% PPO), and all offer a prescription drug benefit.

Coverage for alternative therapies such as acupuncture and chiropractic care is much more likely to be offered through a PPO than an HMO plan.

PPO coverage of oral contraceptives has grown in the last year, from 77% in 2001 to 87% of covered workers who have the benefit in 2002. Increased awareness of contraceptive coverage may have resulted from a June 2001 EEOC ruling that determined employers must provide equal coverage for health benefits to male and female employees.

Employee costs have increased over the past year (Chart 15).

Among large firms (with 200 or more workers), 61% of firms have increased the amount workers pay for coverage, 55% have increased the amount workers pay for prescription drugs, and approximately one-third have increased the amount workers pay for deductibles and the amount employees pay for office visits.

There are some indications that increasing the amount that employees pay for health insurance may affect a firm's ability to attract and retain workers. Of the California firms that increased the amount employees paid for coverage in 2002, 56% report it was somewhat harder to attract and retain workers, compared to 31% of firms that did not increase what employees pay.

PPO in-plan deductibles in California are, on average, \$266 in 2002; PPO out-of-plan deductibles average \$447.

HMO copayments for physician visits rose in 2002 (Chart 16).

The percentage of California HMO enrollees with a \$5 per visit copayment for a physician office visit fell from 34% in 2001 to 12% in 2002. Twenty-seven percent of enrollees have a \$15 per visit copayment in 2002.

In both California and the U.S., the most common copayment for a physician office visit is \$10 (about 52% of HMO enrollees in California and 49% nationally).

Virtually all active workers with insurance have drug coverage (Chart 14), but workers are paying more for some brand name drugs.

The use of tiered copayments for prescription drugs has grown rapidly in an attempt to control drug costs. The percentage of California workers in plans that use three-tiered drug benefits – with one payment for generic drugs, another for preferred drugs (brand name drugs with no generic substitute), and a third for non-preferred (brand name drugs with a generic substitute) – has more than tripled in the past two years, growing from 11% in 2000 to 39% in 2002. Despite this high rate of growth, the number of California workers whose plans require three-tier payments for drugs is still lower than the national average (57% of workers) (Chart 17).

The average copayment for a non-preferred drug rose from \$15 in 2001 to \$20 in 2002, a 33% increase (Chart 18). Despite this increase, the average copayment in California for these brand name drugs is lower than the nationwide average of \$26.

Sixty-nine percent of covered workers in both California and the US are enrolled in a health plan that uses a formulary that restricts which drugs will be covered.

Twenty percent of covered workers in California are in plans that “carve out” prescription drugs by providing them outside of the standard health plan. California plans that carved out prescription drugs experienced an increase in cost of 21% for prescription drug costs for family coverage, an even higher rate of growth than overall premiums.

Health Plan Enrollment, Choice, and Insurance Arrangements

Enrollment across plan types has remained fairly stable over the last four years (Chart 19).

HMO enrollment remained stable, at 54% in 2002. PPO enrollment was virtually unchanged from last year at 30%. Market share of Point-of-Service (POS) plans is 15% in 2002.

Enrollment patterns in California are very different from the rest of the country. Fifty-four percent of Californians are enrolled in HMOs, more than double the 26% national average, while only 30% of California workers are enrolled in PPOs compared to 52% nationally.

California employers are more likely than firms nationally to offer their employees a choice of health plans (Chart 20).

Seventy-three percent of large employers (200 or more workers) in California offer more than one health plan option to their employees, compared to 60% of large employers nationally.

Smaller businesses (3 to 199 workers) are much less likely than larger employers to provide workers with a choice of health plans, with 79% of California firms and 93% of U.S. firms offering only one plan option.

Purchasing arrangements designed to facilitate greater choice for small businesses in California remain largely unknown. Seventy-six percent of California employers with fewer than 50 employees say they are unfamiliar with the two largest purchasing plans in California--PacAdvantage (previously known as the Health Insurance Plan of California) and California Choice.

California workers are much less likely than employees nationwide to be in “self-insured” health plans, where the employer provides health coverage directly rather than purchasing it through an insurer or HMO (Chart 21).

Twenty-three percent of Californians with employer-sponsored coverage are in a self-insured plan, compared to 49% nationally. This difference results in large part from the fact that more Californians are enrolled in HMOs than employees nationally. HMOs are less likely than other types of plans to be self-insured.

Since federal law prohibits states from regulating the practices of self-insured health plans, the number of workers enrolled in such plans determines the reach of state legislation governing patients’ rights and benefit requirements.

Retiree Coverage

Large firms (200 or more workers) in California are more likely to offer health coverage to retirees than smaller firms (3-199 workers) (Chart 22).

Twenty-eight percent of California firms with 200 or more workers offered retiree coverage in 2002 (unchanged from 2001).

Small businesses (with fewer than 200 employees) rarely offer health benefits to retirees (4% in California and 5% nationally in 2002).

Cost pressures have led to a many firms that offer retiree coverage to report significant changes in the benefits that they provide over the last two years. Among large California firms -- with 200 or more workers -- that offer retiree health benefits, 50% increased the retiree’s share of the premium (compared to 40% nationally) and 34% increased the amount retirees pay for prescription drugs (compared to 26% nationally). However, California firms that offer retiree coverage were less likely than national firms to institute three-tiered cost sharing for prescription drugs (16% in California compared to 30% nationally) (Chart 23).

Eleven percent of California firms that offer retiree coverage reported that in the last two years they have eliminated retiree benefits for new workers who have not yet retired (Chart 23).

Employer Attitudes

The majority of firms in California cite health insurance as the employee benefit of the greatest cost concern to the company (Chart 24).

More than one-third of California firms (39%) say that among their employee benefits, health insurance poses the greatest cost concern.

To get a sense of the way employers plan to address rising premiums in the future, we asked firms about changes they may make in the upcoming year (Chart 25).

More than three-quarters of large employers (200 or more workers) say they are very or somewhat likely to increase the amount employees pay for coverage (76%), and half (47%) say they are likely to increase the amount employees pay for prescription drugs.

Less than 5% of firms say they are very or somewhat likely to drop coverage in the next year.

The percentage of large firms (with 200 or more workers) that raised employee costs for coverage in 2002 was even higher than the percentage that told us last year they were likely to do so (Chart 26).

In 2001, one third (33%) of large firms (with 200 or more workers) reported they were likely to increase employee costs for coverage in the following year. In fact, nearly twice as many large firms increased employee costs (61%), representing 40% of covered workers in California.

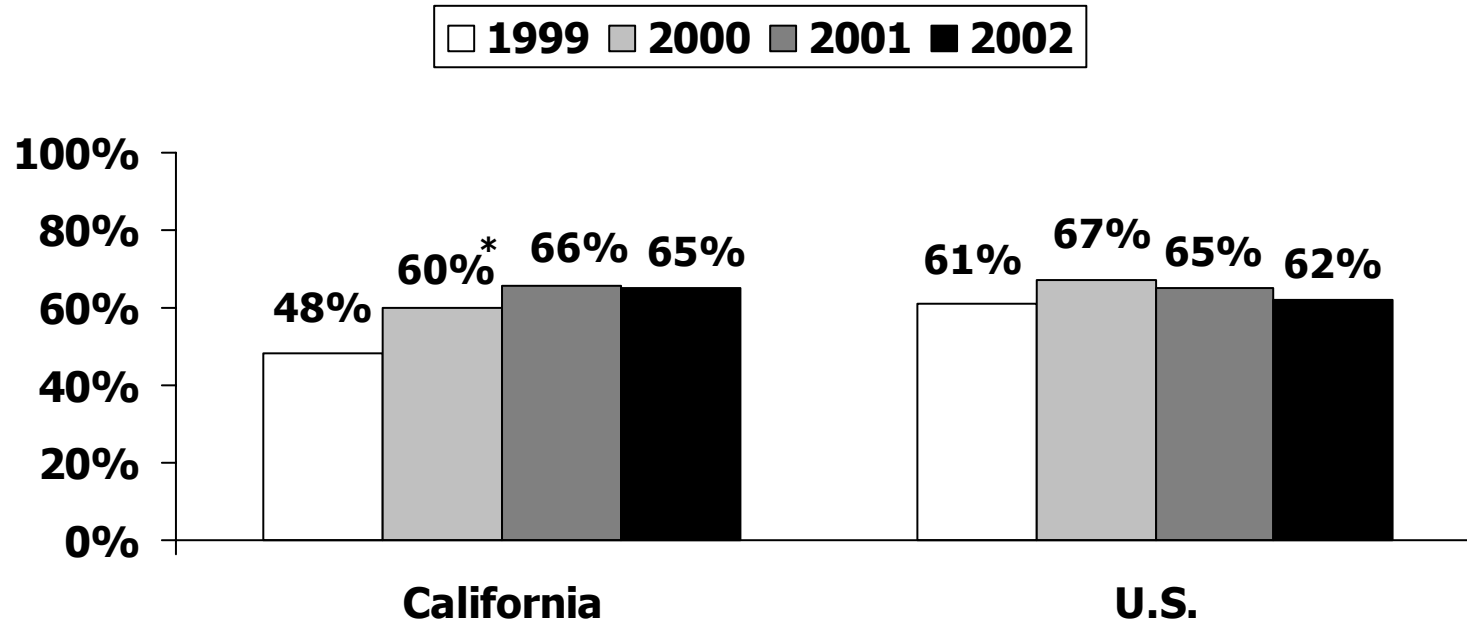
Two-thirds (66%) of employers think that their employees find their health insurance benefits much or a little more confusing than compared to a few years ago.

Employers show little interest in moving to a “defined contribution” approach, where they give employees cash to buy insurance directly rather than arranging for coverage as a group (Chart 27).

Most California employers continue to say they are unlikely to consider such an approach in the next five years. In 2002, 73% say they are very or somewhat unlikely to switch to defined contribution.

Availability of Coverage

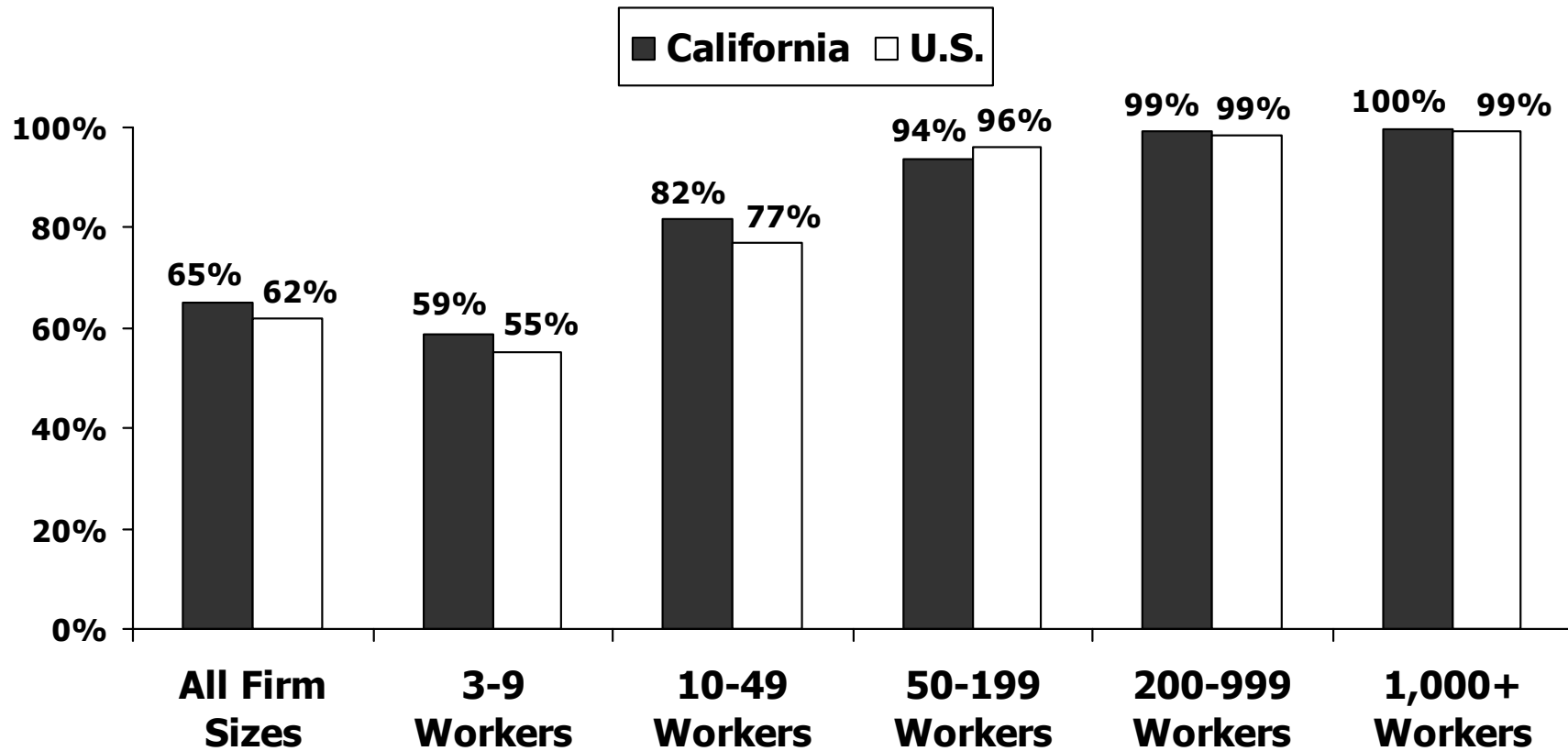
Percentage of All Firms Offering Health Benefits, 1999-2002



* Estimate is statistically different from the previous year: 2000.

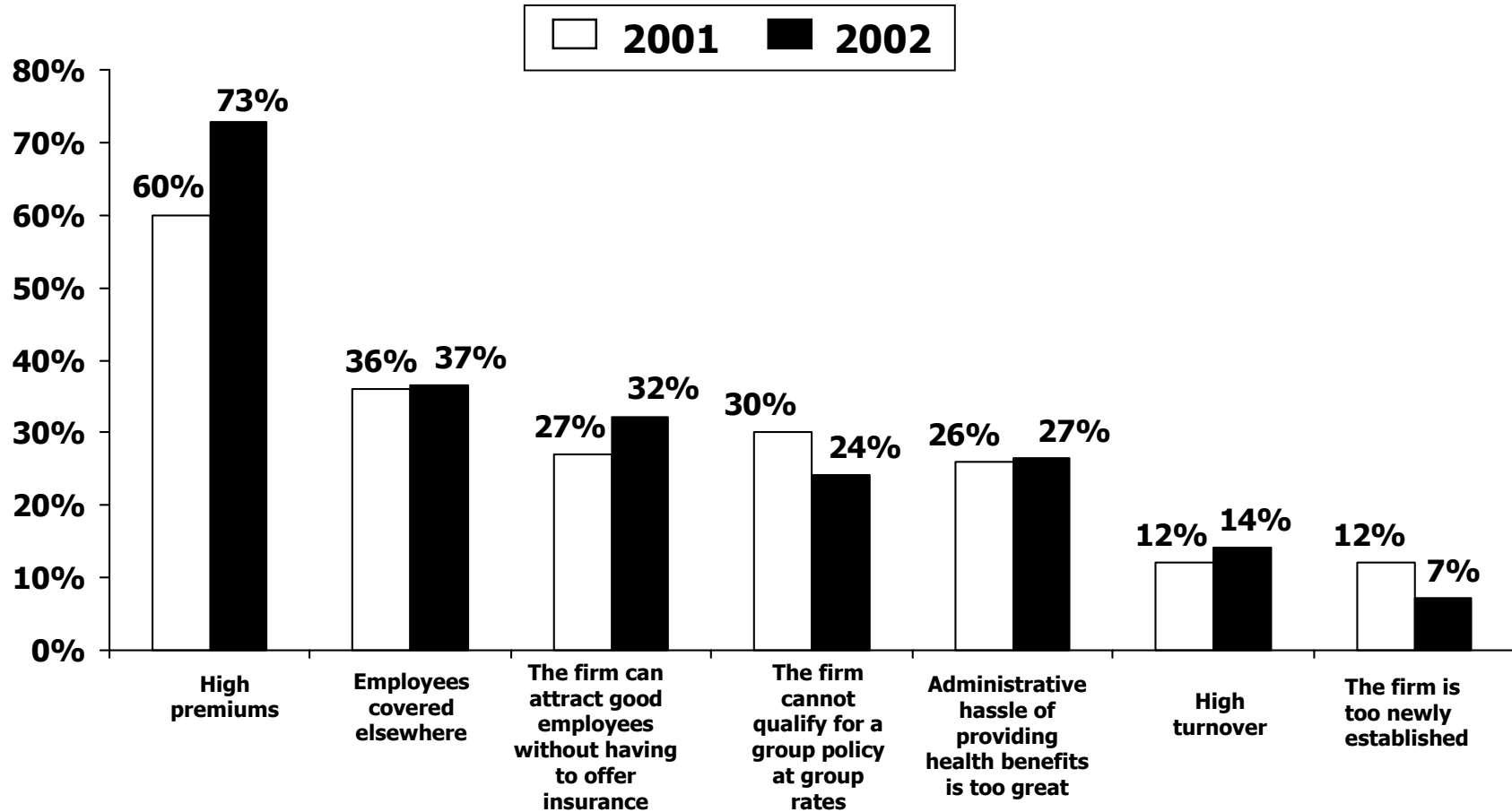
Sources: Kaiser/HRET California Employer Health Benefits Survey: 2000, 2001, 2002; Kaiser/HRET/UC Berkeley 1999 California Employer Survey; Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999-2002

Percentage of Employers Offering Coverage, by Firm Size, 2002



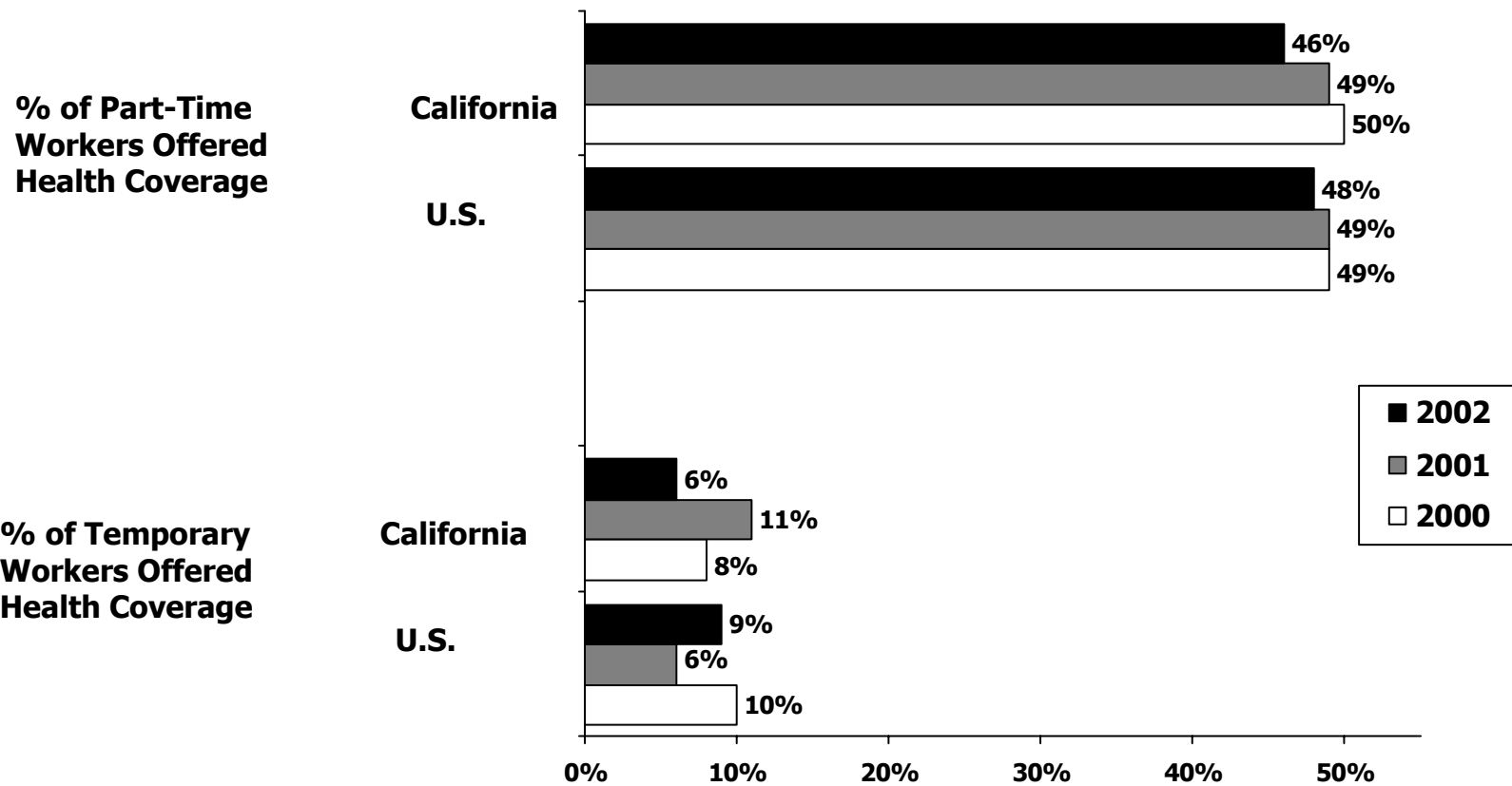
Sources: Kaiser/HRET 2002 California Employer Health Benefits Survey; Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002

Most Important Reason Why Firms Say They Do Not Offer Coverage, 2001-2002



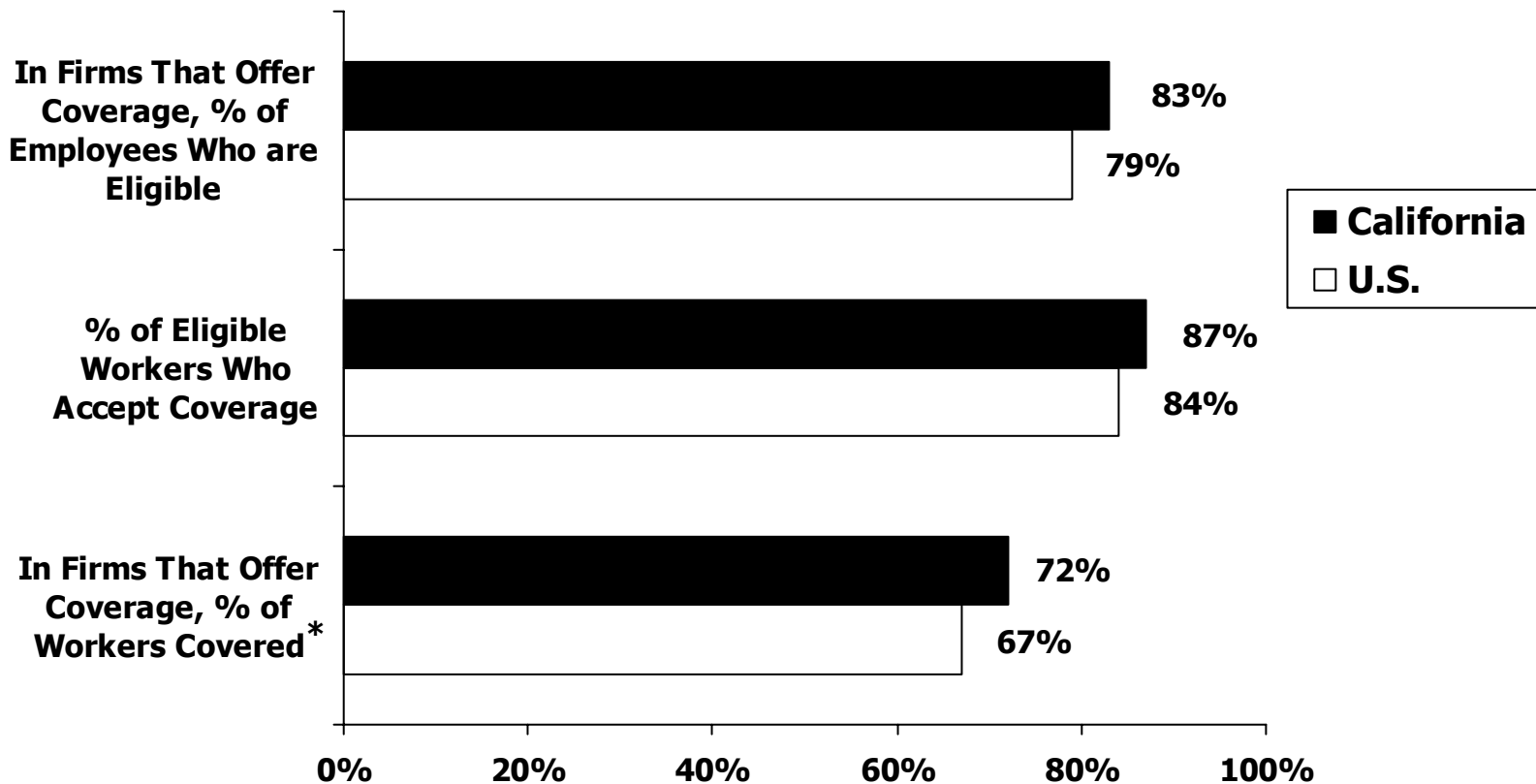
Source: Kaiser/HRET California Employer Health Benefits Survey: 2001, 2002

Coverage for Part-Time Employees, Temporary Workers, 2000-2002



Sources: Kaiser/HRET California Employer Health Benefits Survey: 2000, 2001, 2002; Kaiser/HRET Employer Health Benefits Survey: 2000, 2001, 2002

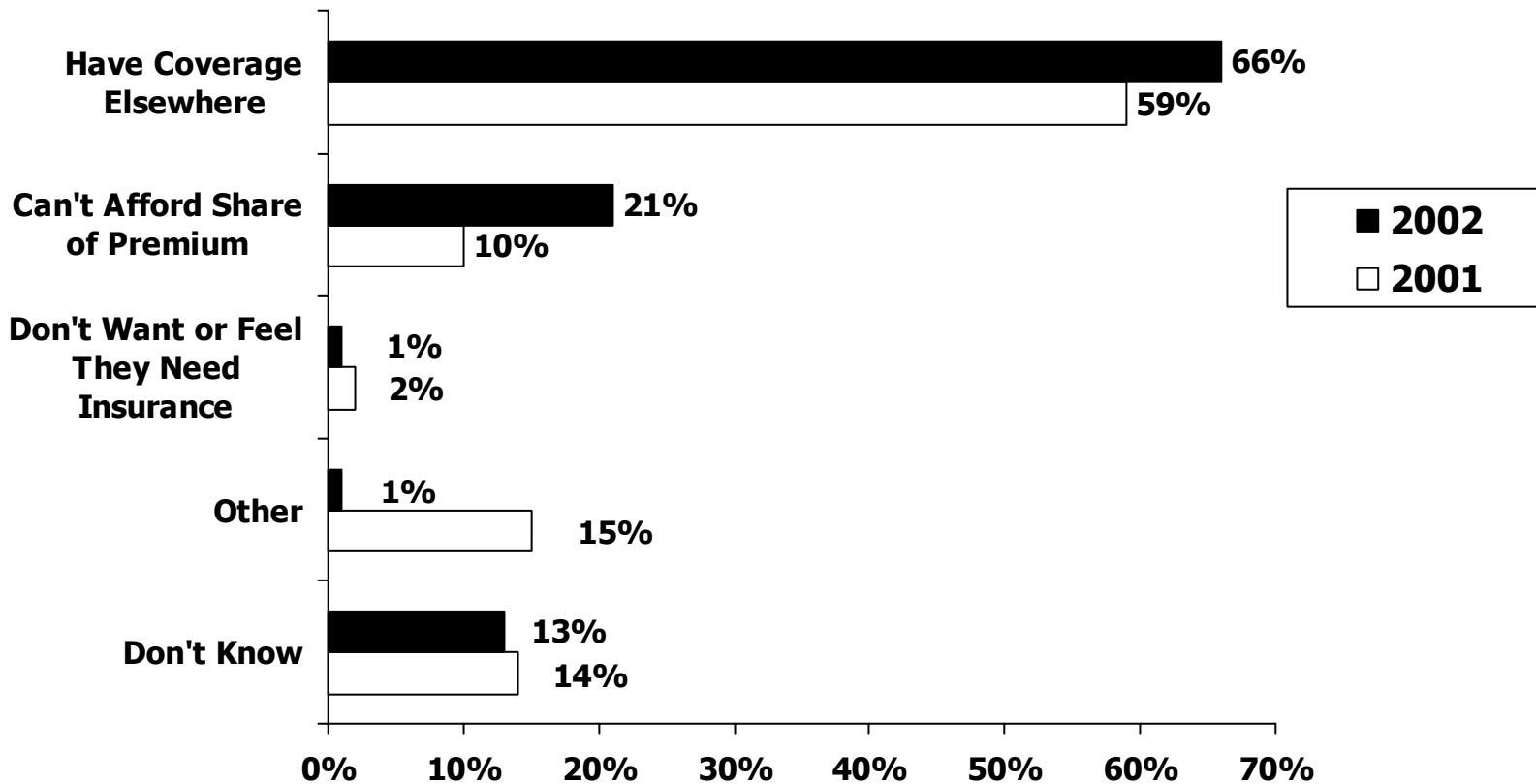
Eligibility and Worker Take-Up in Firms That Offer Coverage, 2002



* Estimates are statistically different between California and the US.

Sources: Kaiser/HRET 2002 California Employer Health Benefits Survey; Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002

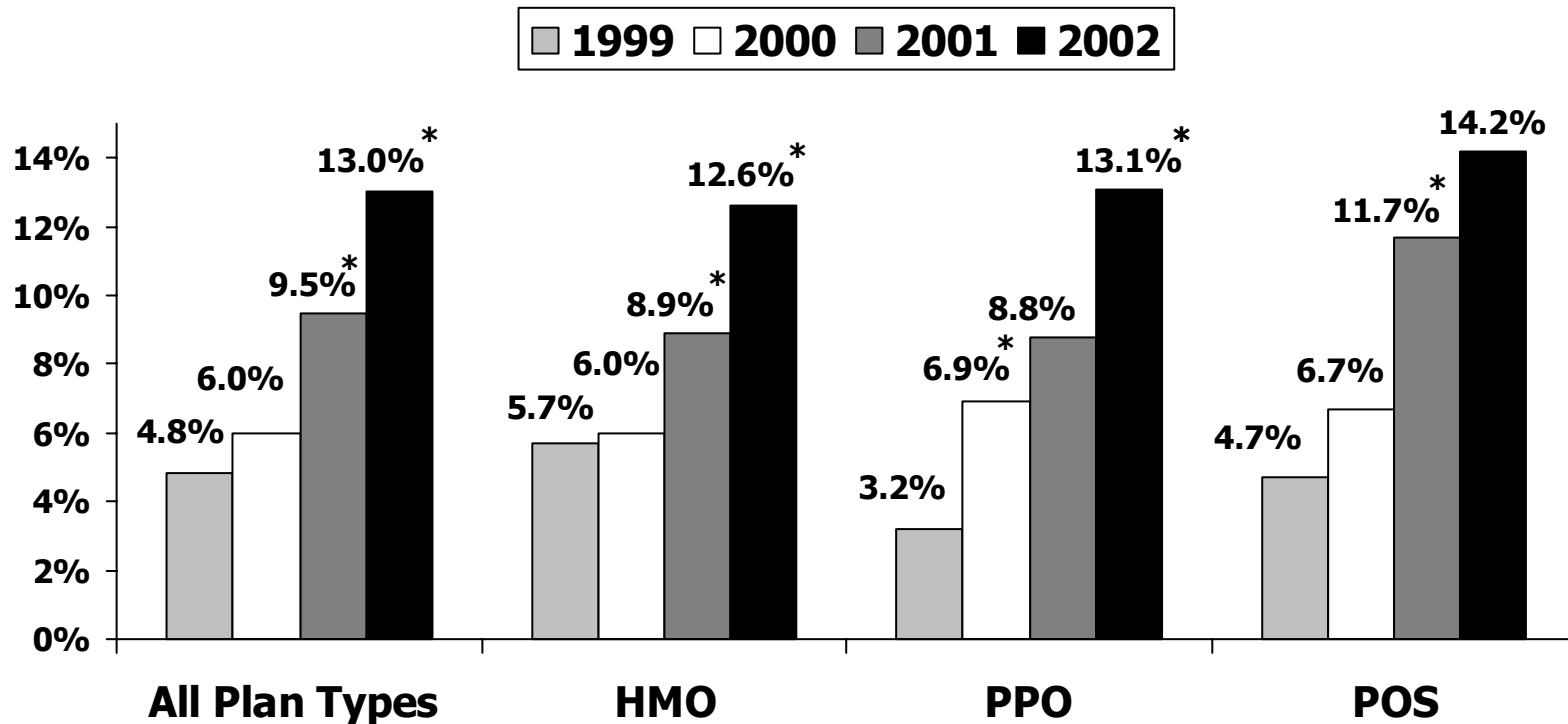
Most Common Reasons Cited by Firms as to Why Workers Decline Coverage, 2001-2002



Sources: Kaiser/HRET California Employer Health Benefits Survey: 2001-2002; Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2001-2002

Cost of Health Insurance

Increases in Health Insurance Premiums From Previous Year, by Plan Type, 1999-2002

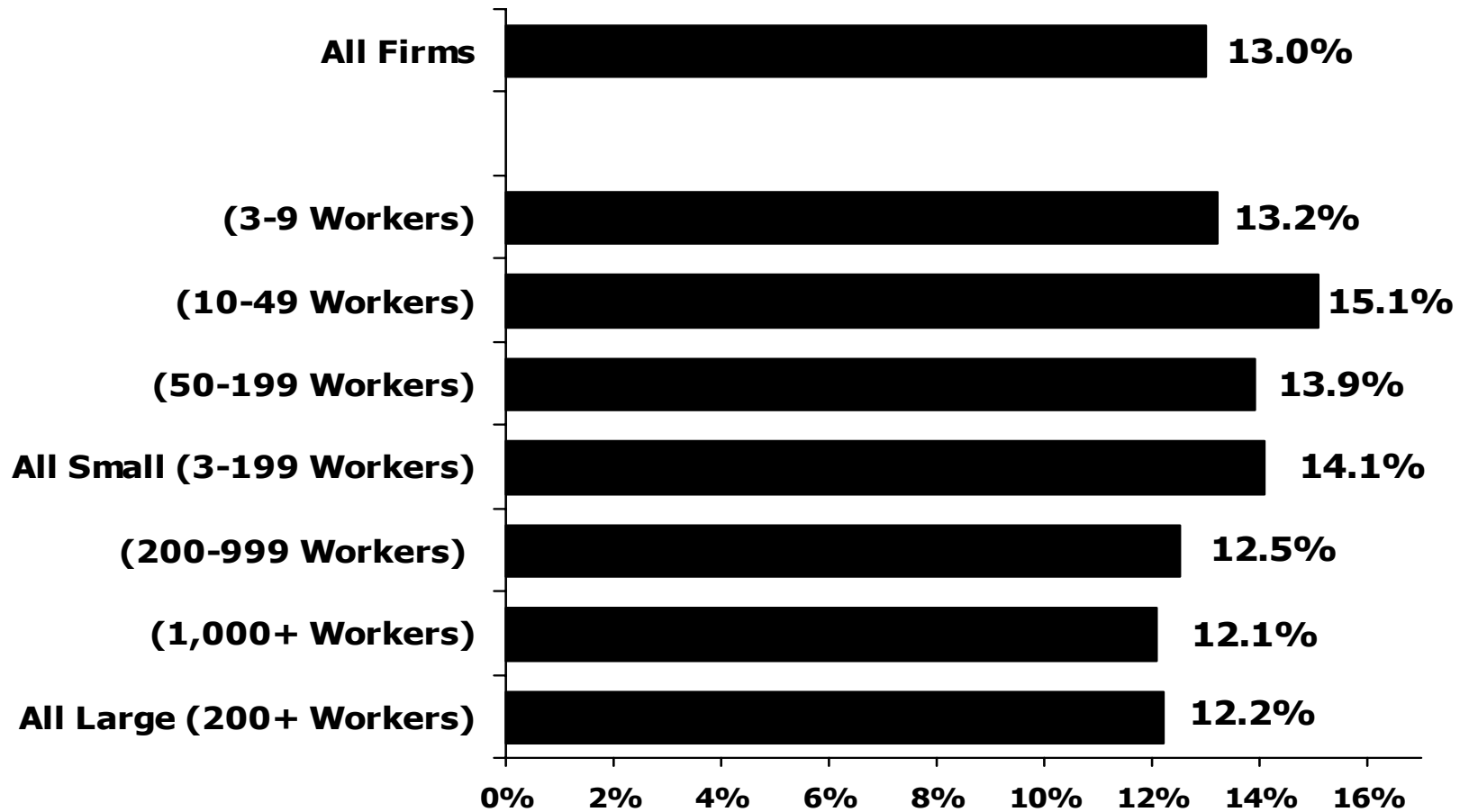


* Estimates are statistically different from the previous year: 2000, 2001, 2002.

Note: Data in 2001 were re-weighted to adjust for minor changes in the sample. As a result, estimates for premium change by plan type have changed slightly for the all plan and PPO data reported last year. Last year we reported that premiums increased 9.9% for All Plans and 10.0% for PPO plans in California. The reported data and revised data for 2001 are not significantly different.

Sources: Kaiser/HRET California Employer Health Benefits Survey: 2000, 2001, 2002; Kaiser/HRET/UC Berkeley 1999 California Employer Survey

Percentage Change in Premiums, by Firm Size, 2002



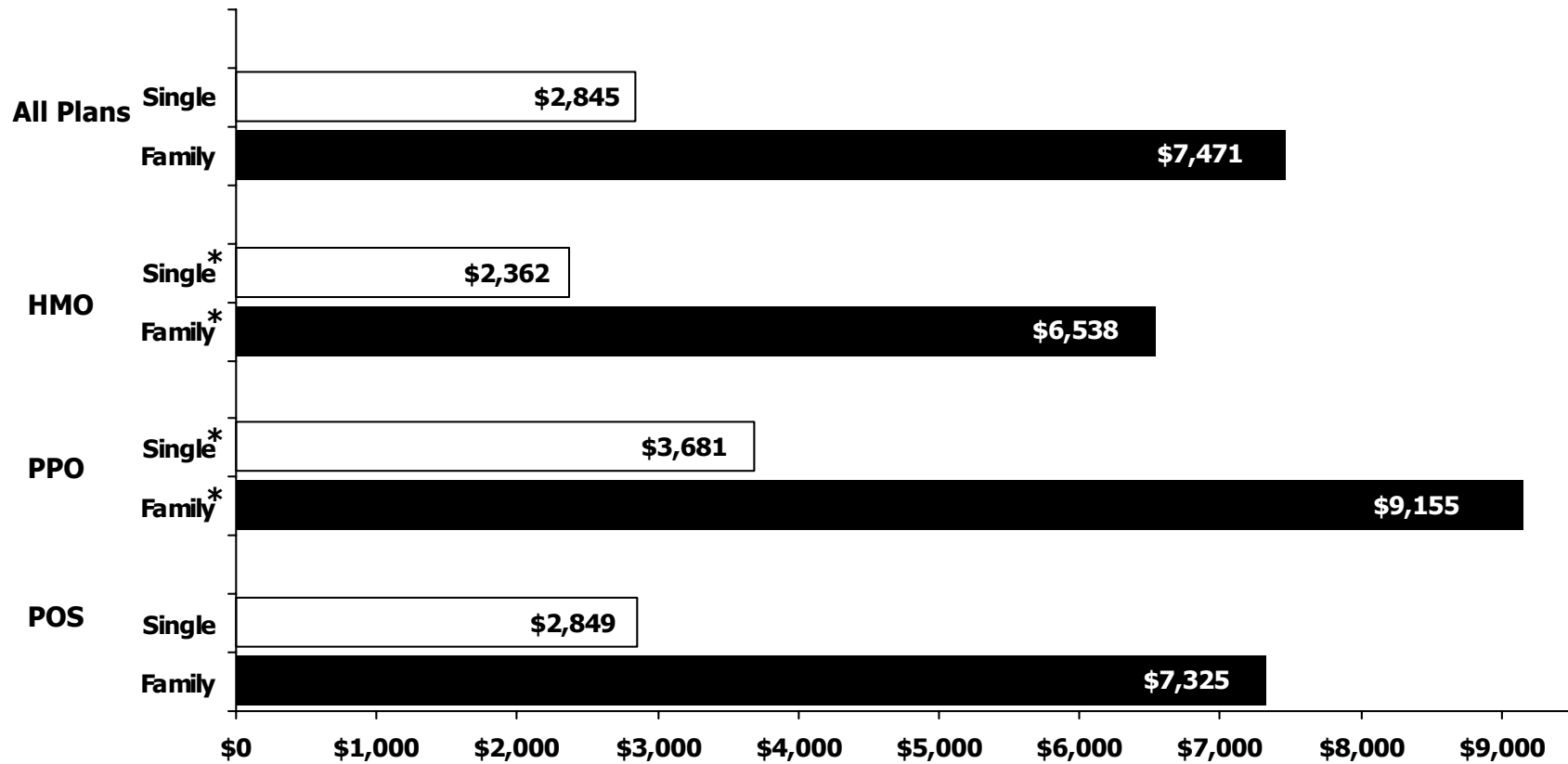
Source: Kaiser/HRET 2002 California Employer Health Benefits Survey

Average Monthly Premiums, by Plan Type, 2002

	<u>Single</u>		<u>Family</u>	
	<u>California</u>	<u>U.S.</u>	<u>California</u>	<u>U.S.</u>
All Plan Types	\$237	\$255	\$623	\$663
HMO	197	230	545	628
PPO	307	260	763	670
POS	237	265	610	681

Sources: Kaiser/HRET 2002 California Employer Health Benefits Survey; Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002

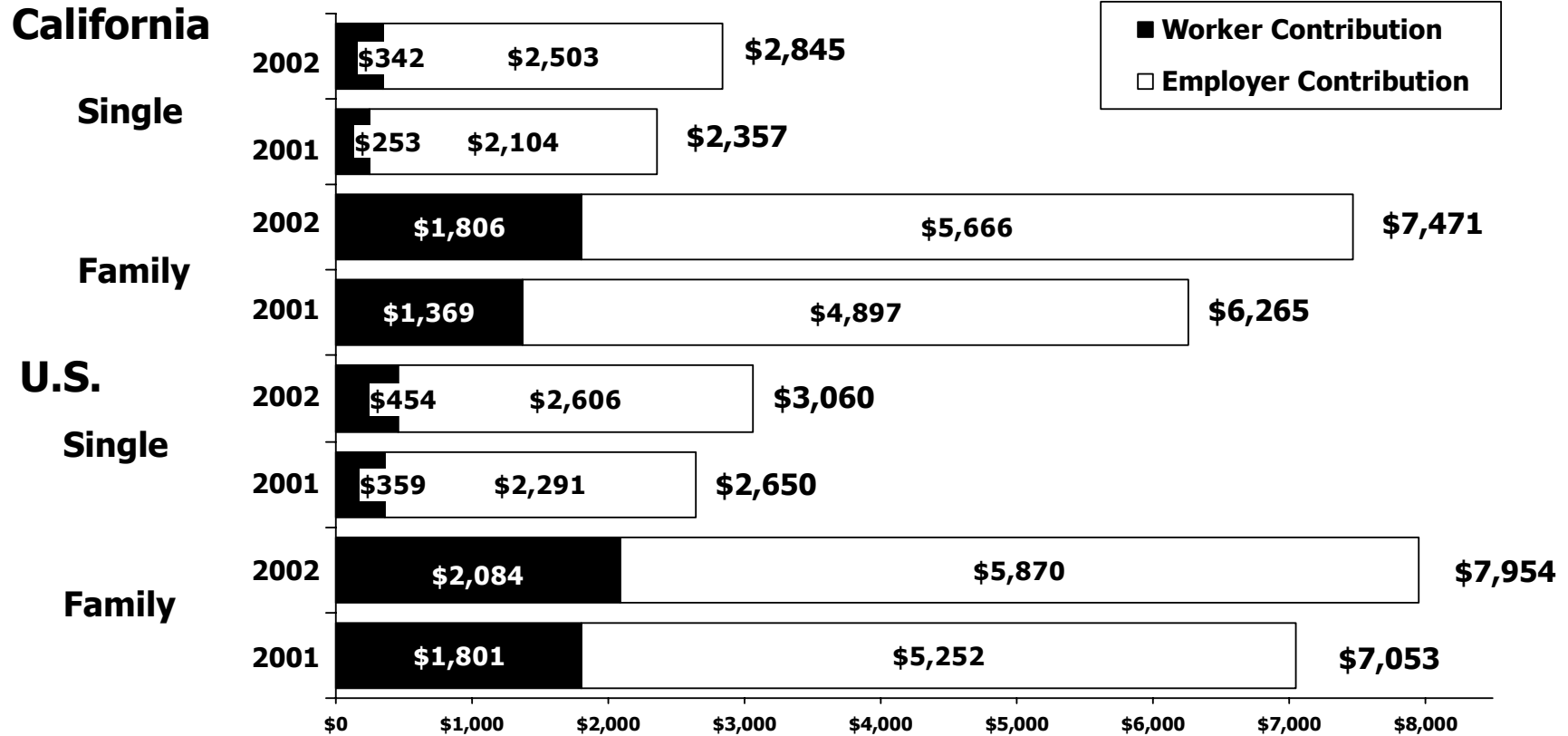
Average Annual Premium Costs for Covered Workers, by Plan Type, 2002



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

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002

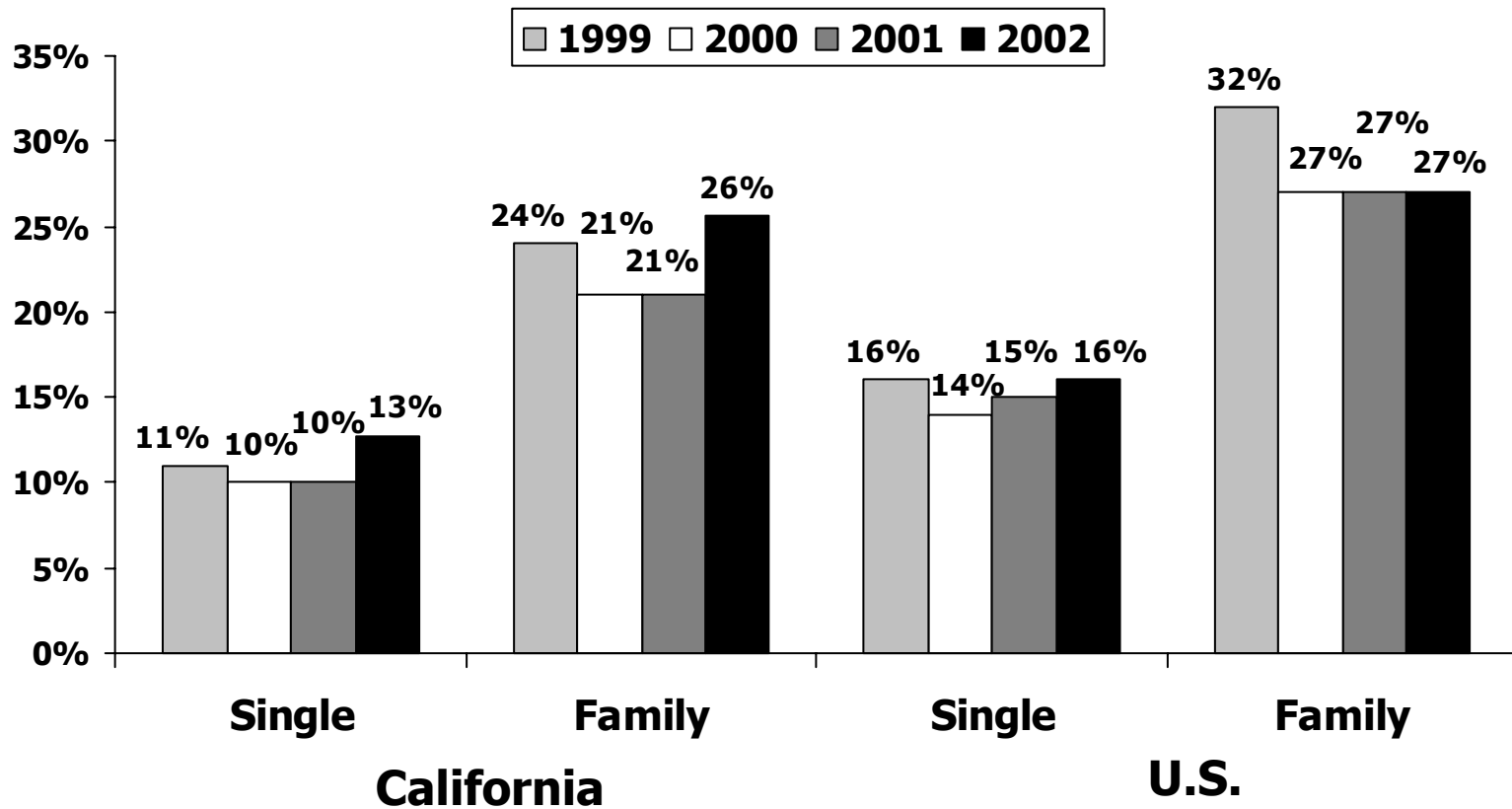
Average Annual Worker and Employer Contributions, 2001 and 2002



Note: Data in the 2001 California survey were re-weighted to adjust for minor changes in the sample. As a result, estimates of worker and employer contributions have changed slightly. Last year we reported that single premiums in CA were \$2,359. Workers' share of the premium was \$250, and employers contributed \$2,109. Family premiums cost \$6,248. Worker's share of the family premium was \$1,364 and employers contributed \$4,884. The reported data and revised data for 2001 are not significantly different.

Sources: Kaiser/HRET California Employer Health Benefits Survey: 2001, 2002; Kaiser/HRET Employer Health Benefits Survey: 2001, 2002

Percentage of Premiums Paid by Workers, 1999-2002

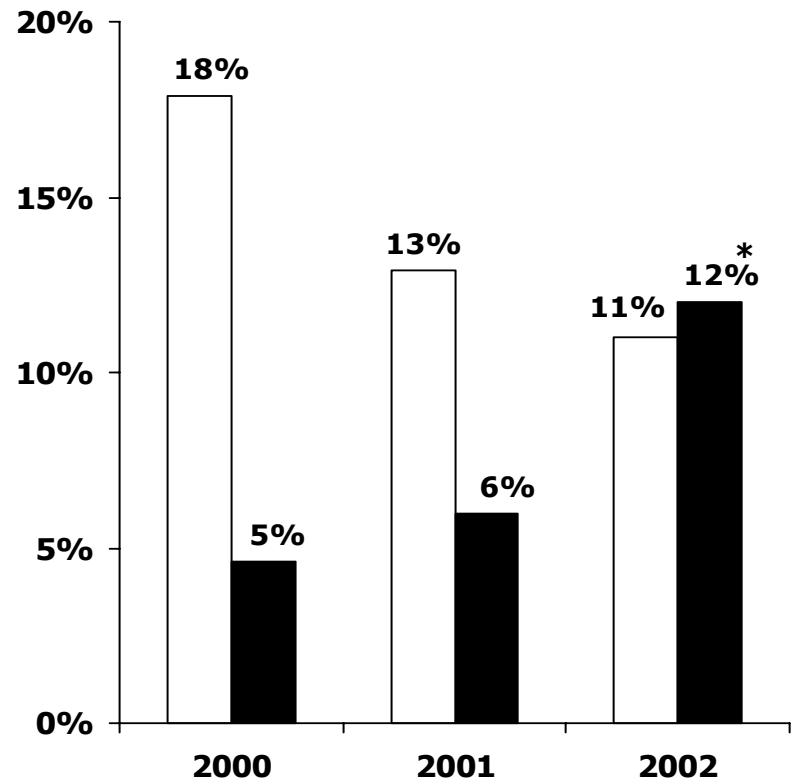
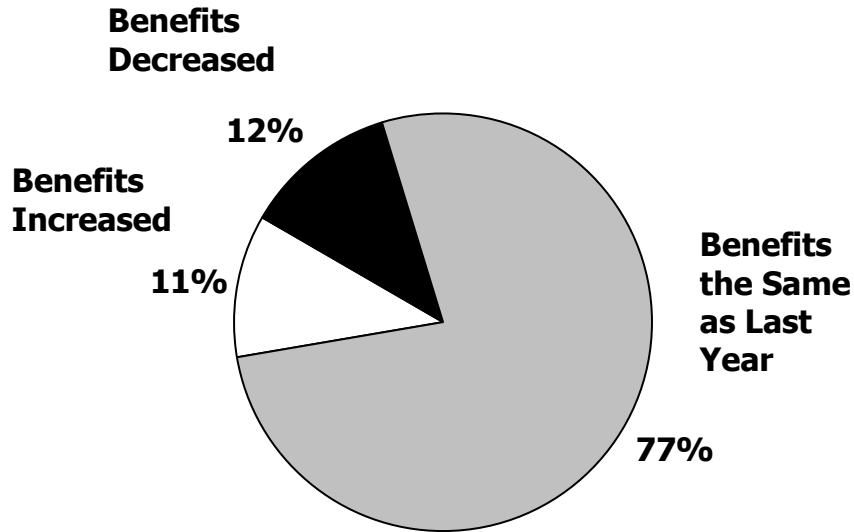


Sources: Kaiser/HRET California Employer Health Benefits Survey: 2000, 2001, 2002; Kaiser/HRET/UC Berkeley 1999 California Employer Survey; Kaiser/HRET Employer Health Benefits Survey: 1999, 2000, 2001, 2002

Benefits and Cost Sharing

Percentage of Covered Workers With Benefit Increases and Decreases, 2000-2002

Percentage of Covered Workers, 2002

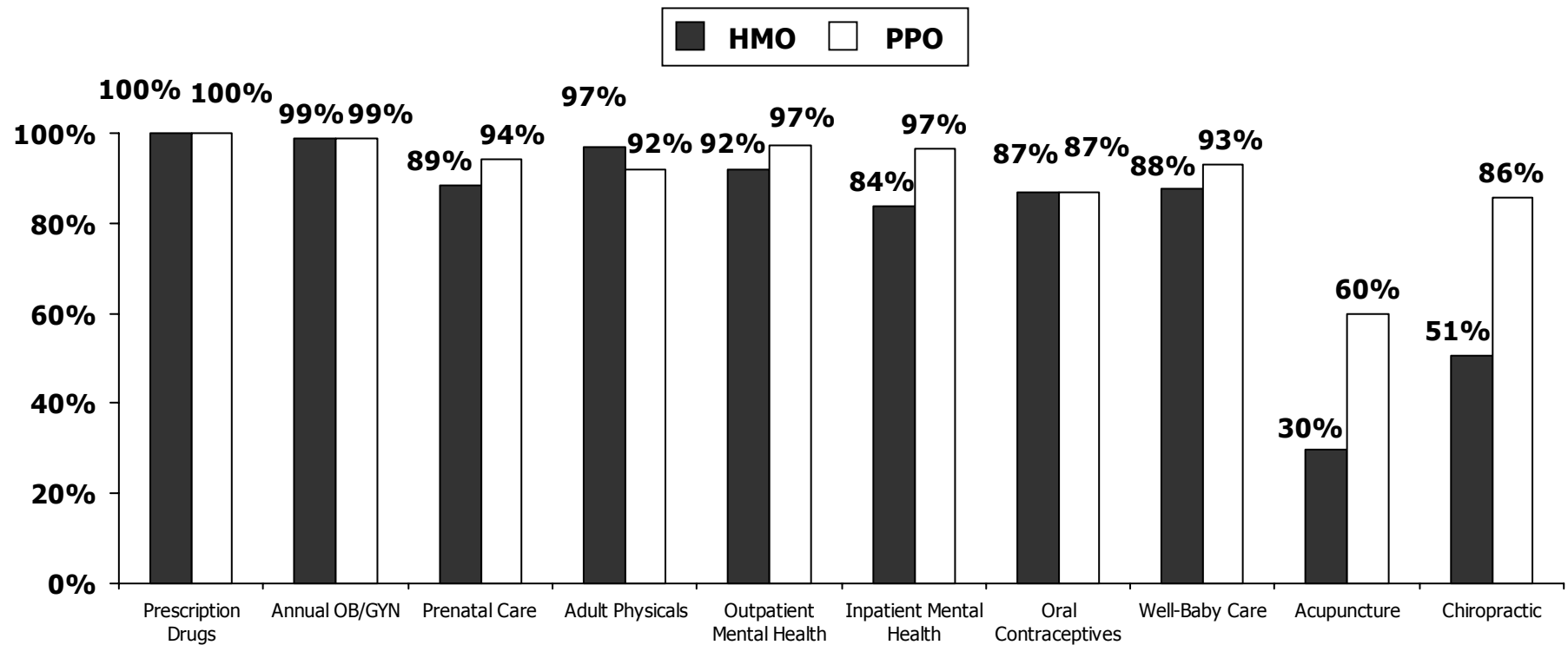


□ Benefits Increased ■ Benefits Decreased

* Estimate is statistically different from the previous year: 2002.

Source: Kaiser/HRET 2002 California Employer Health Benefits Survey

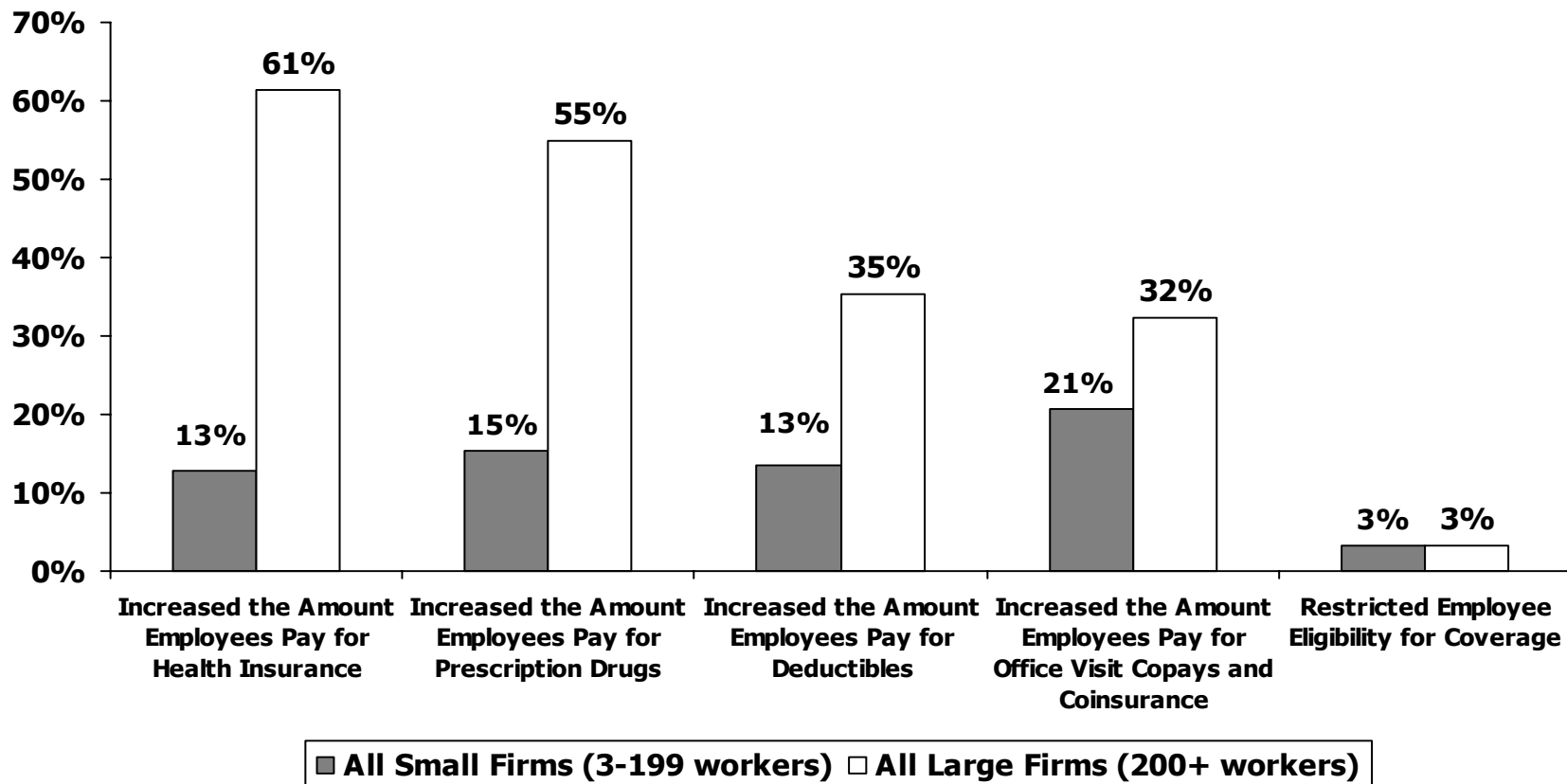
Percentage of Workers Covered for Selected Benefits, by Plan Type, 2002*



* In certain instances, a large percentage of respondents indicated "Don't Know" as follows: Oral contraceptives: HMO (6.3%), PPO (5.2%); Well Baby Care: HMO (11.3%), PPO (5.6%); Prenatal Care: HMO (10.2%); PPO (4.3%); Inpatient Mental Health: HMO (14.6%); PPO (1.3%); Acupuncture: HMO (19.8%), PPO (6.3%); Chiropractic: HMO (15.2%), PPO (4.1%)

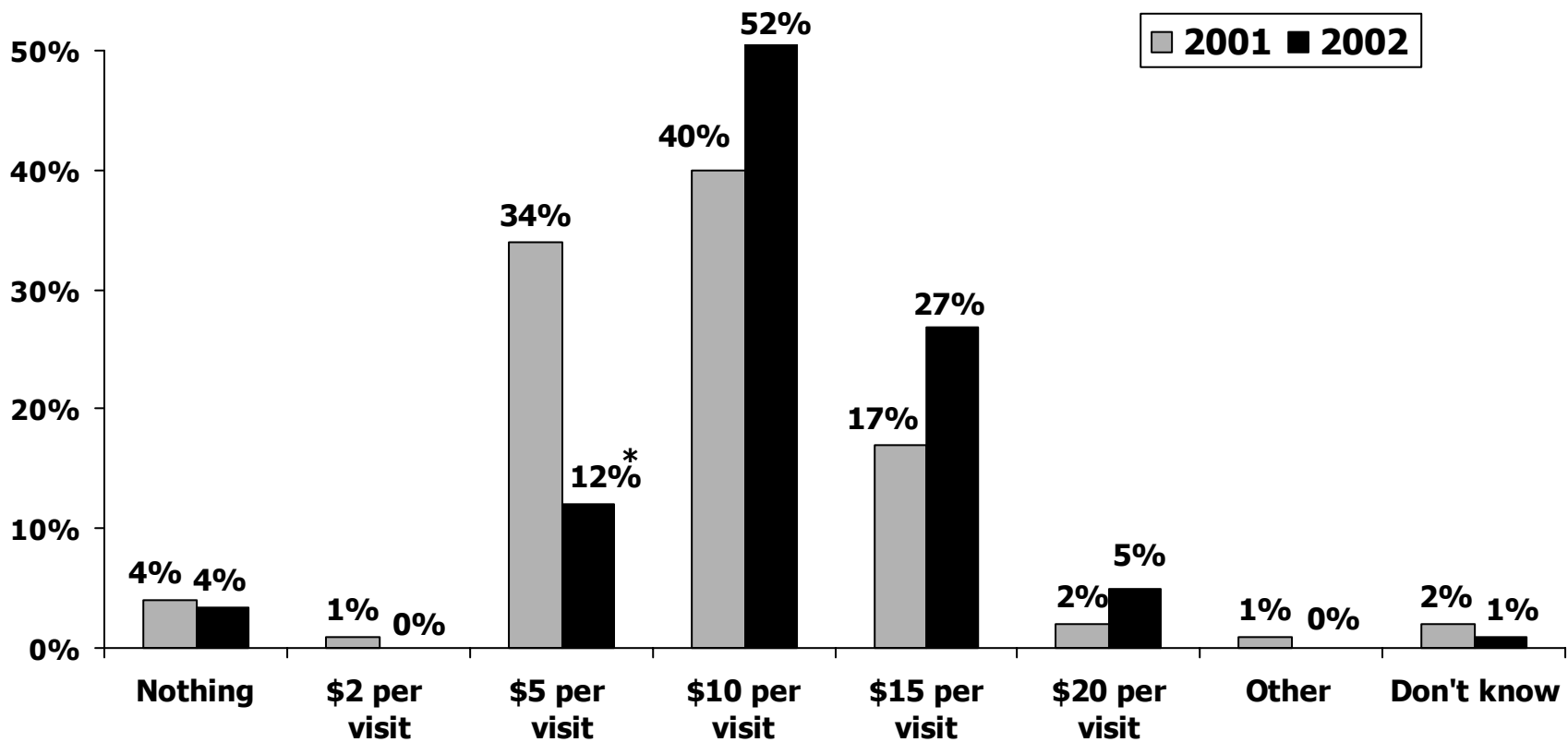
Source: Kaiser/HRET 2002 California Employer Health Benefits Survey

Percentage of Firms That Report They Made the Following Changes to Their Health Benefits in the Past Year, 2002



Source: Kaiser/HRET 2002 California Employer Health Benefits Survey

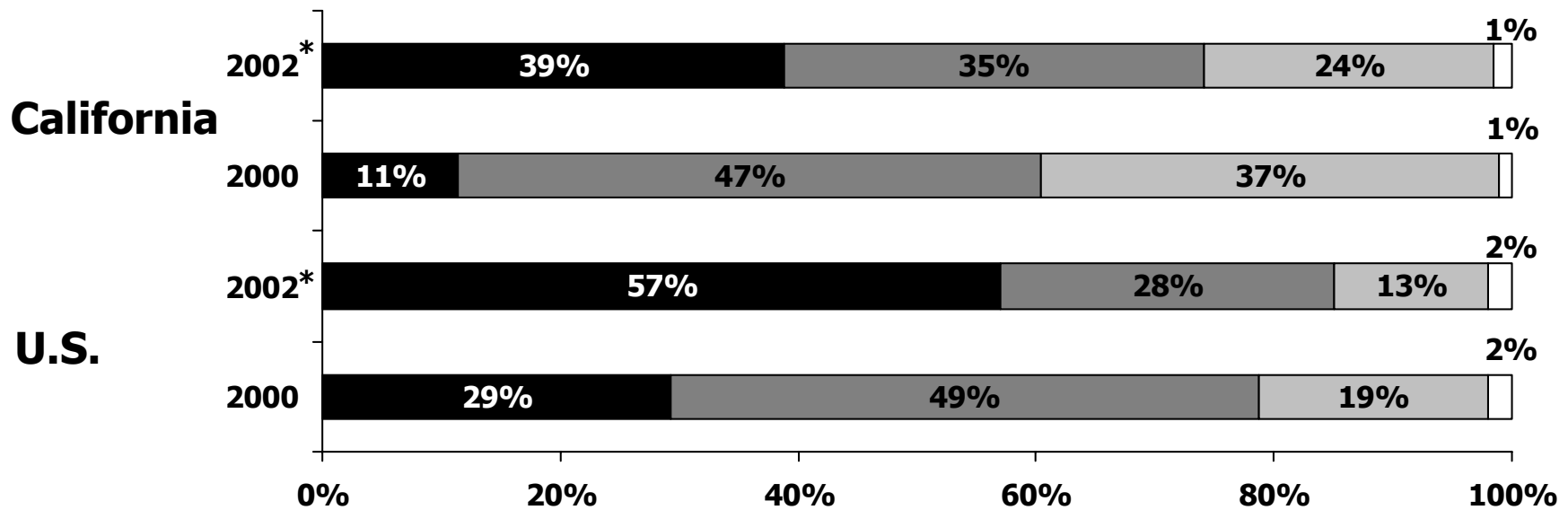
Percentage of HMO Enrollees With Specified Copayments per Visit, 2002



* Estimate is statistically different from the previous year: 2002.

Sources: Kaiser/HRET 2002 California Employer Health Benefits Survey; Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002

Percentage of Covered Workers Facing Different Cost Sharing Formulas for Prescription Drugs, 2000 and 2002



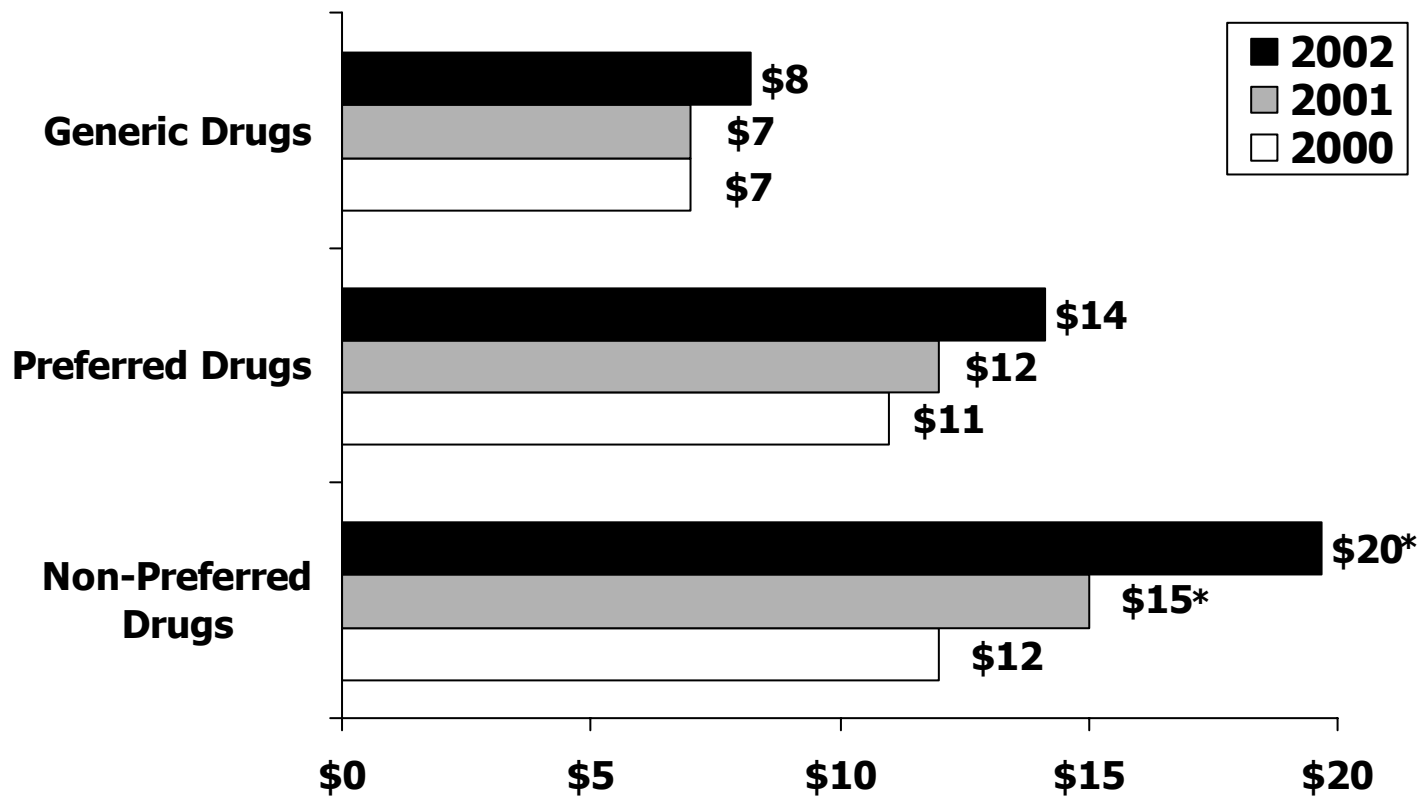
- Three Tier = One payment for generic drugs, another for name brand drugs with no generic substitute, and a third for name brand with a generic substitute**
- Two Tier = One payment for generic drugs and one for name brand.**
- Cost sharing the same**
- Other**

* The percent of firms with three-tier cost sharing for prescription drugs is significantly different between 2000 and 2002.

Note: In 2000, 4% of firms in California and 2% of firms in the US responded 'don't know'.

Sources: Kaiser/HRET California Employer Health Benefits Survey: 2000, 2001; Kaiser/HRET Employer Health Benefits Survey: 2000, 2001

Average Drug Copayments, 2000-2002

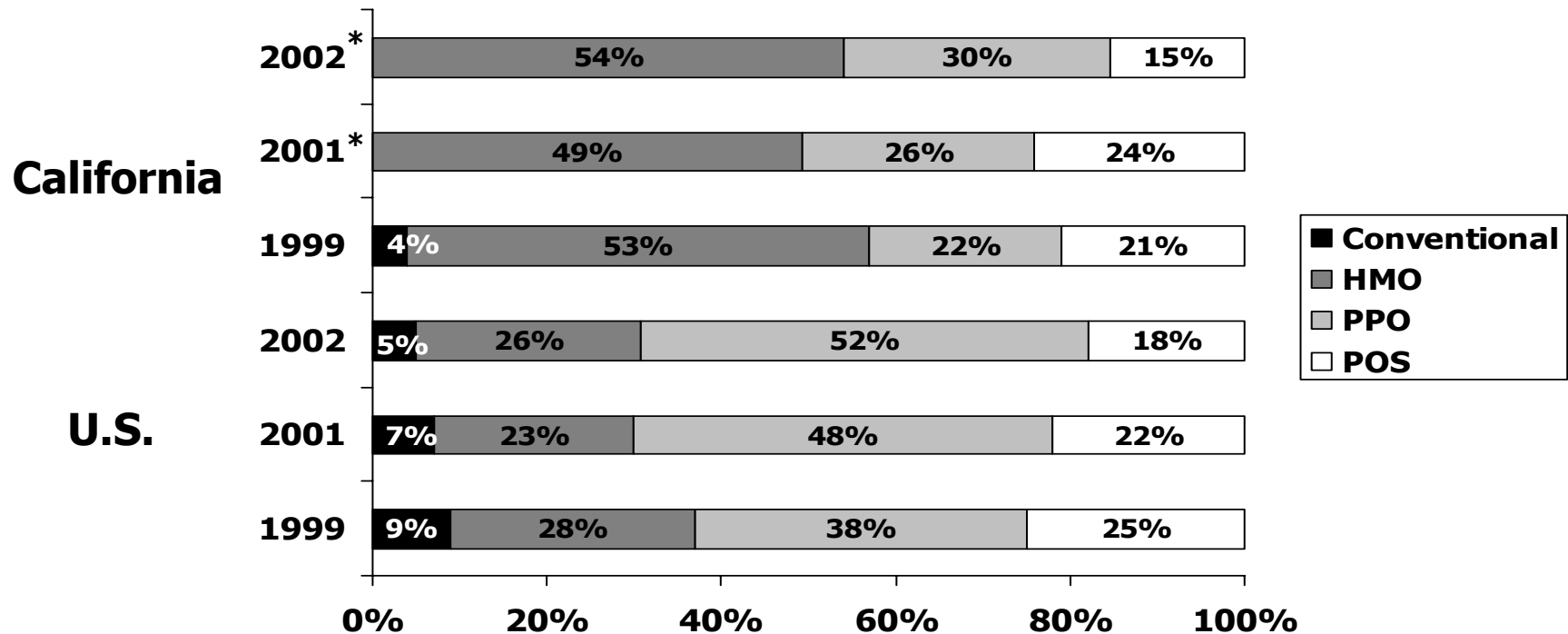


* Estimates are statistically different from the previous year: 2001, 2002.

Sources: Kaiser/HRET California Employer Health Benefits Survey: 2000, 2001, 2002

Health Plan Enrollment, Choice, and Insurance Arrangements

Health Plan Enrollments for Covered Workers, by Plan Type, 1999, 2001, and 2002

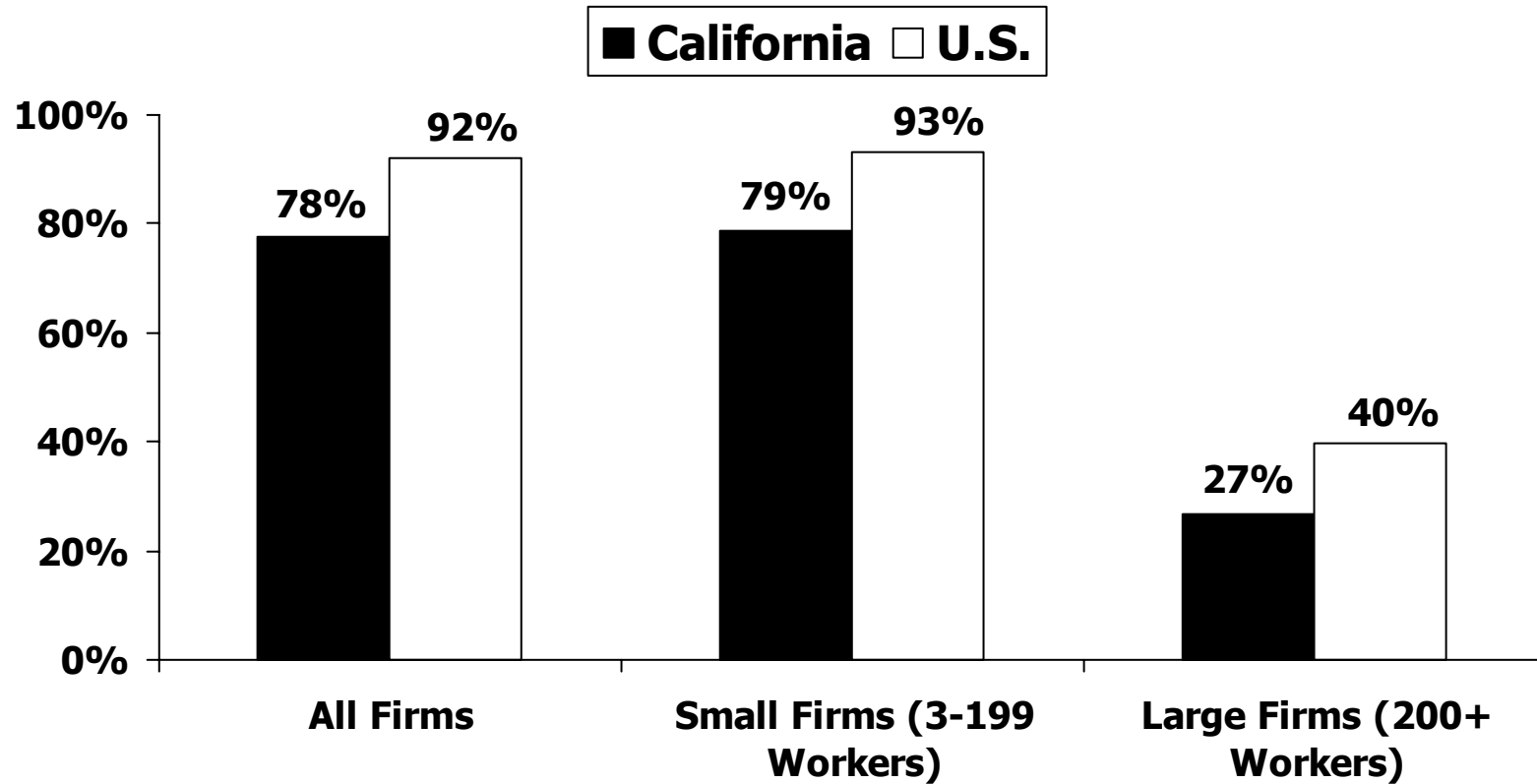


* Conventional plan enrollment in 2001 and 2002 is less than 1%.

Note: Data in the 2001 California survey were re-weighted to adjust for minor changes in the sample. As a result, estimates for plan enrollment have changed slightly. Last year we reported that the percent of covered workers in California who were enrolled in HMOs and PPOs was 48% and 24%, respectively. The reported data and revised data for 2001 are not significantly different.

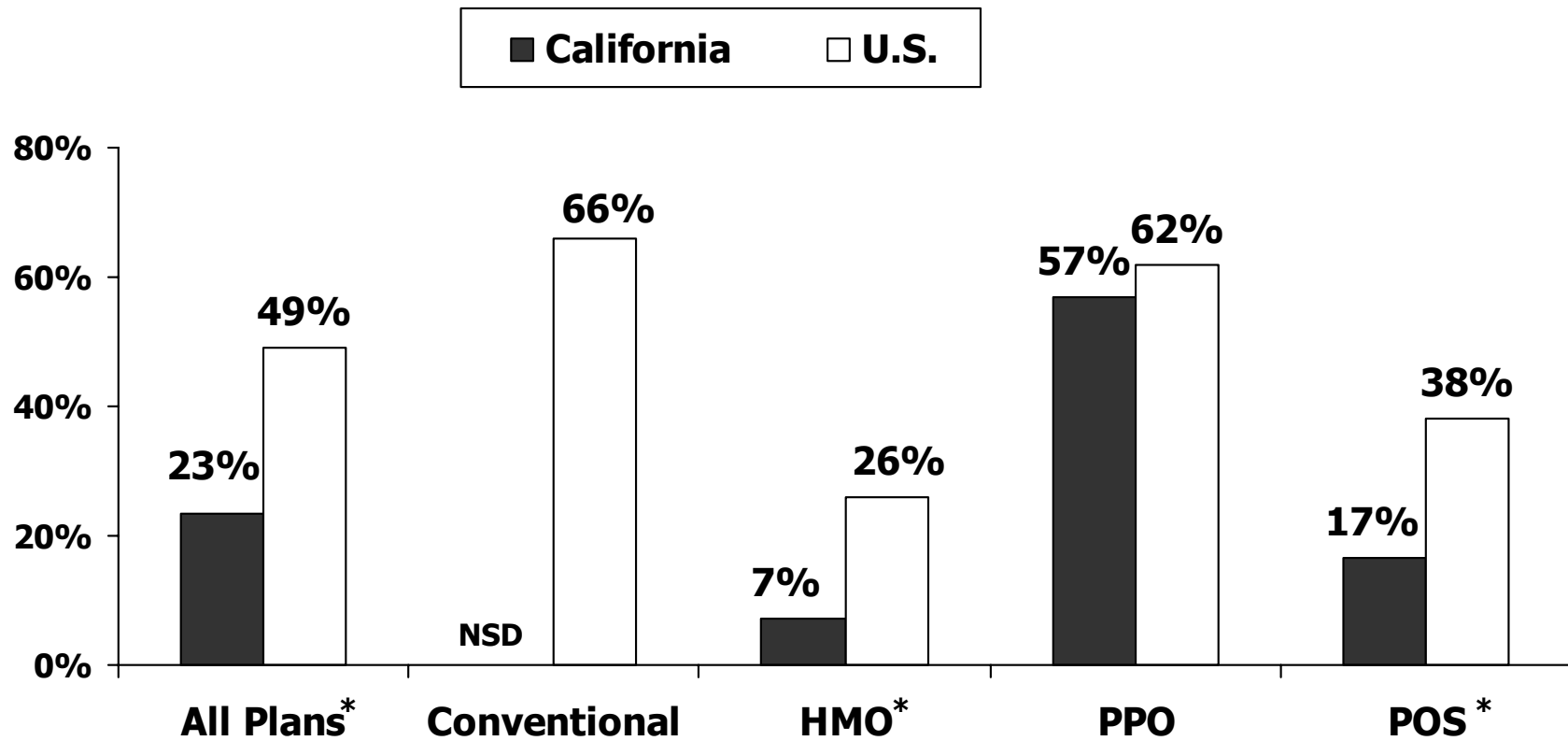
Sources: Kaiser/HRET California Employer Health Benefits Survey: 2000, 2001, 2002; Kaiser/HRET/UC Berkeley 1999 California Employer Survey; Kaiser/HRET Employer Health Benefits Survey: 1999, 2000, 2001, 2002

Percentage of Employers Offering Only One Plan, 2002



Sources: Kaiser/HRET 2002 California Employer Health Benefits Survey; Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002

Percentage of Employees in Partly or Completely Self-Insured Plans, by Type of Plan, 2002



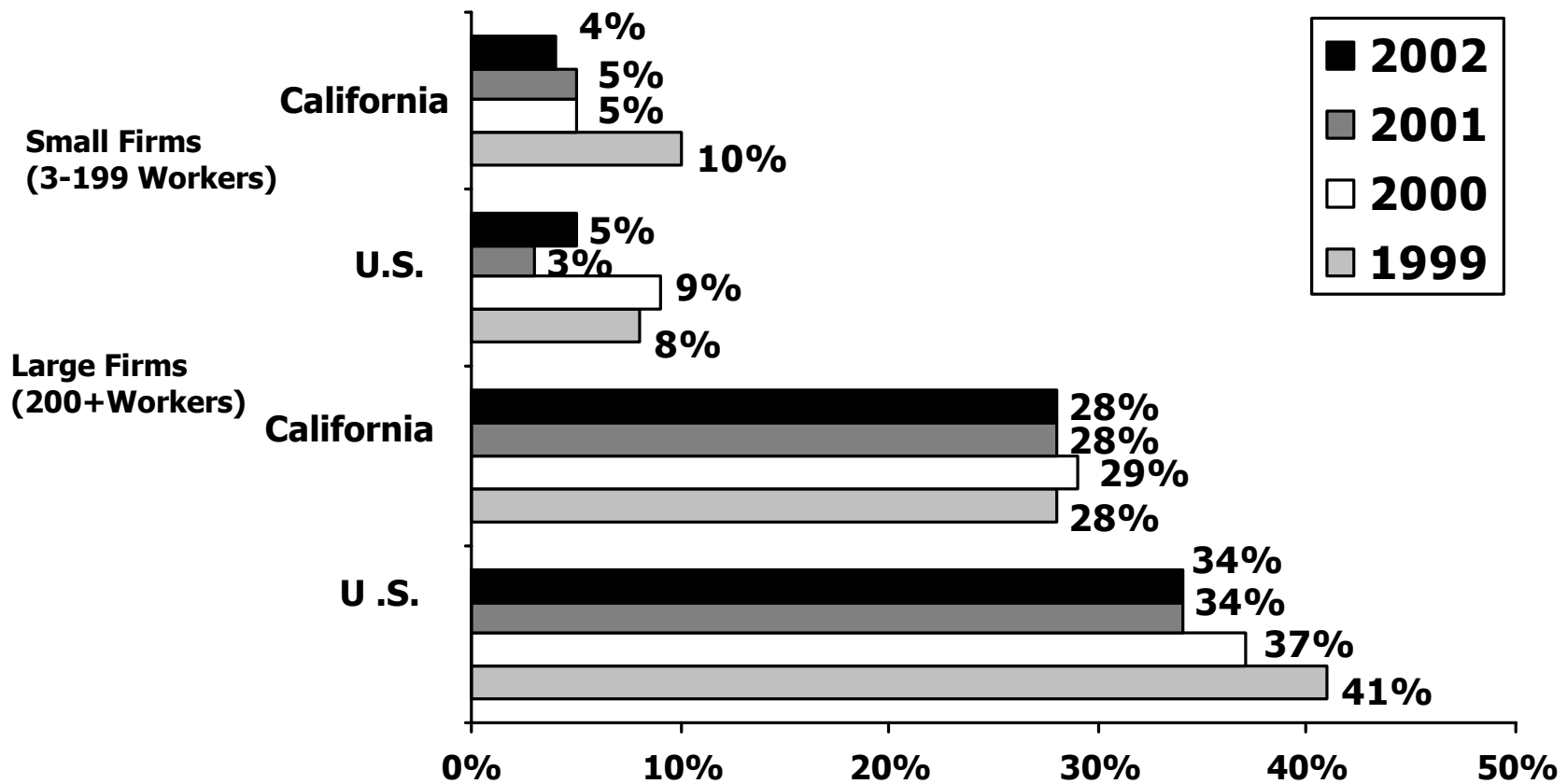
* Estimates are statistically different between California and the US.

NSD: Not Sufficient Data

Sources: Kaiser/HRET 2002 California Employer Health Benefits Survey; Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002

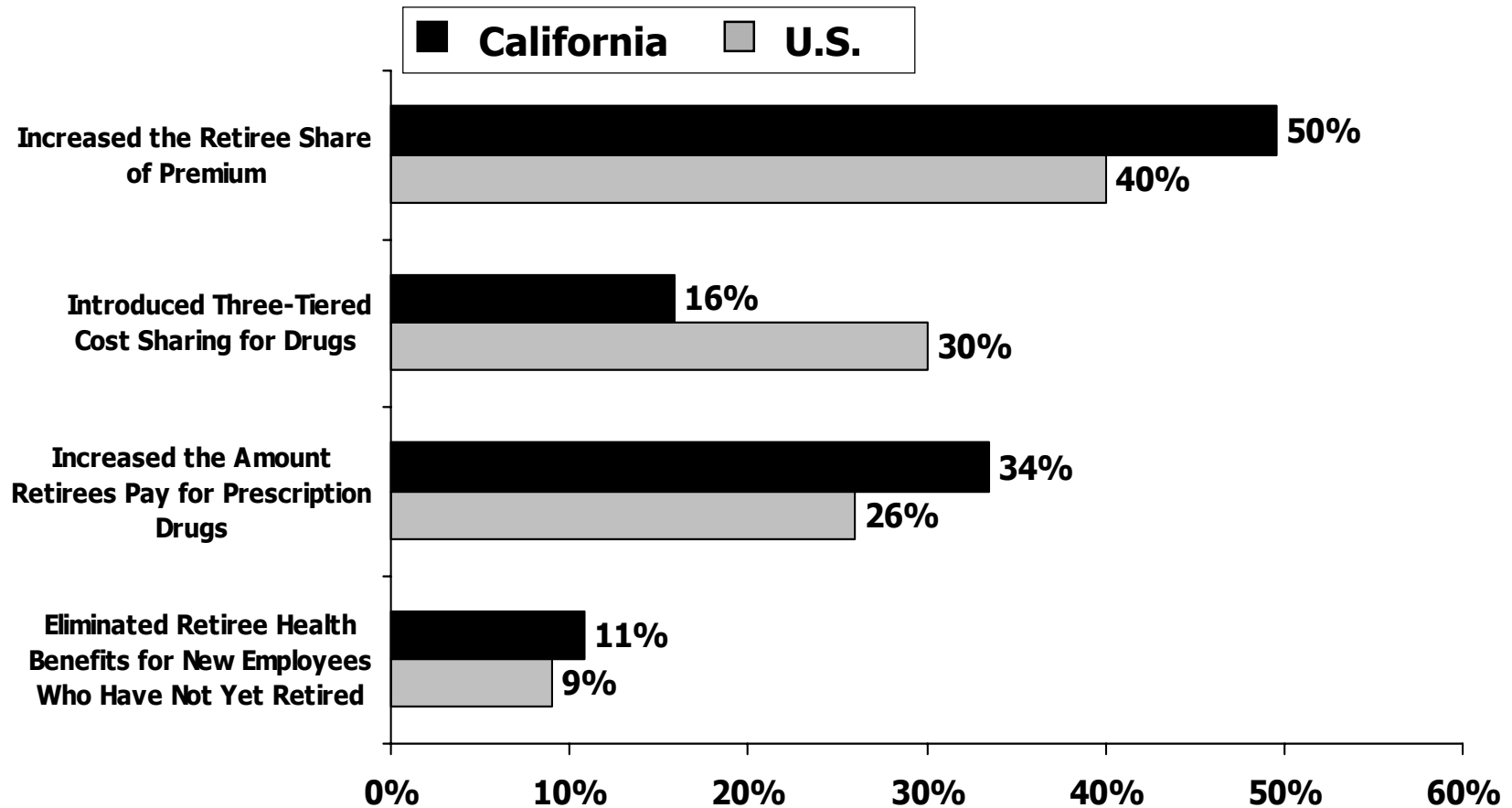
Retiree Health Benefits

Percentage of Firms That Offer Retiree Health Benefits, 1999-2002



Sources: Kaiser/HRET California Employer Health Benefits Survey: 2000, 2001, 2002; Kaiser/HRET/UC Berkeley 1999 California Employer Survey; Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002

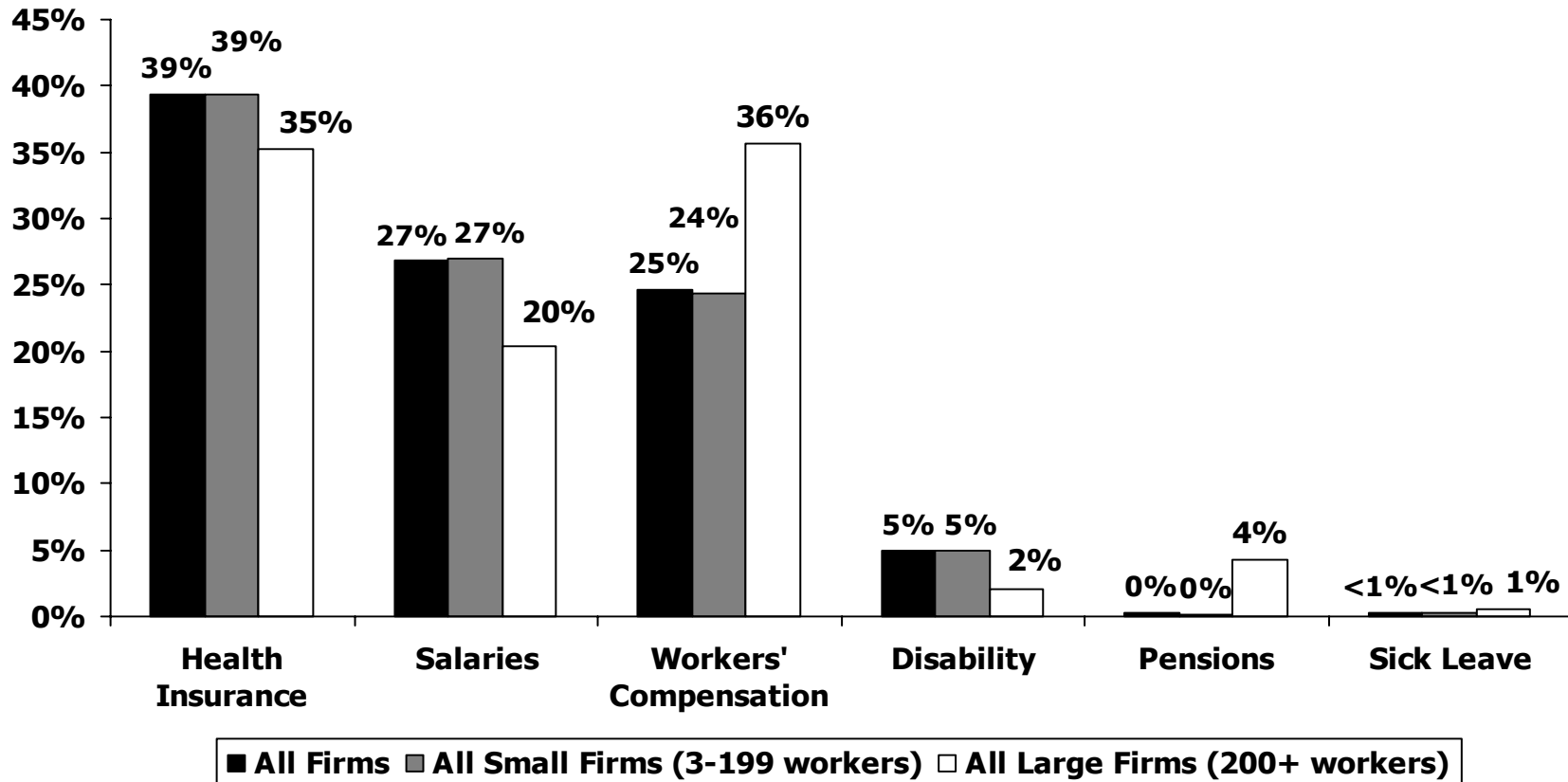
Among Firms Offering Retiree Health Benefits, Percentage of Large Firms (200 or more workers) Reporting the Following Changes in the Past Two Years, 2002



Source: Kaiser/HRET 2002 California Employer Health Benefits Survey

Employer Attitudes

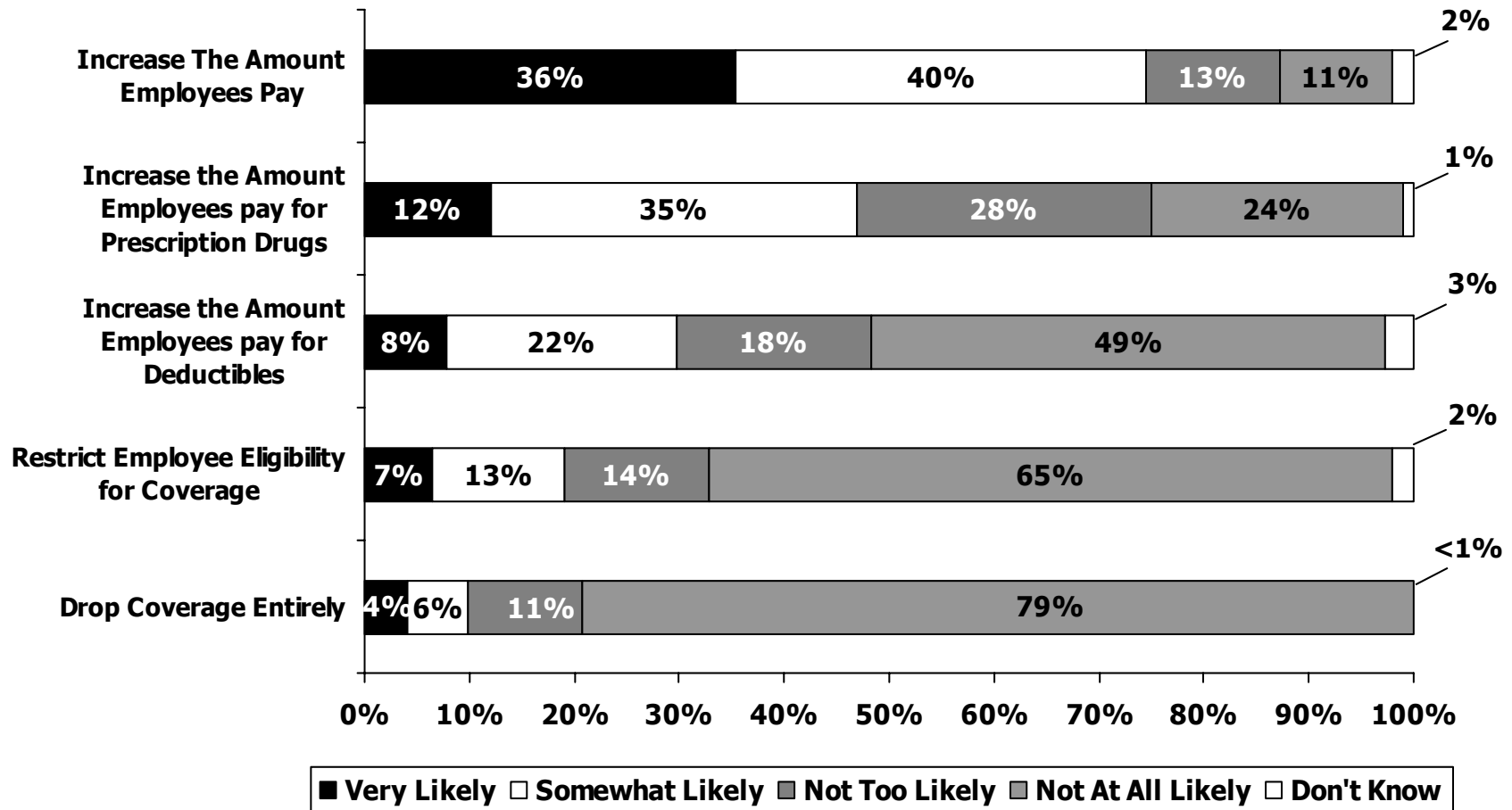
Percentage of All Firms That Report the Following Benefits Cause the 'Greatest' Cost Concern for Their Company, 2002



Note: Three percent of all firms responded 'don't know', as did 3% of small firms and 2% of large firms

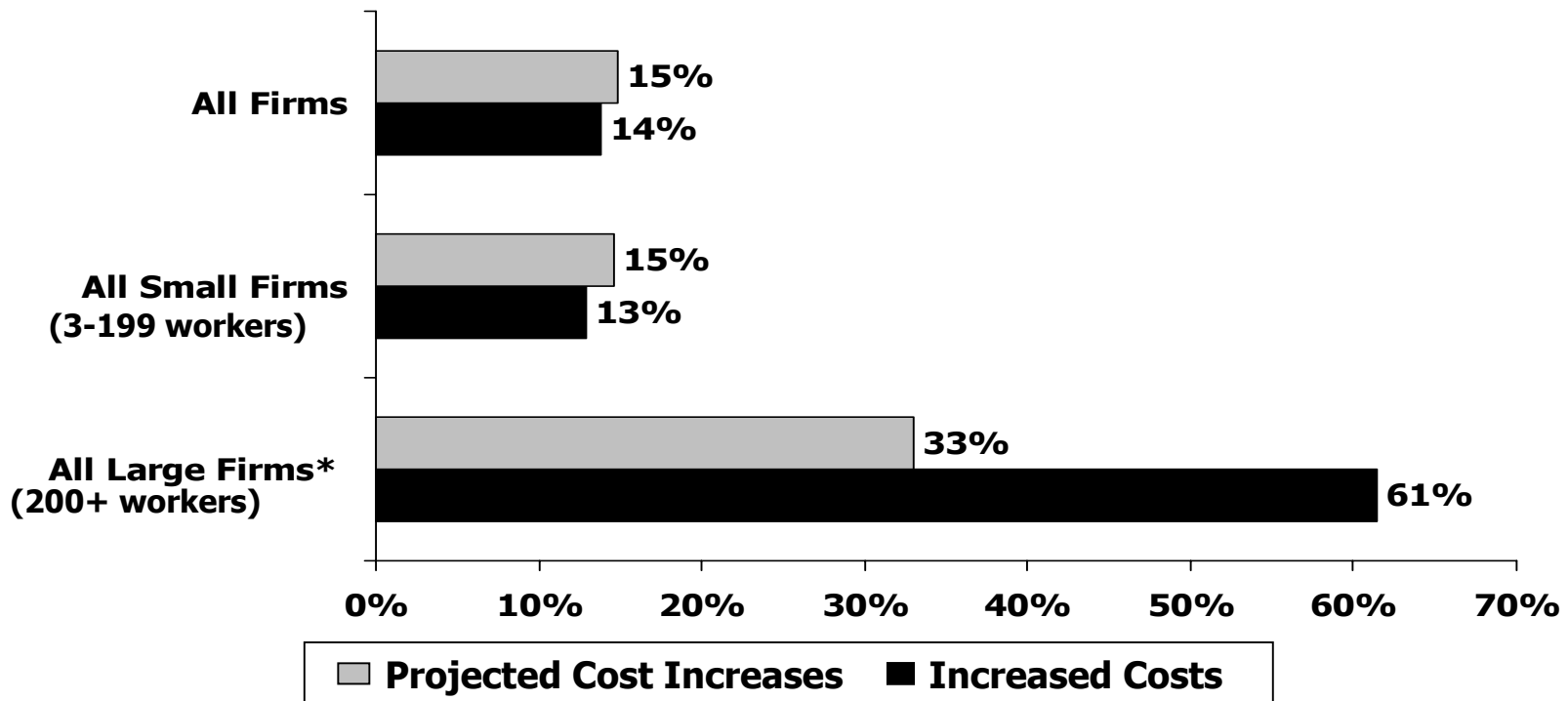
Source: Kaiser/HRET 2002 California Employer Health Benefits Survey

Likelihood of Large Employers (200 or more workers) Making the Following Changes in 2003



Source: Kaiser/HRET 2002 California Employer Health Benefits Survey

Percentage of Firms That Reported in 2001¹ They Were Very Likely to Increase Employee Cost for Coverage, Compared to Those Who Reported They Increased Employee Costs in 2002, by Firm Size

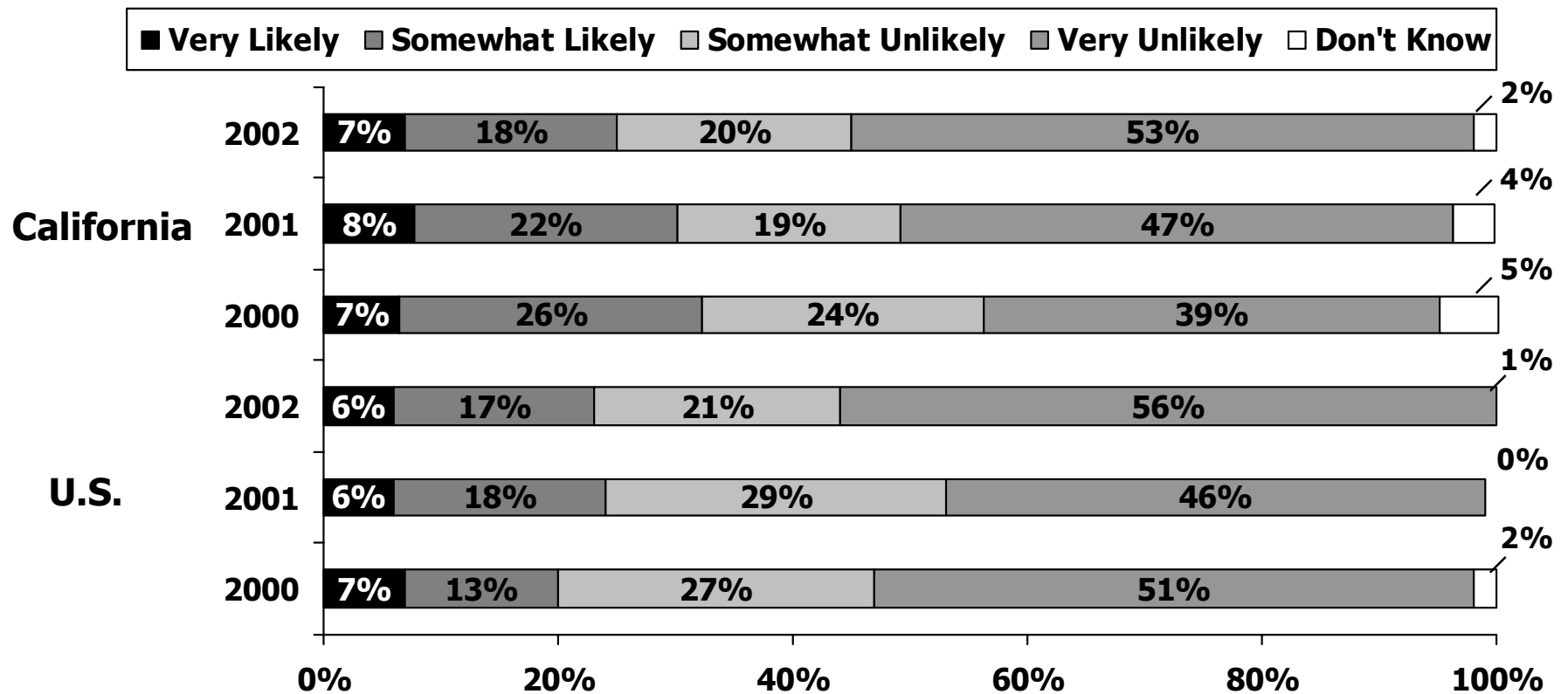


Note¹: In 2001, 20% of all firms reported that they were 'somewhat likely' to increase the employee's share of cost in the next year. Fifteen percent of all small firms said they were 'somewhat likely' to increase costs compared to 33% of large firms.

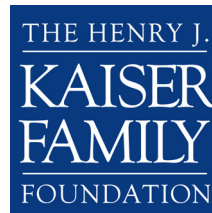
* The percent of firms reporting they are likely to increase employee costs in 2001 is significantly different from the percent of firms that raised costs in 2002.

Source: Kaiser/HRET 2002 California Employer Health Benefits Survey

Likelihood Employers Would Switch to Defined Contributions Within Five Years, 2000-2002



Sources: Kaiser/HRET California Employer Health Benefits Survey; 2000, 2001, 2002; Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002



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