

THE KAISER FAMILY FOUNDATION  
- AND -  
HEALTH RESEARCH AND  
EDUCATIONAL TRUST

Employer  
Health  
Benefits

2000  
ANNUAL SURVEY

THE HENRY J.  
KAISER  
FAMILY  
FOUNDATION

- AND - HEALTH RESEARCH AND  
EDUCATIONAL TRUST

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# Employer Health Benefits

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## INTRODUCTION AND HIGHLIGHTS

More than 154 million American workers and their dependents receive their health insurance coverage through an employer. In addition, 5 million early retirees and 13 million elderly covered by Medicare rely on employer-provided retirement benefits. Overall, employer-based health insurance touches the lives of nearly two of every three Americans.

*The Kaiser Family Foundation/Health Research and Educational Trust 2000 Annual Employer Health Benefits Survey (Kaiser/HRET)* reports findings from a survey of 3,402 randomly selected public and private employers, including 1,887 who responded to the full survey and 1,515 who indicated whether or not they provide health coverage. Firms range in size from “mom and pop” enterprises with 3 workers to corporations with more than 300,000 employees. The survey was designed and analyzed by researchers at the Kaiser Family Foundation and the Health Research and Educational Trust, and field work was conducted by National Research LLC with employee benefits managers from January through May of 2000. This is the second annual Kaiser/HRET Employer Health Benefits Survey, formerly sponsored by the consulting and accounting firm KPMG.

## COST INCREASES

- ▶ Health insurance premiums increased 8.3% between spring 1999 and spring 2000, 3.5 percentage points higher than the 1998–1999 increase. Premium increases accelerated for all types of plans and in all regions. This is the highest increase in premiums since 1993 and is more than five percentage points higher than the overall rate of inflation. Monthly premiums average \$202 for single coverage and \$529 for family coverage.
- ▶ When asked what factors are driving the increases in health insurance premiums, employers most often point to higher spending for prescription drugs. 67% of employers say that higher spending for prescription drugs is contributing “a lot” to increases in health insurance premiums while fewer employers point to other factors as substantial contributors to premium increases.
- ▶ Premiums increased 9.6% for fully insured plans and 7.1% for self-insured plans, suggesting that premiums are rising faster than underlying health care costs and that some of the acceleration in the cost of insurance is therefore

“catch-up” pricing, characteristic of the health insurance underwriting cycle. The 7.1% rise in premium-equivalents for self-insured plans indicates strong growth in medical claims expenses, a measure of underlying health care costs, and may indicate higher long-run increases in health care costs.

## COVERAGE AND EMPLOYEE COST SHARING

- ▶ With the economy strong and demand for workers high, the percentage of all small firms (3–199 workers) offering health insurance to their employees is rising, from 54% in 1998 to 67% in 2000, even in the face of substantial increases in premiums. Virtually all large employers offer coverage, and companies with fewer low-wage workers are more likely to offer insurance than those with large numbers of low-paid employees. There was also a modest increase in the percentage of temporary workers offered coverage, from 3% in 1999 to 10% in 2000. Despite the strong economy, however, the number of uninsured in the United States has continued to grow, up to 44 million in 1998 — or 18% of non-elderly Americans.

- ▶ Employers, not employees, are also bearing the primary burden of increases in the cost of coverage. Employees contribute less for single coverage today than they did in 1996, both in absolute dollars (\$37 versus \$28) and as a percentage of monthly premiums (21% to 14%). Over that same time period, worker contributions for family coverage have remained statistically unchanged, and now average 27% of the premium, or \$138 per month.
- ▶ However, the copayments workers pay for services have been rising. Though a \$10 copayment for physician office visits in HMOs remains the most common level, workers are now more likely to face a copayment of \$15 than \$5 — a change from last year.

## HEALTH PLAN ENROLLMENT AND CHOICE

- ▶ Preferred Provider Organizations (PPOs) enroll the largest proportion of workers (41%), followed by Health Maintenance Organizations (HMOs) (29%), and Point of Service (POS) plans (22%). PPO enrollment has grown substantially in recent years, while HMO enrollment largely stagnated. Enrollment in conventional insurance plans constitutes only 8% of workers, down from 27% in 1996.



- ▶ The number of different health plans offered to workers has changed little in recent years, with about two-thirds of workers (65%) having a choice of more than one plan. Small firms are much less likely to offer a choice of plans than larger companies — 91% of all small firms (3–199 workers) that provide coverage offer just one health plan.

#### **BENEFITS**

- ▶ The level of benefits offered to employees has changed little in the last year, and HMOs continue to offer a broader range of preventive services than other types of plans.
- ▶ Virtually all HMO, PPO, and POS plans cover prescription drugs, and nearly 90% of conventional plans do so. Only 3% of workers are enrolled in a plan with a separate annual cap on prescription drug benefits, and only 7% face a separate annual deductible for prescription drug benefits.
- ▶ Yet, reflecting efforts to control the rapidly increasing cost of prescription drugs, the vast majority of workers face either two- or three- tier cost sharing formulas for prescription drugs. Nearly 50% of workers across plan types have a two-tier formula in which they pay more for brand name drugs than for generics. Close to 30% of workers with prescrip-

tion drug benefits are enrolled in a plan with a three-tier reimbursement formula, with different copayment levels for generic drugs, brand name drugs without a generic substitute, and brand name drugs with a generic substitute.

- ▶ Just one of every four small firms (3–199 workers) offers dental benefits to their employees, while 60% of all large firms (200 or more employees) do so.

#### **EMPLOYER VIEWS**

- ▶ Among firms that offer health insurance, 65% of the workforce participates in the company plan. Employers say the most common reason why workers do not take up coverage they are eligible for is because they have coverage elsewhere (72%), followed by not being able to afford the employee share of the premium (11%).
- ▶ To increase coverage among the uninsured, some have proposed giving individuals tax credits to help them buy health insurance on their own. One effect of these tax breaks could be to reduce employer coverage, either because firms drop benefits or because employees switch to buying insurance on their own. In fact, most employers

say they would be very or somewhat likely (78% of all small employers and 94% of all large companies) to continue offering health benefits even if employees were given tax breaks to buy coverage on their own. 10% of all small employers (3–199 workers) and 5% of all large firms say they would be somewhat or very unlikely to keep coverage.

- ▶ The vast majority of employers say that individuals buying coverage on their own rather than through an employer would have a harder time finding or keeping insurance if sick (84%); handling insurance administrative issues (83%); picking quality insurance plans (79%); and getting good prices for insurance (78%). Employers are somewhat more split on the question of whether individuals buying insurance on their own would be able to pick health plans better tailored to their individual needs — 55% of firms say individuals would have a harder time doing so.



EMPLOYER HEALTH BENEFITS  
2000 ANNUAL SURVEY

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# Survey Methods

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SECTION

1

## SURVEY METHODS

THE KAISER FAMILY FOUNDATION AND THE HEALTH RESEARCH AND EDUCATIONAL TRUST (KAISER/HRET) ARE SPONSORING THIS SURVEY OF EMPLOYER-SPONSORED HEALTH BENEFITS SUPPORTED FOR MANY YEARS BY KPMG, THE INTERNATIONAL CONSULTING AND ACCOUNTING FIRM. HRET IS A NON-PROFIT RESEARCH ORGANIZATION AFFILIATED WITH THE AMERICAN HOSPITAL ASSOCIATION. THE KAISER FAMILY FOUNDATION, ONE OF THE NATION'S LARGEST CHARITABLE FOUNDATIONS DEVOTED TO HEALTH CARE, IS CONTINUING THE SURVEY OF EMPLOYER-BASED HEALTH BENEFITS IN PARTNERSHIP WITH HRET. THE FOUNDATION PROVIDES INDEPENDENT RESEARCH AND ANALYSIS ON HEALTH POLICY ISSUES, AND IS NOT AFFILIATED IN ANY WAY WITH THE KAISER PERMANENTE HEALTH PLAN.

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. This year's survey included questions on the cost of health insurance, offer rates, coverage, eligibility, health plan choice, enrollment patterns, premiums, employee cost-sharing, covered benefits, prescription drug benefits, retiree health benefits, consumer protections, health benefits administration, and employers' concerns and views on health policy issues.

Kaiser/HRET retained National Research LLC (NR), a Washington, D.C.-based survey research firm, to conduct telephone interviews with human resource and benefits managers. NRI conducted interviews from January to May 2000.

Kaiser/HRET drew its sample from a Dun & Bradstreet list of the nation's private and public employers with three 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 1,939 firms interviewed in 1999 and replaced non-responding firms with other firms of the same industry and firm size. As a result, 982 firms in this year's total sample of 1,887 firms participated in both the 1999 and 2000 surveys. The overall response rate was 45% down from 60% in 1999. Contributing to the declining response rate was the decision not to re-interview any firms with 3-9 workers who participated in last year's survey. The response rate in 2000 for firms with 3-9 workers was 30%.

From previous years' experience, we have learned that firms that decline to participate in the study are less likely to offer health coverage. Therefore, we asked all non-participating firms with which we made phone contact one question: "Does your company offer or contribute to a health insurance program as a benefit to your employees?" A total of 3,402 firms responded to this question (including 1,887 who responded to the full survey and 1,515 who responded only to this one question). Their responses are included in our estimates of the percentage of firms offering health coverage. The response rate for this question was 80%.

Throughout the report, exhibits categorize data by industry, size of firm, and region. Firm size definitions are as follows: small (3–9 workers, 10–24 workers, 25–49 workers, and 50–199 workers); midsize, 200–999 workers; large, 1,000–4,999 workers; and jumbo, 5,000 or more workers. Occasionally, firm size categories will be aggregated as follows: 3–199 workers, all small; or 200 or more workers, all large. EXHIBIT 1.1 shows detailed characteristics of the sample.

EXHIBIT 1.2 displays the distribution of the nation's firms, workers, and covered workers who receive health insurance coverage from their employer. Among the over 5 million firms nationally, more than 72% are small firms employing 3–9 workers. In contrast, jumbo firms with 5,000 or more workers employ and cover about 42% of employees. As a result, the smallest firms will dominate national statistics about employer behavior though jumbo employers will have the most influence on national statistics regarding the typical employee or covered worker, since they employ the largest percentage of the nation's workforce.

Some exhibits in the report do not sum up to 100 % due to rounding effects. Throughout the report, while overall totals as well as totals for size and industry are statistically valid, some breakdowns may not be available due to limited sample sizes. In these instances, exhibits include the notation NSD (Not Sufficient Data).

To control for item non-response bias, Kaiser/HRET identified a key set of variables as needing complete information from all surveyed firms. These variables include percentage changes in premium costs for family coverage, premium amounts, and worker contribution amounts. On average, 2% of the observations are imputed for any given variable. The imputed values are determined based on the distribution of the reported values within stratum defined by firm size and region.

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 health plans, the number of total workers, and the number of firms. The calculation of the weights was based on determination of the basic weight, followed by application of a non-response adjustment and a post-stratification adjustment.

The data were analyzed with SUDAAN, which computes appropriate standard error estimates by controlling for the complex design of the survey. All statistical tests are performed at the 0.05 level. The two types of significance tests performed are the t-Test and the Chi-square test.

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, and the 1999 Kaiser/HRET Survey 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), on which the KPMG and Kaiser/HRET surveys are based. Many of the questions in the HIAA, KPMG, and Kaiser/HRET surveys are identical. The survey designs among the three surveys are also similar.

## EXHIBIT 1.1

## Selected Characteristics of the Survey Sample, 2000

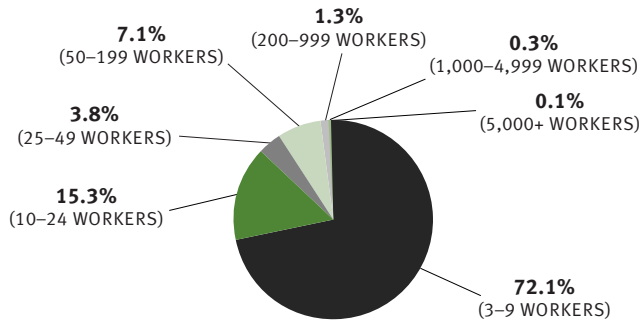
	<i>Sample Size</i>	<i>Sample Distribution After Weighting</i>	<i>Percentage of Total for Weighted Sample</i>
<b>INDUSTRY</b>			
Mining/Construction/Wholesale	156	696,503	13.8%
Manufacturing	268	380,608	7.5
Transportation/Utilities/Communication	93	73,946	1.5
Retail	181	929,466	18.4
Finance	104	215,337	4.3
Service	491	2,075,046	41.0
State/Local Government	430	33,274	0.7
Health Care	164	654,356	12.9
<b>ALL INDUSTRIES</b>	<b>1,887</b>	<b>5,058,537</b>	<b>100%</b>
<b>FIRM SIZE</b>			
Small (3–9 Workers)	218	3,643,512	72.0%
Small (10–24 Workers)	233	775,346	15.3
Small (25–49 Workers)	124	192,021	3.8
Small (50–199 Workers)	268	360,015	7.1
Midsize (200–999 Workers)	363	67,864	1.3
Large (1,000–4,999 Workers)	367	15,751	0.3
Jumbo (5,000+ Workers)	314	4,027	0.1
<b>ALL FIRM SIZES</b>	<b>1,887</b>	<b>5,058,537</b>	<b>100%</b>
<b>REGION</b>			
Northeast	500	999,105	19.8%
Midwest	482	1,131,293	22.4
South	605	1,778,397	35.2
West	300	1,149,742	22.7
<b>ALL REGIONS</b>	<b>1,887</b>	<b>5,058,537</b>	<b>100%</b>

## SOURCE :

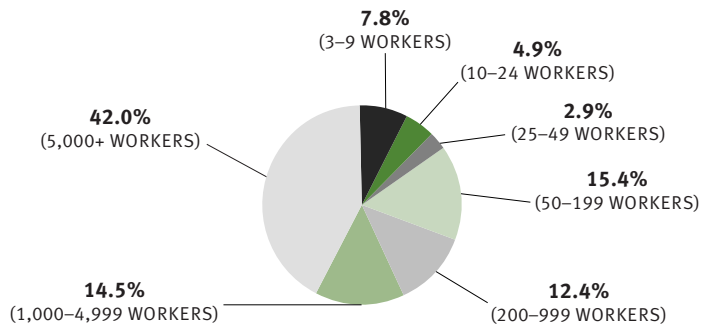
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000.

EXHIBIT 1.2

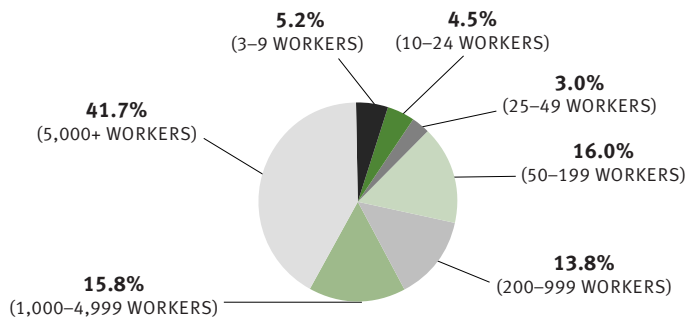
Distribution of Employers, Workers, and Workers Covered by Health Insurance, by Firm Size, 2000



EMPLOYERS



WORKERS



COVERED WORKERS

SOURCE :

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





EMPLOYER HEALTH BENEFITS  
2000 ANNUAL SURVEY

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Cost of  
Health  
Insurance

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SECTION

2

## COST OF HEALTH INSURANCE

FROM 1994–1998 THE U.S. ENJOYED THE LOWEST RATE OF INCREASE IN THE COST OF EMPLOYER-BASED HEALTH INSURANCE ON RECORD. DURING THIS PERIOD THE COST OF HEALTH INSURANCE GREW MORE SLOWLY THAN THE OVERALL RATE OF INFLATION AND WORKERS EARNINGS. STRONG ECONOMIC GROWTH AND STABLE PRICES FOR HEALTH INSURANCE STABILIZED THE PERCENTAGE OF THE GROSS DOMESTIC PRODUCT DEDICATED TO HEALTH CARE SPENDING. BUT MEDICAL CLAIMS EXPENSED OUTPACED PREMIUMS, SO BY 1996 THE MAJORITY OF MANAGED CARE ORGANIZATIONS AND HEALTH INSURERS WERE SUFFERING FINANCIAL LOSSES. AS A RESULT, MANY EXPERTS AND THE MEDIA PREMATURELY PREDICTED THE RETURN OF HEALTH CARE INFLATION, THAT WOULD ARISE AS INSURERS ATTEMPTED TO RESTORE PROFITABILITY. IN THAT YEAR EMPLOYER-BASED INSURANCE WAS AT ITS LOWEST RATE OF INFLATION AT 0.8%. EVERY YEAR SINCE THEN, THE RATE OF PREMIUM INFLATION HAS IN FACT INCREASED, REACHING 4.8% IN 1998–1999. IN 2000 THE GROWTH IN PREMIUMS ACCELERATED TO ITS HIGHEST LEVEL SINCE 1993 – 8.3%.

### PREMIUM INCREASES

- ▶ Premiums — including both the employer and employee shares — increased 8.3% from the spring of 1999 to the spring of 2000, a significant jump from 4.8% for 1998–1999 and 3.7% between 1997–1998 (EXHIBIT 2.1). Premium increases were more than 5% greater than the overall rate of inflation (3.0%), and outpaced increases in workers' earnings (3.7%) (EXHIBIT 2.2).
- ▶ The 8.3% increase is consistent with estimates by the Bureau of Labor Statistics, which shows a 7.6% increase in health insurance premiums during the same period of time, up from 4.0% from the spring of 1998 to spring 1999.
- ▶ All small firms (3–199 workers) experienced larger increases in premiums on average (10.3%) than larger firms (200+ workers) whose average increase was 7.5% (EXHIBIT 2.3). The nation's smallest firms (3–9 workers) had average increases of 8.4%.
- ▶ For all types of plans, premiums increased more rapidly in fully insured plans (9.6%) than in self-insured plans (7.1%) — where an employer assumes responsibility for health care claims rather than buying coverage from an insurer (EXHIBIT 2.5). For example, in fully insured PPO plans premiums increased by 10.9% compared to a 7.4% increase in premium-equivalents (estimated cost of health care claims for an employee who self-insures rather than buying coverage from an insurer) among self-insured PPO plans. The higher rate of increase in fully insured plans likely reflects catch-up pricing by health insurers to restore profitability after three years of suffering underwriting losses. Such catch-up pricing is characteristic of the underwriting cycle, where insurers compete for market share during profitable periods by underpricing their products, and then after profits diminish, increase premiums in an attempt to restore profitability.

- ▶ Between 1999 and 2000 premium equivalents in self-insured plans increased sharply, rising 7.1%, up from 3.8% in 1998–1999. Increases in premium equivalents represent expected growth in medical claims expenses in self-insured plans, and trends in medical claims expenses are largely predictive of the long-term trend for premiums in fully insured plans. Therefore, a sharp increase in the cost of health insurance in 2000 likely represents more than the underwriting cycle, but also a surge in underlying health care costs. Indeed, increased expenditures for prescription drugs constitutes an estimated 40% of the total increase in medical claims expenses during the past two years.<sup>1</sup>
- ▶ Inflation in the cost of coverage increased sharply for all types of plans (EXHIBITS 2.1 and 2.6). Conventional plans had the largest percentage increase of 9.7% while POS and HMO plans had the lowest at 7.7% and 8.1% respectively. Historically, premium increases for conventional, HMO, PPO, and POS move generally in tandem.
- ▶ When asked what factors are driving the increases in health insurance premiums, employers most often point to higher spending for prescription drugs and hospital care (EXHIBIT 2.11).
  - 67% of employers say that higher spending for prescription drugs is contributing “a lot” to increases in health insurance premiums, while 59% cite hospital care as a factor contributing “a lot” to the rise in premiums.
  - Fewer employers point to other factors as substantial contributors to premium increases: higher spending for physicians (48%), higher insurance company profits (44%), better medical technology (23%), and richer benefits packages (16%).
- ▶ Firms with 3–9 workers face the highest average cost for single coverage at \$235 a month (EXHIBIT 2.13). Overall, all small firms (3–199 workers) face premiums that are on average 4% higher for single coverage and one percent higher for family coverage than the national average. However, these comparisons do not control for a number of possible differences by size of firm, including: the health status of the covered population, differences in geographic locations, richness of benefits, type of plan, use of pre-existing condition clauses, or patient cost-sharing.

#### MONTHLY PREMIUM COST OF SINGLE AND FAMILY COVERAGE

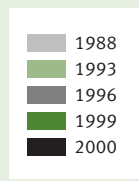
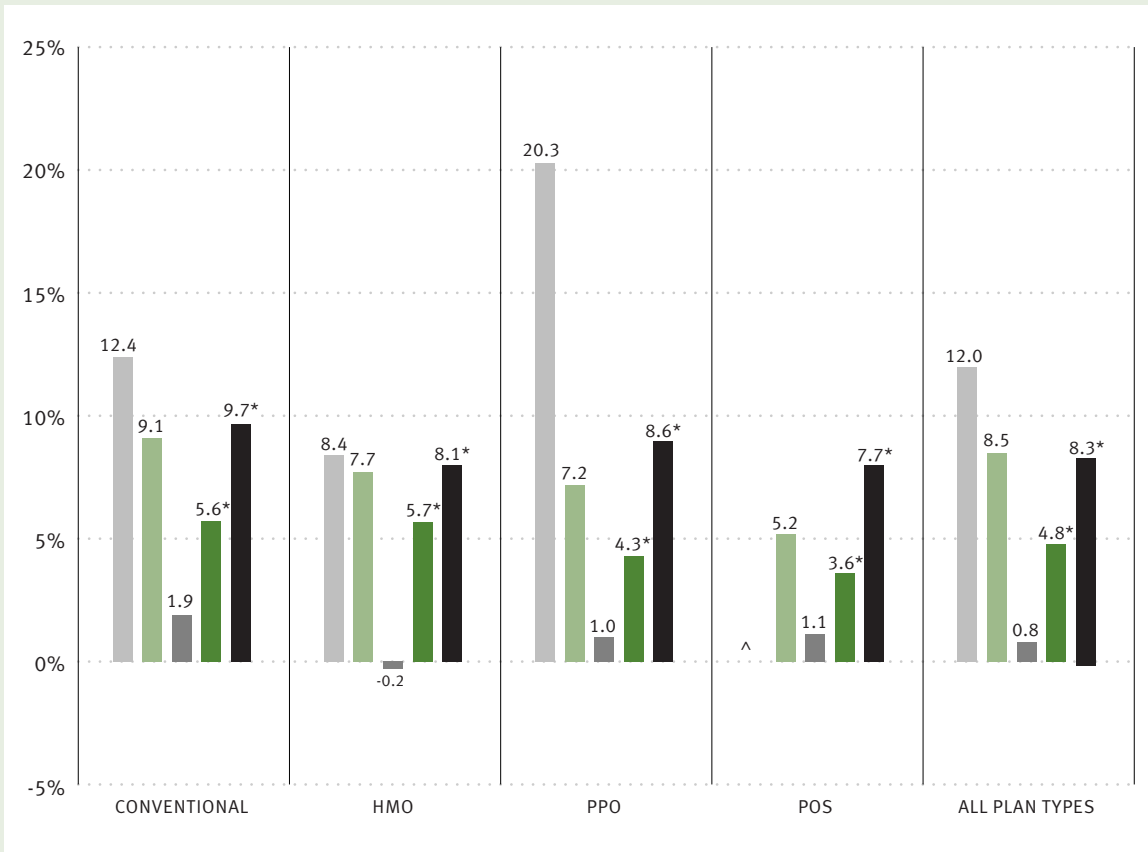
- ▶ The average monthly cost of single and family coverage in 2000 is \$202 and \$529 respectively (including both the shares paid by employers and employees) (EXHIBIT 2.12). Conventional plans are the most expensive type of plan at \$238 for single coverage and \$608 for family coverage. HMOs are the lowest cost plan at \$181 and \$487 respectively. Average premiums are highest in the Northeast and lowest in the West (EXHIBIT 2.14).

#### NOTES:

<sup>1</sup> C. Hogan, P. Ginsburg, and J. Gabel, “Tracking Health Care Costs: Inflation Is Back,” Calculations are from data provided by Milliman and Robertson.

EXHIBIT 2.1

Percentage Change in Health Insurance Premiums From Previous Year, by Plan Type, 1988–2000



SOURCE :

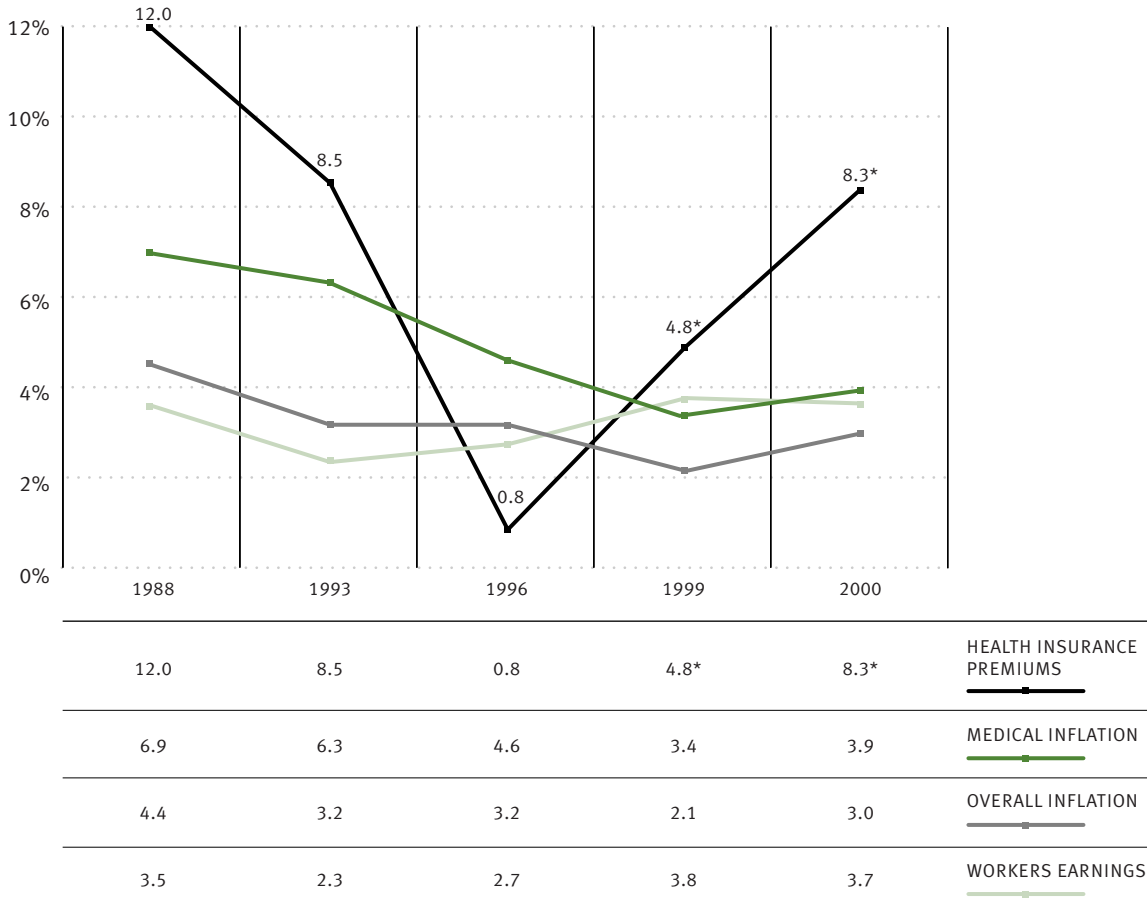
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

\* Estimate is statistically different from the previous year for years 1996–1999, 1999–2000.

^ Information was not obtained for POS plans in 1988.

EXHIBIT 2.2

Increases in Health Insurance Premiums Compared to Other Indicators, 1988–2000



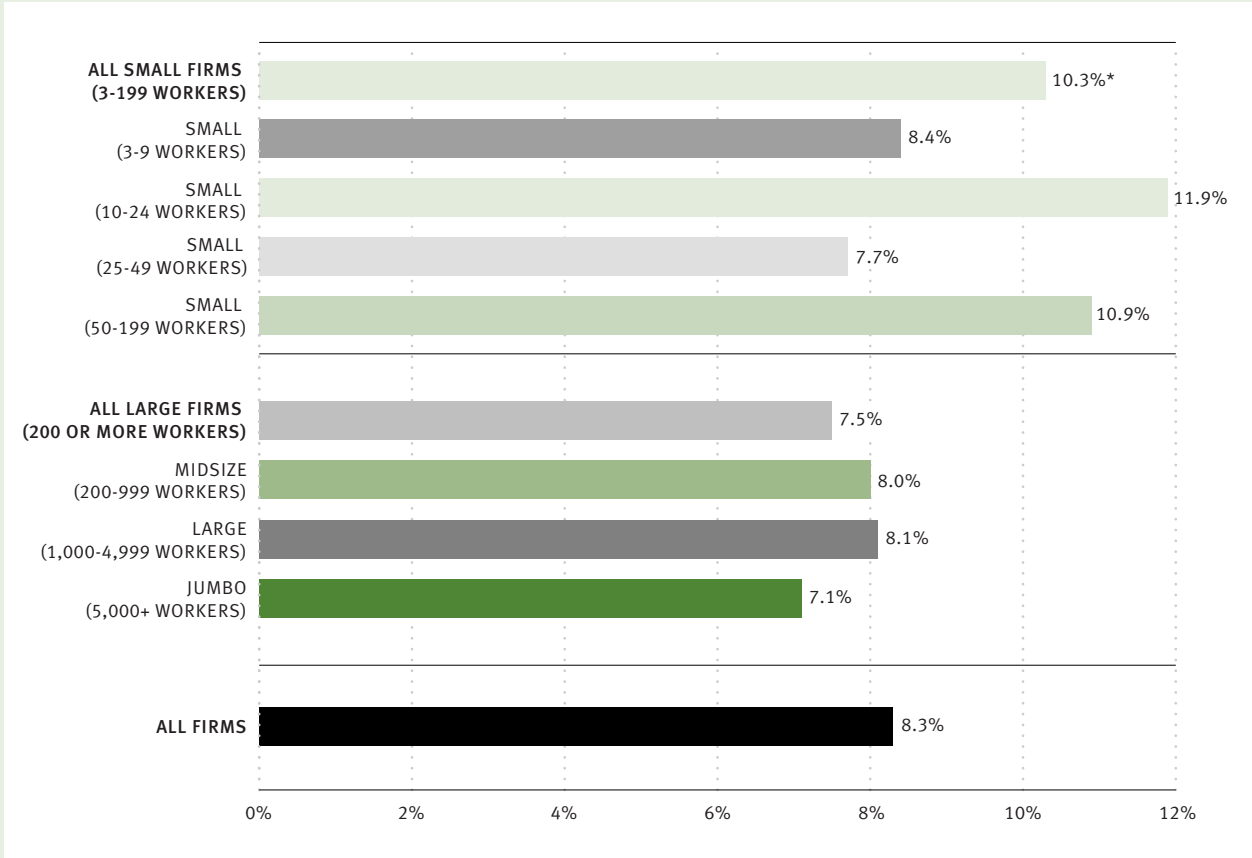
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996, 1998.

\* Estimate is statistically different from the previous year for years 1996–1999, 1999–2000.

EXHIBIT 2.3

Percentage Change in Premiums, by Firm Size, 2000



SOURCE :

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

\* Estimate is statistically different from All Firms.  
 Premiums: applies to employer and employee share.

## EXHIBIT 2.4

## Percentage Change in Premiums, by Firm Size and Plan Type, 2000

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plan Types</i>
<b>FIRM SIZE</b>					
Small (3–9 Workers)	9.3%	10.0%	8.0%	5.9%	8.4%
Small (10–24 Workers)	NSD	10.7	14.0	10.4	11.9
Small (25–49 Workers)	NSD	3.7*	9.1	NSD	7.7
Small (50–199 Workers)	10.3	10.6	11.0	11.2	10.9
<b>ALL SMALL FIRMS (3–199 WORKERS)</b>	<b>10.1</b>	<b>9.7</b>	<b>10.8*</b>	<b>9.9</b>	<b>10.3*</b>
Midsize (200–999 Workers)	9.8%	8.5%	7.2%	9.0%	8.0%
Large (1,000–4,999 Workers)	10.3	8.6	8.0	7.1	8.1
Jumbo (5,000+ Workers)	9.0	7.2	7.5	5.9	7.1
<b>ALL LARGE FIRMS (200 OR MORE WORKERS)</b>	<b>9.5</b>	<b>7.6</b>	<b>7.5</b>	<b>6.7</b>	<b>7.5</b>
<b>ALL FIRM SIZES</b>	<b>9.7%</b>	<b>8.1%</b>	<b>8.6%</b>	<b>7.7%</b>	<b>8.3%</b>

## SOURCE :

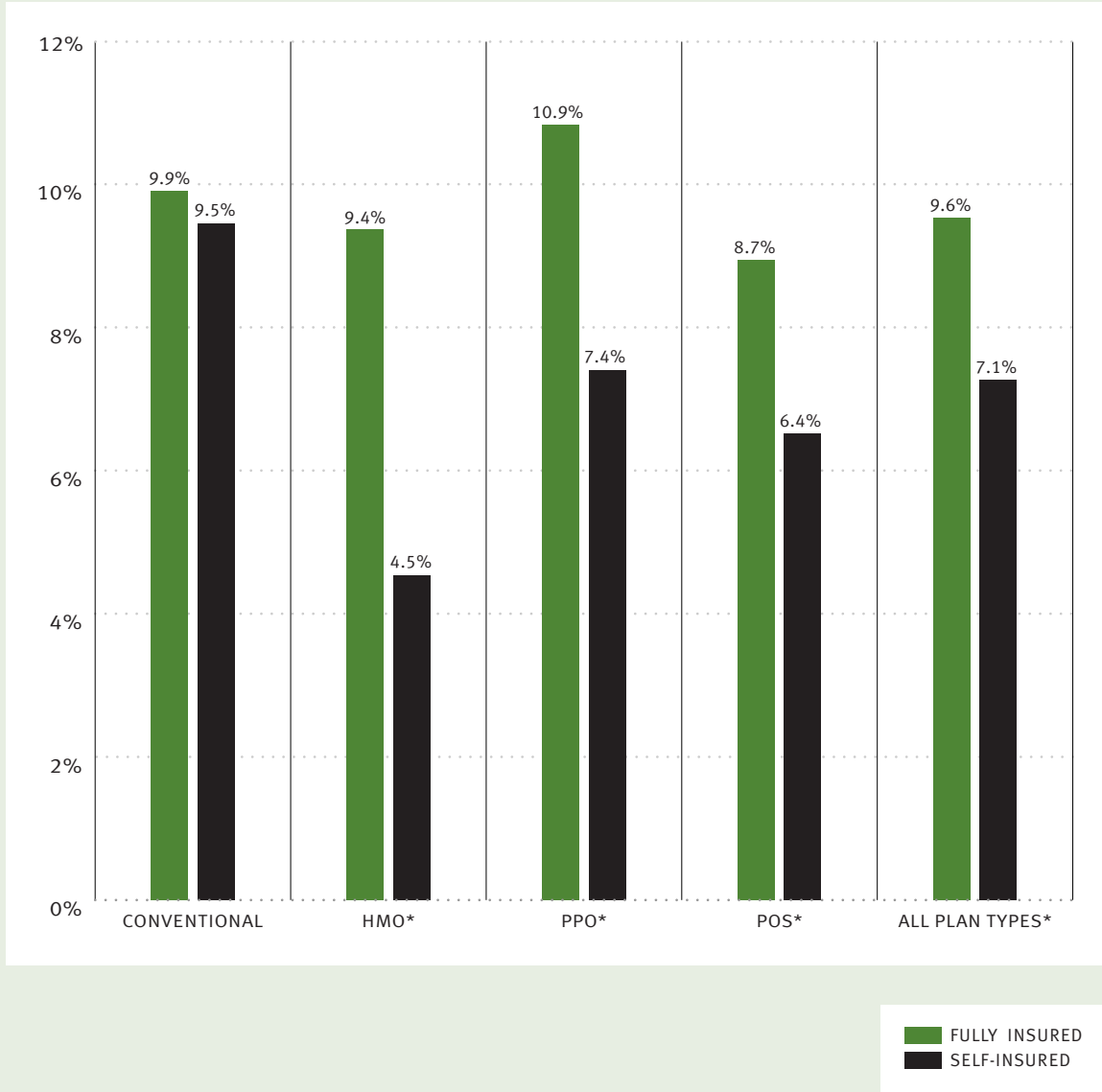
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000.

\* Firm size estimate is statistically different from All Firms within a plan type.

NSD: Not sufficient data.

EXHIBIT 2.5

Premium Increases, by Plan Type and Funding Arrangement, 2000



SOURCE :

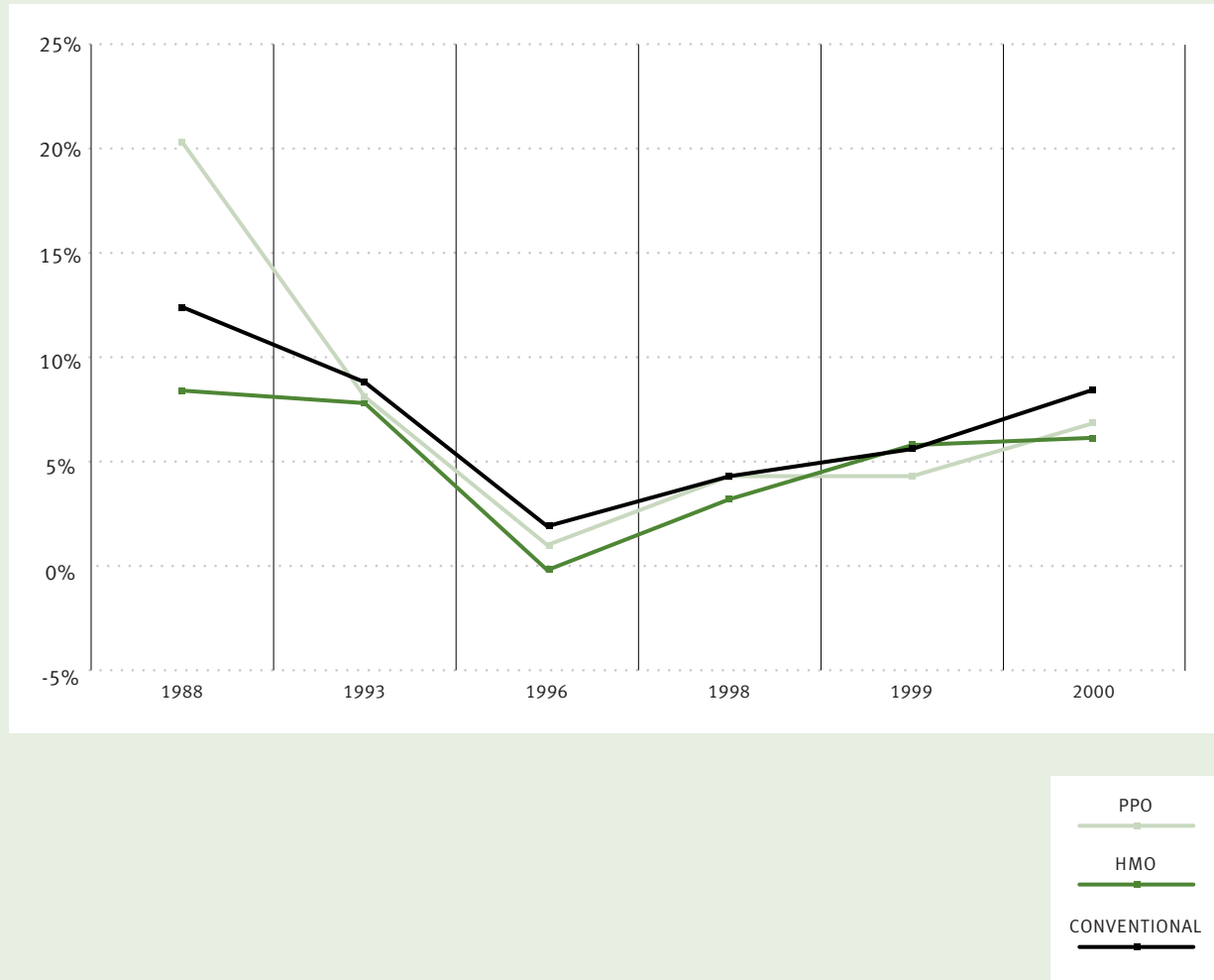
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000.

\* Estimates are statistically different between fully insured and self-insured within plan type.



EXHIBIT 2.6

Premium Increases, by Plan Type, 1988–2000

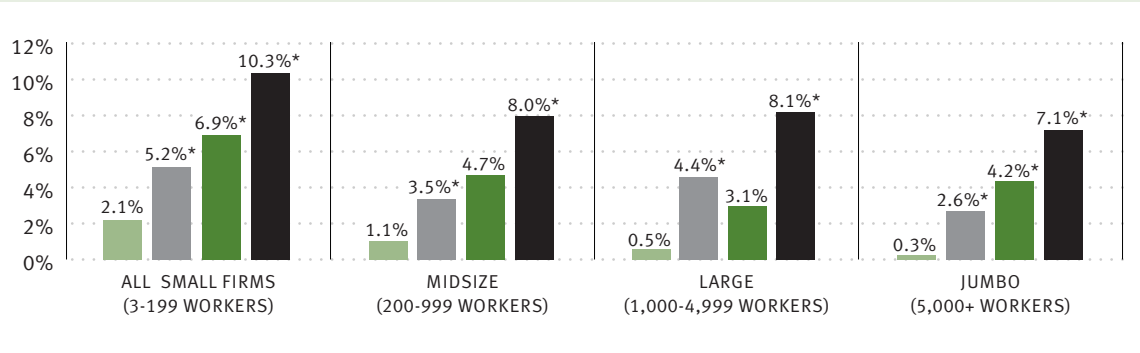


SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996, 1998.

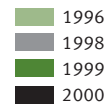
EXHIBIT 2.7

Premium Increases, by Firm Size, 1996–2000



SOURCE :

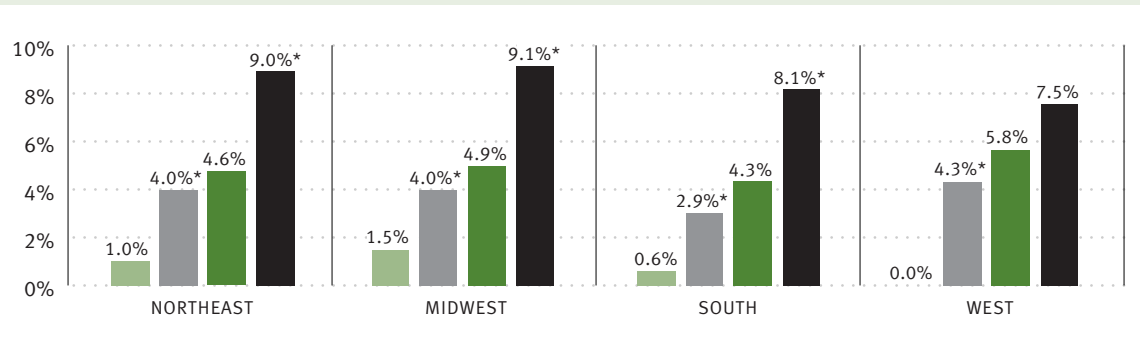
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.



\* Estimate is statistically different from the previous year for years 1996–1998, 1998–1999, 1999–2000.

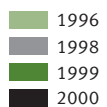
EXHIBIT 2.8

Premium Increases, by Region, 1996–2000



SOURCE :

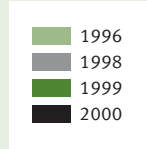
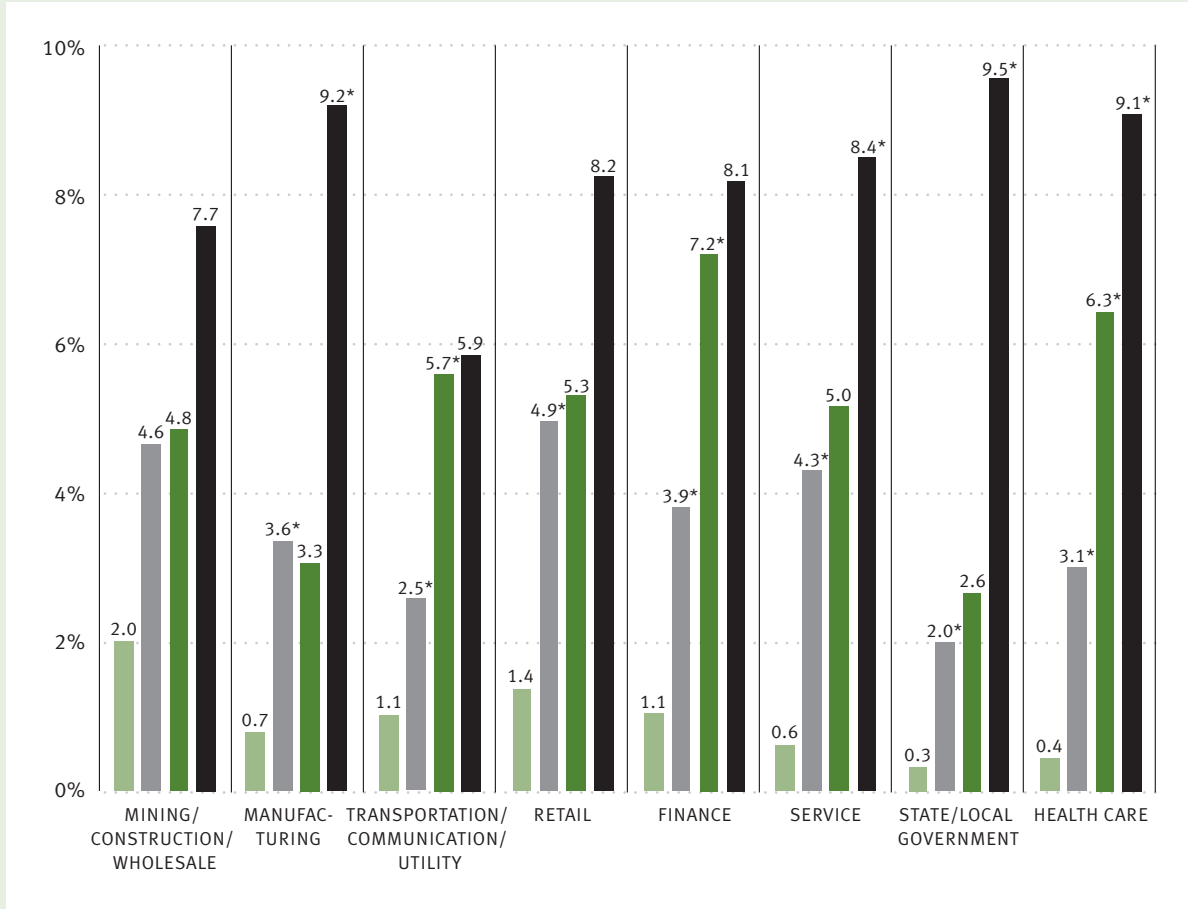
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.



\* Estimate is statistically different from the previous year for years 1996–1998, 1998–1999, 1999–2000.

EXHIBIT 2.9

Premium Increases, by Industry, 1996–2000



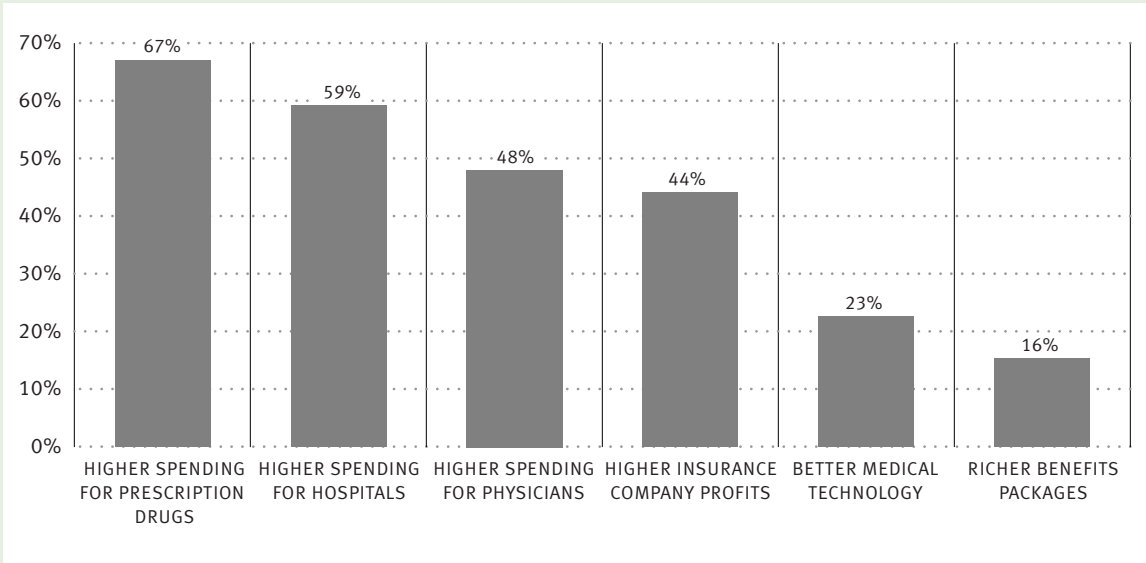
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Estimate is statistically different from the previous year for years 1996–1998, 1998–1999, 1999–2000.

EXHIBIT 2.10

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



SOURCE :

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

## EXHIBIT 2.11

## Percentage of Firms That Feel the Following Factors Contribute to Increases in Health Insurance Premiums, by Firm Size, 2000

	<i>A Lot</i>	<i>Somewhat</i>	<i>Not Too Much</i>	<i>Not At All</i>	<i>Don't Know</i>
<b>HIGHER SPENDING FOR PRESCRIPTION DRUGS</b>					
All Small Firms (3–199 Workers)	66	23	5	3	3
All Large Firms (200 or more Workers)*	73	21	3	0	3
<b>ALL FIRMS</b>	<b>67%</b>	<b>22%</b>	<b>5%</b>	<b>3%</b>	<b>3%</b>
<b>HIGHER SPENDING FOR HOSPITALS</b>					
All Small Firms (3–199 Workers)	60	30	6	0	4
All Large Firms (200 or more Workers)*	51	42	5	2	0
<b>ALL FIRMS</b>	<b>59%</b>	<b>30%</b>	<b>7%</b>	<b>0%</b>	<b>4%</b>
<b>HIGHER SPENDING FOR PHYSICIANS</b>					
All Small Firms (3–199 Workers)	48	38	6	3	5
All Large Firms (200 or more Workers)*	38	52	9	1	0
<b>ALL FIRMS</b>	<b>48%</b>	<b>38%</b>	<b>6%</b>	<b>3%</b>	<b>5%</b>
<b>HIGHER INSURANCE COMPANY PROFITS</b>					
All Small Firms (3–199 Workers)	45	31	14	5	5
All Large Firms (200 or more Workers)*	28	49	16	5	2
<b>ALL FIRMS</b>	<b>44%</b>	<b>32%</b>	<b>14%</b>	<b>5%</b>	<b>5%</b>
<b>BETTER MEDICAL TECHNOLOGY</b>					
All Small Firms (3–199 Workers)	23	49	16	6	6
All Large Firms (200 or more Workers)*	38	54	5	2	1
<b>ALL FIRMS</b>	<b>23%</b>	<b>49%</b>	<b>16%</b>	<b>6%</b>	<b>6%</b>
<b>RICHER BENEFITS PACKAGES</b>					
All Small Firms (3–199 Workers)	16	38	21	17	8
All Large Firms (200 or more Workers)*	10	44	30	15	1
<b>ALL FIRMS</b>	<b>16%</b>	<b>38%</b>	<b>21%</b>	<b>17%</b>	<b>8%</b>

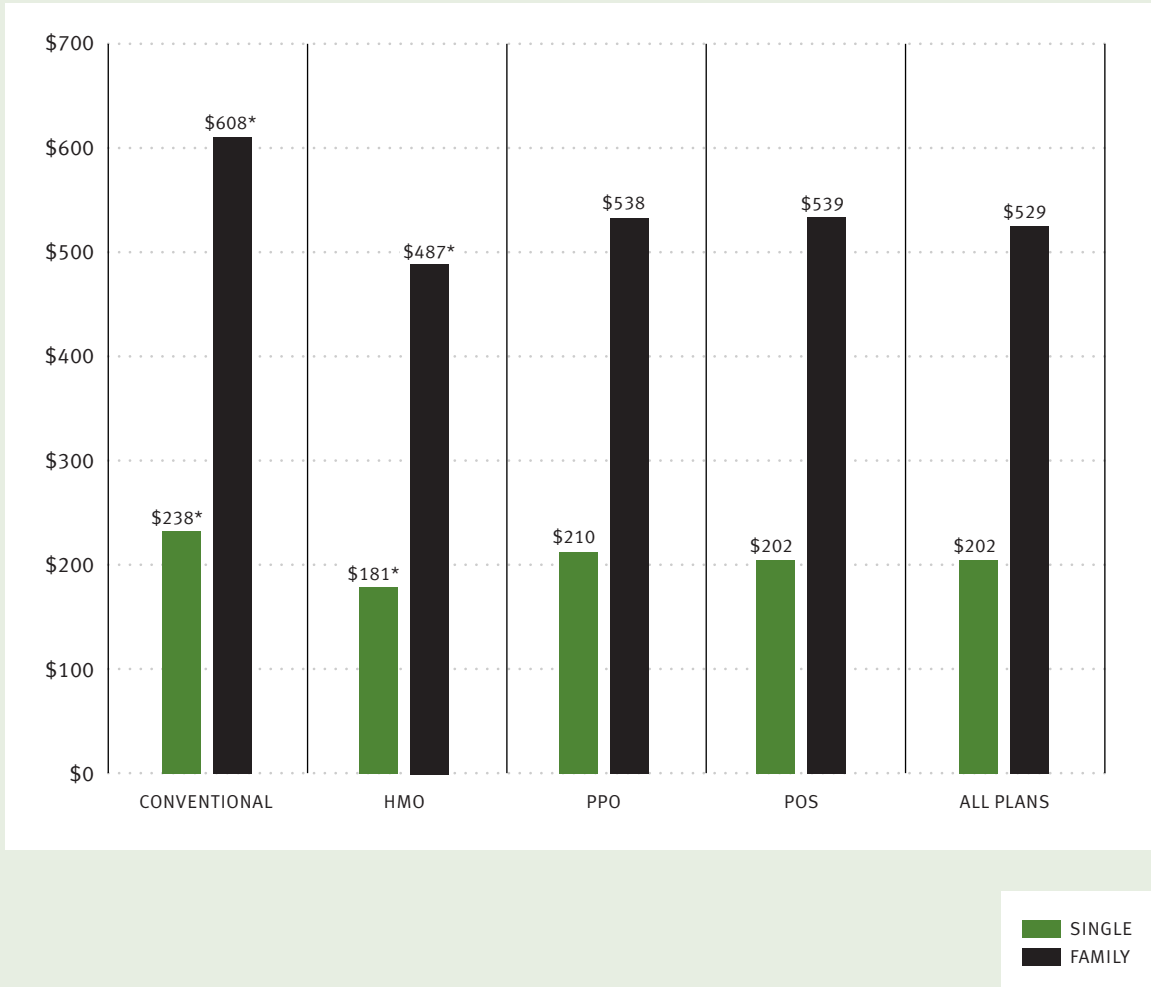
## SOURCE :

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

\* Distribution is statistically different from All Firms.

EXHIBIT 2.12

Average Monthly Premium Costs for Covered Workers, Single and Family Coverage, 2000



SOURCE :

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

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

EXHIBIT 2.13 *Continued on page 26*

## Monthly and Annual Premiums for Workers in Conventional, HMO, PPO, and POS Plans, by Firm Size, 2000

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
<b>CONVENTIONAL PLANS</b>				
Small (3–9 Workers)	\$313	\$578	\$3,758	\$6,931
Small (10–24 Workers)	NSD	NSD	NSD	NSD
Small (25–49 Workers)	NSD	NSD	NSD	NSD
Small (50–199 Workers)	244	673	2,932	8,077
<b>ALL SMALL FIRMS (3–199 WORKERS)</b>	<b>268</b>	<b>645</b>	<b>3,211</b>	<b>7,746</b>
Midsize (200–999 Workers)	236	600	2,830	7,206
Large (1,000–4,999 Workers)	197*	504*	2,366*	6,053*
Jumbo (5,000+ Workers)	227	615	2,722	7,385
<b>ALL FIRM SIZES</b>	<b>\$238</b>	<b>\$608</b>	<b>\$2,858</b>	<b>\$7,294</b>
<b>HMO PLANS</b>				
Small (3–9 Workers)	\$212	\$511	\$2,543	\$6,137
Small (10–24 Workers)	167	521	2,010	6,250
Small (25–49 Workers)	185	491	2,225	5,893
Small (50–199 Workers)	169	462*	2,034	5,549*
<b>ALL SMALL FIRMS (3–199 WORKERS)</b>	<b>181</b>	<b>485</b>	<b>2,177</b>	<b>5,823</b>
Midsize (200–999 Workers)	176	484	2,111	5,809
Large (1,000–4,999 Workers)	187	508	2,241	6,098
Jumbo (5,000+ Workers)	180	483	2,166	5,794
<b>ALL FIRM SIZES</b>	<b>\$181</b>	<b>\$487</b>	<b>\$2,174</b>	<b>\$5,847</b>
<b>PPO PLANS</b>				
Small (3–9 Workers)	\$213	\$544	\$2,553	\$6,533
Small (10–24 Workers)	227	536	2,720	6,435
Small (25–49 Workers)	231	598	2,772	7,175
Small (50–199 Workers)	217	531	2,602	6,374
<b>ALL SMALL FIRMS (3–199 WORKERS)</b>	<b>219</b>	<b>541</b>	<b>2,631</b>	<b>6,492</b>
Midsize (200–999 Workers)	212	553	2,544	6,640
Large (1,000–4,999 Workers)	208	541	2,498	6,494
Jumbo (5,000+ Workers)	201	526	2,412	6,308
<b>ALL FIRM SIZES</b>	<b>\$210</b>	<b>\$538</b>	<b>\$2,517</b>	<b>\$6,453</b>

EXHIBIT 2.13 *Continued from page 25*

## Monthly and Annual Premiums for Workers in Conventional, HMO, PPO, and POS Plans, by Firm Size, 2000

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
<b>POS PLANS</b>				
Small (3–9 Workers)	\$237	\$621	\$2,848	\$7,451
Small (10–24 Workers)	200	489*	2,399	5,869*
Small (25–49 Workers)	214	548	2,567	6,933
Small (50–199 Workers)	186*	482*	2,232*	5,788*
<b>ALL SMALL FIRMS (3–199 WORKERS)</b>	<b>199</b>	<b>513</b>	<b>2,383</b>	<b>6,154</b>
Midsize (200–999 Workers)	196	530	2,347	6,357
Large (1,000–4,999 Workers)	204	554	2,445	6,646
Jumbo (5,000+ Workers)	207	557	2,478	6,686
<b>ALL FIRM SIZES</b>	<b>\$202</b>	<b>\$539</b>	<b>\$2,427</b>	<b>\$6,470</b>
<b>ALL PLANS</b>				
Small (3–9 Workers)	\$235	\$555	\$2,823	\$6,655
Small (10–24 Workers)	210	537	2,520	6,439
Small (25–49 Workers)	219	572*	2,622	6,859*
Small (50–199 Workers)	203	518	2,430	6,217
<b>ALL SMALL FIRMS (3–199 WORKERS)</b>	<b>211</b>	<b>533</b>	<b>2,535</b>	<b>6,398</b>
Midsize (200–999 Workers)	203	537	2,432	6,444
Large (1,000–4,999 Workers)	201	532	2,408	6,386
Jumbo (5,000+ Workers)	196	523	2,357	6,275
<b>ALL FIRM SIZES</b>	<b>\$202</b>	<b>\$529</b>	<b>\$2,426</b>	<b>\$6,351</b>

## SOURCE :

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

\* Firm size estimate is statistically different from All Firms within a plan type.

NSD: Not sufficient data.



## EXHIBIT 2.14

## Monthly and Annual Premiums for Workers in Conventional, HMO, PPO, and POS Plans, by Region, 2000

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
<b>CONVENTIONAL PLANS</b>				
Northeast	\$241	\$610	\$2,892	\$7,324
Midwest	239	624	2,863	7,485
South	237	590	2,839	7,081
West	239	625	2,865	7,500
<b>ALL REGIONS</b>	<b>\$238</b>	<b>\$608</b>	<b>\$2,858</b>	<b>\$7,294</b>
<b>HMO PLANS</b>				
Northeast	\$212*	\$534*	\$2,541*	\$6,403*
Midwest	182	492	2,184	5,910
South	179	486	2,143	5,830
West	166*	458*	1,989*	5,501*
<b>ALL REGIONS</b>	<b>\$181</b>	<b>\$487</b>	<b>\$2,174</b>	<b>\$5,847</b>
<b>PPO PLANS</b>				
Northeast	\$240*	\$617*	\$2,876*	\$7,408*
Midwest	202	517	2,425	6,201
South	206	522	2,468	6,266
West	205	543	2,460	6,511
<b>ALL REGIONS</b>	<b>\$210</b>	<b>\$538</b>	<b>\$2,517</b>	<b>\$6,453</b>
<b>POS PLANS</b>				
Northeast	\$217	\$600*	\$2,609	\$7,201*
Midwest	195	532	2,337	6,382
South	200	512	2,396	6,150
West	196	519	2,355	6,224
<b>ALL REGIONS</b>	<b>\$202</b>	<b>\$539</b>	<b>\$2,427</b>	<b>\$6,470</b>
<b>ALL PLANS</b>				
Northeast	\$225*	\$588*	\$2,704*	\$7,060*
Midwest	201	528	2,407	6,332
South	200	516	2,395	6,190
West	188*	506*	2,261*	6,077*
<b>ALL REGIONS</b>	<b>\$202</b>	<b>\$529</b>	<b>\$2,426</b>	<b>\$6,351</b>

## SOURCE :

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

\* Regional estimate is statistically different from All Regions within a plan type.

EXHIBIT 2.15 *Continued on page 29*

## Monthly and Annual Premiums for Workers in Conventional, HMO, PPO, and POS Plans, by Industry, 2000

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
<b>CONVENTIONAL PLANS</b>				
Mining/Construction/Wholesale	NSD	NSD	NSD	NSD
Manufacturing	\$217	\$618	\$2,602	\$7,418
Transportation/Communication/Utility	NSD	NSD	NSD	NSD
Retail	NSD	NSD	NSD	NSD
Finance	NSD	NSD	NSD	NSD
Service	258	572	3,100	6,868
State/Local Government	280	562	3,362	6,749
Health Care	NSD	NSD	NSD	NSD
<b>ALL INDUSTRIES</b>	<b>\$238</b>	<b>\$608</b>	<b>\$2,858</b>	<b>\$7,294</b>
<b>HMO PLANS</b>				
Mining/Construction/Wholesale	\$213	\$492	\$2,560	\$5,900
Manufacturing	175	503	2,094	6,032
Transportation/Communication/Utility	167*	450	2,004*	5,404
Retail	169	468	2,031	5,615
Finance	193	511	2,315	6,130
Service	178	481	2,135	5,769
State/Local Government	196*	503	2,350*	6,040
Health Care	191	512*	2,292	6,141*
<b>ALL INDUSTRIES</b>	<b>\$181</b>	<b>\$487</b>	<b>\$2,174</b>	<b>\$5,847</b>
<b>PPO PLANS</b>				
Mining/Construction/Wholesale	\$189*	\$511	\$2,269*	\$6,129
Manufacturing	205	550	2,466	6,597
Transportation/Communication/Utility	212	516	2,549	6,195
Retail	201	510	2,408	6,123
Finance	221	538	2,655	6,453
Service	214	551	2,568	6,608
State/Local Government	216	523	2,596	6,271
Health Care	217	561	2,600	6,737
<b>ALL INDUSTRIES</b>	<b>\$210</b>	<b>\$538</b>	<b>\$2,517</b>	<b>\$6,453</b>

EXHIBIT 2.15 *Continued from page 28*

## Monthly and Annual Premiums for Workers in Conventional, HMO, PPO, and POS Plans, by Industry, 2000

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
<b>POS PLANS</b>				
Mining/Construction/Wholesale	\$172*	\$480*	\$2,059*	\$5,754*
Manufacturing	207	562	2,483	6,739
Transportation/Communication/Utility	NSD	NSD	NSD	NSD
Retail	184*	497	2,202*	5,960
Finance	203	532	2,437	6,389
Service	208	555	2,497	6,664
State/Local Government	218	545	2,611	6,534
Health Care	208	536	2,491	6,432
<b>ALL INDUSTRIES</b>	<b>\$202</b>	<b>\$539</b>	<b>\$2,427</b>	<b>\$6,470</b>
<b>ALL PLANS</b>				
Mining/Construction/Wholesale	\$193	\$515	\$2,312	\$6,177
Manufacturing	199	546	2,384	6,549
Transportation/Communication/Utility	191	492	2,292	5,908
Retail	191	497*	2,287	5,960*
Finance	206	532	2,478	6,386
Service	206	534	2,471	6,403
State/Local Government	211	520	2,533	6,236
Health Care	213	565	2,558	6,779
<b>ALL INDUSTRIES</b>	<b>\$202</b>	<b>\$529</b>	<b>\$2,426</b>	<b>\$6,351</b>

## SOURCE :

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

\* Industry estimate is statistically different from All Industries within a plan type.

NSD: Not sufficient data.

## EXHIBIT 2.16

## Estimated Percentage Change in Premiums in the New Policy Year, Conventional, HMO, PPO, and POS Plans, by Firm Size, 2000

	<i>Percentage Change in Premiums</i>
<b>CONVENTIONAL PLANS</b>	
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>11.8%</b>
Midsize (200-999 Workers)	8.9
Large (1,000-4,999 Workers)	7.4
Jumbo (5,000+ Workers)	7.6
<b>ALL FIRM SIZES</b>	<b>9.0%</b>
<b>HMO PLANS</b>	
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>10.5%</b>
Midsize (200-999 Workers)	9.2
Large (1,000-4,999 Workers)	8.1
Jumbo (5,000+ Workers)	9.3
<b>ALL FIRM SIZES</b>	<b>9.3%</b>
<b>PPO PLANS</b>	
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>11.1%*</b>
Midsize (200-999 Workers)	7.9
Large (1,000-4,999 Workers)	7.3*
Jumbo (5,000+ Workers)	9.1
<b>ALL FIRM SIZES</b>	<b>9.2%</b>
<b>POS PLANS</b>	
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>11.4%*</b>
Midsize (200-999 Workers)	9.2
Large (1,000-4,999 Workers)	7.9
Jumbo (5,000+ Workers)	8.2
<b>ALL FIRM SIZES</b>	<b>9.2%</b>
<b>ALL PLANS</b>	
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>11.1%*</b>
Midsize (200-999 Workers)	8.5
Large (1,000-4,999 Workers)	7.7*
Jumbo (5,000+ Workers)	8.6
<b>ALL FIRM SIZES</b>	<b>9.1%</b>

## SOURCE:

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

\* Firm size estimate is statistically different from All Firms within a plan type.

EMPLOYER HEALTH BENEFITS  
2000 ANNUAL SURVEY

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Health  
Benefits  
Offer Rates

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SECTION

3

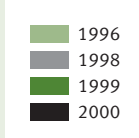
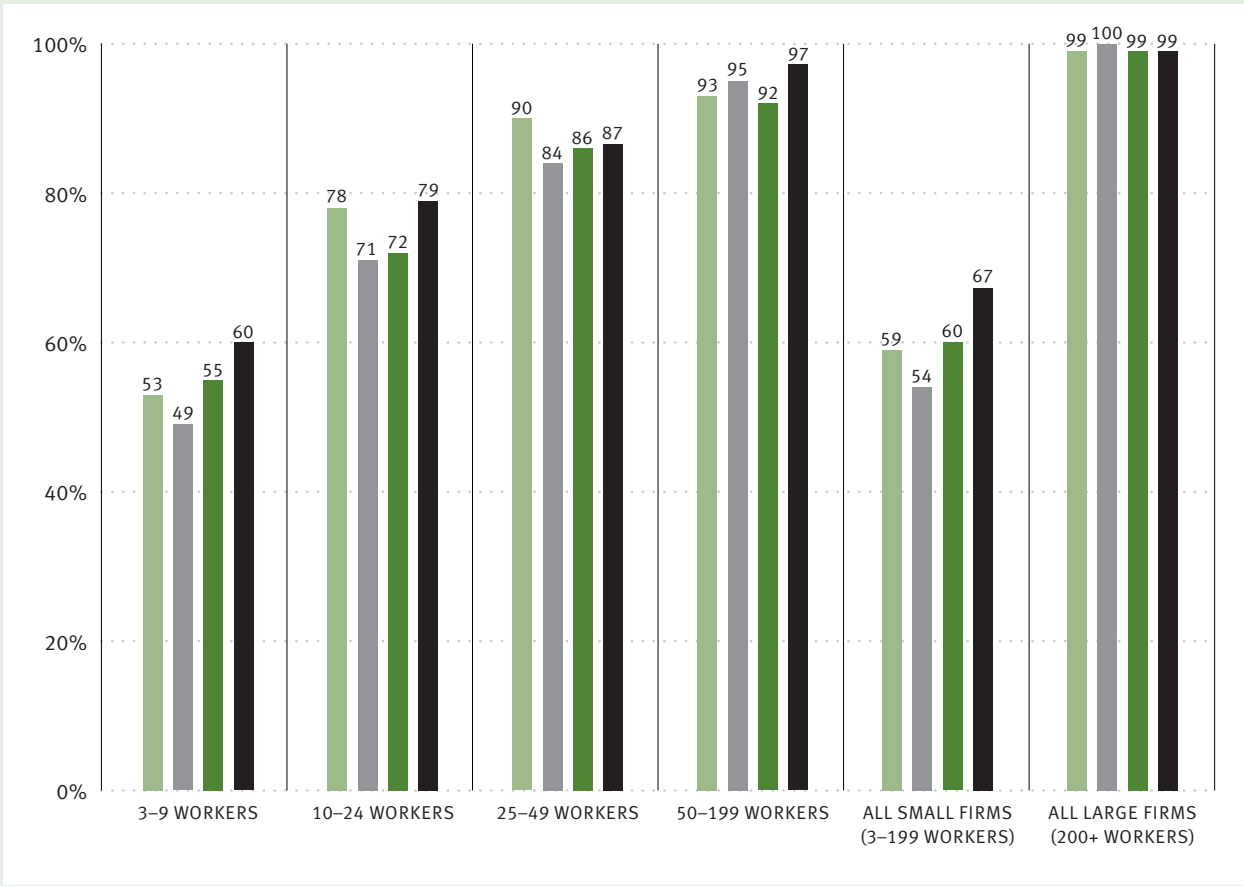
## HEALTH BENEFITS OFFER RATES

DESPITE THE RISING COST OF HEALTH INSURANCE, BUT IN THE MIDST OF AN HISTORIC ECONOMIC BOOM AND LOW UNEMPLOYMENT, THE PERCENTAGE OF ALL SMALL FIRMS (3–199 WORKERS) OFFERING HEALTH INSURANCE ROSE FROM 1998 TO 2000 AND NOW STANDS AT 67%. WHILE VIRTUALLY ALL LARGE BUSINESSES (THOSE WITH 200 OR MORE WORKERS) OFFER HEALTH INSURANCE TO THEIR EMPLOYEES, SMALLER COMPANIES REMAIN LESS LIKELY TO PROVIDE COVERAGE. DURING THE PAST TWO YEARS, THE PERCENTAGE OF FIRMS OFFERING COVERAGE HAS INCREASED AMONG THE SMALLEST FIRMS (3–9 WORKERS) AS WELL AS IN OTHER SMALL FIRM SIZE CATEGORIES. WHETHER THIS INCREASE CAN BE SUSTAINED WILL DEPEND NOT ONLY ON THE STATE OF THE ECONOMY, BUT ALSO ON WHETHER HEALTH INSURANCE PREMIUM INCREASES CONTINUE TO ESCALATE.

- ▶ With the economy strong and demand for workers high, the percentage of all small firms (3–199 workers) offering health insurance to their employees is rising, from 54% in 1998 to 67% in 2000 (EXHIBIT 3.1).
- ▶ Whether or not businesses offer health benefits to their workers varies considerably by their size, the wages they pay, and the industry they are in.
  - *Lack of the availability of health insurance is concentrated in the smallest of firms. While 60% of firms with 3–9 workers offer coverage in 2000, that figure jumps to 79% for firms with 10–24 employees and 87% for companies with 25–49 employees. For firms with 50 or more employees, nearly all offer coverage (EXHIBIT 3.1).*
  - *Firms are also more likely to provide health coverage if they pay higher wages to their workers. Only about one-third (35%) of all small firms (3–199 workers) with a large number of low-wage workers offer health benefits, while 85% of all small firms with fewer low-wage workers do so. (Lower wage firms are those where 35% or more of the workers earn less than \$20,000 per year, and higher wage firms represent the remainder of companies) (EXHIBIT 3.2).*
  - *The offering of health insurance varies substantially by industry as well, from a low of 55% among small retail firms to a high of 86% in government and 93% in the manufacturing sector (EXHIBIT 3.3).*
- ▶ Cost is by far the most important factor cited by all small employers for not offering health insurance (EXHIBIT 3.4).
- *76% of all small firms (3–199 workers) who do not offer coverage cite high premiums as a very important reason for not doing so.*
- *Other factors cited as important by many employers: The fact that employees may be covered elsewhere (34% say it's very important); high turnover among workers (29% say very important); and the fact that the company cannot qualify for group rates (25% say very important).*
- ▶ With premium increases on the rise (see SECTION 2), the predominance of cost as a factor in all small firms' decisions about whether to offer health insurance could mean that this year's increase in employer offering will be short-lived. In fact, one in five small firms that does not now offer coverage previously did so. For the moment, a shortage of workers appears to have stimulated more employers to offer coverage (EXHIBIT 3.5).

EXHIBIT 3.1

Percentage of Firms Offering Health Benefits, by Firm Size, 1996–2000\*



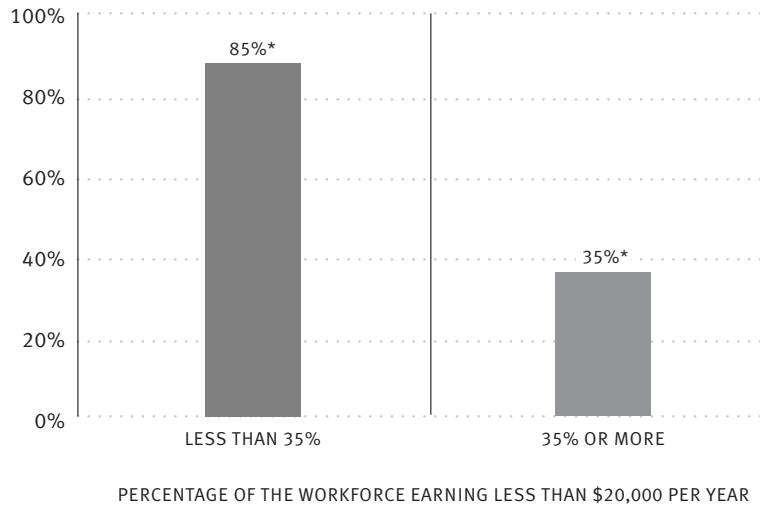
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
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, 1999–2000.

EXHIBIT 3.2

Percentage of All Small Firms (3–199 workers) in Which Workers Are Offered Health Insurance, by Percentage of Workforce That is Low Wage, 2000



SOURCE :

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

\* Income estimate is statistically different from All Firms (All Firms data not shown).



## EXHIBIT 3.3

## Percentage of All Small Firms (3–199 workers) in Which Workers Are Offered Health Insurance, by Region and Industry, 2000

	Yes
<b>REGION</b>	
Northeast	76%*
Midwest	67
South	64
West	62
<b>INDUSTRY</b>	
Mining/Construction/Wholesale	66%
Manufacturing	93*
Transportation/Communication/Utility	78
Retail	55
Finance	72
Service	67
State/Local Government	86*
Health Care	68
<b>ALL REGIONS AND INDUSTRIES</b>	<b>67%</b>

## SOURCE :

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

\* Region or industry estimate is statistically different from All Regions and All Industries.

## EXHIBIT 3.4

## All Small Firms' Reasons for Not Offering Health Insurance, 2000

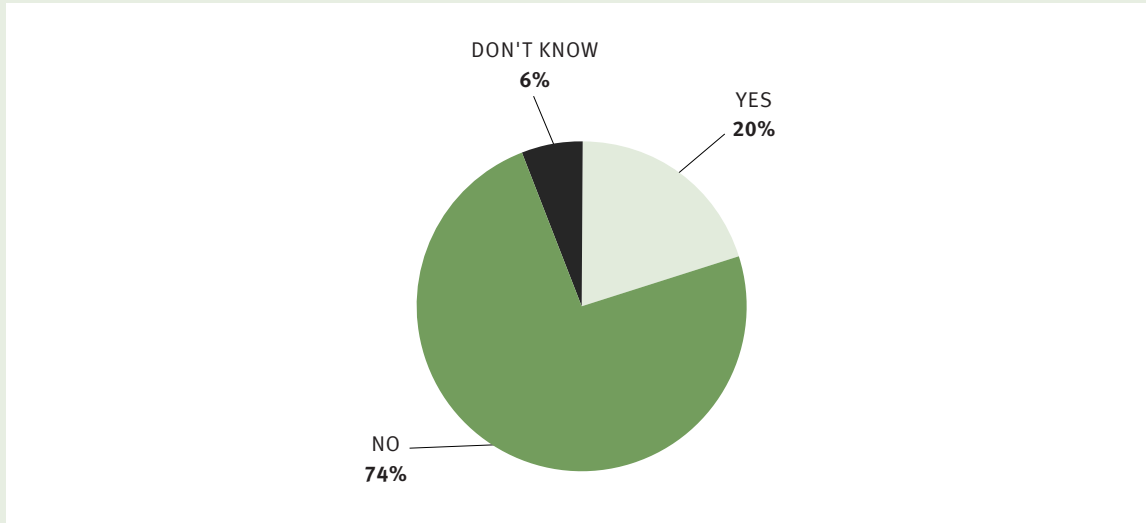
	<i>Very Important</i>	<i>Somewhat Important</i>	<i>Not Too Important</i>	<i>Not At All Important</i>	<i>Don't Know</i>
<b>HIGH PREMIUMS</b> All Small Firms (3–199 Workers)	76%	12%	0%	11%	0%
<b>EMPLOYEES COVERED ELSEWHERE</b> All Small Firms (3–199 Workers)	34%	12%	24%	26%	4%
<b>HIGH TURNOVER</b> All Small Firms (3–199 Workers)	29%	9%	12%	41%	9%
<b>COMPANY CAN'T QUALIFY FOR GROUP RATES</b> All Small Firms (3–199 Workers)	25%	32%	11%	26%	6%
<b>OBTAIN GOOD EMPLOYEES WITHOUT OFFERING A HEALTH PLAN</b> All Small Firms (3–199 Workers)	22%	22%	17%	23%	15%
<b>ADMINISTRATIVE HASSLE</b> All Small Firms (3–199 Workers)	17%	13%	22%	42%	7%
<b>FIRM TOO NEWLY ESTABLISHED</b> All Small Firms (3–199 Workers)	3%	0%	9%	88%	0%

## SOURCE :

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

## EXHIBIT 3.5

Of All Small Firms (3–199 Workers) Not Offering Health Insurance to Their Workers, the Percentage of Firms That Have Done so Previously, 2000



## SOURCE :

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



EMPLOYER HEALTH BENEFITS  
2000 ANNUAL SURVEY

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Employee  
Coverage,  
Eligibility, and  
Participation

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SECTION

4

## EMPLOYEE COVERAGE, ELIGIBILITY, AND PARTICIPATION

JUST OVER 60% OF ALL EMPLOYEES (INCLUDING BOTH FULL AND PART-TIME) HAVE HEALTH INSURANCE COVERAGE THROUGH THEIR OWN EMPLOYER (EXHIBIT 4.1). WHILE OTHER WORKERS MAY HAVE COVERAGE THROUGH THEIR SPOUSE'S JOB, MANY DO NOT HAVE THAT OPTION. ESTIMATES FROM CENSUS BUREAU DATA INDICATE THAT NEARLY ONE IN FIVE WORKERS IS UNINSURED.

THE PRIMARY REASON WORKERS ARE UNINSURED IS BECAUSE THEIR EMPLOYERS DO NOT OFFER HEALTH BENEFITS, PARTICULARLY IN SMALL BUSINESSES. YET, EVEN IN BUSINESSES THAT OFFER COVERAGE, SOME EMPLOYEES ARE INELIGIBLE FOR THAT COVERAGE OR DO NOT SIGN UP BECAUSE THEY MUST PAY A SIGNIFICANT SHARE OF THE PREMIUM. THIS YEAR SAW SMALL IMPROVEMENTS IN COVERAGE ELIGIBILITY.

- ▶ The percentage of workers insured in firms that offer health benefits — referred to as the coverage rate — has decreased in the past decade, dropping from 73% in 1988 to 67% in 1996 (EXHIBIT 4.2). Coverage rates have stabilized since then and are currently at 65% — a surprising finding when a rebound might have been expected given the strong national economy. According to the Bureau of Labor Statistics, employers today hire fewer part-time workers than they did at the trough of the downturn in the early 1990's. In addition, monthly employee contributions for single coverage have declined in nominal and real terms since 1996.
- ▶ Not all employees are eligible for their firm's health benefits and not all who are eligible choose to participate in them. Therefore, how many workers are covered is a product of both the percentage of workers who are actually eligible for the firm's health insurance and the percentage who choose to "take-up" (i.e., participate in) this benefit (EXHIBIT 4.3).
  - 83% of all small firms' (3–199 workers) employees and 79% of all large firms' employees are eligible for health benefits.
  - Participation (the take-up rate) in health benefits is high across all firm sizes, with take-up rates ranging only modestly from 76% to 83%, depending on the size of the firm.
- Coverage rates vary by industry and region (EXHIBIT 4.3).
- ▶ This year showed a modest increase in eligibility for health benefits (EXHIBIT 4.3). There exists considerable variation in these percentages across firm size, geographic regions, and industries.
  - 49% of workers are in firms where part-time workers are eligible for health benefits. The percentage of workers in firms where temporary workers are eligible for health benefits increased from 3% in 1999 to 10% in 2000 (EXHIBIT 4.4).

- *Part-time and temporary workers in all large firms (200 or more workers) are nearly twice as likely to work for firms that offer health coverage (57% and 11%, respectively) as compared to workers employed by all small firms (3–199 workers) (31% and 5%, respectively). (EXHIBIT 4.5)*
- *Eligibility percentages by industry vary substantially (EXHIBIT 4.5). For part-time workers in firms that offer health coverage, 68% of those employed in health care are eligible for benefits whereas only 29% of those employed in construction are eligible. For temporary workers in firms that offer health coverage, eligibility percentages range from highs of 23% and 17% for government and construction workers respectively to a low of less than 1% for those employed by the finance industry.*
- ▶ *Some new employees may not have worked long enough in a firm to qualify for health benefits. Average waiting periods for health coverage range from 1.2 months in jumbo firms (5,000 or more workers) to 2.5 months in small firms (10–24 workers) (EXHIBIT 4.6).*
- ▶ *Among firms that offer health benefits, eligibility rates, take-up rates – and, consequently, coverage rates – are lower in low-wage firms (EXHIBIT 4.7).*
  - *52% of employees in low-wage firms (where 35% or more of the workers earn less than \$20,000 per year) are covered through their own employer, compared with 69% of workers in high-wage firms (where less than 35% of the workers earn less than \$20,000 per year). Higher coverage rates in high-wage firms that offer health benefits are a function of both higher eligibility rates and higher take-up rates.*
  - *Part of the reason workers in low-wage firms have lower take-up rates may be because they are required to pay a greater share of the premium for family coverage – 37% of the premium, compared with 25% paid by workers in high-wage firms (see EXHIBIT 7.24 in Section 7). Still, a large majority (75%) of workers in low-wage firms participate in their company's health benefits, compared with 82% of workers in high-wage firms (EXHIBIT 4.7).*

#### **NONTRADITIONAL PARTNER BENEFIT**

- ▶ *Recently, employers have also begun to offer coverage to the nontraditional partners of their workers. In 2000, 19% of workers with health benefits available to them were also offered coverage for nontraditional partners (EXHIBIT 4.8). Nontraditional coverage can include same sex couples or unmarried heterosexual couples, although businesses do not always extend coverage to both types of nontraditional partners (EXHIBIT 4.9).*

## EXHIBIT 4.1

Percentage of Workers Covered by Their Employer's Health Benefits, in Firms Both Offering and Not Offering Health Benefits, by Firm Size, 1996–2000\*

	1996	1998	1999	2000
<b>FIRM SIZE</b>				
3–9 Workers	36%	31%	42%	41%
10–24 Workers	52	43	53	56
25–49 Workers	66	55	56	64
50–199 Workers	64	63	60	65
200–999 Workers	N/A	N/A	66	70
1,000–4,999 Workers	N/A	N/A	63	68
5,000+ Workers	N/A	N/A	68	62
<b>ALL SMALL FIRMS (3–199)</b>	<b>52%</b>	<b>47%</b>	<b>52%</b>	<b>57%</b>
<b>ALL LARGE FIRMS (200 OR MORE)</b>	<b>N/A</b>	<b>N/A</b>	<b>66%</b>	<b>64%</b>
<b>ALL FIRMS</b>	<b>N/A</b>	<b>N/A</b>	<b>62%</b>	<b>62%</b>

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Surveys of Employer-Sponsored Health Benefits: 1996, 1998.

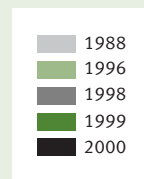
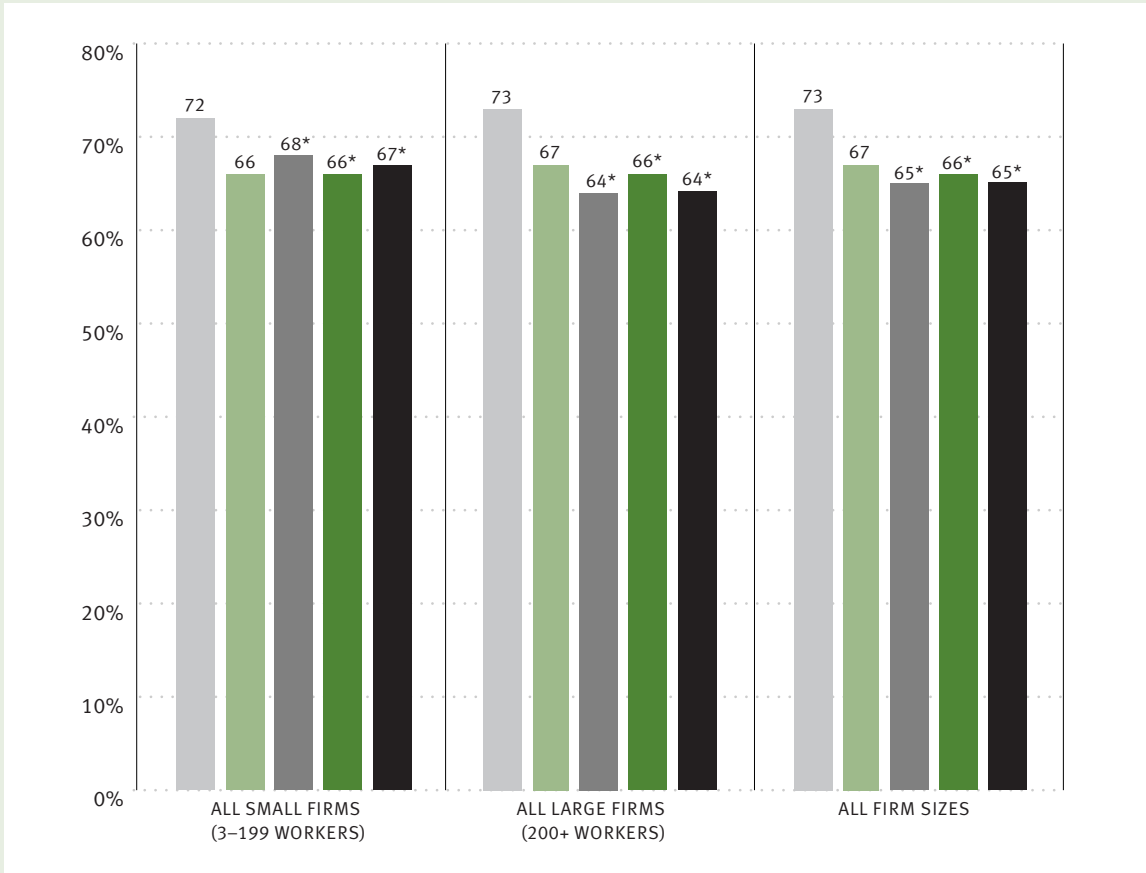
\* Tests found no statistically different estimates from the previous year for years 1999–2000.

N/A: Large firms not offering health benefits were not surveyed in 1996 and 1998.



EXHIBIT 4.2

Percentage of Workers in Firms Offering Health Benefits Who Are Covered by Their Employer's Health Plan, by Firm Size, 1988–2000



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000; 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, 1999–2000.

## EXHIBIT 4.3

## Eligibility, Take-Up Rates, and Coverage, by Firm Size, Region, and Industry, 2000

	<i>Percentage of Workers Eligible for Health Insurance</i>	<i>Take-Up Rate</i>	<i>Percentage of Workers Covered by Health Insurance</i>
<b>FIRM SIZE</b>			
Small (3–9 Workers)	87%*	76%	64%
Small (10–24 Workers)	87*	81	70
Small (25–49 Workers)	84	83	71
Small (50–199 Workers)	80	82	66
<b>ALL SMALL FIRMS (3–199 WORKERS)</b>	<b>83</b>	<b>81</b>	<b>67</b>
Midsize (200–999 Workers)	83	83	70*
Large (1,000–4,999 Workers)	81	83	68
Jumbo (5,000+ Workers)	77	79	62
<b>ALL LARGE FIRMS (200 OR MORE WORKERS)</b>	<b>79%</b>	<b>81%</b>	<b>64%</b>
<b>REGION</b>			
Northeast	81%	85%*	68%
Midwest	73	79	60
South	82	79	66
West	82	81	67
<b>INDUSTRY</b>			
Mining/Construction/Wholesale	81%	84%	68%
Manufacturing	89*	88*	79*
Transportation/Communication/Utility	92*	89*	82*
Retail	54*	72*	39*
Finance	84	83	72
Service	80	76	62
State/Local Government	88*	94*	84*
Health Care	80	76	61
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>80%</b>	<b>81%</b>	<b>65%</b>

## SOURCE :

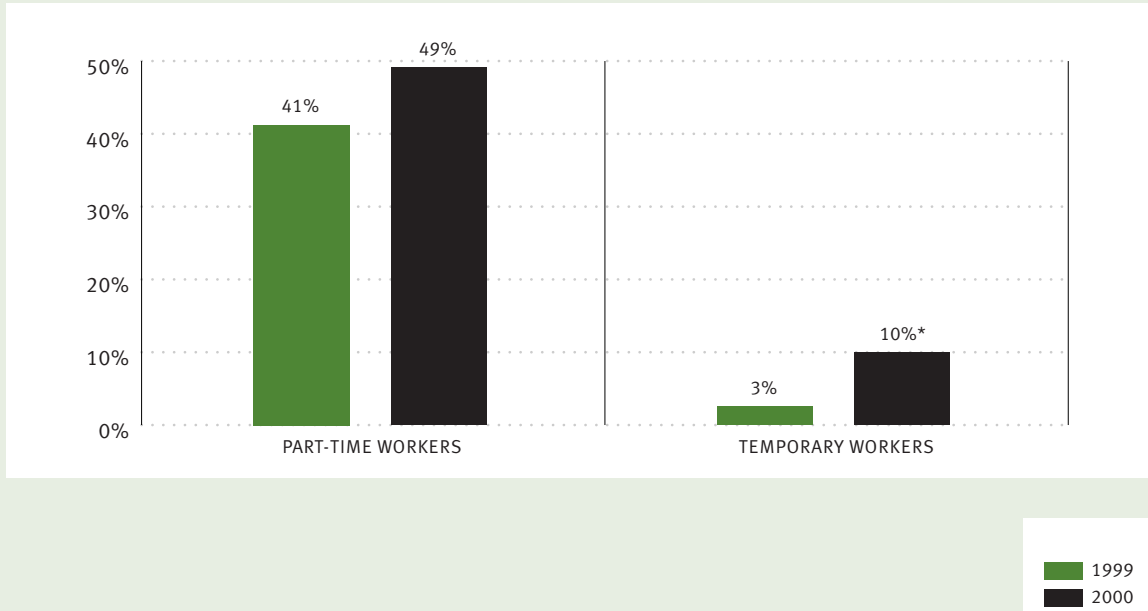
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000.

\* Estimate is statistically different from All Firms.

Take-Up rate is the percentage of eligible workers who choose to participate in health benefits offered by their employer.

## EXHIBIT 4.4

## Percentage of Workers Employed in Firms That Offer Part-Time and Temporary Workers Health Coverage, 1999 and 2000



## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000.

\* Estimate is statistically different from the previous year for years 1999–2000.

## EXHIBIT 4.5

## Percentage of Workers Employed in Firms That Offer Part-Time and Temporary Workers Health Coverage, by Firm Size, Region, and Industry, 2000

	<i>Part-Time</i>	<i>Temporary</i>
<b>FIRM SIZE</b>		
Small (3-9 Workers)	24%*	1%*
Small (10-24 Workers)	27*	6
Small (25-49 Workers)	30*	9
Small (50-199 Workers)	34*	6
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>31*</b>	<b>5*</b>
Midsize (200-999 Workers)	39*	5*
Large (1,000-4,999 Workers)	59*	9
Jumbo (5,000+ Workers)	61*	14
<b>ALL LARGE FIRMS (200 OR MORE WORKERS)</b>	<b>57%</b>	<b>11%</b>
<b>REGION</b>		
Northeast	52%	9%
Midwest	60	10
South	39*	8
West	58	13
<b>INDUSTRY</b>		
Mining/Construction/Wholesale	29%*	17%
Manufacturing	46	5
Transportation/Communication/Utility	58	4*
Retail	44	3*
Finance	56	0*
Service	46	14
State/Local Government	60	23
Health Care	68*	7
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>49%</b>	<b>10%</b>

## SOURCE :

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

\* Estimate is statistically different from All Firms.

## EXHIBIT 4.6

## Average Waiting Period for Health Coverage, by Firm Size, Region, and Industry, 2000

	<i>Average Wait for Health Coverage (Months)</i>
<b>FIRM SIZE</b>	
Small (3–9 Workers)	2.1
Small (10–24 Workers)	2.5*
Small (25–49 Workers)	2.1*
Small (50–199 Workers)	2.0*
<b>ALL SMALL FIRMS (3–199 WORKERS)</b>	<b>2.1*</b>
Midsize (200–999 Workers)	1.5
Large (1,000–4,999 Workers)	1.4
Jumbo (5,000+ Workers)	1.2*
<b>REGION</b>	
Northeast	1.5
Midwest	1.5
South	1.6
West	1.6
<b>INDUSTRY</b>	
Mining/Construction/Wholesale	2.4*
Manufacturing	1.3
Transportation/Communication/Utility	1.2
Retail	2.8*
Finance	1.1*
Service	1.4
State/Local Government	1.2*
Health Care	1.8
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>1.5 MONTHS</b>

## SOURCE :

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

\* Estimate is statistically different from All Firms.

## EXHIBIT 4.7

## Health Benefits Coverage, Eligibility, and Take-Up Rate, by Percentage of Workforce That is Low Wage, 2000

	<i>Percentage of Workers Covered by Health Insurance</i>	<i>Percentage of Workers Eligible for Health Insurance</i>	<i>Take-Up Rate</i>
<b>PERCENT OF WORKFORCE EARNING LESS THAN \$20,000 PER YEAR</b>			
Less than 35%	69%	84%	82%
35% or More	52%*	69%*	75%*

## SOURCE :

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

\* Income estimate is statistically different from All Firms (All Firms data not shown).

## EXHIBIT 4.8

Percentage of Workers Employed in Firms That Offer Nontraditional Partners Health Coverage, by Firm Size, Region, and Industry, 2000

	<i>Nontraditional Partners</i>
<b>FIRM SIZE</b>	
Small (3–9 Workers)	7%*
Small (10–24 Workers)	14
Small (25–49 Workers)	11
Small (50–199 Workers)	8*
<b>ALL SMALL FIRMS (3–199 WORKERS)</b>	<b>9*</b>
Midsize (200–999 Workers)	12*
Large (1,000–4,999 Workers)	13
Jumbo (5,000+ Workers)	28
<b>REGION</b>	
Northeast	24%
Midwest	14
South	12
West	33*
<b>INDUSTRY</b>	
Mining/Construction/Wholesale	10%
Manufacturing	17
Transportation/Communications/Utility	11
Retail	23
Finance	12
Service	24
State/Local Government	24
Health Care	9*
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>19%</b>

## SOURCE :

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

\* Estimate is statistically different from All Firms.

Nontraditional partners: unmarried heterosexual and same-sex couples who live together.

## EXHIBIT 4.9

## Percentage of Workers Employed in Firms That Offer Same Sex and Unmarried Heterosexual Couples Health Coverage, by Firm Size, Region, and Industry, 2000

	<i>Same Sex Couples Eligible</i>	<i>Unmarried Heterosexual Couples Eligible</i>
<b>FIRM SIZE</b>		
Small (3–9 Workers)	3%*	6%
Small (10–24 Workers)	7*	7
Small (25–49 Workers)	10	10
Small (50–199 Workers)	5*	7*
<b>ALL SMALL FIRMS (3–199 WORKERS)</b>	<b>7*</b>	<b>6*</b>
Midsize (200–999 Workers)	9*	8
Large (1,000–4,999 Workers)	11	11
Jumbo (5,000+ Workers)	24	21
<b>REGION</b>		
Northeast	15%	22%
Midwest	11	13
South	10	9
West	25*	24*
<b>INDUSTRY</b>		
Mining/Construction/Wholesale	6%*	7%*
Manufacturing	13	12
Transportation/Communication/Utility	11	4*
Retail	19	22
Finance	11	10
Service	18	18
State/Local Government	23	20
Health Care	7*	6*
High Tech		
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>15%</b>	<b>14%</b>

## SOURCE :

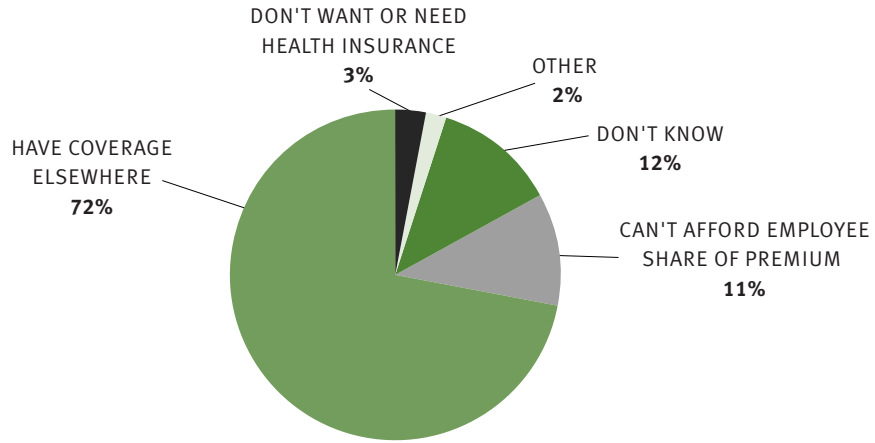
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000.

\* Estimate is statistically different from All Firms.



EXHIBIT 4.10

Most Common Reason Cited by Firms as to Why Workers Decline Coverage for Which They Are Eligible, 2000



SOURCE :

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



EMPLOYER HEALTH BENEFITS  
2000 ANNUAL SURVEY

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# Health Insurance Choice

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SECTION

5

## HEALTH INSURANCE CHOICE

AS EMPLOYER-BASED INSURANCE CHANGED FROM A FEE-FOR-SERVICE TO A MANAGED CARE DOMINATED SYSTEM, EMPLOYEES FOUND THEY COULD NO LONGER SELECT ANY PROVIDER OF THEIR CHOICE. THIS TREND HAS MADE THE ISSUE OF PLAN CHOICE EVEN MORE IMPORTANT, WITH STUDIES SHOWING THAT PEOPLE WITH MORE CHOICE OF PLANS REPORT GREATER SATISFACTION WITH THE HEALTH PLAN IN WHICH THEY ARE ENROLLED AND WITH THE PROVIDERS THAT TREAT THEM.<sup>2</sup>

### PLAN CHOICE

► There have been substantial changes in the types of plans employers offer to their workers.

- The percentage of covered workers who can choose a PPO has risen sharply, nearly quadrupling since 1988 (from 18% to 66%) (EXHIBIT 5.1).
- At the same time, the percentage of workers who can choose a conventional plan continues to decline precipitously, from 90% to 21% since 1988 (EXHIBIT 5.1).
- Fewer employees can choose an HMO plan today (55%) than just a few years ago (64% of workers could do so in 1996).

► The overall percentage of workers who can choose multiple plans has remained fairly constant since 1996, and has actually increased since 1988. In 1988, 47% of all workers were limited to just one plan, compared to 35% in 2000 (EXHIBIT 5.2).

- Health plan choice varies greatly by firm size: 91% of all small firms (3–199 workers) offer just one plan. In contrast 16% of jumbo firms offer only one health plan (EXHIBIT 5.3).

- Workers in the West enjoy more plan choices than workers in the Northeast, the South and the Midwest. Two-thirds (69%) of workers in the West can choose from at least two plans, while just 62% of Midwestern workers can do the same (EXHIBIT 5.5).

► Multiple plans of the same type are most commonly offered with HMOs. 63% of workers have a choice of two or more HMO plans, while large majorities of workers in other types of plans have only one to choose from (EXHIBIT 5.6). This likely reflects the fact that HMOs provide no option for an employee to see providers outside of their network of doctors and hospitals.

### EMPLOYER CONTRIBUTION POLICIES

► Among employers that offer a choice of plans, only 27% of firms contribute the same dollar amount regardless of the plan chosen, unchanged from 1999 (EXHIBIT 5.11, 5.12). This contribution policy encourages cost-sensitive plan selection on the part of workers. With this type of a contribution policy, a worker choosing a costlier plan will have to pay much more out-of-pocket. A policy in which the firm contributes the same percentage of the total premium regardless of the plan chosen remains slightly more prevalent, at 30%.

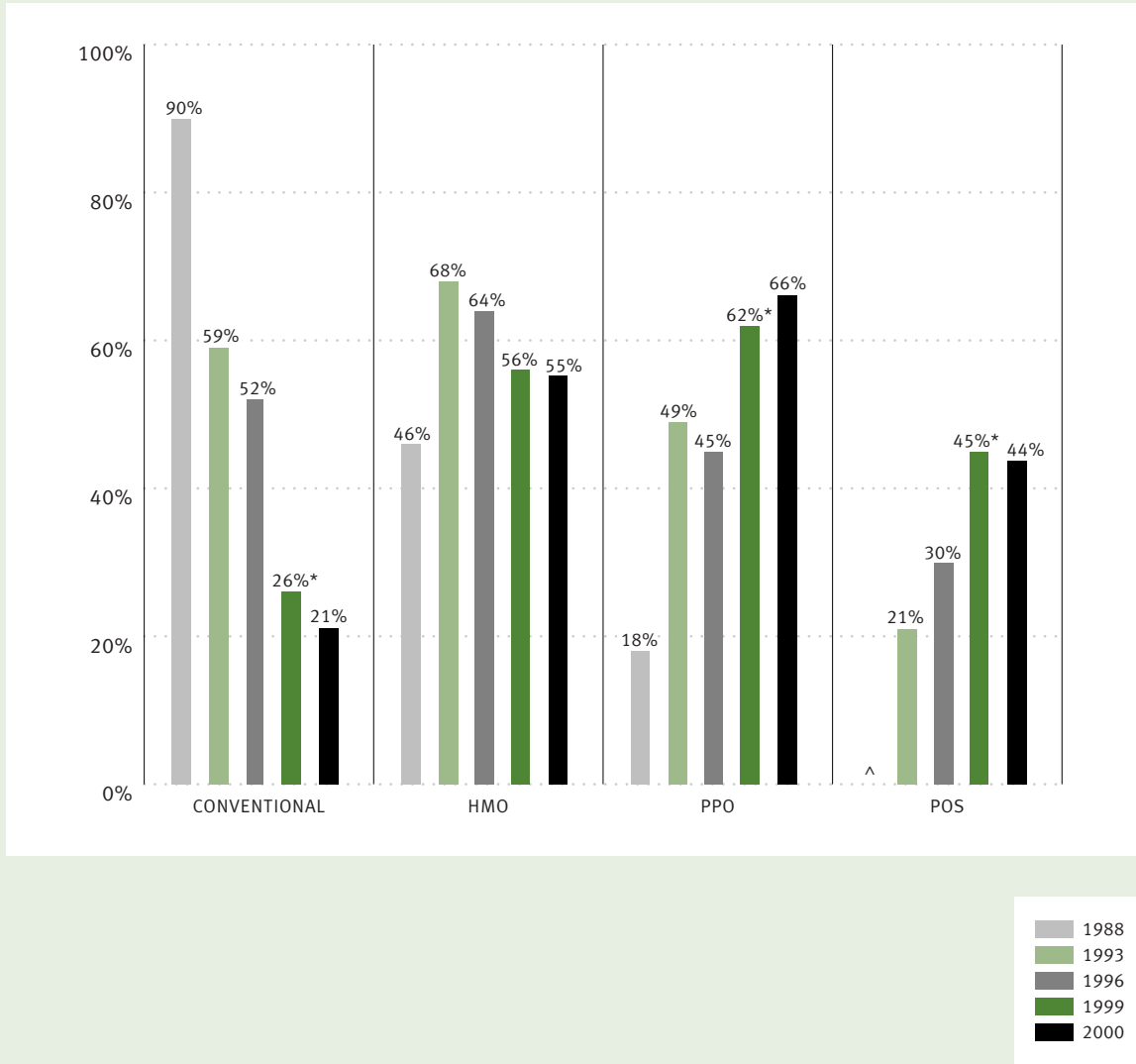
- When firms contribute the same dollar amount regardless of the plan that the worker chooses, jumbo firms are the most likely (46%) to set the contribution at the cost of the lowest cost plan (EXHIBIT 5.13).

#### NOTES:

<sup>2</sup> Ullman R., J.W. Hill, E.C. Scheye, and R.K. Spoeri, "Satisfaction and Choice: A View from the Plans," *Health Affairs* (May/June 1996): 209–217; Davis K., and C. Schoen, "Managed Care, Choice, and Patient Satisfaction," (New York City: Commonwealth Fund, August 1997); Gawande A. et. al., "Does Dissatisfaction with Health Plans Stem from Having No Choice?" *Health Affairs* (September/October 1998): 184–194.

EXHIBIT 5.1

Percentage of Covered Workers With a Choice of Conventional, HMO, PPO, or POS Plans, 1988–2000



SOURCE :

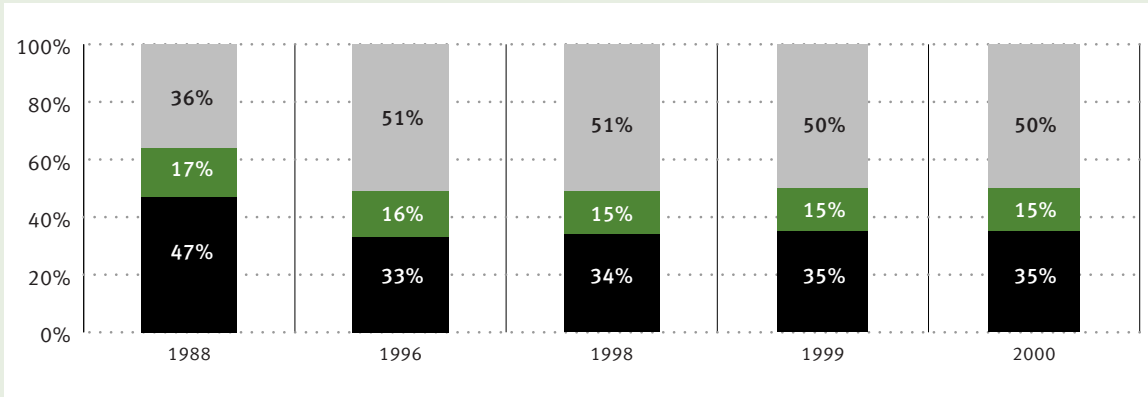
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

\* Estimate is statistically different from the previous year for years 1996–1999, 1999–2000.

^ Information was not obtained for POS plans in 1988.

EXHIBIT 5.2

Percentage of Covered Workers With a Choice of Health Plans, 1988–2000\*



SOURCE :

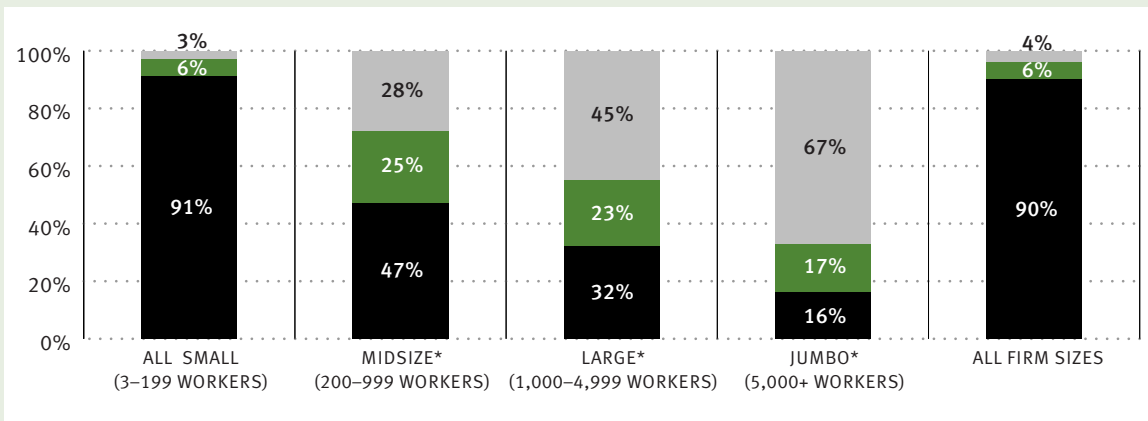
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000; KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1996, 1998.

ONE PLAN  
 TWO PLANS  
 THREE OR MORE PLANS

\* Tests found no statistically different distributions from the previous year for years 1996–1998, 1998–1999, 1999–2000.

EXHIBIT 5.3

Percentage of Employers Providing a Choice of Health Plans, by Firm Size, 2000



SOURCE :

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

ONE PLAN  
 TWO PLANS  
 THREE OR MORE PLANS

\* Distribution is statistically different from All Firm Sizes.

## EXHIBIT 5.4

## Percentage of Covered Workers With a Choice of Health Plans, by Firm Size, 1988–2000

	1 Plan Only	2 Plans	3 or More Plans
<b>1988</b>			
Small (3–9 Workers)	92%	5%	3%
Small (10–24 Workers)	85	7	9
Small (25–49 Workers)	58	24	19
Small (50–199 Workers)	62	22	16
<b>ALL SMALL FIRMS (3–199 WORKERS)</b>	<b>66</b>	<b>19</b>	<b>15</b>
Midsize (200–999 Workers)	39	22	40
Large (1,000–4,999 Workers)	29	17	54
Jumbo (5,000+ Workers)	18	5	77
<b>ALL FIRM SIZES</b>	<b>47%</b>	<b>17%</b>	<b>36%</b>
<b>1996</b>			
Small (3–9 Workers)*	91%	2%	7%
Small (10–24 Workers)	85	12	3
Small (25–49 Workers)	83	14	3
Small (50–199 Workers)*	68	24	8
<b>ALL SMALL FIRMS (3–199 WORKERS)*</b>	<b>80</b>	<b>14</b>	<b>6</b>
Midsize (200–999 Workers)*	47	25	28
Large (1,000–4,999 Workers)*	22	23	55
Jumbo (5,000+ Workers)*	9	10	81
<b>ALL FIRM SIZES</b>	<b>33%</b>	<b>16%</b>	<b>51%</b>
<b>1998</b>			
Small (3–9 Workers)*	95%	4%	1%
Small (10–24 Workers)*	97	3	1
Small (25–49 Workers)	82	14	4
Small (50–199 Workers)*	65	19	16
<b>ALL SMALL FIRMS (3–199 WORKERS)*</b>	<b>77</b>	<b>13</b>	<b>10</b>
Midsize (200–999 Workers)*	41	25	33
Large (1,000–4,999 Workers)*	27	20	54
Jumbo (5,000+ Workers)*	13	9	79
<b>ALL FIRM SIZES</b>	<b>37%</b>	<b>14%</b>	<b>49%</b>
<b>1999</b>			
Small (3–9 Workers)*	92%	5%	4%
Small (10–24 Workers)*	95	2	3
Small (25–49 Workers)	86	11	3
Small (50–199 Workers)*	66	21	13
<b>ALL SMALL FIRMS (3–199 WORKERS)*</b>	<b>81</b>	<b>12</b>	<b>7</b>
Midsize (200–999 Workers)	43	17	40
Large (1,000–4,999 Workers)*	29	30	42
Jumbo (5,000+ Workers)*	7	9	84
<b>ALL FIRM SIZES</b>	<b>35%</b>	<b>15%</b>	<b>50%</b>
<b>2000</b>			
Small (3–9 Workers)*	94%	4%	2%
Small (10–24 Workers)*	95	4	2
Small (25–49 Workers)*	82	14	4
Small (50–199 Workers)*	64	18	18
<b>ALL SMALL FIRMS (3–199 WORKERS)*</b>	<b>76</b>	<b>13</b>	<b>11</b>
Midsize (200–999 Workers)*	42	26	33
Large (1,000–4,999 Workers)*	28	20	53
Jumbo (5,000+ Workers)*	8	11	81
<b>ALL FIRM SIZES</b>	<b>35%</b>	<b>15%</b>	<b>50%</b>

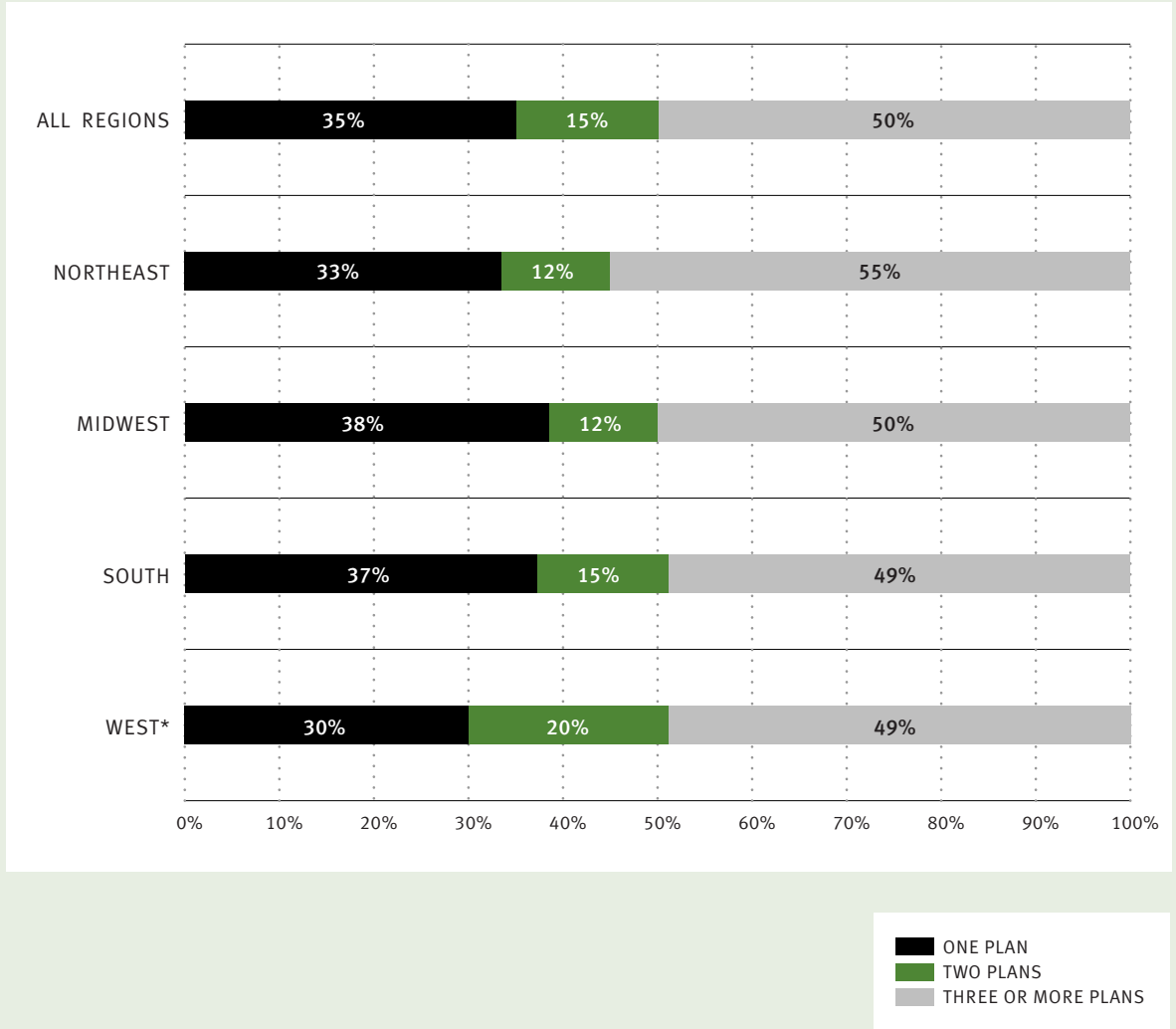
## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1996, 1998.

\* Firm size distribution is statistically different from All Firm Sizes within given year. No significance tests were run for 1988.

EXHIBIT 5.5

Percentage of Covered Workers With a Choice of Health Plans, by Region, 2000



SOURCE :

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

\* Regional distribution is statistically different from All Regions.



## EXHIBIT 5.6

For Employers That Offer a Conventional, HMO, PPO, or POS Plan, Percentage of Covered Workers With a Choice of Health Plans, by Firm Size, 2000

	<i>1 Plan Only</i>	<i>2 Plans</i>	<i>3 or More Plans</i>
<b>CONVENTIONAL PLANS</b>			
Small (3–9 Workers)	NSD	NSD	NSD
Small (10–24 Workers)	NSD	NSD	NSD
Small (25–49 Workers)	NSD	NSD	NSD
Small (50–199 Workers)	99%	0%	1%
<b>ALL SMALL FIRMS (3–199 WORKERS)*</b>	<b>99</b>	<b>0</b>	<b>0</b>
Midsize (200–999 Workers)	85	10	5
Large (1,000–4,999 Workers)	83	6	11
Jumbo (5,000+ Workers)*	77	6	17
<b>ALL FIRM SIZES</b>	<b>87%</b>	<b>4%</b>	<b>9%</b>
<b>HMO PLANS</b>			
Small (3–9 Workers)*	99%	1%	0%
Small (10–24 Workers)*	99	1	0
Small (25–49 Workers)*	70	29	2
Small (50–199 Workers)*	72	22	6
<b>ALL SMALL FIRMS (3–199 WORKERS)*</b>	<b>82</b>	<b>15</b>	<b>3</b>
Midsize (200–999 Workers)*	60	25	15
Large (1,000–4,999 Workers)*	39	26	35
Jumbo (5,000+ Workers)*	14	14	72
<b>ALL FIRM SIZES</b>	<b>37%</b>	<b>17%</b>	<b>46%</b>
<b>PPO PLANS</b>			
Small (3–9 Workers)*	97%	4%	0%
Small (10–24 Workers)*	100	0	0
Small (25–49 Workers)*	97	3	0
Small (50–199 Workers)*	84	4	12
<b>ALL SMALL FIRMS (3–199 WORKERS)*</b>	<b>90</b>	<b>3</b>	<b>7</b>
Midsize (200–999 Workers)	78	15	7
Large (1,000–4,999 Workers)	72	16	12
Jumbo (5,000+ Workers)*	60	24	16
<b>ALL FIRM SIZES</b>	<b>74%</b>	<b>15%</b>	<b>11%</b>
<b>POS PLANS</b>			
Small (3–9 Workers)*	87%	13%	0%
Small (10–24 Workers)*	97	0	3
Small (25–49 Workers)	NSD	NSD	NSD
Small (50–199 Workers)*	87	10	4
<b>ALL SMALL FIRMS (3–199 WORKERS)*</b>	<b>90</b>	<b>8</b>	<b>3</b>
Midsize (200–999 Workers)	70	17	13
Large (1,000–4,999 Workers)	66	15	19
Jumbo (5,000+ Workers)*	49	22	30
<b>ALL FIRM SIZES</b>	<b>67%</b>	<b>16%</b>	<b>17%</b>

## SOURCE :

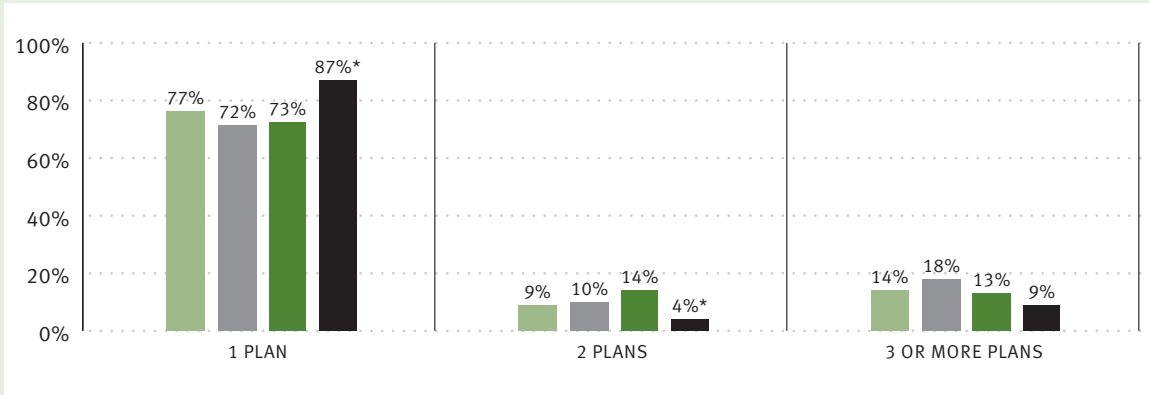
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000.

\* Firm size distribution is statistically different from All Firm Sizes within plan type.

NSD: Not sufficient data.

EXHIBIT 5.7

Percentage of Covered Workers in Firms Offering a Choice of Conventional Plans, 1996–2000



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Estimate is statistically different from the previous year for years 1996–1998, 1998–1999, 1999–2000.

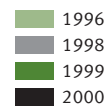
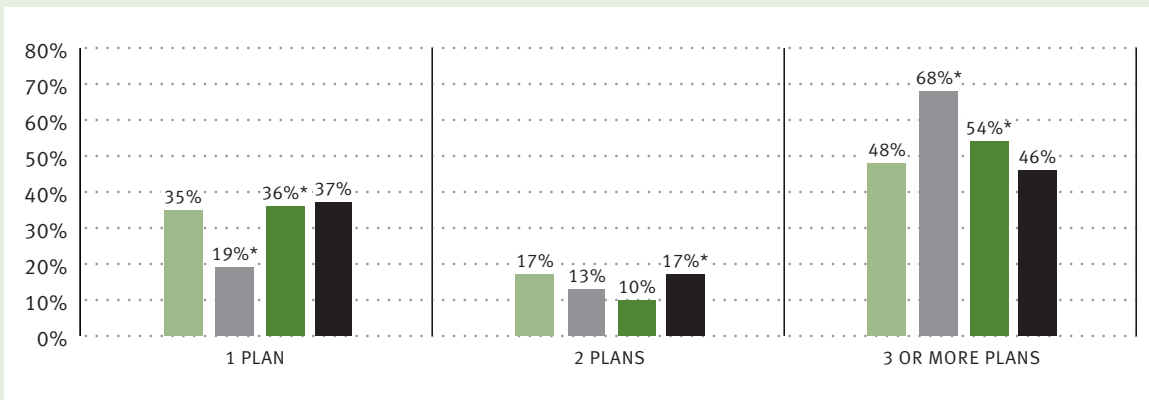


EXHIBIT 5.8

Percentage of Covered Workers in Firms Offering a Choice of HMO Plans, 1996–2000



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Estimate is statistically different from the previous year for years 1996–1998, 1998–1999, 1999–2000.

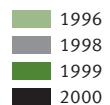
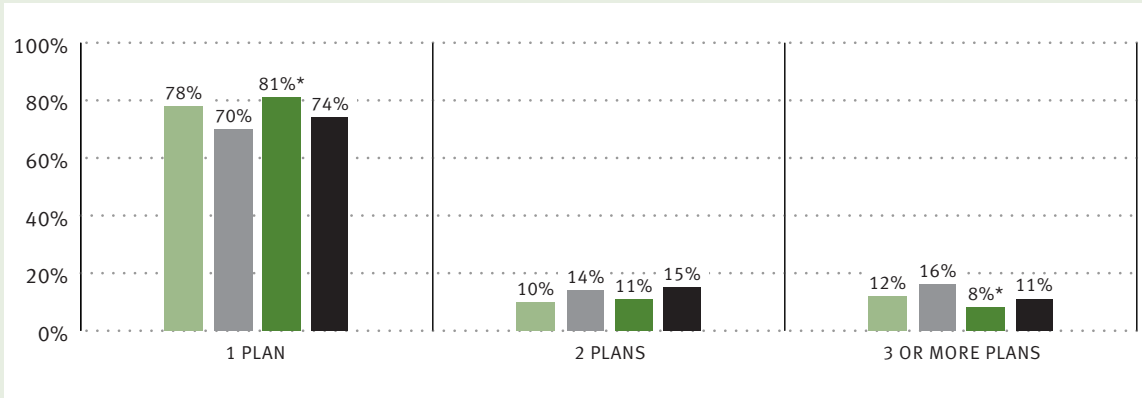


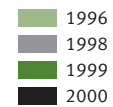
EXHIBIT 5.9

Percentage of Covered Workers in Firms Offering a Choice of PPO Plans, 1996–2000



SOURCE :

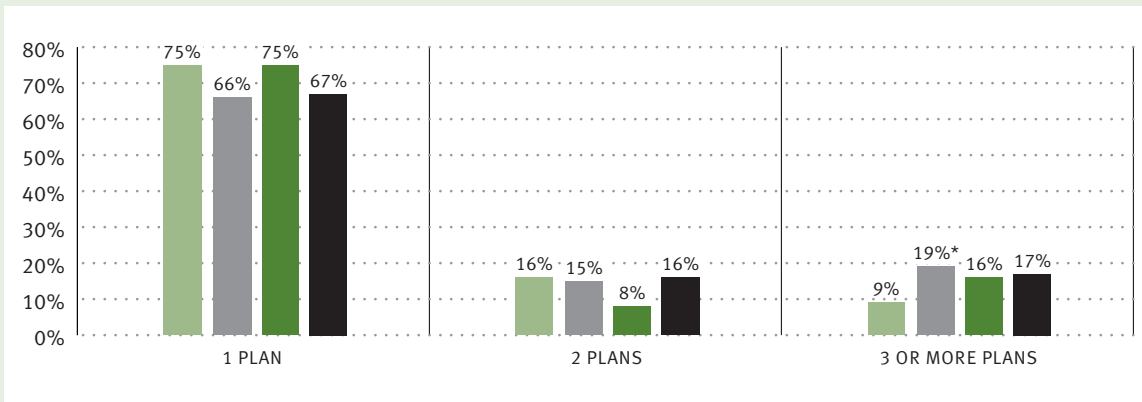
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.



\* Estimate is statistically different from the previous year for years 1996–1998, 1998–1999, 1999–2000.

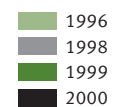
EXHIBIT 5.10

Percentage of Covered Workers in Firms Offering a Choice of POS Plans, 1996–2000



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.



\* Estimate is statistically different from the previous year for years 1996–1998, 1998–1999, 1999–2000.

## EXHIBIT 5.11

Contribution Policies for Covered Workers Who Are Offered a Choice of Health Plans,  
by Firm Size, 2000

	<i>All Small Firms (3-199 Workers)*</i>	<i>Midsize (200-999 Workers)</i>	<i>Large (1,000-4,999 Workers)*</i>	<i>Jumbo (5,000+ Workers)</i>	<i>All Firm Sizes</i>
<b>EMPLOYEES OFFERED ONE PLAN ONLY</b>	<b>76%</b>	<b>42%</b>	<b>28%</b>	<b>8%</b>	<b>35%</b>
<b>EMPLOYEES OFFERED MORE THAN ONE PLAN</b>					
Company contributes the same dollar amount regardless of plan chosen	37%	29%	36%	22%	27%
Workers contribute the same dollar amount regardless of plan chosen	8	8	7	7	7
Company contributes same percentage of total premium regardless of plan chosen	29	33	28	31	30
Company contribution varies based on other factors	23	27	27	37	32
Other	3	3	2	3	3
Don't Know	0	1	1	1	1
<b>TOTAL</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>	<b>100%</b>

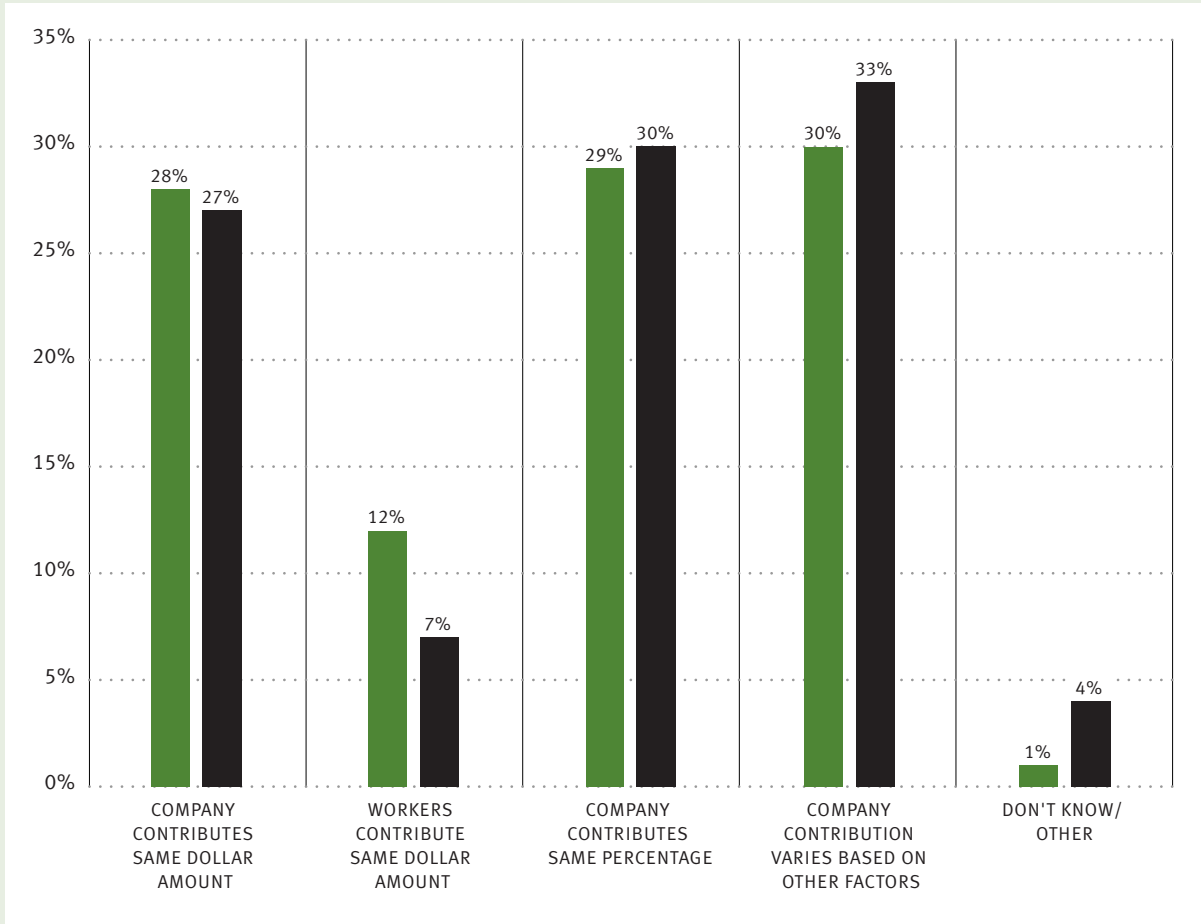
## SOURCE :

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

\* Firm size distribution is statistically different from All Firm Sizes for employees offered more than one plan.

EXHIBIT 5.12

Contribution Policies for Covered Workers Who Are Offered a Choice of Health Plans, 1999 and 2000



1999  
2000\*

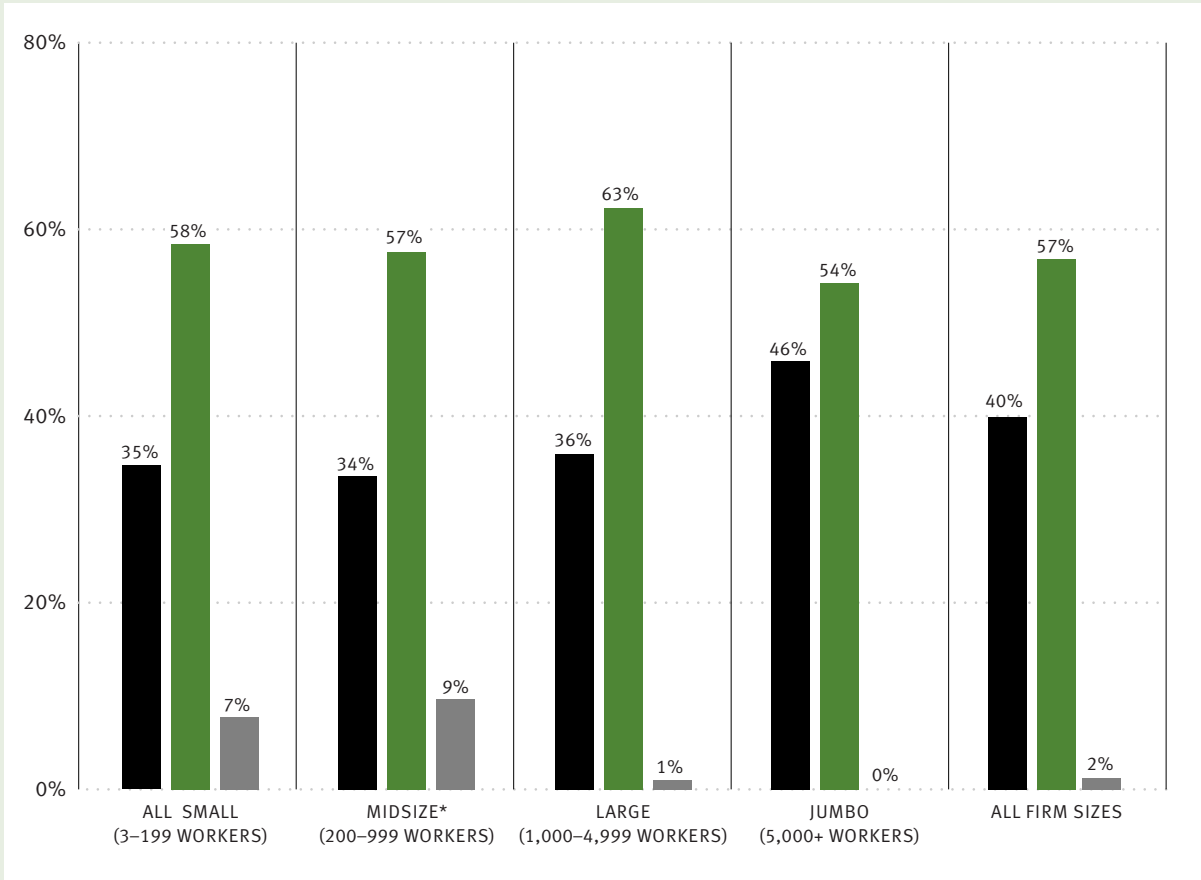
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000.

\* Distribution is statistically different from previous year for years 1999-2000.

EXHIBIT 5.13

Among Firms Contributing the Same Dollar Amount, Percentage of Covered Workers Whose Firm Sets Their Contribution Policy at the Lowest Cost Plan Firm Offers, by Firm Size, 2000



YES  
 NO  
 DON'T KNOW

SOURCE :

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

\* Distribution is statistically different from All Firm Sizes.

EMPLOYER HEALTH BENEFITS  
2000 ANNUAL SURVEY

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Market  
Shares of  
Health Plans

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SECTION

6

## MARKET SHARES OF HEALTH PLANS

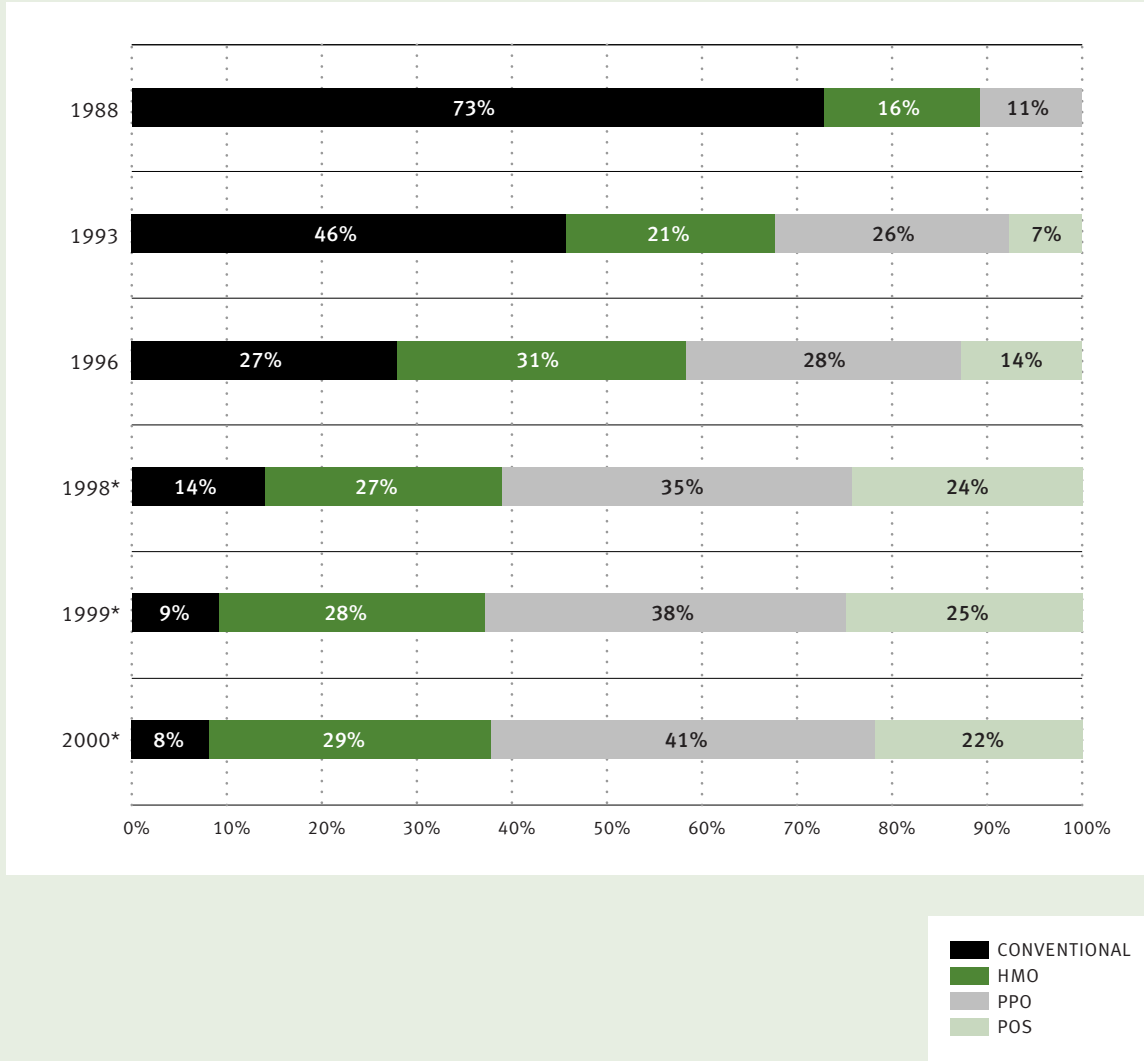
IN RESPONSE TO HIGH HEALTH CARE INFLATION, HMO ENROLLMENT GREW RAPIDLY IN THE LATE 1980S AND THE EARLY-TO-MID 1990S IN THE EMPLOYER-BASED HEALTH CARE MARKET. HOWEVER, IN RECENT YEARS, AS THE COST OF HEALTH INSURANCE HAS REMAINED RELATIVELY STABLE AND A CONSUMER BACKLASH AGAINST RESTRICTIVE MANAGED CARE PLANS HAS DEVELOPED, HMO MARKET SHARE HAS STAGNATED, WHILE PPO ENROLLMENT HAS INCREASED. CONVENTIONAL PLAN ENROLLMENT HAS CONTINUED TO FALL. THE CURRENT UPSWING IN PREMIUMS, HOWEVER, MAY REVERSE THE TREND TOWARDS LESS RESTRICTIVE BUT TRADITIONALLY MORE EXPENSIVE OPTIONS SUCH AS PPO AND POS PLANS.

- ▶ As the downward spiral in conventional plan enrollment proceeds, PPO plans continue to thrive. Conventional plans represent only 8% of the overall market, while PPO plans hold a plurality in the market, 41% of health plan enrollment (EXHIBIT 6.1). This marks the third year in a row in which PPO plans held the largest enrollment. The sustained growth in PPO enrollment may be due in part to the continued prosperity in the overall economy. HMO enrollment remained essentially unchanged at 29% while POS enrollment declined slightly during the past year to 22% after rising rapidly in recent years.
  - Contrary to the national trends in PPO enrollment, HMOs continue to dominate enrollment in the West (EXHIBIT 6.2). HMO enrollment in the West comprises 42% of the market, compared with 29% nationally. POS plans have a significantly larger market share in the Northeast than in other regions, at 30%.
- Plan enrollment does not vary a great deal by industry, with the exception of state and local government. Government workers are significantly less likely to enroll in conventional plans, and much more likely to enroll in HMOs. PPO plans hold a plurality in all industries (EXHIBIT 6.2).
- The smallest firms (3–9 workers) continue to have the largest conventional plan enrollment, at 18% (EXHIBIT 6.2). HMO enrollment, on the other hand, generally increases along with firm size. Workers in jumbo firms (5,000+) have the largest HMO market share, at 37%. PPOs have close to half the market share in all firm sizes except the smallest and the largest.
- ▶ 20% of covered workers in HMO plans are enrolled in open access plans, which allow members to see physician specialists without obtaining a referral from a primary care physician (EXHIBIT 6.3). The prevalence of such plans is indicative of the desire among workers for greater access to specialists at the expense of reduced cost control.
  - For workers choosing HMO plans, the highest percentage are enrolled in Independent Practice Association (IPA) plans (41%), in which the HMO contracts with a physician organization which, in turn, contracts with independent physicians. Staff and group model HMOs, which employ health care providers directly or through a dedicated group of doctors, comprise just 21% of the market (EXHIBIT 6.4). This reflects a shift from the early HMOs — which were primarily staff and group model plans where the physicians contracted only with one plan — to more loosely organized arrangements.



EXHIBIT 6.1

Health Plan Enrollment for Covered Workers, by Plan Type, 1988–2000



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
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, 1999–2000.

## EXHIBIT 6.2

## Health Plan Enrollment, by Firm Size, Region, and Industry, 2000

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>
<b>FIRM SIZE</b>				
Small (3–9 Workers)	18%	28%	36%	18%
Small (10–24 Workers)	10	17*	43	30
Small (25–49 Workers)	5	22	46	27
Small (50–199 Workers)	8	19*	48	25
<b>ALL SMALL FIRMS (3–199 WORKERS)</b>	<b>8</b>	<b>21*</b>	<b>47</b>	<b>24</b>
Midsized (200–999 Workers)	7	22*	51*	19
Large (1,000–4,999 Workers)	8	27	44	21
Jumbo (5,000+ Workers)	7	37*	35*	21
<b>REGION</b>				
Northeast	8%	28%	34%	30%*
Midwest	11	20*	46	23
South	8	27	47	18
West	5	42*	30*	23
<b>INDUSTRY</b>				
Mining/Construction/Wholesale	10%	17%*	53%	20%
Manufacturing	8	26	43	22
Transportation/Communication/Utility	6	40	41	14*
Retail	6	23	44	27
Finance	7	32	33	28
Service	8	28	41	23
State/Local Government	3*	37*	47	13*
Health Care	16	26	32*	26
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>8%</b>	<b>29%</b>	<b>41%</b>	<b>22%</b>

## SOURCE :

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

\* Estimate is statistically different from All Firm Sizes, Regions, and Industries.

## EXHIBIT 6.3

## Percentage of Covered Workers Whose HMO Plans Are Open Access Plans, by Firm Size, Region, and Industry, 2000

	Yes	No	Don't Know
<b>FIRM SIZE</b>			
All Small Firms (3–199 Workers)*	18%	75%	7%
Midsize (200–999 Workers)*	28	72	0
Large (1,000–4,999 Workers)*	26	72	2
Jumbo (5,000+ Workers)	16	81	2
<b>REGION</b>			
Northeast*	14%	80%	5%
Midwest	22	78	0
South	17	80	2
West	25	72	4
<b>INDUSTRY</b>			
Mining/Construction/Wholesale*	16%	71%	14%
Manufacturing	25	75	0
Transportation/Communication/Utility	16	84	0
Retail	14	87	0
Finance	19	78	3
Service	22	75	3
State/Local Government*	12	87	1
Health Care*	20	69	10
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>20%</b>	<b>78%</b>	<b>3%</b>

## SOURCE :

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

\* Distribution is statistically different from All Firm Sizes, Regions, and Industries.

Open access plan: a term describing a member's ability to self-refer to a health care provider for specialty care. Open access arrangements allow a member to see a participating provider without a referral from another doctor. Also called "open panel".

## EXHIBIT 6.4

## Percentage of Covered Workers Enrolled in Various Types of HMOs, by Firm Size, Region, and Industry, 2000

	IPA	Staff/Group	Mixed	Don't Know
<b>FIRM SIZE</b>				
All Small Firms (3–199 Workers)*	34%	16%	50%	0%
Midsize (200–999 Workers)*	44	7	49	0
Large (1,000–4,999 Workers)*	50	16	34	0
Jumbo (5,000+ Workers)*	40	28	30	2
<b>REGION</b>				
Northeast*	65%	3%	31%	2%
Midwest*	35	15	50	1
South	36	27	35	2
West	36	29	35	0
<b>INDUSTRY</b>				
Mining/Construction/Wholesale*	29%	14%	58%	0%
Manufacturing*	51	8	40	0
Transportation/Communication/Utility*	22	39	40	0
Retail	42	19	39	0
Finance	53	9	35	3
Service	41	27	32	0
State/Local Government	46	25	29	1
Health Care*	40	10	40	10
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>41%</b>	<b>21%</b>	<b>37%</b>	<b>1%</b>

## SOURCE :

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

\* Distribution is statistically different from All Firm Sizes, Regions, and Industries.

IPA (Independent Practice Association) model HMO: an HMO model in which the HMO contracts with a physician organization, which, in turn, contracts with independent physicians. The IPA physicians practice in their own offices and continue to see fee-for-service patients.

Staff model HMO: a model in which the HMO employs health care providers directly. The providers are employees of the HMO, and provide care exclusively to HMO members.

Group model HMO: an HMO in which the plan contracts exclusively with a single group of physicians.

EMPLOYER HEALTH BENEFITS  
2000 ANNUAL SURVEY

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Employee  
Contributions for  
Premiums and  
Cost Sharing

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SECTION

7

## EMPLOYEE CONTRIBUTIONS FOR PREMIUMS AND COST SHARING

ONE WAY THAT EMPLOYERS MAY RESPOND TO THE RISING COST OF HEALTH INSURANCE IS TO PASS SOME PORTION OF THE INCREASED COSTS ON TO EMPLOYEES. MANY RESEARCH STUDIES HAVE FOUND THAT EMPLOYEES' CHOICE OF HEALTH PLANS IS HIGHLY INFLUENCED BY WHAT THEY MUST CONTRIBUTE MONTHLY FOR THE COST OF ALTERNATIVE PLANS.<sup>3</sup> INCREASING EMPLOYEES' CONTRIBUTIONS FOR MONTHLY PREMIUMS MAY MAKE THEM MORE CONSCIOUS OF COSTS AND MORE LIKELY TO SELECT LOWER COST PLANS, THOUGH AT THE SAME TIME IT MAY LEAD TO FEWER WORKERS TAKING UP COVERAGE.<sup>4</sup> SIMILARLY, WHILE INCREASED CO-PAYMENTS (COST-SHARING ARRANGEMENT IN WHICH A MEMBER PAYS A SPECIFIED CHARGE PER SERVICE) AND DEDUCTIBLES (THE SPECIFIED AMOUNT A MEMBER MUST PAY BEFORE INSURANCE BEGINS) MAY ENCOURAGE MORE PRUDENT USE OF SERVICES, THEY MAY LEAD TO LESS USE OF NEEDED AS WELL AS SELECTIVE SERVICES, PARTICULARLY AMONG LOW-EARNING INDIVIDUALS.

FROM 1988 TO 1995, EMPLOYERS INCREASED THE AMOUNT THAT WORKERS PAY FOR COVERAGE AND SERVICES. SINCE THEN, HOWEVER, EMPLOYEE CONTRIBUTIONS HAVE REMAINED MORE STABLE, EVEN WITH THE RETURN OF RAPIDLY RISING PREMIUMS. THIS MAY BE A REFLECTION OF THE STRONG ECONOMY AND THE NEED FOR EMPLOYERS TO ATTRACT WORKERS. PATIENT COST-SHARING IN THE FORM OF CO-PAYS HAS GONE UP, BUT DEDUCTIBLES HAVE REMAINED STEADY.

### WORKER CONTRIBUTIONS FOR HEALTH INSURANCE PREMIUMS

▶ Despite sharply rising premiums, workers are not contributing any more out-of-pocket in 2000 than they did in 1999. This stability

is likely due to the strong economy and competition for workers. The average monthly worker contribution for single coverage in 2000 is \$28, and \$138 for family coverage (EXHIBIT 7.1).

- *Absolute worker contributions for premiums are stable across all plan types, with the exception of single conventional coverage, which experienced an increase of \$7 per month from 1999 (EXHIBITS 7.5 and 7.6).*

#### NOTES:

<sup>3</sup> Morrissey M., *Price Sensitivity in Health Care: Implications for Health Care Policy*. (Washington, DC: The NFIB Foundation. 1992), 40–45; Feldman R. et. al., "The Demand for Employment-Based Health Insurance Plans," *Journal of Human Resources* (1989): 115–142; Short P., and A. Taylor, "Premiums, Benefits and Employee Choice of Health Options." *Journal of Health Economics* (1989): 293–312; Buchmueller T., and P. Feldstein, "The Effect of Price on Switching Among Health Plans," *Journal of Health Economics* (Spring, 1997): 231–247.

<sup>4</sup> Gabel J. et. al., "How Employers Encourage and Discourage Enrollment in Their Health Plans," Unpublished Research (HRET 2000).

▶ Similarly, the percentage of premiums paid by workers for single and family coverage has not changed significantly since 1999 (EXHIBIT 7.2). Since 1996, the percentage paid by workers for single coverage has actually declined, from 21% to 14%. Over that same time period, worker contributions for family coverage have remained statistically unchanged, constituting 27% of the cost of family coverage in 2000 and 28% in 1996.

- *Workers in all small firms (3–199 workers) generally pay more for family coverage as a percentage of the total premium. These firms pay 66% of the total premium for family coverage, versus an average of 73% across all firm sizes (EXHIBIT 7.7).*

▶ Firms with a high proportion of low wage workers (35% or more of workers earning less than \$20,000 per year) pay a lower percentage of the total premium for both single and family coverage than firms with higher wage levels (EXHIBIT 7.24).

- *Firms with many low-wage workers contribute just 63% of the total premium for family coverage, compared with an average of 73% in all firms. For single coverage, the difference is smaller (82% of the premium versus 86% for all firms).*

#### **COST SHARING FOR SERVICES**

▶ Deductibles increased modestly since 1999, as PPO out-of-network and POS in-network deductibles increased by a statistically significant margin (EXHIBIT 7.16). Deductibles in conventional plans changed little.

- *Deductibles in conventional, PPO, and POS plans do not vary by firm size, but some regional variations do exist (EXHIBITS 7.17 and 7.18). Workers in the Northeast typically pay smaller deductibles for PPO preferred providers (i.e., providers who are part of a plan's approved list of doctors and hospitals), while those in the Midwest pay more — \$119 and \$276 respectively for single coverage, versus a national average of \$187.*

▶ Since 1996 workers have experienced a shift to higher copays in HMOs. \$15 copays are now more common than \$5 copays for physician visits — a change from last year — though \$10 copays are still the most common (EXHIBIT 7.19).

- *Workers in staff and group model HMOs are significantly more likely to have no copay for physician visits than workers in other model types (EXHIBIT 7.20). For example, 18% of workers in such HMOs have no copayment, compared with an average of 6% in all HMO types.*

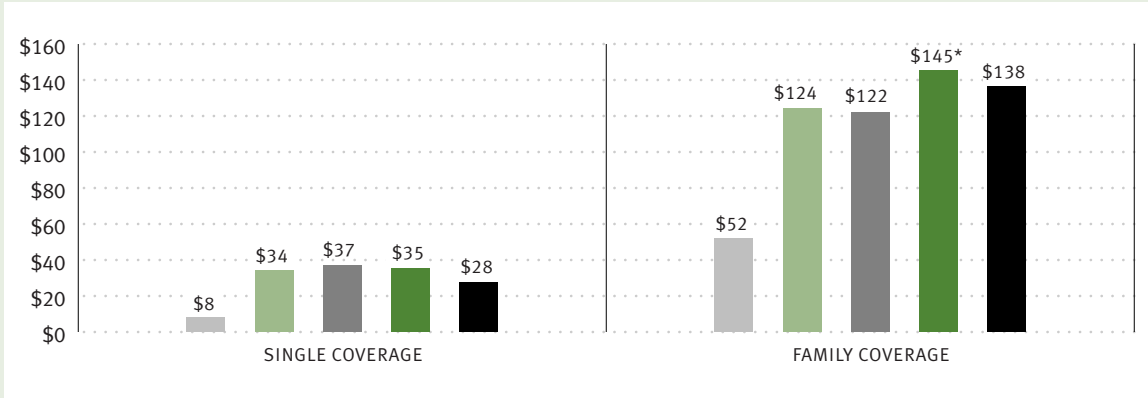
▶ In conventional, PPO, and POS plans, coinsurance rates — a cost sharing arrangement in which a member pays a specified percentage of the health care bill — are on average significantly less for workers in all small firms (3–199 workers). Surprisingly, workers in the largest firms (5,000+ workers) often face higher coinsurance levels than in all firm sizes (EXHIBITS 7.21–7.23).

- *Coinsurance rates in conventional plans vary significantly by firm size. Workers in all small firms (3–199 workers) pay lower coinsurance rates than those in all firm sizes, while those in large and jumbo firms pay higher rates (EXHIBIT 7.21). For example, 34% of workers in firms with 3–199 workers pay a coinsurance rate of less than 20%, compared with only 3% in the largest firms.*

- *In both PPO and POS plans, workers in all small firms (3–199 workers) typically have significantly lower coinsurance rates than in all firms for preferred as well as non-preferred providers (EXHIBITS 7.22 and 7.23). For example, 55% of workers in all small firms pay a coinsurance of 10% or less for PPO preferred providers, versus 47% in all firm sizes.*

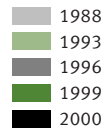
EXHIBIT 7.1

Average Monthly Worker Contribution for Single and Family Coverage, 1988–2000



SOURCE :

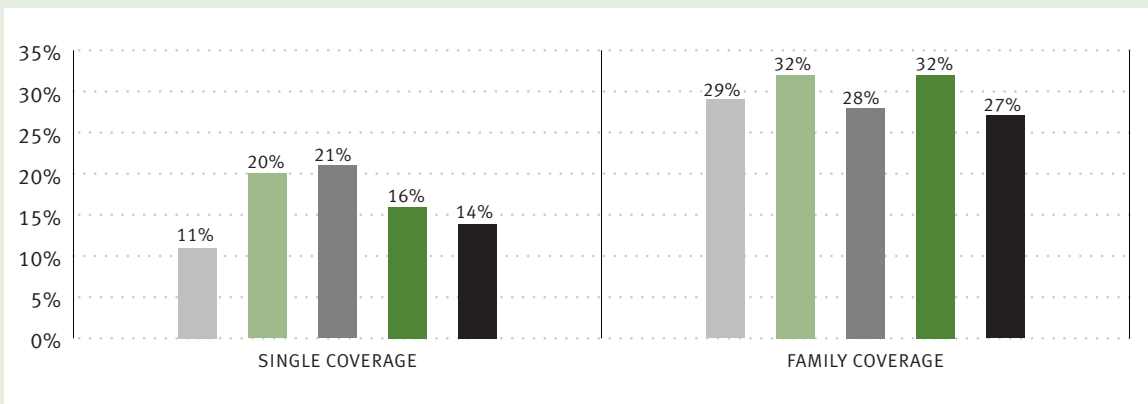
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.



\* Estimate is statistically different from the previous year for years 1996–1999, 1999–2000.

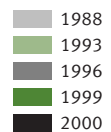
EXHIBIT 7.2

Percentage of Premium Paid by Covered Workers for Single and Family Coverage, 1988–2000\*



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.



\* Tests found no statistically different estimate from the previous year for years 1996–1999, 1999–2000.



## EXHIBIT 7.3

## Average Monthly Worker Premium Contributions, by Firm Size, 2000

	<i>Single Coverage</i>	<i>Family Coverage</i>
<b>CONVENTIONAL PLANS</b>		
All Small Firms (3–199 Workers)	\$19	\$114
Midsize (200–999 Workers)	23	89
Large (1,000–4,999 Workers)	22	114
Jumbo (5,000+ Workers)	39*	135
<b>ALL FIRM SIZES</b>	<b>\$27</b>	<b>\$119</b>
<b>HMO PLANS</b>		
All Small Firms (3–199 Workers)	\$32	\$170*
Midsize (200–999 Workers)	16*	120
Large (1,000–4,999 Workers)	36	150
Jumbo (5,000+ Workers)	26	120
<b>ALL FIRM SIZES</b>	<b>\$28</b>	<b>\$135</b>
<b>PPO PLANS</b>		
All Small Firms (3–199 Workers)	\$24	\$173*
Midsize (200–999 Workers)	28	138
Large (1,000–4,999 Workers)	36	127
Jumbo (5,000+ Workers)	31	125
<b>ALL FIRM SIZES</b>	<b>\$29</b>	<b>\$143</b>
<b>POS PLANS</b>		
All Small Firms (3–199 Workers)	\$25	\$158
Midsize (200–999 Workers)	29	141
Large (1,000–4,999 Workers)	29	141
Jumbo (5,000+ Workers)	31	127
<b>ALL FIRM SIZES</b>	<b>\$29</b>	<b>\$141</b>
<b>ALL PLANS</b>		
All Small Firms (3–199 Workers)	\$26	\$163*
Midsize (200–999 Workers)	25	131
Large (1,000–4,999 Workers)	33	135
Jumbo (5,000+ Workers)	30	124
<b>ALL FIRM SIZES</b>	<b>\$28</b>	<b>\$138</b>

## SOURCE :

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

\* Firm size estimate is statistically different from All Firm Sizes within a plan type.

## EXHIBIT 7.4

## Average Monthly Worker Premium Contributions, by Region, 2000

	<i>Single Coverage</i>	<i>Family Coverage</i>
<b>CONVENTIONAL PLANS</b>		
Northeast	\$28	\$109
Midwest	25	105
South	30	144
West	25	82
<b>ALL REGIONS</b>	<b>\$27</b>	<b>\$119</b>
<b>HMO PLANS</b>		
Northeast	\$31	\$115
Midwest	29	114
South	28	157
West	26	126
<b>ALL REGIONS</b>	<b>\$28</b>	<b>\$135</b>
<b>PPO PLANS</b>		
Northeast	\$28	\$111*
Midwest	34	130
South	27	157
West	28	146
<b>ALL REGIONS</b>	<b>\$29</b>	<b>\$143</b>
<b>POS PLANS</b>		
Northeast	\$32	\$107*
Midwest	26	132
South	31	151
West	24	176
<b>ALL REGIONS</b>	<b>\$29</b>	<b>\$141</b>
<b>ALL PLANS</b>		
Northeast	\$30	\$111*
Midwest	30	124
South	28	155
West	26	141
<b>ALL REGIONS</b>	<b>\$28</b>	<b>\$138</b>

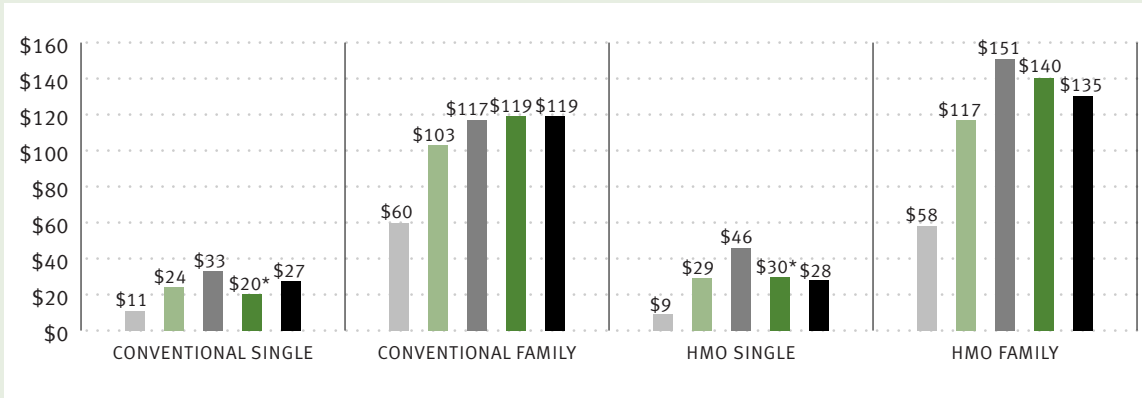
## SOURCE :

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

\* Region estimate is statistically different from All Regions within a plan type.

EXHIBIT 7.5

Monthly Worker Contributions for Single and Family Coverage in Conventional and HMO Plans, 1988–2000



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

\* Estimate is statistically different from the previous year for years 1996–1999, 1999–2000.

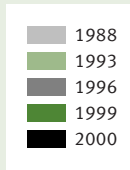
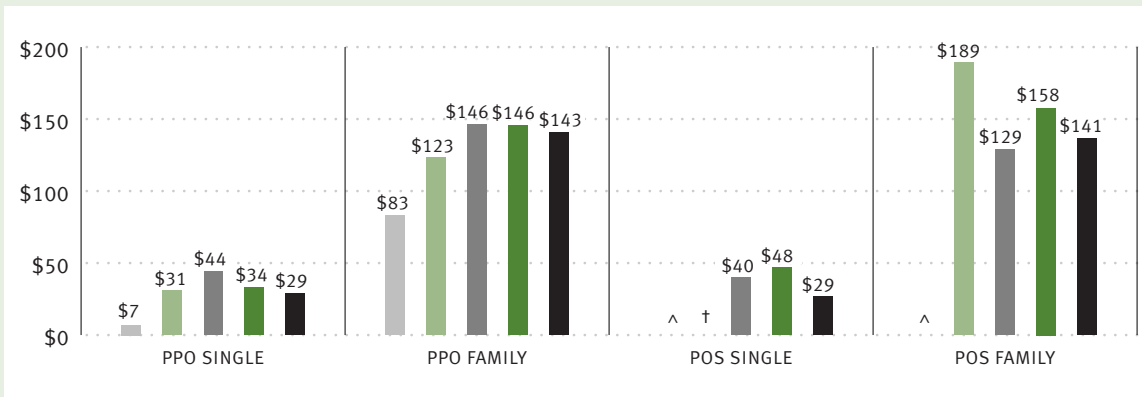


EXHIBIT 7.6

Monthly Worker Contributions for Single and Family Coverage in PPO and POS Plans, 1988–2000\*



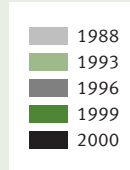
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

\* Tests found no statistically different estimates from the previous year for years 1996–1999, 1999–2000.

^ Information was not obtained for POS plans in 1988.

† Information was not obtained for POS single coverage in 1993.



## EXHIBIT 7.7

## Percentage of Premium Paid by Firm for Typical Covered Worker in Conventional, HMO, PPO, and POS Plans, by Firm Size, 2000

	<i>Single Coverage</i>	<i>Family Coverage</i>
<b>CONVENTIONAL PLANS</b>		
All Small Firms (3–199 Workers)	92%	80%
Midsize (200–999 Workers)	88	82
Large (1,000–4,999 Workers)	89	77
Jumbo (5,000+ Workers)	82*	76
<b>ALL FIRM SIZES</b>	<b>87%</b>	<b>78%</b>
<b>HMO PLANS</b>		
All Small Firms (3–199 Workers)	83%	63%*
Midsize (200–999 Workers)	91*	74
Large (1,000–4,999 Workers)	80	71
Jumbo (5,000+ Workers)	86	75
<b>ALL FIRM SIZES</b>	<b>85%</b>	<b>72%</b>
<b>PPO PLANS</b>		
All Small Firms (3–199 Workers)	87%	65%*
Midsize (200–999 Workers)	88	74
Large (1,000–4,999 Workers)	82	76*
Jumbo (5,000+ Workers)	84	76
<b>ALL FIRM SIZES</b>	<b>85%</b>	<b>72%</b>
<b>POS PLANS</b>		
All Small Firms (3–199 Workers)	86%	66%
Midsize (200–999 Workers)	84	71
Large (1,000–4,999 Workers)	85	74
Jumbo (5,000+ Workers)	84	77*
<b>ALL FIRM SIZES</b>	<b>85%</b>	<b>72%</b>
<b>ALL PLAN TYPES</b>		
All Small Firms (3–199 Workers)	86%	66%*
Midsize (200–999 Workers)	88	74
Large (1,000–4,999 Workers)	83*	74
Jumbo (5,000+ Workers)	86	76
<b>ALL FIRM SIZES</b>	<b>86%</b>	<b>73%</b>

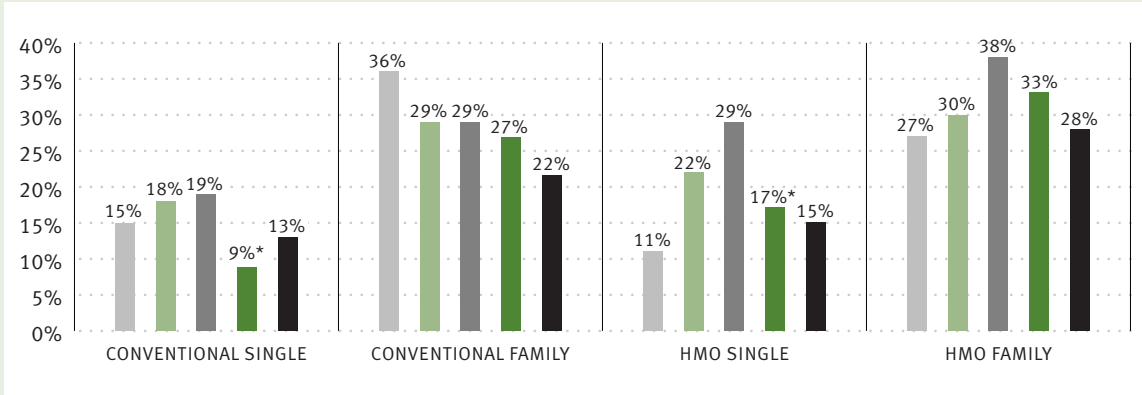
## SOURCE :

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

\* Firm size estimate is statistically different from All Firms within a plan type.

EXHIBIT 7.8

Percentage of Premium Paid by Workers in Conventional and HMO Plans, 1988–2000



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

\* Estimate is statistically different from the previous year for years 1996–1999, 1999–2000.

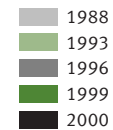
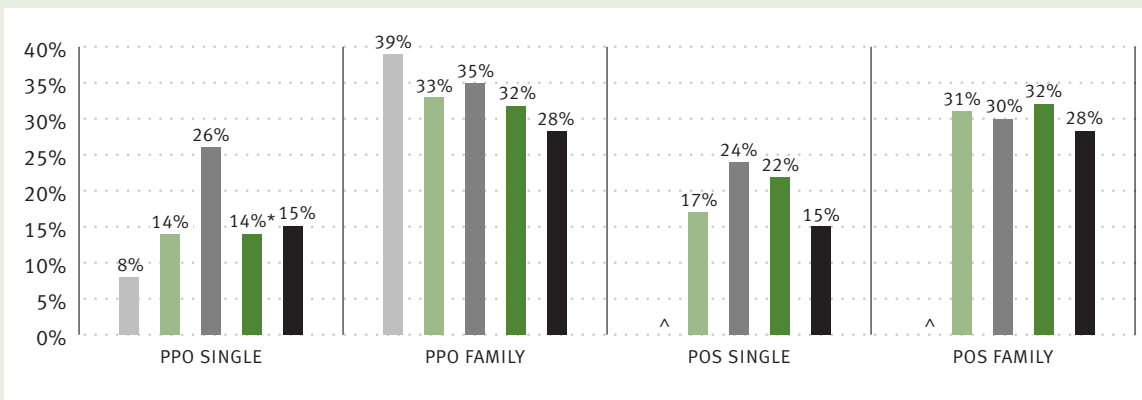


EXHIBIT 7.9

Percentage of Premium Paid by Workers in PPO and POS Plans, 1988–2000



SOURCE :

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

\* Estimate is statistically different from the previous year for years 1996–1999, 1999–2000.

^ Information was not obtained for POS plans in 1988.

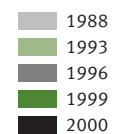
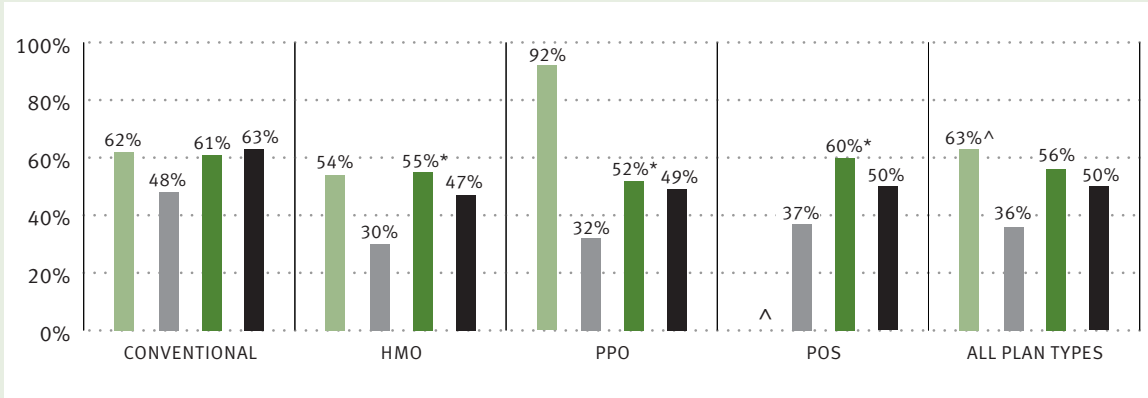


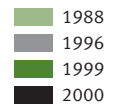
EXHIBIT 7.10

Percentage of Covered Workers in Plans Where Employer Pays Entire Cost of Single Plan Coverage, All Small Firms (3–199 Workers), 1988–2000



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1996.

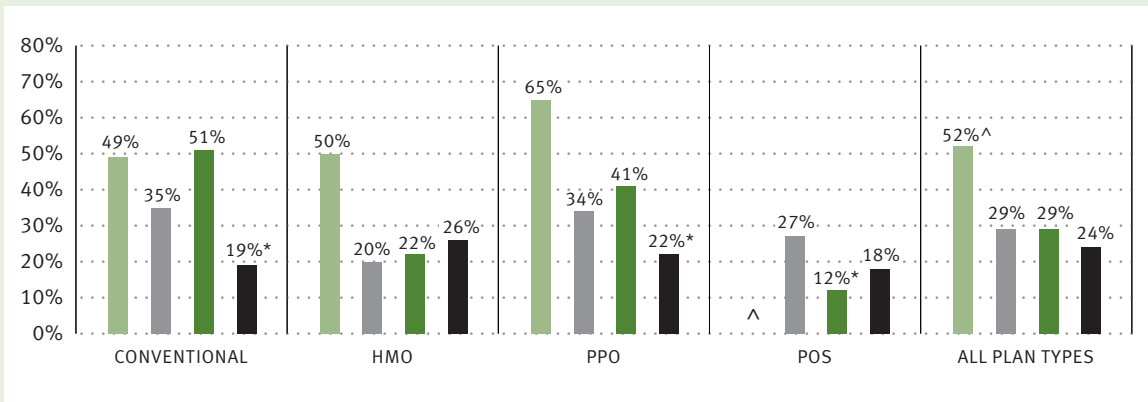


\* Estimate is statistically different from the previous year for years 1996–1999, 1999–2000.

^ Information was not obtained for POS plans in 1988.

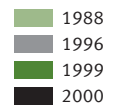
EXHIBIT 7.11

Percentage of Covered Workers in Plans Where Employer Pays Entire Cost of Single Plan Coverage, All Large Firms (200+ Workers), 1988–2000



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1996.

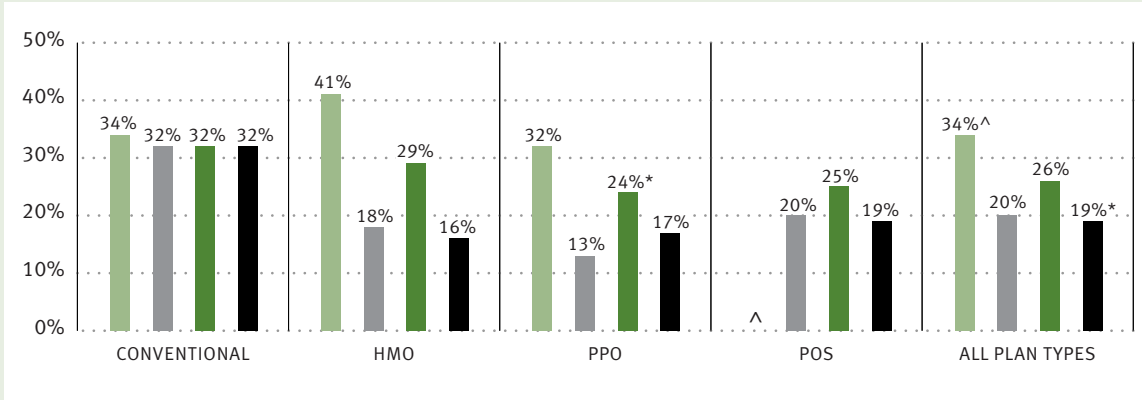


\* Estimate is statistically different from the previous year for years 1996–1999, 1999–2000.

^ Information was not obtained for POS plans in 1988.

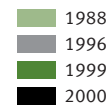
EXHIBIT 7.12

Percentage of Covered Workers in Plans Where Employer Pays Entire Cost of Family Plan Coverage, All Small Firms (3–199 Workers), 1988–2000



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1996.

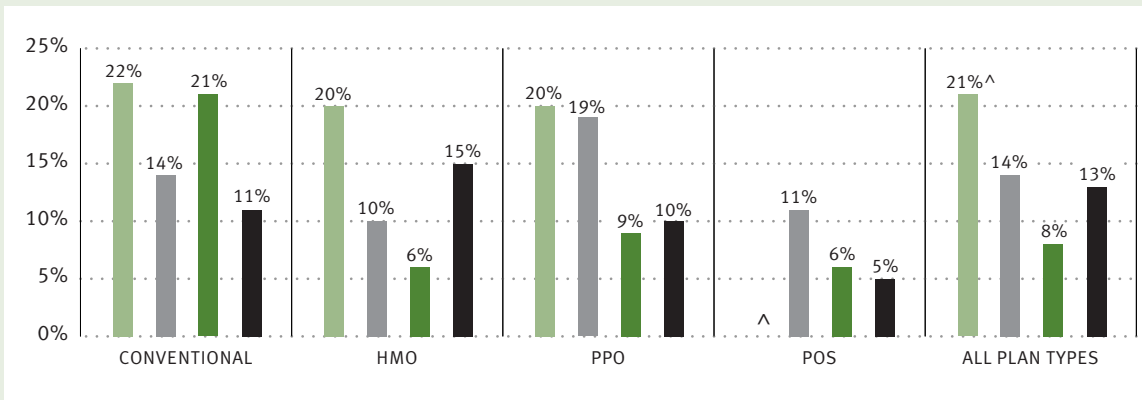


\* Estimate is statistically different from the previous year for years 1996–1999, 1999–2000.

^ Information was not obtained for POS plans in 1988.

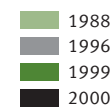
EXHIBIT 7.13

Percentage of Covered Workers in Plans Where Employer Pays Entire Cost of Family Plan Coverage, All Large Firms (200+ Workers), 1988–2000\*



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1996.



\* Tests found no statistically different estimates from the previous year for years 1996–1999, 1999–2000.

^ Information was not obtained for POS plans in 1988.

## EXHIBIT 7.14

## Percentage of Premium Paid by Firm for Typical Covered Worker in Conventional, HMO, PPO, and POS Plans, by Region, 2000

	<i>Single Coverage</i>	<i>Family Coverage</i>
<b>CONVENTIONAL PLANS</b>		
Northeast	88%	81%
Midwest	89	81
South	84	73
West	89	85
<b>ALL REGIONS</b>	<b>87%</b>	<b>78%</b>
<b>HMO PLANS</b>		
Northeast	85%	79%*
Midwest	83	76
South	86	68
West	84	71
<b>ALL REGIONS</b>	<b>85%</b>	<b>72%</b>
<b>PPO PLANS</b>		
Northeast	87%	82%*
Midwest	83	73
South	86	69
West	85	72
<b>ALL REGIONS</b>	<b>85%</b>	<b>72%</b>
<b>POS PLANS</b>		
Northeast	85%	82%*
Midwest	86	74
South	84	69
West	85	64
<b>ALL REGIONS</b>	<b>85%</b>	<b>72%</b>
<b>ALL PLANS</b>		
Northeast	86%	81%*
Midwest	85	75
South	86	69
West	86	71
<b>ALL REGIONS</b>	<b>86%</b>	<b>73%</b>

## SOURCE :

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

\* Region estimate is statistically different from All Regions within a plan type.



## EXHIBIT 7.15

## Percentage of Premium Paid by Firm for Typical Covered Worker in Conventional, HMO, PPO, and POS Plans, by Industry, 2000

	<i>Single Coverage</i>	<i>Family Coverage</i>
<b>CONVENTIONAL PLANS</b>		
Mining/Construction/Wholesale	NSD	NSD
Manufacturing	82%	78%
Transportation/Communication/Utility	NSD	NSD
Retail	NSD	NSD
Finance	NSD	NSD
Service	91	76
State/Local Government	89	80
Health Care	NSD	NSD
<b>ALL INDUSTRIES</b>	<b>87%</b>	<b>78%</b>
<b>HMO PLANS</b>		
Mining/Construction/Wholesale	79%	64%
Manufacturing	83	79*
Transportation/Communication/Utility	92*	90*
Retail	73*	63
Finance	84	70
Service	86	66
State/Local Government	84	65
Health Care	83	68
<b>ALL INDUSTRIES</b>	<b>85%</b>	<b>72%</b>
<b>PPO PLANS</b>		
Mining/Construction/Wholesale	83%	71%
Manufacturing	85	79*
Transportation/Communication/Utility	90*	86*
Retail	76*	70
Finance	87	75
Service	85	67
State/Local Government	92	68
Health Care	88	67
<b>ALL INDUSTRIES</b>	<b>85%</b>	<b>72%</b>
<b>POS PLANS</b>		
Mining/Construction/Wholesale	77%	69%
Manufacturing	85	77
Transportation/Communication/Utility	92*	90*
Retail	74	66
Finance	80	71
Service	87	70
State/Local Government	91*	64
Health Care	87	72
<b>ALL INDUSTRIES</b>	<b>85%</b>	<b>72%</b>
<b>ALL PLANS</b>		
Mining/Construction/Wholesale	82%	71%
Manufacturing	84	78
Transportation/Communication/Utility	91*	88*
Retail	75*	68
Finance	84	72
Service	87	68*
State/Local Government	92*	69
Health Care	86	70
<b>ALL INDUSTRIES</b>	<b>86%</b>	<b>73%</b>

## SOURCE :

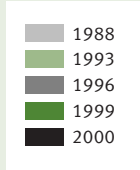
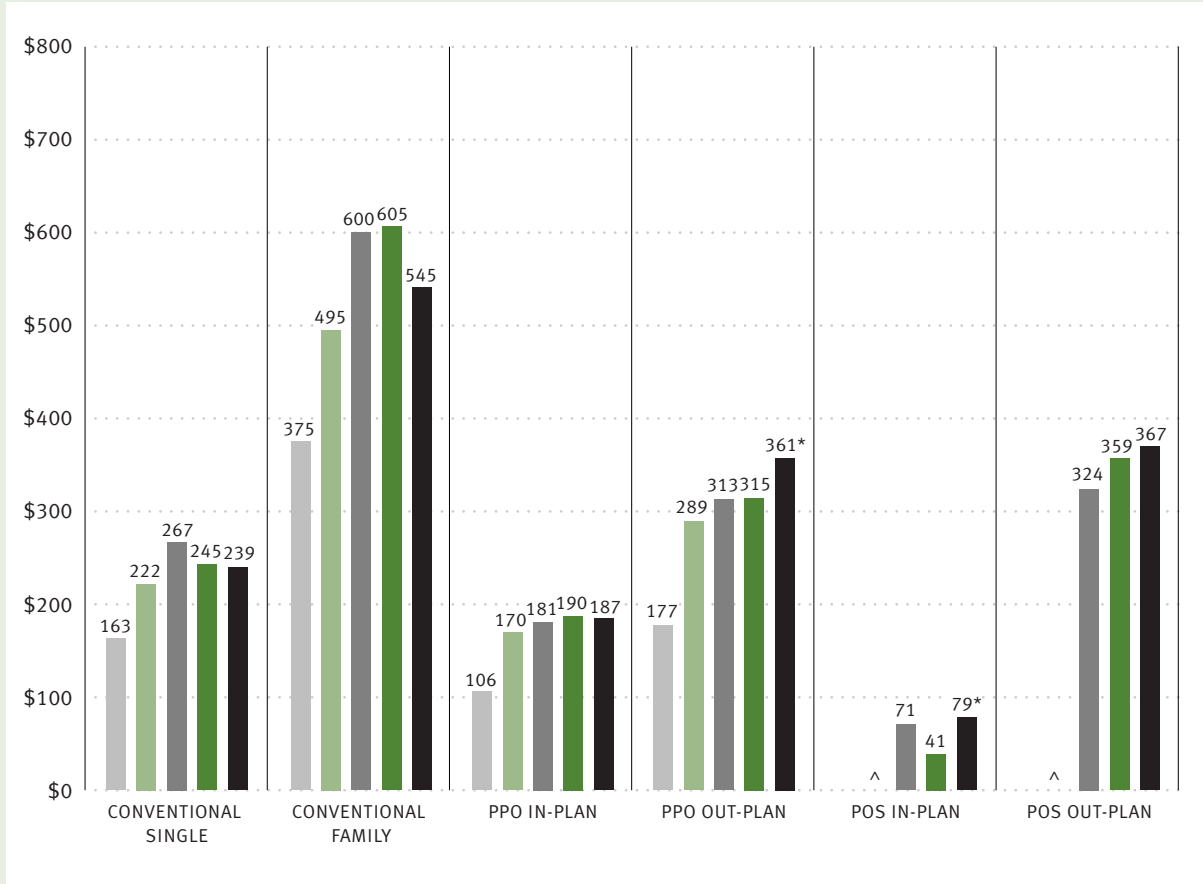
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000.

\* Industry estimate is statistically different from All Industries within a plan type.

NSD: Not sufficient data.

EXHIBIT 7.16

Average Annual Deductibles for Coverage in Conventional, PPO, and POS Plans, 1988–2000



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

\* Estimate is statistically different distribution from the previous year for years 1996–1999, 1999–2000.

^ Information was not obtained for POS plans in 1988 and 1993.

## EXHIBIT 7.17

## Average Annual Deductible for Typical Covered Worker, by Firm Size, 2000

	<i>Single Coverage</i>	<i>Family Coverage</i>
<b>CONVENTIONAL PLANS</b>		
All Small Firms (3–199 Workers)	\$245	\$538
Midsize (200–999 Workers)	169*	371*
Large (1,000–4,999 Workers)	235	490
Jumbo (5,000+ Workers)	259	632
<b>ALL FIRM SIZES</b>	<b>\$239</b>	<b>\$545</b>
	<i>Single Coverage Preferred Provider</i>	<i>Single Coverage Non-Preferred Provider</i>
<b>PPO PLANS</b>		
All Small Firms (3–199 Workers)	\$235	\$423
Midsize (200–999 Workers)	170	326
Large (1,000–4,999 Workers)	170	343
Jumbo (5,000+ Workers)	162	334
<b>ALL FIRM SIZES</b>	<b>\$187</b>	<b>\$361</b>
<b>POS PLANS</b>		
All Small Firms (3–199 Workers)	\$137	\$367
Midsize (200–999 Workers)	NSD	322
Large (1,000–4,999 Workers)	NSD	470
Jumbo (5,000+ Workers)	NSD	342
<b>ALL FIRM SIZES</b>	<b>\$79</b>	<b>\$367</b>

## SOURCE :

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

\* Estimate is statistically different from All Firm Sizes within a plan type.

NSD: Not sufficient data.

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.

## EXHIBIT 7.18

## Average Annual Deductible for Typical Covered Worker in Conventional, PPO, and POS Plans, by Region, 2000

	<i>Single Coverage</i>	<i>Family Coverage</i>
<b>CONVENTIONAL PLANS</b>		
Northeast	\$304	\$633
Midwest	176	385*
South	261	626
West	235	557
<b>ALL REGIONS</b>	<b>\$239</b>	<b>\$545</b>
<b>PPO PLANS</b>		
	<i>Single Coverage Preferred Provider</i>	<i>Single Coverage Non-Preferred Provider</i>
Northeast	\$119*	\$325
Midwest	276*	423
South	179	375
West	141*	254*
<b>ALL REGIONS</b>	<b>\$187</b>	<b>\$361</b>
<b>POS PLANS</b>		
Northeast	NSD	\$343
Midwest	83	361
South	129	411
West	61	317
<b>ALL REGIONS</b>	<b>\$79</b>	<b>\$367</b>

## SOURCE :

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

\* Region distribution is statistically different from All Regions within a plan type.

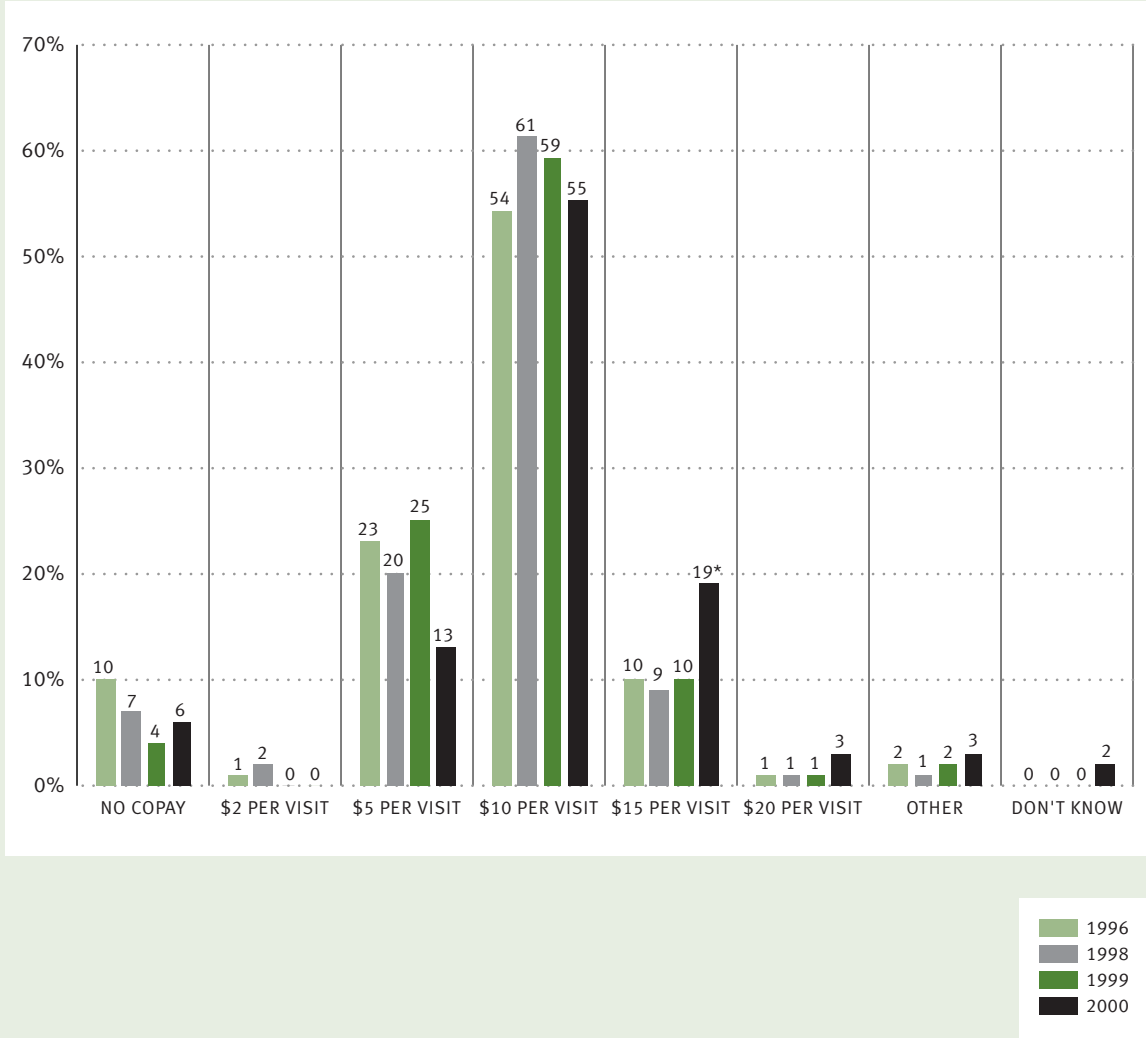
NSD: Not sufficient data.

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.

EXHIBIT 7.19

Percentage of Covered Workers Facing HMO Copayments for Physician Visits, 1996–2000



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Estimate is statistically different from the previous year for years 1996–1998, 1998–1999, 1999–2000.

## EXHIBIT 7.20

Percentage of Covered Workers Facing HMO Copayments for Physician Visits,  
by HMO Type, 2000

	<i>All HMO Types</i>	<i>IPA*</i>	<i>Staff/Group*</i>	<i>Mixed*</i>
No Copayment	6%	3%	18%	3%
\$2 per visit	0	0	0	0
\$5 per visit	13	15	11	12
\$10 per visit	55	59	47	57
\$15 per visit	19	14	21	25
\$20 per visit	3	5	2	0
Other	3	3	2	2
Don't Know	2	1	0	0
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## SOURCE :

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

\* Distribution is statistically different from All HMO Types.

IPA (Independent Practice Association) model HMO: an HMO model in which the HMO contracts with a physician organization, which, in turn, contracts with independent physicians. The IPA physicians practice in their own offices and continue to see fee-for-service patients.

Staff model HMO: a model in which the HMO employs health care providers directly. The providers are employees of the HMO, and provide care exclusively to HMO members.

Group model HMO: an HMO in which the plan contracts exclusively with a single group of physicians.

## EXHIBIT 7.21

## Percentage of Covered Workers Facing Various Coinsurance Rates in Conventional Plans, by Firm Size, 2000

	<i>All Small Firms (3-199 Workers)*</i>	<i>Midsize (200-999 Workers)</i>	<i>Large (1,000-4,999 Workers)*</i>	<i>Jumbo (5,000+ Workers)*</i>	<i>All Firm Sizes</i>
0%	4%	9%	3%	0%	3%
10%	29	19	4	3	14
15%	1	0	0	0	1
20%	53	72	82	89	73
25%	0	0	10	1	2
30%	0	0	0	5	2
Rate Varies	0	0	0	0	0
Other	10	0	1	3	5
Don't Know	3	0	0	0	1
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## SOURCE :

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

\* Distribution is statistically different from All Firm Sizes.

Coinsurance rates: a cost sharing arrangement in which a member pays a specified proportion of the bills for services received.

## EXHIBIT 7.22

## Percentage of Covered Workers Facing Coinsurance Rates and Copayments in PPO Plans, by Firm Size, 2000

	<i>All Small Firms (3-199 Workers)</i>	<i>Midsize (200-999 Workers)</i>	<i>Large (1,000-4,999 Workers)</i>	<i>Jumbo (5,000+ Workers)</i>	<i>All Firm Sizes</i>
<i>Preferred Provider</i>					
<b>COINSURANCE RATE</b>					
<b>WORKER PAYS:</b>					
0%	9%	2%	6%	2%	4%
10%	46	52	34	43	43
15%	1	11	8	10	8
20%	37	32	47	41	40
25%	0	1	2	2	1
30%	0	2	1	0	1
40%	0	0	0	1	0
Varies	0	0	0	0	0
Other	4	1	2	0	1
Don't Know	4	0	0	1	1
<b>TOTAL</b>	<b>100%*</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>COPAYMENTS</b>					
<b>WORKER PAYS:</b>					
\$2	0%	0%	0%	0%	0%
\$5	6	5	1	1	3
\$10	40	53	45	33	41
\$15	28	28	34	44	34
\$20	21	11	17	15	17
Other	4	3	2	7	4
Don't Know	1	1	0	0	1
<b>TOTAL</b>	<b>100%</b>	<b>100%*</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<i>Non-Preferred Provider</i>					
<b>COINSURANCE RATE</b>					
<b>WORKER PAYS:</b>					
0%	1%	2%	0%	1%	1%
10%	3	1	1	0	1
15%	2	0	1	3	2
20%	41	39	27	29	34
25%	2	3	1	1	2
30%	21	32	40	35	31
35%	1	2	2	0	1
40%	9	13	21	13	13
Varies	0	1	1	1	1
Other	9	6	6	17	11
Don't Know	10	2	1	0	4
<b>TOTAL</b>	<b>100%*</b>	<b>100%*</b>	<b>100%*</b>	<b>100%*</b>	<b>100%</b>

## SOURCE :

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

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.

\* Distribution is statistically different from All Firm Sizes.



## EXHIBIT 7.23

## Percentage of Covered Workers Facing Coinsurance Rates and Copayments in POS Plans, by Firm Size, 2000

	<i>All Small Firms (3-199 Workers)</i>	<i>Midsize (200-999 Workers)</i>	<i>Large (1,000-4,999 Workers)</i>	<i>Jumbo (5,000+ Workers)</i>	<i>All Firm Sizes</i>
<i>Preferred Provider</i>					
<b>COINSURANCE RATE</b>					
<b>WORKER PAYS:</b>					
0%	NSD	NSD	30%	10%	16%
10%	NSD	NSD	12	57	46
15%	NSD	NSD	20	4	7
20%	NSD	NSD	22	27	26
25%	NSD	NSD	0	0	0
30%	NSD	NSD	8	2	3
40%	NSD	NSD	0	0	0
Varies	NSD	NSD	0	0	0
Other	NSD	NSD	8	0	2
Don't Know	NSD	NSD	0	0	0
<b>TOTAL</b>	<b>NSD</b>	<b>NSD</b>	<b>100%*</b>	<b>100%</b>	<b>100%</b>
<b>COPAYMENTS</b>					
<b>WORKER PAYS:</b>					
\$2	0%	1%	0%	0%	0%
\$5	11	14	6	6	8
\$10	49	44	50	56	51
\$15	20	27	29	33	27
\$20	11	10	11	5	9
Other	6	4	4	1	3
Don't Know	3	0	0	0	1
<b>TOTAL</b>	<b>100%*</b>	<b>100%*</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<i>Non-Preferred Provider</i>					
<b>COINSURANCE RATE</b>					
<b>WORKER PAYS:</b>					
0%	4%	4%	2%	3%	3%
10%	1	3	1	0	1
15%	2	1	3	2	2
20%	38	32	16	19	26
25%	2	1	1	3	2
30%	16	40	43	51	37
35%	0	2	3	1	1
40%	11	6	22	13	13
Varies	0	0	0	0	0
Other	5	3	8	5	5
Don't Know	22	8	3	3	10
<b>TOTAL</b>	<b>100%*</b>	<b>100%</b>	<b>100%*</b>	<b>100%*</b>	<b>100%</b>

## SOURCE:

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

\* Distribution is statistically different from All Firm Sizes.

NSD: Not sufficient data.

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.

## EXHIBIT 7.24

Percentage of Overall Single and Family Premiums Paid by Firm, by Percentage of Workforce that is High and Low Wage, 2000

	<i>Single Coverage</i>	<i>Family Coverage</i>
<b>PERCENT OF WORKFORCE EARNING MORE THAN \$75,000 PER YEAR</b>		
5% or less	84%	67%*
Greater than 5%	87%	77%*
<b>PERCENT OF WORKFORCE EARNING LESS THAN \$20,000 PER YEAR</b>		
Less than 35%	87%	75%
35% or more	82%*	63%*

## SOURCE :

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

\* Income estimate is statistically different from All Firm (All Firms data not shown).

EMPLOYER HEALTH BENEFITS  
2000 ANNUAL SURVEY

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# Health Benefits

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SECTION

8

## HEALTH BENEFITS

CONTRARY TO CONVENTIONAL WISDOM, BENEFIT PACKAGES IN EMPLOYER-BASED HEALTH PLANS HAVE GROWN RICHER OVER THE PAST TWENTY YEARS. PRESCRIPTION DRUG COVERAGE AND PREVENTIVE SERVICES ARE TWO CATEGORIES THAT HAVE INCREASED MOST SIGNIFICANTLY. THE SHIFT FROM CONVENTIONAL TO MANAGED CARE PLANS EXPLAINS MUCH OF THIS INCREASE. MANAGED HEALTH PLANS HAVE HISTORICALLY EMPHASIZED PREVENTIVE CARE SUCH AS PHYSICALS AND MAMMOGRAPHY SCREENINGS AND COMPREHENSIVE CARE IN THE FORM OF PRESCRIPTION DRUG AND AMBULATORY COVERAGE.

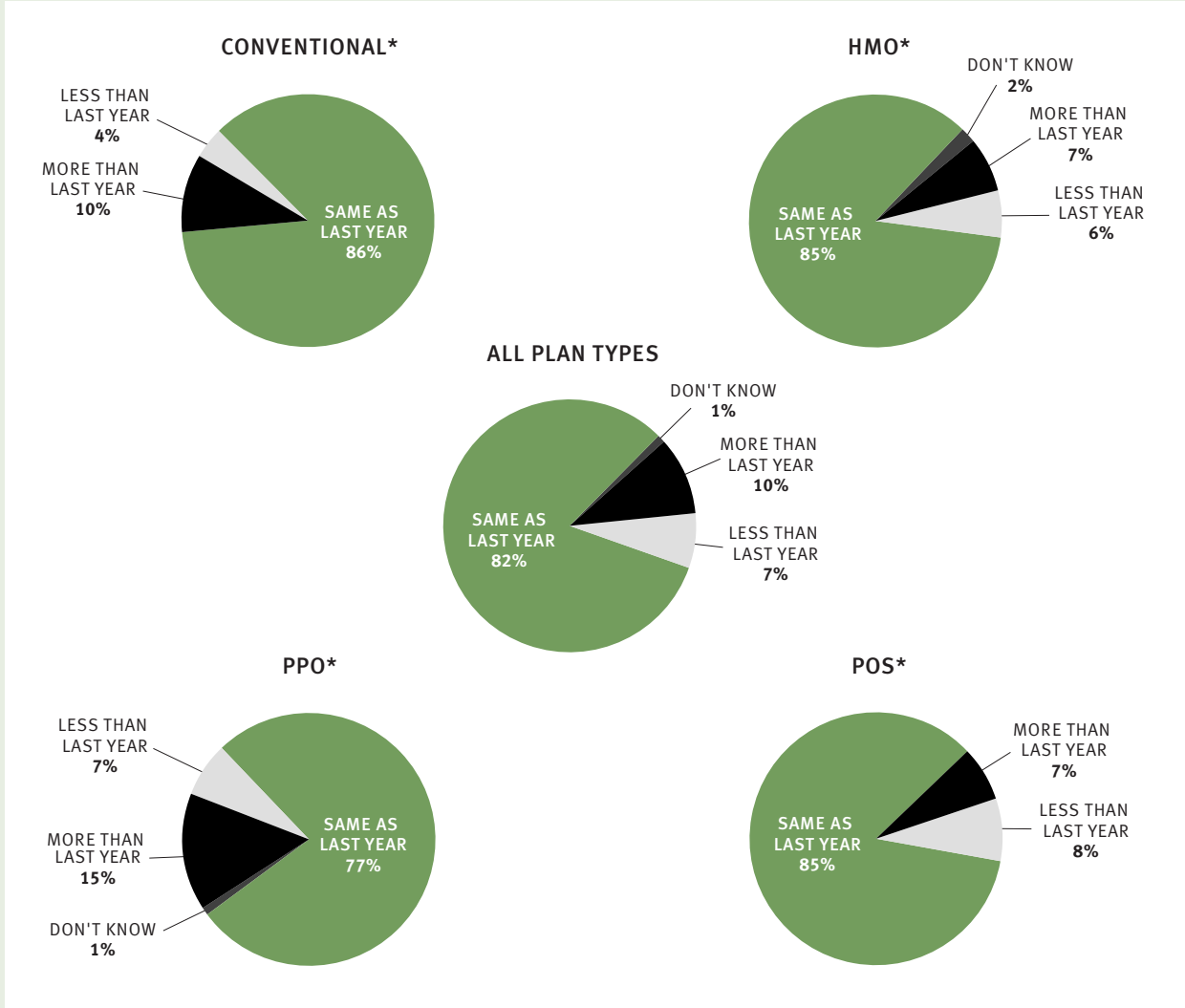
WHILE EMPLOYERS FACING RISING HEALTH CARE COSTS OFTEN CONSIDER REDUCTIONS IN THE SCOPE OF COVERED BENEFITS AS A MEANS TO LOWER PAYROLL COSTS, THIS WAS GENERALLY NOT THE CASE IN 2000 (POSSIBLY DUE TO THE STRONG ECONOMY AND HIGH DEMAND FOR LABOR).

- ▶ Since last year, the level of benefits for all types of plans has remained unchanged for the vast majority of workers. Depending on the type of health plan, between 77% and 86% of covered workers are experiencing no change in the level of their benefits (EXHIBIT 8.1). For all plan types except POS, a higher percentage of workers are seeing their covered benefits increase rather than decrease.
- ▶ HMO and POS plans offer the most comprehensive benefits packages, while conventional plans provide the least comprehensive offerings (EXHIBIT 8.2). More specifically, managed care plans devote more resources to preventive care. Well over 90% of covered workers in HMO and POS plans have coverage for adult physicals, compared to 71% of workers in conventional plans and 85% in PPOs.
  - 97% of workers in managed care plans have prescription drug coverage, compared to 87% of workers in conventional plans (EXHIBIT 8.2).
- At least 92% of workers covered by managed care plans receive coverage for well-baby care, while 78% of conventional covered workers receive such coverage (EXHIBIT 8.2).
- While nontraditional medicine may be growing in popularity, coverage of it is still not prevalent. For example, depending on the type of plan, between 28% and 35% of workers can claim coverage for acupuncture (EXHIBIT 8.2). HMOs are the least likely to cover expensive ongoing care such as chiropractic services. Of covered workers in HMOs, 74% receive coverage for chiropractic care, compared with 88% of workers in PPOs.

- ▶ A firm's size is the best predictor of whether or not it offers its employees dental insurance. Among all small firms (3–199 workers), 25% offer dental insurance. Among all large firms (200+ workers), the figure is more than double, at 60% (EXHIBIT 8.3).
  - Firms in the West are far more likely than firms in other regions to offer or contribute to a dental insurance program. In the West, 46% of firms offer or contribute to such a program, more than two and a half times the percentage in the Midwest (17%) (EXHIBIT 8.3).
  - Firms in the service and finance industry are the most likely (37%) to offer or contribute to a dental insurance program. By contrast, firms in the retail industry are the least likely (13%) to offer or contribute to such a program (EXHIBIT 8.3).
- ▶ Over 90% of workers in conventional and PPO plans have the protection of an out-of-pocket maximum for health care expenses (EXHIBITS 8.4 and 8.5). However, for substantial numbers of workers, out-of-pocket payments for deductibles, mental health copays, and prescription drug copayments are not included in this calculation (EXHIBIT 8.6).
  - For individuals in conventional plans, workers in all small firms (3–199 workers) generally have a lower maximum annual out-of-pocket liability (i.e., the limit on how much an employee must pay for cost sharing in a year) than do workers in larger firms (EXHIBIT 8.4).
  - In PPO plans, however, workers in all small firms face higher annual maximum out-of-pocket liabilities than do those in larger firms (EXHIBIT 8.5). For example, 32% of workers in all small firms (3–199 workers) have relatively low maximum liabilities of between \$1,000 and \$1,999, while 44% of all workers have that same level of protection.
  - ▶ Lifetime limits on benefits are common, with 69% of workers in conventional and 72% of those in PPO plans facing them (EXHIBITS 8.7 and 8.8).
    - For workers in conventional plans, the likelihood that they will enjoy unlimited lifetime benefits increases with firm size. Workers in jumbo firms are more likely (40%) than workers in all small firms (9%) to face no restrictions (EXHIBIT 8.7). 10% of firms responded that they 'don't know' the firms' lifetime limits.
    - Similarly, in PPO plans, 30% of workers in jumbo firms face no lifetime limits, compared to 10% of workers in all small firms (EXHIBIT 8.8).
  - ▶ Many workers enrolled in HMOs have access to certain protections that have been considered in the patients' rights debate.
    - 54% of workers enrolled in an HMO plan can choose to designate an OB/GYN as a primary care physician (EXHIBIT 8.9), down somewhat from 1999.
    - Access to a specialist who can act as a primary care provider has become more prevalent (30% of workers in 2000, up from 25% in 1999) (EXHIBIT 8.10).

EXHIBIT 8.1

How Levels of Benefits for Covered Workers Compare to Last Year, by Plan Type, 2000



SOURCE :

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

\* Distribution is statistically different from All Plan Types.

## EXHIBIT 8.2

Covered Benefits for Covered Workers in Conventional, HMO, PPO, and POS Plans,  
by Firm Size, 2000

	<i>All Small Firms (3–199 workers)</i>	<i>All Large Firms (200 or more workers)</i>	<i>All Firms</i>
<b>CONVENTIONAL PLANS</b>			
Adult Physicals	79%	67%	71%
Well-Baby Care	89	72	78
Acupuncture	22	31	28
Prenatal Care	87	95	92
Oral Contraceptives	56	63	60
Outpatient Mental	92	91	92
Inpatient Mental	92	91	92
Chiropractic Care	80	76	77
Prescription Drugs	86	88	87
<b>HMO PLANS</b>			
Adult Physicals	92%	98%	97%
Well-Baby Care	96	98	98
Acupuncture	28	36	35
Prenatal Care	98	100	99
Oral Contraceptives	77	89	87
Outpatient Mental	91	97	96
Inpatient Mental	83*	97	94
Chiropractic Care	57*	79	74
Prescription Drugs	92	97	96
<b>PPO PLANS</b>			
Adult Physicals	89%	84%	85%
Well-Baby Care	93	92	92
Acupuncture	17*	36	30
Prenatal Care	97	99	98
Oral Contraceptives	52	67	62
Outpatient Mental	91*	98	96
Inpatient Mental	93	99	97
Chiropractic Care	79	91	88
Prescription Drugs	98	98	98
<b>POS PLANS</b>			
Adult Physicals	89%	96%	94%
Well-Baby Care	97	99	98
Acupuncture	26	37	33
Prenatal Care	97	100	99
Oral Contraceptives	65	79	75
Outpatient Mental	92	98	96
Inpatient Mental	90	99*	96
Chiropractic Care	71	86	81
Prescription Drugs	99	97	97

## SOURCE :

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

\* Firm size estimate is statistically different from All Firms within plan type.

## EXHIBIT 8.3

Percentage of Firms Offering or Contributing to a Dental Insurance Program, by Firm Size, Region, and Industry, 2000<sup>^</sup>

	Yes	No
<b>FIRM SIZE</b>		
Small (3–9 Workers)*	19%	81%
Small (10–24 Workers)	29	71
Small (25–49 Workers)*	43	57
Small (50–199 Workers)*	49	51
<b>ALL SMALL FIRMS (3–199 WORKERS)</b>	<b>25</b>	<b>75</b>
Midsize (200–999 Workers)*	58	42
Large (1,000–4,999 Workers)*	67	32
Jumbo (5,000+ Workers)*	74	26
<b>ALL LARGE FIRMS (200 OR MORE WORKERS)*</b>	<b>60</b>	<b>40</b>
<b>REGION</b>		
Northeast*	22%	78%
Midwest*	17	83
South	24	76
West*	46	54
<b>INDUSTRY</b>		
Mining/Construction/Wholesale*	17%	83%
Manufacturing*	19	81
Transportation/Communication/Utility	31	69
Retail*	13	87
Finance*	37	63
Service*	37	63
State/Local Government*	32	67
Health Care*	14	86
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>26%</b>	<b>74%</b>

## SOURCE :

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

<sup>^</sup> Dental coverage separate from any coverage provided through a health plan.

\* Distribution is statistically different from All Firm Sizes, Regions, and Industries.



## EXHIBIT 8.4

**Maximum Annual Out-of-Pocket Liability for an Individual With Single Coverage  
in Conventional Plans, by Firm Size and Region, 2000**

	<i>All Small Firms (3-199 Workers)*</i>	<i>Midsize (200-999 Workers)*</i>	<i>Large (1,000-4,999 Workers)*</i>	<i>Jumbo (5,000+ Workers)*</i>	<i>All Firm Sizes</i>
<b>MAXIMUM LIABILITY</b>					
\$999 or Less	23%	15%	22%	5%	15%
\$1,000 – 1,499	22	27	24	35	28
\$1,500 – 1,999	30	16	29	14	22
\$2,000 – 2,499	2	7	18	25	13
\$2,500 – 2,999	5	1	0	0	2
\$3,000 or More	3	3	1	9	5
No Limit	2	9	3	4	4
Don't Know	13	24	3	8	11
	<i>Northeast*</i>	<i>Midwest*</i>	<i>South</i>	<i>West</i>	<i>All Regions</i>
<b>MAXIMUM LIABILITY</b>					
\$999 or Less	16%	23%	9%	17%	15%
\$1,000 – 1,499	11	27	36	27	28
\$1,500 – 1,999	15	16	28	28	22
\$2,000 – 2,499	7	22	13	2	13
\$2,500 – 2,999	6	0	0	6	2
\$3,000 or More	8	1	5	10	5
No Limit	2	6	3	2	4
Don't Know	NSD	6	6	7	11

## SOURCE :

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

\* Distribution is statistically different from All Firms, Regions, and Industries.

Out-of-pocket liability: a limit on the amount an employee must pay for cost sharing in a year.

NSD: Not sufficient data.

## EXHIBIT 8.5

**Maximum Annual Out-of-Pocket Liability for an Individual With Single Coverage in PPO Plans,  
by Firm Size and Region, 2000**

	<i>All Small Firms (3–199 Workers)*</i>	<i>Midsize (200–999 Workers)</i>	<i>Large (1,000–4,999 Workers)*</i>	<i>Jumbo (5,000+ Workers)*</i>	<i>All Firm Sizes</i>
<b>MAXIMUM LIABILITY</b>					
\$999 or Less	14%	19%	22%	9%	15%
\$1,000 – 1,499	21	30	29	31	27
\$1,500 – 1,999	11	14	16	25	17
\$2,000 – 2,499	7	11	13	10	10
\$2,500 – 2,999	11	7	4	11	9
\$3,000 or More	11	10	10	10	10
No Limit	3	3	3	1	2
Don't Know	21	7	3	3	9
	<i>Northeast*</i>	<i>Midwest*</i>	<i>South*</i>	<i>West</i>	<i>All Regions</i>
<b>MAXIMUM LIABILITY</b>					
\$999 or Less	17%	25%	10%	13%	15%
\$1,000 – 1,499	31	33	24	25	27
\$1,500 – 1,999	14	12	21	15	17
\$2,000 – 2,499	11	3	12	12	10
\$2,500 – 2,999	3	6	15	3	9
\$3,000 or More	6	13	9	15	10
No Limit	6	2	1	3	2
Don't Know	NSD	7	8	13	9

## SOURCE :

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

\* Distribution is statistically different from All Firms, Regions, and Industries.

Out-of-pocket liability: a limit on the amount an employee must pay for cost sharing in a year.

NSD: Not sufficient data.

## EXHIBIT 8.6

## Does Maximum Annual Out-of-Pocket Liability for Conventional and PPO Plans Include Deductibles and Co-Pays, 2000

	<i>Conventional Plans</i>	<i>PPO Plans</i>
<b>INCLUDE DEDUCTIBLE</b>		
Yes	63%	56%
No	23%	38%
Don't Know	14%	7%
<b>INCLUDE CO-PAYS FOR OFFICE VISITS</b>		
Yes	50%	30%
No	32%	63%
Don't Know	18%	7%
<b>INCLUDE CO-PAYS FOR PRESCRIPTION DRUGS</b>		
Yes	26%	17%
No	60%	75%
Don't Know	14%	8%
<b>INCLUDE CO-PAYS FOR MENTAL HEALTH</b>		
Yes	50%	38%
No	36%	50%
Don't Know	14%	12%

## SOURCE :

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

Out-of-pocket liability: a limit on the amount an employee must pay for cost sharing in a year.

## EXHIBIT 8.7

Maximum Benefit Payable to Employee With Single Coverage Over Lifetime,  
for Conventional Plans, by Firm Size and Region, 2000

	<i>All Small Firms (3-199 Workers)*</i>	<i>Midsize (200-999 Workers)*</i>	<i>Large (1,000-4,999 Workers)*</i>	<i>Jumbo (5,000+ Workers)*</i>	<i>All Firm Sizes</i>
<b>MAXIMUM BENEFIT</b>					
\$250,000 or Less	3%	7%	1%	0%	2%
\$250,001-\$999,999	6	0	2	5	4
One Million or More	68	55	81	54	63
Unlimited	9	9	14	40	21
Don't Know	14	28	3	2	10
	<i>Northeast*</i>	<i>Midwest*</i>	<i>South</i>	<i>West</i>	<i>All Regions</i>
<b>MAXIMUM BENEFIT</b>					
\$250,000 or Less	5%	0%	1%	5%	2%
\$250,001-\$999,999	2	4	6	2	4
One Million or More	58	52	72	66	63
Unlimited	10	35	16	22	21
Don't Know	26	9	5	5	10

## SOURCE :

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

\* Distribution is statistically different from All Firms and Regions.

## EXHIBIT 8.8

## Maximum Benefit Payable to Employee With Single Coverage Over Lifetime, for PPO Plans, by Firm Size and Region, 2000

	<i>All Small Firms (3-199 Workers)*</i>	<i>Midsize (200-999 Workers)</i>	<i>Large (1,000-4,999 Workers)*</i>	<i>Jumbo (5,000+ Workers)*</i>	<i>All Firm Sizes</i>
<b>MAXIMUM BENEFIT</b>					
\$250,000 or Less	3%	1%	2%	0%	1%
\$250,001-\$999,999	4	2	5	1	3
One Million or More	65	69	76	66	68
Unlimited	10	19	15	30	19
Don't Know	19	11	2	2	9
	<i>Northeast*</i>	<i>Midwest</i>	<i>South*</i>	<i>West*</i>	<i>All Regions</i>
<b>MAXIMUM BENEFIT</b>					
\$250,000 or Less	0%	1%	1%	5%	1%
\$250,001-\$999,999	2	1	4	2	3
One Million or More	50	71	70	73	68
Unlimited	39	20	14	15	19
Don't Know	10	7	10	6	9

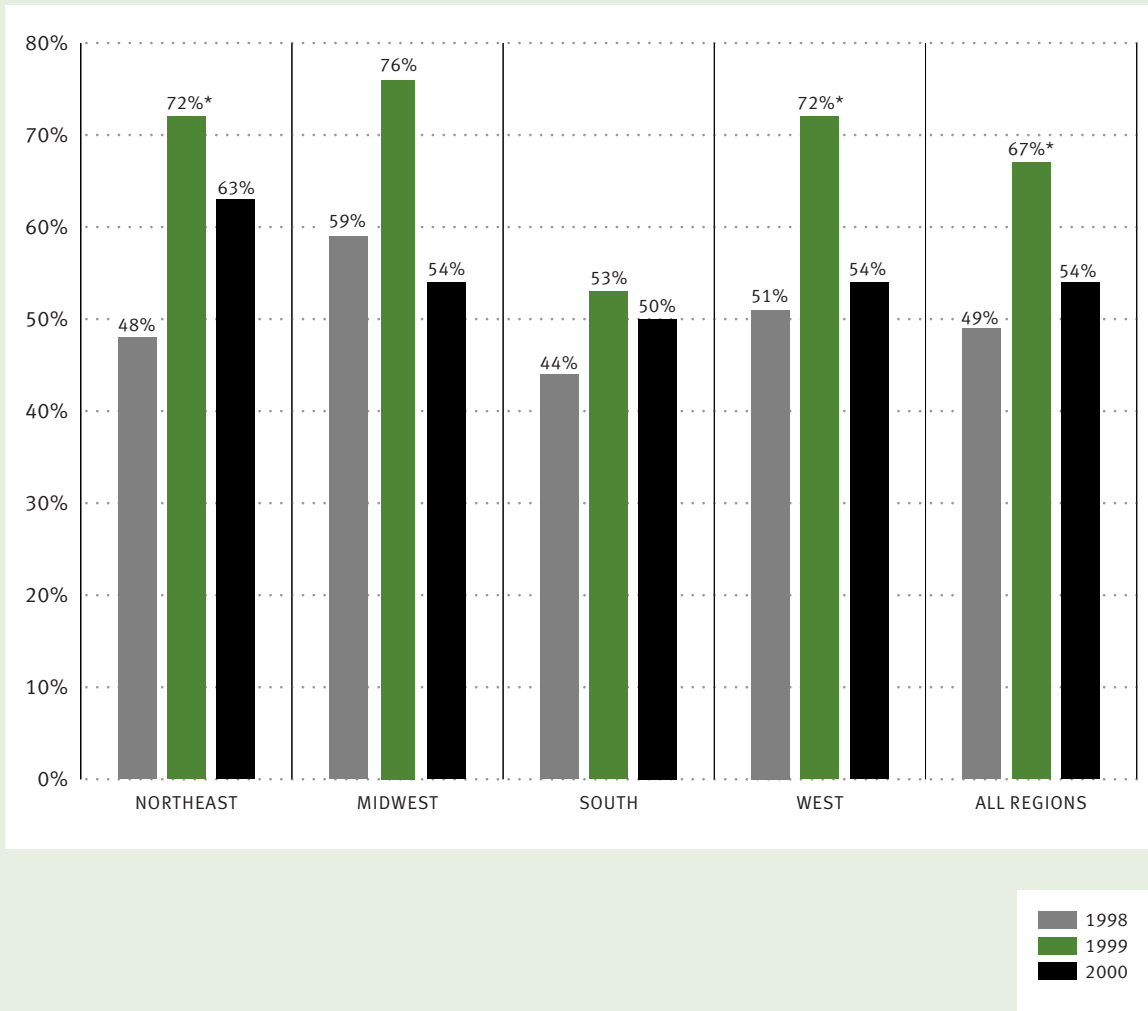
## SOURCE :

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

\* Distribution is statistically different from All Firms and Regions.

EXHIBIT 8.9

Percentage of Covered Workers Enrolled in Firms' Largest HMO Plan Where Their OB/GYN Can Act as a Primary Care Physician, 1998, 1999, and 2000



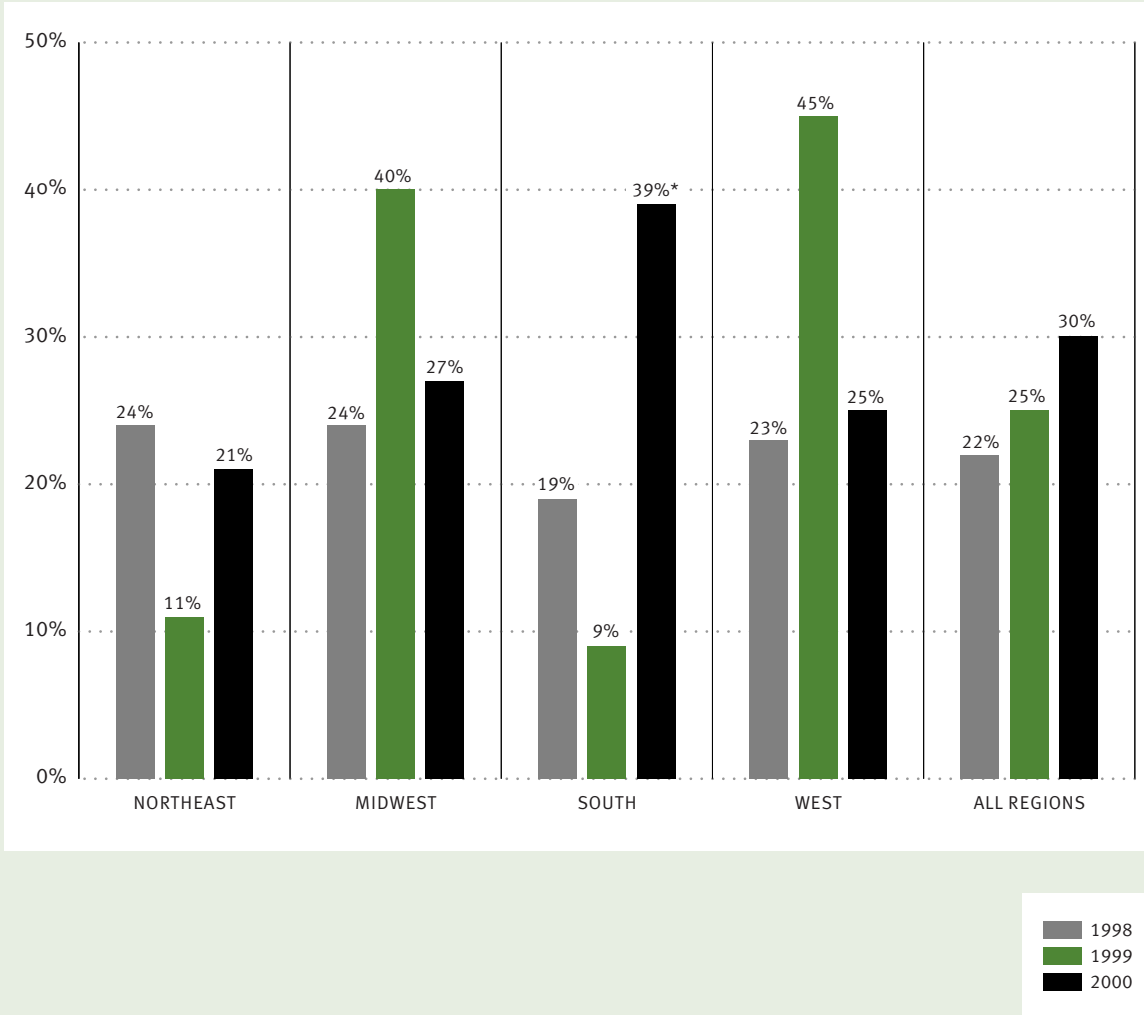
SOURCE :

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

\* Estimate is statistically different from the previous year for years 1998–1999, 1999–2000.

EXHIBIT 8.10

Percentage of Covered Workers Enrolled in Firms' Largest HMO Plan Where Their Specialist Can Act as a Primary Care Physician, 1998, 1999, and 2000



SOURCE :

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

\* Estimate is statistically different from the previous year for years 1998–1999, 1999–2000.

## EXHIBIT 8.11

## Percentage of Covered Workers in HMO Plans Where Alternative Providers Can Act as a Primary Care Physician, by Firm Size, Region, and Industry, 2000

	<i>OB/GYN Can Act as Primary Care Physician</i>	<i>Specialist Can Act as Primary Care Physician</i>
<b>FIRM SIZE</b>		
All Small Firms (3–199 Workers)	51%	36%
Midsize (200–999 Workers)	58	28
Large (1,000–4,999 Workers)	52	23
Jumbo (5,000+ Workers)	55	31
<b>REGION</b>		
Northeast	63%	21%
Midwest	54	27
South	50	39
West	54	25
<b>INDUSTRY</b>		
Mining/Construction/Wholesale	73%	43%
Manufacturing	52	21
Transportation/Communication/Utility	67	51
Retail	69	44
Finance	63	28
Service	40	25
State/Local Government	75*	33
Health Care	36	19
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>54%</b>	<b>30%</b>

## SOURCE :

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

\* Estimate is statistically different from All Firm Sizes, Regions, and Industries.



EMPLOYER HEALTH BENEFITS  
2000 ANNUAL SURVEY

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Prescription  
Drug and Mental  
Health Benefits

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SECTION

9

## PRESCRIPTION DRUG AND MENTAL HEALTH BENEFITS

PRESCRIPTION DRUGS AND MENTAL HEALTH COVERAGE ARE UNIQUE AMONG THE HEALTH BENEFITS TYPICALLY PROVIDED BY EMPLOYERS IN THAT THEY ARE OFTEN “CARVED OUT” FROM CONTRACTS WITH HEALTH PLANS AND PROVIDED THROUGH SEPARATE ARRANGEMENTS. BOTH PRESCRIPTION DRUG AND MENTAL HEALTH BENEFITS HAVE ALSO BEEN THE FOCUS OF INTENSIVE EFFORTS TO CONTROL COST INCREASES.

PRESCRIPTION DRUG COSTS ARE THE MOST RAPIDLY INCREASING MEDICAL CARE EXPENSE FOR JOB-BASED HEALTH INSURANCE — DATA FROM MILLIMAN AND ROBERTSON, AN ACTUARIAL FIRM, SHOW THAT 40% OF THE INCREASE IN MEDICAL CLAIMS EXPENSES IN 1998–1999 WAS ATTRIBUTABLE TO PRESCRIPTION DRUG EXPENDITURES. INCREASES IN UTILIZATION, THE DEVELOPMENT OF LARGE NUMBERS OF PROMISING AND EXPENSIVE NEW DRUGS, AND PRICE INCREASES BY MANUFACTURERS FOR EXISTING DRUGS ARE ALL WORKING TO DRIVE INCREASES IN PRESCRIPTION DRUG SPENDING. RECENTLY, EMPLOYERS HAVE RESPONDED TO RISING DRUG COSTS BY GIVING EMPLOYEES FINANCIAL INCENTIVES TO USE LESS EXPENSIVE DRUGS (WHICH IS DOCUMENTED IN THE KAISER/HRET SURVEY FOR THE FIRST TIME).

IN CONTRAST TO PRESCRIPTION DRUGS, MENTAL HEALTH AND SUBSTANCE ABUSE CONSTITUTE A DECLINING PERCENTAGE OF CLAIMS EXPENSES, FALLING FROM 10 TO 6% IN RECENT YEARS BY SOME ACCOUNTS.<sup>5</sup> EMPLOYERS HAVE IMPOSED GREATER COST-SHARING AND OUTRIGHT LIMITS ON THE USE OF MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES. PAST KAISER/HRET SURVEYS HAVE SHOWN SHARP DECREASES IN THE PERCENTAGE OF WORKERS WITH UNLIMITED OUTPATIENT MENTAL HEALTH VISITS, AND MOST PLANS HAVE LIMITS ON INPATIENT MENTAL HEALTH DAYS AS WELL.

### NOTES:

<sup>5</sup> Buck J., and Umland B., “Covering Mental Health and Substance Abuse Services,” Health Affairs, (July/August 1997): 120–126.

## PRESCRIPTION DRUG BENEFITS

- ▶ Prescription drugs are now largely a standard benefit under employer-provided health benefits plans (see EXHIBIT 8.2).
- ▶ One of the more recent changes employers have made to their drug benefits is to introduce tiered copayments to provide employees with financial incentives to choose lower cost drugs. The majority of workers in all plan types now have either a two-tier or a three-tier cost sharing formula for prescription drugs (ranging from 61% in conventional plans to 81% in PPOs) (EXHIBIT 9.4). Under a two tier cost sharing formula, employees face one payment level for generic drugs — drugs that are no longer covered by patent protection — and another one for all brand name drugs (i.e., drugs covered by a patent and produced by only one manufacturer). Under a three-tier formula, there is one payment level for employees when using generic drugs, another payment level when using brand name drugs with no generic substitutes, and a third payment level when using brand named drugs with a generic substitute.
  - *Workers in HMOs are more likely to have a three-tier cost sharing formula than workers in other plan types, at 34%. Workers in conventional plans are the most likely to pay the same regardless of the type of drug purchased (EXHIBITS 9.4).*
  - *Workers in all small firms (3–199 workers) are significantly less likely to have a three-tier cost sharing formula than workers in larger firms, regardless of plan type (EXHIBITS 9.4).*
- ▶ The amount employees pay per prescription — whether in the form of a dollar copayment or through a percentage coinsurance — varies only modestly by plan type.
  - *Depending on the type of plan, copays average \$7–8 for generic drugs, \$12–14 for brand name drugs with no generic substitute, and \$15–20 for brand name drugs with generic substitutes (EXHIBITS 9.5).*
  - *Coinsurance levels average 18–21% for generic drugs, 20–25% for brand name prescriptions with no generic substitute, and 22–26% for brand name drugs with generic substitutes (EXHIBIT 9.6).*
- ▶ In addition to copayments and coinsurance, few workers face separate deductibles for prescription drug benefits. Across plan types, just 6% of workers in all small firms and 7% in all large firms have a separate annual deductible for drugs (EXHIBIT 9.2).
- ▶ Though many proposals for providing a prescription drug benefit to Medicare beneficiaries have included a cap, or maximum limit on the amount of benefits provided, such caps are quite uncommon in employer-provided insurance. Just 4% of workers in all small firms (3–199 workers) and 2% in all large firms (200+ workers) face a cap on drug benefits (EXHIBIT 9.1).
- ▶ Most workers enrolled in HMOs (58%) and almost half in POS plans also face a drug formulary, which is a list of covered drugs developed by the plan. Formularies are less common in PPOs and conventional plans (EXHIBIT 9.7).

► Mail order discount plans, or plans under which members pay less for drugs obtained through the mail, also continue to be prevalent among health plans, although their incidence has not changed in recent years. The mandatory use of generic drugs has declined across all plan types, although the decline from last year is statistically significant only in POS plans, from 38% in 1999 to 19% in 2000 (EXHIBITS 9.9 and 9.10).

► The percentage of covered workers with prescription drug carve-outs — benefits administered separately from the organization's basic insurance package — has remained stable, at 34% in 2000 (EXHIBIT 9.8). HMOs remain the least likely to carve out these benefits, while PPOs are the most likely to do so. Drug carve-outs are significantly less common in the West, and more so in the Midwest (EXHIBIT 9.11).

#### MENTAL HEALTH BENEFITS

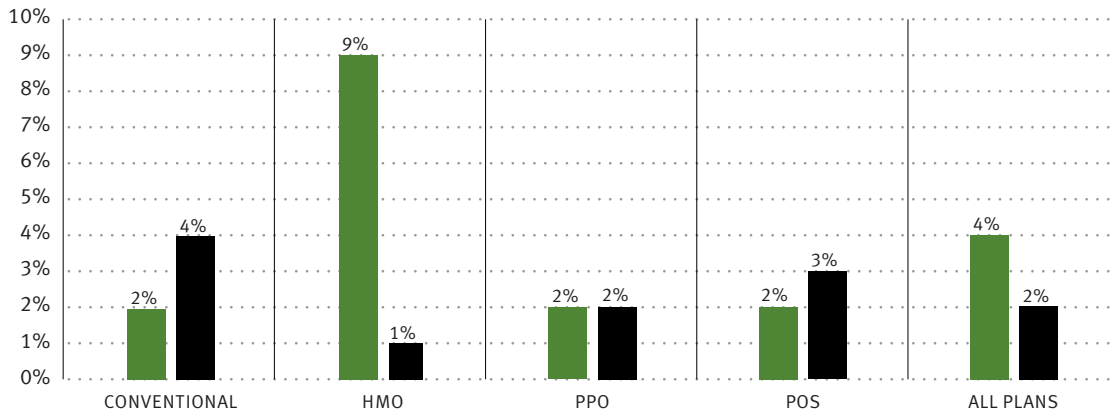
► The percentage of workers with mental health benefits carved out has also remained fairly constant, at 22% in 2000 (EXHIBIT 9.12). Carve-outs are the most common in POS and PPO plans, and the least common in conventional and HMO plans.

► Unlimited mental health visits have become less common over time in all plan types. In 2000, just 11% of covered workers have unlimited mental health visits; 26% are restricted to 20 visits or less per year (EXHIBIT 9.14). HMOs are significantly more restrictive in their coverage of mental health visits than other plan types. In 1991, approximately 36% of covered workers in all large firms (200 or more workers) were in plans with unlimited outpatient mental health visits. By 1999 this figure had fallen to 21% across plan types, and is just 17% in 2000 (data not shown).

► Unlimited inpatient mental health days are also rather infrequent, at 18% of covered workers. In contrast to outpatient visits, however, there are no significant differences by plan type (EXHIBIT 9.15).

EXHIBIT 9.1

Percentage of Covered Workers That Have a Separate Annual Cap on Prescription Drug Benefits in Conventional, HMO, PPO, and POS Plans, by Firm Size, 2000\*



SOURCE :

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

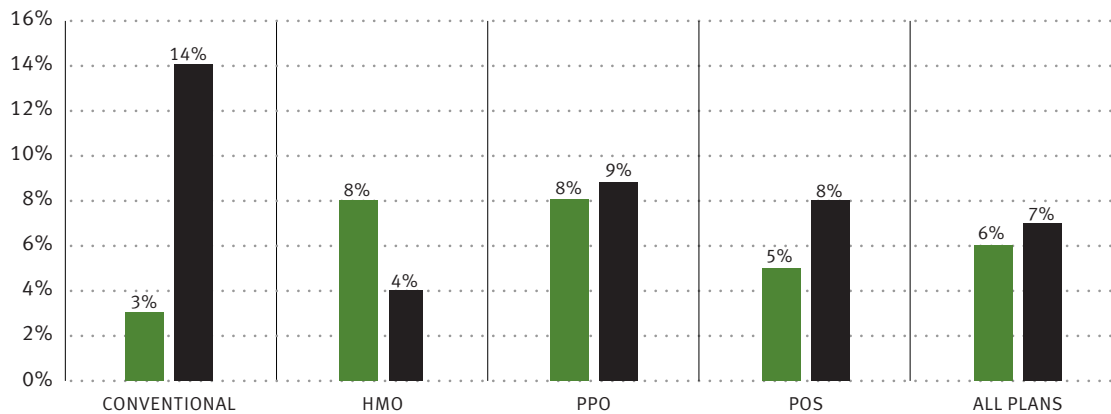
■ ALL SMALL FIRMS  
■ ALL LARGE FIRMS

\* Tests found no statistically different estimates from All Plans.

Max cap on prescription: a limit on the total amount of drug expenses paid for by a plan in a year.

EXHIBIT 9.2

Percentage of Covered Workers That Have a Separate Deductible for Prescription Drug Benefits in Conventional, HMO, PPO, and POS Plans, by Firm Size, 2000\*



SOURCE :

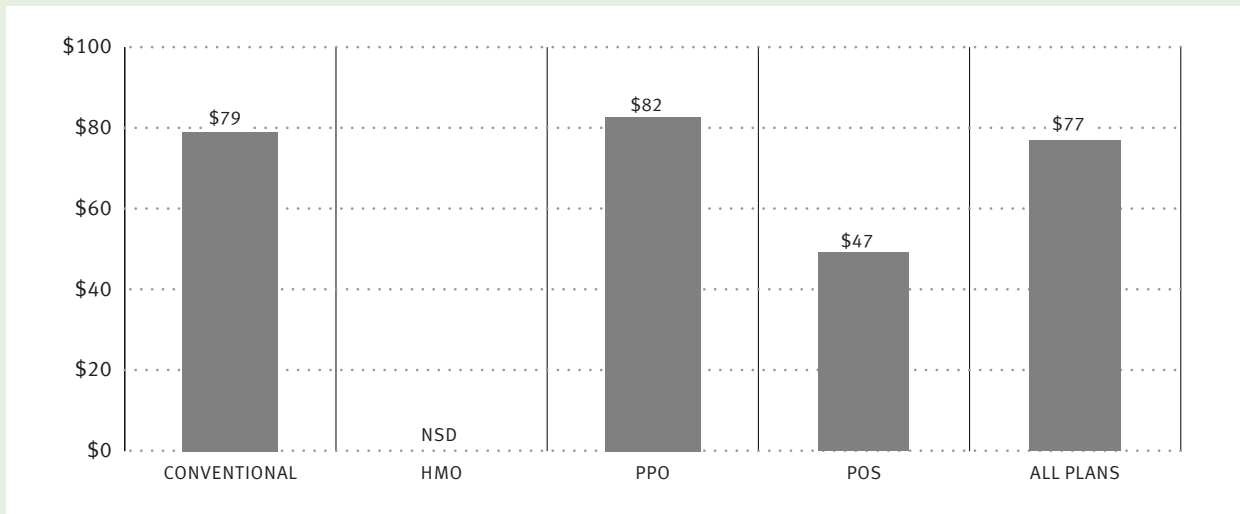
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000.

■ ALL SMALL FIRMS  
■ ALL LARGE FIRMS

\* Tests found no statistically different estimates from All Plans.

EXHIBIT 9.3

Average Annual Deductible for Prescription Drug Benefits in Conventional, HMO, PPO, and POS Plans, 2000\*



SOURCE :

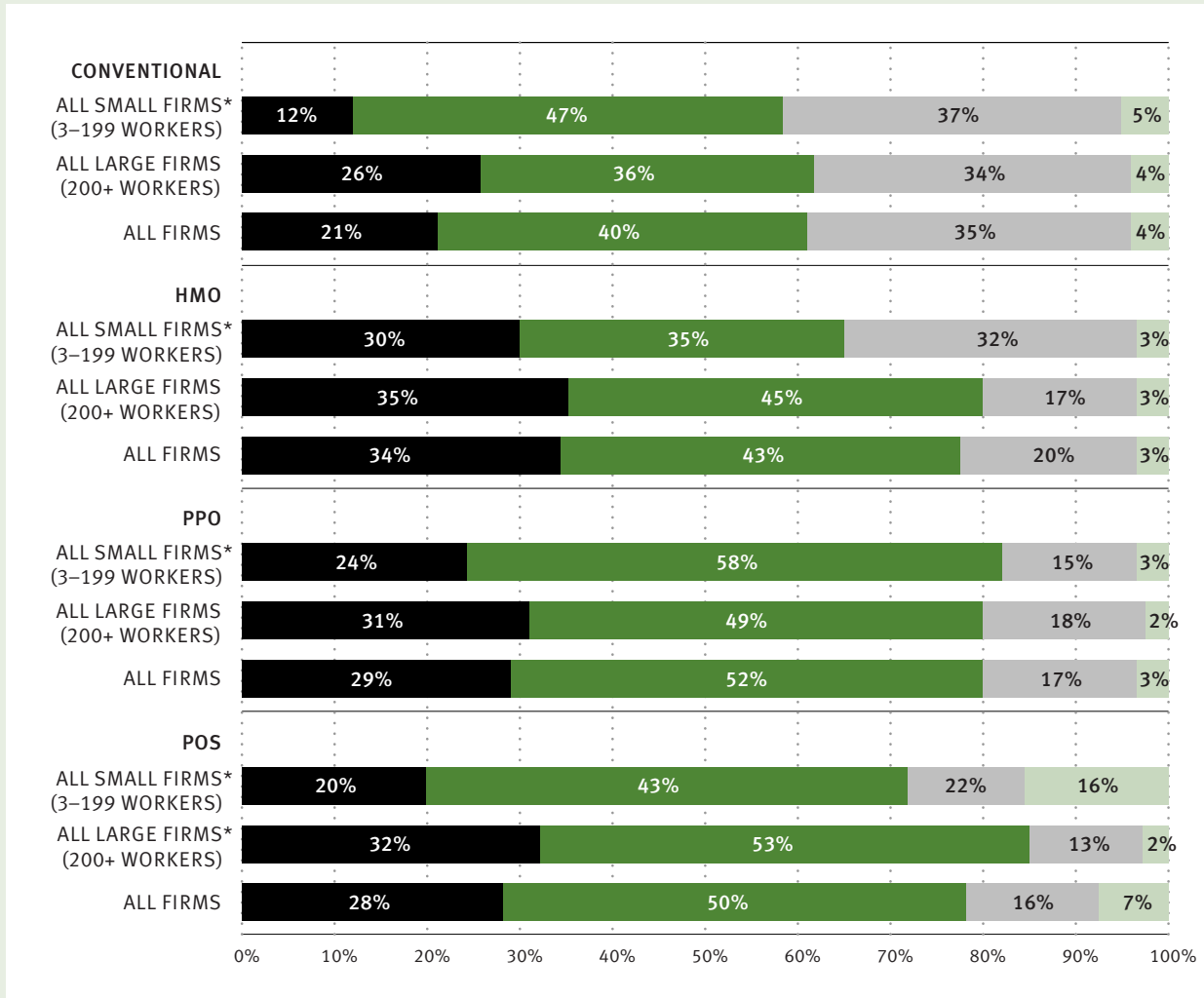
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000.

\* Tests found no statistically different estimates from All Plans.

NSD: Not sufficient data.

EXHIBIT 9.4

Percentage of Covered Workers Facing Different Cost Sharing Formulas for Prescription Drug Benefits in Conventional, HMO, PPO, and POS Plans, by Firm Size, 2000



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  
 PAYMENT THE SAME REGARDLESS OF TYPE OF DRUG  
 OTHER/DON'T KNOW

SOURCE:

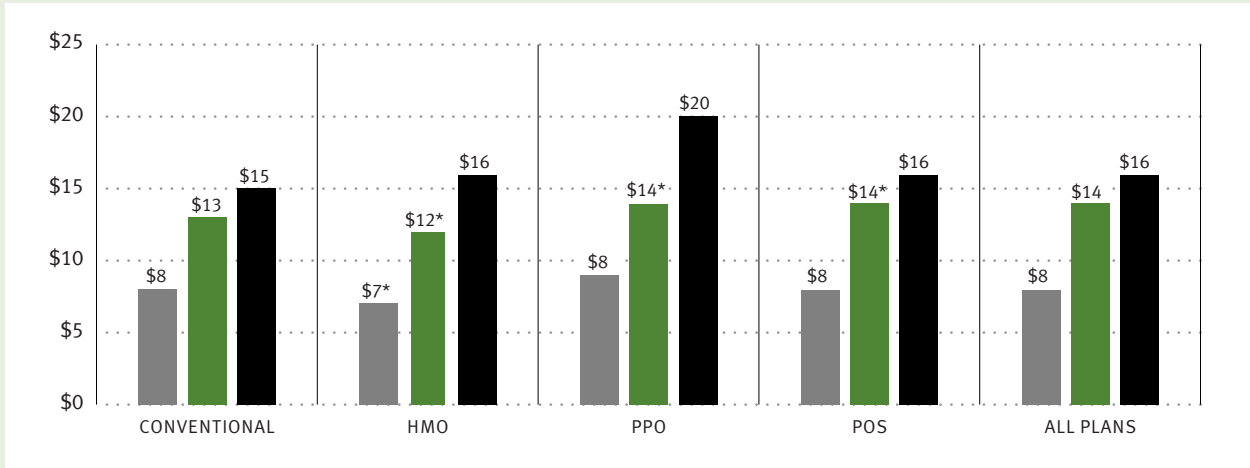
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000.

\* Distribution is statistically different from All Firms by Plan Type.



EXHIBIT 9.5

Average Co-Pays for Generic Drugs, Brand Name Drugs With No Generic Substitutes, and Brand Name Drugs, With Generic Substitutes, in Conventional, HMO, PPO, and POS Plans, 2000



GENERIC  
 BRAND NAME WITH NO GENERIC SUBSTITUTES  
 BRAND NAME WITH GENERIC SUBSTITUTES

SOURCE :

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

\* Estimate is statistically different from All Plans by Plan Type.

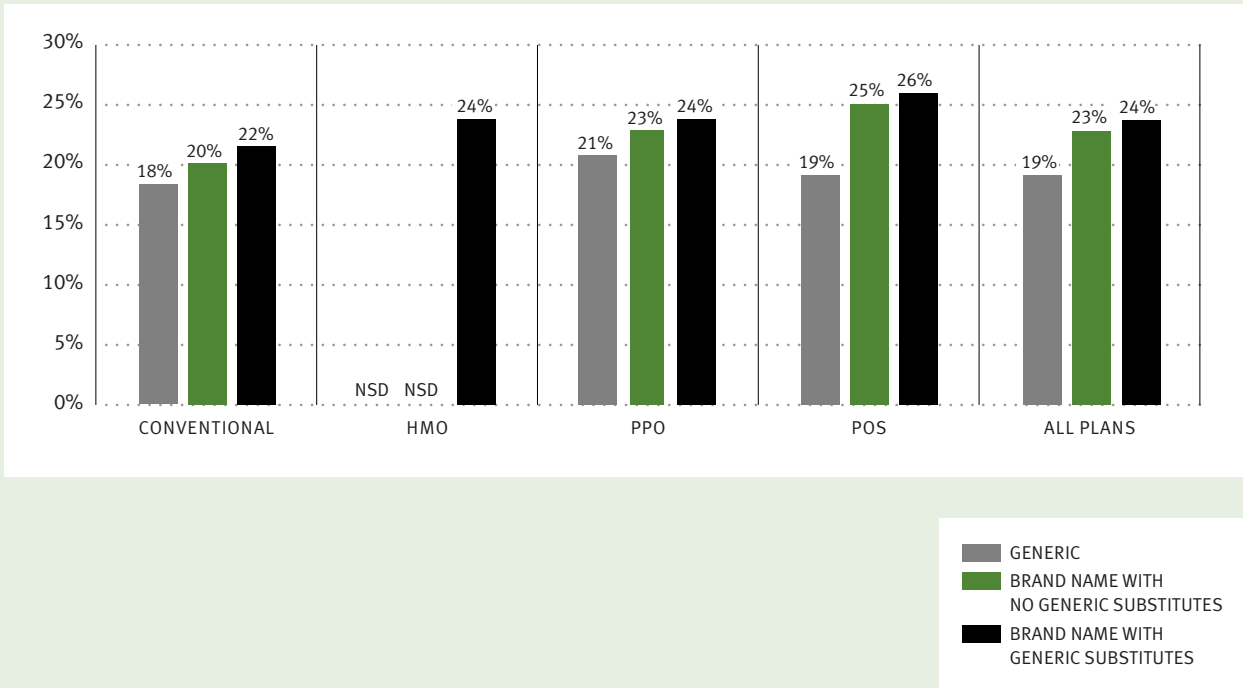
Generic drugs: a drug product that is no longer covered by patent protection and thus may be produced and/or distributed by many firms.

Brand name drugs: a drug product that is covered by a patent and thus is manufactured occasionally occurs, allowing an additional firm(s) to market the drug. After the patent expires, the brand name remains with the original manufacturer's product.



EXHIBIT 9.6

Average Coinsurance Rate for Generic Drugs, Brand Name Drugs With No Generic Substitutes, and Brand Name Drugs, With Generic Substitutes, in Conventional, HMO, PPO, and POS Plans, 2000\*



SOURCE :

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

\* Tests found no statistically different estimates from All Plans by Plan Type.

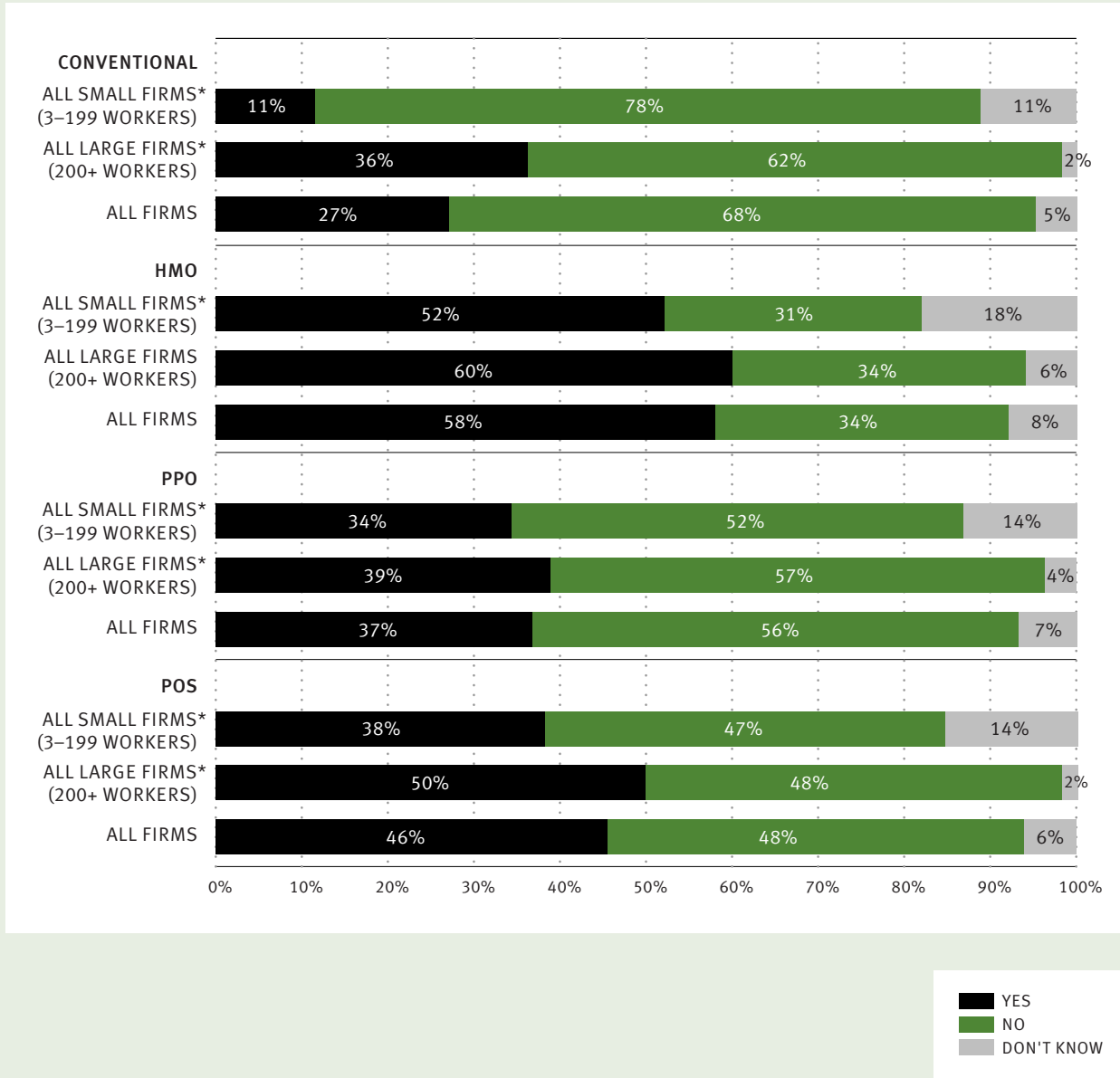
NSD: Not sufficient data.

Generic drugs: a drug product that is no longer covered by patent protection and thus may be produced and/or distributed by many firms.

Brand name drugs: a drug product that is covered by a patent and thus is manufactured occasionally occurs, allowing an additional firm(s) to market the drug. After the patent expires, the brand name remains with the original manufacturer's product.

EXHIBIT 9.7

Percentage of Covered Workers in Plans With a Formulary That Restricts Which Drugs Will be Covered in Conventional, HMO, PPO, and POS Plans, by Firm Size, 2000



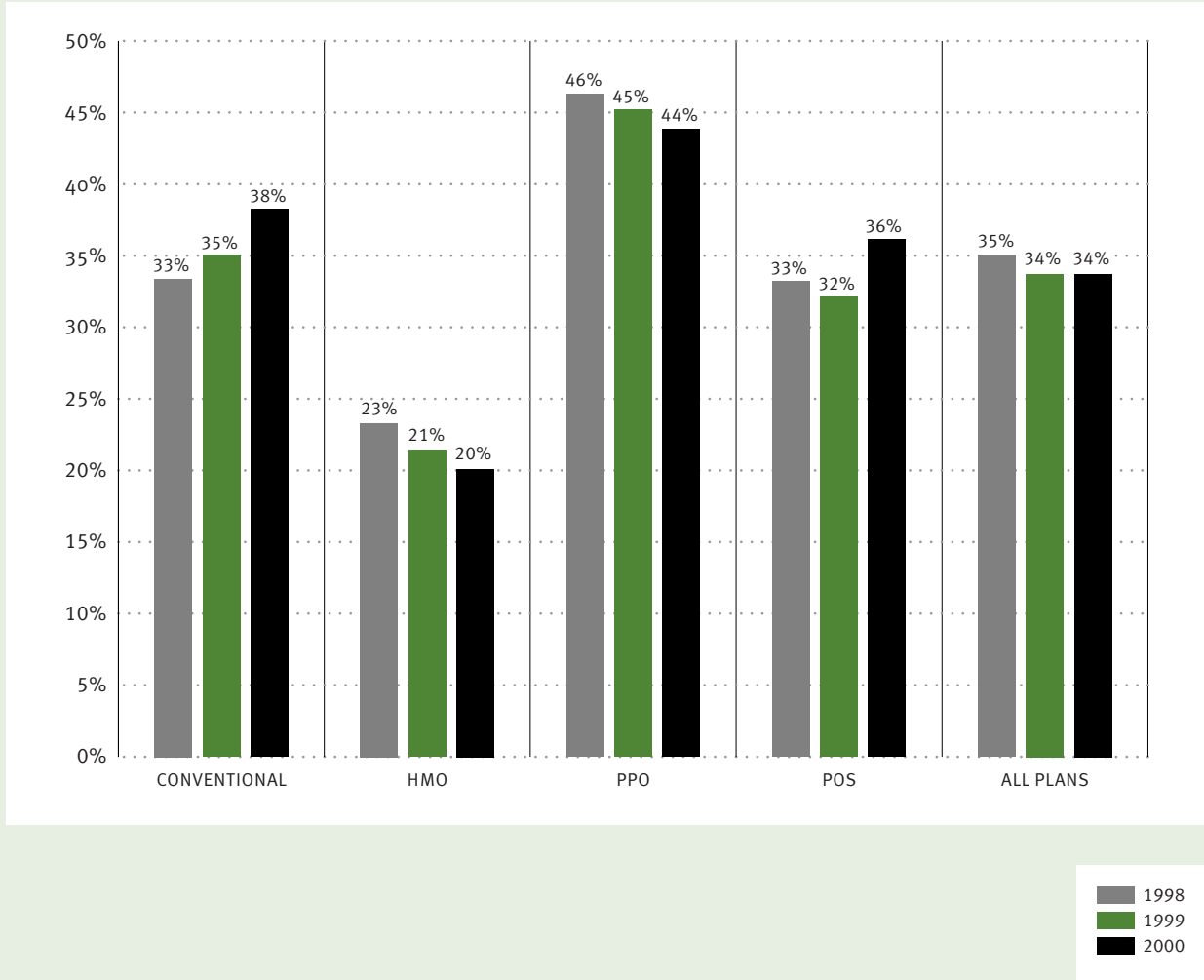
SOURCE :

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

\* Distribution is statistically different from All Firms by Plan Type.

EXHIBIT 9.8

Percentage of Covered Workers With Prescription Drug Carve-Outs, by Plan Type, 1998, 1999, and 2000\*



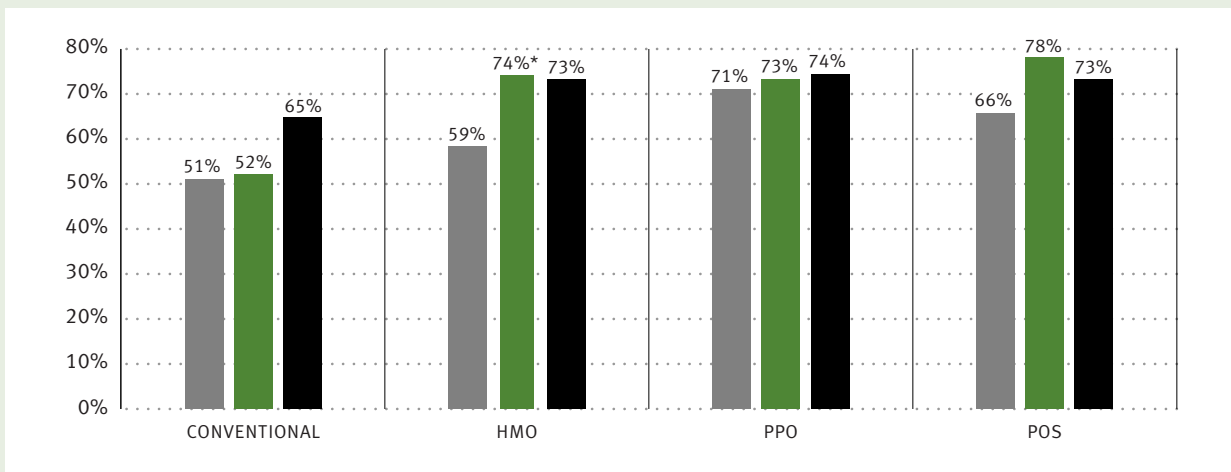
SOURCE :

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

\* Tests found no statistically different estimates from the previous year for years 1998-1999, 1999-2000.

EXHIBIT 9.9

Percentage of Covered Workers With Mail Order Discount Plans, 1998, 1999, and 2000



SOURCE :

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

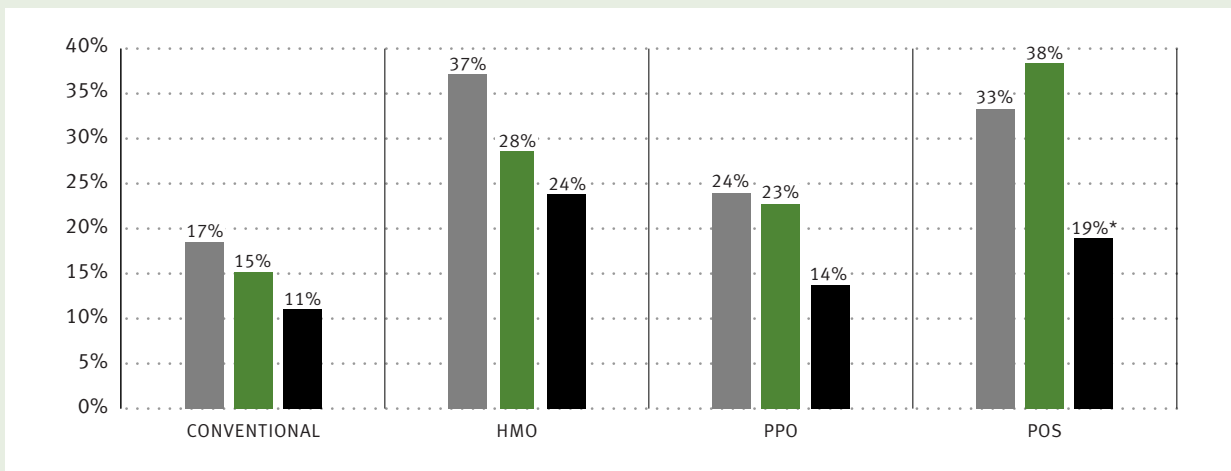
1998  
1999  
2000

\* Estimate is statistically different from the previous year for years 1998–1999, 1999–2000.

Mail order discount plans: plans under which members pay less for drugs obtained through the mail rather than directly from a pharmacy.

EXHIBIT 9.10

Percentage of Covered Workers With Mandatory Use of Generic Drugs, 1998, 1999, and 2000



SOURCE :

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

1998  
1999  
2000

\* Estimate is statistically different from the previous year for years 1998–1999, 1999–2000.

Generic drugs: a drug product that is no longer covered by patent protection and thus may be produced and/or distributed by many firms.

## EXHIBIT 9.11

## Percentage of Covered Workers in Firms That Carve Out Their Prescription Drug Benefits, by Firm Size and Region, 2000

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plan Types</i>
<b>FIRM SIZE</b>					
All Small Firms (3–199 Workers)	25%	22%	32%*	16%*	26%*
Midsize (200–999 Workers)	20	12^	38	24*	27
Large (1,000–4,999 Workers)	38	27^	49	35	41
Jumbo (5,000+ Workers)	55	19^	54	57* ^	40
<b>REGION</b>					
Northeast	48%	29%	44%	40%	40%
Midwest	34	30^	52	43	44
South	44	19^	39	42	33
West	20	12^	45^	15*	21*
<b>ALL REGIONS AND FIRM SIZES</b>	<b>38%</b>	<b>20% ^</b>	<b>44%</b>	<b>36%</b>	<b>34%</b>

## SOURCE :

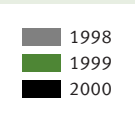
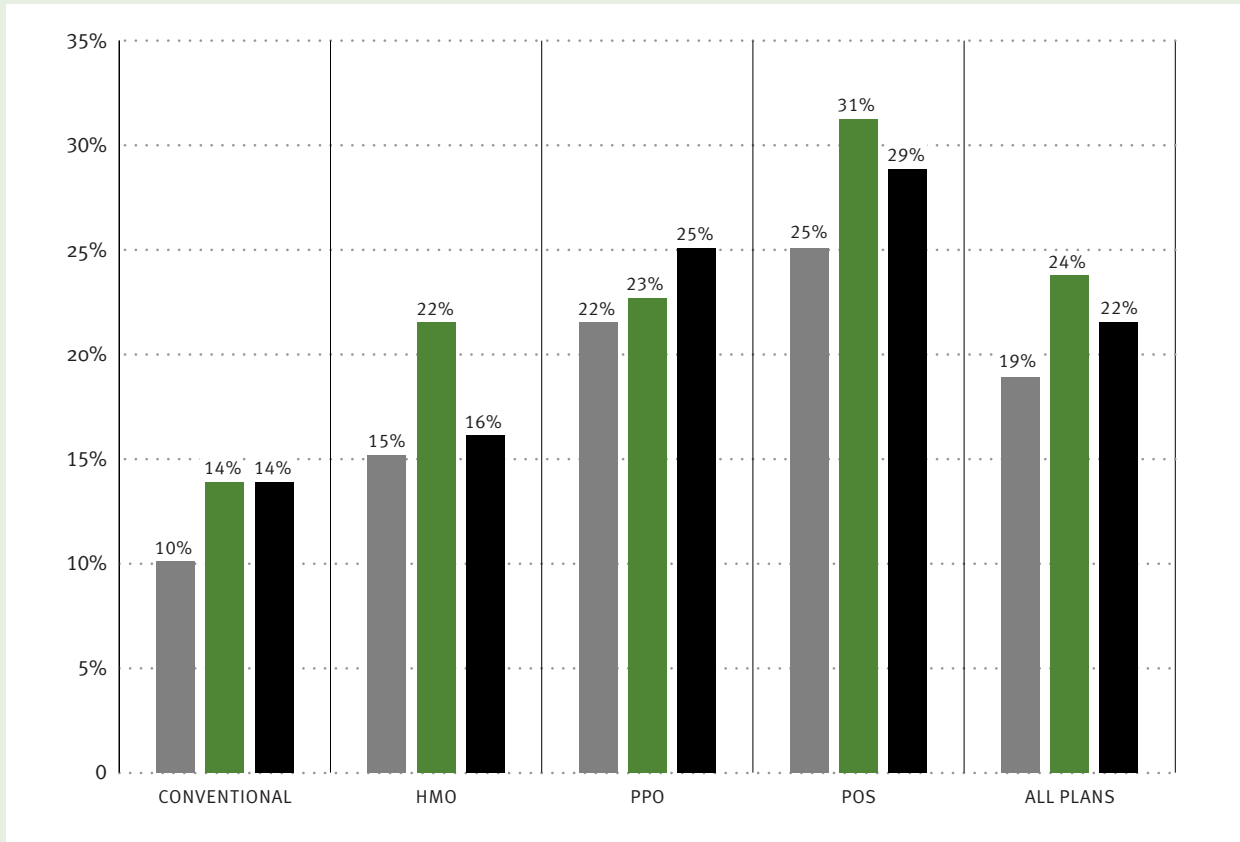
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000.

\* Estimate is statistically different from All Regions and Firms Sizes within a plan type.

^ Estimate is statistically different from All Plan Types within a plan type.

EXHIBIT 9.12

Percentage of Covered Workers in Firms That Carve Out Mental Health Benefits, by Plan Type, 1998, 1999, and 2000\*



SOURCE :

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

\* Tests found no statistically different estimates from the previous year for years 1998-1999, 1999-2000.

EXHIBIT 9.13

Percentage of Covered Workers in Firms That Carve Out Their Mental Drug Benefits, by Firm Size and Region, 2000

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plan Types</i>
<b>FIRM SIZE</b>					
All Small Firms (3–199 Workers)	5% <sup>^</sup>	14%	14%*	13%*	13%*
Midsize (200–999 Workers)	15	11	22	12*	17
Large (1,000–4,999 Workers)	11	18	23	20	19
Jumbo (5,000+ Workers)	24	17 <sup>^</sup>	36	50*	30
<b>REGION</b>					
Northeast	26%	14%	17%*	28%	19%
Midwest	14	16	28	36	23
South	13 <sup>^</sup>	17	30	33	25
West	3* <sup>^</sup>	15	10*	18	13*
<b>ALL REGIONS AND FIRM SIZES</b>	<b>14%</b>	<b>16%</b>	<b>25%</b>	<b>29%</b>	<b>22%</b>

## SOURCE:

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

\* Estimate is statistically different from All Regions and Firms Sizes within a plan type.

<sup>^</sup> Estimate is statistically different from All Plan Types within a plan type.

## EXHIBIT 9.14

## Percentage of Covered Workers With Various Outpatient Mental Health Visit Annual Maximums, by Plan Type, 2000

	<i>Conventional</i>	<i>HMO*</i>	<i>PPO</i>	<i>POS</i>	<i>All Plan Types</i>
20 Visits or Less	23%	36%	24%	28%	26%
21 to 30 Visits	16	26	26	26	26
31 to 50 Visits	15	12	14	10	14
More than 50 Visits	6	4	5	6	7
Unlimited	25	8	13	12	11
Don't Know	16	14	18	19	16

## SOURCE :

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

\* Distribution is statistically different from All Plan Types.

## EXHIBIT 9.15

## Percentage of Covered Workers With Various Inpatient Mental Health Day Annual Maximums, by Plan Type, 2000\*

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plan Types</i>
10 Days or Less	2%	4%	4%	6%	4%
11 to 20 Days	5	9	7	7	7
21 to 30 Days	25	46	38	40	38
31 or More Days	22	16	14	16	19
Unlimited	27	9	21	17	18
Don't Know	19	15	16	15	14

## SOURCE :

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

\* Tests found no statistically different distributions from All Plan Types.



EMPLOYER HEALTH BENEFITS  
2000 ANNUAL SURVEY

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Plan Funding  
and the Use  
of Pre-Existing  
Condition  
Clauses

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SECTION

10

## PLAN FUNDING AND THE USE OF PRE-EXISTING CONDITION CLAUSES

AS INTERPRETED BY THE COURTS, THE EMPLOYEE RETIREMENT INCOME AND SECURITY ACT (ERISA) OF 1974, PRECLUDES SELF-INSURED PLANS FROM STATE REGULATION INCLUDING RESERVE REQUIREMENTS, MANDATED BENEFITS, PREMIUM TAXES, AND CONSUMER PROTECTION REGULATIONS. SELF-INSURANCE IS COMMON AMONG LARGE EMPLOYERS, BUT IS LESS PREVALENT AND A FAR RISKIER UNDERTAKING FOR SMALLER FIRMS, WHO HAVE FEWER EMPLOYEES OVER WHICH TO SPREAD THE COSTS OF COSTLY CLAIMS. WITH PREMIUMS CHARGED BY INSURANCE COMPANIES AND HMOs RISING RAPIDLY, ADDITIONAL EMPLOYERS — EVEN RELATIVELY SMALL ONES — MAY CONSIDER SELF-INSURANCE AS AN OPTION.

### SELF INSURANCE

► 51% of employees are enrolled in a plan that completely or partially self-insures, compared to 48% in 1999 (EXHIBIT 10.1).

- With the exception of HMO plans, self-insurance remained fairly stable across all types of plans between 1999 and 2000 (EXHIBIT 10.1). PPO plans are still most likely to be self-insured among all plan types.

- The percentage of covered workers in HMO plans that self-insure stands at 28%, compared to 19% in 1999 (though the change is not statistically significant) (EXHIBIT 10.3). One possible reason for this increase is that premiums for fully insured plans increased 9.4%, compared to 4.5% for self-insured HMO plans (EXHIBIT 2.5).

*Nonetheless, among all plan types, HMOs remain least likely to be self-insured.*

- The overall percentage of employees in self-insured POS plans has declined substantially since 1996, though there was little change overall in the last year (EXHIBIT 10.5).

- EXHIBIT 10.6 highlights how self-insurance increases with firm size. Across plan types, 12% of workers in firms with 3–9 workers had self-insured coverage, rising to 68% for employees in jumbo firms.

► With premium costs again rising more rapidly among fully insured plans — two and a half percentage points more than in self-insured plans — many companies may consider switching to a self-insured alternative. In the 1990s, the increased market share of managed care plans combined with stable premium costs enabled employers to

purchase fully insured health plans at a competitive price. In the last two years, in contrast, self-insurance has become the more attractive alternative from a financial standpoint.

### PRE-EXISTING CONDITIONS

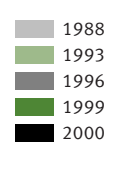
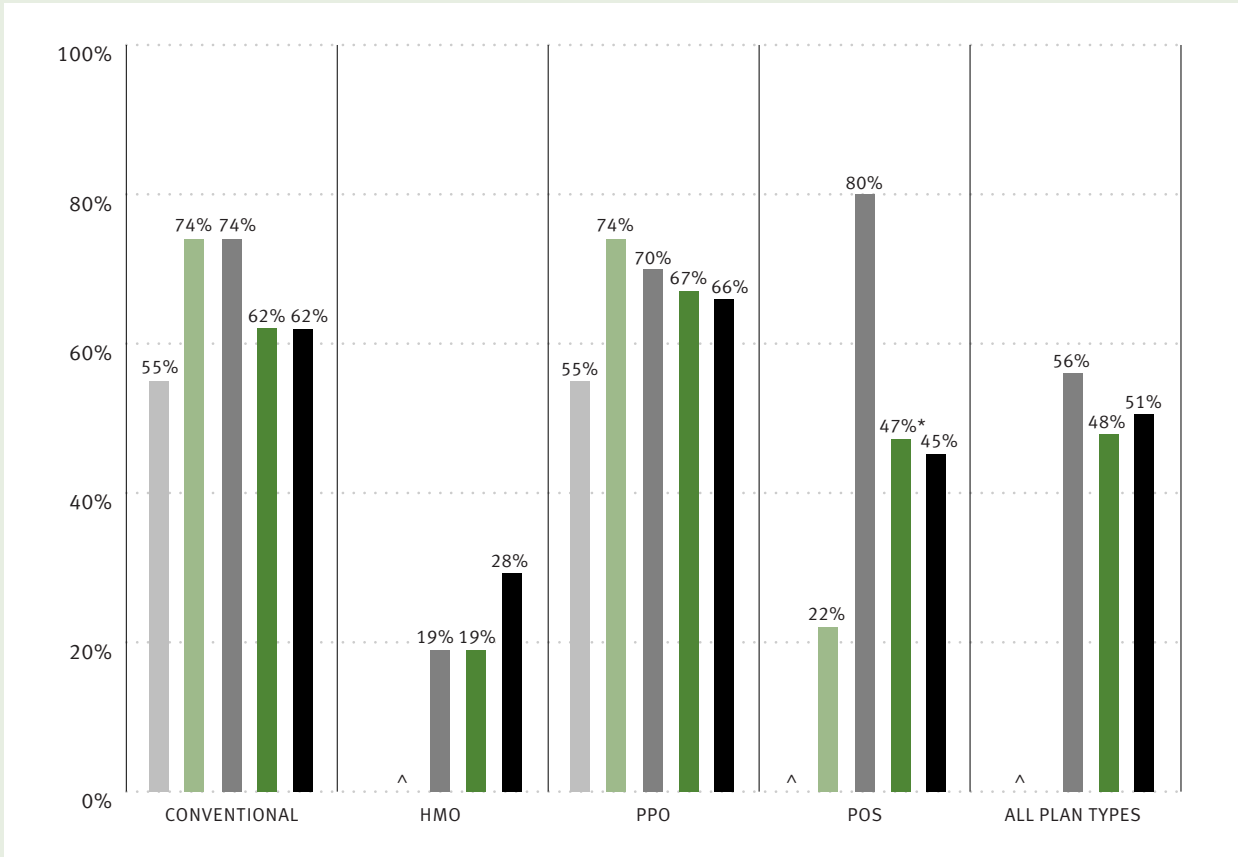
► Overall, 29% of covered workers are in plans that have a pre-existing condition clause (i.e., a temporary exclusion from coverage for health conditions that existed prior to enrollment) (EXHIBIT 10.8).

► Since the passage of the federal Health Insurance Portability and Accountability Act (HIPAA) in 1996 — which put limits on pre-existing condition exclusions in both insured and self-insured plans — the use of pre-existing condition clauses has declined considerably among conventional, PPO, and POS plans (EXHIBIT 10.8).

- In 2000, however, the percentage of covered workers with a pre-existing condition clause in a conventional plan is up to 43%, compared to 35% in 1999 (although the change was not statistically significant). Meanwhile, the percentage of covered workers in a PPO plan with a pre-existing condition clause remained constant between 1999 and 2000, and the percentage in a POS plan with a pre-existing condition clause dropped slightly (EXHIBIT 10.8).
  - This is the first year in which the survey asks about pre-existing condition clauses in HMOs. The percentage of covered workers in an HMO plan with a pre-existing condition clause was 12% in 2000, by far the smallest of all plan types (EXHIBIT 10.12).
- ▶ Waiting periods for pre-existing condition clauses remain relatively long. Three-fourths of conventional plan members, half of HMO, three-fourths of PPO and two-thirds of POS members who are subject to these clauses must wait 12 months before their plan will cover their pre-existing condition (EXHIBITS 10.11–10.14). However, HIPAA provides portability of coverage for many workers, meaning that pre-existing condition exclusions are often waived for people moving from one plan to another.

EXHIBIT 10.1

Percentage of Covered Workers in Partly or Completely Self-Insured Plans, by Plan Type, 1988–2000



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

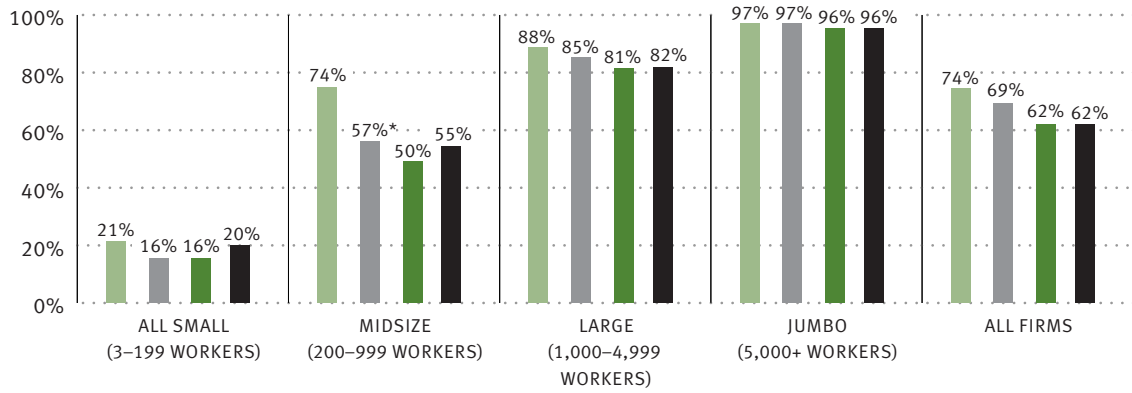
\* Estimate is statistically different from the previous year for years 1996–1999, 1999–2000.

^ Information was not obtained for HMO plans in 1988 and 1993, and POS plans in 1988.

Self-insured plans: this is where an employer assumes responsibility for health care claims rather than buying coverage from an insurer.

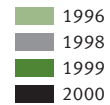
EXHIBIT 10.2

Percentage of Covered Workers in Partly or Completely Self-Insured Conventional Plans, by Firm Size, 1996–2000



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

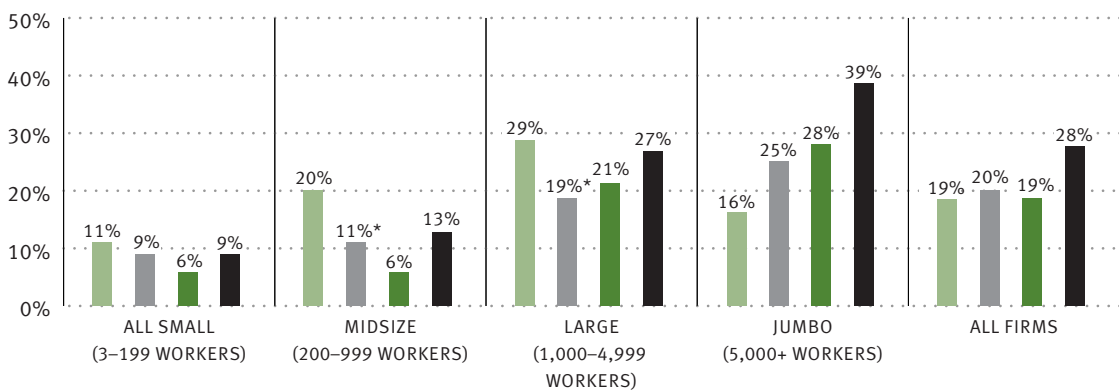


\* Estimate is statistically different from the previous year for years 1996–1998, 1998–1999, 1999–2000.

Self-insured plans: this is where an employer assumes responsibility for health care claims rather than buying coverage from an insurer.

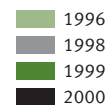
EXHIBIT 10.3

Percentage of Covered Workers in Partly or Completely Self-Insured HMO Plans, by Firm Size, 1996–2000



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

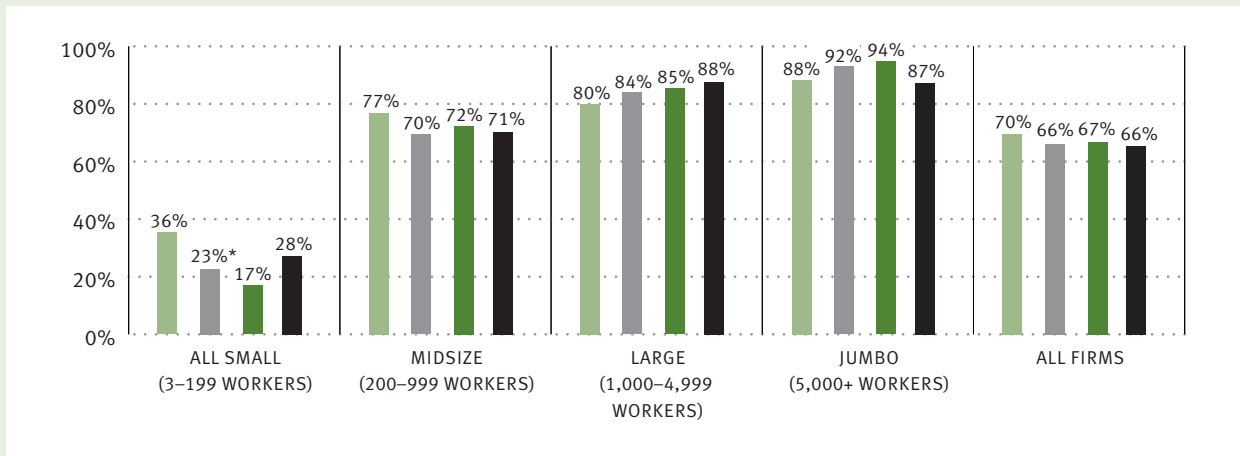


\* Estimate is statistically different from the previous year for years 1996–1998, 1998–1999, 1999–2000.

Self-insured plans: this is where an employer assumes responsibility for health care claims rather than buying coverage from an insurer.

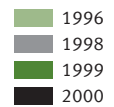
EXHIBIT 10.4

Percentage of Covered Workers in Partly or Completely Self-Insured PPO Plans, by Firm Size, 1996–2000



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.



\* Estimate is statistically different from the previous year for years 1996–1998, 1998–1999, 1999–2000.

Self-insured plans: this is where an employer assumes responsibility for health care claims rather than buying coverage from an insurer.

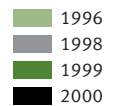
EXHIBIT 10.5

Percentage of Covered Workers in Partly or Completely Self-Insured POS Plans, by Firm Size, 1996–2000



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.



\* Estimate is statistically different from the previous year for years 1996–1998, 1998–1999, 1999–2000.

Self-insured plans: this is where an employer assumes responsibility for health care claims rather than buying coverage from an insurer.

EXHIBIT 10.6 *Continued on page 130*

## Percentage of Covered Workers Under Different Funding Arrangements in Conventional, HMO, PPO, and POS Plans, by Firm Size, 2000

	<i>Coverage Underwritten by an Insurer</i>	<i>Self-Insured (Employer bears all or any of financial risk)</i>	<i>Don't Know</i>
<b>CONVENTIONAL PLANS</b>			
Small (3–9 Workers)*	94%	6%	0%
Small (10–24 Workers)	NSD	NSD	NSD
Small (25–49 Workers)	NSD	NSD	NSD
Small (50–199 Workers)*	64	36	0
<b>ALL SMALL FIRMS (3–199 WORKERS)*</b>	<b>79</b>	<b>20</b>	<b>0</b>
Midsize (200–999 Workers)	45	55	0
Large (1,000–4,999 Workers)*	18	82	0
Jumbo (5,000+ Workers)*	3	96	1
<b>ALL FIRM SIZES</b>	<b>38%</b>	<b>62%</b>	<b>1%</b>
<b>HMO PLANS</b>			
Small (3–9 Workers)	79%	21%	0%
Small (10–24 Workers)*	93	3	4
Small (25–49 Workers)*	91	9	1
Small (50–199 Workers)*	95	5	0
<b>ALL SMALL FIRMS (3–199 WORKERS)*</b>	<b>90</b>	<b>9</b>	<b>1</b>
Midsize (200–999 Workers)*	86	13	2
Large (1,000–4,999 Workers)	72	27	2
Jumbo (5,000+ Workers)*	61	39	1
<b>ALL FIRM SIZES</b>	<b>71%</b>	<b>28%</b>	<b>1%</b>
<b>PPO PLANS</b>			
Small (3–9 Workers)*	86%	14%	0%
Small (10–24 Workers)*	91	9	0
Small (25–49 Workers)*	78	21	1
Small (50–199 Workers)*	62	38	0
<b>ALL SMALL FIRMS (3–199 WORKERS)*</b>	<b>72</b>	<b>28</b>	<b>0</b>
Midsize (200–999 Workers)	29	71	0
Large (1,000–4,999 Workers)*	12	88	0
Jumbo (5,000+ Workers)*	13	87	0
<b>ALL FIRM SIZES</b>	<b>34%</b>	<b>66%</b>	<b>0%</b>

EXHIBIT 10.6 *Continued from page 129*

## Percentage of Covered Workers Under Different Funding Arrangements in Conventional, HMO, PPO, and POS Plans, by Firm Size, 2000

	Coverage Underwritten by an Insurer	Self-Insured (Employer bears all or any of financial risk)	Don't Know
<b>POS PLANS</b>			
Small (3–9 Workers)*	90%	1%	9%
Small (10–24 Workers)*	89	9	1
Small (25–49 Workers)	NSD	NSD	NSD
Small (50–199 Workers)*	83	13	4
<b>ALL SMALL FIRMS (3–199 WORKERS)*</b>	<b>87</b>	<b>9</b>	<b>4</b>
Midsize (200–999 Workers)*	63	37	0
Large (1,000–4,999 Workers)*	32	63	6
Jumbo (5,000+ Workers)*	30	68	2
<b>ALL FIRM SIZES</b>	<b>52%</b>	<b>45%</b>	<b>3%</b>
<b>ALL PLANS</b>			
Small (3–9 Workers)*	86%	12%	2%
Small (10–24 Workers)*	91	8	1
Small (25–49 Workers)*	87	12	2
Small (50–199 Workers)*	74	25	1
<b>ALL SMALL FIRMS (3–199 WORKERS)*</b>	<b>80</b>	<b>19</b>	<b>1</b>
Midsize (200–999 Workers)	48	52	0
Large (1,000–4,999 Workers)*	31	68	2
Jumbo (5,000+ Workers)*	32	68	0
<b>ALL FIRM SIZES</b>	<b>48%</b>	<b>51%</b>	<b>1%</b>

## SOURCE :

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

\* Distribution is statistically different from All Firm Sizes within plan type.

NSD: Not sufficient data.

Self-insured plans: this is where an employer assumes responsibility for health care claims rather than buying coverage from an insurer.



EXHIBIT 10.7 *Continued on page 132*

## Percentage of Covered Workers Under Different Funding Arrangements in Conventional, HMO, PPO, and POS Plans, by Industry, 2000

	<i>Coverage Underwritten by an Insurer</i>	<i>Self-Insured (Employer bears all or any of financial risk)</i>	<i>Don't Know</i>
<b>CONVENTIONAL PLANS</b>			
Mining/Construction/Wholesale	NSD	NSD	NSD
Manufacturing*	9%	91%	0%
Transportation/Communication/Utility	NSD	NSD	NSD
Retail	NSD	NSD	NSD
Finance	NSD	NSD	NSD
Service*	55	45	0
State/Local Government	35	65	0
Health Care	NSD	NSD	NSD
<b>ALL INDUSTRIES</b>	<b>38%</b>	<b>62%</b>	<b>1%</b>
<b>HMO PLANS</b>			
Mining/Construction/Wholesale*	99%	1%	0%
Manufacturing*	63	37	0
Transportation/Communication/Utility*	39	61	0
Retail	75	24	2
Finance	71	26	3
Service*	80	19	1
State/Local Government*	92	8	0
Health Care	64	36	0
<b>ALL INDUSTRIES</b>	<b>71%</b>	<b>28%</b>	<b>1%</b>
<b>PPO PLANS</b>			
Mining/Construction/Wholesale	34%	66%	0%
Manufacturing*	25	76	0
Transportation/Communication/Utility	21	79	0
Retail	38	62	1
Finance*	54	46	0
Service	38	62	0
State/Local Government	35	64	0
Health Care	29	71	0
<b>ALL INDUSTRIES</b>	<b>34%</b>	<b>66%</b>	<b>0%</b>

EXHIBIT 10.7 *Continued from page 131*

## Percentage of Covered Workers Under Different Funding Arrangements in Conventional, HMO, PPO, and POS Plans, by Industry, 2000

	<i>Coverage Underwritten by an Insurer</i>	<i>Self-Insured (Employer bears all or any of financial risk)</i>	<i>Don't Know</i>
<b>POS PLANS</b>			
Mining/Construction/Wholesale	68	28	3
Manufacturing	46	51	3
Transportation/Communication/Utility	NSD	NSD	NSD
Retail*	74	25	1
Finance*	24	74	2
Service	61	37	2
State/Local Government*	62	37	1
Health Care*	47	43	11
<b>ALL INDUSTRIES</b>	<b>52%</b>	<b>45%</b>	<b>3%</b>
<b>ALL PLANS</b>			
Mining/Construction/Wholesale	54%	45%	1%
Manufacturing*	34	65	1
Transportation/Communication/Utility*	29	71	0
Retail*	58	41	1
Finance	52	48	0
Service	55	44	1
State/Local Government	53	47	0
Health Care*	46	51	3
<b>ALL INDUSTRIES</b>	<b>48%</b>	<b>51%</b>	<b>1%</b>

## SOURCE :

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

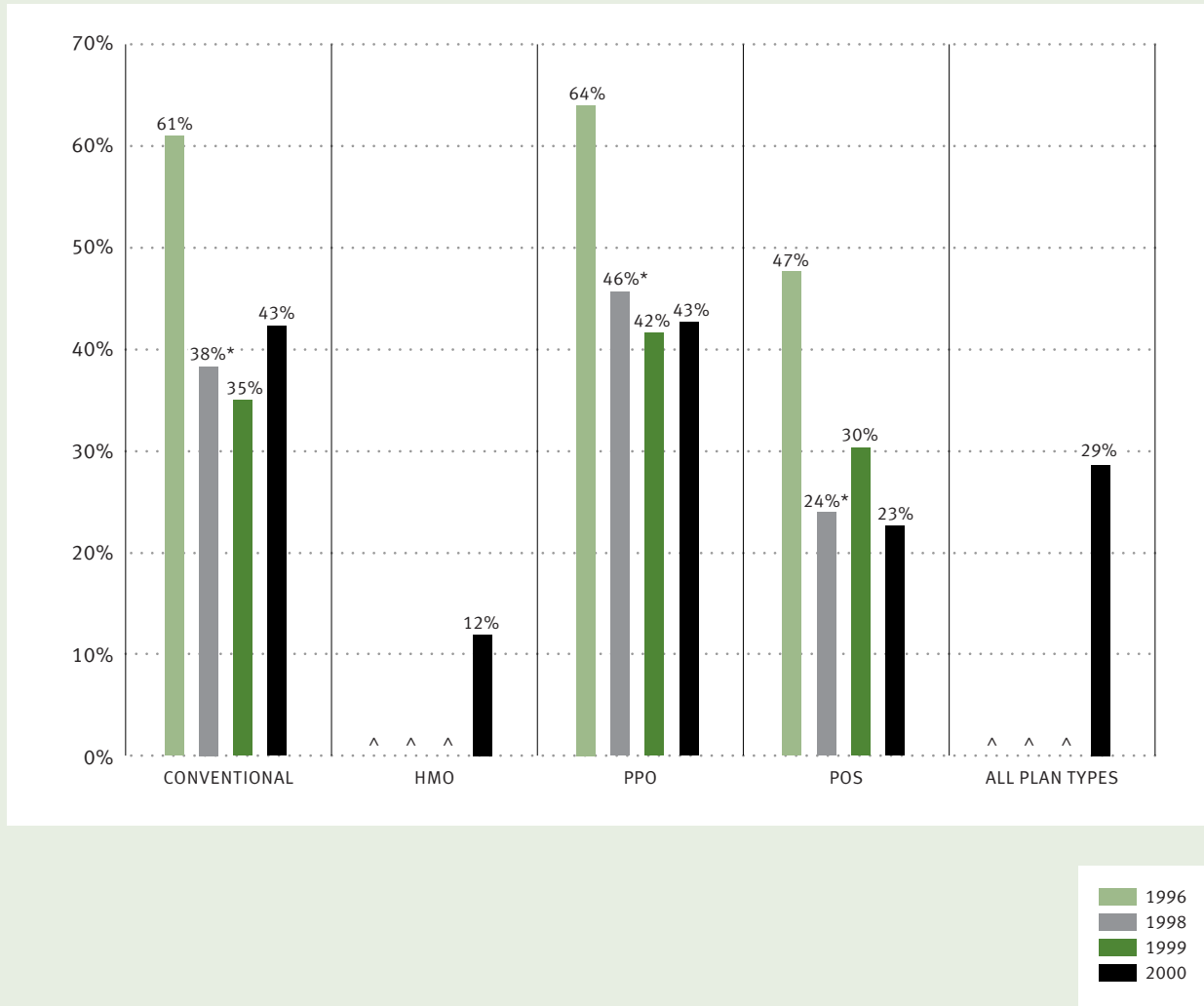
\* Distribution is statistically different from All Industries within plan type.

NSD: Not sufficient data.

Self-insured plans: this is where an employer assumes responsibility for health care claims rather than buying coverage from an insurer.

EXHIBIT 10.8

Percentage of Covered Workers With Pre-Existing Condition Clauses, by Plan Type, 1996–2000



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

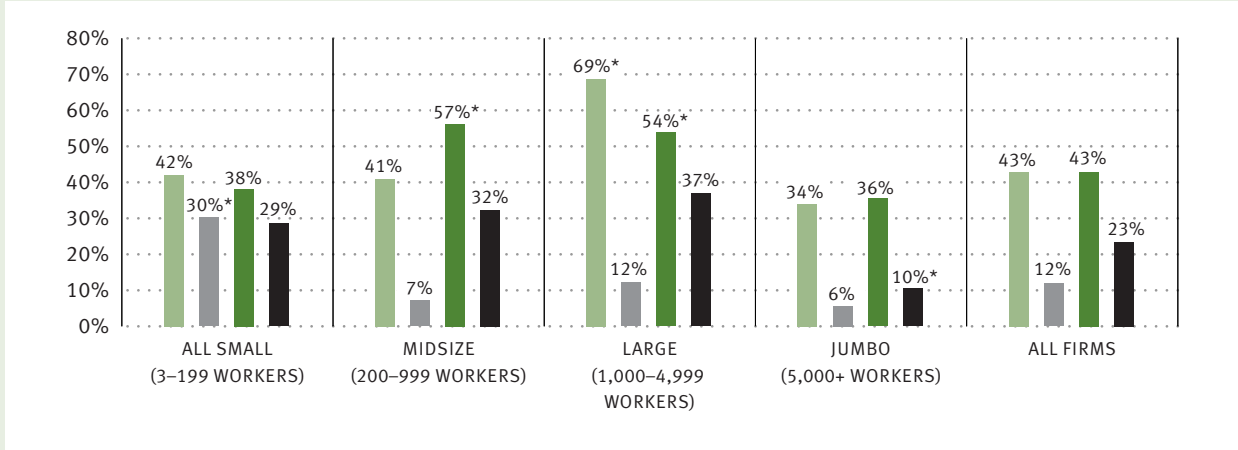
\* Estimate is statistically different from the previous year for years 1996–1998, 1998–1999, 1999–2000.

^ Information was not obtained for HMO Plans in 1996, 1998, and 1999.

Pre-existing condition clauses: temporary exclusion from coverage for health conditions that existed prior to enrollment in the health plan.

EXHIBIT 10.9

Percentage of Covered Workers With Pre-Existing Condition Clauses, by Firm Size, 2000



SOURCE :

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

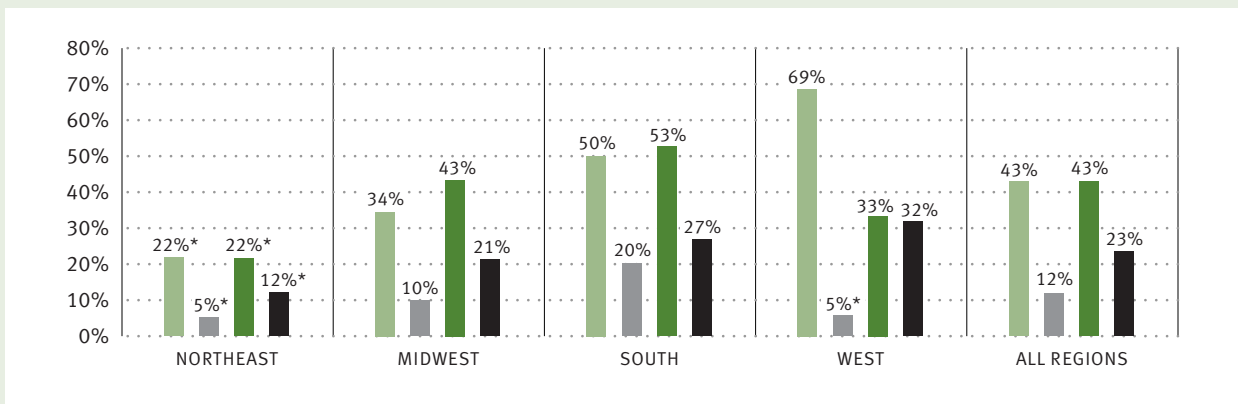
\* Estimate is statistically different from All Firm Sizes within plan type.

Pre-existing condition clauses: temporary exclusion from coverage for health conditions that existed prior to enrollment in the health plan.



EXHIBIT 10.10

Percentage of Covered Workers With Pre-Existing Condition Clauses, by Region, 2000



SOURCE :

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

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

Pre-existing condition clauses: temporary exclusion from coverage for health conditions that existed prior to enrollment in the health plan.

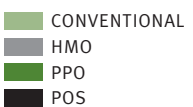
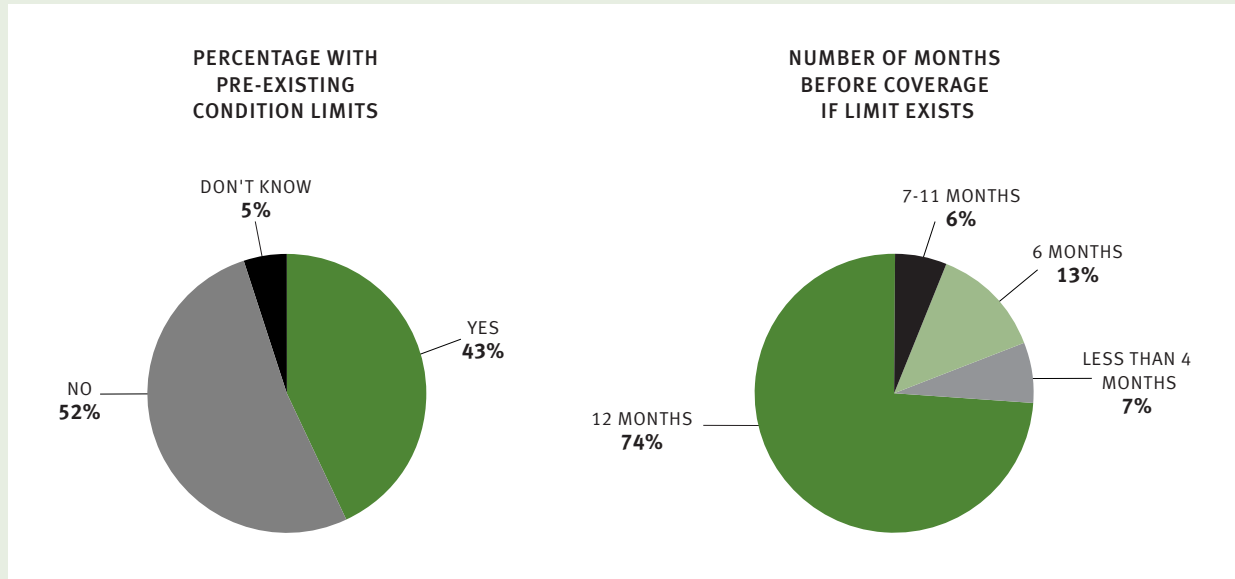


EXHIBIT 10.11

Percentage of Covered Workers in Conventional Plans With Pre-Existing Condition Limitations and Months to Wait Before Coverage, 2000



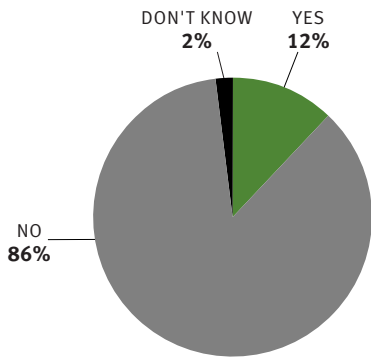
SOURCE :

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

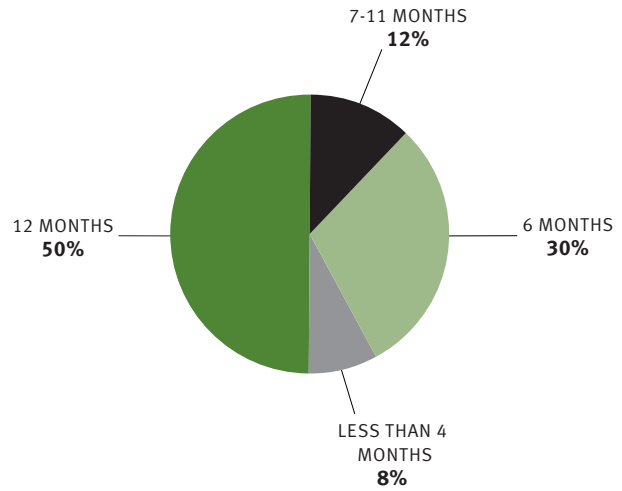
EXHIBIT 10.12

Percentage of Covered Workers in HMO Plans With Pre-Existing Condition Limitations and Months to Wait Before Coverage, 2000

PERCENTAGE WITH PRE-EXISTING CONDITION LIMITS



NUMBER OF MONTHS BEFORE COVERAGE IF LIMIT EXISTS

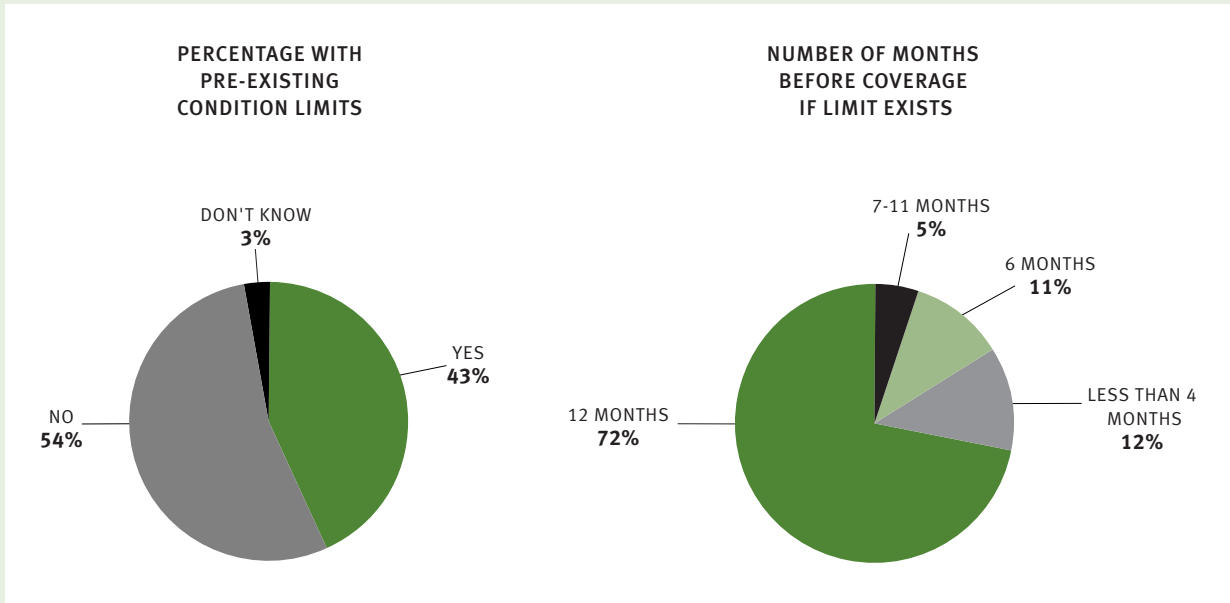


SOURCE :

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

EXHIBIT 10.13

Percentage of Covered Workers in PPO Plans With Pre-Existing Condition Limitations and Months to Wait Before Coverage, 2000



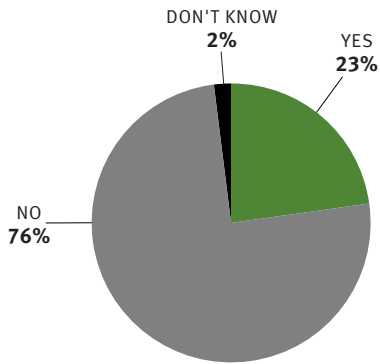
SOURCE :

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

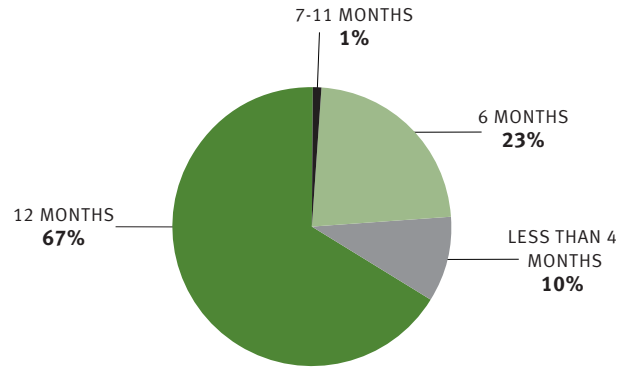
EXHIBIT 10.14

Percentage of Covered Workers in POS Plans With Pre-Existing Condition Limitations and Months to Wait Before Coverage, 2000

PERCENTAGE WITH PRE-EXISTING CONDITION LIMITS



NUMBER OF MONTHS BEFORE COVERAGE IF LIMIT EXISTS



SOURCE :

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



EMPLOYER HEALTH BENEFITS  
2000 ANNUAL SURVEY

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Retiree Health  
Benefits

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SECTION

11

## RETIREE HEALTH BENEFITS

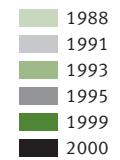
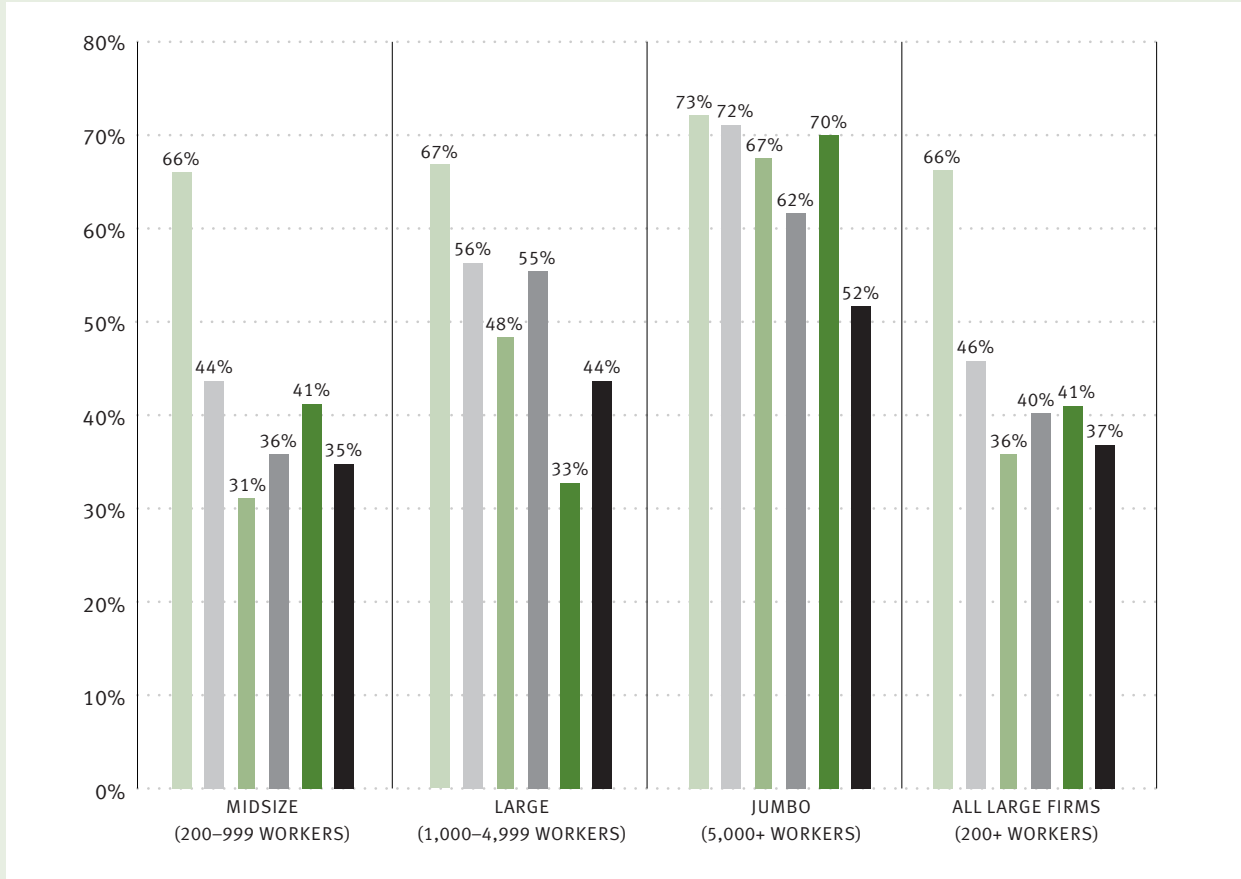
FOR EMPLOYERS, RETIREE HEALTH BENEFITS REPRESENT A RAPIDLY RISING COST COMPONENT, AND SINCE ACCOUNTING CHANGES PUT IN PLACE IN 1992, RETIREE HEALTH COSTS MUST NOW BE INCORPORATED AS FUTURE LIABILITIES ON BALANCE SHEETS. AS A RESULT, FEWER EMPLOYERS ARE OFFERING RETIREE HEALTH BENEFITS TODAY THAN 15 YEARS AGO. THE DECLINE OF RETIREE HEALTH BENEFITS, LIKE JOB SECURITY, ILLUSTRATES MAJOR CHANGES OCCURRING IN THE AMERICAN WORKPLACE, AS WORKERS CHANGE JOBS MORE OFTEN. THIS DECLINE IN THE AVAILABILITY OF RETIREE BENEFITS ALSO HAS IMPORTANT IMPLICATIONS FOR MEDICARE POLICY ISSUES NOW UNDER DISCUSSION, ESPECIALLY COVERAGE OF PRESCRIPTION DRUGS, WHICH ARE COMMONLY INCLUDED IN RETIREE INSURANCE BUT NOT UNDER MEDICARE. RESEARCHERS HAVE FOUND THAT RETIREE HEALTH BENEFITS ARE ONE OF THE MOST IMPORTANT COST CONSIDERATIONS IN THE RETIREMENT DECISION OF EARLY RETIREES. THE 2000 SURVEY SHOWS THAT EVEN DURING A PERIOD OF UNPRECEDENTED PROSPERITY, LARGE EMPLOYERS HAVE MADE FEW CHANGES RECENTLY TO IMPROVE THE GENEROSITY OF THEIR RETIREE BENEFITS.

- ▶ The percentage of employers offering retiree health benefits in all large firms (200 or more workers) is essentially unchanged in 2000, at 37% (EXHIBIT 11.1). This stability masks sharp disparities among the firm sizes, however.
  - While 37% of all large firms (200 or more workers) offer retiree health benefits in 2000, just 9% of all small firms (3–199 workers) do so (EXHIBIT 11.2).
- The percentage of midsize firms (200–999 workers) offering retiree health benefits is at its lowest level since 1993, down six percentage points from 1999 and 31 percentage points since 1988. Similarly, the percentage of jumbo firms (5,000+ workers) offering retiree health benefits is down to 52%, although none of these changes from 1999 are statistically significant.
  - Among all large firms (200 or more workers) offering retiree health benefits, 92% offer them to early retirees, and 67% to Medicare-eligible retirees, compared to 95% and 80% in 1999, respectively (EXHIBITS 11.3 and 11.4).
- ▶ Variations by industry are also substantial. For example, 71% of all large government employers offer retiree health benefits, compared with only 6% of all large retail firms (EXHIBIT 11.2).
  - ▶ Firms with many low-wage workers (35% or more earning less than \$20,000 per year) are considerably less likely to offer retiree health benefits. 41% of all higher wage large firms offer retiree health benefits, compared to 23% of firms with many low-income workers (EXHIBIT 11.6).

- ▶ Few firms changed the generosity of their retiree health benefits during the past year; 4% of firms increased the generosity of benefits for retirees during the past two years (EXHIBIT 11.7). No firms have reduced lifetime maximum benefits over the past two years.
- ▶ Firms offering retiree health benefits are not planning to make major changes to these benefits in the next two years (EXHIBITS 11.8 – 11.11). 7% of firms are “very likely” to increase the share of contributions for premiums required of retirees in the next two years, and 7% are “very likely” to cap the maximum employer contribution for retiree health benefits.
- *These numbers mask some variation by firm size. Significantly higher percentages of large and jumbo firms report being “very likely” to increase the retiree share of the premium — 37% and 32% respectively (EXHIBIT 11.8). Similarly, 25% of jumbo firms are either “very likely” or “somewhat likely” to cap the maximum employer contribution for retiree health benefits sometime in the next two years (EXHIBIT 11.9).*

EXHIBIT 11.1

Percentage of Employers Offering Retiree Health Benefits, by Firm Size, 1988 –2000\*



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1991, 1993, 1995.

\* Tests found no statistically different estimates from previous year for years 1999–2000.

## EXHIBIT 11.2

## Percentage of Employers Offering Retiree Health Benefits, by Firm Size, Region, and Industry, 2000

	<i>All Small Firms (3–199 Workers)</i>	<i>All Large Firms (200 or More Workers)</i>
<b>FIRM SIZE</b>		
Small (3–9 workers)	8%	–
Small (10–24 workers)	7	–
Small (25–49 workers)	12	–
Small (50–199 workers)	12	–
<b>ALL SMALL FIRMS (3–199 WORKERS)</b>	<b>9</b>	–
Midsize (200–999 workers)	–	35
Large (1,000–4,999 workers)	–	44
Jumbo (5,000+ workers)	–	52*
<b>REGION</b>		
Northeast	10%	42%*
Midwest	3	36
South	14	38
West	2*	34
<b>INDUSTRY</b>		
Mining/Construction/Wholesale	9%	30%
Manufacturing	5	28
Transportation/Communication/Utility	NSD	40
Retail	10	6*
Finance	NSD	56
Service	11	42
State/Local Government	25*	71*
Health Care	2	27
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>9%</b>	<b>37%</b>

## SOURCE :

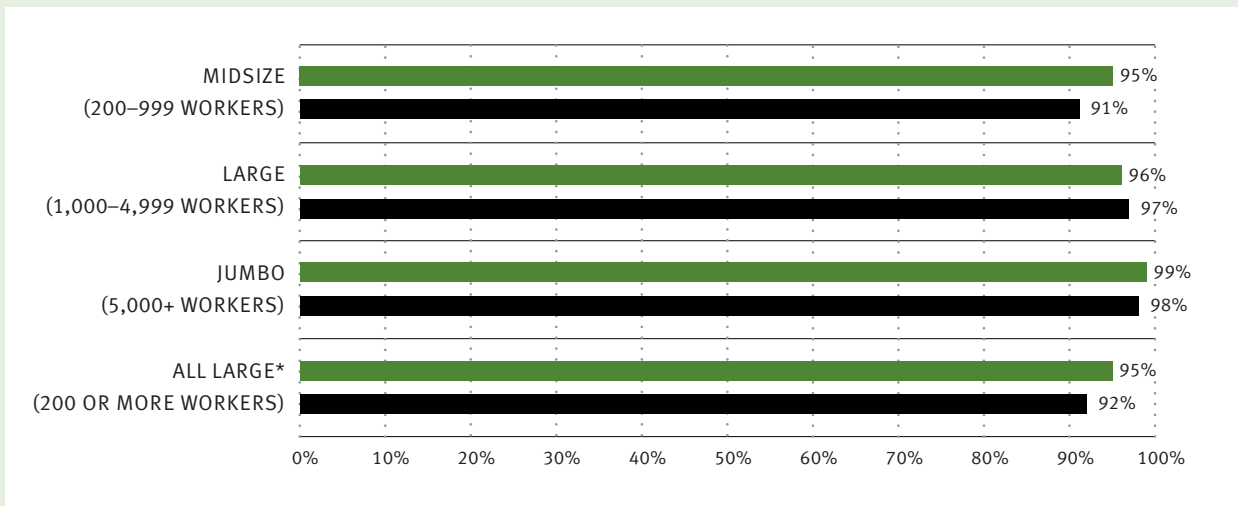
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000.

\* Estimate is statistically different from All Firm Sizes, Regions, and Industries.

NSD: Not sufficient data.

EXHIBIT 11.3

Percentage of Large Employers Offering Health Benefits to Early Retirees<sup>^</sup>, Among Large Firms Offering Retiree Coverage, by Firm Size, 1999 and 2000



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000.

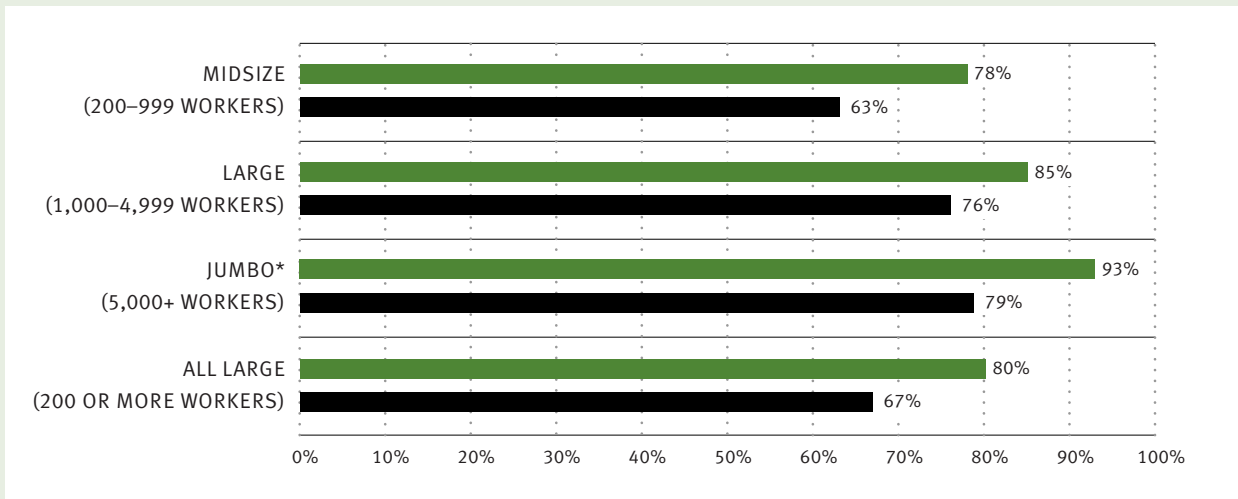
1999  
2000

\* Estimate is statistically different from previous year for years 1999-2000.

<sup>^</sup> Early retiree means those retiring before age 65.

EXHIBIT 11.4

Percentage of Large Employers Offering Medicare-Eligible Retirees Benefits, Among Large Firms Offering Retiree Coverage, by Firm Size, 1999 and 2000



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000.

1999  
2000

\* Estimate is statistically different from previous year for years 1999-2000.

## EXHIBIT 11.5

Percentage of Large Employers Offering Retiree Benefits to Early<sup>^</sup> and Medicare-Eligible Retirees, Among Large Firms Offering Retiree Coverage, by Firm Size, Region, and Industry, 2000

	<i>Percentage of Employers Offering Retiree Health Benefits to Early<sup>^</sup> Retirees</i>	<i>Percentage of Employers Offering Retiree Health Benefits to Medicare-Eligible Retirees</i>
<b>FIRM SIZE</b>		
Midsize (200–999 workers)	91%	63%
Large (1,000–4,999 workers)	97*	76
Jumbo (5,000+ workers)	98*	79
<b>REGION</b>		
Northeast	85%	64%
Midwest	94	65
South	97	73
West	90	60
<b>INDUSTRY</b>		
Mining/Construction/Wholesale	NSD	NSD
Manufacturing	83	59
Transportation/Communication/Utility	99*	94*
Retail	NSD	NSD
Finance	95	88*
Service	94	59
State/Local Government	99*	73
Health Care	94	51
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>92%</b>	<b>67%</b>

## SOURCE :

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

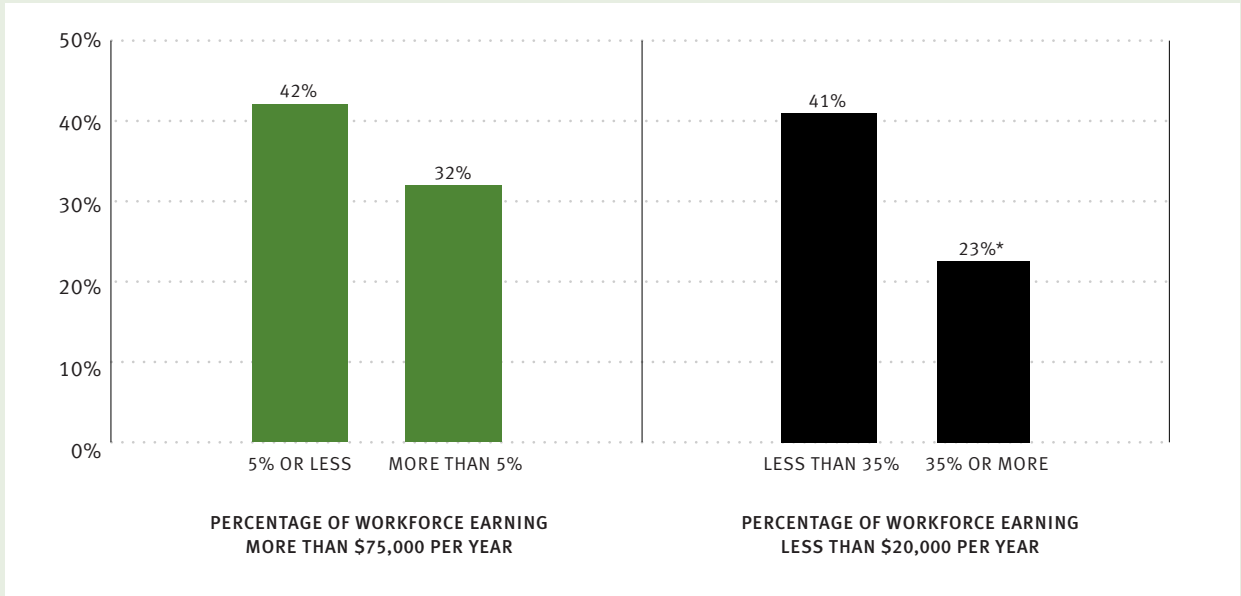
\* Estimate is statistically different from All Firm Sizes, Regions, and Industries.

<sup>^</sup> Early retiree means those retiring before age 65.

NSD: Not sufficient data.

EXHIBIT 11.6

Percentage of Large Firms (200 or more workers) Offering Retiree Health Benefits, by Percentage of Workforce That is High and Low Wage, 2000



SOURCE :

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

\* Income estimate is statistically different from All Firms.

EXHIBIT 11.7

In Firms Offering Retiree Benefits, Changes Made in the Past Two Years to Retiree Health Coverage, 2000

	Yes	No	Don't Know
<b>INCREASED GENEROSITY OF HEALTH BENEFITS</b>	4%	94%	3%
<b>REDUCED MAXIMUM LIFETIME BENEFITS</b>	0%	97%	3%

SOURCE :

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



## EXHIBIT 11.8

In Firms Offering Retiree Benefits, Changes That Will be Made in the Next Two Years to Retiree Health Coverage: Increase Share of Contributions for Premiums Required for Retirees, by Firm Size, Region, and Industry, 2000

	<i>Very Likely</i>	<i>Somewhat Likely</i>	<i>Somewhat Unlikely</i>	<i>Very Unlikely</i>	<i>Don't Know</i>
<b>SIZE</b>					
All Small Firms (3–199 Workers)	6%	9%	5%	75%	4%
Midsize (200–999 Workers)*	6	22	10	58	5
Large (1,000–4,999 Workers)*	37	19	7	31	6
Jumbo (5,000+ Workers)*	32	20	7	36	5
<b>REGION</b>					
Northeast*	2%	11%	3%	78%	7%
Midwest*	2	10	14	74	0
South*	11	9	5	74	1
West*	12	14	2	45	28
<b>INDUSTRY</b>					
Mining/Construction/Wholesale*	10%	44%	28%	18%	0%
Manufacturing*	3	30	20	29	19
Transportation/Communication/Utility*	32	3	2	62	1
Retail	NSD	NSD	NSD	NSD	NSD
Finance*	3	6	22	69	1
Service*	8	6	1	80	5
State/Local Government*	10	16	13	53	7
Health Care*	0	2	0	97	0
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>7%</b>	<b>10%</b>	<b>6%</b>	<b>73%</b>	<b>4%</b>

## SOURCE :

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

\* Distribution is statistically different from All Firms, Regions, and Industries.

NSD: Not sufficient data.

## EXHIBIT 11.9

In Firms Offering Retiree Benefits, Changes That Will be Made in the Next Two Years to Retiree Health Coverage: Cap the Maximum Employer Contribution for Health Benefits for Retirees, by Firm Size, Region, and Industry, 2000

	<i>Very Likely</i>	<i>Somewhat Likely</i>	<i>Somewhat Unlikely</i>	<i>Very Unlikely</i>	<i>Don't Know</i>
<b>SIZE</b>					
All Small Firms (3–199 Workers)	7%	3%	5%	82%	4%
Midsize (200–999 Workers)*	5	10	14	64	8
Large (1,000–4,999 Workers)*	10	11	14	57	8
Jumbo (5,000+ Workers)*	12	13	16	53	7
<b>REGION</b>					
Northeast*	10%	6%	1%	77%	7%
Midwest*	0	5	17	77	1
South*	6	2	4	88	1
West*	10	3	13	46	28
<b>INDUSTRY</b>					
Mining/Construction/Wholesale*	14%	4%	17%	64%	0%
Manufacturing*	1	23	23	34	19
Transportation/Communication/Utility	1	1	1	96	1
Retail	NSD	NSD	NSD	NSD	NSD
Finance*	1	3	23	72	1
Service	11	3	3	78	5
State/Local Government*	4	6	13	69	8
Health Care	1	0	0	97	2
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>7%</b>	<b>3%</b>	<b>6%</b>	<b>80%</b>	<b>4%</b>

## SOURCE :

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

\* Distribution is statistically different from All Firms, Regions, and Industries.

NSD: Not sufficient data.

## EXHIBIT 11.10

In Firms Offering Retiree Benefits, Changes That Will be Made in the Next Two Years to Retiree Health Coverage: Increase the Generosity of Health Benefits for Retirees, by Firm Size, Region, and Industry, 2000

	<i>Very Likely</i>	<i>Somewhat Likely</i>	<i>Somewhat Unlikely</i>	<i>Very Unlikely</i>	<i>Don't Know</i>
<b>SIZE</b>					
All Small Firms (3–199 Workers)	2%	18%	8%	68%	4%
Midsize (200–999 Workers)*	0	6	25	65	4
Large (1,000–4,999 Workers)*	0	10	17	69	4
Jumbo (5,000+ Workers)*	2	5	29	62	2
<b>REGION</b>					
Northeast*	5%	2%	9%	78%	6%
Midwest*	0	4	22	73	1
South*	0	33	5	62	0
West*	0	1	22	50	27
<b>INDUSTRY</b>					
Mining/Construction/Wholesale	0%	5%	16%	79%	0%
Manufacturing*	0	1	47	34	19
Transportation/Communication/Utility*	0	0	7	93	0
Retail	NSD	NSD	NSD	NSD	NSD
Finance*	0	1	26	72	0
Service*	4	36	6	49	5
State/Local Government*	1	11	25	57	6
Health Care*	0	0	1	99	0
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>2%</b>	<b>17%</b>	<b>9%</b>	<b>68%</b>	<b>4%</b>

## SOURCE :

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

\* Distribution is statistically different from All Firms, Regions, and Industries.

NSD: Not sufficient data.

## EXHIBIT 11.11

In Firms Offering Retiree Benefits, Changes That Will be Made in the Next Two Years to Retiree Health Coverage: Reduce the Maximum Lifetime Benefit for Retirees, by Firm Size, Region, and Industry, 2000

	<i>Very Likely</i>	<i>Somewhat Likely</i>	<i>Somewhat Unlikely</i>	<i>Very Unlikely</i>	<i>Don't Know</i>
<b>SIZE</b>					
All Small Firms (3–199 Workers)	3%	2%	6%	85%	4%
Midsize (200–999 Workers)*	3	4	19	71	4
Large (1,000–4,999 Workers)	2	3	12	79	5
Jumbo (5,000+ Workers)*	1	3	20	74	3
<b>REGION</b>					
Northeast*	0%	1%	1%	91%	7%
Midwest*	0	0	22	77	1
South*	6	4	4	85	0
West*	0	1	14	59	27
<b>INDUSTRY</b>					
Mining/Construction/Wholesale*	0%	18%	16%	65%	0%
Manufacturing*	0	0	24	54	22
Transportation/Communication/Utility	0	0	4	96	0
Retail	NSD	NSD	NSD	NSD	NSD
Finance*	2	2	28	68	0
Service*	7	1	5	84	5
State/Local Government*	0	4	11	78	6
Health Care	0	2	1	98	0
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>3%</b>	<b>2%</b>	<b>6%</b>	<b>84%</b>	<b>4%</b>

## SOURCE :

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

\* Distribution is statistically different from All Firms, Regions, and Industries.

NSD: Not sufficient data.

EMPLOYER HEALTH BENEFITS  
2000 ANNUAL SURVEY

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Health Benefits  
Administration

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SECTION

12

## HEALTH BENEFITS ADMINISTRATION

WHILE MUCH ATTENTION HAS BEEN FOCUSED ON THE ADMINISTRATIVE COSTS OF HEALTH PLANS, THERE IS LITTLE INFORMATION ABOUT THE COSTS INCURRED BY EMPLOYERS ADMINISTERING HEALTH BENEFITS. THIS YEAR FOR THE FIRST TIME, THE KAISER/HRET SURVEY HAS ASKED FIRMS QUESTIONS ABOUT THEIR BENEFITS ADMINISTRATION, IN HOPES OF GETTING A BETTER UNDERSTANDING OF SOME OF THE “HIDDEN” COSTS BEHIND JOB-BASED HEALTH BENEFITS. THESE RESULTS ARE LIMITED TO LARGE FIRMS, AS SMALL COMPANIES GENERALLY DO NOT HAVE PERSONNEL DEDICATED TO ADMINISTERING EMPLOYEE BENEFITS.

- ▶ In all large firms (200 or more workers), on average, 8 full time equivalents (FTEs) are dedicated to administering human resources per 1,000 workers (EXHIBIT 12.1). Jumbo firms require slightly fewer FTEs proportionally, or 5 per 1,000 workers.
- ▶ Approximately half of the FTEs employed in human resources dedicate their time to employee benefits — an average of 4 per 1,000 workers in all large firms — as opposed to recruitment and retention or other efforts (EXHIBIT 12.1).
- *The number of employee benefits administrators per 1,000 decreases as firm size increases, from 5 FTEs for midsize firms (200–999 workers) to just 1 for jumbo firms (5,000+ workers). The larger firms appear to be taking advantage of economies of scale, thereby bearing a proportionately lower cost for benefits administration than smaller firms (EXHIBIT 12.1).*
- ▶ Almost half (43%) of the time large employers spend administering employee benefits is dedicated to health (EXHIBIT 12.2). This figure appears large given the extensive menu of non health-related benefits that many large firms offer, including life and disability insurance, pension, dental, flexible benefit plans, and others. Benefits managers in jumbo firms spend a greater percentage of their time administering just health benefits than managers in other firm sizes, which may reflect the greater choice of health plans found in the larger firms.
- *We estimate that the administrative cost to the firm for providing health benefits among large employers (200 or more workers) is approximately \$170 per year per employee. Since about one-third of workers do not participate in their firm’s health plan, the administrative cost is an estimated \$250 per covered worker, which would increase the cost per covered employee by about 6%.<sup>6</sup>*

## NOTES:

<sup>6</sup> These estimates are based on the following assumptions: (1) the average earnings per human resource employee is \$40,000 per year, (2) that fringe benefits constitute 25 percent of wages, and (3) that labor costs constitute 60 percent of the total cost of human resource departments.

## EXHIBIT 12.1

In Large Firms, Average Number of Full Time Equivalents Dedicated to Administering Human Resources and Employee Benefits per 1,000 Employees, by Firm Size, Region, and Industry, 2000

	<i>Human Resources</i>	<i>Employee Benefits</i>
<b>FIRM SIZE</b>		
Midsize (200–999 workers)	9	5
Large (1,000–4,999 workers)	6*	2*
Jumbo (5,000+ workers)	5*	1*
<b>REGION</b>		
Northeast	8	4
Midwest	8	4
South	8	4
West	9	4
<b>INDUSTRY</b>		
Mining/Construction/Wholesale	7	4
Manufacturing	10	4
Transportation/Communication/Utility	8	4
Retail	6*	3*
Finance	10	4
Service	8	4
State/Local Government	9	5
Health Care	6*	3*
<b>ALL LARGE FIRMS</b>	<b>8</b>	<b>4</b>

## SOURCE :

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

\* Estimate is statistically different from All Firms.

## EXHIBIT 12.2

In Large Firms, Percentage of Employees Dedicated to Administering Employee Benefits, Percentage of Time Spent Administering Just Health Benefits, by Firm Size, Region, and Industry, 2000

<b>FIRM SIZE</b>	
Midsize (200–999 Workers)	39%
Large (1,000–4,999 Workers)	56*
Jumbo (5,000+ Workers)	60*
<b>REGION</b>	
Northeast	36%
Midwest	39
South	47
West	43
<b>INDUSTRY</b>	
Mining/Construction/Wholesale	48%
Manufacturing	46
Transportation/Communication/Utility	40
Retail	34
Finance	38
Service	46
State/Local Government	42
Health Care	38
<b>ALL LARGE FIRMS</b>	<b>43%</b>

## SOURCE :

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

\* Estimate is statistically different from All Firms.



EMPLOYER HEALTH BENEFITS  
2000 ANNUAL SURVEY

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Employer Quality  
and Cost Concerns

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SECTION

13

## EMPLOYER QUALITY AND COST CONCERNS

AS PREMIUMS BEGIN TO INCREASE MORE RAPIDLY AND CONCERNS ARE RAISED ABOUT VARIATIONS IN QUALITY ACROSS HEALTH PLANS, THE 2000 SURVEY GAUGES THE LEVEL OF EMPLOYERS' INSECURITY REGARDING THE FUTURE OF HEALTH CARE, AND ASSESSES EMPLOYERS' AWARENESS OF EFFORTS TO ACCREDIT AND RATE THE QUALITY OF HEALTH PLANS.

### EMPLOYER INSECURITY ABOUT THE FUTURE

▶ Many employers continue to worry about the cost of health insurance, but in spite of escalating premium increases, concern seems to have moderated slightly from last year.

- About two-thirds (65%) of all firms are worried that the amount they pay for health insurance will increase faster than they can afford, compared to 72% in 1999 (EXHIBIT 13.1). About one of every four small firms and one of every five large firms are “very worried.”
- 62% of firms are worried they will have to switch plans because of concerns about costs, compared to 65% last year (EXHIBIT 13.2).
- 66% of firms are worried that they will have to cut back the scope of benefits they offer or the amount they contribute towards health insurance for workers, compared to 70% in 1999 (EXHIBIT 13.3).

- Cost concerns are similar for small and large firms, though large employers tend to be slightly less likely to be “very” worried about cost issues and more likely to be “somewhat” worried.

▶ Employers express less worry about the quality of health plans than about the cost, but concerns about quality appear to be growing, at least among small firms.

- 37% of employers say they are “very” or “somewhat” worried that they will have to switch health plans because of concerns about the quality of care, up from 26% in 1999 (EXHIBIT 13.4). 12% of small firms and 6% of large firms are “very worried.”
- While this concern about quality of care has grown among all small firms (from 26% in 1999 to 37% in 2000), it has remained steady and lower among all large employers (24% in 1999 and 26% in 2000).

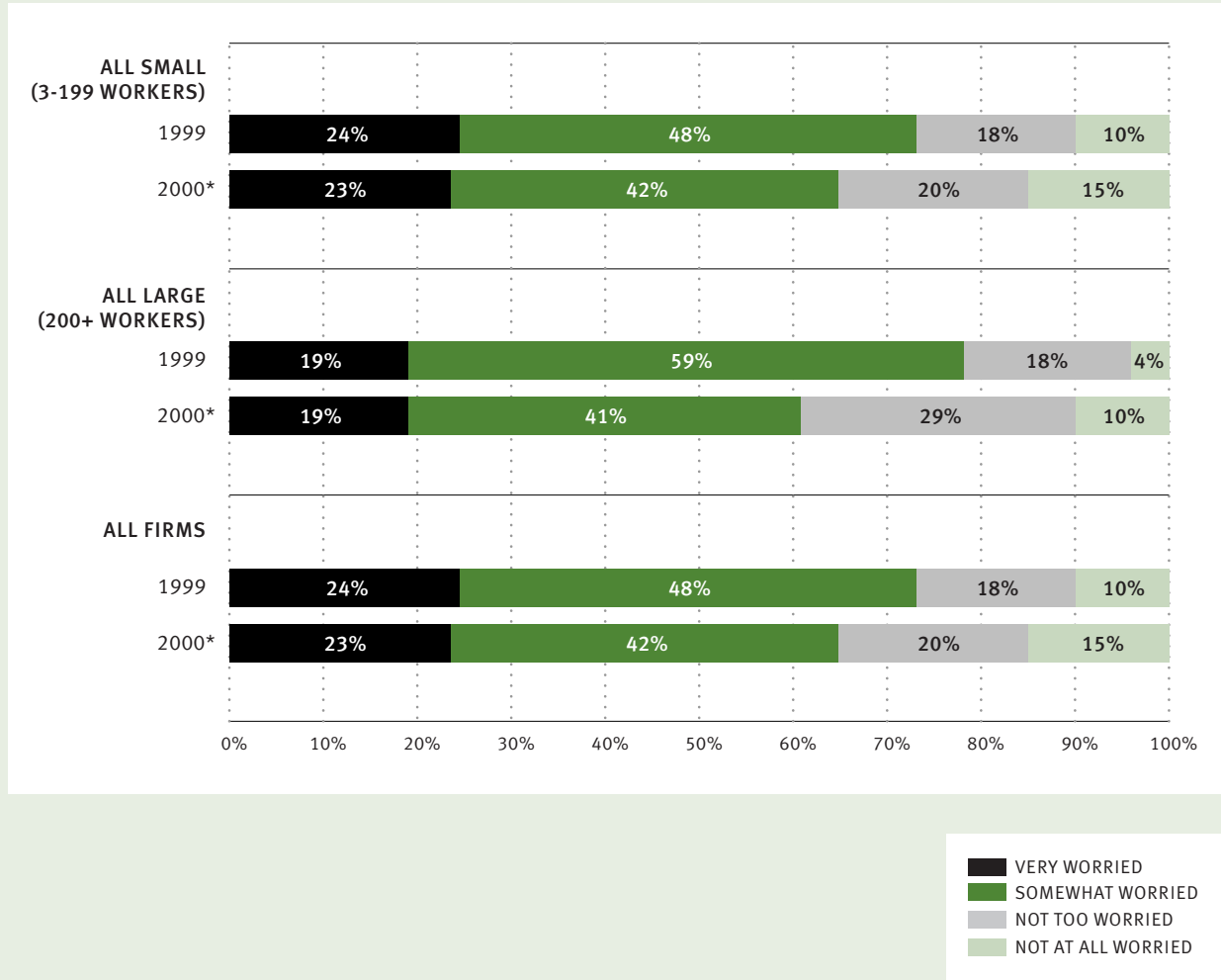
### NCQA AND HEDIS

▶ Despite growing concerns about quality, many firms (particularly small companies) remain unaware of efforts to accredit or rate the quality of health plans.

- Awareness of the accreditation activities of the National Committee for Quality Assurance (NCQA) — a non-profit organization that evaluates managed care plans — remains essentially unchanged from last year. Knowledge of NCQA rises substantially by firm size: while just 13% of all small firms (3–199 workers) are familiar with NCQA, awareness rises to 74% among jumbo firms (5,000 or more employees) (EXHIBIT 13.5).
- Knowledge of the Health Plan Employer Data and Information Set (HEDIS) — a set of health plan performance measures established by NCQA — is also much lower among smaller firms (7% of all small firms are familiar with it, but knowledge rises to 60% among jumbo firms (5,000 or more workers) (EXHIBIT 13.6).

EXHIBIT 13.1

Percentage of Firms Worried About Various Issues: Amount Firm Pays for Health Insurance Will Increase Faster Than Firm Can Afford, by Firm Size, 1999 and 2000



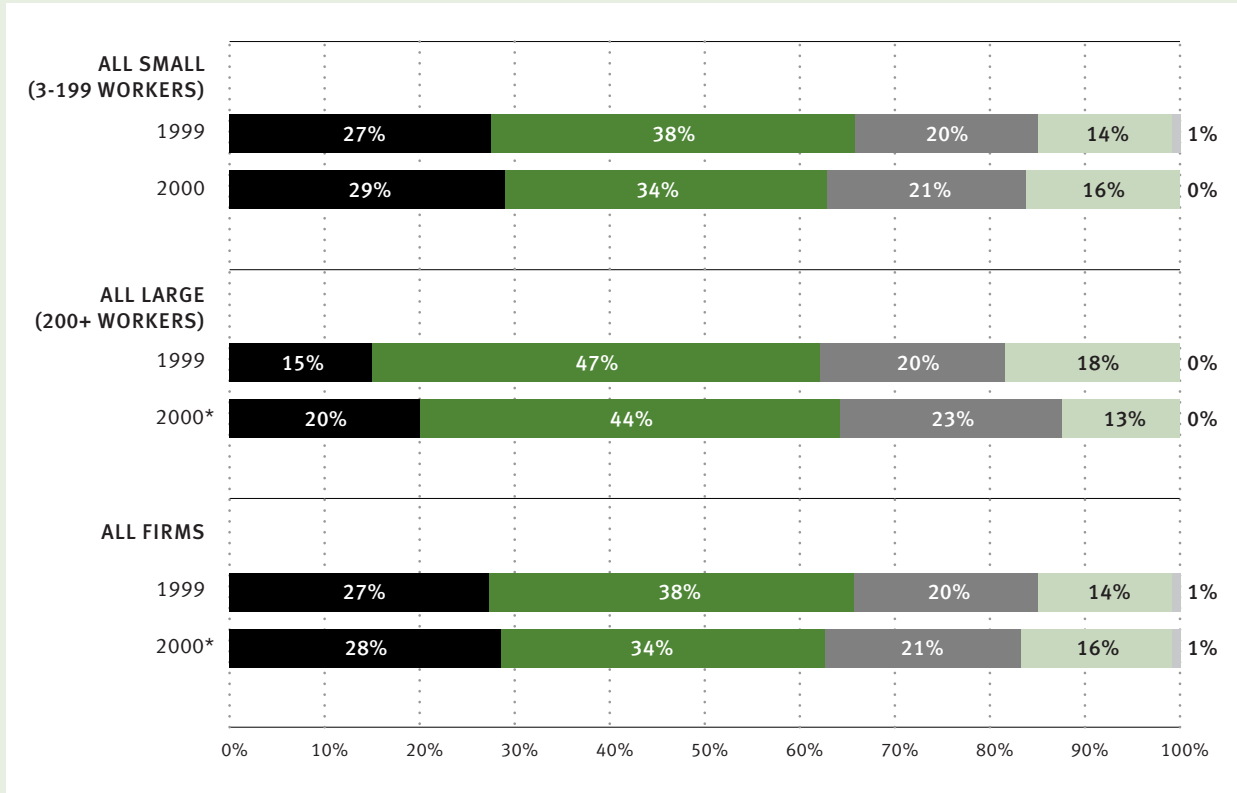
SOURCE :

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

\* Distribution is statistically different from previous year for years 1999-2000.

EXHIBIT 13.2

Percentage of Firms Worried About Various Issues: Firm Will Have to Switch Plans Because of Concerns About Costs, 1999 and 2000



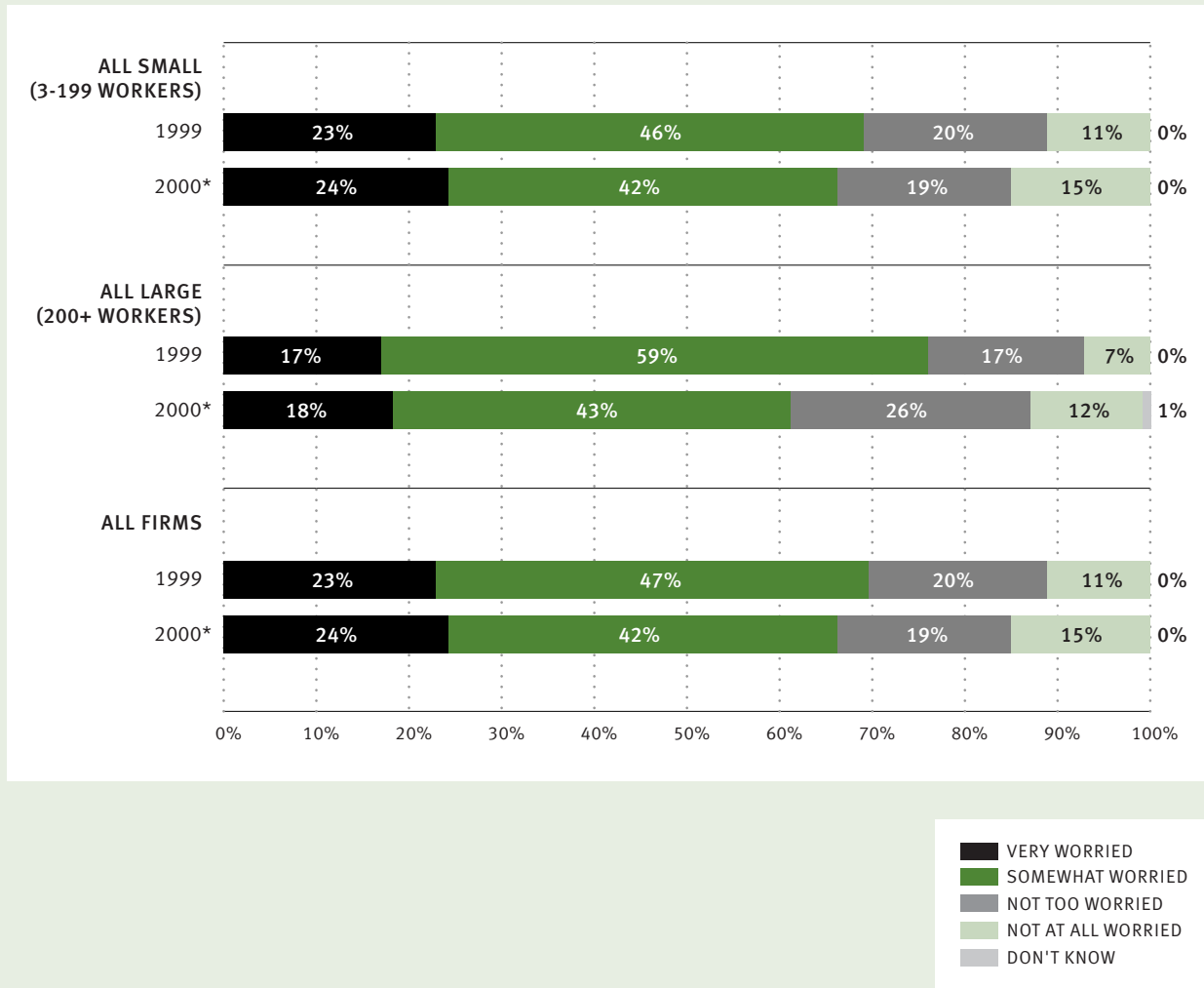
SOURCE :

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

\* Distribution is statistically different from previous year for years 1999–2000.

EXHIBIT 13.3

Percentage of Firms Worried About Various Issues: Firm Will Have to Cut Back Scope of Benefits or Contribution Amount, by Firm Size, 1999 and 2000



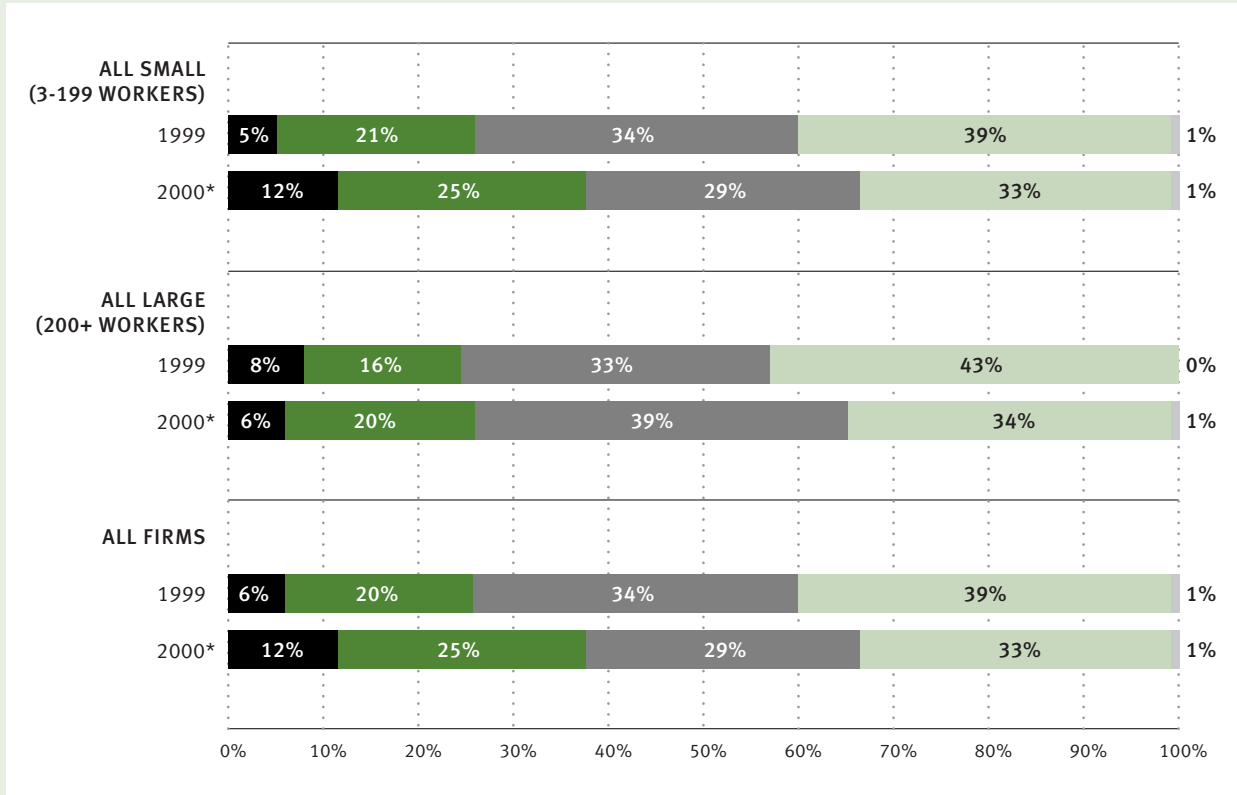
SOURCE :

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

\* Distribution is statistically different from previous year for years 1999–2000.

EXHIBIT 13.4

Percentage of Firms Worried About Various Issues: Firm Will Have to Switch Plans Because of Concerns About Quality of Care, by Firm Size, 1999 and 2000



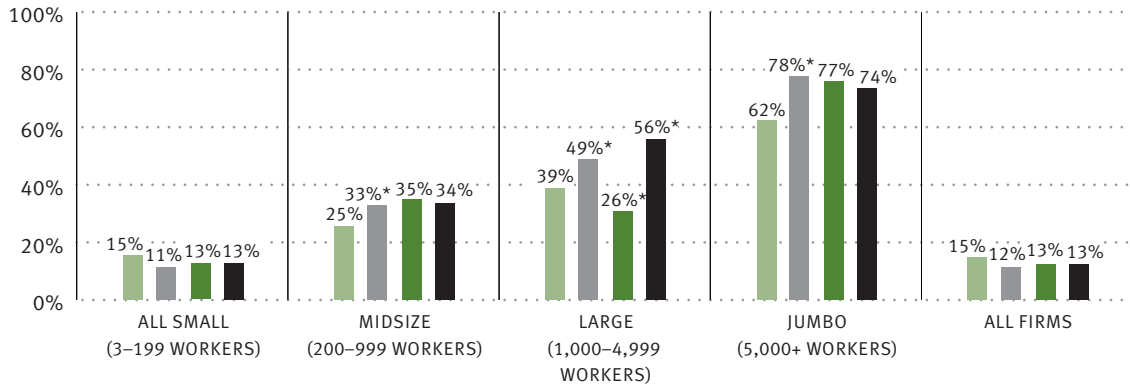
SOURCE :

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

\* Distribution is statistically different from previous year for years 1999–2000.

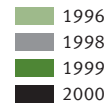
EXHIBIT 13.5

Percentage of Firms That are Familiar With NCQA Accreditation, by Firm Size, 1996–2000



SOURCE :

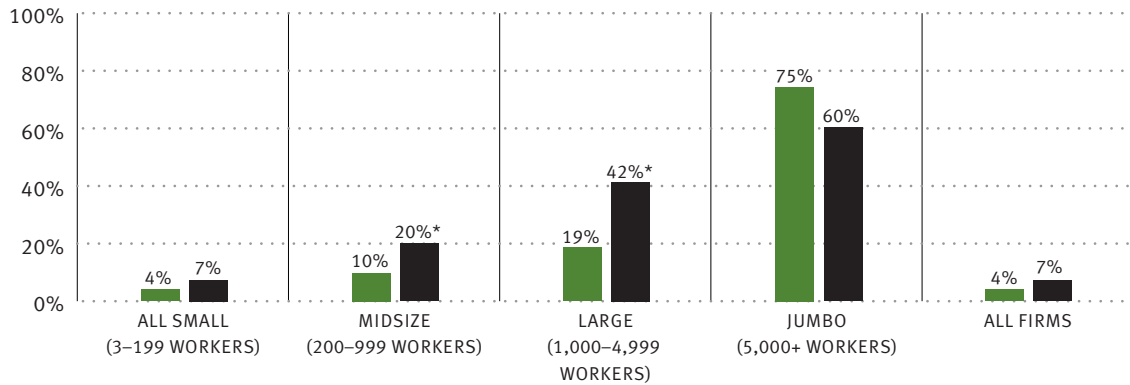
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.



\* Estimate is statistically different from previous year for years 1996–1998, 1998–1999, 1999–2000.

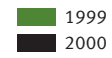
EXHIBIT 13.6

Percentage of Firms That are Familiar With HEDIS, by Firm Size, 1999 and 2000



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000.



\* Estimate is statistically different from All Firms.





EMPLOYER HEALTH BENEFITS  
2000 ANNUAL SURVEY

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The Uninsured  
and Employer  
Coverage:  
Employer  
Knowledge  
and Attitudes

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SECTION

14

## THE UNINSURED AND EMPLOYER COVERAGE: EMPLOYER KNOWLEDGE AND ATTITUDES

THE NUMBER OF UNINSURED AMERICANS HAS RISEN STEADILY IN RECENT YEARS, TO 44 MILLION PEOPLE IN 1998. EMPLOYERS PLAY A SIGNIFICANT ROLE IN PROVIDING HEALTH INSURANCE COVERAGE — PROVIDING HEALTH BENEFITS TO ALMOST TWO-THIRDS OF THE NON-ELDERLY IN 1998 — SO THEIR KNOWLEDGE OF THE UNINSURED PROBLEM AND PERCEPTIONS OF HEALTH POLICY ISSUES IN GENERAL ARE IMPORTANT FACTORS IN HEALTH POLICY DISCUSSIONS.

- ▶ Employers report that cost is the primary reason why their employees lack health insurance coverage (EXHIBIT 14.1).
  - Among all small firms (3–199 workers) who offer health benefits, 62% say that the most common reason why their employees may lack insurance is that they cannot afford their share of the insurance premium. Far fewer firms cite other reasons — 21% say it's because employees feel they don't need it and 13% say it's because the employee is not eligible to enroll in the plan (e.g., because of part-time work status) (EXHIBIT 14.1).
  - All large firms (200 or more workers) who offer benefits cite ineligibility for coverage as the primary reason (42%), followed by employees being unable to afford the premium (32%).
- ▶ Many employers are confused about who the uninsured are.
  - Census figures show that though 84% of the uninsured are in families where someone is working, many employers (30%) say most of the uninsured are more likely to be in families where no one is employed (10% say they don't know). Large employers are somewhat more likely than small employers to report incorrectly that more uninsured Americans are unemployed than employed (EXHIBIT 14.2).
  - Compared to the general public, however, employer respondents are somewhat more knowledgeable about the characteristics of the uninsured. A 2000 survey of Americans by the News Hour with Jim Lehrer and the Kaiser Family Foundation found that 57% of the public believed that the uninsured are more likely to be unemployed.
- ▶ To increase coverage among the uninsured, some have proposed giving individuals tax credits to help them buy health insurance on their own. One of the effects of these tax breaks could be to reduce employer coverage, either because firms drop benefits or employees switch to buying insurance on their own.
  - In fact, most employers say they would be very or somewhat likely (78% of all small employers and 94% of all large companies) to retain coverage even if employees were given tax breaks to buy coverage on their own. 10% of all small employers and 5% of all large firms say they would be somewhat or very unlikely to keep coverage (EXHIBIT 14.6).

- ▶ Most employers also report that individuals would have a harder time purchasing insurance on their own than if they obtained coverage through an employer (EXHIBITS 14.7 and 14.8).
  - *The vast majority of employers say individuals buying insurance on their own would have a harder time: finding or keeping insurance if sick (84%); handling insurance administrative issues (83%); picking quality insurance plans (79%); and getting good prices for insurance (78%).*
  - *Employers are somewhat more split on the question of whether individuals buying insurance on their own would be able to pick health plans better tailored to their individual needs — 55% of firms say they would have a harder time doing so (EXHIBIT 14.8).*
- ▶ However, many employers say they, themselves, have difficulty selecting health plans for their employees.
  - *About half of firms (47% of all small companies and 52% of all large businesses) say it is “very” or “somewhat” difficult finding a health plan to meet the needs of the firm and its employees (EXHIBIT 14.9).*
- ▶ Some have also suggested that employers could better control costs by moving to a “defined contribution” approach for health benefits, where employees are given cash to buy health insurance on their own rather than selecting from among plans contracting with the employer.
  - *Though there have been anecdotal reports of employers considering such a change, the vast majority of employer respondents say it is unlikely they will do so in the next five years. 7% of firms say it is “very likely” and 13% say it is “somewhat likely” (EXHIBIT 14.5).*
  - *Small firms are somewhat more likely to say they are considering moving to a defined contribution approach than larger firms.*

## EXHIBIT 14.1

Among Firms Offering Health Benefits, Reasons Firms Cite for Employees' Lack of Insurance, by Firm Size, Region, and Industry, 2000

	<i>Can't Afford Employee Share</i>	<i>Feel They Don't Need It</i>	<i>Not Eligible To Enroll</i>	<i>Other</i>	<i>Don't Know</i>
<b>FIRM SIZE</b>					
Small (3–9 Workers)	NSD	NSD	NSD	NSD	NSD
Small (10–24 Workers)	47%	34%	18%	1%	0%
Small (25–49 Workers)	NSD	NSD	NSD	NSD	NSD
Small (50–199 Workers)*	49	16	25	10	0
<b>ALL SMALL FIRMS (3–199 WORKERS)</b>	<b>62</b>	<b>21</b>	<b>13</b>	<b>4</b>	<b>1</b>
Midsize (200–999 Workers)*	29	17	48	5	1
Large (1,000–4,999 Workers)*	41	19	31	10	0
Jumbo (5,000+ Workers)*	33	24	27	15	0
<b>ALL LARGE FIRMS (200 OR MORE WORKERS)*</b>	<b>32</b>	<b>18</b>	<b>42</b>	<b>7</b>	<b>1</b>
<b>REGION</b>					
Northeast*	59%	12%	19%	7%	4%
Midwest	58	27	11	4	0
South*	40	36	17	7	0
West*	77	9	14	0	0
<b>INDUSTRY</b>					
Mining/Construction/Wholesale	77%	10%	7%	6%	%
Manufacturing*	60	16	12	13	0
Transportation/Communication/Utility*	31	48	18	3	0
Retail*	46	41	7	6	0
Finance	NSD	NSD	NSD	NSD	NSD
Service	65	17	15	2	1
State/Local Government*	17	5	57	20	1
Health Care*	58	9	33	1	0
<b>ALL FIRMS</b>	<b>60%</b>	<b>21%</b>	<b>15%</b>	<b>4%</b>	<b>1%</b>

## SOURCE :

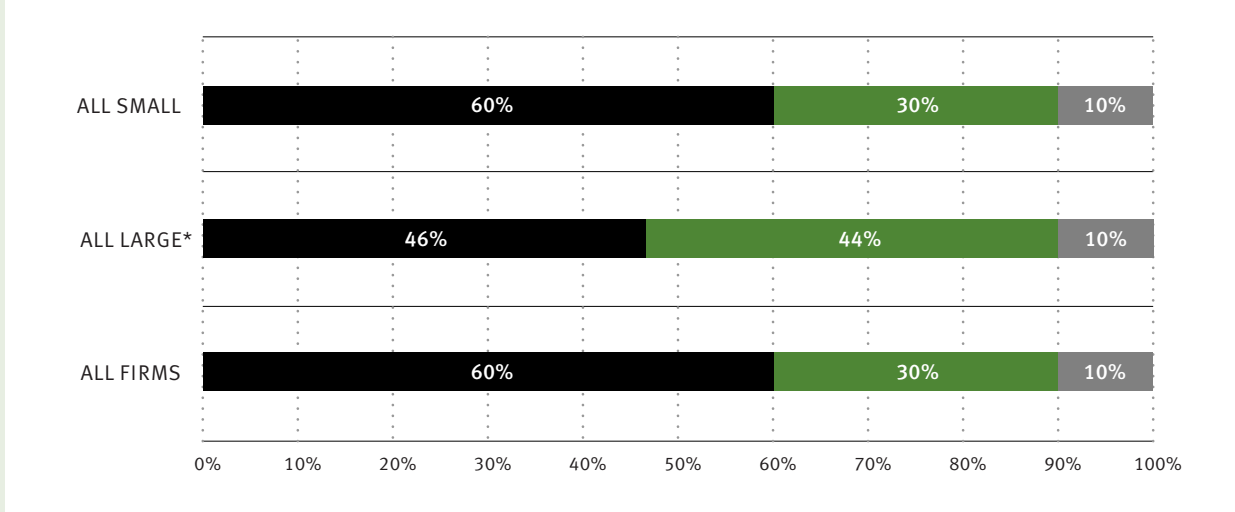
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000.

\* Distribution is statistically different from All Firms, Regions, and Industries.

NSD: Not sufficient data.

EXHIBIT 14.2

Employers' Knowledge of the Employment Status of the Uninsured, by Firm Size, 2000



- THE UNINSURED ARE EMPLOYED PEOPLE AND PEOPLE FROM FAMILIES IN WHICH SOMEONE IS EMPLOYED
- THE UNINSURED ARE UNEMPLOYED PEOPLE AND PEOPLE FROM FAMILIES IN WHICH SOMEONE IS UNEMPLOYED
- DON'T KNOW

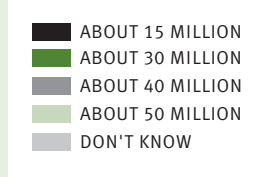
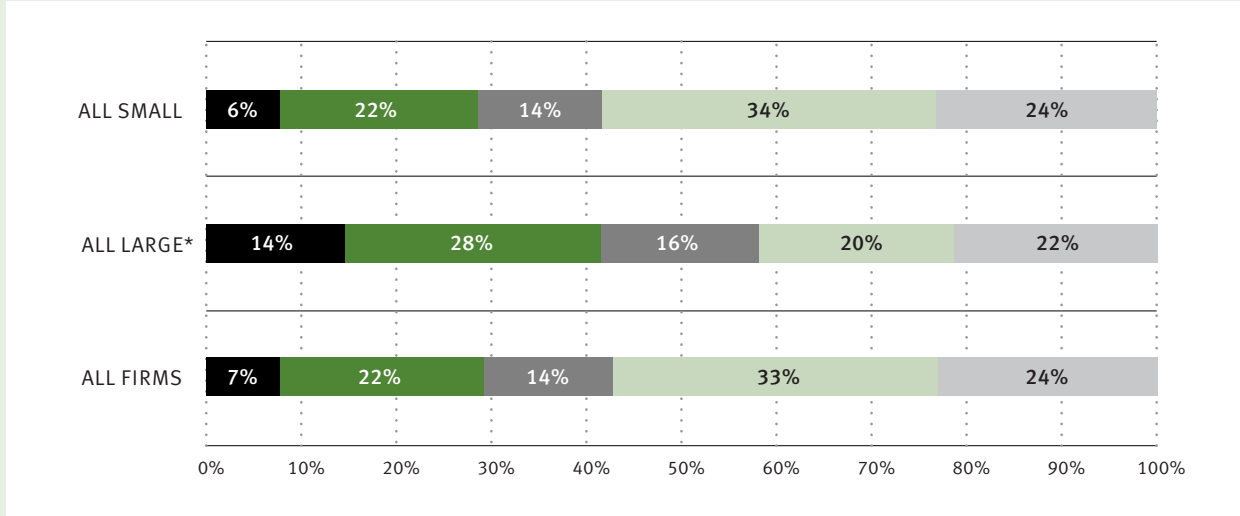
SOURCE :

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

\* Distribution is statistically different from All Firms.

EXHIBIT 14.3

Employers' Estimates of the Number of Uninsured Americans, by Firm Size, 2000



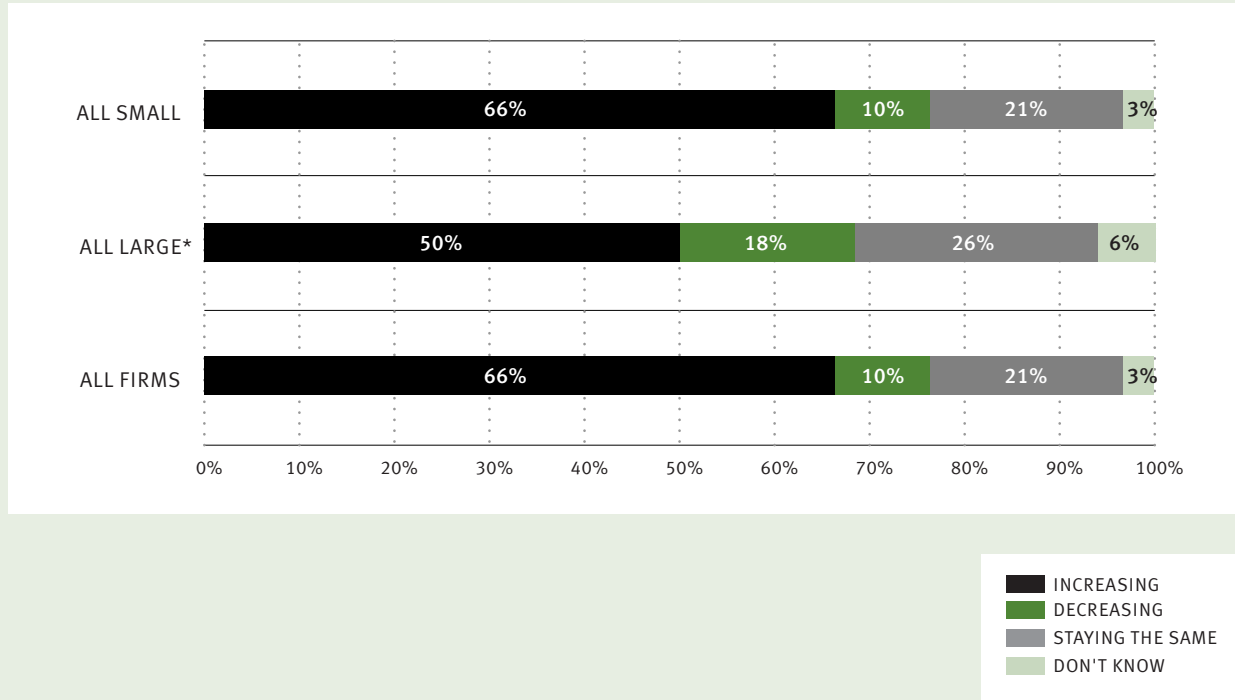
SOURCE :

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

\* Distribution is statistically different from All Firms.

EXHIBIT 14.4

Employers' Knowledge of Whether the Number of Uninsured Americans Is Increasing, Decreasing, or Staying the Same, by Firm Size, 2000

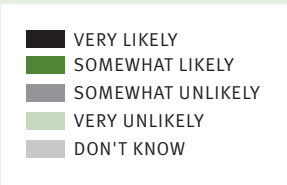
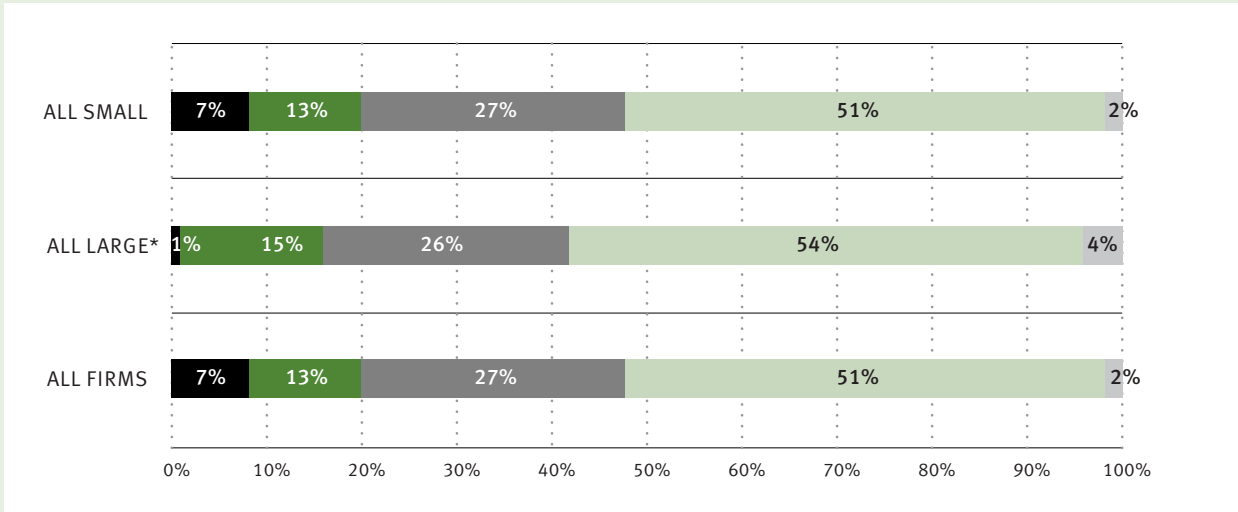


SOURCE:  
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000.

\* Distribution is statistically different from All Firms.

EXHIBIT 14.5

Likelihood of Employers Switching to Defined Contribution for Health Benefits in the Next Five Years, by Firm Size, 2000



SOURCE :

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

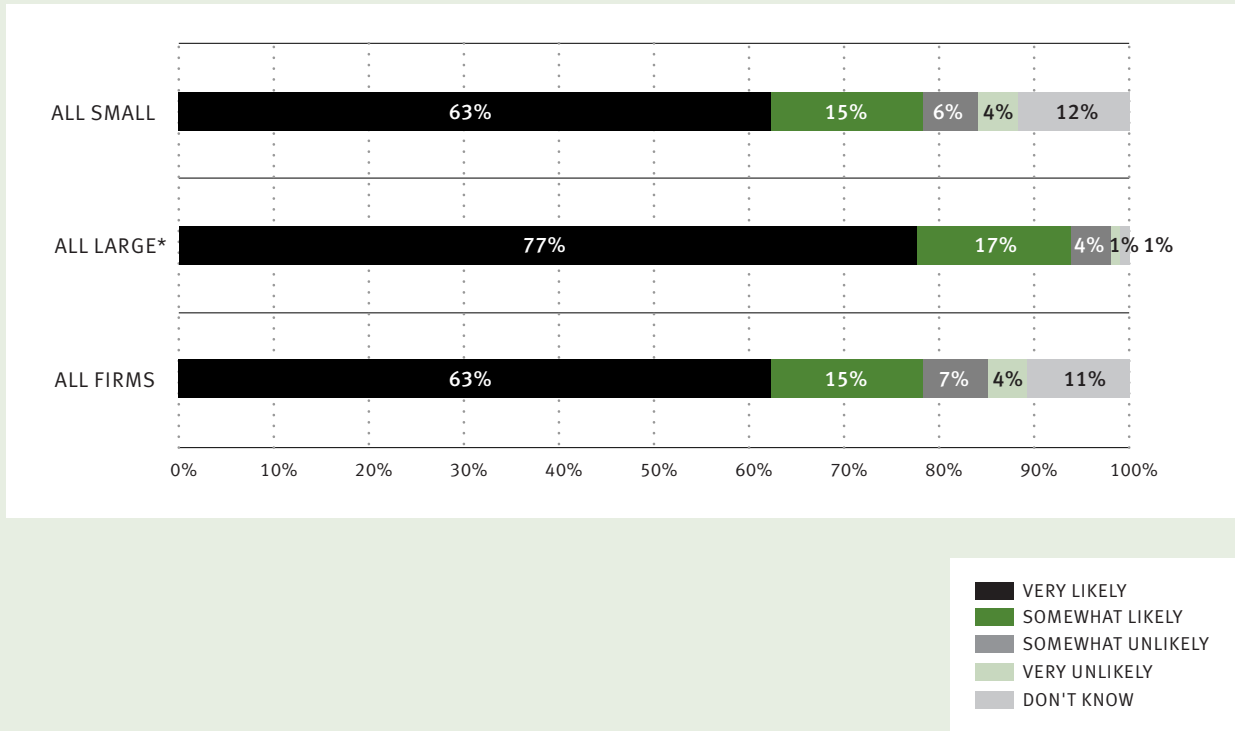
\* Distribution is statistically different from All Firms.

Defined contribution: an approach where employers provide employees with cash that can be used to purchase health insurance directly.



EXHIBIT 14.6

Likelihood of Employers Continuing to Offer Employees Health Benefits if Tax Laws Were Changed so Workers Would Get the Same Tax Break as Employers When Buying Health Insurance, by Firm Size, 2000

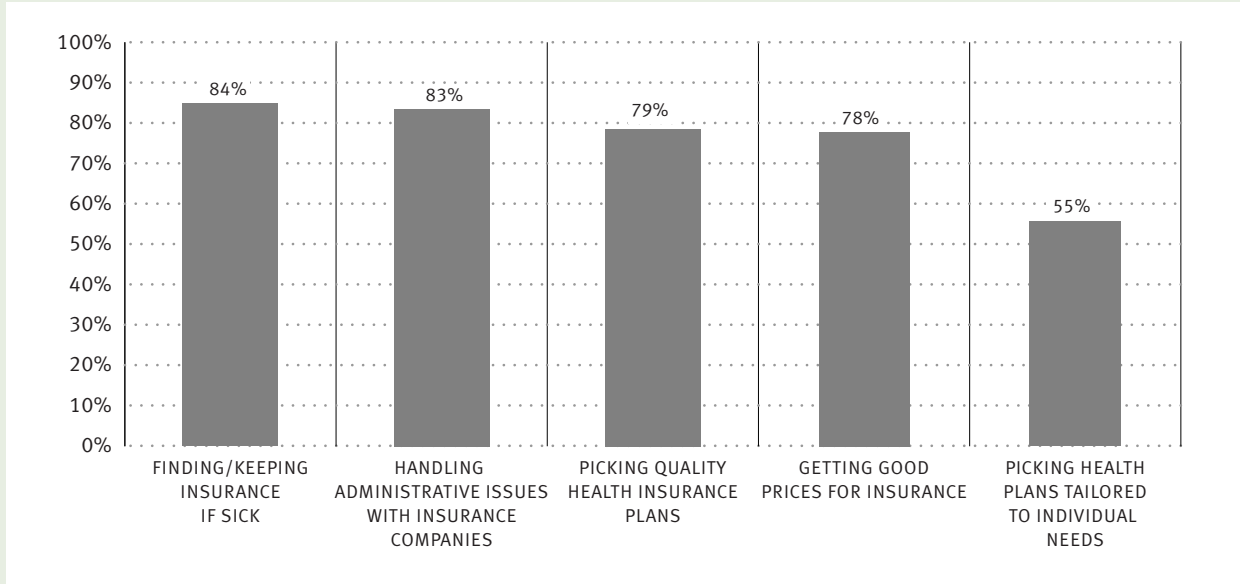


SOURCE:  
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000.

\* Distribution is statistically different from All Firms.

EXHIBIT 14.7

Percentage of All Firms That Think Employees Who Purchase Health Insurance Directly Rather Than Through an Employer Would Have A 'Harder Time' With the Following Issues, 2000



SOURCE :

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

## EXHIBIT 14.8

If Employees Bought Health Insurance Directly Rather Than Through Their Employer, Percentage of Firms Who Say Employees Would Have an Easier or Harder Time...

	<i>Easier Time</i>	<i>Harder Time</i>	<i>About the Same</i>	<i>Don't Know</i>
<b>FINDING OR KEEPING HEALTH INSURANCE IF THEY GET SICK</b>				
All Small Firms (3–199 Workers)	5%	84%	6%	5%
All Large Firms (200 or more Workers)*	3%	91%	2%	4%
<b>ALL FIRMS</b>	<b>5%</b>	<b>84%</b>	<b>6%</b>	<b>5%</b>
<b>HANDLING ADMINISTRATIVE ISSUES WITH INSURANCE COMPANIES</b>				
All Small Firms (3–199 Workers)	7%	83%	9%	2%
All Large Firms (200 or more Workers)*	3%	94%	2%	1%
<b>ALL FIRMS</b>	<b>7%</b>	<b>83%</b>	<b>8%</b>	<b>2%</b>
<b>PICKING GOOD QUALITY HEALTH INSURANCE PLANS</b>				
All Small Firms (3–199 Workers)	11%	79%	7%	2%
All Large Firms (200 or more Workers)*	7%	89%	3%	2%
<b>ALL FIRMS</b>	<b>11%</b>	<b>79%</b>	<b>7%</b>	<b>2%</b>
<b>GETTING GOOD PRICES FOR INSURANCE</b>				
All Small Firms (3–199 Workers)	14%	79%	4%	4%
All Large Firms (200 or more Workers)*	8%	84%	1%	6%
<b>ALL FIRMS</b>	<b>14%</b>	<b>78%</b>	<b>4%</b>	<b>4%</b>
<b>PICKING HEALTH PLANS TAILORED TO THEIR INDIVIDUAL NEEDS</b>				
All Small Firms (3–199 Workers)	34%	55%	6%	4%
All Large Firms (200 or more Workers)*	33%	62%	2%	3%
<b>ALL FIRMS</b>	<b>34%</b>	<b>55%</b>	<b>6%</b>	<b>4%</b>

## SOURCE :

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

\* Distribution is statistically different from All Firms.

## EXHIBIT 14.9

## Level of Difficulty Finding Health Plan to Meet Firm's and Employees' Needs, by Firm Size, Region, and Industry, 2000

	<i>Very Difficult</i>	<i>Somewhat Difficult</i>	<i>Not Too Difficult</i>	<i>Not At All Difficult</i>	<i>Don't Know</i>
<b>FIRM SIZE</b>					
All Small Firms (3–199 Workers)	25%	22%	35%	18%	0%
All Large Firms (200 or more Workers)*	17	35	28	18	2
<b>INDUSTRY</b>					
Mining/Construction/Wholesale*	39%	45%	7%	8%	1%
Manufacturing*	12	30	11	47	0
Transportation/Communication/Utility*	63	11	11	15	0
Retail	26	25	38	11	0
Finance*	16	46	23	15	0
Service*	25	15	39	20	1
State/Local Government*	26	21	26	27	0
Health Care*	19	14	62	5	0
<b>ALL FIRMS</b>	<b>25%</b>	<b>23%</b>	<b>34%</b>	<b>18%</b>	<b>0%</b>

## SOURCE :

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

\* Distribution is statistically different from All Firms.





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