THE HENRY J. KAISER FAMILY FOUNDATION

-And-

HRET
HEALTH RESEARCH & EDUCATIONAL TRUST

California Employer Health Benefits Survey, 2001

February 2002

Methods

The California Employer Health Benefits Survey is a joint product of the Kaiser Family Foundation and Health Research and Educational Trust. The survey was designed and analyzed by researchers at the Kaiser Family Foundation and HRET, and administered by National Research LLC (NR). The findings are based on a random sample of 846 interviews with employee benefit managers in private firms in California. NR conducted interviews from May to August 2001. The sample was drawn from the Dun & Bradstreet list of private employers with three or more workers. The margin of error for responses among all employers is +/- 3.5%. Some exhibits do not sum to 100% due to rounding effects.

The survey is based on a national employer survey conducted annually by the Kaiser Family Foundation and HRET. The U.S. results in this study are based on that survey (pub# 3138), and are available on the Foundation's web site at www.kff.org or by calling the Foundation's Publications Request Line at 1-800-656-4533. Prior to 1999, the national survey was conducted by KPMG Peat Marwick LLP. A similar employer survey was also conducted in 1999 in California, in conjunction with the Center for Health and Public Policy Studies at the University of California, Berkeley.

For the purposes of reporting the data, firms were aggregated into five firm sizes and five industry categories. The firm sizes were: 3-9 workers, 10-49 workers, 50-199 workers, 200-999 workers, and 1,000+ workers. Analyses were also done by small (3-199) and large firms (200+ workers). The industry groupings are as follows: Manufacturing/Transportation/Utilities/Communications, Health/Finance, Retail/Wholesale, Service, Mining/Agriculture/Construction.

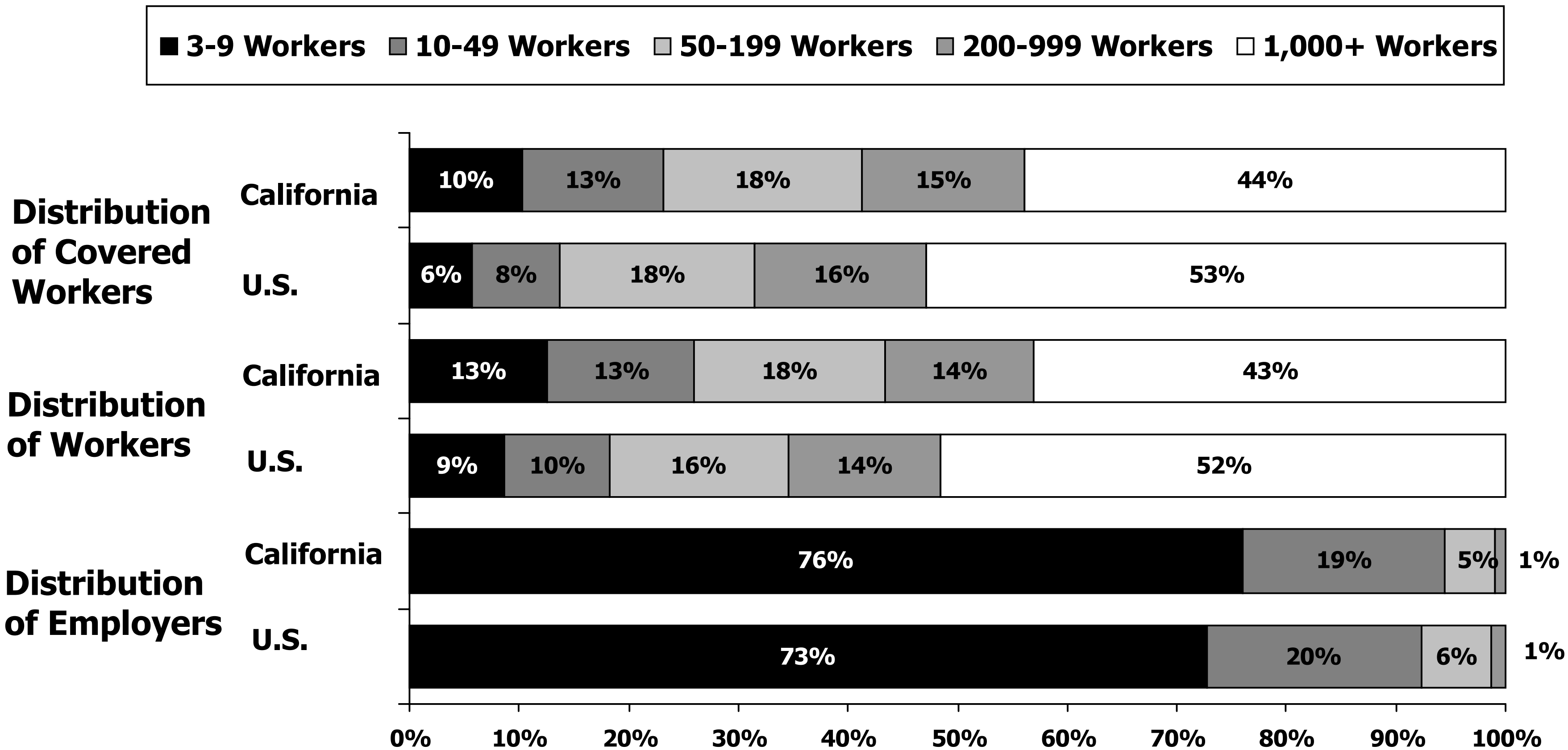
The survey asked questions about the following types of health plans: Health Maintenance Organizations (HMO), Preferred Provider Organizations (PPO), and Point-of-Service (POS) plans. Conventional (fee-for-service) plans are generally excluded from the plan type analyses because they comprise such a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

The Kaiser Family Foundation is an independent, national health philanthropy dedicated to providing information and analysis on health issues to policymakers, the media, and the general public. The Foundation is not associated with Kaiser Permanente or Kaiser Industries.

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

Sample

Distribution of Employers, Workers, and Covered Workers, by Firm Size, 2001



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

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

Survey Highlights

Survey Highlights

Availability of Coverage

- **California's strong economy and low unemployment over the last few years has contributed to substantial increases in the percentage of California employers offering health insurance to their workers, though that is likely to change now as the economy weakens and unemployment rises.**

  - 66% of California businesses offered health insurance in 2001, up from 60% in 2000 and 48% in 1999. This growth has brought the percentage of employers offering insurance in California up to the average nationally (where the percentage of employers offering coverage remained fairly stable at 65% in 2001) (Chart 1).

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

  - Growth in coverage has been driven in large part by higher wage businesses. Lower wage firms – those where more than 35% of workers make less than $20,000 per year – are substantially less likely to offer health insurance. Just over one-third (35%) of small, low-wage firms offer coverage (up only slightly from 27% in 1999), compared to 75% of higher wage small businesses (up from 47% in 1999) (Chart 4).

  - Employers are most likely to cite high premiums as the reason they don't offer insurance (60% of businesses that do not offer health insurance say it is the most important reason, followed by 36% who say it's because employees are covered elsewhere, and 12% who say the firm is too new) (Chart 5).

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

  - Among firms that offer insurance, about half (49%) offer it to part-time workers and few (11%) offer it to temporary employees. As the economy weakens, more workers are likely to find themselves with only part-time or temporary work and no health insurance (Chart 6).

  - At the same time, employers have shown an increasing willingness to extend health insurance to unmarried partners. In 2001, 39% of California employers offering health insurance provide eligibility to non-traditional partners, up from 31% in 1999 and more than double the national average (18%) (Chart 6).

  - Overall, two-thirds (67%) of employees in firms that offer health insurance actually receive coverage. 79% of workers are eligible for coverage, and 84% of those elect to take it from their own employer (Chart 7). Employers most commonly say that the reason employees decline insurance is because they have coverage elsewhere (e.g., through a spouse). Just 2% of employers say workers decline coverage because they don't want or feel they need it (Chart 8).

- **California employers are less likely to offer health coverage to retirees, though coverage has been more stable than elsewhere in the country (Chart 10).**

  - 28% of California firms with 200 or more workers offered retiree coverage in 2001, compared to 34% nationally.

  - However, while the percentage of large employers offering retiree coverage nationally has been falling in recent years, it has remained unchanged in California.

  - Small businesses (with fewer than 200 employees) rarely offer health benefits to retirees (5% in California and 3% nationally in 2001).

Cost of Health Insurance

- **Health insurance premiums in California grew substantially in 2001, increasing 9.9% on average, up from 6.0% in 2000 (Chart 11).**

  - Premium increases in California were more than double the growth in inflation of 4.3%.

  - Small businesses (fewer than 200 employees) experienced higher than average premium increases of 11.3% (Chart 12). One-third of small firms (30%) faced premium increases higher than 15%, while only one in ten large firms (10%) experienced premiums increases so high.

- **The cost of health insurance remains lower in California than in the rest of the country.**

  - Monthly premiums for employer-provided health insurance in California averaged $197 for single coverage and $521 for family coverage in 2001 (compared to $221 for single coverage and $588 for family coverage across the U.S.) (Chart 13).

  - Nonetheless, nearly two-thirds (62%) of California employers believe that the cost of health care premiums in California is higher than the national average (Chart 14).

  - Health Maintenance Organizations (HMOs) remain the least expensive type of health plan, at about three-quarters the price of Preferred Provider Organization (PPO) plans, which typically provide greater choice of providers and fewer restrictions on access to care.

  - Employers most often cite higher spending for prescription drugs (52%) and hospitals (51%) as contributing "a lot" to increases in health insurance premiums (Chart 15).

- **Though the amount workers contribute to the cost of health insurance in California did not increase in 2001, that is likely to change as the economy deteriorates and premiums rise.**

  - Workers in California contributed $21 per month on average for single coverage and $114 for family coverage in 2001, both virtually unchanged from 2000.

  - Nationally, workers pay substantially more for health coverage (on average, $30 a month for a single policy and $150 for a family policy) (Chart 16).

  - However, two-thirds (66%) of large employers (200 or more workers) and one-third (35%) of small businesses (fewer than 200 employees) say they are likely to increase what employees pay for health insurance in the next year (Chart 18).

<u>Benefits and Cost Sharing</u>

- **HMOs and PPOs tend to provide workers with a similar set of covered benefits, with coverage of preventive benefits (like adults physicals) somewhat more common in HMOs (Chart 19).**

- **Coverage for reproductive health services is mixed.**

  - Both HMO and PPO plans offer a high level of coverage for OB/GYN visits (98% of workers are covered in HMOs; 97% in PPOs) and prenatal care (99% HMO; 98% PPO).

  - Health plans are less likely to offer coverage for contraceptives, with oral contraceptives being the most likely to be covered.

- Less than half of workers in HMOs (43%) and less than a third in PPOs (30%) have coverage for abortion services.

- **Patient copayments in HMOs have remained lower in California than in the U.S. as a whole (Chart 20).**

  - In both California and the U.S., the most common copayment for a physician office visit is $10 (including 40% of HMO enrollees in California and 50% nationally).

  - However, 39% of California HMO enrollees face copayments of less than $10, compared to 16% nationally.

- **Virtually all active workers with insurance have drug coverage (99% in HMOs and 100% in PPOs), but employers are taking steps to shift the cost of drugs to workers.**

  - Tiered copayments for prescription drugs have grown rapidly in an attempt to control drug costs. In the past year, the use of three-tiered drug benefits – with one payment for generic drugs, another for brand name drugs with no generic substitute, and a third for brand name drugs with a generic substitute – has grown from 11% of the workforce in California to 20%. Though the number of California plans that require three-tier payments for brand name and generic drugs is growing, it is still lower than the national average (36% of workers) (Chart 21).

  - Drug copayments are somewhat lower in California than nationally, averaging $7 for generic drugs (versus $8 nationally), $12 for brand name drugs with no generic substitute (versus $15 nationally), and $15 for brand name drugs with generic substitutes (versus $20 nationally). But, copayments in the state are rising, particularly for brand name drugs (Chart 22).

- When asked which factors they thought would be "very effective" in controlling drug costs, firms cited negotiations over drug prices between health plans and drug manufacturers (36%), and government regulation of drug prices (33%) most often. Few employers expressed confidence in the effectiveness of pharmacy benefit management companies (PBMs), which are commonly used today by health plans to manage drug benefits (Chart 23).

Health Plan Enrollment, Choice, and Insurance Arrangements

- **With enrollment in less tightly managed care plans growing, the percentage of insured workers enrolled in HMOs in California dropped below the 50% level in 2001 (Chart 24).**
  - Enrollment in HMOs dropped from 55% of covered workers in 2000 to 48% in 2001, while the market share of Preferred Provider Organization (PPO) and Point of Service (POS) plans that offer greater choice of providers and fewer restrictions on access to care grew.
  - Still, enrollment patterns in California remain markedly different from the rest of the country. For example, 26% of California workers are enrolled in PPOs compared to 48% nationally, and 48% of Californians are enrolled in HMOS, more than double the 23% national average.
- **California employers are more likely than firms nationally to offer their employees a choice of health plans.**
  - Nationally, 47% of large employers (200 or more workers) offer only one plan to their employees, compared to 19% in California.
  - Smaller businesses are much less likely to provide a choice of health plans, with 81% of California companies and 91% of U.S. firms offering only one plan (Chart 25).

- Yet, purchasing arrangements designed to facilitate greater choice for small businesses in California remain largely unknown. 70% of California employers with fewer than 50 employees say they are unfamiliar with the most prominent of these small business purchasing pools – PacAdvantage (previously known as the Health Insurance Plan of California) and California Choice (Chart 26).

- **California workers are much less likely than employees nationwide to be in "self-insured" health plans, where the employer provides health coverage directly rather than purchasing it through an insurer or HMO (Chart 27).**

  - Overall, 27% of Californians insured through an employer are in a self-insured plan, compared to 47% nationally. This is due in large part to the fact that more Californians are enrolled in HMOs than employees nationally, and HMOs are less likely than other types of plans to be self-insured.

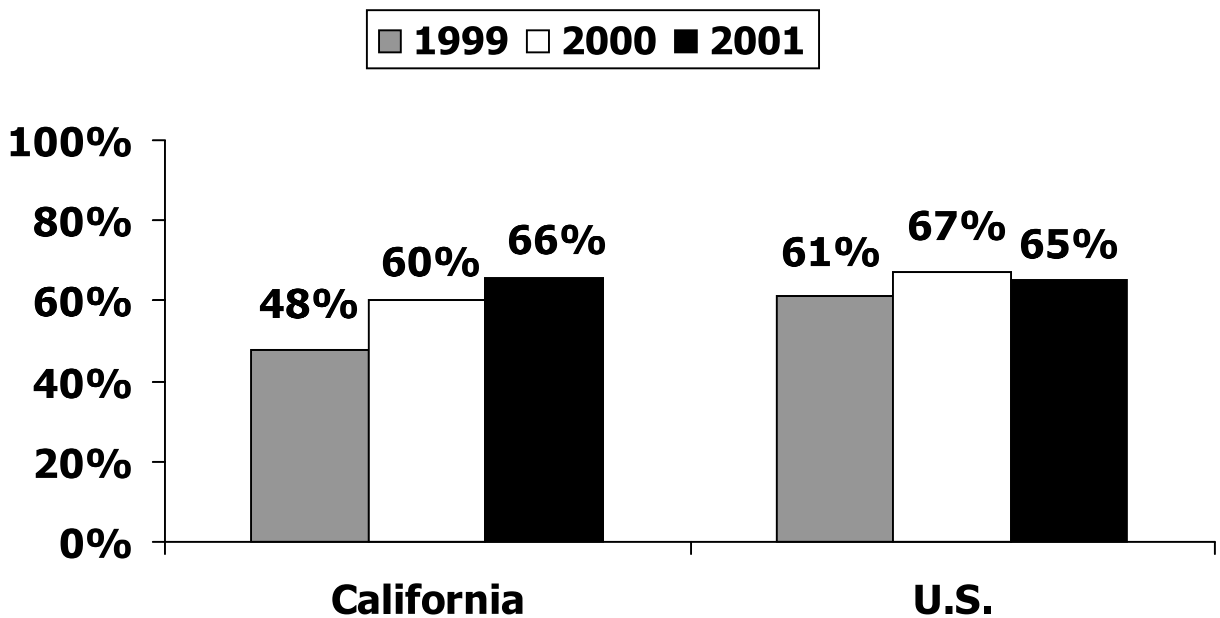
  - Since federal law prohibits states from regulating the practices of self-insured health plans, the number of workers enrolled in such plans determines the reach of state legislation governing patients' rights and benefit requirements.

- **Some have suggested that employers providing health insurance today may switch to a "defined contribution" approach, where they give employees cash to buy insurance directly rather than arranging for coverage as a group. Most employers continue to say they are unlikely to consider such an approach in the next five years, though California companies appear slightly more open to the idea (66% say they are very or somewhat unlikely to switch to a defined contribution, compared to 75% of firms nationwide) (Chart 28).**

Availability of Coverage

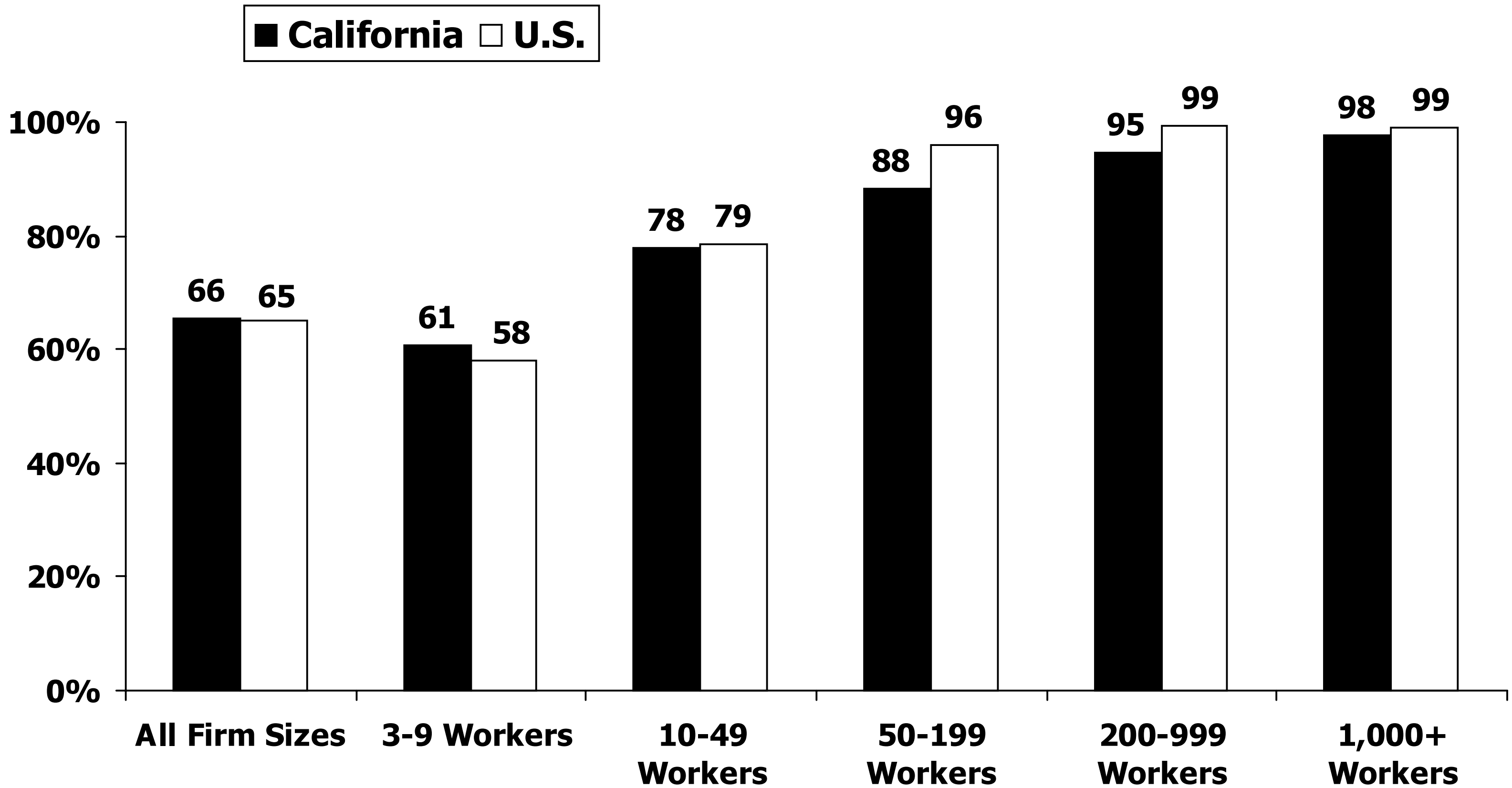
Chart #1

Percentage of All Firms Offering Health Benefits, 1999, 2000 and 2001



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

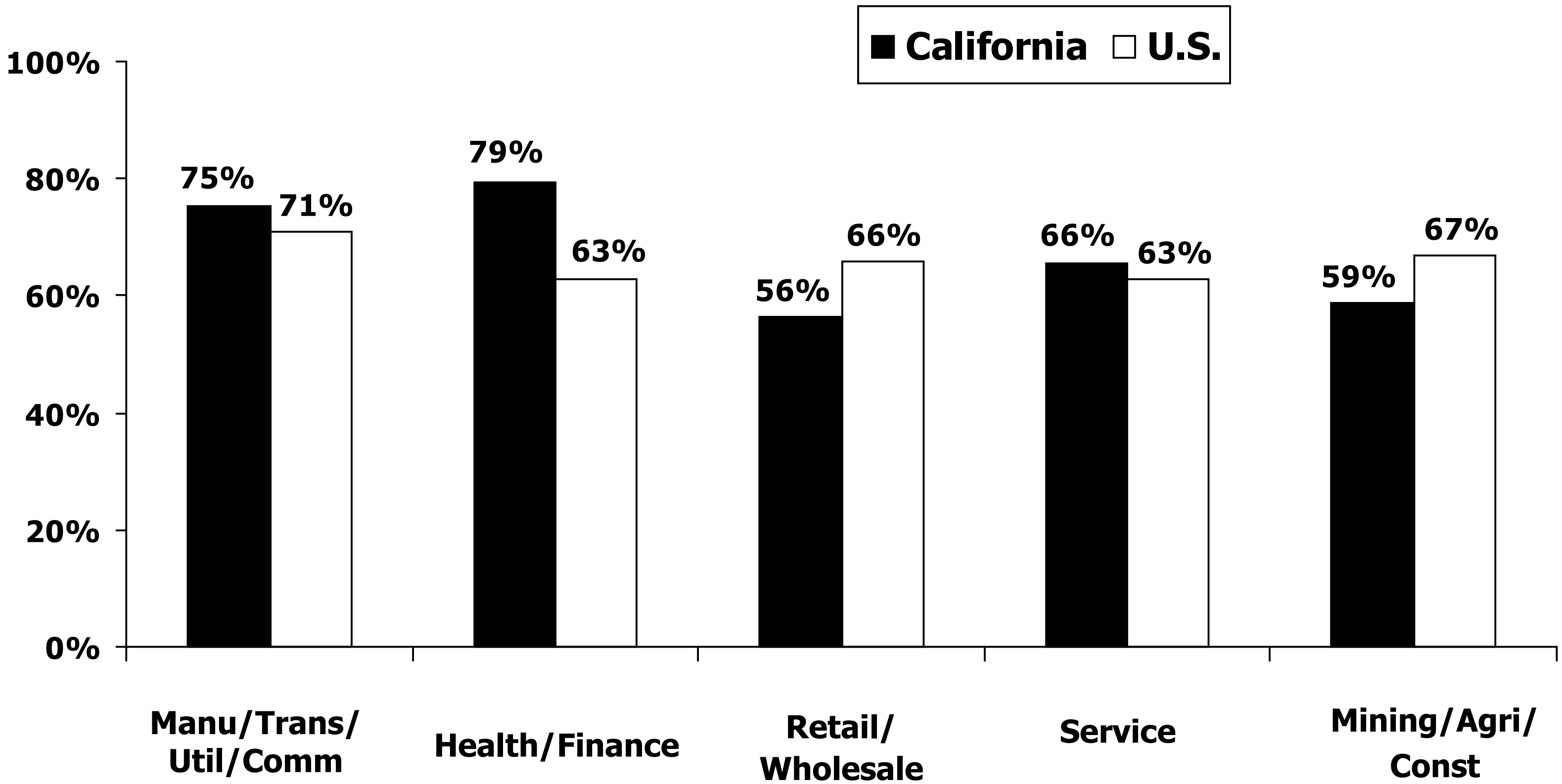
Percentage of Firms Offering Health Benefits, by Firm Size, 2001



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

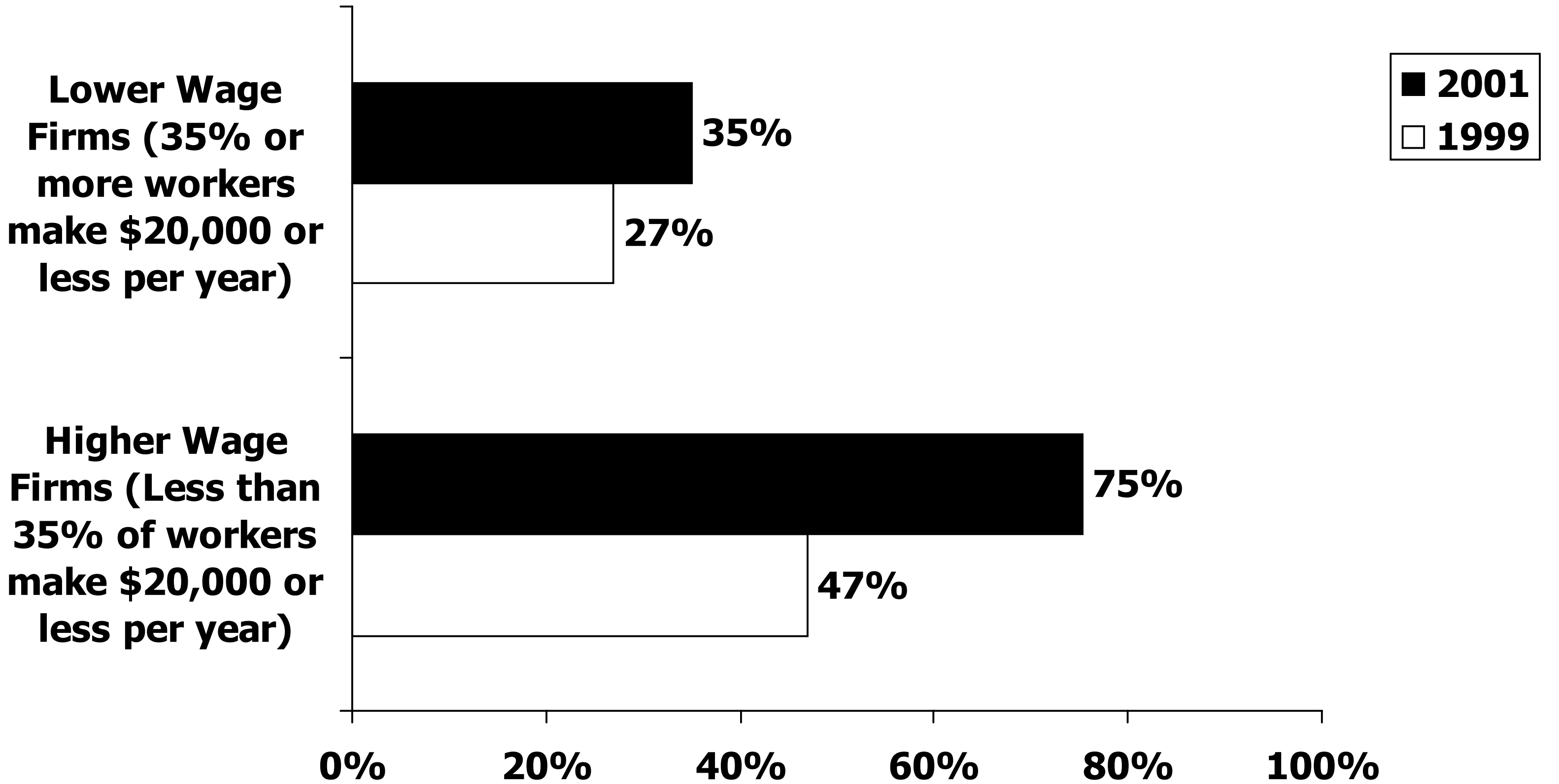
Chart #3

Percentage of Employers Offering Coverage, by Type of Industry, 2001



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

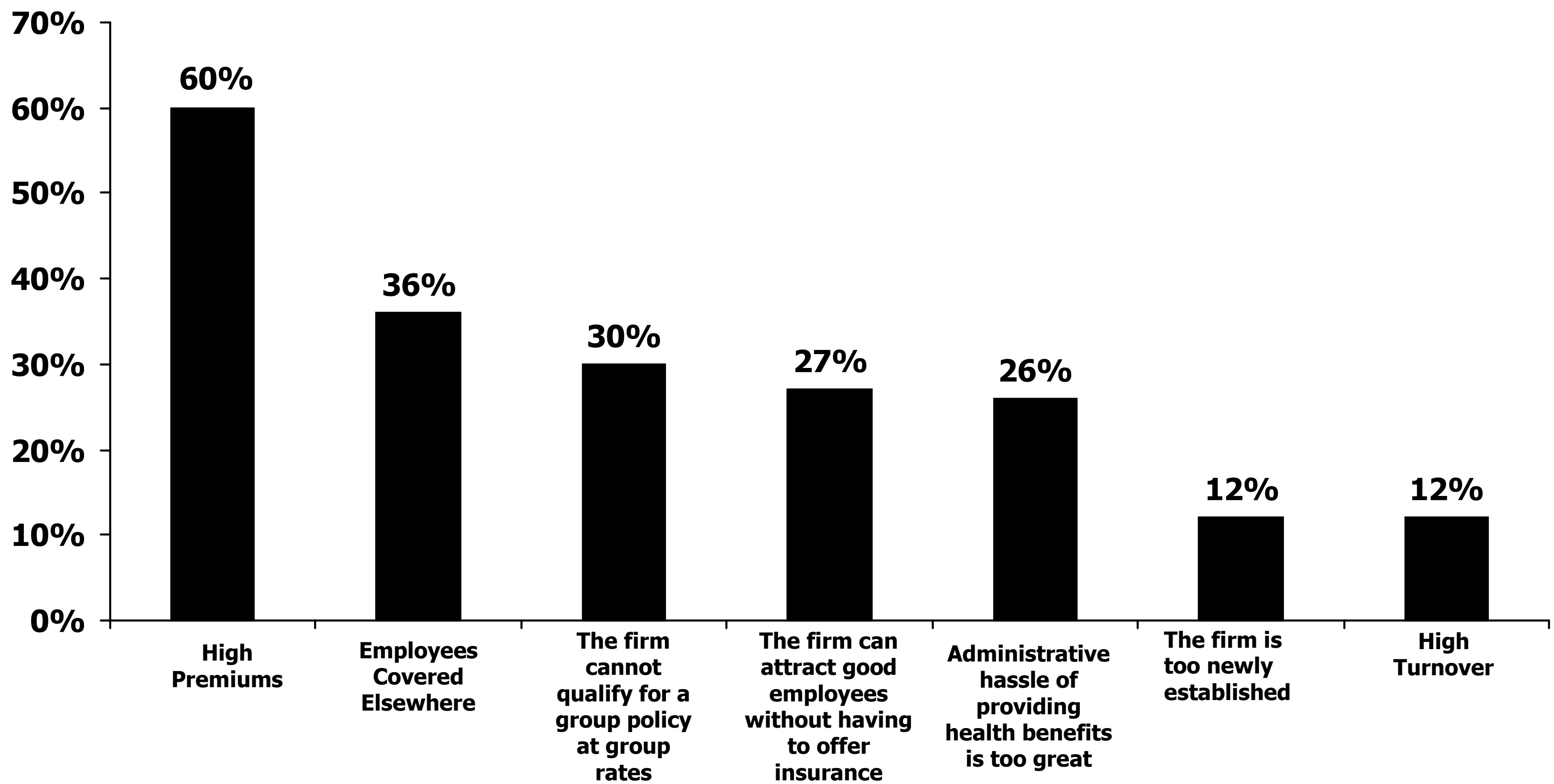
Percentage of Small Firms (< 200 Employees) That Offer Health Insurance, by Wage Level, 1999 and 2001



Sources: Kaiser/HRET California Employer Health Benefits Survey: 1999, 2001

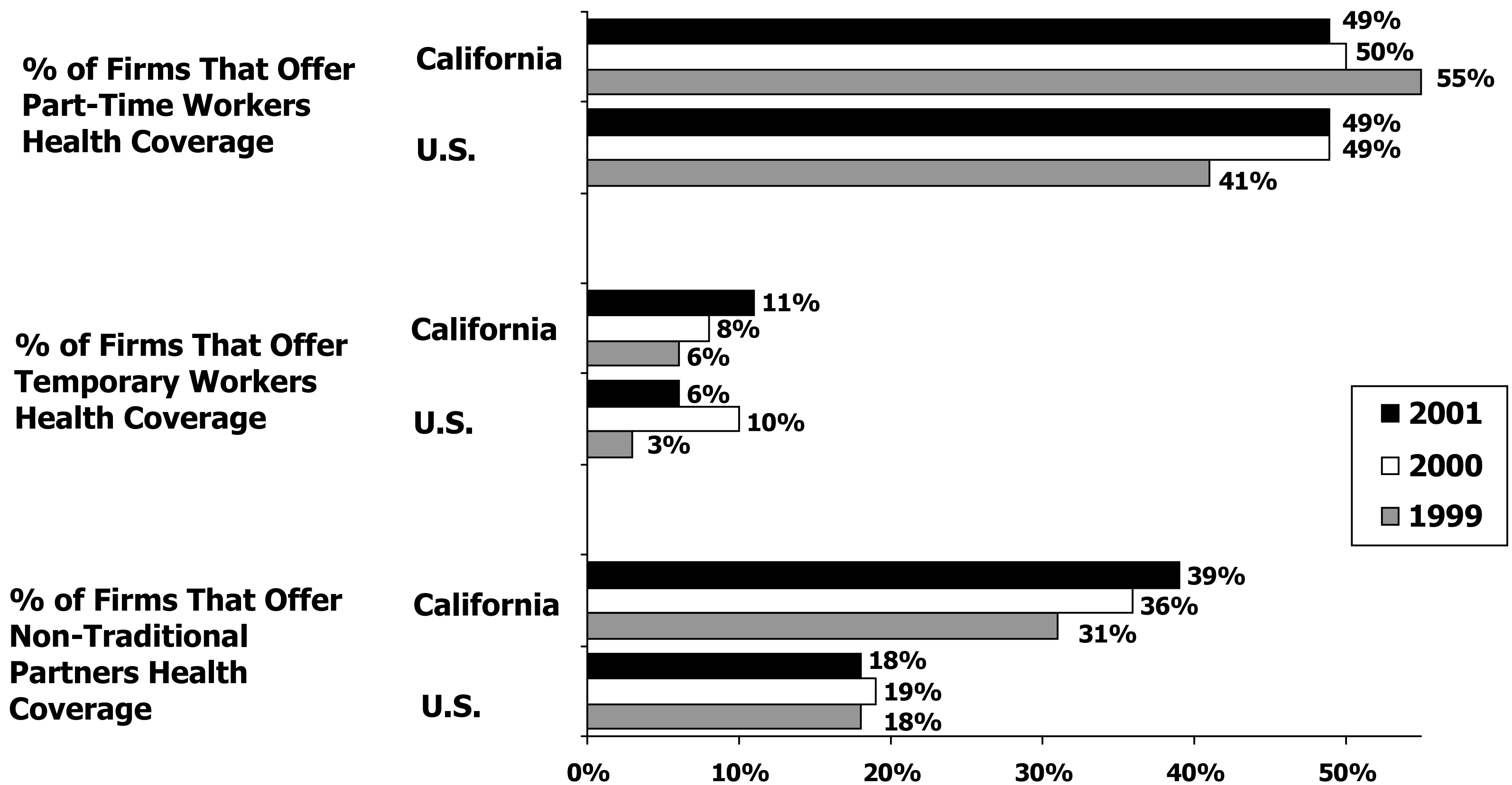
Chart #5

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



Source: Kaiser/HRET 2001 California Employer Health Benefits Survey

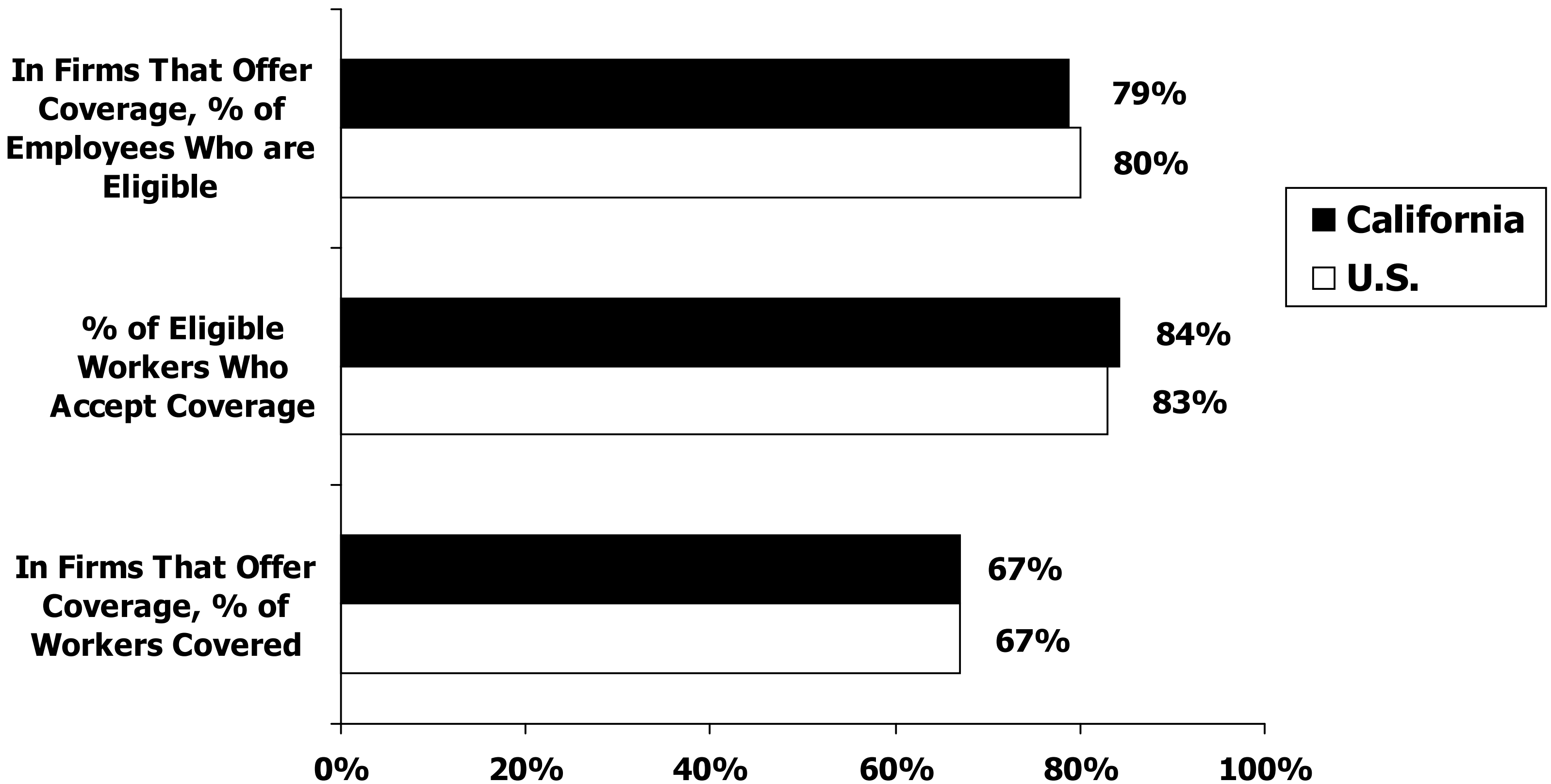
Coverage for Part-Time Employees, Temporary Workers, and Non-Traditional Partners, 1999, 2000 and 2001



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

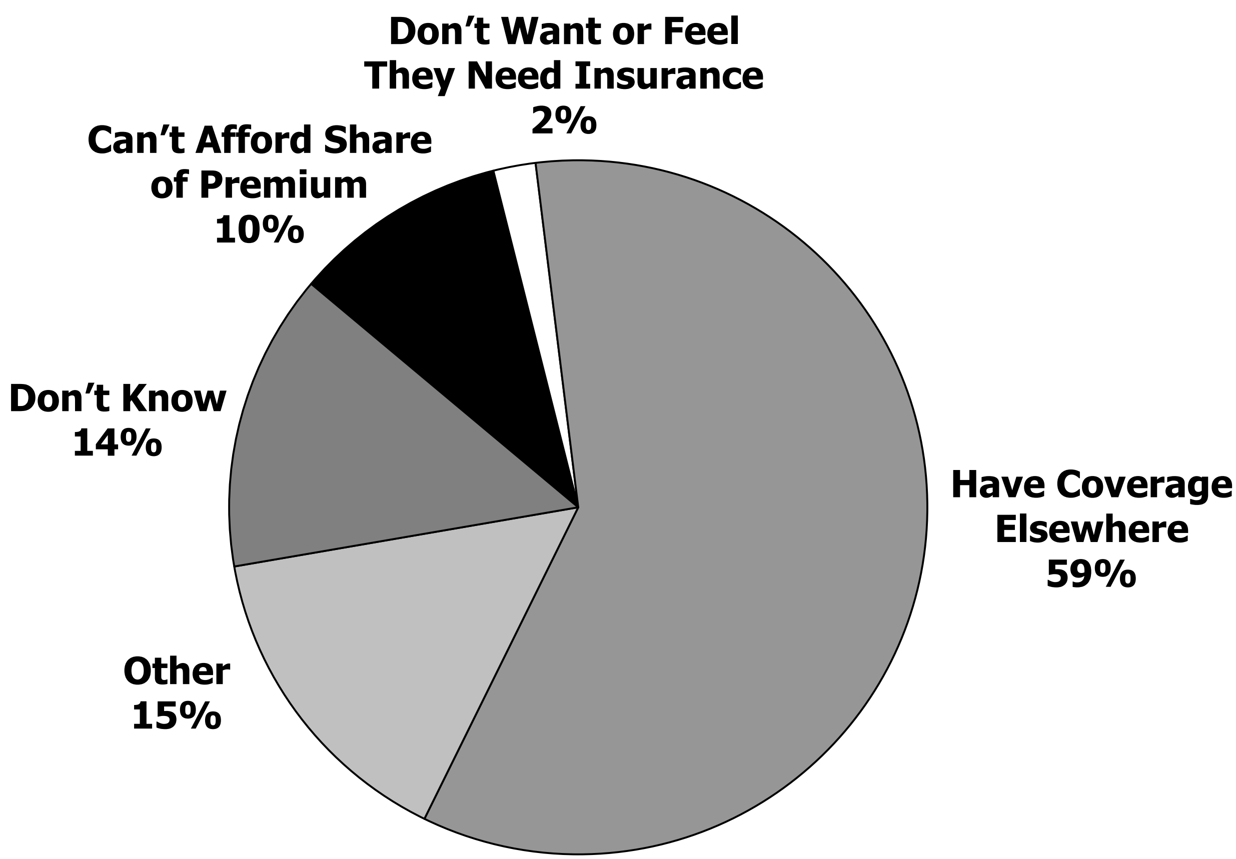
Chart #7

Eligibility and Worker Take-Up in Firms That Offer Coverage, 2001



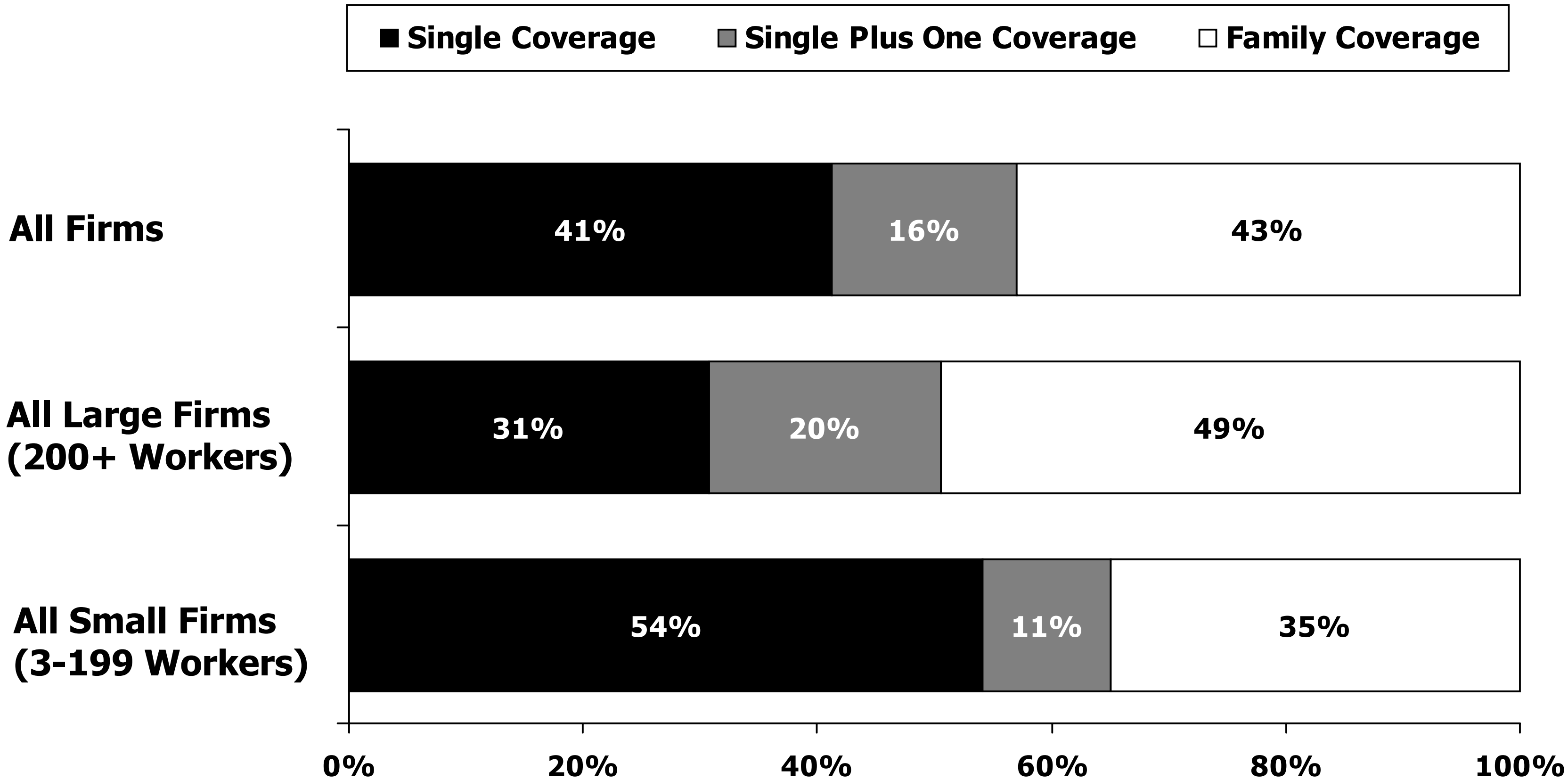
Sources: Kaiser/HRET 2001 California Employer Health Benefits Survey; Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2001

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



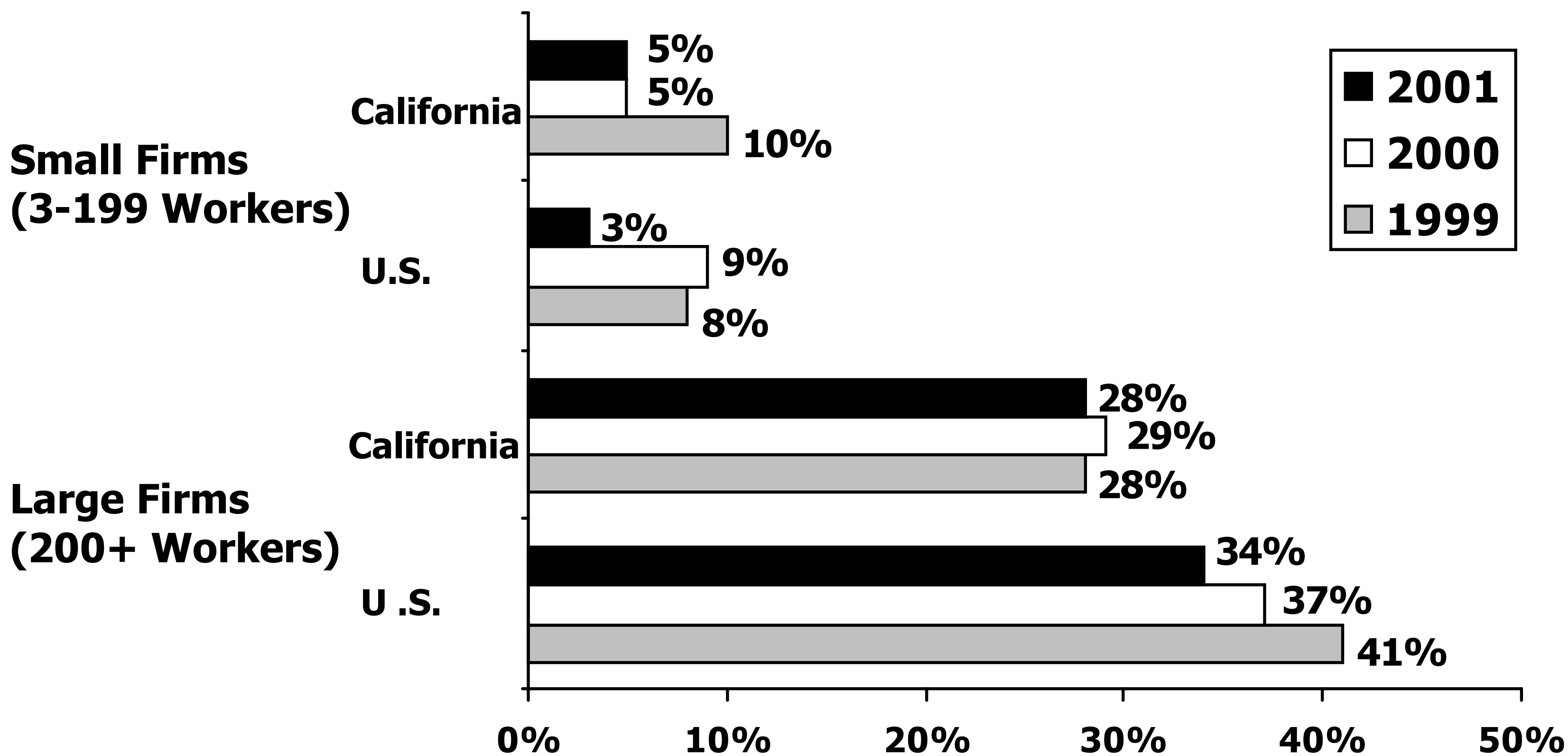
Source: Kaiser/HRET 2001 California Employer Health Benefits Survey

Percent of Covered Workers Electing Single Coverage, Single Plus One Coverage, or Family Coverage, by Firm Size, 2001



Source: Kaiser/HRET 2001 California Employer Health Benefits Survey

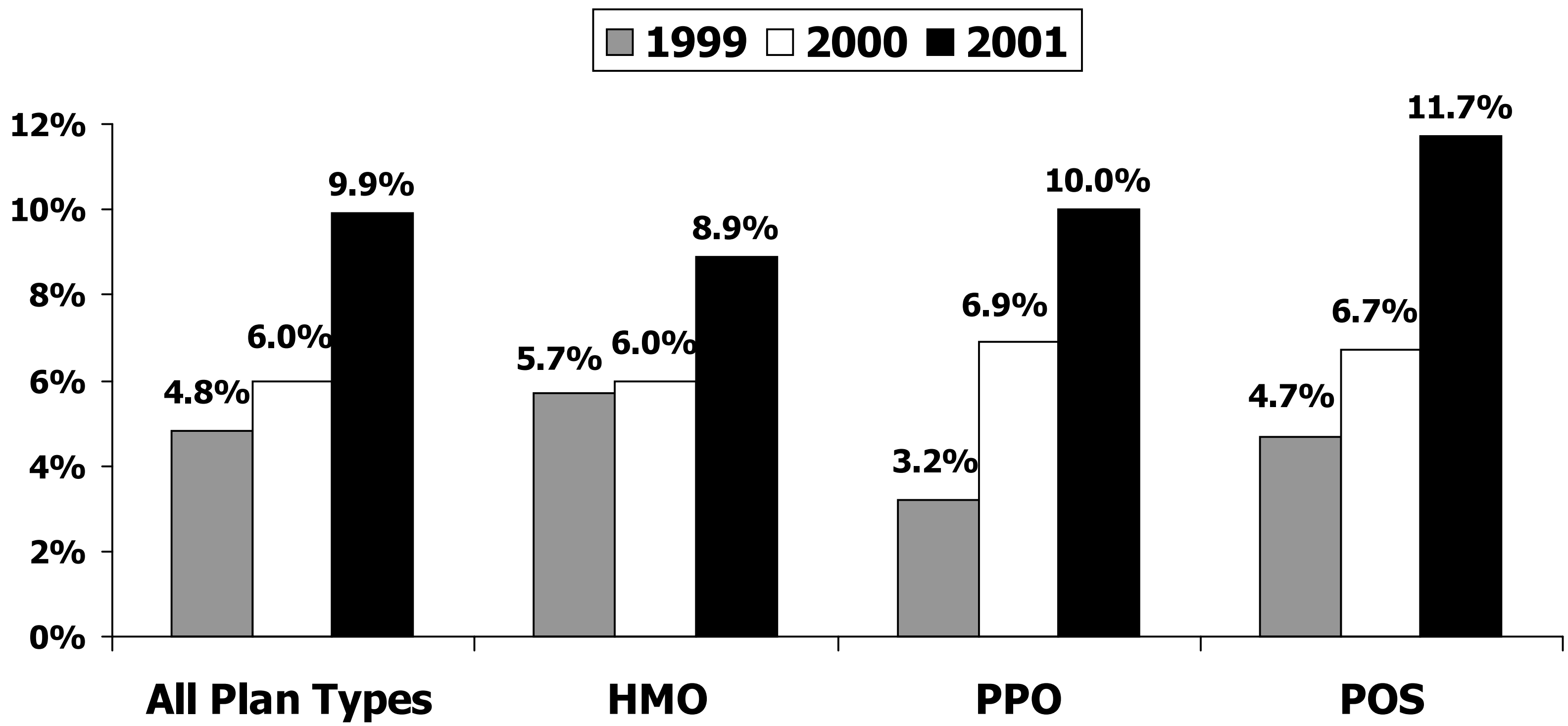
Percentage of Firms That Offer Retiree Health Benefits, 1999, 2000 and 2001



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

Cost of Health Insurance

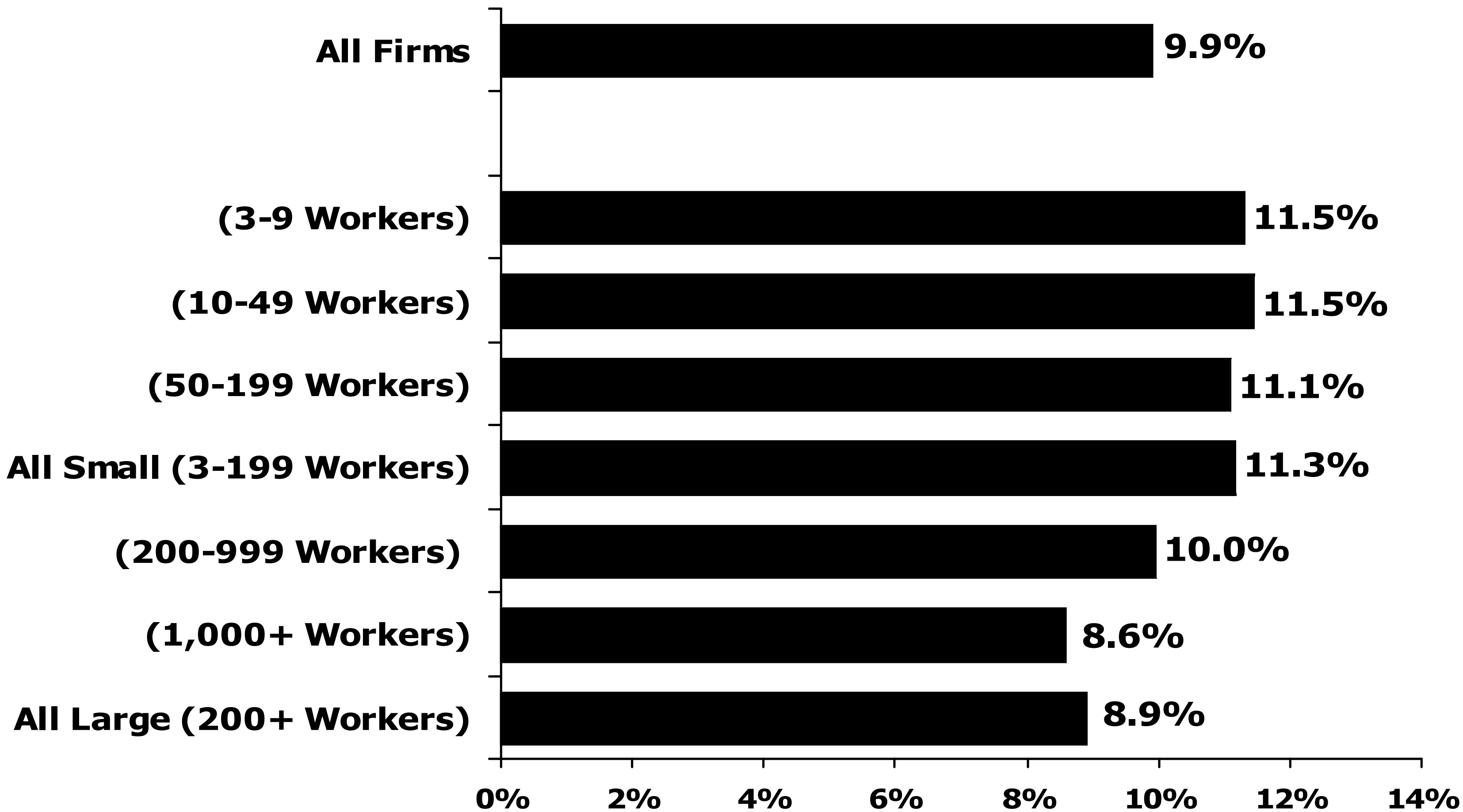
Increases in Health Insurance Premiums From Previous Year, by Plan Type, 1999, 2000 and 2001



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

Chart #12

Percentage Change in Premiums by Firm Size, 2001



Source: Kaiser/HRET 2001 California Employer Health Benefits Survey

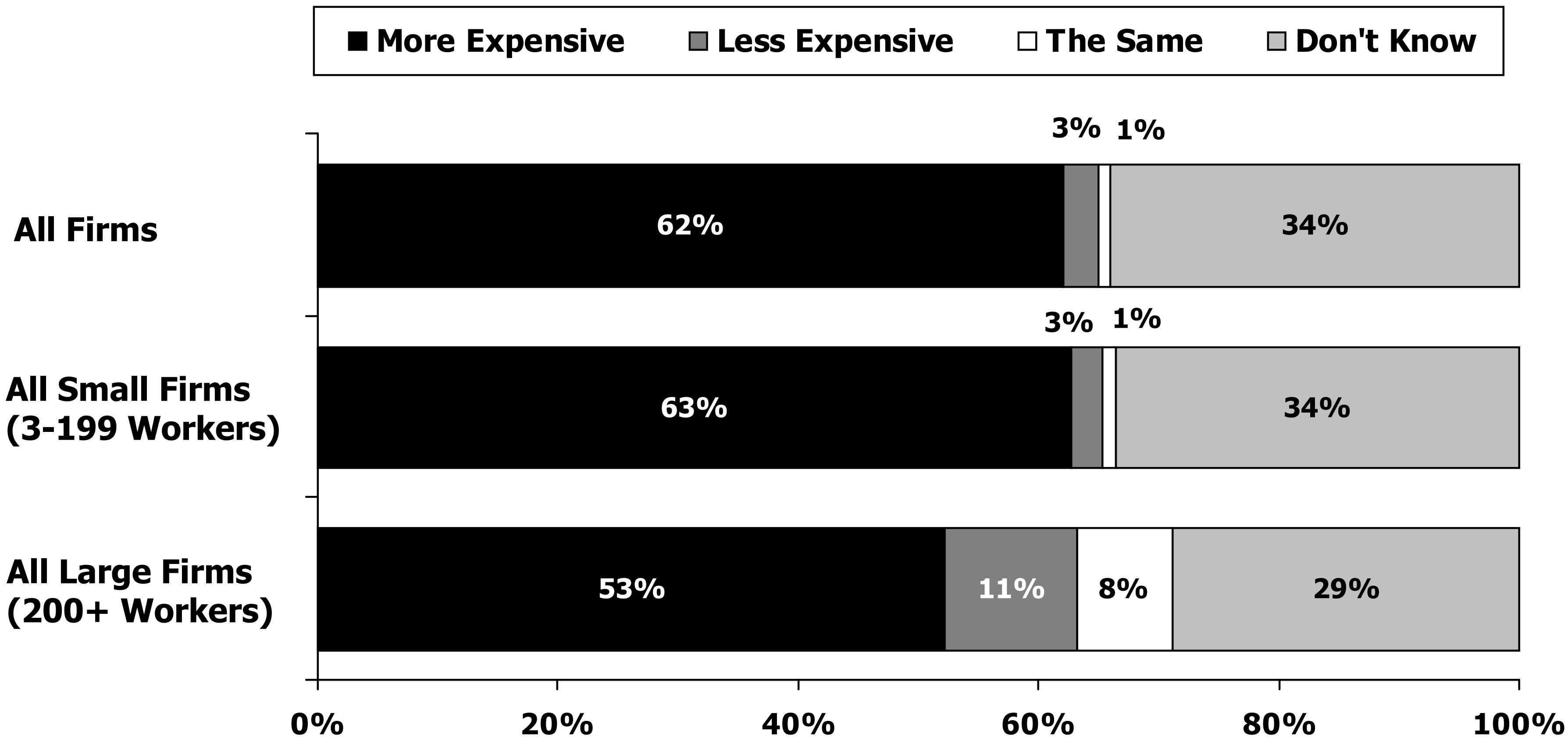
Chart #13

Average Monthly Premiums by Plan Type, 2001

	Single		Family	
	California	**U.S.**	**California**	**U.S.**
All Plan Types	**$197**	**$221**	**$521**	**$588**
HMO	**175**	**200**	**464**	**545**
PPO	**229**	**228**	**601**	**600**
POS	**205**	**222**	**543**	**588**

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

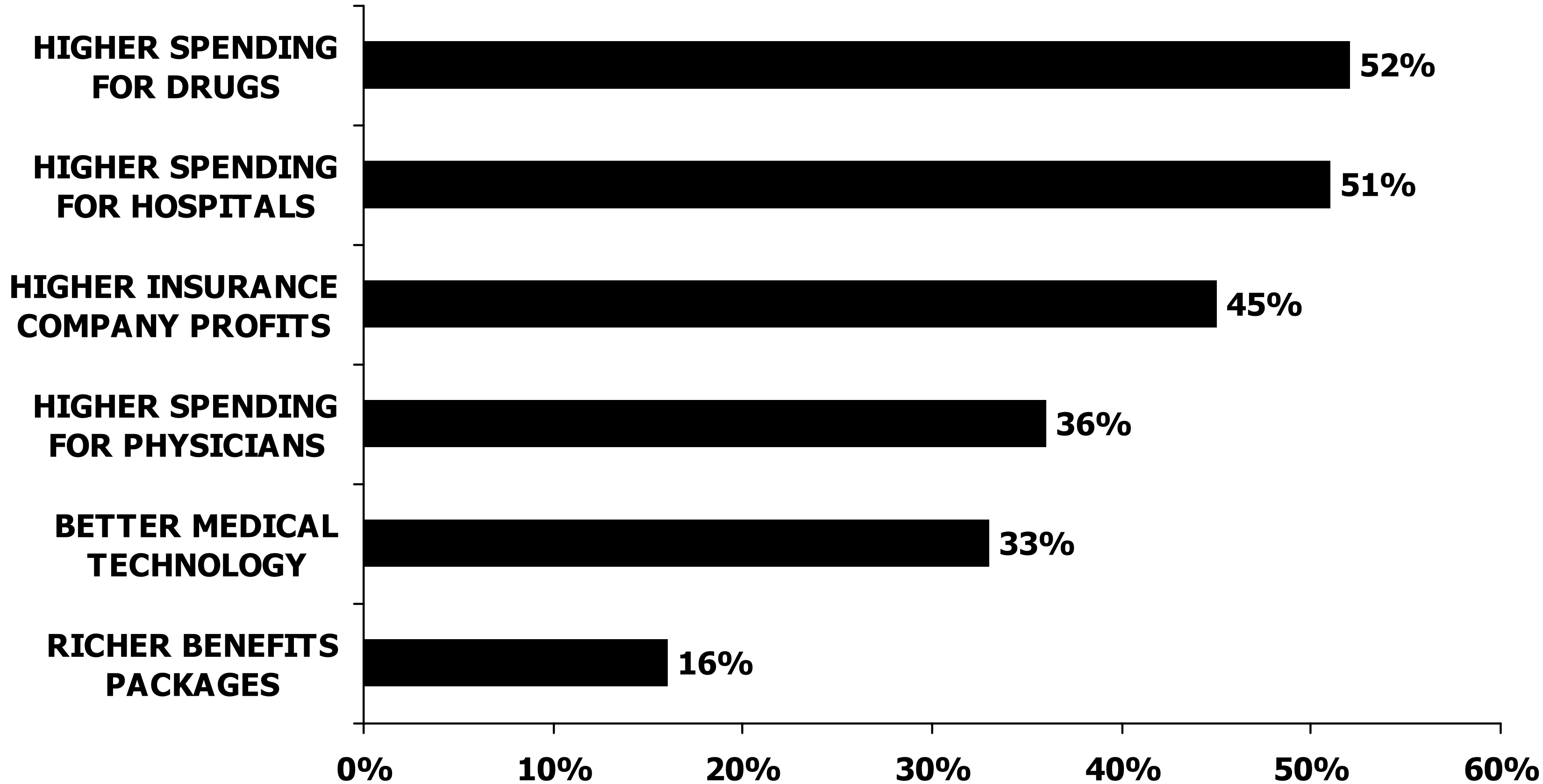
Percentage of California Employers Who Think That Health Insurance Premiums are More or Less Than the Rest of the Country, by Firm Size, 2001



Source: Kaiser/HRET 2001 California Employer Health Benefits Survey

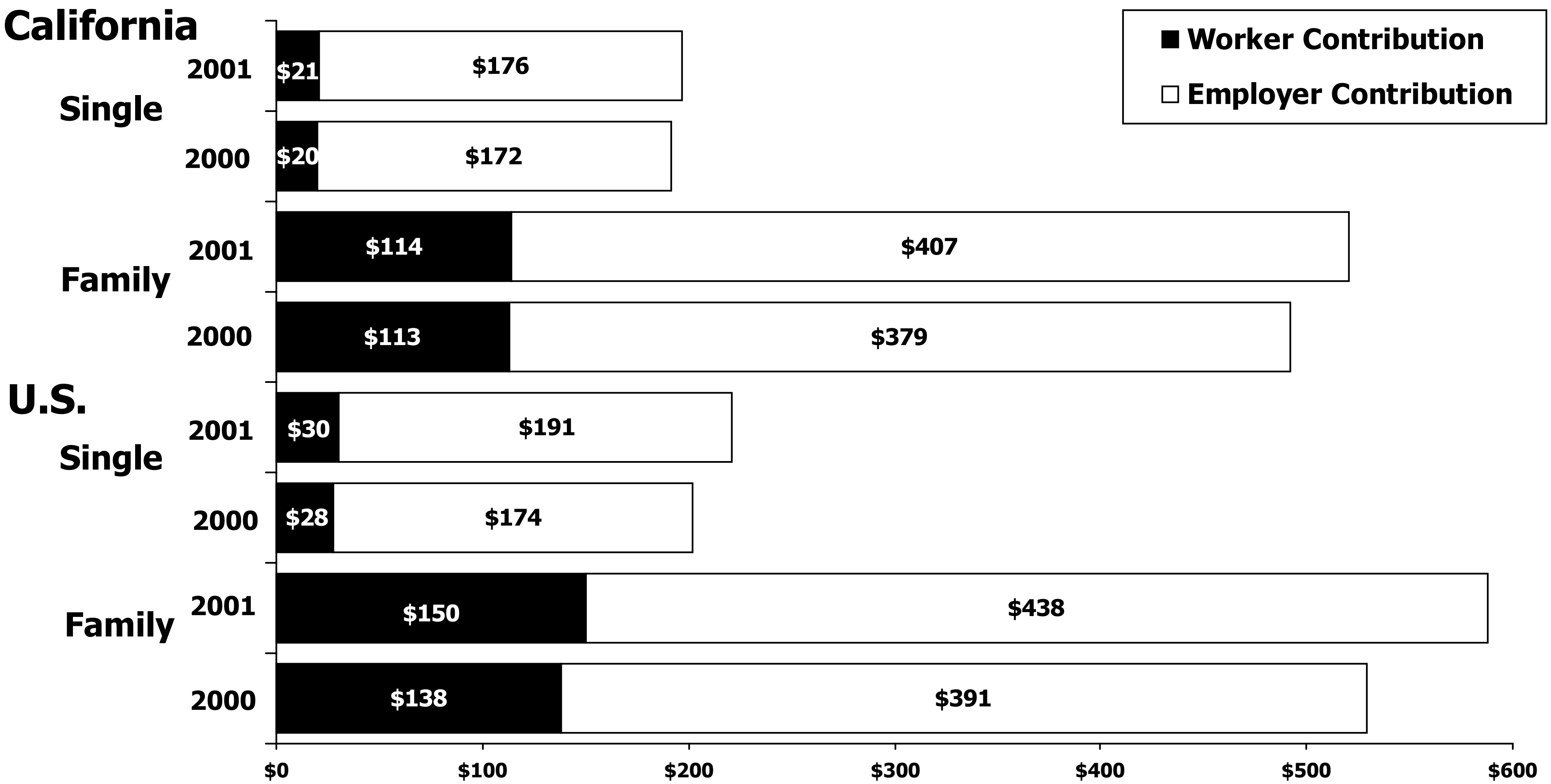
Chart #15

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



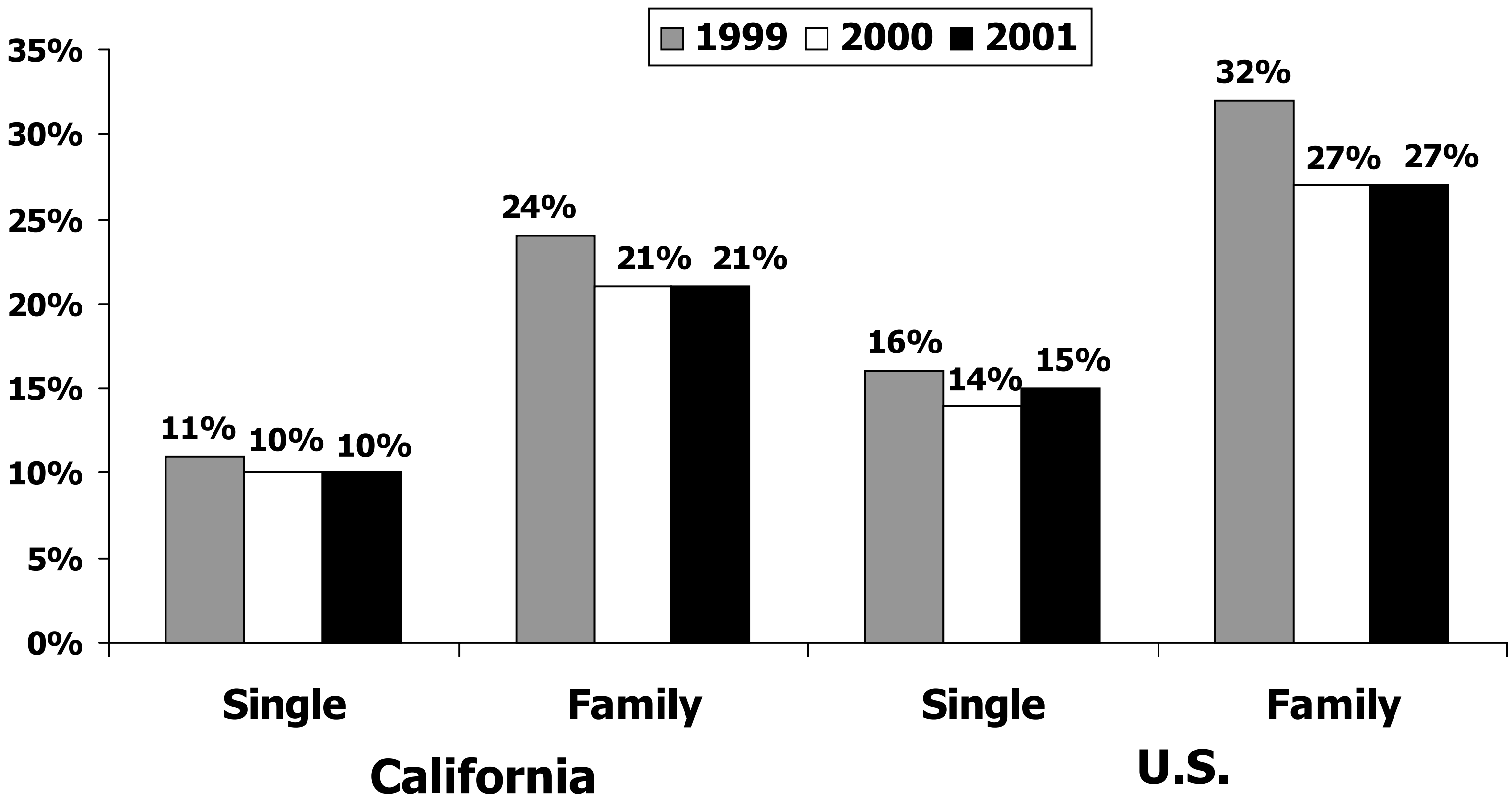
Source: Kaiser/HRET 2001 California Employer Health Benefits Survey

Average Monthly Worker and Employer Contributions, 2000 and 2001



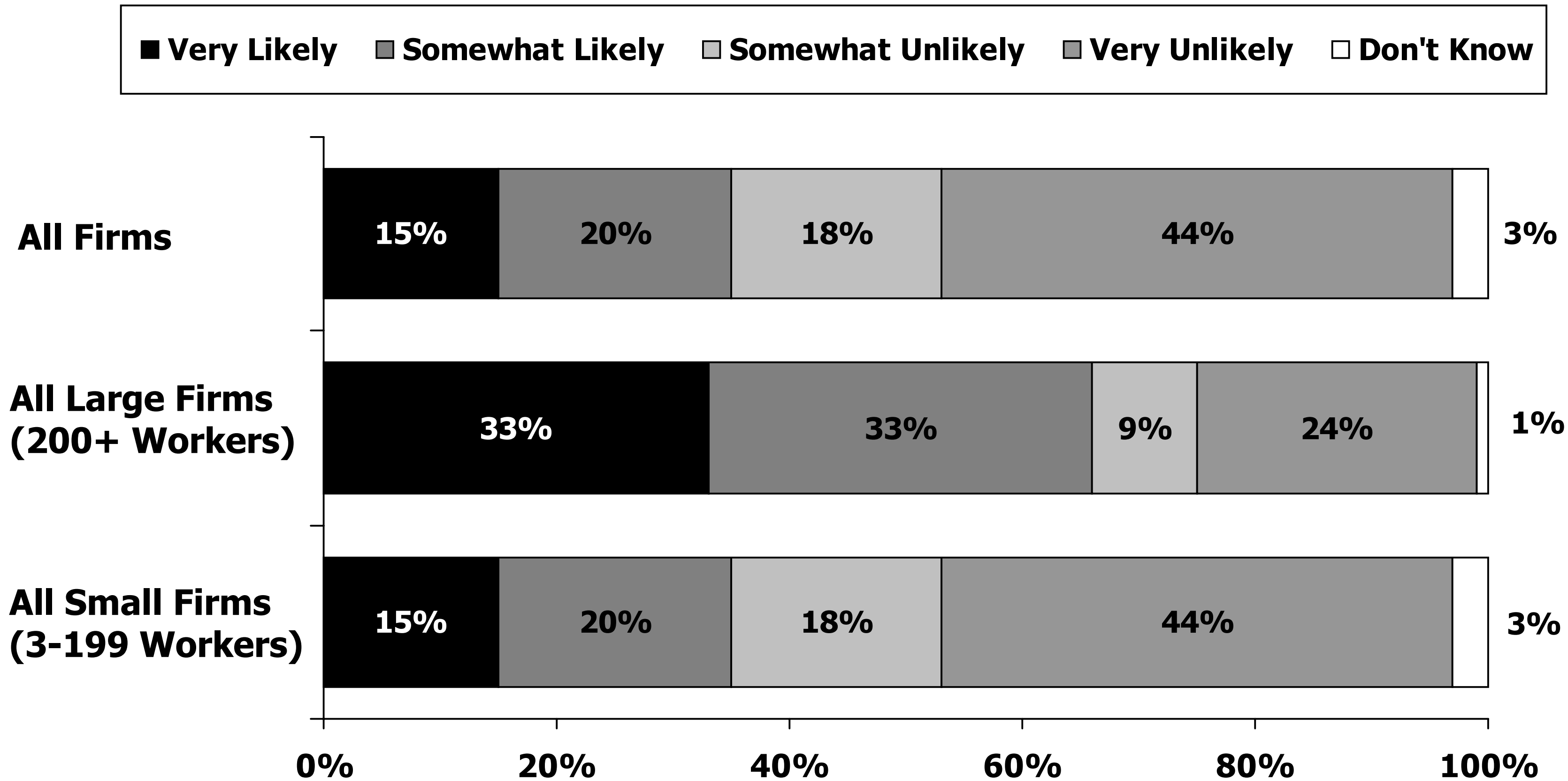
Sources: Kaiser/HRET California Employer Health Benefits Survey: 2000, 2001; Kaiser/HRET Employer Health Benefits Survey: 2000, 2001

Percent of Premiums Paid by Workers, 1999, 2000 and 2001



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

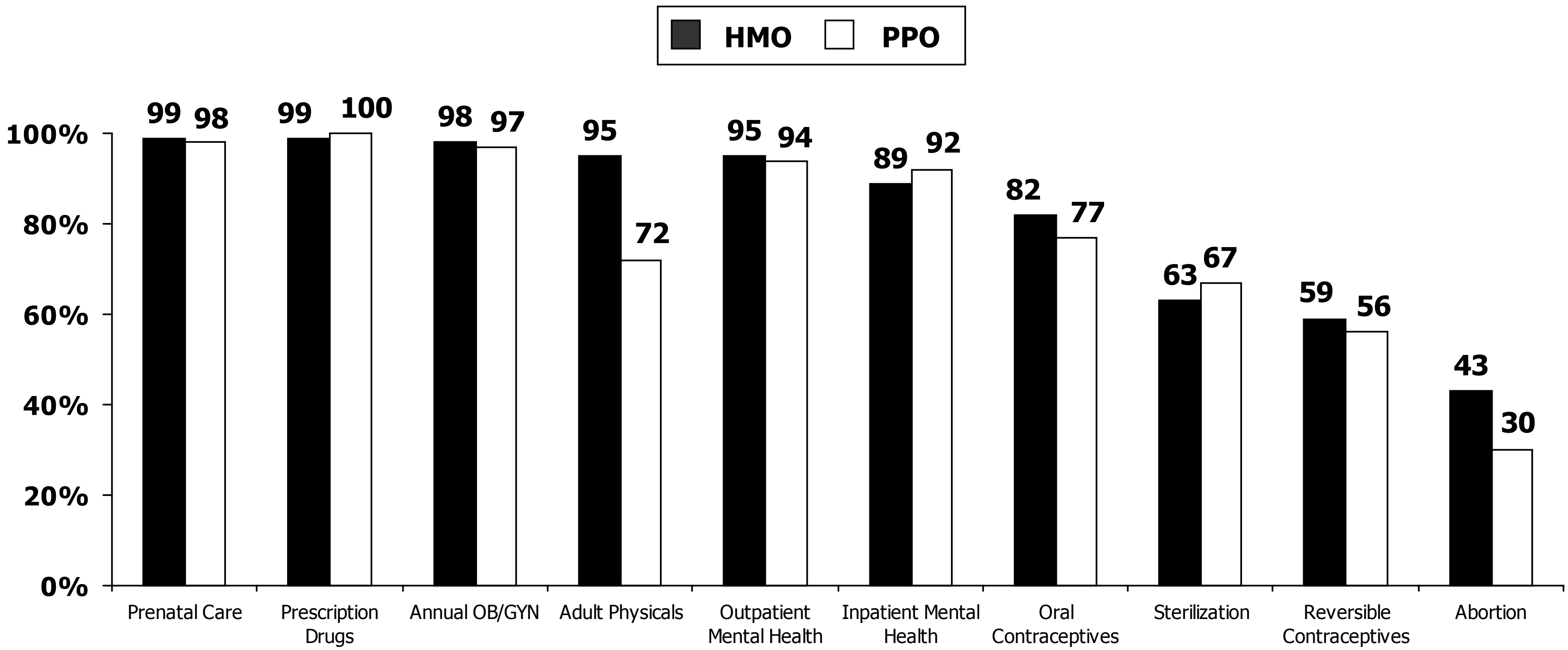
Likelihood That Firm Will Increase the Amount That Employees Pay for Health Insurance in the Next Year, by Firm Size, 2001



Source: Kaiser/HRET 2001 California Employer Health Benefits Survey

Benefits and Cost Sharing

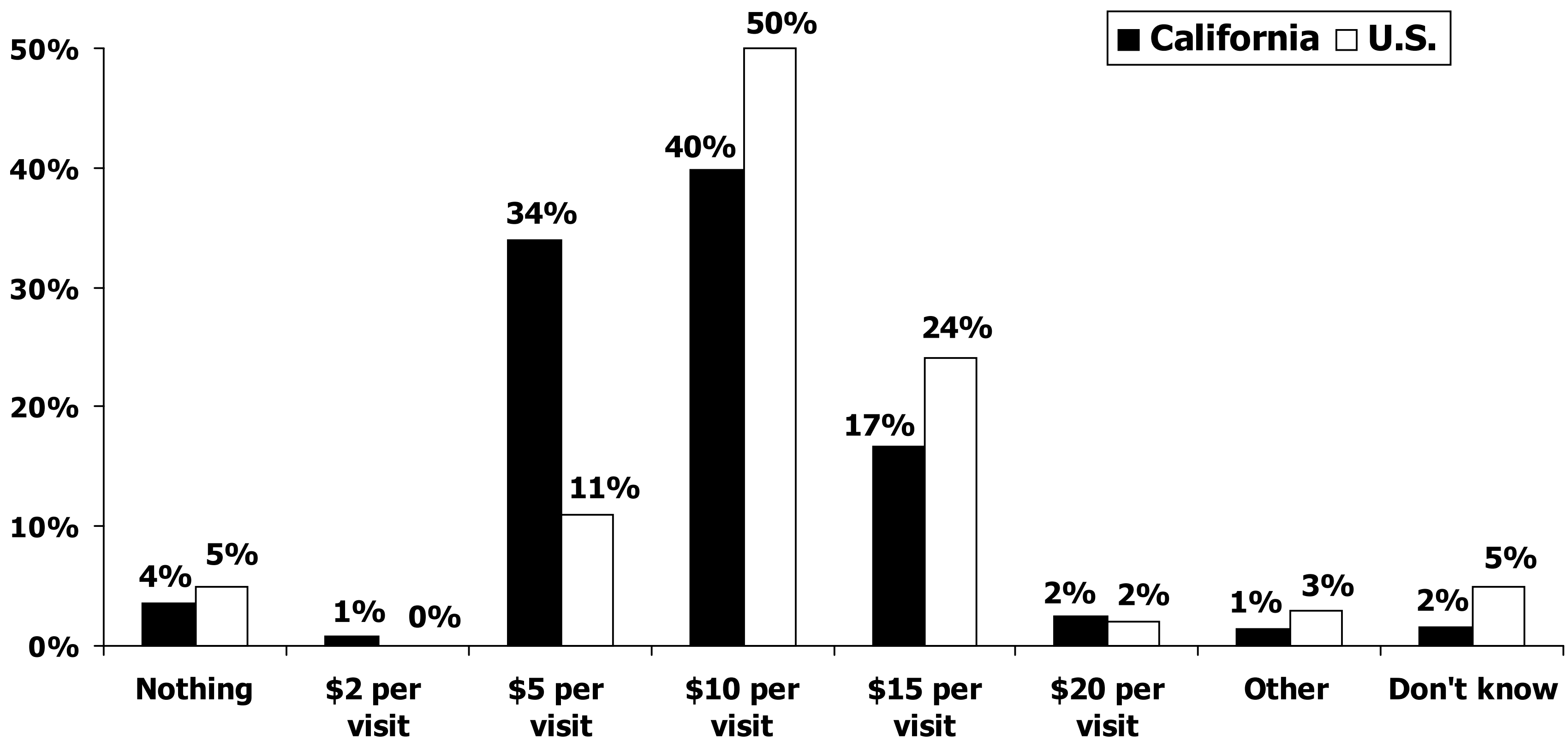
Percentage of Workers Covered for Selected Benefits, by Plan Type, 2001*



* In certain instances, a large percentage of respondents indicated "Don't Know" as follows: Oral contraceptives: HMO (10.9%), PPO (10.0%); Abortion: HMO (41.3%), PPO (33.8%); Reversible Contraceptives: HMO (30.2%), PPO (22.1%); Sterilization: HMO (27.2%), PPO (24.4%).

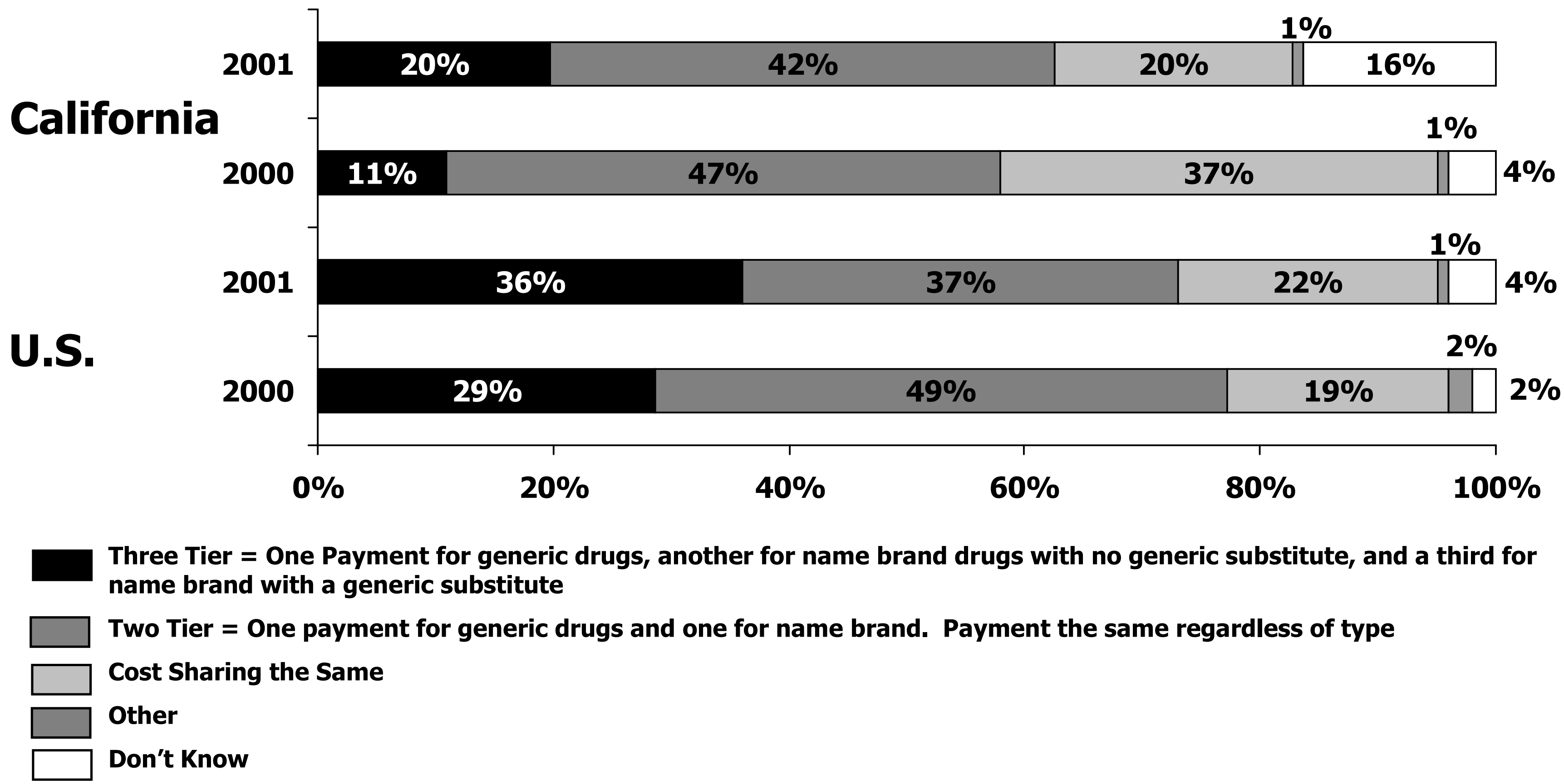
Source: Kaiser/HRET 2001 California Employer Health Benefits Survey

Percent of HMO Enrollees With Specified Copayments per Visit, 2001



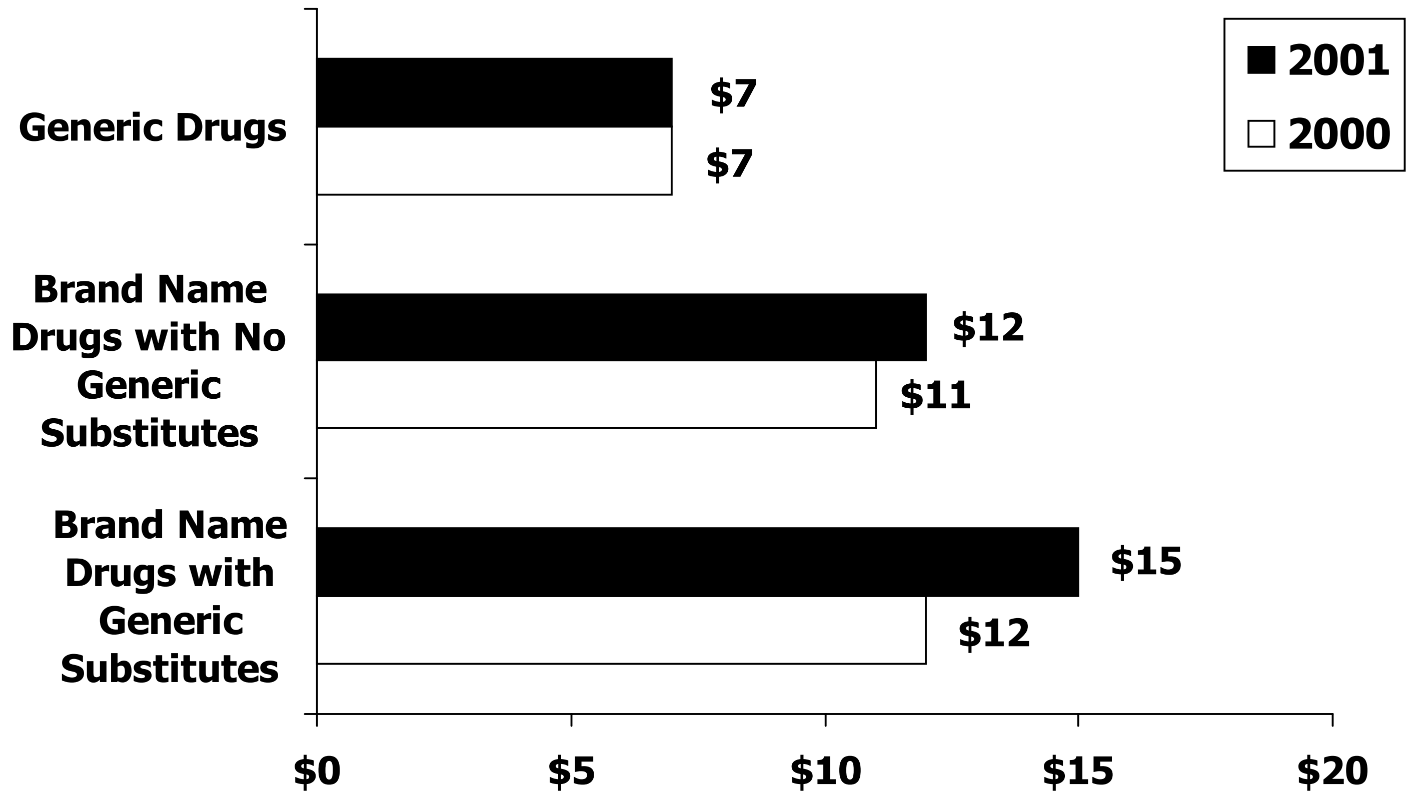
Sources: Kaiser/HRET 2001 California Employer Health Benefits Survey; Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2001

Percentage of Covered Workers Facing Different Cost Sharing Formulas for Prescription Drugs, 2000 and 2001



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

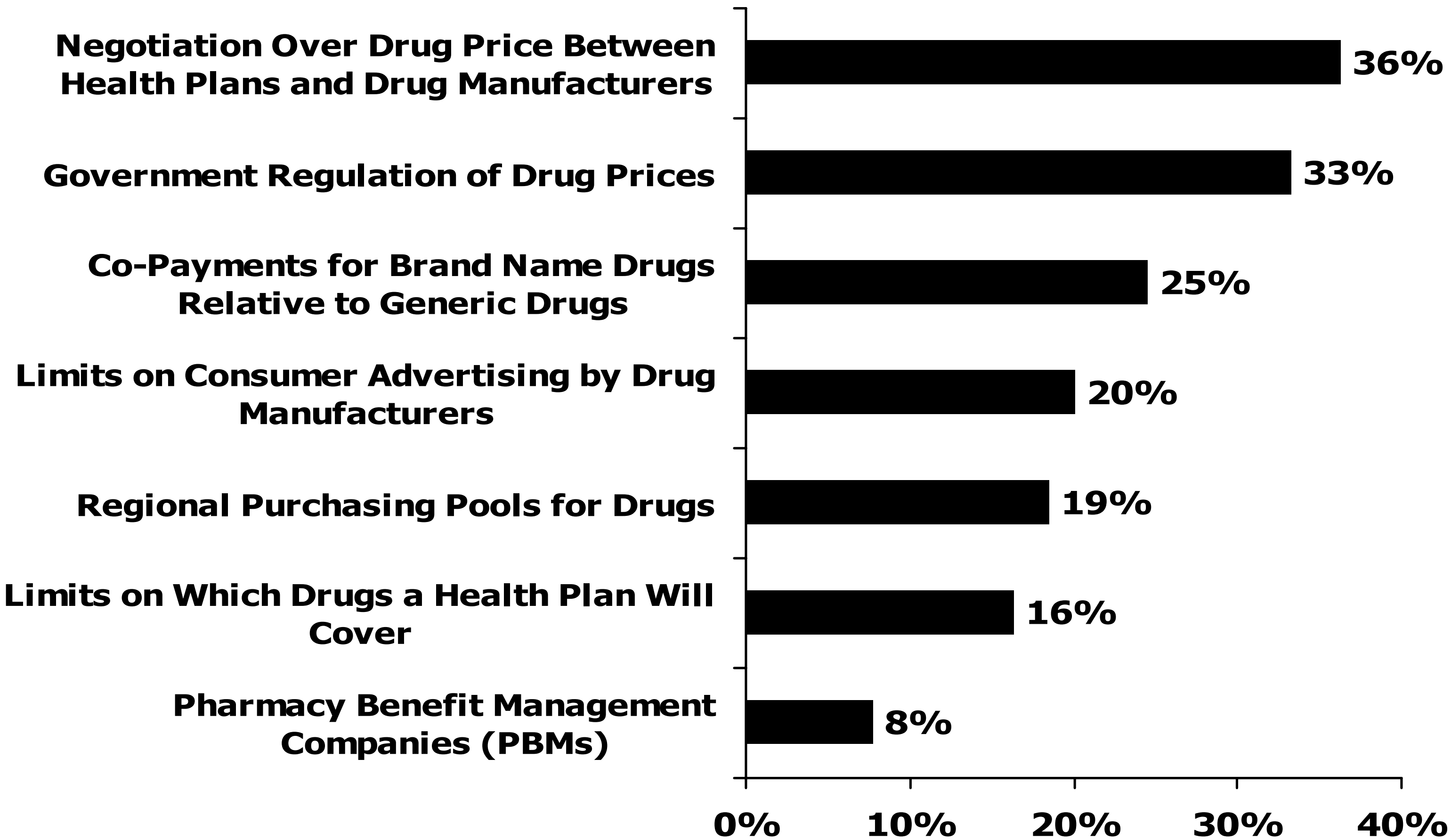
Average Drug Copayments, 2000 and 2001



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

Chart #23

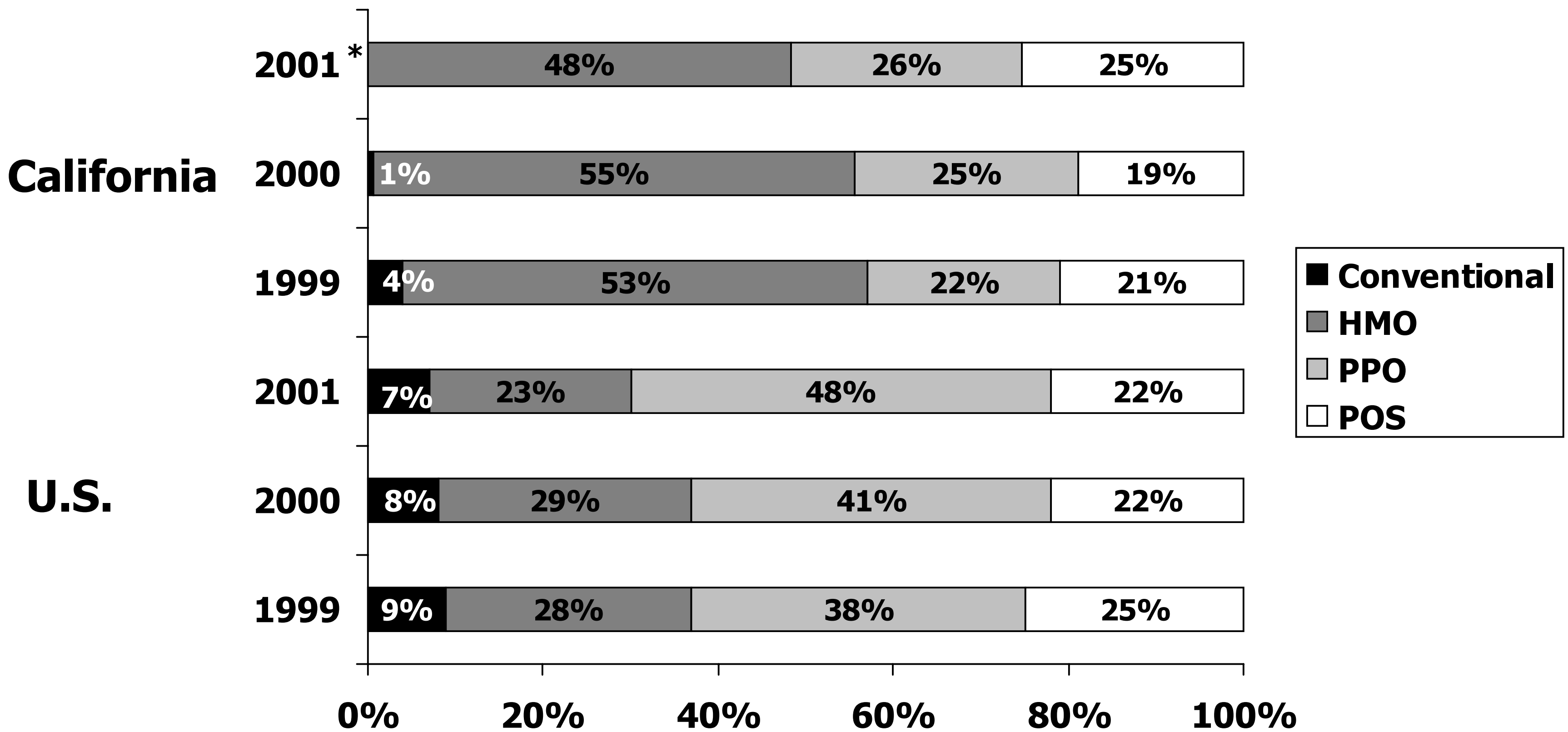
Percentage of All Firms That Report the Following Factors Would be "Very Effective" in Controlling Prescription Drug Costs, 2001



Sources: Kaiser/HRET 2001 California Employer Health Benefits Survey

Health Plan Enrollment, Choice, and Insurance Arrangements

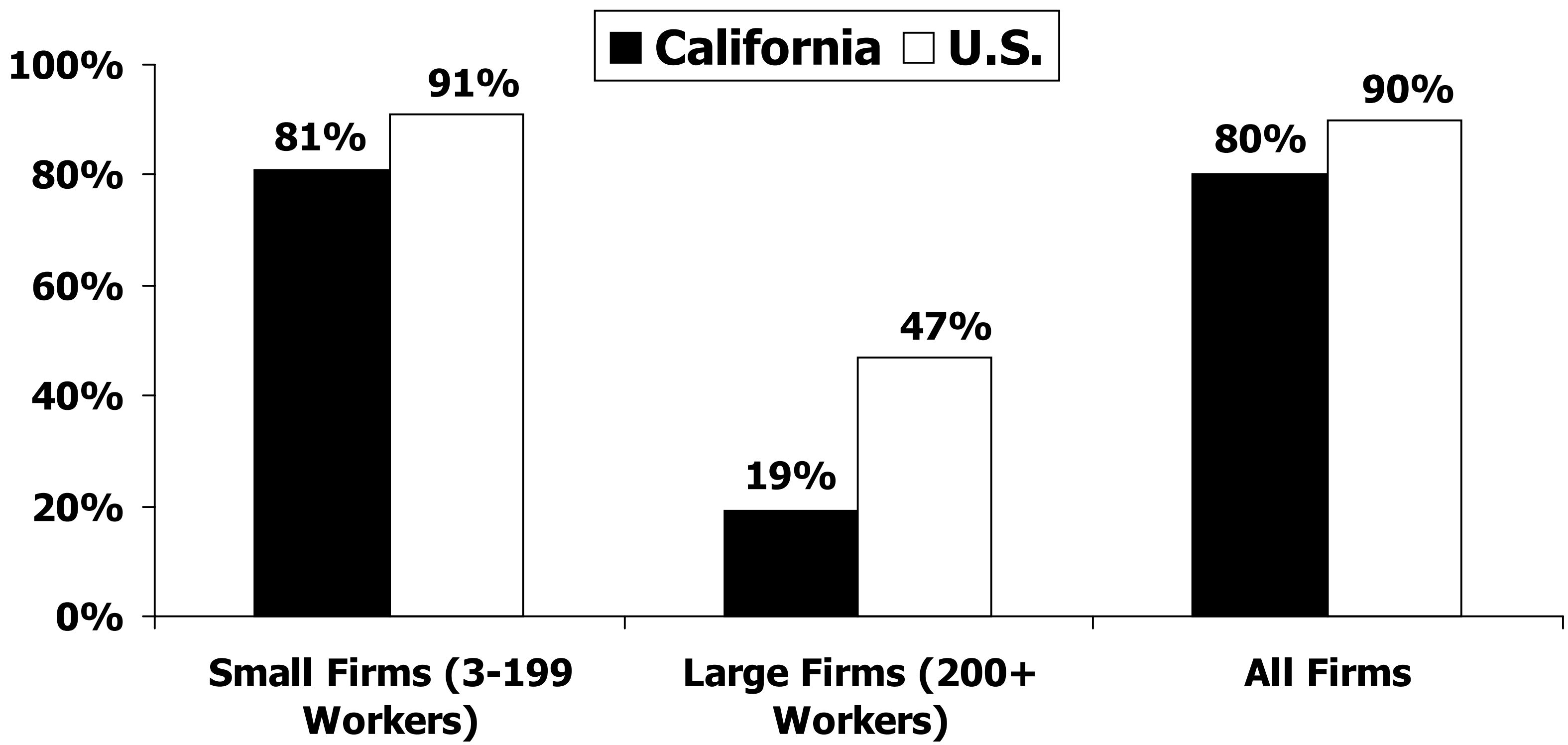
Health Plan Enrollments for Covered Workers, by Plan Type, 1999, 2000 and 2001



*** Conventional plan enrollment in 2001 was less than 1%.**

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

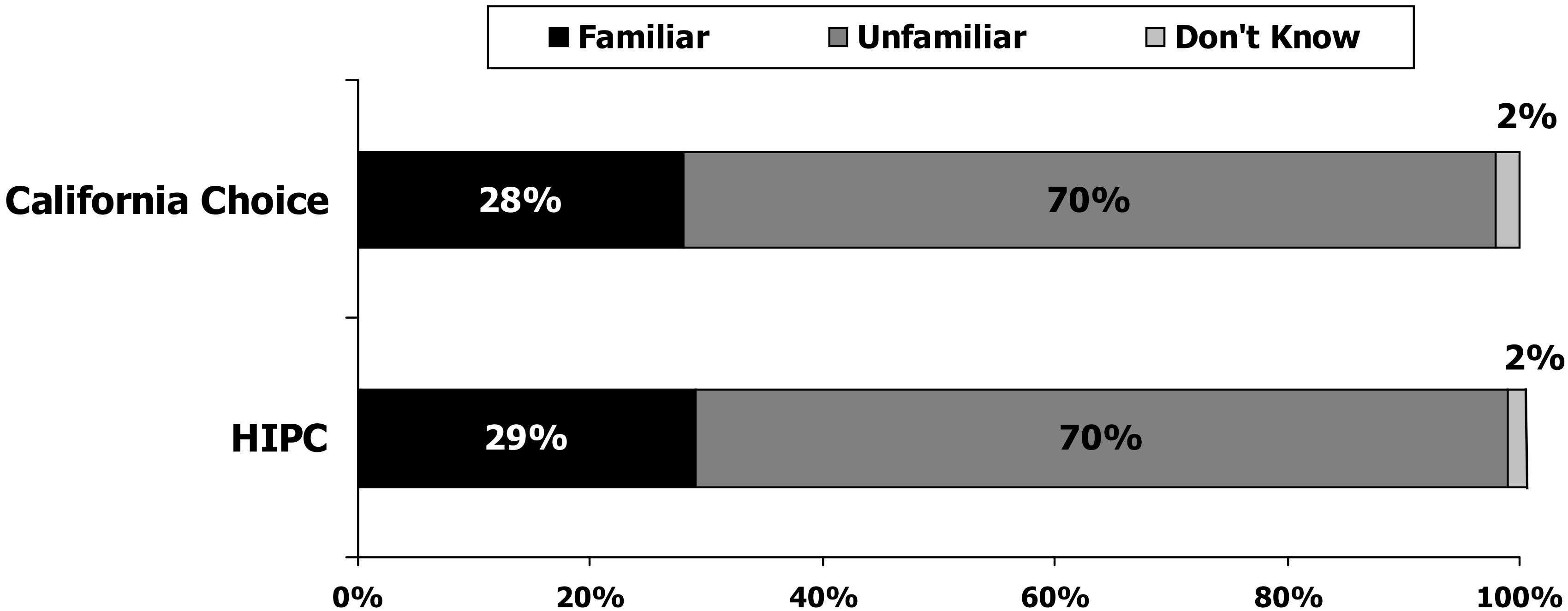
Percentage of Employers Offering Only One Plan, 2001



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

Chart #26

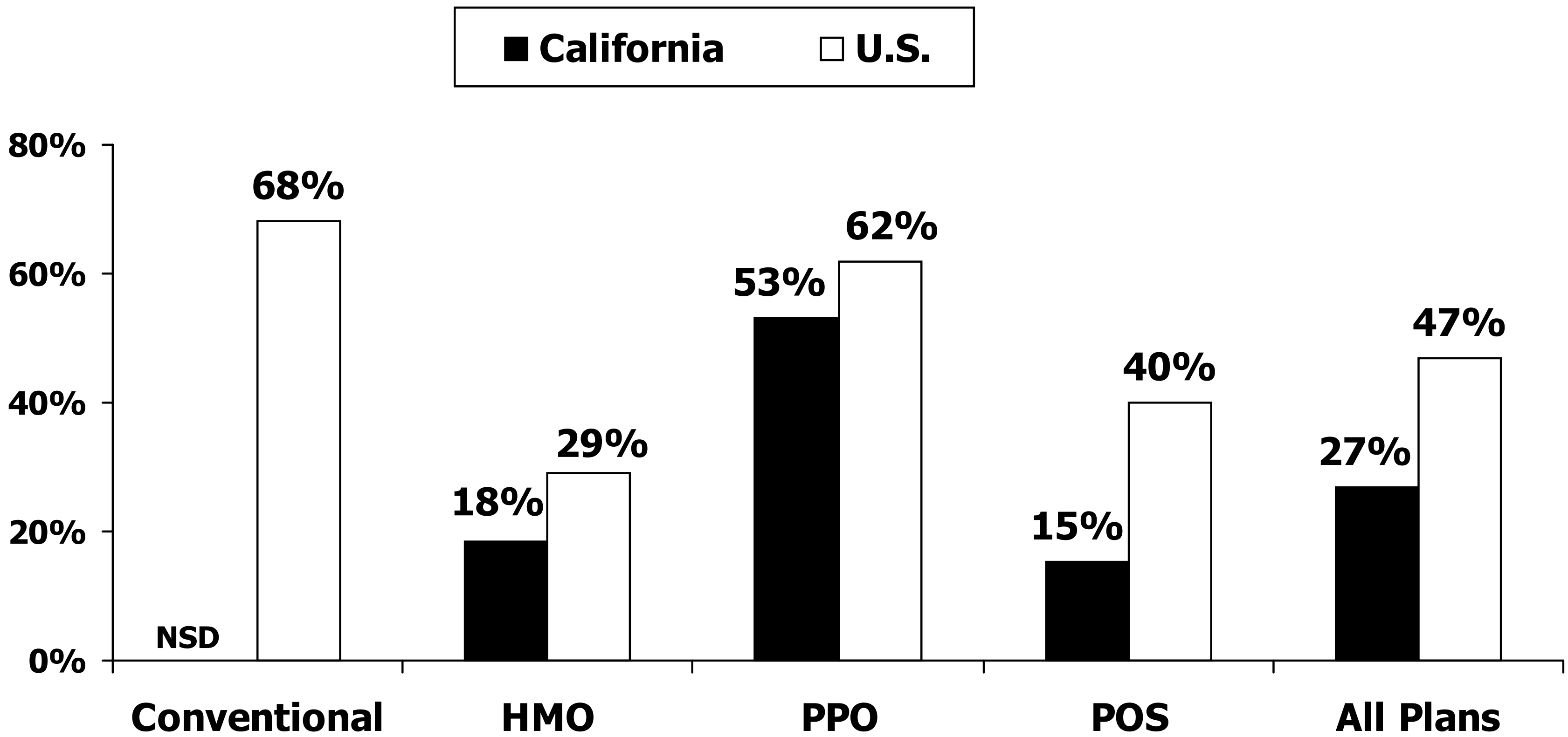
Small Employers' (Fewer Than 50 Employees) Familiarity With the Health Insurance Plan of CA (HIPC) and California Choice, 2001



The HIPC (now privatized under the name PacAdvantage) and California Choice are purchasing pools established to give small businesses greater purchasing leverage and the ability to more easily offer a choice of health plans.

Source: Kaiser/HRET 2001 California Employer Health Benefits Survey

Percentage of Employees in Partly or Completely Self-Insured Plans, by Type of Plan, 2001

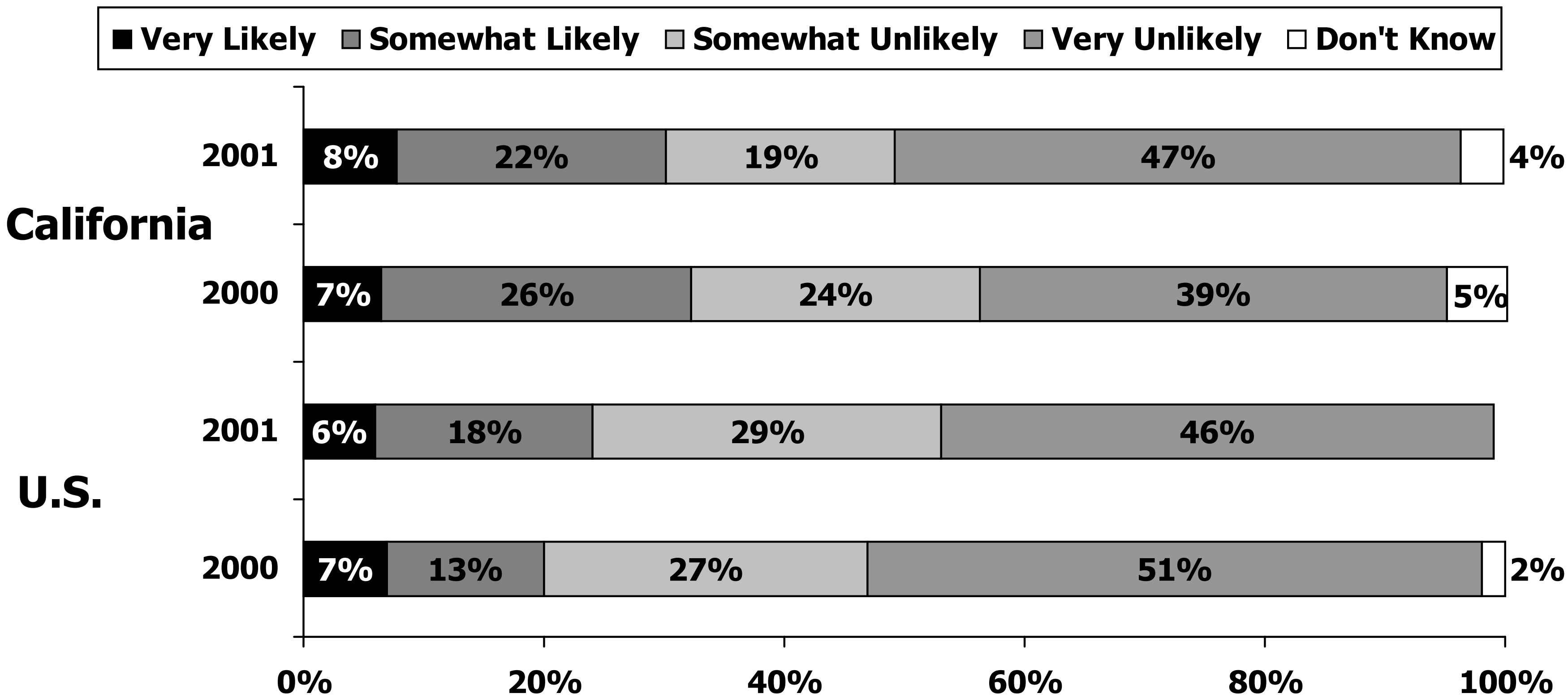


NSD: Not Sufficient Data

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

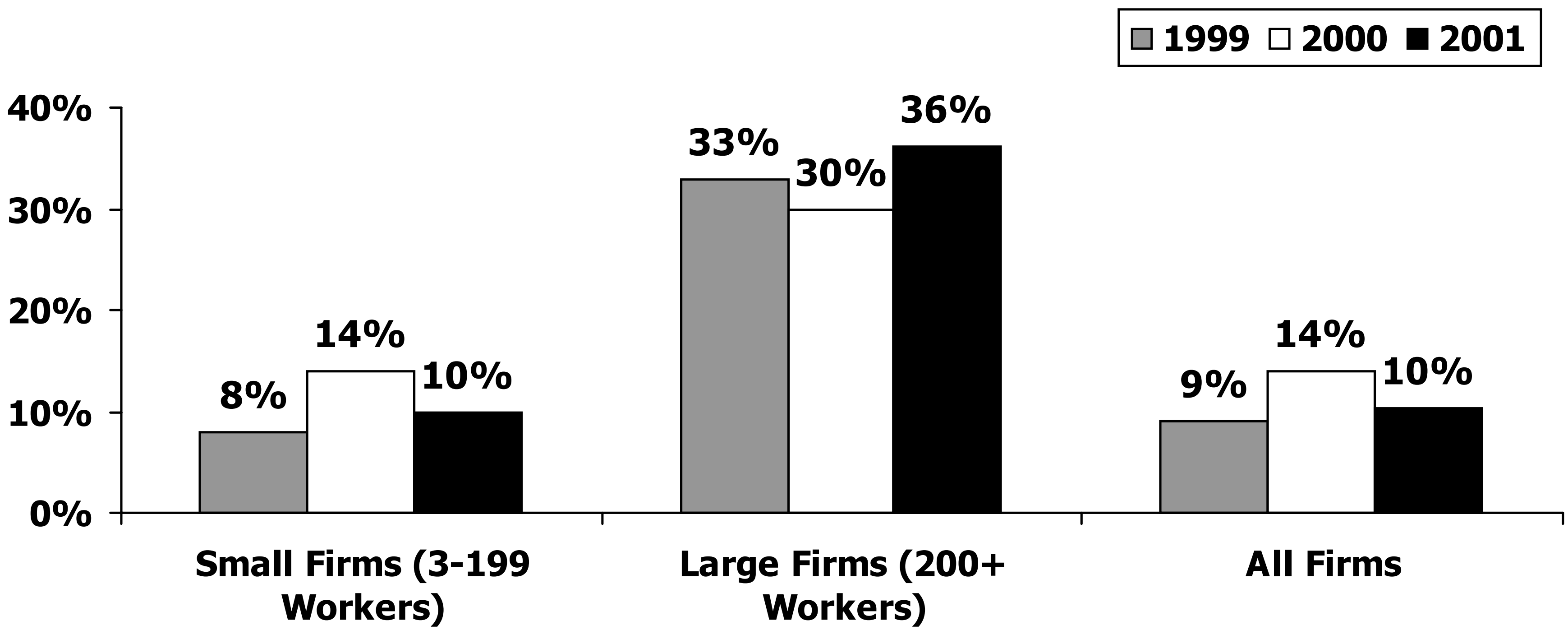
Chart #28

Likelihood Employers Would Switch to Defined Contributions Within Five years, 2000 and 2001



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

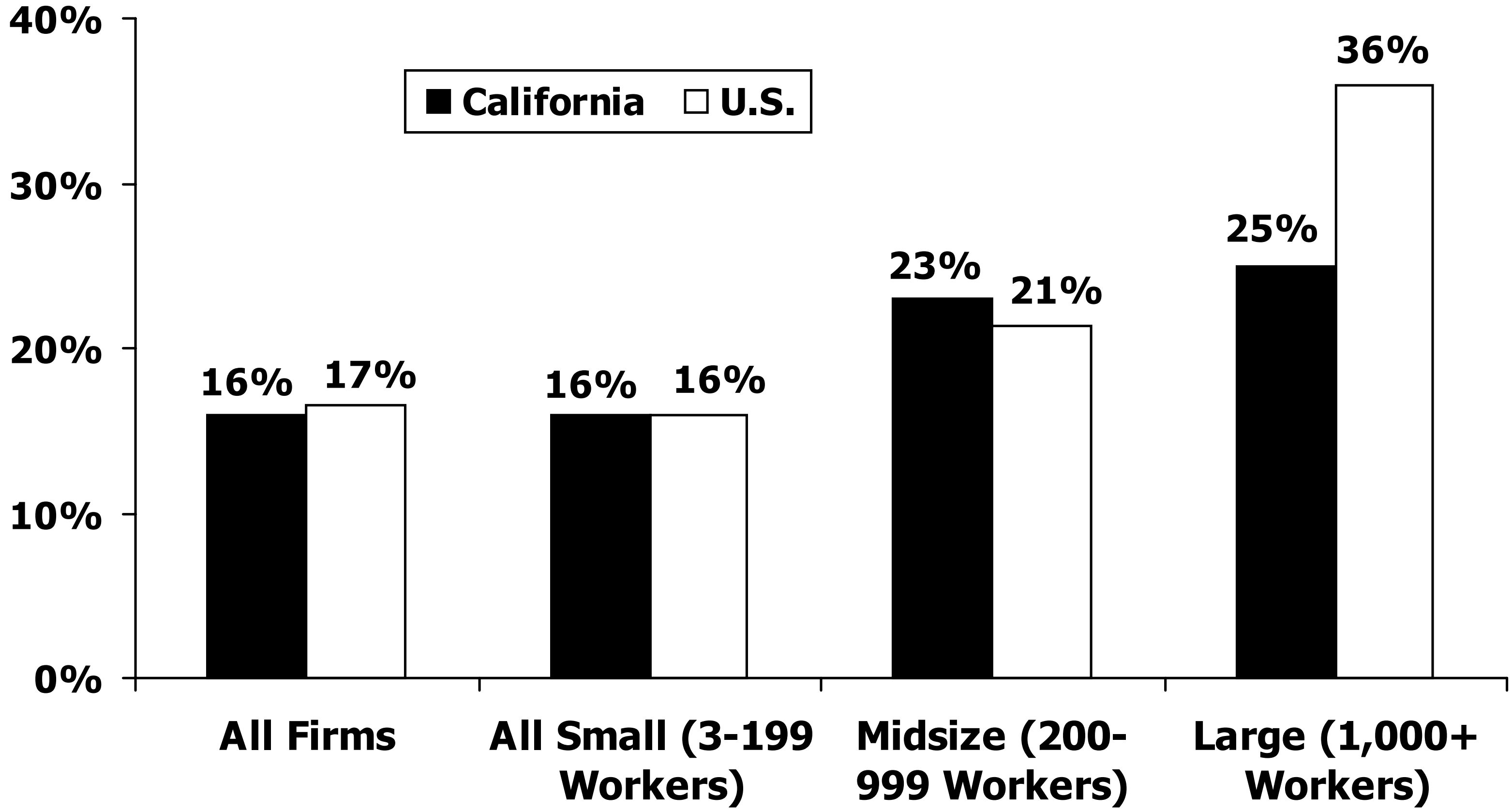
Percentage of California Firms Familiar With the National Committee for Quality Assurance (NCQA), 1999, 2000 and 2001



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

Chart #30

Percentage of Firms That Have the Ability to Link Medical Care Data to Individual Employees, by Firm Size, 2001



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

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