

38.2%  
\$5,921  
2003  
746

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

Employer  
Health  
Benefits

2003  
ANNUAL SURVEY



- AND -



**Primary Authors:**

**KAISER FAMILY  
FOUNDATION**

Gary Claxton  
Erin Holve  
Ben Finder

**HEALTH RESEARCH AND  
EDUCATIONAL TRUST**

Jon Gabel  
Jeremy Pickreign  
Heidi Whitmore  
Samantha Hawkins  
Kelley Dhont

**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.

**Health Research and Educational Trust** is a private, not-for-profit organization involved in research, education, and demonstration programs addressing health management and policy issues. Founded in 1944, HRET, an affiliate of the American Hospital Association, 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.

**Copyright © 2003 Henry J. Kaiser Family Foundation, Menlo Park, California, and Health Research and Educational Trust, Chicago, Illinois. All rights reserved.**

Printed in the United States of America.

ISBN 0-87258-796-7

American Hospital Association/Health Research and  
Educational Trust Catalog Number 097510

THE KAISER FAMILY FOUNDATION

- AND -

HEALTH RESEARCH AND  
EDUCATIONAL TRUST

---

# Employer Health Benefits

---

2003

ANNUAL SURVEY



-AND-



## TABLE OF CONTENTS

<b>LIST OF EXHIBITS</b>	v
<b>SUMMARY OF FINDINGS</b>	1
<b>SURVEY DESIGN AND METHODS</b>	9
<b>SECTION 1</b>	
Cost of Health Insurance	17
<b>SECTION 2</b>	
Health Benefits Offer Rates	37
<b>SECTION 3</b>	
Employee Coverage, Eligibility, and Participation	49
<b>SECTION 4</b>	
Health Insurance Choice	61
<b>SECTION 5</b>	
Market Shares of Health Plans	69
<b>SECTION 6</b>	
Employee Contributions for Premiums	73
<b>SECTION 7</b>	
Employee Cost Sharing	89
<b>SECTION 8</b>	
Health Benefits	105
<b>SECTION 9</b>	
Prescription Drug and Mental Health Benefits	113

<b>SECTION 10</b>	
Plan Funding	123
<b>SECTION 11</b>	
Retiree Health Benefits	131
<b>SECTION 12</b>	
Employer Attitudes and Opinions	139
<b>SUBJECT INDEX</b>	151



## LIST OF EXHIBITS

### SURVEY DESIGN AND METHODS

EXHIBIT M.1	14
Selected Characteristics of Firms in the Survey Sample, 2003	

EXHIBIT M.2	15
Distribution of Employers, Workers, and Workers Covered by Health Benefits, by Firm Size, 2003	

### COST OF HEALTH INSURANCE

EXHIBIT 1.1	20
Percentage Change in Health Insurance Premiums From Previous Year, by Plan Type, 1988-2003	

EXHIBIT 1.2	21
Increases in Health Insurance Premiums Compared to Other Indicators, 1988-2003	

EXHIBIT 1.3	22
Percentage Change in Premiums for Covered Workers, by Firm Size, 2003	

EXHIBIT 1.4	23
Distribution of Premium Increases for Covered Workers, by Firm Size, 2003	

EXHIBIT 1.5	24
Percentage Change in Premiums, by Firm Size and Plan Type, 2003	

EXHIBIT 1.6	25
Premium Increases, by Plan Type and Funding Arrangement, 2003	

EXHIBIT 1.7	26
Premium Increases, by Funding Arrangement, 1998-2003	

EXHIBIT 1.8	27
Premium Increases, by Firm Size, 1996-2003	

EXHIBIT 1.9	27
Premium Increases, by Region, 1996-2003	

EXHIBIT 1.10	28
Premium Increases, by Industry, 1996-2003	

EXHIBIT 1.11	29
Percentage of All Firms That Report the Following Factors Contribute A Lot to Increases in Health Insurance Premiums, 2000, 2001, and 2003	

EXHIBIT 1.12	30
Average Monthly Premium Costs for Covered Workers, Single and Family Coverage, by Plan Type, 2003	

EXHIBIT 1.13	31
Distribution of Single and Family Premiums for Covered Workers, 2001-2003	

EXHIBIT 1.14	32
Monthly and Annual Premiums for Workers in Conventional, HMO, PPO, and POS Plans, by Firm Size, 2003	

EXHIBIT 1.15	33
Monthly and Annual Premiums for Workers in Conventional, HMO, PPO, and POS Plans, by Region, 2003	

EXHIBIT 1.16	34
Monthly and Annual Premiums for Workers in Conventional, HMO, PPO, and POS Plans, by Industry, 2003	

### HEALTH BENEFITS OFFER RATES

EXHIBIT 2.1	40
Percentage of All Firms Offering Health Benefits, 1996-2003	

EXHIBIT 2.2	41
Percentage of Firms Offering Health Benefits, by Firm Size, 1996-2003	

EXHIBIT 2.3	42
Percentage of All Firms Offering Health Benefits, by Firm Characteristics, 2003	

EXHIBIT 2.4	43
All Small Firms' (3-199 Workers) Reasons for Not Offering Health Benefits, 2003	

EXHIBIT 2.5	44	EXHIBIT 3.7	58
Percentage of All Firms That Say the Following Features Are Very Important When Choosing a Health Plan, 1999, 2001 and 2003		Percentage of Workers Employed in Firms That Offer Part-Time and Temporary Workers Health Coverage, by Firm Size, Region, and Industry, 2003	
EXHIBIT 2.6	45	EXHIBIT 3.8	59
Among Small Firms (3-199 Workers) Not Offering Coverage, Estimated Amount That Firms and Their Employees Could Afford to Pay for Health Insurance, 2003		Average Waiting Period for New Employees to be Eligible for Health Coverage, 2003	
EXHIBIT 2.7	46	EXHIBIT 3.9	60
Percentage of Firms That Offer Employees a High-Deductible Health Plan, by Firm Size, 2003		Average Waiting Period for New Employees to be Eligible for Health Coverage, by Firm Size, Region, and Industry, 2003	
EXHIBIT 2.8	47		
Percentage of Firms That Say They Are Very or Somewhat Likely to Offer Workers a High-Deductible Plan in the Next Year, 2003		<b>HEALTH INSURANCE CHOICE</b>	
		EXHIBIT 4.1	63
<b>EMPLOYEE COVERAGE, ELIGIBILITY, AND PARTICIPATION</b>		Percentage of Covered Workers With a Choice of Conventional, HMO, PPO, or POS Plans, 1988-2003	
EXHIBIT 3.1	52	EXHIBIT 4.2	64
Percentage of Workers Covered by Their Employer's Health Benefits, in Firms Both Offering and Not Offering Health Benefits, by Firm Size, 1996-2003		Percentage of Employers Providing a Choice of Health Plans, by Firm Size, 2003	
EXHIBIT 3.2	53	EXHIBIT 4.3	64
Eligibility, Take-Up Rates, and Coverage in Firms Offering Health Benefits, by Firm Size, Region, and Industry, 2003		Percentage of Covered Workers With a Choice of Health Plans, 1988-2003	
EXHIBIT 3.3	54	EXHIBIT 4.4	65
Percentage of Workers in Firms Offering Health Benefits Who Participate in (Take-up) Their Employer's Health Plan, by Firm Size, 1999-2003		Percentage of Covered Workers With a Choice of Health Plans, by Firm Size, 1996-2003	
EXHIBIT 3.4	55	EXHIBIT 4.5	66
Percentage of Workers in Firms Offering Health Benefits Who Are Covered by Their Employer's Health Plan, by Firm Size, 1989-2003		Percentage of Covered Workers With a Choice of Health Plans, by Region, 2003	
EXHIBIT 3.5	56	EXHIBIT 4.6	67
Percentage of Covered Workers Electing Single Coverage, Single Plus One Coverage, or Family Coverage, by Firm Size, 2001 and 2003		For Employers That Offer a Conventional, HMO, PPO, or POS Plan, Percentage of Covered Workers With a Choice of Health Plans, by Plan Type and Firm Size, 2003	
EXHIBIT 3.6	57		
Percentage of Workers Employed in Firms That Offer Part-Time and Temporary Workers Health Coverage, 1999-2003		<b>MARKET SHARES OF HEALTH PLANS</b>	
		EXHIBIT 5.1	71
		Health Plan Enrollment for Covered Workers, by Plan Type, 1988-2003	
		EXHIBIT 5.2	72
		Health Plan Enrollment, by Firm Size, Region, and Industry, 2003	



## EMPLOYEE CONTRIBUTIONS FOR PREMIUMS

EXHIBIT 6.1	75	EXHIBIT 6.12	84
Average Monthly Worker Contribution for Single and Family Premiums, 1988-2003		Percentage of Premium Paid by Workers in Conventional and HMO Plans, 1988-2003	
EXHIBIT 6.2	75	EXHIBIT 6.13	84
Percentage of Premium Paid by Covered Workers for Single and Family Coverage, 1988-2003		Percentage of Premium Paid by Workers in PPO and POS Plans, 1988-2003	
EXHIBIT 6.3	76	EXHIBIT 6.14	85
Average Annual Premium Costs for Covered Workers, Single and Family Coverage, by Plan Type, 2003		Percentage of Covered Workers in Plans Where Firm Pays Entire Cost of Single Plan Coverage, All Small Firms (3-199 Workers), 1988-2003	
EXHIBIT 6.4	77	EXHIBIT 6.15	85
Average Monthly Worker Premium Contributions, by Plan Type and Firm Size, 2003		Percentage of Covered Workers in Plans Where Firm Pays Entire Cost of Single Plan Coverage, All Large Firms (200 or More Workers), 1988-2003	
EXHIBIT 6.5	78	EXHIBIT 6.16	86
Average Monthly Worker Premium Contributions, by Plan Type and Region, 2003		Percentage of Covered Workers in Plans Where Firm Pays Entire Cost of Family Plan Coverage, All Small Firms (3-199 Workers), 1988-2003	
EXHIBIT 6.6	79	EXHIBIT 6.17	86
Monthly Worker Contributions for Single and Family Coverage in Conventional and HMO Plans, 1988-2003		Percentage of Covered Workers in Plans Where Firm Pays Entire Cost of Family Plan Coverage, All Large Firms (200 or More Workers), 1988-2003	
EXHIBIT 6.7	79	EXHIBIT 6.18	87
Monthly Worker Contributions for Single and Family Coverage in PPO and POS Plans, 1988-2003		Percentage of Premium Paid by Firm for Typical Covered Worker, by Plan Type and Region, 2003	
EXHIBIT 6.8	80	EXHIBIT 6.19	88
Distribution of Percentage of Single Premiums Paid by Firms for Covered Workers, by Firm Size, 2001-2003		Percentage of Premium Paid by Firm for Typical Covered Worker, by Plan Type and Industry, 2003	
EXHIBIT 6.9	81		
Distribution of Percentage of Family Premiums Paid by Firms for Covered Workers, by Firm Size, 2001-2003			
EXHIBIT 6.10	82		
Percentage of Overall Single and Family Premiums Paid by Firm, by Percentage of Workforce That is Low Wage, 2003			
EXHIBIT 6.11	83		
Percentage of Premium Paid by Firm for Typical Covered Worker, by Plan Type and Firm Size, 2003			

## EMPLOYEE COST SHARING

EXHIBIT 7.1	92
Percentage of Covered Workers With the Following Types of Cost Sharing for Health Benefits, 2003	
EXHIBIT 7.2	93
Average Annual Deductibles, by Plan Type, 1988-2003	
EXHIBIT 7.3	94
Average Annual Deductible for Typical Covered Worker, by Plan Type and Firm Size, 2003	

EXHIBIT 7.4	95
Average Annual Deductible for Typical Covered Worker, by Plan Type and Region, 2003	
EXHIBIT 7.5	96
Percentage of Covered Workers in Firms That Have the Following Deductibles for PPO Plans, 2000-2003	
EXHIBIT 7.6	97
Percentage of Covered Workers Facing Various Copayments for Physician Office Visits, by Plan Type, 2003	
EXHIBIT 7.7	98
Percentage of Covered Workers Facing HMO Copayments for Physician Office Visits, 1996-2003	
EXHIBIT 7.8	99
Distribution of Coinsurance Rates Among Covered Workers Facing Coinsurance for Physician Office Visits, 2003	
EXHIBIT 7.9	100
Percentage of Covered Workers With the Following Types of Cost Sharing for Physician Office Visits, 2003	
EXHIBIT 7.10	100
Percentage of Covered Workers With the Following Types of Cost Sharing Per Hospital Admission, 2003	
EXHIBIT 7.11	101
For Covered Workers With a Separate Hospital Deductible or Copay, the Average Cost Sharing Per Admission, By Plan Type, 2003	
EXHIBIT 7.12	102
Percentage of Covered Workers in HMO, PPO, and POS Plans Whose Plan Has a Tiered Cost Sharing Arrangement or Has Considered Introducing a Tiered Cost Sharing Arrangement for Physician or Hospital Visits, 2003	
EXHIBIT 7.13	103
Percentage of Covered Workers in Firms That Report Reducing the Items and Services That Count Toward Employees' Out-of-Pocket Limit in the Last Year, by Plan Type, 2003	

## HEALTH BENEFITS

EXHIBIT 8.1	108
Levels of Benefits for Covered Workers Compared to Last Year, All Plans, 2003	
EXHIBIT 8.2	109
Percentage of Covered Workers With Selected Benefits, by Firm Size, 2003	
EXHIBIT 8.3	110
Percentage of Covered Workers in Conventional, HMO, PPO, and POS Plans With Selected Benefits, by Firm Size, 2003	
EXHIBIT 8.4	111
Percentage of Firms That Offer Employees a Flexible Spending Account or Dental Benefits, by Firm Size, 2003	
EXHIBIT 8.5	112
Percentage of Covered Workers in Firms That Made the Following Changes to Their Provider Networks in the Past Year, 2003	

## PRESCRIPTION DRUG AND MENTAL HEALTH BENEFITS

EXHIBIT 9.1	116
Percentage of Covered Workers Facing Different Cost Sharing Formulas for Prescription Drug Benefits, 2000-2003	
EXHIBIT 9.2	117
Average Copays for Generic Drugs, Preferred Drugs, and Non-Preferred Drugs, 2000-2003	
EXHIBIT 9.3	118
Average Coinsurance Rate for Generic Drugs, Preferred Drugs, and Non-Preferred Drugs, in Conventional, HMO, PPO, and POS Plans, 2003	
EXHIBIT 9.4	119
Covered Workers With the Following Types of Cost Sharing for Prescription Drugs, by Drug Type, 2003	
EXHIBIT 9.5	120
Percentage of Covered Workers With A Formulary That Restricts Which Drugs Will Be Covered, by Plan Type, 2000-2003	

EXHIBIT 9.6	121
Percentage of Covered Workers With Various Outpatient Mental Health Visit Annual Maximums, by Plan Type, 2003	

EXHIBIT 9.7	121
Percentage of Covered Workers With Various Annual Inpatient Mental Health Day Maximums, by Plan Type, 2003	

## PLAN FUNDING

EXHIBIT 10.1	125
Percentage of Covered Workers in Partially or Completely Self-Insured Plans, by Firm Size, 1996-2003	

EXHIBIT 10.2	126
Percentage of Covered Workers in Partially or Completely Self-Insured Plans, by Plan Type, 1988-2003	

EXHIBIT 10.3	127
Percentage of Covered Workers in Partially or Completely Self-Insured Conventional Plans, by Firm Size, 1996-2003	

EXHIBIT 10.4	127
Percentage of Covered Workers in Partially or Completely Self-Insured HMO Plans, by Firm Size, 1996-2003	

EXHIBIT 10.5	128
Percentage of Covered Workers in Partially or Completely Self-Insured PPO Plans, by Firm Size, 1996-2003	

EXHIBIT 10.6	128
Percentage of Covered Workers in Partially or Completely Self-Insured POS Plans, by Firm Size, 1996-2003	

EXHIBIT 10.7	129
Percentage of Covered Workers Under Different Funding Arrangements, by Industry, 2003	

## RETIREE HEALTH BENEFITS

EXHIBIT 11.1	134
Percentage of All Large Firms (200 or More Workers) Offering Retiree Health Benefits, 1988-2003	

EXHIBIT 11.2	135
Percentage of Employers Offering Retiree Health Benefits, by Firm Size, Region, and Industry, 2003	

EXHIBIT 11.3	136
--------------	-----

Percentage of Large Employers (200 or More Workers) Offering Health Benefits to Early and Medicare-Age Retirees, Among Large Firms Offering Retiree Coverage, 1999-2003

EXHIBIT 11.4	137
--------------	-----

Percentage of Large Employers (200 or More Workers) Offering Retiree Benefits to Early and Medicare-Age Retirees, Among Large Firms Offering Retiree Coverage, by Firm Size, Region, and Industry, 2003

EXHIBIT 11.5	138
--------------	-----

Percentage of All Large Firms (200 or More Workers) in Which Retirees Are Offered Health Insurance, by Whether or Not the Firm Has Union Workers, 2003

## EMPLOYER ATTITUDES AND OPINIONS

EXHIBIT 12.1	142
--------------	-----

Percentage of Firms That Shopped for a New Plan, and the Percentage of These Firms Reporting That They Changed Health Plan Types or Insurance Carriers in the Last Year, by Firm Size, 2003

EXHIBIT 12.2	143
--------------	-----

Percentage of Firms That Report They Have Made the Following Changes to Any of Their Health Plans in the Last Year, 2003

EXHIBIT 12.3	144
--------------	-----

Percentage of Firms in 2002 That Reported They Were Very Likely to Increase Employee Cost for Coverage Compared to Those That Report They Increased Employee Costs in 2003, by Firm Size

EXHIBIT 12.4	145
--------------	-----

Percentage of Firms That Report They Are Likely to Make the Following Changes in the Next Year, by Firm Size, 2003

EXHIBIT 12.5	146
--------------	-----

Percentage of Firms That Report Their Opinions on the Effectiveness of the Following Cost Containment Strategies, 2003

EXHIBIT 12.6	147	EXHIBIT 12.9	148
Percentage of Firms That Are Interested in Having Tighter Managed Care Networks to Reduce Premium Increases, 2003		Percentage of Firms That Are Familiar with HEDIS, by Firm Size, 1999-2001 and 2003	
EXHIBIT 12.7	147	EXHIBIT 12.10	149
Percentage of Firms That Report Their Employees Would Find Tighter Managed Care Networks Acceptable to Varying Degrees, by Firm Size, 2003		Percentage of Firms That Are Familiar With The Leapfrog Group, by Firm Size, 2003	
EXHIBIT 12.8	148		
Percentage of Firms That Are Familiar with NCQA or URAC Accreditation, by Firm Size, 1996-2003			

## SUMMARY OF FINDINGS

Employer-sponsored health benefits reach nearly three out of every five Americans. To provide current information about the nature of employer-provided health benefits, the Kaiser Family Foundation and the Health Research and Educational Trust conduct an annual national survey of employers of all sizes.

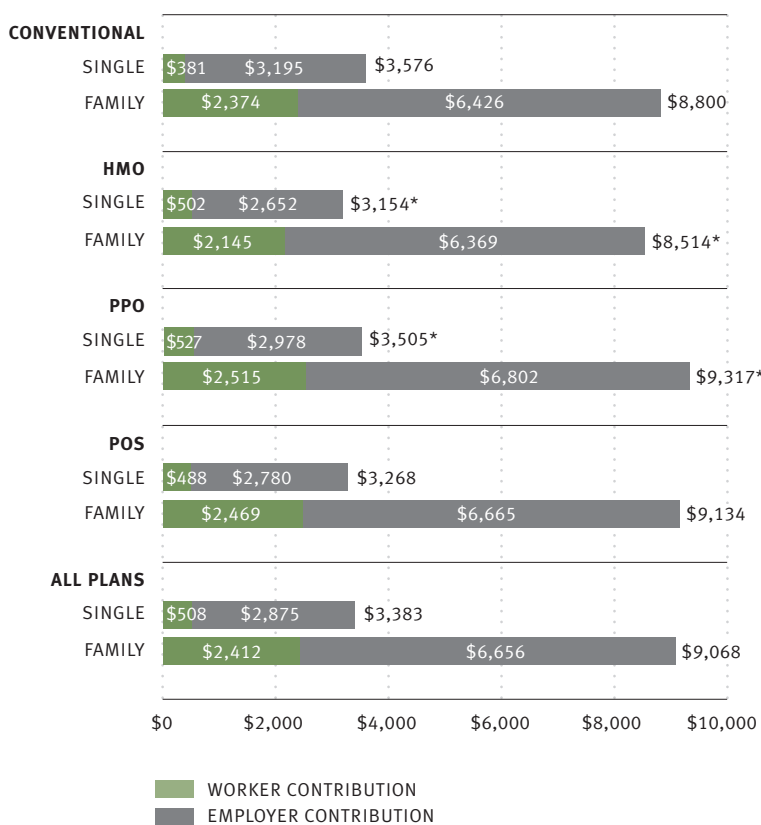
This year's survey reports that despite another year of double-digit premium growth, employers continue to offer health benefits to their workers at the same rate as last year, with few reducing benefits. Workers generally face higher premium contributions for family coverage and higher cost sharing, and the survey finds for the first time that a significant percentage of workers face separate cost sharing for hospital admissions. Looking to the future, many employers, and particularly large employers (200 or more workers), say that they will increase contributions and cost sharing next year, but very few say they will reduce eligibility or drop coverage. A small but significant group of employers say that they are very likely to offer a high-deductible plan in the next year.

### HEALTH INSURANCE PREMIUMS

Between spring of 2002 and spring of 2003, monthly premiums for employer-sponsored health insurance rose 13.9%, the third consecutive year of double-digit premium increases and the highest premium increase since 1990 (EXHIBIT B).<sup>1</sup> Premiums increased substantially faster than overall inflation (2.2%) and wage gains for non-supervisory workers (3.1%). Average rates of increase were similar

### EXHIBIT A

Average Annual Premium Costs for Covered Workers, Single and Family Coverage, 2003



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

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

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

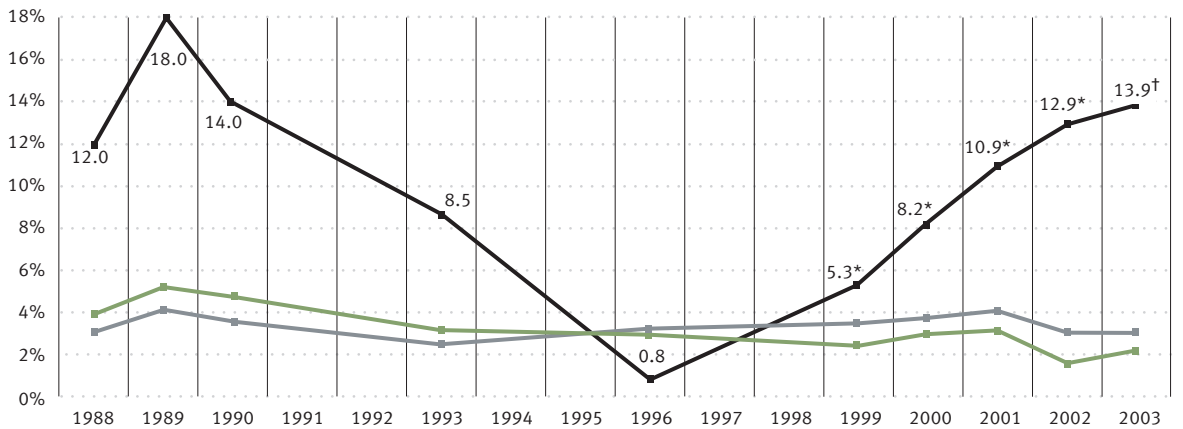
across firm sizes and industries, but there was significant variability around the average: 20% of employees worked for

firms where premiums increased by five percent or less, while 41% of employees worked for firms where premiums

<sup>1</sup> The premium increase in 2003 was higher than the increase in 2002 only at the  $p < 0.1$  level.

## EXHIBIT B

### Increases in Health Insurance Premiums Compared to Other Indicators, 1988-2003



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002, 2003; KPMG Survey of Employer-Sponsored Health Benefits: 1993, 1996; The Health Insurance Association of America (HIAA): 1988, 1989, 1990; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), and Medical Inflation: 1988-2002; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey: 1988-2002.

\* Estimate is statistically different from the previous year shown at  $p < 0.05$ : 1996-1999, 1999-2000, 2000-2001, 2001-2002, 2002-2003.

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

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

increased by more than 15%. Average annual premiums rose to \$3,383 for single coverage and \$9,068 for family coverage for employer-sponsored coverage (EXHIBIT A).

Of all plan types, health maintenance organizations (HMOs) remain the least costly and PPO plans remain the most expensive for family coverage. Average annual premiums for family coverage in HMO plans are \$8,514 while the cost for family coverage in Preferred Provider Organization (PPO) Plans – which cover most Americans – is \$9,317. Premiums are generally highest in the Northeast and lowest in the West, although premiums increased faster in the West (16.3%) this year than in the rest of the country.

The high rate of premium growth in 2003 appears to have been driven by a combination of rapid inflation in the costs for health care services and insurers' efforts to emphasize profitability in their pricing. Premium equivalents for self-insured plans (a proxy estimate for medical claims expenses) grew by a lower amount (12.4%) than premiums for fully insured plans, which increased 15.6% this year. This finding may indicate that part of the rise in health care premiums is due to insurers expanding their underwriting gains.<sup>2</sup>

When employers were asked which factors contributed 'a lot' to increases in health insurance premiums, firms were most likely to point to higher spending for prescription drugs (61%) and higher spending for hospital services (55%).

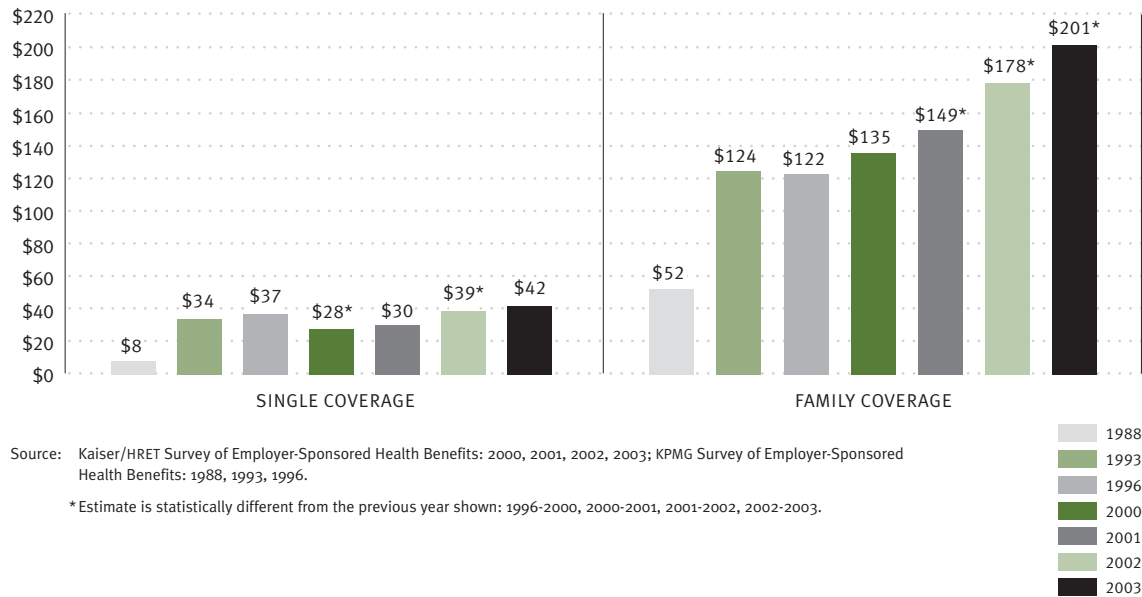
Rapidly increasing premiums have generated speculation that employers may move to new types of health insurance arrangements in order to help control future costs. The 2003 results show that employers are looking for alternatives to their health plans, with 62% reporting that they shopped for a different arrangement. Of these, 33% reported that they either changed plan types or insurance carriers (EXHIBIT G).

Despite this willingness to consider alternatives, enrollment to date in high-deductible health plans – defined as a plan with a deductible of more than \$1,000 for single coverage – has been modest. Nonetheless, a greater level of interest by very large employers, who historically have been innovators in the mar-

<sup>2</sup> Kipp, R., et. al., "Health Insurance Underwriting Cycle Effect on Health Premiums and Profitability," Milliman USA, April 10, 2003.

## EXHIBIT C

### Average Monthly Worker Contribution for Single and Family Coverage, 1988-2003



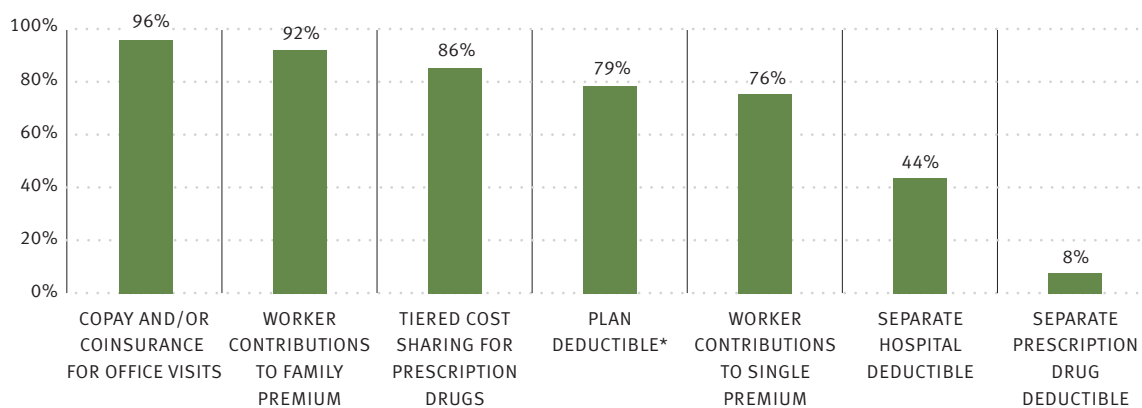
ket, may portend future growth of this option. Five percent of all firms, but 17% of jumbo firms (5,000 or more workers), offer a high-deductible plan to at least

some of their workers in 2003. Of firms offering a high-deductible plan in 2003, 12% (or less than one percent of all firms nationally) offered a health savings

account in conjunction with the plan. A health savings account is a pre-tax account funded by an employer that gives employees a fixed amount of money with

## EXHIBIT D

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

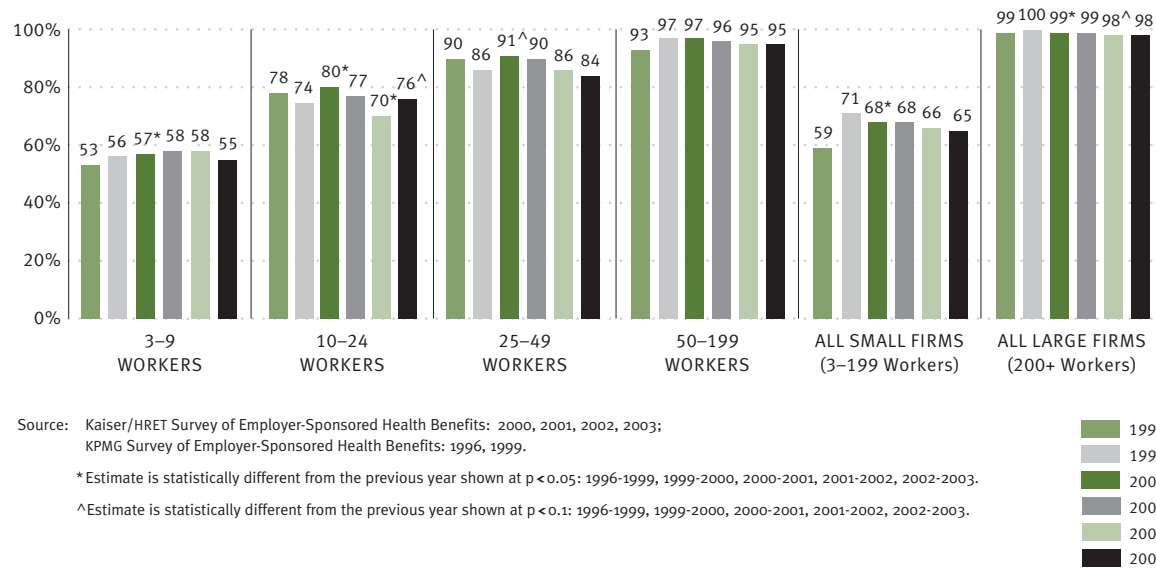


Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

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

## EXHIBIT E

### Percentage of Firms Offering Health Benefits, by Firm Size, 1996-2003



which to pay for more routine health care expenses, and allows unspent funds to roll over from one year to the next.

## EMPLOYEE CONTRIBUTIONS AND COST SHARING

Most workers pay a portion of the premium cost for job-based coverage. In 2003, workers contributed on average \$508 per year of the \$3,383 annual cost of single coverage and \$2,412 of the \$9,068 cost of premiums for family coverage (EXHIBITS A AND C). The percentage of premiums paid by workers is statistically unchanged over the last two years, at 16% for single coverage and 27% for family coverage. The contribution level today for single coverage remains substantially lower than the 21% share of the premium workers were paying in 1996, but the percentage of family premiums paid by employees has been consistent over time.

In addition to their premium contributions, most workers also make additional payments when they use health care services

(EXHIBIT D). Nearly four in five workers face a deductible before health care expenses are covered under their plan. For PPOs, the most common plan type, preferred provider deductibles average \$275 for single coverage, although average deductibles for workers in small firms are considerably higher (\$492). More than two in five workers face a separate deductible, copayment or coinsurance when they are admitted to a hospital, averaging about \$200 per admission. Virtually all workers face a copayment or coinsurance for physician office visits, and the vast majority of workers are in a plan that has a tiered cost sharing arrangement for prescription drugs.

The cost sharing amounts paid by workers and their families have been increasing in recent years, and this trend continued in 2003. In PPO plans, the average deductible for services received from non-preferred providers is now \$561, an increase of 20% (EXHIBIT F). In HMOs, almost one-half of workers now face a copayment for outpatient

physician services of \$15 or more, up from 37% last year. Copayments for prescription drugs continue to edge upward, averaging \$9 for generic drugs, \$19 for preferred drugs (e.g., brand name drugs with no generic substitutes), and \$29 for non-preferred drugs (e.g., brand name drugs with generic substitutes). In addition, 15% of covered workers are in firms that increased out-of-pocket limits on cost sharing in 2003, which effectively means that these workers now pay more out of pocket before their health plan picks up all of their health care costs.

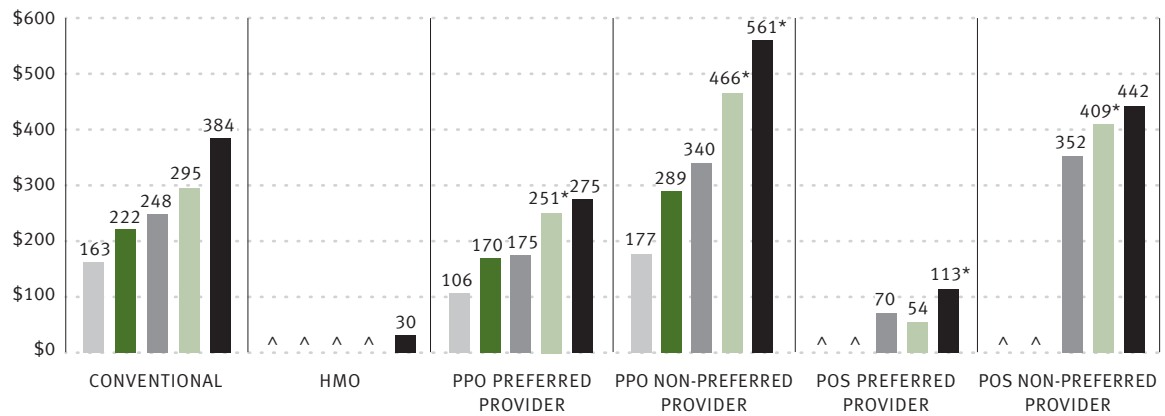
## COVERAGE

For now, the weakened economy and escalating premiums do not appear to have caused a drop in the percentage of employers offering health insurance coverage from last year, but the percentage of firms offering coverage is lower than its pre-recession high (69%) in 2000. In 2003, 66% of all firms offered health coverage to their workers (EXHIBIT E).



## EXHIBIT F

Average Annual Deductibles for Single Coverage in Conventional, HMO, PPO, and POS Plans, 1988-2003

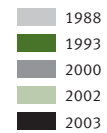


Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993.

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

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

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



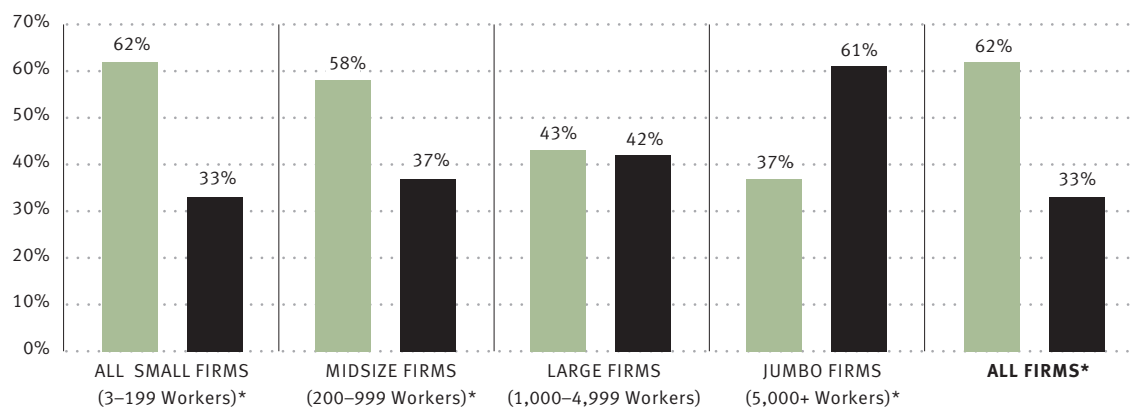
Employer decisions to offer health benefits continue to vary substantially by firm size. Health benefits are offered by only 55% of

the smallest companies (three to nine workers) while 76% of firms with 10 to 24 workers, 84% of firms with 25 to 49 employ-

ees, and nearly all firms with 50 or more workers (93%) offer health benefits. Firms with many part-time workers are less likely

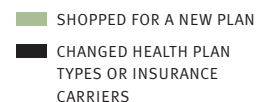
## EXHIBIT G

Percentage of Firms That Shopped for a New Plan, and the Percentage of Firms Reporting That They Changed Health Plan Types or Insurance Carriers in the Last Year, by Firm Size, 2003



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

\*Estimates are statistically different within firm size.



to offer health benefits – only 32% of firms with a high percentage (35% or more of the workforce) offer health coverage to their employees, compared with 70% of firms with fewer part-time workers. Most firms that employ union workers offer health benefits (91%).

Even when a firm offers health insurance, not all workers get covered. Some employees are not eligible to enroll as a result of waiting periods or minimum work-hour rules, and others choose not to enroll because they must pay a share of the premium or can get coverage through a spouse. In firms that offer coverage, 81% of workers are eligible for coverage, and 83% of those eligible elect to take it. Overall, among firms offering health benefits, 68% of workers have job-based health insurance coverage through their own employer.

#### RETIREE COVERAGE

The debate over expanding Medicare to cover prescription drug benefits has brought retiree coverage to the forefront of policy considerations in 2003. While virtually all Medicare beneficiaries with retiree benefits have coverage for prescriptions, the availability of employer-provided retiree health benefits has fallen significantly. In 2003, 38% of all large firms (200 or more workers) offer retiree health coverage, virtually the same percentage as last year but down from 66% in 1988.

#### HEALTH PLAN ENROLLMENT AND CHOICE

PPOs continue to be the most common plan in 2003, enrolling just over one-half of all employees with health coverage. HMO

enrollment remained stable this year, enrolling 24% of covered workers. Conventional indemnity insurance has all but disappeared, enrolling just 5% of employees.

Most workers with health coverage through their employers continue to have a choice of health plans, with just under one-half having a choice of three or more plans. PPO coverage is available to 77% of workers offered health benefits while the percentage of covered workers with an HMO option has declined in recent years, from 68% in 1993 to 47% this year. The percentage of workers with an option to enroll in a Point of Service (POS) plan or a conventional plan remains statistically unchanged in 2003, at 30% and 14%, respectively. Small firms (3–199 workers) are much less likely to offer workers a choice of health plans than larger companies — 69% of all small firms that provide coverage offer just one health plan compared to 20% of the largest businesses with 5,000 or more workers.

#### HEALTH BENEFITS

Most workers experienced no change in benefits (other than cost sharing changes) in 2003, although 13% of covered workers were in firms that reported benefit cuts in the last year and seven percent of covered workers were in firms that experienced benefit increases. In general, larger firms offer somewhat more generous benefits than smaller firms.

This year's survey also added questions about whether the firm offers dental benefits or a flexible spending account. Overall, 39% of firms offer dental benefits, with

nine in ten jumbo firms (5,000 or more workers) offering dental coverage (91%). Flexible spending accounts (FSAs) – which allow employees to set aside pre-tax dollars for health-related expenses – are also widely available among the largest firms. In 2003, 83% of jumbo firms (5,000 or more workers) offered an FSA to their workers, compared to 69% of jumbo firms in 1999, while only 14% of small firms (3–199 workers) offered an FSA option.

#### OUTLOOK FOR THE FUTURE

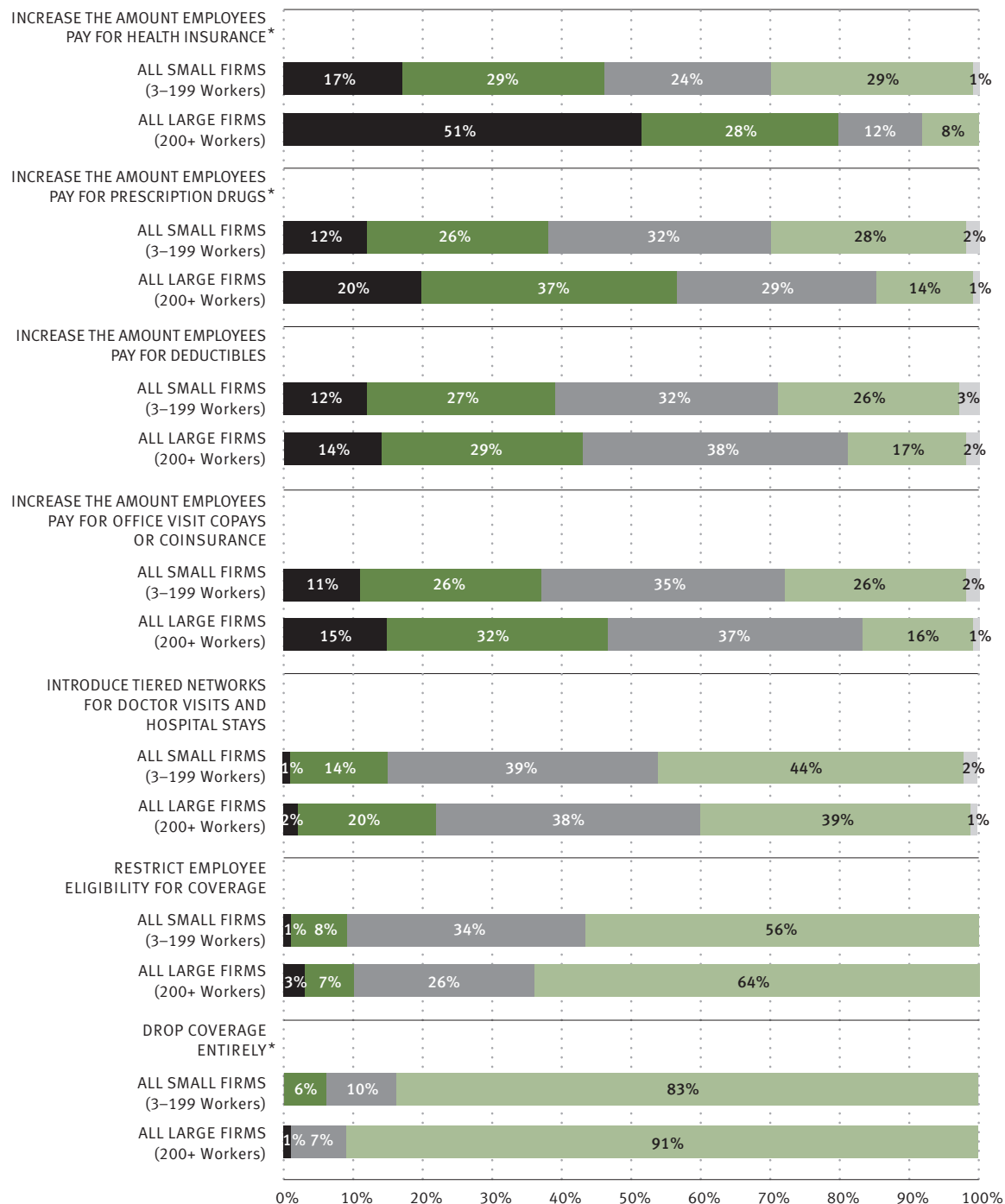
Despite multiple years of accelerating premium increases and a third straight year of double-digit premium growth, employers made only modest changes to their health plans in 2003, demonstrating perhaps their reluctance to significantly change the benefits and arrangements that most workers and their families have come to rely upon. Although worker contributions and cost sharing continue to grow, the changes in 2003 were relatively modest given the continued weak job market and magnitude of premium increases.

Although employers made relatively few changes in their health benefit plans, this should not be taken as a sign that they are satisfied with the performance of the current health care system. Rather, the lack of change may well reflect their ambivalence about the options that they have. In the early 1990s, when costs were rising very rapidly, employers turned quickly to managed care, which was portrayed as an alternative that offered more and better benefits at lower costs. In a few short years, however, workers were demanding greater choice and costs began to rise again.<sup>3</sup> During this

<sup>3</sup> Altman, D. and Levitt, L., "The Sad Story of Cost Containment Told in One Chart", *Health Affairs* Web Exclusive, January 23, 2002.

## EXHIBIT H

### Percentage of Firms That Report They Are Likely to Make the Following Changes in the Next Year, by Firm Size, 2003



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

\* Distributions are statistically different by firm size.

Note: Data for All Firms are nearly identical to data reported for All Small Firms.

VERY LIKELY  
 SOMEWHAT LIKELY  
 NOT TOO LIKELY  
 NOT AT ALL LIKELY  
 DON'T KNOW

current period of rising premiums, there are few easy or attractive cost-containment choices. Returning to managed care means that employers have to reintroduce management techniques that were extremely unpopular with the public. Consumer-driven health care approaches are unproven and require employers to substantially increase out-of-pocket costs for some of their employees, a move that may be even less popular than managed care.

Employers, however, do not have a high level of confidence that current market strategies can reduce premium growth. This may explain why more significant changes in the marketplace are not being seen. When employers were asked which strategies might be very effective in reducing future cost growth, the most commonly identified approach was disease management, identified by fewer than one-quarter (22%) of employers as very effective in addressing cost increases.

Other approaches investigated were: consumer driven health plans (identified as very effective by 14% of employers), higher cost sharing (10% of employers), and tighter managed care networks (six percent of employers). While employers see some benefit in all of these approaches (most employers said each approach would at least be somewhat effective), no approach stands out from the others. This suggests that employers have not identified a future direction for their benefit plans that they believe would relieve current cost pressures.

This lack of consensus among employers makes it difficult to predict what the future will hold. When employers were asked what they are likely to do in 2004, their responses were similar to last years'. Significant percentages (but less than a third) reported that they will increase contributions and cost sharing, but very few say that they will reduce eligibility or drop coverage (EXHIBIT H). These responses sug-

gest that 2004 may be another year where costs and cost sharing drifts upwards, without dramatic changes in availability of coverage in the market. There are significant indications of employer interest in alternative approaches to health benefit design, with 17% percent of jumbo firms (5,000 or more workers) now offering a high-deductible plan, and another 16% of such firms saying they are highly likely to add such a plan next year. Nine percent of the covered workers now work for a firm offering a high-deductible plan and another 11% of covered workers are employed by a firm that is "very likely" to add a high-deductible plan next year. It is not known, however, if employers offer high-deductible plans to all their workers. Jumbo firms (5,000 or more workers) have historically been the catalyst of change in the market. Their interest and any success in reducing premium growth they experience may lead to these plans becoming more widespread.

EMPLOYER HEALTH BENEFITS  
2003 ANNUAL SURVEY

---

Survey Design  
and Methods

---

## SURVEY DESIGN AND METHODS

THE KAISER FAMILY FOUNDATION AND THE HEALTH RESEARCH AND EDUCATIONAL TRUST (KAISER/HRET) CONDUCT THIS SURVEY OF EMPLOYER-SPONSORED HEALTH BENEFITS, WHICH WAS SUPPORTED FOR MANY YEARS BY THE INTERNATIONAL CONSULTING AND ACCOUNTING FIRM BEARING POINT (FORMERLY KNOWN AS KPMG). IN 1998, KPMG DIVESTED ITSELF OF ITS COMPENSATION AND BENEFITS PRACTICE, AND PART OF THAT DIVESTITURE INCLUDED DONATING THE ANNUAL SURVEY OF HEALTH BENEFITS TO HRET. HRET IS A NON-PROFIT RESEARCH ORGANIZATION AFFILIATED WITH THE AMERICAN HOSPITAL ASSOCIATION. THE KAISER FAMILY FOUNDATION PROVIDES FINANCIAL SUPPORT AND CONDUCTS THIS SURVEY 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 OR KAISER INDUSTRIES.

Each company participating in the Kaiser/HRET survey is asked as many as 400 questions about its largest conventional or indemnity, 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, defined contributions, 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. NR conducted interviews from January to May 2003.

### RESPONSE RATE

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. To improve comparability, repeat interviews were attempted with many of the 2,365 firms with at least 10 employees interviewed in either 2002 or 2001. As a result, 1,359 firms in this year's total sample of 1,856 firms participated in either the 2001 or 2002 surveys.<sup>1</sup> The overall response rate was 50%.

Previous years' experience illustrated that firms that decline to participate in the study are more likely not to offer health coverage. Therefore, one question was asked of all firms where the individual most responsible for the company's health benefits declined to participate in the full survey. The one question was, "Does your company offer or contribute to a health insurance program for your employees?" A total of 2,808 firms responded to the one offer question (including 1,856 who responded to the full survey and 952 who responded only to the one question). Their responses are included in the estimates of the percentage of firms offering health coverage. The response rate for this question was 76%.

### NOTE:

<sup>1</sup> In total, 360 firms participated in 2002 and 2003, 142 firms participated in 2001 and 2003, and 857 firms participated in 2001, 2002, and 2003.

#### FIRM SIZE DEFINITIONS, ROUNDING, AND IMPUTATION

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

EXHIBIT M.2 displays the distribution of the nation's firms, workers, and covered workers (employees receiving coverage from their employer). Among the over 3 million firms nationally, approximately 60% are firms employing 3-9 workers, representing eight percent of workers.<sup>2</sup> In contrast, jumbo firms, defined as firms with 5,000 or more workers, employ and cover about 40% of employees, but are less than one percent of all firms. In general, firms with 3-199 workers represent 98% of all firms but only 38% of all workers, while larger firms (200 or more workers) are only two percent of all firms but employ 62% of all workers. Therefore, the smallest firms dominate national statistics about what employers in general are doing. In contrast, jumbo

employers are the most important employer group in calculating national statistics regarding the typical employee or covered worker, since they employ the largest percentage of the nation's workforce.

Some exhibits in Health Benefits 2003 do not add up to 100 percent 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 traditionally identifies a select set of key variables as needing complete information from all surveyed firms. These variables include percentage changes in premium costs for family coverage, premium amounts, worker contribution amounts, self-insurance status, level of benefits, prescription drug cost sharing, co-pay and coinsurance amounts for prescription drugs, and firm workforce characteristics such as the proportion of low wage workers and part-time status. On average, less than five percent of these 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.

#### WEIGHTING AND STATISTICAL SIGNIFICANCE

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 followed a similar approach to previous years, but with several notable changes in 2003. First, as in years past, the basic weight was determined, followed by a non-response adjustment added this year to reflect the fact that small firms that do not participate in the full survey are less likely to offer health benefits and, consequently, are unlikely to answer the single offer rate question. To make this adjustment, Kaiser/HRET conducted a follow-up survey of all firms with 3-49 workers that did not participate in the full survey. Each of these 1,744 firms was asked the single question, "Does your company offer or contribute to a health insurance program as a benefit to its employees?" The main difference between this follow-up survey and the original survey is that in the follow-up survey the first person who answered the telephone was asked whether the firm offered health benefits, whereas in the original survey the question was asked of the person who was identified as most knowledgeable about the firm's health benefits.

#### NOTE :

<sup>2</sup> As discussed above, the firm distribution shown in this year's summary is based on data from the Census Bureau. In previous years, the firm distributions were taken directly from the Dun & Bradstreet database. This change decreases the percentage of 3-9 firms from 74% to 60%.



Conducting the follow-up survey accomplished two objectives. First, statistical techniques (a McNemar analysis which was confirmed by a chi-squared test) demonstrated that the change in method—speaking with the person answering the phone rather than a benefits manager—did not bias the results of the follow-up survey. Analyzing firms who responded to the offer question twice, in both the original and follow-up survey, proved that there was no difference in the likelihood that a firm offers coverage based on which employee answered the question about whether a firm offers health benefits.

Second, the follow-up survey demonstrated that very small firms not offering health benefits to their workers are *less* likely to answer the one survey question about coverage. Kaiser/HRET analyzed the group of firms that only responded to the follow-up survey and performed a t-test between the firms who had responded to the initial survey as well as the follow-up, and those who only responded to the follow-up. Tests confirmed the hypothesis that the firms that did not answer the single offer rate question in the original survey were less likely to offer health benefits. To adjust the offer rate data for this find-

ing an additional non-response adjustment was applied to increase the weight of firms in the sample that do not offer coverage.

The second change to the weighting method in 2003 was to trim the weights in order to reduce the influence of weight outliers. On occasion one or two firms will, through the weighting process, represent a highly disproportionate number of firms or covered workers.<sup>3</sup> Rather than excluding these observations from the sample, a set cut point that would minimize the variances of several key variables (such as premium change and offer rate) was determined.<sup>4</sup> The additional weight represented by outliers is then spread among the other firms in the same sampling cell.

Finally, a post-stratification adjustment was applied. In the past, Kaiser/HRET was post-stratified back to the Dun & Bradstreet frequency counts. Concern over volatility of counts in recent years led to the use of an alternate source for information on firm and industry data. This year the survey uses the recently released Statistics of U.S. Businesses conducted by the U.S. Census as the basis for the post-stratification adjustment.

These Census data indicate the percentage of the nation's firms with 3-9 workers is 59% rather than the higher percentages (e.g., 76% in 2002) derived from Dun & Bradstreet's national database.<sup>5</sup> This change has little impact on worker-based estimates, since firms with 3-9 workers accounted for less than 10% of the nation's workforce. The impact on estimates expressed as a percentage of employers (e.g., the percent of firms offering coverage), however, may be significant.

**Due to these changes, Kaiser/HRET recalculated the weights for survey years 1999-2002 and modified estimates published in the survey where appropriate. The vast majority of these estimates are not statistically different. However, please note that the survey data published in this book may vary slightly from previously published reports.**

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

#### NOTES:

<sup>3</sup> Firms sometimes have disproportionate weights when a firm grows rapidly, or when a firm in the sample acquires another firm.

<sup>4</sup> The initial approach designed to minimize variances among key variables required trimming more than 5% of the observations. As an alternative, a rule was created that the trimming point should only trim the largest 5% of observations.

<sup>5</sup> One possible explanation for this discrepancy is that Dun & Bradstreet is slow in purging firms from their database that have gone out of business, or have been acquired by other firms.



**HISTORICAL DATA**

Data in this report focus primarily on findings from surveys jointly authored by the Kaiser Family Foundation and the Health Research and Educational Trust, which were conducted after 1999. Prior to 1999, the survey was conducted by HIAA and KPMG using the same survey instrument, but data is not available for all intervening years. Following the survey's introduction in 1988, HIAA conducted the survey in 1990 and 1991, but most of these data are not available to us with the

exception of a few key indicators in 1988 and 1990. KPMG also conducted the survey in 1992, 1994, and 1997; however, only larger firms were sampled in these years and are not comparable to recent estimates. In 1993, 1995, 1996, and 1998, KPMG interviewed both large and small firms.

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 1999-2002 Kaiser/HRET Survey of Employer-Sponsored Health Benefits. For a longer term perspective, 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 was used. Many of the questions in the HIAA, the KPMG, and Kaiser/HRET surveys are identical. The survey designs among the three surveys are similar.

## EXHIBIT M.1

## Selected Characteristics of Firms in the Survey Sample, 2003

	<i>Sample Size</i>	<i>Sample Distribution After Weighting</i>	<i>Percentage of Total for Weighted Sample</i>
<b>INDUSTRY</b>			
Mining/Construction/Wholesale	184	618,090	19.0%
Manufacturing	247	227,848	7.0
Transportation/Communications/Utilities	97	129,278	4.0
Retail	177	443,571	13.6
Finance	147	212,068	6.5
Service	552	1,352,153	41.5
State/Local Government	293	47,696	1.5
Health Care	159	224,367	6.9
<b>ALL INDUSTRIES</b>	<b>1,856</b>	<b>3,255,071</b>	<b>100%</b>
<b>FIRM SIZE</b>			
Small (3-9 Workers)	150	1,936,690	59.4%
Small (10-24 Workers)	230	761,331	23.4
Small (25-49 Workers)	145	273,423	8.4
Small (50-199 Workers)	258	203,366	6.2
Midsize (200-999 Workers)	378	56,270	1.7
Large (1,000-4,999 Workers)	375	16,088	.5
Jumbo (5,000+ Workers)	320	7,903	.2
<b>ALL FIRM SIZES</b>	<b>1,856</b>	<b>3,255,071</b>	<b>100%</b>
<b>REGION</b>			
Northeast	401	653,902	20.1%
Midwest	507	784,488	24.1
South	625	1,087,760	33.4
West	323	728,921	22.4
<b>ALL REGIONS</b>	<b>1,856</b>	<b>3,255,071</b>	<b>100%</b>

## SOURCE :

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

## EXHIBIT M.2

## Distribution of Employers, Workers, and Workers Covered by Health Benefits, by Firm Size, 2003

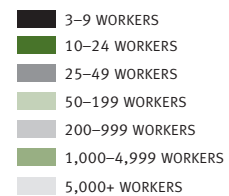


## SOURCE :

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

Note: Data are based on a special data request from the U.S. Census Bureau's most recent Statistics of U.S. Businesses. State and local government data are from the Census of Governments.

In previous years, data from Dun & Bradstreet reported that firms with 3-9 workers represented 76% of all firms compared to 59% of firms in the U.S. Census data.





EMPLOYER HEALTH BENEFITS  
2003 ANNUAL SURVEY

---

Cost of  
Health  
Insurance

---

SECTION

1

## COST OF HEALTH INSURANCE

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

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

## PREMIUM INCREASES

- ▶ The cost of job-based health benefits rose by 13.9%, exceeding prior year rates of 12.9% in 2002<sup>6</sup>, 10.9% in 2001, and 8.2% in 2000 (EXHIBIT 1.1).
- All types of health plans experienced double-digit increases in costs. HMO premiums rose by 15.2%, conventional indemnity premiums increased by 14.3%, PPO premiums grew by 13.7%, and POS premiums rose by 13.2% (EXHIBIT 1.1).
- Small firms (3-199 workers) had increases of 15.5%, and premiums for large firms (200 or more workers) rose by 13.2% (EXHIBIT 1.3).
- There was a wide range of growth in the cost of health insurance among the nation's firms (EXHIBIT 1.4). Twenty percent of employees worked for a firm where premiums rose by 5% or less, while 22% of employees worked for a firm where premiums rose by 15% to 20%. Nearly one in five (19%) employees worked for a firm where premiums increased by more than 20%.
- Small firms (3-199 workers) are more likely than large firms (200 or more workers) to have experienced a premium increase greater than 15% (EXHIBIT 1.4).
- Premiums rose by 15.6% for fully insured plans, whereas premium equivalents increased by 12.4% among self-insured plans (EXHIBIT 1.6). Increases in premium equivalents are a proxy measure of the growth in underlying medical claims. The difference in premium increases between self and fully insured plans may indicate that insurers are expanding their underwriting gains.

## NOTE:

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

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

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

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

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

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

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

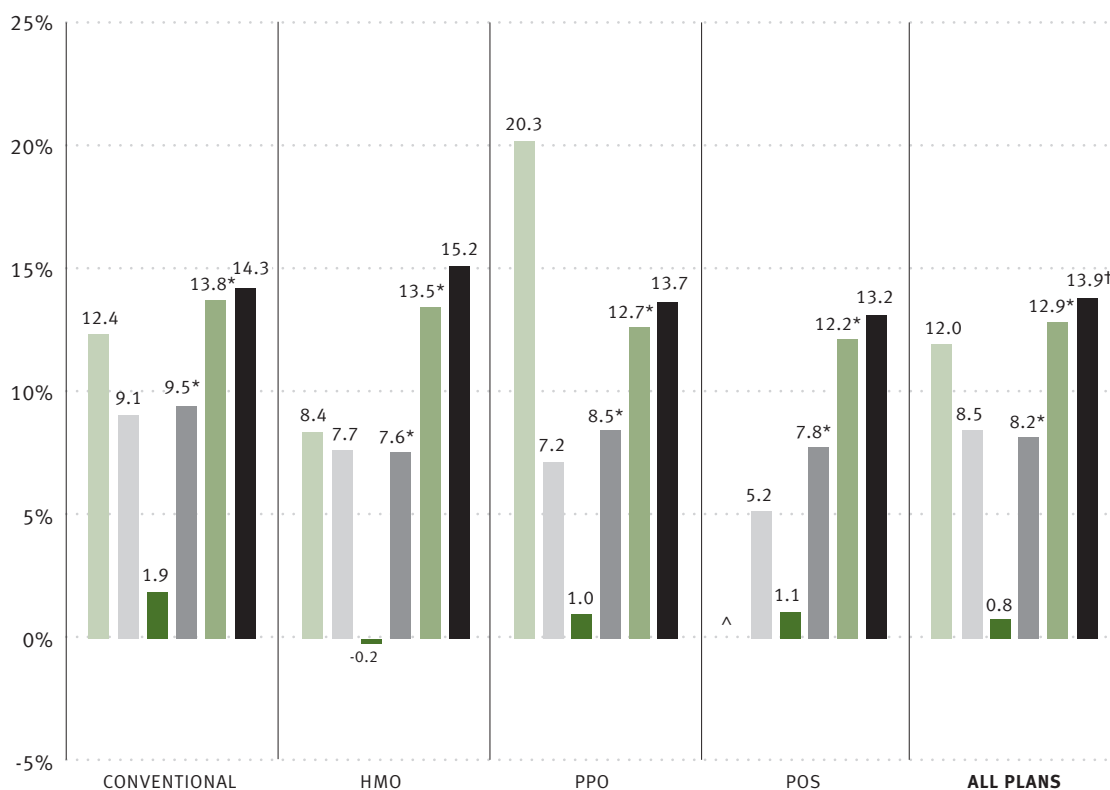
- *As in previous years, the cost of coverage tends to be lowest in the West where HMO penetration is highest (EXHIBIT 1.15). At the same time, cost increases were significantly higher in the West than in other regions.*

#### NOTE :

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

## EXHIBIT 1.1

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



1988  
1993  
1996  
2000  
2002  
2003

## SOURCE :

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

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

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

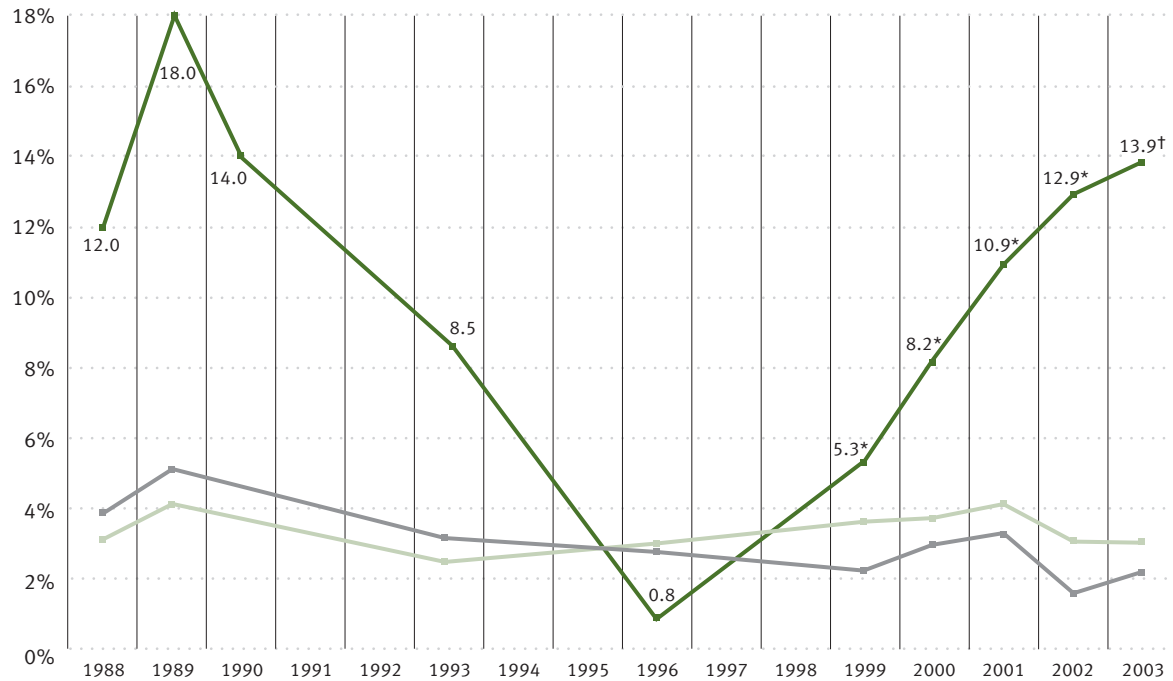
^ Information was not obtained for POS plans in 1988.

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



EXHIBIT 1.2

## Increases in Health Insurance Premiums Compared to Other Indicators, 1988-2003



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

## SOURCE:

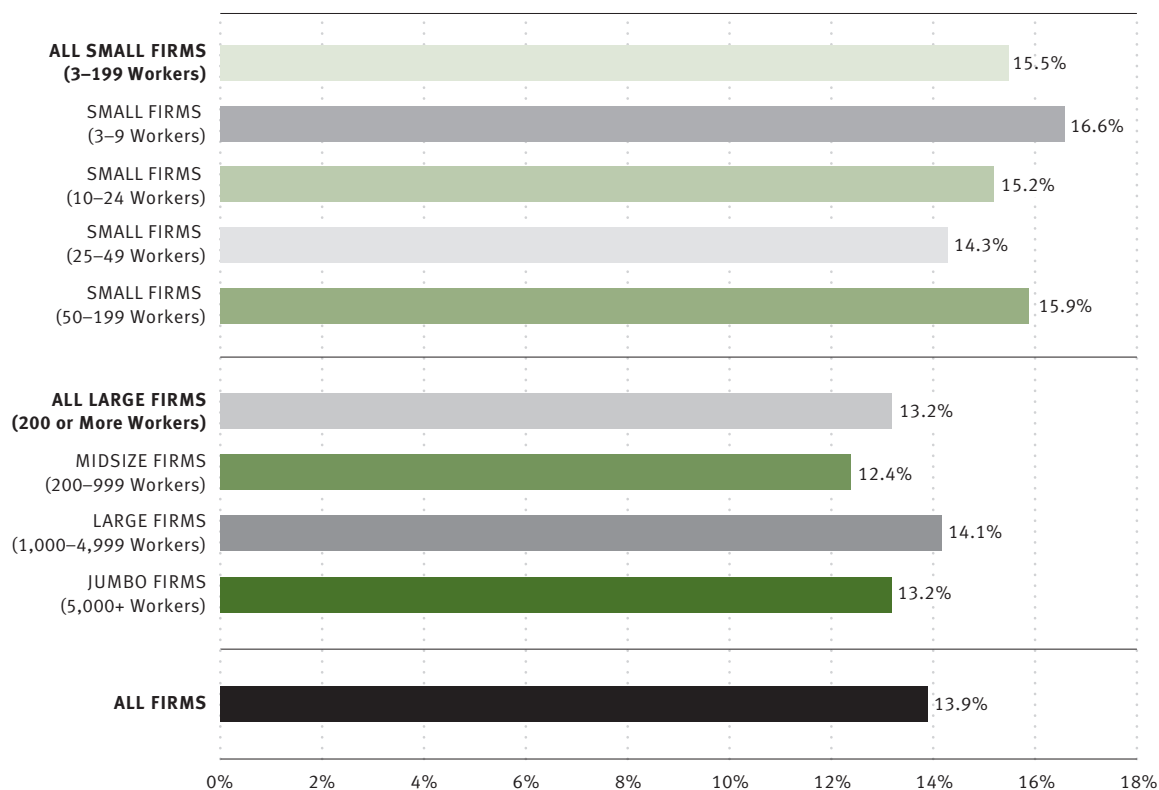
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002, 2003; KPMG Survey of Employer-Sponsored Health Benefits: 1993, 1996; The Health Insurance Association of America (HIAA): 1988, 1989, 1990; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 1988-2002; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1988-2002.

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

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

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

## EXHIBIT 1.3

Percentage Change in Premiums for Covered Workers<sup>^</sup>, by Firm Size, 2003\*

## SOURCE :

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

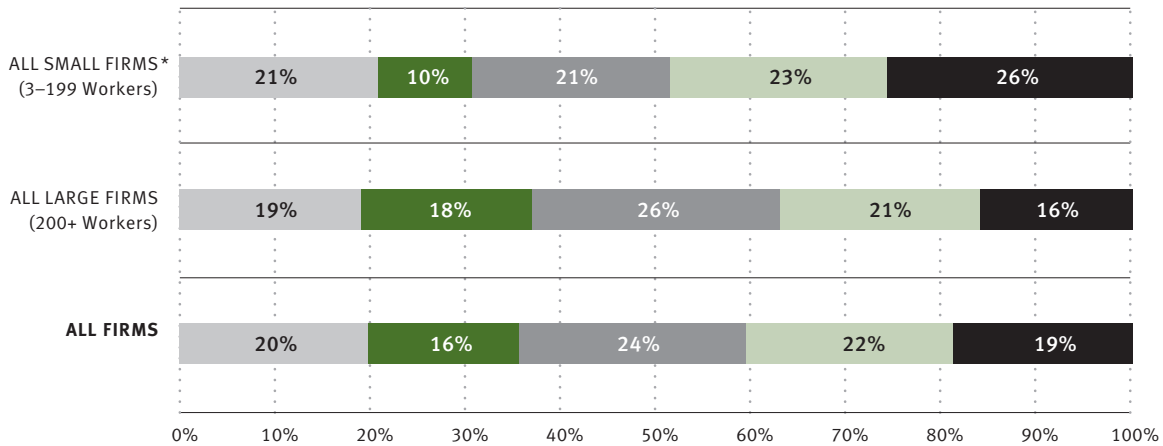
\* Tests found no statistically different estimates from All Firms.

<sup>^</sup> Applies to employer and employee share of premiums.

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

EXHIBIT 1.4

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



LESS THAN OR EQUAL TO 5%  
 GREATER THAN 5%, LESS THAN OR EQUAL TO 10%  
 GREATER THAN 10%, LESS THAN OR EQUAL TO 15%  
 GREATER THAN 15%, LESS THAN OR EQUAL TO 20%  
 GREATER THAN 20%

## SOURCE :

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

\* Distribution is statistically different from All Firms.

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

## EXHIBIT 1.5

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

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

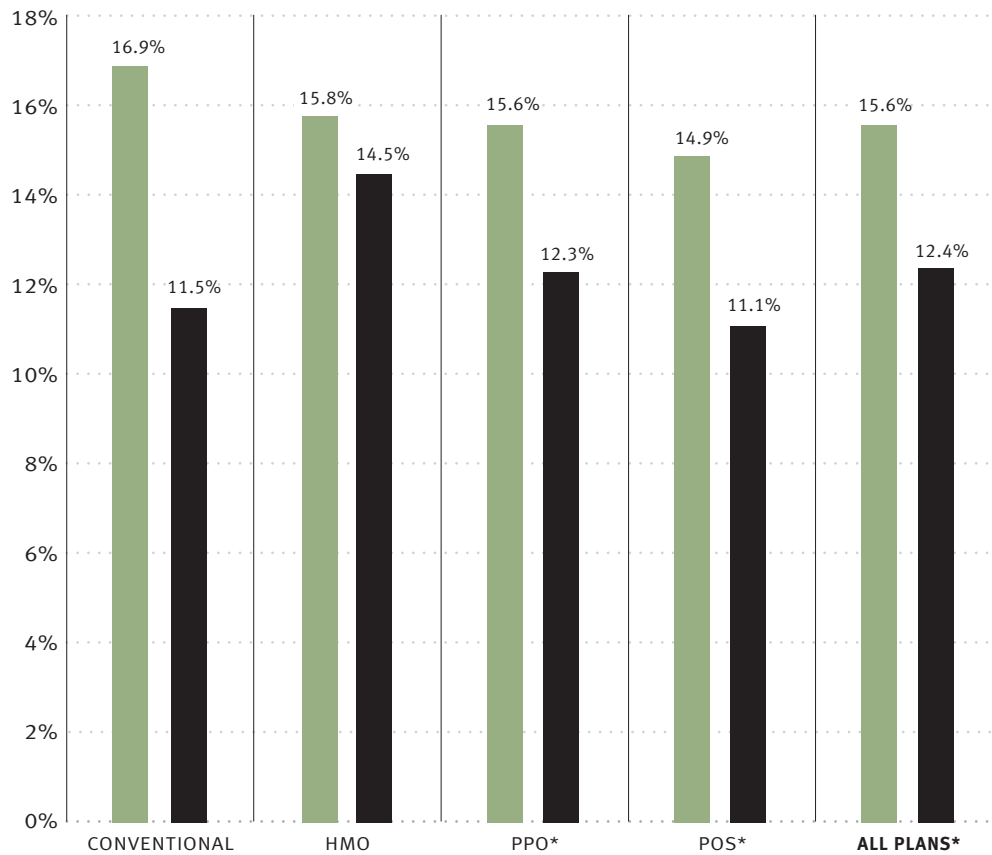
## SOURCE :

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

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

EXHIBIT 1.6

## Premium Increases, by Plan Type and Funding Arrangement, 2003



■ FULLY INSURED  
■ SELF-INSURED

## SOURCE :

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

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

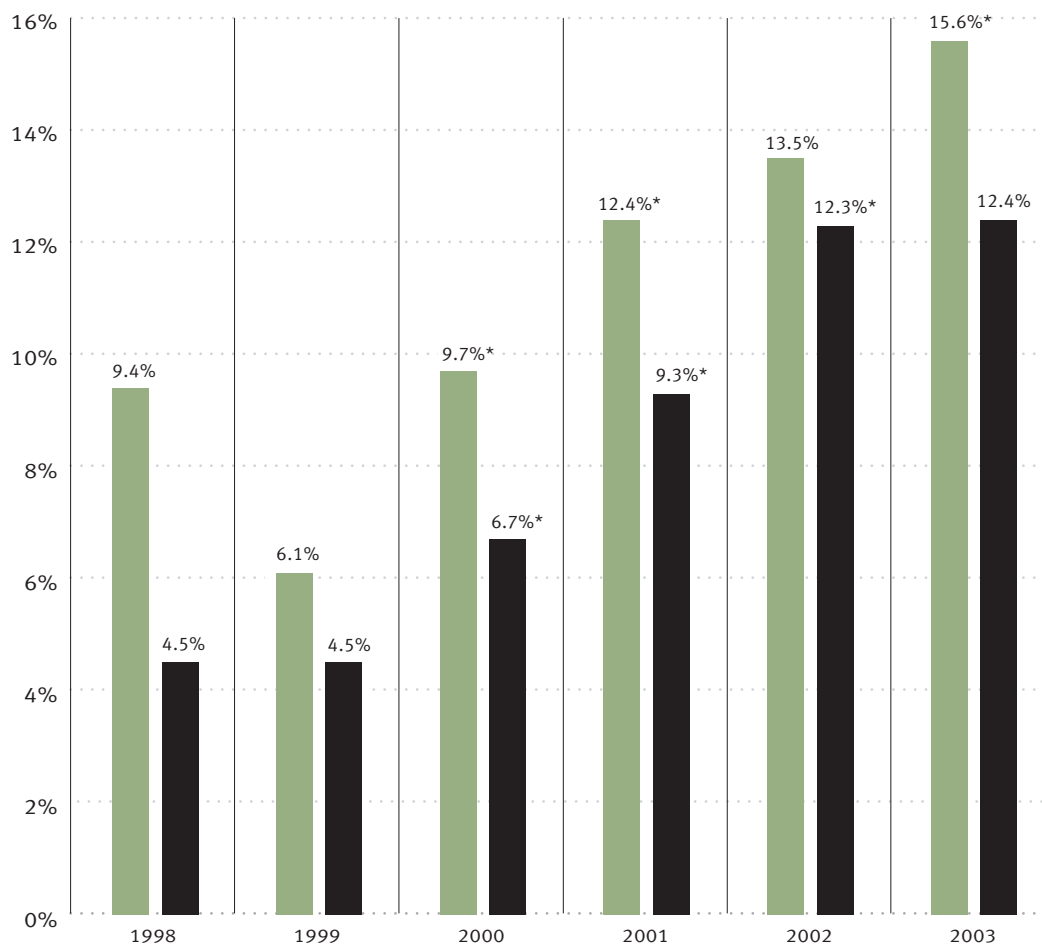
Fully insured: A plan where the employer contracts with a health plan to assume financial responsibility for the costs of enrollees' medical claims.

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

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

## EXHIBIT 1.7

## Premium Increases, by Funding Arrangement, 1998-2003



■ FULLY INSURED  
■ SELF-INSURED

## SOURCE :

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

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

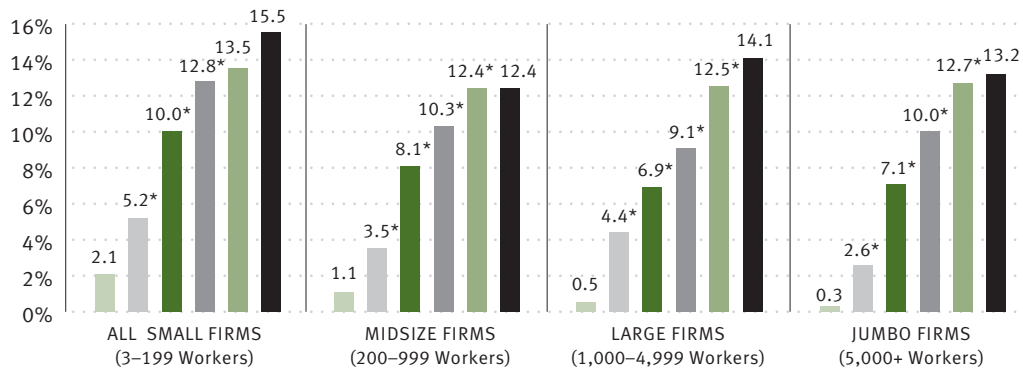
Fully insured: A plan where the employer contracts with a health plan to assume financial responsibility for the costs of enrollees' medical claims.

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

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

EXHIBIT 1.8

## Premium Increases, by Firm Size, 1996-2003



## SOURCE :

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

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

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

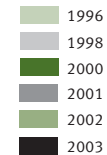
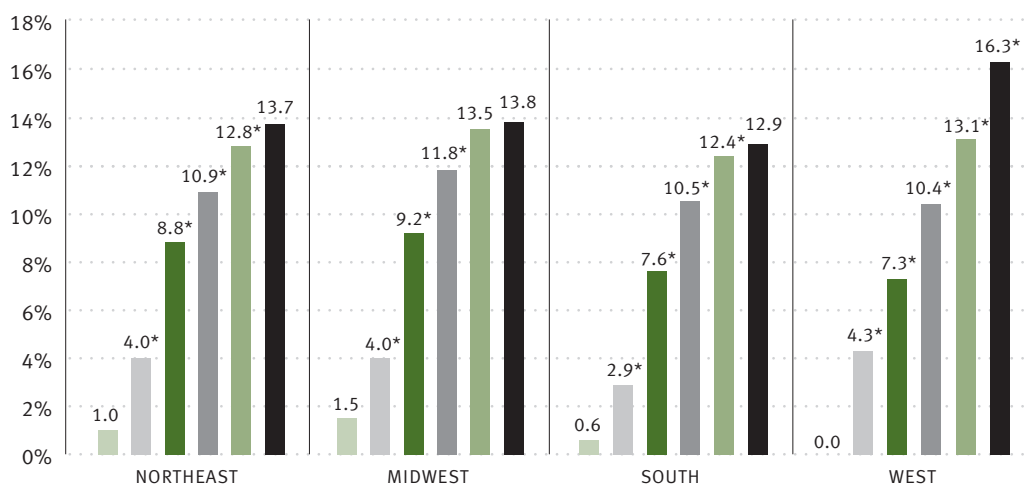


EXHIBIT 1.9

## Premium Increases, by Region, 1996-2003



## SOURCE :

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

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

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

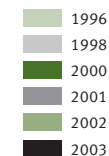
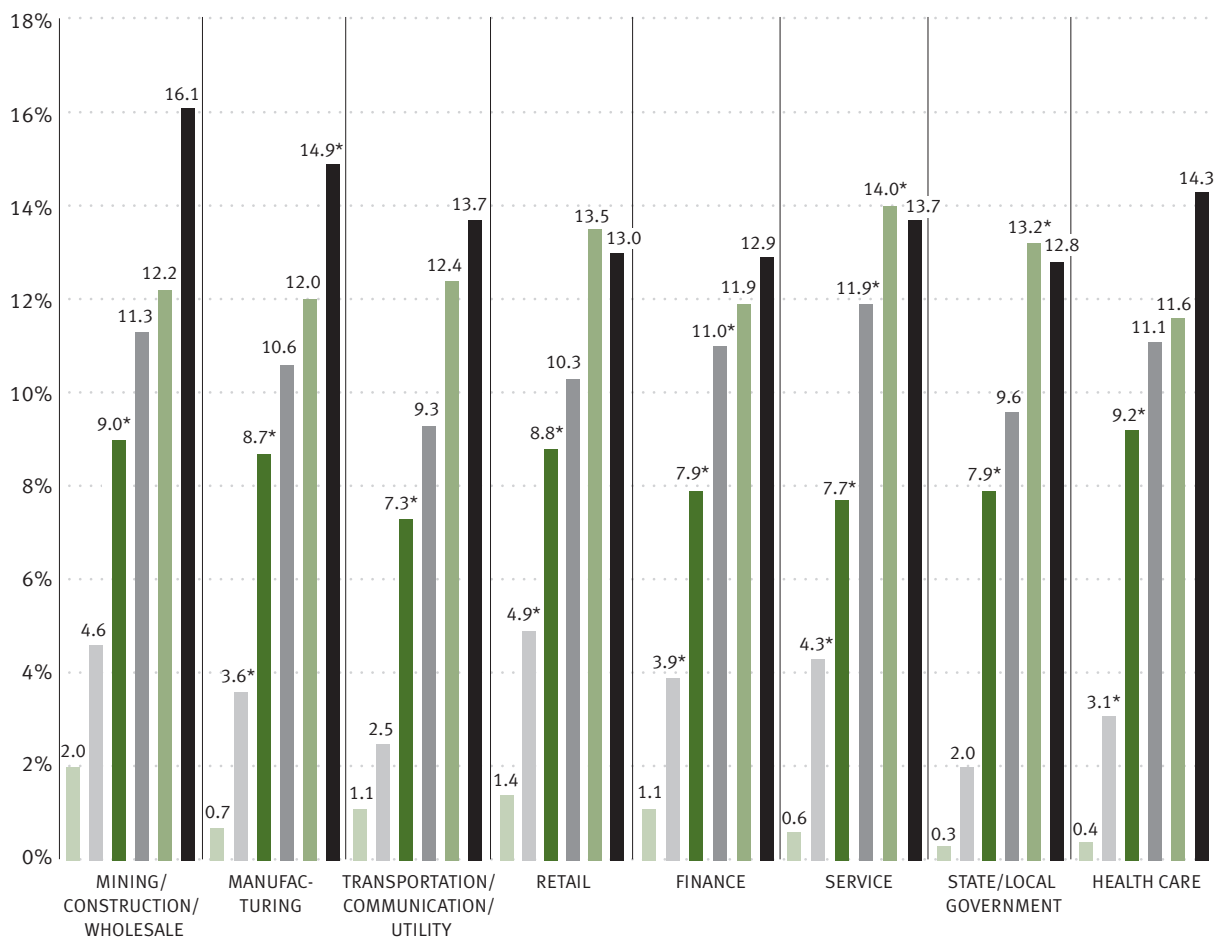


EXHIBIT 1.10

## Premium Increases, by Industry, 1996-2003



## SOURCE :

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

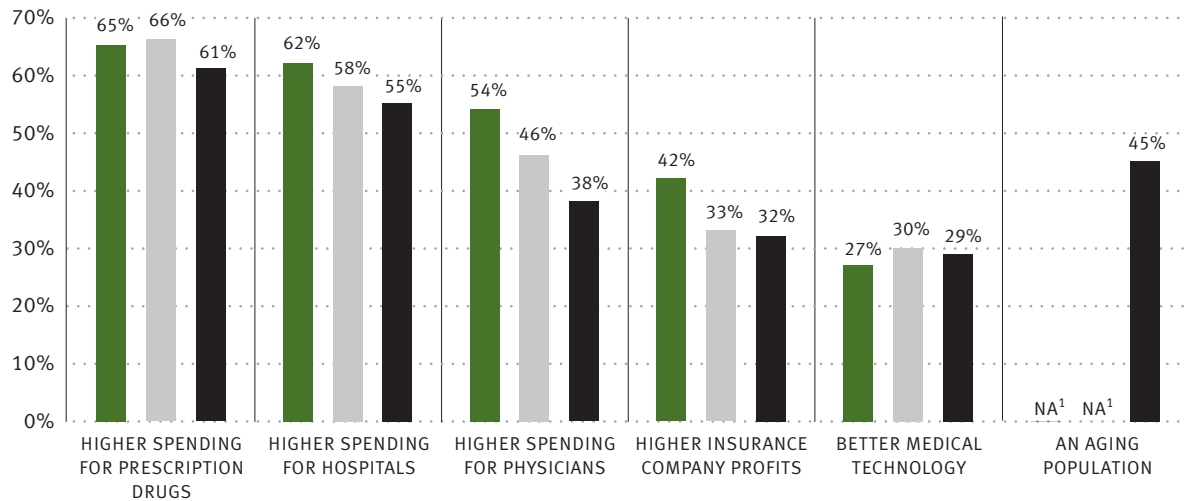
\* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2001, 2001-2002, 2002-2003.

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



EXHIBIT 1.11

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



2000  
2001  
2003

## SOURCE :

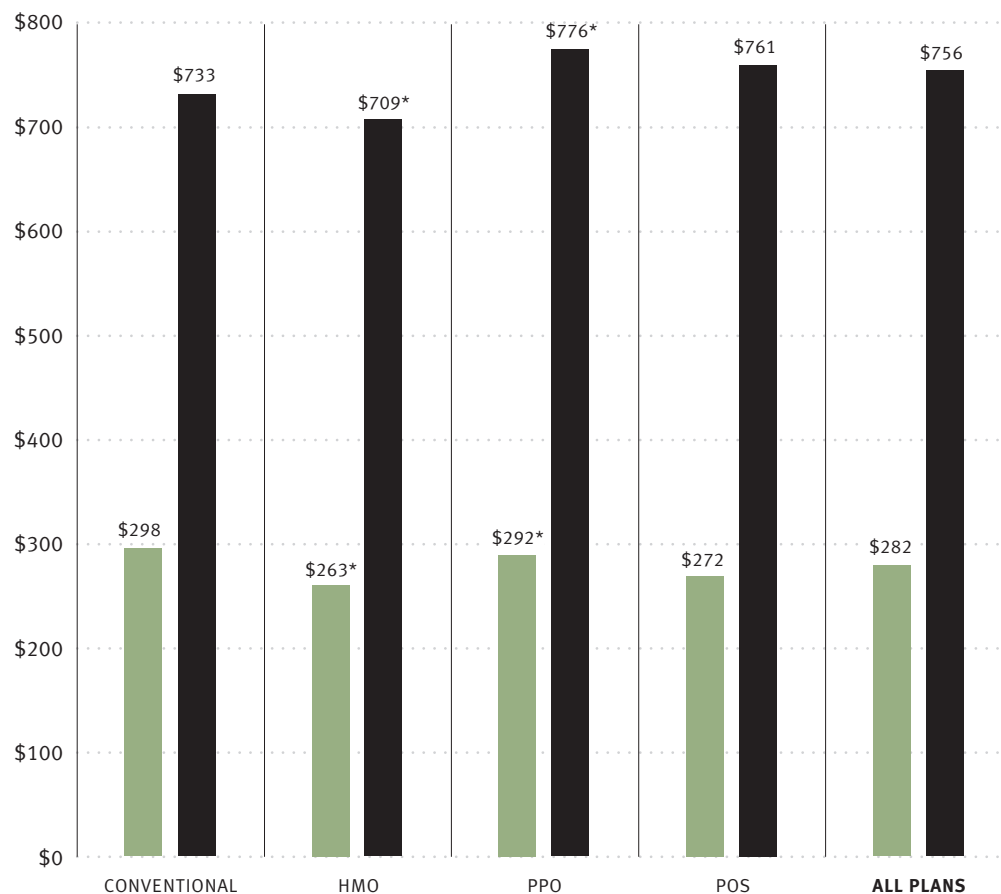
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2003.

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

<sup>1</sup> Firms were not asked this question in 2000 and 2001.

EXHIBIT 1.12

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



## SOURCE:

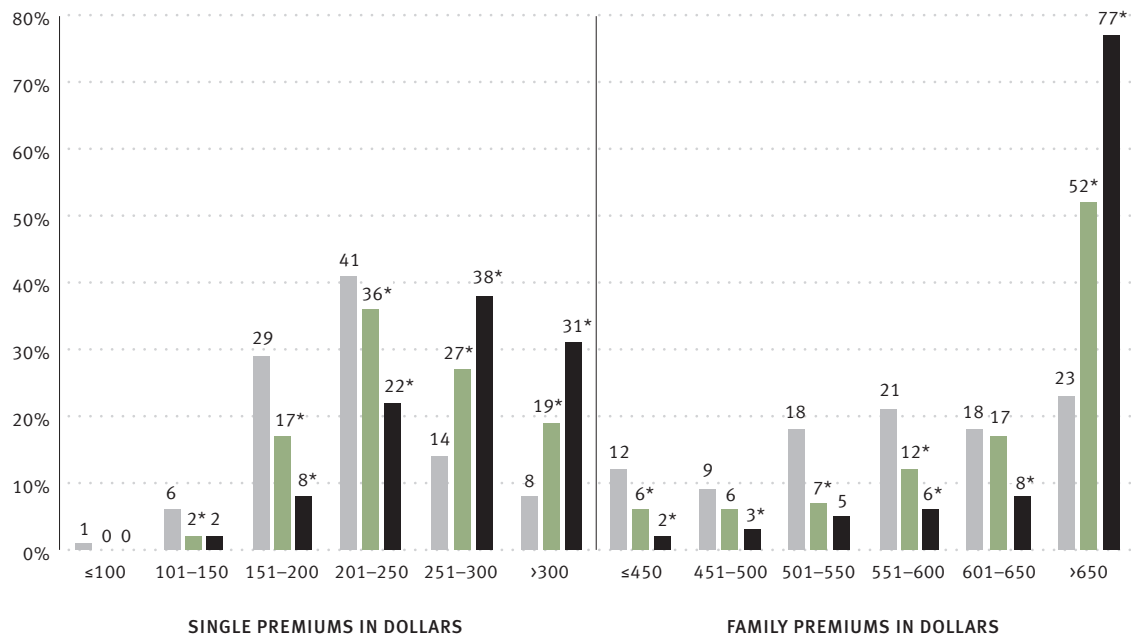
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

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

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

EXHIBIT 1.13

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



2001  
2002  
2003

## SOURCE:

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

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

EXHIBIT 1.14

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

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

## SOURCE:

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

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

EXHIBIT 1.15

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

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

## SOURCE :

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

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

## EXHIBIT 1.16

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

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

Continued on page 31

**EXHIBIT 1.16** Continued from page 30**Monthly and Annual Premiums for Workers in Conventional, HMO, PPO, and POS Plans, by Industry, 2003**

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

**SOURCE :**

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

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

NSD: Not sufficient data.





EMPLOYER HEALTH BENEFITS  
2003 ANNUAL SURVEY

---

# Health Benefits Offer Rates

---

SECTION

2

## HEALTH BENEFITS OFFER RATES

DESPITE ANOTHER YEAR OF DOUBLE-DIGIT PREMIUM GROWTH, 2003 SURVEY RESULTS SHOW THAT FIRMS, INCLUDING SMALL FIRMS, CONTINUE TO OFFER COVERAGE TO THEIR WORKERS AT THE SAME RATE AS LAST YEAR (EXHIBIT 2.1). NEARLY ALL LARGE BUSINESSES (WITH 200 OR MORE WORKERS) OFFER HEALTH INSURANCE TO THEIR EMPLOYEES. SMALLER BUSINESSES, ESPECIALLY VERY SMALL FIRMS OR 'MOM AND POP SHOPS' WITH 3-9 WORKERS, REMAIN MUCH LESS LIKELY TO OFFER COVERAGE, WITH JUST OVER ONE-HALF OF THE SMALLEST FIRMS OFFERING HEALTH BENEFITS TO THEIR WORKERS.

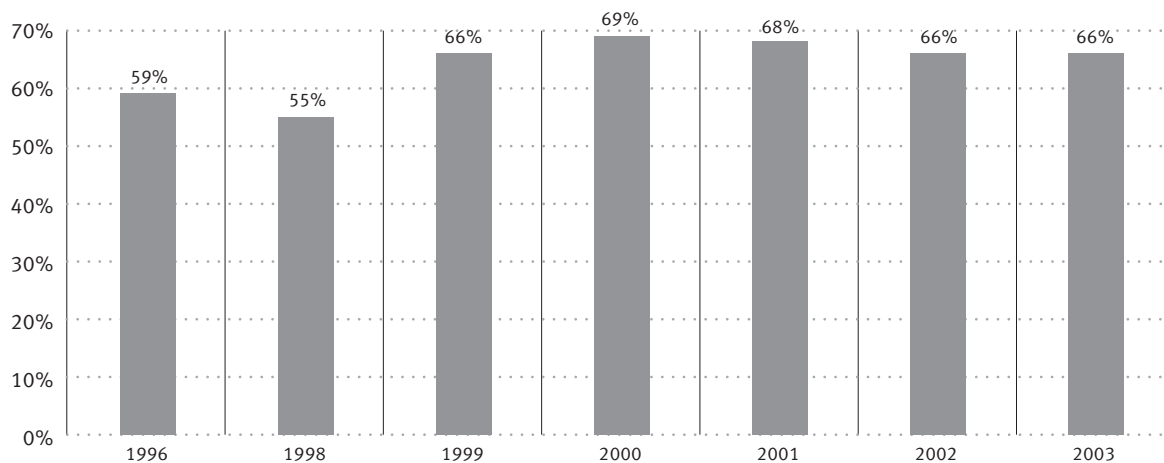
AS DISCUSSED IN THE SECTION ON SURVEY DESIGN AND METHODS, REVISIONS IN THE SAMPLE DESIGN HAVE INCREASED THE LEVEL OF THE OFFER RATE FOR THIS YEAR AND PRIOR YEARS. WEIGHTING BASED ON CENSUS DATA THIS YEAR REVISES EARLIER ESTIMATES BASED ON THE DUN & BRADSTREET SAMPLE FRAME WHICH OVERESTIMATED THE INFLUENCE OF SMALL EMPLOYERS (WHO HAVE A RELATIVELY LOW OFFER RATE) ON THE TOTAL RESULTS.

- ▶ The percentage of small firms (3-199 workers) offering health insurance is 65%, statistically unchanged from last year. (EXHIBIT 2.2).
- ▶ The likelihood that a firm offers health benefits to its workers varies considerably with the economic and demographic characteristics of the firm, such as firm size, the proportion of part-time workers in the firm, and firms with union workers (EXHIBIT 2.3).
  - The smallest firms are least likely to offer health insurance. Only 55% of firms with 3-9 workers offered coverage in 2003, but that figure rises to 76% for firms with 10-24 employees and 84% for companies with 25-49 employees. Among firms with 50 or more employees, nearly all offer coverage (EXHIBIT 2.2).
  - Firms with many part-time workers – where 35% or more of employees work part-time – are also less likely to provide coverage to their workers. Among these heavily part-time firms, only 32% offer health insurance, in contrast to 70% of firms with fewer part-time workers.
  - Firms that employ union workers are significantly more likely than other firms to offer coverage to their workers, with 91% offering coverage. In contrast, only 60% of firms that do not have union employees offer health insurance to their workers.
- ▶ In this era of rapidly rising health care premiums, cost continues to be the most important factor cited by small employers as the reason they do not offer health insurance (EXHIBIT 2.4).
  - Seventy-six percent of small firms (3-199 workers) that do not offer coverage cite high premiums as a very important reason for not doing so.

- Other factors cited by small employers as very important reasons for not offering coverage include: the firm is too small (56%); employees are covered elsewhere (36%); firm can attract good employees without offering health insurance (23%); and administrative hassle (14%).
- ▶ Although cost is often identified as the primary reason that many small firms do not offer health benefits, their decisions may also reflect their views about their employees' preferences for wages over health benefits. When non-offering employers were asked to assess whether their employees would prefer an additional \$2 per hour in wages (approximately the average cost of health insurance per worker) or health benefits, nearly 80% answered that their employees would prefer higher compensation rather than receiving health benefits. This suggests that even a significant upturn in the economy may not move the small firm offer rate significantly higher.
- ▶ Despite significant premium increases in recent years, very few employers indicate that they are likely to drop coverage or restrict eligibility for benefits in the near future.
- Less than one percent of employers said that they were very likely to drop coverage in the next two years, and only six percent indicated that they were somewhat likely to drop (see Section 12). Similarly, only two percent of employers said that they were likely to restrict eligibility for benefits in the near future, with an additional eight percent indicating that they were somewhat likely to do so.
- ▶ Among firms that do not offer health benefits to their employees, the average amount these firms estimate they could pay for an employee's health insurance is \$153 per month. The average amount these firms estimate their workers could afford to pay for health insurance is \$99 per month (EXHIBIT 2.6).
- Twenty-one percent of firms estimate they could contribute between \$101 and \$200 monthly per employee, and another 15% estimate they could contribute more than \$200 monthly.
- ▶ Cost pressures appear to have encouraged some to shift towards alternative benefit designs (EXHIBITS 2.7, 2.8).
- There has been considerable interest in so-called consumer-driven health plans. One commonly advocated model pairs a relatively large deductible plan (e.g., a \$1,000 deductible) with a health savings account. A health savings account is a pre-tax account funded by an employer that permits employees to make their own choices about how much they spend on more routine health care expenses.
- Five percent of all firms, and 17% of firms with more than 5,000 employees, report offering a health plan with a high deductible (greater than \$1,000 for a single individual) in 2003. Of the firms offering these plans, approximately 13% (representing 0.1% of all firms) report supplementing the plan by offering a health savings account (EXHIBIT 2.7).
- Although the number of employers offering high deductible plans has been modest to date, employer interest in this approach may fuel future growth. When asked about changes that they may make to their health plans in the future, 8% of employers overall, and 16% of employers with more than 5,000 employees said that they were very likely to introduce a high-deductible plan in the next year (EXHIBIT 2.8).

## EXHIBIT 2.1

## Percentage of All Firms Offering Health Benefits, 1996-2003



## SOURCE :

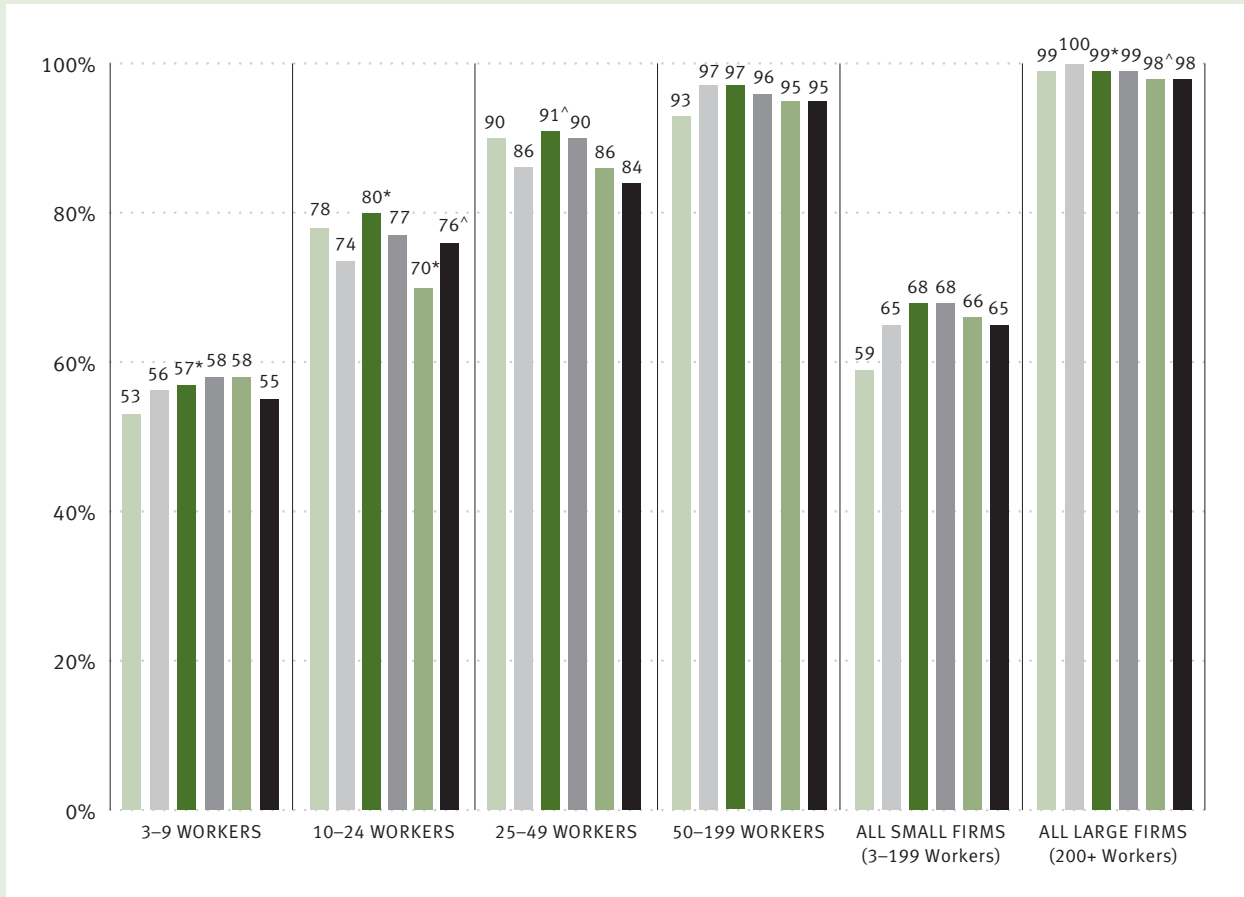
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002, 2003;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Estimate is statistically different from the previous year shown: 1996-1998, 1998-1999, 1999-2000, 2000-2001, 2001-2002, 2002-2003.

Note: This year the sample design was revised by weighting the sample to reflect the distribution of firms reported by the U.S. Census. Data from the U.S. Census indicated that the Dun & Bradstreet sample frame used in years past had overestimated the influence of small employers (who have a relatively low offer rate) on the total results.

## EXHIBIT 2.2

## Percentage of Firms Offering Health Benefits, by Firm Size, 1996-2003



## SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002, 2003;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

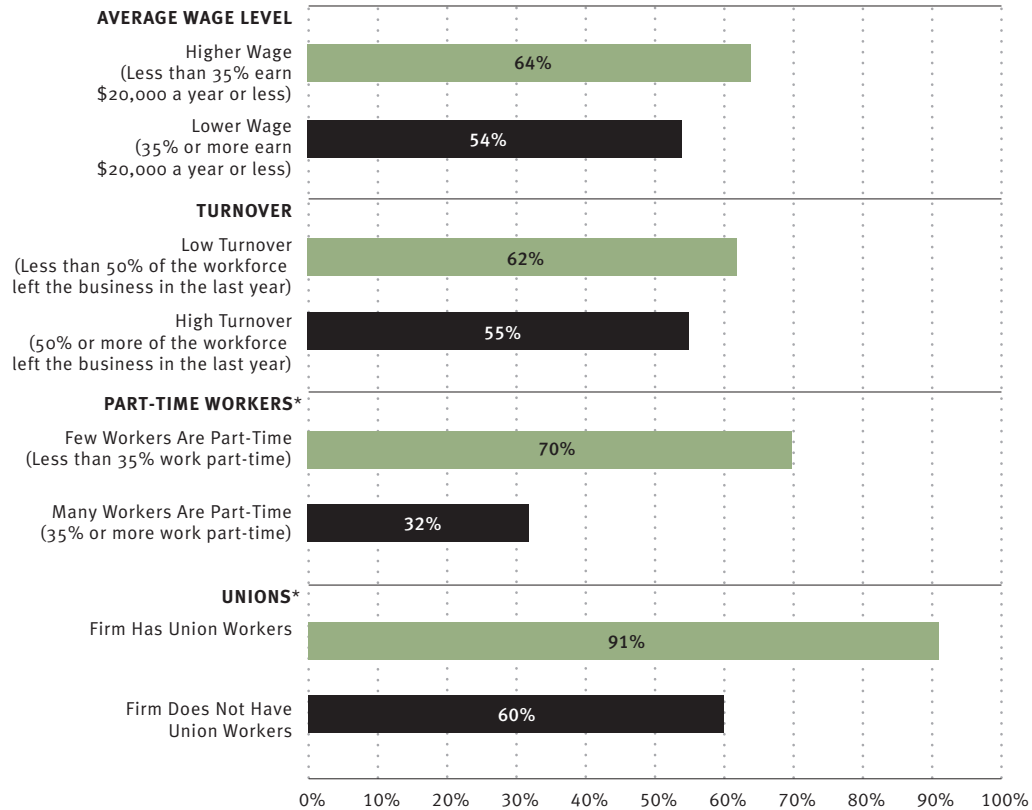
\* Estimate is statistically different from the previous year shown at  $p < 0.05$ : 1996-1999, 1999-2000, 2000-2001, 2001-2002, 2002-2003.

^ Estimate is statistically different from the previous year shown at  $p < 0.1$ : 1996-1998, 1998-2000, 2000-2001, 2001-2002, 2002-2003.

Note: This year the sample design was revised by weighting the sample to reflect the distribution of firms reported by the U.S. Census. Data from the U.S. Census indicated that the Dun & Bradstreet sample frame used in years past had overestimated the influence of small employers (who have a relatively low offer rate) on the total results.

## EXHIBIT 2.3

## Percentage of All Firms Offering Health Benefits, by Firm Characteristics, 2003



## SOURCE :

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

\* Estimate is statistically different from each other within categories.

Note: These estimates include only firms that answered the full survey. Therefore, the All Firm offer rate estimate is different from that presented in Exhibit 2.2 (62% vs. 66%). The two estimates are not statistically different.

## EXHIBIT 2.4

## All Small Firms' (3-199 Workers) Reasons for Not Offering Health Benefits, 2003

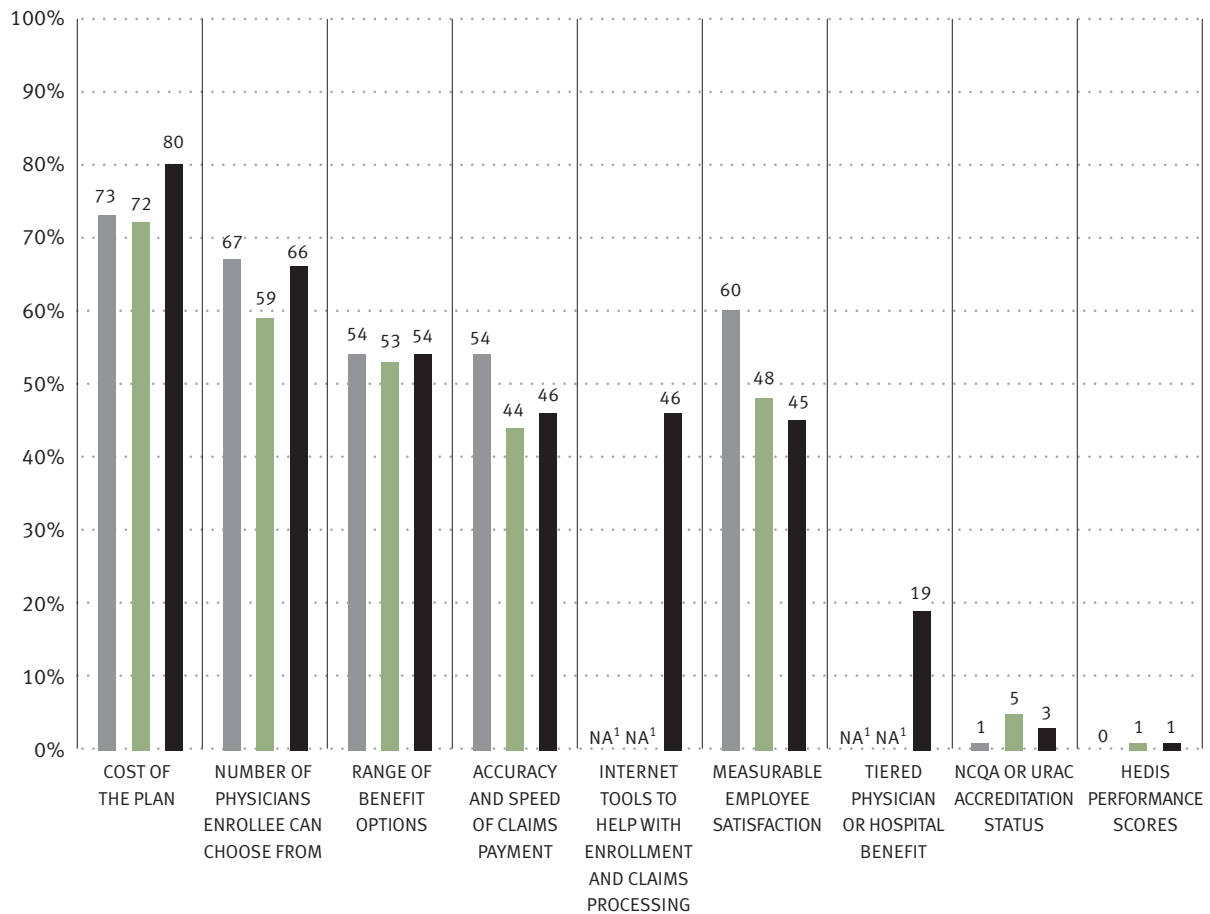
	<i>Very Important</i>	<i>Somewhat Important</i>	<i>Not Too Important</i>	<i>Not At All Important</i>	<i>Don't Know</i>
High Premiums	76%	15%	1%	6%	3%
Employees Covered Elsewhere	36%	27%	18%	19%	1%
High Turnover	6%	15%	26%	51%	2%
Obtain Good Employees Without Offering A Health Plan	23%	34%	18%	23%	4%
Administrative Hassle	14%	32%	25%	29%	1%
Firm Too Newly Established	6%	5%	11%	78%	0%
Firm Is Too Small	56%	25%	5%	13%	1%
Firm Has Seriously Ill Employee	8%	4%	2%	87%	0%

## SOURCE :

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

## EXHIBIT 2.5

Percentage of All Firms That Say the Following Features Are Very Important When Choosing a Health Plan, 1999, 2001 and 2003\*



1999  
2001  
2003

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2001, 2003.

\* Tests found no statistically different estimates from the previous year shown: 1999-2001, 2001-2003.

<sup>1</sup> Firms were not asked this question in 1999 and 2001.



## EXHIBIT 2.6

Among Small Firms (3-199 Workers) Not Offering Coverage, Estimated Amount That Firms and Their Employees Could Afford to Pay for Health Insurance, 2003

	<i>Estimated Amount the Firm Thinks It Could Afford to Pay for Health Insurance</i>	<i>Estimated Amount the Firm Thinks Its Employees Could Afford to Pay for Health Insurance</i>
\$0	8%	5%
\$50 or Less	16%	29%
\$51-\$100	21%	30%
\$101-\$200	21%	18%
More Than \$200	15%	2%
Don't Know/Refused	18%	16%

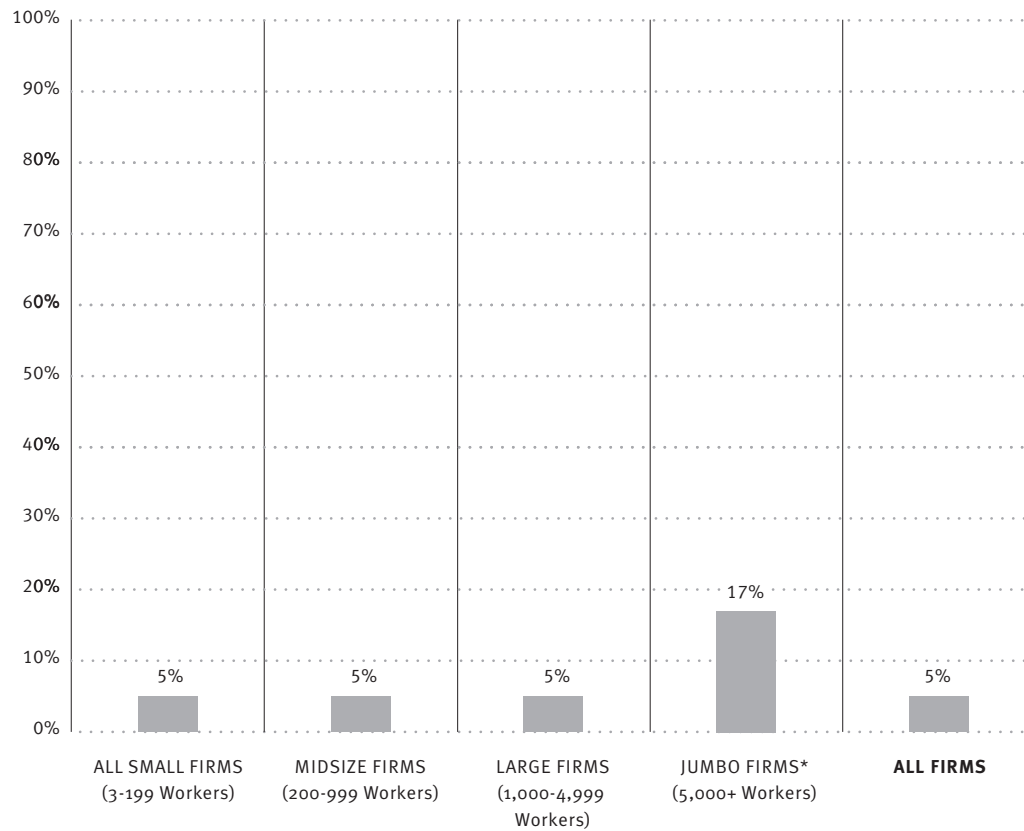
## SOURCE :

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

Note: The average amount businesses who do not offer coverage estimate they could pay for an employee's health insurance is \$153 per month. The average amount they estimate that their employees could pay for health insurance is \$99 per month.

## EXHIBIT 2.7

## Percentage of Firms That Offer Employees a High-Deductible Health Plan, by Firm Size, 2003



## SOURCE :

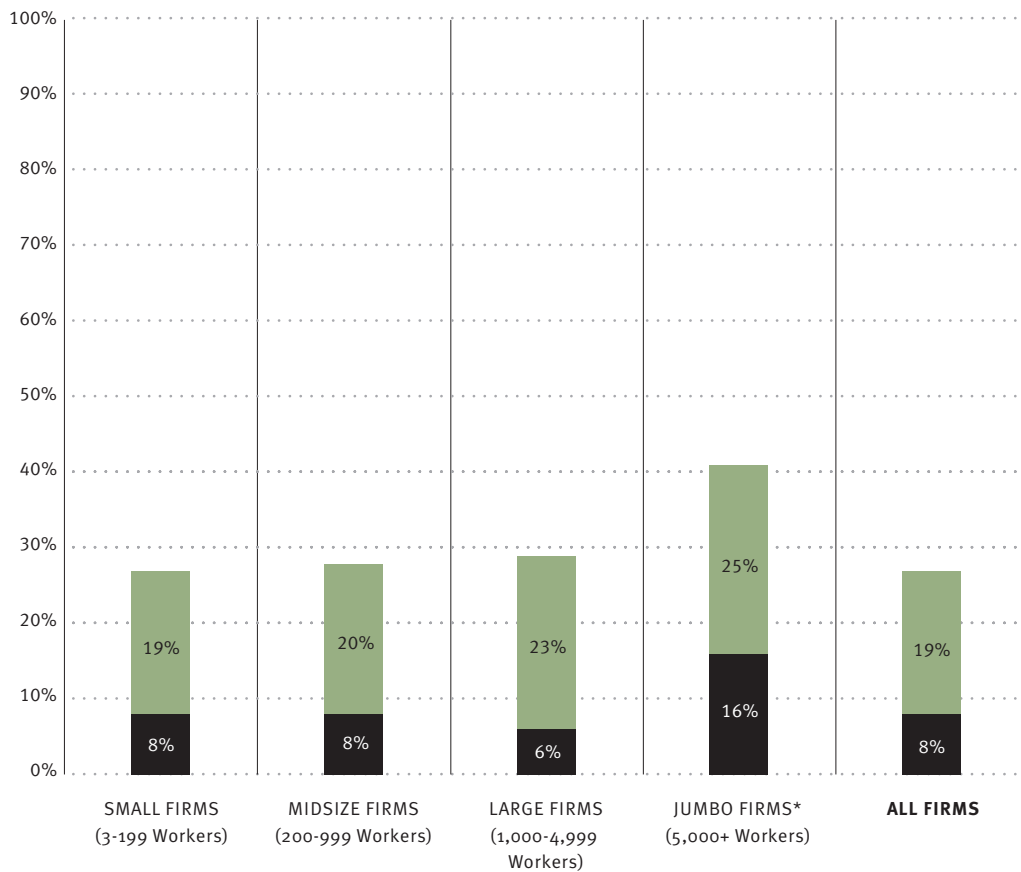
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

\* Estimate is statistically different from All Firms.

High-deductible health plan: A plan with an annual deductible of more than \$1,000 for single coverage.  
 High-deductible plans can be offered with or without a health savings account.

## EXHIBIT 2.8

# Percentage of Firms That Say They Are Very or Somewhat Likely to Offer Workers a High-Deductible Plan in the Next Year, 2003



## SOURCE:

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

\* Column estimate is statistically different from All Firms.

High-deductible health plan: A plan with an annual deductible of more than \$1,000 for single coverage.  
 High-deductible plans can be offered with or without a health savings account.

THIS PAGE IS INTENTIONALLY BLANK

EMPLOYER HEALTH BENEFITS  
2003 ANNUAL SURVEY

---

Employee  
Coverage,  
Eligibility, and  
Participation

---

SECTION

3

## EMPLOYEE COVERAGE, ELIGIBILITY, AND PARTICIPATION

EMPLOYERS ARE THE PRIMARY SOURCE OF HEALTH INSURANCE IN THE U.S., COVERING 62% OF ALL EMPLOYEES (INCLUDING BOTH FULL AND PART-TIME) (EXHIBIT 3.1).<sup>8</sup> WHILE OTHER WORKERS MAY HAVE COVERAGE THROUGH THEIR SPOUSE'S JOB, MANY DO NOT HAVE THAT OPTION. CENSUS BUREAU ESTIMATES REPORT THAT NEARLY ONE IN FIVE WORKERS ARE UNINSURED.<sup>9</sup>

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.

► Among firms offering health benefits, 68% of workers are covered by their firm's health plan, a similar rate to last year (EXHIBIT 3.2).

- Coverage rates do not differ significantly by firm size, but they do vary by industry, likely due to differences in eligibility. The coverage rate for workers in the retail industry is 45%, compared to coverage rates of 82% for state and local government workers and 77% for those working in the transportation, communication, and utility industries (EXHIBIT 3.2).

- Higher wage firms (fewer than 35% of workers earn \$20,000 or less annually) have higher coverage rates than lower wage firms (35% or more of workers earn \$20,000 or less annually). Seventy-one percent of workers are covered in higher wage firms that offer health benefits, compared with 51% of workers in lower wage firms offering benefits.

► Not all employees are eligible for their firm's health benefits and not all who are eligible choose to participate in them.

The number of workers 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., elect to participate in) the benefit (EXHIBIT 3.2).

- In firms offering benefits, 84% of small firms' (3-199 workers) employees and 80% of all large firms' (200 or more workers) employees are eligible for health benefits, statistically unchanged from last year.
- Participation (the take-up rate) is high across all firm sizes at 83%.

### NOTES :

<sup>8</sup> As discussed in the section on Survey Design and Methods, revisions in the sample design have increased the level of the coverage rate reported for this year and prior years, in large part because the influence of small employers (who are less likely to cover their workers) on the total results has been reduced.

<sup>9</sup> U.S. Census Bureau estimates based on the March 2002 Current Population Survey report that 15% of all individuals in the U.S. are uninsured and that 14% of the non-elderly uninsured are in households with at least one worker.

- *Small firms' (10-49 workers) workers have a lower than average take-up rate (76%), as do retail workers (72%). Take-up rates are higher in transportation, communication, and utility firms (89%) and in state and local governments (92%).*
- ▶ *Workers eligible for health coverage usually have the option to choose coverage for themselves or their dependents (though the cost to the worker of covering dependents is generally higher than for single coverage) (EXHIBIT 3.5).*
- *Overall, 45% of covered workers elect single coverage, 16% elect single coverage plus one, and 39% elect family coverage.*
- *Among small firms (3-199 workers), the proportion of covered workers who elect family coverage has declined slightly, from 39% of covered workers in 2001 to 33% in 2003.*
- ▶ *This year showed little change in firms offering health benefits to part-time workers and temporary employees (EXHIBITS 3.6, 3.7).*
- *Forty-six percent of workers are in firms where part-time workers are offered health benefits, similar to last year (47%). Consistent with previous years, part-time workers in large firms (200 or more workers) were nearly twice as likely to work for firms that offer health coverage (55%) than part-time workers employed by small firms (3-199 workers) (29%).*
- *The percentage of workers in firms where temporary workers are eligible for health benefits remains low (7%).*
- ▶ *Some new employees may not have worked long enough in a firm to qualify for health benefits. Average waiting periods for health coverage for new employees range from 1.3 months in jumbo firms (5,000 or more workers) to 3.5 months in the smallest firms (3-9 workers) (EXHIBITS 3.8, 3.9).*

## EXHIBIT 3.1

Percentage of Workers Covered by Their Employer's Health Benefits, in Firms Both Offering and Not Offering Health Benefits, by Firm Size, 1996-2003\*

	1996	1998	2000	2001	2002	2003
<b>FIRM SIZE</b>						
3-9 Workers	36%	31%	43%	42%	39%	39%
10-24 Workers	52	43	57	54	50	49
25-49 Workers	66	55	63	62	57	59
50-199 Workers	64	63	62	67	64	61
200-999 Workers	N/A	N/A	69	71	69	68
1,000-4,999 Workers	N/A	N/A	68	69	70	69
5,000+ Workers	N/A	N/A	66	69	68	68
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>52%</b>	<b>47%</b>	<b>57%</b>	<b>58%</b>	<b>54%</b>	<b>53%</b>
<b>ALL LARGE FIRMS (200+ WORKERS)</b>	<b>N/A</b>	<b>N/A</b>	<b>67%</b>	<b>69%</b>	<b>69%</b>	<b>68%</b>
<b>ALL FIRMS</b>	<b>N/A</b>	<b>N/A</b>	<b>63%</b>	<b>65%</b>	<b>63%</b>	<b>62%</b>

## SOURCE :

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

\* Tests found no statistically different estimates from the previous year shown: 2000-2001, 2001-2002, 2002-2003.

Note: Exhibit 3.1 calculates the total percentage of covered workers from the universe of all workers – including those employees in firms that do not offer coverage. All other exhibits in this chapter calculate coverage among firms that offer benefits.

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



## EXHIBIT 3.2

## Eligibility, Take-Up Rates, and Coverage in Firms Offering Health Benefits, by Firm Size, Region, and Industry, 2003

	<i>Percentage of Workers Eligible for Health Benefits Offered by Their Employer</i>	<i>Percentage of Workers Who Participate in Their Employers' Plan (Take-Up Rate)</i>	<i>Percentage of Workers Covered by Their Employers' Health Benefits</i>
<b>FIRM SIZE</b>			
Small (3-9 Workers)	84%	84%	69%
Small (10-24 Workers)	88*	76*	67
Small (25-49 Workers)	88*	77*	68
Small (50-199 Workers)	79	84	67
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>84</b>	<b>81</b>	<b>68</b>
Midsize (200-999 Workers)	82	84	69
Large (1,000-4,999 Workers)	81	85	69
Jumbo (5,000+ Workers)	80	84	68
<b>ALL LARGE FIRMS (200+ WORKERS)</b>	<b>80%</b>	<b>84%</b>	<b>68%</b>
<b>REGION</b>			
Northeast	83%	82%	68%
Midwest	81	83	68
South	81	83	68
West	81	83	67
<b>INDUSTRY</b>			
Mining/Construction/Wholesale	83%	82%	68%
Manufacturing	92*	87*	81*
Transportation/Communication/Utility	86	89*	77*
Retail	62*	72*	45*
Finance	86	84	73
Service	79	81	64*
State/Local Government	89*	92*	82*
Health Care	77	78	61*
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>81%</b>	<b>83%</b>	<b>68%</b>

## SOURCE :

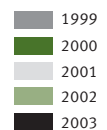
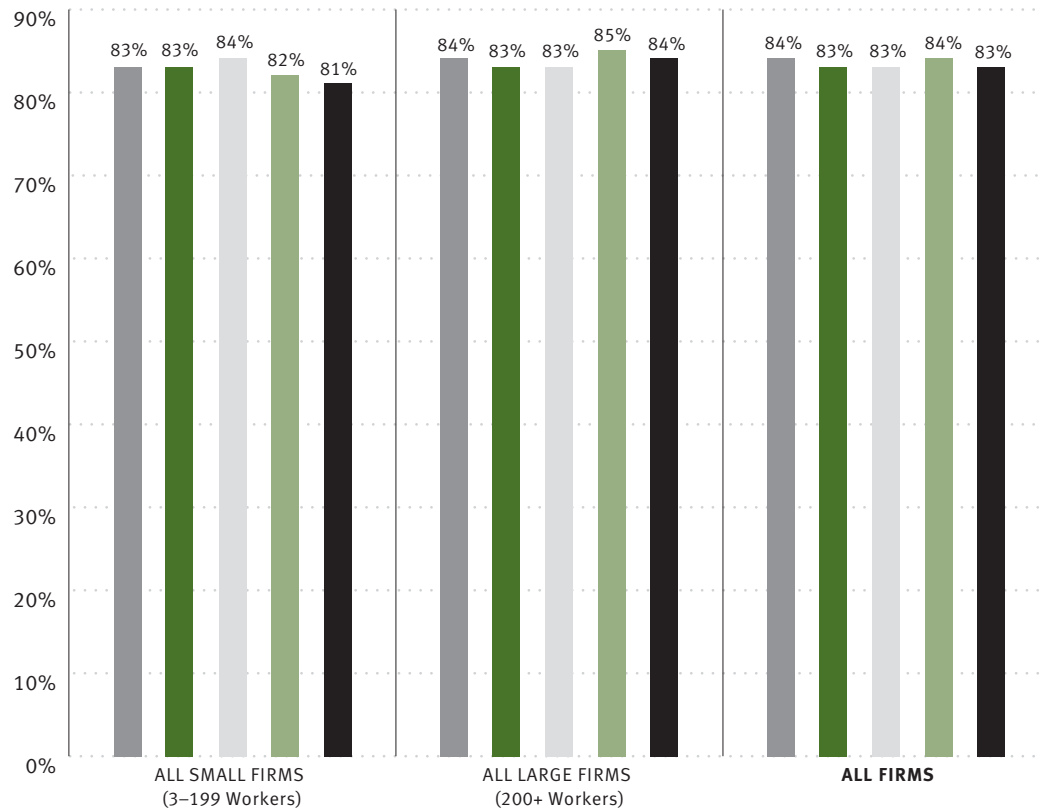
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

\* Estimate is statistically different from All Firms.

Take-up rate: The percentage of eligible workers who choose to participate in health benefits offered by their employer.

## EXHIBIT 3.3

Percentage of Workers in Firms Offering Health Benefits Who Participate in (Take-up) Their Employer's Health Plan, by Firm Size, 1999-2003\*



## SOURCE :

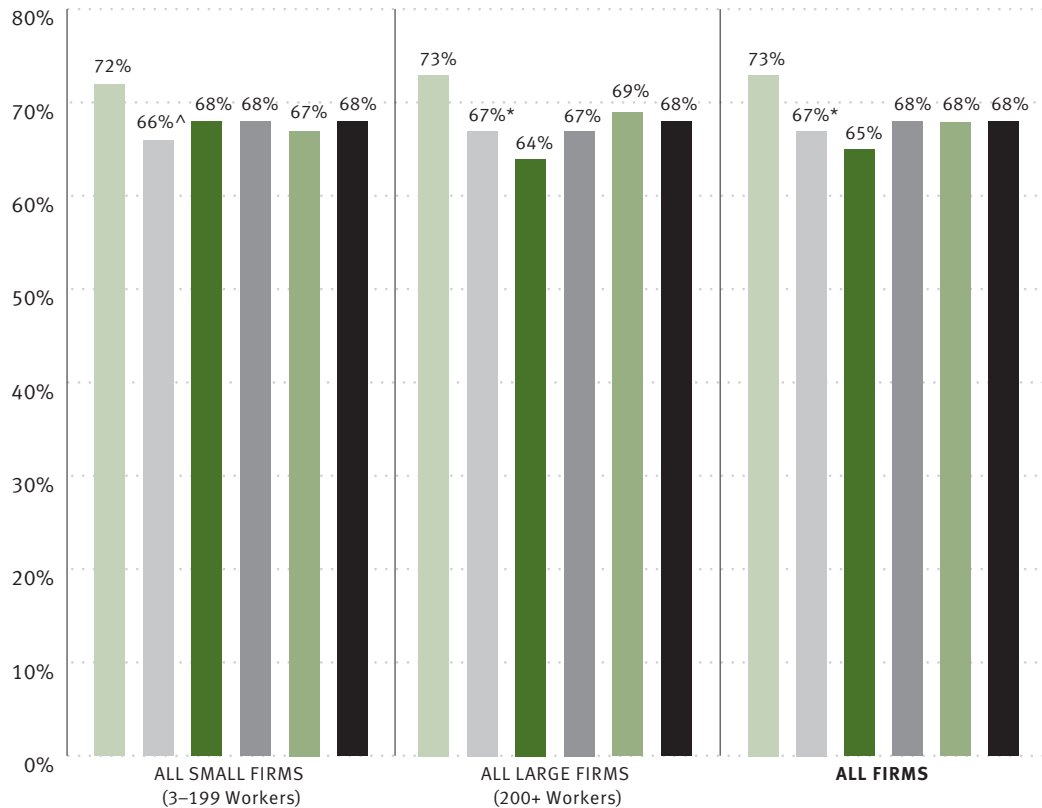
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002, 2003.

\* Tests found no statistically different estimates from the previous year shown: 1999-2000, 2000-2001, 2001-2002, 2002-2003.

Take-up rate: The percentage of eligible workers who choose to participate in health benefits offered by their employer.

## EXHIBIT 3.4

# Percentage of Workers in Firms Offering Health Benefits Who Are Covered by Their Employer's Health Plan, by Firm Size, 1989-2003



## SOURCE :

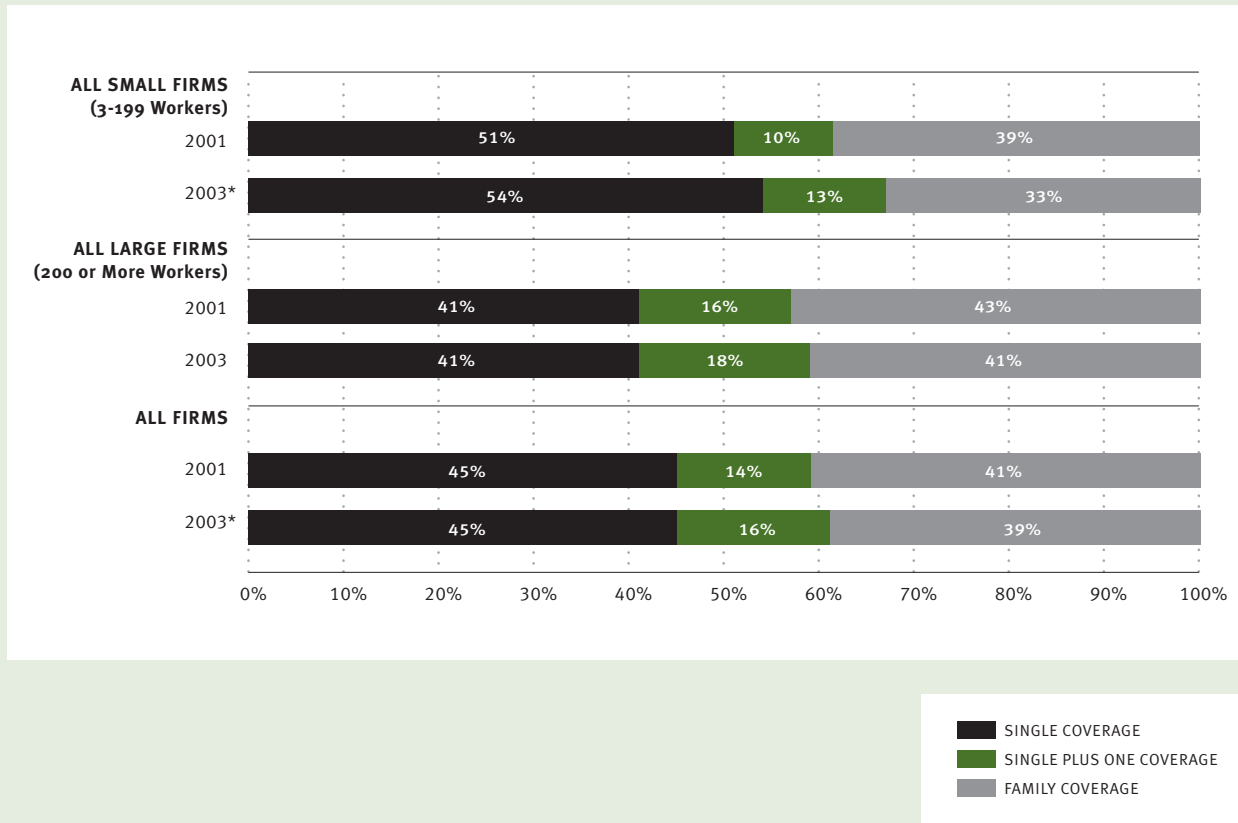
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003;  
KPMG Survey of Employer-Sponsored Health Benefits: 1989, 1996, 1998.

\* Estimate is statistically different from the previous years shown at  $p < 0.05$ : 1989-1996, 1996-1998, 1998-2000, 2000-2002, 2002-2003.

<sup>^</sup> Estimate is statistically different from the previous year shown at  $p < 0.1$ : 1989-1996, 1996-1998, 1998-2000, 2000-2002, 2002-2003.

## EXHIBIT 3.5

Percentage of Covered Workers Electing Single Coverage, Single Plus One Coverage, or Family Coverage, by Firm Size, 2001 and 2003



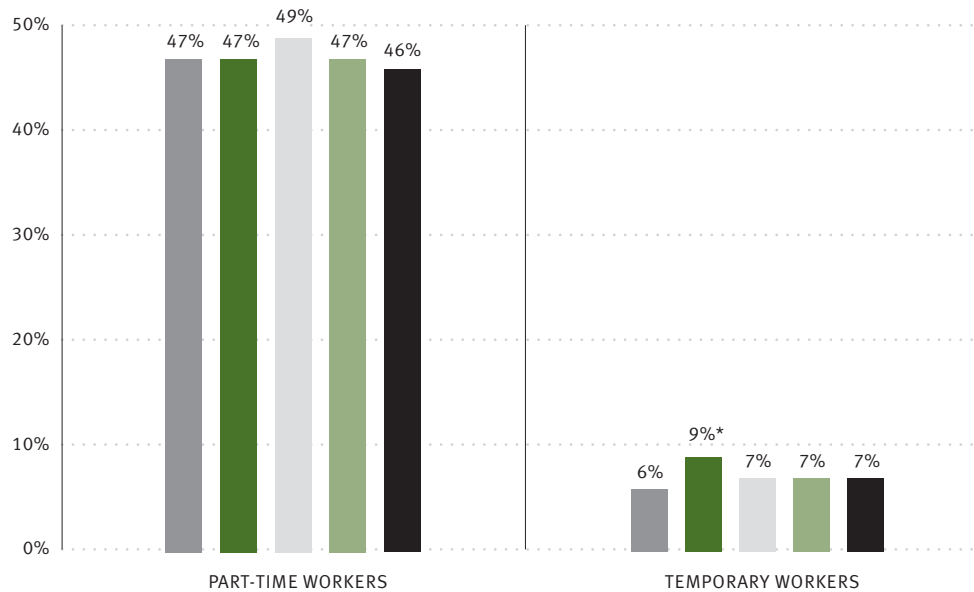
## SOURCE :

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

\* Distribution is statistically different from previous year shown: 2001-2003.

## EXHIBIT 3.6

# Percentage of Workers Employed in Firms That Offer Part-Time and Temporary Workers Health Coverage, 1999-2003



1999  
2000  
2001  
2002  
2003

## SOURCE :

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

\* Estimate is statistically different from the previous year shown: 1999-2000, 2000-2001, 2001-2002, 2002-2003.

## EXHIBIT 3.7

## Percentage of Workers Employed in Firms That Offer Part-Time and Temporary Workers Health Coverage, by Firm Size, Region, and Industry, 2003

	<i>Part-Time</i>	<i>Temporary</i>
<b>FIRM SIZE</b>		
Small (3-9 Workers)	28%*	2%*
Small (10-24 Workers)	21*	2*
Small (25-49 Workers)	25*	5
Small (50-199 Workers)	36*	2*
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>29*</b>	<b>3*</b>
Midsize (200-999 Workers)	38*	9
Large (1,000-4,999 Workers)	58*	6
Jumbo (5,000+ Workers)	59*	11
<b>ALL LARGE FIRMS (200+ WORKERS)</b>	<b>55%*</b>	<b>10%</b>
<b>REGION</b>		
Northeast	56%*	7%
Midwest	49	7
South	33*	5
West	55	12
<b>INDUSTRY</b>		
Mining/Construction/Wholesale	31%*	4%
Manufacturing	35*	1*
Transportation/Communication/Utility	39	7
Retail	36	10
Finance	47	10
Service	47	5
State/Local Government	66*	21*
Health Care	68*	6
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>46%</b>	<b>7%</b>

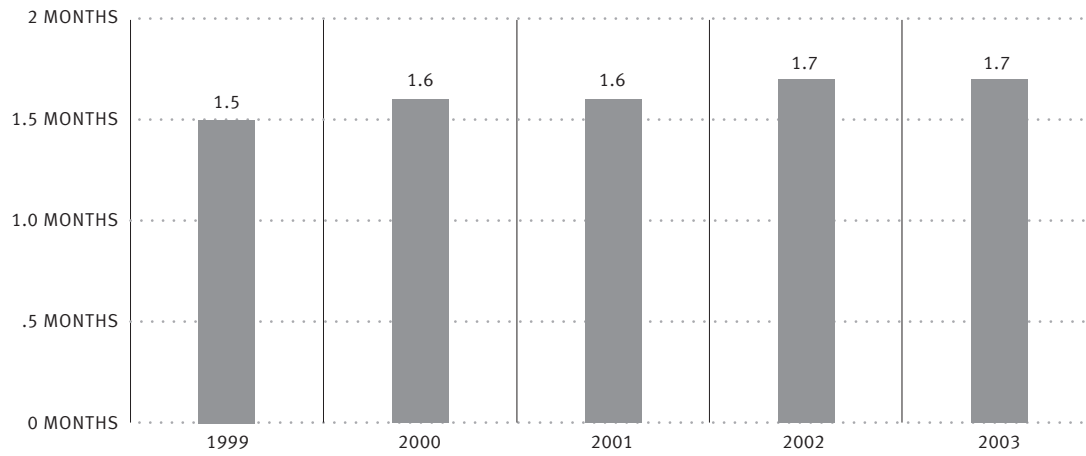
## SOURCE :

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

\* Estimate is statistically different from All Firms.

## EXHIBIT 3.8

## Average Waiting Period for New Employees to be Eligible for Health Coverage, 2003\*



## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999-2003.

\* Tests found no statistically different estimates from the previous year shown: 1999-2000, 2000-2001, 2001-2002, 2002-2003.

## EXHIBIT 3.9

## Average Waiting Period for New Employees to be Eligible for Health Coverage, by Firm Size, Region, and Industry, 2003

	Average Wait for Health Coverage (Months)
<b>FIRM SIZE</b>	
Small (3-9 Workers)	3.5*
Small (10-24 Workers)	2.4*
Small (25-49 Workers)	2.4
Small (50-199 Workers)	1.7
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>2.3*</b>
Midsize (200-999 Workers)	1.9
Large (1,000-4,999 Workers)	1.6
Jumbo (5,000+ Workers)	1.3*
<b>ALL LARGE FIRMS (200+ WORKERS)</b>	<b>1.5*</b>
<b>REGION</b>	
Northeast	1.5
Midwest	1.6
South	1.9
West	1.9
<b>INDUSTRY</b>	
Mining/Construction/Wholesale	2.5*
Manufacturing	1.6
Transportation/Communication/Utility	1.9
Retail	2.5*
Finance	1.4*
Service	1.6
State/Local Government	1.3*
Health Care	1.7
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>1.7 MONTHS</b>

## SOURCE :

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

\* Estimate is statistically different from All Firms.



EMPLOYER HEALTH BENEFITS  
2003 ANNUAL SURVEY

---

# Health Insurance Choice

---

SECTION

4

## HEALTH INSURANCE CHOICE

MOST WORKERS WITH HEALTH BENEFITS CONTINUE TO HAVE A CHOICE OF HEALTH PLANS, WITH 62% OF COVERED WORKERS OFFERED A CHOICE OF PLANS. NUMEROUS STUDIES HAVE FOUND THAT PLAN CHOICE IS ONE OF THE BEST PREDICTORS OF EMPLOYEE SATISFACTION WITH HEALTH PLANS.<sup>10</sup>

## PLAN CHOICE

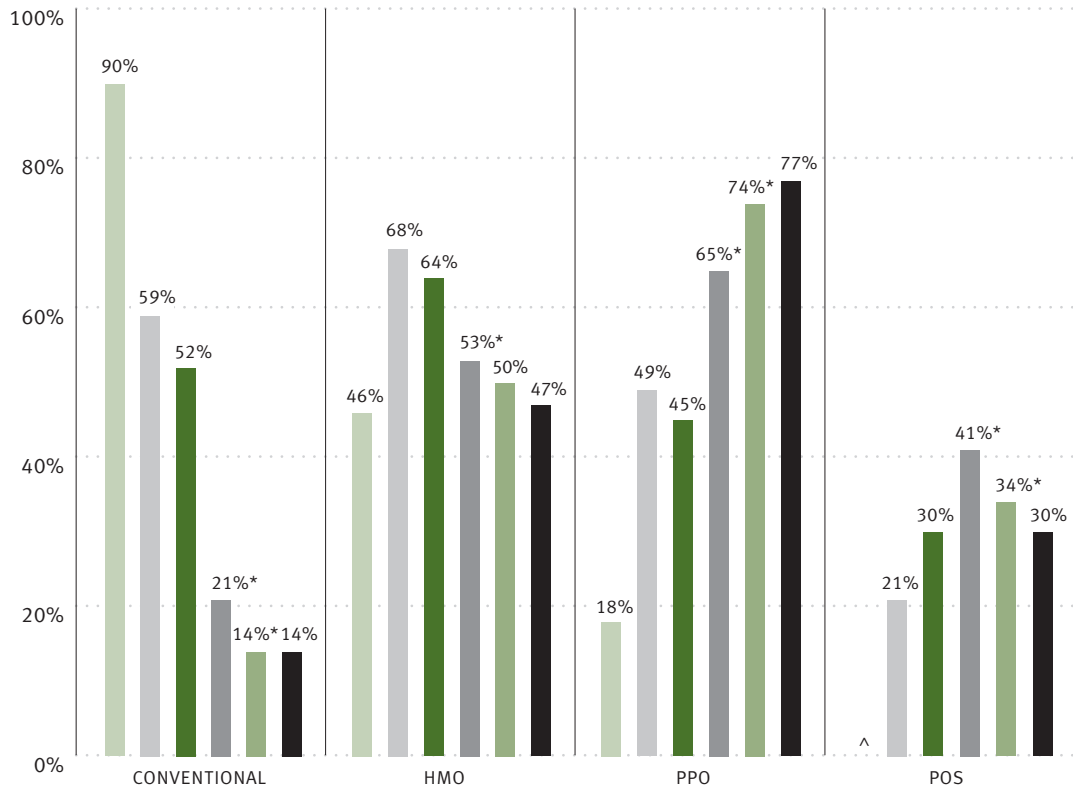
- ▶ PPO coverage, a less restrictive form of managed care, continues in 2003 to be the most common health plan option offered to covered workers. The percentage of covered workers with an HMO option has fallen in recent years (EXHIBIT 4.1).
- *Seventy-seven percent of covered workers can choose a PPO plan. Since 1988, the percentage of workers with a PPO as a choice has quadrupled from 18% to 77%.*
- *The percentage of covered workers who can choose an HMO has fallen from 53% in 2000 to 47% in 2003.*
- *The percentage of covered workers who can choose conventional coverage has fallen dramatically since 1988, from 90% to just 14% this year.*
- *The availability of POS plans is statistically unchanged in 2003, with 30% of covered workers having the option.*
- ▶ The percentage of covered workers who can choose from multiple health plans has remained relatively stable since 1996. In 2003, 62% of covered workers have more than one health plan option. Forty-seven percent of covered workers have just one plan option, similar to last year (EXHIBIT 4.3).
- *Health plan choice varies greatly by firm size: 69% of all small firms (3-199 workers) offer just one plan, compared with 20% of jumbo firms (5,000 or more workers) (EXHIBIT 4.2).*
- *Workers in the Northeast enjoy considerably more plan choice than their counterparts in the South and Midwest. More than two-thirds (72%) of workers in the Northeast can choose from at least two plans, while just 56% of Southern workers can do the same (EXHIBIT 4.5).*

## NOTE:

- <sup>10</sup> R. Ullman, et. al., "Satisfaction and Choice: A View From the Plans," *Health Affairs* (May/June 1997).  
K. Davis, et.al., "Choice Matters: Enrollees' View of Their Health Plans," *Health Affairs* (Summer 1995).

## EXHIBIT 4.1

## Percentage of Covered Workers With a Choice of Conventional, HMO, PPO, or POS Plans, 1988-2003



1988  
1993  
1996  
2000  
2002  
2003

## SOURCE :

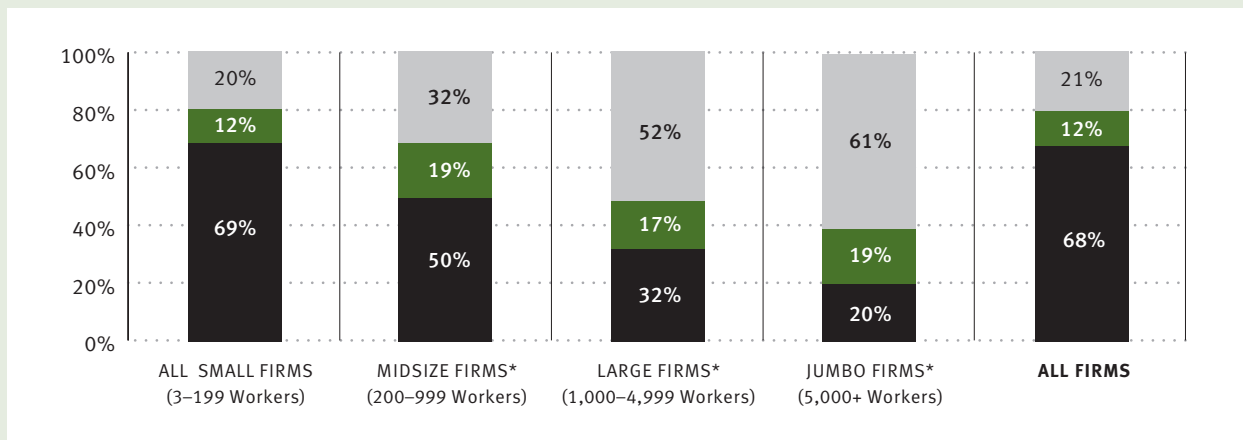
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

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

^ Information was not obtained for POS plans in 1988.

EXHIBIT 4.2

## Percentage of Employers Providing a Choice of Health Plans, by Firm Size, 2003



## SOURCE :

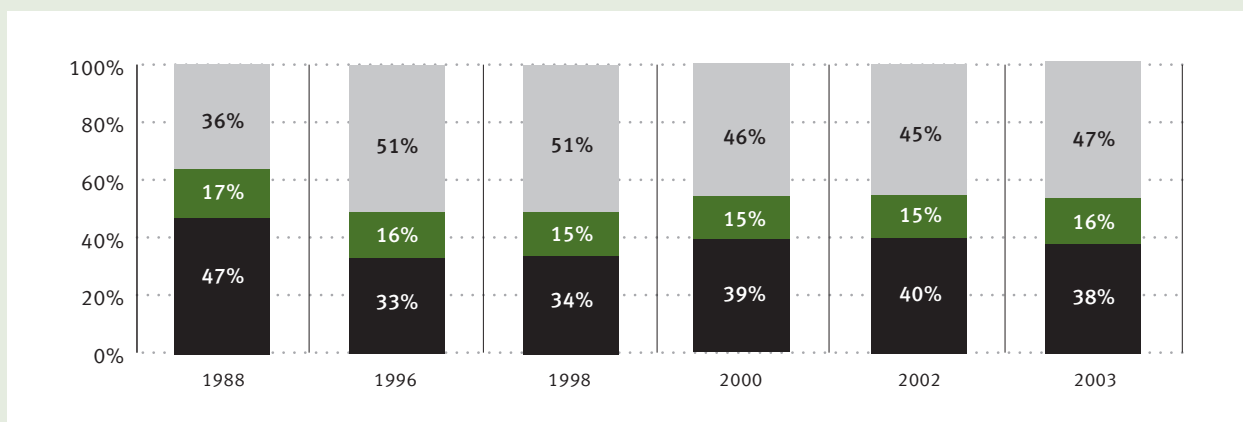
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

\* Distribution is statistically different from All Firms.

ONE PLAN  
TWO PLANS  
THREE OR MORE PLANS

EXHIBIT 4.3

## Percentage of Covered Workers With a Choice of Health Plans, 1988-2003



## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1996, 1998.

ONE PLAN  
TWO PLANS  
THREE OR MORE PLANS

## EXHIBIT 4.4

## Percentage of Covered Workers With a Choice of Health Plans, by Firm Size, 1996-2003

	<i>1 Plan Only</i>	<i>2 Plans</i>	<i>3 or More Plans</i>
<b>1996</b>			
All Large Firms (200+ Workers)*	21%	17%	63%
All Small Firms (3-199 Workers)*	79	15	6
<b>ALL FIRM SIZES</b>	<b>33%</b>	<b>16%</b>	<b>51%</b>
<b>2000</b>			
All Large Firms (200+ Workers)*	20%	15%	65%
All Small Firms (3-199 Workers)*	77	14	9
<b>ALL FIRM SIZES</b>	<b>39%</b>	<b>15%</b>	<b>46</b>
<b>2002</b>			
All Large Firms (200+ Workers)*	23%	15%	62%
All Small Firms (3-199 Workers)*	76	15	10
<b>ALL FIRM SIZES</b>	<b>40%</b>	<b>15%</b>	<b>45%</b>
<b>2003</b>			
All Large Firms (200+ Workers)*	26%	15%	59%
All Small Firms (3-199 Workers)*	62	17	21
<b>ALL FIRM SIZES</b>	<b>38%</b>	<b>16%</b>	<b>47%</b>

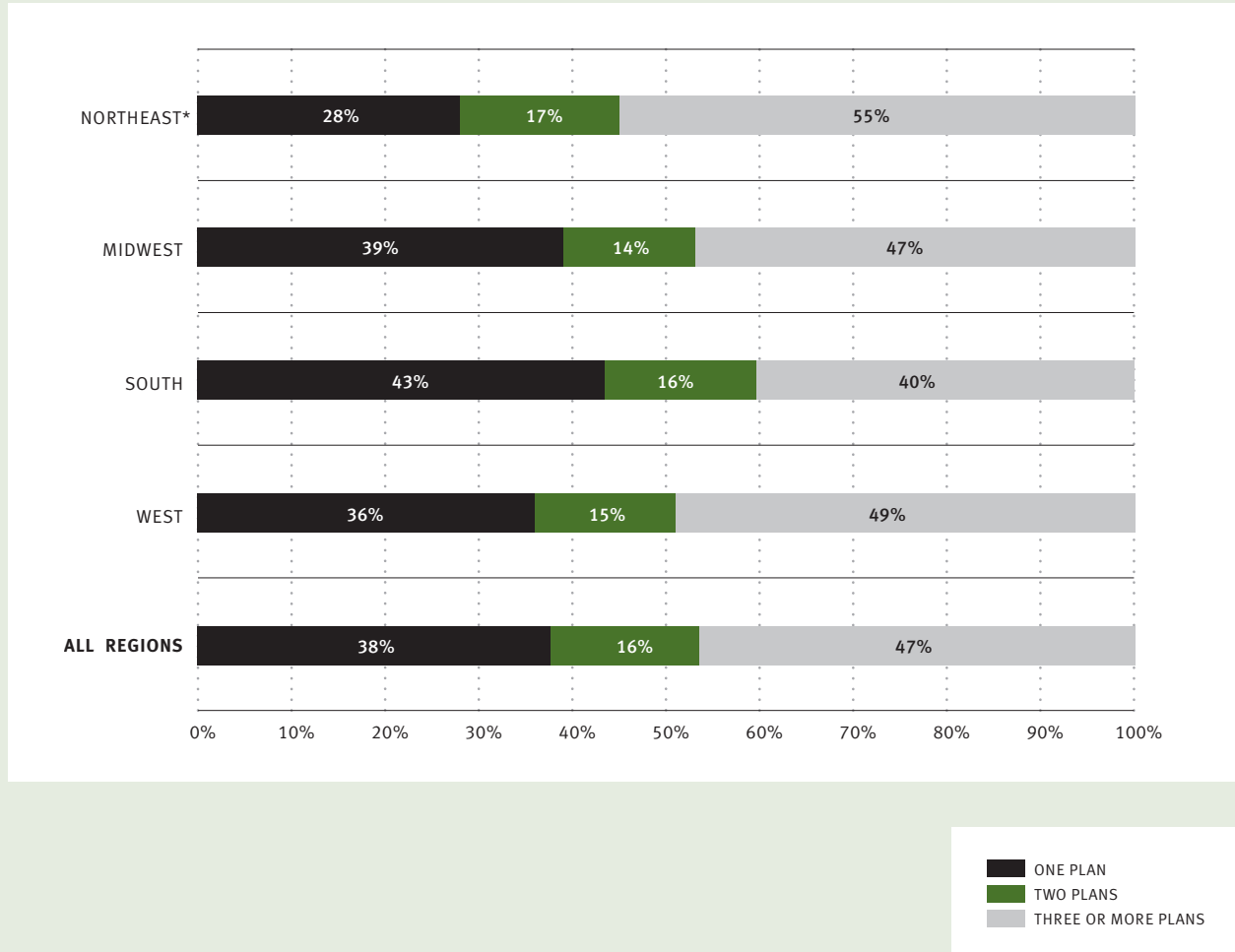
## SOURCE :

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

\* Distribution is statistically different from All Firm Sizes by year.

## EXHIBIT 4.5

## Percentage of Covered Workers With a Choice of Health Plans, by Region, 2003



## SOURCE :

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

\* Distribution is significantly different from All Regions.

## EXHIBIT 4.6

For Employers That Offer a Conventional, HMO, PPO, or POS Plan, Percentage of Covered Workers With a Choice of Health Plans, by Plan Type and Firm Size, 2003

	1 Plan Only	2 Plans	3 or More Plans
<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)	NSD	NSD	NSD
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>83%</b>	<b>1%</b>	<b>16%</b>
Midsize (200-999 Workers)	79	11	10
Large (1,000-4,999 Workers)	72	20	8
Jumbo (5,000+ Workers)	66	23	12
<b>ALL FIRM SIZES</b>	<b>74%</b>	<b>13%</b>	<b>13%</b>
<b>HMO PLANS</b>			
Small (3-9 Workers)	NSD	NSD	NSD
Small (10-24 Workers)*	82%	1%	16%
Small (25-49 Workers)	57	5	38
Small (50-199 Workers)*	58	19	24
<b>ALL SMALL FIRMS (3-199 WORKERS)*</b>	<b>64</b>	<b>8</b>	<b>28</b>
Midsize (200-999 Workers)	35	25	40
Large (1,000-4,999 Workers)	35	27	39
Jumbo (5,000+ Workers)*	23	11	65
<b>ALL FIRM SIZES</b>	<b>38%</b>	<b>14%</b>	<b>48%</b>
<b>PPO PLANS</b>			
Small (3-9 Workers)	79%	7%	14%
Small (10-24 Workers)*	82	5	13
Small (25-49 Workers)*	87	5	8
Small (50-199 Workers)	71	16	13
<b>ALL SMALL FIRMS (3-199 WORKERS)*</b>	<b>78</b>	<b>10</b>	<b>12</b>
Midsize (200-999 Workers)*	77	9	14
Large (1,000-4,999 Workers)	61	16	23
Jumbo (5,000+ Workers)*	50	29	20
<b>ALL FIRM SIZES</b>	<b>65%</b>	<b>18%</b>	<b>17%</b>
<b>POS PLANS</b>			
Small (3-9 Workers)*	89%	2%	9%
Small (10-24 Workers)	66	18	16
Small (25-49 Workers)*	93	5	2
Small (50-199 Workers)	63	28	8
<b>ALL SMALL FIRMS (3-199 WORKERS)*</b>	<b>74</b>	<b>17</b>	<b>9</b>
Midsize (200-999 Workers)	63	22	16
Large (1,000-4,999 Workers)	55	11	34
Jumbo (5,000+ Workers)	55	16	29
<b>ALL FIRM SIZES</b>	<b>63%</b>	<b>16%</b>	<b>21%</b>

## SOURCE :

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

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

NSD: Not sufficient data.

THIS PAGE IS INTENTIONALLY BLANK



EMPLOYER HEALTH BENEFITS  
2003 ANNUAL SURVEY

---

Market  
Shares of  
Health Plans

---

SECTION

5

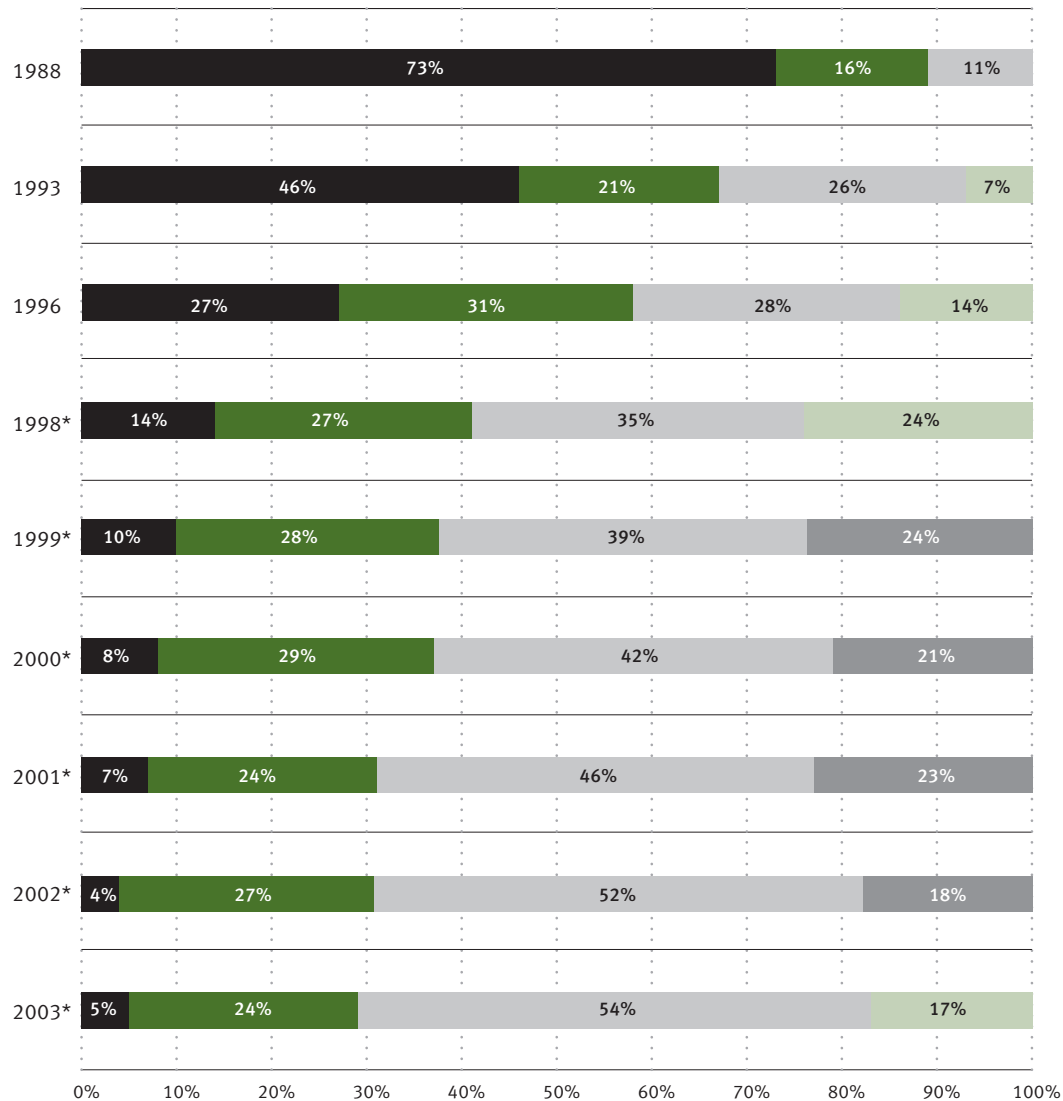
## MARKET SHARES OF HEALTH PLANS

DISTRIBUTION OF PLAN ENROLLMENT HAS NOT CHANGED SIGNIFICANTLY OVER THE LAST FEW YEARS. PPOS, WHICH HAVE GROWN STEADILY IN ENROLLMENT SINCE 1996, ENROLL ABOUT ONE-HALF (54%) OF COVERED WORKERS IN 2003. HMO ENROLLMENT, WHICH DROPPED THROUGHOUT THE LATE 1990S, HAS STABILIZED, ENROLLING ONE-QUARTER OF COVERED WORKERS (24%).

- ▶ More than half of covered workers (54%) are enrolled in PPO plans, up from 46% in 2001 and 39% in 1999 (EXHIBIT 5.1).
- PPO enrollment is particularly strong in the South (60%) and Midwest (61%) and in the mining, construction, and wholesale industries (60%), as well as in the transportation, communications, and utilities industries (59%) (EXHIBIT 5.2).
- ▶ After declining in the late 1990s, HMO plans now enroll 24% of covered workers (EXHIBIT 5.1).
- HMO enrollment remains higher in the West, where HMOs enroll 37% of workers (EXHIBIT 5.2).
- Workers in fully insured firms are more likely to be enrolled in HMOs (30%) than workers in self-funded arrangements (19%). Conversely, workers in self-funded arrangements are far more likely to be enrolled in a PPO plan (62%) than workers in firms that fully insure (46%).

## EXHIBIT 5.1

## Health Plan Enrollment for Covered Workers, by Plan Type, 1988-2003



## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002, 2003;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996, 1998.

\* Distribution is statistically different from the previous year shown: 1996-1998, 1998-1999,  
1999-2000, 2000-2001, 2001-2002, 2002-2003.

CONVENTIONAL  
HMO  
PPO  
POS

## EXHIBIT 5.2

## Health Plan Enrollment, by Firm Size, Region, and Industry, 2003

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>
<b>FIRM SIZE</b>				
Small (3-9 Workers)	14%	25%	37%*	23%
Small (10-24 Workers)	7	25	46	22
Small (25-49 Workers)	5	20	61	15
Small (50-199 Workers)	3	19	59	19
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>6</b>	<b>21*</b>	<b>53</b>	<b>20</b>
Midsize (200-999 Workers)	2*	19*	65*	15
Large (1,000-4,999 Workers)	3	26	55	16
Jumbo (5,000+ Workers)	5	28	51	16
<b>REGION</b>				
Northeast	5%	25%	47%*	23%*
Midwest	5	18*	61*	16
South	3	21	60	16
West	6	37*	44*	13
<b>INDUSTRY</b>				
Mining/Construction/Wholesale	5%	18%	60%	18%
Manufacturing	6	24	53	16
Transportation/Communication/Utility	3	23	59	15
Retail	7	21	56	16
Finance	2*	18*	57	24
Service	3	24	56	17
State/Local Government	7	33*	45*	16
Health Care	4	26	53	17
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>5%</b>	<b>24%</b>	<b>54%</b>	<b>17%</b>

## SOURCE :

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

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

EMPLOYER HEALTH BENEFITS  
2003 ANNUAL SURVEY

---

# Employee Contributions for Premiums

---

SECTION

6

## EMPLOYEE CONTRIBUTIONS FOR PREMIUMS

THE SHARE OF TOTAL PREMIUMS PAID BY WORKERS REMAINS VIRTUALLY UNCHANGED IN 2003: 16% ACROSS PLAN TYPES FOR SINGLE COVERAGE AND 27% FOR FAMILY COVERAGE.

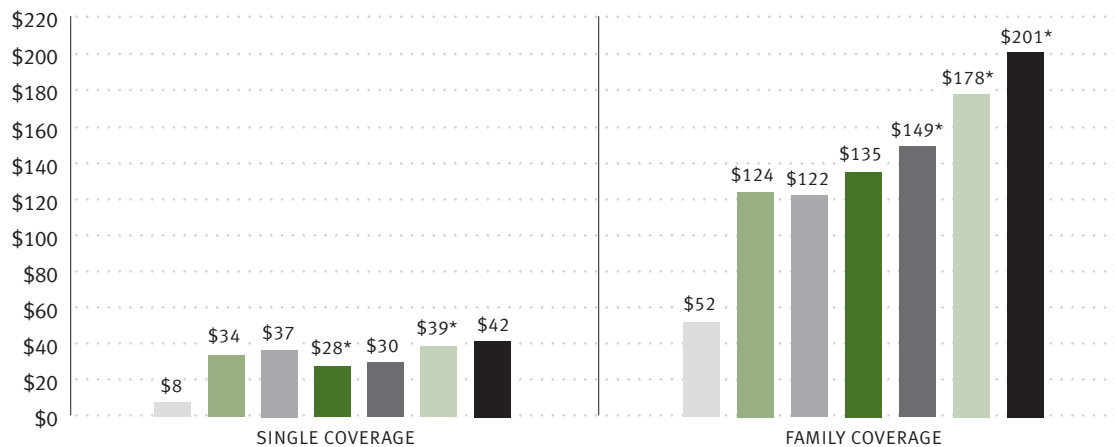
IN 2003, EMPLOYEE CONTRIBUTIONS FOR SINGLE COVERAGE WERE STATISTICALLY UNCHANGED WHILE CONTRIBUTIONS FOR FAMILY COVERAGE GREW BY 13%.

### WORKER CONTRIBUTIONS FOR HEALTH INSURANCE PREMIUMS

- ▶ The average monthly worker contribution for family coverage is \$201 in 2003, up from \$178 last year (EXHIBIT 6.1). On an annual basis, workers' contributions for family coverage increased \$276 overall. The average monthly worker contribution for single coverage was \$42 in 2003, similar to last year.
- ▶ The average percentage of total premiums that workers pay remains virtually unchanged in 2003: 16% across plan types for single coverage and 27% for family coverage (EXHIBIT 6.2). Percentage contributions for family coverage have remained fairly stable for a number of years, while those for single coverage declined from 1996 to 2000 (from 21% to 14%) and have been stable since that time.
- ▶ Nearly all firms that offer health insurance contribute 50% or more to the cost of premiums for their employees, perhaps because many insurers require a minimum contribution level before they will provide coverage (EXHIBITS 6.8, 6.9, 6.10). Employers are most likely to contribute 75-100% of premiums for single and family coverage.
  - *The percentage of covered workers whose employers pay the full cost of single or family coverage did not change in 2003.*
  - *Employers are more likely to pay the full cost of employee premiums for single coverage – 24% of covered workers have the full cost of single premiums paid by their employer, compared with 8% who have the full cost paid for family premiums.*
  - *However, workers in all small firms (3-199 workers) are much more likely to have to pay 50% or more of the premium cost for family coverage, at 31%, than are workers in all large firms (200 or more workers), at 6%.*
- ▶ In 2003, workers in all small firms (3-199 workers) pay an average of 34% of the premium for family coverage, compared with 24% for workers in all large firms (200 or more workers) (EXHIBIT 6.10). Workers in small firms pay an average of \$248 per month for family coverage compared to \$179 per month paid by workers in large firms (EXHIBIT 6.4).
- ▶ Employers in firms with a high percentage of low-wage workers – where 35% or more earn \$20,000 or less per year – contribute 36% of the premium for family coverage, compared with 26% of premiums paid by workers in firms with fewer low-wage workers (EXHIBIT 6.10). Workers in firms with union workers pay a lower share of the premium for family coverage, 21% of the premium, than do workers in firms with no union workers, at 32%.

EXHIBIT 6.1

Average Monthly Worker Contribution for Single and Family Premiums, 1988-2003



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

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

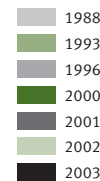
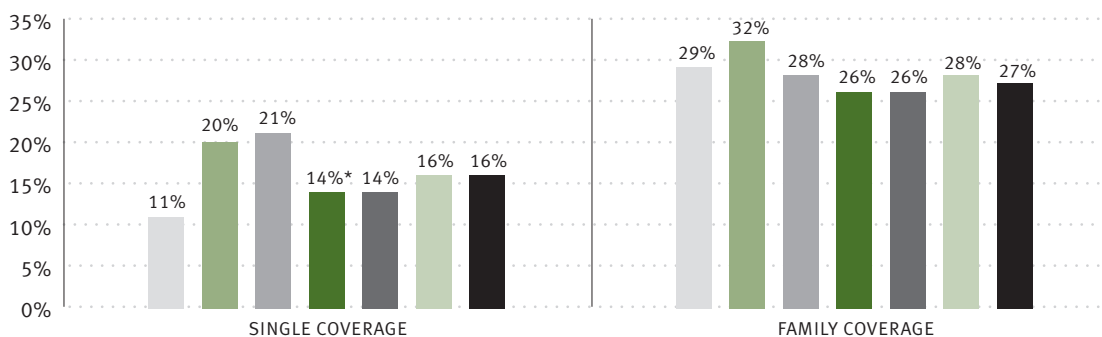


EXHIBIT 6.2

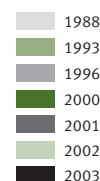
Percentage of Premium Paid by Covered Workers for Single and Family Coverage, 1988-2003



SOURCE :

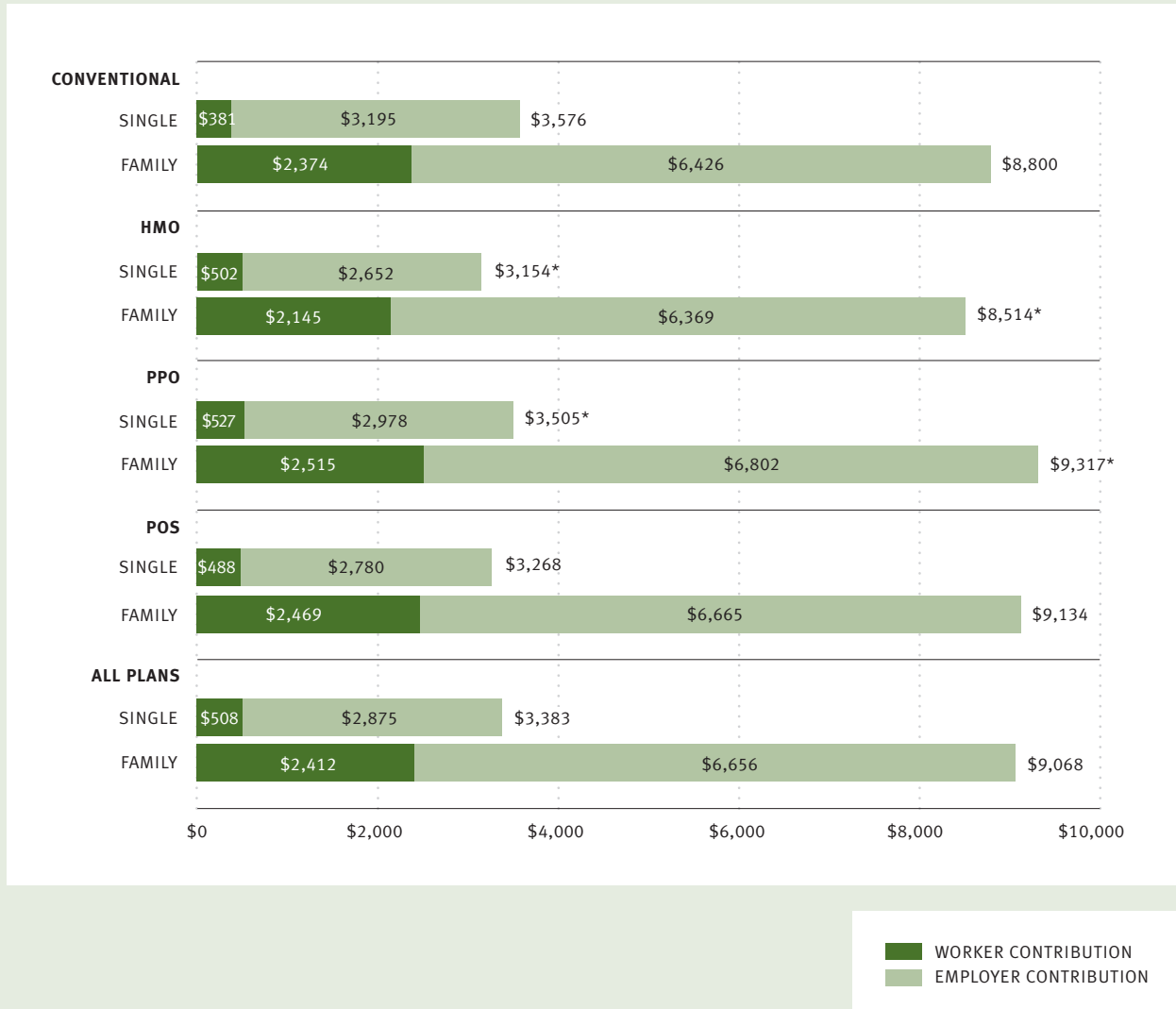
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

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



## EXHIBIT 6.3

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



## SOURCE:

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

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

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



## EXHIBIT 6.4

## Average Monthly Worker Premium Contributions, by Plan Type and Firm Size, 2003

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
<b>CONVENTIONAL PLANS</b>				
All Small Firms (3-199 Workers)	\$23	\$233	\$280	\$2,797
All Large Firms (200+ Workers)	38	174	451	2,082
<b>ALL FIRM SIZES</b>	<b>\$32</b>	<b>\$198</b>	<b>\$381</b>	<b>\$2,374</b>
<b>HMO PLANS</b>				
All Small Firms (3-199 Workers)	\$42	\$207	\$500	\$2,484
All Large Firms (200+ Workers)	42	168	503	2,010
<b>ALL FIRM SIZES</b>	<b>\$42</b>	<b>\$179</b>	<b>\$502</b>	<b>\$2,145</b>
<b>PPO PLANS</b>				
All Small Firms (3-199 Workers)	\$38	\$269*	\$452	\$3,226*
All Large Firms (200+ Workers)	47	182*	562	2,187*
<b>ALL FIRM SIZES</b>	<b>\$44</b>	<b>\$210</b>	<b>\$527</b>	<b>\$2,515</b>
<b>POS PLANS</b>				
All Small Firms (3-199 Workers)	\$36	\$238	\$437	\$2,854
All Large Firms (200+ Workers)	43	187	518	2,239
<b>ALL FIRM SIZES</b>	<b>\$41</b>	<b>\$206</b>	<b>\$488</b>	<b>\$2,469</b>
<b>ALL PLANS</b>				
All Small Firms (3-199 Workers)	\$37	\$248*	\$450	\$2,970*
All Large Firms (200+ Workers)	45	179*	536	2,146*
<b>ALL FIRM SIZES</b>	<b>\$42</b>	<b>\$201</b>	<b>\$508</b>	<b>\$2,412</b>

## SOURCE :

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

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

## EXHIBIT 6.5

## Average Monthly Worker Premium Contributions, by Plan Type and Region, 2003

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
<b>CONVENTIONAL PLANS</b>				
Northeast	\$26	\$197	\$308	\$2,366
Midwest	44	208	523	2,490
South	37	256	443	3,068
West	20	133	242	1,602
<b>ALL REGIONS</b>	<b>\$32</b>	<b>\$198</b>	<b>\$381</b>	<b>\$2,374</b>
<b>HMO PLANS</b>				
Northeast	\$46	\$159	\$554	\$1,903
Midwest	34	131*	409	1,576*
South	54	239*	645	2,874*
West	32*	162	379*	1,947
<b>ALL REGIONS</b>	<b>\$42</b>	<b>\$179</b>	<b>\$502</b>	<b>\$2,145</b>
<b>PPO PLANS</b>				
Northeast	\$53*	\$170*	\$633*	\$2,036*
Midwest	37*	152*	449*	1,827*
South	48	265*	582	3,176*
West	35	224	417	2,683
<b>ALL REGIONS</b>	<b>\$44</b>	<b>\$210</b>	<b>\$527</b>	<b>\$2,515</b>
<b>POS PLANS</b>				
Northeast	\$41	\$174	\$492	\$2,088
Midwest	41	173	491	2,079
South	39	244	470	2,929
West	42	234	509	2,814
<b>ALL REGIONS</b>	<b>\$41</b>	<b>\$206</b>	<b>\$488</b>	<b>\$2,469</b>
<b>ALL PLANS</b>				
Northeast	\$47	\$169*	\$566	\$2,029*
Midwest	38	155*	452	1,854*
South	48	256*	573	3,070*
West	34*	197	405*	2,364
<b>ALL REGIONS</b>	<b>\$42</b>	<b>\$201</b>	<b>\$508</b>	<b>\$2,412</b>

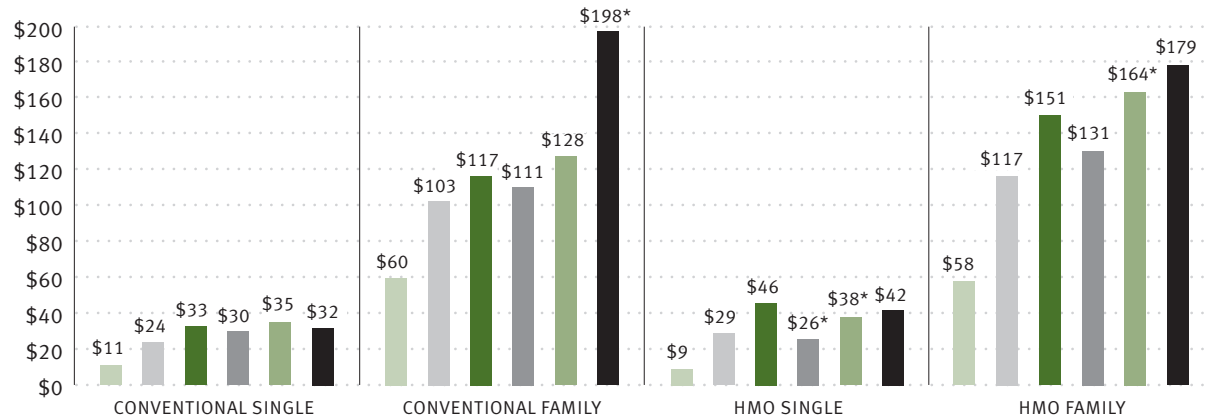
## SOURCE :

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

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

## EXHIBIT 6.6

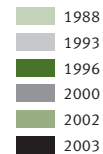
## Monthly Worker Contributions for Single and Family Coverage in Conventional and HMO Plans, 1988-2003



## SOURCE :

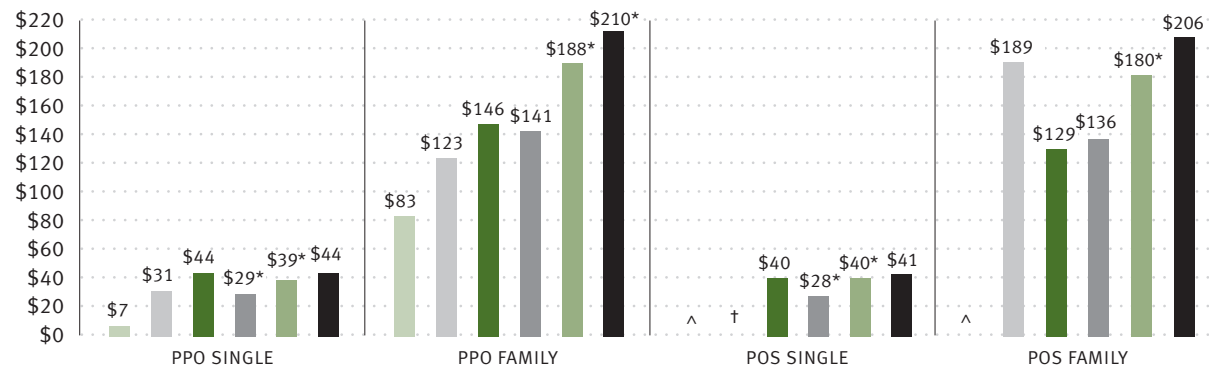
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

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



## EXHIBIT 6.7

## Monthly Worker Contributions for Single and Family Coverage in PPO and POS Plans, 1988-2003



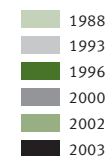
## SOURCE :

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

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

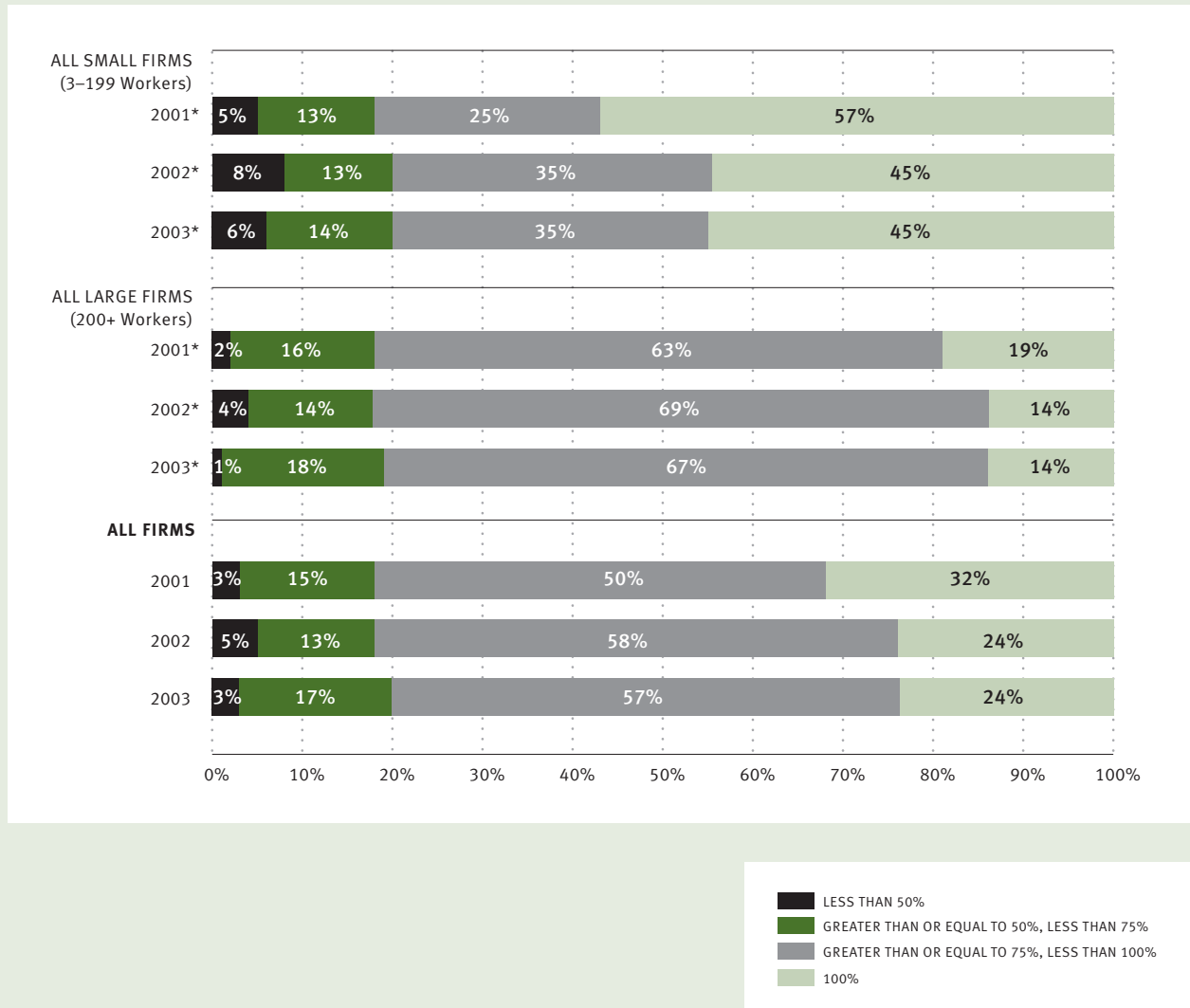
^ Information was not obtained for POS plans in 1988.

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



## EXHIBIT 6.8

## Distribution of Percentage of Single Premiums Paid by Firms for Covered Workers, by Firm Size, 2001-2003



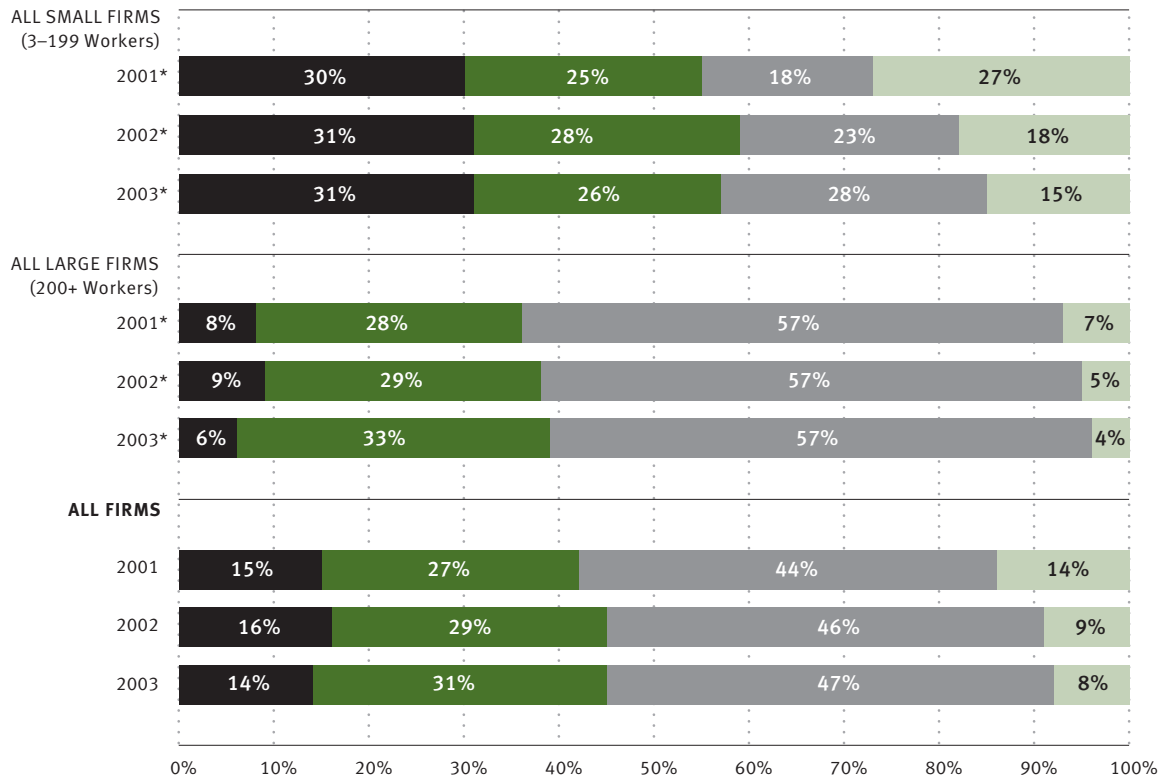
## SOURCE :

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

\* Distribution is statistically different from All Firms by Year.

## EXHIBIT 6.9

## Distribution of Percentage of Family Premiums Paid by Firms for Covered Workers, by Firm Size, 2001-2003



■ LESS THAN 50%  
 ■ GREATER THAN OR EQUAL TO 50%, LESS THAN 75%  
 ■ GREATER THAN OR EQUAL TO 75%, LESS THAN 100%  
 ■ 100%

## SOURCE :

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

\* Distribution is statistically different from All Firms by Year.

## EXHIBIT 6.10

## Percentage of Overall Single and Family Premiums Paid by Firm, by Percentage of Workforce That is Low Wage, 2003

	<i>Single Coverage</i>	<i>Family Coverage</i>
<b>PERCENT OF WORKFORCE EARNING \$20,000 OR LESS PER YEAR</b>		
Less Than 35% (Higher Wage Firms)	85%	74%
35% or More (Lower Wage Firms)	81%*	64%*
<b>ALL FIRMS</b>	<b>84%</b>	<b>73%</b>

## SOURCE :

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

\* Estimate is statistically different from All Firms.

## EXHIBIT 6.11

## Percentage of Premium Paid by Firm for Typical Covered Worker, by Plan Type and Firm Size, 2003

	<i>Single Coverage</i>	<i>Family Coverage</i>
<b>CONVENTIONAL PLANS</b>		
All Small Firms (3-199 Workers)	92%	68%
All Large Firms (200+ Workers)	88	76
<b>ALL FIRM SIZES</b>	<b>90%</b>	<b>73%</b>
<b>HMO PLANS</b>		
All Small Firms (3-199 Workers)	83%	68%
All Large Firms (200+ Workers)	84	76
<b>ALL FIRM SIZES</b>	<b>84%</b>	<b>74%</b>
<b>PPO PLANS</b>		
All Small Firms (3-199 Workers)	86%	63%*
All Large Firms (200+ Workers)	83	76*
<b>ALL FIRM SIZES</b>	<b>84%</b>	<b>72%</b>
<b>POS PLANS</b>		
All Small Firms (3-199 Workers)	86%	68%
All Large Firms (200+ Workers)	83	75
<b>ALL FIRM SIZES</b>	<b>84%</b>	<b>72%</b>
<b>ALL PLANS</b>		
All Small Firms (3-199 Workers)	86%	66%*
All Large Firms (200+ Workers)	84	76*
<b>ALL FIRM SIZES</b>	<b>84%</b>	<b>73%</b>

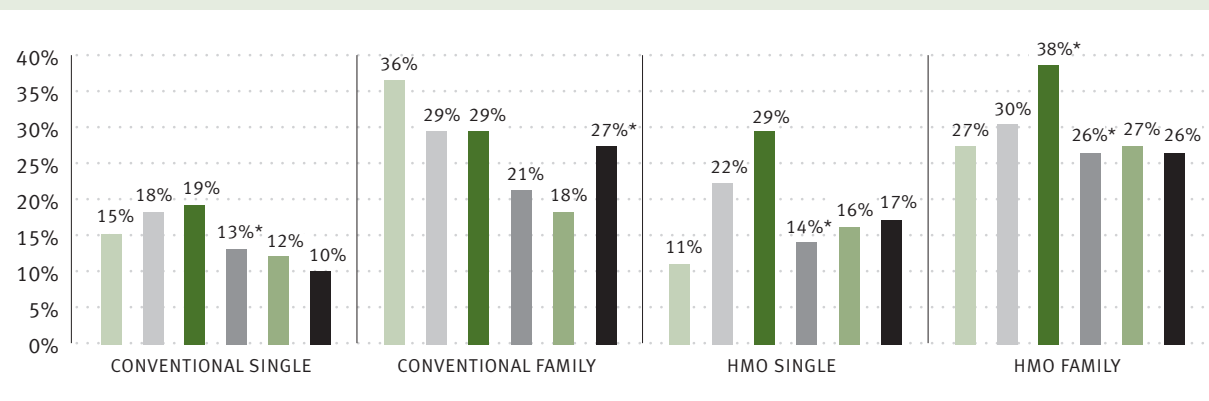
## SOURCE:

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

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

## EXHIBIT 6.12

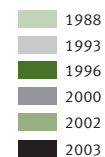
## Percentage of Premium Paid by Workers in Conventional and HMO Plans, 1988-2003



## SOURCE :

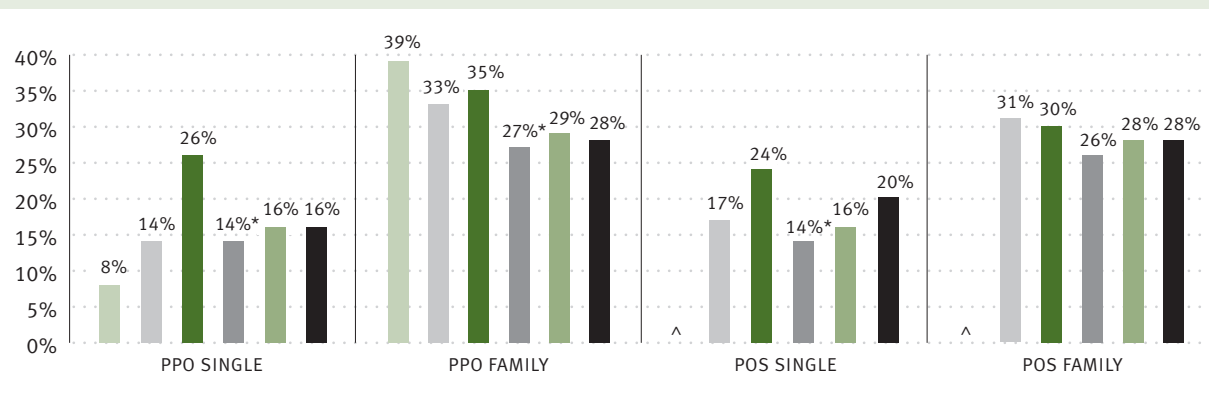
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1993, 1996.

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



## EXHIBIT 6.13

## Percentage of Premium Paid by Workers in PPO and POS Plans, 1988-2003

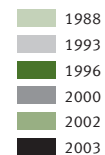


## SOURCE :

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

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

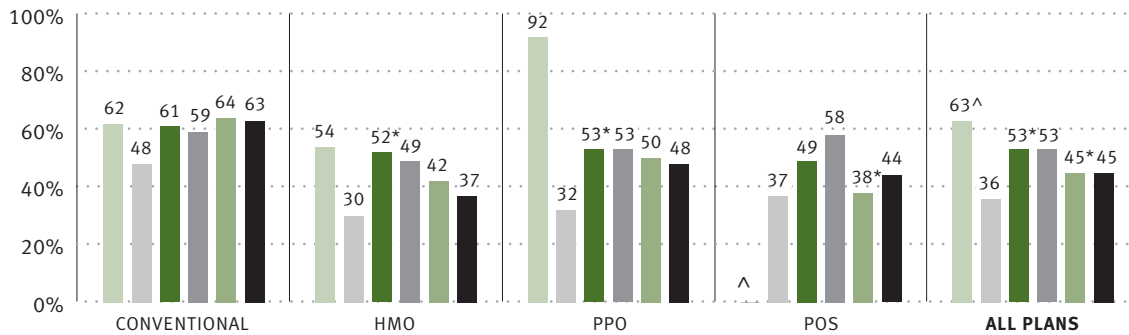
^ Information was not obtained for POS plans in 1988.





## EXHIBIT 6.14

Percentage of Covered Workers in Plans Where Firm Pays Entire Cost of Single Plan Coverage, All Small Firms (3-199 Workers), 1988-2003

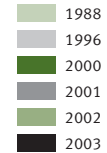


## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1996.

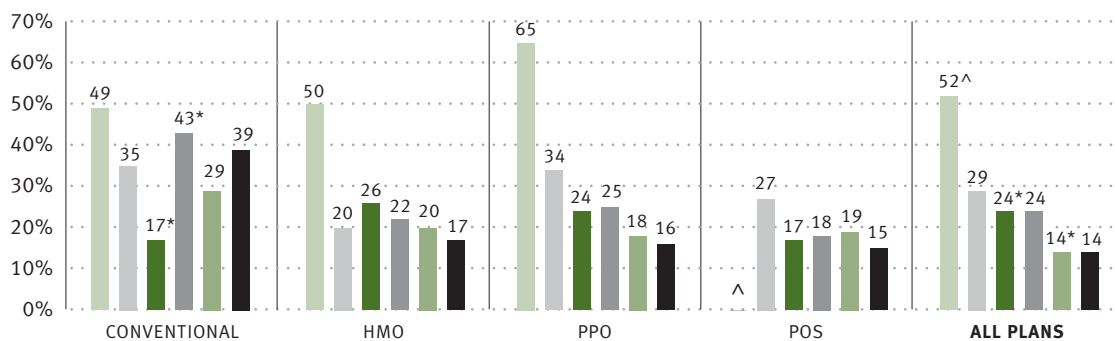
\* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2001, 2001-2002, 2002-2003.

^ Information was not obtained for POS plans in 1988.



## EXHIBIT 6.15

Percentage of Covered Workers in Plans Where Firm Pays Entire Cost of Single Plan Coverage, All Large Firms (200 or More Workers), 1988-2003

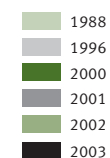


## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1996.

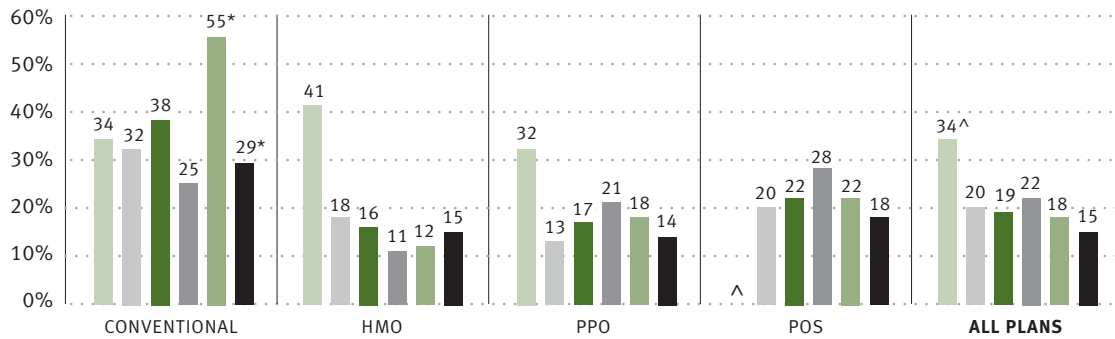
\* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2001, 2001-2002, 2002-2003.

^ Information was not obtained for POS plans in 1988.



## EXHIBIT 6.16

## Percentage of Covered Workers in Plans Where Firm Pays Entire Cost of Family Plan Coverage, All Small Firms (3-199 Workers), 1988-2003

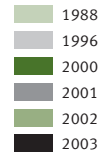


## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1996.

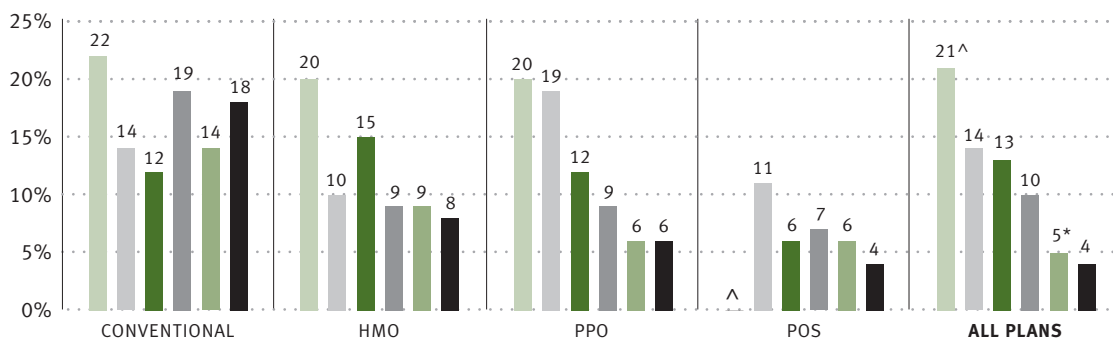
\* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2001, 2001-2002, 2002-2003.

^ Information was not obtained for POS plans in 1988.



## EXHIBIT 6.17

## Percentage of Covered Workers in Plans Where Firm Pays Entire Cost of Family Plan Coverage, All Large Firms (200 or More Workers), 1988-2003

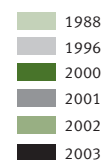


## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1996.

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

^ Information was not obtained for POS plans in 1988.



## EXHIBIT 6.18

## Percentage of Premium Paid by Firm for Typical Covered Worker, by Plan Type and Region, 2003

	<i>Single Coverage</i>	<i>Family Coverage</i>
<b>CONVENTIONAL PLANS</b>		
Northeast	92%	77%
Midwest	86	70
South	87	64*
West	94	82
<b>ALL REGIONS</b>	<b>90%</b>	<b>73%</b>
<b>HMO PLANS</b>		
Northeast	83%	78%*
Midwest	87	81*
South	80	67*
West	85	74
<b>ALL REGIONS</b>	<b>84%</b>	<b>74%</b>
<b>PPO PLANS</b>		
Northeast	81%*	79%*
Midwest	86	80*
South	83	65*
West	88	68
<b>ALL REGIONS</b>	<b>84%</b>	<b>72%</b>
<b>POS PLANS</b>		
Northeast	85%	77%
Midwest	83	75
South	86	68
West	82	68
<b>ALL REGIONS</b>	<b>84%</b>	<b>72%</b>
<b>ALL PLANS</b>		
Northeast	83%	78%*
Midwest	86	79*
South	83	66*
West	87	71
<b>ALL REGIONS</b>	<b>84%</b>	<b>73%</b>

## SOURCE :

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

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

## EXHIBIT 6.19

## Percentage of Premium Paid by Firm for Typical Covered Worker, by Plan Type and Industry, 2003

	<i>Single Coverage</i>	<i>Family Coverage</i>
<b>CONVENTIONAL PLANS</b>		
Mining/Construction/Wholesale	NSD	NSD
Manufacturing	NSD	NSD
Transportation/Communication/Utility	NSD	NSD
Retail	NSD	NSD
Finance	NSD	NSD
Service	89	72
State/Local Government	95*	69
Health Care	NSD	NSD
<b>ALL INDUSTRIES</b>	<b>90%</b>	<b>73%</b>
<b>HMO PLANS</b>		
Mining/Construction/Wholesale	74%	75%
Manufacturing	83	78
Transportation/Communication/Utility	84	80
Retail	78	68
Finance	79	71
Service	84	72
State/Local Government	89*	79
Health Care	82	65*
<b>ALL INDUSTRIES</b>	<b>84%</b>	<b>74%</b>
<b>PPO PLANS</b>		
Mining/Construction/Wholesale	85%	74%
Manufacturing	84	80*
Transportation/Communication/Utility	86	77
Retail	79*	68
Finance	82	69
Service	83	68
State/Local Government	91*	74
Health Care	88	67
<b>ALL INDUSTRIES</b>	<b>84%</b>	<b>72%</b>
<b>POS PLANS</b>		
Mining/Construction/Wholesale	87%	81%*
Manufacturing	85	79*
Transportation/Communication/Utility	72*	66
Retail	73*	58*
Finance	85	72
Service	86	69
State/Local Government	88	76
Health Care	88	72
<b>ALL INDUSTRIES</b>	<b>84%</b>	<b>72%</b>
<b>ALL PLANS</b>		
Mining/Construction/Wholesale	84%	76%
Manufacturing	84	79*
Transportation/Communication/Utility	83	76
Retail	78*	66*
Finance	82	70
Service	84	69*
State/Local Government	90*	76
Health Care	87	67*
<b>ALL INDUSTRIES</b>	<b>84%</b>	<b>73%</b>

## SOURCE :

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

\* Estimate is statistically different from All Industries by plan type.

NSD: Not sufficient data.

EMPLOYER HEALTH BENEFITS  
2003 ANNUAL SURVEY

---

# Employee Cost Sharing

---

SECTION

7

## EMPLOYEE COST SHARING

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

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

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

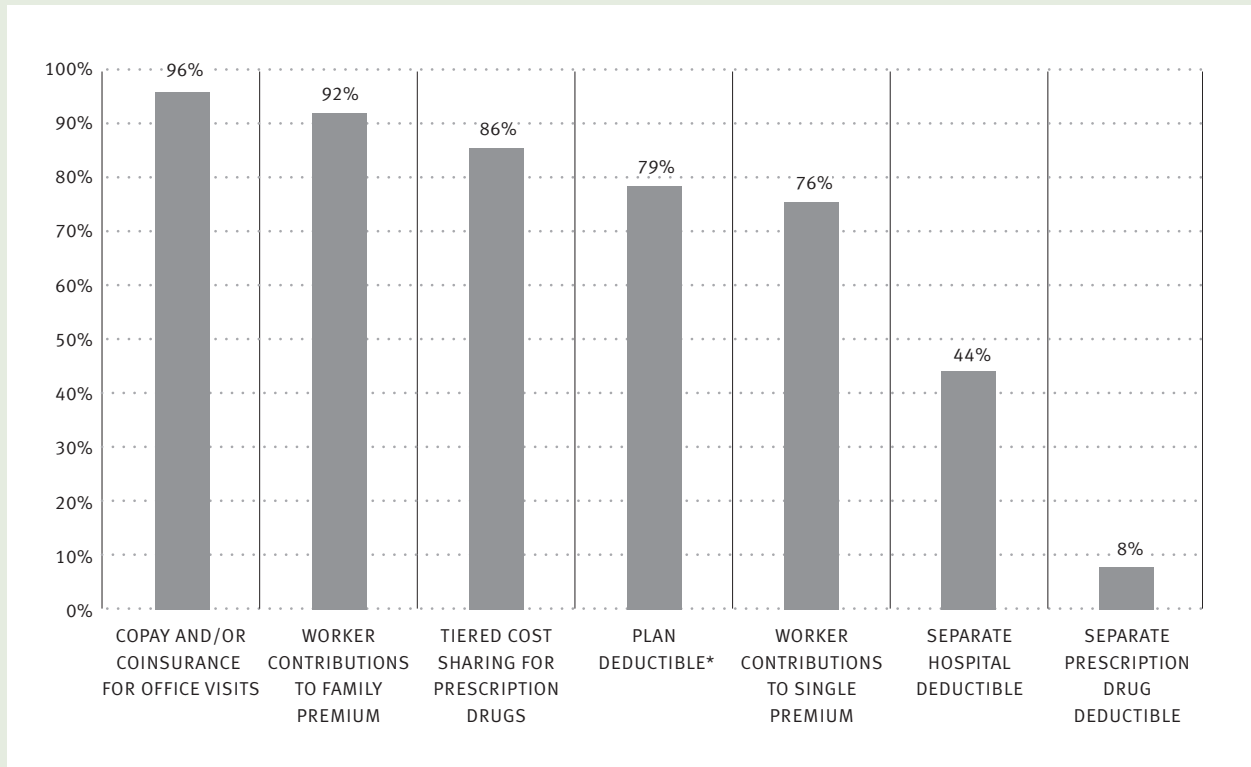
### NOTE:

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

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

## EXHIBIT 7.1

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



## SOURCE :

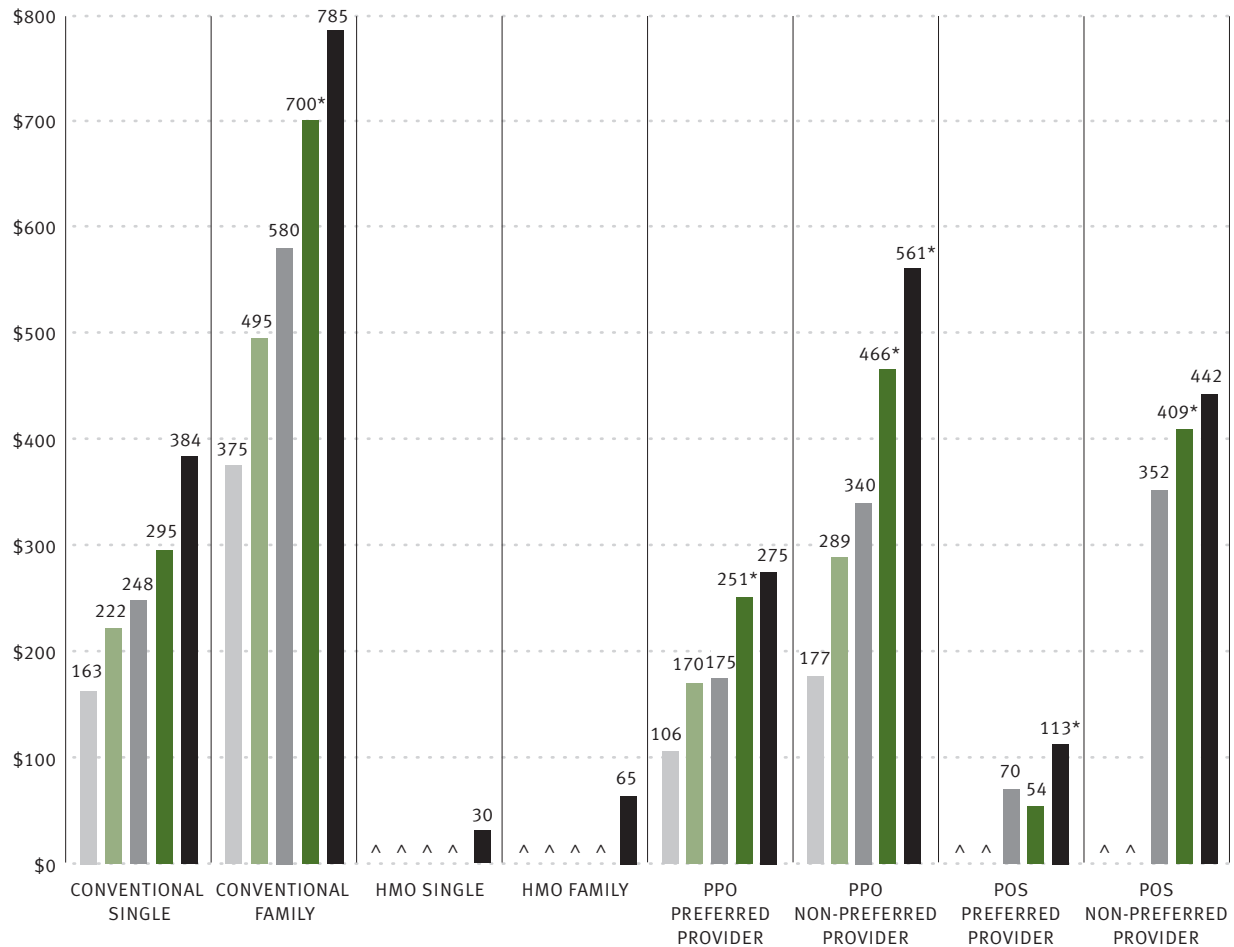
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

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



## EXHIBIT 7.2

## Average Annual Deductibles by Plan Type, 1988-2003



## SOURCE :

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

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

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

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

## EXHIBIT 7.3

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

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

## SOURCE:

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

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

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

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

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

## EXHIBIT 7.4

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

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

## SOURCE :

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

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

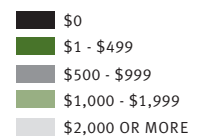
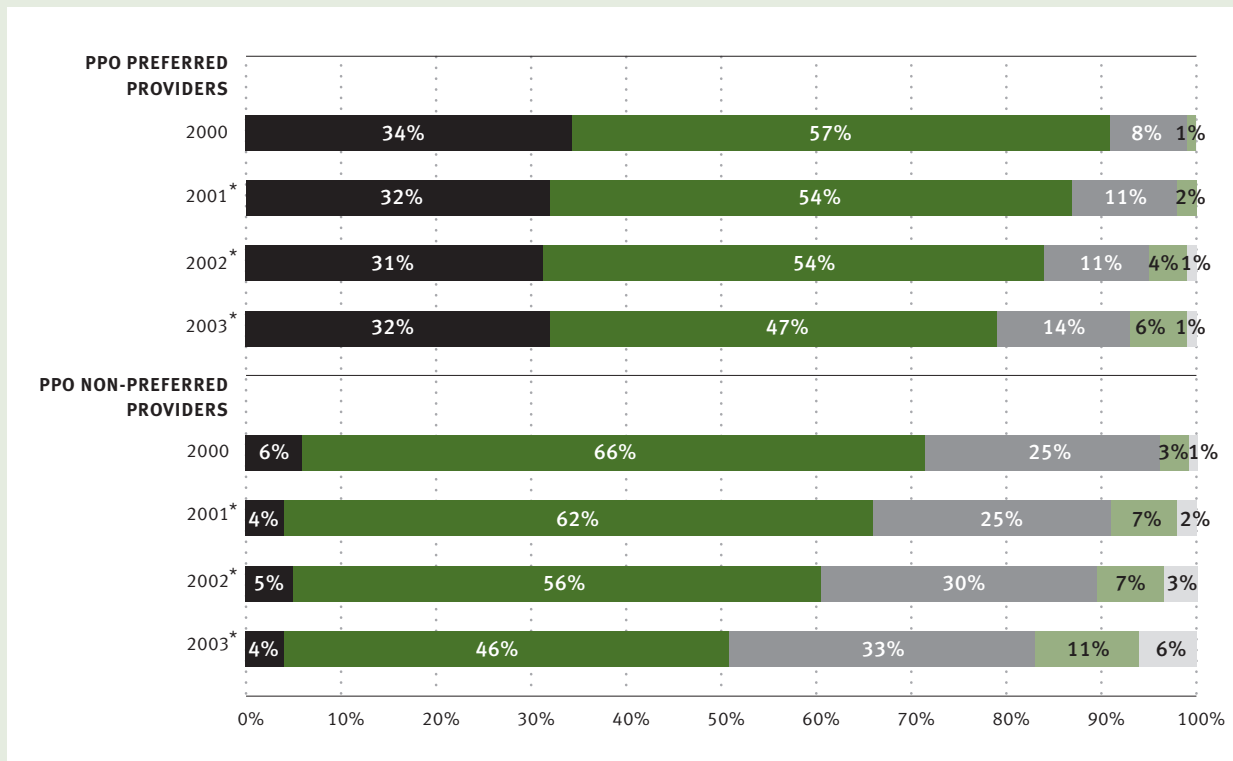
Preferred providers: Providers that are part of a plan's approved list of doctors and hospitals; consumers generally pay lower cost sharing when using these providers.

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

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

## EXHIBIT 7.5

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



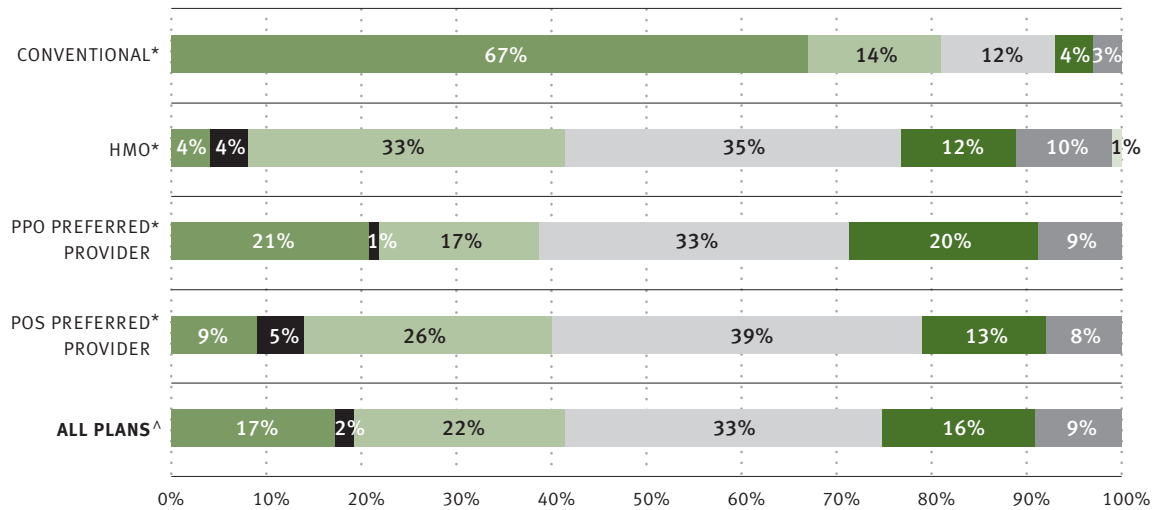
## SOURCE :

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

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

## EXHIBIT 7.6

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



NO COPAY  
 \$5 PER VISIT  
 \$10 PER VISIT  
 \$15 PER VISIT  
 \$20 PER VISIT  
 OTHER  
 DON'T KNOW

## SOURCE :

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

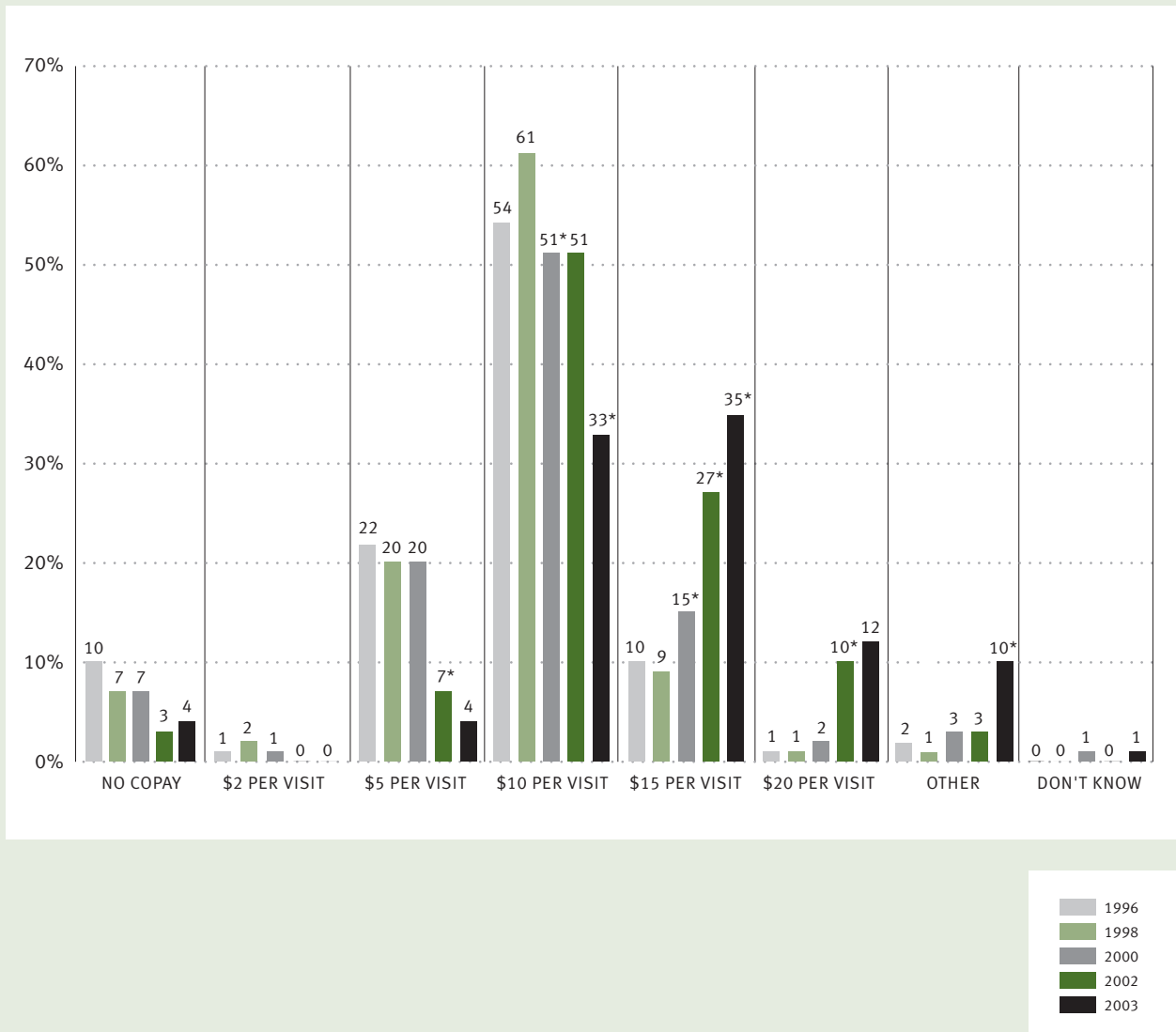
\* Distribution is statistically different from All Plans.

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

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

## EXHIBIT 7.7

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



## SOURCE:

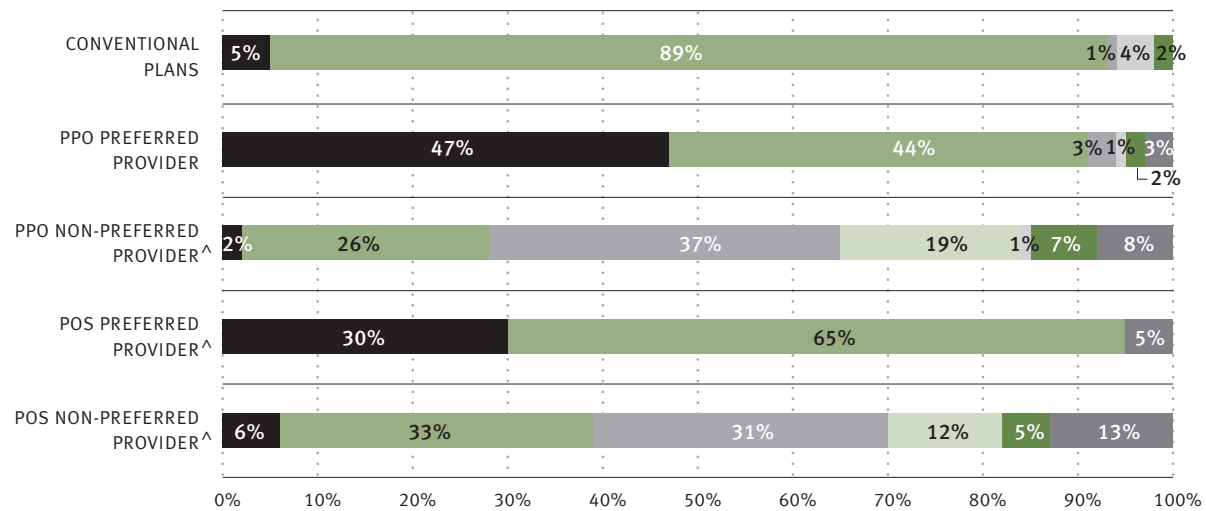
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003.  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

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

Note: Other includes No Copay.

## EXHIBIT 7.8

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



10% OR 15%  
 20% OR 25%  
 30% OR 39%  
 40% OR MORE  
 VARIES  
 OTHER  
 DON'T KNOW

## SOURCE :

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

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

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

## EXHIBIT 7.9

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

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

## SOURCE :

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

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

## EXHIBIT 7.10

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

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

## SOURCE :

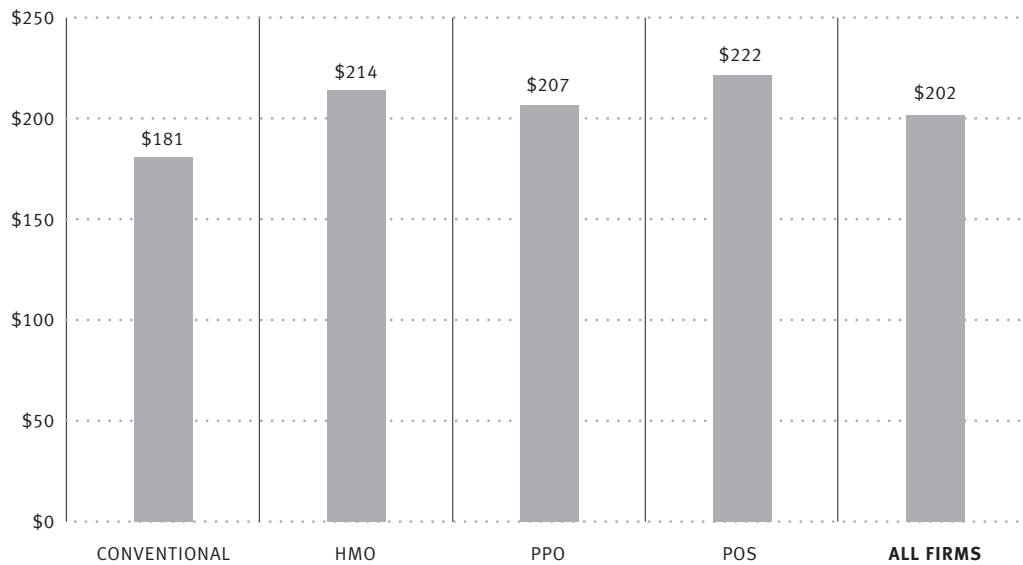
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

\* Tests found no statistically different estimates from All Plans.  
 Note: Respondents answered Don't Know less than 1% of the time.



## EXHIBIT 7.11

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



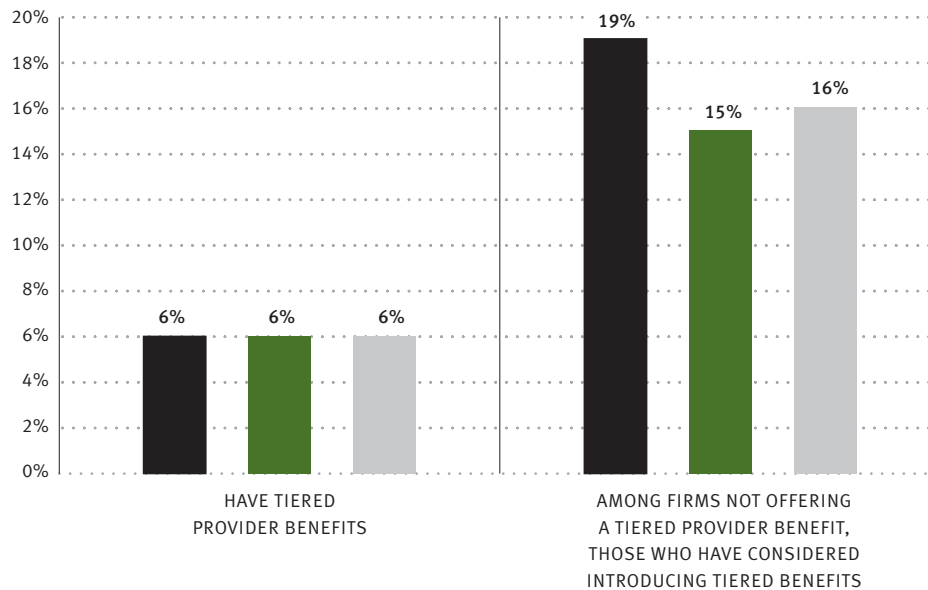
## SOURCE:

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

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

## EXHIBIT 7.12

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



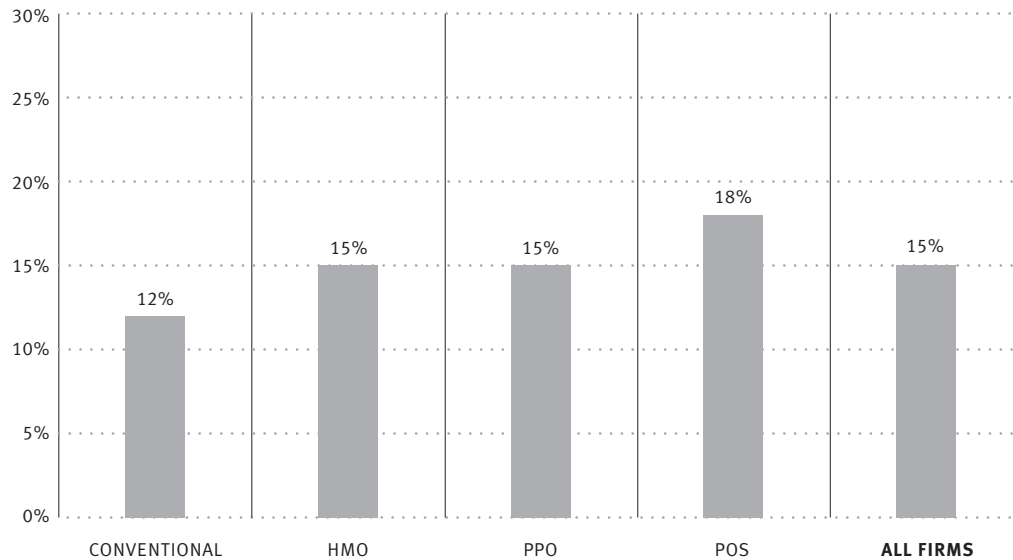
■ HMO  
■ PPO  
■ POS

## SOURCE:

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

## EXHIBIT 7.13

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



## SOURCE :

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

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

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

THIS PAGE IS INTENTIONALLY BLANK

EMPLOYER HEALTH BENEFITS  
2003 ANNUAL SURVEY

---

## Health Benefits

---

SECTION

8

## HEALTH BENEFITS

BENEFIT PACKAGES IN EMPLOYER-BASED HEALTH PLANS HAVE GROWN MORE GENEROUS OVER THE PAST TWENTY YEARS, MOST NOTABLY WITH REGARD TO PRESCRIPTION DRUG COVERAGE AND PREVENTIVE SERVICES. MOST PLANS NOW OFFER WORKERS PREVENTIVE BENEFITS INCLUDING ADULT PHYSICALS, WELL BABY CARE, AND PRESCRIPTION DRUGS. 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 PRESCRIPTIONS DRUGS AND AMBULATORY COVERAGE.

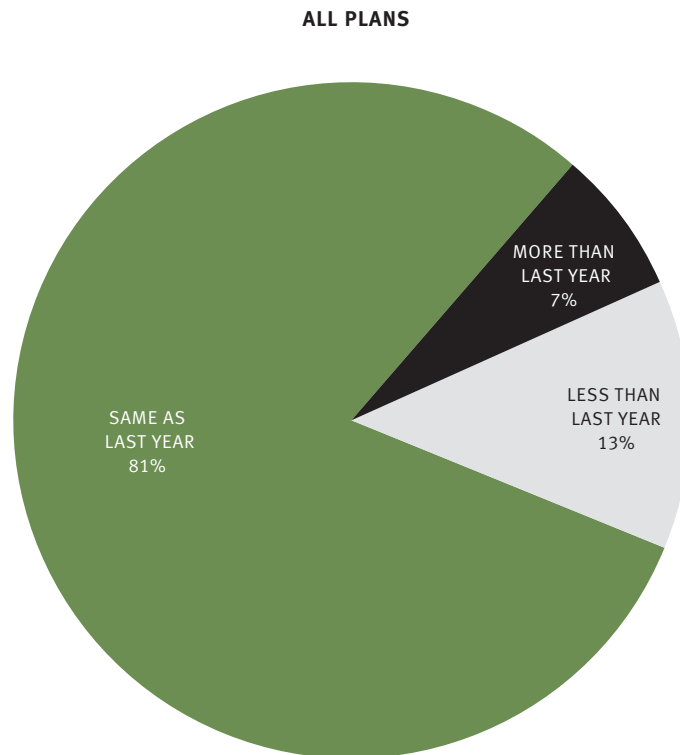
THE VAST MAJORITY OF EMPLOYERS SAY THAT THE LEVEL OF BENEFITS THEY OFFER REMAINED THE SAME IN 2003, WITH ONLY 13% OF FIRMS REPORTING A DECREASE IN THE LEVEL OF BENEFITS (OTHER THAN COST SHARING) OFFERED TO WORKERS.

- ▶ Most workers experienced no change in benefits in 2003. Depending on the type of firm size and industry, between 72% and 88% of covered workers experienced no change in the level of their benefits (other than cost sharing) in the past year (EXHIBIT 8.1). In general, the overall level of benefits did not vary by plan type.
- ▶ The substantial majority of health plans offer benefits that might be considered a “standard benefit”, including coverage for prescription drugs, prenatal care, and outpatient and inpatient mental health services. Annual adult physicals, annual visits to the obstetrician/gynecologist and well-baby visits are also common benefits (EXHIBITS 8.2, 8.3).
- *All types of plans are less likely to cover oral contraceptives than other types of prescription drugs (99%) although the percent of covered workers with coverage for oral contraceptives has grown substantially, at 88% this year, up from 71% in 2000. The number of covered workers with the option of sterilization and reversible contraceptives has also grown dramatically over the past few years. In 2001, 67% of covered workers had coverage for sterilization, compared to 87% this year. Reversible contraceptives were available to 41% of covered workers in 2001 and 72% of covered workers in 2003.*
- ▶ A firm’s size is the best predictor of whether or not the firm offers its employees dental benefits. Among all small firms (3-199 workers), 39% offer dental coverage. Among the largest firms (5,000 or more workers), 92% offer dental benefits (EXHIBIT 8.4).
- ▶ Flexible spending accounts are funded through employee pre-tax dollars and allow employees to pay for health expenses not covered by their health plans, dependent care expenses, and other types of benefits on a pre-tax basis (EXHIBIT 8.4).

- *The percentage of covered workers with a flexible spending account benefit has increased among large firms (with more than 1,000 workers) since 1999 but has remained constant among all firms at 16% overall.*
- Covered workers were much more likely to be in plans that increased the provider network than decreased the number of preferred providers. Among covered workers enrolled in a PPO, 35% of covered workers were in a plan that expanded its provider network, while only six percent were in a plan that reduced the number of preferred providers (EXHIBIT 8.5).

EXHIBIT 8.1

Levels of Benefits for Covered Workers Compared to Last Year, All Plans, 2003



SOURCE :

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

Note: In 2003, this question was amended slightly to add a qualifier that the survey is asking about changes to benefits "other than cost sharing."



## EXHIBIT 8.2

## Percentage of Covered Workers With Selected Benefits, by Firm Size, 2003

	<i>All Small Firms (3-199 Workers)</i>	<i>All Large Firms (200+ Workers)</i>	<i>All Firms</i>
<b>ALL PLANS</b>			
Adult Physicals	94%	93%	93%
Prescription Drugs	98	99	99
Outpatient Mental	97	100	99
Inpatient Mental	97	99	98
Annual OB/GYN Visit	98	98	98
Prenatal Care	97	100*	99
Oral Contraceptives	83*	90	88
Well-Baby Care	96	98	97
Abortion	30	54	46
Sterilization	86	88	87
All Five Reversible Contraceptives	72	72	72

## SOURCE :

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

\* Estimate is statistically different from All Firms.

Note: In certain instances, a large percentage of firms indicated "don't know" as follows: abortion (26%); sterilization (19%); all five reversible contraceptives (15%). Don't know responses for these variables were imputed. Because an unusually large number of don't know responses were imputed, Kaiser/HRET did not perform statistical tests for these variables.

## EXHIBIT 8.3

## Percentage of Covered Workers in Conventional, HMO, PPO, and POS Plans With Selected Benefits, by Firm Size, 2003

	<i>All Small Firms (3-199 Workers)</i>	<i>All Large Firms (200+ Workers)</i>	<i>All Firms</i>
<b>CONVENTIONAL PLANS</b>			
Adult Physicals	84%	63%	72%
Prescription Drugs	84	99	93
Outpatient Mental	93	99	96
Inpatient Mental	93	99	97
Annual OB/GYN Visit	91	90	91
Prenatal Care	83	95	90
Oral Contraceptives	70	90	82
Well-Baby	85	86	86
Abortion	27	65	50
Sterilization	87	77	81
All Five Reversible Contraceptives	58	58	58
<b>HMO PLANS</b>			
Adult Physicals	96%	99%	98%
Prescription Drugs	100	99	99
Outpatient Mental	95	100	99
Inpatient Mental	93	99	97
Annual OB/GYN Visit	100	100	100
Prenatal Care	97	100	99
Oral Contraceptives	91	92	91
Well-Baby	97	100	99
Abortion	32	54	48
Sterilization	88	92	91
All Five Reversible Contraceptives	80	78	78
<b>PPO PLANS</b>			
Adult Physicals	95%	92%	93%
Prescription Drugs	99	99	99
Outpatient Mental	99	99	99
Inpatient Mental	98	99	99
Annual OB/GYN Visit	99	99	99
Prenatal Care	98	99	99
Oral Contraceptives	81	88	86
Well-Baby	96	98	97
Abortion	29*	51	44
Sterilization	88	88	88
All Five Reversible Contraceptives	68	71	70
<b>POS PLANS</b>			
Adult Physicals	93%	97%	95%
Prescription Drugs	98	100	99
Outpatient Mental	98	100	99
Inpatient Mental	98	100	99
Annual OB/GYN Visit	96	98	97
Prenatal Care	97	99	98
Oral Contraceptives	84	92	89
Well-Baby	97	97	97
Abortion	28*	62*	49
Sterilization	78	88	85
All Five Reversible Contraceptives	77	78	77

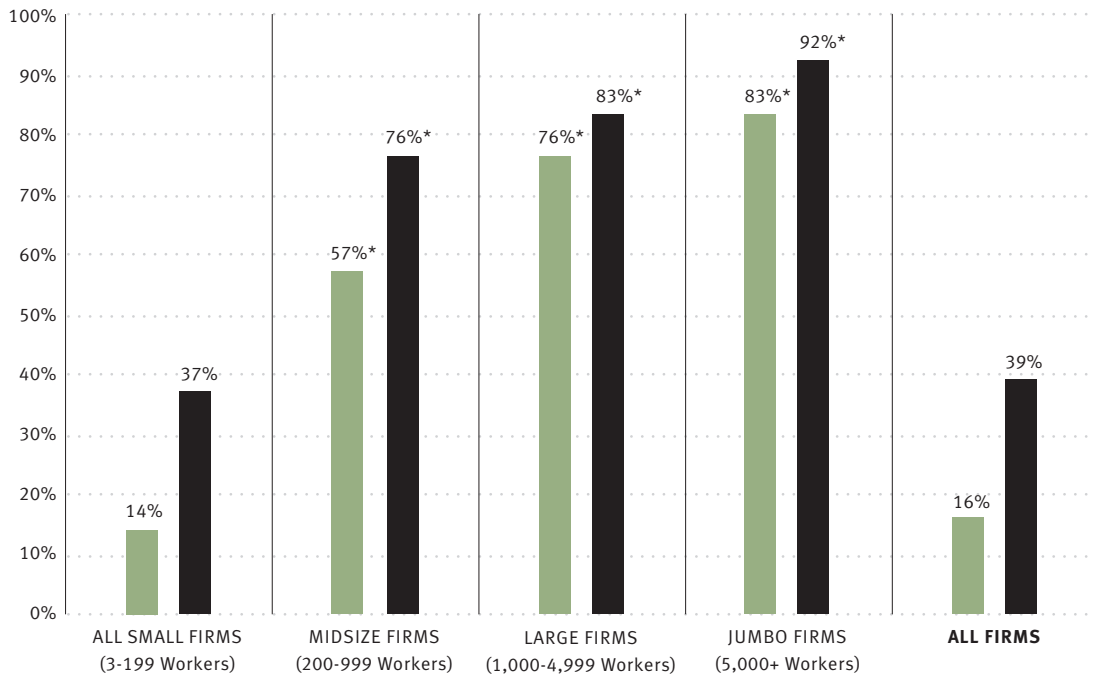
## SOURCE :

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

\* Estimate is statistically different from All Firms within a plan type

## EXHIBIT 8.4

## Percentage of Firms That Offer Employees a Flexible Spending Account or Dental Benefits, by Firm Size, 2003



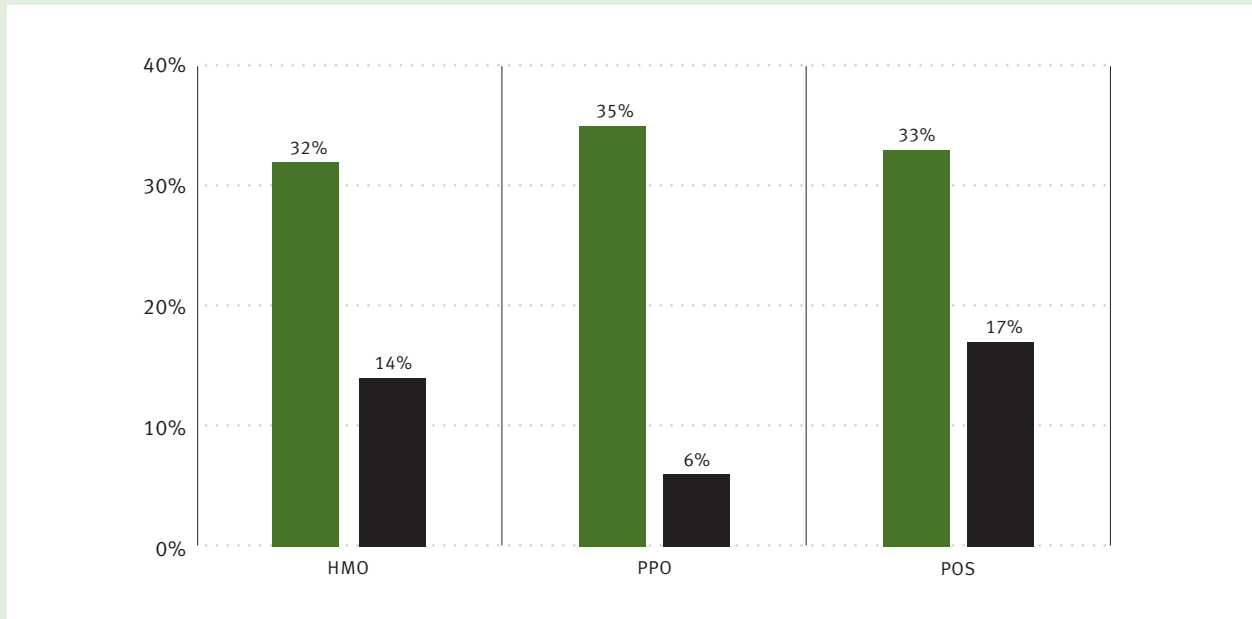
## SOURCE :

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

\* Estimate is statistically different from All Firms.

## EXHIBIT 8.5

Percentage of Covered Workers in Firms That Made the Following Changes to Their Provider Networks in the Past Year, 2003



■ EXPANDED THE NUMBER OF PROVIDERS IN THE NETWORK  
 ■ REDUCED THE NUMBER OF PROVIDERS IN THE NETWORK

## SOURCE :

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

EMPLOYER HEALTH BENEFITS  
2003 ANNUAL SURVEY

---

# Prescription Drug and Mental Health Benefits

---

SECTION

9

## 9 PRESCRIPTION DRUG AND MENTAL HEALTH BENEFITS

PRESCRIPTION DRUG COSTS HAVE RISEN RAPIDLY OVER THE PAST FEW YEARS, LEADING EMPLOYERS AND HEALTH PLANS TO LOOK FOR WAYS TO REDUCE THIS COST GROWTH. EMPLOYERS HAVE USED A VARIETY OF STRATEGIES TO REDUCE THEIR EXPENSES, INCLUDING RAISING COST SHARING LEVELS AND INTRODUCING FINANCIAL ARRANGEMENTS WHICH GIVE WORKERS INCENTIVES TO SELECT LESS EXPENSIVE DRUGS. THESE TRENDS CONTINUED IN 2003.

COVERAGE LIMITS, INCLUDING CAPS ON THE NUMBERS OF INPATIENT AND OUTPATIENT VISITS, REMAIN A COMMON FEATURE OF MENTAL HEALTH BENEFITS, DESPITE FEDERAL AND STATE LAWS ENCOURAGING GREATER PARITY BETWEEN MENTAL HEALTH AND OTHER HEALTH BENEFITS. WORKERS IN SMALL FIRMS (3-199 WORKERS) ARE APPROXIMATELY TWICE AS LIKELY AS WORKERS IN LARGE FIRMS (200 OR MORE WORKERS) TO HAVE TIGHT RESTRICTIONS ON BOTH OUTPATIENT AND INPATIENT MENTAL HEALTH VISITS.

### PRESCRIPTION DRUG BENEFITS

► Prescription drugs continue to be a standard benefit provided for covered workers, (99%) (EXHIBITS 8.2, 8.3). To combat rising prices, firms are increasingly providing employees with financial incentives to encourage use of generic drugs and certain categories of preferred brand name drugs.

- The use of three-tier cost sharing arrangements, where a worker faces one copay for generic drugs, a higher one for preferred drugs (such as brand name drugs with no generic substitutes), and an even higher one for non-pre-

*ferred drugs (such as brand named drugs with generic substitutes) has increased over the past year, growing from 55% of covered workers in 2002 to 63% in 2003 (EXHIBIT 9.1). Over the same time frame, two-tier cost sharing arrangements, where employees face one payment level when purchasing brand name drugs and another when using generic drugs, declined from 30% to 23% of covered workers. The prevalence of plans that charge workers the same amount, regardless of the type of drug purchased, has remained constant.*

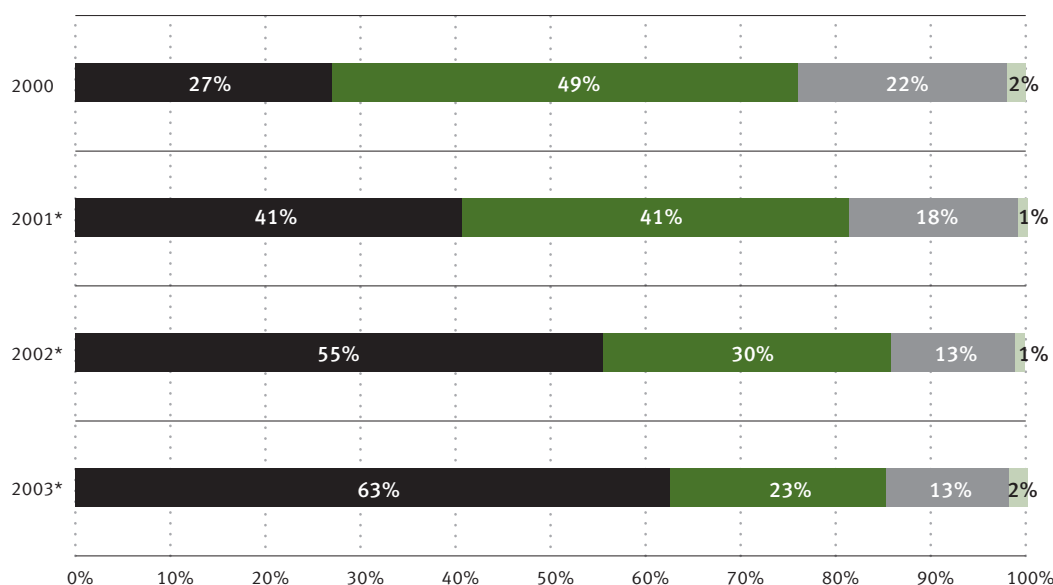
- The majority of workers in conventional, HMO, PPO, and POS plans have either a two-tier or three-tier cost sharing formula for prescription drugs. Workers in PPOs are most likely to have a three-tier cost sharing formula (65%).

► The average copayment requirement for employees when buying a non-preferred drug has risen from \$17 in 2000 to \$29 in 2003 (EXHIBIT 9.2).

- Copays average \$9 for generics, \$19 for preferred drugs, and \$29 for non-preferred drugs, with little variation by plan type. Average copays for non-preferred drugs have increased over the last year, especially in PPO and POS plans. Copays for such drugs remain highest in PPO plans, where they increased from \$26 in 2002 to \$30 in 2003.
  - For workers with coinsurance rather than copays (between seven and eleven percent of workers, depending on drug type), cost sharing levels average 20% for generic drugs, 24% for preferred drugs, and 29% for non-preferred drugs (EXHIBIT 9.3).
  - ▶ Seventy-one percent of workers are in plans that use a formulary that restricts which drugs will be covered, statistically unchanged from 2002 (70%) (EXHIBIT 9.5).
  - ▶ Twenty-eight percent of covered workers are in firms that “carve out” prescription drugs and provide this benefit separately from their standard health plans, a similar percentage to last year.
  - Among these firms, employers reported that prescription costs for family coverage increased 15%.
  - Eight percent of covered workers face a separate deductible for prescription drugs in 2003, and the average deductible has risen from \$88 in 2000 to \$161 this year.
- MENTAL HEALTH BENEFITS**
- ▶ Most covered workers face limits on the number of outpatient mental health visits covered by their health plans, although there may be some loosening of these restrictions in 2003 (EXHIBIT 9.6).
  - Overall, 16% of covered workers have unlimited outpatient mental health visits compared to 11% in 2002. Twenty-seven percent of workers are restricted to 20 visits or fewer per year.
  - ▶ Unlimited inpatient mental health days are not frequently offered and the prevalence is unchanged from 2002, with only 17% of covered workers having unlimited inpatient days. Slightly more than one-third of covered workers (37%) are limited to 21 to 30 inpatient mental health days per year, and another 13% are limited to 20 or fewer days per year (EXHIBIT 9.7).
  - ▶ Workers in small firms (3-199 workers) are approximately twice as likely as workers in large firms (200 or more workers) to have tight restrictions on both outpatient and inpatient mental health visits. For example, 39% of workers in all small firms are limited to 20 or fewer outpatient mental health visits per year, compared with just 21% of workers in all large firms.

## EXHIBIT 9.1

## Percentage of Covered Workers Facing Different Cost Sharing Formulas for Prescription Drug Benefits, 2000-2003



■ THREE-TIER = ONE PAYMENT FOR GENERIC DRUGS, ANOTHER FOR PREFERRED DRUGS, AND A THIRD FOR NON-PREFERRED DRUGS  
 ■ TWO-TIER = ONE PAYMENT FOR GENERIC DRUGS AND ONE FOR ALL NAME BRAND DRUGS  
 ■ PAYMENT IS THE SAME REGARDLESS OF TYPE OF DRUG  
 ■ OTHER/DON'T KNOW

## SOURCE :

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

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

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

Preferred drugs: Drugs included on a formulary or preferred drug list; for example, a brand name drug without a generic substitute.

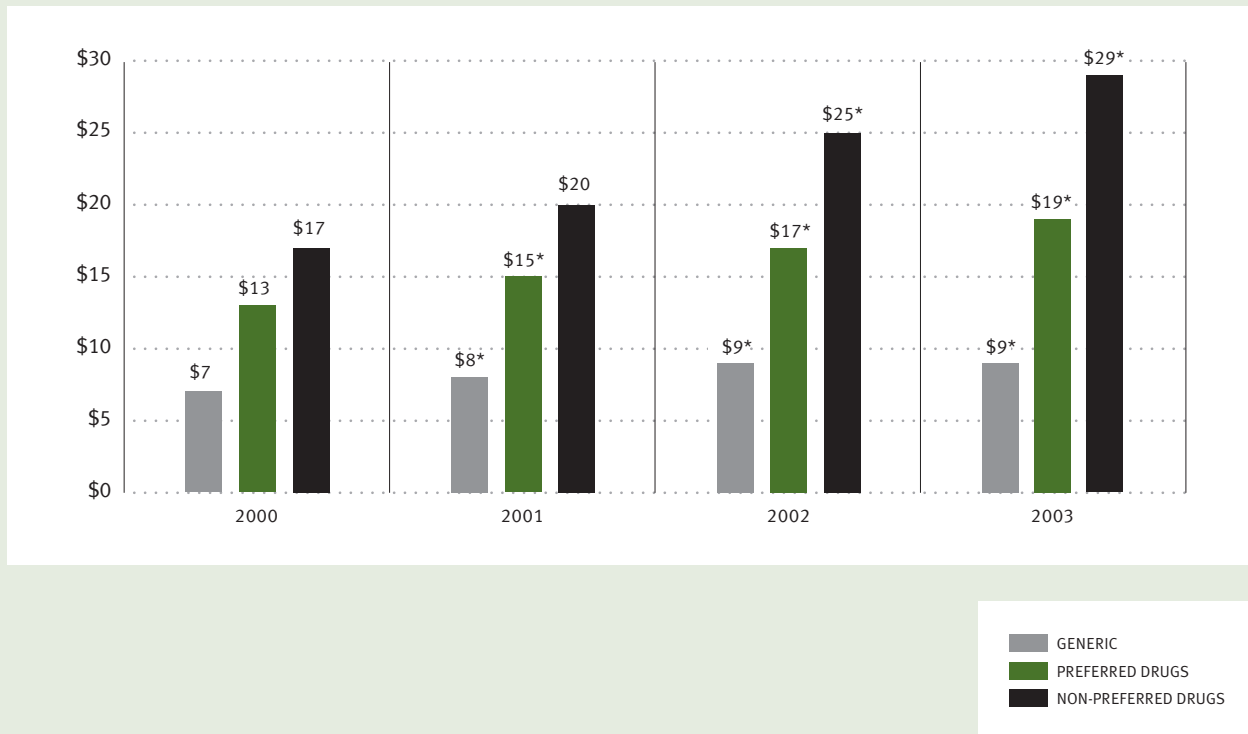
Non-preferred drugs: Drugs *not* included on a formulary or preferred drug list; for example, a brand name drug with a generic substitute.

Brand name drugs: Generally, a drug product that is covered by a patent and is thus manufactured and sold exclusively by one firm. Cross-licensing occasionally occurs, allowing an additional firm to market the drug. After the patent expires, multiple firms can produce the drug product, but the brand name or trademark remains with the original manufacturer's product.



EXHIBIT 9.2

## Average Copays for Generic Drugs, Preferred Drugs, and Non-Preferred Drugs, 2000-2003



## SOURCE :

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

\* Estimate is statistically different from previous year by drug tier, 2000-2001, 2001-2002, 2002-2003.

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

Preferred drugs: Drugs included on a formulary or preferred drug list; for example, a brand name drug without a generic substitute.

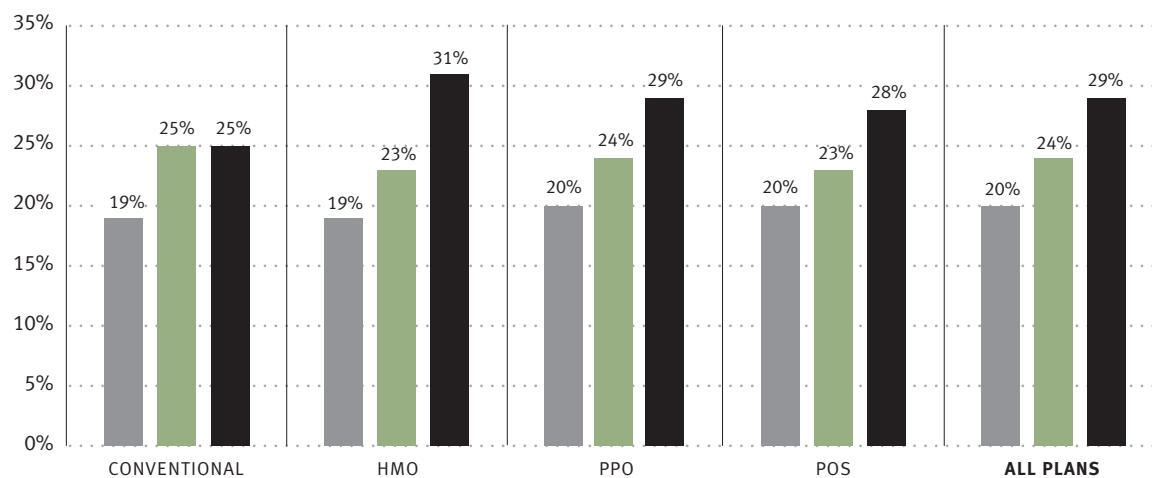
Non-preferred drugs: Drugs *not* included on a formulary or preferred drug list; for example, a brand name drug with a generic substitute.

Brand name drugs: Generally, a drug product that is covered by a patent and is thus manufactured and sold exclusively by one firm. Cross-licensing occasionally occurs, allowing an additional firm to market the drug. After the patent expires, multiple firms can produce the drug product, but the brand name or trademark remains with the original manufacturer's product.

Note: On average, generic drugs cost \$7.42 in 2000, \$8.05 in 2001, \$8.74 in 2002, and \$9.47 in 2003.

## EXHIBIT 9.3

## Average Coinsurance Rate for Generic Drugs, Preferred Drugs, and Non-Preferred Drugs, in Conventional, HMO, PPO, and POS Plans, 2003\*



■ GENERIC  
 ■ PREFERRED DRUGS  
 ■ NON-PREFERRED DRUGS

## SOURCE :

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

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

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

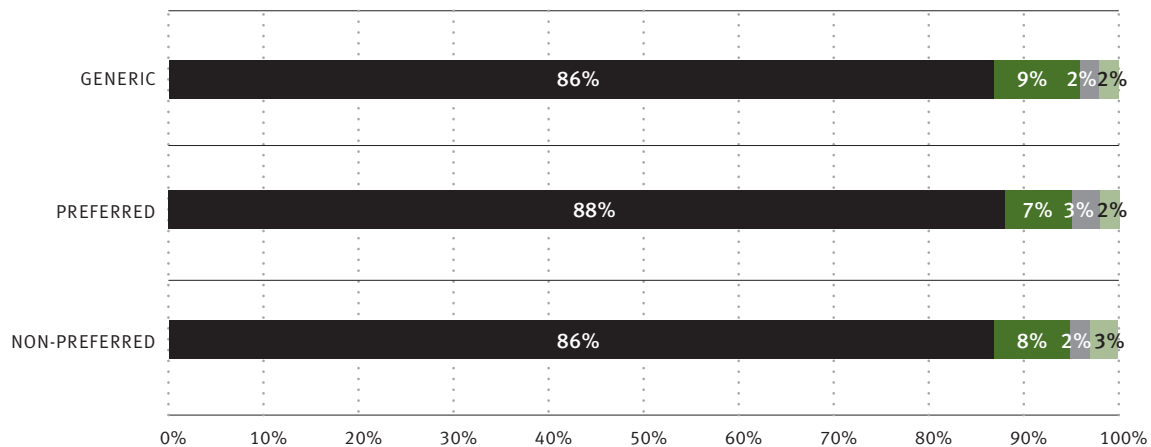
Preferred drugs: Drugs included on a formulary or preferred drug list; for example, a brand name drug without a generic substitute.

Non-preferred drugs: Drugs *not* included on a formulary or preferred drug list; for example, a brand name drug with a generic substitute.

Brand name drugs: Generally, a drug product that is covered by a patent and is thus manufactured and sold exclusively by one firm. Cross-licensing occasionally occurs, allowing an additional firm to market the drug. After the patent expires, multiple firms can produce the drug product, but the brand name or trademark remains with the original manufacturer's product.

EXHIBIT 9.4

## Covered Workers With the Following Types of Cost Sharing for Prescription Drugs, by Drug Type, 2003



■ COPAY  
 ■ COINSURANCE  
 ■ BOTH  
 ■ NEITHER

## SOURCE :

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

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

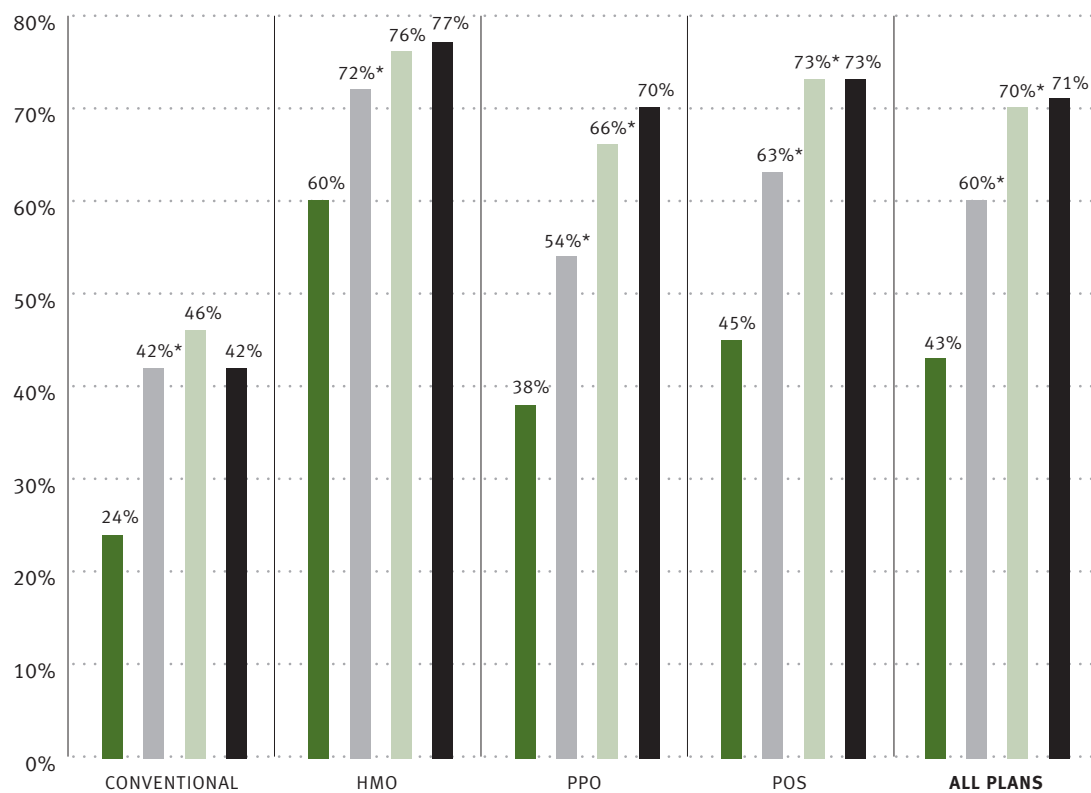
Preferred drugs: Drugs included on a formulary or preferred drug list; for example, a brand name drug without a generic substitute.

Non-preferred drugs: Drugs *not* included on a formulary or preferred drug list; for example, a brand name drug with a generic substitute.

Brand name drugs: Generally, a drug product that is covered by a patent and is thus manufactured and sold exclusively by one firm. Cross-licensing occasionally occurs, allowing an additional firm to market the drug. After the patent expires, multiple firms can produce the drug product, but the brand name or trademark remains with the original manufacturer's product.

EXHIBIT 9.5

Percentage of Covered Workers With A Formulary That Restricts Which Drugs Will Be Covered, by Plan Type, 2000-2003



2000  
2001  
2002  
2003

## SOURCE :

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

\* Estimate is statistically different from previous year for years 2000-2001, 2001-2002, 2002-2003.

## EXHIBIT 9.6

## Percentage of Covered Workers With Various Outpatient Mental Health Visit Annual Maximums, by Plan Type, 2003\*

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plans</i>
20 Visits or Less	22%	42%	22%	28%	27%
21 to 30 Visits	23	25	25	19	24
31 to 50 Visits	10	6	17	12	14
More than 50 Visits	4	5	7	8	7
Unlimited	28	12	16	17	16
Don't Know	13	10	11	16	12

## SOURCE :

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

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

## EXHIBIT 9.7

## Percentage of Covered Workers With Various Annual Inpatient Mental Health Day Maximums, by Plan Type, 2003\*

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plans</i>
10 Days or Less	1%	8%	7%	5%	6%
11 to 20 Days	10	9	7	7	7
21 to 30 Days	22	40	37	35	37
31 or More Days	11	15	17	17	17
Unlimited	42	12	18	14	17
Don't Know	15	16	15	23	16

## SOURCE :

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

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

THIS PAGE IS INTENTIONALLY BLANK

EMPLOYER HEALTH BENEFITS  
2003 ANNUAL SURVEY

---

## Plan Funding

---

SECTION

10

## PLAN FUNDING

THE EMPLOYEE RETIREMENT INCOME AND SECURITY ACT (ERISA) OF 1974 EXEMPTS 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 RISK OF COSTLY CLAIMS.

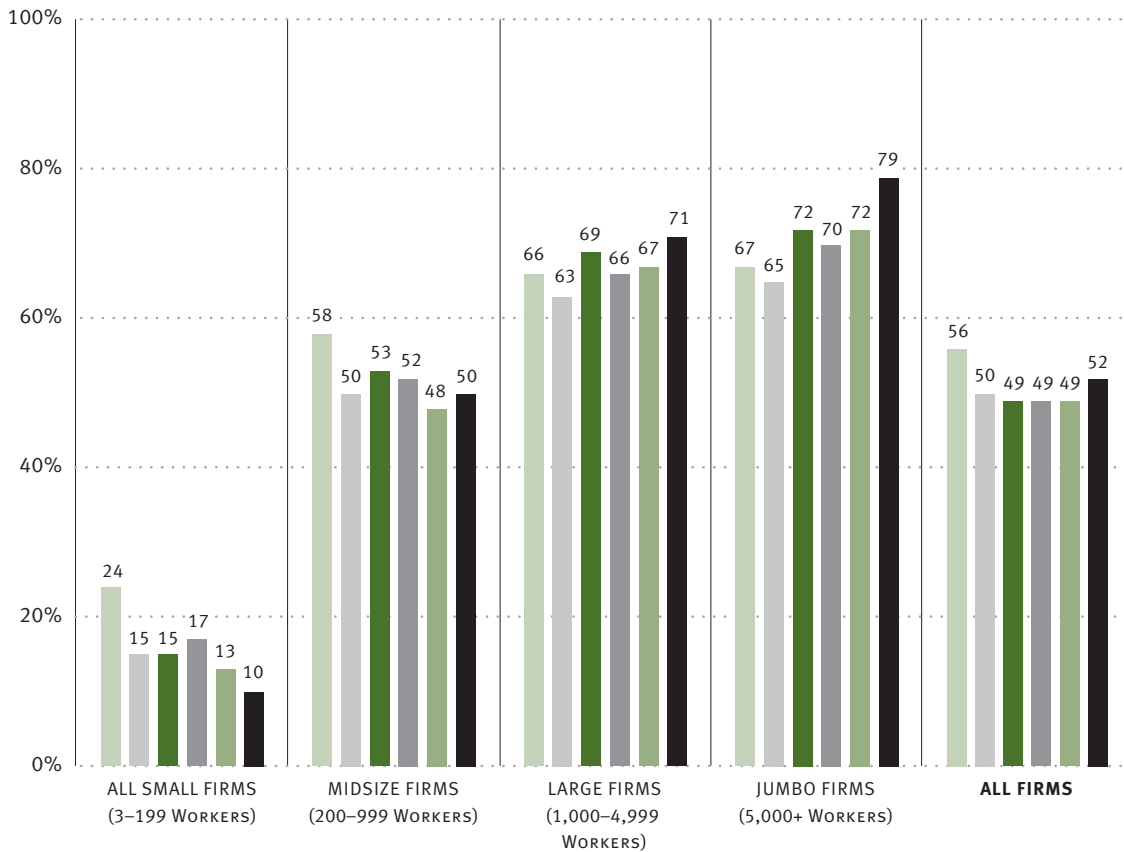
### SELF INSURANCE

- ▶ In 2003, 52% of covered employees are in a plan that is completely or partially self-insured (EXHIBIT 10.1).
  - The percentage of all workers in self-insured firms has remained relatively stable over the last few years.
  - The likelihood that an employer self-insures is highly related to the size of the firm. Ten percent of covered workers in all small firms (3 to 199 workers) are in self-insured plans, compared to 50% of workers in mid-size firms (200-999 workers) and 79% of workers in jumbo firms (5,000 or more workers) (EXHIBIT 10.1).
  - Firms that self-insure are least likely to cover workers in HMO plans (29%), and most likely to cover workers in PPO plans (61%) (EXHIBIT 10.2).



## EXHIBIT 10.1

## Percentage of Covered Workers in Partially or Completely Self-Insured Plans, by Firm Size, 1996-2003\*



## SOURCE :

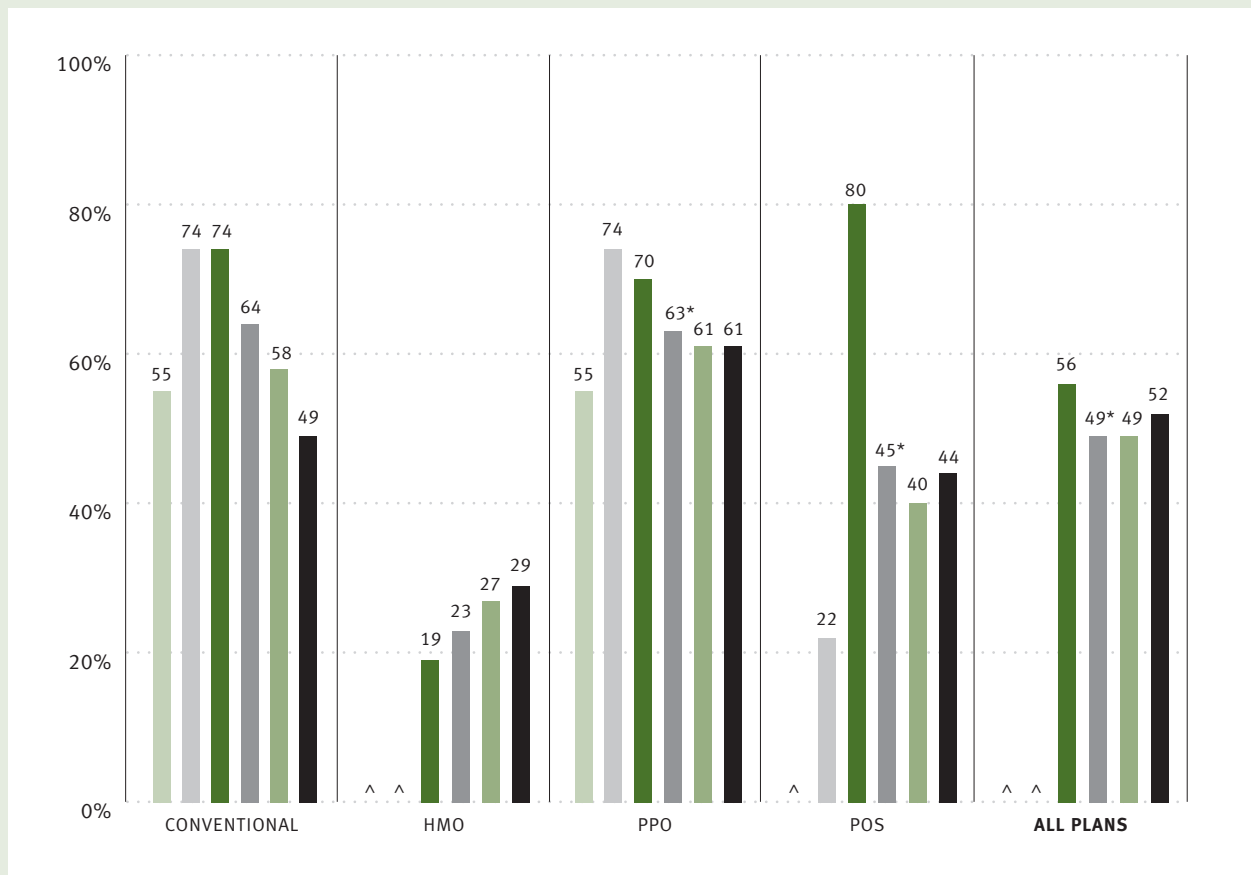
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Tests found no statistically different estimates from the previous year shown: 1998-2000, 2000-2001, 2001-2002, 2002-2003.

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

## EXHIBIT 10.2

## Percentage of Covered Workers in Partially or Completely Self-Insured Plans, by Plan Type, 1988-2003



1988  
1993  
1996  
2000  
2002  
2003

## SOURCE :

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

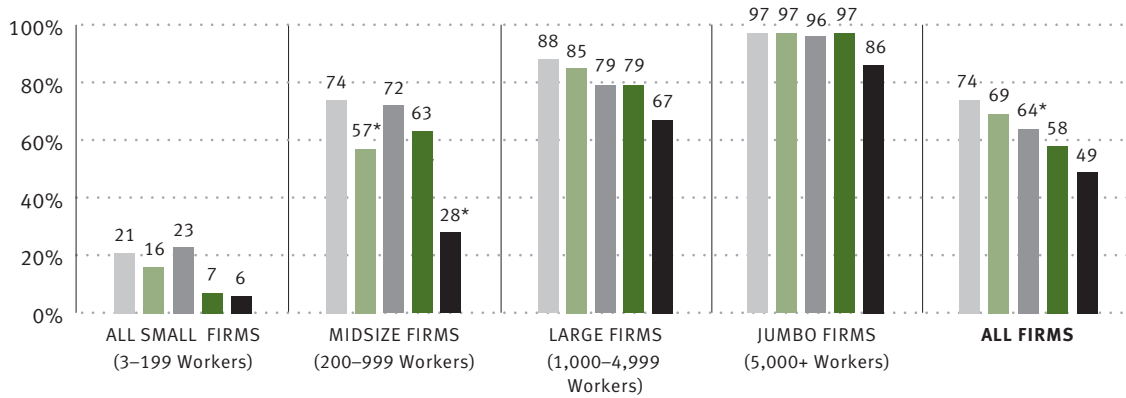
\* Estimate is statistically different from the previous year shown: 1996-2000, 2000-2002, 2002-2003.

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

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

## EXHIBIT 10.3

## Percentage of Covered Workers in Partially or Completely Self-Insured Conventional Plans, by Firm Size, 1996-2003

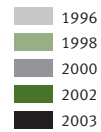


## SOURCE :

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

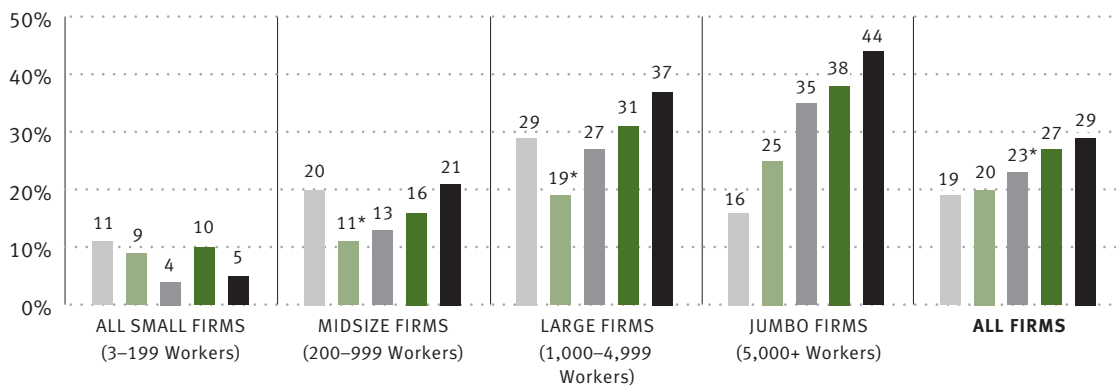
\* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2002, 2002-2003.

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



## EXHIBIT 10.4

## Percentage of Covered Workers in Partially or Completely Self-Insured HMO Plans, by Firm Size, 1996-2003

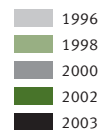


## SOURCE :

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

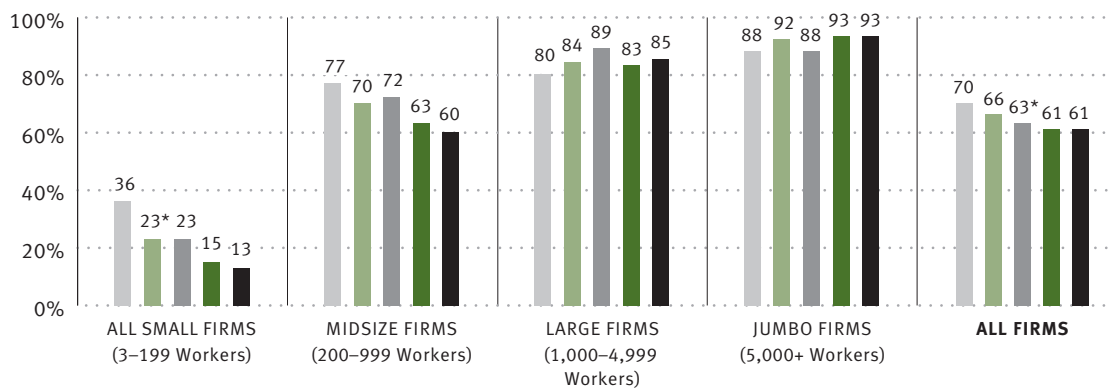
\* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2002, 2002-2003.

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



## EXHIBIT 10.5

## Percentage of Covered Workers in Partially or Completely Self-Insured PPO Plans, by Firm Size, 1996-2003

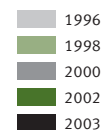


## SOURCE :

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

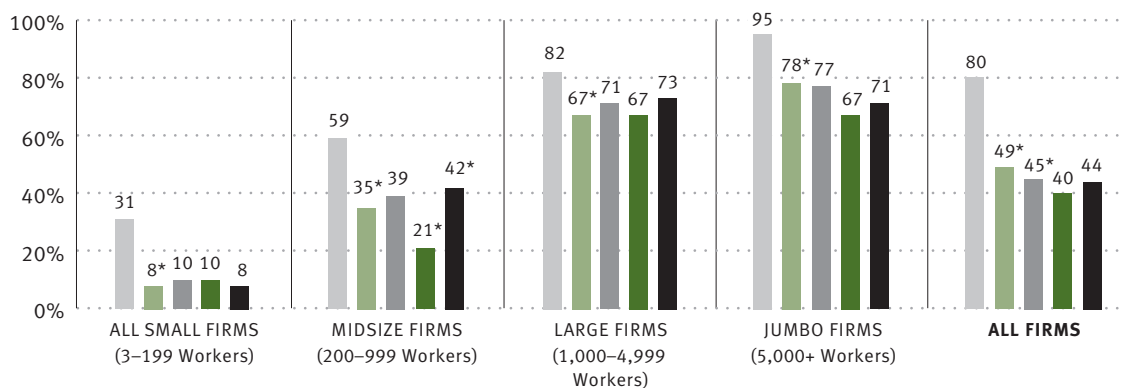
\* Estimate is statistically different from the previous year shown: 1996-1998, 1998-2000, 2000-2002, 2002-2003.

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



## EXHIBIT 10.6

## Percentage of Covered Workers in Partially or Completely Self-Insured POS Plans, by Firm Size, 1996-2003

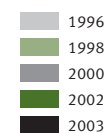


## SOURCE :

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

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

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



## EXHIBIT 10.7

## Percentage of Covered Workers Under Different Funding Arrangements, by Industry, 2003

	<i>Fully Insured (Coverage Underwritten by an Insurer)</i>	<i>Self-Insured (Employer Bears Some or All of Financial Risk)</i>
<b>ALL PLANS</b>		
Mining/Construction/Wholesale	51%	49%
Manufacturing*	37	63
Transportation/Communication/Utility	43	57
Retail	45	55
Finance	51	49
Service*	57	43
State/Local Government	44	56
Health Care	49	51
<b>ALL INDUSTRIES</b>	<b>48%</b>	<b>52%</b>

## SOURCE :

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

\* Distribution is statistically different from All Industries.

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

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

THIS PAGE IS INTENTIONALLY BLANK

EMPLOYER HEALTH BENEFITS  
2003 ANNUAL SURVEY

---

## Retiree Health Benefits

---

SECTION

11

## RETIREE HEALTH BENEFITS

RETIREE HEALTH BENEFITS ARE A KEY CONSIDERATION FOR OLDER WORKERS (AGE 55-64) MAKING THEIR DECISIONS ABOUT RETIREMENT. FOR THE POPULATION AGES 65 AND OLDER, RETIREE HEALTH BENEFITS SUPPLEMENT MEDICARE. THOUGH THE PASSAGE OF A CONGRESSIONAL DRUG PLAN FOR SENIORS HAS THE POTENTIAL TO ALLEVIATE SOME OF THE COST TO RETIREES OF PRESCRIPTION DRUGS, FOR NOW, RETIREE HEALTH PLANS CONTINUE TO BE THE LARGEST SOURCE OF PRESCRIPTION DRUG COVERAGE FOR THE RETIRED POPULATION AND ARE KEY TO AFFORDABLE ACCESS TO NEEDED MEDICINES.<sup>12</sup>

THE PERCENTAGE OF EMPLOYERS OFFERING RETIREE BENEFITS HAS FALLEN SIGNIFICANTLY OVER THE PAST 25 YEARS. OVER THAT TIME PERIOD, RETIREE COSTS ROSE TO REPRESENT A SIGNIFICANT PORTION OF HEALTH EXPENDITURES TO MANY BUSINESSES, DUE IN GREAT PART TO THE RISING COST OF PRESCRIPTION DRUGS. THE NEWLY PROPOSED MEDICARE DRUG BENEFIT HAS THE POTENTIAL TO LEAD TO FURTHER CHANGES IN EMPLOYERS' PERSPECTIVE OF THEIR ROLE OFFERING RETIREE HEALTH BENEFITS IN THE FUTURE. HOWEVER, REGARDLESS OF THE OUTCOME OF THE CURRENT CONGRESSIONAL DEBATE OVER A MEDICARE PRESCRIPTION DRUG BENEFIT, IT SEEMS LIKELY THAT EMPLOYER-SPONSORED RETIREE HEALTH BENEFITS WILL CONTINUE TO ERODE.

### AVAILABILITY OF RETIREE BENEFITS

► The percentage of firms offering retiree coverage has declined significantly over time, although there was no significant change this past year. Sixty-six percent of all large firms (with 200 or more workers) offered retiree coverage in 1988, compared with 38% in 2003 (EXHIBIT 11.1).<sup>13</sup>

► Retiree benefits vary substantially by firm size, industry and the presence of union workers (EXHIBIT 11.2).

• Retiree benefits are offered by 38% of large firms (200 or more workers) compared to just 9% of the smallest firms (3-24 workers)

• Covered workers employed in transportation, communications, utilities, health care, or by state or local governments are more likely than workers in other industries to have retiree benefits.

### NOTES :

<sup>12</sup> Twenty-eight percent of Medicare beneficiaries receive prescription drug coverage from an employer, a far higher number than receive coverage through a Medicare HMO (15%), Medigap (7%) or Medicaid (10%). Laschober et.al., *Health Affairs*, February 2002.

<sup>13</sup> As discussed in the chapter on survey design, this year the sample was stratified to the firm size and industry distribution reported by the U.S. Census. This had the effect of increasing the reported prevalence of retiree benefits offered by large firms (200 or more workers) for this year and prior years. The differences are not statistically significant.



- *Large firms (200 or more workers) with union workers are significantly more likely to offer retiree health benefits than firms without union workers – 56% of large firms with union employees offer retiree benefits, compared to 29% of large firms that do not have union employees (EXHIBIT 11.5).*
- ▶ *Virtually all large firms that offer retiree benefits offer them to early retirees under the age of 65 (93%). A lower percentage (78%) of large firms offering retiree benefits offer them to Medicare-age retirees (EXHIBITS 11.3, 11.4).*

## EXHIBIT 11.1

Percentage of All Large Firms (200 or More Workers) Offering Retiree Health Benefits<sup>^</sup>, 1988-2003\*

## SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002, 2003;  
KPMG Survey of Employer-Sponsored Health Benefits: 1988, 1991, 1993, 1995, 1998.

\* Tests found no statistically different estimate from the previous year shown: 1998-1999, 1999-2000, 2000-2001, 2001-2002, 2002-2003.

<sup>^</sup> Of firms that offer health benefits to active workers.

Note: As discussed in the chapter on survey design, this year the sample was stratified to the firm size and industry distribution reported by the U.S. Census. This had the effect of increasing the reported prevalence of retiree benefits offered by large firms (200 or more workers) for this year and prior years. The differences are not statistically significant.

## EXHIBIT 11.2

Percentage of Employers Offering Retiree Health Benefits<sup>^</sup>, by Firm Size, Region, and Industry, 2003

	<i>All Small Firms (3-199 Workers)</i>	<i>All Large Firms (200+ Workers)</i>
<b>FIRM SIZE</b>		
Small (3-9 Workers)	9%	-
Small (10-24 Workers)	9	-
Small (25-49 Workers)	11	-
Small (50-199 Workers)	20*	-
<b>ALL SMALL FIRMS (3-199 WORKERS)</b>	<b>10</b>	-
Midsize (200-999 Workers)	-	32%
Large (1,000-4,999 Workers)	-	48*
Jumbo (5,000+ Workers)	-	54*
<b>REGION</b>		
Northeast	10%	37%
Midwest	9	41
South	17	36
West	3*	36
<b>INDUSTRY</b>		
Mining/Construction/Wholesale	6%	42%
Manufacturing	4*	30
Transportation/Communication/Utility	19	58*
Retail	7	14*
Finance	14	51
Service	8	32
State/Local Government	43*	85*
Health Care	30	25
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>10%</b>	<b>38%</b>

## SOURCE :

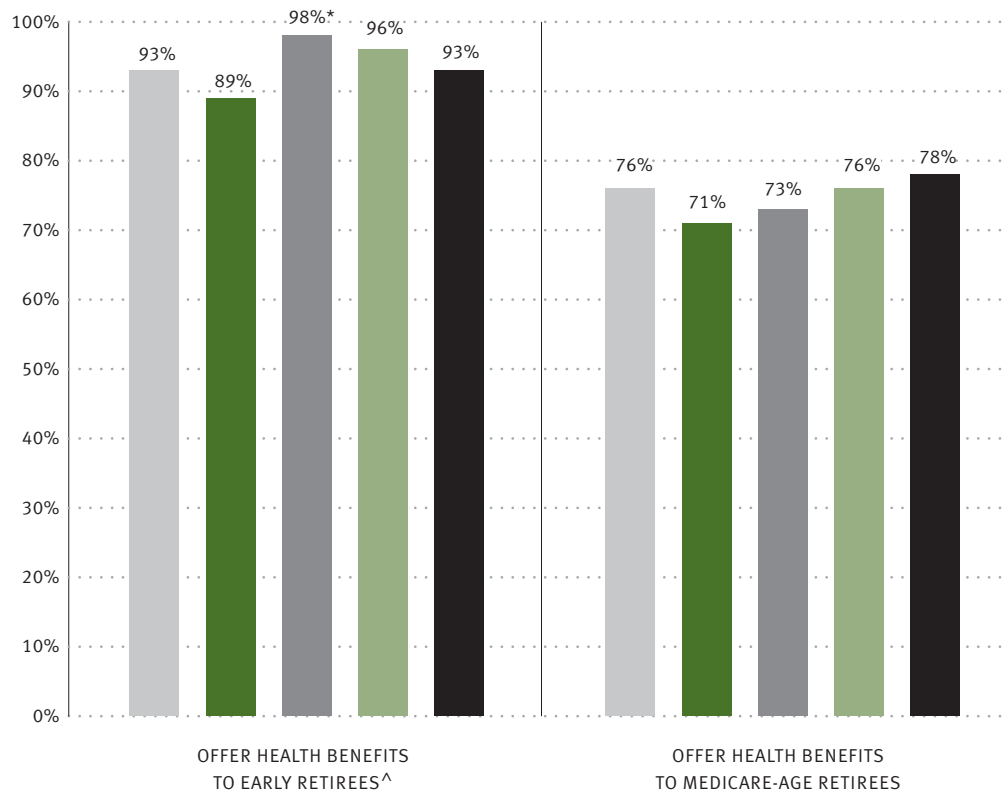
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

\* Estimate is statistically different from All Firms.

<sup>^</sup> Of firms that offer health benefits to active workers.

## EXHIBIT 11.3

Percentage of Large Employers (200 or More Workers) Offering Health Benefits to Early and Medicare-Age Retirees, Among Large Firms Offering Retiree Coverage, 1999-2003



## SOURCE :

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

\* Estimate is statistically different from the previous year shown: 1999-2000, 2000-2001, 2001-2002, 2002-2003.

^ Early retiree: workers retiring before age 65.

## EXHIBIT 11.4

Percentage of Large Employers (200 or More Workers) Offering Retiree Benefits to Early<sup>^</sup> and Medicare-Age Retirees, Among Large Firms Offering Retiree Coverage, by Firm Size, Region, and Industry, 2003

	<i>Percentage of Employers Offering Retiree Health Benefits to Early<sup>^</sup> Retirees</i>	<i>Percentage of Employers Offering Retiree Health Benefits to Medicare-Age Retirees</i>
<b>FIRM SIZE</b>		
Midsize (200-999 Workers)	90%	73%
Large (1,000-4,999 Workers)	97	85
Jumbo (5,000+ Workers)	98	82
<b>REGION</b>		
Northeast	96%	84%
Midwest	90	80
South	97	65
West	89	82
<b>INDUSTRY</b>		
Mining/Construction/Wholesale	94%	71%
Manufacturing	99*	75
Transportation/Communication/Utility	100*	NSD
Retail	NSD	NSD
Finance	93	85
Service	89	83
State/Local Government	96	78
Health Care	89	76
<b>ALL FIRM SIZES, REGIONS, AND INDUSTRIES</b>	<b>93%</b>	<b>78%</b>

## SOURCE :

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

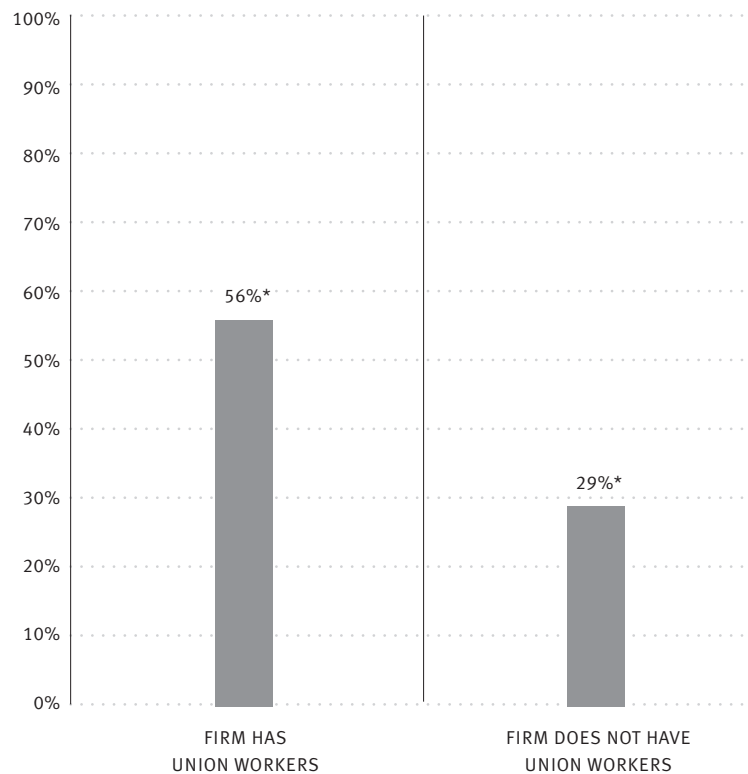
\* Estimate is statistically different from All Firms.

<sup>^</sup> Early retiree: workers retiring before age 65.

NSD: Not sufficient data.

## EXHIBIT 11.5

Percentage of All Large Firms (200 or More Workers) in Which Retirees Are Offered Health Insurance, by Whether or Not the Firm Has Union Workers, 2003



## SOURCE :

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

\* Estimate is statistically different from All Large Firms.

EMPLOYER HEALTH BENEFITS  
2003 ANNUAL SURVEY

---

# Employer Attitudes and Opinions

---

SECTION

12

## EMPLOYER ATTITUDES AND OPINIONS

EMPLOYERS PLAY A SIGNIFICANT ROLE IN HEALTH INSURANCE COVERAGE – PROVIDING HEALTH BENEFITS TO THREE IN FIVE NON-ELDERLY AMERICANS<sup>14</sup> – SO THEIR ATTITUDES, KNOWLEDGE, AND EXPERIENCES ARE IMPORTANT FACTORS IN HEALTH POLICY DISCUSSIONS.

THIS YEAR'S SURVEY ASKED EMPLOYERS A NUMBER OF QUESTIONS ABOUT THEIR RESPONSES TO RISING HEALTH INSURANCE PREMIUMS, INCLUDING COST SHARING DECISIONS AND OPINIONS ABOUT THE EFFECTIVENESS OF VARIOUS APPROACHES TO REDUCE PREMIUMS IN THE FUTURE. FIRMS GENERALLY EXPRESS SKEPTICISM THAT ANY OF THE CURRENTLY AVAILABLE COST CONTAINMENT STRATEGIES WILL DRAMATICALLY REDUCE COSTS. PERHAPS AS A RESULT, MANY FIRMS PROJECT THAT THEY ARE LIKELY TO CONTINUE RAISING WORKERS' SHARE OF COSTS NEXT YEAR.

- ▶ To get a sense of whether firms have attempted to use purchasing power to reduce their premiums, firms were asked whether they shopped for a new health plan in the last year and whether they had switched type of health plans or insurance carriers. Overall, 62% of firms said they had shopped for new plans. Of these, one third (or 20% of all firms) said they switched health plan types or carriers in the past year (EXHIBIT 12.1).
  - *Jumbo firms (5,000 or more workers) were much less likely to shop for new health plans (37%); however, among firms that shopped for new health plans, jumbo firms were most likely to report switching carriers or plan type (61%).*
- *State and local governments and firms with union workers were far less likely to report shopping for new plans (37% and 32%, respectively) than all firms, but were just as likely to switch carriers or plan types among those who said they looked for a new plan.*
- ▶ To get a sense of the ways firms have been addressing rising health care premiums, firms offering health coverage were asked a series of questions about the way they controlled costs this past year as well as future ways they might curb health care spending (EXHIBITS 12.2-12.4).
  - *Twenty-nine percent of all firms offering health coverage and 65% of all large firms (200 or more workers), increased the amount that workers pay for health insurance in 2003.*
  - *This year, 47% of firms say they are very or somewhat likely to increase the amount employees pay for health insurance in the next year.*
  - *A very significant proportion of large firms (200 or more employees) continue to report that they will increase the amount workers pay in the future. Of these larger firms, 79% say that they are somewhat or very likely to increase the amount that employees pay next year.*

### NOTE:

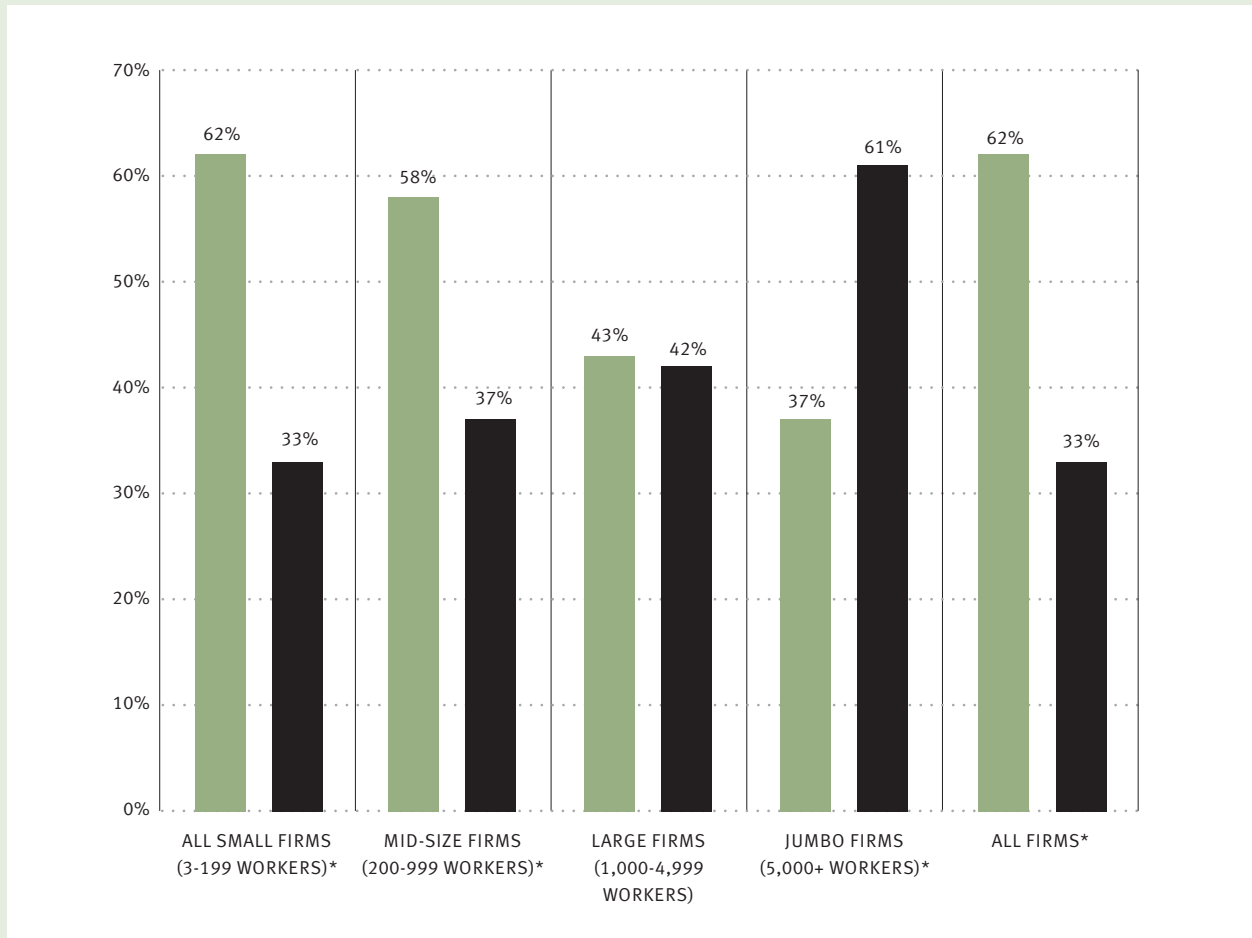
<sup>14</sup> Urban Institute and Kaiser Commission on Medicaid and the Uninsured estimates based on the March 2001 Current Population Surveys.





- *Thirty-one percent of all firms and 47% of large firms (200 or more workers) report that they increased the amount employees paid for prescription drugs in 2003.*
- *Thirty-eight percent of all firms say they are very or somewhat likely to raise employee costs for prescription drugs next year and nearly six in ten (56%) large firms say they will increase employees' share of prescription costs.*
- *Approximately one-quarter of firms (24%) report that they increased employee deductibles or office visit copayments in 2002. Looking to next year, about 39% of all firms, report that they are "very" or "some-what" likely to increase deductibles. Thirty-seven percent of all firms report that they are very or somewhat likely to increase office visit copays or coinsurance.*
- *Few firms say they are very or somewhat likely to restrict employee eligibility for coverage or drop coverage entirely. Seven percent of firms suggest they might drop coverage in the future.*
- ▶ *While many employers plan to increase cost sharing in order to control rising costs, benefits managers are generally not optimistic about current cost containment strategies to curb rising premiums (EXHIBIT 12.5).*
- *Few respondents view current cost containment strategies as highly effective for reducing premium increases. When asked which cost containment strategies they thought were very effective, 22% of firms cited disease management; 14% said consumer-driven health plans (e.g., high-deductible plans with a health savings account); 10% listed 'higher employee cost sharing;' and 6% said 'tighter managed care networks.' Each of these strategies, however, was viewed as somewhat effective by about half of the respondents.*
- *Forty-two percent of all firms say they are interested in tighter managed care networks while 47% say they are not. Eleven percent of all firms say they don't know. At the same time, only 10% of firms and one percent of large firms (200 or more workers) think their employees would find tighter managed care networks 'very acceptable' (EXHIBITS 12.6, 12.7).*
- ▶ *Despite continuing efforts to educate firms about health plan quality, private sector efforts to accredit plans and measure quality remain largely unknown among smaller employers (EXHIBITS 12.8, 12.9).*
- *Awareness of the accreditation activities of the National Committee for Quality Assurance (NCQA) or the Utilization Review and Accreditation Committee (URAC) – non-profit organizations that evaluate managed care plans – remains unchanged from 2001 and varies by firm size. While just 14% of all small firms (3-199 workers) are familiar with NCQA, awareness rises considerably to 71% among jumbo firms (5,000 or more employees).*
- *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 small firms: 6% of small firms (3-199 workers) are familiar with it, but 62% of jumbo firms (5,000 or more workers) are familiar with HEDIS.*
- *The Leapfrog Group – a private-sector initiative developed to bring large firms' health care purchasing strategies in line with the objectives of the Institute of Medicine's study on medical errors, To Err is Human – is relatively well known among the largest firms (5,000 or more workers) at 49%, but virtually unknown among small firms with fewer than 1,000 employees (5%) (EXHIBIT 12.10).*

## EXHIBIT 12.1

Percentage of Firms That Shopped for a New Plan, and the Percentage of These Firms Reporting That They Changed Health Plan Types or Insurance Carriers in the Last Year, by Firm Size, 2003



 SHOPPED FOR A NEW PLAN  
 CHANGED HEALTH PLAN TYPES OR INSURANCE CARRIERS

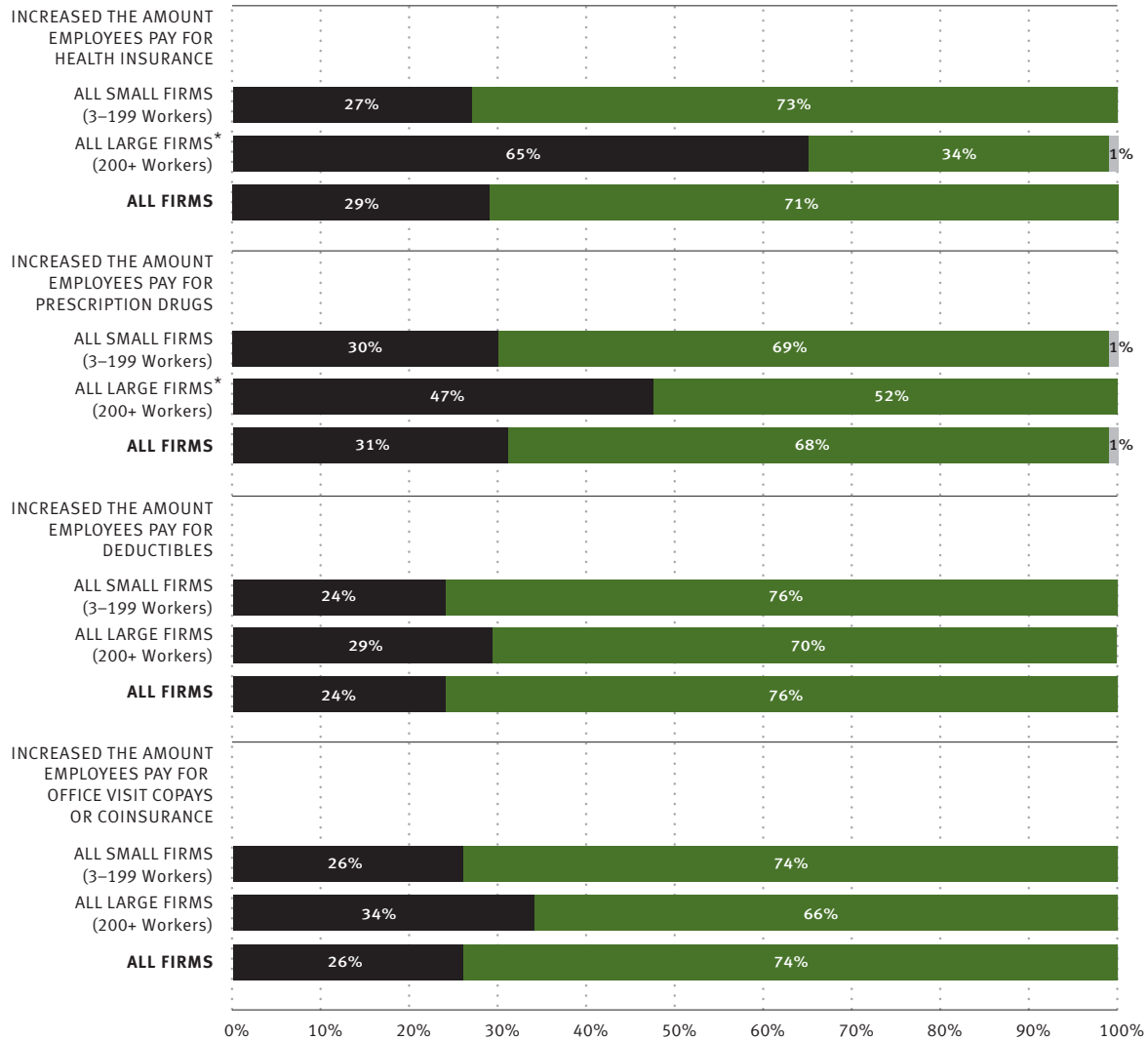
## SOURCE :

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

\* Estimates are statistically different within firm size.

## EXHIBIT 12.2

# Percentage of Firms That Report They Have Made the Following Changes to Any of Their Health Plans in the Last Year, 2003



## SOURCE:

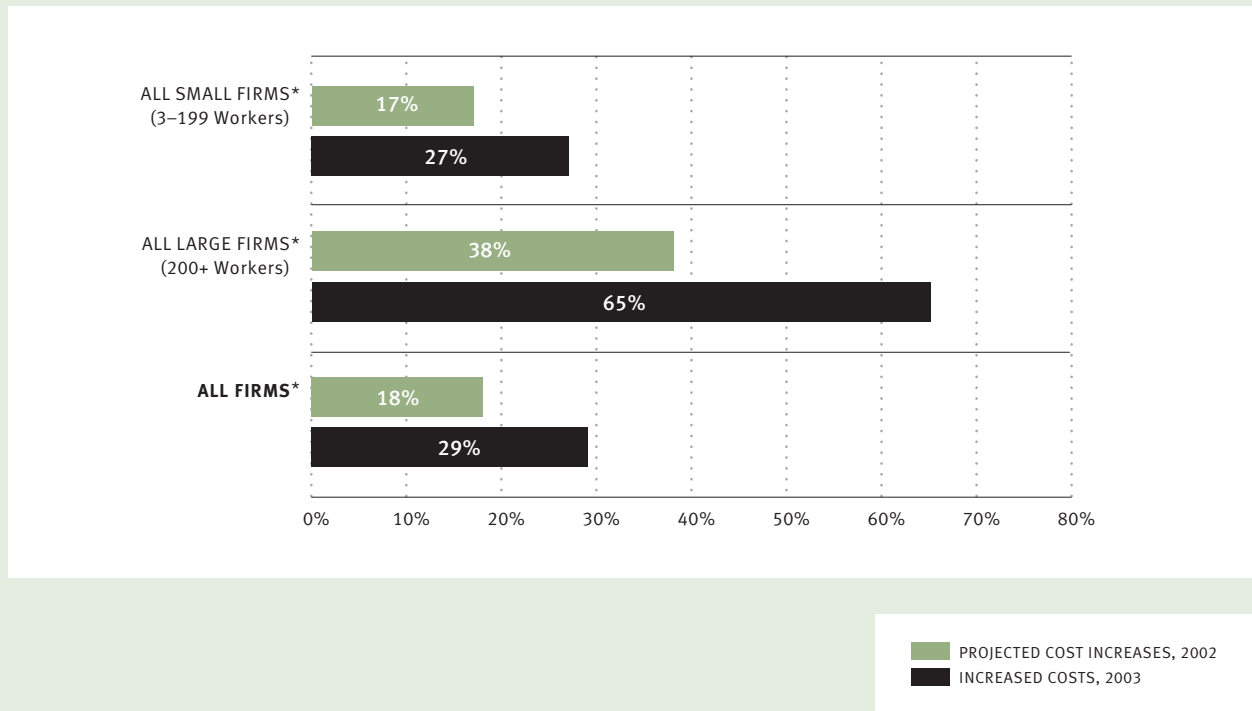
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

\* Distribution is statistically different from All Firms.

YES  
NO  
DON'T KNOW

## EXHIBIT 12.3

Percentage of Firms in 2002 That Reported They Were Very Likely to Increase Employee Cost for Coverage Compared to Those That Report They Increased Employee Costs in 2003, by Firm Size



## SOURCE :

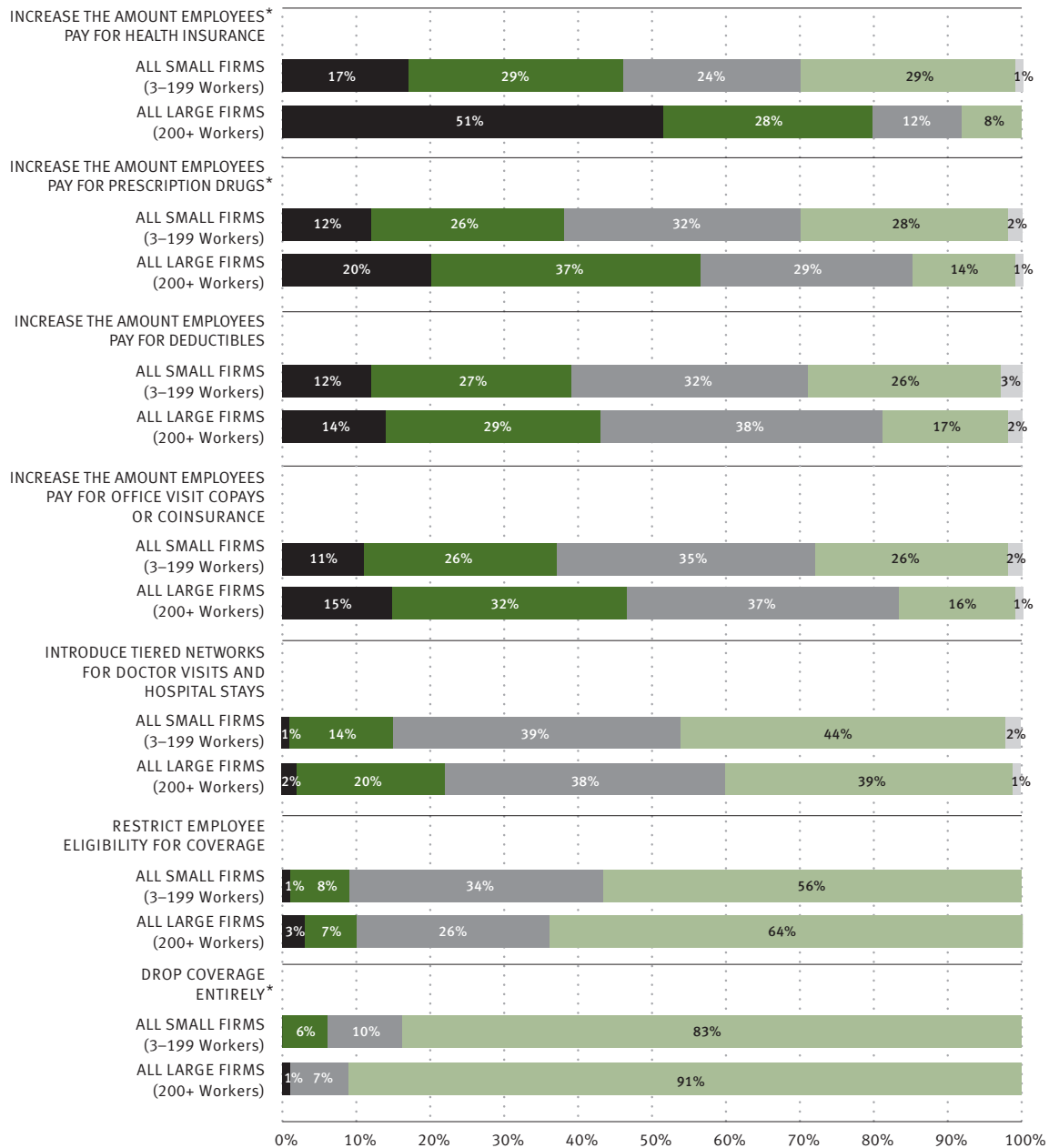
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2002, 2003.

\* Estimates are statistically different within firm size.

Note: In 2002, 28% of all firms reported that they were 'somewhat likely' to increase the employee's share of cost in the next year. Twenty-eight percent of all small firms said they were 'somewhat likely' to increase employee costs compared to 40% of large firms.

## EXHIBIT 12.4

## Percentage of Firms That Report They Are Likely to Make the Following Changes in the Next Year, by Firm Size, 2003



## SOURCE :

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

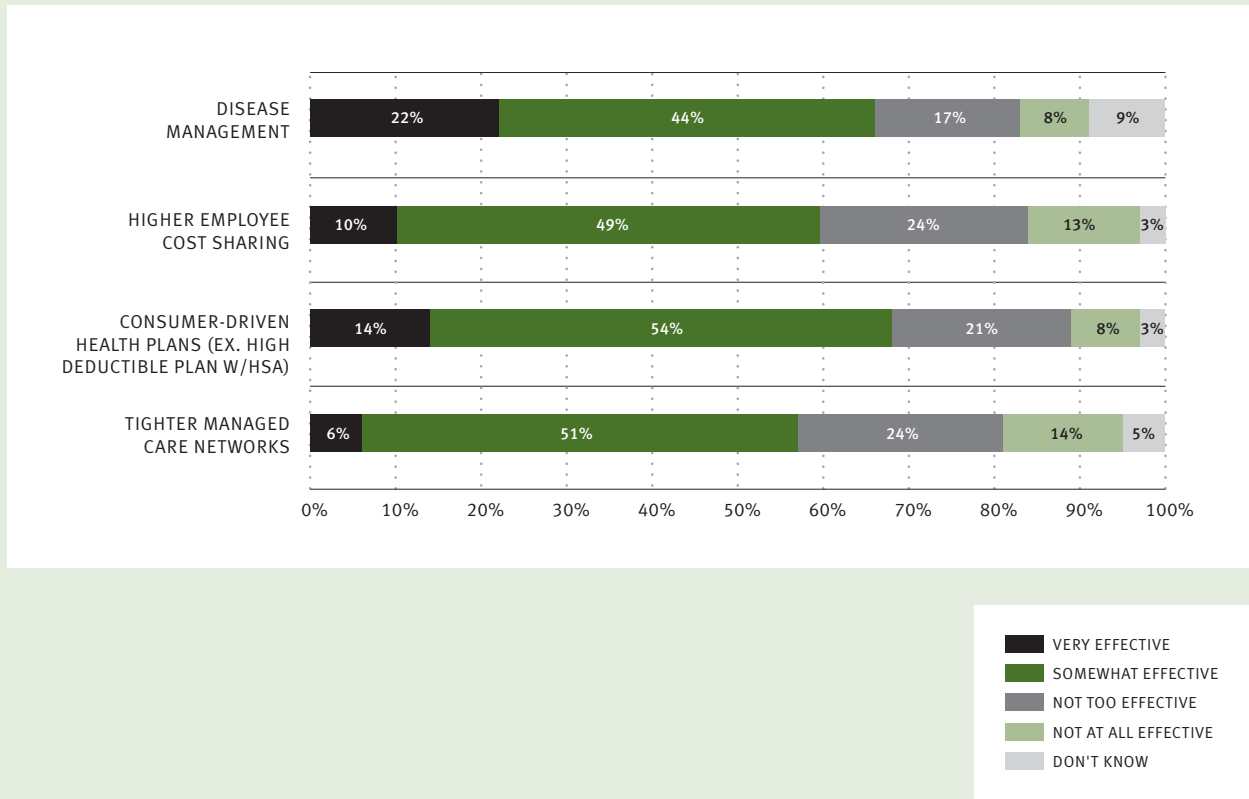
\* Distributions are statistically different by firm size.

Note: Data for All Firms are nearly identical to data reported for All Small Firms.

VERY LIKELY  
SOMEWHAT LIKELY  
NOT TOO LIKELY  
NOT AT ALL LIKELY  
DON'T KNOW

## EXHIBIT 12.5

## Percentage of Firms That Report Their Opinions on the Effectiveness of the Following Cost Containment Strategies, 2003



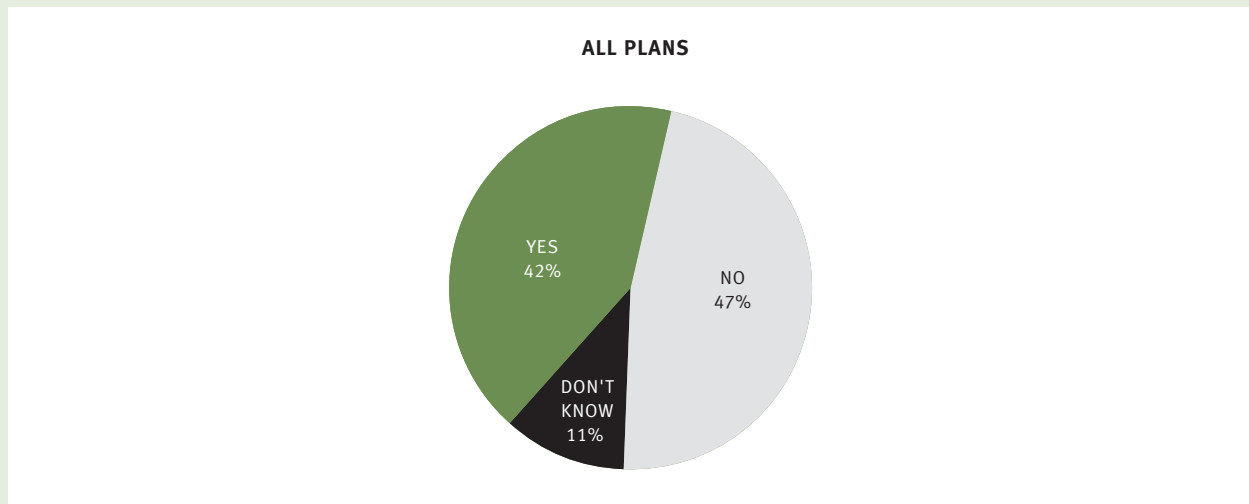
## SOURCE :

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

HSA: Health Savings Account. A pre-tax account funded by an employer that permits employees to make their own choices about how much they spend on more routine health expenses.

## EXHIBIT 12.6

Percentage of Firms That Are Interested in Having Tighter Managed Care Networks to Reduce Premium Increases, 2003

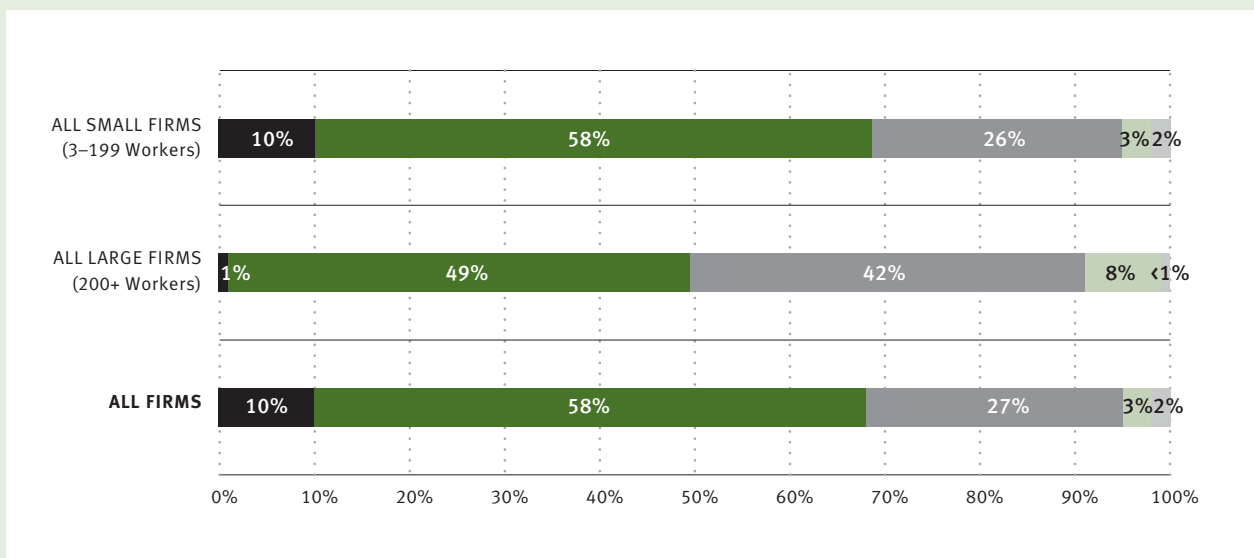


SOURCE :

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

## EXHIBIT 12.7

Percentage of Firms That Report Their Employees Would Find Tighter Managed Care Networks Acceptable to Varying Degrees, by Firm Size, 2003\*



SOURCE :

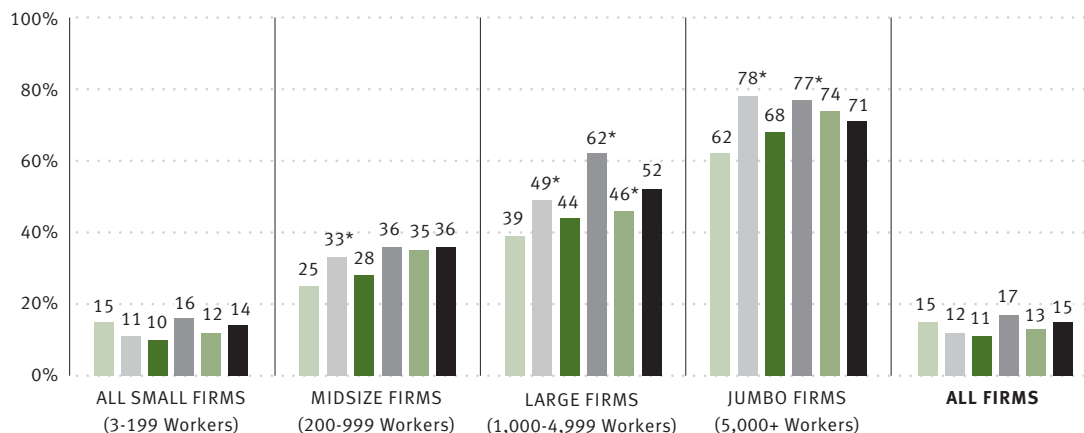
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

\* Tests found no statistically different distributions by Firm Size.

■ VERY ACCEPTABLE  
 ■ SOMEWHAT ACCEPTABLE  
 ■ SOMEWHAT UNACCEPTABLE  
 ■ VERY UNACCEPTABLE  
 ■ DON'T KNOW

## EXHIBIT 12.8

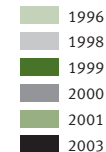
## Percentage of Firms That Are Familiar with NCQA or URAC Accreditation, by Firm Size, 1996-2003



## SOURCE:

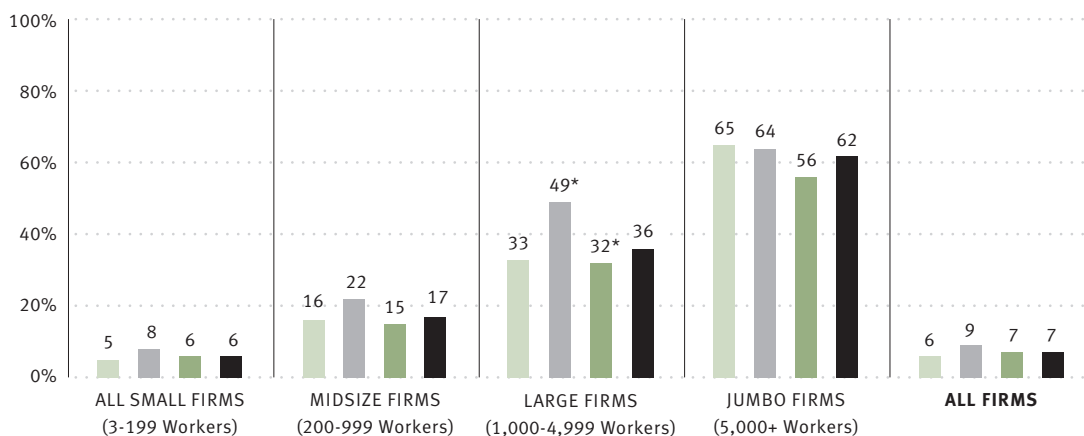
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2003;  
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

\* Estimate is statistically different from the previous year shown: 1996-1998, 1998-1999, 1999-2000, 2000-2001, 2001-2003.



## EXHIBIT 12.9

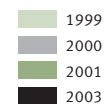
## Percentage of Firms That Are Familiar with HEDIS, by Firm Size, 1999-2001 and 2003



## SOURCE:

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

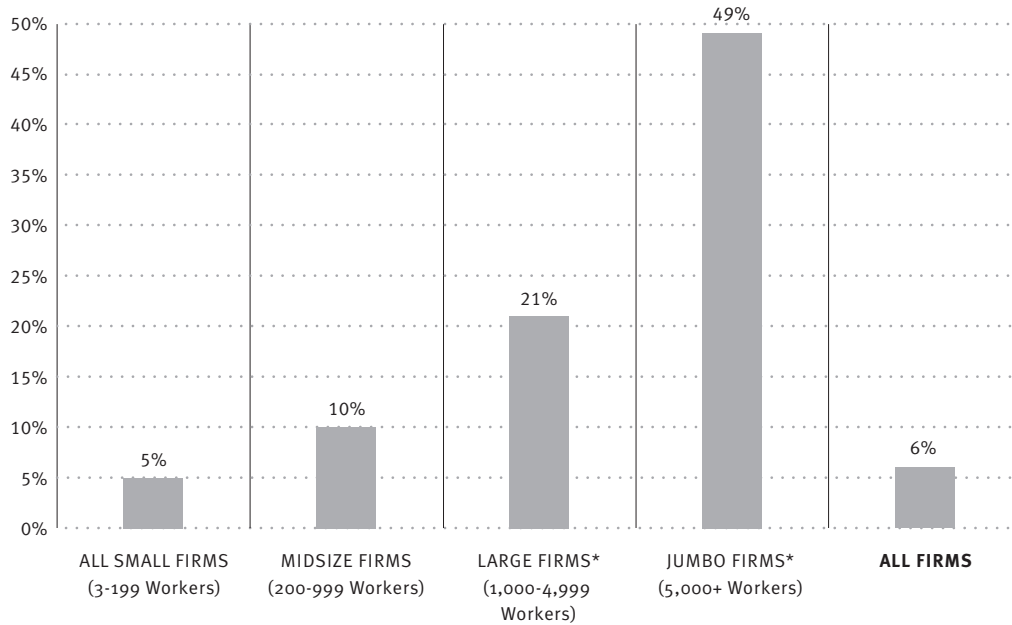
\* Estimate is statistically different from the previous year shown: 1999-2000, 2000-2001, 2001-2003.





## EXHIBIT 12.10

## Percentage of Firms That Are Familiar With The Leapfrog Group, by Firm Size, 2003



## SOURCE :

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

\* Estimate is statistically different from All Firms.

The Leapfrog Group: An organization founded by the Business Roundtable that seeks to encourage large employers to reward health plans and hospitals that make breakthrough improvements in patient safety and quality.

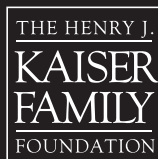
Note: In 2002, 28% of all firms reported that they were 'somewhat likely' to increase the employee's share of cost in the next year. Twenty-eight percent of all small firms said they were 'somewhat likely' to increase employee costs compared to 40% of large firms.



## S U B J E C T   I N D E X

Benefits		Cost containment strategies	140, 141
Abortion	109, 110	Coverage	4-6, 50-53, 55-60
Adult physicals	106, 109, 110	Deductibles	
Annual ob/gyn visit	109, 110	Hospital	4, 90-92, 100, 101
Inpatient mental health	106, 109, 110, 114, 115, 121	Plan	90, 92-95, 141, 143, 145
Oral contraceptives	106, 109, 110	Prescription drugs	92, 115
Outpatient mental health	109, 110, 114, 115, 121	Dental coverage	6, 106, 111
Prenatal care	106, 109, 110	Disease management	8, 141, 146
Prescription drugs	10, 11, 19, 90, 91, 103, 106, 109, 110, 114-120, 132, 141, 143, 145	Drop coverage	1, 8, 39, 141, 145
Reversible contraceptives	106, 109, 110	Eligibility	
Sterilization	106, 109, 110	For coverage	1, 6, 10, 50, 51, 53
Well-baby care	109, 110	Restrictions	1, 7, 8, 39, 141, 145
Benefits limits		Enrollment	1, 2, 6, 51, 56
Mental health	4, 115, 121	Estimated cost of health insurance	39, 45
Brand name drugs	114, 116-119	Flexible spending account	6, 106, 107, 111
Coinsurance		Formulary	115, 120
Hospital	4, 91, 100	Funding arrangements	
Office visits	4, 90-92, 99, 100, 143, 145	Fully insured	2, 16, 25, 26, 70, 129
Prescription drugs	11, 115, 119, 141, 143, 145	Self-insured	2, 16, 25, 26, 70, 124-129
Compensation preferences		Generic drugs	4, 114, 116-119
Wages or health benefits	39, 45	Health plan changes	
Contributions		Future	6-8, 140, 141, 145
Employee/worker	39, 45, 74-79, 84, 140, 143, 144, 145	Last year	6, 8, 140, 141, 143, 144
Employer pays full premium	85, 86	Switched plans or insurance carriers	2, 5, 140, 142
Employer/firm	39, 45, 80-83, 85-88	Health plan criteria	44
Consumer-driven health plans	8, 39, 141, 146	Health savings account	3, 39, 46, 47, 141, 146
Conventional plans	5, 6, 10, 20, 24, 25, 30, 32-35, 62, 63, 67, 71, 72, 76-79, 83, 84, 87, 88, 90, 94, 95, 97, 99-103, 106, 110, 114, 118, 120, 121, 126, 127	HEDIS	141, 148
Copayment (copay)		High-deductible plans	1, 2, 3, 8, 39, 46, 47, 141, 146
Hospital	91, 100, 101	Historical data	13
Office visits	90, 92, 98, 100, 141, 143, 145	HMO plans	2, 4-6, 10, 18, 19, 24, 25, 30, 32-35, 62, 63, 66, 67, 70-72, 76-79, 83-91, 93-95, 97, 98, 99-103, 110, 114, 118, 120, 121, 126, 127
Prescription drugs	114, 115, 117, 119, 143, 145	Hospital	1, 2, 4, 10, 19, 90, 91, 94, 95, 100-102
		Leapfrog group	141, 149
		Low-wage workers	42, 50, 74, 82

NCQA	141, 148	Prescription drug carve out	115
Non-preferred drugs	4, 114, 116-119	Prescription drugs	2, 4, 6, 10, 11, 19, 90, 91, 103, 106, 109, 110, 114-120, 132, 141
Non-preferred provider	4, 90, 91, 93-96, 100	Response rate	10
Offer rate	10-12, 38-42	Retiree coverage	
Out-of-pocket maximum	4, 8, 91, 103	Early retirees	132, 136, 137
Part-time workers	5, 6, 11, 38, 42, 50, 51, 57, 58	Medicare-age retirees	6, 132, 136, 137
Physician(s)		Offer rate	6, 132-138
Expand networks	107, 112	Shopped for a new plan	2, 4, 140-142
Reduce networks	107, 112	Survey sample	10, 14, 15
Plan choice	6, 62-67	Take-up rates	50, 51, 53, 54
Plan enrollment	6, 70-72	Temporary workers	51, 57, 58
POS plans	2-6, 10, 24, 25, 32-35, 62, 63, 67, 71, 76-79, 83-88, 90, 91, 93-95, 97, 99-103, 110, 114, 115, 118, 120, 126, 128	Tighter managed care networks	8, 141, 146, 147
PPO plans	3-6, 10, 18, 20, 24, 25, 32-35, 62, 63, 67, 70-72, 76-79, 83-89, 90-97, 99-103, 110, 114, 115, 118, 120, 126, 128	Tiered cost sharing	
Preferred drugs	4, 114, 116-119	Hospital	102, 145
Preferred providers	2, 3, 5, 10, 90, 91-97	Providers	91, 102, 145
Premiums		Prescription drugs	4, 92, 114, 116
Family	1, 2, 4, 18-28, 30-35, 74-76, 81, 83-88	Turnover (attrition)	42
Increases	18-29	Underwriting gains	2, 18
Reasons for increase	2, 19, 29	Union workers	6, 38, 42, 59, 60, 90, 133, 140
Single	1, 4, 19, 30-35, 74-76, 80, 83-88	URAC	141, 148
		Waiting period	6, 51, 59, 60



The Henry J. Kaiser Family Foundation  
2400 Sand Hill Road  
Menlo Park, CA 94025  
Phone: 650-854-9400 Fax: 650-854-4800

Washington Office:  
1330 G Street NW  
Washington, DC 20005  
Phone: 202-347-5270 Fax: 202-347-5274

**[www.kff.org](http://www.kff.org)**

Individual copies of this publication (#3369)  
are available on the Kaiser Family Foundation's website at [www.kff.org](http://www.kff.org).  
Multiple copies may be obtained from HRET by calling 1-800-242-2626 (order #097510).

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.