Employer Health Benefits

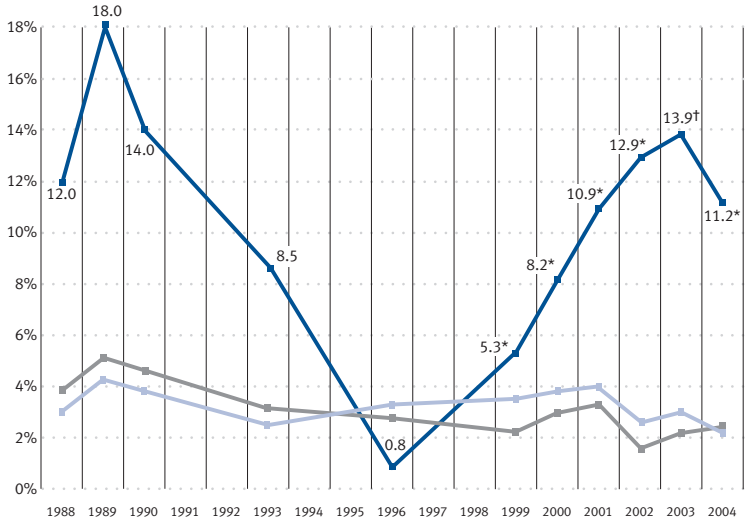
2004 Summary of Findings

Employer-sponsored health insurance reaches more than three out of every five nonelderly Americans.[1] To provide current information about the nature of employer-provided health benefits, the Kaiser Family Foundation (KFF) and the Health Research and Educational Trust (HRET) conduct an annual national survey of private and public employers of three or more workers. Kaiser and HRET have been conducting the survey jointly since 1999. Prior to this, the survey was conducted by the Health Insurance Association of America (HIAA) and Bearing Point (formerly KPMG). Findings in this report draw on the 1999–2004 Kaiser/HRET Survey of Employer-Sponsored Health Benefits, the 1993, 1996, and 1998 KPMG Surveys of Employer-Sponsored Health Benefits, and the 1988, 1989 and 1990 studies conducted by HIAA.

The rate of growth of health care premiums moderated somewhat in the last year, but continues to grow at double-digit rates. Perhaps reflecting several years of high premium growth and a slow economy, the survey also found that the percentage of all workers receiving health coverage from their employer fell from 65% in 2001 to 61% in 2004. As a consequence, we estimate that there are at least five million fewer jobs providing health insurance in 2004 that in 2001. A likely contributing factor is a decline in the percentage of all small firms (3-199 workers) offering health insurance over this period. In 2004, 63% of all small firms offer health benefits to their workers, down from 68% in 2001.[2] Finally, there has been growth over the past year in the number of employers familiar with and offering consumer-directed health plan arrangements, specifically those that combine a high-deductible plan with a personal or health savings account option. Despite increased interest and knowledge about this type of plan, only a small percentage of employers currently offer a high-deductible plan with a personal or health savings account option.

EXHIBIT A

Increases in Health Insurance Premiums Compared to Other Indicators, 1988-2004



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002, 2003, 2004; 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), 1988-2004; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1988-2004.

*Estimate is statistically different from the previous year shown at p<.05.

†Estimate is statistically different from the previous year shown at p<.10.

Note: Data on premium increases reflect the total cost of health insurance premiums for a family of four. Historical estimates of workers' earnings have been updated to reflect new industry classifications (NAICS).

HEALTH INSURANCE PREMIUMS

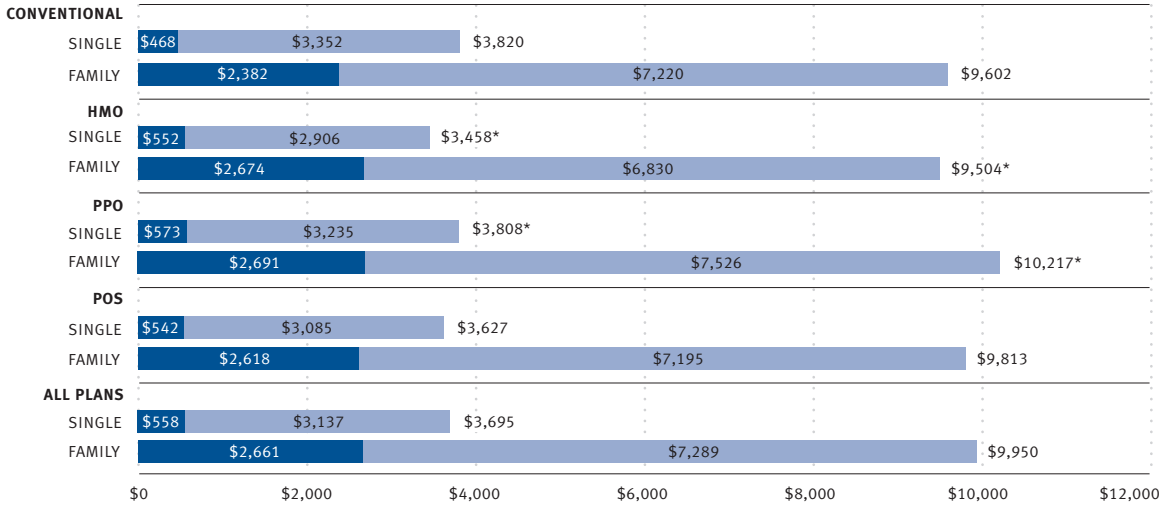
Between spring of 2003 and spring of 2004, premiums for employer-sponsored health insurance rose by 11.2%, lower than the 13.9% increase in 2003, but still the fourth consecutive year of double-digit growth (Exhibit A). Premiums continued to increase much faster than overall inflation (2.3%) and wage gains

[1] Kaiser Family Foundation, Kaiser Commission on Medicaid and the Uninsured. *Health Insurance Coverage in America, 2002 Data Update*, December 2003.

[2] The decline in the all small firm offer rate between 2001 and 2004 is significant at p<.10.

EXHIBIT B

Average Annual Premiums for Covered Workers, Single and Family Coverage by Plan Type, 2004



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

* Estimate of total premium is statistically different from All Plans by coverage type shown at p<.05.

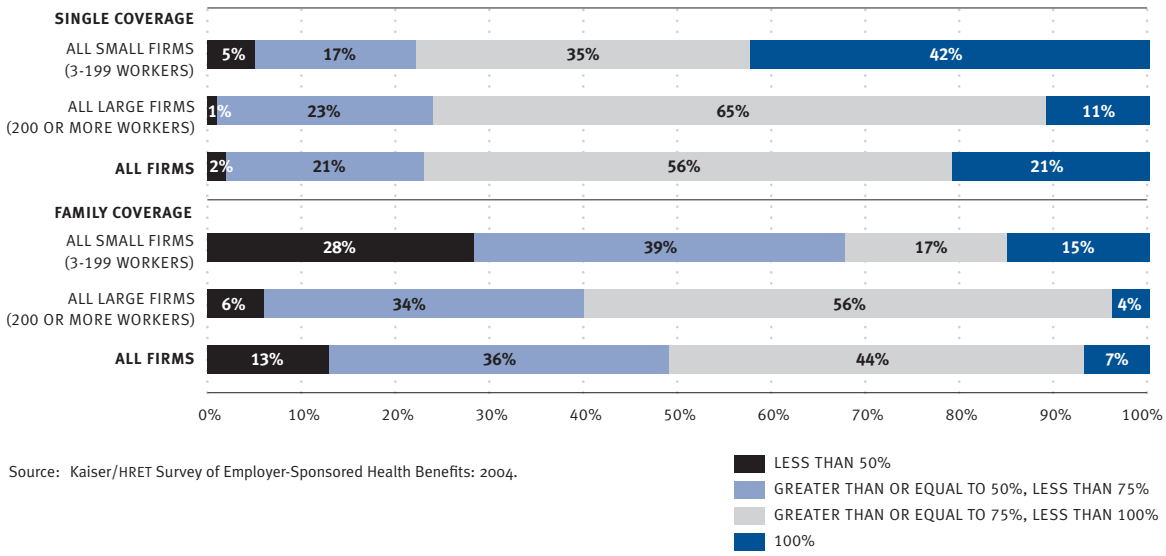
Note: Family coverage is defined as health coverage for a family of four.

(2.2%). Since 2000, premiums for family coverage have increased by 59%, compared with inflation growth of 9.7% and wage growth of 12.3%.

Average premium increases in 2004 are similar across firm sizes and plan types, but there is significant variability around the average: 24% of employees work for firms where premiums increased by five percent or less, while 28% of employees work for firms where premiums increased by more than 15%.

EXHIBIT C

Distribution of Percentage of Premiums Paid by Firms for Covered Workers, by Firm Size, 2004



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

Average annual premiums for employer-sponsored coverage rose to $3,695 for single coverage and $9,950 for family coverage (Exhibit B).

Although PPOs cover a majority of covered workers, HMOs remain less expensive. Annual PPO premiums for single and family coverage are $3,808 and $10,217, respectively, compared to annual HMO premiums of $3,458 for single coverage and $9,504 for family coverage. Premiums in fully insured plans and premium equivalents in self-funded plans grew at similar rates.

EMPLOYEE CONTRIBUTIONS

Almost 80% of covered workers with single coverage, and over 90% of covered workers with family coverage make a contribution toward premiums in 2004 (Exhibit C). Workers on average contribute $558 of the $3,695 annual cost of single coverage and $2,661 of the $9,950 annual cost of family coverage toward premiums (Exhibit B). The percentage of premiums paid by workers is statistically unchanged over the last several years, at 16% for single coverage and 28% for family coverage (Exhibit D).

All small (3-199 workers) and all large (200 or more workers) firms contribute about the same amount toward single coverage, but all large firms contribute significantly more than all small firms towards family coverage.

This year we asked employers about benefit practices that might discourage employees from enrolling in health benefit plans. Of firms offering health benefits, 17% provide additional compensation or benefits to employees who decline the offer of health coverage altogether. Twelve percent of employers offering coverage vary the amount that an employee must pay for family coverage depending on whether the employee's family member has access to coverage from another source, and three percent of employers provide additional compensation or benefits to employees that elect single rather than family coverage (Exhibit E). Few employers say that they are likely to adopt any of these practices in the near future, but 41% of employers offering health benefits say that they are "very likely" or "somewhat likely" to increase the percentage of the family premium that employees must pay in the next two years.

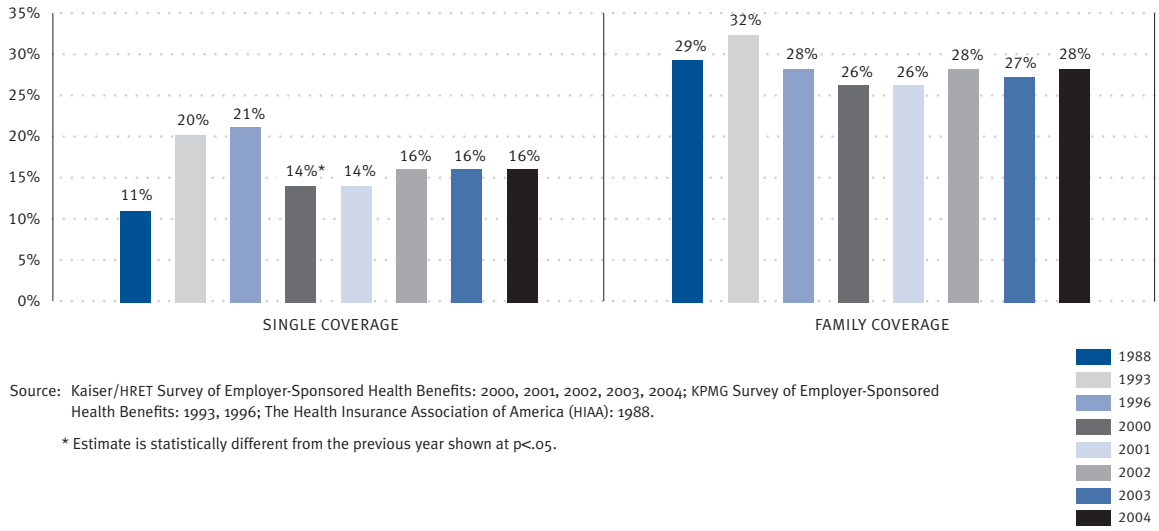
EMPLOYEE COST SHARING

In addition to their premium contributions, most workers make additional payments when they use health care services. Cost sharing rose only modestly in 2004, compared to the larger increases observed in recent years. Fifty-one percent of workers are in a health plan that requires that a deductible be met before most plan benefits are provided. The average single coverage deductible for PPO plans is $287 for services from preferred providers and $558 for services from nonpreferred providers. Both are statistically unchanged from 2003 (Exhibit F). PPO deductibles in all small firms (3-199 workers) are substantially higher than PPO deductibles in larger firms, with single coverage deductibles of $420 for preferred provider services and $676 for nonpreferred-provider services.

More than half of covered workers face separate cost sharing when they are admitted to a hospital. Thirty percent of covered workers face a separate deductible or copayment when they are hospitalized, with an average payment of $224. Thirteen percent of workers face separate coinsurance when they are hospitalized, with an average coinsurance rate of 16%. An additional five percent of workers face both a deductible or copayment and coinsurance when hospitalized.

EXHIBIT D

Percentage of Premium Paid by Covered Workers for Single and Family Coverage, 1988-2004

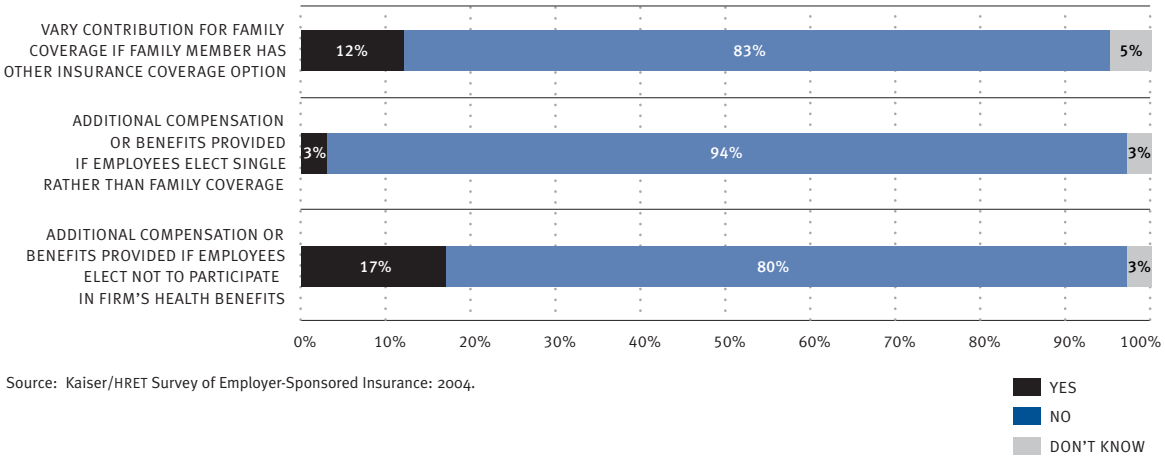


Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003, 2004; KPMG Survey of Employer-Sponsored Health Benefits: 1993, 1996; The Health Insurance Association of America (HIAA): 1988.

* Estimate is statistically different from the previous year shown at p<.05.

EXHIBIT E

Distribution of Firms Reporting the Use of the Following Contribution Approaches for Health Benefits, 2004

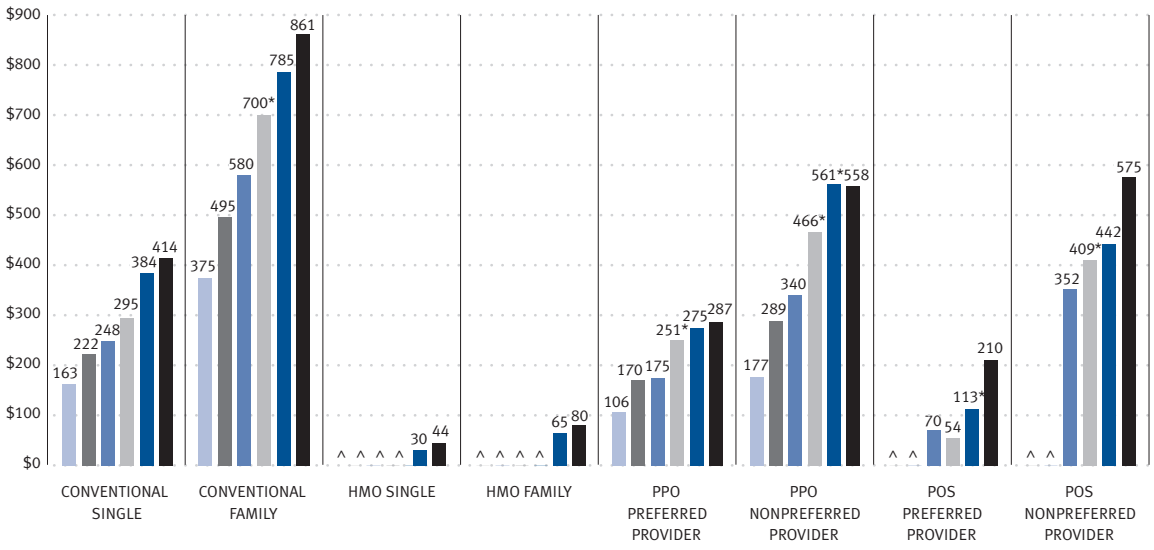


Source: Kaiser/HRET Survey of Employer-Sponsored Insurance: 2004.

The vast majority of covered workers face copayments when they go to the doctor or fill a prescription. Copayments for physician office visits rose modestly in 2004, with the percentage of covered workers in plans with a $20 copayment for office visits increasing from 19% in 2003 to 27% this year. The average drug copayments for generic ($10), preferred ($21), and nonpreferred ($33) drugs increased slightly over the last year.

EXHIBIT F

Average Annual Deductibles for Covered Workers by Plan Type, 1988-2004



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003, 2004; KPMG Survey of Employer-Sponsored Health Benefits: 1993; The Health Insurance Association of America (HIAA): 1988.

* Estimate is statistically different from the previous year shown at p<.05.

^ 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, 30% 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 $410 and the average nonpreferred provider deductible is $595.

COVERAGE

While the percentage of firms offering health benefits is statistically unchanged from last year, it has gradually declined over the last few years (Exhibit G). Annual changes have been small, but the cumulative result is a statistically significant decline in the percentage of firms offering health benefits, from 68% in 2001 to 63% in 2004.[3] This drop is driven largely by a significant decline in the percentage of all small firms (3-199 workers) offering coverage during this time.[4] The drop in offer rates are likely the result of multiple years of double-digit premium increases, combined with a slow job market. Driven by similar factors, the percentage of workers receiving health coverage from their own employer (including those working both for firms that offer and firms that do not offer coverage) declined significantly between 2001 and 2004, from 65% to 61%. A substantial portion of this decline occurred among all small firms (3-199 workers).

Employers offering health benefits continue to vary substantially by firm size: only 52% of the smallest companies (3-9 workers) offer health benefits, while 74% of firms with 10-24 workers, and 87% of firms with 25-49 workers, and nearly all firms with 50 or more workers offer health benefits.

Even when a firm offers health insurance, not all workers get covered. Some workers 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, 80% of workers are eligible for coverage, and 82% of those eligible elect to enroll.

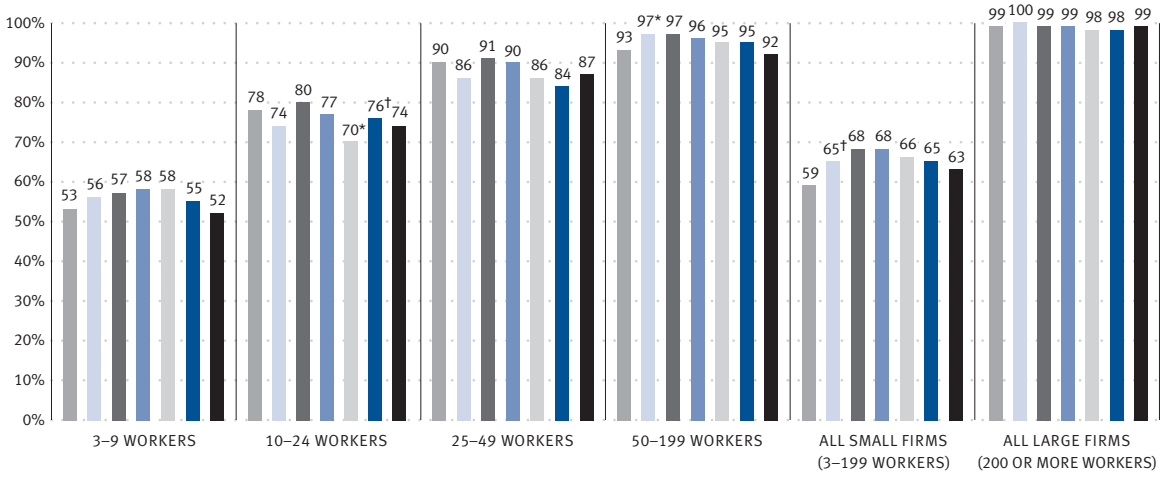
Fourteen percent of all firms offer health benefits to same-sex couples, and twelve percent offer health benefits to unmarried heterosexual couples. Jumbo firms (5,000 or more workers) are more likely to offer benefits to same-sex couples than smaller firms. There are no significant differences by firm size in firms' likelihood of offering benefits to unmarried heterosexual couples.

RETIREE COVERAGE

The recent passage of the 2003 Medicare Prescription Drug Improvement and Modernization Act, combined with cutbacks in coverage by several large national firms, has put a spotlight on retiree health benefits. In 2004, 36% 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. Among all large firms offering retiree benefits, virtually all (96%) offer benefits to early retirees, while about three-quarters offer benefits to Medicare-age retirees.

EXHIBIT G

Percentage of Firms Offering Health Benefits, by Firm Size, 1996-2004



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002, 2003, 2004; KPMG Survey of Employer-Sponsored Health Benefits: 1996.

* Estimate is statistically different from the previous year shown at p<.05.

† Estimate is statistically different from the previous year shown at p<.10.

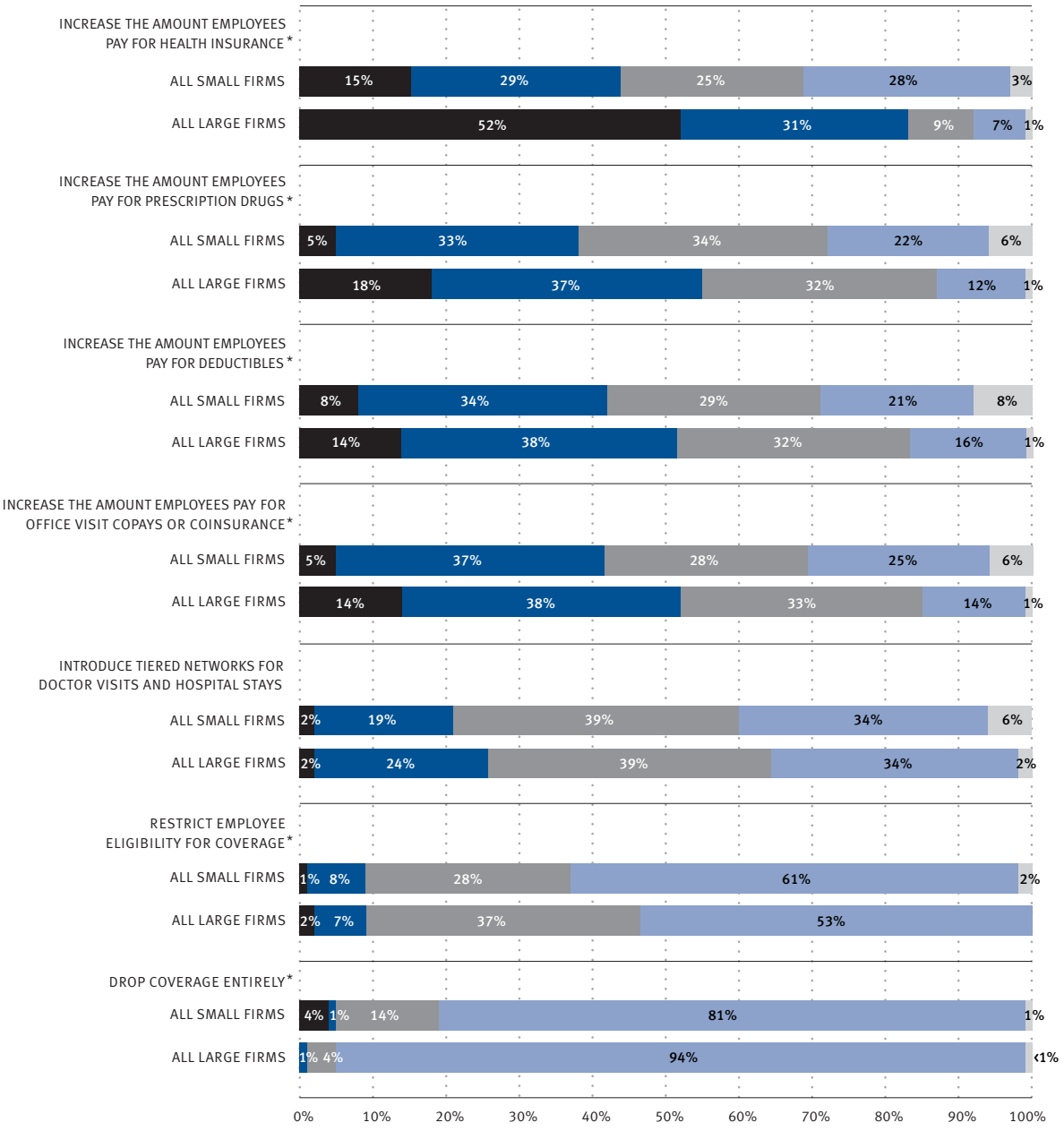
Note: The percentage of all small firms (3-199 workers) offering health benefits in 1999 was 65%, not 71% as reported last year.

[3] The decline in offer rate for all firms between 2001 and 2004 is significant at p<.10.

[4] The decline in the all small firm offer rate between 2001 and 2004 is significant at p<.10.

EXHIBIT H

Distribution of Firms Reporting Their Likelihood of Making the Following Changes in the Next Year, by Firm Size, 2004



Source: Kaiser/HRET Survey of Employer-Sponsored Insurance: 2004.

* Distributions are statistically different by firm size.

All small firms: 3-199 workers

All large firms: 200 or more workers

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

HEALTH PLAN ENROLLMENT AND CHOICE

PPOs continue to be the most common plan in 2004, enrolling over half of all employees with health coverage. HMO enrollment remains stable this year, enrolling 25% of covered workers. Conventional (or indemnity) benefit plans enroll just five percent of employees. PPO coverage is available to almost eight in ten covered workers and HMO coverage is offered to just over half of covered workers. Enrollment in POS plans has declined over time, decreasing from 23% in 2001 to 15% in 2004.

Most workers with health coverage through their employer continue to have a choice of health plans, with just under half having a choice of three or more plans. Covered workers in all small firms (3-199 workers) are much less likely to have a choice of health plans than covered workers in all large firms (200 or more workers)—73% of covered workers in all small firms that provide coverage are offered just one health plan compared to 18% of covered workers in all large firms.

HEALTH BENEFITS

Most covered workers (79%) experienced no change in benefits (other than cost sharing) in 2004. All large (200 or more workers) and all small (3-199 workers) firms generally cover the same benefits, and there is little difference for most benefits across plan types.

OUTLOOK FOR THE FUTURE

Premiums continue to grow at double-digit rates in 2004, slowing slightly from prior years, but at a rate of more than five times the rate of inflation. As we saw last year, employers are somewhat skeptical that current market strategies can have a major impact on premium growth. When asked about different approaches for reducing cost growth, only small percentages of employers rate any of the following as likely to be "very effective" at controlling health insurance costs (15% for disease management, 11% for consumer-driven health plans, and nine percent each for tightly managed care networks and higher employee cost sharing), although 32% of the largest firms (more than 5,000 employees) feel that disease management is likely to be "very effective." A majority of firms report that most of these approaches are likely to be "somewhat effective."

Among firms offering coverage, 56% report that they shopped for a new plan in the past year. Of those firms, 31% report changing insurance carriers in the past year and 34% report changing the type of health plan offered.

When asked about changes that they may make in the near future, about half (52%) of all large firms (200 or more workers) and 15% of all small firms (3-199 workers), say that they are "very likely" to increase employee contributions. Relatively low percentages of firms say that they are "very likely" to raise deductibles (9%), raise office visit cost sharing (5%), raise prescription drug copayments (5%), introduce a tiered network for physicians or hospitals (2%), restrict eligibility for benefits (1%), or drop coverage altogether (3%) (Exhibit H).

Many individuals in the employee benefits and health policy communities have shown interest in consumer-directed health plans, particularly arrangements that combine a high-deductible health plan with a personal or health savings account option. About six percent of firms (employing about 13% of covered workers) say that they are "very likely" to offer this type of arrangement in the next two years, and another 21% of firms (employing about 26% of covered workers) report being "somewhat likely" to do so. This level of interest suggests that these plans will become more popular over the next few years.

Looking back from 2004, we see that the percentage of all small firms (3-199 workers) offering coverage has fallen from 68% to 63% since 2001, and that over the same period, the percentage of all workers who obtain coverage through their own employer has fallen from 65% to 61%, driven primarily by a decline in coverage among all small firms. Policymakers will want to watch these trends closely in coming years to determine whether these lower rates of offering and coverage represent a permanent loss to the system, or whether they are temporary changes that will improve with the economy and lower rates of cost growth.

This year's results also raise the question of whether smaller firms will continue to support family coverage for their employees as costs continue to rise. All small firms (3-199 workers) are significantly less likely than all large firms (200 or more workers) to say that it is important for the firm to make a significant contribution towards the cost of family coverage. This sentiment is borne out by current practice: all small and all large firms make about the same contribution toward the cost of single coverage, but all small firms make a far smaller contribution than all large firms toward family coverage. The cost of family coverage today is almost $10,000 per year (roughly a year's work at minimum wage). Small firms, who pay their workers less on average than large firms,[5] may have a particularly difficult time fitting family coverage into their employee compensation packages if premium growth continues at recent rates.

[5] In the fourth quarter of 2004, the average total compensation in private establishments with fewer than 50 workers was $19.37 per hour, compared with average total compensation in private establishments of 500 or more workers of $32.54. The comparable averages in goods-producing establishments were $22.97 in private establishments with fewer than 50 workers and $37.89 in private establishments with 500 or more workers. For service-providing establishments, the comparable averages were $18.64 in private establishments with fewer than 50 workers and $31.03 in private establishments with 500 or more workers. Source: National Compensation Survey, Bureau of Labor Statistics, U.S. Department of Labor, Employer Cost of Employee Compensation, Data Extracted July 14, 2004. See www.bls.gov/ncs/home.htm.

METHODOLOGY

The Kaiser Family Foundation/Health Research and Educational Trust 2004 Annual Employer Health Benefits Survey (Kaiser/HRET) reports findings from a telephone survey of 1,925 randomly selected public and private employers. Firms range in size from small enterprises with a minimum of three workers to corporations with more than 300,000 employees. The Kaiser/HRET Employer Health Benefits Survey is based on previous surveys sponsored by the Health Insurance Association of America from 1986–1991 and Bearing Point (KPMG at the time of the surveys) from 1991–1998. Researchers at Health Research and Educational Trust and the Kaiser Family Foundation designed and analyzed the survey. National Research LLC conducted the fieldwork between January and May 2004 with an overall response rate of 50%.

From previous years' experience, we have learned that firms that decline to participate in the study are more likely not to offer health coverage. Therefore, we asked one question to all firms in the study with which we made phone contact where the firm declined to participate. The question was, "Does your company offer or contribute to a health insurance program as a benefit to your employees?" A total of 3,017 firms responded to this question (including 1,925 who responded to the full survey and 1,092 who responded to this one question). Their responses are included in our estimates of the percentage of firms offering health coverage. The response rate for this question was 78%. Findings are post-stratified based on the recently released Statistics of U.S. Businesses conducted by the U.S. Census in order to reflect national estimates of firms and covered workers.

All statistical tests are performed at the .05 levels except where otherwise noted. A select set of data was tested at the .10 level to explore the possibility of emerging changes in the health care offer rate, employee share of premium, premium growth among small firms, coverage rates, and prescription drug carve-outs.

Sponsors

The Kaiser Family Foundation, based in Menlo Park, California, is a nonprofit, private operating foundation dedicated to providing information and analysis on health care issues to policymakers, the media, the health care community, and the general public. The Foundation is not associated with Kaiser Permanente or Kaiser Industries.

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