

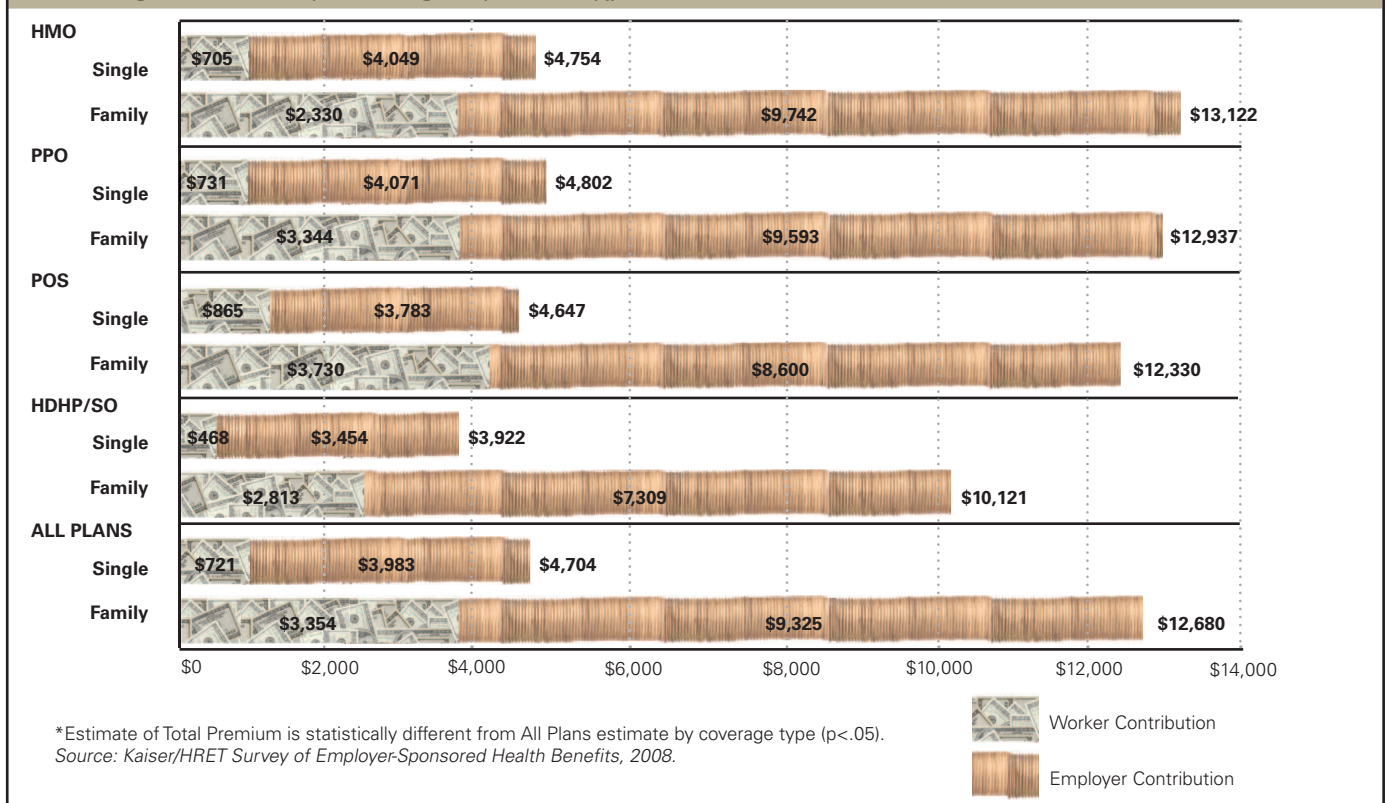
A Work in Progress

by Jeff Jorth

It's a new year and health insurance is on everyone's agenda. While healthcare reform received much press during the political campaigns and a new administration will assume command in Washington this month, it may be awhile before we see substantial change. In the meantime, millions of people remain uninsured and additional millions with employer-provided health insurance face changing scenarios driven by economic necessity.

Recent surveys conducted by the Center for Studying Health System Change (HSC) and the Kaiser Family Foundation showed that healthcare premiums rose in 2008, although the increase was less than that seen recent years. These surveys of nearly 2,000 employers found that, on average in 2008, premiums rose five percent, with annual premiums for employer-sponsored health insurance at \$4,704 for single coverage and \$12,680 for family coverage.

Average Annual Firm and Worker Premium Contributions and Total Premiums for Covered Workers for Single and Family Coverage, by Plan Type, 2008



Despite the increase from 2007, this minimal change is a far cry from the 13-14 percent increase seen five years ago. As several of SilverStone Group's larger clients finalize renewals and plan designs for 2009, we project the trend in rising premiums to continue throughout the year, with an estimated average increase of 6.5 percent in companies' healthcare costs.

In a continuing effort to curb rising costs, companies are offering coverage with higher deductibles, out-of-pocket maximums and copays. The Kaiser study found that in just one year, the percentage of workers enrolled in high-deductible insurance plans with deductibles of \$1,000 or more jumped from 12 percent to 18 percent. For small businesses, the shift

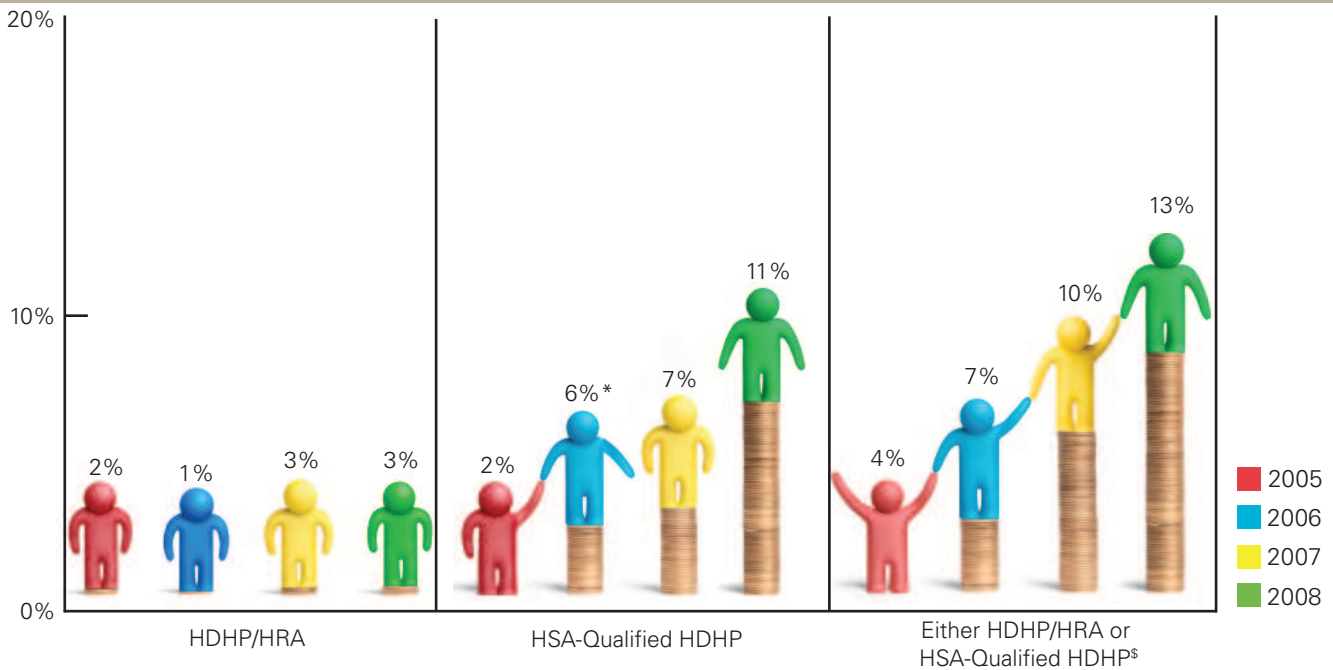
toward high-deductible insurance was most dramatic, with over one-third having a deductible of at least \$1,000.

The Kaiser study also reported steady growth in consumer-directed plans. High-deductible health plans with a savings option (HDHP/SO) include either of the following:

- Health plans with a deductible of at least \$1,000 for single coverage and \$2,000 for family coverage, offered with a Health Reimbursement Arrangement (HRA), referred to as an “HDHP/HRA”
- High-deductible health plans that meet the federal legal requirement to permit an enrollee to establish and contribute to a Health Savings Account (HSA), referred to as an “HSA-qualified HDHP”

In 2008, 13 percent of firms that offered health benefits offered an HDHP/SO. Firms with 1,000 or more workers were more likely to offer HDHP/SOs (22 percent) than firms with three to 199 workers (13 percent) or 200-999 workers (15 percent). Annual deductibles for single coverage for HDHP/HRAs and HSA-qualified HDHPs averaged \$1,552 and \$2,010, respectively. The average aggregate annual deductible for family coverage was \$3,057 for HDHP/HRAs and \$3,911 for HSA-qualified HDHPs. Similar to the other plan types, many HDHP/SOs cover preventative services before the deductible is met and 97 percent of workers in HDHP/HRAs and 86 percent of workers in HSA-qualified HDHPs have preventative care covered before having to meet the deductible.

Among Firms Offering Health Benefits, Percentage That Offer an HDHP/HRA and/or an HSA-Qualified HDHP, 2005-2008



*Estimate is statistically different for the previous year shown (p<.05).

[§] The 2008 estimate includes 0.3% of all firms offering health benefits that offer both an HDHP/HRA and an HSA-qualified HDHP. The comparable percentages for 2005, 2006 and 2007 are 0.3%, 0.4% and 0.2% respectively.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2005-2008.

The distinguishing aspect of these high-deductible plans is the savings feature available to employees. Regulations stipulate that only the employer can contribute funds to an HRA, while both the employer and employee can contribute to an HSA. Thus, workers enrolled in an HDHP/HRA receive a higher average contribution from their employer of \$1,249 for

single coverage and \$2,073 for family coverage. The average contribution to an HSA is \$838 for single coverage and \$1,522 for family coverage, roughly double the average contribution in 2007. This increase may be due in part to a change in legislation passed by Congress in December 2006 that increased the maximum allowable annual HSA contribution.

It is important to note that not all firms offering HSA-qualified HDHPs contribute to the HSAs established by their workers. For example, among firms offering an HSA-qualified HDHP, about 28 percent do not make a contribution to the HSA

for single or family coverage. If workers with no employer contribution to their HSA are excluded from the calculation, the average employer HSA contributions are \$1,139 and \$2,067 for single and family coverage, respectively.

Average Annual Premiums and Contributions to Savings Accounts for Covered Workers in HDHP/HRAs, or HSA-Qualified HDHPs, Compared to All Non-HDHP/SO Plans, 2008						
	HDHP/HRA		HSA-Qualified HDHP		All Non-HDHP/SO Plans [§]	
	Single	Family	Single	Family	Single	Family
Total Annual Premium	\$4,468	\$11,571*	\$3,527*	\$9,101*	\$4,769	\$12,892
Worker Contribution to Premium	\$533*	\$3,455	\$420*	\$2,332*	\$742	\$3,397
Firm Contribution to Premium	\$3,935	\$8,117	\$3,107*	\$6,769*	\$4,027	\$9,495
Annual Firm Contribution to the HRA or HSA[§]	\$1,249	\$2,073	\$838	\$1,522	NA	NA
Total Annual Firm Contribution (Firm Share of Premium Plus Firm Contribution to HRA or HSA)	\$5,184*	\$10,190	\$3,945	\$8,291*	\$4,027	\$9,495
Total Annual Cost (Total Premium Plus Firm Contributions to HRA or HSA, if Applicable)	\$5,717*	\$13,645	\$4,365*	\$10,623*	\$4,769	\$12,892

* Estimate is statistically different from estimate for All Other Non-HDHP/SO Plans (p<.05).

[§] When those firms that do not contribute to the HSA (28% for single and family coverage) are excluded from the calculation, the average firm contribution to the HSA for covered workers is \$1,139 for single coverage and \$2,067 for family coverage. For HDHP/HRAs, we refer to the amount that the employer commits to make available to an HRA as a contribution for ease of discussion. HRAs are notional accounts, and employers are not required to actually transfer funds until an employee incurs expenses. Thus, employers may not expend the entire amount that they commit to make available to their employees through an HRA. Therefore, the employer contribution amounts to HRAs that we capture in the survey may exceed the amount that employers will actually spend.

[§] In order to compare costs for HDHP/SOs to all other plans that are not HDHP/SOs, we created composite variables using HDHP/SO data.

NA: Not applicable.

Note: For definitions of HDHP/HRAs and HSA-qualified HDHPs, see the introduction to Section 8. Values shown in the table may not equal the sum of their component parts. The averages presented in the table are aggregated at the firm level and then averaged, which is methodologically more appropriate than adding the averages. This is relevant for Total Annual Premium, Total Annual Firm Contribution and Total Annual Cost.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2008.

In 2008, the Kaiser survey included new questions on wellness programs offered by employers. Fifty-three percent of small firms (3-199 workers) and 88 percent of large firms (200+ workers) providing health benefits also offer at least one of the following wellness programs: weight loss, gym membership discounts or on-site exercise facilities, smoking cessation, personal health coaching, classes in nutrition or healthy living, web-based resources for health living or a wellness newsletter.

Of all firms offering health benefits, ten percent also offer their employees the opportunity to complete a health risk assessment to identify potential health risks. Of those employers, 12 percent offer financial incentives for workers to complete the health risk assessment, with large firms being more likely than small firms to do so (33 percent vs. seven percent).

Finally, each year the Kaiser study asks employers what changes they are planning for next year's health plans. Among those offering benefits, a large percentage of firms report they are very or somewhat likely to increase the amount workers contribute to premiums (40 percent), increase deductible amounts (41 percent), increase office visit cost sharing (45 percent) or increase the amount that employees have to pay for prescription drugs (41 percent). Approximately one in four firms offering health benefits, but not an HSA-qualified HDHP, say that they are very likely (four percent) or somewhat likely (21 percent) to do so in the next year.

The need for healthcare coverage is one of the most compelling issues facing Americans. SilverStone Group's Group Benefits division is here to help your business navigate the constantly changing world of employee benefits.