

***Insurance Times:*** CIAB: Health care costs rising for employer health plans of all sizes

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WASHINGTON, D.C. — Group health plans and other medical-related benefits are becoming so expensive that employers are actively seeking ways to cut back on the coverage they offer and are engaging in significant cost-shifting to employees to keep premiums down, according to a new survey of market conditions by The Council of Insurance Agents and Brokers.

The first Employee Benefits Market Survey showed that small and medium accounts, those representing up to 500 employees, are feeling the brunt of the cost increases.

According to the brokers and agents who placed the coverage, all members of The Council of Insurance Agents and Brokers, 72 percent of the small accounts (representing 50 or fewer employees) and 77 percent of the medium accounts (with 51 to 500 employees) experienced premium hikes of between 10 percent and 30 percent for their group medical renewals. Six out of 10 large accounts, with 501 or more employees, saw their rates increase 10 percent to 30 percent.

An additional 23 percent of the small accounts and 20 percent of the medium accounts experienced premium increases ranging from 30 percent to 50 percent, the survey said. For large accounts, that figure was substantially lower, at only 7 percent.

Top benefits executives of The Council's member firms, which represent the largest commercial accounts in the U.S., responded to the survey, which covered a six-month period from October 2001 to April 2002. The Council plans to conduct the survey twice a year or more frequently if market conditions warrant.

Ken A. Crerar, president of The Council, said that, as has been the case with property/casualty rates for at least six months, no benefits accounts experienced a drop in premiums during the course of the survey — or even held steady.

In a series of open-ended questions, the agents and brokers said that on the whole, the biggest factors in the higher group medical coverage costs were skyrocketing prices of prescription drugs and rising hospital costs.

"I see more of the same," an agent responded when asked what he expected for the year ahead. "There is no end in sight for medical inflation. As a matter of fact, it looks like the pharmacy trend is lower this year, but the hospital trends are higher. In addition, providers are able to demand higher payments, which is hurting managed care."

But a new wrinkle - the graying of America - is beginning to creep into the equation, causing some speculation that the costs for group medical are not likely to go down any time soon.

"General aging of the population of our clients," responded another agent when asked about major trends that will affect pricing and coverage in the near future.

"Aging population, increased claim activity, poor stock market performance," agreed another.

Unless something is done to control the price of group medical coverage, one agent speculated that many small employers would be forced to drop that benefit altogether in the next few years because "continued plan sponsorship is unsustainable under their business plans."

### Cost Shifting

Employers are dealing with the rising premium prices through a series of cost-shifting steps that are transferring a greater share of the medical and prescription drug coverage expenses onto their employees, the survey showed.

In addition to the standard responses of higher deductibles and increased co-payments by the patients at the point of service, some businesses are putting in tiers of coverage where workers can pick from various levels of coverage depending on how much out-of-pocket expense they can afford.

Another trend is to significantly lower the amount of reimbursement an employee gets when he or she seeks treatment from a medical practitioner outside an HMO or PPO network. Still another plan design change gives workers options to purchase voluntary additional coverage.

Also, the survey showed that some plans, such as vision care and dental, traditionally sponsored by employers, are now being shifted to employee-pay status if offered at all. And there is increased interest in the workplace in the so-called "defined contribution" plans where an employee is given a specific amount of money every year to spend on his or her medical expenses rather than having an open-ended type coverage plan.

Still, the agents and brokers surveyed expressed concern that in the workplace, the shift to HMOs and in-network providers has occurred for most accounts, meaning that avenue of savings is no longer available to keep costs in check.

So far, the brokers and agents reported, group life insurance premiums are not going up as sharply as group health premiums. Roughly two-thirds of the small and medium-sized accounts experienced no change or only slight increases of less than 10 percent in their group life premiums. About half the large accounts had no change or increases of less than 10 percent for their group life coverage costs.