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BIG bite of health premiums keeps getting BIGGER

Employers are facing yet another grim year of double-digit increases in health care costs, and their employees are facing the harsh prospect of paying even higher out-of-pocket costs."

Jim Foreman, managing director of Health and Welfare for Towers Perrin, made this statement after viewing preliminary results of Towers Perrin's 2004 Health Care Cost Survey.

While the size of the cost increase in 2004 is expected to be lower than it was in 2003 (12% versus 16%), the cumulative effect of five years of double-digit increases will have a dramatic toll on employers, he says.

"I cannot recall a longer sustained period of double-digit increases in the health care industry," said Foreman. "Companies are paying twice as much in health care costs today as they paid six years ago."

The survey found that the average reported 2004 cost of medical coverage for all types of health plans combined is \$314 per month (\$3,768 on an annual basis) for employee-only coverage; \$627 per month (\$7,524 annually) for employee-plus-one dependent coverage and \$888 per month (\$10,656 annually) for family coverage.

The percentage increase for employer-sponsored medical plans is higher for retirees than for active employees -- a trend that has persisted since 1999. This is of particular concern to employers who have large post-retirement medical obligations.

Overall, the 2004 increase in health care costs amounts to \$742 per active employee, on average. The survey also found that, while employees will be asked to pay more out-of-pocket for their health care in 2004, employers are still shouldering the lion's share of the costs. According to the survey, employees will contribute 19% of the total cost for employee-only coverage and 22% for family coverage, nearly the same percentages that they paid in 2003. In dollar terms, employees will contribute an average of \$59 a month in 2004 for employee-only coverage (compared to \$48 a month in 2003 and \$38 a month in 2002). Employee contributions for family coverage will average \$196 a month in 2004 (compared to \$160 a month in 2003 and \$134 a month in 2002).



Retirees will contribute nearly half of the total cost of their coverage. Retirees under 65 will pay an average of \$180 a month (\$2,160 annually) for retiree-only coverage. Contributions for family coverage for retirees under 65 contributions will average \$483 a month (\$5,796 annually).

Retirees 65 and older will pay an average of \$111 a month for retiree-only coverage. Their contribution for family coverage will average \$232 monthly (\$2,784 annually).

"The irony is that employers are paying more, but their employees feel as if they are getting less," said Rich Ostuw, a Towers Perrin principal and senior health care consultant. "Health care is an emotional issue for employees. Companies are reluctant to make dramatic changes to their health plans because they recognize that their employees are already feeling squeezed in this environment of modest wage increases. However, employers are at their limit. They simply cannot continue to absorb double-digit increases."

According to the survey, dental costs for 2004 will also go up, increasing by 5%. "Although increases in dental premiums are not as dramatic as health care premium increases, they continue to outpace the rate of inflation," notes Fontanetta. Dental costs commonly represent 8% to 10% of a company's active employee health care costs.

"One of the trends that is evident in our survey is that most employers are taking steps to minimize the pain," said Foreman. "Companies are changing their plan designs, stepping up their employee com-

munications, targeting clinical programs, implementing care management programs, reviewing and updating their vendor management selections and adopting consumerism strategies that encourage their employees to be more effective purchasers of health care."

"However, many employers are taking baby steps when bold steps are needed," added Foreman. "If companies are serious about lowering their health care cost increases into the single digits, they must review their plans from top to bottom and commit themselves to take the necessary steps to align their health care strategy with their overall business strategy. Employers must also find a way to enlist their employees as partners in this effort." □