



Mercer: 2007 Health Coverage Cost Hike Increases Level with 2006

November 19, 2007 (PLANSPONSOR.COM) – The good news in Mercer’s latest look at employer health coverage costs is that the expense of providing medical coverage to workers increased by the same amount in 2007 as it did in 2006 – 6.1%.

A Mercer news release about its latest National Survey of Employer-Sponsored Health Plans said the 2007 average per-employee cost of \$7,983 represented an annual increase that has held steady for three years (See [Employers Rely on New Health Cost-Containment Programs](#)). Mercer said the annual price hike, which spiked in 2002 to almost 15%, is expected to slow even more in 2008.

However, before benefit managers break out the champagne, Mercer researchers pointed out in their study report that the rate of increase is still more than twice the rate of inflation. "Health cost growth is outpacing wages and material costs and eroding business profitability," the report says.

In some instances - particularly at organizations with fewer than 200 workers - employers pondered the continual health coverage price hikes and have apparently decided to abandon their plan altogether. In that market, health coverage fell from 63% in 2006 to 61% in 2007 - down from 66% in 2002, Mercer reported.

Looking ahead, the survey found that employers are predicting a 5.7% health cost price hike in 2008 after implementing a variety of cost-savings efforts. Without the cost savings, the cost of their largest medical plan would rise by about 8%, they predict.

Cost Shifting

Mercer's latest data shows that cost shifting to employees has helped keep the rate of increase down. Among large employers (500 or more employees), average in-network PPO deductibles rose by about 11%, from \$426 to \$473 for individuals and from \$1,022 to \$1,134 for families

Small-employer deductibles rose by only about 2% for individuals (from \$859 to \$872 among employers with 10 to 499 employees) but by 5% for families (from \$1,786 to \$1,879), Mercer said.

Even if employers made no benefit cuts, the rate of increase still appears to be slowing. Employers estimated that the cost of their largest medical plan would increase 8% in 2008 "before changes." That's down from 9% in 2007 and 10% in 2006

The Health Care 'Consumerism' Trend

The survey found 80% of large employers use health management programs to control cost and improve productivity, while 52% are actively promoting employee consumerism, according to the release.

The majority of employers using these strategies say they have been successful (63% for health management and 62% for consumerism). Large employers, which tend to be more proactive in cost management, experienced a somewhat lower average cost increase than small employers in 2007 (5.1% compared to 6.6%)

Another factor that may have slowed cost increases was the growth in enrollment in consumer-directed health plans (CDHP). In 2007, the percentage of employees enrolled in a CDHP based on either a Health Savings Account (HSA) or a Health Reimbursement Account (HRA) rose from 3% to 5% of all covered employees, Mercer said.

CDHPs are most common among the largest employers. Mercer found that 7% of employers with fewer than 500 employees now offer a CDHP, up from 5% in 2006. However, the option is offered by 14% of all larger employers (up from 11%) and 41% of those with 20,000 or more employees (up from 37%).

Mercer said its data shows that evidence that the plans are cost effective is accumulating. CDHPs delivered substantially lower cost per employee than either PPOs or HMOs in 2007. CDHP cost averaged \$5,970 per employee, compared to \$7,120 for HMOs and \$7,352 for PPOs.

Of the two types of CDHPs, HSA-based plans were less expensive than HRA-based plans (\$5,679 compared to \$6,224). Employer account contributions are a standard feature of HRAs but not of HSAs; over a third of large HSA sponsors do not contribute. Among those that make an HSA contribution, the average contribution is about the same as the average HRA contribution - \$626 and \$621, respectively, Mercer said.

According to the study, a minimum individual deductible in HSA plan of \$1,100 is required. When CDHP cost is compared to just PPOs with deductibles of \$1,000 or higher (which averaged \$6,644 per employee), the gap in cost is still close to \$700.

The other measure of CDHP performance is employee acceptance. When Mercer asked about the reaction of employees enrolled in the plan, about three-fifths of the large sponsors with an HSA-based CDHP (61%) said it was either "strongly positive" or "more positive than negative."

Coverage for Part-Time Workers

As far as part-time worker coverage is concerned, only 62% of large employers with part-time employees extend coverage to them.

So-called "mini-med" plans, which strictly limit the total amount of benefits payable in a year, are now offered by 7% of all large employers and 19% of large wholesale/retail employers as a way to provide some kind of low-cost coverage to part-timers not eligible for regular plans or to full-time employees not yet eligible for coverage.

In probing employer opinions about health coverage government mandates, the Mercer survey asked whether employers favored or opposed "pay or play" laws requiring employers to offer a health plan or pay into a fund to provide coverage to the uninsured and mandating that individuals buy insurance at specified levels of coverage and cost.

Fewer than a fourth of all employers said they support pay or play (23%), and the larger the employer the less likely they are to approve. Among those with 20,000 or more employees, only 13% approve, while 49% disapprove.

Other findings:

- After years of slow decline, there was a slight uptick in retiree medical offerings in 2007 - driven by employers with 500 to 999 employees. Among all large employers, 31% offer coverage to pre-Medicare-eligible retirees and 21% offer it to Medicare-eligible retirees, up from 29% and 19% in 2006, respectively.
- Same-sex domestic partner coverage is on the rise, with 34% of large employers making it available in 2007, up from 29% last year. The larger the employer, the more likely they are to include domestic partners as eligible dependents: 68% of those with 20,000 or more employees cover same-sex domestic partners, up from 62% in 2006 and 55% in 2005.
- The use of special provisions to limit election of coverage for spouses who have other coverage available is growing slowly. One in ten large employers has a special provision, up from 8% in

2006, and 5% expect to add a provision in 2008.

- Some large employers are attempting to reduce tobacco use in their workforce by tying employees' premium contributions to their smoker status. While just 5% of all large employers currently use this incentive, 16% of the largest do so (those with 20,000 or more employees).

The Mercer National Survey of Employer-Sponsored Health Plans is conducted using a national probability sample of public and private employers with at least 10 employees. Nearly 3,000 employers completed the survey in 2007.

The full report on the Mercer survey - including a separate appendix of tables of responses broken out by employer size, region, and industry - will be published in late March 2008.