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THE KAISER FAMILY FOUNDATION
- AND -
HEALTH RESEARCH AND
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Employer
Health
Benefits

2004
ANNUAL SURVEY



THE HENRY J.
KAISER
FAMILY
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HEALTH RESEARCH &
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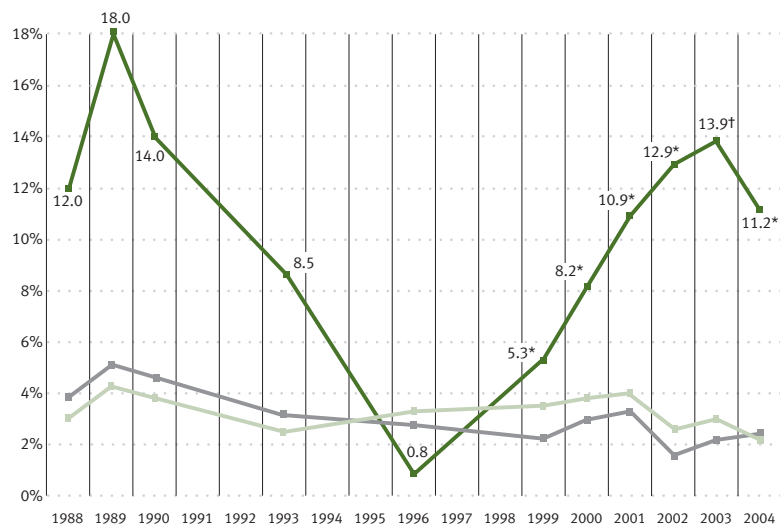
SUMMARY OF FINDINGS

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 than 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

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 $p < .10$.

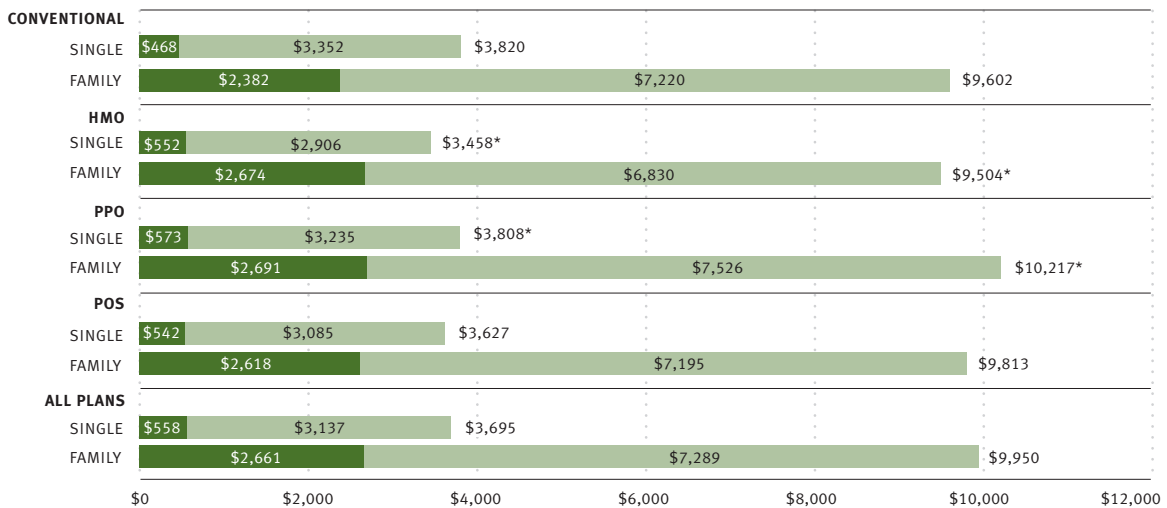
Note: Data on premium increases reflect the total cost of health insurance premiums for a family of four. Historical estimates of workers' earnings have been updated to reflect new industry classifications (NAICS).

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.

■ WORKER CONTRIBUTION
■ EMPLOYER CONTRIBUTION

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.

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 (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%. 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

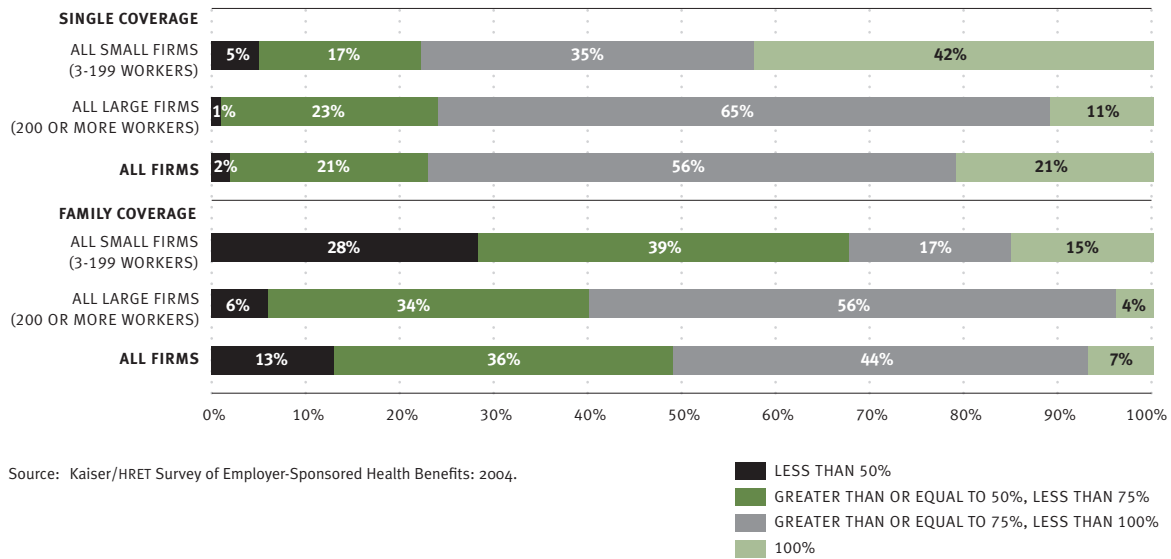
Almost 80% of covered workers with single coverage, and over 90% of covered workers

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 ben-

EXHIBIT C

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



efits 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

EXHIBIT D

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

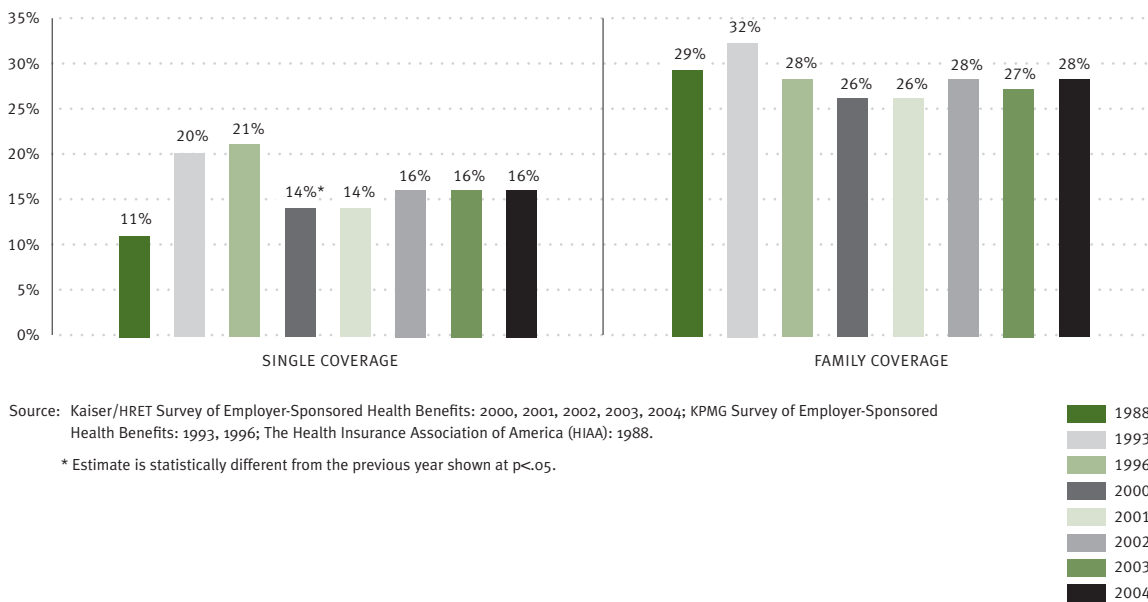
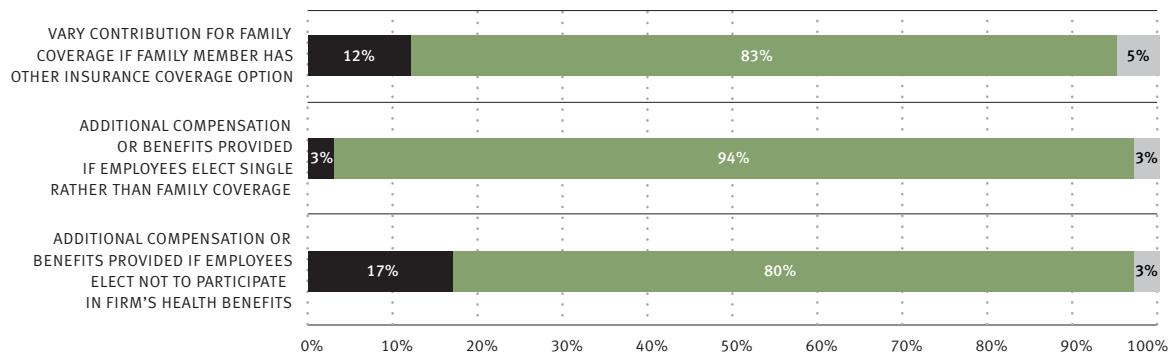


EXHIBIT E

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



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



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 offer-

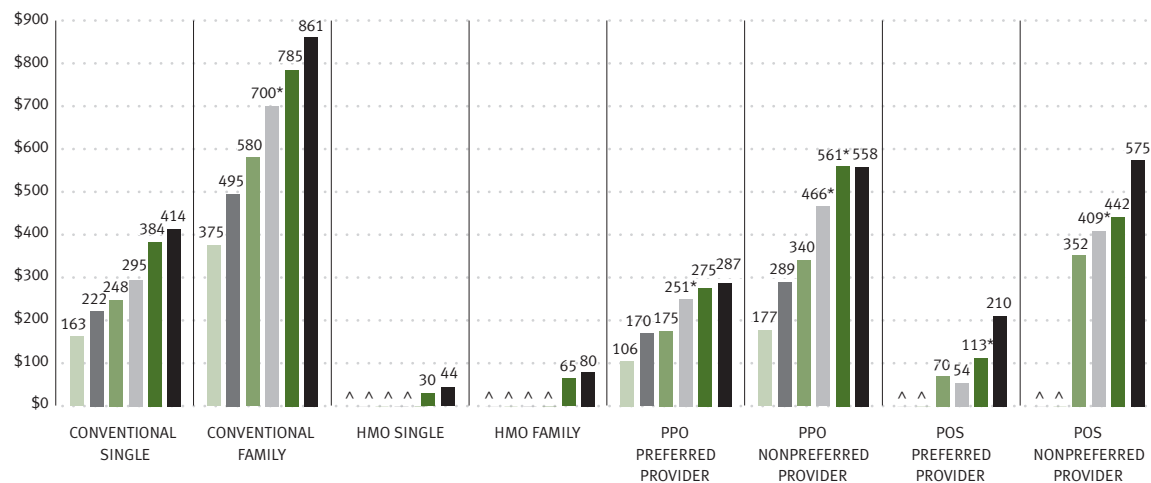
ing health benefits say that they are “very likely” or “somewhat likely” to increase the percentage of the family premium that employees must pay in the next two years.

EMPLOYEE COST SHARING

In addition to their premium contributions, most workers make additional payments when they use health care services. Cost

EXHIBIT F

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

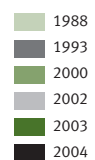


Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003, 2004; KPMG Survey of Employer-Sponsored Health Benefits: 1993; The Health Insurance Association of America (HIAA): 1988.

* 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.



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 pay-

ment 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.

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.

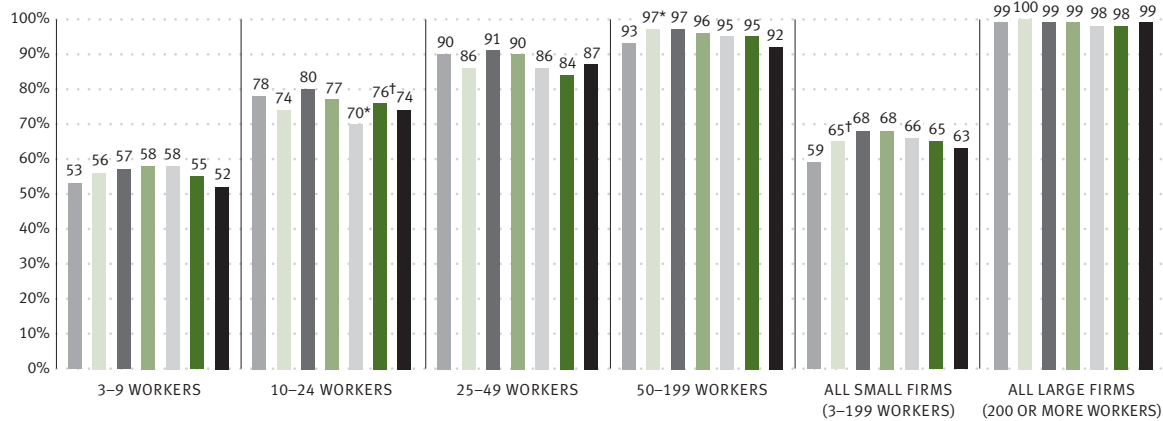
COVERAGE

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).

EXHIBIT G

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

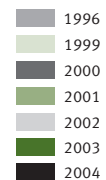


Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002, 2003, 2004; KPMG Survey of Employer-Sponsored Health Benefits: 1996.

* 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.

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 cut-backs 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.

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.”

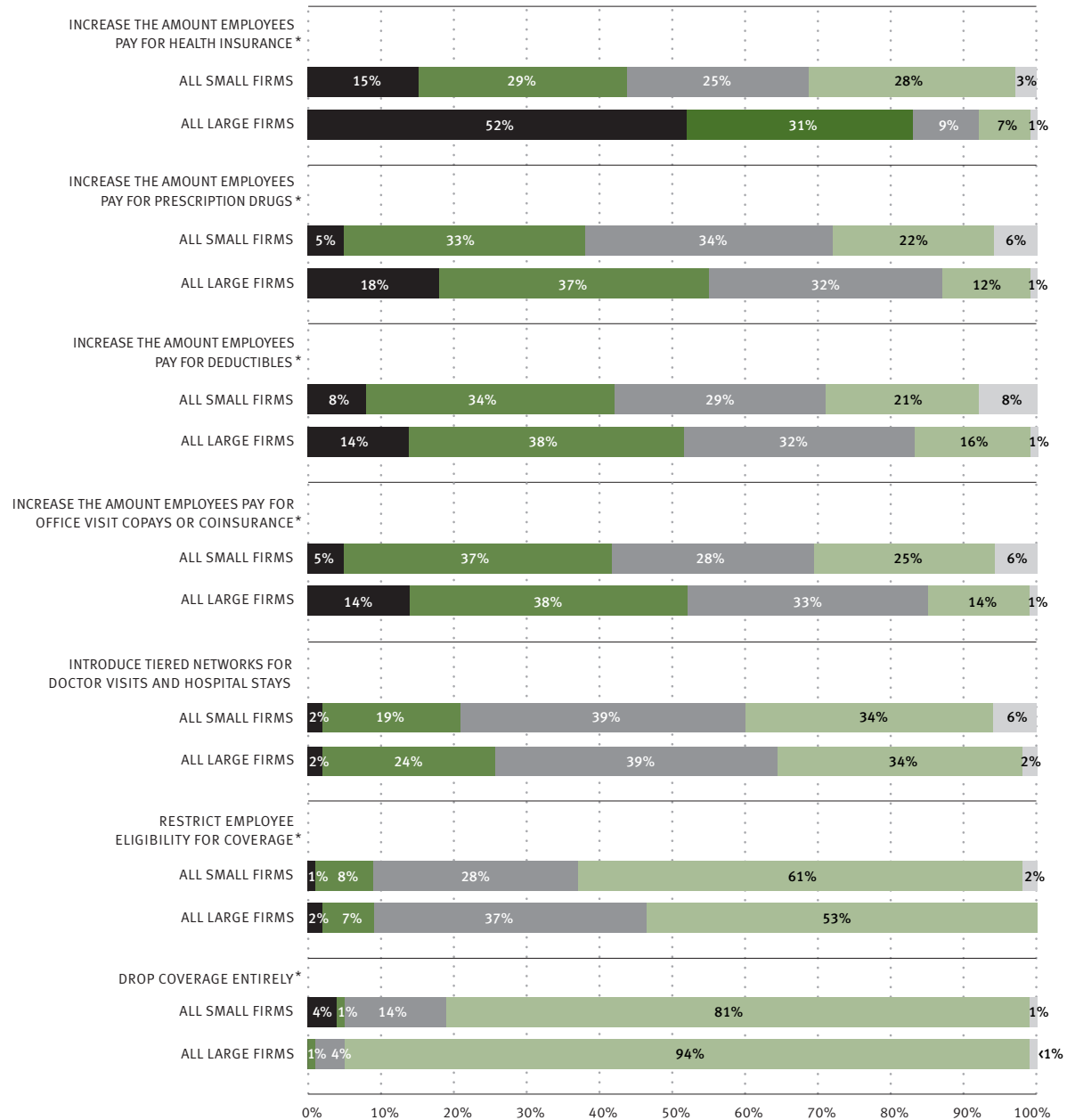
Among firms offering coverage, 56% report that they shopped for a new plan in the past year. Of those firms, 31% report changing insurance carriers in the past year and 34% report changing the type of health plan offered.

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%

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.



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.

EMPLOYER HEALTH BENEFITS
2004 ANNUAL SURVEY

Survey Design
and Methods

SURVEY DESIGN AND METHODS

THE KAISER FAMILY FOUNDATION AND THE HEALTH RESEARCH AND EDUCATIONAL TRUST (KAISER/HRET) CONDUCT THIS SURVEY OF EMPLOYER-SPONSORED HEALTH BENEFITS. FOR MANY YEARS THE INTERNATIONAL CONSULTING AND ACCOUNTING FIRM, BEARING POINT (FORMERLY KNOWN AS KPMG), SUPPORTED THE STUDY. IN 1998, KPMG DIVESTED ITSELF OF ITS COMPENSATION AND BENEFITS PRACTICE, AND PART OF THAT DIVESTITURE INCLUDED DONATING THE ANNUAL SURVEY OF HEALTH BENEFITS TO HRET. HRET IS A NONPROFIT RESEARCH ORGANIZATION AFFILIATED WITH THE AMERICAN HOSPITAL ASSOCIATION. THE KAISER FAMILY FOUNDATION PROVIDES FINANCIAL SUPPORT AND CONDUCTS THIS SURVEY IN PARTNERSHIP WITH HRET. THE FOUNDATION PROVIDES INDEPENDENT RESEARCH AND ANALYSIS ON HEALTH POLICY ISSUES, AND IS NOT AFFILIATED IN ANY WAY WITH THE KAISER PERMANENTE HEALTH PLAN.

Kaiser/HRET asked each participating company as many as 400 questions about its largest conventional or indemnity, health maintenance organization (HMO), preferred provider organization (PPO) and point-of-service (POS) health plans. This year's survey included questions on the cost of health insurance, offer rates, coverage, eligibility, health plan choice, enrollment patterns, premiums, employee cost sharing, covered benefits, prescription drug benefits, retiree health benefits and general policy perceptions and activities.

Kaiser/HRET retained National Research LLC (NR), a Washington, D.C.-based survey research firm, to conduct telephone interviews with human

resource and benefits managers. NR conducted interviews from January to May 2004.

RESPONSE RATE

Kaiser/HRET drew its sample from a Dun & Bradstreet list of the nation's private and public employers with three or more workers. To increase precision, Kaiser/HRET stratified the sample by industry and the number of workers in the firm. Kaiser/HRET attempted to repeat interviews with prior years' survey respondents (with at least ten employees) who also participated in 2002 and/or 2003. As a result, 1,378 firms in this year's total sample of 1,925 firms participated in either the 2002 and 2003 surveys.¹ The overall response rate was 50%.

From previous years' experience, we have learned that firms that decline to participate in the study are more likely not to offer health benefits. 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 benefits.² The response rate for this question was 78%.

NOTE:

¹ In total, 305 firms participated in 2002 and 2004, 191 firms participated in 2003 and 2004, and 882 firms participated in 2002, 2003, and 2004.

² Estimates for EXHIBITS 2.1 and 2.2 are based on the sample of 3,017 firms.

FIRM SIZE DEFINITIONS, ROUNDING, AND IMPUTATION

Throughout the report, exhibits categorize data by industry, size of firm, and region. Firm size definitions are as follows: 3-199, All Small; and 200 or more workers, All Large. Occasionally, firm size categories will be broken into finer groups. The All Small group may be categorized by: 3-24 workers and 25-199 workers; or 3-9 workers, 10-24 workers, 25-49 workers, and 50-199 workers. The All Large group may be categorized by: 200-999 workers, midsize; 1,000-4,999 workers, large; and 5,000 or more workers, jumbo. EXHIBIT M.1 shows detailed characteristics of the sample.

EXHIBIT M.2 displays the distribution of the nation's firms, workers, and covered workers (of employees receiving coverage from their employer). Among the over three million firms nationally, approximately 60% are firms employing 3-9 workers. In contrast, jumbo firms, defined as firms with 5,000 or more workers, employ and cover about 40% of employees. Therefore, the smallest firms dominate any national statistics about what employers in general are doing. In contrast, jumbo employers are the most important employer group in calculating statistics regarding covered workers, since they employ the largest percentage of the nation's workforce.

Some exhibits in Health Benefits 2004 do not sum up to 100% due to rounding effects. Also due to rounding, numbers in the text may be slightly different from those in the exhibits. Throughout the report, while overall totals as well as totals for size and industry are statistically valid, some breakdowns may not be available due to limited sample sizes. In instances where the sample size is less than 30, exhibits include the notation NSD (Not Sufficient Data).

To control for item nonresponse bias, Kaiser/HRET has traditionally identified a select set of key variables as needing complete information from all surveyed firms. These variables include percentage changes in premium costs for family coverage, premium amounts, worker contribution amounts, self-insurance status, level of benefits, prescription drug cost sharing, copay and coinsurance amounts for prescription drugs, and firm workforce characteristics such as average income and part-time status. On average, less than five percent of these observations are imputed for any given variable. The imputed values are determined based on the distribution of the reported values within stratum defined by firm size and region.

WEIGHTING AND STATISTICAL SIGNIFICANCE

Because Kaiser/HRET selects firms randomly, it is possible through the use of statistical weights to extrapolate the results to national (as well as

regional, industry, and firm size) averages. These weights allow Kaiser/HRET to present findings based on the number of workers covered by health plans, the number of total workers, and the number of firms.

Calculation of the weights follows a common approach. First, the basic weight is determined, followed by a nonresponse adjustment. As part of this nonresponse adjustment, Kaiser/HRET again conducted a small follow-up survey of those firms with 3-49 workers that refused to participate in the full survey. We concluded from this nonresponse analysis that those firms that did not even answer the single question in the original survey were more likely to not offer health benefits. We therefore applied an additional nonresponse adjustment to the weight to reflect this finding.

Next we trimmed the weights in order to reduce the influence of weight outliers. First, the weights were ranked from largest to smallest based on their proportion of the total weight sum. Next, we identified trimming cut points such that the observations to be trimmed contribute no more than five percent towards the total weight sum. We also tried to minimize the number of nontrimmed observations that exceed the cut point after the trimming adjustment. This method reduced the variability in the weights and maintained, with a few exceptions, the ordinal integrity of the observation weights.

Finally, we applied a post-stratification adjustment. We use the recently released Statistics of U.S. Businesses conducted by the U.S. Census as the basis for the post-stratification adjustment.

The data are analyzed with SUDAAN, which computes appropriate standard error estimates by controlling for the complex design of the survey. All statistical tests are performed at the .05 level unless otherwise noted. For figures with multiple years, statistical tests are conducted for each year against the previous year shown. No statistical tests are conducted for years prior to 1996. Two types of significance tests performed are the t-Test and the Chi-square test.

HISTORICAL DATA

Data in this report focus primarily on findings from surveys jointly authored by the Kaiser Family Foundation and the Health Research and Educational Trust, which have been conducted since 1999. Prior to 1999, the survey was conducted by the Health Insurance Association of America (HIAA) and KPMG using the same survey instrument, but data is not available for all the intervening years. Following the survey's introduction in 1988, HIAA conducted the survey through 1990, but some data are not available to us. KPMG also conducted the survey from 1991-1998. However, in 1991, 1992, 1994, and 1997, only larger firms were sampled. In 1993, 1995, 1996, and 1998, KPMG interviewed both large and small firms.

This report uses data from the 1993, 1996, and 1998 KPMG Surveys of Employer-Sponsored Health Benefits and the 1999-2003 Kaiser/HRET Survey of Employer-Sponsored Health Benefits. For a longer-term perspective, we also use the 1988 survey of the nation's employers conducted by the HIAA, on which the KPMG and Kaiser/HRET surveys are based. Many questions in the HIAA, the KPMG, and Kaiser/HRET surveys are identical. The survey designs among the three surveys are also similar.

EXHIBIT M.1

Selected Characteristics of Firms in the Survey Sample, 2004

	<i>Sample Size</i>	<i>Sample Distribution After Weighting</i>	<i>Percentage of Total for Weighted Sample</i>
FIRM SIZE			
Small (3-9 Workers)	139	1,938,414	59.5%
Small (10-24 Workers)	222	761,934	23.4
Small (25-49 Workers)	172	274,113	8.4
Small (50-199 Workers)	268	204,408	6.3
Midsize (200-999 Workers)	392	56,516	1.7
Large (1,000-4,999 Workers)	389	16,170	.5
Jumbo (5,000 or More Workers)	343	7,810	.2
ALL FIRM SIZES	1,925	3,259,365	100.0%
REGION			
Northeast	423	654,193	20.1%
Midwest	524	779,350	23.9
South	620	1,090,571	33.5
West	358	735,251	22.6
ALL REGIONS	1,925	3,259,365	100.0%
INDUSTRY			
Mining/Construction/Wholesale	191	602,666	18.5%
Manufacturing	252	226,340	6.9
Transportation/Communications/Utilities	104	128,374	3.9
Retail	185	442,772	13.6
Finance	150	214,504	6.6
Service	587	1,419,385	43.5
State/Local Government	284	47,702	1.5
Health Care	172	177,622	5.4
ALL INDUSTRIES	1,925	3,259,365	100.0%

SOURCE:

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

EXHIBIT M.2

Distribution of Employers, Workers, and Workers Covered by Health Benefits, by Firm Size, 2004



SOURCE :

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

Note: Data are based on a special data request from the U.S. Census Bureau's most recent Statistics of U.S. Businesses. State and local government data are from the Census of Governments.

- 3-9 WORKERS
- 10-24 WORKERS
- 25-49 WORKERS
- 50-199 WORKERS
- 200-999 WORKERS
- 1,000-4,999 WORKERS
- 5,000 OR MORE WORKERS

EMPLOYER HEALTH BENEFITS
2004 ANNUAL SURVEY

Cost of
Health
Insurance

SECTION

1

COST OF HEALTH INSURANCE

IN 2004, PREMIUMS FOR JOB-BASED HEALTH INSURANCE ROSE BY 11.2%, EXCEEDING BOTH THE OVERALL RATE OF INFLATION AND INCREASES IN WORKERS' WAGES BY NEARLY NINE PERCENTAGE POINTS (EXHIBIT 1.2). THIS IS THE FOURTH CONSECUTIVE YEAR OF DOUBLE-DIGIT INFLATION. SINCE 2000, THE COST OF JOB-BASED HEALTH COVERAGE HAS INCREASED BY 59%. PREMIUM INCREASES WERE LESS THAN THE 13.9% FIGURE POSTED IN 2003. THIS MARKED THE FIRST YEAR SINCE 1996 THAT PREMIUM INCREASES WERE LOWER THAN INCREASES IN THE PREVIOUS YEAR. COUPLED WITH RECENT DECLINES IN MEDICAL CLAIMS EXPENSES, IT WOULD APPEAR THAT THE WORST OF THE RECENT ROUND OF INFLATION IS OVER. THE AVERAGE ANNUAL COST OF FAMILY COVERAGE FOR A FAMILY OF FOUR IN 2004 IS \$9,950 AND THE AVERAGE COST FOR SINGLE COVERAGE IS \$3,695. THERE IS A CONSIDERABLE RANGE IN AVERAGE PREMIUMS ACROSS PLAN TYPES: THE AVERAGE ANNUAL PREMIUM FOR FAMILY COVERAGE IN HMO PLANS IS \$9,504, COMPARED TO AN AVERAGE ANNUAL PREMIUM OF \$10,217 IN PPO PLANS (EXHIBITS 1.13, 1.14, 1.15).

PREMIUM INCREASES

- ▶ The cost of health insurance rose by 11.2%, down from 13.9% reported in 2003 (EXHIBIT 1.1).
- All types of health plans experienced similar double-digit premium increases – conventional (11.1%), HMO (12.0%), PPO (10.9%) and POS (11.3%) (EXHIBIT 1.1).
- All large firms (200 or more workers) and all small firms (3-199 workers) had similar increases in premiums (11.1% vs. 11.5%) (EXHIBIT 1.3).
- There was considerable variation in premium growth across employers: 24% of covered

workers are employed in firms with premium increases of five percent or less, while 28% of covered workers experienced premium increases of greater than 15% (EXHIBIT 1.4).

- Unlike 2003, premium equivalents for self-funded plans rose at a statistically equivalent rate as premiums for fully insured plans (11.1% vs. 11.4%) (EXHIBIT 1.6).

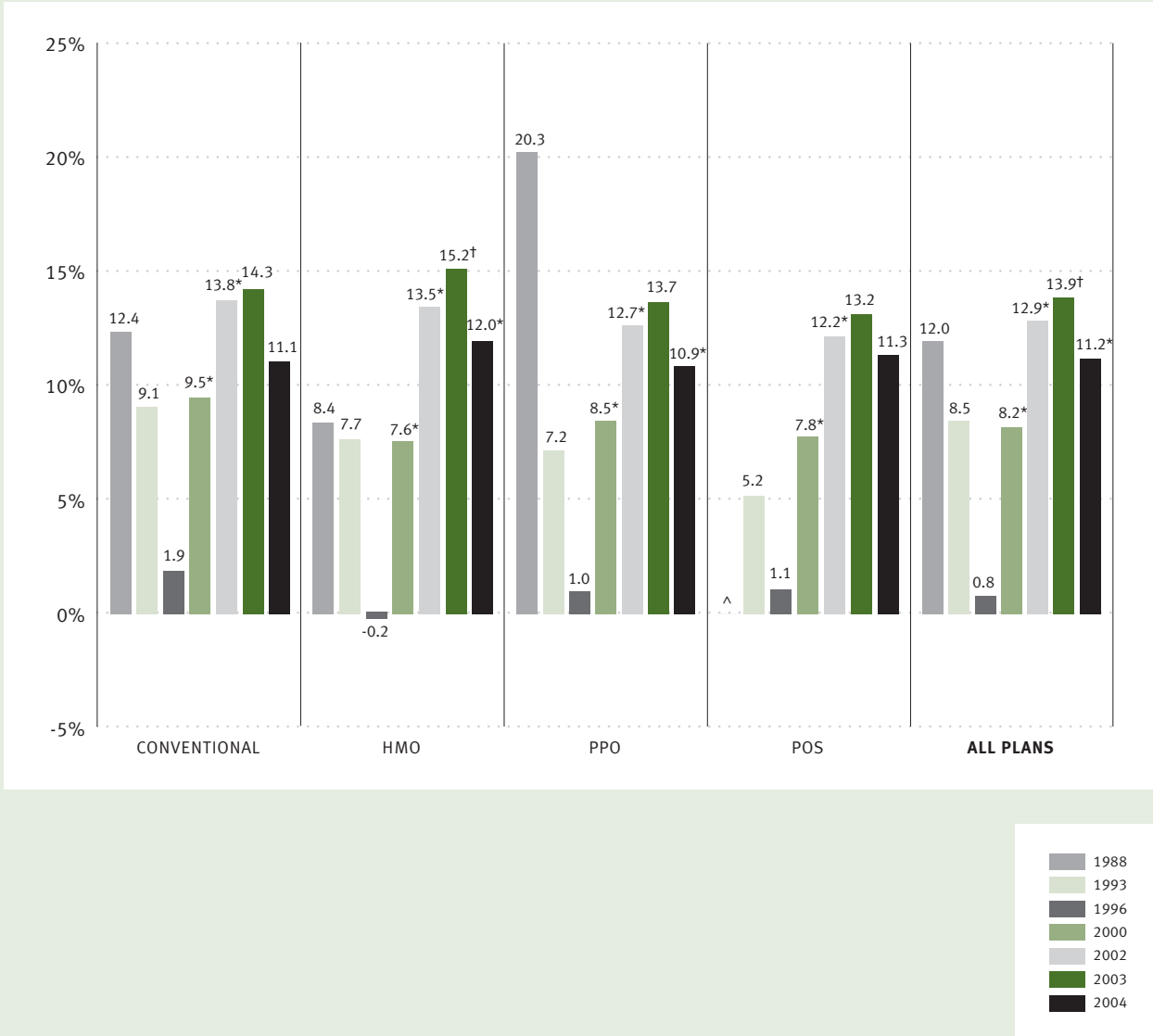
MONTHLY PREMIUM COSTS OF SINGLE AND FAMILY COVERAGE

- ▶ The average monthly cost for single coverage in 2004 is \$308 and the average monthly cost for family coverage is \$829 (EXHIBIT 1.11).

- Covered workers in all large firms (200 or more workers) and all small firms (3-199 workers) face similar overall premiums (EXHIBIT 1.13). As discussed in Section 7, however, covered workers in all small firms face higher deductibles than workers in all large firms.
- Although PPOs cover a majority of workers, HMOs remain considerably cheaper. PPO premiums for single and family coverage are \$317 and \$851 per month respectively, compared to HMO monthly premiums of \$288 for single coverage and \$792 for family coverage (EXHIBIT 1.11).

EXHIBIT 1.1

Percentage Change in Health Insurance Premiums From Previous Year, 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, 1996; The Health Insurance Association of America (HIAA): 1988.

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

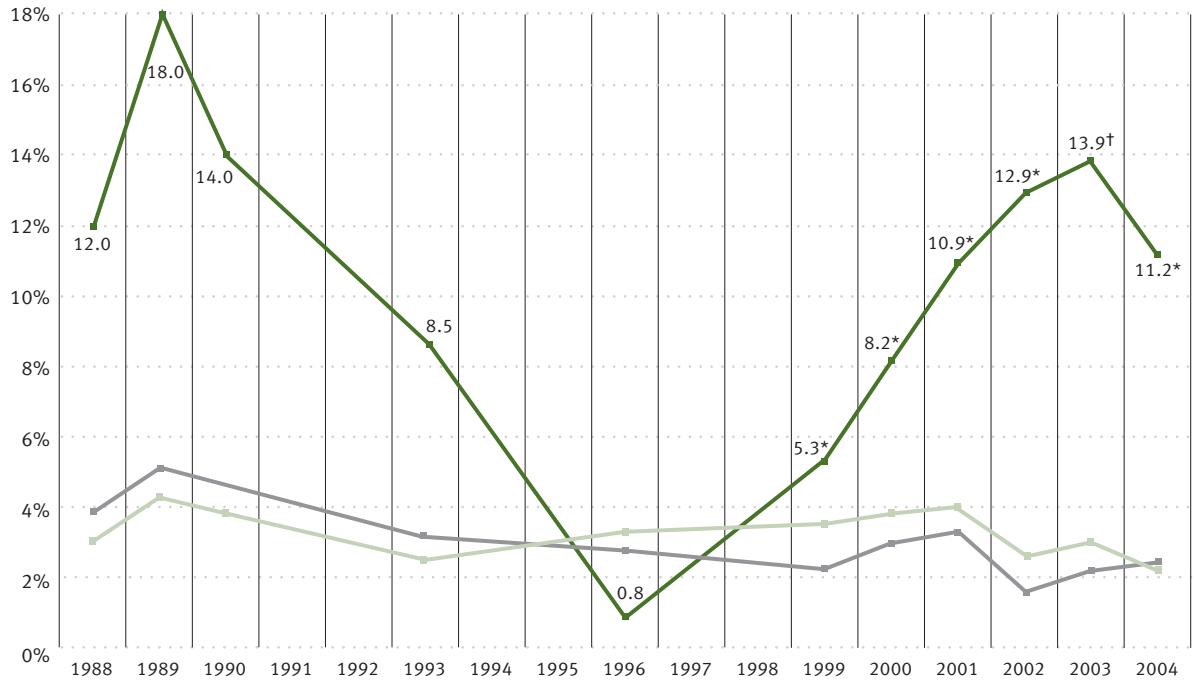
† Estimate is statistically different from the previous year shown at $p < .10$.

^ Information was not obtained for POS plans in 1988.

Note: Data on premium increases reflect the cost of health insurance premiums for a family of four.

EXHIBIT 1.2

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



1988	1989	1990	1993	1996	1999	2000	2001	2002	2003	2004	
12.0	18.0	14.0	8.5	0.8	5.3*	8.2*	10.9*	12.9*	13.9†	11.2*	HEALTH INSURANCE PREMIUMS
3.9	5.1	4.7	3.2	2.9	2.3	3.1	3.3	1.6	2.2	2.3	OVERALL INFLATION
3.1	4.2	3.9	2.5	3.3	3.6	3.9	4.0	2.6	3.0	2.2	WORKERS' EARNINGS

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 (April to April), 1988-2004.

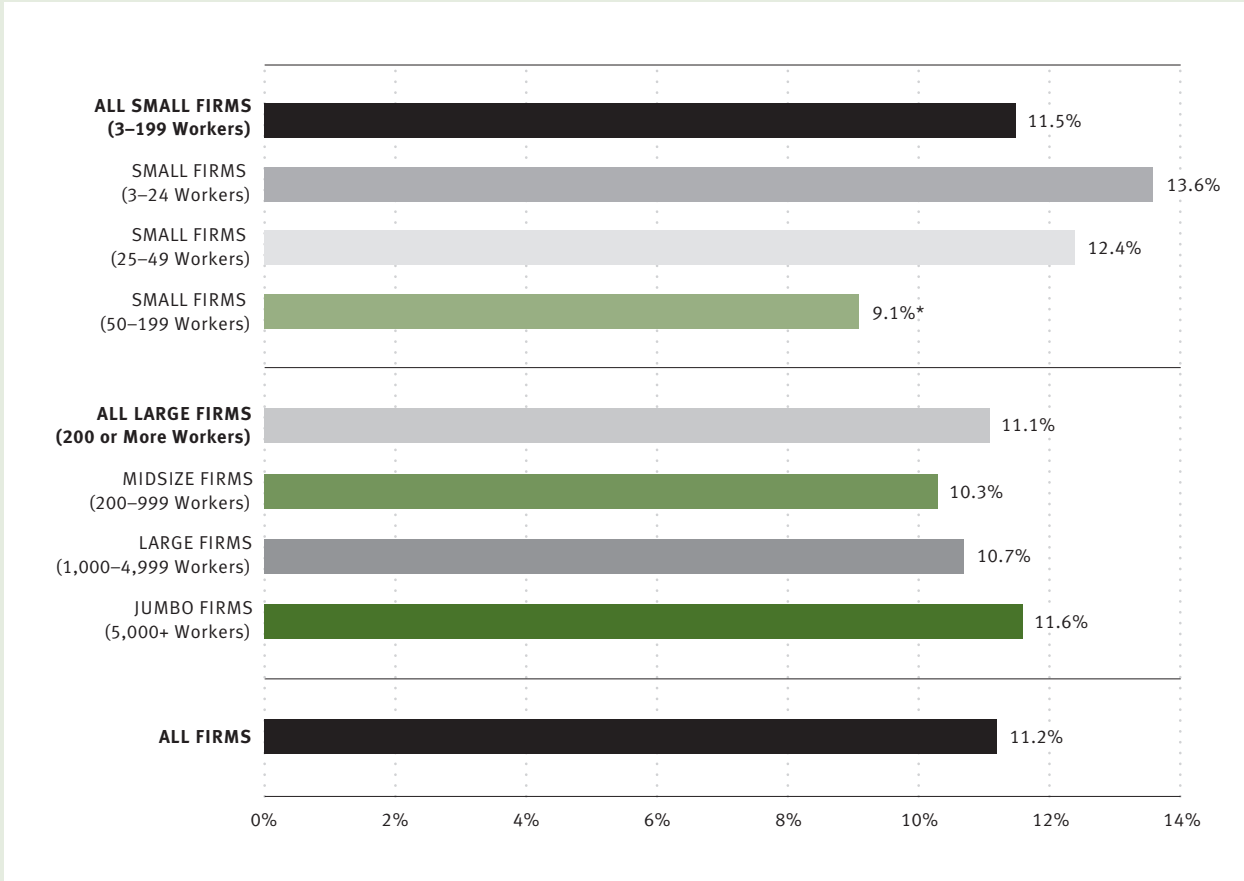
* Estimate is statistically different from the previous year shown at $p < .05$.

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

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

EXHIBIT 1.3

Percentage Change in Premiums for Covered Workers, by Firm Size, 2004



SOURCE :

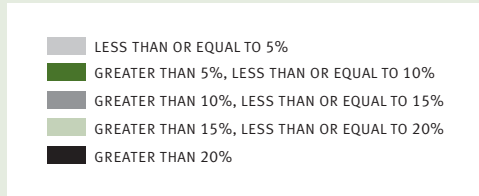
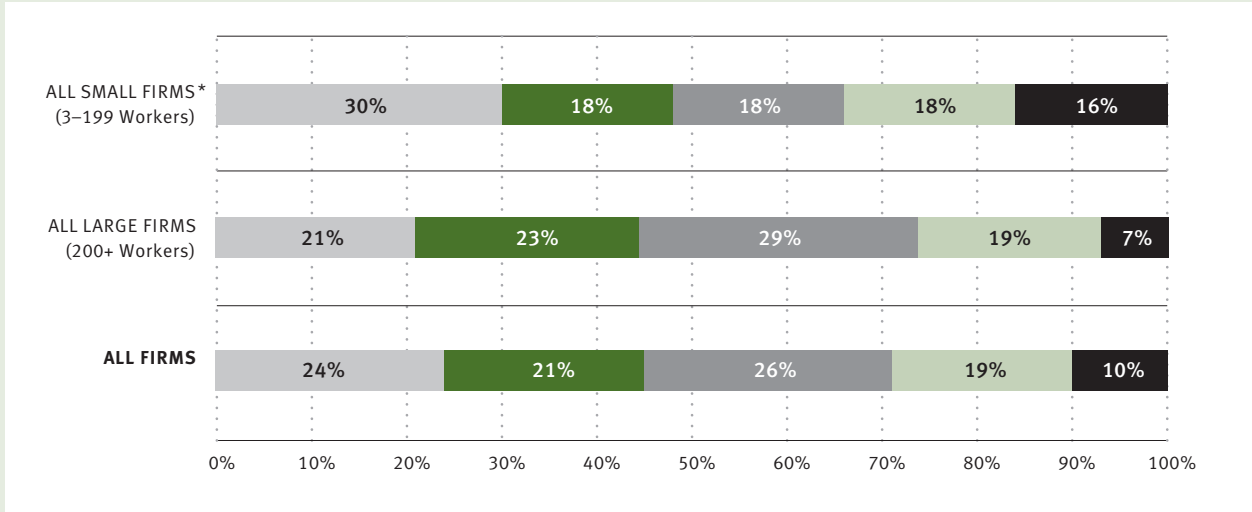
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

* Estimate is statistically different from All Firms at $p < .05$.

Note: Data on premium increases reflect the total cost of health insurance premiums for a family of four.

EXHIBIT 1.4

Distribution of Premium Increases for Covered Workers, by Firm Size, 2004



SOURCE :

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

* Distribution is statistically different from All Firms at $p < .05$.

Note: Data on premium increases reflect the total cost of health insurance premiums for a family of four.

EXHIBIT 1.5

Percentage Change in Premiums, by Firm Size and Plan Type, 2004*

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plans</i>
FIRM SIZE					
All Small Firms (3-199 Workers)	9.2%	13.1%	10.0%	14.7%	11.5%
All Large Firms (200 or More Workers)	12.8	11.6	11.3	9.2	11.1
ALL FIRM SIZES	11.1%	12.0%	10.9%	11.3%	11.2%

SOURCE:

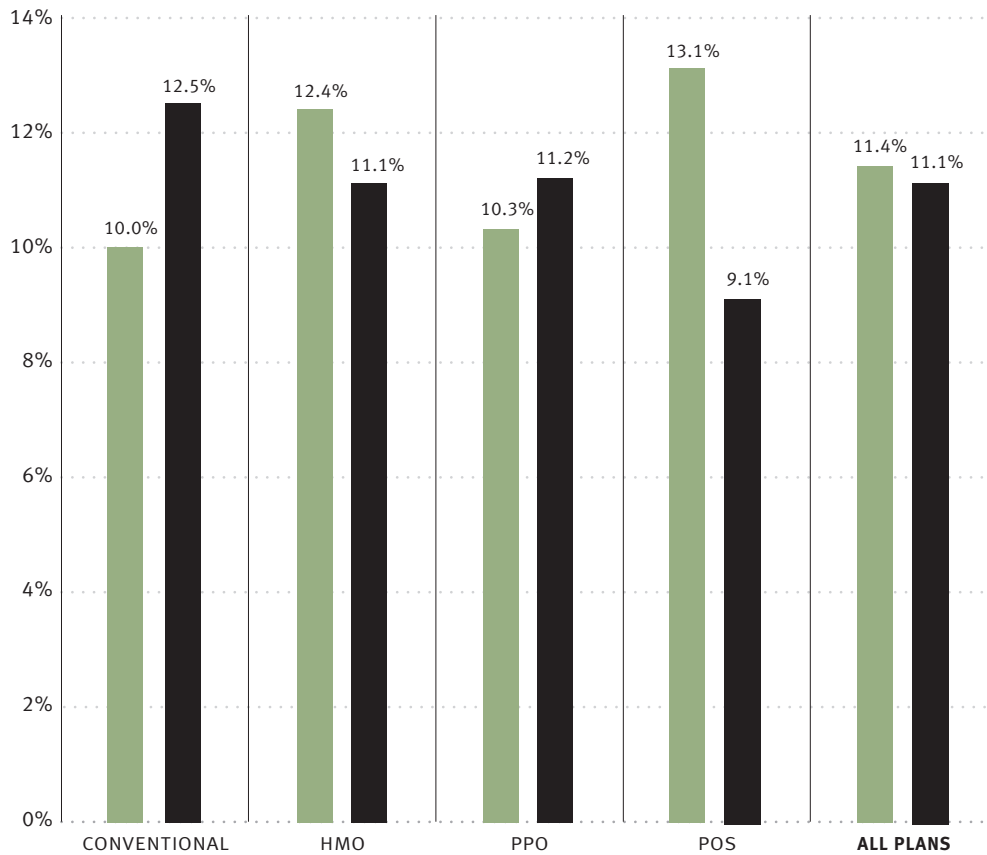
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

* Tests found no statistically different estimates from All Plans within a firm size at $p < .05$.

Note: Data on premium increases reflect the cost of health insurance premiums for a family of four.

EXHIBIT 1.6

Premium Increases, by Plan Type and Funding Arrangement, 2004*



■ FULLY INSURED
■ SELF-FUNDED

SOURCE :

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

* Tests found no statistically different estimates between fully insured and self-funded plans at $p < .05$.

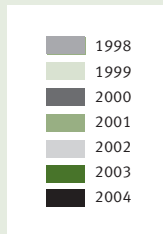
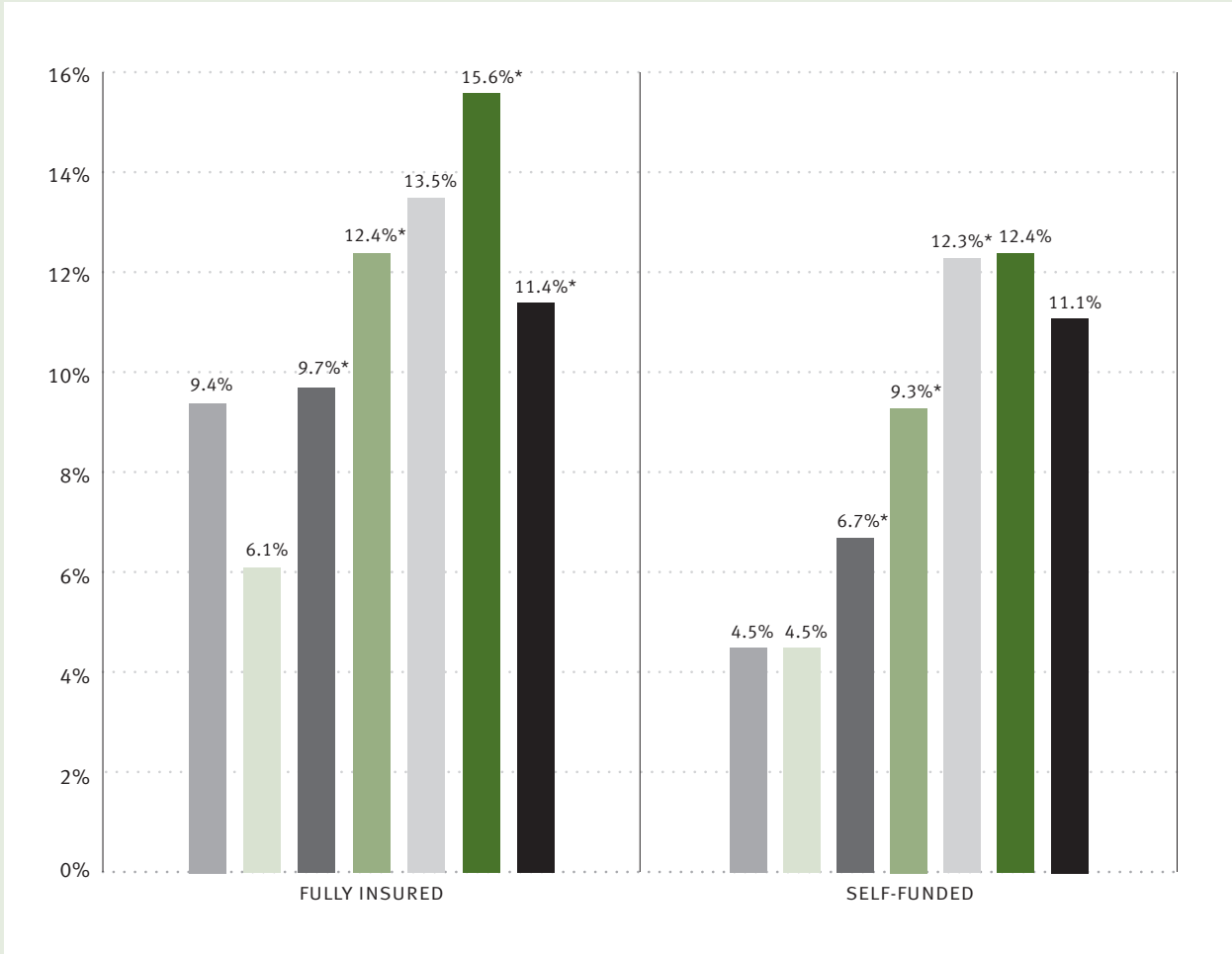
Fully insured plan: An insurance arrangement in which the employer contracts with a health plan to assume financial responsibility for the costs of enrollees' medical claims.

Self-funded plan: An insurance arrangement in which the employer assumes direct financial responsibility for the costs of enrollees' medical claims. Employers sponsoring self-funded plans typically contract with a third-party administrator or insurer to provide administrative services for the self-funded plan.

Note: Data on premium increases reflect the total cost of health insurance premiums for a family of four.

EXHIBIT 1.7

Premium Increases, by Funding Arrangement, 1998-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002, 2003, 2004;
KPMG Survey of Employer-Sponsored Health Benefits: 1998.

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

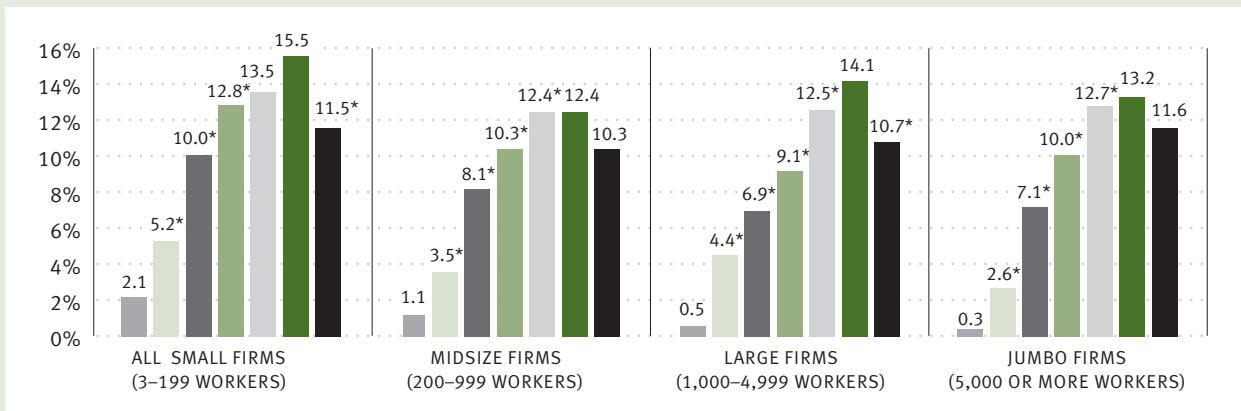
Fully insured plan: An insurance arrangement in which the employer contracts with a health plan to assume financial responsibility for the costs of enrollees' medical claims.

Self-funded plan: An insurance arrangement in which the employer assumes direct financial responsibility for the costs of enrollees' medical claims. Employers sponsoring self-funded plans typically contract with a third-party administrator or insurer to provide administrative services for the self-funded plan.

Note: Data on premium increases reflect the total cost of health insurance premiums for a family of four.

EXHIBIT 1.8

Premium Increases, by Firm Size, 1996-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003, 2004;
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

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

Note: Data on premium increases reflect the total cost of health insurance premiums for a family of four.

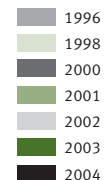
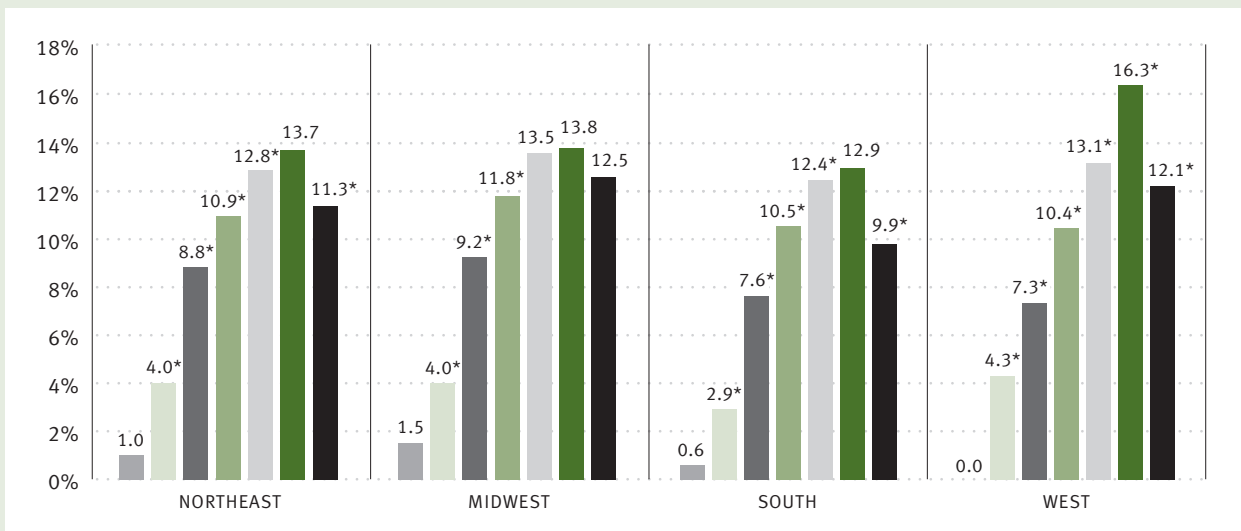


EXHIBIT 1.9

Premium Increases, by Region, 1996-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003, 2004;
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

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

Note: Data on premium increases reflect the total cost of health insurance premiums for a family of four.

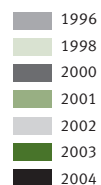
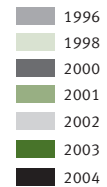
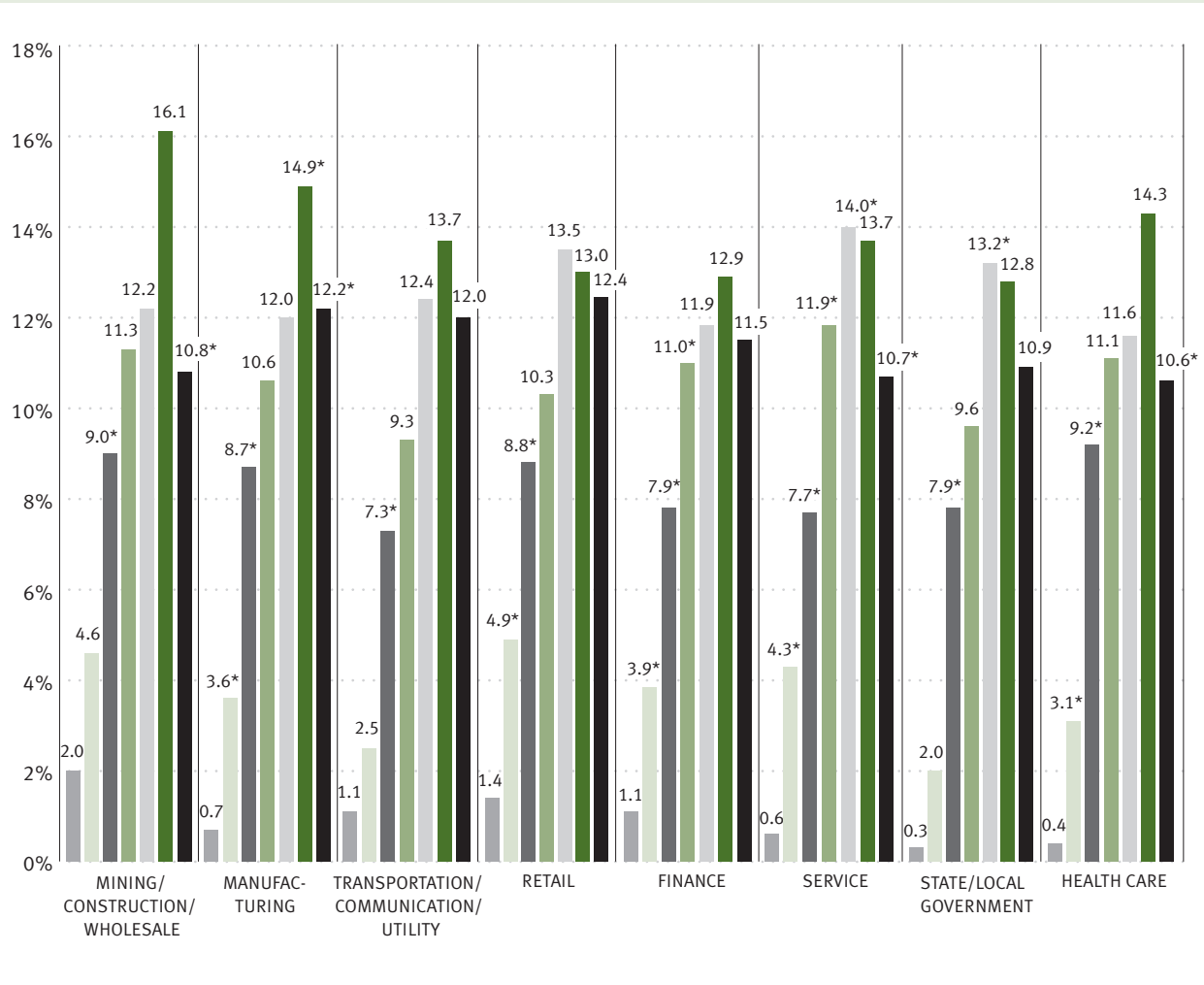


EXHIBIT 1.10

Premium Increases, by Industry, 1996-2004



SOURCE:

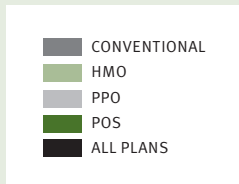
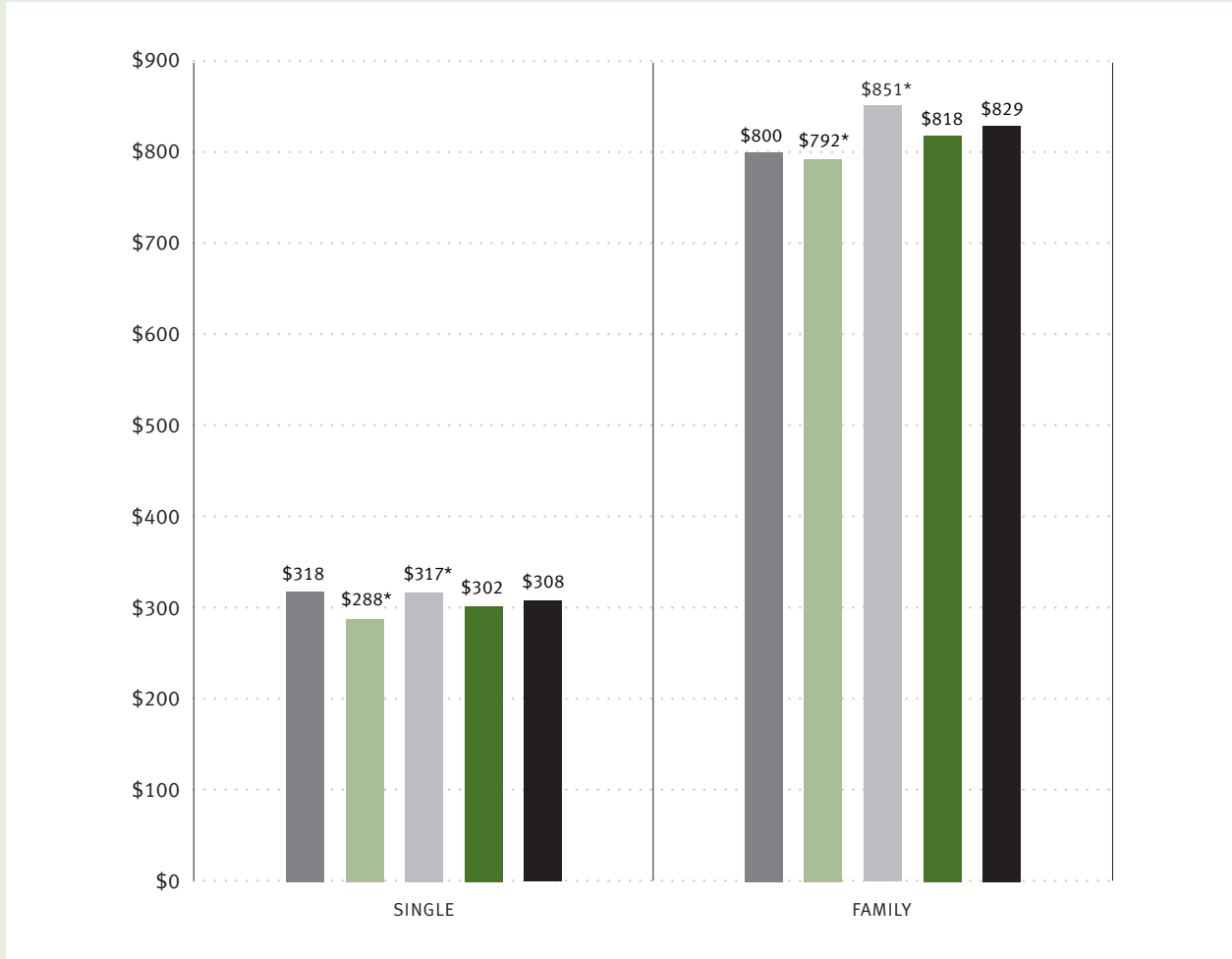
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003, 2004;
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

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

Note: Data on premium increases reflect the total cost of health insurance premiums for a family of four.

EXHIBIT 1.11

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



SOURCE :

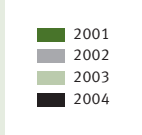
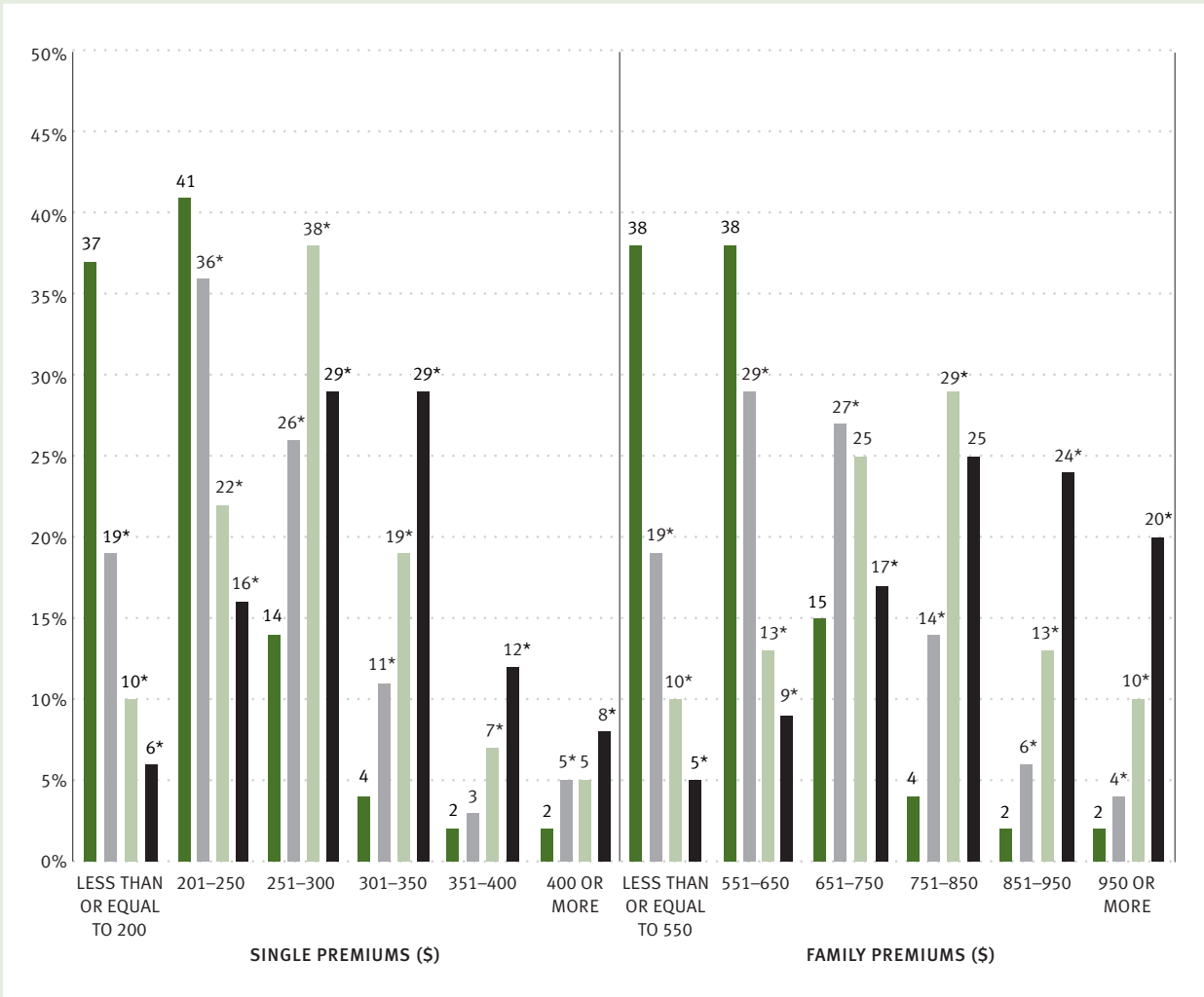
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

* Estimate is statistically different from All Plans at $p < .05$.

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

EXHIBIT 1.12

Distribution of Single and Family Premiums for Covered Workers, 2001-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2001, 2002, 2003, 2004.

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

EXHIBIT 1.13

Monthly and Annual Premiums for Covered Workers in Conventional, HMO, PPO, and POS Plans, by Firm Size, 2004*

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
CONVENTIONAL PLANS				
All Small Firms (3-199 Workers)	\$318	\$778	\$3,815	\$9,340
All Large Firms (200 or More Workers)	319	820	3,825	9,844
ALL FIRM SIZES	\$318	\$800	\$3,820	\$9,602
HMO PLANS				
All Small Firms (3-199 Workers)	\$289	\$773	\$3,468	\$9,278
All Large Firms (200 or More Workers)	288	799	3,455	9,587
ALL FIRM SIZES	\$288	\$792	\$3,458	\$9,504
PPO PLANS				
All Small Firms (3-199 Workers)	\$323	\$848	\$3,872	\$10,175
All Large Firms (200 or More Workers)	315	853	3,782	10,235
ALL FIRM SIZES	\$317	\$851	\$3,808	\$10,217
POS PLANS				
All Small Firms (3-199 Workers)	\$301	\$766	\$3,612	\$ 9,197
All Large Firms (200 or More Workers)	303	849	3,637	10,193
ALL FIRM SIZES	\$302	\$818	\$3,627	\$9,813
ALL PLANS				
All Small Firms (3-199 Workers)	\$311	\$811	\$3,732	\$ 9,737
All Large Firms (200 or More Workers)	306	837	3,678	10,046
ALL FIRM SIZES	\$308	\$829	\$3,695	\$9,950

SOURCE :

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

* Tests found no statistically different estimates from All Firms within a plan type at $p < .05$.

EXHIBIT 1.14

Monthly and Annual Premiums for Covered Workers in Conventional, HMO, PPO, and POS Plans, by Region, 2004

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
CONVENTIONAL PLANS				
Northeast	\$337	\$855	\$4,041	\$10,256
Midwest	327	802	3,919	9,627
South	290	723	3,485	8,675
West	331	857	3,977	10,286
ALL REGIONS	\$318	\$800	\$3,820	\$ 9,602
HMO PLANS				
Northeast	\$295	\$821	\$3,542	\$9,848
Midwest	305	829	3,661	9,945
South	290	802	3,479	9,621
West	268*	731*	3,217*	8,777*
ALL REGIONS	\$288	\$792	\$3,458	\$9,504
PPO PLANS				
Northeast	\$331*	\$918*	\$3,971*	\$11,010*
Midwest	319	869	3,832	10,428
South	308	813*	3,701	9,761*
West	325	860	3,899	10,317
ALL REGIONS	\$317	\$851	\$3,808	\$10,217
POS PLANS				
Northeast	\$313	\$862	\$3,756	\$10,347
Midwest	295	864	3,536	10,366
South	293	774	3,514	9,293
West	308	784	3,698	9,411
ALL REGIONS	\$302	\$818	\$3,627	\$ 9,813
ALL PLANS				
Northeast	\$316	\$871*	\$3,789	\$10,449*
Midwest	314	857*	3,769	10,280*
South	302	802*	3,627	9,625*
West	302	802	3,629	9,629
ALL REGIONS	\$308	\$829	\$3,695	\$ 9,950

SOURCE:

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

* Estimate is statistically different from All Regions within a plan type at p<.05.

EXHIBIT 1.15

Monthly and Annual Premiums for Covered Workers in Conventional, HMO, PPO, and POS Plans, by Industry, 2004

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
CONVENTIONAL PLANS				
Mining/Construction/Wholesale	NSD	NSD	NSD	NSD
Manufacturing	\$259*	\$699*	\$3,113*	\$8,383*
Transportation/Communication/Utility	NSD	NSD	NSD	NSD
Retail	NSD	NSD	NSD	NSD
Finance	NSD	NSD	NSD	NSD
Service	325	777	3,894	9,323
State/Local Government	369	927	4,428	11,121
Health Care	NSD	NSD	NSD	NSD
ALL INDUSTRIES	\$318	\$800	\$3,820	\$9,602
HMO PLANS				
Mining/Construction/Wholesale	\$244*	\$737*	\$2,934*	\$8,846*
Manufacturing	284	803	3,411	9,632
Transportation/Communication/Utility	275	778	3,295	9,342
Retail	285	789	3,420	9,474
Finance	296	808	3,552	9,691
Service	286	779	3,434	9,345
State/Local Government	311*	812	3,738*	9,740
Health Care	286	811	3,428	9,730
ALL INDUSTRIES	\$288	\$792	\$3,458	\$9,504
PPO PLANS				
Mining/Construction/Wholesale	\$290*	\$814*	\$3,479*	\$9,769*
Manufacturing	297*	826	3,570*	9,915
Transportation/Communication/Utility	292*	815	3,507*	9,783
Retail	288	806	3,455	9,675
Finance	339*	939*	4,068*	11,271*
Service	330	879	3,960	10,554
State/Local Government	342*	826	4,103*	9,906
Health Care	352*	913*	4,224*	10,952*
ALL INDUSTRIES	\$317	\$851	\$3,808	\$10,217

Continued on page 31

EXHIBIT 1.15 Continued from page 30

Monthly and Annual Premiums for Covered Workers in Conventional, HMO, PPO, and POS Plans, by Industry, 2004

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
POS PLANS				
Mining/Construction/Wholesale	\$278	\$789	\$3,341	\$ 9,472
Manufacturing	254*	793	3,046*	9,516
Transportation/Communication/Utility	NSD	NSD	NSD	NSD
Retail	NSD	NSD	NSD	NSD
Finance	334	943*	4,014	11,321*
Service	297	764	3,563	9,172
State/Local Government	335	858	4,014	10,296
Health Care	NSD	NSD	NSD	NSD
ALL INDUSTRIES	\$302	\$818	\$3,627	\$ 9,813
ALL PLANS				
Mining/Construction/Wholesale	\$282*	\$796*	\$3,389*	\$9,552*
Manufacturing	288*	812	3,462*	9,748
Transportation/Communication/Utility	288	805	3,454	9,663
Retail	294	812	3,526	9,749
Finance	328*	905*	3,931*	10,854*
Service	311	822	3,734	9,867
State/Local Government	332*	830	3,989*	9,963
Health Care	333*	893*	4,000*	10,711*
ALL INDUSTRIES	\$308	\$829	\$3,695	\$9,950

SOURCE:

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

* Estimate is statistically different from All Industries within a plan type at $p < .05$.

NSD: Not Sufficient Data.

EMPLOYER HEALTH BENEFITS
2004 ANNUAL SURVEY

Health
Benefits
Offer Rates

SECTION

2

HEALTH BENEFITS OFFER RATES

ALTHOUGH NEARLY ALL LARGE FIRMS (200 OR MORE WORKERS) OFFER HEALTH BENEFITS, SMALL FIRMS (3-9 WORKERS) ARE ONLY ABOUT HALF AS LIKELY AS ALL LARGE FIRMS TO OFFER COVERAGE (EXHIBIT 2.2).

ANNUAL CHANGES IN THE OFFER RATE OVER THE LAST SEVERAL YEARS HAVE BEEN SMALL; HOWEVER, THE CUMULATIVE RESULT IS A STATISTICALLY SIGNIFICANT DROP IN THE PERCENTAGE OF FIRMS OFFERING HEALTH BENEFITS SINCE 2001. THIS CHANGE IS DRIVEN PRIMARILY BY A DECREASE OF FIVE PERCENT IN THE NUMBER OF ALL SMALL FIRMS (3-199 WORKERS) OFFERING COVERAGE OVER THIS TIME PERIOD. THE DECLINE IN COVERAGE IS LIKELY A RESPONSE TO FOUR CONSECUTIVE YEARS OF DOUBLE-DIGIT PREMIUM GROWTH, COMBINED WITH A SLOW JOB MARKET.

- ▶ Sixty-three percent of all small firms (3-199 workers) offer health insurance in 2004, down from 68% in 2001 ($p < .10$), but statistically unchanged from last year. The offer rate for all firms has fallen from 68% in 2001 to 63% over the same period ($p < .10$). Because there are so many more small firms than large firms, the offering practices of small firms dominate the all-firm rate (EXHIBIT 2.2).
- ▶ The likelihood that a firm offers health benefits to its workers varies considerably with the firm's characteristics, such as firm size, the proportion of part-time workers in the firm, and whether workers are unionized.
- *The smallest firms are least likely to offer health insurance. Only 52% of firms with 3-9 workers offer coverage, compared to 74% of firms with 10-24 workers and 87% of firms with 25-49 workers. Nearly all firms with 50 or more employees offer health insurance coverage (EXHIBIT 2.2).*
- *Firms with many part-time workers—where 35% or more of employees work part-time—are also less likely to offer coverage to their workers than firms with fewer part-time employees. Among firms with many part-time workers, only 42% offer health insurance, compared to 68% of firms with a lower percentage of part-time workers (EXHIBIT 2.3).*
- *Firms that employ union workers are significantly more likely than firms without union workers to offer health benefits to their employees. Ninety-six percent of firms with union workers offer health benefits, whereas only 61% of firms that do not have union employees offer health coverage (EXHIBIT 2.3).*
- ▶ Among firms offering health benefits, few offer benefits to their part-time and temporary workers. The number of firms offering health benefits to part-time and temporary workers is similar to last year.

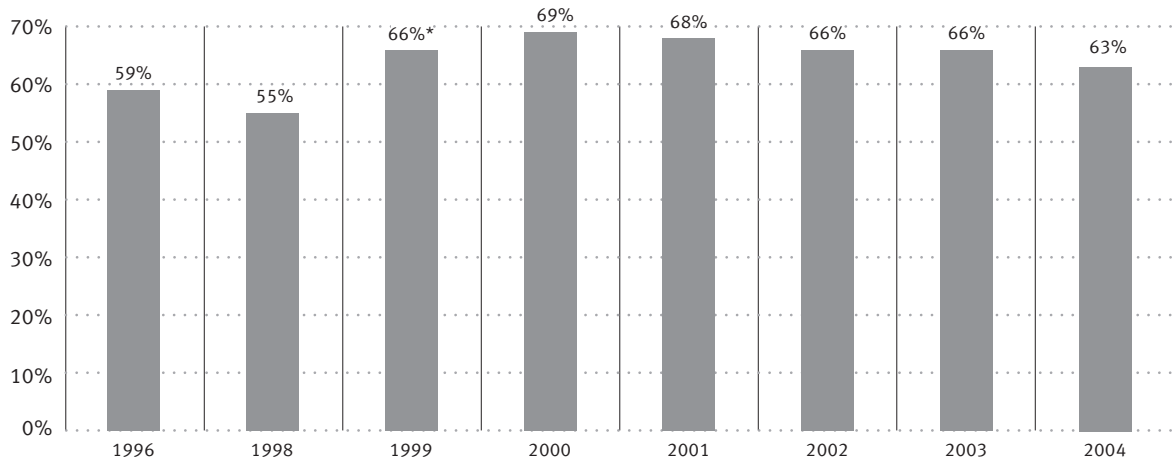
- In 2004, 23% of all firms offer health benefits to part-time workers. Larger firms are more likely than smaller firms to do so. Only 20% of firms with 3-24 workers offer benefits to part-time workers, compared to 59% of jumbo firms (5,000 or more workers) (EXHIBIT 2.5).
 - Regardless of firm size, very few firms overall (4%) offer health benefits to temporary workers. Less than four percent of firms with fewer than 200 workers and only seven percent of firms with 5,000 or more workers offer benefits to their temporary employees in 2004 (EXHIBIT 2.6).
 - ▶ 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 (EXHIBIT 12.8).³
- ▶ Consistent with rapidly growing premium increases, the cost of health insurance remains the main reason cited by all small firms for not offering health coverage (EXHIBIT 2.4).
 - Of all small firms (3-199 workers) not offering coverage, 79% cite high premiums as a "very important" reason for not doing so (EXHIBIT 2.4).
 - Other factors frequently cited by all small firms (3-199 workers) as "very important" reasons for not offering coverage include: employees are covered elsewhere (36%) and firm can attract good employees without offering health insurance (31%) (EXHIBIT 2.4).
 - ▶ Some firms not offering health insurance nevertheless shopped for a plan in the past year.
 - Of all nonoffering firms, 20% report shopping for a plan in the past year, including 66% of firms with 50-199 workers.
 - ▶ Despite significant premium increases in recent years, very few employers indicate that they are likely to drop coverage in the near future. Less than five percent of employers say that they are either "very likely" or "somewhat likely" to drop coverage in the next year. Similarly, just under one percent of employers say that they are "very likely" to restrict eligibility for benefits in the next year, with an additional eight percent indicating that they are "somewhat likely" to do so (see Section 12).

NOTE:

³ Same-sex couples and unmarried heterosexual couples are required to pay federal income tax (and in most cases state and local income tax) on employer-sponsored health benefits; these same benefits are not taxable for federally recognized marriages of opposite sex partners. To date, the IRS has not altered this policy for same-sex partners who are U.S. citizens and permanent residents who have been legally married in other countries or within the U.S.

EXHIBIT 2.1

Percentage of All Firms Offering Health Benefits, 1996-2004



SOURCE :

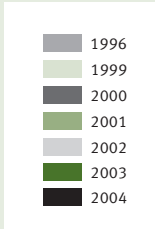
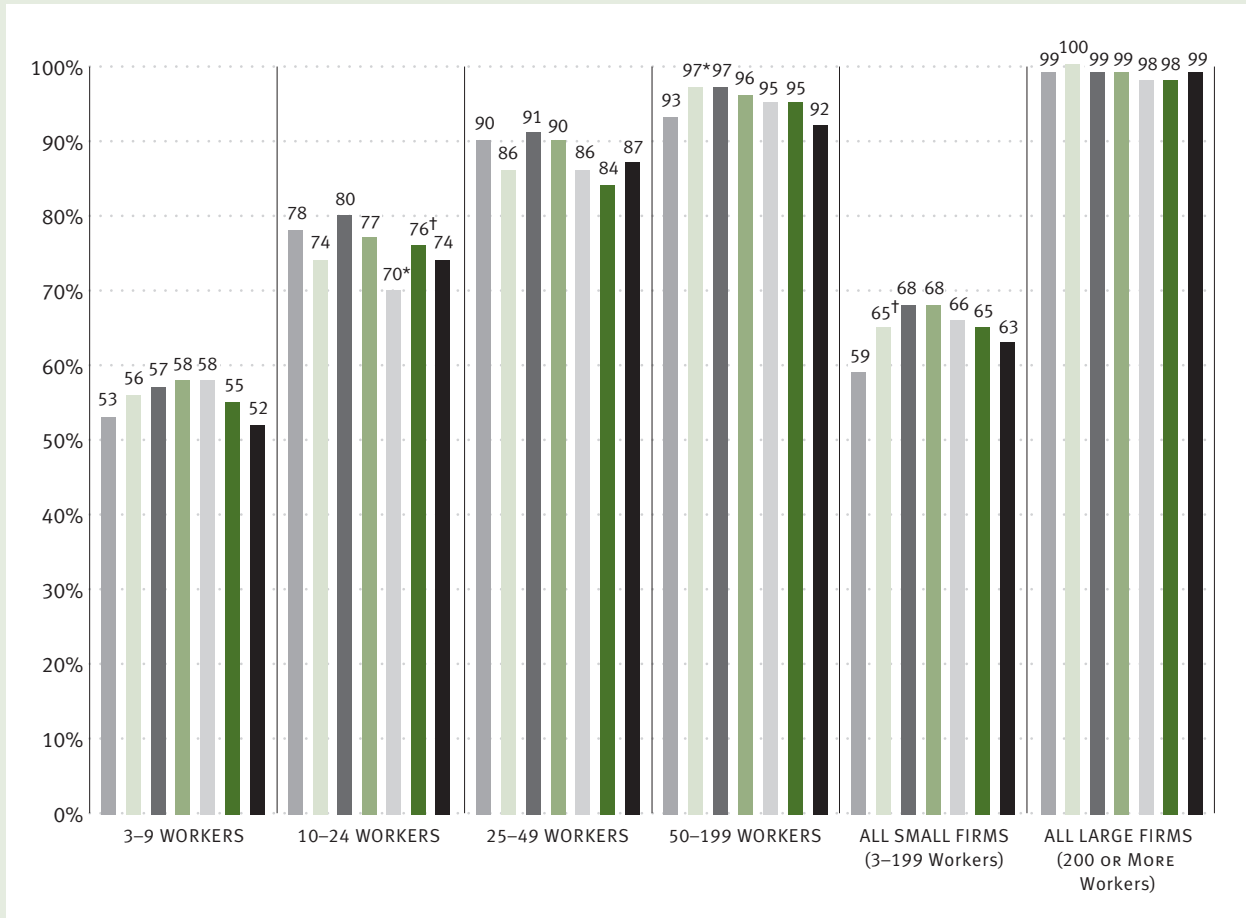
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002, 2003, 2004;
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

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

Note: The percentage of all small firms (3-199 workers) offering health benefits in 1999 was 66%, not 61% as reported last year.

EXHIBIT 2.2

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.

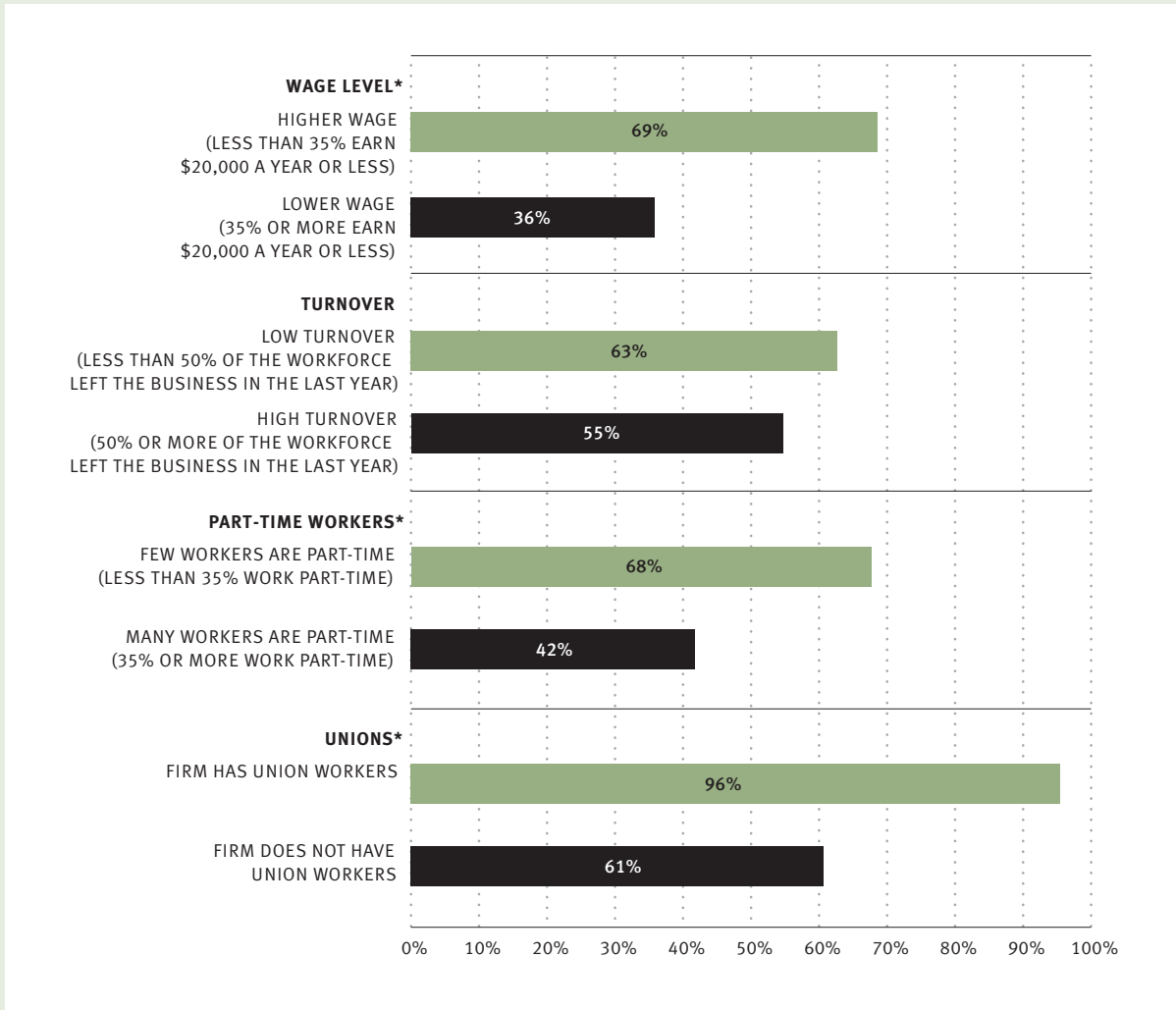
* Estimate is statistically different from the previous year shown at $p < .05$.

† 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.

EXHIBIT 2.3

Percentage of All Firms Offering Health Benefits, by Firm Characteristics, 2004



SOURCE :

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

* Estimates are statistically different from each other within categories at $p < .05$.

EXHIBIT 2.4

All Small Firms' (3-199 Workers) Reasons for Not Offering Health Benefits, 2004

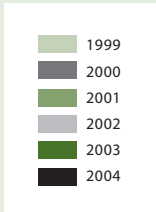
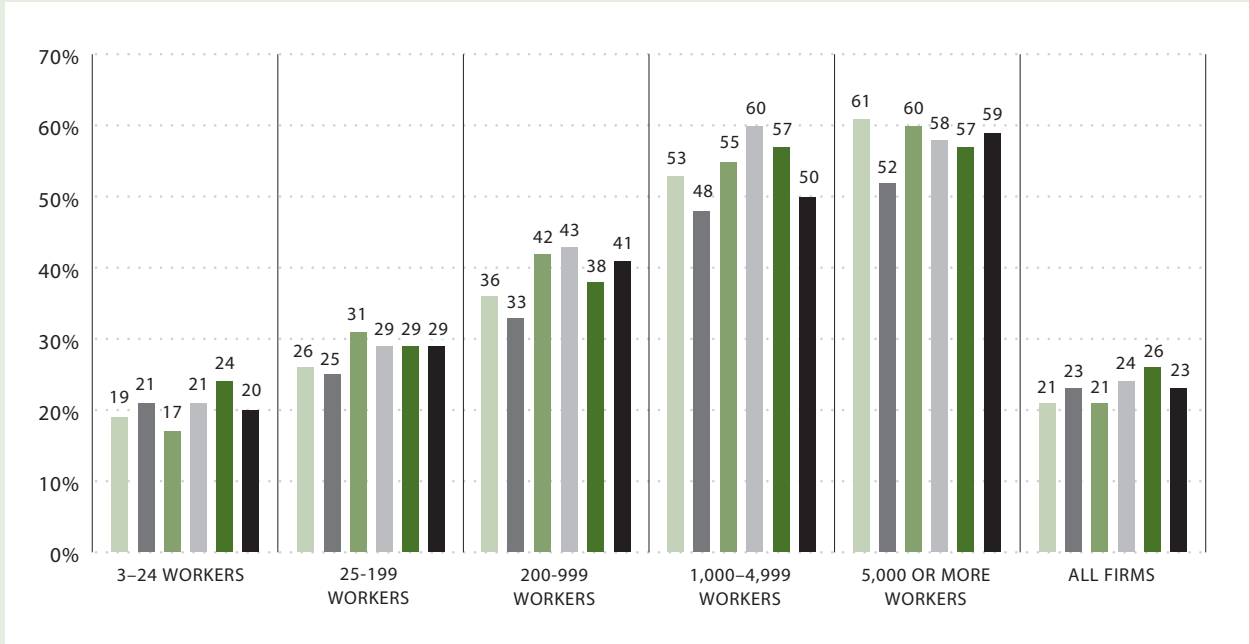
	<i>Very Important</i>	<i>Somewhat Important</i>	<i>Not Too Important</i>	<i>Not At All Important</i>	<i>Don't Know</i>
High Premiums	79%	7%	4%	9%	1%
Employees Covered Elsewhere	36%	36%	14%	12%	2%
High Turnover	13%	18%	22%	47%	0%
Obtain Good Employees Without Offering A Health Plan	31%	36%	10%	23%	1%
Administrative Hassle	9%	26%	29%	35%	2%
Firm Too Newly Established	8%	9%	10%	72%	2%
Firm Is Too Small	50%	19%	14%	17%	0%
Firm Has Seriously Ill Employee	11%	8%	10%	71%	0%

SOURCE:

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

EXHIBIT 2.5

The Percentage of Firms Offering Health Benefits to Part-Time Workers, by Firm Size, 1999-2004*



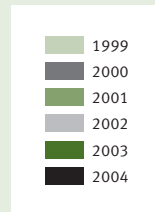
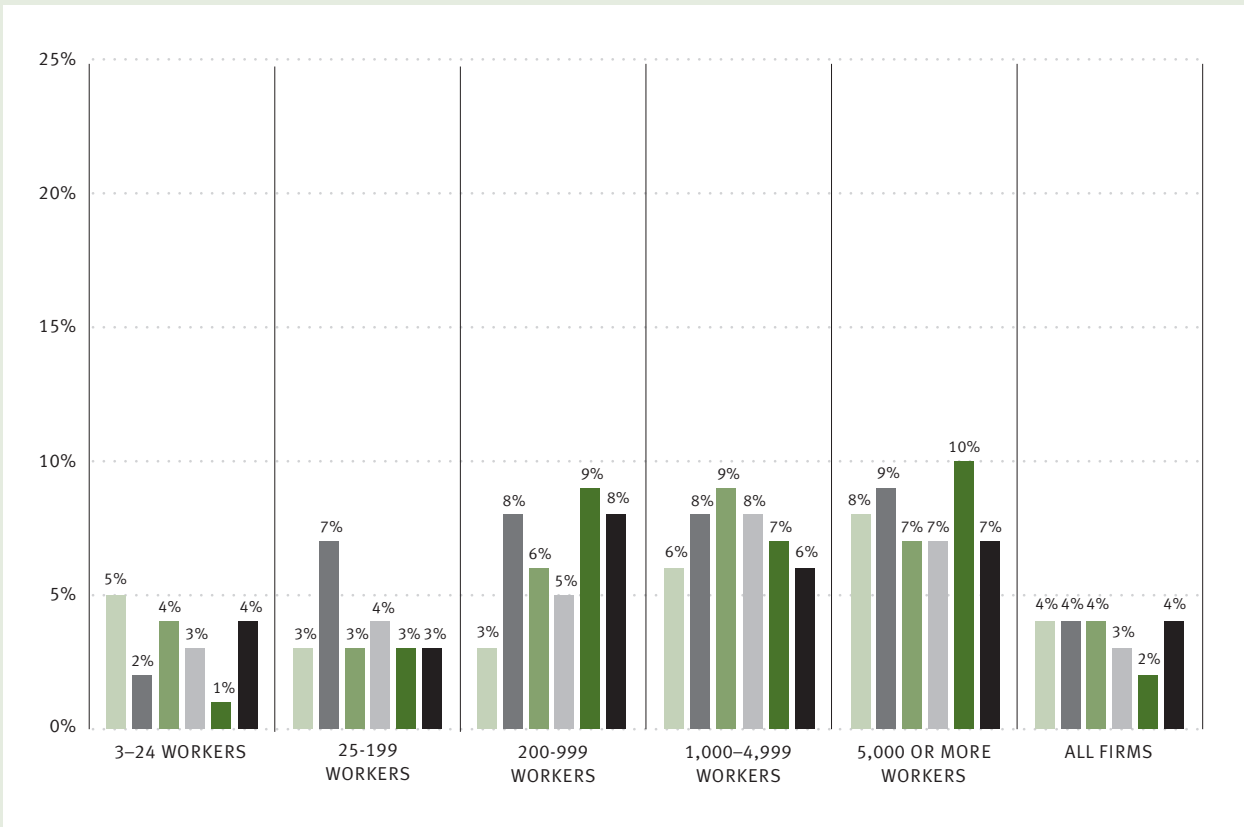
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Insurance: 1999, 2000, 2001, 2002, 2003, 2004.

* Tests found no statistically different estimates from the previous year shown at p<.05.

EXHIBIT 2.6

The Percentage of Firms Offering Health Benefits to Temporary Workers, by Firm Size, 1999-2004*



SOURCE :

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

* Tests found no statistically different estimates from the previous year shown at p<.05.

EXHIBIT 2.7

Percentage of Firms Offering Health Benefits to Nontraditional Partners, by Firm Size and Region, 2004

	<i>Nontraditional Partners</i>
FIRM SIZE	
Small (3-24 Workers)	21%
Small (25-49 Workers)	15
Small (50-199 Workers)	12
ALL SMALL FIRMS (3-199 WORKERS)	19%
Midsize (200-999 Workers)	18
Large (1,000-4,999 Workers)	16
Jumbo (5,000 or More Workers)	32*
ALL LARGE FIRMS (200 OR MORE WORKERS)	19%
REGION	
Northeast	34%
Midwest	12
South	7*
West	33
ALL FIRM SIZES AND REGIONS	19%

SOURCE :

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

* Estimate is statistically different from All Firms at $p < .05$.

EXHIBIT 2.8

Percentage of Firms Offering Health Benefits to Nontraditional Partners Whose Definition of Nontraditional Partners Includes Same-Sex or Unmarried Heterosexual Couples, by Firm Size and Region, 2004[‡]

	<i>Same-Sex Couples Eligible</i>	<i>Unmarried Heterosexual Couples Eligible</i>
FIRM SIZE		
Small (3-24 Workers)	14%	13%
Small (25-49 Workers)	14	13
Small (50-199 Workers)	10	10
ALL SMALL FIRMS (3-199 WORKERS)	14%	12%
Midsize (200-999 Workers)	13	13
Large (1,000-4,999 Workers)	15	11
Jumbo (5,000 or More Workers)	32*	20
ALL LARGE FIRMS (200 OR MORE WORKERS)	15%	13%
REGION		
Northeast	30%	22%
Midwest	7	7
South	3*	3*
West	23	24
ALL FIRM SIZES AND REGIONS	14%	12%

SOURCE :

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

* Estimate is statistically different from All Firms at $p < .05$.

‡ These questions were asked of firms that reported offering nontraditional partners health coverage, but are presented as a percentage of all firms offering health benefits. We assume firms not offering nontraditional partner benefits do not offer benefits to same-sex or unmarried heterosexual couples. A small percentage (approximately two percent) of firms responded 'don't know' to either or both questions.

EMPLOYER HEALTH BENEFITS
2004 ANNUAL SURVEY

Employee
Coverage,
Eligibility, and
Participation

SECTION

3

EMPLOYEE COVERAGE, ELIGIBILITY, AND PARTICIPATION

EMPLOYERS ARE THE PRINCIPAL SOURCE OF HEALTH INSURANCE IN THE U.S., PROVIDING HEALTH BENEFITS TO ABOUT 63% OF NONELDERLY PERSONS IN 2002.⁴ ALTHOUGH THE PERCENTAGE OF WORKERS RECEIVING HEALTH INSURANCE THROUGH THEIR OWN EMPLOYER HAS EXHIBITED ONLY SLIGHT ANNUAL DECLINES, THE CUMULATIVE DROP SINCE 2001 IS OVER FOUR PERCENTAGE POINTS. THE MAJORITY OF THIS DECLINE IS AMONG ALL SMALL FIRMS (3-199 WORKERS). AS A CONSEQUENCE, WE ESTIMATE THAT THERE ARE AT LEAST FIVE MILLION FEWER JOBS PROVIDING HEALTH INSURANCE IN 2004 THAN IN 2001.

MOST WORKERS ARE OFFERED HEALTH COVERAGE AT WORK, AND THE VAST MAJORITY OF WORKERS WHO ARE OFFERED COVERAGE TAKE IT. WORKERS WITHOUT COVERAGE THROUGH THEIR OWN EMPLOYER MAY NOT BE OFFERED COVERAGE BY THEIR FIRM, MAY BE INELIGIBLE FOR BENEFITS OFFERED BY THEIR FIRM, OR MAY REFUSE AN OFFER OF COVERAGE FROM THEIR FIRM.

- ▶ Among firms offering health benefits, 67% of workers are covered by their own firm's health plan, a similar rate to last year (EXHIBIT 3.2).
- *Despite only small annual declines in the percentage of workers receiving coverage through their own employer, coverage (in firms both offering and not offering health benefits) decreased significantly between 2001 and 2004 from 65% to 61%. The majority of this decline in the number of jobs with health insurance is among all small firms (3-199 workers) (EXHIBIT 3.1).*
- *Coverage rates do not differ significantly by firm size, but they do vary by industry, likely due to differences in eligibility. The coverage rate for workers in the retail industry is 47%, compared to 84% for state and local government workers and 82% for those working in the transportation, communication, and utility industries (EXHIBIT 3.2).*
- *Higher wage firms—where fewer than 35% of workers earn \$20,000 or less annually—have higher coverage rates than lower wage firms—where 35% or more of workers earn \$20,000 or less annually. Seventy percent of workers in higher wage firms that offer health benefits are covered, compared to 46% of workers in lower wage firms offering benefits.*
- ▶ Even in firms that offer coverage, not all employees are eligible for their firm's health benefits. Additionally, not all employees with an offer of health coverage participate in it. The number of workers covered is a product of both the percentage of workers who are actually eligible for the firm's health insurance and the percentage who choose to "take up" (i.e., elect to participate in) the benefit.

NOTE:

⁴ Kaiser Family Foundation, Kaiser Commission on Medicaid and the Uninsured. *Health Insurance Coverage in America: 2002 Data Update*, December 2003.

- Eligibility for health benefits does not vary by firm size and is unchanged from last year. Overall, 80% of workers in firms offering health benefits are eligible for coverage (EXHIBIT 3.2).
- Employees who are offered coverage through their employer generally elect to participate in it (the “take-up” rate). Eighty percent of workers in all small firms (3-199 workers) take up coverage, similar to 83% of workers in all large firms (200 or more workers) who choose to participate. These numbers are statistically unchanged from 2003, but the percentage of workers who take up coverage in all small firms is statistically different from 2001 (84%) (EXHIBITS 3.2, 3.3).
- The take-up of employer-sponsored coverage varies somewhat by industry. Workers in retail have a lower take-up rate (77%) than workers in other industries. Ninety-four percent of workers in state/local government and 92% of workers in the transportation, communication, and utility industries take up an offer of employer-sponsored coverage (EXHIBIT 3.2).
- The likelihood of accepting a firm’s offer of coverage varies by firm wage level. Employees in higher wage firms—where fewer than 35% of workers earn \$20,000 or less annually—are more likely to take up coverage (84%) than employees in lower wage firms (35% or more of workers earn \$20,000 or less annually) (71%).
- ▶ One aspect of coverage affecting eligibility is new employees’ waiting period for coverage. Eighty-two percent of covered workers in all small firms (3-199 workers) and 65% of covered workers in all large firms (200 or more workers) work for a firm that imposes a waiting period on new employees before they are eligible for coverage. The average waiting period for coverage is unchanged from last year at 1.6 months (EXHIBIT 3.5).

EXHIBIT 3.1

Percentage of Workers Covered by Their Employer's Health Benefits, in Firms Both Offering and Not Offering Health Benefits, by Firm Size, 2000-2004*

	2000	2001	2002	2003	2004
FIRM SIZE					
3-24 Workers	50%	49%	45%	44%	43%
25-49 Workers	63	62	57	59	56
50-199 Workers	62	67	64	61	56
200-999 Workers	69	71	69	68	69
1,000-4,999 Workers	68	69	70	69	68
5,000 or More Workers	66	69	68	68	67
ALL SMALL FIRMS (3-199 WORKERS)	57%	58%	54%	53%	50%
ALL LARGE FIRMS (200 OR MORE WORKERS)	67%	69%	69%	68%	68%
ALL FIRMS	63%	65%	63%	62%	61%

SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003, 2004.

* Tests found no statistically different estimates from the previous year shown at $p < .05$.

Note: The total percentage of covered workers in this figure is calculated from the universe of all workers – including those in firms that do not offer coverage.

EXHIBIT 3.2

Eligibility, Take-Up Rates, and Coverage in Firms Offering Health Benefits, by Firm Size, Region, and Industry, 2004

	<i>Percentage of Workers Eligible for Health Benefits Offered by Their Employer</i>	<i>Percentage of Workers Who Participate in Their Employers' Plan (Take-Up Rate)</i>	<i>Percentage of Workers Covered by Their Employers' Health Benefits</i>
FIRM SIZE			
Small (3-24 Workers)	86%*	78%	67%
Small (25-49 Workers)	82	78	65
Small (50-199 Workers)	73*	83	61
ALL SMALL FIRMS (3-199 WORKERS)	80	80	64
Midsize (200-999 Workers)	82	84	70
Large (1,000-4,999 Workers)	80	84	68
Jumbo (5,000 or More Workers)	80	83	67
ALL LARGE FIRMS (200 OR MORE WORKERS)	81%	83%	68%
REGION			
Northeast	81%	79%	64%
Midwest	82	83	69
South	81	83	68
West	77	82	64
INDUSTRY			
Mining/Construction/Wholesale	78%	80%	61%
Manufacturing	91*	87*	80*
Transportation/Communication/Utility	90*	92*	82*
Retail	62*	77*	47*
Finance	88*	84	73*
Service	76	76*	59*
State/Local Government	90*	94*	84*
Health Care	77	84	65
ALL FIRM SIZES, REGIONS, AND INDUSTRIES	80%	82%	67%

SOURCE:

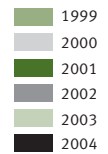
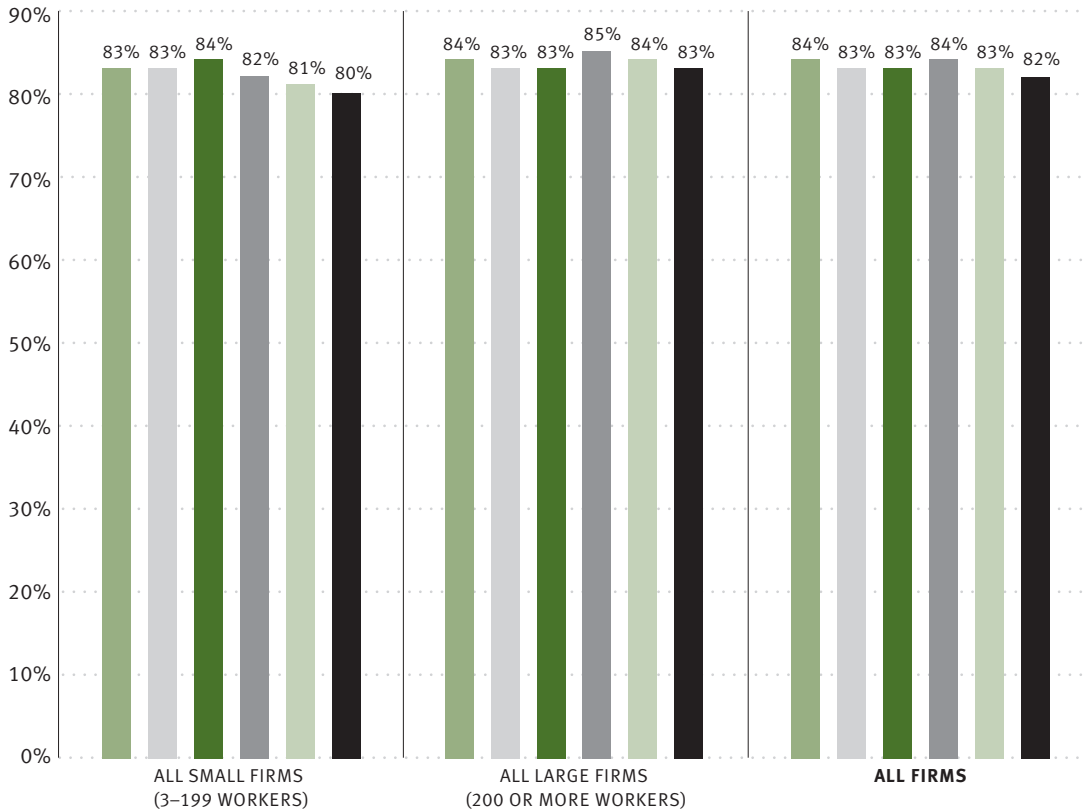
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

* Estimate is statistically different from All Firms at $p < .05$.

Take-up rate: The percentage of eligible workers who choose to participate in health benefits offered by their employer.

EXHIBIT 3.3

Percentage of Workers in Firms Offering Health Benefits Who Participate in (Take-up) Their Employer's Health Plan, by Firm Size, 1999-2004*



SOURCE :

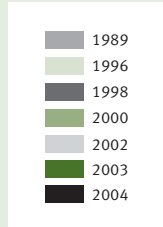
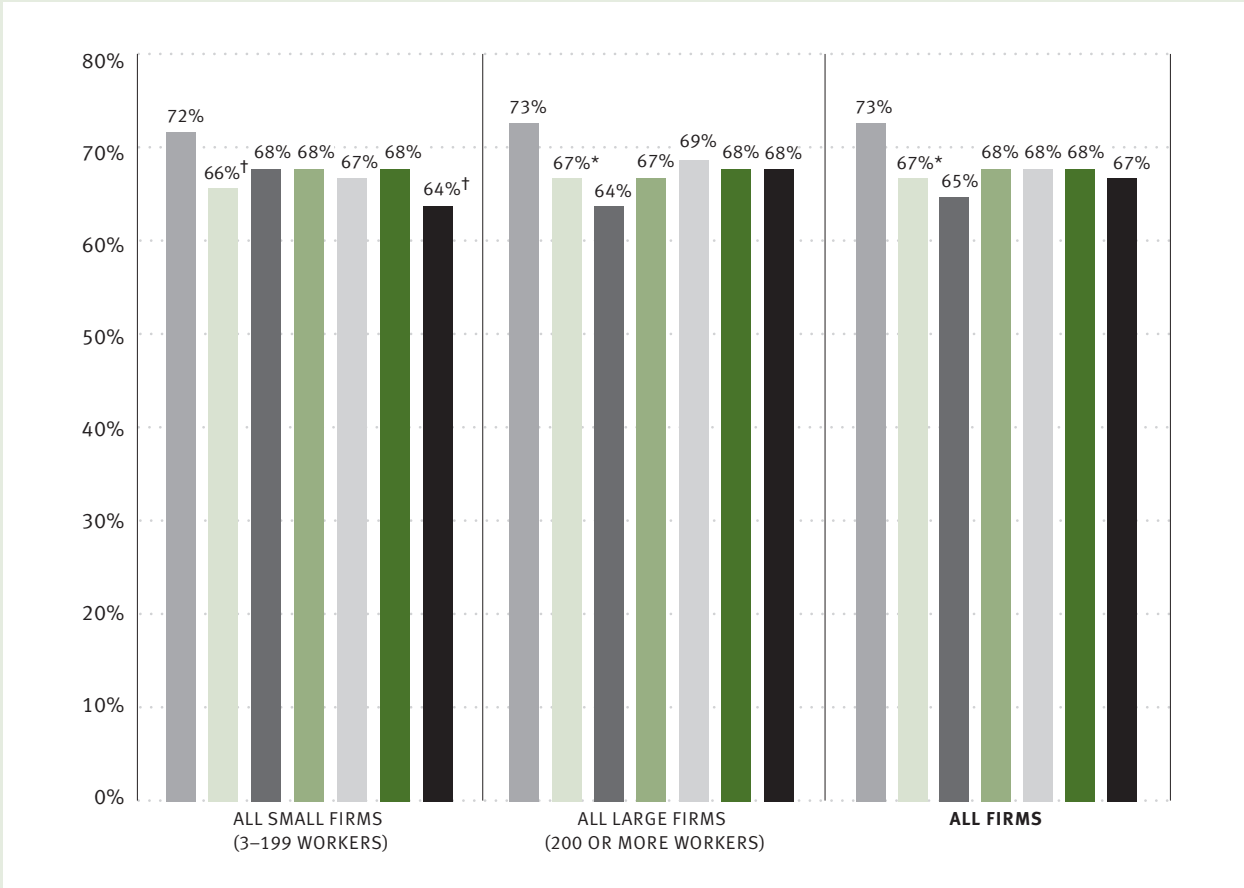
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002, 2003, 2004.

* Tests found no statistically different estimates from the previous year shown at $p < .05$.

Take-up rate: The percentage of eligible workers who choose to participate in health benefits offered by their employer.

EXHIBIT 3.4

Percentage of Workers in Firms Offering Health Benefits Who Are Covered by Their Employer's Health Plan, by Firm Size, 1989-2004



SOURCE :

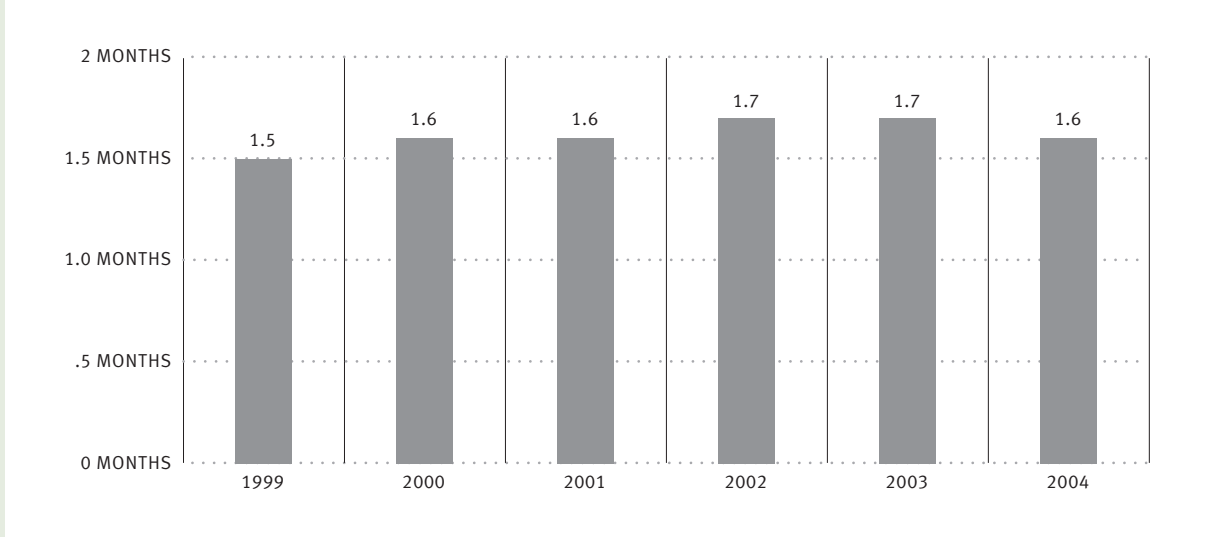
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003, 2004;
 KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998;
 The Health Insurance Association of America (HIAA): 1989.

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

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

EXHIBIT 3.5

Average Waiting Period for New Employees to be Eligible for Health Coverage, 2004*



SOURCE :

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

* Tests found no statistically different estimates from the previous year shown at $p < .05$.

EXHIBIT 3.6

Average Waiting Period for New Employees to be Eligible for Health Coverage, by Firm Size, Region, and Industry, 2004

	Average Wait for Health Coverage (Months)
FIRM SIZE	
ALL SMALL FIRMS (3-199 WORKERS)	2.1*
Midsize (200-999 Workers)	1.6
Large (1,000-4,999 Workers)	1.6
Jumbo (5,000 or More Workers)	1.2*
ALL LARGE FIRMS (200 OR MORE WORKERS)	1.3*
REGION	
Northeast	1.5
Midwest	1.3*
South	1.7
West	1.8
INDUSTRY	
Mining/Construction/Wholesale	2.4*
Manufacturing	1.3*
Transportation/Communication/Utility	1.3
Retail	2.8*
Finance	1.3
Service	1.5
State/Local Government	1.2*
Health Care	1.5
ALL FIRM SIZES, REGIONS, AND INDUSTRIES	1.6 MONTHS

SOURCE :

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

* Estimate is statistically different from All Firms at $p < .05$.

EMPLOYER HEALTH BENEFITS
2004 ANNUAL SURVEY

Health
Insurance
Choice

SECTION

4

HEALTH INSURANCE CHOICE

CHOICE AMONG HEALTH PLANS IS STILL AN OPTION FOR MOST COVERED WORKERS WITH JOB-BASED INSURANCE. SIXTY-FIVE PERCENT OF COVERED WORKERS ARE ABLE TO CHOOSE FROM TWO OR MORE HEALTH PLANS. THIS YEAR'S SURVEY ALSO EXAMINED EMPLOYERS' FAMILIARITY WITH AND INTEREST IN CONSUMER-DRIVEN HEALTH CARE, PARTICULARLY HIGH-DEDUCTIBLE PLANS COUPLED WITH A PERSONAL OR HEALTH SAVINGS ACCOUNT OPTION.⁵

PLAN CHOICE

► PPO coverage, a less restrictive form of managed care, continues in 2004 to be the most popular health plan option offered to covered workers.

- Nearly four out of five covered workers (79%) have the option of electing a PPO plan, similar to last year (EXHIBIT 4.1).

- The percentage of covered workers with the option to enroll in an HMO increased somewhat from 47% in 2003 to 54% this year (EXHIBIT 4.1).

- The percentage of covered workers who have a choice of conventional coverage has fallen dramatically since 1988, from 90% to just 16% in 2004 (EXHIBIT 4.1).

- The availability of POS plans is unchanged in 2004, with 30% of covered workers having the option (EXHIBIT 4.1).

► The percentage of covered workers who can choose from multiple health plans has remained relatively stable since 1996. In 2004, 65% of covered workers have more than one health plan option, similar to last year (EXHIBIT 4.3).

- Health plan choice varies by firm size: 73% of covered workers in all small firms (3-199 workers) offer only one plan, compared to 18% in all large firms (200 or more workers) (EXHIBIT 4.4).

- Choice of plans varies by region, with covered workers in the South slightly more likely (44%) than workers overall (35%) to have just one plan option (EXHIBIT 4.5).

CONSUMER-DRIVEN HEALTH CARE

► New plan arrangements, including so-called consumer-driven health plans, are receiving increasing attention. The most common model of a consumer-driven plan pairs a relatively large deductible plan (e.g., a \$1,000 deductible) with a personal or health savings account option. These accounts permit employers (and sometimes employees) to make pre-tax contributions, which can be used by employees to pay for routine medical care.^{6,7}

NOTES :

⁵ Survey respondents were asked whether the firm offers a personal or health savings account, including a Health Reimbursement Arrangement (HRA) or other type of health savings account option.

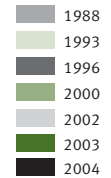
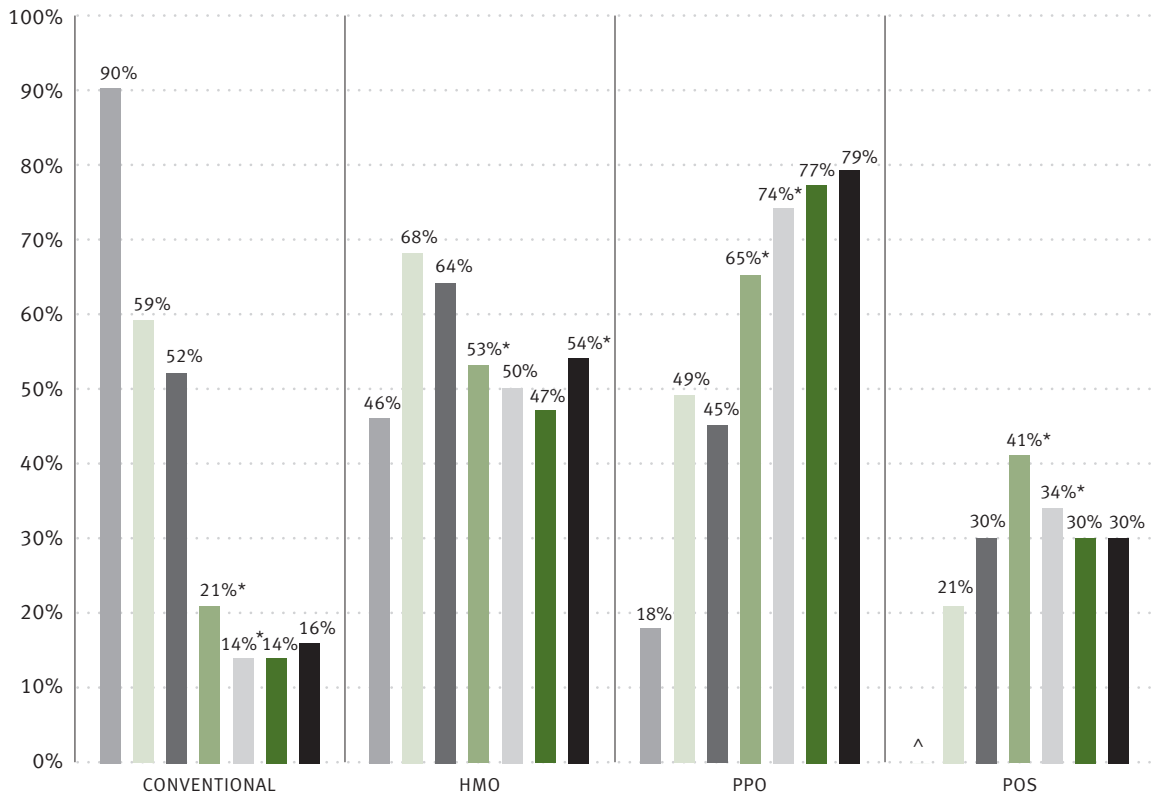
⁶ There are several savings account options permitted under the law, including health reimbursement arrangements, health savings accounts and medical savings accounts.

⁷ Due to the low number of respondents offering a combination high-deductible plan with a personal or health savings account, data on average deductibles and worker contributions are not sufficiently robust to publish in the 2004 survey. We hope to report these values in future surveys.

- Approximately ten percent of all firms offer a high-deductible plan in 2004. Only a small percentage (3.5%) of firms offering a high-deductible plan offer a personal or health savings account option along with the high-deductible plan (EXHIBIT 4.8).
 - The percentage of large firms (1,000-4,999 workers) offering a high-deductible plan increased from five to nine percent between 2003 and 2004. Jumbo firms (5,000 or more workers) are more likely (20%) than all firms (10%) to offer employees a high-deductible plan (EXHIBIT 4.8).
 - When asked about their familiarity with consumer-driven plans, 40% of firms responded that they are either “very familiar” or “somewhat familiar” with such plans. All large firms (200 or more workers) tend to be more familiar than all small firms (3-199 workers) with consumer-driven plans, with 22% of all large firms reporting that they are “very familiar” with consumer-driven health plans, compared to two percent of all small firms (EXHIBIT 4.9).
 - A larger percentage of firms are familiar with the concept of personal or health savings accounts than with consumer-driven health care. Fifty-six percent of firms report being either “very familiar” or “somewhat familiar” with personal or health savings accounts. A larger percentage of all large firms (200 or more workers) report being “very familiar” with personal or health savings accounts than all small firms (3-199 workers) (24% vs. 10%) (EXHIBIT 4.9).
- ▶ Although very few employers currently offer the combination of a high-deductible plan with a personal or health savings account option, 27% of all firms report that they are “very likely” or “somewhat likely” to offer this combination in the next two years (EXHIBIT 4.10).

EXHIBIT 4.1

Percentage of Covered Workers With a Choice of Conventional, HMO, PPO, or POS Plans, 1988-2004



SOURCE :

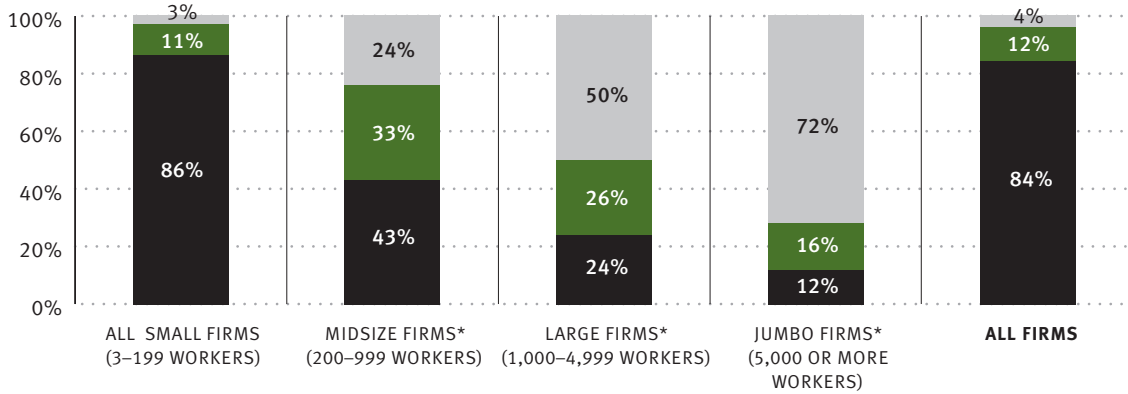
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003, 2004; KPMG Survey of Employer-Sponsored Health Benefits: 1993, 1996; The Health Insurance Association of America (HIAA): 1988.

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

^ Information was not obtained for POS plans in 1988.

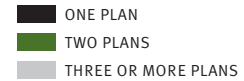
EXHIBIT 4.2

Percentage of Employers Providing a Choice of Health Plans, by Firm Size, 2004



SOURCE :

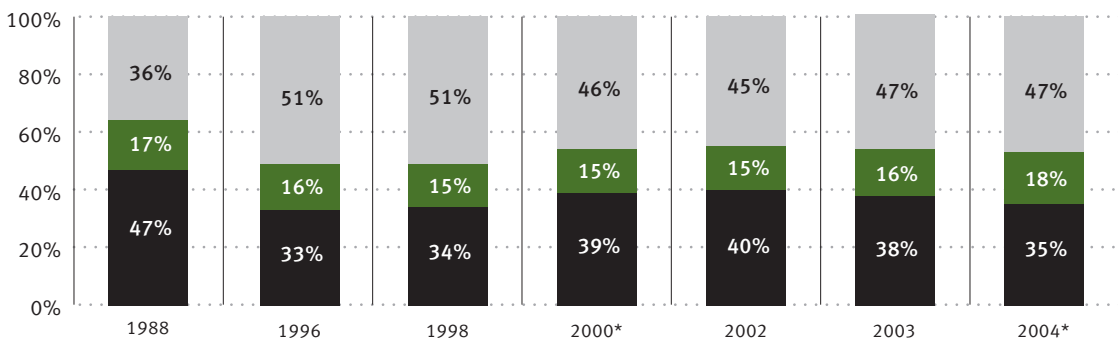
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.



* Distribution is statistically different from All Firms at p<.05.

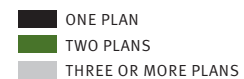
EXHIBIT 4.3

Percentage of Covered Workers With a Choice of Health Plans, 1988-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003, 2004; KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998; The Health Insurance Association of America (HIAA): 1988.



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

EXHIBIT 4.4

Distribution of Covered Workers With a Choice of Health Plans, by Firm Size, 1996-2004

	<i>One Plan Only</i>	<i>Two Plans</i>	<i>Three or More Plans</i>
1996			
All Small Firms (3-199 Workers)*	79%	15%	6%
All Large Firms (200 or More Workers)*	21	17	63
ALL FIRM SIZES	33%	16%	51%
2000			
All Small Firms (3-199 Workers)*	77%	14%	9%
All Large Firms (200 or More Workers)*	20	15	65
ALL FIRM SIZES	39%	15%	46%
2002			
All Small Firms (3-199 Workers)*	76%	15%	10%
All Large Firms (200 or More Workers)*	23	15	62
ALL FIRM SIZES	40%	15%	45%
2003			
All Small Firms (3-199 Workers)*	62%	17%	21%
All Large Firms (200 or More Workers)*	26	15	59
ALL FIRM SIZES	38%	16%	47%
2004			
All Small Firms (3-199 Workers)*	73%	17%	10%
All Large Firms (200 or More Workers)*	18	18	63
ALL FIRM SIZES	35%	18%	47%

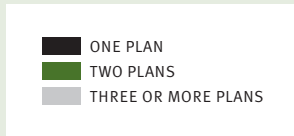
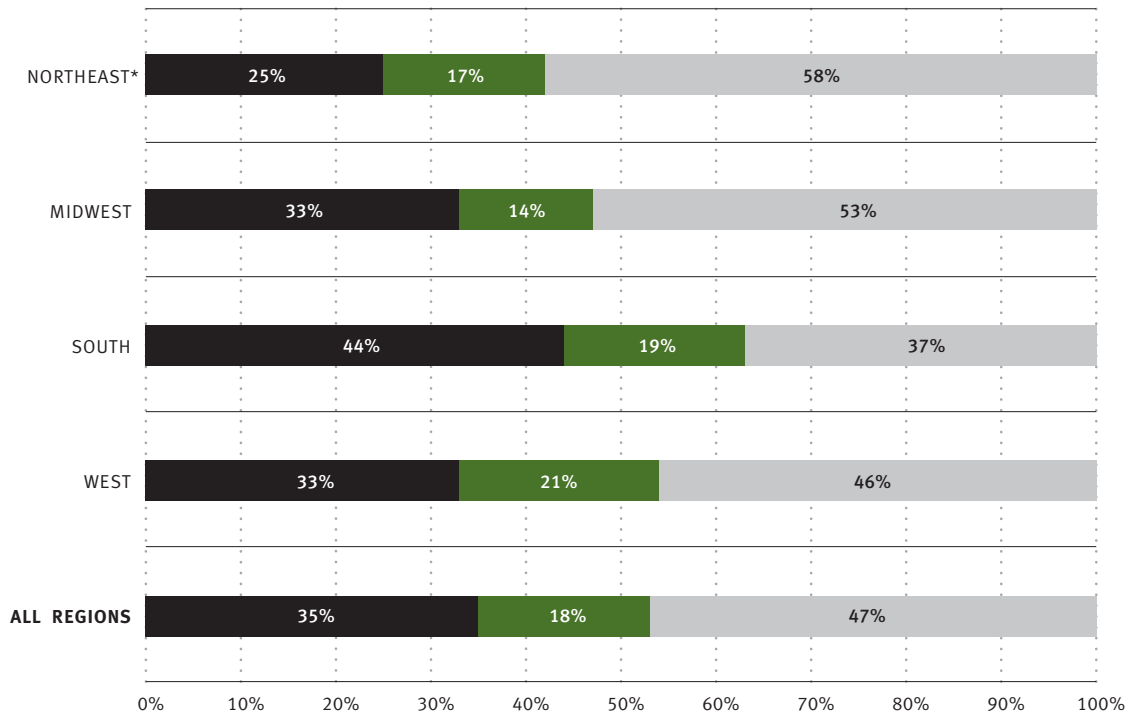
SOURCE :

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

* Distribution is statistically different from All Firms within a year at $p < .05$.

EXHIBIT 4.5

Percentage of Covered Workers With a Choice of Health Plans, by Region, 2004



SOURCE :

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

* Distribution is significantly different from All Regions at $p < .05$.

EXHIBIT 4.6

Distribution of Covered Workers With One or More Plan Options of the Same Plan Type, by Firm Size, 2004

	One Plan	Two Plans	Three or More Plans
CONVENTIONAL PLANS			
All Small Firms (3-199 Workers)*	97%	2%	1%
All Large Firms (200 or More Workers)	70	12	18
ALL FIRM SIZES	83%	7%	9%
HMO PLANS			
All Small Firms (3-199 Workers)*	84%	10%	6%
All Large Firms (200 or More Workers)*	35	22	44
ALL FIRM SIZES	48%	19%	33%
PPO PLANS			
All Small Firms (3-199 Workers)*	88%	9%	3%
All Large Firms (200 or More Workers)	56	23	21
ALL FIRM SIZES	65%	19%	16%
POS PLANS			
All Small Firms (3-199 Workers)*	90%	7%	2%
All Large Firms (200 or More Workers)	58	27	15
ALL FIRM SIZES	70%	20%	10%

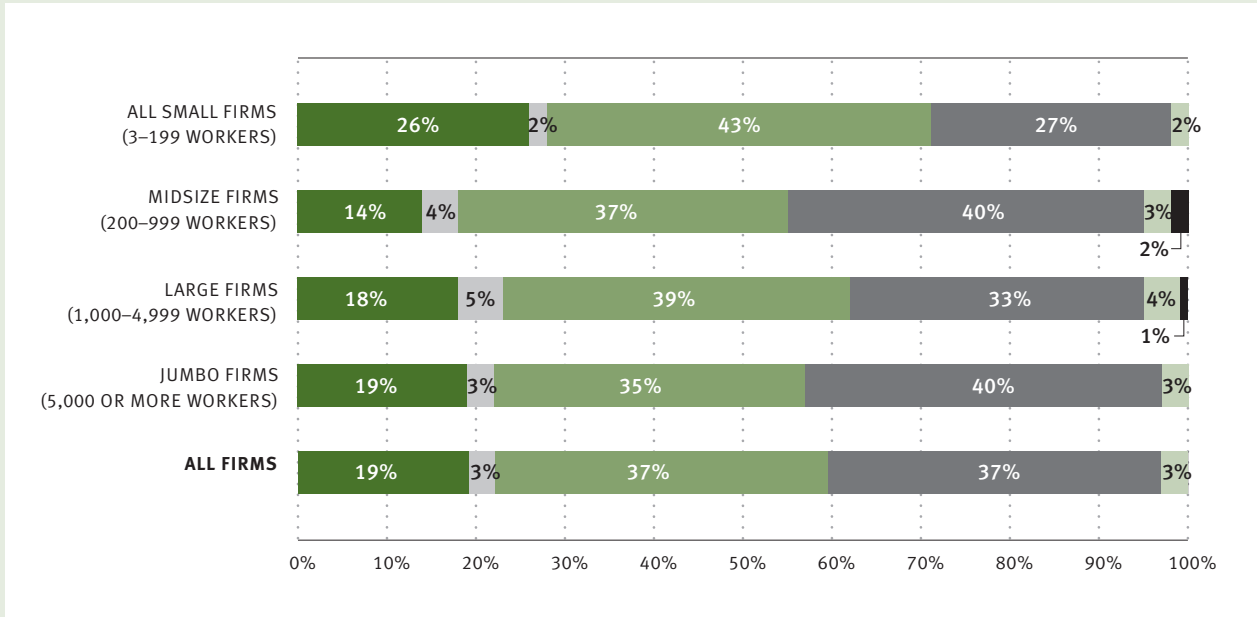
SOURCE :

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

* Distribution is statistically different from All Firms within a plan type at $p < .05$.

EXHIBIT 4.7

Distribution of Contribution Policies for Covered Workers Who Are Offered a Choice of Health Plans,† by Firm Size, 2004*



- COMPANY CONTRIBUTES THE SAME DOLLAR AMOUNT REGARDLESS OF PLAN CHOSEN
- WORKERS CONTRIBUTE THE SAME DOLLAR AMOUNT REGARDLESS OF PLAN CHOSEN
- COMPANY CONTRIBUTES THE SAME PERCENTAGE OF TOTAL PREMIUM REGARDLESS OF PLAN CHOSEN
- WORKER CONTRIBUTION VARIES BASED ON OTHER FACTORS
- OTHER
- DON'T KNOW

SOURCE :

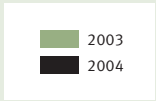
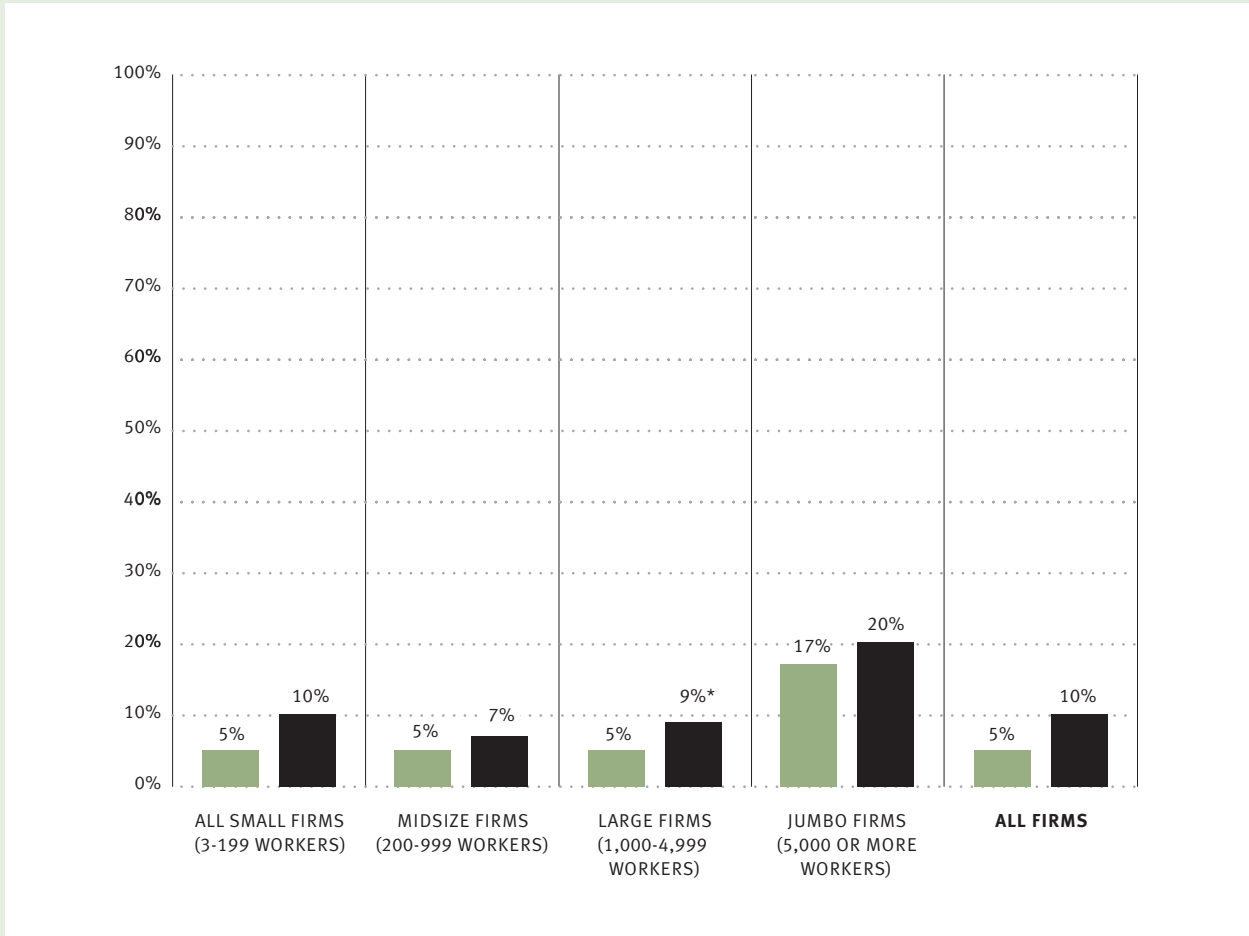
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

* Tests found no statistically different distribution from All Firms at $p < .05$.

† The distributions refer only to covered workers offered a choice of more than one health plan. The percentage of covered workers with a choice of plans is as follows by firm size: All Small (29%), Midsize (57%), Large (79%), Jumbo (91%), All Firms (65%).

EXHIBIT 4.8

Percentage of Firms Offering Employees a High-Deductible Health Plan, by Firm Size, 2003-2004



SOURCE:

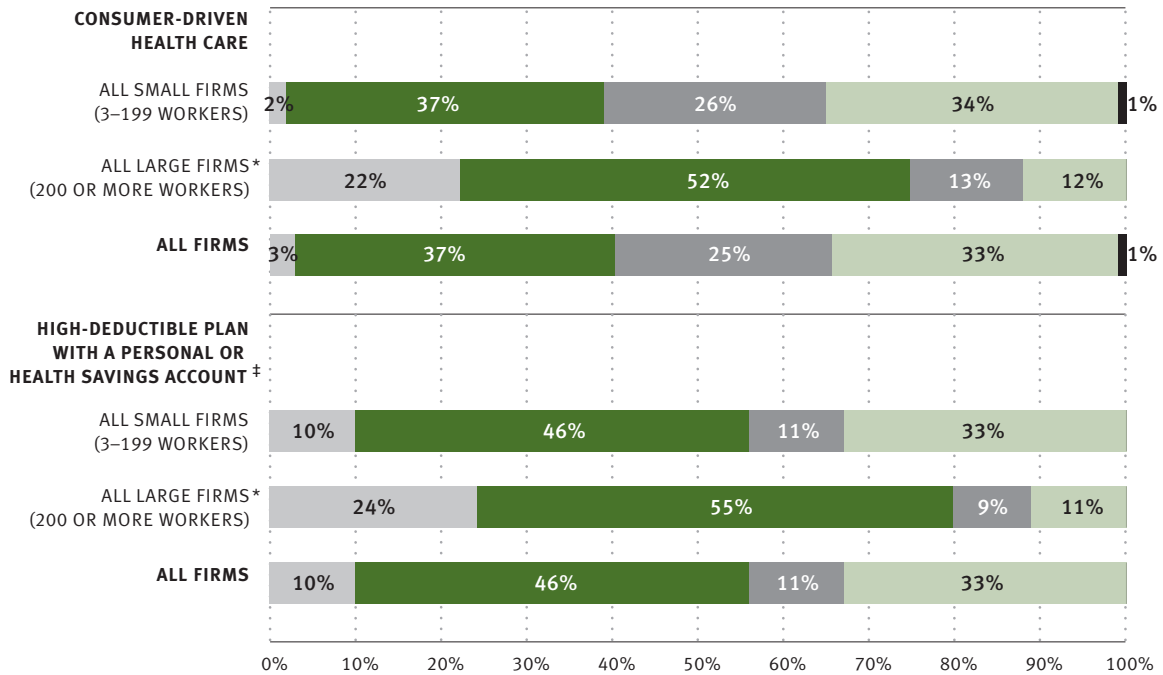
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003, 2004.

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

High-deductible health plan: A plan with an annual deductible of more than \$1,000 for single coverage. High-deductible plans can be offered with or without a personal or health savings account option.

EXHIBIT 4.9

Percentage of Firms Reporting Their Familiarity With the Following Types of Health Plans, 2004



VERY FAMILIAR
 SOMEWHAT FAMILIAR
 NOT TOO FAMILIAR
 NOT AT ALL FAMILIAR
 DON'T KNOW

SOURCE :

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

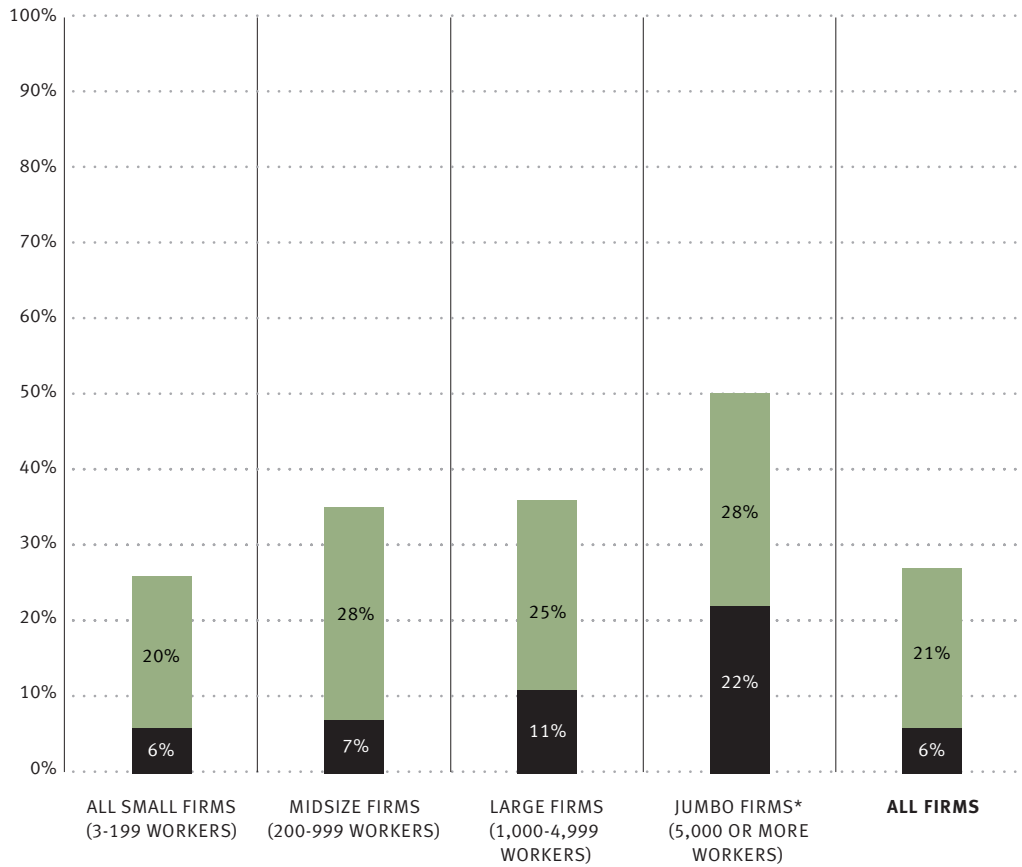
* Distribution is significantly different from All Firms at $p < .05$.

‡ The Survey respondents were asked whether the firm is familiar with a personal or health savings account, including a Health Reimbursement Account (HRA) or other type of health savings account option.

High-deductible health plan: A plan with an annual deductible of more than \$1,000 for single coverage. High-deductible plans can be offered with or without a personal or health savings account option.

EXHIBIT 4.10

Percentage of Firms That Say They Are “Very Likely” or “Somewhat Likely” to Offer Workers a High-Deductible Plan with a Personal or Health Savings Account Option in the Next Two Years, 2004



■ SOMEWHAT LIKELY
 ■ VERY LIKELY

SOURCE :

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

* Column total is statistically different from All Firms at $p < .05$.

High-deductible health plan: A plan with an annual deductible of more than \$1,000 for single coverage. High-deductible plans can be offered with or without a personal or health savings account option.

EMPLOYER HEALTH BENEFITS
2004 ANNUAL SURVEY

Market
Shares of
Health Plans

SECTION

5

MARKET SHARES OF HEALTH PLANS

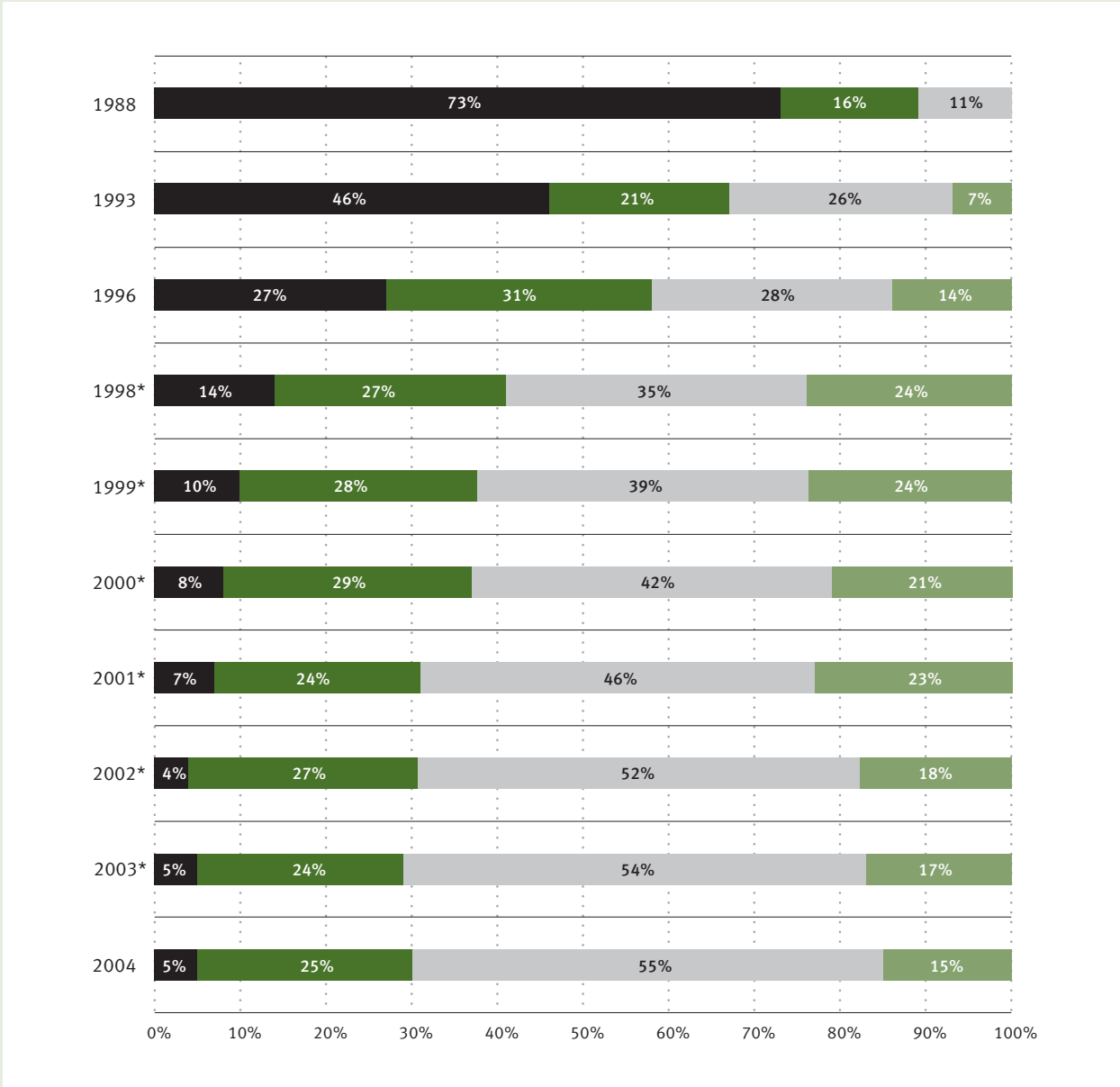
THE DISTRIBUTION OF ENROLLMENT AMONG TYPES OF HEALTH PLANS HAS REMAINED FAIRLY CONSTANT OVER THE PAST SEVERAL YEARS. THE MAJORITY OF COVERED WORKERS ARE ENROLLED IN PPO PLANS (55%), FOLLOWED BY HMO PLANS (25%) (EXHIBIT 5.1).

ALTHOUGH ANNUAL CHANGES IN PLAN ENROLLMENT HAVE BEEN MODERATE, ENROLLMENT IN PPO PLANS HAS GROWN BY NINE PERCENTAGE POINTS SINCE 2001.

- ▶ More than half of covered workers (55%) are enrolled in PPO plans, an increase from 46% in 2001 (EXHIBIT 5.1). Conventional plan enrollment has remained fairly minimal since 2000, comprising less than ten percent of total enrollment.
- ▶ There are slight regional differences in plan enrollment. PPO plans have higher enrollment in the Midwest (64%) and the South (64%). HMO enrollment is consistently highest in the West (36%).
- ▶ POS plans tend to have higher enrollment in the Northeast compared to other regions (23%) (EXHIBIT 5.2).
- ▶ PPO enrollment is particularly strong in certain industries. Enrollment in PPO plans is high in the mining, construction, and wholesale industries (68%), and in the transportation, communications and utilities industries (65%) (EXHIBIT 5.2).
- *The percentage of workers enrolled in HMOs has remained steady since 2001 at approximately 25% (EXHIBIT 5.1).*
- *Conventional plan enrollment remains low at five percent of covered workers (EXHIBIT 5.1).*

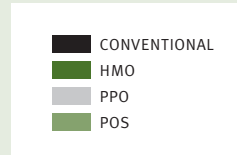
EXHIBIT 5.1

Health Plan Enrollment for Covered Workers, by Plan Type, 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, 1998; The Health Insurance Association of America (HIAA): 1988.



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

EXHIBIT 5.2

Health Plan Enrollment, by Firm Size, Region, and Industry, 2004

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>
FIRM SIZE				
Small (3-24 Workers)	13%*	23%	39%*	26%*
Small (25-49 Workers)	3	21	56	20
Small (50-199 Workers)	4	20	64*	12
ALL SMALL FIRMS (3-199 WORKERS)	7%	22%	52%	19%
Midsize (200-999 Workers)	5	23	59	13
Large (1,000-4,999 Workers)	3	24	64*	9*
Jumbo (5,000 or More Workers)	3	28	54	15
ALL LARGE FIRMS (200 OR MORE WORKERS)	3%	26%	57%	14%
REGION				
Northeast	5%	32%*	40%*	23%*
Midwest	5	21	64*	10*
South	4	17*	64*	14
West	5	36*	44*	15
INDUSTRY				
Mining/Construction/Wholesale	4%	14%*	68%*	13%
Manufacturing	4	24	62*	10
Transportation/Communication/Utility	5	26	65*	5*
Retail	4	21	51	24
Finance	4	25	54	17
Service	6	26	46*	22*
State/Local Government	5	32*	50	14
Health Care	4	25	64	8*
ALL FIRM SIZES, REGIONS, AND INDUSTRIES	5%	25%	55%	15%

SOURCE :

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

* Estimate is statistically different from All Firms at $p < .05$.

EMPLOYER HEALTH BENEFITS
2004 ANNUAL SURVEY

Employee
Contributions for
Premiums

SECTION

6

EMPLOYEE CONTRIBUTIONS FOR PREMIUMS

THE SHARE OF TOTAL PREMIUMS PAID BY WORKERS IS ESSENTIALLY UNCHANGED IN 2004. ACROSS ALL PLAN TYPES, ON AVERAGE, WORKERS PAY 16% OF PREMIUMS FOR SINGLE COVERAGE AND 28% OF PREMIUMS FOR FAMILY COVERAGE (EXHIBIT 6.2).

AVERAGE EMPLOYEE CONTRIBUTIONS FOR SINGLE COVERAGE ARE STATISTICALLY UNCHANGED FROM 2003, WHILE AVERAGE CONTRIBUTIONS FOR FAMILY COVERAGE GREW BY \$21 PER MONTH, OR 10% — A SIMILAR RATE TO THE AVERAGE PREMIUM INCREASE OVERALL (EXHIBIT 6.1).

WORKER CONTRIBUTIONS FOR HEALTH INSURANCE PREMIUMS

- ▶ The average monthly worker contribution for single coverage is \$47 in 2004. For family coverage, the average monthly worker contribution is \$222 in 2004, up from \$201 in 2003. On average, covered workers contribute \$249 more to annual family premiums in 2004 than in 2003 (EXHIBITS 6.1, 6.3).
- ▶ The average percentage of total premiums that workers pay is essentially unchanged in 2004: 16% across plan types for single coverage and 28% for family coverage. Percentage contributions for family coverage have been stable, while those for single coverage declined between 1996 and 2000 (from 21% to 14%) and have been stable since that time (EXHIBIT 6.2).
- ▶ Nearly all firms that offer health insurance contribute 50% or more to the cost of premiums for their employees. Most employers contribute between 75% and 100% of premiums for single and family coverage (EXHIBITS 6.8, 6.9).
- *Employers are more likely to pay the full cost of single coverage than family coverage. The percentage of covered workers whose employers pay the full cost of coverage is virtually unchanged compared to last year, both for single (21%) and family coverage (7%). Although the percentage of firms paying 100% of the cost of single or family coverage is unchanged from last year, it is lower than in 2001 (32% for single, 14% for family) (EXHIBITS 6.8, 6.9).*
- *All small firms (3-199 workers) are more likely to pay the full cost of single coverage than all large firms (200 or more workers). Forty-two percent of all small firms pay the entire premium for single coverage compared to 11% of all large firms (EXHIBIT 6.8).*
- *Covered workers in all small firms (3-199 workers) are more likely to be responsible for paying 50% or more of the premium for family coverage (28%) than covered workers in all large firms (200 or more workers) (6%) (EXHIBIT 6.9).*

► Covered workers in all small firms (3-199 workers) pay a higher share of family premiums than workers in all large firms (200 or more workers). On average, covered workers in all small firms pay an average of 36% of the premium for family coverage, compared to 24% for workers in all large firms. Covered workers in all small firms pay an average of \$282 per month for

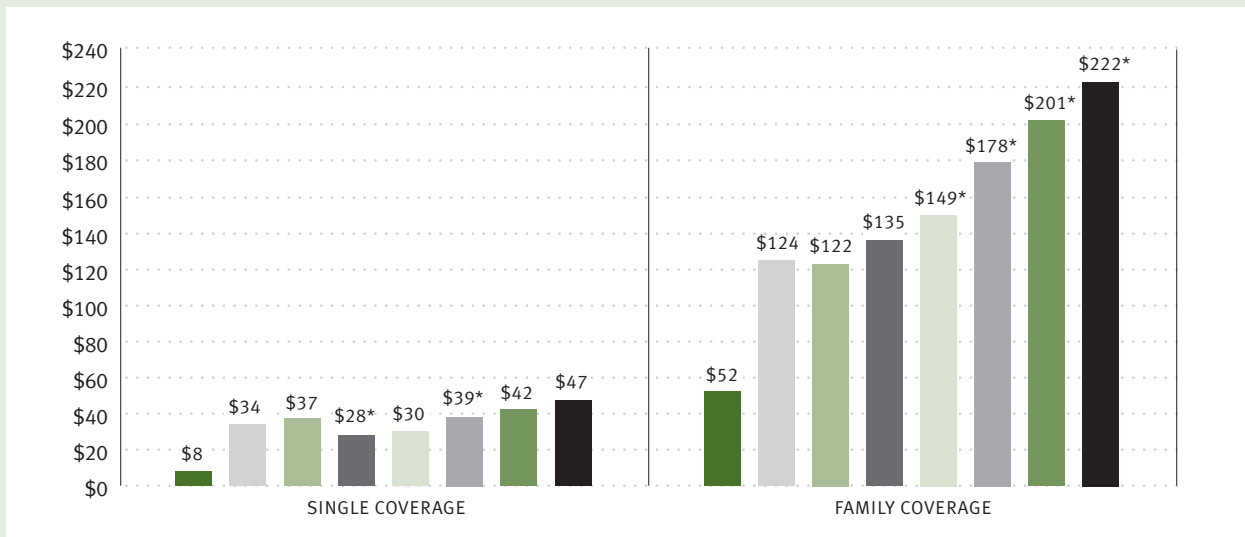
family coverage, compared to \$195 per month paid by covered workers in all large firms (EXHIBITS 6.4, 6.11).

► Covered workers in lower wage firms—where 35% or more earn \$20,000 or less per year—have higher premium contribution rates than covered workers in higher wage firms—where fewer than 35% earn \$20,000 or less per year.

On average, covered workers in lower wage firms contribute 39% of the premium for family coverage compared to 26% of the family premium paid by covered workers in higher wage firms (EXHIBIT 6.10). Covered workers in firms with unions also pay less for family coverage than those in firms with no union workers (20% vs. 32%).

EXHIBIT 6.1

Average Monthly Worker Contribution for Single and Family Premiums, 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 $p < .05$.

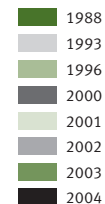
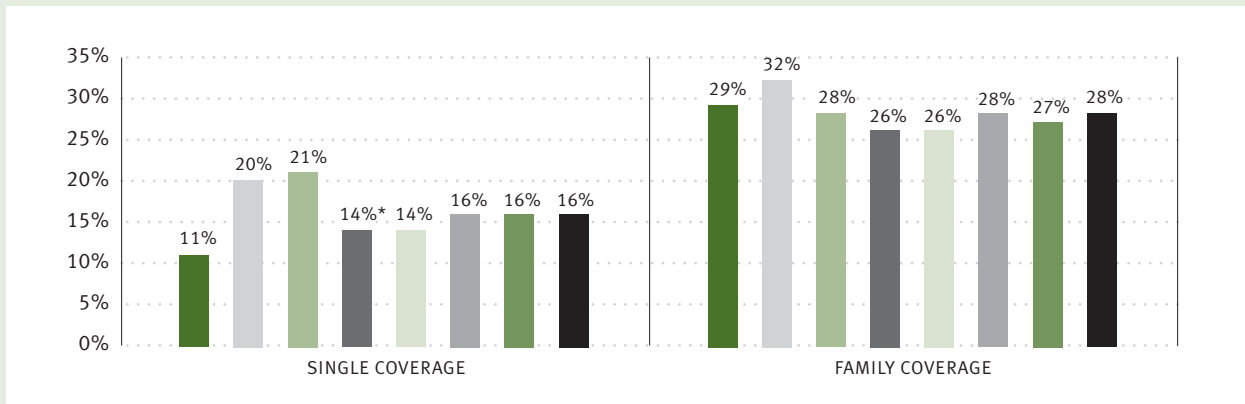


EXHIBIT 6.2

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 $p < .05$.

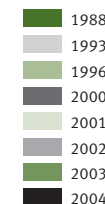
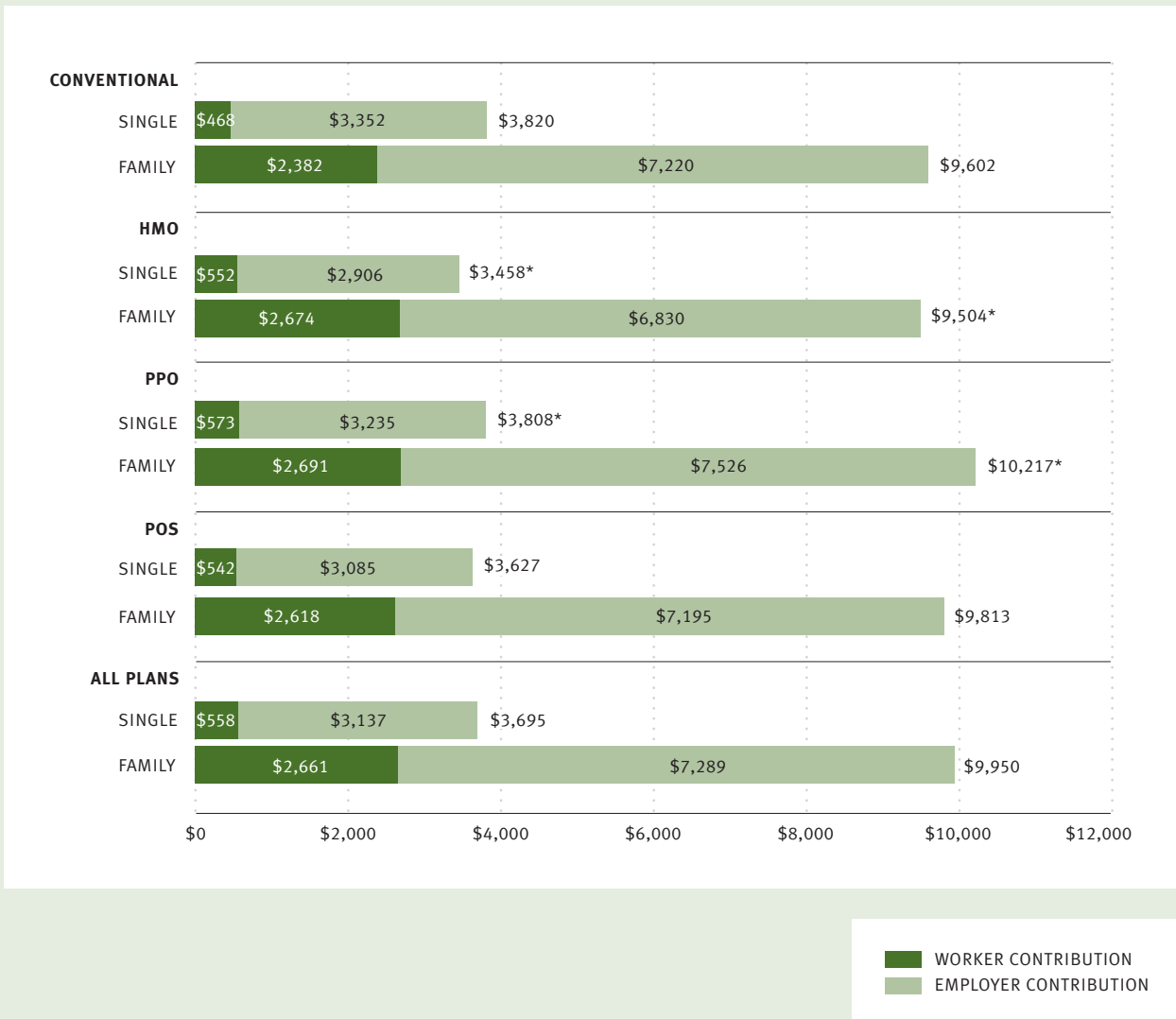


EXHIBIT 6.3

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.

EXHIBIT 6.4

Average Monthly and Annual Worker Premium Contributions, by Plan Type and Firm Size, 2004

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
CONVENTIONAL PLANS				
All Small Firms (3-199 Workers)	\$38	\$246	\$455	\$2,957
All Large Firms (200 or More Workers)	40	154	479	1,850
ALL FIRM SIZES	\$39	\$198	\$468	\$2,382
HMO PLANS				
All Small Firms (3-199 Workers)	\$49	\$309*	\$584	\$3,706*
All Large Firms (200 or More Workers)	45	191*	541	2,298*
ALL FIRM SIZES	\$46	\$223	\$552	\$2,674
PPO PLANS				
All Small Firms (3-199 Workers)	\$39	\$281*	\$470	\$3,372*
All Large Firms (200 or More Workers)	51	201*	616	2,410*
ALL FIRM SIZES	\$48	\$224	\$573	\$2,691
POS PLANS				
All Small Firms (3-199 Workers)	\$48	\$267*	\$577	\$3,206*
All Large Firms (200 or More Workers)	43	188	520	2,254
ALL FIRM SIZES	\$45	\$218	\$542	\$2,618
ALL PLANS				
All Small Firms (3-199 Workers)	\$43	\$282*	\$514	\$3,382*
All Large Firms (200 or More Workers)	48	195*	578	2,340*
ALL FIRM SIZES	\$47	\$222	\$558	\$2,661

SOURCE:

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

* Estimate is statistically different from All Firms within a plan type at $p < .05$.

EXHIBIT 6.5

Average Monthly and Annual Worker Premium Contributions, by Plan Type and Region, 2004

	Monthly		Annual	
	Single Coverage	Family Coverage	Single Coverage	Family Coverage
CONVENTIONAL PLANS				
Northeast	\$41	\$179	\$487	\$2,152
Midwest	30	181	364	2,177
South	38	230	460	2,762
West	48	191	579	2,289
ALL REGIONS	\$39	\$198	\$468	\$2,382
HMO PLANS				
Northeast	\$50	\$186*	\$597	\$2,230*
Midwest	45	181	545	2,166
South	47	289*	569	3,468*
West	42	230	505	2,764
ALL REGIONS	\$46	\$223	\$552	\$2,674
PPO PLANS				
Northeast	\$55	\$189*	\$661	\$2,269*
Midwest	50	192*	605	2,303*
South	44	259*	526	3,105*
West	47	224	559	2,690
ALL REGIONS	\$48	\$224	\$573	\$2,691
POS PLANS				
Northeast	\$57	\$223	\$684	\$2,681
Midwest	46	228	558	2,732
South	43	226	514	2,713
West	30*	189	363*	2,270
ALL REGIONS	\$45	\$218	\$542	\$2,618
ALL PLANS				
Northeast	\$53	\$196*	\$637	\$2,347*
Midwest	48	193*	576	2,311*
South	44	258*	529	3,097*
West	43	219	511	2,632
ALL REGIONS	\$47	\$222	\$558	\$2,661

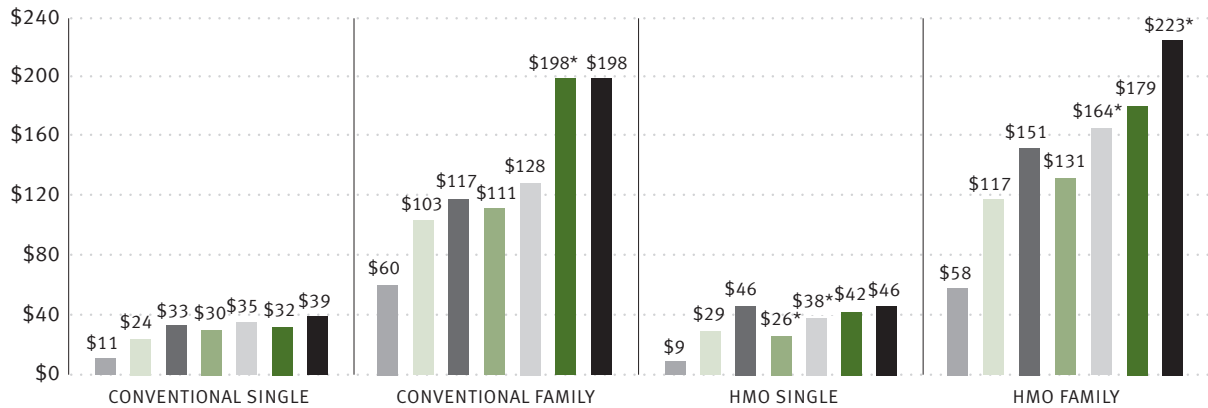
SOURCE:

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

* Estimate is statistically different from All Regions within a plan type at p<.05.

EXHIBIT 6.6

Monthly Worker Contributions for Single and Family Coverage in Conventional and HMO Plans, 1988-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 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.

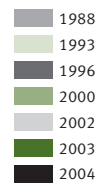
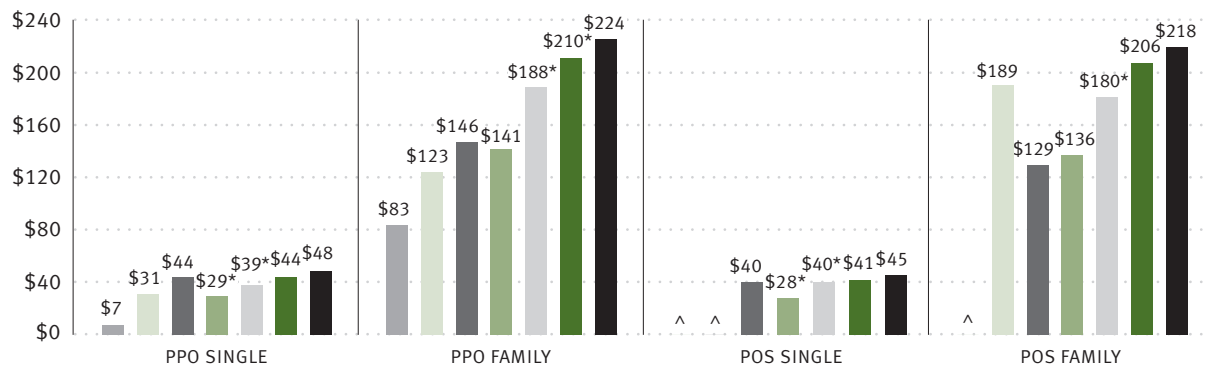


EXHIBIT 6.7

Monthly Worker Contributions for Single and Family Coverage in PPO and POS Plans, 1988-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 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.

^ Information was not obtained for POS plans in 1988 or POS single plans in 1993.

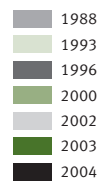
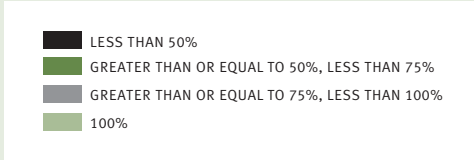
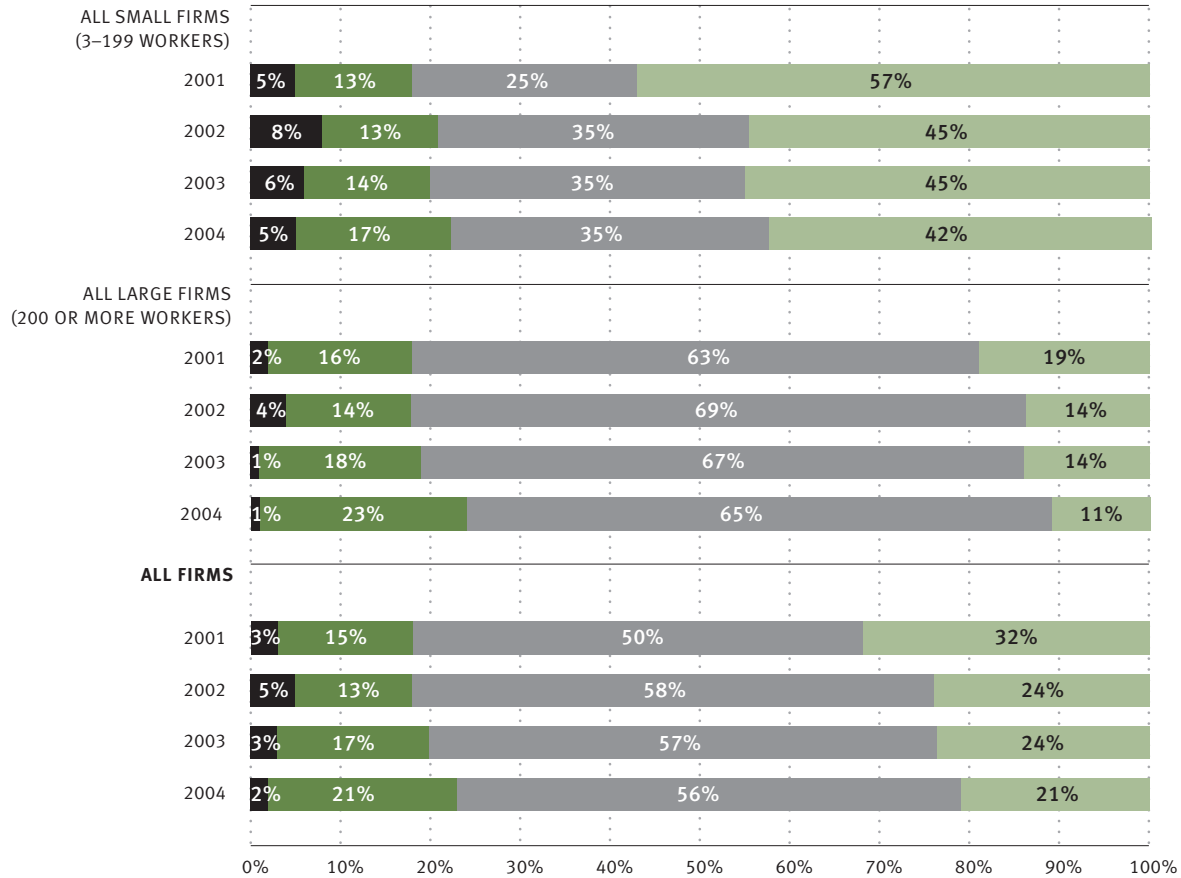


EXHIBIT 6.8

Distribution of Percentage of Single Premiums Paid by Firms for Covered Workers, by Firm Size, 2001-2004*



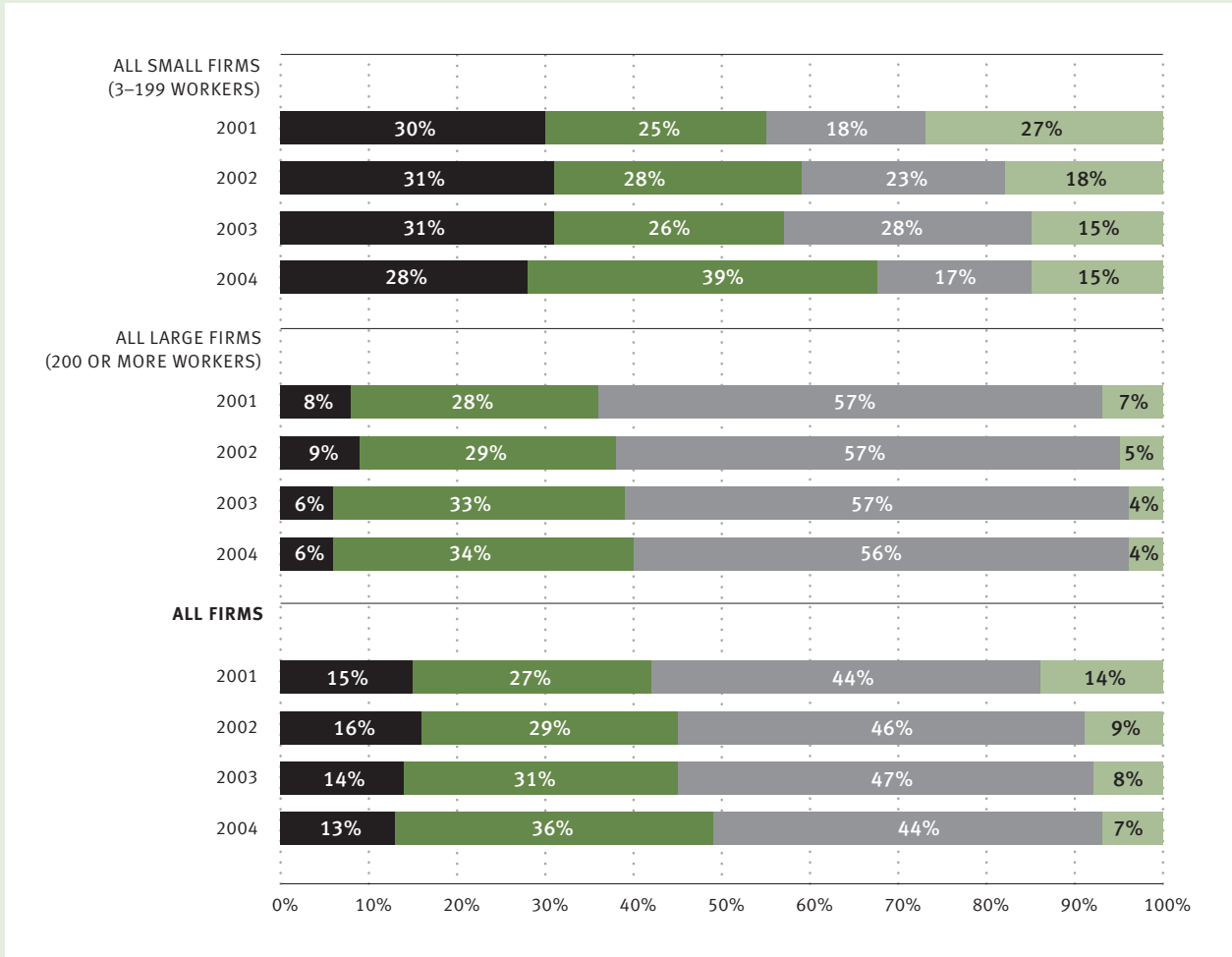
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2001, 2002, 2003, 2004.

* Tests found no statistically different distribution from the previous year shown at p<.05.

EXHIBIT 6.9

Distribution of Percentage of Family Premiums Paid by Firms for Covered Workers, by Firm Size, 2001-2004*



LESS THAN 50%
 GREATER THAN OR EQUAL TO 50%, LESS THAN 75%
 GREATER THAN OR EQUAL TO 75%, LESS THAN 100%
 100%

SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2001, 2002, 2003, 2004.

* Tests found no statistically different distribution from the previous year shown at $p < .05$.

EXHIBIT 6.10

Percentage of Overall Single and Family Premiums Paid by Firm, by Percentage of Workforce That is Low Wage, 2004

	<i>Single Coverage</i>	<i>Family Coverage</i>
PERCENTAGE OF WORKFORCE EARNING \$20,000 OR LESS PER YEAR		
Less Than 35% (Higher Wage Firms)	85%	74%
35% or More (Lower Wage Firms)	80%*	61%*
ALL FIRMS	84%	72%

SOURCE:

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

* Estimate is statistically different from All Firms at $p < .05$.

EXHIBIT 6.11

Percentage of Premium Paid by Firm for Typical Covered Worker, by Plan Type and Firm Size, 2004

	<i>Single Coverage</i>	<i>Family Coverage</i>
CONVENTIONAL PLANS		
All Small Firms (3-199 Workers)	88%	67%
All Large Firms (200 or More Workers)	85	78
ALL FIRM SIZES	87%	73%
HMO PLANS		
All Small Firms (3-199 Workers)	84%	60%*
All Large Firms (200 or More Workers)	84	76*
ALL FIRM SIZES	84%	71%
PPO PLANS		
All Small Firms (3-199 Workers)	87%*	65%*
All Large Firms (200 or More Workers)	83	76*
ALL FIRM SIZES	84%	73%
POS PLANS		
All Small Firms (3-199 Workers)	83%	65%*
All Large Firms (200 or More Workers)	85	77
ALL FIRM SIZES	84%	72%
ALL PLANS		
All Small Firms (3-199 Workers)	86%	64%*
All Large Firms (200 or More Workers)	84	76*
ALL FIRM SIZES	84%	72%

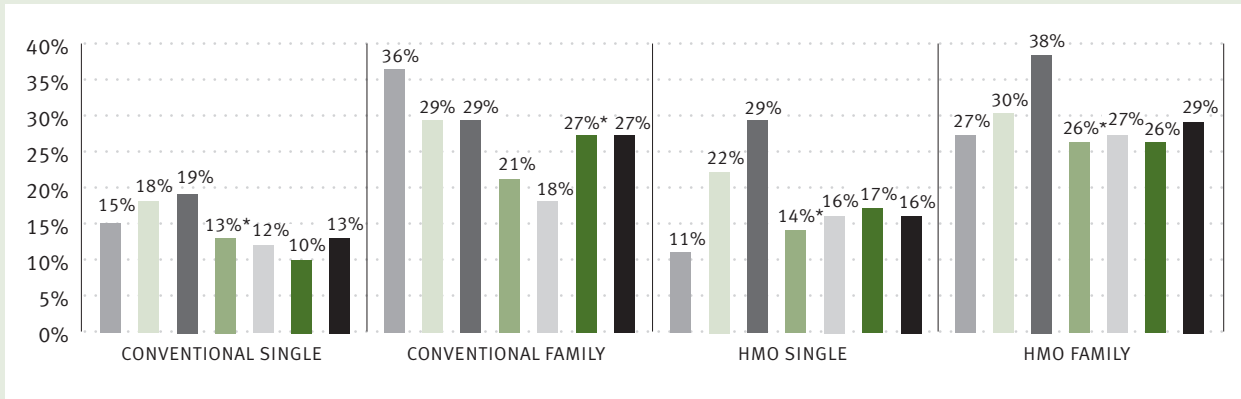
SOURCE :

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

* Estimate is statistically different from All Firms within a plan type at $p < .05$.

EXHIBIT 6.12

Percentage of Premium Paid by Covered Workers in Conventional and HMO Plans, 1988-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 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 $p < .05$.

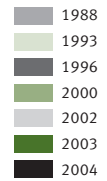
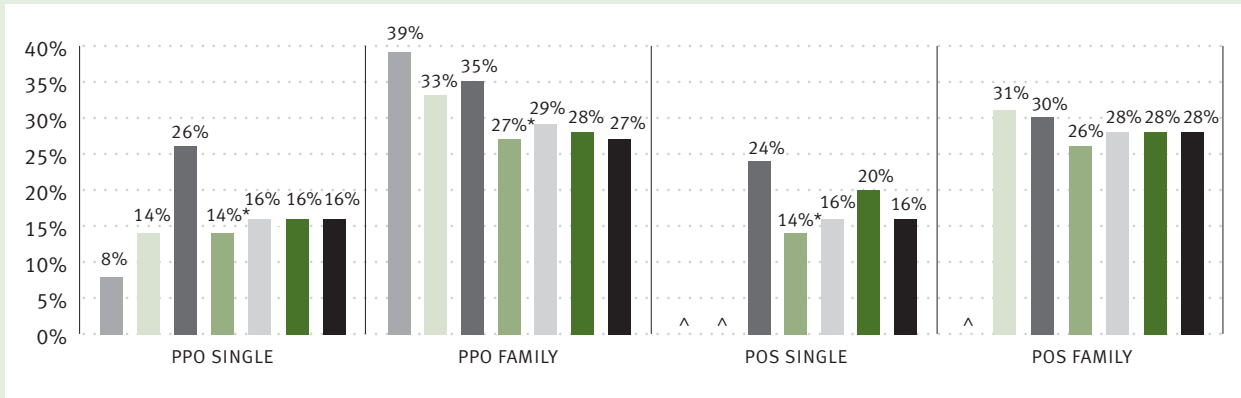


EXHIBIT 6.13

Percentage of Premium Paid by Covered Workers in PPO and POS Plans, 1988-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 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 $p < .05$.

^ Information was not obtained for POS plans in 1988 or POS single plans in 1993.

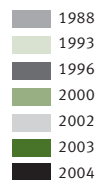


EXHIBIT 6.14

Percentage of Premium Paid by Firm for Typical Covered Worker, by Plan Type and Region, 2004

	<i>Single Coverage</i>	<i>Family Coverage</i>
CONVENTIONAL PLANS		
Northeast	88%	80%
Midwest	91	75
South	83	64
West	86	77
ALL REGIONS	87%	73%
HMO PLANS		
Northeast	83%	78%*
Midwest	86	78*
South	83	64*
West	85	67
ALL REGIONS	84%	71%
PPO PLANS		
Northeast	83%	79%*
Midwest	84	78*
South	85	68*
West	85	73
ALL REGIONS	84%	73%
POS PLANS		
Northeast	82%	73%
Midwest	82	73
South	84	70
West	89*	74
ALL REGIONS	84%	72%
ALL PLANS		
Northeast	83%	77%*
Midwest	84	77*
South	85	67*
West	86	72
ALL REGIONS	84%	72%

SOURCE:

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

* Estimate is statistically different from All Regions by plan type at $p < .05$.

EXHIBIT 6.15

Percentage of Premium Paid by Firm for Typical Covered Worker, by Plan Type and Industry, 2004

	Single Coverage	Family Coverage
CONVENTIONAL PLANS		
Mining/Construction/Wholesale	NSD	NSD
Manufacturing	89%	77%
Transportation/Communication/Utility	NSD	NSD
Retail	NSD	NSD
Finance	NSD	NSD
Service	87	71
State/Local Government	90	77
Health Care	NSD	NSD
ALL INDUSTRIES	87%	73%
HMO PLANS		
Mining/Construction/Wholesale	86%	56%*
Manufacturing	82	76
Transportation/Communication/Utility	84	76
Retail	77*	67
Finance	82	68
Service	83	65*
State/Local Government	90*	80*
Health Care	84	78*
ALL INDUSTRIES	84%	71%
PPO PLANS		
Mining/Construction/Wholesale	83%	71%
Manufacturing	81*	78*
Transportation/Communication/Utility	83	76
Retail	77*	66*
Finance	86	74
Service	85	68*
State/Local Government	90*	75
Health Care	89*	76
ALL INDUSTRIES	84%	73%
POS PLANS		
Mining/Construction/Wholesale	85%	74%
Manufacturing	82	77
Transportation/Communication/Utility	NSD	NSD
Retail	NSD	NSD
Finance	85	67
Service	82	82
State/Local Government	94*	58*
Health Care	NSD	NSD
ALL INDUSTRIES	84%	72%
ALL PLANS		
Mining/Construction/Wholesale	84%	69%
Manufacturing	81*	78*
Transportation/Communication/Utility	84	76
Retail	77*	68
Finance	85	73
Service	84	67*
State/Local Government	91*	78*
Health Care	87*	75
ALL INDUSTRIES	84%	72%

SOURCE:

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

* Estimate is statistically different from All Industries by plan type at $p < .05$.

NSD: Not Sufficient Data.

EMPLOYER HEALTH BENEFITS
2004 ANNUAL SURVEY

Employee Cost Sharing

SECTION

7

EMPLOYEE COST SHARING

COST SHARING ROSE ONLY MODESTLY IN 2004, COMPARED TO LARGER INCREASES OBSERVED IN RECENT YEARS. WHILE INCREASES IN DEDUCTIBLES IN EACH PLAN TYPE ARE NOT SIGNIFICANTLY DIFFERENT FROM LAST YEAR, INCREASES SINCE 2001 ARE SIGNIFICANT. FOR EXAMPLE, DEDUCTIBLES FOR PPO PLANS, THE MOST COMMON TYPE OF HEALTH PLAN, ROSE BY NEARLY 40% SINCE 2001. THE PERCENTAGE OF COVERED WORKERS FACING A \$20 COPAYMENT FOR PHYSICIAN OFFICE VISITS INCREASED TO 27% IN 2004 FROM 19% IN 2003. SINCE 2001, THE PERCENTAGE OF COVERED WORKERS IN HMOs FACING A \$20 COPAYMENT FOR PHYSICIAN OFFICE VISITS INCREASED FROM ONLY THREE PERCENT TO 22%.

AS IN PREVIOUS YEARS, COVERED WORKERS IN ALL SMALL FIRMS (3-199 WORKERS) FACE HIGHER AVERAGE DEDUCTIBLES THAN WORKERS IN ALL LARGE FIRMS (200 OR MORE WORKERS). OVER HALF OF COVERED WORKERS NOW HAVE ADDITIONAL COST SHARING FOR INPATIENT HOSPITAL SERVICES. RESEARCH HAS DEMONSTRATED THAT HIGHER COPAYMENTS AND DEDUCTIBLES REDUCE SPENDING ON HEALTH CARE, BUT MAY ALSO DISCOURAGE USE OF NEEDED SERVICES, PARTICULARLY AMONG LOWER INCOME INDIVIDUALS.⁸

- ▶ Workers face many different forms of cost sharing. More than three quarters of workers with single coverage contribute to their monthly health insurance premium and similar percentages face cost sharing such as copayments for prescription drugs and office visits (EXHIBIT 7.1).
- ▶ Over the last year, the percentage of covered workers with a \$20 copayment for office visits grew from 12% to 22% in HMO plans and from 14% to 36% in POS plans. Overall, 27% of covered workers are in a plan with a \$20 copayment, up from 19% last year (EXHIBIT 7.6).
- ▶ Almost half (49%) of covered workers with single coverage have no annual plan deductible. The average plan deductibles shown in EXHIBITS 7.2 through 7.4 are calculated by assigning a value of \$0 for covered workers in plans without an annual deductible.
- Annual deductibles in PPO plans—the most common plan type—are stable in 2004. Average deductibles for single PPO coverage are \$287 for preferred providers and \$558 for nonpreferred providers. If workers without deductibles were excluded from the calculation above, the average PPO deductible for single, preferred provider coverage and the average PPO nonpreferred deductible would be \$595 (EXHIBIT 7.2).
- The vast majority of covered workers face a fixed-dollar copayment rather than a percentage coinsurance when they visit a physician (EXHIBIT 7.9).

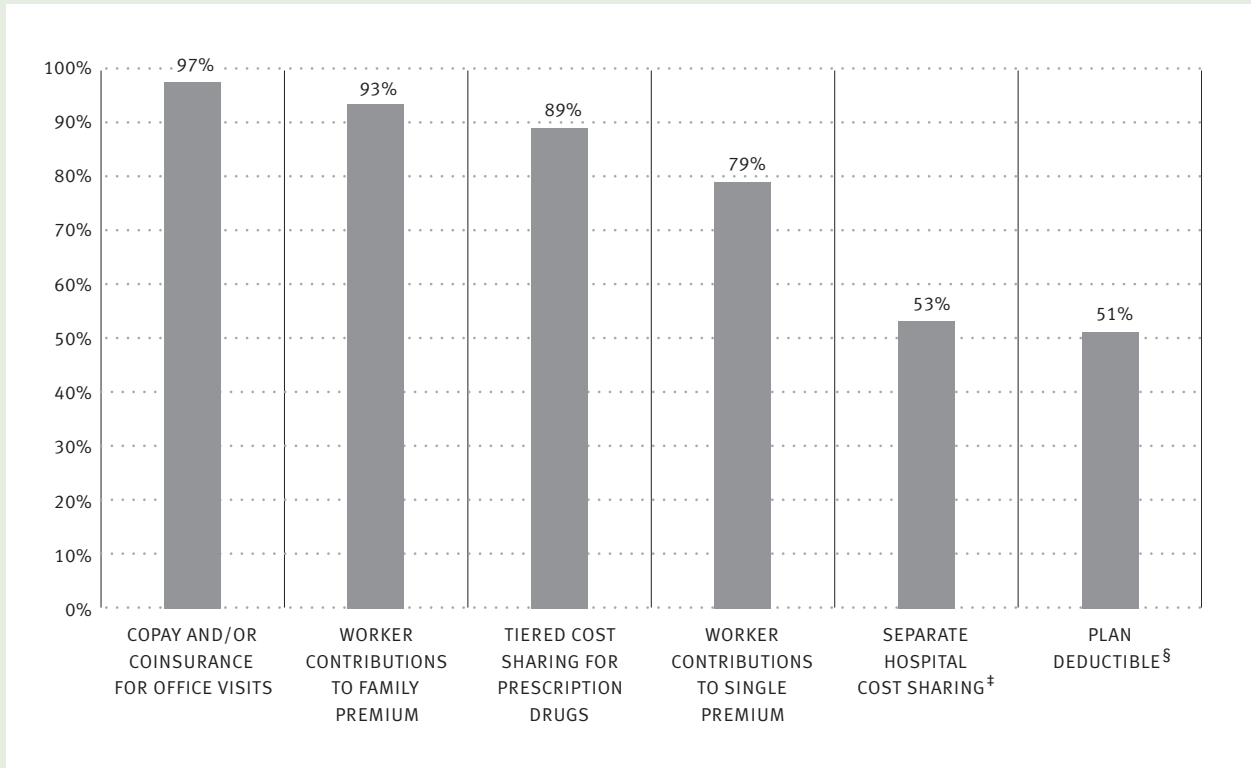
NOTE:

⁸ Newhouse, Joseph, et. al., *Free for All, Lessons From the RAND Health Insurance Experiment*, Harvard University Press, Cambridge, Massachusetts, 1993.

- *Only a small percentage of covered workers in HMO plans (9%) face an annual deductible.*
- *Deductibles are higher for covered workers in all small firms (3-199 workers) than all large firms (200 or more workers), across all types of plans. For single coverage in PPO plans, average deductibles for preferred providers are \$420 in all small firms and \$232 in all large firms (EXHIBIT 7.3).*
- ▶ *When admitted to a hospital, the majority of covered workers in HMO, PPO, and POS plans face separate cost sharing in various forms such as a deductible, copayment, coinsurance, or a per diem charge (EXHIBIT 7.10). On average across all plans, covered workers with deductibles or copayments for inpatient hospital admissions pay \$224 per hospital admission (EXHIBIT 7.11). Covered workers facing coinsurance pay a coinsurance rate of 16%, on average (EXHIBIT 7.12).*
- ▶ *Tiered cost-sharing arrangements, where the health plan varies enrollee cost sharing for network hospitals or physicians based on their costs and quality, remain uncommon. Ten percent of workers enrolled in HMO plans have a tiered provider arrangement, six percent of covered workers in a PPO plan have such an arrangement, and 16% of workers enrolled in a POS plan have a tiered provider network arrangement (EXHIBIT 7.13).*

EXHIBIT 7.1

Percentage of Covered Workers With the Following Types of Cost Sharing for Health Benefits, 2004



SOURCE :

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

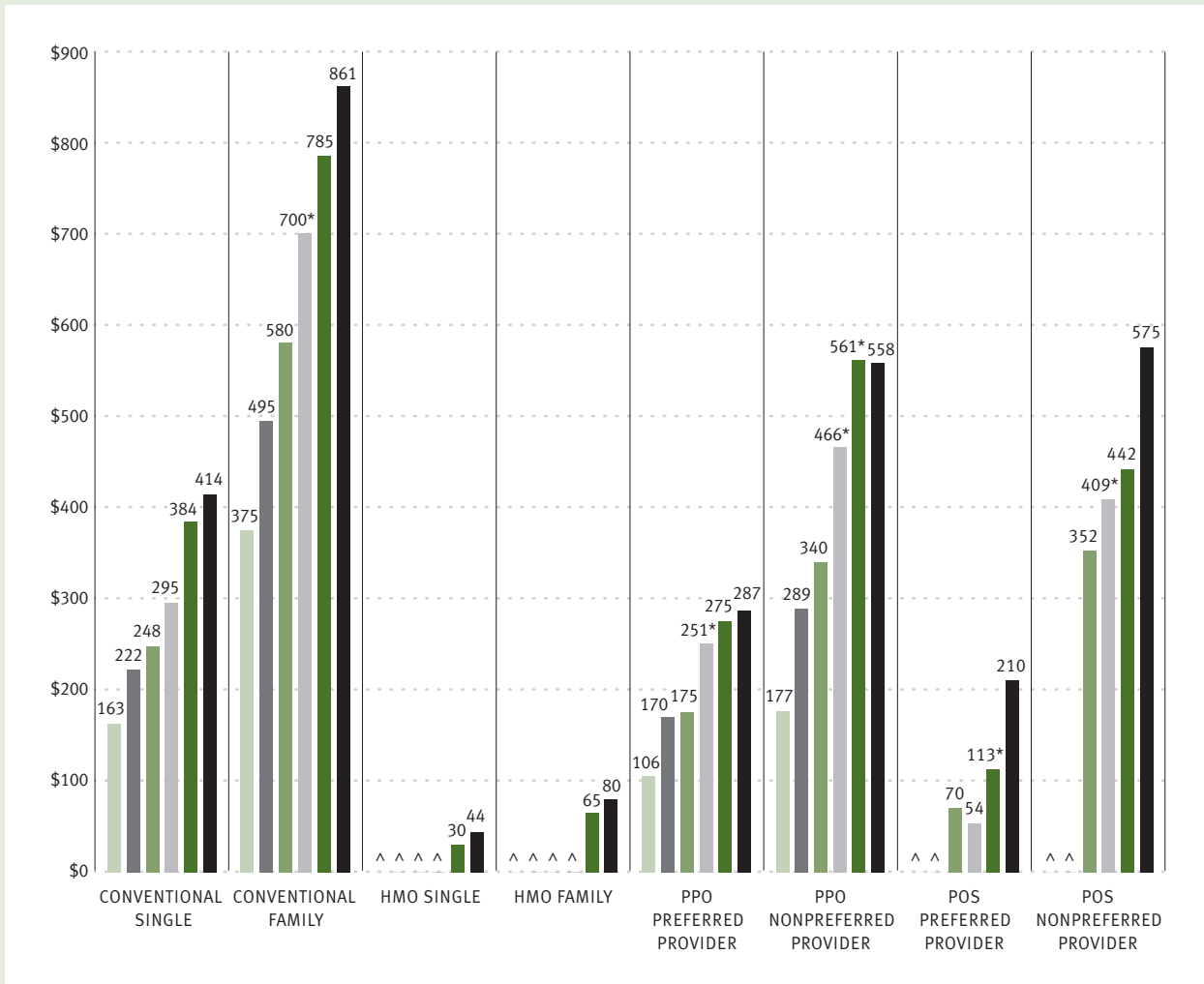
[‡] Covered workers with separate hospital cost sharing includes those with a hospital deductible or copay, coinsurance, both a coinsurance and a deductible or copay, a charge per day, or an annual deductible.

[§] The percentage of covered workers with a plan deductible is calculated for workers with single coverage in conventional, HMO, PPO and POS plans. For PPO and POS plans, the deductible for services received from preferred providers is used in the calculation.

Note: The percentage of covered workers with a plan deductible in 2003 is 52%, not 79% as reported last year.

EXHIBIT 7.2

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.

Preferred providers: Providers that are part of a plan's approved list of doctors and hospitals; consumers generally pay lower cost sharing when using these providers.

Nonpreferred providers: Providers that are not part of a plan's approved list of doctors and hospitals.

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 plan who do have a deductible greater than \$0, the average annual preferred provider deductible is \$410 and the average nonpreferred provider deductible is \$595.

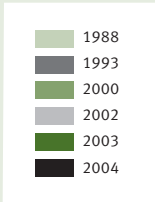


EXHIBIT 7.3

Average Annual Deductible for Covered Workers, by Plan Type and Firm Size, 2004

	<i>Single Coverage</i>	<i>Family Coverage</i>
CONVENTIONAL PLANS		
ALL SMALL FIRMS (3-199 WORKERS)	\$559	\$1,089
Midsize (200-999 Workers)	250*	528*
Large (1,000-4,999 Workers)	217*	455*
Jumbo (5,000 or More Workers)	320	792
ALL LARGE FIRMS (200 OR MORE WORKERS)	280*	651
ALL FIRM SIZES	\$414	\$861
HMO PLANS		
ALL SMALL FIRMS (3-199 WORKERS)	\$119*	\$201*
Midsize (200-999 Workers)	27	53
Large (1,000-4,999 Workers)	26	57
Jumbo (5,000 or More Workers)	11*	24*
ALL LARGE FIRMS (200 OR MORE WORKERS)	17*	35*
ALL FIRM SIZES	\$44	\$80
PPO PLANS		
ALL SMALL FIRMS (3-199 WORKERS)	\$420*	\$676*
Midsize (200-999 Workers)	262	511
Large (1,000-4,999 Workers)	215*	539
Jumbo (5,000 or More Workers)	227*	497
ALL LARGE FIRMS (200 OR MORE WORKERS)	232*	510
ALL FIRM SIZES	\$287	\$558
POS PLANS		
ALL SMALL FIRMS (3-199 WORKERS)	\$427	\$773
Midsize (200-999 Workers)	99	417
Large (1,000-4,999 Workers)	12*	347*
Jumbo (5,000 or More Workers)	81*	483
ALL LARGE FIRMS (200 OR MORE WORKERS)	75*	453
ALL FIRM SIZES	\$210	\$575

SOURCE :

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

* Estimate is statistically different from All Firms within a plan type at $p < .05$.

Preferred providers: Providers that are part of a plan's approved list of doctors and hospitals; consumers generally pay lower cost sharing when using these providers.

Nonpreferred providers: Providers that are not part of a plan's approved list of doctors and hospitals.

Note: Results include covered workers who do not have a deductible or report a \$0 deductible.

EXHIBIT 7.4

Average Annual Deductible for Covered Workers, by Plan Type and Region, 2004

	<i>Single Coverage</i>	<i>Family Coverage</i>
CONVENTIONAL PLANS		
Northeast	\$315	\$629
Midwest	465	880
South	361	721
West	533	1,279
ALL REGIONS	\$414	\$861
HMO PLANS		
Northeast	\$42	\$55
Midwest	33	66
South	52	102
West	48	92
ALL REGIONS	\$44	\$80
	<i>Single Coverage Preferred Provider</i>	<i>Single Coverage Nonpreferred Provider</i>
PPO PLANS		
Northeast	\$148*	\$590
Midwest	279	530
South	331	587
West	310	507
ALL REGIONS	\$287	\$558
POS PLANS		
Northeast	\$47*	\$513
Midwest	281	602
South	339	745
West	180	367
ALL REGIONS	\$210	\$575

SOURCE :

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

* Estimate is statistically different from All Regions within a plan type at $p < .05$.

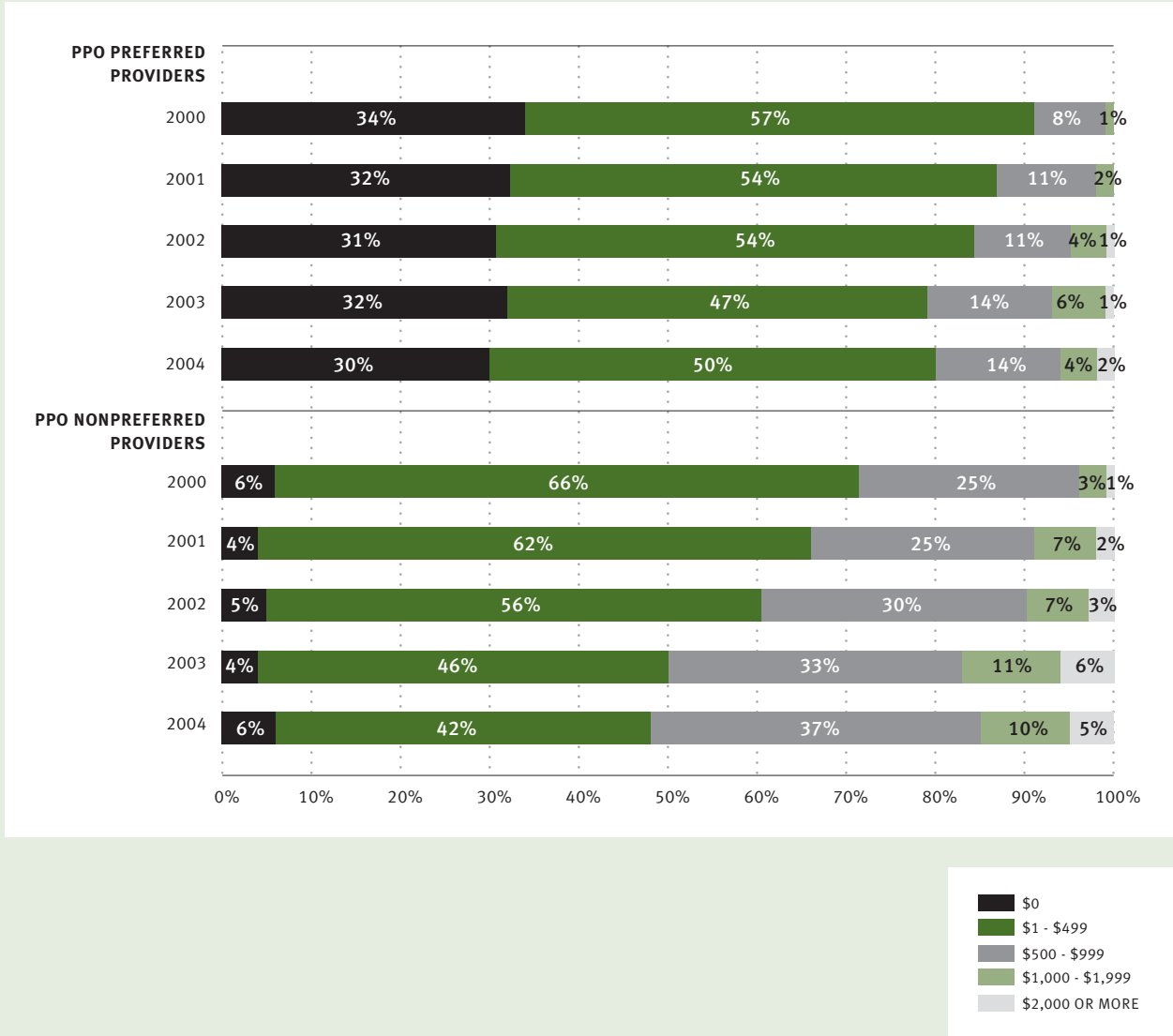
Preferred providers: Providers that are part of a plan's approved list of doctors and hospitals; consumers generally pay lower cost sharing when using these providers.

Nonpreferred providers: Providers that are not part of a plan's approved list of doctors and hospitals.

Note: Results include covered workers who do not have a deductible or report a \$0 deductible.

EXHIBIT 7.5

Distribution of Covered Workers in Firms That Have the Following Deductibles for PPO Plans, 2000-2004*



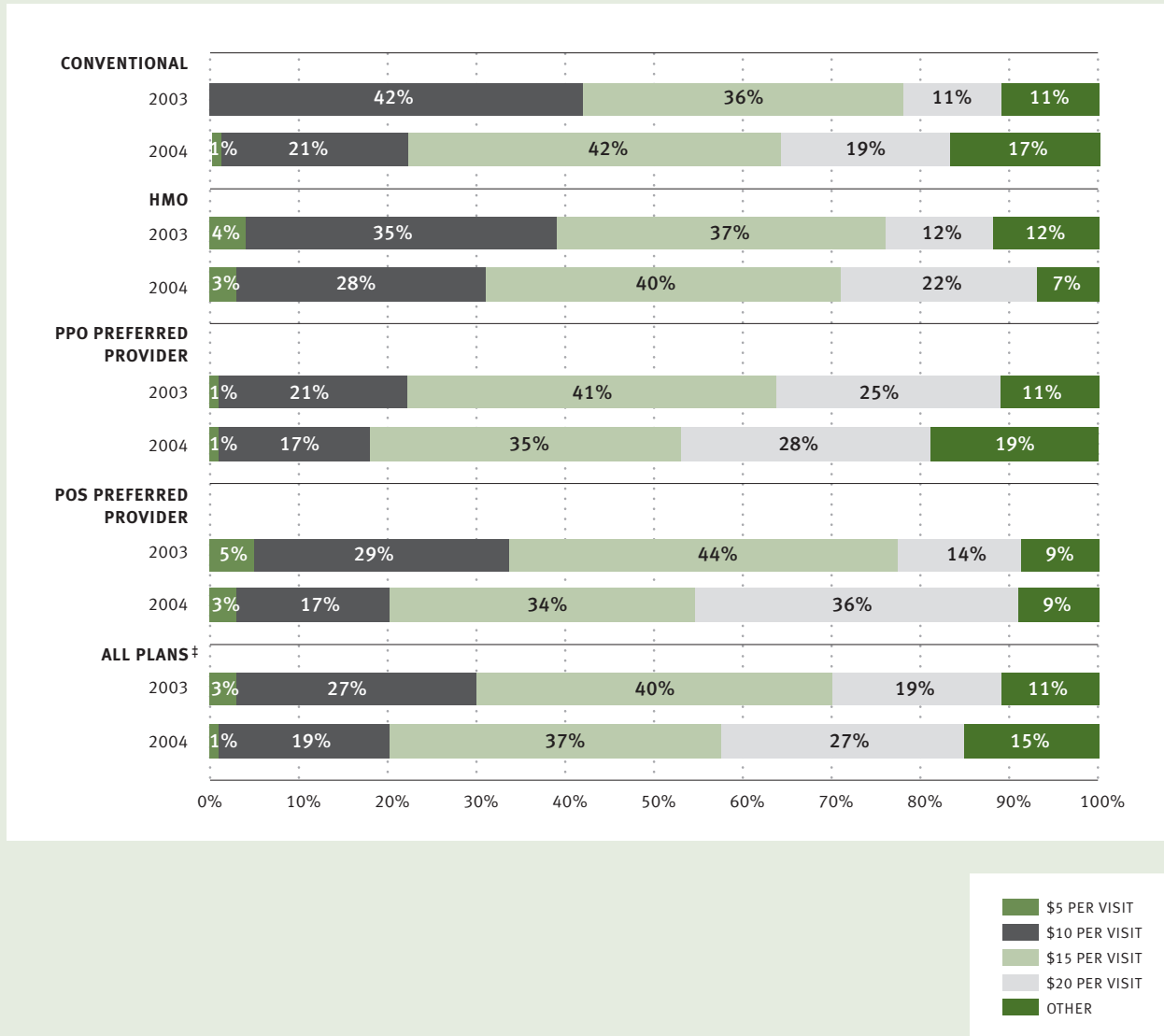
SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003, 2004.

* Tests found no statistically different distribution from previous year shown at p<.05.

EXHIBIT 7.6

Distribution of Covered Workers Facing Various Copayments for Physician Office Visits, by Plan Type, 2003-2004*



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003, 2004.

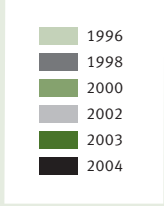
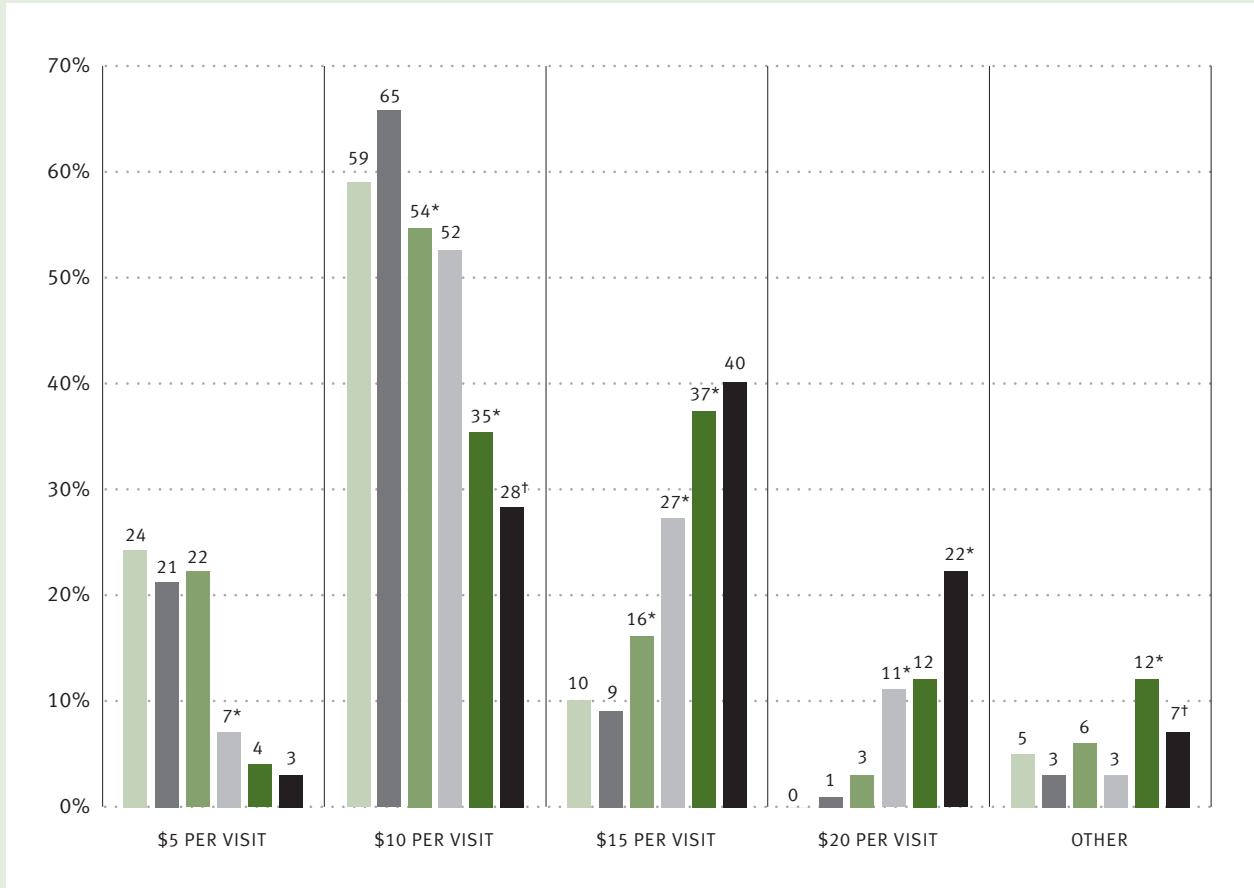
* Tests found no statistically different distribution from previous year shown at $p < .05$.

‡ In calculating the distribution of copayments across all plan types, the copayments applicable to preferred providers were used for PPO and POS plans.

Note: The distribution of copayments for physician office visits does not include covered workers who do not have a copayment or report a \$0 copayment. Distributions shown in last year's report included those with a \$0 copayment.

EXHIBIT 7.7

Percentage of Covered Workers Facing HMO Copayments for Physician Office Visits, 1996-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003, 2004.
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

* 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 distribution of HMO copayments for physician office visits does not include covered workers who do not have a copayment or report a \$0 copayment. Last year's report included those with a \$0 copayment.

EXHIBIT 7.8

Coinsurance Rates Among Covered Workers Facing Coinsurance for Physician Office Visits, By Plan Type, 2004

	10% or 15%	20% or 25%	30%	40%	Other
COINSURANCE RATES					
Conventional Plans	5%	85%	9%	0%	1%
PPO Preferred Provider	40	56	2	0	2
PPO Nonpreferred Provider	4	26	32	23	15
POS Preferred Provider	18	81	0	0	1
POS Nonpreferred Provider	4%	26%	31%	19%	20%

SOURCE:

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

Note: The distribution of coinsurance rates does not include covered workers who do not have coinsurance or report 0% coinsurance. HMO coinsurance rates are not included because less than two percent of covered workers report having coinsurance for office visits.

EXHIBIT 7.9

Distribution of Covered Workers With the Following Types of Cost Sharing for Physician Office Visits, 2004

	<i>Copay</i>	<i>Coinsurance</i>	<i>Both</i>	<i>Neither</i>
OFFICE VISITS				
Conventional	47%	44%	2%	7%
HMO*	96	1	1	2
PPO Preferred Provider	78	15	4	3
POS Preferred Provider	84	4	8	4
ALL PLANS	83%	10%	4%	3%

SOURCE :

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

* Distribution is significantly different from All Plans at $p < .05$.

EXHIBIT 7.10

Distribution of Covered Workers With the Following Types of Cost Sharing for a Hospital Admission, 2004*

	<i>Deductible or Copay</i>	<i>Coinsurance</i>	<i>Both</i>	<i>Charge Per Day</i>	<i>Annual Deductible</i>	<i>None</i>
HOSPITAL ADMISSIONS						
Conventional	15%	9%	1%	2%	3%	70%
HMO	49	3	3	5	1	39
PPO	21	18	5	1	2	53
POS	36	8	8	4	2	42
ALL PLANS	30%	13%	5%	3%	2%	47%

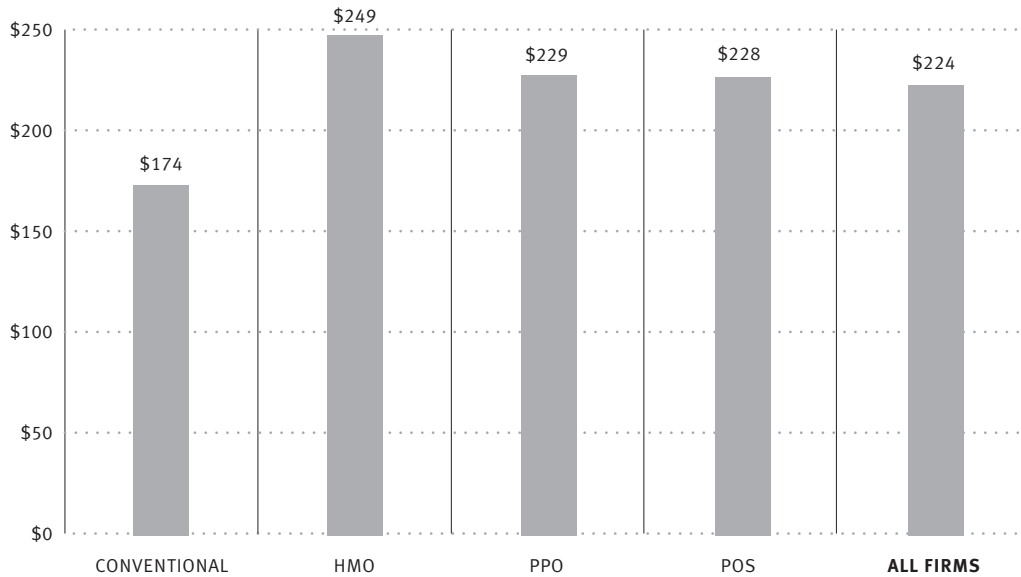
SOURCE :

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

* Tests found no statistically different distribution from All Plans at $p < .05$.

EXHIBIT 7.11

For Covered Workers With a Separate Hospital Deductible or Copay, the Average Cost Sharing Per Admission, By Plan Type, 2004*



SOURCE:

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

* Tests found no statistically different estimates from All Firms at $p < .05$.

Note: Results do not include covered workers who do not have a separate hospital deductible or copay or report a \$0 hospital deductible or copay.

EXHIBIT 7.12

Average Hospital Cost Sharing for Covered Workers, 2004

	<i>Average Hospital Deductible/Copay</i>	<i>Average Hospital Coinsurance</i>	<i>Average Hospital Per Diem</i>	<i>Average Hospital Annual Deductible</i>
All Small Firms (3-199 Workers)	\$279*	18%*	\$221	\$685*
All Large Firms (200 or More Workers)	\$208	16%	\$138	\$312*
ALL FIRMS	\$224	16%	\$167	\$474

SOURCE :

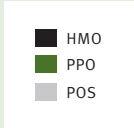
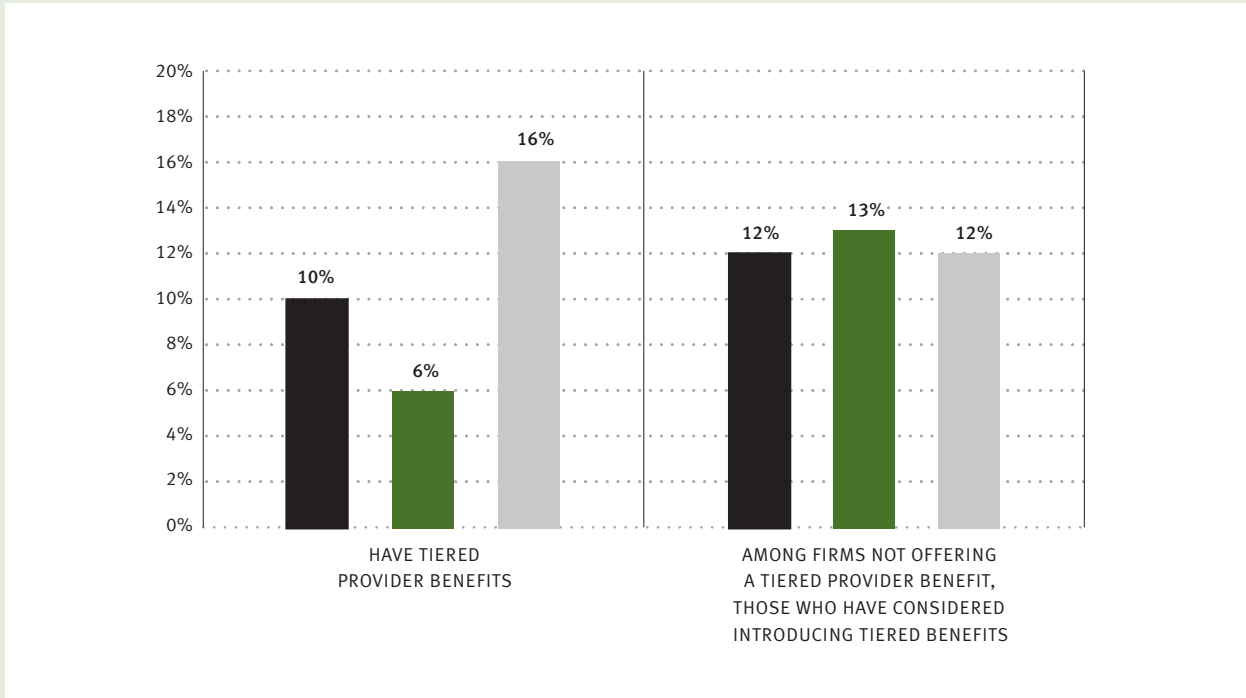
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

* Estimate is statistically different from All Firms at $p < .05$.

Note: Results do not include covered workers who do not have separate hospital cost sharing or report \$0 or 0% amounts.

EXHIBIT 7.13

Percentage of Covered Workers in HMO, PPO, and POS Plans Whose Plan Has a Tiered Cost-Sharing Arrangement or Has Considered Introducing a Tiered Cost-Sharing Arrangement for Physician or Hospital Visits, 2004†



SOURCE :

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

† Conventional plans are not asked about tiered cost-sharing arrangements because providers are not organized into networks.

Tiered cost-sharing arrangement: Health plan varies enrollee cost sharing for network hospitals or physicians based on their costs and quality.

EMPLOYER HEALTH BENEFITS
2004 ANNUAL SURVEY

Health Benefits

SECTION

8

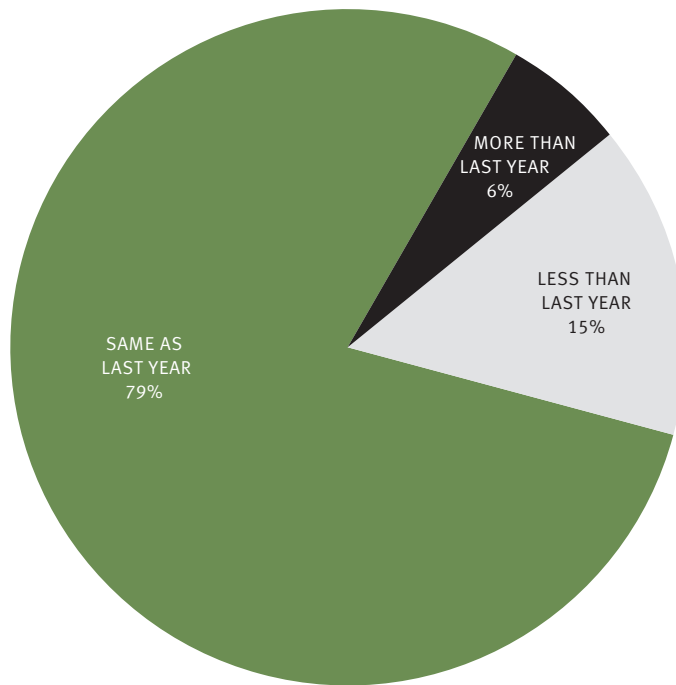
HEALTH BENEFITS

BENEFIT PACKAGES IN EMPLOYER-SPONSORED HEALTH PLANS HAVE BECOME MORE GENEROUS OVER THE PAST TWENTY YEARS, MOST NOTABLY WITH REGARD TO PRESCRIPTION DRUG COVERAGE AND PREVENTIVE SERVICES. THE SHIFT FROM CONVENTIONAL TO MANAGED CARE PLANS WAS A DRIVING FACTOR IN THE RISE OF PRESCRIPTION DRUG COVERAGE AND PREVENTIVE SERVICES. MANAGED HEALTH PLANS HAVE HISTORICALLY FAVORED PREVENTIVE CARE SUCH AS ADULT PHYSICALS, ANNUAL OB/GYN VISITS, WELL-BABY CARE, AND COMPREHENSIVE CARE IN THE FORM OF PRESCRIPTION DRUGS AND AMBULATORY COVERAGE.

- ▶ Seventy-nine percent of covered workers are employed in firms reporting that the level of benefits offered in 2004 is unchanged from 2003 (other than changes in cost sharing) (EXHIBIT 8.1).
- ▶ Most health plans offer an annual adult physical, prescription drug coverage, prenatal care, annual OB/GYN visit, well-baby care, and inpatient and outpatient mental health services (EXHIBIT 8.2).
 - In general, all small firms (3-199 workers) offer the same level of benefits as all large firms (200 or more workers), although, as discussed in Section 7, workers in all small firms on average face higher deductibles than workers in all large firms.
- Conventional plans provide less comprehensive coverage for preventive care. While most covered workers are covered for an annual adult physical (95%), only 77% of those enrolled in conventional plans have this benefit (EXHIBITS 8.2, 8.3).
- Eighty-nine percent of covered workers have coverage for oral contraceptives in 2004, up from 70% in 2000. Still, covered workers across all plan types are less likely to have coverage for oral contraceptives than for other types of prescription drugs (EXHIBIT 8.2).
- ▶ Covered workers in all small firms (3-199 workers) are more likely to have a limit on out-of-pocket spending than covered workers in all large firms (200 or more workers), although the vast majority of covered workers (80%) have this protection (EXHIBIT 8.4).
- ▶ The majority of covered workers in HMO and POS plans have no lifetime limit on benefits—the maximum amount of benefits a plan will pay for an employee over his or her lifetime. Covered workers in PPO and conventional plans are more likely to have a limit, although the limit is typically more than \$1,000,000 (EXHIBIT 8.5).
 - Only one percent of covered workers have a lifetime limit on benefits of \$1,000,000 or less (EXHIBIT 8.5).

EXHIBIT 8.1

Level of Benefits for Covered Workers Compared to Last Year, All Plans, 2004‡



SOURCE :

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

‡ Respondents are asked about changes in the level of benefits “other than cost sharing.”

Note: In this and prior years, the question asks about changes in the level of benefits for family coverage.

EXHIBIT 8.2

Percentage of Covered Workers With Selected Benefits, by Firm Size, 2004

	<i>All Small Firms (3-199 Workers)</i>	<i>All Large Firms (200 or More Workers)</i>	<i>All Firms</i>
ALL PLANS			
Adult Physicals	96%	94%	95%
Prescription Drugs	100	100	100
Outpatient Mental	95	99	98
Inpatient Mental	96	99	98
Annual OB/GYN Visit	99	98	98
Prenatal Care	97	100*	99
Oral Contraceptives	87	89	89
Well-Baby Care	95	98	97
Acupuncture	41	50	47
Chiropractic	79*	91*	87

SOURCE :

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

* Estimate is statistically different from All Firms at $p < .05$.

EXHIBIT 8.3

Percentage of Covered Workers With Selected Benefits, by Plan Type and Firm Size, 2004

	<i>All Small Firms (3-199 Workers)</i>	<i>All Large Firms (200 or More Workers)</i>	<i>All Firms</i>
CONVENTIONAL PLANS			
Adult Physicals	95%*	61%	77%
Prescription Drugs	99	100	99
Outpatient Mental	94	94	94
Inpatient Mental	88	96	92
Annual OB/GYN Visit	97	84	90
Prenatal Care	99	93	96
Oral Contraceptives	71	70	71
Well-Baby	95	88	91
Chiropractic	88	91	90
Acupuncture	42	46	44
HMO PLANS			
Adult Physicals	97%	99%	99%
Prescription Drugs	100	100	100
Outpatient Mental	94	100	98
Inpatient Mental	93	99	97
Annual OB/GYN Visit	100	100	100
Prenatal Care	99	100	100
Oral Contraceptives	88	95	93
Well-Baby	96	100	99
Chiropractic	65*	83	78
Acupuncture	32	45	41
PPO PLANS			
Adult Physicals	96%	93%	94%
Prescription Drugs	100	100	100
Outpatient Mental	98	99	99
Inpatient Mental	99	99	99
Annual OB/GYN Visit	98	98	98
Prenatal Care	97	100*	99
Oral Contraceptives	89	87	88
Well-Baby	95	97	97
Chiropractic	87*	95	92
Acupuncture	45	48	47
POS PLANS			
Adult Physicals	94%	98%	96%
Prescription Drugs	100	100	100
Outpatient Mental	90	100*	96
Inpatient Mental	93	100*	97
Annual OB/GYN Visit	100	100	100
Prenatal Care	92	100	97
Oral Contraceptives	86	93	90
Well-Baby	94	99	97
Chiropractic	68	90	82
Acupuncture	39	60	52

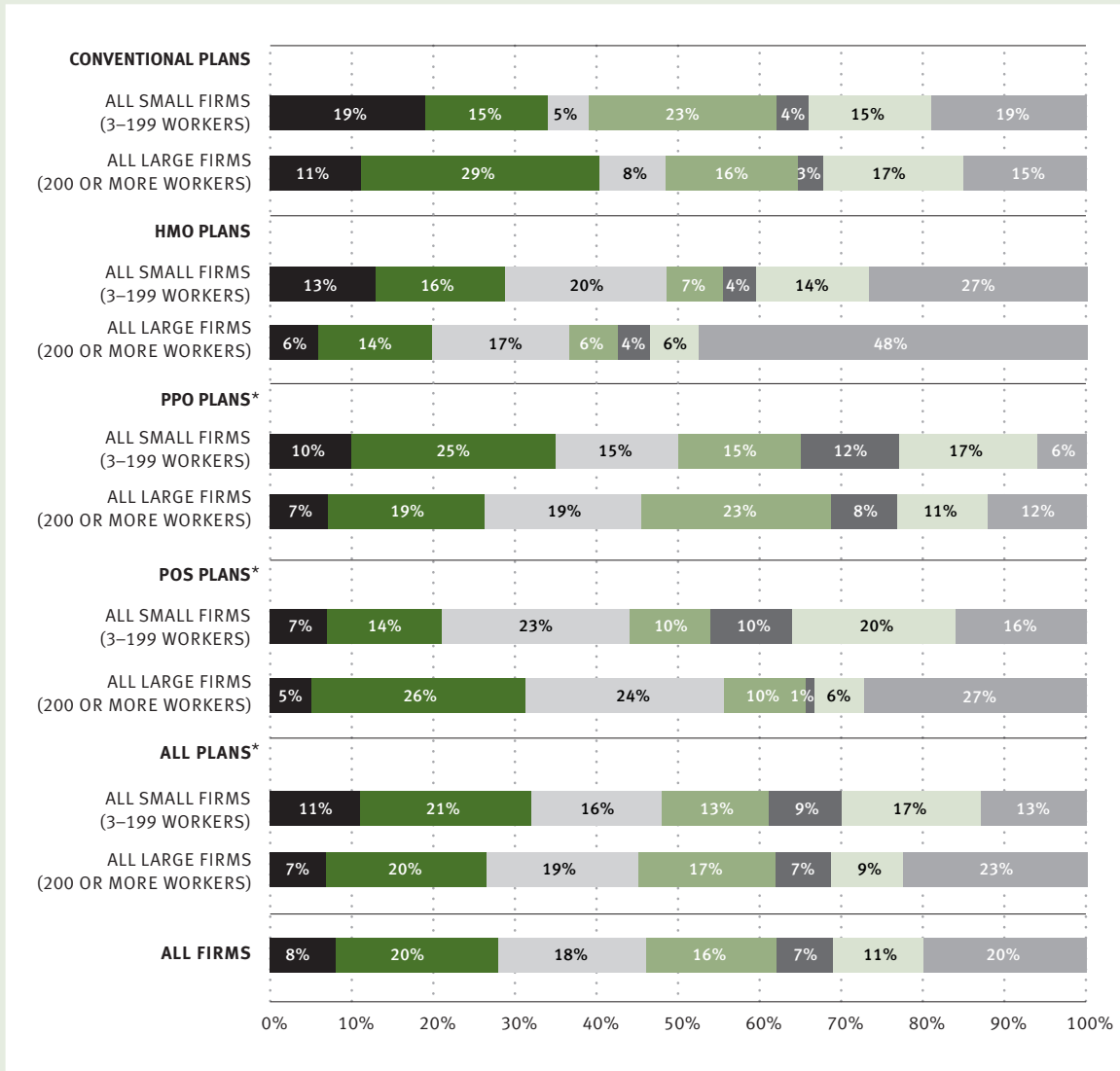
SOURCE :

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

* Estimate is statistically different from All Firms within a plan type at $p < .05$.

EXHIBIT 8.4

Distribution of Covered Workers With Maximum Annual Out-of-Pocket Payment, by Plan Type and Firm Size, 2004



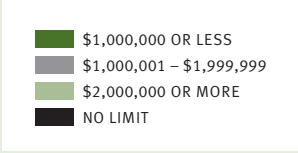
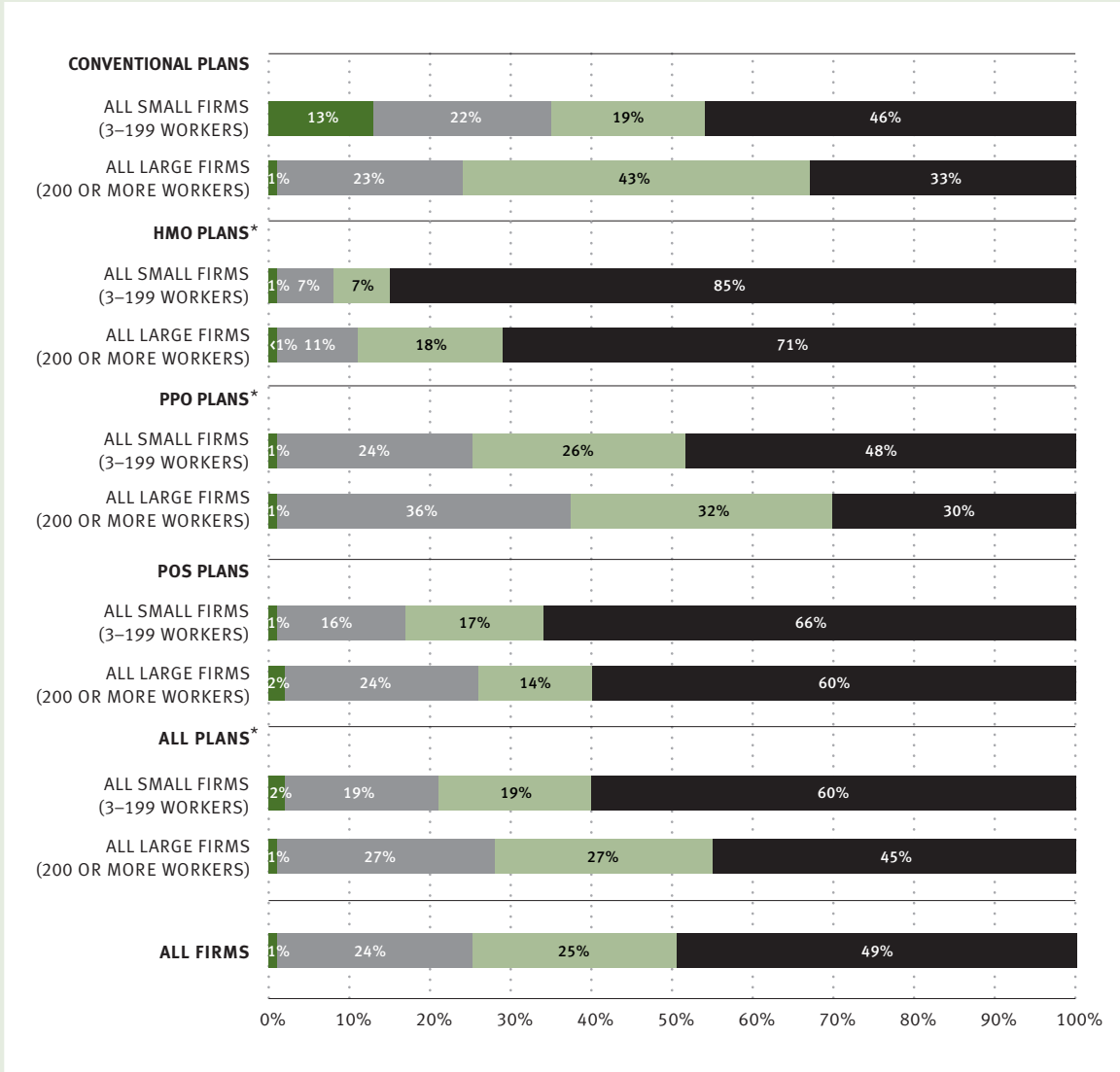
SOURCE :

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

* Distribution is statistically different between All Small and All Large Firms within a plan type.

EXHIBIT 8.5

Distribution of Covered Workers with Maximum Lifetime Benefit, by Plan Type and Firm Size, 2004



SOURCE :

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

* Distribution is statistically different between All Small and All Large Firms within a plan type.

EMPLOYER HEALTH BENEFITS
2004 ANNUAL SURVEY

Prescription
Drug and Mental
Health Benefits

SECTION

9

PRESCRIPTION DRUG AND MENTAL HEALTH BENEFITS

RAPID GROWTH IN PRESCRIPTION DRUG COSTS OVER THE PAST FEW YEARS HAS LED EMPLOYERS AND HEALTH PLANS TO ADOPT CHANGES IN AN EFFORT TO CONSTRAIN DRUG SPENDING. EMPLOYERS HAVE IMPLEMENTED A NUMBER OF STRATEGIES TO REDUCE GROWING DRUG COSTS, THE MOST PROMINENT BEING TIERED COST-SHARING ARRANGEMENTS WHICH GIVE WORKERS A FINANCIAL INCENTIVE TO CHOOSE LESS EXPENSIVE DRUGS. ALMOST SEVEN IN TEN WORKERS ARE IN PLANS WITH A THREE-TIER OR FOUR-TIER COST-SHARING ARRANGEMENT.

A LARGE NUMBER OF COVERED WORKERS ACROSS ALL PLAN TYPES ALSO HAVE A MAIL ORDER DISCOUNT PLAN AVAILABLE TO THEM. RELATIVELY FEW WORKERS ARE REQUIRED TO USE GENERIC DRUGS IF THEY ARE AVAILABLE. RESTRICTIONS ON MENTAL HEALTH COVERAGE REMAIN A COMMON FEATURE OF HEALTH PLANS IN 2004. THESE RESTRICTIONS INCLUDE ANNUAL LIMITS ON THE NUMBER OF OUTPATIENT VISITS AND THE NUMBER OF INPATIENT DAYS.

PRESCRIPTION DRUG BENEFITS

▶ As with prior years, nearly all (99.9%) covered workers in employer-sponsored plans have a prescription drug benefit (SECTION 8; EXHIBIT 8.2). To combat rising costs, firms are increasingly providing employees with financial incentives to encourage use of generic drugs and certain categories of preferred brand name drugs.

- A majority of covered workers (88%) in 2004 have some sort of tiered cost-sharing formula for prescription drugs. In past reports, we documented the

increase in three-tier cost-sharing arrangements, where a worker faces one copayment for generic drugs, a higher one for preferred drugs (such as brand name drugs with no generic substitutes), and an even higher one for nonpreferred drugs (such as brand name drugs with generic substitutes). This year we began asking employers whether they have copayment structures with four tiers. These new four-tier arrangements typically build another layer of higher copayments and/or coinsurance for specifically identified types of drugs, such as lifestyle or injectable drugs.

Sixty-eight percent of covered workers are enrolled in plans with three or four tiers of cost sharing for prescription drugs (EXHIBIT 9.1).

- The average drug copayments for generic (\$10), preferred (\$21) and nonpreferred (\$33) drugs increased slightly over the last year. Average copayments for a four-tier drug are \$48 (EXHIBIT 9.2).⁹
- For workers with coinsurance rather than copayments for prescription drugs, cost-sharing levels average 20% for generic drugs, 26% for preferred drugs, 31% for nonpreferred drugs,

NOTE:

⁹ There are fewer observations for estimating the average copayment for four-tier drugs compared to other drug types.

and 31% for four-tier drugs (EXHIBIT 9.3). While average coinsurance remains essentially unchanged from 2003, rates for preferred and nonpreferred drugs are higher in 2004 than in 2001.

► Other strategies used by firms and health plans to curb the rising cost of prescription drug coverage include mandatory use of generic drugs (when available) and mail order discount plans. The last time the survey included these questions was in 2000.

- Nineteen percent of all covered workers in 2004 face mandatory use of generic drugs, essentially unchanged from 18% in 2000.

- The percentage of covered workers in PPOs who have a mail order discount plan available to them increased from 73% in 2000 to 84% in 2004. The availability of mail order discount plans in HMO and POS plans is statistically unchanged from 2000 (EXHIBIT 9.6).

MENTAL HEALTH BENEFITS

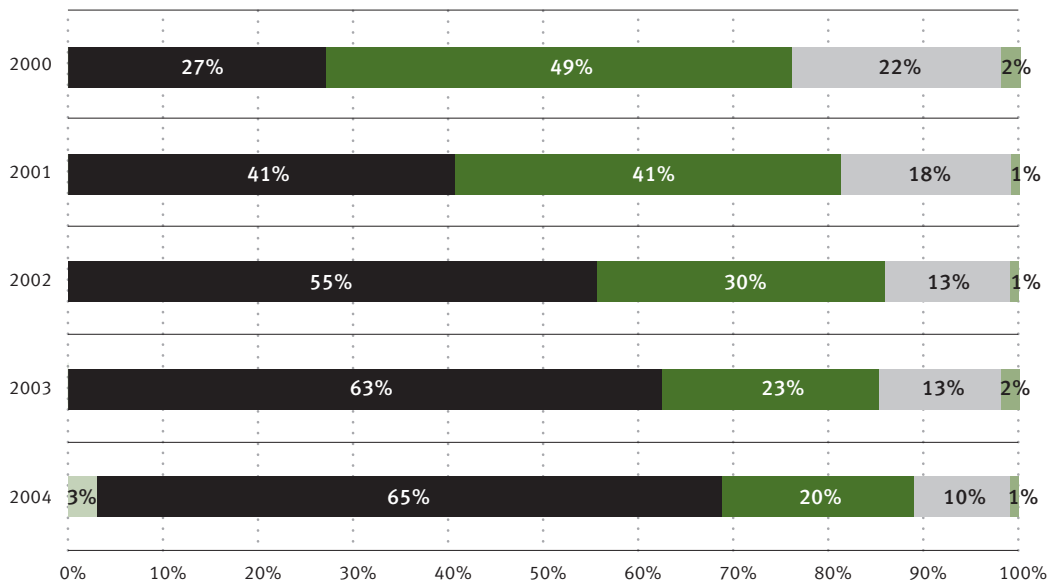
► Although nearly all covered workers (98%) have mental health benefits, limits on the number of visits for outpatient care and the number of days of inpatient care remain a common feature of all plan types (SECTION 8; EXHIBIT 8.2).

- Only 19% of covered workers have coverage for an unlimited number of outpatient mental health visits in 2004. The likelihood of having a limit on the number of outpatient mental health visits is similar across plan types (EXHIBIT 9.7).

- Many plans limit the number of inpatient mental health days covered. Overall, only 21% of covered workers have coverage for unlimited inpatient mental health days. Approximately 59% of covered workers face an inpatient limit of 30 or fewer days (EXHIBIT 9.8).

EXHIBIT 9.1

Distribution of Covered Workers Facing Different Cost-Sharing Formulas for Prescription Drug Benefits, 2000-2004*



- FOUR-TIER: ONE PAYMENT FOR GENERIC DRUGS, ANOTHER FOR PREFERRED DRUGS, A THIRD FOR NONPREFERRED DRUGS, AND A FOURTH FOR OTHER SPECIFIED DRUGS
- THREE-TIER: ONE PAYMENT FOR GENERIC DRUGS, ANOTHER FOR PREFERRED DRUGS, AND A THIRD FOR NONPREFERRED DRUGS
- TWO-TIER: ONE PAYMENT FOR GENERIC DRUGS AND ONE FOR ALL NAME BRAND DRUGS
- PAYMENT IS THE SAME REGARDLESS OF TYPE OF DRUG
- OTHER/DON'T KNOW

SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003, 2004.

* Tests found no statistically different distribution from the previous year shown at $p < .05$. No test was conducted between 2003 and 2004 due to the addition of a new category.

Generic drugs: A drug product that is no longer covered by patent protection and thus may be produced and/or distributed by multiple drug companies.

Preferred drugs: Drugs included on a formulary or preferred drug list; for example, a brand name drug without a generic substitute.

Nonpreferred drugs: Drugs *not* included on a formulary or preferred drug list; for example, a brand name drug with a generic substitute.

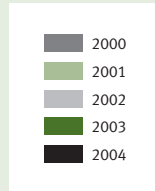
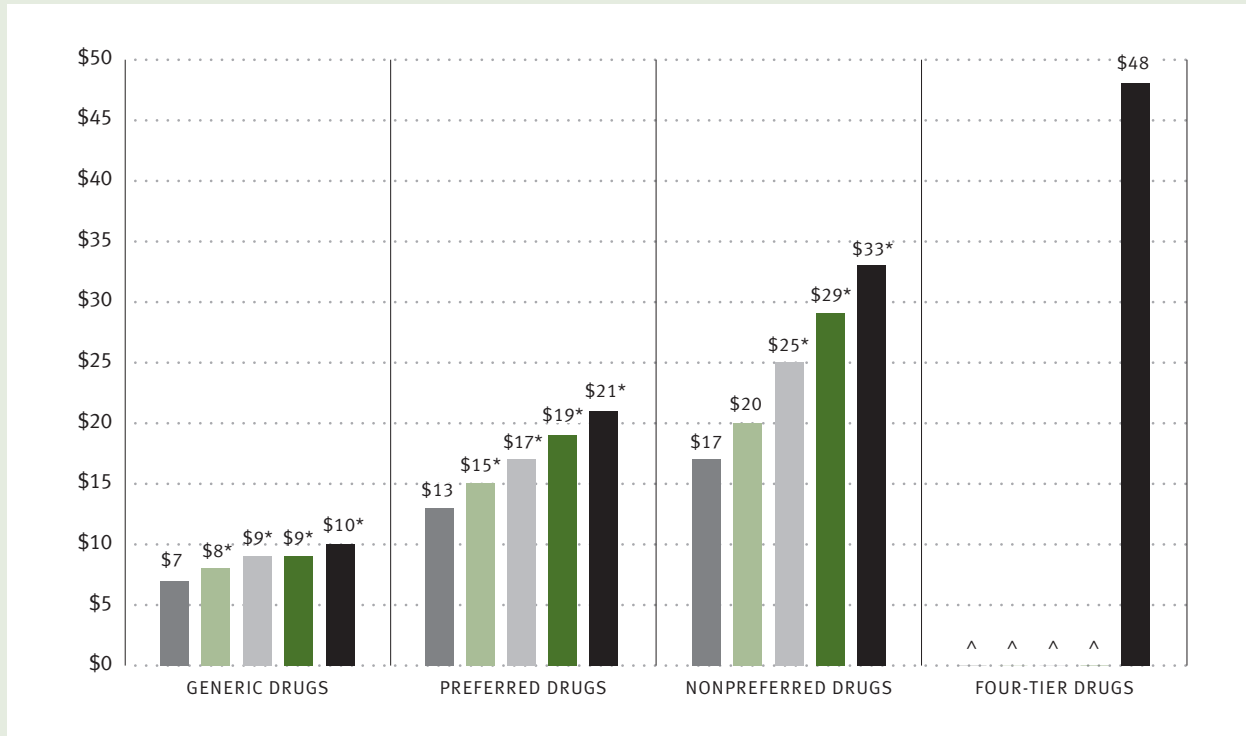
Brand name drugs: Generally, a drug product that is covered by a patent and is thus manufactured and sold exclusively by one firm. Cross-licensing occasionally occurs, allowing an additional firm to market the drug. After the patent expires, multiple firms can produce the drug product, but the brand name or trademark remains with the original manufacturer's product.

Four-tier drugs: New types of cost-sharing arrangements that typically build additional layers of higher copayments or coinsurance for specifically identified types of drugs, such as lifestyle or injectable drugs.

Note: Four-tier drug copay information was not obtained prior to 2004.

EXHIBIT 9.2

Average Copays for Generic Drugs, Preferred Drugs, Nonpreferred and Four-Tier Drugs, 2000-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003, 2004.

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

^ Four-tier drug copay information was not obtained prior to 2004.

Generic drugs: A drug product that is no longer covered by patent protection and thus may be produced and/or distributed by multiple drug companies.

Preferred drugs: Drugs included on a formulary or preferred drug list; for example, a brand name drug without a generic substitute.

Nonpreferred drugs: Drugs *not* included on a formulary or preferred drug list; for example, a brand name drug with a generic substitute.

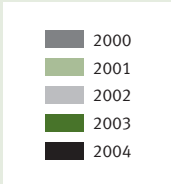
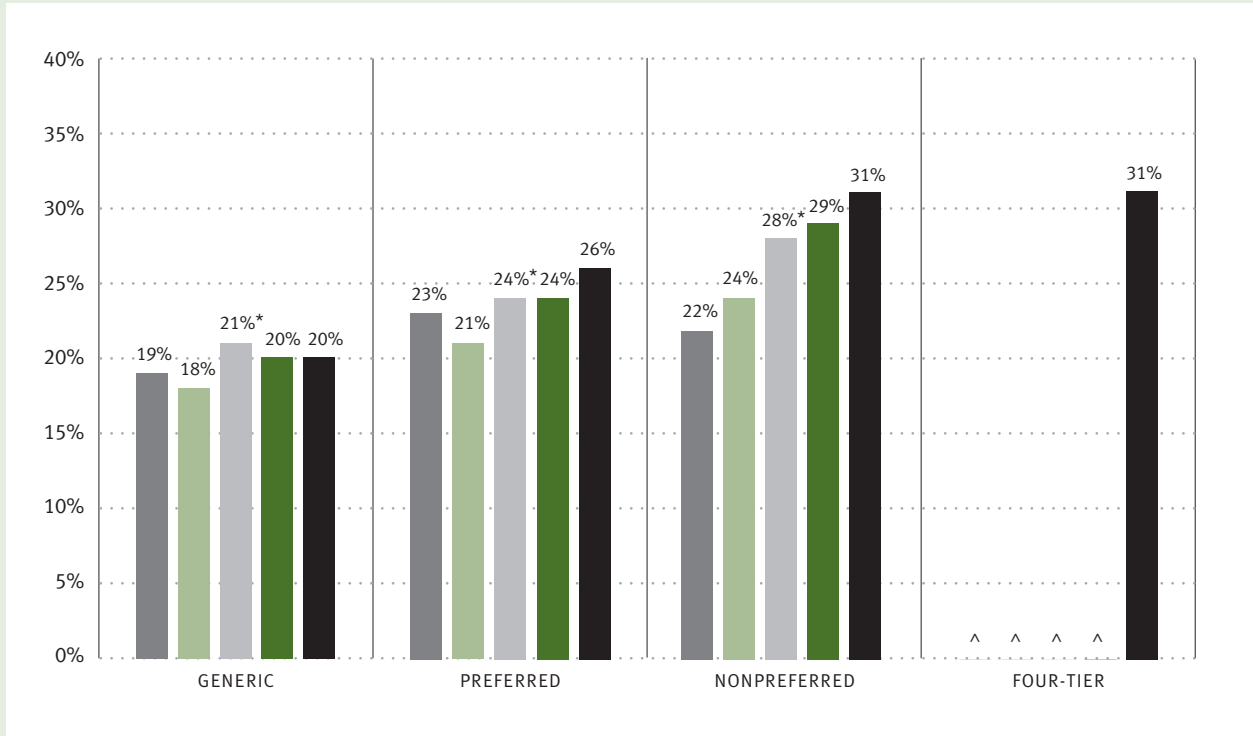
Brand name drugs: Generally, a drug product that is covered by a patent and is thus manufactured and sold exclusively by one firm. Cross-licensing occasionally occurs, allowing an additional firm to market the drug. After the patent expires, multiple firms can produce the drug product, but the brand name or trademark remains with the original manufacturer's product.

Four-tier drugs: New types of cost-sharing arrangements that typically build additional layers of higher copayments or coinsurance for specifically identified types of drugs, such as lifestyle or injectable drugs.

Note: On average, generic drugs cost \$7.42 in 2000, \$8.05 in 2001, \$8.74 in 2002, \$9.47 in 2003 and \$10.46 in 2004.

EXHIBIT 9.3

Average Coinsurance Rate for Generic Drugs, Preferred Drugs, Nonpreferred and Four-Tier Drugs, 2000-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003, 2004.

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

^ Information was not obtained for four-tier drugs prior to 2004.

Generic drugs: A drug product that is no longer covered by patent protection and thus may be produced and/or distributed by multiple drug companies.

Preferred drugs: Drugs included on a formulary or preferred drug list; for example, a brand name drug without a generic substitute.

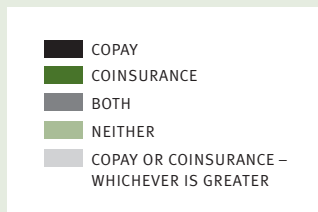
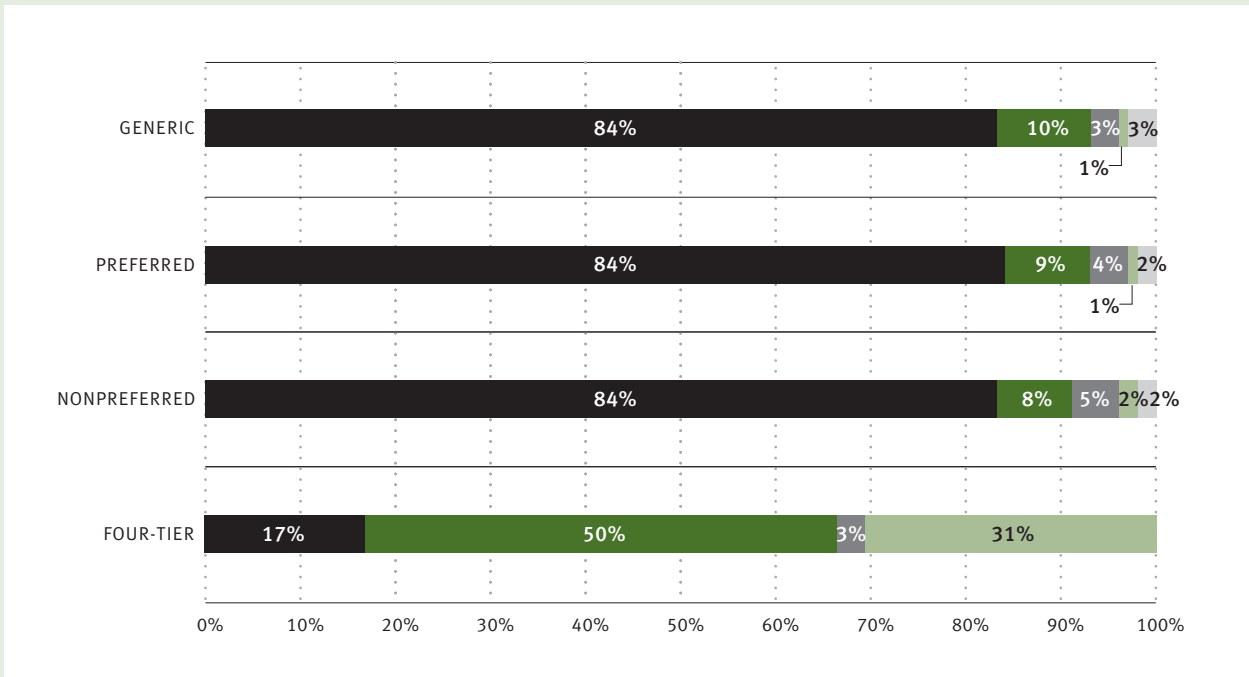
Nonpreferred drugs: Drugs not included on a formulary or preferred drug list; for example, a brand name drug with a generic substitute.

Brand name drugs: Generally, a drug product that is covered by a patent and is thus manufactured and sold exclusively by one firm. Cross-licensing occasionally occurs, allowing an additional firm to market the drug. After the patent expires, multiple firms can produce the drug product, but the brand name or trademark remains with the original manufacturer's product.

Four-tier drugs: New types of cost-sharing arrangements that typically build additional layers of higher copayments or coinsurance for specifically identified types of drugs, such as lifestyle or injectable drugs.

EXHIBIT 9.4

Distribution of Covered Workers With the Following Types of Cost Sharing for Prescription Drugs, by Drug Type, 2004



SOURCE :

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

Generic drugs: A drug product that is no longer covered by patent protection and thus may be produced and/or distributed by multiple drug companies.

Preferred drugs: Drugs included on a formulary or preferred drug list; for example, a brand name drug without a generic substitute.

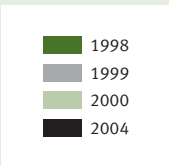
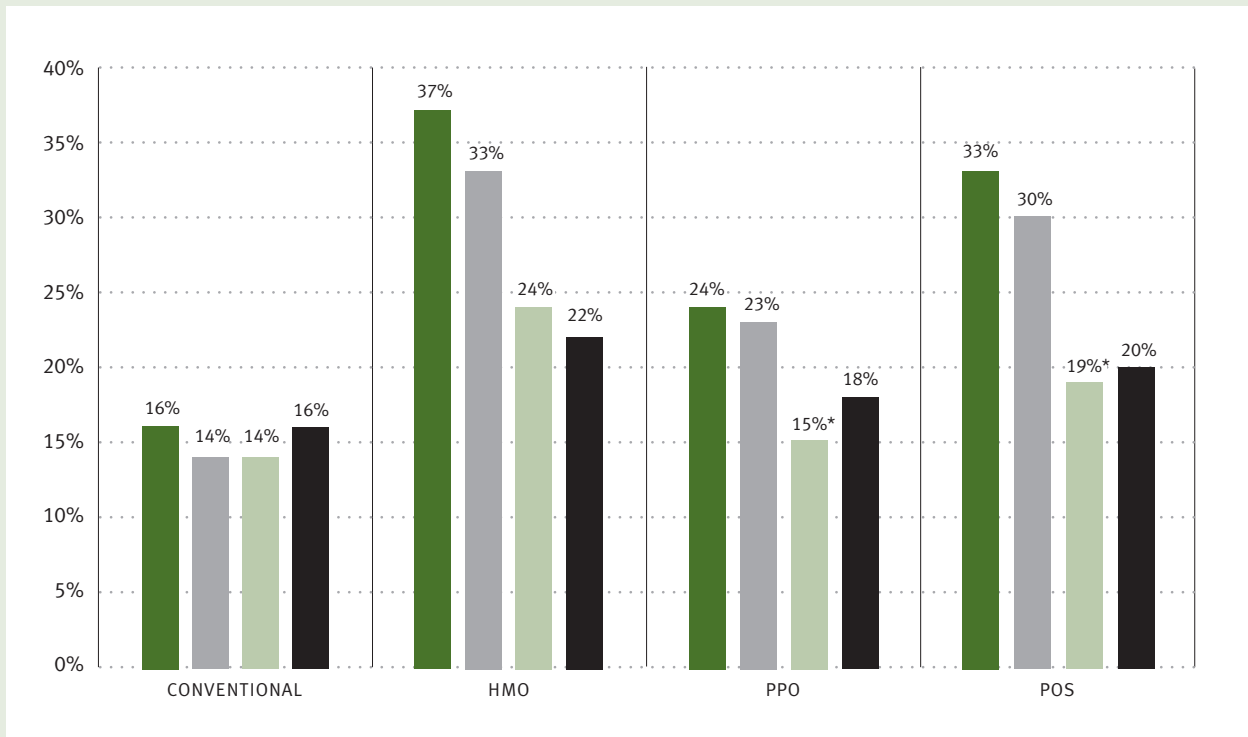
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Brand name drugs: Generally, a drug product that is covered by a patent and is thus manufactured and sold exclusively by one firm. Cross-licensing occasionally occurs, allowing an additional firm to market the drug. After the patent expires, multiple firms can produce the drug product, but the brand name or trademark remains with the original manufacturer's product.

Four-tier drugs: New types of cost-sharing arrangements that typically build additional layers of higher copayments or coinsurance for specifically identified types of drugs, such as lifestyle or injectable drugs.

EXHIBIT 9.5

Percentage of Covered Workers With Mandatory Use of Generic Drugs, 1998-2004



SOURCE :

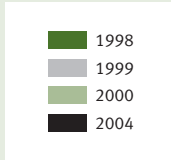
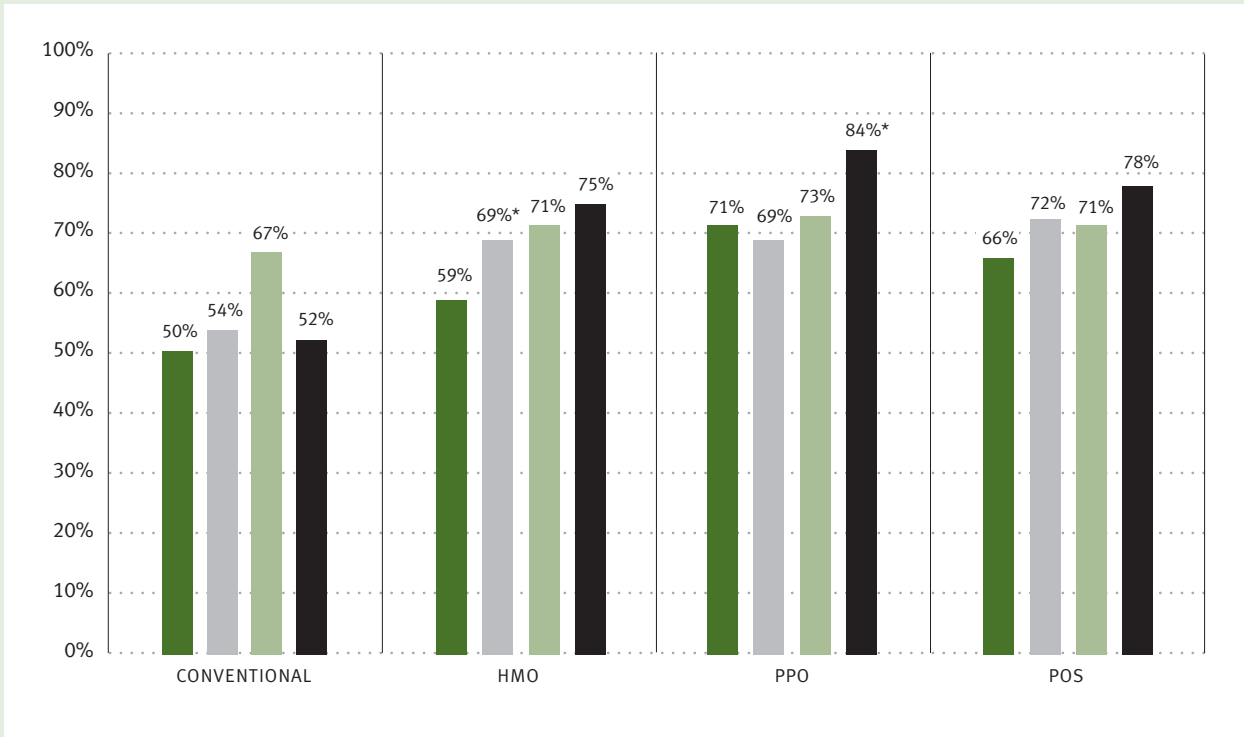
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2004;
KPMG Survey of Employer-Sponsored Health Benefits: 1998.

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

Generic drugs: A drug product that is no longer covered by patent protection and thus may be produced and/or distributed by multiple drug companies.

EXHIBIT 9.6

Percentage of Covered Workers With Mail Order Discount Plans for Prescription Drugs, 1998-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2004;
KPMG Survey of Employer-Sponsored Health Benefits: 1998.

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

Mail order discount plans: Plans under which members pay less for drugs obtained through the mail rather than directly from a pharmacy.

EXHIBIT 9.7

Percentage of Covered Workers With Various Outpatient Mental Health Visit Annual Maximums, by Plan Type, 2004*

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plans</i>
20 Visits or Less	25%	48%	26%	32%	32%
21 to 30 Visits	26	26	34	28	31
31 to 50 Visits	5	6	11	8	9
More than 50 Visits	9	5	9	14	9
Unlimited	35	15	19	17	19

SOURCE:

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

* Tests found no statistically different distribution from All Plans at $p < .05$.

EXHIBIT 9.8

Percentage of Covered Workers With Various Annual Inpatient Mental Health Day Maximums, by Plan Type, 2004*

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plans</i>
10 Days or Less	5%	4%	7%	5%	6%
11 to 20 Days	8	9	8	6	8
21 to 30 Days	44	47	45	46	45
31 or More Days	17	21	18	26	21
Unlimited	27	18	22	17	21

SOURCE:

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

* Tests found no statistically different distribution from All Plans at $p < .05$.

EMPLOYER HEALTH BENEFITS
2004 ANNUAL SURVEY

Plan Funding

SECTION

10

PLAN FUNDING

THE EMPLOYEE RETIREMENT INCOME AND SECURITY ACT (ERISA) OF 1974 EXEMPTS SELF-FUNDED PLANS FROM STATE REGULATION, INCLUDING RESERVE REQUIREMENTS, MANDATED BENEFITS, PREMIUM TAXES, AND CONSUMER PROTECTION REGULATIONS.¹⁰ SELF FUNDING IS COMMON AMONG ALL LARGE FIRMS (200 OR MORE WORKERS) BUT IS LESS PREVALENT AND A FAR RISKIER UNDERTAKING FOR ALL SMALL FIRMS (3-199 WORKERS), WHO HAVE FEWER EMPLOYEES OVER WHOM TO SPREAD THE RISK OF COSTLY CLAIMS.

SELF FUNDING

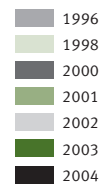
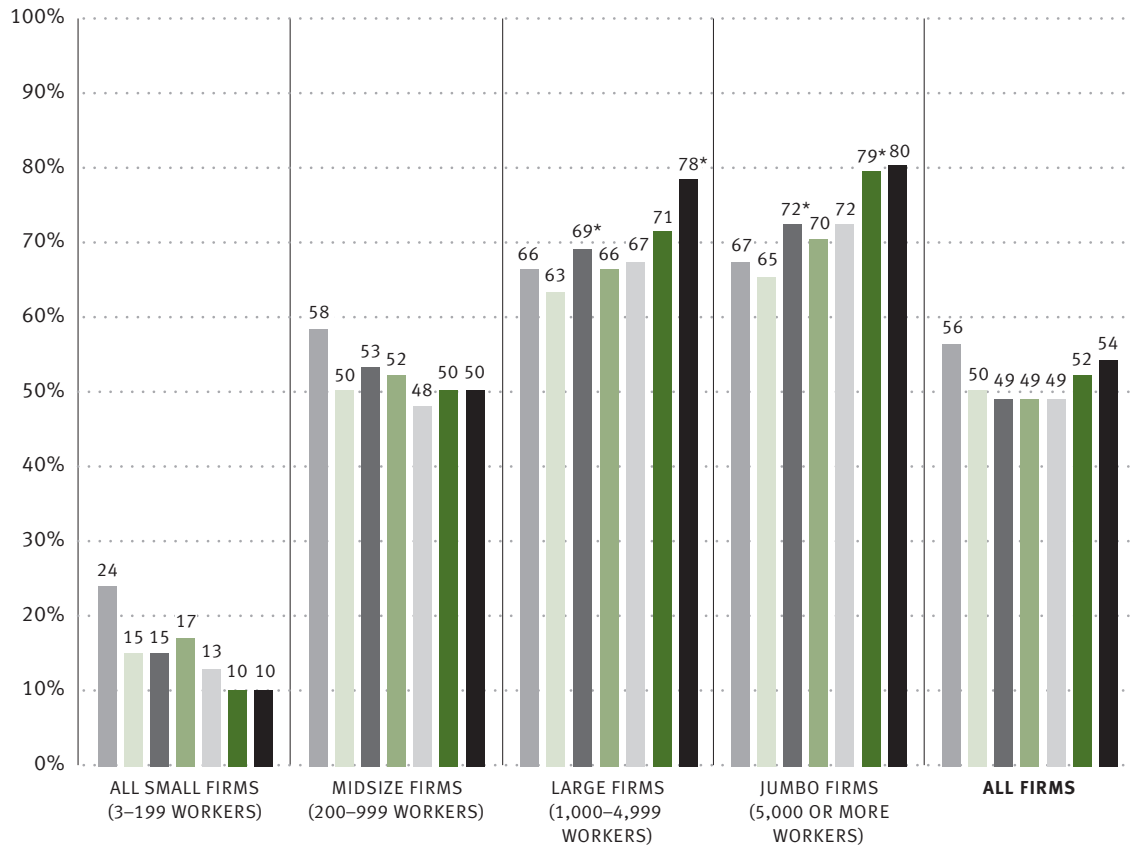
- ▶ Fifty-four percent of covered workers in 2004 are in a plan that is completely or partially self-funded (EXHIBITS 10.1, 10.2).
- The percentage of covered workers in self-funded plans is similar to last year (52% in 2003 vs. 54% in 2004) (EXHIBIT 10.1).
- Covered workers in all small firms (3-199 workers) are less likely than covered workers in larger firms to be in a self-funded plan. Ten percent of covered workers in all small firms are in self-funded plans, compared to 50% of workers in midsize firms (200-999 workers) and 80% of workers in jumbo firms (5,000 or more workers) (EXHIBIT 10.1).
- The prevalence of self-funded plans is relatively high in PPO plans (64% of workers covered in PPOs) and relatively low in HMO plans (29% of workers covered in HMOs) (EXHIBIT 10.2).

NOTES:

¹⁰ A self-funded plan is one in which the employer assumes direct responsibility for the costs of enrollees' medical claims. Employers sponsoring self-funded plans typically contract with a third-party administrator or insurer to provide administrative services for the self-funded plan.

EXHIBIT 10.1

Percentage of Covered Workers in Partially or Completely Self-Funded Plans, by Firm Size, 1996-2004*



SOURCE :

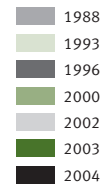
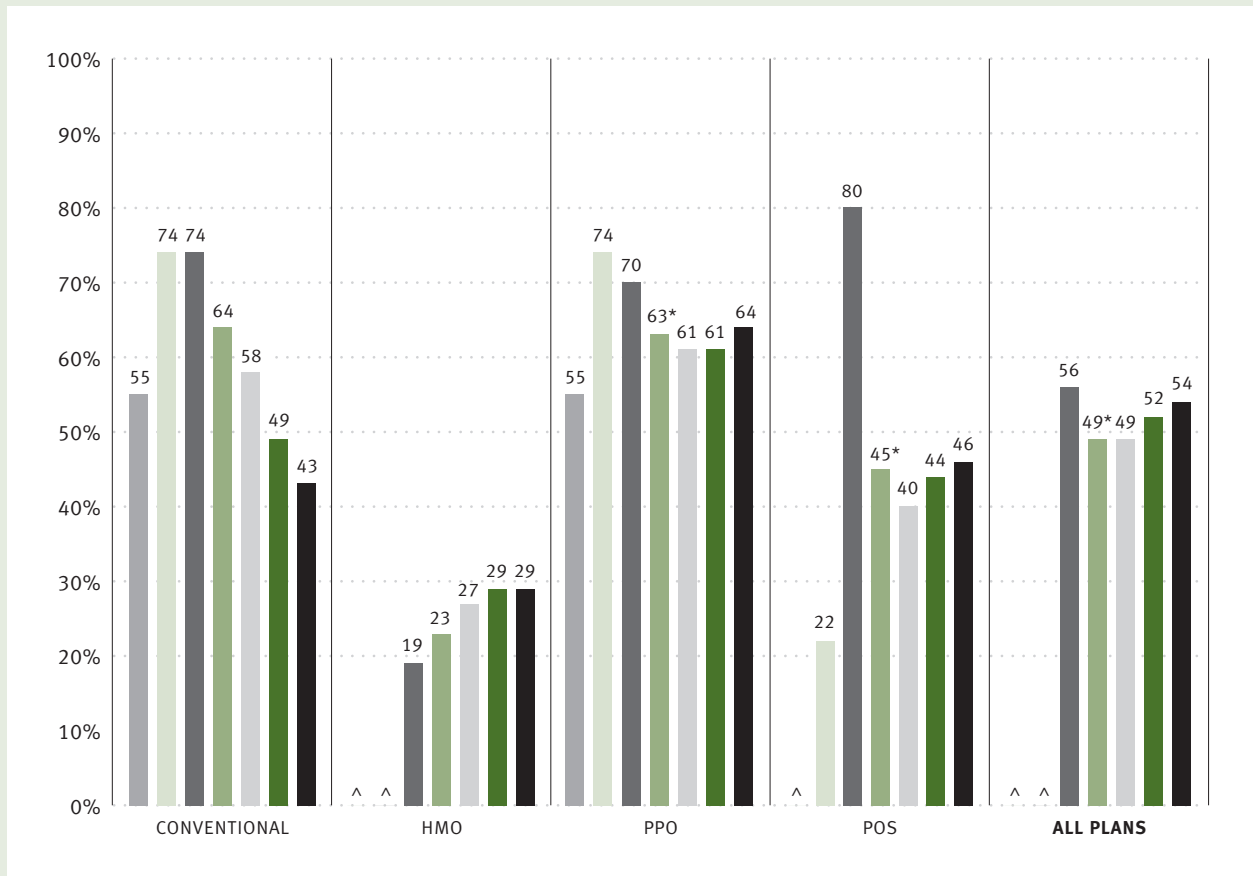
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003, 2004;
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

* Tests found no statistically different estimates from the previous year shown at $p < .05$.

Self-funded plan: A plan in which the employer assumes direct financial responsibility for the costs of enrollees' medical claims. Employers sponsoring self-funded plans typically contract with a third-party administrator or insurer to provide administrative services for the self-funded plan.

EXHIBIT 10.2

Percentage of Covered Workers in Partially or Completely Self-Funded Plans, 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, 1996; The Health Insurance Association of America (HIAA): 1988.

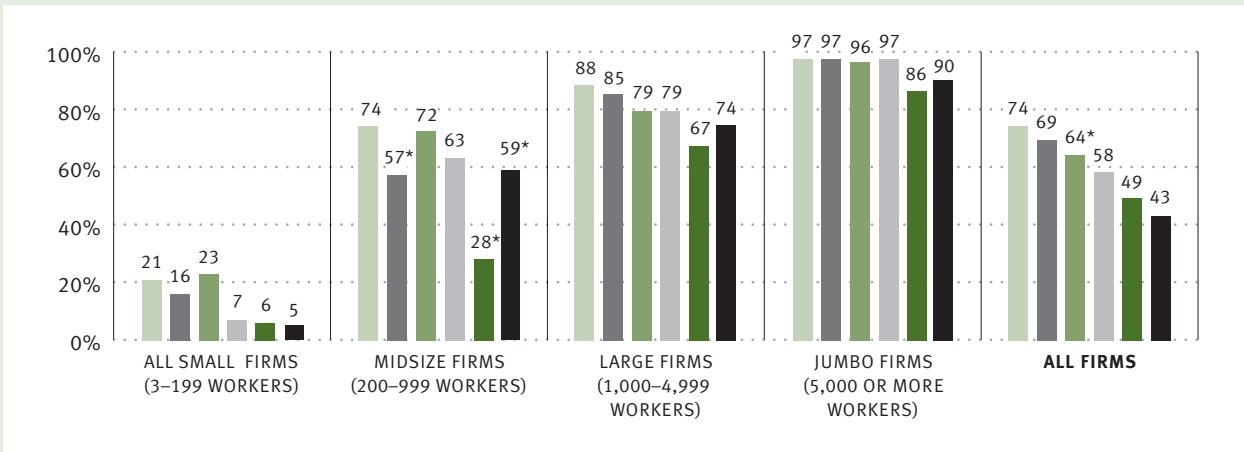
* Estimate is statistically different from the previous year shown at $p < .05$.

^ Information was not obtained for HMO plans in 1988 and 1993, or POS plans in 1988.

Self-funded plan: A plan in which the employer assumes direct financial responsibility for the costs of enrollees' medical claims. Employers sponsoring self-funded plans typically contract with a third-party administrator or insurer to provide administrative services for the self-funded plan.

EXHIBIT 10.3

Percentage of Covered Workers in Partially or Completely Self-Funded Conventional Plans, by Firm Size, 1996-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003, 2004;
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

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

Self-funded plan: A plan in which the employer assumes direct financial responsibility for the costs of enrollees' medical claims. Employers sponsoring self-funded plans typically contract with a third-party administrator or insurer to provide administrative services for the self-funded plan.

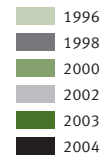
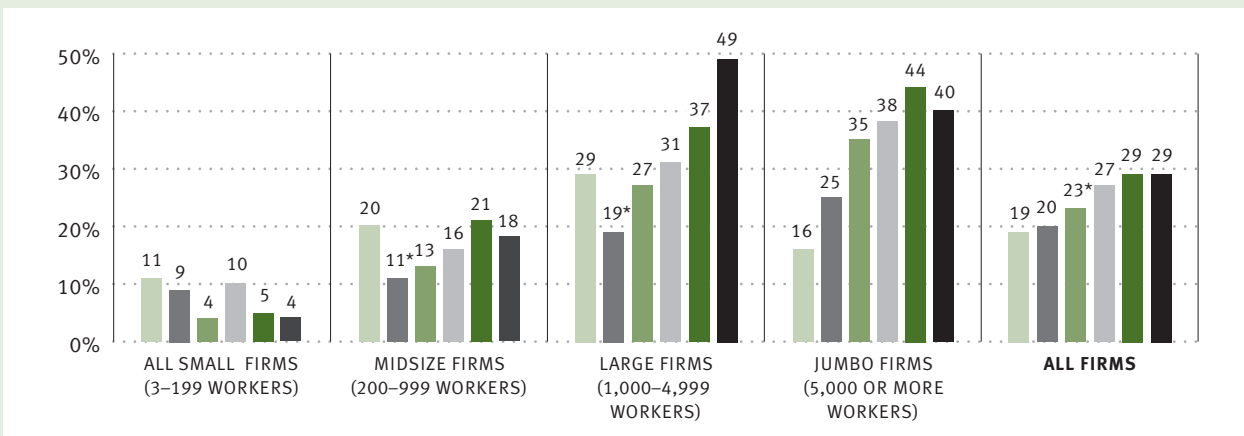


EXHIBIT 10.4

Percentage of Covered Workers in Partially or Completely Self-Funded HMO Plans, by Firm Size, 1996-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003, 2004;
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

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

Self-funded plan: A plan in which the employer assumes direct financial responsibility for the costs of enrollees' medical claims. Employers sponsoring self-funded plans typically contract with a third-party administrator or insurer to provide administrative services for the self-funded plan.

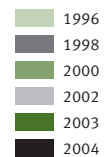
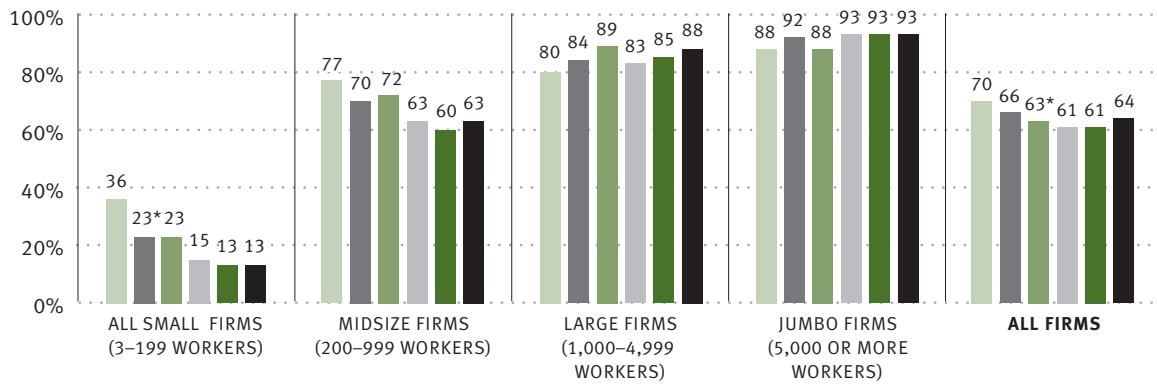


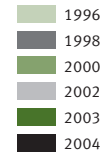
EXHIBIT 10.5

Percentage of Covered Workers in Partially or Completely Self-Funded PPO Plans, by Firm Size, 1996-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003, 2004;
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

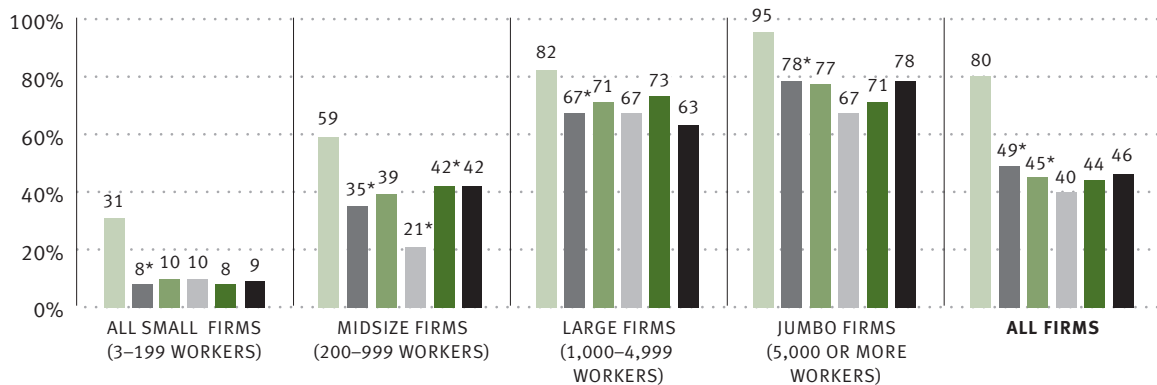


* Estimate is statistically different from the previous year shown at $p < .05$.

Self-funded plan: A plan in which the employer assumes direct financial responsibility for the costs of enrollees' medical claims. Employers sponsoring self-funded plans typically contract with a third-party administrator or insurer to provide administrative services for the self-funded plan.

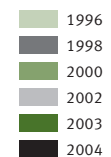
EXHIBIT 10.6

Percentage of Covered Workers in Partially or Completely Self-Funded POS Plans, by Firm Size, 1996-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003, 2004;
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.



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

Self-funded plan: A plan in which the employer assumes direct financial responsibility for the costs of enrollees' medical claims. Employers sponsoring self-funded plans typically contract with a third-party administrator or insurer to provide administrative services for the self-funded plan.

EXHIBIT 10.7

Percentage of Covered Workers Under Different Funding Arrangements, by Industry, 2004

	<i>Fully Insured (Coverage Underwritten by an Insurer)</i>	<i>Self-Funded (Employer Bears Some or All of Financial Risk)</i>
ALL PLANS		
Mining/Construction/Wholesale*	65%	35%
Manufacturing*	27	73
Transportation/Communication/Utility*	27	73
Retail	51	49
Finance*	58	42
Service*	59	41
State/Local Government	41	59
Health Care*	31	69
ALL INDUSTRIES	46%	54%

SOURCE:

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

* Estimates are statistically different from All Industries at $p < .05$.

Fully insured plan: A plan where the employer contracts with a health plan to assume financial responsibility for the costs of enrollees' medical claims.

Self-funded plan: A plan in which the employer assumes direct financial responsibility for the costs of enrollees' medical claims. Employers sponsoring self-funded plans typically contract with a third-party administrator or insurer to provide administrative services for the self-funded plan.

EMPLOYER HEALTH BENEFITS
2004 ANNUAL SURVEY

Retiree Health Benefits

SECTION

11

RETIREE HEALTH BENEFITS

RETIREE HEALTH BENEFITS ARE A KEY CONSIDERATION FOR OLDER WORKERS (AGES 55-64) MAKING THEIR DECISIONS ABOUT RETIREMENT. FOR PEOPLE AGE 65 AND OLDER, RETIREE HEALTH BENEFITS PROVIDE AN IMPORTANT SUPPLEMENT TO MEDICARE. ALTHOUGH PASSAGE OF THE 2003 MEDICARE PRESCRIPTION DRUG IMPROVEMENT AND MODERNIZATION ACT WILL ALLEVIATE SOME OF THE COST TO RETIREES OF PRESCRIPTION DRUGS, RETIREE HEALTH PLANS ARE CURRENTLY THE LARGEST SOURCE OF PRESCRIPTION DRUG COVERAGE FOR THE RETIRED POPULATION AND ARE ESSENTIAL FOR AFFORDABLE ACCESS TO NEEDED MEDICINES.¹¹

THE PERCENTAGE OF EMPLOYERS OFFERING RETIREE BENEFITS HAS FALLEN SIGNIFICANTLY OVER THE PAST 25 YEARS. OVER THAT TIME PERIOD, RETIREE COSTS ROSE TO REPRESENT A SIGNIFICANT PORTION OF HEALTH EXPENDITURES TO MANY BUSINESSES, DUE IN LARGE PART TO THE RISING COST OF PRESCRIPTION DRUGS. THE IMPLEMENTATION OF THE NEW MEDICARE PRESCRIPTION DRUG LAW MAY LEAD EMPLOYERS TO RECONSIDER THEIR ROLE IN PROVIDING RETIREES WITH HEALTH BENEFITS.

AVAILABILITY OF RETIREE BENEFITS

- ▶ The percentage of firms offering retiree coverage has declined significantly over time, although there was no significant change between 2003 and 2004. Thirty-six percent of all large firms (200 or more workers) offer retiree coverage in 2004, compared to 66% in 1988 (EXHIBIT 11.1).
- ▶ Retiree benefits vary substantially by firm size, industry and the presence of union workers.

- *All large firms (200 or more workers) are much more likely to offer retiree benefits than all small firms (3-199 workers). Thirty-six percent of all large firms offer retiree benefits, compared to just five percent of all small firms (EXHIBIT 11.2).*
- *State and local governments are more likely than other firms to offer retiree benefits (EXHIBIT 11.2).*
- *All large firms (200 or more workers) with union workers are significantly more likely to offer retiree health benefits than all large firms without union workers—60% of all large firms with union employees offer retiree benefits, compared to 22% of all large firms that do not have union employees (EXHIBIT 11.3).*
- ▶ Virtually all large firms (200 or more workers) that offer retiree benefits offer them to early retirees under the age of 65 (96%). A lower percentage (75%) of all large firms offering retiree benefits offer them to Medicare-age retirees (EXHIBITS 11.4, 11.5).

NOTES:

¹¹ Twenty-eight percent of Medicare beneficiaries receive prescription drug coverage from an employer, a far higher number than receive coverage through a Medicare HMO (15%), Medigap (7%) or Medicaid (10%). Laschober et. al., *Health Affairs*, February 2002.

EXHIBIT 11.1

Percentage of All Large Firms (200 or More Workers) Offering Retiree Health Benefits‡, 1988-2004*



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2001, 2002, 2003, 2004;
KPMG Survey of Employer-Sponsored Health Benefits: 1991, 1993, 1995, 1998; The Health Insurance
Association of America (HIAA): 1988.

* Tests found no statistically different estimate from the previous year shown at $p < .05$.

‡ Among firms that offer health benefits to active workers.

EXHIBIT 11.2

Percentage of Employers Offering Retiree Health Benefits[‡], by Firm Size, Region, and Industry, 2004

	<i>All Small Firms (3-199 Workers)</i>	<i>All Large Firms (200 or More Workers)</i>
FIRM SIZE		
Small (3-24 Workers)	4%	-
Small (25-49 Workers)	9	-
Small (50-199 Workers)	10	-
ALL SMALL FIRMS (3-199 WORKERS)	5	-
Midsize (200-999 Workers)	-	31%
Large (1,000-4,999 Workers)	-	43
Jumbo (5,000 or More Workers)	-	60*
REGION		
Northeast	10%	37%
Midwest	8	41
South	2	39
West	2	26*
INDUSTRY		
Mining/Construction/Wholesale	8%	27%
Manufacturing	4	32
Transportation/Communication/Utility	4	53
Retail	3	10*
Finance	2	43
Service	5	36
State/Local Government	27*	77*
Health Care	0*	22*
ALL FIRM SIZES, REGIONS, AND INDUSTRIES	5%	36%

SOURCE :

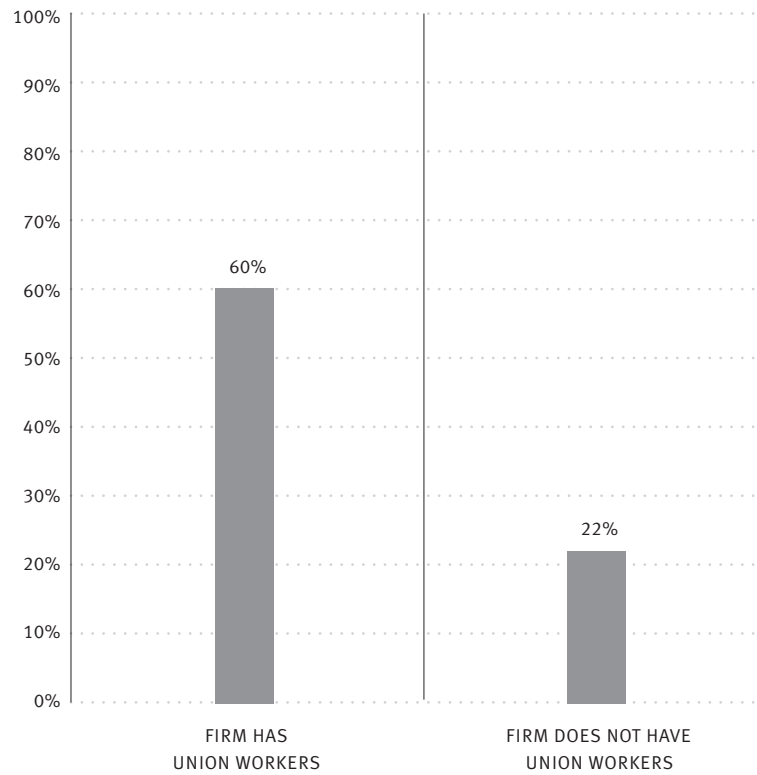
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

* Estimate is statistically different from All Firms at $p < .05$.

‡ Among firms that offer health benefits to active workers.

EXHIBIT 11.3

Percentage of All Large Firms (200 or More Workers) in Which Retirees Are Offered Health Insurance, by Whether or Not the Firm Has Union Workers, 2004

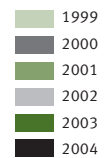
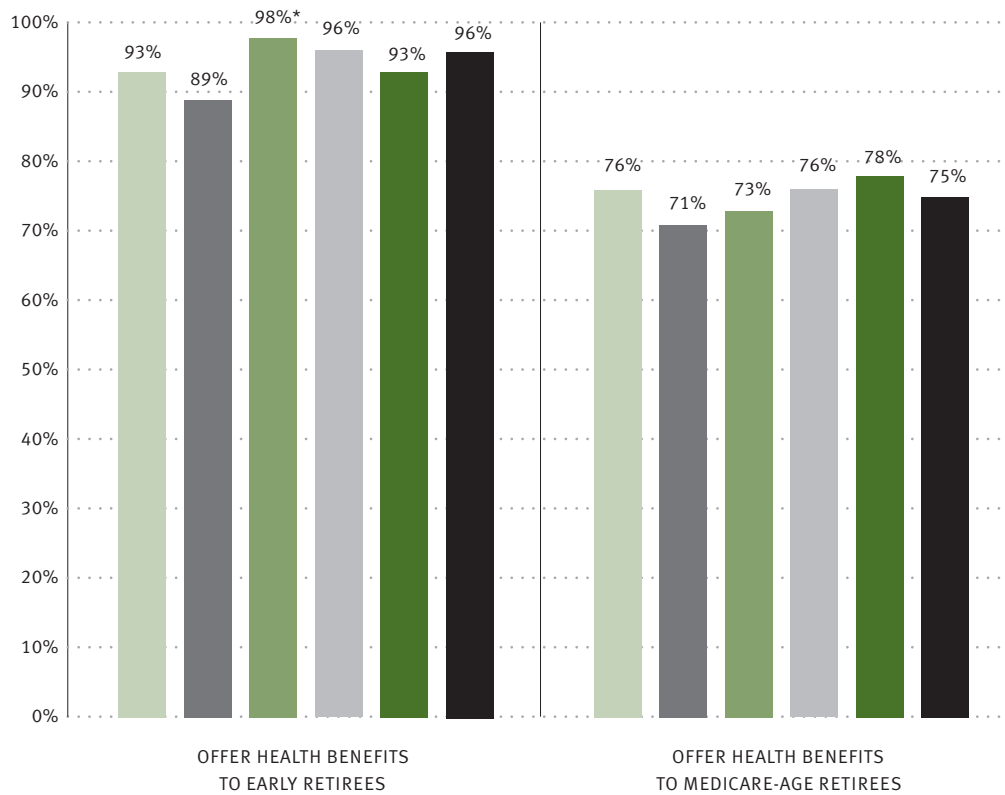


SOURCE :

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

EXHIBIT 11.4

Percentage of All Large Firms (200 or More Workers) Offering Health Benefits to Early and Medicare-Age Retirees, Among All Large Firms Offering Retiree Coverage, 1999-2004



SOURCE :

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

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

Early retiree: Workers retiring before age 65.

EXHIBIT 11.5

Percentage of All Large Firms (200 or More Workers) Offering Retiree Benefits to Early and Medicare-Age Retirees, Among All Large Firms Offering Retiree Coverage, by Firm Size, Region, and Industry, 2004

	<i>Percentage of Employers Offering Retiree Health Benefits to Early Retirees</i>	<i>Percentage of Employers Offering Retiree Health Benefits to Medicare-Age Retirees</i>
FIRM SIZE		
Midsize (200-999 Workers)	96%	70%
Large (1,000-4,999 Workers)	93	81
Jumbo (5,000 or More Workers)	99*	88*
REGION		
Northeast	97%	81%
Midwest	99	82
South	94	68
West	93	70
INDUSTRY		
Mining/Construction/Wholesale	90%	88%
Manufacturing	98	82
Transportation/Communication/Utility	97	83
Retail	NSD	NSD
Finance	92	86
Service	98	67
State/Local Government	96	71
Health Care	75	66
ALL FIRM SIZES, REGIONS, AND INDUSTRIES	96%	75%

SOURCE:

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

* Estimate is statistically different from All Large Firms at $p < .05$.

Early retiree: Workers retiring before age 65.

NSD: Not Sufficient Data.

EMPLOYER HEALTH BENEFITS
2004 ANNUAL SURVEY

Employer Attitudes and Opinions

SECTION

12

EMPLOYER ATTITUDES AND OPINIONS

EMPLOYERS PLAY A SIGNIFICANT ROLE IN HEALTH INSURANCE COVERAGE FOR AMERICANS—PROVIDING HEALTH BENEFITS TO MORE THAN THREE OUT OF EVERY FIVE NONELDERLY AMERICANS¹²—SO THEIR ATTITUDES, KNOWLEDGE, AND EXPERIENCES ARE IMPORTANT FACTORS IN HEALTH POLICY DISCUSSIONS.

THIS YEAR'S SURVEY ASKED EMPLOYERS A NUMBER OF QUESTIONS ABOUT THEIR RESPONSES TO RISING HEALTH INSURANCE PREMIUMS, INCLUDING WHETHER THEY SHOPPED FOR NEW COVERAGE, HOW THEY VIEW DIFFERENT APPROACHES TO CONTAINING COST INCREASES, AND IF THEY PLAN TO CHANGE THEIR HEALTH BENEFIT PLANS IN THE NEAR FUTURE. WE ALSO ASKED FIRMS FOR THEIR VIEWS ABOUT THE IMPORTANCE OF PROVIDING A SUBSTANTIAL CONTRIBUTION TOWARD SINGLE AND FAMILY COVERAGE. WE FOUND THAT A SIGNIFICANT SHARE OF FIRMS SHOPPED FOR COVERAGE IN THE PAST YEAR, THAT FIRMS REMAIN SOMEWHAT SKEPTICAL ABOUT THE POTENTIAL EFFECTIVENESS OF CURRENTLY AVAILABLE COST-CONTAINMENT STRATEGIES, AND THAT ALL LARGE FIRMS (200 OR MORE WORKERS) ARE LIKELY TO INCREASE EMPLOYEE CONTRIBUTIONS IN THE FUTURE. ALL LARGE FIRMS ARE MORE LIKELY THAN ALL SMALL FIRMS (3-199 WORKERS) TO BELIEVE THAT IT IS IMPORTANT TO MAKE A SUBSTANTIAL CONTRIBUTION TOWARD FAMILY COVERAGE.

- ▶ Overall, 56% of firms offering health benefits say that they shopped for a new plan in the past year (EXHIBIT 12.1).
 - Of those that shopped, 31% (or 17% of all firms) say that they switched carriers in the past year and 34% (or 19% of all firms) report that they changed the type of health plan they offer (EXHIBIT 12.1).¹³
 - Among firms that reported shopping for a new health plan, jumbo firms (5,000 or more workers) are more likely than other firms to report switching carriers (46% of those that shopped; 17% of all jumbo firms) (EXHIBIT 12.1).
 - ▶ Firms were asked to rate how effective several different strategies are in reducing the growth of health care costs.
- Few firms rated any one strategy as “very effective” at controlling costs.
- Disease management was rated as “very effective” by the largest percentage of employers (15%), followed by consumer-driven health plans (11%), tighter managed care networks (9%) and higher cost sharing (9%). Over 40% of employers, however, report that disease

NOTE:

¹² Kaiser Family Foundation, Kaiser Commission on Medicaid and the Uninsured. *Health Insurance Coverage in America, 2002 Data Update*, December 2003.

¹³ These answers are not exclusive: 11% of firms that shopped switched both carrier and type of health plan offered.

management, consumer-driven health plans, and higher cost sharing are “somewhat effective” at controlling costs (EXHIBIT 12.2).

► Most employers (59%) report that the percentage of employees electing family coverage has not changed over the past several years (EXHIBIT 12.3).

- Twenty-two percent of all small firms (3-199 workers) and 29% of all large firms (200 or more workers) report that the proportion of covered workers enrolled in family coverage has increased over the last several years, while only 13% of all small firms and 19% of all large firms report that the percentage of workers enrolled in family coverage has decreased.

- Twelve percent of employers vary the contribution they make toward family coverage based on whether the spouse of an employee has health benefits available through another source. Only small percentages of employers say that they are “very likely” (2%) or “somewhat likely” (9%) to adopt such a policy in the near future (EXHIBITS 12.4, 12.5).

- Only three percent of employers provide additional compensation (e.g., higher wages) or other benefits to employees if they elect single rather than family coverage. Few employers expressed any interest in adopting this approach in the near future (EXHIBITS 12.4, 12.5).

- A more substantial percentage of employers (17%), however, provide additional compensation or other ben-

efits to employees if they forgo health coverage altogether. While this approach to health benefits is fairly popular, relatively small percentages of employers report that they are “very likely” (1%) or “somewhat likely” (14%) to adopt this approach in the near future (EXHIBITS 12.4, 12.5).

- Fifteen percent of employers say that they are “very likely” to increase the percentage of the premium that employees must pay for family coverage in the next two years, and another 26% say that they are “somewhat likely” to do so. If premiums continue to increase near double-digit rates and if employers increase the share of the premium borne by families, covered workers with family coverage may well see their contributions increase sharply over the next several years (EXHIBIT 12.6).

- Employers were asked which of two statements best reflects their attitude about providing family coverage: (1) It is important that the firm pay a significant portion of the cost of health benefits for our workers and their families; or (2) It is important that the firm pay a significant portion of the cost of health benefits for our workers, but the primary responsibility for funding the costs of family members lies with the worker. Among all large firms (200 or more workers), 73% say that it is important to pay a significant share of the cost of benefits for the family, while 26% say that the primary responsibility for the costs of the family lies with the worker. All small firms (3-199 workers) are less supportive

of family coverage than all large firms: only 43% support the first statement while 53% support the second statement (EXHIBIT 12.7).

► Each year we ask employers whether they expect to change the contributions, cost sharing or eligibility for health benefits in the next year. Generally, all large firms (200 or more workers) are more likely than all small firms (3-199 workers) to say that they intend to increase employee costs (EXHIBIT 12.9).

- About half (52%) of all large firms (200 or more workers) say that they are “very likely” to increase the amount employees pay for health insurance next year, compared to 15% of all small firms (3-199 workers) (EXHIBIT 12.9).

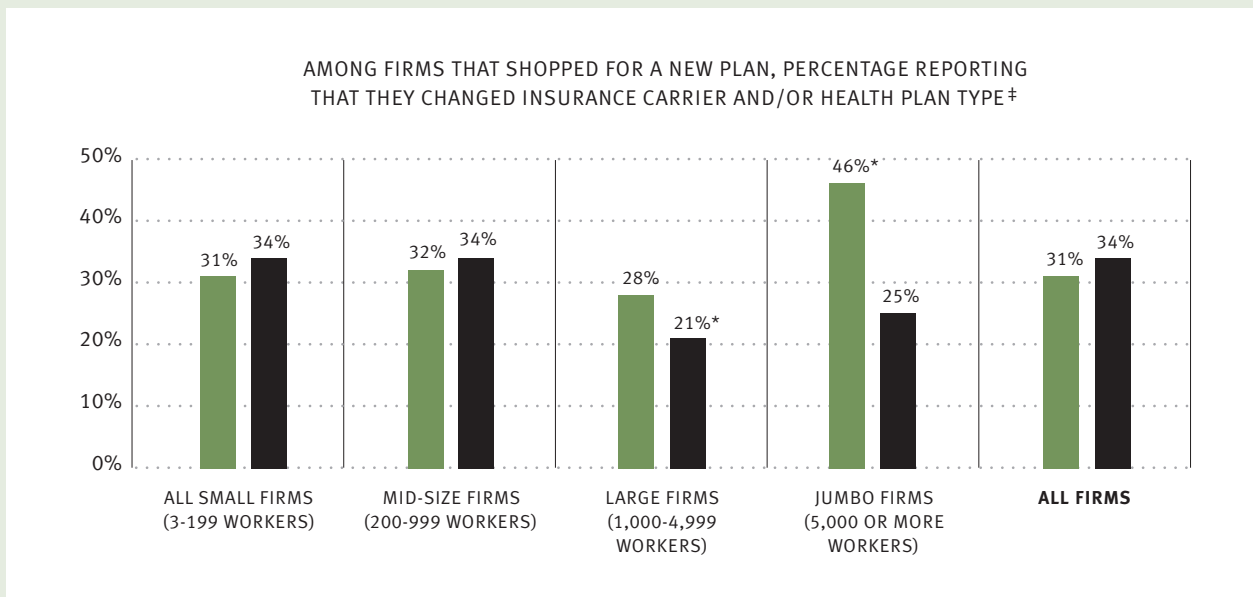
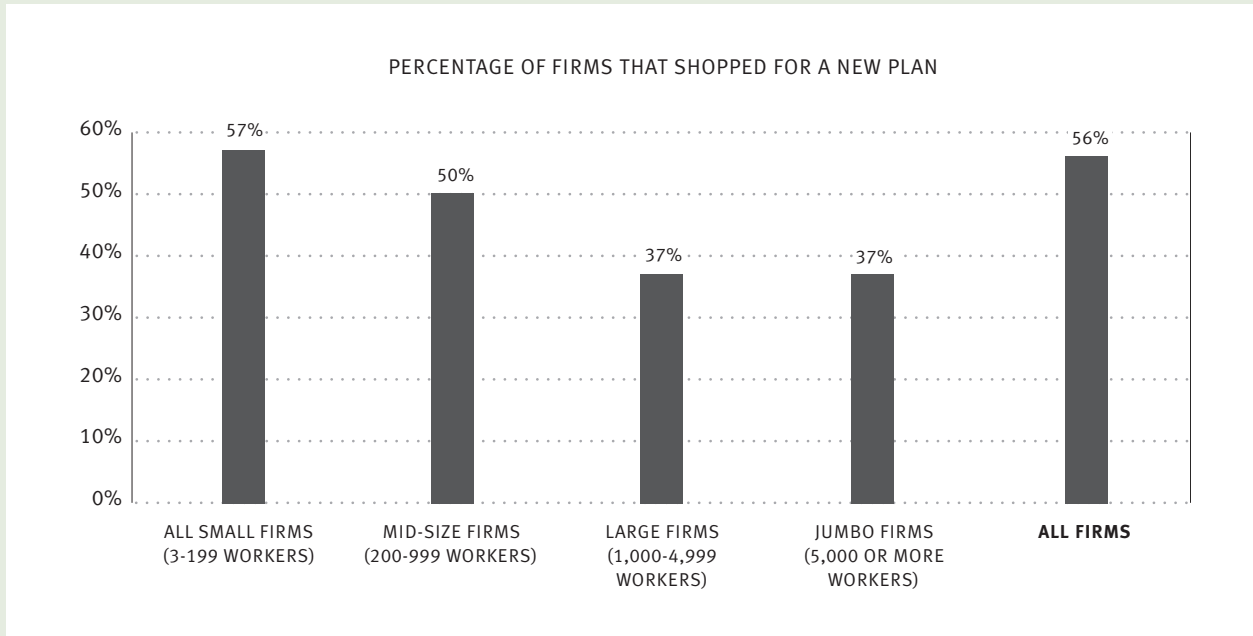
- All large firms (200 or more workers) are more likely than all small firms to say that they are “very likely” to increase deductibles (14% vs. 8%), increase cost sharing for office visits (14% vs. 5%) and increase employee costs for prescription drugs (18% vs. 5%) (EXHIBIT 12.9).

- Employer interest in tiered networks for physicians or hospitals remains limited; only two percent of employers say that they are “very likely” to offer a tiered network in 2005, while 19% say that they are “somewhat likely” to offer a tiered network (EXHIBIT 12.9).

- As observed in previous years, relatively few employers report that are likely to restrict eligibility or drop coverage altogether (EXHIBIT 12.9).

EXHIBIT 12.1

Percentage of Firms That Shopped for a New Plan, and the Percentage of These Firms Reporting That They Changed Health Plan Types or Insurance Carriers in the Last Year, by Firm Size, 2004



■ CHANGED INSURANCE CARRIER
■ CHANGED HEALTH PLAN TYPE

SOURCE :

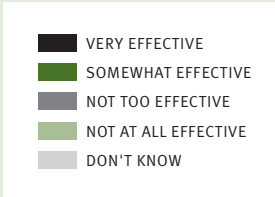
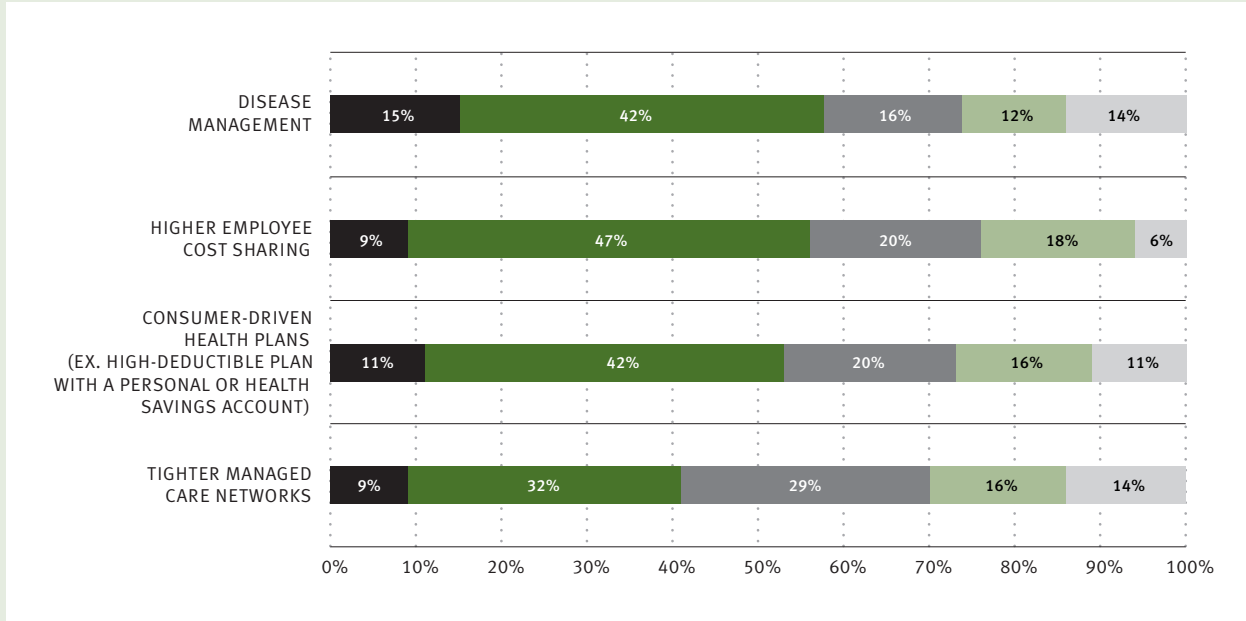
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

* Estimate is statistically different from All Firms at $p < .05$.

‡ These answers are not exclusive; 11% of firms that shopped switched both carrier and type of health plan offered.

EXHIBIT 12.2

Distribution of Firms' Opinions on the Effectiveness of the Following Cost Containment Strategies, 2004

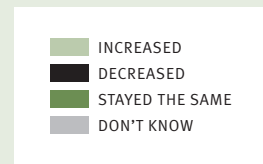
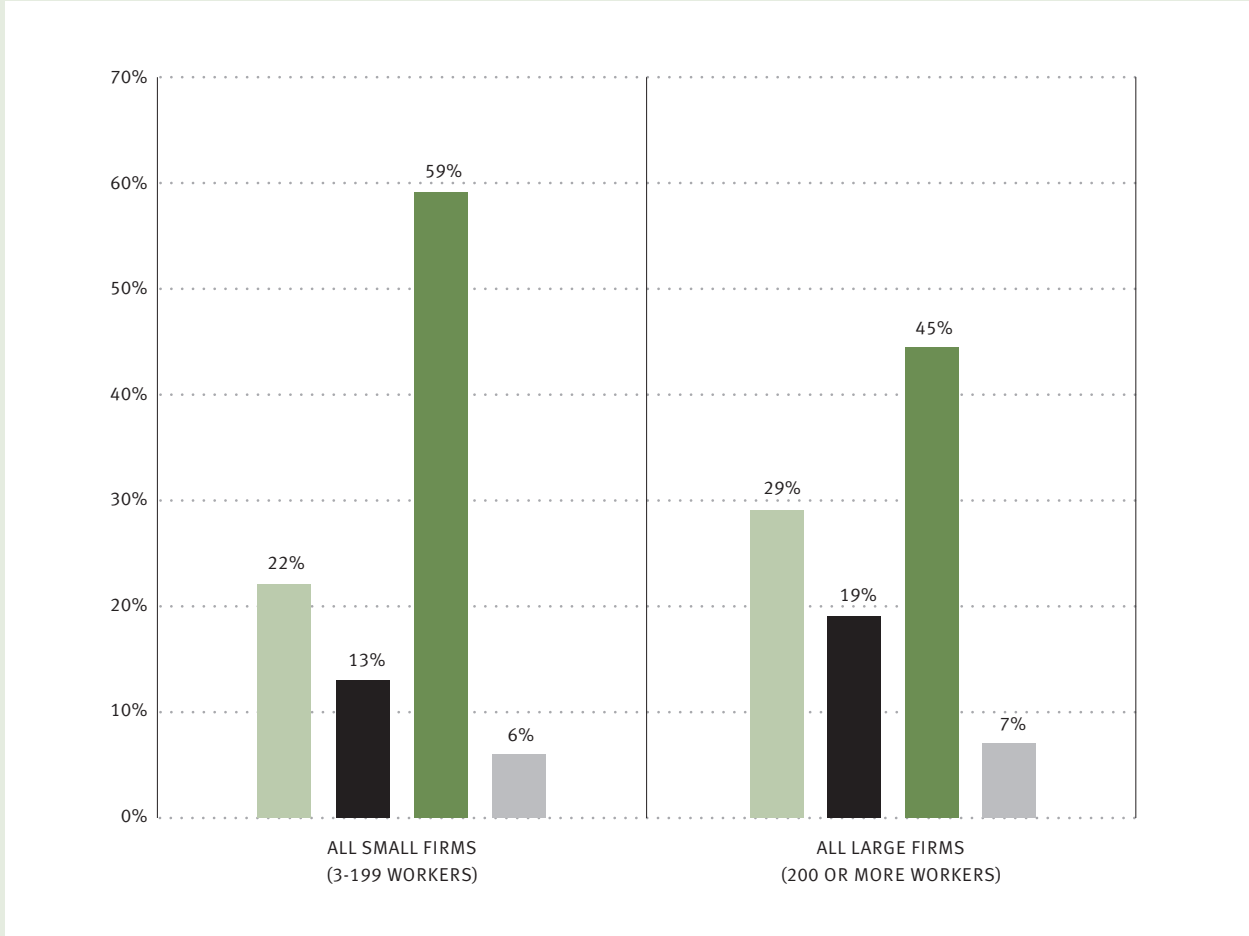


SOURCE :

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

EXHIBIT 12.3

Percentage of Firms Reporting Changes in the Proportion of Covered Workers Enrolled in Family Coverage Over the Last Several Years, 2004

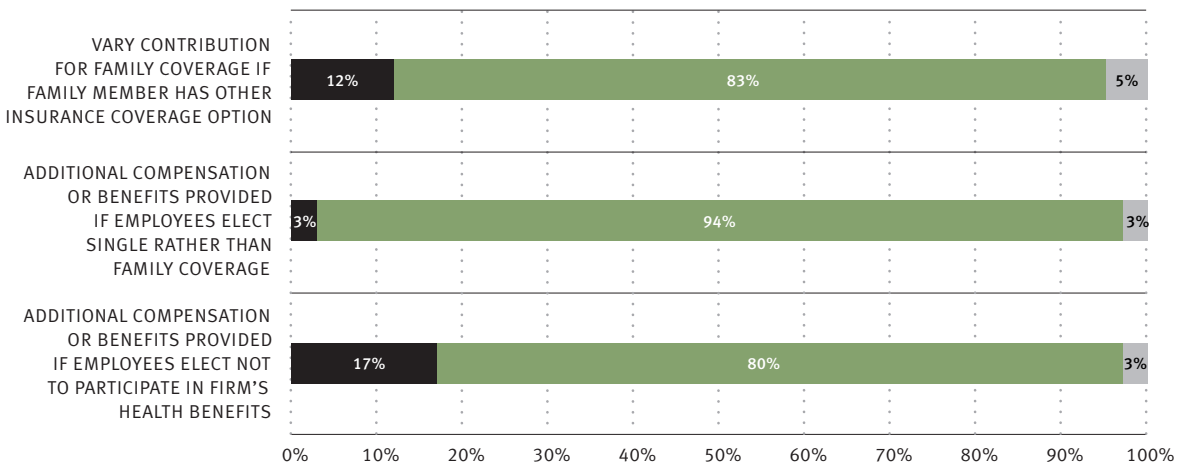


SOURCE :

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

EXHIBIT 12.4

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



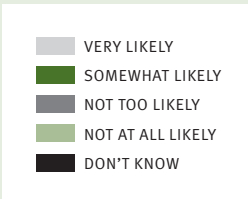
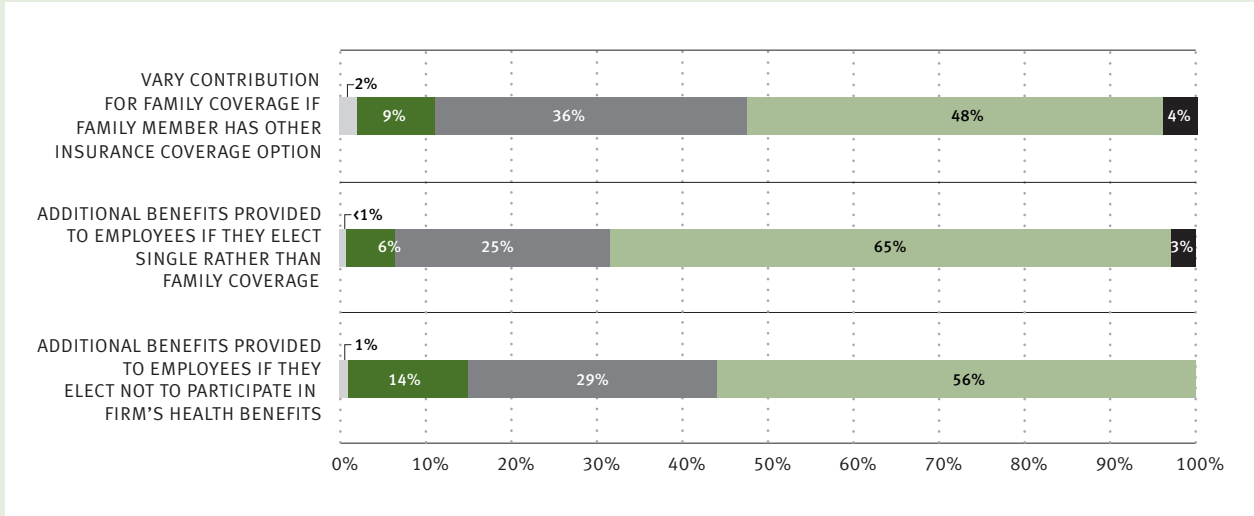
YES
 NO
 DON'T KNOW

SOURCE :

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

EXHIBIT 12.5

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

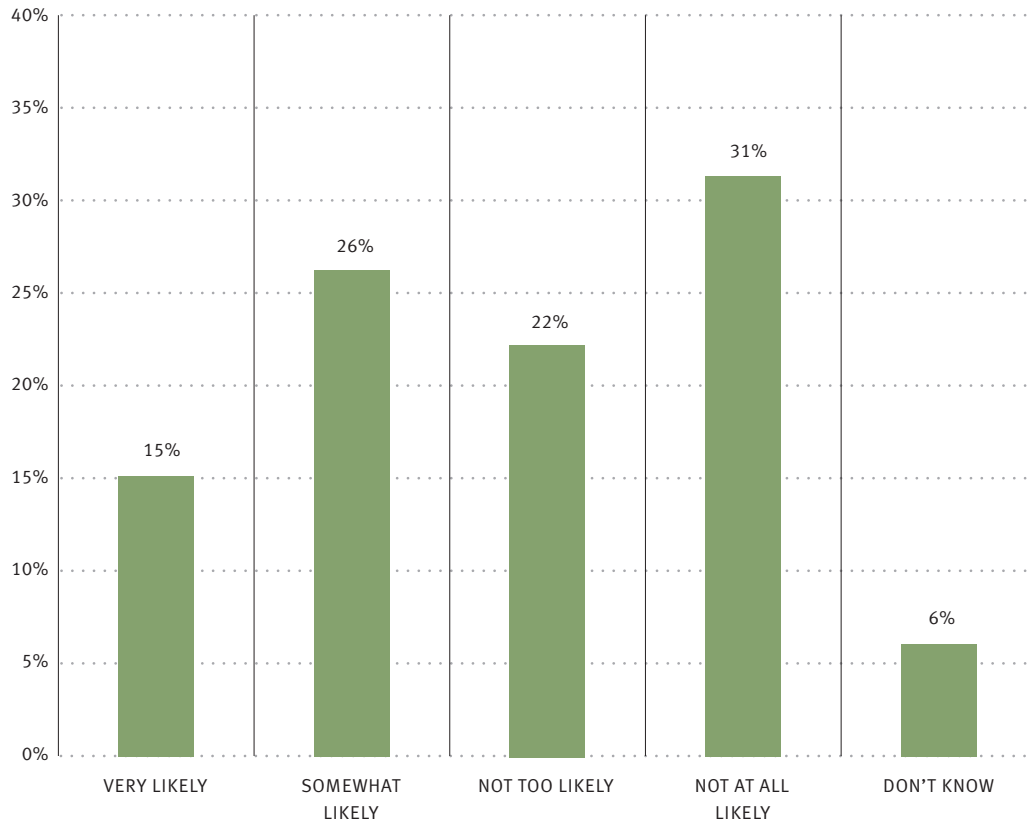


SOURCE :

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

EXHIBIT 12.6

Percentage of Firms Reporting the Likelihood of Increasing Employees' Share of Premiums for Family Coverage in the Next Two Years, 2004

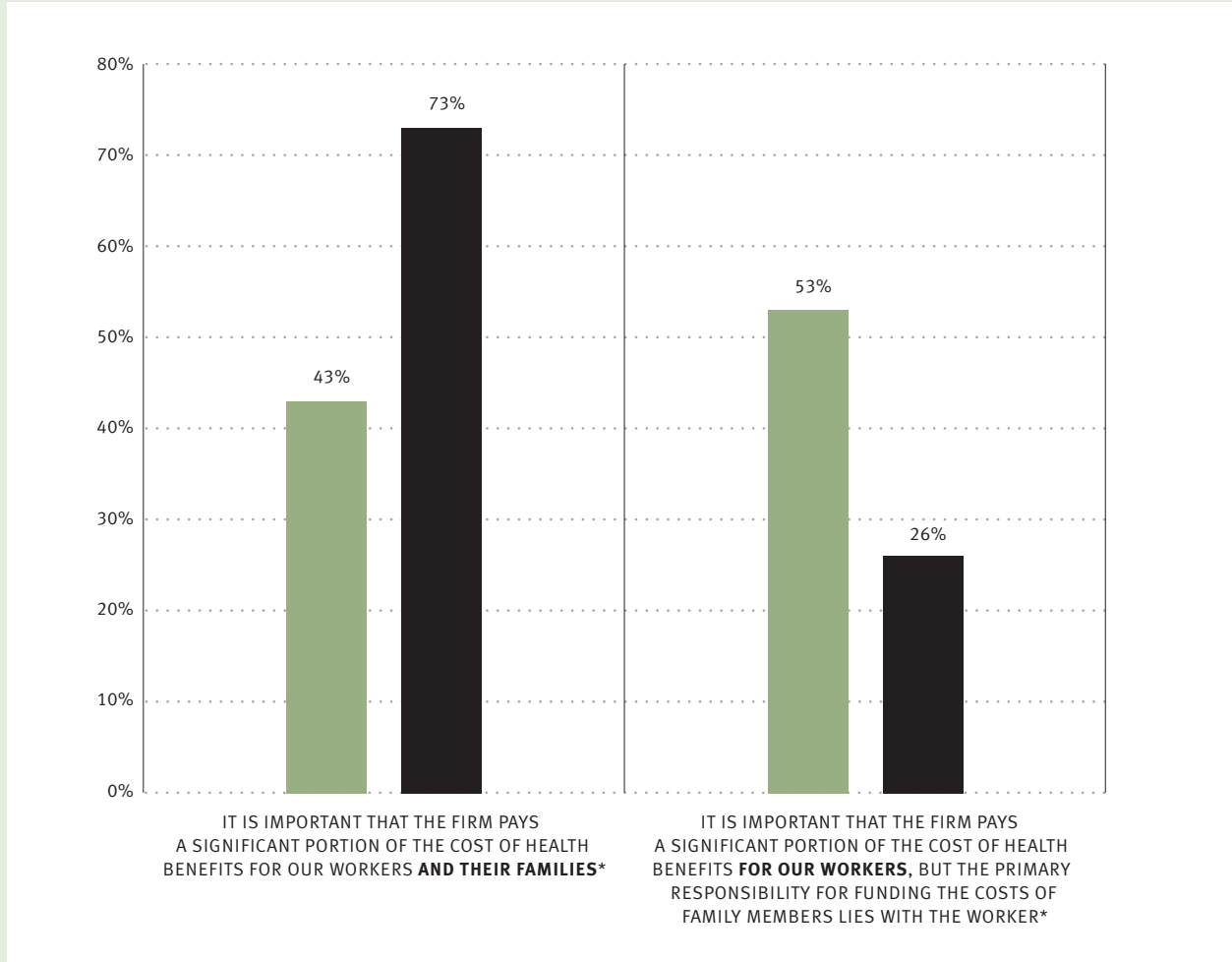


SOURCE :

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

EXHIBIT 12.7

Percentage of Firms Reporting the Following Attitudes Toward Coverage for Workers and Dependent Family Members, 2004



■ ALL SMALL FIRMS (3-199 WORKERS)
■ ALL LARGE FIRMS (200 OR MORE WORKERS)

SOURCE :

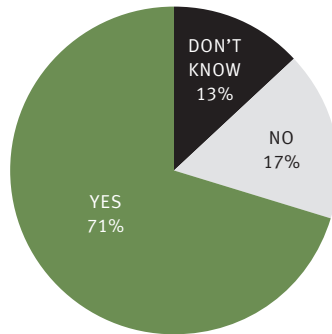
Kaiser/HRET Survey of Employer-Sponsored Insurance: 2004.

* Estimate is statistically different by firm size within each category at $p < .05$.

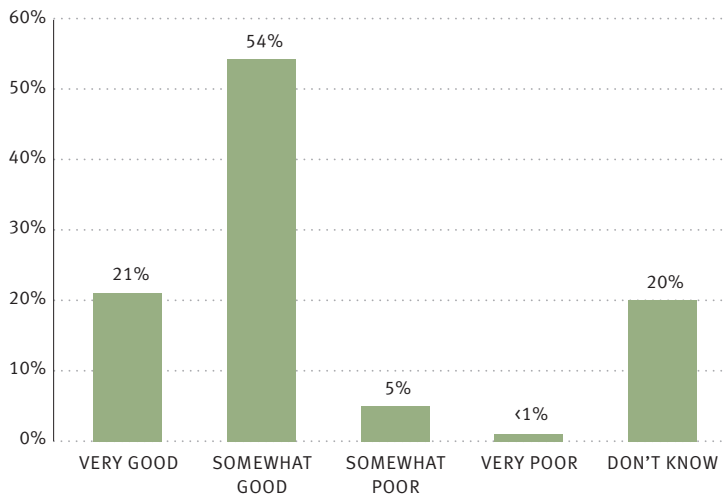
EXHIBIT 12.8

Percentage of Firms Whose Covered Workers Have Access to Quality of Care Information Through Internet Websites, and Firms' Rating of the Quality of That Information, 2004

PERCENTAGE OF FIRMS WHOSE COVERED WORKERS HAVE ACCESS TO QUALITY OF CARE INFORMATION THROUGH INTERNET WEBSITES



AMONG FIRMS WHOSE EMPLOYEES HAVE ACCESS TO QUALITY OF CARE INFORMATION THROUGH INTERNET WEBSITES, FIRMS' RANKING OF THE QUALITY OF THAT INFORMATION

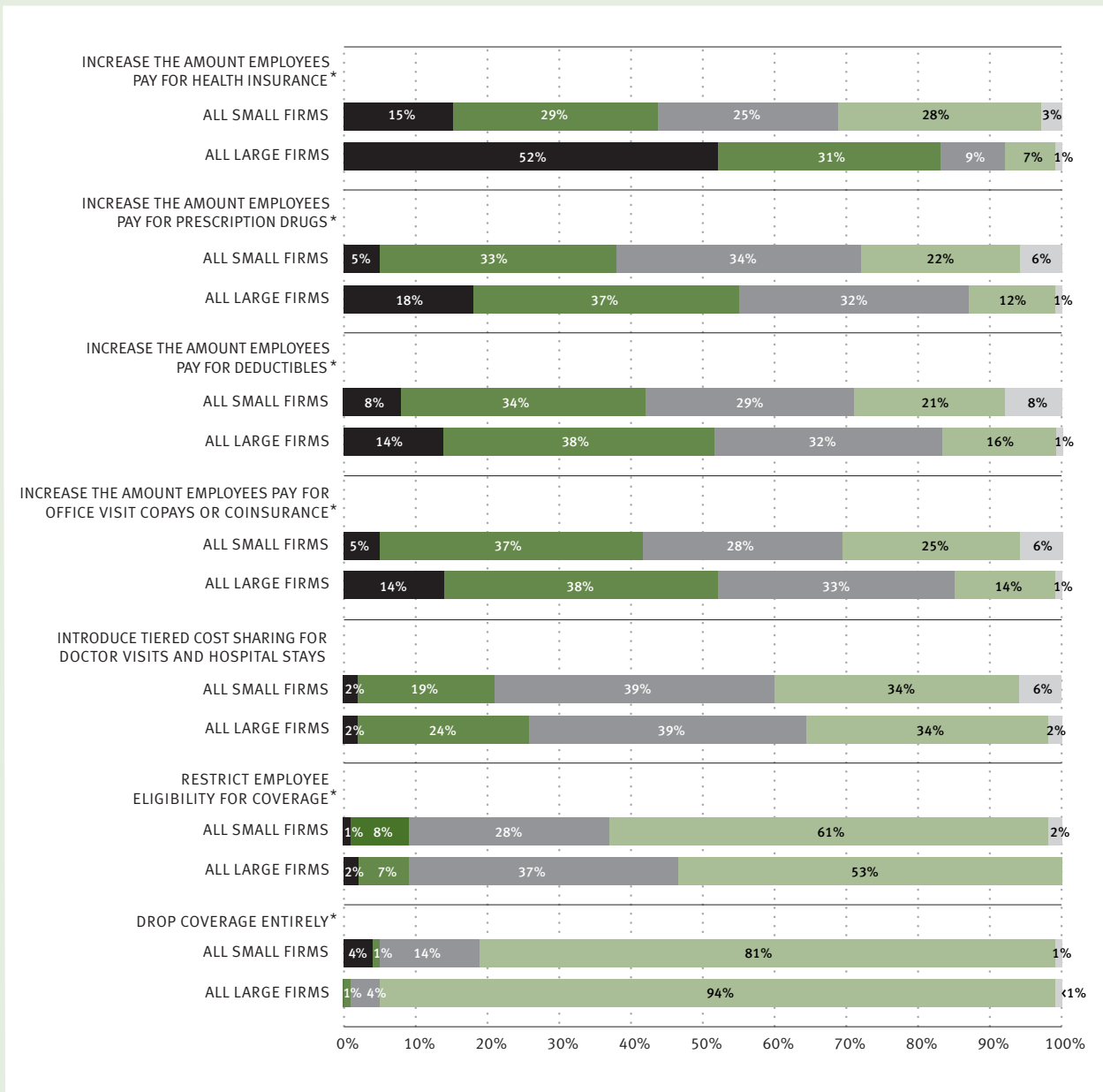


SOURCE :

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

EXHIBIT 12.9

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



SOURCE :

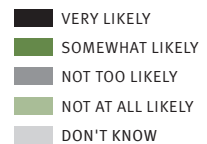
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

* 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.



S U B J E C T I N D E X

Benefits		Copayment (copay)	
Acupuncture	106, 107	Hospital	5, 89, 90, 99, 100
Adult physicals	104, 106, 107	Office visits	5, 7, 88, 90, 95, 96, 98, 148
Annual ob/gyn visit	104, 106, 107	Prescription drugs	5, 7, 11, 88, 90, 112, 114-117
Chiropractic	106, 107	Cost containment strategies	138, 141
Inpatient mental health	106, 107, 113, 120	Coverage	1-6, 8, 46-49, 51-53, 143, 144
Oral contraceptives	104, 106, 107	Deductibles	
Outpatient mental health	104, 106, 107, 113, 120	Hospital	5, 89, 90, 98-100
Prenatal care	104, 106, 107	Plan	1-2, 4-7, 16, 56, 64-66, 88-94, 104, 139
Prescription drugs	6, 10, 11, 88, 104, 106, 107, 112, 113, 114, 115, 117, 119, 130, 139	Drop coverage	6, 7, 35, 139, 148
Well-baby care	104, 106, 107	Eligibility	
Brand name drugs	112, 114, 115, 116, 117	For coverage	6, 7, 10, 43, 46, 47, 49, 50, 52, 53
Coinsurance		Restrictions	6, 35, 139, 148
Hospital	5, 89, 90, 98, 100	Enrollment	6, 10, 68-70
Office visits	88, 97, 98	Family coverage	2, 3, 8, 11, 16, 26, 72, 74, 75, 78, 81, 82, 84, 85, 92, 93, 105, 138, 139, 142, 145
Prescription drugs	11, 112, 114-117	Formulary	114-117
Contributions		Four-tier drugs	112-117
Employee/worker	2, 4, 7, 11, 56, 63, 72-74, 76-78, 138, 139	Funding arrangements	
Employer/firm	4, 8, 56, 63, 138, 139, 143, 144	Fully insured	2, 16, 22, 23, 127
Consumer-driven health plans	6, 56, 57, 138, 139, 141	Self-funded	2, 16, 22, 23, 122-127
Conventional plans	6, 10, 16, 21, 26, 28-31, 58, 68, 70, 77, 78, 82-85, 90, 92, 93, 97, 98, 101, 104, 107, 120, 125	Generic drugs	5, 112-118
		Health plan changes	
		Changed plan type	140
		Changed insurance carriers	6, 138, 140
		Health savings account	1, 2, 6, 56, 57, 64-66

High-deductible health plan	1, 2, 6, 56, 57, 64-66	PPO plans	2, 4-6, 10, 16, 17, 21, 22, 28-31, 56, 58, 62, 68-70, 75-78, 82-85, 88-95, 97-99, 101, 104, 107-109, 113, 118-120, 122, 124, 126
Historical data	12	Preferred drugs	5, 112-117
HMO plans	2, 4, 6, 10, 16, 21, 22, 28-31, 56, 58, 62, 68-70, 75-78, 82-85, 88-93, 96-99, 108, 109, 118, 119, 122, 124, 125, 130	Preferred providers	4, 5, 10, 88-95, 97, 98,
Hospital	5, 6, 10, 88-93, 98-101, 139	Premiums	
Internet access to quality information	147	Family	2-4, 11, 16, 19-21, 23-27, 72-77, 80, 83, 90, 139, 145
Lifetime limit	104	Increases	1, 2, 6-8, 16-25, 35, 138, 148
Low-wage workers	38	Single	2, 3, 16, 26, 27, 72, 74-77, 83, 90
Mail order discount for drugs	113, 119	Prescription drugs	6, 7, 10, 11, 88, 104, 106, 107, 112-114, 117, 119, 130, 139, 148
Mandatory use of generics	113, 118	Response rate	10
Mental health maximums		Retiree coverage	
Inpatient	120	Early retirees	6, 130, 134, 135
Outpatient	120	Medicare-age retirees	6, 130, 134, 135
Nonpreferred drugs	5, 112-117	Offer rate	130-133, 135
Nonpreferred provider	4, 5, 88, 91-94, 97	Survey sample	13
Nontraditional partnership benefits	42, 43	Take-up	47, 49, 50
Offer rate	1, 5, 10, 34, 46	Temporary workers	34, 35, 41
Part-time workers	11, 34, 35, 38, 40	Tiered cost sharing	
Per diem	89, 100	Hospital	7, 89, 101, 148
Plan choice	10, 56	Prescription drugs	112, 114
Plan enrollment	6, 68-70	Providers	89, 101
POS plans	2, 4, 6, 10, 16, 17, 21, 22, 28-31, 56, 58, 62, 68-70, 75-78, 82-85, 88-93, 95, 97-99, 101, 104, 107-109, 113, 118-120, 124, 126	Turnover (attrition)	38, 39
		Union workers	34, 38, 73, 130, 133
		Waiting period	6, 47, 52, 53



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