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News Release

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Mercer survey finds $1,000 health plan deductible became the norm in 2008 – so what happens in next year's tough business environment?

- **Employers held health benefit cost increases to about 6 percent in 2008 for a fourth straight year – but that has meant shifting more cost to employees**
- **Consumer-directed health plans are offered by 20 percent of large employers, up sharply from 14 percent last year**
- **More large employers add incentives to encourage health-conscious behavior**
- **Employers shed retiree medical plans in 2008, but with health reform looming there was no further erosion of active employee plans**

New York, 19 November 2008

The median deductible required by employers for individual coverage in PPO health plans jumped to $1,000 in 2008, up from $500 last year, according to the *National Survey of Employer-Sponsored Health Plans,* conducted annually by Mercer and released today. In 2000, only about half of employers imposed a deductible for PPO coverage (compared to about four-fifths today), and when they did the median amount was just $250 (Fig. 1). PPOs are the most popular type of health plan, enrolling 69 percent of all covered employees.

Mercer's survey includes private and public employer health plan sponsors with 10 or more employees. Nearly 2,900 employers participated in 2008.

What makes this finding more startling is that it refers to *traditional* PPOs – not the high-deductible health plans where a deductible of at least $1,100 is required in order to deposit tax-free money in a Health Savings Account, or HSA. These plans are spreading rapidly as well.

"The introduction of the HSA may be influencing employers' thinking on just how high a deductible can go without causing employee backlash," said Deb Katilus, a principal at Mercer. "Increasing cost sharing by raising deductibles or increasing copays or coinsurance have become popular short-term solutions for employers faced with cost increases they can't handle. It's the easiest way to reduce their cost without taking more out of every employee's paycheck."

PPO deductibles are lower among larger employers. In organizations with 500 or more employees, the median deductibles for individual and family coverage are $300 and $800, respectively. But large employers have been moving quickly to add HSA options for their employees.

Health care spending in an economic downturn

The Mercer survey found that total health plan cost per employee rose by 6.3 percent in 2008. Annual cost increases leveled off at about 6 percent in 2005 and have remained there ever since. Employers expect a similar increase for 2009 – 6.4 percent (Fig. 2). That projection reflects changes that employers plan to make in the level of benefits, the type of plan offered or the plan vendor. (If employers made no changes, the cost of their largest medical plan would rise by about 8 percent, they predict.)

A big question for employers is whether their cost projections, provided in August and September, will hold in the face of the current global economic downturn. Utilization tends to increase during a recession. When job security is in jeopardy and insurance is tied to employment, consumers rush to get care they might otherwise delay. In addition, laid-off employees paying for coverage under COBRA provisions typically have far higher utilization than active employees. More employees are at risk for stress-related behavioral-health and medical conditions as they deal with investment losses, job insecurity and declining housing values. Prices may also rise, as health plans and providers search for ways to recoup their investment losses; high unemployment leads to more uncompensated care; and public safety nets such as Medicaid respond to higher enrollments by freezing increases in provider compensation.

"But these are different times, and history might not repeat itself," said Ms. Katilus. "Higher employee cost-sharing – like a $1,000 deductible – could prevent that spike in utilization that we've seen in the past."

Consumer-directed health plans may prove a refuge for employers and employees

Rumors of the demise of the consumer-directed health plan are not borne out by Mercer's 2008 survey results. There was a sharp increase in the number of large employers offering CDHPs (a health plan coupled with either a Health Savings Account or a Health Reimbursement Arrangement) in 2008, from 14 percent to 20 percent of employers with 500 or more employees. The plans are most common among the very largest employers (20,000 or more employees), where they are offered by 45 percent, up from 41 percent in 2007. However, growth has been slower among small employers: Mercer found that just 9 percent of employers with 10–499 employees offer a CDHP, up from 7 percent in 2007 (Fig. 3). These employers are more likely simply to offer a high-deductible PPO without an account feature.

Enrollment in CDHPs reached 7 percent of all covered employees in 2008, up from 5 percent last year (Fig. 4). As employees shift from more expensive plans into less expensive ones,

employers' overall cost per employee drops. This migration into lower-cost CDHPs is one factor helping to hold down benefit cost increases.

"Difficult economic times may prompt more employers in need of cost savings to adopt CDHPs and it may drive up enrollment rates where employees have a choice of plans," said Ms. Katilus. "With so many area employers facing steady rates of increase that are double the rate inflation, adding an HSA with a $1,150 deductible – the minimum amount for 2009 – and using part of the savings to fund the account, is a tool that can help reduce cost while improving overall value to employees."

The new plan model's appeal to employers seems clear: CDHPs delivered substantially lower cost per employee than either PPOs or HMOs in 2008. CDHP cost averaged $6,207 per employee, compared to $7,815 for PPOs and $7,768 for HMOs (Fig. 5). Of the two types of CDHPs, HSA-based plans were less expensive than HRA-based plans ($6,027 compared to $6,420).

The most obvious explanation for the difference in cost between CDHPs and the other medical plan types is the higher deductible. But even compared to the average cost of PPOs with deductibles of $1,000 or higher ($6,661 per employee), CDHPs still cost less by over $400, even though CDHP enrollees are not significantly younger than enrollees in PPOs with high deductibles and are more likely to elect dependent coverage (which drives up cost per employee). The 2008 cost increase for CDHPs was 4.0 percent, compared to 6.3 percent for PPOs and 9.1 percent for HMOs.

Most of the CDHPs added in 2008 were based on HSAs, which don't require an employer contribution. Employer account contributions are a standard feature of HRAs but not of HSAs: over a fourth of large HSA sponsors (29 percent) do not contribute. Among those that do, the average contribution is $694.

"With deductibles and other cost sharing features in traditional PPOs rising, the CDHP is becoming a more attractive option for employees who have a choice," said Ms. Katilus. "If your employer puts money in your account and you don't use many services, you can end up carrying a balance forward. But it all depends on how you use health care."

The flip side of consumerism – employee health management

Employers are looking to put more teeth into employee health management programs, in hopes that encouraging better health habits will lead to lower health spending and a more productive workforce. While the majority of employers offer one or more health management programs, large employers, in particular, are now adding incentives to encourage employees to use the programs or improve health habits. Of large employers offering a health management program, 26 percent use incentives, up from 23 percent in 2007 (Fig. 6).

Nearly one-fifth of the very largest employers (those with 20,000 or more employees) have special plan provisions relating to an employee's smoker status – most often, requiring a lower premium contribution from non-smokers than from smokers (17 percent).

Large employers are also increasingly using health risk assessments to learn about their employees' health habits (65 percent, up from 56 percent in 2007).

Employers shedding retiree medical coverage

Sometimes overlooked in the question of access to health insurance is the plight of employees who want to retire before they are eligible for Medicare. Early-retiree medical coverage is becoming increasingly rare, with just 27 percent of large employers still offering it to new hires, down from 46 percent 15 years ago (Fig. 7). Even among the largest employers (20,000 or more employees), fewer than half (47 percent) provide this benefit. Coverage for Medicare-eligible retirees has slipped to 19 percent of all large employers, from 40 percent 15 years ago.

"The slowing economy makes the lack of retiree coverage a bigger issue," said Ms. Katilus. "Companies that hope to reduce their workforce through attrition rather than lay-offs may find older workers staying on longer because they don't want to lose their health benefits."

Survey data suggest that offering a plan affects retirement decisions. In organizations that provide a retiree medical plan, the average retirement age is 61, compared to 64 among those that don't provide a plan.

There was no decrease in the percentage of employers offering coverage to active employees: 65 percent of all employers sponsored a health plan in 2008. While this is down from 70 percent in 2001, it is up slightly from 2007's 63 percent. "It may be that between national health reform proposals and actual state health reform initiatives, many employers have decided to maintain their plan offerings and see what evolves," said Ms. Katilus.

Health plan offerings vary significantly by employer size, with nearly universal coverage among employers with 500 or more employees. However, as part-time workers grow as a percentage of the total work force (US Bureau of Labor Statistics), it's worth noting that only 61 percent of large employers that use part-time employees provide these workers with health coverage.

Other findings

- **Opinions on specific health care reform proposals** vary considerably, but employers are most in favor of an individual mandate requiring everyone to have coverage if they can afford it, either through their employer or purchased on their own (53 percent approve or strongly approve, 30 percent disapprove or strongly disapprove). However, there is little support for either a single-payer system like Canada's (29 percent) or an employer "play or pay" mandate (31 percent). See Fig. 9 for results for all proposals.

- **Same-sex domestic partner coverage** is offered by 24 percent of all employers and 34 percent of large employers. The larger the employer, the more likely they are to include domestic partners as eligible dependents: 74 percent of those with 20,000 or more employees cover same-sex domestic partners up from 68 percent in 2007 and 62 percent in 2006.

- **Spousal coverage** Eight percent of large employers use special provisions to limit election of coverage for spouses who have other coverage available and 6 percent are considering it for 2009. Among employers with 20,000 or more employees, 15 percent use these special provisions.

- **Provisions related to employees' smoker status** remain rare among all employers (less than one percent), but their use is growing among very large employers. In 2008, 15 percent of employers with 10,000 or more employees required smokers to pay more toward the cost of coverage than non-smokers, up from 12 percent in 2007.

- **Mini-med** or limited health programs – low-cost plans that are intended to cover routine or preventive care only (as opposed to catastrophic care) – are offered by 7 percent of large employers and 20 percent of those with 20,000 or more employees. Large employers in the wholesale/retail industry, which typically employs many part-time employees, are most likely to offer these plans (31 percent).

- **Worksite clinics** About a third of large employers (32 percent) offer an on-site or near-site medical clinic for occupational health services; 13 percent of large employers offer a clinic for primary care services.

Survey methodology

The Mercer *National Survey of Employer-Sponsored Health Plans* is conducted using a national probability sample of public and private employers with at least 10 employees. Nearly 2,900 employers completed the survey in 2008. The survey was conducted during the late summer, when most employers have a good fix on their costs for the current year. Results represent about 600,000 employers and more than 90 million full- and part-time employees. The error range is +/–3 percent.

The full report on the Mercer survey, including a separate appendix of tables of responses broken out by employer size, region and industry, will be published in late March 2009. The report costs $600 and the report and tables cost $1,200. For more information, visit www.Mercer.com/ushealthplansurvey or call Tara Lewis at 212/345-2451.

Notes for editors

Health maintenance organizations (HMOs) use a network of health care providers and do not cover care provided outside of the network.

Preferred provider organizations (PPOs) utilize a network of providers. There may be incentives for members to use the network providers, but they are covered for care received outside the network. **Point of service plans** are included.

A **consumer-directed health plan (CDHP)** is a medical benefit design in which employees use spending accounts – **Health Savings Accounts (HSAs)** or **Health Reimbursement Arrangements (HRAs)** – to purchase routine health care services directly. Non-routine expenses are covered by traditional insurance after members meet a generally high deductible.

Online health and financial tools are generally provided. With an HSA, employees may contribute pre-tax dollars into the account; an employer contribution is optional, but employees have full control over all money in the account. With an HRA, only employers may fund the account and they decide whether money left in the account at the end of the year may roll over.

About Mercer

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(see following pages for figures referenced)

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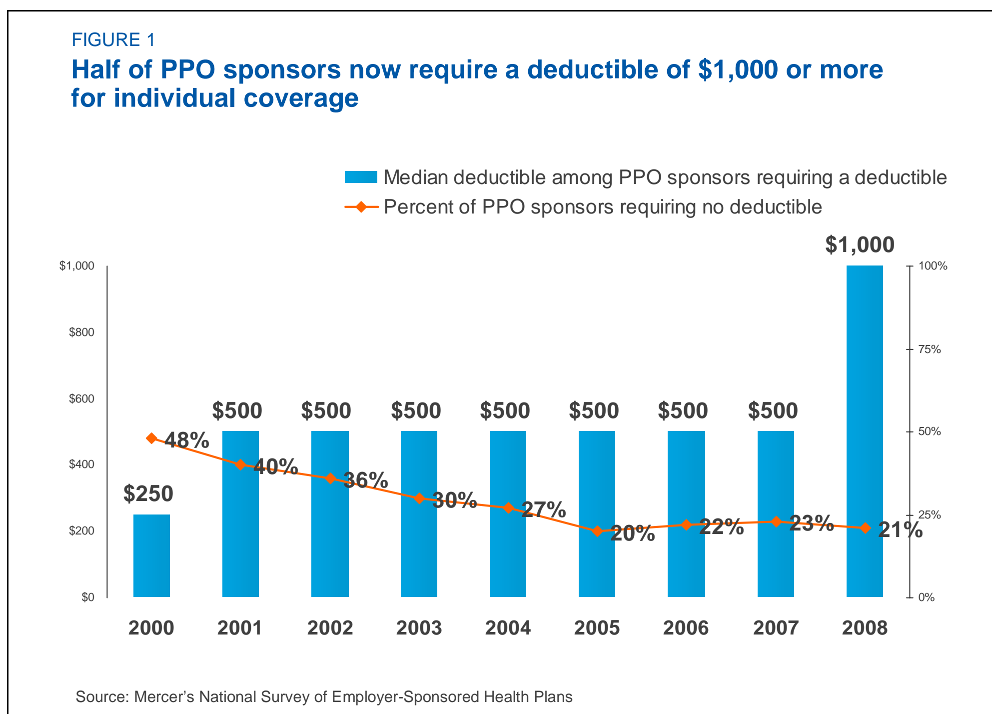

FIGURE 1

Half of PPO sponsors now require a deductible of $1,000 or more for individual coverage

Source: Mercer's National Survey of Employer-Sponsored Health Plans

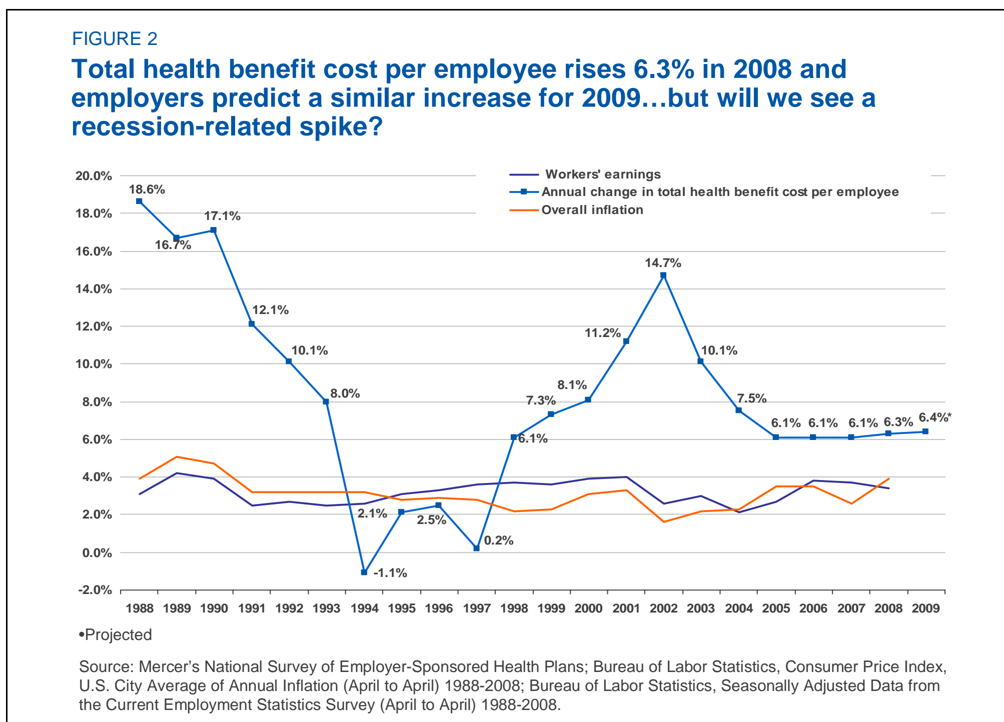

FIGURE 2

Total health benefit cost per employee rises 6.3% in 2008 and employers predict a similar increase for 2009…but will we see a recession-related spike?

•Projected

Source: Mercer's National Survey of Employer-Sponsored Health Plans; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April) 1988-2008; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey (April to April) 1988-2008.

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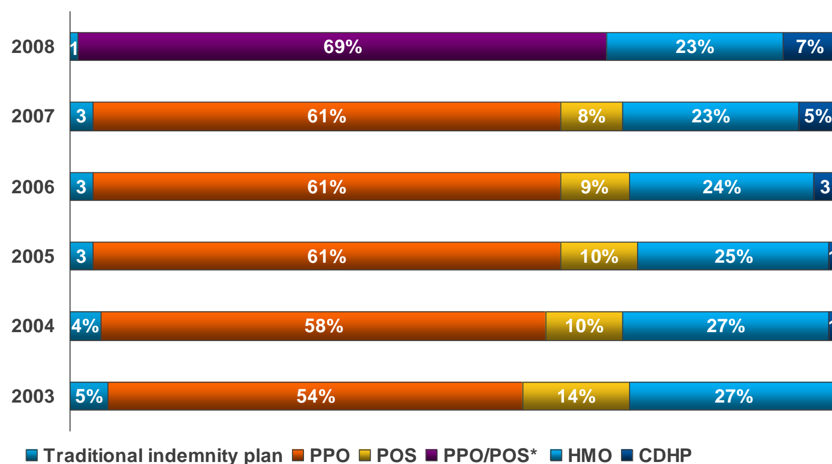
FIGURE 3
Big jump in CDHP offerings among large employers
Percent of employers

	CDHP* offered in:				Very likely to offer in 2009
	2005	2006	2007	2008	
Small employers (10-499 employees)	2%	5%	7%	9%	14%
Large employers (500 or more employees)	5%	11%	14%	20%	25%
Jumbo employers (20,000 or more employees)	22%	37%	41%	45%	45%

*Based on either a health savings account or health reimbursement arrangement.

Source: Mercer's National Survey of Employer-Sponsored Health Plans

FIGURE 4
Enrollment in consumer-directed health plans grows in 2008
Percentage of all covered employees enrolled in each plan type



*Combined in 2008 due to declining offerings of/enrollment in POS plans.
Source: Mercer's National Survey of Employer-Sponsored Health Plans

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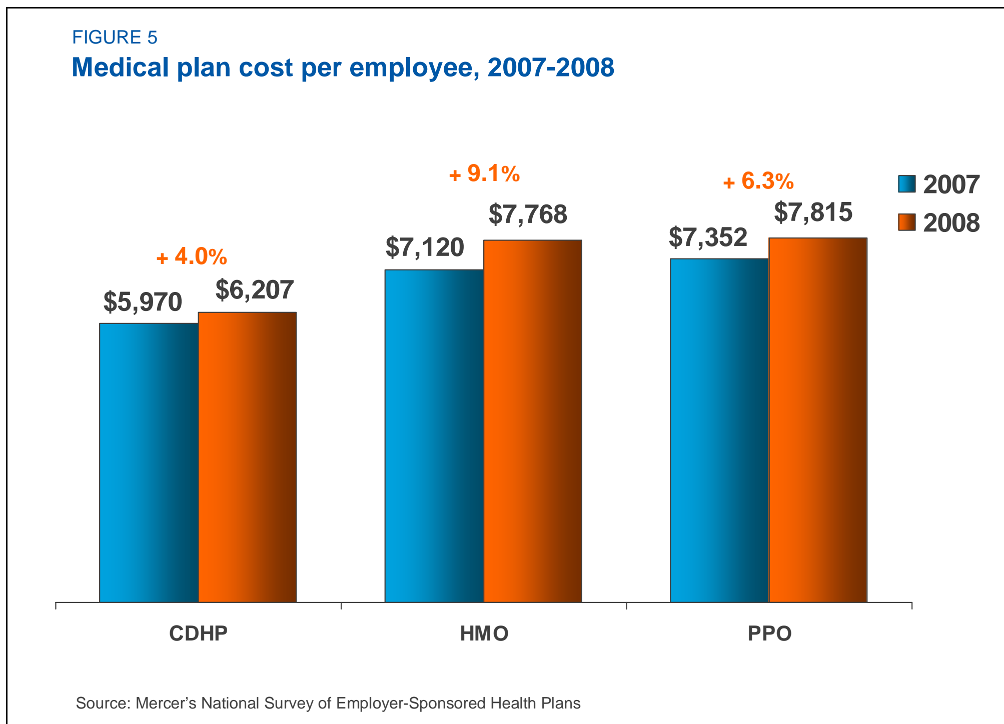

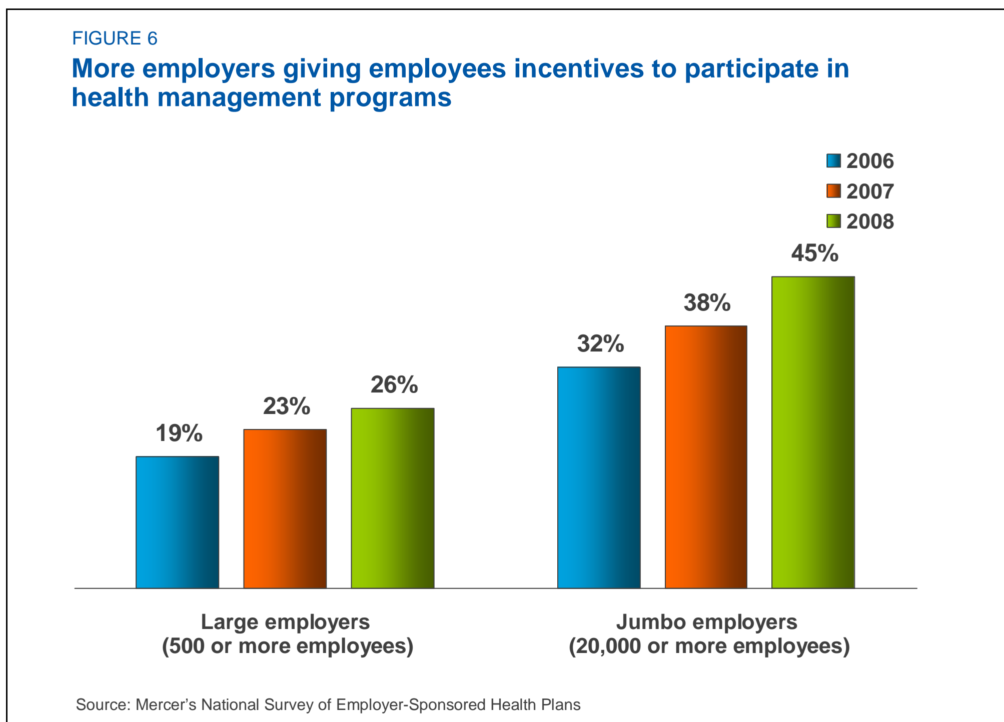

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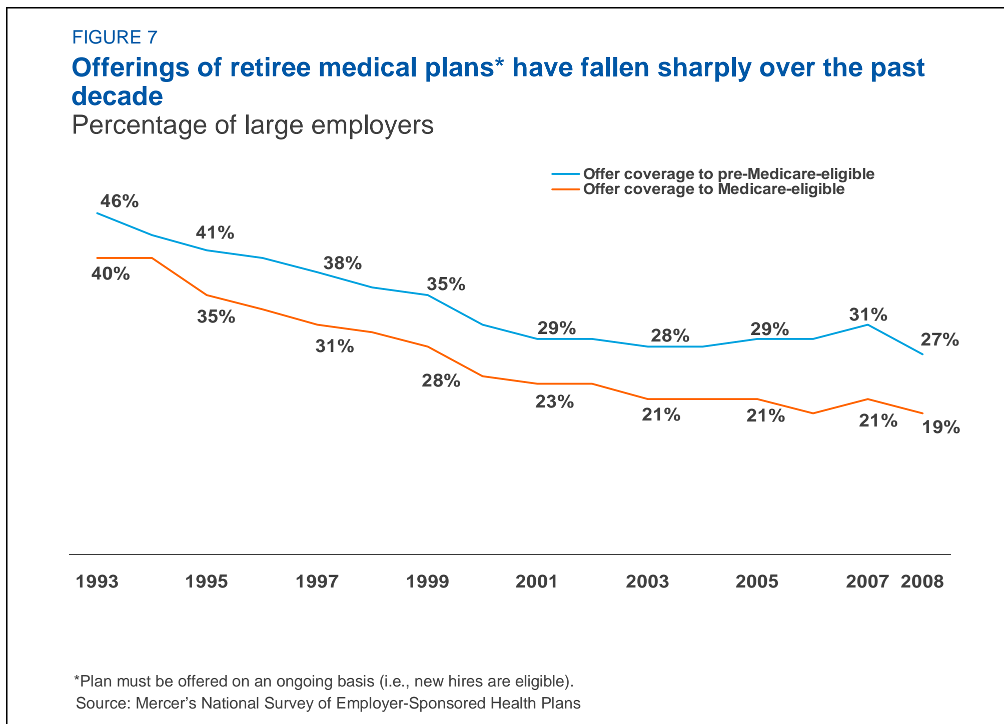

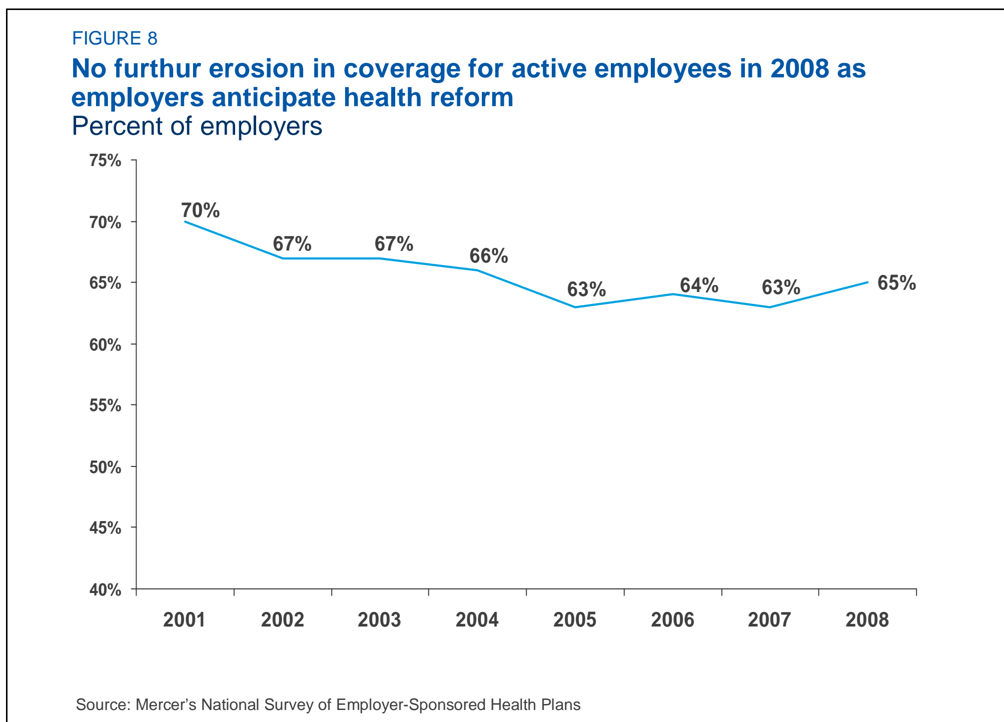

FIGURE 9

Do you approve or disapprove of each type of health care reform?

All employers

	Strongly approve/ approve	Strongly disapprove/ disapprove
People are required to have coverage if they can afford it, either through their employer or purchased on their own	53%	30%
Employers are required to either offer health coverage or pay into a government fund to cover the uninsured ('play or pay')	31%	50%
Congress waives ERISA and allows states to include all employers in state health reform programs	34%	21%
Health insurance regulatory authority is moved from state to federal government	24%	43%
The federal government reimburses employers' health expenses above a certain level ('stop-loss' or reinsurance)	46%	24%
Tax breaks for employer coverage are eliminated or capped; the value of all benefits or benefits in excess of the cap is taxable. All individuals receive the same tax deduction for health coverage	30%	41%
Employer plans are replaced by private plans providing individual coverage, partly financed by employer contributions (on sliding scale)	34%	30%
The U.S. adopts a system like Canada's, in which the Federal government is the sole payer for health services	29%	51%

Note: This data was collected through the 2008 survey but released October 21, 2008, in advance of the presidential election. The earlier release is posted on Mercer.com at http://www.mercer.com/summary.htm?idContent=1325605.

Source: Mercer's National Survey of Employer-Sponsored Health Plans