

# BENEFIT

## Plan Developments



A monthly report covering plan design and legislative changes

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## Small Businesses Committed to Offering Benefits

The vast majority of small and mid-size companies continue to offer benefits to employees despite the challenging business climate and rising premium costs, according to a survey by *Employee Benefits News (EBN)* magazine and Genworth Financial.

The online poll of more than 500 benefits decision makers from firms with 10 to 500 employees found that 99% of respondents said their companies offered a health care plan to workers, and more than 80% offered life, disability, and retirement benefits.

Asked to choose from a list of reasons for offering employee benefits, almost all respondents agreed, either strongly or somewhat, that good benefits help in attracting and recruiting job candidates, and in

retaining current employees. Most also agreed that companies should provide benefits to employees and their families, and that employees

expect good benefits packages.

Another primary motivation for offering benefits cited by survey participants was the awareness that competitors and other businesses offer benefits.

The employees of the companies surveyed bore an average of 19% of the cost for single medical coverage, and 39% for family coverage. Some 80% of respondents said their firms offered PPO plans, and 44% offered HMO plans. In addition, 53% of respondents provided flexible spending accounts (FSAs) for employees. Just 7% reported offering consumer-driven health plans, and 3% gave employees the option of opening health savings accounts (HSAs).

The most frequently offered non-medical benefits among the employers surveyed were life insurance, dental

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insurance, retirement plans, long- and short-term disability, and long-term care insurance. While 82% of the companies surveyed said they had a 401(k) plan, 17% said they offered no match. Another 14%, however, reported offering a match of more than 5%. Of the companies with a 401(k) match, the average was 3.25%.

“The fact that life, disability, and retirement benefits remain widely offered by small to mid-sized businesses is further evidence of an impressively strong commitment to offer a broad spectrum of benefits—in spite of other competitive business pressures and generally rising benefits costs,” said Rone Baldwin, president of Genworth Financial’s Employee Benefits Group.

Asked where or from whom they get their benefits advice, 79% of respondents said a broker, and 38% said the Internet. Smaller numbers reported using a consultant, an accountant, or local business groups. The survey results showed that brokers often have significant influence over what benefits are offered, and the providers or carriers selected. More than three-quarters of the employers surveyed purchased benefits from brokers, while just 16% said they purchased directly from providers.

Looking forward, one-third of respondents said their companies planned to offer more benefits in the next two years, and 53% intend to continue to offer the same benefits they do currently. Another 8% were uncertain, and just 6% said their companies plan to scale back benefits.

## Health Benefits Weigh On Bottom Line

As the cost of providing health care coverage to employees continues to rise at rates well above inflation, many small business owners are being forced to cut down, or eliminate altogether, health

benefits for their workers, a recent survey showed.

Small business owners, according to Dan Danner, senior vice president at the National Federation of Independent Business (NFIB), “are faced with some tough questions. Will employers be forced to pass another premium increase on to employees? Will employers have to further prolong the time frame required before they can offer benefits to a new worker? Will they be faced with the difficult choice of whether to offer coverage only to an employee instead of the employee’s entire family? Or, will they be forced to stop offering health care altogether?”

Danner was commenting on the nonprofit Kaiser Family Foundation’s “2004 Employer Health Benefits Survey,” which found that many U.S. employers are still attempting to absorb at least some of these premium rate hikes, rather than passing them on to employees. But results indicated that the effect of rising health care insurance costs is having an impact on the number of companies offering health coverage, the quality of the coverage, and the amount both workers and employees are forced to spend to get insurance.

Between spring 2003 and spring 2004, the survey found, premiums for employer-sponsored health insurance rose by an average of 11.2%—the fourth consecutive year of double-digit growth. Since 2000, researchers said, premiums for family coverage have grown by 59%, compared with inflation growth of 9.7% and wage growth of 12.3%. Average annual premiums for employer-sponsored coverage during the 2003–04 period were \$3,695 for single coverage and \$9,950 for family coverage.

Researchers noted, however, that the percentage of premiums paid by employees remained unchanged over the last several years, with workers paying 16% of the cost of single coverage, and 28% of family coverage. But while the percentage contributed by employers toward

single coverage was roughly the same for larger (200 or more employees) and smaller (3–199 employees) businesses, large companies paid significantly more on average than their smaller counterparts towards family coverage.

“Small firms, who pay their workers less on average than large firms, may have a particularly difficult time fitting family coverage into their employee compensation packages if premium growth continues at recent rates,” researchers concluded.

The survey also found that employee cost sharing continued to rise last year. Slightly more than half of workers have health plans with deductibles, and the vast majority make copayments for physician visits and prescriptions.

The percentage of U.S. companies offering health benefits to their employees decreased from 68% in 2001 to 63% in 2004, researchers noted. The fall, they said, “is driven largely by a significant decline in the percentage of all small firms offering coverage during this time.” The smaller the company, the less likely it was to offer health benefits, survey results indicated. The likely reasons for this drop, researchers said, were double-digit premium increases, combined with a slow job market.

“Policymakers will want to watch these trends closely in coming years to determine whether these lower rates of offering and coverage [among small firms] 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,” researchers warned.

In an effort to reduce costs, 56% of the employers surveyed said they had shopped around for a new plan over the past year. Of those companies, 31% said they had moved to a new insurance carrier, and 34% said they had changed the type of health plan they offered. Overall, most respondents were skeptical of market strategies aimed at reining in premium growth. Relatively small

percentages of those surveyed rated as “very effective” initiatives such as disease management, consumer-driven health plans, tightly managed care networks and higher employee cost sharing.

Dan Danner of the NFIB has suggested that nothing short of a major shift in public policy will bring relief to small business owners saddled with increasingly unaffordable health care premiums. “Small business owners are looking for policies and practices that will make affordable, quality health care a reality for America’s job creators, as well as those that address the core of the problem—the ever-increasing cost of health care,” Danner said. “When Main Street entrepreneurs head to the ballot box, they’ll be casting their votes for candidates who are ready to take meaningful action to address the same hard choices small business owners have to make each day.”

## More Employees Covered By Disability Insurance In H1 2004

The number of employees covered by group long-term disability (LTD) insurance grew by just over 3%, and the number of short-term disability (STD) insured employees rose by 2% during the first half of 2004, according to a benchmarking survey by disability consulting and market research company JHA.

Group insurance sales and earned premium increased in the first half of 2004, while LTD sales and earned premium remained flat over the same period, the survey of 32 group disability insurance carriers—including 19 of the top 20 carriers—showed.

Combined U.S. group disability mid-year sales premium for both STD and



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LTD insurance grew by around 2% compared with mid-year 2003, to just over \$1.1 billion. Broken down, new sales figures for LTD insurance were flat at just under \$779 million, while new STD sales increased 7% to \$358 million.

“Overall sales results are relatively flat as compared with both the mid-year and full-year results for 2003. Meanwhile, earned premium continues to grow at a steady pace,” Drew King, president of JHA, said.

JHA reported that group disability earned premium for both STD and LTD grew by nearly 6%, reaching almost \$5.2 billion. Companies reported a 6% rise in the LTD earned premium and 7% increase in STD earned premium.

The top ten carriers were able to increase their market share during the first half of 2004, garnering 87% of new LTD sales premium, and around 81% of new STD sales premium, the survey showed.

King said, “Due to some company consolidations in the first half of 2004, the growth of the top ten carriers has increased. In addition, there have been some changes to the list and order of top carriers as well.”

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## Rising Costs Force Employers To Adjust Benefits

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Many employers are responding to rising medical insurance premium costs by making changes to their health benefits packages, according to benefits consultancy Watson Wyatt Worldwide. The firm, which provides advice to employers on their health care benefit programs, said in a recent report that it had identified several trends for the upcoming open enrollment season.

Growing numbers of employers, according to Watson Wyatt, are introduc-

ing new plan designs with fewer options. Some are adding consumer-driven health plans to their range of benefits, although most are offering them as an alternative to, rather than a replacement for, traditional plans. Smaller companies, in particular, are starting to offer tax-advantaged health savings accounts (HSAs). Employers are also considering scaling back the number of HMOs they offer employees, and limiting the networks of PPOs.

In an effort to lower premium costs, the consultancy reported, many companies are increasing copayments for doctors' visits and hospital care, as well as copayments for prescription drugs of all kinds, including generic drugs. Some employers may also levy a surcharge for covering the spouse of an employee who has access to medical insurance elsewhere.

But the consultancy also reported more positive developments, including the introduction by some employers of disease management programs, which are designed to help employees manage chronic illnesses, such as diabetes or heart disease. These companies are sometimes offering cash incentives or premium reductions to qualified workers who participate in the programs. To help compensate for changes in health care coverage, some employers are also offering voluntary benefits at below-market rates. Voluntary benefits may include automobile and life insurance, cut-rate mortgages, or subsidized fitness club memberships.

Finally, Watson Wyatt said that many employers are in the process of improving their communications with employees on health benefits issues, and launching online support tools to help workers make decisions relating to their personal health and their medical insurance coverage.



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