

2005 RHODE ISLAND EMPLOYER SURVEY

FINAL REPORT

PREPARED FOR THE RHODE ISLAND
DEPARTMENT OF HUMAN SERVICES

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I. Executive Summary

Like most Americans, the majority of Rhode Islanders continue to obtain health coverage through their employers. As health care costs rise, many employers are contributing less to health insurance for their employees, requiring employees to pay more out-of-pocket, or dropping coverage altogether. These developments are critical to keep in mind when formulating health policy for the uninsured and underinsured. Historically, Rhode Island has had one of the lowest rates of uninsured in the country, but this situation is changing. Rhode Island currently ranks ninth nationally in terms of lowest rates of uninsured. In 2005, nearly 120,000 Rhode Islanders lacked health insurance coverage and thousands more may be underinsured.¹

In order to better understand Rhode Island employers' decisions about health coverage, the Rhode Island Department of Human Services contracted with JSI Research & Training Institute, Inc. in 2005 to conduct an extensive survey of Rhode Island employers' experiences with health benefits for their employees. The Rhode Island Department of Health conducted a similar survey in 1999, and the results from the current study provide an understanding of the changes that have occurred since that time. The survey was sent to a representative sample of all Rhode Island employers. The survey had a response rate of 51% with 1,436 of 2,815 employers responding. Companies ranged in size from 3 to 10,600 employees in Rhode Island, with the majority being small companies with fewer than 50 employees. The survey was a self-administered mail-out/mail-back questionnaire. The mail survey was supplemented by telephone reminders and interviews. The sample included for-profit companies, non-profit organizations and government agencies.

The survey asked questions about: (1) which employers offer health coverage, (2) who is eligible for coverage, (3) who enrolls in coverage, (4) reasons why some companies do not offer coverage, (5) health care costs confronting employers, (6) how employers are sharing the costs of health insurance, (7) how many health carriers and plan types are offered, (8) the effects of health care costs on core business, (9) how rising costs influence enrollment in public coverage, and (10) what policy changes employers plan for the future.

The major findings are:

Erosion of coverage and lower offer rates:

- Although the majority of Rhode Island employers continue to offer health coverage to some or all employees, the offer rate has dropped from 79% in 1999 to 74% in 2005. Only 65% of employers with 3-9 employees offer health insurance.
- Less than half (48%) of low-wage employers (those with more than 50% of employees paid salaries less than \$21,000) offer health coverage to full-time employees compared to 89% for other employers.
- All (100%) government agencies, 78% of non-profit, and 73% of for-profit organizations offered coverage.
- The offer rates for health coverage vary dramatically by industry. Nearly all of the employers in industries such as manufacturing (93%) and transportation (96%) provide insurance coverage to their employees. The sectors with the lowest offer rates for their employees are administrative support and waste management (64%), agriculture and fishing (67%), and accommodation and food services (67%).
- Offer rates for health coverage are influenced by the growth and profitability of the employer. Eighty-seven percent (87%) of companies that increased hiring offer coverage compared to 76% of employers whose hiring declined over the last three years.

Decreasing enrollment or acceptance of coverage:

- In companies where health coverage was offered, eligibility for full-time employees decreased from 92% in 1999 to 89% in 2005, and eligibility for part-time workers decreased from 32% in 1999 to 14% in 2005.
- Among those offered coverage, enrollment rates for full-time eligible employees fell from 80% in 1999 to 69% in 2005, and enrollment rates for part-time eligible employees rose from 36% in 1999 to 39% in 2005.

¹ “Underinsured” can be defined as being insured all year but without adequate financial protection in relation to income and health status (Schoen et al., 2005)

- Nineteen percent (19%) of employers offer financial incentives to employees who choose their spouse's coverage rather than accept their own employer's coverage. Thirty-two percent (32%) of companies with 100 or more employees offer compensation for accepting spousal coverage.

Rising cost of insurance:

- Health insurance premiums in Rhode Island are among the highest in the country. Rhode Island employers pay average monthly premium costs of \$398 for individual coverage and \$1,033 for family coverage. The 2005 Kaiser Family Foundation Survey reported average monthly premiums of \$335 for individual coverage and \$907 for family coverage.
- Many employers are responding to the rising cost of health insurance with increased employee cost-sharing – both in terms of premium contributions and at the point-of-service. In 1999, 61% of employers paid the full premium for individual coverage compared to 38% in 2005. In 1999, 43% of employers paid the full premium for family coverage compared to 26% in 2005.
- High-deductible plans are becoming more prevalent with 20% of employers offering their employees the option of a high-deductible plan.
- In Rhode Island, most employers contract with either Blue Cross Blue Shield or United HealthCare. Only 3% of employers offered a choice of two or more carriers.
- Those employers not offering health insurance indicate that cost to employer and the employee was the major reason for not offering coverage.

Impact on businesses:

- Rising health costs have begun to affect core business practices and performance. Two-thirds (65%) of employers reported that their profits were reduced because of health care costs. Only 16% report that health care costs have not affected their business at all.
- Despite the magnitude of the impacts on business, health benefits remain an important human resource tool for employers. Three out of four (74%) employers still view health benefits as very or extremely important for attracting new employees and 78% consider them very or extremely important for retaining them.

- Many employers, when asked for their suggestions regarding the problem of escalating health care costs are contemplating market solutions but also want the government to be more involved in addressing this problem by regulating or stabilizing insurance premiums.

Implications of Findings

A key trend between 1999 and 2005 is that *health insurance offer rates are declining*, especially among small employers. This decline is particularly striking in low wage industries such as retail and service sector jobs, affecting low wage earners disproportionately. *Eligibility rates are also declining*, and dramatically so for part-time workers. Employer policies regarding minimal hourly requirements for eligibility for health insurance have become much more restrictive over the last six years. *Employee acceptance of health insurance coverage has also dropped* since 1999. A number of factors including greater employee cost-sharing are responsible for this trend.

Health insurance premiums in Rhode Island are among the highest in the country, and cost—both to employers and employees—is the major reason that employers report for not offering health insurance. Employers are addressing *rising health care costs* by lowering their premium contributions and passing the cost on to employees. An increasingly prominent method of passing on costs is by utilizing health insurance plans with higher deductibles, making it necessary for employees to pay more at the point-of-service. Health care costs are affecting aspects of core business including overall corporate profits and pricing of products, making it more difficult to simply absorb the rising costs of health care. At the same time, employers consider health benefits critical for attracting and retaining employees.

If present trends continue, Rhode Island may not be able to absorb the financial and administrative burdens of those newly uninsured. Employees not offered coverage by employers may turn to public coverage. Employers are requesting more government involvement in addressing health insurance problems.

II. Introduction and Description of Employer Survey

Rhode Islanders, like most Americans, continue to obtain health coverage through their employers. As health care costs rise, many employers are contributing less to employee health insurance, or dropping coverage altogether. These developments are critical to formulating policy on the uninsured and under-insured. The Kaiser Commission on Medicaid and the Uninsured reported that 45.5 million non-elderly Americans lacked health insurance in 2004 (Kaiser 2005). More than two-thirds (69%) of the uninsured live in households with at least one part-time worker.

Erosion in employer-sponsored coverage is largely responsible for the state's rise in uninsured. Between 1999 and 2003, Rhode Island had one of the lowest rates of uninsured in the country. In 2004, nearly 120,000 Rhode Islanders lacked health insurance coverage, ranking ninth lowest in the number of uninsured. The growing number of uninsured is important to business because employers pay for the uninsured through higher insurance premiums that cover some of the cost of uncompensated care.

Moreover, low-wage and part-time workers as well as those employed in small businesses and the service sector are at greatest risk of being uninsured. Employers whose financial growth trails behind the rate of premium increases also may find themselves less likely to offer insurance.

In order to better understand Rhode Island employers' decisions about health coverage, the Rhode Island Department of Human Services contracted with JSI Research & Training Institute, Inc. in 2005 to conduct an extensive survey of Rhode Island employers' experiences with health benefits for their employees. The Rhode Island Department of Health conducted a similar survey in 1999 and the results from the current study provide an understanding of the changes that have occurred since that time. The survey was sent to a representative sample of Rhode Island employers and included companies that did and did not offer health insurance. The survey had a response rate of 51% with 1,436 of 2,815 employers responding. Companies ranged in size from 3 to 10,600 employees in Rhode Island, with the majority in small

companies with fewer than 50 employees. The survey was a self-administered mail-out/mail-back questionnaire. The mail survey was supplemented by telephone reminders and interviews. The sample included for-profit companies, nonprofit organizations and government agencies.

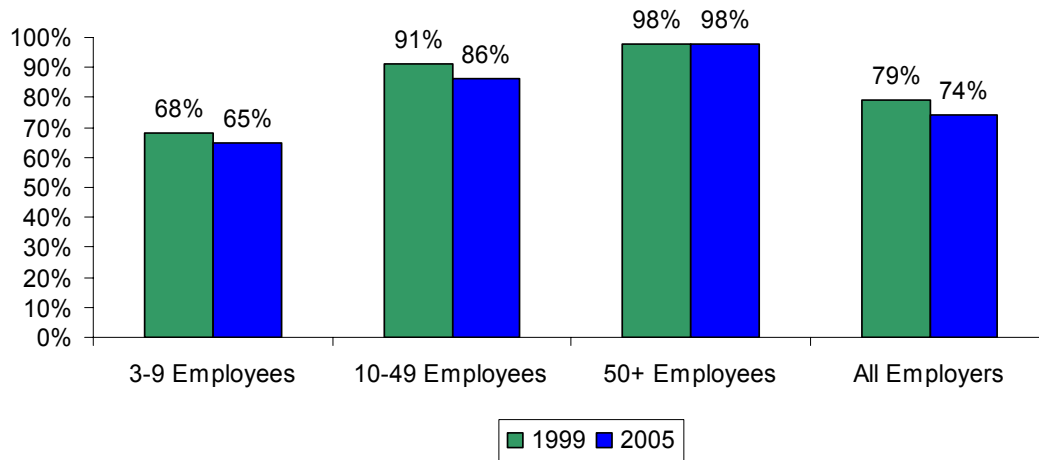
The survey asked questions about (1) which employers offer health coverage, (2) who is eligible for coverage, (3) who enrolls in coverage, (4) reasons why some companies do not offer coverage, (5) health care costs confronting employers, (6) how employers are sharing the costs of health insurance, (7) how many health carriers and plan types are offered, (8) the effects of health care costs on core business, (9) how rising costs influence enrollment in public coverage, and (10) what policy changes employers plan for the future.

III. Which Employers Offer Coverage?

All employers were asked whether they offered health insurance as a benefit to their employees. There has been gradual erosion in the number of employers offering coverage in Rhode Island—from 79% in 1999 to 74% in 2005, a 5% decrease. Assuming that these firms were in existence in 1999, this figure implies that more than 800 employers dropped coverage between 1999 and 2005, translating into thousands of people losing coverage. Offering health benefits is more difficult for smaller than for larger employers. Figure 1 shows that offer rates vary widely according to the size of the company with only 65% of employers with 3-9 employees offering health insurance in 2005 and almost all (98%) of employers with over 50 employees offering it. The greatest percent decrease between 1999 and 2005 occurred in the “10-49 employees” category where the offer rate fell from 91% to 86%.

Rhode Island employers are still more generous than their national counterparts. Nationally, only 48% of firms with 3-9 employees offer health insurance (Kaiser/HRET 2005). In Rhode Island, 65% of firms with 3-9 employees still offer health insurance to their employees.

Figure 1: Share of Rhode Island Employers Offering Health Coverage by Size, 1999 vs. 2005



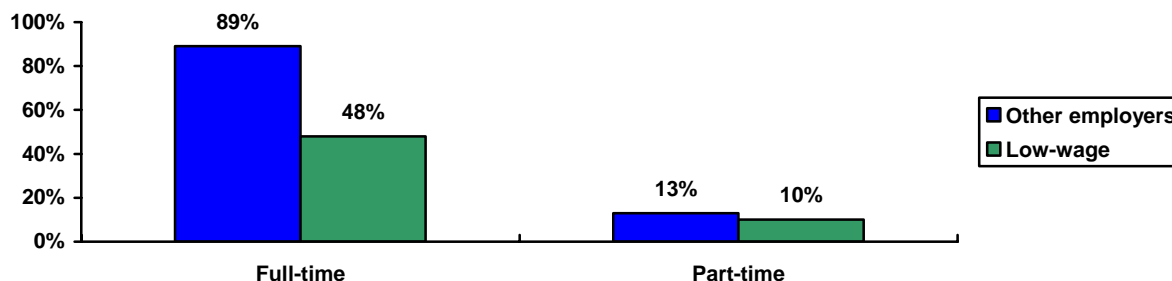
Sources: JSI Research & Training Institute Rhode Island Employers Survey, 2005

Rhode Island Department of Health 1999 Survey of Rhode Island Employers on Health Insurance Coverage

One of the most critical factors influencing employer decisions to offer coverage is the wage rates of their workforce. This study defined low-wage employers as companies where over 50% of employees are paid annual wages of less than \$21,000. Figure 2 shows the difference between low-wage employers and other employers' offer rates. Less than half (48%) of low-wage employers offer health coverage to full-time employees compared to 89% for other Rhode Island employers.

Low-wage employers hire more part-time workers than their counterparts. While other Rhode Island employers have an average of 14% part-time workers, low-wage workforces are comprised of almost half (48%) part-time workers. Among all employers, part-time employees are less likely to be offered coverage. Excluding low-wage employers, the offer rate for part-time employees is 13%, compared to 10% among low-wage employers.

**Figure 2: Share of Low-Wage vs. Other Employers Offering Health Coverage
in Rhode Island , 2005**

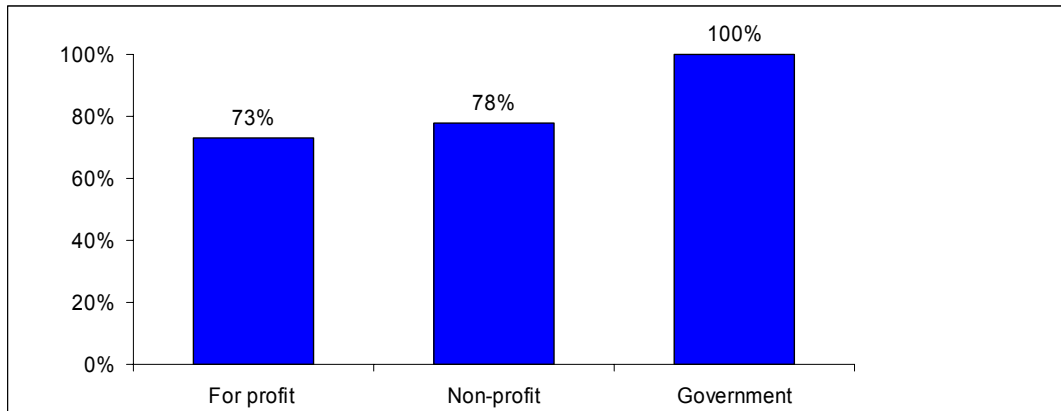


Source: JSI Research & Training Institute Rhode Island Employers Survey, 2005

The experience of low-wage employers is particularly relevant as income is one of the key determinants of lack of insurance. Nearly 80 percent of the uninsured are under 300% of the Federal Poverty Level (FPL) (Kaiser Commission on Medicaid and the Uninsured, 2005).

Traditionally, government agencies and non-profit organizations have had higher offer rates for health insurance than their counterparts in the private sector. This finding is true in Rhode Island as well. All (100%) government agencies, 78% of non-profits, and 73% of for-profit organizations offered coverage (Figure 3). This pattern has not changed significantly since 1999 when 78% of for-profit, 83% of non-profit, and 98% of government organizations offered health coverage. The State of Rhode Island is the largest employer in the state, so although there were not many government respondents in this survey, they account for many Rhode Island employees.

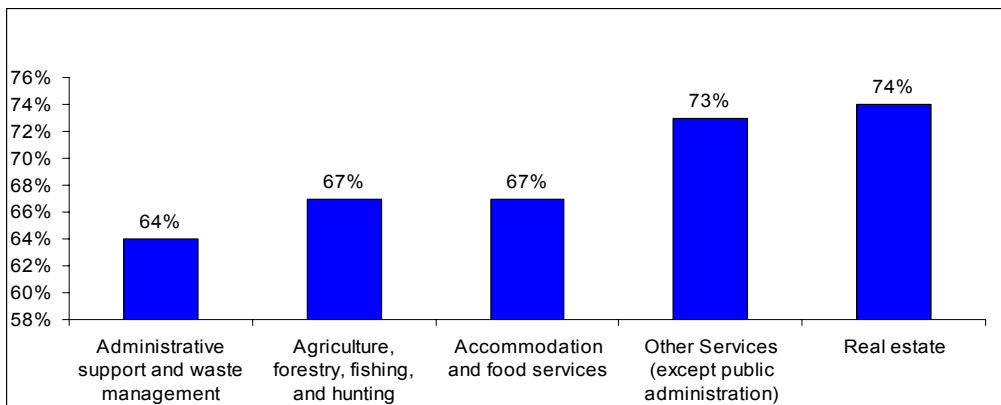
Figure 3: Offer Rates by Organization Type, 2005



Source: JSI Research & Training Institute Rhode Island Employers Survey, 2005

The offer rates for health coverage vary dramatically by industry. Nearly all of the employers in industries such as manufacturing (93%) and transportation (96%) provide insurance coverage to their employees. As shown in Figure 4, the sectors with the lowest offer rates of coverage are administrative support and waste management (64%), agriculture (67%), food services (67%), other services (73%), and real estate (74%).

Figure 4: Offer Rates for Five Industries with Lowest Offer Rates, 2005

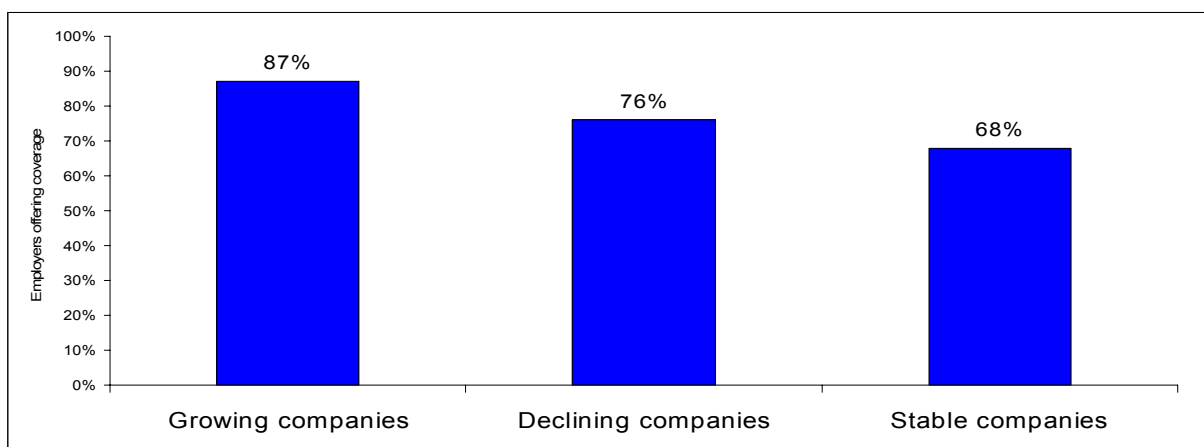


Source: JSI Research & Training Institute Rhode Island Employers Survey, 2005

Across sectors, seasonal workers are another group at risk for not being offered coverage. Sixteen percent (16%) of firms in Rhode Island employ seasonal workers. Among those employers with seasonal workers, only 14 percent offer coverage.

Offer rates for health coverage are influenced by the growth and profitability of the employer. While not the only indicator, increased hiring levels is one important indicator of the growth of a business. There were significant differences in health insurance offer rates between companies that hired employees in the last three years and those whose employment stayed stable or declined. Nine out of ten (87%) of the companies hiring workers offer coverage compared to three out of four (76%) of employers whose hiring declined over the last three years (Figure 5).

Figure 5: Offer Rates by Company Growth over Last Three Years, 2005



Source: JSI Research & Training Institute Rhode Island Employers Survey, 2005

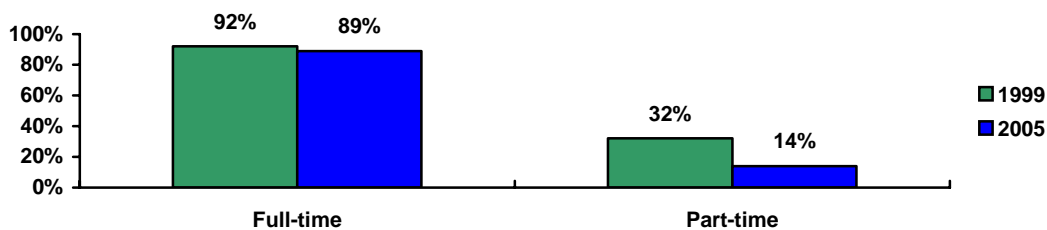
In summary, between 1999 and 2005, health insurance offer rates have declined, especially among small employers. This decline is particularly striking in low wage industries such as retail and service sector jobs, affecting low wage earners disproportionately. Significantly, the service sector has grown in the last five years while benefits-generous industries such as manufacturing have been declining in Rhode Island and in many regions (Hollohan and Cook 2004). Employees working in companies that are stagnant rather than growing are also adversely affected.

IV. Who is Eligible for Coverage?

All employers who offered coverage were asked what percentage of their full-time and part-time employees were eligible for that coverage. Figure 6 shows that eligibility for full-time

employees decreased from 92% in 1999 to 89% in 2005, and eligibility for part-time workers decreased from 32% in 1999 to 14% in 2005. Part-time workers in large firms are more likely to be eligible for coverage than part-time workers in smaller companies. Thus, at companies with 100 or more employees, 21% of part-time employees are eligible for coverage, compared to only 10% at companies with 10-24 employees.

Figure 6: Health Insurance Eligibility Rates for Full- and Part-time Employees
(Averages in 1999 vs. 2005)*



Sources: JSI Research & Training Institute Rhode Island Employers Survey, 2005

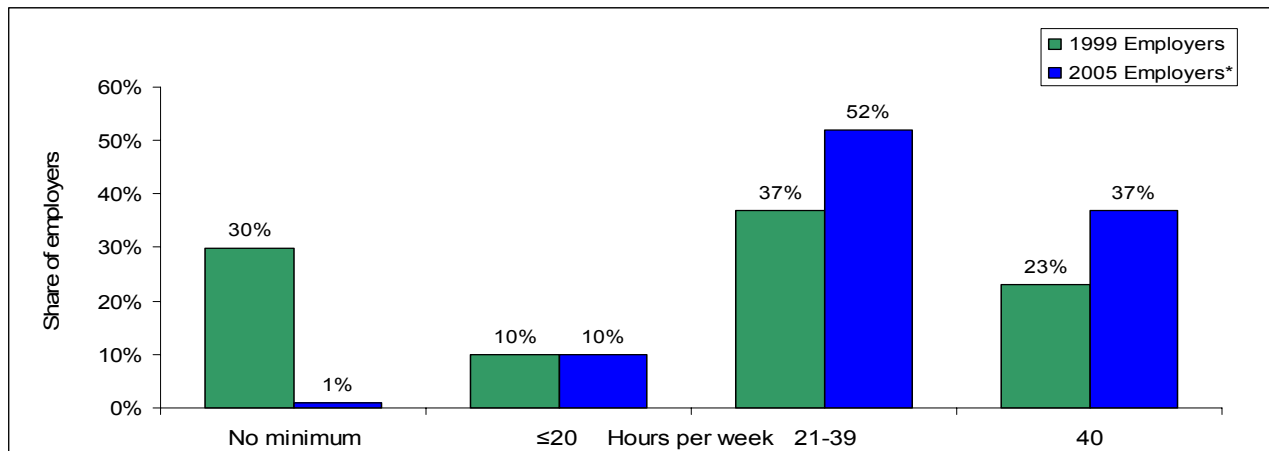
Rhode Island Department of Health 1999 Survey of Rhode Island Employers on Health Insurance Coverage

*Employees in firms offering health coverage

In 2005, 69% of employers enforced a waiting period before employees became eligible for coverage. While that figure has declined from 74% in 1999, larger employers still predominantly have waiting periods. For example 86% of employers with over 100 employees required a waiting period for coverage.

The eligibility of part-time employees for health benefits is most often determined by the number of hours worked per week. As shown in Figure 7, there was a dramatic difference in the minimum number of hours per week necessary to be eligible for coverage between 1999 and 2005. In 1999, 30% of employers had no minimum eligibility limits whatsoever compared to only 1% in 2005. By 2005, 99% of Rhode Island employers required employees to work 20 hours or more per week to be eligible for coverage. In 2005, 37% of employers required employees to work 40 hours a week, or full-time, for coverage, while in 1999, only 23% of employers had this requirement. Thus, many part-time workers lack coverage as they do not work the minimum hours per week typically required for eligibility.

Figure 7: Employers' Requirement for Minimum Work Hours per Week to be Eligible for Employer Health Coverage, 1999 vs. 2005



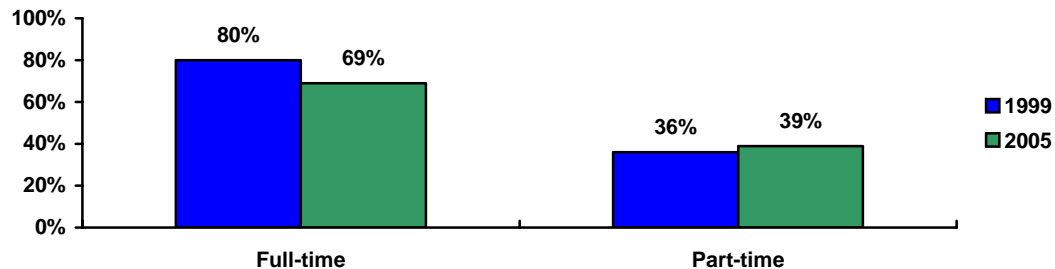
Sources: JSI Research & Training Institute Rhode Island Employers Survey, 2005
Rhode Island Department of Health 1999 Survey of Rhode Island Employers on Health Insurance Coverage

In summary, just as we found that health insurance offer rates are declining, eligibility rates are also declining. A major concern is that eligibility is decreasing dramatically for part-time workers. Employer policies regarding eligibility have become more restrictive over the last six years in terms of minimum hourly requirements for eligibility for health insurance.

V. Who Enrolls in Employer-Sponsored Coverage?

Not all employees who are eligible for coverage choose to enroll. Employers were asked what percentage of their eligible employees enrolled in coverage. Of employees eligible for coverage, 69% of full-time employees enrolled in coverage in 2005, compared with 80% in 1999 (Figure 8). Enrollment rates for part-time employees rose from 36% in 1999 to 39% in 2005.

Figure 8: Share of Full-time and Part-time Employees Accepting Coverage
(Averages in 1999 vs. 2005)*



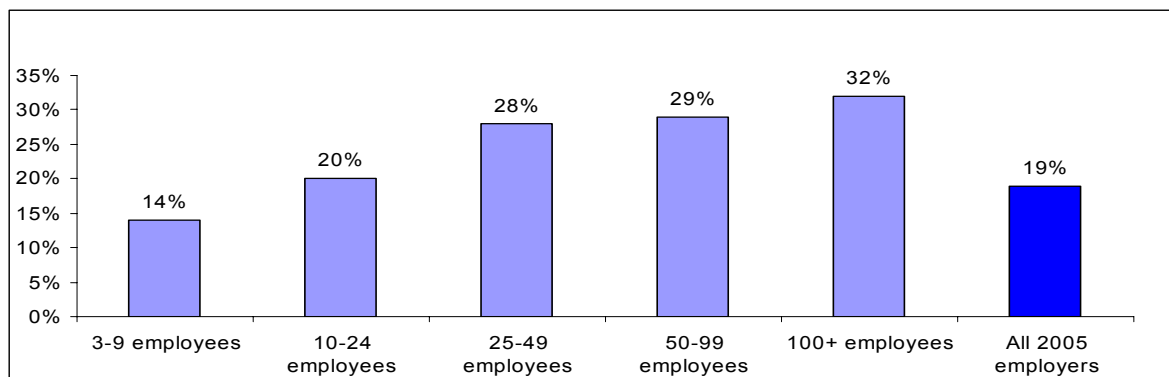
Sources: JSI Research & Training Institute Rhode Island Employers Survey, 2005

Rhode Island Department of Health 1999 Survey of Rhode Island Employers on Health Insurance Coverage

*Employees eligible for health coverage

The lower acceptance rates for full and part-time employees may be explained, in part, by the growing numbers of two income households and the greater reliance on spousal coverage. Furthermore, study results document the widespread use of financial incentives to encourage employees to select their spouses' rather than their own employers' coverage. The survey asked employers whether or not they compensated employees who declined their employer's coverage to enroll in their spouse's program instead. Figure 9 shows that 19% of employers compensated employees who accepted their spouse's coverage. The number of employers using these financial incentives increased with employer size, with one-third (32%) of employers with more than 100 employees making use of these financial incentives.

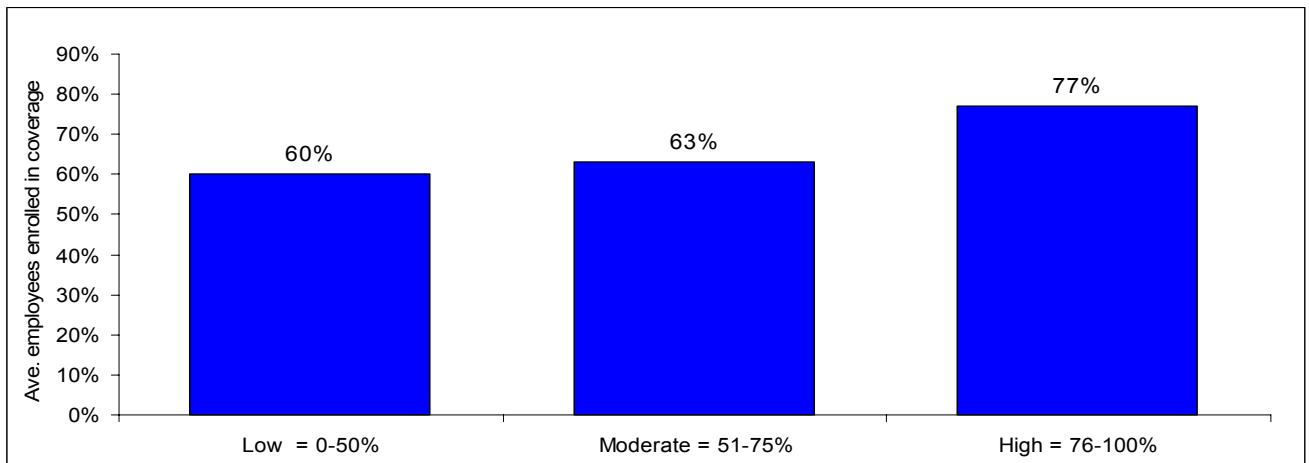
Figure 9: Share of Employers Compensating Employees for Accepting Spousal Coverage, 2005



Source: JSI Research & Training Institute Rhode Island Employers Survey, 2005

As shown in Figure 10, lower employer contributions are associated with lower acceptance rates. The survey asked employers for their average percent contribution for individual coverage. Analysis then compared average acceptance rates (in companies offering coverage) for employers with low, moderate, and high contribution levels. Among employers with low contribution rates (less than 50% paid by employer), 60% of employees offered coverage chose to enroll in employer-sponsored coverage. By contrast, where employers paid three-quarters or more of the premium, 77% of employees chose to enroll. As more employees are required to pay a significant portion of the premium, many are choosing not to enroll.

Figure 10: Enrollment in Employer Health Coverage by Employer's Contribution to Individual Premiums, 2005



Source: JSI Research & Training Institute Rhode Island Employers Survey, 2005

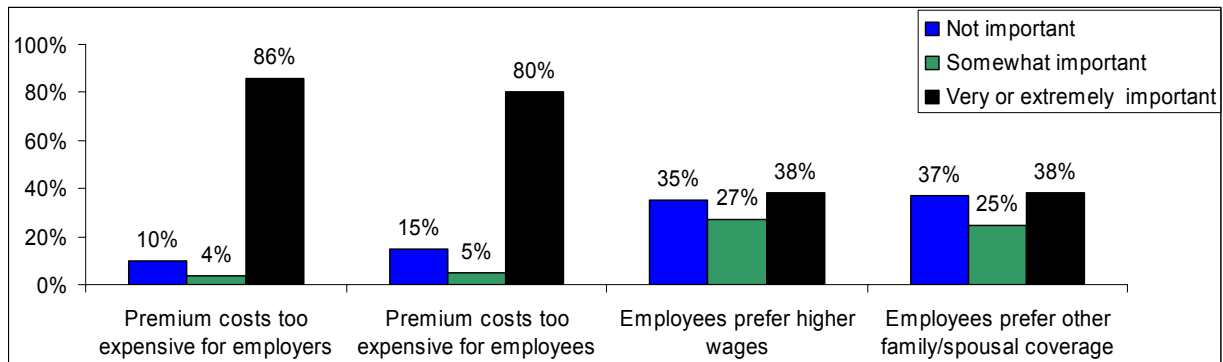
In summary, employee acceptance of health insurance coverage has dropped since 1999. Higher employee contribution levels have discouraged many employees from enrolling in coverage. The increased use of financial incentives such as compensation for accepting spousal coverage is also affecting acceptance rates.

VI. Why Do Some Employers Not Offer Health Coverage?

The survey included a section for employers who did not offer health coverage to their employees. Employers not offering coverage in 1999 and 2005 were asked about their reasons for not providing these benefits to their employees. The two most common responses were both related to the cost of coverage, either to the employer or to the employee. Figure 11 shows that 86% of employers reported that their premium costs were too expensive to afford coverage

while 80% cited that premium costs were too expensive for employees. Employee preferences for wages over health insurance and for spousal coverage were secondary reasons. The same reasons were cited in the 1999 study.

Figure 11: Employers' Reasons Not To Offer Health Coverage, 2005



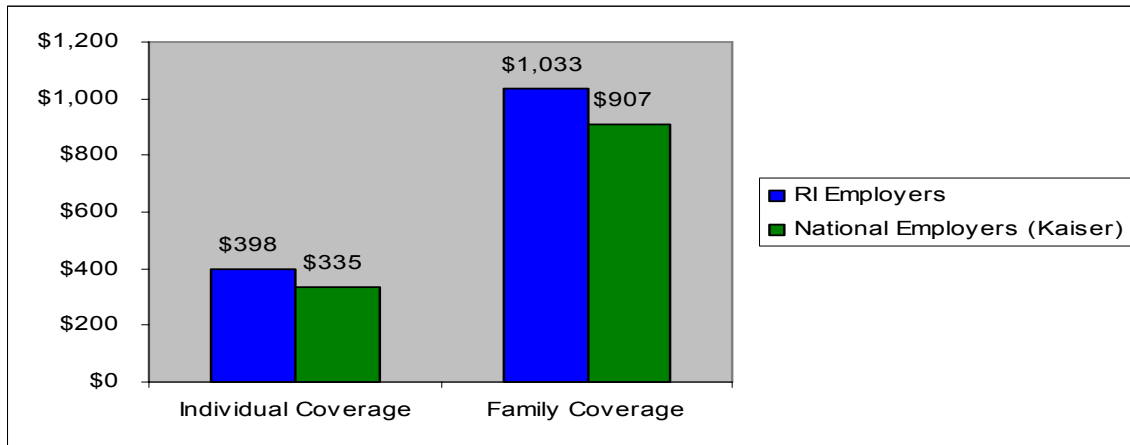
Source: JSI Research & Training Institute Rhode Island Employers Survey, 2005

When asked about their intentions to offer health insurance in the next year, only 8% of employers currently not offering health insurance reported that they intended to offer health coverage in the future. Among the larger firms with more than 100 employees, 50% (3 out of 6) said that they were planning to offer coverage in the next year. Whether these employers actually offer coverage in the future remains unclear.

VII. What Health Care Costs Confront Rhode Island Employers?

The survey asked employers who offer coverage to list their average per capita monthly costs for health insurance. The results confirm national data showing escalating health care costs. Health insurance premiums in Rhode Island are among the highest in the country. Figure 12 shows that Rhode Island employers pay average monthly premiums of \$398 for individual coverage and \$1,033 for family coverage. The per capita costs were higher for small employers. The Kaiser Family Foundation reported average monthly premiums of \$335 for individual coverage and \$907 for family coverage. The magnitude of these costs can be illustrated by the fact that the average annual costs of family coverage are equal to a yearly salary for someone earning the minimum wage.

Figure 12: Monthly Premium Costs for Individual and Family Coverage, 2005



Sources: JSI Research & Training Institute Rhode Island Employers Survey, 2005
Kaiser/HRET Employer-Sponsored Insurance Survey, 2005

While nationally, average monthly premium costs for employers are still high compared to previous years, the percent increase has slowed down in the last year. After several years of double-digit cost increases, premiums rose 9.2% in 2005 (2005 Kaiser/ HRET Survey of Employer-Sponsored Health Benefits) compared to a rise of 11.2% in 2004 and 13.9% in 2003. In Rhode Island, 60% of employers experienced premium cost increases of less than 12% while 40% experienced greater than 12% cost increases, over the last year. However, in the last three years, 69% of Rhode Island employers reported average premium cost increases of over 12%.

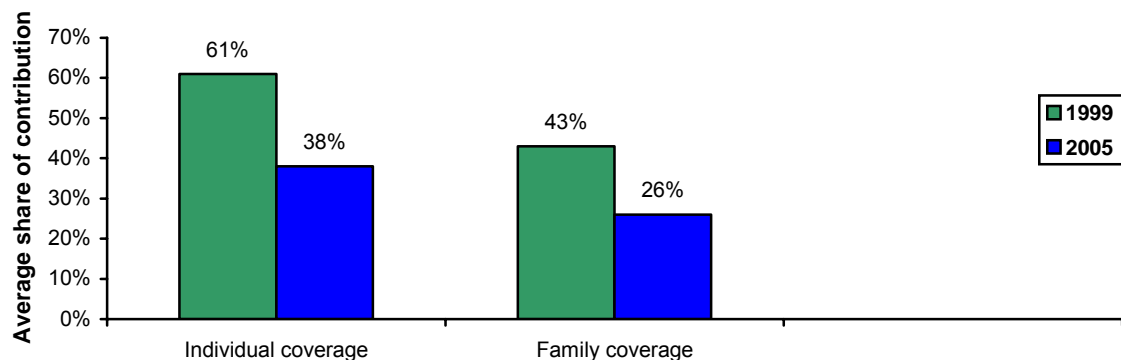
Employer size continues to be associated both with per capita costs for health insurance and with rates of cost increases. For individual coverage, average monthly costs in Rhode Island ranged from \$374 for employers with more than 100 employees to more than \$453 for those with 3-9 employees. Similarly for family coverage, monthly costs ranged from \$961 for employers with more than 100 employees to \$1089 among the group of smallest employers.

In summary, health insurance premiums in Rhode Island are among the highest in the country. Larger employers have lower per capita health insurance costs and lower rates of increase than employers with fewer employees.

VIII. How are Employers Sharing the Cost of Health Insurance?

Employers were asked for their average percent contribution to premiums for individual and family coverage. They were also asked to state their highest annual deductible for health coverage. Many employers are responding to the rising cost of health insurance with increased employee cost-sharing – both in terms of premium contributions and at the point-of-service. In 1999, 61% of employers paid the full premium for individual coverage. Today, only slightly more than a third (38%) pays the full premium (Figure 13). For family coverage, only 26% of employers today pay the full premium compared to 43% of all employers that paid the full premium for family coverage in 1999. As discussed above, this drop in employer contributions is making it much more difficult for low- and middle-income groups to afford coverage.

Figure 13: Rhode Island Employers Paying Full Premium for Individual and Family Coverage, 1999 and 2005



Sources: JSI Research & Training Institute Rhode Island Employers Survey, 2005

Rhode Island Department of Health 1999 Survey of Rhode Island Employers on Health Insurance Coverage

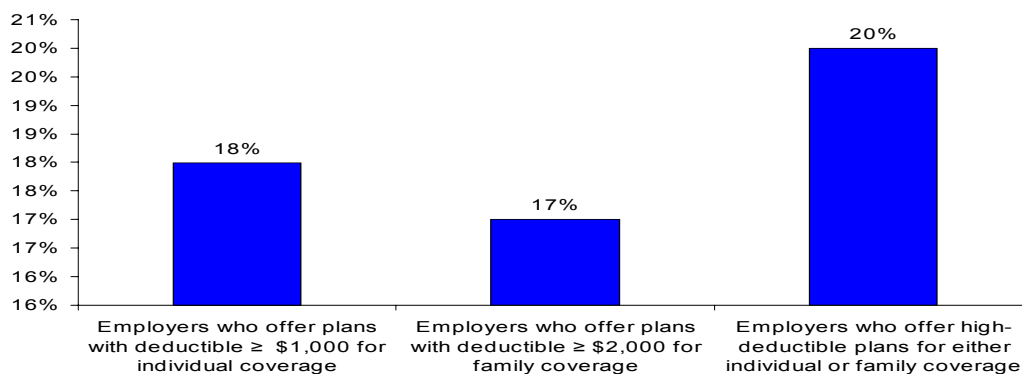
In 2005, the average employer contribution level was 72% for individual coverage and 58% for family coverage. Employers with three to nine employees had slightly higher average contribution rates than larger firms. Contribution levels were typically higher for government and non-profit employers than for private employers.

Employers transfer costs to employees by offering plans with higher annual deductibles. With higher deductibles, employees pay more out of their own pocket at the point-of-service. In

2005, the majority of employers offered plans with some annual deductible. Only 38% of Rhode Island employers offered their employees only plans with no deductible. The rise in annual deductible amounts and copayments has been accompanied by concerns in the medical community that low and moderate income employees will delay or not receive needed medical treatments because of these financial barriers at the point-of-service (Schoen et al. 2005).

More employers are now offering high deductible plans than in the past, encouraged by the passage of the Medicare Modernization Act and the Bush Administration's health policy (Glied 2005). Currently, 18% of Rhode Island employers offer health plans with annual deductibles greater than \$1,000 for individual coverage (Figure 14). Seventeen percent (17%) of employers offer deductibles of \$2,000 or more for family coverage. These are the levels at the core of the health savings account (HSA) in the Medicare Modernization Act. Twenty percent (20%) of employers indicated that they offer high deductible plans for either individuals or families.

Figure 14: Share of Rhode Island Employers Offering High Deductible Plans, 2005



Source: JSI Research & Training Institute Rhode Island Employers Survey, 2005

Those employers who already offer high a deductible plan can contribute to a health saving account to pay for expenses not covered under the deductible or allow employees to contribute on their own on a tax-free basis. Thus, 20% of Rhode Island employers could easily move to HSAs if they chose. In July 2005, Rhode Island passed legislation allowing HSAs in the Rhode Island market.

Lower employer contribution rates and high deductible plans are leading to concerns about underinsurance in both Rhode Island and nationally. Thus, while offered insurance, employees may not receive or be able to afford adequate medical care (Schoen et al., 2005). This limitation is particularly concerning for people in low and middle income groups, especially for those with chronic diseases.

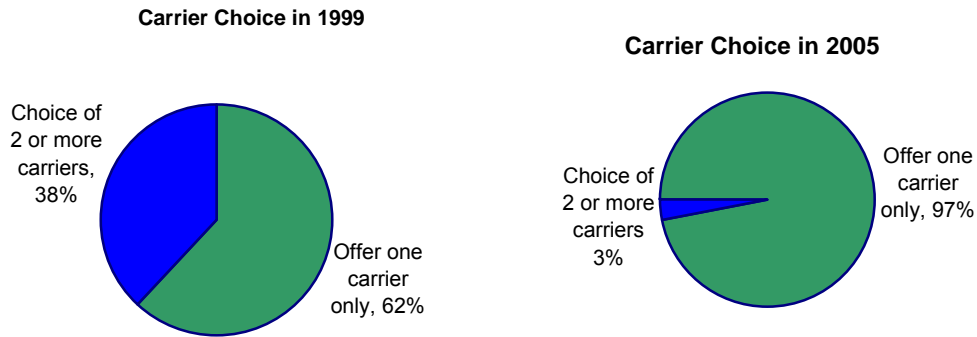
In summary, employers are addressing rising health care costs by lowering their premium contributions and passing the cost on to employees, and by utilizing health insurance plans with higher deductibles, making it necessary for employees to pay more at the point-of-service. Both of these strategies can result in employees being under-insured, with potentially significant health consequences.

IX. What Choice of Health Carriers and Health Plans do Employers Have?

All employers who offer coverage were presented with a list of health carriers offering group health insurance in Rhode Island. They were asked to choose which health carriers they contracted with as well as which health plan options they offered. These plan options include all the HMO, PPO, and other products offered by health carriers.

The health insurance market in Rhode Island has changed significantly since 1999. Today, the Rhode Island insurance market is dominated by two health carriers—Blue Cross Blue Shield, and United HealthCare. While there was little choice of carriers in 1999, there is almost no choice now. The vast majority of Rhode Island employers offer only one health carrier. As shown in Figure 15, only 3% of employers in 2005 offered their employees a choice of two or more health carriers, in contrast to 38% in 1999.

Figure 15: Share of Rhode Island Employers Offering Choice of Carriers in 1999 vs. 2005

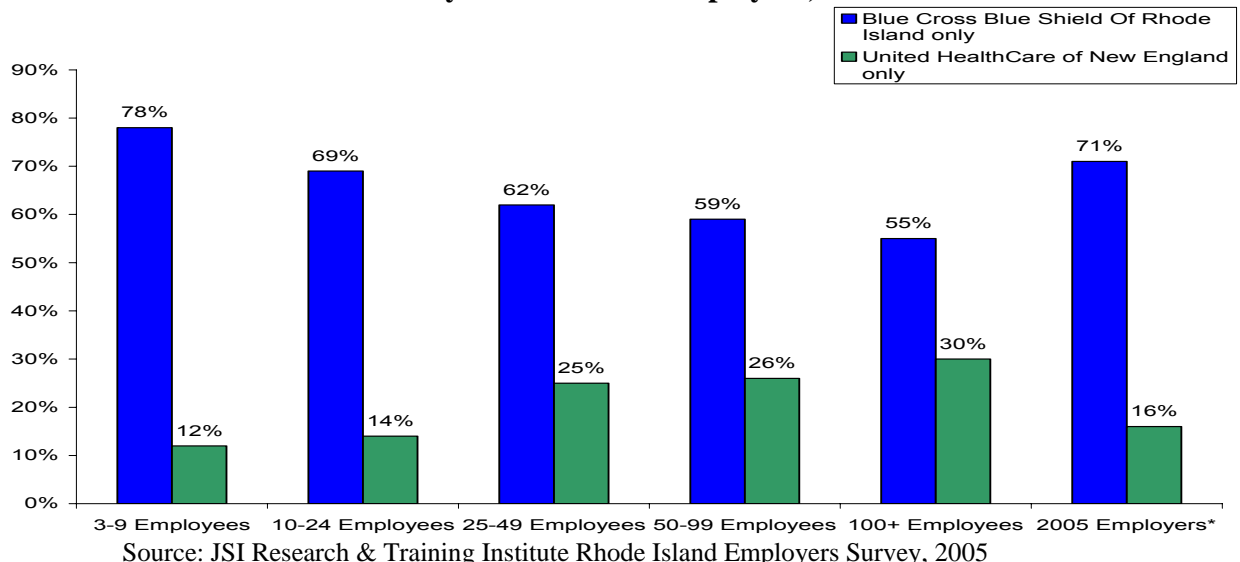


Sources: JSI Research & Training Institute Rhode Island Employers Survey, 2005
Rhode Island Department of Health 1999 Survey of Rhode Island Employers on Health Insurance Coverage

Seven out of ten (71%) of all Rhode Island employers offer Blue Cross as their only choice for health insurance (Figure 16). Among companies with 3-9 employees, 78% contract with Blue Cross. United is favored by larger employers with over 100 employees, with 30% of the largest employers offering it versus just 12% of employers with 3-9 employees.

In many parts of the country, there has been a proliferation of plan design and choice of health plan options. Both Blue Cross and United offer employers a number of plan options. Within these plan options, employers may choose among products with different deductibles and plan design. For example, Blue Cross' Healthmate Coast-to-Coast is available in more than 20 versions.

Figure 16. Health Carriers Offered by Rhode Island Employers, 2005

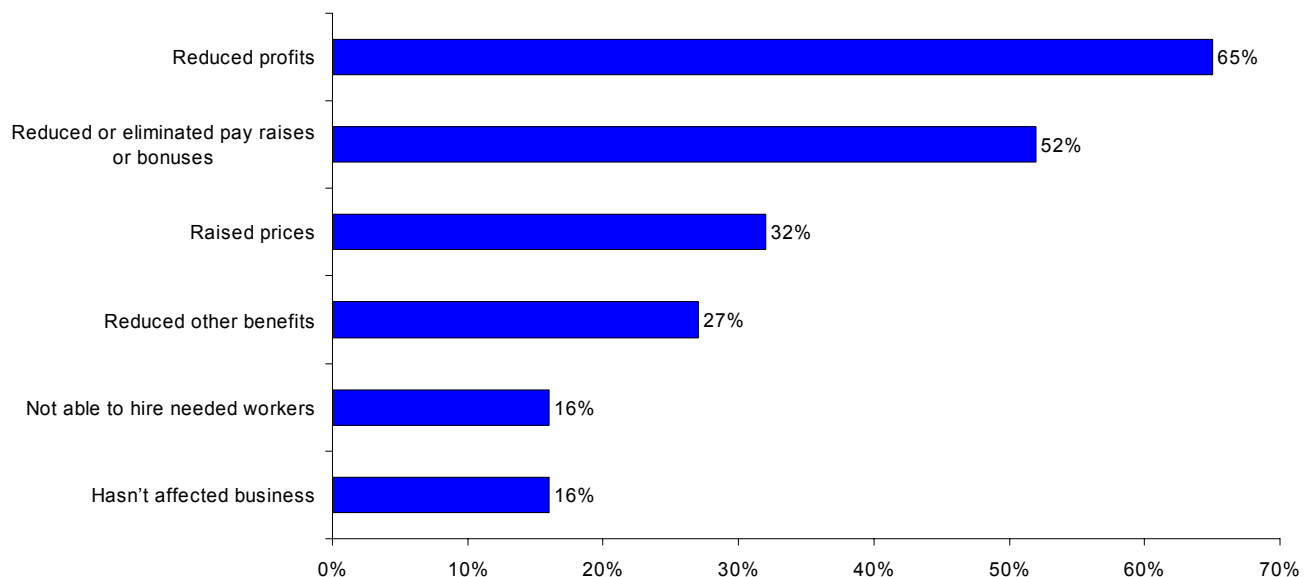


In summary, there are limited numbers of health insurance carriers to choose from in Rhode Island but a growing number of plan options.

X. What are the Effects of Health Care Costs on Core Business?

Employers were asked about the effects of rising health care costs on their core business practices and their relationship to human resource policy. Rising health costs have ceased to be solely a human resources issue and begun to significantly affect core business practices and performance. Two-thirds (65%) of employers reported that their profits were reduced because of health care costs. Fifty-two percent (52%) of employers reported reducing or eliminating pay raises because of rising health costs and 32% raised prices. Only 16% report that health care costs have not affected their business at all (Figure 17).

Figure 17: Overall Effect of Health Care Costs on Business in Past Year, 2005

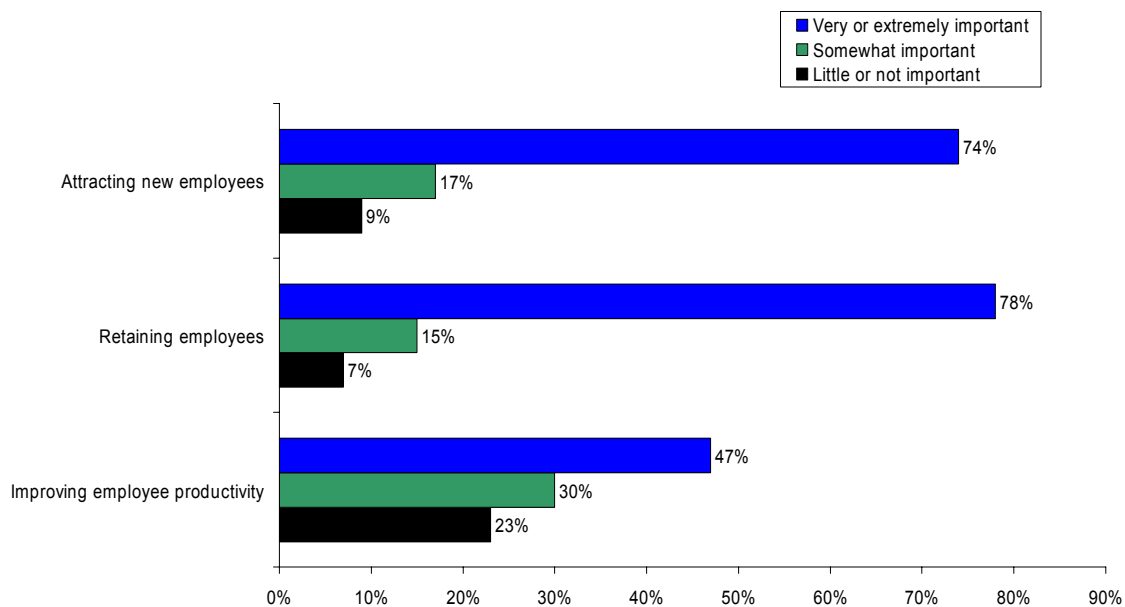


Source: JSI Research & Training Institute Rhode Island Employers Survey, 2005

Despite rising costs, health benefits remain an important human resource tool for employers (Figure 18). Seventy-four percent (74%) of employers still view health benefits as extremely or very important for attracting new employees and 78% consider them extremely or very

important for retaining them. Half of employers (47%) also view health benefits as extremely or very important for improving employee productivity.

Figure 18: The Role of Health Benefits in Employee Recruitment, Retention, and Productivity, 2005

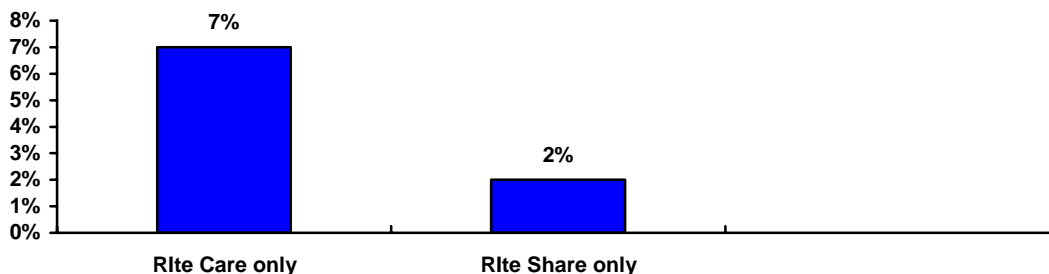


Source: JSI Research & Training Institute Rhode Island Employers Survey, 2005

XI. How are Rising Health Care Costs Influencing Enrollment in Public Coverage?

We asked all employers whether they had employees enrolled in public insurance programs. Among firms offering coverage, 7% of employers have employees enrolled in RIt Care and an additional 2% in RIt Share. The numbers of employees enrolled at any single employer tend to be low. However, some employers are not aware that they have employees enrolled in RIt Share or RIt Care because the state reimburses the employee directly for their share of the health insurance premiums.

Figure 19: Share of RI Employers with Employees Enrolled in RItE Care and RItE Share, 2005



Source: JSI Research & Training Institute Rhode Island Employers Survey, 2005

*Among employers offering coverage

Moreover, employees working in low-wage industries are more likely to qualify for RItE Care or RItE Share. The state's RItE Share program involves cost-sharing between the state and the employer. This study found that the size of the firm and the sector were strongly associated with participation in public insurance programs. Both Rhode Island and national data suggest that the continued erosion of employer sponsored coverage will be accompanied by an expanded need and reliance on public coverage.

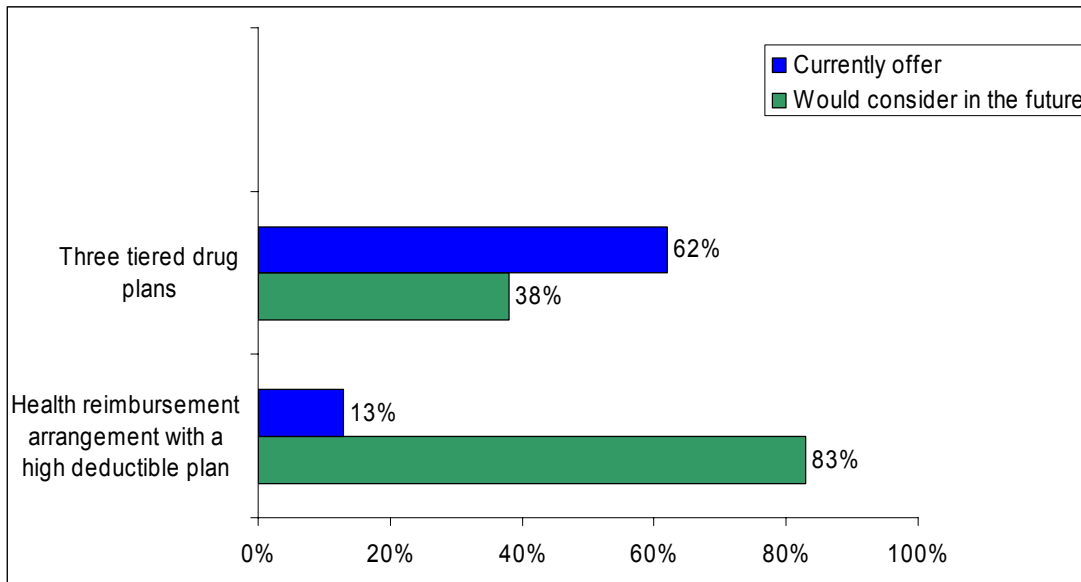
In summary, as the rate of coverage declines, more employees are turning to public insurance. Among state governments, Rhode Island has comprehensive Medicaid and premium assistance programs. If present trends continue, the state may find it difficult to absorb the financial and administrative burdens of those newly uninsured.

XII. What Cost Control Strategies Do Employers Plan for the Future?

The survey asked employers offering insurance about their use of cost control strategies such as tiered drug plans, health reimbursement arrangements (HRA) and health savings accounts (HSA). There has been widespread discussion in the employer community about consumer directed health plans and tiered drug and hospital plans as possible strategies for controlling costs. As shown in Figure 20, thus far only tiered drug plan have been widely adopted in the Rhode Island market (62%). Thirteen percent (13%) of employers report offering a HRA with a high deductible plan, and even fewer (4%) offer health savings accounts HSA with a high

deductible plan. The majority of employers reported that they would consider adopting either an HRA or HSA in the future.

Figure 20: Policy and cost control strategies of Rhode Island Employers, 2005*



Source: JSI Research & Training Institute Rhode Island Employers Survey, 2005

*Among employers offering coverage

Employers are pondering market-based solutions and also requesting government intervention in regulating health care costs. In addition to market solutions, many employers, when asked for their suggestions, wanted the government to be more involved in addressing this problem by regulating or stabilizing insurance premiums. Both small and large employers had specific suggestions, including more affordable plan designs, increased competition among health insurance carriers, and promoting transparency in the pricing of health insurance products and transparency from Blue Cross Blue Shield.

In summary, employers are contemplating market solutions to the problem of escalating health care costs but also want the government more involved in addressing this problem by regulating or stabilizing insurance premiums.

XIII. Conclusions and Policy Recommendations

The 2005 Rhode Island health insurance study documents a gradual but continued erosion of employer- sponsored coverage with potentially far-reaching consequences for Rhode Island businesses and employees.

Erosion of coverage and lower offer rates. The erosion of health coverage is reflected in lower offer rates, especially among small businesses. The lowest offer rates are concentrated in low wage sectors such as retail and services, which are some of the fastest growing segments of the Rhode Island economy. Furthermore, the study shows that employer policies regarding eligibility have become much more restrictive over the last six years.

Decreasing enrollment or acceptance of coverage. Employee enrollment or acceptance of coverage has also been dropping as employers have shifted more costs on to their employees and used incentives to encourage the adoption of spousal coverage. The declining acceptance rates have their most pronounced effects on low-wage and part-time employees. If these health insurance trends continue and the economy grows without adding large numbers of high wage jobs, tens of thousands more Rhode Island employees will lose their employer-sponsored coverage in the next few years.

Cost of insurance. Health insurance premiums in Rhode Island are among the highest in the country and the cost—both to employers and employees— is the major reason that employers report for not offering health insurance. The escalating costs of health care are leading employers not only to reduce their contributions to coverage but also to make employees pay more at the point of service. The result in Rhode Island as elsewhere is a rapidly growing pool of low and middle income underinsured whose access to essential preventive and acute care services may be limited by their ability to pay.

Impact on businesses. These rising health care costs have begun to dramatically affect core business practices and performance, including profits, pricing, and purchasing of services. With costs continuing to rise and many businesses operating in highly competitive markets, it is increasingly difficult for businesses to absorb these costs. Many businesses, especially those in

growing sectors, still consider health benefits an important human resource tool for attracting and retaining workers. Others are implementing or contemplating strategies that shift responsibility for health coverage to other businesses through spousal coverage or to the public sector.

Impact on the public sector. Rising health care costs and the consequent erosion of employer-sponsored insurance are likely to be accompanied by an even a greater reliance on public insurance for low-income workers and the free care system among Rhode Island hospitals and state safety net providers. The state government may not always have the capacity to absorb the extra financial and administrative burdens of covering the recently uninsured.

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