September 2, 2010

Employers Push Costs for Health on Workers

By REED ABELSON

As health care costs continue their relentless climb, companies are increasingly passing on higher premium costs to workers.

The shift is occurring, policy analysts and others say, as employers feel more pressure from the weak economy and the threat of even more expensive coverage under the new health care law.

In contrast to past practices of absorbing higher prices, some companies chose this year to keep their costs the same by passing the entire increase in premiums for family coverage onto their workers, according to a new survey released on Thursday by the Kaiser Family Foundation, a nonprofit research group.

Workers' share of the cost of a family policy jumped an average of 14 percent, an increase of about $500 a year. The cost of a policy rose just 3 percent, to an average of $13,770.

Workers are now paying nearly $4,000 for family coverage, according to the survey, and their costs have increased much faster than those of employers.

Since 2005, while wages have increased just 18 percent, workers' contributions to premiums have jumped 47 percent, almost twice as fast as the rise in the policy's overall cost.

Workers also increasingly face higher deductibles, forcing them to pay a larger share of their overall medical bills. "The long-term trend is pretty clear," said Drew E. Altman, the chief executive of the Kaiser foundation, which conducted the survey this year with the Health

Research and Educational Trust, a research organization affiliated with the American Hospital Association. “Insurance is getting stingier and less comprehensive.”

Companies may be at a point where they are no longer willing or able to protect their workers’ health benefits, said Helen Darling, the president of the National Business Group on Health, an organization representing employers that provide coverage.

She says that companies expect that their costs will only go up more under the new health care law because it requires them to provide more benefits, like coverage for preventive care.

“There’s a sense we can’t keep up,” Ms. Darling said. “We can’t afford to continue to subsidize what’s happening.” Her group’s own survey, conducted last month, found that almost two-thirds of employers said they planned to increase the percentage their workers would have to contribute toward premiums next year.

More employers may be changing their view of providing health benefits, moving toward contributing only a fixed amount rather than maintaining certain levels of coverage, she said. “It’s a portent of the future,” Ms. Darling said.

But businesses may also have felt less need to protect their workers because the increase in the cost of premiums was modest, said Nancy-Ann DeParle, who oversees health care for President Obama. “It’s the lowest increase in many years,” she said.

And Ms. DeParle pointed to a number of initiatives under the health care legislation that were likely to help companies better afford insurance, including $40 billion in tax credits for small businesses and $5 billion to help companies pay for retiree health benefits.

The economy may be the dominant influence in forcing employers’ hands, said Mr. Altman of Kaiser. The decision by companies to pass on the higher costs “speaks to the depth of the recession and its impact on employers,” he said. Businesses may have no other alternative in trying to steady costs, he said.

Some examples around the country offer examples of the choices being made by employers and their workers.

Faced with a potential increase in the premiums paid that would bring the cost of family coverage to about $1,000 a month, the executives at a trucking business in Salt Lake City chose to switch to a plan that had a $6,000 annual deductible.

The company, Utility Trailer Sales of Utah, and a related company were able to reduce their monthly premiums by nearly $200, to $647 a family, according to the chief financial officer, Clair Heslop.

Mr. Heslop acknowledged that people with chronic conditions or the need for expensive medicines had felt the impact of the change. “It’s hit them hard,” he said. “They’re paying the bill because they’re consuming the goods.”

The Kaiser survey found a significant increase in the number of employees who had a deductible of at least $1,000, to 27 percent this year, from 22 percent in 2009. Almost half of workers who are covered by a small employer with fewer than 200 workers have an annual deductible of that amount.

Some employers, however, may be looking for ways to limit their exposure. In Utah, the state is setting up an insurance exchange that explicitly allows smaller employers to give workers a fixed amount of money to buy a health policy, much as they might make a defined contribution to a retirement plan.

Workers choose among about 60 policies offered by four major insurers, paying the difference if the coverage is more expensive than the amount provided by their employer. State officials this week opened the exchange to any business with 50 or fewer employees.

They say the exchange offers employers the ability to better manage their health care costs.

“We’ve given predictability to both the employer and the employee,” said Spencer Eccles, executive director of the Governor’s Office of Economic Development, which manages the exchange.

The exchange will have to make some changes under the federal law. When the exchanges are up and running, some workers may be able to get vouchers from their employers under certain conditions to allow them to shop independently in the exchange if their company's coverage is too expensive.

But some policy analysts are concerned that the movement toward a system in which employers feel responsible for paying a fixed amount for health care is not an answer to the higher costs.

"We're taking the easy way out," said Judi Hillman, the executive director of the Utah Health Policy Project, which is itself exploring the idea of covering its employees through the exchange and is trying to form a group of businesses to better understand the dynamics of the exchange. "We're not thinking structurally and systemically in Utah, but I think federal reform will do that."

Once employers have a better handle on the new legislation, they may well pursue different strategies, including moving toward a system in which they are responsible for only a fixed amount of the cost of coverage, said Tracy Watts, a partner with Mercer Health and Benefits, which advises companies about the health benefits they offer. "There's going to be a lot of studying about what are the longer-term strategies, what makes sense," she said.