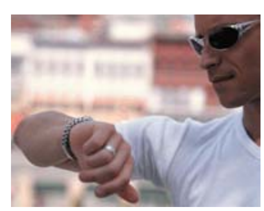
Rhode Island Area Employer-Sponsored Medical & Dental Benefits Survey 2002

presented by
Bluff Head Enterprises, Inc.



Bluff Head Enterprises is pleased to present to you our first annual Rhode Island Area Employer-Sponsored Medical & Dental Benefits Survey. Thank you to those individuals at the participating companies who took time out of their busy schedules to complete the survey. Your participation is greatly appreciated.

The response rate to the survey mailing was just under 14%, not bad for a first effort. While the total number of respondents was relatively small, they still represent an interesting cross section of the Rhode Island business community. As familiarity with the annual survey increases next year and beyond, we hope that we will attract an even better response, one that will enable us to provide you with an even more precise snapshot of employer-provided medical and dental benefits in our state. Next year's edition will also offer comparisons against the 2002 Rhode Island benchmarks established with this year's survey. We will also be able to offer a comparison against national averages for 2002 (the national surveys tend to publish in the year following the year reviewed).

In than meantime, we hope that you will find the enclosed analyses in this year's survey of interest, and that they will be of use to you in planning and managing your medical and dental benefits programs.

Thanks for taking part in this inaugural effort!

Sam Slade
President
Bluff Head Enterprises, Inc.

Introduction

As you react to rising healthcare costs and redesign your benefit plans to meet the challenges of rising healthcare costs, do you ever wonder:

- How much is your company paying for group medical and dental benefits?
- How much are other companies in our state paying?
- How much do your employees contribute to the cost of their medical and dental benefits?
- Do employees at other companies contribute more?
- What are you doing to control the cost of medical and dental benefits?
- What are other companies doing that your company hasn't tried?
- How well do your employees understand the reasons for increases in the cost of their medical and dental benefits?

In addition to answering these questions, our survey also reflects the trend in Rhode Island to a shrinking pool of insurers and HMO's competing for business. With the collapse of Harvard Pilgrim and the effective withdrawal of Aetna, there remain only two realistic choices for employer-sponsored health insurance: Blue Cross Blue Shield of RI and United Healthcare.

The survey also reflects a similar trend with regard to employer-sponsored dental benefits. Based on our survey responses, it is clear that two players (Delta Dental and Blue Cross Blue Shield of RI) dominate the market.

Some key findings from our survey were:

- The average total gross cost of medical coverage Per Employee Per Year (PEPY) is $5,973.

- On average, employees paid $1,251 towards the cost of their group medical benefits (21% of gross cost).

- Large employers have higher group medical costs ($6,104 vs. $5,813) and pay a higher percentage of the total costs (82% vs. 75%) than small employers.

- Manufacturers have higher group medical costs ($6,131 vs. $5,792) than non-manufacturers and pay about the same percentage of the total costs (79%).

- 86% of employee contributions are made on a straight pre-tax basis.

- 28% of employers offer retiree medical benefits.

- Group medical costs have increased an average of 49% over the last three years (+12.4% in 2001, +12.4% in 2000 and +17.9% in 1999).

- 97% of respondents believe that the lack if competitive carriers offering group health insurance in our state is an important or very important contributor to rising healthcare costs.

- 92% of respondents believe that the cost of group health insurance in Rhode Island would be lower if we had more group health insurers competing in our marketplace.

- 100% of respondents felt that cost increases are important or very important in terms of their impact on benefit administration workloads.

- 50% of employers do not think employees have a good understanding of costs and cost increases.

Profile of Participating Companies

Thirty-eight companies (13.7% of mailing) chose to participate in the survey. Of these companies, 35 are privately held, 3 are public companies. Twenty-two of the companies surveyed maintain operations at more than one site.

Industry

Industry representation for the survey is outlined below.

Industries Represented	Number of Companies
Building Products	1
Contracting	1
Education	4
Engineering	1
Finance	2
Health Care	2
Hospitality	1
Insurance	2
Manufacturing	21
Retail	1
Service	2

Twenty-one of the thirty-eight respondents classified themselves as manufacturers. For this initial survey, we will breakdown respondents based on Manufacturing and Non-Manufacturing. While the number of responses was not sufficient for a more detailed analysis by industry, we hope in subsequent surveys to report trends and cost data on this basis as well as in the aggregate for all respondents.

Number of Employees

Industry representation for the survey is outlined below.

Number of Employees	Number of Companies
100 or less	7
101 to 200	7
201 to 500	14
501 to 1,000	5
Over 1,000	5

The number of employees at each company (including those outside RI) ranged from a low of 4 to a high of over 13,000. The median group size was 230 employees, so for purposes of this survey, we will breakdown respondents with over 250 employees and under 250 employees.

Medical Benefits Findings

Number of Medical Plan(s) Offered

The majority of respondents offer more than one medical plan to their employees (Twenty-one of the thirty-eight respondents or 55%). There were no respondents that have ceased to offer medical benefits to their employees.

Number of Medical Plans Offered				
	None	**One**	**Two**	**Three or More**
All Respondents	0% (0)	47% (18)	47% (18)	5% (2)
Manufacturing	0% (0)	48% (10)	52% (11)	0% (0)
Non-Manufacturing	0% (0)	47% (8)	41% (7)	12% (2)
Under 250 Employees	0% (0)	53% (10)	47% (9)	0% (0)
Over 250 Employees	0% (0)	42% (8)	47% (9)	11% (2)

Type of Plan(s) Offered

It comes as no surprise that Rhode Island has a high concentration of managed care plans – Health Maintenance Organizations (HMO), Point of Service (POS), and Preferred Provider Organizations (PPO) – with Blue Cross Blue Shield of RI (BCBSRI) and United Healthcare dominating the Rhode Island group medical marketplace.

In all, 60 medical plans are reflected in the survey. The following is a summary of the type of plan offered to Rhode Island based employees:

Type of Medical Plan Offered				
	HMO	**POS**	**PPO**	**Indemnity**
All Respondents	17% (10)	28% (17)	47% (28)	8% (5)
Manufacturing	19% (6)	28% (9)	47% (15)	6% (2)
Non-Manufacturing	14% (4)	29% (8)	46% (13)	11% (3)
Under 250 Employees	19% (5)	37% (10)	41% (11)	4% (1)
Over 250 Employees	15% (5)	21% (7)	52% (17)	12% (4)

Gross Costs for Medical Coverage

Premium costs vary widely across Rhode Island. We have shown the single and family gross rates for medical coverage only, as well as a Per Employee Per Year (PEPY) cost. The PEPY cost is a weighted average of a plan's rates and actual enrollment.

A number of results were unexpected:

- Manufacturing companies had lower average rates than Non-Manufacturers, while Per Employee Per Year (PEPY) costs were greater for Manufacturers.
- Smaller companies (under 250 employees) had lower rates and PEPY costs than larger employers.
- POS plans have the lowest average rates, even lower than HMOs.

Some other notable findings:

- The lowest monthly rates were $206 per month for single coverage and $506 per month for family coverage.
- The highest monthly rates were $383 per month for single coverage and $894 per month for family coverage.
- PEPY gross costs range from $3,664 to $8,112, with an average PEPY gross cost of $5,973. The striking disparity between the high and low end of PEPY gross costs reflects not only basic demographic differences, but also differences in plan design and total group size.

Gross Costs for Medical Coverage

	Single		Family		Per Employee, Per Year
	Monthly	Annual	Monthly	Annual	
All Respondents	$277	$3,328	$679	$8,151	$5,973
Manufacturing	$270	$3,239	$666	$7,899	$6,131
Non-Manufacturing	$286	$3,430	$695	$8,337	$5,792
Under 250 Employees	$269	$3,229	$645	$7,742	$5,813
Over 250 Employees	$284	$3,409	$707	$8,486	$6,104
HMO Plans	$264	$3,170	$640	$7,678	$5,862
POS Plans	$255	$3,059	$639	$7,674	$5,478
PPO Plans	$284	$3,403	$697	$8,367	$6,114
Indemnity Plans	$345	$4,142	$793	$9,513	$7,084

Employee Contributions for Medical Coverage

A summary of findings:

- Manufacturing companies have lower single employee contribution rates, higher family employee contribution rates, and higher PEPY employee contributions than Non-Manufacturers.
- On average, employees at smaller companies (under 250 employees) have slightly lower single employee contribution rates, higher family employee contribution rates, and higher PEPY employee contributions than large employers.
- The lowest monthly employee contribution rates were $0 per month for single coverage (12 of the 60 plans) and $0 per month for family coverage (8 of 60 plans).
- The highest monthly employee contribution rates were $154 per month for single coverage and $469 per month for family coverage.
- PEPY employee contribution costs range from $0 to $3,591, with an average PEPY of $1,251.

Employee Contributions for Medical Coverage ($)

	Single		Family		Per Employee, Per Year
	Monthly	Annual	Monthly	Annual	
All Respondents	$48	$570	$159	$1,909	$1,251
Manufacturing	$50	$604	$152	$1,821	$1,314
Non-Manufacturing	$44	$532	$167	$2,009	$1,179
Under 250 Employees	$47	$568	$183	$2,195	$1,452
Over 250 Employees	$48	$572	$140	$1,674	$1,086
HMO Plans	$50	$600	$128	$1,540	$1,141
POS Plans	$55	$664	$224	$2,685	$1,656
PPO Plans	$42	$507	$140	$1,677	$1,098
Indemnity Plans	$46	$549	$109	$1,304	$946

Additionally, we have shown employee contributions as a percentage of gross rates:

Employee Contributions for Medical Coverage (%)			
	Single	**Family**	**Average Per Employee**
All Respondents	17%	23%	21%
Manufacturing	19%	23%	21%
Non-Manufacturing	15%	24%	21%
Under 250 Employees	18%	29%	25%
Over 250 Employees	17%	19%	18%
HMO Plans	19%	20%	20%
POS Plans	22%	35%	30%
PPO Plans	14%	19%	18%
Indemnity Plans	13%	14%	14%

While most companies deduct employee contributions on a pre-tax basis, a few companies continue to deduct employee contributions on an after-tax basis. Additionally, a few companies offer their employee a choice of having their employee contributions deducted pre-tax or after-tax.

Pre-tax	After-tax	Both
86% (31)	7% (2)	7% (2)

Retiree Medical Benefits

National trends indicate that relatively few companies continue to offer retiree medical benefits. Rhode Island companies are no exception – only 28% of Rhode Island employers offer retiree medical benefits.

Retiree medical benefits offered *	Offered to Under-65 Retirees	Offered to Over-65 Retirees
28% (10)	22% (8)	19% (7)

** This includes companies who offered benefits to Under-65 retirees only, Over-65 retirees only, or all retirees (Under-65 and Over-65).*

Dental Benefits Findings

97% of respondents offer dental benefits to their employee, while 8% offer more than one dental plan. The majority of plans offered (98%) are dental PPO plans, with only 2% offering dental indemnity plans. While other parts of the nation are embracing dental HMOs, the dental HMO concept has yet to appear in Rhode Island.

In all, 41 dental plans are reflected in the survey.

Gross Costs for Dental Coverage

A summary of the results:

- Manufacturing companies had lower average rates than non-manufacturing companies.
- Smaller companies (under 250 employees) had lower average rates than larger employers.
- The lowest monthly rates were $12 per month for single coverage and $36 per month for family coverage.
- The highest monthly rates were $32 per month for single coverage and $96 per month for family coverage.
- PEPY gross costs range from $289 to $742, with an average PEPY gross cost of $504.

Gross Cost for Dental Coverage

	Single		Family		Per Employee, Per Year
	Monthly	Annual	Monthly	Annual	
All Respondents	$21	$253	$64	$767	$504
Manufacturing	$20	$242	$59	$713	$493
Non-Manufacturing	$22	$266	$69	$830	$518
Under 250 Employees	$20	$244	$61	$728	$490
Over 250 Employees	$22	$259	$66	$794	$514

Employee Contributions for Dental Coverage

A summary of findings:

- Manufacturers and Non-Manufacturers average employee contribution are roughly the same.
- On average, employees at smaller companies (under 250 employees) pay more for dental coverage than large employers.
- The lowest monthly employee contribution rates were $0 per month for single coverage (14 of the 41 plans) and $0 per month for family coverage (12 of 41 plans).
- Eight of the 41 dental plans analyzed are truly voluntary (where the employee pays 100% of the dental premium).
- PEPY employee contribution costs range from $0 to $670, with an average PEPY of $214.

Employee Contributions for Dental Coverage ($)

	Single		Family		Per Employee, Per Year
	Monthly	Annual	Monthly	Annual	
All Respondents	$9	$107	$29	$344	$214
Manufacturing	$9	$112	$28	$338	$221
Non-Manufacturing	$9	$102	$29	$352	$207
Under 250 Employees	$10	$114	$32	$379	$234
Over 250 Employees	$9	$102	$27	$320	$201

Additionally, we have shown employee contributions as a percentage of gross rates:

Employee Contributions for Dental Coverage (%)

	Single	Family	Average Per Employee
All Respondents	39%	42%	41%
Manufacturing	42%	44%	44%
Non-Manufacturing	34%	40%	38%
Under 250 Employees	41%	49%	46%
Over 250 Employees	37%	38%	38%

Controlling Medical and Dental Costs

Average Annual Increases In Medical and Dental Premiums

Survey respondents reported the following annual increases in medical and dental benefits costs for the years 1999 - 2001:

	2001	2000	1999
All Respondents			
Medical	12.4%	12.4%	17.9%
Dental	4.3%	3.7%	4.2%
Manufacturing			
Medical	12.8%	15.1%	16.4%
Dental	5.1%	2.2%	3.6%
Non-Manufacturing			
Medical	11.8%	9.0%	19.2%
Dental	3.5%	5.3%	4.7%
Under 250 Employees			
Medical	12.6%	13.0%	15.4%
Dental	6.1%	4.1%	3.5%
Over 250 Employees			
Medical	12.2%	11.9%	19.4%
Dental	2.9%	3.4%	4.6%

Steps Taken to Control Costs

Survey respondents took the following steps to control medical and dental costs:

Changed Carriers	Changed Benefits	Eliminated Benefits	Increased Communications	Other
37% (14)	47% (18)	8% (3)	45% (17)	32% (12)

Other steps to control medical and dental costs included consolidation of carriers, increased employee contributions, and the development of wellness clinics.

Employer Perception of Health Care Premium Increases

When asked "How would you rank the following in terms of their contribution to recent dramatic increases in group health insurance costs in Rhode Island?" respondents answered:

	Very Important	Important	Not Very Important	Not At All Important
Improvements in medicine that drive up life expectancy.	31% (11)	57% (20)	12% (4)	0% (0)
Lack of competitive carriers offering group health insurance.	54% (19)	43% (15)	3% (1)	0% (0)
An inefficient and wasteful bureaucracy.	35% (12)	50% (17)	15% (5)	0% (0)
Doctors are making too much money.	12% (4)	29% (10)	59% (20)	0% (0)
Prescription drug manufacturers are making too much money.	69% (24)	23% (8)	8% (3)	0% (0)
Cost sharing from government plans (Medicare, Medicaid, RiteCare, etc.)	29% (9)	48% (15)	23% (7)	0% (0)

Sixty-nine percent (69%) of respondents felt that prescription drug manufacturers' profit margin is a very important aspect of rising medical costs. A majority of respondents (54%) also felt that a lack of competition is a very important factor in rising healthcare costs.

Perception of RI Health Insurance Competitive Market

Furthermore, 92% of respondents believe that the cost of group health insurance in Rhode Island would be lower if we had more group health insurers competing in our marketplace.

Yes	No	Undecided
92% (33)	0% (0)	8% (3)

Employee Understanding of Cost Environment

Another surprising statistic is that only 41% of respondents felt that their employees have a good understanding of their medical and dental benefits. When one considers the dramatic cost of these benefits, employers need to improve communication in order for employees to fully appreciate and properly utilize the benefits provided to them.

Yes	No	Undecided
41% (15)	50% (18)	9% (3)

Small Network Plans Not Desirable

Surprisingly, when asked, "Would you consider a health plan option that offered lower costs, but had fewer participating providers?" only 14% of employers claimed that they would. A surprising 44% would not consider a smaller network at a lower cost, while 42% were undecided.

Yes	No	Undecided
14% (5)	44% (16)	42% (15)

General Questions

Administrative Workload Factors

When asked "How would you rank the following in terms of their impact on your group benefits plan? What causes you the most aggravation and creates the most work?" respondents answered:

	Very Important	Important	Not Important
Government regulation and compliance	22% (8)	65% (24)	13% (5)
Cost increases and price changes	69% (24)	31% (11)	0% (0)
Administration and HRIS/Payroll coordination	12% (4)	67% (21)	21% (8)
Customer service & prompt claim payment by health plan	47% (16)	41% (14)	12% (4)
Changes in health plan benefits and/or networks	39% (13)	45% (15)	16% (5)

The consensus seems to be that cost increases cause the most work (100% felt that this was important or very important). Customer service and prompt claim payment (88% important or very important) and changes in benefits and/or networks (84% important or very important) follow close behind.

Employee Benefit Concerns

When asked, “What do you think your employees are most concerned about with regard to their group medical and dental benefits?” respondents answered:

	Very Concerned	Concerned	Not Concerned
In-Network quality of care	64% (23)	33% (12)	3% (1)
Claims payment and customer service	58% (21)	39% (14)	3% (1)
Cost and cost changes (e.g., employee contributions)	84% (31)	8% (3)	8% (3)
Network of providers (e.g., is their doctor in-Network?)	68% (25)	30% (11)	2% (1)
Quality of benefits (e.g., change in copays, deductibles, etc.)	72% (26)	28% (10)	0% (0)

Employers believe that their employees are very concerned about all aspects of their health insurance. Of highest concern seems to be the cost (payroll deduction) followed by benefits, networks, and quality. While 58% of employers think prompt payment is very important to their workers, this ranks lowest of those things the survey specifically questioned.

Survey Overview & Methodology

The 2002 Rhode Island Area Medical & Dental Benefits Survey was mailed in March to 278 companies doing business in Rhode Island. The survey requested detailed information on medical and dental benefits programs and costs, employee contributions, cost-control measures, and general questions related to dental and medical benefits. To increase participation, follow-up letters were sent in April & May, and final follow-up phone calls were made in July to companies who had not yet responded to the survey.

Data were compiled and recorded in a database that was subsequently used to develop the various survey findings. In some instances, companies gave only partial responses to different parts of the survey. Reported survey findings represent only those companies providing the necessary data to make a complete calculation in each particular area of interest.

Total cost data reflects the fully-insured medical and dental premium rates. For those companies with self-insured medical and/or dental benefits, the total cost data was determined through the use of COBRA rates. Per Employee Per Year (PEPY) cost data is a weighted average calculation reflecting current rates and headcounts by coverage category. All rates and coverage headcounts are for 2002.

The available data were compiled and analyzed in a variety of ways to maximize the survey's usefulness. The survey presents general findings of the entire group of respondents. Responses of individual companies remain confidential.

About Bluff Head Enterprises, Inc.

Bluff Head Enterprises is a family-owned and operated benefits consulting firm established in 1992. We are located in Wakefield, RI and serve a number of national clients between 50 and 6,000 employees. BHE provides comprehensive employee benefits services for:

Medical, Dental & Vision
Life & Disability
401(k) & 403(b) Plans
Employee Communications
Vendor Negotiations
Management Consultation
Voluntary Benefits
Section 125: Cafeteria Plans

Collectively, BHE consultants possess over forty years of experience in the group benefits arena. Honesty, knowledge and hard work are the hallmarks of our firm. We are committed to delivering high quality service and positive results to help our clients do more with their benefits budget.

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