



Rhode Island Area Employer-Sponsored Medical & Dental Benefits Survey 2003



July 2003

Bluff Head Enterprises is pleased to present our second 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.

We are very pleased with the response rate for this year's survey. Two-thirds of last year's eligible respondents participated again in this year's survey, and this year's survey has nearly 50% more responses than last year's. This increased response allows us to dissect the survey results into more specific industry categories: Manufacturing, Education, Health Care, Finance and Insurance, and Other Non-Manufacturing. While the impact of this increase in the response rate is generally positive (since the larger numbers increase the credibility of the data), we believe that it also has the undesirable effect of distorting certain comparisons between 2002 and 2003. Where we believe this may have occurred, it is noted in the survey.

This survey provides detailed cost and employee contribution information for 2003 and a new section that compares costs to the 2002 survey. In addition, we provide national comparisons against our benchmark 2002 survey data. The national and regional data for 2002 are provided by the *Mercer National Survey of Employer-Sponsored Health Plans 2002*. Due to the timing of the various national surveys, we will not have national and regional comparative data for 2003 until Spring 2004.

We hope that you will find this year's survey of interest, and that it will be useful in helping you manage your medical and dental benefit programs. If you have any questions, please give us a call at (401) 782-1250.

Thanks again to all participating employers!

Sincerely,

Sam Slade
President
Bluff Head Enterprises, Inc.

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Introduction

“In 2002, total benefit costs rose 14.7%, the sharpest increase in over a decade”
Mercer National Survey of Employer-Sponsored Health Plans 2002

“Employer Share of Health Benefit Costs Could Top \$10,000 per Employee by Decade’s End”
HR Benchmarks, May 1, 2003

“Preliminary 2004 HMO (renewal) rates are averaging almost 18 percent”
Hewitt Associates LLC, June 23, 2003

Over the past few years, most employers have had to address the issue of rising health care costs. With average annual increases between 10% and 15% for the last four years, business leaders have had to take a long, hard look at their health and welfare benefit programs.

Employers in the Rhode Island area have certainly not been exempt from these increases. However, prior to last year, there have not been any significant data available for Rhode Island area employers to use for benchmarking health and welfare costs and cost-sharing. As employers react to rising health care costs and redesign their benefit plans to meet the challenges of rising health care costs, some basic questions to be answered are:

- How much are other companies in our area paying for medical and dental benefits?
- What do employees at other companies contribute toward their health care coverages?
- What are other local companies doing to address rising health care costs?
- How well do employees understand the reasons for increases in the cost of their medical and dental benefits?

The primary purpose of this survey is to help answer these questions.

Survey Highlights

Some key findings from our survey were:

- Two large State of Rhode Island plans (plans that cover State of Rhode Island employees) submitted responses in 2003. Due to the unusual characteristics (they are non-contributory) of these two plans, and their size, we have shown results with and without these two large plans wherever possible.
- The average total gross cost of medical coverage per employee per year (PEPY) is \$6,398. When State of RI plans are removed from the survey, the average total gross cost of medical coverage is \$6,168 PEPY. This represents an increase of 7% and 3%, respectively, over last year's figure (\$5,973 PEPY).
- Based on this year's responses to the question about historical cost increases, group medical costs have increased an average of 46% over the last three years (+14.2% in 2002, +13.2% in 2001 and +13.2% in 2000).
- The discrepancy between renewal increases (as reported by survey respondents) and the rate of increase from 2002 to 2003 (as calculated from the data provided by respondents to the 2002 and 2003 surveys) may be one area where the larger response rate has distorted comparisons. If identical samples had been used in each year, we would have expected a bigger jump in actual costs.
- On average, employees paid \$1,212 PEPY toward the cost of their group medical benefits (19% of gross cost). When State of RI plans are removed from the survey, employees paid an average of \$1,350 PEPY toward their medical coverage. Compared to last year's cost (\$1,251 PEPY), this is a decrease of 3% and an increase of 8%, respectively.
- Large employers with over 250 employees have slightly higher group medical costs than small employers with up to 250 employees (\$6,401 PEPY vs. \$6,376 PEPY).
- Large employers pay a higher percentage of the total costs than small employers (82% vs. 74%).
- Education has the highest group medical costs (\$7,708 PEPY), followed by Health Care (\$7,099 PEPY), Manufacturing (\$6,454 PEPY), Other Non-Manufacturing (\$5,636 PEPY), and Finance and Insurance (\$5,313 PEPY). When State of RI plans are removed, Education group medical costs are reduced to \$7,237 PEPY; however, this is still higher than the costs to remaining industry groups.
- Health Care employers pay the highest percentage of the total medical costs (93%), followed by Education (90%), Manufacturing (80%), Finance and Insurance (69%) and Other Non-Manufacturing (67%) employers. When State of RI plans are removed, Education employers pay 83% of the total medical costs.
- As compared to national and regional averages, RI employers in 2002 had higher gross costs and lower employee contributions, which would suggest that RI area employers incur significantly higher net costs than their national and regional competitors.
- Looking at employers that require employee contributions, 98% deduct employee contributions on a

straight pre-tax basis, while 2% of employers allow employees to select pre-tax or post-tax contributions.

- 28% of employers offer retiree medical benefits.
- 98% of respondents believe that the lack of competitive carriers offering group health insurance in our state is an important or very important factor contributing to rising health care costs in our area.
- In response to rising health care costs, 48% of respondents indicated that they changed benefits within the last year, while 69% of respondents changed benefits within the last three years. This may also help explain the discrepancy between the average cost change as reported by survey respondents and that identified from the empirical data submitted by survey respondents this year and last year.
- 13% of respondents indicated that they changed carriers within the last year, while 43% of respondents changed carriers within the last three years.
- 90% of respondents believe that the cost of group health insurance in Rhode Island would be lower if there were more group health insurers competing in the marketplace.
- 54% of employers think employees do not have a good understanding of costs and cost increases.
- 38% of employers would not even consider a health plan option that offered lower costs and fewer providers.

Profile of Participating Companies

This year, 54 employers (20% of those invited to participate) took part in the survey. Of these employers, 44 are privately held, 8 are public companies, and 2 are State of Rhode Island agencies. Additionally, 21 of the employers surveyed maintain operations at more than one site.

In a number of exhibits, we have presented data for all respondents with and without the State of RI plans. The reason for this is that we feel the state's non-contributory medical and dental plans exist as an anomaly when compared to those of other employers within our state. State of RI employees do not contribute to the cost of their health care coverage and the state plans have significantly higher average costs as a result. This is primarily due to the higher percentage of employees who elect dependent coverage (72% for State of RI employees versus 46% for the rest of survey respondents), but also attributable to their in-force rates which are higher than average.

Industry

Industry representation for the survey is outlined below.

Industries Represented	Percentage of Respondents (Number of Companies)	Number of Employees (Total)	Number of Employees (Rhode Island Area)
Manufacturing	50% (27)	12,258	8,709
Education	15% (8)	10,590	8,835
Health Care	11% (6)	3,924	3,332
Finance & Insurance	9% (5)	15,221	15,221
Other Non-Manufacturing	15% (8)	875	619
Total	100% (54)	42,868	36,716

Number of Employees

The following chart illustrates the breakdown of respondents by the number of employees they cover:

Number of Employees	Percentage of Respondents (Number of Companies)
Under 100	20% (11)
100 to 249	35% (19)
250 to 499	13% (7)
500 to 999	19% (10)
1,000 or more	13% (7)

The number of employees at each company range from a low of 22 to a high of over 14,500, and the median group size is 202 employees. For purposes of this survey, we will group respondents into categories with over 250 employees and under 250 employees.

Waivers and Dependent Concentration

As the cost of group insurance rises, more employers are forced to pass along the increased cost to their employees via increased employee contributions. As employee contributions rise, some employees elect not to cover their dependents or even themselves. Some employers also offer waiver credits or cash incentives to employees to encourage them to elect coverage through a spouse's plan. The following chart shows the number of medical waivers and dependent concentration for our survey respondents.

	% Waiving Coverage	% with Single Coverage	% with Dependent Coverage
All Respondents	19%	32%	48%
Non-State of RI Plans	20%	34%	46%
State of RI Plans	9%	19%	72%
Manufacturing	13%	29%	57%
Education			
– All Plans	13%	30%	57%
– Private Schools	16%	36%	47%
– Public Schools	9%	19%	72%
Health Care	14%	33%	53%
Finance & Insurance	27%	35%	38%
Other Non-Manufacturing	20%	43%	38%
Under 250 Employees	21%	32%	47%
Over 250 Employees	19%	32%	49%

In comparing 2003 data to those for 2002, we considered the dependent coverage breakdown for participating employees only (employees waiving group medical coverage have been eliminated from the sample). The reason for this is to be consistent with the survey methodology of the national and regional survey source.

	2003 RI Area	2002 RI Area	2002 Northeast	2002 National
	% with Dependent Coverage	% with Dependent Coverage	% with Dependent Coverage	% with Dependent Coverage
All Respondents	60%	59%	59%	54%
Non-State of RI Plans	58%	55%	N/A	N/A
State of RI Plans	79%	78%	N/A	N/A
Under 250 Employees	59%	54%	N/A	51% *
Over 250 Employees	60%	60%	N/A	56% *

* The Mercer National Survey of Employer-Sponsored Health Plans 2002 separates large and small at 500 employees.

Medical Benefits Findings

Number of Medical Plan(s) Offered

The majority of respondents offer more than one medical plan to their employees (31 of the 54 respondents or 57%). There were no respondents that have ceased to offer medical benefits to their employees.

	None	One	Two	Three or More
All Respondents	0%	43%	44%	13%
Manufacturing	0%	41%	44%	15%
Education	0%	50%	38%	13%
Health Care	0%	17%	67%	17%
Finance & Insurance	0%	60%	20%	20%
Other Non-Manufacturing	0%	50%	50%	0%
Under 250 Employees	0%	45%	45%	10%
Over 250 Employees	0%	39%	44%	17%

Type of Medical 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). In total, counting all plans offered by all respondents, 94 medical plans are reflected in the survey. The following is a summary of the types of plan offered to Rhode Island area employees:

	# Plans	HMO	POS	PPO	Indemnity
All Respondents	94	22%	11%	62%	5%
Manufacturing	49	18%	14%	65%	2%
Education	13	23%	0%	69%	8%
Health Care	12	33%	8%	50%	8%
Finance & Insurance	8	13%	13%	63%	13%
Other Non-Manufacturing	12	33%	8%	50%	8%
Under 250 Employees	51	20%	10%	65%	6%
Over 250 Employees	43	26%	12%	58%	5%

As compared to 2002 data, there is a significant decrease in POS plans (28% in 2002 vs. 11% in 2003) and a significant increase in PPO plans (47% in 2002 vs. 62% in 2003). This parallels national trends.

When comparing medical plans by vendor, Blue Cross Blue Shield of Rhode Island and United Healthcare continue to dominate the Rhode Island group medical marketplace. The following is a table detailing the breakdown of medical plans by vendor:

	# Plans	HMO	POS	PPO	Indemnity
<u>Blue Cross Blue Shield of RI</u>					
Number of Plans	60	16	6	34	4
Number of Covered Employees	23,145	1,313	554	21,202	76
<u>United Healthcare</u>					
Number of Plans	31	4	4	23	0
Number of Covered Employees	6,430	903	1,158	4,369	0
<u>Other Vendors</u>					
Number of Plans	3	1	0	1	1
Number of Covered Employees	130	20	0	77	33
<u>Total</u>					
Number of Plans	94	21	10	58	5
Number of Covered Employees	29,705	2,236	1,712	25,648	109

Gross Costs for Medical Coverage

Premium costs vary widely across the Rhode Island area. The single and family gross rates, as well as a per employee per year (PEPY) gross cost, are shown for medical coverage (including prescription drug benefits). The PEPY cost is a weighted average using each plan's actual rates and covered employees. This means that the plans covering the greatest number of people have the biggest impact on survey findings in this area.

Some notable findings are:

- PEPY gross costs range from \$3,066 to \$9,155, with an average PEPY gross cost of \$6,398. 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, total group size and dependent election concentration.
- The lowest monthly rates were \$200 per month for single coverage and \$502 per month for family coverage.
- The highest monthly rates were \$448 per month for single coverage and \$1,003 per month for family coverage.
- Smaller companies had slightly lower PEPY costs than larger employers, but the difference is not statistically valid.
- By industry, Finance and Insurance companies had the lowest average Per Employee Per Year (PEPY) costs, followed by Other Non-Manufacturing, Manufacturing, Health Care and Education.
- HMO plans have the lowest average rates, followed by POS plans, PPO plans and Indemnity plans.

	Single		Family		Per Employee Per Year
	Monthly	Annual	Monthly	Annual	
All Respondents	\$284	\$3,409	\$700	\$8,399	\$6,398
Non-State of RI Plans	\$284	\$3,405	\$683	\$8,190	\$6,168
State of RI Plans	\$289	\$3,473	\$811	\$9,736	\$8,423
Manufacturing	\$283	\$3,395	\$676	\$8,113	\$6,454
Education					
– All Plans	\$329	\$3,947	\$808	\$9,696	\$7,708
– Private Schools	\$341	\$4,096	\$805	\$9,659	\$7,237
– Public Schools	\$289	\$3,473	\$811	\$9,736	\$8,423
Health Care	\$340	\$4,084	\$747	\$8,969	\$7,099
Finance & Insurance	\$258	\$3,102	\$613	\$7,355	\$5,313
Other Non-Manufacturing	\$279	\$3,350	\$686	\$8,236	\$5,636
Under 250 Employees	\$295	\$3,543	\$693	\$8,317	\$6,376
Over 250 Employees	\$282	\$3,395	\$701	\$8,407	\$6,401
HMO Plans	\$272	\$3,275	\$690	\$8,282	\$6,323
POS Plans	\$274	\$3,296	\$691	\$8,288	\$6,393
PPO Plans	\$285	\$3,424	\$701	\$8,408	\$6,398
Indemnity Plans	\$360	\$4,324	\$858	\$10,304	\$8,055

Employee Contributions for Medical Coverage

A summary of our findings:

- PEPY employee contributions range from \$0 to \$4,690, with an average PEPY of \$1,212.
- The lowest monthly employee contribution rates were \$0 per month for single coverage (8 of the 94 plans) and \$0 per month for family coverage (4 of 94 plans).
- The highest monthly employee contribution rates were \$247 per month for single coverage and \$532 per month for family coverage.
- On average, employees at smaller companies (under 250 employees) pay more in employee contributions than employees of large employers.
- Health Care companies have the lowest average employee contributions, followed by Education, Manufacturing, Finance and Insurance, and Other Non-Manufacturing organizations

	Single		Family		Per Employee Per Year
	Monthly	Annual	Monthly	Annual	
All Respondents	\$60	\$732	\$128	\$1,534	\$1,212
Non-State of RI Plans	\$64	\$773	\$148	\$1,772	\$1,350
State of RI Plans	\$0	\$0	\$0	\$0	\$0
Manufacturing	\$52	\$629	\$133	\$1,599	\$1,271
Education					
– All Plans	\$49	\$588	\$70	\$836	\$750
– Private Schools	\$64	\$774	\$134	\$1,604	\$1,243
– Public Schools	\$0	\$0	\$0	\$0	\$0
Health Care	\$23	\$278	\$54	\$649	\$507
Finance & Insurance	\$78	\$938	\$191	\$2,294	\$1,643
Other Non-Manufacturing	\$75	\$894	\$248	\$2,972	\$1,866
Under 250 Employees	\$70	\$843	\$184	\$2,205	\$1,652
Over 250 Employees	\$60	\$720	\$122	\$1,464	\$1,166
HMO Plans	\$41	\$489	\$114	\$1,371	\$1,026
POS Plans	\$50	\$606	\$82	\$983	\$840
PPO Plans	\$63	\$760	\$132	\$1,585	\$1,253
Indemnity Plans	\$59	\$706	\$142	\$1,705	\$1,329

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

	Single	Family	Average Per Employee
All Respondents	21%	18%	19%
Non-State of RI Plans	23%	22%	22%
State of RI Plans	0%	0%	0%
Manufacturing	20%	20%	20%
Education			
– All Plans	15%	9%	10%
– Private Schools	19%	17%	17%
– Public Schools	0%	0%	0%
Health Care	7%	7%	7%
Finance & Insurance	30%	31%	31%
Other Non-Manufacturing	27%	36%	33%
Under 250 Employees	24%	27%	26%
Over 250 Employees	21%	17%	18%
HMO Plans	15%	17%	16%
POS Plans	18%	12%	13%
PPO Plans	22%	19%	20%
Indemnity Plans	16%	17%	17%

Employee Contributions – Pre-tax versus Post-tax

Nearly all companies in the Rhode Island area deduct employee contributions on a pre-tax basis, with only a few companies offering their employees a choice of having their employee contributions deducted pre-tax or post-tax.

Pre-tax	After-tax	Both
98%	0%	2%

Retiree Medical Benefits

National trends indicate that relatively few companies continue to offer retiree medical benefits. Rhode Island companies are no exception – only 27% of Rhode Island area employers offer retiree medical benefits.

Retiree medical benefits offered *	Offered to Under-65 Retirees	Offered to Over-65 Retirees
27%	24%	20%

* 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

Dental benefits are offered to employees by 98% of the respondents, while 13 employers 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, 62 dental plans are reflected in the survey.

When comparing dental plans by vendor, once again two vendors dominate the Rhode Island marketplace: Delta Dental of Rhode Island and Blue Cross Blue Shield of Rhode Island. The following is a table detailing the breakdown of dental plans by vendor:

	# Plans	PPO	Indemnity
<u>Delta Dental of RI</u>			
Number of Plans	46	46	0
Number of Covered Employees	24,135	24,135	0
<u>Blue Cross Blue Shield of RI</u>			
Number of Plans	12	12	0
Number of Covered Employees	6,251	6,251	0
<u>Other Vendors</u>			
Number of Plans	4	3	1
Number of Covered Employees	918	861	57
<u>Total</u>			
Number of Plans	62	61	1
Number of Covered Employees	31,304	31,247	57

Gross Costs for Dental Coverage

A summary of the results:

- PEPY gross costs range from \$239 to \$926, with an average PEPY gross cost of \$593.
- The lowest monthly rates were \$12 per month for single coverage and \$36 per month for family coverage.
- The highest monthly rates were \$36 per month for single coverage and \$101 per month for family coverage.
- Smaller companies (under 250 employees) had higher average rates than larger employers.
- Other Non-Manufacturing companies had the lowest average rates, followed by Health Care, Finance and Insurance, Education and Manufacturing.

	Single		Family		Per Employee Per Year
	Monthly	Annual	Monthly	Annual	
All Respondents	\$25	\$296	\$66	\$796	\$593
Non-State of RI Plans	\$25	\$298	\$67	\$808	\$587
State of RI Plans	\$22	\$261	\$61	\$730	\$639
Manufacturing	\$24	\$291	\$66	\$796	\$638
Education					
– All Plans	\$26	\$306	\$63	\$760	\$582
– Private Schools	\$27	\$319	\$67	\$800	\$539
– Public Schools	\$22	\$261	\$61	\$730	\$639
Health Care	\$22	\$269	\$72	\$860	\$572
Finance & Insurance	\$25	\$304	\$67	\$810	\$580
Other Non-Manufacturing	\$20	\$246	\$63	\$759	\$486
Under 250 Employees	\$21	\$257	\$66	\$787	\$595
Over 250 Employees	\$25	\$300	\$66	\$797	\$569

Employee Contributions for Dental Coverage

A summary of findings:

- PEPY employee contribution costs range from \$0 to \$770, with an average PEPY of \$271.
- The lowest monthly employee contribution rates were \$0 per month for single coverage (18 of the 62 plans) and \$0 per month for family coverage (9 of 62 plans).
- Of the 41 dental plans, six are truly voluntary (where employees pay 100% of dental premium).
- On average, employees of smaller companies pay less for dental coverage than employees of larger companies.
- Education has the lowest average employee contribution, followed by Other Non-Manufacturers, Health Care, Manufacturing, and Finance and Insurance.

	Single		Family		Per Employee Per Year
	Monthly	Annual	Monthly	Annual	
All Respondents	\$11	\$131	\$31	\$367	\$271
Non-State of RI Plans	\$12	\$138	\$36	\$429	\$303
State of RI Plans	\$0	\$0	\$0	\$0	\$0
Manufacturing	\$11	\$126	\$29	\$342	\$275
Education					
– All Plans	\$8	\$93	\$19	\$232	\$178
– Private Schools	\$10	\$119	\$46	\$549	\$316
– Public Schools	\$0	\$0	\$0	\$0	\$0
Health Care	\$6	\$72	\$33	\$399	\$240
Finance & Insurance	\$14	\$173	\$40	\$482	\$342
Other Non-Manufacturing	\$8	\$99	\$24	\$292	\$190
Under 250 Employees	\$7	\$86	\$25	\$305	\$215
Over 250 Employees	\$11	\$136	\$31	\$373	\$276

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

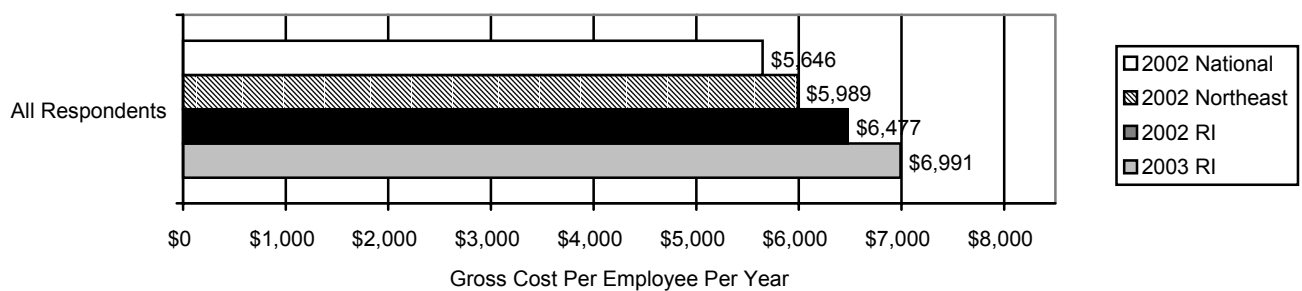
	Single	Family	Average Per Employee
All Respondents	46%	48%	48%
Non-State of RI Plans	46%	53%	52%
State of RI Plans	0%	0%	0%
Manufacturing	51%	50%	50%
Education			
– All Plans	30%	31%	30%
– Private Schools	37%	69%	59%
– Public Schools	0%	0%	0%
Health Care	27%	46%	42%
Finance & Insurance	57%	60%	59%
Other Non-Manufacturing	40%	39%	39%
Under 250 Employees	34%	39%	38%
Over 250 Employees	47%	49%	49%

Cost Comparison

Medical and Dental Benefit Cost Comparison

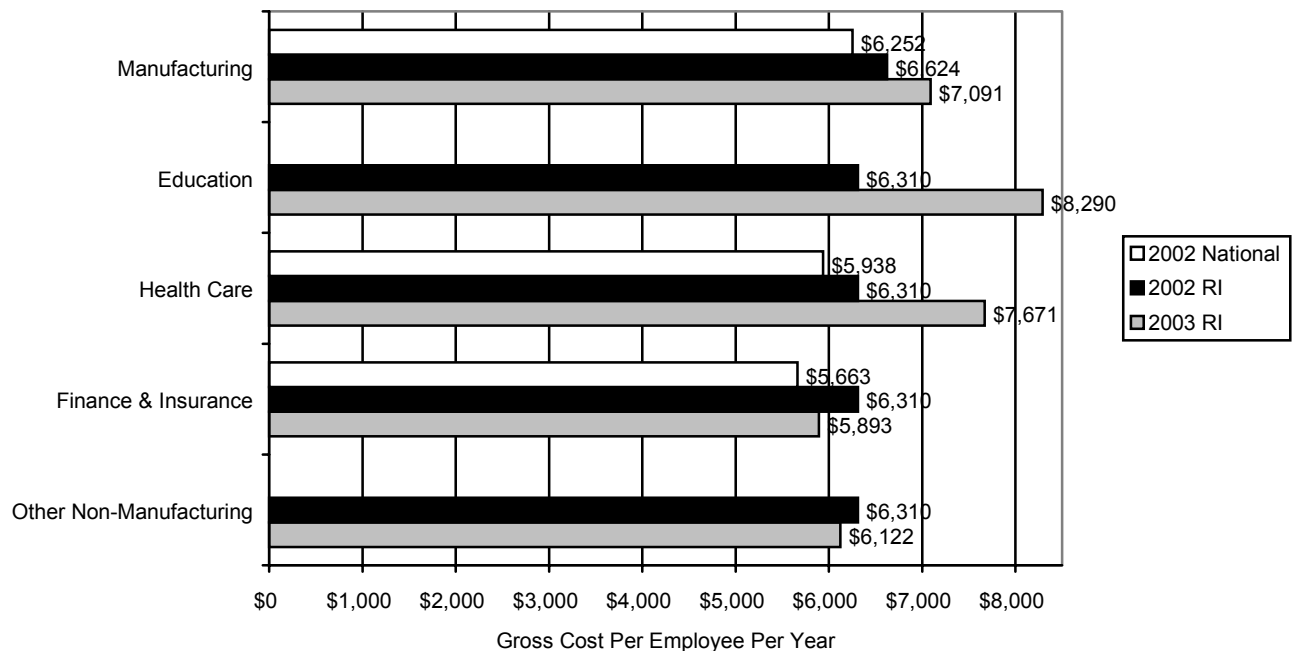
While it is important to compare Rhode Island area cost data to historic Rhode Island area cost data, it is also important to benchmark against national and regional averages. Additional cost data are provided courtesy of the *Mercer National Survey of Employer-Sponsored Health Plans 2002*. Please note that the Mercer Northeast data only reflects large employers (more than 500 employees) while their national data is reflective of all employers.

Chart 1
Medical & Dental Cost Comparison, All Respondents



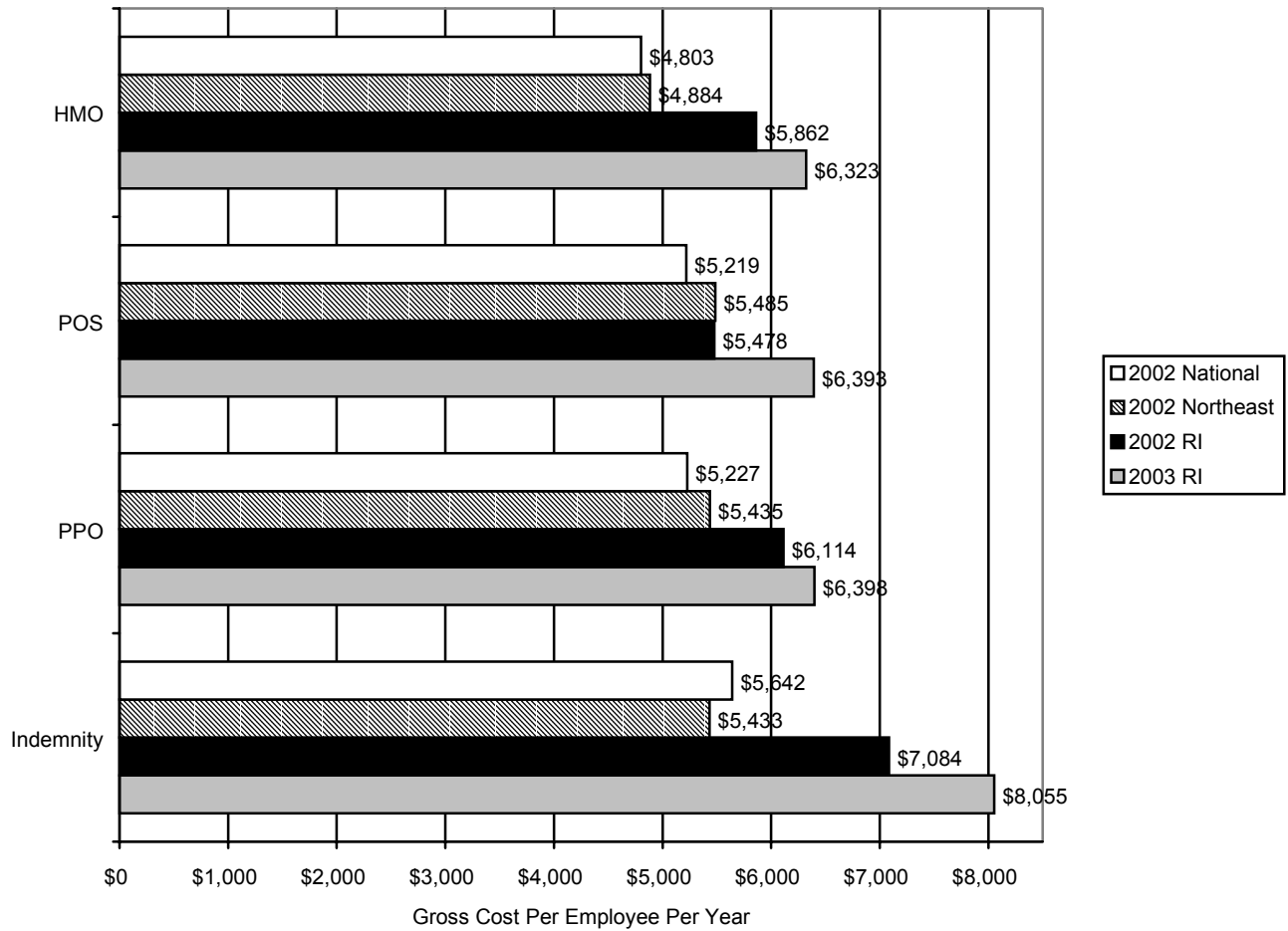
In Chart 1, you will notice that Rhode Island employers are paying more for health insurance than the national and regional averages. The 2002 Rhode Island averages are 15% higher than the national average and 6% higher than the regional average.

Chart 2
Medical & Dental Cost Comparison, by Industry



In Chart 2, you will see how costs in the key industries compare to national averages. Average costs per employee vary significantly by industry; however, you will notice that the Rhode Island average is higher in every instance. Please note that 2002 RI costs by industry is provided for Manufacturing and Non-Manufacturing only and 2002 National cost breakdown from Mercer is not provided for Education and Other Non-Manufacturing.

Chart 3
Medical Cost Comparison, by Plan Type

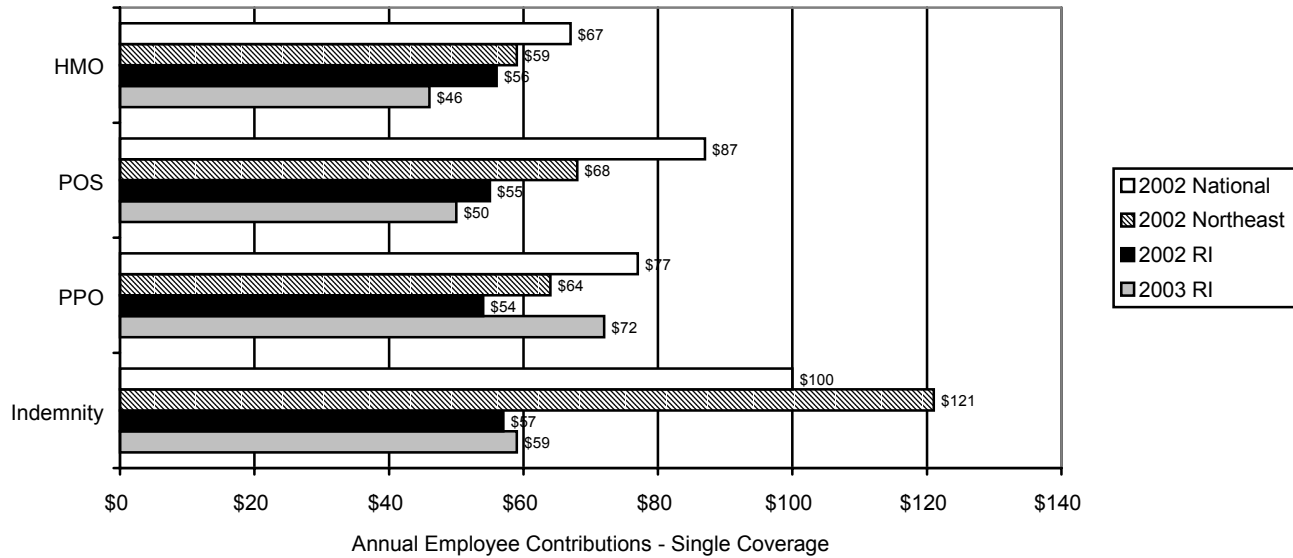


One of the more alarming results of this survey is the disparity in costs by plan type. RI employer's average 2002 HMO costs were 22% higher than the national average and 20% higher than the Northeast region average. Similarly, the RI employers' average 2002 PPO rates were 17% higher than the national average and 12% higher than the Northeast region average.

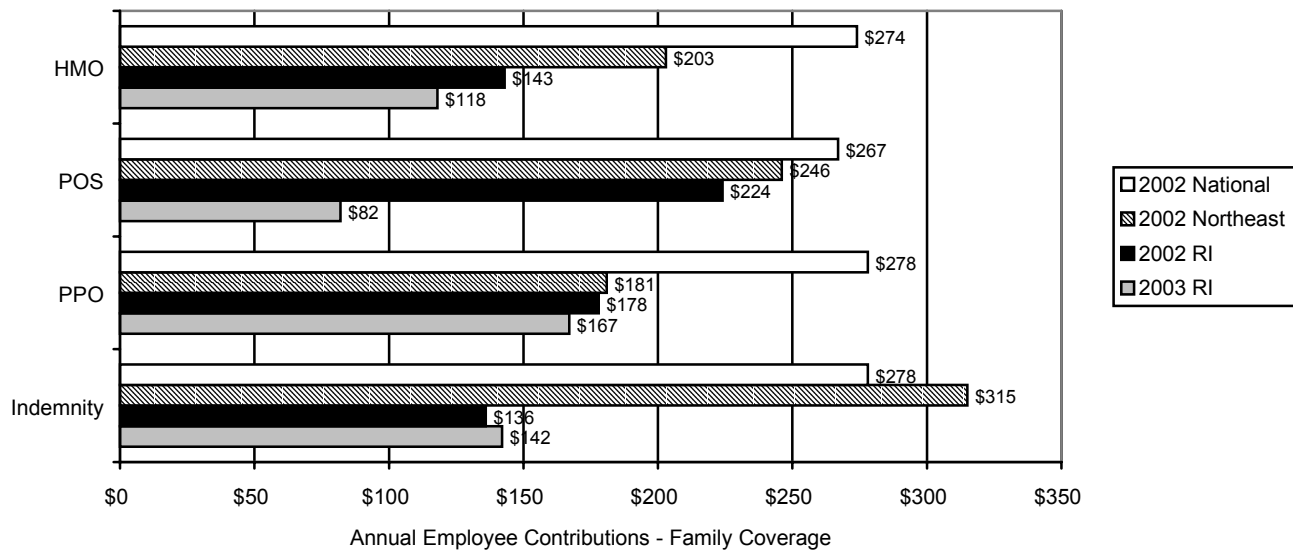
Employee Contribution Comparison

Please note that in order to better match the employee contribution calculation methodology employed in the Mercer survey, we are examining in this section of our survey only those employers with contributory medical plans. In the other sections of the survey, we have included the non-contributory plans in the employee contribution calculation.

**Chart 4
Medical Employee Contribution Comparison, by Plan Type (Single Coverage)**



**Chart 5
Medical Employee Contribution Comparison, by Plan Type (Family Coverage)**



Employee contributions vary widely locally, regionally and nationally. Charts 4 and 5 detail the average employee contributions by plan type for single and family coverage. In every case, Rhode Island employee contributions are below national and regional averages in 2002. The disparity is most glaring for the most

expensive plan type (Indemnity) and for all categories of dependent coverage. This would appear to be a significant finding, especially given the degree to which RI costs are higher than average. This would suggest that RI area employers pay more for coverage and charge their employees less than their regional and national competitors. This results in RI employers incurring a significantly higher net cost.

As a percentage of premium, employee contributions for Rhode Island are lower than the national and regional averages for nearly all types of plans and levels of coverage. Charts 6 and 7 detail single and family employee contributions as a percentage of gross cost.

Chart 6
Medical Employee Contribution Comparison as a Percentage of Premium, by Plan Type (Single Coverage)

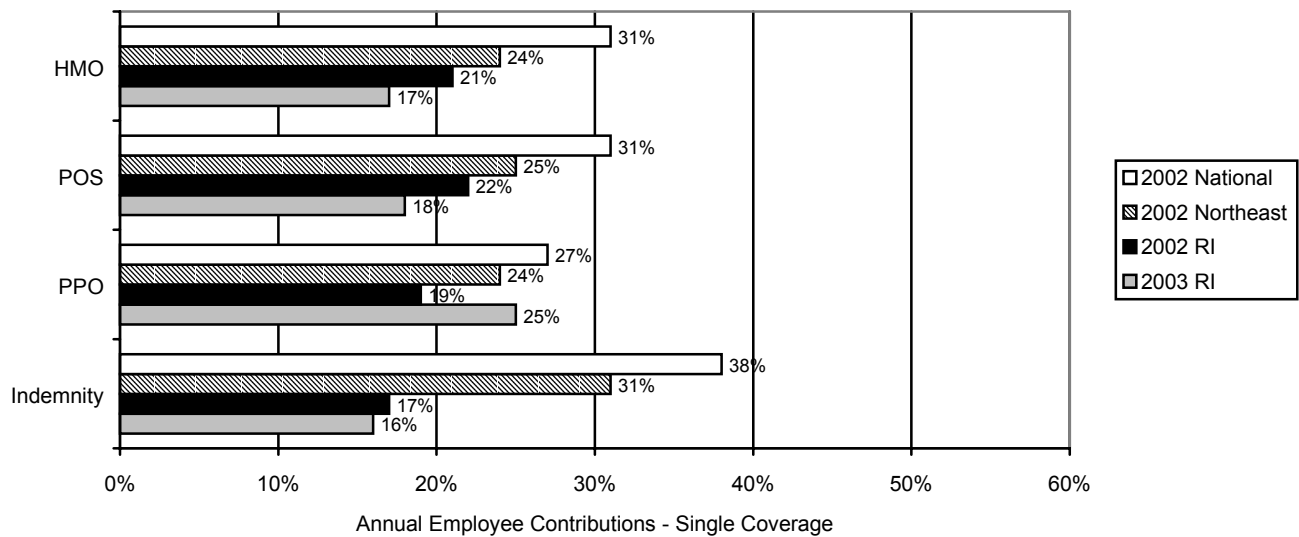
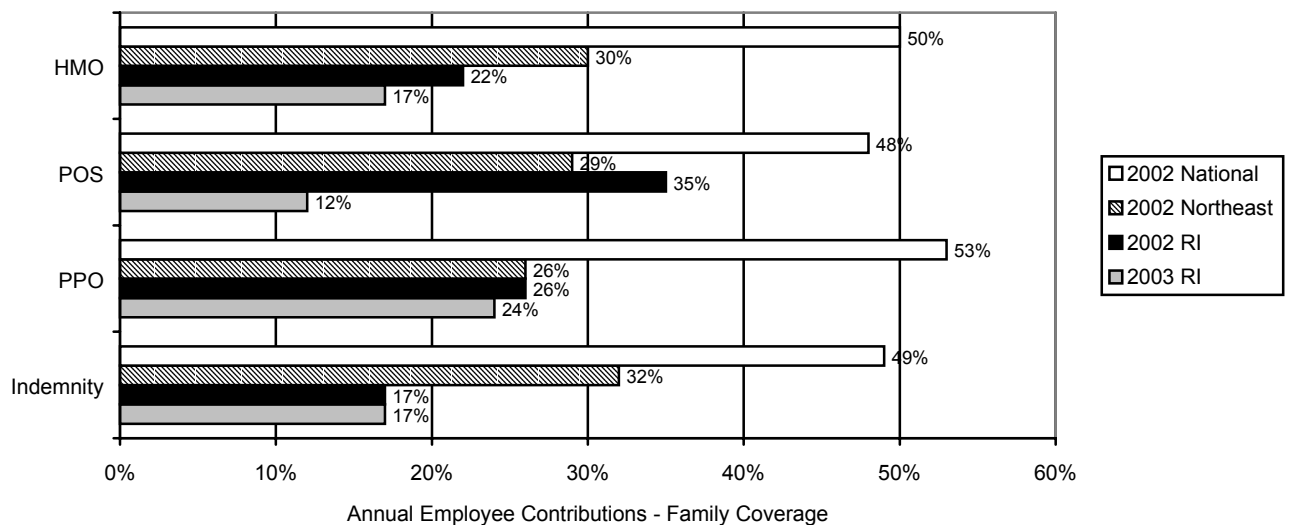


Chart 7
Medical Employee Contribution Comparison as a Percentage of Premium, by Plan Type (Family Coverage)



Controlling Medical and Dental Costs

Average Annual Increases In Medical and Dental Premiums

Survey respondents reported the following annual increases in the costs of medical and dental benefits for the years 2000 to 2002:

	Medical			Dental		
	2002	2001	2000	2002	2001	2000
All Respondents	14.2%	13.2%	13.2%	4.4%	3.6%	3.9%
Manufacturing	14.8%	13.5%	13.7%	5.1%	3.1%	3.1%
Education	17.6%	11.4%	12.4%	5.8%	6.0%	4.6%
Health Care	11.3%	13.6%	13.0%	4.4%	3.8%	7.3%
Finance & Insurance	9.5%	14.5%	21.5%	5.3%	2.5%	2.5%
Other Non-Manufacturing	14.6%	13.0%	8.1%	0.6%	3.4%	2.7%
Under 250 Employees	14.9%	13.7%	12.4%	4.3%	3.3%	3.0%
Over 250 Employees	13.4%	12.6%	14.0%	4.6%	4.3%	5.0%

Steps Taken to Control Costs

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

	Within Last Year	Within Last 3 Years
Changed Carriers	13%	43%
Changed Benefits	48%	69%
Eliminated Benefits	4%	11%
Increased Employee Contributions	50%	76%

Other steps to control medical and dental costs included vendor consolidation, self-insurance, implementing wage-based employee contribution formulas, and carving out prescription drugs to a separate pharmacy benefit manager.

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:

	2003				2002			
	Very Important	Important	Not Very Important	Not At All Important	Very Important	Important	Not Very Important	Not At All Important
Improvements in medicine that drive up life expectancy	28%	65%	6%	2%	31%	57%	12%	0%
Lack of competitive carriers offering group health insurance	64%	34%	2%	0%	54%	43%	3%	0%
An inefficient and wasteful bureaucracy	32%	52%	16%	0%	35%	50%	15%	0%
Doctors are making too much money	8%	31%	49%	12%	12%	29%	59%	0%
Prescription drug manufacturers are making too much money	69%	21%	10%	0%	69%	23%	8%	0%
Cost sharing from government plans (Medicare, Medicaid, RiteCare, etc.)	18%	71%	10%	2%	29%	48%	23%	0%

Consistent with 2002 data, respondents perceive prescription drug manufacturers’ profit margin as the leading culprit in rising costs in 2003 (69% of respondents indicating this as a very important aspect of rising medical costs). Showing an increase from 2002, 64% of respondents felt that a lack of competition in Rhode Island is a very important factor in rising health care costs.

Perception of RI Health Insurance Competitive Market

The vast majority (90%) 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.

2003			2002		
Yes	No	Undecided	Yes	No	Undecided
90%	2%	8%	92%	0%	8%

These results are quite similar to those of last year’s survey, in which 92% of respondents agreed that the cost of group health insurance in Rhode Island would be lower if we had more group health insurers competing in our marketplace, while 8% were undecided.

Employee Understanding of Cost Environment

Continuing a trend reflected in our 2002 results, a surprising statistic is that only 41% of respondents felt that their employees have a good understanding of their medical and dental benefit costs.

2003			2002		
Yes	No	Undecided	Yes	No	Undecided
41%	54%	6%	41%	50%	9%

Again, the results are quite similar to those of last year's survey. Last year, 41% of respondents felt that their employees have a good understanding of their medical and dental benefits, while 50% indicated that employees did not and 9% were undecided.

Considering the dramatic cost of these benefits, employers need to improve their efforts to communicate with employees so that they better appreciate, and properly utilize, the benefits provided.

Small Network Plans Not Desirable

When asked, "Would you consider a health plan option that offered lower costs, but had fewer participating providers?" only 26% of employers indicated that they would. A surprising 38% would not consider a smaller network at a lower cost, while 36% were undecided.

2003			2002		
Yes	No	Undecided	Yes	No	Undecided
26%	38%	36%	14%	44%	42%

Nonetheless, this reflects a more open-minded view than what the 2002 survey reflected when only 14% of respondents indicated that they would be interested in a health plan option with fewer participating providers, with 44% not willing to consider this option and 42% undecided.

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:

	2003			2002		
	Very Important	Important	Not Important	Very Important	Important	Not Important
Government regulation and compliance	29%	56%	15%	22%	65%	13%
Cost increases and price changes	86%	14%	0%	69%	31%	0%
Administration and HRIS/Payroll coordination	13%	57%	30%	12%	67%	21%
Customer service & prompt claim payment by health plan	36%	47%	17%	47%	41%	12%
Changes in health plan benefits and/or networks	28%	61%	11%	39%	45%	16%

The vast majority of respondents feel that cost increases cause the most work (86% felt that this was very important). As compared to last year’s survey, there is a trend that government regulation and compliance as well as cost increases and price changes are adding to the administrative workload of employers’ benefits departments.

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:

	2003			2002		
	Very Concerned	Concerned	Not Concerned	Very Concerned	Concerned	Not Concerned
In-network quality of care	39%	44%	17%	64%	33%	3%
Claims payment and customer service	37%	56%	8%	58%	39%	3%
Cost and cost changes (e.g., employee contributions)	87%	9%	4%	84%	8%	8%
Network of providers (e.g., is their doctor in the network?)	55%	42%	4%	68%	30%	2%
Quality of benefits (e.g., change in copays, deductibles, etc.)	74%	26%	0%	72%	28%	0%

Our survey respondents believe that their employees are very concerned about all aspects of their health insurance. The biggest concern is the cost (payroll deduction) followed by quality of benefits and quality of network. Surprisingly, 17% of employers think their employees are not concerned with the in-network quality of care. This is a significant increase over 2002 where only 3% of employers believed that their employees were not concerned with the in-network quality of care. Once again, claim payment and customer service ranked as the lowest employee benefit concern.

Employee Satisfaction with Benefits

In general, Rhode Island area employers believe that employees are satisfied with their medical benefits. A total of 85% of employers reported their employees as either “satisfied” or “very satisfied.” Employee satisfaction with dental benefits is also very high with 90% as either “satisfied” or “very satisfied.” The following table details RI employers’ perception of employee satisfaction with regard to their medical and dental benefits.

	Very Satisfied	Satisfied	Neutral	Dissatisfied	Very Dissatisfied
Medical Benefits	28%	57%	9%	6%	0%
Dental Benefits	42%	49%	8%	2%	0%

These satisfaction rates show a slight decrease from last year’s data. The 2002 data detail a perceived employee satisfaction of 92% for health care benefits (25% very satisfied and 67% satisfied).

Survey Overview and Methodology

The 2003 Rhode Island Area Medical & Dental Benefits Survey was mailed in March 2003 to 266 employers doing business in the Rhode Island area. The survey requested detailed information on medical and dental benefits programs, costs, employee contributions, cost-control measures, and general questions related to dental and medical benefits. Follow-up letters were sent in April, along with follow-up phone calls to companies that had not yet responded to the survey. Follow-up calls were also made to respondents to clear up inconsistent or incomplete data.

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 reflect the fully-insured medical and dental premium rates. For those companies with self-insured medical and/or dental benefits, the total cost data were determined through the use of COBRA rates (less the 2% administrative load). Per employee per year (PEPY) cost data are weighted average calculations reflecting current rates and headcounts by coverage category. All rates and coverage headcounts are for 2003.

Our comparison of RI area plans to national and regional averages (as provided in the *Mercer National Survey of Employer-Sponsored Health Plans 2002*) required us to calculate employee contributions differently from what is provided in other sections of the survey. While our standard is to analyze all employee contributions equally, the Mercer survey only analyzes employee contributions for contributory plans. In the *Cost Comparison* section of our survey, we have modified our data to look at only contributory plans. Also, the Mercer survey has a different breakdown of industries than the industry categories in this survey. Our survey responses dictated our breakdown of industries. Wherever possible, we have attempted to match Mercer's methodology.

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

Bluff Head Enterprises is a locally owned and operated benefit consulting firm established in 1992. BHE has been in business over 11 years and our two principals have over 30 years of combined consulting experience. We are based in Wakefield, RI, and serve both local and national clients. Our clients include several large employers (over 1,000 employees), many mid-sized employers (between 100 and 1,000 employees), as well as a few smaller employers (under 100 employees). BHE provides comprehensive employee benefit consulting services and can help your firm with:

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- ◆ Voluntary Benefit Plans
- ◆ Section 125: Cafeteria Plans
- ◆ Project Management

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