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# Introduction

For most of the last two decades, employers have had to confront the issue of rising health care costs. With annual increases averaging over 10% for the last five years, business leaders have had to take a long, hard look at their health and welfare benefit programs. Some employers have seen their healthcare costs double in the last five years. No one has been immune to the problem.

Employers in the Rhode Island area have certainly not been exempt from these increases. As employers react to these rising health care costs and attempt to redesign their benefit plans to meet the challenges of the relentless cost pressure, we believe that credible benchmarking data becomes more and more important. As employers consider various solutions and decide which options to pursue, we believe that it helps to know what other companies are doing.

As a community of taxpayers, we in Rhode Island are also beginning to address the question of how to provide benefits to our public employees. As Rhode Islanders begin to closely examine the question of whether state and municipal employees should contribute towards the cost of their medical and dental benefits, we at Bluff Head believe it is helpful to examine hard data and understand how employee contributions impact costs. This year the State of Rhode Island has again responded to our survey, which gives us the ability to offer comparisons between the public and private sector approaches to benefits. Because of its unique characteristics (the state plans are just beginning to introduce employee contributions) and its size, we have divided most of our results to show governmental or public sector plans (i.e., the State of Rhode Island) separately from private sector respondents.

Our survey is conducted locally and funded 100% by Bluff Head Enterprises, Inc. All individual responses are treated with strict confidentiality. Responding employers receive a complimentary copy of the results as their only incentive to participate. Of the responding employers, only six are current clients of our firm (representing less than 2% of the Rhode Island area employees reflected in the survey database). We expend significant resources to conduct and publish this survey and are confident that it represents an independent and highly credible source of data about costs, employee contributions, benefits, and trends in Employer-Sponsored Medical and Dental Benefits in our home state.

# Survey Highlights & RI Area Trends

## ***Survey Highlights***

As we review the data presented in this year's survey we note the following key findings:

- The average total gross cost of medical coverage per employee per year (PEPY) in 2005 is *\$8,047 for private sector employer plans* and *\$10,634 for public sector (governmental) plans*. This represents increases of 13% and 15% over last year, respectively.
- In aggregate, the average total gross cost of medical coverage for all respondents is *\$8,826 PEPY*, which is *a 14% increase compared to last year*.
- According to our 2005 survey respondents, *Group medical costs have increased* an average of 39% over the last three years (+9.8% in 2005, +11.2% in 2004 and +14.2% in 2003). Our data shows a 14% increase over last year (versus the reported increase of 9.8%). The reason for this difference is the change in actual respondents from 2004 to 2005 as well as some 2005 respondents declining to provide historical cost changes for the last three years.
- On average, *employees of private employers paid \$1,576 PEPY* toward the cost of their group medical benefits, or *20% of gross cost*. Rhode Island state employees have only recently begun to contribute toward the cost of their medical coverage.
- Large private employers pay a higher percentage of the total costs than small private employers (82% vs. 71%), which means that *employees of smaller companies contribute more* of the total cost of their coverage.
- As compared to national and regional averages, *Rhode Island employers in 2004 had higher gross costs and lower employee contributions*. For the third year in a row, it appears that Rhode Island area employers incur significantly higher net costs than their national and regional counterparts.
- *Only 30%* of Rhode Island area employers who responded now *offer retiree medical benefits*.
- 84% of respondents believe that the *small number of vendors* offering group health insurance in our state is an important or very important factor *contributing to rising healthcare costs* in our area.
- *22% of respondents* indicated that they *changed carriers* within the last year, while 45% of respondents changed carriers within the last three years. This is an increase over last year's figures of 20% and 41% respectively.
- *64% of respondents* indicated that they *increased employee contributions* within the last year, while 78% of respondents increased employee contributions within the last three years.
- *56%* of responding employers now *offer domestic partner coverage*. This is a fairly sizable increase over last year's 48% figure.

### ***Rhode Island Area Trends***

As we consider the information presented in the following pages we want to take note of any local trends and highlight areas where Rhode Island seems unique in comparison with Employer-Sponsored Medical and Dental programs in other parts of the United States.

#### Consumer Driven Health Plans

Based on the 2005 responses, it appears that Rhode Island area employers do not reflect the national trend towards Consumer Driven Health Plans (CDHP's). Only one of this year's responding employers indicated that they have actually implemented a CDHP.

#### Flexible Benefits

Conversely, the historic trend toward flexible benefit plans is reflected in Rhode Island area programs; 57% of respondents offer more than one medical plan, 60% offer unreimbursed health care Flexible Spending Accounts (FSA's) and 63% offer dependent care FSA's. Of those employers that require employees to contribute towards the cost of their medical and dental benefits, 100% provide IRS Section 125 pre-tax premium payment (9% of employers allow either pre-tax or post-tax employee contribution payments).

#### Waiver Credits

Given that the vast majority of the plans require employee contributions, we were again mildly surprised to discover that 27% of participating employers offer a "waiver credit." A waiver credit is generally a cash payment to employees who elect not to participate in an employer's medical plan and, in our experience, is generally more common in non-contributory plans where an employer pays 100% of plan costs.

#### Cost Shifting

A national trend that is reflected in our data is the tendency of employers to respond to increases in cost by shifting costs to employees. 72% of respondents changed benefits in the last three years (48% within the last year) and 64% of participating employers increased employee contributions within the last year.

#### Income Sensitive Employee Contributions

As employers have increased employee costs, they are becoming concerned about affordability. This year's data includes responses from five employers (representing 11% of the employee population) who utilize income sensitive employee contributions. Income sensitive employee contributions generally involve higher contributions from higher paid employees. To demonstrate how this works, consider that our 2005 data shows an average employee contribution of \$2,979 PEPY for family coverage among employers with under 250 employees. For someone who makes \$9 per hour (or approximate \$18,720 per year), this is 16% of gross compensation. For someone who earns \$70,000 per year the same contribution is 4% of gross pay. Income sensitive contributions are most prevalent among those respondents who are in the Educational and Manufacturing environments, but we believe many large employers could benefit from consideration of this strategy as a way to maintain the unity of their risk pool and avoid adverse selection.

#### Wellness & Health Promotion

Another trend we have observed locally and nationally involves the adoption of wellness and health promotion programs. In theory, wellness programs are a win-win for all involved. Participants benefit from a better quality of life and increased life expectancy. Employers see lower claim costs (and therefore lower premiums), increased productivity and reduced absenteeism. Insurers benefit from a healthier risk pool. In practice, we believe employers with low turnover are most likely to see the return on investment necessary to cost justify these initiatives.

### Domestic Partner Coverage

In analyzing eligibility information for the first time in 2005, we were surprised to discover the prevalence of domestic partner coverage. 56% of all responding employers offer some form of domestic partner coverage.

### Employee Contributions to Dental

Another area where we note what we believe to be a divergence between Rhode Island area plan sponsors and nation/regional norms is the degree to which dental plans in the Rhode Island area are heavily contributory. In our data, employees of private employers pay 39% of all dental costs, whereas the same group of employees contributes only 20% of medical costs.

### Dental Health Maintenance Organizations

Another difference between the Rhode Island area group dental benefit environment and what we perceive to be national/regional norms is the apparent local absence of any Dental Health Maintenance Organization (DHMO) plan as an option. DHMO plans generally provide generous benefits and aggressive prices, but typically have small provider networks. No licensed vendor actively markets a DHMO product in Rhode Island.

### Self Insurance

Another unique aspect of Rhode Island area benefits is the relatively minimal number of self insured plans. Of those employer respondents who cover over 1,000 employees, only 61% are partially or completely self funded. As compared to other areas of the country, we would expect that over 75% of large employers are self insured.

### Lack of Competition

A final trend we would draw attention to is the lack of competition in our marketplace. Where neighboring states generally have at least a half dozen (or more) realistic health plan vendors to choose among, we in Rhode Island really have only Blue Cross Blue Shield of RI and United Healthcare. Where regionally and nationally most communities have many dental plan vendors to choose from, here in Rhode Island we realistically have only Delta Dental and Blue Cross Blue Shield. Among the employees of our survey respondents, 90% of those covered for medical are covered by either United Healthcare or Blue Cross Blue Shield of RI. Similarly, 86% of those covered for dental are covered by either Delta Dental or Blue Cross Blue Shield of RI.

We do not know if this two vendor dominance reflects a regulatory environment that is unattractive to alternative vendors or whether it is attributable to some other factor. We believe it is a problem, and not an advantage, for local employers struggling to provide affordable health benefits to their employees.

# Profile of Participating Companies

This year, 60 employers took part in the survey. Of these companies, 32 of the employers surveyed maintain operations at more than one site.

## **Public Sector (Governmental) Plans vs. Private Sector (Non-Governmental) Plans**

In most of the following exhibits, we have presented data for all respondents with and without the State of Rhode Island plans. The reason for this is that we feel the state's lower-contributory medical and dental plans are an anomaly when compared to most other employers within our area. State of Rhode Island employees do not contribute nearly as much to the cost of their health care coverage. The state plans have higher average gross costs and significantly higher average net costs, which we view as a direct consequence of their non-contributory nature. One reason for this is the much higher percentage of employees who elect dependent coverage (64% for State of Rhode Island employees versus 52% for the private sector employers).

As an example of this, consider a family where one parent works for the state and the other works at XYZ private employer. If the parent who works at XYZ has to pay 20% to get health coverage, chances are very good that the family will elect coverage from the state and waive coverage at XYZ. This leads to a phenomenon where the state employees elect family coverage at a much higher rate than private sector employees. Because family coverage is more expensive than single coverage, this causes the state to have much higher average costs.

Therefore, in order to allow our private sector employer respondents to compare themselves to a realistic universe of similar employers, we believe it is important to breakdown our data in this manner.

## **Industry**

We have added a new industry with the 2004 survey. We have broken out "Professional Services" which are made up of various professional firms (law offices, engineering firms, consulting firms, etc.).

The Manufacturing industry represents the largest percentage of respondents (47%),

however Finance & Insurance has the largest percentage of employees (28%).

Industries Represented	Percentage of Respondents (Number of Companies)	Number of Employees (Total)
<b>Private Sector Employers</b>		
Manufacturing	47% (28)	18,135
Education	12% (7)	9,743
Health Care	8% (5)	14,214
Finance & Insurance	8% (5)	26,637
Professional Services	5% (3)	1,953
Other Non-Manufacturing	18% (11)	7,036
<i>Subtotal</i>	<i>98% (59)</i>	<i>77,718</i>
<b>Public Sector Employers</b>		
Government	2% (1)	16,000
<b>Total</b>		
All Respondents	100% (60)	93,718

### Number of Employees

The chart to the right illustrates the breakdown of respondents by the number of employees they cover.

Number of Employees	Percentage of Respondents (Number of Companies)
Under 100	17% (10)
100 to 249	27% (16)
250 to 499	15% (9)
500 to 999	12% (7)
1,000 or more	30% (18)

The number of employees at each company range from four to over 25,000, and the median group size is 311 employees. As with past surveys, we will group respondents into two categories by size: large employers with over 250 employees and small employers with 250 or fewer employees.

### Number of Medical Plan(s) Offered

As indicated in our *Survey Highlights & RI Area Trends* section, most local employers appear to have embraced flexible benefits in one form or another. As an example of this finding, 57% of respondents offer more than one medical plan. Please note that there were no respondents that have ceased to offer medical benefits to their employees.

	One	Two	Three or More
All Respondents	43%	35%	22%
Manufacturing	39%	43%	18%
Education	29%	43%	29%
Health Care	0%	40%	60%
Finance & Insurance	60%	20%	20%
Professional Services	33%	33%	33%
Other Non-Manufacturing	75%	17%	8%
Government	100%	0%	0%
Under 250 Employees	58%	35%	8%
Over 250 Employees	32%	35%	32%

### Waivers and Dependent Concentration

As the cost of group insurance rises, many employers are forced to pass along all or part of the increased cost to their employees via increased employee contributions. As employee contributions have increased, most employees now elect to cover themselves and their dependents under one plan only. Since many families have both parents in the work force,

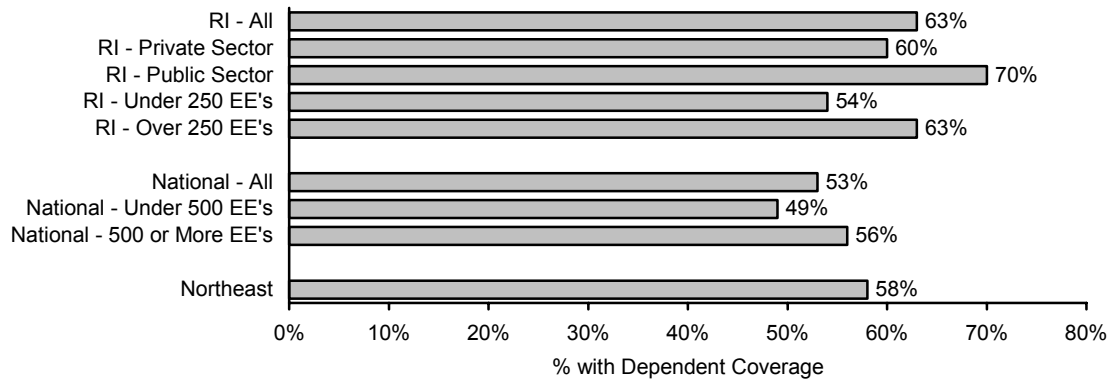
	% Waiving Coverage	% with Single Coverage	% with Dependent Coverage
<b>Private Sector Employers</b>			
All Private Employers	13%	35%	52%
Manufacturing	10%	32%	58%
Education	13%	31%	56%
Health Care	12%	31%	57%
Finance & Insurance	8%	41%	51%
Professional Services	8%	30%	62%
Other Non-Manufacturing	16%	43%	41%
Under 250 Employees	19%	37%	44%
Over 250 Employees	7%	34%	59%
<b>Public Sector Employers</b>			
Government	9%	27%	64%
<b>Total</b>			
All Respondents	10%	33%	57%

there are often two sets of employer plans to choose from. Some employers also offer waiver credits or cash incentives to employees to encourage them to elect coverage through a spouse's plan.

As employee contributions continue to increase, we believe that coverage waivers are also now beginning to come from employees without other insurance coverage. We call these coverage waivers "true waivers". Other studies have shown that a growing number of our uninsured here in Rhode Island (and throughout the United States) actually have coverage available through their employer but choose not to elect it.

**Dependent Coverage Comparison: Rhode Island vs. National & Regional Averages**

In comparing Rhode Island data to data on a regional and national basis, 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.



National and Northeast figures provided by the Mercer National Survey of Employer-Sponsored Health Plans 2004.

As the above chart reflects, the percentage of employees electing dependent coverage in Rhode Island is 10% above national averages and 5% above the Northeast regional norm. Dependent coverage elections are lowest with smaller employers who, not coincidentally, charge their employees the highest amount for health coverage.

**Dependent Coverage Structure – Medical**

For purposes of this survey, we have shown costs for dependent coverage on a two-tier basis (Single versus Family rates). While the majority of responding employers do actually use this two-tier approach, some plans utilize a three-tier or four-tier dependent coverage structure. A three-tier structure would offer the following coverage elections: Employee Only, Employee plus One Dependent, and Employee plus Two or More Dependents. A four-tier structure would offer the following coverage elections: Employee Only, Employee plus Spouse, Employee plus Child(ren), and Employee plus Full Family (spouse and children).

	Two-Tier	Three-Tier	Four-Tier
All Respondents	60%	29%	11%
Manufacturing	43%	43%	14%
Education	64%	36%	0%
Health Care	88%	0%	12%
Finance & Insurance	88%	0%	12%
Professional Services	100%	0%	0%
Other Non-Manufacturing	47%	40%	13%
Government	100%	0%	0%
Under 250 Employees	61%	26%	13%
Over 250 Employees	59%	31%	10%

**Dependent Coverage Structure – Dental**

Similar to the medical environment, we have shown dental costs for dependent coverage on a two-tier basis (Single versus Family rates). The following chart shows the actual breakdown of dependent coverage options for our survey respondents. In the dental environment, the two-tier structure is even more common than in the medical environment.

	Two-Tier	Three-Tier	Four-Tier
All Respondents	71%	20%	9%
Manufacturing	45%	40%	15%
Education	82%	18%	0%
Health Care	100%	0%	0%
Finance & Insurance	82%	0%	18%
Professional Services	100%	0%	0%
Other Non-Manufacturing	60%	33%	7%
Government	100%	0%	0%
Under 250 Employees	82%	18%	0%
Over 250 Employees	32%	47%	21%

# Medical Benefits Findings

## ***Gross Costs for Medical Coverage***

Premium costs vary widely in the Rhode Island area. The single and family gross rates, as well as the per employee per year (PEPY) gross costs, are shown below for medical coverage (including prescription drug benefits). The PEPY cost is a weighted average using each plan's actual rates and the number of 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 \$4,776 to \$13,637, with an average PEPY gross cost of \$8,826. The wide 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.
- Monthly rates for single coverage range from \$230 to \$554 with an average of \$364 per month.
- Monthly rates for family coverage range from \$664 to \$1,414 with an average of \$952 per month.
- By industry, Other Non-Manufacturing companies had the lowest average PEPY costs, followed by Finance & Insurance, Manufacturing, Education, Health Care, Government and Professional Services.
- POS plans have the lowest average rates, followed by PPO plans, HMO plans and Indemnity plans.

	Single		Family		Per Employee Per Year
	Monthly	Annual	Monthly	Annual	
<b>Private Sector Employers</b>					
All Private Employers	\$359	\$4,312	\$880	\$10,566	\$8,047
Manufacturing	\$310	\$3,722	\$805	\$9,654	\$7,552
Education	\$358	\$4,302	\$958	\$11,493	\$8,957
Health Care	\$396	\$4,749	\$944	\$11,324	\$9,006
Finance & Insurance	\$347	\$4,164	\$829	\$9,952	\$7,374
Professional Services	\$431	\$5,169	\$1,134	\$13,610	\$10,831
Other Non-Manufacturing	\$357	\$4,286	\$873	\$10,479	\$7,298
Under 250 Employees	\$351	\$4,213	\$807	\$9,691	\$7,199
Over 250 Employees	\$357	\$4,283	\$895	\$10,736	\$8,224
HMO Plans	\$379	\$4,543	\$921	\$11,056	\$8,743
POS Plans	\$345	\$4,134	\$831	\$9,977	\$7,492
PPO Plans	\$352	\$4,229	\$884	\$10,610	\$8,061
Indemnity Plans	\$454	\$5,444	\$1,204	\$14,444	\$11,003
<b>Public Sector Employers</b>					
Government	\$392	\$4,704	\$1,098	\$13,176	\$10,634
<b>Total</b>					
All Respondents	\$364	\$4,371	\$952	\$11,420	\$8,826

**Employee Contributions for Medical Coverage**

A summary of our findings:

- For private sector employers, PEPY employee contributions range from \$0 to \$7,588, with an average PEPY of \$1,576.
- Monthly employee contribution rates for single coverage range from \$0 (21 of the 113 plans spanning 13 employers) to \$375 with an average of \$58.
- Monthly employee contribution rates for family coverage range from \$0 (14 of the 113 plans spanning 10 employers) to \$827 with an average of \$128.
- On average, employees at smaller companies (under 250 employees) pay significantly more in employee contributions (43% more) than employees of large private sector employers.
- Government employers have the lowest average employee contributions, followed by Health Care, Education, Manufacturing, Professional Services, Other Non-Manufacturing and Finance & Insurance organizations.

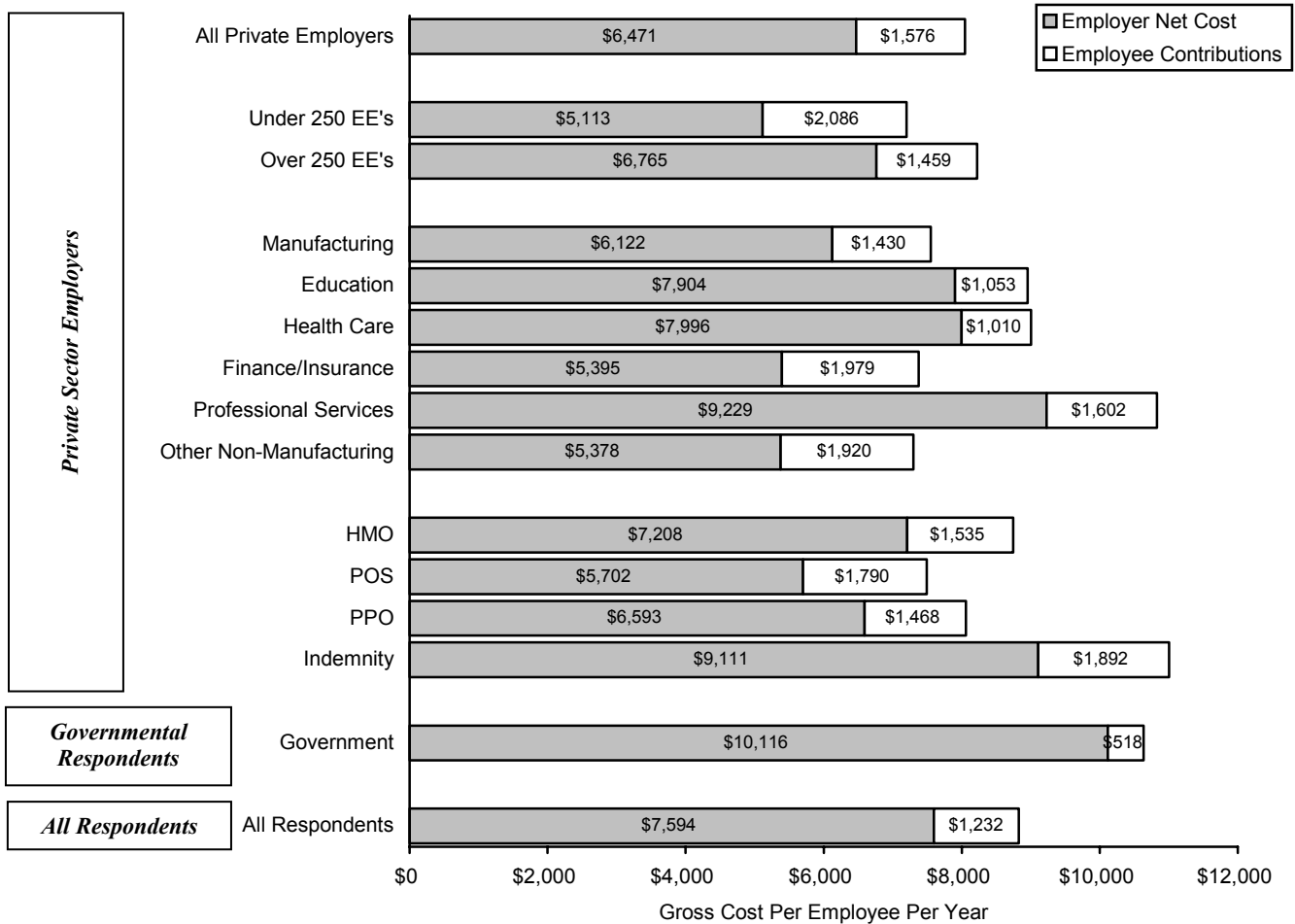
	Single		Family		Per Employee Per Year
	Monthly	Annual	Monthly	Annual	
<b>Private Sector Employers</b>					
All Private Employers	\$72	\$870	\$171	\$2,052	\$1,576
Manufacturing	\$59	\$709	\$152	\$1,825	\$1,430
Education	\$56	\$670	\$105	\$1,262	\$1,053
Health Care	\$45	\$536	\$106	\$1,269	\$1,010
Finance & Insurance	\$100	\$1,195	\$217	\$2,610	\$1,979
Professional Services	\$62	\$741	\$169	\$2,025	\$1,602
Other Non-Manufacturing	\$50	\$597	\$276	\$3,317	\$1,920
Under 250 Employees	\$85	\$1,017	\$248	\$2,979	\$2,086
Over 250 Employees	\$69	\$833	\$155	\$1,858	\$1,459
HMO Plans	\$69	\$824	\$161	\$1,927	\$1,535
POS Plans	\$75	\$900	\$204	\$2,449	\$1,790
PPO Plans	\$70	\$845	\$157	\$1,882	\$1,468
Indemnity Plans	\$74	\$888	\$209	\$2,513	\$1,892
<b>Public Sector Employers</b>					
Government	\$16	\$188	\$55	\$659	\$518
<b>Total</b>					
All Respondents	\$58	\$702	\$128	\$1,540	\$1,232

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

	Single	Family	Average Per Employee
<b>Private Sector Employers</b>			
All Private Employers	20%	19%	20%
Manufacturing	19%	19%	19%
Education	16%	11%	12%
Health Care	11%	11%	11%
Finance & Insurance	29%	26%	27%
Professional Services	14%	15%	15%
Other Non-Manufacturing	14%	32%	26%
Under 250 Employees	24%	31%	29%
Over 250 Employees	19%	17%	18%
HMO Plans	18%	17%	18%
POS Plans	22%	25%	24%
PPO Plans	20%	18%	18%
Indemnity Plans	16%	17%	17%
<b>Public Sector Employers</b>			
Government	4%	5%	5%
<b>Total</b>			
All Respondents	16%	13%	14%

**Net Cost Comparison for Medical Coverage**

What most employers are concerned about are the net costs of the medical coverage they provide. The net cost is the actual gross cost less any employee contributions required. Although waiver credits are part of an employer’s benefit costs, we have not included these costs in our calculation. When we remove the employee contribution piece from the gross costs, the results are dramatic. The State of Rhode Island net costs are 56% higher than the net cost of the average private sector employer.



Large employers had net costs that were 32% higher than small employers. Within the private sector employers, Other Non-Manufacturing employers had the lowest net costs by industry type with Professional Services having the highest net costs by industry type. POS plans had the lowest net costs while Indemnity plan sponsors incurred dramatically higher net costs than managed care plan sponsors.

**Plan Design Features**

New with the 2005 survey, we have included a summary of benefit design information. We have broken out the plan design features by the type of plan (HMO, POS, PPO and Indemnity), and also by size of the employer. We have provided a breakdown by industry for PPO plans only since there was not sufficient information to provide an industry breakdown for the other plan types.

In many cases, the benefit information includes the median value and the 1<sup>st</sup> and 3<sup>rd</sup> quartile values. These statistical measurements are defined as:

- Median – The middle value of the entire responding group
- 1<sup>st</sup> Quartile – The value at the 25<sup>th</sup> percentile of the responding group divided into four equal parts
- 3<sup>rd</sup> Quartile – The value at the 75<sup>th</sup> percentile of the responding group divided into four equal parts

**HMO Plans****Doctor Office Visits (In-Network Only)**

	<i>Primary Care Physician Office Visit Copay</i>			<i>Specialist Office Visit Copay</i>		
	1 <sup>st</sup> Quartile	Median	3 <sup>rd</sup> Quartile	1 <sup>st</sup> Quartile	Median	3 <sup>rd</sup> Quartile
All Employers	\$10	\$15	\$15	\$15	\$15	\$20
Under 250 Employees	\$15	\$15	\$15	\$15	\$15	\$30
Over 250 Employees	\$10	\$15	\$15	\$10	\$15	\$20

**Inpatient Hospital Coverage (In-Network Only)**

	<i>Deductible &amp; Coinsurance</i>		<i>Inpatient Hospital Copay</i>		<i>Hospital Covered in Full</i>
	% of Plans	Median Deductible	% of Plans	Median Copay	% of Plans
All Employers	18%	\$250	36%	\$250	45%
Under 250 Employees	20%	\$1,000	40%	\$250	40%
Over 250 Employees	18%	\$250	35%	\$300	47%

**Prescription Drug Coverage**

	<i>Rx Plan Design</i>				<i>Median 3 Tier Copays</i>		
	1 Tier	2 Tiers	3 Tiers	Coinsurance	Generic	Preferred Brand	Non-Preferred
All Employers	0%	0%	86%	14%	\$7	\$25	\$40
Under 250 Employees	0%	0%	100%	0%	\$7	\$25	\$40
Over 250 Employees	0%	0%	82%	18%	\$7	\$25	\$40

**POS Plans****Doctor Office Visits (In-Network Only)**

	<i>Primary Care Physician Office Visit Copay</i>			<i>Specialist Office Visit Copay</i>		
	1 <sup>st</sup> Quartile	Median	3 <sup>rd</sup> Quartile	1 <sup>st</sup> Quartile	Median	3 <sup>rd</sup> Quartile
All Employers	\$15	\$15	\$15	\$15	\$15	\$20
Under 250 Employees	\$10	\$10	\$15	\$10	\$15	\$20
Over 250 Employees	\$15	\$15	\$15	\$15	\$20	\$25

**Inpatient Hospital Coverage (In-Network Only)**

	<b>Deductible &amp; Coinsurance</b>		<b>Inpatient Hospital Copay</b>		<b>Hospital Covered in Full</b>
	<b>% of Plans</b>	<b>Median Deductible</b>	<b>% of Plans</b>	<b>Median Copay</b>	<b>% of Plans</b>
All Employers	22%	\$500	22%	\$200	56%
Under 250 Employees	50%	\$500	0%	N/A	50%
Over 250 Employees	0%	N/A	40%	\$200	60%

**Out-of-Network Coverage**

	<b>Annual Deductible Amount</b>			<b>Coinsurance Amount</b>		
	<b>1<sup>st</sup> Quartile</b>	<b>Median</b>	<b>3<sup>rd</sup> Quartile</b>	<b>1<sup>st</sup> Quartile</b>	<b>Median</b>	<b>3<sup>rd</sup> Quartile</b>
All Employers	\$275	\$300	\$1,000	70%	80%	80%
Under 250 Employees	\$200	\$300	\$1,000	70%	80%	80%
Over 250 Employees	\$250	\$300	\$1,000	70%	75%	80%

**Prescription Drug Coverage**

	<b>Rx Plan Design</b>				<b>Median 3 Tier Copays</b>		
	<b>1 Tier</b>	<b>2 Tiers</b>	<b>3 Tiers</b>	<b>Coinsurance</b>	<b>Generic</b>	<b>Preferred Brand</b>	<b>Non-Preferred</b>
All Employers	0%	0%	100%	0%	\$10	\$25	\$40
Under 250 Employees	0%	0%	100%	0%	\$10	\$25	\$40
Over 250 Employees	0%	0%	100%	0%	\$7	\$25	\$40

**PPO Plans**

**Doctor Office Visits (In-Network Only)**

	<b>Primary Care Physician Office Visit Copay</b>			<b>Specialist Office Visit Copay</b>		
	<b>1<sup>st</sup> Quartile</b>	<b>Median</b>	<b>3<sup>rd</sup> Quartile</b>	<b>1<sup>st</sup> Quartile</b>	<b>Median</b>	<b>3<sup>rd</sup> Quartile</b>
All Employers	\$15	\$15	\$15	\$15	\$15	\$25
Under 250 Employees	\$15	\$15	\$15	\$15	\$15	\$20
Over 250 Employees	\$10	\$15	\$15	\$15	\$15	\$25
Manufacturing	\$15	\$15	\$15	\$15	\$15	\$25
Education	\$10	\$10	\$15	\$11	\$15	\$24
Health Care	\$10	\$10	\$15	\$10	\$10	\$16
Finance & Insurance	\$15	\$15	\$15	\$15	\$15	\$25
Professional Services	ID	ID	ID	ID	ID	ID
Other Non-Manufacturing	\$15	\$15	\$16	\$15	\$15	\$21

**Inpatient Hospital Coverage (In-Network Only)**

	<b>Deductible &amp; Coinsurance</b>		<b>Inpatient Hospital Copay</b>		<b>Hospital Covered in Full</b>
	<b>% of Plans</b>	<b>Median Deductible</b>	<b>% of Plans</b>	<b>Median Copay</b>	<b>% of Plans</b>
All Employers	40%	\$300	22%	\$250	38%
Under 250 Employees	42%	\$250	23%	\$250	35%
Over 250 Employees	38%	\$500	21%	\$250	41%
Manufacturing	62%	\$500	15%	\$250	24%
Education	20%	\$750	10%	\$250	70%
Health Care	0%	N/A	50%	\$500	50%
Finance & Insurance	20%	\$200	0%	N/A	80%
Professional Services	ID	ID	ID	ID	ID
Other Non-Manufacturing	42%	\$250	42%	\$250	17%

ID indicates insufficient data.

**Out-of-Network Coverage**

	Annual Deductible Amount			Coinsurance Amount		
	1 <sup>st</sup> Quartile	Median	3 <sup>rd</sup> Quartile	1 <sup>st</sup> Quartile	Median	3 <sup>rd</sup> Quartile
All Employers	\$200	\$300	530	70%	80%	80%
Under 250 Employees	\$250	\$300	\$1,000	70%	70%	80%
Over 250 Employees	\$200	\$250	\$500	70%	80%	80%
Manufacturing	\$250	\$500	\$1,000	70%	75%	80%
Education	\$200	\$250	\$300	80%	80%	80%
Health Care	\$400	\$500	\$500	80%	80%	80%
Finance & Insurance	\$200	\$250	\$250	70%	70%	80%
Professional Services	ID	ID	ID	ID	ID	ID
Other Non-Manufacturing	\$100	\$300	\$1,000	70%	70%	80%

**Prescription Drug Coverage**

	Rx Plan Design				Median 3 Tier Copays		
	1 Tier	2 Tiers	3 Tiers	Coinsurance	Generic	Preferred Brand	Non-Preferred
All Employers	3%	0%	92%	5%	\$7	\$25	\$40
Under 250 Employees	8%	0%	92%	0%	\$7	\$25	\$40
Over 250 Employees	0%	0%	91%	9%	\$7	\$25	\$40
Manufacturing	6%	0%	94%	0%	\$7	\$25	\$40
Education	0%	0%	90%	10%	\$7	\$25	\$40
Health Care	0%	0%	62%	38%	\$7	\$20	\$35
Finance & Insurance	0%	0%	100%	0%	\$7	\$25	\$40
Professional Services	0%	0%	ID	ID	ID	ID	ID
Other Non-Manufacturing	0%	0%	100%	0%	\$7	\$25	\$40

**Indemnity Plans**

**Out-of-Network Coverage**

	Annual Deductible Amount			Coinsurance Amount		
	1 <sup>st</sup> Quartile	Median	3 <sup>rd</sup> Quartile	1 <sup>st</sup> Quartile	Median	3 <sup>rd</sup> Quartile
All Employers	\$200	\$300	\$300	80%	80%	80%
Under 250 Employees	ID	ID	ID	ID	ID	ID
Over 250 Employees	\$100	\$300	\$1,000	80%	80%	80%

**Prescription Drug Coverage**

	Rx Plan Design				Median 3 Tier Copays		
	1 Tier	2 Tiers	3 Tiers	Coinsurance	Generic	Preferred Brand	Non-Preferred
All Employers	0%	0%	0%	100%	ID	ID	ID
Under 250 Employees	ID	ID	ID	ID	ID	ID	ID
Over 250 Employees	0%	0%	0%	100%	ID	ID	ID

ID indicates insufficient data.

**Prescription Drug Plans (For All Medical Plan Types)**

**3 Tier Prescription Drug Copays (Retail Only)**

	Generic Copay			Preferred Brand Copay			Non-Preferred Brand Copay		
	1 <sup>st</sup> Quartile	Median	3 <sup>rd</sup> Quartile	1 <sup>st</sup> Quartile	Median	3 <sup>rd</sup> Quartile	1 <sup>st</sup> Quartile	Median	3 <sup>rd</sup> Quartile
All Employers	\$7	\$7	\$10	\$20	\$25	\$25	\$35	\$40	\$40
Under 250 Employees	\$7	\$7	\$10	\$25	\$25	\$25	\$40	\$40	\$40
Over 250 Employees	\$7	\$7	\$10	\$20	\$25	\$25	\$30	\$40	\$40
Manufacturing	\$7	\$7	\$10	\$20	\$25	\$25	\$35	\$40	\$40
Education	\$7	\$7	\$7	\$23	\$25	\$25	\$38	\$40	\$40
Health Care	\$7	\$9	\$10	\$20	\$20	\$21	\$30	\$35	\$36
Finance & Insurance	\$7	\$7	\$9	\$25	\$25	\$28	\$40	\$40	\$45
Professional Services	\$7	\$7	\$7	\$15	\$20	\$25	\$30	\$35	\$40
Other Non-Manufacturing	\$7	\$10	\$10	\$25	\$25	\$25	\$40	\$40	\$40

***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, 113 medical plans are reflected in the survey. PPO plans were by far the most common type of medical plan. The following is a summary of the types of plan offered to Rhode Island area employees:

	# Plans	HMO	POS	PPO	Indemnity
All Respondents	113	20%	9%	65%	4%
Manufacturing	51	16%	14%	67%	2%
Education	14	21%	0%	71%	7%
Health Care	16	44%	0%	56%	0%
Finance & Insurance	8	13%	13%	63%	13%
Professional Services	8	25%	13%	38%	25%
Other Non-Manufacturing	15	13%	7%	80%	0%
Government	1	0%	0%	100%	0%
Under 250 Employees	39	15%	13%	69%	3%
Over 250 Employees	74	23%	7%	64%	5%

**Medical Plans by Vendor**

When comparing medical plans by vendor, Blue Cross Blue Shield of Rhode Island continues to dominate the Rhode Island group medical marketplace. Among our respondents, Blue Cross Blue Shield of RI covers 52% of all covered employees while United covers 38% and all other vendor have less than

	# Plans	HMO	POS	PPO	Indemnity
<b>Blue Cross Blue Shield of RI</b>					
Number of Plans	56	9	2	41	3
Number of Covered Employees	29,425	988	9	28,361	67
<b>United Healthcare</b>					
Number of Plans	39	9	7	24	0
Number of Covered Employees	21,553	2,302	860	18,391	0
<b>Other Vendors</b>					
Number of Plans	18	5	1	10	2
Number of Covered Employees	5,603	3,699	175	1,626	103
<b>Total</b>					
Number of Plans	113	23	10	75	5
Number of Covered Employees	56,581	6,989	1,044	48,378	170

10%. This is a big shift from last year's survey where Blue Cross Blue Shield of RI accounted for 85% of all covered employees in 2004. One of the main reasons for this shift is the State of Rhode Island switching to United Healthcare in 2005.

**Employee Contributions – Pre-tax versus Post-tax**

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

Pre-tax	After-tax	Both
91%	0%	9%

**Retiree Medical Benefits**

National trends indicate that fewer and fewer companies are continuing to offer retiree medical benefits. Rhode Island employers are no exception – only 30% of Rhode Island area employers offer retiree medical benefits.

Retiree medical benefits offered *	Offered to Under-65 Retirees	Offered to Over-65 Retirees
30%	27%	27%

\* 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 93% of responding employers. Twelve of the 56 employers that offer dental benefits offer more than one plan. The majority of plans offered (92%) are dental PPO plans, with 8% offering dental indemnity plans. While dental HMOs have gained in popularity in many areas of the United States, the dental HMO concept has yet to appear in Rhode Island. In all, 75 dental plans are reflected in the survey.

## ***Gross Costs for Dental Coverage***

A summary of the results:

- The average PEPY gross cost for all respondents was \$682 with a range of \$140 to \$1,029. The wide disparity is primarily attributable to big differences in the quality of the coverage and dependent election patterns.
- Monthly rates for single coverage range from \$7 to \$42 with an average of \$26 per month.
- Monthly rates for family coverage range from \$20 to \$128 with an average of \$73 per month.
- Gross costs were slightly higher at private sector employers versus public sector employers.
- Small companies (under 250 employees) had lower average rates than large employers.
- Manufacturing companies had the lowest average rates, followed by Government, Education, Other Non-Manufacturing, Finance & Insurance, Health Care, and Professional Services.

	Single		Family		Per Employee Per Year
	Monthly	Annual	Monthly	Annual	
<b>Private Sector Employers</b>					
All Private Employers	\$27	\$323	\$76	\$914	\$686
Manufacturing	\$23	\$281	\$69	\$831	\$642
Education	\$28	\$339	\$73	\$874	\$676
Health Care	\$25	\$298	\$75	\$900	\$695
Finance & Insurance	\$28	\$332	\$77	\$920	\$680
Professional Services	\$35	\$419	\$98	\$1,181	\$915
Other Non-Manufacturing	\$29	\$353	\$84	\$1,003	\$677
Under 250 Employees	\$22	\$270	\$68	\$813	\$582
Over 250 Employees	\$27	\$325	\$76	\$910	\$694
<b>Public Sector Employers</b>					
Government	\$24	\$293	\$68	\$819	\$669
<b>Total</b>					
All Respondents	\$26	\$314	\$73	\$874	\$682

**Employee Contributions for Dental Coverage**

A summary of findings:

- PEPY employee contribution costs range from \$0 to \$900, with an average of \$178.
- Monthly employee contribution rates for single coverage range from \$0 (24 of the 75 plans) to \$38 with an average of \$7 per month.
- Monthly employee contribution rates for family coverage range from \$0 (13 of the 75 plans) to \$95 with an average of \$19 per month.
- Of the 75 dental plans, 8 are truly voluntary (where employees pay 100% of dental premium).
- Consistent with our medical findings, employees of small companies pay more for dental coverage than employees of large companies.
- Government has the lowest average employee contribution, followed by Health Care, Education, Manufacturing, Other Non-Manufacturing, Finance & Insurance, and Professional Services.

	Single		Family		Per Employee Per Year
	Monthly	Annual	Monthly	Annual	
<b>Private Sector Employers</b>					
All Private Employers	\$10	\$117	\$30	\$363	\$268
Manufacturing	\$9	\$114	\$26	\$311	\$243
Education	\$9	\$104	\$24	\$283	\$216
Health Care	\$4	\$48	\$15	\$184	\$138
Finance & Insurance	\$15	\$182	\$34	\$405	\$314
Professional Services	\$29	\$353	\$86	\$1,026	\$791
Other Non-Manufacturing	\$6	\$75	\$44	\$534	\$303
Under 250 Employees	\$9	\$111	\$32	\$381	\$266
Over 250 Employees	\$9	\$112	\$27	\$326	\$247
<b>Public Sector Employers</b>					
Government	\$1	\$12	\$3	\$41	\$33
<b>Total</b>					
All Respondents	\$7	\$85	\$19	\$226	\$178

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

	Single	Family	Average Per Employee
<b>Private Sector Employers</b>			
All Private Employers	36%	40%	39%
Manufacturing	41%	37%	38%
Education	31%	32%	32%
Health Care	16%	20%	20%
Finance & Insurance	55%	44%	46%
Professional Services	84%	87%	86%
Other Non-Manufacturing	21%	53%	45%
Under 250 Employees	41%	47%	46%
Over 250 Employees	34%	36%	36%
<b>Public Sector Employers</b>			
Government	4%	5%	5%
<b>Total</b>			
All Respondents	27%	26%	26%

**Plan Design Features**

New with the 2005 survey, we have included a summary of benefit design information. We have broken out the plan design features for all dental plans. We have provided a breakdown by size of employer and by industry.

**Annual Deductible, Annual Benefit Maximum & Orthodontia**

	<i>Annual Deductible (Individual)</i>			<i>Annual Benefit Maximum</i>			<i>Orthodontia % of Plans</i>
	1 <sup>st</sup> Quartile	Median	3 <sup>rd</sup> Quartile	1 <sup>st</sup> Quartile	Median	3 <sup>rd</sup> Quartile	
All Employers	\$0	\$25	\$50	\$1,000	\$1,200	\$1,500	63%
Under 250 Employees	\$0	\$0	\$25	\$1,000	\$1,200	\$1,500	42%
Over 250 Employees	\$0	\$25	\$50	\$1,000	\$1,200	\$1,500	71%
Manufacturing	\$0	\$50	\$50	\$1,000	\$1,200	\$1,500	58%
Education	\$0	\$0	\$0	\$1,200	\$1,350	\$1,500	56%
Health Care	\$0	\$0	\$25	\$1,000	\$1,200	\$1,200	63%
Finance & Insurance	\$0	\$25	\$50	\$1,000	\$1,350	\$1,500	86%
Professional Services	\$25	\$50	\$50	\$1,350	\$1,500	\$1,750	67%
Other Non-Manufacturing	\$0	\$25	\$50	\$1,000	\$1,200	\$1,500	62%

**Coinsurance by Type of Service**

	<i>Preventive Services (Type I)</i>			<i>Basic Restorative Services (Type II)</i>			<i>Major Restorative Services (Type III)</i>		
	1 <sup>st</sup> Quartile	Median	3 <sup>rd</sup> Quartile	1 <sup>st</sup> Quartile	Median	3 <sup>rd</sup> Quartile	1 <sup>st</sup> Quartile	Median	3 <sup>rd</sup> Quartile
All Employers	100%	100%	100%	80%	80%	100%	50%	50%	60%
Under 250 Employees	100%	100%	100%	80%	80%	80%	50%	50%	50%
Over 250 Employees	100%	100%	100%	80%	80%	100%	50%	50%	80%
Manufacturing	100%	100%	100%	80%	80%	80%	50%	50%	50%
Education	100%	100%	100%	80%	80%	100%	50%	50%	50%
Health Care	100%	100%	100%	80%	100%	100%	50%	100%	100%
Finance & Insurance	100%	100%	100%	80%	80%	80%	50%	50%	50%
Professional Services	100%	100%	100%	80%	80%	80%	25%	50%	65%
Other Non-Manufacturing	100%	100%	100%	80%	100%	100%	50%	50%	80%

**Dental Plans by Vendor**

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:

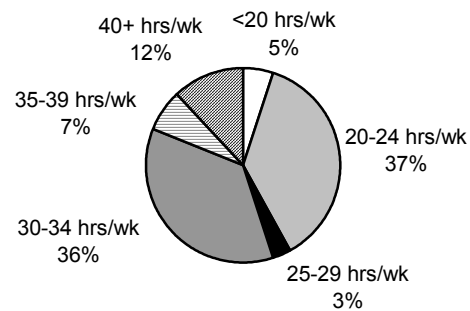
	# Plans	PPO	Indemnity
<u>Delta Dental of RI</u>			
Number of Plans	48	44	4
Number of Covered Employees	16,625	12,076	4,549
<u>Blue Cross Blue Shield of RI</u>			
Number of Plans	15	15	0
Number of Covered Employees	24,824	24,824	0
<u>Other Vendors</u>			
Number of Plans	12	10	2
Number of Covered Employees	7,008	6,888	120
<b>Total</b>			
Number of Plans	<b>75</b>	<b>69</b>	<b>6</b>
Number of Covered Employees	<b>48,457</b>	<b>43,788</b>	<b>4,669</b>

# Additional Findings: Eligibility & Benefit Innovations

We asked employers to share some information regarding their eligibility provisions and whether they have adopted some of the newer innovations into their health and welfare benefit plans.

### **Full Time Equivalent Definition**

There is a lot of variety in how Rhode Island area employers determine “full time”. The majority of employers utilize a 30-hour minimum per week (36%) or a 20-hour minimum per week (37%) requirement to define full time status.



### **FSA’s, HRA’s and HSA’s**

With most employers requiring increased cost sharing through benefit design changes and increased employee contributions, many employers are looking for other ways to help employees afford their healthcare. One way to accomplish this is through the use of Flexible Spending Accounts (FSA), Health Reimbursement Arrangements (HRA) and Health Savings Accounts (HSA). None of our respondents are currently utilizing an HSA, which is not surprising given that HSA’s are a fairly new concept and they have encountered some legislative hurdles in Rhode Island that have only recently been addressed.

	Offer Health Care Flexible Spending Accounts (FSA)	Offer Dependent Care Flexible Spending Accounts (FSA)	Offer Health Reimbursement Arrangements (HRA)	Offer Health Savings Accounts (HSA)
All Employers	60%	63%	8%	0%
Under 250 Employees	39%	39%	12%	0%
Over 250 Employees	77%	82%	6%	0%

### **Waiver Credit**

Employers will sometimes offer a waiver credit as a means to compensate those employees who maintain their medical and/or dental benefits elsewhere. While the effectiveness of a waiver credit as a means of managing benefit costs may be debatable, it is clearly popular with Rhode Island area employers. This year, 27% of our survey respondents indicated that they offer some type of waiver credit. For those employers who offer waiver credits, they range from a low of \$720 per year to a high of \$2,600 per year, with a median waiver credit of \$1,288.

	Offer Waiver Credit
All Employers	27%
Under 250 Employees	12%
Over 250 Employees	35%

**Domestic Partner Coverage**

Over the last decade, many employers have decided to offer benefits to domestic partners. Depending on the employer, these benefits may be offered to same-sex domestic partners only, opposite-sex domestic partners only, or any domestic partner. Typically, the employer and/or the insurer will require that the employee complete an affidavit to verify domestic partner eligibility.

	Offer Domestic Partner Coverage
All Employers	56%
Under 250 Employees	33%
Over 250 Employees	73%

**Self Insurance**

As employers search for ways to control benefit costs, we are observing a minor trend among Rhode Island employers toward self insurance in one form or another. As noted earlier however, we believe that self insurance is still much less prevalent in the Rhode Island area than it is in other parts of the nation.

	Self-Insure Medical Benefits	Self-Insure Dental Benefits
All Employers	32%	22%
Under 250 Employees	15%	8%
Over 250 Employees	44%	32%

44% of large employers in the Rhode Island area self insure all or part of their benefits. Self insurance can range from a small employer purchasing a plan with a \$500 hospital copay and reimbursing employees for all or part of the copay amount, to a fully self funded approach where the employer pays 100% of all claims with explicit administrative fees and, possibly, reinsurance.

It is interesting to observe that there are more employers self insuring all or part of their medical benefits as opposed to their dental benefits. Dental costs are typically limited by annual maximums and the claim dollars are generally far less than medical claim dollars (usually 10% to 12% of medical claim amounts). Given that there is much less risk in self funding dental benefits, we would expect it to be more common than it apparently is.

**Collective Bargaining Agreements**

20% of our respondents (12 of 60 employers) currently have at least some employees covered under a collective bargaining agreement (CBA). Within this group of 12 respondents:

- 25% of the CBA’s allow the employer to make benefit changes,
- 42% of the CBA’s allow for vendor changes at the employer’s discretion, and
- 16% of the CBA’s allow the employer to make employee contribution changes.

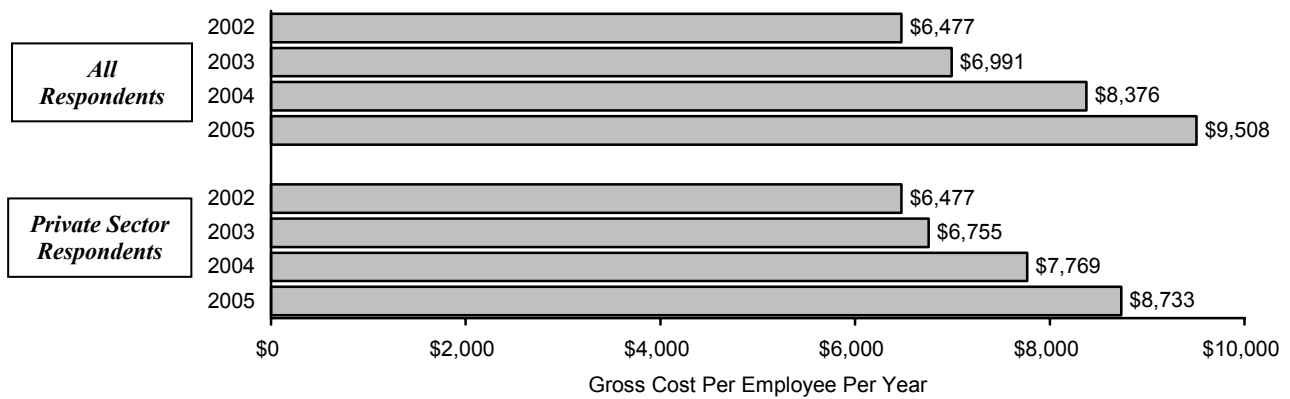
**Turnover**

39 of 60 employers (65%) responded to our question about turnover. Respondents provided estimated turnover rates anywhere from 0% to 100%. The average turnover rate reported among those employers that answered this question was 15%. As employers consider whether to invest in wellness, disease management and health promotion we expect that those with low turnover will be able to more easily cost justify the investment in these types of programs given the three to five year return on investment timeframe for these types of initiatives.

# Rhode Island Cost Comparison 2002 – 2005

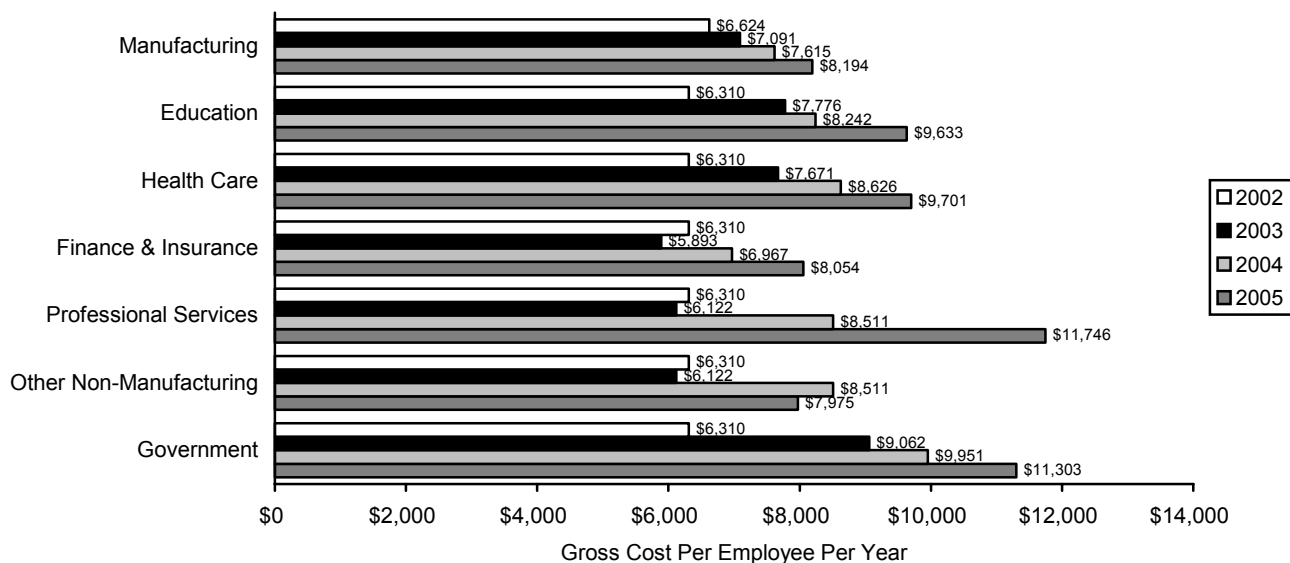
## Medical and Dental Benefit Cost Comparison

This is our fourth year we have conducted the Rhode Island Area Employer-Sponsored Medical & Dental Benefits Survey. As a result, we are now able to provide a four-year historical comparison of costs. The following chart shows the average medical and dental costs on a per employee per year (PEPY) basis over the last three-years. We have reflected costs for all respondents and private sector respondents only in order to demonstrate the rate of change experienced by private sector employers. The big jump from 2003 to 2004 for all respondents is due in part to the participation that year of the entire State of Rhode Island and their higher than average costs.



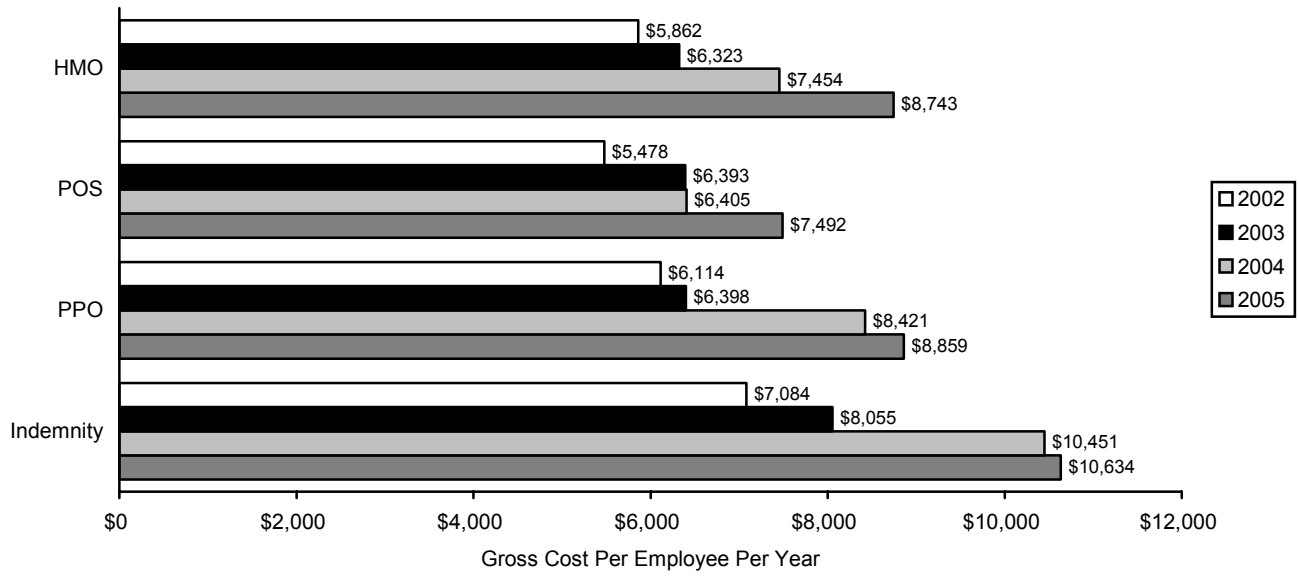
## Medical and Dental Benefit Cost Comparison by Industry

When we break down the cost comparisons by industry, the increases by category generally parallel overall cost trends during the last four years. Some of the larger fluctuations tend to be a result of the increase in survey participants over the four years. Please note that 2002 Rhode Island costs by industry are provided for Manufacturing and Non-Manufacturing only and Professional Services was not added as a category until 2005 (Other Non-Manufacturing used for years 2002 through 2004).



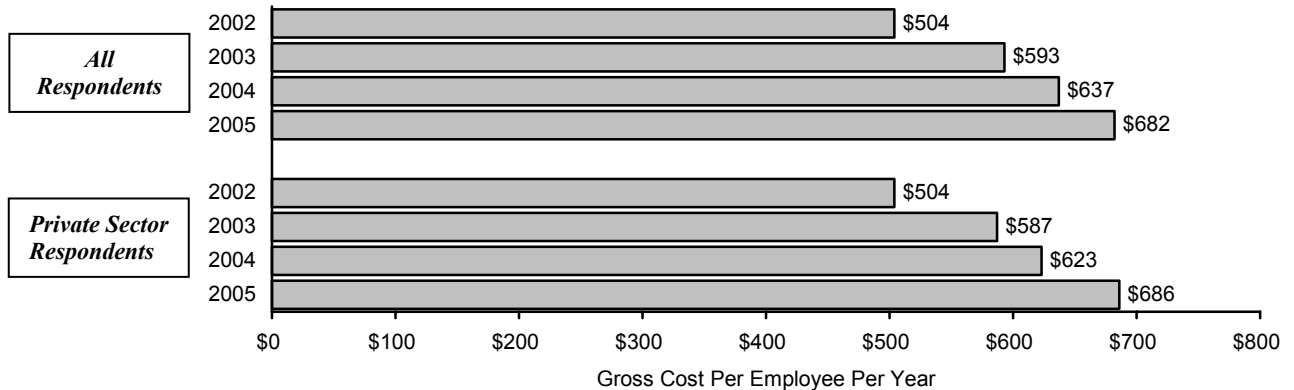
**Medical Benefit Cost Comparison by Plan Type**

When we compare costs by plan type, we are surprised at the variability in cost changes from 2004 to 2005. Costs for HMO and POS plans both increased 17%, while PPO plans increased 5% and Indemnity plans increased only 2%. However, when we look at the average annual increase for the period of 2002 to 2005, the results are more predictable: HMO plans increased 14% per year, POS plans increased 11% per year, PPO plans increased 13% per year, and Indemnity plans increased 15% per year.



**Dental Benefit Cost Comparison**

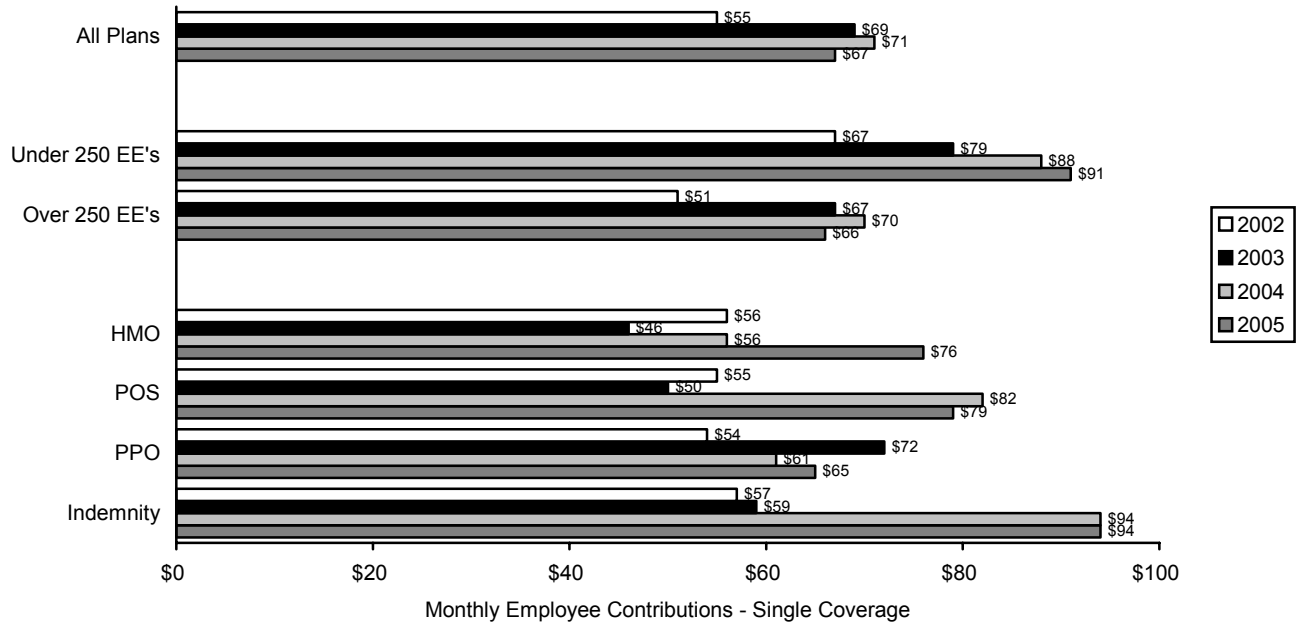
As expected, dental costs have not shown the same rate of growth as medical costs. Additionally, governmental plans do not significantly skew the dental cost figures. In fact, the governmental costs were actually lower than the average private sector costs for 2005.



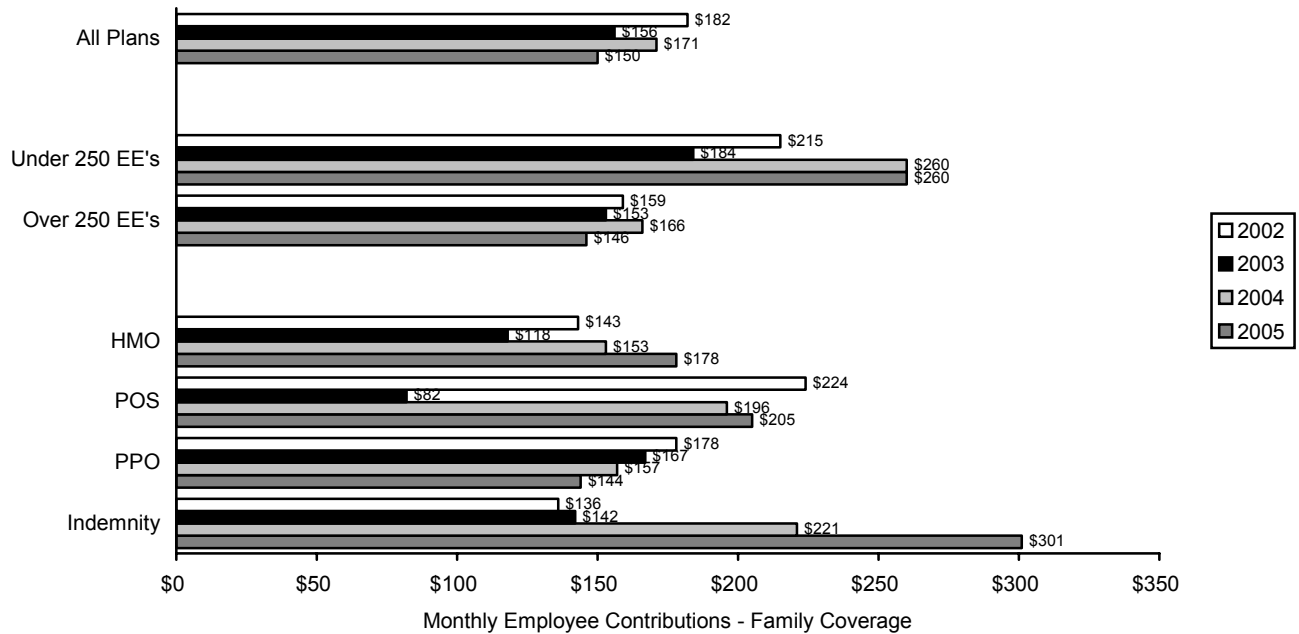
**Employee Contribution Comparison**

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

**Medical Employee Contribution Comparison (Single Coverage)**

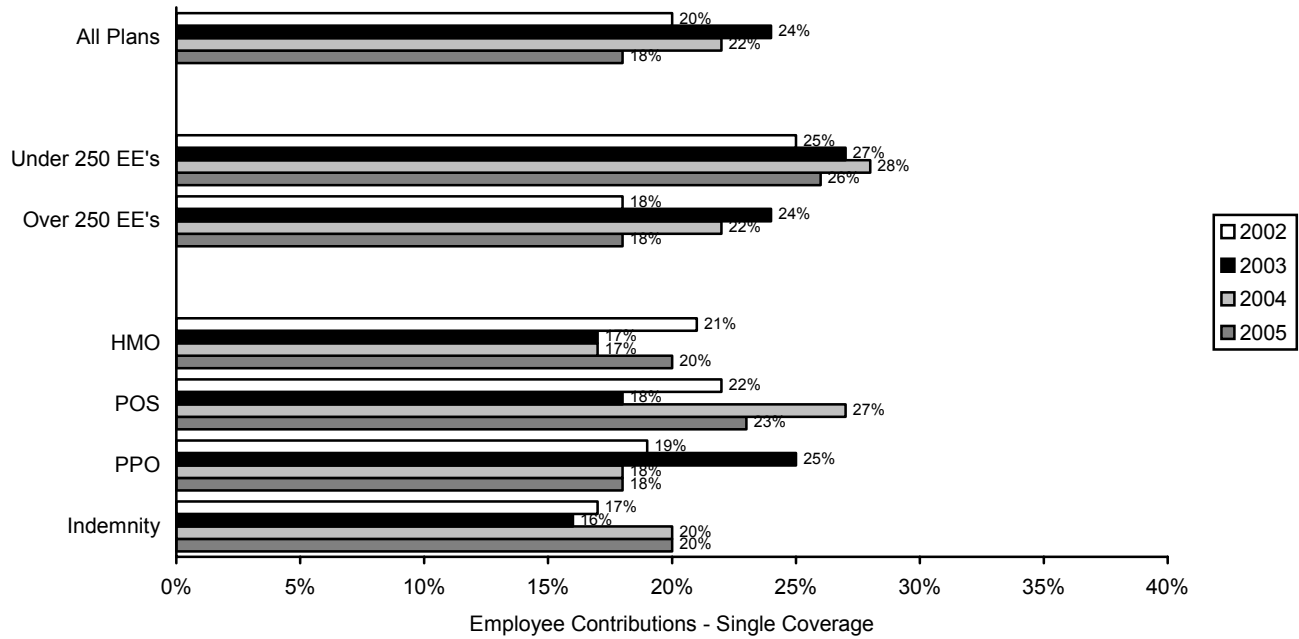


**Medical Employee Contribution Comparison (Family Coverage)**

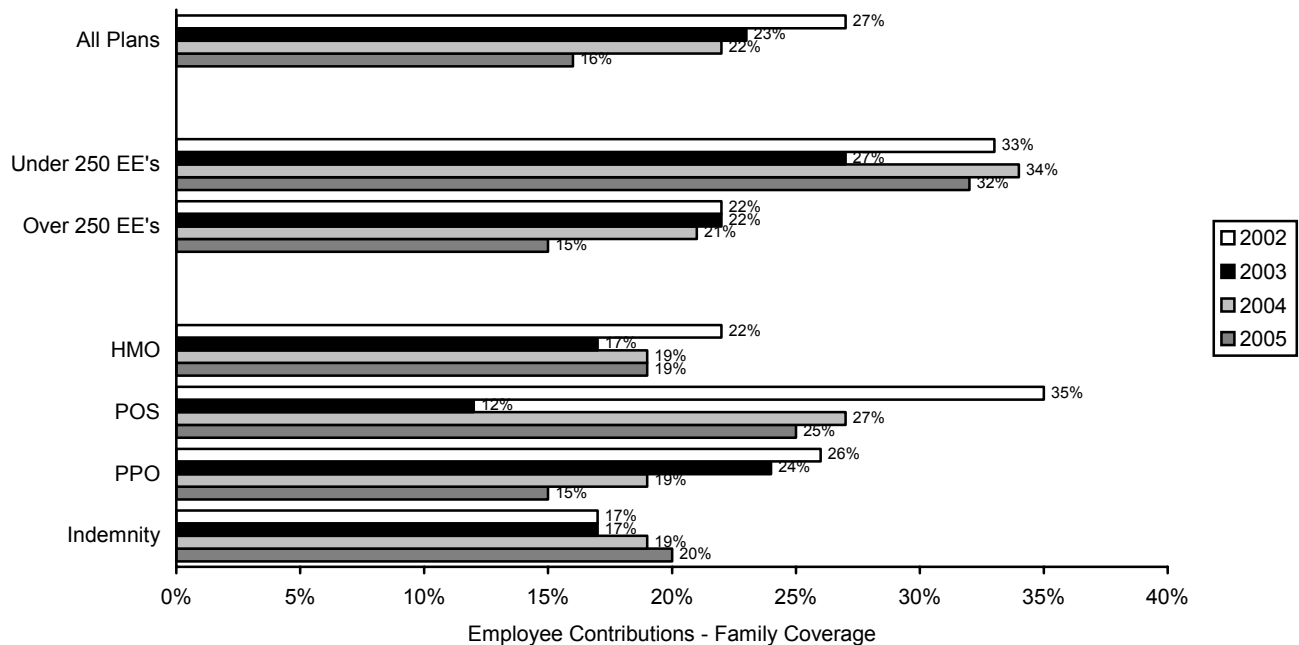


Surprisingly, when employee contributions are expressed as a percentage of premium, Rhode Island employees have actually seen a slight decline in their costs compared to last year. While we are only examining those employers with contributory medical plans in the following graphs, these findings may be influenced by changes in the companies that have participated in our survey each year.

**Medical Employee Contribution Comparison as a Percentage of Premium (Single Coverage)**



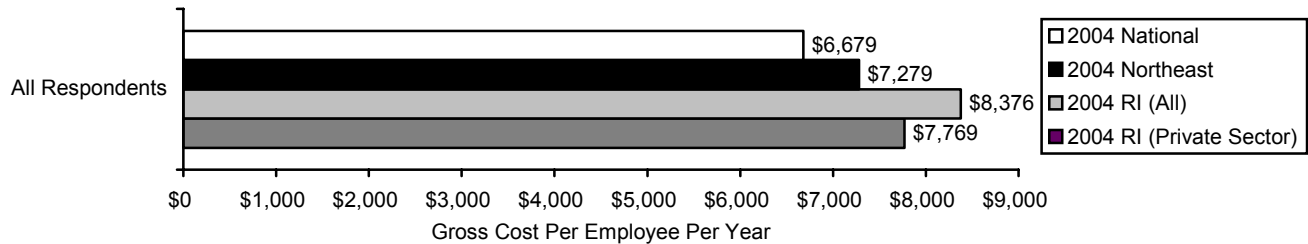
**Medical Employee Contribution Comparison as a Percentage of Premium (Family Coverage)**



# National Cost Comparison – 2004

## Medical and Dental Benefit Cost Comparison

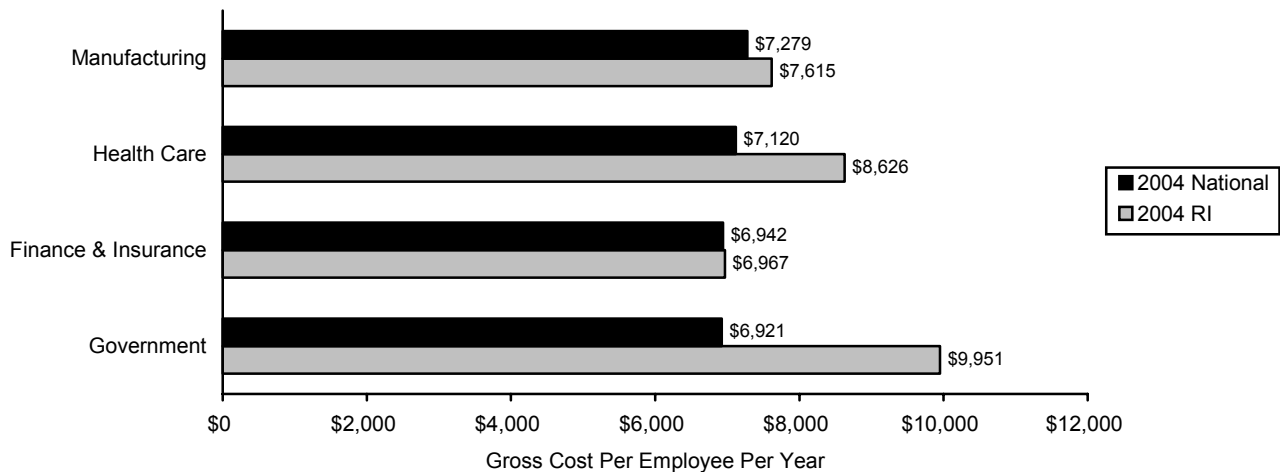
While it is interesting to compare Rhode Island area cost data to historic Rhode Island area cost data, we believe that it is also important to benchmark our local Rhode Island area costs against national and regional averages. National and regional cost data have been drawn from the *Mercer National Survey of Employer-Sponsored Health Plans 2004*. Please note that the Mercer Northeast data only reflects large employers (500 or more employees) while their national data is reflective of all employers.



You will notice that Rhode Island employers are paying more for health insurance than the national and regional averages. The 2004 Rhode Island averages (for all employers) are 25% higher than the national average and 15% higher than the northeast average. While the average Rhode Island costs are inflated by the inclusion of the State of Rhode Island, this trend exists even when we isolate the private sector employers. The 2004 Rhode Island private sector averages are 16% higher than the national average and 7% higher than the northeast average.

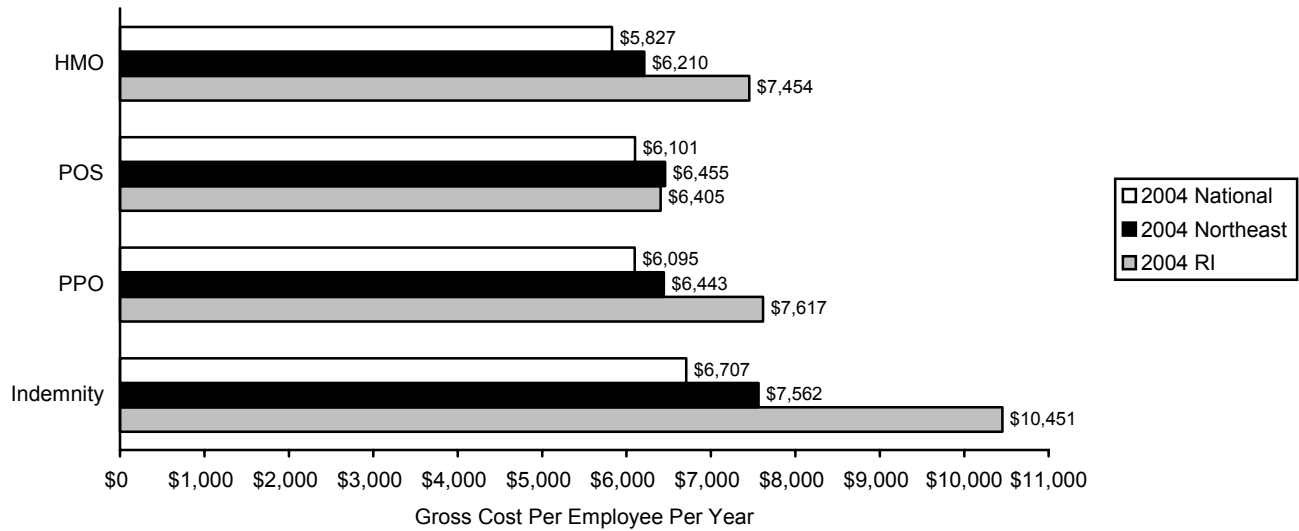
## Medical and Dental Benefit Cost Comparison by Industry

The following chart shows 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 with the exception of Finance & Insurance. Please note that 2004 national cost breakdown from Mercer is not provided for Education, Professional Services and Other Non-Manufacturing.



**Medical Cost Comparison by Plan Type**

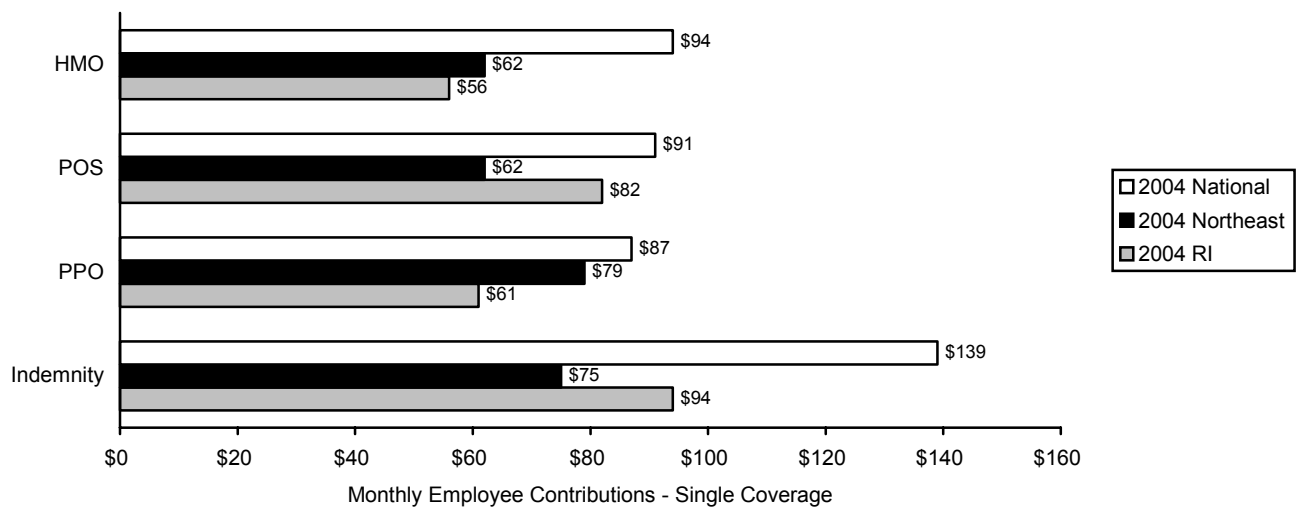
One of the more dramatic findings of this survey is the disparity in costs by plan type. Rhode Island employers' average 2004 HMO costs were 28% higher than the national average and 20% higher than the Northeast region average. Similarly, Rhode Island employers' average 2004 PPO costs (Private Sector only) were 25% higher than the national average and 18% higher than the Northeast region average. Even more dramatic, the Rhode Island employers' average 2004 Indemnity rates were 56% higher than the national average and 38% higher than the Northeast region average.



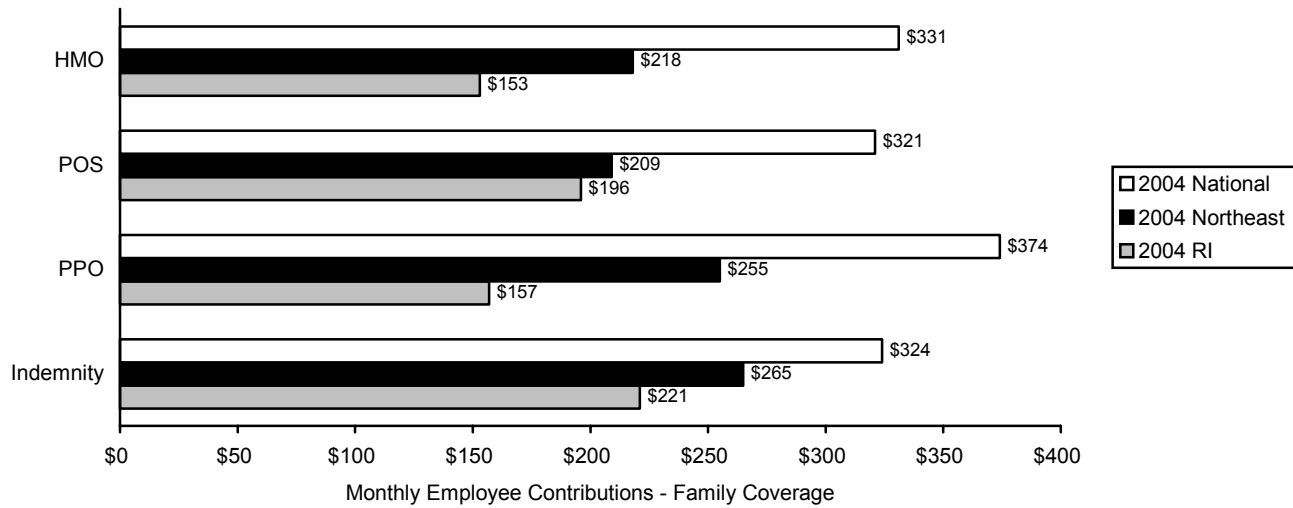
**Employee Contribution Comparison**

As indicated in the previous section, 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 average employee contribution calculation.

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



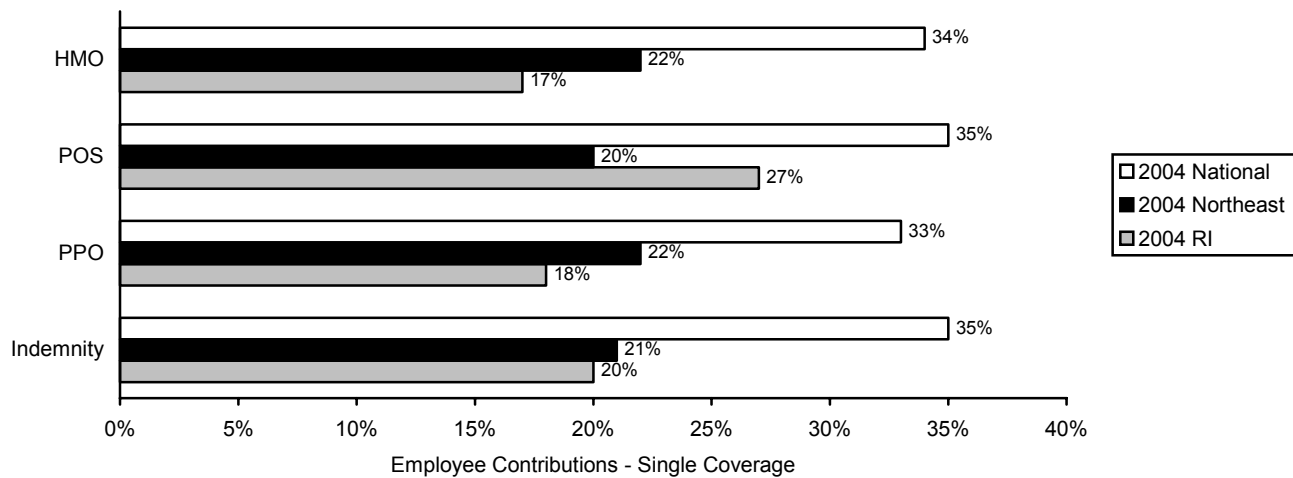
**Medical Employee Contribution Comparison, by Plan Type (Family Coverage)**



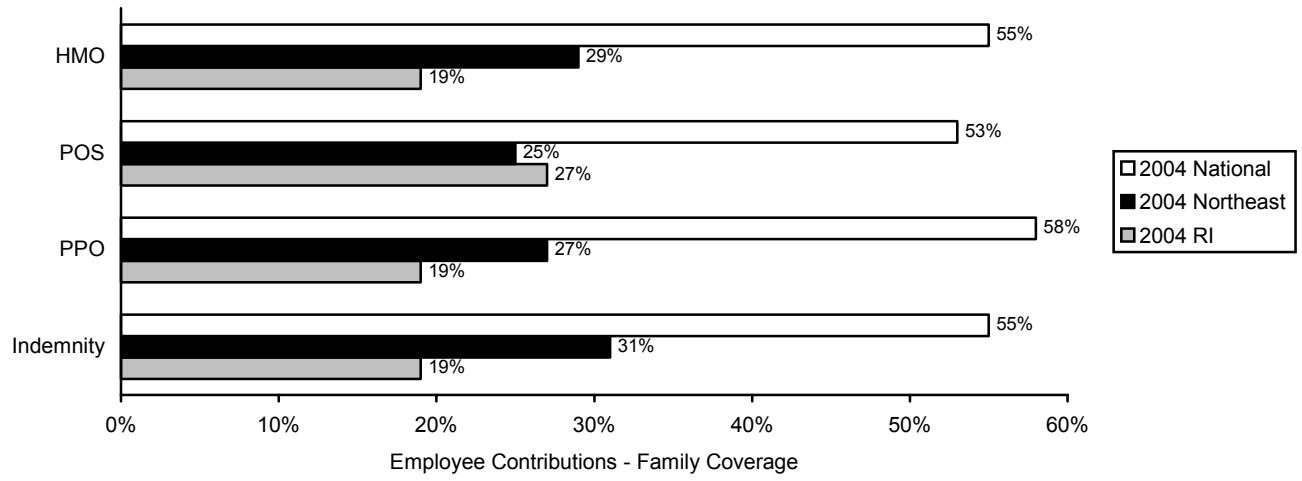
Employee contributions vary widely locally, regionally and nationally. The previous two charts detail the average employee contributions by plan type for single and family coverage. In nearly every case, Rhode Island employee contributions are below national and regional averages in 2004. This would appear to be a significant finding, especially given the degree to which our Rhode Island area gross costs are higher than average.

The combination of higher than average gross costs and lower than average employee contributions indicates that Rhode Island area employers pay more for coverage and charge their employees less than their regional and national competitors. This results in Rhode Island employers incurring a significantly higher net cost. This is also reflected in the following two charts with Rhode Island area employee contributions as a percentage of premium being lower than national and regional averages in nearly every case.

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



**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 previous three years:

	Medical			Dental		
	2005 vs. 2004	2004 vs. 2003	2003 vs. 2002	2005 vs. 2004	2004 vs. 2003	2003 vs. 2002
All Respondents	9.8%	11.2%	14.2%	5.9%	5.9%	6.3%
Manufacturing	9.8%	12.4%	14.9%	6.0%	6.4%	5.8%
Education	9.3%	11.7%	14.8%	4.5%	5.4%	5.6%
Health Care	11.3%	8.0%	9.1%	9.0%	7.0%	8.9%
Finance & Insurance	13.1%	12.8%	12.0%	7.2%	5.2%	4.0%
Professional Services	6.8%	10.9%	12.7%	4.0%	3.0%	4.7%
Other Non-Manufacturing	8.8%	9.0%	15.4%	5.9%	5.8%	7.3%
Government	12.0%	12.0%	12.0%	6.0%	6.0%	6.0%
Under 250 Employees	12.2%	13.8%	15.7%	4.9%	6.4%	5.0%
Over 250 Employees	8.1%	9.2%	13.0%	6.8%	5.6%	7.1%

## *Steps Taken to Control Costs*

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

Not surprising, the most common methods to control employer costs include increasing employee contributions and changing benefits.

	Within Last Year	Within Last 3 Years
Changed Carriers	22%	45%
Changed Benefits	48%	72%
Eliminated Benefits	7%	12%
Increased Employee Contributions	64%	78%
Implemented Wellness Program	32%	47%
Implemented Disease Management Program	7%	10%
Implemented Consumer Driven Health Plan	3%	3%

## *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 as shown in the chart to the right.

Consistent with prior years' data, more respondents perceive prescription drug manufacturers' profit margin

	Very Important	Important	Not Very Important	Not At All Important
Improvements in medicine that drive up life expectancy	33%	53%	12%	2%
Lack of competitive carriers offering group health insurance	60%	33%	3%	3%
An inefficient and wasteful bureaucracy	52%	46%	2%	0%
Doctors are making too much money	9%	30%	48%	13%
Prescription drug manufacturers are making too much money	61%	34%	5%	0%
Cost sharing from government plans (Medicare, Medicaid, etc.)	27%	55%	16%	2%

and the lack of competition in Rhode Island as the most important factors driving rising healthcare costs.

**Perception of Rhode Island Health Insurance Competitive Market**

A majority 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
84%	8%	8%

In 2004, 79% 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, and in 2003 and 2002, 90% and 92% agreed respectively.

**Employee Understanding of Cost Environment**

Only 32% of respondents felt that their employees have a good understanding of their medical and dental benefit costs.

Yes	No	Undecided
32%	58%	10%

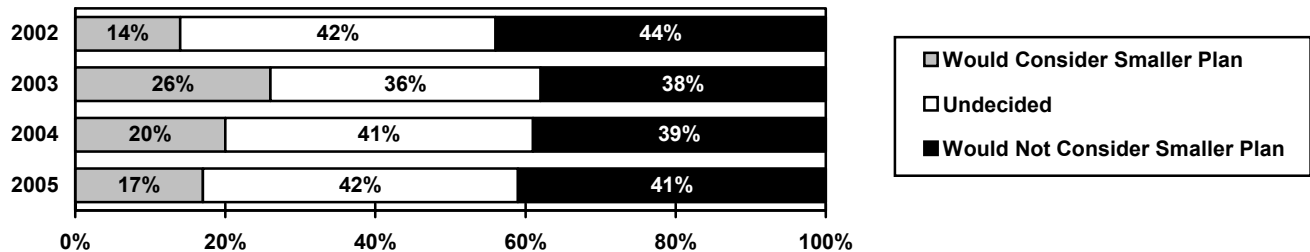
This is a notable decrease over the previous three years (45%, 41% and 41% respectively).

**Small Network Plans Not Desirable**

When asked, “Would you consider a health plan option that offered lower costs but had fewer participating providers?” only 17% of employers indicated that they would. A surprising 41% would not consider a smaller network at a lower cost, while 42% were undecided.

Yes	No	Undecided
17%	41%	42%

While it is clear that respondents feel that the Rhode Island marketplace needs more competition, a significant percentage do not want to sacrifice the breadth of the provider network to save costs. The trend over the last few years is as follows:



## 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:

The vast majority of respondents feel that cost increases cause the most work (64% felt that this was very important).

	Very Important	Important	Not Important
Government regulation and compliance	34%	52%	14%
Cost increases and price changes	64%	31%	5%
Administration and HRIS/Payroll coordination	17%	53%	30%
Customer service & prompt claim payment by health plan	40%	43%	17%
Changes in health plan benefits and/or networks	45%	43%	12%

### *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:

Our survey respondents believe that their employees are very concerned about all aspects of their health insurance. Not surprisingly, the biggest concerns are the direct cost (via employee contributions) and the quality of benefits (which also involves cost – i.e., the out of pocket costs incurred as medical services are received).

	Very Concerned	Concerned	Not Concerned
In-network quality of care	46%	44%	10%
Claims payment and customer service	46%	49%	5%
Cost and cost changes (e.g., employee contributions)	81%	17%	2%
Network of providers (e.g., is their doctor in the network?)	59%	37%	4%
Quality of benefits (e.g., change in copays, deductibles, etc.)	81%	19%	0%

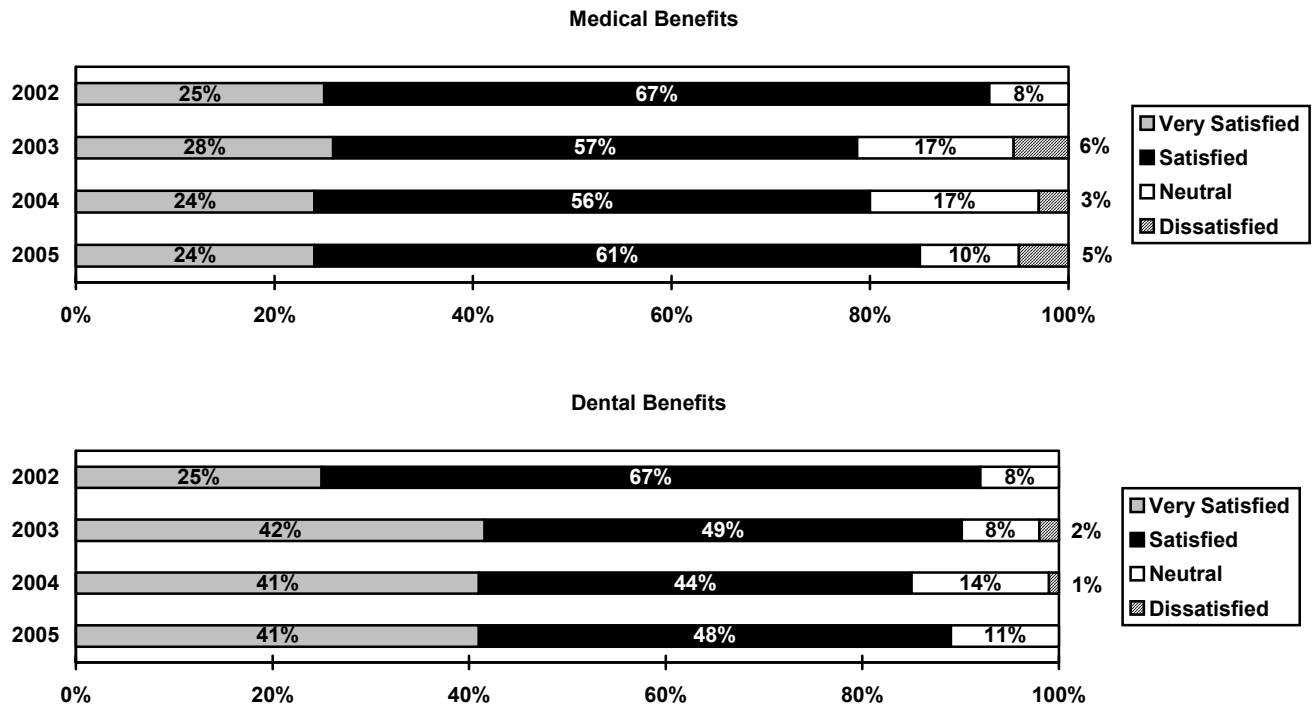
### *Employee Satisfaction with Benefits*

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 89% as either “satisfied” or “very satisfied.” The following table details Rhode Island employers’ perception of employee satisfaction with regard to their medical and dental benefits.

	Very Satisfied	Satisfied	Neutral	Dissatisfied	Very Dissatisfied
Medical Benefits	24%	61%	10%	5%	0%
Dental Benefits	41%	48%	11%	0%	0%

The employee satisfaction trend over the last few years is as follows:



Please note that employee satisfaction in 2002 was measured for medical and dental benefits combined.

# Survey Overview and Methodology

The 2005 Rhode Island Area Medical & Dental Benefits Survey was mailed in February 2005 to 312 employers doing business in the Rhode Island area. The survey requested detailed information on medical and dental benefits programs, costs, employee contributions, plan designs, cost-control measures, and general questions related to dental and medical benefits. Follow-up letters were sent in March and April. Follow-up phone calls to companies that had not yet responded to the survey were made in May and June. In July and August, 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. Database entries were peer reviewed by different members of our staff to ensure accuracy. 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 most 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). For a few respondents who reimburse some part of a high deductible or high hospital services copay, we adjusted actual premium rates to account for the cost of the reimbursement provided. The adjustment utilized was based on the employers and/or insurer projections of additional cost. 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 2005.

Our comparison of Rhode Island area plans to national and regional averages (as provided in the *Mercer National Survey of Employer-Sponsored Health Plans 2004*) 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 sections of our survey, we have modified our data to look at only contributory plans. Also, the Mercer survey is exclusively directed at employers with 10 or more employees and employs a different breakdown of industries than the industry categories in this survey. Our survey responses dictated our breakdown of industries. In our view, the Mercer survey is one of the longest running and most credible national surveys of employer-sponsored medical and dental benefits. 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 all responses. Responses of individual companies remain confidential.

# List of Participating Companies

The following is a list of those companies who participated in the 2005 Rhode Island Area Medical & Dental Benefits Survey. Respondents were given the option not to be listed.

AAA Southern New England	Insurance Reconstruction Services, Inc.
Albin Manufacturing	Jay Packaging Group Inc.
American Mathematical Association	JT's Lumber
Amtrol Inc.	KVH Industries Inc.
American Power Conversion	Leach & Garner Co.
Arnold Lumber	Lincoln Park
ATP Manufacturing	Maguire Group Inc.
Bank RI	Mahr Federal Inc.
Blue Cross Blue Shield of Rhode Island	Memorial Hospital
Bluff Head Enterprises, Inc.	Metech International, LLC
Brown & Sharpe Inc.	North Safety Products
Brown University	Nulco Manufacturing Corp.
Bryant University	ON Semiconductor
Care New England	Providence College
Cavanagh Company	Providence Metalizing
Citizens Financial Group	Providence Mutual Fire Insurance Co.
Cookson America, Inc.	Rhode Island School of Design
Cranston Print Works Company	Salve Regina University
Danecraft, Inc.	Southcoast Hospital
Delta Dental of Rhode Island	Speidel
Douglas Lumber Corporation	St. Elizabeth Manor
Dryvit Systems, Inc.	St. Mary's Academy
Flock Tex, Inc.	State of Rhode Island
Gilbane Building Company	Taco, Inc.
GTECH Corporation	The Moore Company
Hasbro Inc.	Thielsch Engineering
Hebert Nursing Home Inc.	Toray Plastics
Herrick & White, LTD.	TradeSource Inc.
Hope Global	Vanguard Sailboats
Huestis Machine Corporation	