

Rhode Island Area Employer-Sponsored Health & Welfare Benefits Survey 2007





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Bluff Head Enterprises is pleased to present our 2007 Rhode Island Area Employer-Sponsored Health & Welfare Benefits Survey. This is the sixth year of our local survey.

This year, 58 employers responded. Collectively they provide benefits to approximately 280,000 employees nationwide and over 80,000 employees in the Rhode Island area. We believe this is the largest and most detailed employee benefit survey of Rhode Island employers.

This survey provides detailed cost, employee contribution and benefits information for 2007 for medical and dental benefits, as well as cost comparisons against our findings since 2002. In addition, we provide comparisons against national and regional cost averages for our 2006 findings. The national and regional data for 2006 is provided by the Mercer National Survey of Employer-Sponsored Health Plans 2006. Due to the timing of the Mercer survey (they generally publish about six months later than we do), we will not have national and regional comparative data for 2007 until the spring of 2008.

We hope that you will find this year's survey to be informative, and that it will be useful in helping you to manage your health and welfare benefit programs. If you have any questions, feel free to give us a call at (401) 782-1250.

We wish to thank all of you who took time from your busy schedules to participate!

Sincerely,

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President
Bluff Head Enterprises, Inc.

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Introduction

Rising health care costs are a challenge every business has had to deal with for the last decade. Employee benefits are typically the second or third highest business expense for most employers. Health insurance rates have consistently risen faster than the rate of inflation. With annual increases averaging over 10% for most of the last decade, business leaders have had to constantly reevaluate how they deliver their health and welfare benefits.

Health care has also become a major topic as we enter into the 2008 presidential election season. Approaches to addressing the health care crisis vary greatly by candidate, but all candidates acknowledge that something needs to be done to address this issue.

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

We are very excited about this year's survey results. This year's survey represents the largest survey by employee count we've ever had. This year we have added references to Indemnity and High Deductible Health Plan (HDHP's) medical plans and we have also added an industry breakdown for Retail companies.

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 58 responding employers, only five are current clients of our firm. We expend significant resources to conduct and publish this survey and are confident it represents an independent and highly credible source of data about costs, employee contributions, benefits, and trends in employer-sponsored health and welfare benefits in the Rhode Island area.

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 2007 is \$8,725 for private sector employer plans and \$12,768 for public sector (governmental) plans. This represents increases of 5% and 8% over last year, respectively.
- In aggregate, the average total gross cost of medical coverage for all respondents is \$9,599 PEPY, which is a 5% increase compared to last year.
- According to our 2007 survey respondents, *Group medical costs have increased* an average of 32% over the last three years (+9.2% in 2007, +9.6% in 2006 and +10.1% in 2005). Our data shows a 5% increase over last year (versus the reported increase of 9.2%). Some reasons for this difference include the change in actual respondents from 2006 to 2007, the fact that some 2007 respondents declined to provide historical cost changes for the last three years and possible reporting of initial cost change prior to benefit updates which then reduced the actual rate of increase.
- On average, *employees of private employers paid \$1,740 PEPY* toward the cost of their group medical benefits, or 20% of gross cost. Rhode Island state employees paid an average of \$1,238 PEPY toward the cost of their group medical benefits, or 10% of gross cost.
- Large private employers pay a higher percentage of the total costs than small private employers (80% vs. 74%).
- As compared to 2006 national and regional averages, Rhode Island employers in 2006 had *higher gross costs and lower employee contributions*. For the fifth year in a row, it appears that Rhode Island area employers incur significantly higher net costs than their national and regional counterparts.
- *Only 29%* of Rhode Island area employers who responded *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.
- *14% of respondents* indicated that they *changed carriers* within the last year, while 43% of respondents changed carriers within the last three years.
- *50% of respondents* indicated that they *increased employee contributions* within the last year, while 71% of respondents increased employee contributions within the last three years.
- *33% of respondents* have implemented a *wellness program* in the last year, while 59% have implemented a wellness program within the last three years.
- *86% of respondents* provide *basic life insurance coverage* to their employees, while 57% offer supplemental life options to employees.
- *80% of respondents* provide some form of *long term disability (LTD) coverage* (either company-paid or employee-paid) with 72% providing company paid LTD coverage.

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

Rhode Island area employers continue to lag the national trend towards Consumer Driven Health Plans (CDHP's). Of those employers that do sponsor a CDHP it is generally offered on an option basis (where they have "traditional" HMO or PPO plans offered alongside). Overall in Rhode Island, it seems that participation in CDHP's is fairly limited.

Income Sensitive Employee Contributions

As employers have increased employee costs, they are becoming concerned about affordability. This year's data includes responses of 22 plans from nine employers (representing 42% 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 2007 data shows an average annual employee contribution of \$2,318 for family coverage among private-sector employers. For someone who makes \$10 per hour (or approximate \$20,800 per year), this is 11% of gross compensation. For someone who earns \$70,000 per year the same contribution is 3% of gross pay. Income sensitive contributions are most prevalent among those respondents who are in the Educational and Governmental industries, but are now also being adopted in the Manufacturing industry. Employers may benefit from consideration of this strategy as a way to maintain the unity of their risk pool and avoid adverse selection.

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 (43% within the last year) and 50% of participating employers increased employee contributions within the last year.

Richness of Medical Benefits

One of the reasons that Rhode Island has higher medical plan costs is the richness of benefits offered in our home state. While employers have adjusted benefits in recent years to help stem cost increases as mentioned above, the average level of benefits here in Rhode Island is still more generous than what national surveys suggest to be average for the United States as a whole. For example, when we compare the average PPO office visit copay for an in-network primary care physician, the Rhode Island median copay is \$15 whereas the median copay nationally is \$20 (based on the 2006 Mercer National Survey of Employer-Sponsored Health Plans, PPO Plans, All Employers).

Waiver Credits

31% of participating employers offer a "waiver credit" with an average annual waiver credit of \$1,238. 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.

Waiver Percentage

The number of employees waiving coverage has increased slightly over the past few years. Survey respondents indicate 17% of eligible employees waive out of medical coverage. Most noticeably and not surprisingly, we have witnessed an increase with the State of RI waivers from 5% last year to 8% this year. We believe one of the reasons for this increase is the state's implementation of employee contributions. Now that coverage has a cost associated with it, many employees will opt to take coverage through a spouse if it is less expensive or will opt against being "double covered" (coverage through both their employer and their spouse's employer). This trend is probably stronger for the State of RI which in many cases is also the spouse's employer.

Employee Contributions to Dental

Another area where we note what we believe to be a divergence between Rhode Island area plan sponsors and national/regional norms is the degree to which dental plans in the Rhode Island area are heavily contributory. In our data, Rhode Island area employees of private employers pay 45% of all dental costs, whereas the same group of employees contributes only 20% of medical costs.

Flexible Benefits

With more cost shifting toward employees that results in more out-of-pocket expenses, more and more Rhode Island employers are offering Flexible Spending Accounts (FSA's) as a way to help employees control the cost of unreimbursed health care and dependent care expenses. 70% of Rhode Island employers offer a health care FSA and 73% offer a dependent care FSA.

Another aspect of flexible benefit plans is to offer more than one plan. 60% of respondents offer more than one medical plan, with one respondent offering over a dozen medical choices. Of those employers that require employees to contribute towards the cost of their medical and dental benefits, they are all offering IRS Section 125 pre-tax payment of employee premiums.

Domestic Partner Coverage

58% of all responding employers offer some form of domestic partner coverage.

Self Insurance

We have noticed a bit of a trend toward self insured plans. Of those employer respondents who cover over 1,000 employees, 74% have partially or completely self funded medical plans. Only 47% of employer respondents who cover over 1,000 employees self fund their dental benefits. Given the presence of annual maximums in most dental plans, we are surprised that more employers are not self funding their dental benefits.

Lack of Competition

A final trend we would draw attention to is the lack of competition in our marketplace. Where neighboring states generally have up to 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 of RI. As we look at this year's data, 97% of employees covered for medical are covered by either United Healthcare or Blue Cross Blue Shield of RI. Similarly, 98% of employees covered for dental are covered by either Delta Dental or Blue Cross Blue Shield of RI.

Profile of Participating Companies

This year, 58 employers took part in the survey. Of these companies, 33 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 medical and dental plans are an anomaly when compared to most other employers within our area. The state plans are richer than average and they have higher average costs. State employees also contribute less to acquire coverage and a much higher percentage of state employees elect dependent coverage (75% for State of Rhode Island employees versus 57% for the private sector employers).

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

The Manufacturing industry represents the largest percentage of respondents (36%), however Retail has the largest percentage of employees (66%) nationally.

Industries Represented	Number of Respondents	Total Number of Employees
Private Sector Employers		
Manufacturing	21 (36%)	22,486 (8%)
Education	7 (12%)	9,539 (3%)
Health Care	6 (10%)	15,570 (6%)
Finance & Insurance	7 (12%)	26,922 (10%)
Professional Services	2 (3%)	291 (<1%)
Retail	5 (9%)	186,482 (66%)
Other Non-Manufacturing	9 (16%)	4,187 (1%)
<i>Subtotal</i>	<i>57 (98%)</i>	<i>265,477 (94%)</i>
Public Sector Employers		
Government	1 (2%)	16,000 (6%)
Total		
All Respondents	58 (100%)	281,477 (100%)

Number of Employees

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

The number of employees at each company range from four to 180,000, and the median group size is 405 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 Employees	Percentage of Respondents (Number of Companies)
Under 100	17% (10)
100 to 249	16% (9)
250 to 499	21% (12)
500 to 999	14% (8)
1,000 to 4,999	22% (13)
5,000 or more	10% (6)

Number of Medical Plan(s) Offered

Most local employers appear to have embraced flexible benefits in one form or another. As an example of this finding, 60% 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.

There is a noticeable disparity in the number of plans offered at small employers versus large employers with only 32% of small employers offering two or more plans whereas 74% of large employers offer two or more plans.

	One	Two	Three or More
All Respondents	40%	34%	26%
Manufacturing	29%	52%	19%
Education	29%	14%	57%
Health Care	33%	50%	17%
Finance & Insurance	57%	29%	14%
Professional Services	50%	0%	50%
Retail	20%	40%	40%
Other Non-Manufacturing	67%	11%	22%
Government	100%	0%	0%
Under 250 Employees	68%	32%	0%
Over 250 Employees	26%	36%	38%

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, 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.

Overall, the figures are roughly the same as last year. The figures for the State of RI increased from 5% to 8%, which may be due to the state's implementation of employee contributions in recent years as well as their offering of a waiver credit for employees who do not elect coverage.

	% Waiving Coverage	% with Single Coverage	% with Dependent Coverage
Private Sector Employers			
All Private Employers	19%	35%	46%
Manufacturing	14%	32%	54%
Education	16%	31%	53%
Health Care	13%	30%	57%
Finance & Insurance	25%	36%	39%
Professional Services	22%	37%	41%
Retail	27%	45%	28%
Other Non-Manufacturing	13%	33%	54%
Under 250 Employees	28%	35%	37%
Over 250 Employees	19%	34%	47%
Public Sector Employers			
Government	8%	23%	69%
Total			
All Respondents	17%	32%	51%

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.

This year, we have added an industry breakdown for Retail. We have also added two new categories of health plans: Indemnity Plans and High Deductible Health Plans (HDHP).

Some notable findings are:

- PEPY gross costs range from \$2,645 to \$14,106, with an average PEPY gross cost of \$9,599. 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 \$206 to \$604 with an average of \$399 per month.
- Monthly rates for family coverage range from \$488 to \$1,556 with an average of \$1,055 per month.
- By industry, Professional Services had the lowest average PEPY costs, followed by Retail, Finance & Insurance, Manufacturing, Other Non-Manufacturing, Health Care, Education and Government.
- HDHP plans have the lowest average rates, followed by POS plans, PPO plans, HMO plans and Indemnity plans, respectively.

	Average Monthly Cost		Average Cost Per Employee Per Year
	Single	Family	
Private Sector Employers			
All Private Employers	\$390	\$978	\$8,725
Manufacturing	\$360	\$918	\$8,558
Education	\$449	\$1,140	\$10,648
Health Care	\$489	\$1,078	\$10,506
Finance & Insurance	\$366	\$884	\$7,654
Professional Services	\$250	\$621	\$5,368
Retail	\$312	\$783	\$5,892
Other Non-Manufacturing	\$423	\$1,094	\$10,040
Under 250 Employees	\$437	\$1,084	\$9,242
Over 250 Employees	\$389	\$976	\$8,713
HMO Plans	\$435	\$1,063	\$9,946
POS Plans	\$362	\$897	\$7,715
PPO Plans	\$384	\$963	\$8,540
Indemnity Plans	\$319	\$1,258	\$10,662
HDHP Plans	\$264	\$670	\$5,423
Public Sector Employers			
Government	\$452	\$1,268	\$12,768
Total			
All Respondents	\$399	\$1,055	\$9,599

Employee Contributions for Medical Coverage

A summary of our findings:

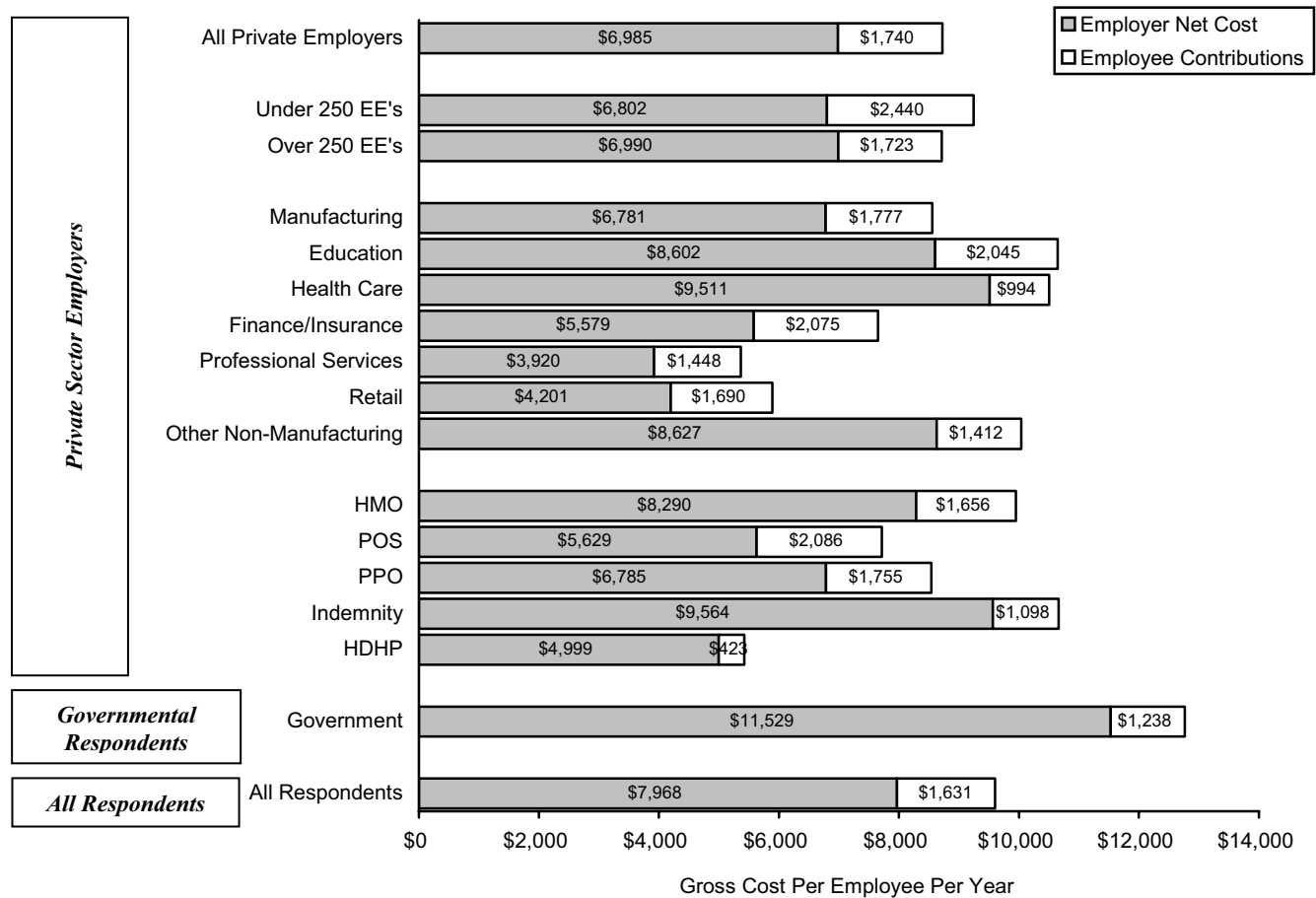
- For private sector employer plans, PEPY employee contributions range from \$0 to \$7,419, with an average PEPY of \$1,740.
- Monthly employee contribution rates for single coverage range from \$0 (15 of the 124 plans) to \$315 with an average of \$82.
- Monthly employee contribution rates for family coverage range from \$0 (11 of the 124 plans) to \$740 with an average of \$170.
- On average, employees at smaller companies (under 250 employees) pay significantly more in employee contributions (42% more) than employees of large private sector employers.
- Health Care employers have the lowest average employee contributions, followed by Government, Other Non-Manufacturing, Professional Services, Retail, Manufacturing, Education and Finance & Insurance.
- Not surprisingly, employee contributions by plan type are lowest for HDHP plans. One common approach for employers that offer HDHP's is to have low, or even no, contributions for the cost of the plan and the employee would fund the high deductible portion of the plan through an HSA.

	Average Cost			Percent of Gross Premium		
	Single (Monthly)	Family (Monthly)	Per Employee Per Year	Single	Family	Average Per Employee
Private Sector Employers						
All Private Employers	\$80	\$193	\$1,740	21%	20%	20%
Manufacturing	\$77	\$190	\$1,777	21%	21%	21%
Education	\$81	\$222	\$2,045	18%	20%	19%
Health Care	\$48	\$101	\$994	10%	9%	9%
Finance & Insurance	\$101	\$238	\$2,075	28%	27%	27%
Professional Services	\$57	\$176	\$1,448	23%	28%	27%
Retail	\$67	\$262	\$1,690	21%	33%	29%
Other Non-Manufacturing	\$57	\$155	\$1,412	14%	14%	14%
Under 250 Employees	\$110	\$292	\$2,440	25%	27%	26%
Over 250 Employees	\$79	\$191	\$1,723	20%	20%	20%
HMO Plans	\$78	\$174	\$1,656	18%	16%	17%
POS Plans	\$107	\$234	\$2,086	30%	26%	27%
PPO Plans	\$80	\$197	\$1,755	21%	20%	21%
Indemnity Plans	\$69	\$114	\$1,098	13%	9%	10%
HDHP Plans	\$18	\$56	\$423	7%	8%	8%
Public Sector Employers						
Government	\$91	\$107	\$1,238	20%	8%	10%
Total						
All Respondents	\$82	\$170	\$1,631	21%	16%	17%

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's net costs are 65% higher than the net cost of the average private sector employer.

Large employers had net costs that were less than 3% higher than small employers. Within the private sector employers, Professional Services employers had the lowest net costs by industry type with Health Care having the highest net costs by industry type. HDHP plans had the lowest net costs while Indemnity plans incurred dramatically higher net costs.



Plan Design Features

For the third year in a row, we have included a summary of benefit design information. We have broken out the plan design features by the type of plan (HMO, POS and PPO), and also by size of the employer (with the exception of POS plans due to insufficient data). 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 1st and 3rd quartile values. These statistical measurements are defined as:

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

HMO Plans

Doctor Office Visits (In-Network Only)

	Primary Care Physician Office Visit Copay			Specialist Office Visit Copay		
	1 st Quartile	Median	3 rd Quartile	1 st Quartile	Median	3 rd Quartile
All Employers	\$15	\$15	\$20	\$15	\$20	\$25
Under 250 Employees	\$15	\$20	\$25	\$20	\$25	\$30
Over 250 Employees	\$15	\$15	\$15	\$15	\$20	\$25

Inpatient Hospital Coverage (In-Network Only)

	Deductible & Coinsurance		Inpatient Hospital Copay		Hospital Covered in Full
	% of Plans	Median Deductible	% of Plans	Median Copay	% of Plans
All Employers	16%	\$250	47%	\$250	37%
Under 250 Employees	0%	N/A	75%	\$500	25%
Over 250 Employees	20%	\$250	40%	\$250	40%

Prescription Drug Coverage

	Rx Plan Design				Median 3 Tier Copays		
	2 Tiers	3 Tiers	4 or More Tiers	Coinsurance	Generic	Preferred Brand	Non-Preferred
All Employers	0%	94%	0%	6%	\$7	\$25	\$40
Under 250 Employees	0%	100%	0%	0%	\$7	\$30	\$50
Over 250 Employees	0%	93%	0%	7%	\$7	\$25	\$40

POS Plans

Doctor Office Visits (In-Network Only)

	Primary Care Physician Office Visit Copay			Specialist Office Visit Copay		
	1 st Quartile	Median	3 rd Quartile	1 st Quartile	Median	3 rd Quartile
All Employers	\$15	\$15	\$20	\$15	\$15	\$20

Inpatient Hospital Coverage (In-Network Only)

	Deductible & Coinsurance		Inpatient Hospital Copay		Hospital Covered in Full
	% of Plans	Median Deductible	% of Plans	Median Copay	% of Plans
All Employers	60%	\$500	0%	N/A	40%

Out-of-Network Coverage

	Annual Deductible Amount			Coinsurance Amount		
	1 st Quartile	Median	3 rd Quartile	1 st Quartile	Median	3 rd Quartile
All Employers	\$330	\$1,000	\$2,000	65%	70%	70%

Prescription Drug Coverage

	Rx Plan Design				Median 3 Tier Copays		
	2 Tiers	3 Tiers	4 or More Tiers	Coinsurance	Generic	Preferred Brand	Non-Preferred
All Employers	0%	100%	0%	0%	\$7	\$25	\$40

PPO Plans

Please note that there is insufficient data to provide an industry breakdown for the Government and Professional Services industries.

Doctor Office Visits (In-Network Only)

	Primary Care Physician Office Visit Copay			Specialist Office Visit Copay		
	1 st Quartile	Median	3 rd Quartile	1 st Quartile	Median	3 rd Quartile
All Employers	\$15	\$15	\$20	\$15	\$25	\$30
Under 250 Employees	\$15	\$15	\$15	\$15	\$25	\$25
Over 250 Employees	\$15	\$15	\$20	\$15	\$25	\$30
Manufacturing	\$15	\$15	\$15	\$15	\$25	\$25
Education	\$10	\$15	\$15	\$10	\$15	\$25
Health Care	\$15	\$15	\$15	\$15	\$20	\$25
Finance & Insurance	\$15	\$20	\$20	\$25	\$30	\$30
Retail	\$15	\$20	\$20	\$20	\$25	\$30
Other Non-Manufacturing	\$15	\$15	\$15	\$15	\$20	\$25

Inpatient Hospital Coverage (In-Network Only)

	Deductible & Coinsurance		Inpatient Hospital Copay		Hospital Covered in Full
	% of Plans	Median Deductible	% of Plans	Median Copay	% of Plans
All Employers	64%	\$500	13%	\$250	23%
Under 250 Employees	79%	\$500	16%	\$250	5%
Over 250 Employees	61%	\$500	12%	\$250	27%
Manufacturing	69%	\$500	19%	\$250	12%
Education	31%	\$375	8%	\$250	61%
Health Care	20%	\$500	20%	\$500	60%
Finance & Insurance	65%	\$500	0%	N/A	35%
Retail	90%	\$500	10%	\$250	0%
Other Non-Manufacturing	80%	\$300	20%	\$100	0%

Out-of-Network Coverage

	Annual Deductible Amount			Coinsurance Amount		
	1 st Quartile	Median	3 rd Quartile	1 st Quartile	Median	3 rd Quartile
All Employers	\$250	\$500	\$750	60%	80%	80%
Under 250 Employees	\$250	\$500	\$1,000	80%	80%	80%
Over 250 Employees	\$200	\$500	\$750	60%	70%	80%
Manufacturing	\$250	\$500	\$1,000	60%	80%	80%
Education	\$200	\$250	\$500	70%	80%	80%
Health Care	\$200	\$250	\$500	80%	80%	80%
Finance & Insurance	\$250	\$500	\$1,000	60%	70%	70%
Retail	\$500	\$1,000	\$2,000	60%	70%	80%
Other Non-Manufacturing	\$250	\$350	\$500	70%	80%	80%

Prescription Drug Coverage

	Rx Plan Design				Median 3 Tier Copays		
	2 Tiers	3 Tiers	4 or More Tiers	Coinsurance	Generic	Preferred Brand	Non-Preferred
All Employers	3%	83%	2%	12%	\$7	\$25	\$40
Under 250 Employees	11%	89%	0%	0%	\$7	\$30	\$50
Over 250 Employees	0%	79%	3%	18%	\$7	\$25	\$40
Manufacturing	0%	88%	8%	4%	\$7	\$25	\$40
Education	0%	100%	0%	0%	\$7	\$25	\$40
Health Care	0%	80%	0%	20%	\$7	\$25	\$40
Finance & Insurance	4%	73%	0%	23%	\$7	\$30	\$50
Retail	10%	70%	0%	20%	\$7	\$30	\$50
Other Non-Manufacturing	0%	80%	0%	20%	\$7	\$25	\$45

Prescription Drug Plans (For All Medical Plan Types)

3 Tier Prescription Drug Copays (Retail Only)

	Generic Copay			Preferred Brand Copay			Non-Preferred Brand Copay		
	1st Quartile	Median	3rd Quartile	1st Quartile	Median	3rd Quartile	1st Quartile	Median	3rd Quartile
All Employers	\$7	\$7	\$10	\$25	\$25	\$30	\$40	\$40	\$50
Under 250 Employees	\$7	\$7	\$10	\$25	\$30	\$30	\$40	\$50	\$50
Over 250 Employees	\$7	\$7	\$10	\$20	\$25	\$30	\$40	\$40	\$50
Manufacturing	\$7	\$7	\$10	\$25	\$25	\$30	\$40	\$40	\$50
Education	\$5	\$7	\$7	\$15	\$25	\$25	\$30	\$40	\$40
Health Care	\$7	\$7	\$10	\$20	\$20	\$25	\$35	\$35	\$40
Finance & Insurance	\$7	\$7	\$7	\$25	\$28	\$30	\$40	\$45	\$50
Professional Services	\$10	\$10	\$10	\$30	\$30	\$30	\$50	\$50	\$50
Retail	\$7	\$7	\$10	\$25	\$30	\$30	\$40	\$45	\$50
Other Non-Manufacturing	\$7	\$7	\$7	\$25	\$25	\$30	\$40	\$40	\$50

We have noticed a growing trend toward coinsurance based and “hybrid” (copay and coinsurance based) prescription drug plans. The coinsurance based prescription drug plans vary from a flat coinsurance percentage for all tiers of drugs to varying the coinsurance percentage by the drug tier. Another approach that uses coinsurance is a hybrid prescription drug plan. A hybrid plan has a flat dollar copay for generic drugs, while brand name drugs (both preferred and non-preferred) have coinsurance based copays. A few examples of these types of plans are:

Type of Rx Plan	Example of Benefits
Coinsurance-based Rx Plan (flat)	20% coinsurance for all Rx drugs
Coinsurance-based Rx Plan (varies)	10% coinsurance for generic drugs
	20% coinsurance for preferred brand drugs
	35% coinsurance for non-preferred drugs
Hybrid Rx Plan	\$10 copay for generic drugs 30% coinsurance for preferred brand drugs 50% coinsurance for non-preferred drugs

One of the advantages of the coinsurance approach is that it does not suffer from leveraging as drug prices increase. For example, if you maintain a \$25 copay for brand name drugs and the drug costs increase, the plan picks up 100% of the price increase. Under a coinsurance approach where the employee pays 30% of the cost, the plan would only pick up 70% of the increase of the drug cost. This leveraging effect should allow for lower prescription drug trend rates compared to copay based plans.

Type of Medical Plan(s) Offered

This year's responses included a couple Indemnity plans and a few High Deductible Health Plans (HDHP's). However, the majority were 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, 124 medical plans are reflected in the survey. PPO plans were by far the most common type of medical plan with 77% of participants enrolled in PPO plans.

	# Plans	HMO	POS	PPO	Indemnity	HDHP
All Respondents	124	15%	4%	77%	2%	2%
Manufacturing	40	23%	5%	65%	3%	5%
Education	16	13%	0%	81%	6%	0%
Health Care	11	55%	0%	45%	0%	0%
Finance & Insurance	27	0%	0%	96%	0%	4%
Professional Services	4	0%	0%	100%	0%	0%
Retail	11	9%	0%	91%	0%	0%
Other Non-Manufacturing	14	7%	21%	71%	0%	0%
Government	1	0%	0%	100%	0%	0%
Under 250 Employees	25	16%	4%	76%	4%	0%
Over 250 Employees	99	15%	4%	77%	1%	3%

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 61% of all covered employees while United covers 36% and all other vendors 3%. While United has cut into Blue Cross Blue Shield of RI's share of the market in recent years, Blue Cross still maintains a considerable margin as the Rhode Island medical insurance market leader.

	# Plans	HMO	POS	PPO	Indemnity	HDHP
Blue Cross Blue Shield of RI						
Number of Plans	79	10	0	66	2	1
Covered Employees	41,318	5,238	0	35,934	42	104
United Healthcare						
Number of Plans	40	8	5	25	0	2
Covered Employees	24,372	1,302	582	22,426	0	62
Other Vendors						
Number of Plans	5	1	0	4	0	0
Covered Employees	1,846	1,070	0	776	0	0
Total						
Number of Plans	124	19	5	95	2	3
Covered Employees	67,536	7,610	582	59,136	42	166

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 29% of Rhode Island area employers offer retiree medical benefits.

Retiree medical benefits offered *	Offered to Under-65 Retirees	Offered to Over-65 Retirees
29%	26%	24%

* 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 97% of responding employers. Seventeen of the 56 employers that offer dental benefits offer more than one plan. The majority of plans offered (94%) are dental PPO plans, with 6% 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, 74 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 \$701 with a range of \$262 to \$1,364. 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 \$13 to \$52 with an average of \$28 per month.
- Monthly rates for family coverage range from \$45 to \$183 with an average of \$78 per month.
- Gross costs were higher at public sector employers versus private sector employers.
- Small companies (under 250 employees) had lower average rates than large employers.
- Professional Services companies had the lowest average rates, followed by Retail, Finance & Insurance, Government, Manufacturing, Education, Health Care and Other Non-Manufacturing.

	Average Monthly Cost		Average Cost Per Employee Per Year
	Single	Family	
Private Sector Employers			
All Private Employers	\$29	\$80	\$696
Manufacturing	\$28	\$79	\$721
Education	\$30	\$80	\$729
Health Care	\$27	\$79	\$740
Finance & Insurance	\$29	\$78	\$660
Professional Services	\$18	\$59	\$475
Retail	\$28	\$83	\$590
Other Non-Manufacturing	\$36	\$96	\$879
Under 250 Employees	\$27	\$78	\$624
Over 250 Employees	\$29	\$80	\$698
Public Sector Employers			
Government	\$26	\$71	\$719
Total			
All Respondents	\$28	\$78	\$701

Employee Contributions for Dental Coverage

A summary of findings:

- PEPY employee contribution costs range from \$0 to \$790, with an average of \$265.
- Monthly employee contribution rates for single coverage range from \$0 (15 of the 74 plans) to \$38 with an average of \$13 per month.
- Monthly employee contribution rates for family coverage range from \$0 (10 of the 74 plans) to \$97 with an average of \$28 per month.
- Of the 74 dental plans, 11 are truly voluntary (where employees pay 100% of dental premium).
- Contrary to our medical findings, employees of small companies pay slightly less for dental coverage than employees of large companies.
- Government has the lowest average employee contribution, followed by Professional Services, Health Care, Retail, Education, Manufacturing, Other Non-Manufacturing and Finance & Insurance.

	Average Cost			Percent of Gross Premium		
	Single (Monthly)	Family (Monthly)	Per Employee Per Year	Single	Family	Average Per Employee
Private Sector Employers						
All Private Employers	\$14	\$36	\$316	49%	45%	45%
Manufacturing	\$13	\$32	\$301	47%	41%	42%
Education	\$10	\$31	\$277	34%	39%	38%
Health Care	\$6	\$19	\$171	21%	24%	23%
Finance & Insurance	\$19	\$50	\$429	67%	64%	65%
Professional Services	\$6	\$19	\$153	31%	33%	32%
Retail	\$12	\$32	\$235	42%	39%	40%
Other Non-Manufacturing	\$14	\$42	\$381	39%	44%	43%
Under 250 Employees	\$14	\$34	\$289	51%	44%	46%
Over 250 Employees	\$14	\$36	\$317	49%	45%	45%
Public Sector Employers						
Government	\$6	\$7	\$78	23%	9%	11%
Total						
All Respondents	\$13	\$28	\$265	45%	36%	38%

Plan Design Features

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

	Annual Deductible (Individual)			Annual Benefit Maximum			Orthodontia % of Plans
	1 st Quartile	Median	3 rd Quartile	1 st Quartile	Median	3 rd Quartile	
All Employers	\$0	\$25	\$50	\$1,200	\$1,200	\$1,500	62%
Under 250 Employees	\$0	\$0	\$25	\$1,000	\$1,200	\$1,200	35%
Over 250 Employees	\$0	\$25	\$50	\$1,200	\$1,200	\$1,500	62%
Manufacturing	\$0	\$25	\$50	\$1,000	\$1,200	\$1,500	38%
Education	\$0	\$0	\$0	\$1,200	\$1,200	\$1,500	55%
Health Care	\$0	\$0	\$50	\$1,100	\$1,200	\$1,350	71%
Finance & Insurance	\$0	\$25	\$50	\$1,000	\$1,500	\$2,000	80%
Professional Services	\$25	\$25	\$50	\$1,200	\$1,350	\$1,500	50%
Retail	\$50	\$50	\$50	\$1,000	\$1,350	\$1,500	67%
Other Non-Manufacturing	\$25	\$50	\$50	\$1,000	\$1,200	\$1,500	57%

Coinsurance by Type of Service

	Preventive Services (Type I)			Basic Restorative Services (Type II)			Major Restorative Services (Type III)		
	1st Quartile	Median	3rd Quartile	1st Quartile	Median	3rd Quartile	1st Quartile	Median	3rd Quartile
All Employers	100%	100%	100%	80%	80%	100%	50%	50%	50%
Under 250 Employees	100%	100%	100%	80%	90%	100%	50%	50%	50%
Over 250 Employees	100%	100%	100%	80%	80%	100%	50%	50%	50%
Manufacturing	100%	100%	100%	80%	80%	85%	50%	50%	50%
Education	100%	100%	100%	80%	80%	100%	50%	50%	50%
Health Care	100%	100%	100%	80%	100%	100%	50%	50%	75%
Finance & Insurance	100%	100%	100%	80%	80%	100%	50%	50%	80%
Professional Services	100%	100%	100%	85%	90%	100%	25%	25%	50%
Retail	100%	100%	100%	50%	75%	80%	50%	50%	50%
Other Non-Manufacturing	100%	100%	100%	80%	80%	100%	50%	50%	50%

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, to a lesser extent, 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	54	54	0
Number of Covered Employees	61,433	61,433	0
<u>Blue Cross Blue Shield of RI</u>			
Number of Plans	12	12	0
Number of Covered Employees	5,238	5,238	0
<u>Other Vendors</u>			
Number of Plans	8	4	4
Number of Covered Employees	1,369	898	471
<u>Total</u>			
Number of Plans	74	70	4
Number of Covered Employees	68,040	67,569	471

Life Insurance & Long Term Disability Benefits Findings

Basic Life Insurance and Accidental Death & Dismemberment (AD&D)

Most employers in Rhode Island offer basic life and accidental death & dismemberment (AD&D) benefits. Not surprisingly, the prevalence is more common in large employers (95%) than small employers (68%).

	Offer Basic Life Insurance	Offer Basic AD&D
All Employers	86%	85%
Under 250 Employees	68%	68%
Over 250 Employees	95%	92%

In terms of benefits, there is not as much variation between large and small employers as we would have expected. The following tables list the median basic life and AD&D benefits for Rhode Island employers that offer these benefits:

Hourly Employees

	<i>Flat Dollar Benefit</i>		<i>Multiple of Salary Benefit</i>		
	% of Plans	Median Benefit	% of Plans	Median Multiple of Salary	Median Max Benefit
All Employers	27%	\$20,000	73%	2X Salary	\$350,000
Under 250 Employees	36%	\$30,000	64%	2X Salary	\$250,000
Over 250 Employees	24%	\$20,000	76%	2X Salary	\$400,000

Salaried Employees / Executives

	<i>Flat Dollar Benefit</i>		<i>Multiple of Salary Benefit</i>		
	% of Plans	Median Benefit	% of Plans	Median Multiple of Salary	Median Max Benefit
All Employers	12%	\$50,000	88%	2X Salary	\$400,000
Under 250 Employees	36%	\$30,000	64%	2X Salary	\$250,000
Over 250 Employees	8%	\$50,000	92%	2X Salary	\$500,000

The rates for basic life & AD&D plans can vary widely based on a company's industry, demographics and coverage amounts. Also affecting the rate is the amount of premium or volume under the policy, which results in lower average rates for larger companies. The following table gives the basic life and AD&D monthly rate information shown "per \$1,000 of benefit":

	<i>Basic Life Rate</i>			<i>Basic AD&D Rate</i>		
	1 st Quartile	Median	3 rd Quartile	1 st Quartile	Median	3 rd Quartile
All Employers	\$0.128	\$0.190	\$0.210	\$0.020	\$0.020	\$0.030
Under 250 Employees	\$0.179	\$0.213	\$0.220	\$0.021	\$0.025	\$0.030
Over 250 Employees	\$0.123	\$0.155	\$0.195	\$0.020	\$0.020	\$0.025

Supplemental Life Insurance and AD&D

A way for employers to add to their benefits package without adding additional costs (outside of the cost of administration) is to add employee-paid supplemental life insurance and AD&D. As benefit cuts in other areas occur, many employers (especially large employers) are adding these voluntary benefits to their overall benefits package.

	Offer Employee Supplemental Life Insurance	Offer Dependent Supplemental Life Insurance	Offer Supplemental AD&D
All Employers	57%	45%	29%
Under 250 Employees	21%	11%	11%
Over 250 Employees	74%	62%	39%

Long Term Disability (LTD)

While not as popular as basic life and AD&D coverage, long term disability (LTD) coverage is offered on some level (either company-paid or employee-paid) for 80% of the respondents. Some employers offer both employer paid and voluntary (employee paid) LTD.

	Offer Any LTD Coverage	Offer Basic Employer-Paid LTD Coverage	Offer Voluntary Employee-Paid LTD Coverage
All Employers	80%	72%	25%
Under 250 Employees	63%	58%	11%
Over 250 Employees	90%	79%	32%

In terms of benefits, you will notice some variation between Hourly employees and Salaried employees / Executives. The following tables list the median LTD benefits for our survey respondents:

Hourly Employees

	Median Benefit Percentage	Median Maximum Monthly Benefit	Median Elimination Period	Median Benefit Duration *
All Employers	60%	\$7,000	180 days	24 months
Under 250 Employees	60%	\$6,000	180 days	24 months
Over 250 Employees	60%	\$7,500	180 days	24 months

Salaried Employees / Executives

	Median Benefit Percentage	Median Maximum Monthly Benefit	Median Elimination Period	Median Benefit Duration *
All Employers	60%	\$7,500	180 days	24 months
Under 250 Employees	60%	\$6,000	180 days	24 months
Over 250 Employees	60%	\$7,500	180 days	24 months

* Benefit duration applies to the period in which the disabled employee is unable to perform the duties of their "own occupation."

The rates for basic LTD (company-paid) also vary widely based on a company's industry, demographics and coverage amounts. Again, large employers have lower average rates which may be a direct result of volume/premium discounts. The following table gives the basic LTD monthly rate information shown "per \$100 of covered monthly payroll".

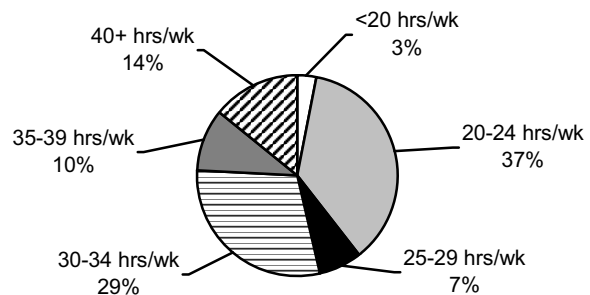
	Basic LTD Rate		
	1 st Quartile	Median	3 rd Quartile
All Employers	\$0.293	\$0.353	\$0.553
Under 250 Employees	\$0.310	\$0.360	\$0.540
Over 250 Employees	\$0.289	\$0.345	\$0.530

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 variation in how Rhode Island area employers determine “full time”. The majority of employers utilize a 20-24 hour minimum per week (36%) or a 30-34 hour minimum per week (29%) 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). As can be seen in the following chart, FSA's are very common in Rhode Island while HRA's and HSA's are still rare.

	Health Care FSA		Dependent Care FSA		Offer HRA?	Offer HSA?
	Offer?	Average Participation?	Offer?	Average Participation?		
All Employers	70%	14%	73%	3%	5%	4%
Under 250 Employees	44%	17%	44%	3%	3%	0%
Over 250 Employees	82%	12%	87%	3%	8%	5%

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, 31% 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 \$250 per year to a high of \$2,600 per year, with a median waiver credit of \$1,238.

	Offer Waiver Credit
All Employers	31%
Under 250 Employees	5%
Over 250 Employees	41%

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	58%
Under 250 Employees	38%
Over 250 Employees	62%

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. While we have noticed an increase in the number of Rhode Island employers who self-insure, we believe that self insurance is still much less prevalent in the Rhode Island area than it is in other parts of the nation. 43% 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.

	Self-Insure Medical Benefits	Self-Insure Dental Benefits
All Employers	38%	24%
Under 250 Employees	11%	11%
Over 250 Employees	43%	27%

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 much lower on a per employee basis 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.

Turnover

29 of 58 employers (50%) responded to our question about turnover. Respondents provided estimated turnover rates anywhere from 0% to 44%. The average turnover rate reported among those employers that answered this question was 10%. 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 – 2007

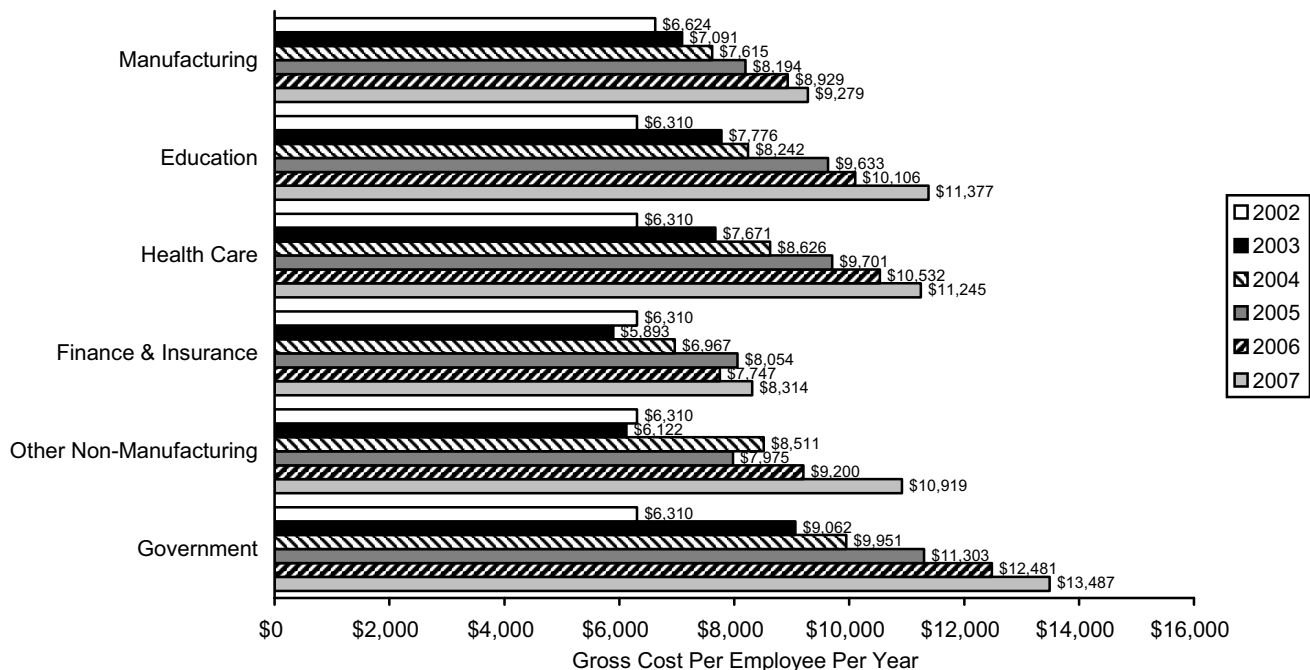
Medical and Dental Benefit Cost Comparison

This is the sixth year we have conducted this survey. As a result, we are now able to provide a six-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 six 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. Please note that the big jump from 2003 to 2004 for all respondents is due in part to the 2004 participation of the State of Rhode Island and their higher than average costs.



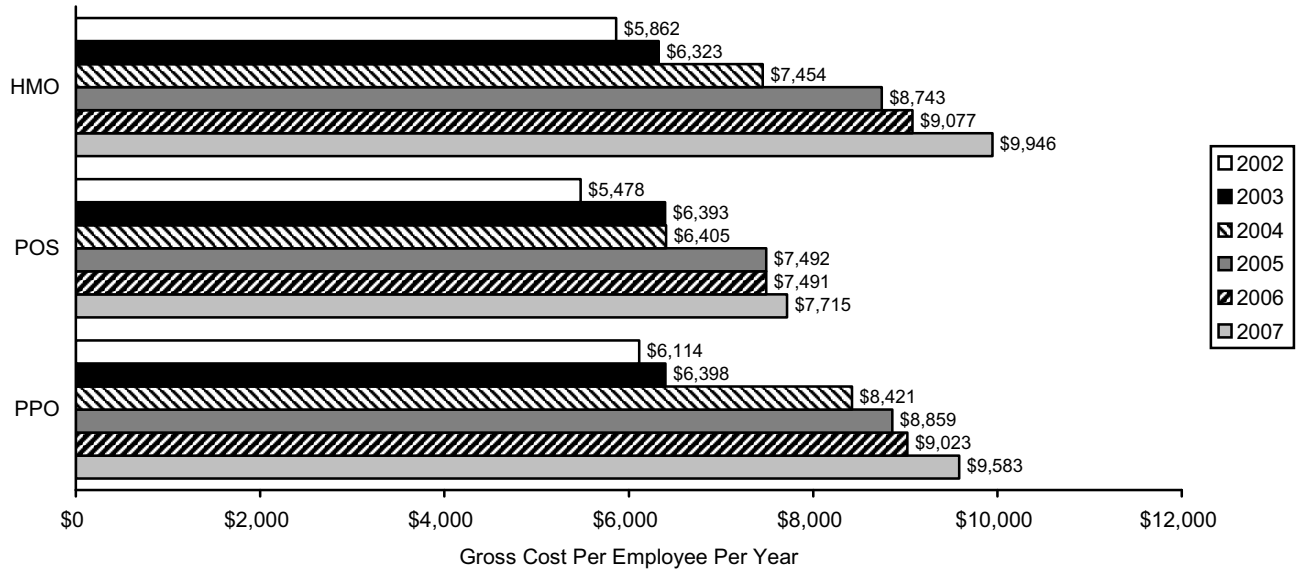
Medical and Dental Benefit Cost Comparison by Industry

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).



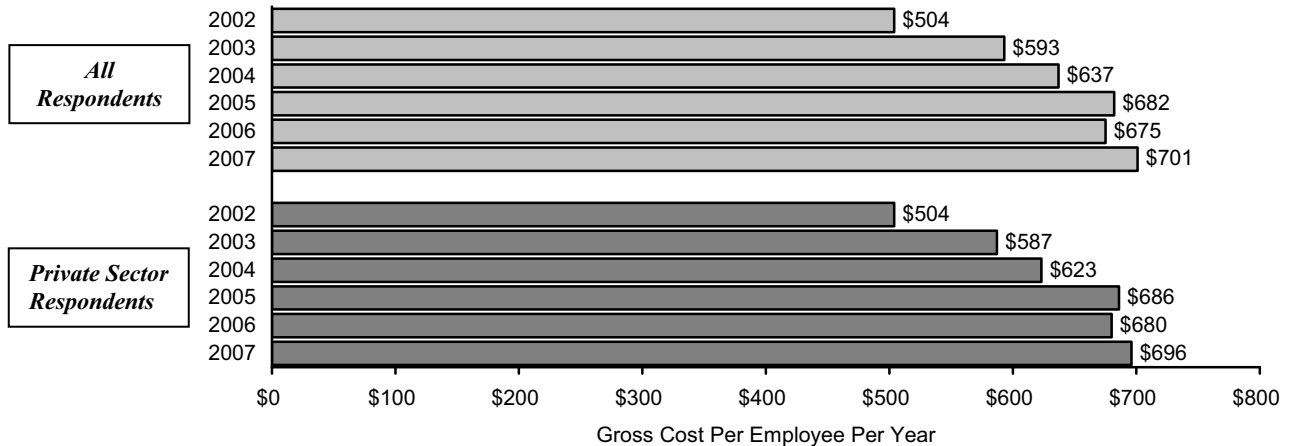
Medical Benefit Cost Comparison by Plan Type

From 2006 to 2007, costs for HMO plans increased 9.6%, while POS plans increased 7.1% and PPO plans increased 6.2%. When we look at the total five year change increase for the period of 2002 to 2007, the results are dramatic: HMO plans increased 70%, POS plans increased 41% and PPO plans increased 57% over the five-year period.



Dental Benefit Cost Comparison

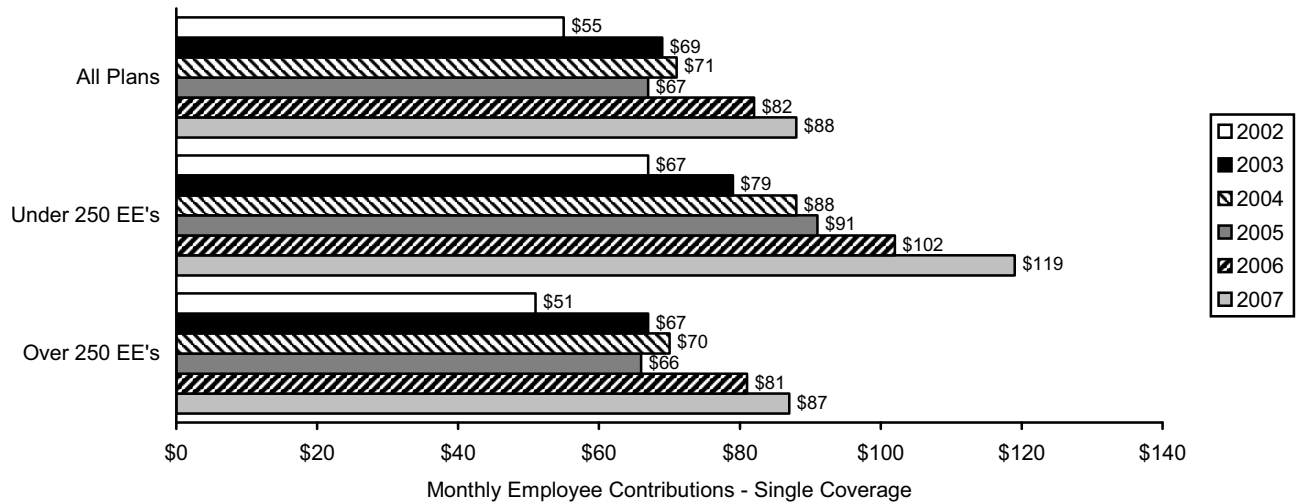
In 2007, our results showed that dental costs increased 4% and 2% for all respondents and private sector respondents respectively. Interestingly we note that the inclusion of governmental plans does not significantly skew the dental cost figures (unlike medical costs).



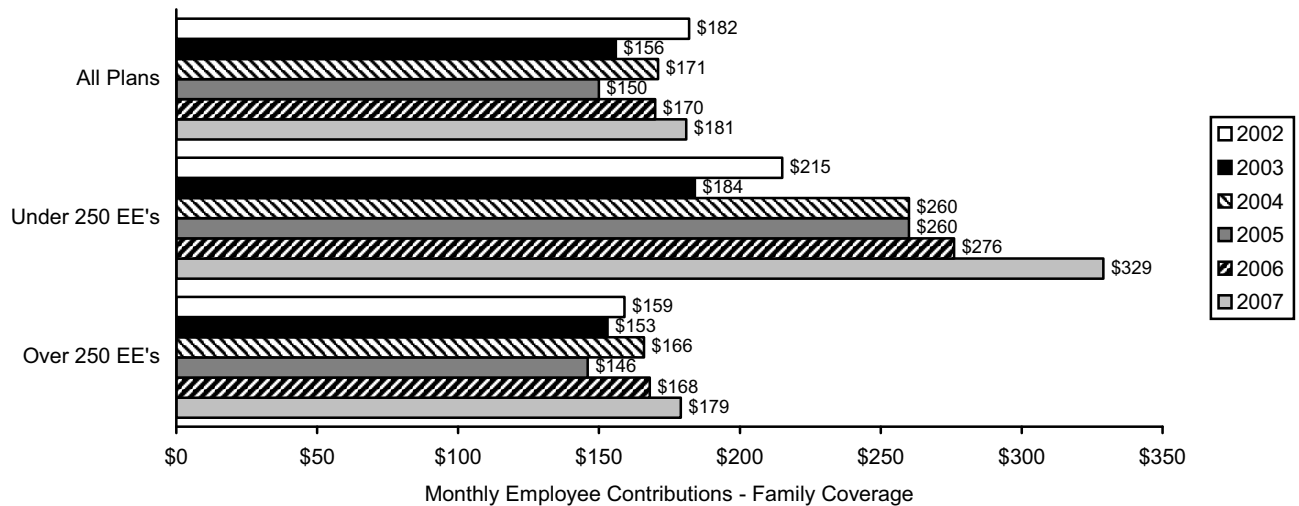
Employee Contribution Comparison

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)



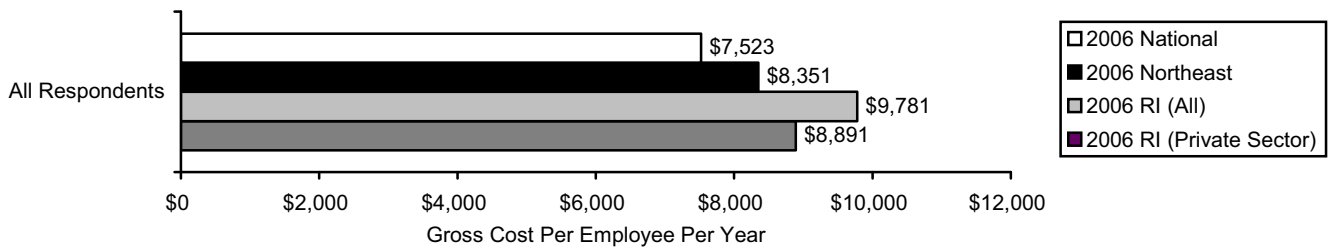
Medical Employee Contribution Comparison (Family Coverage)



National Cost Comparison – 2006

Medical and Dental Benefit Cost Comparison

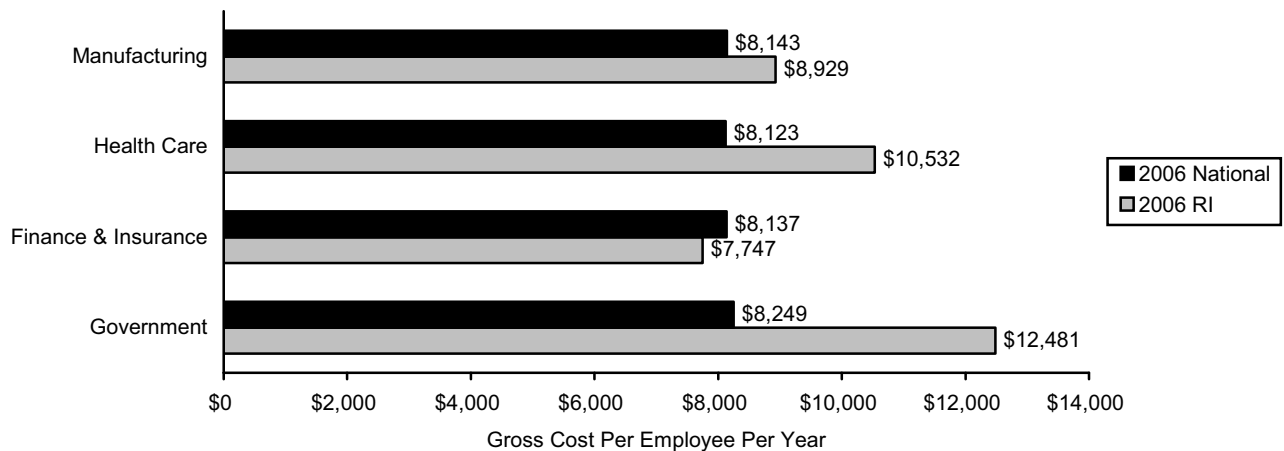
While it is interesting to compare Rhode Island area cost data to historic Rhode Island area cost data, we believe that it is also important to benchmark our local Rhode Island area costs against national and regional averages. National and regional cost data have been drawn from the *Mercer National Survey of Employer-Sponsored Health Plans 2006*. 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 2006 Rhode Island averages (for all employers) are 30% higher than the national average and 17% 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 2006 Rhode Island private sector averages are 18% higher than the national average and 6% higher than the Northeast regional average.

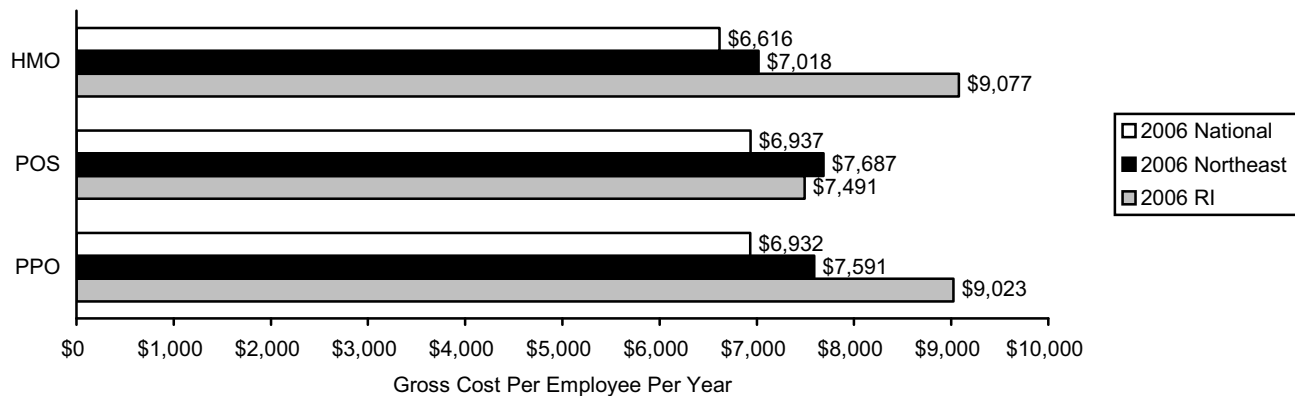
Medical and Dental Benefit Cost Comparison by Industry

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 2006 national cost breakdown from Mercer is not provided for Education, Professional Services and Other Non-Manufacturing.



Medical Cost Comparison by Plan Type

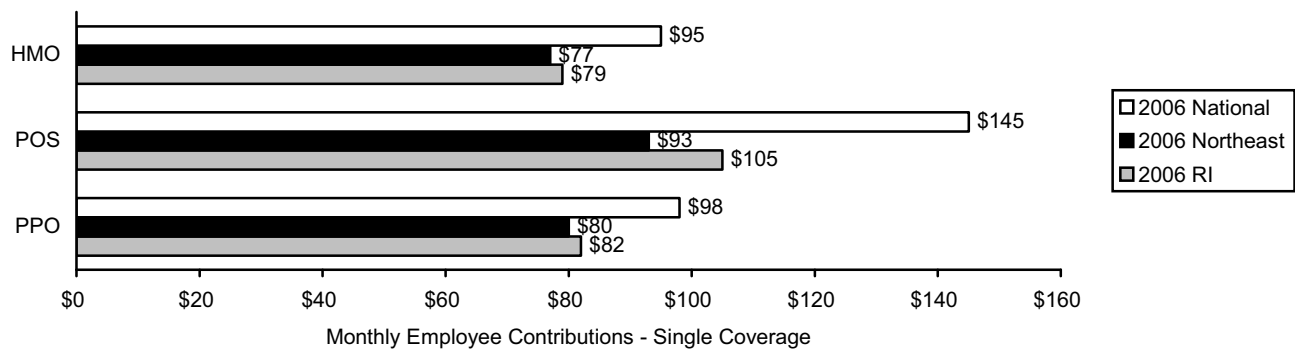
One of the more dramatic findings of this survey is the disparity in costs by plan type. Rhode Island employers' average 2006 HMO costs were 37% higher than the national average and 29% higher than the Northeast regional average. Similarly, Rhode Island employers' average 2006 PPO costs were 30% higher than the national average and 19% higher than the Northeast regional average.



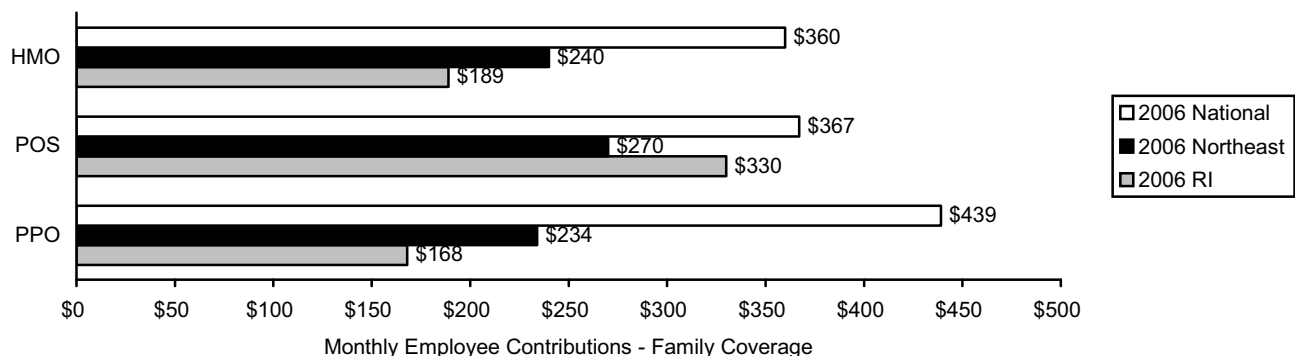
Employee Contribution Comparison

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)



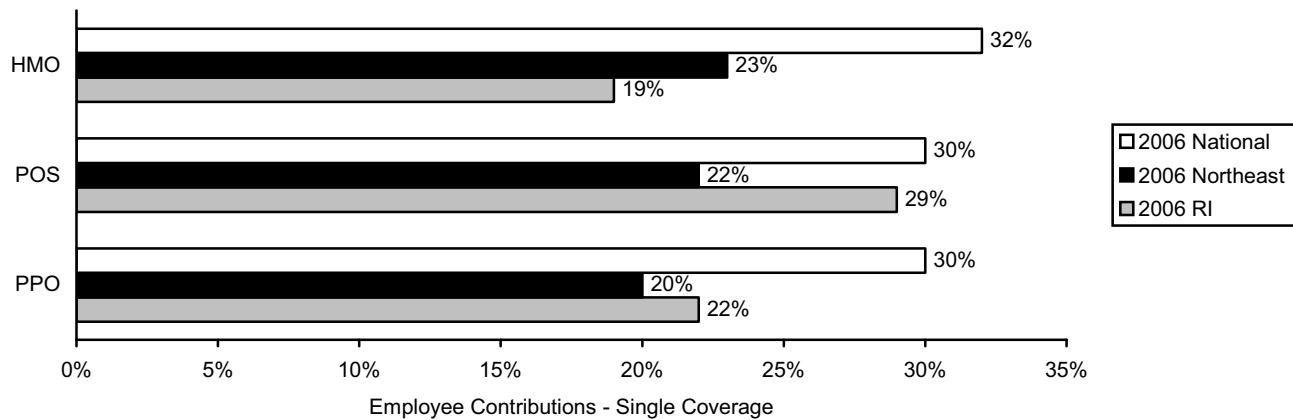
Medical Employee Contribution Comparison, by Plan Type (Family Coverage)



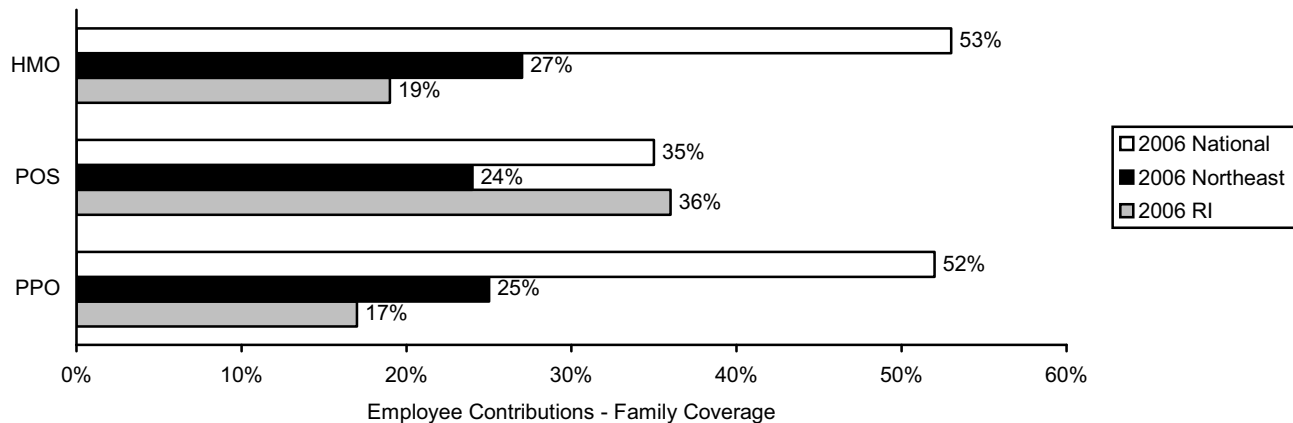
Employee contributions vary widely locally, regionally and nationally. The previous two charts detail the average employee contributions by plan type for single and family coverage. In most cases, Rhode Island employee contributions are below national and regional averages in 2006. This would appear 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 most categories. Please keep in mind when reviewing the below charts that POS enrollment in Rhode Island is very limited. In 2006, only 293 employees were covered by a POS plan. This compares against 6,270 enrollees in HMO plans and 59,032 enrollees in PPO plans.

**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		
	2007 vs. 2006	2006 vs. 2005	2005 vs. 2004	2007 vs. 2006	2006 vs. 2005	2005 vs. 2004
All Respondents	9.2%	9.6%	10.1%	6.4%	4.4%	5.8%
Manufacturing	10.2%	9.6%	9.4%	5.4%	5.5%	6.2%
Education	8.9%	13.1%	8.5%	5.6%	3.6%	4.4%
Health Care	12.2%	9.1%	13.3%	6.9%	5.0%	8.0%
Finance & Insurance	12.3%	8.3%	10.9%	5.1%	5.8%	7.1%
Professional Services	ID	ID	ID	ID	ID	ID
Retail	6.6%	8.0%	12.5%	4.7%	5.0%	2.0%
Other Non-Manufacturing	7.5%	8.0%	10.1%	6.0%	2.1%	5.4%
Under 250 Employees	8.9%	9.5%	12.1%	7.6%	3.6%	4.8%
Over 250 Employees	9.5%	9.7%	9.1%	5.8%	4.8%	6.3%

ID indicates insufficient data.

Steps Taken to Control Costs

The most common methods to control employer costs include increasing employee contributions and changing benefits. Compared to previous results, more employers are implementing wellness programs as a means to control costs.

	Within Last Year	Within Last 3 Years
Changed Carriers	14%	43%
Changed Benefits	43%	72%
Eliminated Benefits	3%	9%
Increased Employee Contributions	50%	71%
Implemented Wellness Program	33%	59%
Implemented Disease Management Program	16%	21%
Implemented Consumer Driven Health Plan	2%	5%

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

	Very Important	Important	Not Very Important	Not At All Important
Improvements in medicine that drive up life expectancy	35%	59%	6%	0%
Lack of competitive carriers offering group health insurance	68%	24%	4%	4%
An inefficient and wasteful bureaucracy	44%	44%	12%	0%
Doctors are making too much money	14%	36%	44%	6%
Prescription drug manufacturers are making too much money	67%	29%	4%	0%
Cost sharing from government plans (Medicare, Medicaid, etc.)	21%	57%	18%	4%

Employee Understanding of Cost Environment

Only 34% of respondents felt that their employees have a good understanding of their medical and dental benefit costs. Unfortunately, many employers do not have the time or the means to communicate this information to their employees.

Yes	No	Undecided
34%	57%	7%

Perception of Rhode Island Health Insurance Competitive Market

A vast 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.

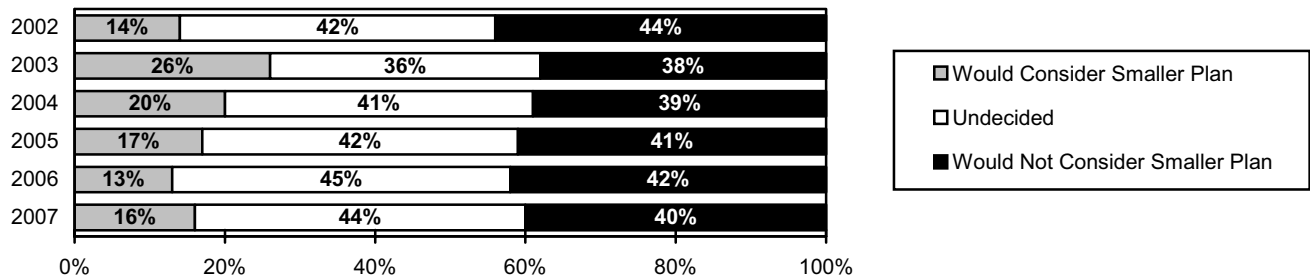
Yes	No	Undecided
84%	7%	9%

Small Network Plans Not Desirable

When asked, “Would you consider a health plan option that offered lower costs but had fewer participating providers?” only 16% of employers indicated that they would. 40% would not consider a smaller network at a lower cost, while 44% were undecided.

Yes	No	Undecided
16%	40%	44%

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



Survey Overview and Methodology

The 2007 Rhode Island Area Health & Welfare Benefits Survey was mailed in March 2007 to 378 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 medical, dental, life insurance and long term disability benefits.

Data was 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.

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 employer's and/or insurer's projection 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 2007.

Our comparison of Rhode Island area plans to national and regional averages (as provided in the *Mercer National Survey of Employer-Sponsored Health Plans 2006*) 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.

Glossary

CDHP	Consumer Driven Health Plans – A type of employer-sponsored health benefits plan that seeks to give employees greater responsibility for choosing their own health care and provides incentives for them to seek the most cost-effective care. Internet-based plan administration and Internet use by employees for personal health management is often part of these plans. CDHP's can incorporate Flexible Spending Accounts, Health Reimbursement Arrangements and/or Health Savings Accounts.
FSA	Flexible Spending Accounts – A pre-tax account that can be setup to reimburse qualified expenses for health care, dependent care and/or transportation. Unused balances are forfeited at the end of the plan year. FSA's are typically funded by employees however employers are allowed to contribute to FSA's.
HDHP	High Deductible Health Plan – A health benefit plan that has a minimum deductible of \$1,100 for individuals and \$2,200 for families for 2008, which applies to all health care benefits except preventive care. Out-of-pocket expense requirement cannot be more than \$5,600 for single coverage or \$11,200 for family coverage for 2008. These plans are qualified by the federal government with limits inflation-adjusted annually. A HDHP is required in order for an employer to offer a HSA.
HMO	Health Maintenance Organization – A managed care plan that requires members to access non-emergency care within a specified provider network. HMO's commonly include a gatekeeper referral requirement for any care not provided by a participant's primary care physician. HMO's generally do not provide coverage for out of network care.
HRA	Health Reimbursement Arrangement – A type of Consumer Driven Health Plan with an employer funded account that reimburses employees for some or all of the HDHP deductible. Employer funding is not vested to the employee and any money remaining in the account is not portable (retiring and/or terminating employee cannot take HRA money with them).
HSA	Health Savings Account – A tax-exempt trust or custodial account created to pay for the qualified medical expenses of the account holder and their dependents. Created for individuals covered by a high deductible health plan, funds can be carried over from year to year. Interest and investment income accrue tax-free. Money funded by employers into HSA's is immediately vested to the employees and these accounts are portable.
Indemnity Plan	Traditional fee-for-service group health insurance plan. The member can elect to receive services from any licensed health provider. There is no network of providers where members are incented to seek services.
PEPY	Per Employee Per Year – A way of reporting costs and employee contributions based on a weighted-average.

POS	Point-of-Service Plan – Managed care plan that allows members to choose, at the point where care begins, to receive services from a participating or non-participating network provider, usually with a financial disincentive for going outside the network. Many POS plans have a gatekeeper referral requirement, however non-gatekeeper plans (referred to as “open access” POS plans) are becoming increasingly popular.
PPO	Preferred Provider Organization – Managed care plan that allows members to choose, at the point where care begins, to receive services from a participating or non-participating network provider, usually with a financial disincentive for going outside the network. PPO plans typically do not require gatekeeper referrals for receiving care.
Waiver Credit	Compensation provided to employees who decline participation in a medical and/or dental plan. In most cases, employees must provide proof of other coverage in order to receive the waiver credit.
Wellness Programs	A broad range of initiatives and activities designed to promote good health among employees. The purpose is to increase worker health and morale and reduce the costs of accidents and ill health such as absenteeism, lower productivity and health care costs. Examples of wellness programs include physical fitness programs, smoking cessation, health risk appraisals, diet information, weight loss, stress management and high blood pressure screening.

List of Participating Companies

The following is a list of those companies who participated in the 2007 Rhode Island Area Health & Welfare Benefits Survey. Respondents were given the option not to be listed.

AAA Southern New England	Home Loan Bank
Albin Manufacturing Inc.	Hope Global
American Mathematical Society	Insurance Reconstruction Services
American Power Conversion	KVH Industries
Amtrol	Maguire Group Inc.
A. T. Cross Company	Memorial Hospital of RI
ATP Manufacturing, LLC	Modine Manufacturing Co.
Bank RI	The Moore Company
Bethany Home of RI	Newport Harbor Corporation
Blue Cross Blue Shield of Rhode Island	North Safety Products
Bluff Head Enterprises, Inc.	Nulco Manufacturing Corp.
Brown University	Ocean State Job Lot
Bryant University	Providence College
Care New England	Providence Metallizing Co.
Carousel Industries	Providence Mutual Fire Insurance Co.
Cavanagh Company	Providence Washington Insurance Solutions
Citizens Financial Group	Rhode Island Medical Imaging
Concordia Manufacturing LLC	Rhode Island School of Design
Cox Communications	Salve Regina University
Cranston Print Works Company	South County Hospital
CVS	Southcoast Health System
Delta Dental of Rhode Island	St. Mary Academy-Bay View
Douglas Lumber	State of Rhode Island
Ferland Corporation	Taco, Inc.
Gilbane Building Company	Thielsch Engineering
GTECH Corporation	Toray Plastics (America) Inc.
Hasbro, Inc.	TradeSource, Inc.
Hexagon Metrology, Inc	Vanguard Sailboats

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