

Rhode Island Area Employer-Sponsored Health & Welfare Benefits Survey 2008





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Bluff Head Enterprises is pleased to present our 2008 Rhode Island Area Employer-Sponsored Health & Welfare Benefits Survey. This is the seventh year of our local survey.

This year, 73 employers responded. Collectively, they provide benefits to approximately 325,000 employees nationwide and over 95,000 employees in the Rhode Island area. This is the largest and most detailed employee benefit survey of Rhode Island employers.

Our survey provides detailed cost, employee contribution and benefits information for 2008 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 2007 findings. The national and regional data for 2007 is provided by the Mercer National Survey of Employer-Sponsored Health Plans 2007. 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 2008 until the spring of 2009.

New in the 2008 survey is a section on Wellness Programs. Many employers have implemented wellness programs to assist their employees in making good health decisions and prevent illness and diseases. We have analyzed these programs as well as the trend rates for employers with and without wellness programs.

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,

Patrick Canavan
Vice President
Bluff Head Enterprises, Inc.

Table of Contents

<i>Introduction</i>	<i>2</i>
<i>Survey Highlights & RI Area Trends.....</i>	<i>3</i>
<i>Profile of Participating Companies</i>	<i>6</i>
<i>Medical Benefits Findings</i>	<i>8</i>
<i>Dental Benefits Findings.....</i>	<i>14</i>
<i>Life Insurance & Long Term Disability Benefits Findings.....</i>	<i>17</i>
<i>Rhode Island Cost Comparison 2002 - 2008</i>	<i>19</i>
<i>National Cost Comparison - 2007</i>	<i>21</i>
<i>Controlling Medical and Dental Costs</i>	<i>24</i>
<i>Wellness Programs</i>	<i>26</i>
<i>Additional Findings: Eligibility & Benefit Innovations</i>	<i>28</i>
<i>Survey Overview and Methodology.....</i>	<i>30</i>
<i>Glossary</i>	<i>31</i>
<i>List of Participating Companies.....</i>	<i>33</i>



Introduction

Health care costs continue to challenge every business as they have for the last decade. Employee benefits are typically the second or third highest business expense for most employers and in these trying economic times, they are a critical business expense for employer to manage. While overall health care cost increases have been smaller in recent years, they have still outpaced the rate of inflation.

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, 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.

Health care has also become a major political topic, both with the 2008 presidential election and state-sponsored health care reform acts. Approaches to addressing the health care crisis vary by candidate and state, but all parties acknowledge that something needs to be done to address this issue.

We are very excited about this year's survey results. This year's survey reflects the largest response we have ever received. We are now including more public-sector employers than in years past. In addition, we have added a section on Wellness Programs to provide information on the results, participation levels and types of programs being offered. We also examine health care cost increases for companies with wellness programs versus those for companies without wellness programs.

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 73 responding employers, 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:

- In aggregate, the average total gross cost of medical coverage for all respondents is \$10,026 PEPY, which is a 4% increase compared to last year. This is lower than the 5% increase in 2007.
- The average total gross cost of medical coverage per employee per year (PEPY) in 2008 is \$9,351 for private sector employer plans and \$12,621 for public sector (governmental) plans. This represents an increase of 7% for private sector employer plans and a 1% decrease over last year for the public sector. The decrease in PEPY for public sector is largely due to the increase in survey participation from Rhode Island towns and cities.
- According to our 2008 survey respondents, *group medical costs have increased* an average of 28% over the last three years (+8.1% in 2008, +9.7% in 2007 and +8.1% in 2006). Our data shows a 4% medical cost increase over last year versus the reported increase of 8.1%. Some reasons for this difference include the change in actual respondents from 2007 to 2008, the fact that some 2008 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.
- In aggregate the *average Rhode Island area employee paid \$1,676 PEPY* toward the cost of their group medical benefits which represent 17% of the medical gross cost PEPY average.
- On average, *employees of private companies paid \$1,792 PEPY* toward the cost of their group medical benefits, or 19% of gross cost. Rhode Island state and municipal employees paid an average of \$1,232 PEPY toward the cost of their group medical benefits, or 10% of gross cost.
- Large employers pay approximately the same percentage of the total costs as small employers. This is a change from previous years when large employers typically paid a higher percentage than small employers.
- As compared to 2007 national and regional averages, Rhode Island employers in 2007 had *higher gross costs and lower employee contributions*. For the sixth year in a row, it appears that Rhode Island area employers incur higher net costs than their national and regional counterparts.
- As compared to 2007 national and regional averages for the Government sector (public sector) only, the Rhode Island Government sector in 2007 had *60% higher medical and dental gross costs*. Please note that the 2007 Rhode Island public sector data include the State of Rhode Island employees only.
- 96% 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.
- 15% of respondents indicated that they *changed carriers* within the last year, while 44% of respondents changed carriers within the last three years.
- 58% of respondents indicated that they *increased employee contributions* within the last year, while 77% of respondents increased employee contributions within the last three years.
- 74% of respondents have implemented a *wellness program*. The most common wellness program components include flu shots, health risk assessments, health fairs and lifestyle classes.

Rhode Island Area Trends

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

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 2008 data shows an average annual employee contribution of \$2,346 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. The prevalence of income sensitive contributions is much more prevalent in Rhode Island than the rest of the country as the Mercer survey shows 11% of large employers using income sensitive contributions nationwide.

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. 63% of respondents changed benefits in the last three years (40% within the last year) and 58% of participating employers increased employee contributions within the last year.

Richness of Medical Benefits

One of the reasons that Rhode Island has higher than average 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 2007 Mercer National Survey of Employer-Sponsored Health Plans, PPO Plans, All Employers).

Waiver Credits

43% of participating employers offer a "waiver credit" with a median waiver credit of \$1,150. A waiver credit is generally a cash payment to employees who elect not to participate in an employer's medical plan. Where employers require contributions to medical benefits, waiver credits are much less common in other parts of the country. From a consultative perspective, this increases costs and is a more generous way to go.

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. This is consistent with national survey findings.

Employee Contributions to Dental

In our data, Rhode Island area employees of private employers pay 46% of all dental costs, whereas the same group of employees contributes only 19% of medical costs. This is one area where Rhode Island employers may be less generous than the national averages.

Wellness Program Information

Nearly three quarters (74%) of our respondents offer a wellness program to their employees. This is higher than the average rate of 62% as published by the International Foundation of Employee Benefit Plans (January 2006).

Regarding wellness program incentives and disincentives, almost half (47%) of the employers with wellness programs offered rewards for participation such as gift cards or additional paid time off. However, the majority (87%) of employers did not offer employee contribution disincentives to employees not willing to participate in the wellness program.



Prescription Drug Design

We have seen a growing number of coinsurance-based Rx plans and Hybrid (copay and coinsurance based) Rx plans. Hybrid plans provide fixed copay for generics (and sometimes preferred brand drugs) while all other drugs are subject to coinsurance. An example of this would be \$10 copay for generic drugs, 30% coinsurance for preferred brand drugs and 50% coinsurance for non-preferred drugs. This design gives the same benefits of coinsurance-based plans with cost certainty for the more cost effective drugs. In Rhode Island, 26% of responding employers have adopted the Hybrid or Coinsurance Rx plan design which exceeds national adoption rates (17% of all employers nationally according to the Mercer survey, 2007).

Flexible Benefits

With more cost shifting toward employees, resulting 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. 67% of Rhode Island employers offer a health care FSA with 21% average participation and 70% offer a dependent care FSA with only 4% average participation. The percentage of employers offering FSA's is much higher than the national averages of 25% for both Healthcare FSA's and Dependent Care FSA's (Mercer survey, 2007). As for participation, Rhode Island is close to the national averages.

Another aspect of flexible benefit plans is to offer more than one plan. 63% of respondents offer more than one medical plan, with one respondent offering over a dozen medical choices.

Domestic Partner Coverage

59% of all responding employers offer some form of domestic partner coverage. The majority of employers (73%) offer coverage to any domestic partner (versus same sex only or opposite sex only).

Self Insurance

Self insurance among survey respondents continues to lag national averages. The prevalence of some form of self insurance in Rhode Island is 38% for medical benefits and 32% for dental benefits.

Of those employer respondents who cover over 1,000 employees, 82% have partially or completely self funded medical plans. 65% 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.

We anticipate that with the recently implemented 1.75% medical and dental premium tax in Rhode Island for 2009, many medium to large employers will consider self insurance in part to avoid the premium tax.

Lack of Competition

A final trend we would draw attention to is the continued 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. There have been discussions regarding other vendors entering the marketplace, i.e. Tufts (as of this writing, Tufts has not formally begun to solicit Rhode Island employers). As we look at this year's data, 96% of employees covered for medical are covered by either United Healthcare or Blue Cross Blue Shield of RI.

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. Similarly to medical, two vendors dominate the marketplace with 98% of employees covered by either Delta Dental or Blue Cross Blue Shield of RI.

Profile of Participating Companies

This year, 73 employers took part in the survey. Of these companies, approximately half (38 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 and local municipalities' plans. The reason for this is that we feel the public sector health care plans are an anomaly when compared to most other employers within our area. On average, the public sector plans have richer benefits and higher average costs. State and municipal employees also contribute less to acquire coverage and a much higher percentage of public sector employees elect dependent coverage (75% for public sector employees versus 58% 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 (26%), however Retail has the largest percentage of employees (56%) nationally largely due to a single Rhode Island employer with numerous retail locations and employees.

Industries Represented	Number of Respondents	Total Number of Employees
Manufacturing	19 (26%)	23,721 (8%)
Education	7 (10%)	13,331 (4%)
Health Care	7 (10%)	20,367 (6%)
Finance & Insurance	8 (11%)	26,601 (8%)
Professional Services	5 (7%)	3,535 (1%)
Retail	3 (4%)	179,783 (56%)
Other Non-Manufacturing	17 (23%)	36,754 (12%)
Government	7 (10%)	17,439 (5%)
Total		
All Respondents	73 (100%)	321,531 (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 176,000, and the median group size is 345 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.

While this does not correlate with the definition of "small employer" according to the RI Division of Insurance (they assume under 50 employees), we believe it is statistically correct given our current group of respondents.

Number of Employees	Percentage of Respondents (Number of Companies)
Under 100	16% (12)
100 to 249	20% (14)
250 to 499	16% (12)
500 to 999	16% (12)
1,000 to 4,999	20% (14)
5,000 or more	12% (9)



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, 63% 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 43% of small employers offering two or more plans whereas 75% of large employers offer two or more plans.

	One	Two	Three or More
Private Sector Employers	39%	39%	22%
Public Sector Employers	14%	14%	72%
Manufacturing	33%	44%	22%
Education	43%	29%	29%
Health Care	29%	57%	14%
Finance & Insurance	38%	50%	12%
Professional Services	60%	0%	40%
Retail	33%	33%	33%
Other Non-Manufacturing	44%	39%	17%
Government	14%	14%	72%
Under 250 Employees	57%	29%	14%
Over 250 Employees	25%	42%	33%
Total			
All Respondents	37%	37%	26%

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 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. Studies have shown that a growing number of uninsured individuals here in Rhode Island (and throughout the United States) actually have coverage available through their employer but choose not to elect it.

	% Waiving Coverage	% with Single Coverage	% with Dependent Coverage
Private Sector Employers	19%	34%	47%
Public Sector Employers	8%	23%	69%
Manufacturing	17%	27%	56%
Education	16%	31%	53%
Health Care	14%	32%	55%
Finance & Insurance	24%	36%	41%
Professional Services	13%	31%	56%
Retail	31%	45%	24%
Other Non-Manufacturing	17%	38%	45%
Government	8%	23%	69%
Under 250 Employees	17%	32%	50%
Over 250 Employees	17%	33%	51%
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.

Some notable findings are:

- PEPY gross costs range from \$2,217 to \$15,895, with an average PEPY gross cost of \$10,026. 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 \$327 to \$566 with an average of \$429 per month.
- Monthly rates for family coverage range from \$815 to \$1,386 with an average of \$1,090 per month.
- By industry, Retail had the lowest average PEPY costs, followed by Other Non-Manufacturing, Finance & Insurance, Manufacturing, Health Care, Education, Professional Services 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	
All Private Employers	\$425	\$1,036	\$9,351
Public Sector Employers	\$454	\$1,252	\$12,621
Manufacturing	\$372	\$916	\$8,901
Education	\$478	\$1,183	\$11,096
Health Care	\$530	\$1,150	\$11,078
Finance & Insurance	\$388	\$938	\$8,152
Professional Services	\$482	\$1,183	\$11,197
Retail	\$354	\$831	\$6,242
Other Non-Manufacturing	\$353	\$909	\$7,819
Government	\$454	\$1,252	\$12,621
Under 250 Employees	\$423	\$1,060	\$9,726
Over 250 Employees	\$429	\$1,091	\$10,035
HMO Plans	\$482	\$1,143	\$10,945
POS Plans	\$389	\$950	\$8,666
PPO Plans	\$426	\$1,088	\$9,976
Indemnity Plans	\$566	\$1,386	\$15,895
HDHP Plans	\$327	\$815	\$6,773
Total			
All Respondents	\$429	\$1,090	\$10,026

Employee Contributions for Medical Coverage

A summary of our findings:

- For all plans, PEPY employee contributions range from \$0 to \$5,504, with an average PEPY of \$1,676.
- Monthly employee contribution rates for single coverage range from \$0 (17 of the 157 plans) to \$276 with an average of \$86.
- Monthly employee contribution rates for family coverage range from \$0 (13 of the 157 plans) to \$716 with an average of \$173.
- On average, employees at small companies (under 250 employees) pay slightly more in employee contributions (5% more) than employees of large private sector employers. This is a dramatic change from years past where employers at small employers paid significantly more. We believe a main reason for the change is the difference in respondents from last year.
- Professional Services employers have the lowest average employee contributions followed by Government, Health Care, Manufacturing, Other Non-Manufacturing, Retail, 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.

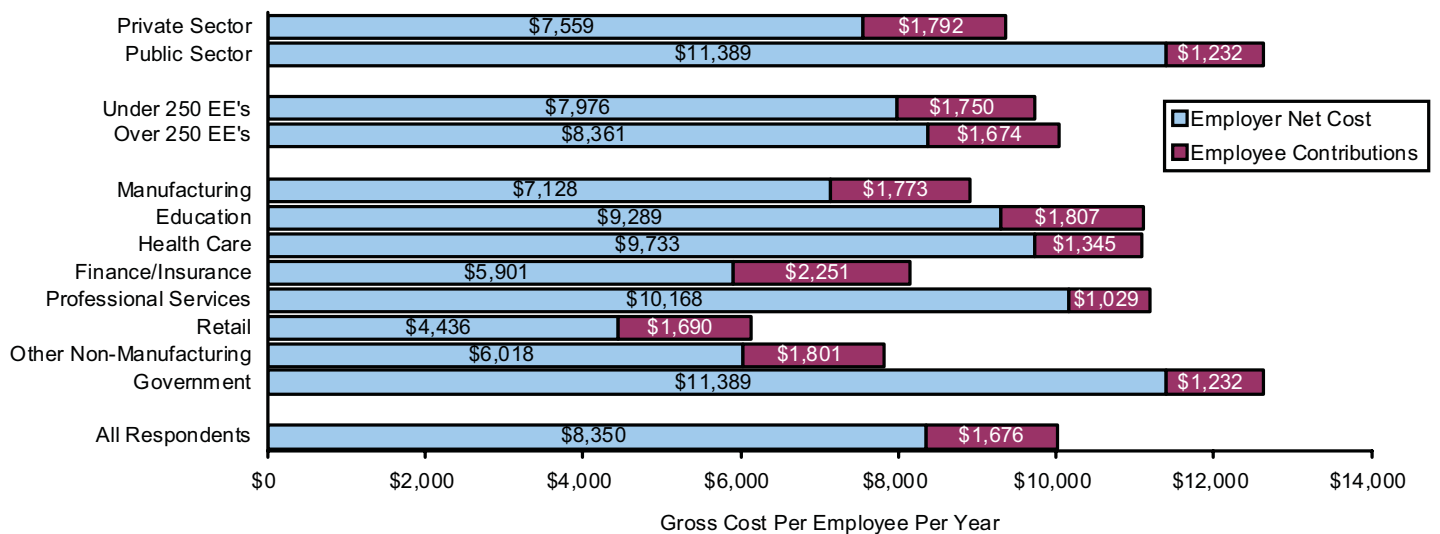


	Average Cost			Percent of Gross Premium		
	Single (Monthly)	Family (Monthly)	Per Employee Per Year	Single	Family	Average Per Employee
Private Sector Employers	\$86	\$195	\$1,792	20%	19%	19%
Public Sector Employers	\$90	\$107	\$1,232	20%	9%	10%
Manufacturing	\$84	\$178	\$1,773	23%	19%	20%
Education	\$83	\$190	\$1,807	17%	16%	16%
Health Care	\$65	\$139	\$1,345	12%	12%	12%
Finance & Insurance	\$112	\$254	\$2,251	29%	27%	28%
Professional Services	\$46	\$108	\$1,029	9%	9%	9%
Retail	\$79	\$285	\$1,806	22%	34%	29%
Other Non-Manufacturing	\$68	\$221	\$1,801	19%	24%	23%
Government	\$90	\$107	\$1,232	20%	9%	10%
Under 250 Employees	\$83	\$186	\$1,750	20%	18%	18%
Over 250 Employees	\$86	\$173	\$1,674	20%	16%	17%
HMO Plans	\$88	\$207	\$1,983	18%	18%	18%
POS Plans	\$101	\$211	\$1,998	26%	22%	23%
PPO Plans	\$86	\$170	\$1,652	20%	16%	17%
Indemnity Plans	\$48	\$48	\$ 572	8%	3%	4%
HDHP Plans	\$25	\$94	\$ 698	8%	11%	10%
Total						
All Respondents	\$86	\$173	\$1,676	20%	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 average public sector net costs are 51% higher than the net cost of the average private sector employer.

Large employers had net costs that were 5% higher than small employers. Within the private sector employers, Retail employers had the lowest net costs by industry type with Professional Services having the highest net costs by industry type.



Plan Design Features

For the fourth 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, HDHP and PPO). We have also provided a breakdown by size of employer and industry for PPO plans. There was not sufficient information to provide an industry or employer size 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	\$10	\$15	\$20	\$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	27%	\$250	27%	\$300	46%

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	\$20	\$25	\$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	78%	\$250	0%	N/A	22%

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	\$400	\$600	\$1,000	60%	70%	70%



HDHP Plans

In-Network Coverage

	Annual Deductible			Coinsurance Amount		
	1 st Quartile	Median	3 rd Quartile	1 st Quartile	Median	3 rd Quartile
All Employers	\$1,300	\$2,000	\$3,000	80%	100%	100%

Out-of-Network Coverage

	Annual Deductible			Coinsurance Amount		
	1 st Quartile	Median	3 rd Quartile	1 st Quartile	Median	3 rd Quartile
All Employers	\$2,200	\$2,500	\$3,000	60%	60%	70%

PPO 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	\$25	\$25
Under 250 Employees	\$10	\$15	\$15	\$10	\$20	\$25
Over 250 Employees	\$15	\$15	\$20	\$20	\$25	\$30
Manufacturing	\$15	\$15	\$15	\$15	\$25	\$25
Education	\$10	\$15	\$15	\$10	\$15	\$25
Health Care	\$15	\$15	\$20	\$15	\$20	\$25
Finance & Insurance	\$15	\$20	\$20	\$25	\$30	\$30
Professional Services	\$15	\$15	\$20	\$25	\$25	\$30
Retail	\$15	\$20	\$20	\$25	\$30	\$30
Other Non-Manufacturing	\$15	\$15	\$20	\$25	\$25	\$30
Government	\$10	\$10	\$15	\$10	\$10	\$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	64%	\$500	7%	\$250	29%
Under 250 Employees	54%	\$500	8%	\$500	38%
Over 250 Employees	69%	\$500	6%	\$250	25%
Manufacturing	71%	\$750	10%	\$250	19%
Education	23%	\$500	8%	\$250	69%
Health Care	44%	\$500	22%	\$500	34%
Finance & Insurance	86%	\$500	0%	N/A	14%
Professional Services	71%	\$500	14%	\$200	14%
Retail	83%	\$500	0%	N/A	17%
Other Non-Manufacturing	74%	\$300	15%	\$375	11%
Government	33%	\$100	0%	N/A	67%



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	\$200	\$450	\$750	70%	80%	80%
Under 250 Employees	\$200	\$250	\$1,000	80%	80%	80%
Over 250 Employees	\$250	\$500	\$750	60%	80%	80%
Manufacturing	\$200	\$500	\$1,000	60%	80%	80%
Education	\$200	\$200	\$500	80%	80%	80%
Health Care	\$250	\$250	\$500	80%	80%	80%
Finance & Insurance	\$250	\$500	\$750	60%	70%	80%
Professional Services	\$250	\$400	\$1,200	70%	70%	80%
Retail	\$1,000	\$2,000	\$2,000	60%	70%	80%
Other Non-Manufacturing	\$250	\$500	\$1,000	70%	80%	80%
Government	\$100	\$200	\$200	80%	80%	80%

Prescription Drug Plans (For All Medical Plan Types)**Type of Coverage**

	Rx Plan Design			
	2 Tier Fixed Copay	3 Tier Fixed Copay	4+ Tier Fixed Copay	Hybrid/Coinsurance
All Employers	1%	72%	1%	26%
Under 250 Employees	5%	91%	2%	2%
Over 250 Employees	0%	64%	0%	36%
Manufacturing	6%	75%	3%	16%
Education	0%	100%	0%	0%
Health Care	0%	85%	0%	15%
Finance & Insurance	0%	37%	0%	63%
Professional Services	0%	57%	0%	43%
Retail	0%	83%	0%	17%
Other Non-Manufacturing	0%	93%	0%	7%
Government	0%	65%	0%	35%

3 Tier Prescription Drug Copays (Retail Only)

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

Prescription Drug Design Trends

Prescription drug benefits have been one of the most dynamic benefits in medical plan design. The following are some of the trends we have noticed in recent years:

- **Coinsurance based Rx plans** – The coinsurance based prescription drug plans vary from a flat coinsurance percentage (i.e., 20% coinsurance for all Rx drugs) to varying the coinsurance percentage by the drug tier (i.e., 10% coinsurance for generic drugs, 20% coinsurance for preferred brand drugs and 35% coinsurance for non-preferred drugs). One advantage 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 may pay 30% of the cost, the plan would only pick up 70% of the increase of the drug cost.
- **Hybrid (copay and coinsurance based) Rx plans** – Hybrid plans provide fixed copay for generics while all other drugs are subject to coinsurance. An example of this would be \$10 copay for generic drugs, 30% coinsurance for preferred brand drugs and 50% coinsurance for non-preferred drugs. This design gives the same benefits of coinsurance-based plans with cost certainty for the more cost effective drugs.
- **Specialty Drugs** – Many plans are now offered on a four-tier basis where specialty drugs are broken out into a separate (and typically higher) copay tier. In addition to the higher copays, specialty drugs are commonly subject to a smaller pharmacy network and a strict case management program. The case management is performed to ensure compliance in administering the medication, measuring outcomes and potentially adjusting dosages. On average, a one-month supply of a specialty drug averages over \$1,500; with specialty drug trends projected at over 20% for the next few years, this is an area of cost containment that employers should consider to effectively manage their drug spending.

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 64% of all covered employees while United covers 31% and all other vendors 5%. 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	116	9	1	104	1	1
Covered Employees	50,699	6,256	17	44,531	40	104
United Healthcare						
Number of Plans	33	2	6	20	0	5
Covered Employees	24,358	80	730	23,573	0	297
Other Vendors						
Number of Plans	8	0	2	5	0	1
Covered Employees	3,635	0	46	3,561	0	28
Total						
Number of Plans	157	11	9	129	1	7
Covered Employees	78,692	6,306	793	71,665	40	429

In total, counting all plans offered by all respondents, 157 medical plans are reflected in the survey. PPO plans were by far the most common type of medical plan (129 of the 157 plans) with 82% of participants enrolled in PPO plans.



Dental Benefits Findings

Dental benefits are offered to employees by 96% of responding employers. Twenty-two of the 69 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, 99 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 \$732 with a range of \$174 to \$1,257. 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 \$54 with an average of \$29 per month.
- Monthly rates for family coverage range from \$23 to \$140 with an average of \$81 per month.
- Gross costs were higher at public sector employers versus private sector employers.
- Small companies (under 250 employees) had higher average rates than large employers.
- Professional Services companies had the highest average rates, followed by Government, Education, Health Care, Other Non-Manufacturing, Finance & Insurance, Manufacturing and Retail.

	Average Monthly Cost		Average Cost
	Single	Family	Per Employee Per Year
Private Sector Employers	\$29	\$81	\$732
Public Sector Employers	\$28	\$79	\$790
Manufacturing	\$24	\$67	\$632
Education	\$30	\$83	\$778
Health Care	\$28	\$85	\$768
Finance & Insurance	\$31	\$82	\$701
Professional Services	\$34	\$90	\$846
Retail	\$24	\$55	\$420
Other Non-Manufacturing	\$33	\$82	\$727
Government	\$28	\$79	\$790
Under 250 Employees	\$27	\$87	\$786
Over 250 Employees	\$29	\$80	\$730
Total			
All Respondents	\$29	\$81	\$732

Employee Contributions for Dental Coverage

A summary of findings:

- PEPY employee contribution costs range from \$0 to \$895, with an average of \$296.
- Monthly employee contributions for single coverage range from \$0 (19 of 99 plans) to \$38 with an average of \$14 per month.
- Monthly employee contribution for family coverage range from \$0 (17 of 99 plans) to \$115 with an average of \$32 per month.
- Of the 99 dental plans, 12 are truly voluntary (where employees pay 100% of dental premium).
- Government has the lowest average employee contribution, followed by Health Care, Retail, Manufacturing, Other Non-Manufacturing, Professional, Education 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	\$14	\$38	\$316	47%	46%	46%
Public Sector Employers	\$12	\$14	\$69	42%	17%	20%
Manufacturing	\$12	\$29	\$301	49%	42%	43%
Education	\$15	\$38	\$277	48%	46%	46%
Health Care	\$6	\$24	\$171	20%	29%	27%
Finance & Insurance	\$21	\$52	\$660	67%	64%	65%
Professional Services	\$13	\$38	\$153	39%	42%	42%
Retail	\$13	\$29	\$235	52%	52%	52%
Other Non-Manufacturing	\$12	\$39	\$381	35%	48%	45%
Government	\$12	\$14	\$69	42%	17%	20%
Under 250 Employees	\$8	\$18	\$289	30%	21%	22%
Over 250 Employees	\$14	\$32	\$317	47%	40%	41%
Total						
All Respondents	\$14	\$32	\$265	47%	39%	40%

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	
Private Sector Employers	\$0	\$0	\$50	\$1,200	\$1,200	\$1,500	50%
Public Sector Employers	\$0	\$0	\$25	\$1,100	\$1,200	\$1,600	100%
Manufacturing	\$0	\$25	\$50	\$1,000	\$1,200	\$1,200	62%
Education	\$0	\$50	\$50	\$1,100	\$1,500	\$1,500	33%
Health Care	\$0	\$0	\$50	\$1,000	\$1,200	\$1,200	60%
Finance & Insurance	\$0	\$25	\$50	\$1,000	\$1,350	\$2,000	82%
Professional Services	\$0	\$50	\$50	\$1,000	\$1,200	\$1,200	40%
Retail	\$50	\$50	\$50	\$1,000	\$1,200	\$1,500	50%
Other Non-Manufacturing	\$0	\$25	\$50	\$1,200	\$1,250	\$1,500	58%
Government	\$0	\$0	\$25	\$1,100	\$1,200	\$1,600	100%
Under 250 Employees	\$0	\$0	\$50	\$1,200	\$1,200	\$1,200	50%
Over 250 Employees	\$0	\$25	\$50	\$1,000	\$1,250	\$1,500	67%
Total							
All Employers	\$0	\$0	\$50	\$1,200	\$1,200	\$1,500	60%



Coinsurance by Type of Service

	Preventive Services (Type I)			Basic Restorative Services (Type II)			Major Restorative Services (Type III)		
	1 st Quartile	Median	3 rd Quartile	1 st Quartile	Median	3 rd Quartile	1 st Quartile	Median	3 rd Quartile
Private Sector Employers	100%	100%	100%	80%	80%	100%	50%	50%	50%
Public Sector Employers	100%	100%	100%	50%	80%	90%	50%	50%	50%
Manufacturing	100%	100%	100%	80%	80%	80%	50%	50%	50%
Education	100%	100%	100%	80%	80%	80%	50%	50%	50%
Health Care	100%	100%	100%	80%	100%	100%	50%	50%	100%
Finance & Insurance	100%	100%	100%	80%	80%	100%	50%	50%	50%
Professional Services	100%	100%	100%	80%	80%	80%	50%	50%	80%
Retail	100%	100%	100%	50%	75%	80%	50%	50%	50%
Other Non-Manufacturing	100%	100%	100%	80%	80%	100%	50%	50%	50%
Government	100%	100%	100%	50%	80%	90%	50%	50%	80%
Under 250 Employees	100%	100%	100%	80%	90%	100%	50%	50%	50%
Over 250 Employees	100%	100%	100%	80%	80%	80%	50%	50%	50%
Total									
All Employers	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
Delta Dental of RI			
Number of Plans	76	76	0
Number of Covered Employees	71,938	71,938	0
Blue Cross Blue Shield of RI			
Number of Plans	14	14	0
Number of Covered Employees	4,749	4,749	0
Other Vendors			
Number of Plans	9	6	3
Number of Covered Employees	1,369	3,686	289
Total			
Number of Plans	99	96	3
Number of Covered Employees	80,662	80,373	289



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 (79%).

	Offer Basic Life Insurance	Offer Basic AD&D
All Employers	89%	85%
Under 250 Employees	79%	79%
Over 250 Employees	95%	88%

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					Salaried Employees / Executives				
	Flat Dollar Benefit		Multiple of Salary Benefit			Flat Dollar Benefit		Multiple of Salary Benefit		
	% of Plans	Median Benefit	% of Plans	Median Multiple of Salary	Median Max Benefit	% of Plans	Median Benefit	% of Plans	Median Multiple of Salary	Median Max Benefit
All Employers	22%	\$26,000	78%	2X Salary	\$360,000	13%	\$50,000	87%	2X Salary	\$400,000
Under 250 Employees	42%	\$50,000	58%	2X Salary	\$250,000	35%	\$50,000	65%	2X Salary	\$250,000
Over 250 Employees	11%	\$26,000	89%	2X Salary	\$420,000	3%	\$30,000	97%	2X Salary	\$420,000

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":

	Basic Life Rate			Basic AD&D Rate		
	1 st Quartile	Median	3 rd Quartile	1 st Quartile	Median	3 rd Quartile
All Employers	\$0.120	\$0.190	\$0.230	\$0.020	\$0.020	\$0.030
Under 250 Employees	\$0.160	\$0.220	\$0.260	\$0.020	\$0.025	\$0.030
Over 250 Employees	\$0.100	\$0.153	\$0.195	\$0.020	\$0.020	\$0.026

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	62%	48%	37%
Under 250 Employees	43%	21%	29%
Over 250 Employees	74%	65%	42%



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 82% 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	82%	70%	25%
Under 250 Employees	64%	54%	18%
Over 250 Employees	93%	81%	30%

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

	Hourly Employees				Salaried Employees / Executives			
	Median Benefit Percentage	Median Maximum Monthly Benefit	Median Elimination Period	Median Benefit Duration *	Median Benefit Percentage	Median Maximum Monthly Benefit	Median Elimination Period	Median Benefit Duration *
All Employers	60%	\$6,500	180 days	24 months	60%	\$7,500	180 days	24 months
Under 250 Employees	60%	\$5,500	180 days	24 months	60%	\$6,000	180 days	24 months
Over 250 Employees	60%	\$7,500	180 days	24 months	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. Surprisingly, this year's data shows that small employers have slightly lower average rates. The following table gives the basic LTD monthly rate information shown "per \$100 of covered monthly payroll".

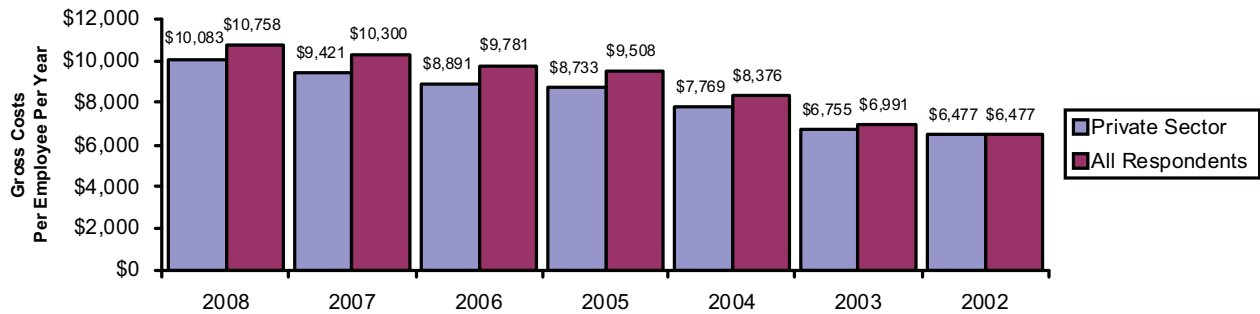
	Basic LTD Rate		
	1 st Quartile	Median	3 rd Quartile
All Employers	\$0.260	\$0.320	\$0.610
Under 250 Employees	\$0.265	\$0.310	\$0.610
Over 250 Employees	\$0.253	\$0.336	\$0.585



Rhode Island Cost Comparison 2002 – 2008

Medical and Dental Benefit Cost Comparison

This is the seventh year we have conducted this survey. As a result, we are now able to provide a seven-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 seven 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.



	2008	2007	2006	2005	2004	2003	2002
All Respondents							
Gross Costs PEPY	\$10,758	\$10,300	\$9,781	\$9,508	\$8,376	\$6,991	\$6,477
% Change (from Previous Year)	+4%	+5%	+3%	+14%	+20%	+8%	N/A
Private Sector							
Gross Costs PEPY	\$10,083	\$9,421	\$8,891	\$8,733	\$7,769	\$6,755	\$6,477
% Change (from Previous Year)	+7%	+6%	+2%	+12%	+15%	+4%	N/A

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. Also, Professional Services was added as a category in 2005 and Retail was added as a category in 2007.

	2008	2007	2006	2005	2004	2003	2002
Manufacturing	\$9,533	\$9,279	\$8,929	\$8,194	\$7,615	\$7,091	\$6,624
Education	\$11,874	\$11,377	\$10,106	\$9,633	\$8,242	\$7,776	N/A
Health Care	\$11,846	\$11,245	\$10,532	\$9,701	\$8,626	\$7,671	N/A
Finance & Insurance	\$8,853	\$8,314	\$7,747	\$8,054	\$6,967	\$5,893	N/A
Professional Services	\$12,043	\$5,843	\$9,848	\$11,746	N/A	N/A	N/A
Retail	\$6,662	\$6,482	N/A	N/A	N/A	N/A	N/A
Other Non-Manufacturing	\$8,546	\$10,919	\$9,200	\$7,975	\$8,511	\$6,122	\$6,310
Government	\$13,411	\$13,487	\$12,481	\$11,303	\$9,951	\$9,062	N/A



Medical Benefit Cost Comparison by Plan Type

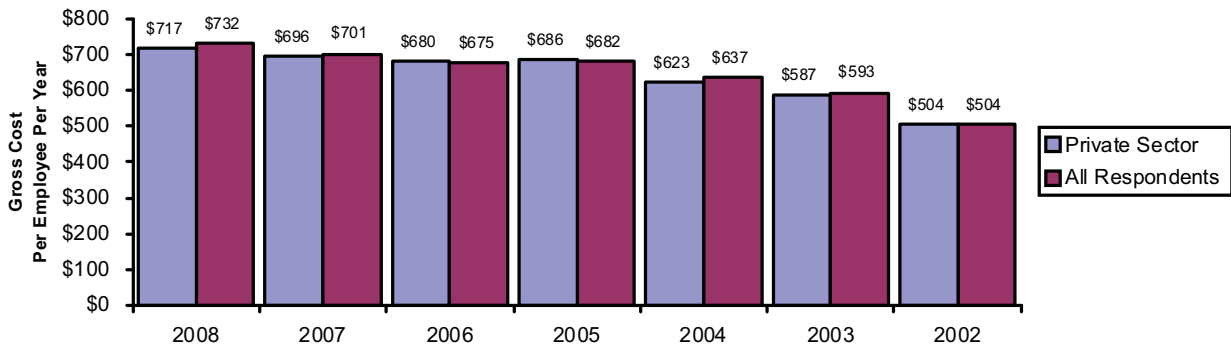
From 2007 to 2008, costs for HMO plans increased 10.1%, while POS plans increased 12.3% and PPO plans increased 4.1%. When we look at the six-year change increase for the period of 2002 to 2008, the results are dramatic: HMO plans increased 87%, POS plans increased 58% and PPO plans increased 63% over the six-year period.

	2008	2007	2006	2005	2004	2003	2002
HMO	\$10,945	\$9,946	\$9,077	\$8,743	\$7,454	\$6,323	\$5,862
POS	\$8,666	\$7,715	\$7,491	\$7,492	\$6,405	\$6,393	\$5,478
PPO	\$9,976	\$9,583	\$9,023	\$8,859	\$8,421	\$6,398	\$6,114
Indemnity	\$15,895	\$10,662	ID	\$11,003	\$10,451	\$8,055	\$7,084
HDHP	\$6,773	\$5,423	ID	ID	ID	ID	ID

ID indicates insufficient data.

Dental Benefit Cost Comparison

In 2008, our results showed that dental costs increased 4% and 3% 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 Monthly Employee Contribution Comparison – Single Coverage

	2008	2007	2006	2005	2004	2003	2002
All Plans	\$92	\$88	\$82	\$67	\$71	\$69	\$55
Under 250 Employees	\$92	\$119	\$102	\$91	\$88	\$79	\$67
Over 250 Employees	\$92	\$87	\$81	\$66	\$70	\$67	\$51

Medical Monthly Employee Contribution Comparison – Family Coverage

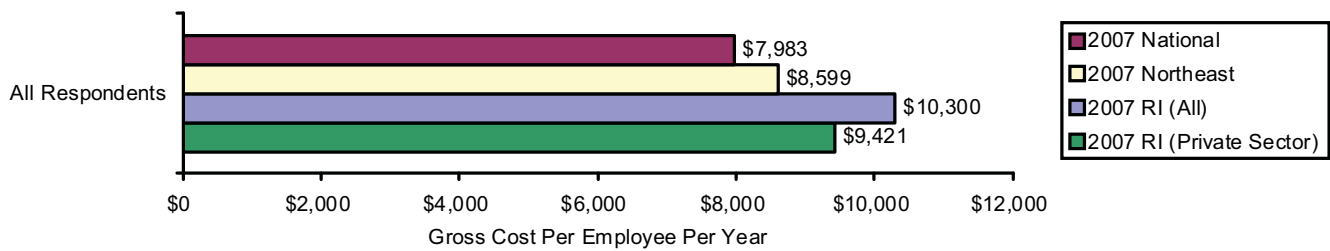
	2008	2007	2006	2005	2004	2003	2002
All Plans	\$180	\$181	\$170	\$150	\$171	\$156	\$182
Under 250 Employees	\$199	\$329	\$276	\$260	\$260	\$184	\$215
Over 250 Employees	\$179	\$179	\$168	\$146	\$166	\$153	\$159



National Cost Comparison – 2007

Medical and Dental Benefit Cost Comparison

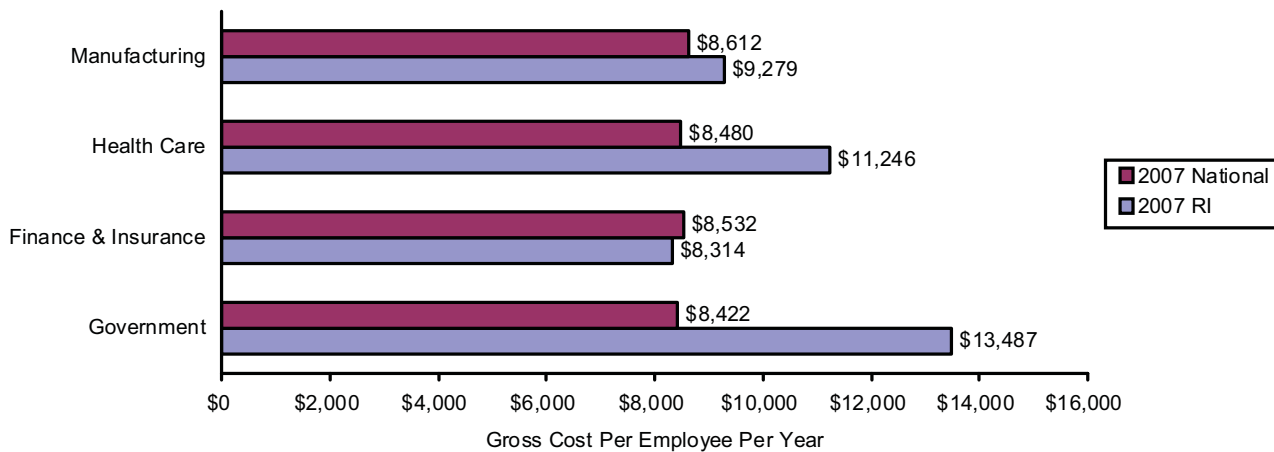
While it is interesting to compare Rhode Island area cost data to historic Rhode Island area cost data, we believe that it is also important to benchmark our local Rhode Island area costs against national and regional averages. National and regional cost data have been drawn from the *Mercer National Survey of Employer-Sponsored Health Plans 2007*. 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 2007 Rhode Island averages (for all employers) are 29% higher than the national average and 20% higher than the northeast average. While the average Rhode Island costs are inflated by the inclusion of the public sector, this trend exists even when we isolate the private sector employers. The 2007 Rhode Island private sector averages are 18% higher than the national average and 10% higher than the Northeast regional average.

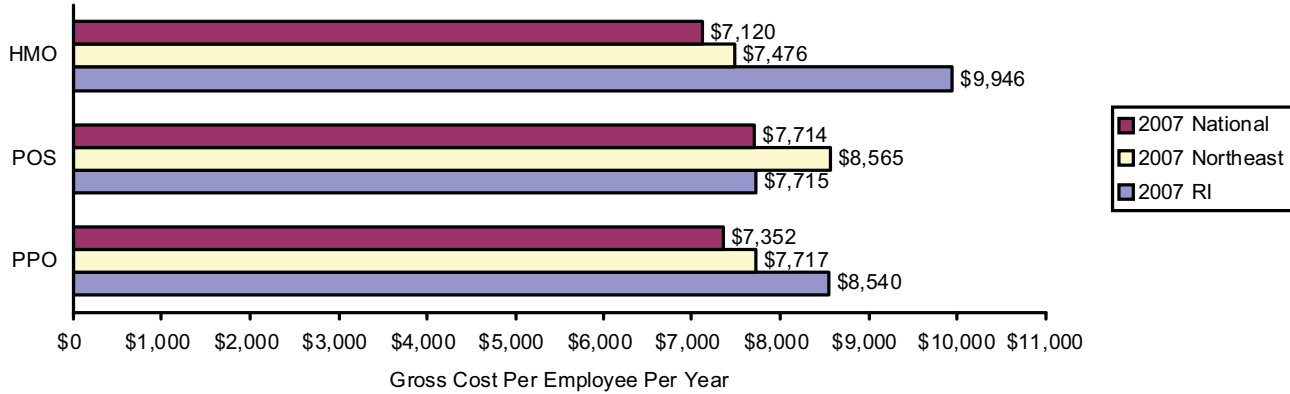
Medical and Dental Benefit Cost Comparison by Industry

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 2007 national cost breakdown from Mercer is not provided for Education, Professional Services and Other Non-Manufacturing.



Medical Cost Comparison by Plan Type

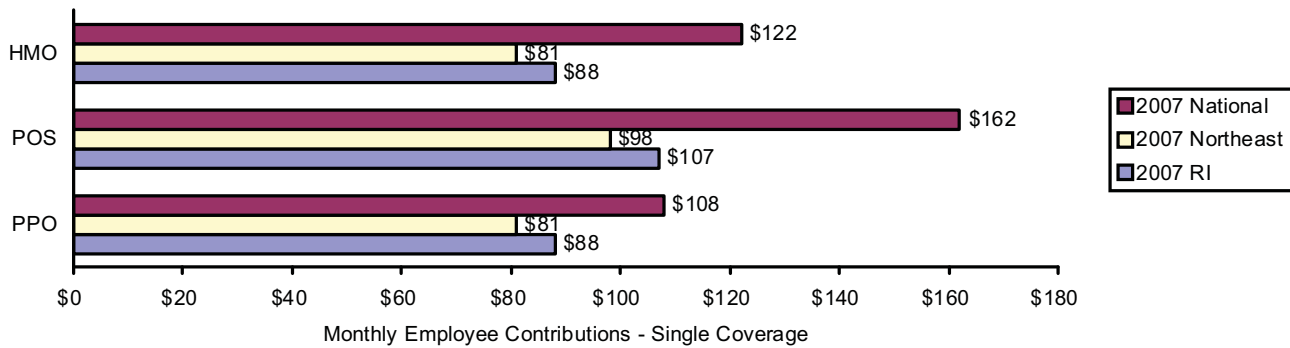
One of the more dramatic findings of this survey is the disparity in costs by plan type. Rhode Island employers' average 2007 HMO costs were 40% higher than the national average and 33% higher than the Northeast regional average. Similarly, Rhode Island employers' average 2007 PPO costs were 16% higher than the national average and 11% higher than the Northeast regional average.



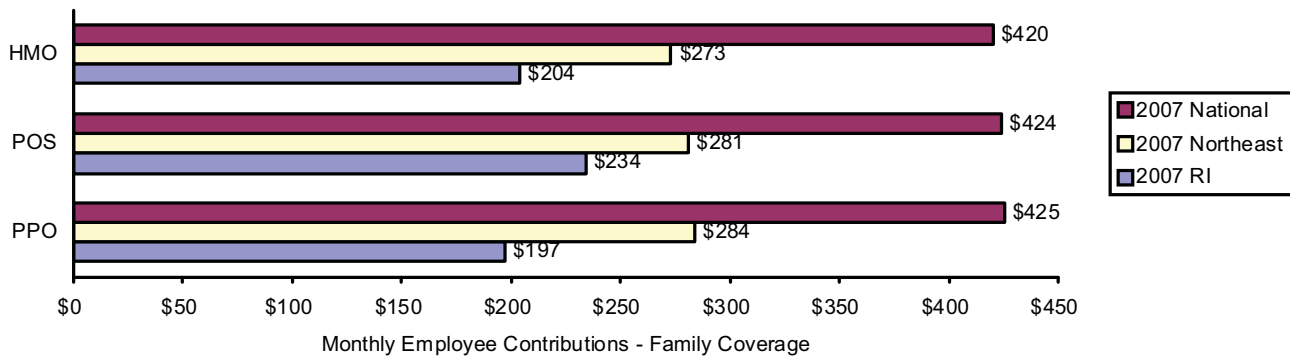
Employee Contribution Comparison

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)



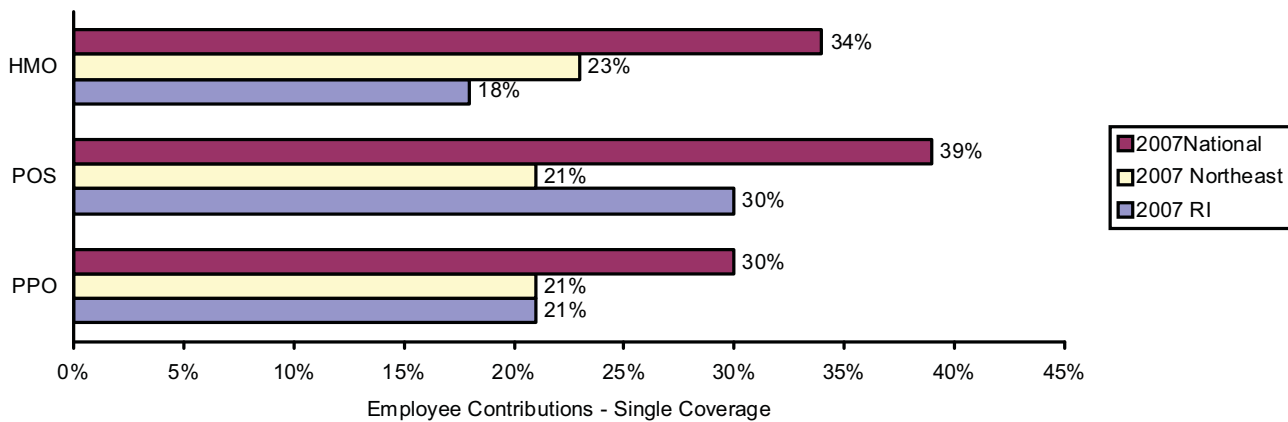
Medical Employee Contribution Comparison, by Plan Type (Family Coverage)



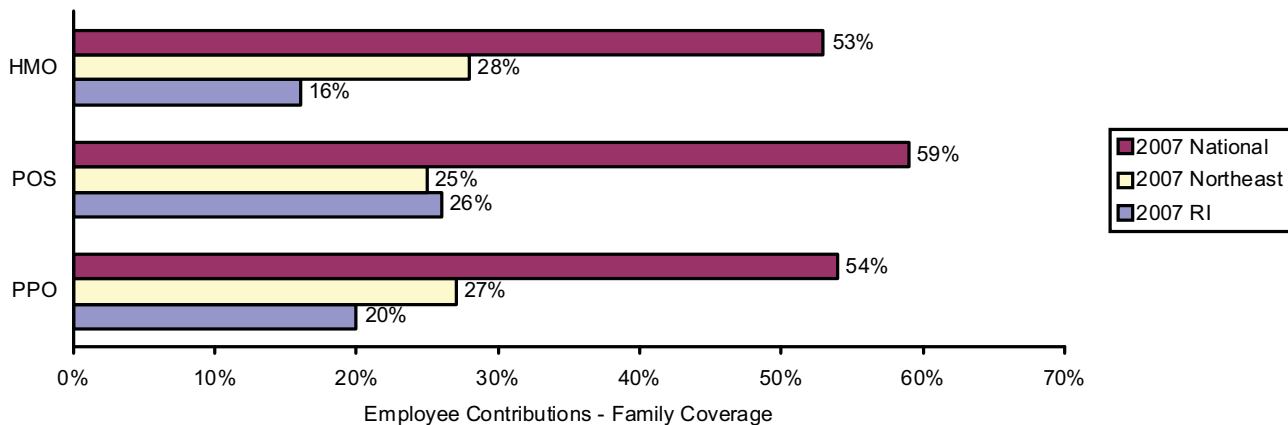
Employee contributions vary widely locally, regionally and nationally. The previous two charts detail the average employee contributions by plan type for single and family coverage. In all cases, Rhode Island employee contributions are below the national averages in 2007. Comparing Rhode Island against regional averages, costs are slightly higher than the regional averages for single coverage in 2007, whereas costs are considerably lower than the regional averages for family coverage in 2007. 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 premiums being lower than national and regional averages in most categories. Please keep in mind when reviewing the following charts that POS enrollment in Rhode Island is very limited. In 2007, only 582 employees were covered by a POS plan. This compares against 7,610 enrollees in HMO plans and 59,136 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		
	2008 vs. 2007	2007 vs. 2006	2006 vs. 2005	2008 vs. 2007	2007 vs. 2006	2006 vs. 2005
All Respondents	8.1%	9.7%	8.1%	5.8%	5.2%	4.1%
Manufacturing	8.1%	7.9%	5.6%	5.1%	5.6%	5.6%
Education	12.7%	9.9%	13.2%	5.7%	6.0%	3.6%
Health Care	9.0%	10.6%	6.0%	5.5%	3.3%	.2%
Finance & Insurance	6.0%	11.7%	8.5%	6.6%	6.3%	6.0%
Professional Services	7.5%	6.0%	7.3%	3.7%	3.5%	3.3%
Retail	5.5%	20.3%	2.4%	ID	ID	ID
Other Non-Manufacturing	8.0%	9.8%	9.1%	7.2%	4.3%	1.7%
Under 250 Employees	9.5%	11.6%	8.6%	7.1%	5.4%	4.5%
Over 250 Employees	6.9%	8.1%	7.7%	4.7%	5.2%	3.8%

ID indicates insufficient data.

Steps Taken to Control Costs

The most common methods to control employer costs include increasing employee contributions and changing benefits.

	Within Last Year	Within Last 3 Years
Changed Carriers	15%	44%
Changed Benefits	40%	63%
Eliminated Benefits	7%	16%
Increased Employee Contributions	58%	77%
Implemented Consumer Driven Health Plan	8%	10%

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	23%	62%	15%	0%
Lack of competitive carriers offering group health insurance	67%	29%	3%	1%
An inefficient and wasteful bureaucracy	45%	48%	7%	0%
Doctors are making too much money	9%	28%	55%	8%
Prescription drug manufacturers are making too much money	54%	40%	6%	0%
Cost sharing from government plans (Medicare, Medicaid, etc.)	21%	56%	21%	2%



Employee Understanding of Cost Environment

Only 38% 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
38%	48%	14%

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.

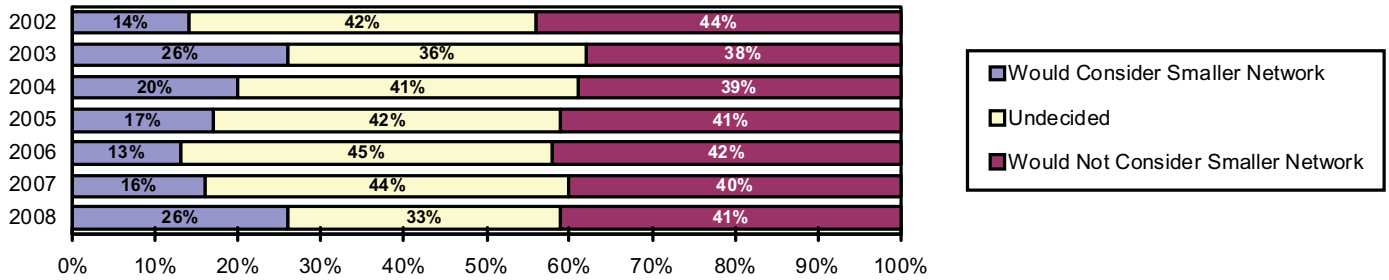
Yes	No	Undecided
87%	3%	10%

Small Network Plans Not Desirable

When asked, “Would you consider a health plan option that offered lower costs but had fewer participating providers?” only 26% of employers indicated that they would. 41% would not consider a smaller network at a lower cost, while 33% were undecided.

Yes	No	Undecided
26%	41%	33%

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:



Wellness Programs

Employers have tried many different ways to control healthcare costs. One of the growing trends toward controlling costs are the implementation of wellness programs. The results from our 2007 survey indicated that 59% of respondents had added a wellness program to their benefits plan within the previous three years. Due to this significant finding, we decided to further explore this trend by gathering additional information on wellness programs in our 2008 survey.

In the Rhode Island area, 74% of respondents offer a wellness program as part of their overall health & welfare plan. The extent of these wellness programs vary greatly from company to company. The most common wellness initiatives offered by more than half of all respondents include flu shots (93%), Health Risk Assessments (69%), Health Fairs (59%) and Lifestyle Classes (50%).

	Percentage with Wellness Programs	Of Those with Wellness Programs, Percentage with the Following Features:								
		Health Risk Appraisal	Flu Shot	Fitness Center	Smoking Cessation Program	Disease Management	Health Coach	Health Fairs	Lifestyle Classes	Weight Loss
Manufacturing	78%	71%	93%	21%	21%	29%	21%	57%	71%	29%
Education	86%	83%	100%	67%	33%	33%	0%	83%	67%	50%
Health Care	86%	67%	100%	33%	83%	50%	17%	50%	50%	67%
Finance & Insurance	100%	63%	88%	63%	13%	25%	13%	50%	25%	25%
Professional Services	40%	Insufficient Data								
Retail	33%	Insufficient Data								
Other Non-Manufacturing	56%	50%	90%	50%	30%	10%	30%	40%	20%	30%
Government	100%	86%	86%	29%	57%	29%	29%	71%	57%	57%
Total										
All Respondents	74%	69%	93%	44%	39%	28%	22%	59%	50%	43%

Participation

Of those organizations that reported a known participation level in the wellness programs (nearly half of respondents who offered wellness programs), the rate was almost one-third (32%) of their eligible workforce varying from a low of 2% to a high of 95%.

Return on Investment

Results on these initiatives are difficult to quantify. The two main areas with expected improvements are reduced paid time off and lower medical claim costs. Regarding paid time off, nearly 80% of respondents offering a wellness program were unsure if it had a positive impact on absenteeism while 70% of respondents were also unclear if short term disability occurrences had been reduced.



There were mixed results pertaining to healthcare costs. When companies with wellness programs were compared to those without programs the healthcare cost trend (average rate increase) was significantly less for those with wellness programs in place. The difference was an average increase in 2008 of 7.3% for those with wellness programs versus 9.8% for those without wellness programs. When we isolate this to large companies (which typically have their own claim experience factor into a significant portion of their rates), the difference is even greater. The average increase from 2007 to 2008 was 6.1% for Large Employers with wellness programs versus 10.9% for Large Employers without wellness programs.

However, the actual healthcare cost for plans with wellness programs was significantly higher than those without wellness programs (\$10,096 PEPY for those with wellness programs versus \$8,980 for those without wellness programs). There are many factors that may affect this finding including plan design, demographics of group, dependent concentration, etc.

Carrots and Sticks

Employers electing to implement wellness programs frequently choose to incent participation in the wellness programs. They can do it where they reward participation (the “carrot” approach) and/or penalize non-participation (the “stick” approach). Using the “carrot” approach, nearly half (47%) of respondents offered rewards for participation such as gift cards or additional paid time off. However, not as many respondents offered incentives through the “stick” approach. The vast majority of employers offering wellness programs did not offer employee contribution incentives to participating employees (87%) and were not considering doing so at the time of the survey (62%).

Objective of Wellness Programs

In terms of the objective in implementing a wellness programs, the most popular responses were “reducing healthcare costs” and “improving workplace safety” with very important responses of 67% and 60% respectively. Other objectives considered very important include workforce morale (57%), reducing absenteeism (57%), worker productivity (51%) and attracting/retaining employees (48%).

	Very Important	Important	Not Very Important	Not At All Important
Improving workforce morale	57%	39%	2%	0%
Improving worker productivity	51%	43%	4%	0%
Reducing employee absences due to sickness or disability	57%	39%	2%	0%
Attracting and retaining employees	48%	42%	10%	0%
Reducing health care costs	67%	33%	0%	0%
Improving workplace safety	60%	36%	4%	0%
Promoting corporate image or brand	26%	54%	18%	2%
Fulfilling social responsibility	35%	55%	10%	0%

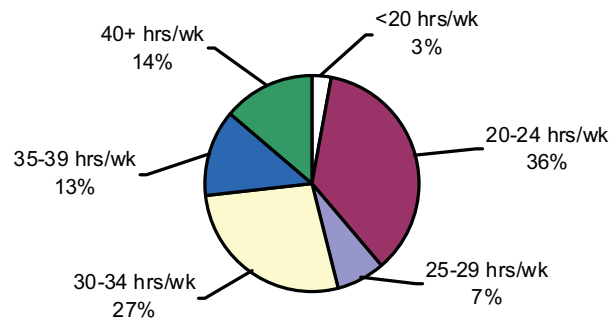


Additional Findings: Eligibility & Benefit Innovations

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 define “full time”. The majority of employers utilize a 20-24 hour minimum per week (36%) or a 30-34 hour minimum per week (27%) 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	67%	21%	70%	4%	4%	10%
Under 250 Employees	43%	26%	46%	3%	7%	7%
Over 250 Employees	82%	20%	84%	4%	2%	11%

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, 43% of our survey respondents indicated that they offer medical waiver credit. For those employers who offer medical credits, they range from a low of \$240 per year to a high of \$9,000 per year, with a median waiver credit of \$1,150. Dental waiver credits are less popular with only 13% of employers offering them. Of those, the median dental waiver credit is \$135 per year.

	Offer Medical Waiver Credit	Offer Dental Waiver Credit
All Employers	43%	13%
Under 250 Employees	39%	7%
Over 250 Employees	44%	14%



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.

	Offer Domestic Partner Coverage	Do not offer Domestic Partner Coverage
All Employers	59%	39%
Under 250 Employees	43%	57%
Over 250 Employees	71%	29%

The first table shows the prevalence of domestic partner coverage (any type) while the second table shows the type of domestic partner coverage that is offered for those employers that extend domestic partner benefits.

	Same Sex Partner Only	Opposite Sex Partner Only	Any Domestic Partner
All Employers	17%	10%	73%
Under 250 Employees	0%	4%	39%
Over 250 Employees	16%	7%	48%

Self Insurance

As employers search for ways to control benefit costs, we are observing a growing 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 less prevalent in the Rhode Island area than it is in other parts of the nation. 51% 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%	32%
Under 250 Employees	18%	19%
Over 250 Employees	51%	40%

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.



Survey Overview and Methodology

The 2008 Rhode Island Area Health & Welfare Benefits Survey was mailed in February 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 in any given area represent only those companies providing the necessary data to make a complete calculation in that particular aspect of the survey.

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 portion 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 2008.

Our comparison of Rhode Island area plans to national and regional averages (as provided in the *Mercer National Survey of Employer-Sponsored Health Plans 2007*) 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 offered to reimburse qualified expenses for health care, dependent care and/or transportation. Under current IRS law, 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 where the employer 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 employees cannot take HRA money with them). The IRS-qualified HDHP requirement does not apply to HRA's.
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. Available to individuals covered by a high deductible health plan (HDHP), 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. The IRS requires that a qualified HDHP be offered to those wanting to participate in a HSA.
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 Program	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 2008 Rhode Island Area Health & Welfare Benefits Survey. Respondents were given the option not to be listed.

AAA Southern New England	Johnson & Wales University
American Mathematical Society	KVH Industries, Inc.
Amtrol, Inc.	Lifespan Corporate Services
A. T. Cross Company	Lighthouse Computer Services, Inc.
Bank RI	Maguire Group Inc.
Beacon Mutual Insurance Company	Mahr Federal
Bethany Home of RI	Memorial Hospital of RI
Blue Cross Blue Shield of Rhode Island	Modine Manufacturing Co.
Bluff Head Enterprises, Inc.	The Moore Company
Brown University	Newport Harbor Corporation
Bryant University	Nortek, Inc.
Capco Steel, Inc.	North Safety Products
Care New England	Nulco Manufacturing Corp.
Carousel Industries	Ocean State Job Lot
Child and Family Services	On Semiconductor
Citizens Financial Group, Inc.	Point Judith Country Club
City of Newport	Providence College
City of Warwick	Providence Metalizing Co.
Conanicut Marine Services, Inc.	Providence Mutual Fire Insurance Co.
Concordia Manufacturing LLC	Providence Washington Insurance Solutions
Cox Communications	Rhode Island Economic Development Corp.
Cranston Print Works Company	Rhode Island Hospital
CVS	Rhode Island Medical Imaging
Delta Dental of Rhode Island	Salve Regina University
Douglas Lumber	South County Hospital
Dryvit Systems, Inc.	Southcoast Hospitals Group
Gilbane Building Company	St. Mary Academy-Bay View
GTECH Corporation	State of Rhode Island
Hasbro, Inc.	Teknor Apex, Inc.
Hexagon Metrology, Inc.	Thielsch Engineering, Inc.
Home Loan Investment Bank	Toray Plastics (America) Inc.
Hope Global	Town of Lincoln
Insurance Reconstruction Services	Town of North Kingstown
J.H. Lynch & Sons, Inc.	Town of Smithfield
Janco	TradeSource, Inc.



Bluff Head Enterprises is an independent benefit consulting firm based in Wakefield, RI. We have been serving Rhode Island area employers since 1992 and our two principals have 40 years of combined consulting experience serving both local and national clients.

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Here at BHE, we are honest, knowledgeable and hard working. We represent our clients' interests aggressively and exclusively, and are committed to delivering the highest quality service.



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