

Employer-Backed Medical Benefits Will Average \$10K Next Year

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U.S. employers will see medical benefit expenditures increase 7% in 2010, pushing the average annual per-employee costs for healthcare across the \$10,000 threshold, according to Towers Perrin's annual Health Care Cost Survey.

The survey is also projecting components under consideration in healthcare reform legislation—such as an excise tax on so-called Cadillac health plans—could potentially increase the cost burden for employers, who will pass those additional costs to employees, exacerbating the affordability gap.

The 7% rise in 2010 marks the sixth consecutive year of single-digit percentage increases, but it also means record-high costs for both employees and employers. While employers will continue to fund 78% of the cost of the benefits in 2010, employee premium contributions, on average, will rise by 10%, or just more than \$200 next year. The increase for employees was 8% in 2009. This additional burden is exacerbated by indirect cost shifting through benefit design changes, such as increased copayments and other out-of-pocket expenses, which add to the overall employee cost.

"For employees, the affordability challenges associated with this year's cost increases are even more acute than the general survey numbers suggest," says Dave Guilmette, managing director of the Towers Perrin Health and Welfare practice. "The cost-shifting actions employers are taking for 2010 are consistent with what's been done in years past, which is surprising in an economy where bigger shifts might be expected."

Guilmette says the increased employee cost in healthcare is part of a triple whammy for workers who also face flat or declining wages, and reduced 401(k) matches and balances. "The financial hardship associated with rising employee costs is top of mind—and not sustainable for many people," he says.

The Towers Perrin 2010 survey includes data on health benefits provided by 300 of the nation's largest employers, which total 5.2 million employees and their dependents, who collectively spend \$29.4 billion on healthcare every year. The average reported cost of medical coverage is \$5,124 annually (\$427 per month) for active employee-only coverage, \$10,500 annually (\$875 per month) for employee-plus-one-dependent coverage, and \$15,084 annually (\$1,257 per month) for family coverage.

The excise tax on Cadillac plans, which has been under consideration in the Senate, would apply, beginning in 2013, to health programs with combined coverages—medical, dental, vision, flexible spending accounts, etc.—valued at more than \$8,000 per year for individuals and \$21,000 for families. More than 50% of companies in the Towers Perrin survey will hit the caps within the next three years if current cost trends continue, and the impact of the caps will increase over time, even with indexing on the tax thresholds after 2013.

"Given that employer healthcare costs have increased approximately 150% over the last decade, it's not surprising that companies are nervous about reform efforts with the potential to increase costs even further," Guilmette says. "In fact, our recent healthcare reform survey found that nearly half of employers believe that a pay-or-play mandate would have a negative impact on their business."

The Towers Perrin study found that only 11% of companies were willing to absorb higher healthcare costs by accepting reduced profits. For many of them, any reform-related cost increases would result in benefit cuts—and higher costs for employees and even customers.

The survey found growing support among businesses for account-based health plans, also called consumer-directed health plans, which have lower actuarial value than traditional health plans and could help employers delay hitting excise tax cap limits by up to two years. Employer adoption of ABHPs has risen significantly over the last five years, from 20% to 60% of companies.

Premium costs for a traditional ABHP are \$8,927 per employee annually, which is 13% less than the average traditional plan and unused account funds roll forward to defray future out-of-pocket costs. And as noted, the lower cost of these plans also provides employers with a solution to hold family benefit values below the proposed \$21,000 excise tax cap.

The 2010 survey data reinforce a consistently significant difference between healthcare costs facing high- and low-performing employers, with high performers paying 16% less—roughly \$1,800 per employee—for their health benefit programs.

"In the current healthcare reform environment, high performers' benefit management decisions would actually buy them significantly more time before they hit the proposed excise tax cap," says Ron Fontanetta, Towers Perrin principal. "And when combined with an ABHP, the cost advantage means high performers would be able to insulate themselves from the excise tax cap by four more years than their low-performing peers. High performers are poised to take full advantage of this benefit: Approximately two-thirds (67%) of these companies offer ABHPs, compared with just 40% of low performers."

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[Back](#)