Special Advertising Section

Employee Benefits

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Benefit Trends: Change Is Now Constant

By Dallas L. Salisbury,
Employee Benefit Research Institute

To set the backdrop for the forces at work today in employee benefits, consider this statement by a president of one firm listed in the Dow Jones Industrial Average. In a recent PBS interview, he said, "We no longer view ourselves as an American company; we act as a global company in all of our decision-making."

Executives of two other DJIA firms recently pointed out in presentations that "less than half of our workforce is now in the United States — but 95 percent of our health care costs are."

The globalization of business and benefits, along with various other trends, has major implications for managers in the private sector and government, as well as workers and their families.

These large corporations and other S&P 500 companies have been at the vanguard of changes in health insurance and retirement programs since at least World War II, and they are still plowing new ground today. Recent developments include the shift from traditional defined benefit pensions to 401(k)-type retirement plans, and the growth of new consumer-focused health plans as a way to control health-benefit costs. The largest employers in the private sector essentially set the ground rules for the role that benefits will play in the "total rewards" packages (salary and benefits) of all employers in the nation.

Put another way, firms that now account for less than 15 percent of all employment set the tone for all other employers that offer benefits. These are firms whose new workforce growth comes from outside the United States, not within. Thus, total compensation costs and tax/social benefit structures outside the United States play an increasingly dominant role in the benefits that American workers receive.

There is no reason whatever to believe this influence by multinational employers will change in the decades ahead. The globalization of business and benefits, along with various other trends, has major implications for managers in the private sector and government, as well as workers and their families.

Global Events Shape Domestic Trends

We are now fully into an age when events outside the U.S. labor market and economy are the primary driver of benefit and compensation trends within our borders.

For instance, the campaign debate over the North American Free Trade Agreement (NAFTA) and free trade in general is in part about requiring other nations to spend more on total worker rewards. This would allow the United States to maintain more valuable benefits, rather than continue the current declining trend. To the extent that effort fails, the decline in U.S. benefits is almost certain to persist.

It's been said there's no turning back the clock on globalization, even if we wanted to. That's true for several reasons of our own making:

- Most of the U.S. manufacturing base is now gone.
- We depend to a perilous extent on energy from other nations.
- We depend to an even more dangerous extent on other nations to finance our ever-growing national debt.
- Major American employers now depend on overseas hiring to fill their technical and specialized talent needs because of limitations of the U.S. educational system and its graduates; domestic security and immigration restrictions; the pace of technological innovation; and today's fully wired/wireless/24-7 business world. Put another way, there are not enough qualified Americans to meet the demand for skilled workers in a knowledge-based economy, even among American employers.

America: Going Its Own Way

The central difference between the United States and other nations when it comes to health, retirement and welfare benefits is the relative role of institutions (in both the public and private sectors) versus individuals.

Nearly every other developed nation relies upon some form of national health insurance and social security to meet individual health and retirement needs. As a result, tax levels in most of these nations (European countries being the prime example) are far higher than in the United States. Among the other major differences between these two approaches:

- These foreign public programs have constrained health care spending to levels that are less than half of those here in the United States, through aggressive regulation of health technology and utilization.
- These foreign retirement programs have generally promised and provided much higher social security benefit levels than the United States because they never sought to develop private pension systems, which in this country are intended to fill the gap for all but the lowest-income workers when they reach retirement.
- Research in other developed nations shows a strong general public commitment to "community" obligations, as opposed to the general desire for "individual choice and control with a safety net" that continues to be dominant in the United States.

This has led to some inherent contradictions in the way Americans view their health care system. Even as public demand grows for universal health coverage, most Americans say they still want their employer involved in their health benefits. Most surveys also find that employers prefer their continued involvement over a government takeover of health insurance, despite the ever-growing costs and complexity. Whether it be the American worker or employer, control is something that almost everyone continues to cherish.

Live for Today, Trouble for Tomorrow

Regardless of how workers get their benefits, a major obstacle to retirement security in America is the way individuals have embraced the constant call to spend and borrow. We are indeed a credit nation: Consumer purchases — which is to say living for the moment and using plastic or home equity credit to do it — have been the driver of U.S. economic growth for decades. In the view of some, the politics of fear in the wake of 9/11 have only reinforced the ability to rationalize debt-based gratification over savings and delayed consumption, both on individual and government levels.

The largest employers in the private sector essentially set the ground rules for the role that benefits will play in the "total rewards" packages (salary and benefits) of all employers in the nation.

With the United States now in what some are labeling a recession and home prices declining, it's obvious why so many Americans find themselves in trouble. EBRI's most recent Retirement Confidence Survey found that 22 percent of workers and 28 percent of retirees report they have no savings of any kind. Almost half report total savings and investments of less than $50,000. With so many people not saving and easy credit gone, it's no surprise that Americans now say they are suddenly deeply worried about retirement.

One attitude that employers say they are concerned about is the sharp decline in institutional trust among workers — whether it be trust of their employer, corporations in general, or (especially) government. Although conventional wisdom says American workers today are far more mobile and job turnover is far higher than in the past, research shows this is not true: The American workplace has always been extremely mobile, and turnover rates today are not much different than "the good old days" of the supposedly calm 1950s.

Workers still report higher levels of trust in their employer than in most other institutions, and in today's technological, skill-based economy, employee benefits (especially health benefits) still remain a crucial factor in recruitment and retention of talented and valuable workers.

New Models in Retirement Benefits

As America has shifted from the traditional defined benefit pension, we're seeing a move towards these models.

Defined Benefit/Defined Contribution Trends — As is well-documented, private-sector employers started moving away from traditional defined-benefit (DB) pension plans decades ago, and toward the defined-contribution (DC) retirement plan model, typified by the 401(k). In 1979, 62 percent of workers in a retirement plan participated only in a DB pension; by 2005, 63 percent participated only in a 401(k) plan. Concurrent with the regulatory and financial pressures that drove the decline in DB pensions has been a sharp drop in employer-paid retiree health insurance. Most public employers are holding on to DB plans and supplementing them with DC.

Hybrid Plans — The private-employer movement toward hybrid defined-benefit design began in 1984, when Bank of America introduced the first such plan. Another milestone came just this year, with IBM moving all of its workers to enhanced 401(k) plans for all future service. This trend is likely to continue in the decades ahead. The old final-average-pay, life-annuity, employer-paid pension is pretty much gone as a model for the private sector, forced out by global and domestic economic fundamentals; federal pension laws; new accounting standards from private and international accounting boards; worker distrust of institutional commitments; and other factors.

Automated 401(k) — Much has been written about the recent Pension Protection Act's enhancements for 401(k) plans, such as auto-enrollment, default auto-contribution and auto-investment, and investment advice for more participants. But none of these features provide the primary values of old-style

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Illustrations by Michael Austin

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Benefit Trends

defined-benefit pension plans: Protection against pre-retirement inflation risk, investment risk and longevity risk. Nor are they likely to address these issues in the future for most workers, even as more employers make it easier for 401(k) participants to move their funds into well-priced accumulation and life income annuities.

The Shift in Health Benefits

As with retirement programs, we're seeing movement toward these new systems of coverage.

Employment-based coverage — Despite conventional wisdom that employers are bailing out on health benefits, the facts show otherwise: Offer rates for active workers have been amazingly steady, ranging from 73–78 percent of the work force for decades. However, the type of insurance has changed dramatically. Policies that pay everything are essentially gone, replaced by designs of many names that are rife with employee premiums, deductibles, co-pays and limitations on covered services.

Complexity and experimentation in design continue to evolve as electronic records are introduced; more research is conducted on medical effectiveness and results are built into both treatment and payment structures; and value-based designs are tested. Workers feel increasing cost pain, even though they have progressively paid less of the total health bill. Employers continue to find that health benefits are central to worker recruitment and retention. All this can be expected to continue unless and until the government acts to remove employers from the provision of health insurance.

Retiree health coverage — In the private sector, health care for retirees has been in a downward trend ever since accounting rules changes made by FASB in the 1980s. Government employers will at least consider the same path, now that GASB is implementing a similar accounting rule for the public sector.

That means the government and individuals will be the ones to pay for retiree health insurance in the decades ahead. Big employers are likely to facilitate value purchasing of retiree health coverage by older workers before they are eligible for Medicare, as they lobby Congress to allow younger retirees to "buy-in" to Medicare.

Consumer-focused health care — The movement that began in 1978 towards consumer-focused health plans is likely to continue, with ongoing refinements regarding payment for wellness and preventive care, chronic disease and prescription drugs. However, insurers — not insured individuals — are likely to continue to hold the risk of unexpected catastrophic costs. In this way, the movement that has been seen in retirement plans (shifting catastrophic risk to the worker) is not likely to be repeated in the health insurance area.

Other Benefits... If You Pay

Retirement and health plans have been the only two areas of benefits that are widespread across the work force. Disability insurance, life insurance, flexible spending accounts and multiple voluntary individual sign-up benefits have never penetrated beyond one-third of the workforce. Many of these are now in decline, when considering what employers are paying for, as offer rates for voluntary employee-pay-all benefits are growing.

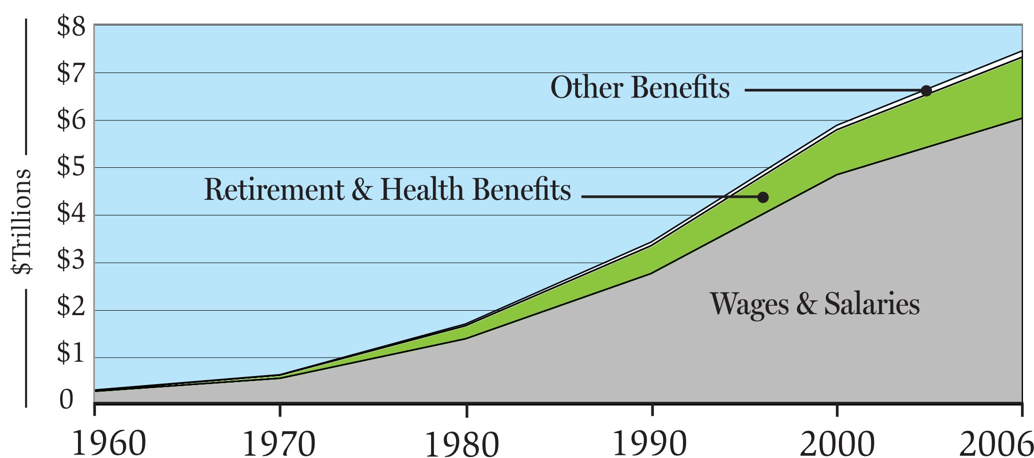
These dual trend lines of declining employer payment but increasing offers of worker-pay-all options are likely to continue, driven by inexpensive Internet administration. But compared to health and retirement benefits, no other employee benefit has been critical to broad-based worker recruitment and retention. About one-third of workers are willing to trade pay for more health insurance and far fewer are willing to allocate funds for other benefits, in the absence of at least partial employer funding.

Implications for the Future

Employment-based benefits system will continue for the foreseeable future to be the primary source of health and retirement coverage for the overwhelming majority of American workers and their families, as they are today. The design of employer programs will continue to be modified as objectives, preferences and technology continue to change.

Employer Spending for Benefits, 1960-2006

Public and Private Sectors, 1960-2006



Source: EBRI tabulations of data from NIPA, Bureau of Economic Analysis, Dept. of Commerce.

It should not be forgotten that Medicare and Social Security benefits are currently employment-based systems: You get them as a result of working and paying payroll taxes. Proposals to shift them to full general revenue funding, a value-added tax or some non-payroll tax system have failed to gain widespread support.

This also means this system will continue to evolve as American employers are forced to keep adapting to a rapidly changing and globally competitive economy — something their workers should understand and are certain to feel, whether or not they comprehend the forces at play.

Workers who are fortunate enough to be offered health and retirement coverage through their jobs can expect to be more involved in benefit decision-making and to share more of the cost of those benefits in the future.

Dallas Salisbury is president and CEO of the Employee Benefit Research Institute (EBRI), a private, nonprofit research institute based in Washington, DC, that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions.

The Pension Protection Act and 401(k)s

By Jack VanDerhei

When Congress enacted the Pension Protection Act of 2006 (PPA), its primary focus — as the title indicates — was on defined benefit pension plans, the type funded entirely by employers. At the time, the federally guaranteed pension insurance fund was facing a deep and growing shortfall, and at least in part because of PPA, the projected shortfall has decreased.

Even though they are not in the title of the law, 401(k) plans also were significantly affected by PPA. In fact, the law opened the door for some of the most sweeping and beneficial changes in how 401(k)s operate — both for the private-sector employers that sponsor these retirement plans and for the workers who participate in them.

The Automatics

For many 401(k) sponsors, the most important part of PPA, is the safe harbor status offered by the law, through what can be called "the automatics":

- Automatic enrollment of workers in the plan, which sign up employees in the retirement plan by default and at a default savings contribution rate; they can opt out and can also elect a different contribution rate, but must take positive action to do so.
- Default investments, which in many cases will be one of the new "qualified diversified investment alternatives," some of which automatically invest a worker's 401(k) contributions in an age-appropriate "life-cycle" diversified fund (greater equity exposure for younger participants, more fixed income for older participants).
- Automatic escalation of workers' contributions to their 401(k) accounts on a periodic basis.

On one level, these changes reflect a victory for "behavioral finance" by embracing the power of inertia. Decades of experiment and experience by employers have shown that investor education and individual control of workers' 401(k) accounts have not worked for many: Roughly 30 percent of workers who are offered a 401(k) plan at work fail to participate in it, and many workers make no change to their contribution rate or investment choices once they sign up. The results have been predictable in all too many cases.

Under PPA the safe-harbor automatic provisions, 401(k) participants can still exercise control over their individual accounts, if they want to. But federal law encourages sponsors to set up 401(k) plans in a fashion that helps workers to help themselves simply by doing nothing. Since employer-provided 401(k) accounts have become the primary source of personal retirement savings for a significant percentage of Americans, PPA's automatic 401(k) provisions are likely to make a big improvement in the retirement security for millions of workers.

Employer Incentives

For employers that sponsor a 401(k) plan, there are some strong incentives to adopt the automatic provisions authorized by PPA — the most obvious being the "safe harbor" it offers from complex and costly compliance regulations.

Starting this year, most plan sponsors that have qualified for the safe harbor automatic enrollment provisions are deemed to satisfy the annual non-discrimination rules (which are designed to ensure that high-earning employees do not benefit disproportionately in the 401(k) plan compared with lower-earning workers) and are also exempt from so-called "top-heavy" rules. Of course, there are costs: PPA also sets minimum rules for either an employer matching payment to encourage worker contributions or nonelective contributions to be made for all eligible workers.

Although there had been a delay with respect to issuing detailed rules and regulations to implement some provisions of PPA, 401(k) plan providers indicate that their employer clients are now rushing to embrace safe harbor automatic enrollment plans.

What Auto-Enrollment Means for Workers

Modeling research by the Employee Benefit Research Institute prior to the passage of PPA indicated that the automatic enrollment feature was likely to be particularly helpful to low-income 401(k) participants (higher-income participants would also benefit, although not as dramatically). Specifically, under a 3 percent default contribution rate and a life-cycle default investment, median income replacement rates at retirement for the lowest-income group would increase 19 percent points, to 42 percent if automatic enrollment were universally adopted by all 401(k) sponsors.

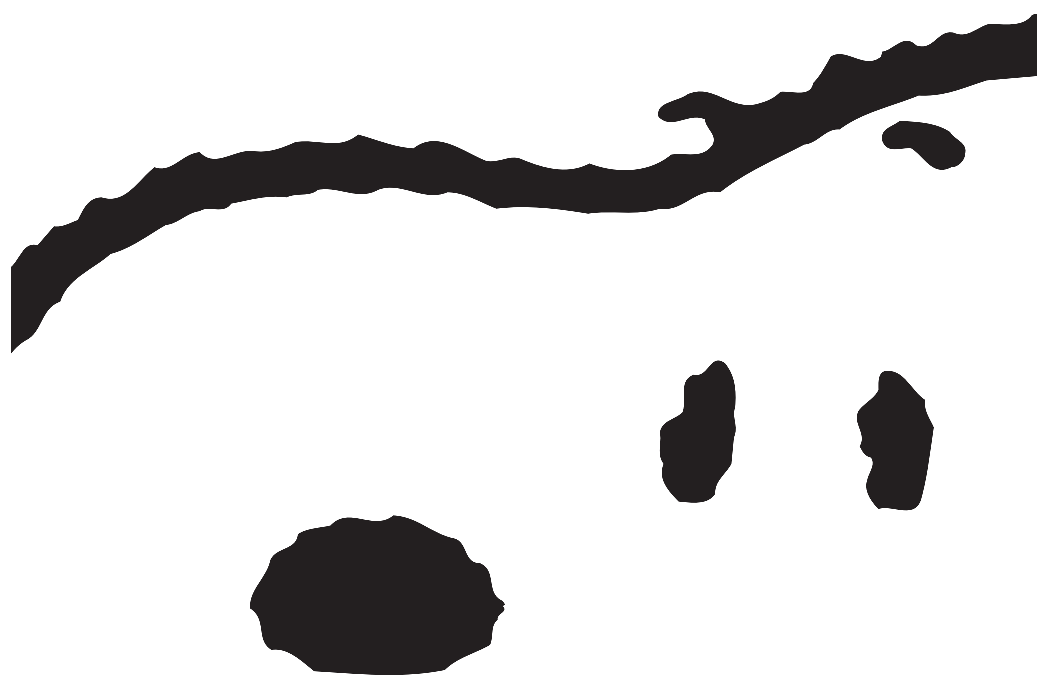
While impressive, that figure may be lower than the full impact likely under PPA. The new safe harbor provisions set the default contribution rate for the first year of participation at 3 percent of salary, rising to 6 percent by the fourth year. Even though participants have the right to opt out of these increases, clearly some will stay in.

How high will workers be likely to go under an automatic savings escalation? At what point will they opt out? We won't know for sure until we have a few years of experience with PPA, and much will depend on whether workers maintain their savings deferral rates when they change jobs. But based on EBRI research, the automatic escalation feature alone is likely to increase overall 401(k) accumulations between 11–28 percent for participants in the lowest-income group, and between 5–12 percent for those in the highest-income group.

Jack VanDerhei is a faculty member at Temple University's School of Business and Management and research director of the EBRI Fellows Program.

It's easy to spot the latest employee benefits trends when you know where to look.

(See how years of insightful research can help you attract and retain top talent.)



For the first time in 6 years, nearly 50% of employees want to be better prepared before choosing their benefits.

– Newly released 6th Annual MetLife Study of Employee Benefits Trends.

This year, the Study shows a significant increase in the number of employees who want to be actively involved in their benefits choices. It also includes information showing that more than 90% of employees see workplace benefits as critical, even if they're paying most or all of the costs.[1] You'll find that, and more, in the 6th Annual MetLife Study of Employee Benefits Trends. It's a comprehensive study of the U.S. benefits landscape that polled 1,600 U.S.-based employers and 1,300 employees. Research like that can help you attract and retain top talent. Wait until you see what else we've found out for you.

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[1]The 2008 MetLife Study of the American Dream.
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401(k) Plans Are Being Retooled to Function Like a Pension Plan

By Randy Myers

The 401(k) plan is getting a makeover, and for the 76 million baby boomers just starting to wind down their careers, the change couldn't come at a better time.

Over the past two decades, 401(k) plans have largely replaced the defined benefit plans that retirees once counted on for a monthly pension. To ease the transition for them, employers and retirement plan providers expended great energy teaching workers how to save and invest on their own. When spreading that message proved problematic, they came up with a new investment vehicle — target-date retirement funds — that promised to make the job of accumulating a nest egg easier. Instead of building a diversified investment portfolio on their own, plan participants merely needed to choose the target-date fund that most closely matched their own expected retirement date. Professional money managers would then manage the fund for them, steering it along a "glide path" that would make it more conservative, through a smaller allocation to stocks, as the targeted retirement date neared.

Target-date funds quickly became extraordinarily popular. Last year, they got a fresh boost when the U.S. Department of Labor formally endorsed them as an appropriate default investment option for 401(k) plan participants who don't bother to make their own investment choices. Combined with other new plan features such as automatic enrollment of new employees and automatic annual increases in their savings rates, the 401(k) seemed on its way, at last, to becoming a simple and effective retirement solution for just about anybody, even the financially naive.

Plans Grow More Flexible

Target-date funds are great for helping workers accumulate assets and lower risk as they get older, but still don't do much to help them once they retire. Workers still need to figure out on their own how fast they can draw down their nest egg without running out of money.

Using their savings to buy an annuity — an insurance contract that pay outs a guaranteed monthly income for as long as the purchaser lives — has always been an option, but for many people an historically difficult one. "The idea of spending a lifetime accumulating your money and then giving it all up to purchase an inflexible annuity just made a lot of investors uncomfortable," concedes Brent Walder, senior vice president and director of the Institutional Income Innovations Group for Prudential Retirement, part of financial services firm Prudential Financial Inc.

Workers still need to figure out on their own how fast they can draw down their nest egg without running out of money.

Now, though, says Walder, financial services firms are offering a wide and growing array of innovative new investment options for use within 401(k) plans. In doing so, they promise to give the 401(k) plan new life as both a retirement savings vehicle and a retirement income generator.

Prudential's solution takes the form of a suite of five "Prudential IncomeFlex Funds" that it debuted in December 2006. Targeted to investors 50 and older, the funds are designed to function both as a savings vehicle while the participant is working and an income vehicle once they stop working. Each fund has a different risk profile ranging from conservative to more aggressive with a correlated asset-allocation mix that, unlike in a target-date fund, remains static. And each is buttressed by two important guarantees. First, Prudential guarantees that while a participant is working and accumulating assets, their Income Base — a notional value used to determine the guaranteed annual withdrawal amount — will always be credited with earnings of at least 5 percent a year, regardless of how their underlying fund performs. Then, once the participant turns 65, Prudential guarantees that they can take withdrawals for the remainder of their life at an annual rate equal to at least 5 percent of their account value upon retirement — even if their account balance subsequently becomes depleted.

Unlike traditional annuities that force investors to give up control of their assets — a turnoff for many potential buyers — IncomeFlex Funds give investors considerable control over their money. They have the flexibility to exit from their fund completely at any time without penalty; to take non-scheduled withdrawals at any time, although that will reduce their guaranteed payout; and to begin guaranteed payouts as early as age 55, albeit at a reduced guaranteed minimum withdrawal rate of 4 percent of their final account value.

"Target-date funds can take care of a participant from age 20 to 50," says George Castineiras, senior vice president of institutional sales with Prudential Retirement. "The issue is how to meet the needs of workers age 50-plus, who are looking for continued growth and downside protection, plus guaranteed lifetime income."

Other providers have taken slightly different tacks toward solving the retirement income puzzle. MetLife Inc. was an early entrant in the field, introducing its Personal Pension Builder product in 2004. A fixed, deferred income annuity marketed through The Retirement Group at Merrill Lynch, it, too, is positioned as an allocation option within a 401(k) plan. However, instead of simply buying a portfolio of stocks and bonds, participants who choose it are buying pieces of future guaranteed income. Think of it like buying an income annuity on an installment plan. More recently, MetLife was selected as the annuity provider for a product launched last fall by asset manager Barclays Global Investors N.A. Called SponsorMatch, it functions like a target-date retirement fund that automatically grows more conservative as investors age, except that a portion of the employer contributions to a participant's account are funneled into a deferred annuity promising guaranteed future income. In effect, that part of the fund mimics a pension plan.

Employers who offer annuity-based income products in their retirement plans are still in the minority today, but the growing interest in developing workable retirement income solutions for the baby boomer generation suggests that won't be the case much longer. "I really think we're nearing the tipping point on this," says Jody Strakosch, national director of institutional income annuities for MetLife. "Interest is significant at the plan-sponsor level. They're simply trying to figure out which product is right for them. Do they want an in-plan option? Do they want to embrace Barclay's approach of taking the employer match and guaranteeing a retirement income stream with that? Or do they want to leave it to participants and give them the option of buying future pieces of guaranteed income or taking an annuity as a payout option? The good news is that any one of those approaches will let them offer their employees peace of mind, with the comfort of knowing that they will have a certain guaranteed amount of income to live on in retirement."

New Thinking in Employee Health Care

By Randy Myers

Corporate America's long effort to shift more of the cost of employee health care onto employees themselves may be reaching its useful limits. Most employers have already boosted the percentage of health insurance premiums paid by their employees, and have adopted health plans that feature bigger deductibles and larger co-pays for plan participants. Now, says Blaine Bos, a worldwide partner with benefits outsourcing and consulting firm Mercer LLC, "The very largest employers recognize that cost-shifting has run its course. It does not improve long-term cost trends. It improves the trend for one to two years but then you're back in the same ball game, as health-care inflation continues to rise at about two times the rate of general inflation."

While some employers will continue to use cost-shifting strategies as long as they can, Bos predicts they will eventually follow the lead of the country's largest companies in searching for new and more sustainable strategies for delivering benefits. Among the options available to them, he says, are a new generation of incentives aimed at steering employees toward more healthful behaviors. For example, many companies today offer some modest gift or financial incentive to employees with chronic medical problems who agree to participate in a program aimed at helping them control their condition. But such incentives have had limited results. "We've maxed out what we can do there," Bos says, noting that only about 25 to 30 percent of employees eligible for such programs tend to make use of them.

"The next generation of incentives will take the opposite approach," he says. "We'll say that if you refuse to participate in a chronic-condition program appropriate for you, we will design our plan such that we will not reimburse you for health care in the normal manner, but at a lower rate." The goal isn't to punish employees, of course, but rather to encourage them to take responsibility for their own medical conditions and behaviors.

Innovations Bring Savings

Meanwhile, Bos says, innovative companies also are starting to remove financial barriers to getting targeted groups of employees into treatment for certain diseases and medical conditions. For example, they are eliminating co-pays for certain drugs known to improve outcomes for patients with specific diseases. Still others are looking into establishing limited-service health-care clinics at the workplace, where employees can receive fast and convenient care for non-life-threatening problems for less than the cost of a hospital emergency room visit.

While such strategies carry upfront costs, benefits experts say they can yield greater long-term savings by creating healthier and more productive employees. Fran Molettieri, a vice president in the employer group at GlaxoSmithKline plc, cites the example of a program undertaken in 2006 by a group of seven employers in Lancaster County, Pennsylvania, in which 73 diabetic patients agreed to meet monthly with local pharmacists trained to act as their treatment coaches. Their employers also waived or reduced the regular deductibles and co-pays associated with lab tests and medicines required to treat their disease. In addition to producing good clinical results, the program yielded an average savings per participant of $5,812 in its first year of operation. "Hundreds of employers are starting to look at these programs," Molettieri says. "Innovators are endorsing them, and starting to see results."

Voluntary Benefits Prove Popular

Controlling costs is high on the employee-benefits agenda at most companies. But many employers are also looking to enhance their benefits programs to advance basic business objectives such as attracting and retaining good employees, says William Mullaney, president of institutional business for MetLife Inc. One increasingly popular approach, he says, is to supplement existing employer-paid benefits with so-called voluntary benefits — those for which employees pay at least half, or more typically all, of the costs. Group-rate supplemental life insurance is an old standby in this domain, but employers today also are giving their employees access to additional voluntary benefits such as auto

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and homeowner's insurance, long-term care insurance, dental insurance, retiree dental insurance and legal services. "These programs are attractive to employees because they typically can get institutional pricing when they buy these products through their employer, and, in the case of insurance policies, group underwriting rules that provide some level of guaranteed issuance," Mullaney says. "Plus, they can pay for it through the convenience of payroll deductions, which employees like a lot."

Hewitt Associates, a human resources outsourcing and consulting firm headquartered in Lincolnshire, Illinois, offers a wide range of voluntary benefits to its employees, including auto and homeowner's insurance and legal services from MetLife, as well as long-term care insurance and life insurance. "Everybody's looking for every savings humanly possible, and our employees value the idea that Hewitt sponsors some of these programs," says Kerry Astar, the company's manager of work/life programs and services.

Beyond offering employees access to potentially cheaper group rates and convenient enrollment procedures, giving them access to voluntary benefits can help them plug important gaps in their financial plans, too. "The average American is not saving at a rate that would leave him or her prepared to cover the cost of a major accident or illness," observes Paul S. Amos II, president and chief operating officer of Aflac, which markets voluntary health, life and disability policies through employers. He cites a 2005 study by Harvard University researchers who found that 50 percent of all personal bankruptcies in the U.S. were attributable in part to unmanageable medical expenses. "Doctor and hospital bills are covered by major medical insurance in most situations," Amos says, "but as co-pays and deductibles get passed along to employees, they have to make sure they are fully funded to cover not only the medical bills they have to pay out of pocket, but other, non-medical expenses as well."

Tying It All Together

With so many components to a well-designed employee benefits program, it's not surprising that some employers — especially small to mid-sized employers with limited in-house expertise — are looking for an integrated solution.

At a very basic level, says Mary Claire Bonner, vice president for the small and middle-market business of Aetna Inc., integration can bring administrative and financial simplicity to the benefits program. The employer who hires one provider for, say, medical, dental, prescription drug and disability benefits gets one bill from one provider, not four. They usually pay less, and have fewer contacts to juggle, too.

But the bigger return from integration comes from that single provider's ability to view claims data across all the benefit plans offered. The provider can then use the information to tailor those plans to the needs of the employer's workforce as a whole, and, where employees request it, to the needs of individual workers. "When we have the opportunity to look holistically at the care a patient is receiving, the lab tests they're taking and the medications they're being prescribed, we can do a better job of helping connect them with the services they need," Bonner says.

In fact, she adds, seeing claims filed under one plan can sometimes make it possible to suggest treatment options that will head off others. "Sometimes, medical claims are a precursor to an impending disability, and sometimes disability information can help us anticipate medical claims," she explains. "With an integrated health solution, we can really reach out to patients and help them achieve better outcomes."

While the overarching goal of any health-care initiative is to produce healthier and more productive employees, it's worth noting that a good program can produce happier employees, too. In an annual MetLife survey of employers and employees, Mullaney says, there's a strong link between employee satisfaction with their benefits programs and overall employee satisfaction and job retention. "For employees who are highly satisfied with their benefit programs," he says, "we found that 85 percent plan to be working for their current employer 18 months from now, versus only 50 percent among those who are not satisfied with their benefits."

All the more reason for employers to continue trying to improve their benefits programs.

Randy Myers is a freelance writer in Dover, Pa., whose work has appeared in The Wall Street Journal, Barron's, CFO, Corporate Board Member *and other prominent business publications.*

4TH LAW OF HEALTHONOMICS:

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Reference: 1. Health Partners. Beyond Benefits. January 2006. http://www.healthpartners.com:747/media/beyondbenefits/BB0106_ br.htm. Last accessed 8/3/07.

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Is the Tipping Point in Health Benefits Near?

By Paul Fronstin and Stephen Blakely, *EBRI*

While the presidential candidates argue over the future of health policy, employers in the private sector are struggling with a harder, unavoidable and perhaps far more immediate business question: At what point do the ever-growing costs and liabilities of offering health insurance push them over the "tipping point"? When does the voluntary job-based health coverage system become so expensive that employers bail out?

Based on our research, the answer is: Not just yet. But they're thinking seriously about it.

The nonpartisan Employee Benefit Research Institute has examined this question through a recent survey of large employers and a day-long policy forum in Washington, DC. We found that private-sector employers are still committed to playing the role of sponsor in the health benefits system.

Why? Because they feel they can provide better control and results than the government would. For now, at least, the pros (recruitment and retention of skilled workers, work force management and productivity) still outweigh the cons. They also believe that if the nation moved to a single-payer nationalized health care system, they'd probably still get stuck with big costs but lose what leverage they currently have.

Nevertheless, employers are growing skeptical and keeping their options open. If just one big employer hit that tipping point and pulled the plug on its health benefits, we are told, the competition would waste no time following suit.

Given that the vast majority of Americans who have health insurance get it through their workplace, such a fundamental change would have huge implications for workers and their families, employers, government and the American health care system as a whole. What would replace employment-based health benefits? Would it be better, or worse? Ideology aside, those are open questions.

It's worth noting that, individually, employers are more reluctant than some of their trade associations to threaten an end to the employment-based benefits system, and are more supportive of maintaining employers' current role. Many employers are starting to experiment with consumer-based health benefits, which, while growing, remain experimental.

But even the strongest advocates of keeping employers at the helm of health coverage in the U.S. believe the current system is unsustainable without major changes. One way or another — regardless of who is elected president, and whatever their campaign promises — change is coming to health coverage for Americans.

Employer Coverage Still Thriving

Despite the claims of some histrionic commentators that the employment-based health coverage system is "vanishing," "failing," "dying in front of our very eyes," or "melting away like a popsicle on the summer sidewalk," the actual data paint a very different picture. Yes, the percentage of employers offering health benefits has fallen from its 2000 peak — but it is still about where it was in the mid-1990s, and has been stable since 2005.

Between the mid-1990s and 2005, the percentage of workers with access to health benefits through their own job was stable. While the percentage of workers taking coverage when offered is down slightly from mid-1990 levels, only about five percent of workers who are offered health benefits are uninsured. Roughly 71 percent of workers have health benefits through an employer, and this number has been in the low 70 percent range since 1994.

Regardless of the long-term rising cost of providing health benefits to workers relative to workers' earnings and overall inflation, an examination of recent history suggests that the employment-based system is not vanishing (although there has been erosion of health insurance through smaller employers). For the most part, the share of workers with coverage either from their own or someone else's employer has been remarkably stable, considering what has happened with the cost of providing health benefits and the fact that fewer small employers have offered coverage since 2000.

Why Costs Matter

The question of whether employers have reached a tipping point is driven by the rising cost of providing health benefits to workers. Between 2000 and 2007, this cost to employers doubled, while workers' wages and overall inflation increased only 25 and 21 percent, respectively.

Employers got a short break from rocketing health costs between 2003–2007 (the growth rate in the cost of providing health benefits fell almost 14 percent to about 6 percent over that period), but those days are over. Today, growth in the cost of providing health benefits to workers continues to run 50 percent higher than growth in workers' earnings and is double the rate of overall inflation — an "unsustainable" rate, employers warn.

Workers also are paying much more for health benefits today than they were in 2000. According to the Kaiser Family Foundation, workers' average premiums for employee-only coverage increased 86 percent from 2000–2006 (from \$28 to \$52 per month), and family coverage premiums increased 80 percent (from \$138 to \$248 per month).

Furthermore, worker cost-sharing for health care services has been increasing and has been outpacing overall inflation; for instance, the average deductible among workers with employee-only coverage in a PPO increased 75 percent from 2000–2006 (from \$187 to \$327). In contrast, the consumer price index (CPI) went up 17 percent during that period.

Retirees: Past the Tipping Point

While private-sector employers aren't yet at a tipping point with health benefits for active workers, there's no question they have reached it for retirees; in fact, they passed it in the mid-1990s. Research has consistently found that fewer employers are offering retiree health benefits than in the past, and that when these benefits are offered, retirees face rising premiums, higher out-of-pocket expenses and more stringent eligibility requirements.

In fact, most active workers will never be eligible for health insurance in retirement through a former employer. The Agency for Healthcare Research and Quality (AHRQ) reports that only 13 percent of private-sector establishments offered health benefits to early retirees in 2005, down from 22 percent in 1997. Furthermore, 13 percent of private-sector establishments offered health benefits to Medicare-eligible retirees in 2005, down from 20 percent in 1997. The trend among large employers — those most likely to offer health benefits — has been down as well.

It is important to note that the major force behind this change is not a law or regulation from government: It's an accounting rule (FAS 106) adopted by the industry-led Financial Accounting Standards Board, which required retiree health costs to be shown on corporate balance sheets. Private-sector reaction was quick and dramatic.

Employers Continue Their Commitment

Last fall, EBRI surveyed a cross-section of large employers to better understand their attitudes towards employment-based health benefits and the overall health care financing and delivery system. Benefit directors and vice presidents of human resources were included in the interviews, as was one chief financial officer. Collectively, these employers covered more than 650,000 workers. Combined employer/worker health benefits spending for these employers totaled over \$4 billion in 2006.

When asked what would cause an employer to stop offering health benefits, the employers provided mixed responses. They say the elimination of the employer tax deduction; movement to a universal system; and erosion and/or elimination of the federal pre-emption of state insurance regulation as provided by the Employee Retirement Income Security Act of 1974 (ERISA) could mean the end of large employer self-funded employment-based health benefits as we know them.

They also said that, if other employers dropped coverage, they would be forced to reconsider their decision to offer benefits for competitive reasons. But they do not think other employers are on the verge of dropping health benefits: There is too much risk in being the first employer to do so. In fact, some employers think that the talk of dropping health benefits is an empty threat. The exception, though, is that these large employers all think that small employers might be on the verge of taking such action.

Employers interviewed for the EBRI study think that the government should be a partner when it comes to health care and benefits. They want the government to establish quality standards through some type of national forum; they want the uninsured covered although not necessarily through mandates; and they want the government to continue in its role of safety-net provider.

Employers understand why the states are challenging ERISA but are for the most part against states having more regulatory authority over employment-based health benefits. They think the government should be more focused on provider reimbursement issues as well as cost and quality transparency matters, and should let employers continue to be innovative in the provision of health benefits.

The EBRI survey shows that, for now, employers still believe that they have an obligation to employees to improve health care quality. They think they will need to drive efforts to bring more transparency to health care quality.

But employers also know they cannot continue to absorb the ever-growing costs of health benefits by themselves. One way or another, that has got to change.

Paul Fronstin is the director of EBRI's Health Research and Education Program.
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Consumer-Driven Health Plans: Are They Working?

By Paul Fronstin and John MacDonald, *EBRI*

As health care costs continue to surge faster than the overall rate of inflation, consumer-driven health plans have become the next new thing (after managed care) as employers search for ways to control their health benefit expenses.

At the moment, the question of whether consumerism is the wave of the future remains open, although some surveys suggest these plans have significant growth potential. So far, employers are still waiting for definitive evidence about cost savings as they weigh the criticism that these plans could have an adverse impact on workers' health and morale.

Consumer-driven plans were introduced in 2001. They typically combine high-deductible health insurance with a tax-advantaged account that can be used to pay deductibles. In practice, the term is hard to define, given the wide variation in what employers call a consumer-driven health plan.

Advocates say these plans ultimately will help to decrease the number of uninsured, encourage cost-consciousness among consumers and increase the amount of information on the cost and quality of providers. Critics say they do little other than shift costs from employers to workers, and favor wealthy and healthy participants at the expense of those with lower incomes and poorer health.

The Jury Is Still Out

The latest of three annual surveys released last month by the nonpartisan Employee Benefit Research Institute (EBRI) and the Commonwealth Fund produced mixed results that amount to neither a ringing endorsement nor a total denunciation of consumer-driven (and high-deductible) plans. Among its major findings:

- Enrollment remains low but is growing: Overall, 7.5 million adults ages 21–64 with private insurance, representing about 7 percent of that market, were either in a consumer-driven or a high-deductible health plan in 2007.
- No impact on the uninsured: Adults in consumer-driven plans were no more likely to have been uninsured before enrolling than those in more comprehensive plans.
- High-income enrollees: Of the adults enrolled last year in consumer-driven plans, 31 percent were in households with incomes of $100,000 or more, up from 22 percent in 2005. That compared with just 19 percent with incomes under $50,000, down from 33 percent in 2005.
- Satisfaction rates are lower but increasing: Consumer-driven plan participants continue to be less satisfied with various aspects of their health plan than those with more comprehensive insurance. However, the EBRI/Commonwealth survey found they were somewhat more satisfied with their plan in 2007 than they were in the two previous years.
- Participants are more cost-conscious: Adults in consumer-driven plans are more cost-conscious in their health-care decision-making than those in more comprehensive plans, and more likely to talk to their doctors about treatment options or to ask for a less costly generic drug.
- More missed care: Individuals in consumer-driven plans report using health services at rates similar to those in comprehensive plans. But in all three annual EBRI/Commonwealth surveys, people in these plans were more likely to skimp on needed medical care or medications because of cost than were those in more comprehensive plans.
- Health-care information still not available: Over the three years of the EBRI/Commonwealth survey, no significant gains were reported by plan participants in the amount of information available on provider cost and quality, two keys to making the plans a success. Other research suggests that consumer-driven plans may be doomed if the lack of consumer information and education is not addressed.

Are Consumer-Directed Plans Saving Money?

No solid data exist yet to answer that question, but a new report by Milliman and the National Business Group on Health (NBGH), looking at six employers' plans with 30,000 workers, found that consumer-directed plans created a "modest" 1.5 percent savings for employers. Higher cost-sharing by workers discouraged utilization, accounting for the savings. The results reinforced the need for better consumer information, Milliman and NBGH said. Actual savings are likely to increase when participants have the patient education resources they need to compare and shop for health care based on quality and cost.

For all that is unknown about consumer-driven plans, two other studies say employers will continue to expand these offerings and that at least some consumers will be receptive.

The Center for Studying Health System Change said that its visits to 12 nationally representative communities found that employers have increased the introduction of consumer-driven plans in the past two years. Their study found that consultants on health plans and benefits predict that more employers will offer these products, and that an economic downturn might also prompt them to move in this direction. And another report this month by Deloitte Consulting concluded that "consumerism is a significant trend" in health care and demand is likely to grow.

So what's the future for consumer-driven health plans? Growth — probably slow growth — because employers are certain to continue looking for ways to control their health-care costs, and right now consumer-driven plans are the vehicle of choice. That may well change if these plans fail to show proven savings, or if workers find themselves stuck only with the higher bills and none of the new information and control that are supposed to be part of the package. But with both benefits managers and at least some workers very interested in these plans, they seem unlikely to go away any time soon.

John MacDonald is the director of media relations at EBRI.

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