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NOTES

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Executive Summary:

The Future of Employment-Based Health Benefits: Will Employers Reach a Tipping Point?

- ***Is employment-based health coverage really failing?*** This article summarizes discussion at the Employee Benefit Research Institute's December 2007 policy forum, which sought to assess reports that the U.S. employment-based health benefits system has reached a "tipping point" because of ever-rising costs, with employers entering a period of fundamental change in providing health benefits to workers.
- ***Despite claims of its demise, employment-based coverage is remarkably stable*—**EBRI analysis shows that, historically, there is general stability in terms of workers being eligible for benefits, the percentage of workers who have coverage, the share of premiums paid by workers, and the share of out-of-pocket costs paid by workers. One major exception: employer-provided retiree health benefits.
- ***Major exceptions: Small businesses and retiree health benefits*—**EBRI data also show that the percentage of employers with fewer than 200 employees that offer benefits dropped from 68 percent in 2000 to 59 percent in 2007, a "remarkable downward decline." And employers have clearly passed the "tipping point" on retiree health benefits, which are in a sharp decline.
- ***Main points of discussion*—**Large employers say they are not ready to bail out of their role of acting as the backbone of health insurance coverage in the United States, although they are pushing for major changes that they hope will alleviate the rising costs of those benefits. Some of the changes large employers are talking about could be as much as a decade into the future. And large employers have not settled on one model for change and are not convinced that new consumer-directed health plans are the solution.
- ***Employers remain ambivalent about consumer-driven health plans*—**Although growing, these high-deductible plans remain a small source of coverage in the health insurance market, and many employers do not view them as the solution to ever-rising costs. Some in the business sector argue neither consumer-driven health plans nor single-payer (government) universal coverage is the answer.
- ***Who'll be first?*** Although employers that offer health benefits say they remain committed to the current system for now, they also say they are watching closely if a big sponsor takes the first step and decides to control its costs by dropping out as a health insurance sponsor.

The Future of Employment-Based Health Benefits: Will Employers Reach a Tipping Point?

By John A. MacDonald, EBRI

Introduction: A Premature Obituary?

The descriptions were foreboding. The U.S. employment-based system of providing health benefits is "vanishing," according to one account, is "failing," according to another, or is "melting away like a popsicle on the summer sidewall," according to a third.

But is this what is really happening? The Employee Benefit Research Institute's (EBRI) December 2007 policy forum sought to assess reports that the system has reached a "tipping point," with employers entering a period of fundamental change in providing health benefits to workers.

In short, speakers at the forum—representing mostly the views of large employers—seemed to adopt a comment by Mark Twain, who, after hearing that his obituary had been published in the *New York Journal*, is reported to have said, "The reports of my death have been greatly exaggerated."

Three main points emerged from the policy forum: Large employers say they are not ready to bail out of their role of acting as the backbone of health insurance coverage in the United States, although they are pushing for major changes that they hope will alleviate the rising costs of those benefits. Some would go so far as to say that the major changes will redefine the status quo.

Some of the changes large employers are talking about could be as much as a decade into the future. Large employers have not settled on one model for change and are not convinced that new consumer-directed health plans are the solution.

As large employers talk about change, the evidence over an extended period suggests they are sticking with the current system; two policy forum speakers explained why change may be difficult to achieve.

The policy forum was held Dec. 6 in Washington, DC. About 120 attended the forum and heard presentations by 12 experts on health care, behavioral finance, and consumer financial education.

Large Employers Hold On, Seek Change

Representatives of large employers told the policy forum they want to continue to play a role in providing health benefits, but are pressing for significant changes for economic reasons. Results of a Towers Perrin survey presented at the forum appeared to confirm the employers' intentions—at least for now.

"We still want to be in the business of providing health care benefits for our employees," said John J. Castellani, president of the Business Roundtable, an association of chief executive officers of leading U.S. corporations.

Jeffrey C. McGuiness, president of the HR Policy Association, an organization representing the human resource officers of more than half of the Fortune 500 companies, agreed with Castellani. Speaking of employers, McGuiness said, "They haven't reached a point where they say, 'no, we are no longer interested in providing employment-based health care.' But they have reached a tipping point in how that will be financed and how that will be delivered."

The Towers Perrin survey showed that more than 80 percent of participating employers want to continue providing benefits and see a value in the role that employers play in the current system, said David D. Guilmette, managing director of Tower Perrin's global health and welfare business. The survey involved 500 large employers representative of the Fortune 1,000 and was taken in August and September 2007.

Guilmette said the survey found that 60 percent of respondents anticipate health care reform, but not immediately. Three-fourths of those who anticipate reform do not expect it within the next four years and 40 percent said reform is still at least 10 years away or may never happen.

Do large employers expect reform?

- Will health care reform happen?
  - Over 60% of large employers anticipate major federal health reforms will become law during one of the next two Presidential terms of office
  - Conversely, almost 40% believe federal-level reform will take longer than that or will never happen
  - Despite the slowing pace of state health reforms being enacted into law, about three-quarters of the employers still expect that over half the states will enact significant (Massachusetts-type) reform laws within the next 10 years

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Source: Towers Perrin.

Paul Fronstin, director of the EBRI Health Research and Education Program, said his interviews with officials at 10 large employers (14,000–200,000 workers) found that all plan to continue offering health benefits. “In fact, they’re investing more and more resources into their programs in order to give better benefits to workers and in order to try to manage their costs,” Fronstin said.

Still, Fronstin suggested the employers’ position could be fragile. “None of the employers I spoke to said they would be the first to drop coverage,” Fronstin said. “In fact, one said it would be insane to be the first to drop coverage. Another said they would be the *last* one to drop coverage.” Fronstin’s findings were published in the December 2007 *EBRI Issue Brief* (http://www.ebri.org/pdf/briefspdf/EBRI_IB_12-20073.pdf), which also noted that if one large employer did drop coverage others might quickly follow.

EBRI President Dallas Salisbury added that surveys by EBRI and other organizations have consistently shown strong employer support for offering health benefits. “If they are going to provide one benefit,” Salisbury said, “it is going to be health insurance, because it is health insurance that even small employers say would provide them a position in the marketplace that would help them competitively.”

Three factors could move employers to change their current position and drop coverage, Fronstin said: removal of the employer tax deduction for health benefits; enactment of a universal or national health care system; and erosion or elimination of the Employee Retirement Income Security Act (ERISA), which sets federal minimum standards for most voluntarily established pension and health plans in private industry and pre-empts state legislative standards.

Employers may know what could cause them to shift away from their current position, but they have not coalesced around a single reform proposal. Indeed, the Towers Perrin survey showed an apparent difference among employers.

For example, Guilmette said the Towers Perrin survey showed no consensus on such a fundamental question as whether providing health benefits improves competitiveness. About one-third in the survey believe the current health care system has no impact on their competitiveness, about one-quarter think it really hurts their competitiveness, and just under one-half believe it has a favorable impact on competitiveness.

The reason, Guilmette suggested, is that some employers—so called “high performers”— do a good job of managing their health programs and achieve some cost savings by pushing for such changes as increased worker responsibility in maintaining good health. “The health care reform worldview of employers who are currently achieving outstanding performance is quite different from those who are not," said Guilmette.

Still, costs are a problem for all employers. Castellani said health care is one of the largest cost pressures his members face—"far exceeding everything until this year [2007], when it took nearly $100-barrel oil for energy to tie health care costs."

"The confluence of increasing health care costs with increasing international competition has made our system and the cost that it imposes on employers unsustainable," Castellani said. "It really is at a tipping point. It is a tipping point that needs to be resolved because we still want to be in the business of providing health care benefits for our employees."

But Mark J. Ugoretz, president of the ERISA Industry Committee (ERIC), an association representing the employee benefit interests of the nation's largest employers, said business had yet to reach the point of agreeing on changes in the current system. "We as employers are going to have to get together once and for all with organized labor, AARP, and the other consumer representatives to come up with an agreed-upon approach to health care reform," he said.

Another policy forum speaker agreed on the need for consensus. "There's a high level of angst out there, and I think we see this in the political campaigns and the way that many of the presidential candidates are paying attention to health care," said William D. Novelli, chief executive officer of AARP. "We don't all agree on everything. We'll arm wrestle over the details later, but let's agree on some principles and let's try to push these principles forward."

Novelli also offered an explanation of why politicians and others should act with urgency. "The public is worried and angry," he said. "And I'm not talking about just low-income people. I'm talking about the middle class. And when the middle class is upset, when the middle class is angry, then politicians take note."

Small Businesses Also Concerned

Within days of the policy forum, three developments suggested that small businesses share some of the concerns of their large employer colleagues—especially about costs—but also have distinct worries of their own. Here is a summary:

- The National Federation of Independent Business (NFIB), a lobbying organization for small business, underscored the issue of cost when it issued 10 principles for health care reform. "Our current system of health insurance and health care is financially unsustainable and threatens the health and financial security of the American people," the organization said. "Small-business owners and their employees are especially vulnerable to the weaknesses of our current system." NFIB said it supports policy reforms to balance the competing goals of access to quality care, affordability, predictability, and consumer choice.
- The National Association of Professional Employer Organizations issued the results of a survey of 365 of its small-business members, which found that nearly 1 in 10 said they would drop health benefits in 2008 or were not sure about continuing coverage because of costs. "Soaring health costs hit small businesses especially hard," said Milan P. Yager, executive vice president. He said premiums rose as much as 10 percent for his members in 2007, compared with an overall average of 6.3 percent.
- A survey by Mercer, a provider of consulting, outsourcing, and investment services, showed that large employers are committed to providing coverage but want to maintain flexibility, while small employers are more concerned about the affordability of benefits. "The lack of consensus revealed by the survey is a good indicator of just how difficult finding a solution [for health care reform] continues to be," Mercer said.

The October 2007 *EBRI Issue Brief* reported that more than 35 percent of workers in private-sector firms with fewer than 10 employees were uninsured in 2006, compared with 13 percent of workers in private-sector firms with 1,000 or more employees (http://www.ebri.org/pdf/briefspdf/EBRI_IB_10a-20071.pdf). The overwhelming reason many small employers do not offer health benefits is "insufficient profitability," EBRI's Salisbury said during the policy forum.

Are Consumer-Driven Plans the Answer?

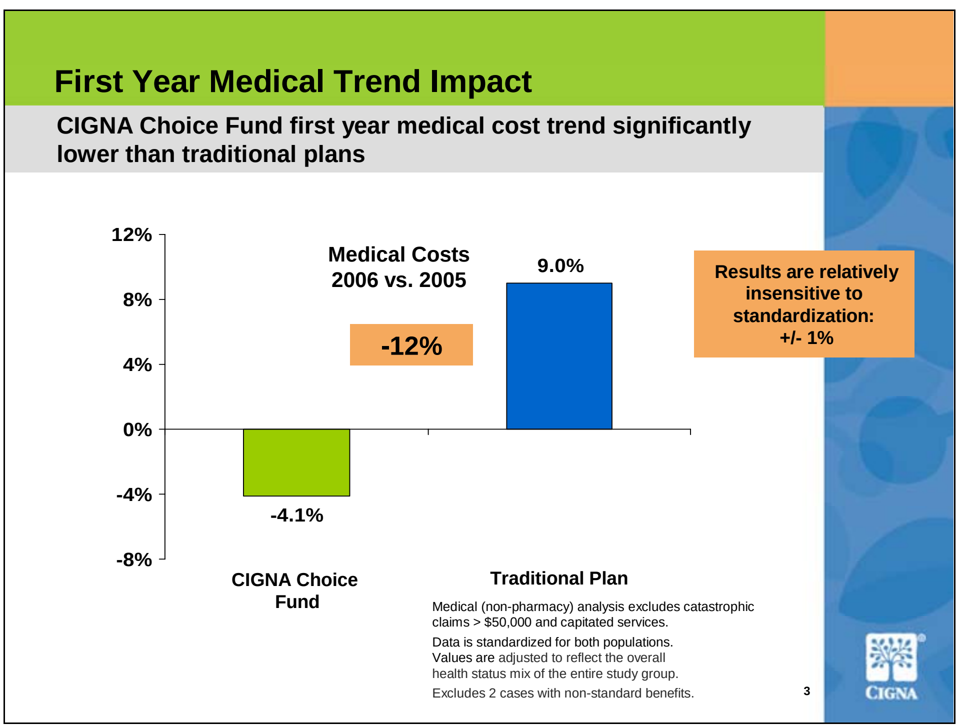
Consumer-driven health plans, currently the topic of considerable debate because of their design to shift more cost and decision-making power—and in some cases more cost—to participants, offer "a real opportunity for a sustainable solution" to rising health care costs, Joe Bogdan, chief actuary of CIGNA Healthcare, told the policy forum. But will consumer-driven plans provide the level of changes that employers are seeking?

Consumer-driven plans typically pair tax-advantaged savings accounts with high-deductible coverage. The accounts are used to pay for the deductibles. Although fairly new, these plans are a growing—if controversial—part of employment-based insurance offerings. Supporters believe that such plans will encourage consumers to become better informed, more cost conscious users of health care. Critics worry that patients will obtain fewer necessary and nonessential services alike.

EBRI's Fronstin noted that the Kaiser Family Foundation estimates about 10 percent of employers currently offer their workers consumer-driven health plans. "The movement toward consumer-driven plans could be a signal that employers have reached a tipping point. The question is, where does this market go? Are workers going to sign up?"

Bogdan presented the case for consumer-driven plans, but employer representatives at the forum did not directly address how much interest they have in the concept. According to Bogdan, CIGNA has 5 percent to 10 percent of its overall membership in a consumer-driven plan and the company is continuing to see "significant growth."

He presented the results of a study of 120 employer groups representing 800,000–900,000 members' activity in 2005 and 2006. The results were encouraging, he said, because members who enrolled in a consumer-driven plan for the first time showed a 4 percent reduction in medical spending, compared with a 9 percent increase for those in traditional plans. In the second year of enrollment, those in consumer-driven plans showed a 5 percent increase in medical spending, compared with 10 percent for traditional plan participants, Bogdan said. Consumer out-of-pocket spending for the two types of plans was about the same, and quality did not decrease for consumer-driven plans, Bogdan said.



Source: Cigna, http://cigna.tekgroup.com/images/56/CIGNA_CDHP_Study.pdf

Consumer-driven health plans are still changing. "I think we've got a lot of evolution ahead of us, a lot of demand for additional information on which we've made some nice progress early on," said Bogdan. "But I think there will be a lot more change as employees and their families continue to demand more refined information to help them navigate the system."

But given the chance to embrace consumer-driven plans, all of the other policy forum panelists took a pass. As the December 2007 *EBRI Issue Brief* reports, several business groups have proposed different plans for overhauling the health system. According to the *Issue Brief*, the Committee for Economic Development (CED) said that neither a consumer-driven nor single-payer model would solve the nation's health care problems.

Three business group plans are considerably more sweeping than the current consumer-driven model. The CED plan envisions moving to some type of national health insurance exchange from which individuals, who would be given a fixed contribution, could purchase health insurance. The ERISA Industry Committee proposals resemble the exchange plan of the CED, but would cover both health and retirement benefits. The HR Policy Association is seeking dramatic changes to control health care costs, improve efficiency, and improve quality.

Ugoretz, said that ERIC members had come to the conclusion that, in a time of global economic competition, employers need a reform plan that is much larger than earlier proposals but one that would keep employers involved.

Michael J. Stapley, president of Deseret Mutual, said, "At the end of the day, you can make an argument that unless you have what I would characterize as major structural change, you will not see much change going into the future." He added: "Why not consolidate large, small, and individual markets into a single system where you get some focus in terms of the things that you're trying to change?"

Alain C. Enthoven, professor emeritus at the Stanford University graduate school of business, expressed doubt that employment-based health insurance is compatible with an efficient, affordable, equitable health care system that covers everyone. "Employer-based health insurance is an anachronism in a world in which median job tenure is so short," he said. But in response to a question, Enthoven said it is still possible that employers could save the system "if they would go to some broad-based system, fixed-dollar contributions, and multiple choice of plans." That would allow those who want to escape "the ravages of uncontrolled costs" to switch to competing, lower-cost plans, he said. Enthoven helped the CED devise its plan.

With all of their concern about costs, why don't employers simply bail out? Castellani offered a practical answer: "We want to continue to play because we're going to end up paying as employers one way or the other. We want to continue to play because we believe that most of the innovation comes out of the private sector, not out of the government sector."

The Employer Role Now, the Challenges Ahead

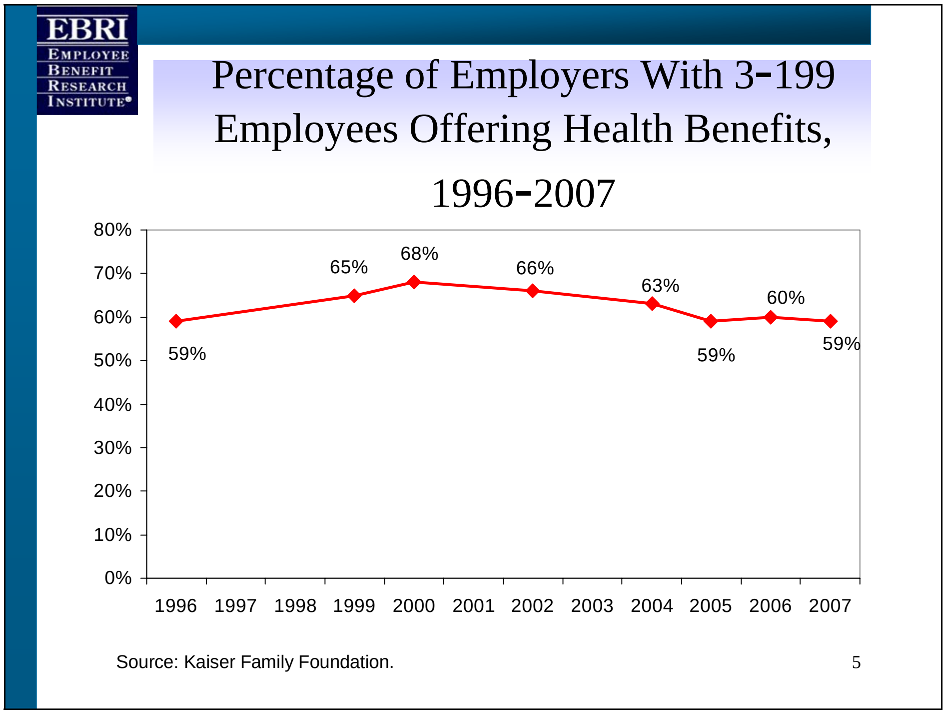
If recent descriptions of the demise of employment-based benefits are incorrect, what do recent data show about trends? Are there exceptions? What obstacles could employers encounter if they tried to make significant changes in their health plans?

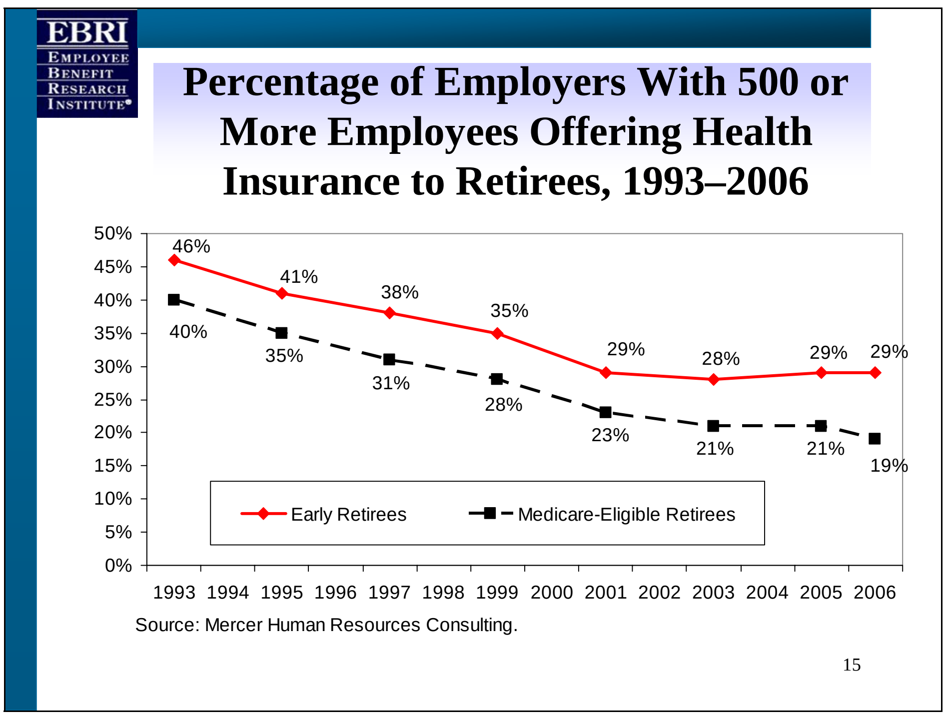
Fronstin said the data can show different pictures, depending on how they are examined. For example, the percentage of employers with fewer than 200 employees that offer benefits dropped from 68 percent in 2000 to 59 percent in 2007, a "remarkable downward decline." But the picture over a longer period—from 1996–2007—showed the percentage of employers offering benefits in the same group remained constant at 59 percent. "Just showing 2000 and 2007 misses half of the story," Fronstin said.

Using the longer time period, Fronstin found a picture of general stability in terms of workers being eligible for benefits, the percentage of workers who have coverage, the share of premiums paid by workers, and the share of out-of-pocket costs paid by workers. One major exception: employer-provided retiree health benefits, which are in a sharp decline and have clearly passed "the tipping point."

Fronstin also noted that the annual increase in the cost of health insurance continues to exceed the rate of inflation, hitting the pocketbooks of employers and workers alike. "They're certainly paying more," said Fronstin. "They're paying more relative to their income levels, as we find in our annual Health Confidence Survey."

The 2007 Health Confidence Survey showed a significant increase in the last two years in the percentage of people saying that rising health care costs have caused them to reduce their savings for retirement or their savings overall or affected their ability to pay for basic necessities. Another survey finding showed that most workers with employment-based benefits value them above the actual dollar amount that employers pay toward the coverage. Furthermore, most of those with employment-based coverage would prefer to continue receiving their current level of benefits from their employer even if some of the premiums were taxed.





These findings suggest workers are still reasonably comfortable with their current health benefits—except for costs—and may resist consumer-driven plans, to say nothing of the major structural changes that some employer organizations envision in the future. Jodi DiCenzo, founder of Behavioral Research Associates, told the policy forum that the power of inertia left her a bit amused at the assumption that health care consumerism will be successful. Based on her studies of consumer behavior in retirement planning, she said, "People are not likely to do anything unless they have a really, really good kick in the pants."

"You would think that people's access to greater information would be really helpful toward moving people to more optimal choices," said DiCenzo, author of the January 2007 *EBRI Issue Brief* on behavioral finance (http://www.ebri.org/pdf/briefspdf/EBRI_IB_01-20071.pdf). "But instead, it tends to overwhelm us. Too much information and more choices actually have been shown to lead to lower satisfaction, more inaction, and more reliance on the simplest rules of thumb."

Instead of using available information, people resort to shortcuts, such as asking a friend or supervisor what they should do rather than using the information they have to make their own decision, she said. "Getting people to change from what they've always done is tough unless people really have a compelling reason to do so."

Lois A. Vitt, founding director of the Institute for Socio-Financial Studies, which specializes in consumer financial education, said workers want employer-sponsored educational programs that help them navigate a difficult-to-understand health care system. "They want the kind of education that is bottom up, not top down," she said. [Vitt presented an expanded version of her views in the January 2008 *EBRI Issue Brief*, online at http://www.ebri.org/pdf/briefspdf/ EBRI_IB_01-20083.pdf]

DiCenzo was skeptical. The results of trying to educate employees about retirement planning have been disappointing, she said, and the same likely would be true with health care. "The choice that will almost always be preferred by most people is the status quo."

In any event, Vitt said, workers do not want their employers to abandon them when it comes to health care. "Consumers want more employers to negotiate for affordable coverage and they want them to advocate for them," Vitt said. "They're overwhelmed by information alone. They want guidance: 'Tell me what to do, tell me how to do it. Educate me.' "

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EBRI President's Report: 2007

By Dallas Salisbury, EBRI

The Founders of EBRI saw the need for an organization focused on financial security: savings, retirement, health, and on public and private employee benefit programs. They believed that programs in these areas served an essential function in the United States, by providing citizens with opportunities to achieve financial security. They sought to establish an organization that would "tell it like it is" with "just the facts." An organization that would build data series and educate year-in and year-out on issues, whether they were hot or not, so that analysis/data for a long series of years would be available when needed, and encourage others to conduct research and undertake education on financial security and employee benefits. An organization that would publish whatever work it did, and respond with objectivity and without bias to all requests from the government, the media, Members, and the public, and not as an advocate or opponent of any position.

In late 2007, the Executive Committee and the Board examined where EBRI stood relative to where it should be, and concluded that both the mission and the vision were being achieved. They also felt that the statement of mission, and the vision statement, could both benefit from a "branding" review. That work is underway.

They also embraced the central role that the 401(k) database (developed since 1994, which now includes data on over 21 million plan participants), combined with the IRA database (now in development), and the resulting "EBRI Retirement Account Database," can play in providing the most comprehensive analysis ever available of workers' preparation for retirement. With IRA assets now nearly double 401(k) assets, and with the dollar value of rollovers from employer plans likely to explode as the baby boom moves into retirement, only this type of comprehensive database will be capable of providing policymakers, Members, and the public with the information they will need for informed decision-making in the future.

The growing role and responsibility of nearly all individual workers (regardless of education, income, employer size, or employment sector) in assuring their own long-term health and financial security is becoming conventional wisdom. Most workers always carried this responsibility beyond Social Security, but now it is also the case for even the most secure and highest income segments of our work force. The work of EBRI continues to help organizations, individuals, the media, and policymakers understand the numbers, the reactions, and the implications of this evolving world of health and financial security.

During 2007, EBRI released the 17th Retirement Confidence Survey, the 10th Health Confidence Survey, the 26th annual update on retirement program coverage, the 24th annual update on health insurance coverage and employment-based health insurance, the 11th annual update on the 401(k) system, the 21st year of the *Pension Investment Report* on total pension assets and asset allocation, the 10th year of Choose to Save® public service announcements, and the 12th year of our American Savings Education Council program. Computer modeling efforts, begun with a review of what models existed at other organizations in 1983, have continued to mature, with the Ballpark E$timate® Monte Carlo planning tool scheduled to be online before the end of 2008. EBRI began educating the public on all employee benefits with its pamphlet series in 1980, and we are near completion of the sixth edition of *Fundamentals of Employee Benefit Programs*, a book that grew out of that early project, updated for the Pension Protection Act.

The Choose to Save® public service announcements (PSAs) drove hundreds of thousands of citizens to choosetosave.org, and over 500,000 citizens completed (just at the CTS Web site) the Ballpark E$timate® worksheet. And, the National Academy of Television Arts and Sciences awarded the Choose to Save® "Savingsman" campaign the Local Public Service Announcement Emmy® Award for 2007.

EBRI reports were a resource to reporters around the world, as evidenced by our ranking by a third-party study as one of the 20 most-cited think tanks by the news media. EBRI reports were among the most frequently downloaded at the SSRN academic research Web site, and are among the most frequently cited in GAO reports and in testimony before Congress by witnesses for other organizations, when the hearing or report topic is related to savings, retirement, health or employee benefits.

During 2007, EBRI relocated to new offices, upgraded systems and Web sites, expanded the membership, and enhanced its working relationship with many organizations. With the 2008 election campaign already underway, EBRI is completing new issues sections on its Web sites as a resource to campaigns and the media, as well as to everyone who wants to better understand the facts that surround the issues under debate. During the course of 2008, EBRI will work to enhance its tools, databases, and models, in order to be well-positioned to meet expected demands in 2009 and beyond, as the new president and the new Congress face the daunting fiscal, health, and financial security issues that all of the candidates are talking about. Recent reports from the Government Accountability Office (www.gao.gov) and the Congressional Budget Office (www.cbo.gov) make it clear that the fiscal and entitlement program challenges are actually far greater than the candidates have acknowledged. This makes data that EBRI will provide for the "zero-based" reviews that are underway of the effectiveness of current health and retirement savings tax incentives essential.

EBRI is working with other organizations to build public awareness of what individuals can do to build health and financial security, and to better understand their needs and opportunities. One such effort falls the week of February 24–March 2: *America Saves Week.* An AmericaSavesWeek.org Web site has been developed to provide individuals, employers, media, and others with things they can do during that week (and during the following 51 weeks) to move toward financial and health security. EBRI will continue working with many public and private partners through its American Savings Education Council, and will continue development and distribution of the Choose to Save® public service announcements, while continuing to enhance both www.ebri.org and www.choosetosave.org. CTS PSAs have been modified to promote both America Saves Week and Military Saves Week and are being seen around the world (the U.S. Military uses them on their world network and onboard ships).

2008 also will add another year to the many ongoing survey, data, and report programs noted above. For example, more sponsors have signed up to support the 2008 Retirement Confidence Survey and the 2008 Health Confidence Survey than in any prior year. Our 2008 reports on retirement savings—the IRA and 401(k) systems—should be more comprehensive than anything we have ever been able to develop, with some data going back to our 1996 401(k) starting point. Updated and enhanced models will bring new studies during the year on the role of annuities in life-long income security and projected accumulations likely to be achieved in the current retirement system. And much more.

Membership has continued to be strong. We enter 2008 with more Sustaining and other levels of members than in any previous year, with continued broad diversity across all sectors and all interests, and more funding and strategic partners for our research and education programs. Total operating revenue in 2007 for EBRI and the EBRI Education and Research Fund was $5.1 million; total operating expenses $5.2 million. Net operating income had been budgeted at ($144,950) and ended up at ($94,458). Total cash reserves (as of 12/31/2007) were at $11.1 million. Interest income for 2007 was $569,000, providing a net addition to total reserves of just over $475,000. This was consistent with a decision by the Board made several years ago that (1) total reserves equal to two years operating expenses was adequate and (2) to dedicate all operating income, plus some interest income, to fulfillment of the mission and vision of EBRI.

The team at EBRI has a wide diversity of experience, long tenure, and high-value historical knowledge/human capital. Their loyalty and focus are functions of belief in mission and vision, and appreciation for the dedication of our Members to having EBRI "tell it like it is" with "just the facts." For myself, and on behalf of the team, I say thank you.

Dallas Salisbury
President & CEO
EBRI

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Isaacs, Stephen L., and David C. Colby. *To Improve Health and Health Care Volume XI: The Robert Wood Johnson Foundation Anthology*. $25. Customer Care Center - Consumer Accounts, 10475 Crosspoint Blvd., Indianapolis, IN 46256, (877) 762-2974, fax: (800) 597-3299, e-mail: consumers@wiley.com

Pension Plans/Retirement

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