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New Research from EBRI:

Big Employers Still Committed to Health Benefits, but Employer Groups Pushing for Fundamental Changes

WASHINGTON—Some associations representing employers' interests are suggesting fundamental reforms in the current system of employment-based health insurance, but large employers are not on the verge of dropping benefits, according to a study released today by the nonpartisan Employee Benefit Research Institute (EBRI).

The vast majority of American workers and their families who have health insurance currently obtain it through their jobs. The employment-based health system in the United States is voluntary; employers are not required to provide it, and rapidly rising health costs are forcing many employers to reconsider offering health benefits.

"An evaluation of recent data does not suggest that the end of employment-based health benefits is upon us," writes the study's author, Paul Fronstin, director of the EBRI health research and education program. "However, the message from some associations representing employers is that the existing employment-based system must be reformed because the status quo is unsustainable. Some individual employers, including leaders in the field, appear to share this new vision."

In the study, presented today at EBRI's semi-annual policy forum, Fronstin discusses the question of whether employers have reached a "tipping point" that could cause them to end employment-based health benefits. He notes various reports by others that claim that employment-based health coverage is disappearing or even "melting away like a popsicle on a summer sidewalk," but concludes this is not supported by the evidence:

"Many individual employers believe there is a business case for offering health benefits to their workers and they continue to invest substantial amounts of money in their health programs. They also tend to agree that if one major employer were to drop health benefits, others would follow," Fronstin said.

The study appears in the December *EBRI Issue Brief*, available at www.ebri.org. It makes these points:

- ***Long-term access to health benefits is stable:*** The percentage of workers reporting that they have access to health benefits through their job is largely unchanged from the mid-1990s and down only slightly from the late 1980s. In 2005, 74 percent of workers who were not self-employed reported they were eligible for health benefits through their own job, up slightly from 73.6 percent in 1995.
- ***Take-up rates are falling:*** Take-up rates for employment-based health benefits have fallen from nearly 88 percent in 1988 to 83.5 percent in 2005 among workers with benefits from their own employer, but fewer than 5 percent of workers eligible for health benefits are uninsured.
- ***Employment-based health coverage has fallen, but not sharply:*** Between 1994 and 2000, the percentage of workers with health benefits through an employer held steady at between 73 percent and 75 percent. Since 2000, the percentage of workers with health benefits has fallen to about 71 percent.

The percentage of small employers offering health benefits in 2007 was about the same as it was in 1996, though it expanded between the mid-1990s and 2000, before declining through 2005.

- ***Workers' health costs are mixed:*** Workers are paying more for health benefits: Premiums for employee-only coverage increased by 86 percent and the average deductible among workers with employee-only coverage in a preferred provider organization (PPO) increased 75 percent from 2000–2006 (while the consumer price index rose 17 percent). However, workers' out-of-pocket costs as a share of total spending have fallen: By 2005, out-of-pocket spending as a percentage of total consumer spending had declined to 26 percent, down from more than 30 percent in the mid-1990s.

A number of employer organizations are positioning themselves for a health care debate tied to a new presidency in 2009, the study says. These include the HR Policy Association, representing the chief human resource officers in the largest U.S. corporations; the Committee for Economic Development, an organization of business leaders and educators; and the ERISA Industry Committee, a membership organization representing the employee benefit plans of the largest U.S. corporations. The study also notes that the Business Roundtable and the National Federation of Independent Business have joined with AARP and the Service Employees International Union to urge change.

The significance of these organizations' proposals is that all "have a common message that employers have reached a tipping point with health benefits and are either proposing alternatives to the status quo or are on the verge of releasing such a proposal," Fronstin writes.

By contrast, 10 large employers interviewed for the EBRI study (with 18,000 to more than 200,000 employees) "think that health benefits have a positive impact on the bottom line through wellness, disease management, and worker productivity" and believe that "making health care more affordable for both employees and employers is a top business priority," Fronstin says.

The large employers agreed that they could change their mind if one major employer switched its position. Other factors that could cause large employers to change course include the elimination of the employer tax deduction for health benefits, a movement to universal coverage, or the erosion of the federal pre-emption of state regulation of health benefits.

While there is debate over whether employers have reached a tipping point for health benefits for active workers, there is no question they reached it for retirees in the mid-1990s, the study says. Indeed, most active workers will never be eligible for retiree health benefits through a former employer, it adds, pointing out that only 13 percent of private-sector establishments offered health benefits to early retirees in 2005, down from 22 percent in 1997. The major reason for the change was an accounting rule that required employers to report retiree health liabilities on their balance sheets.

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