
Health Benefit Costs Grow 3X Faster than CPI

By Editor Test Wed, Nov 24, 2010

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Average total health benefit costs per employee grew 6.9% in 2010, or over \$9,500—a significant acceleration from the 5.5% increase in 2009 and the biggest increase since 2004, according to the latest [National Survey of Employer-Sponsored Health Plans](#), conducted annually by Mercer.

That was also three times faster than the growth of the Consumer Price Index in 2010 (the last year before the provisions of the Patient Protection and Affordable Care Act, known by its opponents as “Obamacare,” begin to take effect. Cost rose by 8.5% among employers with 500 or more employees, but by just 4.4% among those with 10–499 employees.

Employers expect high cost increases again in 2011. According to Mercer, employers believe that costs would rise by about 10% if they made no health program changes, with roughly two percentage points of this increase coming from changes mandated by PPACA for 2011.

However, employers expect to hold their actual cost increase to 6.4% by making changes to plan design or changing plan vendors. Mercer’s survey includes public and private organizations with 10 or more employees; 2,836 employers responded in 2010.

“Employers did a little bit of everything to hold down cost increases in 2010,” said Beth Umland, Mercer’s director of health and benefits research. “The average individual PPO deductible rose by about \$100. Employers dropped HMOs, which were more costly than PPOs this year. Large employers added low-cost consumer-directed health plans and found ways to encourage more employees to enroll in them. And more employers provided employees with financial incentives to take better care of their health.”

Enrollment in high-deductible, account-based consumer-directed health plans (CDHPs) grew from 9% of all covered employees in 2009 to 11% in 2010. CDHP enrollment has risen by two percentage points each year since 2006. The cost of HSA-based CDHP coverage averaged \$6,759 per employee among all employers in 2010, or almost 25% lower than the cost of PPO coverage.

Starting in 2014, PPACA sets minimum standards for “plan value” (the percentage of health care expenses paid by the plan) and “affordability” (the employee’s share of the premium relative to household income). These changes are stimulating health promotion or “wellness” campaigns.

In 2010 more employers added incentives or penalties to encourage more employees to participate: 27% of large employers with health management programs provided incentives, up from 21% last year.

As in 2009, medical plan cost increases in 2010 were about two percentage points lower, on average, among employers with extensive health management programs than among those employers offering

limited or no health management programs. More than a fourth of employers with 20,000 or more employees require lower premium contributions from nonsmokers.

The prevalence of retiree medical plans slid to its lowest point ever in 2010, with just 25% of large employers offering an ongoing plan to retirees under age 65 (down from 28% in 2009) and just 19% offering a plan to Medicare-eligible employees (down from 21%). An additional 10% of employers have closed their retiree plans to new hires but continue to offer coverage to employees retiring or hired after a specific date.

The full report on the Mercer survey will be published in late March 2011.

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