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In the Literature

BENEFITS AND PREMIUMS IN JOB-BASED INSURANCE

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et al.

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Employees in the nation's smallest firms pay, on average, 18 percent more in health insurance premiums for the same benefits than do those in the largest firms, a new Commonwealth Fund–supported study finds. By examining coverage provided by various types of employers and insurance plans, the study also reveals wide variations by state—with employees in states with large urban populations, like California, Massachusetts, New York, and Pennsylvania, getting better benefits and more value than those in rural states.

In "Generosity and Adjusted Premiums in Job-Based Insurance: Hawaii Is Up, Wyoming Is Down" (*Health Affairs*, May/June 2006), Jon Gabel, M.A., vice president of the Center for Studying Health System Change, joins colleagues in assessing the value of U.S. employer-based plans, using state and national data.

About the Study

The researchers measured the generosity of health plans by asking: Given the health care utilization patterns of a standard adult population, what percentage of a medical bill would be paid by the plan, and what percentage would an employee pay out-of-pocket? To answer this question, the researchers simulated payment of medical claims using the standard adult population with employer insurance. They termed the percentage paid by the plan the "actuarial value." The researchers also measured "adjusted premiums," or the price of health plan premiums adjusted to account for the quality of benefits offered.

The study draws on the 2000 and 2002 Medical Expenditure Panel Surveys and the 2000–04 Henry J. Kaiser Family Foundation/Health Research and Educational Trust Employer Benefit Surveys.

Findings

State-Specific Data

When the authors adjusted premium costs for the quality of benefits, employers and employees in Maine, West Virginia, Wisconsin, and Wyoming—states with substantial percentages of rural residents—got the least value for their money. For example, the average adjusted premium for Wyoming employees with average benefits is $4,001, compared with $3,203 on average across all states, and $2,833 in California.

Average actuarial value ranged from 73.4 percent of all health expenses in Montana to 87.6 percent in Massachusetts. The four states where plans had the highest actuarial value—Massachusetts, California, New York, and Pennsylvania—have large urban centers.

Health Plan Type

The researchers found type of health plan to be the key determinant of both actuarial value and adjusted cost. The overall actuarial value in health maintenance organization (HMO) plans was 90 percent, 84 percent in point of service (POS) plans, 81 percent in preferred provider organizations (PPOs), and 74 percent in indemnity plans. In addition, the adjusted premiums are 25 percent higher for indemnity plans and 18 percent higher for PPO plans than HMOs. In dollars, an HMO in 2002 cost nearly $700 less per employee than a PPO and nearly $1,000 less than an indemnity plan for similar benefits.

Premiums

There were considerable differences among quality-adjusted premiums by firm size. Small firms with one to nine workers paid adjusted premiums 18 percent higher than those paid by firms with 1,000 or more workers, while firms with 10 to 24 workers paid 10 percent more.

Trends

The generosity of coverage increased from 1997 to 2002, a trend the authors attribute to two factors. First, provider networks broadened, driving down out-of-network use and associated out-of-pocket costs. Second, many PPO and POS plans shifted from coinsurance to copayments, which limited out-of-pocket costs to fixed amounts. As a result, more employees received first-dollar coverage.

Conclusions

The authors found that type of health insurance plan is more significant than type or size of employer in determining the generosity of coverage and adjusted premium prices. Because of the strong effect of plan type, adjusted premiums tend to be higher in rural states (particularly those where indemnity plans have large market presence) than in urban states with strong HMO market shares.

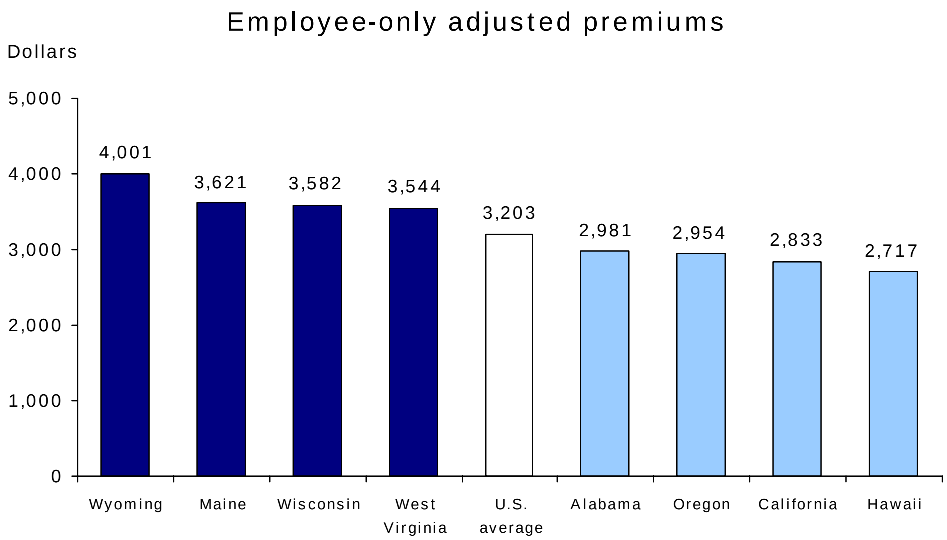
The study also documents the inefficiencies of the small-employer market—a result of the higher administrative costs from marketing, medical underwriting, greater risk, and other factors associated with small size.

"Many employers are considering adopting high-deductible health plans to dampen consumers' demand for health care services," the authors conclude. But managed care plans with more modest levels of cost-sharing, such as HMOs, yield better value and will likely continue to represent an important alternative for both employers and employees, they say.

Facts and Figures

- In 2002, employees in small firms (1–9 workers) were more likely than their peers in large firms (50 or more workers) to face deductibles (54% vs. 44%).
- In the three states where health plans have the lowest actuarial value—Iowa, Mississippi, and Montana—indemnity plans have a sizable market share.
- Among small-firm employees who have deductibles, the average amount is $599, compared with $386 of those in large firms.

States with Highest and Lowest Adjusted Health Plan Premiums, 2002



Adapted from J. Gabel, R. McDevitt, L. Gandolfo et al., "Generosity and Adjusted Premiums in Job-Based Insurance: Hawaii Is Up, Wyoming Is Down," *Health Affairs,* May/June 2006 25(3):832–43.