

Special  
points of interest:

- **HEALTH CARE COSTS WILL EXCEED \$8,000 PER EMPLOYEE IN 2006**
- **NEW YORK STATE HEALTH CARE SURCHARGES TO RISE, EFFECTIVE JANUARY 1, 2006**

## HEALTH CARE COSTS WILL EXCEED \$8,000 PER EMPLOYEE IN 2006

The following is an excerpt from Spencer Benefits Report:

### Health Care Costs Will Exceed \$8,000 Per Employee In 2006, Towers Perrin, Hewitt Find

Health care costs in 2006 will continue to escalate much faster than the overall Consumer Price Index, according to recent reports by Towers Perrin and Hewitt Associates.

Towers Perrin predicts an 8% increase, and although this seems modest compared to recent years, the *2006 Towers Perrin Health Care Cost Survey* reports that the health care expenditures per employee will average \$8,424 in 2006, which is a 140% increase over the last ten years. Hewitt Associates is forecasting a 9.9% increase for 2006, which is more than the 2005 increase of 9.2%, but still considerably less than the 15.2% increase reported in 2002.

The 8% increase in 2006, projected by Towers Perrin, will result in a \$597 per-employee increase in health care expenditures. However, this increase could easily have been \$750 per employee if companies had not implemented cost-saving measures, such as managing performance through vendor selection and performance management and implementing consumer-driven health plans (CDHPs) and disease management programs.

Towers Perrin found that the average 2006 reported cost for all types of health care plans will be \$355 per month for employee-only coverage, \$715 per month for employee-plus-one coverage, and \$1,033 for family coverage. The amounts reported for retiree health care

coverage are higher: \$562 per month for retiree-only coverage and \$1,106 for retiree-plus-one coverage.

On average, employers continue to pay the majority of health care costs. Employers plan to absorb 74% (or \$442 per employee) of the cost increase, while employees will pay \$155 more in 2006. Overall, employers will pay 80% of premium costs and employees will pay 20%. The Towers Perrin survey found that employers are recognizing the need to look beyond cost shifting as a way to decrease their total costs and are looking for other ways to cut costs.

### Hewitt Associates Survey

Hewitt is predicting a 9.9% increase in health care costs in 2006, following a 9.2% increase in 2005. Although average health care costs have decreased since the 2002 increase of 15.2%, some U.S. markets continue to experience double-digit increases, such as Cleveland/Akron (12.2%), Boston (11.1%), Atlanta (11.1%), Houston (10.6%), Orlando (10.4%), Kansas City (10.4%), Orange County (10.4%), Sacramento (10.4%), and Tampa Bay (10.3%).

By plan type, Hewitt is estimating a 9.5% cost increase for preferred provider organization plans, a 10% increase for HMOs, and a 10.5% increase for point-of-service (POS) plans. The corresponding dollar amount per employee will be: \$8,075 for PPOs (up from \$7,374 in 2005); \$7,752 for HMOs (up from \$7,048 in 2005); and \$8,673 for POS plans (up from \$7,849 in 2005).

Like Towers Perrin, Hewitt believes that employees will be responsible for approximately 20% of health care costs in 2006, or \$1,612

(up from \$1,444 in 2005). In addition to these premium contribution increases, employees will see their out-of-pocket costs go up from \$1,366 in 2005 to \$1,524 in 2006. Overall, employees' total health care costs, including both premium contributions and out-of-pocket costs, are estimated to be \$3,136 in 2006, up 12% from \$2,810 in 2005.

Both studies found that employers understand that measures other than employee cost-sharing are needed. Hewitt outlined the measures most employers are in the process of developing to help lower costs, as follows:

**Offering CDHPs.** Hewitt has found that companies with significant enrollment in CDHPs are experiencing rate increases well below the national trend or, in some cases, even decreased costs. Hewitt expects more companies will offer such plans in the next few years, perhaps as many as 25% to 30% of all large employers.

**Contracting with plans that offer specialized or health risk management programs and focus on wellness and prevention.** In an effort to enhance or maintain the health of their work force, more employers are offering specialized or health risk management programs that can help manage employees' chronic health conditions. More companies are offering wellness and health promotion programs, as well as providing financial incentives for employees to participate in these programs.

**Requiring more quality data and price transparency.** Employers have increased their focus on quality. Many companies are choosing to work only with plans and hospitals that have solid track records in terms of efficiency, quality, outcomes, and cost. Quality information is becoming more detailed and widely available, and employers have begun to require greater cost transparency, especially in the area of prescription drugs.

**Changing prescription drug coverage.** Prescription drug costs continue to be a major driver behind insurance cost increases, and employers are actively evaluating new strategies to contain these costs. For 2006, companies are implementing higher copayments and coinsurance models, mandating low-cost substitution provisions and mail-order for certain therapeutic drug classes, and offering generous generic drug programs and designs.

The Towers Perrin survey includes responses from 200 large employers, covering more than 5 million U.S. employees, retirees, and dependents. The Hewitt data was derived from the Hewitt Health Value Initiative, which analyzes more than 2,000 health care

plans throughout the U.S. For more information, visit <http://www.towersperrin.com/hrservices> and <http://www.hewitt.com>.

## **NEW YORK STATE HEALTH CARE SURCHARGES TO RISE, EFFECTIVE JANUARY 1, 2006**

The New York state fiscal year budget for 2005-06 extended the provisions of the Health Care Reform Act (HCRA) to June 30, 2007, and raising existing surcharges on health services performed on or after Jan. 1, 2006, through June 30, 2007. The HCRA, which was originally enacted in 1996, implemented a patient services tax designated for an indigent care pool, and a graduate medical education tax designated for a professional education pool, applicable to inpatient hospital payments. All non-government payers, including HMOs, Blue Cross and Blue Shield plans, and self-funded health care plans are subject to these surcharges.

The patient services tax through the end of year 2005 is an 8.85% surcharge imposed on every payment made for inpatient and outpatient hospital services, diagnostic and treatment centers, and clinical laboratories. Payers may make the surcharge payments either directly to the state pool or to the provider. However, payments made directly to the provider require an additional 25.97% assessment. Effective for patient services rendered from Jan. 1, 2006, through June 30, 2007, the surcharge will rise to 8.95%, and the additional assessment will rise to 26.26%. Payers' established elections to make direct payments to the State Department of Health pool administrator will continue unless the payer revokes the election.

Payers must file monthly forms reporting patient services payments, the payer's surcharge obligations for the month, and the payer's total liability for covered lives. Failure to file the required monthly reports within 60 days of the due date may result in a civil penalty. Third party administrators and payers now are required to file the reports electronically at <http://www.hcrapools.org>. The electronic filing user application and instructions for completing it have been posted in both HTML and PDF formats.

Questions regarding electronic filing should be directed to the HCRA help desk at (315) 448-6994. Questions regarding the surcharges should be referred to an HCRA representative at (518) 473-4653. An explanation of the surcharges and copies of required forms also may be obtained through the HCRA's Web site at <http://www.health.state.ny.us/nysdoh/hcra/hcrahome.htm>