

Special Points of Interest:

- HEALTH BENEFITS COSTS ROSE 6.1% IN 2006
- MENTAL HEALTH PARITY ACT EXTENDED FOR ONE YEAR

Health Benefits Costs Rose 6.1% in 2006

Source: Spencers Research Reports—
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Health benefits costs rose by 6.1% in 2006, the same rate as in 2005, to an average of \$7,523 per employee per year, according to the latest *National Survey of Employer-Sponsored Health Plans* conducted by Mercer Health & Benefits LLC. This rate increase ends a three-year period during which employers succeeded in lowering the rate of increase from a high of 14.7% in 2002, Mercer noted. The average per employee annual dollar figure includes dental plans and employees' share of the premiums, but not employees' out-of-pocket costs. The survey reflects responses from nearly 3,000 public and private employers with at least ten employees.

Employers with fewer than 500 employees experienced a faster rate of growth in 2006, 7%, than in 2005, driven by higher insurance rates; and employers expect another 6.1% average rate increase for 2007. In 2006, cost shifting to employees with higher deductibles, copayments, and out-of-pocket maximums slowed, as did cost increases for prescription drug benefits, from 11.5% in 2005 to 10.4%, moderated by plan designs encouraging generic use. Also moderating health benefits cost increases is the growing number of employees switching to less-costly consumer-directed health plans (CDHPs) with health care accounts.

The rate of employers offering CDHPs with either a health reimbursement account (HRA) or a health savings account (HSA) tripled to 6% in 2006, from 2% in 2005. The use of such accounts grew for small employer (from 2% to 5%) and for large employers (from 5% to 11%), and is likely to nearly triple for 2007 to 14% for both employer groups. More than one-third (37%) of the largest employers offered a CDHP in 2006. CDHP enrollment still represents a very small pro-

portion of health benefit enrollees (3%, the same as for traditional indemnity plans), compared with 61% in 2005 and 2006 for preferred provider organizations. However, among large employers offering a CDHP, enrollment rose from 22% of eligible employees in 2005 to 27% in 2006. The per employee annual average cost of medical benefits was lowest for CDHPs (\$5,770) and the highest for PPOs (\$6,932). Costs for PPOs with high deductibles similar to CDHPs cost only slightly more than CDHPs, at \$6,019.

The very largest employers were most likely to offer a CDHP with an HSA (22%) or an HRA (21%), while large employers (those with at least 500 employees) are much less likely to do so (6% for each type of account in 2006). HSAs offered by large employers reflected less generous benefits than HRAs; the average deductible for an HSA was \$1,665, compared with \$1,359 for an HRA. Only 57% of employers contributed to employees' HSAs, while 100% of employers contributed to HRAs; the employer contribution to an HSA averaged \$571, compared with \$648 for an HRA.

Moreover, 60% of large employers indicated that they would be offering one or more account-based plans within the next five years, including 10% who reported that they will offer only account-based plans. More than one-third of small employers (36%) plan to offer such plans within the next five years.

The number of employers offering medical benefits to Medicare eligible retirees continued to drop to 19% on 2006, and another 10% do not offer the benefit to new hires. Of the employers that still offer retiree medical benefits to new hires, only 78% believe that they would continue to do so five years from now.

Furthermore, the proportion of retiree medical benefit sponsors that did not seek the Medicare Part D prescription drug subsidy plunged dramatically in 2006 to 25%, from 43% in 2005.

At the same time, sponsors receiving the subsidy rose from 44% to 51%, and more employers opted to offer wrap-around prescription drug coverage (13%, up from 4%). The percentage of employers that continued to offer retiree medical benefits to early retirees remained stable at 29%. Some retiree medical plan sponsors offer an HSA for employees to save for their medical expenses in retirement (7%) and another 20% are considering doing so.

Mental Health Parity Act Extended for One Year

Congress has passed, and President Bush has signed, the Tax Relief and Health Care Act of 2006, which extends the Mental Health Parity Act (MHPA) provisions of ERISA, the Code, and the Public Health Service Act (PHSA) to December 31, 2007. The MHPA's provisions were first effective for plan years beginning on or after January 1, 1998 and were originally set to expire for benefits for services provided on or after September 30, 2001. However, various laws passed over the years have extended the MHPA to its current expiration date.

The 1996 law prohibits group health care plans from applying a lower annual or aggregate lifetime dollar limit on coverage to mental health benefits than the plan applies to medical/surgical benefits. While the 1996 law bans discriminatory annual and lifetime dollar limits on mental health care benefits, it allows group health care plans to discriminate in other ways. For example, plans can [DOL Reg. Sec. 2590.712, 72 Fed. Reg. 8628 (Feb. 27, 2007)] For a copy:

<http://edocket.access.gpo.gov/2007/pdf/E7-3278.pdf>