Scenario #3 – Sarah Robbins, Chief Financial Officer, Large Coffee Company

Sarah is 48 years old, married with one child, age 9. Her husband works for an Internet company.

Sarah announced at a shareholders' meeting that their coffee beans now cost less than providing employees with health insurance benefits. The company recently offered their plan to employees at their many locations in order to cut down on a costly high turnover rate, but few could afford the employee share of the monthly premium. The premiums for the three types of benefit plans they offer employees (HMO, PPO, or major medical only) have on average gone up by more than 12% over the past two years. They are faced with increasing health costs as well as meeting the demands of their customers for more expensive to buy coffee beans that are fair-traded, shade-grown, and organic.

Sarah is advocating for shifting more of the costs to employees by: either raising the employee contribution to family coverage; raising copays and putting in a deductible for all plans except the HMO (which has been losing members); and offering a Health Savings Account (HSA). Their consultant says the HSA is a great deal for the healthy, single people, but Sarah is worried that it hasn't been around long enough to see if it is really an answer to their fiscal problem. And if the young people move into that plan, the premiums for older employees (about 34% of their workforce) may go up significantly (since they generally use more services). She is wondering why employers have to provide health care insurance at all and how to shift the country to another system.

Employer Provided Insurance Systems

Most private health coverage in the U.S. is employment based, and the employer typically makes a substantial contribution towards the cost of coverage. According to the Centers for Medicare and Medicaid Services, nearly 100% of large firms offer health insurance to their employees.

Costs for employer-paid health insurance are rising rapidly: since 2001, premiums for family coverage have increased 78%, while wages have risen 19% and inflation has risen 17%, according to a 2007 study by the Kaiser Family Foundation.

However, in a 2007 analysis, the Employee Benefits Research Institute concluded that the availability of employment-based health benefits for active workers in the U.S. is stable. The "take-up rate," or percentage of eligible workers participating in employer-sponsored plans, is falling. The percentage of workers actually covered has fallen somewhat, but not sharply. EBRI interviewed employers for the study, and found that others might follow if a major employer discontinued health benefits. Public policy changes could also result in a reduction in employer support for employment-based health benefits.

Although much more likely to offer retiree health benefits than small firms, the percentage of large firms offering these benefits fell from 66% in 1988 to 34% in 2002.

Employer-provided Insurance Continues to Decline
by Julie Appleby, USA TODAY

The percentage of people with health insurance through their employers — traditionally the way most people get coverage — is continuing to shrink, raising anxiety among workers and invigorating a debate about whether insurance should be tied to jobs.

Many of those who get their coverage through their jobs are becoming less secure that those benefits will always be there.

"It's going to disappear," says Angela Ruggiero of North Port, Fla., who lost her insurance when she and her husband changed jobs. "There's no way employers can continue to pay premiums if they continue increasing."

Her concern is reflected in the ongoing discussions among policymakers, politicians and some business leaders over whether to alter the link between employment and insurance. Several ideas have been floated, including a range of proposals in Congress.

The measures can be lumped into differing philosophies about the direction the USA should move: either toward a health insurance market in which people buy policies on their own while armed with tax credits or deductions, or one in which people are able to buy insurance through group-like "exchanges," with some government oversight. Some of the plans likely would encourage employers to drop coverage because the employers would lose all or part of their ability to write off insurance as a business expense.

Federal legislation is unlikely this year. But the chatter about fundamental changes in health insurance comes as a declining percentage of employers are offering coverage. That's fueling concern among consumers such as Ruggiero who say the system isn't working and is poised to leave rising numbers of people — particularly those with health problems — struggling to get insurance:

- The percentage of all employers offering health insurance in the past eight years peaked in 2000 at 69% and has fallen steadily since, hitting 60% this year, according to an annual survey of employers by the non-partisan Kaiser Family Foundation. Among small firms of three to nine workers, the percentage offering insurance has dropped even more — from 58% in 2001 to 45% this year.
- From 2001 to 2005, the number of uninsured U.S. workers rose by 3.4 million. Almost 19 million workers — 17% of all employees — were uninsured in 2005, according to the Kaiser Commission on Medicaid and the Uninsured.

"I don't think people realize" how easy it is to become uninsured, says Ruggiero, 41, who says she used to think "the only uninsured Americans were the homeless."

Three years ago, she and her husband, John, left jobs with health benefits in New York to move to Florida to strike out on their own: John as a real estate agent and Angela as an office manager for an financial planner. Neither job came with health insurance.

Then they learned how difficult it is to buy health insurance outside of employment, mainly because they both had some minor health conditions. They were hopeful about an "open enrollment" period allowed each year under Florida law. During that time, insurers must offer coverage to sole proprietors and may not exclude those with medical problems.

But for the Ruggieros, the cost of coverage was out of the question: $1,500 a month to cover the couple and their 11-year-old son, Jared. So they remained uninsured until last January. When the real estate market tanked, John took a job as a package handler for a shipping firm, a position he still holds part time because it provides his family with health insurance.

Eventually, John quit real estate sales and took another full-time job in a warehouse. The warehouse job offers health insurance, but his share of the monthly premiums would have been $300, or about 10% of his income, so he declined. Insurance from his part-time job doesn't cost anything out of his paycheck. "It's a lot of juggling," says Angela Ruggiero.

Paying more for coverage

Among people with health insurance, the Census reports that 59.7% got it through their jobs in 2006, down from 60.2% in 2005. And they're paying more for it. The average amount workers pay toward the premium for a typical family policy rose from $129 a month in 1999 (about $160 in today's dollars) to $273 this year, a jump of 70% when adjusted for inflation, the Kaiser survey of employers shows.

The increases come mainly because premiums have soared, rising at several times the rate of inflation in most years. In many cases, cost-cutting employers have increased the share of the premiums that workers pay.

For years, Lyle Kenaga, president of Business Cards Tomorrow in Nashville, paid 100% of the premiums for his 15-employee firm. But two years of 20% rate increases from his insurer forced him to reduce the amount his company pays toward coverage. This year, the firm pays 70% of the premium cost; workers pick up the rest. If huge increases in premiums continue, "We'll have to consider whether or not to continue providing coverage," he says.

Premiums continue to go up, although the rate of increase has slowed in the past couple of years. This year, the average increase faced by employers was 6.1%, according to the Kaiser survey, well below the recent peak increase of 13.9% in 2003.

Such premium increases weigh heaviest on lower-income workers. For example, a household earning $40,000 this year would have to pay 8% of its pretax income to cover the average share paid by workers — $3,281 — for a typical family policy offered by employers, which this year cost $12,106. That doesn't include deductibles and co-payments that those with coverage must pay.

"People should be nervous," says Len Nichols, an economist at the Washington think tank New America Foundation. "People aren't so afraid of losing their jobs as (of) not being able to afford health insurance even with a good job," he says.

Looking for answers

Many large employers are uncomfortable with the growing cost of health insurance, but few want to get out of offering coverage entirely.

"They see it as a way to compete for skilled workers, and they do sense that they have a compact with the employee not to walk away from it," says Robert

Laszewski, president of Health Policy and Strategy Associates, a consulting firm that works with insurers and other health care clients.

Many small employers also say they want to continue offering benefits. "I can't imagine not offering insurance," says Diane Dearing, owner of Display Structures in Troy, Mich.

Because of rising costs, Dearing had to change insurers this year — and put more than half of her 20 employees into an HMO, which has a specific list of doctors and hospitals that it covers, rather than a more expensive preferred-provider organization with a wider choice of doctors. Her workers pay 25% of the premium.

"It's a huge expense," Dearing says. "But even if I had to go to something like a high-deductible major medical plan, if we're in business and making anything at all, we will still provide insurance."

The idea of separating insurance from employment has been raised before. "Even in the height of a strong economy, people were talking about it," says Paul Fronstin of the Employee Benefit Research Institute, which published a book in 1999 called *Severing the Link Between Health Insurance and Employment.*

"Now it's taking on a new life." Among other things, critics of the current system say it grants tax breaks to corporations that offer coverage, and tax-free benefits to the workers who get coverage.

At the same time, low-wage workers who don't get insurance through their jobs not only don't have coverage, but also don't get the tax break. "The employer-based system is fundamentally unjust," says Guy Clifton, a professor of neurosurgery at the University of Texas Health Science Center in Houston who is in Washington as a Robert Wood Johnson health policy fellow.

Proposals to modify the health insurance system — or sever it from employment — are gaining currency across the political spectrum, from presidential candidates to Congress to business groups.

Some of the proposals now under debate would encourage people — armed with tax credits or deductions — to buy their own insurance on the private market, but would not require anyone to buy it or insurers to sell to all who apply.

Other proposals would require all individuals to have coverage and would create "exchanges" in which groups of residents and employees could buy health insurance, regardless of where or if they work. Insurers would be required to sell policies even to applicants with health problems.

In Congress, a bipartisan bill — unusual for a health-reform effort — has been proposed by Sens. Ron Wyden, D-Ore., and Bob Bennett, R-Utah. It would have employers drop coverage and give workers raises, then create exchanges that would allow everyone to buy insurance.

Even the president of the Service Employees International Union, Andrew Stern, has said that employer-based coverage is dead and an alternative should be found.

"It's a terrible idea to rely on the individual market as it's presently constituted," says Jacob Hacker, professor of political science at Yale, mainly because those with medical conditions find it difficult to get coverage and insurers fear that people wait until they know they need health care to buy it.

Sara Horowitz, founder and director of the Freelancers Union — whose members are independent workers in finance, non-profits, domestic services, publishing, advertising and health care — says something needs to change, because the working world has. "The nature of work is changing: Jobs are much more short-term and flexible," Horowitz says. "That's why we need to think about new kinds of models … and start building a portable benefits network."

Change is not likely soon, however. Efforts to revamp health insurance have begun in a few states — including Massachusetts, Vermont and Maine — but no big changes will occur nationally until well after the November 2008 election. And although it's eroding, employer coverage isn't going to end suddenly.

"Employer coverage won't go away overnight, unless there's a major change to federal legislation that oversees health insurance," says the employee benefit institute's Fronstin. "Employers don't have to offer it, but they see a business case for offering it, and they don't (currently) see a viable alternative."