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Employer-Based Insurance: Paying More, Getting Less

By Kate Pickert

If you like what you have, you can keep it.

Throughout the health-care-reform debate, this has been President Obama's central message to the 80% of Americans who say they are satisfied with their health insurance. But as the millions of Americans who receive coverage through their employers — and who make up a large portion of that satisfied 80% — start signing up for their 2010 coverage in the so-called open-enrollment period over the next few weeks, they may well wonder if the status quo is such a good thing.

No part of the U.S. health-care apparatus has been more sacrosanct in the current debate than the job-based insurance system that provides coverage for some 160 million Americans, or about 60% of all insured Americans. Yet the numbers behind that system show that it may be just as unsustainable as — if not more than — the U.S. health-care system as a whole, in which costs nationwide are on pace to exceed 20% of our gross domestic product by 2018. Premiums for employer-sponsored insurance increased 131% from 1999 to 2009, according to the Kaiser Family Foundation; over the same period, employee contributions to those premiums went up 128%. From 2006 to 2009, the percentage of insured individual workers with annual deductibles of $1,000 or more rose from 10% to 22%. Of companies that offered health benefits in 2009, 86% offered only one plan. (Watch TIME's video "Uninsured Again.")

"It's clear that the trend with workers for a lot of plans is spend more, get less," says Democratic Senator Ron Wyden of Oregon, a member of the Senate Finance Committee who has pushed, so far unsuccessfully, for the reform bills in Congress to give employees and employers more choices by allowing them to shop for coverage in the insurance marketplaces that would be established under reform.

Changes to 2010 health benefits, which reflect the first chance employers have had to restructure their plans since the economy started tanking in September 2008, look to be even more daunting than usual. Surveys indicate that in 2010, 40% of employers will shift more premium costs onto employees and 39% will increase deductibles, co-payments, co-insurance or out-of-pocket maximums. More employers are steering workers toward catastrophic health policies with deductibles as high as $5,000 or $10,000. (See 10 players in health-care reform.)

"In the absence of significant reform, we will continue to see an erosion of the employer-based system. Smaller employers are dropping coverage altogether. The ones who are able to offer coverage are under greater and greater pressure. [In] the large-employer market, I see continued cost-shifting," says Tom Billett, a senior consultant for Watson Wyatt, a firm that advises companies (including TIME's parent company, Time Warner) on health-plan design.

Congressional-reform proposals would do little to change the current system. While some form of "employer mandate" would require employers to provide coverage or pay penalties, most large employers already offer benefits and many small businesses that can't afford them would be exempted from the requirement. Of the reform proposals that could have some long-term effect on the employer-based system, the most significant may be one that would levy a 40% excise tax on policies that cost more than $8,000 for individuals and $21,000 for family coverage in 2013. (The average total cost of individual and family policies in 2009 was $5,791 and $14,375, respectively.) Policy experts say these expensive plans lead workers to overuse the medical system, driving up costs for everyone else, and all observers would expect such a tax to be passed on directly to policyholders in the form of higher premiums — or less generous benefits.

The excise tax is just one of many ways the government and employers are hoping to change employee behavior. The days of paying a $15 or $25 co-pay for a visit to a specialist are slowly being replaced by co-insurance, a throwback to old-fashioned indemnity plans in which patients pay 10%-20% of the actual cost of each doctor's visit, lab test, procedure or prescription. When it comes to employee health, companies are going to stress "personal responsibility," says Kent Lonsdale, an executive vice president with the consulting firm Gallagher Benefit Services Inc.

With that in mind, many large employers offer so-called wellness programs, including efforts to get workers to lose weight or quit smoking. But it will probably take a long time before personal responsibility or feel-good wellness programs start to pay dividends in the form of slowing costs. Until then, employers are scrambling to keep costs from exploding further. In addition to shifting more costs to employees, companies are also turning to a host of strategies to trim what they spend for workers' insurance. More and more firms are conducting "dependent audits," weeding out enrollees who don't actually qualify for coverage or charging employees more for dependents who are offered coverage elsewhere, like a wife who could get insurance through her own job but elects to be part of her husband's family plan. Increasing numbers are offering employees a bit of a break on their premiums if they are willing to complete health assessments. (Read "Understanding the Health-Care Debate: Your Indispensable Guide.")

In one respect, of course, employers are simply grappling with the rise in overall medical costs, which are growing at about three times the rate of inflation. But another, less talked about problem is that in recent years employers and employees have been passive consumers of health insurance. Many large employers, which simply passed along growing costs to workers, didn't spend a lot of time shopping around for good deals and tailoring health plans to get the most bang for the buck. And many employees were under the false assumption that their health benefits were mostly paid for by their employers. As the Washington *Post*'s Ezra Klein recently pointed out, if health-insurance costs were lower, workers would almost certainly earn more in salary.

It's easy to understand why Obama is promising to preserve the employer-based system even in the face of higher costs and fewer benefits. It could be political suicide to tell the millions of Americans who get insurance through their jobs the painful truth: under the reform proposals, even if you don't like what you have, you might still have to keep it.

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