

# BENEFIT

## Plan Developments



A monthly report covering plan design and legislative changes

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## Workers Satisfied With Benefits, But Worried About Finances

Workers at small to mid-sized American companies are, on average, satisfied with their employer-sponsored benefits, but are worried about their current and future financial security, a survey by Harris Interactive for Principal Financial Group showed. The results also indicated that many people working for companies with 10–1,000 employees believe their workload is increasing, even as the cost of living rises.

The survey, taken twice annually, found that just 26% of the 1,227 workers polled were extremely happy about their current financial well-being, compared to 34% in the first quarter of 2004. Respondents were largely pessimistic about their future prospects, with 78% saying they were very concerned about their long-term financial future, compared to 76% in Q1 2004.

When asked what issues concerned them most in the election season, 81% of respondents cited the economy and jobs, followed by

### *In This Issue*

- Companies May Cut Costs Elsewhere To Pay For Health Coverage
- Chiropractic Health Benefits Can Pay Off For Employers
- “Presenteeism” Jeopardizes Healthy Workplaces
- Health Insurance Cost Increases To Slow In 2005

health care (71%), homeland security (60%), and financial well-being (58%).

Nearly a third (30%) of the employees surveyed said they are working harder this year than they were in 2003. Some 30% said they are working a longer work week compared to the same time last year, and 16% said they expect to lose vacation time because they cannot afford to take the time off.

At the same time, virtually all of the workers surveyed said their expenditures on daily consumer goods had risen over the past year. Virtually all respondents (97%) said they are spending more on basic items, such as gasoline and groceries, with more than two-thirds reporting that their spending had risen more than \$25 a week.

The majority of respondents also admitted they had so far failed to plan adequately for retirement. More than one-quarter (27%) of those surveyed



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*The benefits workers value most are health care, defined contribution plans, and defined benefit plans.*

said they had not planned their retirement savings, and 71% said they do not have a plan for transitioning their retirement savings into a steady stream of income. Overall, 53% of respondents said they expect their standard of living to decline in retirement. Those aged 55 and older were the most pessimistic, with 66% saying they expect their standard of living to fall when they stop work, which most expect will be at age 67.

Despite these concerns about retirement, 53% of respondents said they are satisfied with their employers' defined contribution plans, up from 43% in the first quarter of 2004. The survey also showed growing levels of satisfaction with defined benefit plans, as well as employer-provided life insurance, disability insurance, and health insurance. The benefits workers said they valued the most were health care, defined contribution plans, and defined benefit plans. Almost two out of three employees (64%) surveyed agreed that good employee benefits keep them working for their current company, and encourage them to work harder and perform better.

## Companies May Cut Costs Elsewhere To Pay For Health Coverage

Employers may start trimming budgets elsewhere in their organizations to compensate for increases in the cost of employee health insurance, a survey by the Society for Human Resource Management (SHRM) has suggested.

In the survey of 375 human resources practitioners, respondents were asked to report on the likelihood of adjustments being made in various organizational areas to cover employee health costs. The areas where cuts are most likely to occur, according to the survey, are in other

employee benefits (29%), hiring new staff (28%), employee salary/raises (22%), employee training/professional development (19%), and technology investments (12%).

Companies may also resort to cost control measures if health care costs continue to rise, the survey indicated. Some 44% of respondents said expectations of employee productivity would likely rise, 29% anticipated an increase in the costs of consumer services and products, 19% said their company may explore the use of offshoring or outsourcing, and 15% said that downsizing and layoffs could occur.

"For years, health care costs have increased three to five times faster than the rate of inflation, and employers absorbed most of that cost," said Susan R. Meisinger, president and CEO of SHRM. "Employers want to provide health care coverage to employees; however, increasing health care costs are cutting into all areas of business, and that severely affects an organization's overall success and competitiveness."

In the administration of benefits, SHRM advocates reform based on a model that has built-in incentives to balance both quality and cost efficiencies. The organization calls upon employers and employees to become informed consumers of health care.

## Chiropractic Health Benefits Can Pay Off For Employers

Offering chiropractic health care benefits to employees can save companies money in the long run by reducing hospitalizations and expensive diagnostic procedures, according to a study sponsored by American Specialty Health of San Diego, the results of which were published in the October issue of the *Archives of Internal Medicine*.

The study consisted of a four-year retrospective claims data analysis comparing more than 700,000 health plan members with a chiropractic benefit, and members of the same plan that lacked the benefit. Researchers found that members with chiropractic insurance coverage incurred a 41% reduction in hospitalizations for back pain, and a 32% reduction in back surgeries.

Back pain patients with chiropractic coverage were also far less likely to need expensive tests and procedures than those without the benefit, researchers concluded. They found that members with the benefit incurred a 37% reduction in the use of CT/MRI scans, and a 23% reduction in x-ray use, the study found. Moreover, the cost of treating each episode of back pain was 28% less for employees with chiropractic coverage than for those without.

“This study demonstrates that chiropractic coverage can be a powerful cost containment tool for employers and health plans that are struggling to keep the lid on escalating costs,” said George DeVries, president and CEO of American Specialty Health.

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## “Presenteeism” Jeopardizes Healthy Workplaces

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Employers are becoming increasingly aware that “presenteeism”—or workers coming to work when they are ill—can have a negative effect on productivity, a survey by CCH Incorporated found.

According to the results of the “2004 CCH Unscheduled Absence Survey,” 39% of employers surveyed on the issue of absence control among employees said presenteeism is a problem in their company. More than half of employers that rated their employee morale as low to fair identified presenteeism as a challenge for their organizations.

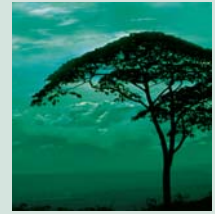
CCH researchers concluded that presenteeism not only frequently results in lower productivity among workers who come to work ill, it can also increase the risk of sick employees infecting their otherwise healthy co-workers.

Researchers warned that the problem of presenteeism could become especially acute this winter given the shortage of flu vaccine. “With a serious flu season looming, the idea of the ‘hero worker’ that manages to punch in for a full-day’s work, despite illness, needs to be discouraged,” said Lori Rosen, CCH workplace analyst. “Being in contact with contagious individuals jeopardizes the health and productivity of all employees. Employers need to emphasize to employees that, while they want them at work, they first want a healthy workplace.”

The findings also showed that 91% of companies surveyed used disciplinary action to enforce their absence control policies. CCH researchers recommended that employers review their sick day policies, to determine whether they may inadvertently encourage employee presenteeism.

“For example, in an organization that allots each employee five sick days a year and takes disciplinary action on the sixth absence, an employee who has been wiped out with the flu for several days may choose to come to work ill rather than risk the discipline,” said Rosen. “This is especially true at the beginning of the year, when employees are concerned about depleting all of their allowed leave in just a month or two. Unfortunately, that time also is the height of the flu season.”

Companies could mitigate presenteeism by allowing employees to carry over sick days from one year to another, researchers suggested. The survey showed, however, that the number of employers that allow employees to carry over sick leave has dropped from 51% in 2000 to 37% in 2004. Instead, 63% of the companies surveyed said they provide employees




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with a paid leave bank, under which personal, vacation, and sick days are combined into a single bank of days that can be used as needed.

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## Health Insurance Cost Increases To Slow In 2005

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Employers can expect health care insurance costs to rise by an estimated 8% in 2005, down from the double-digit increases of recent years, according to a survey by professional services consultancy Towers Perrin. Researchers credit employer efforts to improve efficiency through vendor management and care management initiatives for the lower rate of increase.

But researchers also warned that the average expected increase of \$582 per employee is still unsustainable. "Don't be fooled into thinking that total costs will be significantly lower this year than in years past," said Jim Foreman, managing director of global health and welfare for Towers Perrin. "The cumulative effect of soaring costs year over year has created a bigger cost base, which means that, while this year's percentage increase creates an appearance of lower costs, the increase in the actual dollar amount is similar to past years."

On a more positive note, Foreman added, "The good news is that, while employers have simply shifted some costs to employees through benefit design changes, their efforts to control the underlying drivers of health care cost increases are beginning to make a difference. Specifically, care management and vendor management initiatives have each cut approximately two points off the average pace of cost increases for

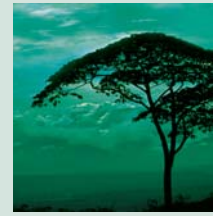
employers who have put these measures into place."

According to the survey of 200 companies, the average reported 2005 cost of medical coverage for all types of health plans combined is \$328 a month per month for employee-only coverage, \$668 per month for employee-plus-one-dependent coverage, and \$945 per month for family coverage.

Employers plan to ask employees to pay more out-of-pocket for their medical coverage in 2005 than in previous years, but most companies still intend to pick up the bulk of the premium cost, the survey found. On average, employees will contribute 19% for individual coverage, and 25% for dependent coverage. The employee share of premium costs will increase by an average of 14% in 2005, while the employer share will rise by 7%, the survey showed.

Researchers noted that employees are paying 56% more in health care costs currently than they were four years ago, and 71% more than they were eight years ago. Employer costs, however, have gone up even more dramatically over time: according to the survey, companies are now paying 63% more in health care costs than they were four years ago, and 87% more than eight years ago.

The main factors driving the cost increases cited by respondents were rising HMO rates, continued high use of heavily promoted prescription drugs, sharp increases in the price of hospital services, greater demand for more expensive diagnostic tests, and higher utilization of physician specialists.




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