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# DataWatch

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## The Health Insurance Picture In 1990

by Cynthia B. Sullivan and Thomas Rice

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For the first time since 1987, the rate of increase in employer-sponsored group health premiums has declined. The average premium increase in 1990 was 14 percent, compared to an average increase of 24 percent in 1989. The shift away from traditional indemnity plans to conventional health plans with utilization management, health maintenance organizations (HMOs), and preferred provider organizations (PPOs) continued between 1989 and 1990. A relatively new market product—the point-of-service plan—grew significantly among large employers; point-of-service plans now account for 5 percent of the total market share.

The number of firms that fully self-insure their health plans, or partially self-insure and purchase “stop-loss” insurance coverage, increased somewhat in 1990; over half of all employees now work for firms that are fully or partially self-insured. At the same time, an increasing number of employers are passing on a greater share of the costs of health care to their employees. For example, some employers are paying a slightly lower proportion of the total monthly premium or increasing deductibles or copayments. Fourteen percent of all firms offer a “cafeteria-style” benefits plan that allows employees to choose from a list of benefits those they would like to receive.

This DataWatch reports on these and other findings that emerged from the 1990 Health Insurance Association of America (HIAA) survey of employer-sponsored health benefit plans.

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### Methods

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Our sample of employers includes 3,192 public and private firms that were interviewed in the spring of 1990 by the research firm Westat. The data represent, for the most part, contracts signed in December 1989 for

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the 1990 calendar year. The interviews included over 100 questions about the firm's largest conventional HMO, PPO, and point-of-service health plans. The typical interview with firms that offered health insurance was twenty-five minutes; interviews with firms that did not offer health coverage lasted ten minutes.

The sample is nationally representative of small, medium, and large firms; it is stratified and weighted by region and standard industrial classification; and it excludes self-employed individuals and federal workers. The sample is representative of the estimated 87 percent of private, state government, and local government workers who obtain their health insurance through their employer.<sup>1</sup>

We drew the sample from the Dun and Bradstreet list of national employers and from the Health Care Financing Administration (HCFA) 1984 list of state, municipal, and county governments. Both the public and private samples include a subgroup first interviewed in 1988 and then interviewed each consecutive year to 1990. The overall response rate was 76 percent; firms with 100–999 employees were most likely to respond to the survey (93 percent), followed by firms with over 1,000 employees (75 percent) and firms with under 100 employees (74 percent). The response rate by region ranged from 71 percent in the Northeast to 79 percent among employers in the North Central states.

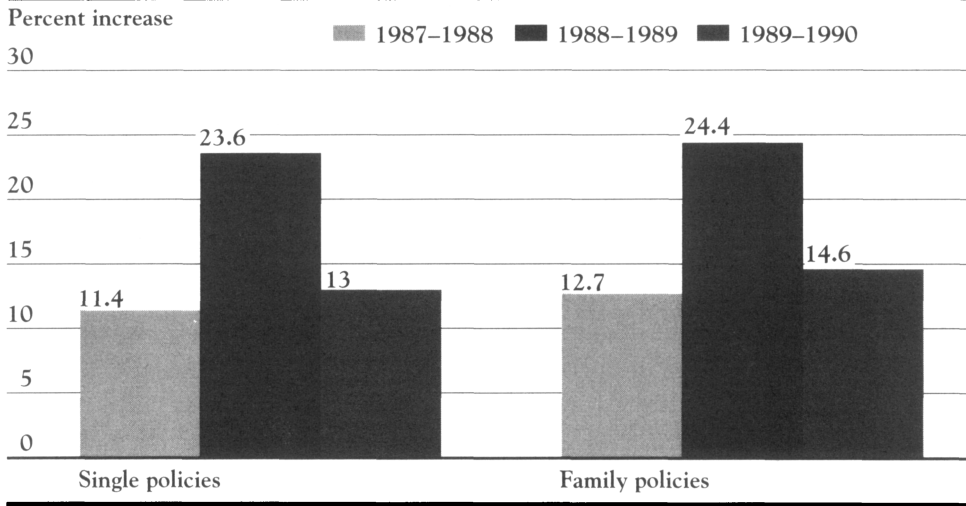
The series of weights applied to the data ensure that our sample estimates are nationally representative.<sup>2</sup> The weights allow us to report findings that represent the typical employee's health coverage experience. In some instances, we calculate statistics that represent the typical employer's health coverage experience and note when data on the typical employer are being presented. The sample estimates have a 95 percent probability of falling within two percentage points of the true population estimate.

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## Study Findings

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**Rate of premium increase.** When we measure the rate of increase in health premiums, our figure for the average premium per employee includes both what the employer and what the employee pay. After three years of escalating health insurance premiums, the rate of increase for premiums slowed in 1990. Following record-high increases in premiums in 1989, the average rate of premium increase for both family and single health coverage, for all plan types, dropped by about 40 percent (Exhibit 1). Premiums for family coverage increased an average of 14.6 percent in 1990, down from an average increase of 24.4 percent in 1989. Premiums for single coverage increased 13 percent in 1990; in 1989, premium

**Exhibit 1****Average Premium Increase For All Employer Insurance Plans, 1987–1990**

Source: HIAA Employer Survey, 1987–1990.

increases in single plans averaged 23.6 percent.

**A methodological note on premium increases.** In the Fall 1990 DataWatch in *Health Affairs* presenting HIAA annual survey data, the authors reported premium increases by type of plan, as well as an overall premium increase from 1988 to 1989 of 18 percent.<sup>3</sup> This figure was derived by averaging employers' responses to the following questions: "How do the total costs for family coverage compare with what they were one year ago? Are they more, less, or the same as last year? What percentage did costs increase (or decrease) since last year?" Later analysis suggests that when employers are asked to provide the annual rate of increase in premiums, they tend to underestimate the actual rate of increase. We compared the reported dollar value of premiums in 1988 to the dollar value of premiums reported in 1989 among a panel of 1,200 employers who were interviewed both years. This more precise measure of premium fluctuation uncovered an average premium increase of 24 percent for 1989 (Exhibit 2). Our reported average premium increase of 14 percent between 1989 and 1990 is based on this refined methodological process.

**Premium levels.** In comparing premium levels across plan types, it is important to remember that average premium levels may not be good indicators of the relative efficiency of different plan types. The scope and level of benefits and the extent of patient cost sharing may differ systematically from one plan type to another, and these differences can have a large effect on premium levels. HMOs, for example, typically offer more

**Exhibit 2**  
**Revising Estimated Premium Increases, 1988–1989**

Type of plan	Previous estimate	Revised estimate
Conventional	20%	29.5%
Staff/group-model HMO <sup>a</sup>	15	24.1
IPA HMO <sup>b</sup>	16	20.8
PPO <sup>c</sup>	18	23.2
All plans <sup>d</sup>	18	24.0

Source: HIAA Employer Survey, 1988–1989.

<sup>a</sup>Health maintenance organization.

<sup>b</sup>Individual practice association model.

<sup>c</sup>Preferred provider organization.

<sup>d</sup>This figure represents a weighted average of single and family policy increases for all plan types.

comprehensive benefits and lower cost sharing than conventional plans.

Despite the fact that group/staff HMOs tend to offer relatively comprehensive benefits, these HMOs have the lowest average monthly premium levels among all plan types for both individual and family coverage (Exhibit 3). The average family premium in individual practice association (IPA) HMOs is equal to the average monthly premium in conventional health plans. Premiums for family coverage in PPO plans exceed those in HMO and conventional health plans, while the new point-of-service option has a somewhat higher average monthly premium for family coverage overall.

We find a similar trend in the average premium for single coverage. HMOs have the lowest monthly premium rates for single coverage; premiums for PPOs and point-of-service plans exceed the rate for single coverage in HMO plans; and conventional health plans have the highest average monthly premiums for single coverage overall.

Some firms experienced no change in monthly premiums between 1989 and 1990 (15 percent), and others experienced declines in monthly premium rates (5 percent). Among firms with premium increases, those with fewer than twenty-five employees had increases that were one or two percentage points higher than the average premium increases for all firms, for each plan type, in 1990.

**Market share.** Since 1987, the HIAA employer survey has documented continuing increases in the number of enrollees in managed care health plans, while enrollment in conventional health plans continues to decline. In 1990, the survey documents the introduction of the point-of-service health plan (Exhibit 4). Point-of-service health plans are also called open-ended HMOs, HMO swing-outs, or HMO/PPO hybrids. They are plans that provide a network of doctors but, unlike HMOs, reimburse enrollees for services received outside the physician network. As do PPOs, point-of-service health plans typically include higher co-

**Exhibit 3**  
**Cost Sharing For Persons With Employer-Sponsored Group Insurance,**  
**By Type Of Plan, 1990**

	Conventional							
	With preadmission certification?		PPO <sup>a</sup>		HMO <sup>b</sup>		Point-of-service	
	Yes (n=1,731)	No (n=447)	Preferred provider (n=522)	Nonpreferred provider (n=522)	IPA (n=546)	Staff/group (n=542)	Preferred provider (n=126)	Nonpreferred provider (n=126)
Premium cost								
Individual coverage	\$148	\$137	\$137	\$137	\$125	\$123	\$139	\$139
Family coverage	319	308	322	322	316	311	345	345
Percent of premium paid by employer								
Individual coverage	85%	86%	86%	86%	84%	85%	85%	85%
Family coverage	71	73	73	73	74	73	70	70
Mean deductible								
Individual coverage	\$194	\$171	\$130	\$218	- <sup>c</sup>	- <sup>c</sup>	\$47	\$147
Family coverage	459	414	- <sup>d</sup>	- <sup>d</sup>	-	-	- <sup>d</sup>	- <sup>d</sup>
Coinsurance rate <sup>e</sup>								
100%-0%	5%	10%	21%	3%	- <sup>f</sup>	- <sup>f</sup>	35%	20%
90%-10%	4	3	33	1	-	-	13	2
85%-15%	2	2	3	1	-	-	3	0
80%-20%	75	73	21	47	-	-	12	34
75%-25%	1	<1	<1	4	-	-	0	3
70%-30%	2	2	1	20	-	-	2	14
Other	7	4	17	21	-	-	29	23
Rate varies	5	6	5	2	-	-	6	4
Maximum out-of-pocket expense <sup>e</sup>								
\$500 or less	14%	23%	17%	17%	- <sup>g</sup>	- <sup>g</sup>	14%	14%
\$501-\$1,000	32	26	29	29	-	-	20	20
\$1,001-\$2,000	31	25	26	26	-	-	22	22
\$2,001-\$5,000	12	11	15	15	-	-	11	11
\$5,001 or more	2	3	2	2	-	-	2	2
No limit	5	10	9	9	-	-	25	25
Other	3	3	3	3	-	-	6	6
Lifetime family maximum benefit <sup>e</sup>								
Up to \$250,000	7%	9%	7%	7%	- <sup>h</sup>	- <sup>h</sup>	1%	1%
\$250,001-\$999,999	15	18	12	12	-	-	5	5
\$1,000,000 or more	57	50	58	58	-	-	52	52
Unlimited	20	22	21	21	-	-	39	39
Other	1	2	1	1	-	-	3	3

Source: HIAA Employer Survey, 1990.

<sup>a</sup> Preferred provider organization.

<sup>b</sup> Health maintenance organization (IPA is individual practice association).

<sup>c</sup> Typically no deductible.

<sup>d</sup> Not asked of PPO and point-of-service plans.

<sup>e</sup> Total may not add to 100 due to rounding.

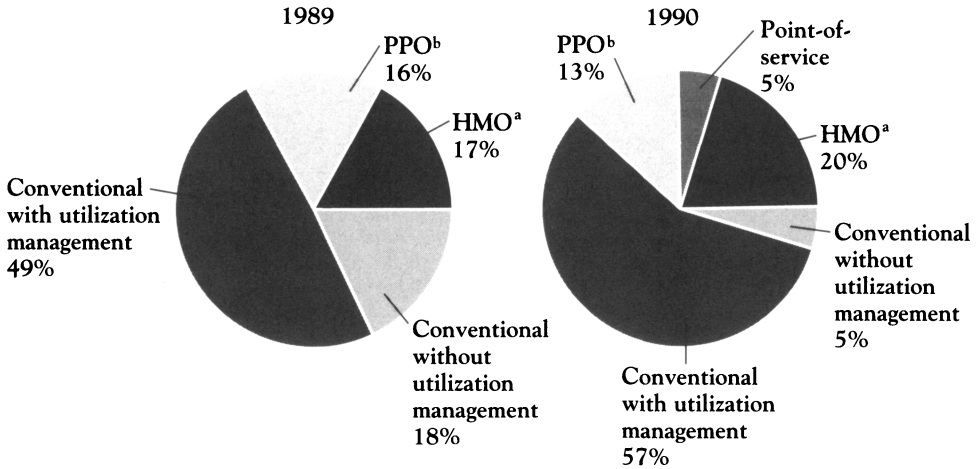
<sup>f</sup> Typically employees face up to a \$10 office visit payment.

<sup>g</sup> Typically no out-of-pocket maximum.

<sup>h</sup> Typically no limit.

payments or coinsurance rates for services received outside the plan's physician and hospital network; but, unlike most PPOs, point-of-service health plans often have a primary care gatekeeper through which enrollees gain access to all other physicians within the network. This type of health plan is offered predominantly by large employers.

**Exhibit 4**  
**Market Share For Various Types Of Employer Coverage, 1989 And 1990**



Source: HIAA Employer Survey, 1989-1990.

<sup>a</sup>Health maintenance organization.

<sup>b</sup>Preferred provider organization. The decline in PPO market share represents the added point-of-service category in 1990, not necessarily a decline in actual market share.

Market share varies significantly by region (Exhibit 5). Employees in the West are most likely to be enrolled in managed care plans, while employees in the South are most likely to be enrolled in conventional plans. However, all regions are seeing a shift to managed care health plans. While enrollment in conventional health plans is shrinking and enrollment in all other plan types is growing in the Northeast, West, and South, employees in the North Central region are most often moving from conventional plans to HMOs.

The typical conventional health plan has changed. Traditional indemnity health insurance now accounts for only 8 percent of all conventional plans and 5 percent of the total market share of enrollees in employer-sponsored group health plans. Conventional plans continue to increase their utilization management activities, and a significant proportion of

**Exhibit 5**  
**Market Share Of Various Employer Health Plans, By Region, 1990**

Type of plan	Northeast	North Central	South	West
Conventional	64%	63%	73%	44%
HMO <sup>a</sup>	17	26	13	30
PPO <sup>b</sup>	16	7	10	19
Point-of-service	3	4	4	7

Source: HIAA Employer Survey, 1990.

<sup>a</sup> Health maintenance organization.

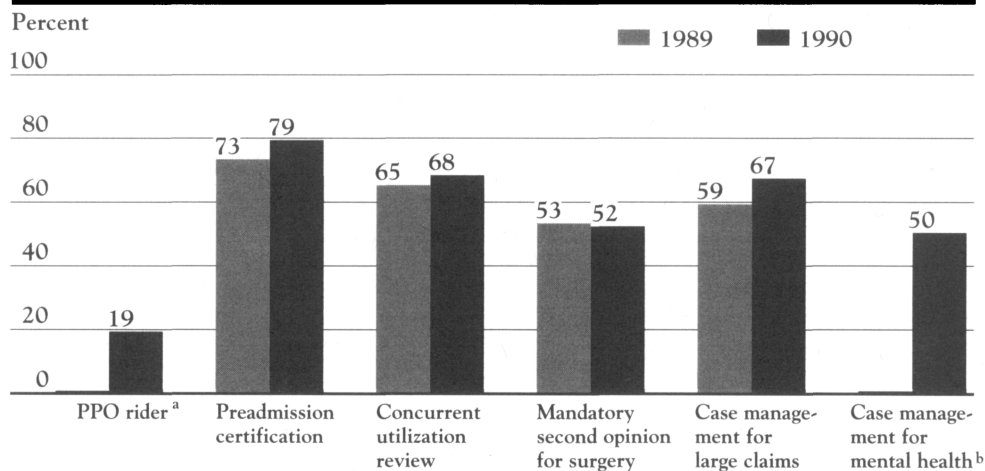
<sup>b</sup> Preferred provider organization.

employers describe their conventional plans as indemnity insurance with a PPO rider (Exhibit 6).<sup>4</sup> Conventional plans increased their use of preadmission certification, concurrent utilization review, and case management slightly in 1990. All of this suggests that the 1990s will mark the decline of nonmanaged fee-for-service indemnity health insurance, while managed care health plans will increase their market share and conventional plans will refine their utilization management activities.

A second trend is the growth of self-insured group health plans. Fully self-insured firms assume all of the risk for the cost of their employees' health care. Firms that are partially self-insured limit the risk they assume by purchasing stop-loss insurance coverage that protects them from incurring costs over a specified maximum amount. In 1989, approximately 52 percent of employees worked for firms that were either fully self-insured or partially self-insured with stop-loss coverage.<sup>5</sup> In 1990, the number of employees working for self-insured or partially self-insured firms increased to 56 percent; 68 percent of these employees worked for firms that reported purchasing stop-loss coverage. Exhibit 7 details employees' participation in fully insured and self-insured plans.

Only 9 percent of employees work for firms that self-insure and self-administer their health plan; 39 percent work for firms with fully or partially self-insured plans that are administered by a third-party administrator or an HMO. Many firms that fully or partially self-insure rely on commercial insurers or Blue Cross/Blue Shield to administer their health plans. Approximately 35 percent of all fully or partially self-insured health

**Exhibit 6**  
Utilization Management Activities In Conventional Health Plans, 1989 And 1990



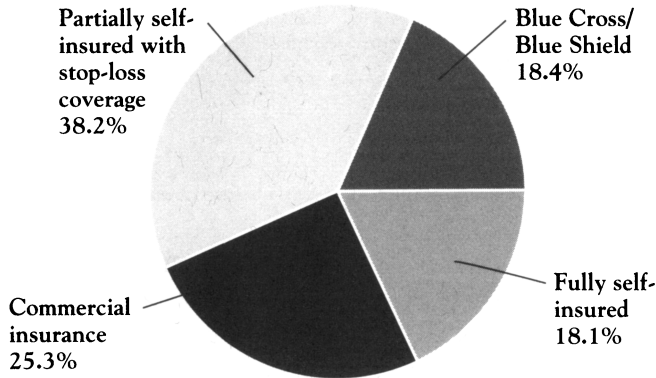
Source: HIAA Employer Survey, 1989 and 1990.

<sup>a</sup>Preferred provider organization. Data were not captured in 1989.

<sup>b</sup>Data were not captured in 1989.

## Exhibit 7

## Employees' Participation In Fully Insured And Self-Insured Health Plans, 1990



Source: HIAA Employer Survey, 1990.

plans are administered by commercial insurers; an additional 17 percent are administered by Blue Cross/Blue Shield.

While 56 percent of all employees work for firms that are fully or partially self-insured, the remaining 44 percent of employees have employers who purchase a health insurance plan. Among employees in fully insured firms who are not enrolled in an HMO, 42 percent receive their coverage through Blue Cross/Blue Shield, and 58 percent receive coverage through commercial insurers.

When all firms are considered together and not stratified by whether they are fully insured, partially insured, or self-insured, we find that the most common plan administrator is a commercial insurer. Among conventional health plans, the plan administrator is most often a commercial insurer (34 percent), followed by a third-party administrator (28 percent) and Blue Cross/Blue Shield (26 percent). PPOs are most likely to be administered by a commercial insurer (40 percent) or Blue Cross/Blue Shield (30 percent); 30 percent of the respondents cited "other" as their PPO plan administrator. Point-of-service plans are predominantly administered by HMOs (39 percent), followed by commercial insurers (35 percent) and Blue Cross/Blue Shield (14 percent).

**Employee health coverage.** Most full-time employees (81 percent) are offered health coverage through their employer. Of these, 86 percent are eligible for this coverage, and 85 percent of those eligible elect their employer-sponsored health plan (Exhibit 8). Aside from employer coverage, many employees are covered by trade associations (6 percent), unions (4 percent), and independent associations (10 percent), or they receive employee vouchers (4 percent). Employees of smaller firms are



**Exhibit 8**  
**Employer And Employee Health Coverage, By Size Of Firm, 1990**

Size of firm	Firms offering coverage	Employees working for firms with health coverage	Full-time employees eligible for health coverage	Employees who elect coverage
All firms	42%	81%	86%	85%
Under 25 employees	36	44	88	86
25-99 employees	87	88	88	82
100-999 employees	97	98	86	85
1,000 or more employees	99	99	83	86

Source: HIAA Employer Survey, 1990.

much more likely to receive coverage through one of these options.

Employee health coverage is commonly offered as either a single or a family policy, and the majority of employees enrolled in an employer-sponsored health plan (54 percent) select family coverage. Of the firms that offer health coverage, 99 percent offer coverage for family or dependent health care. Smaller firms tend to have a greater proportion of employees with family policies. Among firms with fewer than twenty-five employees, 77 percent of the enrollees in PPO plans select family policies, compared to 64 percent of those enrolled in HMOs and 59 percent of those enrolled in conventional plans.

Benefits covered by different health plans vary significantly. Among benefits for specific services, the most common benefits are inpatient mental health services (96 percent), alcohol abuse treatment (94 percent), drug abuse treatment (93 percent), and outpatient mental health care (93 percent). The majority of employees have coverage for home health care (85 percent), hospice care (81 percent), chiropractic care (76 percent), routine mammography screening (68 percent), Pap smears (67 percent), well-baby care (63 percent), childhood immunizations (62 percent), and well-child care (55 percent). Least commonly covered are adult physical examinations (48 percent), dental treatment (35 percent), eye care (32 percent), and *in vitro* fertilization (24 percent).

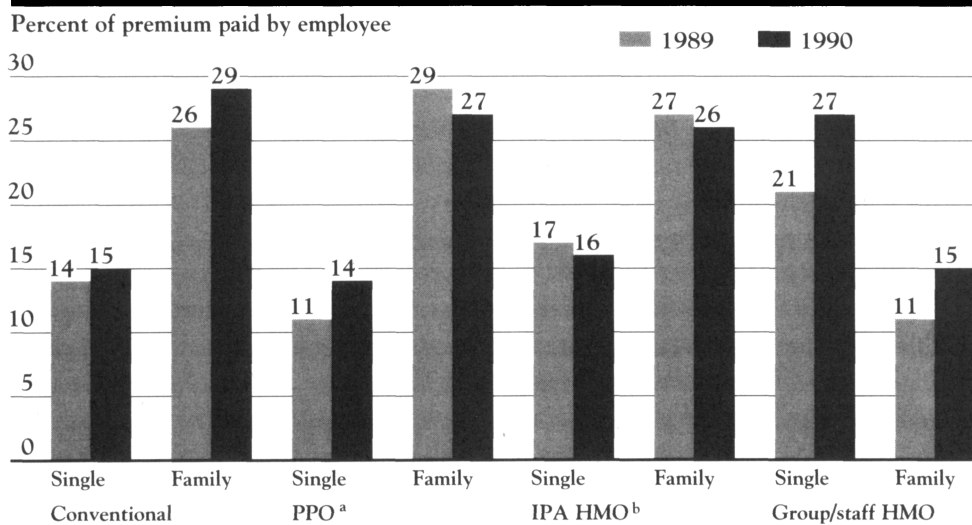
Many health plans carry a preexisting condition clause that excludes or imposes restrictions on coverage for health problems that employees have at the time of enrollment. Nine months is the average waiting period before an employee receives coverage for a preexisting condition. Conventional health plans are somewhat more likely to have preexisting condition clauses, and the proportion of plans with such a clause increased from 61 percent in 1989 to 65 percent in 1990. Approximately 61 percent of the managed care plans have preexisting condition clauses, a figure that did not change significantly over the past year.

**Employee cost sharing.** The HIAA survey first detected a moderate trend toward greater employee cost sharing in 1989, when employees' share of health insurance premiums rose about four percentage points on

average, with the greatest increase for individual coverage.<sup>6</sup> The 1990 survey demonstrates additional, although still moderate, increases in the portion of the monthly premium paid by employees with single and family coverage (Exhibit 9). In addition, fewer employees had no copayment or coinsurance requirement in 1990. The most popular coinsurance rate in both conventional and PPO health plans continues to be 80 percent employer to 20 percent employee (Exhibit 3). While point-of-service plans also commonly rely on an 80/20 coinsurance rate, 35 percent of the point-of-service plans do not require any copayment or coinsurance when employees use network providers. PPO and point-of-service plans typically have higher coinsurance rates and deductibles when nonpreferred providers are used. However, in point-of-service plans, 20 percent of employees are not required to pay any coinsurance, even when they use nonpreferred providers, but instead pay higher deductibles.

Employee cost sharing in IPA and group/staff HMOs also increased. Copayments increased significantly in 1990. The proportion of employees in IPA HMOs who paid nothing for visits to their doctor decreased from 30 percent in 1989 to 17 percent in 1990. Fifty-seven percent of employees in group/staff HMOs had no copayment in 1989; the number decreased to 42 percent in 1990. Most copayments are five or ten dollars. Although few firms with under twenty-five employees offer HMO plans, those that do have higher-than-average copayment rates. Employees in

**Exhibit 9**  
**Employees' Share Of Premium, Single And Family Coverage, 1989 And 1990**



Source: HIAA Employer Survey, 1989 and 1990.

<sup>a</sup>Preferred provider organization.

<sup>b</sup>Individual practice association model of health maintenance organization.

small firms with HMOs also tend to pay a higher proportion of their monthly premium than do their counterparts in larger firms.

Employee cost sharing also varies by size of firm for PPO and conventional health plans. Employees who work for smaller firms typically experience higher annual deductibles but lower out-of-pocket maximums and higher lifetime maximum benefits than employees in larger firms.

Overall, while most out-of-pocket maximums fall between \$500 and \$2,000, a greater proportion of employees had a maximum out-of-pocket expense of over \$2,000 in 1990 (25 percent) than in 1989 (17 percent). At the same time, lifetime maximum benefit amounts increased. Over half of the employees in all types of health plans now have a lifetime maximum benefit for their families of \$1 million or more.

Some employers offer their employees a "cafeteria-style" benefits plan in the hopes of limiting their overall cost for employee benefits. A cafeteria benefits plan allows employees to choose from among a list of benefits; for example, an employee may choose between a health or a child care benefit. Fourteen percent of all firms provide such a plan; large firms are much more likely to offer a choice of benefits to their employees than small firms. Among firms with fewer than twenty-five employees, only 2 percent offer a cafeteria benefits plan. In firms with 1,000 or more employees, 26 percent offer cafeteria-style benefits.

**Employer satisfaction.** Approximately 75 percent of the employers interviewed said they were somewhat or very satisfied with their health plan overall, while 57 percent said they were satisfied with the cost of their health plan (Exhibit 10). When asked about their future health benefits strategy, over 90 percent of the employers said they planned to continue with their current health plan in 1991. Although the percentage differences were slight, employers with managed care plans were more likely to say they planned to keep their current plan in the coming year.

Between 1989 and 1990, there were no significant changes in employers' overall satisfaction, satisfaction with the cost of their health plan, or intent to continue with their health plan next year. There were significant decreases in employer satisfaction with the cost of their health plan and in overall satisfaction from 1987 to 1989.<sup>7</sup> However, amidst declines in the rate of premium increase in 1990, employer satisfaction appears to have stabilized.

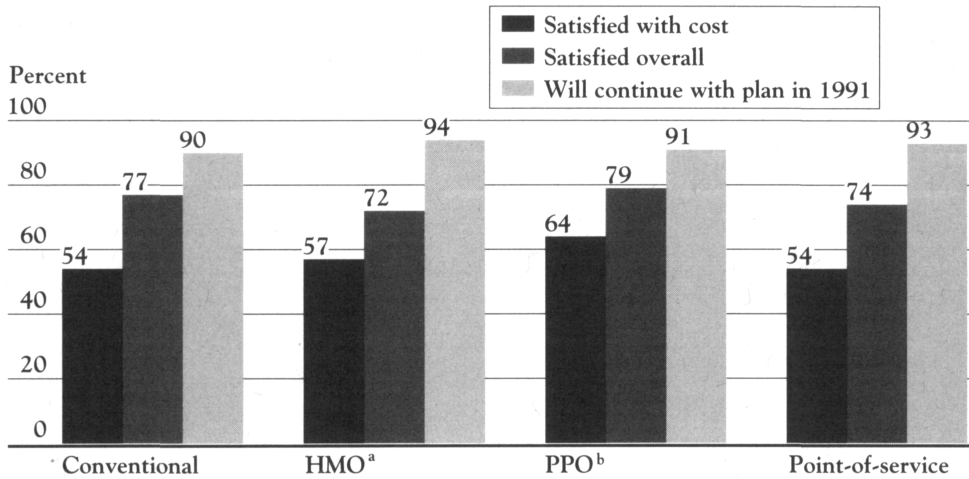
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## Conclusion

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Historical experience suggests that the rate of increase in premiums will be moderate for the next year or two.<sup>8</sup> Other trends to watch include continued modest increases in employee cost sharing; continued growth

**Exhibit 10**  
**Employers Who Are Very Or Somewhat Satisfied With Their Health Plan, 1990**



Source: HIAA Employer Survey, 1990.

<sup>a</sup>Health maintenance organization.

<sup>b</sup>Preferred provider organization.

in managed care plans; and continued refinement of utilization management in conventional health plans. Although it appears that growth in HMO enrollment has stabilized, we can expect point-of-service health plans, now in their infancy, to grow considerably in the early 1990s.

#### NOTES

1. Employee Benefit Research Institute, *Update: Americans without Health Insurance*, Issue Brief 104 (Washington, D.C.: EBRI, July 1990).
2. See C. Sullivan et al., *Technical Methodology: HIAA Survey of Employer-Sponsored Health Benefit Plans* (Washington, D.C.: Health Insurance Association of America, February 1990).
3. J. Gabel et al., "Employer-Sponsored Health Insurance, 1989," *Health Affairs* (Fall 1990): 161-175.
4. A PPO rider amends a conventional policy to allow coverage (deductibles and coinsurance) at a reduced rate when services are obtained from preferred providers.
5. *Fourth Annual A. Foster Higgins Health Care Benefits Survey* (New York: A. Foster Higgins, 1989).
6. Gabel et al., "Employer-Sponsored Health Insurance, 1989."
7. *Ibid.*; J. Gabel et al., "The Changing World of Group Health Insurance," *Health Affairs* (Summer 1988): 48-65; and J. Gabel et al., "Employer-Sponsored Health Insurance in America," *Health Affairs* (Summer 1989): 116-128.
8. For further discussion, see R.A. Formisano, "Cyclical Behavior of Health Insurance Results: An Exploratory Analysis," *Benefits Quarterly* 5, no. 3 (1989): 51-57.

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