

Health-Care Premiums Climb By 7.7%, Outstripping Inflation

Survey Suggests Increase Will Slow to 6% Next Year; Why Some Workers Opt Out

By VANESSA FUHRMANS

The health-care premiums of employers and their workers have climbed twice as fast as wages and inflation in 2006—to nearly double their cost in 2000—and they look to rise at a similar clip next year, two nationwide surveys show. That said, the pace of increase is about half what it was just a few years ago.

The average family premium rose 7.7% in 2006. That compared with a 3.8% rise in wages and inflation of around 3.5%. Even so, the 7.7% increase marks the third year that employer health-care cost increases have decelerated since soaring nearly 14% in 2003, according to a 2,122-employer survey by the Kaiser Family Foundation, and by the Health Research and Educational Trust.

The cost for family coverage under an employer health plan is now \$11,480, well over what a minimum-wage worker would earn in a year and beyond what many companies and their workers can afford. While 98% of companies with more than 200 workers still provide some sort of employee health benefits, only 60% of smaller businesses do. That's little changed from last year but down from 68% in 2000.

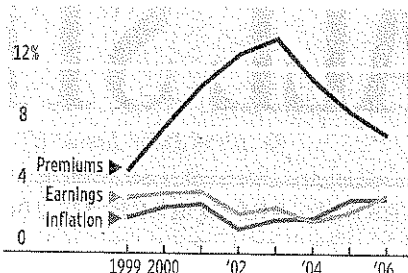
"A modest reduction in an already high rate of increase hardly looks like salvation for employers and workers who've been getting hammered by high health-care costs year after year," said Drew Altman, president of the Kaiser Family Foundation, a nonprofit health-policy research group in Menlo Park, Calif.

Even when employers do offer health insurance, not all workers get it or can afford it. On average, only 78% of employees are eligible at these companies, either because they don't work full-time or fail to meet other eligibility requirements. And given that employers require workers to pay an average 27% of the total premium—or \$2,973 for family coverage—many employees can't afford to accept the coverage. Indeed, the share of workers covered by health insurance through their own employer has slipped to 59%, down from 60% last year and 63% in 2000, according to the Kaiser survey.

Most people falling out of the employer-sponsored health insurance system are lower-income workers, but they tend to be healthier workers more willing to risk going without coverage, which

Outstripped

Year-to-year percentage change in health-insurance premiums for a family of four, seasonally adjusted production workers' earnings and overall inflation



Notes: Earnings data for workers in natural resources, mining, manufacturing and construction; data for inflation and earnings reflect year-to-year change for the month of April
Sources: Kaiser Family Foundation; Labor Department

raises the costs for the remaining, sicker pool of employees. And ultimately employers pay more as uninsured employees forgo preventive care and wind up in emergency rooms when they do get sick, says David Guilmette, managing director of Towers Perrin's health-benefits group.

The employee-benefits consultancy's own survey of 167 companies finds that larger employers expect their increases in health-care costs to slow again in 2007 to 6%, from the 7% increase they reported last year. A large-employer survey published earlier this month by Mercer Health & Benefits LLC, a rival firm, projected similar increases next year. It added that the more-moderate increase will result from increasing employees' deductibles and other cost-sharing measures.

More of the larger firms also say they're adding "consumer-directed" plans, which combine deductibles of typically more than \$1,000 and some sort of tax-saving account to make employees have a more financial stake in their health-care spending.

Overall, however, relatively few companies plan to enroll in these plans next year, the Kaiser study says. Only 2.7 million people are enrolled in one through an employer, about 4% of covered workers.



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