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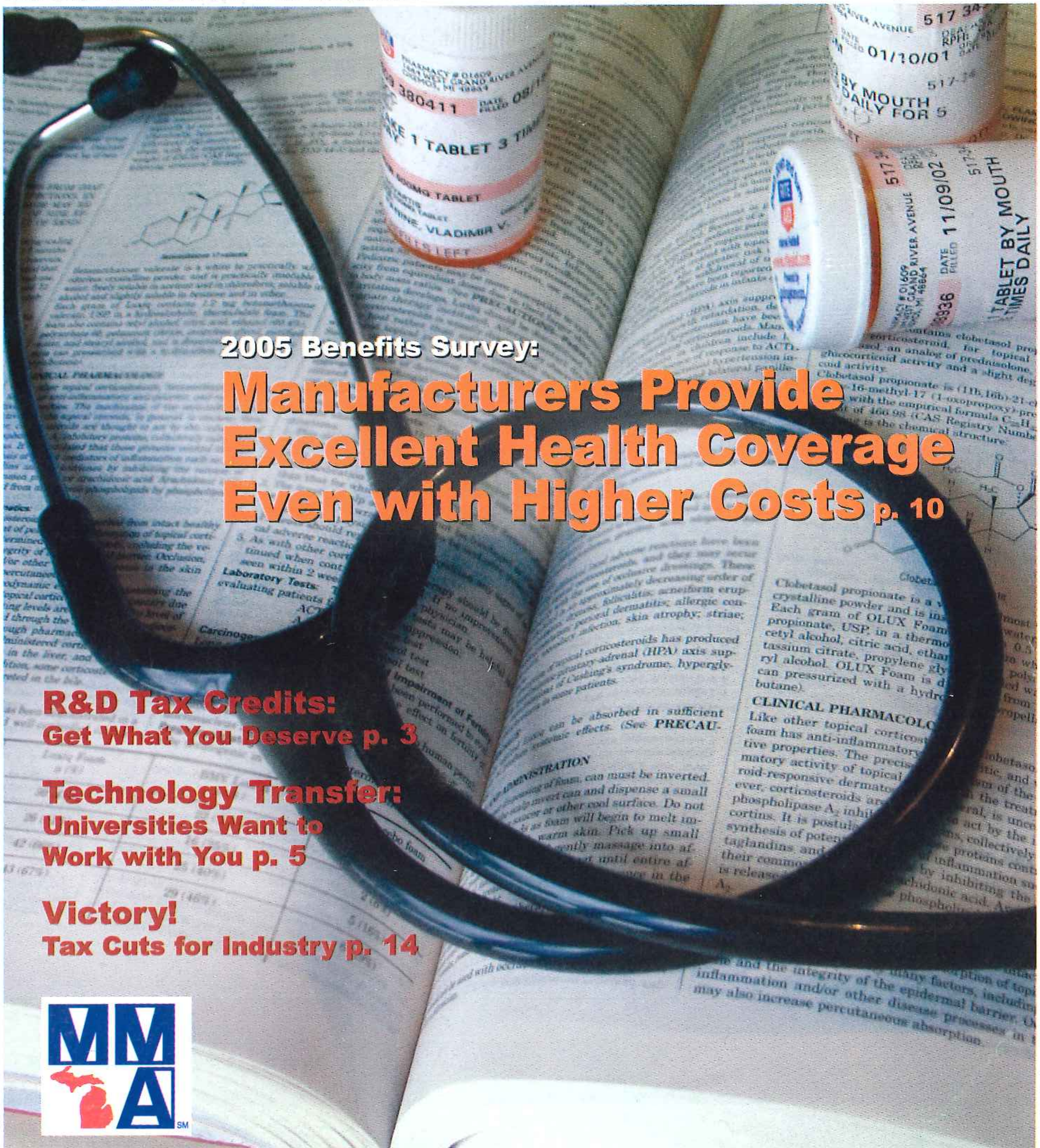

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Employees and Employers Forced to Adjust to New Reality of Benefit Programs

By Edmund B. Ura

Recent news coverage of negotiations between the auto companies and the UAW has served to illustrate the lack of understanding — on the part of both the general media and the public — of the reality of health care coverage and the cost of that insurance to companies in the manufacturing sector.

The 2005 edition of the *Michigan Manufacturers Association Employee Benefits and HR Policies Survey* provides real insight into health care benefits and their costs and provides a frame of reference to understand a manufacturer's reality when dealing with collective bargaining organizations.

Sixty percent of the participants in the study increased health care deductibles and co-pays this year and 50 percent reported an increase in the amount of premium contributions required of employees.

The cumulative effect of the increasing cost of health insurance has caused such dramatic changes that the "median" program offered by manufacturers is a "full step" down in the tier of benefit programs reported in 2004.

- The employees' cost for office visits within a PPO network was typically $15 in 2004; the cost to the employee in 2005 is now $20 per visit.
- The "in-network" and "out-of-network" co-payment for covered services paid by the insurance company in 2004 was 85 percent and 75 percent, respectively. In 2005, the insurance company portion decreased to 80 percent and 60 percent.
- Prescription drug costs to the employee increased as well. The typical plan in 2004 had either a $25 or $30 deductible for brand name drugs and a $10 or $15 deductible for generics. The lower cost tier of benefits has largely dropped to the wayside, as participants report an average brand name deductible higher than $30 per prescription, while the average generic deductible has increased to $15.

The cost of providing even this lower level of coverage increased yet again, both to the employer and the employee. Median monthly premiums increased for all categories of coverage to the extent that, even with decreased benefits, insurance costs increased well above the rate of inflation. (See Figure 1.)

More than 70 percent of survey participants require employees to contribute to the cost of their health care insurance and, overall, the typical manufacturing employee will pay about a quarter of their health care premiums.

In addition, manufacturers are reducing eligibility for participation, covering fewer part-time employees and further restricting coverage for retirees.

Manufacturing Benefits are Still Competitive

Despite cuts and increased employee contributions, the manufacturing sector continues to provide competitive levels of benefits compared to employers in general.

Manufacturing firms provide an additional paid holiday as compared to the non-manufacturing sector, are much more likely to provide short-term disability coverage to employees and, while firms of every type provide life insurance, manufacturers are much more likely to add accidental death and dismemberment coverage to their policies.

Non-manufacturers might appear to provide "richer" health care benefits, but these come at a cost that may exceed the benefit to the employee. For example, the median benefit level for a non-manufacturing salaried employee in a PPO has a lower annual individual deductible than in manufacturing ($300 rather than $500) and offers the same office visit co-pay that manufacturing employees paid last year ($15/visit compared to $20/visit).

"Better" benefit plan levels may not be all they are cracked up to be, however, as these extra plan provisions come at a significant cost. Non-manufacturing plans have higher annual out-of-pocket limits and the cost to employees to be insured in the first place is much higher; this year participants reported that non-manufacturing

Figure 1	2004 Median Monthly	2005 Median Monthly	Percent Change in Premium
HMO	$268	$291	+8.6%
HMO Family	$695	$755	+8.6%
PPO Individual	$294	$320	+8.8%
PPO Family	$792	$797	+0.6%

employees would pay about $120 a month for their single coverage, compared to just under $50 per month for manufacturing employees.

The typical non-manufacturing employee's total out-of-pocket cost for health insurance will probably still exceed the cost for the typical manufacturing employee.

Reconciling Media Coverage with Manufacturers' Reality

It is likely that few manufacturing employees had a great deal of sympathy when reading about the new costs agreed to by the UAW. While described as "changing the landscape," the modifications negotiated between the UAW and the automakers merely took a small step toward the landscape that has long been the reality for most small- and medium-sized manufacturers and their employees.

While news reports focused on the "burdens" faced by employees from increased costs, they did not compare the costs to those of the typical manufacturing worker nor note the exorbitant costs to companies for maintaining these former "industry standard" levels of benefits.

It appears that the auto companies will save significantly from the deferral of future pay increases but the current effect on employees is minimal. Their health care bills will be paid with only minor contributions for specific medical treatments and they will see no deductions from their paychecks to cover the cost of the insurance.

Even with the "historic" and "groundbreaking" concessions, the health insurance benefit levels provided to autoworkers would be unrecognizable to the typical manufacturing employee, who has been paying hundreds of dollars in premiums, deductibles and co-pays annually for more than a decade.

In fact, insurance industry experts consulted confirmed that it would be difficult, if not impossible, to find an insurance company willing to underwrite such a plan for a small- to medium-sized employer, let alone at a cost that such a company could afford.

While it is unquestionable that hourly retirees may well perceive themselves hard pressed to pick up the costs of health care at General Motors, it would be wise to keep in perspective the reality of the typical retiree.

The vast majority (about 80 percent) of employers participating in the MMA survey over the last few years do not even offer health insurance to retirees and, of those that do, more than two-thirds require the former employee to absorb the entire cost of the benefits.

Using the Employment Cost Index

Employment costs are relatively easy for a company to measure but can be difficult to compare. Compensation costs may be compared to survey data such as that provided by the MMA/MRC Compensation in Michigan survey program. Benefit levels can easily be compared as well. However, it is much more difficult to compare the costs employers incur to provide these benefits. It is also difficult for employers to budget in anticipation of these cost increases or to measure their ability to control costs as compared to other employers.

Many organizations in Michigan have, for years, relied on the Consumer Price Index (CPI) as their benchmark. However, while the CPI purports to be a measure of inflation, it bears absolutely no relationship to the cost of labor.

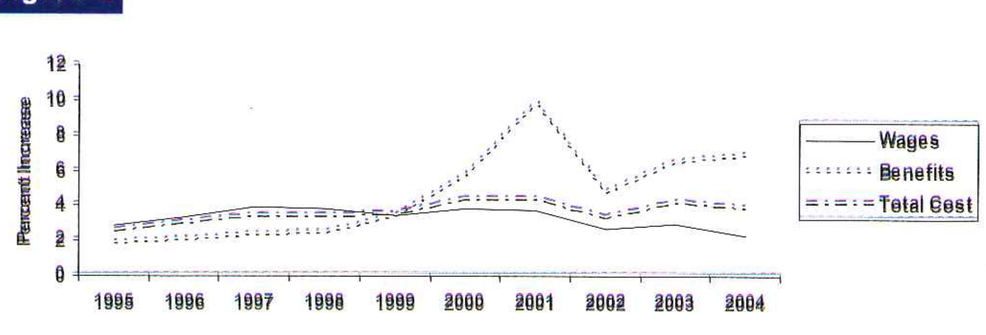
The U.S. Department of Labor Bureau of Labor Statistics (BLS) does provide employers with an, unfortunately rarely used, index that measures the cost of wages and benefits. The Employment Cost Index (ECI), available at the BLS Web site (http://www.bls.gov/data/home.htm#tools), provides statistics on the increase in the costs companies incur for wages and salaries, benefits and the total cost of compensation.

The ECI wage and salary index for the private sector nationwide showed that overall employment costs increased at just less than 4 percent during 2004.

Wages and salaries increased at about 2.3 percent, the same result found this spring in the MMA survey of compensation in the Michigan manufacturing sector.

Benefits costs, however, increased at 6.8 percent, the second-highest increase in the last 10 years. Figure 2 illustrates the trend in the various components of employment costs.

Figure 2



It is clear that employers are being forced to devote more and more of their resources toward benefit costs. Moreover, it is apparent that it was at the beginning of this decade that benefit costs began to increase at a higher rate than that of wages and salaries, and that this trend has continued to today.

Upcoming Changes to Survey Program for 2006

MMA members will see changes to the Compensation in Michigan Survey program in the beginning of 2006. To streamline participation and data entry, and encourage annual participation through simplification of updates, MRC will offer the Compensation in Michigan survey questionnaire in an Excel file, which can be completed and emailed to MRC.

Unlike survey programs that maintain compensation data "online," and thus have the potential of being exposed by hackers, the MMA/MRC survey responses will reside within MRC and technology will be used simply to facilitate completion and transmittal of questionnaires.

Companies that wish to do so can retain an electronic copy of their questionnaire and update it every year. MRC representatives will be contacting past participants and purchasers to determine the format you find most useful.

Because MRC conducts surveys for a number of sponsors, some MMA members may have been confused concerning the nature of the products they have purchased.

All Compensation in Michigan surveys (identifiable by the MRC logo) use the same database, which is created through the contribution of hundreds of companies across the state. The Manufacturing Edition, sponsored by the MMA, includes all of the data from manufacturing firms and is also included in the larger All Industry report. Many MMA members use the All Industry report because of the nature of their local labor markets and MRC will continue to provide this report for their use.

Members may be solicited by other organizations purporting to provide a similar product but you should be aware that the All Industry report, like the Manufacturing Edition, is available only through MRC or MMA. MRC will honor all subscription offers and agreements made with MMA members by prior survey sponsors.

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