



2015 Colorado Employer Benefits Survey Report

November 18, 2014



L O C K T O N C O M P A N I E S

INTRODUCTION AND PURPOSE

In fall 2014, Lockton Companies conducted its annual Colorado Employer Benefits Survey. The firm invited 602 employers throughout the state of Colorado to provide information specific to their employee benefit offerings. The employers surveyed were selected based on their size, industry, and visibility in the community. This survey was designed to provide a representative cross sample. *It was not intended to be a scientific sample.*

The purpose of the survey was to identify the following:

- ❖ The rate increase that Colorado employers will experience for medical care coverage for the 2014 plan year.
- ❖ Employers' greatest concerns regarding their benefit programs.
- ❖ How employees' 2015 medical plan rate increases compare with average employee merit pay increases.
- ❖ Employers' health insurance cost reduction strategies for 2015.
- ❖ The degree to which employers are utilizing consumer-driven health care strategies, such as high-deductible health plans (HDHPs), to reduce cost trends.
- ❖ How cost increases for Colorado employers compare to increases reported in various national surveys and previous local surveys.

EXECUTIVE SUMMARY

The results of the 2015 Colorado Employer Benefits Survey identified several notable trends in the Colorado market. In some respects, the Colorado trends continue to be divergent from what is being reported on a national level.

1. For the 2015 plan year, the average Colorado employer received a renewal rate increase on their existing health plan of 8 percent, which is down from 10.9 percent in 2014. This was before plan changes or other options were considered.
2. Colorado employers reported that their average increase reported after plan changes was 5.3 percent, down from 6.4 percent in 2014. It should be noted that to achieve this level of cost reduction, employers reported deploying numerous tactics including increasing employee premiums, increasing deductibles, increasing employee out-of-pocket expense limits, and changing carriers.

3. Seventy-nine percent of employers expect to pass a percentage of their medical insurance premium increase on to their employees. This is down from 86 percent in 2014 and reflects that as unemployment drops and competition for skilled workers increase, the need for employers to be competitive.
4. For the sixth year in a row, the impact of health care reform is one of the top concerns for employers (the top concern being the cost of coverage). Although the majority of respondents indicated their knowledge of the law is limited, 62 percent indicated that the Affordable Care Act is a concern as it relates to their business (down from 75 percent in 2014).
5. Almost 52 percent of Colorado employers surveyed reported they are only somewhat familiar with the concept of health care exchanges, but over 92 percent said they intend to continue their employer-based coverage in 2015. They are not considering sending their employees to the Health Care Exchange.
6. Almost 42 percent of employers offered a health savings account (HSA)-eligible HDHP in 2014, an increase from 38 percent in 2013. This percentage is also similar to the 2014 Kaiser/HRET Employer Health Benefits Survey which reported that 45 percent of covered workers work in firms that offer one or more HDHPs with a savings option such as an HRA or HSA.

Seventeen percent of survey respondents without an HSA-eligible HDHP are considering adding one in 2015. Thirty-four percent of Colorado employers contribute money to the HSA/HRAs of their employees.
7. Employers offering an HMO decreased to 29 percent in 2014 (slightly down from 30 percent in 2013).
8. Almost 42 percent of employers surveyed in Colorado are now offering or are evaluating offering a wellness program for 2015, a decrease from 47 percent in 2014. This is still seen as an additional cost-containment measure.
9. Over 49 percent of employers that have wellness programs report that they are participation based.

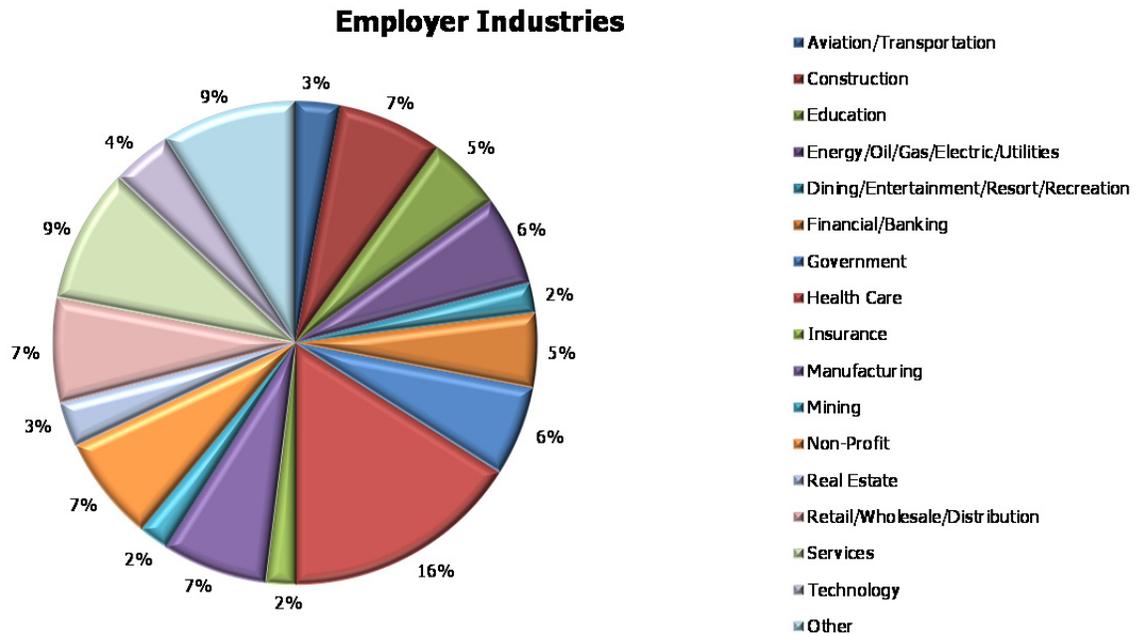
2015 SURVEY RESULTS

TYPE OF RESPONDENTS

The chart below reflects the survey respondents' industries. Almost 53 percent of respondents were in the following six industries:

- ❖ Health care – 16%
- ❖ Services – 9%
- ❖ Construction – 7%
- ❖ Non-profit – 7%
- ❖ Manufacturing – 7%
- ❖ Retail/Wholesale/Distribution – 7%

Chart 1



The table on the next page reflects the number of survey respondents categorized by company size (in terms of benefit-eligible employees).

Table 1

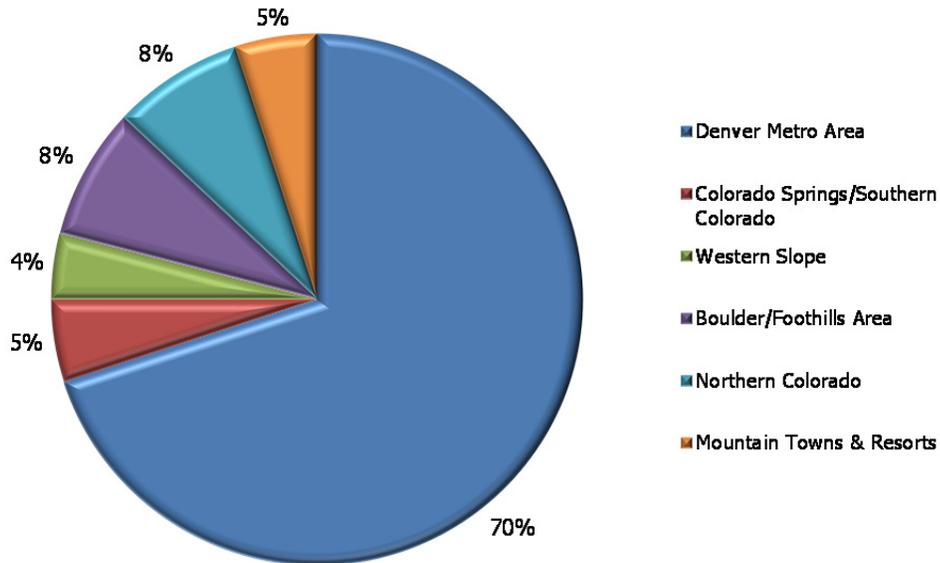
EMPLOYER SIZE

Number of Benefit-Eligible Employees	Number of Responses
5,000+	7%
2,000-4,999	7%
1,000-1,999	3%
500-999	13%
300-499	19%
101-299	27%
51-100	9%
<51	5%

The data in Chart 2 below reflect the approximate geographic location of the survey respondents.

Chart 2

Employer Location



This survey reflects typical Colorado employers in terms of employee size and industry. The Kaiser Family Foundation, Hewitt, Segal, Mercer, and others also conduct annual surveys of employers on a national level; however, these surveys tend to focus on much larger employers. Colorado-based employers tend to be smaller than the employers reflected in these national surveys, and often have fewer

financial resources to draw from when medical plan rates continuously increase. Therefore, smaller Colorado-based employers may be more significantly affected by the level of medical plan rate increases than employers across the country.

COLORADO EMPLOYER CONCERNS

Table 2 below illustrates employers' concerns from 2003 to 2014. They are listed in order of greatest concern (1) to least concern (6).

This year, as well as in the past 11 years, employers' greatest concern regarding their employee medical plans was plan cost increases (90%). For the sixth year, employers' second highest concern (62%) was federal and state legislation/compliance with federal health care reform, a decrease from 75 percent in 2013. The uncertainty of the impact that health care reform will have on employers continues to be of great concern. Employee dissatisfaction (43%) was employers' third highest concern, a decrease from 50 percent in 2013.

Table 2

COLORADO EMPLOYER CONCERNS

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Plan cost increases	1	1	1	1	1	1	1	1	1	1	1
Compliance with health care reform; federal/state legislation	5	6	5*	5	5	2	2	2	2	2	2
Employee dissatisfaction; attraction/retention	2	3	2	4	4	4	5	4	3	3	3
Provider quality	3	2	3	2	2	3	4	3	5	4	4
Health plan quality	4	4	4	3	3	5	3	5	4	5	5
Managing HIPAA privacy and security issues		5	5*	6	6	6	6	6	6	6	6

*same scores

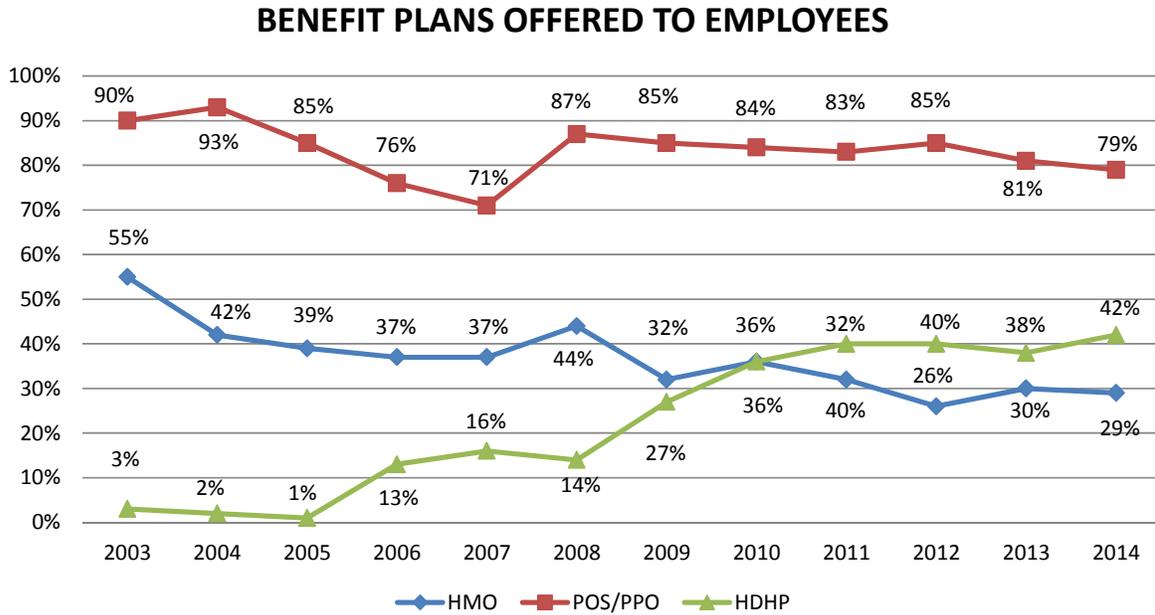
MEDICAL PLAN FUNDING

The data in Chart 3 below reflect the changes in medical plan funding from 2003 to 2014.

In 2014, almost 40 percent of Colorado employers reported offering self-funded plans, slightly down from 41 percent in 2013. In 2000, 16 percent of surveyed employers offered a self-funded plan. More than 49 percent of employers reported offering a fully-insured plan in 2014. This number is a slight increase over what was reported in 2013.

Since almost 51 percent of the respondents are “small” employers (i.e., have fewer than 300 employees), this may skew the results toward fully-insured plans. Typically, smaller employers choose fully-insured plans due to their inability to take on the risk associated with a self-funded medical plan.

Chart 3



PLAN TYPES

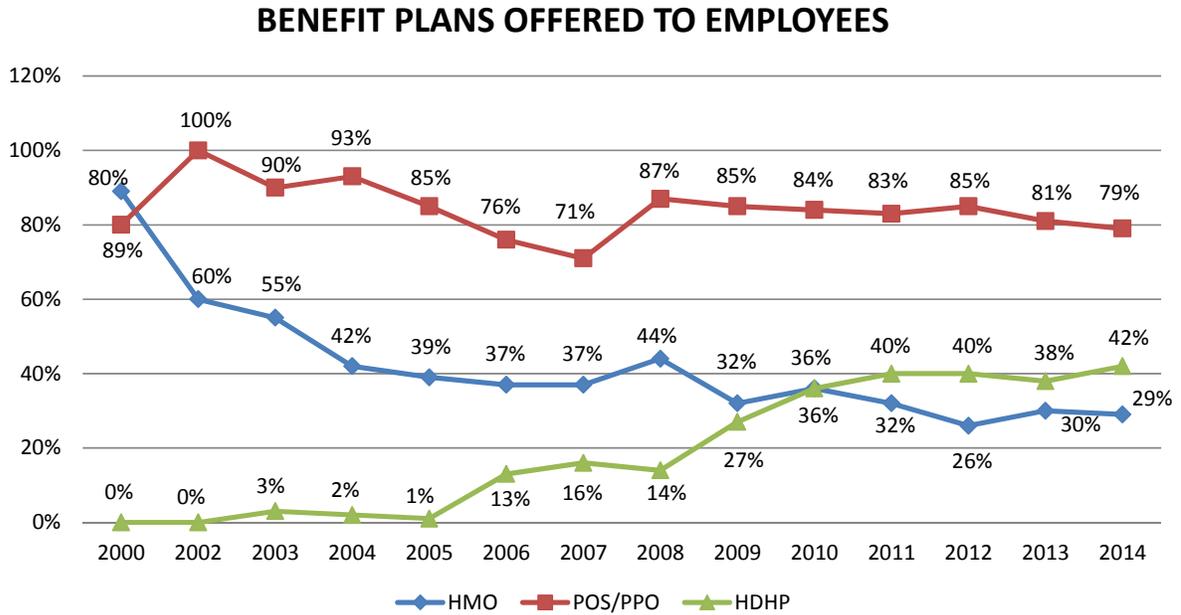
Employers continue to shift costs to employees by imposing higher employee payroll contributions for single and family coverage, increasing deductibles/copays/out-of-pocket limits, and adding high deductible plan options. Over 75 percent of employers reported that their medical plan deductible is \$500 or greater, which is not materially different than what was reported in 2014. More than 57 percent of employers reported that their plan deductible is \$1,000 or greater, which is an increase from 47 percent in 2014. The 2014 Kaiser/HRET survey determined that nationally, 41 percent of workers are in medical plans with annual deductibles of \$1,000 or more, which is up slightly from 38 percent in 2013. The Lockton survey results indicate that slightly less employers are offering HMO plans in 2015 (29%) than in 2014 (30%). This is another indication of how rising medical costs are affecting Colorado employers and employees.

The number of employers currently offering a high-deductible health plan (HDHP) increased from 3 percent in 2003 to 42 percent in 2014. Offering an HDHP is another way that employers are dealing with the continually increasing costs of providing medical coverage to their employees. It should be

noted that an additional 17 percent of the respondents reported that they are considering the addition of an HDHP with HSA or HRA in 2015.

Chart 4 below shows the type of benefit plans offered from 2000 to 2014.

Chart 4



AVERAGE RATE INCREASES

The survey asked Colorado employers how much of a rate increase they received for their medical plan for the 2015 plan year before making plan design changes. Chart 5 on the following page illustrates how employers responded to this question.

Chart 5

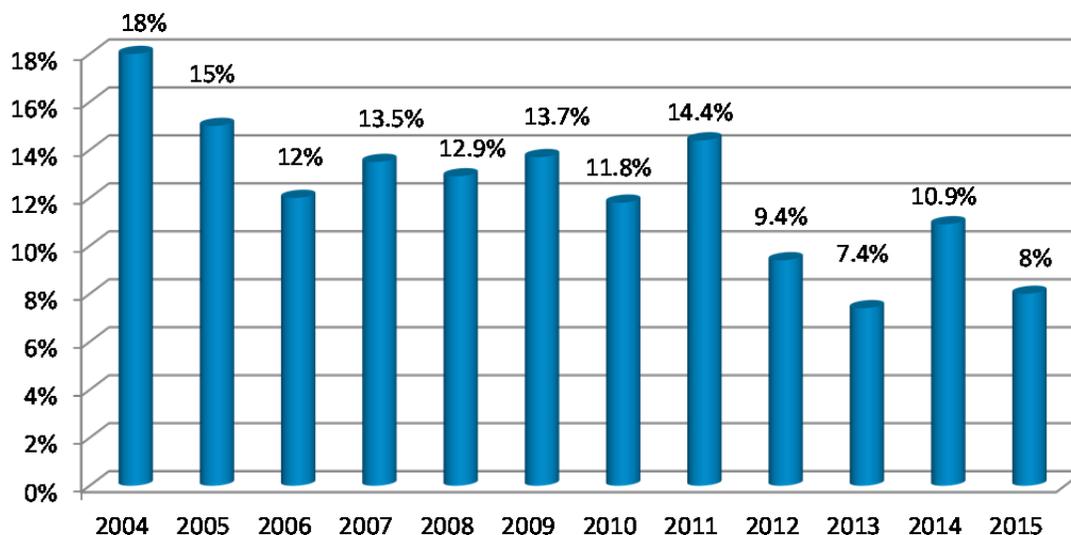


Chart 5 above shows that for the 2015 plan year, the average Colorado employer rate increase is 8 percent, down from 10.9 percent in 2014. The survey asked employers what the final rate of increase was after they made plan changes. The average increase reported was 5.3 percent, down from 6.4 percent in 2014. This is slightly above the 3 percent reported in the 2014 Kaiser/HRET survey.

COST SHIFTING STRATEGY

As health care costs continue to rise, employers are considering additional ways to mitigate increasing their plan costs. We asked employers which cost mitigation strategies they intend to use in 2015. Respondents could choose more than one answer. The top 8 answers are captured in Table 3 below.

Table 3

COST SHIFTING STRATEGY

	Response Ratio
Increase employee premium contributions for family coverage	49%
Increase employee premium contributions for single coverage	43%
Absorb the cost increase	39%
Increase deductibles	34%
Increase employee maximum out-of-pocket expense	25%
Change insurance companies/vendors	17%
Increase the amount employees pay for prescription drug coverage	16%
Increase the amount employees pay for office visits	13%

As premiums continue to increase, many employers are shifting costs to their employees in the form of higher premium contributions. The 2015 employer survey results indicate that 49 percent of employers will increase employee premium contributions for family coverage, which is slightly lower than the 51 percent reported in 2014. The number of employers who will increase premium contributions for single coverage was 43 percent versus 42 percent in 2014. Only 39 percent of employers will absorb the entire cost increase, up from 37 percent in 2014.

Of the employers surveyed, over 20 percent do not plan to pass on any percentage of the rate increase to their employees at their next renewal, up from almost 15 percent in 2014. Forty-five percent plan to pass up to 25 percent of the increase to their employees, which is consistent with the last two years. The remaining 35 percent of surveyed employers plan to pass more than 25 percent of the rate increase to their employees, down from 40 percent last year.

Table 4 below indicates the percentage of premium that employees are expected to contribute to their single coverage. Slightly over 76 percent of employers expect employees to contribute less than 30 percent of the total premium for single coverage, which is a decrease from 81 percent in 2014.

Table 4

EMPLOYEE CONTRIBUTION TOWARD SINGLE COVERAGE

% of Premium	% of Employers						
	2009	2010	2011	2012	2013	2014	2015
0–9% of premium	31%	35%	31%	26%	30%	25%	26%
10–19% of premium	28%	29%	27%	34%	26%	34%	28%
20–29% of premium	22%	22%	21%	20%	25%	22%	22%
30–39% of premium	9%	12%	13%	10%	13%	10%	14%
40–49% of premium	3%	2%	3%	4%	3%	6%	5%
Over 50% of premium	7%	7%	5%	5%	3%	3%	5%

Table 5 on the following page indicates the percentage of premium employees are expected to contribute to their dependent coverage. Roughly 50 percent of employers expect employees to contribute less than 30 percent of the premium rate for family coverage, which is consistent with 2014.

Table 5

EMPLOYEE CONTRIBUTION TOWARD FAMILY COVERAGE

% of Premium	% of Premium						
	2009	2010	2011	2012	2013	2014	2015
0–9% of premium	9%	11%	8%	9%	7%	12%	9%
10–19% of premium	11%	18%	12%	10%	15%	12%	13%
20–29% of premium	29%	24%	27%	29%	31%	25%	28%
30–39% of premium	13%	17%	19%	14%	17%	17%	21%
40–49% of premium	10%	7%	10%	13%	9%	11%	9%
Over 50% of premium	28%	2%	23%	25%	21%	23%	20%

PLAN COST VERSUS MERIT INCREASES

We asked employers to indicate what their merit pay increase factor will be for 2015. Results indicate the estimated average will be 2.7 percent, up slightly from 2.6 percent in 2014. However, 79 percent of employers expect to pass along a percentage of the medical insurance premium rate increase to their employees, down from 86 percent in 2014. This may result in more employees waiving medical insurance coverage due to their inability to pay the added expense; thus, potentially increasing the number of uninsured Colorado residents.

When asked if they had considered medical cost sharing strategies based on salary/pay level, 80 percent of employers said they had not, down from 84 percent in 2014.

INFLATION FACTORS

Colorado employers were asked to rank the factors that contribute most to increases in their medical plan costs. Table 6 on the following page reflects the factors in order of impact from 1 to 10, with 1 being the highest impact. Consistent with the last 10 years, prescription drug costs and rising hospital are among the top three drivers. Health care reform ranks high next to higher utilization and aging population for the second year in a row. Overall, health care delivery factors rank as the perceived dominant cost drivers while insurance-related factors (insurer profits, cost shifting, legal liability, technology) are ranked lower.

Table 6

MEDICAL PLAN COST INCREASE FACTORS

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Prescription drug costs	1	2	3	2	3	1	2	2	1
Rising hospital costs	2	3	1	1	1	3	1	1	2
Health care reform				8	2	8	5	3	3
Higher utilization	3	1	2	3	5	5	3	5	4
Aging population	5	4	6	5	3	7	4	4	5
Physician charges	4	5	4	4	7	2	6	7	6
Insurer profits	x	x	x	x	x	10	8	9	7
Medicare/Medicaid cost shifting	7	7	8	9	9	9	7	6	8
Legal liability	6	6	5	6	6	6	9	8	9
Technology	x	x	7	7	8	4	10	10	10

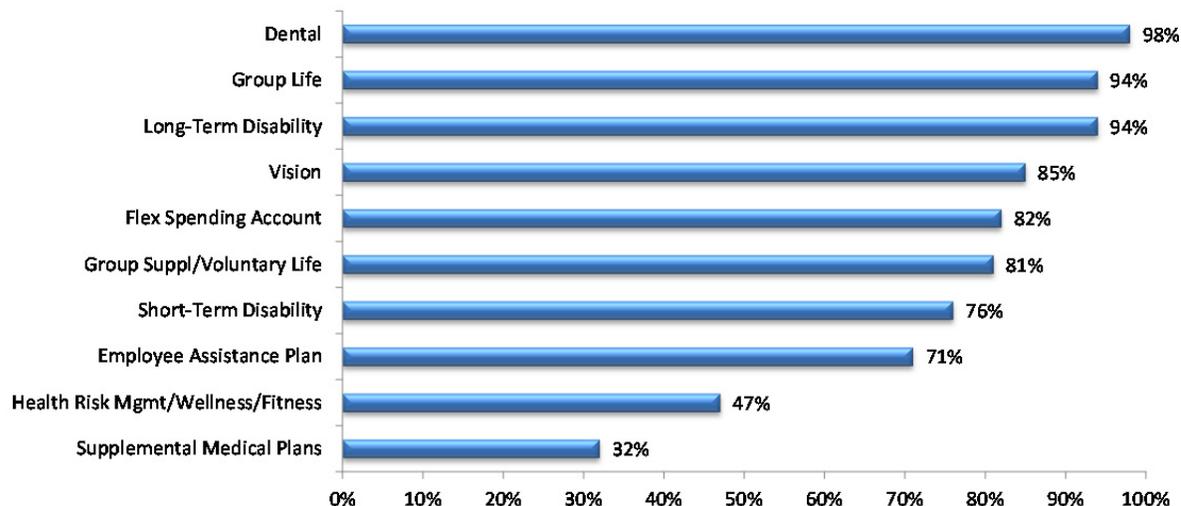
x = factor not included in this year

OTHER BENEFITS OFFERED

Employers were asked what other non-retirement benefits they offer their employees. Dental (98%) was the most popular form of coverage offered to employees after medical coverage, followed by group life and long-term disability insurance (tied at 94%). Over 82 percent of the employers surveyed also offer a form of disability coverage, vision insurance, and flexible spending accounts. See Chart 6 below for more details on these and other lines of coverage.

Chart 6

ANCILLARY BENEFITS



In addition to the benefits listed in Chart 6, 42 percent of the surveyed employers plan to offer their employees a wellness program in 2015, a slight decrease from 2014 (47%). Wellness programs are expected to continue to be an important tool as employers struggle to control medical and other employee benefit plan costs.

HEALTH CARE REFORM

When we asked employers about different aspects of health care reform, they responded as follows:

- ❖ Over half of Colorado employers (64%) reported that they were only somewhat familiar with the concept of health insurance exchanges, an increase from 51 percent in last year's survey. When asked if they were considering dropping their health plan now that the Health Care Exchange is available, 93 percent said no (up from 89% in 2014) and almost 2 percent said yes (up from 1 percent in 2014).
- ❖ Ten percent of employers reported they have not done a financial assessment of the impact of health care reform on their organization, down from 15 percent in 2014.
- ❖ Table 7 below indicates the health reform provisions that are generating the most impact on Colorado employers. The impact of the administrative requirements has almost doubled in the last two years.

	2013	2014	2015
Administrative Requirements (Notices, managing eligibility, reporting, etc.)	35.5%	35.5%	69.81%
Fees/Taxes	*	*	50%
FTEs defined as 30 hours	9.9%	14.5%	34.91%
Benefit mandates (e.g. remove lifetime limits)	11.6%	19.1%	25.47%
Seasonal or variable hour employees	11.6%	14.5%	23.58%
Auto enrollment/individual mandates	13.2%	4.6%	11.32%
90 day eligibility	2.5%	2.8%	9.43%
Non-discrimination requirement	2.5%	3.6%	5.66%

* Not asked in previous surveys

GENERAL INFORMATION

In 2014, the number one source for information for employers is the broker/consultant. We assume that this was primarily due to the need for information on health care reform.

- ❖ Employers consult the following resources for technical benefits questions:
 - ◆ Broker/Consultant – 93%

- ◆ Mountain States Employers Council – 55%
 - ◆ Insurance Carrier – 40%
 - ◆ Third-Party Administrator – 31%
 - ◆ Human Resource Associations (SHRM/CHRA) – 26%
 - ◆ Publications – 23%
 - ◆ Attorney – 21%
- ❖ When asked about their top two concerns about external forces affecting their business profitability in 2014, Colorado employers responded:
- ◆ Economy – 39%
 - ◆ Health care cost increases – 35%
 - ◆ Shortage of qualified workers – 33%
 - ◆ Politics/regulatory environment – 28%
 - ◆ Health care reform – 25%
 - ◆ Status of financial markets – 8%
 - ◆ Foreign or local competition – 7%
 - ◆ Energy prices – 6%
 - ◆ Taxes – 5%

CONCLUSIONS

- ❖ Colorado employers estimate merit pay increases for 2015 will be approximately 2.7 percent. However, medical premium increases are expected to be 5.3 percent (after plan changes) for the 2015 plan year. Seventy-nine percent of employers indicated they would pass on at least some percentage of the premium increase to their employees in the form of higher premiums and reduced benefits; thus, diluting the merit pay increase. This may result in more employees waiving medical coverage due to cost and a perceived lower value of the benefit.
- ❖ For the tenth consecutive year, employers' number one cost-containment strategy will be to increase their employees' premium contribution for family coverage. Forty-nine percent of employers expect to increase the employees' contribution for family coverage, which is a slight decrease from 51 percent in 2014.
- ❖ The top three most effective cost-management strategies implemented by employers were:
 - ◆ Shifting cost to employees (premiums, increased deductibles, out of pocket maximums, co-insurance/decreasing benefits)

- ◆ Implementing a high-deductible health plan (with or without HSA/HRA) and employee education
- ◆ Adding or expanding wellness program incentives

WHO IS LOCKTON?

Our Philosophy – “We Live Service!®”

- ❖ World’s largest, privately-owned, independent insurance broker
- ❖ Ninth largest insurance brokerage firm in the world
- ❖ Established in 1966 in Kansas City, MO
- ❖ \$1.125 billion in annual revenue (worldwide)
- ❖ 65 offices worldwide on five continents
- ❖ 53,000+ Associates and 41,000+ clients worldwide
- ❖ In Denver since 1979:
 - ◆ 330+ Associates (85+ in employee benefits consulting practice – health/welfare plans, retirement plans and executive benefits)

END NOTES

Benefit Management & Design, Inc. conducted this survey from 2000 to 2004. Lockton Companies, which purchased Benefit Management & Design, Inc. in 2005, has continued to conduct this survey since 2005. Lockton’s Denver office is one of Colorado’s largest insurance brokers.

This survey is not a scientific survey with confidence factors or appropriate sample sizes. It is, however, a representation of employer attitudes regarding medical insurance.

The 2014 Colorado Employer Benefits Survey was sent to 602 employers and 110 responded. This represents an 18 percent response rate.

Please contact Deb Smith, deb.smith@lockton.com or (303) 414-6151, if you have questions about this survey report.

Our Mission

To be the worldwide value and service leader in insurance brokerage, employee benefits, and risk management

Our Goal

To be the best place to do business and to work



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