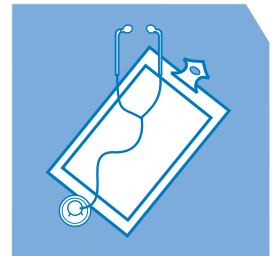
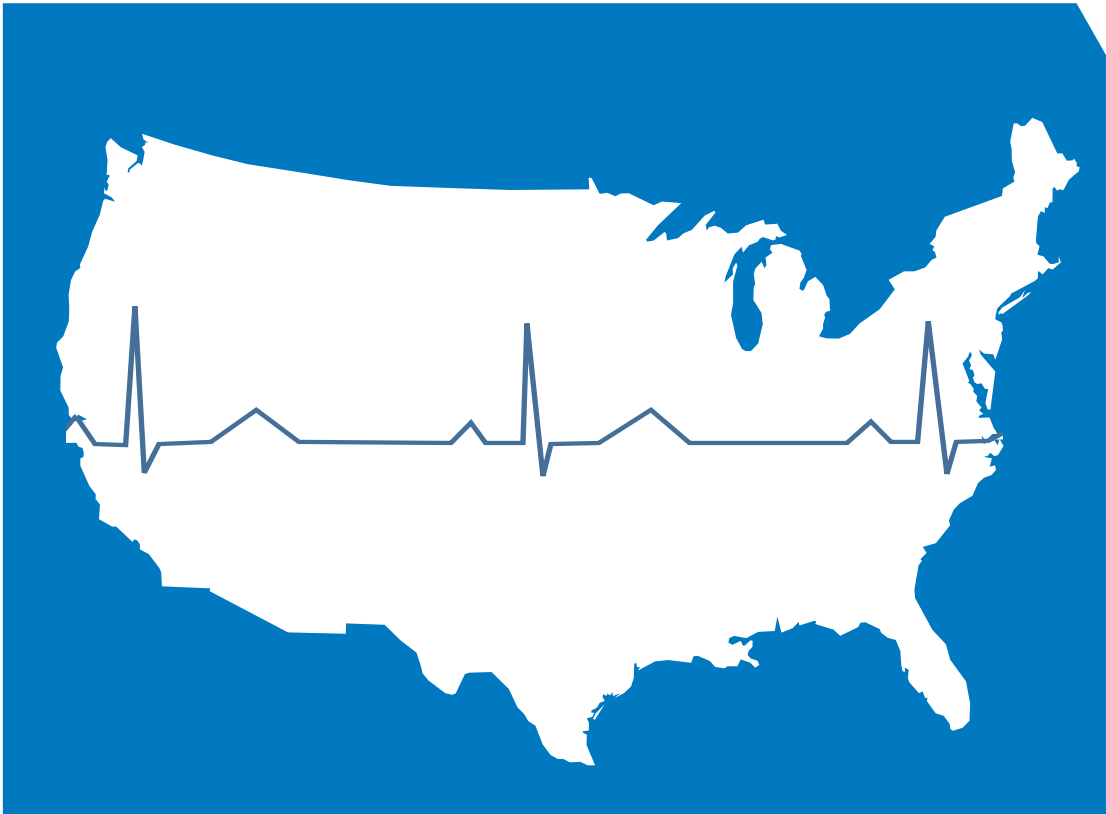


2003 Segal State Health Benefits Survey: Medical Benefits for Employees and Retirees



Introduction

State governments face a daunting task of balancing the commitment to provide comprehensive health benefits to employees with the pressure of keeping expenses within increasingly strained state budgets. For many employers, health care costs already account for over 15 percent of wages. If current cost trends continue, they are expected to consume 20 percent of the dollars spent on wages by 2008.

For more than 30 years, The Segal Company has periodically gathered data from state health plans into a comparative analysis of benefits, costs, premiums, plan designs and related employee benefits issues. This survey is intended to serve as an informational resource for government leaders.

In 2003, after collecting information available on state Web sites and

requesting enrollment packages from each state (steps that were taken to streamline the survey process for participating jurisdictions), Segal surveyed all 50 states. Thirty-nine states provided their enrollment packages and 34 states completed all or portions of the survey questionnaire.

The 2003 *Segal State Health Benefit Survey* covers more than 80 percent of total state health plan enrollment. Together, the participating states provide health benefits for more than three million employees and retirees.

Because the 2003 *Segal State Health Benefit Survey* was broader in scope than Segal's previous surveys of states, findings will be presented in a series of reports. This report, the first in the series, focuses on medical plans.

The table of contents at the bottom of this page shows the topics covered. The major findings about enrollment, costs and cost sharing are presented on national, regional and state-specific levels. Detailed tables of data are included.

Future reports of data from the 2003 *Segal State Health Benefit Survey* to be published in the coming months will present our findings on:

- Prescription drug coverage,
- Dental coverage, and
- Medical plan design.

States and other public sector entities should find the results of the 2003 *Segal State Health Benefit Survey* helpful as they review their own plan costs and cost management efforts.

Table of Contents

Key Findings.....	1
Medical Plan Enrollment.....	2
Employee Premium Rates and Contributions	4
Retiree Premium Rates and Contributions	6
Key Plan Provisions	8
Medical Cost Trend Rates	8
Cost Management Programs	9
About The Segal Company	10

Key Findings

The following are among the key findings of the 2003 *Segal State Health Benefit Survey*:

- In 2002, the average health expense for the participating states, which includes medical *and other health coverage, such as dental plans and flexible spending accounts*, totaled \$5,571 per employee. (That figure excludes average employee contributions.) Based on the average salary for employees of the 15 states that reported salary information, this average health expenditure represented 16 percent of wages.
- After wages and salary, the participating states reported that they perceive health coverage to be the most important benefit offered to employees. Table 1 at the bottom of this page shows the perceived importance of various aspects of total compensation. States were asked to rank the importance of aspects of total compensation on a scale of one (highest priority) to six (lowest priority).
- Although many states ask their employees to share in the cost of medical coverage, 36 percent (12 states) of the participating states

still require no monthly employee contribution for employee-only coverage under the most prevalent plan (*i.e.*, the medical plan option with the greatest enrollment).

- As a group, the participating states subsidize an average of 82 percent of total medical plan expenses for employee coverage in the most prevalent plan.
- For 38 percent (13 states) of the participating states, enrollment is highest in preferred provider organization (PPO) plans, making PPOs the most prevalent medical plan type in 2002. Health maintenance organizations (HMOs), point-of-service (POS) plans and indemnity plans are each most prevalent for 21 percent (7 states) of the participating states.
- Employee enrollment in the most tightly managed medical plans — HMOs — is most prevalent among states in the Midwest and West, while states in the South still have higher employee enrollment in less tightly managed PPO plans. (The regional grouping of states in this survey follows the divisions used by the U.S. Census Bureau.)

- Regions with similar medical plan enrollment patterns do not have similar health care cost trend rates. (Trend is the average forecasted change in premium rate increases in health plans' *per capita* claims costs from one period to the next.) For example, states in both the Midwest and West have similar HMO and PPO enrollment levels, yet health care cost trend rates are dramatically higher in the West than in the Midwest.
- Although state employers are adopting aggressive cost management tactics, most are not considering reducing or eliminating retiree health benefits.
- More than 60 percent of the participating states' indemnity, POS and PPO plans are self-funded, as shown in Table 2 below.

Table 2: Percentage of Self-Funded Plans by Plan Type*

Plan Type	Percentage
Indemnity	71%
POS	69%
PPO	64%
HMO	32%

* This includes plans with or without stop-loss insurance.

Table 1: Importance of Aspects of Total Compensation Ranked by States (1 = Highest Priority, 6 = Lowest Priority)

Aspect of Total Compensation	Ranked 1	Ranked 2	Ranked 3	Ranked 4	Ranked 5	Ranked 6
Wages and Salary	88%	13%	—	—	—	—
Health Benefits	13%	66%	16%	6%	—	—
Retirement Benefits/Pension	—	19%	63%	19%	—	—
Paid Time Off	—	3%	22%	72%	3%	—
Life Insurance	—	—	—	3%	50%	47%
Disability Benefits	—	—	—	—	47%	53%

Note: The percentages in each column do not necessarily equal 100% due to rounding.

Medical Plan Enrollment

The survey found that most employees in the responding states were enrolled in managed care in 2002. HMOs and PPOs enrolled similar percentages of employees: 32 percent and 33 percent, respectively. Only 19 percent of employees were enrolled in indemnity plans.

In contrast, half of all *retirees* in the participating states were enrolled in traditional indemnity (*i.e.*, non-network fee-for-service) plans. PPO plans had the second highest percentage of retirees enrolled (29 percent). Seventy-five percent of states participating in the survey reported enrollment in multiple retiree health plan offerings in 2002.

Table 3 on page 3 shows employee and retiree health plan enrollment data for all of the participating states.

REGIONAL DATA

As illustrated in Graphs 1 and 2 below, employee and retiree enrollment by plan type varied dramatically by region. The following are notable employee enrollment patterns by region:

- In both the Midwest and West, HMOs enrolled the largest percentage of

employee populations (approximately 60 percent).

- Among states in the South, PPO and indemnity plans together accounted for over 60 percent of employee enrollment.
- In the Northeast, employee enrollment was fairly evenly distributed across all plan types.
- Employee enrollment in managed care was most saturated in the West, where 95 percent of employees in the participating states were enrolled in an HMO, PPO or POS plan.

Indemnity plans enrolled a majority of *retirees* in participating states in the Midwest, Northeast and South. In the West, however, HMO and PPO plans together accounted for 95 percent of retiree enrollment.

STATE-SPECIFIC DATA

In many of the participating states, more than half of employees were enrolled in a single plan type, as noted below:

- In California, Colorado, Kentucky, Massachusetts, Minnesota, Missouri and Wisconsin, more than

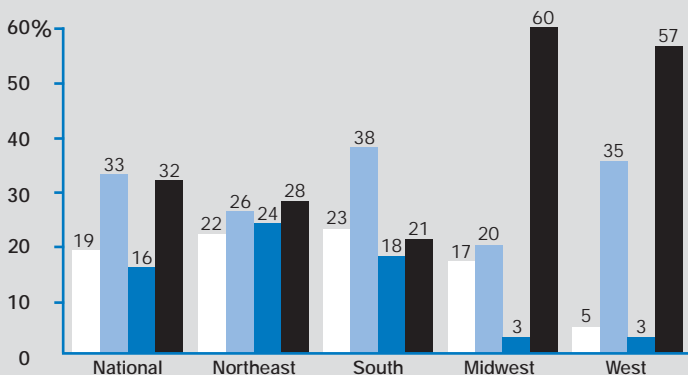
50 percent of employees were enrolled in HMOs.

- POS enrollment exceeded 50 percent in Maine, New Mexico, Texas, Vermont and Virginia.
- More than half of employees were enrolled in PPOs in the following states: Alabama, Florida, Georgia, Mississippi, New York, Oklahoma, Kansas, Nebraska, Ohio, Oregon, Utah and Wyoming.
- Indemnity plans enrolled a majority of employees in Idaho, Iowa, Michigan, North Carolina, North Dakota, Pennsylvania and South Carolina.

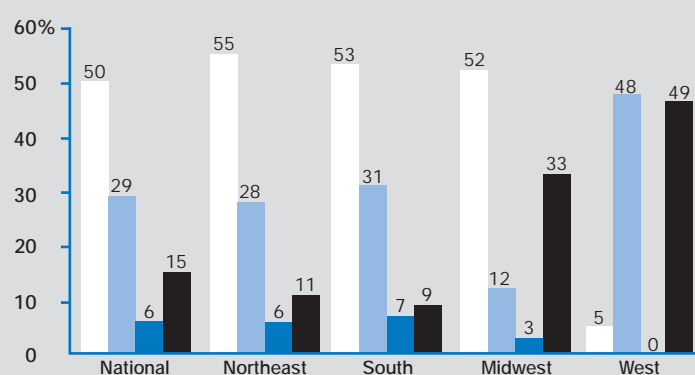
In six of the participating states, all employees were enrolled in one plan: PPO plans in Alabama, Mississippi and Wyoming, a POS plan in Maine, an HMO plan in Minnesota and an indemnity plan in North Carolina.

Although retiree enrollment for the participating states as a group was concentrated in indemnity plans, in four states (California, Minnesota, Missouri and Wisconsin) more than 50 percent of retirees were enrolled in HMOs.

Graph 1: Percentage of State Employees Enrolled in Each Plan Type Nationwide and by Region, 2002



Graph 2: Percentage of State Retirees Enrolled in Each Plan Type Nationwide and by Region, 2002



Key: Indemnity PPO POS HMO

Table 3: 2002 Enrollment by Plan Type*

State	Employees					Retirees				
	Employees Enrolled in All Plans	Indemnity Percent of Total**	PPO Percent of Total	POS Percent of Total	HMO Percent of Total	Retirees Enrolled in All Plans	Indemnity Percent of Total**	PPO Percent of Total	POS Percent of Total	HMO Percent of Total
Northeast										
Connecticut	—	—	—	—	—	—	—	—	—	—
Maine	15,200	—	—	100%	—	8,500	64%	—	36%	—
Massachusetts	82,948	28%	18%	—	55%	57,663	85%	2%	—	14%
New Hampshire	—	—	—	—	—	—	—	—	—	—
New Jersey	234,154	26%	—	48%	26%	109,669	74%	—	16%	10%
New York	174,571	—	76%	—	24%	107,249	—	86%	—	14%
Pennsylvania	86,852	50%	10%	14%	26%	54,373	91%	3%	—	6%
Rhode Island	—	—	—	—	—	—	—	—	—	—
Vermont	6,827	27%	1%	72%	—	2,800	91%	1%	9%	—
Northeast Total:	600,552					340,254				
Northeast Percentage:	100%	22%	26%	24%	28%	100%	55%	28%	6%	11%
South										
Alabama	35,811	—	100%	—	—	14,051	—	100%	—	—
Arkansas	—	—	—	—	—	—	—	—	—	—
Delaware	—	—	—	—	—	—	—	—	—	—
Florida	139,215	—	61%	—	39%	27,729	—	86%	—	14%
Georgia	235,600	12%	57%	—	31%	—	—	—	—	—
Kentucky	108,473	—	33%	14%	54%	27,248	—	33%	23%	44%
Louisiana	—	—	—	—	—	—	—	—	—	—
Maryland	70,328	—	40%	41%	19%	29,402	—	67%	23%	10%
Mississippi	116,519	—	100%	—	—	15,206	—	100%	—	—
North Carolina	168,324	100%	—	—	—	91,007	100%	—	—	—
Oklahoma	104,000	—	69%	—	31%	41,400	—	89%	—	11%
South Carolina	180,662	86%	—	5%	10%	55,871	98%	—	0	2%
Tennessee	137,972	—	50%	21%	30%	—	—	—	—	—
Texas	137,227	0	—	82%	17%	56,712	55%	—	25%	19%
Virginia	92,952	—	—	94%	6%	24,287	100%	—	—	—
West Virginia	—	—	—	—	—	—	—	—	—	—
South Total:	1,527,083					382,913				
South Percentage:	100%	23%	38%	18%	21%	100%	53%	31%	7%	9%
Midwest										
Illinois	—	—	—	—	—	—	—	—	—	—
Indiana	—	—	—	—	—	—	—	—	—	—
Iowa	28,447	53%	18%	—	29%	—	—	—	—	—
Kansas	37,604	—	57%	—	43%	9,681	—	92%	—	8%
Michigan	58,490	57%	—	—	43%	38,116	94%	—	—	6%
Minnesota	48,115	—	—	—	100%	9,800	—	—	—	100%
Missouri	46,012	—	3%	9%	88%	11,396	—	20%	23%	56%
Nebraska	13,809	—	62%	6%	32%	466	—	83%	1%	17%
North Dakota	17,253	64%	—	36%	—	5,163	98%	—	2%	—
Ohio	54,404	—	72%	—	28%	—	—	—	—	—
South Dakota	—	—	—	—	—	—	—	—	—	—
Wisconsin	68,563	3%	—	—	97%	20,033	41%	—	—	59%
Midwest Total:	372,697					94,655				
Midwest Percentage:	100%	17%	20%	3%	60%	100%	52%	12%	3%	33%
West										
Alaska	—	—	—	—	—	—	—	—	—	—
Arizona	—	—	—	—	—	—	—	—	—	—
California	207,333	—	18%	—	82%	40,053	—	34%	—	66%
Colorado	25,362	—	48%	—	52%	—	—	—	—	—
Hawaii	—	—	—	—	—	—	—	—	—	—
Idaho	19,139	99%	—	1%	—	2,994	100%	—	—	—
Montana	—	—	—	—	—	—	—	—	—	—
Nevada	—	—	—	—	—	—	—	—	—	—
New Mexico	22,260	—	—	51%	49%	—	—	—	—	—
Oregon	41,239	—	85%	—	15%	2,995	—	90%	—	10%
Utah	68,481	—	60%	—	40%	9,254	—	95%	—	5%
Washington	—	—	—	—	—	—	—	—	—	—
Wyoming	11,476	—	100%	—	—	2,049	—	100%	—	—
West Total:	395,289					57,345				
West Percentage:	100%	5%	35%	3%	57%	100%	5%	48%	0	47%
All States Total:	2,895,621					875,167				
Total Percentage:	100%	19%	33%	16%	32%	100%	50%	29%	6%	15%

Note: The dashes in this table indicate states that did not participate in the survey.

* Thirty-four states provided active enrollment counts by plan type.

** Some reported indemnity plans may include underlying passive PPO plans, but were not reported as such.

*** Covered lives were provided; converted to active and retirement enrollment counts by assuming ratio of 2.5 dependents per active employee and .5 dependents per retiree, respectively.

Employee Premium Rates and Contributions

For all states participating in the survey, monthly premium rates for 2003 average \$308 for employee-only coverage in the most prevalent plan. On average, state employers pay 90 percent of the average monthly premium rate for employee-only coverage and state employees pay the remaining 10 percent. This average includes 12 states (36 percent) that do not require any employee contribution for employee-only coverage in the most prevalent plan.

The average premium rate for employee-and-family coverage in 2003 is \$768. On average, state employers pay 78 percent (\$598) of this average monthly premium rate. State employees pay the remaining 22 percent (\$170). Five states do not require an employee contribution for family coverage: New Jersey, North Dakota, Oregon, South Carolina and Wisconsin. Table 4 below compares cost sharing for employee-only and family coverage for each state's most prevalent plan. Graph 3 compares the composite annual premium cost for 2002 and 2003 for employees by region.

Table 4: Premium Cost Sharing by Coverage Category for the Most Prevalent Plan

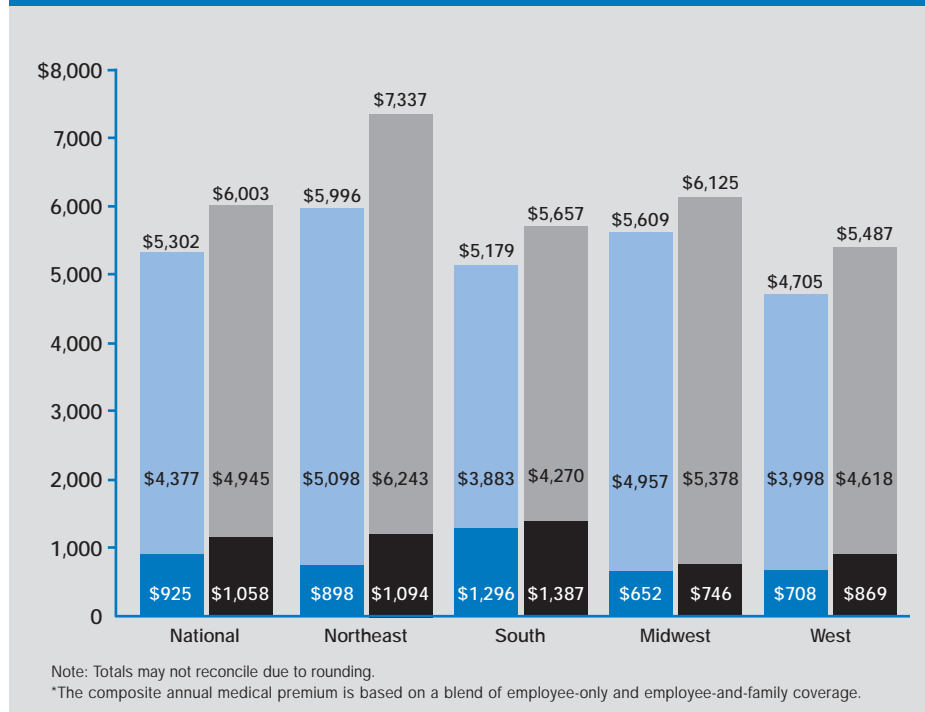
Coverage	State Share	Employee Share
Employee Only	90%	10%
Employee and Family	78%	22%

REGIONAL DATA

Regional differences in the cost of employee coverage include:

- The highest average monthly premium rates for both single and family coverage in 2003 are reported for the Northeast region. Both the

Graph 3: Composite* Annual Medical Premium Cost for Employees Nationwide and by Region, 2002 and 2003



Key:
■ State Share in 2002
■ Employee Share in 2002
■ State Share in 2003
■ Employee Share in 2003

employee-only and family rates are over 21 percentage points greater than the national averages.

- The lowest average premium rates for employee-only coverage are reported in the South region.
- States in the West reported the lowest average premium rate for family coverage in 2003.

Cost sharing also differed by region, as noted below:

- States in the Midwest pay the greatest percent of the composite annual premium equivalent medical cost. Each state in this region pays for at least 75 percent of the medical composite cost. State employees pay the remaining balances.

- The South has the lowest level of state contribution rates for family coverage at 68 percent. This can be explained primarily by the policy of the three states in this region that set employer contributions at the employee-only premium rate levels for both employee-only and family coverage.

See Table 5 on page 5 for regional data.

STATE-SPECIFIC DATA

Massachusetts has the highest reported monthly premium for employee-only coverage and North Dakota has the lowest: \$488 and \$190, respectively. The monthly premium for family coverage is highest in Maine (\$1,132) and lowest in Idaho (\$446). Table 5 shows premiums, rates and employee and state contributions for all participating states.

Table 5: 2003 Employee Monthly Premium Rates for The Most Prevalent Plan*

State	Plan Type	Employee-Only Monthly Rates				Employee-and-Family Monthly Rates				
		Total Premium	Employee Share	State Share	Percentage State Share	Total Premium	Employee Share	State Share	Percentage State Share	
Northeast	Connecticut	—	—	—	—	—	—	—	—	
	Maine	POS	\$456	\$0	\$456	100%	\$1,132	\$263	\$870	77%
	Massachusetts	Indemnity	\$488	\$93	\$396	81%	\$1,103	\$210	\$893	81%
	New Hampshire	—	—	—	—	—	—	—	—	
	New Jersey	POS	\$255	\$0	\$255	100%	\$662	\$0	\$662	100%
	New York	PPO	\$338	\$34	\$305	90%	\$765	\$141	\$625	82%
	Pennsylvania	—	—	—	—	—	—	—	—	
	Rhode Island	—	—	—	—	—	—	—	—	
	Vermont	POS	\$365	\$73	\$292	80%	\$1,005	\$201	\$804	80%
	Northeast Average:		\$381	\$40	\$341	90%	\$933	\$163	\$771	83%
South	Alabama	PPO	\$246	\$0	\$246	100%	\$620	\$164	\$456	74%
	Arkansas	—	—	—	—	—	—	—	—	
	Delaware	—	—	—	—	—	—	—	—	
	Florida	PPO	\$291	\$42	\$249	86%	\$660	\$151	\$509	77%
	Georgia	PPO	\$305	\$49	\$255	84%	\$565	\$151	\$415	73%
	Kentucky	HMO	\$331	\$62	\$269	81%	\$828	\$558	\$269	33%
	Louisiana	—	—	—	—	—	—	—	—	
	Maryland	PPO	\$316	\$63	\$253	80%	\$791	\$158	\$633	80%
	Mississippi	PPO	\$219	\$0	\$219	100%	\$575	\$356	\$219	38%
	North Carolina	Indemnity	\$244	\$0	\$244	100%	\$610	\$365	\$244	40%
	Oklahoma	Indemnity	\$268	\$0	\$268	100%	\$663	\$197	\$467	70%
	South Carolina	Indemnity	\$257	\$50	\$207	80%	\$815	\$0	\$815	100%
	Tennessee	PPO	\$369	\$74	\$295	80%	\$922	\$184	\$737	80%
	Texas	POS	\$307	\$0	\$307	100%	\$895	\$294	\$601	67%
Virginia	POS	\$295	\$21	\$274	93%	\$797	\$240	\$557	70%	
West Virginia	—	—	—	—	—	—	—	—		
South Average:		\$287	\$30	\$257	90%	\$728	\$235	\$494	68%	
Midwest	Illinois	—	—	—	—	—	—	—	—	
	Indiana	—	—	—	—	—	—	—	—	
	Iowa	Indemnity	\$400	\$0	\$400	100%	\$937	\$243	\$694	74%
	Kansas	PPO	\$274	\$16	\$258	94%	\$767	\$337	\$430	56%
	Michigan	Indemnity	\$265	\$13	\$252	95%	\$731	\$37	\$695	95%
	Minnesota	HMO	\$304	\$0	\$304	100%	\$894	\$59	\$835	93%
	Missouri	HMO	\$278	\$15	\$263	95%	\$832	\$179	\$653	78%
	Nebraska	PPO	\$295	\$62	\$233	79%	\$1,047	\$220	\$827	79%
	North Dakota	Indemnity	\$190	\$0	\$190	100%	\$470	\$0	\$470	100%
	Ohio	PPO	\$286	\$29	\$257	90%	\$786	\$79	\$708	90%
	South Dakota	—	—	—	—	—	—	—	—	
	Wisconsin	HMO	\$346	\$0	\$346	100%	\$858	\$0	\$858	100%
Midwest Average:		\$293	\$15	\$278	95%	\$814	\$128	\$685	84%	
West	Alaska	—	—	—	—	—	—	—	—	
	Arizona	—	—	—	—	—	—	—	—	
	California	HMO	\$259	\$34	\$225	87%	\$674	\$89	\$585	87%
	Colorado	PPO	\$224	\$76	\$148	66%	\$583	\$272	\$311	53%
	Hawaii	—	—	—	—	—	—	—	—	
	Idaho	Indemnity	\$398	\$8	\$389	98%	\$446	\$56	\$389	87%
	Montana	—	—	—	—	—	—	—	—	
	Nevada	—	—	—	—	—	—	—	—	
	New Mexico	HMO	\$234	\$82	\$152	65%	\$644	\$225	\$418	65%
	Oregon	PPO	\$446	\$0	\$446	100%	\$694	\$0	\$694	100%
	Utah	PPO	\$270	\$19	\$251	93%	\$744	\$52	\$692	93%
	Washington	—	—	—	—	—	—	—	—	
Wyoming	PPO	\$358	\$59	\$299	83%	\$829	\$131	\$697	84%	
West Average:		\$313	\$40	\$273	87%	\$659	\$118	\$541	82%	
National Average**:		\$308	\$30	\$279	90%	\$768	\$170	\$598	78%	

Note: The dashes in this table indicate states that did not participate in the survey. It should be noted that PA participated, but did not provide 2003 premium rates.

* The most prevalent plan is defined as the plan with the highest enrollment.

** The employee share plus the state share may not equal total premium due to rounding.

Retiree Premium Rates and Contributions

Based upon the states participating in this survey, state employers subsidize over 50 percent of the total monthly premium rates for both single retirees under age 65 and single retirees age 65 and older. Almost 20 percent of the participating states pay 100 percent of the premium rates for single retirees under age 65, and *almost 30 percent of participating states pay 100 percent for retirees age 65 and older.*

Over 30 percent of participating states do not contribute any money toward single retiree premium rates for retirees under age 65 and approximately 38 percent of participating states do not contribute toward retiree premium rates for single retirees age 65 and older.

Approximately 42 percent of all participating states derive premium rates by combining the claims experience for employees and retirees under age 65. As a result, actual costs for early retiree coverage in these states may be significantly understated because early retiree premiums are, in part, subsidized by lower cost employees.

Overall, states pay the same share of the premium for retiree-only coverage for retirees under age 65 and retirees age 65 and older: 57 percent. (See Tables 6 and 7.) In dollars, however, the states' average contributions for these two categories of coverage differ (\$218 for retirees under age 65 and \$144 for retirees age 65 and older). This illustrates the impact that Medicare coverage has on the cost of providing care for the nation's over age 65 population.

Graph 4 compares the composite annual premium cost for retirees for 2002 and 2003.

Table 6: Retiree Premium Cost Sharing by Coverage Category for the Most Prevalent Plan

Coverage		State Share	Retiree Share
Under Age 65	Retiree Only	57%	43%
	Retiree and Spouse	47%	53%
Age 65+	Retiree Only	57%	43%
	Retiree and Spouse	44%	56%

REGIONAL DATA

Regional differences in the cost of retiree coverage include:

- Participating states in the Northeast contribute an average of more than 90 percent towards single coverage for under and over age 65 retirees in 2003. The contribution

for retiree-and-spouse coverage by states in the Northeast averages approximately 79 percent of the premium rates. State retirees pay the remaining balance.

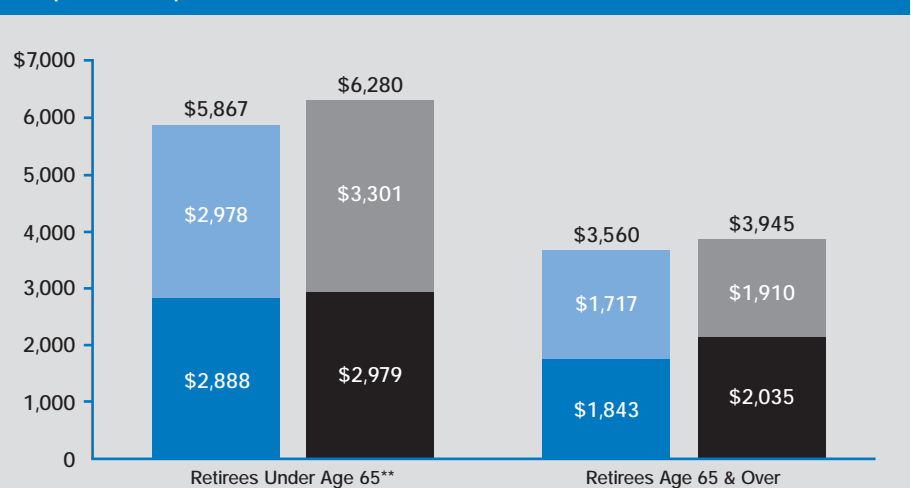
- Participating states in the Midwest and West regions contribute significantly less than half of the cost of retiree coverage. With the exception of California, Michigan and Missouri, states in these regions require retirees to pay most or all of the cost for health coverage.
- Conversely, in the South region, states generally finance over 50 percent of the cost for retiree coverage.

See Table 7 on Page 7 for regional data.

STATE-SPECIFIC DATA

On an individual state level, there is considerable variation associated with the amount that states contribute toward all retiree premium rates, ranging from zero to 100 percent.

Graph 4: Composite* Annual Medical Premium Cost for Retirees, 2002 and 2003



Note: Totals may not reconcile due to rounding.

* The composite annual medical premium is based on a blend of retiree-only and retiree-and-spouse coverage.

** Under age 65 retiree statistics were normalized to eliminate states where active and under age 65 retiree experiences blended in driving premium costs.

Key: ■ State Share in 2002 ■ State Share in 2003
■ Retiree Share in 2002 ■ Retiree Share in 2003

Table 7: 2003 Retiree Monthly Premium Rates for the Most Prevalent Plan*

State	Same Rates for Actives?	Monthly Rates for Retirees Under Age 65**				Monthly Rates for Retirees Age 65 & Over				
		Retiree Only		Retiree and Spouse		Retiree Only		Retiree and Spouse		
		Total Premium	Percentage State Share	Total Premium	Percentage State Share	Total Premium	Percentage State Share	Total Premium	Percentage State Share	
Northeast	Connecticut	–	–	–	–	–	–	–	–	
	Maine	Yes	\$456	100%	\$952	50%	\$220	100%	\$434	51%
	Massachusetts	No	\$331	81%	–	–	\$331	85%	–	–
	New Hampshire	–	–	–	–	–	–	–	–	–
	New Jersey	No	\$573	100%	\$1,249	100%	\$304	100%	\$608	100%
	New York	Yes	\$338	90%	\$765	82%	–	–	–	–
	Pennsylvania	–	–	–	–	–	–	–	–	–
	Rhode Island	–	–	–	–	–	–	–	–	–
	Vermont	No	\$465	80%	\$929	80%	\$199	80%	\$397	80%
	Northeast Average:		\$433	91%	\$974	79%	\$263	92%	\$480	80%
South	Alabama	No	\$469	71%	\$871	65%	\$242	100%	\$532	79%
	Arkansas	–	–	–	–	–	–	–	–	–
	Delaware	–	–	–	–	–	–	–	–	–
	Florida	Yes	\$291	0	\$660	0	\$155	0	\$309	0
	Georgia	No	\$305	84%	\$565	73%	–	–	–	–
	Kentucky	Yes	\$331	81%	\$745	36%	–	–	–	–
	Louisiana	–	–	–	–	–	–	–	–	–
	Maryland	No	\$316	80%	\$570	80%	\$158	80%	\$316	80%
	Mississippi	No	\$252	0	\$531	0	\$164	0	\$328	0
	North Carolina	No	\$244	100%	\$610	40%	\$186	100%	\$464	40%
	Oklahoma	No	\$358	29%	\$816	13%	\$248	42%	\$503	21%
	South Carolina	No	\$238	79%	\$556	73%	\$260	79%	\$565	72%
	Tennessee	Yes	\$369	80%	\$922	80%	\$246	16%	–	–
	Texas	Yes	\$307	100%	\$659	73%	\$307	100%	\$659	73%
Virginia	Yes	\$295	100%	\$546	100%	\$236	100%	–	–	
West Virginia	–	–	–	–	–	–	–	–	–	
South Average:		\$315	67%	\$671	53%	\$220	66%	\$460	50%	
Midwest	Illinois	–	–	–	–	–	–	–	–	–
	Indiana	–	–	–	–	–	–	–	–	–
	Iowa	–	–	–	–	–	–	–	–	–
	Kansas	Yes	\$274	0	\$548	0	\$88	0	\$175	0
	Michigan	No	\$532	95%	\$1,138	95%	\$334	100%	\$668	100%
	Minnesota	–	–	–	–	\$369	0	\$737	0	
	Missouri	No	\$625	50%	\$1,250	50%	\$285	50%	\$568	32%
	Nebraska	Yes	\$295	0	\$737	0	\$295	0	–	–
	North Dakota	–	–	–	–	–	–	–	–	–
	Ohio	–	–	–	–	–	–	–	–	–
	South Dakota	–	–	–	–	–	–	–	–	–
	Wisconsin	Yes	\$795	0	\$1,954	0	\$360	0	\$698	0
	Midwest Average:		\$504	32%	\$1,125	30%	\$288	28%	\$569	30%
West	Alaska	–	–	–	–	–	–	–	–	–
	Arizona	–	–	–	–	–	–	–	–	–
	California	Yes	\$296	97%	\$592	91%	\$310	93%	\$620	87%
	Colorado	–	–	–	–	–	–	–	–	–
	Hawaii	–	–	–	–	–	–	–	–	–
	Idaho	No	\$333	0	\$591	0	\$158	0	\$304	0
	Montana	–	–	–	–	–	–	–	–	–
	Nevada	–	–	–	–	–	–	–	–	–
	New Mexico	–	–	–	–	–	–	–	–	–
	Oregon	No	\$450	0	\$669	0	\$369	0	\$576	0
	Utah	–	–	–	–	–	–	–	–	–
	Washington	–	–	–	–	–	–	–	–	–
Wyoming	No	\$407	0	\$962	0	\$256	0	\$505	0	
West Average:		\$371	19%	\$703	19%	\$273	26%	\$501	27%	
National Average:		\$383	57%	\$815	47%	\$253	57%	\$498	44%	

Note: The dashes in this table indicate states that did not participate in the survey. PA participated, but did not provide 2003 premium rates.

* The most prevalent plan is defined as the plan with the highest enrollment.

** The under age 65 premium rates may be understated for states that use the same rates as employees as identified in column 2.

Key Plan Provisions

Table 8 reports the average annual deductible for employee-only coverage in the participating states' most prevalent plan.

Table 8: Average Annual Deductible by Plan Type

Plan Type	Average Deductible
Indemnity	\$310
PPO – In Network	\$360
PPO – Out of Network	\$671

Average deductibles for PPO plans have increased by 30 percent since 1999, according to the last state survey published by Segal.

In 2003, 55 percent of state health plans have doctor office visit copayments of \$15 or higher for employees. Only 10 percent of all states reported a copayment of less than \$10. Table 9, in the adjacent column, indicates the percentage of responding states for which a managed care plan is most prevalent that have the office visit copayments shown.

More than 60 percent of the states report having an in-network individual out-of-pocket maximum of \$1,500 or less and almost 30 percent of plans require an individual out-of-pocket maximum greater than \$2,000. See Table 10 at the bottom of this page.

Average individual out-of-pocket maximum levels were \$1,400 in-network and \$2,700 out-of-network.

Table 9: Copayments by Percentage of Participating States

Copayment	Percentage of States
\$0	5%
\$5	5%
\$10	35%
\$15	30%
\$20	20%
\$30	5%

Table 10: Out-of-Pocket Maximums by Percentage of Participating States*

Range of Out-of-Pocket Maximum	Percentage of States		
	All	In Network	Out of Network
\$0-1,000	25%	36%	10%
\$1,001-1,500	17%	25%	5%
\$1,501-2,000	13%	11%	15%
More than \$2,000	46%	29%	70%

* The percentages may not equal 100% due to rounding.

Medical Cost Trend Rates

The average medical cost trend rate for all plans of states participating in the survey is 14.5 percent in 2003.* This is consistent with medical trends projected in the 2003 *Segal Health Plan Cost Trend Survey* for all payers:

- 16.2 percent for traditional indemnity plans,
- 14.5 percent for PPO plans,
- 14.9 percent for POS plans and
- 14.4 percent for HMO plans.

The blue text in Graph 5 at the top of page 9 shows trend rates for states by plan type for employee coverage.

REGIONAL DATA

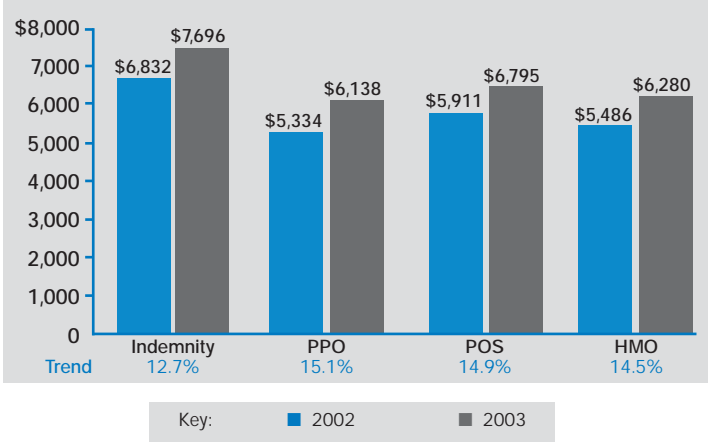
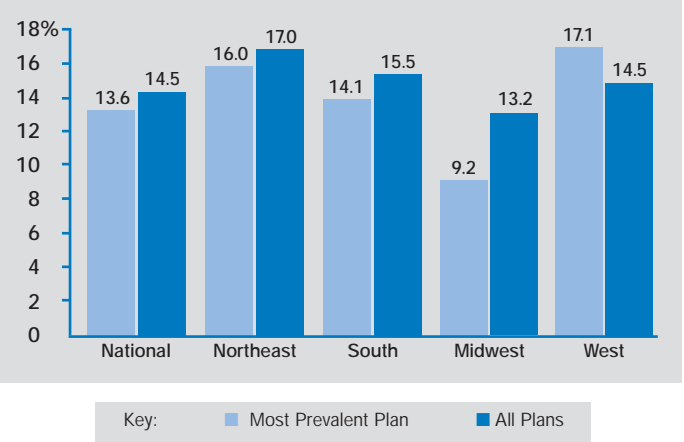
The West, which has the lowest composite annual medical cost for employees, had the highest trend rate for the most prevalent plan: 17.1 percent. This rate is almost twice the trend rate of the Midwest, the region with the lowest composite annual medical trend.

Trends for the most prevalent plan are lower than the average trend for all plans offered, except in the West. Graph 6 at the top of page 9 compares plans' trend rates by region. The trend rates reflect the participating states' most prevalent plan.

STATE-SPECIFIC DATA

Trend rates exceeding 20 percent were seen in California, Colorado, Tennessee and Wyoming. Michigan and North Dakota expect no increase in the cost of the most prevalent plan.

*Note: Trends derived in this state survey are based on increases in premium rates, which are generally lower than trends in per capita claims cost as captured in the annual *Segal Health Plan Cost Trend Survey*. This is the result of inclusion in this survey of increases to administrative, retention, and other fees, which typically experience lower rates of increase than per capita claims cost.

Graph 5: Composite Annual Premium Cost and Trend Rates for Employee Coverage by Plan Type, 2002 and 2003

Graph 6: 2003 Composite Average Annual Medical Trend for Employee Coverage Nationwide and by Region


Cost Management Programs

The 2003 *Segal State Health Benefit Survey* asked states about the cost management programs currently in place and the programs they are considering implementing over the next one to three years.

CURRENT PROGRAMS

Every participating state has one or more programs in place to minimize increases in premium or claims cost. The most common programs are hospital inpatient precertification procedures, disease management programs, prior authorization for prescription drugs and claims payer audits. See Graph 7.

Less commonly used services were outpatient pre-certification, prescription drug clinical intervention, hospital bill audits and utilization of centers of excellence. Roughly half of all respondents reported having any of these practices in place.

The least common programs are utilization review (UR) vendor audits, employee self-audits and health reimbursement accounts (HRAs). Fewer than one-third of respondents reported having any of these in place. None of the participating states reported having a consumer-driven health plan in place.

PROGRAMS UNDER CONSIDERATION

The survey found that a majority of states are considering more aggressive cost management programs for the future. As illustrated in Graph 8 on page 10, a large percentage of state employers indicated they are “highly likely” to consider several cost saving plan options including:

- Implementing higher member copayments (45 percent),
- Adding disease management programs to their health plans in the near future (42 percent), and
- Raising employee contributions for dependents (36 percent) and/or employees (30 percent).

Graph 7: Cost Management Programs by Percentage of Participating States that Currently Have Them in Place, 2003

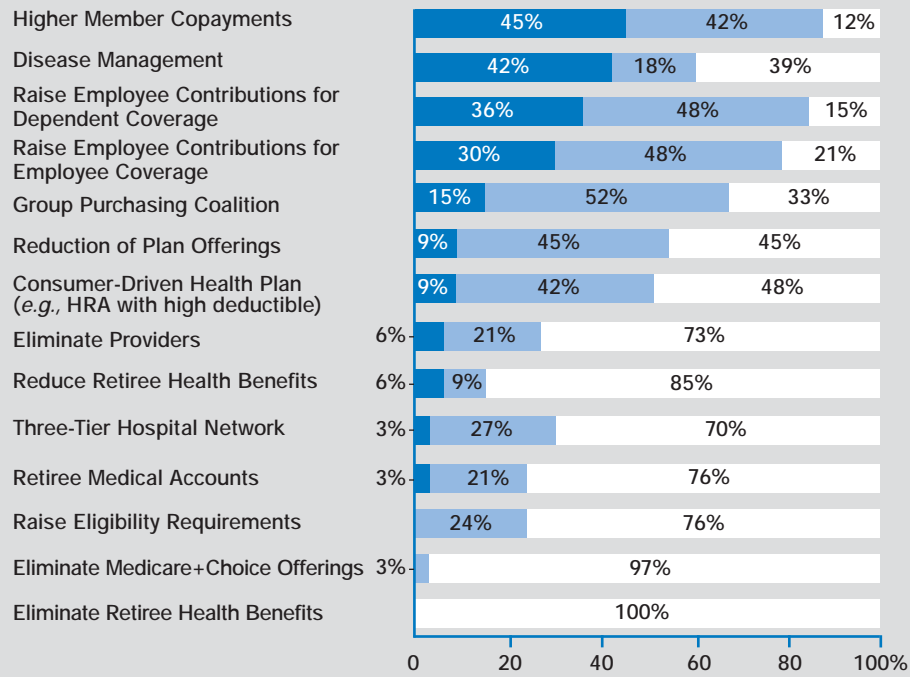

Cost Management Programs (continued)

However, most states report they are avoiding more drastic measures to cut costs. These measures include reducing or eliminating retiree health benefits/coverage, eliminating Medicare+Choice plan options, raising eligibility requirements for employee and retiree health benefits, retiree medical accounts and three-tier hospital networks. Specifically:

- All of the participating states indicated they are *not considering* eliminating retiree health coverage as a cost containment mechanism,
- Ninety-seven percent of the participating states are *not considering* eliminating Medicare+Choice offerings, and
- Eighty-five percent responded that they are *not considering* reducing retiree health benefits.

Only 9 percent of the participating states are “highly likely” to consider consumer-driven health plans or reductions in plan offerings.

Graph 8: Percentage of Participating States Planning to Implement Cost Management Programs Within the Next One to Three Years



Note: Percentages may not equal 100% due to rounding.

Key: ■ Highly Likely to Consider ■ Might Consider ■ Not Considering

About The Segal Company

The Segal Company, consultants and actuaries for employee benefit and compensation programs in the U.S., Canada and abroad, was founded in 1939. Segal has served as advisors to public sector entities, including city, county and state governments, state retirement systems and federal agencies, since the 1950s. Segal’s clients also include joint boards of trustees administering multiemployer plans, corporations, professional service firms and non-profit organizations.

Segal understands the challenges that public sector entities face in balancing the needs of employees and constituents and the pressures associated with increasing benefit and compensation costs; shrinking revenues; the need to accommodate a growing population of

baby boomer retirees; and the difficulties — and necessity — of adopting new technologies to replace long-established, labor-intensive systems.

Segal provides a complete range of services for the design, implementation, compliance and communication of programs such as health plans; life, survivors’ income and disability insurance plans; retirement plans; and compensation and collective bargaining, including strategic planning, cost management and administration and technology consulting.

To learn more about our consulting services, call your Segal consultant, contact the nearest Segal office or visit our Web site (www.segalco.com).

THE SEGAL COMPANY

Atlanta	678.306.3100
Boston	617.424.7300
Chicago	312.984.8500
Cleveland	216.687.4400
Denver	303.714.9900
Hartford	860.678.3000
Houston	713.664.4654
Los Angeles	818.956.6700
Minneapolis	952.857.2480
New Orleans	504.483.0744
New York	212.251.5000
Philadelphia	215.854.4017
Phoenix	602.381.4000
Pittsburgh	412.269.7771
San Francisco	415.263.8200
Seattle	206.224.5628
Toronto	416.961.3264
Washington	202.833.6400

www.segalco.com

