

# Employee Contributions for Medical Care Coverage

BY ANN C. FOSTER

As employers saw dramatic increases in the cost of providing medical care benefits to their employees, many of them imposed or increased cost-sharing requirements.<sup>1</sup> The extent of these measures is reflected in data from the Employee Benefits Survey that show an increase in the proportion of employees who must contribute to the cost of their coverage as well as in the average required employee contribution.

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Employers are increasingly requiring employees to pay for part of their health care benefits. (See table 1.) In 1993, 61 percent of covered full-time employees in medium and large private establishments (those with 100 or more employees) had to contribute to the cost of their individual medical care coverage, up from the 47 percent in 1989.<sup>2</sup> In small private establishments (those with fewer than 100 employees), 52 percent of full-time workers contributed to their coverage in 1994, compared with 42 percent in 1990.<sup>3</sup> The proportion of State and local government workers contributing to the cost of their coverage was 47 percent in

Table 1. Percent of participants receiving medical care benefits by required contribution, full-time employees, 1989-90 and 1993-94

Employee contributions	1989-90			1993-94		
	Medium and large private establishments	Small-private establishments	State and local governments	Medium and large private establishments	Small private establishments	State and local governments
<b>Individual coverage</b>						
Total .....	100	100	100	100	100	100
Employee contribution required .....	47	42	38	61	52	47
Employee contribution not required .....	53	58	62	37	46	49
Not determinable .....	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	2	2	3
<b>Family coverage</b>						
Total .....	100	100	100	100	100	100
Employee contribution required .....	66	67	65	76	76	71
Employee contribution not required .....	34	33	35	21	18	22
Not determinable .....	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	3	6	7
<b>Average monthly contribution<sup>2</sup></b>						
Individual .....	\$25.31	\$25.13	\$25.53	\$31.55	\$40.97	\$30.20
Family .....	72.10	109.34	117.59	107.42	159.63	149.70

<sup>1</sup> No employees in this category.

<sup>2</sup> The average monthly contribution includes those plans requiring the employee to pay a flat monthly contribution.

NOTE: Because of rounding, sums of individual items may not equal totals.

1994, compared with 38 percent in 1990.<sup>4</sup>

For family medical care coverage, increases were less dramatic. The proportion of full-time employees in medium and large private establishments required to contribute to the cost of family coverage was 76 percent in 1993, compared with 66 percent in 1989. In 1994, 76 percent of small private establishment employees and 71 percent of public employees had to contribute to the cost of family coverage, compared with 67 percent and 65 percent, respectively, in 1990.

The average required contribution also increased. In 1989-90, the average monthly contribution for individual medical care coverage was about \$25 for employees in all sectors. By 1993, this increased to almost \$32 for employees in medium and large private establishments. By 1994, the average required contribution increased to \$41 for small private establishment employees and to \$30 for State and local government workers.

Increases were far greater for family coverage. In 1989-90, required contributions for family coverage ranged from an average of \$72 for participants in medium and large private establishments to \$118 for participants in public employee plans. Among small private establishments, the average employee contribution was \$109.<sup>5</sup> By 1993-94, required contributions for family coverage had increased to \$107 for employees in medium and large private establishments and to \$160 for small business employees; for State and local government employees, the average required contribution was \$150.

### Employee contributions for medical care over time

Employee Benefits Survey data for medium and large private establishments provide an interesting perspective on benefit plan trends, including those for contributions. These data show that between 1983 and 1993, average

employee contributions for individual medical care coverage tripled, from \$10.13 to \$31.55. Contributions for family coverage also tripled, from an average of \$32.51 to \$107.42.<sup>6</sup>

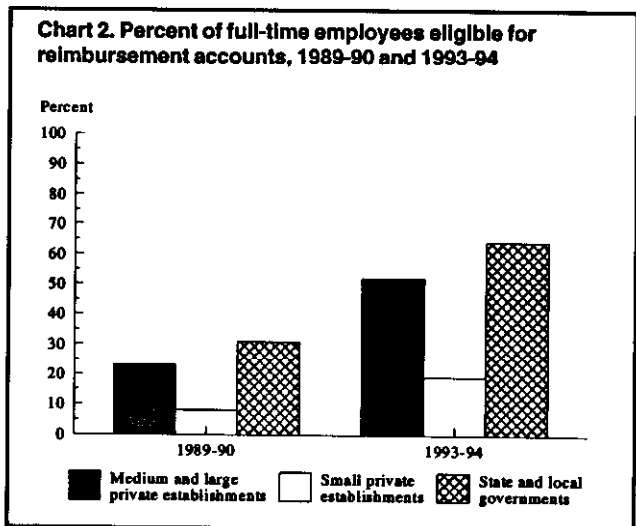
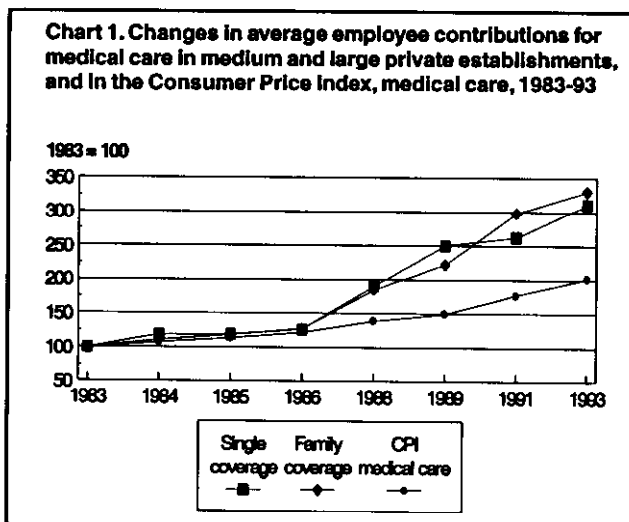
These trends are illustrated in chart 1, which also compares them to the change in the medical care component of the Consumer Price Index, All Urban Consumers (CPI-U).<sup>7</sup> For ease of comparison, employee contributions data were converted to a common base by dividing each year's average by the figure for 1983. As the chart shows, employee contributions increased at the same rate as the CPI-U, medical care component throughout the mid-1980s. Since then, average employee contributions increased faster than the change in medical care as measured by the CPI-U.

### Reimbursement accounts

Employees who are required to contribute to the cost of their medical care coverage may be able to do so with pretax dollars, which also reduces their taxable income. In 1993-94, 32 percent of covered employees in medium and large private establishments and 70 percent of covered State and local government workers could pay for their medical care coverage with pretax dollars.<sup>8</sup>

Such pretax payments are made through reimbursement (or flexible spending) accounts. Most of these accounts are freestanding, but a few are part of a flexible benefits plan. Reimbursement accounts provide funds from which employees pay for expenses, such as medical care premiums and dependent care, not covered by their regular benefits package. While usually funded by employee pretax contributions only, some accounts may be partially funded by employers. The proportion of employees eligible for these accounts has increased in recent years. (See chart 2.)

The types of expenses that eligible employees may pay from these accounts are shown in table 2. In 1993-94,



the proportion of employees able to pay medical care expenses ranged from 47 percent in medium and large private establishments to 77 percent in both small private establishments and the public sector. Some flexible spending accounts, known as premium conversion plans, are established only for medical care plan participants to pay required contributions with pretax dollars.

A large proportion of eligible employees may use funds for other health expenses not covered by their medical care plan. Examples include plan deductibles and coinsurance, as well as dental and vision care expenses. Eligible employees are often able to use these accounts for dependent care expenses as well.

**Table 2. Percent of full-time employees covered by reimbursement accounts, 1993-94**

Expenses	Medium and large private establishments	Small private establishments	State and local governments
Total with reimbursement account <sup>1</sup>	100	100	100
Health premiums	47	77	77
Health premiums only <sup>2</sup>	18	38	24
Other health expenses	69	50	55
Dependent care expenses	77	51	71
Legal expenses	( <sup>3</sup> )	1	2

<sup>1</sup> Total is less than the sum of individual items because many plans allow funds to be used for multiple purposes.

<sup>2</sup> All plans in this category are premium conversion plans.

<sup>3</sup> Less than 0.5 percent.

—Endnotes—

<sup>1</sup> Employer spending on health care increased from 4.4 percent of total compensation in 1980 to 7.3 percent in 1993. For more information, see Celia Silverman, et. al., eds. *EBRI Databook on Employee Benefits*, third edition, Employee Benefit Research Institute, 1995.

<sup>2</sup> See *Employee Benefits in Medium and Large Private Establishments, 1993*, Bulletin 2456, Bureau of Labor Statistics, 1994 and *Employee Benefits in Medium and Large Firms, 1989*, Bulletin 2363, Bureau of Labor Statistics, 1990.

<sup>3</sup> See *Employee Benefits in Small Private Establishments, 1994*, Bulletin 2475, Bureau of Labor Statistics, 1996 and *Employee Benefits in Small Private Establishments, 1990*, Bulletin 2388, Bureau of Labor Statistics, 1991.

<sup>4</sup> See *Employee Benefits in State and Local Governments, 1994*, Bulletin 2477, Bureau of Labor Statistics, 1996 and *Employee Benefits in State and Local Governments, 1990*, Bulletin 2398, Bureau of Labor Statistics, 1992.

For a discussion of contribution trends prior to 1989-90, see Allan P. Blustin, "Employee Contributions for Medical Care Benefits," *Compensation and Working Conditions*, January 1992, pp. 12-13.

<sup>5</sup> The averages are for employees who are in plans requiring a flat monthly contribution. In 1993-94, about three-quarters of private sector and nine-tenths of public sector contributors were in such plans. Other employees with contributory coverage pay a composite rate which covers more than one benefit area (ex. health care and sickness and accident insurance) while others pay a rate varying by options chosen under a flexible benefits plan or reimbursement account. A few employees pay a rate varying by the amount of their earnings.

<sup>6</sup> The 1988 Employee Benefits Survey was expanded to include all service industries. While this expansion had little impact on the proportion of workers required to contribute to the cost of their medical care, it did affect contributions. The increases shown for 1988 are somewhat larger (average contributions increased about \$1 per month for individual coverage and \$8 per month for family coverage) due to the expansion.

<sup>7</sup> See the Consumer Price Index, All Urban Consumers, U.S. City Average, 1982-84=100.

<sup>8</sup> Data for small business employees for 1994 are unavailable.