

**Health Care Benefits
Cost Control**

A Report to

Mechanical Contractors Association
of America

Prepared by

Construction Labor Research Council

July 2004

Health Care Benefits Cost Control

Health and Welfare Fact Sheet

Health care costs are currently undergoing one of their increasingly frequent periods of rapid escalation. Soaring health care costs have been and are expected to continue to be a major problem for the economy and all employers who provide this coverage to their workers. In the mechanical construction industry, labor and management's agreements to provide comprehensive health care coverage for craft workers are jeopardizing contractors ability to remain competitive. Added stress is being added to contract negotiations as a result of the need to increase contractor's contributions to the health and welfare fund.

The MCAA has created a Health Care Benefits Cost Control Task Force to address the status of health and welfare programs in the mechanical construction industry. As a tool to assist the Task Force in making its assessment and recommendations, local affiliates have been requested to obtain information describing their local health and welfare plan from the plan administrator. The findings of their data collection effort are described in this report.

Responses were received from health and welfare plans providing benefits to 27 of MCAA's 82 local affiliates for a good 33 percent response rate. The data are representative of all geographic areas and cover a wide range of funds by size. The findings are, therefore, believed to be representative of all health and welfare plans in the industry.

This report has been prepared by the Construction Labor Research Council.

Covered Participants	60,600
Average Hourly Contribution Year Earlier	\$5.21 \$4.69
Employer Contributions	\$267 million
Benefits Provided	\$415 million
Plan Assets Year Earlier	\$411 million \$446 million
Average Months of Reserve Year Earlier	9.7 11.1
Individual Average Deductible Average Max. out of pocket	\$311 \$2,647
Family Average Deductible Average Max. out of pocket	\$637 \$4,803
Benefits Paid to Retirees	24%

Conclusions

This study has resulted in an unmatched data base of information describing health and welfare programs in the mechanical construction industry. Funds can benchmark their own characteristics with those of the industry. Although patterns of relationships among characteristics are generally weak, they do exist. Findings are:

- o Range of services offered by health and welfare programs are related to their cost to contractors.
- o Costs are related to the number of persons receiving benefits per participant.
- o Costs are related to the number of retirees receiving benefits per participant.
- o Retirees account for 26 percent of plan participants and an estimated 10 percent of covered persons, but utilize 24 percent of benefits paid (even though they may be covered by Medicare).
- o Most plan benefits are associated with hospitals, physicians and prescription drugs.
- o Average hourly contribution is currently \$5.21, up 11 percent in the last year. Every responding plan increased its contribution.
- o Programs to promote better health have been adopted by a minority of plans.

Actions Taken to Control Benefit Costs

Respondents were requested to describe any health care benefits cost control measures that have been used with success. These should be viewed as recent actions, not prevalence of occurrence since some may have already been a long-time part of a plan. They are a measure of recent change and direction.

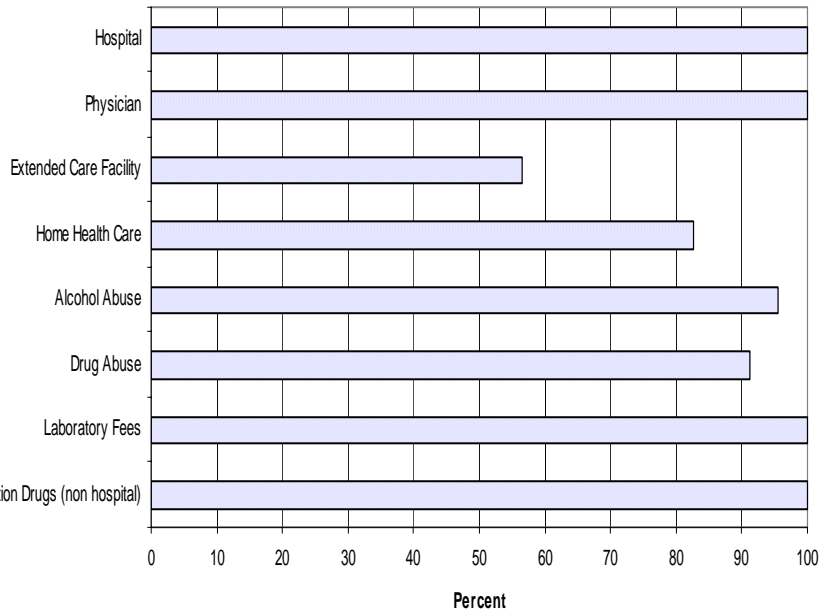
Numerous actions taken by many plans were identified. They fall into four categories:

- o Claims monitoring
- o Administrative changes
- o Reduced benefits
- o New programs

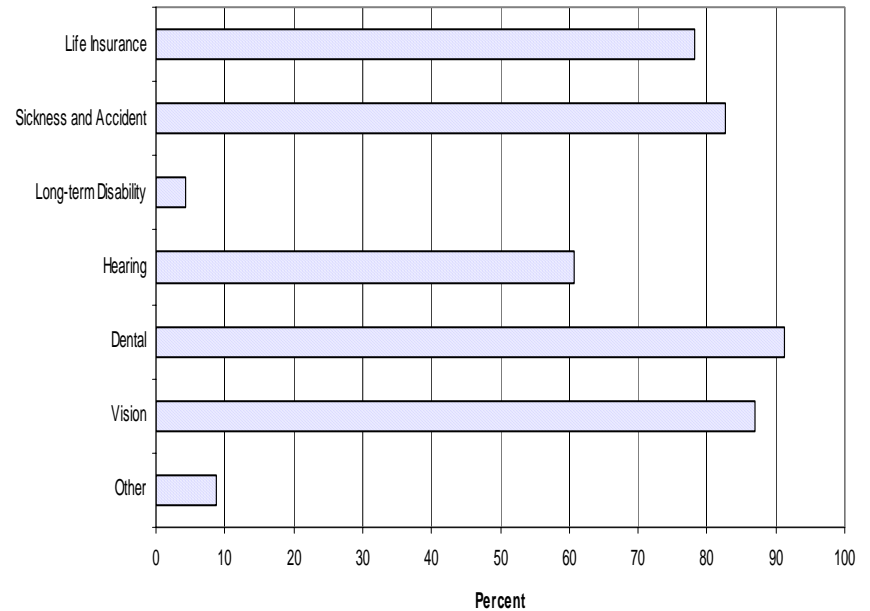
Claims monitoring programs were the most often identified changes. Case management was the single most often noted improvement. Also listed by multiple respondents were claims auditing – medical and prescription.

Administrative changes were related to joining coalitions and changing carriers or service delivery systems. There was no pattern to reductions in benefits. They were either less coverage or higher participant payments. Wellness programs were added by two plans.

Plan Characteristics
Types of Medical Coverage Offered



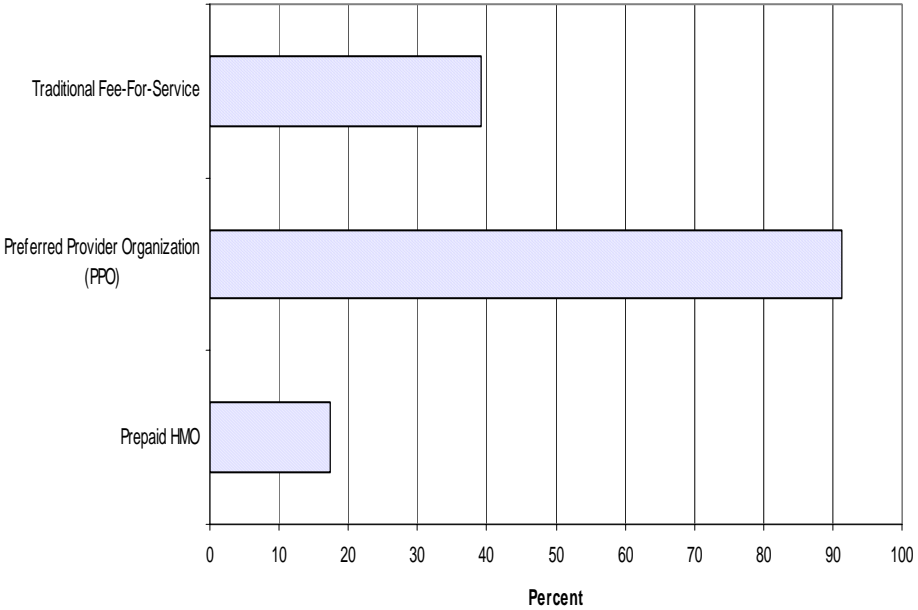
Plan Characteristics
Other Coverage Offered



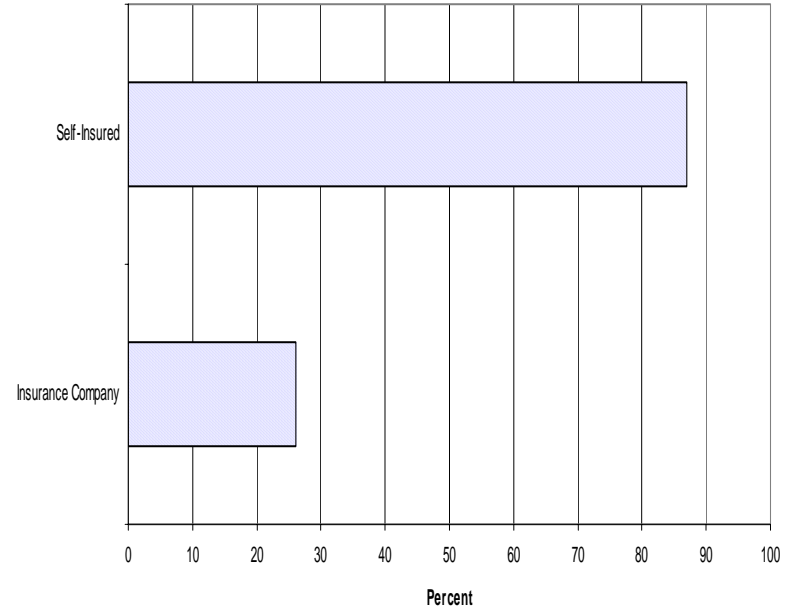
All plans cover standard health care costs associated with hospital, physicians, laboratory fees and prescription drugs. Over 80 percent of plans cover these as well as most other medical expenses. The cost of extended care facilities are reimbursed by just over half of the plans. There appears to be some correlation between the scope of services provided and hourly plan cost.

Among other types of coverage that may be offered by plans life insurance, sickness and accident, dental and vision coverage are widespread. Long-term disability insurance is not often a part of industry plans.

Plan Characteristics
Service Provider



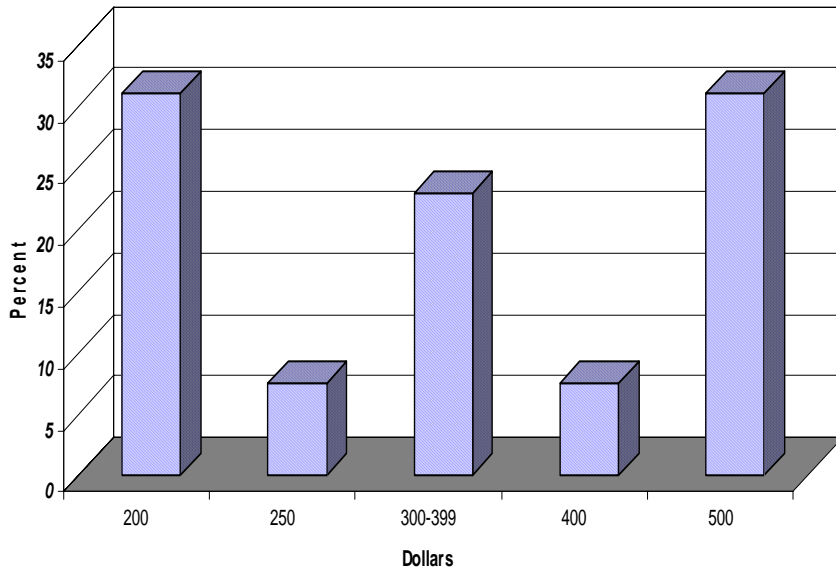
Plan Characteristics
Means of Funding



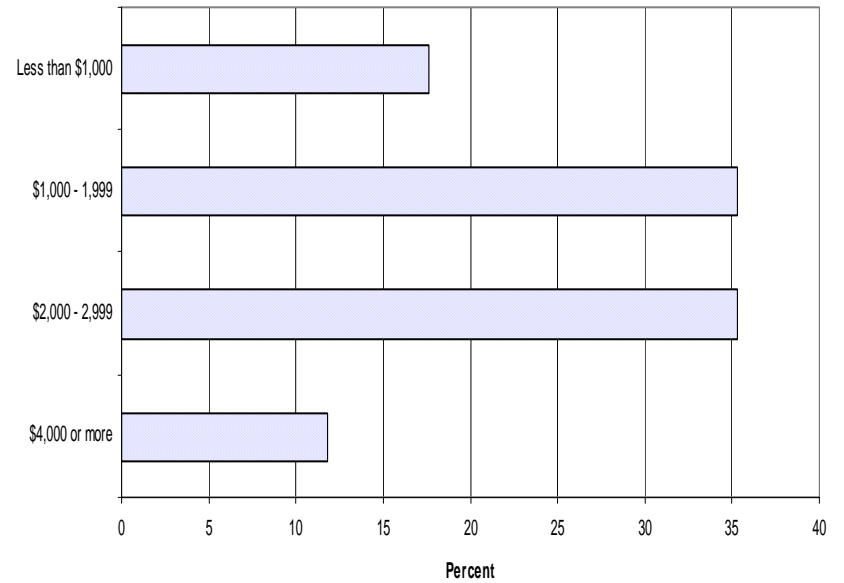
Use of Preferred Provider Organizations (PPO) has become almost universal. A number of plans offer more than one provider or options. Traditional fee-for-services plans remain available in about 40 percent of plans.

Industry health and welfare plans are overwhelmingly self-insured. There may also be an insurance company involved for some or all services. Among the self-insured plans, a quarter have purchased stop loss coverage for large claims. The range of limits for implementing the policy was \$65 – 250,000. No plan procured health care coverage through Blue Cross/Blue Shield.

Employee Cost
Deductible
Individual Coverage



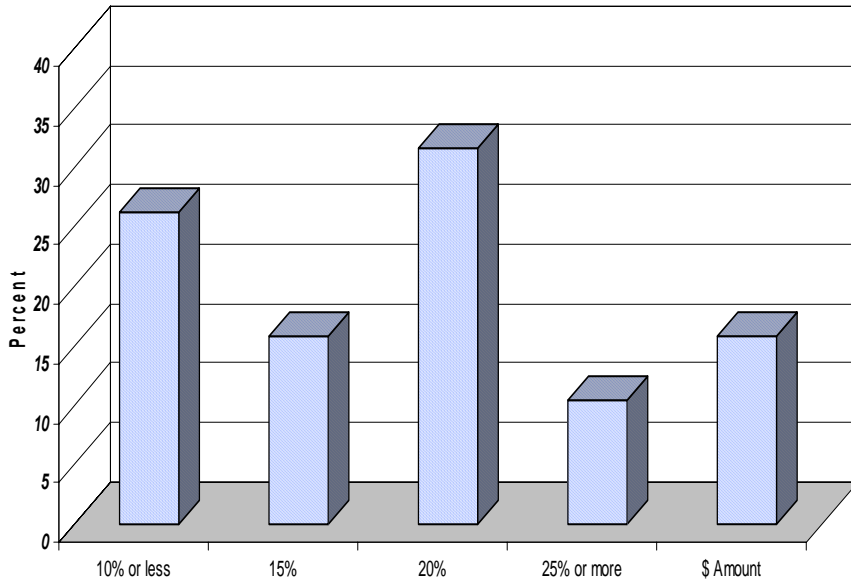
Employee Cost
Maximum Out-of-Pocket
Individual Coverage



The average deductible for an individual was \$311. Amounts in plans were spread throughout the range of \$200 to \$500. For families the average deductible was \$637. In general, family deductibles were about double those for an individual.

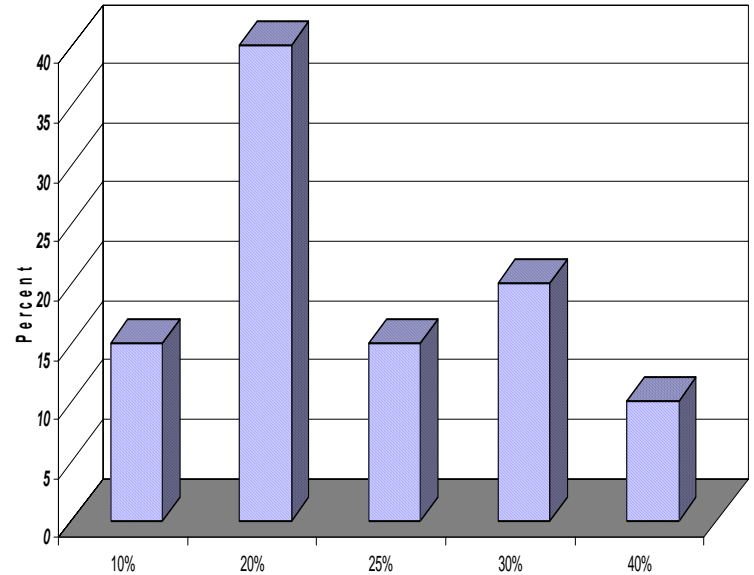
For most plans, the maximum out-of-pocket expense for an individual was between \$1,000 and \$3,000. The average was \$2,647. Family maximums were most often between \$4,000 and \$6,000 with an average of \$4,803.

Employee Cost
Co-Pay - In Network
Individual Coverage



Most co-pays are expressed as a percentage of cost. For in network expenses, the patient was most often responsible for 10 to 20 percent of cost. Co-pays for family coverage were almost always the same as for individuals.

Employee Cost
Co-Pay - Out-of-Network
Individual Coverage



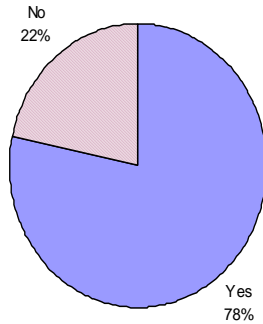
For out-of-network expenses, plan participants are commonly responsible for 20 percent of incurred costs. Most of the remainder call for payment of a higher percentage. Terms of co-pay were almost always the same under family coverage.

Prescription

There is no pattern as to co-payments for prescriptions. Different reimbursement policies apply for brand and generic prescriptions, as well as, in some cases, for mail order. Of the 20 respondents who provided information on prescriptions, there were 12 different rules for reimbursement. The recurring responses were \$10 or \$15 per prescription. Dollar co-pays ranged from \$10 to \$30 and percentage co-pays from 10 percent to 50 percent.

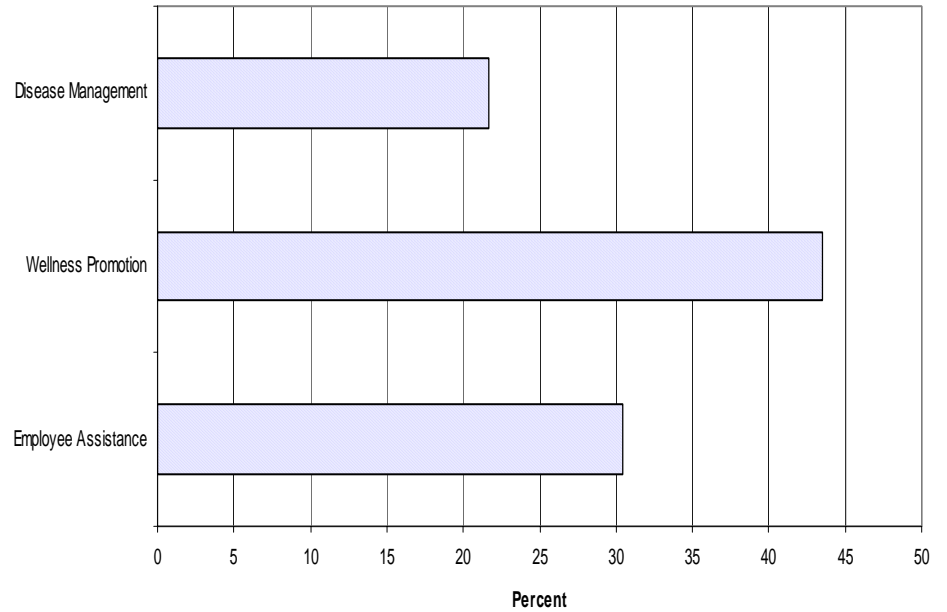
For generics, co-pays were from \$5 to \$25 with recurring responses of \$10 and \$15. Percentage co-pays were 15 to 50 percent. There were three plan in which there was a higher co-pay for generics than for brands.

Plan Characteristics
Coordination of Benefits with Other Family Member Coverage



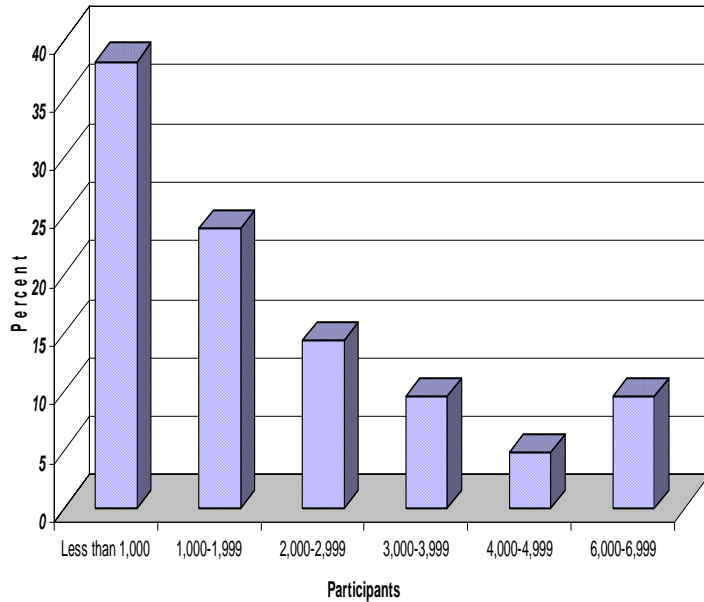
For family coverage, over three-quarters of plans coordinated payment of benefits with the other persons coverage.

Plan Characteristics
Other Programs



There are other programs that plans may implement which are promoted to improve cost control. None are used by as many as half the plans. Wellness promotion is the most widespread of these.

Bargaining Unit Characteristics
Participants Per Plan



Bargaining Unit Participants	44,000
Non-Bargaining Unit Participants	1,000
Retirees	<u>15,600</u>
Total	60,600

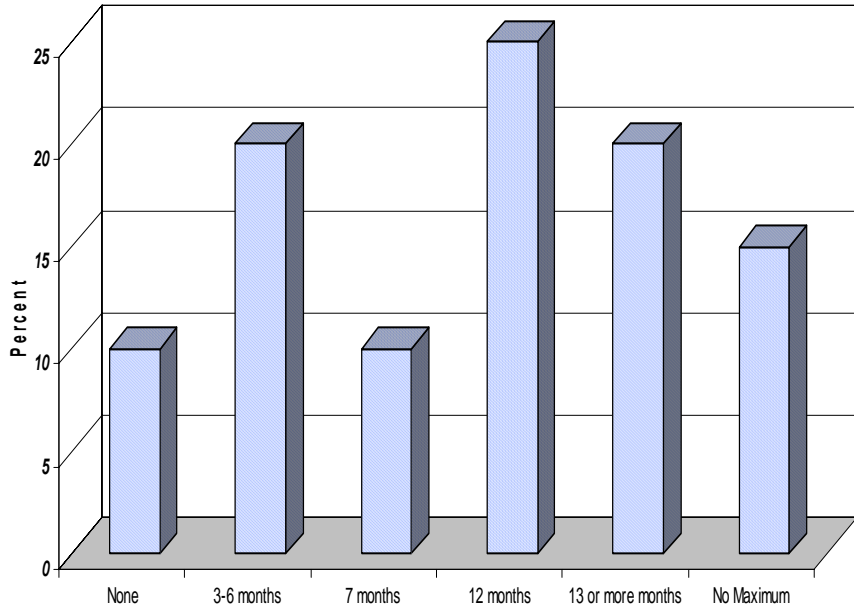
Coverage Eligibility

<u>Period</u>	<u>Percent</u>	<u>Hours Needed</u>
Monthly	42	130-150
Quarterly	37	250-420
6-12 Months	21	Varies

Most plans have fewer than 2,000 participants and cover a single local. Only 60 percent of funds provided information as to the total number of persons insured by the plan (workers, spouses, dependents). It is estimated that the 60,000 workers receiving coverage represent total insured persons of about 150,000.

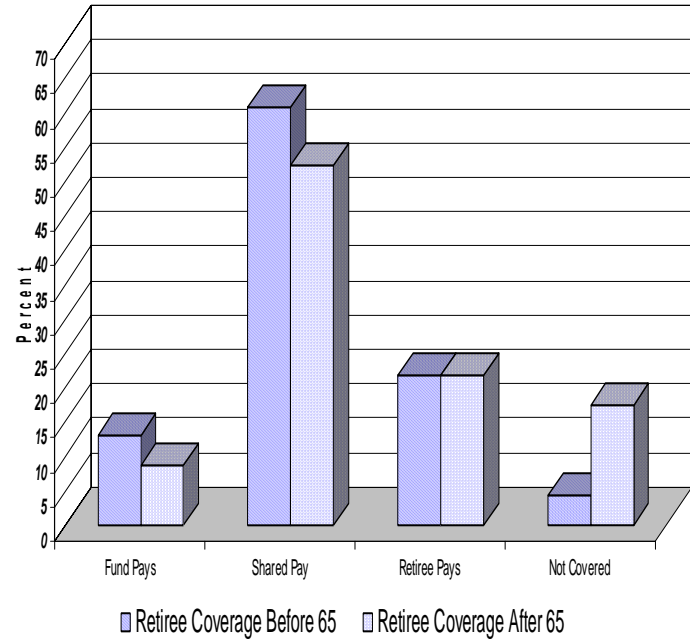
Eligibility for maintaining plan coverage is usually determined on a monthly or quarterly basis. If a specified number of hours worked are reached, coverage continues for the next period.

Bargaining Unit Characteristics
Extended Coverage When Not Working

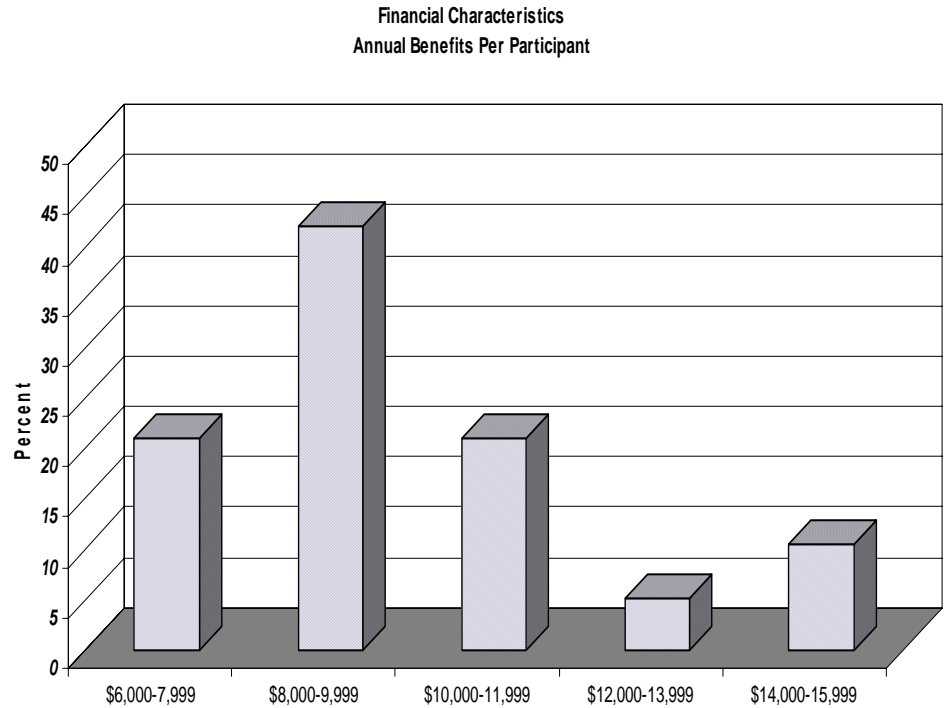
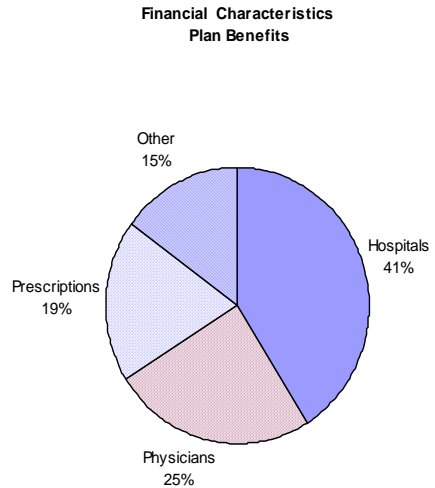


While a participant is employed, hours worked, over and above the minimum required for coverage, can be banked (saved) for a future time when the person is unemployed. There are a variety of criteria set by plans regarding banking. The most common is to permit up to 12 months of coverage with banked hours.

Bargaining Unit Characteristics
Retiree Coverage



Most plans cover retirees whether they retire at the time of Medicare eligibility or earlier. It is most common for the individual to pay part of the cost and the plan to pay the remainder. Portion paid by the plan varies widely and may be a sliding scale depending upon the individual's years of past service or recent service.

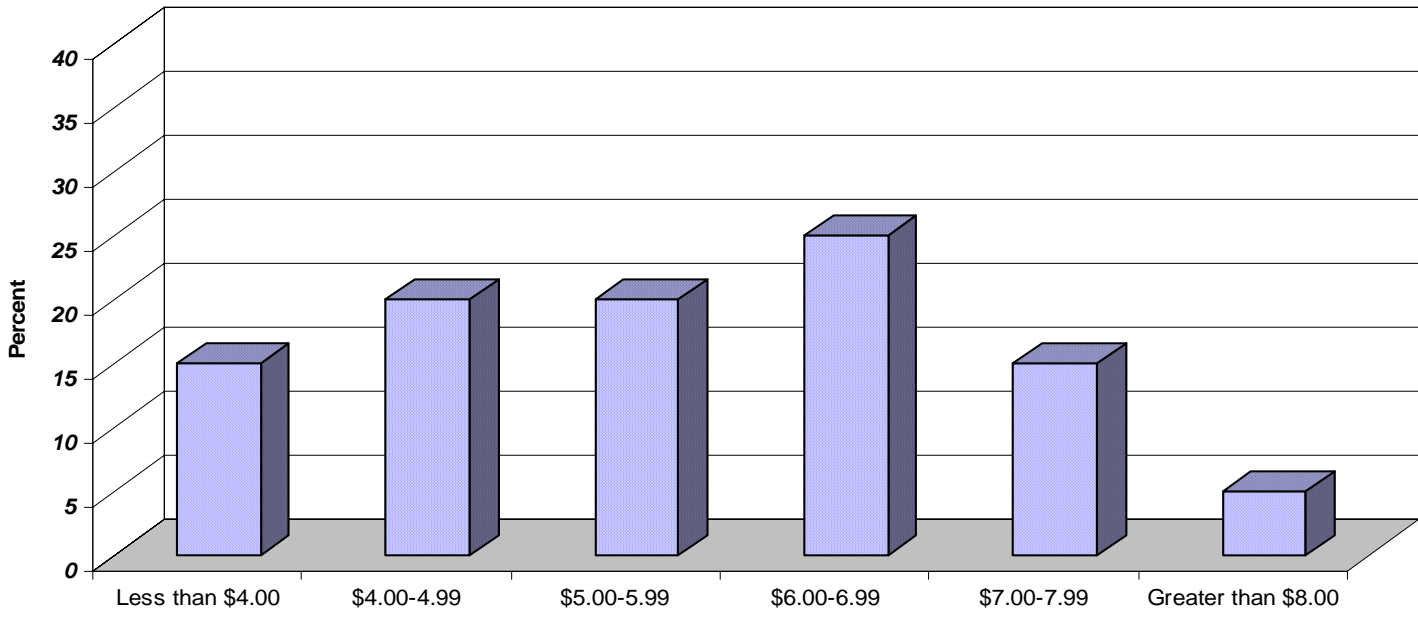


Responding plans paid about \$415 million in benefits in the past year. It is likely, therefore, that total mechanical industry benefits were in excess of \$1 billion. Most benefits went to pay for hospital and physician bills and prescription drugs. (Only half of respondents provided information as to the allocation of benefits.)

Benefits per participant varied widely from the average of \$8,800. Some plans paid out twice the amount of others. While many factors account for this, none could be identified with particular plan characteristics. When benefits per covered individual were calculated, amounts per person were less but not range of benefits.

The portion of benefits paid on behalf of retirees was 24 percent. It should be noted that for retirees 65 and older the plan is providing only the incremental medical cost not covered by Medicare.

Financial Characteristics
Hourly Health & Welfare Contribution



The average hourly contribution paid into health and welfare funds by contractors is \$5.21. This is up 11 percent in the last year. Every responding fund increased the hourly contribution in the past year. Employer contributions in the past year for responding plans were \$267 million.

Financial Status

	<u>Current</u>	<u>Year Earlier</u>
Plan Assets	\$410 million	\$446 million
Months of Reserves	9.7	11.1

In spite of increases in hourly contributions, the financial condition of health and welfare plans deteriorated in the past year. Four plans increased their assets in the past year. Months of reserves ranged from one to 24.

Other Relationships

Efforts were made to examine the fund characteristics to identify those that may be associated with funds that appeared to be providing better/more return in benefits for their cost. The situations examined are reviewed below. Hourly contributions comparisons are made against the \$5.21 all funds average.

High Benefit Compared to Low Benefit Plans

High benefit plans (average benefits paid \$14,000 per participant) were different in a number of respects from low (average benefits paid \$6,600 per participant). Their average contribution rate was \$6.76 compared to \$4.86 for low. Benefits were relatively higher than contributions for high benefit plans as it took 2,075 hours of contributions to pay the average per participant benefit compared to 1,360 for the low benefit.

High benefit plans differed from low benefit by 1) having wider coverage, 2) having a higher portion of retirees and 3) having more covered persons per participant. Regarding deductibles, out-of-pocket expenses and co-pays, the plans were similar. All were spread throughout the country.

Largest Plans

The five largest plans, each with over 3,000 participants were similar to others, but had an above average hourly contribution of \$7.11. They are all in the largest cities in the country. They all paid close to the average amount of benefits per participant, except one. The exception paid lower benefits and also had below average hourly contribution rate.

Financial Reserves

Little differences were found between funds with an above average number of months of reserves and those with a below average.

High Benefits to Retirees-

Funds which paid a higher than average percentage of total benefits to retirees had an average health and welfare contribution of \$7.14.

No Cost of Retirees to Fund

Among those funds that did not cover retirees or covered them without any cost to the fund (retiree pays cost of coverage), the average hourly contribution was \$4.66.

Co-pays and Benefits

It is often said that higher co-pays make people more aware and more vigilant about health care expenditures. This could not be tested with the available data. There was a distinct relationship between plans with co-pays of 20 percent or more and those that did not report benefits paid.