



2016 Colorado Employer Benefits Survey Report

November 11, 2015



INTRODUCTION AND PURPOSE

In fall 2015, Lockton Companies conducted its annual Colorado Employer Benefits Survey. The firm invited 647 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 receive for medical insurance for the 2016 plan year.
- ❖ Employers' greatest concerns regarding their benefits program.
- ❖ How employees' 2016 medical plan rate increases compare with average employee merit pay increases.
- ❖ Employers' health insurance cost reduction strategies for 2016.
- ❖ 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 2016 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. The increasing cost of health insurance continues to be employers' greatest concern in regards to their benefits program. Employers have ranked this as their top concern for the previous 12 years.
2. Almost 85 percent of employers reported that their medical plan deductible is \$500 or greater, which is a significant increase from 75 percent in 2015. More than 65 percent reported that their plan deductible is \$1,000 or greater, which is also a significant increase from 57 percent in 2015. Nationally, in 2015, 59 percent of PPO plans include a deductible of \$1,000 or more (as reported in the "Benergy™ Database Benchmarking Report" for Lockton in 2015).

3. More employers reported that they are offering HMO plans in 2016 (37%) than in 2015 (29%). This growth reflects Kaiser's increasing market penetration in Colorado.
4. An additional 39 percent of respondents reported that they are considering the addition of an HDHP with health savings account (HSA) or health reimbursement account (HRA) in 2016, which is a major increase from 17 percent in 2015.
5. Almost 51 percent of employers offered an HSA-eligible HDHP in 2015, an increase from 42 percent in 2014. This percentage is the same as the 2015 Kaiser/HRET Employer Health Benefits Survey, which reported that 51 percent of covered workers are offered at least one high-deductible plan with a savings option such as an HRA or HSA. Thirty-nine percent of survey respondents without an HSA-eligible HDHP are considering adding one in 2016, an increase from 17 percent in 2015.
6. Colorado employers reported that their average increase before plan design changes was 8 percent. However, their final rate increase after plan changes and increasing employee contributions was reduced to 4.4 percent. It should be noted that to achieve this level of cost reduction, employers reported deploying numerous tactics including increasing employee premium cost, increasing deductibles, increasing employee out-of-pocket expense limits, reducing benefits and/or changing carriers.
7. For the seventh year in a row, the impact of health care reform is one of the top concerns for employers (the top concern being the increasing cost of coverage). Although the majority of respondents indicated their knowledge of the law is limited, 78 percent indicated that the Affordable Care Act (ACA) is a concern as it relates to their business (up from 62 percent in 2015).
8. Slightly over 45 percent of Colorado employers surveyed reported they are only somewhat familiar with the concept of health insurance exchanges (also referred to as public exchanges or marketplaces), but almost 97 percent said they intend to continue their employer-sponsored coverage in 2016. They are not considering sending their employees to the public-health insurance exchange.
9. Slightly over 49 percent of employers surveyed are now offering or are evaluating offering a wellness program for 2016, an increase from 42 percent in 2015. This is still seen as an additional cost-containment measure. Over 48 percent of employers that have wellness programs report that they are participation based, down slightly from over 49 percent in 2015.

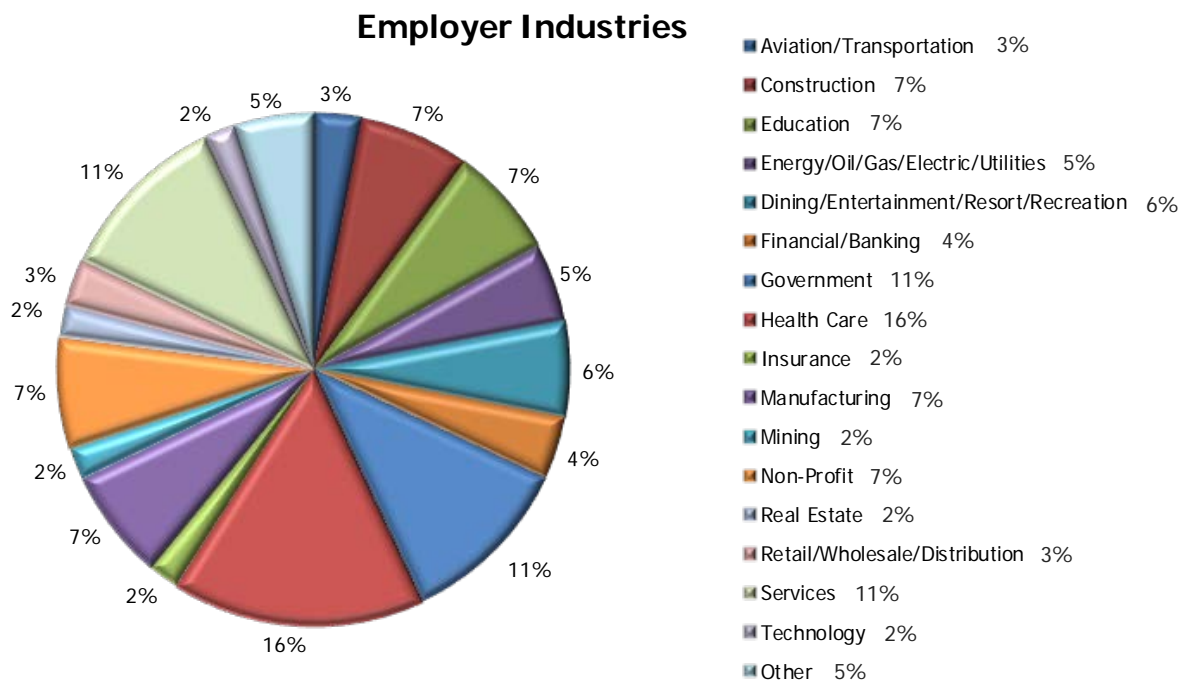
2016 SURVEY RESULTS

TYPE OF RESPONDENTS

The chart below reflects the survey respondents' industries. Almost 66 percent of respondents were in the following seven industries:

- ❖ Health care – 16%
- ❖ Government – 11%
- ❖ Services – 11%
- ❖ Construction – 7%
- ❖ Education – 7%
- ❖ Manufacturing – 7%
- ❖ Non-profit – 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

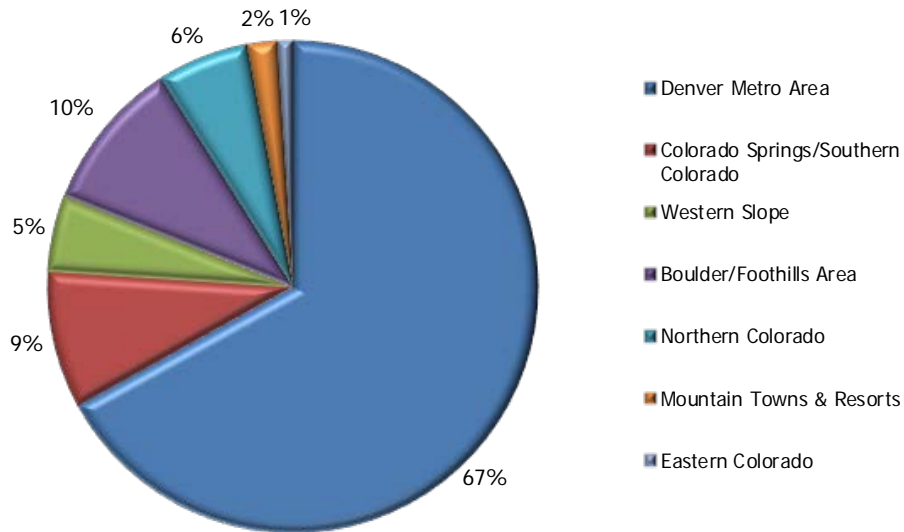
EMPLOYER SIZE

Number of Benefit-Eligible Employees	Number of Responses
5,000+	8%
2,000—4,999	7%
1,000—1,999	7%
500—999	13%
300—499	16%
101—299	30%
51—100	8%
<51	11%

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 as 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 2005 to 2015. They are listed in order of greatest concern (1) to least concern (6).

This year, as well as in the past 12 years, employers' greatest concern regarding their employee medical plans was insurance rate increases (82%). For the seventh year, employers' second highest concern (78%) was compliance with federal health care reform as well as federal and state legislation. This is an increase from 62 percent in 2014. The uncertainty of the impact that health care reform will have on employers continues to be of great concern. Employee dissatisfaction (47%) was employers' third highest concern, an increase from 43 percent in 2014.

Table 2

COLORADO EMPLOYER CONCERNS

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Plan/cost increases	1	1	1	1	1	1	1	1	1	1	1
Compliance with health care reform; federal/state legislation	6	5*	5	5	2	2	2	2	2	2	2
Employee dissatisfaction; attraction/retention	3	2	4	4	4	5	4	3	3	3	3
Provider quality	2	3	2	2	3	4	3	5	4	4	4
Health plan quality	4	4	3	3	5	3	5	4	5	5	5
Managing HIPAA privacy and security issues	5	5*	6	6	6	6	6	6	6	6	6

*Same scores

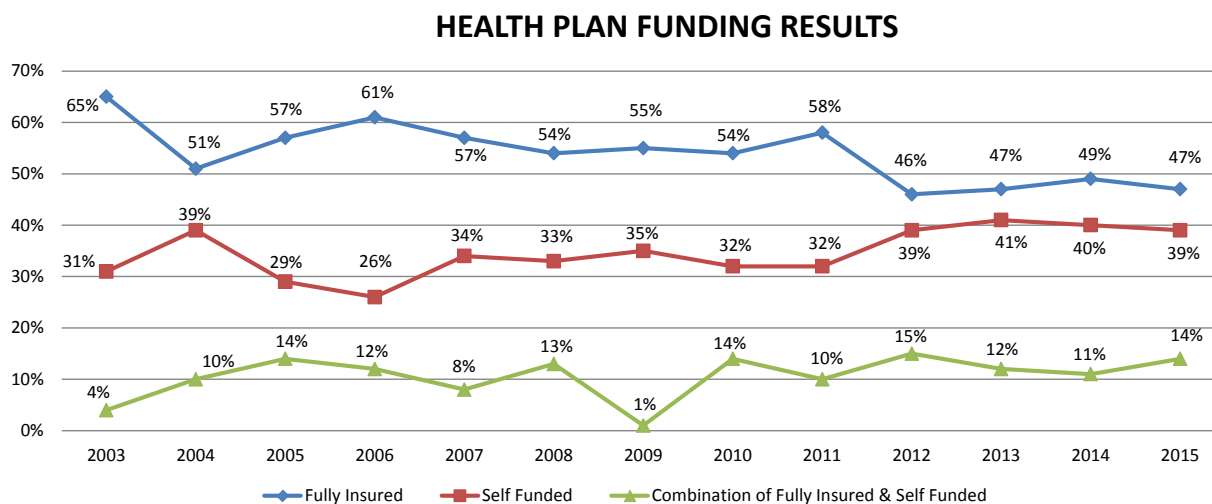
MEDICAL PLAN FUNDING

The data in Chart 3 on the following page reflects the changes in medical plan funding from 2003 to 2015.

In 2015, almost 39 percent of Colorado employers reported offering self-funded plans, which is similar to the 40 percent in 2014. In 2000, 16 percent of surveyed employers offered a self-funded plan.

Since almost 40 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



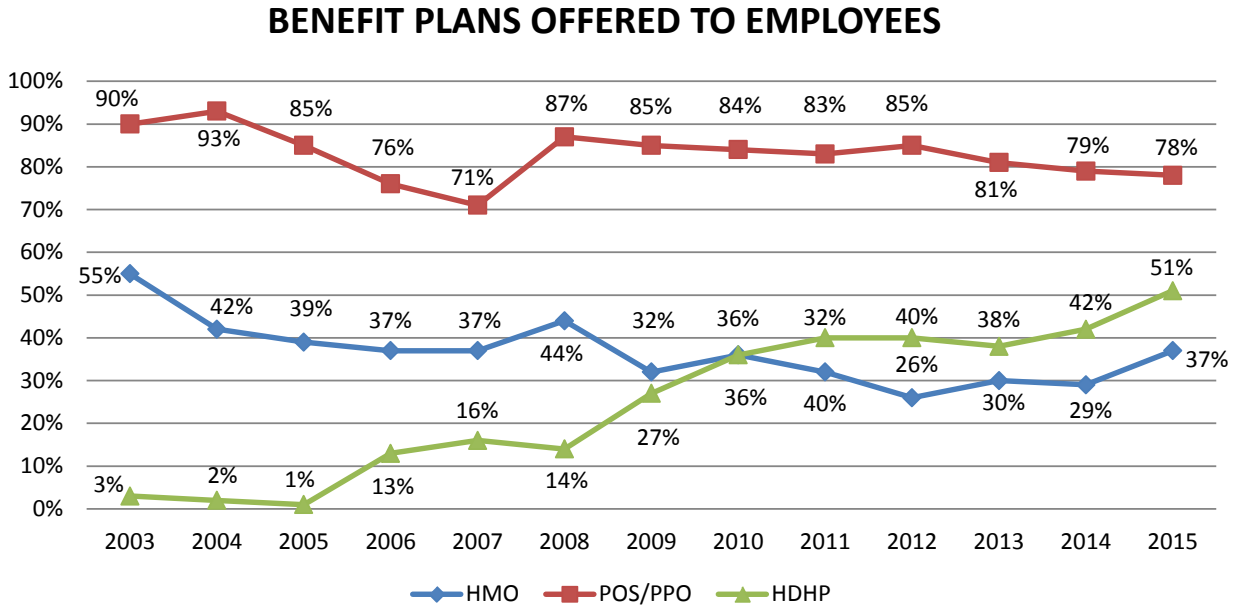
PLAN TYPES

Employers continue to shift costs to employees by imposing higher employee payroll contributions for single and family coverage, increasing deductibles/copays/out-of-pocket expense limits, and adding high deductible plan options. Almost 85 percent of employers reported that their medical plan deductible is \$500 or greater, which is a significant increase from 75 percent in 2015. Sixty-five percent reported that their plan deductible is \$1,000 or greater, which is an increase from 57 percent in 2015. The 2015 Kaiser/HRET survey determined that nationally, 46 percent of workers are enrolled in medical plans with an annual deductible of \$1,000 or more, which is an increase from 41 percent in 2014. The Lockton survey results indicate that more employers are offering HMO plans in 2016 (37%) than in 2015 (29%). This is another indication of how rising medical costs are affecting Colorado employers and employees.

The number of employers currently offering an HDHP increased from 3 percent in 2003 to 51 percent in 2015. 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 39 percent of the respondents reported that they are considering the addition of an HDHP with HSA or HRA in 2016, which is a major increase from just over 17 percent in 2015.

Chart 4 below shows the type of benefit plans offered from 2003 to 2015.

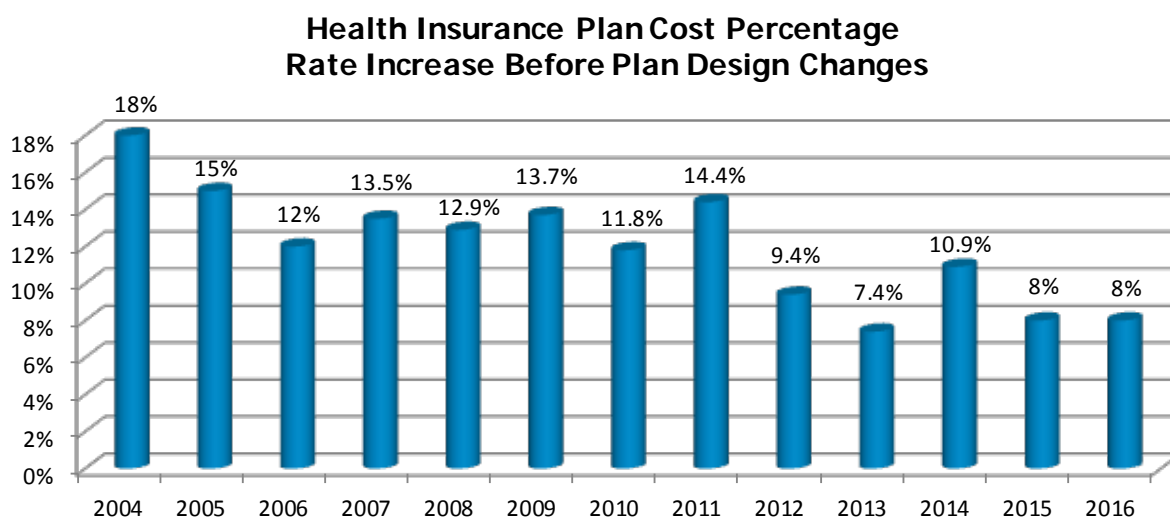
Chart 4



AVERAGE RATE INCREASES

The survey asked Colorado employers how much of a rate increase they received for their medical plan for the 2016 plan year before making plan design changes. Chart 5 on the following page shows that for the 2016 plan year, the average Colorado employer received a rate increase of 8 percent, which is approximately the same as reported in 2015. The survey asked employers what the final rate of increase was after they made plan changes. The average increase reported was 4.4 percent, down from 5.3 percent in 2015. This is slightly above the 4 percent reported in the 2015 Kaiser/HRET survey. It should be noted that to achieve this level of cost reduction, employers reported deploying numerous tactics, including: increasing employee premium cost, increasing deductibles, increasing employee out-of-pocket expense limits, reducing benefits, and/or changing carriers.

Chart 5



COST SHIFTING STRATEGIES

As health care costs continue to rise, employers are considering additional ways to mitigate increasing plan costs. Employers were asked to indicate which cost mitigation strategies they intend to use in 2016. Respondents could choose more than one answer. The top eight answers are captured in Table 3 below.

Table 3

COST SHIFTING STRATEGIES

	Response Ratio
Increase employee premium contributions for family coverage	40%
Absorb the cost increase	38%
Increase employee premium contributions for single coverage	34%
Increase deductibles	25%
Increase the amount employees pay for prescription drug coverage	15%
Increase employee maximum out-of-pocket expense	15%
Change insurance companies/vendors	13%
Increase the amount employees pay for office visits	12%

As premiums continue to increase, many employers are shifting costs to their employees in the form of higher premium contributions. The survey results indicate that 40 percent of employers will increase employee premium contributions for family coverage, which is lower than the 49 percent reported in 2015. The number of employers who will increase premium contributions for single coverage was 34 percent, down from 43 percent in 2015. Only 38 percent of employers will absorb the entire cost increase, down slightly from 39 percent in 2015.

The shifting of costs through higher deductibles and coinsurance versus premium contributions reflects the growth in the economy and the need to offer more competitive rates to retain employees.

Of the employers surveyed, almost 19 percent do not plan to pass on any percentage of the remaining rate increase, after making changes in deductibles, increasing employee out-of-pocket expense limits, reducing benefits and/or changing carriers, to their employees at their next renewal, down slightly from over 20 percent in 2015. Forty-six 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, consistent with last year.

Table 4 below indicates the percentage of premium that employees are expected to contribute to their single coverage. Nearly 75 percent of employers expect employees to contribute less than 30 percent of the total premium for single coverage, which is a decrease from 76 percent in 2015.

Table 4

EMPLOYEE CONTRIBUTION TOWARD SINGLE COVERAGE

% of Premium	% of Employers							
	2009	2010	2011	2012	2013	2014	2015	2016
0–9% of premium	31%	35%	31%	26%	30%	25%	26%	31%
10–19% of premium	28%	29%	27%	34%	26%	34%	28%	24%
20–29% of premium	22%	22%	21%	20%	25%	22%	22%	20%
30–39% of premium	9%	12%	13%	10%	13%	10%	14%	15%
40–49% of premium	3%	2%	3%	4%	3%	6%	5%	4%
Over 50% of premium	7%	7%	5%	5%	3%	3%	5%	7%

Table 5 on the following page indicates the percentage of premium employees are expected to contribute to their dependent coverage. Roughly 42 percent of employers expect employees to contribute less than 30 percent of the total premium for family coverage, which is a significant decrease from 50 percent in 2015. Conversely, 31 percent of employers now ask employees to contribute over 50 percent of the total premium for family coverage, which is a significant increase from 20 percent in 2015.

Table 5

EMPLOYEE CONTRIBUTION TOWARD FAMILY COVERAGE

% of Premium	% of Employers							
	2009	2010	2011	2012	2013	2014	2015	2016
0–9% of premium	9%	11%	8%	9%	7%	12%	9%	8%
10–19% of premium	11%	18%	12%	10%	15%	12%	13%	7%
20–29% of premium	29%	24%	27%	29%	31%	25%	28%	27%
30–39% of premium	13%	17%	19%	14%	17%	17%	21%	20%
40–49% of premium	10%	7%	10%	13%	9%	11%	9%	8%
Over 50% of premium	28%	2%	23%	25%	21%	23%	20%	31%

PLAN COST VERSUS MERIT INCREASES

The Lockton survey asked employers to indicate what their merit pay increase factor will be for 2016. Results indicate the estimated average will be 2.6 percent, down slightly from 2.7 percent in 2015. However, slightly over 81 percent of employers expect to pass along a percentage of the medical insurance premium rate increase to their employees, up from 79 percent in 2015. 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; 79 percent of employers said they had not, which is similar to the 80 percent reported in 2015.

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 previous 11 years, prescription drug costs and rising hospital costs are among the top three drivers. Health care reform ranks second, next to higher utilization and aging population, for the third year in a row. Overall, the cost of health care delivery ranks as the perceived dominant cost driver while insurance-related factors (insurer profits, cost shifting, legal liability, technology) are ranked lower.

Table 6

MEDICAL PLAN COST INCREASE FACTORS

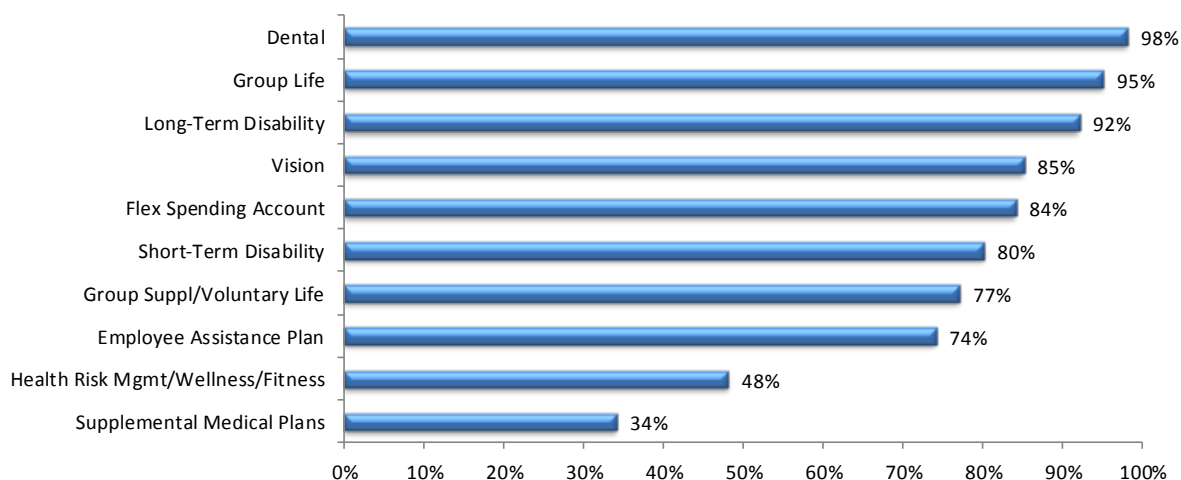
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Prescription drug costs	1	2	3	2	3	1	2	2	1	1
Health care reform	*	*	*	8	2	8	5	3	3	2
Rising hospital costs	2	3	1	1	1	3	1	1	2	3
Higher utilization	3	1	2	3	5	5	3	5	4	4
Aging population	5	4	6	5	3	7	4	4	5	5
Physician charges	4	5	4	4	7	2	6	7	6	6
Insurer profits	*	*	*	*	*	10	8	9	7	7
Medicare/Medicaid cost shifting	7	7	8	9	9	9	7	6	8	8
Legal liability	6	6	5	6	6	6	9	8	9	9
Technology	*	*	7	7	8	4	10	10	10	10

* = Not asked in previous surveys

OTHER BENEFITS OFFERED

Employers were asked what other non-retirement-related benefits they offer their employees. Dental (98%) was the most popular form of coverage offered to employees after medical coverage, followed by group life (95%). Over 80 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, 49 percent of the surveyed employers plan to offer their employees a wellness program in 2016, an increase from 2015 (42%). Wellness programs are expected to continue to be an important tool as employers struggle to control medical and other employee benefit plan costs. Forty-eight percent of the employers indicated that their wellness program was participation based as opposed to outcomes based.

HEALTH CARE REFORM

When surveyed about different aspects of health care reform, employers responded as follows:

- ❖ Sixty-three percent of employers reported that they are prepared for the 2015 reporting requirements. Employers ranked the reporting requirements as their greatest single health care reform concern.
- ❖ Over 45 percent of employers reported that they were only somewhat familiar with the concept of health insurance exchanges, a decrease from 64 percent one year ago. Only 48 percent of those responding indicated that they were somewhat familiar with the concept of a private exchange. When asked if they were considering dropping their health plan now that a public health insurance exchange (or marketplace) is available, 97 percent said no (up from 93 percent in 2015). Less than 1 percent said yes (down from 2 percent in 2015).
- ❖ Almost 16 percent of employers reported they have not done a financial assessment of the impact of health care reform on their organization, up from 10 percent in 2015.
- ❖ Table 7 below indicates the health care reform provisions that are generating the most impact on employers. The impact of the administrative requirements has more than doubled in the last three years.

Table 7

HEALTH CARE REFORM PROVISIONS WITH MOST IMPACT

	2013	2014	2015	2016
Administrative requirements (i.e., notices, managing eligibility, reporting, etc.)	35.5%	35.5%	69.8%	84.7%
Fees/taxes	*	*	50.0%	46.8%
FTEs defined as 30 hours	9.9%	14.5%	34.9%	34.7%
Seasonal or variable-hour employees	11.6%	14.5%	23.6%	33.9%
Benefit mandates (e.g., remove lifetime limits)	11.6%	19.1%	25.5%	18.6%
Auto enrollment/individual mandates	13.2%	4.6%	11.3%	7.3%
90-day eligibility	2.5%	2.8%	9.4%	5.7%
Non-discrimination requirement	2.5%	3.6%	5.7%	1.6%

* Not asked in previous surveys

GENERAL INFORMATION

In 2015, the number one source of information for employers is the broker/consultant. We assume that this was primarily due to the need for information on health care reform.

- ❖ The top five resources that employers consult for technical benefits questions are:
 - ◆ Broker/Consultant – 96%
 - ◆ Mountain States Employers Council – 53%
 - ◆ Insurance Carrier – 47%
 - ◆ Human Resource Associations (SHRM/CHRA) – 33%
 - ◆ Attorney – 31%
- ❖ When employers were asked to give their top two concerns about the external forces affecting their business profitability in 2015, their top five responses were:
 - ◆ Economy – 48%
 - ◆ Shortage of qualified workers – 33%
 - ◆ Politics/regulatory environment – 29%
 - ◆ Health care cost increases – 28%
 - ◆ Health care reform – 25%

CONCLUSIONS

- ❖ For respondents, the two greatest concerns in regards to offering health plans to employees are the cost of coverage and the health care reform reporting requirements.
- ❖ Despite the increasing costs and complexity, employers continue to offer coverage and do not see dropping coverage as a strategy that they would consider.
- ❖ Although the vast majority of employers will pass a portion of the increased cost on to their employees, the dominant cost containment strategy is to reduce coverage in the form of increased deductibles and coinsurance.
- ❖ High-deductible plans are now the norm in Colorado, with 65 percent offering plans with a deductible of \$1,000 or more. In this context, HSA-eligible plans continue to grow in popularity, but so do HMO plans (primarily Kaiser), as a way to control cost.

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.
- ❖ \$1.24 billion in annual revenue (worldwide).
- ❖ 66 offices worldwide on five continents.
- ❖ 5,600+ Associates and 48,000 clients worldwide.
- ❖ In Denver since 1979:
 - ◆ 380+ Associates (98+ 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 the survey. 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 2016 Colorado Employer Benefits Survey was sent to 647 employers and 124 responded. This represents a response rate of 19.2 percent.

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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