

Rising Health Costs Cut Into Wages

Higher Fees Squeeze Employers, Workers

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Monday, March 24, 2008; Page A01

Recent history has not been kind to working-class Americans, who were down on the economy long before the word recession was uttered.

The main reason: spiraling health-care costs have been whacking away at their wages. Even though workers are producing more, inflation-adjusted median family income has dipped 2.6 percent -- or nearly \$1,000 annually since 2000.



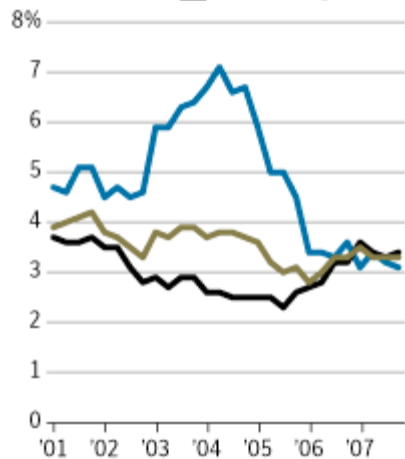
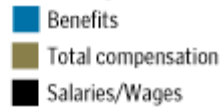
Michael Smith, left, CEO of TeraTech, with Liz Frederick, right, and Nafisa Sabu at the firm's Rockville office. Smith opted to pay workers higher salaries and let them decide whether to buy the firm's health insurance. (By Kevin Clark -- The Washington Post)

Benefits Costs Rise

The annual increase in the cost of benefits for workers has far outpaced wage increases in recent years.

12-month percent change

in the cost of:



SOURCE: Bureau of Labor Statistics

The Washington Post

Employees and employers are getting squeezed by the price of health care. The struggle to control health costs is viewed as crucial to improving wages and living standards for working Americans. Employers are paying more for health care and other benefits, leaving less money for pay increases. Benefits now devour 30.2 percent of employers' compensation costs, with the remaining money going to wages, the Labor Department reported this month. That is up from 27.4 percent in 2000.

"The way health-care costs have soared is unbelievable," said Katherine Taylor, a vice president for Local 1199 of the [Service Employees International Union](#). "There are people out here making decisions about whether to keep their lights on or buy a prescription."

Since 2001, premiums for family health coverage have increased 78 percent, according to a 2007 report by the [Kaiser Family Foundation](#). Premiums averaged \$12,106, of which workers paid \$3,281, according to the report.

That is why negotiators for 396 maintenance workers at [Georgetown University](#) cheered last fall after squeezing out wage increases that average a little more than 4 percent in each of the next three years, or between \$20 and \$40 a week. The real victory for the

custodians, landscapers, plumbers and other workers was the provision imposing a one-year freeze on employees' share of health-care premiums and capping premium increases for the least expensive family plan at just under \$28.

"Our members are pleased with the contract. Health care is a priority for them," said Taylor, whose union represents the [Georgetown](#) workers. "If you have good wages and poor health-care benefits, it is like getting money in one hand and losing it out of the other."

The runaway cost of health care has long been a concern, largely because of the huge number of Americans -- estimated at 47 million -- who are uninsured. But health-care costs are re-emerging as an economic and political issue in part because of the role they play in the stubborn problem of stagnating wages.

"It is clear that benefits have been the biggest issue on collective bargaining tables and in company compensation calculations," said Thomas A. Kochan, an economist at the [Massachusetts Institute of Technology](#). "They eat up scarce dollars, and that limits the amount of money firms feel they can put on the table for wage increases."

The Democratic presidential candidates, Sens. [Barack Obama](#) (Ill.) and [Hillary Rodham Clinton](#) (N.Y.), have laid out proposals for expanding health-care coverage by requiring most employers to either offer it or pay a fee to subsidize the purchase of health insurance. Expanded coverage, they say, will lower costs for everyone. They also support legislation that would make it easier to organize labor unions, something they say would give workers better leverage in seeking pay and benefit improvements.

Presumptive Republican presidential nominee Sen. [John McCain](#) (Ariz.) has proposed reining in health-care costs, in part by treating the value of employer-sponsored health-care plans as income and providing a \$5,000 per family tax credit for those who buy health insurance. He also supports free-market proposals aimed at stoking competition and giving patients more information, which he believes will increase pressure on health providers to control costs.

Researchers Ezekiel J. Emanuel and Victor R. Fuchs say that employer-sponsored health-care plans create the "myth" that workers are getting their health benefits for little or nothing. But, in fact, "workers and households pay for health insurance through lower wages and higher prices," they wrote in the March 5 issue of the [Journal of the American Medical Association](#).

For many workers, health care and other benefits determine whether they stay on a job. "Raises and health-care benefits are both important," said Carlton L. Scott, a locksmith who has worked at Georgetown for 26 years. "They go hand-in-hand."

While about three out of four full-time workers who earn \$15 an hour or less have access to health-care coverage on the job, just over half buy it, according to a report by the [Bureau of Labor Statistics](#). Many analysts say that the cost -- lower-wage workers pay about a third of the plan premiums with employers picking up the rest -- discourages many from having coverage. By comparison, nine out of 10 full-time workers making more than \$15 an hour have health coverage available, and overall almost three in four are covered by their jobs.

Employers report that the unpredictable and often uncontrollable cost of health-care coverage is among their major concerns. Nearly nine out of 10 firms that responded to a [National Association of Manufacturers](#) survey last year named the cost of health insurance as one of their top-three worries -- ranking it higher than government regulation, competition from imports or finding qualified employees.

An increasing number of companies are trying to control costs by promoting employee wellness campaigns and pushing insurance companies and health providers for more details about their operations.

"Certainly, it is frustrating for the benefit managers and the budgeters," said Jeri Gillespie, vice president for human resources policy at NAM. "They say, 'my pot is only so big every year and our health-care costs are rising.' "

For many employers, the choice is coming down to one between better benefits or better wages for workers. At TeraTech, a software development firm in [Rockville](#), president [Michael Smith](#) decided early on not to pay for the health insurance his company offers its 14 employees. Instead, he included more money in his employees' salaries and offered them the option of buying health insurance, an approach that he says promotes employee awareness of the plan's costs -- both for workers and the company.

"I knew health care was a money sink," Smith said. "If people don't see the full price, they don't realize how much it costs."

After several steep premium increases from his previous health plan, Smith switched to a health savings account, which allows employees to set aside as much as \$7,000 a year in pretax dollars to pay for medical care. The plan is supplemented by a high-deductible health insurance plan to cover catastrophic events, which costs employees between \$75 and \$100 every two weeks.

Even at that, just four of Smith's employees participate in the company's medical plan. "Nooooo," responded TeraTech office administrator Alison Beman, the mother of a teenage daughter, when asked whether she took part in the plan. The plan would require Beman, who is separated from her husband, to come up with the full cost of her

prescriptions, which she said makes it prohibitive. Beman is covered by her husband's health plan, which, she said, is one reason she has not gotten a divorce.

"I love working here," Beman said. "But if I didn't have that coverage, I couldn't afford routine appointments, and I would not be able to keep this job."