

## Health Insurance Premiums and Cost Drivers in Minnesota, 2009

### Background

Persistently rising health care costs affect the budgets of consumers, employers and the public in a variety of ways. For example, growing private market health care costs reduce the affordability of coverage, potentially decrease access to health insurance through an employer, and may impact the range of benefits covered by plan policies. Public health care budgets experience cost pressures due to increases in per-person cost of health care and rising enrollment resulting from the erosion of private coverage.

This issue brief updates the Health Economics Program's annual analysis of trends in premiums and cost drivers in Minnesota's private health insurance market.<sup>1</sup> It draws on information from 2009, when largely due to the recession private coverage in Minnesota fell to its lowest level since it was first measured in 1995.<sup>2</sup> Key findings of the analysis of premium and cost driver trends in 2009 include the following:

- In 2009, as Minnesota's economy contracted and incomes of Minnesota residents on average decreased by 3.2 percent, health care costs rose 5.9 percent and premiums increased by about 7 percent.
- Total spending per enrollee (health plan spending plus enrollee out-of-pocket cost) increased by 6.2 percent in 2009, up from 5.1 percent in 2008.
- Continuing historical trends, enrollee out-of-pocket costs grew faster in 2009 than health plan spending (7.4 percent compared to 5.9 percent).
- In aggregate, enrollee cost sharing accounted for 15.9 percent of total private spending in 2009, up from less than 10 percent just a decade ago.
- As in previous years, the primary drivers of health plan spending growth were physician and hospital services (both inpatient and outpatient), which together accounted for over two thirds of health plan spending growth between 2007 and 2009.

As a result of adjustments to historical data, this issue brief includes minor revisions to some results for previous years.

### Cost Trends and Premiums

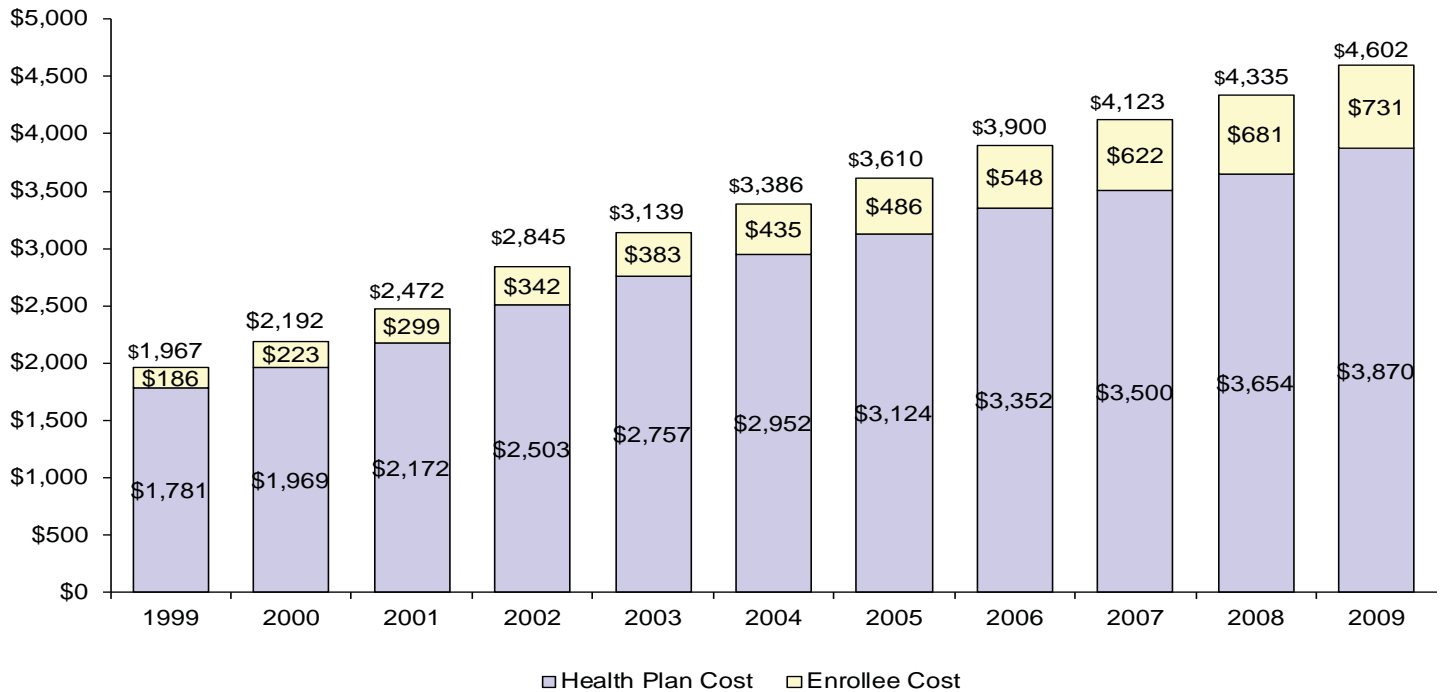
Figure 1 depicts the trend in per enrollee private health care spending (health plan spending plus enrollee out-of-pocket cost). As shown in the figure, total per enrollee health spending increased by 6.2 percent in 2009 (from \$4,335 to \$4,602). This rate of growth was moderate by historical comparison,<sup>3</sup> nonetheless per enrollee spending has more than doubled since 1999.

Health plans and employers have historically used a variety of techniques to contain growth in health insurance premiums. One strategy that has been used increasingly in recent years is to raise the share of costs that enrollees are responsible for (e.g., by increasing deductibles).



Figure 1 illustrates this trend by showing the growth in health plan cost and enrollee cost separately. While the health plan share of spending increased by 5.9 percent in 2009, the share that enrollees were responsible for rose by 7.4 percent. In 2009, enrollees' were responsible for 15.9 percent of total health care spending, up from 9.4 percent in 1999. This difference reflects the historically faster rate of growth in the share of cost borne by enrollees in contrast to that paid for by health plans.

**Figure 1**  
**Trend in Total Cost and Health Plan and Enrollee Cost Sharing**  
**(\$ per privately insured person)**



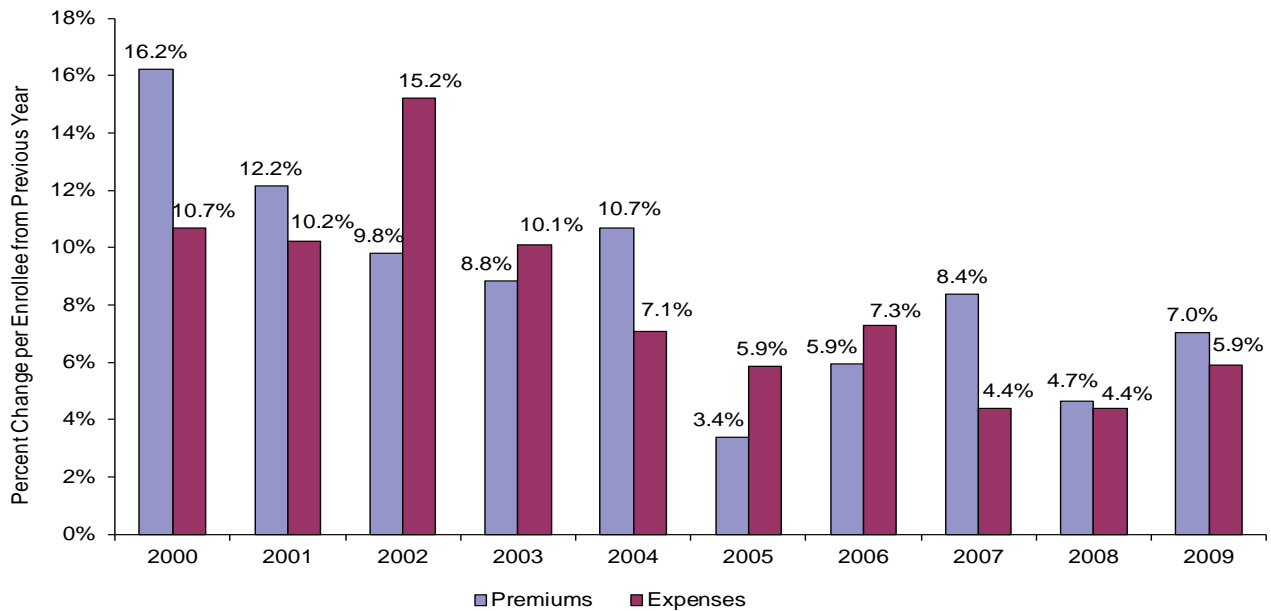
Items may not sum to total due to rounding  
 Source: Minnesota Department of Health, Health Economics Program

Figure 2 shows the growth in private health insurance premiums and underlying costs (expenditure by health plans, including both medical costs and administrative spending) per enrollee in Minnesota. As shown in the figure, both premiums and expenses in 2009 increased at faster rates of growth (7.0 percent and 5.9 percent, respectively) than in the preceding year (4.7 percent and 4.4 percent respectively); although, the rate of growth in 2009 was below the average annual rate of increase for the previous decade.

Minnesota private market health insurance premiums in 2009 grew at a faster rate than nationally (7 percent compared to 5.5 percent).<sup>4</sup> Trends in premium growth over the past decade, however, were identical (average annual growth of 8.7 percent).

Figure 2

## Per Enrollee Growth in Private Health Insurance Premium and Spending

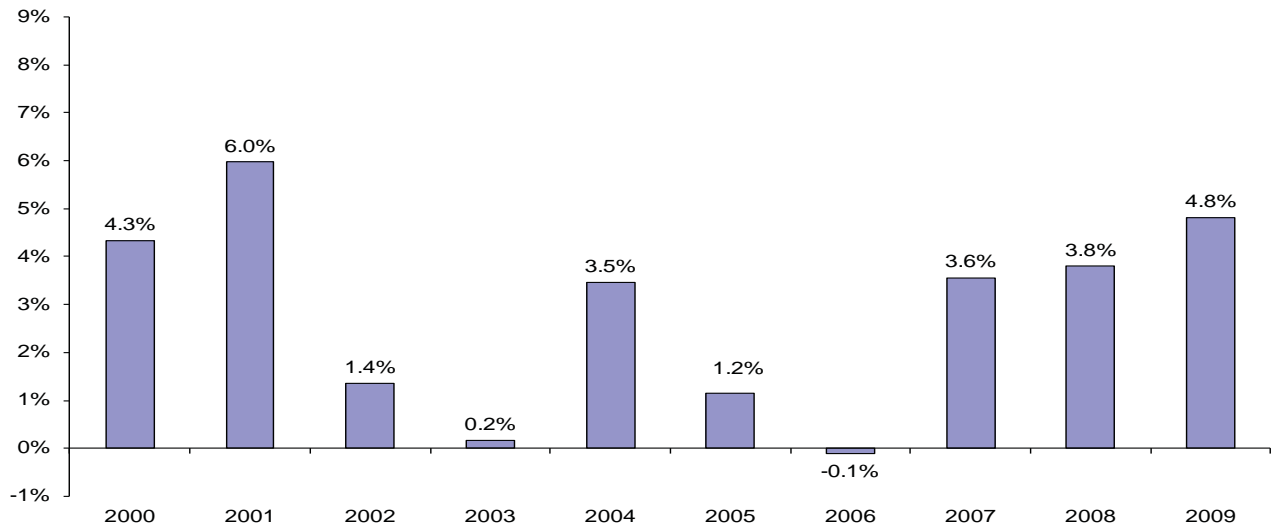


Source: Minnesota Department of Health, Health Economics Program

For reasons, such as uncertainty about projected claims and competition for market share among health plans, the amount of premiums charged by health insurance carriers exceeds costs in some years and falls below it in others. This phenomenon, known as the underwriting cycle, is illustrated in Figure 3, which measures the difference between health plans' premiums and spending per member as a percent of premiums. As shown in the figure, for the third consecutive year, premium levels remained above underlying cost, with the 2009 value representing the second largest per member difference between health plan premiums earned and expenses paid over the past decade.

Figure 3

## Difference Between Commercial Premiums and Spending per Member as Percent of Premium

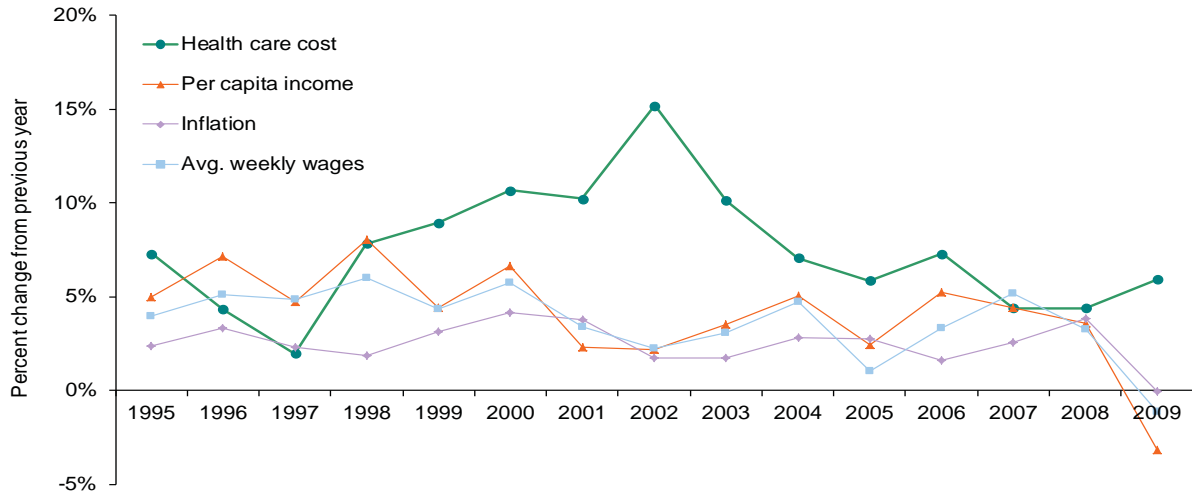


Source: Minnesota Department of Health, Health Economics Program

Figure 4 compares the trend in private health insurance cost per enrollee to trends in inflation, per capita income, and average weekly wages in Minnesota. After two years of relatively comparable patterns in the growth of health care costs and other economic indicators, gaps between these trends widened again in 2009. While per capita income, average weekly wages and inflation all decreased (by 3.2 percent, 1.1 percent and 0.02%, respectively) largely as a result of the recession, health care cost grew by 5.9 percent.

Figure 4

## Trends in Key Minnesota Health Care Costs and Economic Indicators



Note: "Health care cost" is MN privately insured spending on health care services per person. It does not include enrollee out of pocket spending for deductibles, copayments/coinsurance, and services not covered by insurance.

Sources: Health care cost data from Minnesota Department of Health, Health Economics Program; per capita personal income data from U.S. Department of Commerce, Bureau of Economic Analysis; inflation data from U.S. Bureau of Labor Statistics (Consumer Price Index); average weekly wages from MN Department of Employment and Economic Development

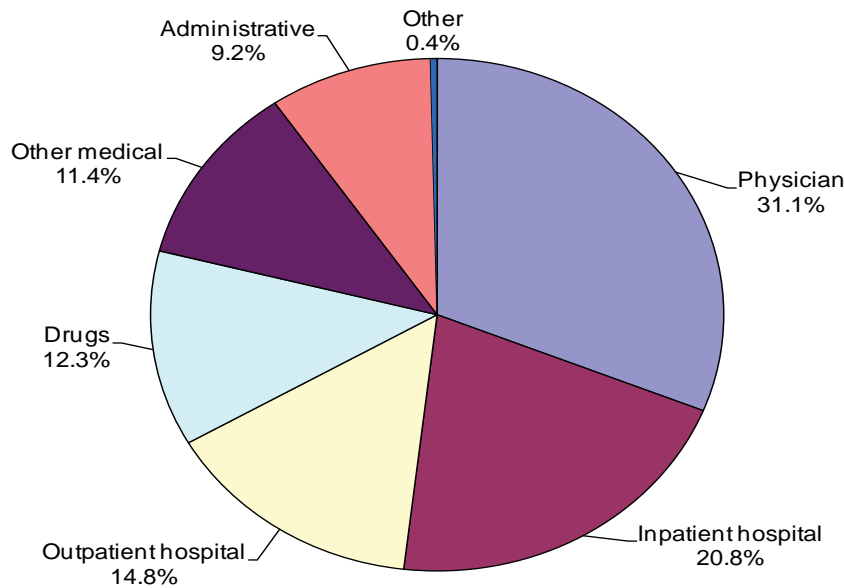
## Drivers of Spending Growth

To understand trends in health insurance spending, it is critical to identify which types of health care services contribute the most to overall spending growth. Figure 5 contributes to this analysis by illustrating the distribution of total spending in 2009 by type of service. As in previous years, hospital services (both inpatient and outpatient) and physician services accounted for approximately two thirds of total spending. About 12 percent of private spending was spent on prescription drugs and 9 percent on administrative activities.<sup>5</sup>

Figure 6 illustrates how spending by type of service relates to each service's independent contribution to overall spending growth. For instance, inpatient hospital spending grew by 6.6 percent between 2007 and 2009, about one percentage point above total spending growth for that period. Because inpatient hospital spending represents about 21 percent of overall spending (see Figure 5), inpatient spending growth represented 26.3 percent of total spending growth. Hospital spending growth overall (inpatient and outpatient combined) accounted for more than 50 percent of overall spending growth. Growth in spending for physician services, administrative activities and prescription drugs accounted for 17.2 percent, 9.5 percent and 6.5 percent of total spending growth, respectively.

Figure 5

Distribution of Private Health Insurance Spending by Service, 2009

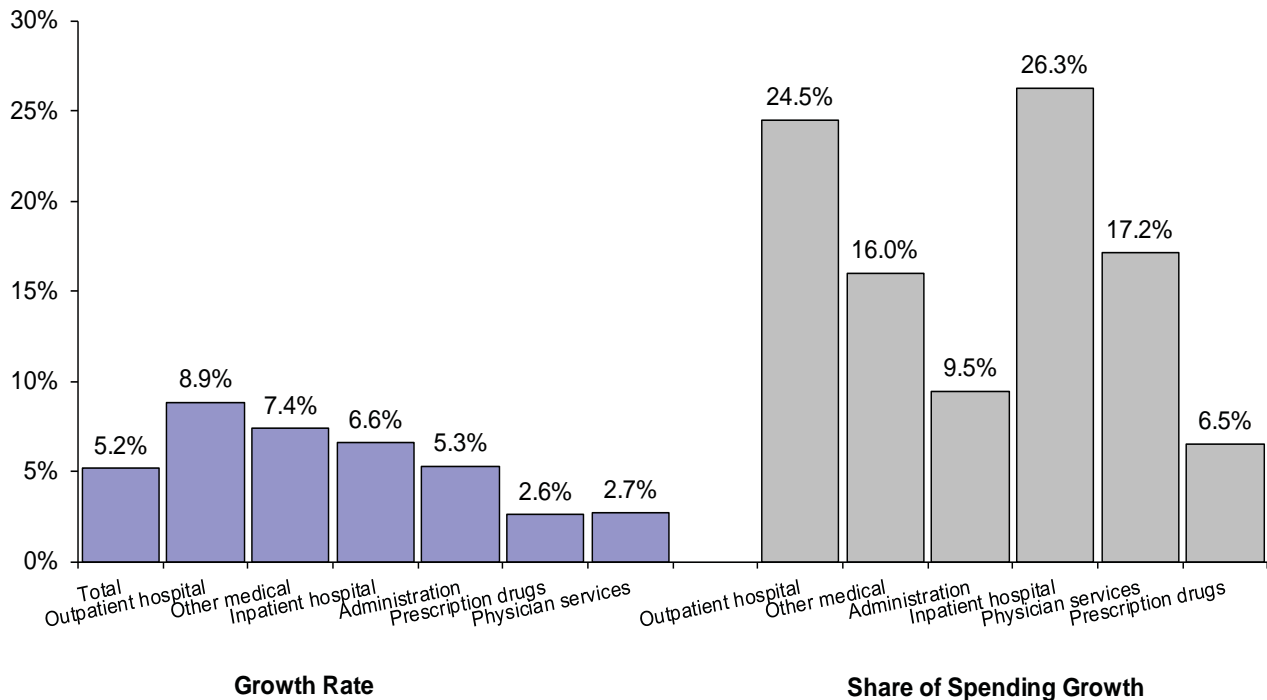


Source: Minnesota Department of Health, Health Economics Program.

Spending excludes dental services. "Other medical" includes skilled nursing facilities, home health care, emergency services, other health professionals, durable medical goods, and chemical dependency/mental health services.

Figure 6

Health Care Cost Drivers: Growth Rates and Shares by Total Growth by Type of Service, 2007 to 2009



Source: Minnesota Department of Health, Health Economics Program

Note: growth rates calculated as annual growth per enrollee over the 2-year period. "Other medical" includes skilled nursing facilities, home health care, emergency services, services of health professionals other than physicians and dentists, durable medical goods, and chemical dependency/mental health.

### Discussion

During 2009, Minnesota was experiencing the most severe impact of the recent economic downturn, with unemployment rates climbing to a high of 10.1 percent and job losses reaching 157,000 by September of that year.<sup>6</sup> As a result of the downturn and subsequent job losses, declining hours of work available to Minnesotans, and losses of income by many, insurance coverage in the private market dropped to the lowest level since MDH begun measuring this rate.<sup>7</sup> With the loss in private coverage, growth in total private health insurance spending in total slowed in 2009, increasing by only 1.6 percent compared 3.1 percent in 2008.<sup>8</sup>

Nevertheless, individuals who were able to retain private coverage in 2009 experienced persistent growth in per enrollee premiums and health care costs, albeit at rates below the average annual growth for the past decade. Concerns over the sustainability of health care cost growth and the affordability of coverage in the private market remain undiminished because of two persistent trends:

Health care costs in Minnesota and the U.S. overall have generally grown faster than the economy and people's incomes. In 2009, when inflation and wages in Minnesota fell for the first time in many years, health care cost rose by nearly 6 percent. Over time, consumers' incomes have grown significantly slower than health care costs. For example, since 1999 health care cost in Minnesota more than doubled – costs grew at a cumulative rate of 117 percent – while average weekly wages rose at less than one third that rate (35.2 percent).

In addition, consumers' ability to afford private coverage continues to be increasingly affected by the shift of spending from health plans to enrollees. The share of spending that enrollees are responsible for grew over the past ten years from under 10 percent of total spending to nearly 16 percent, primarily through rising deductibles, increasing cost sharing and limits to plan benefits. This shift has occurred in part in reaction to rising health care costs, prompting employers and individuals to seek benefit designs that somewhat restrict premium growth.

The analysis of premiums and cost drivers may offer consumers the potential for some modest relief from past trends. Because health plan premiums have exceeded underlying expenses for the third year in a row and recent health care costs growth remains somewhat below historical averages, it is possible that premium growth in Minnesota's private market will remain moderate in the next few years. In addition, Minnesota continues to implement health reform initiatives and private market activities with the expectation that they will have a moderating effect on cost growth and improve the health and patient experience of Minnesota's residents. Continued data collection and monitoring of market trends will help measure the effectiveness of these initiatives on lowering health care spending growth in the state.

## Endnotes

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<sup>1</sup> The analysis in this issue brief is based on data reported to the Minnesota Department of Health by health plans representing an estimated 89 percent of the fully-insured private health insurance market in Minnesota. Because national surveys show that premium increases for fully-insured and self insured plans have been similar, this analysis is a reasonable estimate of trends in the private health insurance market as a whole.

<sup>2</sup> Minnesota Department of Health, Health Economics Program, "Health Insurance Coverage in Minnesota, Updated Results from 2009," Fact Sheet, January 2011.

<sup>3</sup> Average yearly growth between 1998 and 2008 was 9.2 percent.

<sup>4</sup> The Kaiser Family Foundation and Health Research and Education Trust, "Employer-Sponsored Health Benefits, 2010 Annual Survey," September 2010. The analysis of national premium growth is based on trends in the cost of family coverage.

<sup>5</sup> For a detailed overview of the components of administrative costs see: Minnesota Department of Health, Health Economics Program, "Administrative Costs at Minnesota Health Plans in 2009," January 2011.

<sup>6</sup> Minnesota Management & Budget, "2010 November Economic Forecast, Summary," November 2010.

<sup>7</sup> Minnesota Department of Health, Health Economics Program, "Health Insurance Coverage in Minnesota, Updated Results from 2009," Fact Sheet, January 2011.

<sup>8</sup> A more detailed analysis of spending trends in 2009 will be available in June of 2011, when MDH is required to submit an annual report on Minnesota health care spending and projections to the Legislature. This report will include an analysis of health spending by public programs, which as a result of increasing enrollment due to the recession has likely grown faster than private spending.

**The Health Economics Program conducts research and applied policy analysis to monitor changes in the health care marketplace; to understand factors influencing health care cost, quality and access; and to provide technical assistance in the development of state health care policy.**

For more information, contact the Health Economics Program at (651) 201-3550. This issue brief, as well as other Health Economics Program publications, can be found on our website at <http://www.health.state.mn.us/healthconomics>.

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