

Private Health Insurance Cost Trends in Minnesota, 2007

Rising health care costs put pressure on the budgets of consumers, employers, and the public sector. Both in Minnesota and the United States, premiums for private health insurance have been outpacing growth in incomes, wages, and overall inflation by a substantial amount for a number of years. Years of high rates of health care cost increases have led to concerns about the affordability of private health insurance. Despite these concerns, the share of Minnesotans with employer-based health insurance coverage remained stable, between 2004 and 2007 in contrast to the decline in employer-based coverage that occurred between 2001 and 2004 (68.0 percent and 62.6 percent, respectively).¹

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.² Key findings of this analysis for 2007 include the following:

- Total spending per enrollee (health plan spending plus enrollee out of pocket costs) increased by 5.6 percent in 2007, from \$3,879 in 2006 to \$4,095 in 2007.
- At the same time, growth in enrollees' out of pocket spending grew by nearly 14 percent, the highest rate since 2002. In 2007, enrollees paid more than 15 percent of total costs, up from just over 10 percent in 2000.
- Growth in health plans' spending per enrollee slowed from 2006 to 2007 (from 7.4 percent to 4.3 percent), after increasing between 2005 and 2006. This was the lowest reported rate of growth in health plans' spending per enrollee since 1997.

- Health plan spending growth continued to be driven primarily by physician services and hospital (both inpatient and outpatient) services, which accounted for 45.0 percent and 44.1 percent of health plan spending growth from 2005 to 2007, respectively. During the same period, administrative and prescription drug spending decreased slightly as a percentage of total spending.
- Health insurance premium growth increased to 8.4 percent per enrollee in 2007, the highest growth rate since 2004.
- Private health insurance premiums exceeded health plan spending per enrollee by approximately 4 percent in 2007, at \$3,629 and \$3,476 respectively.
- The gap between health plans' spending per enrollee and other economic indicators such as wage growth and inflation narrowed in 2007. This was partly due to lower reported health care cost growth, and partly due to growth in these other indicators..

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

Premium and Cost Trends

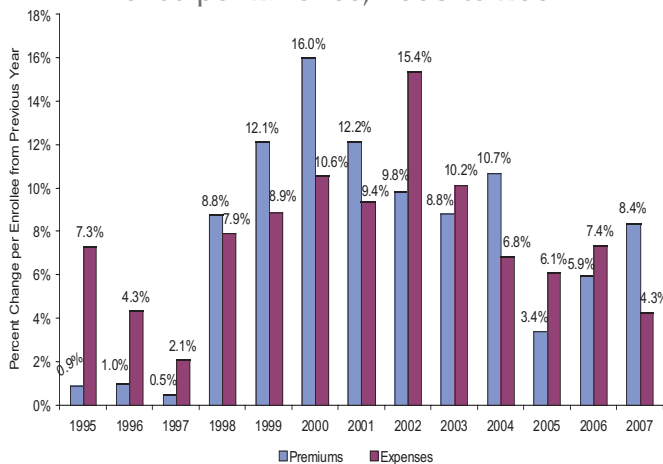
Figure 1 illustrates the trend in private health insurance premiums in comparison to the trend in underlying costs (expenditures by health plans, including both medical costs and administrative spending) per enrollee in Minnesota. As shown in the figure, growth in health insurance premiums per enrollee



increased in 2007 to 8.4 percent, the highest rate of growth since 2004. Although premium growth in 2005 and 2006 was lower (3.4 percent and 5.9 percent, respectively), the growth rates in the previous seven years were consistently greater than 8.5 percent. Nationally, health insurance premiums increased by an estimated 6.1 percent on average in 2007.³ In Minnesota, growth in health plan spending per enrollee slowed to 4.3 percent in 2007 from 7.4 percent in 2006, the lowest rate of increase since 1997. The fact that health insurance premiums increased more than health plan spending is likely a reflection of the fact that health plans' spending had been growing more rapidly than premiums for the preceding

Figure 1

Private Health Insurance Premium and Spending Trends per Enrollee, 1995 to 2007



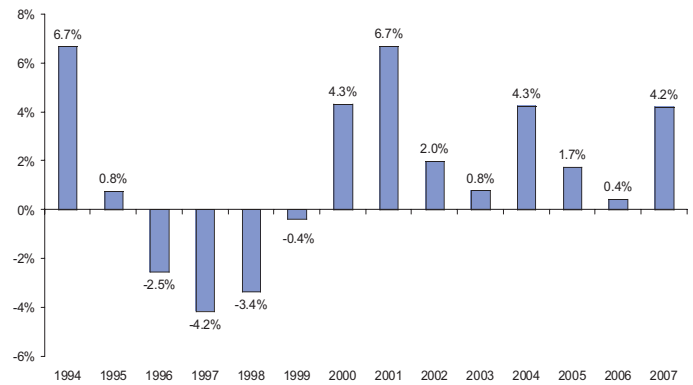
Source: Minnesota Department of Health, Health Economics Program

two years. The cyclical nature of health insurance premiums is further illustrated in Figure 2.

Because of uncertainty in predicting health care costs, the premiums charged by health plans exceed costs in some years and fall below costs in others. This pattern can be seen in Figure 2, which measures the difference between health plans' premiums and spending per member as a percent of premiums. Figure 2 also reflects how premiums have consistently exceeded health plan costs since 2000. In 2007, there was a 4.2 percent difference between premiums and spending per enrollee as a percent of premiums, an increase from 0.4 percent in 2006. This relatively large difference between premiums and costs, combined with the

Figure 2

Difference Between Commercial Premiums and Spending per Member, as Percent of Premium, 1994 to 2007



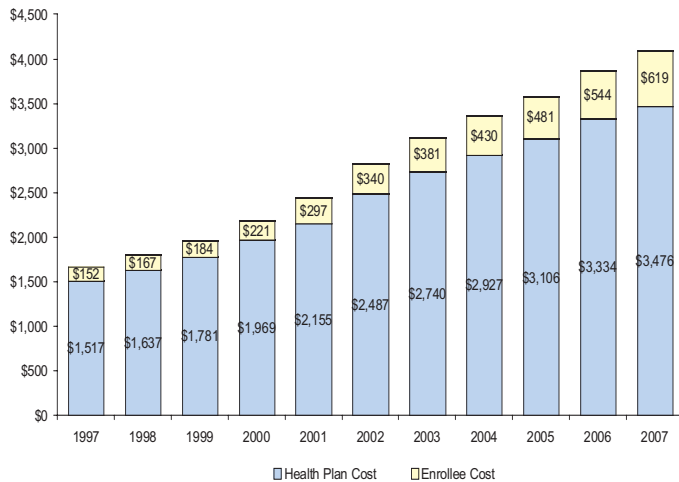
Source: Minnesota Department of Health, Health Economics Program

slower underlying cost growth shown in Figure 1, suggests the possibility that premium growth may slow over the next couple of years.

As health care costs have risen, many employers have increased the share of the costs enrollees are responsible for as a way to contain health insurance premium increases. Figure 3 illustrates the trend in total spending per enrollee, including the shares of spending by health plans and enrollees (out of pocket). In 2007, total spending per enrollee increased by 5.6 percent (from \$3,879 to \$4,095), which was the lowest rate of increase in the last decade. In contrast to the low rate of increase in health plan spending shown in Figure 1 (4.3 percent), enrollee out of pocket costs increased by 13.7 percent, the highest rate of increase since 2002. The share of total cost paid by enrollees represented 15.1 percent of total spending in 2007, compared to 10.1 percent in 2000. The sustainability of enrollee out of pocket cost trends continues to be a concern, especially in light of other economic pressures currently faced by consumers, such as higher food costs, increasing fuel prices, and decreased housing values. Nationally, health care and health insurance affordability top the public's list of health care-specific concerns.⁴

Figure 3

Trends in Total Cost and Health Plan and Enrollee Cost Sharing, 1997 to 2007 (\$ per privately insured person)

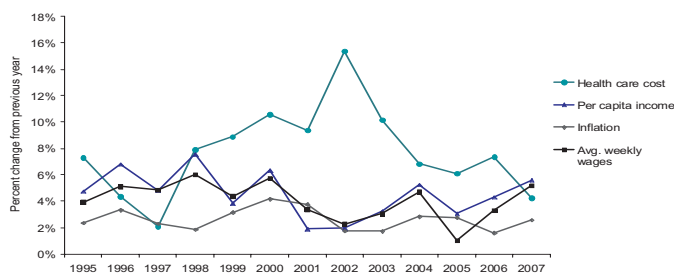


Source: Minnesota Department of Health, Health Economics Program

Figure 4 compares the trend in private health insurance cost per enrollee to trends in inflation, per capita income, and average weekly wages. For the first time in the last decade, growth in health plans' spending per enrollee was less than growth in Minnesotans' wages and incomes, though it remained higher than the overall rate of inflation. Health plans' spending per enrollee (not total spending) grew about 20 percent slower than average wages (compared to 2.2 times faster in 2006), 20 percent slower than per capita income (compared to 1.7 times faster in 2006) and 1.7 times faster than inflation (compared to 4.6 times faster in 2006).

Figure 4

Trends in Key Minnesota Health Care Cost and Economic Indicators, 1995 to 2007



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.

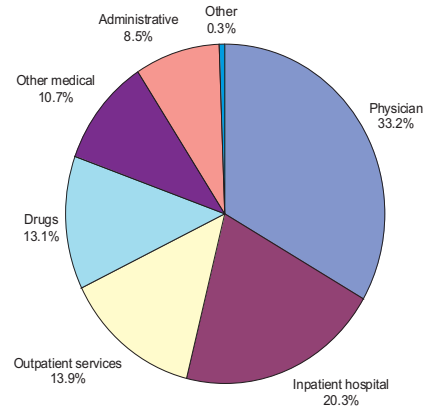
Sources: Health care cost data from Minnesota Department of Health, Health Economics Program; per capita personal income data from U.S. Department of Commerce, Bureau of Economic Analysis; inflation data from U.S. Bureau of Labor Statistics (Consumer Price Index); average weekly wages from MN Department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

Drivers of Spending Growth

In addition to the analysis of total spending and premium growth rates, this data can also be used to analyze which type of health care services are contributing to overall health care cost growth. Figure 5 illustrates the share of total spending for each type of service. In 2007, physician and hospital (both inpatient and outpatient) services each accounted for approximately one-third of spending (33.2 percent and 34.2 percent, respectively) and prescription drugs accounted for an additional 13.1 percent of spending. Administrative spending, as a percent of total spending, was 8.5 percent in 2007, down from 9.0 percent in 2006.

Figure 5

Distribution of Private Health Insurance Spending by Service, 2007



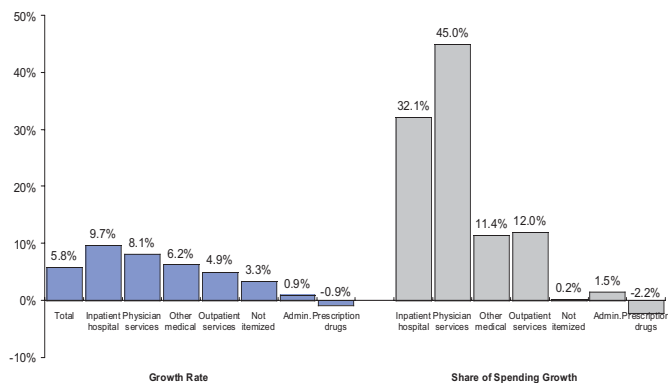
Source: Minnesota Department of Health, Health Economics Program. Spending excludes dental services. "Other medical" includes skilled nursing facilities, home health care, emergency services, other health professionals, durable medical goods, and chemical dependency/mental health services.

Figure 6 presents data for 2005 to 2007 on spending growth rates by type of service, compared to the share of total spending growth accounted for by each service. Hospital (inpatient and outpatient) spending represents approximately one-third of total spending, but accounted for 44.1 percent of total spending growth from 2005 to 2007. Spending for physician services also represents approximately one-third of total spending, and accounted for 45.0 percent of spending growth. Spending for administrative services increased slightly (0.9 percent per year) and spending for prescription drugs declined (-0.9 percent per

year) from 2005 to 2007. Inpatient hospital services, physician services, and other medical services⁵ all grew more quickly than total spending between 2005 and 2007.

Figure 6

Health Care Cost Drivers: Growth Rates and Shares of Total Growth by Type of Service, 2005 to 2007



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
Source: Minnesota Department of Health, Health Economics Program

Discussion

While growth in health plans' cost per enrollee remained higher than the overall rate of inflation in 2007, it was lower than growth in Minnesotans' wages and incomes for the first time in the last decade. While it is too early to know if slower cost growth will continue, the lower health care cost increase in 2007 may be due in part to efforts to contain costs through a greater emphasis on prevention, evidence-based medicine, health care quality, and disease management for costly chronic health conditions. Higher enrollee cost sharing requirements have also likely contributed to slower claims growth, but represent a concern about affordability for consumers.

Endnotes

¹ Minnesota Department of Health, and University of Minnesota School of Public Health, "Health Insurance Coverage in Minnesota, Results for 2007," Fact Sheet, April 2008.

² The analysis in this issue brief is based on nonpublic data reported to the Minnesota Department of Health by health plans representing an estimated 85.6 percent of the fully-insured private health insurance market in Minnesota. Because premium increases for fully-insured and self-insured plans have shown similar trends, we believe this analysis is a reasonable estimate of trends in the private health insurance market as a whole. (See, for example, the Kaiser Family Foundation and Health Research and Educational Trust, "Employer Health Benefits 2007 Annual Survey." September 2007, for data on premium increases for fully-insured versus self-insured plans.)

³ Ibid.

⁴ The Henry J. Kaiser Family Foundation, "Kaiser Health Tracking Poll: Election 2008," June 2008.

⁵ "Other medical services" 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.

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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