Rapid increases in premiums for private health insurance have been a growing concern for consumers, business owners, and policymakers over the past several years. Both in Minnesota and the nation, premiums for private health insurance have been growing at or near double-digit rates, outpacing growth in incomes, wages, or general inflation by a substantial amount.

This issue brief presents updated estimates of private health insurance premium trends in Minnesota, trends in underlying claims costs, and the drivers of cost increases. Key results of this analysis for 2004 include:

- The growth in health plans’ expenditures per person was 7.4%, well below the 2003 increase of 10.5%. In addition, the growth in 2004 was the slowest since 1997. (This figure does not include growth in enrollee out of pocket payments, which was 15.3%. Considering both health plans’ and enrollees’ costs together, the overall growth in health care cost per privately insured Minnesotan was 8.4%, the lowest since 1998.)

- Growth in premiums per person was 11.2%, likely a reflection of the fact that health plans’ expenditures had been growing more rapidly than premiums for the preceding 2 years, resulting in some “catchup” premium growth in 2004.

- The gap between growth in health care costs and other key economic indicators, such as per capita income, average wages, and inflation narrowed substantially.

- Health plans reported a decline in spending for physician services, and slower growth rates for hospital services, prescription drugs, and other medical spending. Administrative spending as a share of total health plan spending increased.

**Premium and Cost Trends**

*Figure 1*

Private Health Insurance Premium and Spending Trends in Minnesota, 1995 to 2004

Figure 1 illustrates the trend in private health insurance premiums per person in Minnesota, and compares the trend in premiums to changes in underlying costs (expenditures by health plans, including both medical costs and administrative
spending). In 2004, the growth in underlying costs was 7.4%, which was the slowest rate of growth experienced in Minnesota’s private health insurance market since 1997. Growth in private health insurance premiums, however, continued to be relatively high – 11.2% per person in 2004.

One likely reason why premiums grew by so much more than underlying spending in 2004 is that health insurance premiums tend to follow a cyclical pattern, with years of premiums that do not keep pace with costs followed by periods in which premium growth exceeds cost growth. This cycle is illustrated in Figure 2, which shows the difference between private health insurance premiums and claims per person over the past decade in Minnesota. During the mid-1990s, health plans were not collecting enough in premiums to keep pace with costs, and as a result health plans’ costs per member exceeded premiums by about 4 percent in 1997. This was followed by several years during which premium growth was faster than the growth in underlying costs, with the result that by 2001 premiums were 4 percent above costs. Rapid cost growth in 2002 and 2003 erased those gains, with the result that costs exceeded premiums by 2.3% in 2003. In 2004, the fact that premiums per member grew more rapidly than spending restored Minnesota’s health plans to a position in which premiums ($3,076 per person) are slightly above their costs ($3,039 per person). If the slowdown in underlying cost growth continues past 2004, then premium growth would be expected to also slow down over the next few years.

Figure 3 compares the trend in underlying cost to trends in general inflation, per capita income, and average weekly wages. As shown in the figure, after several years of health care cost growth that was much faster than growth in other economic indicators for Minnesota (per capita income, average wages, and inflation), in 2004 the gap between growth in health care expenses per person and these other economic measures narrowed substantially. Still, privately insured health care spending per person grew about 1.4 times faster than per capita income, 1.6 times faster than average wages, and 2.6 times faster than inflation in 2004.
One widely used strategy for controlling the cost of private health insurance has been to increase the share of costs that is paid directly by enrollees. For example, national surveys have documented a shift in the marketplace toward health insurance products with higher deductibles and higher copayments and/or coinsurance. Figure 4 illustrates this trend in Minnesota. In 1997, the cost paid by enrollees was about $152 per person, or 9.1 percent of the total cost; by 2004, the enrollee cost had nearly tripled, with enrollee costs of about $440 per person or 12.6 percent of the total cost. Although the most rapid growth in enrollee cost sharing occurred in 2000 and 2001, in 2004 enrollees’ out of pocket costs grew more than twice as fast as the costs paid by health plans.

Drivers of Spending Growth

Figure 5 shows the distribution of how private health insurance dollars in Minnesota are spent. Physician services account for about one-third (32.3 percent) of the total. Inpatient and outpatient hospital services combined account for an additional one-third (30.9 percent), and prescription drugs account for about one-sixth (16.1 percent) of the total. Health plan administrative costs accounted for 10.1 percent in 2004, an increase of 1.2 percentage points over 2003 but still below the historic average of 11 to 13 percent over the last decade.

In the two-year period from 2002 to 2004, administrative spending was the fastest growing category of spending (see Figure 6). The primary drivers of increased administrative spending were product management and marketing, claim processing, and spending for wellness and health education.
As shown in Figure 6, physician services was the only service category to grow more slowly than total spending between 2002 and 2004. Historically, spending for physician services has accounted for about one third of total spending growth, because physician services are a large share of total spending. However, because of the slow growth reported by health plans for physician spending per person from 2002 to 2004, physician services accounted for only 11.0 percent of total spending growth during this period. Hospital services (inpatient and outpatient combined) accounted for 36.7 percent of the total growth from 2002 to 2004.

One additional notable trend in spending growth by type of service is a slowdown in prescription drug spending growth compared to other types of services. Prescription drug spending has consistently been the fastest growing category of spending for a number of years, but in 2004 growth slowed to 11.3 percent per person, the lowest growth since 1998. Between 2002 and 2004, growth in prescription drug spending represented about one fifth (21.8 percent) of overall spending growth.

With the data used in this analysis, it is impossible to determine whether spending growth is due to increases in price, increases in the quantity of services provided, changes in the mix of services, or, as is most likely, some combination of all of these factors.

The Health Economics Program will continue to monitor and report on trends in health insurance premiums and underlying costs in Minnesota’s health care markets.

1 The analysis is based on nonpublic data reported to the Minnesota Department of Health by health plans representing an estimated 85 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 that this analysis is a reasonable estimate of trends in the private health insurance market as a whole. (Data on premium increases for fully-insured vs self-insured plans is from the Kaiser Family Foundation’s 2004 Employer Health Benefits Survey.)

2 This includes only the portion of expenses that was paid by private insurance.


4 Data on categories of administrative spending are for the health plans’ entire business, not just for private insurance.

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) 282-6367. This issue brief, as well as other Health Economics Program publications, can be found on our website at: http://www.health.state.mn.us/divs/hpsc/hep/index.htm

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