KNOW YOUR BENEFITS.

From

Why Are Health Care Costs Rising?

Health care costs, and consequently employee health benefit costs, have been growing at an alarming rate for nearly a decade. Employers have seen their health insurance premiums increase 119 percent since 1999. Total health insurance costs for employers could reach nearly $850 billion by 2019. Why are costs rising so high, so fast?

National Health Care Costs
As health care costs climb, the amount your employer must pay for your health benefits also increases. Unfortunately, the trend of health benefit costs rising faster than the rate of inflation is expected to continue.

Do you know how much your employer pays for your health benefits? According to the Hewitt Health Value Initiative, the average cost of health care benefits for active employees is expected to climb from $10,471 in 2013 to $11,176 in 2014. For a family of four, the cost is about $16,000 a year.

Unpredictable and uncontrollable health insurance rate increases are having a very serious financial impact on many employers and employees. Employers are also passing more of these costs onto employees, as the percentage that employees are asked to pay is also increasing. In 2013, employees paid an annual average of $2,303; this figure is projected to grow to $2,499 in 2014 (22.4 percent of the total cost).

Why Are Costs Rising?
Several market conditions working together have led to steep increases. Understanding these factors will help you be aware of the reasons behind any benefit or employee contribution (the amount you are required to pay out of your paycheck) changes your employer decides to make.

Several factors that have contributed to climbing health care costs over the past decade include:

- Demographics
- Expansion of health care providers
- Consolidation of managed care companies
- Government regulation

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- Increased utilization and consumer demand
- New medical technology
- Weakening of managed care system
- Health care spending and medical cost inflation
- Increased prescription drug costs

In addition, Hewitt has identified specific factors that are contributing to the current health care costs and projected figures that continue to rise:

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The Aging of America
According to the U.S. Census Bureau, the number of Americans age 65 and older is expected to nearly double by 2025, and the elderly population (80 and older) will increase 80 percent. As this population ages, there is a subsequent rise in the occurrence of chronic diseases such as asthma, heart disease and cancer, and the need for more resources to fight these diseases. This leads to the increased use of prescription drugs and other medical services, and an overall increase in health care spending.

The Dramatic Rise of Prescription Drug Costs
Prescription drug costs continue to represent an increasingly large portion of health care expenditures. According to the Centers for Medicare & Medicaid Services (CMS), spending in the U.S. for prescription drugs was $234.1 billion in 2008, more than six times what was spent in 1990. In 2012, the cost growth slowed slightly, reaching $263.3 billion. The U.S. Department of Health and Human Services projects U.S. prescription drug spending to reach $457.8 billion in 2019—almost double what it was in 2008.

While prescription drug spending has been a fairly small proportion of national health care spending compared to spending for hospital and physician services, it has been one of the fastest-growing components, compared to hospital and physician services.

A number of factors contribute to changes in prescription drug costs, including the following:

- *Increased use* – More people are using more prescription drugs, thereby driving up spending. In the decade between 1999 and 2009, the number of prescriptions purchased increased 39 percent, compared to a U.S. population growth of 9 percent.

- *Increased prices* – Prescription drug prices increased at 3.4 percent in 2009, although the increase slowed in 2012, only growing 0.4 percent, down from the 2011 growth of 2.5 percent.

- *Changes in the types of drugs used* – Prescription drug spending is affected when new drugs enter the market and when existing medications lose patent protection. New drugs can either increase or decrease overall drug spending, depending on price and how the new drug relates to existing drugs on the market—e.g., replaces a drug, is a new treatment, adds competition, etc. Drug spending is also typically reduced when brand name drugs lose patent protection and face competition from new, cheaper generic substitutes.

- *Advertising* – Prescription use in general and brand-name, higher-priced drugs can be influenced by advertisements. Critics of direct-to-consumer advertising feel that promotion of drugs to consumers instead of doctors creates inappropriate consumer demand and utilization of certain medications.

- *Profits* – Prescription drug sales were $300.3 billion in 2009, an increase of 5.1 percent over 2008. This increase was more than double the increase from 2007 to 2008. In 2013, a study indicates that prescription sales reached approximately $326 billion, with increases of 3 to 5 percent projected for the next year.

- *Insurance coverage* – Individuals with insurance are more likely to use prescription drugs than those without, and the growing prevalence of managed care plans—which tend to offer drug benefits—has fueled increased prescription drug use.

The Consolidation of Insurance Companies
During the economic boom of the 1990s, competition among insurance carriers and managed care companies was fierce. In order to gain market share, many large insurance companies acquired smaller, weaker firms and kept their rates low in order to stay competitive. This practice has taken its toll, leading to dips in profitability and stock prices for a number of large insurance carriers. Now, those companies that have survived are faced with much less competition and are committed to returning to profitability, which has ultimately resulted in increased rates for employers and contributed to greater cost-sharing for employees.

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The Weakening of the Managed Care System
Also in the 1990s, employers began offering plans that allowed patients to see out-of-network doctors or those that had less strict referral processes through benefits, such as point-of-service (POS) plans. In addition, many employers making health plan purchase decisions focused on keeping employees happy by ensuring that most doctors in an area were in a chosen network, rather than choosing narrower networks with deeper discounts. All of this has led to a general weakening of the managed care system. With the level of premium increases over the last few years, many employers have backed away from offering such rich benefits, and instead have implemented a number of tactics to reduce costs.

Political Environment and Government Regulation
Health insurance, and more specifically managed care, is one of the most regulated insurance sectors on both the state and federal levels, and has become one of the most highly debated topics in the political arena. With the passage of the health care reform legislation on March 23, 2010, comes more regulation. Many provisions have taken effect and more regulations will continue through the decade.

Increased Utilization and Consumer Demand
Utilization of many health care services has risen over the last decade. A number of factors such as improvements in medical technology, the influence of managed care, elevated consumer awareness and demand, and a boost in the number of practicing physicians caused health services like the number of surgical procedures and the number of prescription drugs dispensed to rise significantly. Other services such as breast cancer screenings, immunizations for children, and diagnostic procedures like CT and MRI have also experienced sharp utilization increases.

Health Care Spending and Medical Cost Inflation
Overall health care spending and medical cost inflation are also ascending, due to many of the factors discussed previously.

What Does It All Mean?
Your employer, like others, is undoubtedly trying to determine how to keep accelerating health plan rates from having a serious financial impact on both employees and the company. Many firms absorbed the increasing costs for years to avoid further burdening their employees. Now, most are realizing that they will have to pass portions of the costs on to employees in the form of greater contributions from their paychecks, or benefit designs that require them to pay more out-of-pocket for the medical services they use through increased coinsurance, copayments or deductibles.

Sources: National Coalition on Health Care, U.S. Census Bureau, Centers for Medicare & Medicaid Services, IMS Health, U.S. Department of Health and Human Services.