Rising Health Care Costs

What is happening with health insurance premiums?

- **Premium growth has slowed, but still outpaces inflation.** Health insurance premiums rose by 8.8% from 2004 to 2005, or more than one-third slower than three years ago.

Why are premiums rising faster than inflation?

- **Because health care spending is rising much faster than inflation.** The cost of medical services largely determines the cost of health insurance. In fact, the federal government reports that increases in health insurance premiums mirror increases in the cost of health care services over time.

Why does health care spending continue to rise?

- **Because consumers are using more health care services.** Consumers are taking advantage of new treatments and more intensive diagnostic testing; and

- **Because the medical liability system is out of control.** Medical lawsuits and defensive medicine, where doctors and hospitals order tests and procedures deemed medically unnecessary in an attempt to protect themselves from lawsuits, account for 10% of premium spending; and

- **Because the price of some medical services is rising.** The use of newer and higher-priced technologies and provider consolidation are, in part, why price increases account for 30% of premium increases; and

- **Poor quality carries a hefty price tag.** An estimated 30% of all health care spending pays for poor-quality care (overuse, misuse, waste and defensive medicine).

What factors have helped slow the increase in health care spending?

- **Patients are taking advantage of cost effective prescription drug plans.** Health plans have given consumers more options to choose less expensive, but equally effective, generic prescription drugs. As a result, prescription drug spending increases have slowed in recent years.

- **Greater awareness of the cost of mandates.** While existing state and federal mandated benefits add to the cost of health benefits, the number of new mandates has decreased markedly in recent years.

How is the premium dollar spent?

- **Most of it pays for medical services.** Industry-wide, 86% is allocated toward paying for medical services and prescription drugs; government payments and compliance, claims administration, and fraud prevention account for a small percentage; and