

Health Cost Trend Remains Stable at 7-8 Percent

The *Center for Studying Health System Change (HSC)* estimates that growth in health costs has stabilized at approximately 7.5 percent in 2005 and 2006. Meanwhile, three indicators of employer health costs or premiums grew between 6 and 8 percent in 2006: the *Kaiser Family Foundation* reports that employers' health premiums rose by 7.7 percent; *Mercer* found that employer health costs grew by 6.1 percent; and premiums in the *Federal Employees Health Benefits* program grew by 6.4 percent.

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According to newly revised data from the Center for Studying Health System Change (HSC), the annual growth of health care costs for privately insured people has remained between 7 and 8 percent since 2004. This trend is down from a recent peak of 10 percent in 2001 and 2002 (see Figure 1).

In general, health costs are rising slightly faster than the economy as a whole. For example, U.S. GDP grew by 7 percent in 2004 and 6 percent in 2005 (including both "real" growth in economic activity and price inflation).

HSC's new estimates are consistent with a large survey of employer-based premiums by the Kaiser Family Foundation, which showed premium growth of 7.7 percent in 2006 (see Figure 2).

Other indicators and estimates are showing similar results. The Mercer survey of 3,000 employers found that health benefits costs rose by just over 6 percent in 2006, the same rate reported in 2005.

Figure 1. Growth in Health Costs: All Services

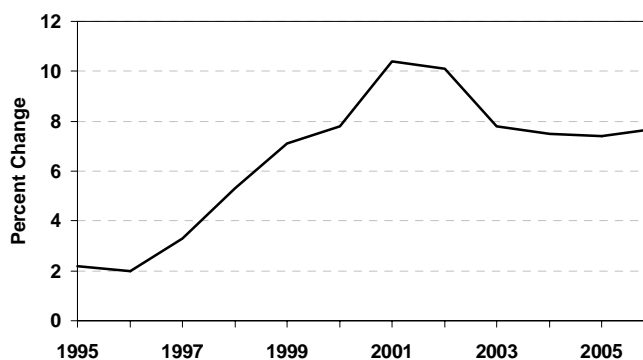
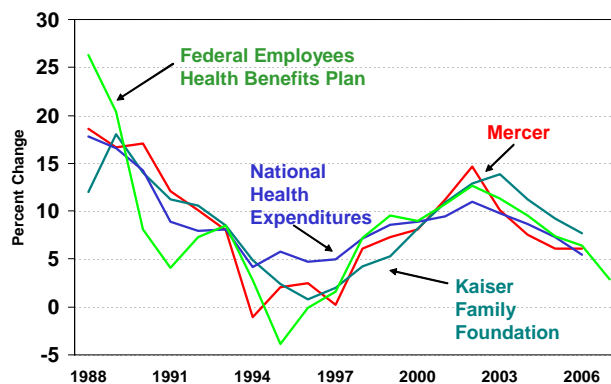


Figure 2. Recent Trends in Health Insurance Premiums



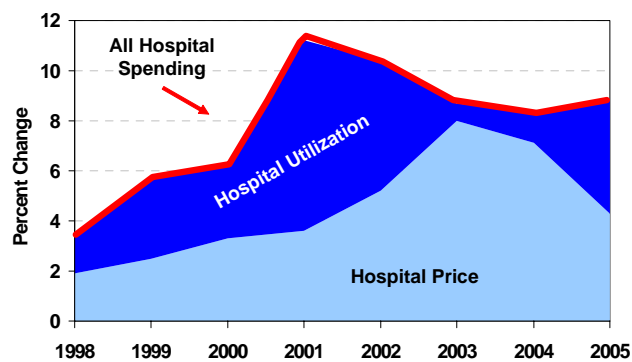
Likewise, premiums in the Federal Employees Health Benefits (FEHB) program grew by 7.4 percent in 2005 and 6.4 percent in 2006. According to the Office of Personnel Management, FEHB premiums are expected to grow by less than 3 percent in 2007.¹

Finally, the National Health Expenditures projections by the CMS Office of the Actuary show aggregate private health insurance premiums increasing by 7.3 percent in 2005 and 5.5 percent in 2006. (Updated CMS estimates and projections are expected in February 2007.)

Hospital Prices are a Major Cost Driver

According to HSC, costs for hospital care and facility-based outpatient services (including ambulatory surgical centers, free-standing diagnostic facilities and imaging services) grew by 9 percent per privately insured person in 2005 (see Figure 3). Hospital costs surged as employers moved toward broader network health plans in the late 1990s. Annual growth in hospital costs peaked at 11.5 percent in 2001, well above the low 0.5 percent rate of increase in 1996.

Figure 3. Factors Driving Increases in Hospital Spending



Hospital utilization spiked upward in 2001, and prices for hospital care grew rapidly in the 2002-2004 period. In 2005, the growth of hospital costs was split evenly between price increases and growth in use of hospital care.

Prescription Drug Spending Has Moderated Significantly

Growth in prescription drug spending fell for the sixth year in a row to 4.8 percent in 2005, down from 8.3 percent in 2004 and a peak of 18.4 percent in 1999 (see Figure 4 on page 3).

The 2005 growth in prescription drug spending was comprised of price increases of 3.5 percent and volume growth of 1.2 percent. The 1.2 percent volume growth in 2005 is down from a 12 percent growth rate in 1999.

¹ Based on bids from participating health insurance plans, the Office of Personnel Management (OPM) estimates that weighted average premiums in 2007 for federal employees would grow by 2.9 percent if no employees switched plans; OPM projects that after enrollment changes, premiums in 2007 will grow by 1.8 percent.

The slowdown in prescription drug spending stems in part from new benefit designs, including “tiering” efforts by employers and health insurance plans to give incentives for patients to use generic drugs. Tiering was included in approximately 74 percent of all health plans in 2005, up from 27 percent five years ago.

Physician Spending Continues Apace

Costs for physician services grew by 7.1 percent in 2005, up from 6 percent in 2004 (see Figure 5).

In general, physician spending has been less volatile than costs for hospital care and prescription drugs. After growing slowly in the mid- and late-1990s, physician costs have risen between 6 and 8 percent annually since 2000.

Figure 4. Factors Driving Growth in Rx Drug Spending

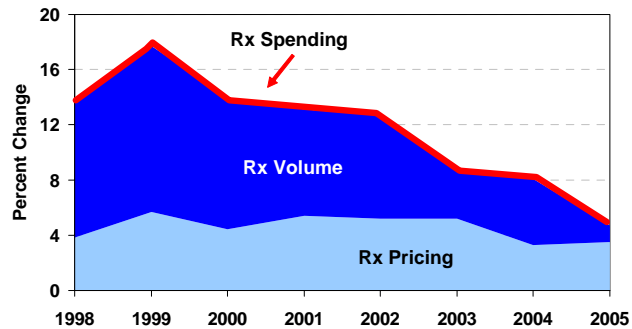
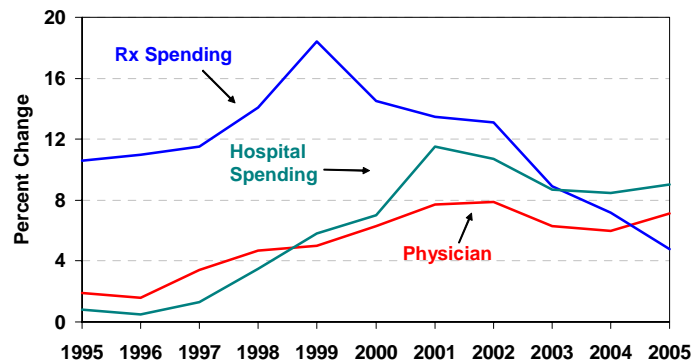


Figure 5. Growth in Health Costs: By Sector



For further information, please contact Jeff Lemieux, Senior Vice President at AHIP’s Center for Policy and Research at 202.778.3200 or visit www.ahipresearch.org.

References

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