

# FACTS ON HEALTH CARE COSTS

## Introduction

By several measures, health care spending continues to rise at a rapid rate and forcing businesses and families to cut back on operations and household expenses respectively.

In 2008, total national health expenditures were expected to rise 6.9 percent -- two times the rate of inflation.<sup>1</sup> Total spending was \$2.4 TRILLION in 2007, or \$7900 per person<sup>1</sup>. Total health care spending represented 17 percent of the gross domestic product (GDP).

U.S. health care spending is expected to increase at similar levels for the next decade reaching \$4.3 TRILLION in 2017, or 20 percent of GDP.<sup>1</sup>

In 2008, employer health insurance premiums increased by 5.0 percent – two times the rate of inflation. The annual premium for an employer health plan covering a family of four averaged nearly \$12,700. The annual premium for single coverage averaged over \$4,700.<sup>2</sup>

Experts agree that our health care system is riddled with inefficiencies, excessive administrative expenses, inflated prices, poor management, and inappropriate care, waste and fraud. These problems significantly increase the cost of medical care and health insurance for employers and workers and affect the security of families.

## National Health Care Spending

- In 2008, health care spending in the United States reached \$2.4 trillion, and was projected to reach \$3.1 trillion in 2012.<sup>1</sup> Health care spending is projected to reach \$4.3 trillion by 2016.<sup>1</sup>
- Health care spending is 4.3 times the amount spent on national defense.<sup>3</sup>
- In 2008, the United States will spend 17 percent of its gross domestic product (GDP) on health care. It is projected that the percentage will reach 20 percent by 2017.<sup>1</sup>
- Although nearly 46 million Americans are uninsured, the United States spends more on health care than other industrialized nations, and those countries provide health insurance to all their citizens.<sup>3</sup>

- Health care spending accounted for 10.9 percent of the GDP in Switzerland, 10.7 percent in Germany, 9.7 percent in Canada and 9.5 percent in France, according to the Organization for Economic Cooperation and Development.<sup>4</sup>

### **Employer and Employee Health Insurance Costs**

- Premiums for employer-based health insurance rose by 5.0 percent in 2008. In 2007, small employers saw their premiums, on average, increase 5.5 percent. Firms with less than 24 workers, experienced an increase of 6.8 percent.<sup>2</sup>
- The annual premium that a health insurer charges an employer for a health plan covering a family of four averaged \$12,700 in 2008. Workers contributed nearly \$3,400, or 12 percent more than they did in 2007.<sup>2</sup> The annual premiums for family coverage significantly eclipsed the gross earnings for a full-time, minimum-wage worker (\$10,712).
- Workers are now paying \$1,600 more in premiums annually for family coverage than they did in 1999.<sup>2</sup>
- Since 1999, employment-based health insurance premiums have increased 120 percent, compared to cumulative inflation of 44 percent and cumulative wage growth of 29 percent during the same period.<sup>2</sup>
- Health insurance expenses are the fastest growing cost component for employers. Unless something changes dramatically, health insurance costs will overtake profits by the end of 2008.<sup>5</sup>
- According to the Kaiser Family Foundation and the Health Research and Educational Trust, premiums for employer-sponsored health insurance in the United States have been rising four times faster on average than workers' earnings since 1999.<sup>2</sup>
- The average employee contribution to company-provided health insurance has increased more than 120 percent since 2000. Average out-of-pocket costs for deductibles, co-payments for medications, and co-insurance for physician and hospital visits rose 115 percent during the same period.<sup>6</sup>
- The percentage of Americans under age 65 whose family-level, out-of-pocket spending for health care, including health insurance, that exceeds \$2,000 a year, rose from 37.3 percent in 1996 to 43.1 percent in 2003 – a 16 percent increase.<sup>7</sup>

### **The Impact of Rising Health Care Costs**

- National surveys show that the primary reason people are uninsured is the high cost of health insurance coverage.<sup>2</sup>

- Economists have found that rising health care costs correlate to drops in health insurance coverage.<sup>8</sup>
- A recent study by Harvard University researchers found that the average out-of-pocket medical debt for those who filed for bankruptcy was \$12,000. The study noted that 68 percent of those who filed for bankruptcy had health insurance. In addition, the study found that 50 percent of all bankruptcy filings were partly the result of medical expenses.<sup>9</sup> Every 30 seconds in the United States someone files for bankruptcy in the aftermath of a serious health problem.
- A new survey shows that more than 25 percent said that housing problems resulted from medical debt, including the inability to make rent or mortgage payments and the development of bad credit ratings.<sup>10</sup>
- About 1.5 million families lose their homes to foreclosure every year due to unaffordable medical costs.<sup>11</sup>
- A survey of Iowa consumers found that in order to cope with rising health insurance costs, 86 percent said they had cut back on how much they could save, and 44 percent said that they have cut back on food and heating expenses.<sup>12</sup>
- Retiring elderly couples will need \$250,000 in savings just to pay for the most basic medical coverage.<sup>13</sup> Many experts believe that this figure is conservative and that \$300,000 may be a more realistic number.
- According to a recent report, the United States has \$480 billion in excess spending each year in comparison to Western European nations that have universal health insurance coverage. The costs are mainly associated with excess administrative costs and poorer quality of care.<sup>14</sup>
- The United States spends six times more per capita on the administration of the health care system than its peer Western European nations.<sup>14</sup>

### **Time for Action on Reining in Health Care Costs**

Policymakers and government officials agree that health care costs must be controlled. But they disagree on the best ways to address rapidly escalating health spending and health insurance premiums. Some favor price controls and imposing strict budgets on health care spending. Others believe free market competition is the best way to solve the problems. Public health advocates believe that if all Americans adopted healthy lifestyles, health care costs would decrease as people required less medical care.

There appears to be no agreement on a single solution to health care's high price tag. Many approaches may be used to control costs. What we do know is if the rate of escalation in health care spending and health insurance premiums continues at current trends, the cost of inaction will severely affect employer's bottom lines and consumer's pocketbooks.

## Notes

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