



FACTS ON HEALTH CARE COSTS

INTRODUCTION

By several measures, health care spending continues to rise at the fastest rate in our history.

In 2005 (the latest year data are available), total national health expenditures rose 6.9 percent -- two times the rate of inflation¹. Total spending was \$2 TRILLION in 2005, or \$6,700 per person⁽¹⁾. Total health care spending represented 16 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 TRILLION in 2015, or 20 percent of GDP².

In 2006, employer health insurance premiums increased by 7.7 percent – two times the rate of inflation. The annual premium for an employer health plan covering a family of four averaged nearly \$11,500. The annual premium for single coverage averaged over \$4,200³.

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 2005, health care spending in the United States reached \$2 trillion, and was projected to reach \$2.9 trillion in 2009⁽²⁾. Health care spending is projected to reach \$4 trillion by 2015⁽²⁾.
- Health care spending is 4.3 times the amount spent on national defense⁴.
- In 2005, the United States spent 16 percent of its gross domestic product (GDP) on health care. It is projected that the percentage will reach 20 percent in the next decade⁽²⁾.
- Although nearly 47 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⁽⁴⁾.
- 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 Development⁵.

¹ Catlin, A, C. Cowan, S. Heffler, et al, "National Health Spending in 2005." Health Affairs 26:1 (2006): 142-153.

² Borger, C., et al., "Health Spending Projections Through 2015: Changes on the Horizon," 22 February 2006.

³ The Henry J. Kaiser Family Foundation. Employee Health Benefits: 2006 Annual Survey. 26 September 2006.

⁴ California Health Care Foundation. Health Care Costs 101 -- 2005. 02 March 2005.



EMPLOYER AND EMPLOYEE HEALTH INSURANCE COSTS

- Premiums for employer-based health insurance rose by 7.7 percent in 2006. Small employers saw their premiums, on average, increase 8.8 percent. Firms with less than 24 workers, experienced an increase of 10.5 percent⁽³⁾.
- The annual premium that a health insurer charges an employer for a health plan covering a family of four averaged \$11,500 in 2006. Workers contributed nearly \$3,000, or 10 percent more than they did in 2005⁽³⁾. The annual premiums for family coverage significantly eclipsed the gross earnings for a full-time, minimum-wage worker (\$10,712).
- Workers are now paying \$1,094 more in premiums annually for family coverage than they did in 2000⁽³⁾.
- Since 2000, employment-based health insurance premiums have increased 87 percent, compared to cumulative inflation of 18 percent and cumulative wage growth of 20 percent during the same period⁽³⁾.
- Health insurance expenses are the fastest growing cost component for employers. Unless something changes dramatically, health insurance costs will overtake profits by 2008⁶.
- 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 2000⁽³⁾.
- The average employee contribution to company-provided health insurance has increased more than 143 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 period⁷.
- 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 increase⁸.

THE IMPACT OF RISING HEALTH CARE COSTS

- National surveys show that the primary reason people are uninsured is the high cost of health insurance coverage⁹.
- Economists have found that rising health care costs correlate to drops in health insurance coverage¹⁰.

⁵ Pear, R. "U.S. Health Care Spending Reaches All-Time High: 15% of GDP." The New York Times, 9 January 2004.

⁶ McKinsey and Company. The McKinsey Quarterly Chart Focus Newsletter, "Will Health Benefit Costs Eclipse Profits," September, 2004.

⁷ Hewitt Associates LLC. Health Care Expectations: Future Strategy and Direction 2005. 17 November 2004.

⁸ Agency for Healthcare Research and Quality. Out-of-Pocket Expenditures on Health Care and Insurance Premiums Among the Non-elderly Population, 2003, March 2006.

⁹ The Henry J. Kaiser Family Foundation. The Uninsured: A Primer, Key Facts About Americans without Health Insurance. 2004. 10 November 2004

¹⁰ Chernew, M. "Rising Health Care Costs and the Decline in Insurance Coverage," Economic Research Initiative on the Uninsured, ERIU Working Paper 8, September 2002.



- Nearly one-quarter (23 percent) of the uninsured reported changing their way of life significantly in order to pay medical bills⁽¹⁰⁾.
- Almost 50 percent of the American public say they are very worried about having to pay more for their health care or health insurance, while 42 percent report they are very worried about not being able to afford health care services¹¹.
- In a poll conducted by the Harvard School of Public Health, 43 percent of respondents named high costs as one of the two most important health care issues for government to address¹².
- In a USA Today/ABC News survey, 80 percent of Americans said that they were dissatisfied (60 percent were very dissatisfied) with high national health care spending¹³.
- One in four Americans say their family has had a problem paying for medical care during the past year, up 7 percentage points over the past nine years. Nearly 30 percent say someone in their family has delayed medical care in the past year, a new high based on recent polling. Most say the medical condition was at least somewhat serious⁽¹³⁾.
- 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 expenses¹⁴. Every 30 seconds in the United States someone files for bankruptcy in the aftermath of a serious health problem.
- One half of workers in the lowest-compensation jobs and one-half of workers in mid-range-compensation jobs either had problems with medical bills in a 12-month period or were paying off accrued debt. One-quarter of workers in higher-compensated positions also reported problems with medical bills or were paying off accrued debt¹⁵.
- If one member of a family is uninsured and has an accident, a hospital stay, or a costly medical treatment, the resulting medical bills can affect the economic stability of the whole family¹⁶.
- 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 ratings¹⁷.

¹¹ The Henry J. Kaiser Family Foundation. Health Care Worries in Context with Other Worries 2004. 04 October 2004.

¹² Blendon, R.J., et al, "Understanding The American Public's Priorities: A 2006 Perspective," Health Affairs Web Exclusive W508, 17 October, 2006.

¹³ ABC News/Kaiser Family Foundation/USA Today, Health Care in America 2006 Survey, October 17, 2006.

¹⁴ Himmelstein, D, E. Warren, D. Thorne, and S. Woolhandler, "Illness and Injury as Contributors to Bankruptcy," Health Affairs Web Exclusive W5-63, 02 February, 2005.

¹⁵ The Commonwealth Fund. Wages, Health Benefits, and Workers' Health. Issue Brief, October 2004.

¹⁶ Committee on the Consequences of Uninsurance. Health Insurance is a Family Matter. Washington, D.C.: The National Academies Press, 2002.

¹⁷ The Access Project. Home Sick: How Medical Debt Undermines Housing Security. Boston, MA, November 2005.

- 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 expenses¹⁸.
- Retiring elderly couples will need \$200,000 in savings just to pay for the most basic medical coverage¹⁹. Many experts believe that this figure is conservative and that \$300,000 may be a more realistic number.

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.

¹⁸ Selzer and Company Inc. Department of Public Health 2005 Survey of Iowa Consumers, September 2005.

¹⁹ Fidelity Investments, Press Release, 06 March 2006.



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