

Health Insurance and Health Care Cost Drivers.

Prepared for the SJR 22 Subcommittee on Health Care and Health Insurance
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Introduction

The Subcommittee has been charged with addressing the rising cost of health care and health insurance. Within that broad mandate is a request to determine why health care costs and health insurance rates are rising at a rate higher than the overall inflation rate. Presumably, if the Subcommittee can conclude why this is occurring, they may also be able to recommend policies to keep the health care related costs from increasing. This paper provides the current inflation percentages historically and as of the latest reporting period as well as an introduction to what is generally considered to be some of the factors contributing to increasing health care costs.

The Consumer Price Index

The Consumer Price Index (CPI), produced by the U.S. Bureau of Labor Statistics, is a measure of the average change in prices over time in a market basket of goods and services. The CPI and the market basket of goods is based on prices of food, clothing, shelter, fuels, transportation, charges for medical services and drugs, and other goods and services that people buy for day-to-day living. Once gathered, the CPI measures price change from a designed reference date, in this case 1982-1984, which equals 100. Percentage increases or decreases are shown as a percentage of 100. For example, an increase of 10% is shown as 110.

Measuring for Medical Care in the CPI

Medical care is one of the major item groups within the CPI and consists of medical care commodities and medical care services. Medical care services is organized into two expenditure categories, professional medical services and hospital and related services. Medical care commodities, comprised of prescription drugs and non-prescription medical equipment and supplies, is the other major component of medical care.¹

The following three tables compare the percentage change in prices between all items and medical care and all items and individual categories of medical care. Percentage changes were chosen for the tables rather than the indices to better represent the statements made in SJR 22.

Medical care rose .3 % in September to a level 4.5% higher than one year ago compared to a 2.6% increase for all items.

¹Publications and news releases prepared by the U.S. Bureau of Labor Statistics provide detailed information related to the Consumer Price Index and can be found online at the following address:
<<http://www.bls.gov/cpi>>.

Table 1: 2001 CPI Percentage increases by month for all items and medical care.

	March	April	May	June	July	August	Sept.	12 mo. ending Sept.
All items	.1	.3	.4	.2	-.3	.1	.4	2.6
Medical Care	.4	.4	.3	.4	.1	.5	.3	4.5

Compiled from U.S. Bureau of Labor Statistics, September 2001 Consumer Price Index.

When extracting the different components of medical care, the September 2001 CPI report shows that charges for hospital and related services increased 6.2% over the previous year. Medical care commodities, which includes prescription drugs and medical supplies, rose .2% between August 2001 and September 2001 to increase to 4.3% from a year ago.

Table 2: Percentage change from September 2001 for Medical Care compared to all items.

	September 2000	August 2001
All Items	2.6	.5
Medical Care	4.5	.2
Medical Care Commodities	4.3	.2
Medical Care Services	4.6	.2
Professional Services	3.6	.1
Hospital and Related Services	6.2	.4

Compiled from U.S. Bureau of Labor Statistics, September 2001 Consumer Price Index.

From a brief, but historical perspective, medical care percentage increases since 1994 began to fall from previous years during the late 1990's to a low of 2.8% in 1997. Starting in 1998, however, the changes increased steadily.

Table 3: Historical Percentage change in CPI for all items and medical care, 1994-2001

	1994	1995	1996	1997	1998	1999	2000	2001
All items	2.7	2.5	3.3	1.7	1.6	2.7	3.4	2.8
Medical Care	4.9	3.9	3.0	2.8	3.4	3.7	4.2	4.8

Compiled from U.S. Bureau of Labor Statistics, September 2001 Consumer Price Index.

What Drives Health Care and Health Insurance Costs?

The acceleration in health insurance premiums and health care costs can be attributed to a

number of factors. While the following list is not exhaustive, it begins to provide policymakers with a sense of the complexity of the problem.² Additionally, some cost factors can be viewed as having a traditional or historic affect on costs, and some can be seen as relatively new contributors or taking on a more prominent role in underlying cost trends.³ Also, these factors represent a national perspective and Montana's health care system may be influenced in different ways.

- ? General price inflation;
- ? New, expensive medical technology, and the demand from consumers that technology be used for treatment and diagnostic purposes;
- ? Pharmaceutical costs related to research, marketing, and utilization of newer and potentially more effective drugs;
- ? Demographic changes witnessed by an aging population;
- ? Heightened pressure from consumers demanding choice in the health care and health insurance marketplace;
- ? Cost-shifting from government payers to private payers;
- ? New insurance underwriting cycle.

Clearly, an aging population, both nationally and in Montana, along with advancements in the pharmaceutical industry and medical technology arena could be considered to be relatively recent contributors to the overall cost of health care and health insurance. It is difficult to imagine a set of policies that state lawmakers could develop that would keep people from growing older or forcing medical researchers from developing the latest advancements in diagnostic equipment or life-saving drugs. Consumers have come to expect improvements in health care and someone must pay the bill.

Recent Trends in Health Care Costs

According to a Milliman USA Health Cost Index report and an analysis of the study released by the Center for Studying Health System Change, hospital inpatient and outpatient spending per

²A review of the literature on health care costs indicates that certain variables contributing to costs include poor quality of care or inappropriate care, fraud and abuse of payment and reimbursement systems, an oversupply of facilities, federal and state regulatory requirement and mandated coverage, etc. However, in each case, there is little agreement as to whether one component is more influential than another, or whether the cost factor should be included at all when determining costs. For the purposes of this paper, the sources that cite similar cost drivers or agree on those cost factors that drive the bulk of the overall health care costs were used.

³*Deja Vu All Over Again: The Soaring Cost of Private Health Insurance and Its Impact on Consumers and Employers*, Joel E. Miller, National Coalition on Health Care, May 2000; *Inflation That's Bad For Your Health*, Rakesh Shankar, April 2001, <www.dismal.com>; *Job-Based Health Insurance in 2001: Inflation Hits Double Digits*, *Managed Care Retreats*, Jon Gabel, et.al, Health Affairs, Vol 20, No. 5; and *Tracking Health Care Costs*, Center for Studying Health System Change, Data Bulletin No. 21- Revised, September 2001.

capita increased in 2000 by 2.8% and 11.2% respectively.⁴ Prescription drug per capita spending dropped slightly from 18.4% to 14.5% during the same period. Spending for all services rose 7.2%. In data collected through March of 2001(covering a 12-month period) the percent change for each component, with the exception of physician spending, is increasing. The following table reflects the annual per capita spending trends.

Table 4: Annual Change per Capita in Health Care Spending, by Component 1998-2001.

Year	Inpatient	Outpatient	Physician	Rx	All Services
1998	-.6%	7.9%	4.8%	14.1%	5.3%
1999	1.6	8.9	5.7	18.4	7.1
2000	2.8	11.2	4.8	14.5	7.2
2001	3.5 ^a	12.5 ^a	4.8 ^a	15.2 ^a	7.7 ^a

Compiled from Tracking Health Care Costs, Data Bulletin No. 21 - Revised, September 2001.

^a Data through March 2001, change from corresponding months in 2000.

Finally, the study reports an increase in payroll costs and that pressures from understaffing in hospitals, particularly among nursing staff, contributed to higher hourly wage growth during the first five months of 2001.⁵

In February 2001, the Center for Studying Health System Change released a report detailing their initial findings from a series of community site visits to assess changes and trends in health care markets.⁶ Researchers concluded that several developments have occurred over the last few years, including:

- ? Managed care has been losing its power to control costs;
- ? Hospital consolidation increases leverage against health plans;
- ? Increased tension between providers and hospitals; and
- ? Employers have largely absorbed premium increases.

Focusing, for the time being, on health insurance price increases, employees with employer-sponsored health insurance plans were largely insulated by the increase in premiums due to their employers' willingness to absorb costs in a tight labor market. As the nation's economy slows,

⁴*Tracking Health Care Costs*, Center for Studying Health System Change, Data Bulletin No. 21-Revised, September 2001.

⁵*Tracking Health Care Costs*, Center for Studying Health System Change, Data Bulletin No. 21-Revised, September 2001.

⁶*Back to the Future? New Cost and Access Challenges Emerge*; Center for Studying Health System Change, Issue Brief No. 35, February 2001.

unemployment levels rise, and employers look critically at the bottom line, more of the effects of the cost increases could be borne by employees.

Conclusion

Ultimately, all this paper has done is to present information that the Subcommittee intuitively realizes. Health care costs and health insurance costs have increased over time, and in some cases significantly over the previous few years. Also, this paper references cost-driving factors that have been present historically in the health care system and the entry of new cost factors. While there is evidence that cost containment efforts implemented in the past were successful in slowing the increases, it is difficult to determine whether redesigning those policies will have a similar effect today and on into the future. Furthermore, the Subcommittee and future Legislators also recognize that certain factors contributing to health care and health insurance costs are beyond their control. That said, the Subcommittee may be able to draw some conclusions from the information presented and proceed to uncover why certain components of the health care system cost what they do, and recommend policies that contain the increases.