

**EXECUTIVE OFFICE OF THE PRESIDENT**



**The Burden of Health Insurance Premium Increases on  
American Families**

**SEPTEMBER 22, 2009**

Health insurance premiums for American families continue to skyrocket. A report released by the Kaiser Family Foundation (KFF) on September 15<sup>th</sup>, reported that the average annual family premium for employer-sponsored health insurance rose to \$13,375 in 2009.<sup>1</sup> This represents an increase of 5.5 percent increase in premiums for families in the past year when inflation actually fell by 0.7 percent.

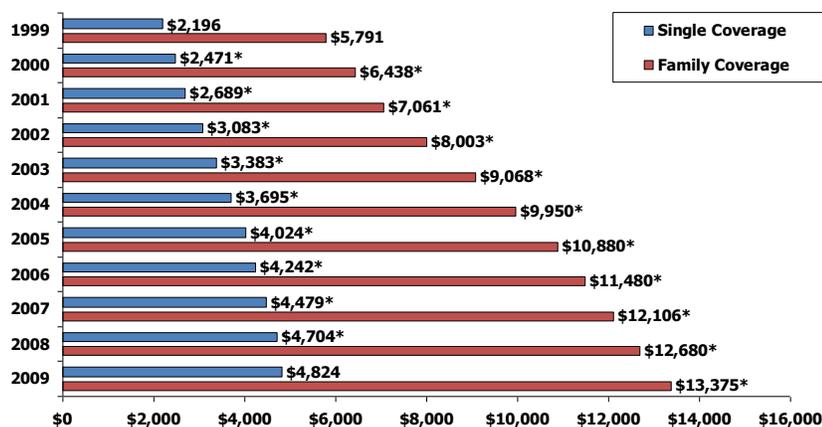
The unrelenting upward trend in health care premiums is evident at the state level as well. Health insurance premiums are highly variable across the country, with states experiencing premium growth of between 90% to nearly 150% over the past decade. These differences lead to inequities for families and businesses as well as underlying differences in the uninsured across states. However, across all states, the rise in health insurance premiums is burdening families and threatening our economy. In every state, premiums have increased faster than wages and in every state, family budgets are consumed by an increasing share of healthcare premiums.

This report looks at trends in premiums for American families over the last decade at the state and national level. Additionally, it reviews some recent actions by State Insurance Commissioners to rein in unwarranted premium increases.

## NATIONAL TRENDS

According to the Kaiser/HRET survey, the average cost of a family health insurance policy increased from to \$13,375 in 2009; up from \$12,680 in 2008 (Exhibit 1). This 5.5% increase came at a time when, amidst the worst recession since the Great Depression, inflation was actually negative.

Exhibit 1  
**Average Annual Premiums for Single and Family Coverage, 1999-2009**



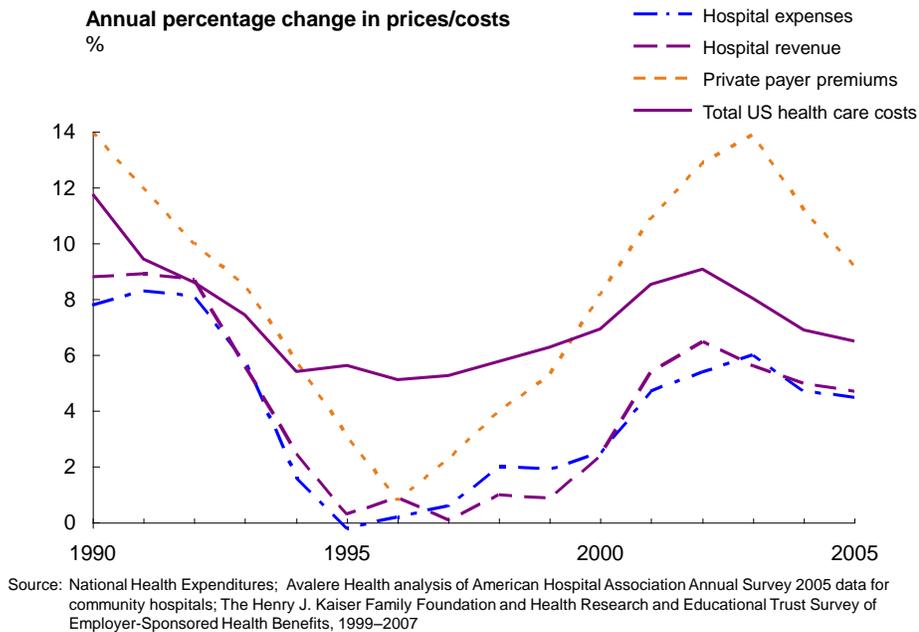
\* Estimate is statistically different from estimate for the previous year shown (p<.05).

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2009.

<sup>1</sup> Kaiser/HRET Employer Health Benefits 2009 Annual Survey available at [www.kff.org/insurance/7936/index.cfm](http://www.kff.org/insurance/7936/index.cfm)

Over the last decade, premiums have outpaced wages and inflation by a large amount. Over this same period, wages have risen by 38 percent and inflation by 28 percent. As a result, health insurance premiums are consuming ever-increasing portions of family budgets. Health insurance premium increases are also driving up the prices of products as employers pass along their portions of premium increases and reducing the competitiveness of U.S. companies. Consumers ultimately bear the brunt of costs as increases in hospital, physician, drug, and health plan spending are all passed down the value chain to American families, employers, and the government who pay the bills (Exhibit 2).

Exhibit 2  
Health care cost inflation is passed along the value chain



## REGIONAL TRENDS

Health premium increases have been rising across all regions of the country. Over the past year, increases across the country have been uneven (Exhibit 3). Premiums have risen by 8% in the South compared to 3% in the Northeast. According to the Kaiser/HRET report, total premiums are more than \$1,000 lower in the West compared to the highest cost Northeast region. Finally, families endured higher premium increases than single workers.

**Exhibit 3**  
**Average Annual Premiums for Covered Workers by Region,**  
**2008-2009**

	2009 Premiums		Percent increase in premiums	
	<i>Single Coverage</i>	<i>Family Coverage</i>	<i>Single Coverage</i>	<i>Family Coverage</i>
<b>ALL PLANS</b>				
Northeast	\$4,989	\$14,084	-1%	3%
Midwest	4,834	13,498	2%	5%
South	4,740	13,193	5%	8%
West	4,808	12,915	3%	5%
<b>ALL REGIONS</b>	<b>\$4,824</b>	<b>\$13,375</b>	<b>3%</b>	<b>5%</b>

**STATE TRENDS**

As indicated by the regional trends, healthcare premiums are highly variable across the country (Exhibit 4). Over the past decade, premium growth has ranged from 88% in Michigan to 145% in Alaska.<sup>2</sup> These differences lead to significant inequity for families and businesses and contribute to underlying differences in the uninsured across states. In every state, premiums have increased faster than wages.<sup>3</sup> In every state, family budgets are consumed by an increasing share of healthcare premiums.

**Exhibit 4**  
**Comparison of Employer-Sponsored Insurance**  
**Family Premium Growth to Wage Growth**  
**1999-2009**

<b>State</b>	<b>Premium Growth (%)</b>	<b>Wage growth (%)</b>
Alaska	145	35
Oregon	139	39
Indiana	136	42
Connecticut	135	55
District of Columbia	133	46
Delaware	132	42
Arizona	132	45
Wyoming	130	55
Washington	129	46

<sup>2</sup> Premium data obtained from the Center for Financing, Access and Cost Trends, AHRQ, Medical Expenditure Panel Survey - Insurance Component, 1999, Table II.D.1 and the Center for Financing, Access and Cost Trends, AHRQ, Medical Expenditure Panel Survey - Insurance Component, 2008, Table X.D. Premiums for 2009 were projected from 2008 based on Centers for Medicare and Medicaid Services, "National Health Expenditure Data."

<sup>3</sup> Wage data is from NBER extracts of MORG and available at <http://www.nber.org/more/annual>.

Minnesota	128	48
Tennessee	126	49
West Virginia	123	39
Rhode Island	122	38
Florida	121	43
Maine	120	35
Alabama	119	40
Iowa	119	45
Massachusetts	119	35
New Hampshire	119	45
Nebraska	118	53
California	118	44
New Mexico	118	50
Arkansas	117	32
North Carolina	117	36
South Carolina	116	39
Vermont	114	38
Colorado	114	46
Georgia	113	39
Utah	113	44
Mississippi	112	46
Missouri	112	46
Kentucky	111	42
Pennsylvania	110	50
Montana	110	44
Virginia	109	41
Wisconsin	108	30
Ohio	108	40
Hawaii	107	37
Kansas	105	39
New York	105	44
South Dakota	104	33
Illinois	103	45
North Dakota	101	37
Texas	100	41
Nevada	97	43
Maryland	96	44
Oklahoma	96	47
Idaho	96	43
New Jersey	95	38
Louisiana	89	44
Michigan	88	52

## **ACTIONS BY STATE INSURANCE COMMISSIONERS TO REDUCE PREMIUM GROWTH**

Large and uneven premium cost growth across states underscore the need for national health insurance reform. Effective reforms and insurance regulation will help curb excessive premium cost growth for the millions of Americans. If the status quo persists, we will continue to

experience unsustainable increases in family premiums and large disparities across states and declines in the number of employers who offer coverage to their workers. According to a recent report by the U.S. Department of Treasury, nearly 50% of Americans will go without coverage at some point over the next decade without comprehensive health insurance reform.<sup>4</sup>

According to Census data, more than 1 in 5 non-elderly adults were uninsured in 2008 and there have been massive reductions in the percent with private health insurance. The fraction of U.S. residents with private health insurance fell by 6 percentage points from 2000 to 2008 (Exhibit 5). This imposes costs on those with coverage by increasing their premiums by a hidden tax of about \$1,000.

**Exhibit 5**  
**Distribution of Types of Health Insurance Coverage among U.S. Residents**  
**In 2000, 2007, and 2008 (percentage)**

Type of Health Insurance	2000	2007	2008	Change 2000-08	Change 2007-08
Any Private Plan	72.6	67.5	66.7	-5.9	-0.8
<i>Employment-Based</i>	64.2	59.3	58.5	-5.7	-0.8
<i>Direct-Purchase</i>	9.6	8.9	8.9	-0.7	0.0
Any Government Plan	24.7	27.8	29.0	+4.3	+1.2
<i>Medicare</i>	13.5	13.8	14.3	+0.8	+0.5
<i>Medicaid/CHIP</i>	10.6	13.2	14.1	+3.5	+0.9
<i>Military Health Care</i>	3.3	3.7	3.8	+0.5	+0.1
Uninsured	13.7	15.3	15.4	+1.7	+0.1

Note: Numbers represent percentages of U.S. residents in each year. Some individuals report coverage from multiple sources.

Effective health insurance regulation by State Insurance Commissioners has helped to reduce unjustified premium growth in many states; particularly in the individual and small group markets. In determining premium rates, insurers take into account prior claims experience, rising health care costs, new technologies, administrative costs, and profit margin. In some markets, ineffective competition, particularly for individuals and small groups, has led to premium increases that are unfair and unwarranted. For example, some insurers choose to under price

<sup>4</sup> Treasury report, “The Risk of Losing Health Insurance Over a Decade: New Findings from Longitudinal Data” available at: <http://www.treas.gov/press/releases/docs/final-hc-report092009.pdf>

their products to gain market share only to demand high rate increases later. Others exercise market power to increase premiums and profits.

These concerns have led several states to impose rate review regulatory measures in order to make sure that insurance companies are not unfairly or excessively increasing their premiums. The following are examples of recent requests for insurance company rate hikes that were not approved by state commissioners:

- **Maine:** Anthem Blue Cross Blue Shield asked for an 18.5% premium increase in 2008, which was rejected by the State Insurance Commissioner as being “excessive and unfairly discriminatory.” The rate increase would have increased profit margins by 3%, citing recent losses on its individual products as the reason, when in fact they had gains of 5% in 2007 and 3% in 2008. Ultimately, rates were increased by 10.9%.<sup>5</sup>
- **Washington:** Washington had a prior approval process in place from the early 1990s until 2000. It was repealed in 2000 and premiums rose steeply after that. In 2007, Regence Blue Shield hit policyholders in the individual market with as much as a 40% rate increases, even though this plan was one of 3 major insurance carriers that together netted surpluses of more than \$2 billion that year. After this experience, Washington State has recently returned oversight of the individual insurance market to the Insurance Commissioner.<sup>6</sup>
- **Rhode Island:** In 2009, Blue Cross Blue Shield of Rhode Island, Tufts Health Plan, and UnitedHealthcare requested a rate increase of 13-16%. The Commissioner told the insurers to withdraw its rate increase, stating that the increase was unaffordable for the state and would be burdensome on employers.<sup>7</sup>

## CONCLUSION

Health insurance premiums continue to rise for American families. Premiums are rising in all states and far in excess of wage growth or inflation. If we do nothing, the soaring rise of health insurance premiums will mean that millions of families and businesses will be unable to afford these increases and will lose their coverage over the coming years. For families that manage to keep their health insurance, health costs will consume an increasingly large portion of their budgets.

To control the rising costs of health insurance premiums, health insurance reform is essential this year. Health insurance reform will increase stability and security for all Americans by holding insurance companies accountable. Stability and security will be accomplished by the establishing the following rights for all Americans:

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<sup>5</sup> Story available at: [http://www.state.me.us/pfr/insurance/hearing\\_decisions/09-1000.htm](http://www.state.me.us/pfr/insurance/hearing_decisions/09-1000.htm)

<sup>6</sup> Story available at: [http://www.seattlepi.com/local/349344\\_insurance31.html](http://www.seattlepi.com/local/349344_insurance31.html)

<sup>7</sup> Information available at:

[http://www.ohic.ri.gov/documents/Insurers/rate%20filing%20withdrawal%20letters/4\\_Press%20release%20rate%20factor%20withdrawal.pdf](http://www.ohic.ri.gov/documents/Insurers/rate%20filing%20withdrawal%20letters/4_Press%20release%20rate%20factor%20withdrawal.pdf)

1. No Discrimination for Pre-Existing Conditions
2. No Exorbitant Out-of-Pocket Expenses, Deductibles or Co-Pays
3. No Cost-Sharing for Preventive Care
4. No Dropping of Coverage for Seriously Ill
5. No Gender Discrimination
6. No Annual or Lifetime Caps on Coverage
7. Extended Coverage for Young Adults
8. Guaranteed Insurance Renewal

Fair access to affordable insurance will be ensured by the elimination of individual underwriting rules. Insurance companies will not be allowed to discriminate based upon health status or gender. Additionally, insurance companies will not be allowed to charge prohibitively high prices to high-risk individuals or drop coverage if a person gets sick. Health insurance reform significantly improves the current system, in which a person who is diagnosed with a new illness can see their insurance premiums go up by as much as 50% or cancelled the following year. Insurance market reforms will further improve stability by eliminating yearly and life-time limits on how much insurance companies cover if you get sick.

Together, these reforms create peace of mind and the stability and security that Americans need and deserve, especially in our current tough economic times.