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Press Release

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Health Insurance Premium Growth Slows Despite Increased Utilization, Higher Costs

New report estimates factors impacting 8.8% health insurance premium growth in 2005; Drug cost trend reduced as new health insurance plans' efforts take effect; Medical liability and defensive medicine contribute to 10% of medical costs

(Washington, DC) – Health insurance premiums are growing at a reduced rate, despite increased utilization and higher costs, while health insurance plans' efforts are easing drug cost increases, a new report released today finds.

Prepared by PricewaterhouseCoopers (PwC) on behalf of America's Health Insurance Plans (AHIP), "The Factors Fueling Rising Healthcare Costs 2006" examines the causes of rising health care costs and analyzes how health insurance premium dollars are being spent.

The study found that premiums increased 8.8 percent between 2004 and 2005, which is 36 percent lower than the 13.7 percent increase a similar report found in 2002.

Higher utilization of services accounted for 43% of the increase, fueled by factors such as increased consumer demand, new and more intensive medical treatments and defensive medicine, as well as aging and unhealthy lifestyles. Price increases in excess of inflation accounted for 30% of the increase and were impacted by movement among purchasers to broader-access health plans, provider consolidation, increased costs of labor and higher priced technologies.

The report found that 86 cents out of every premium dollar go directly towards paying for medical services. Embedded within the 86 cents are the costs of medical liability and defensive medicine, which are estimated to be ten cents of the premium dollar. The report also breaks down the extent to which each major utilization service is being affected by medical liability and defensive medicine.

Of the remaining premium dollar, five cents go to consumer services such as prevention, disease management, care coordination, investments in health information technologies and health support; provider support; and marketing. Six cents go to costs associated with government payments, regulation and claims processing and other administration. Health insurance plan profits comprise three cents of the premium dollar.



The report found that physician spending accounts for 24 cents of the premium dollar and that it increased by 7.8 percent in 2005. Hospital inpatient spending amounts to 18 cents of the premium dollar and grew at a rate of 7.5 percent.

Twenty-two cents of the premium dollar go to outpatient spending, which grew at the rate of 13.6 percent. The report noted that "This rapid and steady growth in outpatient diagnostic testing is in part driven by the practice of defensive medicine."

The study found that prescription drugs account for 16 cents of the premium dollar and that drug spending increased 8.6 percent, compared to the double-digit jumps of recent years. The report credited health insurance plans' prescription benefit tools and techniques with helping to slow drug spending.

The report also found that "Premium increases very closely follow healthcare spending increases over time. Over the most recent ten-year period (1993-2003) for which data are available, premiums grew at an annual rate of 7.3 percent, while the cost of healthcare services grew at an annual rate of 7.2 percent."

While noting systemic challenges that put upward pressure on costs, the study found promise in emerging programs. "Current health plan trends to promote provider pay-for-performance, transparency, consumer engagement, and healthy lifestyles have the potential to mitigate future cost increases and address some root cost drivers. Still other efforts to appropriately assess the emergence of new technologies and public reporting of quality measures across all members of the healthcare community would improve accountability throughout the healthcare system," the report concluded.

"This new report demonstrates that health insurance plans' new tools are helping to make medicines more affordable for consumers and are playing a role in holding down health care premiums. Our members are also working with physicians, consumers and purchasers to build consensus around how to measure quality, which will help move us to an evidence-based system," said Karen Ignagni, AHIP President and CEO. "The medical malpractice system continues to hold back the transition to safer and more effective care, while saddling consumers and purchasers with needless costs. The report also shines a spotlight on the need to pair our country's research capability with a commitment to evaluating the safety, efficacy and cost-effectiveness of new technologies so that doctors and patients can know whether new treatments work better than existing therapies," Ignagni said.

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