



## **The Impact of Rising Health Costs on the Economy**

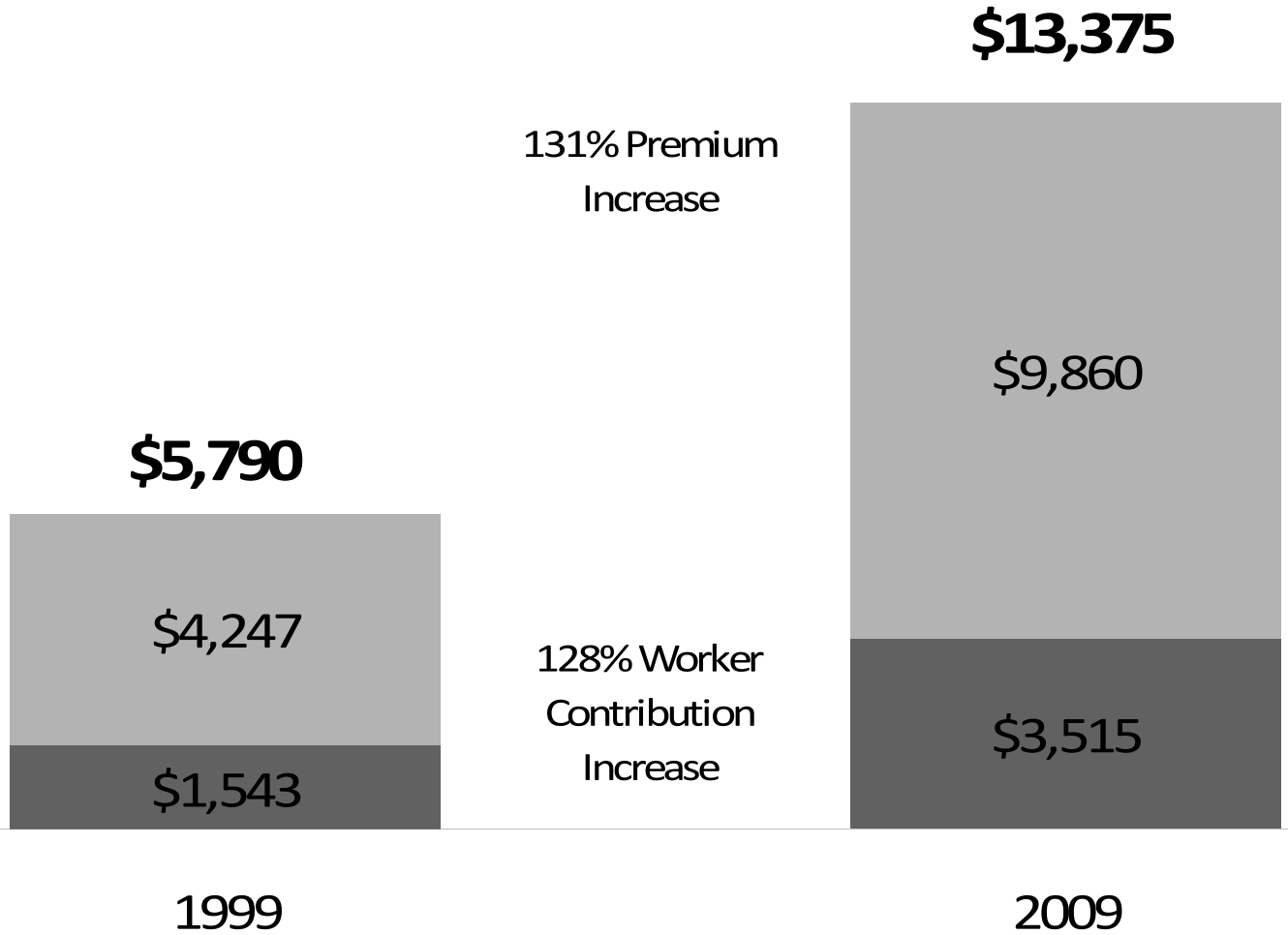
### ***EFFECTS ON BUSINESS OPERATIONS***

The cost of health care is surging at extraordinary rates. As a result, over the past nine (9) years, health insurance premiums for businesses have increased nearly five times faster than inflation and four times faster than wage growth. For 21 percent of workers, employers are now paying at least \$16,000 for family coverage for one household.<sup>1</sup>

Figure 1

# Average Health Insurance Premiums and Worker Contributions for Family Coverage, 1999-2009

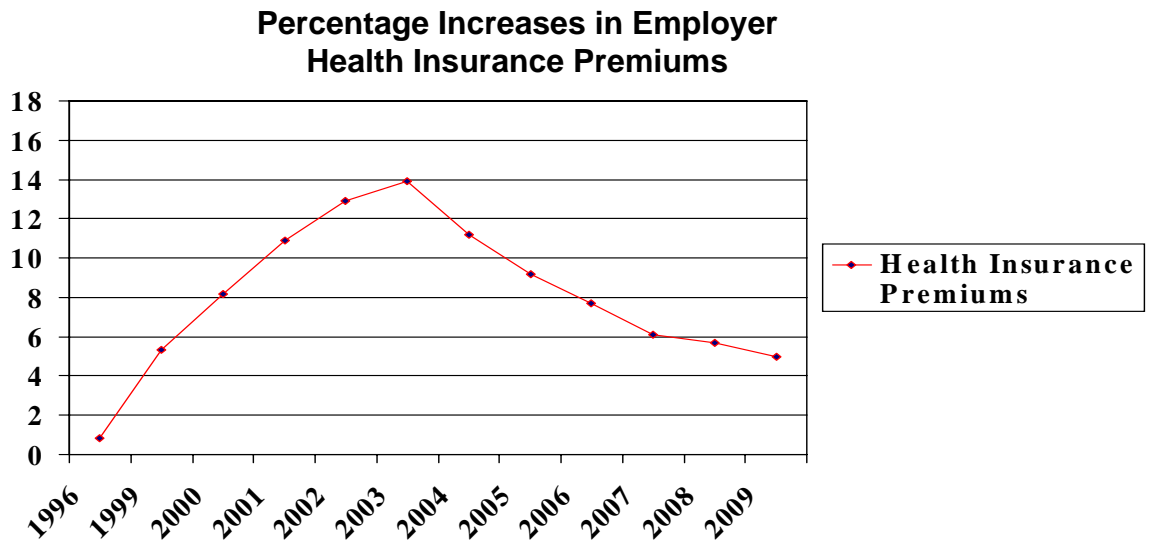
■ Worker Contribution    ■ Employer Contribution



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

Premiums for employers have grown by 131 percent since 1999 and have been rising above and beyond salaries and inflation consistently year after year (See Figure 1) -- making it more difficult for businesses to continue to provide health coverage for employees and retirees<sup>1</sup>. (see Figure 2)

Figure 2



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999-2008; KPMG Survey of Employer-Sponsored Health Benefits: 1993, 1996; The Health Insurance Association of America (HIAA): 1988, 1989, 1990; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 1988-2005; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey (April to April), 1988-2005.

It is becoming clear to many companies that at current rates, their health insurance expenses will outpace profits in 2009<sup>2</sup>.

**Rapidly escalating health insurance premiums are having a profound impact on business operations:**

- **The surge in health care spending over the last five years is a drag on economic growth.**

By cutting into operating margins, high health insurance premium costs are reducing the capacity of businesses to grow by investment in research, capital spending, product development, and marketing.

- **High health insurance costs slow the rate of job growth by making it more expensive for firms to add new employees or retain existing employees.**

Larger firms during this period of high health insurance inflation have been reluctant to add new jobs. Smaller firms have been experiencing larger annual increases in premiums over the last five years (15-20% annual jumps) compared to large companies, making it more difficult to create new jobs<sup>1</sup>. Health insurance costs are the fastest-growing business expense for companies.

- **Escalating health insurance premiums suppress wages.**

Health insurance premiums for employers increased 131 percent between 1999 and 2008, compared to wages which have increased by only 38 percent during the same period and inflation which increased 28 percent<sup>1</sup>.

- **American manufacturers are finding it increasingly difficult to compete with foreign companies.**

Due to high and rising health insurance premiums, businesses find themselves in a competitive disadvantage with foreign competition that have operations in countries with universal health insurance programs for their citizens and slower health care cost inflation. Over \$1500 is tacked on to each and every car and truck that General Motors makes because of health care costs<sup>3</sup>.

- **Other American corporations are feeling the impact of escalating health insurance premiums.**

Starbucks reports that annually they spend more on health insurance than they did to buy the raw materials to produce the coffee they sell<sup>4</sup>.

**Businesses are feeling the impact of rising health care costs in subtle, but significant ways:**

- **Employers are paying the added cost for treating the uninsured when hospitals and doctors provide medical care to patients who have no health insurance.**

A recent study reported that costs for family health insurance coverage provided by private sector employers include an extra \$1000 annually in insurance premiums due to the cost for the uninsured population<sup>5</sup>.

- **Lack of insurance generates losses to businesses due mainly to lower productivity of the uninsured (and, on average, less healthy and functional) workers.**

The HR Policy Association, which represents senior human resources officers at 200 of the nation's largest companies, puts the annual cost of reduced productivity alone at between \$87 billion and \$126 billion<sup>6</sup>.

The Institute of Medicine (IOM) estimates that the economic value of the healthier and longer life that an uninsured adult forgoes because he or she lacks health insurance could be as much as \$3300 for each additional year spent without coverage. The IOM projects that the annualized cost of the diminished health and shorter life spans of Americans who lack health insurance reaches nearly \$135 billion for each year of health insurance forgone<sup>7</sup>.

The rapid and continuing escalation in health insurance premiums across employers makes it impossible for one organization or any segment of our society to have an impact on controlling health care costs. The problem is too large and it is getting worse. We need health care reform where all Americans have health coverage which will reduce cost shifting to private purchasers. We also need a national cost management strategy whereby average annual percentage increases in health care costs and insurance premiums are brought into alignment with increases in national economic growth.

Health care reform also involves cost management strategies that incorporate a mix of more and better information and incentives for patients, providers, and purchasers to control the rate of escalation in health care expenditures. Additionally, we need a national commitment for improving the quality and outcomes of medical care.

Health care reform makes economic sense. The nation, businesses, and families can save billions of dollars every year if a comprehensive, integrated strategy for health care reform is implemented.

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## Notes

1. The Henry J. Kaiser Family Foundation. *Employee Health Benefits: 2009 Annual Survey*. September 2009.  
<http://www.kff.org/insurance/7672/upload/EHBS-2007-Full-Report-PDF.pdf>
2. McKinsey and Company. *The McKinsey Quarterly Chart Focus Newsletter*, "Will Health Benefit Costs Eclipse Profits," September 2004.
3. Appleby, J and S. Carty, "Ailing GM Looks to Scale Back Generous Health Benefits," *USA Today*, 24 June 2005.
4. Speech by Howard Schultz, President and Chief Executive Officer of Starbucks at the Robert Wood Johnson Foundation "Cover the Uninsured Briefing," April 25, 2005.
5. Families USA. *Paying a Premium: The Added Cost of Care for the Uninsured*, June 2005.
6. <http://www.hrpolicy.org/publications/>
7. Institute of Medicine. Hidden Costs, Value Lost – Uninsurance in America. *The National Academies Press*, 2003.

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