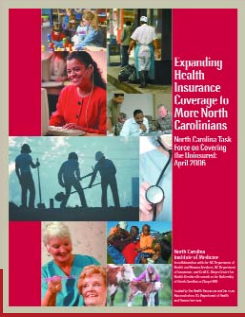

Fact Sheet

Covering the Uninsured

Expanding Health Insurance Coverage to More North Carolinians

April 2006

Rising Healthcare Costs

The increasing cost of health insurance premiums is the primary reason for growth in the number of uninsured North Carolinians.[1] ***Most of the increase in health insurance premiums is due to the growth in the underlying costs of healthcare.*** Expenditures for healthcare have increased for a variety of reasons, including the use of more services, higher prices for some services, and changes in overall disease prevalence.[2,3,4]

Healthcare provided in hospital settings is a major driver of the increase in healthcare costs. Between 1990 and 2000, hospital spending increased 104% in North Carolina and accounted for 35% of the increase in personal healthcare spending.[5] The increase in hospital expenditures is due primarily to an increase in cost of services rather than an increase in utilization. On a population basis, North Carolinians are spending less time admitted as inpatients than a decade ago. By contrast, the cost per day, or per admission, spent in the hospital is escalating because there are more services, treatments, and procedures provided to patients once they enter the hospital. Costs for hospital outpatient care are also increasing, as the result of both higher utilization and higher prices.[6] This increase is a reflection of more services and procedures that are safe to be performed on an outpatient basis and is related to the decrease in inpatient care.

Greater availability and use of technology is also a significant healthcare cost driver.[7] Imaging has been one of the most significant technological advances in medical care. The availability of freestanding magnetic resonance imaging (MRI) and computed tomography (CT) scans have been found to be associated with higher utilization and spending on these services. While a diagnosis may be more accurate, the cost associated with determining that diagnosis is higher.

Another driver of healthcare costs is increasing use and prices of prescription drugs. National data show that prescription drug expenditures increased 47% between 2000 and 2003.[5] Between 1990 and 2000, prescription drug spending increased 250% in North Carolina and accounted for 16% of total growth in personal healthcare expenditures. The increase in prescription drug spending is due both to rising costs per prescription, and an increased number of prescriptions filled.[6] New medicines introduced into the market also played a major role in the increase in healthcare spending. However, not all of the increased spending on pharmaceuticals was for drugs that offer clinical improvement.[8]

When increases in healthcare costs are examined by disease category, one study shows that ***almost one third of the increase in national healthcare spending between 1987 and 2000 was attributable to the treatment of five major health problems: heart disease, mental disorders, pulmonary disorders, cancer, and trauma.*** Approximately half of the increase in healthcare spending was attributable to 15 conditions. In some cases, the costs per treated case increased, while in others, the treated prevalence led the spending increase. Increases in the total population also accounted for between 19% and 40% of the increases for each of the top 15 conditions.[9]

Certain lifestyle choices and lifestyle-related illnesses contribute to these healthcare problems. For example, smoking, heavy drinking, and obesity can lead to chronic health problems and increased healthcare costs. Obese people have a higher risk of developing health problems, such as diabetes, hypertension, and heart disease. ***One study found that obesity increased healthcare and medication costs by 36% and 77%, respectively, compared to someone with a normal weight.*** Current or past smoking also increases healthcare service costs by 21% and medication costs by 28-30%. Table 1 outlines increased inpatient and ambulatory costs per year for individuals with such lifestyle conditions, compared to the average person without those conditions.[10]

These healthcare cost increases have fueled a dramatic rise in employer-sponsored insurance premiums since the 1980s. Between 2000 and 2004, health insurance premiums increased 65%. This rate was much faster than general inflation (9.7%) and wage growth (12.2%).

Many employers have shifted healthcare costs to employees through increased premiums and out-of-pocket expenses, such as deductibles and copayments. For example, one study reported that employers increased the employee share of individual premiums by 82% between 2000 and 2005, including a 67% increase in the employees' share of family coverage.[11] One fifth of all employers are now offering high deductible health plans, which have at least a $1,000 deductible for individual or $2,000 deductible for family coverage. Employers have also tried to tie increased cost sharing to the services with the greatest increases in unit cost and utilization, such as hospitalizations and prescription drugs. Half of all employees are now subject to hospital-specific deductibles, and 90% of employees have multi-tier cost sharing for prescription drugs (paying higher co-pays for preferred or nonpreferred brand-name drugs compared to generic drugs). Employers are also trying to control costs by managing high-cost claims through disease or case management programs. More than 80% of covered workers are in a plan that uses case managers to manage high-cost claims, and more than half are in plans that offer disease management.

Although the charge to the NC Institute of Medicine Task Force on Covering the Uninsured was to develop health insurance options for the uninsured, the Task Force recognized the need to reduce overall healthcare spending. Without meaningful cost containment efforts, healthcare costs will continue to increase, leading to more uninsured individuals. Therefore, the Task Force developed proposals to reduce healthcare premiums through reduced benefit packages and more consumer cost sharing. There was also a focus on primary care and preventive services to diagnose and treat patients in the least costly healthcare setting. Many of the Task Force proposals also included disease and case management initiatives to help people with high-cost health conditions better manage their health. Additionally, several Task Force proposals included healthy lifestyle incentives to reduce future program costs.

Table 1
Increased inpatient and ambulatory costs per year, by lifestyle condition

Lifestyle Condition	Medical Costs per Year	Number of NC Adults with Condition	Total Statewide Adult Inpatient and Outpatient Medical Cost
Obesity	$395	1.6 million	$626 million
Current or ever smoking	$230	2.9 million	$662 million
Problem drinking	$150	201,000	$30 million

Source: Medical Costs per year: Sturm R. The effects of obesity, smoking and drinking on medical problems and costs. Health Affairs 2002;21(2):245-253. Number of NC Adults with condition: State Center for Health Statistics. Behavioral Risk Factor Surveillance Survey 2003. Division of Public Health, NC Department of Health and Human Services. Raleigh, NC. Available at http://www.schs.state.nc.us/SCHS/brfss/2003/. Accessed January 31, 2005.

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This issue brief is one in a series, produced as part of North Carolina's "State Planning Grant" effort, led by the NC Department of Health and Human Services, to examine options to expand health insurance coverage to the uninsured. The State Planning Grant supported a Task Force on Covering the Uninsured, which brought together stakeholders from a variety of interest groups to examine these issues and develop a set of recommendations for improving healthcare coverage across the state. Collaborating organizations include: the NC Department of Insurance, Cecil G. Sheps Center for Health Services Research at The University of North Carolina at Chapel Hill, and North Carolina Institute of Medicine. The State Planning Grant was funded by the Health Resources and Services Administration of the US Department of Health and Human Services. For other issue briefs or a copy of the final report of the *NC IOM Task Force on Covering the Uninsured*, visit the NC IOM website at: http://www.nciom.org.

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