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Health premiums increase because of more utilization

A 13.6% bump in outpatient costs contributed a large portion of last year's 8.8% health insurance premium increase, although multi-tiered pharmaceutical benefits and generic drugs have managed to hold down that rise, according to a report released Monday by America's Health Insurance Plans and PricewaterhouseCoopers.

The report, titled "The Factors Fueling Rising Healthcare Costs 2006," is an update of one published in 2002. In the latest study, researchers attributed more than 40% of the premium hike to increased utilization of services, a finding bolstered by the spending growth in outpatient costs, among other things. In fact, 7.2% of that outpatient spending growth comes from utilization, compared to 2.4% from general inflation and 2% from price increases in excess of inflation.

Spending growth in other components of health care, though not as great, still is sizable, ranging from 7.3% for miscellaneous medical services to 8.6% for prescription drugs, and includes physician and hospital inpatient services. All of these factors add up to 86% of the health insurance premium; the remaining 14% comes from administrative services.

According to the report, PwC analysts' chalk this utilization growth up to increased consumer demand, new medical treatments and more intensive testing because of malpractice worries, as well as an aging population and increasingly unhealthy lifestyles.