Why Workers Continue to Face High Health Costs Despite Slowing Employer Insurance Cost Growth

This is *New Directions in Health Care*, The Commonwealth Fund's podcast, and as the nation debates whether to replace or amend the Affordable Care Act, we'll look at trends in health insurance provided by employers. Fifty-seven percent of adults under the age of 65 get coverage through their job—a benefit companies have kept since the passage of the ACA:

"There was this expectation that because people would have access to subsidized health insurance coverage through the marketplaces and the Medicaid expansion, that employers might feel less obligated to offer insurance to their employees."

That's Sara Collins, Vice President for Health Care Coverage and Access at The Commonwealth Fund. She and her colleagues studied the health insurance landscape before and after the Affordable Care Act and affirmed that job-based coverage has been steady.

"The number of Americans with coverage through a job, either their own or a family member has stayed relatively constant since 2010."

What's more, new federal requirements did not produce a spike in the cost of insurance.

"There was a lot of expectation that some of the requirements of the Affordable Care Act for employers—like allowing young adults to stay on their parents' policies, requiring employers to cover preventive care services with no copays was going to lead to an increase in the cost of employer health plans—an increase in the premiums people in those plans pay, and what we've found in this analysis was that the premiums in employer health plans grew more slowly on average in the five years following passage of the Affordable Care Act than they did in the five years prior in 33 states and the District of Columbia."

Many companies struggled with the expense of covering their workers. Phil McKalips is a safety engineer in central Virginia.

"I used to work at a private company, and I was part of the management team, and we were involved in this health care issue, and it was every year or at least every other year you were looking at double-digit increases. The original goal had always been that the company would cover your insurance. We wanted it to be a nice family team kind of thing, and then that just became untenable."

Today McKalips opts for a high deductible—$3,500—to cut his monthly premium for a family policy from $600 to $300 a month. Sara Collins says he's not alone.

"The number of employer plans requiring deductibles as well as the size of those deductibles has grown significantly over the last decade. In 2015, 85 percent of single person health plans had deductibles, and this is compared with 66% in 2006. Higher deductibles really are the norm in employer plans. Nationally the average single person plan deductible was $1,500 in 2015, and this is more than double the average of $700 in 2006."

Jon Gabel has also been tracking trends in employee policies since 1987.

"As I recall premiums at that time were about $80 a month. Now they are for single coverage, they're over $500 a month. Since 2000, the cost of employer-based health insurance has increased over 100 percent."

A senior fellow at NORC—a non-profit research center at the University of Chicago—he sees many factors contributing to higher premiums and deductibles—chief among them, the rising cost of medical claims.

"Health economists would say that probably the major factor is technology, because unlike other industries, improved technology usually results in higher costs. Sometimes it's associated with increasing quality of care. Not always though. For example in the pharmaceutical industry many times a new drug will replace an old drug, and the difference in their effectiveness is very small, and yet the cost might be twice as much."

Another factor, he says, is increased concentration of hospitals and providers—a trend that reduces competition.

"We have cities where one hospital dominates the market. We have an increasing number of physicians that work for hospitals, and when they do work for hospitals, again this increases the market concentration."

Likewise, there is concentration in the insurance industry.

“In a typical state in the individual market the Blue Cross plan has a majority of the enrollees.”

But it does not appear the Affordable Care Act is driving higher insurance prices, since most of the increases in premiums came before ACA implementation. Again, Sara Collins.

“They didn’t go down, but the rate of growth slowed significantly. It really reflects the nationwide deceleration in health care cost growth that began in 2009.”

Now if you ask employees, they may not see it that way.

“Many families are spending on average a bigger share of their income on healthcare than they were prior to 2010, and this is because median incomes—despite the fact that we did see a big increase in median incomes in 2015—over the time period that we looked at incomes really have not kept pace with health insurance costs.”

That said, the Commonwealth Fund’s study notes considerable variation from one state to the next.

“We looked at states with high burdens, and a high burden is where the combined premium and deductible is large as a share of income, and those states were Arizona, Florida, Mississippi, Oklahoma, and Texas. The five states that had the lowest burdens were Hawaii, Maryland, Massachusetts, Pennsylvania and the District of Columbia.”

Hawaii, she says, is an especially interesting case.

“Since 1974, Hawaii has required employers in their state to offer health insurance coverage. This was way before the Affordable Care Act. Employers of any size in the state are required to offer coverage to anyone working at least 20 hours a week, and the coverage can cost no more than 1.5 percent of someone’s income, and this means that people in employer plans in Hawaii have among the lowest costs in the country relative to their income.”

Other factors that could force prices down include telling patients, beforehand, what care is likely to cost. NORC’s Jon Gabel says that would allow them to shop around.

“The market doesn’t work well, as it does for many other services, in that the patient very often doesn’t know what they’re buying until they get the bill, and in many cases you do not know whether the provider you went to is a high cost or low cost provider, whether they’re a high-quality or low-quality provider.”

He and Collins agree that in the long run it would also be wise to lower deductibles and co-pays, so patients are not deterred from getting prompt care—waiting until they’re very sick and need more expensive treatment.

“One thing we know from research is higher deductibles will reduce the use of services.”

“I really think there needs to be a fundamental re-imagining of benefit design. There’s just overwhelming evidence that high deductibles lead people to avoid getting health care that they need, and we also know that people with high deductibles tend to end up with unaffordable costs. They end up with a medical bill from going to the emergency room, over a thousand dollars for example, and a lot of people just don’t have savings to cover a bill like that.”

You’ll find the study by Sara Collins and colleagues, titled “The Slowdown in Employer Insurance Cost Growth: Why Many Workers Still Feel the Pinch,” on our website. For New Directions in Health Care, The Commonwealth Fund’s podcast, I’m Sandy Hausman. Thanks for listening.