



## Understanding how your health insurance dollar is spent

Across the country, health insurance premiums have consistently been increasing faster than inflation or workers earnings. Between 1999 and 2008, health insurance premiums grew 119 percent, compared with inflation growth of 29 percent and wage growth of 34 percent.<sup>1</sup> The challenge of maintaining affordable health insurance is not at all unique to North Dakota, and is a national concern.

Increases in health insurance premiums across the nation are a product of overall increases in health care utilization, coupled with rising health insurance costs. North Dakota health insurance companies continue to maintain relatively low administrative expense costs, meaning a relatively larger portion of premiums are available to pay benefits.

### Utilization

As the average age of the U.S. and North Dakota population gets older, we continue to place an increased demand on the health care system. As a simple illustration, a population of 25-year-olds will require fewer hip and knee replacements, angioplasties and blood-pressure medications than a population of 70-year-olds. As the baby boom generation continues to age, we can expect more and more people to utilize the health care system.

Additionally, highly effective advertising and marketing efforts by health care professionals and drug companies have helped Americans become better educated and more aware of advances in medical technology. The advances are well-publicized and are demanded by more and more consumers.

### Rising health care costs

In America, we demand the best health care, and we receive it. A growing portion of our health care dollar is spent on new medical technologies and drugs, all designed to help us live healthier, longer lives. The costs involved in developing, purchasing and providing better medical technologies and pharmaceuticals are passed on to us, the health care consumers, primarily through our insurance.

Overhead costs for health care providers continue to climb. However, the annual growth in premiums has been decelerating in recent years, with the 6.1 percent increase in 2007 down from a rate of 13.9 percent in 2002. While some progress has been made, five percent growth is still significantly higher than the growth in incomes.<sup>4</sup>

The threat of malpractice litigation has itself changed the way many caregivers practice medicine today. This, too, increases our health care costs. Cost-effectiveness is a factor considered by physicians when ordering medical tests and procedures. However, increasingly, doctors may use “defensive” medicine, such as ordering any tests and procedures necessary to protect themselves from potential malpractice claims, no matter the cost. We all help pay for those additional tests and procedures.

## Who is affected by rising costs?

We all share in the costs of more expensive health care being provided to more and more people. However, small businesses and individual health insurance consumers face particular challenges.

## Small businesses

More than 159 million American workers and retirees receive health care benefits through their employers. As businesses face increases in health care benefit costs, their bottom lines are adversely affected. Increases generally have been steeper for small businesses because they insure fewer people.

More businesses are passing these increased costs to their employees by increasing the employee's premium share or through reduced benefits.

## Individuals

In 2005, Americans on average paid \$3,664 per year for individual health insurance coverage.<sup>2</sup> According to forecasts by managed care organizations, health insurers, pharmacy benefit managers and third party administrators, 2010 medical plan cost trends will be more than four times greater than the annual increase in average hourly earnings.<sup>2</sup>

## Where does the money go?

Nationally, 87 cents of every health insurance premium dollar is spent on medical services: 33 cents pays for physician services; 20 cents go to inpatient costs; 15 cents go to outpatient costs; 14 cents pay for medications and 5 cents pay for other medical services. The other 13 cents of every dollar is spent on administrative costs, consumer services, marketing and profit.<sup>4</sup> See the figure below.

## Prescription drugs

While spending on prescription drugs accounts for only about 10 percent of total health expenditures, its rapid growth has received considerable public attention (an 89 percent increase since 2000, compared to 67 percent for hospitals and 66 percent for physician/clinical services).<sup>6</sup>

However, prescription drug increases have recently slowed and grew at just 5.7 percent in 2007, less than the overall growth in premiums.<sup>4</sup>

## Where Does Your Health Insurance Dollar Go?



\*Includes prevention, disease management, care coordination, investments in health information technology and health support.  
Based on a PricewaterhouseCoopers' analysis, Factors Fueling Rising Healthcare Costs 2008. © 2008 America's Health Insurance Plans

# Medicare

Another factor that may be contributing to the increase in health care costs in North Dakota is the low level of Medicare reimbursements. Despite the fact that North Dakotans contribute equally to Medicare, the state is assigned some of the lowest Medicare reimbursement rates in the country.

For example, a patient seen by a doctor in a North Dakota clinic in 2010 for an average office visit will result in a much lower Medicare reimbursement (\$47.84) than a doctor treating a similar patient in San Francisco (\$66)—31 percent less for North Dakota. A Medicare physician payment for a mammogram screening in North Dakota will be reimbursed at \$49.92, while that same screening in San Francisco is reimbursed at \$73.82—more than 32 percent less for North Dakota.<sup>5</sup> These cuts place greater pressure on hospitals to increase revenues using other sources, such as increasing health care charges for non-Medicare patients.

## What you can do

You can do several things to help slow down the rate at which health care spending is increasing:

- Become an educated health insurance consumer. Whether shopping for the lowest health insurance rates or asking medical questions of experts, learning to do research on the internet or by using other information sources, makes you a more informed consumer, thus bettering your chances of lowering your health care costs. In addition, comparing fees and costs for medical, pharmacy and surgical procedures will give you a better idea how much your health care is costing you. The better educated you are about health care, the more informed your decisions will be.
- Do not be afraid to ask your doctor questions. Write down your questions before your visit. Being actively involved in your health care decisions can reduce the amount of needless tests performed, will keep you better informed about the risk and benefits of procedures, and will give you more control over the amount of money that you are spending on your health care.

- If you are able, try to use generic drugs over brand name ones. On average, most generic drugs are approximately half the price of their brand name counterparts.
- Save the emergency room for emergencies. It can be two to three times more costly to receive services in an emergency room than in a doctor's office.
- Reduce your chances of getting sick. If we are to reverse the trend of rising health insurance costs, we each should do our part by reducing our own health care utilization. Perhaps the best advice to follow to avoid increasing high health insurance premiums as well as out-of-pocket health care expenses is to do the following:
  1. Take advantage of free health screenings at local clinics, hospitals, or health fairs and practice self-examination.
  2. Know early warning signs of potential health problems and consult a physician ASAP.
  3. Live a healthier lifestyle. Eating a balanced diet, exercising and quitting smoking goes a long way towards better health.

1 Kaiser Family Foundation, Trends in Health Care Costs and Spending, March 2009. [http://www.kff.org/insurance/upload/7692\\_02.pdf](http://www.kff.org/insurance/upload/7692_02.pdf)

2 Medical Expenditure Panel Survey, [www.meps.ahrq.gov](http://www.meps.ahrq.gov)

3 The Segal Company, 2010 Segal Health Plan Cost Trend Survey. [www.segalco.com](http://www.segalco.com)

4 PricewaterhouseCoopers, Factors Fueling Rising Healthcare Costs 2008.

5 North Dakota Medical Association, October 2009

6 Kaiser Family Foundation, Health Care Costs: A Primer. Key Information On Health Care Costs And Their Impact, March 2009.

## For more information

The North Dakota Insurance Department has many publications available to help consumers. These can be requested from the Department by calling 1.800.247.0560 or can be downloaded from the Department's website at: <http://www.nd.gov/ndins>.

Other helpful sources of information:

Health Policy Institute  
2233 Wisconsin Avenue, N.W., Suite 525  
Washington, DC, 20007  
[www.healthinsuranceinfo.net](http://www.healthinsuranceinfo.net)

Families USA  
1334 G Street NW  
Washington, DC 20005  
[www.familiesusa.org](http://www.familiesusa.org)

Kaiser Network  
1330 G Street, NW, Suite 250  
Washington, DC 20005  
[www.kaisernetwork.org](http://www.kaisernetwork.org)

Healthfinder  
P.O. Box 1133  
Washington, DC 20013-1133  
[www.healthfinder.gov](http://www.healthfinder.gov)

FirstGov for Consumers  
[www.consumer.gov/health.htm](http://www.consumer.gov/health.htm)

Center for Drug Evaluation and Research  
800.INFO.FDA  
[www.fda.gov/cder/index.html](http://www.fda.gov/cder/index.html)

Check out the Real Age website at:  
[www.realage.com](http://www.realage.com)



Adam Hamm  
Insurance Commissioner

It is the mission of the North Dakota Insurance Department to protect the public good by fairly and effectively administering the laws of North Dakota. We are committed to vigorous consumer protection efforts while fostering a strong, competitive marketplace that provides consumers with choices and access to highquality insurance products and services at competitive prices. In pursuit of our mission, we will treat all of our constituencies with the highest ethical standards and respect they deserve.



**North Dakota**  
**INSURANCE**  
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