

SPENDING TRENDS UNDER EMPLOYER-SPONSORED COVERAGE, 1998 TO 2006

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HIGHLIGHTS

- Per member healthcare spending has doubled in the past nine years, outpacing general inflation by more than six percentage points.
- Member cost sharing accounted for roughly one out of every 10 dollars spent for health services in each year from 1998 to 2006.
- Plan payments grew at a slower rate than expenditures for member cost sharing.
- Spending on prescription drugs and outpatient services had the greatest impact on per member healthcare costs.

INTRODUCTION

The continuing trend of rising healthcare costs and its impact on individual and family budgets is well documented. Premiums for employer-sponsored health benefits can be a major expense for employees and retirees, but the coverage also provides protection from potentially greater healthcare spending. Nearly two-thirds of the population under age 65 had employment-based health benefits in 2006 (Fronstein, 2007), and one-third of community-dwelling Medicare beneficiaries had supplemental coverage from employer-sponsored insurance in 2003 (Centers for Medicare and Medicaid Services, 2008). Because of the essential role employer-sponsored coverage plays for many individuals and the predominance of this coverage source in the marketplace, understanding more about the nature of spending by and on behalf of those with this coverage is important.

This brief addresses three questions about spending by members and employers in our sample under employer-sponsored coverage:

1. What was the trend in member cost sharing versus health plan payments to providers per covered life under age 65 from 1998 to 2006?
2. How did changes in per member spending vary by service category and by source of payment?
3. Did the composition of member cost sharing change during the last decade?

DATA AND METHODS

The data for this analysis come from the MarketScan® Commercial Claims and Encounters Database from the Healthcare business of Thomson Reuters. The MarketScan Research Databases reflect the combined healthcare service use, expenditures, and enrollment of individuals covered by healthcare clients of Thomson Reuters nationwide. The study sample is comprised of all insured lives or “members” (i.e., active employees, early retirees, COBRA¹ continues, and their dependents) under age 65 from employers in the database who contributed claims, including prescription drug claims, for the entire nine-year period of 1998 through 2006. Medicare-eligible employees in this age group are not included in the sample.

¹Consolidated Omnibus Budget Reconciliation Act of 1985. This federal law provides for the continuation of group health coverage that otherwise would be terminated.



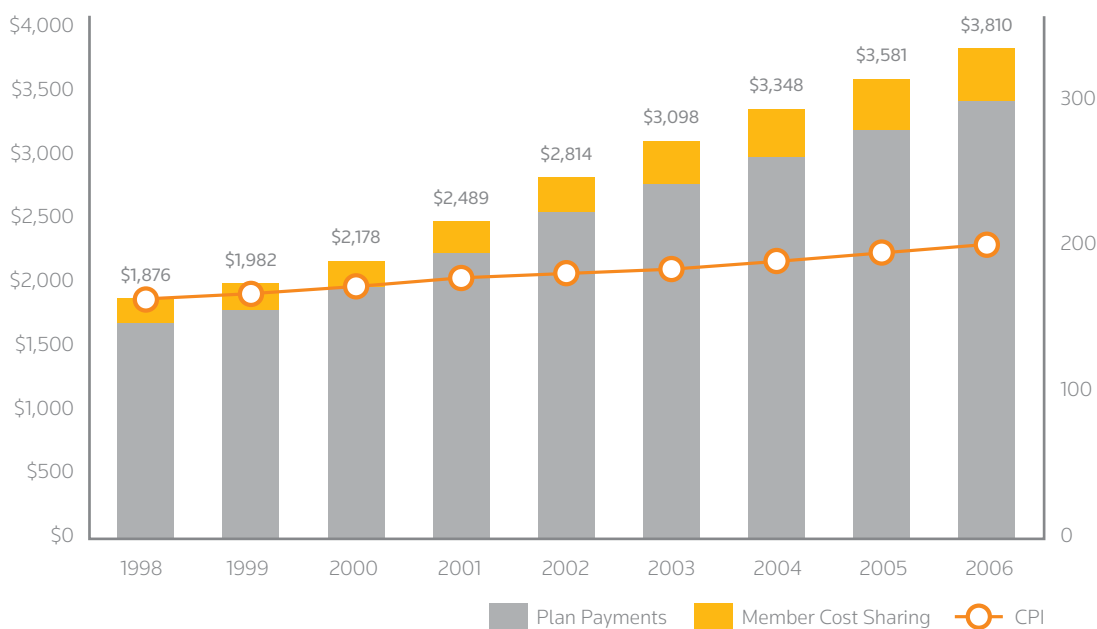
Spending for covered services is calculated on a per member basis for all members, regardless of actual service use. Member cost sharing refers to spending for specific inpatient services, outpatient services, and outpatient pharmaceuticals used; these cost-sharing amounts take the form of deductibles, coinsurance, and co-payments. Plan payments refer to claims payments received by providers, excluding employee cost sharing and other third-party payments; plan payments are financed by a combination of employer contributions and employee premiums. Other third-party payments, which accounted for approximately 2 percent of total service spending for the sample in 2006, are not included in the analysis.

OBSERVATIONS

What was the trend in member cost sharing versus health plan payments to providers per covered life under age 65 from 1998 to 2006?

Annual spending for health services under coverage offered by employers in the sample increased at an average annual rate of 9.3 percent, from \$1,876 per member under age 65 in 1998 to \$3,810 in 2006. By comparison, general inflation was only 2.7 percent per year on average. Member cost sharing accounted for roughly one out of every 10 dollars spent for health services in each year during the study period. The plan payment portion of service spending decreased less than half of a percentage point from the beginning of the period to the end; in addition, it ranged from 90.8 percent at its highest in 2002 to 89.3 percent at its lowest in 2004 and 2006.

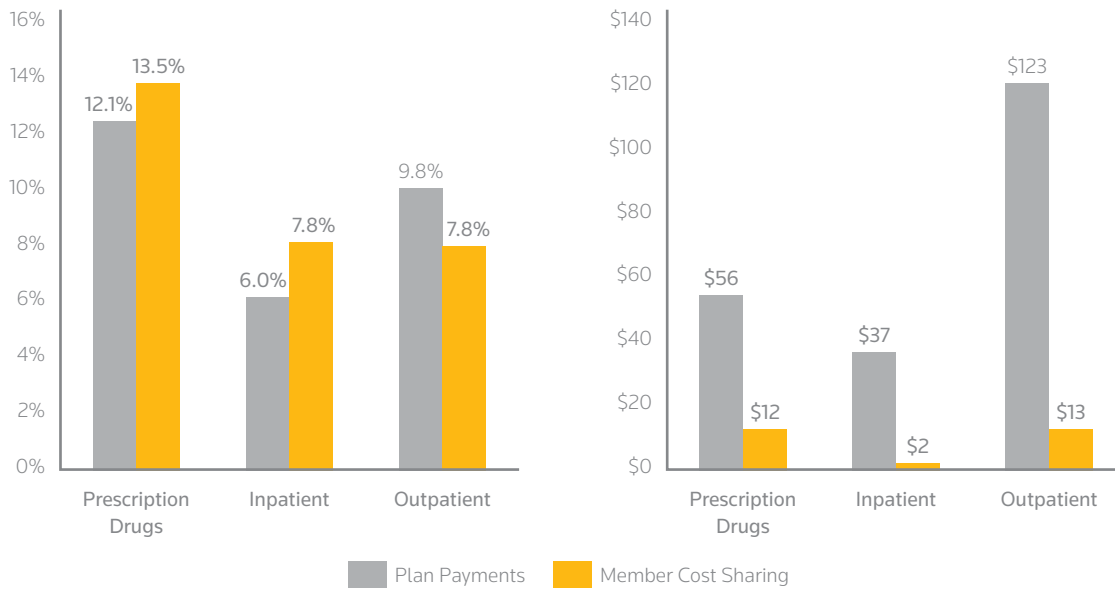
Figure 1: Annual Health Service Spending by Source of Payment, 1998-2006



How did changes in per member spending vary by service category and by source of payment?

For all services combined, the average annual rate of increase in per member spending from 1998 to 2006 was slightly higher for member cost sharing (9.6 percent) than for plan payment (9.2 percent). Both sources of payment (health plan payments and member cost sharing) experienced the largest rate of spending increase—over 12 percent annually on average—for prescription drugs (See Figure 2). Except for outpatient services, the rate of growth in spending for member cost sharing exceeded that for plan payments during the nine years. The picture is different for expenditure increases in dollar terms, where the largest average annual increases in amounts paid were for outpatient services, and the plan payment increases were always more than spending increases for member cost sharing.

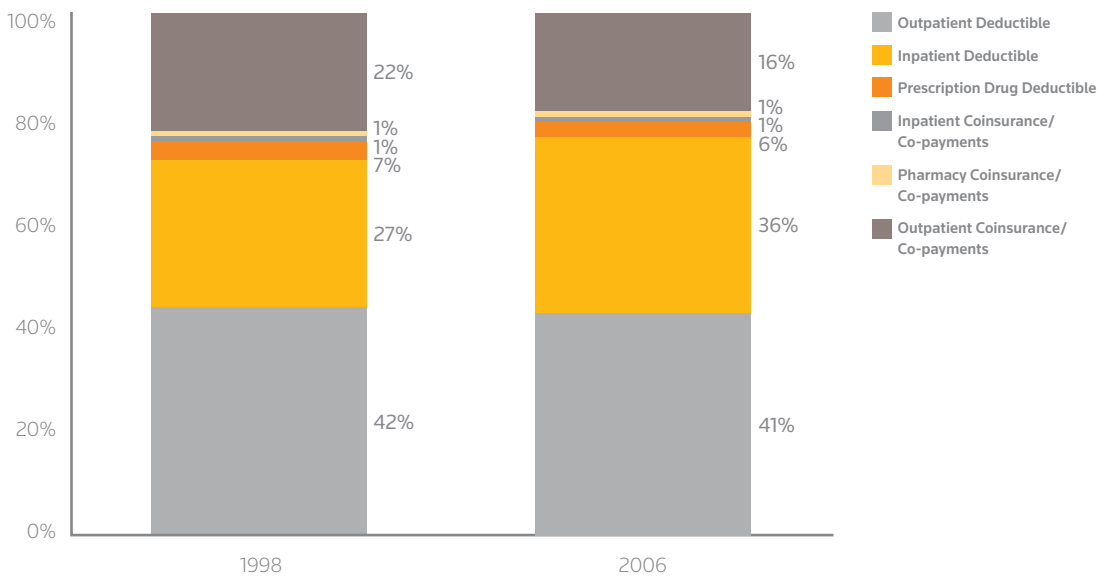
Figure 2: Average Annual Increase in Spending by Service Category, 1998-2006



Did the composition of member cost sharing change during the last decade?

Member cost sharing for health services was dominated by coinsurance and co-payments for outpatient services and prescription drugs, which together accounted for over two-thirds of this source of payment in both 1998 and 2006. Despite the broadly similar picture, a nine percentage point increase in the portion of cost sharing accounted for by prescription drug coinsurance and co-payments occurred between the two years. In addition, because a smaller portion of outpatient spending was applied to a deductible, the cost sharing attributed to deductibles decreased from 24 to 18 percent. These distributions reflect the price and amount of services used, the nature of benefits, and the sequence in which claims were processed.

Figure 3: Member Health Spending by Cost Sharing Component, 1998 and 2006



CONCLUSION

This analysis of claims from a sample of employers sheds light on some aspects of spending for health services by both members and employers under employer-sponsored coverage and the ways in which it changed during the last decade. Although employers and members share the burden of rising plan payments, member cost sharing increased slightly faster than plan payments. It is important to remember that this assessment does not reflect other out-of-pocket costs such as payments for uncovered services borne by members. These findings confirm that prescription drugs have a key influence on trends in health spending, yet they raise additional questions about other factors that might underlie patterns in spending for outpatient services. Further analyses could help to determine whether these and other findings persist across member subgroups, different plan types and benefit designs, and/or more detailed service categories.

REFERENCES

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