

THE WALL STREET JOURNAL

Health-Care Premiums Climbing Faster Than Inflation, Studies Say

By VANESSA FUHRMANS, Wall Street Journal, September 11, 2007

Health-care premiums of employers and their workers have **climbed more than twice as fast as inflation in 2007 -- to about double their cost in 2000** -- and look to rise at a similar or slightly faster clip next year, a pair of nationwide surveys show. The **average family premium rose 6.1% in 2007**, according to an annual study by the Kaiser Family Foundation and the Health Research and Educational Trust. A widely watched barometer of employer health-care costs, the survey of 1,997 employers contained a modicum of good news: This is the fourth-straight year companies' premiums have decelerated since soaring nearly 14% in 2003. ([See the full survey here.](#))

But after a decade of inflation-beating increases, **the annual cost for family coverage through an employer health plan is now more than \$12,000, well over what a minimum-wage worker earns in a year**. Workers now pay on average \$3,281 a year to cover their share of that family policy, double what they did in 2000, the survey found. "Even if the rate of increase is lower, the pain level is actually higher," said Drew Altman, president of the Kaiser Family Foundation, a nonprofit health-policy research group in Menlo Park, Calif. "It's just a very big number now, and it's why we're seeing the slow fraying of the employer health-insurance system and the ranks of the uninsured going up."

Small businesses and their employees are bearing the brunt. Though 99% of businesses with more than 200 employees continue to offer workers some sort of health-care coverage, only 59% of smaller firms have a company health plan, compared with 60% last year and 68% in 2000. Among businesses with fewer than 10 workers, only 45% do, down from 48% just a year ago.

Rising hospital costs, more-expensive medical technology and the rising prevalence of diabetes and other chronic conditions continue to be among the biggest drivers of cost, said Bill Sharon, senior vice president with Aon Consulting, an employee-benefits firm. Preliminary data from a large-employer survey released last week by Mercer Health & Benefits LLC, a rival firm, found that big companies expect such factors to drive health-care costs 6.7% higher in 2008, slightly steeper than the 6% increase reported this year. Premiums would climb even higher, employers reported, if they didn't plan to increase employees' deductibles and introduce other cost-sharing measures.

Companies and business owners also are resorting to other measures to brake health-care costs. One is Dan Madigan, who owns two small Green Bay, Wis., businesses that develop waste-recycling processes. After several years of double-digit premium

increases, he joined a local health-care purchasing cooperative that buys its coverage through a wellness-based health-insurance provider called Destiny Health. Workers can redeem points for plasma televisions and other rewards in return for meeting certain health-care goals, and can lower the cooperative's premiums if they collectively earn enough points.

"Health care is a critical cost component of my businesses, and it's the hardest for me to control," Mr. Madigan says. "This at least feels like something we can do." Some firms also say they are adding "consumer-directed" plans, which combine deductibles of at least \$1,000 and some sort of tax-saving account. Because such programs require people to have more of a financial stake in their health-care spending, the Bush administration, health insurers and other proponents have touted them as an effective tool in reining in medical costs. But despite the great attention they have received, consumer-directed plans still haven't made great inroads among employers. Though one-tenth of the employers in the Kaiser survey said they offered such an option, only 5% of workers with health insurance, or about 3.8 million employees, were in such a plan this year, compared with 4% last year.