

WHAT'S DRIVING HEALTH INSURANCE COSTS

The rising cost of health care is one of the most immediate challenges facing both state and federal policymakers. Conversations aimed at better understanding health care costs are too often limited to the topic of health insurance. However, we must remember that insurance costs are a direct reflection of the costs charged for health care products and services rendered by providers across the entire health care delivery system. That is why it is critically important to identify the primary drivers of health care costs and examine their collective impact on an individual's overall health insurance costs.

The following are some of the most significant drivers of health care costs:

Medical Trend

"Medical Trend" refers to the increase in costs associated with medical services and prescription drugs. This trend is derived by both per-unit costs of health care services, as well as changes in health care utilization and changes in the mix of services. As noted by the American Academy of Actuaries, many underlying factors contributed to an individual's insurance costs and "the majority of premium dollars goes to medical claims, which reflect unit costs, utilization, the mix and intensity of services, and plan design."¹ At the forefront of underlying cost drivers is the rising cost of prescription drugs. Per the [2016 Milliman Medical Index](#) (MMI), prescription drugs account for the most rapidly growing cost driver area and account for nearly 17 percent of total health care spend.²

Pharmacy Trend

As stated above, rising drug costs are placing added financial burden on health care consumers across the country. Estimates indicate that there are more than 700 high-cost specialty drugs in the pipeline - some with price tags in excess of \$100,000 per year or over the course of a treatment.³ Although specialty drugs only account for 2 percent of all prescriptions in the United States, they make up approximately 30 percent of all prescription drug spending.⁴ Rapidly rising prices like these are driving up the overall trend associated with drug costs and presenting new financial challenges to purchases of health insurance coverage.

Provider Costs

Insured individuals are typically shielded from provider prices. In turn, consumers often look no further than their insurance premiums, deductibles, and out-of-pocket expenses to conclude the cost factors contributing to the care they receive. However, the actual costs of health care services continue to be a contributing factor to rising insurance costs. To ebb cost growth of this kind, health plans are partnering with providers in innovative and strategic ways to develop value based relationships that reimburse for quality and improved health care outcomes. Additionally, plans are pursuing high-quality provider networks that offer consumers in-network access to health care providers and hospitals who have a proven record of delivering quality and cost-efficient care to patients. Studies have shown that policies maintaining high-value provider networks result in premiums that are 26 percent lower than policies that have comparable options and broader, less value-based networks.⁵

Coverage Mandates

Even when well-intentioned, coverage mandates at both the state and federal levels placed new and added cost pressures on purchasers of health insurance. Moreover, mandated services greatly inhibit insurers' ability to customize benefit packages to fit the needs of individuals, families, and businesses that provide coverage to employees. Thoughtful consideration should be afforded to Ohio's current set of coverage mandates and policymakers should carefully consider how future coverage mandates impact the stability of Ohio's insurance markets and the cost of health insurance coverage for consumers.

Taxes and Fees

Federal health care reform, which may soon face significant change or possible repeal, instituted a series of new taxes and fees that placed added upward pressure on insurance premiums. Such taxes and fees included the health insurance tax, user fees for insurance exchanges and the risk adjustment program, as well as fees to fund the Patient Centered Outcomes and Research Institute (PCORI).

¹ American Academy of Actuaries. *Issue Brief: Drivers of 2016 Health Insurance Premium Changes*. August 2016.

² Girod, Chris; Hart, Sue; Weltz, Scott. 2016. *2016 Milliman Medical Index*. Milliman.

³ America's Health Insurance Plans. *Issue Brief: Factors Affecting Premiums in 2017 Individual Exchange Marketplace*. May 2016.

⁴ America's Health Insurance Plans, *High-Priced Drugs: Estimates of Annual Per-Patient Expenditures for 150 Specialty Medications*. April 2016

⁵ McKinsey & Company, McKinsey Center for US Health System Reform. "Hospital networks: Configurations on the exchanges and their impact on premiums." December 2013.