

Health Plan Affordability in Tennessee

It All Adds Up...And It All Costs Money

Health Care Spending Has Quadrupled In the Last 20 Years

Increases Have Been Fastest In Tennessee

Over the past generation, health care spending has increased dramatically. Health care spending in the U.S. — as a percentage of gross domestic product (GDP) — exceeds any other country in the world. Nationwide, increases in state-level spending on a per capita basis have exceeded 450 percent.¹

Bring the numbers inside Tennessee, and you'll find even more startling results:

- Health care spending in Tennessee has increased faster than in any other state — at a rate of **674 percent** from 1977 through 1999.²
- Tennessee health care spending — as a percentage of gross state product — **exceeds the rate of U.S. spending** in relation to GDP. (Which again, tops any other country.)

Is Tennessee playing catch-up to compensate for earlier deficiencies? No, the state has spent more for health care than the rest of the country for many years.³

Are residents healthier as a result of more spending? Not according to the Reliastar index, which places the state 42nd in overall health nationwide.

Then why are the spending rates spiraling up so rapidly — and how does that affect health plan costs and premium rates? In short...how can health insurance stay affordable?

Components and Drivers of Escalating Costs

Medical Cost Components Add Up

Medical cost can be broken down into four primary components. In the health care industry, these are known as utilization, price, mix, and leveraging. For the consumer, these refer to the medical care services they purchase, the price they are charged for the services, the type — or level — of service or professional care received, and how their benefit schedules absorb price increases. Each component is experiencing increases, adding up to these results:

- 1. Consumers are using more health care services.** Utilization rates are rising as the population ages and managed care has fallen out of favor with consumers. In 2001, BlueCross BlueShield of Tennessee tracked noticeable increases for inpatient hospital days (3.7 percent), outpatient surgery (14.6 percent), orthopaedic services (14 percent) and diagnostic services (6.8 percent).
- 2. Hospitals and physicians are demanding higher contract rates.** Nationwide, large hospital chains are demanding and getting rate increases in the 20 to 30 percent range. Within the state, BlueCross BlueShield of Tennessee has received hospital demands for price increases that range from 30 to 100 percent.
- 3. Technology and the mix.** Medical technology has advanced, and so have the associated costs. Where a simple \$70 x-ray was once used to diagnose sinusitis, today the diagnostic procedure of choice is an MRI — magnetic resonant imaging that costs roughly \$700 to deliver the same diagnosis. The consumer is still purchasing only one service, but the result is an increase in cost by a factor of 10.

- 4. Leveraging and fixed copay costs.** Consumers are often unaware of true medical costs and increases. With only a \$20 copay, a health plan member may purchase a prescription drug that actually costs \$40. When the pharmaceutical company raises the cost 10 percent — to \$44 — the consumer sees no increase, and continues to pay just the \$20. But the health plan actually incurs and passes on to its customers a 20 percent increase in pharmaceutical expense. This leveraging effect is compounded by the rising cost of newer drugs, such as Prilosec for heartburn, which can cost up to \$138 for a month's supply. Because the consumer sees only the copay amount, he or she can be completely unaware of the cost of drugs, and see only the increase in insurance premium.

What It All Means to Health Plan Costs

How the premium dollar breaks out

Most health insurance carriers — including BlueCross BlueShield of Tennessee — have experienced double-digit increases in premium costs for the past three years. Typically, a carrier would assign 14 percent of premium to cover administrative costs.⁴ Yet with low operating expenses, BlueCross BlueShield of Tennessee allots only 10 percent of premium to administrative costs. And unlike for-profit companies that target a 3 to 6 percent profit margin, BlueCross BlueShield of Tennessee targets **only one-half of 1 percent** of revenue in excess of expense. This money is used to fund claims reserves.

So where does the rest of the premium dollar go? In 2001, it was paid out this way:

- 18 percent of premium went to prescription drug costs (rapidly rising costs which now exceed inpatient hospital costs)
- 17 percent went to inpatient hospital care
- 17 percent went to outpatient care
- 34 percent went to physician/professional fees (7 percent to primary care, 27 percent to specialty care)
- 2 percent went toward other medical costs (including durable medical equipment, home health services and home infusion therapy, dental, orthotics and prosthetics, vision hardware and transportation)
- 1.5 percent went toward state and federal taxes

Answers and Issues

What BlueCross BlueShield of Tennessee is Doing to Help

Researching the industry, developing new products, working with physicians and facilities, and studying the health and habits of Tennesseans are all ways that BlueCross BlueShield of Tennessee is working to curb the rising cost of health care and maintain the affordability of health plans for Tennesseans. Ideas, options and answers are presented in an ongoing series of special white paper reports, including *Health Plan Affordability in Tennessee*, and *Rx for Pharmacy Costs in Tennessee*. The reports are intended to help inform and educate health care consumers, plan purchasers and key decision makers statewide on health care trends, pricing and practices that affect the cost of health plan coverage.

The full reports are available on the BlueCross BlueShield of Tennessee Web site at www.bcbst.com.

¹ Bureau of Economic Analysis, Department of Commerce

² Organization for Economic Cooperation & Development; Centers for Medicare and Medicaid Services (CMS), formerly known as HCFA

³ Ibid.

⁴ Sherlock Company, *Administrative Expense Benchmarks for Health Plans*