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Taxing health plans could hit NH hard

By *ANDREW WOLFE* Staff Writer

About nine out of every 10 people in New Hampshire have health insurance – more than most states – but health insurance premiums here are the third highest in the nation and rising fast, gobbling an ever greater share of family incomes and the state's economy.

While the future of national health care reform remains uncertain, policy experts say the latest proposals would do little to rein in health insurance rates.

One proposal, taxing high-cost plans to help fund expanded coverage, would hurt New Hampshire more than most states because it has more plans in the "high cost" bracket and relatively few uninsured people.

Health insurance is expensive in New Hampshire for complicated reasons, experts say, but the easy answer is that health care itself costs a lot and New Hampshire residents use a lot of it.

"Health care is expensive in New Hampshire, very expensive, and we are high utilizers," said Leslie Ludtke, a health care policy analyst for the New Hampshire Insurance Department. "We're one of the highest states in the country."

Health care is expensive in the United States generally, according to a 2003 study published in *Health Affairs Journal*. Three economists concluded Americans spend vastly more on health care than any other country while receiving less for their money.

Their conclusion is in the title of the study: "It's the Prices, Stupid."

The World Health Organization rates America's health care performance as 37th in the world.

New Hampshire health insurance is expensive even by American standards, however.

The average annual cost of a family health care plan in New Hampshire in 2008 was \$13,592, compared with the national average of \$12,298, according to the Kaiser Foundation's Health Facts Web site. Rates have risen since then, but there are no figures available on exactly how much.

On average, New Hampshire health insurance rates have risen about 9 percent annually for the last decade, also higher than the average national rate, said Steve Norton, executive director of the New Hampshire Center for Public Policy Studies.

"We're always in the top five in the country" in health insurance rates, Norton said. "There's no question that we are expensive. New England is expensive."

New Hampshire spent 18 percent of the state's gross domestic product on health care in 2007, the center reported in 2008, and that share is projected to keep rising in years to come, especially as health costs rise while the rest of the economy tanks.

New Hampshire spends more than average on health care itself, but not much more, according

to the Kaiser Foundation: \$5,432 per person in 2004, compared to \$5,283 per capita nationally. New York, Pennsylvania and the other New England states all spent more per capita, yet only Massachusetts and Minnesota have higher health insurance rates.

Increased health insurance costs are squeezing New Hampshire families and businesses alike. The average health insurance policy cost 10 percent of the state's median income in 2000; it had reached 15 percent by 2006, the New Hampshire Center for Public Policy Studies reports.

The total costs of employer-funded health insurance plans in New Hampshire increased by 75 percent from 2000-2007, according to a study by Families USA called "Premiums vs. Paychecks." Although employers still pay the bulk of premiums, workers' share increased 127 percent during that time.

Some 15 companies write health insurance policies in New Hampshire, according to the New Hampshire Insurance Department, but Anthem and Matthew Thornton control the bulk of the market. Together, they wrote 80 percent of the 585,588 policies issued in 2008, the Insurance Department reports. (Anthem has 55 percent of the market, including providing coverage for The Telegraph).

In 2008, insurers collected a total of more than \$2.51 billion in premiums from New Hampshire residents (\$2,514,958,997, to be precise), and paid out roughly 90 percent of it, a total of \$2.26 billion (\$2,264,100,768) in claims for health care, the state Insurance Department reports.

On average, the insurance companies kept about 10 percent of the premiums – a total of \$251 million – to cover their profit and all operating expenses. That 0.90 "loss ratio" of money paid out for health care is "pretty comparable" to other states, Ludtke said. Some small-group carriers wind up paying out more in claims than they collect in premiums, she said.

The difference between those two numbers – premiums collected and health care spending – is still a hefty sum, however, notes Bruce King, president of the New Hampshire Hospital Association and CEO of New London Hospital.

"Ten percent is a big number," King said. "That piece is part of the premium and you can't ignore that. ... It's not to be minimized, because the scale is huge."

Experts differ on how the profitability of hospitals compares to insurance companies. According to Ludtke, the analyst for the state insurance department, New Hampshire's hospitals generally enjoy higher profit margins than the state's insurance companies, in some cases as high as 20 percent.

King, however, points to a similar but slightly different measurement: operating margin, which reflects how much money a business makes on daily operations, not including fixed costs such as taxes and debt. He says the state's hospitals' average operating margin – a ratio of income and revenue – is 2.4 percent, with just two in the state – Portsmouth and Littleton – topping 5 percent.

The operating margins in New Hampshire hospitals have been climbing in recent years, the Center for Public Policy reports, as have profits for Anthem Health Plans. The state's 26 hospitals netted roughly \$60 million in 2001, and their income grew by 225 percent over the next six years, to 2007, an average of 22 percent a year.

"Between 2001 and 2007, net operating income grew by 225 percent, or an average of 22 percent per year," the Center reports. "Similar increases have been seen in the insurance market."

King argues New Hampshire's hospitals are forced to effectively overcharge private insurance companies and individuals to make up for shortages in state Medicaid funding.

Public health programs routinely short-change hospitals, paying less for services than it costs the hospitals to provide them. That forces hospitals to inflate charges to other people to make up the difference, a practice known as "cost shifting."

"The state of New Hampshire materially underpays doctors and hospitals by 25 percent," King said.

The costs passed along to insurers as a result account for roughly 24 percent of the total cost of premiums, King said.

"That is far and away the biggest issue" in the state's health care spending, King said.

According to the Center for Public Policy Studies, New Hampshire's hospitals got stiffed for roughly \$179 million by public health programs in 2001, and that amount has increased some 15 percent a year, to \$406 million in 2007.

Fortunately, less than 7 percent of New Hampshire's population is on Medicaid, compared with 14 percent nationally, according to the Kaiser Foundation.

Premium threshold

Money and health insurance are great things to have on the whole, but having more of both gives New Hampshire more to lose and less to gain in an effort to expand health coverage nationally.

Taxing high-cost plans to expand coverage nationally – as the Democratic health bill proposed – would have hurt New Hampshire more than most states, some health and economics experts say. The state also has fewer uninsured residents – 10.4 percent of the population, compared with 15.4 percent nationally.

About two-thirds of New Hampshire residents (65 percent) get insurance through their employer, while just over 20 percent use some form of public health care, such as Medicare, Medicaid or the Veterans Hospital system.

Fewer than 5 percent of New Hampshire residents buy their own health insurance, although workers increasingly pay a greater share of company-provided plans.

The high cost of health insurance in New Hampshire means more plans in the state could have been taxed as "high cost" or "Cadillac" plans, even if their actual benefits are anything but deluxe. According to Associated Press reports, the last Senate proposal would have levied a 40 percent tax on premiums greater than \$8,900 for single persons and \$24,000 for family coverage.

New Hampshire and other states with higher rates would have seen more plans hitting that premium tax threshold, especially if insurance costs keep rising as fast as they have in recent years.

Considering that health care and insurance costs vary widely from one state to another, a single national tax threshold is a "blunt instrument," Norton said, that effectively penalizes states with a high cost of living.

A recent article in Health Affairs Journal's blog cited New Hampshire as one of three states "most likely to lose" under the current health care reform proposals, largely because the state will have to help pay to expand coverage elsewhere.

"We were not trying to model or fully measure the costs or benefits of reform," the authors wrote. "Rather, we used two very simple metrics – who pays and who gets the benefits – and we measured costs and benefits from the perspective of the state as a whole."

States with more uninsured people have more to gain, the study notes, and states with high

costs and high incomes will pay more than the poorer states. Delaware and Nebraska join New Hampshire on the list of likely losers.

"Each of these states has a relatively lower-than-average proportion of uninsured residents, and each would fall in the 'high cost' category under either of the financing options," the authors wrote.

The study found that Republican-controlled states would have benefited most from health reform, while Democratic-leaning states generally had less to gain.

The tax on high-cost plans was promoted as a tool to rein back both costs and overuse of health care. However, Ludtke said, the generosity of a health plan's coverage has surprisingly little to do with its cost. Ludtke cited a recent study, titled "Taxing Cadillac Health Plans May Produce Chevy Results."

"It's often assumed that high-cost health insurance plans – sometimes called 'Cadillac' plans – provide rich benefits to plan subscribers," the study states. "Health reform provisions that treat these plans like luxuries may be misguided."

Studying family health plans, the researchers found that variations in coverage (benefits) accounted for just 3.7 percent of the variations in costs. The benefits and plan type (HMO versus PPO, for example) accounted for 6.1 percent of the cost differences.

"Industry type and medical costs in the region also play a role" in health insurance costs, the researchers found. But, they found, "Most variation in premiums, however, remains largely unexplained."

Well-to-do state

Health care costs vary widely from one state to another, and economists and health experts say there are no simple answers as to why.

While New Hampshire's elderly population isn't especially large – 12.6 percent of the state's residents are 65 or older, a lower percentage than 31 other states, census records show – the state's median age is three or four years higher than the national average because it has relatively few younger people. It's a fact of life that older folks need more health care.

"We actually are becoming disproportionately gray," King said. "That aging population is having increased utilization."

On the other hand, New Hampshire residents take pretty good care of themselves: The United Health Foundation rates New Hampshire the fifth healthiest state. In theory, a healthy population should have better health insurance rates.

New Hampshire is also rather well-to-do, with the eighth-highest per-capita income and sixth-highest median household income in the nation, according to the federal census bureau. People who can afford more and better things will tend to buy them, and nothing drives up price like demand.

"Health care is also a good," Norton said. "We have, and always have had, high income in this state."

Wages are high in New England generally, and the shortage of doctors and nurses has kept their pay even higher, King said. Labor is the largest operating expense in any enterprise, and health care is a labor-intensive business, he notes.

"Sixty percent of health care is personnel," King said. "It is a largely person-driven industry."

That brings an important point: Any effort to reduce the price of health care in New Hampshire must also take into account that health care has become big business in the state, one of the

few remaining bright spots in the state's economy.

While health insurance premiums are taking up an ever greater share of business expenses and workers' wages, the health care industry is also employing more people, and their wages have been rising, the Center for Public Policy Studies notes.

Health care and social services account for about 12 percent of wages and employment in New Hampshire, and in some communities, it's close to 20 percent, Norton said. In Nashua, it's about 8 percent.

"If we are interested in controlling health care costs, we had better have an alternative economic development plan in place," Norton said. "When you squeeze that industry, you are effectively limiting what are, in many communities, their economic development plans."

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