

“...to raise new ideas
and improve policy
debates through quality
information and analysis
on issues shaping New
Hampshire’s future.”

One Eagle Square
Suite 510
Concord, NH 03301-4903

(603) 226-2500
Fax: (603) 226-3676

www.nhpolicy.org



Board of Directors

Martin L. Gross, Chair
John B. Andrews
John D. Crosier
Gary Matteson
Todd I. Selig
Donna Sytek
Georgie A. Thomas
James E. Tibbetts
Brian F. Walsh
Kimon S. Zachos

Executive Director

Stephen A. Norton
(603) 226-2500
snorton@nhpolicy.org

Deputy Director

Dennis C. Delay
(603) 226-2500
ddelay@nhpolicy.org

Research Associate

Ryan J. Tappin
(603) 226-2500
rjtappin@nhpolicy.org

Office Manager

Cathleen K. Arredondo
(603) 226-2500
carredondo@nhpolicy.org

Executive Director

Emeritus

Douglas E. Hall
(603) 226-2500
doughall@nhpolicy.org

16 Cents of Every Dollar Health Care Costs in New Hampshire (2004-2005)

February 2007

Contents

Executive Summary	1
Part I: Health Care Dollars.....	2
1. Personal Health Care Spending and Total Health Expenditure	2
2. Total Health Expenditure as Percentage of Gross State Product.....	2
3. Personal Health Care Spending in 2006	3
4. Recent Spending Trends	5
5. Expenditure per Capita in Northern New England.....	5
6. Source of Funds	6
Part II: Employer Sponsored Health Insurance	7
1. Employers Provided Health Insurance to 275,000 Employees.....	8
2. Full-time and Part-time Employment	8
3. Annual Health Insurance Premiums	11
4. Employee Share of Premiums.....	14
5. MEPS and New Hampshire	15

Author

Doug Hall
Executive Director, *Emeritus*

About this paper

This paper is one of a series published by the NH Center for Public Policy Studies on the broad topic of health-care finance and insuring the New Hampshire workforce. The Concord-based Endowment for Health has sponsored this work.

This paper, like all of the Center’s published work, is in the public domain and may be reproduced without permission. Indeed, the Center welcomes individuals’ and groups’ efforts to expand the paper’s circulation.

Copies are also available at no charge on the Center’s web site: www.nhpolicy.org

Contact the Center at info@nhpolicy.org; or call 603-226-2500.
Write to: NHCPPS, 1 Eagle Square, Suite 510, Concord NH 03301

Executive Summary

The cost of personal health care is rising in New Hampshire, as it is across the nation. In the Granite state, personal health care—which includes visits to doctors, hospitalizations, medicine, and so on—consumes 16% of our economy, or 16 cents of every dollar. In 2006, that amounted to \$9.65 billion. Twenty years ago, spending on personal health care was less than 10% of New Hampshire's economy. Twenty years from now, it is projected to reach nearly 19%.

This paper is the latest in a series the Center has published on health care finance and insuring the New Hampshire workforce. Here's a series of snapshots of what we found.

The cost of health insurance policy is going up 10% per year and accounts for an ever growing share of personal income. The cost of the average family health insurance plan in New Hampshire increased from \$7,525 in 2000 to \$11,156 in 2004. A one-person plan went from \$2,790 to an average of \$4,084 in 2004. Two-person coverage cost \$8,495 in 2004. Annual health insurance premiums for single coverage have grown from 11% of per capita income in 2000 to almost 15% in 2004.

Families and couples in N.H. pay higher health premiums than the national average.

In New Hampshire, health insurance premiums for families and couples are higher than the national average, while premiums for single people are roughly the same. The cost of a 1-person policy grew from 11.4% of per capita income in 2000 to 14.9% in 2004.

Prescription drugs and home health care are expected to be primary drivers in the costs of health care. Spending on prescription drugs increased by 74 percent between 2000 and 2005 and is projected to increase by another 47 percent in the next six years. Spending on dental care and hospital care has also risen dramatically. Spending on home health care is projected to increase 48% from 2005 to 2010, when it will be the largest category of personal health care spending, close to followed by prescription drugs.

New Hampshire employers continue to play a large role in insurance coverage in New Hampshire. Of the 534,000 private sector employees in New Hampshire, 260,000 are covered by an employer's health insurance plan. Full-time workers are much more likely to be covered (65%) than part-time workers (11%). Nationally, employees pay an average of 22% of their health insurance premiums. New Hampshire employees pay an average of 25%, and the contribution they make to their insurance premiums is rising faster than the cost of insurance to their employer.

Public sources pay for about half of our personal health care.

In 2006, about half of the money to pay for personal health care came from private sources (primarily out-of-pocket payments and health insurance) and half came from public tax sources (primarily Medicare and Medicaid).

Part I: Health Care Dollars

1. Personal Health Care Spending and Total Health Expenditure

Spending on “personal health care” includes payments for all the services and products that are purchased for the health care of individuals. It includes hospitals, nursing homes, drugs, wheelchairs, care from physicians, surgeons, other medical specialists, and alternative health providers, prescription and over the counter medicines, medical equipment, etc.

“Total health expenditure” is greater than spending on personal health. While it includes all spending on personal health care, it also includes spending on health care research, health facility construction and equipment, general health education, public health services such as restaurant inspections, epidemiology investigations, smoking cessation, or cancer prevention. Importantly, it also includes that portion of health insurance premiums that never pays claims (the administrative and claims processing costs and profits of the insurers themselves). National data show that in 2004 total health spending was 20 percent greater than spending on personal health care.

2. Total Health Expenditure as Percentage of Gross State Product

In 2004, New Hampshire’s GSP, the most comprehensive measure of the state’s overall economy, was \$52.08 billion and total health expenditure was \$8.73 billion or 16.1 percent of GSP. We estimate the GSP will be \$58.75 billion in 2006 and total health expenditure to be \$9.65 billion or 16.4 percent of the GSP.¹

Figure 1 displays the percentage of the state’s overall economy that is accounted for by health care. Until 1989 health care remained under 10 percent of the overall economy. With the onset of the 1989 recession, as health care costs continued to rise but the overall economy stopped growing, health care’s share of the economy expanded to about 12.5 percent in 1992. The rapid expansion of the state’s economy coupled with more tightly managed health care through the expansion of health maintenance organizations (HMOs) resulted in health care’s share of the economy declining slightly through 1997. The economic slowdown that started in 2000, coupled with a loosening of managed care controls, has resulted in health care again expanding rather rapidly as a percent of the overall GSP since that time.

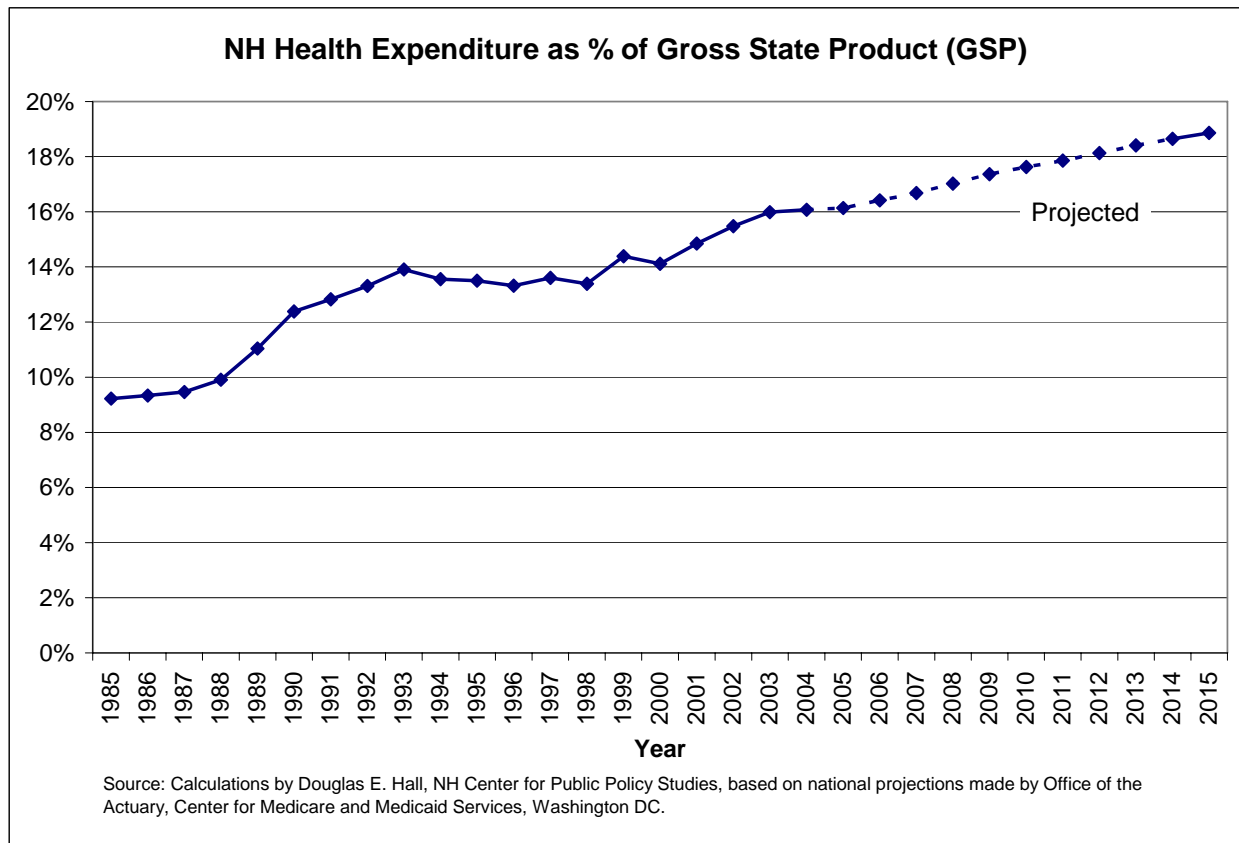
We project health care to continue to expand as a portion of the overall economy. In 2010 we expect the GSP to reach \$72.8 billion and total health expenditure to be \$12.8 billion. That will be 17.6 percent of the GSP. If the current trends continue it will reach 18.9 percent of the GSP in 2015. This is similar to what is happening nationally as well.

Continued growth of health care expenditure threatens the overall economy of the state. The proportion of the economy devoted to health care cannot double again in the next two decades as

¹ Most figures in Part I of this paper are taken from or based on 2004 national and state Health Expenditure Accounts prepared by the Office of the Actuary, Center for Medicare and Medicaid Services (CMS), US Department of Health and Human Services. http://www.cms.hhs.gov/nationalhealthexpenddata/01_overview.asp We have projected New Hampshire expenditures for years 2005-2015 using the CMS national projections through 2015. In the 2004 Health Expenditure Accounts, CMS replaced “Construction” with “Structures and Equipment.” This has resulted in higher measures of expenditure. Our data in this report, therefore, is not exactly equivalent to that in our prior reports.

it has in the past two. In the intervening years some combination of public policy changes and private action will necessarily limit future growth rates. When that will occur, what mechanisms will be used, and what the results will be for the citizens, we cannot predict.

Figure 1



3. Personal Health Care Spending in 2006

Total health expenditure in New Hampshire will total \$9.65 billion in 2006. Of that, *personal health care spending* will amount to about \$8.03 billion, more than doubling from only \$3.94 billion ten years earlier. For the past ten years, personal health care spending has been increasing at an average compound annual rate of 7.4 percent.

Figure 2 displays the portion of this 2006 personal health care spending that is attributable to different services. Hospital services and professional services each constitute about 30 percent of the total.

Figure 2

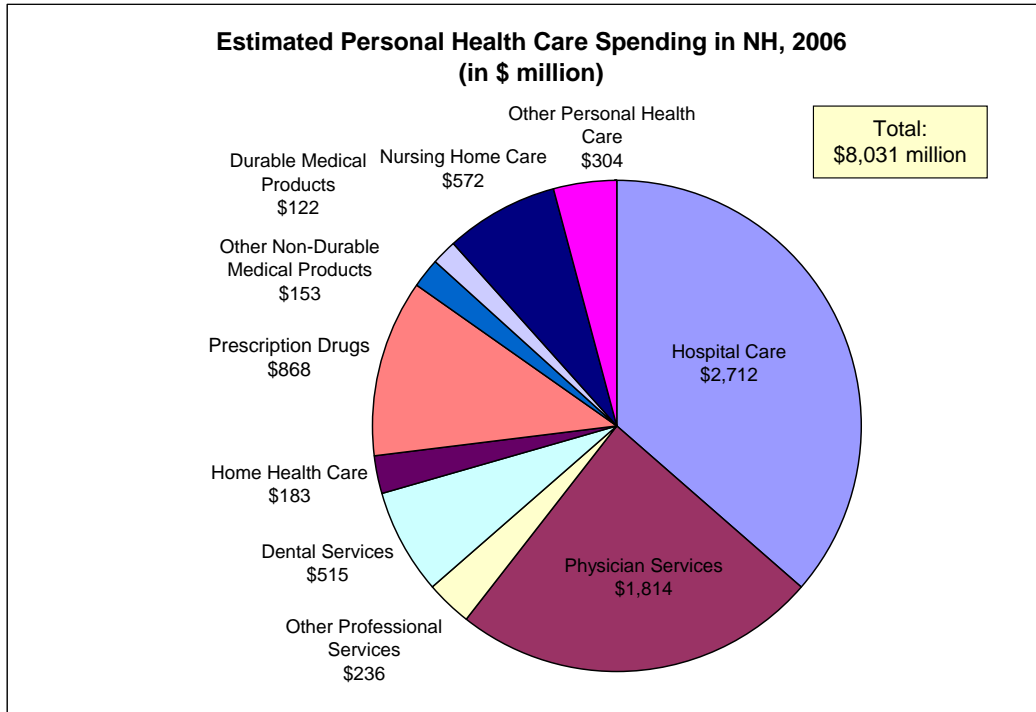


Table 1 contains the 2000, estimated 2005, and projected 2010 spending by service type.

Table 1

Personal Health Care Spending in New Hampshire (\$ in millions)					
	2000	2005	Percent increase 2000-2005	2010	Percent increase 2005-2010
Hospital Care	\$1,864	\$2,712	55%	\$3,883	43%
Physician Services	\$1,513	\$1,814	29%	\$2,577	42%
Other Professional Services	\$184	\$236	33%	\$332	41%
Dental Services	\$312	\$515	84%	\$735	43%
Home Health Care	\$151	\$183	23%	\$271	48%
Prescription Drugs	\$577	\$868	74%	\$1,277	47%
Non-Durable Medical Products	\$144	\$153	6%	\$185	21%
Durable Medical Products	\$99	\$122	28%	\$152	25%
Nursing Home Care	\$449	\$572	33%	\$755	32%
Other Personal Health Care	\$234	\$304	35%	\$467	53%
Total	\$5,527	\$7,479	45%	\$10,635	42%

Projected spending in the year 2010 is \$10.6 billion, an increase of \$2.9 billion over 2005. This represents a projected future compound annual increase from 2005 of about 7.3 percent compounded.

Spending on prescription drugs increased by 74 percent between 2000 and 2005 and we project it to increase by another 47 percent in the next six years. This has been one of the most rapidly growing components of health care spending.

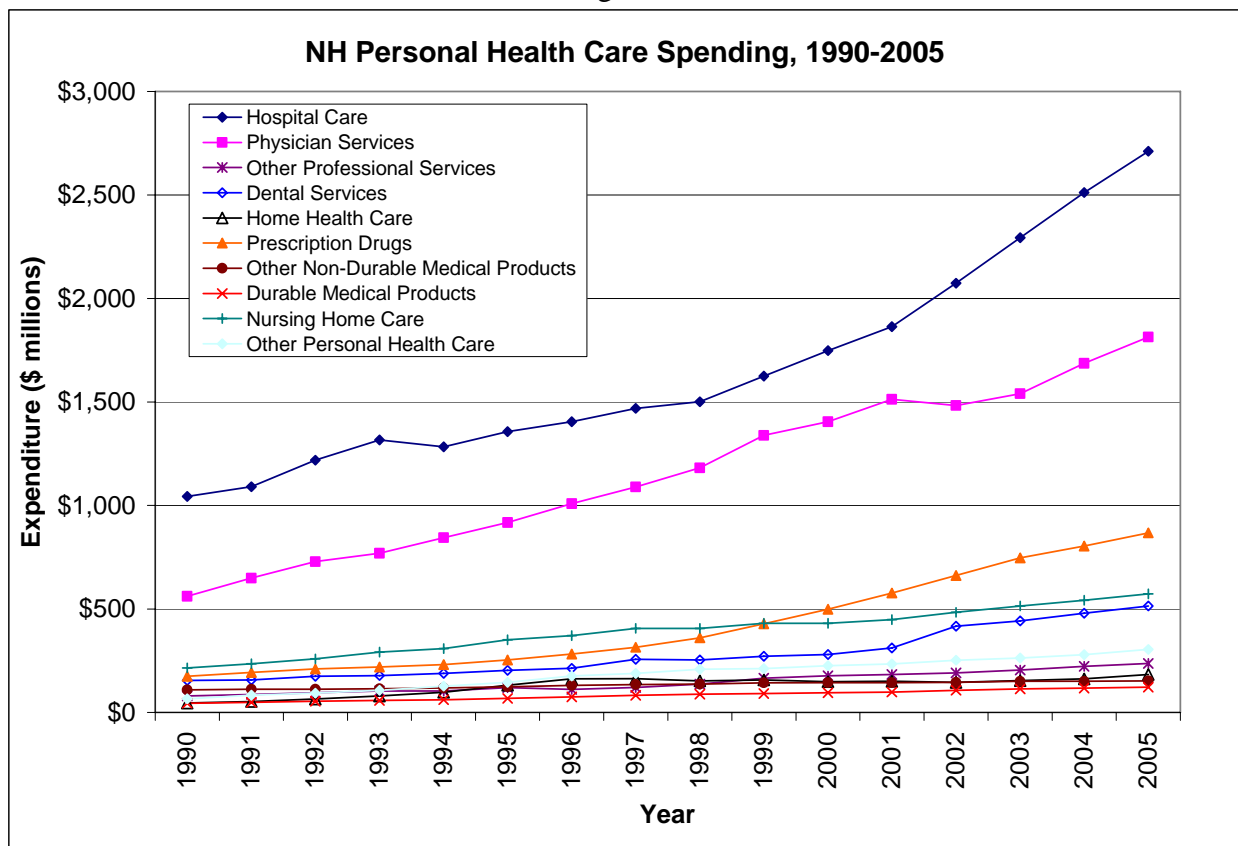
Personal health care spending per capita has increased from \$4,155 in 2000 to \$5,688 in 2005 and we project it to be about \$7,634 in 2010.

4. Recent Spending Trends

In 1990 total personal health care spending in New Hampshire was \$2.50 billion. Figure 3 displays the changes in spending on each of nine different service types over the past 15 years.

There was a period in the early and mid 1990s when the spending on hospital care was not climbing as rapidly as was spending for other services. Since 1998, however, expenditures for hospital care have begun to escalate. The recent rapid increase in spending for prescription drugs can be clearly seen in the figure. From only \$175 million in 1990, spending has increased to \$868 million in 2005. Spending for prescription drugs in New Hampshire first exceeded spending for nursing homes in 2000. We project spending on prescription drugs to double again by 2014.

Figure 3



5. Expenditure per Capita in Northern New England

It might seem easy to calculate health care spending per capita in each state. That is not true, however, because patients move across state lines to obtain some health care. Hospitals in the Boston area receive many patients from New Hampshire and other New England states. Many of the patients at Dartmouth-Hitchcock hospital in Lebanon actually reside in Vermont. CMS performs the calculations necessary to obtain per capita figures only occasionally. The most recent numbers are for 2004. In that year, personal health care spending per capita in New Hampshire was about \$5,514. This was almost identical to the national average that year of

\$5,461. Table 2 shows the per capita spending on different service types for New Hampshire, our surrounding states, and the US average for 1998.

Overall New Hampshire's per capita spending was close to the national average but below that of Maine, Massachusetts, and Vermont. On this per capita basis Massachusetts was spending considerably more on nursing home care and home health care while New Hampshire was spending more on dental care than its surrounding states.

Table 2

Per Capita Spending on Personal Health Care, 2004					
Health Care Type	NH	US	ME	MA	VT
Hospital Care	\$1,991	\$1,998	\$2,241	\$2,917	\$2,201
Physician Services	\$1,337	\$1,400	\$1,369	\$1,626	\$1,409
Other Professional Services	\$177	\$185	\$237	\$212	\$218
Dental Services	\$380	\$285	\$275	\$372	\$323
Home Health Care	\$128	\$151	\$135	\$281	\$163
Prescription Drugs	\$637	\$660	\$745	\$769	\$656
Non-Durable Medical Products	\$120	\$113	\$73	\$106	\$78
Durable Medical Products	\$94	\$80	\$70	\$82	\$72
Nursing Home Care	\$429	\$403	\$489	\$676	\$398
Other Personal Health Care	\$221	\$186	\$615	\$269	\$479
Total	\$5,514	\$5,461	\$6,247	\$7,310	\$5,997

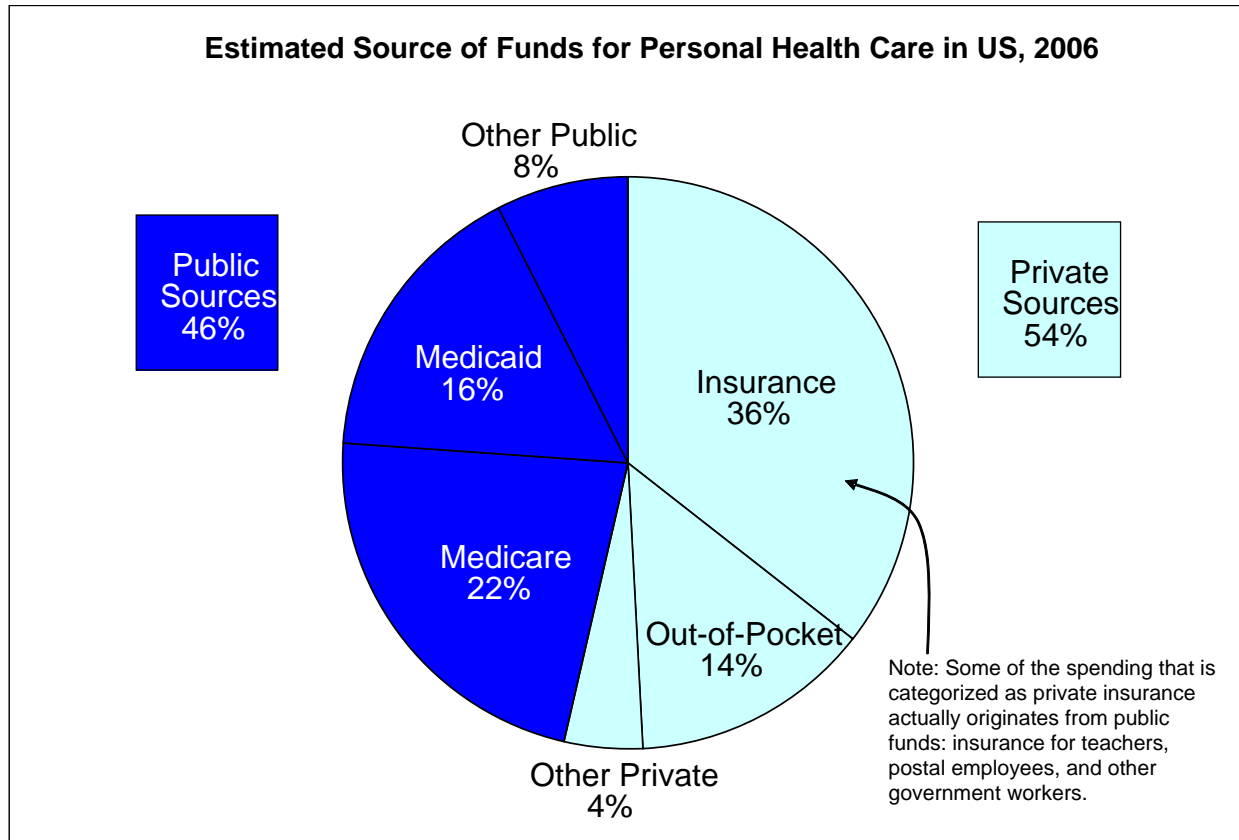
6. Source of Funds

The spending on personal health care comes from various sources. Some health care is purchased directly by consumers with their own resources. Other services are purchased by commercial insurance carriers on behalf of insured individuals and those costs are passed on in premiums to the purchasers of insurance, both employers and individuals. Yet other costs are paid by public programs such as Medicare, Medicaid, and the Veterans Administration.

As shown in Figure 4, 54 percent of the money to pay for personal health care in 2006 comes from private sources (primarily out-of-pocket and health insurance). Slightly less than half comes from public, tax supported sources (primarily Medicare and Medicaid). A similar distribution is also true in New Hampshire, although exact figures are not available.

Some claims paid by health insurance are, in fact, derived from public tax sources. The health insurance premiums of public employees, including school teachers, firefighters, police, state employees, and federal employees are paid for primarily by public funds. Payments for their personal health services by their insurance carriers are here categorized as a private source rather than a public source. When that is taken into consideration, it is fair to conclude that about half of all personal health care costs are actually paid for by public taxation.

Figure 4



Funding for different types of health care service comes from different mixes of sources. For example, we estimate that of the \$380 million in spending on dental services in New Hampshire this year, 45 percent will be paid for out-of-pocket while only 3 percent of the payments for \$2.916 billion of hospital services will be out-of-pocket. Similarly, Medicare will pay for 39 percent of home health care but only 14 percent of all nursing home care. Public sources will pay for 62 percent of the total \$604 million for nursing home care but only 35 percent of the \$1,954 million for physician services.

Part II: Employer Sponsored Health Insurance²

The majority of New Hampshire residents obtain health insurance through the employer of one of their immediate family. The status of employer sponsored health insurance is therefore critically important in understanding the operation of the state's health care system. Opinion polls show that health insurance is among the issues of greatest concern to the public in terms of both cost and access.

In many respects the current situation in New Hampshire mirrors the national situation. However, there are important differences as well.

² Data in Part II of this report are taken from various tables of the Insurance Component of the Medical Expenditure Panel Survey (MEPS) of the Agency for Healthcare Research and Quality, U.S. Department of Health and Human Services. The tables may be obtained from http://www.meps.ahrq.gov/Data_Pub/IC_Tables.htm.

1. Employers Provided Health Insurance to 260,000 Employees

In 2004, of the estimated 534,000 private sector employees of New Hampshire employers, the employers provided health insurance to approximately 260,000. There were multiple reasons why 275,000 employees did not enroll in an employer-sponsored health insurance plan: (1) their employer did not offer any insurance at all; (2) they did not meet the eligibility criteria of their employer's plan (usually period of service or hours worked); (3) although eligible, they chose not to enroll (usually because they had insurance through a spouse, parent, or Medicare).

Of those who obtained health insurance from their employer, some obtained single coverage, some obtained 2-person coverage, and others obtained full family coverage.

Figure 5 shows both the percent of employees who obtained each type of health insurance as well as the reasons the remaining employees did not obtain such insurance. Figure 6 displays the same information for the nation as whole. Nationally, 54% of all workers were enrolled in their employer's health insurance plan while in New Hampshire it was only 48%. The 2004 MEPS survey indicates that a greater percentage of workers in New Hampshire are ineligible for their employer's health insurance benefit than is the case nationally.

2. Full-time and Part-time Employment

Whether an individual is employed full-time or part-time is very strongly related to the probability that he or she will be enrolled in an employer-sponsored health insurance plan. In New Hampshire in 2004, 65 percent of full time employees were enrolled in an employer-sponsored health plan. Among part-time employees, only 11 percent were so enrolled. The difference between full-time and part-time employment can be seen in Figures 7 and 8. A similar pattern exists nationally.

Figure 5

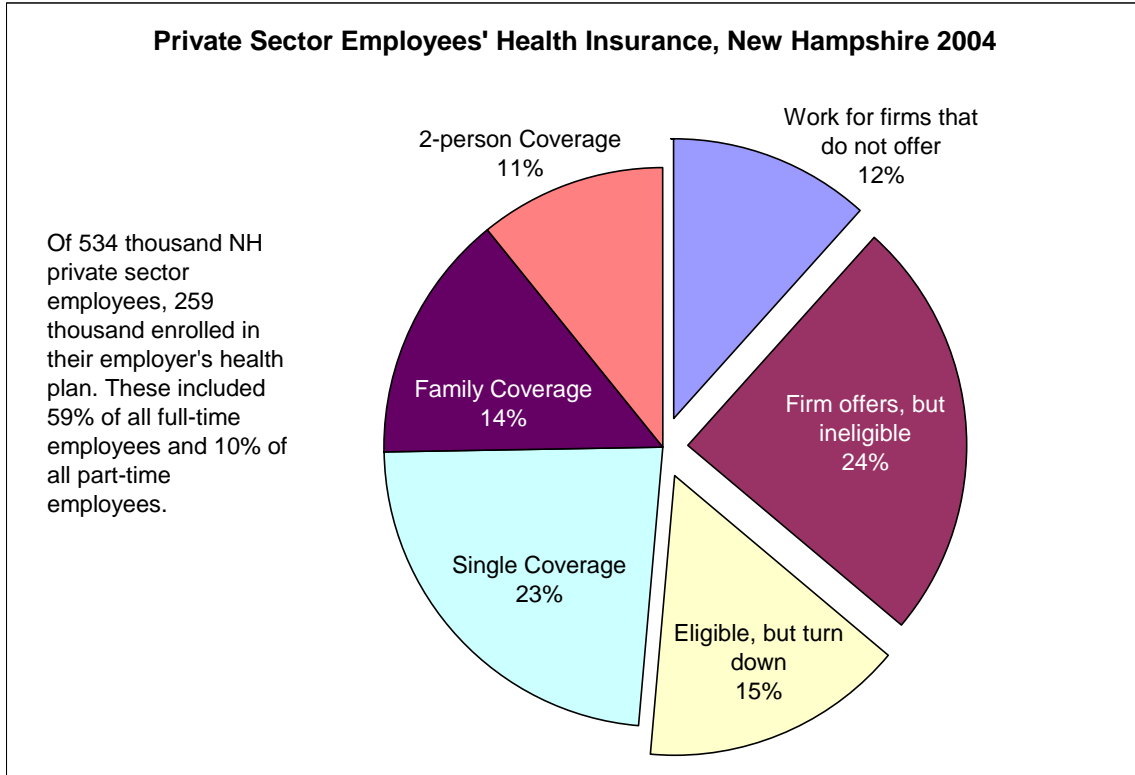


Figure 6

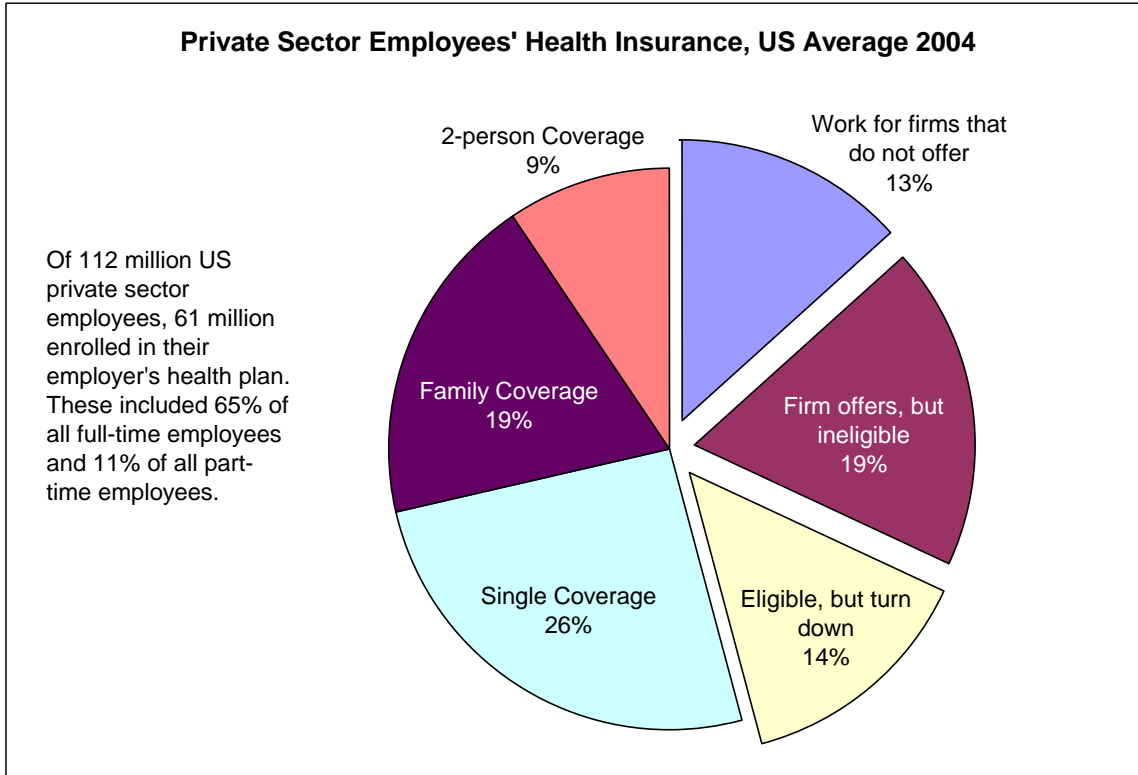


Figure 7

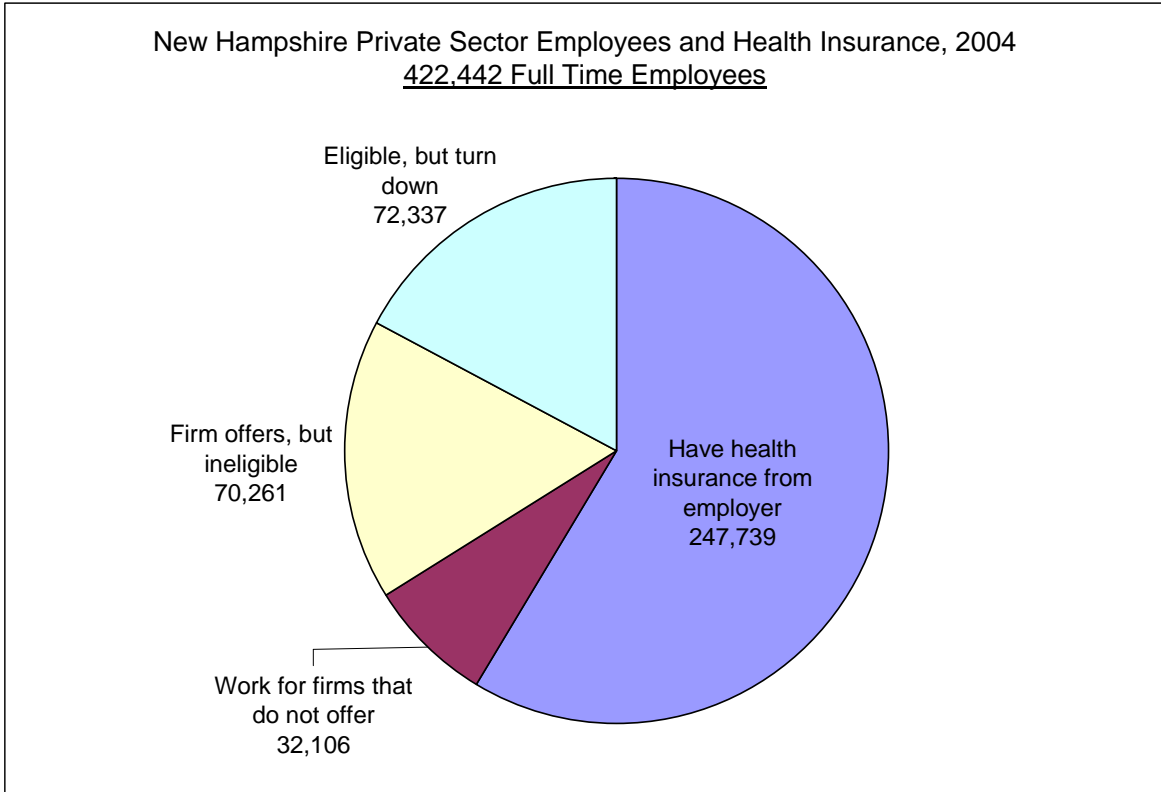
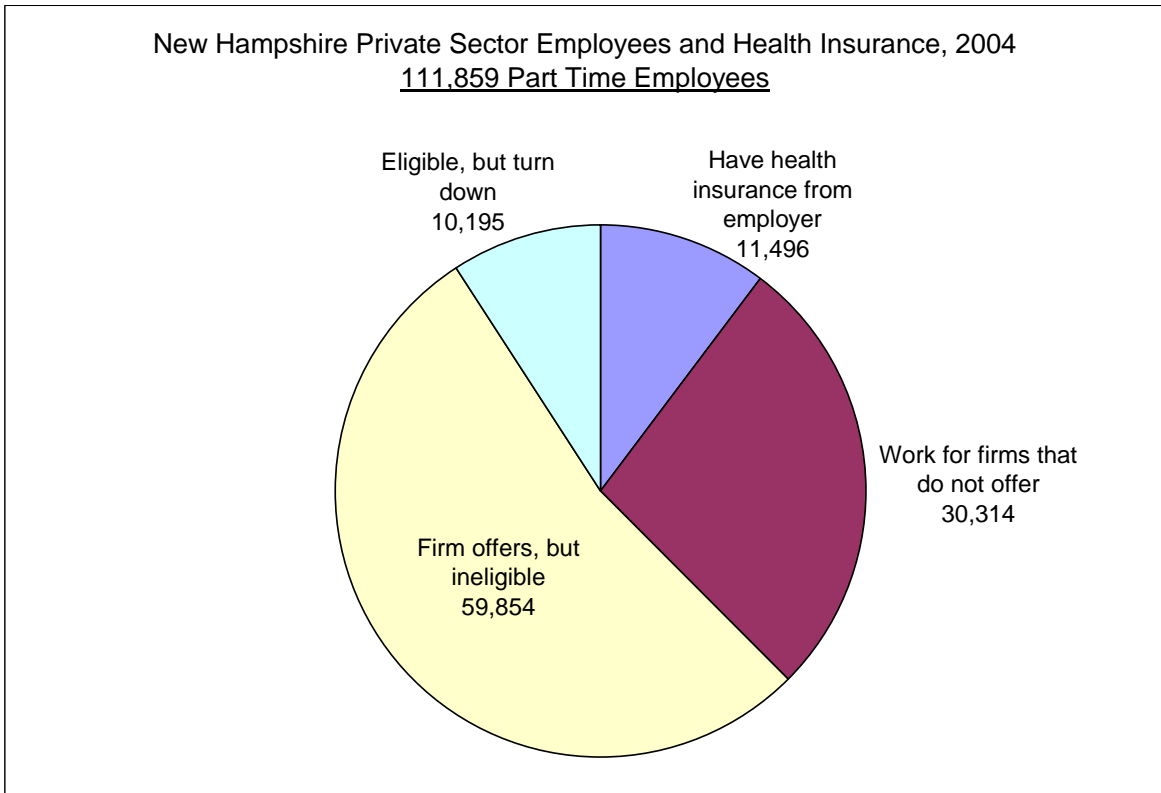


Figure 8



3. Annual Health Insurance Premiums

The average annual premium borne by employers and employees for single coverage is considerably less than that for employees who are covered by a family plan. The premium for 2-person coverage is typically about double that of single coverage.

In 2004, the average annual premium for single person coverage in New Hampshire was just over \$4,000 and was 10% higher than the national average. The average premium for family coverage in New Hampshire was over \$11,000, also about 10% more than the national average. The premium for 2-person coverage in New Hampshire, about \$8,500, was fully 20% more than the national average.

Table 3

Average Annual Health Insurance Premium						
	New Hampshire			US		
	2000	2004	Annual increase	2000	2004	Annual increase
1-Person coverage	\$2,790	\$4,084	10.0%	\$2,655	\$3,705	8.7%
Family coverage	\$7,525	\$11,156	10.3%	\$6,772	\$10,006	10.3%
2-person coverage ³	n/a	\$8,495	-	n/a	\$7,056	-

As shown in Table 3, for both single coverage and family coverage, the compound average rate of increase in premiums in New Hampshire for the past four years (2000-2004) has been just about 10%.

Some caution must be used in interpreting these data and other similar data from the MEPS survey. Because they are derived from a survey of only a sample of employers, there is an inherent sampling error that must be taken into consideration. Small differences may be nothing more than the effect of the specific employer sample. To account for this, we have calculated 95 percent confidence intervals for each annual premium. The confidence intervals for the national averages are very small because the national sample is quite large. For the state of New Hampshire, however, the confidence intervals are considerably larger.

Figures 9, 10, and 11 show average annual premiums for 1-person, family, and 2-person coverage in New Hampshire and nationally for recent years. After taking into account the 95 percent confidence intervals, New Hampshire rates for 1-person coverage are close to the national average while rates for family and 2-person plans are clearly above the comparable national averages.

Other data show that overall health care costs in New Hampshire, on a per capita basis, are very close to the national average (see Table 2). It is possible that the average benefits of insurance coverage in New Hampshire are greater than the national average (lower average deductibles or co-payments, for example) or some other differences in policy types could account for the higher average premiums in our state.

³ MEPS did not begin to collect premium information for 2-person coverage nationally until 2001 and for New Hampshire until 2002.

Figure 9

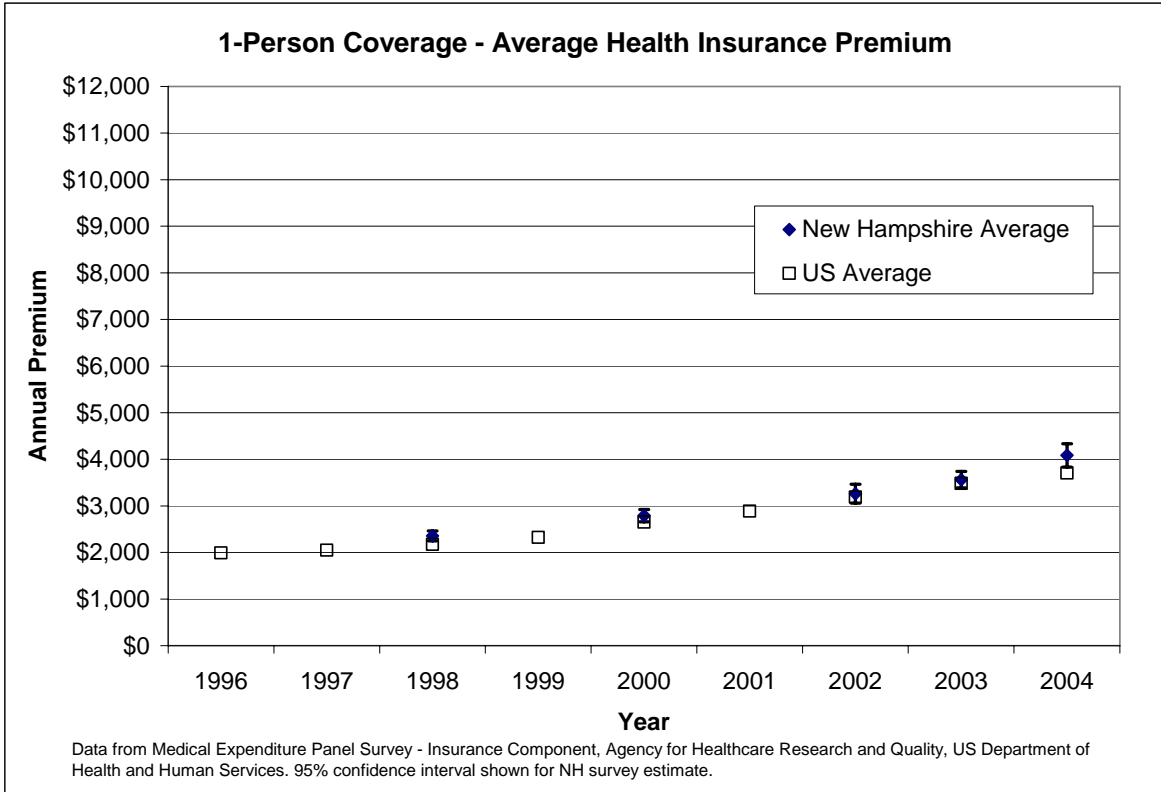


Figure 10

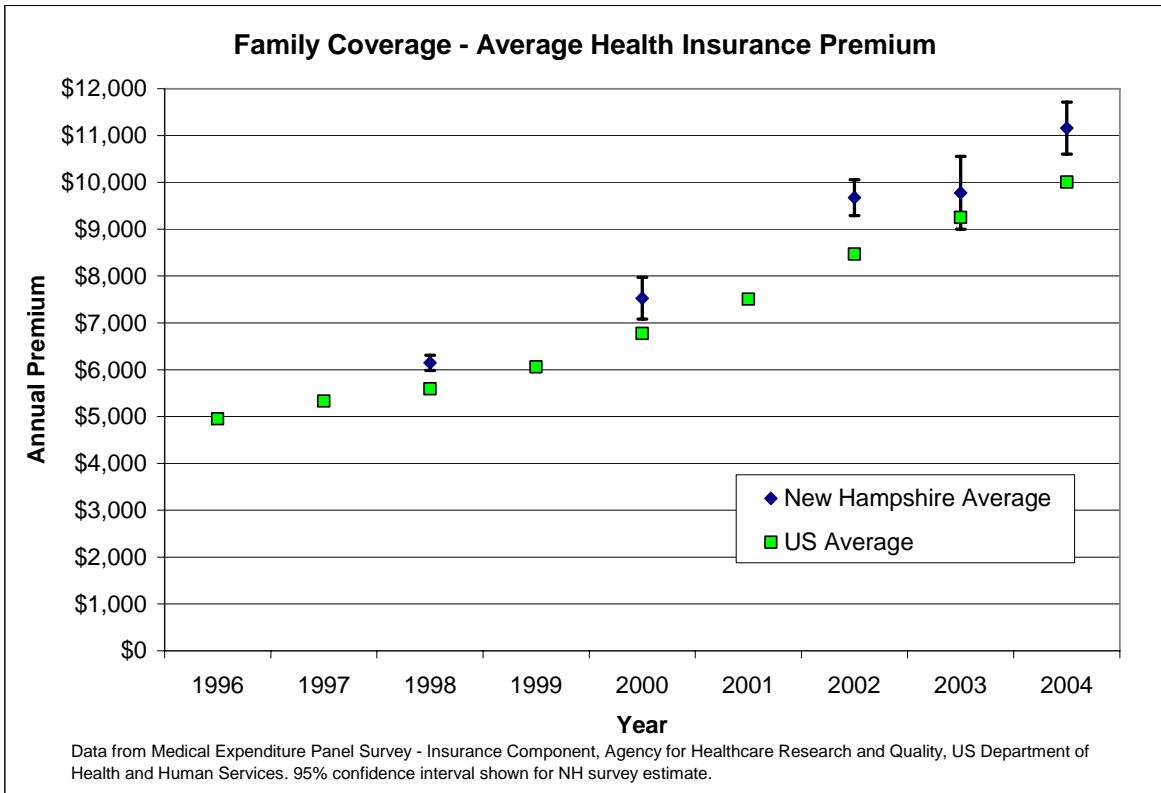
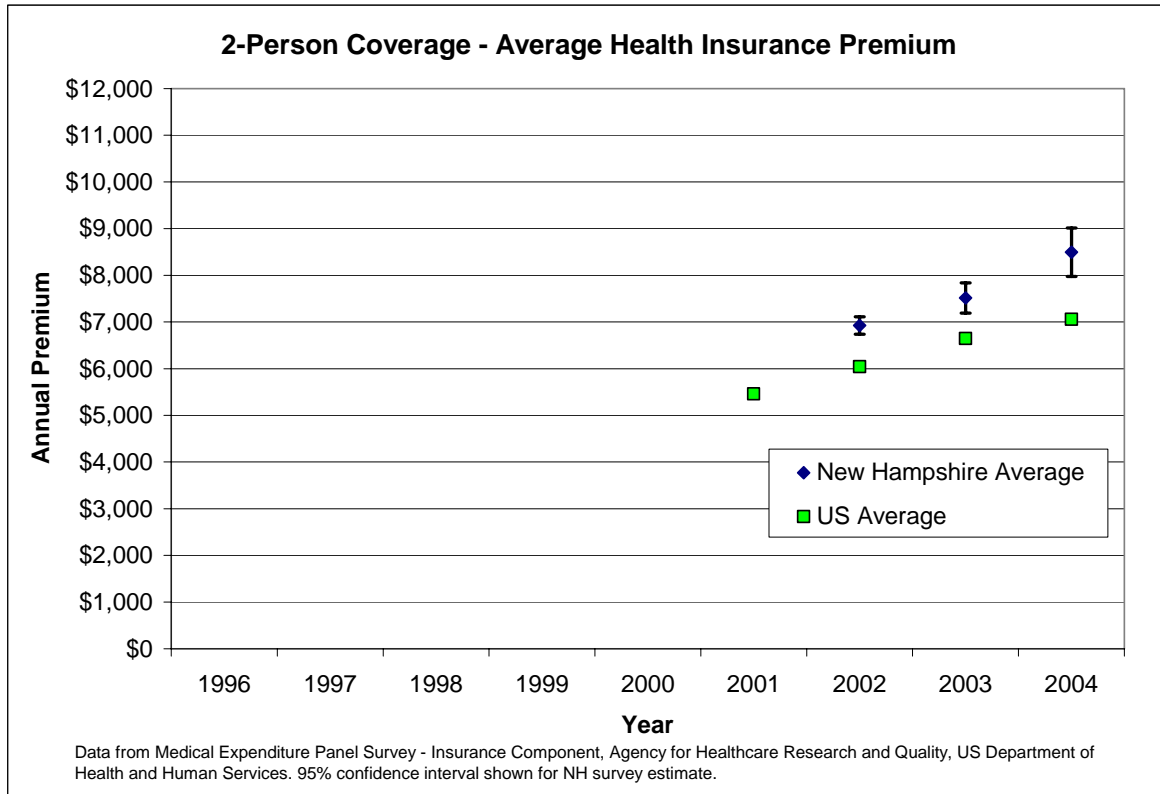


Figure 11



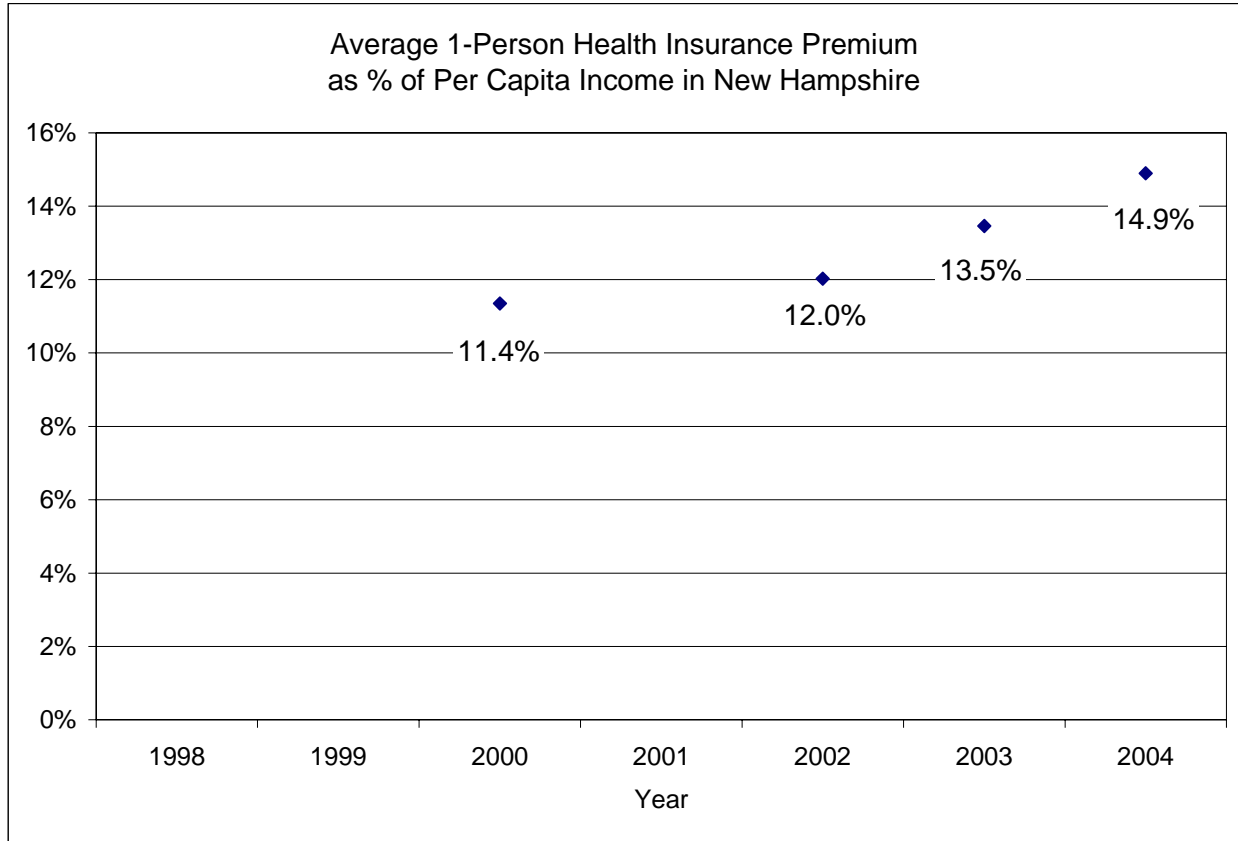
The average premium of a 1-person health insurance policy can be compared to the state’s per capita income to ascertain, on average, what percent of income would have to be paid to purchase such a policy. Both sets of data are available for some recent years.⁴ As shown in Table 4 and Figure 12, in New Hampshire the cost of a 1-person policy has grown from 11.4 percent of per capita income in 2000 to 14.9 percent in 2004.

Table 4

Annual Health Insurance Premium for 1-Person Coverage as Percent of Per Capita Income							
	1998	1999	2000	2001	2002	2003	2004
1-Person Coverage Premium	\$2,356		\$2,790		\$3,263	\$3,563	\$4,084
Per Capita Income			\$24,583	\$25,632	\$27,129	\$26,467	\$27,407
% of Per Capita Income			11.4%		12.0%	13.5%	14.9%

⁴ Per capita income from the American Community Survey, US Bureau of the Census, <http://www.census.gov/acs/www/Products/index.htm>, November 30, 2006

Figure 12



4. Employee Share of Premiums

With only a few remaining exceptions, most employers require that their employees pay some portion of the premiums for health insurance. There are many different ways by which employers structure these co-premium payments. For example, some require a higher co-premium for family coverage than those covering only the employee.

Table 5

Average Annual Employee Contribution to Health Insurance						
	New Hampshire			US		
	2000	2004	Annual increase	2000	2004	Annual increase
Single coverage	\$470	\$944	19.1%	\$450	\$671	10.5%
Family coverage	\$1,752	\$3,102	15.4%	\$1,614	\$2,438	10.8%
2-person coverage	n/a	\$2,010	-	n/a	\$1,667	-

As shown in Table 5, the average employee contribution to health insurance is higher in New Hampshire than nationally and has been growing at a faster rate as well. Also, as shown in Table 6, for both single and family coverage New Hampshire employers require their employees to pay a slightly larger portion of the insurance premiums than do employers nationally.

Table 6

Average Annual Employee Contribution to Health Insurance as % of Premium		
	New Hampshire	US
Single coverage	23%	18%
Family coverage	28%	24%
2-person coverage	24%	24%

5. MEPS and New Hampshire

The MEPS-IC survey of employers results in much additional data not summarized in this report. The average premiums by size of firm and industry, the percentage of plans that are self-insured, the number of plans offered by employers, the enrollment of low wage workers, and other factors are among those that can be reviewed and analyzed.

MEPS surveys employers regarding health insurance every year. In past years, the survey sample sizes for the 20 smallest states, including New Hampshire, were not always large enough to provide reliable annual estimates at the state level. That has recently changed however and MEPS is now using a large enough sample to provide New Hampshire with good aggregate data annually. Data on health insurance status and costs in 2005 should become available in July 2007.

Determining whether real differences exist or changes are occurring within sub-samples, however, may still not be possible. The sub-samples of certain employers will be too small. For example, determining whether certain industries or certain geographic regions of the state are seeing real changes in employer covered health insurance will not be possible. Similarly, determining whether the differences in average premiums among employers of different sizes are real or just a result of sampling error may also be impossible.

Fortunately, MEPS allows states to “purchase” a larger sample or to over-sample certain employers by size, geography, or industry. The cost is \$130 per fielded survey. New Hampshire should join other smaller states that have made such purchases. The cost of the additional sampling should be paid by the NH Insurance Department as part of its responsibility to monitor the health insurance situation within the state. This would therefore not require any commitment of the state’s general fund. It would place the state in a much better position to monitor changes in this critical component of well-being among the state’s citizens.