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Health Care Dollars and Health Insurance in New Hampshire, 2004

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About this paper

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Executive Summary

Health care is nearly 16 percent of the overall economy of New Hampshire and again began to represent a growing portion of the Gross State Product (GSP) beginning in 1998. This is very similar to the national pattern. Personal health care spending this year will amount to approximately \$7.5 billion; on a per capita basis, this is very close to the national average. Spending is likely to reach \$10.7 billion by 2010. About half of personal health care spending is paid for by private sources, mostly health insurers and out-of-pocket payments. The other half is paid, directly or indirectly, with tax dollars, primarily by the Medicaid and Medicare programs.

Of the approximate 500,000 private sector employees of New Hampshire firms, 360,000 obtain health insurance from their employer for themselves and, in many cases, for other members of their families. 69 percent of full time employees but only 10 percent of part-time employees are enrolled in an employer-sponsored health plan. In recent years, the average annual health insurance premium for a 1-person policy has been very close to the national average. The averages for 2-person and family policies have been higher than the national averages, however. Why this should be true is unclear, however, as the cost of health care per capita in New Hampshire is only marginally above the national average.

The Insurance Department should purchase a larger employer sample in the annual Medical Expenditure Panel Survey – Insurance Component (MEPS-IC) as part of its responsibility to monitor the status of health insurance in New Hampshire.

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, 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 2003 total health spending was 16 percent greater than spending on personal health care.

2. Total Health Expenditure as Percentage of Gross State Product

In 2000, New Hampshire’s GSP, the most comprehensive measure of the state’s overall economy, was \$43.6 billion and total health expenditure was \$5.95 billion or 13.6 percent of GSP. We estimate the GSP will be \$54.9 billion in 2005 and total health expenditure to be \$8.78 billion or 16.0 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 1993. 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.

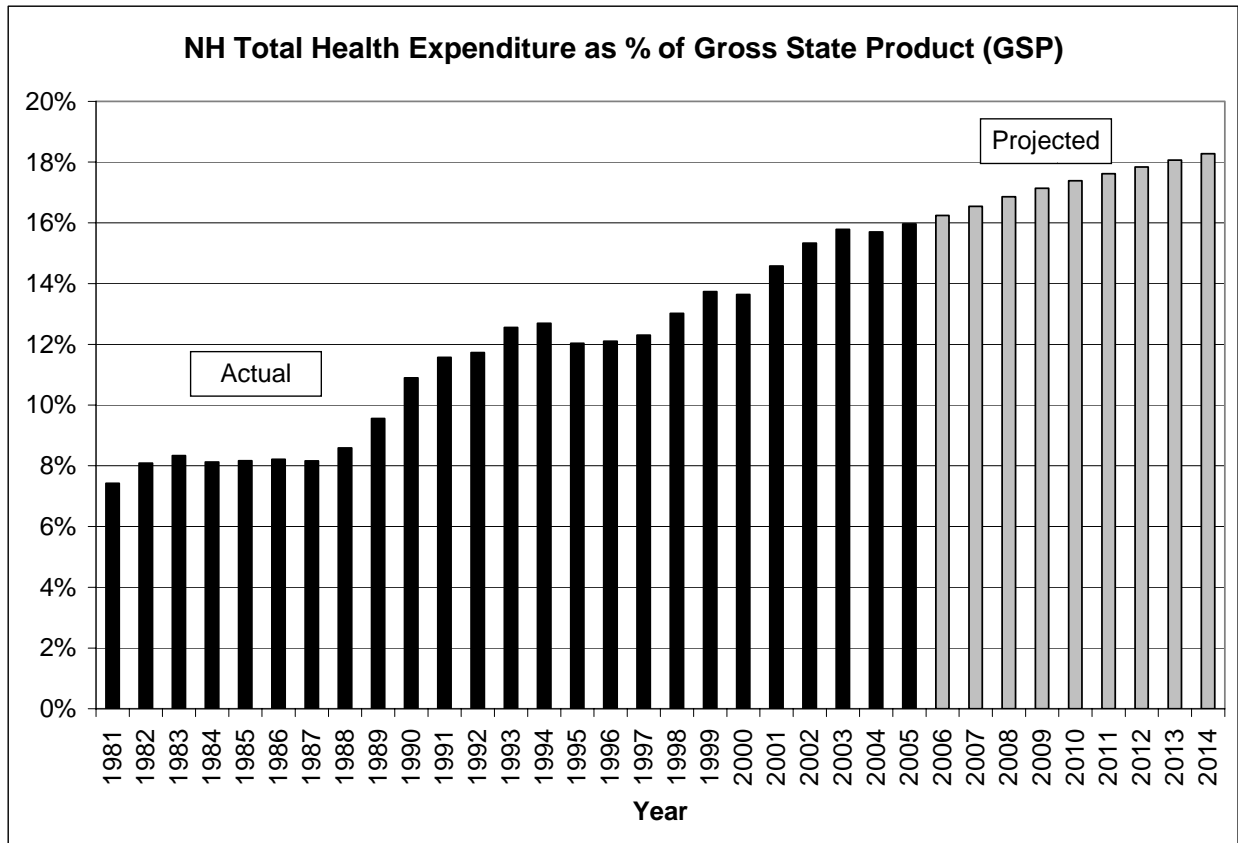
We project health care to continue to expand as a portion of the overall economy in the next few years. In the next five years we expect the GSP to reach \$71.8 billion and total health expenditure to be \$12.5 billion. That will be 17.4 percent of the GSP. If the current trends continue it will reach 18.3 percent of the GSP in 2014. 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 2000 data prepared by the Office of the Actuary, Center for Medicare and Medicaid Services (CMS), US Department of Health and Human Services. We have estimated New Hampshire data for 2001-2014 based on national data through 2002 and CMS national projections through 2014. Gross State Product figures are from Regional Economic Accounts, Bureau of Economic Analysis, U.S. Department of Commerce, <http://www.bea.doc.gov/bea/regional/gsp/>, accessed July 6, 2005.

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, are not predictable.

Figure 1



3. Personal Health Care Spending in 2005

Total health expenditure in New Hampshire will total \$8.78 billion in 2005. Of that, personal health care spending will amount to about \$7.54 billion, more than doubling from only \$3.38 billion ten years earlier. For the past ten years, personal health care spending has been increasing at an average compound annual rate of 8.4 percent.

Figure 2 displays the portion of this 2005 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

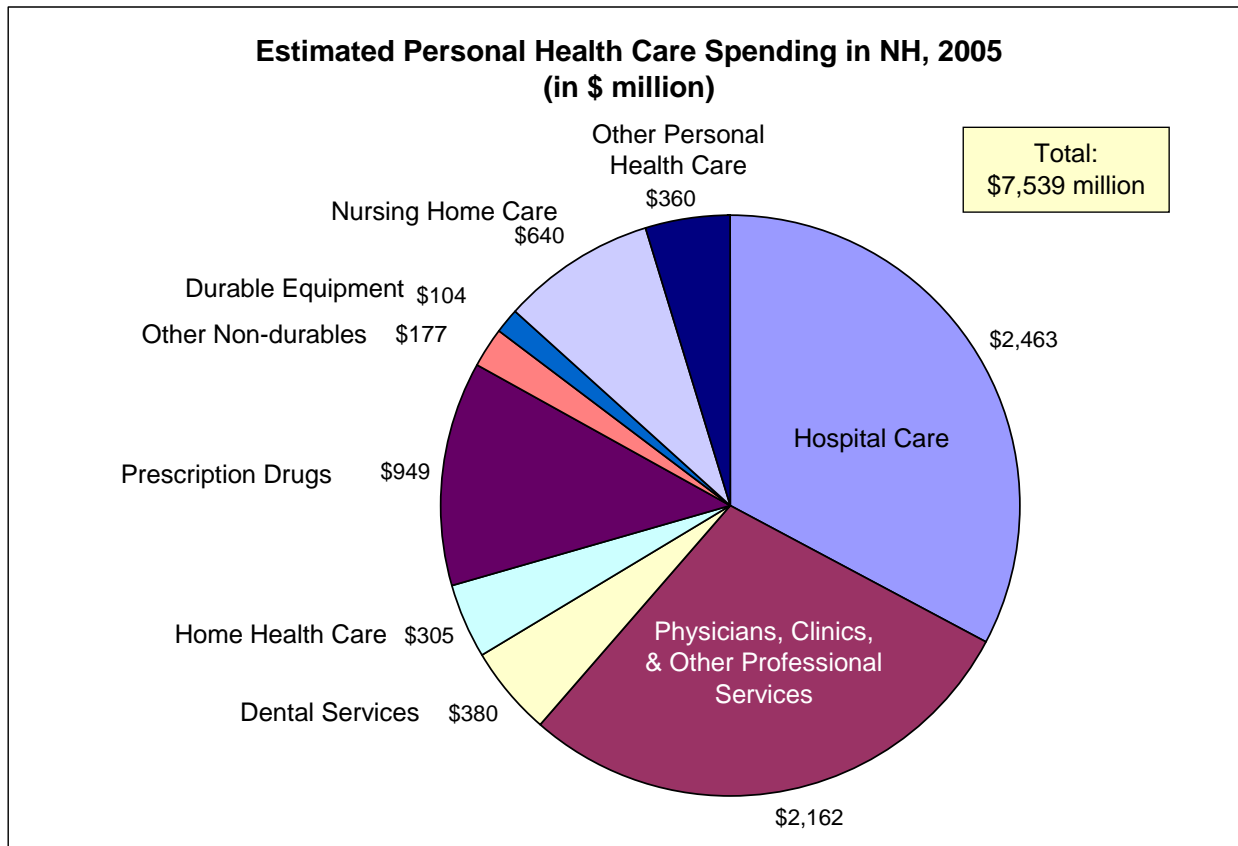


Table 1 contains the 2000, estimated 2005 and projected 2010 spending by service type.

Table 1

Personal Health Care Spending in New Hampshire (\$ in millions)					
	2000	2005	Percent increase 2000-2005	2010	Percent increase 2005-2010
Hospital Care	\$1,729	\$2,463	42%	\$3,329	35%
Physician & Other Prof. Services	\$1,478	\$2,162	46%	\$3,044	41%
Dental Services	\$274	\$380	39%	\$525	38%
Home Health Care	\$193	\$305	58%	\$449	47%
Prescription Drugs	\$516	\$949	84%	\$1,566	65%
Other Medical Non-durables	\$152	\$177	16%	\$227	28%
Durable Medical Equipment	\$85	\$104	22%	\$126	21%
Nursing Home Care	\$504	\$640	27%	\$832	30%
Other Personal Health Care	\$227	\$360	59%	\$573	59%
Total	\$5,158	\$7,539	46%	\$10,670	42%

Projected spending in the year 2010 is \$10.7 billion, an increase of \$3.2 billion over 2005. This represents a projected future compound annual increase from 2004 of about 7.0 percent compounded.

Spending on prescription drugs increased by 84 percent in the past four years and we project it to increase by another 65 percent in the next six years. This has been the most rapidly growing component of health care spending.

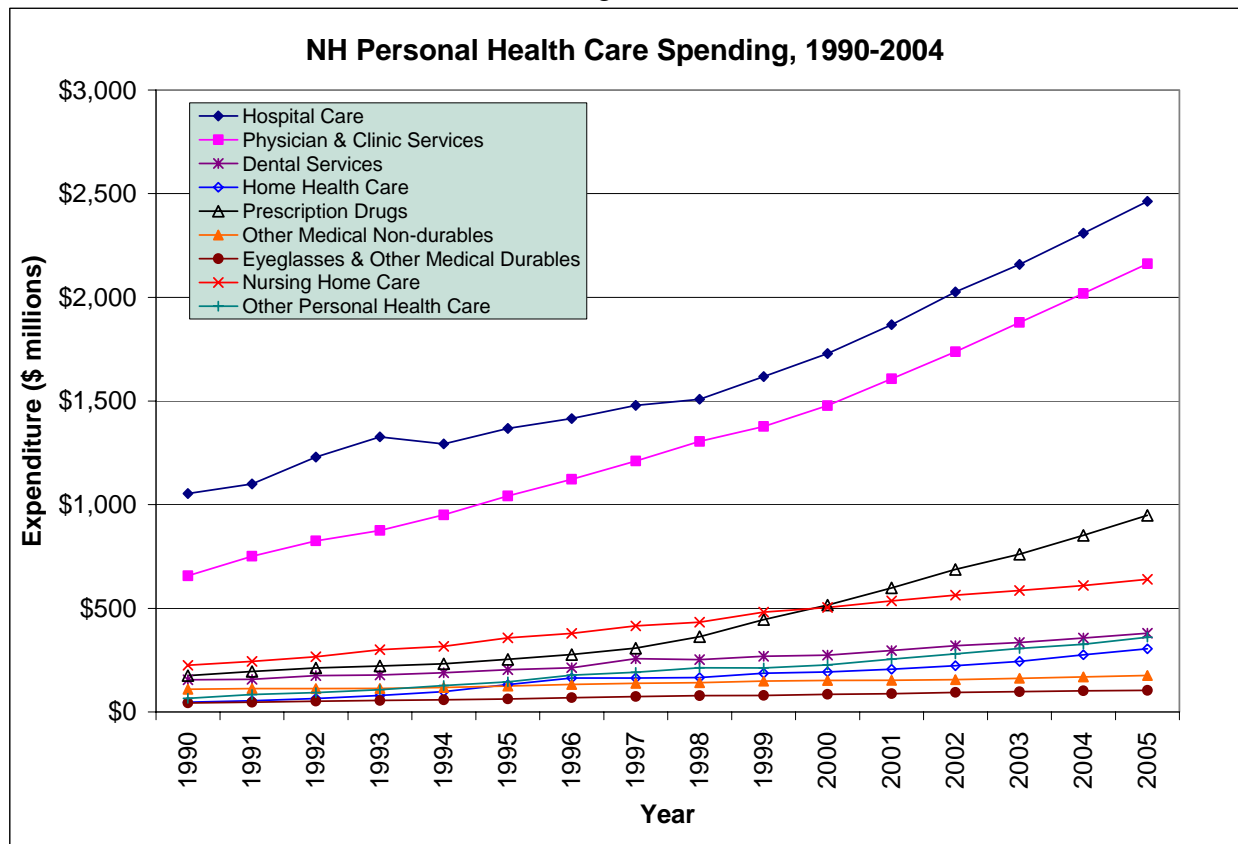
Personal health care spending per capita has increased from \$4,158 in 2000 to \$5,744 in 2005 and we project it to be about \$7,735 in 2010.

4. Recent Spending Trends

In 1990 total personal health care spending in New Hampshire was \$2.53 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 \$949 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 2012.

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 1998. In that year, personal health care spending per capita in New Hampshire was about \$3,840. This was very slightly above the national average that year of \$3,759. Table 2 shows the per capita spending on different service types for New Hampshire, our surrounding states, and the US average for 1998.²

New Hampshire's per capita spending was slightly higher than the national average and Vermont but below that of Maine and Massachusetts. On this per capita basis Massachusetts was spending considerably more on nursing home care and Vermont was spending considerably less on drugs and medical non-durables. New Hampshire had lower spending on hospital care than its surrounding states and the national average.

Comparable data are not yet available from CMS for later years. Personal health care spending has risen about 69 percent since 1998, and it is probable that consumption of health care services did not rise at exactly the same rate for citizens of each state. The relative differences among states in 2005 should not be assumed to be identical to those of 1998.

Table 2

Per Capita Spending on Personal Health Care, 1998					
Health Care Type	NH	US	ME	MA	VT
Hospital Care	\$1,234	\$1,405	\$1,501	\$1,807	\$1,328
Physician & Other Professional Services	\$1,189	\$1,095	\$1,020	\$1,316	\$988
Drugs & Other Medical Nondurables	\$455	\$451	\$449	\$469	\$401
Nursing Home Care	\$362	\$325	\$388	\$573	\$302
Dental Services	\$238	\$199	\$193	\$236	\$216
Home Health Care	\$107	\$108	\$151	\$167	\$110
Medical Durables	\$56	\$57	\$48	\$56	\$50
Other Personal Health Care	\$198	\$118	\$276	\$186	\$260
Total	\$3,840	\$3,759	\$4,025	\$4,810	\$3,654

6. Source of Funds

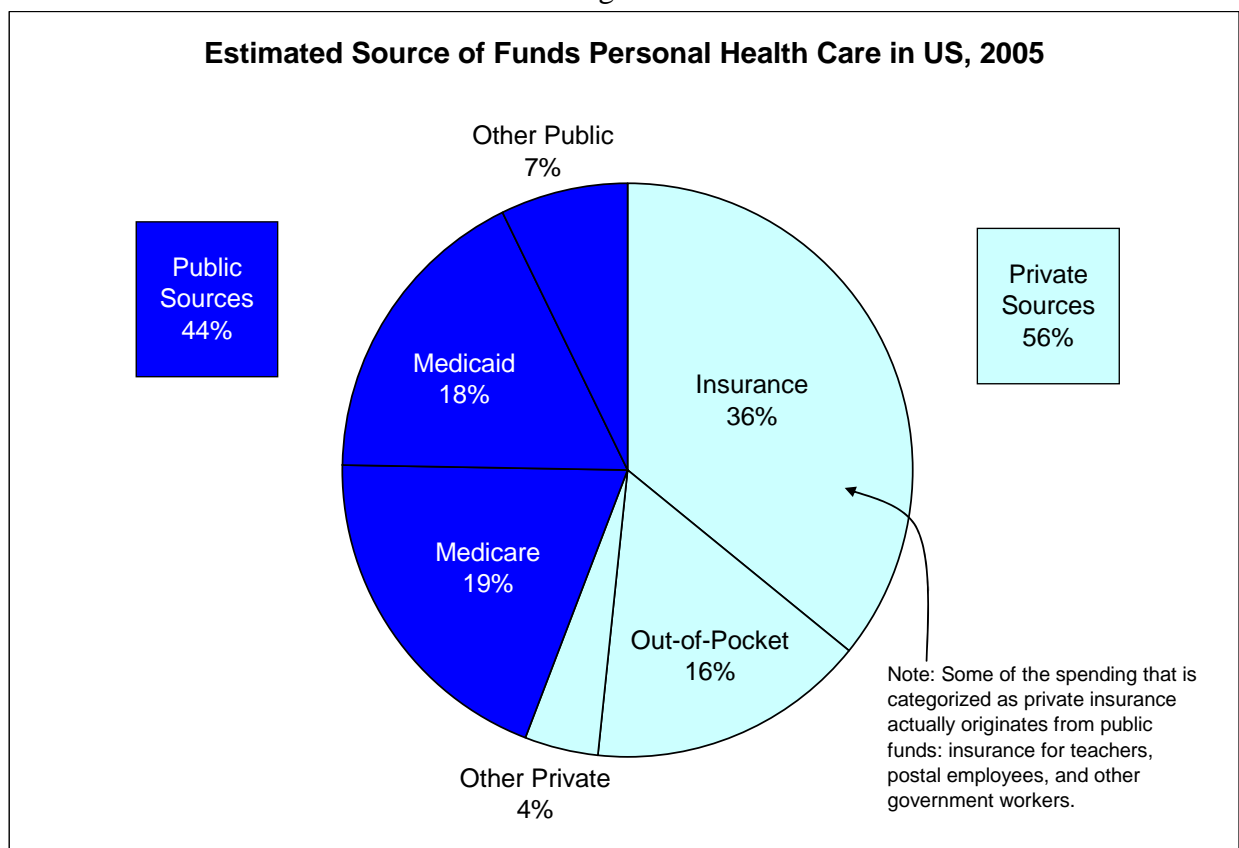
The spending on personal health care comes from various sources. Some health care is purchased directly by consumers with their own resources. Other services are purchased by commercial insurance carriers on behalf of insured individuals and those costs are passed on in premiums to the purchasers of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

² Data from "State Health Facts Online", Kaiser Family Foundation, <http://www.statehealthfacts.kff.org/cgi-bin/healthfacts.cgi>, accessed August 15, 2004.

As shown in Figure 4, 56 percent of the money to pay for personal health care in 2005 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, 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 nearly half of all personal health care costs are actually paid for by public tax dollars.

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 \$2,463 million of hospital services will be out-of-pocket. Similarly, Medicare will pay for 36 percent of durable medical equipment but only 2 percent of prescription drugs. Public sources will pay for 61 percent of the total \$640 million for nursing home care but only 34 percent of the \$2,162 million for physician and clinic services.

Part II: Employer Sponsored Health Insurance³

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.

1. Employers Provided Health Insurance to 300,000 Employees

In 2003, of the estimated 536,000 private sector employees of New Hampshire employers, the employers provided health insurance to approximately 300,000. There were multiple reasons why 236,000 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. The situation in New Hampshire does not differ from the national average by very much.

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 2003, 69 percent of full time employees were enrolled in an employer-sponsored health plan. Among part-time employees, only 10 percent were so enrolled. The difference between full-time and part-time employment can be seen in Figures 7 and 8. The same pattern holds true nationally.

³ 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 and from data files provided by James M. Branscome of that agency. The tables may be obtained from http://www.meps.ahrq.gov/Data_Pub/IC_Tables.htm.

Figure 5

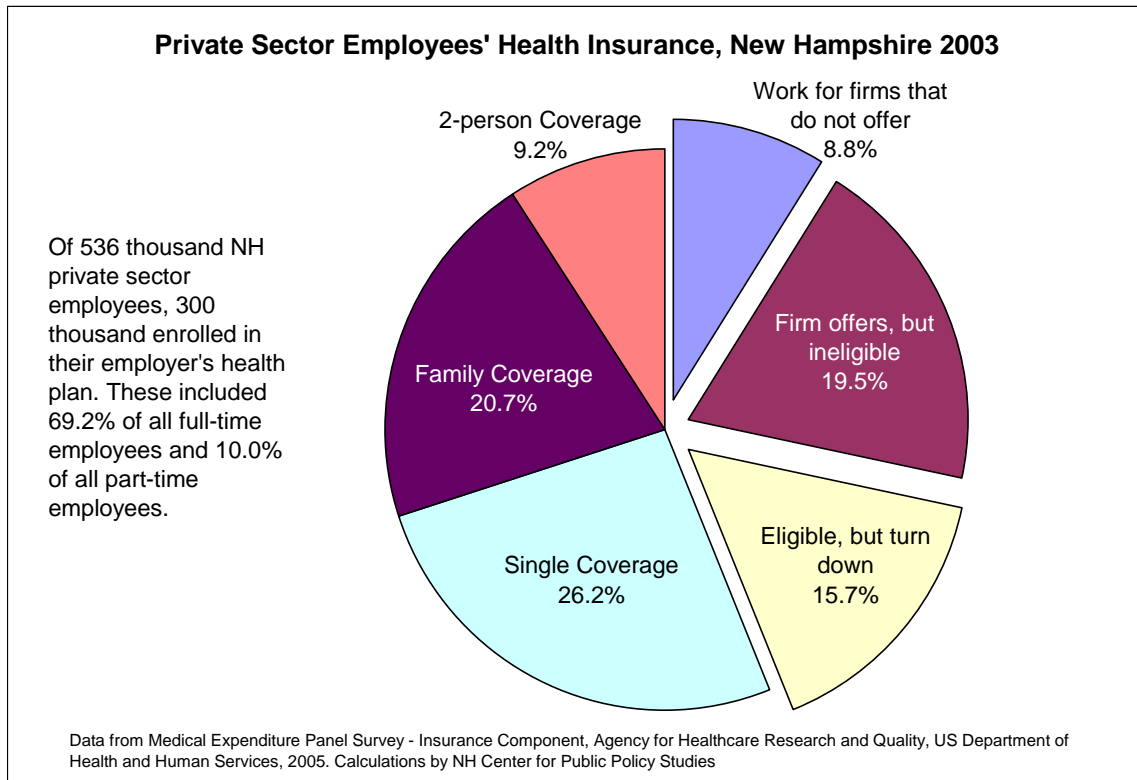


Figure 6

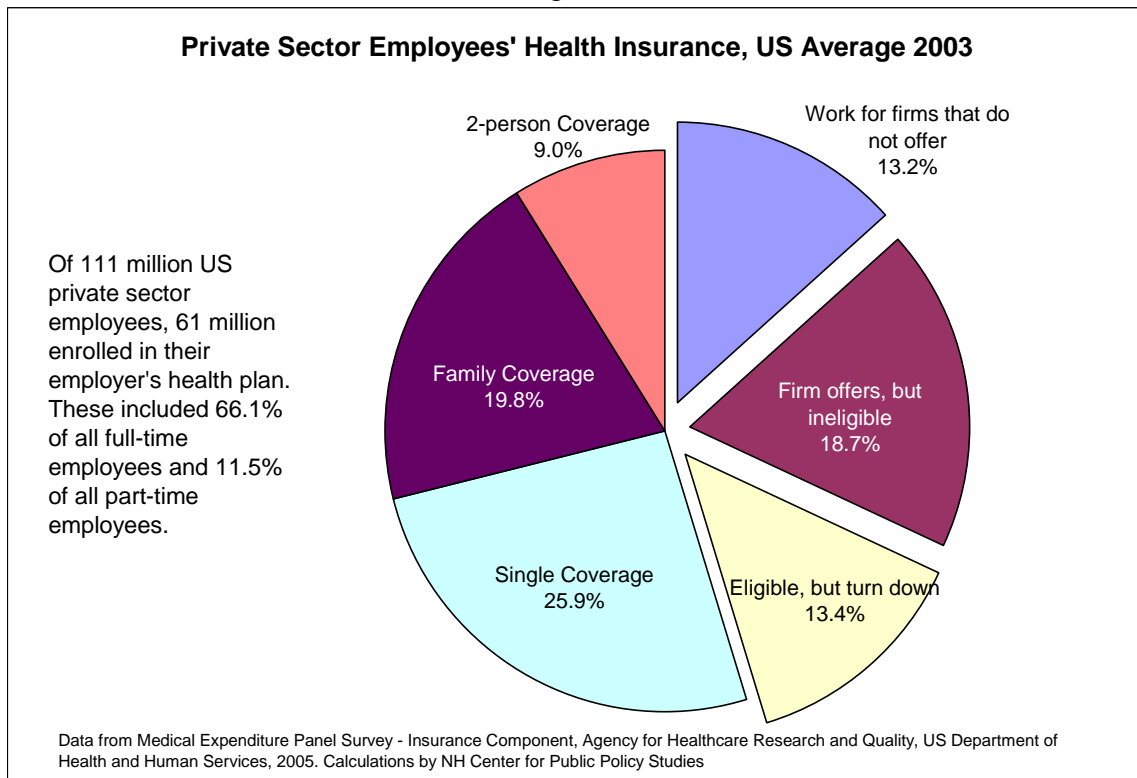


Figure 7

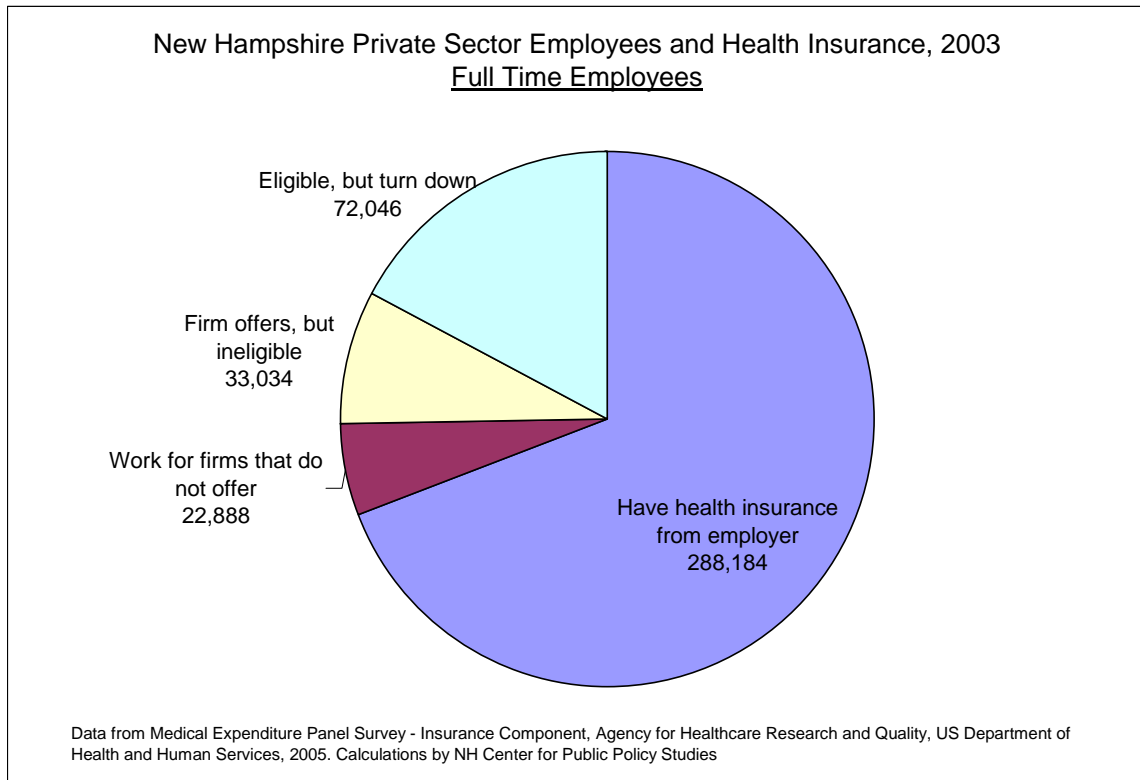
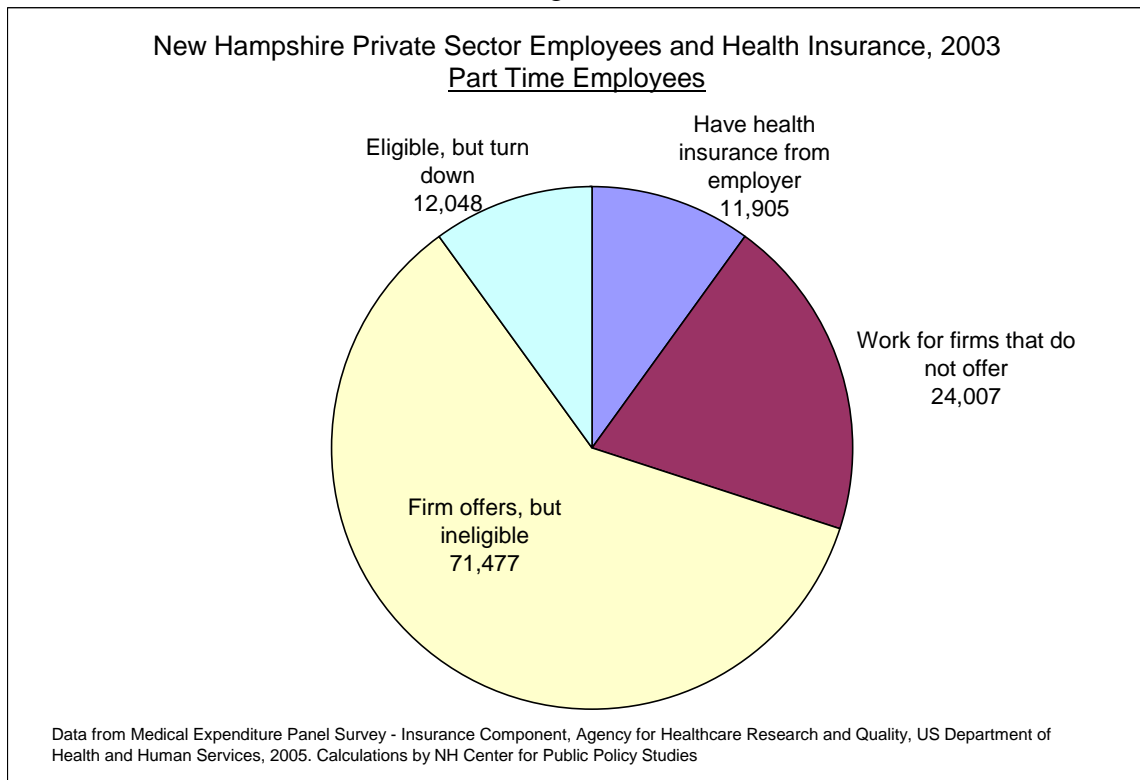


Figure 8



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 2003, the average premium for single person coverage in New Hampshire was almost exactly the same as the average premium for similar coverage nationwide, about \$3,500. The average premium for family coverage in New Hampshire however was nearly \$9,800, about \$500 more than the national average. The premium for 2-person coverage in New Hampshire, about \$7,500 was nearly \$900 more than the national average.

Table 3

	New Hampshire Average			US Average		
	1998	2003	Annual increase	1998	2003	Annual increase
Single coverage	\$2,356	\$3,563	8.6%	\$2,174	\$3,481	9.9%
Family coverage	\$6,146	\$9,776	9.7%	\$5,590	\$9,249	10.6%
2-person coverage ⁴	-	\$7,517	-	-	\$6,647	-

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 five years (1998-2003) has been somewhat lower than the national average.

Some caution must be used in interpreting this data and other similar data from the MEPS survey. Because it is 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 alone, however, the confidence intervals are considerably larger.

Figure 9 shows that in the most recent years, the average annual premiums for single coverage in New Hampshire and nationally have been identical within the confidence interval. Figure 10, on the other hand, shows that the average premium for family coverage in New Hampshire has been consistently above the national average even after taking the confidence intervals into account. Figure 11 shows a similar situation regarding 2-person coverage, although the data has been collected for a fewer number of years.

Other data show that overall health care costs in New Hampshire, on a per capita basis, are only slightly above the national average. The most recent data published by the Centers for Medicare and Medicaid, for 1998, showed per capita expenditure in New Hampshire (\$3,840) to be 2.2 percent above the national average (\$3,759). Our own calculation, using slightly different data for 2000, indicates that New Hampshire (\$4,175) was 3.4 percent above the national average (\$4,037).

⁴ MEPS did not begin to collect premium information for 2-person coverage nationally until 2001 and for New Hampshire until 2002.

Figure 9

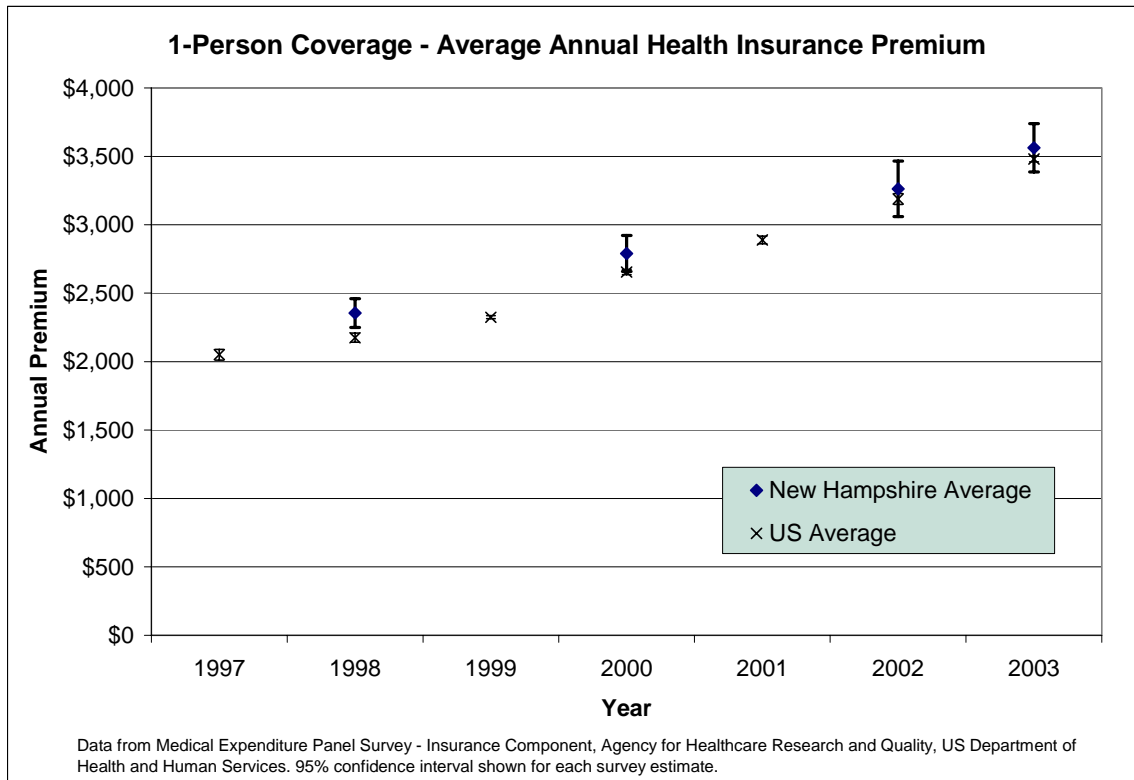


Figure 10

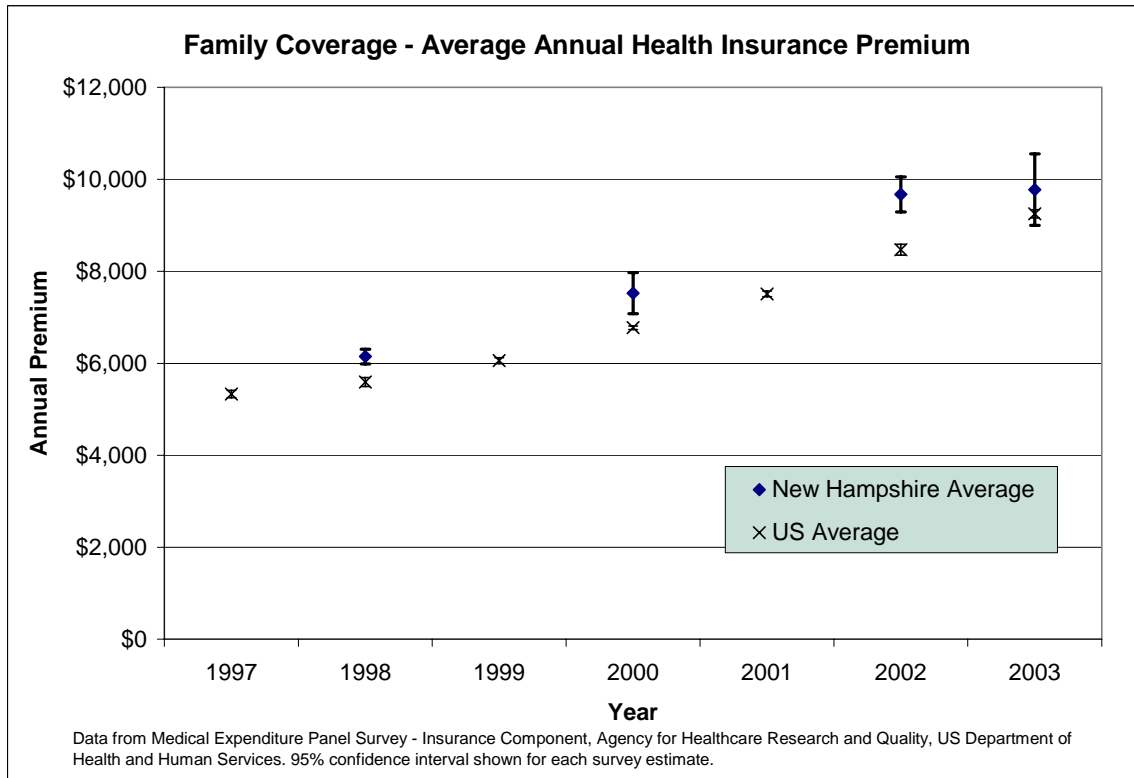
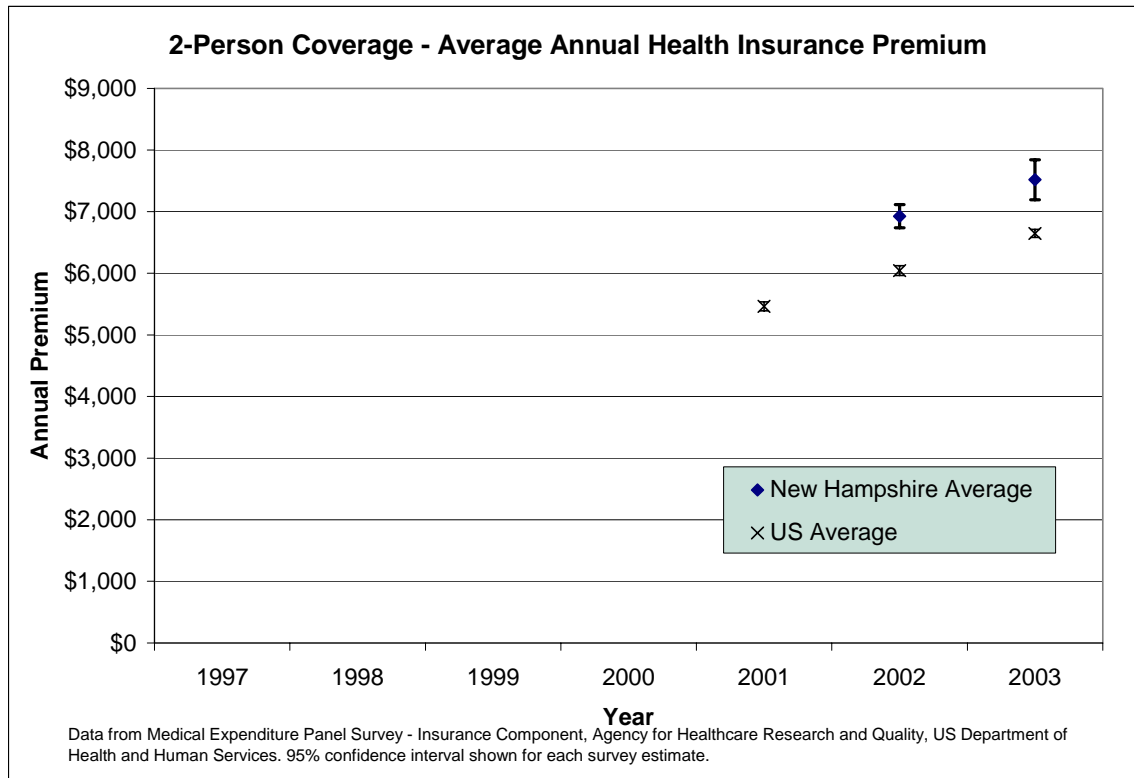


Figure 11



4. MEPS and New Hampshire

The MEPS-IC survey of employers results in much additional data not summarized in this report. The percentage of premiums paid by employees, the average premiums by size of firm and industry, the percentage of plans that are self-insured, the number of plans offered by employers, 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 2004 will become available in July 2006.

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.

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