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Health Insurance Costs Rising Sharply This Year, Study Shows

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The cost of health insurance for many Americans this year climbed more sharply than in previous years, outstripping any growth in workers' wages and adding more uncertainty about the pace of rising medical costs.

A new study by the Kaiser Family Foundation, a nonprofit research group that tracks employer-sponsored health insurance on a yearly basis, shows that the average annual premium for family coverage through an employer reached \$15,073 in 2011, an increase of 9 percent over the previous year.

"The open question is whether that's a one-time spike or the start of a period of higher increases," said Drew Altman, the chief executive of the Kaiser foundation.

The steep increase in rates is particularly unwelcome at a time when the economy is still sputtering and unemployment continues to hover at about 9 percent. Many businesses cite the high cost of coverage as a factor in their decision not to hire, and health insurance has become increasingly unaffordable for more Americans. Over all, the cost of family coverage has about doubled since 2001, when premiums averaged \$7,061, compared with a 34 percent gain in wages over the same period.

How much the new federal health care law pushed by President Obama is affecting insurance rates remains a point of debate, with some analysts suggesting that insurers have raised prices in anticipation of new rules that would, in 2012, require them to justify any increase of more than 10 percent.

In addition to increases caused by insurers getting ahead of potential costs, some of the law's provisions that are already in effect -- like coverage for adult children up to 26 years of age and prevention services like mammogram screening -- have contributed to higher expenses for some employers.

The Kaiser survey includes both big and small companies using employer-sponsored coverage representing about 60 percent of all insured Americans of working age. The annual growth in premiums, according to the survey, had slowed in recent years to 5 percent, rising just 3 percent in 2010, in part due to the lingering effects of the recession. After years of double-digit increases, the moderation was a welcome relief.

The unexpected increase in premiums raises questions about whether health care costs are, in fact, stabilizing at all, as people have postponed going to the doctor or dentist and have put off expensive procedures. "No one quite knows," said Mr. Altman.

Throughout this year, major health insurers have defended higher premiums - and higher profits - saying that their expenses would rise once the economy recovered and people believed they could again afford medical care. The struggling economy will probably keep suppressing demand for

medical care, particularly as people pay a larger share of their own medical bills through higher deductibles and co-payments, according to benefits consultants and others. About three-quarters of workers now pay part of the bill when they go see a doctor, and nearly a third have a deductible of at least \$1,000 if they have single coverage, up from just one in 10 in 2006, according Kaiser.

Although demand for care appears to be growing relatively slowly, insurers and benefit consultants also say prices for medical care continue to climb as prescription drug makers and hospitals charge more. "If they're a popular brand or anchor hospital, they're going to negotiate a significant increase if they can," said Edward A. Kaplan, a benefits expert with the Segal Company, which recently surveyed insurers about medical costs.

The question for employers and insurers is whether the lackluster economy, as well as recent efforts by employer and insurers to better manage the medical care of workers, will keep premiums increasing at a more moderate level. Early responses to a survey by Mercer, a consulting firm, suggest employers are expecting the cost of providing health benefits to go up about 5 percent next year, according to Beth Umland, Mercer's director of research for health and benefits. These companies may be factoring in the more pessimistic view of the economy, she said, where any recovery seems further off than it did a few months ago.

Employers are reporting that their workers are using less medical care, said Ms. Umland, but they and insurers have been slow to estimate costs that reflect the lower demand. "It always takes a while for underwriting to catch up with reality," she said.

Some small business say they expect their premiums to moderate, but only because of changes in their work force - partly caused by younger, healthier employees - that make it less likely that the companies will incur high medical claims. "Up until last year, we saw very hefty increases -- double digits," said Heather Gombos, an executive for R. M. Jones & Company and affiliated businesses in New Britain, Conn. , a group that insures about 50 of its 80 employees.

Family coverage is now running \$12,000 a year, Ms. Gombos said, and she is waiting to see what rate increases her insurer proposes for the coming year. She thinks premiums will not rise as sharply in 2012. "What it comes down to is we've had some good luck," she said.

Some businesses say they anticipate relief from higher costs in the coming year for a variety of reasons. At Ogilvy & Mather, the New York advertising firm, the company believes its efforts to encourage wellness and better oversee its employees' health through an on-site medical clinic are paying off. "We are not anticipating any cost increase for employer and employee," said Gerri Stone, the senior partner who oversees the firm's benefits strategy.

Ms. Stone acknowledged that the firm's 3,600 employees were relatively young and healthy, helping it avoid some of the sharp increases experienced by other businesses. "We've never gone into the double digits," she said. Family coverage runs about \$16,000 a year, she said.

Insurers and benefits consultants say, however, it is difficult to predict whether health care demand will again take off when the economy rebounds or whether some other factor is at play. "We've seen a moderation in the increase in health services, particularly in discretionary services," said Tom Richards, an executive with Cigna. While he attributes some of the moderation to the poor economy, he says the increase in cost-sharing by employees and programs that more closely monitor their health could be having a more permanent impact.

The question, he said, is "what is the economy going to be and what is the new normal."




Obama administration officials argue that new regulations are forcing insurers to be more circumspect about raising rates. Insurers seeking to raise premiums next year by more than the 10 percent maximum will have to publicly justify their rate increases, and the new law requires the companies to spend at least 80 cents of every dollar they collect in premiums on medical care. If they end up taking too much in premiums, they will have to refund the money to consumers.

But employers and others say much more still needs to be done to control overall costs, especially when workers' wages are essentially flat. Of the \$15,073 in average premiums paid for family coverage, Kaiser found that employees paid \$4,129 towards the cost, in addition to whatever out-of-pocket costs they shouldered.

"We're going to continue to have this yawning gap," said Helen Darling, the chief executive of the National Business Group on Health, which represents employers that provide health coverage to their workers. Health care costs continue to climb much faster than overall inflation, she noted.

"The health economy acts as if it's a boom economy," she said.

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