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Facts for Discussion

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New Jersey
Employers

High Healthcare Costs in New Jersey

Healthcare Costs Explode Nationally

Employer health insurance premiums have risen dramatically over the last few years. The Kaiser Family Foundation study found a nearly 90 percent increase in the cost of health insurance between 2000 and 2006.¹

The Towers Perrin 2007 Health Care Cost Survey expects the average cost of employee health coverage for the nation's largest employers to soar to \$8,748 per employee in 2007. The survey predicts employers will pay 78 percent of those premiums, while employees will cover the remaining 22 percent.

Overall healthcare costs are expected to grow by 6 percent in 2007, more than double the consumer price index (CPI), Towers Perrin says.²

Healthcare costs are consuming larger portions of the nation's gross domestic product (GDP). Currently, the United States spends more than 15 percent of its gross domestic product, or \$2.1 trillion, on healthcare. This number is projected to reach \$4.1 trillion by 2016³, or one out of every five dollars in the US economy.

New Jersey's Healthcare Costs Among Highest in the Nation

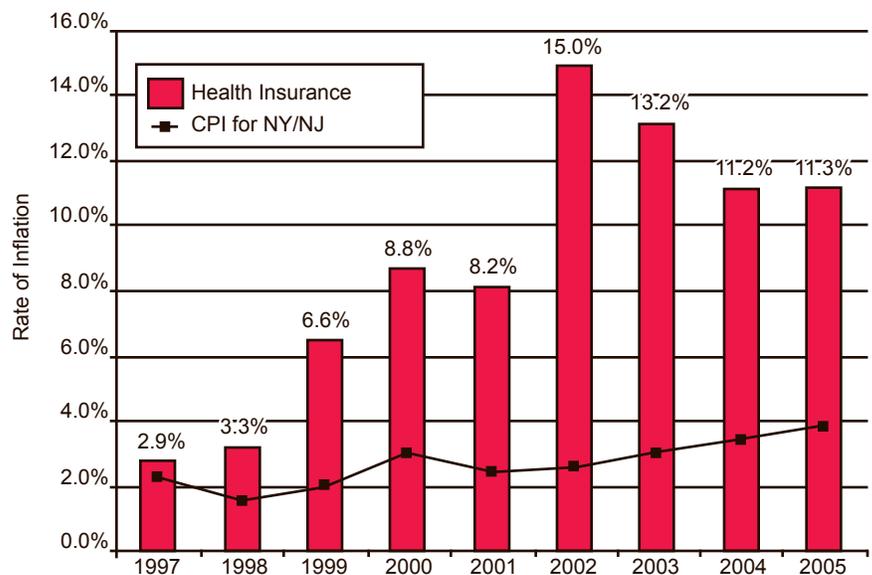
In New Jersey, the picture is even worse. New Jersey employers have among the country's highest health insurance costs. Nonetheless, roughly two-thirds of New Jersey's non-elderly population (5.5 million people) get their health insurance through

their employer.⁴

The New Jersey Business & Industry Association's (NJBIA) 2007 Health Benefits Survey confirms that health insurance premiums are soaring at three to four times the rate of inflation in New Jersey. According to the survey, the average cost of health insurance for New Jersey employers soared an alarming 11.3 percent, pushing the average premium cost to \$7,561 per employee in 2006.⁵ (The survey only tracks employers' costs. Employee contributions are not presented). This marked the fifth consecutive year in which employers absorbed a double-digit cost increase. Over the past five years, premiums in New Jersey have increased cumulatively by 80 percent.⁶

Employers continue to pay the bulk of these high costs. The Kaiser survey reported that employers in the Northeast pay on average 83 percent of health insurance costs for single employees and 80 percent of costs

Health Plan Costs Rise 11.3% in 2006
Fourth Year of Double-Digit Cost Increases



Many factors unique to New Jersey contribute to the State's highest-in-the-nation health insurance costs. They include costly coverage mandates, the high number of uninsured, and the overregulation of the small employer market.

for family plans, with coverage rates varying depending on the type of plan.⁷

Likewise, the 2006 annual Mercer Health & Benefits study found New Jersey employers spent 6.8 percent more to provide health coverage to their workers this year compared to 2005. This brought the cost to \$8,776 per worker, which is 17 percent higher than the national average.⁸

Consequence of High Healthcare Costs: Access to Health Insurance Declines

The recent cost increases are forcing many New Jersey business owners, especially small business owners, to drop coverage or increase employee contributions.

2005 marked the first time in the 12-year history of the NJBIA Health Benefits Survey that the proportion of businesses providing health coverage declined significantly, and the trend has continued with NJBIA's latest survey in 2007. The decline in coverage was most pronounced among smaller companies with 82 percent of companies with two to 19 employees providing

coverage in 2006, down from 87 percent in 2004 and a high of 92 percent in 2003.⁹

Causes of High Healthcare Costs

Some of the forces driving increased health insurance costs are national in scope, including greater utilization of healthcare services, increased diagnosis and treatment of chronic disease, defensive medicine and bureaucratic waste.¹⁰

Nevertheless, many factors unique to New Jersey contribute to the State's highest-in-the-nation health insurance costs. They include costly coverage mandates, the high number of uninsured, and the overregulation of the small employer market.

Greater Utilization of Healthcare Services: Physicians are diagnosing and treating more diseases than ever before, especially chronic diseases that increase health costs significantly. Research suggests that spending is being driven up because the number of cases being treated is increasing, not because the cost to treat each case is higher than in the past.

Health Insurance Mandates: Health insurance mandates (State laws requiring insurance companies to cover particular benefits or procedures) are another factor driving up healthcare costs. The overall cost of healthcare in New Jersey increases when health insurance is required to cover specialized services and procedures, such as infertility treatments.

Since 1972, New Jersey has enacted 31 mandated health benefits, coverages or reimbursements to providers.¹¹ Collectively, these add 15-20 percent to the cost of a health insurance policy, or approximately \$1,500 for each policy.¹²

The Uninsured: The uninsured also contribute to the high cost of health insurance. In 2005, roughly 1.3 million¹³ or about 15 percent¹⁴ of New Jersey residents did not have health insurance. When the uninsured seek care in New Jersey's hospitals, the bill often goes unpaid. These costs are then shifted to other payers, such as employers, increasing the cost of health insurance by as much as 20 percent nationally¹⁵.

Medical Malpractice Insurance and Defensive Medi-

cine: Rising medical malpractice insurance premiums have led physicians to seek higher payment rates from health plans to offset their rising costs.¹⁶ Defensive medicine (the practice of ordering extra tests and procedures to guard against future litigation) is also a contributor to the high cost of healthcare.¹⁷ The US Department of Health and Human Services (HHS) reported that 79 percent of doctors have ordered more tests than they would have based only on their professional judgment and 74 percent have referred patients to specialists more often than they believed was medically necessary.¹⁸ The direct costs of litigation and the widespread practice of defensive medicine are estimated to increase healthcare spending by up to 10 percent.¹⁹

Electronic Health Records: The US Department of Health and Human Services (HHS) estimates that the use of a national health information network could save \$140 billion annually through improved care and better administration. Such a network would utilize electronic health records, as opposed to traditional paper patient charts and records. A HHS study found that one out of every five lab tests or x-rays were conducted only because previous test results were unavailable. The use of electronic health records can make these duplications and medical errors largely avoidable.

Conclusion

The rising cost of health insurance causes two critically important public policy problems—lack of access of health insurance among working New Jerseyans and the inability of New Jersey companies to compete in an increasingly global economy. Premium increases of more than three times the rate of inflation have made health insurance unaffordable for some employees and forced some small companies to drop health insurance coverage altogether. Rising health insurance costs remain one of the leading causes of New Jersey's ultra-high cost of doing business, putting our companies at a competitive disadvantage with those in low cost states and operating overseas.

In many respects, health insurance reform is a national issue in need of action by the federal government. But there are reforms that New Jersey alone can enact right now that would make health insurance more affordable, and therefore more accessible. Lawmakers should

“Rising medical malpractice insurance premiums have led physicians to seek higher payment rates from health plans to offset their rising costs.”

- The Center for Studying Health System Change

reform New Jersey's small employer market to offer small businesses and their employees more flexibility in designing health insurance plans. The State should consider banning future health insurance coverage mandates and rein in the impact of existing mandates. Medical malpractice reform, greater use of electronic records, and tax incentives for companies that provide health insurance are all reforms that could be put in place now to help reduce the rising cost of health insurance.

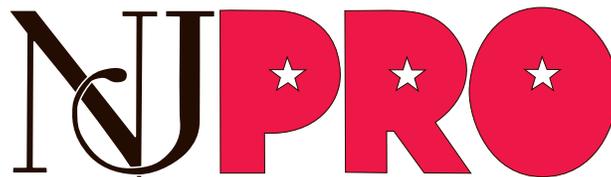
With more than 5 million New Jerseyans receiving health benefits from private-sector companies, the social consequences of continued healthcare hyperinflation could be dire. Failure to act now will only make the issue that much more difficult to address in the future.

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Endnotes

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About the



Foundation

The New Jersey Policy Research Organization (NJPRO) Foundation is an independent public policy research affiliate of the New Jersey Business & Industry Association. NJPRO produces innovative, timely and practical research. NJPRO is New Jersey’s leading policy organization conducting research on behalf of New Jersey employers. Governed by an independent Board of Trustees, NJPRO is a nonpartisan, tax-exempt organization. NJPRO depends on the support of companies, individuals and foundations for its income.

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