



**RISING
HEALTH CARE
COSTS AND
THE ECONOMY**
FOCUS: STATE OF MICHIGAN



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Introduction

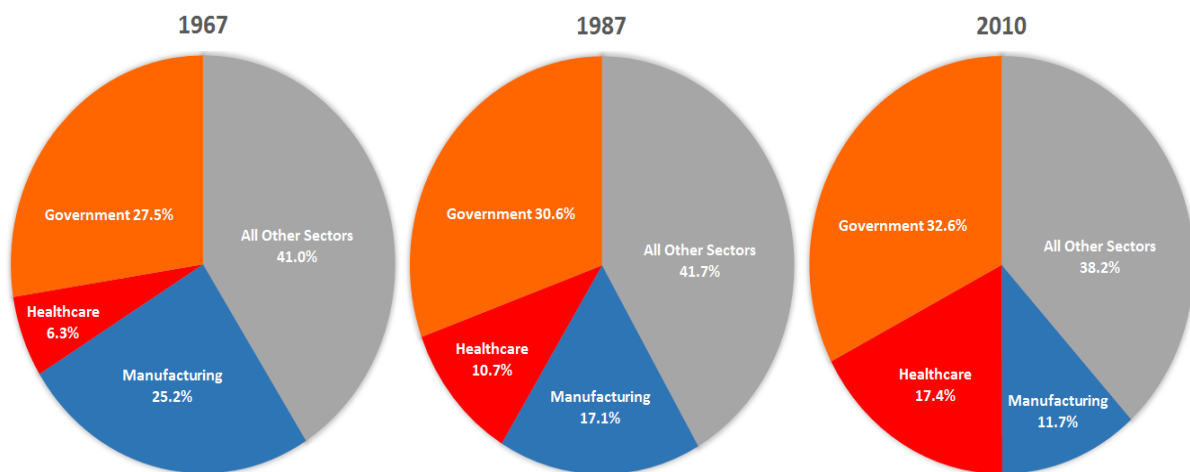
- Policymakers in Michigan and across the country are searching for ways to grow the economy and create jobs.
- Mounting evidence shows that ever-rising health care costs are a major deterrent to economic growth. They hurt not only employers, but workers and their families – and ultimately the overall economy.
- To stop this disastrous drain on the economy, Michigan’s leaders must strategically address rising health care costs.
- Immediate action is essential. In the short term they must **contain** health care cost increases. In the long term they must **reduce** health care costs.
- **This study compiles leading research and illustrates how rising health care costs ultimately threaten economic growth and the stability of middle-class families.**

The Problem

The United States spends more on health care than any other country, yet it ranks among the worst in the world in the quality, safety and availability of that care. States, including Michigan, are also spending more.

Overall health care spending in the U. S. nearly doubled between 2001 (\$1.5 trillion) and 2013 (\$2.9 trillion), and is expected to reach \$4.8 trillion in 2021.ⁱ “By 2023, health care spending will account for nearly **a fifth** of the annual Gross Domestic Product (GDP), at 19.3%, up from 17.2% in 2012.”ⁱⁱ Yet the U.S. ranks last among 10 other modernized countries in overall quality, safety and access.ⁱⁱⁱ This health care spending spree means the U.S. spends more on health care as a proportion of GDP than most other countries. Between 1967 and 2010, health care’s share of the GDP more than doubled, increasing by 11.1 percentage points.^{iv}

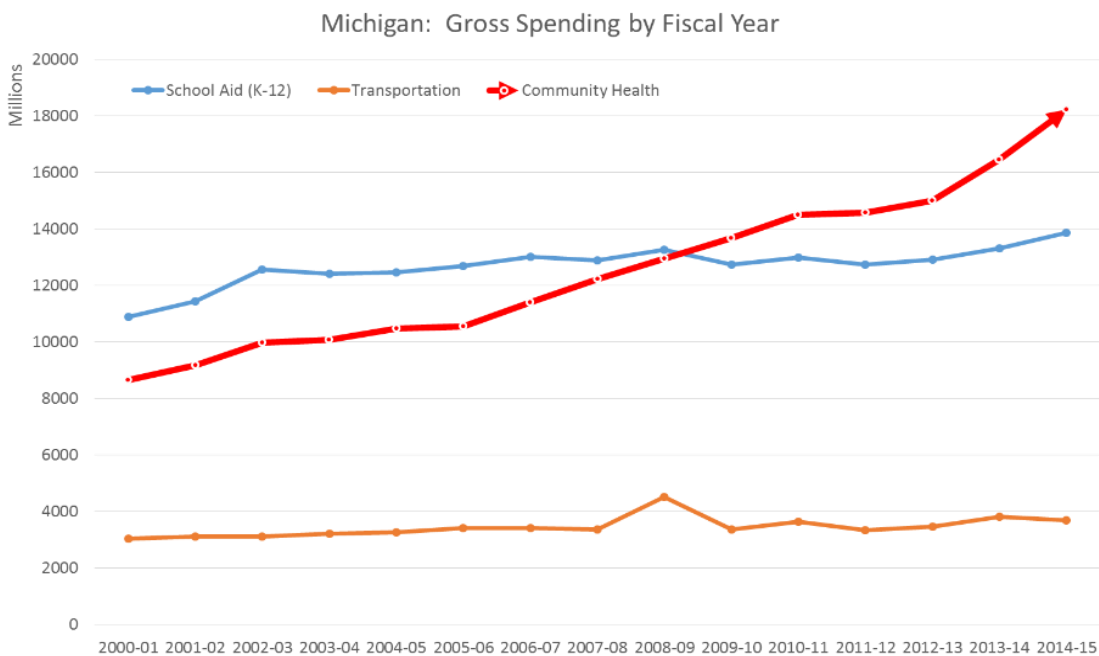
Health care consumes increasingly more of U.S. Gross Domestic Product



**Government percentage does not include government funded health care and deficit. Sources: U.S. Department of Commerce, Bureau of Economic Analysis; Centers for Medicare and Medicaid Services; Trading Economics; Government Spending in the United States of America.*

In Michigan, increases in health care spending vastly outpace increases for other important services. From 2000 to 2014, Michigan Department of Community Health funding rose 110.8%. But money for K-12 schools increased just 27.3% and only 21.8% for Transportation.^v

Health care spending in Michigan outpaces increases for other services



Source: Michigan Senate Fiscal Agency. Funding History, gross dollars represented. Transportation last updated 7/02/2014; Community Health last updated 12/04/2014; School Aid last updated 6/25/2014.

<http://www.senate.michigan.gov/>.

Reasons behind the problem

The average family health insurance premium for private-sector employees rose more than 30% between 2008 to 2013, from \$12,298 to \$16,029.^{vi} Prices rose largely due to new medical technology, which accounted for 38% to 65% of spending increases. Patients tend to opt for better, higher-cost health care options as they become available. Hospitals and other providers are consolidating, giving these larger entities increased market share. The consolidated groups then demand higher prices from payers.

Waste in the healthcare system accounts for a large amount of medical spending. The Institute of Medicine estimates 30% of healthcare dollars are spent on waste that take several different forms including inappropriate and unnecessary procedures, defensive medicine, and medical errors.

Demographic changes are having an impact on cost. The population is getting older and more obese leading to increased reliance on medical services. Other costs impacting the increase in healthcare include the fee-for-service payment structure, a lack of transparency of cost and quality of services, specialty drug costs, and the increased use of drugs that are palliative rather than curative.

Consequences of more health care jobs

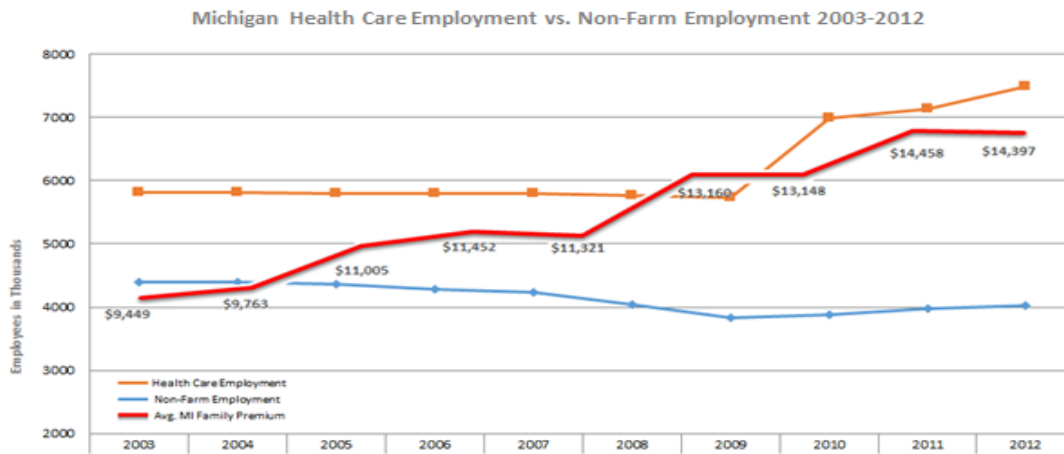
The rising cost of health care has led to an employment boom in the health care industry. More than one million health care jobs have been added nationwide since the signing of the Affordable Care Act (ACA) in March 2010. Predictions are that health care will continue to lead U.S. job growth well into 2020. Manufacturing job increases are expected to remain flat.^{vii}

Similar trends are apparent in Michigan, where the number of health care jobs jumped 12.4% between March 2010 and 2014, while manufacturing jobs – long the mainstay of the state economy – declined 16.5%.^{viii} The recession is only partly to blame.

Large non-healthcare industries, such as manufacturing, are struggling to create additional jobs and to increase wages as health care premiums skyrocket. As health care costs rise, fewer jobs are created in other sectors, while health care jobs boom.

As the average health care premium for Michigan families rose between 2003 and 2012, health care employment in the state rose 28.6%, but non-farm employment declined 8.6%.^{ix} Private sector jobs outside of healthcare must grow to allow the growth in healthcare jobs and insurance premiums to be sustainable.

**As health care costs increase in Michigan,
jobs outside of the healthcare sector are flat.**



Source: Bureau of Labor Statistics. State and Area Employment, Hours, and Earnings survey (Michigan) Original Data Value. Seasonally Adjusted. All Employees. Industry: Health care and social assistance. Industry: Non-Farm. 2004-2014. Data collected 1/15/2015.

The impact on employers

The rising cost of insurance premiums paralyzes employers from adding jobs and increasing wages. For example, if an employee earns \$45,000 annually, the employer pays an additional \$14,400 in taxes, unemployment insurance, retirement and health care benefits. That brings per-employee costs to \$59,400.

In 2013, the average family health benefit premium at private-sector firms was \$16,029, with 72.4% of that premium (\$11,608) paid by the employer.^x



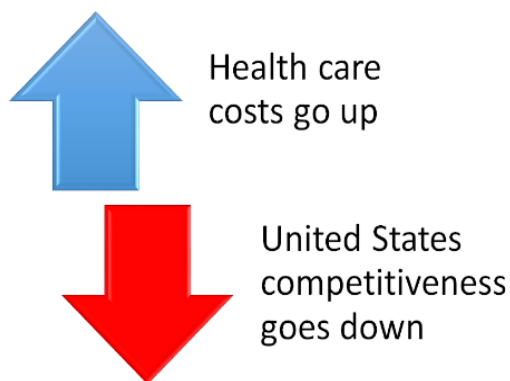
With four workers each making \$45,000 annually, an employer pays \$46,432 annually in health care premiums alone – an amount equal to the salary of an additional employee, but **one who performs no work.**

An estimated 48% of Americans – and 53% of Michiganders – have employer-sponsored health insurance, which makes premium costs on employers an urgent concern here.^{xi}

A 2009 study by RAND Corporation found evidence linking increases in health care costs to declines in new jobs. Employers trying to offset rising health care costs may be unable to reduce wages due to competitive or workforce morale issues. They may instead be pressured to reduce benefits, institute layoffs and increase the price of their product, which sets the company up for lower profits and reduced production.^{xii} Job-creation isn't possible.

To keep talent and be competitive, employers are looking at creative ways to reduce the cost of health insurance premiums. A recent Arthur J. Gallagher & Co. survey of more than 1,800 businesses concludes that 67% of employers feel “controlling benefit costs is their number one challenge.”^{xiii}

Ninety percent of company leaders believe they could invest more in their business if their company's health care costs were lower, and 93% agree the rising cost of health care gives foreign companies a competitive advantage, according to a Harris Poll commissioned by Castlight Health and released in 2014.^{xiv}



Lowering health care costs and premiums enables businesses to invest in economic development, job growth and wage increases. Consider General Motors, which supplies over 1.1 million people with health care benefits and spends close to \$5 billion doing it. “GM says health care costs add between \$1,500 and \$2,000 to the sticker price of every automobile it makes.”^{xv}

Small businesses are hurt by rising costs because they, too, must offer health care benefits to be competitive. From 2009 to 2013, businesses with 50+ employees witnessed a 22.8% (\$3,014) per employee increase in family health premiums. For employers with 100 employees on family plans, this produced an additional billing of over \$200,000 for employer contributions to health insurance benefits in just five years.^{xvi} Starting in 2016, the ACA requires any business with 50 or more full-time employees to provide health insurance. Small businesses are reacting by cutting hours to part-time.

A large majority of businesses are also shifting premium costs to employees. “Nearly a third of employers’ costs per worker goes to benefits on top of regular wages and salaries.”^{xvii} Eighty percent of 1,000 employers surveyed planned to continue raising employees’ share of health insurance premiums, according to a 2012 survey by Towers and the National Business Group. Some employers are adding a surcharge for spousal coverage. Others are offering plans with deductibles upwards of \$12,000 a year, to keep plans affordable for employees.^{xviii} Currently, “four in 10 covered workers face at least a \$1,000 deductible, nearly double the share from just five years ago.”^{xix}

In 2016, employers with 100 or more full-time workers will face a new stipulation under the ACA that requires them to offer coverage to at least 70% of workers. Employers not complying will face a minimum \$2,000 penalty per employee.^{xx} Companies are trying to offset rising health premiums by reducing full-time employees to part-time and/or offering stipends for employees to purchase insurance through a public exchange. Retail giant Wal-Mart has announced it will not cover employees who work 30 hours or fewer.^{xxi}

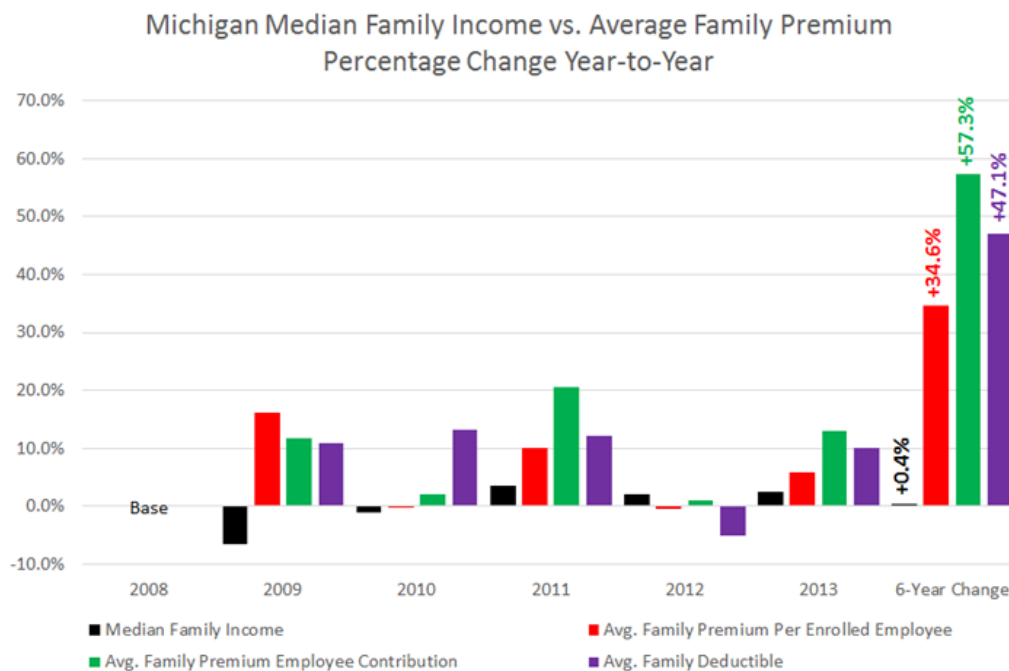
The impact on employees

To offset rising health care premiums, employers are cutting employee hours to part-time, cost-shifting health benefit premiums onto employees, freezing salaries, and/or offering high-deductible health benefit plans — all of which creates a further financial burden upon the worker.

Workers with employer-sponsored health insurance on average saw a 2.3% decrease in wages due to rising premiums, according to research by Katherine Baicker and Amitabh Chandra, with the National Bureau of Economic Research.^{xxii} If an employee receives a 3.0% increase in wages, the raise is offset by the additional 10% the employee pays for the premium. The more families pay for health care, the less they can spend back into the economy and save for retirement and education.

In Michigan, the median average family income grew just 0.4% between 2008 to 2013. Meanwhile, the average employer-sponsored family insurance premium rose a staggering 34.6%. The annual Michigan employee contribution to an employer-sponsored family health benefit premium increased 57.3% (\$1,446) from 2008 to 2013, which means the average Michigan family effectively made less in 2013 than in 2008. And their ability to spend money was further hindered by a 47.1% increase in the average family health insurance deductible.^{xxiii}

Increasing health care costs outstrip wage increases



Source: Agency for Healthcare Research & Quality, Center for Financing, Access & Cost Trends, "2003-2013 Medical Expenditure Panel Survey-Insurance Component." <http://www.ahrq.gov/>.

The cost of insurance premiums puts many working families on the verge of financial ruin. With two full-time working parents, and a toddler enrolled in full-time child care at \$200 per week, almost 26% of the family's annual income is going to the health care insurance premium and child care – leaving the family roughly \$49,000 for taxes, bills, housing, transportation, food, etc. With either purchasing insurance in the marketplace or employer-sponsored health care, the family with limited assets may face bankruptcy if a major health crisis or home repair occurs.

The United Way labels these struggling families as ALICE – Asset Limited, Income Constrained, Employed. In Michigan, four in 10 households (40% or 1.5 million) “struggle to afford basic household necessities.”^{xxiv} While health care premiums and health care jobs rise, employers are unable to increase wages and offer quality paying jobs, which leaves these ALICE families struggling to get ahead.

Across the country, the leading reason people go into bankruptcy is medical expenses, followed by job loss. A Harvard University study indicates medical expenses represent 62% of all personal bankruptcies. The study also points out that 78% of bankruptcy filers have health insurance, “thus bucking the myth that medical bills affect only the uninsured.”^{xxv} An estimated one-third of Americans report having difficulty paying their medical bills, citing rising insurance premium costs and increasing cost-sharing with employers as contributing factors.^{xxvi}

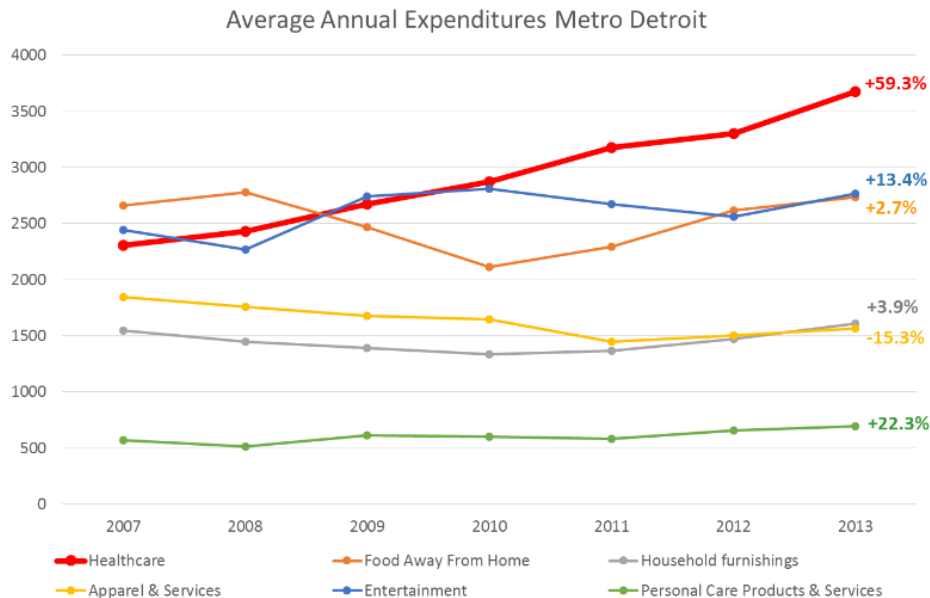
The impact on consumer spending

Rising health insurance premiums 1) limit employers' ability to increase wages and create jobs and 2) force them to shift a portion of the burden to employees.

That means workers effectively make less, so they have less to spend. And rising health care costs mean they spend more of their reduced earnings on health care. U.S. Bureau of Labor Statistics data show that the amount consumers spend on health care rose every year between 2007 and 2013, while other areas of spending – such as retail

and services – fluctuated. In Metro Detroit, health care spending rose 59.3% over the seven-year period, accounting for one of the highest expenditure increases.^{xxvii}

Health care spending up significantly in Detroit area



Source: United States Department of Labor: Bureau of Labor Statistics. "Consumer Expenditures." 2007-2013 reports. <http://www.bls.gov/cex/>.

Conclusions

Rising employee costs ultimately hurt the economy because they divert money that employers would otherwise spend to expand operations, add jobs and increase wages.

- Since the Great Recession hit in 2008, lawmakers across the country have been trying to devise ways to create more jobs.
- Unemployment is down but the average family wage remains stagnant due to limited salary increases and higher employee contributions to benefit plans. In Michigan, the state hit hardest by the recession, the median average family income from 2008-2013 grew only 0.4%.^{xxviii}

- In general, consumers, including employers and employees, are paying more for health care. Nationally, consumers' health care expenditures are up 10% from 2011 to 2013.^{xxix} On average, employee contributions to a family insurance plan have doubled between 2003 and 2013.^{xxx}
- The rise in health care costs is fueling a rise in health care jobs, while employment in other industries is sluggish.
- Due to the rise in health care costs and insurance premiums, the average middle-class working family with limited assets – either with individually purchased or employer-sponsored health insurance – has an increased chance of bankruptcy if faced with a major health crisis.
- The pressure of rising health care costs on employers, employees and ultimately on the economy is unsustainable – for everyone.
- Lawmakers are challenged to create solutions that will revitalize non-health care employment opportunities and also look for ways to reduce the burden of health insurance benefits on employers.
- Health care cost increases have slowed somewhat recently, but “if the current slowdown is a primarily attribute to the most severe recession since the 1930s...then rapid growth in health care expenditures is likely to return when the economy becomes more robust.”^{xxxi}
- If spending continues to rise, employers will struggle to create new jobs and increase wages, leaving the working middle-class family struggling for years to come.
- To successfully curb health care cost increases, the focus must be on cost-containment in the short term and cost-reduction in the long term.
- Policymakers, researchers, health care professionals, advocates and others must work together and produce solutions to lower health care costs.

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About the Economic Alliance for Michigan (EAM)

The Economic Alliance for Michigan (EAM) was founded in 1982 as a private, nonprofit corporation by companies and unions committed to working together to improve Michigan's economy. The bipartisan EAM focuses on lowering health care costs, improving health care safety and quality, enhancing infrastructure and fostering economic development. In Michigan, the EAM spearheads the work of The Leapfrog Group, a national watchdog group that promotes improvements in the safety of health care by giving consumers data to make more informed hospital choices.

EAM is the leader in bringing both political parties together for a common cause – the success of Michigan.



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