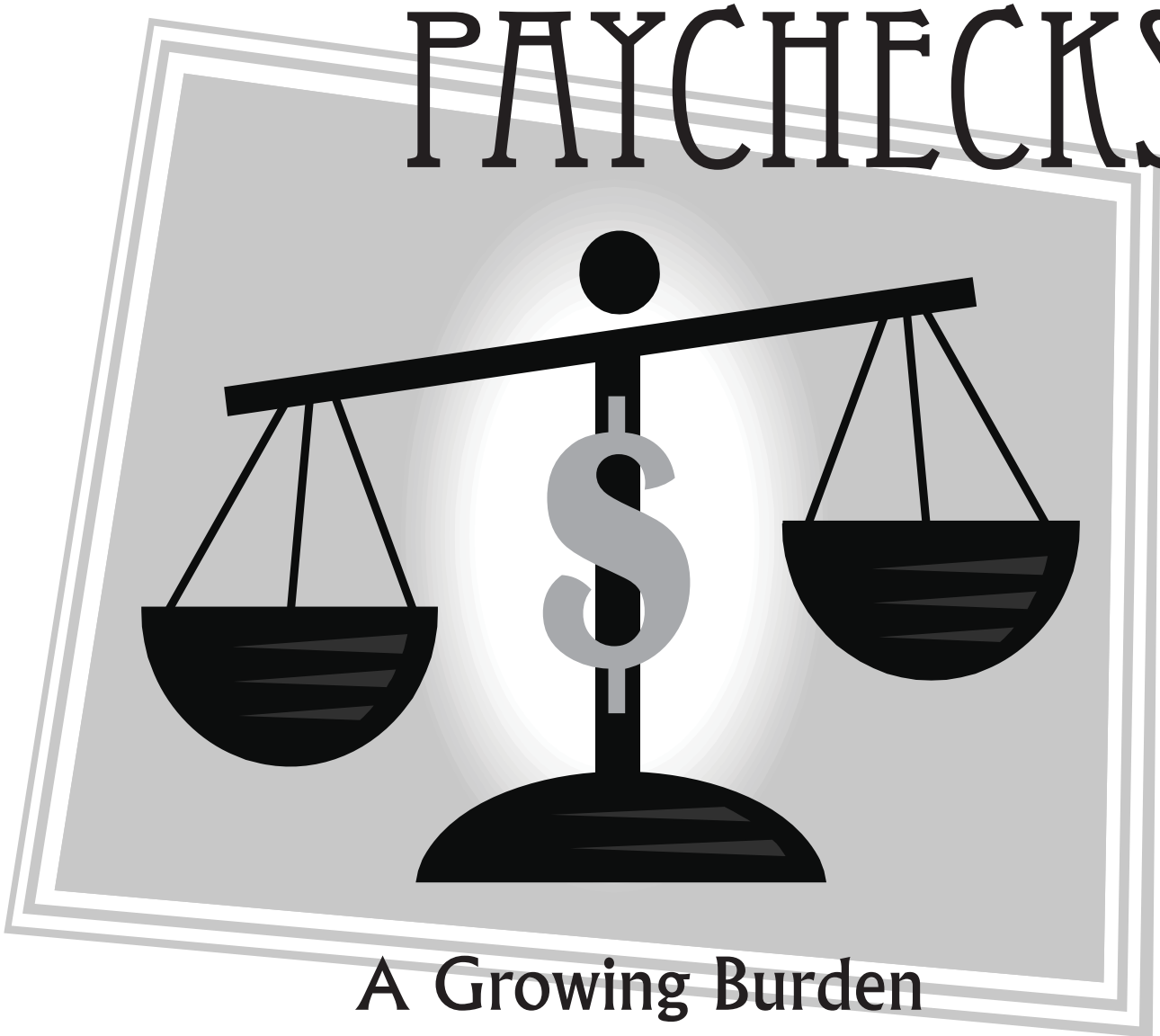
PREMIUMS VERSUS PAYCHECKS



A Growing Burden For Montana's Workers

Families USA
September 2008

Premiums versus Paychecks:
A Growing Burden for Montana's Workers

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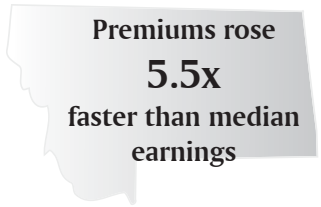
INTRODUCTION

Throughout the first eight years of the new millennium, health care costs have skyrocketed, while working families' wages have stood still. Other factors have also threatened families' economic well-being, including rising gasoline prices and the downturn in the housing market, but the confluence of stagnant wages and rising health care costs has become a significant strain on family budgets. Numerous *national* studies have documented this damage.[1]

As important as these studies are, they do not reflect the varying burdens experienced by families in different states. Just as labor markets, health systems, and economic circumstances vary from one state to another, the impact caused by rising health care costs and stagnant earnings differs considerably among the 50 states.

In 2006, Families USA undertook the first state-by-state analysis of growing health care premiums versus stagnant earnings in the new millennium. Since then, state economies have weakened, while health insurance premiums have continued their upward trend. Health care costs are now an even greater burden on American families. This report, which is based on data from the U.S. Census Bureau, the Department of Labor, and the Department of Health and Human Services, examines what these trends mean for Montana's working families.

Over the past eight years (2000 through 2007), family health insurance premiums for Montana's workers rose 5.5 times more quickly than median earnings. On average, health care premiums for families rose by 88.8 percent, while median earnings rose by only 16.2 percent.



In addition to higher premiums, working families faced higher out-of-pocket health care costs, such as deductibles, copayments, and costs for services that were not covered by their insurance plans. As a result, health care costs are absorbing an ever-larger portion of family budgets, and it is clear why many Montana families feel worse off economically than they did eight years ago.

KEY FINDINGS

Spiraling Health Insurance Premiums for Montana's Workers and Employers (2000-2007)

- Health insurance premiums for Montana's working families skyrocketed over the last eight years, increasing by 88.8 percent from 2000 to 2007 (Table 1).
- For *family* health coverage in Montana, the average annual premium (employer and worker share of premiums combined) rose from $6,220 to $11,743, an increase of $5,523 (Table 1).
- For *family* health coverage in the state, the employer's portion of annual premiums rose from $4,967 to $8,819 (a difference of $3,852), while the worker's portion rose from $1,253 to $2,924 (a difference of $1,671) (Table 1).

Table 1

Increases in Premiums for Family Coverage in Montana, Employer-Based Health Insurance, 2000-2007*

Premiums By Source of Payment	2000	2007	Dollar Change	Percent Change
Total Premium Spending per Worker (Employer and Worker Share)	$6,220	$11,743	$5,523	88.8%
Share of Premium Paid by Employer	$4,967	$8,819	$3,852	77.6%
Share of Premium Paid by Worker	$1,253	$2,924	$1,671	133.3%

* Numbers do not add due to rounding

Source: Estimates prepared by Families USA based on Medical Expenditure Panel Survey (MEPS) data.

- For *individual* health coverage in Montana, the average annual premium (employer and worker share of premiums combined) rose from $2,611 to $4,397, an increase of $1,786 (Table 2).
- For *individual* health coverage in the state, the employer's portion of annual premiums rose from $2,233 to $3,764 (a difference of $1,531), while the worker's portion rose from $378 to $633 (a difference of $255) (Table 2).

Table 2

Increases in Premiums for Individual Coverage in Montana, Employer-Based Health Insurance, 2000-2007*

Premiums By Source of Payment	2000	2007	Dollar Change	Percent Change
Total Premium Spending per Worker (Employer and Worker Share)	$2,611	$4,397	$1,786	68.4%
Share of Premium Paid by Employer	$2,233	$3,764	$1,531	68.6%
Share of Premium Paid by Worker	$378	$633	$255	67.6%

* Numbers do not add due to rounding

Source: Estimates prepared by Families USA based on Medical Expenditure Panel Survey (MEPS) data.

Slow Wage Growth for Montana Workers

- Between 2000 and 2007, the median earnings of Montana's workers increased from $19,073 to $22,170—a mere $3,097, or 16.2 percent (Table 3).
- Health insurance premiums for Montana's *families* rose 5.5 times faster than median earnings from 2000 to 2007 (Table 4).

Table 3

Growth in Earnings in Montana, 2000-2007

Median Earnings		Dollar Change	Percent Change
2000	2007		
$19,073	$22,170	$3,097	16.2%

Source: Estimates by Families USA based on U.S. Census Bureau's American Community Survey (ACS) data for median worker earnings.

Table 4

Growth in Premiums in Montana for Family Health Insurance Coverage Compared to Growth in Earnings, 2000-2007

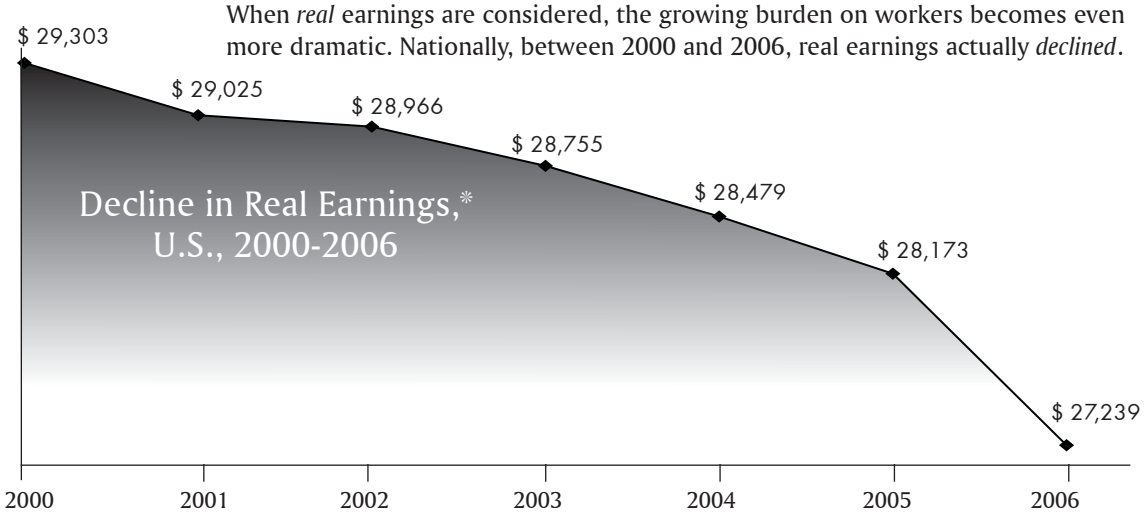
2000-2007		Premium Increase as a Multiple of Earnings Growth
Percent Change In Total Family Premium	Percent Change In Median Earnings	
88.8%	16.2%	5.5

Source: Estimates by Families USA.

REAL U.S. EARNINGS

For our comparison of the growth of premiums and workers' earnings, we looked at non-adjusted earnings—what workers saw each year in their paychecks. However, to measure the purchasing power of a paycheck over time, economists adjust earnings for inflation. These are called *real* earnings.

When *real* earnings are considered, the growing burden on workers becomes even more dramatic. Nationally, between 2000 and 2006, real earnings actually *declined*.



Source: Adjustments to U.S. Census Bureau American Community Survey (ACS) data by Families USA using CPI-U-RS.

* Real earnings in 2006 dollars.

DISCUSSION

Overview

This report analyzes trends in employment-based health insurance premiums and workers' earnings from the beginning of 2000 to the end of 2007. Our findings draw attention to a disheartening trend: Over the past eight years, Montana's working families have seen their health care costs go up faster than their earnings. As a result, the cost of health insurance premiums now imposes a greater burden on family budgets than ever before.

Premiums for employment-based health insurance have risen rapidly over the past eight years: Health insurance premiums for Montana's working families have risen by 88.8 percent—5.5 times faster than median earnings in Montana (Table 4). At the same time, rising health care costs have forced employers to make hard choices. Some employers have concluded that they can no longer afford to offer health insurance to their workers and have dropped coverage, driving an increase in the number of uninsured workers. The proportion of Americans covered by employment-based insurance dropped by more than 5 percentage points between 2000 and 2007 (from 64.2 percent of adult Americans in 2000 to 59.3 percent in 2007). During the same period, the number of uninsured Americans rose from 38.4 million to 45.7 million—an increase of nearly 20 percent. In Montana, the number of uninsured people under age 65 is now 152,000 (approximately 18.6 percent of the non-elderly population).[3]

Other employers continue to provide coverage, but they now ask their workers to pay a greater share of the premiums. In addition, a growing share of employers are lowering their health costs by providing "thinner coverage"—coverage that offers fewer benefits and/or that comes with higher deductibles, copayments, and co-insurance.[4]

As a larger portion of health care costs is shifted onto workers, Montana's families are finding that the burden is becoming too great to bear. Families' paychecks are increasingly consumed by health care costs. For many, the growing costs are hindering their ability to pay for other necessities—and reducing their standard of living. Other families are making even tougher decisions—decisions that may force them to join the ranks of the uninsured and underinsured.

Rising Premiums for Employment-Based Health Insurance

In Montana, health insurance premiums for employment-based health insurance rose rapidly for both individuals and families from 2000 to 2007. Average premiums rose from $2,611 to $4,397 for individuals and from $6,220 to $11,743 for families (these numbers include both the employer and the worker share of premiums) (Tables 1 and 2). During this eight-year period, premium costs borne by workers alone for family coverage rose from $1,253 to $2,924 (an increase of 133.3 percent), and for individual coverage, these costs rose from $378 to $633 (an increase of 67.6 percent) (Tables 1 and 2).

Rises in Workers' Premiums Outstrip Increases in Earnings

While health insurance premiums rose rapidly, median earnings for Montana's workers grew slowly. As a result, average health premiums for *family* coverage rose 5.5 times faster than median earnings from 2000 to 2007 (Table 4).

Higher Costs, Less Coverage

To make matters worse, workers are increasingly paying more for less. Rising health care costs and the associated increase in health insurance premiums are leaving employers struggling to cope. Faced with mounting costs, employers must make tough decisions that often come down to either cutting benefits or reducing wages.[5] Some employers are forced to take the drastic step of dropping coverage for their workers. This is most common among small businesses, which have seen the largest increases in premiums.[6] Other employers attempt to hold down rising premiums by offering "thinner" coverage. Providing health plans with higher deductibles, more copayments, and fewer benefits has become a common method of attempting to control rising insurance costs.[7]

As health insurance costs rise, the trend toward offering thinner coverage continues, with plans increasingly moving away from fully covered benefits to partial coverage with higher cost-sharing, and, eventually, to the elimination of some benefits completely.[8] In addition, coverage is evolving to require higher cost-sharing for services such as hospital care and prescription drugs. Workers now face much greater cost-sharing when hospitalized than they did in the 1990s, with half required to pay hospital-specific deductibles and copayments.[9] Cost-sharing for prescription drugs is also on the rise, with a move toward drug plans that make individuals pay more for certain drugs.[10]

Increases in cost-sharing continue in spite of the fact that experts in the field—including insurance company executives—generally concur that such increases will not result in a significant reduction in premiums or overall health care costs.[11] Moreover, increases in cost-sharing have a detrimental effect on the health and well-being of workers. A sizeable body of research indicates that increases in cost-sharing reduce access to necessary care.[12]

Mounting Burden—More Families Face Catastrophic Health Care Costs

As premiums increase and plans offer thinner benefits, working families are shouldering a growing share of health care costs. For many workers, this burden is becoming too great. Higher out-of-pocket costs and health insurance plans that offer fewer benefits leave many families struggling to pay medical bills when health care is needed. This is exacerbated by the fact that earnings have failed to keep pace with rising costs. As a result, a growing share of working families faces catastrophic medical costs.

Approximately 50.7 million non-elderly Americans with insurance are in families that will spend more than 10 percent of their pre-tax income on health care costs in 2008,[13] and more than one-quarter of insured Americans report problems with medical bills or say that they are in the process of paying off medical debt.[14] The problem is even greater for individuals with health plans that offer thinner coverage, such as those that require higher deductibles.[15] Families whose medical expenditures total 10 percent or more of their income or whose plans include deductibles greater than 5 percent of income—known as the "underinsured"—are at particular risk. For underinsured families, medical bills have a profound effect on their health and financial security. More than half (53 percent) of underinsured adults went without needed care (such as skipping a test or treatment recommended by a doctor or not filling a prescription) because of cost in the last year.[16] In addition, nearly half (45 percent) of underinsured adults had a medical bill problem in the last year.[17]

When the burden of high medical costs becomes too great, working families often have no choice but to consider drastic changes in lifestyle and, eventually, bankruptcy. Before resorting to bankruptcy, working families do all that they can to prevent financial ruin. One study found that, in the two years prior to filing for bankruptcy, more than 40 percent lost telephone service, approximately one-fifth went without food, and more than one-half went without needed medical or dental care because of the costs associated with this care.[18] If these choices are not enough to avert financial ruin, bankruptcy often becomes the only option. More than half of bankruptcies are now due, at least in part, to problems with medical costs.[19]

Medical Debt and Uninsurance—A Vicious Circle

Illness, high medical costs, and the resulting financial insecurity form a vicious circle. Illness drives increases in medical costs that, in turn, lead to financial difficulties.[20] Concurrently, workers facing illness are often forced to reduce the hours they work and may lose their jobs completely. As medical costs rise, earnings often drop, resulting in greater financial insecurity. Moreover, individuals forced to leave their jobs due to illness may lose their employment-based insurance. Faced with the loss of insurance, families with mounting medical debt are drawn deeper into financial turmoil.

CONCLUSION

In Montana, health insurance premiums are rising considerably faster than workers' earnings. As a result, health care costs are consuming ever-larger portions of family budgets and causing substantial hardships. If this trend continues, more and more families will inevitably join the ranks of the uninsured and underinsured, and Montanans will face diminishing economic and health security. This crisis will only worsen until there is leadership in Washington, D.C. and in the states that takes decisive and meaningful action to make health care truly affordable and accessible to all.

ENDNOTES

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METHODOLOGY

Estimates in this report are based on data drawn from U.S. federal government sources, including the Department of Health and Human Services (HHS), the Census Bureau, and the Department of Labor. A more detailed methodology is available upon request from Families USA.

Premiums

Estimates of employment-based health insurance premiums are based on data from the Medical Expenditure Panel Survey (MEPS) conducted by the Agency for Health Care Research and Quality of HHS. Premiums were trended forward from 2006 to 2007 using the national premium growth pattern presented in data published by the Kaiser Family Foundation and the Health Research and Educational Trust (September 2007).

Earnings

Estimates of median worker earnings are 2000 to 2007 data from the Census Bureau's American Community Survey (August 2008).

Real Earnings

Families USA adjusted 2000 to 2005 median worker earnings data from the Census Bureau's American Community Survey to 2006 dollars using the Department of Labor's Consumer Price Index (CPI). Non-seasonally adjusted CPI-U-RS data were used to make these adjustments.

ACKNOWLEDGMENTS

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