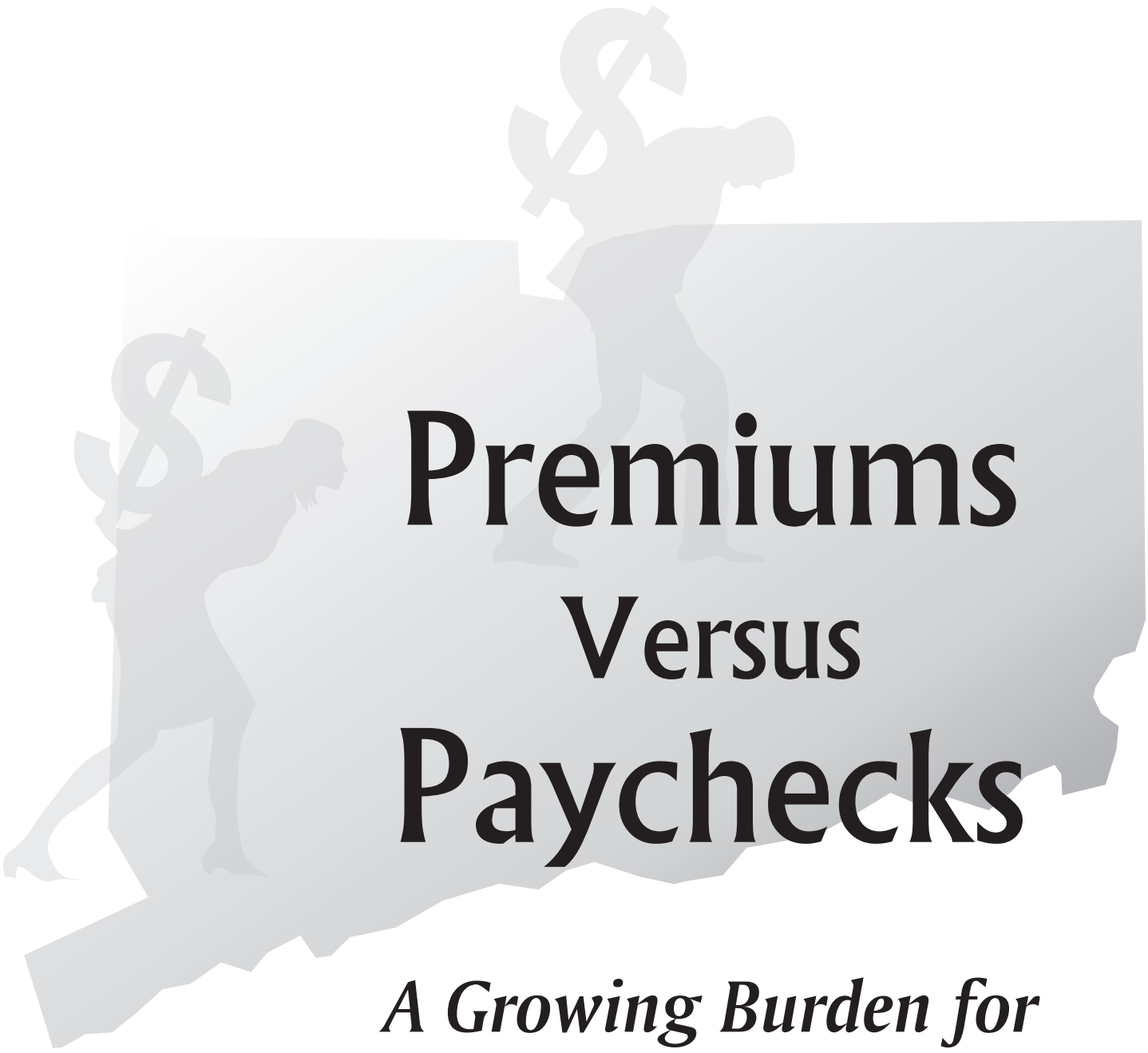

Premiums Versus Paychecks

A Growing Burden for Connecticut's Workers

Families USA

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

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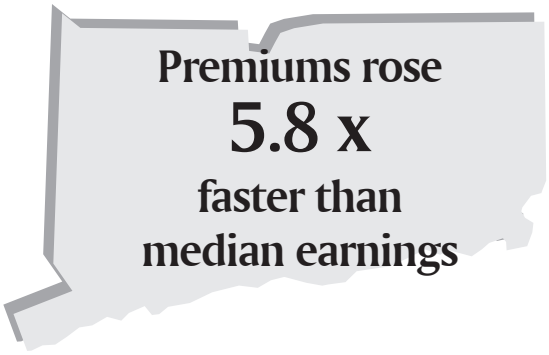
INTRODUCTION

Throughout the first six years of the new millennium, health care costs have skyrocketed, while working families' wages have stood still. Other factors have also buffeted families' economic well-being, including fluctuating gasoline prices and the recent downturn in real estate markets, but nothing has caused as much damage to family pocketbooks as the confluence of stagnant wages and rising health care costs. 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 consequences of rising health care costs and stagnant earnings differ considerably among the 50 states.

Families USA has undertaken *the first state-by-state analysis* of growing health care premiums versus stagnant earnings over the past six years. 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 the impact of changes in employer-based health insurance premiums and earnings in Connecticut.



Over the past six years (2000 to 2006), family health insurance premiums for Connecticut's workers rose 5.8 times more quickly than median earnings. On average, family health care premiums rose by 77.0 percent, while median earnings rose by only 13.2 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 no longer 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 Connecticut families feel worse off economically than they did six years ago.

KEY FINDINGS

Spiraling Health Insurance Premiums for Connecticut's Workers and Employers (2000-2006)

- Health insurance premiums for Connecticut's working families skyrocketed over the last six years, increasing by 77.0 percent from 2000 to 2006 (Table 1).
- For *family* health coverage in Connecticut, the average annual premium (employer and worker share of premiums combined) rose from $7,292 to $12,904, an increase of $5,612 (Table 1).
- For *family* health coverage in the state, the employer's portion of annual premiums rose from $5,761 to $10,246 (an increase of $4,485), while the worker's portion rose from $1,531 to $2,658 (an increase of $1,127) (Table 1).
- For *individual* health coverage in Connecticut, the average annual premium (employer and worker share of premiums combined) rose from $3,057 to $4,360, an increase of $1,303 (Table 2).
- For *individual* health coverage in the state, the employer's portion of annual premiums rose from $2,528 to $3,488 (an increase of $960), while the worker's portion rose from $529 to $872 (an increase of $343) (Table 2).

Stagnant Wage Growth for Connecticut Workers

- Between 2000 and 2006, the median earnings of Connecticut's workers increased from $32,106 to $36,348, or 13.2 percent (Table 3).
- Health insurance premiums for Connecticut's *families* rose 5.8 times faster than median earnings from 2000 to 2006 (Table 4).

Table 1

Increases in Premiums for Family Coverage in Connecticut, Employer-Based Health Insurance, 2000-2006*

Premiums By Source of Payment	2000	2006	Dollar Change	Percent Change
Total Premium Spending per Worker (Employer and Worker Share)	$7,292	$12,904	$5,612	77.0%
Share of Premium Paid by Employer	$5,761	$10,246	$4,485	77.9%
Share of Premium Paid by Worker	$1,531	$2,658	$1,127	73.6%

* Numbers may not add due to rounding.

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

Table 2

Increases in Premiums for Individual Coverage in Connecticut, Employer-Based Health Insurance, 2000-2006*

Premiums By Source of Payment	2000	2006	Dollar Change	Percent Change
Total Premium Spending per Worker (Employer and Worker Share)	$3,057	$4,360	$1,303	42.6%
Share of Premium Paid by Employer	$2,528	$3,488	$960	38.0%
Share of Premium Paid by Worker	$529	$872	$343	64.9%

* Numbers may not add due to rounding.

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

Table 3

Growth in Earnings in Connecticut, 2000-2006

Median Earnings		Dollar Change	Percent Change
2000	2006		
$32,106	$36,348	$4,242	13.2%

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 Connecticut for Family Health Insurance Coverage Compared to Growth in Earnings, 2000-2006

2000-2006		Premium Increase as a Multiple of Earnings Growth
Percent Change In Total Family Premium	Percent Change In Median Earnings	
77.0%	13.2%	5.8

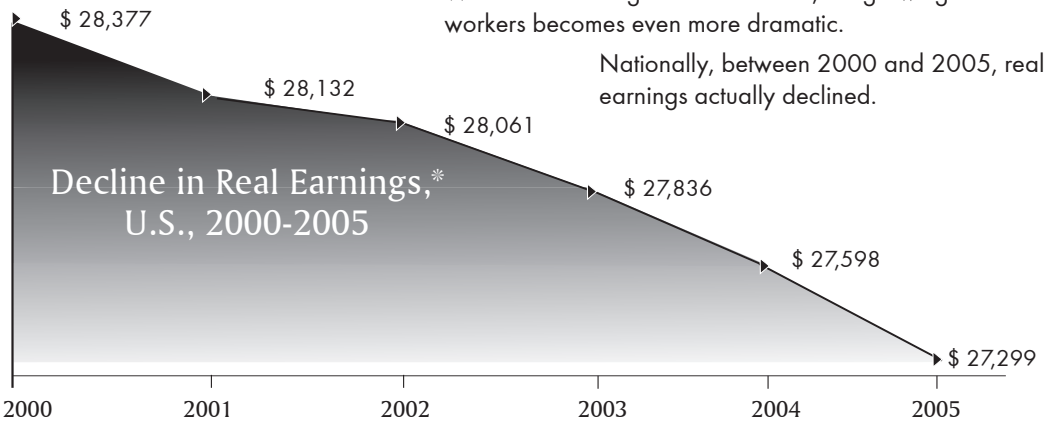
Source: Estimates by Families USA.

STAGNANT 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 2005, 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 2005 dollars.

DISCUSSION

Overview

This report analyzes trends in employment-based health insurance premiums and workers' earnings from the beginning of 2000 through 2006. Our findings draw attention to a disheartening trend: Over the past six years, Connecticut'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 inflicts a greater burden on family budgets than ever before.

Premiums for employment-based health insurance have risen rapidly over the past six years: Health insurance premiums for Connecticut's working families have risen by 77.0 percent—5.8 times faster than median earnings in Connecticut (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 nearly 5 percentage points between 2000 and 2005 (from 64.1 percent of adult Americans in 2000 to 59.5 percent in 2005). During the same period, the number of uninsured Americans rose from 38.7 million to 46.6 million—an increase of more than 20 percent in a mere five years.[2] In Connecticut, the number of uninsured people is more than 399,000 (approximately 13.1 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 holds down 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, Connecticut'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 underinsured and uninsured.

Rising Premiums for Employment-Based Health Insurance

In Connecticut, health insurance premiums for employment-based health insurance coverage rose rapidly for both individuals and families from 2000 to 2006. Average premiums rose from $3,057 to $4,360 for individuals and from $7,292 to $12,904 for families (these numbers include both the employer and the worker share of premiums) (Tables 1 and 2). During this six-year period, premium costs borne by workers alone for family coverage rose from $1,531 to $2,658 (an increase of 73.6 percent), and for individual coverage, premium costs rose from $529 to $872 (an increase of 64.9 percent) (Tables 1 and 2).

Rises in Workers' Premiums Outstrip Increases in Earnings

While health insurance premiums rose rapidly, median earnings for Connecticut's workers failed to keep pace. As a result, average health premiums for *family* coverage rose 5.8 times faster than median earnings from 2000 to 2006 (Table 4).

Higher Costs, Less Coverage

To make matters worse, workers are increasingly paying more for less. Rising health care costs and the associated increases 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 highest increases in premiums.[6] Other employers attempt to hold down rises in 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 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 sizable 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.

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.[13] The problem is even greater for individuals with health plans that offer thinner coverage, such as those requiring higher deductibles.[14] Families whose medical expenditures total 10 percent or more of their income or whose plans include deductibles greater than 5 percent of income—the underinsured—are at particular risk. For underinsured families, medical bills have a profound effect on financial security. Nearly half (46 percent) of underinsured families report being contacted by a collection agency regarding medical bills in the last year, and more than one-third (35 percent) have taken drastic measures, such as re-mortgaging a home or running up credit card debt, to pay medical bills.[15]

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 skipped meals, and more than one-half went without needed medical or dental care because of the costs associated with this care.[16] 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.[17]

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.[18] 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 coverage.[19] Faced with loss of insurance, families with mounting medical debt are drawn deeper into financial turmoil.

CONCLUSION

In Connecticut, 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 Connecticuters will face diminishing economic and health security. This crisis will only worsen until there is national leadership in Washington, D.C. that takes decisive and meaningful action to make health care truly affordable and accessible to all.

ENDNOTES

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[19] Ibid.

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 on 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 2004 to 2006 using state-specific factors based on observed data from 1999 to 2004, standardized to national premium growth patterns presented in data published by the Kaiser Family Foundation and Health Research and Educational Trust (September 2006). Kenneth E. Thorpe, Woodruff Professor and Chair, Rollins School of Public Health, Emory University, provided these estimates to Families USA.

Earnings

Estimates of median worker earnings are based on 2000 to 2005 data from the Census Bureau's American Community Survey. Earnings were trended forward to 2006 using state-specific factors based on observed data from 2000 to 2005, standardized to national growth in median earnings observed from 2004 to 2005.

Real Earnings

Families USA adjusted 2000 to 2004 median worker earnings data from the Census Bureau's American Community Survey to 2005 dollars using the Department of Labor's Consumer Price Index. Non-seasonally adjusted CPI-U-RS data were used to make these adjustments.

ACKNOWLEDGMENTS

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