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Health care cost surge takes a breather

Iowa premiums on employer-provided plans increase at slowest rate in years

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Written by Victor Epstein

Iowa's skyrocketing costs for employer-provided health care insurance moderated this year, posting their smallest gains since at least 2001.

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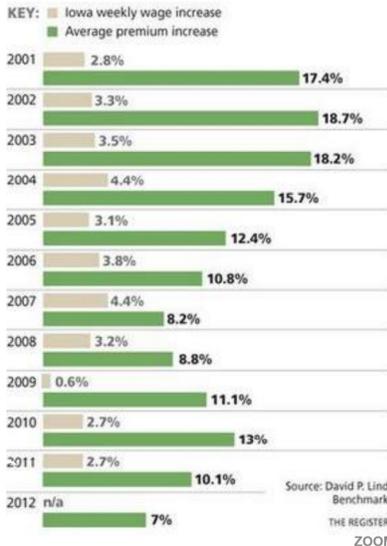
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Among the reasons: Consumers delayed care and turned to less expensive generic drugs, and employers rewarded their workers for leading healthier lives, experts said.

Premiums increased by an average of 7 percent from 2011 to 2012, according to the annual survey by David P. Lind Benchmark, an employee benefits research firm in Clive. That's a record low for the Iowa survey, which began in 1999 and measures the size of such year-to-year increases.

Health care costs increasing slowly

The average increase in health insurance premiums slowed to 7 percent from 2011 to 2012. That's the slowest pace since at least 2001.



It's good news for workers and employers, because health care costs and wages are considered part of overall labor compensation. That means rising health care costs can blunt wage gains, said David Osterberg, executive director of the Iowa Policy Project.

"When an employer has to spend more on health care, they can't spend as much on raises," he said, noting that the annual increase in health care benefit costs is "not as bad as it's been."

Lind surveyed 1,206 Iowa employers from January to late August of this year.

The average premium for Iowans with individual coverage is \$5,456, 154 percent more than the \$2,064 average recorded in 1999. The average family premium soared 146 percent to \$13,557 during the same period, according to the Lind survey.



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Overall premiums have increased by an average annual rate of 12.6 percent the past 12 years. The year-to-year gain reached a record survey high of 18.7 percent in 2002. The previous low was 8.2 percent in 2007.



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Rising health care insurance costs have easily outpaced year-to-year wage gains, which vary from 0.6 percent to 4.4 percent in the Lind survey.

Larry Zilge said the recent moderation in the breakneck pace of annual premium increases has been a welcome respite. The 62-year-old owner of Zilges Appliance Center in Mason City has 10 full-time workers. Seven are covered by its health insurance policy.

"It's a relief, because health care is our second-biggest cost next to salaries," said Zilge, whose parents founded the family business in 1968.

Shouldering costs

Health care costs have risen to the point where they now play a pivotal role in most personal bankruptcies, Lind said. A Harvard study published in 2007 found the number of personal bankruptcies caused by medical problems surged to 62 percent in 2007 from 50 percent in 2001 and 8 percent in 1981.

The Lind survey's findings suggest the difficult economy is prompting more employers to shoulder the additional cost of health insurance. It reported that the percentage of employers absorbing higher premiums in 2012 rose to 29 percent. That compares with 17 percent a year ago.

For the first time, not a single survey respondent reported that they had stopped providing coverage to their employees in response to the higher rates.

"That's significant," Lind said. "It's always been less than 1 percent, but it's never been zero before."

Lind and officials at Wellmark Blue Cross and Blue Shield contend that it's too soon to conclude that the Patient Protection and Affordable Care Act is dampening annual cost increases. The so-called Obamacare program won't be fully implemented until 2014.

Slowdown's causes

They attribute the slowdown partly to the greater use of generic drugs as some best-selling brand-name drugs have exhausted their patents. That allows them to be made by generic manufacturers, which typically charge less per dose. One example is the blood cholesterol treatment Lipitor, which was approved in 1996.

Wellmark said the prescription rate for generic drugs has increased to 83 percent over the past two years, from 70 percent.

Wellmark officials also credit the growth of wellness programs, which reward employees with lower premiums when they lead a healthy lifestyle, for the moderation in overall health care cost inflation. The programs also penalize employees for unhealthy practices such as smoking, which typically result in higher health care expenses.

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Wellmark CFO David Brown said industry research has shown that difficult economic conditions also can dampen health care cost inflation. The Des Moines-based insurer has 1.8 million health customers.

“There has been research that looks at the impact of the economy on health care costs,” Brown said. “And generally, you see a reduction in usage due to the number of unemployed workers without coverage and due to the number of covered employees delaying care.”

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