



DATA SPOTLIGHT

Working Rhode Islanders face a number of competing demands on their incomes. These demands include the costs of childcare, education, food, housing, utilities, and transportation. Another pressing demand on working Rhode Islanders' incomes is the cost of health care. Data Spotlight is a new series by the Office of the Health Insurance Commissioner that shines a light on the problem of rising health care costs.

This month's edition of Data Spotlight focuses on employer-sponsored health insurance coverage and the impact of rising health care costs on working Rhode Islander's paychecks.

WHAT WE FOUND: Rising health care costs erode wage growth and place greater financial burden on working Rhode Islanders and their families.

WHAT IS EMPLOYER-SPONSORED HEALTH INSURANCE COVERAGE?

Employer-sponsored health insurance coverage is a fringe benefit and form of non-wage compensation offered to employees and their dependents. It is the predominant form of health insurance coverage in Rhode Island and the United States as a whole. In 2021, 50.5% of Rhode Islanders were covered through an employer.^[1] Whether the employer funds employee health care expenses directly on a self-insured basis (as is common among large companies and municipal and state employee health benefit plans) or purchases a fully insured group plan from a commercial health insurer, spending on the underlying health care goods and services drives the employer's health care expenses. According to data obtained from Rhode Island's four largest private insurers, 65% of Rhode Island residents insured through an employer were covered by self-insured employer plans. The remaining 35% of Rhode Island residents were covered through small and large group fully insured plans whose premiums are subject to review and prior approval by OHIC.

HOW MUCH DOES EMPLOYER-SPONSORED HEALTH INSURANCE COST AND HOW HAS THIS CHANGED OVER TIME?

In 2021, the average premium for a family plan was \$22,381.^[2] Average family premiums have nearly tripled since 2001. Over the same period, average employee contributions for a family plan have increased from \$1,703 (in 2001) to \$6,216 (in 2021).^[3] As the cost of insurance has increased employers have placed greater reliance on consumer cost-sharing as a means to mitigate the pressure of rising premiums. Between 2003 and 2021, the average deductible for a family plan increased from \$885 to \$3,662.^[4]

WHY DOES THE COST OF EMPLOYER-SPONSORED HEALTH INSURANCE MATTER FOR RHODE ISLANDERS' PAYCHECKS AND POCKETBOOKS?

Rising health care costs hit employee paychecks and pocketbooks in a number of ways. Employers may fund increased health care expenses (if they self-insure) or premium (if they fully insure) by placing downward pressure on employee wage growth. Employers may also increase employee contributions to their coverage, which reduces take-home pay. A third potential impact on employees occurs when plan designs are adjusted to include increased cost sharing, such as deductibles, co-payments, or coinsurance. Higher cost sharing requirements exposes family budgets to the high prices of health care goods and services, such as prescription drugs and hospital services.

IS THERE EVIDENCE BACKING UP THE IMPACT OF RISING HEALTH CARE COSTS ON WAGES?

Yes, economists have found that rising health care costs and premiums lead to reduced wage growth and shift financial burden onto employees and their families in the form of higher cost sharing. A recent study by researchers at RAND found that increasing health care costs led to reduced wage growth and increased uptake of high deductible health plans.^[5]

An earlier study found that increasing premiums were associated with reduced wages.^[6] Health care prices are important quantities. What hospitals, physicians, and pharmaceutical companies receive from consumers in exchange for goods and services are a key driver of health care costs. The non-partisan Congressional Budget Office published a report in January 2022 that examined how price increases affect people with employer-sponsored health insurance. As part of the report the CBO produced an informative illustration of the causal pathways from provider price increases to the impact on employees' paychecks and pocketbooks. That illustration is reproduced below.

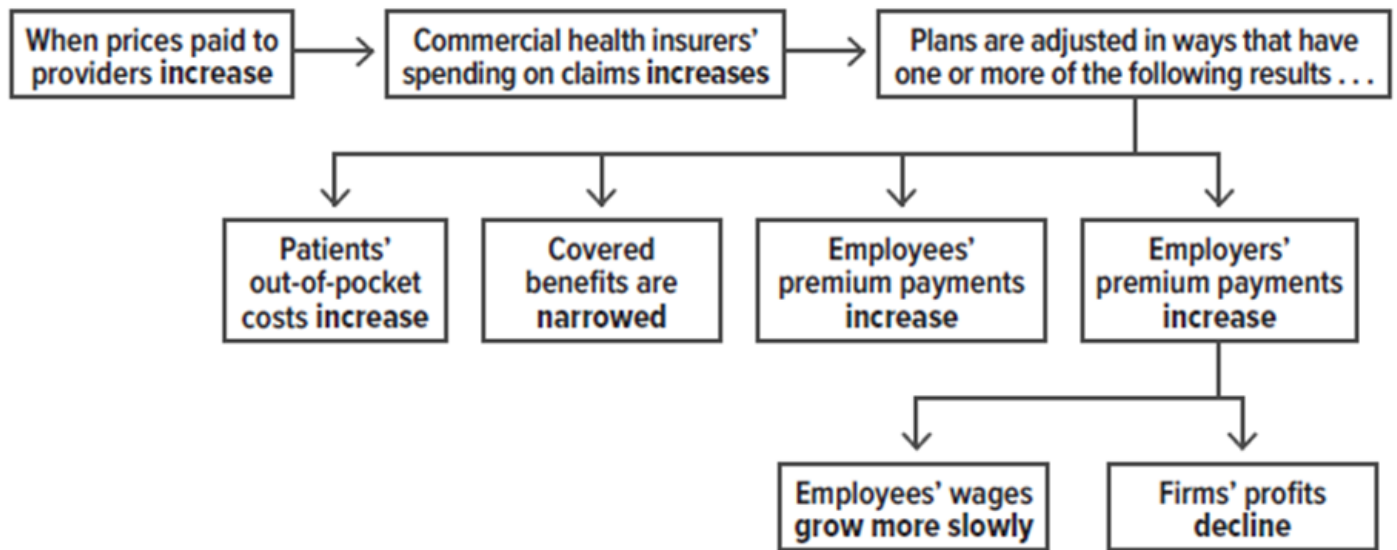
WHAT IS THE DIFFERENCE BETWEEN SELF-INSURED EMPLOYER COVERAGE AND FULLY-INSURED EMPLOYER COVERAGE?

A self-insured employer bears the risk of paying the medical and pharmacy claims of their employees. This is different than a fully insured employer, who transfers this risk to a health insurance company in exchange for paying a premium. While self-insurance is commonly associated with large private employers, self-insured plans also cover most of Rhode Island's public servants, including teachers, firefighters, and other municipal and state government workers. Self-insured employer plans are not subject to state insurance regulation even though they cover the majority of Rhode Islanders with employer-sponsored health insurance coverage. This means that OHIC does not conduct rate review for self-insured plans and does not review their plans designs. However, self-insured employers commonly utilize private health insurers to administer their plans, which includes processing claims, managing utilization review, contracting with provider networks, and negotiating reimbursement rates with providers on the employer's behalf. Reimbursement rates, or "prices," are key drivers of total health care expenditures. As prices increase, health care expenditures increase, and these increases affect self-insured employers and their employees as much as they affect fully insured employers and their employees.

SOURCES

- [1] State Health Facts, Health Insurance Coverage of the Total Population, Rhode Island, 2021. Available at: <https://www.kff.org/state-category/health-coverage-uninsured/>
- [2] Average total family premium (in dollars) per enrolled employee at private-sector establishments that offer health insurance by Total, Rhode Island, 1996 to 2021. Medical Expenditure Panel Survey Insurance Component (MEPS-IC).
- [3] Average total employee contribution (in dollars) per enrolled employee for family coverage at private-sector establishments that offer health insurance by Total, Rhode Island, 1996 to 2021. MEPS-IC.
- [4] Average family deductible (in dollars) per employee enrolled with family coverage in a health insurance plan that had a deductible at private-sector establishments by Firm Size, Rhode Island, 2003 to 2021, MEPS-IC.
- [5] Arnold, Daniel and Christopher M. Whaley, Who Pays for Health Care Costs? The Effects of Health Care Prices on Wages. Santa Monica, CA: RAND Corporation, 2020. https://www.rand.org/pubs/working_papers/WRA621-2.html
- [6] Baicker, K., & Chandra, A. (2006). The Labor Market Effects of Rising Health Insurance Premiums. *Journal of Labor Economics*, 24(3), 609–634. <https://doi.org/10.1086/505049>

Effects of Higher Prices on Health Insurance Premiums and Benefits, Out-of-Pocket Costs, and Wages



Source: Congressional Budget Office, The Prices That Commercial Health Insurers and Medicare Pay for Hospitals' and Physicians' Services, January 20, 2022, available at: <https://www.cbo.gov/publication/57422>

The effects of rising health care costs are important to understand and seek to mitigate in order to ensure that Rhode Islanders can secure rising incomes to address other vital necessities.

WHAT TOOLS DOES THE STATE HAVE TO ADDRESS RISING HEALTH CARE COSTS?

We cannot improve what we cannot measure. As a critical starting point for monitoring the burden of increasing health care costs on working Rhode Islanders, OHIC's [Health Spending Accountability and Transparency Program](#) measures health care spending for all Rhode Islanders and publishes the cost growth performance of health insurers and large provider organizations relative to Rhode Island's projected economic growth. In May OHIC will issue a comprehensive report on health care spending in the state in conjunction with a public forum. Additionally, OHIC conducts prior approval rate review for fully insured health plans and maintains regulations governing hospital price growth.

RHODE ISLAND HEALTH CARE COSTS PUBLIC FORUM

Date: Monday, May 8th

Time: 9am - 12:00pm

Location: Crowne Plaza - 801 Greenwich Ave, Warwick, RI 02886

Future editions of Data Spotlight will focus on such topics as the burden of drug prices, problems that Rhode Islanders face paying medical bills, and the prices the privately insured pay to hospitals relative to what Medicare pays for the same services.