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**HEALTH INSURANCE PREMIUMS DRIVEN BY RISING
UNDERLYING COSTS**

*Statement from Patrick Johnston, President and CEO,
California Association of Health Plans*

Sacramento, CA — The California HealthCare Foundation released a report today on 2011 trends in employer health benefits. While the report notes that health insurance premiums have risen since 2002, it does not look at the underlying costs that drive insurance premiums.

As it should, the lion's share of premiums is spent on medical expenses: [87 percent](#) of health insurance premiums pay for doctors, hospitals, labs, prescription medicine and other medical expenses. In fact, new federal and state laws require at least 80-85 percent of premiums be spent on medical care. As the underlying costs of medical care rise, premiums also increase to pay for those costs.

Insurers have one of the lowest profit margins in the health care industry—around 3 percent—and are continually looking for ways to reduce administrative costs and streamline services.

Following is a statement from Patrick Johnston, President and CEO of the California Association of Health Plans (CAHP):

“The Affordable Care Act will offer consumers some relief with expansion of the Medi-Cal program and federal subsidies for health coverage through the state health benefit exchange.

“However, if California doesn't address the factors that drive up the cost of private insurance, such as grossly underfunded government insurance programs, high prescription drug prices and the increasing cost of chronic illnesses, underlying costs will continue push up the price of coverage.”

Underlying cost pressures have caused health care costs to outpace [inflation](#) and growth in our nation's economy. Underpayment for government insurance programs, such as Medi-Cal, and the cost of treating the uninsured also drive up premiums by as much as [\\$1,792 more per year](#) for each insured California family. In addition, medical innovations are helping us live longer, healthier lives, but an aging population also means bigger medical bills and higher costs for the management of chronic illnesses.

Among other rising costs are prescription drugs, which account for [13% of the rise in premium prices](#), and the per-person spending on expensive medications is expected to [rise by 70% by 2019, surpassing the increase](#) in the costs for hospitalization and other professional medical services. New technology also is responsible for about [half the growth](#) in medical spending nationwide. And medical bills are an average of \$2,400 higher for each person who is obese or overweight.

In addition to rising price of treatment, the cost of medical care also increases as people use more and more services:

- [Knee replacements increased 53%](#) from 2000 to 2004
- [Hip replacements rose 37 percent](#) from 2000 to 2004
- CT scans performed in emergency rooms grew from [2.7 million per year to 16.2 million](#) between 1995 and 2007

For more information on the [underlying cost pressures that drive premium prices](#), please visit www.calhealthplans.org.

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CAHP is a statewide trade association representing 39 full-service health plans. Through legislative advocacy, education and collaboration with other member organizations, CAHP works to sustain a strong environment in which our member plans can provide access to products that offer choice and flexibility to the more than 21 million members they serve. For more information, please visit www.calhealthplans.org or call (916) 552-2910.