



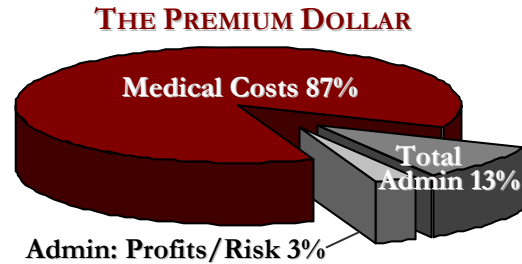
FACT SHEET

The Health Care Premium Dollar

JUNE 2008

MEDICAL COSTS CONSUME \$.87 OF THE PREMIUM DOLLAR

The latest analysis by PricewaterhouseCoopers in “The Administrative Costs of Public and Private Health Insurance,” reveals that out of every \$1 paid in health insurance premiums, 87 cents pays medical costs and just 13 cents goes to administrative costs. While overall health spending has grown by 7 percent annually, administrative costs have grown by only 2 percent a year. Because they comprise the largest portion of the premium dollar, **escalating medical costs – such as physician and hospital services and pharmaceuticals – account for 90 percent of the growth in health insurance premiums while administrative costs account for just 10 percent of premium growth.** We must attack the medical costs driving up the price of health care so those currently insured can continue to afford their coverage and so the uninsured can obtain coverage.



The Breakdown of Administrative Expenses

Administrative expenses pay for a number of value-added services for consumers, purchasers and providers, as detailed below:

Consumer Services, Provider Support, Marketing

\$.04 Communications with consumers on existing benefits, disease management programs, care coordination, health promotion, wellness and prevention programs and related investment to health information technology comprise the largest portion of administrative expenses.

Claims Processing

\$.03 The second largest administrative expense is for claims processing: collecting, reviewing, paying and recording every claim from plan enrollees.

Risk and Profits

\$.03 Profits meet risk-based needs, attract continued reinvestment and, in the case of nonprofit plans, pay interest on borrowed funds.

Government Payments and Compliance

\$.02 Administrative expenses also go toward taxes on premiums, complying with filing and reporting requirements and other government laws and regulations, such as the recent Health Insurance Portability and Accountability Act (HIPAA).

Other administrative Costs

\$.01 Finally, the smallest share of administrative expenses goes toward premium collection, and actuarial and underwriting services.

\$.13

Total Share of Premium Dollar

Please contact Brianna Lierman Hintze at blhintze@calhealthplans.org or 916.552.2915 with any questions regarding this fact sheet