Too Great A Burden:

Minnesota's Families At Risk

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This report was written by:

Kim Bailey, Health Policy Analyst

and

Beth Wikler, Health Policy Analyst

The following Families USA staff contributed to the preparation of this report:

Ron Pollack, Executive Director

Kathleen Stoll, Director of Health Policy

Peggy Denker, Director of Publications

Ingrid VanTuinen, Writer-Editor

Jenelle Partelow, Editorial Associate

Nancy Magill, Design/Production Coordinator

Families USA
1201 New York Avenue NW, Suite 1100
Washington, DC 20005
Phone: 202-628-3030
E-mail: info@familiesusa.org
www.familiesusa.org

INTRODUCTION

Over the past eight years, relentless growth in health insurance premiums and out-of-pocket costs has made spending on health care an increasing burden. For many Minnesotans, this means that health care is consuming an ever-growing share of their budgets, forcing them to make difficult sacrifices in other areas so they can make ends meet. And for many hard-working families, the burden of these health care costs has become too great to bear.

In Minnesota alone, 1,093,000 people under the age of 65—nearly one in four non-elderly Minnesotans—are in families that will spend more than 10 percent of their pre-tax family income on health care costs in 2008. The vast majority (90.9 percent) of these people *have insurance*. In Minnesota, 276,000 non-elderly people—nearly nine out of ten of whom *have insurance*—are in families that will spend more than 25 percent of their pre-tax income on health care costs in 2008.

In addition, the number of Minnesotans facing high health care costs has grown substantially over the last eight years. Between 2000 and 2008, the number of people in families that spend more that 10 percent of their pre-tax income on health care will have increased by 490,000. The number of people in families spending more than 25 percent of their family income on health care will have increased by 136,000. With a growing share of Minnesota's families spending a substantial share of their income on health care, rising costs are putting thousands of families at risk.

KEY FINDINGS

Thousands of Minnesotans Are Affected by High Health Care Costs

- Nearly one in four non-elderly Minnesotans—1,093,000—is in a family that will spend more than 10 percent of its pre-tax income on health care costs in 2008 (Table 1).
- 276,000 Minnesotans are in families that will spend more than 25 percent of their pre-tax income on health care costs in 2008 (Table 1).

Table 1

Minnesotans in Families with High Health Care Costs, 2000 to 2008

Share of Pre-Tax Family Income Spent On Health Care	2000		2008		Increase
	Number	Percent of Pop.	Number	Percent of Pop.	
More than 10 Percent	603,000	13.8%	1,093,000	23.4%	490,000
More than 25 Percent	140,000	3.2%	276,000	5.9%	136,000

Note: Numbers may not add due to rounding.
Source: Estimates prepared by The Lewin Group for Families USA.

A Growing Burden: More Minnesotans with High Health Care Costs, 2000 to 2008

- In 2000, 603,000 non-elderly Minnesotans were in families that spent more than 10 percent of their pre-tax income on health care costs (Table 1).
- Between 2000 and 2008, the number of people in families spending more than 10 percent of their pre-tax income on health care costs will have increased by 490,000 (Table 1).
- In 2000, 140,000 Minnesotans were in families that spent more than 25 percent of their pre-tax income on health care costs (Table 1).
- Between 2000 and 2008, the number of people in families spending more than 25 percent of their pre-tax income on health care costs will have increased by 136,000 (Table 1).

Thousands of Insured Minnesotans Are Affected

- More than nine out of 10 people (90.9 percent) in families spending more than 10 percent of their pre-tax income on health care costs *are insured* (Table 2).
- 994,000 non-elderly Minnesotans *with insurance* are in families that will spend more than 10 percent of their pre-tax income on health care costs in 2008 (Table 3).
- Nearly nine out of 10 people (87.0 percent) in families spending more than 25 percent of their pre-tax income on health care costs *are insured* (Table 2).
- 240,000 Minnesotans *with insurance* are in families that will spend more than 25 percent of their pre-tax income on health care costs in 2008 (Table 3).

Table 2

Insurance Status of Minnesotans in Families with High Health Care Costs, 2008

Share of Family Pre-Tax Income Spent on Health Care	People with High Health Care Costs		Percent Insured
	With Insurance	Total	
More than 10 Percent	994,000	1,093,000	90.9%
More than 25 Percent	240,000	276,000	87.0%

Source: Estimates prepared by The Lewin Group for Families USA.

Table 3

Insured Minnesotans in Families with High Health Care Costs, 2000 to 2008

Share of Family Pre-Tax Income Spent on Health Care	2000	2008	Increase
More than 10 Percent	533,000	994,000	462,000
More than 25 Percent	117,000	240,000	123,000

Note: Numbers may not add due to rounding.
Source: Estimates prepared by The Lewin Group for Families USA.

FAMILY BUDGETS: HOW TIGHT ARE THEY?

Health care costs that equal 10 percent or more of a family's pre-tax income represent a significant burden for working families and their already tight budgets. See, for example, this budget for a family of four with a gross annual income of $60,000.

A Typical Family Budget

Gross Annual Income	$ 60,000
Less Taxes (federal, state, and local taxes)	11,160
Disposable Income (gross income minus taxes)	$ 48,840
Annual Expenses	
Housing and Utilities	16,680
Transportation	10,940
Food, Beverages, and Personal Care Items	9,650
Pets, Sports, Entertainment, and Reading Materials	2,660
Education and Miscellaneous Expenses	2,530
Clothing and Footwear	2,310
Personal Insurance (non-health) and Pensions	1,080
Less Total Expenses	$ 45,850
Amount Left to Pay for Health Care (disposable income minus expenses)	**$ 2,990**

About this example: The Institute on Taxation and Economic Policy supplied the tax burden for this illustration. Expenditures were derived from the U.S. Bureau of Labor Statistics. A methodology is available upon request.

This family has only $2,990 left after paying for housing, food, and other necessities. The health care expenses they will need to cover with this $2,990 include: health insurance premiums, payments for physician and hospital services (including copayments and deductibles), prescription drugs, over-the-counter medications, and medical supplies.

	Burden of 10%	Burden of 25%
Dollars Left to Pay For Health Care	$2,990	$2,990
Actual Cost of Health Care	– $ 6,000	– $15,000
SHORTFALL	**– $3,010**	**– $12,010**

But what if this family's health care expenses come to more than $2,990? What if these costs add up to $6,000—10 percent of their pre-tax income—as happens to so many American families? As this report shows, 1.1 million Minnesotans are in families that will spend more than 10 percent of their income on health care costs in 2008. In this particular example, the family would have to find another $3,010 to cover their health care costs—or go into debt.

DISCUSSION

To determine how many Minnesotans face health care costs in excess of 10 and 25 percent of pre-tax family income in 2000 and 2008, Families USA asked The Lewin Group to analyze data from the U.S. Department of Health and Human Services and the U.S. Census Bureau. The results are troubling: 1.1 million Minnesotans—nearly one out of four non-elderly state residents—are in families that will spend more than 10 percent of their pre-tax income on health care costs in 2008 (Table 1). More than nine out of ten (90.9 percent) of these people *have insurance* (Table 2). What's more, 276,000 people—nearly nine tenths of whom *have insurance*—are in families that will spend more than 25 percent of their pre-tax income on health care costs in 2008 (Tables 1 and 2)

Why Is the Number of People with High Health Care Costs Increasing?

As our analysis demonstrates, millions of Americans are in families that face high health care costs, and this number has increased substantially over the last eight years. A number of factors have driven this phenomenon. First and foremost, health insurance premiums are increasing. As premiums rise, employers are forced to make tough decisions about the coverage they offer to their employees: some drop coverage, others increase the share of the premium that employees must pay, and more offer insurance that covers fewer services and/or requires high out-of-pocket costs. This, in turn, means that American families must shoulder a greater proportion of health care costs.

- **Premiums on the Rise**

  As health insurance premiums increase, so too does the burden these costs impose on American families. And, in the last few years, health insurance premiums have risen significantly. Between 2000 and 2007 alone, the average annual premium for job-based family health coverage rose from $6,351 to $12,106, an increase of more than 90 percent.[1] During the same period, the average worker's share of annual family premiums rose from $1,656 to $3,281, an increase of more than 98 percent.[2]

  Two primary factors, rising health care costs and insurance company practices, account for the lion's share of premium increases.

- **Rising Health Care Costs**

  Much of the increase in underlying health care costs is accounted for by rising spending on services such as prescription drugs and hospital care.[3] For example, annual spending on prescription drugs more than doubled from 2000 to 2008, rising from $120.8 billion to a projected $247.6 billion.[4] Likewise, spending on hospital services rose from $417.0 billion in 2000 to a projected $747.2 billion in 2008, an increase of nearly 80 percent.[5]

While rising spending on prescription drugs and hospital care account for a substantial portion of the increase in underlying health care costs, the growing use of new medical technologies also plays a significant role. Advances in the tools used to diagnose and treat medical conditions, including the development of new surgical procedures, biologic drugs, and medical devices, have all improved health care. These high-tech procedures, however, come at a price; some health care experts estimate that the use of new technology accounts for as much as half of the increase in health care spending.[6]

Together, rising spending on health care services and increased use of new technologies have driven up the cost of care provided in the U.S. Between 2000 and 2008, the amount we spend per person each year on health care is projected to grow by nearly two-thirds (64.4 percent), increasing from $4,034 to $6,631.[7] This, in turn, results in higher premiums.

- **An Insurance Market without Necessary Protections**

While underlying health care costs are the largest cause of rising premiums, the growing advantage that insurance companies have over American families also plays a role in premium increases. A 2007 study found that there were more than 400 insurance company mergers in the last 12 years, resulting in near-monopoly power among insurance companies. In nearly two-thirds of major metropolitan areas, a single insurance company controls at least half of the market, and in 96 percent of metropolitan areas, a single insurer controls at least 30 percent of the market.[8]

The near-monopoly power of insurance companies, coupled with little or no regulation of insurers, is a prescription for rising premiums. Currently, insurance companies are governed by a hodgepodge of state and federal rules. In many states, insurance companies have free reign over how much of each dollar they collect in premiums is spent on providing care and how much is retained as profit or spent on overhead, such as advertising and marketing. In addition, in some markets, insurers are free to charge people more—or deny coverage altogether—based on age, health status, and a range of other factors.[9] This increases premiums even more for the very people most likely to need comprehensive, affordable health coverage. Without appropriate consumer protections and rules to govern the influence and growth of large insurers, premiums are likely to continue their rapid ascent.

What Rising Premiums Mean for Employers

As premiums increase, it becomes more difficult for employers to offer their employees quality, affordable health coverage. Faced with the growing burden of health care costs, employers must make difficult decisions about the coverage they are able to provide to their employees. For some employers, particularly those that operate small businesses, the cost of health insurance has become too much to bear. Between 2000 and 2007, the total number of firms

offering health coverage declined by 9 percentage points (from 69 percent of firms to 60 percent), with small businesses being the most likely to drop coverage.[10]

While some employers have been forced to cut coverage across the board, others have dropped coverage for specific groups of people or placed limits on which employees are eligible. Some employers, for example, have found that it is no longer financially viable to offer coverage for workers' spouses and children (dependent coverage). Between 2001 and 2005, a loss of dependent coverage accounted for 11 percent of the decline in job-based coverage.[11] In addition, many employers do not offer coverage to part-time, temporary, or seasonal workers.[12] Others now require that employees work for the company for a period of time before becoming eligible for coverage. In 2007, three out of four employers (75 percent) imposed a waiting period for coverage, with the average waiting period being just over two months.[13]

The vast majority of employers who have continued offering coverage have been forced to shift some of the burden of rising health care costs onto their workers, usually by increasing the amount that workers are required to pay toward insurance premiums.[14] Others have resorted to "thinning" coverage—offering health insurance that covers fewer services and/or comes with higher deductibles, copayments, and co-insurance.[15] In addition, insurance coverage is evolving to require more cost-sharing for certain services, such as prescription drugs and hospital care. For example, more than 95 percent of people with job-based coverage are now required to pay hospital-specific cost-sharing, and more than 90 percent are in tiered drug plans that charge more for some drugs than for others.[16]

These trends are likely to continue in coming years, with nearly half (45 percent) of firms saying they are "very likely" or "somewhat likely" to raise employees' premium contributions, 42 percent saying they are very or somewhat likely to increase cost-sharing for doctor's visits, and 37 percent saying they are very or somewhat likely to raise deductibles in 2008.[17]

The thinning of coverage and the increasing number of plans that require higher deductibles and cost-sharing reflect a trend toward coverage that shifts financial risk onto families.[18] A range of "consumer-directed" plans have gained popularity among employers in recent years as a way to hold down costs. Although relatively few people have chosen to participate in these plans (only 5 percent of employees in 2007), 18 percent of companies with more than 1,000 employees and 10 percent of all firms now offer plans that pair high-deductible coverage with tax-sheltered health savings accounts (HSAs).[19]

New trends that shift financial risk onto families have been facilitated by changes in federal law and regulations that have been promoted by the current Administration. For example, in 2006, employers were given an additional impetus to move to higher deductible plans when Congress passed the Administration's proposal to increase the size of tax shelters for high-deductible plans linked to health savings accounts. These plans offer little or no benefit to low-income families, but they do provide a lucrative tax shelter for the wealthiest Americans.[20]

In addition, employers attempting to rein in costs are turning to programs that make workers directly responsible for their health care costs. In 2007, the Administration issued rules that amend federal insurance anti-discrimination protections.[21] These changes allow employers to charge workers more for their health insurance if they do not participate in certain health programs—or just because they have high blood pressure or other indicators of less-than-perfect health. Employers that have implemented these programs have gone so far as to dock the paychecks of workers who are unable to meet standards for cholesterol, blood pressure, and other similar measures.[22]

Consequences for American Families

More families than ever are facing burdensome health care costs, regardless of their insurance status. Rising premiums are only part of this equation. Now, millions of insured Americans live in families that face health care costs that exceed 10 percent of their pre-tax income. Insurance simply no longer offers the protection that America's families need.

As health care costs consume a growing share of family budgets, many families are forced to look for new ways to pay for care. With the majority of doctors' offices and hospitals now accepting payment by credit card, paying for health services via credit card is becoming increasingly common. In 2001 alone, for example, Visa reports that Americans charged $19.5 billion in health care services to Visa cards.[23] In addition, credit cards and loans marketed specifically for the purchase of medical care are becoming more common. Currently, there are at least nine separate lenders that offer medical credit cards and loans.[24] Cards such as the HELPcard and the CareCredit card allow people to get the health services they need, but these cards often come with terms and conditions that can trip up all but the most cautious consumer. While introductory offers may promise low interest rates, these rates often skyrocket when the introductory period ends or one late payment is made (see "Compounding the Problem: Medical Credit Card Debt" on page 9).

Given rising costs and an increased reliance on credit to pay for medical care, it comes as no surprise that a growing share of Americans reports having trouble with medical bills. More than one in four people *with insurance* report having trouble paying their medical bills or say that they are in the process of paying off medical debt.[25] The problem is even worse for people who are in health plans that have high premiums, that charge hefty cost-sharing, or that offer limited benefits.[26] Moreover, people in families that spend a higher percentage of their income on health care are more likely to suffer from problems with medical bills and medical debt. A 2003 study found that nearly half (46 percent) of insured families with high health care costs reported being contacted by a collection agency regarding medical bills in the last year, and more than one-third (35 percent) took drastic measures, such as re-mortgaging their home or running up credit card debt, to pay medical bills.[27]

When the burden of health care costs becomes too great, the consequences can be catastrophic. Faced with medical debt, families often have no choice but to consider drastic changes in lifestyle and, eventually, bankruptcy. One study found that, in the two years prior to filing for bankruptcy, more than 40 percent of families lost telephone service, approximately one-fifth went without food, and more than one-half went without needed medical or dental care because of the costs associated with that care.[28] When no options remain, bankruptcy is often the last resort for families. Since 2000, 5 million American families have filed for bankruptcy following a serious medical problem.[29] In all, approximately half of bankruptcies are due, at least in part, to medical expenses.[30]

CONCLUSION

As health care costs rise and a greater share of these costs is passed on to Minnesotans, the state's hard-working families are put at risk. Tens of thousands of Minnesotans are in families spending more than 10 percent—or even more than 25 percent—of their pre-tax income on health care costs, and this problem has grown substantially over the past eight years. With the economic stability of Minnesota's families hanging in the balance, something must be done to bring costs under control.

WHAT CAN FAMILIES REASONABLY AFFORD?

This report looks at how many non-elderly people are in families that will spend more than 10 percent, and more than 25 percent, of their pre-tax income on health care costs in 2000 and 2008. The 10 percent threshold is commonly cited as the point at which health care costs become a significant financial burden for families.[31]

Our report does not suggest that 10 percent of income is an appropriate standard for affordability for all families. Spending 10 percent of income on health care costs is more than most low- and middle-income families can reasonably afford.[32] Middle-class families with health costs that exceed 10 percent of their income will find their finances strained and may have to go into debt to cover medical expenses. Paying high health care costs will be an even greater burden for low-income families.

In light of this, state health reform laws should use a sliding scale to determine how much families pay for health coverage. For example, in Massachusetts' recent health reform, "affordability" was defined as approximately 4 percent of income for people earning 300 percent of the federal poverty level (approximately $62,000 for a family of four) and as an increasing percentage for people with higher incomes.[33]

COMPOUNDING THE PROBLEM: MEDICAL CREDIT CARD DEBT

Families with high health care costs and tight budgets are turning to credit cards to finance their health care needs. This trend is driven in part by the rising number of providers—hospitals, pharmacists, and physicians—who not only accept credit cards, but who also offer medical-specific credit cards to their patients.

The following chart highlights the terms and conditions of three medical-specific credit cards:

Credit Card Company And Plan Name	Promotional Interest Rate	Interest Rate (APR)	Default Interest Rate (Delinquency APR)
Aetna's Healthy Living Visa, Preferred Accounts Plan	No Interest for 12 Billing Cycles	15.99%	29.99%
CareCredit, No Interest Promotional Plan	No Interest for 3, 12, or 18 Months	22.98%	28.99%
The HELP Card	Not Applicable	22.74%[a]	29.74%[b]

[a] The interest rate is the prime interest rate plus 14.99%. At the time this report was written, the prime interest rate was 7.75%. Total interest cannot be less than 22.99% and is not to exceed 29.99%.

[b] The interest rate is the prime interest rate plus 21.99%. At the time this report was written, the prime interest rate was 7.75%. Total interest is not to exceed 29.99%.

Credit card companies profit most when people are unable to pay off their balance in full. In 2005, credit card companies generated more than $25-$30 billion in revenue from basic customer transactions, in which the balance is paid in full each month. However, companies made more than twice that amount—$79 billion—from interest and late fee revenues.[34]

A POUND OF FLESH: AMERICANS FACING HIGH HEALTH CARE COSTS

With rising health care costs and thinning coverage, families are paying more out of pocket for their health care. Millions of people have had to make significant financial sacrifices to pay for their medical care. Too often, however, these sacrifices are not enough, and many families find themselves shouldering heavy medical debt. More than a third of non-elderly adults—34 percent—have had trouble paying their health care bills, are paying off accrued medical debt, or both.[35] High medical costs and medical debt can compromise a family's access to health care and undermine its economic security.

No Guarantee: Coverage without Adequate Protection

- More than three out of five adults who report having problems paying their medical bills had insurance at the time they incurred their debt.[36]
- 78 percent of those with private insurance and medical debt work full-time.[37]
- Two-thirds of privately insured adults with medical debt have household incomes between $20,000 and $75,000.[38]

Thinning Benefits: Individuals Bear the Burden

- Thinner benefit plans mean that people have to pay more to obtain basic health care services. Among Americans who have trouble paying their medical bills, 85 percent report that the bills included doctor bills, 62 percent report that the bills included lab fees, and 56 report that the bills included prescription drugs.[39]
- Plans with high deductibles are burdensome for American families. Half of adults enrolled in plans that have a yearly deductible of $500 or more struggle to pay medical costs.[40]
- Higher out-of-pocket costs are driven, in part, by the rising number of services that are excluded from coverage. Those with medical debt were less likely to have prescription drug coverage, dental coverage, vision benefits, or mental health coverage than were others with private coverage.[41] For example, among non-elderly insured adults without prescription drug coverage, 48 percent report having problems with medical bills or medical debt.[42]
- People who had reached the limit of what their insurance companies would pay for a specific service or illness were more than twice as likely to have problems paying their medical bills, have medical debt, or both as people who had not reached the coverage limit (65 percent versus 30 percent).[43]

Cost: A Barrier to Access

- People with medical debt are more likely to delay or forgo care. More than three times as many adults with medical debt or medical bill problems went without needed care because of costs compared to adults without medical debt or medical bill problems (63 percent versus 19 percent).[44] Insured adults who report having medical debt are four times more likely than insured adults without medical debt to postpone medical care due to cost.[45]
- Insured people with medical debt are more than twice as likely to go without a needed prescription as those without debt (24 percent versus 9 percent).[46]
- Health care providers are using more aggressive billing and debt collection practices, which have also made it difficult for people with medical debt to obtain care. Increasingly, providers are requiring payment for services at the time they are provided, deterring people who cannot afford the cost of care or forcing people to pay with credit cards.[47]

Families at Risk: Medical Costs Undermine Financial Security

- Of all adults who report having medical bill problems or medical debt, 39 percent used up all of their savings to pay medical bills.[48]
- More than a third (35 percent) of insured people with high health care costs had to take substantial financial risks—such as running up high levels of credit card debt or taking out a loan or a mortgage against their home—to pay medical bills.[49]
- When medical debt becomes too great to bear, the consequences can be catastrophic. Legal action, such as seizure of wages, assets, and property, may be taken against people with unpaid medical bills.[50]
- Bankruptcy is often the last resort for families with high medical costs. About half of all personal bankruptcy cases are due, at least in part, to medical costs.[51] Since 2000, approximately 5 million families have filed for bankruptcy after experiencing a serious medical problem.[52] And, among those whose illness led to bankruptcy, more than three in four had insurance at the onset of the illness.[53]

Medical Debt Affects People's Well-Being

- People with medical debt reported that their debt caused "significant stress, anxiety, and feelings of hopelessness." They also identified their medical debt as a source of "embarrassment and shame," despite the fact that they had no control over the medical event that caused their financial distress.[54]

ENDNOTES

[1] Families USA calculations based on Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits: 2000 Annual Survey* (Washington: Kaiser Family Foundation, 2000) and Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits: 2007 Annual Survey* (Washington: Kaiser Family Foundation, September 2007).

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[14] According to Families USA calculations based on data from Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits: 2000 Annual Survey*, op. cit., and Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits: 2007 Annual Survey*, op. cit., between 2000 and 2007, the employee share of insurance premiums increased by more than 98 percent.

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1201 New York Avenue NW, Suite 1100 ■ Washington, DC 20005
Phone: 202-628-3030 ■ E-mail: info@familiesusa.org
www.familiesusa.org