

Rhode Island's Ongoing Struggle with Rising Health Care Costs



Failing to address underlying expenses means already unaffordable commercial health insurance premiums will continue soaring

A report from the Rhode Island Business Group on Health

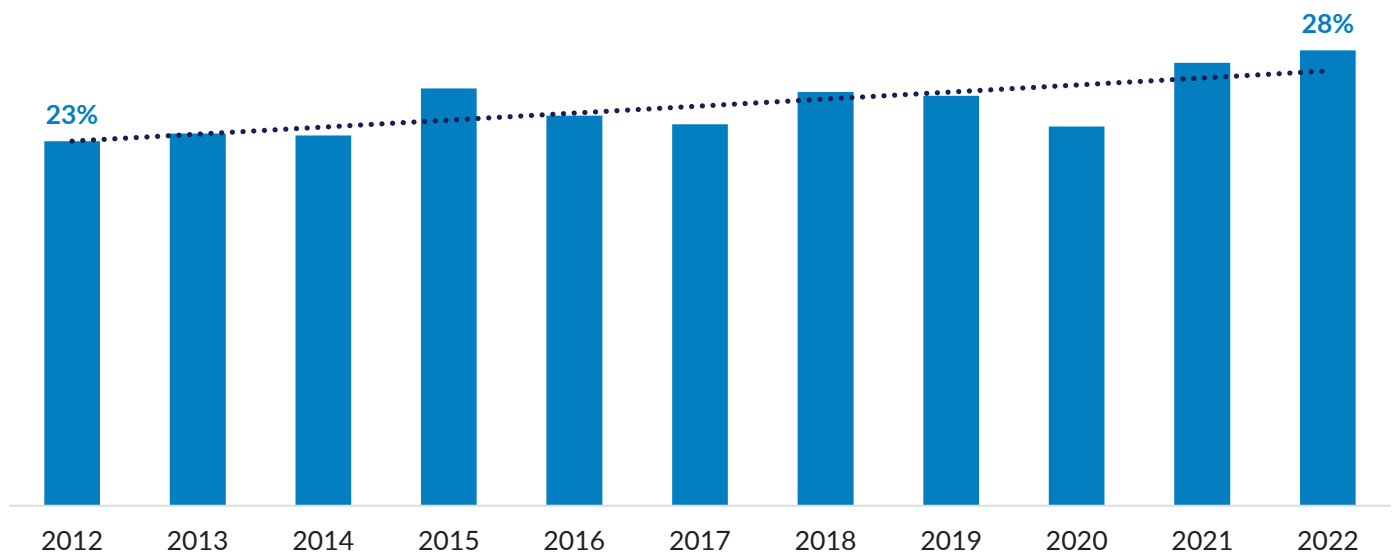
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It's well known that Rhode Island's families, businesses, municipalities, unions, and state agencies are paying unjustifiable and unsustainable increases every year for commercial health insurance premiums. What's not widely known, however, is that the amount families and plan sponsors statewide pay for commercial health insurance family premiums is among the highest in the nation.

Evidence shows that from 2012 to 2022, the cost of commercial health insurance family premiums in Rhode Island increased from 23% to 28% of median household income, according to the University of Pennsylvania's Affordability Index. Over those same years, commercial health insurance family premiums in Rhode Island rose from being the 14th most expensive in the nation to 13th, according to the [Medical Expenditure Panel Survey \(MEPS\)](#). (See Exhibit 1.)

Exhibit 1: Families Are Paying More for Health Insurance

In 2022, family premiums for commercial health insurance in Rhode Island rose to 28% of median household income



Source: Medical Expenditure Panel Survey, Agency for Healthcare Research and Quality, 2022; and U.S. Census Data, 2022.

The trend toward higher commercial health insurance premiums will continue unless all parties paying for and delivering health care take decisive action now. Failing to act means Rhode Island families, employers and other plan sponsors will continue reeling from unrestrained commercial health insurance premiums.

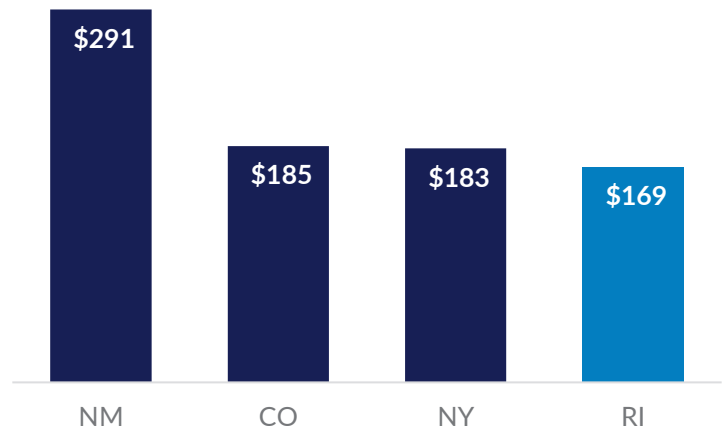
Root Causes of Rising Premiums

Any attempt to reduce the cost of commercial health insurance premiums must begin with understanding the biggest factors driving up premium rates each year.

The three most significant expenses commercial health insurers cover are state taxes, fees, and assessments; their own operating costs; and medical care that premiums cover.

State taxes, fees, and assessments. The most recent data show that state taxes, fees, and assessments on Rhode Island's commercial health insurance premiums are the fourth highest among all states, according to the National Association of Insurance Commissioners (NAIC). Only Colorado, New Mexico and New York pay more. (See Exhibit 2.) It should be noted that the cost of the Rhode Island Vaccine Assessment Program is included in the NAIC data.

Exhibit 2: Rhode Island Pays More Than All But 3 States
State taxes, fees, and assessments on commercial health insurance per covered life



Source: [National Association of Insurance Commissioners, Supplemental Healthcare Exhibit Report, 2023.](#)

The state also taxes health care providers. In turn, providers pass those taxes along, increasing the cost of health insurance to fully insured and self-insured businesses, their employees, and families.

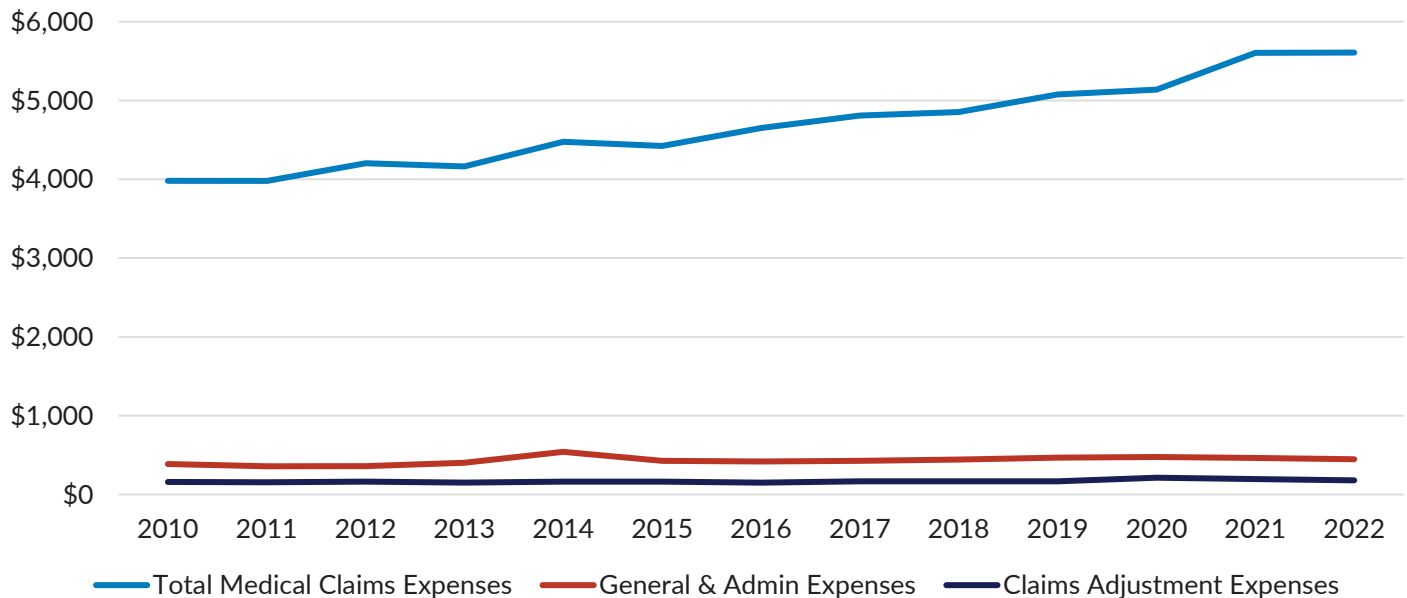
Among the taxes that hospitals in Rhode Island pay is one called the disproportionate share-hospital (DSH) assessment. Over the past 11 years, hospitals have paid the state more than \$1 billion in DSH assessments. In 2024 alone, the state budget assesses all hospitals almost \$214 million in DSH payments, thereby increasing all hospitals' costs by approximately 6%. In future briefs, RIBGH will explain more about these hospital assessments and the 2024 successor program called State Directed Medicaid Managed Care Payments in future briefs.

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Insurers' operating costs. The most recent data from NAIC helps answer the age-old question of whether health insurers or providers are driving up the cost of commercial health insurance premiums. While all insurers and providers need to contribute solutions to improve affordability, NAIC data show that medical claims, including pharmaceutical costs, represent almost 88% of the most significant expenses commercial health insurance premiums cover.

The fact that medical claims and prescription drugs account for almost 88% of commercial health insurers' expenses suggests an increasing need for all parties concerned about rising costs to identify strategies to align hospitals, specialty physicians, and the pharmacy supply chain in the pursuit of more affordable commercial health insurance. (See Exhibit 3.)

Exhibit 3: Medical Claims and Prescription Drug Costs Continue to Rise Medical expenses represent 88% of total expenses in commercial health insurance



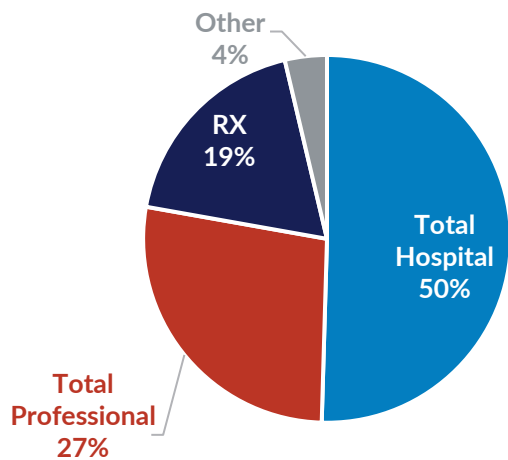
Source: National Association of Insurance Commissioners, Supplemental Healthcare Exhibit Report, 2023.

Medical care costs covered by commercial premiums. Another way to view the largest medical care costs that commercial health insurers cover comes from the state Office of the Health Insurance Commissioner and the NAIC's System for Electronic Rate and Form Filing (SERFF). This report provides insight into the largest costs small and large group commercial health insurance premiums cover.

The most recent SERFF data illustrates two important points about the effect hospital costs have on commercial health insurance premiums.

The first point is that from 2012 to 2022, hospitals consumed, on average, 50% of total medical expenses covered by commercial health insurance premiums. When viewed as a percentage of total medical expenses, hospital costs rose from 47% in 2016 to 50% in 2022. This trend makes it difficult to see a viable pathway toward affordability unless hospitals bring their expenses under control. (See Exhibit 4.)

Exhibit 4: Steadily Rising Hospital Costs
Hospitals in Rhode Island represent 50% of total commercial health insurance medical expenses



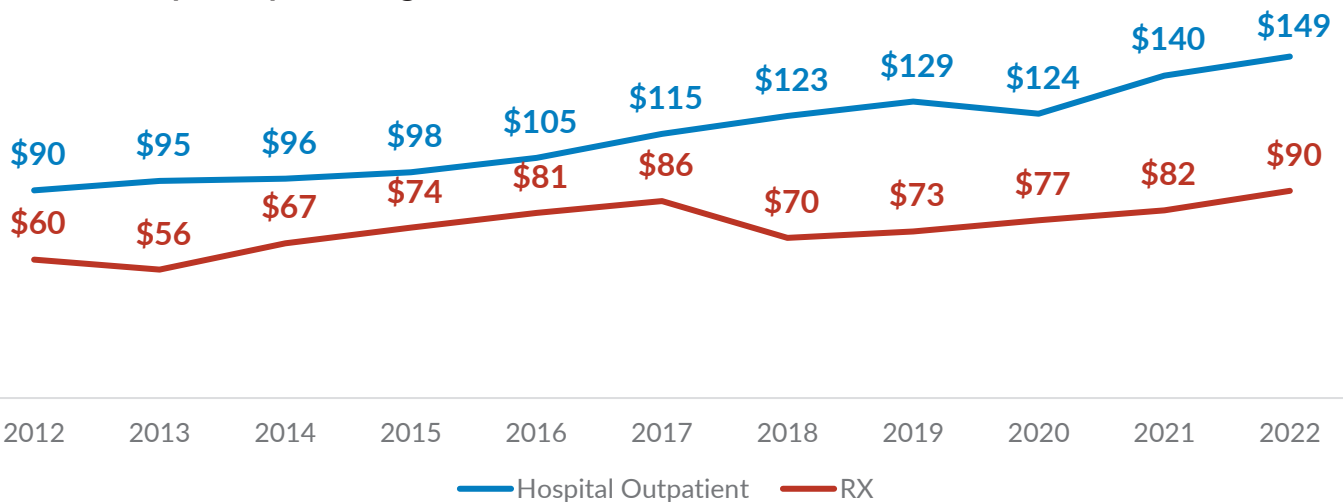
Source: National Association of Insurance Commissioners, System for Electronic Rate and Form Filing, 2023.

The second point is that hospital outpatient costs exceed pharmaceutical costs both in terms of percentage change and total dollars for commercial health insurance from 2012 through 2022. Over those years, hospital outpatient expenses rose an average of 5% per year compared with 4% annually for pharmaceuticals.

More significantly, the total amount commercial insurers spent in those years on hospital outpatient services was \$259 million, which was 40% more than the \$157 million they spent on prescription drugs.

These data illustrate that any focus on costs should include both pharmaceutical spending and all major expenses, including hospital costs. (See Exhibit 5.)

Exhibit 5: Spending for Outpatient Care Outpaced Pharmaceutical Costs PMPM
For commercial health insurers, hospital outpatient costs rose faster per member per month (PMPM) than the cost of prescription drugs



Source: National Association of Insurance Commissioners, System for Electronic Rate and Form Filing, 2023.

Questioning the Status Quo

During the period 2012 to 2022, health care reform initiatives in Rhode Island have been directed at keeping people out of the delivery system through wellness and prevention, changing benefits to incentivize consumers to make better choices when using the delivery system, using data to measure performance against a spending target, and regulating the amount of revenue coming into the delivery system. Noticeably lacking is any attention given to understanding the expenses of the delivery system and their effect on cost and value.

This brief, the first of a series, uses publicly available information to focus specifically on the cost of commercial health insurance. Its aim is to delineate the primary drivers behind the rise in commercial health insurance premiums from 2012 to 2022. Within this period, four expense categories emerge as noteworthy and amenable to action at the local level. These categories, listed in descending order of significance, include hospitals; specialty physicians; pharmaceuticals; and taxes, fees, and assessments. By a significant margin, hospitals represent the most substantial medical expense commercial health insurance premiums cover.

Given the magnitude of their expenses and their effect on commercial health insurance premiums, hospitals emerge as one of the primary focal points for exploring opportunities to align hospital operations and payment with affordability and efficiency. These actions will not only serve to stabilize premiums and improve hospital financial viability but also foster a more sustainable and equitable health care system for Rhode Island's families, businesses, municipalities, unions, and state agencies.

RIBGH gratefully acknowledges support of its hospital transparency and payment reform initiative from [Arnold Ventures LLC](#), a philanthropy dedicated to tackling some of the most pressing problems in the United States including high health care costs.

Editor's note: The preceding analysis requires a more detailed examination of all the data and other factors that contribute to rising commercial health insurance and health care costs. Therefore, this brief is the first in a series that will provide an analysis toward a potential pathway forward to making health insurance more affordable. The next brief in this series will start to "peel the onion" on how rising hospital costs drive up commercial health insurance premiums.