



first quarter 2008

The Rathbone Report

INSIDE THIS ISSUE:

Why Are Healthcare Costs Rising?

HSA 2007 & 2008 Contribution Limits

inside

Why Are Healthcare Costs Rising?

Healthcare costs have been rising at an alarming rate over the last several years. Most employers simply cannot avoid facing vastly increasing rates for their medical plan, year after year.

National Healthcare Costs

Unpredictable and uncontrollable health insurance rate increases are having a very serious financial impact on most employers. The overall costs of healthcare are skyrocketing across the United States — reflecting the biggest surge in medical inflation since the early 1990s.

Consider this: From 1994 to 1998, average yearly healthcare cost increases hovered around 2%. From 1999 to 2000, however, costs leapt 9.4%, and increases have entered and stayed at or near double digits ever since. Health benefit costs continue to rise faster than the rate of inflation. This trend is expected to continue.

Why are U.S. healthcare costs skyrocketing? Several market conditions working together have led to this onslaught of steep increases.

The Aging of America

According to the U.S. Census Bureau, from 1990 to 1994 the elderly population increased 9-fold. During the same period, the number of people under the age of 65 rose only 3-fold.

As the American population ages, there is a subsequent rise in the occurrence of chronic diseases like asthma, heart disease, and cancer, and a resultant need for more resources to fight these diseases. This leads to elevated utilization of prescription drugs and other medical services, and an overall rise in healthcare spending.

Dramatic Rise of Prescription Drug Costs

Rising prescription drug costs are a primary cause of escalating overall spending on healthcare. Pharmaceutical research is continually providing treatment breakthroughs. The costs associated with this progress is undoubtedly having an impact on insurance companies and managed care organizations, and consequently on employers who sponsor employee health plans.

Prescription drug expenditures make up 11% of our overall national healthcare spending. Insurance companies and employers are moving towards more cost-effective benefit designs, such as higher

copayments for prescription drugs than in previous years, or plans with three copayment levels for various drugs.

The reasons for the increase in spending on prescription drugs are many:

- * Introduction of new brand-name drugs to the marketplace.
- * A general increase in the number of prescription drugs being used.
- * The growing prevalence of managed care plans — which often offer generous drug benefits — has fueled increased prescription drug use.
- * With the general aging of the population, there is a higher incidence of chronic disease, and a resultant increase in the use of pharmaceuticals to treat those conditions.
- * Pharmaceuticals play a primary role in increasingly aggressive diagnoses and treatment methods.
- * Direct-to-consumer advertising of prescription drugs.

Expansion of Providers

One of the major factors driving up the cost of healthcare is the growth of healthcare providers. Expansive healthcare systems are becoming prevalent. While these systems provide many benefits to the communities they serve, they also require a great deal of money to fuel their growth — and ultimately place upward pressure on the costs of many medical services.

Political Environment and Government Regulation

Health insurance, and more specifically managed care, is one of the most regulated insurance sectors on both the state and federal levels.

State and federal mandated benefits have increased 25-fold over the last three decades. Often these mandates duplicate or conflict

with each other, and usually come with increased costs for the healthcare system.

There are over 1,500 mandated benefits at the state and federal level. Each of these has a cost associated with it, and together they have had a significant impact on healthcare costs.

Increased Utilization and Consumer Demand

Health services, like the number of surgical procedures and the number of prescription drugs dispensed, have risen significantly. Other services such as breast cancer screenings, immunizations for children, and diagnostic procedures like Cat Scans and MRIs have also experienced sharp utilization increases.

New Medical Technology

Old techniques are being replaced with new, often expensive treatments using new medical devices, diagnostic products, drugs, and surgical procedures. It is not surprising that these new procedures come with hefty price tags and are influential in driving overall costs of healthcare.

Coming Soon!

MyWave Elements – a helpful web-based Human Resources tool for Kinney Pike Employee Benefit clients!

HSA 2007 & 2008 Contribution Limits

	2007	2008
Individual Minimum Deductible	\$1,100	\$1,100
Individual Maximum Out-of-Pocket	\$5,500	\$5,600
Individual Maximum Contribution	\$2,850	\$2,900
Family Minimum Deductible	\$2,200	\$2,200
Family Maximum Out-of-Pocket	\$11,000	\$11,200
Family Maximum Contribution	\$5,650	\$5,800
Catch-Up Contribution (age 55)	\$800	\$900

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