



THOMAS J. VILSACK  
GOVERNOR

INSURANCE DIVISION  
IOWA DEPARTMENT OF COMMERCE

JALLY J. PEDERSON  
LT. GOVERNOR

October 3, 2000

The Honorable Daryl McLaren  
Iowa State Senator  
R.R. 1, Box 220  
Farragut, Iowa 51639

The Honorable David A. Millage  
Iowa State Representative  
3910 Aspen Hills Drive  
Bettendorf, Iowa 52722

Re: Health Care Costs

Dear Senator McLaren and Representative Millage:

This letter is response to your request at the September 26, 2000 Legislative Fiscal Committee meeting for information concerning health care cost trends in the private insurance market. I contacted four of the largest accident and health carriers in Iowa and requested information in regard to trends: Wellmark, Principal, American Republic and National Travelers. Here is what I learned.

Most carriers only break down trends in regard to specific costs such as drugs, utilization and medical. However, there are significant numbers in certain specific areas. Drug trends are going up from a low of 13% to a high of 40%. This includes an increase in the frequency of prescriptions as well as an increase in the cost of prescription.

The medical trends are increasing too. National Travelers has experienced a cost increase in doctor visits of 6% and hospital in and outpatient cost increases of 9%. Principal experienced a 16.2% increase in medical costs. American Republic reported that the overall trend in the PPO market was approximately 22%. However, this may come down after benefit design changes and utilization stabilizes.

There was considerable discussion at the September 26<sup>th</sup> meeting concerning contraceptive drug coverage costs. There are many factors that would go in to the cost implication of adding this benefit to a plan. Since the law only went into effect July 1, 2000, I believe it is too early to tell what effect, if any, this coverage has had on overall health insurance costs, i.e. pregnancy costs.

However, charges to group health care plans for costs of contraceptive coverage will vary between groups due to demographics. An employer group with no childbearing age employees will probably pay less for this coverage that a group including several young females. This is an allowable rating factor under state law.

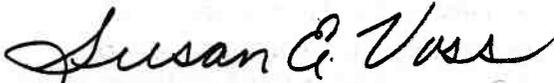
The state of Iowa has experienced a decrease in the number of uninsured. That may be due in part to the strong economy in certain sectors of the state. However, the cost of health care continues to rise in all segments. National as well as state figures indicate an increase in all segments of health care including drugs, administration, in and outpatient costs and technology. There appears to be no one single area of health care cost that is driving the increases.

Keep in mind that state legislation concerning health care insurance affects only a fraction of the health care market. Of the total health care dollars spent in Iowa, only about 25% are spent through state regulated health insurance. An additional 25% of health care dollars are spent through federally regulated self-funded plans and the remaining 50% of the health care dollars are spent through governmental health care programs.

I hope the above information has been beneficial. On a statutorily regulated basis, the Division examines health insurance carriers including their solvency. To date, we have a strong industry in Iowa. However, we are mindful of the recent losses by carriers in the health care market. And we will continue to monitor our domestic health carriers to make sure that Iowans continue to receive benefits for which they are entitled.

If you have questions or additional concerns, please don't hesitate to contact me at 515-281-6836.

Sincerely,



Susan E. Voss  
Deputy Commissioner

Copy to Holly Lyons, LFB