
Health insurance ate your raise

By Editor Test Wed, Sep 7, 2011

Between 2000 and 2009, the share of compensation gains provided in the form of more expensive benefits ranged from 35.2% to 60.8% for U.S. workers, depending on their level of income, according to Towers Watson.

Health care inflation has cannibalized an increasing large percentage of Americans' take-home pay over the past three decades, and low- and middle-income workers with employer-sponsored health care benefits have suffered the biggest losses in spending power.

That trend is likely to worsen in the coming decades unless health care cost inflation significantly declines, according to an August 3, 2011 white paper from the consulting firm Towers Watson, entitled, "[Treating Our Ills and Killing Our Prospects](#)."

"Our appetites for consuming health care have been profound for quite a long time," the white paper said, "and we have hidden many of the ramifications by financing much of it in ways where workers have not directly seen the costs. Now it is threatening their very prosperity."

Projections for the future are made more difficult, the report said, because no one can predict exactly what the effect of the Patient Protection and Affordable Care Act—"Obamacare"—will be on health care costs, or even if the law will withstand attempts to repeal it.

In 1980, the cost of health care benefits averaged only about 6% of pay, and was less than 10% for all but the lowest-paid workers, the report said. Since then, those costs have grown more than three times as fast as wages, reaching more than a third of individuals' wages among the lowest income groups.

Health inflation has apparently nullified much of the wage growth of the past decade. Between 2000 and 2009, the report showed, the share of compensation gains provided in the form of more expensive benefits ranged from 35.2% to 60.8% for U.S. workers, depending on their level of income.

"A full-time worker in the second earnings decile [2nd lowest] in 2009 earned around \$25,000 in total compensation on average. If his or her productivity goes up by the rate of growth Social Security actuaries estimate, by 2019 this worker will be earning around \$36,600 in total compensation, but nearly 75% of the difference from 2009 will have been consumed by rising health benefit costs," the paper said.

"The analysis of what has occurred over the past three decades suggests that a considerable share of workers' disappointment with the rewards they have received in recent years is due to the voracious appetite health benefits inflation has brought to bear on their productivity rewards," wrote Steven A. Nyce of Towers Watson and Sylvester J. Schieber.

"If we cannot bring excessive health care inflation under control, workers' prosperity is going to be increasingly threatened," they said. "If the worker is being provided family coverage, the cost of health benefits will grow to consume all of the added productivity contribution."

The high cost of health care adds to the unemployment rate, the report said; it makes the hiring of some lesser-paid employees uneconomical. The productivity of low income workers doesn't increase enough from year to year to cover the increase in health insurance costs.

In the South, where health care inflation was especially high, "for workers who were not covered by employer-sponsored health insurance [in 2000], the probability of being unemployed in 2001 was statistically equivalent. For workers covered by employer-sponsored health insurance in 2000, the probability of being unemployed in 2001 was 2.2% higher," the report said.

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