



# Economics of Health Care

## Part 2: Understanding health care cost drivers

In the series *Economics of Health Care*, Blue Cross and Blue Shield of Texas (BCBSTX) addresses the many components of health care costs, explaining how the average health insurance premium dollar is spent. These costs continue to climb—some at higher rates than others. But what costs are rising the fastest? And why?

While 83 percent of American adults utilize health insurance,<sup>1</sup> few stop to consider that their \$30 prescription drug or office visit copayments are only a small fraction of the total charges. Many people assume “it’s covered.” But that’s not the whole story. Even if a person’s copayments remain the same, the cost of health care services may continue to rise at a rapid rate. In fact, growth in medical care costs is projected to outpace inflation and increases in employee earnings. As health care costs continue to rise, Americans are faced with increased health care premiums and out-of-pocket expenses.

### Part 1

#### Average health care premium dollar breakdown<sup>2</sup>

35¢	Hospital costs
33¢	Physician services
14¢	Drugs
5¢	Other medical services
6¢	Government payments, compliance, claims processing
4¢	Consumer services
+ 3¢	Insurer margin
<b>\$1.00</b>	



# The rising costs of health care

## What are some common drivers of health care costs?

- + Prescription drugs
- + Overuse and misuse
- + Defensive medicine
- + Medical advances
- + Personal behavior
- + Chronic conditions
- + Preventable injuries
- + Health care fraud
- + Cost shifting
- + Uninsured individuals
- + Inflation



The amount spent on prescription drugs in 2008 was **\$234.1 billion**, which is nearly **six times** the amount spent in 1990.<sup>3</sup>

**Prescription drug spending** is one of the fastest growing costs, followed closely by hospital care and physician services. Three main factors influence prescription drug costs: consumption, price fluctuations and drug types. Americans continue to use more prescription drugs to manage their health. And as billions of dollars are spent on promoting brand name drugs, both the cost and demand for these drugs continue to rise. Generic drugs are generally three times cheaper than brand name drugs.<sup>3</sup>

Our country is spending more on health care, because we are consuming more health care services. This includes the **overuse and misuse of health care**, which is a major contributor to rising health care costs. For example, some people may visit the emergency room when an urgent care clinic or doctor's office visit could sufficiently meet their needs at a much lower cost.

Another significant cost driver is a result of doctors practicing **defensive medicine**. The act of over-testing patients is a precaution that many doctors take to protect themselves from malpractice lawsuits. Nearly three-quarters of U.S. doctors practice defensive medicine at an estimated cost of \$650 billion annually.<sup>4</sup>

**Medical advances** are another significant cost driver. While new technology can be life-saving, there is a cost involved in making such treatments available. In comparison to Canada, the U.S. has nearly three times as many CT scanners and four times as many MRI units per person.<sup>5</sup> Both machines cost hundreds of thousands of dollars each.

Approximately 70 percent of all health care costs nationwide are directly related to **personal behavior**. In addition, nearly three-quarters of all costs can be traced to cardiovascular disease, cancer, diabetes and obesity. Each of these costly conditions is preventable the majority of the time.<sup>6</sup>

*By 2018, the U.S. is expected to spend \$344 billion on health care costs that can be attributed to obesity.<sup>7</sup>*



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Unhealthy behaviors can result in costly **chronic conditions**.

For example, while smoking is harmful to the user, children also can become asthmatic from being around an adult's secondhand smoke. Research shows that people with chronic conditions generally use more health care services, which include doctor visits, hospital care and prescription drugs. Insurance works by spreading costs across the sick and healthy—so an individual's chronic condition affects everyone's health insurance premiums.

Each year, millions of Americans rush to emergency rooms to receive treatment for **preventable injuries**. During the one-year period May 2011 through April 2012, claims data shows that BCBSTX members' costs averaged over \$1,300 per emergency room visit. For children and adolescents alone, medical costs for preventable injuries in the U.S. are \$17 billion annually.<sup>8</sup> Simple actions, such as buckling seatbelts and consistently using bicycle helmets, can help prevent injuries and reduce costs for everyone.

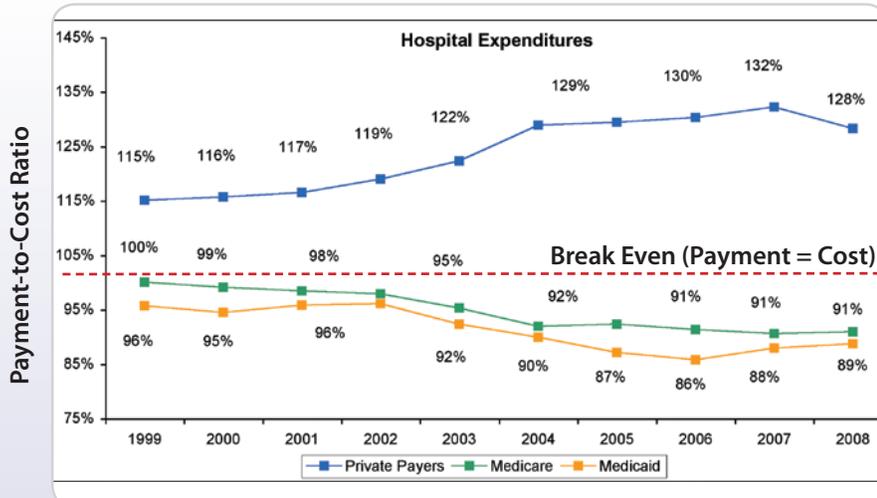
A pack of cigarettes sold in Texas costs our economy an average of **\$10.47** in medical costs and lost productivity as a result of premature death and disease.<sup>9</sup> The average smoker misses **50 percent** more workdays than non-smokers. Nearly **one in five** Texans currently smokes.<sup>10</sup>



Bicycle-related injuries are a leading cause of nonfatal traumatic brain injuries among elementary school-aged children across the United States. Helmet use could save at least **\$70 million annually**.<sup>11</sup>

*Many consumers forget that ultimately we all pay for the activities of those who abuse the system.*

It's probably no surprise that **health care fraud** is a key driver of rising health care costs. Approximately 3 percent of all health care spending—or \$68 billion annually—is lost to health care fraud.<sup>12</sup> This type of fraud comes in many forms and is committed by people who *provide* health care services and by those who *receive* services. Many consumers ultimately forget that we all pay for the activities of those who abuse the system.



## Cost Shifting

The health care industry also is experiencing displaced costs. Private insurers' payments have traditionally increased since 1999, while payments by Medicare and Medicaid have decreased over this same time. This process is shifting the costs from Medicare and Medicaid to private insurers, requiring private insurers to pay increasingly more and resulting in increased private insurance costs.<sup>13</sup>



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Approximately 46.3 million Americans do not have health insurance<sup>14</sup>, and this growing number contributes to the increasing cost of health care for everyone. It is not unusual for **uninsured individuals** to wait to seek medical care. This can complicate a simple health problem, making it more costly to treat. In addition, people without health insurance coverage often seek treatment for non-emergency ailments in the emergency room—an expensive alternative to visiting the doctor's office.

Another challenge to affordable health care coverage is maintaining a balance between relatively healthy people and those who experience more health issues. The sustainability of health insurance coverage is based on having a variety of people in a collective pool—both healthy and unhealthy—to share the risk of the group.



Imagine sitting in a movie theater that seats **350** people. Suppose one person needs a liver transplant, and everyone else in the theater has no health problems. At **\$1,500** per year, an insurer would need the premiums of all **349** others in that theater just to cover the cost of one person's **\$523,400** liver transplant.<sup>15</sup>

## The future of health care

After looking at the many factors that influence health care costs, it becomes clear that controlling health care costs will take a lot of effort from all stakeholders—health insurers, health care providers, the government and consumers. In future issues of *Economics of Health Care*, we will look at ways we can all be a part of the solution.

For more information, check out the other messages in our *Economics of Health Care* series.

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