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Health and wellness tips for your work, home, and life—brought to you by the insurance and healthcare specialists at Moreton & Company.

# Your Health Plan: Health Care Cost Drivers

Health care is one of the few things that people purchase without ever knowing the real cost. If most consumers were in a position to pay for medical services and procedures just as they pay for other consumer goods, they might pay more attention to quality, cost, and value.

## The Actual Cost of Medical Procedures

A study done at Harvard Pilgrim analyzed the typical medical costs in Massachusetts from January through December 2006. The study came up with data for cost ranges of the following common medical procedures\*:

*Knee Arthroscopy:*  
\$2,831-\$4,071

*Colonoscopy (diagnostic, without polyp removal):* \$880-\$1,440

*Colonoscopy (with removal of polyps):* \$1,142-\$1,786

*Emergency Room Visit:*  
\$266-\$742

*CT Scan (Head, without contrast):*  
\$310-565

*MRI (Neck, without contrast):*  
\$593-\$829

*MRI (Lower Back, without contrast):*  
\$686-\$852

*Echocardiogram with Interpretation:*  
\$254-\$422

*Ultrasound:* \$100-\$181

*Pregnancy Blood Test:*  
\$17-\$37

*Allergy Shots:* \$24-\$29

*Physical Therapy:* \$26-\$50

*Chest X-Ray:* \$52-\$102

*\*This is a sampling of costs based in the state of Massachusetts. The actual cost of your care may be above or below what is listed above. Costs differ geographically and are dependent on what services are actually performed.*

It's no secret that health care costs are rising. According to the National Coalition on Health Care, a number of factors both traditional and emerging contribute to these increasing costs. Some of the biggest contributors to rising health care costs are listed below.

## Increasing Pharmaceutical Costs & Use

A 2000 report by Merck-Medco Managed Care indicated that health care costs are rising in part due to increased use of prescription drugs,

and an increase in the number of new, expensive drugs that are prescribed. Undoubtedly, prescription drug manufacturers have revolutionized modern medicine and improved the lives of countless individuals. However, these advances come at a cost.

As pharmaceutical companies develop new drugs to treat serious medical conditions, the market for those drugs expands accordingly. Now, the trend in the pharmaceutical industry is to maximize profits by developing drugs to treat conditions for which there were previously no drug treatments. These new "lifestyle" drugs treat or control conditions like nail fungus, impotence, obesity, or hair loss. Manufacturers then use direct-to-consumer advertisements to entice customers to ask their doctors for prescriptions for these medications.



The increased use of lifestyle medications and the prevalence of direct-to-consumer advertising have raised serious questions about where our health care dollars are being spent and if we are getting the best value for our investment.

### **New, Expensive Medical Technology**

The American health care system is evidence of America's love affair with new technology. New medical devices, diagnostic tests, and medical imaging tools are enabling doctors to deliver care that would have been considered science fiction in years past. Medical technology, just like pharmaceuticals, has revolutionized medicine and improved the lives of many people. But, as with prescription drugs, the advances have come with a hefty price tag. And, as the number of older Americans increases, these new devices and treatments are being used even more.

Information technology also has the capability to further improve our system of health care and curb rising costs. While our health care system is recognized as the best in the world, it is fragmented and inefficient, and provides care that is not always safe or effective.

According to a 2001 report by the Institute of Medicine, the health care system must implement an information technology infrastructure and use information technology to improve quality of care, efficiency, and communication between patients and physicians. Doctors could chart a patient's progress with relative ease, and share critical medical information with other appropriate medical providers involved in the care of their

patients. In addition, patients could schedule appointments over the Internet, fill prescriptions, and link to specific health information resources, all without ever leaving their homes.

### **Chronic Care**

Our health care system is primarily geared toward providing acute care or curing diseases. However, many people need care for chronic conditions. Chronic conditions are the major cause of illness, disability, and death in the U.S., and they account for a significant portion of health care spending. According to a report from the Robert Wood Johnson Foundation:

- Approximately 99 million Americans suffer from at least one chronic condition, and nearly 40 million of these patients suffer from more than one.
- The number of people afflicted with chronic medical conditions will nearly double by the year 2050.
- Direct medical costs for persons with chronic conditions were approximately \$425 billion in 1990, and will nearly double that in the year 2050.
- Approximately 75% of Americans living with chronic conditions are younger than age 65.
- Almost two-thirds of spending on care for those with chronic medical conditions is spent on hospital care and physician services.
- Medical care costs are disproportionately high for persons with chronic conditions.

### **Provider Consolidation**

Before managed care revolutionized the American health care system, individual medical providers determined the customary fees for their services. However, with the

domination of managed care plans, most providers have been forced to negotiate their prices lower or risk losing patient volume from managed care plans willing to exclude non-compliant providers from their networks.

In order to maintain or regain some negotiating leverage, providers in many communities have consolidated their medical practices, effectively monopolizing procedures within specific service areas. These large provider groups have a much greater ability to negotiate with managed care plans that wish to provide convenient care options for their members.

In a 1999 article in *Health Affairs*, George Halvorson, CEO of Kaiser Permanente – the nation's largest not-for-profit health plan – provided examples of the price impact of provider consolidation in one local market. In his example, "all of the oncology groups in the community merged into a single group", and the following occurred:

- The cost of a 1-hour chemotherapy session jumped 51%, from \$96 to \$145.
- The cost of a hospital follow-up visit jumped 20%, from \$83 to \$100.
- The cost of a multiple-hour chemotherapy session jumped 139%, from \$93 to \$222.

## **Did you know...?**

According to research done by *Consumer Reports*, 24% of Americans with health insurance just have "bare bones" policies, meaning they are not properly covered if faced with a catastrophe. In addition, 43% of workers admitted they put off doctors' visits due to costs.

*Source: Employee Benefit News, August 16, 2007*