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U.S. Healthcare Costs

REPORT ON HEALTHCARE SPENDING



What drives healthcare costs in the United States?

While medical prices are rising at their slowest pace in a half century, healthcare spending in the United States is more than \$2.6 trillion each year.¹ According to numerous studies, more than half of that money spent is wasteful.²

Chief among the top areas of wasteful spending: Defensive medicine and care spent on preventable conditions related to obesity and other weight-related health issues. According to a study published by the Dartmouth Institute for Health Policy and Clinical Practice, up to one-third of the wasteful spending³ is attributed to unnecessary hospitalizations, redundant tests, unproven treatments and excessive end-of-life care.

Does more money equal better outcomes?

U.S. healthcare spending is not translating to better health outcomes for residents. On average, the United States spends twice as much on healthcare per capita and 50 percent more as a share of gross domestic product (GDP) than other industrialized nations do, according to a 2011 [Commonwealth Fund study](#)⁴, “Health at a Glance: 2011.” Yet we fail to reap the benefits of longer lives, lower infant mortality, universal access and quality of care realized by many other high-income countries.

Health spending as a share of U.S. GDP has climbed steadily over the past half-century. Today it is 18 percent of GDP, up from 14 percent in 2000 and 5 percent in 1960, according to a [2013 Commonwealth Fund report](#).⁵

Rich countries spend more than poor countries for healthcare. For nearly every country, if you know the average income, you can predict an individual’s health spending per year to within a few hundred dollars, according to [The Organization for Economic Cooperation and Development \(OECD\)](#).⁶ The United States is an exception: Americans spend nearly \$3,000 per person per year more than Swiss people, even though Swiss people have about the same level of income.

Consider these statistics from the OECD’s “Health at a Glance: 2011” report:

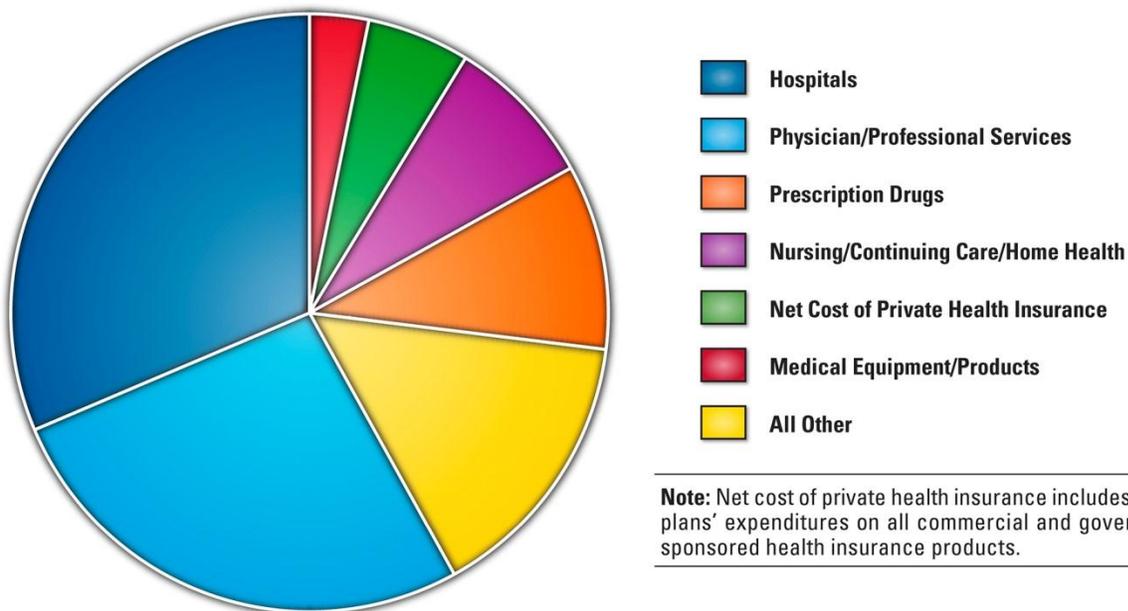
- Hospital spending in the United States is more than 60 percent higher than the average of 12 other organization countries.
- Spending on public health and administration is particularly high—more than two-and-a-half times the average. Administration of the U.S. health system alone accounts for about 7 percent of total spending. This is on par with other systems such as France and Germany, which also have multi-payer systems (even if there is no or little competition across payers). In comparison, Canada and Japan devote around 4 percent of health spending on administration.
- The price of a normal newborn delivery in the United States was estimated to be more than 50 percent higher than in France or Canada, while the price of a caesarean section was 30 percent higher than in France and more than 50 percent higher than in Canada.
- The price of a knee replacement was about 20 percent higher in the United States than in France and 50 percent higher than in Canada, while a hip replacement costs 45 percent more in the United States than in either country.

Although prescription-drug price gains have slowed, largely due to wider availability of inexpensive generics, pharmaceutical prices are still higher in the United States than in other OECD countries. A 2007 study of the 50 top-selling prescription drugs found that U.S. pharmaceutical prices were at least 60 percent higher than those in five large European countries.

National healthcare expenditures have been growing about 2 percent faster than the U.S. GDP for most of the past 22 years, though this growth has declined in certain years, according to an August 2012 article⁷ in the New England Journal of Medicine. The Centers for Medicare and Medicaid Services expect that health spending will reach nearly \$5 trillion, or 20 percent of GDP, by 2021, according to a study by the Bipartisan Policy Center⁸.

The prices paid for medical care in July 2013 rose just 1% from a year earlier, the slowest annual rate of growth since the early 1960s, according to Commerce Department data. Still, this growth in health expenditures “creates an unsustainable burden on America’s economy, with far-reaching consequences,” according to [a Commonwealth Fund report](#)⁹. “Because of this cost, businesses that provide health insurance to their workers are less competitive internationally and have fewer resources to invest in innovation and new technologies. For employees, the increasing cost of employer-provided health insurance contributes to the stagnation of middle class wages, because salary increases are replaced by an employer’s subsidies toward health care benefits.”

Components of National Healthcare Expenditures (2010)



Plenty of blame for wasteful spending

Consumers see themselves, the government and the industry at fault for wasteful spending. Two-thirds of consumers surveyed [said they personally had received excessive medical testing](#), according to a PricewaterHouseCoopers Health Research Institute report.¹⁰ In the United States, [many patients associate the use of more advanced technology, more tests and more procedures with better care](#)¹¹, even if clinical evidence demonstrates that these additional treatments do not improve patient health outcomes, according to a 2008 article in the Journal of the American Medical Association.

Lack of care coordination often leads to overtreatment, costing the United States [between \\$158 billion and \\$226 billion annually](#).¹² according to a 2012 article in the Journal of the American Medical Association.

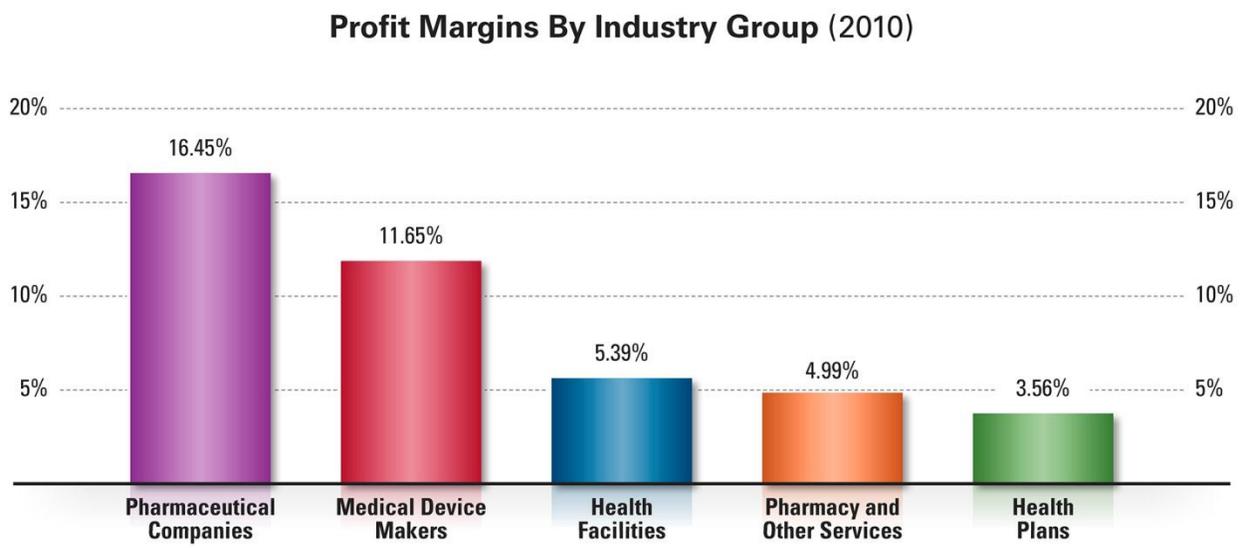
The complexity of healthcare operations also adds costs. For instance, about 700 different organizations, health plans and employers pay bills at Johns Hopkins Health System in Baltimore. An in-house system study found that reducing redundancies could save the health system [more than \\$40 million annually](#).¹³

Where care is delivered makes a difference. One study looked at three common conditions and found that retail clinics [charged 30 to 40 percent less](#)¹⁴ than private physician offices and 80 percent less than emergency departments.

Chronic conditions are major drivers of healthcare costs. The growing toll of diabetes alone cost the nation a record high \$245 billion in 2012, a 41 percent increase from \$174 billion in 2007, according to a [study](#)¹⁵ in Diabetes Care.

Who is profiting from this spending?

According to Security Exchange Commission data for 2010, the [highest profits in the healthcare sector industry group](#)¹⁶ were logged by pharmaceutical companies, medical device makers, health facilities and pharmacy and other services. Health plans trailed in the field.



Nearly \$850 billion was spent on U.S. private health insurance premiums in 2010, and the single largest contributor to higher premium spending was the hospital sector, where insurers paid out \$48 billion more in 2010 than they had just five years earlier, according to [a report from the National Institute for Healthcare Management](#).¹⁷ The report also noted that rising aggregate payments to providers were responsible for 97 percent of the increase in national spending on private premiums over the past five years, with burgeoning payments to hospitals, physicians and laboratories accounting for more than 70 percent of the higher spending.

Mainstream media in the United States is focusing more on what drives healthcare costs. “When we debate health care policy, we seem to jump right to the issue of who should pay the bills, blowing past

what should be the first question: Why exactly are the bills so high,” writes Steven Brill in [“Bitter Pill: Why Medical Bills Are Killing Us.”](#)¹⁸ a recent special report in *Time* magazine. The report offers a stark look at medical bills, including these bits:

- “We spend more every year on artificial knees and hips than what Hollywood collects at the box office. We spend two or three times that much on durable medical devices like canes and wheelchairs, in part because a heavily lobbied Congress forces Medicare to pay 25 percent to 75 percent more for this equipment than it would cost at Walmart.”
- “According to the Center for Responsive Politics, the pharmaceutical and health-care-product industries, combined with organizations representing doctors, hospitals, nursing homes, health services and HMOs, have spent \$5.36 billion since 1998 lobbying in Washington. That dwarfs the \$1.53 billion spent by the defense and aerospace industries and the \$1.3 billion spent by oil and gas interests over the same period.”
- “One hospital’s total expenses for laboratory work over a 12-month period were \$27.5 million. Its total charges for that work were \$293.2 million, meaning it charged about 11 times its costs.”

In California, the California Public Employees' Retirement System (CalPERS), which provides health coverage to 1.3 million active and retired workers, found prices hospitals charge for elective knee and hip replacement could range from \$15,000 to \$110,000. CalPERS now offers members a choice -have your procedure at one of 51 hospitals that agreed to limit what they charge, or have the surgery elsewhere and pay any expenses above \$30,000 out of pocket.

According to the Wall Street Journal, in the program's first year, the cost per surgery declined 19%, and patient outcomes were as good or better, according to CalPERS. "It gets to the myth that high prices equate to better quality," said Ann Boynton, Deputy Executive Officer, Benefit Programs Policy and Planning at CalPERS. "In some cases, it's just the opposite."

What’s ahead for the U.S. healthcare system?

“Many initiatives coupled with market forces are already bending the U.S. healthcare cost curve and many more will be needed to achieve sustainable spending,” according to an October 31, 2012 [healthcare blog](#)¹⁹ about costs written by Charles Roehrig and Paul Hughes-Cromwick, Altarum Center for Sustainable Health Spending, and Ken Kaufman and Charles Kim from Kaufman Hall & Associates.

“Proactive providers are taking steps to fundamentally restructure their costs, recognizing that the normal cost-management approaches will not bring the required level of reductions,” the blog post continued. “Initiatives include redesigning care processes, eliminating inappropriate tests and procedures, removing service duplication within health systems and across systems within communities, managing population health risk for provision of value rather than volume, and reorganizing chronic and end-of-life care. Whether occurring singly or in combination, these initiatives will eliminate utilization from the healthcare system, thereby reducing national health care expenditures.”

As employers look for ways to provide health insurance and still remain profitable, many have turned to high deductible health plans (HDHPs). A PriceWaterhouseCoopers survey released in June 2013 found that 17% of employers now offer HDHPs as their only option, up from 13% in 2012. Employees utilizing these plans tend to be more price conscious when forced to pay more money out-of-pocket due to the higher deductible. “Fifteen years ago, pricing was not as important...[but] when the co-pay is coming out of a patient’s pocket, they more often want to know what they’re paying,” Moshir Jacob, medical director at the Toledo Clinic, told the Wall Street Journal.

- ¹ Bipartisan Policy Center, September 2012. "What is Driving U.S. Health Care Spending?"
- ² PricewaterhouseCoopers Health Research Institute, April 2008. "The price of excess: Identifying waste in healthcare spending."
- ³ Dartmouth Institute for Health Policy and Clinical Practice. "The State of the Nation's," Spring 2007.
- ⁴ The Commonwealth Fund, Issues in International Health Policy, July 2011. "The U.S. Health System in Perspective: A Comparison of Twelve Industrialized Nations."
- ⁵ The Commonwealth Fund, January 2013. "Confronting Costs: Stabilizing U.S. Health Spending While Moving Toward a High Performance Health Care System."
- ⁶ The Organization for Economic Cooperation and Development. "Health at a Glance: 2011."
- ⁷ New England Journal of Medicine, August 2012. "When the Cost Curve Bent – Pre-Recession Moderation in Health Care Spending."
- ⁸ Bipartisan Policy Center, September 2012. "What is Driving U.S. Health Care Spending?"
- ⁹ The Commonwealth Fund, January 2013. "Confronting Costs: Stabilizing U.S. Health Spending While Moving Toward a High Performance Health Care System."
- ¹⁰ PricewaterhouseCoopers Health Research Institute, April 2008. "The price of excess: Identifying waste in healthcare spending."
- ¹¹ Journal of the American Medical Association, June 2008. "The Perfect Storm of Overutilization."
- ¹² Journal of the American Medical Association, April 2012. "Eliminating Waste in U.S. Health Care."
- ¹³ PricewaterhouseCoopers Health Research Institute, April 2008. "The price of excess: Identifying waste in healthcare spending."
- ¹⁴ The Annals of Internal Medicine, September 2009. "Comparing Costs and Quality of Care at Retail Clinics With That of Other Medical Settings for Three Common Illnesses."
- ¹⁵ Diabetes Care, April 2012. "Economic Costs of Diabetes in the U.S. in 2012," commissioned by the American Diabetes Association.
- ¹⁶ America's Health Insurance Plans, 2010 Profit Margins by Sector.
- ¹⁷ National Institute for Healthcare Management, January 2013. "Spending for Private Health Insurance in the United States."
- ¹⁸ Time magazine, March 2013. "Bitter Pill: Why Medical Bills are Killing Us."
- ¹⁹ Health Policy Forum, October 2012. "GDP=0: Prospects And Challenges of Bending The Health Care Cost Curve."