

UNDERSTANDING THE RISING COSTS OF HEALTH CARE



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What's Causing the Rising Costs of Health Care?

It's no secret that the cost of health care is increasing every year. As a result of changes in the health care industry and the economy, we're seeing higher costs for medical services and treatment, which impact insurance premiums. Our health care system has a lot to offer—at a price. This is affecting everyone: consumers, employers, health care providers, insurance agents, insurance companies, and the government. Let's take a look at some of the challenges we're facing and measures we can take to address the rising costs of health care.

Higher demand for medical services – as Americans expect more from their health care providers, health care spending is increasing at a faster pace than the rest of the economy. Higher demand and more frequent use results in more spending.

Developments in medical technology – new and improved technology helps diagnose and treat various medical conditions—which has enhanced our quality of life. However, the research, development, and maintenance of new technologies are expensive and costs are generally passed down to consumers.

Prescription drug costs – the fastest-growing health expense in our country is Rx drugs, which are costly to develop, approve, and market. It may take many years and millions of dollars to bring a drug from the laboratory to the local pharmacy.

An aging population – as baby boomers reach middle age, they require more medical services. According to America's Health Insurance Plans (AHIP), people over 50 use twice as much health care as those in their twenties, and almost four times as much by the time they reach 60.

Treating the uninsured population – an estimated 45 million Americans have no form of health insurance. Most costs associated with their care (emergency room visits, for example) are left unpaid.

Government regulations – various mandates and regulations imposed by state governments increase the cost of insurance coverage for all insured consumers in those states.

Increasing provider expenses – physicians are facing astronomical malpractice insurance costs to protect their practices and themselves from costly and damaging litigation, causing many to retire early or charge their patients higher costs for medical services.

Fraud and abuse in the health care system – when a provider receives payment from an insurance company for services never rendered or a consumer submits a fraudulent claim, every American pays the price.

QuikFacts

- About half of Americans take prescription drugs on a daily basis.
- About 1/3 of insured adults say their doctor has NEVER explained the costs associated with a recommended procedure.
- 11% of adults report negotiating with a physician, hospital, or other health care provider to try and get a lower price for health care services.

- 70% of uninsured adults say the cost of insurance is the main reason they are uninsured.



From *The USA Today/Kaiser Family Foundation/Harvard School of Public Health Health Care Costs Survey*, August 2005

How are Insurance Companies Helping to Control Costs?

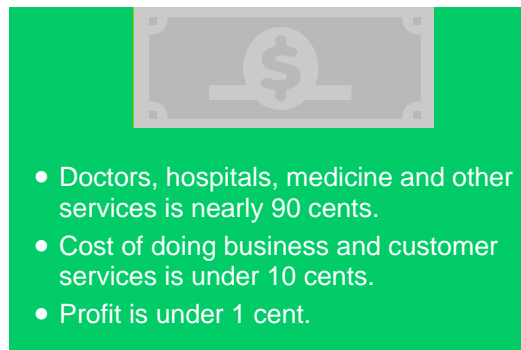
In addition to understanding what's causing the rising costs of health care, it is essential to become aware of the ways insurance companies and consumers are responding. Health insurance carriers are working hard to address the rising costs of health care by taking advantage of various cost-controlling strategies:

Designing and marketing cost-sharing plans – signaling the industry's shift towards more affordable, consumer-driven health insurance products, today's plans enable policyholders to receive essential coverage while “sharing costs” to keep their premiums low. Many consumers are purchasing low-cost, basic benefit plans as well as HSA-qualified high deductible health plans. Health Savings Accounts give consumers more control over how they're spending their health care dollars while allowing them to save for future medical expenses.

Utilizing networks – contracting with provider networks and prescription drug benefit administrators provide policyholders with negotiated rates, resulting in cost-savings. Also, using case-management services helps insurance carriers reduce claims expenses for policyholders.

The Premium Dollar (National Average)

The costs of health insurance policies reflect the rising costs of health care



Source: Health Care Costs and Your Insurance Premium, AHIP

Maximizing technology – in addition to investing in cost-reducing information systems, insurance companies are offering many online resources to keep operational costs down and better serve applicants, policyholders, providers, and insurance agents.

How are Consumers Helping to Control Costs?

Consumers have accepted the concept of “consumer-driven health care.” Willing to purchase health plans with higher deductibles and higher out-of-pocket costs, consumers are concerned not only with the quality of their medical care but the costs as well. More consumers are:

- ✓ **Leading a healthy lifestyle** – habits like eating well, staying active and not smoking help reduce the need for medical care!
- ✓ **Asking questions about diagnosis and treatment** – the most up-to-date technology or drug is not always needed to diagnose and treat every condition. Doctors and patients should seek the most cost-effective strategies in managing health care.

- ✓ **Reviewing information** – reading the insurance policy, bills and statements, and making sure the information given to medical providers is correct and current helps to avoid mistakes and claims processing delays.
- ✓ **Staying aware of public policy** – it's important to keep up-to-date on health care legislation because it affects all of us and impacts the costs of health care.

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