

BENEFITS CORNER



“Why Does My Health Insurance Cost So Much?”

Happy New Year! As I was thinking back on 2004, the most common question I heard from friends, clients, and prospects was the same, “Why does my health insurance cost so much?” I know health insurance is expensive since I have to pay premiums too! As we begin 2005, I thought it would be helpful to put in writing some of the contributing cost factors. If I were to review everything that makes health insurance expensive, I am afraid the entire issue of *Colorado Serenity* would be devoted to this one topic. So here is an abbreviated list, in no particular order:

- We are all getting older—I hate to say it, but it is true. While getting older may make us wiser, it also means that there will be more trips to the doctor and more medications prescribed to keep us all feeling fine. The frequency of office visits has increased with our aging population and the amount of medication we take has also increased. This leads to increased health insurance premiums. This is probably one of the biggest contributors as to why health insurance premiums are going up.
- The government doesn’t pay its fair share for programs it sponsors. Medicare covers about 40 million people, but pays on average only 42 cents on the dollar for what it actually costs a physician or hospital to deliver that care. Somebody has to make up the difference, and that somebody is all of us who are covered by private health insurance. With more and more people reaching retirement age, this cost-shifting element to the price of health insurance will continue to be a major contributor to future rate increases.

- The number of uninsured people continues to increase. This is another cost shifter onto those of us with private health insurance. Right now, there are about 44 million people without any type of health insurance. Over 85 percent of the uninsured are eligible for some form of coverage, but have chosen not to be—even for affordable catastrophic coverage. When people without insurance coverage seek treatment, somebody ends up paying for it. In the long run, we all do in the form of higher premiums.

- The cost of litigation and court awards for malpractice adds to the cost. Talk radio and editorials love to mention this one, but the actual cost of the attorneys, courts, and awards amounts to only 1 to 2 percent of total health care expenditures in the United States. The real cost of this is more subtle in the extra tests and procedures that a physician must order to “cover” themselves in the event of any possible litigation. Reports trying to determine the cost of defensive medicine put the total near 10 to 15 percent of all health care expenditures.

- As a population, we want the best and latest technology to treat our condition. While new treatments can be great, several of them are much more expensive than the treatment course which they replaced. Oftentimes, there is only a slightly better, or no better, rate of recovery or cure, but the cost is much higher. Is this really smart medicine?

- Prescription drug costs are through the roof. This is also a great topic of discussion, but slightly overstated. While it is true that the total percentage of health plan expenditures for prescriptions has increased from about 10 percent in the mid-1980s to about 18 percent now, the effectiveness of current medications has helped to reduce the average number of days spent in the hospital. However, we as a society are more medicated than ever, and this does come with a cost.

- As a society, we have rejected managed care. As you may recall during the mid-1990s, HMOs came to the forefront as a means to manage the cost of health care. This was done by having patients, physicians, and hospitals forced to adhere to strict treatment guidelines. This approach worked as is evidenced by average rate increases in the single digits during this time. However, none of us liked the idea of the health insurance company telling us what we could do for our health care—we wanted to have full control over which doctors, hospitals, and treatments we

could have. Unfortunately, we all got hooked on the low co-payments; thus demand for services increased while most of the cost controls were eliminated, resulting in escalating premiums.

- The government has imposed several mandates on coverage that have led to higher premiums. Insurance carriers must comply with an alphabet soup of regulations like HIPAA, COBRA, and TEFRA on the federal level. Additionally, Colorado imposes over thirty laws and regulations on health plans offered to employers with fewer than fifty employees. Each law or regulation was passed with great intention; however, the net effect is added bureaucracy and much higher premium costs.

As you can tell, there is no easy answer to the question, “Why does my health insurance cost so much?”

So what can we do today? For most small employers or individuals, the answer may lie in having a health insurance plan that carries a higher deductible for health care expenses. A higher deductible may even get the patient to ask his or her physician if a test or expensive treatment course is the best option. We might even stop to think if that trip to the doctor’s office at the first sign of the sniffles is truly necessary. Some folks call this a consumer driven approach to health care and, hopefully, will prove to be more palatable than HMO-style managed care.

There are also several tools available to fund part of health care expenses in a tax advantaged fashion. These tools range from Health Savings Accounts to Health Reimbursement Arrangements to the more familiar Flexible Spending Accounts and pre-tax funding of premiums with a Section 125 plan. These tools can take some of the bite out of a higher deductible health plan. My next article will review some of these tools.

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