



BlueCross BlueShield of Oklahoma

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Economics of Health Care

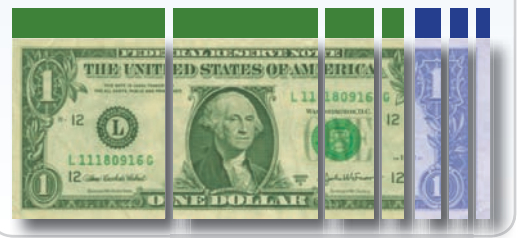
Part 2 of 3: Understanding health care cost drivers

In Part 1 of Economics of Health Care, Blue Cross and Blue Shield of Oklahoma addressed 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,¹ few stop to consider that their \$30 prescription drug or copayments for office visits are only a small fraction of the total charges. Many people assume, with misguided certainty, “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 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, Oklahomans are faced with increased health care premiums and out-of-pocket expenses. Consequently, there will be fewer Oklahoma jobs with health care benefits and more expensive individual coverage.

Average health care premium dollar breakdown²

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



The rising costs of health care

What are some of the biggest cost drivers?

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

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.³

We are spending more on health care, because we are consuming more health care services. The **overuse and misuse of health care** is a major contributor to rising health care costs. For

example, many people needlessly 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 lawsuits that could result from misdiagnosis.

Nearly three-quarters of doctors practice defensive medicine and have deeply embedded it into America's health care industry. Tort reform could help to eliminate this practice and save America an estimated \$650 billion annually.⁴

The life of a family member or friend is invaluable, and when faced with sickness, you want them to have the best, most effective treatments. However, it's important to remember that, while these **medical advances** are life-saving, there is a great cost involved in making such proven treatments accessible. In comparison to Canada, the United States has nearly three times as many CT scanners and four times as many MRI units per person.⁵ Both machines cost hundreds of thousands of dollars each.

A pack of cigarettes sold in Oklahoma costs our economy **\$7.62** in medical costs and lost productivity as a result of premature death and disease. The average smoker misses **50 percent** more workdays than non-smokers. Sadly, **one in four** Oklahomans currently smoke.⁶



The amount spent on **prescription drugs** in 2006 was **\$216.7 billion**, which is five times the amount spent in 1990.³



Bicycle-related injuries are a leading cause of nonfatal traumatic brain injuries among elementary school-aged children in Oklahoma. Helmet use could save at least **\$70 million annually**. Only a quarter of Oklahoma children report that they wear a helmet while bicycling.⁷



Nearly one in three Oklahoma adults are obese,⁹ potentially resulting in \$854 million in costs each year.¹⁰

Approximately 70 percent of all health care costs 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 are preventable the majority of the time.⁸

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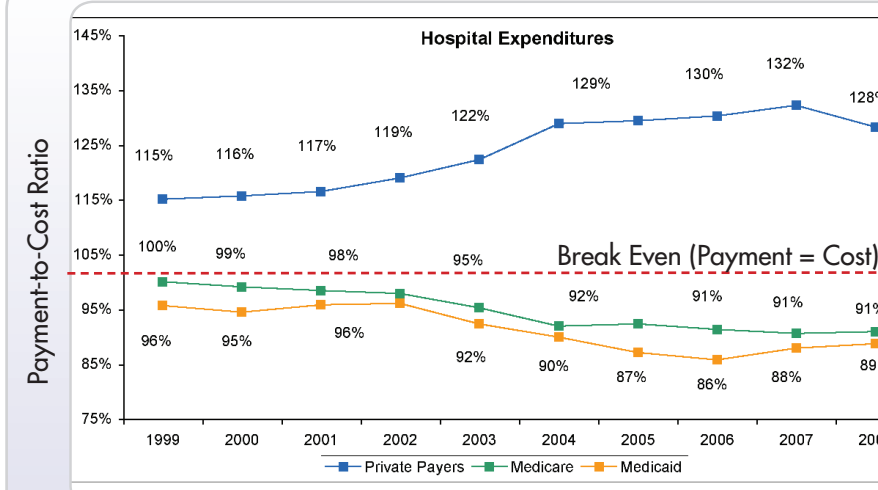
Nearly one in three Oklahoma adults are obese,⁹ potentially resulting in \$854 million in preventive medical expenses each year.¹⁰

Unhealthy behaviors can result in costly **chronic conditions** for yourself and even those around you. For example, while smoking is harmful to the user, children also can become asthmatic from being around a parent'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.

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

Each year thousands of Oklahomans rush to emergency rooms, at an average cost of \$700 each, to receive treatment for **preventable injuries**.¹¹ By simply buckling their seat belts, Oklahomans can prevent more than 650 fatalities and 40,000 injuries each year. This results in \$800 million in health care and other societal costs each year.¹²

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.¹³ 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 forget that ultimately 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 Medicare's payments have decreased over this same time.¹⁴ This process is shifting the costs from Medicare to private insurers, requiring private insurers to pay increasingly more and resulting in increased private insurance costs.



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A three part series

Don't miss the other two messages in our *Economics of Health Care* series! Visit bcbsok.com/costs for more information.

The future of health care

With the passage of the health reform law, the Patient Protection and Affordable Care Act, insurers are required to accept all applicants, regardless of health status - a policy known as guaranteed issue - by the year 2014. One challenge in today's voluntary individual market is maintaining a balance of younger and healthier people to subsidize care for older and less healthy individuals. In the law, guaranteed issue is coupled with a mandate that all individuals purchase health care coverage. The initial penalty for not purchasing care coverage starts at an annual rate of \$95 per person - a penalty that may not be sufficient to convince the **healthy, uninsured individuals** to buy year-round coverage. Like all other forms of insurance, the sustainability of health insurance is based on having a variety of people in a collective pool - both healthy and unhealthy members. The participation

of healthy members is imperative to offset the cost of unhealthy members. In 2008, it cost \$86 billion to treat uninsured Americans, half of which was paid with taxpayer dollars.¹⁵



Imagine sitting in a movie theater that seats **350** people. Suppose you need 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 your **\$523,400** liver transplant.¹⁶

Engage in innovation

As the previous examples showed, health insurers are only one piece of our expansive health care system's spending. Together, we must all establish a culture of wellness and implement cost efficiencies in a variety of areas. Americans must each take responsibility to stimulate both conversation and action, helping the industry drive innovation and value.

Refer to our other two messages in our *Economics of Health Care* series for more information on the health care dollar (Part 1) and the roles we each play in controlling health care costs (Part 3).

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