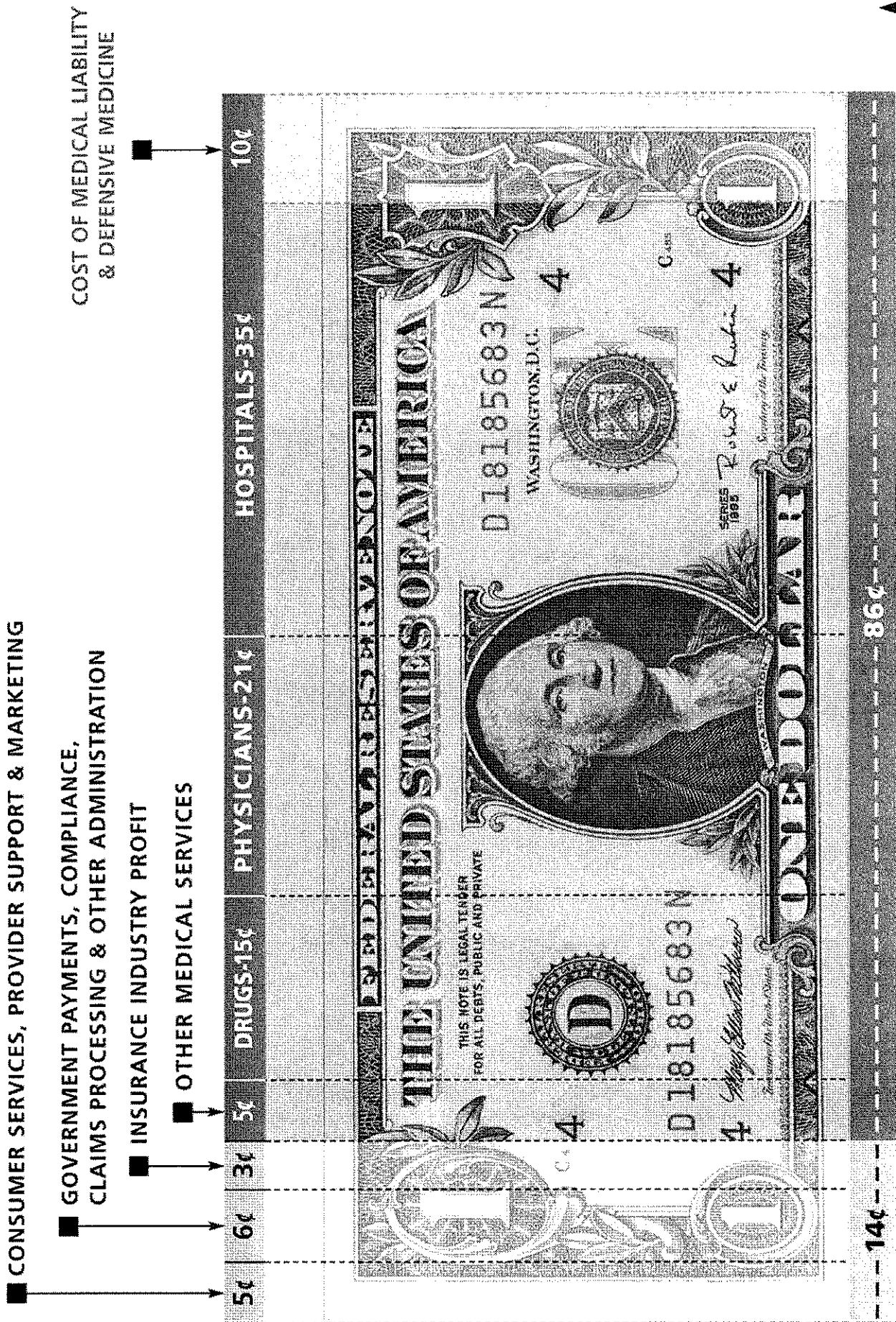


Where Does Your Health Insurance Dollar Go?



Based on a PricewaterhouseCoopers' analysis, Factors Fueling Rising Healthcare Costs 2006.
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High health care costs
Who's to blame?

Drug companies, insurers, politicians, lawyers, and the bad habits of Americans all figure into high and rising health-care costs. But the biggest contributors to high costs—doctors and hospitals—get off easier among consumers, our survey found.

"The aim of our health-care system should not be to make a profit for insurance and drug companies. It should be to provide affordable, high-quality care for all Americans," said Andrea Hanson, 31, a college teacher from Murphy, Texas, who responded to our invitation to share her story online.

The focus on drug and pharmaceutical companies is not surprising because of the way that most Americans pay for health care, said experts we consulted.

"Americans tend to focus on the bills they pay, not the total cost of health care," said Jacob S. Hacker, professor of political science at Yale University. "And the bills for most Americans ultimately reflect what insurance companies don't cover and what drug companies charge consumers at the pharmacy. They see the big profits these companies earn even as they, the patients, are struggling to pay their bills."

But a closer look at health-cost trends shows that these players, in roughly descending order, contributed the most to rising costs:

Hospitals and doctors. Doctors and hospitals account for by far the largest share, 52 percent in 2006, of all national health spending. There's abundant evidence that some of that spending is unnecessary. Under the present system, hospitals and doctors earn more money by doing costly interventions than by keeping people healthy. And more medical care doesn't necessarily mean better care, according to research on Medicare expenditures by the Dartmouth Medical School's Institute for Health Policy and Clinical Practice.

Yet just 59 percent of our survey respondents named hospitals, and 47 percent named doctors, as major spending culprits. (Percentages add up to more than 100 because respondents could select as many factors as they wanted.)

Drug companies. Prescription drugs account for only one-tenth of total health-care expenditures. But drug spending has increased as a share of overall expenditures over the past decade.

Seventy-six percent of respondents blamed drugmakers generally, and 74 percent said drugmakers charged too much for their products.

Insurance companies. Health-insurance premiums have grown faster than inflation or workers' earnings over the past decade, in parallel with the equally rapid rise in overall health costs. Industry spending on administrative and marketing costs, plus profits, consumes 12 percent of private-insurance premiums.

Seventy-seven percent of respondents blamed insurance companies in general for high costs, and 70 percent said insurers overcharged for their products and services.

Politicians and government regulators. Although the government directly controls only 46 percent of national health spending, many of its policies affect the bottom line of the health-care industry, for example, by setting Medicare reimbursement rates for doctors on which private insurers base their rates, or by regulating health insurance. Between 1999 and 2006, the health-care lobby spent more than any other business sector, according to a study by the Institute for Health & Socio-Economic Policy, a nonprofit policy and research group.

Sixty-four percent of respondents faulted politicians and 58 percent faulted government regulators for failing to control health-care costs.

Lawyers. Malpractice-insurance premiums and liability awards account for less than 2 percent of overall health-care spending, according to a 2004 study by the Congressional Budget Office. Defensive medicine, the practice of ordering extra tests or procedures to protect against lawsuits, might add another few percentage points, according to some estimates.

Yet 60 percent of respondents blamed lawyers for high costs, and 69 percent specifically pointed to "frivolous lawsuits."

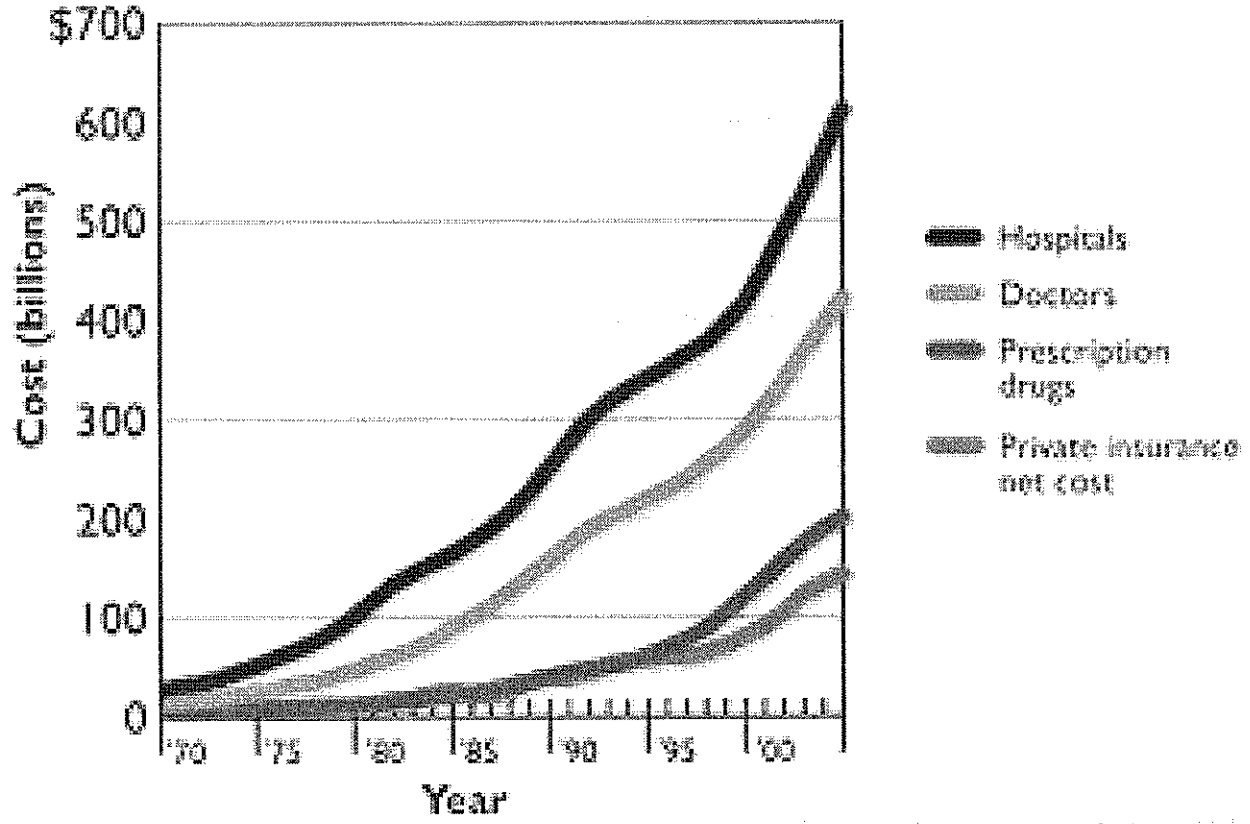
Health-care consumers. "Modifiable" risk factors, such as eating too much, exercising too little, or smoking, are to blame for an estimated 25 percent of U.S. health-care costs, according to expert estimates. But even if every American took up healthful living overnight, our health-care expenses would still be the second highest in the world (after Luxembourg).

Sixty-eight percent of respondents thought those bad habits were to blame for high U.S. health costs.

A mere 41 percent of respondents blamed consumers for overusing services.

And the respondents "are correct not to believe that," said Hacker. "Patients have little control over the amount that hospitals and doctors charge. Our exorbitant medical prices are a result of the fragmented structure of our health-care system, not the choices of patients."

HEALTH EXPENSES RISE SHARPLY



Over the last 35 years, costs for hospitals and doctors have increased the most rapidly. The "net cost" of private insurance—the cost for administration, marketing, and profits—increased slower than other health-cost factors.