

# SECTION 2

## COST

There are many reasons healthcare costs so much in the United States, but the answers usually fall into two categories: costs due to the healthcare system itself and costs due to the nature of disease and society.<sup>1</sup> Costs caused by the healthcare system can be attributed to insurance used as insulation, lack of transparency, and lack of standardization and coordination.<sup>1</sup> Insurance was originally designed to protect against high, catastrophic costs that could lead to medical bankruptcy or significant financial loss. Insurance as insulation attempts to assist consumers with even low cost expenses, increasing the cost of insurance because providers can no longer calculate costs based solely on the risk of catastrophic events. This more extensive coverage relies heavily on private negotiations and opaque contracts to control costs.

The American healthcare system is a private, competitive, market-driven system with limited government regulation, price controls, and salary caps. Many other countries have centralized negotiation programs where companies compete for contracts by offering lower prices.<sup>2</sup> In the United States, private and government payers may negotiate prices with healthcare administrators without involvement of the patient or healthcare provider. Therefore, price does not equal cost or reimbursement for a particular healthcare service or product. This lack of transparency allows for variable prices for similar services and further impacts competition. Prices for drugs, office visits, and procedures are typically higher in the United States than any other country. These costs support innovation, advanced technology, attractive facilities, and higher salaries of healthcare providers. A 2013 Gallup Poll suggests that Americans have more positive feelings about their personal healthcare than the country's healthcare.<sup>3</sup> Approximately 2/3 of Americans rate their personal healthcare coverage as excellent or good and about 1/3 give the country's healthcare coverage a high rating.<sup>3</sup> 59% of respondents indicated they were satisfied with the cost of their own healthcare.<sup>3</sup>

Costs related to the nature of disease and society include costs of chronic disease care, end of life care, unhealthy behaviors, and health literacy.<sup>1</sup> According to the Agency for Healthcare Research and Quality (AHRQ), in 2013, 5% of the US population account for 48.7% of spending with an estimated annual mean expenditure of \$43,253.<sup>4</sup> The lack of incentive for preventive care and unhealthy lifestyles leads to an increase of chronic disease. The

expectation of insurance payment for chronic disease management is part of the systemic costs of increased perception of insurance as insulation. Attitudes toward prevention and healthy lifestyle are part of the costs related to the nature of disease and society. Societal views on extensive end of life care contributes significantly to healthcare spending, especially as the baby boomer population ages. Other factors that impact the cost of care will be discussed later.

Until the early twentieth century, insurance for routine healthcare did not exist. The first modern group health insurance plan was formed in 1929. A group of teachers in Dallas, Texas negotiated a contract with a local hospital for services in exchange for a fixed monthly fee.<sup>5</sup> This arrangement led to the startup of organizations such as Blue Cross and Blue Shield which offered similar insurance programs. Offered only by some employers, insurance was generally purchased by the patient consumer and having insurance was uncommon. This changed during World War II when the federal government imposed wage freezes. At the time, employers could not raise salaries but could offer benefits to employees and employers competed for workers by offering better benefits packages. A key component was new or improved health insurance plans. This led to major demand and growth for private employer-based health insurance and by the late 1950s the majority of Americans had some amount of healthcare coverage. However, those who were unemployed, self-employed, or employed by small employers were unable to afford the care they needed. In response, Medicare and Medicaid were created in 1965 providing public funding for healthcare coverage for the elderly and indigent.<sup>5</sup> Each of these coverage options may use one or more payment structures, including fee for services, network negotiations, capitated payments, or salaried providers.

## REFERENCES

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