

Why does my health insurance cost so much?

A quick look at health care spending, how it drives your insurance premiums, and why wellness is our hope for a better future.

There is an important but often overlooked connection between health care costs and the premiums people pay for health insurance. Premiums reflect the underlying cost of health care. Unless we slow the rise in the cost of health care, premiums will continue to rise at a pace far faster than either wage growth or inflation. This is particularly challenging in our region, which ranks first in the country in the cost of charges billed for medical services — such as hospital admissions, radiology, and physical therapy — and fifth in the overall use of such services, according to a 2008 study by actuarial consultant Milliman that analyzed the cost and use of 15 different medical services nationwide.

A national study by PricewaterhouseCoopers, *Factors Fueling Rising Health Care Costs 2008*, analyzed the rising cost of health care services and of premiums, and noted that “health insurance premiums generally track the underlying growth of the cost of health services.” The same national drivers identified in this study are at work in our region, including:

An unhealthy lifestyle is costly. The lifestyle we choose — smoking, eating poorly, not exercising — increases our need for health care. Obesity alone results in \$117 billion in U.S. health care costs each year, tobacco use costs America \$180 billion annually, and 78 percent of our health care spending in Pennsylvania pays for treating largely avoidable chronic conditions.

Newer can be better, but it’s often more expensive. New technologies, such as new digital imaging procedures, increase prices because they cost more than existing technologies.

We want the latest treatments. Once new, improved treatments come on the market, physicians want to use them and patients often demand them. These include new drug formulations for conditions that were already well managed by less costly generic drugs.

We’re not getting any younger. As Americans age, we use more medical resources. By 2010, more than one in four Americans will be 65 or older. Our region leads the trend: Philadelphia ranks first among America’s top ten cities, with 14 percent of our population 65 or older.





You and I pay a share of the cost of caring for the uninsured. Hospitals and physicians are required to treat the uninsured and often receive no payment for that care. In southeastern Pennsylvania in 2008, there were more than 262,000 uninsured adults and almost 49,000 uninsured children. In Pennsylvania, about 6.5 cents of every insurance premium dollar goes to cover the cost of providing care to the uninsured.

If Uncle Sam does not pay, you and I do. When Medicare and Medicaid payments to doctors and hospitals drop below what the care costs, doctors and hospitals seek higher payments from health insurers to make up the difference. A 2008 Milliman study estimates that the total annual shift of costs from Medicare and Medicaid to health insurance companies was almost \$89 billion. To break that down, that raised the 2008 health insurance premium of a family of four by \$1,512, or 10.6 percent annually.

Our health care providers get pay increases, too. Independence Blue Cross is committed to negotiating fair and competitive compensation for physicians and hospitals. However, such increases often exceed the rate of inflation.

Fear of malpractice suits. Some physicians and hospitals use more intensive diagnostic testing to confirm diagnoses and reduce exposure to malpractice liability. This so-called defensive medicine adds to the cost of health care, primarily in emergency room care and obstetrics.